Customer first thinking.

Marketing Accountability

An Interview with Neil Bendle, Chair of the Marketing Accountability Standards Board and Associate Professor of Marketing, University of Georgia

Neil Bendle:

Neil Bendle heads up the Marketing Accountability Standards Board and is the co-author of "Marketing Metrics".

They are two solitudes – operating in isolated siloes, regularly clashing with one another, insistent on their point of view. So why do finance and marketing act like they are on opposing teams? Why the rancour? The lack of respect? The budget skirmishes?

For starters, they've never shared a common business vocabulary, using terms and expressions that are foreign to each another. And neither has much interest in learning a new language. Finance holds marketing in low esteem for their negligible financial acumen. Marketing sees finance as cost-cutting technocrats, risk-averse and short-sighted. Finance has no clue what marketing does, while marketing is unable to read a balance sheet.

A big source of tension is their conflicting mandates. Marketing believes it has to spend money to make money, and subscribes to the adage that "not everything that can be counted counts". Finance believes its job is to manage costs. Marketing is a cost centre, in their view, whose spending powers must be kept in check.

The most acrimonious point of contention is their lack of alignment around the performance metrics that matter. For marketers, success usually means a gain in some intangible measure like brand awareness and preference. Marketers are giddy when their campaign results exceed expectations. Whereas finance only cares about cash flow and operating margins. They insist on knowing how marketing intends to influence those key measures. And of course marketing has no clue how to connect any of the metrics they care about to business outcomes. Marketing just knows, intuitively, that future cash flow depends on happy customers who love their brand. But finance wants proof of that assumption. The fact that marketing has no credible evidence confirms their bias that it's all "smoke and mirrors". To finance, marketing is a world of make-believe, unaccountable and at worst delinquent.

Yet for businesses to succeed, at a time when brand loyalty everywhere is up for grabs, finance needs to see marketing as an investment and not simply a P&L expense, subject to arbitrary cutbacks. At the same time marketing has to be more accountable, making spending decisions as though they were using their own money. Today marketers have no idea how much impact their spending has on revenue growth. They just know the cost of running media ads.

There are many deep-rooted organizational and cultural barriers in the way of a more collaborative relationship between marketing and finance. After all, finance looks at the business as a ledger sheet, where making your numbers is all that matters, while marketing is driven by more conceptual thinking and drawn to creative expression. The truth is, finance people will never make good marketers, and marketers will never make good accountants. Yet somehow they have to find common ground – learn to play off each other's strengths – and come up with a set of mutually acceptable measurement standards and models (like brand or customer equity). They also have to work more closely together throughout the marketing planning process, approaching every spending allocation decision as a business case for investment. Marketing should play a key role in setting the short and long-term growth objectives of the business, while finance helps with the cost/benefit analyses and shows how to optimize spending, not simply curtail it.

That job of developing accepted standards for the measurement of marketing is the singular mission of the Marketing Accountability Standards Board, a cross-industry forum of senior marketing professionals, academics and finance experts under the chairmanship of Neil Bendle. A former accountant himself, who once served as the Finance Manager of the Labour Party in Britain, he is an Associate Professor of Marketing at the University of Georgia and best known for the popular book he co-authored called Marketing Metrics (now in its 4th edition).

I started by asking Neil why he crossed over from finance to become a marketer.

SS **Stephen Shaw (SS):** What made you cross over from accounting and join the ranks of the enemy?

NB **Neil Bendle (NB)**: When I was working with the Labor Party I would chat with direct marketers - so I had some idea of what marketing was all about. But at the time I was still very much an accountant. Then I went to do my MBA and Paul Farris, who was my professor at Darden [University of Virginia], was very keen on the idea that marketing is about numbers. And of course I very much appreciated that. And so I fell into marketing that way.

Marketers, and this is somewhat ironic, are not very good at communicating to finance people what they're doing and why they're doing it. But if you think of finance as a language, you really need to understand that language to talk to people in accounting. And I think too many marketers have this idea that they're doing something good and everyone else should already be aware of that. I think as marketers we all think financial accountants just kind of hate us. They don't.

SS Do marketers get enough training in finance?

NB Probably not. One of the things I've always been keen to do in my teaching is push the numbers side, push the financial side. You know, if you're going to be a marketer, you do need to have some basic understanding of the wider business. You need to understand what the financial statements are saying. One of the things I teach my students is just go to an investor relations page, print out the accounts, now try and find the value of brand.

SS Good luck with that.

NB Yeah. The value of a brand on the balance sheet is likely to be nothing. It's called the "moribund effect", when brands go on a balance sheet and then that's it. There might be nothing in the account if it was developed internally. Or there might be the original purchase value. When you look at the accounts of a public company, the chances are you're going to have absolutely no idea what the marketers are up to. It's hard to measure the value of a brand. It really is. Especially for an accountant. If they get it wrong, people are going to blame them. If they just say, well, it's nothing, that's what the rules are, then it's pretty easy to put nothing in the accounts and you're not going to get that wrong.

SS Well, it's an intangible measure, isn't it? That makes it hard for an accountant who's used to dealing with hard auditable numbers.

NB Yeah, I mean, accountants are really bad with intangibles. We don't have a super clear definition of what we mean by a brand. And so we don't really know what we're trying to value.

SS The bigger question is not just proving the value of the brand. It's actually proving the value of marketing. How do marketers make their case to the CEO?

NB It is a big challenge. What we're trying to do with the Marketing Accountability Standards Board is bring accountability to marketing. And one of the things that we've done is put together a marketing dictionary. One reason why accounting is powerful is because when you see a financial statement, you know what the terms mean. The same should be true of marketing. So for instance, one of the things I've been thinking about recently is the value of a customer. When we say we have a value of a customer, we should have that number. People should know what it means. When you see an accountant and say our customers are worth a certain amount, then you should be able to justify that number. When we talk about customer lifetime value, we can talk about the customer asset, as long as we have a clear idea of what we mean by customer lifetime value. Why do we spend our time worrying about someone stealing the paperclips while we have no idea what the customer asset is worth? It's just doesn't make sense.

SS Let's take the example of social media. Every marketer understands that they need to have a social media presence. But that requires an investment. How do you demonstrate ROI on investment in social media, for example?

NB There are a lot of challenges. But one of the things I think we can get do is have a clear forecasting model and put our assumptions on paper. Once we get that model down on paper, I think we can start to improve it - like, when we see great activity on social media, what do we expect the long-term consequences to be? Do we expect sales to rise in the next year? If we could start doing that, that pushes back the boundary of the unknown.

SS Is the central challenge the fact that marketers don't think of the money they're given as an investment, but as a discretionary expense, to be spent on whatever they please?

NB That's a great way of saying it. An awful lot of what we do as marketers is an investment. And that's one of the great things about customer lifetime value. It allows you to start thinking about the customer as a long-term investment. If we make the investment, the value of our customer base will go up because we're treating our customers better. That's a powerful argument. If we start seeing that as an investment, it's going to be really helpful.

So why does accounting not see it as an investment? One of the central tenets of financial accounting is matching - the idea that your revenues and costs should be matched. What happens in marketing is that some costs are incurred but the associated revenues might not be realized until sometimes years later. And so the accountants are violating their own principle of matching by treating some marketing costs as an immediate spend when it is actually an investment.

In accounting, there are two different branches: financial accounting and managerial accounting. I'd love to see managerial accountants take over all of accounting. It's managerial accountants who should be creating the information for management decisions. I'm all for financial accounting having a role. But I think financial accounting has taken over. I've talked to CFOs who have said managerial accounting can do anything it likes as long as it follows GAAP [generally accepted accounting principles]. But the whole point of managerial accounting is it doesn't have to follow GAAP! In managerial accounting, if something is an investment, it can be treated as an investment. So marketers need to go and make friends with their managerial accounting buddies.

SS How do you figure out the interaction effect of using multiple channels on cash flow? Is part of the problem that marketers tend to look at channel metrics in isolation? They don't synthesize the different types of measures into a more integrated framework.

NB That's something that we've talked about at MASB, and basically, I agree with you. You can see why marketers go for the vanity metrics. They're easy. But how they fit together is often a puzzle.

One of the frameworks in our book is The DuPont Model[1]. And I think that's a really cool model. But that basic idea – the idea you were alluding to - how the metrics fit together – what drives what – how do we show those connections? It's great if you've got a lot of followers on Facebook. But I can understand why the C-suite would say our job is not to maximize the number of followers we have. No one is that interested, really. You need to show what that's driving. If we see more reviews, do we expect to drive more sales? If we have a logical chain between cause and effect, then it's much more convincing to the C suite.

SS Let me ask you about this because it truly puzzles me: why is there no specialist role in marketing as manager of integrated measurement? Someone who can confidently answer the cause-and-effect question.

NB I'm with you. Some of the analytics is fantastic in marketing nowadays but it often doesn't ladder up to higher order business measures, and I don't know why. Maybe it's because some of the analytics talent is coming from a data science background and, honestly, are still learning marketing. But it's a real challenge. I almost wish we weren't teaching marketing and finance and accounting and operations separately but providing interdisciplinary instruction where you teach all of it at once. But there's lots of reasons why professors don't want to be interdisciplinary. We just want to be viewed as a good marketing academic in the eyes of our peers - what the other academics think of us doesn't matter.

SS One of the things that MASB has done is a very effective graphic representation of the "chain of marketing effects", showing the connection between marketing investments and business outcomes.

NB That chain is really important. The more marketers think that way, the more they can start thinking, "What I'm doing is going to affect this, and this is going to affect that."

SS I want to come back to the question of brand value which we started off talking about. ISO [International Standards Organization] has now published a methodology to conduct more systematic brand valuations. Will that give marketers, eventually, the framework they need to draw the linkage to business outcomes that we've just been talking about?

NB I'm really excited about what is going on there. MASB is the representative on the ISO Standards Board. So there's a couple of big ISO standards that are relevant. There's an old brand valuation standard, about 12 years old now, which is, if I remember the number, ISO 10668[2]. And that was about monetary brand valuation. I think we can push that one further. To be honest, I think it's still fairly kind of high level. More recently, a couple of years ago, the Brand Evaluation Standard came out which is 20671[3], and I think that's really kind of helpful at getting people on the same page as to what a brand is and what do we mean by a healthy, effective brand. So if we can get international standards on what we mean by brand value, and brand evaluation, then we can start having more credibility when we talk about what a brand is. An international standard setting body has that cachet. Most business people have heard of ISO standards. And so I'm really excited by that work. You can now talk to your managerial accountants about how you start evaluating your brand.

SS You aren't too fussy about the concept of customer equity. Yet isn't that ultimately the most powerful way we can guide business and marketing strategy? After all, business is in the business of creating and keeping customers.

NB It's not because I don't think the basic concept is good. It's a great basic concept. I just want to use the term "customer asset" instead. The reason why customer equity doesn't work for accountants is that according to their rules, equity is defined as assets minus liabilities. You have an asset, you take away the liabilities, equity is the remainder. You can justify the assets; you can justify the liabilities. The equity is what's there when you've justified everything.

I prefer to send the message that customers are an asset, and we can justify it. We can assign a specific value to customers. We can list our customers. We know who our customers are. We know how much they're paying us each month. We know what their chance of being retained each period is. Once we've got that, we can come up with a pretty accurate view of what the value of that customer is. Add those together, and you've got a customer asset. There's nothing magic about it. It's a really good number. We can go to the accountants and say, "This is a number that you can audit". It's a number we can show where our assumptions are coming from.

SS Fred Reichheld argues that the only way to crack the code on marketing ROI is to come up with what he calls "earned growth rate", which really is a way of saying the cross-sell value of a customer combined with the value of a referral. If you could calculate that, he argues, you can prove the value of marketing. Is he right?

NB I think so. I think he's done some great work. And in some ways, I'm fascinated by him. I don't know him personally, but I'm fascinated by his work because he's done such a good job of putting a marketing metric [Net Promoter Score] on the map. So he's done a fantastic job. But NPS was oversold a little bit, let's be honest. Don't believe everything that's said about it. It's got some good points, but don't believe all the hype. I think "earned growth" has some nice qualities. But I'd be surprised if we could just use that one number.

SS Byron Sharp argues that expanding market share as much as possible is the path to sure growth, as opposed to focusing on existing customers. What's your point of view on his contrarian position?

NB I always like to see myself as somewhat neutral. And I know that sounds a bit wishy-washy. At the moment, I don't think our use of numbers as marketers is good enough to come up with grandiose statements.

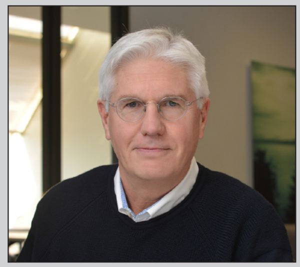
SS Last year, the Association of National Advertisers came out with a study suggesting that marketers look mostly at the wrong metrics. What are the top metrics we should be looking at to know whether marketing is making a contribution to the growth and health of the enterprise?

NB In first edition of our book, we didn't count the number of metrics. We thought it was kind of ironic not to obsess over the actual number of the marketing metrics. But people wanted to know, "These are the 50 plus metrics". But marketers have to figure out for themselves what's relevant and important to their firms to measure. And that will show they're capable of managing the business.

SS The central challenge is proving to the C-suite that marketing matters, that the investment is worthwhile. Is it possible to come up with two composite measures, one around the health of the brand, the other around the health of customers?

NB Well, that sounds very challenging, but it's a noble goal.

1. The name comes from the DuPont company that began using the framework in the 1920s to calculate return on equity.
2. ISO 10668: Brand valuation (Requirements for monetary brand valuations) specifies a framework for brand valuation.
3. ISO 20671: Brand evaluation (an integrated framework for brand evaluation).



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