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Marketing accounts☆,☆☆

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ABSTRACT

Marketing actions frequently create long-term value yet this is often not recorded in financial accounts. The same records are typically used for internal reporting limiting both recognition of the value created by marketing, and accountability for the misuse of market-based assets. Creating comprehensive "marketing accounts" can mitigate the problems caused by financial accounting's omission of market-based assets. We explain current accounting practice, outline the idea of marketing accounts, and contrast this with current accounting practice.
Marketing accounts capture the value of market-based assets, applying accounting's matching concept as consistently as possible to treat marketing as an investment where appropriate. These accounts are based upon expected value, and are feasible within accounting rules given they aim only to aid management, not investor, decision making. Marketing accounts vary between, but not within, firms, and are comprehensive and regular. Finally, they are controlled by marketers with assumptions and models recorded and approved by the chief marketing officer.
We conclude by illustrating how to implement marketing accounts.
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1. Introduction

We argue that marketers can coopt internal reporting to create marketing accounts that provide a comprehensive view of marketing's contribution to firm value and allow for greater accountability around the use of market-based assets. Our aim is to show marketers how they can become more credible in highlighting the value of marketing, but in return, they must put their own assumptions on record in something that we call "marketing accounts."

2. Marketing accountability and market-based assets

Rust, Ambler, Carpenter, Kumar, and Srivastava (2004) called for more marketing accountability, a call echoed by the Marketing Science Institute (MSI, 2014) and Marketing Accountability Standards Board (MASB, 2015). We suggest that systematically recording the assets created by marketing investments is a prerequisite of such accountability.

Central to our discussion is the idea that marketing is often an investment creating the market-based assets described by Srivastava, Shervani, and Fahey (1998). Srivastava defines market-based assets as intangible assets which "arise from the commingling of the firm with entities in its external environment" (Srivastava, 2016). The term market-based asset captures

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relational and intellectual assets that are not easy to value or separate from other firm assets yet, critically for this research, aid shareholder value in a clearly defined way (Agarwal & Rao, 1996; Chu & Keh, 2006; Mizik & Jacobson, 2009b). The archetypical market-based asset is brand equity, but such assets also include knowledge-based assets and customer equity. Such assets matter in both consumer and business to business markets (Nenonen & Storbacka, 2014, 2016).

Before outlining our idea in detail, we must first define certain key terms. The marketers we refer to are managers charged with making decisions that impact investments related to marketing (e.g., in customer relationships, brands, or service quality). Internal reports are financial reports used by managers within the firm. Management accountants usually produce such internal reports, including performance against budget. External reports, e.g., financial accounts, are those created for external users, such as investors and creditors, and are compiled by financial accountants. These reports include a balance sheet, upon which is recorded a firm's assets.

By definition, market-based assets aid shareholder value; despite this, they are systematically underreported in external reports (Sinclair, 2016). Indeed Srivastava et al. (1998) even contrasted market-based assets with recorded, "tangible, balance sheet assets" (p. 5). It is important to understand that financial accountants do not omit market-based assets from external reports by accident (Lev, 2001; Lev & Zarowin, 1999) and already understand the problems this causes (Lev & Gu, 2016). On the advice of accounting standards boards, however, financial accountants find it preferable to omit market-based assets from their balance sheets rather than use imperfect estimates (Fischer, 2016). Financial accountants aim to never overstate an asset's value to the investors using their reports. To this end, financial accountants are obliged to follow the concepts behind generally accepted accounting principles (GAAP). Given the challenges associated with valuing market-based assets, omitting them from external reports is a solution that limits the chance of mistakes that might mislead investors into overvaluing a firm.

The difficulty in valuing market-based assets means that even some marketers are hesitant to add their values to external reports, known as "balance sheet recognition" (Barwise, 1993; Mizik & Nissim, 2011). In light of the challenges balance sheet recognition "… may not occur for several years" (Gregory & Moore, 2013, p. 42). Whatever the benefits, market-based assets may not be fully recognized on balance sheets soon. Despite this academic research on marketing accountability usually focuses on external reporting (Anderson, Fornell, & Mazvancheryl, 2004; Gregory & Moore, 2013; Hanssens, Rust, & Srivastava, 2009; Luo, 2008; McAlister, Srinivasan, & Kim, 2007; Mizik, 2010; Mizik & Jacobson, 2009a, 2009b; Mizik & Nissim, 2011; Rao, Agarwal, & Dahlhoff, 2004; Rust et al., 2004; Wiesel, Skiera, & Villanueva, 2008). We believe that this has left easy gains to be won by focusing on internal reporting. Marketers can coopt internal reporting, i.e. management accounting, to systematically record market-based assets. Marketers can highlight the value of such assets, but this involves putting marketers' assumptions on record in something we call "marketing accounts."

In this paper, we describe problems in marketing reporting and provide a solution. We describe the ideas underpinning, and illustrate how to implement, marketing accounts.

3. Our contribution

Consider two types of decisions:

1. Decisions made internally by managers which include many marketing decisions, e.g., "Should we increase the advertising budget by 10%?"
2. Decisions made by external parties relating to firm financing, e.g., "Should I buy shares?"

These two decision types correspond to two different types of reports:

1. Internal reports aim to assist managerial decisions; we further sub-divide these reports into
   a. Comprehensive management reports: These may have forward looking elements but often report past success for control purposes, e.g., performance against budget.
   b. Decision-focused reports: Often ad hoc, sometimes involving forward looking elements, these aim to inform specific managerial choices, e.g., which customers to target?
2. Financial accounts (external reports) aim to assist external parties in their decisions.

We see four consequences of the current failure to record the assets created by marketing that introducing a new reporting structure could, theoretically, contribute towards solving. Here we outline what our proposal to change internal reporting can hope to achieve.

First, that the information given to investors in external reports (including notes to the accounts and disclosures) understates the significance of marketing. This is an important problem, but our proposal, which is for changing internal reports, cannot rectify this.

Second, underreporting of market-based assets leads to bad governance. The lack of a record of an asset may allow marketers to take actions that destroy asset value but benefit the marketer, e.g., through performance bonuses, because asset value is not correctly recorded. While changing internal reporting will not solve myopic management problems driven by external reporting (Mizik, 2010; Mizik & Jacobson, 2007), comprehensive internal reports that encourage behaviors beneficial to the firm can hope to improve internal governance.

Third, ineffective reporting undermines managerial decisions. Here our proposal to change internal reporting makes the most obvious contribution. Provided they are well-constructed new reports can more closely mimic economic reality to improve decisions.

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Finally, the lack of reporting of market-based assets is seen by many as undermining the credibility and political power of the marketing function (Luo & Donthu, 2006; Rust et al., 2004; Verhoef & Leeflang, 2009). Improved internal reporting could increase the influence of marketing both directly (by raising the perception of the assets under control) and indirectly (through increased accountability) (Verhoef & Leeflang, 2009).

Our idea is complementary to the current marketing accountability research. Academic marketing has provided a wealth of models showing the value of marketing. For example, there is considerable work on valuing brands (Mizik & Jacobson, 2008, 2009b; Simon & Sullivan, 1993). We also connect with an especially active stream of research tying customer relationships into firm value (Gupta & Lehmann, 2006; Kumar, Venkatesan, & Reinartz, 2008; Rust, Lemon, & Zeithaml, 2004; Venkatesan & Kumar, 2004; Wiesel et al., 2008). Recent work has continued to develop new ways to understand firm value using public customer data (McCarthy, Fader, & Hardie, 2017; Schulze, Skiera, & Wiesel, 2012; Skiera, Bermes, & Horn, 2011; Zhang, 2016) and is being performed in accounting as well as marketing (Bonacchi, Kolev, & Lev, 2015).

These exciting developments complement our ideas. We suggest a delivery method for valuations, and so any valuation advance can help increase the usefulness of what we advocate. Current research, even that concentrating on external reporting data, has great potential to advance valuation models to the benefit of internal reporting. (Evidence suggests that reporting such marketing relevant metrics can improve firm performance even without changing employee rewards (Casas-Arce, Martínez-Jerez, & Narayanan, 2016)). Our contribution is not to add another valuation model to the already impressive list. Instead, we show how to use the models provided in a more effective way. Specifically, to use market-based asset valuation models to create a comprehensive internal report on the value that marketing creates.

We wish to be clear on what we do not do. Our research does not contribute to discussions about the usefulness of commercial brand valuations. Indeed, marketing accounts in no way require the adoption of any specific valuation models. Marketing accounts can employ brand equity models, customer equity models, both, or any other type of model. The CMO (Chief Marketing Officer) of a consumer packaged goods firm might feel a brand equity approach is the most appropriate way to capture the impact of marketing on the firm. A CMO of a wireless carrier might favor a customer equity approach. An online retailer might decide that an approach more akin to the multiple inputs of a balanced scorecard might be best for them. (See Seggie, Cavusgil, & Phelan, 2007 for a review of various methods.) Many different asset valuation models may work in the right circumstances. (That said, we would caution those who use multiple approaches to consider how these overlap. For example, don't count the same asset twice, e.g., in both brand and customer equity). The good news is that to implement marketing accounts CMOs must simply commit to any valuation model they prefer.

Some might reject all valuation models and argue that market-based assets cannot be valued. We would respond that they are already valued, and not just by academics or consultants. When setting budgets, the outcomes of all asset-generating investments are ranked, which requires the creation of implicit asset valuations. The question is not whether the assets created by marketing can be valued, but whether the valuation is based upon managerial hunches or the best available (though imperfect) analysis. To reiterate, marketers can choose their favored academic or commercial valuation model or develop their own internally. Our research does not advance valuation techniques, nor adjudicate between competing models, but instead provides a way to integrate valuations into a comprehensive view of marketing performance.

We also avoid discussions around the voluntary disclosure of market-based assets in external reporting (Mizik & Nissim, 2011). We'd welcome greater disclosure but note that this is currently minimal, indeed even compulsory disclosures seems limited due to confidentiality concerns (Ellis, Fee, & Thomas, 2012). For example, we examined recent financial statements for the top 10 "World's Most Valuable Brands" (Forbes, 2015): Apple, Microsoft, Google, Coca-Cola, IBM, McDonald's, General Electric, Facebook, Toyota, and Samsung. None voluntarily disclosed the value of their brand or internally generated customer relationships. Given this limited disclosure improved valuation models, driven by the internal recording of market-based assets, can only assist voluntary disclosure—though this is not our primary aim.

4. Accounting for marketers

To visualize what we propose it is necessary to understand a little accounting. An account is a financial record, while accounting deals with recording and reporting of accounts. The earliest accounting systems were based upon cash; buying an asset (e.g., a building) appeared only as a drain on cash. Cash accounting gives a misleading perspective when firms make multi-period investments, and so cash accounting has largely been superseded by accrual accounting, which uses a profit and loss statement, and a balance sheet.

The basis of accounting is the *Accounting Equation* – that *Assets (A) – Liabilities (L) = Owners' Equity (OE)*. The balance sheet records all these assets and liabilities at a specific date. The profit and loss statement explains how the balance sheet, and thus the owners' equity, changed during a given period. As at September 30, 2012, Visa Inc. had a balance sheet with assets of $40 billion and liabilities of $12 billion. One year later, Visa Inc. had assets of $36 billion and liabilities of $9 billion. This $1 billion decrease in assets minus liabilities occurred because although the firm had generated the $5 billion in profit in the year, as shown on its profit and loss statement, it had returned $6 billion to its shareholders.

4.1. Marketing creates value not captured in financial accounting

To see how marketing's value is currently understated it is important to understand how marketing is accounted for. Theoretically, any spending can be either an expense or an investment. An expense can be defined as spending with no benefit beyond

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the accounting period; for example, a promotion driving immediate sales. Expenses should show only on the profit and loss statement. Conversely, an investment creates an ongoing asset, such as a market-based asset. Investments generate assets and an accruals-based accounting system should, in theory, record all assets on the balance sheet. The "original sin" of accounting for marketing is that nearly all marketing investments are immediately expensed (Dean, 1966). Labeling investments as expenses fails to capture the "substance of the event," an accounting phrase that means to accurately reflect reality. This generates the following disadvantages:

1. It fails to properly record the value of the assets created by marketing investments.
2. It likely limits accountability for the misuse of market-based assets. Accountability for misusing an asset is harder to achieve without a record of the asset's existence.
3. It encourages managers to avoid investments that could create assets that are profitable in the long term, because the manager making the investment will be blamed for the "expense" now while future managers will, literally, receive the credit.
   Prior research has suggested changes to reporting, such as amortizing marketing spending (Sheth & Sisodia, 2002), given not recording market-based assets has pernicious effects. Firms pursue "bad profits," such as trick fees "earned at the expense of customer relationships" (Reichheld & Markey, 2011, p. 25). This often incurs economic losses; namely destroying market-based assets of greater value than the cash generated. Ignoring market-based assets encourages sub-optimal decisions, hurting marketers, consumers, and shareholders.

4.2. The external reporting of marketing

Financial accounts include the primary financial statements (balance sheet, profit and loss statement, cash flow) and notes to these statements. Attached commentary includes mandatory disclosures of business risks, and voluntary informative disclosures. The preparation of external reports is covered by an extensive list of principles, concepts, and practices often aimed at protecting investors. These frequently run counter to those that would aid marketing decisions. This is not a criticism; financial accounts are not designed to aid managers.

The International Accounting Standards Board (IASB) notes that "[t]he objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors" (IASB, 2012, p. 1), i.e. not managers. The U.S. Financial Accounting Standards Board (FASB) also states, "[M]anagement has the ability to access additional financial information, and consequently, general purpose financial reporting need not be directed explicitly to management" (FASB, 2010, *sec*. BC1.19). Financial accounts may be perfectly crafted, and yet unhelpful to managers.

Faithfully following frameworks and rules (standardization) has great benefits. A McDonald's employee is not allowed to improvise recipes allowing customers to know what to expect. Financial accountants face similar constraints. Reports produced by different financial accountants follow roughly the same rules to allow readers to understand and compare them.

Furthermore, financial accounting rules prioritize not overstating asset values over aiming for the best estimate of value. These rules do not attempt to reflect a firm's expected value (Lev, 2001; Sinclair & Keller, 2014). For instance, at time of writing, the market value of the Coca-Cola Company (i.e. investors' best guess of what the firm was worth) was $188 billion—more than six times the value reported in its latest financial accounts. Omissions from financial accounts are not random. For example, loyalty programs record liabilities to customers (Shugan, 2005), while the customer relationship asset is not recorded. Recording liabilities without associated assets may help explain why Alliance Data Systems Corporation (which runs the AIR MILES program) has a market value an order of magnitude higher than its book value.

To illustrate these omissions, we examined six years of data (2009–2014) with respect to the NASDAQ 100 from Compustat. We excluded firms for which the full six years' data was not available for market value, stockholder equity, or intangible assets, leaving us a usable sample of 91 firms. On average, the value in the accounts represents only 27% of market value. Analyzing the S&P 500 gives a similar result. This difference between market and accounting values is well known (Ocean Tomo, 2015; Sinclair & Keller, 2014) and, indeed, observing this influenced the development of the theory of market-based assets (Srivastava et al., 1998).

Despite most market-based assets not being recorded, some may be captured in financial accounts. When firms are purchased for more than their book value, financial accountants create assets to explain where the funds went. Creating assets for purchased, but not internally generated, market-based assets leads to anomalies (Fischer, 2016; Sinclair, 2016; Sinclair & Keller, 2014). The Kellogg Company's financial accounts value the purchased brands associated with the Keebler Elves and Julius Pringles, but not the internally generated brand associated with Tony the Tiger. If one used financial accounting numbers to hold marketers accountable; destroying the value of the (externally generated) Pringles brand would be noticed but destroying the value of the (internally generated) Frosted Flakes brand would not.

On occasions, difficult valuations are undertaken in financial accounting, even without a third-party market transaction. For instance, Visa Inc. was created from the restructuring of Visa USA, Visa Canada, and Visa International in 2007. Estimates of $11 billion for intangible, market-based assets (e.g., customer relationships, trade name, and franchise rights) were recorded in the accounts, and remain largely unchanged to this day. (Exhibiting what is known as the Moribund Effect, (Roger Sinclair & Keller, 2017)). Using financial accounting numbers, a marketer would be held accountable for destroying the assets built prior to 2007, but not those built since. The numbers used in external reports clearly aren't ideal for internal control.

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4.3. The internal reporting of marketing

Turning to our focus, the internal reporting of marketing, Foster and Gupta (1994) found a failure to recognize marketing investments. They noted that marketing executives interviewed agreed that following the policy used in the financial accounts of immediately expensing all marketing, while solving the challenge of valuing assets created by marketing investments, created a disincentive to such outlays. The researchers noted that even for internal purposes marketing was treated as an expense, just like it was for external reporting (p. 3). When internal reports mirror external reports they understate the value of market-based assets. Using external reporting rules means wrongly treating most marketing investments as a cost. The simplest way to meet a budget is to cut discretionary expenses, but if these expenses are truly investments this is often a very bad idea for the firm in the long term.

That financial accounting systems provide inputs to control systems is well known (Bushman & Smith, 2001) and is evidenced by that fact that changes in external requirements impact internal management control systems (Arjaliès & Mundy, 2013). That internal reporting was determined by accounting standards powered Kaplan and Norton's Balanced Scorecard idea. Robert Kaplan (1984) describes a world where the "internal management accounting function has become subservient to the external financial reporting function in U.S. firms" (p. 409).

Gunther and Kreigbaum-Kling (2001) surveyed how German companies record brand valuations and managers responded that brand values (market-based assets) were important but not well measured by their companies.

To check the current state of recording of market-based assets we recruited a panel of 50 marketing managers through Qualtrics, a survey panel service that finds qualified respondents to participate in online surveys for payment. We asked for respondents working in marketing and managing budgets. We ensured that the respondents were paying sufficient attention through attention checks specified in advance, e.g., those who took too long to respond were excluded. The survey generated a better understanding of marketing managers' thoughts, but no attempt was made to achieve a representative sample. As such, the results illuminate marketing reporting, but do not provide precise estimates of what the entire population of marketing managers thinks.

Of our respondents, 42 of the 50 managers had six years of work experience or more. All of the marketers surveyed controlled budgets, with more than half (28 of 50) managing budgets in excess of $200,000. Furthermore, all but two managed a team, and 17 managed over 10 people. The respondents also had considerable business education; 58% of the sample had undergraduate business training, 46% had an MBA (including considerable overlap with those having undergraduate business education), and 26% had some other formal post-secondary education. See Table 1 for descriptive statistics.

We asked participants, "Where do the figures for the cost of marketing come from in your reports?" Seventy-eight percent of respondents said that the costs figures came from the "financial accounting ledger." We then asked a similar question with respect to revenue figures, and 82% of respondents said the revenue figures came from the "financial accounting ledger." In other words, the data for internal reports was being taken from records designed to aid external—not internal—reporting.

The finance/accounting group supplied "the numbers that determine whether a marketing campaign was a success" in 64% of firms. A similar number of marketers also produced their own ad hoc/spreadsheet reports and so we wanted to uncover whether

Table 1
Descriptive statistics of managerial survey.

	Less than 1000 employees	Less than 5000 employees but at least 1000	Less than 10,000 employees but at least 5000	10,000 or more
What is the size of your organization?	35	8	5	2

	0	1 to 5	6 to 10	More than 10
How many people directly report to you?	2	13	18	17

	0–2 Years	3–5 years	6–10 years	11–20 years	More than 20 years
I have been working for	1	7	18	14	10

	High school courses	Undergraduate courses	MBA	Other formal business education	I have no formal education in business
Tick all the following that apply. My business education involves:	15	29	23	13	1

	$10 million or less	$11 million to $100 million	$101 million to $500 million	$501 million to $1 billion	Greater than $1 billion
What is the revenue of your firm?	14	20	10	5	1

	I don't manage a budget	Less than $50,000	$50,000 to $199,999	$200,000 to $999,999	$1000,000 or more
What is the annual budget that you manage?	0	8	14	23	5

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this use of spreadsheets caused problems. Tellingly, 94% of respondents said they were aware of problems with spreadsheets in marketing reporting. The survey respondents had seen (with the percentage having seen the problem in parentheses) 1) typos (74%), 2) wrong use of data (64%), 3) the wrong spreadsheet version being used (56%), 4) the wrong formula being used (48%), and/or 5) another type of spreadsheet error (28%).

To probe further into marketing reporting, we conducted direct discussions with a small convenience sample of managers associated with our business school who had experience of both marketing and accounting. None of the managers we talked to had seen internal marketing accounts of the kind that we are proposing. For example, respondent 1 asked, "What do you mean by a set of internal accounts?" Respondent 2 told us that "marketing would be a cost to the profit and loss"—that is, marketing investments are not recorded as creating assets.

When asked if internal accounts differ from external reporting, respondent 3 (an accountant working as a marketer) told us, "They are one and the same." Respondent 4 had experience as the chief financial officer (CFO) of a major retailer, and told us that "the basis of accounting always ties back to GAAP." Furthermore, one respondent stated that marketers were able to influence reporting "as long as they follow GAAP." The problem is that GAAP relates only to external reporting – our discussions confirmed that internal reporting is driven by external reporting rules. As we showed in the quotes from accounting standards boards in Section 4.2, external reporting standards are explicitly not designed to meet the needs of marketing decision makers.

As Pfeffer and Sutton assert, "Of course, management accounting is *presumably* separate and distinct from public financial reporting, and information systems and measures could, in theory, be designed to accomplish anything managers wanted" (Pfeffer & Sutton, 2000, p. 22, our emphasis). We highlight the use of "presumably"; the author's investigations led them to doubt that management accounts are, in practice, distinct from financial reporting. The informal interviews we conducted – allied with our prior work experience in marketing, accounting, and auditing – leads us to agree with Foster and Gupta (1994). They suggested that the influence of GAAP on management accounting explains the limited valuation of marketing-related assets.

4.4. Why is managerial accounting not helping marketers?

If a key purpose of management accounting is to assist decision making, then why do internal reports not give marketers what they want? We suggest that because marketers have traditionally neglected measurement this has left accountants to determine report formats. Our conjecture is that they do not provide reports tailored to marketers' needs for three reasons.

First, consider that there are two types of accounts, and

1. financial accounting rules are exogenous (they cannot be changed),
2. management accounting rules can change, and
3. to verify their accuracy, all accounts should reconcile (all differences must be explained).

It is much easier to reconcile accounts that follow similar rules which encourages accountants to create management accounts that mimic financial accounts. Similarity simplifies their jobs, and lowers the cost of reporting, at the expense of the needs of the users of the accounts. Pfeffer and Sutton (2000, p. 21) argue that "[a]s long as accountants have control of internal measurements, not much will change." If one accepts this idea, taking control of reporting should help marketers gain the information they need to make effective decisions.

A second conjecture relates to the purpose of internal reporting being split between aiding decision making and maintaining control. Reports may be deliberately constructed so as to avoid giving marketers control over them to prevent data manipulation. Manipulation is not a trivial problem but preventing marketers from accessing the reports they require ends any attempt to create marketing accountability. Our marketing accounts aid decision making, and aim to give marketers what they need to make decisions. Concerns about control are understandable, but any attempt to maintain control over marketing reporting by outsiders limits marketing accountability. Marketers can simply claim they were not given the tools they needed.

A third conjecture as to why internal reports supply what accountants want to give, not what marketers need, is that change, though on the way, has been slow to come to internal reporting. Management accounting emerged from cost accounting. Foster and Gupta (1994) even describe it using the acronym "CM/MA," i.e., cost management/management accounting. For example, the U.K.'s Chartered Institute of Management Accountants (CIMA) began life as The Institute of Cost and Works Accountants in 1919. Management accounting often still seems to be viewed as cost allocation; an Internet search for "management accounting syllabus" confirms this. Some forward-thinking management accountants now seek to be strategic business advisers by aiding managerial decision making. These should be natural allies in creating marketing accounts, but we still suggest that if marketers want market-based assets valued, then the most certain course is for marketers to take ownership of a formal set of management accounts.

5. Marketing accounts as a solution for valuing market-based assets

The influence of the marketing discipline depends upon being accountable and having reliable measures (Verhoef & Leeflang, 2009).To do this marketing reports must perform two different roles: 1) creating accountability and 2) facilitating decisions (Artz, Homburg, & Rajab, 2012).

Marketers currently often use ad hoc reports/personal spreadsheets for decision making, but this leads to confusion and lack of accountability. Ad hoc adjustments to show the value of market-based assets create at least three challenges. First, these adjustments are likely to be made on spreadsheets, which are notoriously liable to error; a single misplaced decimal point can sabotage

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a decision. Second, ad hoc adjustments may not be recorded systematically, leaving no audit trail that can be checked in the event of a problem. Third, ad hoc adjustments make it easier for assumptions and models to be changed with little consequence. Marketing's credibility is unlikely to be built without a stable record of marketing assumptions and models.

Given the problems with ad hoc reports marketing performance is often assessed using reports produced from the financial ledger data. These avoid the problems above but ignore market-based assets leaving the data used for control being different from the data used for decisions. To aid both decision making and accountability we need a centralized repository of marketing assumptions and models. To be useful for control the assumptions and models cannot be changed without a formal process, but to aid decisions these must be acceptable to marketers. We suggest containing the assumptions and models in a formal set of internal marketing accounts. Furthermore, a recorded model can be tested—allowing for improvement, increasing professionalism, and promoting causal thinking. To record a market-based asset, marketers must describe exactly how the asset is expected to eventually impact the firm's finances.

5.1. What are marketing accounts?

We recommend developing and deploying marketing accounts which aim to both facilitate decision making and improve accountability. The characteristics of which are that they:

1. Capture the value of market-based assets,
2. Treat marketing as an investment where appropriate,
3. Are based upon expected value,
4. Aim only to aid management, not investor, decision making,
5. Can vary between, but not within, firms,
6. Are comprehensive and regular, and
7. Are controlled by marketers.

5.2. Explaining the key characteristics of marketing accounts

1) *Marketing accounts capture the value of market-based assets.* Marketing accounts are internal reports designed specifically to assist decision making about marketing activities, and so they include valuations for the market-based assets that investments in marketing seek to create.
2) *Marketing accounts treat marketing as an investment where appropriate.* This means that marketing accounts applying the matching concept as consistently as possible. We will discuss this in more detail later but it means that, as much as is practically achievable, revenue is credited when the economic benefit of the activity is generated. Similarly, costs are debited when they are spent, regardless of whether a demand for payment has been received.
3) *Marketing accounts are based upon expected value.* This is critical, and we give much more detail later. The idea is that the reports should use the best estimates available, rather than, for example, model worst case scenarios.
4) *Marketing accounts aim only to aid management, not investor, decision making.* Marketing accounts are designed solely for internal use. Investors, and other external parties, should never use these for their decisions given, as we detail later, the concepts behind them are different from those underlying the external reports that go to investors.
5) *Marketing accounts vary between, but not within, firms.* Valuations used in marketing accounts do not require an agreed-upon model applicable across industries, or even across all firms within an industry. Valuation models can, will, and should differ across organizations. Within each organization, however, a single model of how marketing works should help to clarify thinking and facilitate communication.
6) *Marketing accounts are comprehensive and regular.* Marketing accounts are a set of mutually exclusive and collectively exhaustive internal accounts (i.e. everything is recorded, but only once) at a given level of aggregation which will clarify responsibility. A regular report is needed to facilitate decision making based upon current information.
7) *Marketing accounts are controlled by marketers*. The assumptions and models recorded in marketing accounts should be approved by the CMO (chief marketing officer, or the most senior executive responsible for marketing). Central control of assumptions and models will create a shared understanding of reality, allowing for greater cohesion among marketing teams. The asset valuation models employed should be approved by the CMO—that is, the CMO should sign off that the models give the best available assessment of market-based asset values. These accounts will be available to other colleagues in the senior management team. Any changes to models and assumptions should be rare and documented, as should their estimated impact on the reported numbers. This gives the CMO control over reporting but in return, puts everything on record.

5.3. Comparing marketing accounting accounts to current accounting practice

How then do our marketing accounts differ from current financial reporting? Given they aim to assist internal decision making marketing accounts can be thought of as a subset of management accounts, just with unique characteristics to suit their specific aim.

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Table 2
How marketing accounts differ from current accounting practice.

	Financial Accounts	Management Accounts		
		Current Practice: Comprehensive Management Reports	Current Practice: Decision-Focused Reports	Our Proposed Marketing Accounts
Mutually exclusive and collectively exhaustive	Yes	Sometimes	No	Yes
External/Internal reporting	External reporting	Internal reporting	Internal reporting	Internal reporting
Format varies by firm	Similar across firms, discretion limited	Yes, but often driven by financial ledger coding	Yes	Yes
Format varies within firm	No	No	Yes	No
Covered by GAAP rules?	Yes	No, but inputs may be influenced by GAAP	No, but often influenced by GAAP	No
Covered by marketing concepts?	No	No	No	Yes, we specify these in this article
Controlled by	Accountants	In theory, managers; in practice, accountants	In theory, managers; in practice, accountants	Marketers
Sign off	CFO	Not usually a formal process; typically issued by head of accounting	None, usually informal	CMO
Regular or ad hoc—created for specific purpose	Regular	Typically issued periodically (e.g., monthly)	Ad hoc	Regular but ad hoc reports can build upon
Used for internal control	No	Often	Not really	CMO may use for control within marketing
Designed to aid managerial decision making	No	Typically, not	Yes	Yes

Table 2 shows how our proposed marketing accounts compare to current accounting practices. We distinguish our proposed marketing accounts from financial accounts, and from current managerial accounting practice of both the comprehensive management report, e.g., report against budget, and decision-focused, e.g., ad hoc spreadsheet, kind.

5.4. Comparing the underlying concepts with financial accounting

Different accounting standards boards (e.g., IASB, FASB, etc.) have subtly different approaches. Therefore, to compare our proposed marketing concepts with generic financial reporting, we turn to a popular accounting textbook. Anthony, Hawkins, and Merchant (2010) highlight 11 concepts underlying financial accounting, which we compare to our suggested marketing concepts. Table 3 summarizes our suggestions for concepts underlying marketing accounts. A tick demonstrates where our concepts agree with financial reporting. A cross indicates a difference in approach. Two ticks represent where marketing accounts apply the concept more strictly. We explain each concept below.

Many of our ideas mirror generic financial reporting, i.e. where there is a tick in Table 3.

Money measurement: Reporting must be consistent regarding the units used. Marketing budgets are typically expressed in monetary terms, and performance must be assessed in comparable terms to meaningfully rank projects. Firms may have non-profit-related goals, and performance against such goals can be assessed using ad hoc reporting. However, these marketing reporting concepts apply only to activity that can be measured in cash terms.

Entity concept: Any set of accounts must cover a clearly defined entity. For example, the performance of Visa Inc. must be clearly distinguished from that of Visa Europe, which has a separate ownership structure. All assets, liabilities, expenses, and income must allocate to one—and only one—specific unit at any given level of aggregation.

Going concern: Assets usually have a lower value in liquidation than they do when used, or sold, at leisure. By default, accounts are prepared assuming a going concern valuation applies. Market-based assets are often firm specific (e.g., relationships between the firm and consumers). Such assets may be especially hard, or even impossible, to sell if a firm is hurriedly liquidated. As such,

Table 3
Comparing financial and marketing reporting.

Concept	Meaning	Agreement
Money Measurement	Only measures what can be expressed in monetary terms	✓
Entity Concept	Covers defined entity with clear boundaries	✓
Going Concern	Assumes operating into indefinite future	✓
Accounting at Cost	Assets usually entered at cost, not fair value	X
Dual Aspect	Assets – Liabilities = Owner's Equity	✓
Accounting Period	Accounts cover a specified period of time	✓
Conservatism	Revenues recognized when reasonably certain; expenses recognized when reasonably possible	X
Realization	Only revenues reasonably certain to be received are recognized	X
Matching	Events impacting revenue and expenses should impact the same period	✓✓
Consistency	No methodological change without strong reason	✓
Materiality	Full disclosure if important, while trivial matters are ignored	✓

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reporting on a going concern basis is, if anything, more important when accounting for market-based assets. Therefore, the marketing concepts outlined do not extend to decisions that could lead to the collapse of the firm—an important caveat.

Dual aspect: To record any event, two entries are made. For instance, when making a sale, a firm records income on the profit and loss statement. The customer either pays now, which increases the cash asset, or is invoiced, which increases the debtor asset—both of which appear on the balance sheet. Employing the dual aspect principle will allow marketing accounts to use double entry, the advantages of which are discussed later.

Accounting period: Marketing accounts should cover a defined period of time. The profit (or loss) generated is simply the change in owner's equity over the report's specified time period.

Consistency: Assets and liabilities must be measured consistently; otherwise, the appearance of profits may be driven by changes in measurement technique. When market-based assets are valued, it is necessary to make decisions upfront about the method used. After adoption, methodological changes should be rare. When changes do happen, the reason why, and the measurement implications of the changes, should be meticulously explained.

Materiality: The idea of materiality is similar across different types of reports. Materiality means that we should not worry about trivial factors that won't change a reasonable person's view of what the report fundamentally says.

Marketing accounts apply matching more consistently than financial reporting, two ticks in Table 3.

Matching: An accruals (matching) system records connected entries in the period they are generated. For example, the revenue and costs associated with a sale are recorded when the sale is made, even if payment has not yet been received. This promotes good decision making because it rewards effective (and punishes ineffective) activities when they happen.

Current financial accounting practice violates the principle of matching. When marketing investments are expensed, the costs are recorded in an earlier period than the benefit is accounted for. Conversely, the benefits are received in a later period, without any accompanying costs. Financial accounts record profits as too low when the marketing investments are made, and too high when the rewards are reaped. Violating matching is a deliberate choice made by financial accounting standards boards who accept this as the lesser of two evils, as compared to accepting greater potential errors in measurement from attempting to value market-based assets.

Marketing accounts should value even hard-to-measure assets to connect revenue with the associated costs as best as can be achieved using available valuation models. For example, investments in customer acquisition will be linked to the creation of customer assets. Marketing accounts apply matching more thoroughly than financial accounts in connecting investments to asset creation, rather than incorrectly treating the investment as having no long-term value.

Some concepts are different in our proposed marketing accounts, a cross in Table 3.

Accounting at cost: Financial accounts record many assets at historic cost. Some assets that have an externally verifiable value (e.g., financial assets with a secondary market) may have this adjusted to a market value. Other assets (e.g., equipment) are often depreciated over time. Given that financial accountants aim never to overstate asset values, impairment reviews are conducted; for example, a functioning but obsolete machine may have its value reduced to zero. Impairment reduces values thought to be too high, but never raises values thought to be too low, creating an asymmetry. It is easier to reduce, than to increase, asset values. Such adjustments mean that financial accounts often understate the value of even those assets that are recorded.

Marketing accounts aim to record assets at the best possible estimate of their economic value. An asset's historic cost is theoretically irrelevant to current economic value. Creating a $1 billion brand asset just because $1 billion was spent is a conceptually weak proxy for asset value. The money may, or may not, have been well spent. That said, historic cost, the investment in the asset, may be a useful first approximation of the asset's value. Even such a crude approach should improve upon current practice. Estimating brand value as brand building spending will probably be closer to the brand's value than assuming that the value is zero.

Conservatism: As Anthony, Hawkins, and Merchant note, “Recognize increases in equity only when they are reasonably certain; recognize decreases as soon as they are reasonably possible” (Anthony et al., 2010, p. 53). Such conservatism, which advises to anticipate losses but not profits, combats the problem of asymmetrical information; investors are in a vulnerable situation because they know relatively little compared to the firm's management. Therefore, external reports are not designed to be anyone's best guess at reality, but instead, to make it hard for managers to hide unpleasant surprises from investors. The financial accounts aim to show all the bad news, while never overstating the good news. Financial accounts hold accruals for expenses likely to occur at a given probability (i.e. reasonably possible but not reasonably certain), but no income accrual likely to occur at exactly the same probability. Because “reasonably certain” and “reasonably possible” are subjective, the value of conservatism is regularly debated by accountants. However, all agree that financial accounting rules create estimates of profit that differ from expected value. Given marketing accounts try to reflect expected value conservatism has no place in them. Marketers should use the same criteria for accruing expenses and income.

Realization: Similar to conservatism, realization skews the results away from expected value but relates to how much—not when—to recognize assets and liabilities. Assume that a business relationship has a 50/50 chance of yielding $1 million or $3 million. What is this relationship's value? In expected value terms, it is 50%*$1 m + 50%*$3 m = $2 m. The realization concept suggests recording $1 million to prevent the possibility of overstating the asset's value. For this reason, financial accounts deliberately value the firm below its expected value. For marketing accounts, we suggest recording all assets and liabilities at their expected value.

Of course, the actual amount received will often be less (or more) than the expected value. This is dealt with by an entry to an *Extraordinary Profits/Losses in Period* account created for this purpose. If marketers' predictions are sound, this account will net to zero. This provides a useful reality check. If the entries to this account are always one way, the predictions will not net to zero. If marketers always receive less (more) income than predicted, the predictions are too optimistic (pessimistic). Given errors are reported in a formal accounting system such a visual display of poor prediction creates an encouragement for predictions to improve over time.

Risk occurs on a well-defined distribution of outcomes, with calculable odds allowing for the use of expected values (Knight, 1921). Uncertainty has no known distribution of possible values, and without such a distribution, no valuation model can be

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applied. Uncertainty can, however, be recast as risk by applying formally stated, testable assumptions. For example, a firm may note that an 80% retention rate is expected next year and, with further assumptions, create an estimate of the distribution of customer equity. This approach is operationally similar to bad debt provision; an accepted financial accounting practice. Only debts that will be repaid should be recorded as assets, but excluding all debts owed to the firm seems too extreme. Thus, the value of debts thought likely to be bad is modeled using historical estimates and managerial judgment. While clearly imperfect, such approaches give tolerable estimates. Marketers can adopt this pragmatic approach and accept the best valuation model available.

6. Addressing potential objections to introducing marketing accounts

6.1. There is no need for FASB approval before introducing marketing accounts

It is important to understand that because marketing accounts are strictly for internal use, they are not covered by GAAP. This means that we avoid the informational asymmetry concerns between managers and investors that plague financial accounting (LaFond & Watts, 2008). Using valuations internally is quite possible: MillerCoors is already giving thought to how to include brand valuations in its regular reporting (Meier, 2016). Given that we do not advocate for changes to financial accounting standards here, any external reporting problems that marketing reporting concepts might engender if applied to financial accounting are beyond the scope of this research. Marketing accounts can be adopted without FASB approval.

6.2. There is no need for perfect valuation models before introducing marketing accounts

Our proposals will not resolve all data quality, organizational conflict, or myopic management issues, but we hope that improvements will be driven by systematic attempts to report market-based assets. For example, all current brand valuation models have weaknesses, but hopefully, quality will improve with increased valuation. We do not mean to minimize the challenge of valuation (Kumar et al., 2008; Lilien et al., 2010) but metrics are available as inputs to valuation models (Bendle & Bagga, 2016; Bendle, Farris, Pfeifer, & Reibstein, 2015; Mintz & Currim, 2013). Errors will occur, but marketers need not come to the same conclusion as the FASB and the IASB. When reporting externally, there exists a duty to avoid overstatement, marketers face a different duty—to make effective decisions.

We do not determine a valuation's worth based on whether we arrive at the *right* asset value. Indeed, financial accounts are not *right* by any universal standard—they "include some highly subjective numbers" (Barwise, 1993, p. 101). Instead, we ask if a model is useful. Marketers are clearly able to estimate (however imperfectly) the value of market-based assets. Recording such models in internal marketing accounts avoids many of the problems with adding valuations of market-based assets to the financial accounts. For example, in rejecting balance sheet recognition of market-based assets, Mizik and Nissim (2011, p. 32) state, "Our current knowledge of marketing's contribution to the bottom line is limited and this does not allow for measurement with sufficient precision and certainty." Marketing measurement is certainly imperfect, yet may still be sufficiently precise to aid marketing decisions. In 2017 we'd argue that we have valuation models that can aid marketing decisions but these do not yet satisfy financial accountants. The reason is simple: marketers have more to gain, and less to lose, from valuing market-based assets, so may find valuations useful that would prove too imprecise and uncertain for FASB.

Valuing current customer relationships is a relatively manageable task because the population is well defined. Say that a firm has 1000 customers, each with a customer lifetime value (CLV) of $230, meaning the value of the customer relationships is $230,000 (see, for example, Rust, Lemon, and Zeithaml 2004). Recording such valuations in marketing accounts can help generate better decisions. For example, marketing actions liable to risk customer relationships (e.g., trick fees, quality decrements, etc. …) might be rejected on the grounds that the asset at risk is too large, given the projected benefits.

Valuing relationships with non-customers is more challenging, (e.g., awareness alone does not imply that an asset exists). Yet even here, actions liable to reduce the firm's reputation can be combated using numerical justification. For example, a model might suggest the value of the firm's reputation is $10 million. Actions that have potential to reduce this reputation can be assessed against the value of savings made. The savings must be large enough to justify the $10 million asset put at risk.

Remember, however, that we advise implementing marketing accounts while being agnostic about the valuation model used. Furthermore, there is no need for external agreement about a model's validity. Academic research and consultant advice may help, but any adopted valuation models can be firm specific. We merely recommend that any assumptions making a significant difference to the reader's assessment be documented, and notes be provided to allow the internal reader to evaluate the assumption.

Inaccuracy is a concern with any valuation, but this need not preclude recording asset values. The appropriate comparison is not between unattainable perfect accuracy and any proposed method. A more apt comparison is between any imperfect proposed valuation and the current position—that is, failure to account for most market-based assets. Imperfect models can promote marketing accountability. By bringing mental models into the light of day, we allow for their criticism, and they should only improve with use (Leeflang & Wittink, 2000). It is likely that data about the underlying assumptions (such as retention rates) will improve with consistent measurement and proper documentation.

For example, a standard forward-looking CLV model requires an estimation of retention rates, which must be recorded as part of the marketing accounts creation process. When assumptions are recorded, they can be assessed for accuracy. Recording assumptions will not necessarily help the decision at hand, but should prove effective in the medium term. Problems in the assumptions can be reviewed and corrected. We hope such progress will only be aided by increasing digitization and the availability of more data upon which to develop and validate models. Market-based assets valuations may not be perfect today, but adopting marketing accounts should help to improve them tomorrow.

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6.3. Marketing accounts deliberately give more power to CMOs

Marketing accounts can create accountability for marketers below the CMO, but given the CMO has authority to change the models they cannot be used as a simple control system for the most senior marketer. Accountability at the CMO level comes only from interactions with fellow C-suite executives. Assumptions and models should change infrequently; any CMO who constantly changes the assumptions and models to manipulate the accounts will soon lose credibility. Marketing accounts do allow CMOs considerable discretion, but we feel that giving this power should help expose problems more quickly. The CMO has no one else to blame if the assumptions and models turn out to be incorrect.

To be explicit marketing accounts effectively hand control of internal marketing reporting over to the CMO, which raises the issue of manipulation (Maas & Matejka, 2009). Marketing accounts accept this risk; the idea is to sacrifice some control over the CMO for improved marketing decision making. We acknowledge the potential problems with this, but no alternative is problem free. Whenever one values any non-cash assets, the question arises as to who decides how are they valued. Allowing the CMO to choose the valuation model gives the CMO ownership—a key building block of accountability. Marketing accounts will be available to all C-suite executives, and unreasonable assumptions will become clear over time. Rather than assuming that the CMO must be kept on a short lease we deliberately give the CMO power. If a CMO is not up to the job that is a personnel issue. The problem should not be solved by stripping marketing of the authority, and the tools, necessary to make effective decisions.

There is a danger that ineffective CMOs may lose the marketing discipline influence in the short term as failures will be more visible. We suggest, however, that making poor marketing choices visible is vital to ensuring the long-term accountability and credibility of marketing.

6.4. We advise against simply internally disclosing data

Voluntary disclosure in the financial accounts allows investors to create their own valuations. Inspired by this idea, we might wonder if firms should simply disclose data internally instead of adopting valuation models. We argue that this is insufficient. Why? The intention is to create a shared understanding of reality. For every manager to create a personal model is not only inefficient but undesirable. One manager's report may say that the investment was a great success, while another's suggests it was a disaster. A shared understanding of reality, which should be aided by a single set of marketing accounts, is a basic requirement to create an accountability system that is widely understood and perceived as fair.

7. Implementing marketing accounts

7.1. Double entry

Ad hoc reports, e.g., spreadsheets, are extremely vulnerable to error. Accountability is easier to achieve using a more robust, double-entry system, where every action is represented by two entries: one debit and one credit. Double entry is simple but powerful, and ensures that the accounts balance (i.e. debits and credits total to the same amount). Balancing in no way guarantees the correct coding of items. For example, a charity might mistakenly code a loan (liability) as a gift (income), with significant consequences when the debt matures. At the same time, double entry resists many errors, including miskeying. Recording a sale on a double-entry system means also creating an asset (e.g., cash or debtor), the existence of which can be verified.

Recording the value of market-based assets in a double-entry system is easy; for example, Coca-Cola spent $3.3 billion on advertising in 2013, which currently shows in the financial accounts as an advertising expense (debit) and reduction in the cash asset (credit):

Current Practice	Debit	Advertising Expense	$3.3 billion
	Credit	Cash	$3.3 billion

Assume part of this spending was focused on brand building, and the rest on driving immediate transactions. Imagine our marketing model suggests that a $2 billion brand asset was created by the brand building advertising, with the rest being an expense driving immediate sales. The double entry when accounting for market-based assets is, therefore, increase brand asset (debit), record advertising expenses (debit), and decrease cash asset (credit):

Create a Brand Asset	Debit	Brand (Market-Based) Asset	$2.0 billion
	Debit	Advertising Expense	$1.3 billion
	Credit	Cash	$3.3 billion

Double-entry marketing accounts can be run on available accounting software, with only minor customization. All the usual period end routines (e.g., closing of the income statement and the creation of the end-of-period balance sheet) can be run automatically. Atypical entries, such as brand valuations, can often be added as a custom feature. For less flexible accounting packages,

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one specifies the accounts to debit and credit, rather than allowing the system to determine these automatically. (A process known as a journal entry.)

7.2. Reconciliation to the financial accounts and auditing

Reconciling different types of accounts helps catch errors. Those reconciling marketing and financial accounts should focus their efforts on market-based assets. For example, according to Visa it "manages the world's most recognized global financial services brand" (Visa Inc., 2008). Imagine that the CMO values the Visa brand at the average of three major commercial valuation companies: WPP (Brand Z), Interbrand, and Brand Finance (Brand Finance, 2012; Interbrand, 2012; WPP, 2012). This values the brand at $17 ($23.5) billion in 2012 (2013). Table 4 reconciles the financial account's balance sheet with the marketing accounts. The "reconciliation between accounts" column shows the difference between the marketing and financial accounts values. In this example, the difference is explained by the adjustment for the brand asset.

Marketing accounts' entries must have backup documentation, but the valuation models used will have assumptions that are imperfectly verifiable in the short term. Internal auditors can check base documents but, in contrast to bank accounts, it may not be possible to verify the value of market-based assets. For example, a customer will be unable to confirm that she is worth $213 to the firm, even if an auditor contacted her. As such, auditing marketing accounts differs from a standard auditor's opinion on the financial accounts. The audit will do the following:

1. Check that all valuations are documented. That the models are correct is initially of less concern than the documented existence of clear valuation models.
2. Report on the accuracy of prior assumptions. "Was the 80% retention rate used in last year's model reasonable?" This objective is to encourage improvement over time; it is not intended to have auditors sign off on the current year's assumptions.
3. Target any changes in assumptions for special scrutiny. All changes must be justified and reasons for/consequences of any change fully reported.
4. The internally performed audit will report to the CMO, not the CFO. The ultimate aim is to ensure the CMO understands whether marketing is effective or not.
5. Have the CMO sign off on the marketing accounts, acknowledge model changes, and endorse assumptions.
   If marketing accounts were to impact executive pay the compensation committee would also want to investigate the models used, and the consistency of implementation.

7.3. Examples of marketing accounts transactions

We next show typical entries in a set of marketing accounts. Consider an investment in a market-based asset. The investment is charged directly to the profit and loss statement in the financial accounts, and is known as "expensed" because it hits marketing expenses in the financial accounts. This marketing spending reduces cash—there is a credit to cash. (Reducing cash is a credit here, unlike a credit to a personal bank account, because bank statements are expressed from the perspective of the bank—crediting an account creates a liability for the bank.)

In our example of how to do the double entry for simple marketing accounts we assume that the advertising described is an investment designed to create long term brand value. We start with the assumption that this investment merely transfers value from the cash asset to the brand asset. If so a brand asset is created equal to the level of investment—for example, $10,000. In the financial accounts, the brand asset is not recognized so the debit is to expenses. In marketing accounts, the brand asset is recognized, giving a debit to create a market-based asset, the brand:

Entry in Financial Accounts			Entry in Marketing Accounts		
Debit	Marketing Expenses	$10,000	Debit	Brand Asset	$10,000
Credit	Cash	$10,000	Credit	Cash	$10,000

Table 4
Reconciling the Visa Inc. 2013 marketing and financial accounts.

Assets	Financial Accounts (in billions)	Marketing Accounts (in billions)	Reconciliation Between Accounts
At Year End	$36	$59.5	$23.5 billion brand asset in the marketing accounts not recognized in the financial accounts
Year Beginning	$40	$57	$17 billion brand asset in the marketing accounts not recognized in the financial accounts
Change In Year	−$4	+$2.5	+$6.5 billion increase in the brand asset over the year; increase impacted only the marketing accounts

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A market-based asset's value is unlikely to be exactly the same as the cash invested into it, so we adjust the value. We suggest using a brand asset adjustment account to receive the credit, which compensates for increased asset value. Assuming the brand asset is assessed to be worth $15,000 (from the $10,000 investment), we increase the asset value by $5000:

Entry in Financial Accounts	Entry in Marketing Accounts		
None	Debit	Brand Asset	$5000
	Credit	Brand Asset Adjustment	$5000

Assuming the firm started with $50,000 in cash and no other assets, the assets of the firm would now show as follows on the accounts:

Assets in Financial Accounts		Assets in Marketing Accounts	
Cash	$40,000	Cash	$40,000
No brand asset		Brand Asset	$15,000

Activity on the profit and loss statement explains why the financial accounts show assets of $40,000, but the marketing accounts show assets of $55,000. After starting with $50,000, the marketing expenses in the financial accounts were a $10,000 loss, leaving assets of $40,000 ($50,000–$10,000). In the marketing accounts, the brand spending was an investment, not a loss; the activity just transferred assets from cash to brand, and did not impact the profit and loss statement. The only profit and loss change is the brand asset's adjustment increasing assets by $5000. Thus, marketing accounts show assets of $55,000 ($50,000 + $5000). Assuming the valuation is reasonable, the marketing accounts help decision making by showing the true impact of marketing investments. Unlike the financial accounts, this successful investment in marketing does not show as a $10,000 loss, but as the $5000 profit that it is.

When producing marketing accounts all, including market-based, assets can be tracked. This helps marketers work towards increasing the firm's economic value, rather than financial accounting value. This has profound consequences. For example, trick fees that generate cash but destroy unrecorded assets currently show as profits but may now show as losses in the marketing accounts. Marketing accounts can more appropriately value long term investments in marketing.

7.4. Example: Netflix

Our example shows how a set of corporate marketing accounts could be produced. To keep this simple, we produce these accounts with the addition of just a single market-based asset, a brand. Clearly, managers with access to internal data will be able to, indeed should, add more market-based assets, and use more sophisticated valuations. Our example merely shows how easy it is to make progress on marketing accounts, we do not illustrate an ideal set of marketing accounts.

To be clear we implicitly assume that Netflix possesses but one market-based asset; its brand. (Clearly, as past research has shown e.g., Pfeifer (2011), Wiesel et al. (2008), Netflix is likely to find adjusting for customer/other assets important). We assume that the Netflix brand's value can be measured with a reasonable degree of accuracy. As, however, we do not know exactly what drives the increase in brand value over the year, we assume some increase is attributable to Netflix's advertising investments, with the balance unexplained.

Remember that we are demonstrating how market-based asset valuations can be used once created, not how to create the valuations, so the valuations used are relatively unimportant. Here we use Brand Finance's valuations of the Netflix Inc. brand as an example, because these are publicly available. Brand Finance gave a value of $3.903 billion for the Netflix brand in early 2015. We use this figure for the value of the brand as at the end of 2014, and the prior year's value, $3.179 billion, for the brand value at the end of 2013 (Brand Finance, 2015).

To create the marketing accounts for Netflix in 2014, we simply adjust the financial accounts to reflect the brand asset. We make these adjustments to Netflix's balance sheet (Fig. 1) and profit and loss statement (Fig. 2). (We have simplified the presentation of these statements, e.g., taxes.) These adjustments create a set of top-level marketing accounts as might be seen by a CMO. (Marketing accounts can be created at various levels of aggregation—from a campaign to a multinational corporation. For example, the Coors brand's value in Europe and the U.S. might aggregate into the overall brand value).

There will be three adjustments designed to do the following things. The first will be to ensure that the balance sheet as at the end of 2013/beginning of 2014 includes the values of the brand asset as at that point. The second will reallocate some spending previously classed as an expense to an investment in the brand asset in 2014. The final adjustment will account for the increase in brand value that cannot be explained by the marketing investment.

The first adjustment is to enter the value of the brand at the beginning of 2014. This ensures that we have the correct stock of market-based assets at the beginning of the year. We use double entry to increase (credit) retained earnings and increase (debit) the brand asset:

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Netflix Inc. (NFLX) As Reported Annual Balance Sheet

All $ numbers in Thousands	*Financial Accounts* As At 12/31/2014	*Financial Accounts* 12/31/2013		*Marketing Accounts* Adjusted for Brand As At 12/31/2014	*Marketing Accounts* Adjusted for Brand 12/31/2013	Double Entry
Cash & cash equivalents	$ 1,113,608	$ 604,965	A	$ 1,113,608	$ 604,965	
Short-term investments	$ 494,888	$ 595,440	B	$ 494,888	$ 595,440	
Current content library, net	$ 2,125,702	$ 1,706,421	C	$ 2,125,702	$ 1,706,421	
Other current assets	$ 206,271	$ 151,937	D	$ 206,271	$ 151,937	
Total current assets	$ 3,940,469	$ 3,058,763	E=A+B+C+D	$ 3,940,469	$ 3,058,763	
Non-current content library, net	$ 2,773,326	$ 2,091,071	F	$ 2,773,326	$ 2,091,071	
Property & equipment, gross	*$ 414,691*	*$ 357,196*	G	*$ 414,691*	*$ 357,196*	
Less: accumulated depreciation	*-$ 264,816*	*-$ 223,591*	H	*-$ 264,816*	*-$ 223,591*	
Property & equipment, net	$ 149,875	$ 133,605	I=G-H	$ 149,875	$ 133,605	
Market-Based Asset -- Brand			J	$ 3,903,000	$ 3,179,000	I, II, III
Other non-current assets	$ 192,981	$ 129,124	K	$ 192,981	$ 129,124	
Total Non-Current Assets	$ 3,116,182	$ 2,353,800	L=F+I+J+K	$ 7,019,182	$ 5,532,800	
Total assets	**$ 7,056,651**	**$ 5,412,563**	M=E+L	**$ 10,959,651**	**$ 8,591,563**	
Current Content liabilities	$ 2,117,241	$ 1,775,983	N	$ 2,117,241	$ 1,775,983	
Other Current Liabilities	$ 545,913	$ 378,220	O	$ 545,913	$ 378,220	
Total current liabilities	$ 2,663,154	$ 2,154,203	P=N+O	$ 2,663,154	$ 2,154,203	
Non-current content liabilities	$ 1,575,832	$ 1,345,590	Q	$ 1,575,832	$ 1,345,590	
Long-term debt	$ 900,000	$ 500,000	R	$ 900,000	$ 500,000	
Other non-current liabilities	$ 59,957	$ 79,209	S	$ 59,957	$ 79,209	
Total Non-Current liabilities	$ 2,535,789	$ 2,154,203	T=Q+R+S	$ 2,535,789	$ 2,154,203	
Total liabilities	**$ 5,198,943**	**$ 4,079,002**	U=P+T	**$ 5,198,943**	**$ 4,079,002**	
Assets minus Liabilities	**$ 1,857,708**	**$ 1,333,561**	V=M-U	**$ 5,760,708**	**$ 4,512,561**	
Stock/Paid in Capital	$ 1,042,870	$ 777,501	W	$ 1,042,870	$ 777,501	
Accumulated other comprehensive income (loss)	-$ 4,446	$ 3,575	X	-$ 4,446	$ 3,575	
Retained Earnings	$ 819,284	$ 552,485	Y	$ 4,722,284	$ 3,731,485	
Total Stockholders' Equity (Book Value)	**$ 1,857,708**	**$ 1,333,561**	Z=W+X+Y	**$ 5,760,708**	**$ 4,512,561**	
Market Value	**$ 20,638,710**	**$ 21,945,509**		**$ 20,638,710**	**$ 21,945,509**	
Book Value is % of Market Value	9.0%	6.1%		27.9%	20.6%	

Fig. 1. Netflix balance sheet 2013 and 2014.

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Netflix Inc. (NFLX) As Reported Annual Income Statement			*Marketing Accounts*	
	Financial Accounts		**Adjusted for Brand**	**Double Entry**
	Year to 12/31/2014		**Year to**	
	Thousands		**Thousands**	
Revenues	$5,504,656	AA	$5,504,656	
Cost of revenues	$3,752,760	AB	$3,752,760	
Gross profit	*$1,751,896*	AC=AA+AB	*$1,751,896*	
Marketing expenses	$607,186	AD	$607,186	
Less Marketing Investments			***-$266,550***	II
True Marketing Expenses		AD Adjusted	$340,636	
Technology & development expenses	$472,321	AE	$472,321	
General & administrative expenses	$269,741	AF	$269,741	
Operating income (loss)	**$402,648**	AG=AC-AD-AE-AF	**$669,198**	
Interest and Other Income Expenses	$53,279	AH	$53,279	
Income (loss) before income taxes	$349,369	AI=AG-AH	**$615,919**	
Extraordinary Increase In Brand Asset		AJ	**$457,450**	III
Provision for (benefit from) income taxes	$82,570	AK	$82,570	
Net income (loss) After Tax	**$266,799**	AL=AI+AJ-AK	**$990,799**	
Net Income After Tax Is Change In Retained Earnings On Balance Sheet				
Retained Earnings at Beginning of Year	$552,485	AM	$3,731,485	I
Retained Earnings at End of Year	$819,284	AN	$4,722,284	
Change in Year	**$266,799**	AO=AN-AM	**$990,799**	

Fig. 2. Netflix profit and loss statement 2014.

Adjustment I	Debit	Market-Based Asset: Brand	$3.179 billion
	Credit	Retained Earnings	$3.179 billion

The retained earnings (marked as row Y) brought into 2014 in the financial accounts are $552 million. Adjustment I means the retained earnings in the marketing accounts at the 12/31/2013 (so the beginning of 2014) are $3.731 billion. This is the $552 million in the financial accounts for that date plus the $3.179 billion brand asset established prior to 2014. Total assets (row M) are also greater by $3.179 billion, the value of the brand asset recognized in the marketing accounts (row J) but not in the financial accounts.

The valuation shows that in 2014, Netflix's brand asset grew by $724 million. We divide the increase into two categories: that explained by Netflix's advertising, and that from unexplained causes. Netflix's advertising spending was $533.1 million in 2014 (Netflix Inc., 2014). Because we are merely illustrating how to use valuations once established, and we do not know exactly how Brand Finance measured this increase, let us assume that our model says 50% of the advertising was an investment in the brand asset, with the other marketing being a true expense that should be charged to the profit and loss. We therefore reduce (credit) marketing expenses by $533.1 million divided by two, $266.55 million (row AD Adjusted). We increase (debit) the Market-Based Asset, Brand (row J), by the same amount:

Adjustment II	Debit	Market-Based Asset: Brand	$266.55 million
	Credit	Marketing Expenses	$266.55 million

While adjustment II has increased our brand asset by $266.55 million, the brand has increased in value by $724 million during the year. Accordingly, we have an increase of $457.45 million ($724 million minus $266.55 million) unexplained by our investment. To account for this, we create an account called the *Extraordinary Brand Asset Adjustment* account (row AJ), and credit this with the remaining increase of the brand asset (row J) (adjustment III):

Adjustment III	Debit	Market-Based Asset: Brand	$457.45 million
	Credit	Extraordinary Brand Asset Adjustment	$457.45 million

The net result of all this is to significantly increase profits reported in this year because of the considerable increase in brand value during 2014. (Obviously if the brand value was declining this would have a negative impact on profits.) One can see on the profit and loss accounts that without brand values added profits were $266,799 (row AL) but when including the increase in brand value this profit is $990,799. A simple procedure to give confidence in the accounts is to reconcile this profit and loss figure to the

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change in retained earnings on the balance sheet between the end of year 2013/beginning of 2014, and end of 2014. We can see that Retained Earnings on the balance sheet (row Y) increased from $3,731,485 to $4,722,284 which is the $990,799 profits for that year. Here we see that while double entry systems can never confirm that the number is correct they often allow us spot errors of calculation quickly.

While marketing accounts are not designed for investors, note that the adjustment brings the firm value much closer to the market value. At the bottom of Fig. 1 we show that the value in the financial accounts is only 9% of market value, but the marketing accounts now capture 27.9% of market value. As they still report just over one-quarter of market value, this suggests these marketing accounts still miss important items, such as the customer relationships (Gupta & Lehmann, 2006; Gupta, Lehmann, & Stuart, 2004).

8. Further research

It would be valuable to better understand current best practice with respect to accounting for market-based assets and clarify which assets fall under the marketing remit, and which are perceived to be especially important. We start from the assumption that marketing models are (at least somewhat) effective at capturing marketing's value. Researchers could test the quality of marketing models used which will be much easier after implementing marketing accounts, given marketing accounts formally record models and assumptions.

In the spirit of Balachandran (2006) it would be useful to test the effects of implementing marketing accounts. Do they raise marketing's profile and credibility within an organization? Are the firms that implement marketing accounts more successful? Does a formal reporting system increases the level of marketing skills and performance (Anderson-Macdonald, Chandy, & Zia, 2016). Do marketing accounts account impact CMO tenure? How often are they altered by the CMO? While tests could also assess how reticent non-marketers are to accept the valuations from marketing accounts, and whether this changes over time.

9. Discussion and conclusion

We suggest one reason for marketing's relative weakness in the boardroom may be the fact that market-based assets are neglected in reporting. Marketing appears relatively unimportant because the recorded assets that marketers control are modest. Furthermore, accountability for the creation and use of market-based assets is hard to achieve if these assets are rarely recorded. Fears of misleading investors may make major changes to external reports slow to arrive. Our proposed approach is valuing market-based assets in a comprehensive set of marketing accounts.

Recording investments more appropriately will typically make marketing appear more profitable in the short term. One might expect marketers to welcome such a change. However, this is not a gift that all marketers will treasure. Recording market-based assets in a formal system means that marketing mistakes will be harder to hide. Recording a customer relationship asset makes the CMO accountable for the use of that asset.

While this research does not address whether FASB should incorporate more valuations of market-based assets in financial accounting, we believe that change to external reporting will become more likely if companies already systematically record market-based assets in internal marketing accounts. Marketing accounts should provide a testing ground for improved valuation.

Creating marketing accounts requires detailing valuation models, but there is no need to find the perfect model before implementing them. To start one needs only an off-the-shelf accounting package and the willingness to codify assumptions about how marketing works. Codifying assumptions will create a shared understanding of how marketing works and weaknesses in valuations should be reduced over time.

In summary, external reporting has received considerable attention from marketing accountability advocates. We suggest another route is also worth pursuing and may be more immediately fruitful. Marketers, who are the only people with the desire and ability to improve the situation, can attempt to drive accountability by focusing on internal reporting. Marketing accounts will increase focus on marketing's role in creating value, but in return, this will allow marketers to be held more accountable for their use and misuse of market-based assets.

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