

# Brand Investment and Valuation & Financial Reporting of Customer and Brand (BIV & FRCB)

**Jim Meier**  
**MASB Trustee**

**February 2020**  
**New York**



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

# The issue

**Lack of regular reporting on brand value  
and strength of customer franchise  
disadvantages the entire marketing sphere and  
fails to acknowledge the material effect  
they have on the  
overall value of any enterprise**

# Marketing is Disadvantaged

- **Marketing faces a constant threat of cuts because a reporting deficit undermines recognition of the brand as an asset**
- **Other corporate disciplines have standards demonstrating their contributions:**
  - **Finance – IASB International Financial Reporting Standards**
  - **Operations – ISO 9001 Family of Quality Measurement Standards**
  - **IT – ISO/IEC 20000 Information Technology, ISO/IEC 27000 Information/Network Security**
  - **HR - ISO 30400 Human Resource Management Family of Standards**
- **These standards provide credibility and tend to help ‘lock in’ resources for measurement/maintenance of important assets**

# Summer Summit Quote

*"Brand value is such an important part of firm value that clearly you should be trying to measure it and protect it and build it, but I don't think that's well understood – even by marketers."*

David Reibstein, PhD  
William S. Woodside Professor of Marketing  
The Wharton School, University of Pennsylvania



from MASB Summer Summit 2019, Aug 8-9  
**LEARN MORE at [themasb.org](https://themasb.org)**



# Summer Summit Quote

*"I'm a big believer in doing brand audits – at least on an annual basis ... Figuring out the valuation part is taking the audit one step further."*

Kevin Lane Keller  
E.B. Osborn Professor of Marketing  
Tuck School of Business  
Dartmouth College



from MASB Summer Summit 2019, Aug 8-9  
**LEARN MORE at [themasb.org](https://themasb.org)**



# Summer Summit Quote



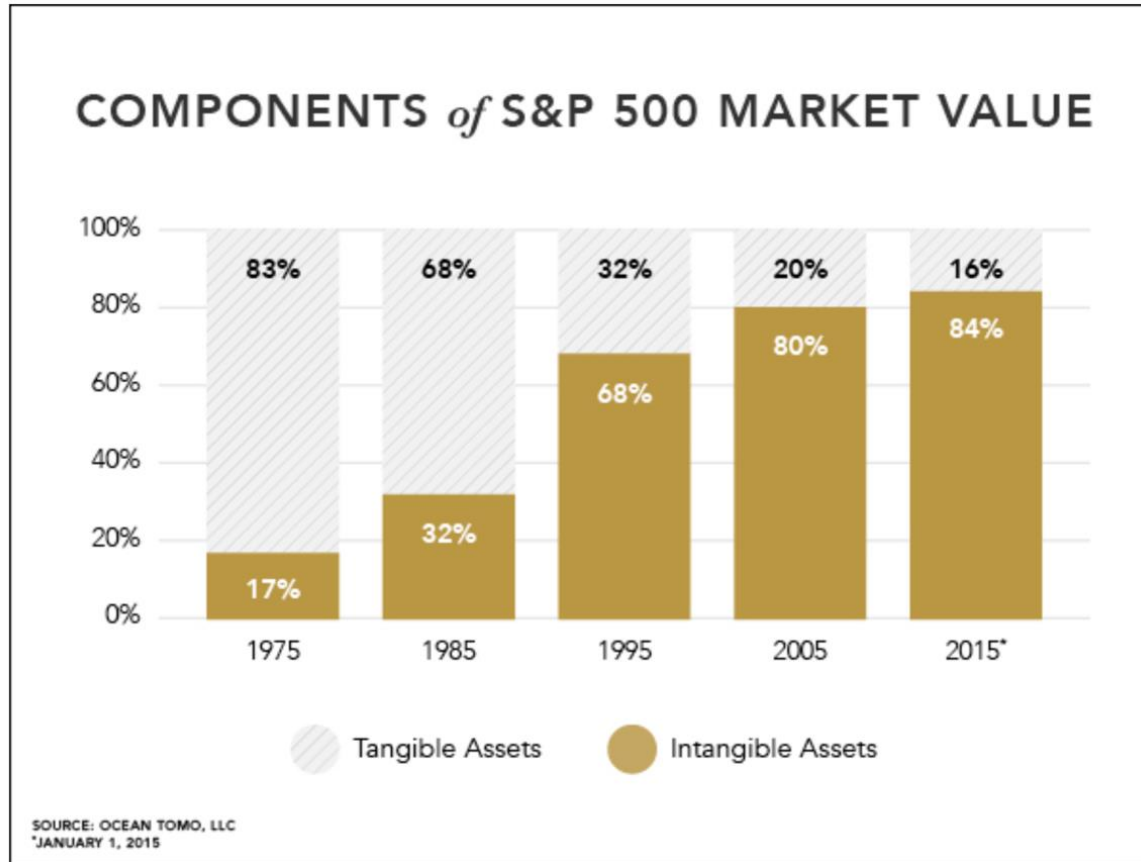
*"Disney is known as a great consumer-centric, brand-building company and we do have a team that's responsible for measuring and monitoring brand health. That's a corporate brand team – not a corporate strategy. It's their full-time job to monitor our active brands."*

Pamela Forbus, Senior Vice President  
Consumer Analytics, Insights & CRM  
The Walt Disney Studios

from MASB Summer Summit 2019, Aug 8-9

LEARN MORE at [themasb.org](https://themasb.org)

# S&P 500 Value Skews Toward Intangible Assets



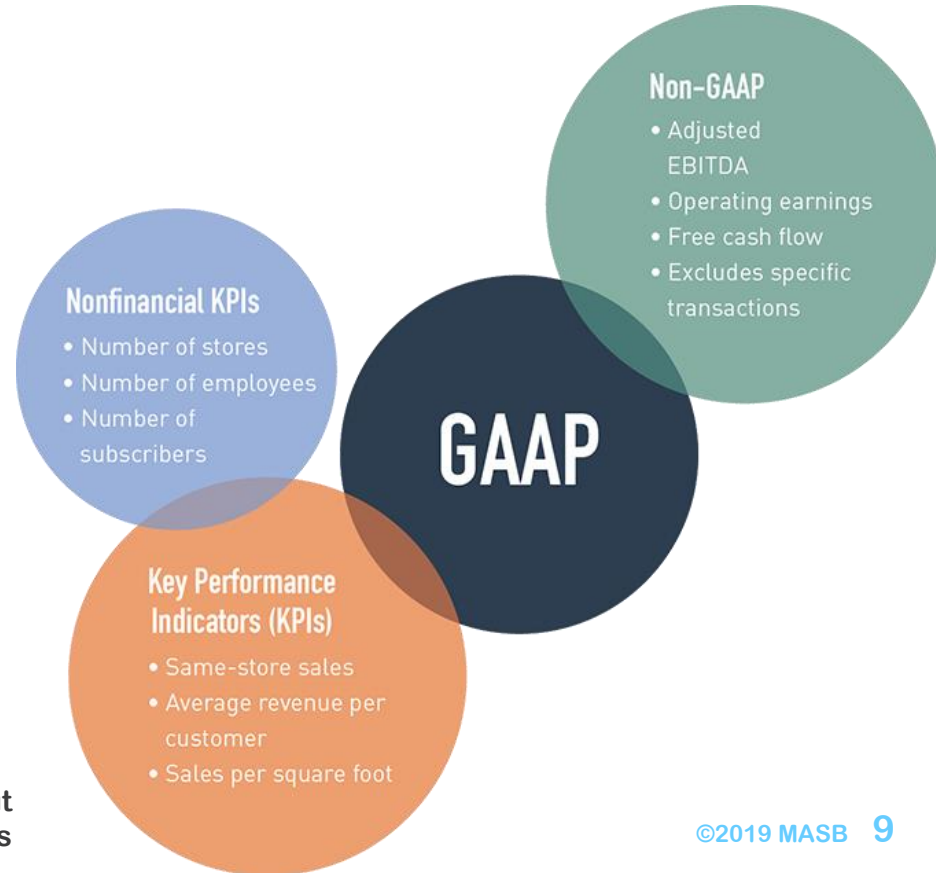
# Brand Value: Sometimes Disclosed, Sometimes Not

- Under GAAP, brands sometimes do and sometimes do not appear on the balance sheet
- Specific examples:
  - P&G's Tide or Crest brands NO
  - P&G's Gillette YES
  - Disney's Frozen NO
  - Disney's Marvel YES...but
- So, is GAAP providing valuable, actionable information for management teams or external parties such as investors?



# Accounting Practices Have Not Kept Pace

- Already, other metrics, sometimes called **Key Performance Indicators**, exist outside of published accounting standards



# Accounting Practices Have Not Kept Pace

“One of the growing controversies in financial reporting in 2016 was over public companies’ use of non-GAAP reporting to describe their business performance to investors. For example, **88 percent of S&P 500 companies disclose non-GAAP measures in earnings releases...**

Are these companies — deliberately or otherwise — sending us a signal about ways to improve GAAP?”

*- Russell G. Golden, FASB Chairman*

Source: Why the FASB Cares about Non-GAAP Performance Measures

# Accounting Practices Have Not Kept Pace

“Key performance indicators, or KPIs, are operating and other statistical metrics that cover both financial and non-financial reporting information.

However, they are not defined by an authoritative standard setter.

Some, such as with certain revenue metrics, may be based on GAAP information.

Others that provide non-financial information—such as number of stores, number of employees, and number of subscribers or advertisers—are not based on GAAP.”

*- Russell G. Golden, FASB Chairman*

# Objective of ISO 20671 – Brand Evaluation Standard

- Global in scope through ISO (36 countries represented)
- Covers all types of brands
- Requires annual brand evaluations **with brand valuations**
- Based on marketing metrics, internal financials, environmental factors, and processes
- Marketing's 'Golden Ticket' – opens dialog with executive management and board
- **It is the means by which marketing proves the material contribution of branding to enterprise value... and how to further grow it**

# Example: Kraft-Heinz

## Kraft Heinz is in trouble. How bad could it get?



By Paul R. La Monica, CNN Business  
Updated 12:28 PM ET, Tue June 4, 2019



### Why the \$15.4 billion Kraft Heinz brand write-down was unusual

By Francine McKenna  
Published: Feb 23, 2019 7:54 a.m. ET

The 'mega-impairment' was non-routine and event driven according to research firm Audit Analytics



- Self-described 'dusty' brands issue not addressed
- \$15.4B write-down in Q4-2018
- Comprised of \$6.8B Goodwill and \$8.6B Brands - Kraft \$4.3B, Oscar Mayer \$3.3B
- Remaining \$36.5B Goodwill & \$49.5B Brands
- Maxwell House Value Lowered \$213M Q4-2019

# Kraft Heinz Plans Marketing Binge to Lift Sales — 2nd Update



Provided by Dow Jones

Feb 13, 2020 1:48 PM CST

---CLIP---

Kraft Heinz, which reported lower fourth-quarter sales on Thursday, said additional spending was necessary to bolster its strongest products as shoppers drifted toward lower-price store brands and newer niche products.

"You need to nurture brands, take care of them, to keep them meaningful after 150 years," Chief Executive Miguel Patricio said in an interview.

Shares in Kraft Heinz fell 8% to \$27.65 after the maker of Oscar Mayer meats and Jell-O desserts reported \$6.54 billion in quarterly sales, short of analyst expectations and down 5.1% from a year earlier.

Other food makers are also boosting marketing after years focused on cost cuts that accelerated profits but crimped sales growth. Hershey Co., Kellogg Co., Unilever SA and Oreo-maker Mondelez International Inc. are all spending more on advertisements and in-store promotions.



# Example: Coach – Kate Spade

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## How Will Kate Spade Change Now That Coach Owns It?

*Don't expect to find it in flash sales anymore.*

By Eliza Brooke | May 8, 2017, 2:16pm EDT

f SHARE



- Coach acquired Kate Spade in August 2017
- ~\$2.4 Billion
- ~\$1.3 Billion for brand
- 54% of enterprise value is the brand
- 28% premium to pre-acquisition market price

# Example: Michael Kors – Jimmy Choo



BOF



NEWS & ANALYSIS

## Dissecting the Jimmy Choo Michael Kors Deal

What does Michael Kors' \$1.2 billion acquisition of Jimmy Choo mean for the high-end shoemaker and the accessible luxury giant?



- Michael Kors acquired Jimmy Choo
- ~\$1.5 Billion Ultimately
- \$578 Million for Jimmy Choo Brand
- Brand represents ~40% of value

# Example: Amazon – Whole Foods Market

**Forbes** Billionaires Innovation Leadership Money Business Small Business

36,446 views | Dec 20, 2018, 05:53pm

## Was Acquiring Whole Foods Amazon's 'Bridge Too Far'?



**Brittain Ladd** Former Contributor  
Retail

f

🐦

in



- Amazon acquired Whole Foods in August 2017
- ~\$13.2 Billion
- All acquired intangibles included in “goodwill”/“other assets” on balance sheet
- Large range of time horizons of 1 to 24 years for these intangibles
- Yet, no specific designation of brand value

# Example: Hostess

## On eBay, the Starting Bid for a Single Twinkie Is Now \$5,000

MEGAN GARBER NOV 16, 2012

*Thus begins the Great Creme-Filled Sponge Cake Run of 2012.*

Screen Shot 2012-11-16 at 11.20.32 AM.png



Snackcakepocalypse is nigh.

With the sad news today that Hostess is closing came even more sad tidings: America's favorite golden-hued snack food -- the plastic-wrapped cylinder that has inspired everyone from scientists to ghostbusters to photographers to lawyers to the owners of deep-fat fryers -- the cake whose sponge is made airy by the laughter of children and whose creme is made silky by the tears of the angels -- will be no more. At least in its current, Hostess-hosted form.

- Facing bankruptcy, brands and portion of plant acquired for \$185M leveraged investment (\$400M total)
- ~4 years later returns to stock market at \$2.2B market cap
- More than 10X return
- Twinkies were selling on eBay for thousands – good indication not a brand preference problem

# Example: Disney Acquisition of Marvel



Credit: Marvel Studios

Market Summary > Walt Disney Co  
NYSE: DIS



- **\$4.2B Acquisition in 2009**
- **Included \$2.9B of Intangible Assets relating to “character-based intellectual property” with estimated 40-year life**
- **Rights to 5,000 Character Brands incl. Iron Man, Captain America, The Incredible Hulk, Captain Marvel, and the Avengers**
- **Transition of Marvel from ‘Comic Books’ to ‘Cinematic Universe’ (rare case of category realignment)**



# Example: Disney Acquisition of Marvel (cont.)

“I think it was [Disney CEO] Bob Iger’s masterstroke,” says Tom DeSanto.

“The one thing that Disney was lacking was a big footprint in boys’ merchandising. They had girls with the Disney princesses, so this gave them the other half.”

DeSanto has been a writer and/or producer on the highly successful X-Men and Transformers movies, so he knows this end of the business well. He also thinks Disney’s purchase of Marvel has already paid off.

“They were able to, I think, almost get the company for free,” DeSanto says. “By that, I mean, they paid for the company, and with Avengers and all the box office and DVD and licensing and merchandising, their investment was basically paid back. They were in profit mode already. **And now they own these characters in perpetuity.**”

Source: Jim McLauchlin *DISNEY’s \$4 Billion Marvel Buy: Was it Worth It?*



# Example: Gillette

**Forbes**

## For Men, Gillette Is No Longer The Best A Brand Can Get



Avi Dan Contributor @  
CMO Network  
*Advertising and Marketing*

- \$8.3B write-down in Fiscal 2019 Q4 (ended June 30)
- \$6.8B Goodwill and \$1.5B Brand
- Original carrying value was established in 2005
- Question of what drove decline:
  - Pricing strategy?
  - Declining brand preference?
  - Currency translation?
  - All these are covered in brand evaluations

# Reporting on Customer Franchise

- **FASB seems to be resisting both financial and non-financial KPIs in reports, while acknowledging the need**
- **But the market is responding with their own reporting approaches:**
  - **Form 10K and Annual Reports**
  - **Quarterly Earnings Releases**
  - **Investor and Analyst Presentations**

# Example: Twitter



- Quarterly earnings announced on February 6 were slightly short of expectations, BUT...
- Revenues exceeded, AND **Monetizable Daily Active Usage** increased 21% over prior year
- Stock Price increased 15% on February 6
- Selected financial metrics:
  - \$30B Market Cap
  - \$13B Total Assets
  - \$1.3B reported Intangible Assets

# Example: Alteryx

alteryx | The Thrill  
of Solving



- **Dollar-based Net Expansion Rate** is a headline number in quarterly press releases (very transparently defined)
- **Number of Customers** is also prominently disclosed
- **Selected financial metrics:**
  - \$9B Market Cap
  - \$1.2B Total Assets
  - \$34M disclosed Intangible Assets

# Example: Morgan Stanley – E-Trade



## Morgan Stanley's Fintech Surrender Continues With E\*Trade Buy

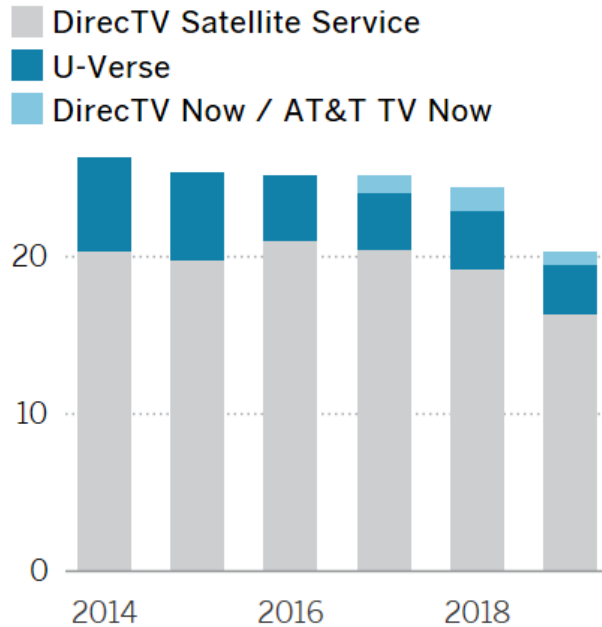
Dana Blankenhorn 1 day ago



The business of making money by talking to people took another hit as Morgan Stanley (NYSE:MS) said it will buy E\*Trade (NASDAQ:ETFC).

- **Morgan Stanley announced (2/2020) pursuing acquisition of E-Trade**
- **~\$13 Billion (all stock), book value approximately \$6.8 Billion**
- **Expects \$150 million in cost cuts from using E\*Trade's low-cost deposits to replace some of its existing funding of loans**
- **E\*Trade boasts 5 million retail customers while, Morgan Stanley has 15,500 human advisors who cater to high net worth individuals**

# Example: AT&T and DirecTV



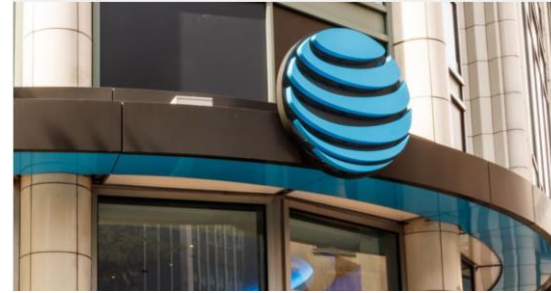
2019 U-Verse and DirecTV numbers estimated.  
DirecTV was a stand-alone company until July 27, 2015

AT&T financial filings

## AT&T loses *another* 1.2 million TV subscribers as DirecTV keeps tanking

AT&T began 2019 with 24.5 million premium-TV customers, ended with 20.4 million.

JON BROOKIN - 1/29/2020, 1:10 PM



- Selected financial metrics:
  - \$49B Acquisition (over \$60 Million with debt)
  - More in-depth investigation by MASB underway



# Thoughts on Internal Adoption of Brand Value

- Pick a methodology
- Strive for “reasonable and consistent” – don’t let perfection be the enemy of the good
- Ideally, embed into the enterprise under a broader CIR umbrella, wherein Brand Value is one input to marketing funding allocations
- Provides credibility to Marketing among the “C’s”
- It is the means by which marketing proves the material contribution of branding to enterprise value... and how to further grow it

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# BIV Team Members

## Team Leaders



OPEN



Dave Stewart  
LMU

## Team Heroes



Jim Meier  
MillerCoors (ret)



Mike Donahue  
ANA



Sunny Garga  
(m)PHASIZE



Vithala Rao  
SCJ/Cornell



Alex Haigh  
Brand Finance



Stephen Diorio  
Forbes-MASB



Brian Hamilton  
DoubleCheck Advert.

## Staff



Frank Findley  
MASB ED - Sponsor



Tony Pace  
MAF/MASB



Erich Decker-Hoppen  
Communication

# FRCB Team Members

## Team Leaders



Michael Moore  
LMU



Open

## Team Heroes



Dave Stewart  
LMU



Neil Bendle  
Ivey



Bryn Anderson  
Brand Finance



Vithala Rao  
SCJ/Cornell



Alex Haigh  
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# Thank-you!



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