
Marketing & Finance Aligning

Improving Financial Reporting Journey to MD&A Notes Off Balance Sheet

Jim Gregory
CEO & Founder
CoreBrand
Founding MASB Advisor
Co-Lead IFR Project
August 2012
Chicago



Marketing Accountability Standards Board
of the Marketing Accountability Foundation

The Boardroom Project

Completed 3 Year Study

Reached Out to Marketing & Finance

First Summit

2007

**THE
BOARDROOM PROJECT**

A CFO Perspective

Without the matching principle (tying \$\$ spent to Revenue and/or Profit stream) marketing will continue to be treated as discretionary expense, like travel or office supplies.

Achieving the matching principle will place the CMO at the C-Table as a strategic partner, helping the CFO smooth growth/the P&L over time.

Tying \$\$ spent to short term revenue/profits in a reliably predictable fashion will justify the expense, and doing so for the long term will place those costs on the balance sheet.

You can step up, become partners, take control of your own destiny (by setting the controls, measurement & process standards)...or we'll do it for you.

Who will get there first?

Lyn Benton: Former CFO Lotus



MASB Summits



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

Hypotheses

A discipline & 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.

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

John Lees: GM Global Research & Analytics Kimberly Clark,
Director of MASB

The Next 3-Years: Change the Game

- **Brand Investment & Valuation Standards (BIV)**
Provide consistent, comparable, credible and actionable brand valuations through establishment of “generally accepted brand investment and valuation standards” for both acquired and internally developed Brands... the critical “missing link” between the marketing & financial communities.
- **Improve Financial Reporting**
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 & 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.

MASB Directors

The 1st Marketing & Finance Panel

2010

Finance



Jeff Kampsen
FedEx & Coca-Cola

Marketing



Ken Lewis
Sun Coffee Roasters
Timex, Stanley Works
Walt Disney



John Matthews
Comcast



Bob Liodice
ANA Constituency
All Brands

**role of marketing
in overall financial performance of the firm**

The Panel: Conceptual Alignment

Marketing => Branding

Creating Brand Preference

Profitable Growth over Time*

Asset (Brand Value)

Shareholder Value

On Balance Sheet**

Panel aligned/agreed with following caveats:

* “How much” & “over what period of time” needs quantification

** Not sure this is necessary

For MASB Consideration

9

What are the various ways of communicating marketing information, and how do they compare in terms of effectiveness, practicality, and cost?

- ❑ **“Conventional” accounting methods (do marketing efforts create assets that should be reported on balance sheets)**
- ❑ **Disclosures in notes to financial statements (are existing disclosure as robust/informative/effective as possible?)**
- ❑ **Financial or Non-financial performance metrics (would the results of marketing efforts be better captured and monitored using KPIs? Could MASB develop standards for measuring those KPIs?)**
- ❑ **Qualitative/descriptive disclosures outside financial statements (should the SEC require enhanced disclosures in company information, MD&A, or in other ways?)**

Sue Bielstein: Director of Planning and Support FASB

My Responses

The MASB draws a reasonable causal relationship between accountability, accounting and the influence and status of marketing

MASB can best achieve its goals by framing questions in terms familiar to standard setters

Academic researchers can advance MASB's goals by building and testing frameworks that can address key concerns

MASB faces daunting political hurdles in changing longstanding attitudes and policies governing accounting for marketing expenditures

Robert Bloomfield: Cornell, Director Financial Accounting Standards Research Initiative (FASRI)

1. Monetary Brand Valuation – a hot topic?

- Brand valuation – too good to be true?
 - ✓ Perception of Marketing and Brands and other Intangibles?!
 - ✓ Reliability? Objectivity? Validity? Sensitivity? Transparency? Simplicity? Affordability?
 - ✓ „Black Box“ Problem
 - ✓ Lack of Acceptance as a result

Christopher Schotz: Chairperson ISO Committee on Brand Valuation

Reporting of Intangibles

Unless the questions on the preceding slide can be answered in the affirmative (relevant, useful, reliable), it is unlikely that the information will be recognized on the financial statements.

Users of financial statements will make adjustments for information that they do not consider useful. Useful information is relevant and reliable (a faithful representation).

Comparability may be an argument for recognition but until the relevance and reliability issue is addressed, it is likely to be viewed as secondary.

Wendy Pirie: Director Curriculum Projects Education Division at CFA Institute

Accounting Treatment of Marketing Activities and Assets

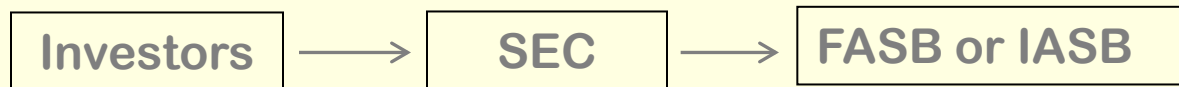
2011

- **Internally developed** intangible marketing assets (such as brands) are not recognized on the balance sheet, marketing costs are expensed as incurred. As a result:
 - Reported income, assets, book value are distorted, Tobin's Q not valid
 - The value of internally generated (organic) assets is unrecognized and unappreciated by internal constituency, which can lead to neglect
 - Effectiveness of marketing activities in generating valuable intangible assets is difficult to assess, which can lead to misguided budgeting
 - Creates conditions for senior management to engage in Myopic Marketing Management

Marc Fischer: Marketing Chair University of Cologne, Founding MASB Advisor

Source: Mizik N. and D. Nissim, "Accounting for Marketing Activities: Implications for Mktg Research and Practice"

- First: Get brand valuation process/standards accepted by FASB/SEC for Merger Accounting
- Next: Sell the investment community – the “Power Chain” is



- **Start with Supplemental Disclosures**
- **Be sure the CFO is on board**

Brandt Allen: Professor of Business Administration Darden, Founding MASB Advisor.

Finance Perspective

- Would be most impactful to provide guidance for internal valuation... for organizations to see brand equity for the asset it is.
- Through standardization and communication, companies could begin to perform their own internal brand assessments “off balance sheet”.
- Would provide a tool for the Marketer to use in discussions with exec management and Finance.
- Finance might be interested in part to understand the acquisition value for potential sales of the brand/firm and/or to understand the pricing premium capability the brand provides, vis a vis competition.
- We should set a good, strong standard for methodology to provide consistency and comparability, communicate this and promote its use as a marketing and finance tool.
- **There may be some other ways to focus attention on this, such as having management include it in the management discussion section of annual reports, etc.**

Jeff Kampsen: Director of Finance FedEx (Email)

*“Cooking, like treason, is just
a matter of timing.”*

Elizabeth David
British cookery writer

Roger Sinclair: Academic Partner, Prophet

-
- Acquired brands are assets – internally generated brands are not. That is an anomaly and accountants don't like loose ends.
 - There are powerful bodies who want brands on the balance sheet, possibly including the SEC.
 - A draft revision to IAS 38 is near completion because of the FASB work followed by AASB at the behest of IASB.
 - The IASB board will consider proposals for new research projects after the open period ending November, 2011. If IAS 38 is adopted, it could move quickly through the process.

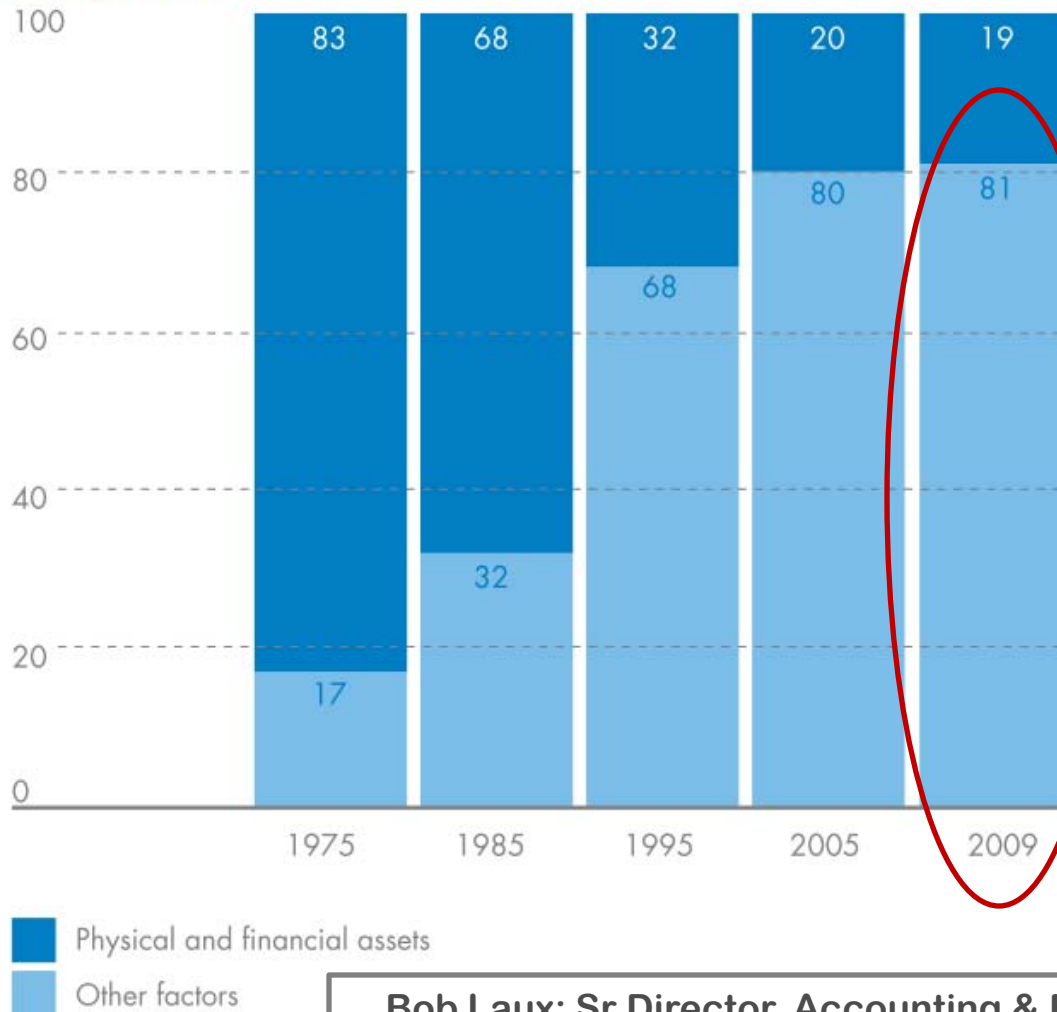
I predict:

brands will be on the balance sheet within two to three years

Implications

- Valuation of brands for balance sheet purposes will be conducted by IP specialists, banks and accountants – not marketers. Unless ...
- ...MASB standards are developed and adopted. Marketers will then conduct many of these valuations and draw magnitudes of value *viz*:
 - It will be marketing brand values that are discussed round the board room table and by investors
 - Marketing expenditure will be judged and allocated according to the returns it generates in brand value
 - Consumer brand strength will be a crucial input to sustaining the asset value
 - Collections of brands as cash generating units will be used to judge the worth of an enterprise
- There will be no capitalization of marketing expenses because the valuation approach will be income, not cost.

Components of S&P 500 market value



How much the brand(s)?

Bob Laux: Sr Director, Accounting & Reporting Microsoft

The percentage of market value represented by physical and financial assets versus intangible factors, some of which are explained within financial statements, but many of which are not.

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...

Leigh McAlister: Professor of Marketing UTA, Founding Advisor of MASB

Window of Opportunity

**Marketing must and will be prepared
with credible metrics & processes for valuing brands (BIV Team)**

**and partnering w/reporting bodies to ensure brand strength
among customers is a requirement of the valuations (IFR Team)**

How to elevate the discussion

- We need a crystal clear position
- The position needs to be market driven (e.g. “investors can make better decisions if brand value is included in financial reports”)
- We’ve listened to our marketing & finance partners, the standards bodies and financial investment community
- Let’s step out with their recommendations
- Propose “notes” for the MD&A section of the Annual Report
- Start dialogue with financial/investment community

Jim Gregory: CEO & Founder of CoreBrand, Founding MASB Advisor

Creating Value in 21st Century

MASB

Where marketing & finance align on measurement for reporting, forecasting & improving financial returns from buyers in markets...short-term & over time

Game Changing Project

BIV
Brand Investment & Valuation

IFR
Improving Financial Reporting

Issue Addressed

Brand represents great Value (but how much)

Intangibles >80% of Corp Value (need better info)

Project Outcome

Empirically proven model for valuing brands & guiding investment decisions

Brand Value as KPI and MD&A Notes... better info for capital providers



Thank-you!



Marketing Accountability Standards Board
of the Marketing Accountability Foundation