Marketing Analytical Consulting

Mathematics at the Service of Marketing

Subject No 14 – October 2008

Brand, Marketing and Finances

Neither everything is "head"; nor everything is "heart". The value of a Brand lies between the "head" and the "heart".

Everyone recognizes it: brands have a value. But, which one?

Introduction

These days everyone's talking about Brand Value, if we gathered 100 definitions given by different professionals, chances are that all of them would be different (especially those given by Marketing professionals vs. those given by Financial experts).

On the one hand, only by adopting a scientific approach to the concept, will Marketing professionals be able to determine how much monetary value an effective brand management can achieve for your business.

On the other hand, the primary goal of most businesses is to attract new consumers and retain existing ones; and no one can deny that brand and the strategies developed for the brand, play a significant role toward achieving that goal.

Therefore, to arrive at an ultimate definition for the concept "Brand Value", we need to find some "common ground" between these two perspectives.

Sparking off the debate

It is clear that all of this debate goes back many years. However, the growing importance attached to intangible assets, as well as the need to find metrics that can generate measurable data for comparison and decision making, has opened the debate with a great deal of vigor

It is a fact that, in the final count, financial experts end up giving way (partly), which is evident in cases of mergers and acquisitions. Already in the 80's, Nestlé bought Rowntree for a price equal to four times its book value. And in the 90's, Philip Morris bought Kraft General Foods for a price equal to six times its appraised value.

Furthermore, we now see more and more rankings of top brands being estimated that, on average, the value of a brand name is about 20% of the total Company assets, reaching up to 40%.

Some Research Institutes and Advertising Agencies have conducted researches to meet the demand:

- Research International – Equity Engine.
- Young & Rubican – Brand Asset Valuator
- Ipsos – Equity Builder
- Millward Brown – Brand Dynamics
- Interbrand – Ranking of the World's Top Brands

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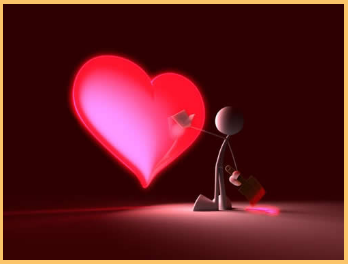
Marketing speaks to the heart.



Finances to the head.

The meeting point should lie between the two.

The Marketing Point of View

What Marketing experts propose to demonstrate is that their actions influence the attitudes and behaviors of consumers, which in the end will decide to buy or not to buy a certain brand, product or service. Consumers will make the decision, in a sense, in a somewhat subjective way (***falling in love***, in the words of Pilar Granados, Update Magazine2. September 2008 - CIMEC).

As a matter of fact, in classic “blind tests”, where people could choose between 2 products without knowing the brands behind them, results being usually close to 50/50. Whereas when the same products are offered showing the brands, customers opt for brands they recognize at approximately 70/30.

For consumers, the brand’s identity adds an extra dimension to the product or service and this extra dimension is what can be defined as “Brand Value”.

The Financial Point of View

Too the financial experts, however, the word “Value” is directly related to the word “Money” (in a broad sense).

A Marketing action will have value if it generates more Euros than it costs.

Furthermore, every asset must have an estimated monetary value, as a consequence brands are not usually included in the company’s assets.

Whenever have you seen “Brand Value” on the Balance Sheet?

The Meeting Point

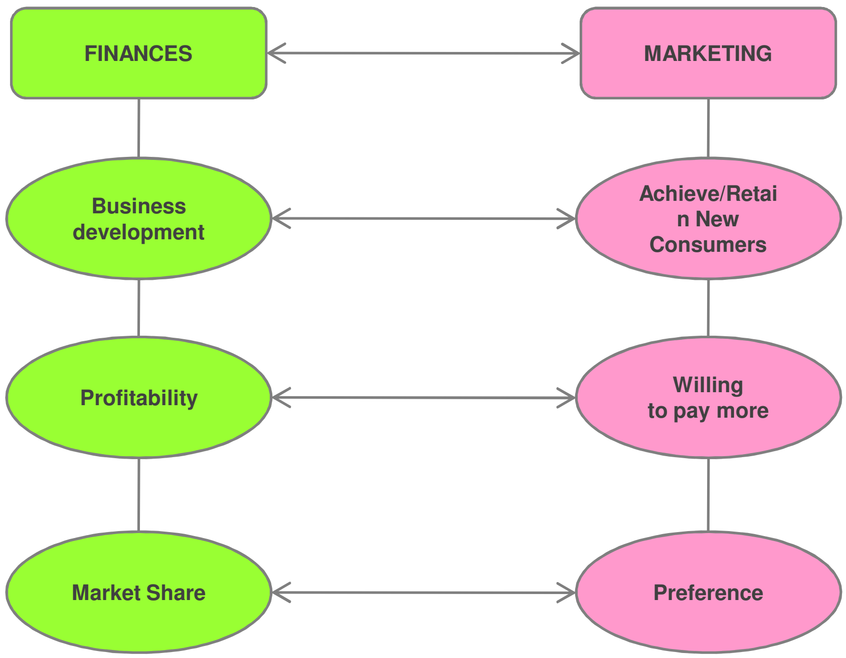
If we want to reach an agreement we should, on the one hand, recognize the validity of both viewpoints, defining under which circumstances one is more satisfying than the other, and elucidating the relationship between the two,

And, given that a greater level of skepticism is raised by the Marketing side, the burden of proof lies with them. Regardless of whether we reach a conviction, based on theoretical considerations, about how Marketing in general and brands in particular add value to companies, here we will use an analytical approach to demonstrate that a convergence of opinions can be reached.

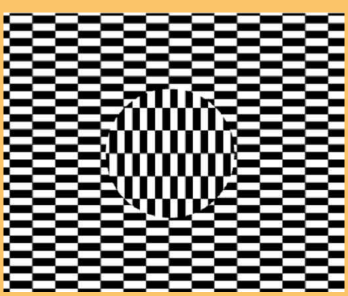
The analytical assessment of the contribution of brand strategies to the overall success of a company requires specific mathematical models. And the metrics on which they are based should be focused on the consumer, rather than on purely financial metrics. It is here where the meeting point is found, and it is a win-win encounter point.

We should translate every metric based on consumer behaviors into its financial "equivalent".

Are metrics needed to support brand strategies and justify investments? Yes, they are, and we will introduce them below. They are the so-called CUSTOMER-BASED metrics and, although exclusive to consumers, have much in common with the requirements of the Finance Department.



From a snapshot to relationships dynamics.



It is not only a matter of evaluation

Measuring the value of a brand is not the same as asking consumers to evaluate a brand according to a scale from 0 to 10.

In fact, what is really interesting is to analyze the behavior of each consumer: what are the relationships between the different metrics and what makes consumers "feel" in a certain way about a brand, therefore making it possible to relate this feeling with their behavior pattern, which will be, in the final analysis, what can confirm the "financial value" of the brand.

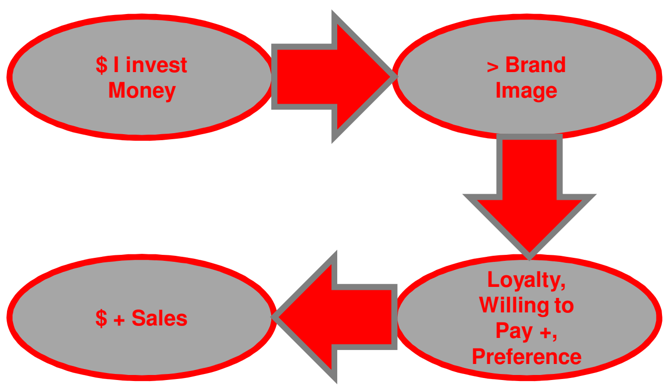
Each of the metrics on the right-hand side of the diagram above will have to be translated into metrics of the left-hand side, and adding them up, we will obtain the financial value of the brands. :

A cause should lead to an effect.. In our equation, money should lead to money.

Causal Models

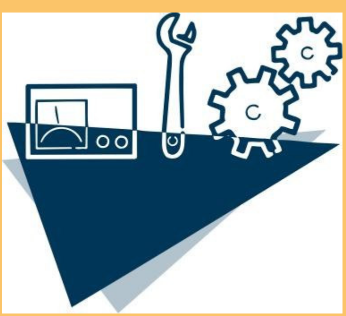
Causal Models are designed to demonstrate that a cause follows an effect. So, in the case of Marketing, following the outline previously presented, and by way of synthesis, we would be talking about 3 Causal Models:

1. I Invest money to improve brand image.
2. Better brand image will allow me to retain my customers and achieve new customers which will be willing to pay more and who will prefer my brand over other brands.
3. Improved brand preference leads to greater sales.



This type of Models need data from some previous study carried out on consumers, but they are as valid for measuring effectiveness and decision making as the Sales data from Nielsen or from IRI.

Once the Models have been validated, we need to translate the conclusions into financial language (profits, profitability, ROI, etc.).



We should be able to come up with figures on brand image maintenance.

Where the difficulty lies

It takes a considerable amount of trouble to “move” some variables, like the brand image variable.

If over a two year period a brand has been given a average rating of around 8 out of 10, it means that consumers generally perceive this as their image rating, and all the marketing efforts that were made over those two years did not succeed to change it…… but they did maintain it.

We should be able to translate “maintenance” into business value… especially these days.

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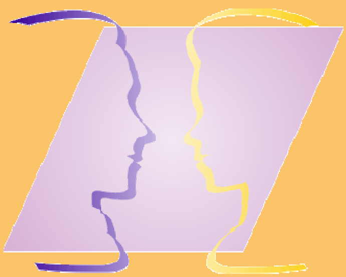
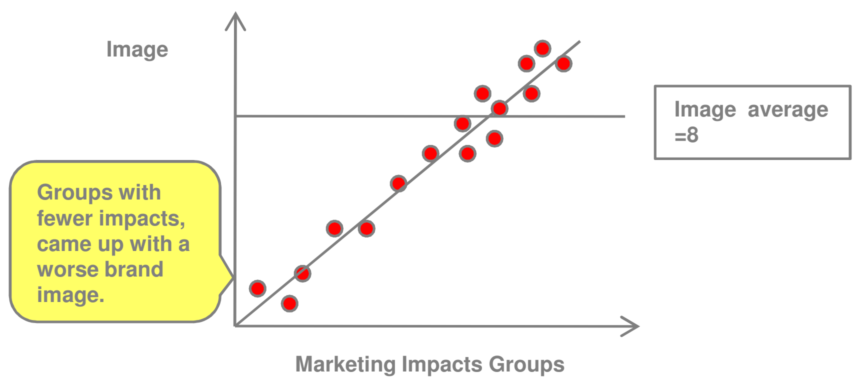
There are equations that can transform an approach to another one.



To that end, instead of dealing with data types longitudinally (ad-hoc studies), we'll do it transversally (for consumers with a different brand image rating we will demonstrate that preference is smaller). Then we will take that learning into the longitudinal datum (brand image remained at 8 on average, not going down to 7, which would have had the following negative consequences).

How can we know that if we keep on doing what we do, we might not be losing profitability, that is to say, how can we know if with less effort we could still maintain our brand image? A good way to measure this would be to conduct our survey both among those consumers with greater exposure to our Marketing actions, and among customers with a lower exposure to them (making 10 groups, for example). Graphically:



If fewer Marketing impacts had been achieved, the average brand image rating would have gone down, consequently preference would be negatively affected, and in the final analysis, so would Sales.

The value of "Defense" is crucial.

Conclusions

There is a Meeting Point between Marketing and Finances for brand assessment.

Brand value from a Consumer-Based focus can be translated into clearly financial parameters.

We need to move away from looking at things from an "Attack" standpoint (what can I achieve in the short-term?, how much can I make?, what can I win?), to considering the value of the the "Defensive" standpoint (what is the cost of maintaining my brand at a specified value?, what is it cost of not losing ground?).

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