Managing Conflicts between Marketing and Finance Department… Is there any way for Alignment?

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Marketing and Finance are two key departments of any organization. Keeping these departments strong is crucial for the success of the organizations. Marketing department directly belongs to the final product, dealing with the customers, estimating the demands, work for stimulating the demands, managing the competition, and striving for brand building. Finance department, on the other hand, concentrating on the financing and investment strategies of the organization.

EVOLUTION OF MARKETING: Marketing functions had vividly evolved in some decades. In starting there were no separate marketing departments in the organizations. These were being merged with the sales departments and perform the simple marketing functions just to "push" the product for the consumer use into the market. But, now the marketing functions have taken huge places in the organizations in term of departments, and SBUs. Even separate marketing organizations has been established, who performs the marketing functions for other organizations. Marketing through brochures/sales materials, emails, social media, events, branding, advertising (print or electronic), and websites/SEOs become most popular now a days. Today, to set the marketing budget is 'to chew the iron pellets' for finance professionals in any organization. Organizations have to keep billions of rupees for their products' promotional campaign.

WHY CONFLICTS ARISE? Almost all organizations, regardless of their size, have one common objective, i.e. to generate money or to earn profit that should be sufficient for their survival and growth. But unfortunately inter -organizational conflicts wipe out this ultimate objective. In most organizations, focus diverts from organization level to the divisional or departmental level and the organization in there board meeting represents the following picture.

Marketing department blames finance department for their failure as the funds are not provided as required and the finance department revert back with the same argument regarding marketing department as they fails to meet their targets regarding demand stimulation thus declining targeted revenue. In the result of this, marketing department operates in its own limited area thus performance become marginalized whereas the finance department operates with its own priorities and limitations regardless of imagining the negative impact of this in term of loss of market share and off course revenue.

WHAT IF INTEGRATE? Richie Norton once said: “Mission matching: an ask that creates synergistic congruence (aka win-win) between missions”.

Integration of marketing and finance departments means “moving from cost to contribution.” This will make the remedy against the conflicts that arise between departments as the objectives of the two become similar. Finance department’s input in the marketing department can be productive and can help in boosting overall business value. Through integration of finance and marketing department, the personnel of both departments become knowledgeable about the functional areas other than their own. Every one tries to utilize their skills in understanding the strategies and mould those strategies into financial performance.

In the result of that, finance department, who thinks marketing cost as a burden on the operational budgets, when integrate with the marketing department, considered it at as investment.

IS THERE ANY WAY OUT TO INTEGRATE? Yes! Off course! There are some ways to integrate these two departments.

1. **Consider marketing cost as investment:**

Finance personnel in the organization should consider the marketing cost as investment rather than a burden on the overall operational budget. Practically, it is possible by using analytical approach to the marketing department’s cost. What need to be done is that the ratios applicable to the overall businesses should be implemented to the marketing department. Return on investment (ROI) should be transformed in to (MROI) marketing return on investment. Instead of cutting of marketing budget, finance personnel needs to use the incremental profitability approach first, to analyze real profitability from additional investment putting in marketing department. MROI can be calculated as:

$$\boxed{\text{MROI} = \frac{\text{Inc. Profitability from Mkt. Inv.}}{\text{Inc. Investment in Marketing Depart.}}}$$

Incremental profitability from marketing investment means that Incremental revenue attributable to marketing multiply by contribution margin percentage minus incremental investment in marketing.

Marketing ROI is not exactly similar to the "ROI" because the cash invested in marketing is not similar to the cash invested in inventories, receivables, and non-current assets (CAPEX). In accounting point of view, it is operational expenditure and should be expensed out during the period. The main purpose behind the calculation is to ascertain the contribution from marketing investment in the overall profitability.

2. **Bifurcation of short term and long term marketing investment:**

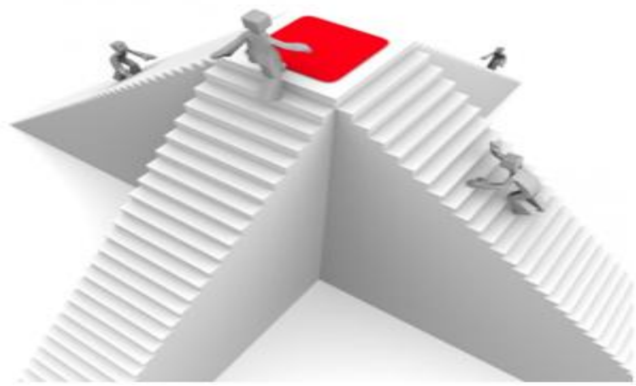
No bifurcation between the short term and long term marketing investment create huge misunderstanding between the two functions i.e. finance and marketing. It is very difficult to identify the long term (Creative) and short term (routine) marketing cost. Short term (routine) marketing cost means costs incurred on advertising through different channels like electronic media, print media, social websites, internet etc., while long term (Creative) marketing cost generally referred to the costs incurred on brand building. Short term marketing investment's profitability reflects immediately in the profit and loss account while long term marketing investment's profitability takes time to realize and this generates conflict. Therefore, finance department needs to understand the facts behind the scene before reaching towards any sort of conclusion. They have to keep an eye on the future prospects of the marketing benefits that can add long term value towards the shareholders return.

3. **Focus on one business goal i.e. maximizing shareholders' value:**

Marketing department's personnel often claims the number of prospective consumers they reached for-example; they said we have reached 1 million likes on the Facebook, we have gathered 50,000 people on an event; these sort of litigations are useless unless they add some value to the profit. Therefore, both the finance and marketing department should concentrate on one single motive that is to maximize the shareholders' return and that is the key to align the two functions.

4. **Benchmarking:**

To cope with the conflicts between the two functions, one way is to set those companies, who perform well in the industry, a benchmark, for marketing expenditure and the value these companies generate from that expenditure. This will create the confidence of the marketing department and the accountability as well if the marketing strategy goes wrong.



The benchmarking need to be done with both two costs; i.e. creative marketing cost (the cost incurred for brand building) and routine marketing cost (Cost incurred on routine marketing of different products). After creating the benchmark, it is necessary to wipe out the unnecessary cost duplications by taking directions from the expert marketing consultants. This will reduced the overall marketing cost by unnecessary spending and boost up the MROI.

5. **To convince marketing and finance on they are two sides of the same coin:**

Another way to resolve conflicts between the finance and marketing departments is to convince the both that they are on the same board. Marketing personnel should involve finance personnel in planning process of marketing department whereas the finance personnel should invite marketing personnel input in formulating the marketing budget. This will not only result in shrinking the communication gap between the two departments but also allow both departments to make the necessary adjustment in the budgets time to time as required by the global norms.

CONCLUSION:

The synopsis of the whole showcase is that finance and marketing departments have to focus on improving the internal communication. Marketers seem to be the excellent communicators but unfortunately they totally fail to utilize this skill internally, with their own finance department. If they want to get the key objective of maximizing the shareholders' return by maximizing the targeted customers (revenue) outside the organization, they have to improve the inside.

References:

1. Review of Research by Jonathan Gordan, Jean Hugues Monier and Phil Ogren on McKinsey & Company.
2. Review of Research by Frans Cornelis "Moving from cost to contribution – Integrating Marketing and Finance".