Marketing is poorly measured; you can help change that

Neil Bendle, Associate Professor of Marketing
nbendle@ivey.ca
Follow me on Twitter @neilbendle, visit my website neilbendle.com

Introductions

- Firstly, thank you to MILE for hosting this webinar

- Today I will cover the challenge of measuring marketing

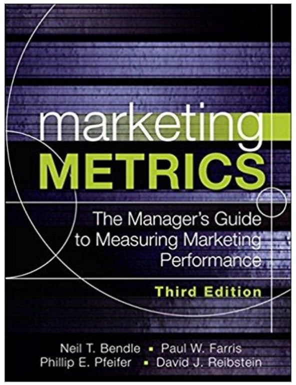
- My aim is:
  - To give you a way to improve your use of metrics
  - To promote better measurement of marketing

About Me

- Associate Professor Marketing
  - @ Ivey Business School, Western University, London, Ontario, Canada
  - David G. Burgoyne Faculty Fellow
- Fellow of the Association of Chartered Certified Accountants
- Ph.D. from Carlson School, University of Minnesota
- M.B.A. Darden School, University of Virginia
- Ancient History MA (Liverpool) and BA (Nottingham)

Key Marketing Metrics Studies

Marketing Metrics: The Managers Guide to Measuring Marketing Performance (2015) Neil Bendle, Paul Farris, Phillip Pfeifer, & David Reibstein, Pearson 3rd edition



Neil Bendle & Xin (Shane) Wang (2017) “Marketing Accounts” *International Journal of Research in Marketing*, (open access)

http://www.sciencedirect.com/science/article/pii/S0167811617300290

Neil Bendle & Charan Bagga (2016) "The metrics that marketers muddle." *MIT Sloan Management Review* 57(3) 73-78

Neil Bendle & Charan Bagga (2017) "The Confusion About CLV in Case-Based Teaching Materials" *Marketing Education Review* 27(1) 27-38

Overview

- In this webinar I will
  - Outline challenges with measuring marketing
  - Show how marketers abuse metrics
  - & Suggest how to choose metrics appropriately
- I will also
  - Highlight the problems with the way marketing is accounted for
  - Describe MASB's work to improve this
  - & What you can do today to improve accounting for marketing

Agenda

1. The Misuse of Metrics
2. Choosing the Right Metrics
3. External Accounting for Marketing
4. MASB
5. Accounting for Marketing Internally
6. Conclusion and Next Steps

1 The Misuse of Metrics

Misuse of Metrics

- Marketers often abuse metrics
  - For example marketers talk about the bottom line (profit) when they mean top line (revenue).
    More at my blog: http://neilbendle.com/media-and-the-top-and-bottom-line/
  - Revenue is important to measure but it isn't profit
- My point is that marketers must be careful about claims
  - We can't build marketing's credibility with incorrect metrics and dubious assertions
- I'll outline two major errors I've seen recently

CLV (Customer Lifetime Value)

- Customer relationships are lifeblood of many firms
  - Banks give free gifts to entice new customers
  - Incentives to join are short term cash outflows
  - They are justified when the long term relationship created will be of high value
- We therefore want to know how much a customer relationship will be worth to inform:
  1. How much to spend on <u>acquiring</u> customers
  2. How much to spend on <u>retention</u>
  3. To <u>develop</u> customers who “should” be worth more
  4. To decide when to “<u>fire</u>” a customer
  5. <u>Value</u> of firm (as a group of customer relationships)

Common CLV Errors

If these are the goals:

1. Value must be based upon profit (contribution)
   - Some wrongly use revenue as CLV's basis, but costs matter
2. Cashflows must be discounted
   - Undiscounted numbers make long term customer relationships look more valuable than they are
3. Subtracting acquisition costs from CLV before reporting it, is incorrect for 4 of the 5 aims I showed
   - Retention, development, firing & valuation should not subtract acquisition costs as acquisition costs are sunk, i.e. irrelevant to current customers
   - These mistakes are common (professors make them) -- many marketers do not understand the metrics that they use

Valuing a Social Media Like

- We have also seen measures of the value of a like on social media that are problematic in their usage
- These measure value of a social media like as:
  - Value of a like on social media
    = Value of customer who "likes" on social media
    – Value of customer who doesn't "like" on social media
- Again some use revenue for value
  - But costs have to be paid so profit is the more appropriate measure of value

What Does The Value Mean?

- A more interesting problem is the suggestion that the value shows how much marketers should be willing to spend to gain a social media like
  - This shows a lack of theoretical understanding
- The value of a like described on the prior slide shows the difference between two groups
- It does not show what <u>caused it</u>
  - People “like” because of an affinity. Social media usually reveals, but does not create, the affinity
  - Spending to gain likes does not make the new “likers” the same as those who liked previously
- Therefore, this measure should not be used as an indication of what to spend on social media

2 Choosing the Right Metrics

Selecting Metrics

- Given many marketers choose inappropriate what metric do I recommend?
  - This depends upon your goal
- Rather than suggest any metric here is a way to choose for yourself

1. Understand what each metric does. For this you must use standard terminology
   - Use the *common language marketing dictionary*
2. Think through a metric before adopting its usage
   - My model is the *WAITA* model which helps you decide what marketing metrics to use

Common Language

- Marketers often fail to agree on meanings
  - E.g., “Brand” means different things to different people so brand valuations vary substantially making it harder to convince non-marketers that brands matter
- Marketing will benefit if people use common terms
- MASB (discussed more later) are working with partners to build a common marketing language
  - http://www.marketing-dictionary.org/

The WAITA Model

The five questions of the WAITA model for deciding which metric to use are:

1. Who will use the metric?
2. What are the Assumptions behind the metric?
3. What are the Ingredients, i.e. the source of the data?
4. What is the Theory behind this idea?
5. What Actions can I take once I know the score?

3 External Accounting for Marketing

Takeovers Highlight Problems

- Deals in the news headlines aren't typical but can help illuminate problems
- The $14 billion bid for Whole Foods Market by Amazon has recently gained a lot of press
- Yet Shareholders Equity was $3.2 billion in Whole Foods latest annual report
- Was Amazon's bid a mistake?
  - Probably not
  - The accounting reports miss much of what makes it a valuable company, e.g., Whole Foods' Brand
- What is going wrong with external reporting?

Investments Not Expenses

- Consider 2 generic types of marketing
  1. Designed for immediate return (e.g., credit card offer)
  2. Designed for long term benefit (e.g., brand building ads)
- Despite different aims most marketing spending is treated similarly
  - As an expense -- immediately charged as a cost
  - No asset is create despite that being the marketers intention for the long term investment
- This violates the accounting concept of matching
  - E.g., Brand building costs are charged in an earlier period than the benefits are received

Assets Not Consistently Valued

- Treating marketing as an expense means many marketing assets are not valued if built in-house
  - e.g., brands, customer relationships, distribution systems
- And indeed the difference between Market Value (what it would cost to buy a firm) and Book Value (what accountants report) is massive
- The problems (from an accountants' perspective) are discussed in Lev & Gu's *The end of accounting and the path forward for investors and managers*. John Wiley & Sons, 2016

Underinvestment in Marketing

- However when firms are bought many marketing assets are reported to justify the purchase price
  - Thus The Kellogg Company reports the value of the Pringles brand (bought) but not Frosties (internally generated)
  - The current situation isn't great!
- The way financial accounting deals with marketing is an illogical mess
- Marketers worry that failing to account for it properly leads to underinvestment in marketing
  - Marketing seems expensive because the assets it creates are not reliably reported

4. MASB: The Marketing Accountability Standards Board

MASB Hopes to Change This

- MASB Mission: Establish marketing measurement and accountability standards across industry and domain for continuous improvement in financial performance and for the guidance and education of business decision-makers and users of performance and financial information
- Members include:
  - General Motors, PepsiCo, Nielsen, SC Johnson, Kantar Millward Brown, Columbia University, Wharton, NorthWestern University
- I chair the MASB Advisory group

MASB's Projects

- MASB undertakes projects to establish clear guidance on measurement
- These include:
  - The Common Language Project
    - Mentioned earlier
  - Improving Financial Reporting
    - Supplying advice on how best to account for marketing
  - Finance in Marketing Course
    - To improve the teaching of marketing/finance
  - Brand Investment and Valuation Project
    - To improve our understanding of the value of brands
- Visit the MASB website (themasb.org) to learn more

5 Accounting for Marketing Internally

Internal & External Reporting

- Financial accounting rules often give little flexibility to accountants for external reporting
  - Typically they must treat marketing as an expense
- Yet financial accounting rules have a wider impact
- External rules are often followed in internal reporting, despite not applying to internal reports
  - Our informal survey found that accountants often based their internal reports on external reporting rules
- This means internal reporting also misses the value that marketing creates
  - To change this we suggest marketers take control of internal reporting

Can Marketers Do This?

- The simple answer is “yes, marketers can take control of internal reporting”
  - Rules from bodies such as IASB are designed to standardize external reporting but explicitly do not interfere with internal reporting
- Marketers can adopt any approach giving them the information to do their jobs properly
- We suggest marketers establish Marketing Accounts
  - These are purely be for internal use
  - & are designed to record the value of the assets marketing actions create

How to Account for Marketing

We suggest Marketing Accounts should have the following characteristics

1. Capture the value of market-based assets
2. Treat marketing as an investment where appropriate
3. Are based upon expected value
4. Aim only to aid management, not investor, decision making
5. Can vary between, but not within, firms
6. Are comprehensive and regular
7. Are controlled by marketers

6 Conclusion and Next Steps

Conclusion and Next Steps I

- Marketing often poorly measured by marketers

Solution

- Choose appropriate metrics
  - Be careful, others using a metric doesn't make it correct
  - I suggest the WAITA model to decide what metrics to use
- Thoroughly understand all metrics
  - Use the Common Language Marketing Dictionary, http://www.marketing-dictionary.org/
    - Do suggest definitions if some are missing/or if you see problems
  - Read (buy?) our "Marketing Metrics" book

Conclusion and Next Steps II

- Marketing’s value is often not captured in financial accounts

Solution

- Seek to understand financial accounting
- Discuss with accounting colleagues how they estimate the value of marketing assets
  - They won’t be able to change some processes overnight but it’ll help you understand the problems
  - It might help them realize how financial accounting is failing to capture marketing’s contribution
- Supports efforts (such as MASB’s) to improve accounting for marketing

Conclusion and Next Steps III

- Marketing is often poorly reported internally

Solution

- We suggest marketers take control of managerial accounts to produce “Marketing Accounts”
  - These accounts use expected value and aim to aid managerial, not investor, decision making
  - Record marketing assets, treating marketing as an investment where appropriate
  - Are regular, controlled by marketers, and vary between, but not within, firms

Questions?

Thank you

Please follow me on Twitter @neilbendle

Visit my *Marketing Thought* website, www.neilbendle.com

LinkedIn: Neil Bendle Email: nbendle@ivey.ca

MASB: https://themasb.org/

Common Language Marketing Dictionary:
http://marketing-dictionary.org/