
Marketing Accountability Standards

Improving Financial Reporting

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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)**

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...

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*.

Ensure marketing is at the table when reporting of Brand Value is required for internally developed brands.

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

Overall Intent

- Financial reporting of Brand Value is required for acquired brands
- In time, a similar treatment for internally developed brands will be required
- MASBs intent is that we are prepared (BIV Team)
 - With “generally accepted brand investment & valuation standards”
 - Including “principles”, standards/methods & examples
 - That provide consistency, comparability, credibility and actionability
- And are seated at the financial reporting table (IFR Team)
 - Working in partnership with the reporting bodies
 - As they move further in this direction
 - To guarantee that there is marketing input (metrics)
- It makes no sense that brand valuations have no marketing input
 - Brand Value lies in the hearts, minds & hands (choices) of customers
 - Finance has believed that marketing is art & can’t be measured
 - With outcome metrics that relate to/predict market & financial results
- Perfect time to step up...and move up the food chain

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 21st 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

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 (e.g. from 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

Proposed Note for MD&A (6/29/12)

“As of June 30, 2012 , the senior management of Gadget Corporation value the Widget Brand at \$2.9B, up 7% from year ago, and 20% over the past 3 years. We estimate this value using the methodology provided by ValuePack LLC, a MASB qualified Brand Valuator.

Following is ValuePack LLC’s explanation of the brand valuation process used for this estimate....”

Proposed Note for Corp Brand (6/29/12)

“We, the senior management of Alpha Corporation, believe the value of our corporate brand, as of December 31, 2011, is \$26.4 billion, up 2.7% from year ago, and down 3.8% over the past 3 years. We estimate this brand value using the methodology provided by BrandTop, LLC, a MASB qualified Brand Valuator.”

Following is BrandTop’s explanation of the brand valuation process used for this estimate....”

IFR Team Action Plan (September 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 (Nov – Jan)
- X. MD&A “notes” drafted, reviewed, revised & approved by MASB (Feb – June 2012)
- XI. Broader feedback on “MD&A notes” @ Summer Summit (August)**
Brand Valuator (Haigh, Brand Finance) & Analyst (Corty, Morningstar)
- XII. Further engagement w/Financial & Investment Communities (Sept-Nov)**
CFO Magazine (Submit 1st Paper, Sept) (Published TBD)
SEC (Exec Summary of CFO Paper, October)
CFA
FASB
- XIII. Winter Summit**
FEI Research Project (CFO Agenda & MD&A Notes) or thru Fin Counterparts (Oct)
IIRC Update (Roger)
- XIV. Approach Appropriate Partner(s) based on Feedback & Relationships (TBD)
- XV. Partnership Agreement (s) & 1st Project Designated* (TBD)
- XVI. Revisit ANSI/ISO Option (TBD)
- XVI. Reporting rules changed (2014)**

Financial Reporting Project Team

Leads: Jim Gregory (CoreBrand)
Michael Moore (UCR)

Heroes: Leigh McAlister (UTA)
David Reibstein (Wharton)
David Stewart (LMU)
MJ Tisor (at large)
Becky Gregory (CoreBrand)
Roger Sinclair (At Large)
Other?

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

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

Meetings: 4th Friday at 11:00 ET: October 26



Thank-you!



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