MASB
Standards Project
Brand Investment & Valuation
Project Review & Status

Mike Hess, EVP
Data Fusion and Integration
The Nielsen Company
Project Lead
February 2012
St Pete FL

MASB

Marketing Accountability Standards Board
of the Marketing Accountability Foundation

Current Landscape

- **All firms utilize some method for "valuing brands" when acquiring or divesting**
  - **But these valuations are generally performed by accountants**
  - **Without marketing metrics/input.**
- **Some firms keep eyes on the values of published "top brands"**
  - **But "brand value" varies dramatically across provider**
  - **Both on absolute basis, and direction of change over time**
- **There are no generally accepted standards for performing these valuations**
- **Nor have the metrics representing "brand strength" among customers been tied to market and financial outcomes in a predictable fashion**
- **Further, Jan Hofmeyr's work w/Conversion Model shows us that, in most categories, loyalty for a specific brand is limited**
- **There are also media implications for the distinction between "brand value" and "customer value" (Stewart and Hess, 2011)**

MASB

Current Landscape (cont)

- **Many firms track "brand health/strength/equity" over time**
  - **With multiple survey questions**
  - **To get at awareness, image, willingness to pay, etc**
  - **Often monitoring them on their marketing dashboards**
  - **But these have not been tied to market & financial outcomes**
- **Many firms also utilize Marketing Mix Modeling**
  - **To determine impact of various activities on sales volume**
  - **But these are generally conducted after the fact and for relatively short periods of time, a quarter or year**
  - **Importantly, the "baseline" portion (likely driven by brand strength) is usually the largest part (about 2/3) of the full mix**
- **Some firms are using a measure of brand preference (choice)**
  - **Find it to be reliably predictive of market behavior**
  - **And financial outcomes**
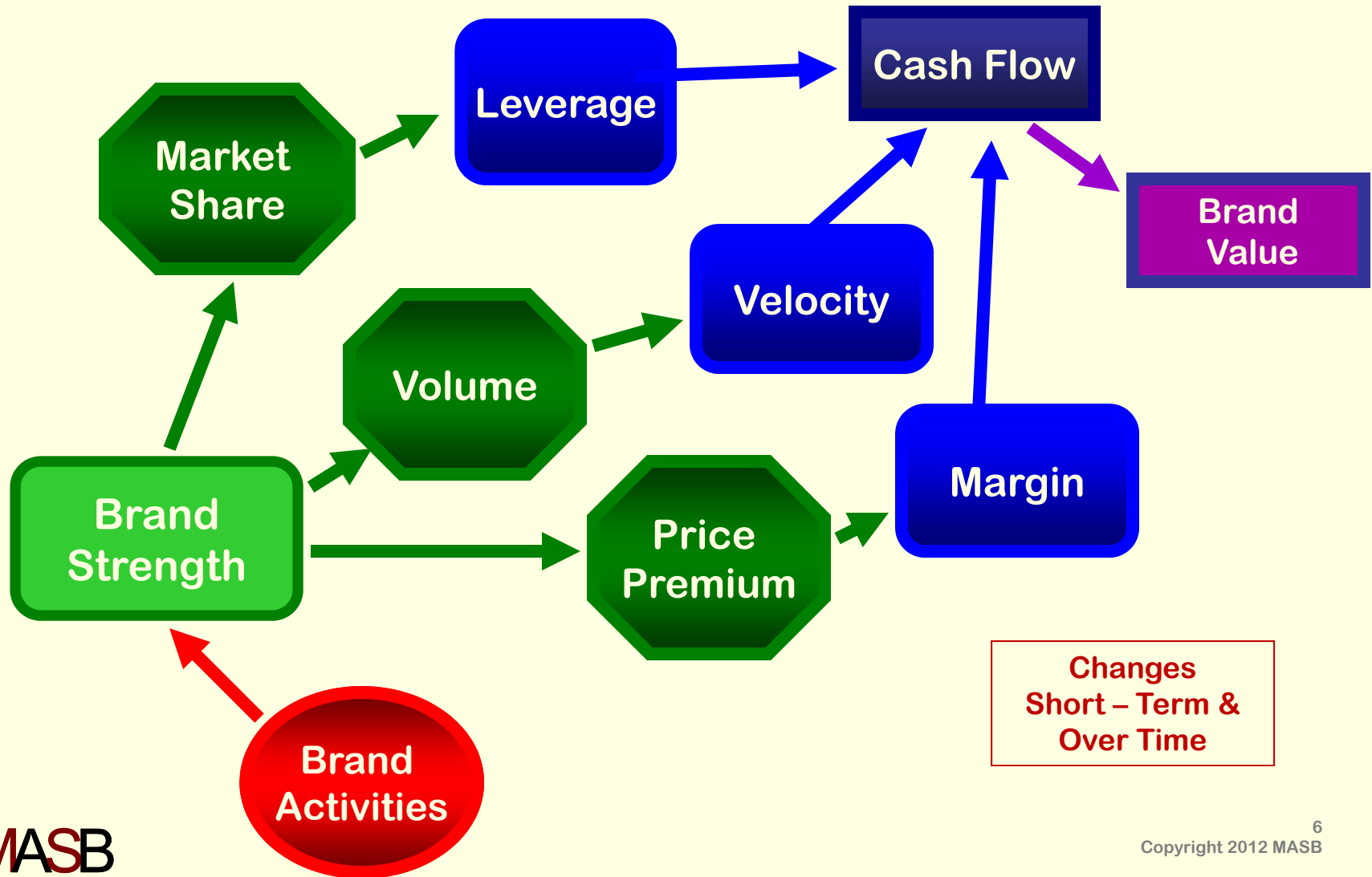 - **Both short-term and over time**

MASB

The BIV Methodology & Trials

- **Will demonstrate how the marketing & financial concepts relate to one another empirically (according to MMAP)**

- **With standard metrics that are simple, transparent, relevant, and calibrated across categories, cultures & conditions**

- **And reliably linked to both short & longer term financial return**
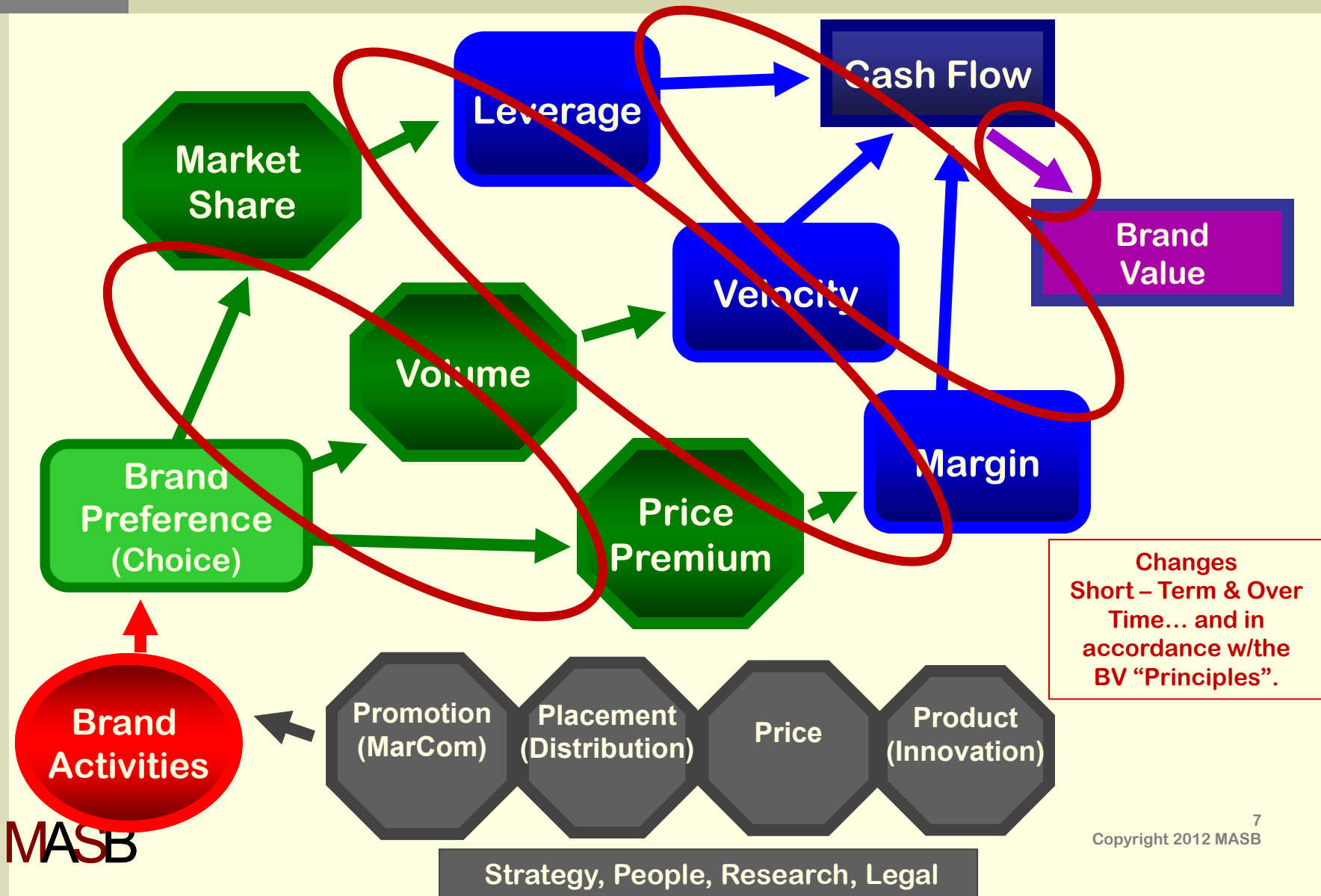
MASB

The BIV Methodology & Trials (cont)

- A group of leadership companies (w/3-5 brands) will engage in a forward multiyear tracking project where solid bridges will be built
  - From Customer Level impact metrics
    - Brand Preference/choice for all brands
    - Brand Equity/Health collected by each brand
  - To Market Level impact metrics
    - Measures of Volume, Market Share, Baseline, Price Premium
  - Then to Operating Financial Level impact metrics
    - Measures of Velocity, Margin, Leverage, Cash Flow
  - And to Non-Operating Financial Level impact metrics
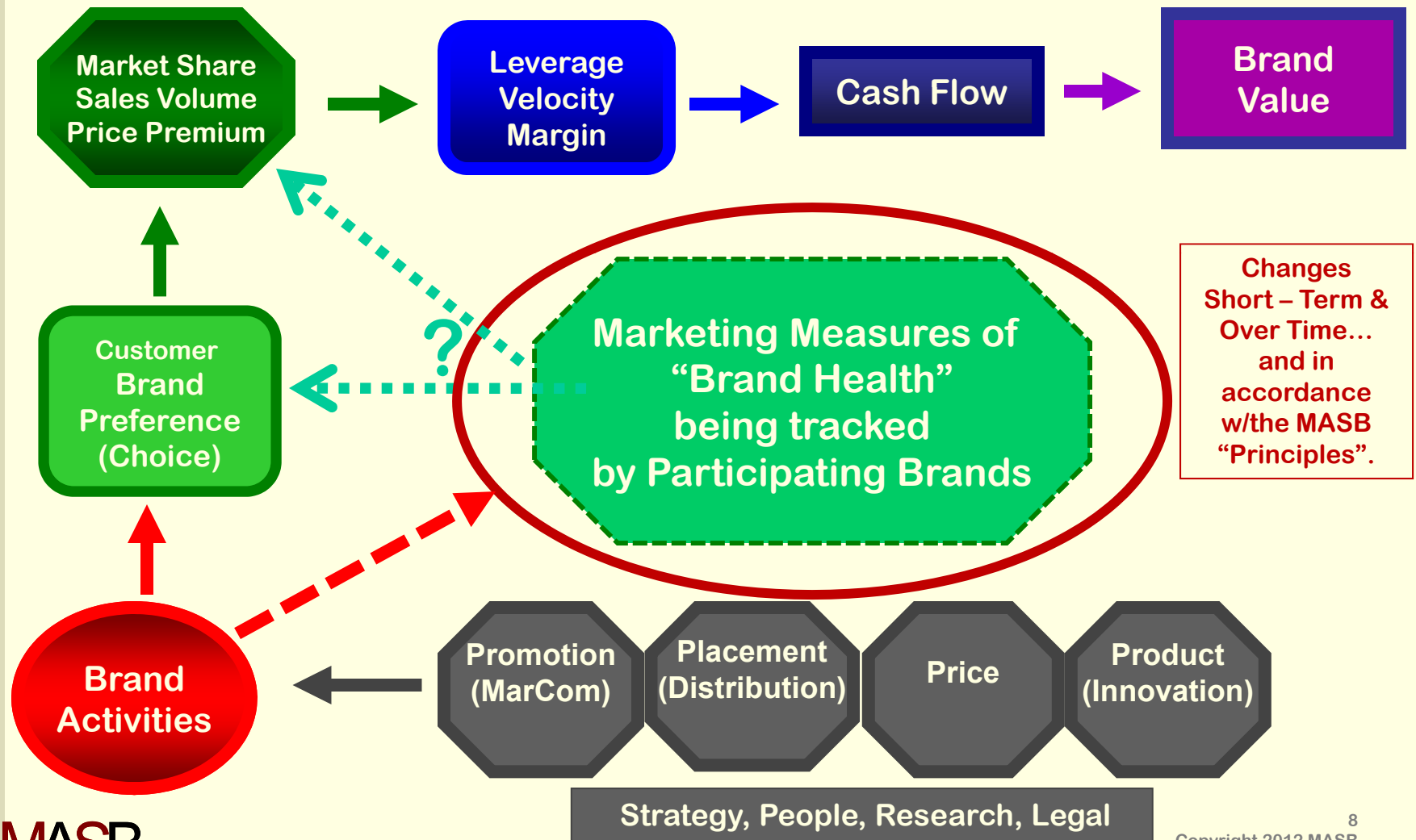   - Brand Value as Asset

MASB

MMAP: Brand Investment/Valuation Model (Conceptual Links)

Build Bridges: Brand Preference to Brand Value

Market Share

Leverage

Cash Flow

Brand Value

Velocity

Volume

Margin

Brand Preference (Choice)

Price Premium

Brand Activities

Promotion (MarCom)

Placement (Distribution)

Price

Product (Innovation)

Changes Short – Term & Over Time… and in accordance w/the BV "Principles".

Strategy, People, Research, Legal

MASB

Build Bridges: Other Measures of "Brand Strength"

Market Share
Sales Volume
Price Premium

Leverage
Velocity
Margin

Cash Flow

Brand
Value

Customer
Brand
Preference
(Choice)

Marketing Measures of
"Brand Health"
being tracked
by Participating Brands

Changes
Short – Term &
Over Time…
and in
accordance
w/the MASB
"Principles".

Brand
Activities

Promotion
(MarCom)

Placement
(Distribution)

Price

Product
(Innovation)

Strategy, People, Research, Legal

MASB

Why Brand Preference (Choice)?

Brand Preference (Choice) has been proposed as the dependent variable for measuring the impact of brand building activities in the hearts, minds and hands of customers ("brand strength") because:

- **It fits with the CMO/CFO Alignment – objective of marketing**
- **Fits the Lehmann, Farris, Ambler & Stewart theories/constructs**
- **Has Met the 10 Characteristics of an "Ideal Metric" including**
  - **Simple**
  - **Transparent**
  - **Relevant**
  - **Calibrated across categories, cultures and conditions**
  - **Reliably predictive of both short and longer term financial return**
- **Has been applied all along the marketing process**
  - **To improve market & financial outcomes/return (a la Deming)**

Source: MASB, Brand Investment Project ; Batra & Stewart (2011)

MASB

Marketing => Branding

Creating Brand Preference

Profitable Growth over Time

Asset (Brand Value)

Shareholder Value

Source: CMO/CFO Panel at MASB Summit (August 2010)

MASB

Important "Facts" (Lehmann)

- 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

Source: MASB, Brand Investment Project ; Batra & Stewart (2011)

Lehmann 2010

MASB

Farris & Reibstein Model
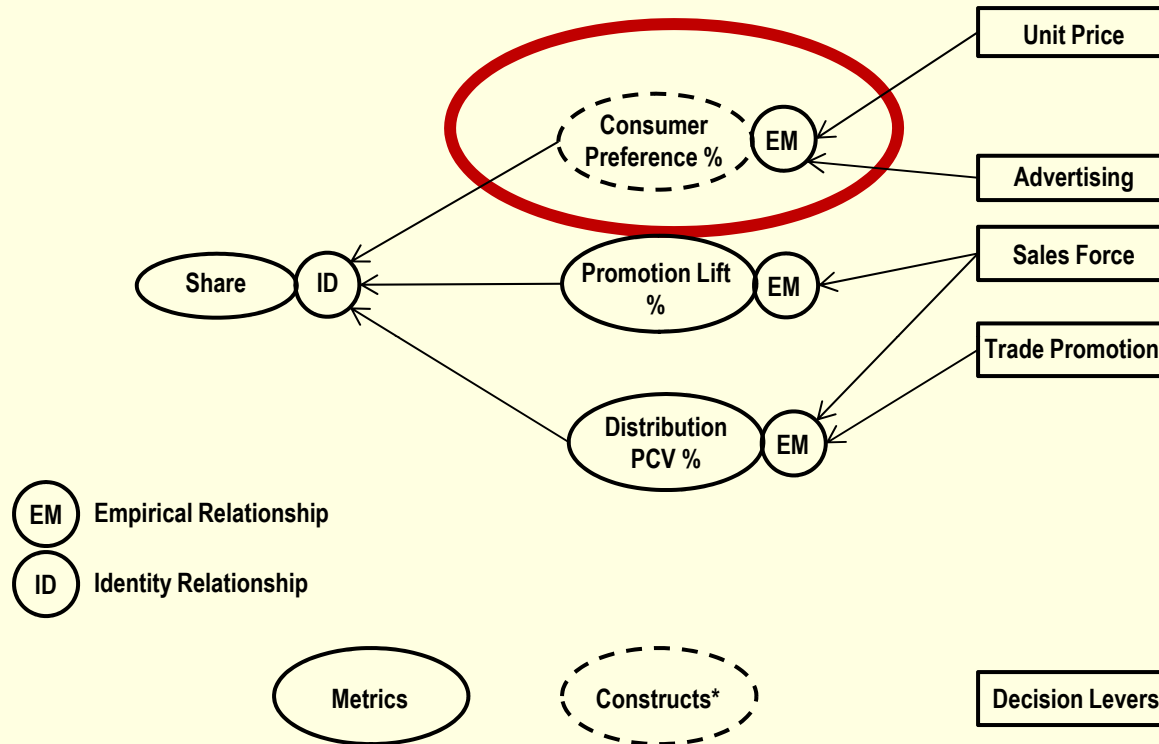
...**strongly suggests the need for a third metric, "preference",** to create an attractive identity that may be useful in separating empirical effects and allowing for important interactions.

Theoretical Framework - Ambler

"…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."**

Sources: Vakratsas and Ambler 1999; MASB 2008 & 2010.

MASB

Theoretical Framework - Stewart

"…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".

Sources: Stewart et al 1986; MASB 2008 & 2010
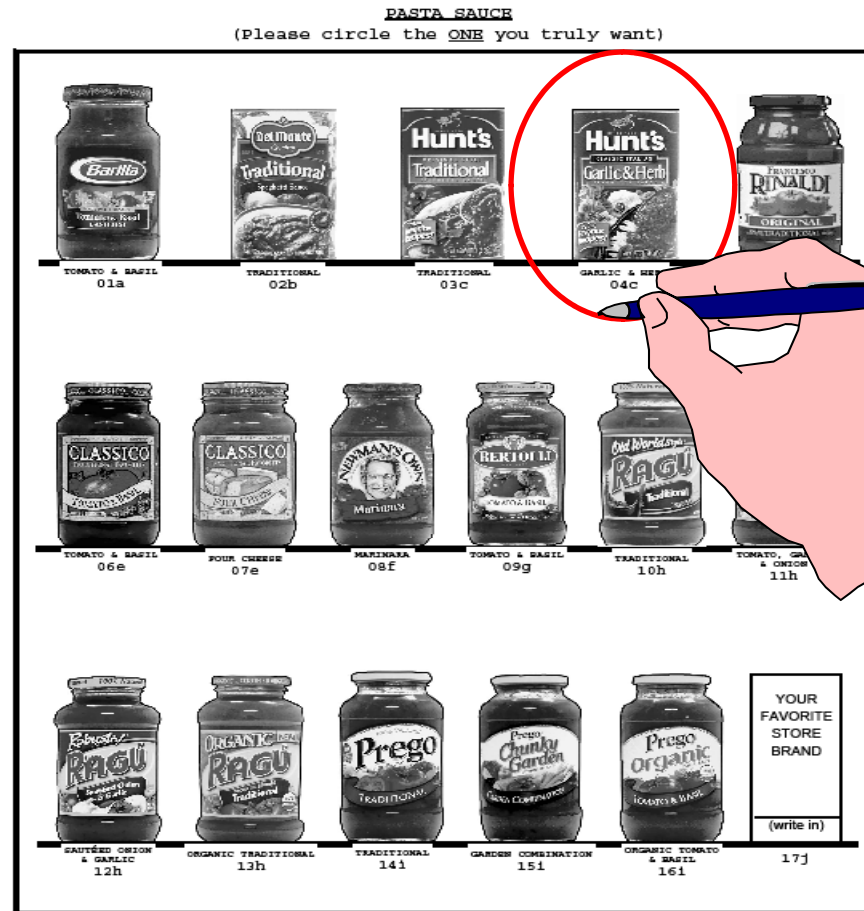
MASB

Brand Preference (Choice) Instrument

Behavioral, Relevant, Simple, in Competitive Context

Source: Characteristics of an "Ideal Metric" and Practices, MASB 2010

Brand Preference (Choice) Instrument

Behavioral, Relevant, Simple, in Competitive Context

Source: Characteristics of an "Ideal Metric" and Practices, MASB 2010

Build Bridges: Brand Preference to Brand Value

- **Project Team has begun to design the appropriate equations that will bridge customer brand strength results to market results to financial results and to brand value**

- **The actual equations/model will surface as the tracking data is collected and analyzed…they will represent the empirical findings regarding the relationships between measures**

- **The addition of 1-2 accounting/finance team members will also be important to help us understand and build the bridges to the appropriate/acceptable financial metrics**

MASB

Equations: Preference to Market Results (Draft A)

- **Market Share $_{(t+1)}$ =**

  f **(Brand Preference $_t$ x Relative Price $_t$ x Distribution $_t$)**

- **Volume$_{(t+1)}$ =**

  f **(Market Share $_{(t+1)}$ X Category Volume $_{(t+1)}$)**

- **Price Premium/Point $_{(t+1)}$ =**

  f **(Brand Preference/Market Share $_{(t+1)}$)**

MASB

BIV Team Action Plan (February 2012)

I. Frame-Up Project, open debate & approval by MASB Directors (April 2010)*

II. Form Project Team and designate initial leadership (May)

III. Create straw man model: June-September* (Feedback @ 2010 Summer Summit)

IV. Determine Measures that will be used (Sept – Nov)

V. Review What is Known & Planned at Summit (Feb 2011)

VI. Draft "Principles" (BIV.MarCom Team)

VII. Expand Team with measurement providers – Nielsen & comScore (Aug – Oct)

VIII. Expand Team to 3-5 non-competing global Marketers/Brands (Sept – March)

IX. Complete Design of Trial Process (inc metrics & initial equations) (Feb - March)

X. Start Trials (April 2012)

XI. Trials in 3-5 corporations (April 2012 – March 2014)

XII. Preliminary Findings (August 2013 Summit)

XIII. Review with open debate by MASB (August 2014 Summit)*

XIV. Generic Model Available for Marketers (September 2014)

XV. Practitioner Paper (Date negotiated w/Team August 2012)

XVI. Post for Feedback (Date negotiated w/Team August 2012)

* Explicitly approved by majority of MASB Directors & Chair

MASB

The Game Changers

MASB Project	**BIV** Brand Investment & Valuation*	**IFR** Improving Financial Reporting
AM Guest Speakers	**Brand represents great Value (but how much)** Ivan Cayabyab	**Intangibles >80% of Corp Value (need better info)** Bob Laux
Project Outcome	**Empirically proven generic model for valuing brands & guiding investment decisions**	

MASB

* Supported by BIV MarCom Project in parallel

Thank-you!

MASB

Marketing Accountability Standards Board
of the Marketing Accountability Foundation