
MASB Research Project

The Street

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Marketing Accountability Standards Board
of the Marketing Accountability Foundation

The Street Project

Objectives

Begin dialogue with analysts to determine interest in greater standardization of marketing metrics available to them. Understand pain points of buy and sell side analysts.

Explore metrics they might need to reliably value the return, result, efficiency of marketing spend.

This first step will start the process and bring high level attention to MASB and its Mission/promise.

It will determine and/or create the need for understanding marketing metrics and their potential use in firm performance and valuation in a way that is meaningful to the CEO.

Description

Interviews with financial analysts, needs assessment, gap analysis, start of discussion around education and ratio development needs. Potential creation of accounting standards based metrics/ratios.

The Street Project

I. Frame-Up (Emerging Issue Abstract)

II. Research

- A. what is known/not known/need to know
- B. new learning
- C. preliminary summary and conclusions

III. Review

- A. open debate by MASB (revisions/approval)
- B. open debate by MASAC (revisions/approval)
- C. posting for Industry challenges

IV. Adoption by MASB

V. Publication

VI. Education

VII. Systematic review over time (revisions)

Financial analysis 101

- **Financial analysis** refers to an assessment of the viability, stability and profitability of a business, sub-business or project.
- It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. These reports are usually presented to top management as one of their bases in making business decisions. Based on these reports, management may:
 - Continue or discontinue its main operation or part of its business;
 - Make or purchase certain materials in the manufacture of its product;
 - Acquire or rent/lease certain machineries and equipments in the production of its goods;
 - Issue stocks or negotiate for a bank loan to increase its working capital.
 - other decisions that allow management to make an informed selection on various alternatives in the conduct of its business.

Fundamental vs. technical analysis 101

- **Fundamental analysis is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies).**
- **Technical analysis is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume. Technical analysts do not attempt to measure a security's intrinsic value, but instead use charts and other tools to identify patterns that can suggest future activity. Technical analysts believe that the historical performance of stocks and markets are indications of future performance.**

Ratios, ratios ratios.....

- **1) Liquidity Measurement Ratios**
 - - Current Ratio
 - - Quick Ratio
 - - Cash Ratio
 - - Cash Conversion Cycle
- **2) Profitability Indicator Ratios**
 - - Profit Margin Analysis
 - - Effective Tax Rate
 - - Return On Assets
 - - Return On Equity
 - - Return On Capital Employed
- **3) Debt Ratios**
 - - Overview Of Debt
 - - Debt Ratio
 - - Debt-Equity Ratio
 - - Capitalization Ratio
 - - Interest Coverage Ratio
 - - Cash Flow To Debt Ratio
- **4) Operating Performance Ratios**
 - - Fixed-Asset Turnover
 - - Sales/Revenue Per Employee
 - - Operating Cycle
- **5) Cash Flow Indicator Ratios**
 - - Operating Cash Flow/Sales Ratio
 - - Free Cash Flow/Operating Cash Ratio
 - - Cash Flow Coverage Ratio
 - - Dividend Payout Ratio
- **6) Investment Valuation Ratios**
 - - Per Share Data
 - - Price/Book Value Ratio
 - - Price/Cash Flow Ratio
 - - Price/Earnings Ratio
 - - Price/Earnings To Growth Ratio
 - - Price/Sales Ratio
 - - Dividend Yield
 - - Enterprise Value Multiple

Buy and Sell Side analysis 101

- The **buy side** is the side of Wall Street comprising the investing institutions such as mutual funds, pension funds and insurance firms that tend to buy large portions of securities for money-management purposes.
- The **buy side** is the opposite of the **sell-side** entities, which provide recommendations for upgrades, downgrades, target prices and opinions to the public market. Together, the buy side and sell side make up both sides of Wall Street. For example, a buy-side analyst typically works in a non-brokerage firm (i.e. mutual fund or pension fund) and provides research and recommendations exclusively for the benefit of the company's own money managers (as opposed to individual investors). Unlike sell-side recommendations - which are meant for the public - buy-side recommendations are not available to anyone outside the firm. In fact, if the buy-side analyst stumbles upon a formula, vision or approach that works, it is kept secret.
 - -investopedia (www.investopedia.com)

Preliminary study efforts

- Buy and sell side analyst contact info located on IR Channel by company followed
 - Visa, eBay, Gap, P&G
- Cold-called analysts and set up appointments for interview
- Followed up with some per email. Bad idea
- Initial results show a VERY strong desire for more information about the marketing expense line item as well as validation and standardization of metrics

No one is satisfied with available info

- No respondents were able to say anything about marketing except that it was an expense line and a large one at that.
- Marketing budgets of companies tracked ranged from 0 – 20% with an average of about 16% of revenue allocated to marketing.
- When asked how satisfied analysts were with the level of information available given the amount spent, all answered with *barely* or *not at all* (choices were: very, somewhat, barely and not at all)
- Generally, all respondents expressed extreme dissatisfaction. One asked of the company he tracked :
 - *“Does XXX even care what they do with their budget or is it just a big slush fund? I mean really...”*

Need more info and need standards

- All respondents indicated that they wanted to see information quantifying the financial return (short and long term) from marketing expenditures. Some “definitely” and some “in certain scenarios”.
 - Scenario qualification generally had to do with analysts’ desire to understand the analysis methodology and their ability to verify info supplied. They are all generally distrustful of all public info.
- All respondents wanted to see metrics on a firm’s marketing effectiveness/efficiency.
 - “Standardization is incredibly useful and we don’t have any!”
 - “Yes, assuming standards and quality of standards”
- All agreed that the information should be standardized
 - Two suggested that metrics should be made pertinent to given industry.

What metrics then?

- *Can you give a few examples of the kind of metrics or ratios you would like to see?*
- When asked unprompted, some were unsure of what they might like to see but all wanted to see more.
 - There were two specific requests for any metric that would tie marketing efforts to bottom line results **specifically short and long term results.**
 - One wanted to see **more detail on the expense line.** What was dedicated to brand vs. direct vs. online vs. channel vs. channel incentives vs. sponsorship etc.
 - And one is killing himself just trying to get response rates on direct marketing.

Wall Street wants marketing metrics

- *Should market-based assets (such as brand value, customer equity, and channel equity) be on the balance sheet?*
 - Two said *definitely* and three said *in some circumstances* with the caveat that they wanted to see the info only if a company leads with that metric.
- *Do you feel that Wall Street recognizes the long-term importance of intangible market-based assets such as brand value, customer equity, and channel equity?*
 - Wall Street needs more education but increasingly brand value and CLV are being taken into consideration. Still, the analysts are only guessing at how to measure.
 - “For certain companies, strong perceived brand value can overtake bad fundamentals.” – buy side analyst

The money question... Who wants a MASB?

- *If you knew (through public involvement or a disclosure statement) that Company A embraces the Standards put forth by MASB and Company B does not. Would Company A receive a more positive valuation from you?*
 - *Definitely* 1
 - *Not really* 1
 - *In certain scenarios* 3
- “Depends on how effectively they are investing those marketing dollars whether or not they report.” -fundamental analyst
- “After research to prove validity of metrics. I’d then want to prove the metrics out in my own models” -quant market analyst
- “There are always exceptions, I certainly have a generally more positive outlook with better disclosure and reporting, but all other things being equal, Yes.” -sell side analyst

Take-aways for MASB

- The analyst community cares
- Wall Street cares
- CEOs care about what wall street thinks (ergo CMOs, CFOs)

- But Wall Street needs help
- They are dubious of firms' self reported valuations
- They want to understand metrics
- They want standardization and validity
- The demand for valid and trustworthy metrics is increasing
- Buy side, sell side, fundamental and quantitative analysts are interested

- So.... validate, standardize and educate.

Next Steps

- Project approval by MASB Chair (Done 6/08)
- Design Interview/Talking Points (MJ & Mike 7/08)
- Circulate to MASB for feedback (MJ 7/08)
- Begin Interviews (MJ/Mike et al 7/08)
- Review & Status Deck for Summit (MJ 7/7/08)
- **Revise questions based on feedback (MJ/Mike 8/22/08)**
- **Reach out for further interviews (MJ/Mike et al 9/01/08)**
- **Gather 15 candidates for round table discussions (MJ 10/01/08)**
- **Round table discussions (MJ/Mike 10-11/08)**
- **Compile findings and submit to MASB (MJ 12/01/08)**
- **Submit findings for publication (MJ/Mike 1/01/09)**



Thank-you!



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