

# The Financial Function & The Marketing Function

Chapter 3 & 4

CHAPTER 3:  
THE FINANCIAL FUNCTION

## MARKETING DEFINITION

Anticipating and satisfying consumer needs by means of mutually beneficial exchange processes and doing so profitably and more effectively than competitors by means of managerial processes. (p. 99)

It includes all the activities that make this transfer possible – deciding on the products, the prices, the distribution channel, and how to advertise products.  
The ultimate goal of all marketing activities is to facilitate mutual satisfying exchanges between parties.

## PRINCIPLES OF THE MARKETING CONCEPT

- Customer orientation**
  - Concentration on the needs and wants of customers.
- Profitability**
  - Must not be such a big objective that it outweighs that of customer orientation.
- Social responsibility**
  - Companies have a responsibility towards the community.
- Organizational integration**
  - Co-ordination between the functions of the enterprise.

## THE MARKETING ENVIRONMENT



## FINANCIAL RATIO ANALYSIS

Applying ratio analysis enables you to analyse the success, failure and progress of the enterprise

- Liquidity ratios
- Profitability ratios
- Activity/turnover ratios
- Leverage/debt ratios
- Break-even analysis

KNOW ALL THE DEFINITIONS AND FORMULAS

## FINANCIAL STATEMENTS

Financial statements record the performance of the business and allow you to diagnose the strengths and weaknesses by providing a written summary of financial activities.

TWO PRIMARY FINANCIAL STATEMENTS:

- Balance sheet
- Income statement



## FINANCIAL PLANNING

Affects how and on what terms funding can be attracted to establish, maintain and expand the enterprise.

- Tasks:
  - Pro forma financial statements
  - Ratio analysis
  - Break-even analysis
  - Pro forma cash-flow statement
  - Pricing formulas and policies



## MARKET RESEARCH & MARKET SEGMENTATION

Gathering of information on a certain market group to understand the market, identify needs for products/services, know the consumers, identify opportunities and trends.

The market identification of subsets of buyers within a market who have similar needs and who have similar buying patterns. The total consumer market, which consists of consumers who demand different combinations of goods and services is divided into groups of buyers who are of similar characteristics.

## MARKETING STRATEGY/MARKETING MIX



## MARKETING PLAN

A detailed plan of how a product/service will be marketed and the time-related details for marketing that plan.



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**The ultimate goal of all marketing activities is to facilitate mutual satisfying exchanges between parties.**

### PRINCIPLES OF THE MARKETING CONCEPT

<b>Consumer orientation</b>	<b>Profitability</b>	<b>Social responsibility</b>	<b>Exchange-based interaction</b>
• Concentration on the needs and wants of consumers	• Must not be such a big operation that it endangers short-term survival	• Compliance with legislation leads to responsibility towards the community	• Cooperation between the functions of the enterprise

### FINANCIAL RATIO ANALYSIS

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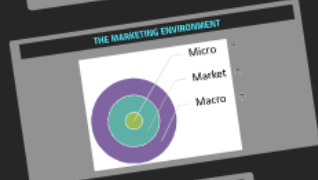
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### MARKET RESEARCH & MARKET SEGMENTATION

Gathering of information on a certain market group to:

- Understand the market
- Identify needs for products/services
- Know the consumers
- Identify opportunities and threats

The market: identification of subsets of buyers within a market who have similar product needs.

The target consumer market, which consists of companies who are of interest to management, is divided into groups of people who are of similar characteristics.

### FINANCIAL PLANNING

Affects how and on what terms funding can be attracted to establish, maintain and expand the enterprise.

**Tools:**

- Pro forma financial statements
- Ratio analysis
- Break-even analysis
- Pro forma cash-flow statement
- Pricing formulas and policies

### MARKETING STRATEGY/MARKETING MIX

**Marketing mix (4 P's)**

Product	Price	Promotion (Place)	Place (Distribution)
• Product development	• Price setting	• Advertising	• Distribution channels
• Product differentiation	• Price reduction	• Sales promotion	• Retailer selection
• Product extension	• Price increase	• Publicity	• Retailer development



CHAPTER 4:  
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**CHAPTER 3:**

**THE FINANCIAL FUNCTION**

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Starting point for  
successful financial  
management

# BALANCE SHEET

- Provides the financial health/ position of a business at a given moment usually at the close of an accounting period.

- It shows what the business owns (ASSETS) and what money the business owes, either to own creditors(LIABILITIES)or to its owners (SHAREHOLDERS' EQUITY or NET WORTH of the business).

CONSOLIDATED BALANCE SHEETS		
(In millions, except per share data)	2012	2011
<b>December 31</b>		
<b>Assets</b>		
<b>Current Assets</b>		
Cash, including cash equivalents of \$762.9 and \$623.7	\$ 1,209.6	\$ 1,245.1
Accounts receivable (less allowances of \$161.4 and \$174.5)	751.9	761.5
Inventories	1,135.4	1,161.3
Prepaid expenses and other	832.0	930.9
Total current assets	\$ 3,928.9	\$ 4,098.8
Property, plant and equipment, at cost		
Land	66.6	65.4
Buildings and improvements	1,165.9	1,150.4
Equipment	1,479.3	1,493.0
	2,711.8	2,708.8
Less accumulated depreciation	(1,161.6)	(1,137.3)
	1,550.2	1,571.5
Goodwill	374.9	473.1
Other intangible assets, net	120.3	279.9
Other assets	1,408.2	1,311.7
<b>Total assets</b>	<b>\$ 7,382.5</b>	<b>\$ 7,735.0</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Debt maturing within one year	\$ 572.0	\$ 849.3
Accounts payable	920.0	850.2
Accrued compensation	266.6	217.1
Other accrued liabilities	661.0	663.6
Sales and taxes other than income	211.4	212.4
Income taxes	73.6	98.4
Total current liabilities	2,704.6	2,891.0
Long-term debt	2,623.9	2,459.1
Employee benefit plans	637.6	603.0
Long-term income taxes	52.0	67.0
Other liabilities	131.1	129.7
<b>Total liabilities</b>	<b>\$ 6,149.2</b>	<b>\$ 6,149.8</b>
Commitments and contingencies (Notes 14 and 16)		
<b>Shareholders' Equity</b>		
Common stock, par value \$.25 - authorized 1,500 shares; issued 746.7 and 744.9 shares	\$ 188.3	\$ 187.3
Additional paid-in capital	2,119.6	2,077.7
Retained earnings	4,357.8	4,726.1
Accumulated other comprehensive loss	(876.7)	(854.4)
Treasury stock, at cost (314.5 and 314.1 shares)	(4,571.9)	(4,566.3)
<b>Total Avon shareholders' equity</b>	<b>1,217.1</b>	<b>1,570.4</b>
Noncontrolling interests	16.2	14.8
<b>Total shareholders' equity</b>	<b>\$ 1,233.3</b>	<b>\$ 1,585.2</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,382.5</b>	<b>\$ 7,735.0</b>

# INCOME STATEMENT

- Measurement of a company's SALES AND EXPENSES over a specific period of time.
- It is prepared at regular intervals (on monthly or annual basis).
- Also referred to as an INCOME AND EXPENDITURE STATEMENT



Your Company			
Income Statement			
For Year Ending Dec. 31, 2012			
<b>Revenue:</b>			
	Gross Sales		XXXX.XX
	Less: Sales Returns/Allowance		<u>XXXX.XX</u>
	Net Sales		XXXX.XX
<b>Cost of Goods Sold:</b>			
	Purchases	XXXX.XX	
	Delivery Charges	<u>XXXX.XX</u>	
	Cost of Goods Sold		<u>XXXX.XX</u>
	Gross Sales Profit (Loss)		XXXX.XX
<b>Expenses:</b>			
	Expense 1	XXXX.XX	
	Expense 2	XXXX.XX	
	Expense 3	<u>XXXX.XX</u>	
	Total Expenses:		<u>XXXX.XX</u>
	Net Operating Income:		XXXX.XX
<b>Other Income:</b>			
	Income 1		XXXX.XX
	Income 2		XXXX.XX
	Income 3		<u>XXXX.XX</u>
	Total Other Income:		XXXX.XX
<b>Net Income (Loss):</b>			
			<u>XXXX.XX</u>

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# FINANCIAL RATIO ANALYSIS

- Applying ratio analysis enables you to analyse the success, failure and progress of the enterprise
- Liquidity ratios
- Profitability ratios
- Activity/turnover ratios
- Leverage/debt ratios
- Break-even analysis

**KNOW ALL THE  
DEFINITIONS AND  
FORMULAS**



## FINANCING DECISIONS

SOURCES OF CAPITAL

FORMS OF FINANCING



# FINANCIAL PLANNING

Affects how and on what terms funding can be attracted to establish, maintain and expand the enterprise.

## Tools:

- Pro forma financial statements
- Ratio analysis
- Break-even analysis
- Pro forma cash –flow statement
- Pricing formulas and policies



# Short-term & long-term financial planning

## SHORT-TERM

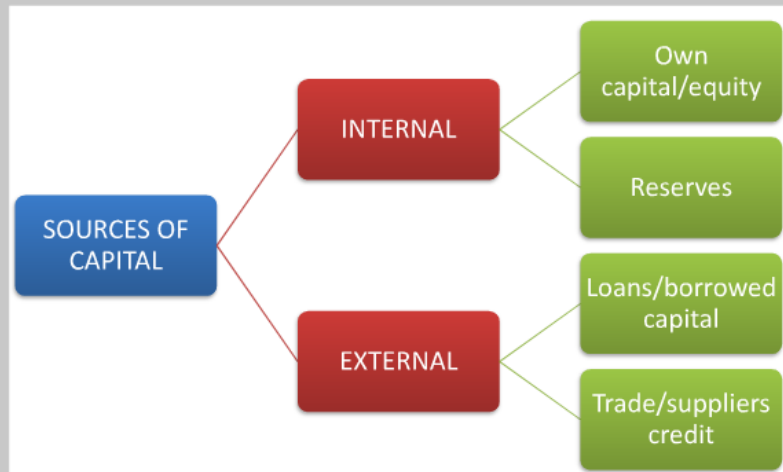
Cash & equivalents  
Accounts receivable  
Inventories  
Accounts payable  
Short-term loan  
Accrued expenses and taxes payable

## LONG-TERM

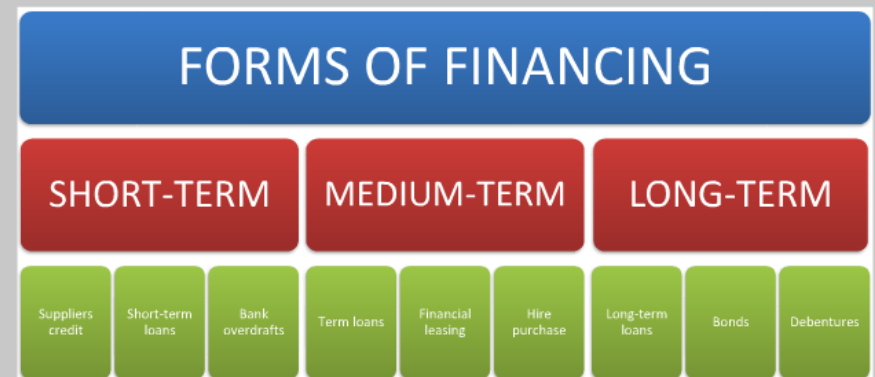
Prepare:  
Pro-forma balance sheets  
Pro-forma income statements

# FINANCING DECISIONS

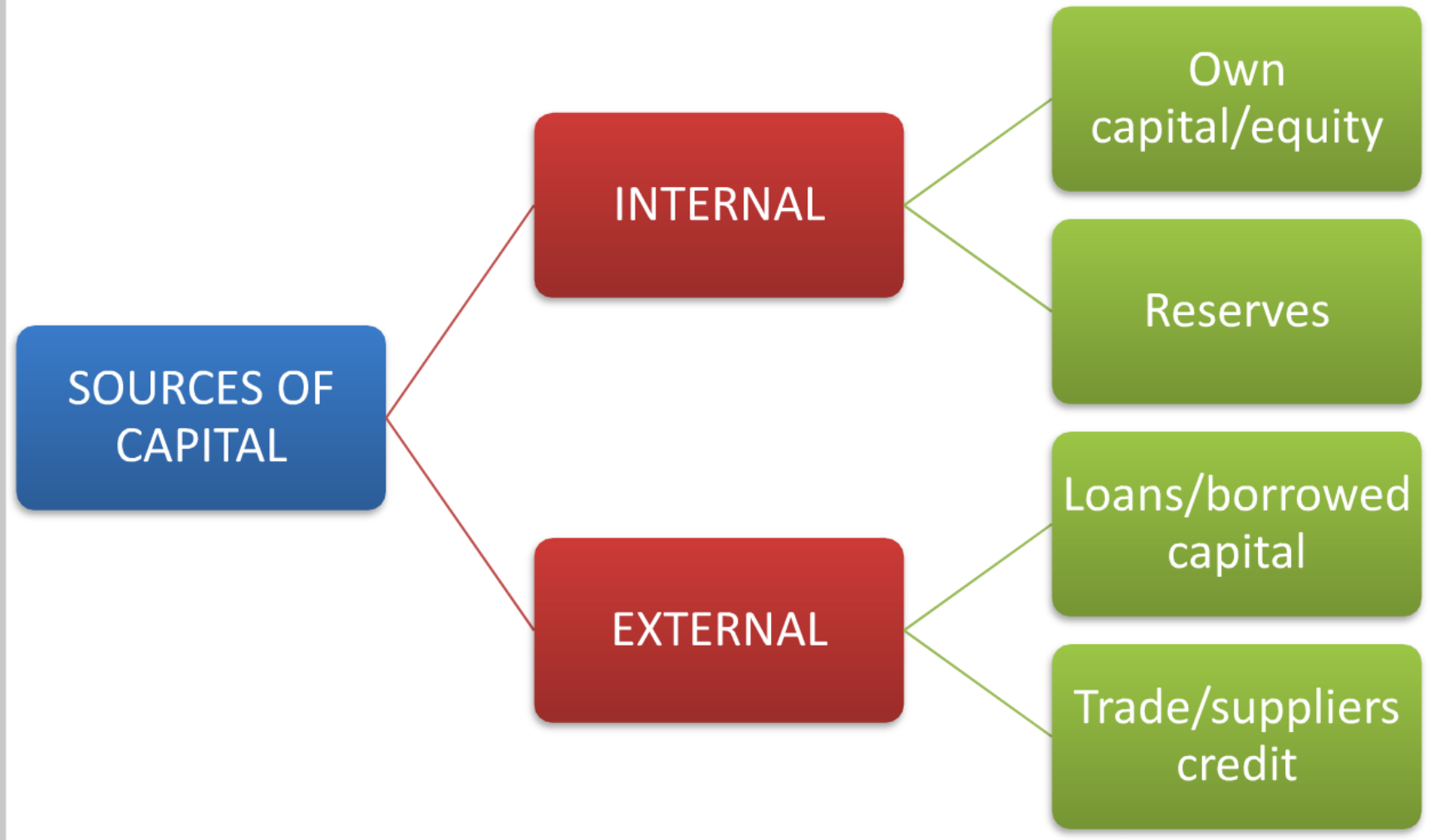
## SOURCES OF CAPITAL



## FORMS OF FINANCING



# SOURCES OF CAPITAL



# FORMS OF FINANCING

## FORMS OF FINANCING

SHORT-TERM

MEDIUM-TERM

LONG-TERM

Suppliers  
credit

Short-term  
loans

Bank  
overdrafts

Term loans

Financial  
leasing

Hire  
purchase

Long-term  
loans

Bonds

Debentures

# **CHAPTER 4: MARKETING FUNCTION**

# MARKETING DEFINITION

Anticipating and satisfying consumer needs by means of mutually beneficial exchange processes and doing so profitably and more effectively than competitors by means of managerial processes. (p 99)

It includes all the activities that make this transfer possible – deciding on the products, the prices, the distribution channel, and how to advertise products.

**The ultimate goal of all marketing activities is to facilitate mutual satisfying exchanges between parties.**

# PRINCIPLES OF THE MARKETING CONCEPT

## Consumer orientation

- Concentrate on the needs and wants of consumers.

## Profitability

- Must not be such a big obsession that it endangers short term survival.

## Social Responsibility

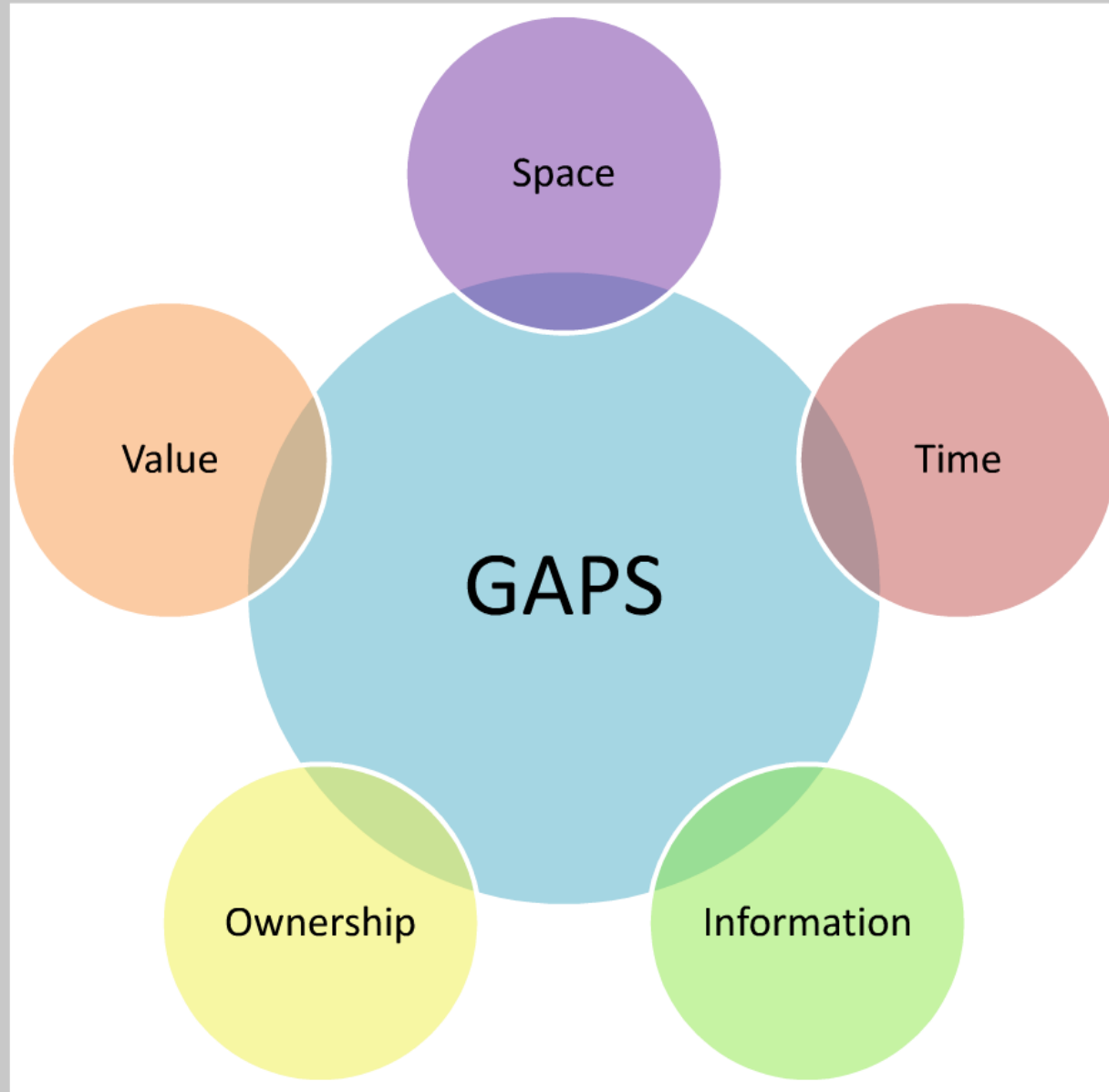
- Complies with legislation and responsibility towards the community.

## Organisational integration

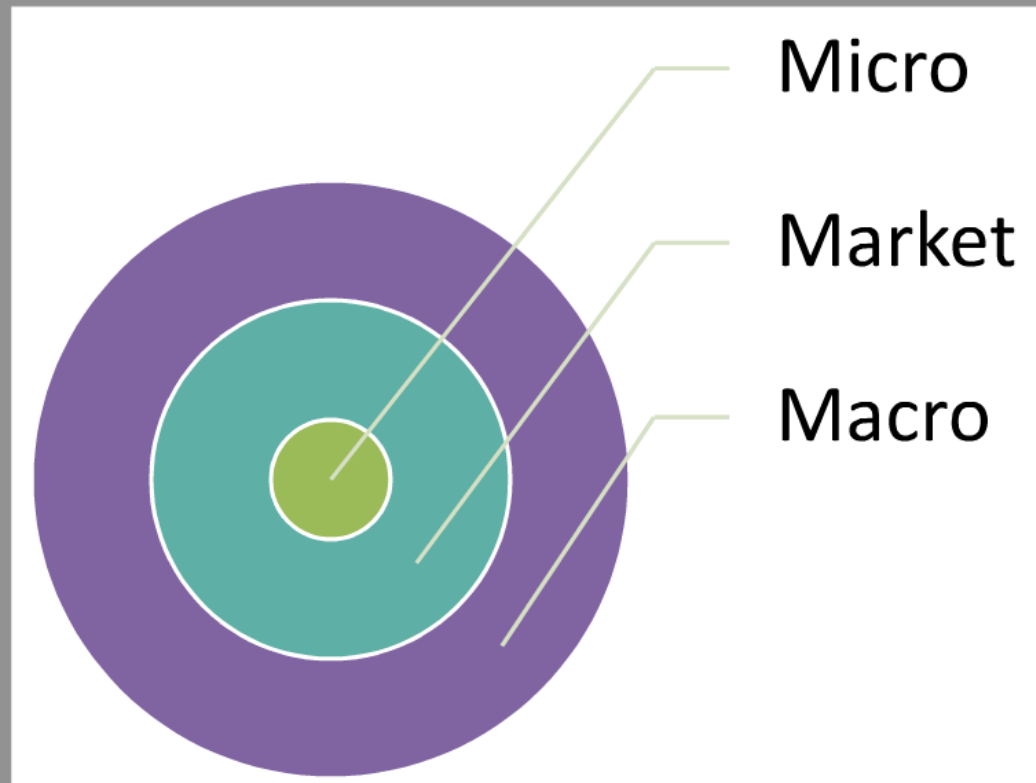
- Co-operation between the functions of the enterprise.



# GAPS BETWEEN PRODUCTION AND CONSUMPTION



## THE MARKETING ENVIRONMENT



# Micro-environment

- Internal variables controlled by management
- Mission & objectives of the enterprise
- The enterprise and its management
- Resources
- Strengths and weaknesses

# Market environment

- Can be influenced or partially controlled by management, forces outside the business.
- Consumers
- Competitors
- Intermediaries
- Suppliers
- Opportunities and threats

# Macro-environment

- External forces that the enterprise has no control over.
- Technological environment
- Economic environment
- Physical environment
- Institutional/political environment
- International environment

## MARKET RESEARCH & MARKET SEGMENTATION

Gathering of information on a certain market group to:

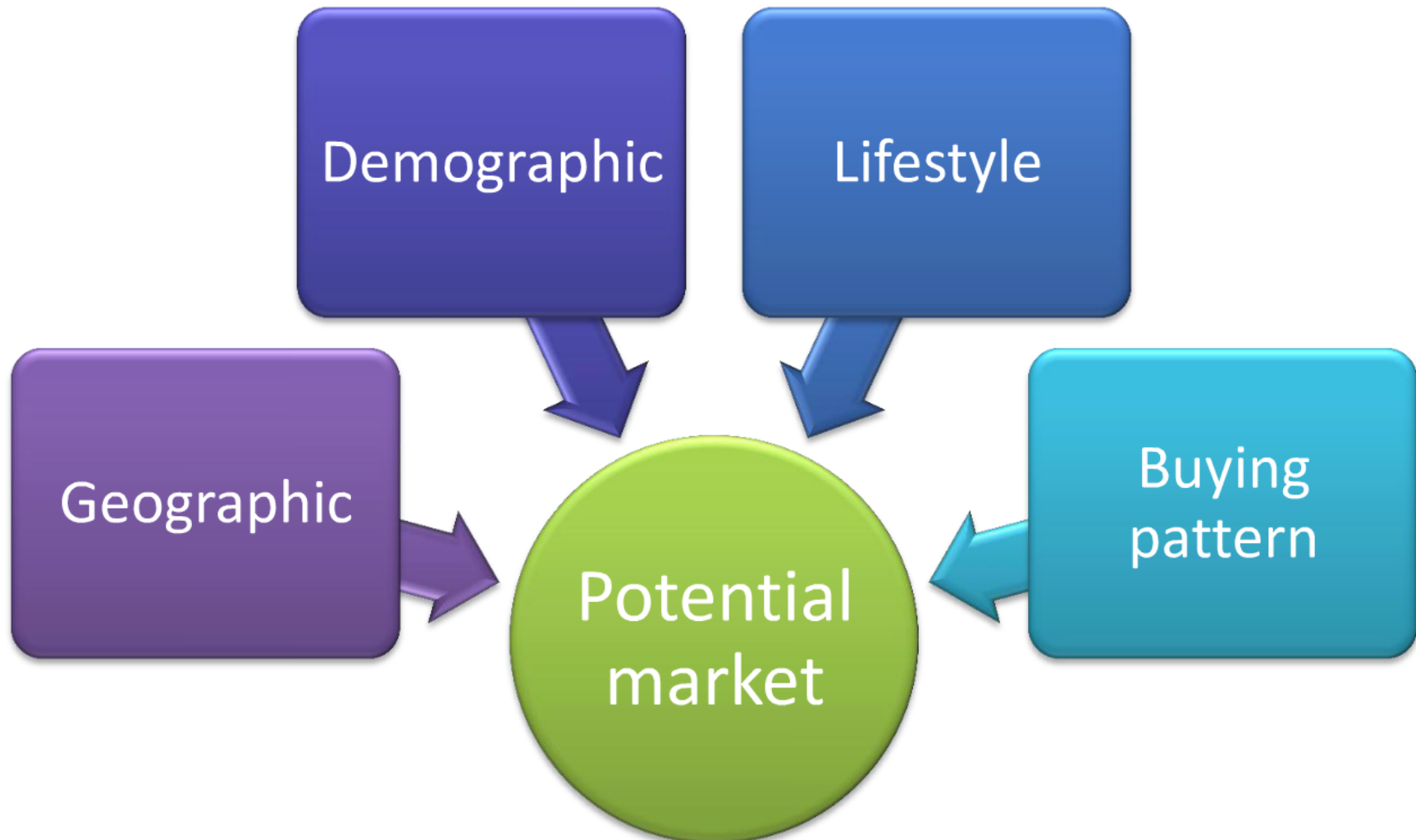
- Understand the market
- Identify needs for products/services
- Know the consumers
- Identify opportunities and threats

The market identification of subsets of buyers within a market who share similar needs and who have similar buying processes.

The total consumer market, which consists of consumers who are all different (heterogeneous), is divided into groups of people who are all similar (homogeneous)



# MARKET SEGMENTATION



# TARGET MARKET

Choose a specific market segment/s at which you will direct your product or service

The people to whom you are going to sell your products

That portion of the total market that you can reach with your products



# MARKETING STRATEGY/MARKETING MIX

## Marketing mix (4 P's)

### Product

Physical product  
Colour & size  
Packaging  
Gaurentees

### Price

Value attached to  
item  
Should cover cost of  
product

### Distribution (Place)

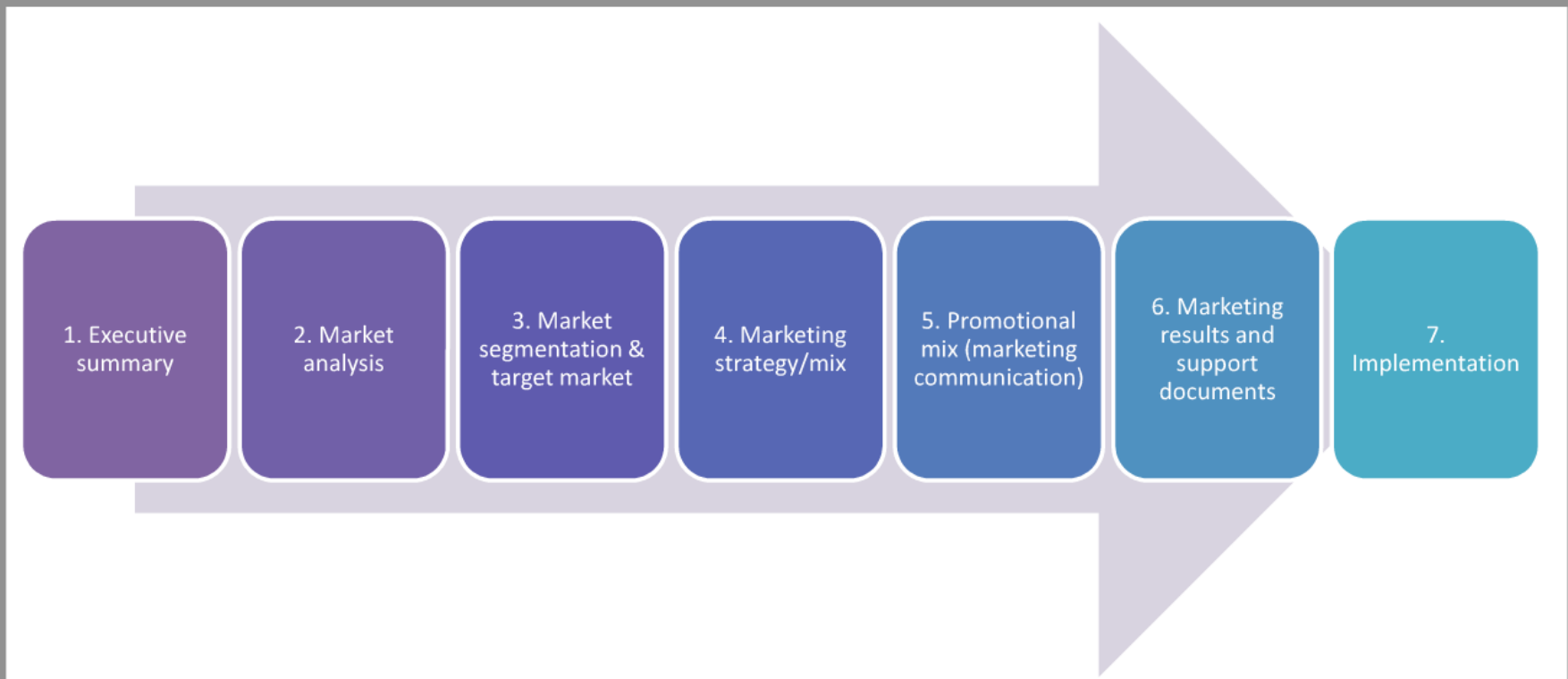
Making product  
available to the  
market

### Marketing communication (Promotion)

Advertising  
Sales promotions  
Personal sales  
Publicity

# MARKETING PLAN

**A detailed plan of how a product/service will be marketed and the time-related details for carrying out the plan**



**END OF CHAPTER 3 AND 4**

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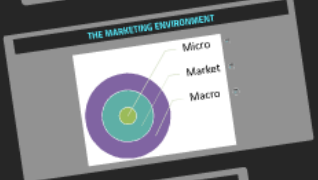
<b>Consumer orientation</b>	<b>Profitability</b>	<b>Social responsibility</b>	<b>Entrepreneurial orientation</b>
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### MARKETING STRATEGY/MARKETING MIX

Marketing mix (4 P's)

Product	Price	Promotion (Planck)	Place (Distribution (Distribution))
Product development	Price setting	Promotion strategy	Place strategy



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