

Q&A with Jonathan Knowles: Vulcans, Earthlings and MarketingROI



Jonathan Knowles, the founding partner of Structured Intuition, specializes in aligning brand/marketing strategy with business strategy. His career includes six years in banking, three years in management consulting, and 10 years of brand consulting. He is the author of more than 20 articles on various aspects of branding and is the co-author (along with David Rutherford) of the recently released "[Vulcans, Earthlings and Marketing ROI](#)." He recently spoke with MarketingNPV about the new book and the relationship between marketing and finance.

Why did you write this book?

I've long believed that there are two dominant worldviews in business. The first is the "reason and logic" view of the Vulcan; the second is the "behavioral" view of the Earthling. As a generalization, the Vulcan worldview predominates in the finance function of organizations and the Earthling worldview predominates in the marketing function. The goal of the book is to promote greater understanding, respect, and collaboration between marketing and finance.

Is this all about finding a common language between marketing and finance, or is there more to it than that?

It is about creating the basis for active collaboration, not just mutual understanding. Active collaboration is vital because it enables companies to formulate more effective strategies.

Let me illustrate what I mean using the concept of value. Among marketers, value is generally viewed as a customer concept – it represents the ratio of the perceived benefit of something relative to its price. Among finance professionals, value is generally viewed from a company perspective – it represents the excess of revenues over economic costs.

Working in isolation, each discipline will tend to produce strategies that are suboptimal. Marketing will develop strategies that over-deliver on customer benefit, and finance will tend to take customer benefit as a given and focus on efficiency and cost reduction.

Effective strategy formation requires the optimization of the relationship between customer value and economic cost structure. It therefore requires active collaboration between the two disciplines because marketing understands customer value and finance understands economic cost structure.

To give an example, the concept of Smirnoff Ice was the direct result of collaboration between the Smirnoff marketing and finance teams. The marketing team was concerned with how to expand the number of "usage occasions" for the brand; the finance team was concerned with how the company could gain a share of the largest profit pool in the

alcohol industry – that of the beer industry. It was the combination of these perspectives that led to the invention of a new product category.

The book talks the need for an “accountability culture” – how do you define this?

It is a culture of situating every business decision within the context of the overall strategy of the business, and the desire to add to the value of the overall business – not just generate revenues or cost savings for one function of the business.

My observation is that marketers frequently assume that “accountability” means “ROI” or “valuation.” In my experience, a financial model is very rarely at the top of senior management’s wish list from marketing. Rather, what they want is reassurance that the marketing strategy is aligned with the overall business strategy and an understanding of the business metrics that the marketing strategy is designed to impact.

I’m constantly surprised by the number of assignments that I have been involved with where, at the outset of the assignment, a valuation model was one of the stated deliverables. But after we’ve been through the process of creating a marketing strategy that is formulated in business terms – explicit definition of the core audiences and desired behaviors – and it is time to start scoping out the measurement model, the client says that they no longer feel the need for a formal valuation model. Their needs have already been met, because what they were really looking for was accountability in the *process*.

Very rarely is senior management looking for a point forecast of the value of the marketing strategy. What they want is an explanation of how the strategy is adding to customer benefit and at what cost to the business, and the key metrics on which progress can be measured. They want to know that marketers are developing strategies with the explicit objective of adding value to the overall business.

Talk about your perspective on brand equity.

I believe that marketing and finance have fundamentally different concepts of brand equity. The marketer’s definition is to do with what customers carry around in their heads – the perceptions that stimulate them to act in certain ways.

The finance and accounting perspective focuses on the intellectual property on which the brand is based (the trademark) and the value it can generate through licensing or, ultimately, sale.

My view is that equating brand equity to intellectual property does a disservice to the total equity of the brand. It’s much more vibrant than that.

A key point of intersection between finance and marketing is the concept of brand equity as a reservoir of future cash flows. This analogy forces marketing to remember that cash flow is only generated when customer behaviors – not just attitudes – are changed. It is also a powerful way to remind finance that brand equity represents an asset whose value cannot be judged solely with respect to the current period’s cash flows.

Explain why you think ROI is not a suitable metric for brand-building.

If you look at the ROI formula, it implicitly assumes that the funds generated and invested occur within the same period. But if you’re making investments in brand building, you do not expect to earn an immediate return. The return on the investment is likely to occur over a three-to-five-year period.

Differences in the timing of the investment and the subsequent returns are much better handled via a net present value calculation than via the ROI formula.

What role should marketing mix models play?

Marketing mix models are very helpful in analyzing incremental revenue, but I am much more interested in the baseline. A marketing mix model might attribute 60% of revenue to the baseline. But what causes the baseline? In any given period, the observed level of sales reflects current marketing spending plus the impact of accumulated brand

equity. That's why you can cut current marketing spending without revenue falling off a cliff. You're drawing down on your balance sheet.

My hope for the future is that you'll actually be able to treat marketing spending in the same way as other capital investments, and distinguish between what is necessary to maintain the existing value of your asset versus what is a net addition to your capital base. I've never seen marketers make the argument that x percent of marketing spending is necessary just to stay still – much like depreciation on your capital stock.

What's the one chapter or concept that you wish marketers would universally read and incorporate into their day-to-day action plans?

I'm going to cheat and say there are two.

The first is the brand value chain concept [Chapter 3.6]. The notion of a causal model is so important from a business perspective – senior management wants to understand the logic flow of the business case for marketing investment. I believe that, because they are Earthlings, many marketers think that the case for marketing is intuitively obvious. They forget that they are dealing with an audience of Vulcans.

The second is the concept of utility [Chapter 1.12]. Marketers need to be aware that Vulcans generally regard emotion as the opposite of reason. Based on this worldview, the function of marketing is to persuade customers to do things that are irrational. Marketers need to communicate that emotion and reason are complementary sources of customer value and the goal of marketing is to provide rational and emotional reasons to the customer as to why they should do business with you.

What obstacles would you anticipate with that, and how would you suggest overcoming them?

I don't anticipate many obstacles with the brand value chain. It provides the basis for a healthy debate about how marketing works in any industry.

The notion of the "moreness" contributed by marketing is a much more complicated argument to win, because it requires convincing Vulcans to see the world through Earthling eyes. But the argument is central to the notion that marketing is more than just a stimulus/response model. The concept of brand equity rests on the idea that it is possible to create a mental predisposition among customers for doing business with you.

Who will this book benefit more: marketers or accountants?

Our primary objective was to benefit marketers and advertisers – that's why we focus the second section of the book specifically on advertising, not just the aggregate effect of marketing. We wanted to help them express the business case for marketing and advertising.

That said, we hope that the book is sufficiently "finance literate" for a finance person to be able to pick it up and think, "The authors really know what they're talking about."