# How Analysts View Marketing

## An IPA Study of City Opinion

IPA

Promoting the real and perceived value of IPA agencies

# Foreword

This Populus research amongst 50 leading City analysts has confirmed the IPA's hypothesis that there is a lack of connection in their minds between marketing and advertising activity on the one hand and the creation of intangible asset value for shareholders on the other.

Given that authoritative sources (and the recent purchase of Gillette by P&G), show that intangibles in some companies account for some 70 per cent of all shareholder value, isn't it time this vital connection was made?

We see a major opportunity for those City analysts who grasp the mechanism by which marketing recruits, satisfies and retains customers to secure the current and future cash flows of the company, and then are in a position to judge how well one company in a sector does it as opposed to another.

In this context we welcome the new Operating and Financial Review, look forward to playing our part in demystifying the world of non-financial reporting, and relish the opportunity to show how IPA agencies help their clients create 'customer capital', the mainspring of shareholder value.

Meanwhile we hope you find the following research findings of interest and we would welcome your questions or feedback.

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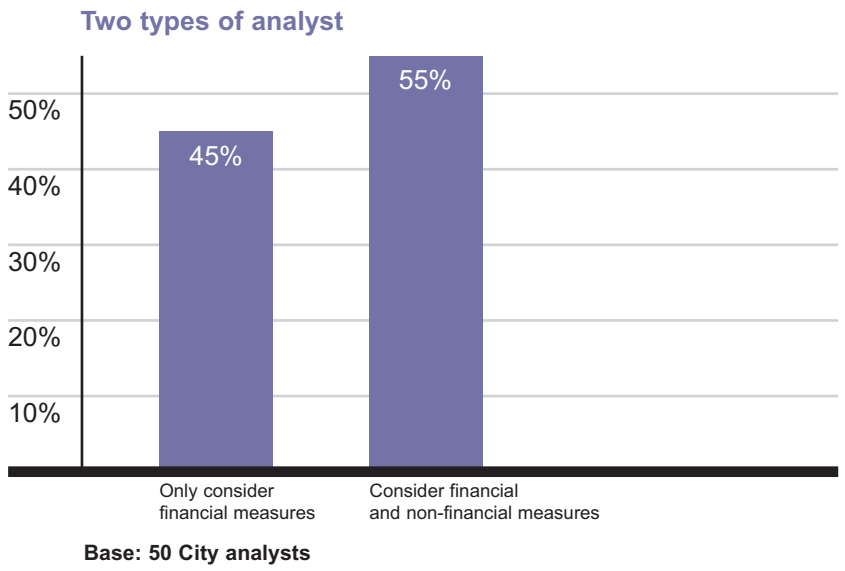
# General overview

The research revealed two distinct types of analyst:

- Those who only consider the *financial aspects* of the industry and use numerical information provided by the companies they track.
- Those who appear to take a more active interest in the *non-financial aspects* of the industry and actively search for extra relevant data from external sources.




Those analysts who referred only to financial sources frequently did not express an interest in marketing or its relevance to the companies. Although its impact on sales was obviously appreciated, these analysts felt this was expressed quite simply through profit trends. They understood that brands were important to the companies tracked; however, unless they appeared on the balance sheets they were not taken into consideration in their analyses.

Analysts taking this view also implied that there would, in any case, be no objective or scientific way of measuring the impact of marketing, other than 'hard numbers on the balance sheet'.

Those analysts who considered non-financial measures to be of importance frequently expressed an interest in the marketing strategies of their companies, holding views – both positive and negative – about their marketing activities, with sales figures being the most common benchmark.

Many of the analysts who regarded non-financial measures – and marketing – as significant, highlighted the fact that their views were based on what they could see and experience as a British consumer, as opposed to a result of any hard data or analysis.

Most of the responses offered about advertising and promotions (A&P) activity were considered to be educated guesses: as the analysts generally reported that they do not receive breakdowns on A&P spend and frequently did not have any real access to reliable, comparable sources of information on A&P activity. Many felt that greater breakdown of A&P spend would be very useful and could be used in analyses and forecasts for future performance.

Almost all analysts felt that they did not have enough real understanding or knowledge of marketing issues to be able to express truly informed views. Most do want more information if it is available – and supplied – though few felt confident enough about marketing to have a strong view about the type of information that would be useful.

'**Information deficit**' sums up the opinion of the vast majority of analysts interviewed across sectors when it comes to tracking A&P activity. Only a very small number out of the 50 analysts that took part in the survey receive detailed information on marketing spend. In some cases this information is provided by the companies they track (although it is usually only the US-based companies that give A&P activity in any detail) and in others is provided at great cost by the companies they work for.

# Findings in detail
## The relative importance of intangible assets

About a third of all the analysts interviewed thought that the importance of intangible assets to their sector was growing – eight times the number who felt that the importance of intangible assets was declining.

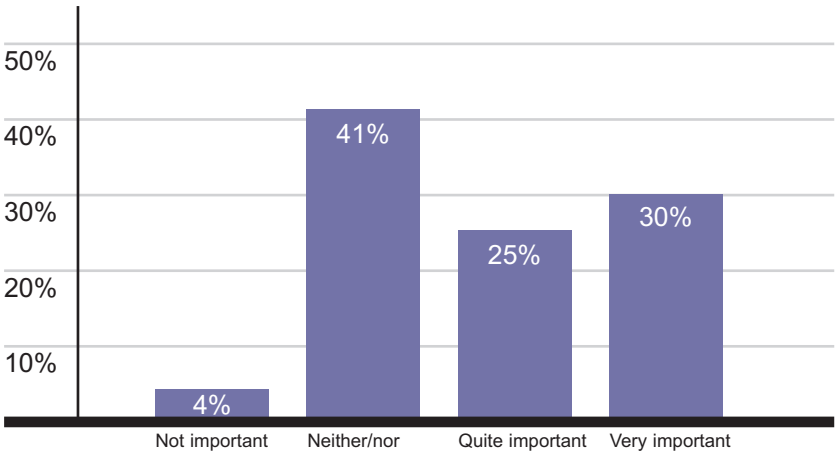
Thirty per cent of analysts used words and phrases such as 'highly important', 'enormous' and 'one of the most important things' to describe the relative importance of intangible assets to them, in terms of the market value of the companies they track. A further 25 per cent or so used words and phrases such as 'relatively' or 'quite important' to describe the importance of the intangible assets.

Eight of the 50 analysts interviewed regarded intangible assets as important, but did not actually evaluate them, using phrases such as 'they are obviously important, but they don't translate into numbers'.

*"Highly important – intangibles major item on the balance sheets. AG Barrs doesn't have much in the way of intangibles on the balance sheet, if a company wanted to acquire Barrs they would have to pay a significant amount of good will for the company."*

*"I don't think about it, not directly as such. Obviously they are quite important, if they have the value in the brand, but I don't actually think about translating them into actual value."*

**Relative importance of intangible assets to analysts**




**Base: 50 City analysts**

# The relative importance of brand assets

Many analysts thought that, although a brand itself is important, it cannot be properly measured from a financial perspective and therefore cannot or should not appear on the balance sheet.

Only just over half of analysts interviewed were able – or willing – to put a percentage estimate on the relative importance of brand assets within intangible assets and the answers averaged at 52 per cent.

About 40 per cent said that the relative importance of brands was growing, and none of the analysts thought that brands were declining in importance.

Some of the analysts felt there are identifiable differences within the market they cover and implied that the importance of brands depends on the nature of the product the company is pushing.

This was most evident in the automotive sector, where analysts suggested that a split existed between 'premium cars' and 'mass market cars'. Examples given to illustrate this point included BMW, Mercedes and Honda – felt to be companies that advertise their brand – while Renault and Peugeot were regarded as 'marketing models not brands'.

> *"Brand is growing in importance – where there are demonstrable brand assets invested in over the years – they carry quite significant value, playing an increasingly valuable role."*

> *"Brand assets are fairly important, a brand that is properly communicated to the consumer and stands for tangible benefits or that has intangible benefits that they are able to associate with the product, is very important. It will continue to be so, going forward."*

> *"When discussing intangible assets, brand is the main thing that springs to mind. In the automotive industry brand is very, very important – especially as the world is becoming more and more aspirational. Where the brand is placed on the aspirational level is paramount. People now upgrade the brand rather than the product – therefore where your brand is perceived is in many ways more important than the product."*

> *"For spirits, companies brand assets are 100% important, it is the only thing they have, at the end of the day nobody really knows the difference between one vodka or another – it's all rocket fuel really!"*

## Sector differences: intangible assets

**FMCG**
All recognise that intangible assets are highly important, but the FMCG analysts are divided about whether they should be included on the balance sheet.

**Automotive**
Almost all analysts consider intangible assets to be growing in importance. Brand was often mentioned as being tremendously important with one analyst citing the example of Ford buying Jaguar's intangible assets at a cost of $1.42 billion. However, many analysts stated that the importance of brand assets depends on whether the company belonged to the mass or premium car market; for example, brand is much more important to BMW than to Vauxhall. Only one analyst considers intangibles to be of no importance as 'there is no such thing in financial terms'.

**Telecoms**
Almost all analysts in this sector mentioned licences as hugely significant and most consider intangible assets to be a big issue and see it as growing in importance. Only two analysts do not see them as at all important as there is no cash flow involved.

**Financial Services**
Almost all analysts in this sector consider intangible assets as very important – especially brand assets. Two or three analysts argued that it is a waste of time considering these as they only track the 'financial aspects' of a company. However, all analysts see the difficulty of measuring intangible assets as a problem.

**Alcohol**
Intangible assets are considered by all analysts to be 'crucial', as the industry is all 'about distributing and marketing'.

## Sector differences: brand assets

**FMCG**
All except one analyst recognise the importance of brand assets, calling them 'crucial' and 'playing an increasingly valuable role'. A couple of analysts thought them difficult to measure scientifically and therefore are wary of them being included on the balance sheet.

**Automotive**
Almost all analysts consider brand assets very important, especially in the automotive market. These analysts all think brand assets are growing in importance and quote them as being particularly important for the aspirational aspect of purchasing a car.

**Telecoms**
All the analysts interviewed in this sector consider brand assets as very important and most think they are growing in importance, recognising that the brand has an influence on everything, including customers and networking the product. Many think that they are getting to a stage in the industry where there is a wider variety of products and how you offer them will become very important.

**Financial Services**
Those who previously did not consider intangible assets as important recognise the importance of brand assets. However, two analysts said that they do not consider the companies they track to have a 'brand', (much to the annoyance of the companies themselves). Almost all analysts mentioned the difficulty of measuring brand value, but recognise its importance, which they see neither as growing nor diminishing.

**Alcohol**
There is recognition amongst all analysts that the companies they track are brand driven. Without brands drinks companies especially are nothing. All these analysts consider brand assets to be growing in importance.

# Attitudes to non–financial measures

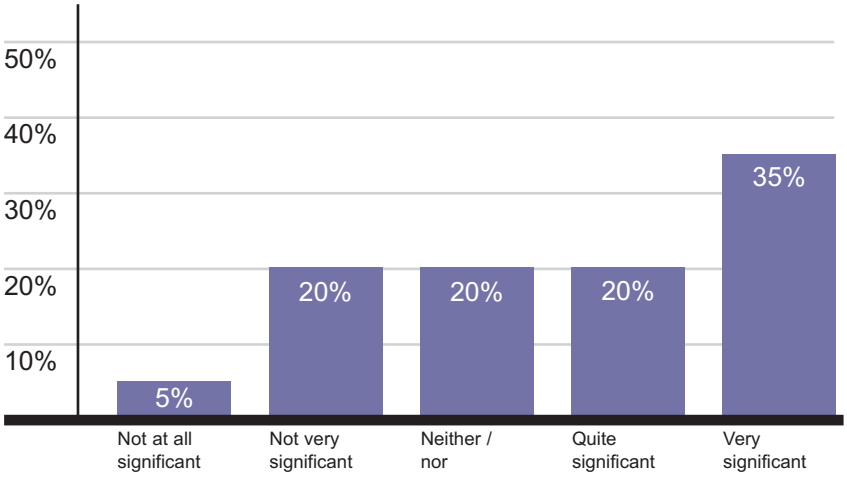
Analysts held quite different views on the significance of non-financial measures of performance, both with regards to their importance when tracking a company and the measures regarded as particularly significant.

Only a few asserted that they had never referred to non-financial measures of performance, and that they never would.

A fifth of analysts were not opposed in principle to the notion of using non-financial measurements, but said that in practice they don't generally do so. A further fifth suggested non-financial measures are 'fairly important' and something referred to from time to time.

More than a third of analysts regarded non-financial measures as either 'significant' (about 10 per cent) or 'very significant' (about 25 per cent).

**The significance of non-financial measures to analysts' views of companies**




**Base: 50 City analysts**

In terms of what the significant non-financial measures are, the following were the main factors mentioned:

- Market share, market growth, and market position came up frequently.
- Brand awareness, brand health, brand empathy were also considered very important by many.
- Management direction, management strategy and management quality were also considered to be highly significant non-financial measures by some.
- Customer satisfaction, sales performance, service performance, distribution and customer churn were mentioned by a few.

For those who did not regard non-financials as important, a majority appreciated that customer satisfaction, for example, was crucial to the success of the companies they track, but viewed it as both a subjective and unquantifiable measure and one that is not taken into consideration when analysing the performance and prospects of the companies tracked.

*"They are becoming a lot more important these days. In the mobile world – we always thought that the mobile would be a commodity, yet it is now apparent (based on the likes of mm$O_2$) that brand power now means there can be winners or losers within that commoditised product. The importance of non-financial measures has been growing, but they are certainly not being used widely yet, in terms of valuation tools."*

*"Non-financial measures are very important but not central to the valuations of the companies we track as analysts – but nonetheless still very important. It's all part and parcel of the strength of the brand as a whole."*

## Sector differences: non-financial measures

**FMCG**
All FMCG analysts interviewed consider non-financial measures important, quoting getting customer perception and awareness right as key factors for a company to go forward. A very large range of measures are regarded as significant: quality of management, market share, market growth, level of innovation, geographic spread, brand awareness, purchase intent and customer satisfaction. A couple of analysts said that some of these translate into the financials; however, most see them as hard to measure and difficult to get information on. It is clear that, when given the information, these analysts take a very broad view in their analyses.

**Automotive**
Most analysts in this sector consider non-financial measures to be quite important in terms of predictions. Only two analysts do not consider them at all. Those who do consider them say that their assessment is necessarily subjective as they are hard to measure, but still quoted a large range of things that they consider: customer satisfaction, dealer satisfaction, market share, brand positioning, consumer relationship, loyalty, management strategy and health of market. One analyst said that the automotive industry is obsessed with non-financial measures, claiming that they judge themselves on them more than financial returns.

**Telecoms**
Every analyst interviewed in this sector recognises the importance of non-financials, but takes them into account to varying degrees. They are considered to be important in order to see if the business strategy is working, but are thought by some analysts to be hard to measure. They clearly recognise that they are growing in importance as a few analysts spoke of some companies that are introducing new non-financial measures, for example customer satisfaction, as performance indicators. The following were quoted as being significant with every analyst naming at least one: customer satisfaction, market share, brand empathy, customer churn, subscriber addition, management quality or market assessment.

**Financial Services**
These analysts were divided in their opinion about the significance of non-financial measures. Management performance and market position are seen by many to be important, but also as difficult to measure. Other non-financial measures mentioned were: market share, risk management, reputation and strategy.

**Alcohol**
Almost all analysts consider non-financial measures to be 'very important' or 'crucial'. However, the difficulty of getting hold of information and measuring it scientifically prevents them from doing much research. A minority said that they only look at the financials, yet almost all of these analysts came up with examples of non-financial measures that they regard as significant: market share, market category growth, demographics, management perception, brand health, customer satisfaction, employee satisfaction and goodwill.

# The significance of the new OFR

The analysts were asked in further detail about the Accounting Standards Board's (ASB) new Operating and Financial Review (OFR) guidelines, their awareness of them and the extent of information available to them on the non-financial measures quoted in the OFR guidelines. The perceptions of those interviewed varied quite widely and these variations do not appear to correspond to sectoral divides.

Half said that there was a distinct lack of information available on the non-financial measures in the OFR guidelines. Some felt the information was available, but that it would require time and effort to dig it out. Analysts would prefer to receive it from the companies themselves and it was up to the companies to ensure they had the information if it is regarded as significant.

Only about a fifth of those interviewed thought they currently received the sort of information which the OFR guidelines call for:

> *"Not really enough, you can't do much of an analysis as you only really get the companies point of view. I would like to look more closely at these things – however only if I was happy with the measure."*

> *"Yes, there isn't enough in the annual report for someone who really wanted to find out what, for instance, employee satisfaction was like in a company."*

> *"I think there is a lot of information, but it lacks consistent clarity across players on brand strength and market position; customer satisfaction, there isn't enough put out about that."*

# The perceived importance of marketing

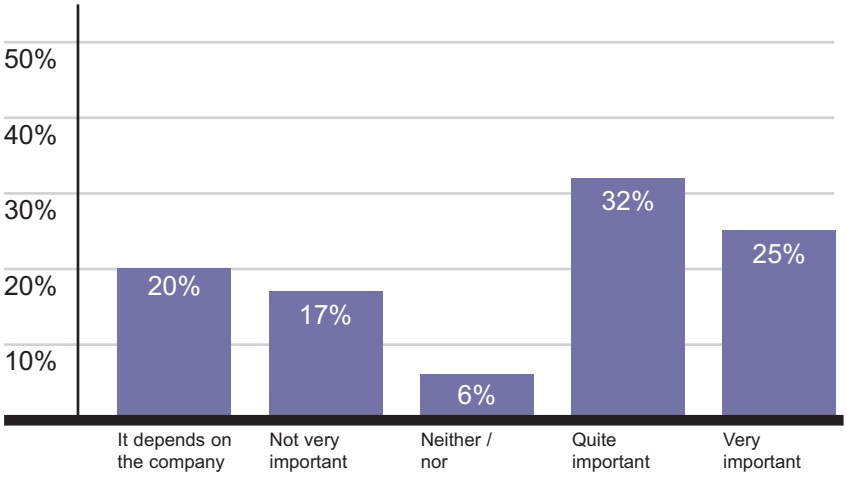
Analysts were initially asked which companies they thought were most successful at achieving organic growth. Responses to this question were, of course, sector specific, and analysts frequently offered more than one example. BMW was most-named overall, followed by SAB Miller, Legal & General and Danone.

When then asked which companies were best at marketing, most struggled slightly, typically saying that they 'hadn't thought about it before' or that 'it is not really something that comes up in analysis'. There was less consensus about which companies were best at marketing than there was about which were best at achieving organic growth. Diageo, Legal & General and $O_2$ were most mentioned overall.

Analysts were then asked on a scale of 1 to 5 to rank the significance of marketing to the success of the companies they tracked when it came to achieving organic growth (where 1 means very unimportant indeed and 5 means very important indeed). None ranked marketing at the bottom of the scale in significance to achieving organic growth.

The great majority of responses were in the range between 2 and 5, with two analysts seeing marketing as so significant that they ranked it off the scale at 6, and eight analysts, covering all five sectors, perceiving marketing to be of widely varying significance for different companies within their sector depending, for example, on whether they operated in a mature or emerging market.

**Perceptions of the relative importance of marketing to organic growth**




**Base: 50 City analysts**

More than half used words such as 'significant', 'important', 'large', 'huge' or 'key' to describe the role of marketing in a company's success at achieving organic growth.

*"The stories of growth as I'm aware tend to be the marketing driven ones. Diageo is massively, massively marketing-driven in terms of actually having advertising campaigns and in terms of really aligning a new product in development and innovation, with their perspective of what innovation is."*

*"Marketing plays quite a significant role. The majority of markets in the car industry are mature markets such as North America, Western Europe and Japan. They are pretty static markets really, you could double your marketing spend and might gain a small market share"*

*"Marketing plays a reasonable role. The insurance sector is an odd one as they don't market to the general public, they market to the intermediaries – the brokers. But it is still marketing, I would say that it is all about marketing in the case of Legal & General."*

## Sector differences: perceived importance of marketing

**FMCG**
All analysts in this sector consider marketing to play an important role in the companies they track, using words such as 'very important', 'key' and 'significant'. All bar one ranked the importance of marketing in their success at either 4 or 5 out of 5, with one analyst giving it 6 out of 5. Many stated that it is critical to know who your customer is in the FMCG sector.

**Automotive**
Again all ten automotive analysts see marketing as 'important' and 'significant' in the success of the companies they track. Marketing's ranking in importance averaged at about 4 with two people ranking it at 2 out of 5. The analysts that gave marketing a low ranking carried their lack of interest in marketing through the interview and did not give it much credence compared to financial factors.

**Telecoms**
Almost all analysts in this sector consider marketing to be 'key', 'significant' and to 'play a huge role' in their companies, with only one responding that it is not massively important. The average ranking of marketing's importance was 4 to 5 with one analyst giving it 6 out of 5! There is a general recognition that marketing is a more important consideration now than it was two years ago.

**Financial Services**
All bar one analyst see marketing as playing a 'big role' in the success of the companies they track, with brand considered as especially important by some. Marketing's rank in importance averaged at about 3 with answers at the top and bottom of the scale. Marketing is certainly not considered to be insignificant, but the three analysts that ranked its importance at 2 were unresponsive to all questions in the survey and only consider a company's financial aspects.

**Alcohol**
All analysts in this sector consider marketing to be crucial to the success of the companies they track, with certain companies such as Diageo considered as 'massively marketing driven'. The marketing ranking averaged at 4 or 5, however this is considered to be in the packaged drinks industry rather than in wine or beer.

Analysts were asked whether they thought that marketing expenditure was a 'big black hole'. Some analysts regarded this as a fairly widely held view, but felt that to say marketing expenditure represents a 'black hole' was overstating the point. Those taking this view tended to think that there was a large amount of waste in marketing expenditure, but not that all marketing expenditure is a waste, which is what they understand the phrase to mean.

# Understanding of marketing expenditure

It became clear during this section of the discussion that many analysts were unsure about what would be theoretically included under the heading of marketing expenditure.

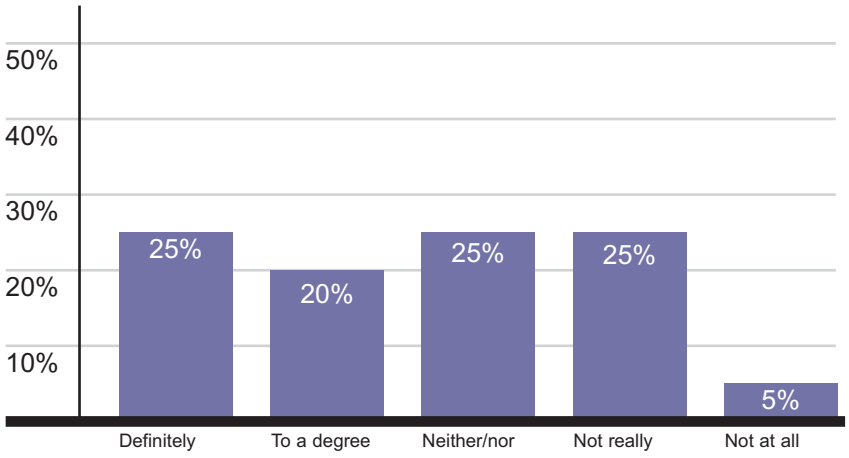
Just under a third replied that it was entirely accurate to say that they think about marketing expenditure precisely in terms of Advertising & Promotions (A&P) and nearly as many said this was 'generally' how they think of marketing expenditure.

About a quarter of those interviewed rejected the proposition and said that they do not only think of marketing expenditure in terms of A&P, but take a 'much broader view'.

When it came to which items analysts considered to be a part of marketing expenditure, this varied between sectors. Those in the telecoms industry for example, regarded handset subsidies as a major aspect of marketing expenditure; those in the financial services sector tracking insurance companies, view broker commissions as a crucial part of marketing expenditure.

> *"No – there is a lot more to it. A&P is the visual part aimed at the end consumer, there is an awful lot of stuff about working with distributors and preparing the market – in a way A&P is just the tip of the iceberg."*

**Is marketing expenditure 'a big black hole'?**




**Base: 50 City analysts**

Many put their lack of knowledge or nuanced understanding about marketing expenditure down to what they perceived as the secrecy culture from companies about the disclosure of A&P figures, a perception that reinforced the presumption that a lot of marketing spending is wasted.

- About a quarter of the analysts thought marketing expenditure was 'a big black hole'.

- About a fifth of those interviewed regarded marketing expenditure as a 'big black hole to some extent', or as 'a black hole, certainly, but not a big one'.

- Around a quarter of the analysts surveyed thought the phrase 'black hole' was overstating the problem – with this viewpoint typified by the comment that 'it's not a black hole, but there is some waste'.

- Only ten of the analysts were firmly of the view that marketing expenditure was not in any sense a 'big black hole'.

*"Generally, it's something that isn't broken out in great detail, or given consistently. There is an element of companies hiding behind the fact that it is strategically sensitive. If you read the advertising industry trade publications you can get an idea of who's doing what at what time. But it involves a lot of leg work."*

*"I think that is how the market thinks about A&P, they do think it's a black hole, I don't think there is enough in terms of understanding, in the market, on advertising editing, quality of promotion, difference between paybacks on media advertising, versus promotions. That is very much unexplored territory."*

*"I don't think it is a big black hole, clearly it is a very important process and part of what successful companies with consumer brands must do. I don't regard it as a waste of money – but as mentioned earlier it is very hard to actually tell how successful a marketing campaign is, or what sort of returns they are getting from a certain amount of marketing spend."*

# Advertising as an investment

Analysts were asked to express their view of advertising by placing it on a scale between 1 and 10, where 1 means that advertising is entirely a cost, and 10 means it is entirely an investment. Responses spanned the whole of that range, with as many analysts saying 1 out of 10 as 10 out of 10, and the average for all the analysts surveyed being just in the top half of the scale, at 5.5 out of 10.

The following are some indicative verbatim quotes from the analysts interviewed:

8 *"Principally an investment, this is a personal view – first and foremost, some people liken it to the cost of doing business – in a sense they may say it's a cost – but literally what people mean is – you have to invest to exist."*

7-8 *"It has a long-term effect, in the short run yes it can have an effect, but the key is the long-term relationship with the consumer which has to be maintained through a background investment in advertising."*

7 *"It would differ within the sector. Some analysts still perceive advertising and brand power as a lot of rubbish. A lot of analysts have been very negative towards mm$O_2$ in the last couple of years – as they felt it wasn't going to succeed."*

7 *"It would be critical in any company I track. Marketing is critical in developing a strong brand and selling that product and making people aware of that product. So to assume that it is just a cost, draws away from the whole purpose of it, which is an investment in growth and in your firm's product and selling it."*

3 *"Very few capitalise these costs, so they wouldn't be considered an investment even by the companies, although maybe from a philosophical perspective it is, it depends what level of development the company is at. It would differ within the sector."*

## Sector differences: Advertising as an investment

**FMCG**
The analysts' answers average at about 5. Most gave the response of 5 or above and one analyst gave it 1 – entirely a cost. There was a clear feeling from most, however, that it is a necessary investment – without which advertising companies would go down the pan.

**Automotive**
Again the opinions average at about 5 – not entirely a cost, nor entirely an investment. Almost all analysts in this sector stated that it depends on the company and whether they are in a mature or emerging market, where advertising is a cost for a new company and an investment for a well-established company.

**Telecoms**
These analysts' responses varied dramatically with some responding with 7 and 8 and others with 3. Their answers average at about 5 and most qualified their responses with the fact that it differs within the sector, depending on what you're advertising. There is, however, a clear recognition among some that the industry they track is becoming more brand driven and therefore A&P is more of an investment.

**Financial Services**
Again, responses average at about 5, but two analysts value A&P at 10 – entirely an investment – with one analyst saying: "If they didn't advertise, they wouldn't get any business". Most qualified their response by saying that whether it is an investment or a cost depends on the effectiveness of the advertising, but most recognise A&P's potential value and importance.

**Alcohol**
Responses average at about 4 or 5, with most seeing advertising as more of an investment and only one ranking it at 1 – entirely a cost. Most said that it depends on the quality of the campaign: "If it's great and it builds brand equity over the next 3–5 years, then it's an investment".

# Further questions on A&P

The following questions reinforced the overwhelming consensus that there is simply not enough information provided to analysts, even though it would be welcome.

**Is there enough info on the break between advertising expenditure and promotions expenditure?**

Eighty-one per cent suggested that there was not enough information on the break between advertising expenditure and promotions expenditure.

> *"Again it would be interesting to see more – companies should be more accountable on what they are doing – including these breakdowns. Difficult to position companies on the data available – what's in the annual report and the press reports are often grossly inadequate."*

> *"No A&P figure, it is just lumped in with general cost; there is no breakdown. So I haven't a clue whether they are over spending or under spending. There is no data."*

**What is the critical difference in business impact between advertising and promotions?** (**IF ANY**)

Few analysts were able to express distinct opinions on the difference in business impact between advertising and promotions. They were, however, able to discuss the actual differences that they saw between A&P, for example, "promotions as a sales tool" and "advertising is used to drive product or brand awareness".

Analysts from the Telecoms and Financial Services sectors were least aware of the differences between A&P and a few asked for an example of a promotion relative to their sector. They thought of promotions in terms of '2-for-1' offers in supermarkets and considered handset subsidies or fixed interest rates as a very important sales tool in their industry.

Twenty-five per cent of the analysts were unable to offer any suggestions relating to the difference in impact between advertising and promotions, some implying that there is 'no breakdown' or 'no sense of difference'.

Only nine per cent were aware that a difference existed at all.

The analysts' lack of understanding of the actual difference in business between advertising and promotions may be a result of the fact that they do not have the A&P figures broken down and are therefore unable to assess impacts individually.

> *"I know they are separate and I know what they do, but the companies themselves rarely disclose what the split is, nor have they communicated what the financial impact or even just the impact on the brands are from doing either."*

## Sector differences: advertising versus promotions

**FMCG**
Most analysts say that they see impact from both advertising and promotion, but most cannot pinpoint the difference in business impact made by each one. Promotion is generally seen as more useful for high street retailers. The analysts' lack of knowledge is again considered by them to be a problem of disclosure. Most expressed an interest to see more of a breakdown.

**Automotive**
Most see advertising as long-term brand building and therefore preferable to promotions, as the latter are considered to destroy the brand. Again their lack of knowledge is attributed to the lack of information available to them from the companies. Only two analysts 'don't care'.

**Telecoms**
Only a few analysts ventured to answer this question. There was some consensus that promotions are more targeted and advertising more general, therefore promotions have more business impact.

Most analysts do not have a clear idea of whether advertising or promotions is more profitable in the short term and all analysts said that they simply do not have enough information to make a judgement.

**Financial Services**
Half of the analysts from this sector find it interesting and ventured guesses, saying that they see advertising as long-term brand building and promotions as more profitable in the sort term. One analyst cited Legal & General as a company that has doubled its market share through A&P. This indicates the recognition by some of these analysts that A&P are important, but the lack of information provided to them makes it impossible to go into further detail.

**Alcohol**
There was no one view that emerged from all the analysts when it comes to the difference in business impact between advertising and promotions. One analyst sees any type of A&P spend getting 'profit, profit, profit'. Promotions are seen by all of them as more profitable in the short term. However, they are also seen to impact negatively on the image of the brand. The lack of a unified response further underlines that there is no information provided on this subject.

**Do you currently do analysis on A&P for the companies you track? Or is it not really a relevant factor?**

Only about six per cent of analysts interviewed said that yes, they do track A&P, but only when it is 'relevant', 'possible' or 'sometimes'.

Twenty-one per cent suggested that they do not do analysis on A&P based on the lack of quality information available, using 'lack of disclosure', 'no data' or 'data not good enough'.

> *"No, because I can't get the data. Unless there is advertising industry data. But there is nothing specific given by the companies themselves."*

> *"Yes. I spend a lot of time looking to see how the A&P ratios are moving, and try to get some sort of idea about where the A&P is being spent. And how they hope to get a return on investment."*

**Do you have regular reliable sources of info about A&P activity? Or is it an aspect of a business that you pick up impressions about (as you work)? Or do you not really get any info about A&P activity?**

Only two per cent of analysts felt that sources of information on A&P activity were both regular and reliable.'

> *"It's terribly difficult to get that sort of information. I can pick up impressions but only because I know lots of people that work in the industry. There is actually an information deficit."*

There is no evidence from this research that there is one sector in which the analysts receive more information that the others and no pattern to suggest that one sector would like the information more than another. Instead the results of the survey clearly show an overall consensus that, if this information were to be provided in a concrete and comprehensible form from reliable and comparable sources, it would be most welcome, and indeed help in tracking the companies that these analysts work for.

## Sector differences: data availability

**FMCG**
All except one of the analysts in the FMCG sector would like more information that is both regular and consistent. At the moment they are heavily dependent on what the companies are prepared to tell them which, in most cases, is very little.

**Automotive**
Half of these analysts get information and half do not. One analyst has a system that logs all promotional activity by the manufacturers. However there is certainly a desire for more from almost all of the analysts as some of the information that is received is not in great detail.

**Telecoms**
Almost all analysts in this sector said that they pick up impressions as none of the companies they track disclose the information. Some said they use information from companies such as Hays and Haymarket, but this was the best they could get hold of.

**Financial Services**
Again, most of these analysts pick up impressions. One gets data, but it is only detailed enough to see what the long-term trends are. The lack of disclosure from the companies was seen as the main reason for their information deficit.

**Alcohol**
Only two of the analysts interviewed in the alcohol sector receive consistent data on the relative levels of expenditure; however this information comes from the US not Europe. Most pick up impressions and do some research of their own, but the lack of in-depth data received means that this research is only skin-deep and often retrospective, “with no kind of here and now feel for what they (companies) are doing”.

# Appendix
## Research methodology

Fifty City analysts were interviewed by telephone – ten analysts from each of the following sectors: automotive, FMCG, telecommunications, alcohol, and financial services.

Each interview lasted approximately 30 minutes and covered a range of questions about marketing, advertising and promotions.

The research was conducted through independent polling company Populus on behalf of the Institute of Practitioners in Advertising in May–June 2005.

## Participating analysts

Analysts were interviewed from the following companies:

| | |
|---|---|
| ABN AMRO | INVESTEC HENDERSON |
| AUTOPOLIS | INVESTEC SECURITIES |
| BELL LAWRIE WHITE | JP MORGAN |
| BUTLER GROUP | LEHMAN BROTHERS |
| CAI CHEVREUX | MAN SECURITIES |
| COLLINS STEWART | MERRILL LYNCH |
| CSFB | MINTEL |
| DAIWA INSTITUTE OF RESEARCH | MORGAN STANLEY |
| DAIWA SECURITIES SMBC | NUMIS SECURITIES |
| DATAMONITOR | OTEGRA |
| DKW | REDBURN |
| EVOLUTION | SANFORD C. BERNSTEIN LIMITED |
| FOX-PITT, KELTON | SPYDER AUTOMOTIVE |
| GLOBAL INSIGHT | STANDARD & POORS |
| GOLDMAN SACHS | TEATHER AND GREENWOOD |
| HSBC | WEST LB PANMURE |
| INFONETICS RESEARCH | WILLIAMS DE BROE |
| ING FINANCIAL MARKETS | |

# Discussion guide

## ABOUT PERCEPTIONS OF MARKETING

1. Thinking about the sector that you track, which companies do you think are currently the most successful in achieving organic growth?

2. What role, if any, do you think that marketing plays in this success?

3. So which companies in your sector do you think are best at marketing?

4. In what way are they best at marketing?

5. What role do you think the marketing function has in this success? Do you have any feeling of how they are perceived by senior management in these companies?

## INTANGIBLE ASSETS

6. Thinking about the market value of the companies that you track, do you have a general view on the relative importance of intangible assets to your sector? Is there a percentage estimate you could put on it? Is it growing or declining?

7. And, thinking about brand assets within intangible assets, again do you have a general view on the relative importance of brand assets within intangible assets in your sector? Again is there a percentage estimate you could put against it? Again, is it growing or declining? What makes up the largest proportion of the remaining intangible assets as far as you are concerned?

8. How significant are non-financial measures in analysing the position and assessing the likely future performance of companies you track?

9. Which non-financial measures (if any) do you regard as significant for this assessment – and why?

10. The new OFR guidelines refer, among other non-financial measures, to brand strength, market position, customer satisfaction and employee satisfaction. Do you think enough information is currently provided about these things?

## ADVERTISING VERSUS PROMOTIONS

11. In interviews with analysts we have reached the impression that the way analysts think about marketing expenditure is in terms of A&P. Is this how you think about marketing expenditure? If not, how?

12. We also got the impression that expenditure on A&P was often felt to be a 'big black hole'! Not explained or understood. Is this how you feel about A&P?

13. What do you see as being the critical difference in business impact between advertising and promotions?

14. There is a strong debate about whether advertising or promotions is more profitable in the short term. Do you have a view either way? Can you give an example?

15. Would you say that the companies you track achieve more organic growth from advertising or from promotions?

16. Some analysts say that they regard expenditure on advertising as an investment and others say they regard it as a cost. Just so we can get a clear overall sense of what the consensus attitude is, could you give your view on that issue on a 10-point scale where 1 means advertising is entirely a cost and 10 means that it is entirely an investment.

17. Could you say a bit more about why you take that view (about whether advertising is a cost or an investment)? Is it a general view or are some sectors different from others?

18. People in the advertising and marketing industries see a significant difference between brand-building investment on the one-hand and short-term sales growth on the other. From your point of view as an analyst is that a significant distinction? Do you think enough information is available to enable you to evaluate the distinction for yourself?

## EVALUATING ADVERTISING

19. Do you currently do any analysis of the A&P spending of the companies you track or has it not really been a relevant factor?

20. Do you have regular reliable sources of information about A&P activity, or is it one of those aspects of a business that you pick up impressions about in the course of your work, or do you not really get any information about A&P activity?

20a. (If yes at 17).

21. Would you tell me what are the main sources of information you'd look to on A&P activity?

22. Do you discuss the quality of advertising communication with the companies you track?

23. Which, if any, of the following methods of analyst for evaluating A&P are you familiar with? Which do you use?

a) Share of voice versus share of market
b) Brand awareness
c) Brand consideration
d) Increases in customer acquisition
e) Increases in customer retention
f) Profitable share gain
g) Long-term brand potential

# Further Reading

*Intangibles: Management, Measurement and Reporting*
Baruch Lev
Brookings Institution Press, Washington D.C.

*Intangible assets: Values, Measures, and Risks*
Edited by John Hand and Baruch Lev
Oxford University Press

*Value Based Marketing*
Peter Doyle
John Wiley and Sons

*Marketing Payback*
Robert Shaw and David Merrick
FT Prentice Hall

*Advertising Works And How:*
*Winning communications strategies for business*
Edited by Laurence Green
IPA/WARC

*Advertising Works 13*
Edited by Alison Hoad
IPA/WARC

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