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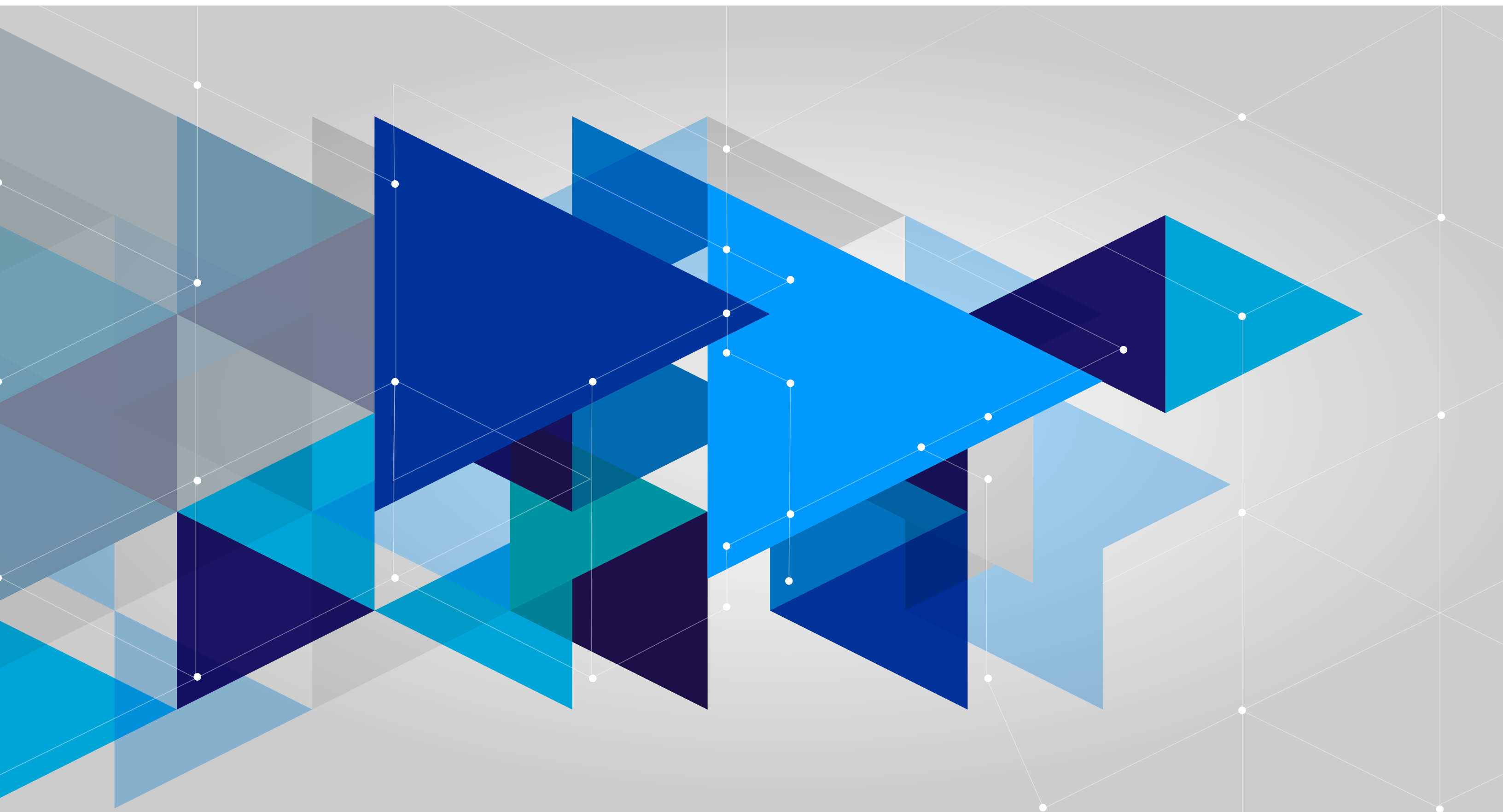
PROVING THE VALUE OF THE BRAND



Developing Financially Valid Ways To Measure The Contribution Of Brands To Firm Financial Performance And Share Price

MASB | Forbes CMO PRACTICE

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How brand value, its measurement and active management, will seize the day for marketers.

I INTRODUCTION: CARPE BRAND

The value of a brand, creating it, maintaining it or, even better, growing it, is of significant importance to any enterprise that currently has, or aspires to have, brands. Brands influence customer choice, and the power of a brand's attraction influences sales today and tomorrow.

And yet the measurement of brands and their value remains a complex topic to explore, with many divergent points of view. The totality of a brand's value often only comes into focus when an acquisition occurs and the acquiring entity must establish a value to put on its balance sheet to account for the brand or brands it acquired.

In common practice, this valuation is generally acknowledged to be quite conservative, as the internal financial team argues for the lowest valuation possible so as to reduce the risk of potential impairment at some future date. They will push for a larger goodwill amount and a lower brand amount to be translated to the balance sheet.

If a marketplace transaction has some inherent limitations in valuing a brand, are any other methodologies available? Yes, there are many, and most of these methods will acknowledge greater precision and reliability of their outcomes if they work directly, and confidentially, with companies to have access to data that goes beyond that which is publicly available.

So, if book value for brands generally understates their value and other proprietary methodologies contain assumptions that can be debated, is work to value a brand still inherently worthwhile?

The answer is yes on several counts. First, as the following report published by the Forbes MASB Marketing Accountability Initiative outlines, the linkage between brand value and enterprise value is clearly demonstrated. Businesses that want to generate consistent growth would be well-advised to apply its principles to their marketing and business circumstances.

Second, there is a new mandate to regularly evaluate brands, and in doing so, value them. Recently, the International Standard Organization (ISO) unanimously passed a brand evaluation standard, which requires companies to perform annual evaluations of their brands. While many marketers may not be aware of ISO, they might check with their colleagues in engineering, science, procurement and even human resources to understand ISO's unquestioned role as the global standard setter.

Conversation with marketers about this new standard, officially known as ISO 20671, have indicated that there is more trepidation than appreciation for the powerful tool this standard can be when appropriately applied. At MASB, we see ISO 20671 as the Golden Ticket for marketers. It will allow them to raise the issue as to whether their organization will comply with ISO's requirements of annual brand evaluation, and in that context, valuation. While anything new understandably creates some apprehension, the ability to elevate brand discussion and assessment to the highest levels of any organization should be welcomed by any effective and accountable marketing leader.

The new ISO standard is a meta standard in that it will require some guidance as to how it can best be implemented. MASB, as the North American designee to ISO Technical Committee 289, is currently in the process of developing that guidance.

The evidence that brand valuation is essential in creating a sustained growth orientation is compelling. Organizations must Carpe Brand, to unlock the long-term enterprise success. We invite commentary on both our thesis and on the forthcoming guidance regarding the implementation of Brand Evaluation as required by ISO 20671.

Please review, and indeed, enjoy, the Brand Value report. It is current, and in many ways, groundbreaking.

II KEY FINDINGS AND EXECUTIVE SUMMARY

Brands are intangible assets—logos, designs, symbols or experiences—that live in the minds of stakeholders. They create economic value by bolstering cash flows, income or revenue, or cutting costs. There is a direct link between brand strength and the future cash flows that drive enterprise value.

KEY FINDINGS

On average, across all companies, brand assets drive 19.5% of enterprise value. For many companies, it's far more.

- In an increasingly digital economy, brands often contribute far more to value than traditional assets like machinery and buildings. Brand value contributes an average of 19.5% of enterprise value across all companies, according to an analysis by the Marketing Accountability Standards Board (MASB) using valuation standards recently proposed by the International Organization for Standardization (ISO).[5]
- For consumer and luxury brands, the value of the brand can surpass 50%. For example, the CFOs of Kraft Heinz and Miller Coors both valued their brands at over half of firm asset value, and they have adjusted their financial reporting to reflect this value on the balance sheet.[2]

But brand value is not adequately reflected in financial statements. As a result, most owners are skeptical about funding or approving investments to build, grow and protect it.

- Companies like these are the exceptions. The value of brands is typically not adequately reflected in financial reporting. Many owners resist investments to build, grow and protect their brands.

Because shareholders seldom understand the contribution of brands, CEOs often don't set the best investment priorities. Growth and value suffer. And CMOs don't get the respect they deserve.

- This is a mistake. "The 'brand' is one of the largest assets that a company owns," according to Tony Pace, the CEO of the MASB: "Empirical analysis by the MASB using the latest global standards shows the brand by itself is worth nearly 20% of corporate value of a consumer marketing business, and about half that in a B2B organization. Yet most businesses don't measure it or report it and tend to collapse it with the idea of 'brand'—the ability to put a stamp on a common good that is only differentiable due to its logo."

- Yet despite their role as custodians of one of the most valuable assets in the organization, CMOs are under siege. Their job tenure is short (44 months), and their duties are often being transitioned to new titles such as chief revenue or chief growth officers.[36]

Why is it so difficult to communicate the value of brands to investors and key stakeholders? There are nine reasons, ranging from lack of consistent standards to issues in isolating the effects of brand assets.

- Here's the problem: It's hard to attach a number to the value of the brand—and even harder to communicate that number in a way that makes CEOs and investors confident enough to use it as a guide to decision making.
- Much of the language of marketing deals with branding: segmentation, personas, targeting, positioning. But unlike sales or margins, brand value doesn't easily translate into financial terminology. Instead, brands come across as soft, imprecise, even suspect. And that can have disastrous implications for marketers. "Marketing in traditional siloed organizations can be viewed and treated as a cost center, ripe for spending reductions when financial results turn sour," says Jim Meier, a director of the MASB.
- Accounting rules don't help. At best, they provide little information about brand value; at worst, they're inconsistent and misleading. Current reporting standards reward short-term investments that destroy more long-term value than they create.
- "Financial statements cannot fairly represent the value of an enterprise if they don't systematically include key intangibles like the brand or customer relationship values," according to Professor Neil Bendle, associate professor of marketing at Canada's Ivey School of Business. "Brand valuation has been a hodgepodge of rules inconsistently applied and reported. Many experts have developed tools to analyze this asset, but until now there has been no universally accepted way to measure it."
- A cultural gap must be bridged as well. "There is a longstanding need to bridge the divide between marketing and finance, to have a common understanding of what brand value is and what it means to the company," says Bobby Calder, professor of marketing at Northwestern University's Kellogg School of Management. "Finance generally plays an adversarial role, questioning the contribution of marketing expenditures to the overall performance of the business and adjusting budgets based on the persuasiveness of the marketing case that expenditures strengthen the brand in the minds of consumers versus competing calls on the business' financial resources."

The solution: Create a financially valid and intuitively clear way to show owners and investors how strong brands contribute to financial performance.

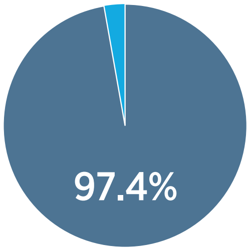
- The value of a brand is the present value of future cash flows attributable to it. Estimating that value is not as simple as stating it. Getting to value is less about a magic formula than it is about reaching a consensus on the role of the brand in driving future sales and margins.
- The MASB's Marketing Value Chain Framework helps finance executives document the chain running from marketing investments to growth strategy, customer behavior, business outcomes and financial results. Once this chain is established, estimating future cash flows and backing into the present value of the brand becomes a straightforward exercise.

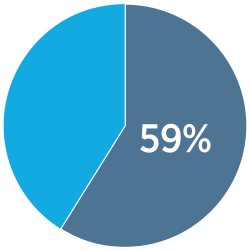
Global standards for evaluating the financial value of brands are imminent.

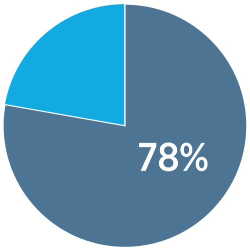
- In 2019, the ISO will publish a global standard for consistently evaluating and reporting brand value to management and to investors. The standard is being developed with the MASB and approved unanimously by every country in the ISO membership. The new standard will provide a consistent framework for recurring brand reviews, covering the entire branding process, from brand development to performance and valuation.
- The standard can't come too soon for marketing executives, pressured to prove the value of brand investments while lacking credibility in financial matters. Most CEOs believe that marketing executives lack sufficient financial discipline and focus to participate in board-level decision making. The lack of financially valid standards for evaluating brands is a big reason why 60% of CEOs are skeptical of branding expenditures and 78% of CMOs suffer from a credibility gap with CEOs, boards and CFOs.[1]

The Consequences of Not Having Consensus Measures of Marketing's Value

How the inability to communicate, quantify and measure value impacts CMOs







Source: 1) Forbes CMO Research, 2) How Board Level Marketing Experience Improves Firm Value, Whitler, Krause, Lehman 2015, 3) Duke Fuqua CMO Survey 2017

To help CEOs quantify, measure and grow the contribution of the brand to firm value, the Forbes CMO Practice and leading academics from the MASB have drawn upon a series of academic and commercial research studies to prove the connection between brands—and the investments that support them—to business outcomes and firm value.

This report summarizes the ways in which organizations can value, measure and grow the contribution of brands to firm value. We invite you to share in our learnings and actively participate in our upcoming research initiatives, standard-setting activity, and executive forums aimed at proving the value of brands.

Five Reasons to Measure the Financial Value of Brands

Without a financially valid measure of the value of the brand:

1. **Investors and owners** can't assess future cash flow and profit potential, leading to bad decisions in M&A, asset pricing and investment priorities.
2. **CFOs** won't correctly incentivize marketing, since traditional measures devalue the contribution of brand to cash flow, profits and firm value (and often lead to value destruction).
3. **CEOs** are in the dark when choosing where to invest for growth. They don't understand the trade-offs among investments in product, R&D, sales, digital, marketing and production.
4. **CMOs can't make investment decisions either**, and they have trouble proving the contribution of marketing to the business.
5. **Stakeholders**—for instance, customer-facing employees and internal functions like product management and IT—can't coordinate their activities to optimize growth.

III HOW BRANDS CREATE VALUE

In the digital economy, intangibles rule. That makes marketing, the steward of intangible assets such as brands, a primary driver of firm value. The ability to measure and grow the contribution of brands to shareholder value has emerged as a critical issue for investors, CEOs and CFOs—and an opportunity for CMOs.

Despite advances in measuring the impact of marketing initiatives, CMOs still struggle to quantify the value of brands and communicate it to their leadership. Three-quarters of the Global 5000 CMOs surveyed in this analysis reported that their inability to quantify and demonstrate value of marketing hurt them both professionally and personally.[1]

Evidence from financial markets as well as academic and commercial research referenced in this study show that brands—and the marketing strategies, investments and actions that support them—can contribute over 50% of enterprise value in many organizations when the brands are properly valued and the financial impact measured.

- According to brand valuation standards validated by the MASB, brand value alone contributes 19.5% of enterprise value on average. For consumer brands like Kraft Heinz and Molson Coors, that number can easily exceed 50% of shareholder value.[2,7]
- Academic research shows that brand directly affects share price. According to this research, a 10% increase in the value of the brand will drive a 3.3% increase in stock price.[8]
- An analysis of 220 consumer products by the Marketing Science Institute (MSI) found that when marketing investments cause consumers to prefer one brand over another, the product's superior brand

preference or reputation commands price premiums of 26% on average, even when brand quality is the same. Academic research shows that in similar goods categories, brand preferences for the top brands in a given category correlate to category profitability.[10]

- Brand tracking studies conducted by MASB and the MSI across more than 100 brands have demonstrated that brand preference predicts cash flow and market share. An example is the smartphone market, where the dominant phone brands—Apple (brand value $182B) and Samsung (brand value $47B)—capture the lion's share of profits.[3]

Strong brands are valuable because they drive predictable future cash flows and higher margins, and they allow brand owners to create options to easily, quickly and cost-effectively expand into new markets, channels and products.

"What I have learned over the last 20 years of investing is that capital is a commodity, marketing know-how is valuable, and intellectual property is priceless. I believe that the brand in a consumer company represents the lion's share of value," says Bill Sweedler, founder of the private equity firm Tengram. "If you understand that brands are IP, you stand to make an outsized return while minimizing downside risk. The key to identifying, valuing and leveraging the latent value and potential of the brand in a company is to separate the IP from the operations.

"If you only owned the operations without the IP, what would the company be worth?" asks Sweedler, who has bought and grown consumer brands including Joe Boxer, Hathaway and Field and Stream. "Very often we find good brands buried in bad businesses, where it's the operations that create risk and problems. If you want to understand the value of a strong brand, take the brand out of a consumer product—whether it's a beauty, apparel, CPG or home product. Then you're left with an unbranded jacket, shirt or scarf that can be copied and commoditized. It's the operations that ultimately create risk in a consumer business, not the brand."

Brands represent opportunity, not risk. Among consumer and luxury brands in the beauty, experiential, footwear and nutrition world, especially in the digital realm, these assets can make up most of the value in an organization. According to Brand Finance, the top 100 brands in the world are worth almost $2 trillion, with a single company—Amazon, with a brand worth $187.9 billion—accounting for about 10% (Apple and Google rank second and third).[3, 4] Ford famously put its logo up as collateral, along with factories and other assets, to secure a $23.5 billion loan during the recession of 2008.[43]

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>
> *Bill Sweedler, Founder, Tengram*

Under new FASB guidelines on intangibles reporting, MillerCoors and Kraft Heinz disclosed that their collections of brand assets were substantially more valuable than goodwill in M&A transactions. Over 70% of MillerCoors' corporate value was made up of brands in the transaction (as long-term indefinite assets).[7] And prior to purchase by 3G Capital, over 50% of Kraft Heinz's market capitalization came from its brand portfolio as a result of its merger versus 18% for goodwill.[2] In the last four years since taking Kraft Heinz private, 3G Capital subsequently destroyed $15 billion of that value by cutting marketing expenses and inadequately supporting the company's biggest brands, Kraft and Oscar Mayer.[44]

IV

Brands create firm value by measurably improving margins, profits, cash flow and market share. If financial executives understood the financial power of brands, they would be better equipped to work with CMOs to improve financial performance.

CONCEPT OF THE MARKETING VALUE CHAIN

To help the financial community quantify the impact of marketing on the business, the MASB is developing the Marketing Value Chain—a framework that enables organizations to link marketing investments to financial performance and enterprise value.

The diagram below shows the straightforward logic of the model. Explains Don Sexton, marketing professor at Columbia Business School: "Marketing actions can shift the demand curve to the right, which leads to higher revenue and, depending on the marketing costs, to higher contribution, cash flow and brand value. Both microeconomic theory and research with company data over the last 50 years support this linkage."[18]

This framework provides a vocabulary and set of concepts that make it simpler for leadership teams to reach a consensus on the economic contribution of brand-building investments. Equally important, it guides the allocation of resources by considering all investments in growth equally, from service to sales to digital technology, human resources and product development.

Read from left to right, the model describes how investments and strategies aimed at building brands translate into value for the firm. A business engages in marketing investments, actions and strategies such

How Brands Drive Cash Flow

THE MASB MARKETING VALUE CHAIN℠

Marketing Investments	Growth Strategy	Customer Behavior Metrics	Business Outcome Metrics	Financial Goals
Paid, Owned & Earned Media	Brand Value	Purchase Decisions	Volume	Enterprise Value
Owned Marketing Infrastructure	Customer Relationship Equity	Usage & Buying Cycles	Share	Revenue
Promotion Actions	Organizational Competence	Consumption Frequency	Lift	Profits
Place-Distribution Actions	Sales & Marketing Effectiveness (ROMI)	Purchase Size & Volume	Volatility	Cash Flow
Product Actions	Digital Platform Effectiveness	Share of Transactions	Velocity	Growth Rate
Pricing Actions	Quality of Products & People	Response & Conversion Rates	Profit Margins	Brand Asset Value
Capability Developement		Referrals & WOM	Customer Economics	Cost of Sales
Competitive, Brand & Acquistion Strategy		Loyalty	Costs	Cost of Capital
		Price Sensitivity	Future Option Value	

as advertising, packaging, product quality initiatives and customer relations that make it distinct from competitive offerings and build customer preference. If these activities prove effective, more people will prefer the brand versus others.

"Strong brands shift the demand curve by motivating customers to choose more, refer more and buy more, faster and at higher prices," says Professor Sexton. "This translates into a higher unit market share as people will choose it more often over other options, a higher price point as customers will be willing to pay more for it, and increased distribution as retailers are apt to carry the brands people want most. There is a greater velocity of sales and a higher margin for each of these sales."

The result is higher future cash flows and a higher present value today. Isolating the stream of cash flows attributed to the brand allows finance to calculate the brand's value.[9]

This framework gives finance executives conceptual tools needed to report brand value in financial statements. The definitions for each of the elements, as well as the mathematics underlying the linkages, are included in the MASB Common Language Marketing Dictionary[11] and MASB's guide, "Marketing Metrics, The Managers Guide to Measuring Marketing's Performance."[13]

HOW THE MARKETING VALUE CHAIN DIFFERS FROM OTHER MEASURES OF MARKETING PERFORMANCE

Several key aspects differentiate the Marketing Value Chain Framework from other valuation models.

1. It incorporates the concept of brand preference: how brand strength affects customer behavior. It establishes mathematical linkages from customer brand strength to brand monetary value. These linkages provide bridges from customers (brand preference) to their behavior in the marketplace (market share, category volume, price versus competition, relative distribution) and to resulting internal corporate financial metrics (velocity, margin, cash flow). The arrows in the chart show these linkages.
2. Unlike attribution models that show marketing's impact on sales, the Marketing Value Chain balances both short-term and long-term performance (for instance, brand-building initiatives). It does so incorporating the business impact of every aspect of the marketing mix, from paid, earned and owned marketing investments to training, skill development, technology and content.

USING THE MARKETING VALUE CHAIN AS A GUIDE TO MANAGEMENT DISCUSSION

Says United Rentals CMO Chris Hummel: "The Marketing Value Chain takes the critical yet complex task of measuring the impact of brands and turns it into a natural, clear and logical management discussion about how marketing can create business value."

The most productive discussions are built around shared assumptions. Although each organization has its own path to growth, the Marketing Value Chain provides ground rules that everyone can agree on. It offers four principles to guide the conversation.

1. It makes it clear that the path from marketing investment and strategies to future cash flow is a multi-step process, because marketing only creates value to the extent it impacts the drivers of customer behavior change and meaningful business outcomes. Too often finance executives try to skip steps and simplify the problem.
2. The Marketing Value Chain helps finance focus on the cash flow impact of marketing quickly and easily, and zero in on the key points of leverage, scale and failure in the go-to-market model.
3. The Marketing Value Chain puts all growth investment options—from R&D to training to technology to media—on an equal playing field. It's based on equitable and optimal allocation of resources.
4. The framework helps marketing executives to communicate to their ownership, leadership and partners in key functions and business—and establish metrics, KPIs and dashboards to demonstrate their contribution.

FROM MARKETING INVESTMENTS TO FINANCIAL GOALS

When the ISO Technical Committee 289, led by Professor Calder, developed and approved the *ISO 20671: Brand Evaluation* meta-standard, they wanted a rigorous framework for regularly conducting brand evaluations.[30] This includes the collection and reporting of pertinent non-financial metrics, financial metrics and, in alignment with *ISO 10668: Brand Valuation: 2010*, brand valuations.[31]

In developing a brand evaluation process, ISO considered the full scope of its use and the chain of effects from marketing investment to customer behavior change to business outcomes that translate brand to firm financial performance. The Marketing Value Chain represents this from the systems view of marketing accountability. It assesses the chain of effects across five elements:

- marketing investments
- growth drivers
- customer behavior
- business outcomes
- financial goals

The five elements are connected in a chain with four links:

1. **The connection between marketing investments and strategies and the brand.** Marketing investments

The Chain of Marketing Effects

THE MASB MARKETING VALUE CHAIN℠

Marketing Investments	Growth Strategy	Customer Behavior Metrics	Business Outcome Metrics	Financial Goals

1	2	3	4
The connection between marketing investments and strategy and the brand	The connection between the brand and customers and stakeholders	The connection between customer behavior and financial outcomes	The connection between marketing investments and strategy and the brand

build brand strength to drive customer choices. A brand evaluation measures the return on investment based on the downstream effect on customer behavior, market share and pricing power.

2. **The connection between the brand and customers and stakeholders.** Branding creates associations in the minds of prospects, customers and stakeholders such as distributors and influencers. The associations drive decisions to choose one brand over others. Brand strength metrics capture the power of these associations to influence decisions.
3. **The connection between customer behavior and financial outcomes.** A brand shifts the demand curve and contributes to an organization's financial health, captured by metrics like margin, cash flow and, ultimately, profit.
4. **The connection between financial outcome and shareholder decision making.** In order to decide how much to invest in governing and maintaining assets, owners need visibility into their ability to generate cash. A brand evaluation provides shareholders with this information.

HOW BRANDS IMPACT CUSTOMER BEHAVIOR AND DRIVE CASH FLOW

Brands have value because they create customer actions that can have significant business impacts. By accurately and predictably measuring the impact of marketing activities on the hearts and minds of customers and potential customers, measures of preference connect marketing inputs to consumer behavioral outcomes. Brands affect share, velocity of sales and profit gains by:

- Increasing perceived value and reducing price sensitivity, which gives firms the ability to raise price without losing customers or drive additional volume with pricing actions.
- Building loyalty, which leads to greater customer lifetime value and more stable subscription revenues.
- Generating a higher market share of transactions, wallet or shelf, which increases, leading to higher sales and blocking out competitors.
- Boosting win rates on RFPs, competitive bids and proposals.

The Marketing Value Chain Framework helps finance executives document and model the chain of effects from marketing investment to business outcomes—in other words, to translate brand strength into firm financial performance. The framework allows management to agree upon and document the specific ways brands can impact customer behavior in ways that increase future cash flows for the firm. Marketing investments fuel marketing strategies that change customer behaviors in ways that create downstream business outcomes that improve cash flow by persuading customers to choose more, stay longer, buy more or pay more. The range of ways brands can measurably influence customer behavior include:

- **Buying more.** Strong brands drive purchase decisions. Brand preference is the marketing metric tied to sales and share of market. For example, an analysis by the MASB found a direct linkage between brand preference and market share across 120 brands in 12 categories.[28]
- **Paying higher prices.** Strong brands change the shape of the customer demand curve by making customers less price sensitive. Reducing price sensitivity gives firms the ability to raise price without losing customers or drive additional volume

How Brands Drive Cash Flow

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Place-Distribution Actions		Purchase Size & Volume	Volatility	Cash Flow
Product Actions		Share of Transactions	Velocity	Growth Rate
Pricing Actions		Response & Conversion Rates	Profit Margins	Brand Asset Value
Capability Developement		Referrals & WOM	Customer Economics	Cost of Sales
Competitive, Brand & Acquisition Strategy		Loyalty	Costs	Cost of Capital
		Price Sensitivity	Future Option Value	

with pricing actions. Brand impact on price can be measured by tracking price sensitivity such as price elasticity and price premiums. For example, a study of 220 consumer products by the Marketing Science Institute (MSI) found that a superior brand preference or reputation commanded price premiums of 26% on average, even when brand quality is the same.[10] These results are validated in the marketplace, where the dominant phone brands—Apple (brand value $182B) and Samsung (brand value $47B)—capture the lion's share of profits in the mobile handset category.[3]

- **Staying loyal longer.** Strong brands increase customer loyalty. Brands can impact customer behavior by motivating more persistent loyalty, leading to greater customer lifetime values and more stable SaaS or subscription revenues.
- **Buying more frequently.** Strong brands motivate customers to choose a product more often. Brands impact measures like share of wallet, share of transaction, share of requirements (for RFPs), channel partner "mindshare" and shelf space.
- **Referring more.** Strong brands increase measures of word of mouth such as referrals, Net Promoter Scores and willingness to recommend.
- **Winning more often.** Strong brands improve response and conversion rates, driving superior win rates on RFPs, competitive bids and proposals.

Once the impact of brand strength on customer behavior has been documented and measured, it's easier for financial executives to make the connection between customer behavior and business outcomes. A strong brand can create significant economic value if it influences customer behavior in ways that measurably impact an organization's financial health. The financial outcomes that brands can deliver include:

- **Share of mind, unit volume, dollar volume or requirements.** For example, when the MASB studied the impact of brand preference on market share, brand preferences alone explained 77% of the differences in unit shares across 120 brands in 12 categories.[28]
- **Strong brands can improve sales per unit over time such as units per store or sales per lead.** For example, the highly successful Five Dollar Foot Long brand drove record levels of same-store sales increases over several years for Subway.
- **Net margin.** Strong brands can improve measures of profit margins such as unit margin, contribution margin and direct product profitability. For example, an analysis by Wharton School of Business showed that the success of the Hyundai Elantra brand extension into the luxury segment allowed the company to improve profit margins across the full line of conventional sedans.[22]
- **The option to easily launch new products.** When one brand already exists, the option exists to launch a brand extension. The value of this option is the present value of costs avoided in launching a new product under the existing brand versus creating a new brand. For example, Apple started by making personal computers, then extended the brand into personal audio and then smartphones. Now almost two-thirds of Apple's sales come from the iPhone, and it's time for another brand extension.

These business outcomes provide finance with the building blocks of a cash flow model that can predict financial performance by estimating the contribution of future cash flow to share price.

Brand Options With Increased Brand Preference

Source: Marketing Accountability Standards Board Brand Investment and Valuation Study, 2018

The value of brands is poorly understood and hard to measure. Marketers tend to favor quantity over quality and easy-to-measure over behaviorally significant. Marketing metrics like brand awareness, brand reach and contribution to sales can be useful, but it's often unclear how they translate into long-term value.

"That value has been traditionally reflected in the capital markets as a premium that brand-based businesses are paid on acquisition and in transfer pricing. The challenge today is that in most organizations brand preference is not consistently measured over time, and the resulting value of the brand is not reported financially or managed as a business asset."

Frank Findley, Director, MASB

"There are many layers to marketing performance," says Aetna CMO David Edelman in the Forbes Marketing Accountability report. "It takes a complex portfolio of measures. Leadership tends to be overly obsessed with sales attribution and cost of acquisition without factoring in important factors like brand perceptions, brand preference or trust. When measuring performance, you have to think about the 10 people a customer asked before they decided to visit your site."

The rise in brand values coupled with the inability of the accounting world—FASB and IFRS—to establish common standards for brand valuation and reporting has created information gaps and inefficiencies in the market that smart investors are exploiting through brand arbitrage.

Brands are big assets that are frequently mispriced by financial analysts and CFOs. Investors who know how to price them often find arbitrage opportunities. Marketing-savvy investors like Tengram Capital Partners and Byrnwood Partners have generated large returns from their ability to identify, value, buy and monetize untapped and undervalued brand assets from distressed or mismanaged businesses like Joe Boxer, Design Within Reach and Zest Soaps. Conversely, investors who don't understand brands—like 3G Capital—can destroy billions in value by mismanaging them.

But despite their value, and the direct link between share and brand preference, most financial executives are skeptical about funding or approving investments to build, grow and protect brands. The root of the problem lies in the inability of business leaders to properly measure and value the contribution of brands to financial performance. And investors scrutinizing public financial reports are even worse off.

"Over the last 40 years an array of brand-tracking studies by academics and independent research houses have proven again and again that brand preference is a primary driver of customer choice, business outcomes, market share and cash flow," says Frank Findley, director of MASB. "That value has been traditionally reflected in the capital markets as a premium that brand-based businesses are paid on acquisition and in transfer pricing. The challenge today is that in most organizations brand preference is not consistently measured over time, and the resulting value of the brand is not reported financially or managed as a business asset."

EASY-TO-MEASURE MISSES THE MARK

Marketers typically come from a creative services background, and that's how they're regarded inside companies. Mastercard CMO Raja Rajamannar says that his peers frequently speak in marketing jargon, "which the CFO and CEO couldn't care less about. They are looking for financial results."

Marketing technology vendors throw gasoline onto the fire. Companies selling social listening and marketing cloud, performance management and attribution solutions offer a variety of turnkey, funnel-based KPIs that promise to easily and accurately show the contribution of marketing to business outcomes. Dashboards frequently display dozens of easy-to-measure indicators instead of a few critical gauges linked to firm value and cash flow.

As a result of this undisciplined approach, financial reporting provides little information about the economic value of marketing assets. And business leaders across the board fail to understand the impact of marketing investments on value.

"Financial statements cannot fairly represent the value of an enterprise if they don't systematically include key intangibles like the brand and customer relationships," says Professor Bendle. "Brand valuation has been a hodgepodge of rules inconsistently applied and reported."

An example cited by Bendle is the valuation of brands developed internally versus those bought in acquisitions: "Based on current accounting rules, if we develop a brand ourselves, it's financially worthless. But if we purchased it from someone else, it is valuable."

Financial professionals have many ways to measure, account for, protect and grow the value of business assets: securitization, collateralization, mark-to-market

Nine Obstacles to Measuring and Reporting Brand Value

1. **No "fair value."** There is no liquid market for buying and selling brands to establish market prices.
2. **The "Moribund Effect."** Accounting standards only allow for the impairment of brands, not their growth.
3. **Homegrown brands.** Companies that build brands are not required to report their value..
4. **Book value.** The book value of a brand does not reflect its economic value, which can only be determined in an acquisition.
5. **Lack of historical data.** There is limited historical data to track brand values over time.
6. **Allocation issues.** It is difficult to identify and isolate the cash flow and income attributable to a brand.
7. **Lack of transparency.** There are 39 different models for valuing brands, with opaque math and inconsistent results.
8. **Intangible assets.** As intangibles, brands are only valuable when in use by the business.
9. **Brand cost and strength**. Brand value is not directly related to the level of investment or brand strength metrics.

pricing, amortization. But these tools can't be applied to the company's biggest asset, the brand. Imagine how ineffective a corporate treasurer would be if she were not allowed to count cash balances, collateralize loans or get validation from a ratings agency.

"Reporting on brand value will inform investors of the true value and growth potential of the business and may actually attract more capital," says Kellogg's Professor Calder. "When companies know what their brands are worth compared to other assets, they can manage for growth. At the very least, they should be smarter about making marketing investments. If investors can see a brand as one of the key assets underlying a company's viability, they can make investment decisions that are not beholden to quarterly earnings."

To illustrate the problem with not properly recording brand assets, imagine you owned all the shares in Apple on December 30, 2017. Would you sell them for the reported equity in the last quarterly report ($140 billion) at a time when the market value was around $861 billion? The book value of equity, reported in the financial statements as what shareholders own, is clearly only a fraction of what investors think Apple is worth. The difference isn't just rounding, it is the vast bulk of Apple's worth.

Moreover, Apple is nothing special. In the December 31, 2017, Starbucks quarterly report, total shareholders' equity is shown as $5.8B, while market value was around $81B.

Any finance professional can do the present-value calculation that links marketing investment to financial performance value. All that is needed is an understanding of brand strength and agreement on how brands impact cash flow. Calculating the financial impact of the brand is more about a discussion across management about the role of brand in sales and margins and less about a magic formula.

Part of the difference between reported equity and market value is brand. MASB's analysis shows that the brand is worth an average of almost 20% of corporate value, yet most businesses don't measure it or report it. Many non-brand-related assets are also omitted from financial accounts. Indeed, most firms with strong brands, great intellectual property, innovative capacity or strong customer relationships—companies like Coca-Cola, Procter & Gamble and Target—have massive discrepancies between reported value and market value.

Of course, the importance of tangible assets (which are more reliably recorded) varies by industry, but less than intuition might suggest. Even among utilities, tangible assets account for only 75% of enterprise value.[39] And in an increasingly knowledge-based economy, tangibles have a limited role in many industries, composing less than 20% of value in household and personal products, media, software and pharma.[46]

FINANCIAL REPORTS DRIVE PERCEPTIONS (AND IGNORE MARKETING)

Investors scrutinize financial statements in vain for guidance on the impact of marketing. Most investments are expensed and the assets are expensed. It's as if the assets marketers create don't exist. Marketing looks like a drag on corporate profits rather than the generator of them. It's no wonder marketers are biased towards short-term payoffs.

"Without a long-term commitment to strategic brand and technology platform development, CMOs will not build critical business advocacy and are being set up to fail," says former TIAA CMO Connie Weaver. "Marketers worry that the lack of reported assets under their control lessens marketing's influence; marketers don't appear to manage anything valuable. Marketing budgets look like waste rather than the investments they often are, making marketing a prime candidate for cutting."

Accountants establish value by looking at "fair value": the price something can be sold for in the market. If a company buys a brand from another business, the value of the brand is simply the purchase price. Even if the purchase entails more than the brand, the value can still be associated with a purchase price. It is recorded under "goodwill": the amount paid by the company over the fair value of the assets on the acquired company's books (the price premium).[27]

In this case, the value of the brand appears as an asset on the acquiring company's balance sheet, even if it was not on the seller's balance sheet. But if a company develops a brand internally, there is no purchase price and no fair value. The norm is then to class brand expenditures as an expense, not as an asset with future value.

In other words, accounting rules imply that "homegrown" brands developed in-house can't be worth anything. "This leads to a strange world where Kellogg tells us in its management commentary that it has numerous brands with considerable value," comments Professor Bendle. "Dig into the numbers, however, and you'll find, completely faithful to accounting rules, valuations of Pringles but not Corn Flakes. Is the Kellogg's Corn Flakes brand worthless? Can we borrow the brand then, please? If that seems greedy, we'll happily borrow the Special K brand, which also has no reported value."

Compounding the problem, brands reported on the balance sheet can't grow in value no matter how much is invested; they can only decline or be "impaired." This is known as the "Moribund Effect" (Sinclair and Keller, 2017): The brand hangs around on the balance sheet, increasingly irrelevant as inflation eats away at its value.[25] To illustrate this problem, Sinclair cites Gillette:

- In 2005, P&G bought the Gillette brand for $25B.
- Ten years later, the brand was still carried on P&G's balance sheet at $25B despite heavy brand investment and growing share of shelf space in the men's care category.
- In contrast, the Coke brand grew in value over the same period by 52%, from $54.5B to $83B, according to independent brand valuation services.

Was P&G wasting its money by investing in the Gillette brand? Or was the value of the brand simply underreported? Clearly, the truth is the latter. The situation is a disservice to Gillette shareholders, who do not have an accurate picture of the value and growth potential of their investment.

This lack of information makes it difficult for investors and owners to assess future cash flows and predict the future profit potential of a business, creating a range of market inefficiencies in mergers and acquisitions, asset pricing and investment resource allocation.

For example, for many years senior executives have complained that failure to account for relevant assets leaves well-run firms vulnerable to hostile acquisition. Firms investing for the future just look like they have unnecessarily high expenses, whether that be Rowntree's (assets included Kit Kat, Aero and Quality Street) vulnerability to acquisition by Nestlé a generation ago, or Unilever (assets including Dove, Axe and Hellman's) appearing vulnerable to Heinz more recently.

The current financial accounting reporting system also rewards destroying intangible value, such as the value contained in customer relationships. For example, customers may get cheated with trick fees, deceptive promotions or inferior products. This happens because it looks good on the short-term financial reports even when the anti-consumer actions destroy more firm value than they create through diminishing valuable long-term customer relationships.

The results of misreported intangibles become tangible indeed.

VI EMERGING GLOBAL STANDARDS FOR BRAND VALUATION AND EVALUATION

This year ISO will be formalizing a global standard for evaluating and reporting brand value consistently to management and to investors, developed by MASB, and approved unanimously by every country in its membership. The new standard will provide a rigorous and consistent framework for systematic and recurring brand reviews. Developed over several years by branding experts from numerous fields, it covers the entire process; from brand development to brand performance to brand valuation.

ISO 20671 is an international meta-standard that puts forth a rigorous framework and set of principles for conducting systematic brand evaluations. In March 2018, ISO Technical Committee 289 unanimously approved the ISO 20671: Brand Evaluation meta-standard.[47] That document puts forth a rigorous framework and set of principles for regularly conducting brand evaluations. This includes the collection and reporting of both pertinent non-financial metrics, financial metrics and, in alignment with ISO 10668: Brand Valuation: 2010, brand valuations. ISO 20671 is sometimes referred to as marketing's "Golden Ticket," as it is used by marketing professionals to explain the contribution of branding to enterprise value, thereby opening dialogue with corporate leadership.[31]

This is significant to marketing executives, because they are under extreme pressure to prove the value of marketing investments—but have historically been relegated to the children's table when financial concerns were at stake. The vast majority of CEOs believe that marketing executives lack the financial discipline and focus to participate in board-level decision making—and that marketing investments create "soft" value. The lack of financially valid and agreed upon standards for evaluating brands is a big underlying reason that 78% of CMOs have historically suffered from a credibility gap with CEOs, boards and CFOs.[1]

"Brands are one of the most valuable but least understood assets," according to MASB's Findley. "The announcement of a new global standard for evaluating brands by the ISO represents a big opportunity to rectify that and, in so doing, benefit all business management. This not only includes marketing, finance, accounting and insights professionals who have seen how similar standards have revolutionized manufacturing and IT. But it also includes firm leadership, investors and analysts who must make strategic decisions that impact share price and firm value. It is essentially a 'golden ticket' opening new opportunities for brand leaders to influence corporate decision making."

These new standards represent a big opportunity for marketers to change this dynamic because, to a large degree, marketers have been forced to operate with the scoreboard stacked against them. Essentially, accounting rules have relegated CMOs to a scorecard akin to that of figure skating—based on subjective measures of artistry, style and the whims of the "Russian judge." Meanwhile, every other business discipline gets to play hockey—with a clear scoreboard for success, and penalties for crashing into each other.

NOT EXPENSES, BUT INVESTMENTS IN GROWTH

The new brand evaluation standards are even more significant to investors and owners. In the absence of consistent, comparable and financially valid measures of brand value, firms investing to maximize future cash flows just look like they have unnecessarily high expenses to investors. This is one reason leading brands like P&G have become vulnerable to activist investors like Nelson Peltz, who seeks to fund short-term dividends to shareholders by cutting marketing costs.

This disconnect between real value and the reported value can lead to dysfunctional business actions—like cutting the marketing investments that create value while funding short-term promotions that destroy it.

The value gap can also lead to ill-founded M&A strategies. For example, Unilever appeared vulnerable to acquisition by Heinz when, in fact, its brand assets were significantly more valuable than the investment bankers were able to ascertain from the financial statements. After millions of shareholder dollars were spent on banker's fees, the deal was not done.[48]

Brand standards allow CFOs to create financially valid measures of the contribution of marketing to future cash flow. By calculating the contribution of the brand to future cash flow, finance leaders can overcome the flaws created by measures of marketing based on waterfall, attribution and pipeline, which badly devalue the contribution of brand to cash flow, profits and firm value and often emphasize actions and investments that can destroy value.

With better standards for brand valuation and evaluation, CEOs can more effectively allocate resources across growth investment options—including product, R&D, sales, digital, marketing and production—and make financially valid trade-off decisions between them.

A Brief History of the Brand

2000 BC	1500	1875	1876	1955	2010	2018	2019
Old Norse herdsmen brand cattle	Personal branding practice by artists and craftmen	Trade Marks Registration Act protects trademarks	Budweiser, the first national beer brand, introduced	Brand management emerges as a business discipline	Global Brand Valuation Standards introduced	The value of the top 100 brands exceeds $2 trillion	Global Brand Evaluation Standards published

VII FIVE STEPS TO CALCULATE THE VALUE OF A BRAND

Brand equity measures of the financial value of a brand are strategically crucial but famously difficult to quantify. Many experts have developed tools to analyze this asset, but until now there has been no universally accepted way to measure it.[33]

According to the Marketing Dictionary,[34] the purpose of brand equity metrics is to measure the value of a brand. A brand encompasses the name, logo, image and perceptions that identify a product, service or provider in the minds of customers. It takes shape in advertising, packaging and other marketing communications, and it becomes a focus of the relationship with consumers. In time, a brand comes to embody a promise about the goods it identifies—a promise about quality, performance or other dimensions of value, which can influence consumers' choices among competing products. When consumers find a brand relevant and trust it, they choose it over the offerings of competitors, even if the price is higher. When a brand's promise extends beyond a single product, a company can leverage it to enter new markets. For all these reasons, a brand can hold tremendous value. That's brand equity.

It's not easy to measure brand equity. But because brands are so important, measuring them has become a focus of both academia and the marketing community. There are two main methods: the market approach and the income approach. Both are detailed in 2010's ISO Brand Valuation Standard (ISO 10668).[31]

The market approach. This method benchmarks a brand against the market price of a comparable brand where there is an open market record of the transaction price for that brand. Unfortunately, there is not a very liquid market for brands. Nor is there pricing history on which to base the benchmarks. Given the difficulty of finding a comparable benchmark, compounded by brand reporting issues, this approach exists in theory but rarely in practice.

The income approach. This approach uses the present value of future income, revenue or cash flows attributable to the brand. Suppose, for instance, that a company spends $10,000 on branding and revenue increases in the following year. The increase in cash flow could be attributed to the brand, extended into the future, and a net present value calculated. Likewise, one could find a company with a similar but weaker brand and calculate a revenue premium by comparing the two. The revenue premium would reflect the higher price of the stronger brand evaluated at net present value.

OPAQUE AND INCONSISTENT VALUATION METHODS

Valuation is complicated by the many opaque methods used by the consultants who rank brands by value. At least 39 models have been developed to value brands (Salinas 2016).[38] Most are variants of the income approach, but include proprietary "black box" aspects that hinder understanding and thwart consensus. The same brands in the same years have different values depending on the method. Model inconsistency and complexity has kept accounting authorities from treating brands as assets (Sinclair 2016).[27]

MASB's Brand Investment and Valuation (BIV) project (Findley, 2016) provides a straightforward way to implement the income approach accurately and credibly.[28] The BIV project assembled marketing and finance practitioners from six blue-chip corporations, specialists from research companies and academics specializing in brand valuation literature. Their mandate: Identify a cornerstone brand strength metric and create a practical model for brand valuation. The result was an empirically validated model for valuing brands and guiding brand investments.

A prototype drew on two types of data:

- Sales, pricing and distribution data for 33 brands supplied by six companies across different industries.[28]
- Surveys in which consumers were asked to choose preferred brands within product categories.

The BIV project showed that brand preference explained about 75% of the difference in market shares across the brands. Drawing on the BIV project's findings, finance teams can forecast future earnings as a function of brand strength with more certainty. Furthermore, the brand valuation can be tracked over time. The model was used within one company to illustrate the relationship between long-term marketing spending and the corresponding brand valuations for eight of its brands.

TAKING THE FIVE STEPS

The BIV team outlined five practical steps to calculating the present value of a brand:

1 Decide on a discount rate.

Most organizations have a discount rate, typically referred to as "cost of capital," which is used for investment decisions. If one is not available, then a weighted industry average cost of capital from a source like the NYU Stern School of Business can be used. When using industry averages, care must be taken that category-specific inflation/deflation factors are taken into account.

2 Extract historical financial results from accounting systems.

In most categories, this will mean using the last 12 months of financials. The use of a year's worth of data will minimize seasonality and other short-term effects. The 12-month history is used as a starting point for estimating future cash flows.

3 Determine the cash flow implications.

The current year's cash flow is usually inadequate as an estimate for cash in future years. Often it represents too conservative an estimate of brand value, as it assumes no growth. On the other hand, if a brand is facing headwinds, it is an overestimation. As a result, it is necessary to adjust the cash flow based on expectations. There are considerations in doing so:

- **Category Size.** Are the category and the specific segments in which the brand competes growing, flat or declining? For instance, consumer staples grow with population. Estimate population growth and you've got the cash flow adjustment. Other categories are shrinking—for instance, personal computers, where tablet and mobile devices are eating into unit demand, and cash flow estimates should be lowered. In emerging categories like streaming media services, growth is much faster than population, and cash flows should be adjusted accordingly.

- **Brand Preference.** What is the brand's current brand preference level? Is its recent trend up or down? How is it performing among growing population groups? Brands with higher preference and marketing support tend to be more stable over time, and basing forecasts on existing cash flows is more reasonable. But if a brand is trending downward, losing ground among younger age groups or growing demographic segments, or losing marketing support, cash flow estimates should be lowered accordingly.
- **Pricing.** A lower price than the competition helps to keep cash flows steady (or in a recession, even grow). Premium-priced brands can be vulnerable unless marketing keeps investing to maintain or grow brand preference. This is especially the case in highly fragmented categories where brands are more apt to cut prices to sustain or grow their market share.
- **Distribution.** In most instances, a brand's distribution will be high (readily available to 80% or more of the market) and stable. Only in cases where a brand faces substantial growth or decline in distribution should cash flow be adjusted.

Using these four factors, determine whether cash flow will be growing and the extent to which the growth can be sustained. If a determination can't be made, a brand value can be calculated and presented with caveats.

4 Set a time horizon.

Brands typically aren't perpetuities; they have a finite life. If the cash flows are sustainable, a rule of thumb is to use a 10- to 15-year time horizon. Brands with unsustainable cash flows use a shorter lifespan, or even no value at all. For brands expected to be sustainable over a much longer period, a terminal value can be added to denote the added potential.

The following table provides an example of three brands facing very different market conditions. Two are well-established brands with multiyear tenures in market, while one is a newly introduced brand. Note the resulting cash flow implication and time horizon.

5 Apply a present value formula.

Using the estimated cash flow stream for the given time horizon and the predetermined discount rate, calculate the present value. This will produce an estimate of the brand's value.

Three Brands Facing Very Different Market Conditions

Brand	Category Size		Brand Preference	Pricing	Distribution	Cash Flow Implication	Time Horizon
	Broad	Segment					
Brand A (Established)	Flat	Growing	Very Strong	In Line with Competition for Segment	Strong	Growing Slowly/ Sustainable	10-Year Plus Terminal Value
Brand B (Established)	Growing	Growing	Very Weak and Falling Among Younger Consumers	In Line with Competition for Segment	Strong	Likely Unsustainable	No Brand Value Assigned
Brand C (Newly Established)	Flat	New and Growing Substantially	Strong Relative to Current Similar Offerings	Sustainably Advantaged (Lower) vs. Competition	Solid	Unproven but Promising	Limited Life <5 Years

An Equation to Calculate the Financial Value of a Brand

$$\text{Brand Value} = \sum_{t=0}^{H} \frac{\textit{Net Period Brand Cash Flow}}{(1+R)^t} + \textit{Terminal Value}$$

Variables

t = The time period of the cash flow. Periods are typically a year or quarter in duration

H = The final time period of cash flows based on the expected useful economic life of the brand given its time horizon

Net Period Brand Cash Flow = The cash flow assigned for the brand impact for that period

Terminal Value = Residual value of the brand at the time horizon

R = Discount rate, which represents the opportunity cost of capital or internal rate of return

Net Cash Flow = Incremental Brand Sales - Brand Costs

Note on calculating Net Period Brand Cash Flows:

There are two common methods for calculating Net Period Brand Cash Flows, depending on the type of brand valuation desired. One method assigns the full amount of sales for all products under the brand to its cash flows. This provides the value of the brand in the broadest terms. The alternative is to subtract from this an expected amount that an unbranded control brand would generate (based on control testing or modeling). This second approach determines the added value the branding itself provides outside of the delivery of the product. Both perspectives are useful when talking about the value of a brand. In both cases the costs of delivering the corresponding units to market and associated brand costs are subtracted from these to produce a net cash flow.

VIII FOUR ACTIONS CEOS CAN TAKE TO QUANTIFY AND GROW BRAND VALUE

Four Actions	
1 Discuss	3 Measure
2 Evaluate	4 Report

Of these, the first is the most difficult, time-consuming, and requires the greatest commitment of leadership skills—but the effort can't succeed without it.

1 First discuss, debate and agree on the extent to which the brand impacts enterprise value.

Using the marketing value chain as guidepost, leadership teams with representatives from marketing, finance and analytics need to:

- Build a consensus on the contribution of the brand to firm value—from 0% to 99%—or, at the least, agree to disagree and present competing points of view.
- Document the hypotheses underlying that consensus (or competing viewpoints) in order to gain deeper understanding, make bets and ultimately resolve the debate. Otherwise, it's just an argument.
- Socialize an estimate of the brand's contribution to the broader leadership team in order to build measures and incentives for marketing performance.
- Ideally, do all this before hiring a consultant, creating a marketing dashboard or setting marketing budgets.

2 Evaluate your brand frequently (ideally annually).

Periodically estimate the impact of brand on future cash flows using the MASB Brand Investment Value Framework.

- Create a cross-functional team including finance, marketing and key stakeholders in product, distribution and sales.
- Charge this team with using the five steps outlined in the MASB Brand Investment Valuation Framework to estimate the present value of operating cash flows associated with the brand.
- Where possible, validate the estimate with peer brand benchmarks and market research on brand strength and operational measures of distribution elasticity, price sensitivity and category economics.

3 Regularly measure the inputs in the Marketing Value Chain.

These quantify changes in customer behavior, brand strength and business outcomes, mirroring the ISO recommendation. It is supported by MASB work, including the MAPP audits.

- Define the metrics for each element and the links between them. The definitions and math can be found in the MASB Common Language Marketing Dictionary[33] and MASB's Marketing Metrics, The Managers Guide to Measuring Marketing's Performance.[12]
- Establish hypotheses and baseline measures for each to test and refine performance.
- Measure them frequently (even daily) to keep a pulse on the brand throughout the year.
- Make sure that your marketing analytics and technology partners support these measures. If necessary, acquire the right data to help your partners support them.

4 Put reporting of brands in notes of financial statements through using Integrated Reporting IIRC guidelines.

Integrated Reporting (IR) offers a comprehensive representation of a company's performance in terms of both financial and other value-relevant information that provides greater context for performance data, clarifies how value-relevant information fits into operations or a business, and may help make company decision making more long term. In 2013, the International Integrated Report Committee (IIRC) promulgated the concept of a report that looked beyond an entity's financial records to cover the larger scope of activities that affect its performance and future growth in a holistic way. Reporting would be based on the premise that different types of capital are inputs to a company's business model and the business in turn creates value in the form of capital outputs, or assets. Under social and relationship capital, the IRC guidelines specifically identify brands and branding activities. Social and relationship capital includes intangibles associated with the brand and reputation that an organization has developed as well as key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders—explicitly linking brands with a relationship to a community. The other capital inputs and outputs are financial, manufactured, natural, human and intellectual.

IX MASB RESEARCH, STANDARD-SETTING MEETINGS AND EXECUTIVE FORUMS ON BRAND VALUE

2019 will be the "Year of the Brand."

This June, Forbes is hosting a global delegation of countries to ratify and execute new ISO global standards for brand valuation and evaluation.

In anticipation of the enaction of this global financial standard, Forbes and MASB are hosting a series of executive forums–entitled Proving the Value of the Brand–where the world's largest brands can learn about the standard, debate the best ways to adopt it in their organizations, and communicate the strategic and tactical implications to their financial, marketing and executive leadership.

Leaders who attend these working sessions will be armed with insights and information to process the tactical and strategic implications to how they fund, manage and measure brands, as well as the large opportunity for the marketing industry overall:

- **Tactically, this standard will formalize how organizations calculate the contribution of their brand assets to future cash flow, and force leadership and finance groups to agree with that math, and the level of brand asset growth (or impairment) that is reported to investors.**
- **Strategically, this will impact how organizations allocate resources, fund marketing, measure marketing and ultimately define the role marketing plays with other stakeholders to grow future cash flows, firm financial performance and stock price.**
- **Overall, the standard is a big opportunity for marketers to get marketing investments treated on an equal basis with other operational spend, and dramatically advance the conversation about the contribution of marketing to the business at the board level.**

We invite you to share in our learnings and to actively participate in our upcoming research initiatives, standard-setting activity and executive forums aimed at Proving the Value of Brands.

X APPENDIX

ABOUT THE FORBES MARKETING ACCOUNTABILITY INITIATIVE POWERED BY MASB

The Forbes Marketing Accountability Initiative is an exclusive member organization where Marketing, Finance and Analytics leaders work together with academics, experts and peer practitioners to measure and continuously improve the value that marketing contributes to the business.

Our members are dedicated to proving the value of marketing and helping business leaders achieve a consensus on common-sense business practices for evaluating, measuring and growing the contribution of marketing to shareholder value, and informing critical growth investment decisions. Working in partnership with the Marketing Accountability Standards Board (MASB) and a Marketing Executive Advisory Council, we seek to establish benchmarks, methods and standards to better connect marketing strategies, investment and actions to business outcomes, growth and value creation. Our goal is to work with leading marketers, academics, standard-setting bodies and experts to come up with practical solutions to the top measurement challenges facing CMOs, including:

- **Measuring and maximizing the return on marketing investments and assets**
- **Supporting strategic trade-off decisions with facts and data**
- **Optimizing the performance of an expanding marketing investment portfolio**
- **Closing the marketing performance credibility gap**

We invite you to join our membership of performance-oriented CMOs and collaborate with your peers in Finance and Analytics to establish a consensus and externally validated framework for measuring, communicating and maximizing the contribution of marketing investment to shareholder value and growth.

ABOUT THE AUTHORS

This comprehensive research initiative was led by Tony Pace, CEO of the Marketing Accountability Standards Board, and authored by Stephen Diorio, Director of the Forbes Marketing Accountability Initiative and a MASB Fellow.

To define and execute this best-practice analysis, we worked with leading academics in the field of Marketing Accountability. These experts lent their research, decades of practical experience and external validation to the recommendations of this report and how the role of the CMO will need to evolve to quantify, communicate and optimize the contribution of brands—and the investments and strategies to build them—to enterprise value and firm financial performance.

The academics contributing directly to this analysis include:

- **Neil Bendle,** Associate Professor of Marketing, Ivey Business School, Western University
- **Bobby J. Calder,** Charles H. Kellstadt Professor Emeritus of Marketing, Kellogg School of Management, Northwestern University
- **Frank Findley,** Executive Director, The Marketing Accountability Standards Board
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- **David Reibstein,** The William S. Woodside Professor of Marketing, the Wharton School, University of Pennsylvania
- **Don Sexton,** Professor Emeritus of Business Marketing, Columbia University Business School

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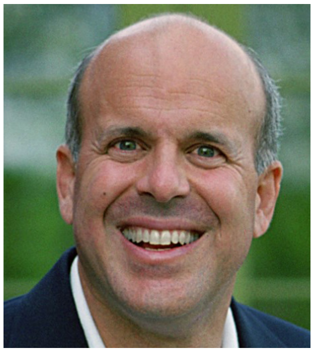

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