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The Financial Power of Brand Preference



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Brand preference creates firm value by measurably improving profits, cash flow and share. If more financial executives understood the economics of customer behavior and the financial power of [brand preference](#)

they would be better armed to work with CMOs to generate better financial performance.

[An analysis by the Marketing Accountability Standards Board \(MASB\)](#)

shows that brands contribute on average 19.5% and in many cases well [over 50% of enterprise value](#)

when the impact of brand on firm cash flow, profits and firm value are properly measured. Academic research reinforces finding by quantifying how superior brand preference in a given category directly improves profitability, [price premiums](#)

, cash flow, market share and [share price](#)

. For example, an analysis by the MASB found a [direct linkage between brand preference and market share](#)

across 120 brands and 12 categories. And 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. 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.

But despite the financial value of brands, and the direct linkage between share and brand preference, most financial executives are skeptical about funding or approving investments to build, grow and protect them.

The root of the problem lies in the inability of business leaders to properly measure and value the contribution of brands to firm financial performance.

“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,” according to Frank Findley, the Director of the Marketing Accountability Standards Board. *“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.”*

According to
Mastercard CMO Raja Rajamannar

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, a big reason for this failure to connect brands to firm value is many CMOs who grew up in creative services “talk about jargon and marketing KPIs, which the CFO and CEO could care less about – they are looking for financial results.” The marketing technology community are throwing gasoline onto this fire. Companies selling social listening, marketing cloud, marketing performance management, and marketing attribution solutions are promising a wide variety of “ready to use” marketing KPIs based on easy to collect digital, front of the funnel, or sales outcomes measures that are supposed to easily and accurately measure the contribution of marketing to business outcomes. So many marketers are developing marketing dashboards with dozens of metrics that are easy to measure, instead of a few critical measures that impact firm value and cash flow.



As a result of this undisciplined approach, business leaders across the board fail to understand that marketing investments and actions do not create value in and of themselves. A Super Bowl ad alone will not grow your stock price or directly drive growth. Marketing investments like television advertising only create value if they can change customer behavior in predictable, scalable, and causal ways that drive business outcomes that create future cash flow and profits.

The MASB Marketing Value Chain below describes the sequence of behavioral economic effects that underlie true marketing accountability and performance measurement. Marketing investments fuel marketing strategies that change customer behaviors in ways that create downstream business outcomes that improve cash flow – by making customers choose more, stay longer, buy more, or pay more.



Measures of brand preference

can be a key lynchpin in the value chain because it predicts customer actions that can have significant business impact. 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. For example, strong brand preference can measurably impact share, velocity of sales, and profit gains by:

- Reducing price sensitivity which gives firms the ability to raise price without losing customers or drive additional volume with pricing action
- Motivating more persistent loyalty leading to greater customer lifetime value and more stable SaaS or subscription revenues;
- Generating a higher share of transactions, wallet, or shelf which increases sales and blocks out competitors;
- Garnering superior win rates on RFPs, competitive bids, and proposals.

Just knowing the relationship between brand preference and financial performance is not enough to achieve it. It's critical to be precise about how brand preference is measured and what drives it.

In general brand preference is poorly understood and hard to measure. So, marketers tend to favor quantity over quality, creating dashboards populated with metrics that are easier to measure but less causal to behavior change like brand awareness, reach, and bottom of the funnel sales outcomes. David Edelman, CMO of Aetna, echoes this sentiment in the [Forbes Marketing Accountability Report](#)

: “There are many layers to marketing performance. 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.”

Understanding Brand preference can be done by combining qualitative market research with quantitative measures to identify the three or four primary drivers of choice that matter the most and predict business impact. *“Marketers analyze dozens of reasons why customers choose their products, remain loyal or switch. The trick is to identify the primary drivers of choice and preference and focus on these as you leverage and scale your marketing program”*

according to Tim Gohmann, Chief Science Officer of Behavioral Science Lab.

His company recently underwent and successfully completed MASB

[Marketing Metric Audit](#)

to prove their BrandEmbrace® expected utility metric to be a valid, reliable, sensitive, and calibrated predictor of brand preference. The research underlying that audit was recently published in the

[2018 Behavioral Economics Guide](#). The paper

quantifies how marketers from the supermarket, appliance, and charitable giving categories were able to predict switching based on the perceived utility (or value) a customer sees in an offer, message, offering or campaign with 80% accuracy. Banks are able to use customer preference measures like this accurately identify, score, and predict which prospects are willing to switch and which customers are likely to remain loyal for a long time. This allows them to improve marketing effectiveness by allocating demand generation resources to the former, and loyalty currencies to those in between.

In practice, marketers as diverse as the United Way (Charitable Giving) and Netspend (Debit cards) have used this scientific approach have used this scientific approach to measuring customer preference to ensure their marketing investments connect with the desires of current and potential new customers to

make sure their product offerings were aligned with their needs. *“We used our marketing research with Behavioral Science Lab to develop all of the marketing strategies over a four-year period and in that time we increased online giving exponentially, and more than quadrupled end-of-year giving year over year”*, according to Heather Beckel Luecke, former VP Brand and Marketing at the United Way for Greater Austin.

Marketing organizations are spending millions on voice-of-the-customer research, dashboards and metrics with the goal of understanding, proving and growing the contribution of marketing to the business. Organizations that seek to develop financially and economically valid measures of brand preference should take the time to understand and apply the latest advances in decision science and behavioral economics. This will ensure that investment in market research and measurement will yield metrics that isolate the most critical drivers of brand preference and direct marketing dollars to programs that generate the most profits.

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I direct the Forbes Marketing Accountability Initiative where I teach CEOs, Boards, CFOs and CMOs how to prove, measure and grow the contribution of marketing to the bus...

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