

PRESEN

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Brand Investment & Valuation A New Empirical Approach



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The Issue

• The "brand" is one of the largest assets a company owns

- Unlike tangible assets like factories which are quantified on the balance sheet, a brand's financial value often goes unrecognized
- This puts marketing and finance teams at a disadvantage for assessing investments in the brand such as media



Essentially...



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Brand Investment and Valuation Project

- To bridge this gap MASB, The Marketing Accountability Standards Board, sponsored an ambitious project
- Establish missing linkages between marketing & financial metrics and build a BIV model that any brand could use
- Brought together:
 - Leading Academics (LMU, Duke, Michigan, Cologne, Witwatersrand)
 - Specialists from research companies (nielsen, MSW•ARS)
 - Finance and marketing practitioners from six blue chip corporate participants



BIV Corporate participants



Tracking Study To...



- 1. Identify cornerstone brand strength metric
- 2. Link this to other marketing metrics
- Validate a practical model for brand valuation that finance teams can easily implement

Tracking Study Details

- 18 months
- 12 diverse categories, 120 brands
- Financial and brand strength metrics
 - Unit Share, price, distribution from each participant's provider
 - Brand Preference provided by MSW•ARS
 - Other marketing metrics from each participant's proprietary system
- Robust samples (e.g. n=7,200 consumers for preference)



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Link Between Brand Preference and Unit Share Market Share



With Price and Distribution Included 89% of Differences in Unit Share Explained



Link Between Brand Preference and Other Marketing Metrics

	Average Variance Explained in	
	Brand Preference	Unit Share
Brand Preference	NA	80%
Awareness – Unaided	52%	48%
Brand Loyalty	50%	45%
Value	41%	32%
Purchase Intent	33%	27%
Brand Relevance	28%	19%
Awareness – Aided	28%	18%
Advocacy	23%	15%

Resulting Brand Investment/Valuation Model



Or for those of you more mathematically inclined...

PV Calculation and Financial Ratios:

(1) Present Value = Σ {Future Period Cash Flows / (1 + R) ^T} + Terminal Value

- (2) Future Period Cash Flows = Brand Sales Brand Costs (Margin: Profit/Sales)
- (3) Brand Sales = Category Size * Average Brand Unit Price * Unit Share (Velocity: Sales/Assets)
- (4) Brand Costs = Costs associated with producing sales for the brand
- (5) Unit Share ~ Brand Preference * Distribution Factor / Relative Price Factor
- (6) Distribution Factor = f (B0 + B1 * In (Distribution))
- (7) Price Ratio = f (B2 * Average Brand Unit Price / Average Category Unit Price)

Real Options include option to generate future revenues after sale of brand (related to terminal value), potential brand extensions, potential in new markets, etc. (Leverage: Assets/Equity)

DuPont Model:

Profit/Sales x Sales/Assets x Assets/Equity = Profit/Equity = Return on Equity



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Case Study #1 – Relationship Between Long-term Brand Investment and Valuation



Long-term marketing spend behind brand



Brand Valuation

Calculated brand valuation using MASB BIV model

Case Study #2 – Monitoring Brand Recovery



Brand Preference plummeted 32

points during the Tylenol Tampering incident, as the nation watched several people die from the poisoning. The Tylenol brand could no longer be trusted.

As Brand Preference dropped Tylenol's Market Share fell 33 points.

As J&J addressed the situation responsibly, the strength of the brand's previous contract (trust) in the minds of consumers was rebuilt, although a bit more slowly than it was damaged.

Case Study #3 – Projecting Media Return



- Starkist used brand preference from copytesting, planned media spend, and the product price level to accurately project inmarket ad performance
- 'What if' scenarios showed the brand was "leaving money on the table" - additional airing would continue to significantly grow preference/market share
- The brand team took this knowledge to management and they approved an increase in the media budget – the result was a dramatic improvement in ROI to 368%

Participant quote

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...

Operations can purchase and maintain an asset. Marketing can create and grow one

- Jim Meier, Miller-Coors



Learnings and metric readily available





A **continuous tracking** of all brands in a category

Online dashboard



integrates with financial reporting software (e.g. MS Excel, SAP)



An **affordable** solution

BRAND

STRENGTH

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Conclusions

- Brand preference is a strong indicator of "brand strength"
 - Explaining 89% variance in unit share with price & distribution
 - Captures impact of other marketing metrics cornerstone
- A practical model for brand valuation is now available
 - Uses 'present value' of cash flows in alignment with other assets
 - Provides a consistent means for tracking brand values over time
- Case studies reveal the power of this new empirical approach for managing brand investments

