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EFF WORKS

BUILDING BRIDGES WITH FINANCE

A GUIDE FOR MARKETERS

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Contents

Foreword

This is the second publication in our EffWorks series reporting on our consultancy work to create an evidence base for a new way to 'market marketing'.

Janet Hull OBE
Director of Marketing Strategy IPA

By presenting the role and function of marketing and its contribution to business growth, in terms which resonate with financial colleagues, our aim is to facilitate stronger partnerships between the marketing and finance departments in client businesses, and to foster more collaboration on business planning and investment strategies. To change the conversation with Finance, marketers need to be better at communicating the robust measurement and value of 'the bricks' used to build brands. Working together Marketing and Finance can create a new mental model of how marketing works. We are most interested in helping to develop a hybrid Marketing-Finance capability to drive positive culture change for long-term planning and reporting.

The strength of EffWorks lies in the goodwill and support it generates from industry. We are grateful to the many agency, marketing and finance professionals who have contributed to our think tanks and workshops, and to Fran Cassidy for leading the charge.

In a nutshell

Effective marketers create and grow value and their effectiveness grows the more they inspire and connect functions across the organisation.

Marketing effectiveness is increasingly a shared responsibility in organisations and one that is reliant on data to shape strategy and evaluate its success. A strong relationship between Marketing and Finance, in particular, is becoming essential. Whether the CMO role has full P&L responsibility, is focused on marcoms, or is more accountable for strategy, insight and design, a strong relationship between Marketing and Finance can deliver improved marketing effectiveness and a better evidence-based decision culture throughout the organisation.

For some marketers, this is already the norm.

When marketers can add the influence and expertise of financial colleagues to their own strengths, the combination has a better chance of driving successful marketing outcomes.

Existing behaviour

- 01 **Marketing's financial literacy is inconsistent**
- 02 **Understanding of marketing language and metrics by finance is variable**
- 03 **Marketing's focus is on spending all budget given and fighting cuts**
- 04 **Marketing creates 'marketing plans'**
- 05 **Measurement used for justification**
- 06 **Marketing and Finance present separately to senior management**
- 07 **Marketing removed from pricing decisions**

New behaviour

- 01 **Marketing's financial literacy is fit for purpose**
- 02 **A common language and metrics are agreed**
- 03 **Marketing demonstrates sensible cost control measures**
- 04 **Marketing creates 'business plans' with Finance**
- 05 **Measurement used for learning**
- 06 **Marketing and Finance present together**
- 07 **Marketing integral to pricing strategy**

01 Finance functions are drivers of business performance – not just reporters

Many of the back office, 'number cruncher' tasks conventionally undertaken by finance executives are now being completed using cloud-based technology, Artificial Intelligence (AI) and predictive analytics. This development is transforming the finance role in many organisations into one that is more focused on strategy, business development, and growth. In short, ideal partners for marketers. This is not to say that marketers should help the creation of what Anthony Tasgal calls the "arithmocracy", who believe targets and metrics can always override human judgement. Marketers can rather help reassert an approach which balances evidence, creativity and customer behaviour.

02 Do the maths

Today's marketers need better financial literacy. They need to be able to read and understand the numbers to be able to contribute to discussions on how their organisation creates value and their role within that.
They should also focus upon building their understanding of how marketing impacts pricing and margin. This impact was rarely mentioned during interviews and discussions for this project, but it can transform business value and profit. By practising greater commercial discipline and being more on top of their numbers, marketers will also be better equipped to know when to stop and change direction, and when to shelve projects that are unlikely to deliver a sufficient scale of outcome, or when to augment or innovate new products or services.
One suggestion floated in our discussions was to treat marketing effectiveness expenditure in a similar fashion to capital expenditure (capex) when it comes to allocating costs – particularly when these costs relate to investments in software and systems.
Such investments, it was argued, create future benefit and add value over time. Current financial reporting regulations may prevent organisations from moving marketing-effectiveness expenditure wholesale into the capex category for reporting purposes. But by adopting what can be described as 'a capex mindset', marketers may be better able to protect their budgets from being raided for short-term reasons.

03 Assert where you are adding value

CFOs and CEOs want to see Marketing demonstrate how it contributes to profit, organic growth and any other success metrics chosen by the organisation. To improve communication with their Finance colleagues, marketers need to set out their role and the KPIs for which they are responsible. By practising a commitment to rigour and evidence, marketers will attract more confidence in their work.

04 Use a common language

Marketers should use their naturally strong communication skills when working with internal colleagues, as well as with external customers and stakeholders. Marketing terminology should only be used when its value to the organisation is clearly understood. The use of jargon makes it difficult for colleagues to understand marketers' contribution to what matters in the organisation.
Through employing a combination of an agreed language and a sound knowledge of key financial principles, marketers can have more collaborative, confident and productive conversations, based on mutual respect, rather than ones based on conflict and confusion.

05 Show how your metrics matter

As an industry, we need to understand how marketing metrics ladder up in value to the core financial measures used in the C Suite. In particular, greater emphasis is now needed on the understanding and wider promotion of how longer-term brand-health metrics contribute to an organisation's value and the levers that can move such metrics. These metrics are harder to measure and often move more slowly than shorter-term indicators.
In the words of one respondent, brands need to "build their houses with bricks" (namely, solid longer-term metrics) rather than "with sticks or straw". But financial teams often don't have a mental model of how marketing works. Marketers need to provide them with this model.
To change the conversation with Finance, marketers need to be better at communicating the robust measurement and and value of "the bricks" used to build brands.

06 The IPA and member agencies can help

This report lists ten ways in which the IPA and member agencies can help clients' Marketing teams build bridges with Finance.

Background

Marketing is not a discrete entity. Its reach extends to most functions across most organisations.

Effective marketers therefore lead not only by focusing on creating and growing value, but also by connecting and inspiring people and teams across an organisation. This report focuses on how marketers can connect better with, and inspire, financial colleagues.

The project evolved from the *Culture First* research conducted in 2017. The objectives of that study were to establish the behaviours of those brands with more successful marketing effectiveness. The study identified five core areas: Language, Process, Capability, Toolbox and Collaboration. Several work strands were developed as a result of *Culture First*. These included the quantification of the study's findings in summer 2018, conducted by Greengrass consulting with further work into 'Toolbox' – the metrics of effectiveness-measurement by Gain Theory.

For the avoidance of doubt, when this report uses the term, 'language', we mean the language and communication used between Marketing and other functions, including Finance. We use the term 'Marketing' to refer to those working across the Marketing function, though we realise the terminology differs by organisation.

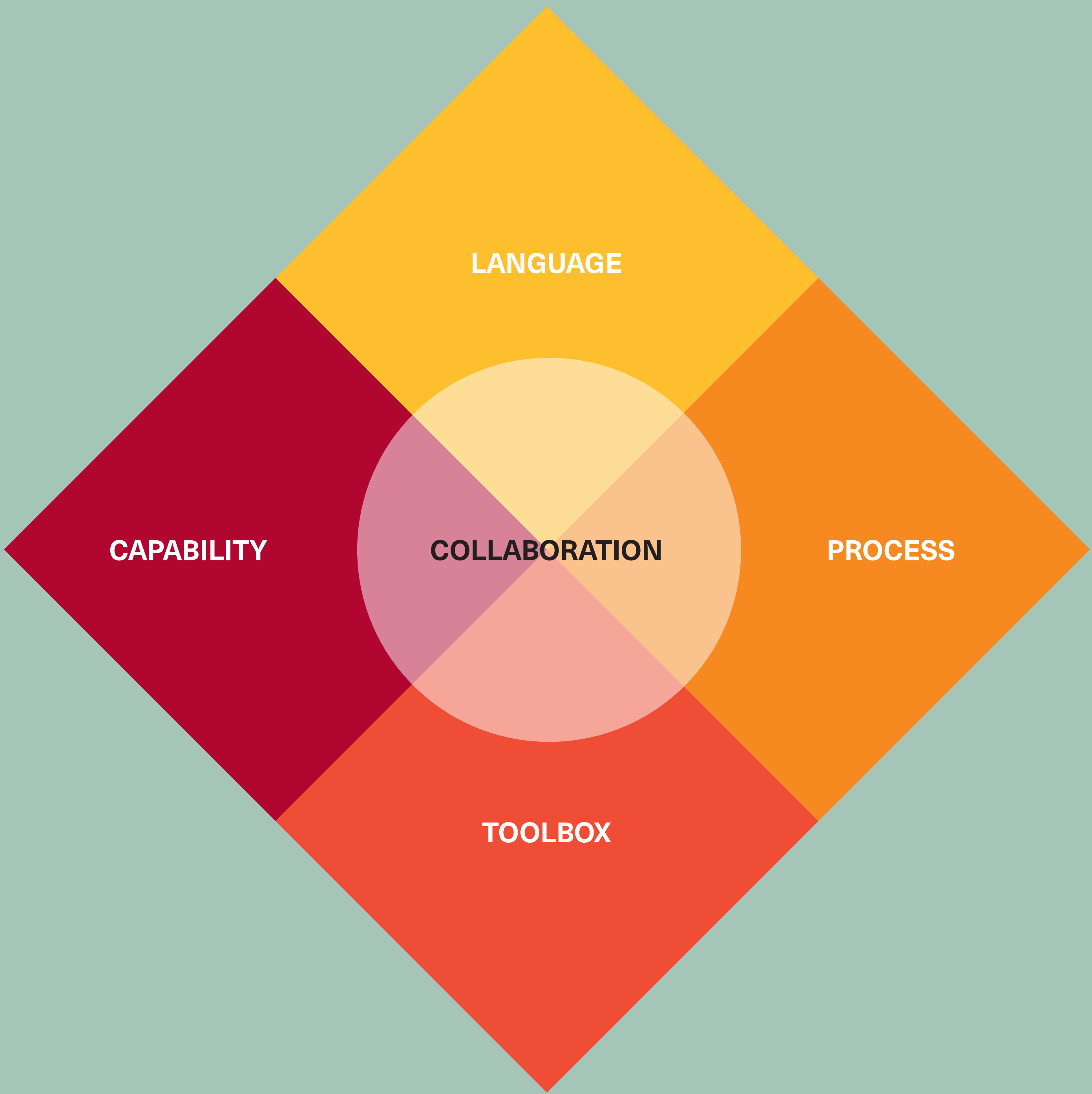


Figure 1 **The five elements of better marketing effectiveness**

Objectives

This project is particularly relevant at this time, when organisations are struggling with the challenge of creating a more profitable balance between long-term and short-term growth, and there is a need to promote the case for long-term brand building to a wider audience. The relationship between Finance and Marketing is especially relevant in this debate. Historically, it would be true to say that there have been tensions between the two functions. But we now need to move those who still recognise some of the feelings on the left of the table below, to the right.

01 Doubt	01 Trust
02 Hostility	02 Respect
03 Conflict	03 Collaboration
04 Distance	04 Ally
05 Obfuscation	05 Clarity

The objectives of this project therefore were:

01 To provide recommendations to enable marketers to communicate better with colleagues in Finance or strategy departments. This is not to say that marketers are never responsible for their own P&Ls or contribute greatly to corporate strategy. But it is clear that where existing relationships are not strong, an improvement in communication and collaboration will deliver benefits.

02 To draw out how these recommendations could improve the way marketers work and communicate with their agency partners and identify how, as a result, output could be made more effective.

Methodology

Group discussions, workshops and individual interviews were conducted with **27** organisations and over **40** respondents, including both brand owners and agency groups.

These are listed in the Appendix

The majority were client-side participants including finance directors, business controllers and finance analysts as well as CMOs, directors of insight and heads of effectiveness. Agency participants included planning directors, heads of strategy and CEOs.

At the request of marketers, we chose not to involve Procurement, as their role was perceived to be more in implementation than strategy.

From reporting business performance to driving it

When examining the relationship between Finance and Marketing, it is important to understand how the role of the Finance function has changed over the last five years.

The traditional back-office/bookkeeping/number-cruncher role of Finance has lessened. In many organisations, the CFO is increasingly involved in, or responsible for, strategy and growth agendas. Among the key drivers of this is the current crisis of growth among many mature businesses, leading to an increasing pressure on all parts of the organisation to concentrate on delivering organic growth.

Technology has driven much of this shift. Previously manual tasks are now often automated, improving both efficiency and cost. Cloud-based systems incorporating predictive analytics and AI are common.

Figure 2 demonstrates the extent of the automation of traditional transactional, analytical and reporting tasks. In short, Finance now has a more active role in driving performance rather than just reporting it.

Figure 2 **Automation potential of Finance functions**

Source: Bots, Algorithms and the Future of the Finance Function / McKinsey 2018

A core function of Marketing is to drive growth (usually profitable growth, though this will be different in not-for-profit, or similar organisations). It is therefore not surprising that there is collaboration across the two departments. Indeed, in our original *Culture First* report, collaboration between Finance and Marketing emerged as a key behavioural characteristic of brands that are more successful in their marketing effectiveness. This evolution should be welcomed by Marketing departments. Financial colleagues' increasing contribution to the strategic and commercial agenda should require, in theory, a slightly more flexible attitude to uncertainty, variability and risk.

It also means that metrics, such as brand equity, which are sometimes harder to directly quantify, should be more acceptable, or at least more frequently tabled for serious discussion, alongside more quantifiable measures such as market share.

This should, in turn, enable deeper and more productive conversations around marketing investment, effectiveness and the joint identification of profitable growth opportunities.

On the other hand, it also means that any growth agendas are likely to be scrutinised more closely and with more financial rigour. However, as one respondent commented:

The more I have seen Marketing and Finance working together well, the more convinced I am of the potential transformational effect on marketing effectiveness

COO / Consumer Services

Whilst it is by no means widespread, there is also promising evidence that the financial colleagues that are being placed within, or attached to, marketing departments understand the principles of marketing and brands.

We have customer finance people who understand the importance of brand. It's almost in their job spec to understand it.

Customer Director / Consumer

Why is this relationship important?

A wide range of research studies have consistently reported evidence that greater cohesion and interaction with key colleagues in other functions is a driver of strong performance.

In their book, *12 Powers of a Marketing Leader*, Professor Patrick Barwise and Thomas Barta studied **8,600** leaders in **170** countries to determine leadership behaviours among marketers. They found that being able to "mobilise your colleagues" – including those in Finance – is one of the top three drivers of both personal career success and high business performance.

When we have a business performance review, I present alongside my finance director and she does at least as much of the talking, if not more, than I do.

SVP / Global Consumer

For marketers there are three specific reasons why their relationship with Finance is particularly important:

01 **Credibility.** **Financial colleagues, particularly those in senior roles, often have huge credibility in an organisation. This is not to say that marketers lack this credibility, but when Finance and Marketing work in concert the combination is often particularly potent.**

02 **Influence.** **When Marketing believes change is required, Finance has at least the same, if not more, influence as Marketing at persuading the organisation's top levels to support such change, and Finance is therefore a potentially powerful ally.**

03 **Expertise.** **Financial teams have the expertise in financial modelling necessary to help marketers with less financial experience to create plans that can be sold to internal audiences and which can demonstrate how Marketing will deliver benefits to the organisation. The marketing industry tends to think of insight in terms of 'customer insight', but being able to provide financial insights is equally as important.**

You can't have an effective measurement system without Finance. We get their expertise and credibility. **Anything that doesn't have them in is doomed to failure.**

It would be seen as a token effort. They would nod – but at the coffee machine they would say about us,

'They don't understand how we really make money'.
It's a grown up exercise – **much bigger than Marketing.**

Customer Head / Consumer Services

Five steps to

Building Bridges with Finance

01 Do the maths

02 Know where you are adding value

03 Use a common language

04 Show how your metrics matter

05 Demonstrate an evidence-based mindset

01
Do the maths

More marketers have to do the maths. They have to be able to read and understand the key numbers in an organisation.

Whilst some of the brand-owner and agency respondents we interviewed had a sound grasp of financial fundamentals, there was still a knowledge gap demonstrated by others. This should be straightforward to remedy and it will enable marketers and agency partners to change the conversation. There are plenty of courses available to fill any gaps.

To create a better relationship with Finance, you need to show **you are disciplined, «» as well as creative.**

Professor Patrick Barwise / London Business School
Lecture to British Brand Group

Bringing Finance people up to speed with Marketing – yes, tick. But actually the interesting thing is just getting them in a room talking...
The task for everyone is long-term profitable growth. That's what we are all trying to do. We now have a conversation which goes **'Here are some of the levers I'm trying to pull** and here some of the levers you are trying to pull.
And here is where those two levers conflict'.

SVP / Global Consumer

Although our sample was a self-selecting group, there were many examples of marketers undertaking financial or commercial training. In some organisations, the marketing departments had to 'catch up' with other departments in terms of financial understanding. Most often, the training resources mentioned were one-off courses, particularly workshops, which aimed to demonstrate how the organisation created value and profit and Marketing's role within that.

For example:

- **One consumer brand ran regular financial/commercial training at the request of the marketing department. The controller in Finance was so inspired she requested that Marketing return the favour and train her team in marketing principles.**
- **A global finance director created a commercial-awareness/marketing-effectiveness course which he jointly launched with the organisation's head of marketing effectiveness on a roadshow in key hubs around the world.**

Whilst professional development would be hugely beneficial, just working more closely together can be very helpful. The increase in collaboration should improve the empathy and trust between the Marketing and Finance functions. It should also eradicate any sense of 'servant' and 'master' in the relationship.

If Marketing understands its contribution to value – and the effect of increasing or reducing investment in this function – it reduces the likelihood of Finance 'handing down the budget' to Marketing like a beneficent overlord. The ideal scenario would be for Finance to be able to have enough confidence to say to marketing departments, "Show me how much you need?", rather than Marketing saying, "How much can I have?"

If there was one area that should potentially be underlined more in training, it is the **impact of pricing and price elasticity.** Whilst we did not explore in detail how much training is given in this area, it was rarely mentioned, if at all, in the discussions. Nonetheless, this topic deserves more attention. This lack of focus on pricing was also highlighted in the *Culture First* interviews last year. Indeed, one head of effectiveness last year claimed working alongside his pricing colleagues was "truly like a light bulb coming on". One small increase in price or the reduction of the need for price promotion, whilst competitors are cutting theirs, can easily deliver the profit estimated from two or three other resource-hungry initiatives.

Some marketing functions are moving even further away from pricing than they already are and we feel this is potentially damaging. Marketers should ensure they can contribute to these discussions. Whilst some categories are traditionally prone to pricing wars, such as those reliant on distribution partners and some retail sectors, this is by no means universal. It is clear to us that more discussion of the value of brands would be beneficial across Finance and Marketing.

In most organisations, the role of marketing assets in creating value for the organisation is widely accepted. However, it was felt that some financial managers may need to be reminded of the important role of marketing in determining:

The level of future cash flow
How much money will be available for the organisation to use – calculated by growth in sales, net operating margin and net investment.

The acceleration of cash flow
How quickly organisations can get hold of money – determined by the speed of sales, market penetration and strength of relationships and partnerships.

Business risk
What are the chances of the organisation's revenues disappearing?

Continuing value
How much revenue can be protected from attack from competitors and how effectively the organisation can grow its assets in future.

Continuing value is particularly relevant to this project as it is the key to maximising shareholder value. Even for those organisations we interviewed that did not have the creation of shareholder value as a primary objective, maximising the value of assets was still a core principle. However, it is important to re-affirm that 'maximising shareholder value' is not the same as 'maximising profits'.

The author Peter Doyle explains:

Maximising profits is about **short-term management, cutting costs,** reducing investment, and downsizing. **It is totally antithetical** to developing long-term marketing strategies and **building world-class businesses.** By contrast, building shareholder value is a **long-term** concept. **It is about building businesses that last.**

Peter Doyle / *Value Based Marketing*

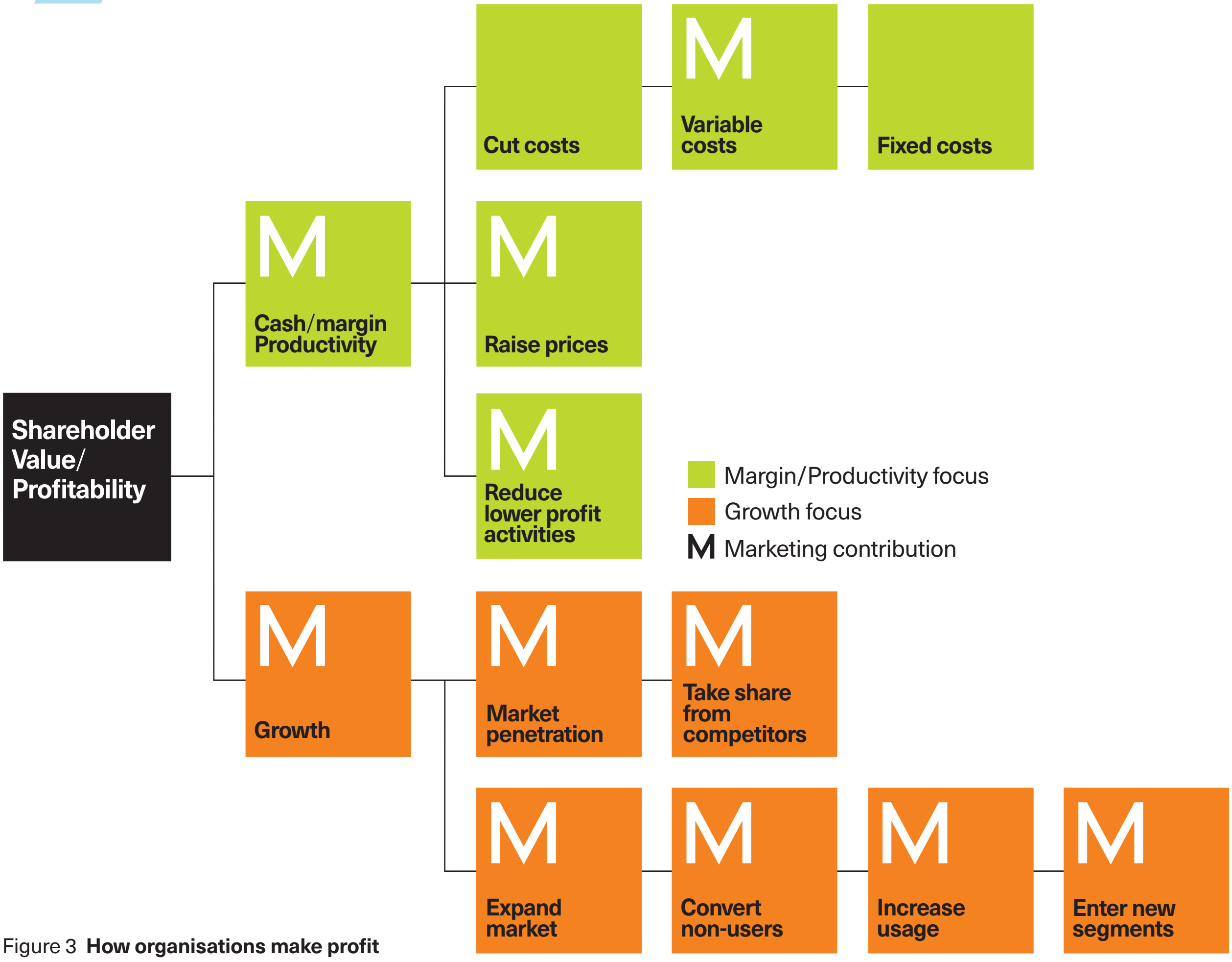


Figure 3 **How organisations make profit**

Source: Based upon Peter Doyle, Philip Stern
Marketing Management and Strategy, FT Prentice Hall

Of course, profitability is one of the main metrics used to determine an organisation's value. Indeed, one participant was keen to illustrate the contribution of marketing to profit as shown above taken from Peter Doyle's book, *Strategic Marketing Management.* Marketing contributes to almost every box in Figure 3.

The respondent emphasised that greater understanding of how the three areas of

- growth
- cash/margin
- use of capital

contribute to the profitability of an organisation and more insight into which boxes individual teams are contributing towards are fundamental to understanding Marketing's role in business growth.

Assuming this knowledge, Marketing and Finance can then agree the levers for business growth and/or productivity improvement, that Marketing should focus its endeavours upon.

Citing the marketing academic Byron Sharp, the IPA Databank literature of Les Binet and Peter Field, and the emphases of their own organisations, participants mentioned what they focused upon as their key levers for growth:

01 **Customer acquisition**
(Future revenue focus)

02 **Price improvement**
(Profitability focus)

03 **Share gain**
(Outsmarting the competition)

04 **Distribution gain**
(Increase in availability)

05 **Mental availability**
(Top of mind awareness)

A number of respondents had already begun to work much more closely with Finance on building their business cases. Across the project, marketers talked as much of creating 'business plans' as of 'marketing plans'.

The biggest change over the last year is that **we now have individuals from Finance working with us directly to create business cases** to progress our agenda... **The cases now have much more credibility** when you are sitting in front of the CEO and he says **'Is this actually going to work?'** For example, **if we move this brand metric by 1%** it will do this to the top line and the bottom line.

Customer Head / Consumer Services

Figure 4 **Scenario/impact/assumptions example**

Impact of speed of distribution and communication spend on Product Alpha and Beta 2020

	Base case	**Scenario 1**	**Scenario 2**	**Scenario 3**
Profit		+£1.23m / 2.5%	+£2.31m / 4.7%	+£4.53m / 9.2%
Confidence level		99%	95%	90%
Description	Existing product offering Seasonal options reduced in Sector 1 outlets	New Product Alpha introduced by mid 2020; Distribution to Sector 1 outlets	New Product Alpha introduced 1st Qtr 2020 Product Beta introduced 3rd Qtr 2020 Distribution to all outlets	New Product Alpha and Beta introduced by 1st Qtr 2020 Distribution to all outlets
Assumptions	No change to regulation Customer profile same Business rates static Core product cost inflation increase 1.8%	No change to regulation Customer profile same Business rates increased by 3% Core product cost inflation 2.5% Comms budget for Alpha and Beta as in revised 3rd Qtr budget	No change to regulation Customer profile shift by 5% Business rates increased by 5% Core product cost inflation 2.5% Comms budget for Alpha and Beta increased by 10%	No change to regulation Customer profile shift by 5% Business rates increased by 5% Core product cost inflation 2.5% Comms budget for Alpha and Beta increased by 40%

Respondents also reported an increase in the use of scenario planning within Marketing and the incorporation of assumptions and risk levels in all options. Greater attention is also being paid to the levels of confidence attached to the data used in analyses.

Figure 4 details an example from one of our respondents of how an organisation used this approach.

It demonstrates how greater rigour could be applied to marketing planning and was hugely appreciated by the financial teams working with them. There were also reports of respondents placing the 'money chart' – i.e. the benefit chart – at the front of their presentations to Finance and senior management rather than as a final chart, so that their audience was clear about the potential benefits of the project from the outset.

A key ingredient of commercial discipline is realising when 'more' activity does not necessarily mean better activity. Marketers tend to want to add, improve and expand the status quo and demonstrate they can create valuable new products and services.

That is a core element of their role. Marketers are generally optimists at heart, but respondents commented that showing they know when to stop is an important demonstration of commercial discipline.

One of the results of our new relationship with Finance is that **it has put a focus on us being prepared to take projects away and stop things,** as much as to start things. When you are running a business, **you tend to layer things on top... By putting a financial lens on it,** it has meant we have looked at **whether it stacks up financially** and whether the **money could be better spent** doing something else.

Customer Head / Consumer Services

One of the interesting areas for discussion in the project was the concept of trying to move some of the budget lines relating to marketing-effectiveness expenditure from operating-expenditure to capital-expenditure for financial-reporting purposes, or at least applying a capital expenditure-type mindset to marketing-effectiveness expenditure. Given the fact that marketing-effectiveness investments can create future benefit for organisations and add value over time, for some respondents this change in treatment felt logical and meant such marketing investments would be more protected from being slashed in order to raise short-term profits.

Our research did uncover at least one brand who had moved expenditure in this way. Some elements of the company's AI systems and decisioning software, including some of that used for marketing effectiveness, are now included in capital expenditure. Another respondent reported that their organisation's data-analytics systems budget, used primarily for marketing effectiveness, stayed in the operational budget, although its annual cost was amortised across the year, given that it informed strategy all year round.

Not all of the financial respondents agreed with the principle of treating this type of expenditure as capex rather than opex.

This conversation prompted memories of the period from the late 1980s when organisations tried to put the value of brands on their balance sheets.

At that time, London Business School (LBS) was asked for its opinion of the practice by the Institute of Chartered Accountants in England and Wales. LBS responded that, on balance, it did not agree with this treatment of brand values, arguing that "brand equity is not tradeable and does not have a market price and, even with the most rigorous methodology, assigning a financial value to it involves subjective judgement."

Regulation and industry attitudes may still be against the idea of treating some marketing-effectiveness investment as capital expenditure. But the concept may have some traction – particularly if it applies to budgets relating to new systems and software that help develop more intelligence around effectiveness and evidence-based decision-making.

One finance director stated:

I think **moving effectiveness spend into capex is kind of a sensible concept,** really. And moving other similar things – all intangibles – like data... **Because you recognise the value would come with time...** you would have to have a value in your financial statement you could stand behind. **Evidencing that could be the challenge.**

Finance and Strategy Director / Consumer Services

02
Know where you are adding value

What most financial teams and CEOs want from Marketing has not changed.

It is the demonstration of Marketing's contribution to profit, growth, or whatever success metric or narrative the organisation has chosen.

This starts with a shared understanding of the role and remit of Marketing. It was surprising how many respondents in our research felt that their organisations still lacked this understanding. In organisations where such understanding is lacking, Figure 3 may help better articulate the role and priorities of Marketing.

The central importance of understanding the market and consumers in order to create insight-based strategies is fairly widely recognised in organisations.

But the methods used to reach those consumers, and the data available to measure changes in consumer behaviour, have changed beyond recognition.

In addition, our understanding of how consumers make decisions has been altered by thinkers such as Daniel Kahneman, an Israeli-American psychologist, and this has started to affect thinking on brand development, maintenance, and promotion.

So, as well as clarifying their role, marketers also need to engage their financial colleagues in understanding at least some of the complexity of this new landscape and the new thinking underlying it.
Our project's participants felt overwhelmingly that financial teams still believed human decision-making was a rational, linear process. This is not altogether surprising since the linear model has been promoted by the marketing industry for many years. Marketers often speak of the concept of the 'purchase funnel', through which consumers pass from initial contact to purchase. The funnel model found

favour as a way of explaining Marketing's role in progressing consumers towards a brand's end objective, and as a means of developing interim goals – or heuristics – which could be used to measure this progress.

Indeed, given that junior marketers are often asked to produce short-term activation strategies, often with almost immediate purchasing as the goal, they could be forgiven for continuing to use the funnel model.

But for the majority of purchases or behaviours that marketers wish to influence, consumer decisions are not made like this. For the most part, such decisions, particularly those in the B2C space, are messy and complicated, based on emotion and then post rationalised.

Rather than try and create decision maps or more complex decision funnels, many organisations prefer to focus on developing much greater understanding of the value levers for their brands. These are discussed in more detail in this section under 'Show how your metrics matter'.

However, some commentators have spoken of using the image of a pinball machine to better explain the complexity of customer journeys today.

In this analogy, the ball (the consumer trajectory) **can be affected by the strength and skill of the pinball player** (the marketer) **in making contact with the consumer and keeping them moving until a top score is achieved** (the objective) **and a new ball is generated.**

The funnel as a concept **is too simplistic.** It implies a conversion ratio. **Consumer behaviour is not like that.** I think we need to **bring back** some of the **complexity.**
CEO / Agency

Figure 5 **Customer journeys can be more like a pinball machine**

03
Use a common language

Effective communication is one of the core skills of marketers.

Understanding human behaviour and motivation and using that understanding to produce valuable propositions and communication is Marketing 1.0. We should be using more of those skills when communicating with internal colleagues and customers, as much as external audiences.

I have recently changed job and now report into the MD. **I came out of my first meeting with him and realised I had to completely change the way that I spoke.** I went in to present on campaigns and strategy, **but what my new boss wants to see is not marketing services, but marketing effectiveness...** He wants to know, **'Does it work?'** I came straight out of that first meeting, went over to Finance and said **'Can you send me this list of reports?'**

Head of Marketing / FMCG

Marketers need to ensure they use a common language with Finance so they can have constructive conversations. We can do this by using the language of business, which is financial, and by ensuring that if we do have to use marketing terminology, we make it clear how this is driving value for the organisation. Given the increase in collaboration now needed across functions, the use of marketing jargon among non-marketing audiences makes its users unintelligible and irrelevant, not intelligent and influential. We need to use language that is understood by the audiences we are addressing which will vary according to the organisation:

We never use the word 'brand' outside Marketing. **We use 'reputation'.**

Chief Customer Officer / NFP

As indicated in the *Culture First* report, some organisations have already changed some of the terminology in their reporting to more appropriate language. For example, references in budgets to 'non-working media' (where agency fees are often placed) were changed to 'asset creation', with beneficial results for both budget holders and financial teams.

A retail brand we interviewed requires its marketing teams and agencies to use only terminology that colleagues in their retail outlets would understand. Indeed, in several of our discussions, it was argued that marketers should use the language used by their organisation internally – whether this was as 'corporate' as "becoming undisputed category leader" or as 'colloquial' as "new plans for shifting boxes" – rather than try to encourage others to use a new language.

Figure 6 **Long-term branding versus short-term promotion**

Water table / Flash floods

Using images to demonstrate fundamental marketing concepts can be very effective. One respondent spoke of the difficulty of explaining the value of long-term branding versus short-term promotion. That participant found the image of a **water table** and **flash floods** very useful.

He used it to explain how he felt the organisation was focusing too much effort, analysis and energy on the creation of ‘flash floods’ which represented short-term promotions driven by panic and intended to generate quarterly sales. In the metaphor, the flood water then ‘runs off’ the land. By contrast, the core value of the organisation, the health of the brand, which could be viewed as a water table, needed more protection and support.

Figure 7
Living soil – brand health – profitability
Dead soil – brand weakness – decline.

Another image that may be useful is the idea of **living and dead soil.** Brands that feed, maintain and protect their brand health –'living soil'– generate strong profitable brand 'crops' year after year. What remains from previous crops (experiences, images, etc.) can create 'mulch' to protect it from weeds (competitors).

Those that do not carry out this maintenance create 'dead soil' – cracked, hard and dusty so prone to erosion, pests and weeds (decline in consideration/mental availability) and too depleted to sustain growth.

04
Show how your metrics matter

Marketing is getting better at employing meaningful metrics. The more Marketing can understand and demonstrate how its measures contribute to value, the better relationships with Finance will be.

I think there is still a fundamental issue in the Finance and Marketing relationship in a lot of businesses. Finance favours short-term measurable things over long-term slightly less measurable things. And as a result, **they are the pigs who always build their house with straw or twigs, instead of building it with bricks.** Because it's harder sometimes to work out how much better the bricks are.

COO / B2B Service

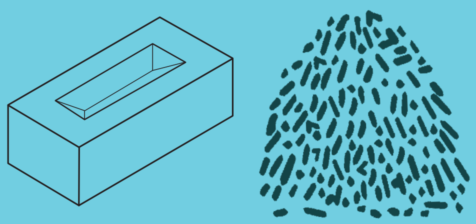


Figure 8
Strong brands are houses made from bricks, not straw or twigs

In terms of the numbers of metrics being used in organisations, those brands that are more successful at measuring effectiveness tend to focus upon a few metrics. Three or four valuable marketing metrics that are agreed at senior level are more easily shared and used in senior-management reports.

Various lists of useful metrics exist. Gain Theory, the marketing-effectiveness consultancy, has listed a useful "hierarchy of metrics" in *Measurement Strategy*, its report for the IPA. We heard a variety during this project:

Our four key measures in the company right now are: innovation sales, net sales, profit and cash flow.

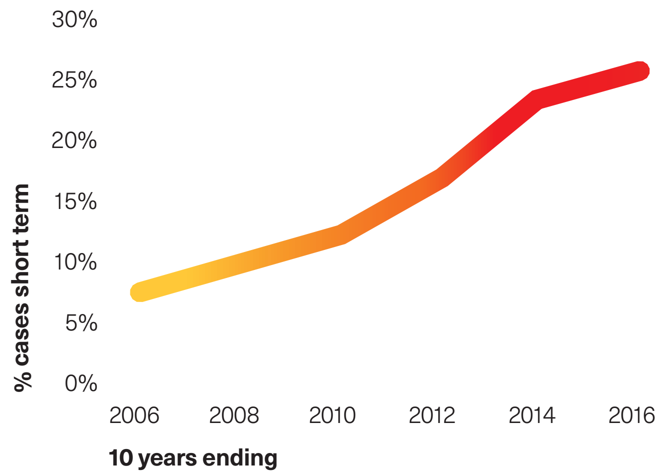
SVP / Consumer

Several interviewees reported having experienced "many hundreds" of marketing metrics. In most instances, there is usually a hierarchy of metrics with each one laddering up to the key financial ones at the top.

For many respondents, profitable growth or organic revenue growth are at the top of the ladder. (This area is explored in detail in the *Measurement Strategy* report.) However, there is certainly a call for more understanding of longer-term brand health metrics.

Although there are signs of improvement in this area, there was also evidence that some international brands were finding it hard to be heard:

Figure 9
Analysis of the trend towards short-term thinking



25% of our marketing budget was put into brand activity – 'That's a lot to put in if it's not driving sales' is a typical Finance conversation for us… There is no evidence or faith that brand drives sales in the short term and no one thinks about the long term.

Head of Effectiveness / Global Product

Interviewees also cited examples of metrics being chosen "because they were acceptable to everyone", rather than because they were metrics that actually drove value for the organisation. In these cases, it was said that "internal credibility trumped quality". Such examples were found in both this project and in *Culture First*. Respondents who found themselves in this position felt the way forward was to develop a potentially more valuable set of metrics alongside the agreed set and over time build a compelling case for change.

The dangers of short-termism and the increasing evidence of the importance of longer-term metrics, such as brand health, have been well documented in IPA reports, including those by Les Binet and Peter Field, such as *Media In Focus* as in Figures 9 and 10.

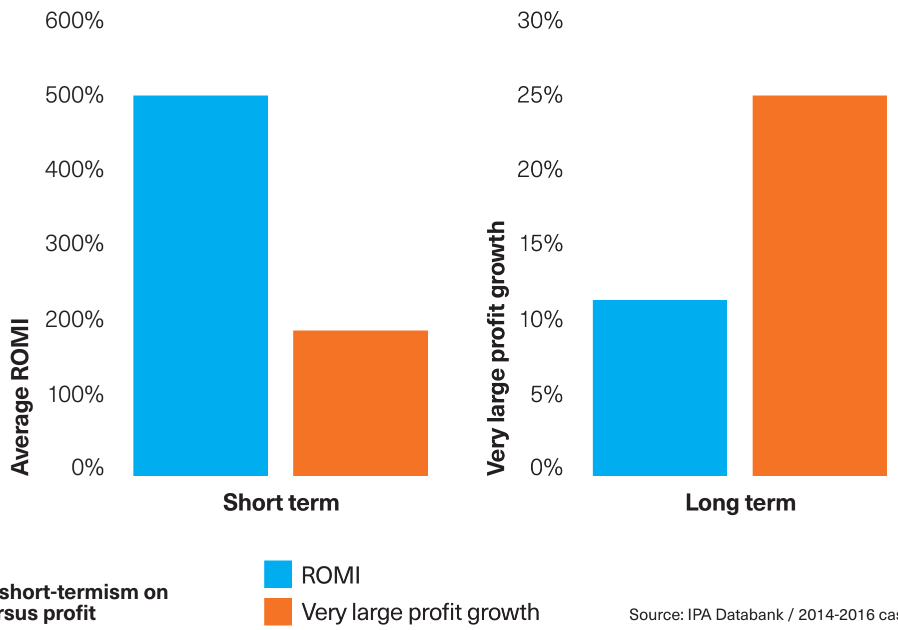


Figure 10
Effect of short-termism on ROMI versus profit

Source: IPA Databank / 2014-2016 cases

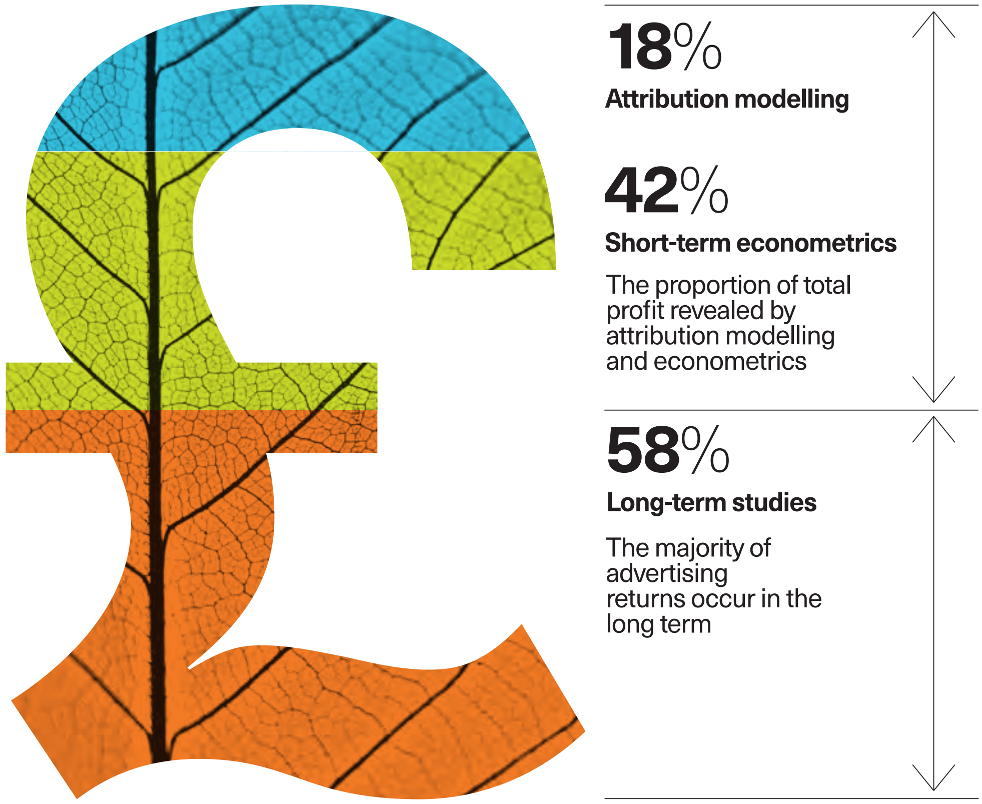


Figure 11 **Analysis of the longitudinal effect of the profitable return on advertising**

The effects of a short-term focus on profitable returns from advertising have also been well evidenced in Thinkbox's *Profit Ability* by Gain Theory and Ebiquity. Figure 11.

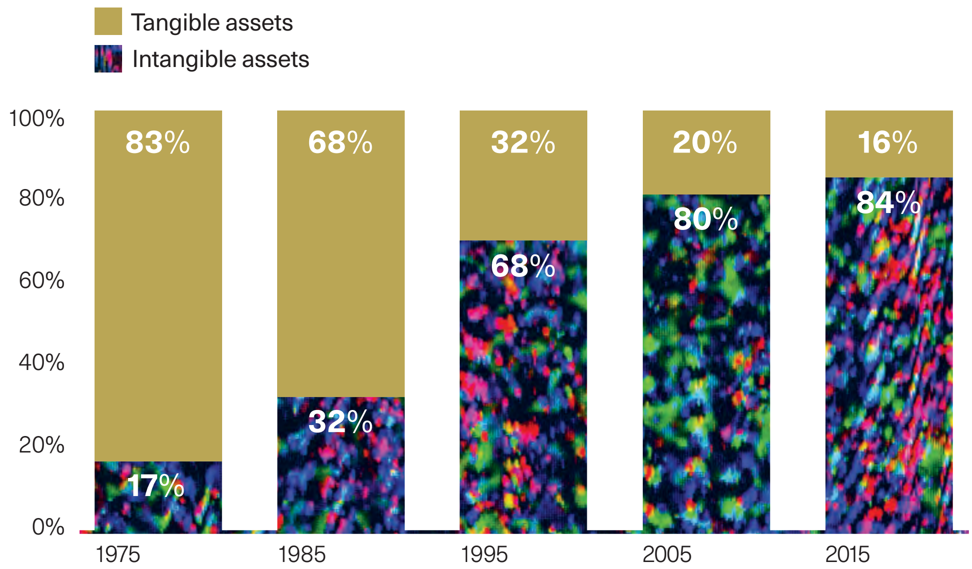


Figure 12 **Intangible asset growth over time in S&P 500**
Source: Ocean Tomo LLP

This evidence should be discussed with financial teams as well as across the Marketing function. In addition, evidence such as the increasing value of intangible assets among leading companies shown in Figure 12 is also compelling. Brand value typically makes up 25% of the value of an organisation's intangibles, though in some industries this proportion can be as high as 45%.

Brand equity affects future brand choice and the amount customers are willing to pay. That combination lies at the heart of profit, margin, risk and cash flow. And yet it is brand equity that financial teams tend to struggle with most. In *Culture First*, one finance director reported:

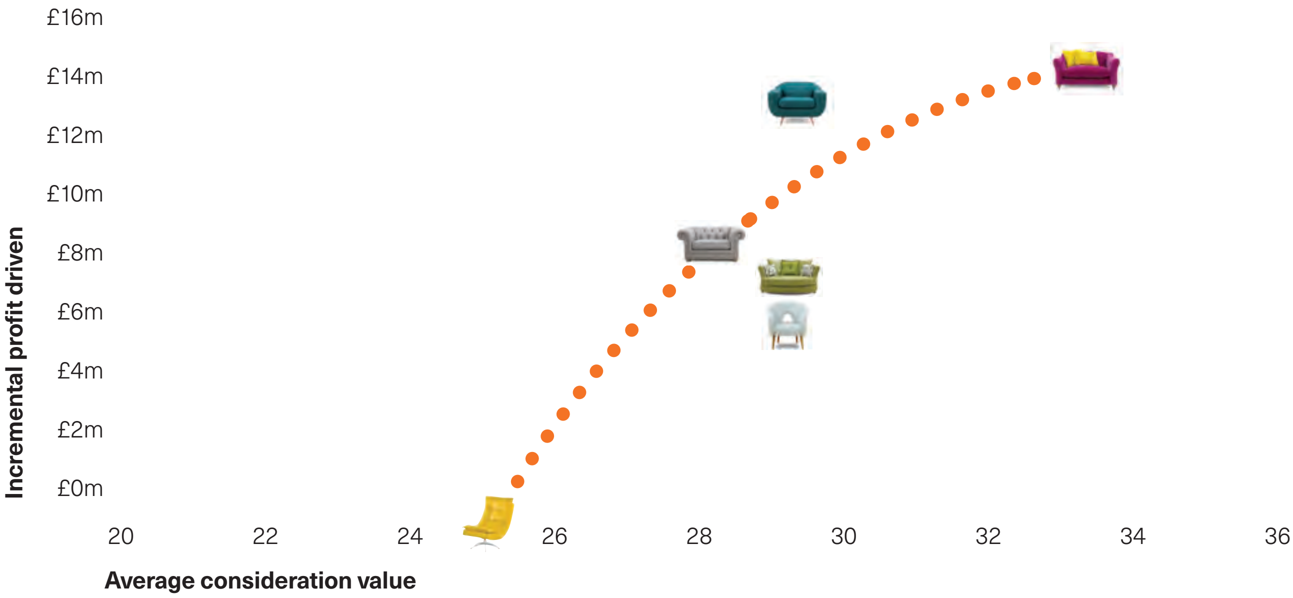
If I'm really honest, from a Finance point of view, I don't give much weight to the softer metrics – the 'brand equity stuff'.

Finance Director / FMCG

One issue with long-term metrics such as brand health, is that they tend to move by small amounts and slowly. For this reason, the importance of such metrics needs to be underlined continually in the organisation. We need to be better at creating compelling value-based narratives even when they seem to involve relatively small shifts.

For example, it may be more difficult to present a story about how moving a brand metric contributed to an increase in market share from 4.3% to 4.6% than to grab attention by talking about how the organisation increased its online channel subscribers by 25% to 286,000. However, if the audience knows that a 0.3% increase in market share is worth over £200m to the organisation, or that in order to achieve that 0.3% market share rise, the brand had to capture 75% of all the new users in its segment then the story has more impact.

Some brands understand the financial value of strong brand health very well and have integrated brand metrics into datasets which evaluate the company's overall performance. Figure 13 is from a successful case study from furniture retailer DFS. It demonstrates the value that an increase in brand consideration generated in terms of profitability for the retailer. The brand had developed a model which converted an increase in consideration to a specific value, which is then translated into profit.



	FY 11/12	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	Total
Average consideration value	25	29	28	29	29	33	29
Incremental profit driven	£0	£12.8m	£7.7m	£7.3m	£7.0m	£14.4m	£49.2m

Figure 13 **Average consideration value vs incremental bookings driven for DFS**
Source: MediaCom / 2018 IPA Effectiveness Award case study

This type of analysis is not as widespread as one might hope. It is only in the last 18 months or so that some better-known brands have started to determine how their brand-health metrics contribute to their bottom-line profit.

From the evidence of our sample, it is certainly not that Finance teams think there is no value in brands. It is more that such teams often don't have a mental model of how this brand value matters and how investment influences it. We need some powerful descriptions that are accepted by financial teams.

Professor Barwise refers to brand equity as **"customers' awareness of, and beliefs, feelings, associations and expectations about, products and services sold under a particular trade mark and the company that supplies them".**

The author and academic Tim Ambler described brand equity as **"potential earned cash-flow reservoir. Earned, but not yet released to revenue".**

The concept of the 'time value of money' is an area that marketers would do well to understand more fully. The conversation successful brand marketers have with their financial teams should be about when, not if, marketing activity will pay back. The time value of money concept states that money available at the present time is worth more than the identical sum in the future, due to its potential earning capacity. This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received.

Understanding how we can challenge this by learning more about how brands earn value over time with greater investment is core to the short/long-term focus debate.

We also need to help brands integrate these measures into effectiveness datasets to generate meaningful KPIs. Several of the brands we interviewed managed to do this; one referred to it being "the crown jewels" of Marketing's focus over recent years.

Econometrics and data analytics are playing an increasingly larger role in such datasets. However, one finance director stressed that it was critical that senior marketers did not outsource the complexity of this type of analysis. For him, transparency was critical and marketers needed to know at least some of the detail of the "black-box solutions" used to model effectiveness so Marketing could query and answer questions when they were raised and not just leave these for external data partners to respond to.

Other financial respondents supported this view.

05 Demonstrate an evidence-based mindset

The IPA has focused for several years on the development of evidence-based decision-making. Professor Patrick Barwise also states that in order to have good relationships with their financial colleagues it is even more important for marketers to have an "evidence-based mindset" than merely have access to databases and techniques.

Discussions within our project demonstrated clearly that some financial teams realised that some activity is easier to measure than others, particularly in more remote geographical markets. But interviewees also wanted to see rigorous approaches to understanding the impact of marketing activity.

I would rather spend money on the wrong thing and learn than spend money and have no idea what happened. **So I want to know how they will work out the impact of the activity.** Even if it's an A and B test.

Global Finance Director / FMCG

Our discussions also revealed that Finance executives were much more likely to trust marketers who demonstrated continuous rigorous stewardship.
As one global marketing director stated:

I have found that **the more** I demonstrate my **effectiveness, the less I get cut.**

Global Marketing Director / Media

Many of the keys to the creation of an evidence-based mindset were flagged in the *Culture First* report and they included:

01 **The right attitude to being measured**

02 **Agreed measures with acceptable success criteria**

03 **Organisational attitude focused on learning not justification**

04 **Baking in agreed objectives at the outset of any activity**

05 **Training in effectiveness measurement**

Recommendations

Clearly, there are very different structures and relationships across the business landscape between Marketing and Finance.

As a result of these differences, the actions needed to improve relationships will differ. For some, collaboration was the norm and had been so for many years. For others, it was a newer experience. Such partnerships will continue to develop, but most of the brand owners in our sample fell into one of three groups: **Mature**, **Evolving** and **Remote**.

These could also be placed on a grid with the key relationship drivers:

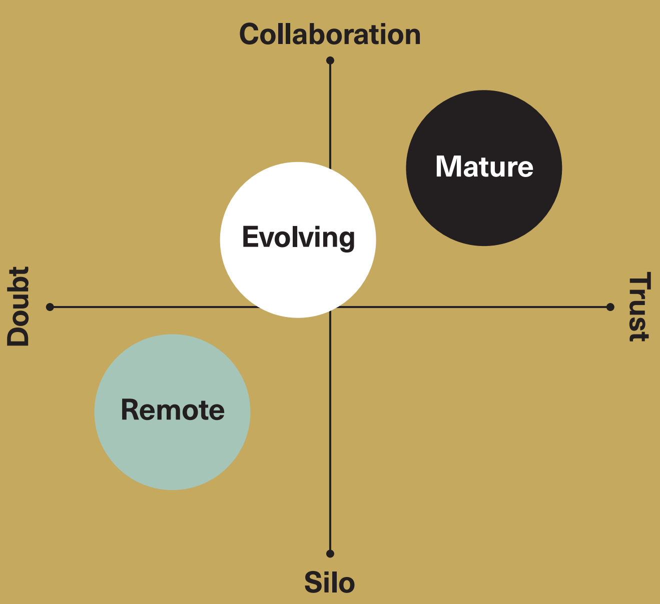


Figure 14 **Key relationship drivers and three groups of Finance and Marketing relationships**

01 Mature

• There is a shared understanding of the role of each function and a mutual respect and trust for each other's expertise and responsibility.
• Brand/marketing teams often own the P&L and their understanding of the purpose and methods of financial analysis and financial concepts is sound.
• There is agreement on the KPIs and what success looks like from the outset. The metrics chosen drive value.
• Marketing investment decisions are made jointly, though not necessarily without disagreement. There is an acceptance that there needs to be a balance of long and short-term objectives, providing healthy tension.

In the last five years we have really shifted from Finance being reporting and financial accounting to being a **commercial partner** and **engaged with business performance.** And I care enormously about **Finance's influence, perspective** and recommendation on what the business is doing **and what it could do better.**

SVP Marketing / FMCG

Improving communication between Marketing and Finance in each of these working-relationship structures requires a different set of actions.

The focus should be on the required actions using the recommendations here and the five steps outlined across the report. Where no bullet is indicated, either the behaviour is already in place or it should not be an immediate focus.

Figure 15
Action required by relationship type

Action	Mature	Evolving	Remote
Share evidence on value of longer-term metrics	●	●	●
Develop and agree most valuable metrics	●	●	●
Train finance teams on Marketing basics		●	
Train marketing teams on Finance basics		●	●
Share appropriate datasets internally and externally		●	●
Connect agency partners/appropriate financial colleagues		●	
Agree role and remit of marketing function			●
Share latest thinking e.g. on customer decision-making	●		

02 Evolving

• In this group, financial colleagues have been ‘attached to’ or ‘embedded within’ Marketing teams or divisions – though usually this arrangement is less than three years old. The driver for this change was often that marketing effectiveness was seen as a business imperative.
• These colleagues often have different titles – Business Controller, Marketing Finance Analyst, Decision Support Manager.
• Working practices, e.g. reporting, data sharing and agreed metrics are evolving and there is regular communication.
• Mutual understanding of the role of marketing, brand and the value of the customer is developing. Investment decisions are increasingly collaborative with financial colleagues actively involved.
• There is increasing professional development in financial literacy for marketing teams and vice versa. This is improving collaborative practices and communication.
• Effectiveness is gradually being baked into the beginning of the marketing process. Short-term metrics tend to dominate but there is increasing awareness that longer-term metrics need to be integrated into the effectiveness process and their value robustly measured.

03 Remote

• Communication is sporadic and the functions operate in silos.
• Metrics chosen are not always levers of value. Metrics tend to be short term.
• There is little understanding among financial colleagues of the value of the brand nor understanding of the customer outside Marketing. Lack of trust is evident.
• Professional development tends to emphasise improvement in marketing operational expertise rather than wider capabilities.

My **finance director** said to me, ‘Why are we putting all this money into the modelling project **when we know it will be wrong?’**

Head of Marketing Performance / Global services

Ten ways the IPA and agencies can help

The core brand-building and communications skills that marketers possess are shared by many of their agency partners and they are keen to help.

They can also add to the much needed promotion of evidence to financial and commercial teams of the value of brand health and longer-term thinking.

In addition, agency experience is usually wide and varied; clients can take advantage of this. A combination of thinking from both parties should be more than enough to tackle the issues identified in this report. This should also help improve the effectiveness of agencies' work because the briefing process is therefore likely to be more focused on value creation.

The following are the key areas where the IPA and its member agencies can help.

01 Offer leading-edge thinking and evidence, such as that found in the IPA Databank series of reports, to help Marketing clients build better relationships with Finance.

Find out if the Marketing client is in close contact with their Finance colleagues and try and establish the state of the relationship. Offer appropriate help with communication and relevant leading-edge thinking and evidence.

02 Use agency insight and behaviour skills to understand financial colleagues' motivations, include Finance/Commercial team members as part of the client team that works with the agency.

Finance teams will be driven by the expected growth and profit goals, but there may be other objectives too. Include financial colleagues as part of the client relationship team, at least at key points in the process. Finance analysts may be more accessible at agency reviews than the CMO. If a client's Finance teams were given a copy of a brief, would they understand/agree with its objectives?

03 Take action where necessary to rebalance clients' needs between communications planning and brand planning.

Some agency respondents in the project felt the shift to short-termism has encouraged a trend towards 'communications planning' rather than 'brand planning' – namely, a focus on reaching customers rather than on whether the quality of the messages and ideas communicated by Marketing will create the value or behaviour sought by the organisation. This is not to say that communications planning is not important, but to suggest that a rebalancing may be needed.

04 Help clients with the creation and understanding of longer-term metrics.

Understanding of these metrics and how they contribute to value is paramount. Working alongside clients' research or analytics agencies may also be appropriate. Data-analytics teams within agencies can demonstrate how metrics can be integrated into brands' datasets to deliver a more balanced scorecard which builds both the brand and the communications plan.

05 Could account teams cite key value drivers of their clients' businesses?

Agencies could consider including financial/commercial literacy of the client as part of an agency account team's annual review. Can we train agency teams to look for value levers, not only in the analysis of the work itself, but in the process too? For example, to look for increased customer satisfaction or trust which reduces churn; an improvement in brand health which could justify a reduction in price promotion; a change to the approvals process which reduces penalties by media owners; or a successful campaign for mobile ordering for a service which increased the active user base by 10%.

06 Contribute to clients' professional development courses and workshops.

Most clients include courses and workshops as part of their training programmes. Clients will most likely welcome the additional up-to-date content that the IPA Databank can provide for use in these resources.

07 Create inspirational narratives for internal reports and reviews.

Many agencies are already doing this to some extent. But adding powerful narratives to the data and evidence – e.g. customer stories and evocative and explanatory images that bring marketplaces and data to life – can make for a more compelling and convincing statement.

08 Urge clients to share relevant data.

Data sharing can be a cultural challenge in some organisations. Agencies should find out what is available, what they need, push more urgently for it, and explain why.

09 Improve financial literacy in account teams.

Use agency CFOs to improve business literacy among agency personnel. These colleagues could also help to determine key questions so helping marketers better understand brands' business levers.

10 The IPA will help share industry evidence to a wider business community.

The IPA Databank series of reports, Thinkbox's *Profit Ability* by Gain Theory and Ebiquity and similar studies will be promoted outside the IPA agency network to a wider and broader business audience. Targeting of financial forums and similar events and communities has already begun.

Appendix

Brands and agencies that participated in interviews, discussion groups, or workshops in London and Edinburgh in 2018.

About the author

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Fran Cassidy has experience of working in agencies, and as a client and media owner, and has been a marketing consultant specialising in research and marketing services for the last 15 years. Her current practice includes research into the reputations and practices of the media and marketing industry across Europe, Asia and the US. She is a regular judge of the industry's many awards programmes, including the IPA Effectiveness Awards, and is a Fellow of the Marketing Society.

About Effworks

The IPA's marketing Effectiveness initiative seeks to create a global industry movement, to promote a Marketing Effectiveness culture in client and agency organisations, and improve our day-to-day working practices in three key areas:

01 Marketing Marketing

Developing the case for marketing and brand investment in the short, medium and long term, and promoting the benefits to internal and external stakeholders.

02 Managing Marketing

Providing awareness and understanding of how marketing works, how to write the best brief, develop the best process for planning and executing marketing programmes, and motivate marketing and agency teams.

03 Monitoring Marketing

Delivering the best models, and guidance on tools and techniques, to plan, monitor, direct and measure the impact of marketing activity, using holistic approaches to return on investment.

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Effective marketers create and grow value. Inspiring and engaging other functions improves their effectiveness. Financial teams are an increasingly important ally in improving marketing effectiveness.

This report will:

- help Marketing and their agencies change the conversation with Finance
- engage them positively to drive better, sustainable commercial return
- help to foster evidence-based marketing decisions

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