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New Global Standards For Reporting Brand Value Can Help CEOs Grow Share Price



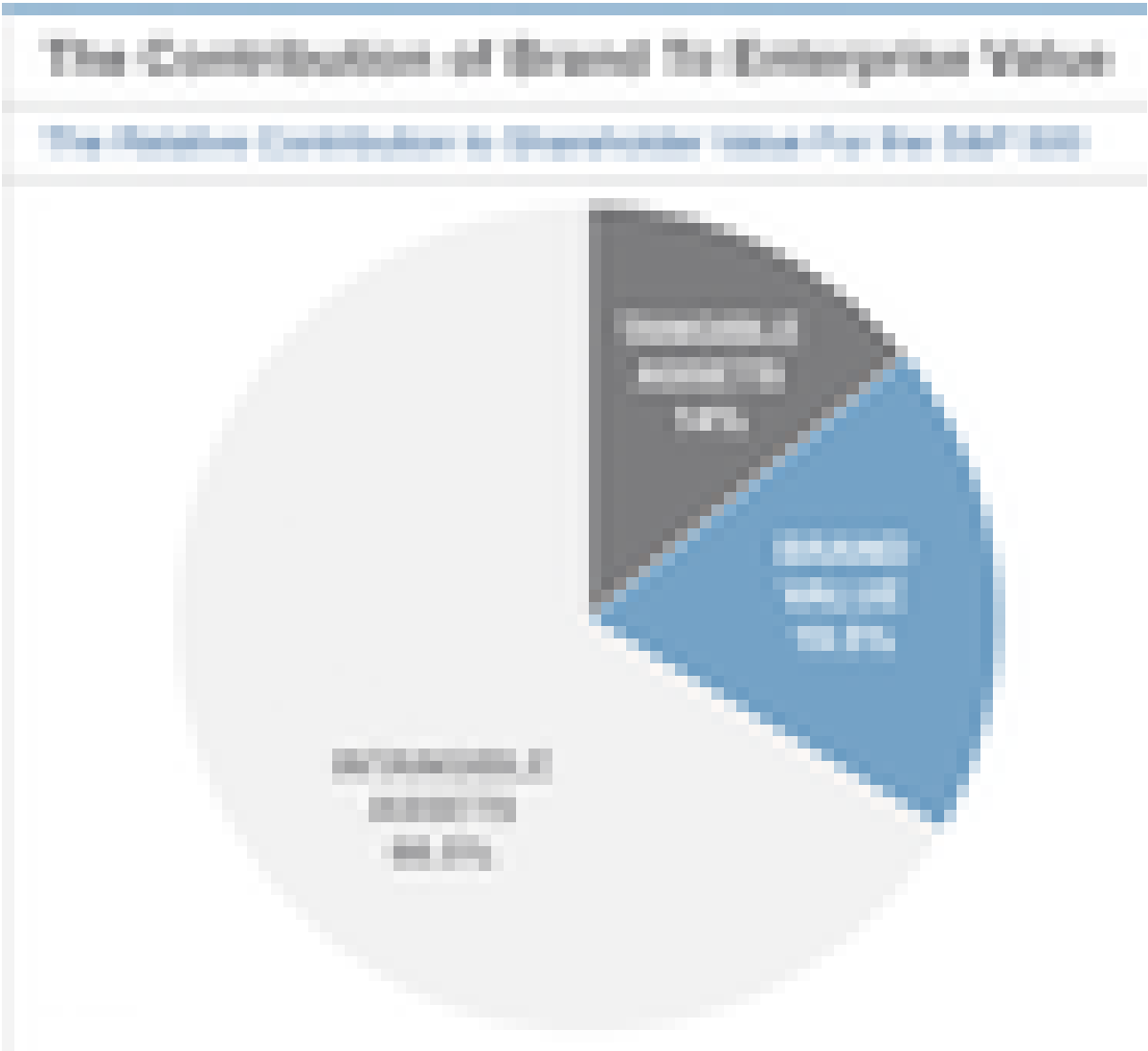
Stephen Diorio Contributor
Thought Leaders Contributor Group 
Leadership Strategy

[Forbes research](#) shows that marketing assets can contribute over 50% of enterprise value when brand, customer value add, and the impact of marketing performance are properly valued and measured. For example, according to brand valuation standards recently proposed by [International Organization for Standardization \(ISO\)](#) - brand value alone contribute 19.5% of enterprise value on average based on an [analysis by the Marketing Accountability Standards Board \(MASB\)](#). For consumer and luxury brands that number can make up the majority of shareholder value. For example, the Chief Financial Officers of consumer brands [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 the growing importance of these intangible assets on the balance sheet.

This begs a simple question – how much of the value of these assets is typically captured in financial accounts? The answer is very little.

The problem is that the current financial reporting system is a dog's breakfast of inconsistent rules that provide little information to investors about the value of marketing assets. In fact, current reporting standards actually reward short-term investments that actually destroy more firm value than they create at the expense of long-term value.

“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 Neil Bendle, Associate Professor of Marketing at the Ivey School of Business. “Brand valuation has been a hodgepodge of rule inconsistently applied and reported. For example, 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. Kellogg management commenta describes that it owns many brands of considerable value. And it does. But dig into the accounting statements and you will find a value for Pringles (which wa purchased) but not Corn Flakes, which was built internally. Does this mean the Kellogg’s Corn Flakes brand is worthless? If that is true, can we borrow it please?”



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This means that all the financial tools that allow executives to measure, protect and grow the value of business assets – appreciation, securitization, collateralization, market pricing, amortization – have never applied to the company’s biggest asset, the brand. As an illustration, imagine how effective a Corporate Treasurer would be if she were not allowed to count cash balances or value securities with market prices and ratings agencies.

This month, [ISO](#) has adopted and promulgated a new global standard for regularly evaluating and reporting brand value. Largely developed by [MASB](#), this standard was unanimously approved ISO member countries. This standard should help management and investors have clearer picture of brand value and its overall importance in the value of the enterprise. Developed over several years by branding experts from numerous fields, it covers the entire process; from brand development to brand performance to brand valuation.

“Brands are one of the most valuable but least understood assets,” according to Frank Findley, the Director of MASB, “The announcement of a new global standard for evaluating brands by the International Organization for Standardization (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.”

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 created “soft” value. The lack of financially valid and agreed upon standards for evaluating brands is a big underlying reason why 78% of CMOs have historically suffered with a credibility gap with CEOs, board and CFOs.



The Marketing Credibility Gap FORBES MARKETING ACCOUNTABILITY REPORT

The new standard represents a big opportunity for marketers to change this dynamic because to a large degree, marketers had been forced to operate with the scoreboard was stacked against them. Essentially, accounting rules have relegated CMOs to a scorecard akin to 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.

The new brand evaluation standards are even more significant to investors and owners. In the absence of consistent, comparable, and financially valid measures of true brand value, firms investing to maximize future cash flows just look like they have unnecessarily high expenses to investors. This is an underlying reason why leading brands like P&G have made themselves [vulnerable to activist investors like Nelson Peltz](#) who seeks marketing cost cuts to fund short-term dividends to shareholders. 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. And ill-founded M&A strategies. For example, Unilever appeared vulnerable to acquisition by Heinz, when in fact, [their 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.

“Reporting on brand value will inform investors of the true value and growth potential of the business and may actually attract more capital.” according to [Bobby Calder, Professor of Marketing at the Kellogg School of Management](#).

“Companies would do well to know what their brands are worth in comparison to other assets. That way 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”

As the director of the [Forbes Marketing Accountability Initiative powered by MASB](#), it's disheartening how many marketers still reference John Wanamaker's famous quote about marketing accountability in the digital age. John Wanamaker were alive today, he'd probably say – “Of course I couldn't figure out which half of marketing works. It was 1890. I didn't have data, analytics, measurement standards, attribution models, or even a calculator. What's your excuse?”

The reality is in a few short years there will only be two kinds of CMOs: those that can count and those who continue to quote John Wanamaker. The former has a golden ticket to create significant value for their companies and shareholders. The latter will soon no longer be CMOs.

You can learn more about the many ways organizations are communicating, measuring, and growing the contribution of marketing investment and actions to firm value at an exclusive executive forum Forbes is hosting on May 17 entitled “[How Marketers Can Create More Value.](#)”

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Stephen Diorio

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