

---

# Marketing Accountability Standards

## Improving Financial Reporting

March, 2012

Jim Gregory

Leigh McAlister



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
- **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**
- **The BIV Team is addressing this issue by establishing “generally accepted brand investment & valuation standards”**
  - General “principles”
  - Standards/Methodology w/Examples
  - Generic model to value brands & guide investment decisions

# Issue (cont)

- At the same time, without appropriate changes in the financial accounting and/or reporting rules
  - Brand valuations will continue to be conducted by accountants
  - Without marketing input/metrics
- And marketing activities will continue to be managed
  - As “discretionary” expense
  - Not as strategic investment that adds value to the firm
- It makes no sense that brand valuations have no marketing input
  - Brand value lies in the hearts, minds & hands (choices) of customers
  - Can be measured in a manner that ties to market & financial return (BIV)
- But finance/accounting has heretofore believed our story
  - Marketing is an art (in their terms “soft”)
  - Can’t be measured with direct links to financial return
- We must be invited to their table and demonstrate otherwise
  - Take control of our territory (self-govern)
  - Move up the food chain (with their help)

# Objectives of IFR Project

**Partner with the Financial Reporting and Investment communities for improving the accounting and/or reporting rules related to marketing such that financial returns from corporations will be driven and measured by buyer behavior in markets over time\*.**

\* Buyers might be consumers, customers, investors, etc.

# Alternative Solution

**Create and implement “generally accepted brand investment and valuation standards” as an internal discipline and process for marketing budgeting and project authorization without changing the accounting and/or reporting rules.**

**While it is important that this be done, it is hypothesized that corporations will not use and apply marketing measurement and accountability standards consistently and comprehensively without reasons to do so tied tightly to financial reporting.**

**Further, it is anticipated that the financial accounting and reporting standards bodies will be requiring Brand Value on the Balance Sheet at some time in the near future. The marketing community should take control of its territory (self-govern), or lose it to the financial reporting bodies.**

# Feasibility

- **Financial reporting/investment bodies have shown interest**
  - Reporting of intangibles
  - Addressing the MASB (FASB, FASRI, CFAi, IASB, IIRC)
  - Partnering with others (like MASB)
- **MASB well positioned to become partner of choice**
  - For improving marketing related standards
  - Having practice & technical expertise
  - To support 21<sup>st</sup> Century change
- **Developing standards for Investing in & Valuing Brands**
  - Aligning marketing expenditures w/financial return
  - Info to capital providers not available under current rules
  - Vital to making more informed investment decisions

# Expected Results

**Improving the reporting rules related to brand value will:**

**Require Corporations to adopt & apply marketing measurement & accountability standards consistently & comprehensively to achieve the discipline & rigor similar to applications of capital budgeting**

**Position marketing in charge of their own territory (self-governing), avoiding intervention from the financial and investment community**

**Create value for all (ie better reporting, transparency through quantification of “good will”, increase in Marketing ROI, predictable & consistent organic growth, improvement in corporate profitability and more and better offerings at less cost to meet the needs of society)**

# Current Landscape

- Reporting of Brand Value is required for those acquired
  - Valuations are conducted by accountants/valuators
  - With little marketing input
- Reporting of BV is not required for internally developed brands
  - Inconsistency in rules
  - Untenable over long run
- Standards reporting bodies are moving in direction of resolution
  - FASB & IASB on and off agenda since 2001 (starts & stops)
  - IIRC integrated reporting (intangibles now >80% of firm value)
- Many believe reporting of Brand Value is inevitable
  - Not a matter of if
  - But of when and how...



# Window of Opportunity

**Marketing must and will be prepared with credible metrics & processes for valuing brands (BIV Team)**

**and partnering w/reporting bodies to ensure brand strength among customers is a requirement of the valuations (IFR Team)**

**This is the window of major opportunity for marketing to step up and earn a permanent seat in the boardroom at the strategic planning table!**

# What's in it for marketing community?

Partnering to improve financial reporting will

- Require firms to apply marketing measurement & accountability standards consistently & comprehensively
- Achieve discipline & rigor in investment decisions & budgeting
- Position marketing as masters of their own territory & destiny
- Avoid external intervention from finance/government
- Create value for all, including
  - Better/more transparent reporting
  - Increase in Marketing ROI
  - Predictable & consistent organic growth
  - Improvement in corporate profitability
  - More/better offerings at less cost to meet needs of society

# How to elevate the discussion

- We need a crystal clear position
- The position needs to be market driven (e.g. “investors can make better decisions if brand value is included on financial reports”)
- We need the support of our trade associations (BIV.MarCom Team)
  - To communicate and promote this position
  - Gain a consensus of support – with corporations and agencies
  - Educate the public why this issue matters
- We need to get beyond the tax issues
- We need to create consumer demand
  - Create awareness among investors (how they can make better decisions)
- Think positively about how far we’ve come!

# Proposal: Annual report – Note for MD&A

*“We, the senior management of XYZ corporation, believe the value of Brand XYZ, as of [date of fiscal year end], is \$mmmmm. We estimate this brand value using methodology provided by a MASB qualified Brand Valuator. Following is ABC’s explanation of their brand valuation process.”*

[Boiler plate for Brand Valuator. This boiler plate should include MMAP audit alignment and “sensitivity analysis”, i.e., brand value is contingent on factor 1, factor 2 and factor 3. If any of those factors increases, we expect brand value to increase, as well.]

# Q & A (2012 Winter Summit)

- **Q. What do you think about the proposed note for the MD&A?**
- **A. 1000 times better than trying to get on the Balance Sheet.**
- **Q. Will it rule out getting Brand Value onto the Balance Sheet?**
- **A. No, but could happen faster...a path of less resistance.**
- **Q. Will Wall Street (Investors) want this information?**
- **A. They want more info that sizes the business going forward.**
- **Q. How much will the Brand Valuations cost?**
- **A. Primarily the cost of collecting metrics, which the marketer already bears.**
- **Q. Shouldn't we add to the proposed note, "change" in Brand Value (BV)?**
- **A. Yes. A terrific idea!**
- **Q. Won't we need the drivers of Brand Value/Change for managing the Brands?**
- **A. Yes. And will be addressed by the BIV project team.**

# IFR Team Action Plan (March 2012)

- I. Frame-Up Project, open debate /approval by MASB Directors (April –May 2010)\*
- II. Form Exploratory Team (June - August)
- III. Lesson from FASB as to how the rules are changed (August)
- IV. Review ISO 10668 (Scholz) & POV FASRI Director (Bloomfield) (Feb 2011)
- V. Review What is Known & Address Feedback so far (Feb – April)
- VI. POV from CFAi speaker (Pirie) at Summer Summit (Aug)
- VII. Rename/Reposition Project/Revise EI (Oct)
- VIII. Submit Comments to IASB for 2011 agenda (Nov)
- IX. Line up speakers for Feb/Winter Summit (Sept - Nov)

## X. MD&A “notes” positioning (2012)

Draft presented at summit for feedback (2/12)

Revise based on feedback: “Change” & “5 Years” after reviewing ARs (3-4/12)

Approved by MASB Directors\* (5/12)

## XI. Broader feedback on “principles” & “MD&A notes”

Accounting Firm & Wendy Pirie (Jim 5/12)

SEC w/deck (6/12)

Feedback from Analyst panel at summit & then broader (8-11/12)

## XII. Engage CFOs (CFO Magazine/FEI?) (2012)

Press release?

## XIII. Approach Appropriate Partner(s) based on Feedback & Relationships (TBD)

## XIV. Partnership Agreement (s) & 1<sup>st</sup> Project Designated\* (TBD)

## XV. Revisit ANSI/ISO Option (TBD)

## XVI. Reporting rules changed (TBD)

BV disclosure in MD&A, Balance Sheet, other

# Financial Reporting Project Team

**Leads:** Jim Gregory (CoreBrand)  
Leigh McAlister (UTA)

**Heroes:** David Reibstein (Wharton)  
David Stewart (UCR)  
MJ Tisor (at large)  
Becky Gregory (CoreBrand)  
**Michael Moore (UCR)?**  
**Roger Sinclair (Prophet)?**  
**Other?**

**Counsel:** Russ Winer (Stern)  
Brandt Allen (Darden)

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

**Meetings:** 1<sup>st</sup> Tuesday 3:00 ET



# Thank-you!



**Marketing Accountability Standards Board  
of the Marketing Accountability Foundation**