

Are Shareholders Entitled to Marketing Metrics?

In all the hubbub surrounding the quantification and measurement of brand value, one side discussion seems to be lingering unanswered: "What should we report to the shareholders?"

In an era in which the gap between company market and book values is increasing, "intangibles" like market strength, pricing power, customer loyalty, and brand values are constituting a larger and larger portion of the company's worth. It therefore stands to reason that investors and analysts would like to know more about the value of these intangible assets so they can fairly value their holdings and make intelligent decisions.

Commonly Discussed Marketing Metrics

Here are a few of the most commonly disclosed (in annual reports) marketing metrics not required by the SEC.

- Market Share
- Distribution Gains
- New Customer Gains
- Customer Satisfaction
- Sales from New Products
- Customer Awareness and Attitudes
- Price Sensitivity
- Loyalty/Retention

For decades, companies have been making qualitative statements in their SEC filings about "growth in market share" or "improvements in customer satisfaction," but rarely do they report anything so concrete as actual quantitative measures of such things, and hardly ever are those measures compared directly to the prior year's measures (unless they happen to be spectacularly positive).

Aren't shareholders, the capitalist risk-takers and legal owners of the company, entitled to know more about the effectiveness of management as stewards of brands and customers?

Advocates for more complete marketing disclosure argue that there are three good reasons to share detailed marketing metrics with Wall Street:

- You can increase share price by providing the markets with better insight into the power of your intangible assets and their untapped potential, particularly if you beat your competitors to the punch.
- Share price increases often correlate to lowering the company's cost of capital, making the business more cost-efficient and freeing capital for additional investments.
- You can demonstrate the creation of economic value beyond the balance sheet.

Yet those who oppose public disclosure of marketing metrics often cite a formidable list of cautions including:

- The terminology of marketing metrics is not universally defined or understood, thereby increasing the likelihood of confusion or misinterpretation – particularly amongst analysts or the media, who will twist meanings and speculate mercilessly.
- The complexity of the message may put its relevance beyond the interest of most shareholders or their ability to evaluate it.
- Once you start disclosing, it's very difficult to stop without sending a message of bad performance or loss of focus.
- Competitors will feast on whatever you share, gaining insights into your weaknesses and finding ways to use the information like a stick to beat you with.
- The calculations applied to brand value assessment are still highly subjective and as such may invite criticism when evaluated using alternate methods.
- Variability in reported metrics between periods or sources owing to methodological issues or marketplace fluctuations might amplify share price oscillations, detracting from the perception of stability.

Furthermore, many opponents add, interested shareholders already get plenty of insight into marketing effectiveness through direct (e.g., sales figures) or indirect (e.g., firsthand experience) proxies of marketing metrics, the implication being that additional facts and figures would be mostly redundant.

But the primary reason most managers oppose reporting marketing metrics to shareholders is the belief that shareholders have a right to expect financial performance information but should leave the management of the company to the professional managers.

A review of the research and academic literature on the subject seems to conclude that these objections, while strongly held and to various degrees true, are temporary obstacles to the inevitable. As the multiple of market cap-to-book values continues to grow, the pressure to report on critical marketing metrics will increase. In particular, we anticipate increased emphasis on customer satisfaction measures, which have been found in some research to be a leading indicator of increased profitability.

While we concede that brand value isn't a good predictor of near-term financial performance – owing to the more direct P&L impact of other economic factors such as investments, fixed expenses, competitive activity, etc. – we believe sooner rather than later companies will have to find ways to more clearly demonstrate the effectiveness of their significant marketing investments.

One final thought: It seems to us that if companies were committed to reporting brand asset value and key marketing metrics to the investment community, the level and quality of focus on these metrics would only increase dramatically, and that can only be good for marketing as a discipline.



For a more detailed review of the issues, we encourage you to see ...

Market Metrics: What Should We Tell the Shareholders?

Tim Ambler, Patrick Barwise, and Chris Higson

London School of Business

Available for £15 at http://www.icaew.co.uk/index.cfm?AUB=TB2I_53236.MNXI_53236