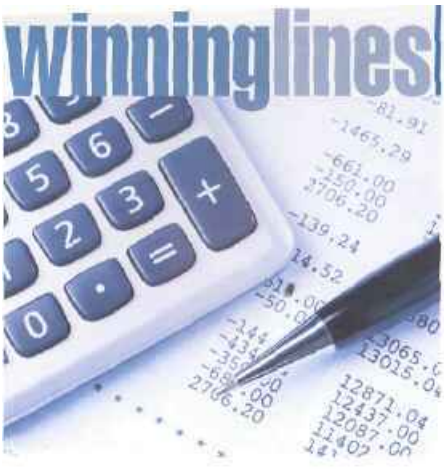

Increasing the value of companies

Peter Field explores the characteristics of case studies that have raised the stock price

MARKETERS ARE commonly more concerned with building brand awareness and image than shareholder value. This is unfortunate, as it undervalues their true role. In fact there are a number of case studies where enlightened marketing could demonstrate an impact on the company stock price. Of course this is rarely possible with multi-brand companies, where the fortunes of one brand are diluted by the rest. But useful lessons can be learnt from single-brand companies that have seen beneficial stock-price movements as a result of marketing activity.

The importance of brands to shareholder value is rarely questioned these days: Investec analyst Martin Deboo (i), refers to the 2006 Brand Finance Global Intangible Study, which estimated that intangible assets (largely accounted for by brands in consumer categories) comprise 62% of the enterprise value of the world's 25 largest stock markets. He points out that analysts are much more concerned with forecasting future earnings than they are with dissecting the current balance sheet: a company's prospects for generating organic earnings growth (specifically, from existing assets) is regarded as the key indicator of underlying performance. In turn, the all-important PE (price/earnings) ratio (the ultimate confidence measure of future shareholder value growth) is strongly correlated with organic growth - brands judged to have good earnings growth prospects therefore merit higher PE ratios.

Where things get interesting for marketers is in the judgement of organic growth prospects. Deboo makes clear that this is not simply based on historical performance: 'Investors are placing enormous faith in the ability of mature branded goods companies ... to generate profits in semi-perpetuity'. He goes on: 'Valuing brands automatically implies taking a view on their ability to generate profits in future. We are blending fact with opinion ... That is what I do.' So, in the absence of market research data (which Deboo says is rarely provided), analysts' intuitive judgement of the long-term effectiveness of marketing significantly influences their assessment of the value of the company.

Of course, any campaign that generates a sufficiently positive return will ultimately influence the share price to some degree. What we are examining here is those campaigns that also generated greater forward investor confidence, boosting the PE ratio further and faster. Case studies that successfully influenced stock prices ahead of sustained business results should exhibit what analysts and investors sense will deliver long-term growth. I am certainly not suggesting that their judgement of effectiveness is infallible, but companies seeking to use brand marketing to enhance their stock price would do well to observe the apparent prejudices of analysts.

Sobieski vodka created a stir in the Lithuanian stock market; Sobieski subsequently captured a 21% share, resulting in an almost four-fold stock-price rise

Focus on quality

Deboo identifies two primary levers of profitability as growing revenues and increasing profit margins. While pursuing volume will clearly achieve the former (unless done through discounting), it will not necessarily achieve the latter. Raising consumers' quality perceptions should reduce price sensitivity and strengthen pricing: this will grow revenues and increase margins simultaneously. So, not surprisingly, campaigns that aim to improve perceived relative quality feature strongly among stock-price-boosting case studies. This was a notable feature of the **Netflix** (2) campaign. Facing an aggressive price war, the campaign chose to focus on added value. The brand was able to resist a second round of competitor price-cutting while building penetration and reducing churn: the stock price rose 63% over the campaign period.

Molson (3) sought to raise the prestige of its Canadian provenance in line with other beer cultures. Its I am Canadian' rant clearly struck a chord with the investment community, who rewarded it immediately with a dramatic stock price rise, long before any reliable sales figures were available. Their thirst was later slaked with an annual market share rise of 2.5%.

Sobieski vodka (4) created a stir in the Lithuanian stock market. Dominated by home-grown brands (the brand leader is called 'Original Lithuanian'), there was not a single significant 'foreign' brand. Distiller Vilniaus Degtine launched a brand hitherto only exported. Its Russian-sounding name ran the risk of evoking memories of Soviet moonshine, so the campaign stressed the quality (purity) of

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the product. A Lithuanian grain-harvest vintage declared on the bottle provided a natural home-produced message.

The share price took off just after launch when only the first month's sales were known (a modest market share of i%), such was the belief in the new brand's prospects. Sobieski subsequently captured a 21% share, resulting in an almost four-fold stock-price rise.

The UK launch of **Magners Irish** Cider (5) was an ideal 'investors' campaign'. Unimaginative marketing had allowed the UK cider market to become extremely price-sensitive. The launch tackled this by redefining quality, and also sparkled in terms of many of the other investor virtues discussed below. The stock price had already taken off by the time the brand had achieved a modest 5% share - the market clearly anticipated greater profits. Two years later the stock price had quadrupled to €12.

Given previous false starts at recovery, you might have expected caution after the latest re-launch of retailer M&S (6), but the markets sensed that this time it was for real, and the share price started to accelerate as soon as the campaign began to bite. Deutsche Bank analyst Rod Whitehead summed up why: 'The new adverts have been first class, they will deliver further benefits through increasing trust in the brand ... and through giving M&S the right to sell premium products at premium prices.'

UK carbonated soft drink **Tizer** (7) saw its owner's stock price accelerate ahead of peers the month after its new campaign broke, successfully strengthening pricing by 20% year on year. **Domino's Pizza** (8) saw its UK stock price start to heat simultaneously with the TV launch of an improved delivery system. And the post-g/i i recovery of **British Airways'** (9) stock price coincided exactly with the launch of its value-reaffirming campaign aimed at tackling the threat from low-cost airlines head-on (see Figure i).

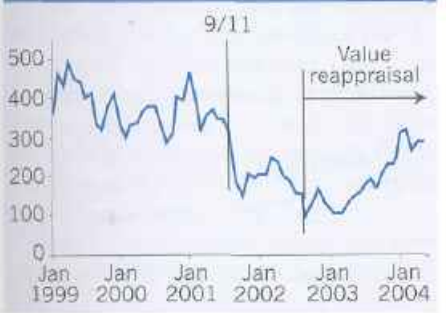
The long-term contribution of quality-enhancing campaigns to shareholder value is validated by a number of cases: **Direct Line** (10) insurance (£5.2bn of shareholder value over 12 years); UK retailer **Sainsbury's** (TI) (around £ibn of shareholder value over two years); and US restaurant chain **Jack in the Box** (12) (685% recovery in its stock price from 1995 to 2004).

Aim to build penetration

Building volume through discounting tends to give stock markets the jitters, as anyone who follows the prices of low-cost airlines can testify - the merest hint of a discount war to fill seats is enough to send stocks into a tailspin. But penetration growth as a means to build volume is usually more favourably regarded. **Clearnet** (13) built subscription to its Canadian mobile network by as much as 51% year on year. Just three years from launch, the brand was sold for $6.6bn. The stock market success of Netflix (2), was also partly achieved through impressive penetration growth. In Canada, **Clarica** (14) more than doubled its stock price as its popularity grew following the brand re-launch. And in the UK, mobile network **O_2** (15) almost doubled its market value to £i8bn in 20 months, with a campaign that proved twice as effective in customer recruitment as anything the company had run before. Similar penetration effects lie behind the stock market performance of Molson (3), Magners (5), M&S (6), MTS (16) and Tizer (7).

FIGURE 1

The BA stock price recovery



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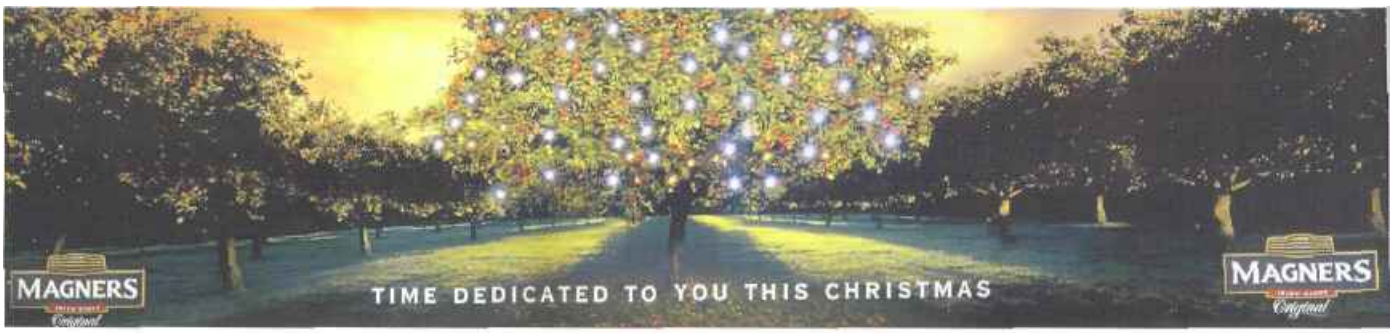

The launch of Magners Irish cider directly challenged the unimaginative marketing that dominated the UK cider market

Enter more profitable segments

One way to increase margins is to extend into more profitable market segments. UK carbonated soft drink **Irn-Bru** (17) extended into higher-margin energy drinks. The improvement in profitability lifted the stock price by over 6%. In Australia **Blackmores** (18) repositioned its stress-formula product from a niche medication to a mainstream lifestyle product for people with demanding professional jobs: a much larger and faster-growing market. The share price leapt by 50% in the first year, well ahead of actual sales growth. No doubt this was helped by the fact that many of the target market worked in the investment community.

Stabilise cash flows

The late Peter Doyle (19) pointed out that highly volatile, unpredictable cash flows reduce the value of businesses by increasing the discount rate applied to determine the value of future cash flows. Simply strengthening and reinforcing a brand may reduce this volatility, but sometimes more can be done. Part of the Magners (5) magic was to dramatically de-seasonalise the cider category, reducing seasonal sales variance by 50%. The brand is now less subject to the vagaries and whims of UK weather, and consequently more valuable. Sainsbury's (n) reported less-volatile cash flow following its campaign.

The opportunity for marketing

It is clear that good marketing can have a direct impact on shareholder value, especially if it addresses the issues that investors believe are important. But it is rare for marketing to measure or report its achievements in this context. In particular, the valuable potential role of marketing in strengthening pricing is widely overlooked. If it wishes to raise its own stock, marketing should pay at least as much attention to shareholder value measures as it does to tracking-study measures. •

Fonte: Admap, n. 2, p. 14-16, Feb. 2008.