
MASB Standards Project

Brand Investment & Valuation (BIV) Project Review & Status

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Marketing Accountability Standards Board
of the Marketing Accountability Foundation

February 2015
San Antonio

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

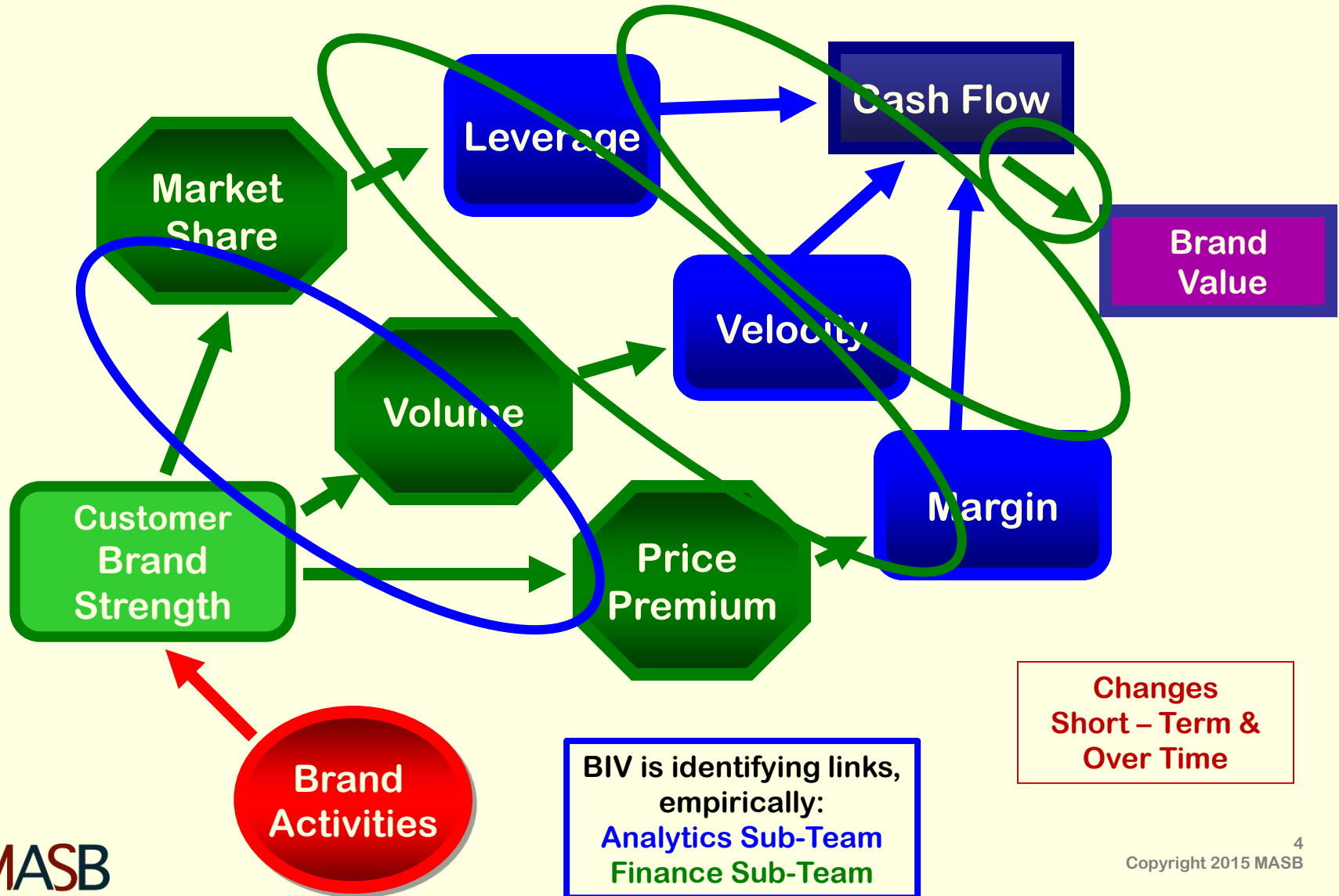
While on the other...
Their prominence and visibility necessitates proactively managing and interpreting the results.

Source: Cayabyab (GE) 2/16/12

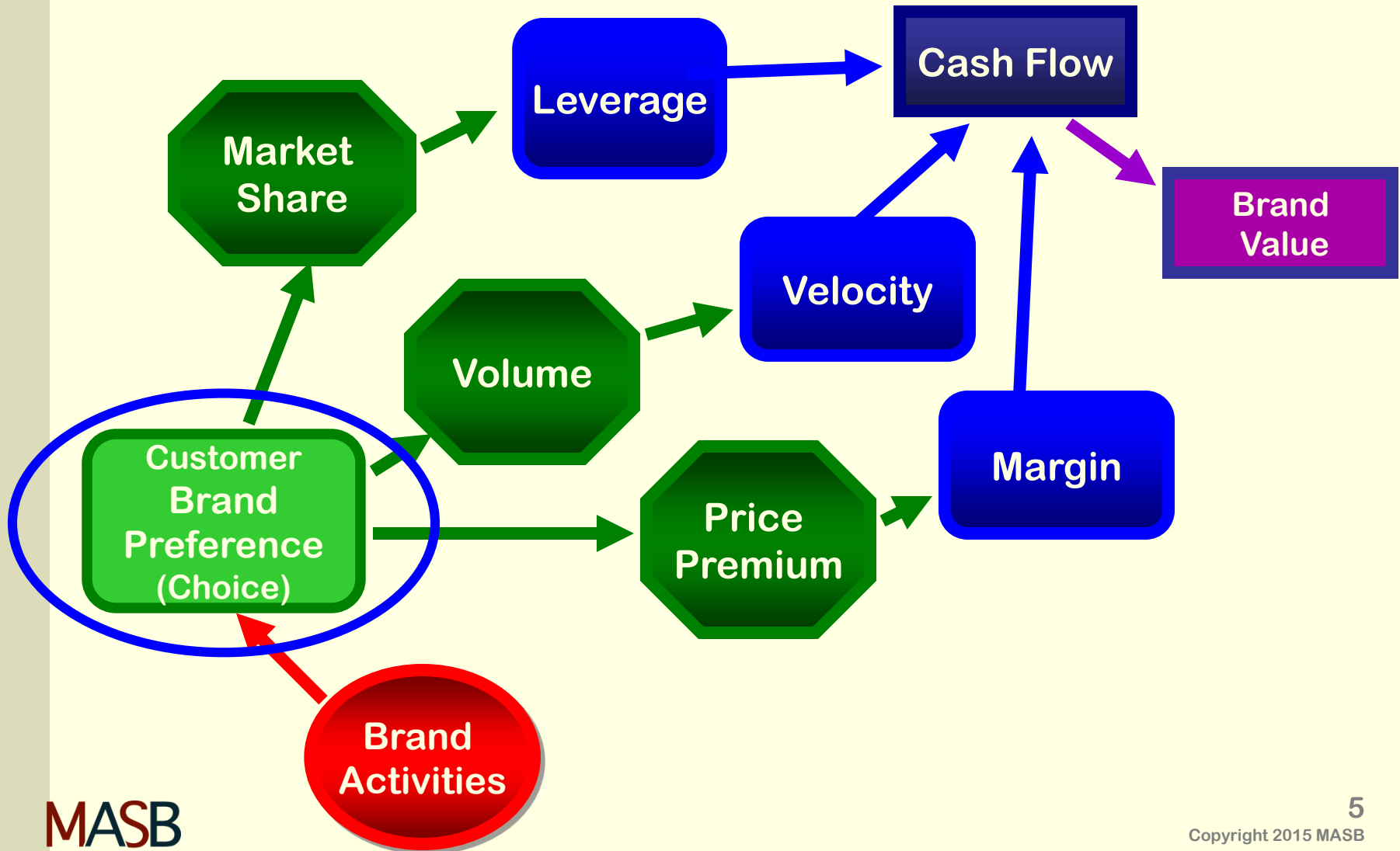
BIV: The Game Changer

Project	Brand Investment & Valuation (BIV) (Stewart & TBD)	
Issue Addressed	Brand represents great Value (but how much)	Strategy Build bridges from customer metrics to market metrics to financial metrics... empirically.
Project Objective	Establish “generally accepted brand investment & valuation standards”	
Expected Outcome	Empirically proven model for valuing brands & guiding investment decisions	
When	2015	

MMAP: Brand Investment/Valuation Model (Conceptual Links)



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



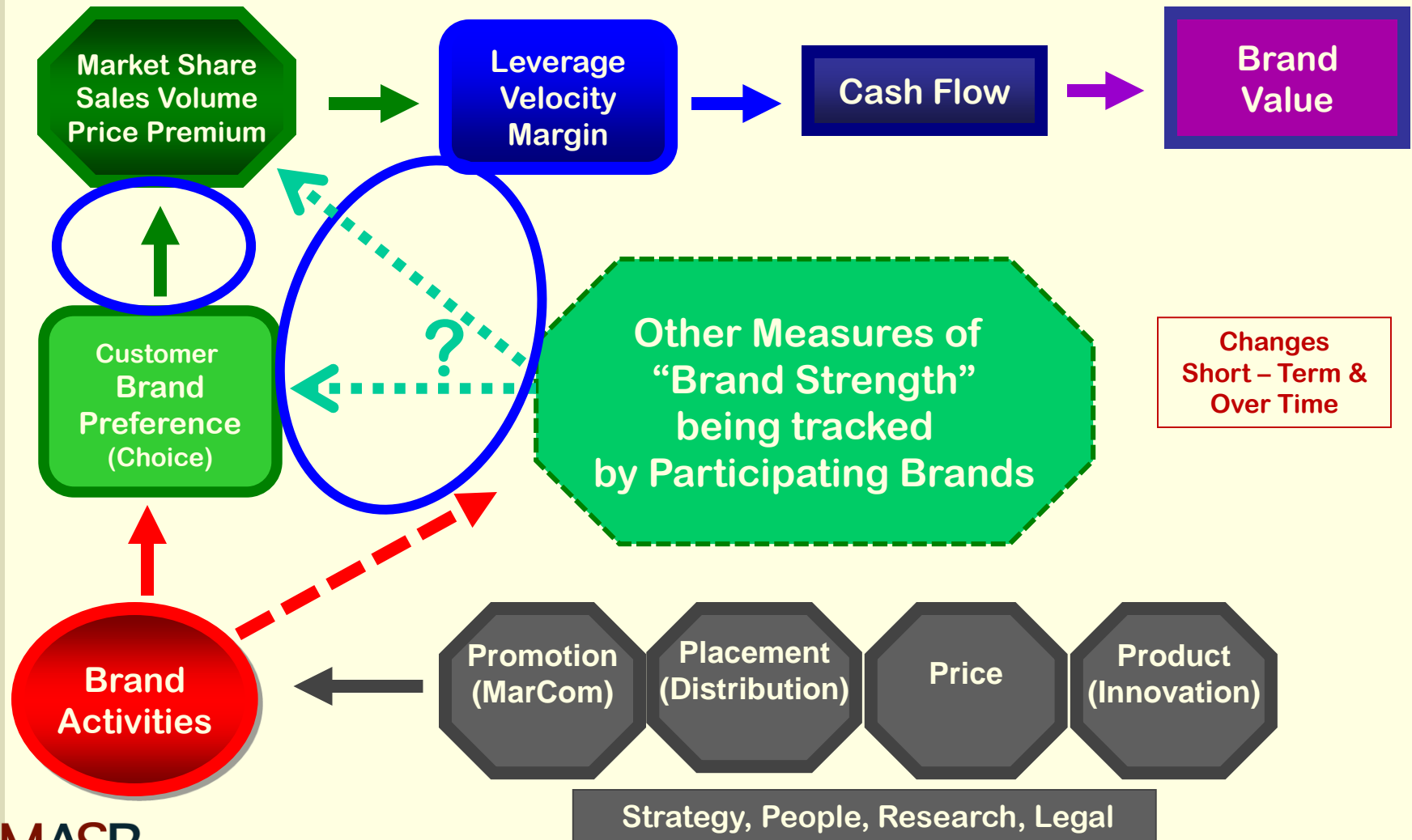
Why Brand Preference (Choice)?

- 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

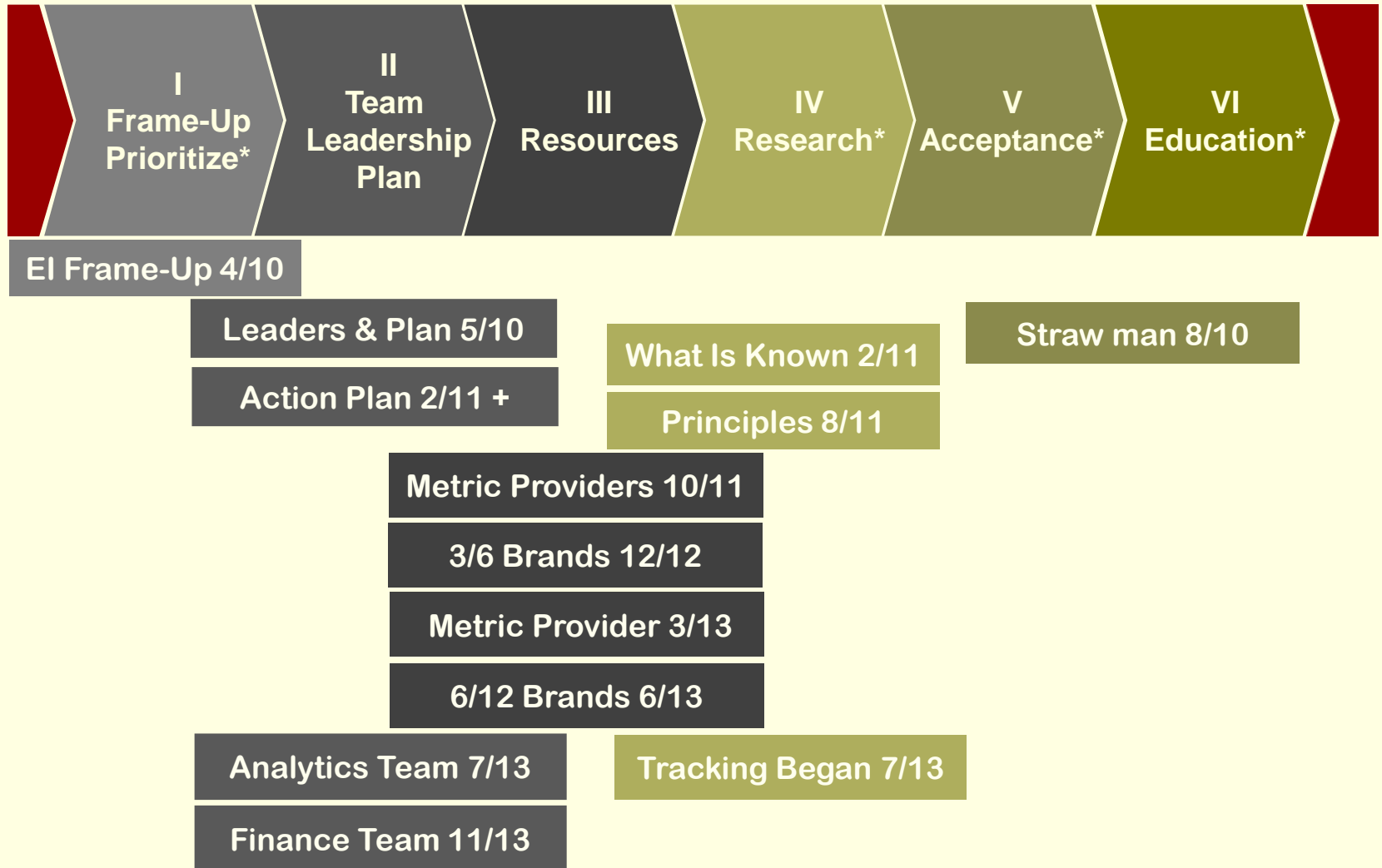
Learning how to improve performance as measured by customer, market and financial outcomes

Building strong brands more profitably and consistently

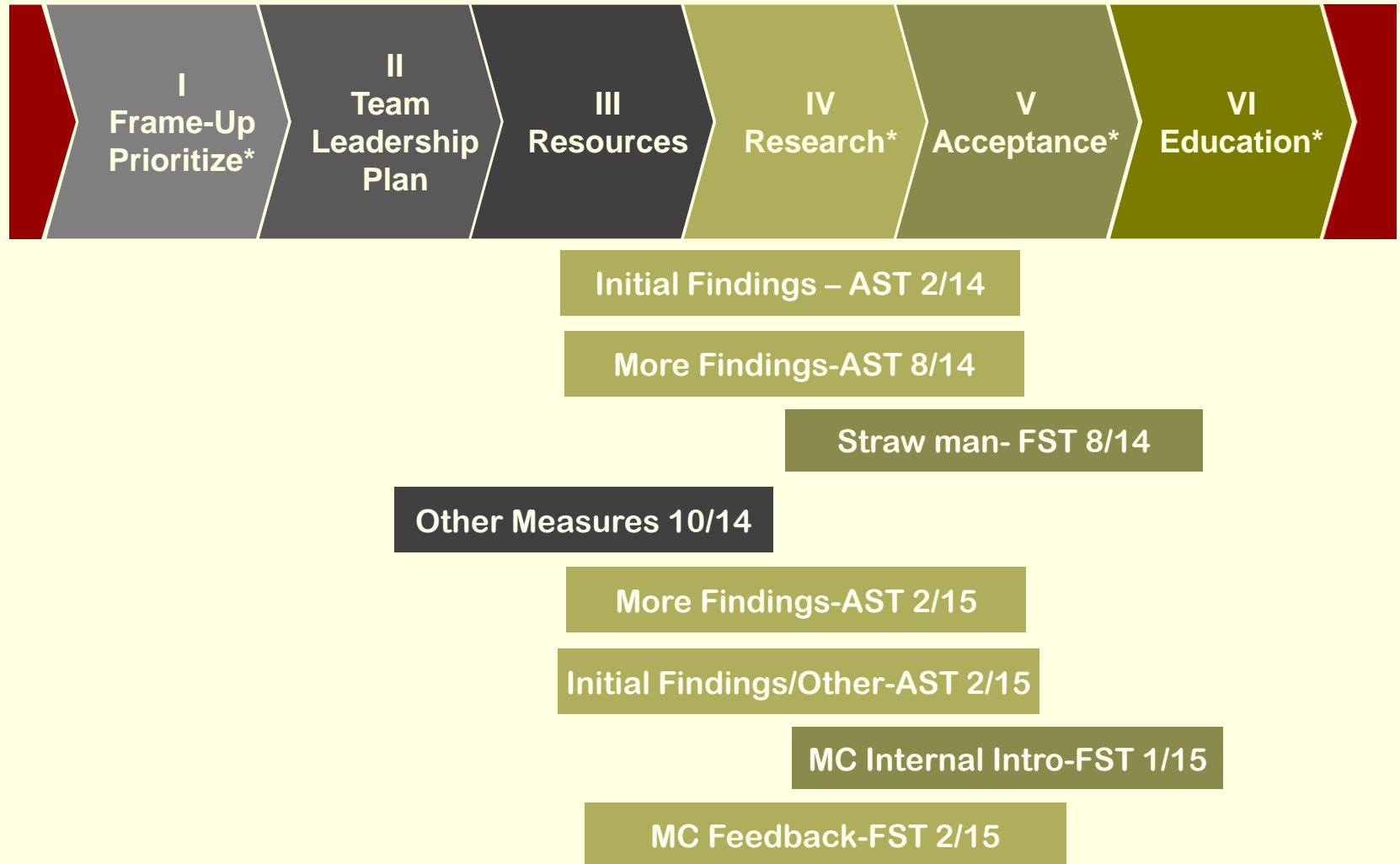
Who needs it?

- **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 Milestones (2010 – 2013)



BIV Milestones (2014 & Since August Meeting)



BIV Team & Sub-Teams

Team Leaders



TBD
Nielsen



Dave Stewart
LMU

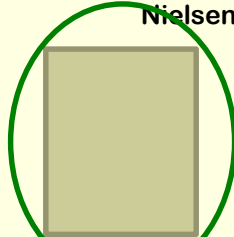
Team Heroes



Jamie Richardson
Kimberly-Clark



Chris Ciccarello
ConAgra



TBD
ConAgra



Rafael Alcaraz
Hershey



Frank Findley
MSW•ARS



Shyam Venugopal
Frito-Lay



Jim Meier
MillerCoors



Bill Bane
Kimberly-Clark



Marc Fischer
U of Cologne



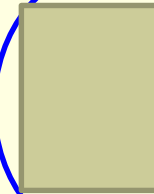
Don Sexton
Columbia



Rajeev Batra
U of M



Jonathan Short
Frito-Lay



TBD
GM



Jeff Long
MillerCoors

Admin



Meg Blair
MAF/MASB



Allan Kuse
MMAR Center

Analytics & Finance Sub-Teams

BIV Analytics Sub-Team Report (Frank)

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”

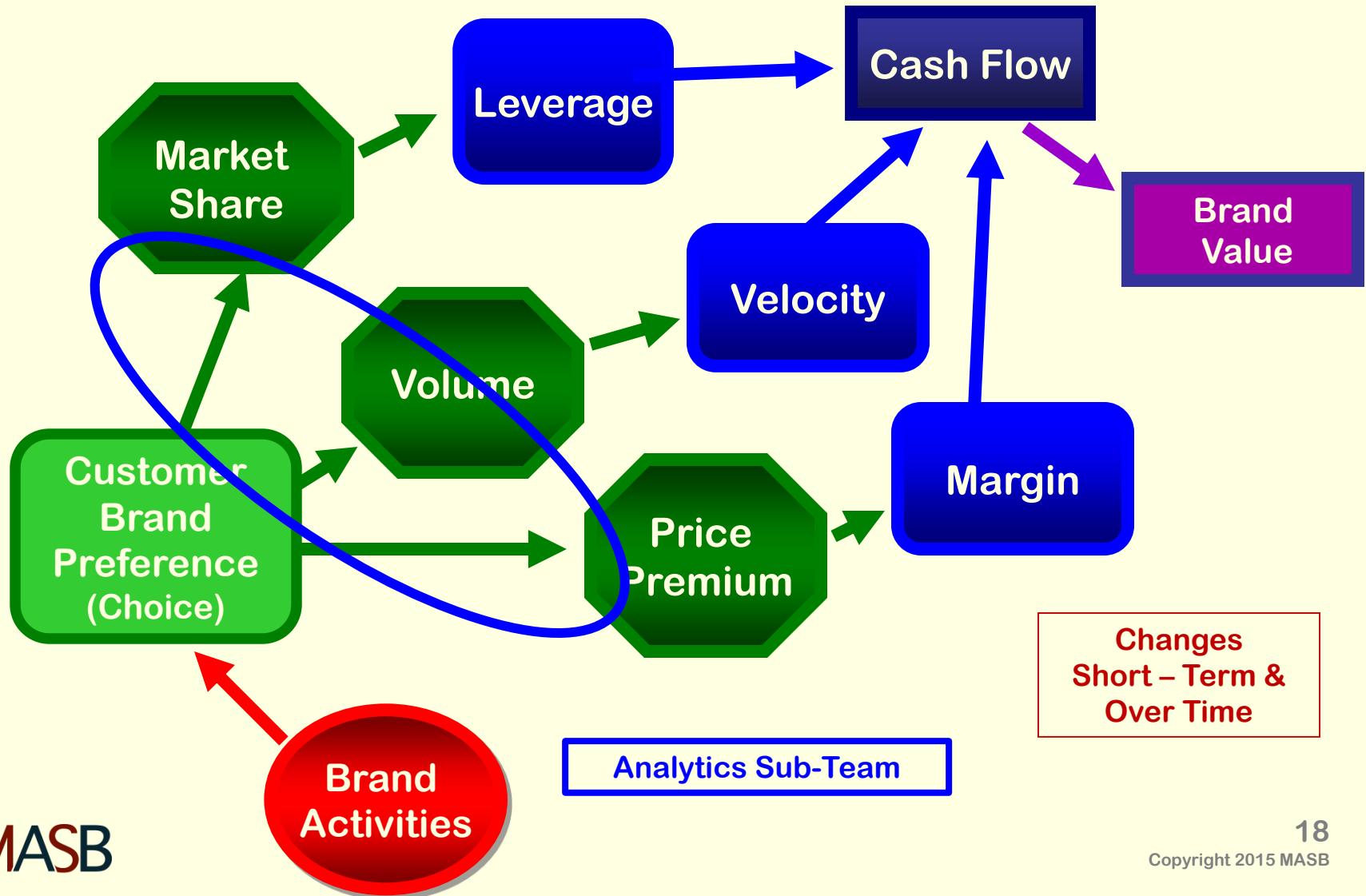
Source: “Measuring and Improving the Return from TV Advertising (An Example),”
MASB, April 2008, May 2012

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 $_{(t)}$ =**

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

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

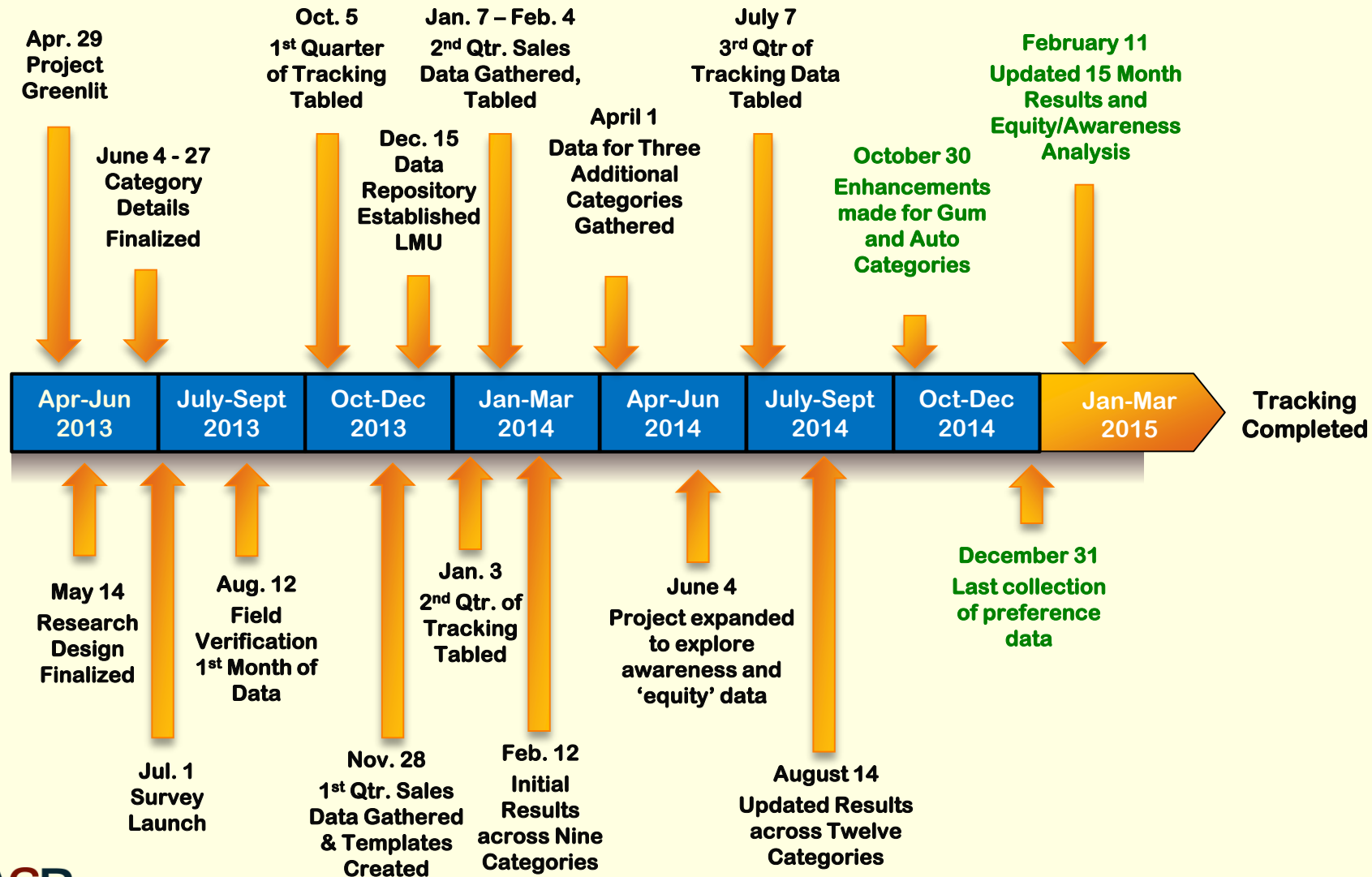
- **MSW-ARS Brand Preference/Choice all brands/categories participating**
 - Forward tracking started July 2013
- **Coordinate time periods of tracking vs. other data involved**
 - BP tracking, market level results, idiosyncratic tracking
- **Market Share, Baseline, Unit & \$\$ Volume, Price, Distribution, 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
 - 16 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



Results

Updated Results (2/15)

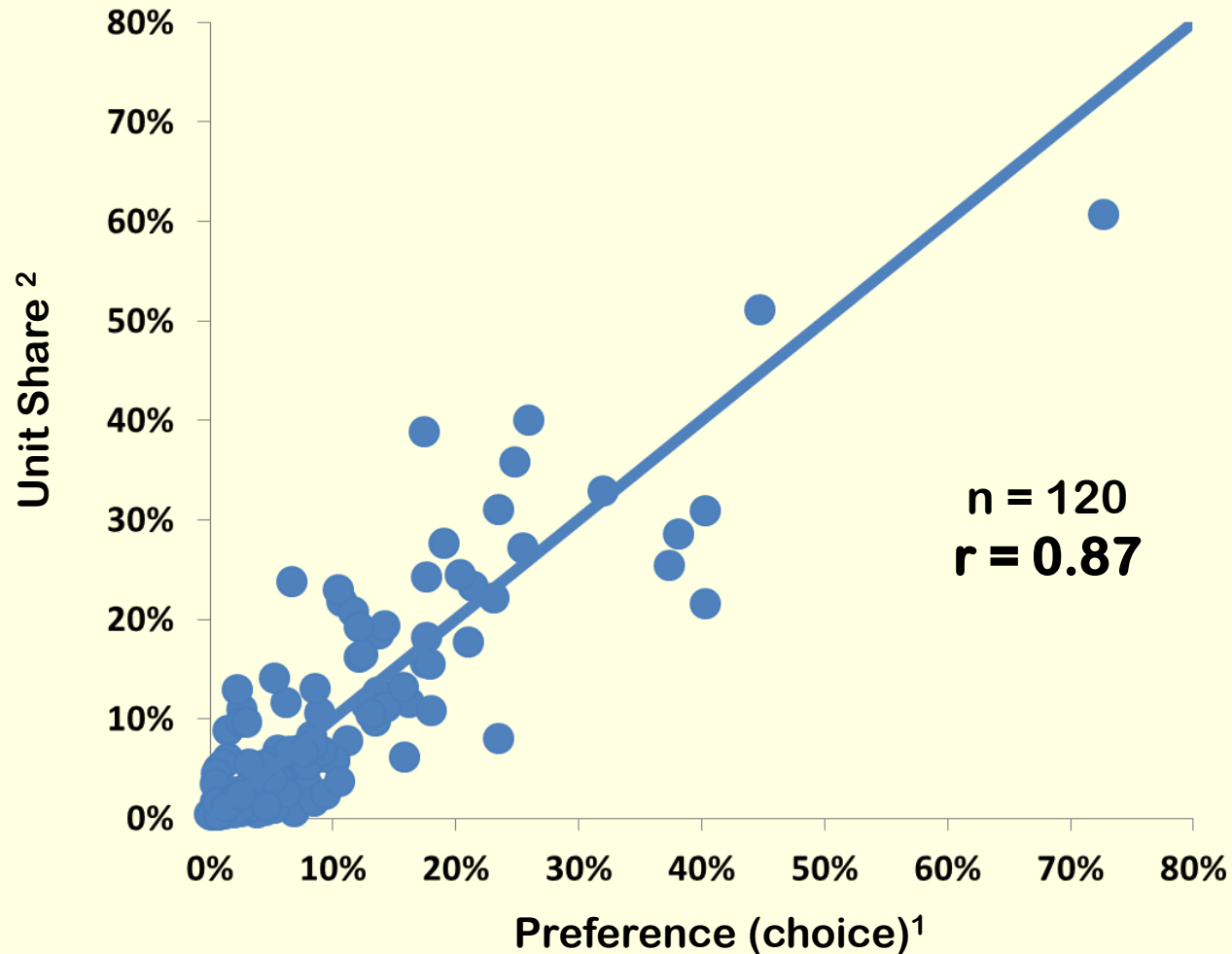
- Dataset includes 12 categories and 120 brands
- Links between Market Share, Preference, and Price Premiums confirmed on 15 months of data
- Revised gum competitive set shows expected improvement
- For auto, preference links better to sales by make than by model (consistent with how competitive set was designed)
- Link to distribution extended across all categories

New Learning (2/15)

- Traditional 'Brand Strength' & 'awareness' metrics examined
- Dataset includes 6 categories and 33 brands
- Metrics varied by participant/category but enough overlap for limited meta-analysis

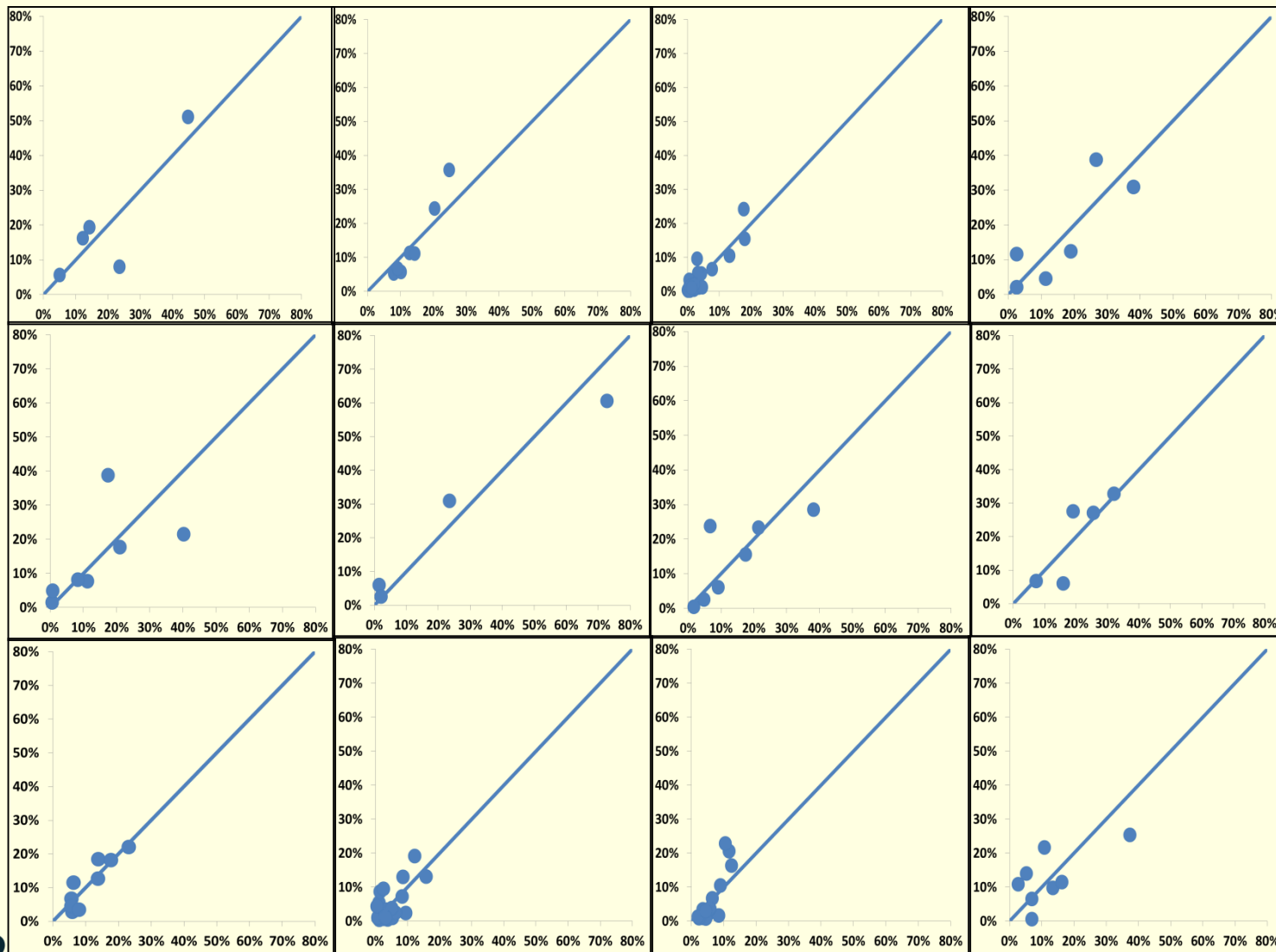
Link Between Preference and Market Share

Point-In-Time: 12 Categories, 15 Month Averages*



Link Between Preference and Market Share

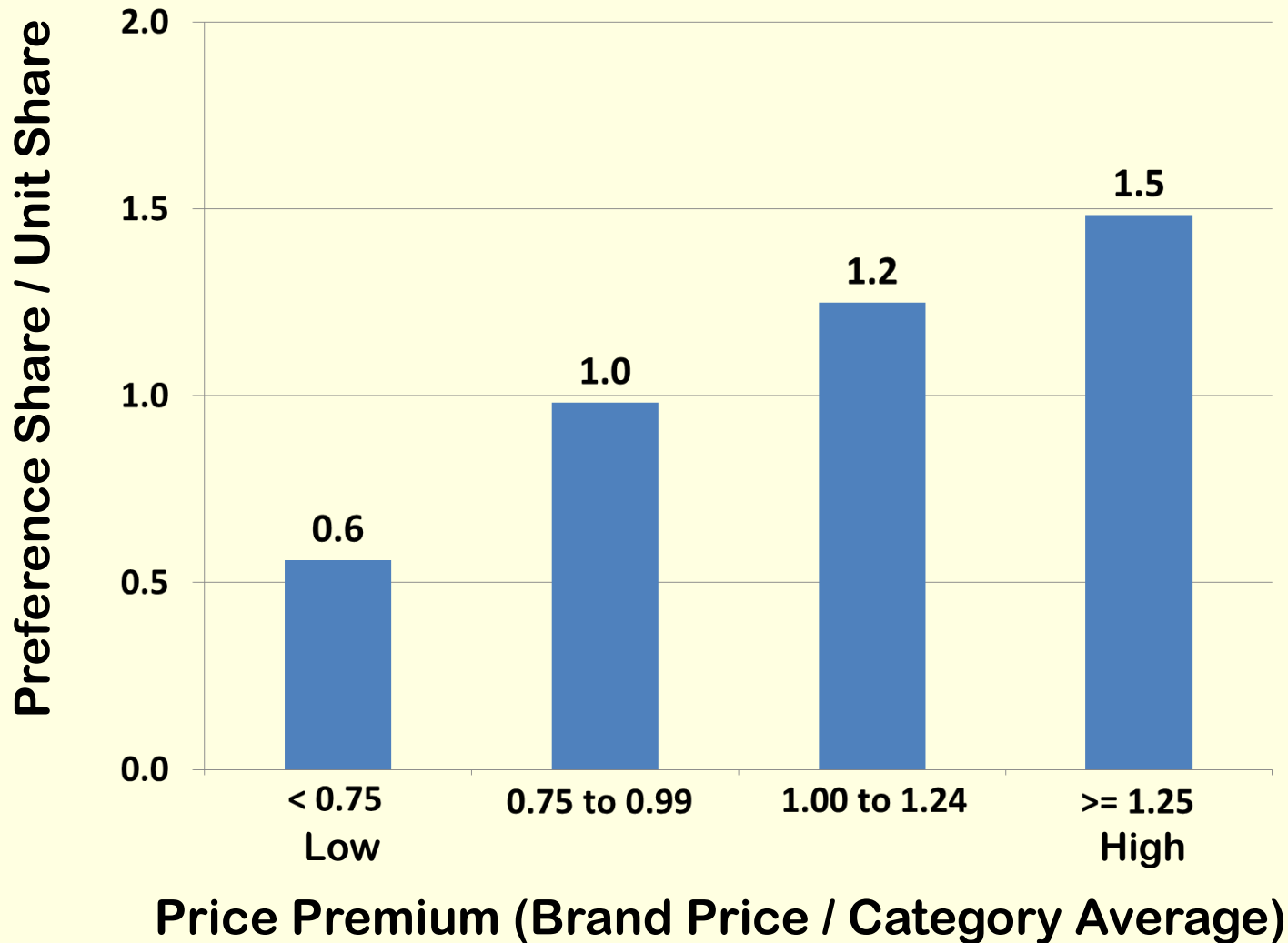
Point-In-Time: 12 Categories, 15 Month Averages*



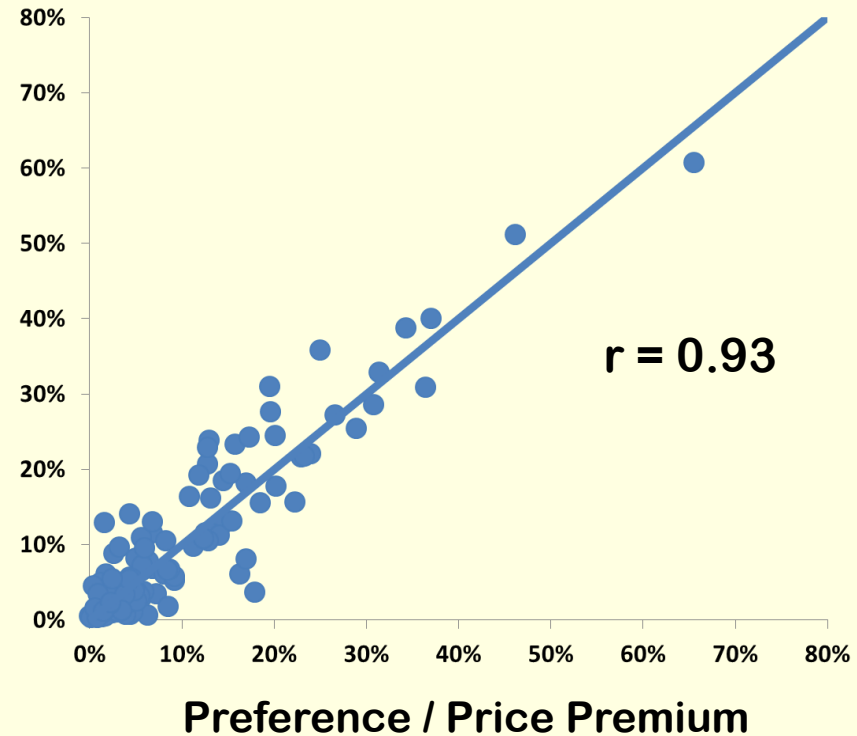
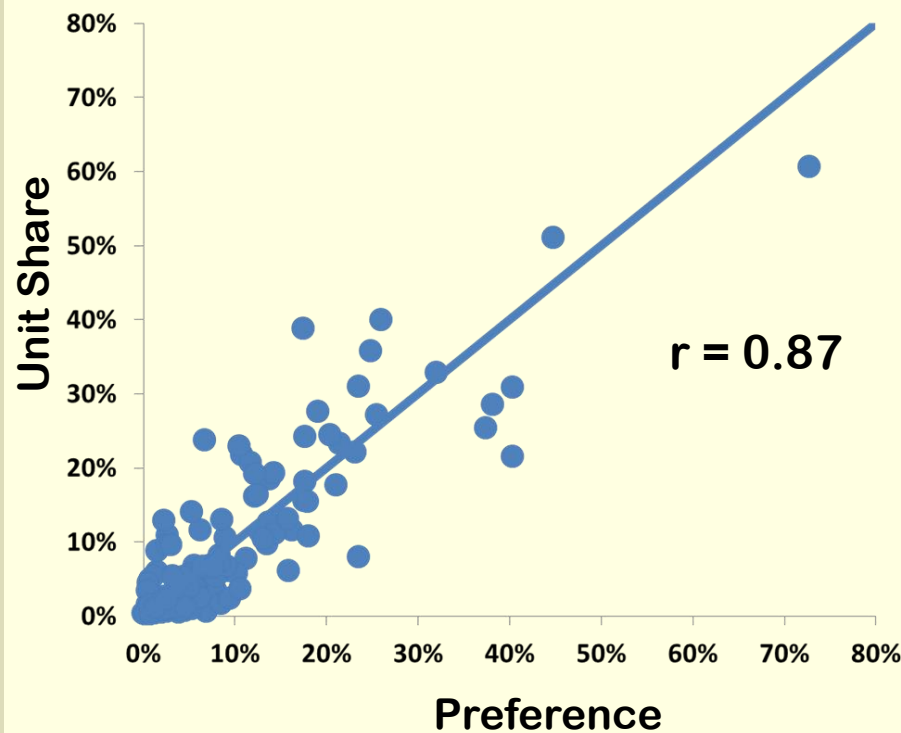
Updated Results (2/15)

- **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 75% of the variance in unit share across 120 brands in twelve categories examined so far**

Link Between Preference and Price Premium Point-In-Time: 12 Categories, 15 Month Averages*

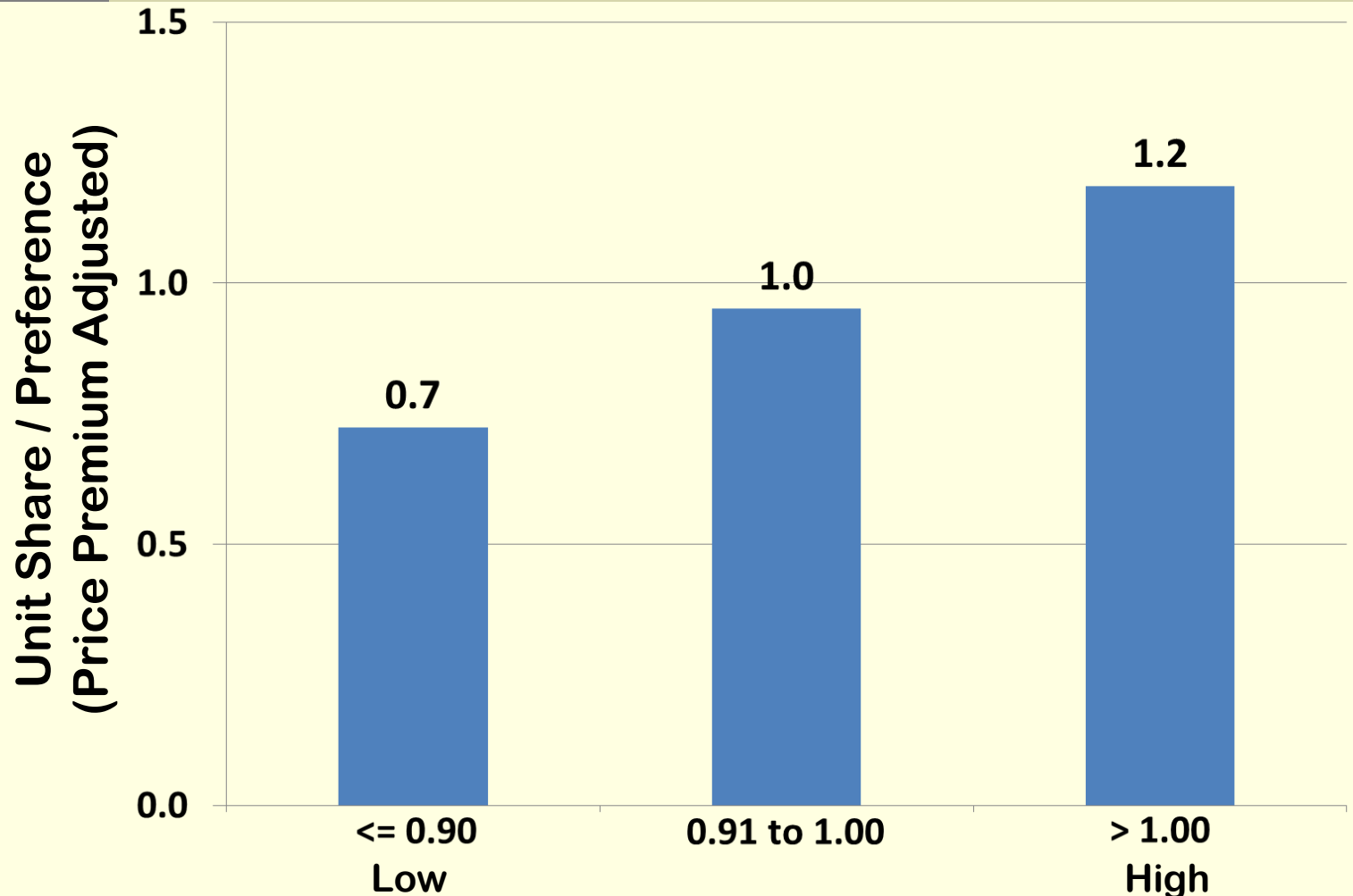


Link Between Preference & Market Share/Price Premium Point-In-Time: 12 Categories, 15 Month Averages*



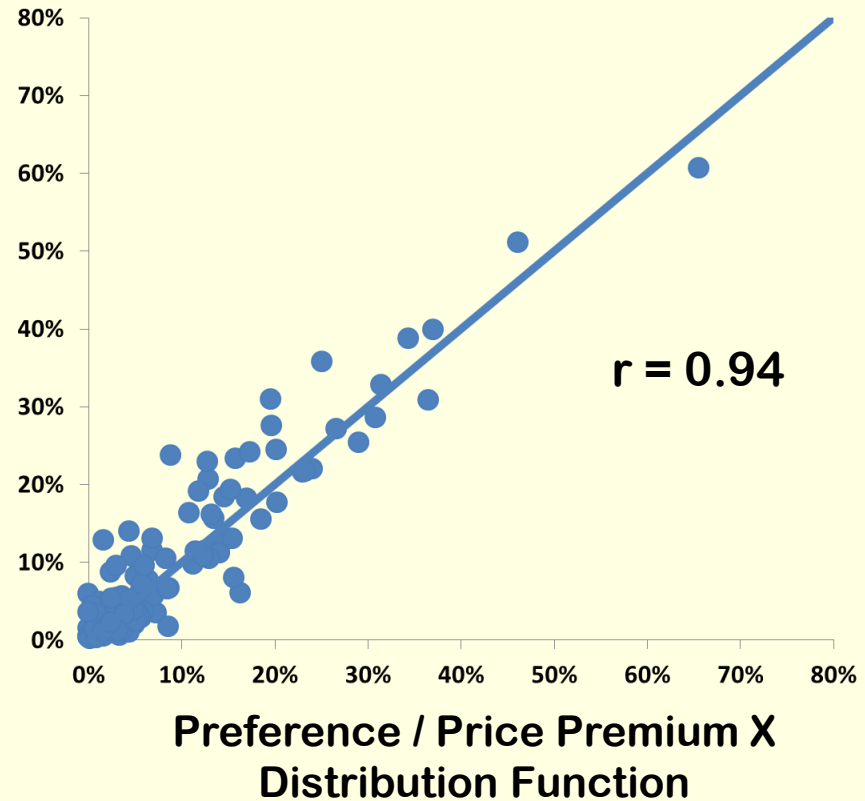
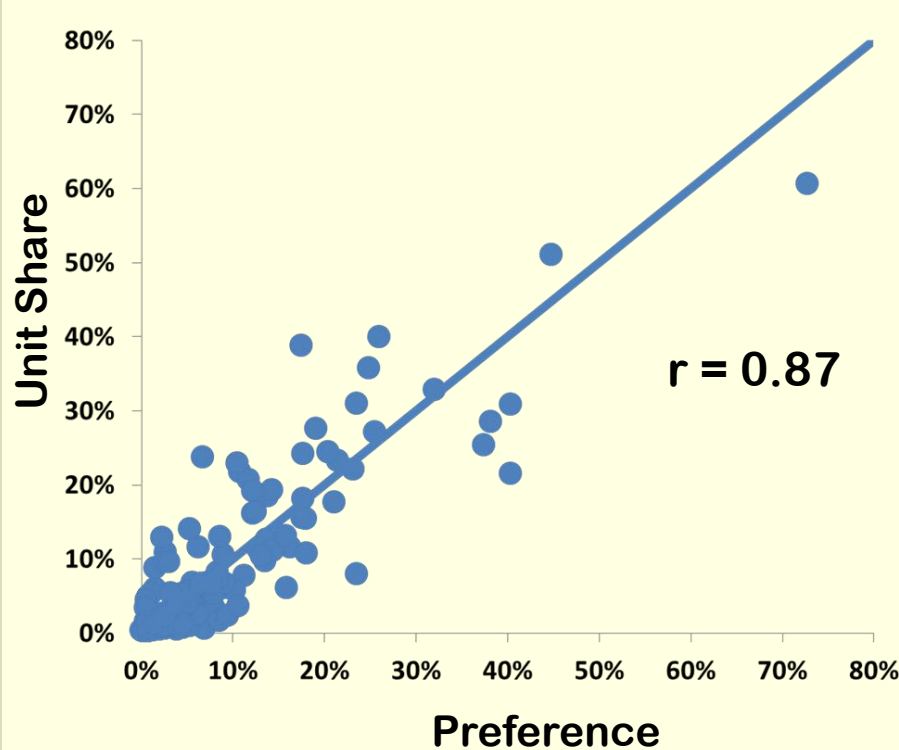
Link Between Preference, Price Premium & Distribution

Point-In-Time: 10 CPG Brands, 15 Month Averages*



Distribution (Brand Distribution vs. Category Average)

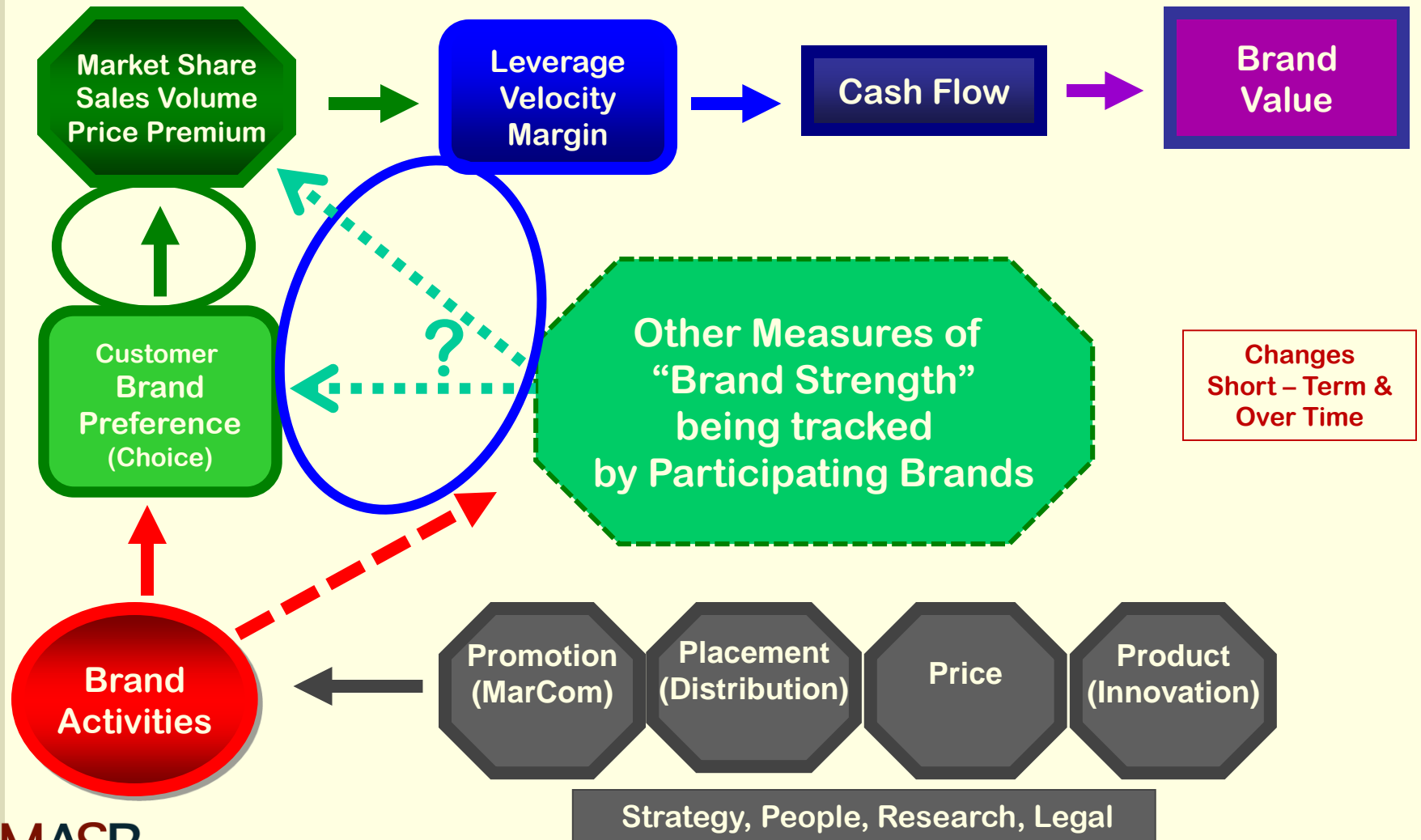
Link Between Preference & Market Share, P.P., Distribution Point-In-Time: 12 Categories, 15 Month Averages*



Updated Results (2/15)

- 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 75% of the variance in unit share across 120 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 lesser degree**
 - **Explained variance rises to 87% when both taken into account**

Build Bridges: Other Measures of “Brand Strength”



Learning Other Measures (2/15)

- **“Brand Strength” and awareness metrics examined**
- **Data submitted from participants**
 - 6 categories
 - 33 brands (generally only largest brands included)
 - Time period and format (e.g. scale) varied by category
 - 70 different questions
 - 7 broad concepts consistent across at least 4 categories each
- **Dataset too disparate for SEM analysis but correlation analysis sheds light on several key areas**
 - Typical variance explained in share
 - Consistency across categories
 - Variance explained in preference

Seven Common Classes/Concepts of Metrics *

- **Awareness Unaided** - report of brand name when prompted with category (no brand list given)
- **Awareness Aided** - brand name recognized from a list of brands
- **Brand Loyalty** - brand is one that they plan to consistently purchase and/or use when need arises
- **Value** - brand provides good value for the money
- **Purchase Intent** - likelihood to purchase brand in future
- **Brand Relevance** - brand fits lifestyle and/or needs
- **Advocacy** - brand is one that they would recommend to others

* Verbal Q & A vs Behavioral (Preference/choice)

Link Between “Brand Strength”/Awareness & Share Common Metrics

	Average Share Variance Explained	Median Share Variance Explained	Number of Categories with Correlation > 0.30
Preference (choice)	68%	78%	6 / 6
Awareness – Unaided	47%	44%	4 / 4
Brand Loyalty	46%	44%	5 / 6
Value	32%	44%	3 / 4
Purchase Intent	27%	26%	3 / 6
Brand Relevance	19%	19%	2 / 4
Awareness – Aided	18%	24%	4 / 6
Advocacy	15%	13%	2 / 4

- Seven common classes show moderate cross-category relationships to share
- Cross-category consistency weak for all but unaided awareness
- Their performance is substantially lower than that for preference (choice)

Link Between “Brand Strength”/Awareness & Share/Preference Common Metrics

	Average Variance Explained in	
	Preference (w/Price & Dist.)	Share
Awareness – Unaided	55%	47%
Brand Loyalty	52%	46%
Value	46%	32%
Purchase Intent	36%	27%
Brand Relevance	32%	19%
Awareness – Aided	29%	18%
Advocacy	26%	15%

- Other “Brand Strength”/awareness classes show similar relationships to preference and share
- Suggesting again* that these common classes of metrics are captured by preference (choice) & therefore not likely to add any predictive power, not to mention questions of causality (direction for improvement)

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.

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.

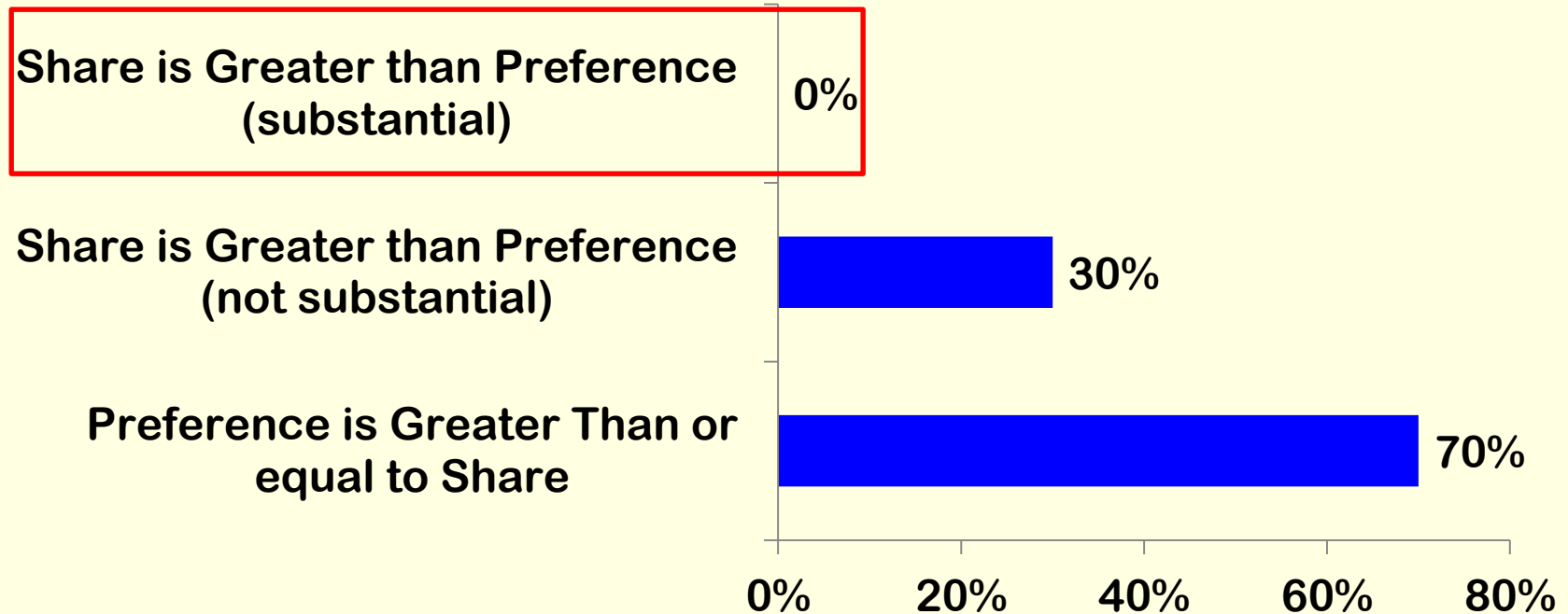
The present study is among the very few to use (a behavioral brand choice measure) of demonstrated reliability and validity.”

Sources: Stewart et al 1986; MASB 2008 & 2010

Link Between “Brand Strength”/Awareness & Share/Preference

All Metrics, Each Category (n=70)

Percent of “Brand Strength”/Awareness Metrics where Variance Explained in...



- Looking at all submitted metrics, none shows a strong potential additive predictive power to preference/choice.

New Learning Summary (2/15)

- **How strong is link between preference/share and “Brand Strength”/awareness metrics?**
 - **Several common “Brand Strength”/awareness metrics show positive correlations to share**
 - **Strength varies by category suggesting none alone suitable as a standard for brand strength across industries**
 - **These relationships are weaker than that between preference and share**
 - **The metrics show similar correlations (usually somewhat stronger) to preference as to share**
 - **Suggests that “Brand Strength”/awareness metrics don’t substantially add to the preference-to-share relationship**

MMAP: 10 Characteristics of an “Ideal Metric”

The MSW•ARS Brand Preference (choice) Metric has previously met the MASB Marketing Metric Audit Protocol (MMAP) when applied to communications pre-testing

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

Summary

What we have learned so far from the BIV Tracking Project

Not so much for other measures collected in tracking “surveys”

Other “Ideal” Characteristics of the Metric when applied to tracking will be demonstrated through the MMAP Audit in 2015

BIV Analytics Sub-Team Next steps

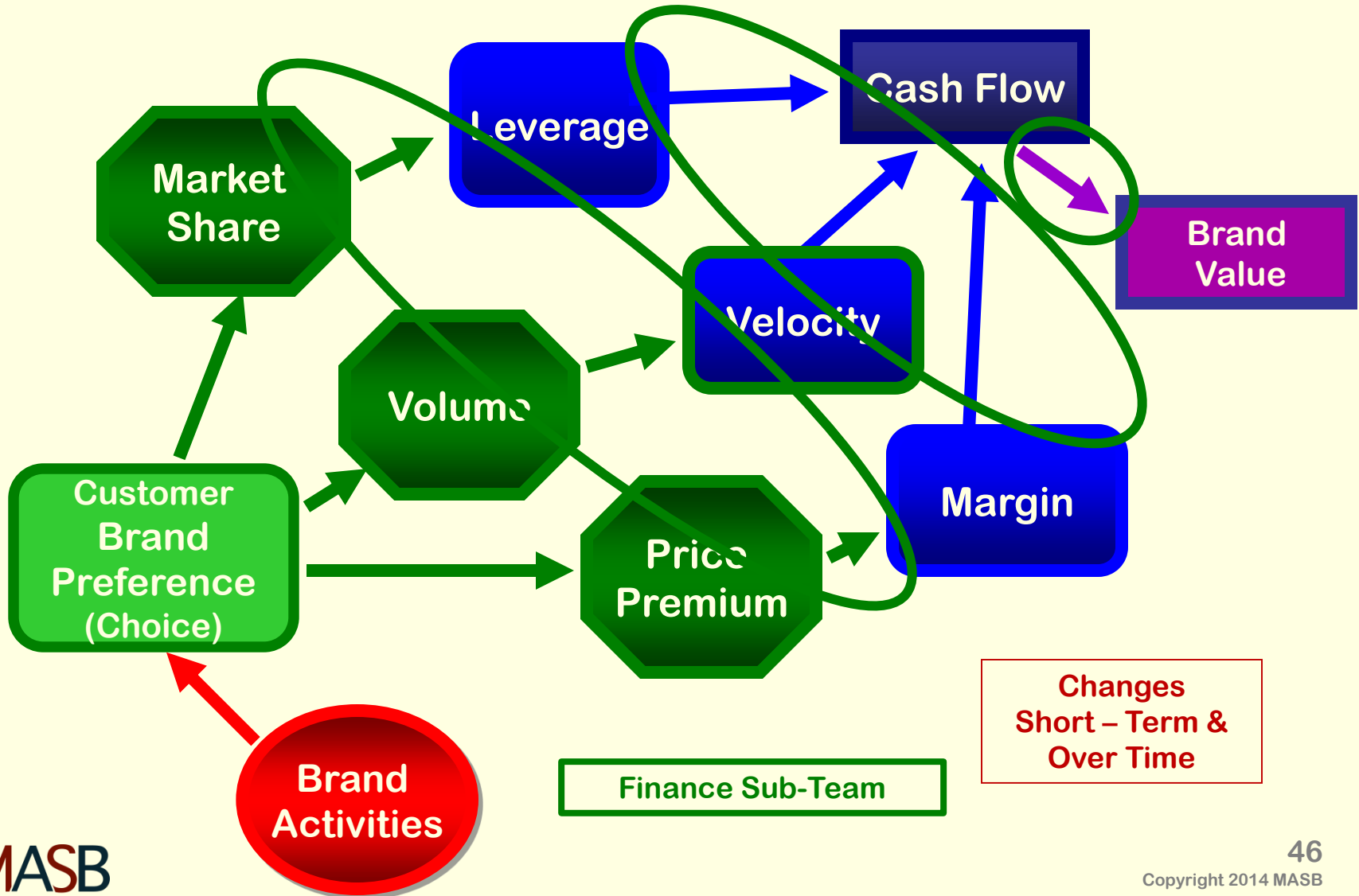
- **Verify Findings on final dataset (which includes OND 2014)**
- **Merge w/Finance sub-team through Integration sub-team**

BIV Finance Sub-Team Report (Jonathan)

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)**

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



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

ConAgra Cash Flow Modeling

- ConAgra not currently calculating or applying Brand Cash as a consideration of resource allocation
- Current 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

Frito-Lay

Frito Lay allocates resources based on the cost per incremental dollar of revenue they deliver in the current year

Brand	Q4 Spend	Campaign	Vehicle	Revenue	CID
Tostitos	\$ 3.70	Tostitos NFL + Rolls Launch	Cable TV	\$19.1	\$0.19
Cheetos	\$ 1.45	Halloween + Core	Cable TV	\$6.2	\$0.23
Doritos	\$ 4.54	Hunger Games, CTSB	Cable TV	\$15.9	\$0.29
Lay's	\$ 0.70	Lay's Core	Digital	\$2.4	\$0.30
Cheetos	\$ 0.25	Halloween	Streaming	\$0.5	\$0.48
Ruffles	\$ 0.40	Rufflife	Streaming	\$0.8	\$0.52

- CID methodology does not focus on **profit** or long term Brand Value
- First attempt to calculate Brand cash resulted in inconsistent output due to significant judgment around cost allocations
- DCF approach addresses these concerns

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

MC: Bullet Points for Executive Buy-in (Dec 2014)

- **Why a focus on brand asset value?**
 - Enterprise value increasingly has more to do with intangible assets such as brands than with physical/tangible assets. [A study of the S&P 500 showed that tangible assets as a percentage of market capitalization decreased from 83% in 1975 to 20% in 2010. Another study showed that, on average, 26% of 9 selected large-cap stocks' market capitalization was attributable to the corporate brand name alone.]
 - Despite demonstrably contributing to enterprise value, brand values have received relatively little attention in both internal and external financial reporting, while boards and managements are allocating resources for brand marketing activities with little guidance as to the related value being generated.
 - A unified global accounting treatment for brand values which would be subject to both impairment and accretion is likely years away, however, this topic is starting to arise more frequently in academic circles.

MC: Bullet Points for Executive Buy-in (Cont)

- Foundational premises of the brand valuation model
 - A discounted cash flow approach is preferable over any other method, such as the “relief from royalty” method.
 - “Brand strength” is an important “risk” indicator of the likelihood that future cash flows will be earned and over what period of time.
 - “Brand strength” is predominantly driven by marketing effectiveness, competitive factors, and external environmental conditions, and it therefore can be reasonably inferred and factored into the model.
 - Brand valuations are not intended to establish amounts to be recorded on the balance sheet (or to specifically test for impairment), nor are they intended to establish or represent a transactional valuation.
 - As important as reasonable accuracy at a point in time is the consistency of approach and assumptions over time which will allow management to see relevant valuation movement to aid in decision-making.
 - The model should also enable sensitivity analysis and “what-if” modeling.

M-C Time Line (February 2015)

- Top-level brand planning calendar for 2016 agreed by senior leadership team.
- Activities kicked off in January but in advance of that in December, Finance and Commercial Planning group got aligned as to how brand value will be incorporated into the process.
- Our CFO and Senior Director of Strategy are aligned with this in concept. As both have stated, getting people educated about the concept and how to interpret/use the information to drive better brand and portfolio results will be critical. This is probably year 1 of a 2- to 3-year process.
- I participated in the planning kick-off meeting with the brand heads on January 20 to introduce the brand value model, along with the 3-year planning model. We've historically just focused on 1-year P&L plans, so we're taking two big steps here simultaneously.
- Refining my “principles/conventions/guidance” along the way.
- Feedback and strategy/direction from introduction within Miller Coors...

Feedback/Strategy from Internal Introduction

- We need to build acumen
- Going deep with brand groups that have it (test within test)
- Rather than across the board more shallow

Framing Up Brand Value: Examples

- Based on our multi-year volume forecast for Brand X at the beginning of 2014, brand value was calculated as \$500 million. Due to marketing activities that were executed in 2014, volume performance during 2014 significantly outperformed the forecast on lower than expected marketing spending. Accordingly, we would now calculate a brand value of \$575 million.
- Based on Brand Y being successful with a line extension which has improved brand franchise volume performance, net of cannibalization, and has also enhanced overall profit per unit, we estimate that the brand value has increased from \$125 million at the beginning of 2014 to \$142 million at the end of 2014.
- While new brands introduced in the last three years represent X% of total volume, they represent Y% of net contribution and Z% of aggregate company brand value.

Proposed Note(s) for MD&A (6/29/12): IFR Team

Product brand value:

“As of June 30, 2012, the senior management of Gadget Corporation value the Widget Brand at \$2.9B, up 7% from year ago, and 20% over the past 3 years. We estimate this value using the methodology provided by ValuePack LLC, a MASB qualified Brand Valuator.”

Corporate brand value:

“We, the senior management of Alpha Corporation, believe the value of our corporate brand, as of December 31, 2011, is \$26.4 billion, up 2.7% from year ago, and down 3.8% over the past 3 years. We estimate this brand value using the methodology provided by BrandTop, LLC, a MASB qualified Brand Valuator.”

BIV Finance Sub-Team Next Steps

- Continue internal “test” w/MC
- Refine/revise principles, guidance, convention
- Merge w/Analytics sub-team through Integration sub-team

...David

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
- Form Integration Sub-Team (decommission AST & FST)
- Integrate & document full model with “guidance” including source details & rules (Integration team)
- Expand internal application (tests) to other marketers

BIV Integration Sub-Team (Jan 2015)

- **Designate Leadership, Set meeting day/time, add heroes (Jan 2015)**
 - **Jim & Frank as Co-Leads, add 1 Finance & 1 Analytics (Con-Agra & GM)**
 - **11ET First Thursday**
- **Integrate/document refine full model w/“guidance” inc source details & rules**
 - **Algebraically and Visually/Conceptually**
- **Roll-Out Plan**
 - **Deliverable (Full model w/guidance)**
 - **Form (“What-if” electronic app) (w/Guidance document)**
 - **Owner/Housed (MASB...eventually Accounting Firms?)**
 - **Improvements & Quality Assurance**
 - **Dissemination to Marketing Community (Who, IAs...)**
 - **USP for Marketing & Finance (“reason to believe each other”)**
 - **How (Licensing, module/rules, 2nd tier membership)**
 - **Education**
 - **Who will have access to what level of detail re project (NDAs)**
 - **Papers**
 - **Marketing & Finance Journals JAR & JOM & (Batra, Stewart)**
 - **Practitioners - How being used (TBD & TBD...ANA, CFO et al)**
 - **Podiums**
 - **MSI April 2015 Trustees (Earl)**
 - **ARF Forum, Audience Measurement, Other (Jasper)**



Thank-you!



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