How marketing asset accountability can unlock the full value of marketing by measuring and reporting its assets

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Researchers from University of Liverpool, University of Manchester, and University of Mannheim have published a new *Journal of Marketing* article that investigates the consequences of the financial valuation and external reporting of marketing assets.

The study is titled "Consequences of Marketing Asset Accountability—A Natural Experiment" and is authored by Peter Guenther, Miriam Guenther, Bryan A. Lukas, and Christian Homburg.

Do you know the financial value of Gatorade's or of Netflix's customer base? If your answer is no, you are not alone. Firms provide little external information about the financial value of their marketing assets such as brands and customer relationships.

It may be time for managers to rethink this approach. Pressure to be accountable could ratchet up quickly, especially on marketing executives. For instance, since the start of 2024, Chinese firms have been required to formally report internally generated data resources, including data about customer relationships and marketing opportunities.

Moreover, the International Accounting Standards Board (IASB) has started a project that aims to increase disclosures about currently unreported intangible assets. Since capital markets are global, enhanced accountability requirements in one region can set a new benchmark for investors' expectations for accountability around the world. This new study investigates the consequences of the financial valuation and external reporting of marketing assets.

Marketing asset accountability is not without issues—it involves assumptions and uncertain predictions of future financial outcomes. As former Head of Equity Research at JP Morgan, Andrew Cuffe, noted in an interview with KPMG in 2014, "it is impossible for management to have an unbiased view."

In addition, regular valuations can be expensive. Julie A. Garity, the director of Global Accounting Policy at Ford Motor Company, wrote in a letter to the Financial Accounting Standards Board in 2019, "the lack of in-house expertise to fair value intangibles often requires engagement of third-party firms."

"Despite these uncertainties and cost, our study finds that marketing asset accountability can pay off on certain dimensions, such as cheaper equity funding and more realistic stock prices. Our results, though, do not show a consistent effect on cost of debt," Peter Guenther says.

Miriam Guenther adds, "One important finding of our study is that marketing asset accountability, which is actually targeted at external investors, has a knock-on effect internally by critically shaping the focus of marketing management. Specifically, the focus on long-term marketing outcomes improves significantly."

Another intriguing finding is that it is not necessarily the big marketing spenders but the medium and small spenders that benefit the most from accountability for their marketing assets.

Better measurement, management, and transparency

The typical financial reporting system creates a challenge for the marketing function in terms of how its inputs and outcomes are reported. Lukas explains that "marketing is an expense item that reduces profit in the profit and loss statement. Without marketing asset accountability, the economic value of this expense remains undocumented."

President of the International Trademark Association, Zeeger Vink, commented in a 2022 interview that this "is something that really harms creating the insight that we want to have."

The researchers argue that marketing asset accountability has the potential to bring about fundamental change in firms by documenting the economic value of marketing assets.

"Managers usually aim to optimize results reported to external investors. Without marketing asset accountability, the focus tends to be on short-terms results, sometimes at the expense of long-term marketing investment and outcomes. In contrast, with marketing asset accountability, firms can establish processes that systematically measure and report marketing assets," says Homburg.

Better measurement means better management. Moreover, the external reporting of marketing assets provides a valuation benchmark to investors that reduces uncertainty and anchors expectations.

A four-step action plan for marketing executives

How can marketing executives successfully navigate the landscape of marketing asset accountability?

Here is a four-step action plan:

Drive improvements in external marketing accountability and claim credit

- Extend the focus beyond product markets and acknowledge the communication needs of financial market "consumers."
- Adopt a recognized marketing asset valuation process, such as the ISO standard on monetary brand valuation (ISO 10668:2010).
- Take credit for firm-wide outcomes that extend beyond typical marketing results, such as improvements in equity financing costs and stock prices.

Do it with maximum impact

- Use valuation companies for more accurate valuations.
- Report customer relationships or brands to enhance long-term marketing efficiency.
- Report distribution agreements to improve stock price informativeness.
- Consider marketing licenses as a part of brand value.

Share with standard setters

- Engage with standard setters such as the IASB and FASB.
- Raise awareness about external reporting's effects on internal decision making.

Preempt change

- Help build your firm's capabilities for marketing asset accountability.
- The time to act is now, given recent developments that increase investor demand for enhanced marketing accountability.

More information: Peter Guenther et al, Consequences of Marketing Asset Accountability—A Natural Experiment, *Journal of Marketing* (2024). DOI: 10.1177/00222429241236142

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