IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN: 2278-487X, p-ISSN: 2319-7668.
PP 20-23
www.iosrjournals.org

Marketing-Accounting-Finance Interface (MAFI) Cost and Benefit Implications In Relation To Consumer Credit

Dr. Oswald A. J. Mascarenhas S. J[a], Dr. Rowena Wright[b],
Ms. P.V Sumitha[c]

[a]*Chairmen, Department of Business Administration, AIMIT,St.Aloysius College, Beeri, Mangalore 575022, India*
[b]*Professor, Department of Business Administration, AIMIT,St.Aloysius College, Beeri, Mangalore 575022, India*
[a]*Assistant Professor, Department of Business Administration, AIMIT,St.Aloysius College, Beeri, Mangalore 575022, India*

Abstract: *This paper examines the concept, of Marketing-Accounting-Finance Interface (MAFI) in terms of the costs involved and benefits implications to the consumer, to the producer, and/or to the credit granting agency in relation to consumer credit, specifically as they relate to short term cash flow management that business turnarounds primarily seek to stabilize – a powerful illustration of the much spoken but least demonstrated paradigm of integrated business management. The old concept of bifurcating and Trifurcating of business management science into various compartments like economics, quantitative techniques, human resources management (HRM), finance, accounting, production, marketing, law, and organization behavior will not and cannot serve the purpose. If business problems are solved only from a marketing or production or a finance perspective excluding other disciplines, the solutions will tend to be myopic. Real business problems need to be identified, classified, formulated, specified, and resolved with a multidisciplinary approach. The concept of consumer credit has been assuming great significance ever since the melt down in 2008 with companies vying with one another to win the consumer as it has become the order of the day that whoever wins the consumer wins the market. The paper focuses on the significance of adopting the MAFI concept for tackling current day situations in the market place with specific reference to the cost and benefit implications in relation to consumer credit.*
Key words: *MAFI, consumer, producer, consumer credit, credit policy.*

I. INTRODUCTION

In the past decades marketing activities were myopic in nature focusing only on success of the product in the marketplace and creating value for money. But the emergence of the holistic marketing concept, the goal of an organization is value-creation not just for customers but for all stakeholders including employees, shareholders, suppliers and local communities (Srivastava, Shervani, and Fahey 1998). Therefore the top management expects the marketing executives to focus on their ultimate purpose as contributing to the enhancement of shareholder returns. This dynamic change at the market place demands that the Interface between Marketing-Accounting-Finance (MAFI) be explored and recognized within the framework of Integrated Business Management.

The MAFI approach is a clear demonstration of the much spoken but least executed strategy of integrated business management (IBM). The traditional century-old compartmentalization of business management science into economics, quantitative techniques, human resources management (HRM), finance, accounting, production, marketing, law, and organization behavior has proved its purpose: the identification, specification, and research and development of each business discipline individually. Business problems cannot be solved from only a marketing or production or from a finance perspective excluding other disciplines. Real business problems need to be identified, classified, formulated, specified, and resolved from a multidisciplinary perspective of managerial economics, HRM, finance, production, accounting, marketing, law, and OB put together. The MAFI approach is an illustration of integrated business management (IBM) in relation to hitherto distinct and distanced disciplines of accounting, finance and marketing.

The significance of the Marketing-Accounting-Finance Interface (MAFI) is expanding (Zinkham and Verbrugge 2000). This is because marketing deals with a key source of cash flow that originates from customers - the end-users of the products and services. From this viewpoint, marketing is the business of creating, sustaining and regenerating cash flow. Companies are successful largely because they increase the value of their brands to generate cash flows. In this sense, increasing shareholder equity value and increasing brand equity value are the same. Both are the discounted value of future cash flows, even though not all cash

flows are directly attributable to brands (Ambler 2001; Sudarsanam 2003). High market share and high ratings of consumer satisfaction, the metrics that CEOs mostly covet, are only a part of the corporate performance reality; but both must contribute to shareholder value (Anderson, Fornell and Mazvancheryl 2004). These metrics, therefore, must translate into steady and increasing cash flows and profits, making marketing strategies and marketers accountable (Ambler 2001; Lehman 2004; Rust, Lemon and Zeithaml 2003). In this paper we highlight the MAFI strategies and decisions in relation to consumer credit.

II. MAFI COST AND BENEFIT IMPLICATIONS IN RELATION TO CONSUMER CREDIT

Consumer credit is well-known strategy to enhance sales. Consumer credit is an accounting and finance function having marketing implications. It therefore results in Marketing-Accounting-Finance Interface (MAFI) conceptual, strategic and policy implications. That is, any consumer credit policy has cost and benefits implications to the consumer, to the producer, and/or to the credit granting agency as analyzed below:

- Cost of credit to the consumer (CC) is the cost of the benefit of immediate purchasing, use and gratification in lieu of deferred payments via credit cards or other such instruments: Such costs include, among other things, the problems arising from behaviors such as extravagant buying, conspicuous consumption, unplanned buying, over-buying, hoarding, impulse buying, compulsive buying, and other addictions, and on the other, the costs of such behaviors in terms of accumulated debt, deferred payments, payment defaults, interest on credit, penalty interests and surcharges for defaults, low credit scores, possible foreclosure, personal insolvency and bankruptcy.
- Cost of borrowing to the consumer (CB) is the cost of financing one's purchases made easy by easy bank or mortgage loans (other than through regular credit cards), attractive purchase terms and persuasive advertising and promotions. Such costs are mostly incurred in relation to big ticket items such as autos, unaffordable housing, houses, boats, expensive vacations, cruises, or by unforeseen circumstances such as large medical co-pays, costs of medical procedures not covered by insurance, cost of violations (traffic, drug peddling, stealing, fraud), cost of subsequent litigations and the like. Typical costs include bank interests, surcharges, penalty interest rates, sub-prime borrowing and interest rates, payment defaults, accumulated debts, personal insolvency and bankruptcy.
- Cost of credit to the producer (CP) is the cost of providing consumer credit via promotional strategies such as quantitative discounts, rebates, free testing, clearance sale, fire-sale, distressed sale, overstock inventory depletion sales, and the like, and the corresponding cost of deferred payments, risk of deferred payments, risk of accumulated receivables, risk of bad debts, risk of cash flow crisis, risk of financial insolvency, and the like.
- Cost of financing credit to the producer (BP) is the cost of various methods the producer uses to raise finance for backing consumer credit, such as borrowing, revolving credit, investing company cash, issuing stocks or bonds, non-commercial banks-borrowing, private equity funds, hedge funds, and the corresponding costs of sunk cash, paying interests payments, penalty interest payments, other surcharges, and cash crisis.

Therefore we may infer that abundance in consumer credit is used to lift stocks, to deplete overstocked inventories, to speed up sales, to reduce average days in inventory, to reduce operating cycles and cash cycles, to expedite cash flows, to raise low inventory turnover ratio (LITR), to maintain high ITR (HITR), and the like.

Table 1 below compares the costs and benefits accruing from CP and BP to consumers versus producers. It is constructed based on the assumption that, in general, every cost of credit to the consumer has a corresponding benefit to the consumer, and a corresponding cost and benefit to the credit granting producer or agency.

Table 1: MAFI Classification of Credit Policy Costs and Benefits to the Consumer and the Producer

Dimension of Credit Policy	To the Consumer		To the Producer	
	Cost of Credit	**Benefit of Credit**	**Cost of Credit**	**Benefit of Credit**
Credit score	Cost of building and sustaining sufficiently high credit score (e.g., cost of errors, wrong entries, dated data, falsified data, …, that determine the score)	Benefits of building and sustaining sufficiently high credit score (e.g., benefits of regular payments, benefits of correcting errors, wrong entries, dated data, falsified data, …, that determine the score)	Cost of risk in relying on such syndicated credit scores (e.g., cost of bad debts risks implied in errors, wrong entries, dated data, falsified data, …, that may determine consumer score)	Benefits of credit scores for objectively prescreening customers and consumers (e.g., benefits of customer financial intelligence, market financial intelligence that can be derived from reliable syndicated consumer scores)
Credit policy	Cost of buy now, pay later	Benefits of buy now, pay later	Cost of accumulated	Benefits of winning customers

	policy: cost of immediate product use/gratification and the burden of differed payments	policy: benefits of immediate product use/gratification; benefits of deferred but prorated payments	deferred payments, potential bad debts, and potential consumer bankruptcy	via credit; benefits of planning cash inflows from regularized payment schedules of consumers on credit; benefits of clearing current high inventory levels.
Interest on credit	Cost of interest on consumer credit, cost of penalty interests on defaults, and cost of foreclosure on multiple continuous default payments	Benefits of tax-deductible (where it applies) interest on consumer credit, benefits of predicting and warding off defaults and penalty interests on defaults.	Cost of billing, maintaining, collecting, or litigating default interest payments; cost of harassing, suing and/or losing a customer.	Benefits of interest collection; benefits from penalty interest collections; benefits of underwriting bad debts in terms of tax credits.
Credit collection	Cost of missed and deferred payments; cost of facing collection agents; cost of foreclosure on personal assets	Benefits of foreseeing and avoiding collection agents; benefits of planning interest payments; benefits of maintaining high credit scores by avoiding collection agents	Cost of missed and deferred consumer payments; cost of hiring collection agents; cost of foreclosing personal assets of consumers	Benefits of organized collection agent industry; benefits of hiring collection agents; benefits of securitizing debts; benefits of selling debt to collecting agents;
Risk of Consumer bankruptcy	Cost of personal bankruptcy when many differed payments on many product/service categories begin to accumulate and when, filing for personal bankruptcy becomes the only feasible solution.	Benefits of personal bankruptcy when many accumulated differed payments on many product/service accounts can be handled no more; a "second chance" to start fresh once again; benefits of planning finances in order to avoid bankruptcy.	Cost of absorbing consumer personal bankruptcy; costs of loss of goodwill; cost of losing customer base, community base; cost of negative word-of-mouth feedback, negative branding, and the like.	Benefits of recovering as much of bad debts on forcing consumers to file for personal bankruptcy. Benefits of enabling customers, clients and consumers to have a second chance,
Cost of personal bankruptcy	Loss of losing everything, future credit, face, reputation, personal stress, family stress, transfer to another state, and the like	Prospect of losing everything, future credit, face and reputation through personal bankruptcy can make consumers more vigilant, frugal and planned in spending habits and decisions.	Cost of bad debts; costs of litigation (courts costs, attorney costs); cost of harassing defaulting consumers;	Benefits of recovering portion of bad debts through bankruptcy; benefits of having recourse to bankruptcy law in preempting and protecting oneself from losses.

Reference: Mascarenhas Oswald S.J (2013)

III. MAFI AS VALUE CHAIN ACTIVITIES

MAFI is related to value. When a company delivers value to the consumers, consumers return that value to the company in profits and brand loyalty, both of which translate into shareholder wealth in the form of dividends, retained earnings, company growth, and brand equity (Anderson, Fornell and Mazvanchery 2004). The latter flows back to the company through renewed investor interest in the company, improved market capitalization, new equity and capital markets, all of which fund R&D marked with creativity, imagination, and innovativeness. Improved R&D enables the adoption of new processes. New raw materials used and the new process technology that transform them result in innovations, new products and services, enabling a company to deliver better value to consumers and create new brands, new loyalties, new markets all of which generate new brand equity and customer equity. Customer equity is the total of the discounted lifetime values summed over all of the firm's current and potential customers (Rust, Lemon and Zeithaml 2003). Augmented product-demand enables scale and scope economies. This is the continuous, dynamic and circular value chain of new product planning, R&D, purchasing, process and product technologies, accounting and finance, marketing and market feedback – all weaving a seamless fabric of effective management – a Marketing-Accounting-Finance Interface (MAFI) into action. Thus, the MAFI is a value-chain of activities (De Vriend, der Heide and Stegistra 2000). The start to this value chain begins when the firm thoroughly understands its customer needs, wants and desires, and seeks to fulfill them with the best MAFI strategies. The company that performs best in this interface garners a larger share of loyal customers than its competition, and thus, reaps greater financial rewards for the company. Customer, employee and supplier equities, in turn, generate higher profits, cash flows and shareholder returns. Thus, MAFI strategies define, constitute and complete the business value chain. The interface between marketing, accounting and financial management in building the process, product, and marketing competencies can play a key role in value creation and sustained competitive advantage (Hunt and Morgan 1995; Sago 2003).

IV. Concluding Remarks

Therefore we may conclude that consumer credit is a focal point of any business activity. This in turn has a ripple effect on the cost of the credit to the consumer and an inverse effect on the cost of credit to the producer. While the cost of borrowing to the consumer has become both easy and convenient in the past few years thanks to instant bank loans, easy availability of credit cards and the like, these costs are usually sourced for big ticket items like expensive vacations, unaffordable housing or even unforeseen medical expenses. It must be remembered that cost of financing credit to the producer includes issue of stocks, bonds etc. and therefore it will seem inappropriate to view marketing situations in a compartmentalized manner but to use an integrated approach like the concept suggested in this paper namely the MAFI concept.

References

[1]. Ackoff, Russell L. and Fred E. Emery (1972), On Purposeful Systems, Chicago, IL: Aldine Atherton.
[2]. Ambler, Tim (2001), “What Marketing Success Look Like?” Marketing Management, 10:1 (Spring), 12-18.
[3]. Anderson, Eugene W., Claes Fornell and Sanal K. Mazvancheryl (2004), “Customer Satisfaction and Shareholder Value,” Journal of Marketing, 68: 4 (October), 172-85.
[4]. De Vriend, G. K., P. A. Von der Heide and Stegistra (2000), “What are we Worth?” Strategic Finance Magazine, 81: 9, (March), 56-52.
[5]. Hunt, Shelby D. and Robert M. Morgan (1995), "The Comparative Advantage Theory of Competition," Journal of Marketing, 59 (April), 1-15.
[6]. Matthews, Virginia (2002), “Why Marketers are not on the Top,” Marketing Magazine, 107:28 (July 15).
[7]. Mascarenhas Oswald (2013),”MAFI Integrated Business Management Strategies for Short –Term Cash Flow Management ,”Aloysius Journal of Management and Research,pg-60-86 (July), Vol 1,
[8]. Pennings, Joost M. E. (2004), “A Marketing-Finance Approach towards Industrial Channel Contract Relationships: A Model and Application,” Journal of Business research, 57:6 (June), 601-609.
[9]. Rust, Rowland T., Anthony J. Zahorik, and Timothy L. Keiningham (1995), "Return on Quality (ROQ): Making Service Quality Financially Accountable," Journal of Marketing, 59:2 (April), 58-70.
[10]. Sawhney, Mohanbir and Jeff Zabin (2002), “Managing and Measuring Relational Equity in the Network Economy,” Journal of the Academy of Marketing Science, 30: (Fall), p. 320, 328.
[11]. Srivastava, Rajendra, Tasadduq A. Shervani, and Liam Fahey (1998), "Market-Based Assets and Shareholder Value: A Framework for Analysis," Journal of Marketing, 62 (January), 2-18.
[12]. Venkatesan, Rajkumar and V. Kumar (2004), “A Customer Lifetime Value Framework for Customer Selection and Resource Allocation Strategy,” Journal of Marketing, 68:4 (October), 106-25.
[13]. Zinkhan, George M. and F. Christian Zinkhan (1997), The Interface between Marketing and Finance: Integrated Management in an Unstable World,” Managerial Finance, 23:10, 3-22.