Harvard Business Review
www.hbrreprints.org

FORETHOUGHT MARKETING VERSUS FINANCE

Reconcilable Differences

by Jonathan Knowles and Richard Ettenson

Reprint F0706D

Reconcilable Differences

by Jonathan Knowles and Richard Ettenson

Marketing and Finance have a famously fractious relationship, with each accusing the other of failing to understand how to create value. That tension may seem to be dysfunctional, but when channeled right, it can actually be productive.

Marketers see value creation as an externally oriented activity focused on the demand side: satisfying customers' needs and desires. Marketing's role, according to this calculus, is to maximize the ratio of the perceived benefits the company offers through its goods and services and the price paid by the customer. In other words, making sure customers feel they're getting value for their money.

By contrast, finance managers see value as something that's derived primarily from the supply side. To them, value creation is an internally oriented activity focused on minimizing the production and delivery costs needed to support a given level of revenue and requires the return on investment to be demonstrated for all costs.

Who's right? They both are, of course. Superior business performance requires striking a healthy balance between customer value and cost structure. The goal is neither to maximize customer benefit—which would entail giving away your product—nor to minimize costs in isolation but rather to optimize the relationship between the two. Marketing and Finance both have important insights to offer, so the goal is to manage the tension between them, not to eliminate it.

Finance needs to take a cue from Marketing (and behavioral economics) and accept that people make choices based on utility, not just financial considerations. Peter Drucker articulated this decades ago when he said "What the customer buys and considers value is never a product. It is always a utility, that is, what a product or service does for him." Hard as it may be for many finance managers to appreciate, intangibles such as relevance, status, belonging, and gratification can be powerful and predictable drivers of customer decisions. Finance managers must develop models that explicitly connect marketing-related intangibles—the nonmonetary dimensions that customers will pay for—to profitable changes in customer behavior. By asking Marketing to put the expected impact of its investments in intangibles into concrete terms (for example, by estimating the anticipated number of new customers that would be acquired during a certain time frame), Finance can analyze and discuss marketing expenditures in relation to specific performance criteria while acknowledging that quantifying customer behavior is an inexact science.

This is not a concession on the part of the financial manager; it's a smart and effective way to deal with investments that have potentially large but uncertain payoffs. Financial analysis is there to assist managers in making informed judgments when things are uncertain.

In a similar vein, despite their focus on customer value, marketing managers must develop an appreciation for Finance's interest: shareholder value. Marketers rarely incorporate the perspective and language of Finance when communicating the value their activities deliver to the organization. They often fail to recognize that the measures of value they find important—things like customer awareness, preference, brand equity, and loyalty—don't translate easily for finance types.

Marketers may not be able to put a definitive dollar figure on brand equity (though some are trying), but they can consciously frame the impact of their activities in terms of the objectives they share with finance: delivering organic growth, increasing cash flow and profits, and reducing earnings risk. Brands that sustain a price premium boost profitability. Brands that customers trust are more easily extended, aiding growth. Loyal customers reduce earnings volatility, because they don't churn. When Marketing expresses its goals in those terms, it sublimates the tension between the two disciplines into a valuable debate about Marketing's impact on profit, growth, and risk.

Marketers shouldn't act like finance professionals, and vice versa. But they should be on speaking terms and know how to communicate and collaborate effectively with each other. If these two groups can't speak each other's language, neither will be able to maximize its value to customers, shareholders, or the organization.

Jonathan Knowles (j.knowles@type2consulting.com) is the founder and CEO of Type 2 Consulting in New York. **Richard Ettenson** (ettenson@t-bird.edu) is an associate professor of global marketing at the Thunderbird School of Global Management in Glendale, Arizona.

Reprint F0706D
To order, see the next page
or call 800-988-0886 or 617-783-7500
or go to www.hbrreprints.org

Further Reading

The *Harvard Business Review* Paperback Series

Here are the landmark ideas—both contemporary and classic—that have established *Harvard Business Review* as required reading for businesspeople around the globe. Each paperback includes eight of the leading articles on a particular business topic. The series includes over thirty titles, including the following best-sellers:

Harvard Business Review on Brand Management
Product no. 1445

Harvard Business Review on Change
Product no. 8842

Harvard Business Review on Leadership
Product no. 8834

Harvard Business Review on Managing People
Product no. 9075

Harvard Business Review on Measuring Corporate Performance
Product no. 8826

For a complete list of the *Harvard Business Review* paperback series, go to www.hbr.org.

Harvard Business Review

To Order

For *Harvard Business Review* reprints and subscriptions, call 800-988-0886 or 617-783-7500. Go to www.hbrreprints.org

For customized and quantity orders of *Harvard Business Review* article reprints, call 617-783-7626, or e-mai customizations@hbsp.harvard.edu