BRIDGING MARKETING ACTIVITIES AND CASH FLOW MANAGEMENT

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Abstract

This paper examines the interlinkages between marketing activities within business processes, and cash flow management in a growth context. Investigating research on barriers to growth in SMEs uncovers a wide range on marketing and financial management issues. Combining a wider, relational understanding of marketing with cash flow management tools is examined. A framework is proposed that integrates growth management issues under shared terminology and effectual interactions. Utilizing the framework allows systematic response to growth management issues. It is postulated that the presented framework could be expanded to a general management tool and basis for control systems and valuation tools. Steps for empirical assessment of the construct, development of a more detailed model and avenues for subsequent further research are presented.

Introduction

The search continues for ways to ingrain marketing thought into standard business and network management practice. An ongoing series of round table discussions and interviews among key Finnish and Nordic area based CEOs consistently draws out that a distinct gap exists between academic best practice and standard business practice (StratMark 2006; StratMark 2007). A narrow definition of marketing (cf. e.g. Grönroos 2007) leaves many managers unable to fully and systematically take advantage of research in, for example, market orientation, network relationship management, and marketing performance metrics. Marketing is still widely regarded a delineable function instead of business processes or a philosophy or orientation. This is evidenced in practice by weak links between and lack of overall control over marketing activities, their causes and their effects (e.g. Stewart 2006). The development of new budgeting, control and management accounting systems to address this requires new information on the nature, extent and significance of linkages between marketing actions and the wider business processes they occur in. The purpose of this paper is to begin work aimed at developing such new systems that would be practical and meaningful as control systems and allow for acceptance and adoption of marketing actions as key drivers in business process management.

The managerial benefits of bridging the gap between marketing best practice and standard business practice are found in establishing an integrated framework for taking advantage of marketing actions across all business processes. A qualitative general study of interlinkages must precede any quantitative operationalization of the linkages or, eventually, a model for a control system. The greater goal of formulating an adaptive yet comprehensive, marketing-oriented approach to quantitatively managing business processes is beyond the scope of a single study. To approach the immediate objective of setting the qualitative stage for such an approach, we must begin with constructing a theoretical framework. More specifically, building blocks must be gathered, assessed and fitted together so that a preliminary model may be put together. Once this is in place, we can begin empirical assessment, refinement and testing with respect to the stage-setting goal. The research questions, thus, lie in:

(1) What components could such an integrated framework include?

- As we are concentrating on the linkages between areas of research – as well as those between theory and practice – a meaningful model would have to build on established thinking and structures in both ends.

(2) How could the linkages and interactions between the components be modeled?

- We seek to form a model that combines flexibility and a degree of generalizability with practical value for research at first and management eventually. How would the components interact on a general and specific level to offer a potent basis for empirical assessment?

The rationale behind the framework developed in this study lies in leveraging established research from several business research disciplines to form a common platform. The issues at hand have been approached from a multitude of perspectives. First, a theory of the firm was adopted from the domain of marketing research (Srivastava, Shervani, and Fahey 1999). The role of this was to approach the research problem from a marketing perspective. (Whether the thinking represents best practice or not is arguable, but it is firmly within the current mainstream discourse.) Next, the link to standard management practice was to be made. For this purpose, we selected cash flow management. It is generally recognized, that cash flow management is one of the most central themes in finance. Furthermore, cash flows are unambiguous compared to, for example, performance metrics or firm valuation methods. Finally, cash flows are a key managerial issue especially in SMEs striving for growth (cf. e.g. Hill, Nancarrow, and Wright 2002).

The two main components of the study – a marketing-oriented theory of the firm and cash flow management – are projections of a measure process that allows further development of profitability measures (cash flow management), and the processes of generating that measure (marketing actions in business processes). An immediate obstacle would seem to be the

quantifiability of many marketing actions and marketing subprocesses. Many events cannot easily be assessed for their "marketing contribution", and there are great struggles in attributing actions (costs) to and benefits of long-run and time-lagging processes such as brand building and reputation. We firmly argue that the "black box of marketing" is not inpenetrable, and that common metrics and standard processes will allow reliable assessment to be carried out and valid financial linkages to be made – exactly as we have seen with fields such as quality management (Stewart 2006). The difficulty of the analysis of future cash flow and equity formation can never in itself form an impediment to their study.

Background

In discussions with managers, management students, and the general public, the view of marketing is often distorted to comprise little more than promotion. Marketing is often seen as a "soft" discipline, dealing chiefly with emotions, shunning the systematic planning, creation and sustainment of relationships and relational exchanges. Furthermore, marketing is often marginalized to be solely the responsibility of a marketing manager or department. This is also evident in control systems – often derived from external fiscal reporting formats. For example, items in a marketing budget often do not account for actions and programs outside a marketing department that are clearly within the scope of a wider, processual understanding of marketing. The motivation for this study and construct lies, grandly, in realigning marketing by presenting one integrated framework for controlling all core business processes in monetary terms. More specifically, the paper will establish the case and present a procedure for carrying out cash flow management based on actions on marketing subprocesses in a SME/growth context.

This paper derives its intellectual rootings by contesting classical perspectives to both marketing and strategy (Varadarajan and Jayachandran 1999). The employed perspective to strategic marketing constitutes a theory of the firm: a goal-setting, strategic framework for describing and analyzing a company (cf. Day 1994; Kohli and Jaworski 1990; Stoelhorst and van Raaij 2004). This perspective to strategic marketing agrees with Hayes and Abernathy

(1980) in that marketing's role has been overshadowed at higher levels of management by those of financial managers and lawyers. Marketing skills need to be brought to basic research, technology, product development and introduction (Palmer and Millier 2004).

On the other hand, a financial perspective offers a solid and generally well-understood basis for control systems and performance measurement. It is felt that a coherent, integrated combination of the two worlds would be both meaningful and effective as a management tool – be it communicating and managing financial objectives in market and relationship terms, or linking marketing activities to financial resources and outcomes.

A further theoretical basis that needs to be taken into account is that the general level of innovative product and market development, and thus long-term competitive advantage, is severely impeded by "market-driven strategies" and ROI-oriented control systems (cf. classic accounts such as Buzzell and Gale 1987; Jain 1989; Samiee and Roth 1992). Moreover, they recognize that at the strategic level, no problem will be exclusively of production, finance or marketing. A tradeoff between customer focus and process improvement is also a relevant constraint (Ettlie and Johnson 1994). Literature on value creation versus value appropriation also offers interesting insights on relationships and linkages between market orientation, strategic marketing and business performance (McNaughton et al. 2001; Mizik and Jacobson 2003).

The chief challenge behind this paper is how work from different management disciplines can be meaningfully combined to form the basis for management support systems that go beyond the often one-sided perspectives of, for example, cost-monitoring systems. Developing an all-encompassing model of management by marketing and cash flows is out of anyone's scope; limiting the discussion to growth management offers a more fruitful platform. Furthermore, this allows us to take advantage of well-developed extant research, as well as the luxury of addressing a specific primary audience – SME stakeholders in management, venture capital, consultancy, and the academia. Combining a relational network process approach to

marketing with straightforward cash management will in our opinion provide a conceptual starting point for fresh research into growth management in particular and strategic marketing in general.

Conceptual framework

The framework presented here combines research from a number of conceptual settings and topic areas. To approach the research questions and stated needs, we examine the components that form the theoretical background for the proposed framework, and, each in turn, address a part of the research questions. As is to be expected, the components represent a wide range of thought. Nevertheless, they can be combined in a meaningful way that will offer avenues for further study and empirical assessment.

Business processes and marketing subprocesses

Owing to the stated perspective on marketing as a process, this paper takes the concept of marketing orientation, in a sense, as granted and established (Day 1994; Deshpandé and Webster Jr 1989; Deshpandé, Farley, and Webster Jr 1993; Jaworski and Kohli 1993; Kohli and Jaworski 1990; Narver and Slater 1990; Slater and Narver 1995; cf. Vassinen 2006). Srivastava, Shervani and Fahey (1999) build on the thinking to distinguish three business processes, under which marketing subprocesses can be grouped: (1) *Product Development Management (PDM)*, (2) *Supply Chain Management (SCM)*, and (3) *Customer Relationship Management (CRM)*. The *marketing subprocesses* discussed here include elements such as customer need ascertainment under PDM. These groups of subprocesses can be supplemented with (4) *managing other network relationships* (Gummesson 1999), although this leads to the problem if it being possible to group too varied an assortment under a process. Possibly, an *operations management* subprocess for marketing could offer comparable benefits.[1] It should be noted that all subprocesses include both an internal and external component. That is, there

[1] A wide variety of marketing action types exist that have a "network slant" to them. Distribution channel issues, for example, are readily groupable under CRM, but marketing actions in e.g. financial and M&A markets are further away from prevalent understandings of "customer relationships". In addition, some network dyad actions form an interesting subset: where will exchanges of information, knowledge, and technology, and co-creation and synergies with network partners fall in the classification?

is always an enabling internal marketing component present that is prerequisite for external actions.

The perspective to a firm and business management offered by Srivastava *et al* offers an integration of diverse business processes under marketing direction. Later studies (e.g. Payne and Frow 2005, elaborating on CRM strategy and implementation) demonstrate that the business process platform forms a usable basis for a research and management tool.

Company life cycles

The discourse on life cycles is long and inconclusive, but offers plenty of empirical findings on growth patterns and business development in a growth setting (Smith, Mitchell, and Summer 1985). For nearly eight decades, patterns of organizational development have been studied as an analogy to product life cycles. Earlier texts focus explicitly on products, whereas later the distinction blurs often to an implicit one-product-one-company scenario (Cox Jr 1967; Day 1981; Enis, La Garce, and Prell 1977; Hofer 1975; Mooney and Reiley 1931; Whetten 1987). It is generally recognized that different stages in a life cycle call for different strategic and managerial approaches (Anderson and Zeithaml 1984; Churchill and Lewis 1983). However, the descriptive angle is more developed than the prescriptive. Life cycle models can give general guidance, but disagreement is widespread e.g. on phase sequences and growth pattern types (Birley and Westhead 1990; Delmar, Davidsson, and Gartner 2003). Recent work offers a new perspective by approaching life cycles from a HRM and competence perspective, building on established Penrosean growth management research (Moore 2004; Penrose 1955; Rugman and Verbeke 2004). Whereas business processes and marketing subprocesses form distinct components in the proposed model, life cycle management literature in turn offers a rich background from which to focus on what areas are the most relevant given an SME perspective.

Barriers to growth

Life cycle and growth management discourse is intimately connected to discussion of *barriers to growth* (or, "crisis points") that companies must overcome in order to grow – or survive (Hanks et al. 1993; Hill, Nancarrow, and Wright 2002; Mitra and Pingali 1999; Reynolds, Day, and Lancaster 2001). Classifications of barriers to growth per growth stage are wide and varied (cf. Terpstra and Olson 1993). No consensus exists on demarcating the various stages and associated barriers to growth (Weinzimmer, Nystrom, and Freeman 1998). Neither is it likely that a theory adequately explaining overcoming barriers is imminent (Gibb and Davies 1990; Smallbone, Leigh, and North 1995). A network perspective runs throughout the discourse in the growth context (Hite and Hesterly 2001). In empirical studies (e.g. Keogh and Evans 1999; Smallbone, Leigh, and North 1995) it is often seen that the majority of barriers stem from marketing and finance. Kazanjian's model (1988) of the growth phase also emphasizes these two. Barriers to growth form the conclusive link between business processes and marketing subprocesses, and fiscal assessment in the selected scope of investigation – the two major barriers to growth themselves.

Cash flow management

As cash is often the ultimate determinant for company death or survival, explicit focus on cash management offers clear safeguards for the management of growth. Cash flows and managing the operating cash cycle are vital components for a company in introductory and rapid growth phases. For a growth company, the degree to which the firm can take advantage of available cash directly determines the self-financeable rate of growth (Churchill and Mullins 2001). Furthermore, there is evidence of a distinct, predictive link between earnings and cash flows (Dechow, Kothari, and Watts 1998). Furthermore, cash flows allow a direct quantitative link between accounting, financial management and business processes. Mullins and Churchill (2004) expand on earlier work to provide a concise operationalization of their cash lever tool, while Dechow, Kothari and Watts connect operating cash flows to the formal accounting process. The unambiguity and centrality of cash flows to finance research leave them as a practical and meaningful keystone for further research. Moreover, cash flows and

cash days can be used to concisely demonstrate the effect of (marketing) actions in and on business processes, in a way that is both meaningful and familiar to many people.[2]

Control systems

Business and marketing performance assessment is closely linked to *control systems* (Flamholtz, Das, and Tsui 1985). Control systems are "formalized routines and procedures that use information to maintain or alter patterns in organizational activity to ensure desired outcomes" (Morgan, Clark, and Gooner 2002). However, control systems and management accounting deriving from tax reporting formats (as is often the case) do not offer straightforward following of marketing activities on a wider level. An integrated approach to cash flow management and marketing would have to comprise such a system, especially if linked to accounting (Flamholtz 1983). Morgan *et al*'s integrative Marketing Performance Assessment system is somewhat too general in its outcome metrics for the growth context (Bonoma and Clark 1988; Weinzimmer, Nystrom, and Freeman 1998) and lacks explicit prescriptive linkages, but offers a solid benchmark for assessing control systems in general. An eventual operationalization of the model aimed at by this research would be assessed based on its merits as a control system.

Framework development

The framework we intend to develop combines two key elements: business processes with their respective marketing subprocesses, and cash flow management. Before a proper model can be proposed, the workings of the two component models need to be further examined.

Churchill and Mullins' model for effective cash flow management relies on three *levers* that can be "pulled" to affect the self-financeable growth (SFG) rate. They demonstrate how the mechanism allows for an intuitive and responsive method for releasing cash for growth and

[2] Although this paper focuses on cash flow management, the authors do not wish to imply that a cash flow orientation as such would be an answer above others for SME management. Cash flows merely provide a useful and clear platform for further metrics, be they more complex performance metrics or marketing action typologies and effect patterns.

monitoring performance for survival. Firstly, affecting the duration that cash is tied up in the operating cash cycle (OCC) by e.g. decreasing inventories will release cash, as will stricter accounts receivable policies. The absolute amounts of cash tied for the said duration constitute the second lever. Thirdly, the income lever of how much cash is generated from sales and other activity during a cycle is considered. We add a fourth "lever" to emphasize the role of structures, skills and knowledge (Figure 1). (Churchill and Mullins 2001; Mullins and Churchill 2004; Tikkanen 2005)

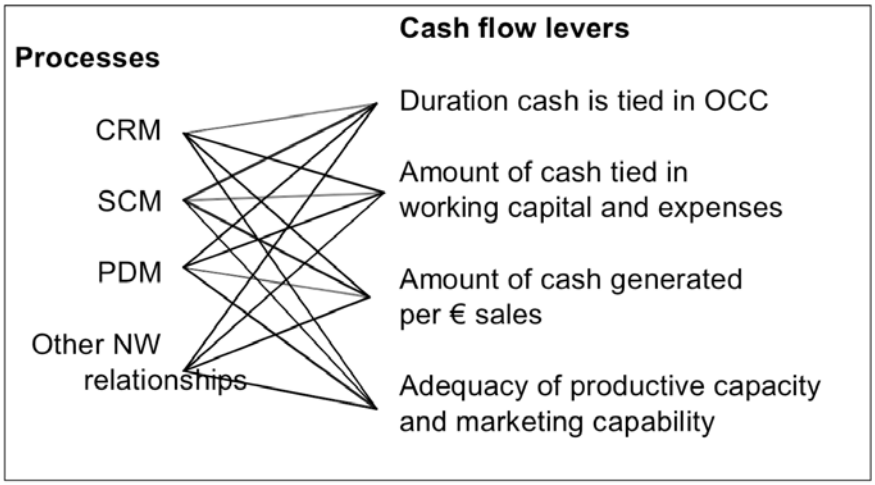

Figure 1. Combining business processes and cash flow levers.

The business processes component of the proposed model is based for the most part on Srivastava *et al*'s division of marketing subprocesses under the three overall business processes (1999). The justification for selecting these three processes lies in their criticality to achieving any and all goals of the company, as well as clear and distinct roles in the value creation process. In order to fully address the network perspective, we supplement this division with a fourth category of "other network relationships," The PDM category is concerned with solution creation, SCM with acquiring the required inputs, and CRM with identifying, acquiring and retaining customers. While all three will in contemporary management practice include a network management component, the category of "other network relationships" is added based on Gummesson's four relationship types (classical

market relationships, mega relationships, nano relationships, special market relationships) (1999). Figure 1 summarizes the proposed model combining the cash flow and relational business process perspectives.

It is proposed that *for every cash flow action, there exists at least one coinciding marketing action*, and conversely, *for every marketing action, there exists at least one coinciding cash flow action*. Thus, it is possible to link events in the two sets together – and, more importantly – systematically initiate events that will affect one or more desired business processes or levers. In light of further research, the implications of this on assessing the relevance and impact as well as identifiability of causes and effects become a central issue.

To illustrate the use of the model and the thinking behind it, a company facing a set of interlinked barriers to growth may be considered. For example, to develop their supplier network ties, the management decides to hire a new sourcing agent. For this, they will need cash. Ways to release cash from the OCC into growth might be found from persuading existing network partners to renegotiate terms on accounts payable, or selling off inventory. The urgency of the matter is a determinant. Similarly, a newly hired sourcing agent may be able to shift component stocking to the suppliers, releasing cash from the OCC by a relational marketing exchange.

Model develoment and testing

We purport, that taking under consideration the interlinkages between the four business process categories of marketing activities and four cash flow levers will result in a framework that will provide the foundation on which a meaningful model of linkages can be developed. To move from framework to model will require qualitative assessment of:

- Typologies of marketing activities based on causes, effects, methods, and temporal criteria;
- Valuation criteria for the significance, worth and cost of marketing activities and non-activities (i.e. opportunity costs);

- Correlations, correspondences, and dependencies between marketing action types, marketing subprocesses, and cash flow phenomena.

An operationalizable model in itself would deconstruct the seldom-explicit links between marketing actions and cash flow levers by also including intermadiate marketing outcomes (including but not limited to established measures of e.g. customer satisfaction, churn, employee turnover), validation and test processes, cash flow drivers (e.g. sources), and business model derived typologies linking the drivers to the levers. (Rust et al. 2004; Young, Weiss, and Stewart 2006). On a conceptual level, the model outline presented in Figure 2 offers a strating point for qualitative empirical assessment.

With further development, the model discussed here could form a meaningful basis for (1) an effective control system and (2) a tool for managers and investors to assess the growth potential of a company, given mediating external contingencies. Standing on its own, it aims at neither mere description nor strict prescription (nor prediction). However, it can provide a useful, purposeful and intuitively appealing tool for the restructuring of growth and network management issues and possible paths to overcome faced barriers.

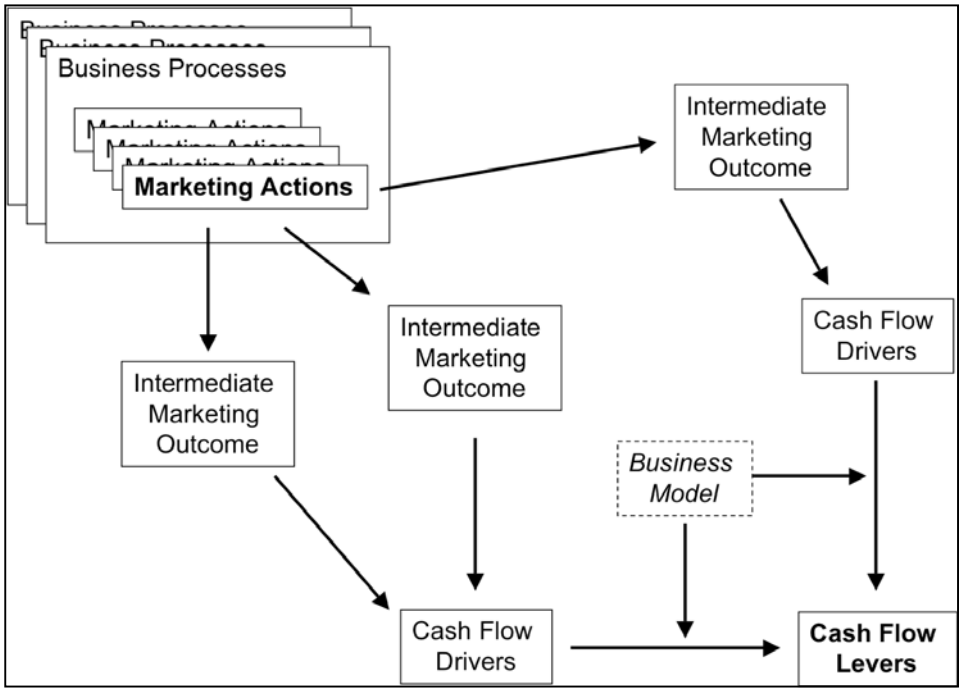

Figure 2. A model outlining dependencies and mediating processes between cash flow levers and marketing activities. ***Adapted from: Stewart (2006); Young, Weiss, and Stewart (2006).***

Discussion

In response to the research question set at the start, this paper has demonstrated that substantial links exist between the given areas of business research, and that a connection between business processes and cash flow management can be made to the extent of at least allowing further investigation. Likewise, examining the components of a framework for integrated management of business processes based on cash flows and marketing actions indeed sets the stage for empirical assessment of the construct.

Further research

In the tradition of qualitative case research in SME research (Carson 1990; Fuller 1994; Hill and Wright 2000; Hill, Nancarrow, and Wright 2002), the immediate step beyond preliminary research and theoretical model development is the empirical qualitative validation and subsequent refinement of that model. The next steps in developing the presented framework are largely in the field. The empirical development of the framework and model has begun with preliminary case interviews probing the various interlinkages, and has thus far agreed on the rationale behind the selection of components for the framework. This step will be followed immediately by in-depth case interviews at selected companies. Here, the scope of investigation will be limited to one main business process (CRM) and the cash flow causes and effects linked to its marketing subprocesses. Completion of the case studies will allow the completion and assessment of the model for the selected business process, and give indication as to whether further study of the other business processes is viable and useful. In due course, refinement of the model can make it possible to build an actual quantitative control system based on the presented principals.

The limitations set on scope need not be set in stone. The transfer and adaptation of the proposed model into a wider variety of product and organizatorial life cycle stages would no doubt give further insight – given a working model for growth management. Furthermore, as

the discussion on the effect of firm size on growth issues is inconclusive (Birley and Westhead 1990), modifications to the model could be examined for application to larger firms.

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