A New Approach to Marketing Investment and Brand Value
Introduction

One of the most challenging problems in marketing is determining the likely impact of advertising and promotion investments on the value of a brand. The problem has three root causes: (1) the true economic drivers of brand value are not clearly specified; (2) the way in which marketing investment impacts the drivers is not well understood; and (3) there is no reliable way to measure and monitor the drivers and their KPIs.

In most companies, mix modeling is used to estimate how marketing investments will impact volume, sales and profit contribution. While mix models can be helpful, relying on their forecasts presents two big issues. First, the models are built using historical data and the past is seldom prologue in today’s fast moving environment; second, the models seldom, if ever, incorporate how marketing investments change consumer perceptions and how these changes impact brand value. By ignoring this crucial relationship, mix models tend to be biased toward promotions that offer short-term lift often at the expense of long-term brand health. In addition, the financial impact of brand response is typically far larger than the volume response – for some brands, 2 to 4 times larger. This is because brand perceptions are key drivers of the brand’s value multiple while the volume response only impacts current earnings at the margin. The exhibit below provides a high level view of how both volume response and brand response can be linked to provide a comprehensive solution:

Exhibit 1: Overview of Model

<table>
<thead>
<tr>
<th>Marketing Investment</th>
<th>Volume Response</th>
<th>Brand Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Spend-to-Score”</td>
<td>“Domain of Mix Modeling”</td>
<td>“Issue for Some Brands”</td>
</tr>
<tr>
<td>“Score-to-Performance”</td>
<td>“Spend-to-Score”</td>
<td>“Issue for Some Brands”</td>
</tr>
</tbody>
</table>
**Understanding Brand Response**

We believe understanding brand response and linking it to brand value is a significant new innovation. To understand how the innovation works, we first need a model that connects brand perceptions to brand value so we can identify the key drivers, and then second need a way of measuring the change in perceptions and estimating how they will impact brand economics and value.

This model we use is illustrated below.

![Brand Economic Framework](image)

The model is based on the classic discounted cash flow analysis familiar to all CFOs. Cash flow has two key financial drivers: profitability and growth over time (e.g., high profitability and low growth generate a lot of cash flow). For any brand, profitability and growth depend primarily on the economics of the category (overall category profitability and growth) and *the brand's differentiation position*. When a brand is highly differentiated, consumers are willing to pay a significant price premium that translates into higher margins, gains in market share or both. And if the nature of the differentiation advantage is difficult for competitors to match, the high margins and fast growth can be sustained over time. It is this combination - sustained high profitability and growth that produce high valuation multiples.
Digging deeper, a brand's differentiation position has two key drivers: consumer perceptions of distinctiveness or uniqueness and consumer perceptions of the brand's relevance or meaningfulness. Perceptions of uniqueness cause consumers to be willing to pay a premium price for the brand while meaningfulness causes the brand to be purchased at high volume since it appeals to a large audience. Niche brands are those that are very unique but not very meaningful or relevant; commodity brands are very meaningful but not unique. The sweet spot of differentiation is a strong combination of both uniqueness and meaningfulness. Other perceptions such as awareness and regard have roles to play in the buying decision but it is these two that link directly to brand economics and value.

Measuring the levels and changes of a brand's uniqueness and meaningfulness requires a large, frequent and consistent survey of consumers which is what BERA Brand Management (BBM) has developed. The BERA survey is the largest, most comprehensive data base of brand perceptions in the industry. The survey gathers 20,000 responses per week and includes over 4,000 brands in 200 different categories. Using a proprietary, on-line questionnaire, the survey gathers perceptions of four key brand drivers -- the two drivers of differentiation --- Uniqueness (U) and Meaningfulness (M) plus two additional drivers that help explain a brand's current performance -- Familiarity (F) and Regard (R). For each of the four, BERA identifies how consumers perceive the role of the Five P's -- promotion (includes all marketing communication), product, pricing, place (distribution) and people (customer service).

In addition, BERA segments the market for the brand by 'consumer engagement', providing estimates of the size of loyal consumers, switchers, prospects, win-backs, lapsed consumers and rejectors. The ratio of loyals-to-switchers (L/S) is of particular interest as it provides information on the durability of a brand's differentiation position -- the higher the L/S ratio, the more sustainable the advantage. This has an important and direct impact on brand value since the longer the duration of a differentiation advantage, the higher the stream of cash flow. (For more information on the survey and how it can be used, click on this link www.BERAfindlove.com).

Linking these measures of differentiation to brand value requires two steps depicted by the two legs of the southern path in Exhibit 1.

First, the ‘spend-to-score’ relationship for a brand can be estimated in two ways: by analyzing historical spend and score data to build a predictive model and by running highly tailored surveys that re-contact participants in the big BERA survey. The base level of U and M are established and then the respondents are asked to re-rate their brand perceptions in light of
the marketing investment (new advertising, promotions, changes in functional performance, etc.).

Second, the ‘score-to-performance’ relationship can be estimated using a predictive model that based on how changing U and M scores correlated to changes in profitability, growth and value multiples for 200 mono-brands from 20 sectors. For example, in one category, a 1% increase in U and M resulted in a 3% increase in the ratio of brand value-to-revenue so for a brand with revenue of $1B, a small 1% increase in both U and M would be worth in the zone of $30m. In addition to the predictive model, we can use the brand value model to solve for the required increase in U and M that will cause the marketing investment to ‘break even’ (zero net present value) which, in light of all the BERA data on U and M scores enables better judgement calls to be made.

**A Note on Volume Response**

As mentioned above, mix models estimate volume response based on rigorous statistical analysis of historical data. There are two additional ways that volume response can be estimated. First, one can use a tailored survey to ask questions about purchase intentions. This is particularly powerful if respondents to the BERA survey are re-contacted so both the volume and brand responses come from the same people. The big issues with survey-based volume responses is the difference between what people say they will do and what they actually do. To correct this, BBM partners with Lin Consulting which has proprietary algorithms that adjust raw responses based on a large data base of surveys done over 30 years (Dr. Lin was a founder of BASES now owned by AC Nielsen).

In the last few years, a second approach has been developed to predict volume lift based on in-market testing. BBM has partnered with a highly innovative firm called Applied Predictive Technologies ([www.predictivetechnologies.com](http://www.predictivetechnologies.com)) that has patented software enabling either back testing of "natural experiments" or running highly controlled and efficient A:B tests of marketing investments.

So there are now three ways to estimate the consumers’ volume response: use traditional mix models based on history, use tailored surveys with adjustments that provide current intent and use in-market testing to provide actual lift data from a sample of consumers.

As noted in Exhibit 1, there are two parts of the northern path between the marketing investment and brand value. So far we’ve been addressing the first part – estimating the volume response. The second part involves translating the volume response or lift into brand
value. For those brands that are highly profitable as measured by ROI (earnings divided by capital employed), incremental earnings contributed can be linked to brand value by a simple value multiple. But for brands that have ROIs in the 5% to 15% zone, a reasonably positive volume response may not translate into much, if any brand value. This is caused by not allocating all costs and assets so positive contribution may not generate positive net earnings and also by the math of brand value creation – when a brand ROI is near its cost of capital (typically around 10%), increasing volume has a muted effect on brand value. For these brands, a more rigorous value analysis should be undertaken.

**Using the Full Marketing Investment to Brand Value Model**

The easiest way to visualize the results of the two different paths is to plot the location of specific marketing investments on a simple matrix where the y-axis shows the volume response and the x-axis shows the brand response as seen below.

![Exhibit 3: Combined Impact of Marketing Investments](image)

The northeast quadrant is nirvana for marketing professionals as the investment produces both positive volume and brand responses on brand value -- the classic win-win investment. Equally clear is the southwest quadrant where investments diminish brand value both ways (lose-lose). The other quadrants are more interesting and challenging.
In the northwest, the investment adds brand value from volume lift but diminishes value by reducing the brand's differentiation position. This is the area that many marketing professionals fear since the odds are pretty good that the investments in this quadrant are dominated by promotions. When effective, promotions provide significant lift in revenue with high ROMI estimates. However, promoting too much can damage the brand equity by lowering consumer perceptions of uniqueness (commoditizing the brand).

Investments in the southeast quadrant offer a similar dilemma only here there is no near-term volume lift while the survey responses tell us BERA scores will increase. This then is a classic investment problem -- will the volume hole we dig in the near-term produce a big enough treasure in higher differentiation to make it worthwhile?

While we have been elaborating on how the matrix can be used to evaluate the total impact of marketing investments on a single brand, the matrix can also be used to analyze a portfolio of brands. By plotting the two responses to the A&P investments supporting each brand, it is possible to identify opportunities to redeploy resources across the brand portfolio.

**Case Study**

BERA Brand Management has used the complete brand value model for several clients in the past year. For one client, the model was used to evaluate a new campaign that emerged from a detailed state-of-the-brand analysis. The SOTB revealed that the client's brand had average Meaningfulness scores but a low Unique score relative to the category averages and two direct competitors. It also had a lower mix of loyal consumers and a higher mix of switchers than the category. In addition, consumer felt that the technology used to provide the service was getting stale and the service was falling behind in ease-of-use. In response, the client and BBM team came up with an idea to buy a new complementary device that could be easily integrated into the brand's service offer solving the ease-of-use issue and providing the impression that the core technology was cutting edge. In addition to the functional enhancement, the campaign included a substantial marketing investment -- giving away the new device in exchange for a two year service contract with at a low promotional price accompanied by $25m of advertising.

Since the core part of the campaign was a new device, historical data couldn't be used to estimate consumer response so we worked with Lin Consulting to field a tailored survey. The survey asked a large sample of both existing subscribers and prospects to respond in terms of both purchase intent and brand perceptions. Lin then used its proprietary algorithms to
discount the stated purchase intent so they could provide a more accurate volume response. The results indicated the campaign would be a win on both dimensions.

The adjusted volume response was very positive, indicating a lift that translated into an increase in brand value of roughly $75m. The brand response was also very positive – Meaningfulness rose a bit but the Unique score rose by nearly 10 points when respondents were presented with the new offer and advertising. Using the predictive model mentioned above, we estimated the increase in BERA scores would translate into nearly $125m in additional brand value. Combining the two produced a total net value added of around $200m, a clear win-win investment given the investment of $50m (a detailed case study is available).

**Conclusion**

The two main innovations of this new approach are the ability to accurately assess the key consumer perceptions using the BERA survey and a robust economic model that links perception data to brand value. There is a third innovation -- integration of brand value analytics into a holistic process capable of producing better, faster resource allocation decisions. This process, illustrated below, cuts across the typical organizational silos and is highly automated using compatible software-as-service platforms that combine deep consumer insights with robust economic modeling, in-market testing and brand tracking.

### Exhibit 4: Integrated Resource Allocation

- **New Facts**
  - "BERA SOTB + Baseline Value"

- **CREATE**
  - "New Ideas and Options"

- **ANALYZE**
  - "Consumer Responses and Value Impact"

- **TEST**
  - "Design, Execute and Interpret"

- **TRACK**
  - "Consumer Perceptions and Financial Results"

**Strategic Partners:**

- BERA Brand Management (facts, CREATE, ANALYZE, TRACK)
- Draftfield Analytics, Inc. (Facts, CREATE, ANALYZE)
- Lin Consulting (ANALYZE)
- Applied Predictive Technologies (ANALYZE, TEST)
We refer to this process as CATT since it involves Create-Analyze-Test-Track activities. Since we believe that a single firm is unlikely to be capable of delivering the best-in-class solution for each of these activities, BBM has combined the talents and assets of several other firms into a strategic partnership capable of serving all B2C as well as most B2B companies. We welcome the opportunity to provide additional information on any or all of these activities.