

Application Practices of Management Accounting Tools in Marketing Cost Control and Efficiency Optimization

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ABSTRACT

In today's world of intense global competition and rapidly changing consumer behavior, Marketing function has gone from being a supporting role to something pivotal for strategic growth. But it's led to a sharp rise in marketing costs, meaning the old ways of tracking money just don't give you enough details to say for sure how good your marketing efforts were. This paper focuses on application practices of management accounting tools in marketing cost control and efficiency optimization. In this paper, the author merges theoretical frames with operational practices to look at the pieces used to get rid of the "black box" of marketing investment such as Activity Based Costing (ABC) and Customer Profitability Analysis (CPA), incorporate multidimensional budgeting tools to decompose the black box of marketing spending with theoretical frames combined with operational methods. The research found that traditional volume-based allocation leads to a misperception of profitability. But management accounting can show channel performance and customer value clearly. By presenting comparative data and conducting theoretical analysis, this paper argues that there is a necessity for finance and marketing to have a synergistic relationship with each other in order to obtain a competitive advantage. It seems using such tools gives a company the chance to move resources away from weak channels toward promising areas, which would make ROI go up to the max.

KEYWORDS

Management accounting; Marketing cost control; Activity-based costing; Customer profitability analysis; ROI optimization; Strategic budgeting

1 Introduction

Marketing strategy and financial discipline intersection is very important but also hard to deal with in the modern company management area. As companies plough their way through a world shaped by things like digital change and market chaos, the problem of getting to and keeping customers has gotten much more complicated much more quickly. Historically speaking, marketing was seen mostly through the lens of creativity and expending money as a necessary and unrecoverable cost to keep a brand visible. However, due to the rise of digital channels, social media platforms, and data-driven advertising, marketing budgets have skyrocketed and can account for a large portion of a company's total operating expenses ^[1]. In this context, Returns on Marketing's opacity is a big issue for the people that require accountability and returns on their investment. The old financial accounting framework that adds up marketing costs under general selling, general & admin expenses (SG&A) doesn't have enough analytical sharpness needed to break down those costs. So companies put more and more reliance on management accounting tools to narrow the distance between general financial reporting and strategic marketing choices.

The main goal of this paper is to explore how particular management accounting instruments can be practically applied in order to improve marketing cost structures and increase overall economic efficiency. Unlike financial accounting that looks at the past and reports on the past performance to those outside the company, management accounting looks forward and is internal in focus. Management accounting helps managers plan, control, and make decisions. The use of these principles in marketing—often referred as "Marketing Management Accounting" is possible to move beyond viewing marketing as a single cost and towards viewing marketing as a portfolio of investments requiring measurement ^[2]. This paper will examine how Activity-Based Costing (ABC) works with allocating indirect marketing resources and using Customer Profitability Analysis (CPA) to spot segments that destroy value as well as the part played by strategic variance analysis. By setting up a tight analytical framework, firms can go from marketing based on hunches to allocating resources backed by data. So every dollar will help the org get closer to its financial bottom line.

2 The Theoretical Evolution from Financial to Management Accounting in Marketing

From the traditional financial accounting transitioning into the management accounting around the marketing arena, this is an important paradigm shift that is seen when the organizations value is measured and operated upon. Traditional money accounting is subject to Generally accepted accounting rules (GAAP) or International financial reporting guidelines (IFRS), so marketing costs have to be charged against the quarter in which they were incurred. This method, although it must be adopted for standardized external reporting, does not reflect the long-term asset value of brand development and customer relationships. When marketing is treated as just another expense account on the income

statement, it follows logically for managers to try and pare back these costs when shortfalls hit in order to inflate the numbers on the top line ^[3]. Short sight often underestimates company's over the long run market standing. Where as Management Accounting, on the other hand, has much more flexibility, thus it can capitalize on all of its Marketing efforts in internal reports and simulate future situations. It gives the fine details required to grasp the cause-and-effect ties among certain marketing actions and revenue production, which makes for a better sense of cost behavior.

The second addition is the addition brought into play by the theoretical framework of management accounting, wherein the idea of multidimensional performance metrics was introduced, which is inevitable in a modern marketing ecosystem. In traditional setups sales revenue is usually the only indicator of marketing's success. But management accounting says that it is meaningless without context. It presents the main ideas like contribution margin by channel, customer lifetime value (CLV) and break-even analysis for specific marketing campaigns. This level of technical height makes it possible to separate the variables for marketing that come and go with your sales from things fixed and at will like paying your advertising agency on retainer. Management accountants will be able to devise dynamic models as a result of separating such cost behaviors that would predict any profit impact caused by changes made to marketing mix strategy. This unity between accounting theory and marketing reality guarantees that cost management is not simply about lowering costs, but about strategic optimization-cropping off the fat without losing your muscle.

3 Implementation of Activity-Based Costing (ABC) in Marketing Channels

One of the largest changes due to management accounting in the marketing world is utilizing Activity-Based Costing (ABC) in order to clean up the mess that traditional overhead allocation causes. In many enterprises, indirect marketing expenses-such as salaries of the design team, costs of marketing software or general administrative support-are allocated to goods or channels at random, according to such drivers as how much product was sold, or how much direct labor went into it. This "peanut butter spread" method can lead to cross-subsidy and seems like the highest-volume, simplest channels are less profitable than they really are and the lowest-volume, most complex channels appear more profitable. ABC go against the rules here, it follows activities and then traces costs and assigns costs to the cost objects (product, channel, customer) based on their consumption of these activities. In a marketing context, activity could mean "processing a rush order," "designed a campaign," "manage a social influencer."

To show ABC's huge effect, imagine there's a firm that works by two main paths, a normal Wholesale Channel and a Direct-to-Consumer (DTC) E-commerce Channel. Under traditional costing, the large marketing overhead may just be apportioned according to overall revenue ^[4]. But the DTC channel needs many more "activities" per dollar of revenue than the store channel: it has much more individual content, much faster performance measurement, and much more complicated contact details. The wholesale channel, even though it yields lower margins per unit as compared to retail, necessitates much lesser marketing upkeep post- contracting. Table 1 below shows the change in perceived profitability of these marketing channels when moving away from a volume based allocation to an ABC_approach.

Table 1 Comparative Analysis of Marketing Channel Profitability (Traditional vs. ABC)

Metric	Wholesale Channel (Traditional)	Wholesale Channel (ABC)	E-commerce DTC (Traditional)	E-commerce DTC (ABC)
Gross Sales Revenue	\$5,000,000	\$5,000,000	\$2,000,000	\$2,000,000
Cost of Goods Sold	\$(3,000,000)\$	\$(3,000,000)\$	\$(800,000)\$	\$(800,000)\$
Gross Margin	\$2,000,000	\$2,000,000	\$1,200,000	\$1,200,000
Direct Marketing Costs	\$(200,000)\$	\$(200,000)\$	\$(400,000)\$	\$(400,000)\$
Indirect Marketing Overhead	\$(500,000)\$	\$(150,000)\$	\$(200,000)\$	\$(550,000)\$
Net Marketing Profit	\$1,300,000	\$1,650,000	\$600,000	\$250,000
Profit Margin %	26.0%	33.0%	30.0%	12.5%

As can be seen from table 1, traditional methods allocate overhead according to revenue volume (\$5M versus \$2M), allocating a total of \$500K for wholesale and \$200K for DTC. This indicates that the e-commerce channel is very profitable with a 30% margin. However, from the ABC analysis we can see reality of resource consumption. In marketing, the E-commerce channel takes up most of the resources (creation of content, managing digital ads, data analysis software) and consumes \$550,000 worth of indirect overhead. Due to this, the real DTC channel margin drops drastically to 12.5% as well, and the Wholesale channel is actually even more profitable than before.

4 Strategic Budgeting and Variance Analysis for Marketing Efficiency

Strategic budgeting in the area of management accounting gives marketing a sort of blueprint, going past the simple "percentage of sales" manner often seen in less grown-up money scenes. Traditional incremental budgeting, like

adjusting the previous year's budget with just inflation or expected growth, leads to inefficiency. Since it assumes last year's spending patterns were good, which they often aren't. Often this translates into a "use it or lose it" mentality, which has marketing managers scrambling to spend their remaining budget before year-end to avoid an across-the-board cut the following year. Management accounting also brings in stronger approaches like Zero-Base Budgeting (ZBB) and Rolling Forecasts^[5]. ZBB forces marketing people to argue every single new dollar of planned spending from scratch every time and connects spending straight to expected results and strategic aims. This is rigor to make legacy campaigns that no longer add value be defunded, and freeing up resources for new and innovative ideas aligned with current market situations.

Just like strategic budgeting has its internal navigation system and that is the variance analysis. In a regular financial report, variance is simply the difference between how much we thought it would cost (planned amount) versus what really happened (actual amount). But management accounting goes further, breaking these variances down into price variances and usage variances. For example, If a digital advertising campaign goes over budget, A thorough variance analysis can tell if the overrun was due to an increase in the cost per click (Price Variance) or if the marketing team bought more clicks than planned to hit the sales targets (Volume / Usage Variance). Root cause understanding is important to correct. If the difference comes from growing costs of media, the plan could move to other platforms. If it's because of volume, it's probably a sign of there being a lot of people interested in it. By constantly watching these changes with control of marketing budgets that change depending on how busy a company is, and not waiting until the end of the quarter, but after the fact to conduct post-mortems but instead react immediately like a feedback loop would be happening.

5 Customer Profitability Analysis (CPA) and Value Segmentation

In the hunt for efficiency optimization, Customer Profitability Analysis (CPA) becomes a vital management accounting instrument that shakes off the marketing mantra that "all customers are good customers." Marketing metrics traditionally concentrate on customer attainments and expanding market share but make the assumption that more volume will bring in more profit. However, management accounting reveals that customers do not contribute to the bottom line equally. Some customers produce lots of value but require little service because they operate at high margins; others are value destroyers even though they generate revenue by eating up resources with frequent returns, demand for discounts and mega customer service as well as inconsistent orders^[6]. CPA means tracing out all of the revenues and all of the costs – marketing, distribution, and services costs – back to particular customers or customer segments. In this analysis usually we end up with a Whale Curve of cumulative profitability graph, showing that the most profitable 20% of customers may generate 150% of a firms profits from the bottom 1%.

To make CPA work, the finance folks and marketing guys have to work together to figure out exactly what it costs to serve each little group. And look at it more from a gross margin level as opposed to incorporate things like the below the line items that include expedited shipping when the customer requests it, specific trade marketing investments, and dedicated sales people. If we then do the accurate cost assignments, things get really interesting and do-able. Marketing strategies are then rewritten: High-profit customers stay "protected" with loyalty programs and exclusive services; low-profit but high-potential customers are "worked" towards profitability though process changes or pricing tweaks; and value-destroying customers are practically "fired" off or repriced. Table 2 presents an imaginary CPA output for an enterprise with four customer segments, it points out the difference between revenue pushed in and net profit.

Table 2 Customer Profitability Matrix and Value Contribution

Customer Segment	Revenue Contribution (%)	Cost to Serve (Marketing & Support)	Net Profit Contribution (\$)	Profitability Status	Proposed Marketing Action
Segment A (Loyalists)	40%	Low	\$1,200,000	High Yield	Retention & Upsell
Segment B (Growth)	25%	Moderate	\$450,000	Moderate Yield	Development & Nurturing
Segment C (Negotiators)	25%	High	\$50,000	Marginal	Cost Reduction / Repricing
Segment D (Drainers)	10%	Very High	\$(300,000)	Value Destroyer	Eliminate / Strict Limits
TOTAL	100%	--	\$1,400,000	--	--

The data shown in table 2 makes it evident that CPA is needed for marketing efficiency. While segments C and B bring in the same revenue of 25%, the difference is enormous on the bottom line as it costs \$50,000 to serve segment C compared to \$450,000 to serve segment B. Even worse is segment D, it brings a little over 10% of total revenues to the company, but actually costs the company \$300,000 in total profits. Without this management accounting lens, a marketing manager could be spending their budget on trying to acquire more customers like 'Segment D', simply to increase the top line, not realising he is hurting his firms financial health. With data like this, the strategy will change - the marketing budget that previously went to Segment D could be used for acquiring more Segment A customers, or

automating the process to make it cheaper to support Segment C. In order to do this, money spent on marketing will be spent on areas where ROC is highest.

6 Challenges and Synergistic Implementation Strategies

While it is true that both theories and practices prove that using management accounting tools in our marketing is beneficial, in actuality, it can be difficult due to organizational and technical obstacles. The main issue is the cultural and language gap between the finance dept and marketing dept. Marketing professionals usually find finance to be a limiting discipline; it doesn't recognize the intangibility of brand equity. But finance people, they see marketing like a big, scary bottomless pit where no one knows how much stuff goes into it and there's nobody to blame for anything. This kind of isolated situation is terrible for the free flow of data needed for the right ABC or CPA models to happen. In addition We have a data integration technical problem. The marketing data is usually in the CRM system and the digital analysis in system, while the cost data is in the ERP system.

In order to get rid of these barriers and really optimize efficiency, businesses will need to take on a combined approach that brings different areas together. Cross-functional teams start with Management accountants existing alongside the marketing department, functioning as "finance business partners" instead of separate auditors. The people can turn marketing activity into figures and money back and forth. Also, marketing cost drivers found in ABC model should reflect what is really going on with marketing. The organization has to go for "balanced scorecard" for its performance measurements. Means using Financial numbers like earning net profit ROI usage non-financial early leading indicators like brands sentiment customers does satisfaction conversion rate.

7 Conclusion

In conclusion, the inclusion of management accounting tools in the domain of marketing is an important development in terms of business operations and strategic management. As this paper has shown, in the high-stakes and complex modern marketing environment, where cost control and efficiency optimization are necessary for survival, it is insufficient to rely solely on traditional financial accounting. Through the examination of Activity-Based Costing it is evident how this form of cost allocation allows us to see the hidden costs behind each channel and correct the distortions created through the volume based approach. Similarly, the Customer Profitability Analysis gives the needed information to divide customers based on worth rather than volume, which lets marketers give their limited resources to those customer parts that truly earn them money. Strategic budgeting as well as variance analysis is employed so as to make sure that marketing expenses stay dynamic, responsible and in sync with the general strategic aims of the company.

In the end both it isn't just about cutting the expense of these applications, that's a no-no, but it's an important strategic move to build value as well. It allows firms to make more bold, educated decisions because management accounting makes it clear that there is a relationship between marketing activities and money results. It turns marketing from an expense to be cut into an investment to be capitalized. Looking forward, the merging of management accounting with big data analysis and artificial intelligence would be more exact. Predictive modeling and real-time costs are going to be standard, the line between the chief marketing officer and the chief financial officer is going to get even fuzzier.

About the Author

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