
Beyond the Science

**Driving Behavior Change
Inside Corporations
Will Be Essential to MASB Success**

**John Lees, General Manager
Global Marketing Research and Analytics
Kimberly-Clark Corporation
Charter Director of the MASB**

**March 2010
Chicago**



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

MASB's Mission

Mission of MASB

The Mission of MASB is to “Establish marketing measurement and accountability standards across industry and domain for continuous improvement in financial performance and for the guidance and education of business decision makers and users of performance and financial information.”

Role of MASB

The role of MASB is in setting the standards and processes necessary for evaluating marketing measurement in a manner that insures credibility, validity, transparency and understanding.

The Premise & The Analogies

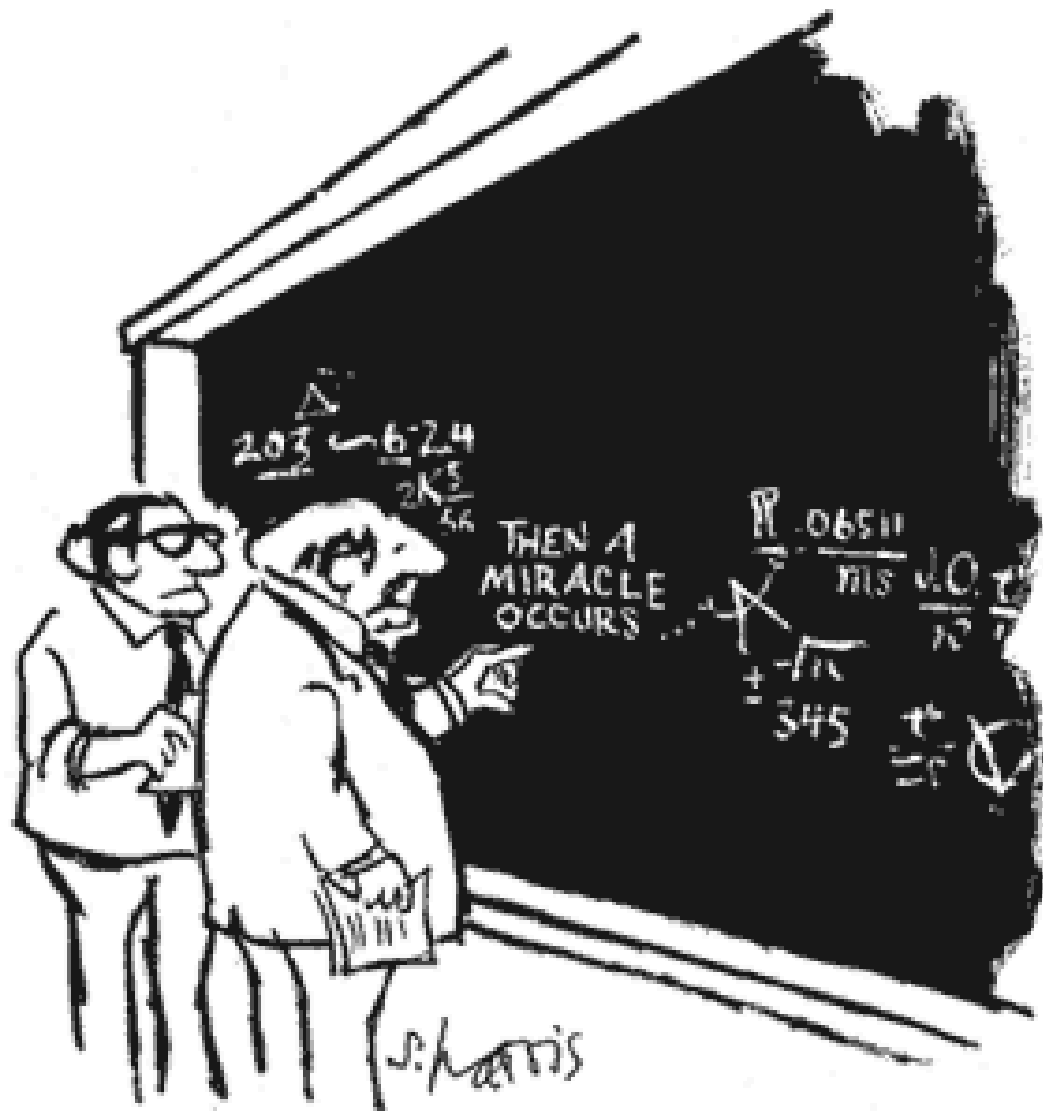
Marketing will move from discretionary business expense to board-level strategic investment through accountability and a standards setting “authority” for measuring (forecasting & improving) the financial return from marketing activities.

As is true for manufacturing and product quality (w/ISO & ANSI) and for accounting and financial reporting (w/FASB & IFAS), so it will be true for marketing and profitable growth (w/MASB).

The Premise & The Analogies

Marketing will **move** from discretionary business expense to board-level strategic investment through accountability and a standards setting “authority” for measuring (forecasting & improving) the financial return from marketing activities.

As is true for manufacturing and product quality (w/ISO & ANSI) and for accounting and financial reporting (w/FASB & IFAS), so it will be true for marketing and profitable growth (w/MASB).



"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

How to create Movement?

The Thesis #1:

Corporations will not use and apply marketing measurement and accountability standards consistently and comprehensively until there are reasons to do so tied tightly to financial reporting and then translated into the personal reward systems.

The Thesis #2:

Capitalizing the component of marketing expenditure attributable to brand building will drive adoption of marketing measurement and accountability standards and create value:

- **Increase in Marketing ROI**
- **Improvements in corporate profitability**
- **Competitive advantage to first mover**

However it is unrealistic to believe FASB will entertain changing GAAP's to do this in the short term.

The Thesis #3:

A discipline and process for marketing budgeting and project release which achieves similar discipline and rigor as capital budgeting DCF like approaches will be interesting to some corporations that buy into MASB's intent.

A “capital budgeting DCF like approach” will rely on marketing measurement and accountability either developed internally or by industry standards.

What happens today?

Capitalizing and Expensing Incentives:

Marketing

- Expensed
- First place to cut
- Budget based on last year
- Use it or lose it
- No ROI requirement in justification
- Rewards tied to overall results not ROI on activity managed

R&E, Capital Equipment

- Capitalized
- Last place to cut
- Budget on need (mostly)
- Doctrine of faith
- ROI through DCF and hurdle rates to justify
- Rewards tied to project time lines and completion

Need less cost?

Scenario:

- CFO needs \$30 to make the quarter
- What to do?

Cut Marketing Spend!

Cut \$30
=
OP up \$30
... this year

Cut R&E Capital Spend!

Assume depreciation over 30 years
And the budget wasn't spent on Jan 1st

Cut \$30
=
OP less than \$1
... this year
... ~ \$1 impact next year

Need more revenue?

Scenario:

- Needs 2% more top line sales to make the numbers
- What to do?

Marketing Proposal

Increase marketing by $\frac{1}{2}\%$ of total sales
(builds equity holds price)

Risk assessment:

Cost guaranteed, revenue lift is uncertain, too slow

Sales Proposal

Increase trade and coupons by 1% of total sales
(discount price)

Risk assessment:

Cost partly tied to the lift in revenue. . . and this always drives volume fast

Today:



Tomorrow?



The virtuous cycle of Financial Reporting, Personal Rewards, Measurement and Improvement - an example

TAC Australia

- “Long tailed” injury compensation insurer
- 23,000 claims per year
- Minimum: 3 months, \$400
- Maximum: Life (~50 years), \$25,000,000
- No lump sum settlements
- Liabilities \$6 Billion
- Actuarial modeling
- Operated to industry norms:
 - Performance bonus tied to profitability measures
 - Actuarial modeling seen as financial function
 - Claims management disconnected from models
 - Costs and liabilities growing much faster than inflation

Changes leading to a virtuous cycle

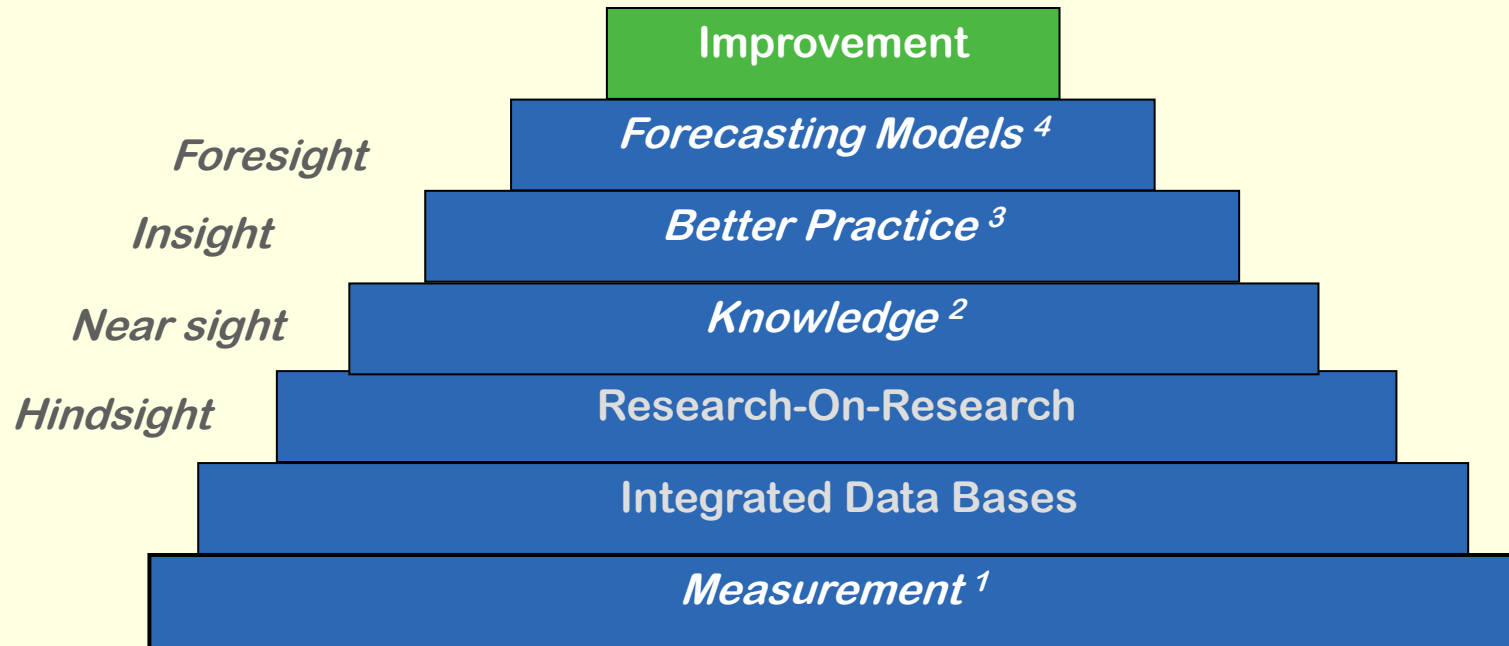
- **Changed management incentives for claims management**
 - From: Profits (industry norm)
 - To: “Actuarial Release”
- **Behavior:**
 - Management interrogated the Actuaries model to find the opportunities for improvement
 - Actuaries models improved (considerably)
- **Results:**
 - Cost control and customer service improved
 - Generated incremental \$500 million profit over 4 years and held premiums to less than half industry average
 - Virtuous cycle of improvement

Two lessons . . .

- **Measurement and analytics must be directly connected to business financial rewards and to the incentive system in order to create a virtuous cycle of management improvement and measurement improvement**
- **When you create this connection, the speed of the creation of the virtuous cycle of management improvement and measurement improvement is breathtakingly fast and unstoppable. If its situational or individual you have not got the behavioral incentives in place.**

What does this mean for MASB?

Measurement is The Foundation for realizing the Vision



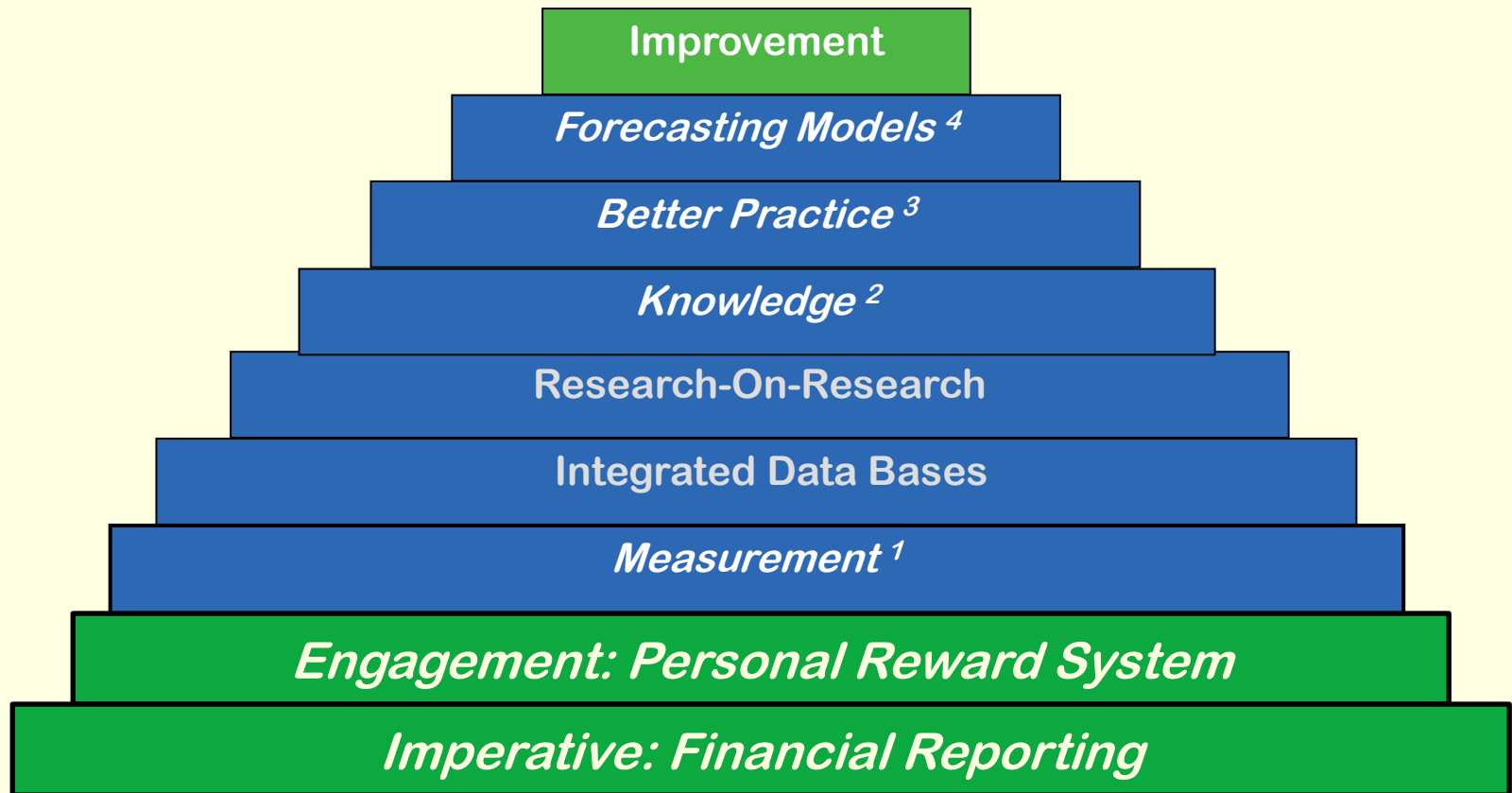
¹ Reliably identify business opportunities (or threats) given current context & (potential) actions (MR Vision 2003); Process of achieving & maintaining measurement reliability, predictive validity, sensitivity & calibration.

² Profound understanding (of the business process or human & customer behavior) that yields a clear prioritization of action; Learning or principles that yield true predictions with unvarying uniformity (IBID); Process of explaining variance/identifying the causal drivers of the business or human behavior.

³ Documented method of operating that yields higher level of performance than other operating behaviors (IBID); Process of applying Knowledge to the operating process for improved performance.

⁴ Analytical technique that represent causal relationships among various conditions & actions taken to achieve specific business results, and forecast future outcomes of various potential actions & conditions (IBID)

Measurement without Imperative and Engagement will be slow to lead to Movement towards MASB Vision



Comments from Finance

“To expect FASB to consider capitalizing brand building expenses right now is impractical. They have too much on their plate from the Finance Industry even if the analytical ability to do it had been clearly established. It’s just not going to happen.”

“But . . .creating a model for brand building and marketing budgeting and project authorization that achieves the rigor and drives measurement the way capital budgeting DCF analysis does for would be a very big step forward.”

. . . a DCF-like approach for Marketing . . .

- For project fund release or total budget
- Across marketing and promotions
- Analysis of expected return on investment
- Hurdle rates and targets
- Benchmarks and reference points
- Post-mortems
- Continuous learning
- Industry or proprietary data base of results and expectations
- Change authorization process
- Change the management incentive system to ROI

Should MASB . . .

- **Develop the “capital budgeting DCF-like approach” for marketing?**
 - Analytics and measurement requirements
 - Management practices necessary to make it worth while
 - Include the attribution of funding between brand building and short-term promotion
- **Engage a group of companies in a trial of the approach?**
- **Progress the art of the possible to the point where it’s feasible to discuss with FASB changing GAAP?**



Thank-you!



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

MASB Standards Project

Beyond the Science

John Lees
TBD



Marketing Accountability Standards Board
of the Marketing Accountability Foundation

Beyond the Science

- I. Frame-Up (Emerging Issue Project Abstract)
 - A. Open Debate by MASB (revisions/approval)*
- II. Research
 - A. What is Known/not Known/need to Know**
 - 1. Open Debate by MASB (revisions/approval)*
 - 2. Paper for Practitioners (revisions/approval)*
 - B. New Learning
 - C. Preliminary Summary & Conclusions
- III. Review
 - A. Open Debate by MASB (revisions/approval)
 - B. Open Debate by MASAC (revisions/approval)
 - C. Posting for Industry Feedback (revisions)
- IV. Adoption or Acceptance by MASB
- V. Publication
- VI. Education
- VII. Systematic review over time (revisions)

* Explicitly approved by majority of MASB Directors & Chair (# dissents noted in output)

** About measurement . . . for reporting, forecasting and improving return