

Customer Franchise: Where We Are And What Should MASB Do?



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UNIVERSITY OF GEORGIA

Background (2014 - 2018): MASB Sponsored Project Brought Attention to Long-Term Customer Metrics

- Award winning research
- Calculated long-term effects of acquired customers
- Primarily CPG focused to support television, addressable advertising, and loyalty applications
- Updated industry benchmarks on multipliers of long-term effects

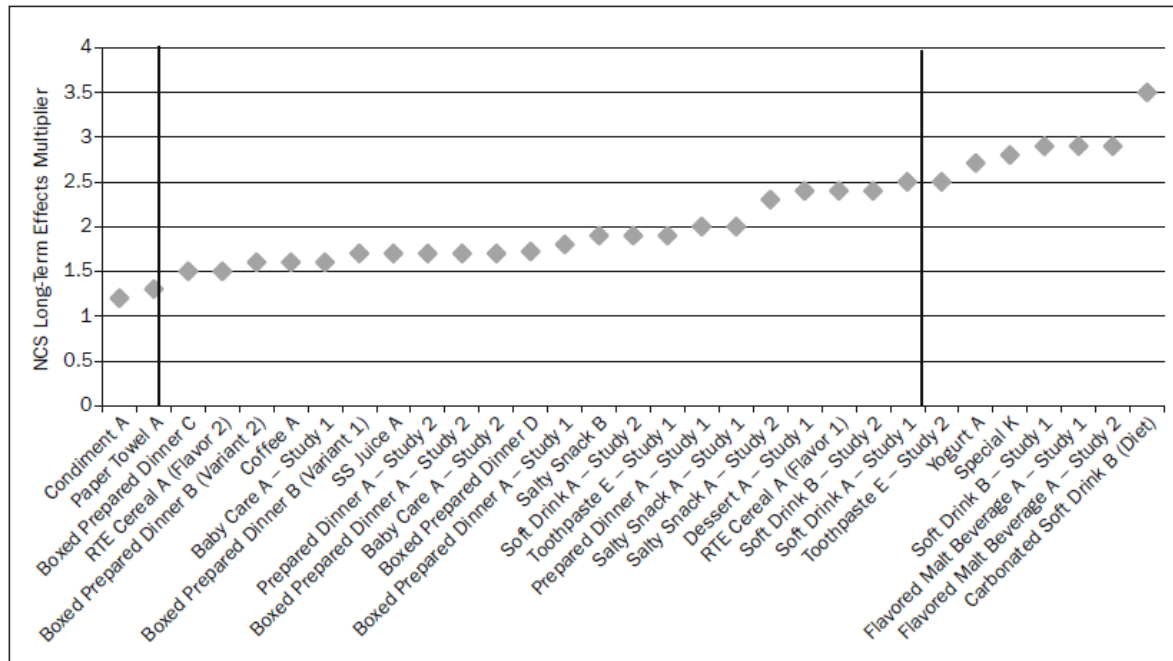


Figure 6 Phase 2: Long-Term Effects Studies

Measuring the Long-Term Effects Of Television Advertising

Nielsen-CBS Study Uses Single-Source Data To Reassess the “Two-Times” Multiplier

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Advertising influences brand purchase through *short-term effects* determined by direct increases in penetration, basket size, and buy rate. Advertising also influences brand purchase through *long-term effects* determined by indirect increases of future purchases through trial and increases in loyalty and brand equity. The current study measured the long-term effect of television advertising by tracking households' purchases that were exposed to advertising out for a year after the initial short-term period. By measuring the increases in these “future purchases,” this method captured the influence of advertising on long-term brand purchases. It also reported the multiplier required to translate the short-term measured effect into the total long-term and short-term effects of advertising.

INTRODUCTION

Scholars for decades have grappled with measuring advertising effectiveness. In the 1970s and early 1980s, they focused on lag effects, decay rates, adstock, lag coefficients, and half-lives (Spaeth and Sylvester, 2014). In the 1990s, game-changing work demonstrated that the long term is roughly equal the short term and that advertising should be valued at twice the short term (the “two-times” multiplier; Lodish, Abraham, *et al.*, 1991; Lodish, Abraham, *et al.*, 1995). A time-series regression

model also estimated these effects (Mela, Gupta, and Lehman, 1997), which is now used widely among marketing mix modelers.

The potential of single-source data was identified, and the concept of repeat purchases and loyalty influences was developed (von Gonten and Donius, 1997; Ambach and Hess, 2000). In addition, the value of price elasticity was explored as it related to long-term effects (Ataman, Van Heerde, and Mela, 2010).

Management Slant

- The general rule of thumb for calculating the total influence of television advertising is to multiply the short-term effect by two.
- Though an average effect may be helpful for a general understanding of how advertising works, measuring and monitoring the actual long-term multiplier is critical to developing further insights.
- The size of the long-term effect has a direct effect on the return an advertiser can achieve through advertising and the balance in value between all marketing vehicles.
- Learning how to increase the long-term effect, therefore, will have a direct impact on how well an advertising campaign will perform now and in the future.



Background (2018-2022): MASB Concentrated on Education of Customer Franchise Related Concepts

Basic Definitions



The screenshot shows the MASB Marketing Accountability Standards Board website. The header includes the MASB logo and the text 'common language MARKETING DICTIONARY'. Below the header is a navigation bar with letters A through Z. The main content area is titled 'Customer Lifetime Value' and includes a definition, a purpose section, and a video player. The definition states: 'Customer lifetime value (CLV), lifetime customer value (LCV), or user lifetime value (LTV) is the dollar value of a customer relationship, based on the present value of the projected future cash flows from the customer relationship.' The purpose section states: 'The purpose of the customer lifetime value metric is to assess the value of each customer. As Don Peppers and Martha Rogers are fond of saying, "Some customers are more equal than others."'

Customer Profit (CP)

Definition

Customer profit (CP) is the profit the firm makes from serving a customer or customer group over a specified period of time. Calculating customer profitability is an important first step in understanding which customer relationships are better than others. Often, the firm will find that some customer relationships are unprofitable. The firm may be better off (i.e., more profitable) without these customers. At the other end, the firm will identify its most profitable customers and be in a position to take steps to ensure the continuation of these most profitable relationships.[1]

Purpose

The purpose of the CP metric is to identify the profitability of individual customers, requiring that revenues and costs be assigned to customers individually. This allows the firm to identify which customers are profitable and which are not, and is a possible precursor to differential treatment designed to improve firm profitability. Rather than looking at customers in aggregate or averages, marketers can learn a lot by finding out what each customer contributes to the bottom line.

Construction

Customer profit is the difference between the revenues earned from and the costs associated with a specific customer relationship during a specified period.

References

1. ↑ Farris, Paul W.; Neil T. Bendle; Phillip E. Pfeifer; and David J. Reibstein (2010). *Marketing Metrics: The Definitive Guide to Measuring Marketing Performance (Second Edition)*. Upper Saddle River, New Jersey: Pearson Education, Inc.

& Relevant Application Videos



Background (2018-2022): MASB Concentrated on Education of Customer Franchise Related Concepts

Measurement Notes

Appendix A

Some Notes on the Measurement of Brand 'Equity' and Brand 'Value'

Vithala R. Rao, SC Johnson College of Business, Cornell University

In the academic literature, brand equity (also referred to in the literature as brand value) is viewed as one of the most valuable assets that a firm can have, and brand equity measurement and management continue to be important in academic research and marketing practice. Most of the extant research on brand equity has taken the perspective of either the consumer or the firm.

Consumer-based brand equity research usually involves assessing the value of the brand to the consumer by studying her perceptions and attitudes towards the brand through surveys, experiments, or self-reported or actual purchase data. The primary objective of this approach is to assess the incremental value that the brand name has on the consumer's utility and resulting choice behavior.

On the other hand, brand equity research from a firm's perspective generally involves assessing the brand's contribution to the firm using market-level data. The market in question may be a geographic product-market with measurement focus on such performance indicators as market share, price premium, revenue or it may be a financial market with focus on a firm's performance measures as the firm's stock price or other financial variables.

Measurement

Since the concept of brand equity began gaining widespread attention in the 1980s, numerous methods of defining and measuring it have been proposed, many of which lack a common ground. However, there is general agreement, however, that brand equity can be defined and measured in terms of the incremental contribution to outcomes that can be uniquely attributed to a brand relative to the effects or outcomes that would have had it not been identified by that brand (Keller 2003, p. 42). In this regard, measures of brand equity are classified into those that capture the sources of brand equity, and those that capture the value of brand equity (Keller 2003, Ch 9-10).

Sources of Brand Equity

Sources of brand equity refer to the set of attitudes, perceptions, and behavioral intentions that resides in a consumer's mind and gives rise to the brand equity phenomenon, and the research has focused on conceptualizing comprehensive models of brand equity that capture these intangible constructs and developing ways to quantify and measure them.

International Standards (ISO 20671 Part 2 Brand Evaluation Soon to be Released)

4 Steps of brand evaluation

4.1 General

There are four steps of Brand Evaluation:

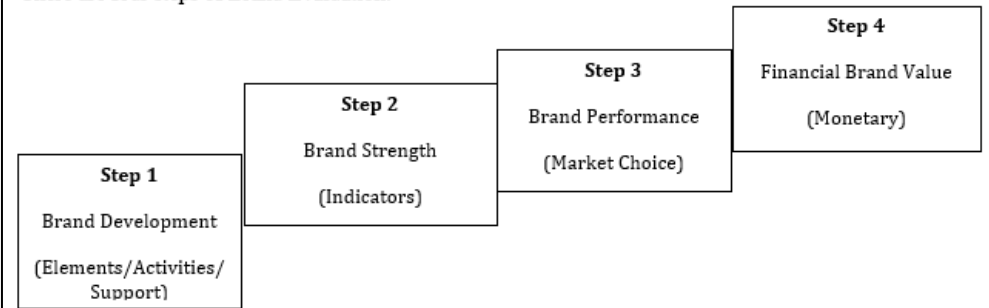
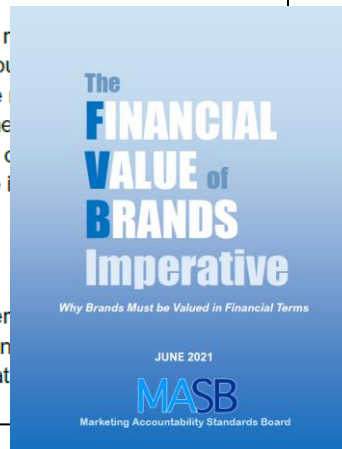


Figure 2- Steps of Brand Evaluation

For all four Brand Evaluation steps, a dimension is a set of related concepts that are measured through categories of indicator metrics. Indicators shall be chosen to account for a substantial amount of the interactions that a brand has in the marketplace with stakeholders for that dimension. At the minimum, the degree of relevance of a dimension to a particular brand and the degree and consistency of the relationship between one dimension and other dimensions used in the evaluation shall be validated by the evaluator. Dimensions are quantified by component indicators. The weight (importance) of Dimensions, indicator categories and the underlying indicators are not necessarily fixed and may vary by industry, stakeholder, geography and over time. Dimensions, indicator categories and their component indicators shall be tested for their relevance and validity periodically as identified by the evaluator.



Background (Now): Subscription Models Increased Analyst Focus on Customer Franchise Strength

Restaurants like P.F. Chang's are looking a lot like Netflix with their new business model

BY PRARTHANA PRAKASH
September 28, 2022 at 2:31 PM CDT



Netflix loses nearly 1M subscribers, forecasts return to growth

By Alexandra Steigrad

July 19, 2022 | 4:47pm |

A P.F. Chang's restaurant.
PF CHANG'S

Restaurant chains are looking a bit like Netflix the P.F. Chang's, a U.S.-based Chinese food chain, announced a new program and adding a subscription-based tier. "Plus" program offering unlimited free delivery via the restaurant's app or questions and comments.



Businessweek | Feature

How Gillette Embraced the Beard to Win Over Scruffy Millennials

A new line of mustache waxes, heated razors, and other grooming products

Amazon Prime got more expensive this year. Here's why you might want to switch to Walmart Plus



BY CAROLIN LEHMANN
SEPTEMBER 21, 2022 / 11:41 AM / ESSENTIALS



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Netflix said it lost nearly 1 million subscribers in the second quarter.



Summary: What Should MASB Do Next On Customer Franchise?

- Leadership needed in discussions of customer franchise
 - Although customer franchise measurement is unlikely to work for all firms most realize customers are valuable, many would value more help understanding this
 - But no clear way for CMOs to tie customer value to internal or external reporting
- I see MASB has four ways to contribute to discussions of customer franchise
 - A. Common Language:* Help create and promote clear, consistent definitions
 - B. External Customer Reporting:* Develop list of metrics to invite firms to share
 - C. Customer Asset:* Help construct consistent views of CLV and customer value
 - D. Reconcile With Reporting:* Help marketing ideas to fit with internal and external reporting to allow CMOs to report marketing projections to C-Suite



Common Language



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Where We Are? Common Language

- Field is in the best shape here
- MASB already has a good definition of customer lifetime value in the common language dictionary
 - <https://marketing-dictionary.org/c/customer-lifetime-value/>

“Customer lifetime value (CLV), lifetime customer value (LCV), or user lifetime value (LTV) is the dollar value of a [customer](#) relationship, based on the present value of the projected future [cash flows](#) from the customer relationship.”

- Despite this, the practical CLV advice to be found on internet isn't credible
 - Shopify (2021) gives a *revenue, non-discounting* based CLV definition <https://www.shopify.com/blog/customer-lifetime-value>
 - As does Facebook <https://www.facebook.com/business/help/1730784113851988>
 - As does Hubspot <https://blog.hubspot.com/service/how-to-calculate-customer-lifetime-value>
 - Etc.... Explanations online are almost universally appalling



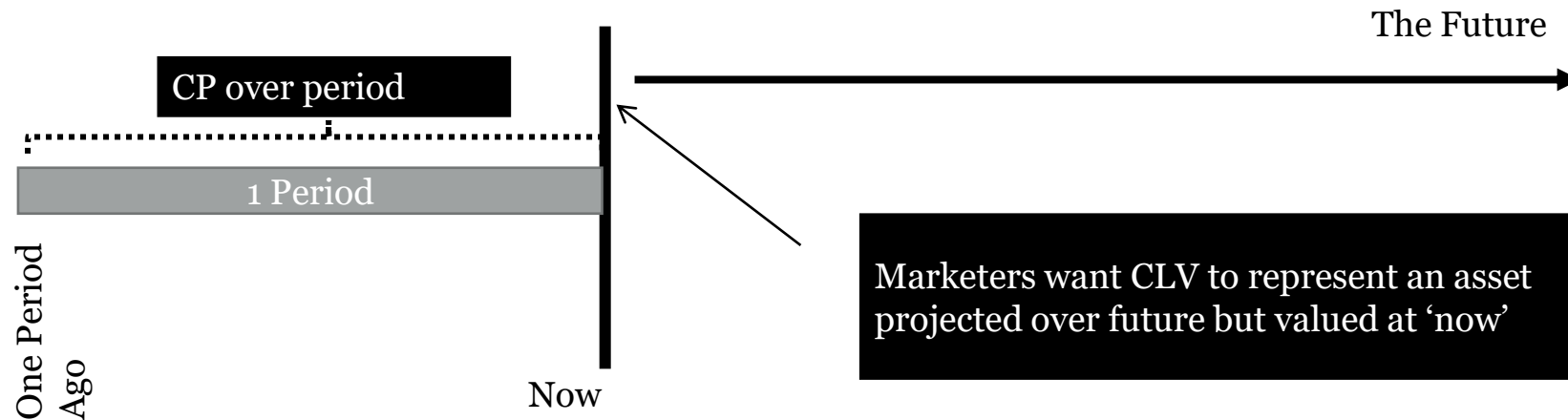
MASB's Definition Covers Different Approaches

- How to, or even whether to, measure customer value might vary by industry
- So discussions in this area can descend into how the calculations are done
- Good news is that MASB's CLV definition can, does, and should cover different approaches, e.g.,
 - 1) 'Lost for good' prediction models used with subscriptions, e.g., Netflix
 - Retention-based formulas used: e.g., infinite life formula (Gupta & Lehmann, 2006)
 - 2) 'Always a share' approaches allow for changing sales to customers each period (Gupta, Hanssens et al. 2006)
 - Used for consumer packaged goods
- Definition conceptual and so agnostic about formula/precise approach
 - We don't need to conclude that one, and only one, approach works



How Can MASB Help? Common Language Dictionary

- MASB has already got much of what is needed in place
- Can boost common language dictionary definitions
- Also outline how definitions fit together
 - E.g., CLV and customer profit: 'Customer profit is the difference between the revenues earned from and the costs associated with a specific customer relationship during a specified period.' (MASB Common Language Dictionary)



- **TASK: HOW CAN WE DEVELOP AND PROMOTE THE COMMON LANGUAGE DICTIONARY TO AID THE FIELD OF CUSTOMER MEASUREMENT?**



External Customer Reporting



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Where We Are: External Customer Reporting

- Significant interest in external reporting on customers (McCarthy & Fader 2020)
- Corporate valuations can be created by investors, analysts etc... using disclosed customer data (Markey 2020) , e.g., retention rates
 - Can require considerable technical skills & Data limited or presented in inconsistently/confusingly
- Many undertaking this task look to finance (rather than marketing) for ideas
 - e.g., some use term RLV, residual lifetime value for a current customer, rather than CLV
 - More of 'C' & less of 'M' in CMO; marketing records don't relate to what board sees
- Application is limited to predicting firm value in financial markets. It does not...
 - Tie predictions to any marketing decisions
 - Help demonstrate the value of marketing
 - Apply to non-traded organizers or firms that do not subscribe to shareholder primacy
<https://neilbendle.com/role-of-customer-equity/>
- Despite these limitations it is clearly important, MASB can have input



How Can MASB Help? External Customer Reporting

- Rob Markey of Bain in a 2020 Harvard Business Review article said

‘While we await clear standards and rules, companies should take the lead, disclosing reliable and consistent information about the progress they are making growing customer value as part of their earnings releases. Only then can investors systematically reward those investments. Three new, auditable metrics would suffice in most instances:

- 1. number of gross new customers acquired during the reporting period and number of net new customers remaining at period end*
- 2. number of existing (or tenured) active customers (existing customers are those who have been customers for a year or more; active customers have made a purchase in the past year)*
- 3. revenue per new and existing customer*

Using just these metrics, investors could readily estimate the changing value of a company’s customer assets.’

- Unfortunately, model Markey presents requires much more information

<https://neilbendle.com/stopping-undervaluing-customers-through-measurement/>

TASK: WHAT METRICS SHOULD FIRMS REPORT? HOW DO WE ADDRESS DIFFERENCES IN FIRM/INDUSTRY/BUSINESS MODEL?



MASB Marketing Metric Certification Could Help



[Home](#) > MASB MARKETING METRIC CERTIFICATION

MASB Marketing Metric Certification

The MMAP Metric Catalog: Comparing Marketing Metrics with Confidence

To fulfill its mission of linking marketing activities to financial performance, MASB offers the only independent certification of marketing measurement metrics. The [Marketing Metric Audit Protocol](#) (MMAP) includes the conceptual linking of marketing activities to intermediate marketing outcome metrics to cash drivers of the business, plus an audit that examines how the metrics meet 10 characteristics of an ideal metric.

For measurement providers, MMAP offers validation of a metric's usefulness via a process that reveals strengths and weaknesses, often resulting in the metric's improvement. See [MMAP ENDORSEMENTS](#).

For marketers, MMAP provides access to a catalog of independently certified marketing metrics that allows them to compare competing metrics with confidence. [MMAP INFORMATION SHEET](#)



MASB Marketing Metric Certification Could Help

MMAP METRIC CATALOG

Marketing Performance Metrics Certified by
MASB's Marketing Metric Audit Protocol

[MASB Membership Required for Access]

CURRENT ASSESSMENTS (valid for 3 years)

Brand Finance	Brand Value Rankings
Kantar Millward Brown	Meaningfully Different Framework
MSW Research	CCPersuasion
Behavioral Science Lab	BrandEmbrace
Kantar Millward Brown	Link Copy Test
Nielsen	BASES
MSW•ARS Research	Brand Preference/Choice in Tracking

PAST ASSESSMENTS

CoreBrand	Equity Construct
Blue Marble Enterprises	Customer Equity/Customer Lifetime Value
ARS Group	APM Facts



Customer Asset



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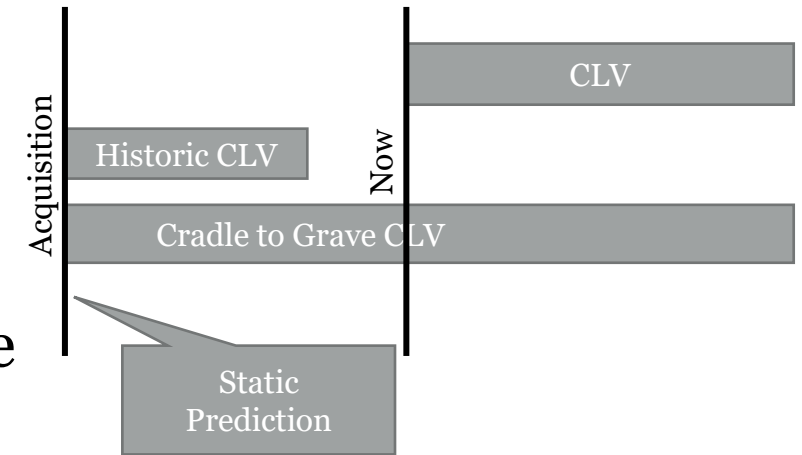
Where Are We? Lack Of Clarity In Customer Asset

- Many describe the customer asset as aggregated CLVs
- If so CLV must be a specific thing, yet different approaches to CLV are used:
- Some aim to account for everything of importance to a customer relationship in CLV in order to see what impacts the value of customers (including unidentified future customers) to the firm
 - Sunk acquisition costs are often subtracted from CLV (Markey 2020)
 - Future customers are hypothetical which loses CLV's link to individual customers
- Indirect cash flows may be added
 - E.g., word of mouth effects (Lee, Lee and Feick, 2006, Stahl, Matzler, & Hinterhuber 2003)
- Some even argue non-financial factors must be included
 - E.g., Fader and Toms 2019, Shrage 2017
- ***Question: Do We Agree CLV Should Just Be Future Direct Cash Flows Associated With Customers***



4 CLV Conceptions At Points In Time

1. CLV as customer asset is forward looking view
 - The MASB view of CLV
2. Static prediction taken before acquisition, stays same
 - **Question: Can we reserve the term LTV for this?**
3. Ended customer relationships have a backward looking value
 - **Question: Can we call this Historic Customer Value?**
4. Current customer looking back to acquisition & forward to end of relationship
 - **Question: Can we call this Cradle to Grave Customer Value?**



Conception	Just Before Acquisition	At Moment Of Acquisition	During The Customer's Life	After Customer is Lost
Static Prediction	$$$_P$	$$$_P$	$$$_P$	$$$_P$
Historic Value	0	0	0	$$$_H$
Cradle to Grave	$$$_P$	$$$_P$	$$_H + $_P$	$$$_H$
Customer Asset	0	$$$_P$	$$_P$	0

$$$$ indicates full lifetime value, $$_$ partial lifetime value
 Subscript P is prediction, H historic value



How Can MASB Help? Examine V.A.R.I.E.D Uses of CLV

- Cash flows associated with individual customers, aggregate to form customer asset
- To be consistent with financial and managerial accounting (and so allow the CMO to report the customer asset) I suggest a tweak to the MASB definition
- ***CLV, Customer Lifetime Value:*** *The present value of the future cash flows directly attributed to the customer relationship from now, or its inception, whichever is later.*
- A customer asset built on this definition can have at least six uses
 - Corporate **V**aluation
 - Customer **A**cquisition
 - Customer **R**etention
 - Internal Reporting
 - External Reporting
 - Customer **D**evelopment



Reconciling With Reporting



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Where We Are? Customer Equity (CE) & CLV

- ‘**Customer equity** is simply the total combined CLVs for all of a company’s customers’. MASB Common Language Dictionary
- Yet the different CLV definitions make CE concept unclear
 - CE aims for asset value but often subtracts sunk, i.e., backward not forward looking, acquisition costs (Wiesel et al. 2008, Kumar & George, 2008)
- Specific terms can confuse
 - E.g., static & dynamic Customer Equity (Villanueva et al. 2007)
 - Equity, in **accounting** terminology implies customer asset not directly measurable which is
 - the opposite of the intention
 - **QUESTION: Would Customer Asset Be A More Appropriate Term?**
- **Customer Asset: The sum of CLVs of customers currently in a relationship with the firm.**

<https://neilbendle.com/popular-marketing-metrics/customer-equity-nice-idea-bit-of-a-mess-in-execution/>



Reconciling CLV To Recorded Cash Flows

- To reconcile to financial or managerial accounting, and use these for accountability, cash flows involved in CLV must clearly appear in these records
 - As CLV is a prediction the cash flows occurs later but predictions can be checked afterwards
- My schema for what to include in CLV, below, work with recorded cash flows

	Current Customers	Acquisition Costs	Identifiable Future Customers	Non-Identifiable Future Customers
Cash Flows Directly Associated with Customer	IN CLV	NOT IN CLV	NOT IN CLV	NOT IN CLV
Cash Flows Indirectly Associated with Customer	NOT IN CLV	NOT IN CLV	NOT IN CLV	NOT IN CLV
Things That Can't Be Tied To Cash Flows	NOT IN CLV	NOT IN CLV	NOT IN CLV	NOT IN CLV

- I don't see how to relate future customers or indirect cash flows to accounting records which are needed for accountability so these aren't in customer asset
 - Can always separately report on prospects, acquisition hopes, WOM etc..
- **Question: Does Everyone Agree?**



Costs Are A Challenge: Customer Indirect Liability

- Including only direct cash flows in CLV means CLV can be used for marketing tactical decisions (Acquisition, Retention, Development) but leaves many costs unaccounted for
 - Necessary future costs not captured in CLV
- These costs are not directly attributable to any customer but still required to run the ‘customer business’
 - E.g., CMO salary
- These costs can be covered by a Customer Indirect Liability

Customer Indirect Liability: *The present value of customer-related costs not directly associated with any customer.*

- CMO and C-Suite should consider customer indirect liability when looking at impact of marketing on firm, junior marketers won't need to when deciding to acquire Brenda in Boise



How Can MASB Help? Customer Asset Statement

- CMOs can use customer statement, idea has been around for years
 - E.g., Wiesel, Bernd Skiera, & Julián Villanueva (2008), Blattberg, Getz, & Thomas, (2001)
 - Execution of this remains unclear; partly as they build upon early unclear ideas of CLV
 - <https://neilbendle.com/customer-equity-statements-and-financial-reporting/>
 - <https://neilbendle.com/a-customer-equity-balance-sheet/>

- Why not a simple internal & (eventually) external report on customer asset?

- Customers can be grouped by actionable segment

- All managers can use same reports but at different levels of aggregation

- CMO can report to the board & drill down for managing marketing

	Segment			Total
	1	2	3	
Brief Description Of Needs Of The Segment				
Average CLV	CLV ₁	CLV ₂	CLV ₃	CLVAverage
Number Of Customers In Segment	No ₁	No ₂	No ₃	No _{Total}
Customer Asset Value	CAV ₁	CAV ₂	CAV ₃	CAV _{Total}
Customer Indirect Liability		CIL		CIL
Net Customer Value				NCV

- **TASK: SHOULD MASB BE ADVOCATING FOR INTERNAL AND/OR EXTERNAL USE OF CUSTOMER ASSET STATEMENTS?**



Tasks

- A. How can we develop and promote the common language dictionary to aid the field of customer measurement?
- B. What metrics should firms report? How do we address differences in firm/industry/business model?
- C. Do V.A.R.I.E.D. uses represent all uses CLV should cover?
Corporate valuation *customer acquisition* *customer retention*
Internal reporting *external reporting* *customer development*
- D. Should MASB be advocating for internal and/or external use of customer asset statements?
- E. Should we launch a new MASB taskforce?

