Accounting and marketing relationship

This study has been conducted in order to analyze the relationship between accounting and marketing. It highlights the various supporting roles played by accounting in determining the cost-price relationship and other innovative ideologies such as pricing strategies and market profitability analysis to facilitate effective marketing. The marketers can take advantage of the various analytical tools that are developed by the accountants based on their financial knowledge. The evolution of certain cost techniques and its proven success can certainly push accounting towards being one of the influential factors for marketers in terms of achieving theirs as well as the organization's goals. On a personal note, it would be assertive to consider marketing and accounting to be step sisters, since they are related and interdependent on each other to carry out various functions in an organization.

Previously, accounting was used as a platform to gain knowledge about the financial or economic information, collection and analysis that served as a backup function which helped the management (Foster, 1997). Accounting is also useful in determining and reporting costs. It can measure the performance of products associated with a firm and contribute its feedback to the management. Since the nineties, the individualistic approach of accounting transformed into a strategic role supporting the management in a number of functions, including marketing to a greater extent. According to Foster (1997), accounting has evolved from being a support function to the management to areas of marketing and other value added services. This more complex approach is materialised through ideal entrepreneurship and innovation techniques, which helps tackle issues based on marketing. This approach has been hugely beneficial to the organization.

Based on an article “ never ending wars on price”, published in ‘ Fortune’ (1998), stated that the firm’s profits were shrinking due to the price cuts, a fact that is so hard to believe in the current scenario. There is a great correlation between the costs and price, which determines different results for various cost and price analysis. Various marketing and accounting literature highlights the cost price relationship, which has been grabbing attention ever since. Price is one of the important aspects in the marketing mix and accounting holds a significant bearing to it. The marketers have to be dependent on their accounting counterparts for the price factor, which creates a spectrum of tension among the two departments (Harrison, 1998). The linkage between the accounting and marketing and their relevant importance has been identified and approved by the American Accounting Association long ago. It is however since the nineties that the cost price relationship has been hogging the limelight in the accounting and marketing interface. Marketers achieve a great deal with the help of these supporting tools and it plays a significant part in the firm’s profits. So it is high time the firm’s should discard their age old traditional views and tools in favour of this new accounting marketing relationship. From the marketer’s point of view, this change has been a revelation and indicates better prospects to an organization (Booth, 1995).

There is a price that is set for all kind of goods and services across various industries all around the world. Price conceptualises various modes involving money such as fees, salary, rent etc that are charged to the consumers with respect to the offering of various goods and services. The ‘ price’ factor is very important in marketing as it according to them; it reflects the company’s product or service value to the customer. If the price aspect is not appropriately, it can pose a great threat to the firm by placing its products or services out of the marketplace. Price plays an important role in determining the organization’s profits and also influences the buying behaviour heavily; hence great care has to be taken while setting the prices (Harrison, 1998).

Pricing is further classified into market based pricing and cost based pricing. Market based pricing mostly deals with the internal cost structure of an organization, price of new products, threats and price comparison of its competitors. According to a Wall Street Journal, the best way to set the price is by knowing what the market really wants to pay for the product or services. Cost based pricing is totally emphasizes the cost involved and is more relevant to the marketing industry. Based on the relevance and importance of these pricing concepts, it can be termed that pricing is one of the essential marketing considerations. Effective pricing can be formulated with adequate coordination and cooperation of the marketing team and the accounting department by understanding and implementing the inputs offered by the accounting team. The accounts and marketing interface plays a crucial role in achieving the firm’s long term objectives (Aston & Hooper, 1999).

Costs are an ambiguous context which is one of the main factors that is responsible for effective communication between the marketing and accounting staff. It constitutes of different elements based on monetary units which is of prime importance in deciding the price. The marketers need adequate outputs in relation to the pricing from the accounting team in order to successfully implement and undertake the firm's marketing operations (Aston & Hooper, 1999). There are reports originating from the accounts department that are modified according to the firm's market performance. This analysis acts as tools for the marketing personnel to conceptualise and develop strategies and techniques that can be effectively used for marketing purposes. Since the accounting staffs possess better financial knowledge, they can facilitate various explanations to the marketing department in terms of performance evaluation, pricing and costing, and other market based solutions. This can help the marketing department to cut down on mistakes and create better understanding towards marketing issues.

There are a number of activities on the basis of which the accounts team is in constant interaction with the marketing team. Recent studies have shown activity based costing to be of great importance to the marketing department in an organization. This method provides reliable and accurate information based on analysis of product and customer profitability and product pricing. The marketing costs in an organization accounts for approximately 60 per cent of the total product budget. Hence activity based costing can be implemented in order to determine the cost drivers of the marketing activities such as promotions, advertising, market research and selling. By effective implementation of the activity based costing, it helps to channelize the marketing costs and provide a better structure to the marketing activities (Booth, 1995). One of the useful applications of activity based costing to marketing can be seen in the banking industry in terms with mortgage allocations and product pricing. For activity based costing to be successful, multi functional teams should be formed that serves as a link between the accounting and marketing teams. The role of entrepreneurship is emerging in the accounting spectrum. If there is a better working relationship between the two departments, then the innovative aspects and tools formulated can be of great importance for the marketers to determine and solve financial problems (Jones, 1996).

Another aspect that brings together accountants and marketers is the target costing. It further unifies the bond between these two departments. According to Booth (1995), target costing is considered as one of the most proactive techniques. The accountants possess better knowledge in terms of understanding the concepts of target based profit and price. Since there is immense correlation between ‘ activity based costing’ and ‘ target costing’, the accountants are in a better position to analyze and develop suggestions. This should be of immense help to the marketers, and it further justifies the accounting marketing relationship.

The product life cycle costing is another such attribute that further enhances the relationship between marketing and accounting. The main function of the product life cycle costing is that it keeps a track of all the costs involved in a product from its initial research stages to the final stages of service and support. As mentioned earlier, the marketing costs are estimated to be approximately 60 per cent of the product costs; this method is of great importance to the marketers. The accountants can have a better knowledge about the life cycle costing by identifying the costs on an individual product basis over the entire product life cycle. They can then pass on the relevant understanding to the marketers for the better management of costs related to marketing. These three techniques namely; activity based costing, target costing and product life cycle costing gives the accountants a platform to convey their understandings to the marketers to have a competitive edge in the marketplace (Jones, 1996).

According to Kotler (1991), costs constitute the platform to make important pricing analysis and decisions related to the market conditions. The profitability analysis of the marketing segment helps to determine the effect of costing and pricing decisions in the profit. This highlights the strong bond between the functions of marketing accounting interface. The marketing accounting interface has existed for over hundred years. It was eminent from the production era, the sales era and the marketing era. However, the significance started growing gradually and it is very predominant in the modern marketing era. According to Harrison (1978), it was suggested that for accountants to be effective and create importance in the business environment, they should become involved in the marketing functionalities. A number of studies have suggested marketing to be more interactive towards accounting. Certain facts related to this marketing accounting interface have been justified in studies based on the transportation industry. It has been noted that certain marketing activities greatly influenced the management control design and systems of accounting. The combination of marketing and accounting has developed strategies that were employed by these transportation companies and rendered immensely successful (Yang & Wu, 1997). Another aspect of discussion is the international cost pricing importance. Accountants actually need to understand and study a wide range of business environments in order to formulate effective pricing strategies that will enable the marketers to focus more on the marketing aspect of their job.

The marketers tend to make the accountants highly responsive to the demands of various marketing functions, which leave them in a position of venerability. Accountants have taken this as a challenge and initiated a much closer relationship with the marketers that are proving highly beneficial to the organizations in recent times. However, there is sufficient scope for further improvement in the marketing accounting interface taking into consideration the present competitive environment globally. Many researchers are making it a point to project the importance of such an alliance of the marketing accounting interface through their studies. Marketing is termed as one of the most important functions in an organization mainly responsible for generating profits, but it is understood to be seriously handicapped without the support from the accountants (Trebuss, 1994). Entrepreneurship is another important aspect which the accountants should envisage in order to continuously respond to the demands of the marketers by suggesting innovative methods and techniques to generate more profit. These are a number of correlations which intensely relate the two functions of marketing and accounting, in other words terming them as step sisters for the unified cause of driving an organization forward.

Even though it seems like marketing accounting relationship is getting stronger than ever, there are issues that have to be addressed related to their incompatibility over certain situations that have a serious influence? Studies have shown that accountants are finding it difficult to adapt to the entrepreneurial roles, which actually bears a lot of importance with respect to the sharing of information to the marketers, thus resulting in conflicts. It would require the accountant to adapt to the conditions and resolve the conflict to form a stable accounting marketing interface. Due to the competitive nature of the business, the pricing decisions need to be sorted out effectively. It is during the formulation of pricing strategies that there is an apparent lack of understanding or conflict between the marketing and accounting personnel (Shanahan, 2001). Variations in pricing due to low interaction levels between the two departments lead to several instabilities. This situation takes their perspectives off from the marketing accounting interface, the marketers are then mostly dealing with the marketplace and the accountants seem to get back to their traditional job of sorting out margins and costs (Yang & Wu, 1997). This situation clearly lacks the cohesion that is needed to take the company forward.

The accounts domain is mainly responsible for the emergence of costing techniques; hence there is constant disagreement with pricing and performance evaluation. This results in the marketers being confused over the pricing issues that are suggested by the accounts department. For better understanding, the two should increase their communication and interaction, which is at times difficult to manage by the respective segments. Since the evaluation of the firm’s cost reports are managed by the accounts department and since marketing costs incur more than half of the product costs, the analysis of the annual report is of great importance to marketing segment (Pattison & Arendt, 2004). This indicates the profits and other ratios, any deficiencies of the marketing section are highlighted and supposedly the accountants have the final say in these matters. The fact of marketing and accounting being noisy neighbours are further highlighted by the some negative findings in certain studies. Due to the lack of interaction and communication between the marketing and accounting sections, the level of knowledge and refinement does not transfer. This makes the relationship very unidirectional, which results in low productivity in terms of strategic decisions (Shanahan, 2001).

Finally upon summarising the whole discussion, it can be evaluated that a stronger bonding in the marketing accounting relationship is emerging in the modern times. The role of accounting towards being the support function of marketing is termed as extremely important. Due to their significant knowledge in the financial determinants, the accountants can initiate the strategic formulation process that will help the marketers which will in turn help to form a formidable working relationship. This process of interaction between the two segments enables and encourages the accountants to create analytical tools which can be used by the marketers for marketing purposes (Pattison & Arendt, 2004). There is an apparent lack of theoretical evidences justifying the marketing accounting interface in the recent times. It is advised that accountants need to act and react responsibly to the changes in the environment, so that there is no deficiencies in the strategic decisions and implementations which will help the organization in achieving its objectives effectively. It is noted that the research in accounting and marketing should take a cross disciplinary approach, as much of the costing and finance based issues are found in the accounting literature and the marketing issues in the marketing literature. More researchers from opposite fields should examine the concepts, which would provide a much more insight into the relationship of accounting and marketing. The above mentioned justifications suggest that marketing and accounting as step sisters more, rather than being noisy neighbours. However, both are essential functionalities of an organization and their inter dependence will certainly take the organization forward.