

Customer Accounting Bringing Marketing and Accounting  
Together? – A Case Study of A Large Finnish  
Telecommunication Business

Bachelor's Thesis  
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**Abstract**

In today's highly competitive business environment, companies increasingly use advanced customer accounting (CA) methods as essential tools for strategic management. Both management accounting and marketing scholars share this growing interest in CA techniques. Customer Profitability (CP) is considered a vital component of strategic management accounting, signifying a shift towards a marketing-oriented approach in management accounting. However, a separation exists between management accounting and marketing, limiting their collaboration and interaction (Kohsuke, 2020).

Academic research exploring how firms use customer accounting information in practice is quite limited (Kohsuke, 2020). This study's primary objective is to investigate which customer accounting techniques a specific case company employs, identify potential challenges, and examine the involvement of the marketing and accounting departments in this process.

The qualitative research methodology used here relies on data gathered from interviews with key personnel from a significant Finnish telecommunications company, including the Group Controller, Senior Development Manager, and Customer Value Lead.

The research questions guiding this study are as follows: 1. What different customer accounting techniques the company uses? 2. What have been the challenges according to customer accounting? And 3. How are the marketing and financial departments involved with customer accounting?

While the empirical evidence presented in this article is primarily descriptive in nature, the insights drawn from the case study have practical implications for managers. They can inform future academic research in the field of customer accounting. Based on the empirical data, the case company does employ specific customer accounting techniques, such as Customer Profitability analysis at the segment or individual customer level. However, a significant challenge lies in simplifying the complex customer accounting information while ensuring its accuracy to support strategic decision-making. The interviews revealed limited communication between the financial and marketing departments, potentially leading to duplicated calculations and a lack of shared understanding regarding key customer accounting measurements, such as customer lifetime value (CLV).

**Keywords:** customer accounting, customer profitability, customer lifetime value, marketing,

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# 1. Introduction

Companies increasingly use advanced customer accounting (CA) methods as strategic management tools in today's competitive business environment (Guilding & McManus, 2008). Management accounting and marketing scholars are increasingly interested in customer data accounting techniques. Customer profitability (CP) is seen as an essential tool in the portfolio of strategic management accounting because it has occurred in the process of management accounting becoming marketing-oriented. However, management accounting and marketing are separated, limiting their interactions (Kohsuke, 2020).

Academic research on how firms use customer accounting information in practice is scarce (Kohsuke, 2020). The primary goal of this study is to analyze which customer accounting techniques the case company uses, the possible challenges, and how marketing and accounting departments are involved. This case study uses data from interviews with a group controller, senior development manager, and customer value management lead from a large Finnish telecommunications company. This thesis aims to answer three research questions: 1. What different customer accounting techniques the company uses? 2. What have been the challenges according to customer accounting? And 3. How are the marketing and financial departments involved with customer accounting?

Although the empirical evidence presented in this article is mainly descriptive, the insight from the case study has implications for managers and future academic work in customer accounting. Based on the empirical data, the case company utilizes customer accounting techniques, such as CP, at the segment or customer level. However, a significant challenge lies in simplifying the CA information while maintaining accuracy to support strategic decision-making. Additionally, interviews reveal that information exchange between the financial and marketing departments is scarce, potentially leading to overlapping calculations and a lack of shared understanding of critical CA measurements, such as customer lifetime value (CLV).

The structure of the thesis is as follows: The next section will review relevant accounting and marketing literature concerning customer accounting. The method will be presented in section 3, followed by empirical data and findings in section 4 and discussion in section 5. The thesis

concludes with a summary of the main findings, limitations of the study, and opportunities for future research in section 6.

## **2. Literature of Customer Accounting**

### **2.1. Customer Accounting – Company’s Strategic Tool**

” Customer accounting represents a particular set of practices that can be seen to sit within an accounting subset termed "strategic management accounting." This factor is noteworthy as it appears that the beginnings of an accounting interest in CA, that was noted above, has occurred at a time of a growing appreciation of a need for management accounting to assume more of a strategic orientation” (Guilding & Mcmanus, 2008, p. 773). As stated ahead, management accounting (MA) has taken a turn to a more strategic orientation. One of the most significant developments in MA was the introduction of activity-based costing (ABC). Numerous customer accounting pieces of literature have been written on how ABC can provide CP and product profitability (Gleaves et al., 2008).

Customer accounting can be defined as: "Using customer data for accounting techniques" (Kohsuke, 2020, p. 158) or as: "Focusing on the financial assessment of customers" (Lind & Strömsten, 2006, p. 1257). Another angle is that it encompasses all accounting methods used to assess profits, sales, or the value of earnings associated with a customer or group of customers (Guilding & McManus, 2002).

The importance of identifying the customers who contribute to the firm's profit has been discussed by several scholars. Some customers contribute more to the firm's net income and are more profitable than others (Kaplan & Narayanan, 2001; Reinartz & Kumar, 2003; Pfeifer et al., 2005).

Additionally, in the digital economy, where companies can leverage extensive data, including comprehensive customer information, the importance of customer accounting is heightened. Personalization, facilitated by customer data and advanced technology, empowers businesses to cultivate customer relationships, resulting in more significant revenues from sustained and expanded customer bases than new acquisitions (Rust & Ming-Hui, 2014; Rust & Tuck Siong, 2006). Edeling and Himme (2018), drawing insights from another analysis (Edeling & Fischer,

2016), conclude that customer assets wield a more substantial impact on a firm's financial performance than market share and brand assets.

## **2.2 Customer Accounting Techniques**

In this chapter, the reader is introduced to the fundamentals of customer accounting. A range of customer accounting techniques will be presented and dive into two customer accounting metrics: customer profitability and customer lifetime value. This chapter defines the metrics and goes through their advantages and challenges.

Guilding and McManus (2002) introduced five techniques of customer accounting: (1) customer profitability analysis, (2) customer segment profitability analysis, (3) lifetime customer profitability analysis, (4) valuation of customers as assets, and (5) customer accounting (the holistic notion). However, more recent research (Cadez, 2006; Cadez & Guilding, 2008) has streamlined this into three dimensions:

1. customer profitability analysis;
2. lifetime customer profitability analysis, and
3. valuation of customers as assets.

These three dimensions implicitly encompass the other two, rendering separation unnecessary (Cadez, 2006; Cadez & Guilding, 2008). CP (from technique 1) and CLV (from technique 3) are the most central measurements regarding the case study. Therefore, the following chapters will focus on them.

Pfeifer et al. (2005) stated that there needs to be more clarity surrounding the terms customer profitability (CP) and customer lifetime value (CLV) and that the terms are used interchangeably and loosely. Additionally, Jain and Singh (2002) point out that customer lifetime value is also called customer equity and customer profitability in the literature, causing confusion. They also discuss a problem: Even though multiple CLV models have been developed, there is no consensus on the best calculation method. Gleaves et al. (2008) state that clarity and consistency in the definition of CP and CLV take much work to find.

### **2.2.1 Customer Profitability**

Customer Profitability can be defined as follows: "Customer Profitability (CP) is the difference between the revenues earned from and the costs associated with the customer relationship during a specified period." (Preifer et al., 2005, p. 14). The definition intentionally avoids specific details about cost categories and their allocation to customer relationships. This flexibility allows for multiple interpretations and implementations tailored to individual preferences (Preifer et al., 2005).

The sophistication of customer profitability can vary in practice between the users (Malmi et al., 2004). Full product costing is generally adopted, where the costs are allocated to the customer according to the volume of products purchased. More sophisticated analyses include activity-based costing ABC (Guilding & Mcmanus, 2008). Proponents of ABC analysis claim it makes customer accounting more accurate by allocating overhead costs to specific customers based on activity information (Kaplan & Cooper, 1998; Kaplan & Narayanan, 2001).

When calculating CP, noncustomer-level costs, distinct from customer-level costs, are detached from customer behavior and apportioned to individual customers arbitrarily. Removing noncustomer-level costs from the customer profitability equation is common, although some companies may find value in allocating them for a comprehensive understanding of revenue generation at the corporate level (Niraj et al., 2001; Pfeifer et al., 2005).

Pfeifer et al. (2005) state that the basic idea of caring for customer profitability is to identify the difference in customers: "It is important to distinguish high-profit relationships from low- or negative-profit relationships in order for the firm to react appropriately and improve overall firm profitability" (pp. 4). They visualize their claim with a "whale curve." The whale curve is a graph of cumulative CP in number or percentage versus the cumulative number or percentage of customers, where the customers are sorted in decreasing order of CP. Figure I charts the whale curve for the data in Table 1.

| <b>Customer</b> | <b>Revenues</b> | <b>CP</b> | <b>Cumulative CP</b> |
|-----------------|-----------------|-----------|----------------------|
| B               | \$64,531        | \$37,616  | \$37,616             |
| D               | \$39,521        | \$23,407  | \$61,023             |
| A               | \$71,632        | \$21,662  | \$82,685             |
| C               | \$44,153        | \$15,707  | \$98,392             |
| F               | \$25,627        | \$13,654  | \$112,046            |
| H               | \$14,104        | \$5,699   | \$117,745            |
| E               | \$30,915        | -\$4,209  | \$113,536            |
| G               | \$18,279        | -\$10,874 | \$102,662            |

*Table 1. Revenues and Profits for the Firm's Eight Large Customers (Pfeifer et al., 2005)*

As seen in Table 1, revenues and profits from the customers do not go hand in hand. In Figure I, the Total Operating Profit starts to decrease after customer H even when all the customers bring revenues to the firm. "Figure I illustrates the idea that each dollar of earned revenue does not contribute equally to the firm's reported operating profit. Although customer A is the largest in terms of revenue, customer B is the largest in terms of CP. Understanding these differences in customer profitability can help the firm figure out what to do to improve its profitability." (Pfeifer et al. 2005 pp. 16)



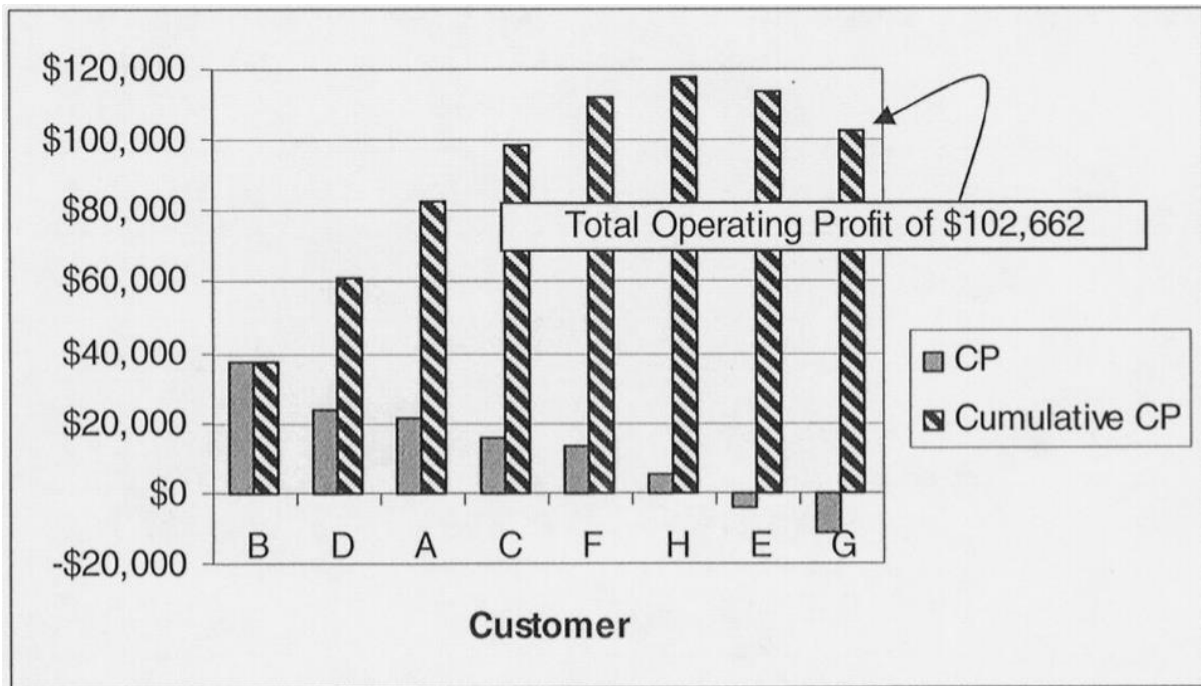


Figure I. The Whale Curve: Cumulative Profit versus Number of Customers (Pfeifer et al., 2005)

It can be challenging to measure CP. Several studies provide insights in connection with customer profitability measurement issues. (Guilding and Mcmanus 2008). Schmittlein, Cooper, and Morrison (1993) and Mulhern (1999) provide significant overviews of issues in measuring customer profitability. Berger and Nasr (1998) discuss structural modeling aspects for building profitability models.

Kohsuke (2020) points out that industries with accessible customer data, such as financial services, direct marketing, subscription-based services, and B2B firms, primarily engage with CP for strategic insights.

### 2.2.2 Valuation of Customers as Assets

Customer valuation analysis treats customers as assets that will yield revenue in the future. The economic value of a specific customer is determined using customer lifetime value (Guilding & McManus, 2002), which can be defined as: “Customer Lifetime Value (CLV) is the present value of the future cash flows attributed to the customer relationship” (Pfeifer et al., 2005, p.

17). Like with the CP definition, the CLV definition leaves it to the user to decide the specificity of what cash flows to include.

The challenge arises in determining which cash inflows and outflows are pertinent to the relationship. For instance, allocating general overhead costs to customer relationships poses complexities (Pfeifer et al., 2005). Pfeifer et al. have an explanation for their choice of the term present value as opposed to net present value: "When applying CLV to an ongoing customer relationship, there may be no initial investment to net against the present value of future cash flow – in which case it makes little sense to talk about net present value." (Pfeifer et al. 2005 pp. 19).

There has been disagreement in the literature regarding the inclusion of acquisition costs in CLV. Berger and Nasr (1998) excluded acquisition costs in CLV. Jane and Singh (2002) addressed this and stated that acquisition costs must be included to get the correct CLV. Pfeifer et al. (2005) state that acquisition spending must be considered to make informed prospecting decisions. They present two ways to do this: "Either do not include acquisition spending in the specification of CLV (and compare the expected value of CLV to  $A/a$ ) or include acquisition spending to the specification of CLV, correctly label it as expected Prospect Lifetime Value (PLV) and compare the expected value of PLV to zero." (Pfeifer et al. 2005 pp. 21). In this  $A$  is planned spending on a prospect to attempt to acquire a new customer, the firm will be successful with probability  $a$ .

The prominence of CLV stems from its status as a forward-looking metric that incorporates revenues, expenses, and customer behavior to predict future profitability (Kumar & Shah, 2004). It is often regarded as superior to customer profitability due to its forward-looking nature (Reinartz & Kumar, 2000). Kumar, Shah, and Venkatesan (2006) demonstrate that CLV has the most positive impact when customers engage in cross-purchases, multi-channel shopping, longer stay periods, specific product category purchases, and frequent transactions.

Kohsuke (2020) showcases the prevalence of using internal transaction data to estimate CLV. Industries with accessible customer data, such as financial services, direct marketing, subscription-based services, and B2B firms, primarily engage with CLV for strategic insights.

## **2.3 The Nexus of Accounting and Marketing in CA**

Management accounting and marketing scholars are increasingly interested in customer data accounting techniques. (Kohsuke, 2020). However, there seems to be separation and limited interaction between management accounting and marketing. (Gleaves et al., 2008; Kohsuke, 2020). For instance, management accounting studies have scarcely integrated marketing concepts like customer journey, acquisition, retention, and customer assets (Kohsuke, 2020).

Marketing and Management Accounting (MA) have traditionally been seen as poles apart in focus and approach (Gleaves et al., 2008). However: “Innovative developments in MA measures and increasing pressure on marketers to “prove” their worth, combined with technological advancements in database management are, however, contributing to a need for more effective synergy.” Gleaves et al. (2008, pp.1). They also emphasize that customer profitability is essential for management accounting and marketing to effectively support decision-making and strategic success. Therefore, it is vital to add a shared understanding of it.

Additionally, Guilding and McManus point out that customer accounting should consist of collaboration between marketing and accounting: “The SMA writings are significant to a consideration of the potential for CA as they highlight a developing awareness of the possibility of accountants assuming more of a strategic posture. This points towards the evolution of an environment that is more conducive to CA inception and development, as CA can be seen as a particular example of SMA. It is also pertinent to recognize that, consistent with CA, SMA provides considerable impetus for greater communication and collaboration between the accounting and marketing functions.” (Guilding and Mcmanus 2008 pp. 773)

Literature on customer accounting exhibits a predominant focus on cost allocation procedures, often referring to activity-based costing. In contrast, marketing literature on customer accounting encompasses a broader spectrum, giving greater attention to less quantifiable aspects of customer-related performance, lifetime customer valuation analysis, and customer accounting measures for decision-making and control. Moreover, marketing literature recognizes and explores a broader array of customer profitability measurement issues (Guilding & McManus, 2008).

A more recent study (Kohsuke, 2020, p. 157): “discusses three accounting weaknesses (the lack of revenue milestone information, revenue sustainability measurements, and intangibles capitalization) and relates them to marketing concepts (customer journey, customer acquisition

and retention, and customer assets).” The study explores how these marketing concepts could complement accounting weaknesses.

Chenhall (2008) draws on the works of Ostroff (1999), Schonberger (1996), and Galbraith (2005) to provide an accounting perspective on the evolving "Horizontal Organization" philosophy in internal organizational structuring. This philosophy shifts away from conventional function-based structures towards team-based multifunctional groups with a customer-oriented focus. If this philosophy gains traction, accountants could work closely with marketing colleagues, potentially leading to customer-oriented accounting procedures beyond the scope of techniques reviewed in this paper.

### **3. Method**

The empirical investigation takes the form of qualitative research. As Tenny et al. (2022) outlined, a notable advantage of qualitative research lies in its ability to analyze patterns of human behavior and illustrate processes that might be challenging to measure quantitatively.

Empirical data was gathered from a large Finnish telecommunications company. The empirical data in this thesis is based on interviews with the group controller, senior development manager in group controlling, and customer value management lead.

Three interviews were held to collect empirical data. The interview with the group controller was executed in person, and the other two were through Teams video meetings. Interviews with the group controller and senior development manager lasted one hour each, with the customer value management lead, about 40 minutes. The interviews were recorded and transcribed.

The interview questions were planned beforehand. However, the conversations were free and expanded over the questions' boundaries. Questions were designed to be open-ended. Openended questions are the main factor of successful qualitative research (Tenny et al., 2022). The first interview with the group controller was made when this thesis mainly aimed to investigate CA practices comparing B2B and B2C businesses. Therefore, the interview questions with the group controller differ from those of the senior development manager and customer value lead. The interviewees were questioned, for example, what CA accounting

values they use, why they follow these metrics, how they affect decision-making, how they are calculated, and who is responsible for processing the information. The interviewees were also questioned if they cooperated or shared information. The aim was to understand the company's CA practices and how CA information is used in the business. A complete list of the interview questions is in Appendix A.

## **4. Empirical Study**

This chapter goes through the three interviews and opens findings with comparisons to customer accounting literature. When analyzing the empirical data through these interviews with three company employees, this thesis tries to understand how the company uses customer accounting and how the CA information is shared between the controlling and marketing departments.

The interviews were conducted anonymously. Therefore, the case company is referred to as Company X.

### **4.1 Target Company X**

Company X is a telecommunication enterprise in a very competitive market. The company provides products and services such as telephone connection, broadband, tv-services & entertainment, and devices. X's customers are very heterogeneous.

### **4.2 CA Practices in Company X**

According to the group controller, half of Finland's households have subscriptions from X, amounting to 5 million subscriptions and at least 2.5 million individuals. "Therefore, it does not make sense to track individual customers even when we have the data," states the group controller. Instead, X tracks B2C customers' invoicing and CP by segmenting customers into different segments. Segmenting is ad hoc, depending on the situation. Customers can be segmented, for example, by age and geographics. In the B2B business, X tracks CP and invoicing on a customer level with more significant customers. Small B2B customers are segmented similarly to B2C customers. Customer segment profitability analysis aligns with the

techniques presented in the literature review (Guilding & McManus, 2002). The different levels of CA in the company are presented below in Table 2:

| CA practices in<br>Company X | Customer<br>Profitability | Customer<br>Segment Profitability | Customer<br>Invoicing |
|------------------------------|---------------------------|-----------------------------------|-----------------------|
| All B2C Customer             |                           | x                                 | x                     |
| Small B2B customers          |                           | x                                 | x                     |
| Big B2B customers            | x                         | x                                 | x                     |

Table 2. CA Practices in Company X (2023)

X calculates CP with activity cost-based ABC. The cost figures for the customer data set in the profitability calculations are average costs at the product level. As a result, cost is solely driven by the customer's choice of product portfolio.

According to the group controller, they are still learning to make the most of the information. Because costs are driven by the customer's product portfolio, there is a fair amount of uncertainty for the individual client. For example, they cannot identify an individual customer who calls customer service daily and overloads customer service. If the customer calls about mobile broadband, the cost is allocated to the mobile broadband product, and the average cost of the product is allocated to all mobile broadband customers.

*“Management accounting is more of an art compared to external accounting, in which there are clear rules on how it should go.”*

*(The Senior Development Manager)*

When allocating costs to products, understanding how CP can be used in decision-making must be understood. As the group controller stated, they cannot identify individual customers (or even customer segments) who bring lots of costs, for example, customer service. They can only see which products cause many contacts to customer service and, therefore, cause costs. The controller states that they have a big challenge in providing CA information in a way that is

easy to understand. Because many costs are calculated as average and not direct costs in CP, it can be hard to understand the information and base decisions on it. While data is valuable, they need to understand its limitations and consider the bigger picture when making decisions based on it.

*“This is sometimes a problem to understand: “What number is this? This looks very unprofitable; we cannot sell this”. Well, yes, you can. Moreover, it even improves the profit of the house!”*

*(The Group Controller)*

However, contact reason tracing is done and used to allocate the costs to the products. Therefore, there may be a possibility to trace the contact cost to the specific customer making the call. Senior management lead opens more allocation challenges. For example, if they would allocate the customer service costs based on the duration of the call, the problem would arise when trying to identify the customer who is calling. According to the senior development manager, the company has 4 or 5 telephone information systems that do not link to customer accounts.

*“--- this is perhaps a big challenge in this kind of customer profitability; how do you do it throughout the company's value chain? There are usually always the backgrounds of different systems. So how?”*

*(The Senior Development Manager)*

The senior development manager highlighted a need for a unified customer identification method across these systems. To achieve this, the company is developing a master data system. This master data system likely acts as a central repository that consolidates customer information from different systems and assigns a unique identifier to each customer. The company appears committed to enhancing its customer data management and integration capabilities by implementing a master data system with unique customer identifiers.

According to the group controller, there have been experiments in calculating customer lifetime value. However, they have yet to find a systematically working solution in practice. One of the challenges is that the future should be able to predict. It is possible to make predictions from data from history, but this consists of significant uncertainties. However, they state that it would be essential to get CLV to work in the future in the company.

The company uses CA information for pricing, sales management, reduction management, and marketing planning. There are plans to utilize CP in reduction management even more.

### **4.3 The Roles of Marketing and Accounting in CA**

*“This is kind of a new thing, that we have started to follow the business side of the customer value and its development, and the work is still in progress. We are looking for the best figures we can follow --- In company X, business figures have been followed in different business areas, but not the customer level figures we currently follow.”*

*(The Customer Value Management Lead)*

The company started a new customer value management team two years ago, which operates as a part of the marketing department. The team tracks customer value, cross-selling, retention, and the size of the customer base of B2C customers. Customer value is tracked using customers' average invoicing. To measure cross-selling, the company uses the “share of wallet” metric, where they track how many “product baskets” customer has products from. There are four baskets. Therefore, 4 is the best rate a customer can get.

The customer value management lead says they have data and facts about the benefits of crossselling. The more the customer has products from different baskets, the higher the customer value naturally, but the lower the reduction. Customers with products from different baskets are also more satisfied with the company. However, there are some challenges with the share of wallet metric.



The Customer Value lead highlights several challenges related to the metric. This metric, which evaluates the effectiveness of encouraging customers to purchase multiple products, has faced ongoing difficulties. One of the primary challenges highlighted is the metric's sensitivity to changes in various aspects of the business, such as pricing adjustments or alterations to the product offerings. When these changes occur, it can lead to customers wanting to terminate their existing product subscriptions or packages. This sensitivity means that even if the company successfully cross-sells customers from one product basket to another, these external changes can negate the benefits gained.

*“So, it is susceptible to the change and the fact that no matter how well we cross-sell and get customers to move from product basket one to product basket two --- it eats the benefit. What has been done now --- for two years is perhaps a little question mark that we continue with it or do we go to look for something else.”*

*(The Customer Value Lead)*

Additionally, the share of the wallet does not recognize if selling is happening inside a basket. So even when customer value is rising, the value stays the same. According to the Customer Value Lead, the company sells multiple products and tracks them in only four baskets. One basket is, for example, product A, and all the products related to product A are in the basket. If the customer has products A and B and then purchases product C (B and C related to A), the customer still gets a rate of 1, so there can be sales and customer value growth within the basket. However, there is only a single product code, and the share of wallet takes only that into account.

Now, the share of the wallet is used as an indicator. If the value has increased, the team will determine why. Moreover, if the value has decreased, they will find out if they have been unable to do enough cross-selling to the customers or if the change is a result of an external element, for example, a price change in a product.

#### **4.3.1 Marketing and Accounting Cooperation**

The senior development manager describes that the accounting and marketing teams look at the business from different perspectives. According to them, from financial management, the

matter is looked at from an organizational perspective and different responsibility areas. For example, when a particular business unit has a question about why its profitability has fallen, the team starts to look at the business unit in question and the products related to that business. They do not usually use CA information in their financial analyses. The senior development manager states that the marketing team has a different perspective. There, the business is reviewed, focusing on the customer information, and the team has also started to use customer profitability in their work.

It seems that the controlling team does not experience CA information as beneficial to them as to the marketing team. The senior development manager and customer value lead state that the teams do not cooperate or share information or that the information change is minimal. Even though the senior development manager states that the marketing team uses the CA information the most, the customer value lead mostly follows only invoicing. Therefore, it seems that there is no explicit knowledge of which team is the expert of CA.

Lack of communication can also be perceived when the senior development manager mentions that the customer value team has started using customer profitability information in their operations. Later, the customer Value Lead cleared that they do not use CP. Because the teams do not share information, some calculations and analyses are probably done multiple times.

*“Let us say that companies probably do those analyses overlapping intermittently, and I would say that sometimes it can be a little pointless.”*

*(The Senior Development Manager)*

Even if the CP is not used in the Customer Value team, tracking the customer provides unique information. It gives a new perspective and incentive for decision-making than, for example, product profitability does. Business units compete for customers and possibly make decisions at another business unit's expense. As a result, the customer value could even decrease and, in the end, negatively affect the company's profits. This issue can be recognized by focusing on customer profitability or value.

Additionally, lack of communication has caused a differentiation in how some of the CA terms are understood in the company:

*“For example, if you were to calculate customer lifetime value correctly in theory, the cost of a sale should be incurred to the customer at the beginning and only once. Moreover, unlike how we currently allocate costs to products, all customers continuously bear the cost of sales. In theory, if the customer lifetime value exceeds the customer acquisition cost, everything will be fine. In practice, it is terribly difficult to solve. “*

*The Group Controller*

*“If you talk about customer lifetime value, one imagines that it is the value which the customer has brought in euros during the customer's lifetime. How we calculate it in practice is how much that customer brings revenue over the next year. However, then again, a third person understands it as being how much the customer will bring revenue over their lifetime from today onwards. That is one reason why it has caused problems. If it has not been thoroughly discussed, it has remained only as a term in various materials.”*

*The Customer Value Lead*

Interviewees describe CLV differently, and there is a lack of understanding of the term and how it is used in the company. According to the senior development manager and the customer value management lead, the data is refined by the data analytics department. If the teams have tried to calculate CLV, the cooperation has been done with the data analytics department, but the information does not travel between the marketing and accounting teams.

*" I think everyone on their own has been doing those experiments. Someone has asked for it, and someone has given it. Then the next time you ask a different data scientist, it may be calculated a little differently."*

*(The Customer Value Lead)*

Customer Value Lead says there needs to be more communication between their team and the financial department. The team is very young, and the processes are still developing. Therefore, they believe that in the future, there will be more collaboration in developing customer measurements and how they will manage customer value and customer profitability. They also see that the financial department would better understand what the Customer Value team does

with more work together. Therefore, they would be more able to give new perspectives or ideas on measuring the client. There are plans for the marketing and financial department teams' cooperation to utilize CP for retention management. The customer Value Lead sees this as a good start and believes it gains more understanding of customer profitability in the marketing department.

## **5. Discussion**

This section will focus on analyzing the empirical findings of the study. The research questions of this study serve as the foundation for the discussion and analysis. The analysis will be based on the information from the literature review and the interviews conducted.

### **5.2 Limitations on utilizing CA information**

One recurring theme that tied all the interviews together was the challenges of producing accurate and understandable CA information. Because costs were driven by the customer's choice of portfolio, customer profitability was not usable for all situations. For example, in the literary review introduced, the whale curve (Pfeifer et al., 2005) would not be accurate or bring the correct information about the most and least profitable customers. Hypothetically, a specific customer segment makes 90% of the calls to customer service about product *A*. In that case, the segment does not carry the costs of their calls alone and cannot be identified. Earlier case studies where the customer profitability is calculated using average costs at the product level are from the financial industry (Kohsuke, 2020).

The company operates with multiple systems that handle various aspects of its business operations. Customer data is collected from about 10 MCR systems and some other company's own systems. The customer contract is created in MCR, and the customer's products and services are linked to the contract. Therefore, the systems are designed primarily around the subscriptions/products, not the customers. Additionally, management accounting systems are commonly designed according to product, service, or geographical territory rather than according to customers (Guilding & McManus, 2008). The company is seeking a solution and

developing new ways to handle data to identify customers more sufficiently. Based on the interviews, it seems that in CP and CLV, the biggest problem is getting the data from multiple systems and maintaining accurate and understandable information to support decision-making.

### **5.3 Information sharing between accounting and marketing**

Based on the interviews, the controlling team looks at profitability commonly from a business unit or product perspective, where CA can be a complementary tool occasionally. The customer value team looks at the business from the customer's perspective. The controlling team does different segmentations to customers with different parameters, but the customer profitability or value differs from what they usually look at. Focus is more on the product- or business unit profitability. Customer profitability is more of an ad-hoc analysis for specific situations.

There seems to be a small amount of information change between the teams, and the teams do not know precisely what the other team is doing and how they are using CA information. Therefore, some calculations might be done multiple times. A lack of communication can be seen when the senior development manager mentions that the customer value team has started using customer profitability information in their operations. Later, the customer value Lead cleared that they do not use CP. This reminds of the earlier observations by Kohsuke (2020), Gleaves et al. (2008), and Guilding & McManus (2008) regarding the detachment of marketing and accounting, even when customer accounting is essential to both.

Additionally, there seems to be a lack of common understanding of customer accounting terms in the company. Some of the CLV descriptions used do not fulfill the definition of CLV, which is the present value of the future cash flows attributed to the customer relationship (Pfeifer et al., 2005). Additionally, Pfeifer et al. (2005) and Jain & Smith's (2002) discoveries of confusion and incorrect use of customer accounting terminology such as CLV can still be detected today.

## **6. Conclusions**

This section of the thesis will gather the main findings and answers to the research questions, the study's limitations, and suggestions for further research.

### **6.1 Main Findings**

The purpose of this thesis was to explore the use of CA information in a firm and answer the three research questions:

1. What different customer accounting techniques does the company use?

The company used CP and CV to understand its customers' financial impact. The sophistication varied, analyzing customer profitability in groups or looking at individual customers in extensive B2B customer relationships. X calculates CP with activity cost-based ABC. The cost figures for the customer data set in the profitability calculations are average costs at the product level. As a result, cost is solely driven by the customer's choice of product portfolio. CV was measured with a share of wallet metric, which was challenging due to its sensitivity.

Customer data is collected from about 10 MCR systems and some other company's own systems. The customer contract is created in MCR, and the customer's products and services are linked to the contract. Therefore, the systems are designed primarily around the subscriptions/products, not the customers. Additionally, X was focused on utilizing CLV in the future.

2. What have been the challenges according to customer accounting?

Because costs were driven by the customer's choice of portfolio, customer profitability was not usable for all situations. Based on the interviews, it seems that in CP and CLV, the biggest problem is getting the data from multiple systems and maintaining accurate and understandable information to support decision-making. With CV, there was a significant challenge to

A significant challenge they faced was finding a way to provide meaningful CA information that's both easy to grasp and accurate enough for making strategic decisions. Providing simple CA information was challenging because the systems were designed primarily around subscriptions and products rather than the customers.

### 3. How are the marketing and financial departments involved with customer accounting?

There was no regular cooperation between the marketing and accounting teams. Additionally, the interviewees did not know how the other team used CA information. The interviews conducted as part of the study highlighted a need for more communication between the financial and marketing departments within the company. This lack of communication led to some people doing similar calculations in different teams. Additionally, the company had different understandings of the definitions of customer accounting measures, such as customer lifetime value.

As a result, a shared understanding of customer accounting measurements seems deficient across teams, underscoring the urgency for a cohesive cross-departmental alignment to ensure precise and consistent customer accounting practices.

## **6.2 Limitations and Future Research**

Several constraints affect the interpretation of these findings, but these limitations also offer promising opportunities for future investigation. Initially, the study draws on data solely from a single telecommunications company, which prompts the potential for future research to explore customer accounting practices within diverse organizational contexts.

Secondly, the analysis is confined to a brief time frame. Subsequent research endeavors could delve into the evolution of customer accounting practices within companies across extended temporal horizons.

Lastly, the insights derived from interviews are notably constrained in scope. To address this, future research can supplement our findings by conducting comprehensive qualitative inquiries into customer accounting practices within various corporate settings.



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## **Tables**

Table 1. Revenues and Profits for the Firm's Eight Large Customers (Pfeifer et al., 2005)

Table 2. CA Practices in Company X (2023)

## **Figures**

Figure I. The Whale Curve: Cumulative Profit versus Number of Customers (Pfeifer et al., 2005).

## **Appendixes**

## **Appendix A**

### Research questions for the Group controller

1. What different customer accounting techniques do you use?
2. Have you tried something in CA but failed?
3. Do you segment the customers, or do you track customers individually?
4. How do you decide to segment customers?
5. How do you allocate costs?
6. How do you use CA information in decision-making?
7. Is there something you would like to improve in CA in your company?

### Research Questions for the Senior Development Manager and Customer Value Lead

1. What different customer accounting techniques do you use?
2. Have you tried something in CA but failed?
3. Do you segment the customers, or do you track customers individually?
4. How do you decide to segment customers?
5. How do you allocate costs?
6. How do you use CA information in decision-making?
7. What is something you would like to improve in CA in your company?
8. Where does the customer data come from?
9. Who processes the information?
10. Who has the responsibility for CA information?
11. Does the marketing and financial department share information with each other?
12. Do you collaborate between the marketing and financial departments to gain CA insight?