· **Title**

Problem of Marketing Costs behind the Transformation of Marketing-Sales Configuration in IT Service Companies

· **Abstract**

Although the marketing-sales configuration has attracted academic attention (Biemans, Brenčič & Malshe, 2010; Homburg, Jensen & Krohmer, 2008), discussions have not yet progressed to explain as to how the configurations transform. We take the IT services industry in which companies customizing products to meet individual needs, companies applying all-purpose and standardized products to segments of customers as best practices, and companies consulting customers to make them suit products coexist. Previous research takes the static view that the configurations are stable by focusing on the industry/product type and market conditions (Homburg et al., 2008). We take the dynamic view and focus on the transformation, by which we can analyze the interchangeable characteristics of business models, the role allotment and management of marketing costs. We will specifically introduce the management systems and controlling aspects as they define how the marketing costs are evaluated.

Methodology: Firstly, we conduct preliminary interviews with experts in the IT service industry to reveal issues in marketing costs in relation with the configurations. Secondly, we conduct qualitative interviews with informants from selected companies to observe transformation of configurations.

Key findings: We can distinguish different types of business models and management methods of marketing costs behind the marketing-sales configurations which have different approaches in evaluating marketing costs. The configuration can be transformed if accompanied by the appropriate management system of marketing costs.

· **Key Words**

Marketing-Sales Configuration, Management Accounting, Marketing Costs

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Introduction and Objectives

In this paper, the authors discuss the crucial importance of marketing costs management as a potential key element of the transformation of the marketing-sales (hereinafter M-S) configuration. We take IT service companies as the industry has been drastically changing the M-S configuration in relation to business models, front runners of which have shifted from customization of the products to segmented package sales, standardization on the crowds and then to consulting service offering to develop the potential demands of the customers of the clients. In the transformational processes, the role of marketing and sales had to be redefined. The industry is suitable to observe the dynamism of the transformation of M-S configuration.

M-S configurations could differ among companies. Since the 1990's, many studies have focused on separation, conflict, integration and interaction of M-S (Day, 2003; Homburg, Workman & Krohmer, 1999; Smith, Gopalakrishna & Chatterjee, 2006; Strahle, Spiro & Acito, 1996). Homburg, Jensen & Krohmer (2008) integrate various problems (e.g. power, information sharing) with M-S, which have been separately studied until then, and analyze the diversity of configurations. Biemans, Brenčič & Malshe (2010) indicate that configurations evolves according to the characteristics of the company and its environment over time. However, discussions have not yet progressed to explain how the configurations transform.

In IT service industry, companies do customizations of their packages, segmentation of their packages or consulting of usage of their packages. These business models are not necessarily fixed, and vary depending on various factors such as the improvement of technology and expansion of investment scale.

Existing researches discuss the difficulty of measuring cost effectiveness and productivity of marketing mainly in relation to accounting (Foster & Gupta, 1994; Kraus, Hakansson & Lind, 2015). The marketing cost management method varies from company to company. Some companies include it in general administrative costs allocated to entire company after incurrence and other companies manage this in a more rigorous or advanced way. For instance, Microsoft has a system to fund promising cases called the End Customer Investment Fund. This is a mechanism to invest in future uncertainties. The management methods of marketing costs reflect the definition and role of marketing in that company.

The purpose of this study is to distinguish different types of M-S configurations which have different business models and approaches in evaluating marketing costs.

Research Question

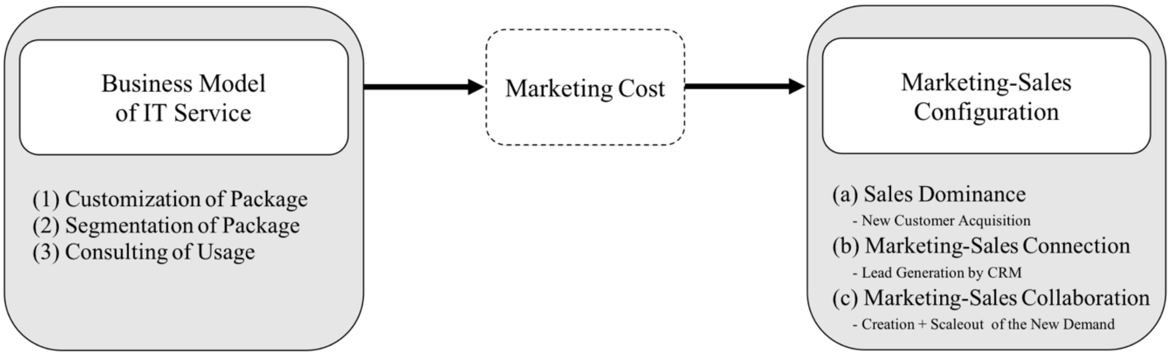
The research questions in this paper are as follows.

1. What sort of M-S configuration exists and what kind of business model does configuration involve?

2. How are the marketing cost management approaches behind the M-S configurations different and what is required for each approach?

· **Conceptual Framework / Literature Review**

Figure 1: Relationship between Business Model, Marketing Cost and M-S Configuration (before Interviews)



We assume the shift of the business model as a factor to affect configurations. In this paper, we define the span of the activities of IT service companies as consulting, construction, IT outsourcing, business process outsourcing, IT products support, software development for client companies. Specifically, to solve the problems of client companies, they propose systems, procure hardware, develop software, and undertake operations after completion of the systems. The contents of their work differ greatly depending on the ratio of customization of their products and services. The reason why customization is necessary is that there is a gap between the products and the customers. For example, in Japan, the ratio of custom software is higher than the ratio of package software (Cusumano, 1988; Motohashi, 2005; Tanaka, 2003). The explanation behind this is that employees in the workplace are resistant to changing the way to work according to package software, or managers want to custom software to utilize know-how accumulated in their companies (Tanaka, 2010). In contrast, since they standardize tasks in the United States and Germany, packages that anyone can easily use spread rapidly (Lehrer, 2006). Even if package software is adopted, customers are likely to change some of programs in the package to fit their unique requirements or may have to change procedures in order to work with the package (Lucas, Walton & Ginzberg, 1988). The first business model in Figure 1 is “Customization of Package”. In this model, companies try to bridge the gap by matching the products to the customers. The second business model is “Segmentation of Package”. In this model, they try to minimize and close the gap by segmentation and improving product functions. The third business model is "Consulting of Usage", and they consult to change customers work to the optimum state according to the products. Recently, the spread of cloud technology forces companies to focus more on how customers use their products after purchasing, to maintain relationships between customers (Mehta, Steinman, Murphy & Martinez, 2016). For example, Salesforce.com is the most pioneering and famous case of using cloud technology, and consulting customers targeting customer success.

The marketing costs which is mentioned here is not simply the costs incurred by the marketing department but the costs spent to acquire new customers. Determining the effectiveness of marketing costs has long been considered a big issue. There is often a sizable lag between the incurrence of marketing costs and receipt of benefits (Foster & Gupta, 1994). Particularly in B2B companies, it is difficult to track the effect of marketing costs, as the number of customers and transactions is small, the purchasing decision cycle is long, and the relationship between marketing activities and sales results is not direct (Webster, Malter & Ganesan, 2005). Due to this difficulty of measurement, the emphasis on trying to improve marketing efficiency tends to try to minimize marketing costs (Sheth & Sisodia 2002). In addition to the difficulty of cost-effectiveness analysis, this is because it is implicitly believed that marketing should spend only minimal resources because of not creating visible values. Therefore, while marketing costs are flexible to respond quickly to market environment changes in most companies, those are treated as discretion where the causal relation between input and output is not clear (Foster & Gupta, 1994; Sheth & Sisodia, 2002). In order for the value of marketing to be recognized, it is necessary to visualize the cost-effectiveness of marketing. Metrics are one of the most successful in terms of reducing the negative consequences of conflicts between functions (Montgomery & Webster, 1997). By sharing metrics and rewards and deeply incorporating marketers into managing critical customers, marketing and sales are integrated and have less conflicts (Kotler, Rackham & Krishnaaswamy, 2006). How to measure and evaluate marketing costs is closely related to definition, roles and importance of marketing in companies.

Marketing activities in this framework are mainly for acquiring new customers. Not only for companies developing new markets, but also for companies in mature markets, new customer acquisition is extremely important as well as customer retention (Ang & Buttle, 2006; Wilson, 2006). Traditional marketing activities such as branding often have only limited importance in B2B companies (Bendixen, Bukasa & Abratt, 2004; Zablah, Brown & Donthu, 2010), while, new customer acquisition activities are very important in B2B marketing. In many B2B companies, the process of acquiring new customers, that is, the process of lead generation and takeover in CRM terminology is lineage of M-S (Oliva 2006).

The role and relationship between marketing and sales in new customer acquisition activities vary from company to company in reality. We classify M-S configuration into three types in Figure 1. First, in (a), Sales is dominant, on the other hand, the marketing department does not exist, or does not participate in new customer acquisition activities. B2B transactions tend to consider building relationships with customers to be important, that is because suppliers satisfy both the purchasing manager’s personal needs as well as the buying firm’s organizational needs (Tellefsen, 2002). The fact that the content of activities differs for each salesperson and customer makes it difficult to summarize and organize customer lists and records of activities. Second, in (b), marketing and sales connect each other and do typical CRM activities. In this type, marketing appeals the predetermined value of packages to appropriate segment and makes customer lists. After several qualification phases, the lists are passed from marketing to sales, and finally sales win contracts with customers. Third, in (c), marketing and sales collaborate as sales makes new cases with customers and marketing scale out that cases. Sales conduct activities similar to new product development which is traditionally labeled marketing activity, while marketing tries to understand the individual experience with customers more deeply to scale out those.

· Method

This study mainly consists of the following two steps, because the purpose of this study is to construct a framework rather than test a hypothesis.

Step 1: Preliminary interviews with experts in IT service industry to clarify the problem of business model and marketing cost management in relationship with M-S configuration.

Step 2: Qualitative interviews with informants from selected companies to observe transformation of M-S configurations and confirm our framework.

Step 1

The three questions and three informants are as follows.

Question 1-1: What is the role of marketing and sales in new customer acquisition activities?

Question 1-2: Do you customize for each customer? What criteria do you customize packages or services based on?

Question 1-3: What is the definition of marketing costs and how are they managed?

Informant 1: A sales representative of a Japanese corporation of a global company which is one of the IT Giants.

Informant 2: Former system engineer of IT service company that subcontracts development, and now vice president of a global consulting company.

Informant 3: Former engineer of a Japanese IT service company, former marketing representative of a Japanese corporation of a global company which is one of the IT Giants, and now a marketing manager of a Japanese corporation of a global consulting company.

Step 2

The questions and selected companies are as follows.

Question 2-1: Does the M-S configuration change over time? If so, how and why does it change?

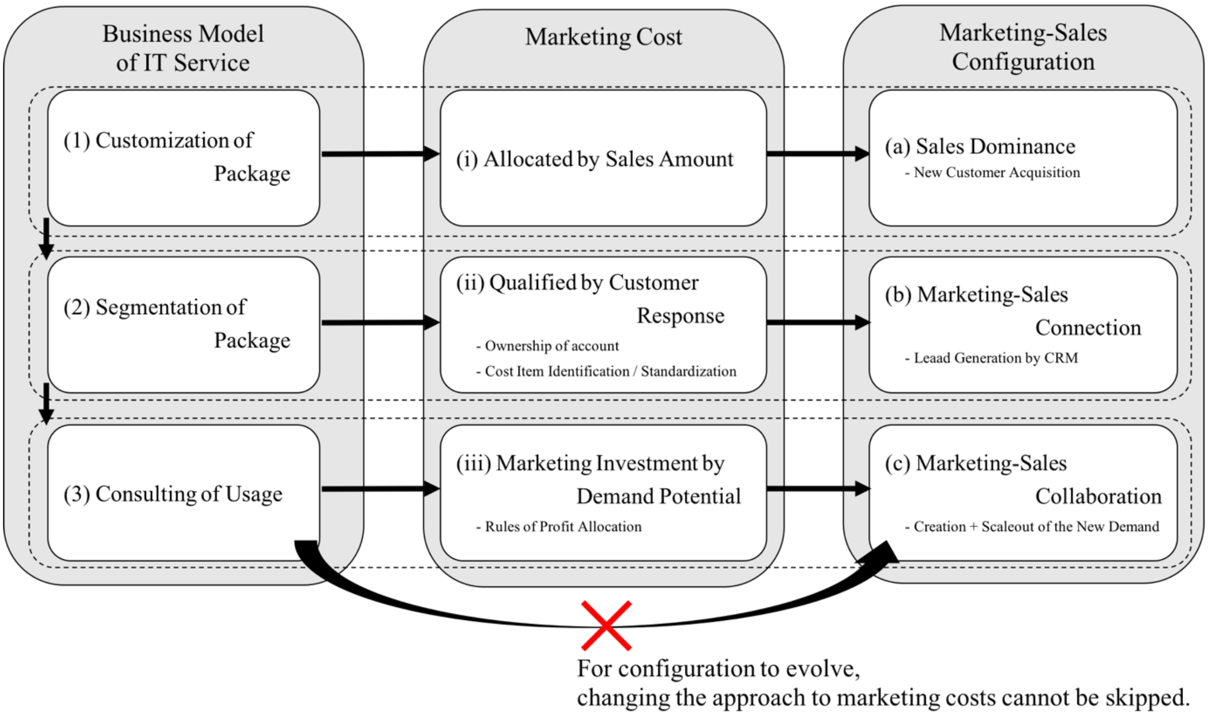
Question 2-2: How do you cope with the marketing costs, and which activities or achievements do you link the costs with?

	Company A	Company B
	・Japanese company ・Its share of sales amount is ranked in the top five in the Japanese IT service industry.	・Japanese corporation of global company
Informants	・CEO and marketing manager	・CEO
Business Models	・Customized development and package business coexist	・Package software was center, but now, proposing solutions for customer's challenge is center ・Sales of package software are less than half of total now
Marketing	・ Corporate marketing was established this year ・Product marketing and customer acquisition marketing are carried out by business development department of each business unit	・Marketing department conducts activities to collect customer candidates by holding events such as seminars and product briefing sessions
Sales	・Sales department is located in each business unit	・ Some people are in charge of visiting customers ・Some people are in charge of thinking about how to appeal values to customers

· **Findings**

The conceptual framework including marketing cost management created based on the interviews is as follows.

Figure 2: Relationship between Business Model, Marketing Cost and M-S Configuration (after Interviews)



Each business model has an appropriate M-S configuration.

First, “Customization of Package” is paired with “Sales Dominance”. In this type, it is essential that sales representatives establish close relationship with customers to land contracts and, consequently, the importance of sales increases. Meanwhile, the importance of marketing decreases because there is no common value which marketing should appeal. Second, “Segmentation of Package” is paired with “Marketing-Sales Connection”. In this type, marketing predicts segments, approaches customers of the segments and give the customer lists to the sales. Third, “Consulting of Usage” is paired with “Marketing-Sales Collaboration”. In this type, sales discover the hidden demands of customers and how to use products that respond to them, and marketing has the role of finding similar customers and scale out. It is more continuously profitable that they consult how to use products and aim customer success, than sticking to just selling products. For that reason, many companies change toward this type, but this is not necessarily an ideal model for all companies. Some companies concentrate on “Customization of Package” or “Segmentation of Package” and some companies cover all three types.

Each combination of business model and configuration has a different approach to marketing costs.

(i) Allocated by Sales Amount: Marketing is treated as an expense in this type, in which case causality often becomes reversed as marketing budgets are determined by sales forecasts. They allocate marketing costs to whole company or business unit by sales amount.

It is impossible to analyze accurate causal relationship between marketing cost and outcome because the new customer acquisition activities and marketing cost items differ for each salesperson or customer. Since it is not possible to reasonably determine the budget for new customer acquisition activity, it is estimated from the sales performance of the previous year or the sales forecast for that year.

(ii) Qualified by Customer Response: Customer lists are not held by sales department or individual salesperson, but are made by marketing. New customer acquisition activities and cost items are standardized like lead generation activities in CRM. These enable companies to track costs and returns per customer, thereby analyzing and reasonably determining budgets. Ang and Buttle (2006) reveal that only one variable distinguishes companies that excel at customer acquisition: they have a budget dedicated to customer acquisition activities.

(iii) Marketing Investment by Demand Potential: They earn budget and make investments in advance for the new demand with possibility of scale out. What changes are caused by marketing costs being treated as investments? First, adopting this investment view would put greater responsibility for dealing with marketing costs (Sheth & Sisodia, 2002). That is because that, in the case of investment, they take risks into consideration and plan how to collect returns. Second, treating marketing as an investment forces companies to come to grips with the temporal relationship between marketing costs and outcomes (Sheth & Sisodia, 2002). In this type, it is necessary to decide rules on how to allocate the profit obtained from the invested cases and the lateral expansion result.

For configuration to evolve, the approach to marketing costs needs to change.

In order to change from “Sales Dominance” to “M-S Connection”, it is necessary to qualify the marketing costs. That is, they need to share the customer lists, and specify the cost items of marketing. Based on these, new customer acquisition activities that systematically connect marketing and sales become possible. If they cannot qualify the costs by organizing customer responses, only the number or sales amount, not the content and cost effectiveness of activities, are paid attention.

In order to change from “M-S Connection” to “M-S Collaboration”, it is necessary that they have the system to invest marketing costs to latent demands based on rules to allocate future profits. Discovering new demands by salespeople cannot be done without investing in future uncertain factors. Meanwhile in order for marketing to know more about invested customers and their experiences, and to scale out, rules to allocate profits are essential. This is an innovative system that makes it possible to constantly search for new demands.

· Discussion

First, we find three combinations of M-S configurations and business models. Homburg et al. (2008) show an adaptation model that the appropriate M-S configuration depends on the nature of the industry and the product. On the other hand, Biemans et al. (2010) show evolution models that M-S configuration changes over time. In their evolution model, the initial configuration is with dominant sales and hidden marketing, next, each one has an independent role, and eventually marketing and sales are integrated. We propose a hybrid model between adaptation and evolution, that is, the optimal configuration varies depending on the business model, in addition, the business model tend to evolve from “Customization of Package” for each customer to "Segmentation of Package", "Consulting of Usage", because it is hard to make profits. The evolution has an order, and they cannot evolve by skipping. This is because cost management cannot be changed without going through stages. The configuration can be transformed if accompanied with the appropriate management system of marketing costs.

Four respondents, including those who are in “Customization of Package”, used the word “servitization” and were aiming it. “Servitization” is a situation where companies provide products and services together, and create values with customers (Vargo & Lusch, 2004, 2008). Le Meunier-FitzHugh, Baumann, Palmer & Wilson (2011) suggest six activities that lead to value co-creation: leveraging customer, market and internal knowledge, communication and conveying value propositions, problem identification and exploration, creating tailored solutions with customers, building trust and long-lasting relationships, and acting as intermediary between suppliers, organizations and customers. Some companies try to cope with "servitization" without evolving from the "Customization of Package". It is necessary to further observe whether they can deal with without systems of investment and scale out.

· Conclusion

The authors drew following conclusions in this study.

- Each business model has an appropriate M-S configuration.
- Each combination of business model and configuration has a different approach to marketing costs.
- For configuration to evolve, the approach to marketing costs needs to change.
- The business model tends to evolve from “Customization of Package” for each customer to "Segmentation of Package", "Consulting of Usage", because profit is difficult to generate, but it is not necessarily the final ideal model for all companies.
- The evolution has an order, and they cannot evolve by skipping.

· Limitations

There are mainly three limitations in this study. First, we indicated the transformation of M-S configurations, but it is also necessary to clarify how to make configurations change specifically. Second, we limited marketing costs to costs of acquiring new customers, but originally, they should also include other kinds of costs, such as product development costs. Finally, we conducted qualitative interviews to explore factors of transformation of M-S configuration. Because it is difficult to access key informants who understand the company's history, both marketing and sales departments and how to manage marketing costs, it is advantage of this study that we had deep interviews with such key informants. However, it is necessary to collect more samples in future.

· Further Research

Further researches should be made in three directions. First, in this paper we limit the target to IT service companies, but further researches should explore whether similar situation can be seen in other industries. Second, although we focused on business models and marketing costs as factors related to M-S configuration, future researches should also focus on other factors, such as the scale of business. Third, it is necessary to expand the definition of marketing activities. In this paper, we mainly take activities for customer acquisition. If further researches extend the definition of marketing into new product development, corporate branding, distribution strategies and pricing, they could get more implications.

· Managerial Implications

When you try to change M-S configuration, unless you change the various other elements within the company together, it is likely that they will be constraint elements. In particular, although marketing costs have not been considered up to now, you cannot change the configuration unless the balance of marketing budget is changed drastically. In addition, it is difficult for some companies which traditionally focus on sales to change marketing costs.

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