

# Professor Neil Bendle: Why Investors Need Better Measures And Reporting Of Marketing Performance



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Our team of experts from the  
[Forbes Marketing Accountability Initiative](#)

powered by MASB works with leading CMOs, academics and experts to learn how firms are measuring and growing the contribution of marketing to enterprise value. Neil Bendle, associate professor of marketing at the Ivey Business School, is a member of the Marketing Accountability Standards Board and has developed [industry-leading research](#) and education programs to help marketers become more accountable. Below, I asked him how savvy investors are looking at the performance of marketing assets and investments in their investment analysis and capital allocations.

**Stephen Diorio:** According to our  
[Marketing Accountability Research Report](#)

, marketing investments, assets and actions contribute significantly to future cash flow and firm value. In fact, in an economy where most of firm value is made up of intangible assets, marketing can contribute most of share price

when assets like brand equity, customer loyalty, customer experience and perceptions of product quality are factored in. Is that your perspective?

**Neil Bendle:** Investors are definitely figuring out that marketing assets – like customer relationships, strong brand preference, and even distribution system – are often what create future cash flow, and therefore firm value. If marketing assets make up a highly significant proportion of firm value – as they do for firms like Disney and Coca-Cola – then we need effective measures of the value of such assets. This isn't just about accurate record keeping, it is fundamental to understanding financial performance. Consider ROA (Return on Assets), a popular way of assessing firm performance, this metric shows how well firm assets are worked. Calculating ROA is meaningless if you don't have an accurate assessment of a firm's asset base.

The same applies to the marketing investments necessary to build, maintain and enhance marketing assets. If we don't have proper records of the investments, how can we assess the return on the investment?

**Diorio:** In your recent paper, “[Why Small Investors Need Marketing Accountability](#),

Today In: [Leadership](#)



” you make the case that investors, boards and owners need more transparency into the size, nature and performance of marketing assets to make informed investment decisions. So, what are marketing assets and investments, and how do they impact firm value and share price?

**Bendle:** Part of the problem is that accountants have definitions quite different from those widely used in business. At the risk of simplifying in accounting an asset is something that accountants recognize as an asset; what is an asset changes when accounting regulations change. Yet to business people assets are simply what enables the firm to make money. Many business assets aren't

treated as such in accounting leaving financial reports seemingly unconnected to business reality. At year end the accounting book value of Apple was about a sixth of its market value. This is not atypical – Starbucks' book value was around a fourteenth of its market value.

An investment is something designed to pay off in the long run. Marketing is often an investment – upfront costs to yield future benefits. Banks giving students free tablets aren't donating to the needy but investing in a future (hopefully) profitable customer relationship. Nearly all marketing investments are treated as expenses in financial accounting which is problematic: treating investments as expenses means financial reports don't capture the substance of such transactions. It also means that marketing investments look wasteful. Financial statement users can't break out expenses from investments meaning the reports often aren't informative in respect of companies which rely heavily on marketing. Likely all the companies that first leap to a small investors' mind

**Diorio:** What is the fundamental problem?

**Bendle:** Investments should not be classified as expenses, when they are the profits detailed in financial reports are simply wrong. Users may be misled. Of course, the devil is in the detail and accounting is challenging. Yet, it is worth emphasizing just how bad the current situation is. Financial reports are nearly useless when assessing marketing. Peter Drucker famously said that only marketing and innovation create value. Key financial reports largely ignore both of these.

**Diorio:** What financial reporting is necessary to give investors a better picture

**Bendle:** I'll outline desirable characteristics. We won't get perfect reporting. But good would be a significant improvement over what we have. And at a bare minimum, outside investors need greater transparency about marketing investments and assets.

Let's start with the income statement, where marketing investments and assets are currently buried. On the income statement why do investors tolerate a massive general spending item? In general, if managers don't want to tell anyone what they are spending on - they throw it in SG&A (Selling, General & Administrative Expense). Practically all marketing – whether crucial investments in customers, brand, and systems, or wasteful spending on a CMO vanity projects – all gets lumped in SG&A. To this gets added valuable managerial expenses and non-valuable administrative fat. When you see SG&A going down is this a good sign? Well it depends – was fat cut or marketing spending vital to the future of the company? You can't know this from the Income Statement.

It would be extremely useful to see a break out of marketing expenses and investments; more detail on cost to sell, investments in customers and their experiences. Investors need more detail to get a sense of how the outlays gel with the strategy. For example, do outlays build owned digital infrastructure, are they shifting to digital media, or enhancing customer's perceptions of innovativeness? At its simplest to assess return on marketing investment (ROMI) we need marketing investment to be reported.

**Diorio:** What about the balance sheet? Isn't that where assets are typically reported?

**Bendle:** Brands and customer relationships are critical to firm success but are typically not reported. Billion-dollar brands like Nike and Ford report barely any intangible assets. A radical possibility would be to add the values of all marketing assets to the balance sheet; not just acquired brands, but also home-grown brands. While brands can be a nebulous thing, there are already several agreed upon and externally validated methodologies and standards for valuing brand assets. ISO (the International Organization for Standardization) and [MASB recently announced brand evaluation standards](#)

and there are over half a dozen vendors able to conduct market-based brand valuations using these standards. There are clearly challenges but if managers report brand valuations to their investors on a regular and consistent basis, they should improve over time.

For example, the Kellogg's financial reports, including the notes, tell us surprisingly little about Corn Flakes – their signature Brand asset. Of course, the firm is much more than Corn Flakes. But knowing the brand value of Corn Flakes is pretty important to understanding Kellogg's business. How have perceptions of brand quality changed over the year? Is the Corn Flakes brand really worth \$0? If not, are we not realizing the licensing potential of the brand?

A practical short-term solution involves reporting marketing investments in the notes to the accounts. It's reasonable to ask for much more depth in describing the mix, nature and performance of marketing investments. Notes to the accounts will give more details on the firm's other intangible assets, for example the firm's digital infrastructure. Customer relationship detail could help explain a firm's customer base. There are now sophisticated ways of assessing the lifetime value of customers (at least in "quasi-contractual" industries) and disclosures should make it easy for investors to use them.

**Diorio:** Can you give an example of where an investor made (or lost) money because of these factors? Do insights into marketing accountability give investors an edge when looking at deals?

**Bendle:** Yes. With the right information, an investor can now make a conscious decision to invest in firms with what are seen as undervalued brands compared to the market cap. There is money to be made through astute marketing investments which makes it all the more disappointing that the information provided to investors about them is pretty derisory. In fact, the New York Stock Exchange just announced

[an ETF fund that trades on undervalued brands](#)

From a defensive perspective, senior executives commonly feel that their companies are vulnerable to takeover precisely because the assets are under-reported. For example, Unilever's CEO, Paul Polman, clearly felt his company was somewhat vulnerable to Kraft because the focus on sustainable profitability was undervalued because of a failure to properly recognize the difference between investments and expenses. Other companies like the Iconix Brand Group, aim to profit from the value of brand.

**Diorio:** Activist investors are pushing brands like GE, P&G and Mondalez to cut back on marketing spending and investments in long term growth in the name of generating greater returns to shareholders. Are they pushing boards and managers in the wrong direction?

**Bendle:** This is certainly a possibility. One of the simplest ways to increase profits in a given year is to slash investments that show as expenses. Cutting (non-delivering) expenses is beneficial but cutting investments shouldn't make profits rise. Marketers are not free of blame; they often don't seriously try to justify their investments. If we don't measure what marketing investments deliver this encourages short term decisions to cut marketing that actually destroy value in the name of giving money back to the shareholders or showing quarterly EBITDA gains.

Examples of bad decisions that can be rewarded in financial reports include excessive price promotions, passing up profitable marketing investments in customers, and long-term brand building. Price promotions may often have negative long-term impact on firm value, while customer relationship strength and brand preference are associated with higher stock prices

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they indicate long-term profit potential. From an investor standpoint, allowing your brand equity to decline can hurt long term cash flow forecasts by reducing share of wallet, margins, and generate greater price sensitivity.

**Diorio:** Why isn't there more pressure on accounting to change?

**Bendle:** Perhaps it is that those hurt by current failures – small investors – are relatively weak. And those are precisely the folks accountants are supposed to protect. Large, professional investors can likely compensate for financial reporting deficiencies. Small investors might not recognize the problem or have the resources and skills to address it. They might use the common ratios, such as ROA or price to book, and not realize the fatal problems these have if your assets aren't reported correctly.

**Diorio:** To your point - you cannot manage what you cannot measure. Airlines manage yield of their airplane assets to a high degree. Farmers manage revenue per acre. Asset managers return on invested capital. There are thousands of brands worth millions of dollars in the Global 5000. Each has a manager and business unit responsible to maintain and grow its value. Wouldn't brand managers and business leaders insist on having a financial measure of how well they managed that asset.

**Bendle:** Yes. The current lack of accountability isn't good for managers. It's not good for investors. And it certainly isn't good for those who argue for marketing's value. At the moment we have a cadre of brand managers who often don't have a good idea of how much their brand is worth. How can they possibly know if they are getting a good return on the asset they are managing? Answer, they can't. In other business endeavors, you wouldn't let people manage resources who had no idea how effectively they were being employed. Retailers detail how much space each department has to see if each provides a good return on the floor space. If we want to know whether marketing is a good investment we need to have proper records of marketing investments and the assets employed by marketers.

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