

Types of Marketing Expenses: Investment, Expansion, Enabling

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Learning Objectives

- 1) Know the 4 Classic Growth Strategies
- 2) Know the Three Basic Types of Marketing Expenditures
- 3) Differentiate the expense which is a marketing investment from a marketing expense which is not
- 4) Knowing why some marketing expenses which are necessary to enable sales transactions are not necessarily marketing investments
- 5) Knowing that most marketing investments are not consider to be investment's in the world's of finance and accounting

Accountants and Finance Managers

- Normally do NOT classify marketing expenses as investments!
- Accountants see money spent on inventory, retail furnishing as assets but all the money spent on the ingredients of the offering (the services, promotion, advertising, supply chain, sales force etc.) are treated as expenses (fixed or variable)

Financial Managers

- Are prepared to accept some marketing projects as financial investments
- A person with a business selling pots off blankets to tourists can be a financial investment if he is incorporated as a business
- A vending machine that uses point of purchase advertising can be a financial investment (revenue producing asset)
- Money for Marketing is seen as working capital, but not as a capital investment

Classic Business Growth Strategies

	Current Offering	New Offering
New Customer Segment	2) Business Expansion Strategy a) Franchising b) Geographical expansion	4) Diversification Strategy
Current Customer Segment	1) Penetration Strategy a) Spending more on the customer value in the current offering b) improving value relative to competitors	3) Product Development Strategy a) Offering total systems (add mops to your soaps) b) Customers with New uses for current offering

Two Growth Strategies With Current Offering

Expansion out to New Customer Segments with Current Offering 			
Initial and Current Customer Segment 			Penetration into Current Market With Investment in the Current offering

There are **Two** Basic Levels of Marketing Expenses

- **1) A Business Start up Expenses:**
Marketing Expenses needed for Initial Market Creation, Business Start Up and to achieve Breakeven Sales Volume with a core offering
- **2) Expenses for Growth with Current Offering:**
Marketing Expense used to grow the business to enable transactions. to expand into new markets, and to penetrate the current segment beyond the breakeven level of volume



Business Initiation/Creating the Core Offering

- We start with the assumption that all businesses are some form of a vending machine or a transaction machine that offer customers a solution to some problem or some benefit that serves a customer need.
- The “vending” or sales machine can be as simple as a person selling pots off a blanket to tourists or a complex as a manufacturing plant selling and delivering products to customers world wide



Business Initiation/Market Creation Expense

- This is the money that is expended to start the business with a core product/service to sell, a location to sell at, the mechanisms (people and/or capital) for completing a transaction and the promotion to create a sufficient level of customer awareness for a level of demand/revenue that allows for a sustainable business at the Breakeven level
- This expenditure could be the money spent to purchase all or part of an on-going business and be treated as a traditional financial investment

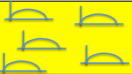



Two Levels of Expenses

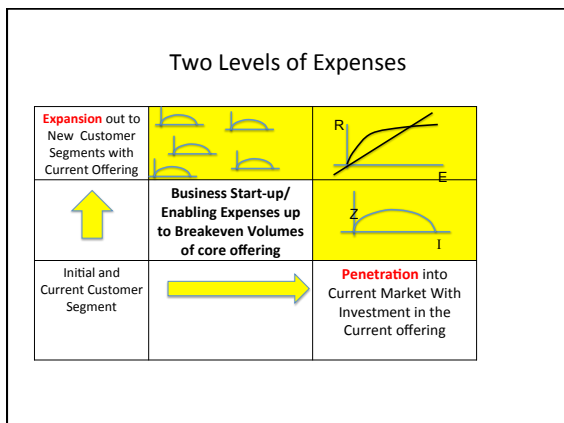
Expansion out to New Customer Segments with Current Offering		
	Business Start-up/ Enabling Expenses up to Breakeven Volumes of Core offering	
Initial and Current Customer Segment		Penetration into Current Market With Investment in the Current offering

Two Levels of Expenses

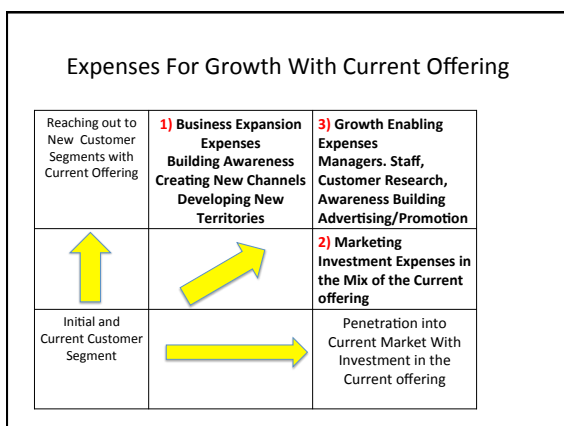
Expansion out to New Customer Segments with Current Offering	Growth Expenses into new territories or franchising beyond Start up Operation	Growth Expenses beyond Start up and Breakeven
	Business Start-up/ Enabling Expenses up to Breakeven Volumes of core offering	Growth Expenses involving improvement in the value of the current offering
Initial and Current Customer Segment		Penetration into Current Market With Investment in the Current offering

Two Levels of Expenses

Expansion out to New Customer Segments with Current Offering		Growth Expenses beyond Start up and Breakeven
	Business Start-up/ Enabling Expenses up to Breakeven Volumes of core offering	
Initial and Current Customer Segment		Penetration into Current Market With Investment in the Current offering



- The **Three** Types of Marketing expenses For Growth Using Current Offering
- **1) An Investment In Customer Value in Current Offering to penetrate the current set of potential customers (current market)**
 - **2) A Customer/Market Expansion Expense to move into new geographical area with new logistics, franchising, etc**
 - **3) A Growth Enabling Expenses on the current overheads of the operation, managers, awareness building**



- Three** types of market Growth expenses!
- **1) A Customer/Market Expansion Expense:** the money that is spent to expand the business to reach new potential customers who have not been able to learn about or access the seller's current offering.
 - **2) A Marketing Investment/ Penetration Expense:** the money that is spent by the seller on creating the value which current customers see in the seller's current offering.
 - **3) A Growth Enabling Expense:** the money spent on business operations necessary to enable transactions and exchanges to occur but are invisible to the customer's perception of value

- 1) Business/Market Expansion Expense**
- The necessary expenditures needed to expand a given business by reaching new customers with the current offering.
 - It may involve creating new uses for a given product, new store locations, new distribution systems, a presence in new states or countries, and creating awareness in potential customers who have never heard of the offering currently being sold in the current market

- Note:** Market Expansion Expenditures
- are designed to make the current offering available to potential customers who are unaware of the current offering or for whom the current offering is not accessible
 - are **NOT** designed to change the amount of customer value in the current offering

Market Expansion

- Where the marketing expense in creating awareness or product availability has an impact on demand, Q , but does not increase the amount of value in the offering
- For example, Market Demand Function, $Q = kA^e$ where k = scaling constant
 A = amount spent on awareness or accessibility
- e = the elasticity of the marketing effort

3) Market Growth and Transaction Enabling Expenses

- Marketing expenses that are necessary for transactions to occur but are invisible to the customer and make no direct contribution to the perception of total value in the offering
- Cost of Building Awareness of a product benefit
- Cost of Promoting a Price Discounts and Coupons
- Raw Material or Distribution Equivalents
- Labor equivalents (types of training, sales force compensations)
- Customer Behavior Research

Market Maintenance and Transaction Enabling Expenses

- Are treated as fixed costs for a time period or as direct costs in the cost of goods sold
- A sales force supervisor is necessary to manager a sales force but the monthly expense of having one reduces profit and is invisible to the customer
- Promoting a special price discount is a necessary cost for the event's success but the actual cost of the advertising, etc., does not add to the value of the offering
- A sales person's commissions are a direct cost in the sale of a product but do not directly add value to the offering

There are Pricing and Revenue

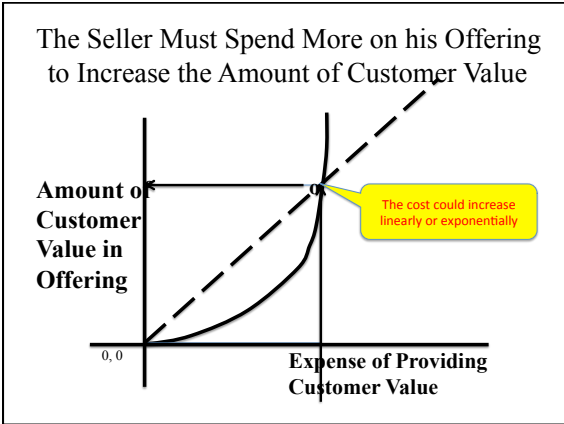
- Models that deal with the fixed and variable marketing costs that are necessary for enabling a transaction but make no direct contribution to the amount of value the customer sees in the offering
- For example:
- Profit From Necessary Expenses, $Z = (\text{Selling Price, } P - \text{Variable Cost, } V) (\text{Quantity Sold, } Q) - (\text{Period Marketing Costs, } F)$
- Profit From Transaction Expenses, $Z = (P - V)Q - F$

2) The Marketing Investment Expense is

- the dollar amount of the seller's expenditures which are directly spent creating the benefits a buyer experiences during and after the purchase the seller's offering.
- The benefits a customer receives in the seller's offering are provided by the product, the place and the promotion ingredients of the marketing mix.

Ingredients of the Marketing Mix

- Which make a Positive Contributions to Customer Value
- i.e., Elements of the 4P's with a direct, immediate, and a positive impact on customer Demand (number of offerings purchased)
Product Attributes and Service Quality
- **P**lace and time utility of the transaction
- Status, Style, etc. bestowed by **P**romotion, Communication and Packaging

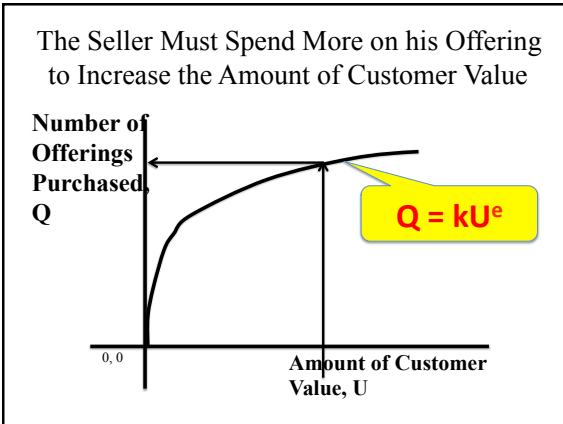


Marketing Expenditures

- That are **NOT** directly reflected in the customer's perceptions of the value in the seller's offering are **NOT** considered marketing investments
- Many Marketing Expenditures may have an indirect, albeit, positive impact on customer value in the offering in the long term
- These types of long term or indirect expenditures are **NOT** marketing investments

A Change in a Marketing Investment

- is a change in a Marketing Expense that has an immediate and direct impact on the number of products the customers are demanding and/or the amount of revenue the seller is experiencing because customers see and are responding to a change in the amount of benefit being provided by the seller's offering



When you can change

- The amount of a marketing expenditure and it makes no change on the customer's perception of the amount of value in a seller's offering, then the expenditure is not a marketing investment.

Marketing Investments

- Can **reach maturity very quickly**
- At maturity you get the amount you invested in the offering back as part of the period's revenue and
- The amount of profit you earned as a financial gain on the investment
- In the simulation, the investment in servers, quality of coffee, and hours open mature at the end of every week

Some Marketing Investments

- **Reach maturity very slowly** with net cash inflows arriving periodically over time and are adjusted with the time value of money to reflect the true value of the financial gain
- Beloved cartoon spokespersons such as Tony the Tiger, Snap, Crackle, Pop, Dough Boy, Billy the Beaver can have impacts that last for decades after their last advertising campaign

A Single Investment or a Portfolio

- There are many ingredients in the marketing mix that could create and contribute to the customer value in the offering (Product, Place, Promotion)
- It is possible that one ingredient dominates all others that it can be considered the only ingredient that is being invested in
- e.g., the number of servers in a coffee shop (speed of service)
- e.g., the amount & variety of the inventory (shopping experience)

An Offering is a Portfolio of Investments

- In most situations the customer value in the offering is the result of several different ingredients creating value simultaneously
- Days, Hours of operation (customer convenience in Place)
- Store Location (Convenience of Place)
- Advertising & Promotion creating status and style (customer value created by promotion tools)
- Product performance (Product Utility)

Portfolio of Investments in the Offering

- When the value of an offering is the result of expenditures on different marketing mix ingredients
- Then it should be assumed that the investment in each type of ingredient will make a different level of contribution to the number of offering purchased, total marketing profit earned and will have a unique profit function and rates of return

The Total Marketing Profit over the Life Time of the Offering

- Can be considered the total revenue, R , generated from all the purchases of the seller's offering minus the total amounts, I , expended on providing the offering to customers
- Total Marketing Profit, $Z =$
(Revenue From Total Purchases, R) – Total Investment Expense, I)
- Life Time Marketing Profit, $Z = R - I$

The crucial difficulties in measuring

- The amount of profit that is being generated by different ingredients in the offering at points in time prior to the final purchase event are
- 1) different ingredients of the mix generate different levels of customer value
- 2) the different ingredients have different life spans

Impact and Life Spans of Different Ingredients

- Advertising the creates status, styling, reduces social risk, creates trust in the offering may last for years or be fad
- The impact changing the service levels in a coffee shop may be realized with a change in sales within weeks
- The Impact of changing the quality of coffee may take months to be realized in the sales volume

The difficulty of managing the portfolio of investments

- That generate the total customer value in an offering will be discussed in future chapters

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