MASB Standards Project

Brand Investment & Valuation (BIV) Project Review & Status

Mike Hess, EVP
Data Fusion & Integration
The Nielsen Company
Co-Lead BIV Project & MASB Advisor

Frank Findley, VP
Research & Development
MSW•ARS Research
Co-Lead Analytics Sub-Team

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Brand Finance
PepsiCo/Frito-Lay
Co-Lead Finance Sub-Team

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Marketing Accountability Standards Board
of the Marketing Accountability Foundation

August 2014
Chicago

Should we care?

% Mkt Cap	2011	Value ($B)	Rank	Movement	Change
21%	Interbrand	$42.8	#5	↓	-10%
25%	BRANDZ™	$50.3	#10	↑	+12%
15%	BRAND·FINANCE®	$30.5	#7	↓	-4%
	CoreBrand	N/A	#25	↑	+2%

How to manage if not sure where it stands or if it's going up or down?

On the one hand...
The variability of the alternative brand values makes their validity and utility highly suspect

While on the other...
Their prominence and visibility necessitates proactively managing and interpreting the results.

Source: Cayabyab (GE) 2/16/12

BIV: The Game Changer

Project	Brand Investment & Valuation (BIV) (Stewart & Hess)
Issue Addressed	Brand represents great Value (but how much)
Project Objective	Establish "generally accepted brand investment & valuation standards"
Expected Outcome	Empirically proven model for valuing brands & guiding investment decisions
When	2015

Strategy
Build bridges from customer metrics to market metrics to financial metrics… empirically.

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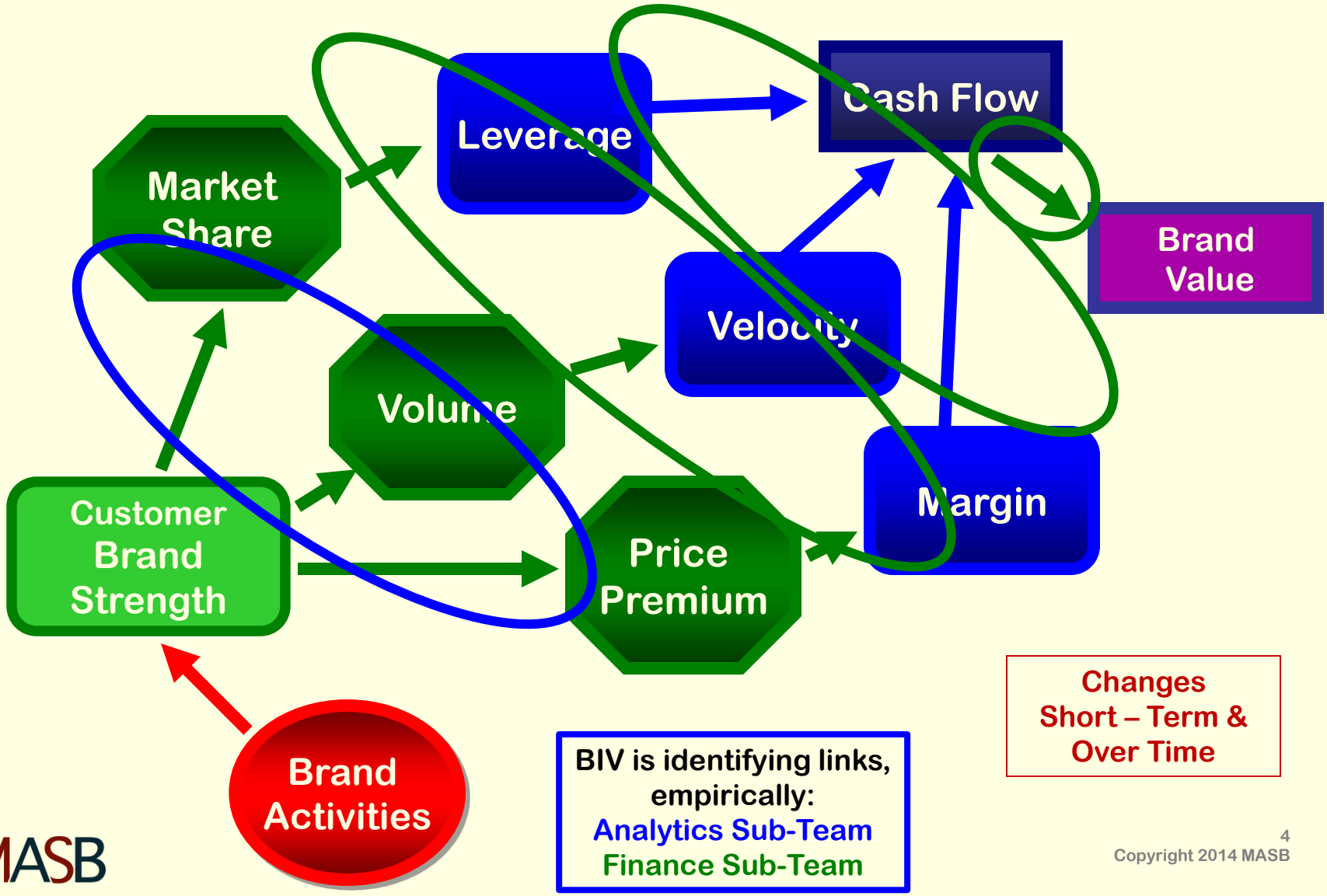
MMAP: Brand Investment/Valuation Model (Conceptual Links)



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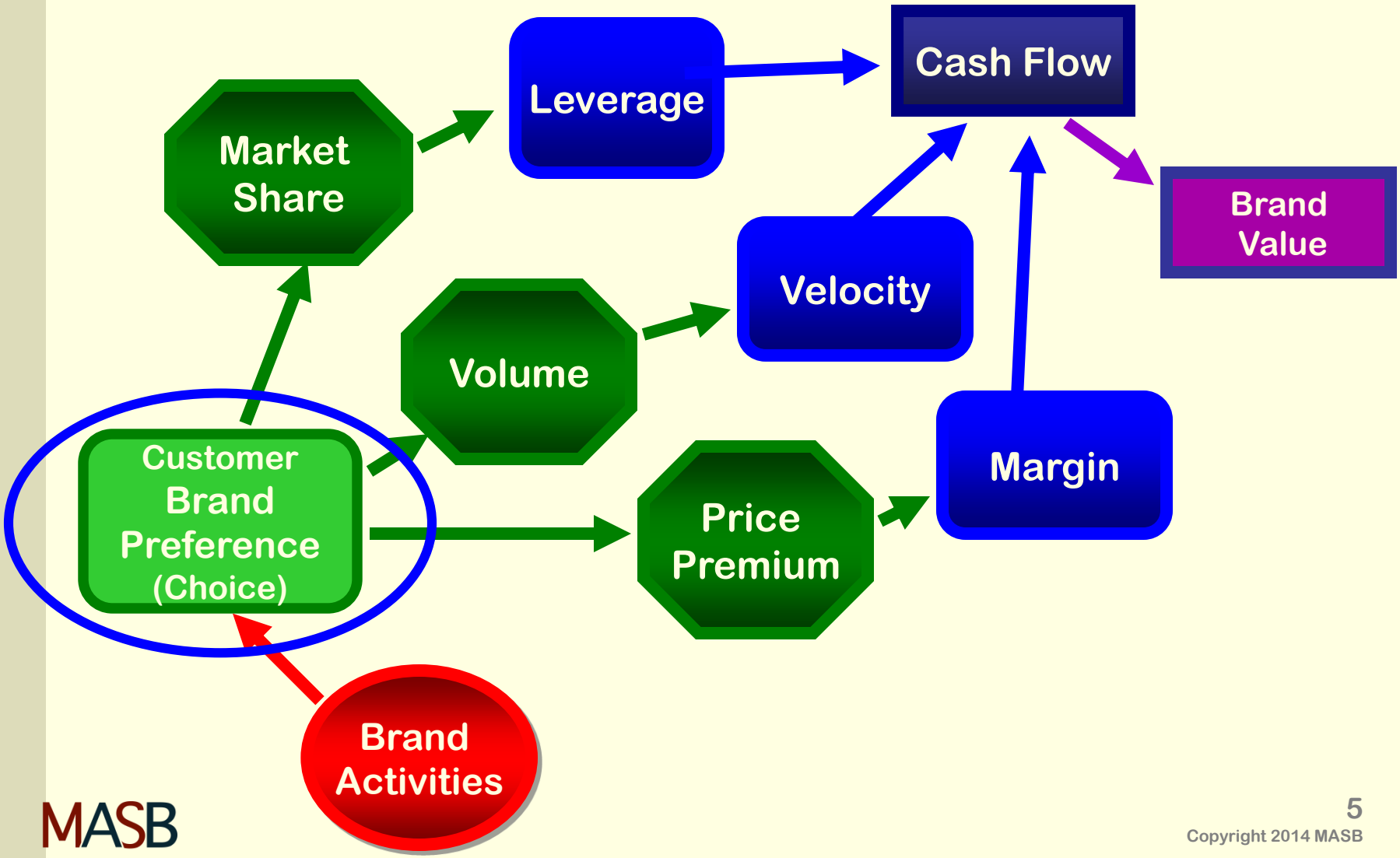
MMAP: Brand Investment/Valuation Model ("Brand Strength" Dependent Variable)



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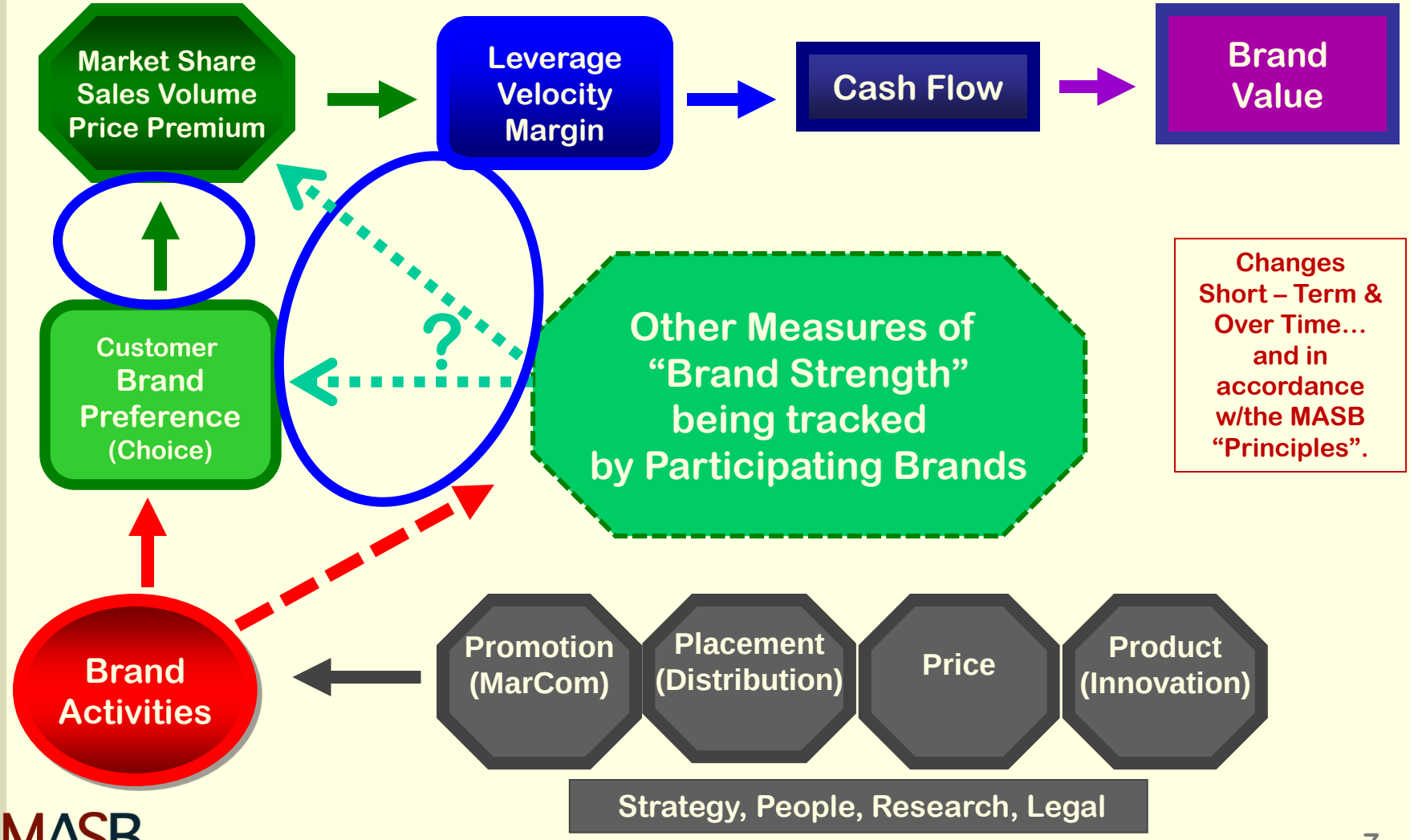
Why Brand Preference (Choice)?

- 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
  - Independently audited by MASB: MMAP (see *Metrics Catalogue*)*
- Has been applied all along the marketing process
  - To improve market & financial outcomes/return (a la Deming)
    (See *Measuring & Improving the Return…TV Example*)*

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

Build Bridges: Other Measures of "Brand Strength"



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Why this is Important – Swimming in Data

Market Share

Preference

Trade Promotion Lift Index

Bonding

Brand Loyalty

Persuasion

FSI ROI

Penetration

Social Buzz

Price Elasticity

Unaided Awareness

TV Advertising ROI

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Source: Richardson (Kimberly Clark) 2/16/12

Why this is Important – To Finance

Market Share

Preference

Trade Promotion Lift Index

Bonding

Finance is yearning to identify metrics that will predict market results…so we can manage marketing spend…determine where to invest for desired financial results…

Brand Loyalty

Persuasion

FSI ROI

Penetration

Social Buzz

Price Elasticity

Unaided Awareness

TV Advertising ROI

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Source: Scaramuzzi (ConAgra Foods) 11/1/12

Expected Benefits

Building these bridges (or links) and highlighting the measures will be phenomenally powerful for the marketers' decision making process:

- Making more informed "investment" decisions
- Meeting organic growth targets more often
- Learning how to improve performance as measured by customer, market and financial outcomes
- Building strong brands more profitably and consistently

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Who needs it?

- All performance oriented managers including
  - CMOs, because their job is to create, build & protect the brand (asset) which represents both short and long term growth potential (revenues at a premium price/margin)…and they need to demonstrate this on an on-going basis.
  - CFOs, because their job is to forecast return from various "investments"… and they currently view marketing as discretionary expense because they have not seen proof otherwise.
  - CEOs, because their job is to determine where to invest for both short and long term corporate performance.
  - Investors, because their job is to understand what the firm's future growth potential looks like.

BIV Milestones (2010 – 2013)

EI Frame-Up 4/10

Leaders & Plan 5/10

Action Plan 2/11 +

What Is Known 2/11

Principles 8/11

Straw man 8/10

Metric Providers 10/11

3/6 Brands 12/12

Metric Provider 3/13

6/12 Brands 6/13

Analytics Team 7/13

Finance Team 11/13

Tracking Began 7/13

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* Paper, Deck or Publication outputs

BIV Milestones (2014+)

Initial Findings – AST 2/14

More Findings-AST 8/14

Straw man- FST 8/14

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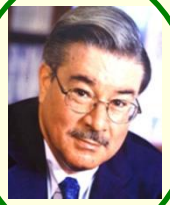
* Paper, Deck or Publication outputs

BIV Team & Sub-Teams

Team Leaders

Mike Hess
Nielsen



Dave Stewart
LMU

Jim Jumped in to help lead Finance Sub-Team 6/14…

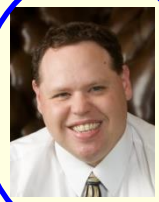
Team Heroes

Jamie Richardson
Kimberly-Clark

Chris Ciccarello
ConAgra

Scott Shinners
ConAgra

Rafael Alcaraz
Hershey



Frank Findley
MSW•ARS

Shyam Venugopal
Frito Lay

Jim Meier
MillerCoors

Bill Bane
Kimberly Clark

Marc Fischer
U of Cologne

Don Sexton
Columbia

Rajeev Batra
U of M

Jonathan Short
Frito Lay

Lori Kuehn
GM

Jeff Long
MillerCoors

Admin

Meg Blair
MAF/MASB

Allan Kuse
MMAP Center

Analytics & Finance Sub-Teams

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BIV Analytics Sub-Team Report (Frank)

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MMAP: 10 Characteristics of an "Ideal Metric"

The MSW•ARS Brand Preference Metric has met the MASB Marketing Metric Audit Protocol (MMAP)…10 Characteristics of an "ideal Metric"

1. Relevant
2. Predictive
3. Objective
4. Calibrated
5. Reliable
6. Sensitive
7. Simple
8. Causal
9. Transparent
10. Quality Assured

What we'll likely see/learn during the BIV Project

Not so much for other measures collected in tracking "surveys"

Source: "Measuring and Improving the Return from TV Advertising (An Example)," MASB, April 2008, May 2012

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Preference is Behavioral/Choice among Brands

The MSW•ARS methodology isolates brand strength by holding everything else in the actual buying experience – price, promotion, shelf position, etc. – constant.

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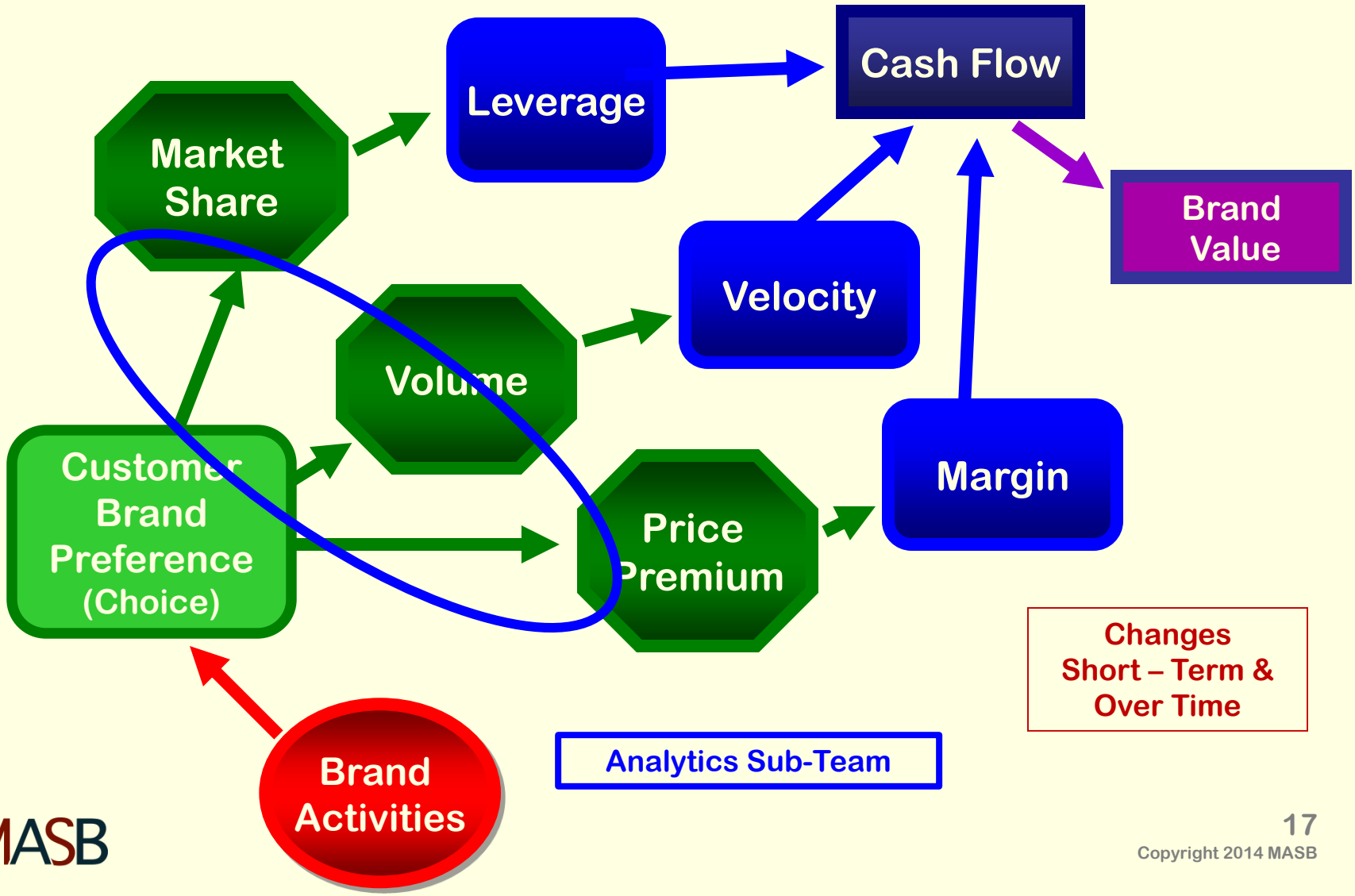
MMAP: Brand Investment/Valuation Model ("Brand Strength" Dependent Variable)



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Anticipated Predictive Equations/Forecasting Models Brand Preference/Choice to Market Results

- Market Share $_{(t)}$ =

  $\int$ (Brand Preference $_t$ x Relative Price $_t$ x Distribution $_t$)

- Volume$_{(t)}$ =

  $\int$ (Market Share $_{(t)}$ X Category Volume $_{(t)}$)

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

  $\int$ (Brand Preference/Market Share $_{(t)}$)

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Marketers Participating

Each participating company selected 2 categories for tracking

Considerations for brand/category selection included:

- **Market situation – one category that is generally static and one that is more dynamic**
- **Availability of sales and/or MMM data**
- **Availability of additional data, e.g. brand health/equity tracking over time**
- **Sufficient HH category penetration to ensure robust samples**

Specs include:

- **Brands in Category (as defined when measuring market share)**
- **Analytical Sample (those who could use/buy category)**
- **Critical Cell (those who do use/buy category) and Targets**

Participant	Category I	Category II
K-C	Bathroom Tissue	Facial Tissue
CAG	Microwave Popcorn	Frozen Entrees
HER	Chocolate Bars	Gum
FTL	Caramel & Toffee Corn Snacks	Salty Snacks
M-C	Premium Light Beer	Value Priced Beer
GM	Full Size Pick-Ups	Compact Cars

The Project includes 12 member brands plus competitors in each of the 12 categories (>100 Brands)…and over 6 fiscal quarters…very healthy sample size or number of observations!

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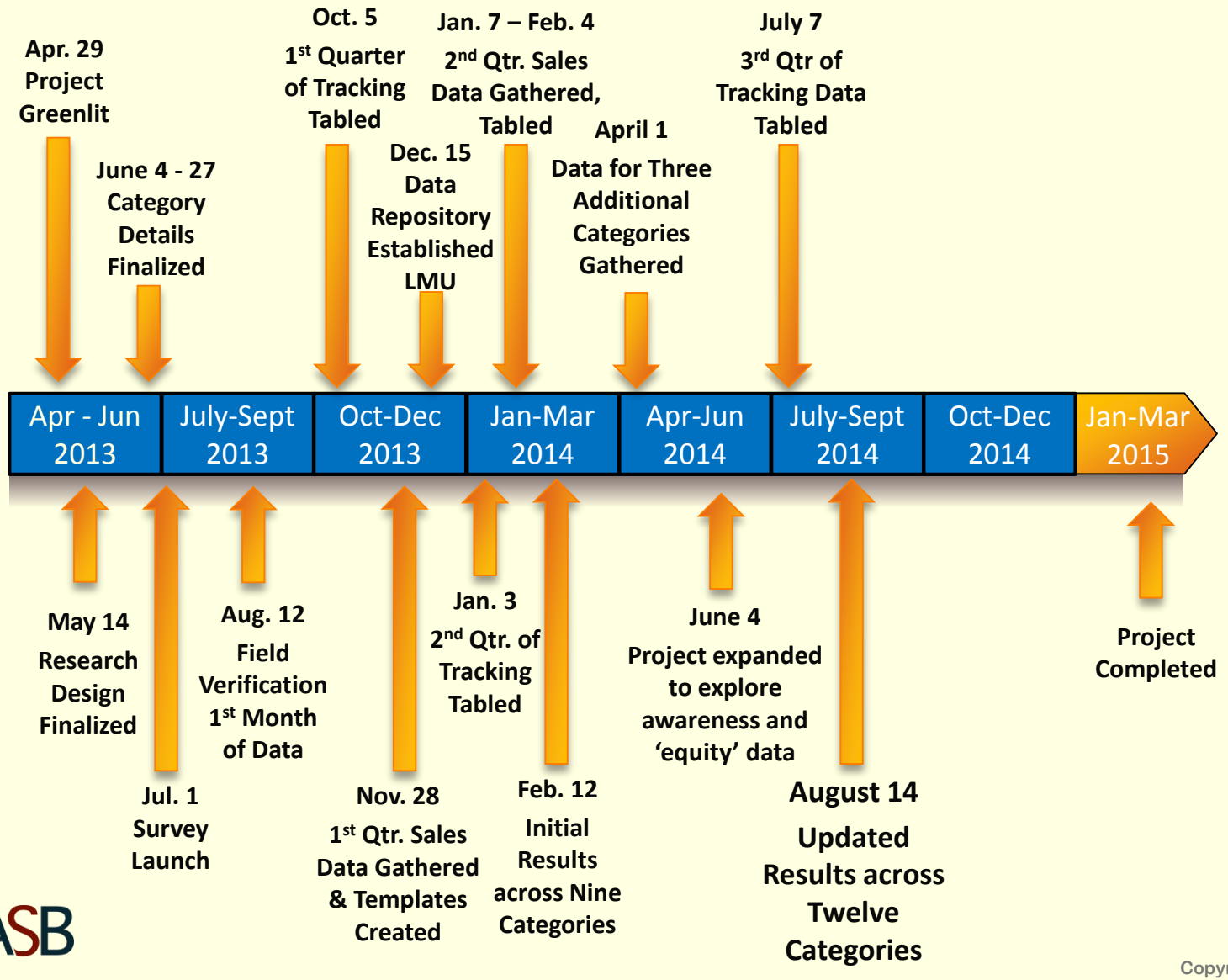
Where we are on the tracking journey



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Updated Results

- Dataset expanded from 9 to 12 categories and 79 to 119 brands
- Links between Market Share, Preference, and Price Premiums confirmed
- Link to distribution uncovered - new learning

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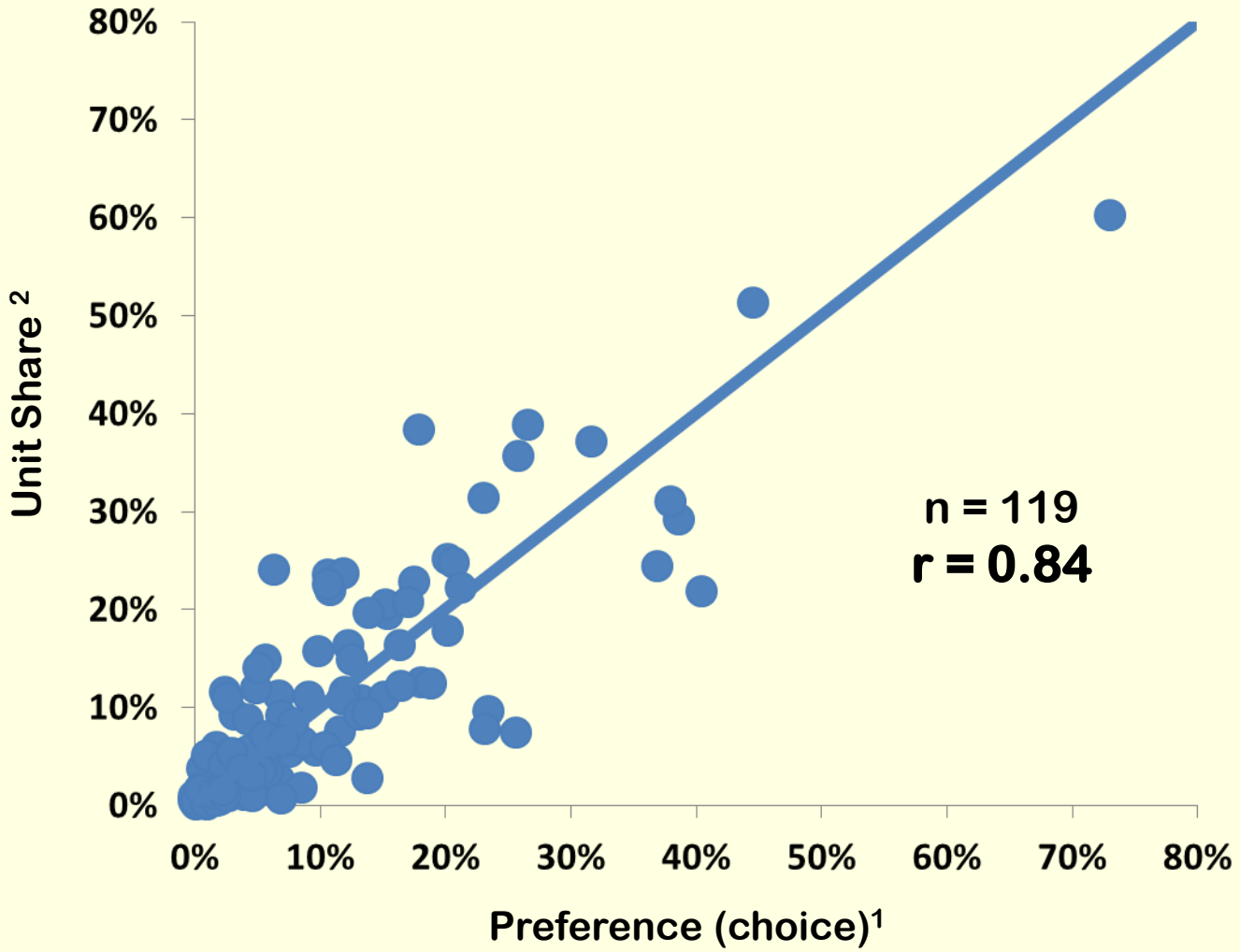
Link Between Preference and Market Share
Point-In-Time: 12 Categories, 6 Month Averages



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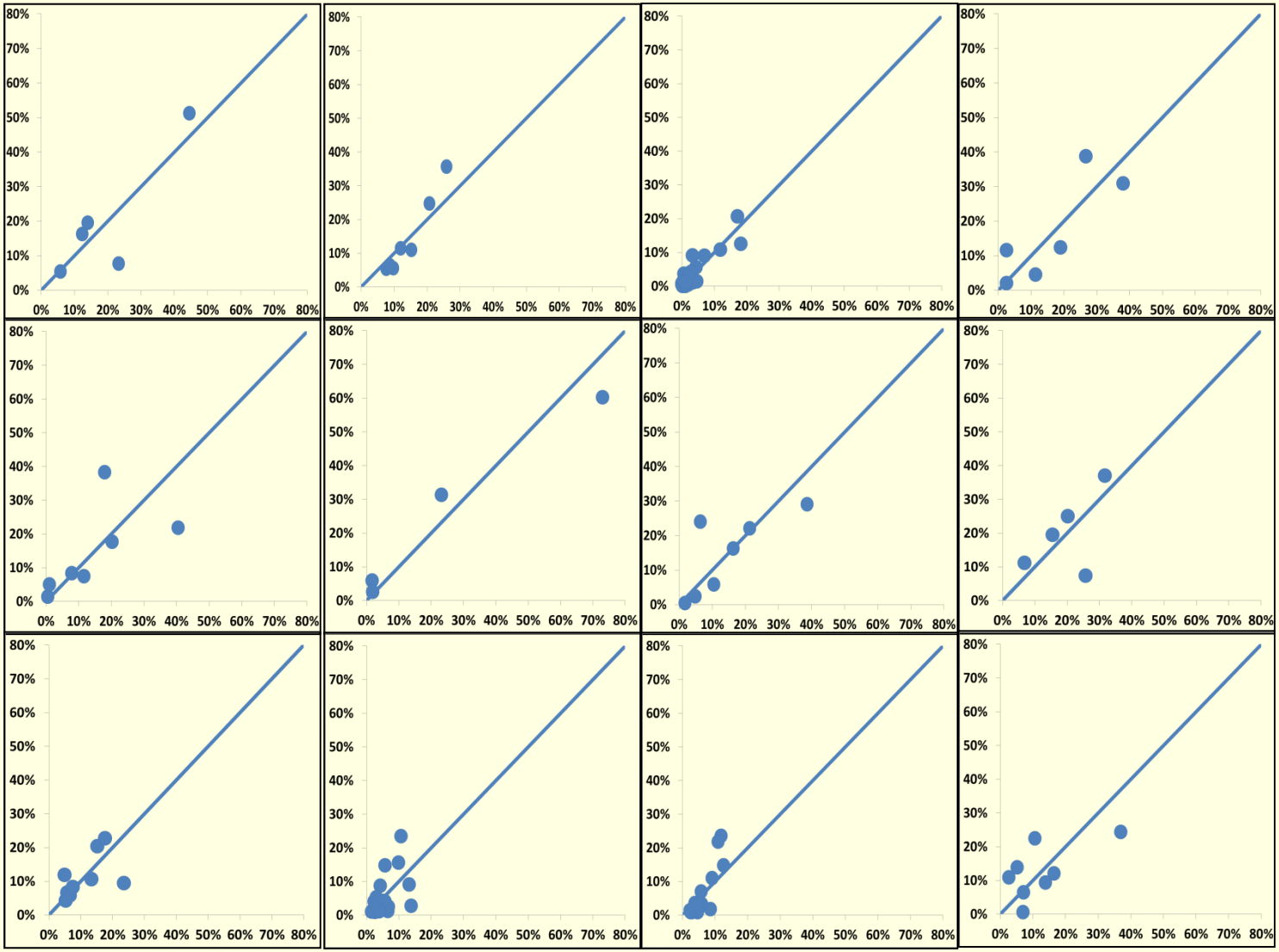
[1]Source: MSW•ARS Research Tracking
[2]Source: Nielsen, IRI, Polk/PIN

Link Between Preference and Market Share
Point-In-Time: 12 Categories, 6 Month Averages



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Updated Results

- How strong is link between preference and market share (at a point in time)?
  - Preference (choice) is a strong indicator of “brand strength” within all categories examined
  - Explains 71% of the variance in unit share across 119 brands in twelve categories examined so far

- Note: we identified one category where competitive set did not align with marketplace and expect correlation to rise as new waves with corrected set are collected

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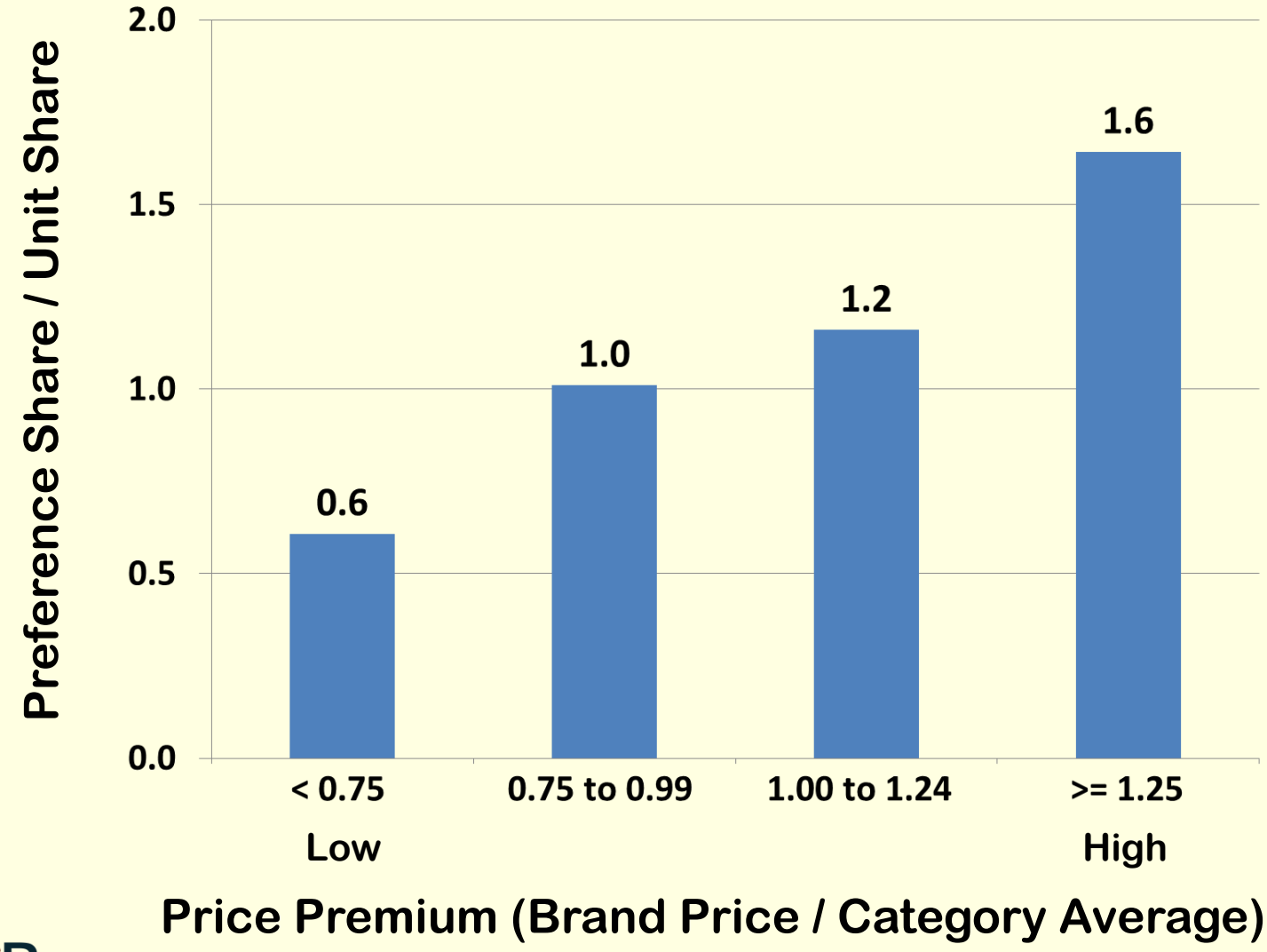
Link Between Preference and Price Premium
Point-In-Time: 12 Categories, 6 Month Averages



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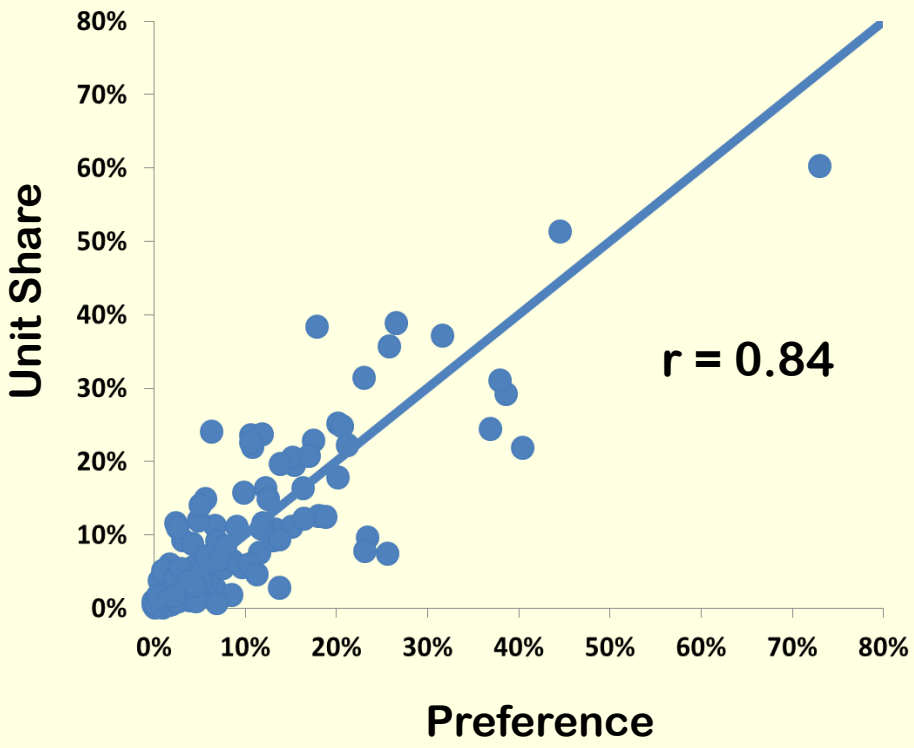
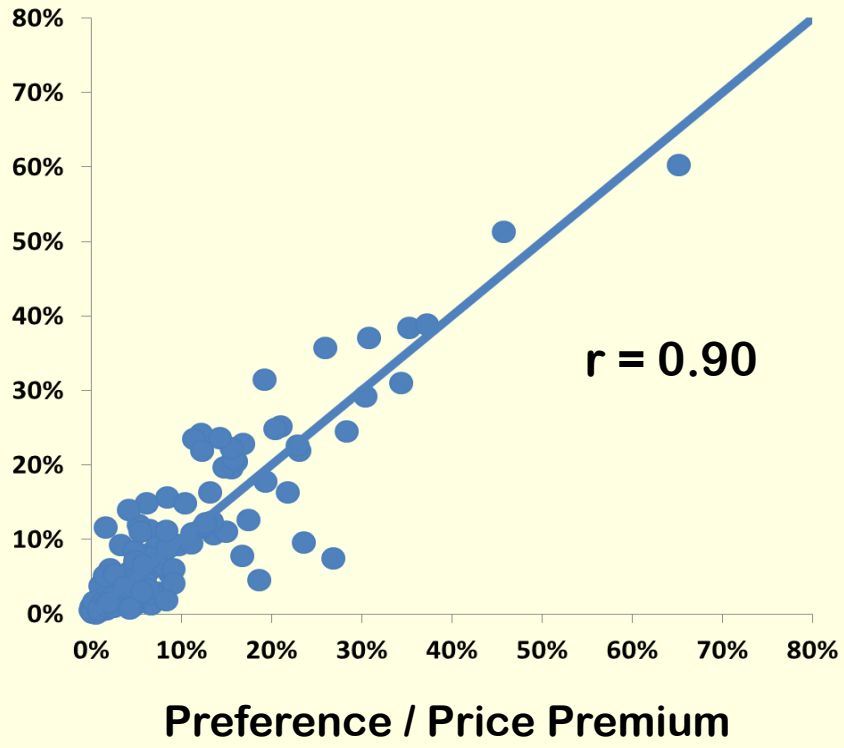
Link Between Preference & Market Share/Price Premium Point-In-Time: 12 Categories, 6 Month Averages





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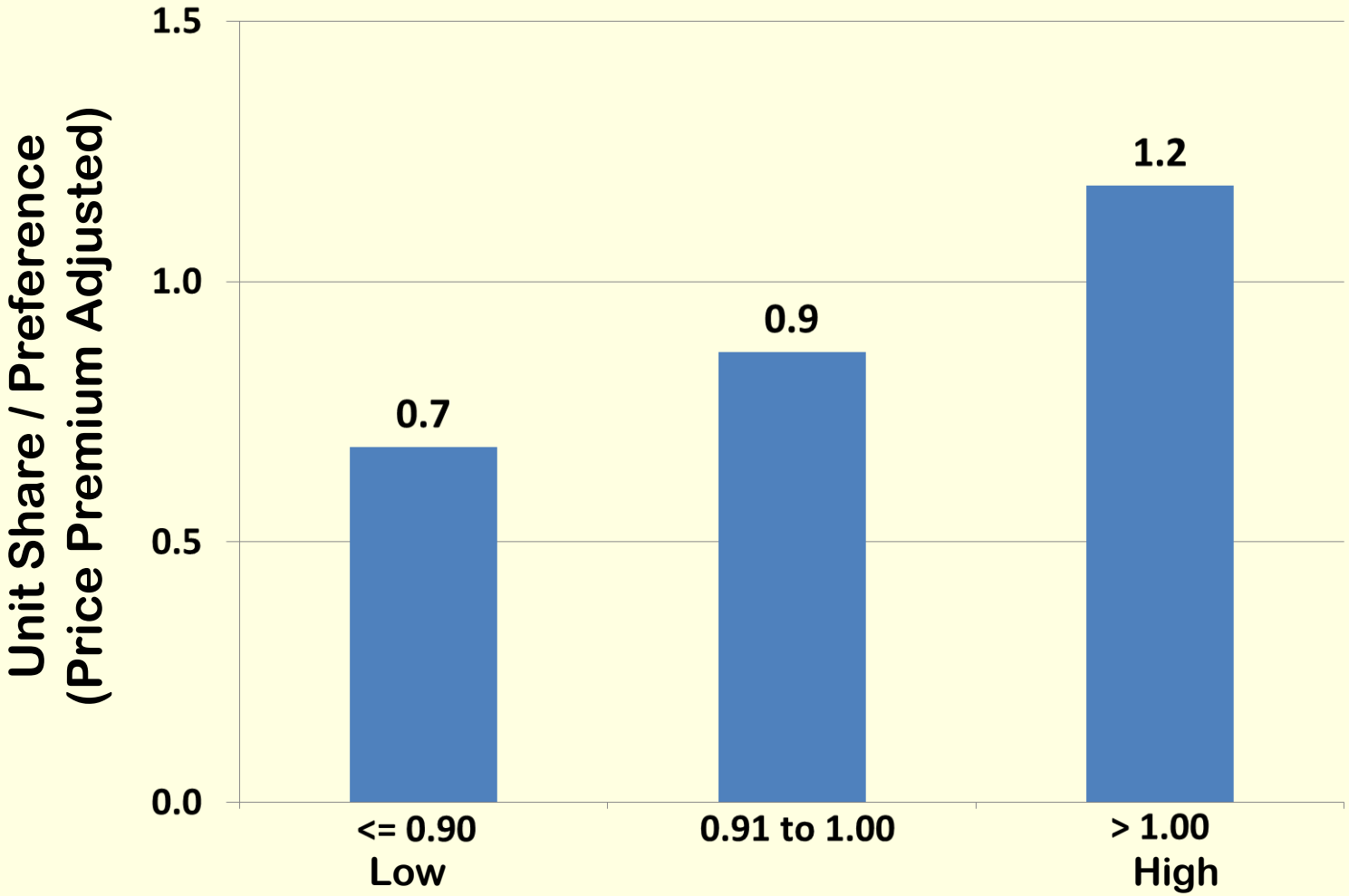
Link Between Preference, Price Premium & Distribution Point-In-Time: 10 CPG Brands, 6 Month Averages



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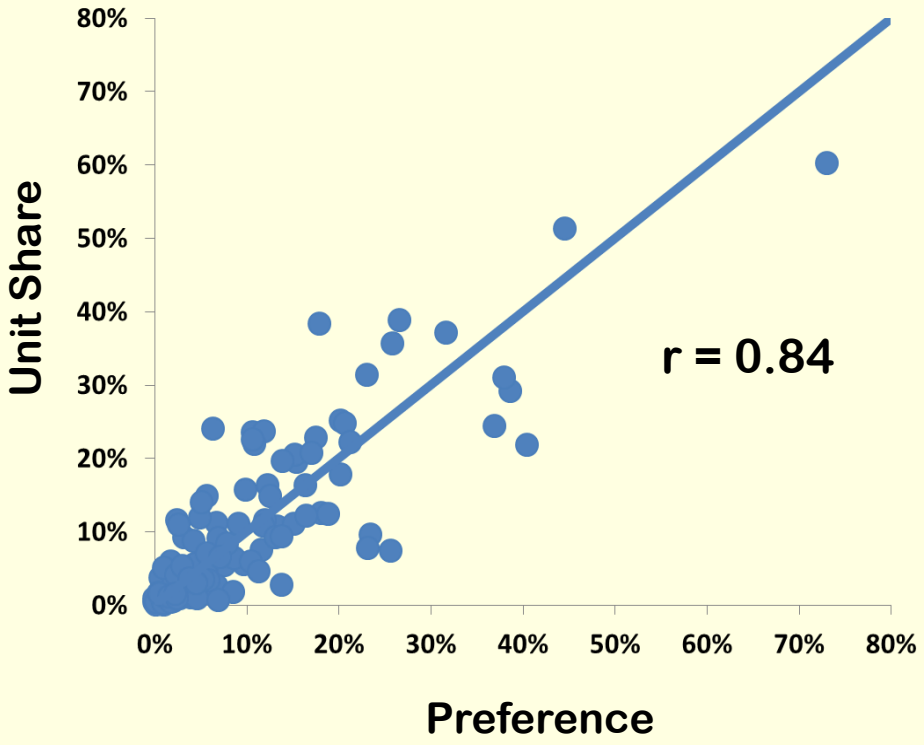
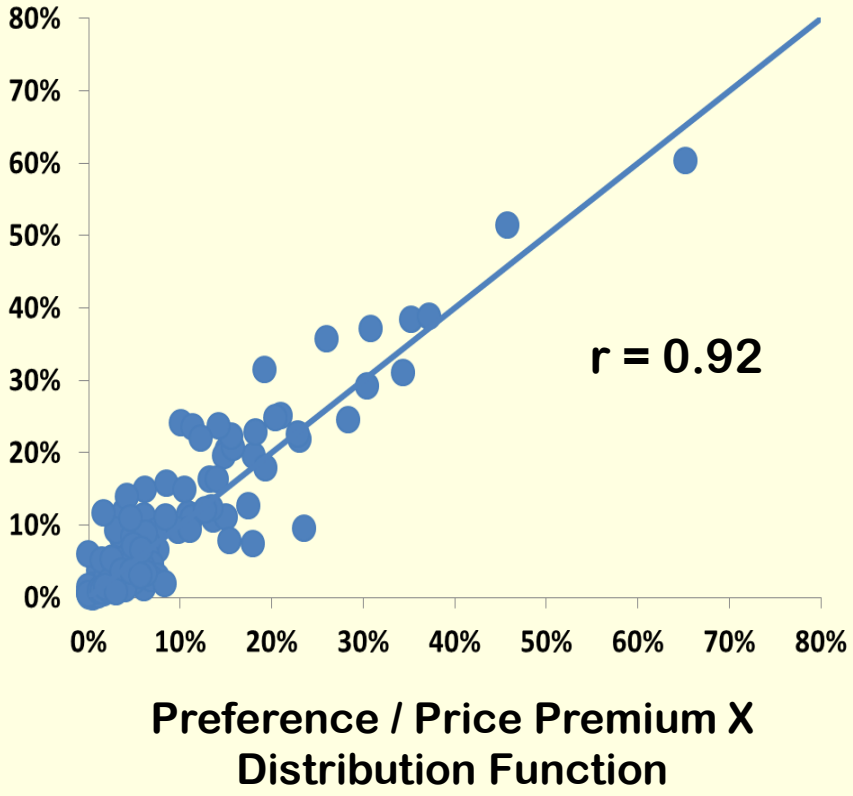
Link Between Preference & Market Share, P.P., Distribution Point-In-Time: 12 Categories, 6 Month Averages





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Updated Results

- How strong is link between preference and market share (at a point in time)?
  - Preference (choice) is a strong indicator of "brand strength" within all categories examined
  - Explains 71% of the variance in unit share across 119 brands in twelve categories examined so far

- **How strong is link between preference, price premium, and distribution (at a point in time)?**
  - **There is a direct trade-off between price premium and preference**
  - **Low price magnifies share from preference, high price lessens it**
  - **Distribution also plays a role but to a lessor degree**
  - **Explained variance rises to 85% when both taken into account**

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BIV Analytics Sub-Team Next steps

- Provide Finance Sub-Team the quantitative relationships to support their initiatives
- Complete collection of preference and corresponding in-market data to further refine analytics and verify strength of relationships
- Add awareness and ‘equity’ variables to dataset/analytics to understand their links to market share and preference

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BIV Finance Sub-Team Report (Jonathan)

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Finance Sub-Team Objectives

- BIV objective to define financial return on marketing investment and alternative metrics used to measure the impact of marketing outcomes by marketers and finance
- BIV Finance Sub-Team goal is to provide a definition of the appropriate calculations and models used to convert financial results to brand cash flows
- Build a prototype 'Brand Valuation Model' with guidelines and recommendations for calculation of brand valuation from brand cash flows
- Decisions/consensus will have to be made/reached as to the rules (convention) for measuring and calculating total Brand Value (for instance, how many categories to include/measure and how/whether to estimate remaining brand cash flow)

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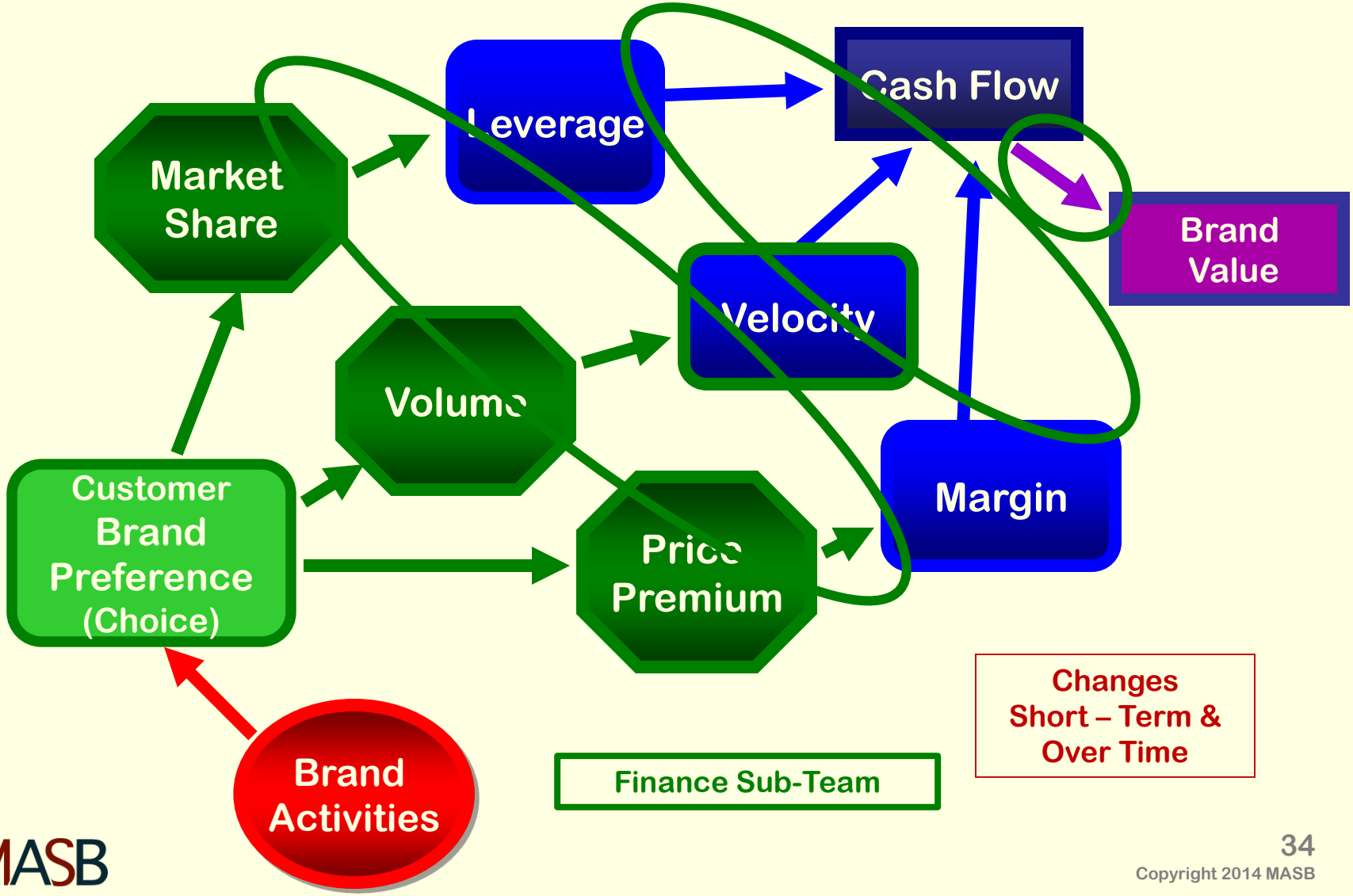
MMAP: Brand Investment/Valuation Model
(Build Bridges to Financial metrics & Brand Value)



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Brand Cash Flow Modeling

- Discounted cash flow (DCF) is one of several methods that could be used to estimate brand valuations
- The “relief from royalty” method is another, but DCF is a preferred approach when P&L results can be obtained The weighted average cost of capital (WACC) is used in the DCF model.
- Considerations for Cash Flow Modeling (DCF)
  - P&L results should be included at a brand level as an input to the brand valuations to the extent they can be reliably and consistently tracked
  - Certain other company costs may be shared among brands based on specific activity drivers while other company costs may need to be spread across brands based on a broad activity measure such as volume
  - Balance sheet items need to be considered in a DCF model, however, where balance-sheet items are not deemed to be a material contributor to a DCF valuation, they are assumed to have no net impact
  - Risk adjusted or corporate weighted average cost of capital (WACC) is used in the DCF model

Brand Value Model

(Barrels & Dollars in '000s, Except per BBL)

3yr NPV $37,472 **10yr NPV $61,887**

5yr NPV $49,989 **10yr & TV NPV $73,078**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	202
es	838 BBL	700 BBL	586 BBL	491 BBL	412 BBL	345 BBL	289 BBL	242 BBL	203 BBL	
owth Rate		-16.50%	-16.20%	-16.20%	-16.20%	-16.20%	-16.20%	-16.20%	-16.20%	
nd Revenue	$ 115,367	$ 98,258	$ 84,069	$ 71,930	$ 61,543	$ 52,656	$ 45,052	$ 38,547	$ 32,980	$
er BBL	$ 137.69	$ 140.44	$ 143.39	$ 146.40	$ 149.47	$ 152.61	$ 155.82	$ 159.09	$ 162.43	$
owth Rate		2.00%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%	
st of Sales	$ (60,399)	$ (51,442)	$ (44,531)	$ (38,549)	$ (33,370)	$ (28,887)	$ (25,006)	$ (21,646)	$ (18,738)	$
er BBL	$ (72.08)	$ (73.53)	$ (75.95)	$ (78.46)	$ (81.05)	$ (83.72)	$ (86.49)	$ (89.34)	$ (92.29)	$
owth Rate		2.00%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	
Margin	$ 54,967	$ 46,816	$ 39,538	$ 33,381	$ 28,173	$ 23,769	$ 20,046	$ 16,900	$ 14,242	$
er BBL	$ 65.60	$ 66.91	$ 67.44	$ 67.94	$ 68.43	$ 68.89	$ 69.33	$ 69.75	$ 70.14	$
Marketing Spend	$ (1,440)	$ (1,440)	$ (1,440)	$ (1,440)	$ (1,440)	$ (1,440)	$ (1,440)	$ (1,440)	$ (1,440)	$
ded Marketing Allocation	$ (3,121)	$ (2,658)	$ (2,301)	$ (1,992)	$ (1,724)	$ (1,493)	$ (1,292)	$ (1,118)	$ (968)	$
nded MKTG per BBL	$ (3.72)	$ (3.80)	$ (3.92)	$ (4.05)	$ (4.19)	$ (4.33)	$ (4.47)	$ (4.62)	$ (4.77)	$
owth Rate		2.00%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	
tribution	$ 50,407	$ 42,718	$ 35,798	$ 29,950	$ 25,009	$ 20,837	$ 17,315	$ 14,342	$ 11,834	$
anufactuting Allocation	$ (10,097)	$ (8,599)	$ (7,444)	$ (6,444)	$ (5,578)	$ (4,829)	$ (4,180)	$ (3,619)	$ (3,132)	$
er BBL	$ (12.05)	$ (12.29)	$ (12.70)	$ (13.12)	$ (13.55)	$ (14.00)	$ (14.46)	$ (14.93)	$ (15.43)	$
owth Rate		2.00%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	
llocation	$ (12,304)	$ (10,480)	$ (9,072)	$ (7,853)	$ (6,798)	$ (5,885)	$ (5,094)	$ (4,410)	$ (3,817)	$
per BBL	$ (14.68)	$ (14.98)	$ (15.47)	$ (15.98)	$ (16.51)	$ (17.06)	$ (17.62)	$ (18.20)	$ (18.80)	$
owth Rate		2.00%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	3.30%	
arnings Before Taxes	$ 28,006	$ 23,639	$ 19,282	$ 15,653	$ 12,633	$ 10,124	$ 8,041	$ 6,314	$ 4,885	$
Tax Expense	$ 11,202	$ 9,456	$ 7,713	$ 6,261	$ 5,053	$ 4,049	$ 3,216	$ 2,526	$ 1,954	$
nd Earnings	$ 16,804	$ 14,183	$ 11,569	$ 9,392	$ 7,580	$ 6,074	$ 4,824	$ 3,788	$ 2,931	$
									Terminal Value (10 Year Exit Multiple Without Growth)	$ 22
ted Cash Flow	$ 15,690	$ 12,365	$ 9,417	$ 7,138	$ 5,379	$ 4,025	$ 2,985	$ 2,188	$ 1,581	$

Miller Coors Cash Flow Modeling

- Brand Level Free Cash Flow Model
  - Will use for internal purposes decision-support (e.g. portfolio strategy and resource allocation)
  - NOT intended for balance sheet or transactional valuations
  - Intended to focus management on changes in brand valuation over time (not just point in time valuations)
- Other Considerations
  - DCF valuations are provided for multiple time frames
  - Brand preference measures help to inform future-year assumptions (e.g., pricing, volume growth/decline)
  - Useful to inform what time period represents a reasonable valuation term
  - Brands could “earn” a higher valuation based on improved brand preference which would remove uncertainty relating to future financial assumptions and the longevity of the brand

ConAgra Cash Flow Modeling

- SKU Level Free Cash Flow Model
  - Analytical use at the SKU level – not yet built to provide accurate reporting of cash flows at brand level
  - Data necessary to calculate true cash flow at these levels does not yet exist
  - Not yet correlated or aligned with other cash flow, P&L, or balance sheet reporting within the organization
  - Multiple allocations, adjustments, and activity-based recalculations are necessary to provide directional estimates of cash flow at lower levels
- Brand Level Cash Flows
  - Working on approach to build brand level model by adjusting SKU level models, revising allocations of working capital allocations and summing across SKUs

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Frito-Lay Cash Flow Modeling

- Procedural steps
  - Allocate total cash (non-brand activities, brand generated cash)
  - Allocate brand generated cash to individual brands
  - Utilize DCF model to value individual brands
  - Adjust brand values for individual brand strength
  - Adjust brand values for known risks
- Considerations
  - Current model for US only; global brand calculations will be very difficult
  - As a Division of PepsiCo, Frito US does not have many of the investing and Financing activities typically reported in Cash Flow statement
  - General assumption is that payables and most liabilities are not driven by Brand value but employee costs are (judgmental)
  - Determining the % of Profit, Non cash add backs and CAPEX that is attributable to Brands can be burdensome
  - Allocation methodologies and expected life assumptions will vary by company (require judgment, may not be consistently applied)
- Will likely adopt MillerCoors approach for simplicity & flexibility

Summary

- Brand Cash Flow evaluation model is possible across initial 3 organizations involved
- Demonstrated how a simple model can inform decision making about marketing resource allocation

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Next Steps

- Review, consolidate & refine, with principles and convention
- Draft Guidance
- Refine Straw man
  - Algebraically
  - Visually (conceptually)
- Incorporate initial model into resource allocation process (MillerCoors)
- Expand exercise to 3 remaining marketers involved in BIV project
- Revise principles, convention, guidance

…Mike

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BIV Next Steps

- Continue working with Analytics Sub -Team
  - Provide additional resources if needed
- Continue working with Finance Sub -Team
  - Provide additional resources if needed
- Integrate & document full model with “guidance” including source details & rules (integration team)
- Revise the “Principles” as appropriate

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Who needs it?

- All performance oriented managers including
  - CMOs, because their job is to create, build & protect the brand (asset) which represents both short and long term growth potential (revenues at a premium price/margin)…and they need to demonstrate this on an on-going basis.
  - CFOs, because their job is to forecast return from various "investments"… and they currently view marketing as discretionary expense because they have not seen proof otherwise.
  - CEOs, because their job is to determine where to invest for both short and long term corporate performance.
  - Investors, because their job is to understand what the firm's future growth potential looks like.

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Thank-you!

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