How to Create Accountability for Brand-Building Investments

By Gregory Milano

There are two general categories of marketing: promotion, such as coupons and point-of-sale displays, and advertising, such as television ads and sponsorships. While promotion drives current sales, advertising can create longer-term consumer desire which can impact both current and future results depending on its objectives and effectiveness.

Companies driven by quarterly and annual financial goals often focus their marketing efforts on promotion to deliver current-year sales. Yet in doing so, I believe they miss a more significant and sustainable opportunity to create value through brand building.

With inflation this past year hitting its highest levels in four decades, companies seeking to maintain profit margins had vastly different levels of success when raising prices. Some with strong brands maintained market share when raising prices. But if your brand is not as meaningful and unique to consumers, you can risk losing market share when raising prices.

Prioritizing Advertising over Promotion

When I discuss this with corporate leaders, they often agree but point out that many investors focus on quarterly results—and promotions often give more short-term bang for the buck. There are investors, though, who think more longer-term. Consider the case of Heinz in 2006 when Nelson Peltz of activist Trian Partners took a large position in Heinz's stock; he described how Heinz "should reinvest … funds in the Company's brands through increased consumer marketing and product innovation." Peltz understood that brand-building through better marketing and innovation frequently produced much greater cumulative value.

Data-Backed Evidence: Purpose as Differentiation

In a CFO article I helped write, using BERA's brand database, my colleague and I examined the link between brands and corporate performance and valuation. Our findings showed that strong brand scores were associated with more growth, higher profit margins and better returns on capital. We found a positive relationship between valuation multiples—such as price-earnings and EBITDA multiples—and different brand metrics. Effective brand-building investments in "meaningfulness" and "uniqueness" led to higher valuation multiples, demonstrating that investors expect brand-building investments to increase future cash flows.

I took this brand research further with another colleague and some associates at Chief Executives for Corporate Purpose. In 2020 and 2021, we published studies showing that brands perceived by consumers as operating with above-median purpose scores had higher growth, profit margins and returns on capital as well as stronger valuation multiples and superior total shareholder return. Our results showed that purpose can indeed be a source of differentiation.

There is plenty of corroborating research by others as well. For example, in 2009, professors Natalie Mizik and Robert Jacobson published "Valuing Branded Businesses" in the *Journal of Marketing*, using brand data from Young & Rubicam's Brand Asset Valuator, and found "that brand metrics have statistically significant associations with valuation multipliers."

Financial and Brand Metrics

I think this extensive capital market research facilitates two important ways to align finance and marketing teams on a shared goal of value creation. You can reshape how your company allocates marketing resources and improve manager accountability to deliver a return on that investment.

By integrating financial and brand metrics, you can develop objective, fact-based grounds for allocating marketing resources and holding managers accountable. With younger companies still growing their brand, it's usually better to sacrifice current profits by investing more in brand-building advertising. In such cases, instead of having to wait quarters or years to assess payoffs, you can hold managers accountable almost immediately for whether brand differentiation has improved in the eyes of the consumers. If it has improved, lower current performance is more than offset by the increase to the implied valuation multiple. In other words, the value of the brand is higher, even with lower current earnings.

To illustrate this, consider a brand investment that reduces profits by 10% and is expected to improve brand scores and drive the valuation multiple up by, say, 20%. The overall value of the brand will be higher. After the fact, if the brand metrics improve less than expected, the valuation multiple might increase by only 15%. In this case, it still was a good investment since this more than compensates for the decline in profits.

Applications

There are many applications for this. When a brand manager submits a plan, corporate staff can objectively check if they are investing enough in brand building to deliver the planned growth and profit margin. When they seek approval of specific brand investments, brand and financial information can be combined to develop a new and useful view on whether the investment has a positive net present value (NPV). And if an advertising spend is supposed to move the meaningful and uniqueness scores by a certain amount, you can evaluate progress in project "look-backs." Such periodic reviews should ask whether the increased investment led to enough brand score improvement to be worth the investment. Based on these reviews, multi-brand companies should reallocate resources to the brands with the best return on investment.

You could even take this so far as to create an incentive plan based on a proxy share price for a brand, using financial and brand information with the brand manager treated like an owner with full accountability for financial performance and brand health. With such measures in place, I believe managers are less likely to turn to promotions and discounts to meet arbitrary, near-term revenue targets—and more likely to focus on the actions needed to produce sustained growth and pricing power over time.

Although these applications are viable and exciting, I believe most companies should start small by collecting brand data and financial information for their brands to see if they are indeed allocating brand-building investment in a manner that optimizes value creation. Then they should integrate these analytics into their planning and decision-making processes. If that goes well, you can contemplate the accountability ideas mentioned above. In the end, I believe that those who embrace this innovative approach are likely to drive better long-term value creation.

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