

MASB Standards Project

Brand Investment & Valuation (BIV) Project Review & Status

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PepsiCo Frito Lay
Co-Lead Finance Sub-Team



Marketing Accountability Standards Board
of the Marketing Accountability Foundation

February 2014
Orlando

Should we care?

% Mkt Cap

21%

25%

15%

2011	Value (\$B)	Rank	Movement	Change
Interbrand	\$42.8	#5	↓	-10%
BRANDZ™	\$50.3	#10	↑	+12%
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...

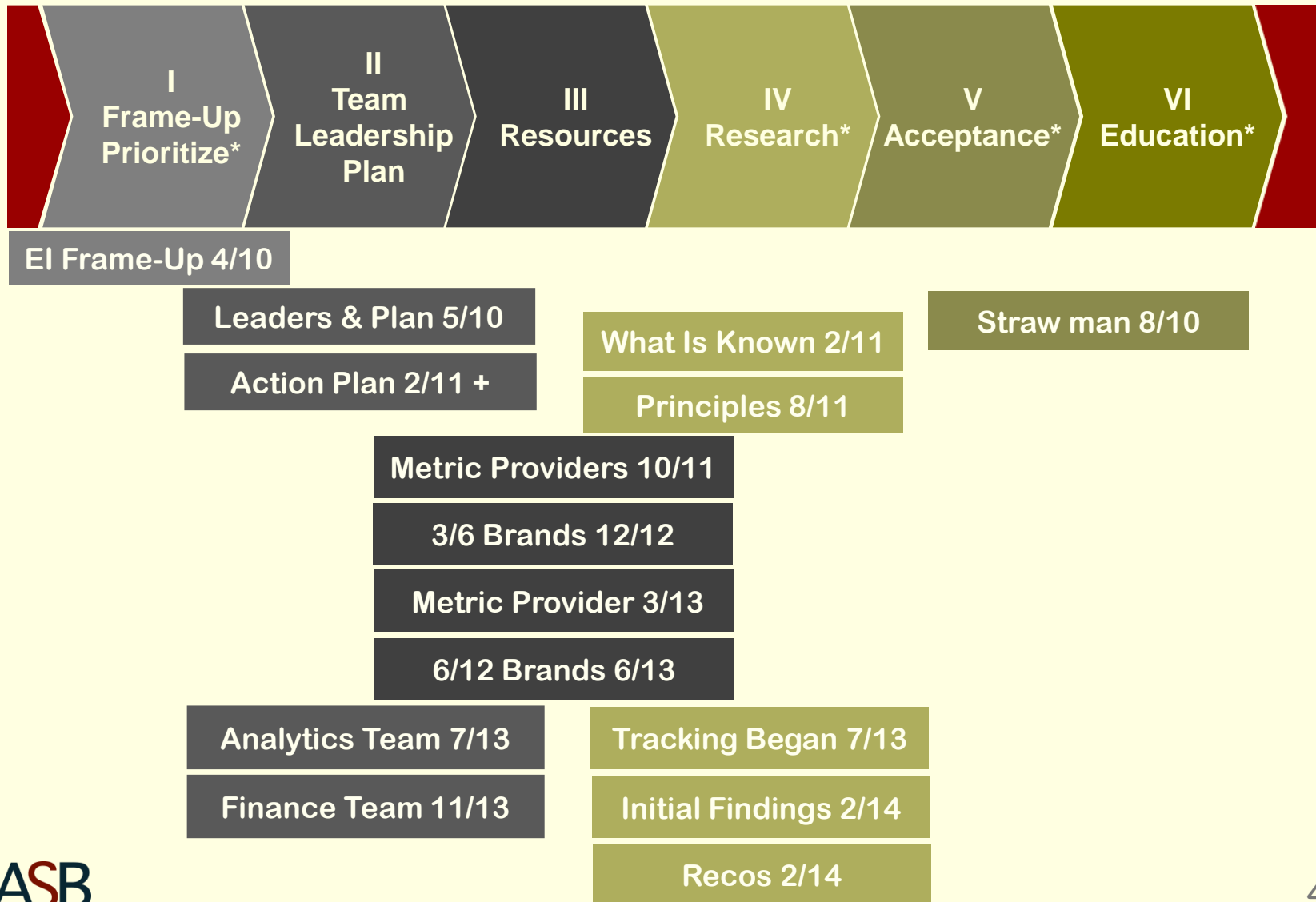
Their prominence and visibility necessitates proactively managing and interpreting the results.

Source: Cayabyab (GE) 2/16/12

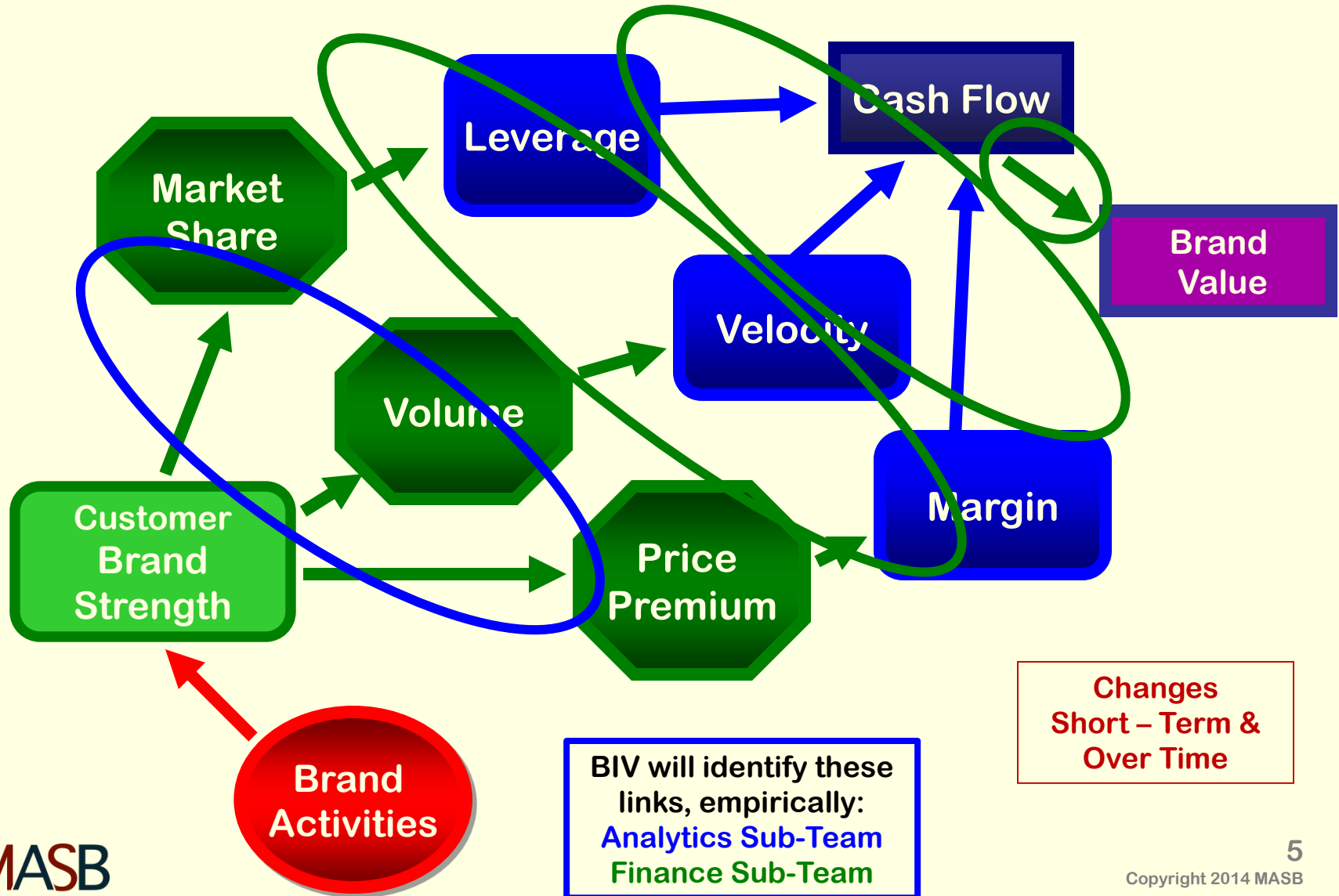
BIV: The Game Changer

Project	Brand Investment & Valuation (BIV) (Stewart & Hess)	Strategy Build bridges from customer metrics to market metrics to financial metrics... empirically.
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	

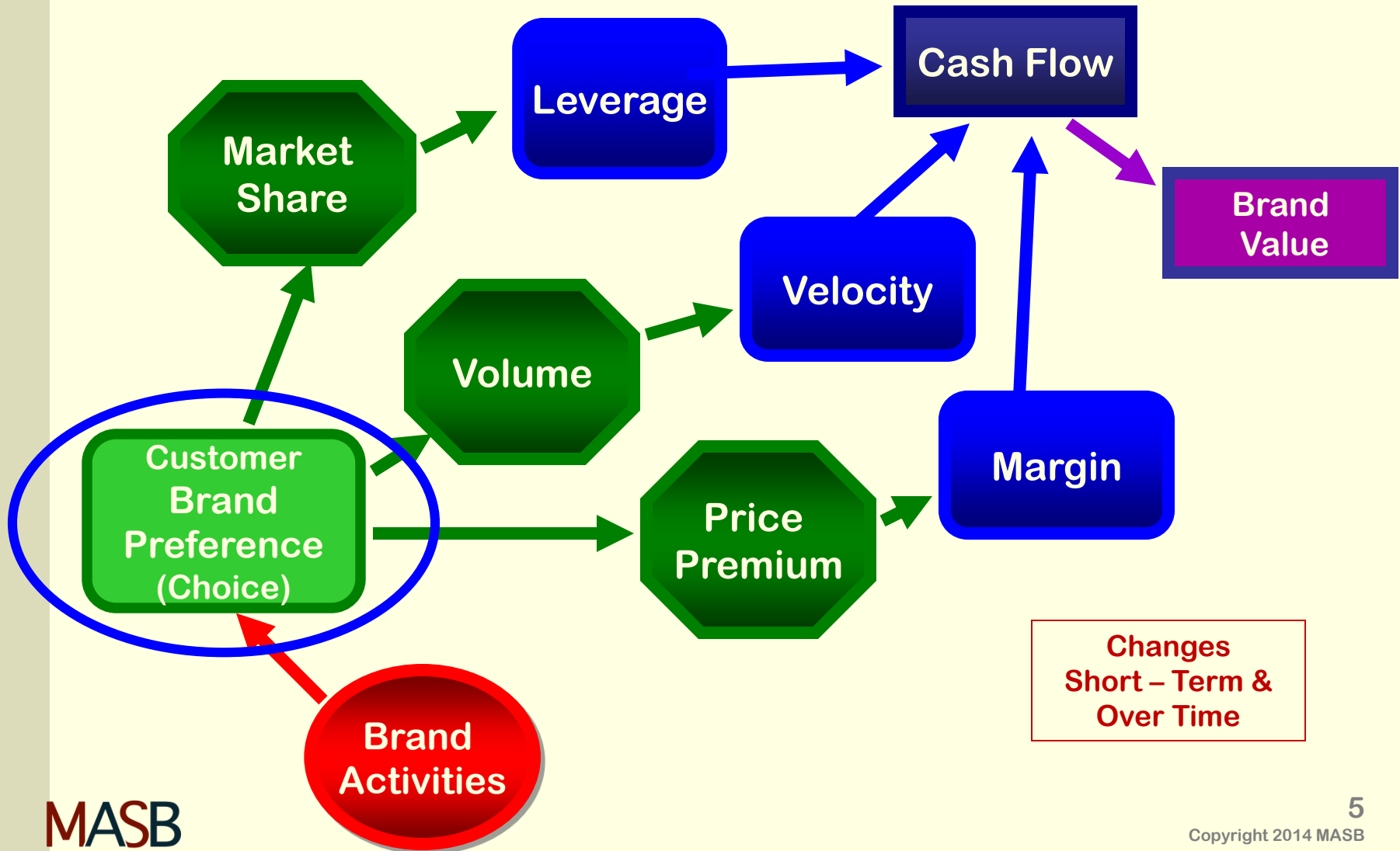
BIV Milestones



MMAP: Brand Investment/Valuation Model (Conceptual Links)



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



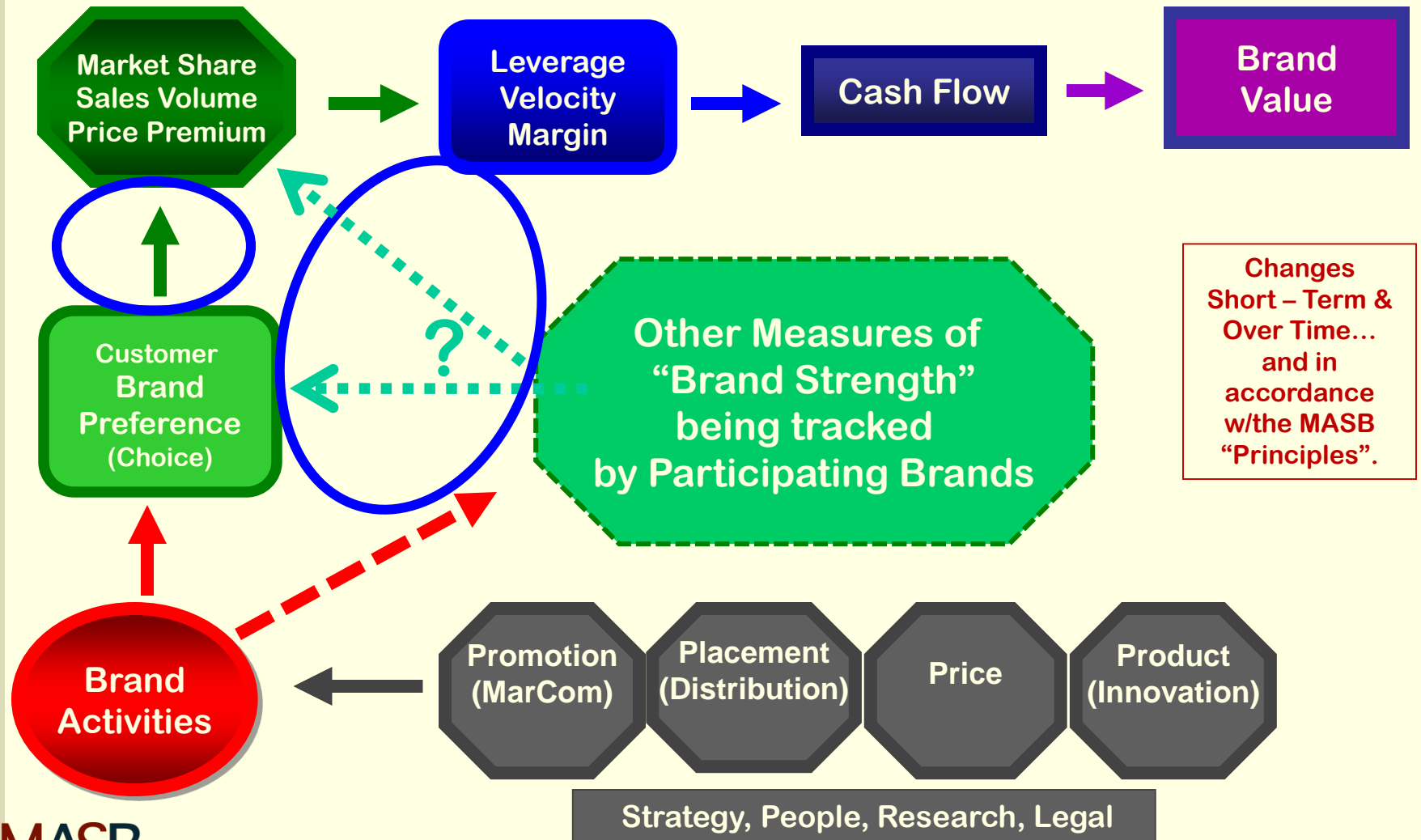
Why Brand Preference (Choice)?

- 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”



Why this is Important – Swimming in Data



Why this is Important – To Finance



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

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 Team & Sub-Teams

Team Leaders



Mike Hess
Nielsen



Dave Stewart
LMU

Analytics Sub-Team

Team Heroes



Jamie Richardson
Kimberly-Clark



Chris Ciccarello
ConAgra



Scott Shiners
ConAgra



Rafael Alcaraz
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Bill Berg
MillerCoors



Lori Kuehn
GM

Admin



Meg Blair
MAF/MASB



Allan Kuse
MMAF Center

Team Meets: 1st Thursday at 11:00 ET

BIV will apply the “Principles”

MASB Marketing Accountability Standards Board
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A rationale and proposed set of principles for brand valuation

August, 2011

Drafted by Roger Sinclair PHD

Commissioned by Association of National Advertisers



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Starting w/Principle #5 (Brand Strength)

- The valuation method must have a component in the model that uses brand strength as a driver of value.
- Future economic benefits are generated because the company has acquired customers who will exchange cash for ownership, or use, of the brand.
- **Brand strength, measured by reliable and valid market research (see MASB MMAP standards), is a crucial input to any valid valuation.**
- The brand strength measurement, relative to other players in the category, is an indication of the likelihood that future cash flows will be earned.
- It is also a powerful indicator of the brand's expected economic life: the stronger the brand relationship or bond with its consumers the further into the future brand earnings can be projected.

Source: Sinclair's rationale & principles for brand valuation (pdf)

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”

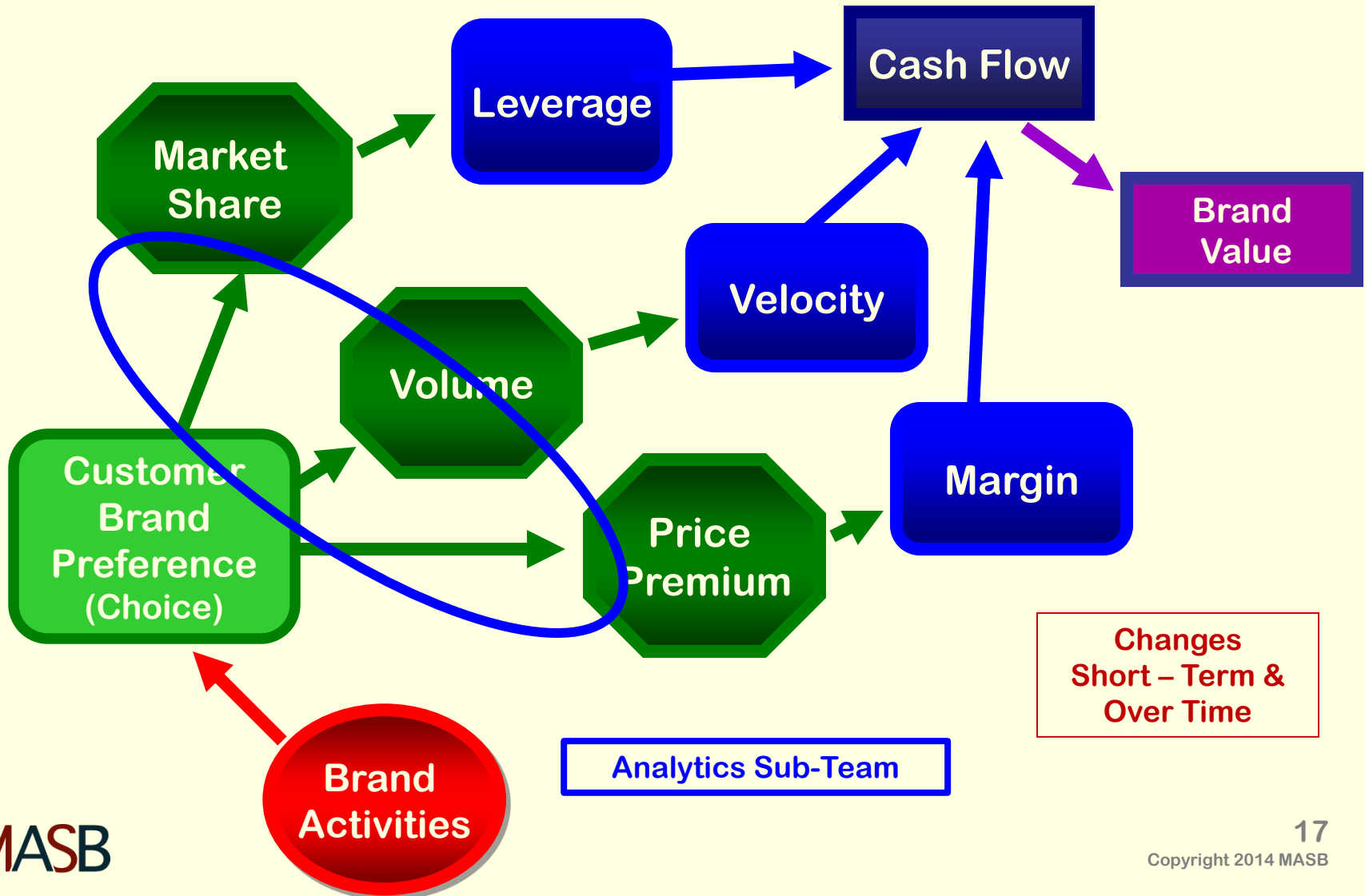
Source: “Measuring and Improving the Return from TV Advertising (An Example),”
MASB, April 2008, May 2012

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.

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



Anticipated Predictive Equations/Forecasting Models

Brand Preference/Choice to Market Results

- **Market Share*_(t) =**

$$f(\text{Brand Preference}_t \times \text{Relative Price}_t \times \text{Distribution}_t)$$

- **Volume_(t) =**

$$f(\text{Market Share}_{(t)} \times \text{Category Volume}_{(t)})$$

- **Price Premium/Point_(t) =**

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

* And/or Baseline?

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!

The Data

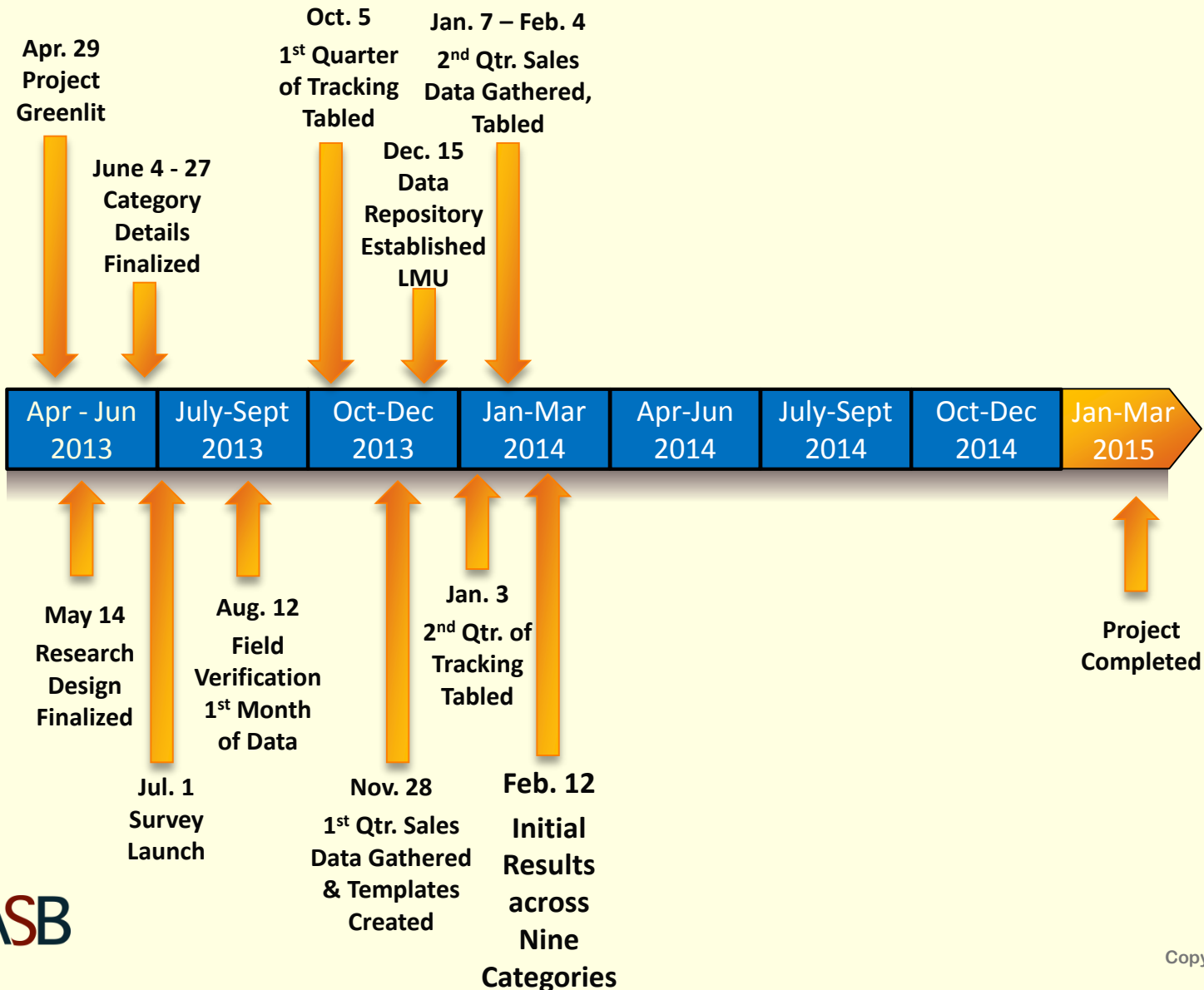
- **MSW-ARS Brand Preference/Choice all brands/categories participating**
 - Forward tracking started July 2013
- **Coordinate time periods of tracking vs. other data involved**
 - BP tracking, market level results, idiosyncratic tracking
- **Market Share, Baseline, Unit & \$\$ Volume, Price, Distribution, Promotion**
 - Team will determine what “baseline” metrics will be used
- **Brand Equity/Strength/other tracking data**

- **Future Phase**
 - Marketing mix inputs
 - Advertising pretesting
 - Advertising GRPs by vehicle type
 - Other marketing impressions
 - Competitive mix drivers (e.g. advertising, price, etc.)

Other

- **Data Structure**
 - Flat file in Excel
 - Calendar monthly and quarterly, time periods in columns
 - 24 months beginning July 1 2013
- **Data Housing**
 - Loyola Marymount University
 - Point Person
- **Outputs**
 - Descriptive results of metrics & analytics
 - Description of process & protocol
 - Desk-Top Simulator

Where we are on the tracking journey



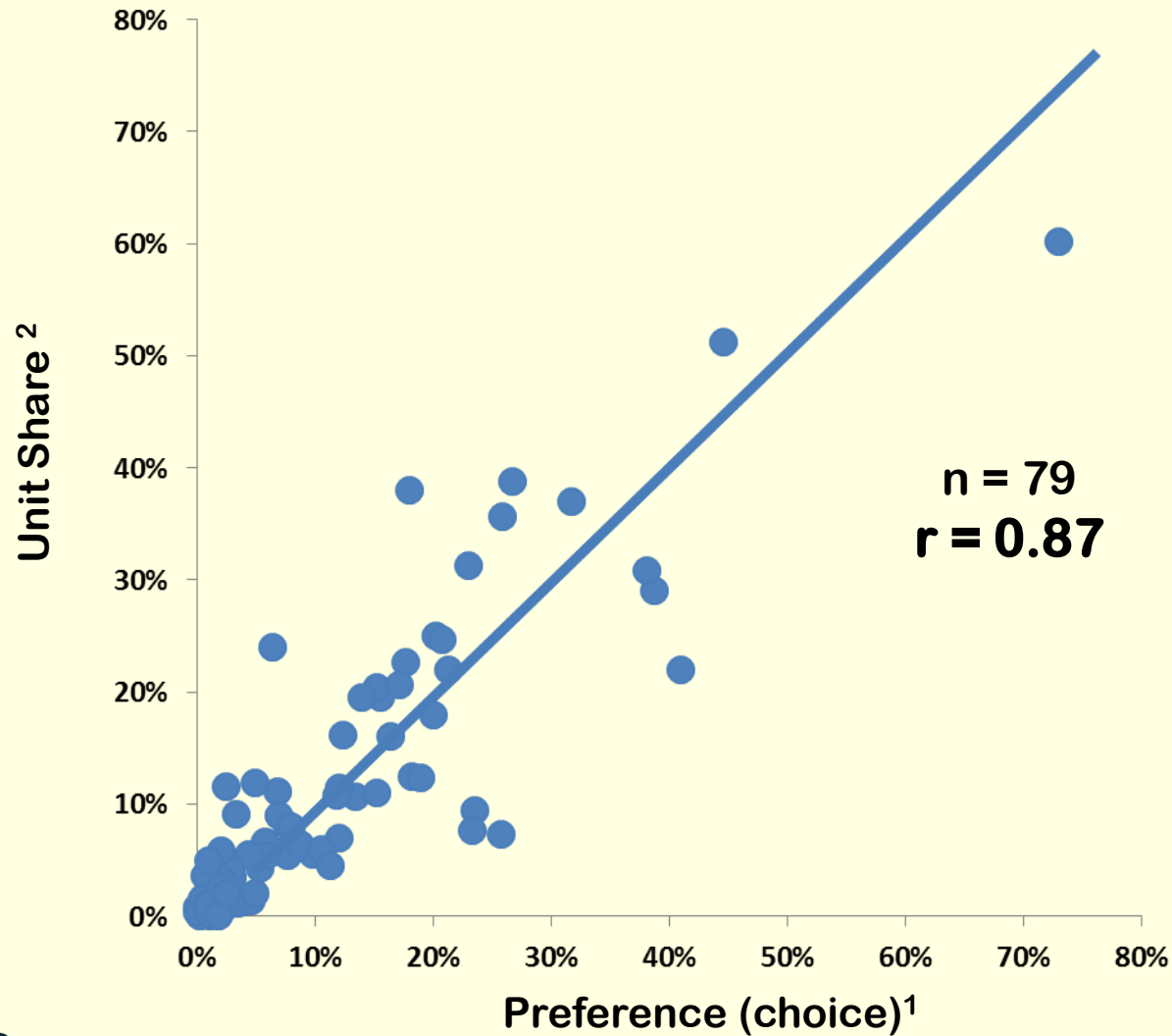
Initial Results

“Are we on the right track?”

- How strong is link between preference and market share (at a point in time)?
- How strong is link between preference and price premium (at a point in time)?
- Are smaller changes able to be detected quarter-to-quarter?

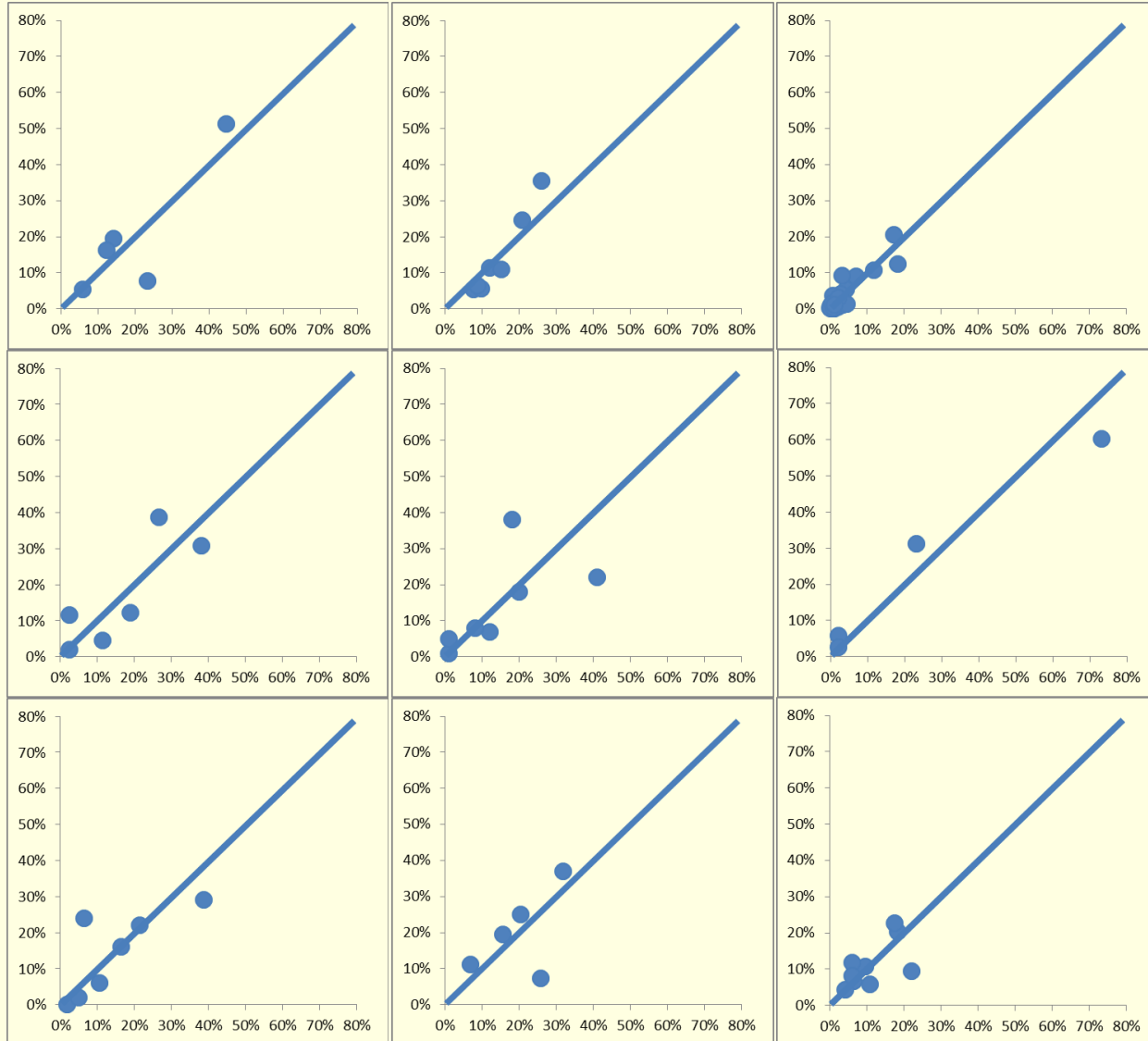
Link Between Preference and Market Share

Point-In-Time: 9 Categories, 6 Month Averages



Link Between Preference and Market Share

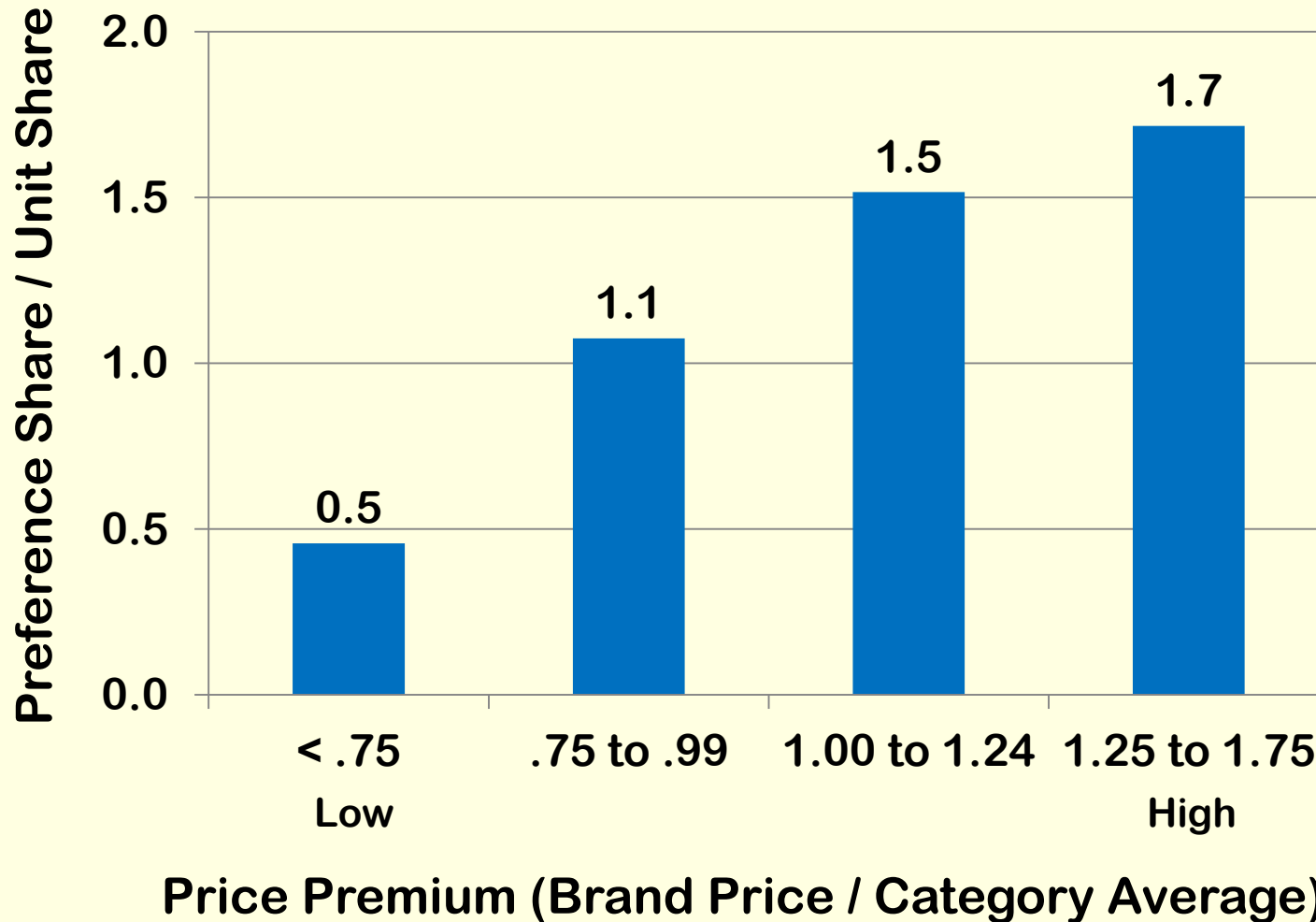
Point-In-Time: 9 Categories, 6 Month Averages



Initial Results

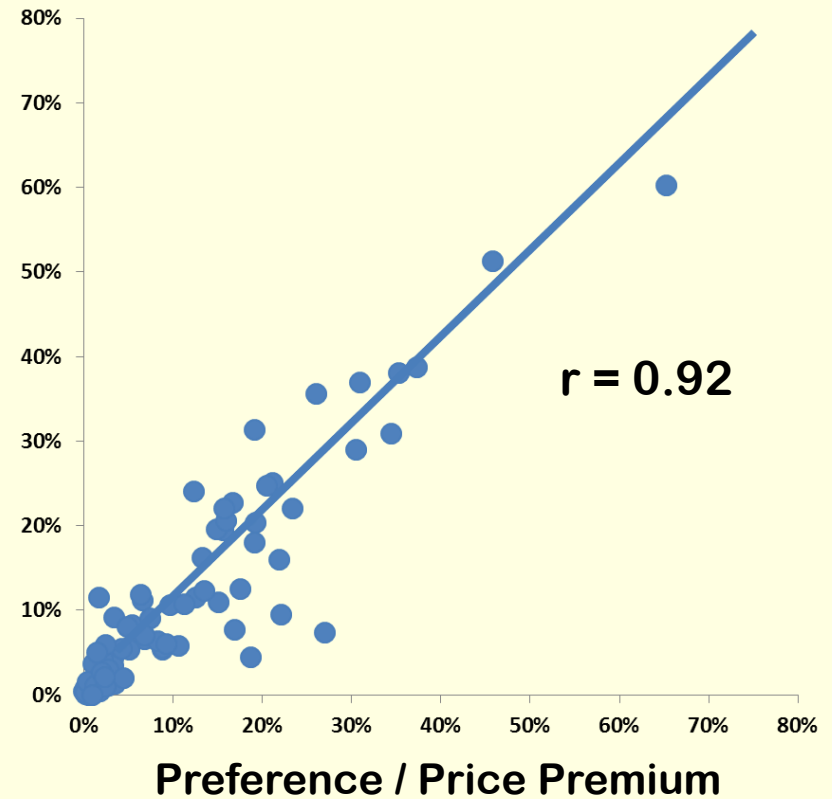
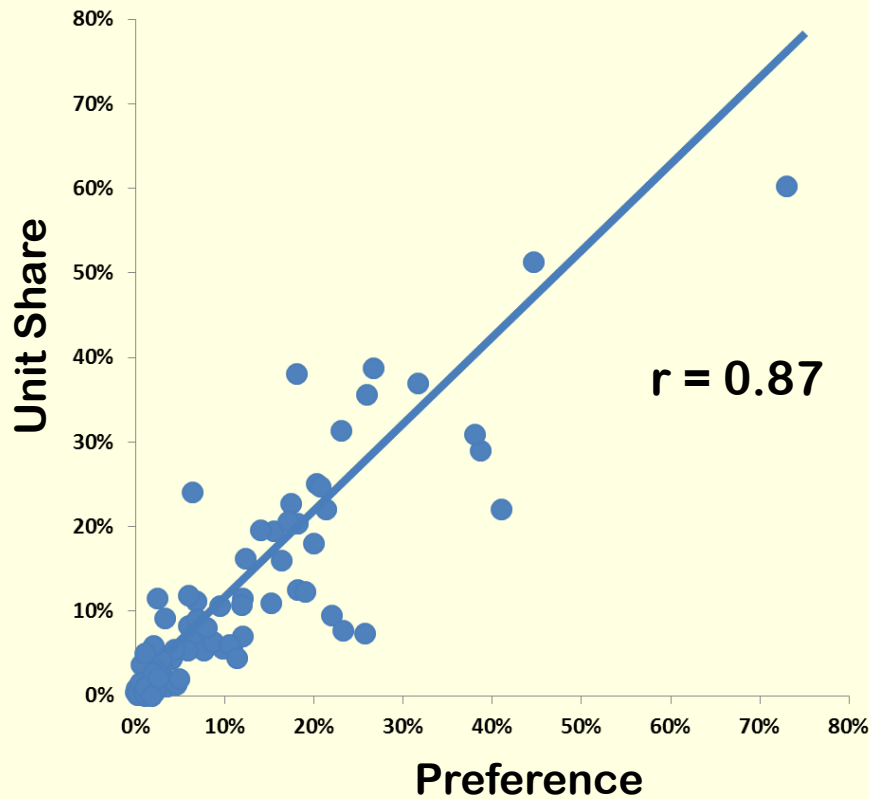
- How strong is link between preference and market share (at a point in time)?
 - Preference (choice) is a strong indicator of “brand strength” within all categories examined
 - Explains 76% of the variance in unit share across 79 brands in nine categories examined so far

Link Between Preference and Price Premium Point-In-Time: 9 Categories, 6 Month Averages



Link Between Preference & Market Share/Price Premium

Point-In-Time: 9 Categories, 6 Month Averages



Initial Results

- How strong is link between preference and market share (at a point in time)?
 - Preference (choice) is a significant indicator of “brand strength” within all categories examined
 - Explains 76% of the variance in unit share across 79 brands in nine categories examined so far
- How strong is link between preference and price premium (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
 - Explained variance rises to 85% when taken into account

Detecting Small Changes

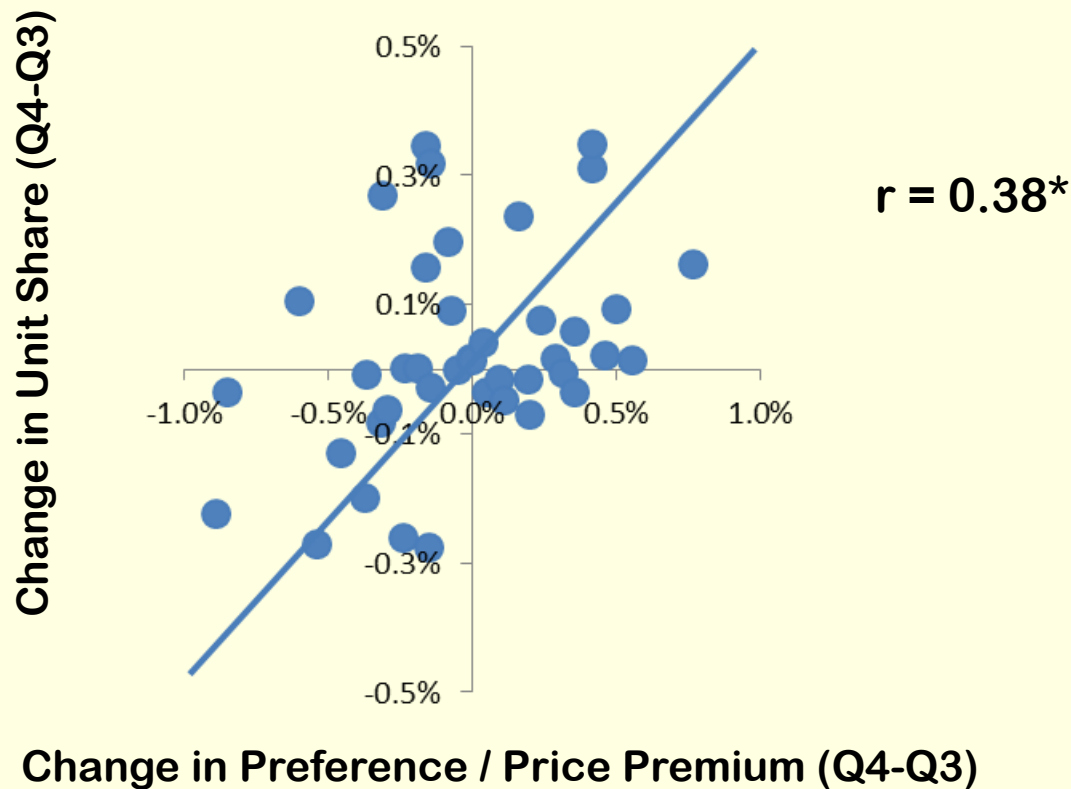
- Brands in “disruptive” categories (like the example below) experience large changes in market share quarter-to-quarter
- But the BIV trial categories have relatively stable brands...will their smaller changes be detectable?

PREFERENCES
(PERSONAL COMPUTERS)

<u>BRAND</u>	<u>OWNERS</u>		<u>INTENDERS</u>	
	<u>MA84</u> (933)	<u>JA84</u> (1173)	<u>MA84</u> (686)	<u>JA84</u> (721)
APPLE	33%	35%	33%	38%
IBM	28	30	30	35
COMMODORE	20	21	22	16
RADIO SHACK	8	5	6	5
ATARI	8	6	6	3
COLECO	3	3	4	3

PREFERENCES FOR APPLE AND IBM ARE INCREASING, WHILE THEY ARE DECREASING FOR COMMODORE AND ATARI.

Detecting “Small” Changes: Quarter-to-Quarter (Restricted to Share < 0.5% and Preference/Price < 1.0%)



* Note that there are margins of error in both the Market Share metrics as well as the Preference (choice) measurement

Initial Results

- How strong is link between preference and market share (at a point in time)?
 - Preference (choice) is a significant indicator of “brand strength” within all categories examined
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- How strong is link between preference and price premium (at a point in time)?
 - There is a direct trade-off between price premium and preference
 - Low price magnifies share from preference, high price lessons
 - Explained variance rises to 85% when taken into account
- **Are smaller changes able to be detected quarter-to-quarter?**
 - **Yes, relationships are being seen even for smaller changes**

BIV Analytics Sub-Team Next steps

- Add three remaining categories to this initial meta-analysis (February)
- Conduct first complete quarter-to-quarter analyses for each category (March)
 - Include distribution
 - Include private label/store brands

BIV Team & Sub-Teams

Team Leaders



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Nielsen



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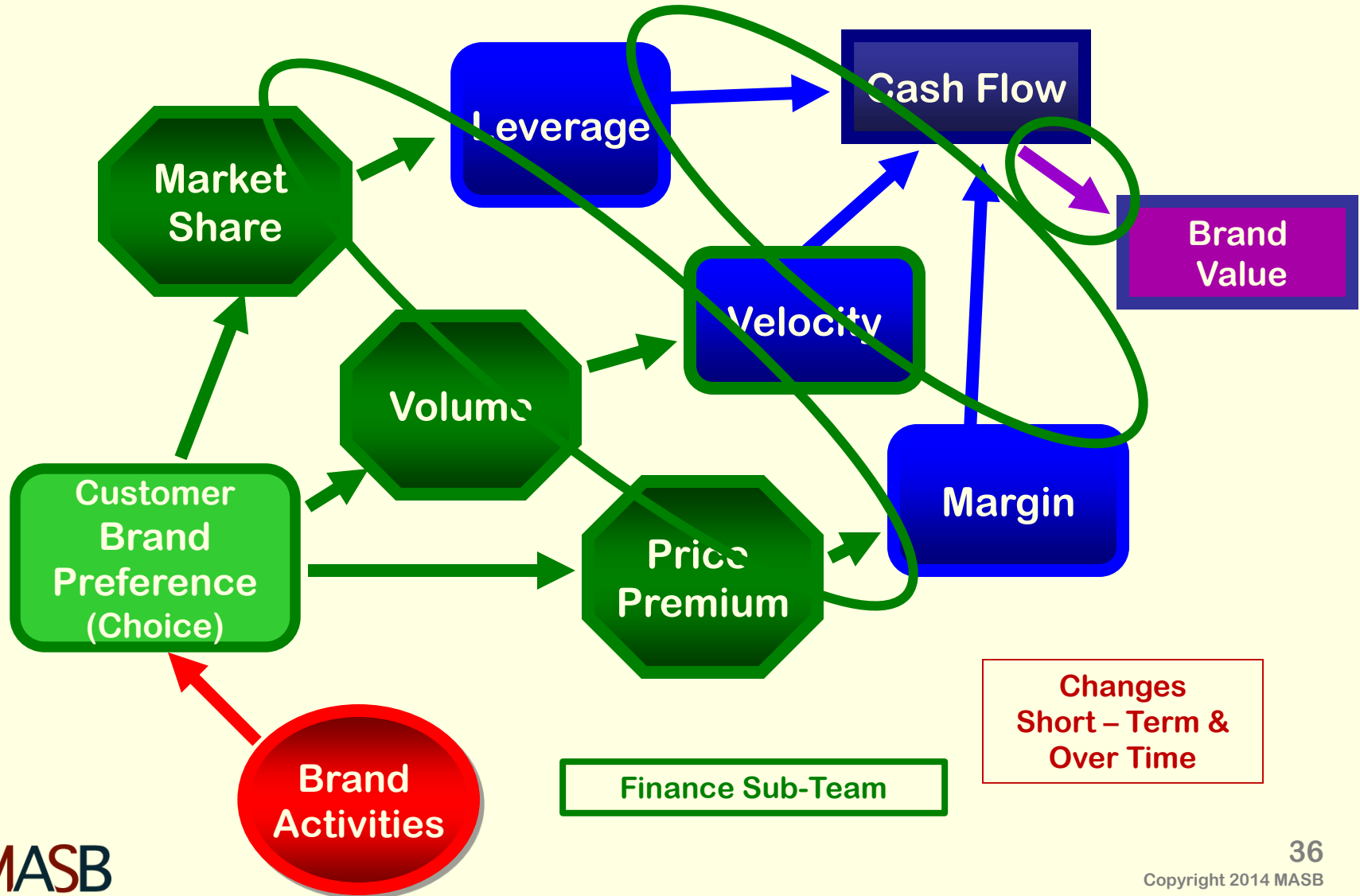
Meg Blair
MAF/MASB



Allan Kuse
MMAF Center

Finance Sub-Team

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



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Some of which may be revised
over the course of the BIV Project

Basic Principles #1 & #2

How did they calculate this value?

The disclosure principle (BP # 1)

For a valuation to be valid and credible the method by which the valuation was calculated must be fully disclosed including all assumptions and calculations

How are the brand advantages identified?

The Economic base principle (BP # 2)

The basis of a brand valuation should be the calculation of economic profit which separates the brand from the non-branded version

Basic Principles #3 & #4

How is the brand portion of economic profit extracted?

The brand contribution principle (BP # 3)

The valuation method shall have a component that works out the proportion of economic profit attributable to the brand

If brands are long-lived, how is this accommodated?

The expected economic life principle (BP # 4)

The valuation method shall attempt to model the complete expected economic life of the brand

Basic Principles #5 & #6

What part does the consumer play in brand valuation?

The brand strength principle (BP # 5)

The valuation method must have a component in the model that uses brand strength as a driver of value*

Aren't assets affected by uncontrollable forces?

The environmental influences principle (BP # 6)

There must be a component that incorporates an evaluation of the relevant environmental factors that are outside the control of the marketer

Basic Principles #7 & #8

How should the discount rate be calculated?

The discount rate principle (BP # 7)

The discount rate used for both the economic profit and DCF should be the Weighted Average Cost of Capital (WACC)

Risk is fundamental to DCF; where is it applied?

The risk principle (BP # 8)

Risk specific to the brand that might impose a negative impact on the future economic benefits should be taken account of in the cash flows and not the discount rate. It should be probability weighted

Basic Principles #9 & #10

What happens with ambitious growth rates?

The growth rate principle (BP # 9)

The short term growth rate should only exceed the average for the three previous years if there is credible justification to do so. Longer growth rates should use the sum of consensus GDP and inflation

We don't always have impartial, fact based data.

The source of data principle (BP # 10)

When possible data used should be from observable sources. Disclosure deals with data from unobservable sources

Basic Principles #11 & #12

Can I track trends with a brand valuation?

The consistency of time principle (BP # 11)

Valuation techniques and source data should be applied consistently so that valuations may be reliably replicated over time

I can't afford to value every brand in every sector?

The multiple markets and segments principle (BP # 12)

Use an 80:20 Pareto Principle to arrive at a valuation for multiple markets and market sectors

BIV Finance Initial Approach

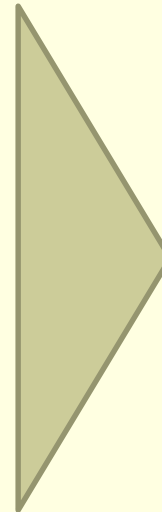
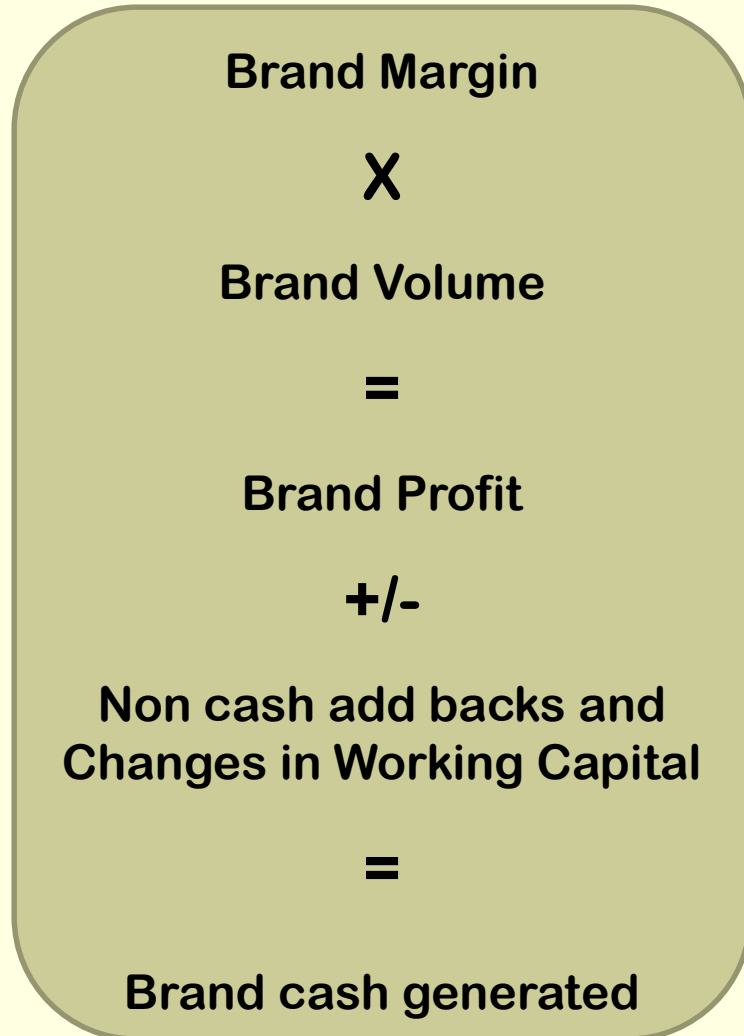
Initial approach was to calculate cash flow at a Brand level with the ultimate goal of defining financial metrics that drive Brand value

Held exploratory discussions with Financial leadership at Frito-Lay and ConAgra

Key considerations included:

- Separation of Brand vs. Non Brand economic profit
- Identification of unique business capabilities that impact the ability of a Brand to generate cash (Brand extensions, Distribution channels, etc.) and best metrics to measure
- Identification of considerations across various Brands that impacted the cash conversion cycle (Produced vs. purchased inventory, different distribution channels/receivable terms)
- Identification of potential methodologies to allocate working capital across Brands

BIV Finance Initial Approach - Illustration



Initial goal was to calculate cash flow by Brand in order to identify the complexities to be considered and the key metrics that drive Brand Value

BIV Finance Initial Findings – ConAgra / Frito-Lay

Initial findings with ConAgra/Frito-Lay are that this level of detail is not currently maintained and would be costly to implement

- **Components of working capital not tracked by Brand (with exception of Brand inventory at Frito-Lay)**
- **Value of items driving leverage will vary greatly across companies and may be difficult to standardize**

BIV Finance Sub-Team Next steps

- Define alternative approach of measuring cash generated by brands
- Test with ConAgra and Frito-Lay for applicability
- Expand to additional companies

Mike...

BIV Next Steps

- Continue Brand Preference/Choice Tracking
- Evaluate other/idiosyncratic measures of Brand Strength
- Continue working with Analytics Sub -Team
 - Provide additional resources if needed
- Continue working with Finance Sub -Team
 - Provide additional resources if needed
- Revise the “Principles” along the way as appropriate



Thank-you!



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of the Marketing Accountability Foundation**