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# Marketing Accountability Standards

## Brand Investment & Valuation Project

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March 2012



Marketing Accountability Standards Board  
of the Marketing Accountability Foundation

# Issue

- **Marketing & finance practitioners agree**
  - It is marketing's job to create, build & sustain brands
  - They produce current & future economic benefits for the firm
  - They are an important intangible asset owned by the enterprise
  - Brands create options for the firm
  - Brands represent much of the value of the firm
- **Marketing's activities are designed to**
  - Enhance the strength of the brand among customers
  - In a manner that positively impacts market and financial returns
  - Short term and over time.
- **There are no generally accepted standards for measuring the success of this marketing function**
  - Extant measures do not agree in magnitude or direction of change
  - There are many "measures" but few tied to financial performance

# Issue (cont)

- Firms utilize methods for “valuing brands” when acquiring or divesting
  - These valuations are generally performed by banks or accountants
  - With little marketing input
- The brand valuations (top brands) published by marketing services
  - Do have marketing metrics of “brand strength” among customers
  - But the valuations vary dramatically across provider
  - Both on an absolute basis and in the direction of change over time
- There are no generally accepted standards for performing these valuations, nor have the metrics representing “brand strength” been tied to market & financial outcomes in a predictable fashion

# Objectives

To provide consistent, comparable, credible and actionable brand valuations through the establishment of “generally accepted brand investment and valuation standards”...the critical “missing link” between the marketing and financial communities.

The project involves creation of general principles, and standards/ methodology for Investing in and Valuing Brands, as well as empirical trials among 3-5 brands to serve as examples of applying the principles and standards/methodology.

The primary output of the project/trials will be a generic methodology that marketers can use to value their brands and to guide investment decisions.

# Alternative Solutions

- (1) Wait until intervention (by accounting and/or reporting standards bodies)**
- (2) Take control of the brand investment & valuation standards (self-govern)**

**Alternative #2 aligns with MASB's raison d'être to “Establish marketing measurement and accountability standards across industry and domain for continuous improvement in the financial performance of the firm, and for guiding and educating business decision makers and users of performance and financial information.”**

# Expected Results

Generally accepted brand investment & valuation standards\* that represent the time period over which financial returns are realized will be of great interest to most corporations, improve marketing performance by requiring the rigor in budgeting and project authorization that is commonly associated with “capital” investments, and serve as the critical “missing link” between the marketing and financial communities.

\* In the form of an empirically proven generic model

# Current Landscape

- All firms utilize some method for “valuing brands” when acquiring or divesting
  - But these valuations are generally performed by accountants
  - Without marketing metrics/input.
- Some firms keep eyes on the values of published “top brands”
  - But “brand value” varies dramatically across provider
  - Both on absolute basis, and direction of change over time
- There are no generally accepted standards for performing these valuations
- Nor have the metrics representing “brand strength” among customers been tied to market and financial outcomes in a predictable fashion
- Further, Jan Hofmeyr’s work w/Conversion Model shows us that, in most categories, loyalty for a specific brand is limited
- There are also media implications for the distinction between “brand value” and “customer value” (Stewart and Hess, 2011)

# Current Landscape (cont)

- Many firms track “brand health/strength/equity” over time
  - With multiple survey questions
  - To get at awareness, image, willingness to pay, etc
  - Often monitoring them on their marketing dashboards
  - But these have not been tied to market & financial outcomes
- Many firms also utilize Marketing Mix Modeling
  - To determine impact of various activities on sales volume
  - But these are generally conducted after the fact and for relatively short periods of time, a quarter or year
  - Importantly, the “baseline” portion (likely driven by brand strength) is usually the largest part (about 2/3) of the full mix
- Some firms are using a measure of brand preference (choice)
  - Find it to be reliably predictive of market behavior
  - And financial outcomes
  - Both short-term and over time



# The BIV Methodology & Trials

- Will demonstrate how the marketing & financial concepts relate to one another empirically (according to MMAP)
- With standard metrics that are simple, transparent, relevant, and calibrated across categories, cultures & conditions
- And reliably linked to both short & longer term financial return

# The BIV Methodology & Trials (cont)

- A group of leadership companies (w/3-5 brands) will engage in a forward multiyear tracking project where solid bridges will be built
  - From Customer Level impact metrics
    - Brand Preference/choice for all brands
    - Brand Equity/Health collected by each brand
  - To Market Level impact metrics
    - Measures of Volume, Market Share, Baseline, Price Premium
  - Then to Operating Financial Level impact metrics
    - Measures of Velocity, Margin, Leverage, Cash Flow
  - And to Non-Operating Financial Level impact metrics
    - Brand Value as Asset

# BIV will apply the “Principles”

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## **A rationale and proposed set of principles for brand valuation**

August, 2011

Drafted by Roger Sinclair PHD

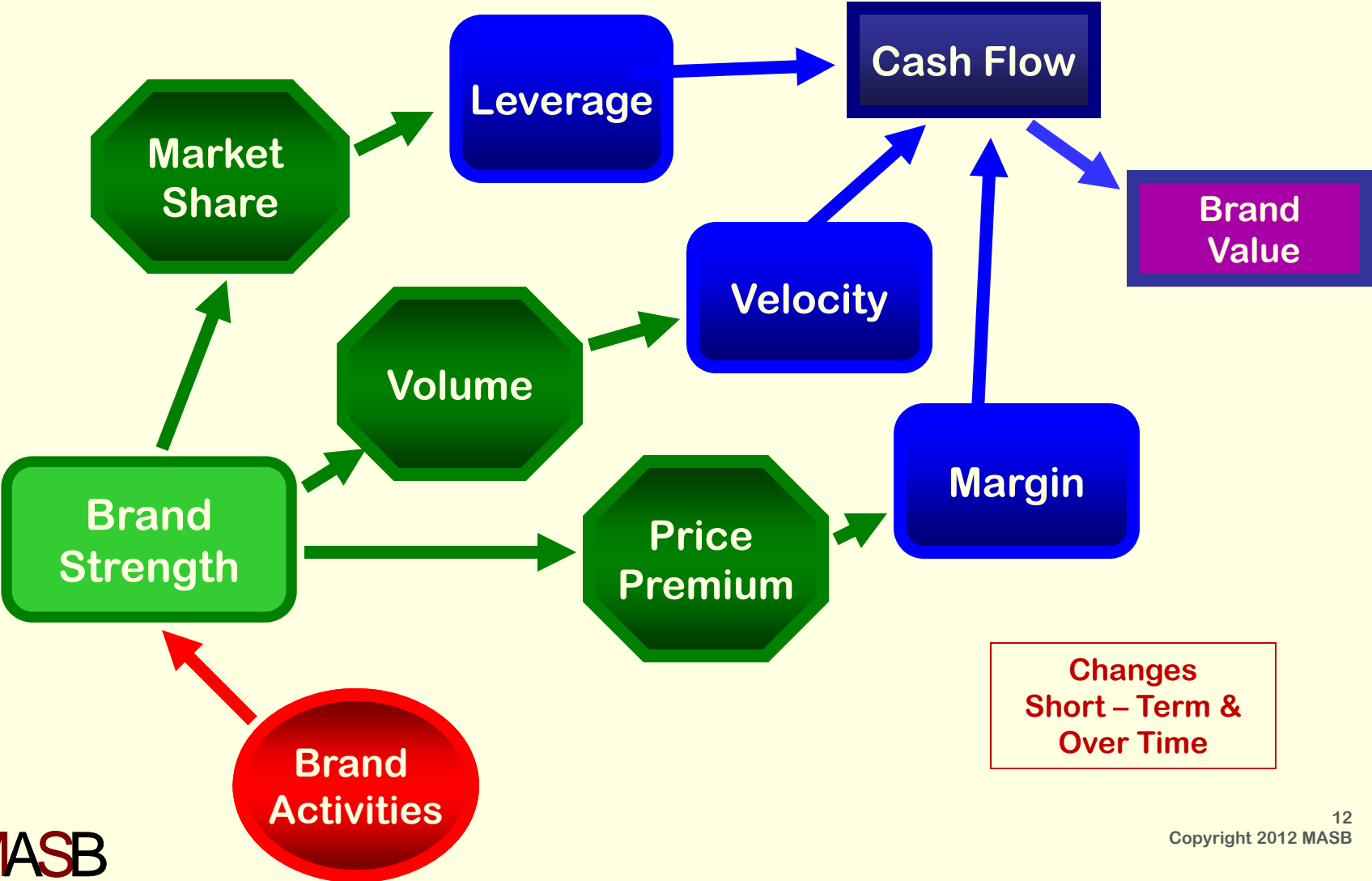
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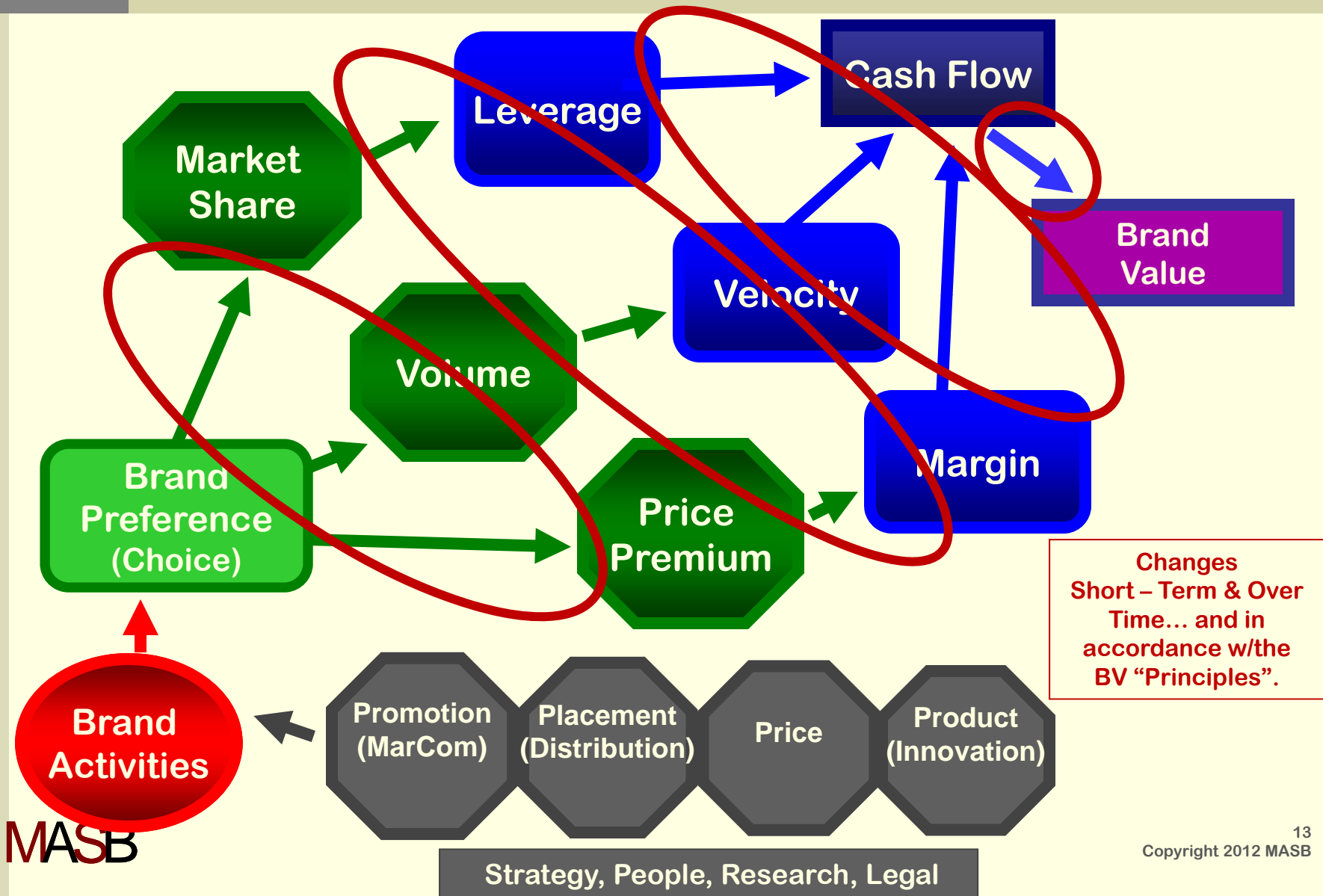
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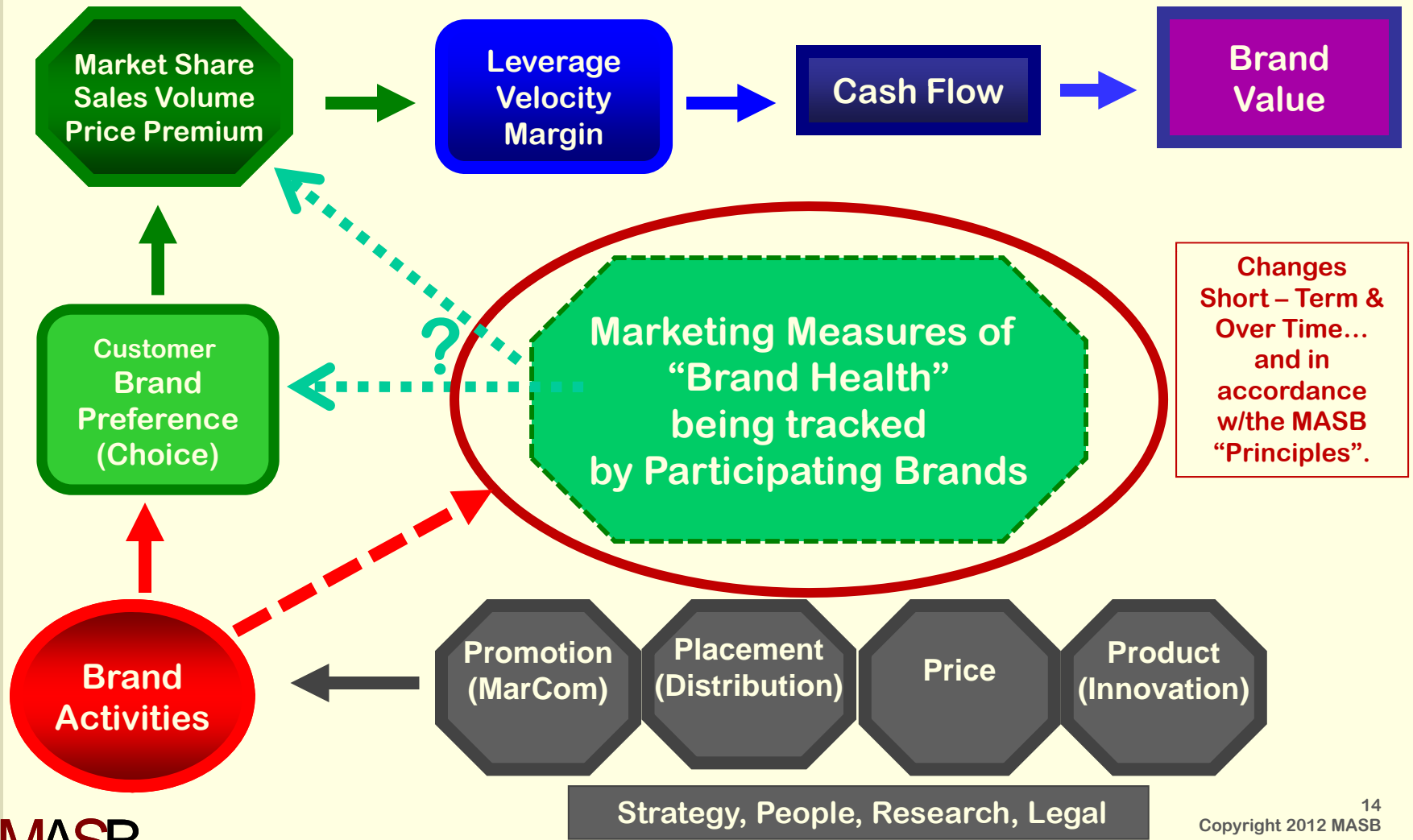
# MMAP: Brand Investment/Valuation Model (Conceptual Links)



# Build Bridges: Brand Preference to Brand Value



# Build Bridges: Other Measures of “Brand Strength”



# Q & A (2012 Winter Summit)

- Q. Are we going to be flexible & look at both Market Share & Volume?
- A. Yes, because both are important for different reasons.
- Q. Are we going to look at incremental value due to brand?
- A. Most will be comfortable w/model of total value.
- Q. Is goal to have a specific methodology, or variations?
- A. Goal is transparency and credibility...and in the hands of marketers.
- Q. How will consultants w/proprietary methods deal with this?
- A. They will think differently...how to support the standard.
- Q. How will accountants accept this?
- A. Accountants are in the business of convention – what's generally accepted.
- Q. Will all brands participating be required to apply the same metrics?
- A. All will get brand preference (choice) and will bring their current metrics.

# BIV Team Action Plan (March 2012)

- I. Frame-Up Project, open debate & approval by MASB Directors (April 2010)\*
- II. Form Project Team and designate initial leadership (May)
- III. Create straw man model: June-September\* (Feedback @ 2010 Summer Summit)
- IV. Determine Measures that will be used (Sept – Nov)
- V. Review What is Known & Planned at Summit (Feb 2011)
- VI. Draft “Principles” (BIV.MarCom Team, August 2011)
- VII. Expand Team with measurement providers – Nielsen & comScore (Aug – Oct)
- VIII. Expand Team to 3-5 non-competing global Marketers/Brands (Sept – March)\*\***
  - Kimberly Clark is in (2-4 more)**
  - Include New, Repositioning, and Established Brands in Trials**
  - Revisit Brands w/Design (March)**
- IX. Complete Design of Trial Process (inc metrics & initial equations) (March)**
- X. Start Trials (April 2012)**
- XI. Trials in 3-5 corporations (April 2012 – March 2014)**
- XII. Preliminary Findings (August 2013 Summit)**
- XIII. Review with open debate by MASB (August 2014 Summit)\***
- XIV. Generic Model Available for Marketers (September 2014)**
- XV. Practitioner Paper (Date negotiated w/Team August 2012)**
- XVI. Post for Feedback (Date negotiated w/Team August 2012)**

\* Explicitly approved by majority of MASB Directors & Chair

**MASB**

\*\* Perhaps two approaches at the same time...tracking brand preference (products) among consumers and tracking brand preference (company) among investors.



# Equations: Preference to Market Results (Draft A)

- **Market Share\*<sub>(t+1)</sub> =**

$$f(\text{Brand Preference}_t \times \text{Relative Price}_t \times \text{Distribution}_t)$$

- **Volume<sub>(t+1)</sub> =**

$$f(\text{Market Share}_{(t+1)} \times \text{Category Volume}_{(t+1)})$$

- **Price Premium/Point<sub>(t+1)</sub> =**

$$f(\text{Brand Preference/Market Share}_{(t+1)})$$

\* And/or Baseline

# BIV Project Team

**Leads:** Mike Hess (Nielsen)  
David Stewart (UCR)

**Heroes:** Jamie Richardson (K-C)  
Elizabeth Simpson (K-C)  
Tom Tindle (comScore)  
TBD (Millward Brown)  
TBD (Nielsen Mix Modeling)  
Michael Palmer (ANA)  
Rajeev Batra (University of Michigan)\*\*  
Marc Fischer (University of Cologne)\*\*  
3-5 Marketers/Brands (2-4 more)  
TBD (Media Person, through Kate or Judy)  
TBD (Accounting/Finance Academic/Practitioner)

**Counsel:** Don Lehmann (Columbia University)\*\*

**Admin:** Meg Blair (MAF/MASB)  
Allan Kuse (MMA Center)

**Meet:** 12 ET 1<sup>st</sup> Thursday

\*\* Advisors

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# Thank-you!



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