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The Importance of Marketing Strategy for Creating and Maintaining Goodwill for Construction Companies

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ABSTRACT

If a company wants to have a long-term presence on the market, it must have a long-term marketing strategy. It should respect the expected technical, technological and socio-economic development. All these factors are clearly manifested in the construction industry. Construction activities are specific in that their products are for long-term use and financially demanding for the investor. The underestimation of trends, technological changes and investor requirements leads to loss of clients and a significant deterioration in the economic situation. Creating a marketing strategy to keep it on the market can prevent these problems. In construction it means estimating trends and shaping a marketing strategy. This activity is very demanding and costly. It leads to the creation of Goodwill and its focus and is an integral part of the company's assets. If is the marketing strategy insufficient or wrong, it will result in the loss of Goodwill and therefore clients in the market. Construction companies needs to build Goodwill and record it as part of the company’s property. Goodwill is also part of internal accounting. This is where the cost of marketing will take place, not only in terms of costs. There is a need for companies to deliberately choose the methods through which they will express the value of Goodwill.

1. Introduction

It is generally considered to be proven that long-term marketing companies have a long-term marketing strategy. These findings can be easily proven from the annual reports of large companies. Their long-term marketing strategy also includes the reaction and utilization of trends in the field of technical and technological development and especially of socio-economic development. The annual reports of these companies contain information that can be used to compare year-on-year marketing strategies and assess whether these are long-term strategies. Of course, this concerns large companies that process annual reports. According to Czech legislation, annual reports are part of the mandatory disclosure of the results of operations. When comparing the output data from the annual reports it is possible to trace not only the marketing strategy but also the success of its implementation. More clearly, the marketing strategy can be traced to business entities operating in a predominantly one field of business. Companies doing business in the construction sector are proof of this.

For global players, marketing strategy is recognizable without information contained in annual reports. Long-year customer and supplier meet this strategy in the marketing of the construction company. For these companies, it is mostly an offensive strategy on a saturated market, and most of the market is distributed. For large buildings firms, the marketing strategy is part of the company’s strategy, which through its set goals realizes its vision. Marketing is then tense and is aimed at influencing both suppliers and buyers. Large construction companies such as SKANSKA, a.s., OHL-ŽS, a.s., STRABAG, a.s., METROSTAV, a.s. spending considerable resources on targeted marketing that is developing dynamically over time. The marketing strategy is a comprehensive way of meeting an organization to guide customers, including focusing on specific customer segments. Choice of marketing tools, marketing mix, and marketing communication. (Zelenka 2007) The marketing strategy specifies the marketing objectives and activities of the company’s overall strategy. Because each organization is to a large extent unique to its mission, vision and goals, and in addition it operates in very specific socio-economic conditions, it should have its own marketing strategy. This implies that there are innumerable marketing strategies that should be appropriately modified on the basic of marketing research and analysis (Foret 2008,). The basic marketing strategies that appear in the literature include the minimal strategy of strategy, product differentiation strategy, and market orientation strategy. The minimal cost strategy is based on the fact that the organization strives for the smallest production and distribution costs and is therefore able to offer its products at lower prices than its competitors. This strategy assumes a manufacturing business concept. The organization must use high quality technology and should achieve the best possible results in purchasing, manufacturing and distribution. The minimal cost strategy is particularly suited to large, capital-intensive organizations, but its use also occurs in the marketing of far smaller organizations and businesses. Another basic marketing strategy is the product differentiation strategy where the organization focuses on creating the best product, not necessarily implying an effort to produce the highest quality or the most powerful product, but it can be the benefits offered in the so-called extended product. Product differentiation strategies are typically applied by medium and small organizations with limited financial resources. A market orientation strategy is a strategy where an organization focuses on one or more smaller market segments. Often, they can only be small, specific niche markets, called niches, to which the organization focuses the most. Therefore, the organization does not seek to dominate the entire market or its larger part, but to dominate precisely that particular gap (Foret 2008). Marketing planning is a systematic and rational enforcement of market and business tasks derived from basic business and marketing goals. (Zamazalová et al. 2010) The basis for marketing planning is the results of marketing analysis, forecasting, analysis of the effectiveness of individual marketing tools and the entire marketing mix (Kincl et al. 2004). Output of the marketing planning process is a marketing plan, comprised of marketing programs for each company portfolio. Marketing planning is a continuous process due to ongoing changes in the organization's marketing environment, so the marketing plan should be able to react flexibly to these changes (Janečková, Vaštíková 2000). Local construction companies, mostly small construction companies, seldom shape their strategy. For example, Kalab, s.r.o., Štěpánek, s.r.o., PS BRNO, s.r.o. Falton, s.r.o. marketing strategy is missing and marketing activity is limited to selected customers or sales support in a particular segment of buildings. Unlike large corporations, this is a non-systemic activity where the effects of marketing and marketing campaigns are virtually underestimated, and if so, revenue growth is seen as a measure of success. In the wider management context, both large companies and small firms lack the link with economic effects. These effects are influenced by suppliers, the result of which is to weaken their position, whether in the form of lower prices, the length of invoices due, the absence of advance payments or the like.

For customers, the credibility of the company grows, and there is also a weakening of the buyer's power in parallel, which makes it possible to increase the volume of orders, demanding backups or higher cost of the contract. The above effects form the good name of a company, ie Goodwill whose existence is definitely part of the company's characteristics, even economic ones. However, the Goodwill phenomenon is a problem in the theoretical area with its very definition. There are a number of different definitions, some of which do not create the possibility for goodwill to be understood as part of the company's assets. There is no synergy between the costs incurred to implement the marketing strategy and the creation of Goodwill. Which means that a large or small company is not, especially according to legislation enforced in the Czech Republic, motivated to create goodwill. In Czech, the possibility of capturing the existence of Goodwill as part of the Company's property is limited only to the case when the company was purchased and the book value of the company sold differed from the selling price. This narrowed option means practically the fact that a small firm never expresses goodwill either. The principle of capturing Goodwill in the statutory accounting records also does not contribute to its maintenance and creation. For goodwill created only by legislation authorized access is depreciated. Thus, the created difference is reset for a number of years and goodwill disappears. This leads to a situation where a company creates a goodwill based on a marketing strategy, but can not treat it as its asset, at least not in the mandatory financial statements. The established situation in the Czech Republic does not create the necessary coherence between strategy, economic processes and mandatory reporting. There are no conditions created for applying existing synergy effects.

2. Hypothesis

2.1 Hypothesis 1

The marketing strategy must be an integral part of the management of the construction company, both strategic and tactical. Strategic management is carried out by creating and implementing strategies that influence the development of an economic organism. Efficiency strategies occupy a decisive role in strategic management because its goal is to obtain a comparative effect. This has a complex form according to the accents and the representation of the various partial effects for which the outcome of a change is considered. The strategy of mass effect and effect measure is distinguished. The bulk of the effect is the more important role. By combining the mass and the degree of effect, four combinations are created. Of which the first measure of effect is big and the mass effect also applies to an economic entity that has a good market position due to goodwill and a high image of its outputs. The second combination requires the use of dumped prices where the effect level is small and the mass of the effect large. For the third combination, the effect level is large and the effect mass is small. It is suitable only for piece or small series production. The fourth is characterized by a small measure and a mass of effect and is the least advantageous. Its application is more typical for business but its application in the longer horizon leads to bankruptcy. (J. Veber et al. 2000) Realizing a marketing strategy is difficult because doing things right (implementing a marketing strategy) is usually more important than doing the right thing to invent a strategy. The necessary control can be done by exploring and evaluating goodwill. An analysis of the annual reports shows that large construction companies (SKANSKA, a.s., OHL-ŽS, a.s., STRABAG, a.s., METROSTAV a.s.) describe their strategy and, in some cases, marketing objectives in their annual reports. That is, basically the expected outcome of a marketing strategy. Small business firms (eg Kaláb, s.r.o., Štěpánek, s.r.o., PS BRNO, s.r.o. Falton, s.r.o. and others) do not have the strategy, which is confirmed by the 7S (KINSEY) analysis. The results of these analyzes are considered confidential and do not wish to be published. Yet they are aware and mostly intuitive and, to a very limited extent, are mostly targeted at a particular customer segment.

The marketing strategy should otherwise be applied in a very specific and competitive market for construction production. The source of information is the author's own research.

2.2 Hypothesis 2

Despite the unequivocal expression, goodwill is part of the company's intangible assets and brings positive economic effects. The notion of goodwill is not new, it has appeared in the 16th century. as a good will. It valued the capitalization of future income from intangible assets (Kulil 2014). Already in the 19th century, the phenomenon of goodwill evoked extensive discussions especially among the professional public. A legal, economic and accounting problem can be considered as a concept. The legal direction emerged first, since the references to goodwill appear in legal disputes, in the other direction the economic direction, which later changed to the economic accountant (Zelenka 2006). The diversity of approaches has deepened in the 20th and 21st centuries, as evidenced by a number of different definitions. For example, the Merriam-Webster Dictionary provides three different definitions concepts of goodwill:

1. "In the attitude of friendless or kindness: BENEVOLENCE
2. Cheerful acquiescence or willingness.
3. A good relationship, as a business with its customers or country with other counties". (Merriam-Webster dictionary 1997).

Within the economic concept of goodwill, there are a number of different concepts and definitions of each other. For example, J. M. Yang, in his book Goodwill and Other Intangibles of 1927, it defines goodwill as follows:

- "Goodwill represents the present value or capitalized value of the estimated future profits of an established enterprise above the level of normal results that could reasonably be assumed to be realized by a similar newly created enterprise." (Zelemka 2006)
- H.C.Mueller states that goodwill or brand capital is routinely solved by business and marketing analysts to measure asset value, especially company or brand name, and consequently among accountants and business analysts, but is scarcely used by the economist. (quotation of WEB https "
- HPHughes in the historical accounting encyclopedia characterizes goodwill as: The difference in one company's ability to generate a profit compared to another or an average firm (HPHughes 1982) and also states that the name is derived from the originally good feeling or some goodwill of the entrepreneur customer. It defines its basic characteristics as immateriality, belonging to a business entity, independence of acquisition costs, differential and monopolistic advantage, instability of value, or technical uselessness (H.P.Hughes 1982).
- Kulil V. clearly explains: According to established international customs, however, this is a good name for a business that brings about improved economic results, primarily due to good business policy, and is the result of customer relations, advertising and advertising (Kulil 2014).

The authors lean toward Kulil's concept and continue to follow. The accounting concept or the expression of goodwill should be divided into two areas. The first is to express internal accounting that is not governed by external laws or regulations and is conducted by the firm so that the economic reality and specifics of the company are captured as close as possible to its real economic image. The second area provides double-entry financial accounting. Definition of goodwill states as follows:

- In accounting goodwill is intangible long-term asset that is not included in the business accounts and arises when a company acquires another entire business.
- Goodwill is recorded when a company purchases another company and the purchase price is greater than the combination of the fair value of the identifiable tangible and intangible assets acquired, and the liabilities that were assumed.
- Goodwill is reported on the balance sheet as a noncurrent asset and the amount is subject to impairment test at least once per year.

2.3 Recognition of Goodwill

Goodwill can be viewed as intangible asset only if it is acquired in a business combination. Goodwill cannot be capitalized because it is not identifiable therefore intangibles that are not identifiable are recognized as part of goodwill (SFAS 142.s.39, 2007): 'Acquired identifiable assets in a business combination are valued at their fair values2. The remaining value after the identification of all tangible and intangible assets is than assigned to goodwill. '3 Sets goodwill as the difference between the cost of the acquisition over net fair value of the identifiable assets, liabilities and contingent liabilities. In short words goodwill represents future economic benefits from assets that do not meet the criteria for recognition. Recognition is important. After the recognition goodwill should be tested for impairment annually. On acquisition day, goodwill has to be valued to cash-generating units IFRS (IFRS 3. 2007). The biggest change in IFRS is in the negative goodwill, newly named as discount on acquisition: "It occurs when the acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition. Discount on acquisition according to the new standard is now immediately recognized in the income statement for the period (IFRS 3. , 2007, p.56). This also represents a significant change as amended in the new.

3. US GAAP

According the US GAAP goodwill is recorded as the excess of the cost of an acquisition price over the fair value of acquired net assets. In short words goodwill is recorded only when the carrying amount of goodwill exceeds its implied fair value (SFAS 141. 2007). According the Research paper Accounting Treatment of Goodwill in IFRS and US GAAP (JERMAN, MANZIN 2018): "To test goodwill for impairment, companies must first assign purchased goodwill to reporting units. Companies assign goodwill to reporting units by comparing the estimated fair value of the reporting unit with the fair values of the unit's identifiable net assets. Two-step impairment shall be used to identify potential goodwill impairment and measure the amount of the impairment loss to be recognized (if any). These are following:

1. Estimating the fair value of the companies reporting unit comparing with its carrying amount
2. Comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. According to (SFAS 142. 2007)

3.1 Czech Republic

The issue of goodwill is solved by the Czech Accounting Standard for entrepreneurs No. 011, part of the operation with the company and according to Act 563/1992 Coll., Section 24, Par. (b) adjustments may be made for individual asset items as set out in the Act on Accounting in Section 25 or apply the method according to Decree 500/2002 Coll. Section 61a (1); ie the difference between the purchase price and the net book value is recorded and recognized as intangible fixed assets - goodwill taking into account §6 para. 1 and para. d Decree 500/2002 Coll. The National Accounting Board has already responded to the case of different book values and tax bases in the case of an asset that was not acquired by transfer or transfer and by the issuance of Interpretation I-1 Transitional differences in the initial valuation of assets. The need for this interpretation was triggered in 2005 by a special provision of the Czech Income Tax Act which limited the tax deductibility of the purchase price of a passenger car to CZK 900,000 and a year later to CZK 1,500,000. Because the car is massively used for tangible fixed assets, the professional public has greatly welcomed this interpretation. The Interpretation states that the acquisition assets whose initial carrying amount differs from the input tax base cause a temporary difference. The impact of such a temporary difference in the form of deferred tax should be recognized in accordance with the nature of the transaction, i.e. as part of the cost of the purchase asset. Include deferred tax in the purchase price. From different definitions, respectively. expression of Goodwill, the authors consider his economic expression in V.Kulil's concept as objective because the legal concept and the concept of the accounting system is a subsystem in terms of system concept. These subsystems of economic conception are determined and fully subject to the discipline in which this term is used. For the needs of the company, the legal concept is specific, implies and is influenced by both national and international legislation. Accounting concepts in the form of internal accounting correspond to the specifics and needs of the firm but are not available to external entities. Financial accounting is strictly determined by its management methodology. Accordingly, either according to IFRS, UGAAP, or according to Czech national accounting legislation and derives goodwill, its inclusion and accounting for it. The general consensus between economic, legal and accounting interpretations Goodwill sees that it is part of the company's intangible asset that brings it to economic effects and should be captured at least in intercompany accounting.

3.2 Hypothesis 3

There is synergy between Goodwill, marketing strategy and business process management. For a typical building construction company that is always custom-built. The process of managing business processes in a construction company begins with market mapping and the ability to get a job. After the engagement is announced, the firm evaluates its potential and considers participation in the tender. In the case of a decision to participate in the tender, it creates a preliminary project which would satisfy the conditions of the contract as much as possible. In the event of a positive decision, it shall draw up a timetable for the progress of the contract, including the security of suppliers and subcontractors. During the implementation of the order, the fulfillment of the order is monitored continuously and the deviations from the planned course are solved. After passing the building into use, the process is evaluated and the result of the contract is determined. The experience is continuously evaluated and the risk of retention drawbacks is estimated. Once the agreed time has elapsed, the process is definitely terminated, evaluated, and the experience is passed to the corporate knowledge base. Most of these processes are influenced by marketing strategy, marketing, and last but not least, Goodwill. Goodwill is one of the factors that a company uses to participate in a tender. in obtaining suppliers and subcontractors. In particular, it exercises its strength in terms of obtaining optimal conditions. Customer is also influenced by marketing, marketing strategy, and Goodwill. As is clear from the process, there are two-way links and the existence of synergies. Any disruption, whether in the form of a barrier, or the lack of inter-relationship with the possible effects, is reduced. Especially in cases where Goodwill is negative, a marketing strategy is not supported by marketing actions and does not contribute to Goodwill's business. In the accepted concept of goodwill (according to Kulil) l, as an intangible asset, which allows capturing additions in the market. Therefore, it is and must be part of marketing strategy and marketing as an activity. As shown in Figure 1, the relationship between Goodwill and the marketing strategy was confirmed by experts (eg Metrostav a.s.) as part of the authorship of the survey.

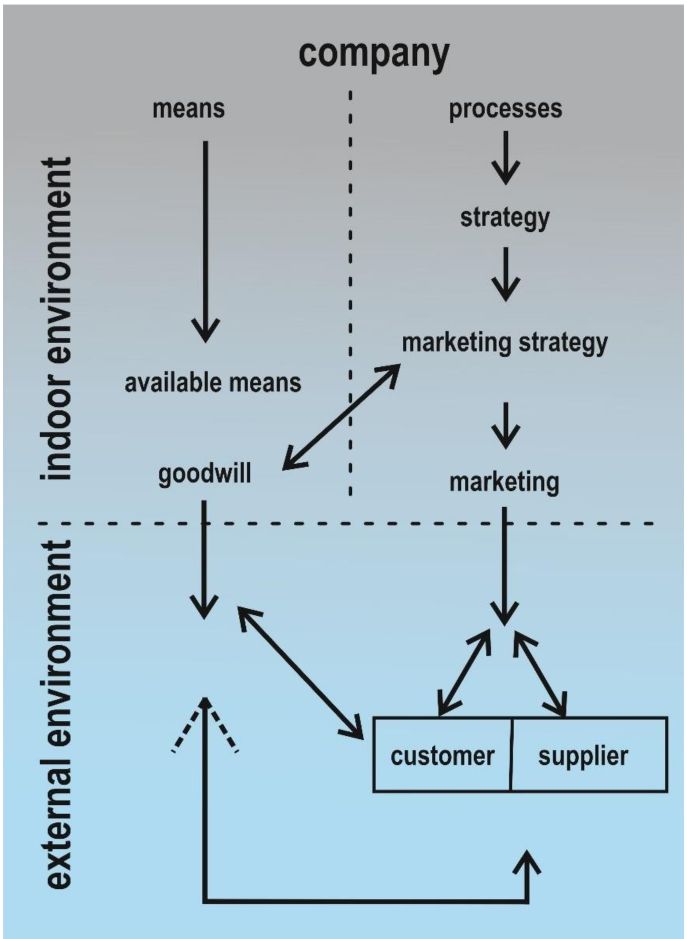

Figure 1: Binding Goodwill and marketing strategies in the internal external environment of the enterprise, Custom processing

3.3 Hypothesis 4

Goodwill should be recorded in accounting, preferably in financial accounts. This is also one of the indirect control mechanisms that can be used to evaluate a successful marketing strategy for both suppliers and customers. Due to the links captured in hypothesis 3 and the fact that there is also a negative goodwill that can increase or decrease through marketing activity, it becomes an integral part of the means by which the firm operates in the external environment. It affects mainly suppliers and customers. Therefore, goodwill must be recorded in accounting, at least internally. In the Czech Republic, the current applicable financial accounting regulation allows to capture goodwill in just one case. On the basis of the purchase, and that of the buyer, or its part. This narrowed conception does not allow goodwill to be used by small businesses at all and in large ones only in the above example. Because goodwill is one of the few tools to evaluate the success or failure of a marketing strategy (depending on how goodwill grows or decreases), its non-capture does not allow the assessment of the impact of marketing activities.

4. Conclusion

Based on the theoretical and practical findings, four basic recommendations for construction companies are provided.

1.Doing a marketing strategy
2.Understand goodwill economically
3.To quantify Goodwill and to continuously capture its changes, increases and decreases as a consequence of business activities.
4.Express Goodwill at least in internal business accounting.

Surveys and analyzes of its results in terms of construction work reveal the need to formulate a marketing strategy as an integral part of the company's strategy and at the same time as a tool that influences and forms Goodwill. Under the terms of Czech legislation, it must be presented as an economic factor and part of the company's economic resources. His accounting concepts are divided into:

a) Concept according to valid legislation, the one-sidedness of which does not allow all companies the good will to express and work with its values.
b) to capture goodwill in intra-company records and to consistently alert the construction companies

Consistent with legal, economic and accounting understanding, goodwill is an intangible asset. This asset is the company's own resources. Its development and transformation over time will allow us to monitor the implementation of marketing strategies for smaller firms at least capturing the impact of marketing synergies and goodwill. The current state of construction is inadequate for construction companies because the current concept of goodwill in the Czech Republic does not motivate its creation and monitoring. So, it is mostly separated from marketing strategy and marketing. It is not possible to take advantage of the two-way synergic effects that contribute to recognizing the position of the construction company in both suppliers and customers. For these reasons, goodwill has to be included in intercompany accounts. In the initial phase of capturing its existence, it is appropriate to use an intuitive valuation so far, because valuation or rather Goodwill valuation is a different methodology that emphasizes different approaches to goodwill and responds to its accounting concept.

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