
Game Changer II: Branding From Expense to Investment Model and Discipline

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A. Gary Anderson Graduate School of Management
University of California Riverside
Founding Director & Chair of the MASB
August 2010
Boston**



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

The Next 3-Years (Game Changers)

Overall Objectives: Change the Game, Begin the Transformation

- **GC I: FASB/MASB Partnership for Aligning GAAP and MMAP**
Become FASB's partner for changing the accounting & reporting rules related to marketing expenditures such that financial returns from corporations will be driven and measured by buyer behavior in markets over time*
- **GC II: Branding, From Expense to Investment Model & Discipline**
Develop and trial/validate an internal model for brand building budgeting and project/expense authorization that represents the time period over which financial returns from the activity are realized... align management incentive systems accordingly

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

Issue

While the MASB Project to change the accounting and reporting rules is underway, corporations will not be positioned to operate with the rigor and discipline required in capital budgeting until their internal models are designed & successfully implemented. Further, changing the rules for Branding will likely require the empirical evidence of an underlying brand building model...specifically the evidence that “investments” in Branding have the potential to provide positive return over a longer period of time than just “when spent” and are investments that may be treated as capital expenditures.

Alternative Solutions

- (1) Change the rules and create the model and discipline after the rules are changed or**
- (2) Change the rules and leave corporations on their own to comply with the new rules.**

While these alternatives are possible, they do not align with MASB's *raison d'être* to “Establish marketing measurement & accountability standards across industry & domain for continuous improvement in financial performance, and for guiding & educating business decision makers and users of performance and financial information.”

Further, changing the rules will likely require the empirical evidence underlying a common brand building model.

Expected Results

A validated model for brand building that represents the time period over which financial returns are realized will be of great interest to most corporations and improve marketing performance by requiring the rigor in budgeting and project authorization that is commonly associated with other “capital” investments.

This, coupled with changing the accounting rules from “expensed as incurred” to “capitalized investment” will create value for all (better reporting/transparency through quantification of “good will”, increase in Marketing ROI, predictable & consistent organic growth, improvement in corporate profitability, more and better products and services at less cost to meet the needs of society, etc)

Branding Model Project Team

Leads: Marketer (TBD)
Academic (TBD)

Other: David Stewart (UCR)
Rajeev Batra (U Michigan)
Don Lehmann (Columbia)
3-4 Marketers (Marketing v Finance TBD)
TBD

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

Meet: TBD

Action Plan For Branding Model (July 16, 2010)

- I. Frame-Up Project, open debate /approval by MASB Directors (April –May 2010)*
- II. Form Project Team and designate leadership (May-August 2010)
- III. Expand Team to 3-4 non-competing global marketers (June - August 2010)
- IV. Create straw man model. June-September 2010* (Feedback @ Summit)
 - Conceptual Model (Don 7/10)
 - MMAPing (Dave 7/10)
- V. Review WIK ~~about validity/causality~~ or intermediate measures: Oct-Dec 2010*
- VI. Design the Trial Process: January - May 2011*
- VII. Start Trials: June – January 2011/12
- IX. Trials in 3-5 corporations: June 2011 – July 2013
- X. Preliminary Summary & Conclusions: August 2013
- XI. Review with open debate by MASB (revisions/approval): September 2013*
- XII. Practitioner Paper(revisions/approval): Date negotiated w/Team August 2011
- XIII. Post for Feedback (revisions/approval): Date negotiated w/Team August 2011

Linking Branding to Financial Results (The Value Relevance of Branding)

Donald R. Lehmann

August 12, 2010

MASB Meeting

Boston, MA

Conceptual Brand Investment Model

Actions: Company, Partners, Competitors

Customer Mind Set: What They Think and Feel About the Brand

Customer Behavior in the Product Market

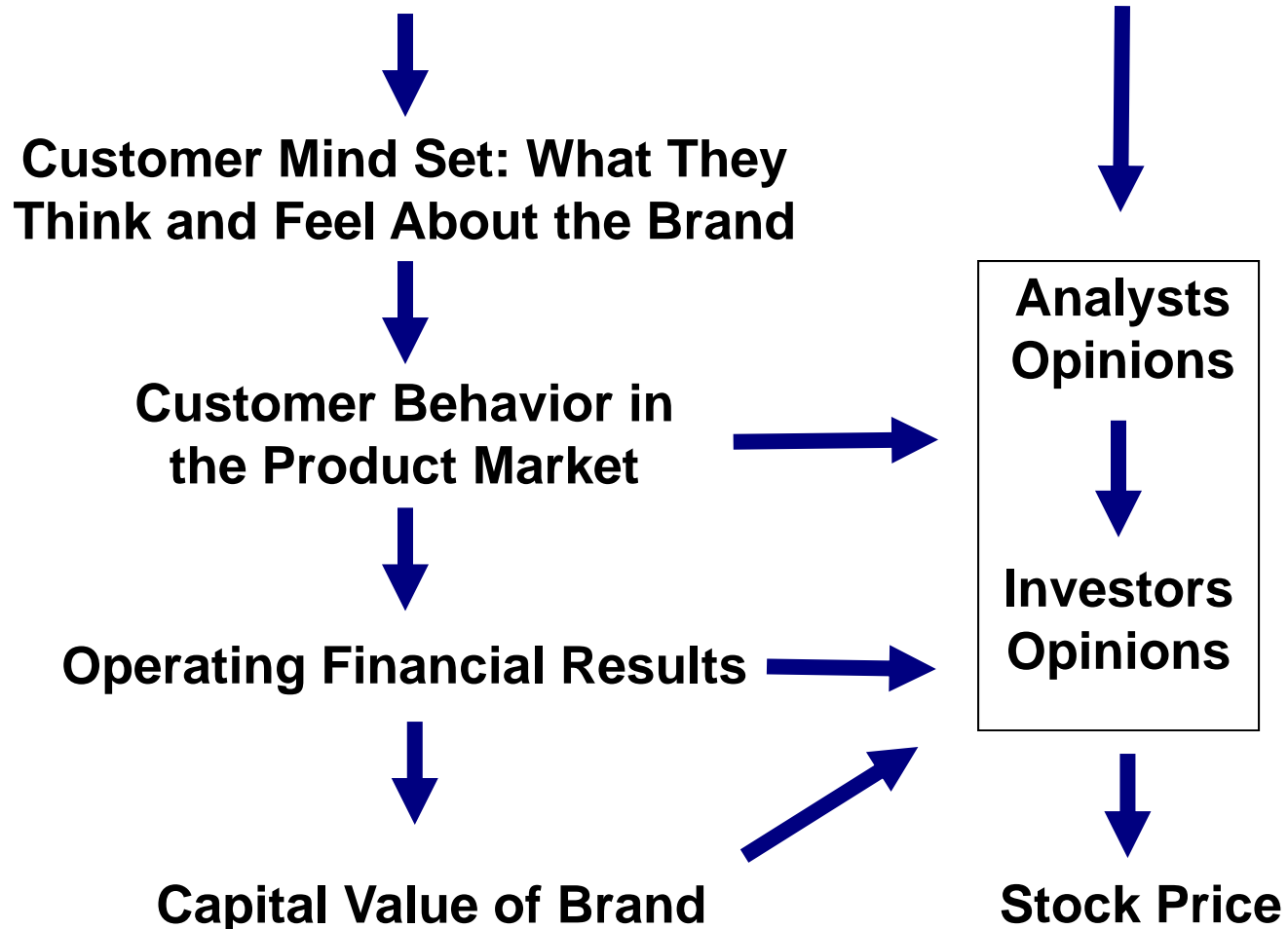
Operating Financial Results

Capital Value of Brand

Analysts Opinions

Investors Opinions

Stock Price



Customer Mind Set

- **Awareness**
 - (Generally Necessary for Choice)
 - Knowledge
- **Associations**
 - Attributes, Images, Customers (e.g. Commercial Brand Equity Measures)
- **Attitude**
 - Willing to Consider
 - General Affect/Liking/Willingness to Pay (WTP Positive or Negative)
 - Willingness to Spend Time/Delay Consumption to Get
- **Attachment**
 - Intention to Buy
 - Resistance to Competition, Bad News
 - Loyalty
- **Activity**
 - WOM
 - Display

Customer Level Behavior

- **CLV**
 - Acquisition
 - Retention
 - Margin
- **Purchase**
 - Brand
 - Share
 - Amount

Aggregate Market Level Behavior

- **Price Paid**
- **Responsiveness to**
 - Marketing: Own, Competition
 - Surprises: Product, Spokesperson Failure
- **Revenue Premium**
- **Required Investment to Maintain**
- **Decay Rate under No Investment**

Market Level: Collaborators

- **Channels**
 - Coverage/Stocking
 - Support
 - Profit Contribution
- **Suppliers**
 - Service Speed
 - Service Level
- **Partners/Alliances**

Financial Performance Level

- **Operating**
 - Profit
 - Discounted Cash Flow (DCF)
 - ROI
- **Financial Market**
 - P/E Ratio
 - Tobin's Q
 - Stock Price
 - Intangible Brand Value

Important “Facts”

- **There Are Logical (Causal) Links among the Various Components**
- **In Survey Data, Responses Have a Major Person Effect Which Inflates Correlations**
- **A Complete System View Is Complex**
- **A Few (or Even One) Measure Can Capture Much of the Impact of All the Measures**
- **Mind Set Metrics are More Useful When Taken in a “Real” Setting (e.g., Including Competition)**
- **Consistency in Measurement is Critical**
- **Tracking Over Time is Necessary; Changes Matter**

Moving from the Lehmann Conceptual Model to the MASB Marketing Metric Audit Protocol (MMAAP)

MMAP Overview

While marketing does not lack measures, it lacks standard metrics explicitly linked to financial performance in predictable ways.

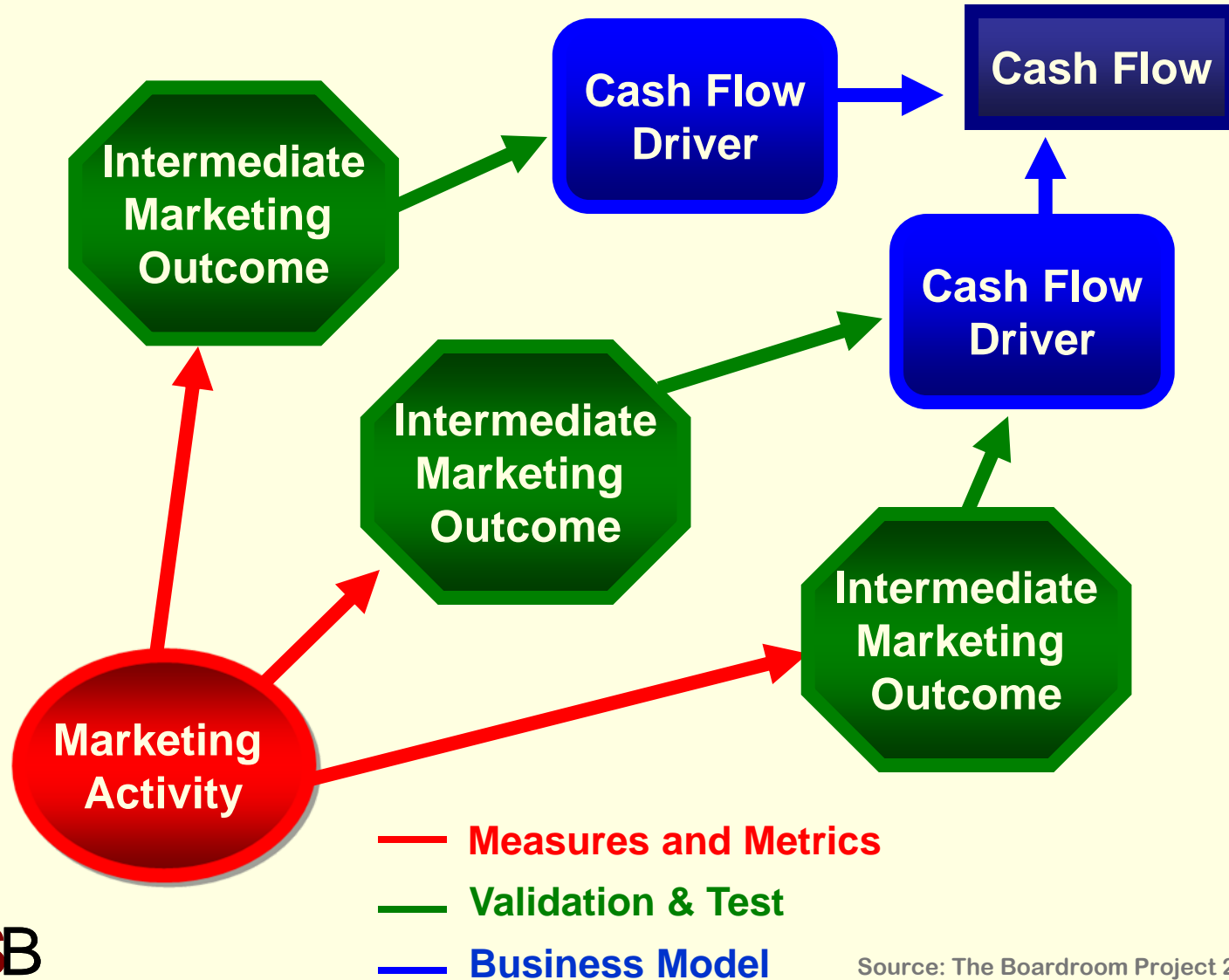
Cash flow both short-term and over time is the ultimate metric to which every business activity, including marketing, should be causally linked through the validation of intermediate marketing metrics.

The process of validating the intermediate outcome metrics against short-term and/or long-term cash flow drivers is necessary to facilitate forecasting and improvement in return.

The Marketing Metric Audit Protocol (MMAP) is a formal process for connecting marketing activities to the financial performance of the firm.

The process includes the conceptual linking of marketing activities to intermediate marketing outcome metrics to cash flow drivers of the business, as well as the validation and causality characteristics of an ideal metric.

MMAP: Marketing Metric Audit Protocol



Lehmann's Model

Actions: Company, Partners, Competitors

Customer Mind Set: What They Think and Feel About the Brand

Customer Behavior in the Product Market

Operating Financial Results

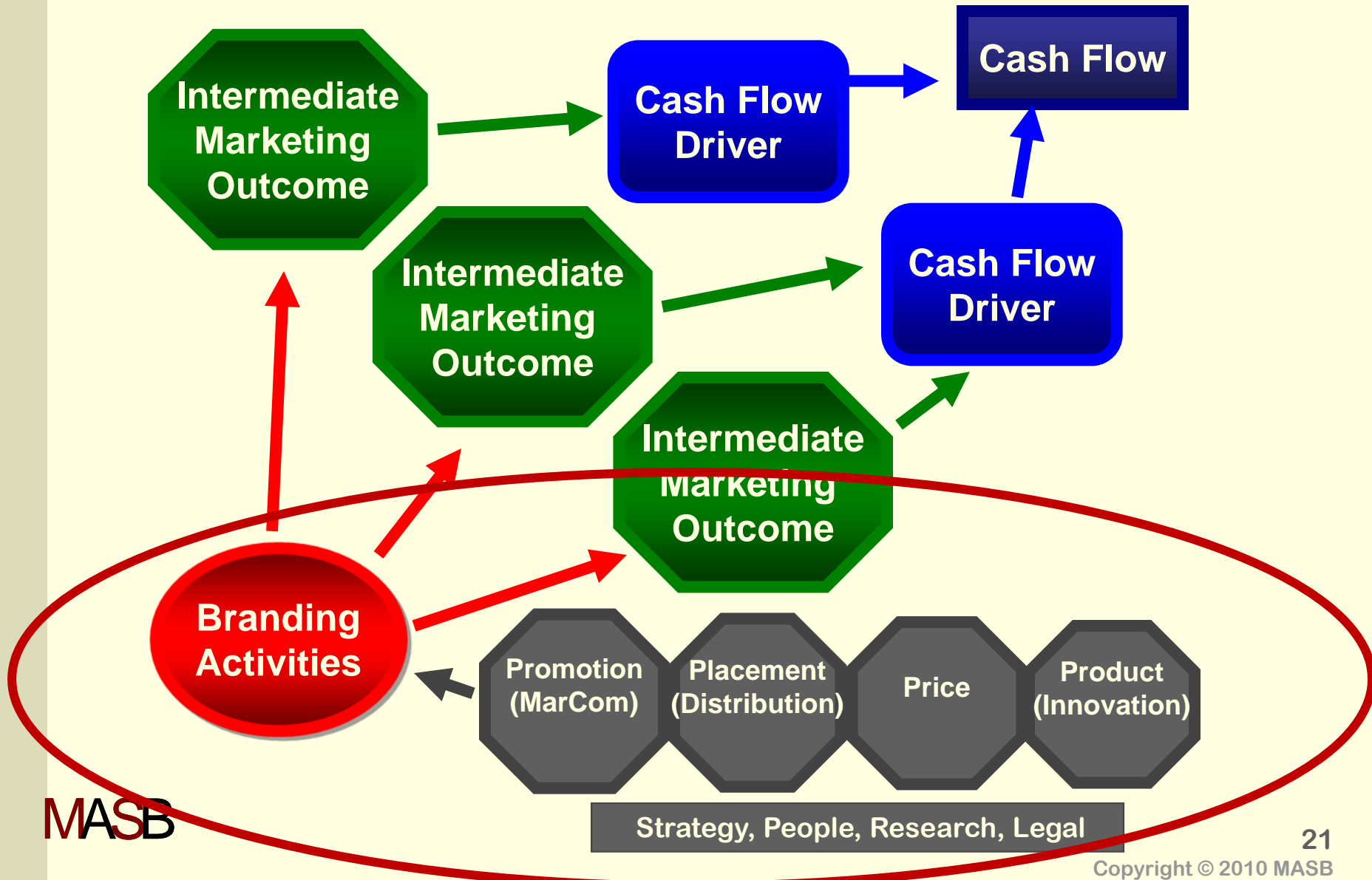
Capital Value of Brand

Analysts Opinions

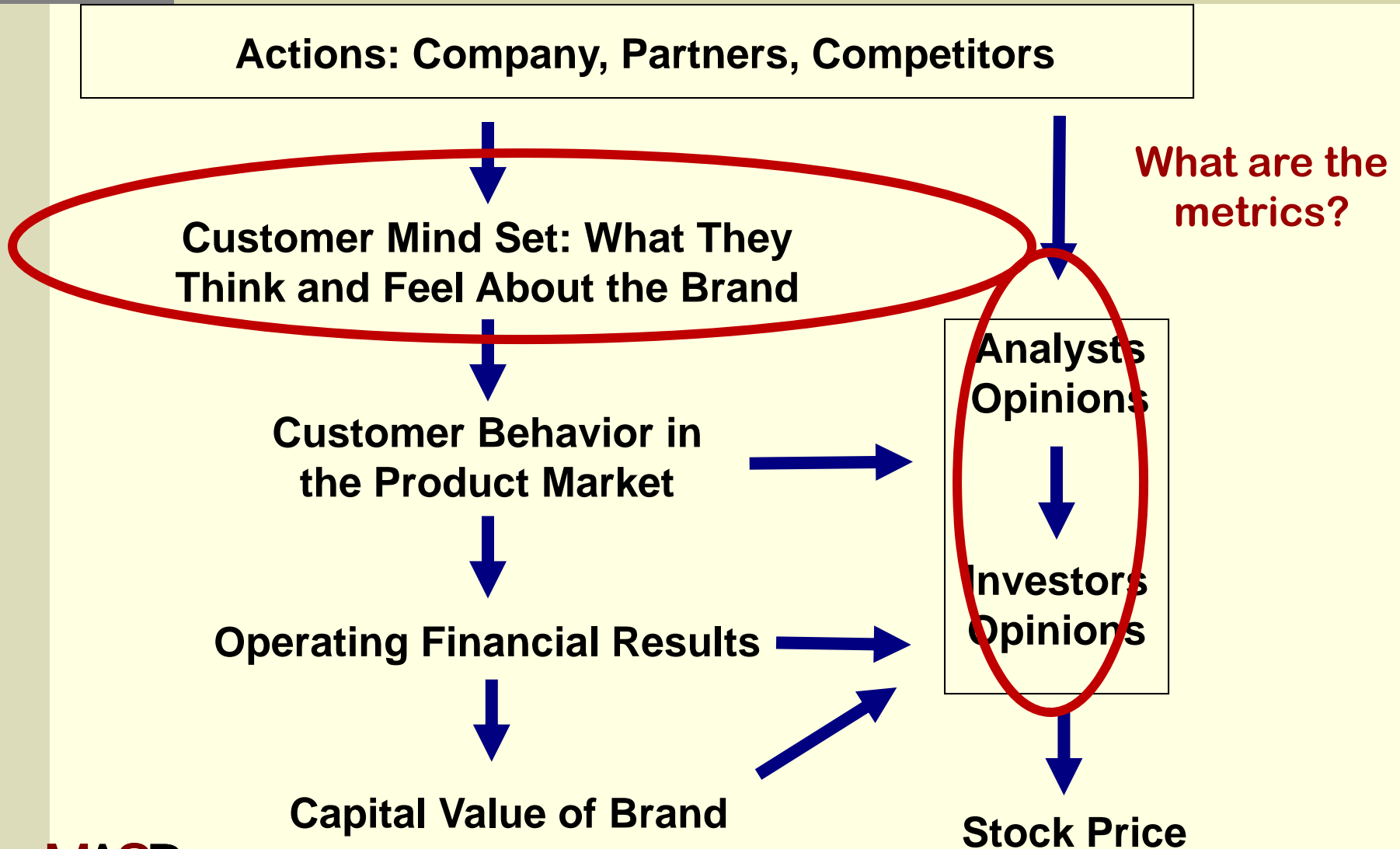
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MMAP: Branding Model (Draft)



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Theoretical Framework

“...we have classified and reviewed prior research of intermediate and behavioral effects of advertising using a taxonomy of models...

Although such models have been actively employed for 100 years, we find them flawed...the concept of hierarchy (temporal sequence) on which they are based cannot be empirically supported...

We also suggest that behavioral (brand choice, market share)...measures be compiled in...databases to enable researchers...to test the interaction of content, intermediate effects, and long-and short-term behavior. In this effort, we also must relieve measures from cognitive bias.”

Vakratsas and Ambler 1999
MASB TV 2008

Theoretical Framework cont

“...research efforts would be more insightful if the focus were on measures of...behavioral change, rather than exclusively on cognitive measures such as recall (awareness) or attitude change.

The present study is among the very few to use (a behavioral brand choice measure) of demonstrated reliability and validity.

The single most important...factor related to the persuasiveness of the commercial is the presence of a brand-differentiating message.

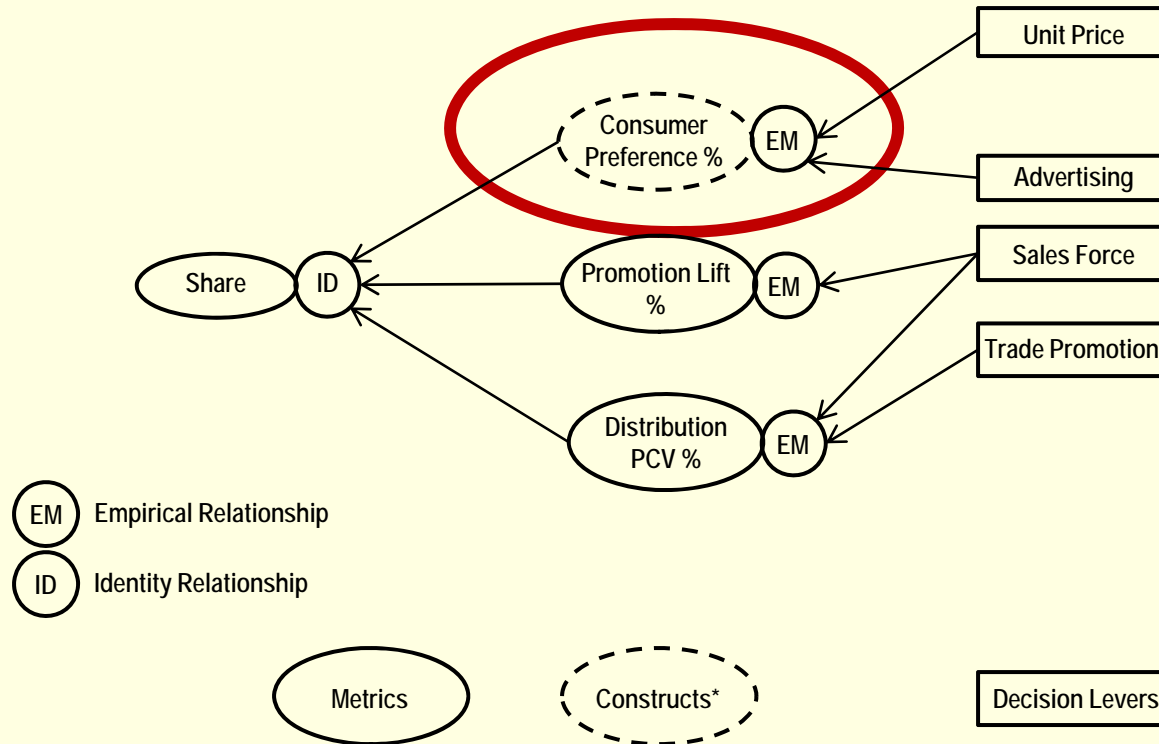
Stewart and Haley (1983) have suggested that the primary function of marketing communication should be to suggest a basis for consumer choice.

Choice rules tell the prospective buyer how to choose a particular brand.

A brand-differentiating claim must introduce meaningful variation among alternatives, but it need not be directly related to product performance.

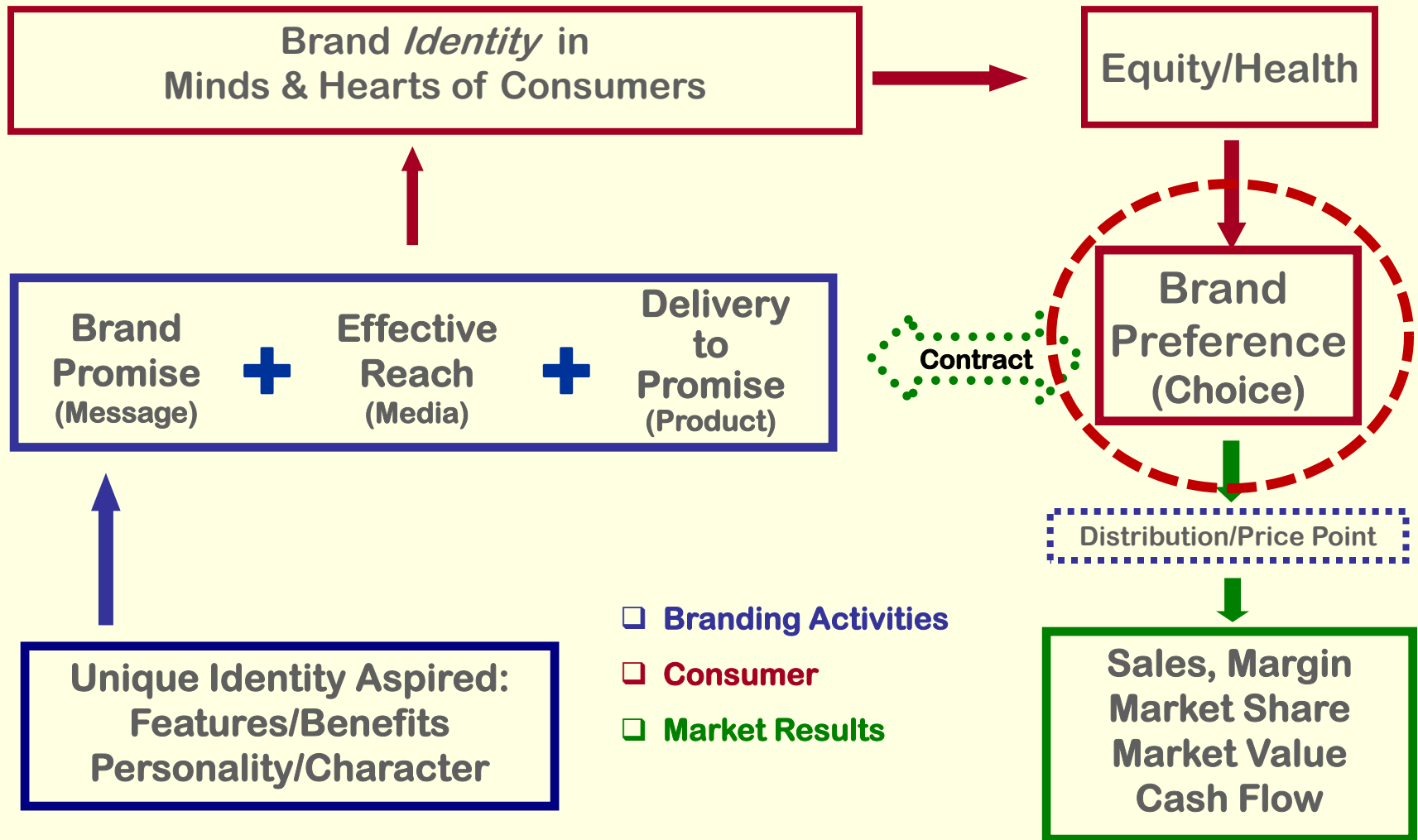
When products are perceived to be very similar, any basis for differentiation ...may represent the basis for choice”.

Farris & Reibstein Model



...strongly suggests the need for a third metric, “preference”, to create an attractive identity that may be useful in separating empirical effects and allowing for important interactions.

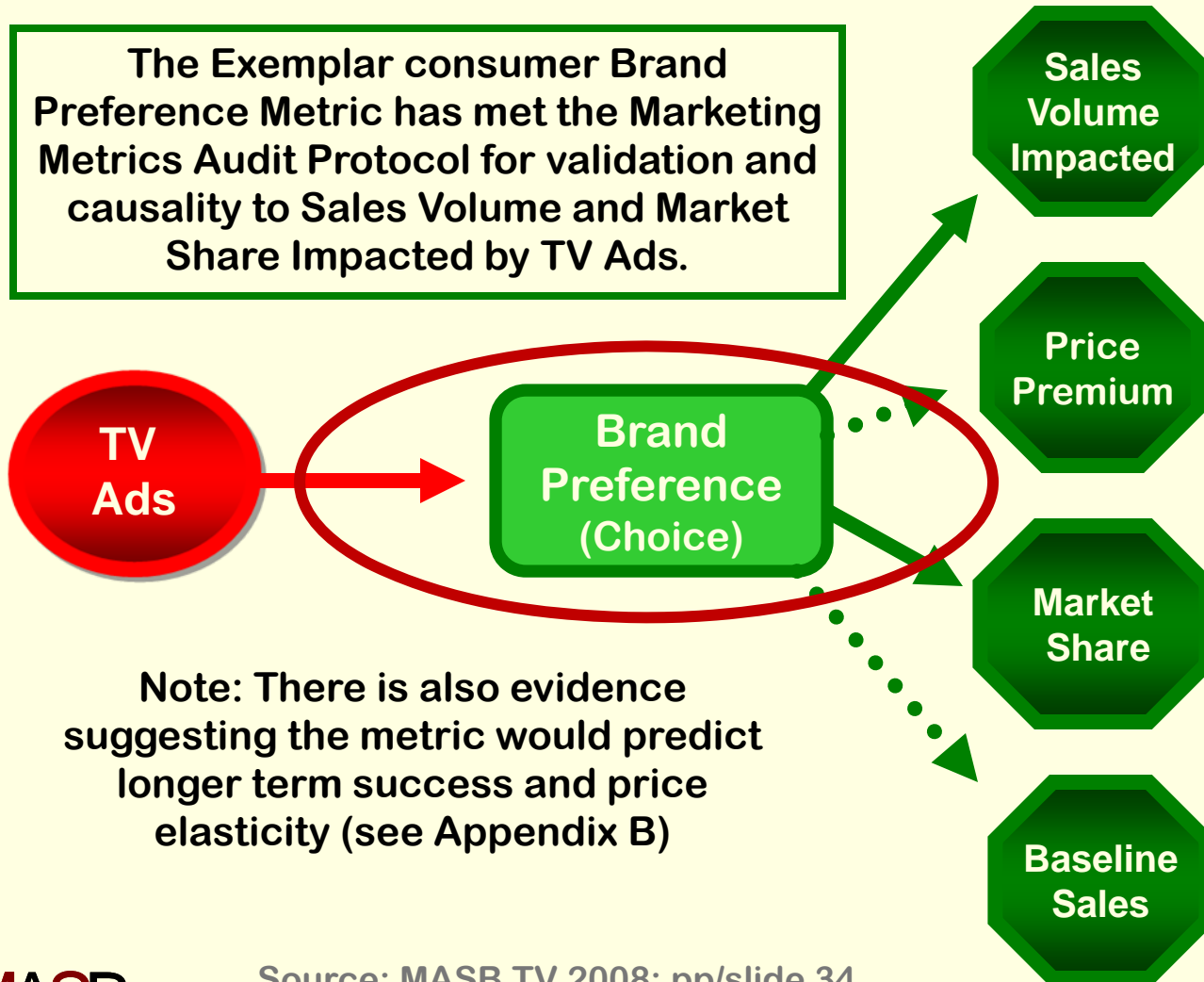
Model Proposed in MASB TV Example



Can Brand Preference Be Measured Directly?

**In a manner that meets the MMAP
Characteristics of an Ideal Measure?**

TV Example: Pre & Post Market Metrics & Validated Links



...Brand Preference (choice) Methodology

QUICK SERVE HAMBURGER RESTAURANTS
(\$5.00 CERTIFICATE)
Please circle the ONE you truly want

01a 03c 05e

08h 14c 15p

16q 20u 21v

YOUR FAVORITE
OTHER
HAMBURGER
RESTAURANT
(write in)

123456

Behavioral, Competitive Context

MMAP: Exemplar Brand Preference Metric

- 1) Relevant . . . addresses and informs specific pending action
 - Is proposition strong enough to proceed w/ad development?
 - How much weight behind each ad to achieve desirable impact?
- 2) Predictive . . . accurately predicts outcome of pending action
 - Predicts ad impact on quarterly sales volume impacted and market share
- 3) Calibrated . . . means the same across conditions & cultures
 - 2 is a 2 and 7 a 7 in US, Latin America, Europe . . . for new, restaging, and established brands . . . no indexing or modeling in derivation
- 4) Reliable . . . dependable & stable over time
 - Test-retest reliability @ >.90 over 3 decades
- 5) Sensitive . . . identifies meaningful differences in outcomes
 - A 2-point difference is detectable, and a 2-point difference results in a .04 difference in quarterly market share

Source: "Measuring and Improving the Return from TV Advertising (An Example)," MASB, April 2008

Exemplar Brand Preference Metric cont

6) Objective . . . not subject to personal interpretation

What consumers choose post-ad exposure minus pre-exposure

7) Simple . . . uncomplicated meaning & implications clear

Level of impact on consumer brand choice

8) Causal . . . course of action leads to improvement

Improvement in return +83% to +130%

9) Transparent . . . subject to independent audit

Furse, Stewart, Jones, (MASB 2008)

10) Quality Assured . . . formal/on-going process to assure above

Systematic reliability and validity processes & management

Source: "Measuring and Improving the Return from TV Advertising (An Example)," MASB April 2008

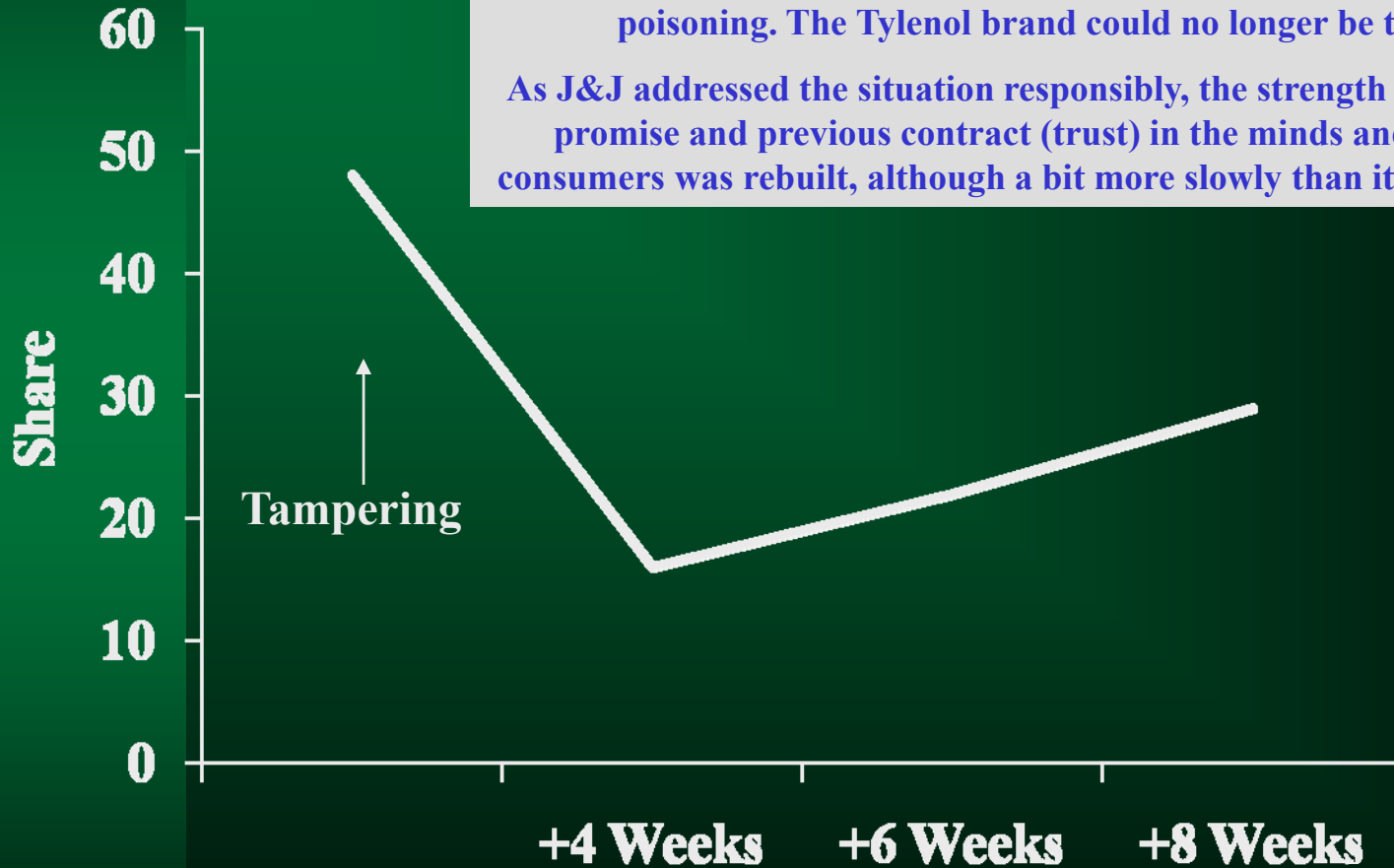
There is also evidence that the
Brand Preference (Choice)
instrument can be used for
assessing the impact of all branding activities
over time (tracking)



Tylenol

Consumer *Brand Preference* plummeted 32 points during the Tylenol Tampering incident, as the nation watched several people die from the poisoning. The Tylenol brand could no longer be trusted.

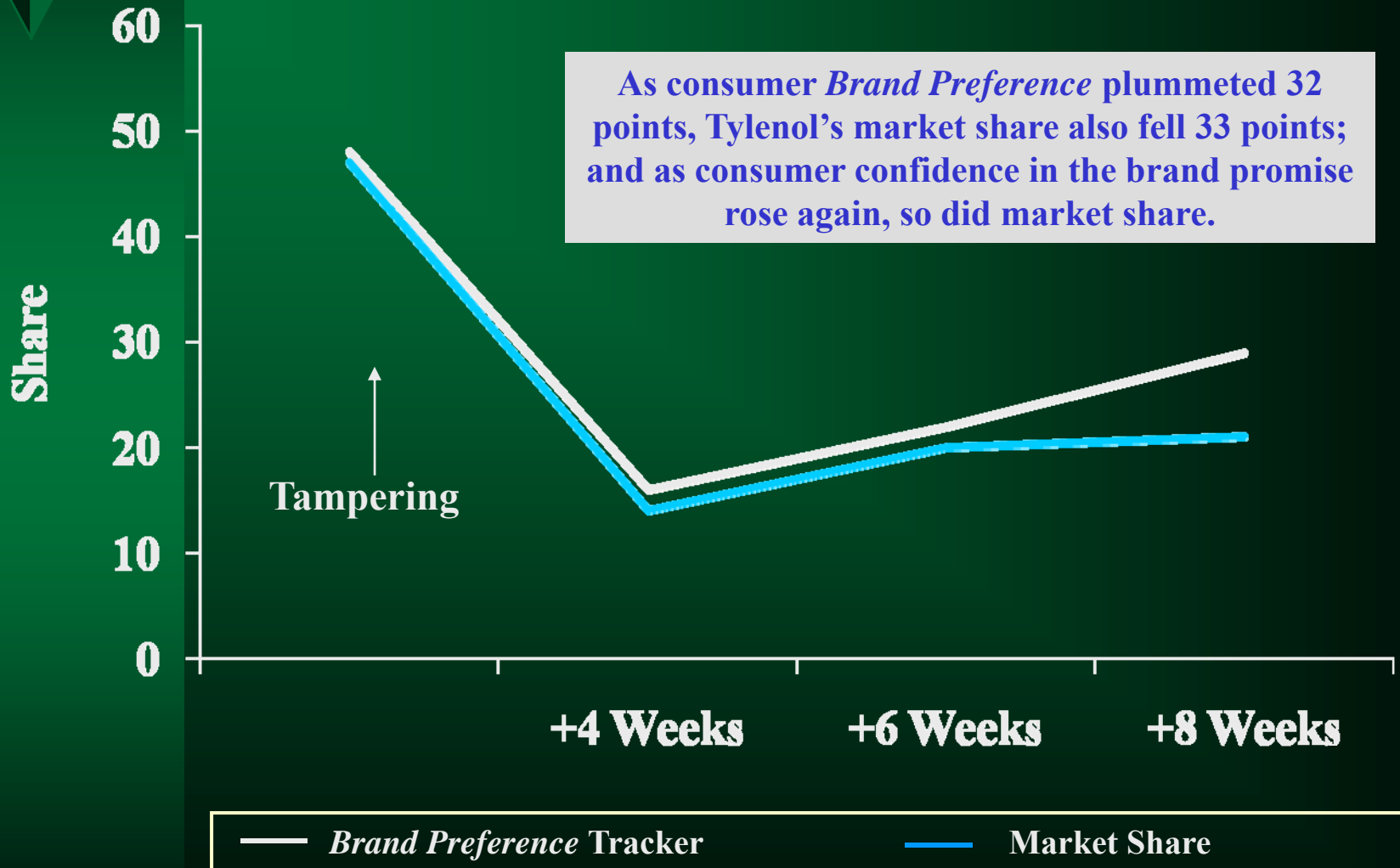
As J&J addressed the situation responsibly, the strength of the brand's promise and previous contract (trust) in the minds and hearts of consumers was rebuilt, although a bit more slowly than it was damaged.



— *Brand Preference Tracker*



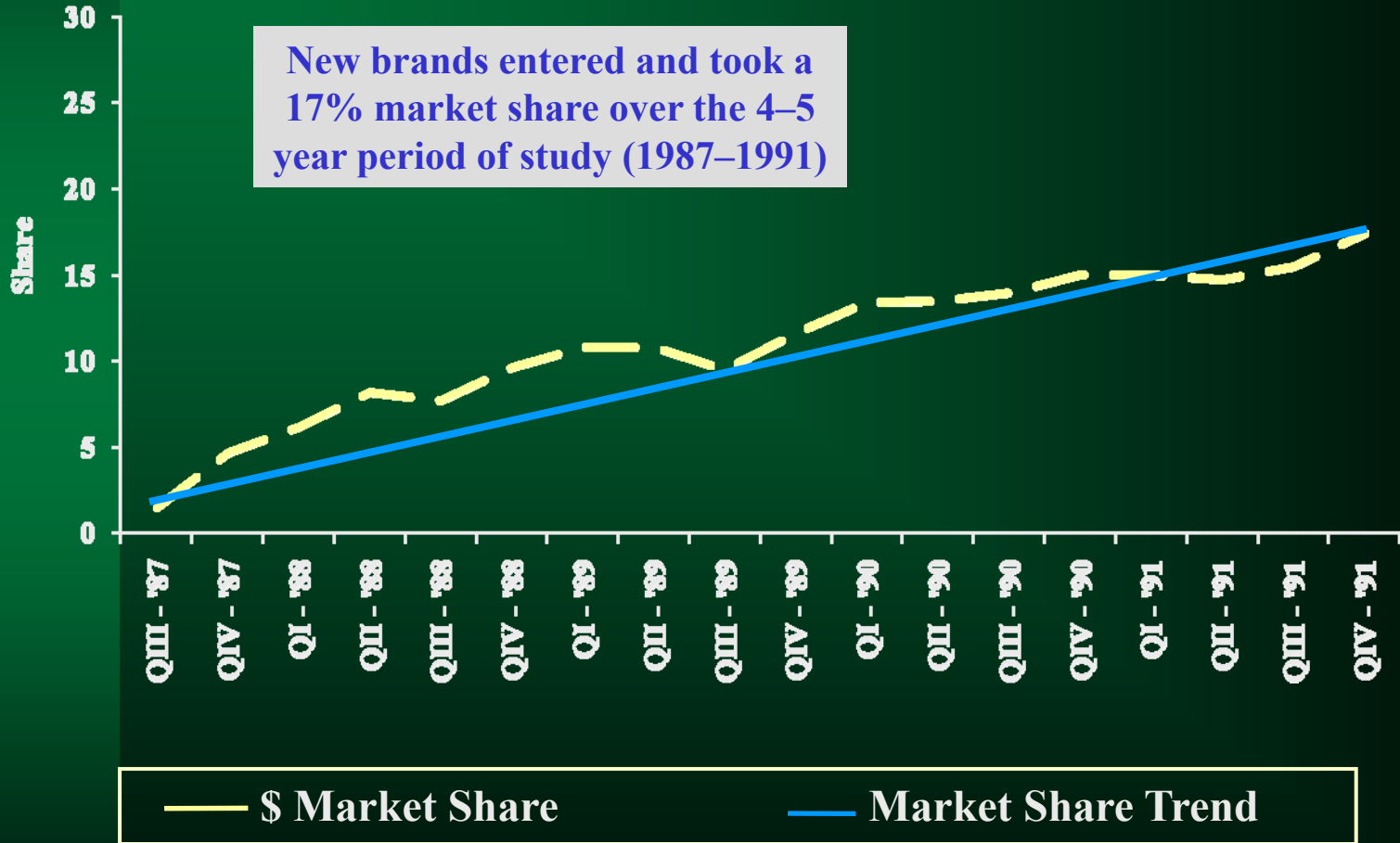
Tylenol



Source: Stewart 2005



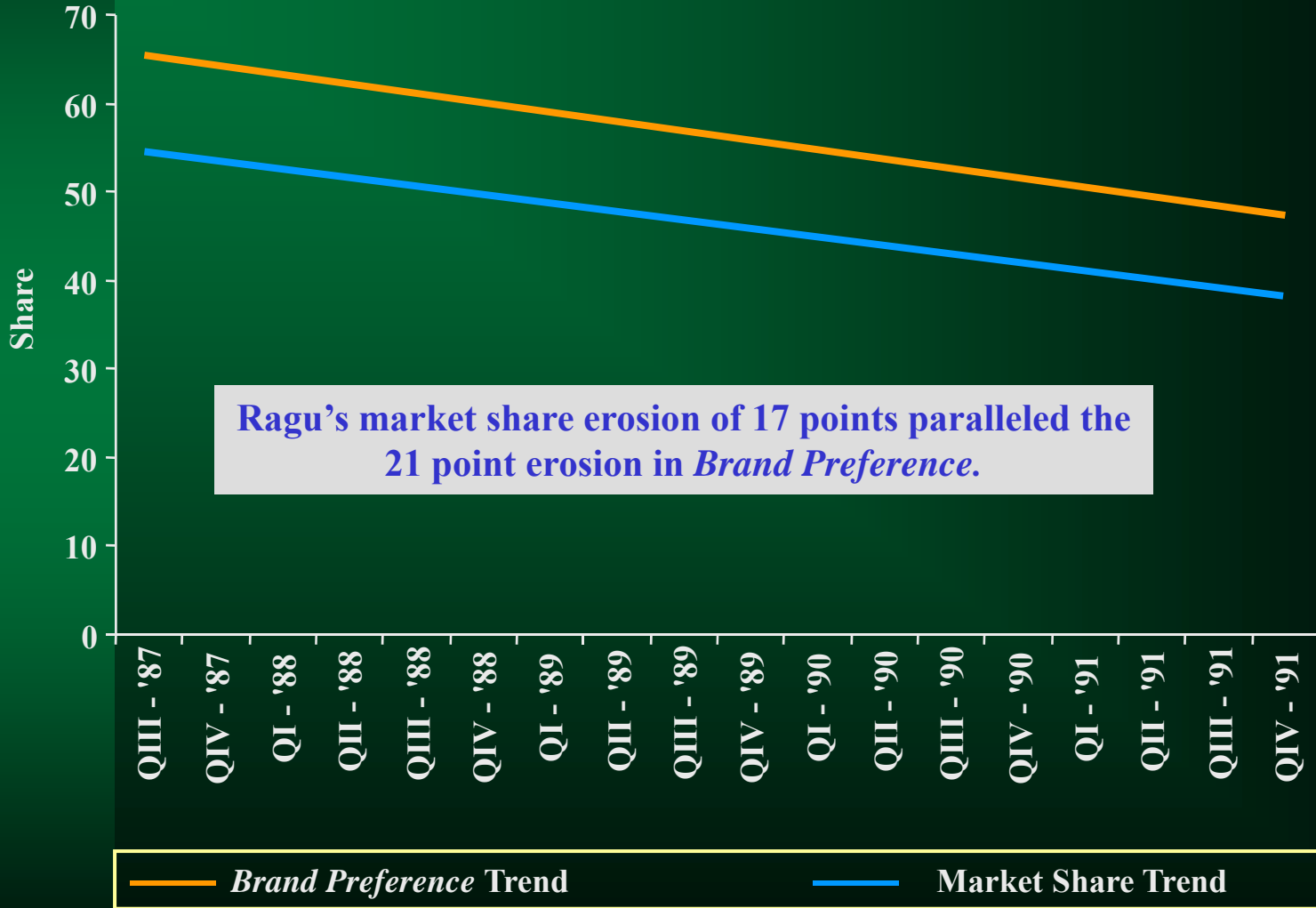
New Spaghetti Sauce Brands



Source: "Observations: The Long and Short of Persuasive Advertising." *Journal of Advertising Research* 34, 4 (1994): 63–69.

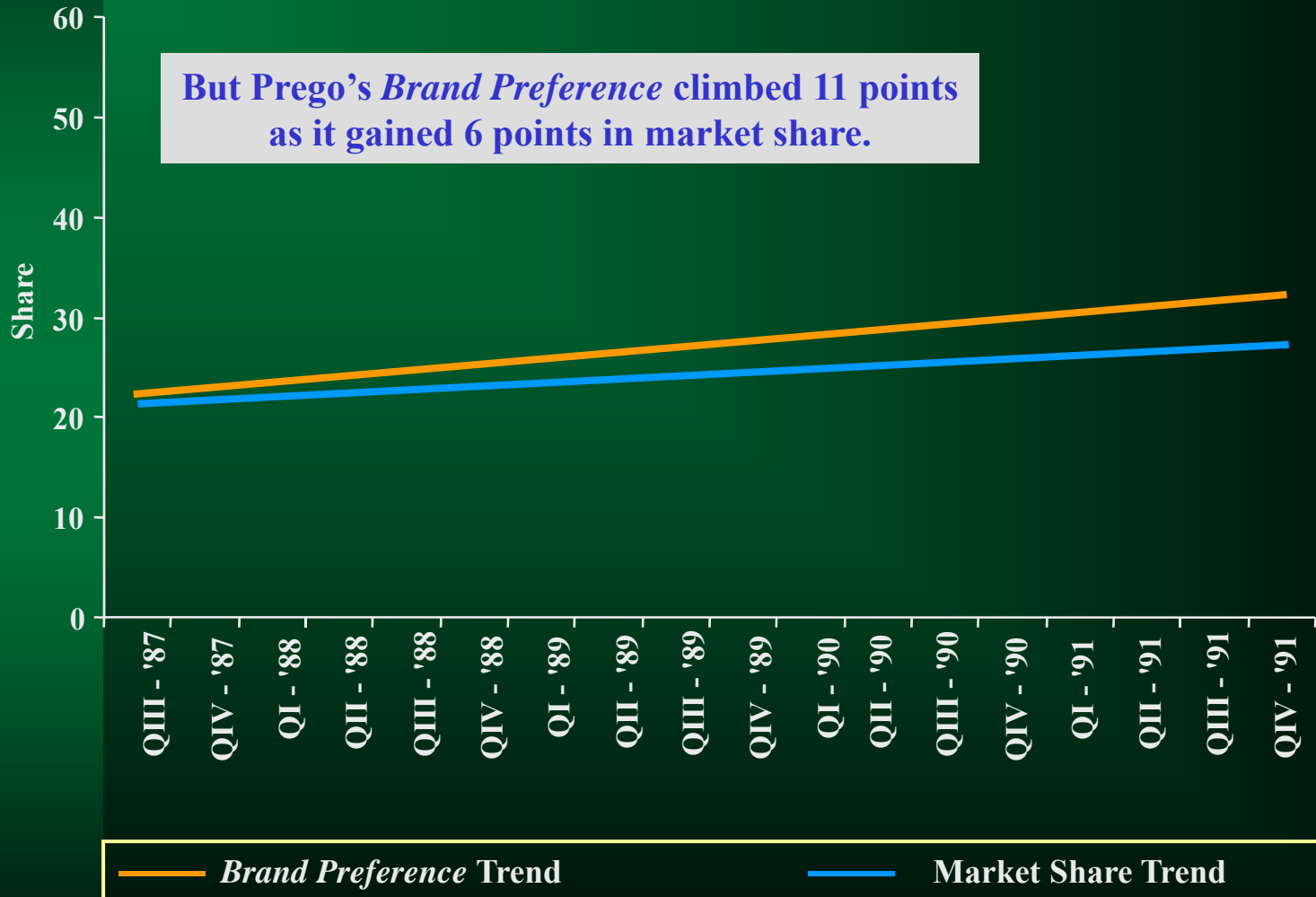


Ragu





Prego



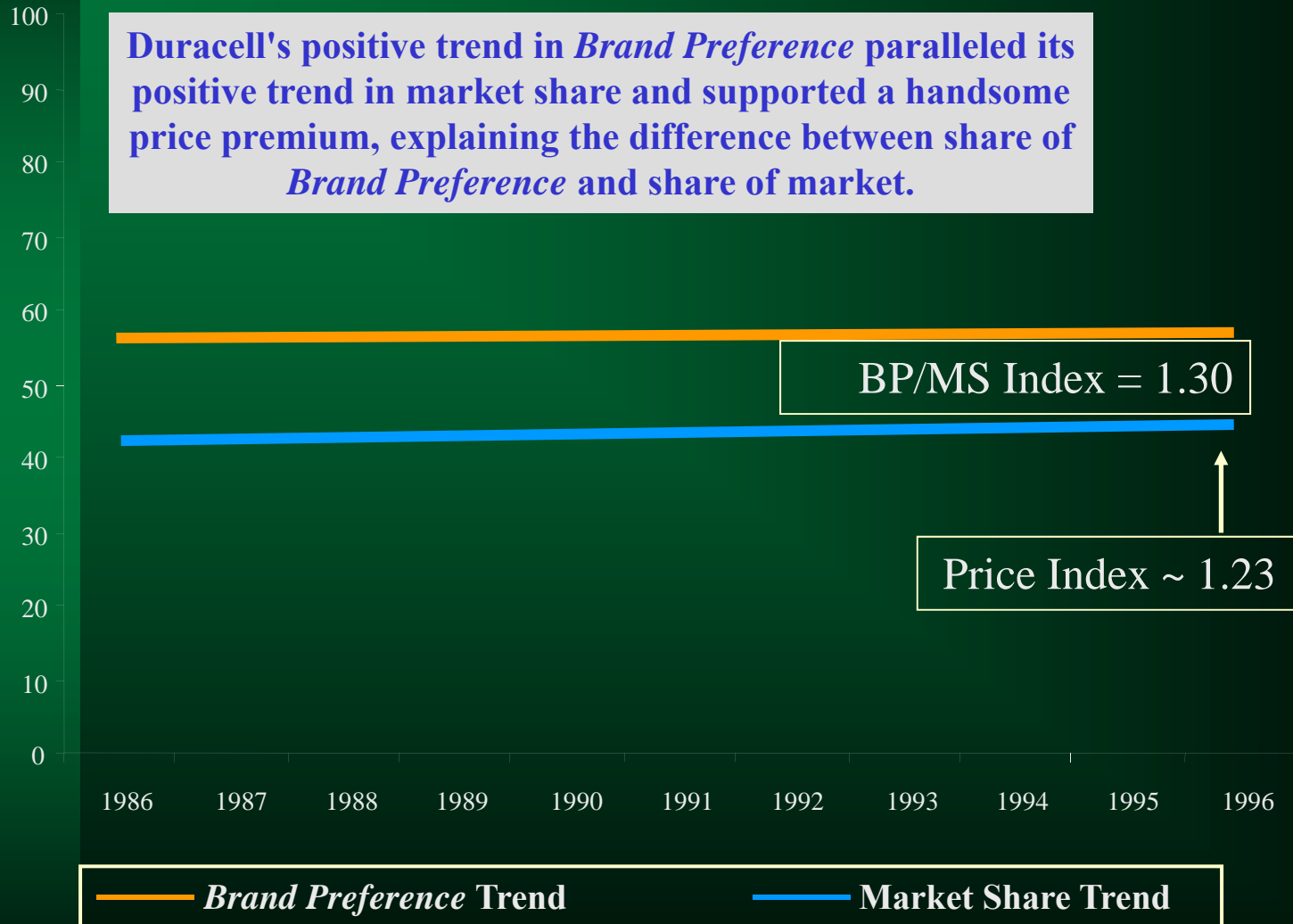
Prego & Ragu Overview (5 Years)

	<u>Prego</u>		<u>Ragu</u>
Total GRPs	15,034	←	20,400
Average Displays	22	←	43
Average Retailer Ads	29	←	37
Average Selling Price	\$1.80	→	\$1.64
Average <i>APM</i> Facts Level	+7	→	+2
Total TV Persuasive Power (<i>PPDs</i>)	679	→	448
Δ Brand Preference	+11 pts	→	-21 pts
Δ Market Share	+6 pts	→	-16 pts
Δ Sales (Units)	+22%	→	-19%

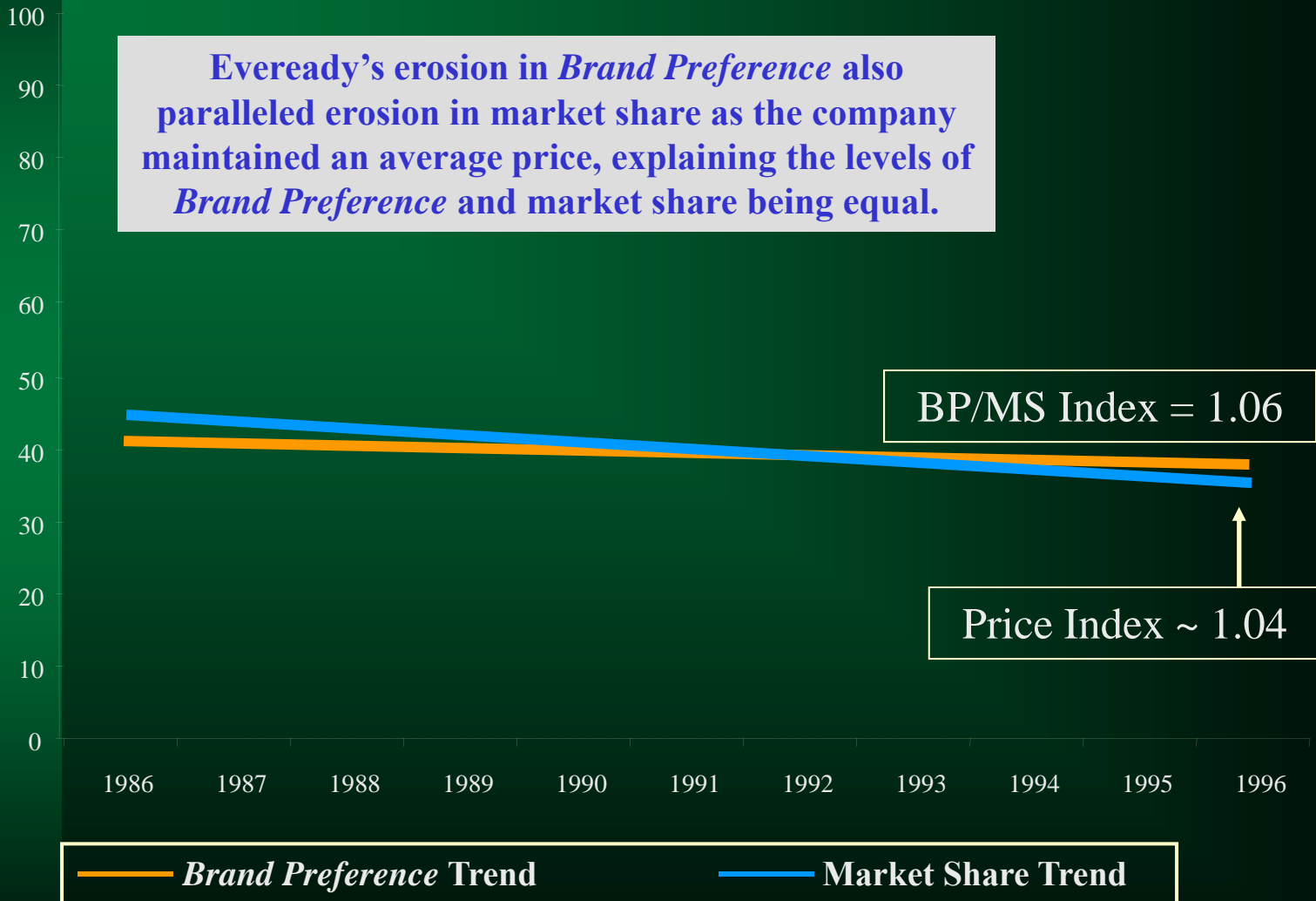
- Ragu spent lots of money in TV, displays, retailer ads, etc., to protect itself from the onslaught of new brands; while Prego spent less money all the way around.
- The difference in performance was the result of Prego's powerful TV Branding activity that **drove consumer Brand Preference** high enough (in both the short term and over time) to **support a 10% higher selling price as well as a growing share of market**, even in the face of the many new brands entering the market and Ragu's heavy spending and price discounting.

Brand Preference & Market Share (Duracell)

Duracell's positive trend in *Brand Preference* paralleled its positive trend in market share and supported a handsome price premium, explaining the difference between share of *Brand Preference* and share of market.



Brand Preference & Market Share (Eveready)





Duracell & Eveready

Overall Financial Terms (End Game)

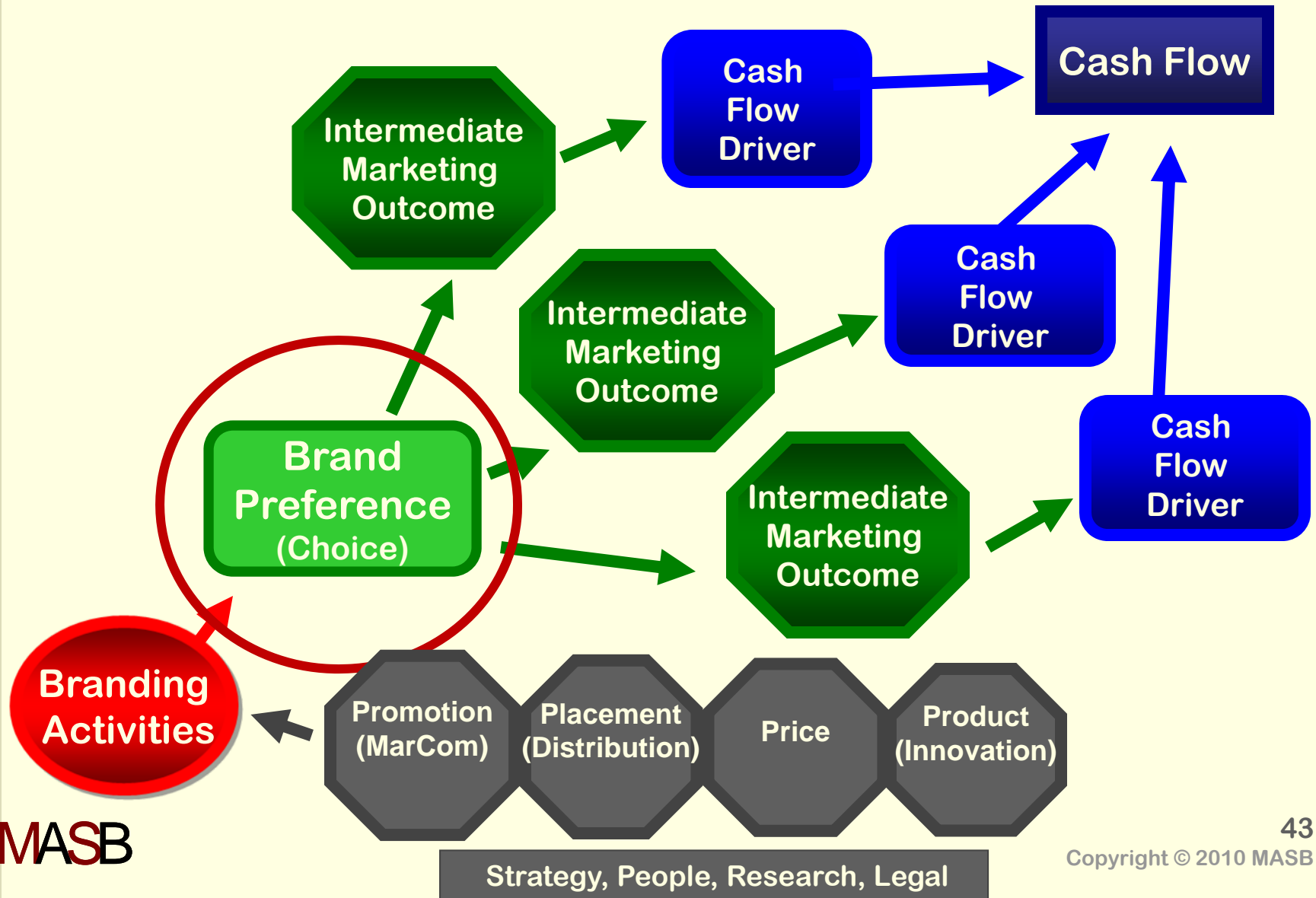
	Duracell		Eveready
Sales (Units)	715M	→	568M
<i>Brand Preference</i>	57%	→	37%
Market share	44%	→	35%
Price per unit	\$1.02	→	\$.86
Profit	\$609M	→	\$275M
Market Value*	\$8B+	→	\$3 B

While both brands began the alkaline race at the same starting point in unit sales, Duracell managed the Brand/Equity by continually **building consumer Brand Preference, Sales, and Market Share while charging a premium price**; the prize at the end of the 10 years was **nearly a 3 to 1 market value** of the Duracell Company over Eveready.

Source: Blair and Schroiff, "Advertising: today's sales or brand-building for tomorrow?" *Quirk's Marketing Research Review*, May 2000.

* The Companies were sold for these prices within a year or so of the study end.

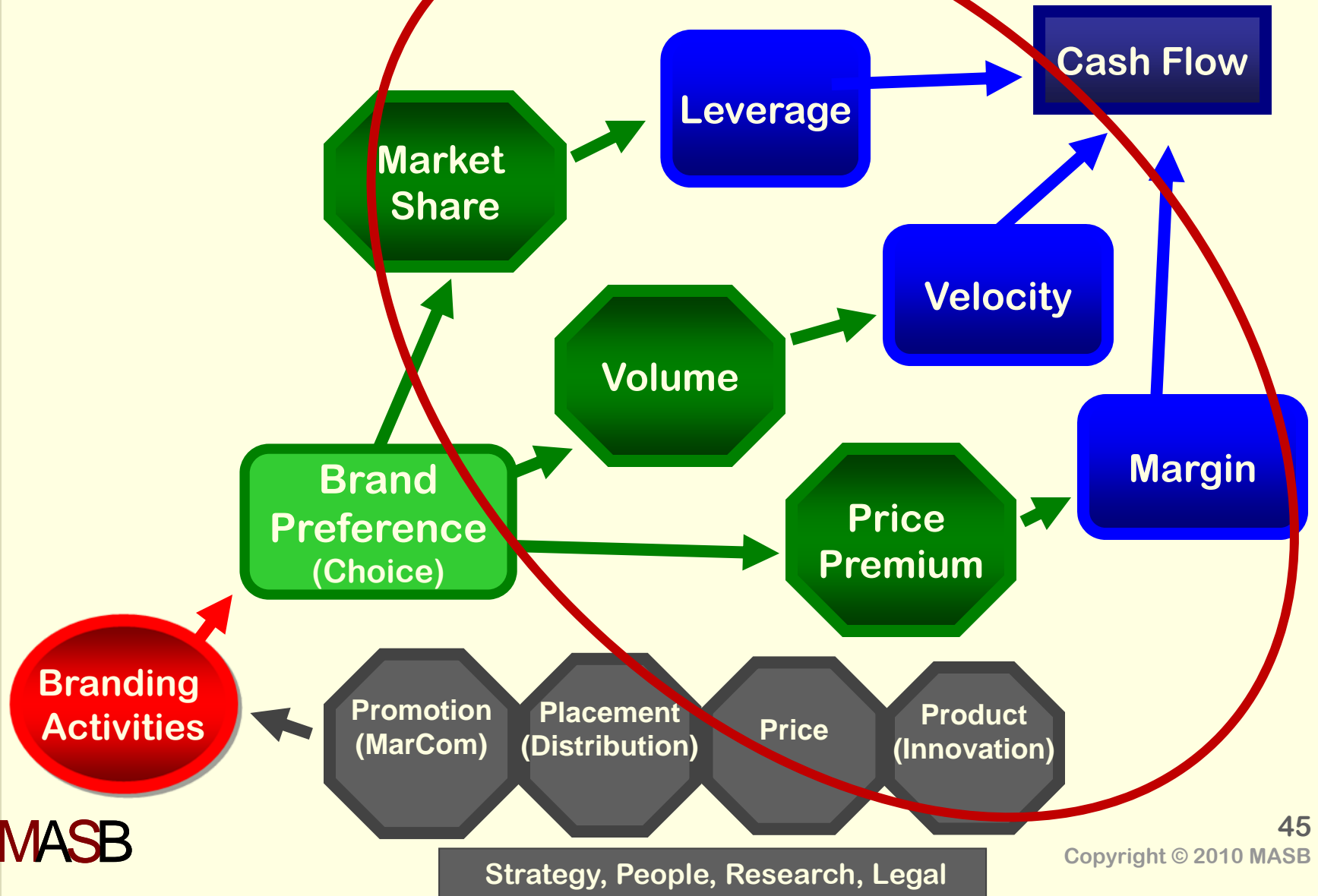
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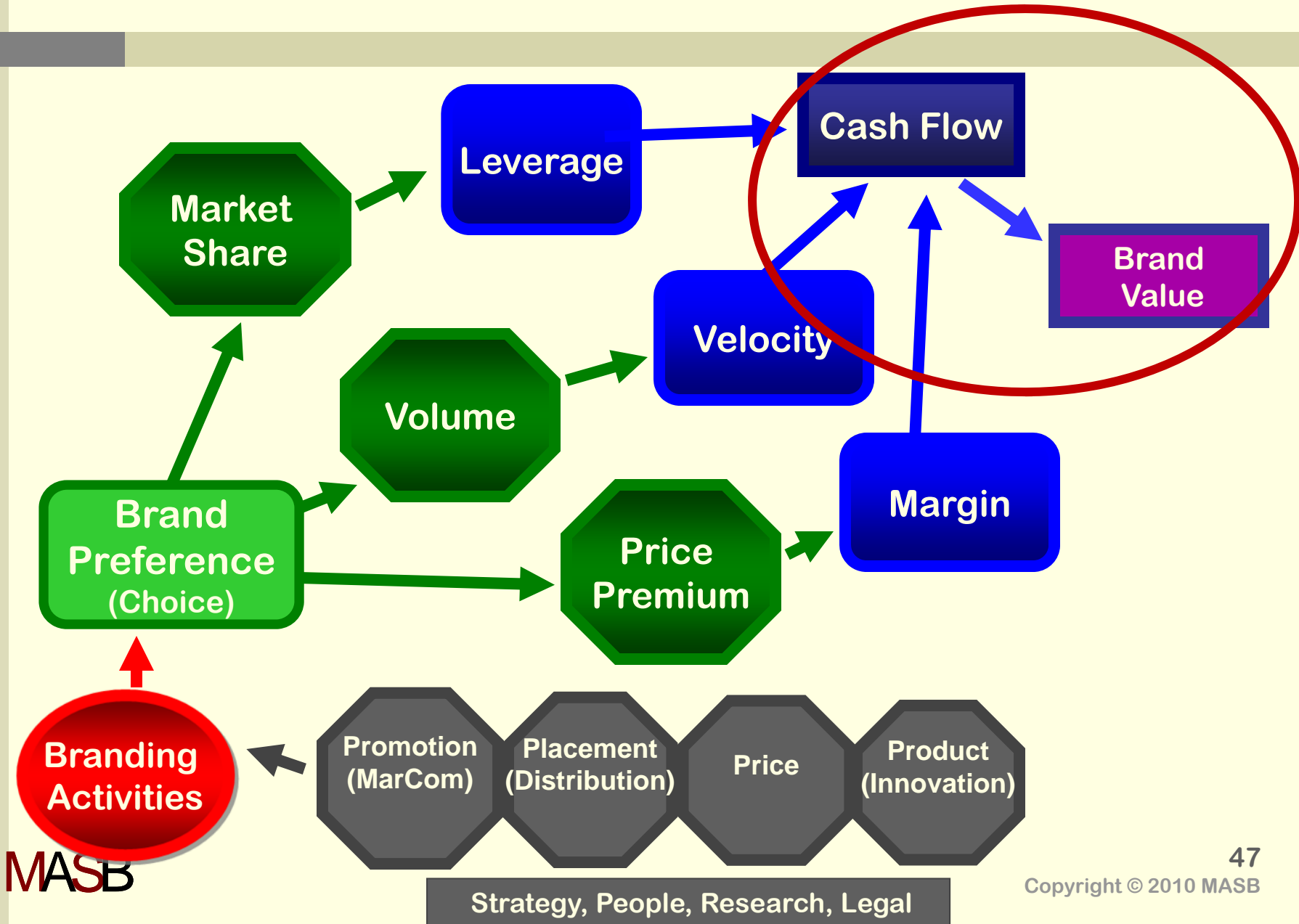
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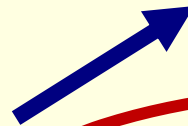
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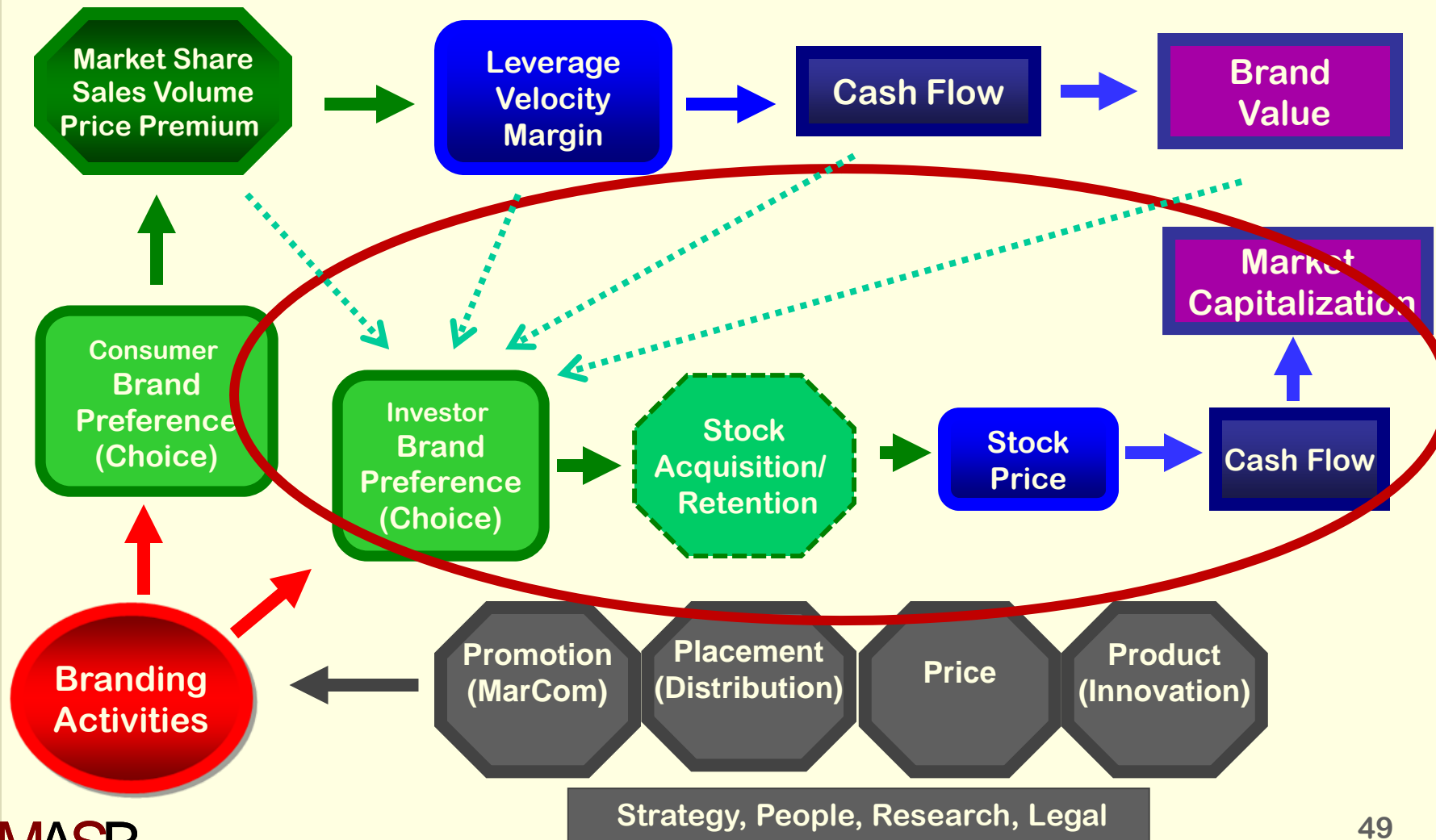
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MMAP: Branding Model (Draft)



Q & A

- **Q. Will MASB be endorsing the specific metrics/providers?**
- **A. MASB will not endorse any specific metrics or providers, rather it will document, reveal and highlight how various metrics stack up against the MMAP characteristics. The market will select the specific metrics based on these characteristics. MASB's Metrics Catalogue will be the primary vehicle for documentation and publication.**

Break-Out (Groups A & B)

Assume there is a “generally accepted brand valuation standard” for measuring, reporting, forecasting and improving return from branding activities

How will this change the game?

+/- and why?

	A	B
Finance	Kampsen	Matthews
Marketing	Liodice	Lewis
Leader	Stewart	Lehmann
Recorder	Kuse	Farris

Report Group A

General Comments/Questions

Need to focus on which are key value drivers.

Need to understand causes of variation in metric chosen.

A “true branding” metric would capture more than marketing (function) activity

By “brand” do we mean reputation?

Current valuation theory doesn’t take social marketing factors into account.

Other constituencies who will be affected:

Analysts, Management, Investors, FASB, Lenders, Consumers

Negative

Might reduce new brand “risky” innovation.

Marketers will be accountable for things not under their control.

Positive

Start-up brands would get a longer chance to grow.

Will be able to determine cash flow attributable to brand.

Reduction in number of brands (not just based on share).

Easier to assess productivity.

Easier to manage activities.

Long-Term investment in brands

Report Group B

General Comments/Questions

Investor buy-in, incentives, impact on employees?

Resource allocation...manipulation of number, audit required?

How many brands could it handle? Product versus corporate brands?

Does brand value depend on who owns it?

Effect on creativity, intuitive leaps?

Today there are too many approaches to brand valuation and they do not converge.

Still might not understand drivers of brand equity.

Diagnostic applications versus valuation..might still guide marketing ..like awareness

Negative

More questions to management on why number changing.

Selective disclosures...delude competitors.

Volatility from both good and bad events might be increased..compared to stock market.

Fewer measurement companies/approaches.

Positive

Elevate marketing if metric predicts top and bottom line performance.

Will require estimates of return on brand investment.

Disciplined, accountable spending..social responsibility..

More focus on brand building activities (but don't control all of them)

Could break down silos..joint contributions

Fewer measurement companies/approaches.



Thank-you!



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of the Marketing Accountability Foundation**