COURSE REP-P REPORT
STUDENT 70822344

# EXAMINING THE USE OF MARKETING METRICS IN ANNUAL REPORTS OF SA LISTED COMPANIES

by

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# EXAMINING THE USE OF MARKETING METRICS IN ANNUAL REPORTS OF SA LISTED COMPANIES

**by**

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**submitted in part fulfillment of the requirements for the degree of MBL**

**in the subject**

**MARKETING**

**at the**

**UNIVERSITY OF SOUTH AFRICA**

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**November 2007**

## Abstract

**Purpose**

This paper analyses the use of marketing metrics and marketing information and metrics contained in 2006/7 annual reports of companies listed on the Johannesburg Stock Exchange. The assumption is that the annual reports are the vehicle whereby listed companies communicate to their shareholders and other stakeholder constituencies.

**Methodology**

The assessment criteria is based on Ambler's (2003) suggested marketing metrics and qualitative data is based on a checklist compiled from various academic sources. The elements which are assessed pertain to brand equity, other customer metrics, segmentation, competition, innovation and environmental and strategic aspects. The information obtained is compared to information required by investors and rating is done based on a grand total maturity.

**Findings**

Research results indicate that the use of quantitative metrics and qualitative data is very limited. The majority of companies display a lack of information pertaining to marketing. The results reflect a bi-modal tendency. Half (53%) of the companies do not provide any or poor information on their brand whereas 26% of companies supplied good and excellent information. The grand total score indicates that nearly two thirds (60%) of companies obtain a score of less than 50%, providing insufficient information. On the other hand, 27% of companies provide good and excellent information. Segmentation metrics are generally not reflected in annual reports, neither are competitors. Innovation and environmental aspects influencing market trends are covered by two thirds, however a third provides insufficient information. Other findings include that no standard reporting format exists. Information pertaining to marketing is spread throughout the annual reports. None of the companies provide a glossary of marketing definition or brand terminology.

**Research implications**

More in-depth research needs to be conducted on various industry sectors and amongst investors as to their needs.

**Originality/ value**

The paper is of value to corporate executives, marketing and communication practitioners who seek to improve communication and to convey optimal information for the investment community. The aim is to stimulate executive management to revise their relationship towards customers, the brand, marketing strategy and investors.

**Keywords**

Marketing metrics, marketing performance measures, annual report, shareholder value

## Acknowledgements

The input and assistance of the following people in the compilation of this research is gratefully acknowledged and very much appreciated:

Professor Peet Venter, for getting me started and giving me guidance

My life mentor and dearest friend Denis, who has enabled me to reach new heights

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# CHAPTER 1: Orientation

## 1.1 Introduction

In recent years the need to show what marketing contributes to business success has been raised time and time again. The Marketing Science Institute has stated that marketing performance measures (metrics) have for consecutive years in mid-2000 been identified as one of the top priorities which need to be attended to (Ambler, 2003:xiii). Marketing practitioners, academics and consultants have been confronted with many challenges. Some of these are:

- Marketing is the conduit between the company and the customer, but has problems quantifying its results internally to the company while externally it is said to push the company's need, sometimes to the detriment of consumer and public.
- There is no consensus on what the marketing field entails. Non-marketers' perceptions often differ from those of the specialists.
- The marketing function has been downgraded from a strategic position to a tactical support function.
- Marketing executives are said to lack the necessary marketing skills
- Application of marketing metrics has been problematic and no generally accepted standards have been consistently applied by companies globally. This has led to insufficient measurement of market performance.
- Individual companies often do not consistently and reliably measure marketing aspects such as their customer segment profitability, marketing mix and brand equity.
- Intangible assets with long term results such as a brand are difficult to measure and are therefore often ignored.
- Financial analysis is the norm for annual reports and intangible assets do not have to be reflected. Accounting principles take a short term view, whereas changes such as growth in brand equity are not measured. As their worth is not reflected in performance, the marketing function is not given its due recognition
- Marketing performance measurements are not globally standardized and enforced.

This leads to the conclusion that marketing needs to be clarified and marketing metrics can assist with achieving this. One way of assessing a company's perception of the importance of marketing, is to assess the marketing content of publicly available documents such as annual reports.

## 1.2 Importance of Study

The reason for selecting the topic "Examining the use of marketing metrics in annual reports of SA listed companies" is that marketing's traditional role has been that of the key enabler between the customer and the company and annual reports are one of the key communication tools with investors and stakeholders. Marketing has the ability to give direction and build the competitive strengths of a company and, when applied, properly add substantial value to the organization.

Aspects of marketing have been increasingly relegated away from core decision-making to other organizational units. Its role has been marginalized, often to become a sales support department (McDonald, 2006:426). Marketing professionals have tended to focus on tactical aspects. This has led to marketing taking on a diminishing role of importance in the organization. To give the marketing function its due credit (and more importantly, allow it to play its proper role), marketing has to become a strategic function which can be measured, researched and developed.

Marketers have historically reported on sales related measures such as market share, but have ignored focusing on shareholder value and impact on profit (Ambler, 2003). Traditional accounting methods, pressures from financial markets and senior executive management's performance drive have caused many companies to emphasize short term outcomes. With a move towards more stringent corporate governance and increased transparency the trend nowadays is to incorporate values of intangible assets and to take a more long term view in establishing the worth of a company.

The scope of management's responsibility has increased substantially in the last decade – having to address issues such as global competitiveness and increased customer knowledge and demands. Executives need to be well informed and knowledgeable, thereby enabling good decision-making, while investors need to be assured that management is monitoring, evaluating and managing the business as best as possible.

Marketing metrics can be part of the solution, giving the company financial quantitative and qualitative indicators of performance in the marketplace on which management and investors need to make decisions. Kerin (2005:13) highlights that research is needed and should focus on metrics that matter to CEO's and corporate boards. In order to take corrective action and to align with investor's objectives, marketing needs to be assessed.

Research (Ambler, 2002:48; McDonald and Dunbar, 2004:4; Greenyer, 2006:240) has shown that little information on marketing is shown in annual reports and that more can be done. To make good decisions measures such as quantifying and assessing the value of marketing metrics are necessary.

The gains from marketing can sometimes only be assessed over the medium to long term. Measuring long term and intangible assets in conjunction with short term financials has become essential. Shareholders need to base their decisions on facts and best practice and to have access to information regarding their investment. Research suggests that companies and shareholders gain from disclosing marketing related information in their annual reports. If more marketing information were disclosed in annual reports the quality of annual reports could improve by becoming more valuable. More marketing disclosure could facilitate companies taking a more long term view on their brands thereby enhancing long term sustainability of their businesses.

Annual reports can become more valuable tools for investors, analysts and other stakeholders by aiding their decision-making. By suggesting ways of measuring marketing metrics and showing the current state of disclosure in annual reports, executives might become aware of the need to incorporate intangible assets such as a brand and the need to take a longer term view. In addition, the study aims to highlight the need to measure more accurately and consistently marketing performance and to compare it to benchmarks and competitors. The study might result in highlighting the need for a more standardized set and usage of marketing metrics which, in turn, might assist marketing managers in substantiating their budget requests and improving overall marketing performance.

The research aims to assess to what extent (type and depth) qualitative marketing aspects are reported in annual reports and how quantitative metrics are reflected. This will be done by assessing the use of marketing metrics in annual reports. Aspects such as customers, competition, brand, segmentation, innovation, and strategic marketing information will be addressed. The companies will also be assessed according to their level of marketing metrics maturity.

## 1.3 Purpose of Research and Assumption of Study

This research proposes to assess to what extent companies communicate their marketing metrics and information relevant to marketing in annual reports. The analysis will include review of the full contents of annual reports, both qualitative and quantitative.

The purpose of this research is to assess the level of maturity in terms of marketing metrics and the degree of credibility marketing is being assigned by executives and as communicated to shareholders. This will be done by primarily analyzing annual reports. The research aims to provide an insight on whether and to what extent companies display marketing metrics and marketing trends in their annual reports.

In order to promote marketing and its role in creating value and sustainability for the company management needs to be able to measure the effectiveness of marketing. This makes the compilation and disclosure of marketing metrics necessary.

The researcher hopes to stimulate new ways of thinking about the importance of marketing metrics with a view to improving the perception of the importance of the marketing function.

The main assumption of the study is that annual reports are seen as vehicles whereby listed companies communicate with their stakeholder constituencies.

## 1.4 Objectives of the Study

The primary objective of this research is to determine the quality and type of disclosure pertaining to aspects of marketing and usage of marketing metrics in listed companies' annual reports. From this we can deduct what level of importance companies place on conveying and disclosing marketing information and metrics to external stakeholders such as investors.

The aim is to assess the overall maturity level of marketing disclosure and to assess whether it is sufficient for the investor community to use annual reports for their investment decisions.

This will be done by evaluating firstly, the quantitative aspects based on Ambler's (2003) suggested marketing metrics measurements. Secondly, assessment of the qualitative criteria will be based on the extent and quality of the marketing contents in annual reports. Trends and general tendencies observed in annual reports will also be reported on.

The qualitative and quantitative aspects will be combined to result in a rating per company for total brand equity and for a grand total score. These ratings will give an indication of the importance companies assign to marketing in their communication with shareholders.

### 1.4.1 Objective 1

The objective is to analyze the extent to which quantitative marketing performance measures (metrics) are disclosed in annual reports of listed corporate businesses in South Africa. This will be done by assessing metrics as per Ambler's (2003) suggested metrics. These include financial and brand equity measurements, other customer and segmentation metrics, measurements pertaining to competition, innovation and more generally mentioning of environmental and strategic aspects pertaining to marketing and the use of a marketing glossary.

### 1.4.2 Objective 2

The second objective is to determine the qualitative marketing information reflected in annual reports. This will be done by assessing the type of marketing aspects mentioned and to what extent (their quality) is reflected. The aspects under review are brand, customer, segmentation, competition, innovation, environment and strategy, the source (under which section in annual reports these aspects are mentioned). General tendencies and trends will be commented on under this section. This will give an indication of the value companies place on marketing and disclosure thereof.

### 1.4.3 Objective 3

The third objective is to collate this information by rating each company individually on its elements and then drawing a total for brand equity and grand total score. The grand total score will be based on Ambler's (2003) five level marketing maturity model. Results should indicate the level of sophistication used by companies in reflecting marketing metrics and other marketing aspects in annual reports. This overall level of maturity or sophistication will give an indication whether sufficient marketing metrics and aspects are communicated for investor and other external stakeholder purposes.

## 1.5 Definition of Marketing

The American Marketing Association (2007) defines marketing as follows: "Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders".

Other definitions state that marketing is a multifaceted field that leverages perspectives from multiple disciplines and its studies cover a range of topics such as macro to micro, organization to the consumer, capitalist practice to social welfare and local to global (MacInnes, 2005:14).

The definition of marketing as per Doyle (2001:53) states "Marketing is the management process that seeks to maximize returns to shareholders by developing and implementing strategies to build relationships of trust with high value customers and to create sustainable advantage".

In a world class organization the customer is at the centre of a business model. McDonald (McDonald and Dunbar, 2004:9) defines marketing as a process of understanding and defining markets, quantifying the needs of customer groups within these segments and developing a value proposition for satisfying these researched needs. These propositions then have to be communicated externally and within the organization. Marketing plays a role in delivering these value propositions as well as monitoring its delivery. For the process to be effective, an organization needs to be customer driven (McDonald, 2006:427).

Each of these definitions have a slightly different focus. For our research purposes we will align ourselves more closely with the definitions by Doyle's and McDonald's as they emphasize the strategic role and needs of shareholders and customers.

## 1.6 Delimitation of Study

The objective is to assess the importance placed on marketing and marketing metrics by South African corporate companies as communicated in annual reports of the year 2006. The sample will consist of corporate companies from various sectors listed on the South African Johannesburg Stock Exchange. The aim is to assess each company's level of maturity in terms of marketing metrics. It is a point in time representation, based mainly on Ambler's (2003) guidelines. Although an assessment of use of marketing metrics at board level would have been the preferred method, this is not possible due to confidentiality, accessibility and time constraints.

## 1.7 Outline of Research Report

The report begins by briefly stating the origins and role of marketing in organizations. In the literature review the role of and research pertaining to annual reports and accounting regulations are outlined. It continues with creation of shareholder value and discussion of an intangible marketing asset, a company's brand(s). This leads to the debate on financial measures and tools and models to use in evaluating marketing. The report continues with how to measure the brand and internal marketing (employees and innovation) and the marketing mix. More detail is given on the characteristics and possible choices of metrics with suggestions as to implementation. This serves as background to the problem statements.

Chapter 4 refers to the research design, assessment criteria and questions to evaluate the type and extent of qualitative and quantitative marketing information presented in annual reports. Financial, brand equity, consumer, segmentation, competitors, environmental and strategic measurements and information will be gathered and analyzed. Each element is individually rated per company. Finally overall rating of brand equity and grand total score will be derived and assessed according to a grand total maturity evaluation model. Chapter 5 describes the quantitative and qualitative research results. The final chapter 6 presents a discussion, conclusion and recommendations.

# CHAPTER 2: Foundation of Study

## 2.1 Introduction

The perception of the value which the marketing function can add to a company has in recent years seemingly deteriorated in practice. Research is needed and should focus on metrics that matter to chief executive officers and corporate boards (Kerin, 2005:13) and investors. The approach of this research is to establish whether sufficient information and what type of information is provided on marketing in annual reports with the view of highlighting some of the challenges which need to be overcome.

## 2.2 The Origins of Marketing

Webster (1992:4) defines marketing as having a tactical, cultural and strategic dimension. In the past 60 years the emphasis has shifted and the tactical dimension has been emphasized during the past two decades. During the 1960s the notion of the four P's of marketing (product, price, promotion, place) was readily accepted. However, in the original concept in the 1950s the main marketing variables, namely segmentation, targeting and positioning, were omitted and did not form part of tactical marketing. Marketing had been downsized or eliminated as a corporate function. Important functions of marketing had been delegated to strategic business units who did not have the necessary marketing skills, resources or time. Traditional marketing tools originated in the 1960s and took a more strategic approach with tools like the Boston Consultancy Group Matrix, the Ansoff Matrix, the SWOT analysis and the 4P's of marketing. Limited understanding and application by marketers led to the inappropriate use of tools, particularly the sole emphasis on the 4P's (Grönroos, 1994:5). Strategic marketing planning according to Jenkins (Jenkins & McDonald, 1997:18) was not done effectively and strategy took over some of the functions which marketing discipline had been performing. This resulted in marketing decisions being taken on an operational, input level, thereby emphasizing short term results such as market share and sales volume. This approach has a narrow focus, more on transaction analysis rather than long term goals. By contrast a long term view of marketing should focus more on relationship and interpersonal approaches to produce sustainable business growth.

Short term measures of performance were frequently emphasized. Driving marketing and customer orientation often relied on the commitment of the chief executive officer or managing director. These aspects resulted in the marketing discipline losing its momentum.

## 2.3 The Role of Marketing in the Organisation

There is a lack of understanding of what constitutes marketing and the importance of its contribution to the success of an organisation. Key responsibilities of marketers vary, depending on the company. Some marketers are accountable for profits, product specification, pricing and sales, while others are not and remain separate from the main direction of a business.

The function of marketing has been often been downgraded to a sales support function in charge of advertising and promotions (McDonald and Dunbar, 2004:9). This is far too narrow a definition for marketing professionals.

### 2.3.1 Strategic Position

The role and status of marketing has diminished in many companies (Brown, 2005:4). Strategically important aspects of marketing have been taken away from the function of marketing, downgrading marketing. By contrast, creating and delivering value to customers is seen as one of the top business priorities (Brown, 2005:4).

Marketing should be seen as having a major impact on corporate strategy development (McDonald, 2006:428), but marketers cannot sufficiently translate and consolidate their company's strengths and competitive advantages into a strategy which benefits the customer (Oosthuizen, 2007:8). The function of marketing is not being marginalized, but marketers are (Sheth and Sisodia, 2005:11). There are several reasons, for example, confusion between marketing function and marketing concept, lack of in-depth analysis, lack of skills (McDonald, 1992) and lack of knowledge by marketing practitioners, for example, about the financial impact of marketing expenditure (McDonald and Dunbar, 2004). The strategically important aspects of marketing such as price, new product decision, advertising budgeting, are taken over by other functions in the organization. Strategy should guide the tactical approach. As Webster (2005:4) points out, the sum of tactics does not equate to a coherent strategy. Tactical marketing does not address the issue of how a company should compete. Marketing professionals see marketing as a holistic activity involving the whole company, but non-marketers' perceptions of marketing often differ from the specialist. The focus of marketers is on achieving the customers' goals, thereby ultimately achieving the company's goals.

### 2.3.2 Perception

Results of a survey conducted by Yankelovich (Sheth and Sisodia, 2005:10) showed that 60% of consumers claimed that marketing and advertising had worsened over the past years and that they perceived marketing and advertising to be "out of control" and not adhering to their brand promise. Another research survey in 2006 of 1000 consumers showed similar results, with 62% displaying a negative attitude towards marketing (Sheth and Sisodia, 2005:10) because of the perceived non-ethical and morally corrupt approach.

Similar attitudes towards marketing have been confirmed by the Cranfield University School of Management where non-marketing managers described marketing practitioners as "unaccountable, untouchable, expensive and slippery" (Baker & Holt, 2004:557) and McDonald (McDonald, 2006:427) stated that: "After fifty years [of marketing it] has become the laughing stock and is seen as little more than promotional puffery" . Even within its own ranks marketing has been criticized to have become too narrow, insular and self-centred. Marketing has lost much of its credibility.

### 2.3.3 Globalization

Over the past two decades marketers have been faced with globalization of markets and production. National barriers hardly exist and deregulation of trade and lowering of investment barriers have resulted in companies producing where it is the most efficient. Advancing technological changes have improved and quickened communication, information and transportation channels. In the last decade world trade has been growing faster than world output, transaction in foreign direct investment has increased substantially and increased imports have affected especially industrialized countries, resulting in intensified competitive pressure (Hill, 2005:16).

Globalization is one of the most important opportunities and challenges a company faces. Marketers are in the position to contribute considerably to the knowledge and to create competitive advantage for companies.

### 2.3.4 Consumer Power

The power of the customer (buyer and supplier) has increased. Customers are more demanding and have greater expectations of quality and reliability. This has also resulted in a move away from mass, standardized product to increasingly selling by reputation and delivering a product according to exact client specifications on an "as needed" basis (Denison and McDonald, 1995:58). Customers can educate themselves quickly via the internet, interact and exchange opinions with one another. Marketers are confronted by increasing switching behaviours, overflow of information and at times government regulations (e.g. advertising restrictions). The traditional style where the push model characterized marketing (between 1950 to 2000) is moving towards trust-based marketing (Sheth and Sisodia, 2005:11), where companies work closely together with customers to enhance their success. The implications for this widespread connectivity is for companies to form stronger collaboration with customers and to incorporate them into their entire process from idea creation to support. Otherwise, Sawheny argues (Sheth and Sisodia, 2005:11), customers can cut out the marketer and do the process themselves by self informing, self evaluating, self pricing, self supporting, self advertising, self organizing, etc.

## 2.4 Measurement Tools

Concerning the issue of marketing's accountability it might seem that no tools have been made available. Strategic and tactical marketing tools have been available for more than 40 years (Baker and Holt, 2004:561), but have not sufficiently been employed by corporate companies.

In some cases there was insufficient application of marketing tools. For example, Reichheld's (1996) research on customer retention proved that actively retaining customers improved the profit margin. Despite this few organizations have measured customer retention rates and the effect of customer retention on financial performance (Baker and Holt, 2004). Research has shown that a positive correlation exists between marketing planning and financial success (McDonald, 1992:7), but many companies do not revise their fiscal forecasts or budgets. Customer key account profitability states that marketing spend should focus on profitable customer segments, but knowledge of real profitability remains low (McDonald, 1997:18). Customer relationship management through the use of information systems technology was seen as a good tool for measuring effectiveness, but high failure rates lead to reassessment of its usefulness.

## 2.5 Marketing in South Africa

High profile marketing professionals like Thomas Oosthuizen (Oosthuizen, 2007:9) and Jeremy Maggs (2007:3) are concerned about the juniorisation of marketing in South Africa. Marketing executives globally have been said to lack the skills and ability necessary to persuade senior management of the worth of marketing. This has been exasperated by the lack of consistent and generally accepted marketing metrics. Although the trend is to increasingly look at the value of intangible assets such as brands, the net present value of marketing assets and activities has not yet been fully incorporated in shareholder and publicly available documents such as annual reports.

In South Africa approximately R18 billion was spent on above the line media during the year ending June 2006 according to ACNielsen's Adex (Sinclaire, 2007:25). International guidelines state that about one third of total marketing investments are used for above the line exposure. This would translate to marketing professionals in South Africa spending about R55 billion, which constitutes 4,5% of its gross domestic product (Sinclair, 2007:25). Marketing expenditure is therefore substantial and executives query whether their companies receive value for their money from their marketing initiatives.

The general consensus is that marketing is difficult to measure. However, according to Sinclair (2007:24) and other academics (McDonald, 2004:9; Ambler, 2003:19), it is possible to place a value on the output of marketing activity, such as increased distribution, improved brand awareness and strengthening the key attributes in relation to competitors. When data such as market share, penetration, retention ratios or awareness is properly collected and analyzed, it is measurable and reliable (Ambler, 2003:21).

## 2.6 Conclusion

This chapter gave a brief overview as to the foundations of this study. The role of marketing in organizations, measurement tools and marketing in South Africa was briefly addressed. The following chapter will consist of a literature review pertaining to accounting regulations and the role of annual reports with an emphasis on the creation of shareholder value. Brand equity and marketing performance measures are discussed.

# CHAPTER 3: Literature Review

## 3.1 Introduction

For marketing performance to be seen as a leading discipline in corporate companies (on par with other main functions like finance) and to be recorded accordingly in annual reports, it needs to consistently apply generally accepted marketing performance measures. To enhance the use of metrics, we need to understand the underlying challenges. Below is a brief review of accounting regulations, the role of annual reports and research conducted on annual reports.

## 3.2 Accounting Regulations

Countries differ in their regulations and approach as to what needs to be included in the balance sheet. The USA requires more disclosure than the United Kingdom (UK), although companies are given much freedom in deciding how much information to disclose. The value of the brand may not be reflected on UK companies' balance sheets although the cost of acquisition can be (Ambler, 2003:209). Nevertheless, Canadian and British accounting regulations suggest that annual reports should not only reflect historical perspectives, but also express to shareholders prospective analysis and expectations of the future.

The balance sheet in the annual report is only providing part of the information necessary for shareholders to make a decision. The other more narrative parts in the annual report, such as the chairman's and chief operating officer's (CEO) and operating review, play a major role in giving a more in-depth understanding of the company's activities and future prospects.

Brands are defined as assets according to the new International Financial Accounting Standards (IFRS). Shareholders own the assets of a company and it is management's duty and responsibility to protect and create shareholder wealth. Marketing expenditure is an investment into an asset which often is the most valuable one a company owns (Sinclair, 2007:26). The Accounting Standards Board in the UK published new guidelines in 2003 for the "Operating and Financial Review" section(s) of company annual reports (Ambler, 2003:209). The recommendation is that shareholders should be informed about marketing investment and particularly brand equity. Ambler points out that, in practice, annual reports have very limited information on these topics.

But brands do not have to be displayed on the balance sheet, thereby losing out on the impact they deserve. Brands have different meanings and can be interpreted as their value to the customer, value to the company or value in terms of competitive advantage (Ambler, 2003:45). Brands can be measured but a financial value in point in time is only one way and the number will differ according to the purpose of the valuation. Marketing experts such as McDonald and Ambler believe that quantifying for example brand equity into traditional financial data is not sufficient and needs a different approach to make sense. Although some tools (which make use of present value of future cash flow) exist to measure marketing ,such as customer lifetime value, Ambler (2003:211) maintains that these techniques are not useful in reporting on the progress marketing has made to date, because it takes credit for future marketing activities.

Ambler cautions against tunnel vision in rigorously applying metrics. Innovation results in opportunities which currently are not present. Customer life time value, for example, focuses on current customers and shareholder value indicates how best to spend cash flow, but does not analyze the source of origin. Marketers therefore need to have some space for creativity.

## 3.3 The Role of Annual Reports

A corporate annual report is the main statement reflecting a company's financial reporting system. The purpose is to communicate information to shareholders and other interested parties, such as clients, suppliers, media and the general public.

Annual reports are seen as a "barometer of a company's fortune and future" and not as purely financial reports (Greenyer, 2006:240). They are not only used by stakeholders and analysts, but are opinion shapers for city representatives, the press/media, competitors, reseller networks and the general public.

According to the American Institute of Certified Public Accountings' Special Committee on Financial Reporting (Ho and Wong, 2004:62) effective functioning of capital markets depends on effective information sharing among companies, securities analysts and shareholders. The accounting profession stipulates that information contained in annual reports should be useful to users to enable a rational investment and other decisions (Ho and Wong, 2004). Improvements in information sharing should increase management's credibility, analyst's understanding of a company, investor's confidence and patience and potentially shareholder value (Ho and Wong, 2004:69).

"Financial reports need to take on the role of marketing documents" (Greenyer, 2006:240). Companies are assessing whether annual reports can be more effectively used for communicating major marketing messages, especially considering the trend of the growing number of small shareholders and shareholders increasingly being customers of a company (Greenyer, 2006:240). In order to reflect these marketing messages, data-driven marketing is becoming necessary.

## 3.4 Research on Annual Reports

On average 27% of the UK's top 1000 companies in 2004 are effective in using their annual reports as key marketing documents, according to Corporate Mailing Matters research (Greenyer, 2006).

According to this research (Greenyer, 2006:240) industries traditionally strong in direct marketing are at the forefront of bringing financial reporting and marketing together, including retail (32%), telecommunications(30%), automotive (28%) and banking sector (28%).

According to a survey by Research Strategy Management Inc. for the Public Relations Society of America (Investor Relations Business; 2000), 91% of investors said that a company's annual report was the most credible source of information, ranking above financial media and analysts' reports. The survey revealed that investors rated annual reports as the most important source on which to base an investment decision. In addition annual reports ranked high on credibility but rated low as an immediately desirable source. The survey also found that annual reports and other financial information and inclusion of specialist news sources were highly rated features on corporate websites (Investor Relations Business; 2000). On the other hand, Sinha and Watts (2001:663) argue that the relevance of corporate annual reports has diminished due to an increase of alternative information sources.

On behalf of the Centre for Business Performance the Institute of Chartered Accountants in England and Wales researched the annual reports and surveyed executives of 350 FTSE companies in 2002 to assess how large UK companies report on marketing where currently legislation on reporting guidelines is lacking. Results show that low levels of reporting on intangible assets occurred and only limited reasons were provided (Ambler, 2002).

According to this research many annual reports give general information on brands and marketing, but marketing metrics (quantitative measures normally viewed internally) are not regularly and consistently reported (Ambler, 2002:48). A minority of companies follow the Accounting Standards Board's guidelines for marketing disclosure in the operating and financial review section (e.g. 16% disclosed marketing spend and 53% detailed new products). Companies on average only reported on two market metrics per report, mostly sales volume and product distribution. On average annual reports contain 20% of the market metrics which are regularly presented to the board, according to the executives. 15% of the remaining measures are not disclosed because of competitive reasons, while 60% had other various reasons for non-disclosure (Ambler, 2002:48).

Despite this, most executives agreed that more marketing information could be given and 85% of executives agreed that shareholders were "entitled" to be informed about a company's main assets including brand equity. Analysts questioned also agreed that more information on market and brand equity should prevail in annual reports.

The research showed that the most admired companies were those displaying the most marketing information. In addition, the research showed that analysts confirmed that companies who consistently disclosed marketing related information were outperforming the FTSE index. From the shareholders' point of view disclosure meant that management saw a professional understanding of the market as important (Ambler, 2002:48), thereby increasing transparency. It can be argued that shareholders are one of the primary stakeholders in an organization.

Shareholders need to be viewed as customers and communications therefore plays an important role. Communications and the message sent to shareholders should not differ from the message sent to other stakeholders such as employees or consumers. Disclosing marketing metrics forms part of professional marketing of the corporate brand to investors. Management displaying and sharing knowledge with shareholders on marketing metrics builds trust and the corporate brand (Ambler, 2003:217).

From this we can conclude that the more market oriented and successful companies were, the more likely they were to disclose marketing information and metrics.

### 3.3.1 Disclosure

A wide range of reasons exist for not divulging marketing information. Some of these are competitive confidentiality, potential misuse by the press, different disclosure rules outside the UK. The argument is that all of these could disadvantage multinational companies should they disclose too detailed information on, for example, segmentation and customer metrics. Another argument against disclosure of marketing metrics is that it could disadvantage the future year's performance in comparison as future goals would be raised each year. Other arguments are that additional information would increase cost and the size of annual reports and shareholders did not want the information and might not understand detailed marketing information (Ambler, 2002:48).

There is a debate on how much of the market metrics should be revealed in publicly available documents such as annual reports. Arguments against displaying much relate to putting competitors in an advantageous position. Research conducted by Ambler et al (2003:211) among UK companies shows that although confidentiality was the reason for not disclosing market stats, most companies acknowledged that their competitors already had the information. Another argument is that shareholders are not interested in market metrics as they perceive this to be an operational function. However, market metrics are key determinants of future cash flow and it is management's responsibility to give shareholders the information they require. Showing key metrics shows that management is monitoring, evaluating and managing the business. Other reasons are problems with point-in-time measurements neglecting change, consistency of measures, irresponsible use by analyst and media (Ambler, 2003:218).

The inclusion of extended marketing metrics, as suggested by Ambler (2003:211), should not increase the cost of preparing, printing and distributing annual reports as these metrics should already be available and reported on internally. With the availability of internet and intranet facilities it would be good practice to make the full annual reports (and analysts' briefings) available in electronic format, making abbreviated and tailored versions available to shareholders. Disclosure of confidential, target metrics with detailed future marketing intentions should not form part of the report. Commercial confidentiality can be a real concern although competitors are likely to know most metrics. Ambler (2003:254) suggests that companies could review disclosure on a metric-by-metric basis with auditors.

### 3.3.2 Corporate Governance

The trend is to disclose more and to become more transparent. Corporate governance issues causing the demise of companies such as Enron and WorldCom have increased the pressure for companies to reflect more accurately the state of the company, improved accountability and transparency. Disclosing a cross-section of professionally gathered marketing metrics will add to transparency (Ambler, 2003:206). Shareholders are entitled to know the broad marketing strategy, but specific tactics and the anticipated changes in metrics would give too much away to competitors (Ambler, 2003:206). Non-disclosure, however, gives the impression of secrecy and can lead to accusations of collaboration, even when stakeholders are unaware due to lack of information. Even if shareholders do not know the individual market metrics, it is essential that the board of directors knows of them.

In addition, companies with superior information transparency signal better corporate governance according to signaling theory (Chiang and Chia, 2005:95). Their study in 2005 supports that information transparency is one of the most important indicators for evaluating corporate performance.

Other arguments for disclosing market information are achieving shareholder and investor respect, thereby leading to higher share prices and improved investor relations. Ambler's research (2003:214) shows that companies who disclosed more information were more respected by financial analysts and other peer senior executives. Standard and Poor also report that there is a positive correlation between disclosure and share performance.

## 3.5 Creation of Shareholder Value

Tactical outcomes such as sales volumes and changes in awareness are relatively easily measurable. Marketers have historically reported on sales related measures such as market share, but have ignored focusing on shareholder value. Oosthuizen (2007:8) believes that marketers need to take responsibility for spending shareholder funds and should become much more accountable for business results. Marketing's return on investment (ROI) is increasingly measurable, although expectations have changed and stakeholders increasingly expect personalized, relevant communication from companies (Greenyer, 2006:239).

Hall (2002:13) points out three principles of value creation. The first principle is knowing how the customer thinks, feels and acts because he/she is the source of value, i.e. revenue, cash flow, profits. The second principle is that companies' financial metrics should not obscure the value of their customers. Good decisions are based on well allocated corporate resources which is only possible if managers know how today's decision affects tomorrow's value. The third principle is that financial reporting should provide insight into value creation, otherwise it will eventually become inadequate because a problem needs to be identified to be solved. Companies need to deliver better leading indicators by showing investors the value of customers. Therefore "marketing plays a key role in impacting the current and future value of customer income stream" (Hall, 2002:13).

### 3.5.1 Share Price

Traditional accounting measures, pressures from financial markets and senior managements' performance drive caused many companies to emphasize short term outcomes. With a move toward corporate governance the trend nowadays is to incorporate values of intangible assets in establishing the worth of a company and to take a more long term view.

Kirschenheiter's (1997) research results showed that more information about share values, such as a well known brand, was positive for share prices despite the balance sheet not showing this. Disclosing market information can achieve shareholder and investor respect, resulting in higher share prices and improved investor relations. In addition, in their research Bowd and Bowd (2002, showed that reputation can be attributed to a large degree to market valuation (i.e. share price).

### 3.5.2 The Value of a Brand

An argument for inclusion of brand equity in annual reports is that by the end of the 20th century assets on the balance sheet of UK companies accounted for a declining share and therefore a declining market value of companies. Excluding intangible assets such as brand values led to the argument that the worth of companies was not fairly reflected. Consequently some companies put the acquisition cost of acquired brands on their balance sheet, thereby avoiding technical insolvency. Others such as the Institute of Chartered Accountants in England and Wales argued that brand valuations are not reliable and objective enough to be reflected. The problem nowadays is that the balance sheet does not reflect the worth which management has added to building a brand.

Approximately 60% of shareholder value resided in intangible assets (Sampson, 2007:29). Excluding brand value can lead to the worth of companies not being reflected fairly. In addition, brands are resources that can generate future economic benefit for a company (Sinclair, 2007:26). A strong brand can be a competitive advantage and can for example result in negotiating lower distribution costs. It is likely that 80% of the shareholder value comes from approximately 20% of brand market units (Ambler, 2003:35). Therefore managing brand equity is a crucial role of marketing as it transfers value from the market to the shareholder.

In capital markets success is measured in terms of shareholder added value. This takes into account the time value of money, cost of capital and the risk associated with strategies and investments in the future (McDonald, 2006:427). Strong brands result in greater returns for stockholders while doing so at a lower risk level (Madden, Fehle & Fournier, 2006:224).

Research by Madden et al (2006:225) correlated stock prices and brand value and showed that changes in brand equity are associated with changes in the value of a company. Strong brands result in a performance advantage, i.e. create shareholder value by achieving higher returns relative to the relevant market benchmark. Their study showed that a brand can play a role in reducing vulnerability and volatility of cash flow, therefore becoming a "powerful risk management tool for companies" (Madden *et al*., 2006:233).

Earlier studies conducted by Interbrand 'most valued brands' in 1995/6 showed that a positive relationship between financial brand value and market-to-book value ratios existed (Madden *et al*., 2006:225). Further studies in 1998 showed that brand values are significantly and positively related to stock prices and returns and a study in 1993 showed that brand equity made up a large component (15%) of the replacement value of a company.

Another study by Conchar, Crask and Zinkhan in 2005 (Madden *et al*., 2006:227) showed a significant positive relationship between a company's advertising and promotional spend and the market value of the company, therefore giving support to the brand-building activities and financial performance of a company.

The empirical study conducted by Aaker and Jacobsen (1994) showed that brands create shareholder value. However, creating shareholder value is not only created through higher stock returns or better market capitalization, but only if a company's returns are higher in comparison with other investment opportunities, taking risk into account (Madden *et al*., 2006:231).

Approximately 85% of UK companies agreed that shareholders had the right to information about brand equity which often was the company's most valuable asset. However, only a few companies displayed metrics to their shareholders. 40% of the sample had up to five market performance indicators but the average number was two indicators. Half of the companies surveyed used sales volume, product distribution (availability) and new product launches within the year as their only indicators (Ambler, 2003).

One of senior management's main priorities is to enhance shareholder value. Using resources effectively to build a strong brand makes sense because strong brands can be used in a variety of ways. Investments into brand and loyalty building can create long term relationships with customers. Customers' positive attitudes to a brand result in quicker responses, leading to accelerated cash flow and therefore greater shareholder value (Srivastava *et al.,* 1998:10).

Brand extensions can also enhance revenues (Keller and Aaker 1992) by creating credibility and enabling easier introduction of new products. A strong brand can command a price premium (Farquhar 1989) and attain a greater market share (Bouldin, Lee & Staelin 1994) based on the company's power on customer loyalty and higher switching costs. In addition brand equity can enhance loyalty (resulting in repeat business and barriers to competition) and develop more efficient communication programmes because well-differentiated brands are more responsive to advertising and promotions (Kamakura and Russell 1994) and improve the distribution clout in the marketplace. Higher equity brands tend to have a lower marginal cost for sales and marketing (Srivastava *et al*., 1998:11). The strong brands convey a clear and sustainable differentiated positioning and enhance clarity within an organization and attract and keep high quality employees (Davis, 2002:352). Relationship marketing such as good customer and supplier relationships  reduce the level of working capital and fixed investment and enhance cash flow (Srivastava *et al*., 1998:11). Stability in cash flows can be enhanced by good relationships with customers and channel partners (Srivastava *et al*.,1998:12).

A brand influences every step of a value chain (Henderson, 2004:6) and provides emotional and rational reasons to customers. A strong brand enhances security, premium pricing and larger market share. Henderson (2004:6) argues that in economic downturns, the difference between a strong and weak brand is more prominent because a strong brand conveys trust.

## 3.6 Brand Equity

The current trend is to acknowledge and increasingly incorporate the worth of intangible assets. 70% of company value is linked to intangible assets, the largest being the brand (Henderson, 2004:6).  Understanding a brand as a financial asset and key driver of shareholder value is gaining in importance. One key indicator of a company's performance on the stock market should be the strength of a brand (Henderson, 2004:6). Companies with strong brands consistently outperform their main stock market indices, while companies with weak brands underperform. This is according to worldwide research, including stocks of S&P 500, Fortune 100 and FTSE 100 (Henderson, 2004:6).

A company's financial performance cannot be property evaluated without considering brand equity (Ambler, 2002:47). Brand equity often is the main reason for a company's market capitalisation exceeding its book value (Ambler, 2002:47). However, the move has been away from a single measure, for example of a brand, to incorporate different aspects of a brand and market performance. This is known as market metrics which should be reported to the board and shareholders so they understand where the cash is coming from.

The brand is the most valuable asset for many companies, but it is often not reflected in its balance sheet, partially because there is no consistent measurement. Countries differ in their regulations and approach as to what needs to be included in the balance sheet.

The new International Financial Accounting Standards define brands as assets and the Accounting Standards Board in the UK guidelines in 2003 recommended that shareholders should be informed about marketing investment and particularly brand equity. Ambler (2002:47) states that the issue about a brand is not merely whether it should appear on the balance sheet but to inform shareholders about the condition of assets and what the company is doing to build them. Shareholders are entitled to know how their company approaches the creation and management of cash flow (Ambler, 2002:47). It is less important where this information is disclosed, namely in the balance sheet or in the operating and financial review, but Ambler (2002:47) suggests that the operating and financial review might be more appropriate, because it is more flexible.

## 3.7 The Debate on Financial versus Marketing Measures

Very little marketing information is reported in annual reports (McDonald and Dunbar, 2004:4). Ambler (2003:212) points out that unfamiliarity with marketing terms on behalf of shareholders is one reason why limited information on marketing is available in annual reports. The business community has come to the realization that too many executive boards have relied too heavily on purely financial measures. The claim is that most boards are spending too much of their valuable time on internal operational efficiency at the expense of external operational effectiveness (McDonald, 2004). Ambler's (2003:307) recommendations based on the research suggest that companies and shareholders would gain from reporting on marketing performance and brand equity in their annual reports. Shareholders would welcome more information and, according to the executives of the 350 FTSE companies, it can and should be done (Ambler, 2002:49).

According to Webster (2005:6) there are few incentives for executives to move away from the transaction based generally accepted accounting principles and securities regulations. Companies and marketing practitioners should not limit themselves to the development of measurements of marketing performance on a purely tactical level. The current notion is for marketing to move towards a more integrated approach, covering a wide spectrum of disciplines and knowledge. If this is the case, then measurements need to reflect this. These might be less precise but incorporate marketing's influence on strategic and cultural levels (Webster, 2005:5).

### 3.7.1 Historical Perspective

Financial accounting methods such as sales, cost and profits are all retrospective. Ambler (2003:93) says that marketing indicators need to be more closely aligned with customers and competitors. This necessitates non-financial information to be gathered, for example behavioural (consumer loyalty and market penetration) and cognitive information (people's attitudes and awareness). With these indicators it is easier to predict future performance. He adds that to build a comprehensive database a formalized process needs to be in place.

### 3.7.2 Financial Literacy

A key problem in measuring marketing metrics is that marketing executives are not financially literate and cannot express net value of expenditures. In addition, other managers are not marketing literate and often marketing is seen as variable cost and not as a committed cost. Sinclair (2007:26) points out that marketing professionals have not used accounting methods such as discounted cash flow or net present value of future earnings calculations to demonstrate the worth of marketing investments into a brand, for example.

Using established financial tools and incorporating them into marketing measurements will provide a board of directors with financial measurements and assessments which they understand. This will enable a marketing professional to justify a budget request. Marketing practitioners need to understand and apply financial terms, whereas executives need to understand what marketing entails and how it can be measured. A mutual understanding needs to be created as to the company's definition of brand equity, understanding, valuation and agreement on usage of marketing metrics.

Executive managers need to understand the limitations when applying financial analysis to marketing. Financial accounting methods such as sales, cost and profits are all retrospective. McDonald (2006:429) argues that it is an "absurd assumption that particular marketing actions can be linked directly to profitability". Profits and corporate revenue cannot be equated with added shareholder value. "Shareholder value analysis is a useful internal technique [for assessing best strategic fit] but states nothing about the marketplace, …the source of cash flow nor how to increase it" (Ambler, 2003:80).

### 3.7.3 Long term View

Investment guru, Warren Buffet, judges a business among others according to the attractiveness of its long-term prospects and the firm's capacity to create value. Marketing can play a pivotal role in achieving long term sustainable advantage and long term success. However, it is crucial to measure marketing's impact and performance.

Marketing executives need to take a long term view and not only focus on short term gains such as improvement on monthly sales, stock prices, monthly market share etc. Intangible assets with long term results such as a brand are difficult to measure and it is not the norm to reflect them in annual reports.

### 3.7.4 Customer Orientation

Experts state that marketing indicators need to be more closely aligned with customers and competitors. Cash comes from customers (Ambler, 2003:23) but often companies do not know their segment's profitability and future intentions, according to Cranfield University School of Management study of 500 leading European companies (McDonald and Dunbar, 2004:4). Senior UK managers give nine times more attention to spending and counting cash flow than figuring out where it came from or how to increase it (Ambler, 2003:1). But the source of cash flow, namely the consumer is usually not mentioned. For the process to be effective an organization needs to be customer driven which requires a long term perspective. Marketing executives should not only focus on short term gains such as improvement on monthly sales, stock prices and monthly market share, but should gather non-financial information which will assist in predicting future performance more accurately.

Customer orientation has not received its due attention (Webster, 2005:4) and is often merely paid lip service by companies. But customer orientation requires a long term perspective. In the past decade research has established positive associations between customer orientation and business performance (Narver and Slater, 1990). Customer orientation and innovativeness are central to the long term success of a company.

### 3.7.5 Segmentation

By securing customer preferences, profits are obtained. Marketing refers to a company's inward cash flow (Ambler; 2003:21). It focuses on the reasons why customers spend and what causes them to spend more and why they spent more frequently. By analyzing profitability of customer segments a company can reduce its costs. Often companies do not give due credit to aspects of marketing such as strategy, segmentation, positioning.

Although the cost of dealing with a customer determines profitability, the Cranfield University School of Management study of 500 leading European companies has shown that very few organizations measure segment or customer profitability (McDonald and Dunbar, 2004:4). The annual report should give an indication of management's understanding of and importance placed on customers.

Nowadays it is possible to identify the more profitable consumer groups, with shareholders demanding ever increasing profitability, this has led to the wider customer base being ignored (Greenyer, 2006:239). Greenyer (2006:239) argues that often the mass of less profitable customers are essential in keeping a company afloat. Research in the service industry conducted by Reichheld has shown that indifferent and insufficient customer service has had a greater effect on customers leaving than pricing or perceived superior products (Srivastava *et al*, 1998:12).

### 3.7.6 Cash Flow

Madden *et al* (2006:224) point out the different schools of thought pertaining to functional areas of finance and marketing, resulting in different tools for marketing performance measures. The finance discipline focuses among others on shareholder value creation and decisions affecting investor expectations which make up their main stakeholder group, while marketers concentrate on consumer value creation and their attitudes and behaviours which drive the revenues of the marketplace (Madden *et al*., 2006:224). The main performance metrics currently still reside with the financial school of thought (Madden *et al*., 2006:225).

The Australian Marketing Institute (AMI) states that although selling creates the current cash flow, marketing is more about creating future cash flow. The AMI defines a brand as a reservoir of future cash flows (Uncles, 2005:413) and is necessary in maintaining marketing strength. Therefore brand metrics are essential.

## 3.8 Measuring Marketing's Performance

Various models for measuring marketing performance have been suggested. These include Srivastava's marketing based asset model, the discounted cash flow method, Kaplan and Norton's balanced scorecard, the Scandia navigator and economic value added (EVA) approach. These are briefly discussed below.

### 3.8.1 Market Based Asset Model

Nearly two decades ago in 1988 Day and Fahey pointed out that marketing's purpose should be that of contributing to shareholder returns (Srivastava, Shervani & Fahey, 1998:2). Ten years later Srivastava et al (1998:2) stated that in order to leverage from assets marketing professionals need to expand their traditional analysis of the marketplace to understand the financial consequences of marketing decisions. Marketers in their decision-making should encompass shareholders as well as potential shareholders, necessitating input from other functional managers.

Srivastava *et al.* (1998:8) developed a framework for assessing the impact of marketing on shareholder value by using market based assets. These assets (e.g. customers, channels, partner relationships) improve shareholder value by accelerating and improving cash flow, lowering vulnerability and volatility (i.e. risk) of cash flow and increasing residual value. A large proportion of value of a company is based on perceived growth potential and associated risk, in other words, the value is based on expectations of future performance (Brigham and Ehrhardt, 2005:706). A challenge is to identify these assets. Marketing professionals therefore need to measure and demonstrate their value creation of future performance. The authors suggest to use cross-functional teams in establishing the assets and improve discussions on the assets' impact on financial performance and to leverage from cash flow.

Madden *et al.*'s (2006:225) research supports Srivastava et al that market based assets can increase shareholder value by lowering risk of cash flow. Reduced risk results in lower cost of capital and lower discount rate, achieving a higher net present value (Brigham and Ehrhardt, 2005:353), thereby improving shareholder value. When customer satisfaction, loyalty and retention are increased vulnerability of cash flow is reduced (Srivastava *et al.*, 1998:12).

In their framework Srivastava *et al* (1998:12) state that market based assets can improve the residual value of cash flow. Residual is the present value of a business attributable to the period beyond the forecast period (Brigham and Ehrhardt, 2005:706). Residual value has been closely linked to size and quality of the customer base. They state that the larger the customer base the better the quality, the higher the loyalty and residual value. To grow shareholder value a company must grow and refine its customer base, focus on longer term customer relationships and loyalty. This will result in more stable business and therefore lower cost of capital, culminating in shareholder value.

### 3.8.2 Discounted Cash Flow

Sinclair (2007:24) points out that marketing professionals have not used accounting methods such as discounted cash flow (DCF) or net present value (NPV) of future earnings calculations to demonstrate the worth of marketing investments into for example a brand. Using established financial tools and incorporating them into marketing measurements will provide a board of directors with financial measurements and assessments which they understand. This will enable a marketing professional to justify a budget request.

Brands can create capabilities to build a superior business process (Doyle, 2001:21). Strong brands, customer awareness, market share and satisfied customers are "not goals in their own right but means to create shareholder value" (Doyle, 2001:21). Brands need to create shareholder value by maximizing the discounted value of future cash flows (Doyle, 2001:29). Creation of value depends on a company's strategy and on the economics of the markets in which these companies operate. Marketing, however, does play a key role in driving shareholder value, but financial concepts have to be understood. The present value of a brand's future cash flow is a function of and should result in an increase in cash flow, in the speed of the cash flow as well as extended duration of cash flow or reduction in risk of cash flow (Doyle, 2001:26). If this does not occur, managers should not focus on the brand. Not understanding shareholder value can lead to inappropriate allocation of resources preventing a company from finding new, more profitable markets.

However, brands have to be invested in. Creating value according to Doyle (2001:26) depends on three factors. Brands should create a differential advantage such as lower cost or perceived superior quality (resulting in better cash flow). A brand strategy should also result in maximizing present value of future cash flows. But market economies can make it difficult to obtain return on a brand's cost of capital. Therefore future market economies have to be assessed and sales objectives, prices and marketing expenditure have to be aligned before shareholder value creation can occur. This encompasses more than market share or consumer awareness and behaviour (Doyle, 2001:30). For example Porter's five forces model (Grant, 2005:75) states that attractiveness of a market depends on threat of competition's entry and intensity of industry rivalry, supplier power, threat of substitutes and customer's buying power.

### 3.8.3 General Performance Models

Multinational companies are faced with the challenge of aligning worldwide actions with global strategy (Yeniyurt, 2003:134). To assist them with the task of performance measurement and strategic alignment, multinationals have made use of Kaplan and Norton's balanced scorecard, Scandia navigator and the economic value added (EVA) approach.

Two main approaches have evolved arising from the limitations of traditional accounting reporting systems. The one approach focuses on better financial performance measures (e.g. EVA) while the other highlights the importance of including non-financial measures, emphasizing longer term measures such as customer satisfaction and defection rates and employee satisfaction. Kaplan and Norton's balanced scorecard takes a holistic view and increased cross-functionality by integrating four perspectives, namely financial, customer, internal business and innovation/ learning (Yeniyurt, 2003:136). The scorecard assists management by translating the vision, communicating the strategy and linking it to departmental and individual objectives, assisting with the planning function and providing feedback measures. Ambler (2003) has used the same principles to refine measurements specifically aimed at the marketing function.

The Scandia navigator was developed to incorporate the worth of intangible assets, namely intellectual capital. It also places value in its measurement on the human perspective emphasizing employees' satisfaction (Yeniyurt, 2003:136). Ambler (2003:177) emphasizes employees as an integral part of internal communication and suggests ways of measuring these. However, he does not focus on measuring knowledge or intellectual capital. He does emphasize the importance of measuring "innovation" which can be seen as part of the learning and knowledge process.

McDonald (2006:428) proposes a model that incorporates marketing as a function for strategy development as well as for tactical sales delivery. He proposes three levels of measurements. Level one, the most important, defines the markets and understands its value. Level two and three focus on the measurement of marketing metrics.

Level one assesses whether marketing strategies in the longer term destroy or create added shareholder value. Only if customer markets value a company's assets and competencies can sustainable competitive advantage or added shareholder value be created and maintained.

Level two links marketing expenditure and other functional activities to marketing activities. It shows how actions designed to affect customer-critical success factors for each product are linked to revenue and profit generation. Level three refers to the measurement of promotional activities such as up- and cross-selling, customer churn, cost effectiveness etc.

Most companies do not have a clear understanding of their marketing performance. Brand equity is the asset built by marketing and is more valuable than a brand's tangible asset (Ambler, 2003:45). However, only 40% of corporate executives review brand equity at board level and only approximately a third (36%) of boards see data on customer satisfaction, according to a 30 month metrics project in the UK sponsored by the Marketing Council, the Marketing Society, The Institute of Practitioners in Advertising and the Sales Consultants Association (Ambler, 2003). Marketing should be seen as the link between producers and consumers.

Marketing can be measured but it is simplified to want marketing to be directly linked to profit (McDonald and Dunbar, 2004:4). Profits and corporate revenue cannot be equated with shareholder value-added but there are ways of measuring the three types of cumulative risks, namely market risk, strategy risk and profit risk. In other words, there is a process for assessing whether marketing strategy creates or destroys value. The risk assessment process is based on a company's business plan and supporting data which forms part of the marketing due diligence process. Proper due diligence in the marketing field will result in reasoned and substantiated investment decisions.

The reason why marketing needs to be assessed is to take corrective action and to elevate the marketing profession to its well deserved high ground.

To measure marketing performance sufficiently, a company has to routinely research consumer behaviour Ambler (2003:255). This includes customer retention, acquisition, usage etc. and reasons such as consumer awareness, satisfaction, perceived quality etc. The results should also be routinely (annually or semi-annually) reported to the board in a format which integrates financial marketing metrics. These results should be compared with forecast of the previous business plan and should be compared with key competitors. The short-term performance needs to be adjusted according to the change in the company's market based assets.

Measuring hard financials need to be balanced with more qualitative market indicators such as perceived quality. The information also needs to be assessed as a whole, for example, short term profitability might have been gained by price cutting and therefore should be adjusted by any changes in brand equity which could result from an image as a discounted brand.

"Good metrics reinforce implementation, while poor or misaligned metrics interfere with implementation" and result in counterproductive behaviour from managers (Allio, 2006:255). The suggestion is to use a small set of critical multidimensional metrics which are aligned to company strategy and which convey more than simple budgetary indications (Allio, 2006:255).

Uncles (2005:414) points out that deciding on metrics to use can be contentious as measurements can be volume or value based, can be imprecise as they rely on perceptions and forecasts and open to misleading inferences. Ambler (2003:29) states that there is not a universal approach to metrics which every company can use. But challenges should not lead one to abandon the use of metrics.

Metrics are necessary and add meaning to marketing terms. Measures should be related to benchmarks or norms and expressed in relative terms to competing alternatives (Ambler, 2003:29; Uncles, 2005:414) and an explanation should be provided on how for example brand loyalty is calculated as it can be ambiguous otherwise. Yeniyurt's (2003:139) research pertaining to multinationals supports Ambler by stating that measures are not exhaustive nor generally applicable because each company's measures has to fit its strategic purpose.

### 3.8.4 Measuring a Brand

Brands have different meanings and can be interpreted as their value to the customer, value to the company or value in terms of competitive advantage (Ambler, 2003:42). Experts (McDonald & Dunbar 2004; Ambler, 2003) believe it is not sufficient quantifying, for example, brand equity into traditional financial data.

Traditional accounting methods, pressures from financial markets and senior executive managements' performance drive cause many companies to emphasize short term outcomes. Brand equity is a long term performance indicator and adjustment need to be made when using the measure in the short term. If marketing is seen as an investment, then this should be measured and reflect in an increase or decrease of brand equity. Brand valuation should be assessed according to their worth, but should not be the sole measurement of brand equity. The assessment needs to include non-financial drivers, take account of changing influences and better alternatives and can include innovation possibilities.

To achieve a culture which portraits a longer term brand building focus that maximizes brand asset value, measurement mechanisms which "make the intangible tangible" (Davis, 2002:355) are necessary. Measurements assist managers with information in evolving brand efforts which can lead to sustainable competitive advantage and which should result in supporting brands with strong growth potential. Davis (2002:355) points out two forms of brand metrics, namely brand impact (which measures the brand's role in driving the health of a business) and brand image (the overall awareness of a brand).

Davis suggests the use of a brand asset management model and suggests that brand metrics should be based on SMART (Davis, 2002:355), namely strategic alignment, must be market driven (understanding the cause of measure through "the market's eyes not company's internal lens"), give guidance as to action required, be repeatable and consistent and have touch points covering customer experience. Davis emphasises strategic brand management, suggesting brand responsibility should be at the highest level in an organization, so that a cohesive strategy can be developed with a long term view on competitive advantage and profitability and this necessitates monitoring and evaluating brand strength. For this purpose, brand metrics should be presented in quantitative and qualitative format.

The way to measure a brand's cash flow is affected by four factors, namely price, growth, cost and investment. Brand leaders can charge a premium, have lower cost and lower investments because of their leverage in the supply chain. Money has a time value and consumers are likely to respond more quickly to the familiarity of brand leaders. Brand longevity also creates shareholder value, while strong brands are seen to have lower risk profile and investors see the cash flow as more stable and predictable (Doyle, 2001:27).

Performance measurement systems according to Yeniyurt (2003:138) should focus on a value creation process which is rooted in the organizational culture, which should facilitate learning and innovation in order to improve capabilities and build superior competitive advantage. By improving abilities, better internal processes and productivity occur. This will enhance the company's ability to improve customer requirements, resulting in increased satisfaction and better financial performance. Therefore, Yeniyurt (2003:138) argues that the measurement system should involve five perspectives, namely financial, customer, internal processes, innovation and organisational culture and climate, especially in multinational companies. Including organization culture and climate in the measurement framework will complement forward-looking measures.

Uncles (2005:416) points out that "marketing is not a branch of financial accounting" and marketers should not become amateur financial executives (Gordon, 2001:54) and lose their creativity. Metrics should nurture innovation and entrepreneurial spirit (Uncles, 2005:417). Uncles (200:418) further points out that people aspects such as people skills should not be ignored, despite the difficulties in measuring them. The notion of measuring innovation and various aspects relating to employees is also strongly advised by Ambler (2003:177).

### 3.8.5 Internal Marketing Measures

The two main internal indicators of marketing performance according to Ambler (2003:16) are innovation and employees and should be included in marketing metrics.

**i. Innovation**

Ambler cautions against the tunnel vision of rigorously applying metrics. Measurements should not be on a purely tactical level. Moving towards a more integrated approach, covering a wide spectrum of disciplines and knowledge and measurements might lead to less precise metrics but incorporates marketing's influence on strategic and cultural levels (Webster, 2005:4) and enables innovation. Innovation is not driven by the external market but arises from within the company. Strategic leadership is necessary as culture and processes are only the enablers (Ambler, 2003:154).

According to Slater and Narver's (1995) framework a sequential relationship occurs between organizational culture and organizational learning, customer satisfaction and sales growth/profitability. Culture, according to Slater and Narver (1995), has two aspects related to learning, namely entrepreneurship and market orientation. Market orientation is defined as customer orientation, competitor orientation and interfunctional coordination.

Other researchers such as Hurley and Hult (1998) define innovation as a mediator for organizational learning and performance and describe organizational learning as an aspect of culture. Therefore Yeniyurt (2003:136) argues that organisational culture should be measured by looking at product and process innovation, because culture incorporates human and intellectual capital. This will enhance the balanced scorecard and Scandia navigator by introducing a forward looking approach Yeniyurt (2003:136). This is supported by Ambler (2003).

**ii. Employees**

Creating a corporate brand requires a holistic approach. The external and internal reputations of a brand are inextricably linked because customers form their impression from interaction with employees (Ambler, 2003:188). Internal marketing can create competitive advantage with employees committing to company goals and brand values (Ambler, 2003:182). Sustainable advantage can be obtained through excellence of execution, as this is where contact with the customer occurs and not through its strategy (Brown, 2005:2). This leads to the need of internal marketing and empowering people in the organization who are in direct contact with customers. The HCI research in 2002 (Ambler, 2003:181) on 1500 world's leading companies showed that companies with best people management practices created nearly twice as much value for shareholders as the average competitor.

### 3.8.6 Evaluation of Marketing Mix

Luo and Donthu's research (2006) show a positive influence of marketing communication productivity (such as advertising and promotions) on shareholder value.

Marketing mix is defined as elements which make a contribution to and strengthen the brand equity and profit of a company. Each element has its own measurements. Before deciding on the type and proportion of elements in the marketing mix, goals need to be set and the cost established. The aim is not to assess the individual element's contribution but to establish whether the elements of the mix result in increasing or decreasing profit and brand equity (Ambler, 2003:11). Profit analysis can assists with optimal expenditure across the mix.

The assessment of an individual campaign needs to occur in the context of the whole marketing programme. Before starting an advertising campaign, its outcomes have to be clearly stipulated, enabling payment by result if outsourced. When measuring performance of the web or internet, marketers need to be sure to measure what they intend to measure. Establishing the impact of activity and the appropriateness of measurement are important for public relations. With loyalty programmes the aim should dictate the outcome, whereas the focus of customer relationship management should be on the customer and not the company's process. The objectives of a sales promotion should dictate the effectiveness of its outcome.

### 3.8.7 Performance Measurement Characteristic

Before applying any measures, the company needs to have clearly defined its brand positioning, target markets and segments. The meaning of these metrics should be clarified across the organization to simplify complex challenges and to enhance alignment between individuals, teams, departments and stakeholders. The metrics should direct management's focus to the marketplace, encourage strategic focus and behaviour and be the result of translating qualitative goals to quantitative targets (Allio, 2006:255). Allio (2006:255) maintains that metrics often do not give enough guidance and do not assist with setting priorities.

Performance can be assessed in terms of comparing current achievement against previously determined internal goals (namely the baseline), against external benchmarks such as market indicators and competitors (taking adjustments into account) (Ambler, 2003:26). Instead of reporting in absolute numbers, companies should consider reporting in relative prices to their competitors. Companies should spend less time planning and rather compare planned with actual metrics and analyzing the differences (Ambler, 2003:29).

Metrics are essential for ensuring a common understanding of performance and to identify performance gaps (Massheder and Finch, 1998:123). Metrics should include internal and external comparison with other organisations.

Metrics assist with organisational learning and are the basis for resource allocation. Marketing metrics assist managers with understanding their business and their customers and their markets better. Metrics also enforce accountability and create credibility, but can also be used for company political reasons (Uncles, 2005:414).

Marketing metrics can be defined as “the measurement of the effects of marketing activities” but occur at different levels (Uncles, 2005:412). There are metrics for effectiveness of marketing mix activities, for product /service level assessing brand health and customer satisfaction and for measuring general marketing investment pertaining to corporate and strategic business units. Marketing metrics can be defined as “quantified marketing performance measure regularly reviewed by top management” (Ambler, 2003:293). Lower level measures that explain variances in metrics are diagnostic. Marketing metrics can be classified into six categories according to Ambler (2003:293). These are consumer intermediate (e.g. consumer awareness and attitudes), consumer behaviour (e.g. sales), direct trade customer (e.g. distribution availability), competitive market measures (e.g. market share relative to competitor or market norm), innovation (e.g. percentage of turnover due to new products) and financial measures (e.g. brand valuation or advertising expenditure).

Metrics should provide direction in line with company strategy while enabling control. Metrics need to add information and very volatile or static metrics should be excluded. Metrics need to be prioritized and the sector that matters most gets preference. Metrics should provide usable information which is of value to the organization. The measures should not only predict success but should also point out potential problems. Performance factors should reflect internal and external measures, relative to competitors and customers. Ambler (2003) supports this.

The industry life cycle also needs to be taken cognizance of (Allio, 2006: 257). For example, in a start-up high technology business the emphasis would be on reliability, speed and efficiency and while gaining new customers are important in the growth phase, price and production cost become the main consideration factors in a mature industry (Bender and Ward, 2002:88).

### 3.8.8 Choosing the Right Performance Measure Metrics

Approximately 75% of top measures deemed to be important by executives are shown to be external and internal marketing metrics according to two independent research studies (Ambler, 2003:120).

The basic criteria for assessment are compared to what is expected by the company and to an external benchmark (with competitors or industry norm) and adjusted to any changes in brand equity to compare like with like (Ambler, 2003:26). Well managed companies use a combination of metrics such as quantitative, qualitative, internal, external, short and long term. Metrics should be “grounded in the realities of marketplace” (Allio, 2006:258) as performance metrics are powerful instruments in shaping behaviour. Difficulties lie with measuring too little too infrequently (reducing effective responsiveness) or measuring too much too often (resulting in “”overkill” of data). Therefore a well designed performance measurement system should take a project management approach. It should state the level of variance acceptable and indicate the person(s) responsible for tracking, monitoring and diagnosing the problem, as well as stating what corrective action to take (Allio, 2006:258).

Allio (2006) sets out seven guidelines when formulating performance metrics:

- Measure metrics that are important
- Align metrics with those of key stakeholders (e.g. customers, suppliers, shareholders)
- Translate qualitative into quantitative metrics
- Adopt early warning signs
- Establish a common language with simple, clearly defined metrics
- Use a balanced portfolio of metrics (e.g. short/long term and internal/ external)

When measuring metrics managers should not search for the single magic bullet but use existing toolkit of measures but appraise and refine them (Uncles, 2005:416). Different metrics can be used for different levels of analysis. For example, Australian Marketing Institute (AMI) looks at strategic positioning metrics suitable for discussion at board level and operational metrics, more useful for functional divisions of marketing. AMI also suggests to use different metrics for different purposes, for example, sales promotion metrics and loyalty programme metrics (Uncles, 2005:416). The stance of using different metrics is supported by Ambler (2003). He suggests using three basic metric packages, namely financial, non-financial and company specific.

Ambler (2003:119) suggests that companies should state the usual three financial measures (sales, cost, profit) with six general brand equity measures, adding approximately twelve tailored corporate specific metrics to the measurement. This enables industry comparison while retaining company specific performance measures.

**i. Financial Metrics**

Multinationals such as Ford, Henkel, Procter & Gamble, Kraft Foods, Hewlett-Packard and IBM state that marketing measurements of success need to be linked explicitly to financial measures (namely company value, profits and share/stock performance) (Uncles, 2005:412). However, financial metrics do not state much about the marketplace or the customers (Ambler, 2003:103).

Financial metrics only make sense when compared to the previous year’s performance, to the projected business plan metrics and to competitive performance (Ambler, 2003:126).

**ii. General Metrics**

Aspects which should be assessed in the general measurement of brand equity are linked to positioning and are familiarity (relative to other brands), penetration (active customers as percentage of intended market), customer satisfaction (what consumers think of and feel about the brand relative to others), brand loyalty (behavioural) and availability (assessing distribution). Awareness is important for growing companies but less so for mature ones. Relative familiarity (to the competitor) is a better indicator. Research indicates that relative perceived quality is a better indication than market share of future profits (Ambler, 2003:132).

**iii. Company Specific Metrics**

There are several techniques for a company to create its own metrics. One is Kaplan and Norton's (Ambler, 2003:137) success mapping which starts with the medium results to be achieved and works backward to define marketing actions and performance metrics. Another option is identifying marketing metrics or deducting key marketing issues based on a company's strategy. The emphasis should be more on effectiveness (doing the right thing) than efficiently doing the wrong thing. The function of metrics as indicators of direction is far more important than their control function (Ambler, 2003:143).

## 3.9 Implementation of Metrics

Successful implementation of professional marketing metrics can be enhanced if the following issues are addressed.

### 3.9.1 Steps in Measuring Metrics

An audit should be conducted to assess the stage of market orientation within the organization and its current use of metrics. The executive team to re-define goals (whether it is new marketing metrics, more innovation, better internal employee communication etc) and metrics and benchmark performance.

In order to choose metrics, candidate metrics need to be compiled, verified by the chief financial and chief marketing manager. The executive team has to decide on units of measurement incorporating brands (products), markets (countries) and customer segments. Preference of these reporting units should be given to the value they add to shareholders, in other words only major ones need to be reported on and minor ones in aggregate. The major units need to be reported on individually while minor ones are averaged.

The responsibility of compiling metrics should lie with the marketing executive although input and team work from other functional units is essential. The final decision on what metrics to use should lie with the senior executive team with input from the board of directors. A new revised metric system should evolve in line with corporate strategy, be communicated throughout the organization and become part of the process.

### 3.9.2 Integration

For marketing to be perceived as playing a central role in an organization, it must integrate across specialized silos within marketing and across functional business units and other managerial disciplines in order to leverage from synergies, to provide value to the customer (Brown, 2005:) and to report on metrics. Large organizations can have an overflow of market information but the "silo mentality" is not conducive to organisational learning and knowledge management. The better the available information, the better the forecasting can be. This necessitates team work and cross functional communication.

### 3.9.3 Structure

Consistency in measuring is essential, otherwise it looses its meaning (Ambler, 2003:123). Standardization in multinational companies is complex. Ambler (2003) suggests that the chief financial officer is best suited to integrate financial and non-financial marketing metrics. Some of the reasons are that marketing information is widely dispersed within the organization, credible and independent results are obtained, alignment and consistency prevails and a better understanding of marketing issues (Ambler, 2003:9).

Doyle (2001:24) maintains that brand management should form part of the total management process and should not be left only to marketing specialists. In his opinion (Doyle, 2001:26) marketing practitioners often focus on sales, market share, customer awareness or favourable attitudes which has the potential of destroying rather than adding value. According to Doyle one of the main problems is for marketing practitioners' objectives (for example increase in sales volume, market share or customer awareness) to connect to CEO's objectives (which is increase in shareholder value).

**i. Chief Marketing Officer**

Some experts claim that marketing has revived and undergone a renaissance. 47% of *Fortune 1000* companies in the USA in 2005 employ a chief marketing officer (Kerin, 2005). Only 14% of chief marketing officer's (CMO) had been at their companies representing top brands for more than three years and less than half had held the position for more than one year (Welch, 2004). Insufficient formal authority and unrealistic corporate expectations were some reasons given. Kerin (2005) points out that another factor could however be that few marketing specialists are able to sufficiently execute their task.

During the 1980s many enterprises expanded by undergoing mergers and acquisitions. In the 2000s companies divested unrelated businesses and pruned less profitable product lines and brands. This has lead to senior management focusing more on generating growth from existing businesses (Varadarajan, Jayachandran & White, 2001). Kerin (2005) maintains that today's chief executive officers (CEO) have significant marketing and sales experience and recognize the potential role and strategic contribution which marketing can make at an executive level. In addition, previously strategic business units have become less autonomous and had to conform to the company's benchmarking and best practices. All of these had a positive effect on elevating marketing to a corporate level. However, the chief marketing officer position was often not held by marketing experts and required a broad business outlook, multi industry experience and cross-functional management expertise (Kerin, 2005).

**ii. Board Level Representation**

Ideally marketing should be represented at board level. Regardless whether chief financial officer or chief marketing officer, it is essential to inform the board annually or bi-annually on key marketing performance metrics in relation to best practice or industry benchmarking and the longer term implications thereof. This gives an opportunity for assessing shareholder needs and improving relations.

### 3.9.4 Budgeting & Expenditure

Fine-tuning metrics is necessary but inhibiting factors exist. For example, budgets should not "imprison" management . Budgets should be more flexible and instead of dictating strategy should result from strategy which should take external factors into account. In capital markets success is measured in terms of added shareholder value. This takes into account the time value of money, cost of capital and the risk associated with strategies and investments in the future (McDonald; 2006). The traditional way of budgeting according to historical expenditure is not necessarily optimal, depending on the strategic aim. The company needs to look at strategic alternatives and their outcomes in combination with financial evaluation. The levels of expenditure necessary to achieve higher income need to be assessed, aligned and correctly allocated.

## 3.10 Conclusion

The annual reports will be assessed based on inclusion of financial marketing metrics and non-financial information on brand equity and market performance, based on Ambler's (2003) suggestions of analyzing annual reports.

The financial criteria consists of sales and profit in comparison to competitor or benchmark and marketing investment. Brand equity is made up of six components, brand awareness, penetration, reputation, customer satisfaction and loyalty and distribution channel, all of which are individually assessed as well as the total. Other non-financial marketing aspects include other customer and segmentation measures and information pertaining to them. Annual reports will also be assessed according to information provided on competition, innovation, environmental and strategic aspects pertaining to marketing. Each company is rated according to these criteria and general comments as to trends in annual reports will be made.

# CHAPTER 4: Research Design & Analysis

## 4.1 Introduction

In conducting qualitative research several options such as in-depth case studies and interviews are methods available to obtain data. The content analysis of annual reports has been chosen because information is readily available and because content analysis a good explorative method in identifying possible patterns or themes in annual reports. Annual reports are one of the main showcase communication tool for stakeholders. Assessing the amount and content of marketing related issues in annual reports can be seen as a reflection of the marketing maturity of South African listed companies.

## 4.2 Methodology

This report follows the content analysis methodology and gives a point in time view of the state of marketing disclosure in listed corporate companies in South Africa. Content analysis is a detailed and systematic examination of the reflection of marketing aspects as presented in annual reports giving an indication of the extent of companies' market orientation.

The analysis is using Ambler's (2003) marketing metrics guideline as a basis for analysis. Ambler is one of the leading academics in the field of measuring and assessing marketing productivity. As there is no generally accepted format or set of metrics available nationally or internationally, Ambler compiled a set of measurements and guidelines specifically aimed at senior executives. The aim is to establish how marketing performance measures and aspects are reflected and whether the information contained in annual reports is sufficient for potential investors, shareholders and other stakeholders to gain to make better investment decisions.

A study conducted in 2002 in the United Kingdom (McDonald and Dunbar; 2004:3) revealed that over the years from 1979 to 2000, since companies performed at their peak, 25% subsequently closed down and 33% were acquired. This shows that there is no guarantee for even well performing companies to survive over the years. Investors are interested in long term gain and need to know how trends affect a company and how management responds to these challenges. In order to do this type of assessment, information on marketing is essential.

The Institute of Chartered Accountants of England and Wales' (ICAEW) report (Ambler; 2003:264) suggests to include the following non-financial performance indictors for shareholder evaluation: Market share and market growth, customer satisfaction and retention, price, distribution, new product launches and corporate reputation and brand equity. These aspects will form part or the analysis.

There are no formal requirements for listed companies in South Africa pertaining to reporting on marketing matters in annual reports. Ambler (2003) mentions the tendency of managers not to measure if it is not a requirement, which increases the risk of ignoring potential problems. Investors have a right to be informed of how and why cash flows from customers (Ambler;2003:252).

### 4.3 The Assessment Method

The method involves assessing the financial as well as non-financial marketing disclosure. The content methodology has been adopted because marketing issues are likely to be reported in a non-financial, qualitative, descriptive format and content analysis might reflect the extent better. We initially establish the intensity and nature of marketing related information. The aim is to assess whether companies in certain sectors disclose specific type of marketing information, where it is disclosed and how much is disclosed.

The information gathered has a mixed methodology with a quantitative and qualitative part. The quantitative section refers to the statistical analysis resulting from assessing the marketing metrics used in annual reports, the proportion and the extent to which the marketing metrics are used. The full annual report, including the operational review, the financial review and sustainability report has been investigated. The qualitative part assesses the awareness and maturity level of marketing as projected and communicated to shareholders in the annual reports.

### 4.4 The Sample

This research is based on cross-sectional data using secondary data, namely 2006/2007 annual reports of companies listed on the Johannesburg Stock Exchange (JSE). We analyze in detail the annual reports of thirty out of 455 companies (7% of the population). The companies are spread across major sectors such as retail, food, financial services, media, technology & telecommunications, leisure & travel, construction & materials and chemicals. The sample consists of the following (refer to appendix 4):

7 x retail (23%)
7 x food & beverage (23%)
5 x financial services (17%)
3 x media (10%)
3 x technology and telecommunications (10%)
2 x travel & leisure (7%)
2 x construction & materials (7%)
1 x chemicals (3%)

The sample is derived from the JSE super sector group which forms part of the industry group but is more specific. The chosen sectors are retail, food & beverage, financial services, banks, insurance, media, technology, telecommunication, travel & leisure, construction & materials and chemicals. These sectors are chosen because the companies are likely to have a more direct influence on the end consumer's daily lives. In addition, marketing requirements are critical to these sectors. The sectors 'construction' and 'chemicals' are included to give a more holistic overview of the spectrum of companies. Eleven out of twenty super sector groups are chosen.

The sectors 'debt' and 'associated backed securities' are excluded because these sectors deal with a very specialized offering, not conducive to this survey. Industrial sectors such as 'industrial goods and services', 'oil & gas' and 'basic resources' are not included because their product offerings are aimed at wholesalers and not end consumers. Only three companies were listed under 'automobile parts', subsequently this sector has been omitted. Other sectors such as 'health care' and 'personal & household goods' are excluded because several companies listed under retail also offer these products and services and are therefore already contained in the sample.

The retail super sector comprises of companies offering general, food, drug, apparel, furniture, home ware and health retail. The food & beverage sector includes company samples in farming, fishing, production, brewery and distillery. Some companies are horizontally integrated while others are vertically integrated. The media sector includes the categories publishing, broadcasting and entertainment. The sectors technology and telecommunications are grouped together and financial services, banks, investment and insurance sectors are grouped together in order to enable better industry sector comparison. (For more detailed description of companies refer to annexure 4).

Some companies for example in the retail, media and food & beverage sectors comprise of national and multinational companies, causing the size of the companies and number of brands to vary substantially. In addition the financial year ends differ and some companies 2007 annual reports are used, although the majority is dated the year 2006.

## 4.5 Data Analysis

Initially a randomly selected stratified sample has been chosen from the JSE list by choosing two samples of each industry group. I decided to omit the basic resources sector and automobile & parts sector as no marketing information is expected to arise from these sectors and to make the other sectors slightly more representative. The aim is also to keep the sampling size below 40 due to manpower and time constraints. In addition I have included three more financial services (banking) sector samples and two more food company samples to give a more balanced approach. Food, retail and financial services are deemed to be more brand or end-user orientated than for example basic resources. Each stratum is not sampled in proportion to its size in the overall population. A proportionate stratified sampling has not occurred. Two company samples initially chosen (in the financial services i.e. banking sector) could not be pursued as the information could not be downloaded from the website and the companies did not have the annual reports readily available. Other companies in the same stratum have been chosen instead.

The companies' annual reports will be evaluated according to the following problem statements and assessment criteria. The information will be summarized in tables and percentages, frequencies and statistical calculations. It is expected that the information resulting from the sample will mainly be represented in bar or pie charts. Possible comparison between industries may be made, although due to a small sample per industry validity might not be achieved. From the results we can extrapolate the importance senior executives place on marketing as a strategic tool by conveying marketing information to shareholders.

## 4.6 Measuring Instruments and Assessment Criteria

The criteria used in annual reports will be based on Ambler's (2003:305) "recommendations for marketing disclosures in companies' annual reports to shareholders". These recommendations are based on guidelines drawn up by the Accounting Standards Board in London 2002. The United Kingdom guidelines emphasize shareholders "seeing the business through eyes of management" (Accounting Standards Board: London; 2002). The annual reports will be assessed based on inclusion of financial marketing metrics and non-financial information on brand equity and market performance, based on Ambler's (2003) suggestions of analyzing annual reports.

### 4.6.1. Financial Metrics

Financial marketing performance indicators are assessed according to whether sales, marketing investment in brand equity, profit/loss and market/customer profitability are mentioned and whether they were compared to competitors.

### 4.6.2 Brand Equity

Brands have different meanings and can be interpreted as their value to the customer, value to the company or value in terms of competitive advantage. Brand valuation should be assessed according to their worth but should not be the sole measurement of brand equity. Brand equity is assessed based on Ambler's criteria (2003:126) and includes information on the brand, namely familiarity of brand, penetration, what customers think of brand, what customers feel about brand (end user satisfaction indexed against satisfaction with competitors'), customer loyalty and retention (% of customers still active at end of year), availability/ distribution channel.

- *Brand awareness* gives an indication of the extent of how well known the company is and its distinctiveness (personality). It assesses the customer's perceived value for money (in comparison to the competition) and differentiation through the company's image. Brand strength is associated not only with the product but also with the corporate brand. It therefore is important to measure a customer's trust and admiration of the business because, out of brand awareness arises customer loyalty and buying behaviour.

- *Penetration* refers to active customers as a percentage of intended market and gives an indication of growth potential for a company and what strategy a company should follow.

- *What customers think (reputation)* of a brand refers to perceived quality and brand preference relative to competition. For example, brands can be known as category leaders or can be respected for their innovation. This would give an indication of where a company's perceived strengths or weaknesses lie.

- *Customer satisfaction* refers to what customers or end-users feel and is reflected in market share trends and can be an indication of long term movements.

- *Customer loyalty* can be assessed by measuring repeat buys, customer retention versus churn and bonding. The objective of a marketing strategy is to attract, satisfy and retain target customers. A lack of customer focus can result in an unfocused, generic value proposition, declining customer satisfaction and reduced loyalty, higher customer turnover and higher marketing expenses and a decline in profit performance and at best stagnant shareholder performance.

- Information pertaining to *availability and distribution channel* should give an indication as to the accessibility of a brand to the customer and can be recorded for example as weighted average of retail outlets carrying the brand. Depending on the sector this could highlight opportunities or threats for a company.

### 4.6.3. Other Customer Metrics

Ambler (2003:306) points out that the metric which summarizes brand equity and market performance can vary according to sector as some might use volume and others value terms. Apart from sales (which is a requirement), market definition and size, other customer metrics should include information on market share or market presence (by value or volume and brief definition of 'market'), relative price (value of market share divided by volume of market share) or pricing strategy and sales to new customers as a percentage to turnover (Ambler;2003:306). This will give an indication of competitiveness and growth prospects.

#### 4.6.4. Segmentation

Profitability is determined by the cost of dealing with a customer (McDonald & Dunbar; 2004:4). Customer segmentation strategies are the more basic form and can evolve into customer relationship marketing strategies (Best; 2005:158) which result in economic gain for a company by improving customer retention and customer life time value. This can only happen when a company knows which customer segment or customers to pursue and which to abstain from. By showing an understanding of their target segments companies can reassure investors that their marketing focus is in alignment with their overall business strategy.

Annual reports are investigated according to information pertaining to segmentation, which is deemed important by the financial community to make investment decision. These aspects relate to % of profits in total market produced by segment, ratio of profit produced by segment to weight of segment in total population, % defection rate and customer retention rate by market segment, extent to which profitability of top ten customers are known and reflected, extent to which financial impact of marketing expenditure is known and reflected.

#### 4.6.5. Innovation

The assessment is based on whether initiatives in process were mentioned, whether innovation launched are mentioned and % revenue gained owing to launches in past three years. Innovation creates differentiation and uniqueness compared to competitors.

#### 4.6.6. Competitors

A company needs to understand its key competitors and competitive forces to assess its own positioning and differentiation in terms of pricing, product quality and customer satisfaction.

The research will assess whether key competitors are mentioned, whether % of market share of competitors is mentioned, brands used by competitors, their message or medium used or whether any number of competitor launches during the past year are mentioned.

#### 4.6.7. Environmental and Strategic Factors

Aspects which fall within this category pertain to whether external factors influencing marketing trends are mentioned and discussed and whether risk factors influencing cash flow are mentioned. Other aspects include whether key marketing performance indicators are stipulated and aligned to company strategy, whether the chairman’s review involves quantifying the main marketing assets (e.g. brand equity) and how these assets have changed compared to previous year(s).

#### 4.6.8. Glossary of marketing and brand terminology

Marketing is often defined in various ways, ranging from advertising and promotions to making the customer the focus of the whole organization which has been exasperated by unfamiliarity with the marketing terminology (Ambler; 2003:277). Ambler therefore recommends inclusion of a marketing glossary in annual reports. Annual reports are assessed whether they include a marketing glossary.

#### 4.6.9. Other Aspects

General comments or other aspects which might arise will be noted and commented on.

#### 4.6.10. Maturity Model

We also intend to incorporate the assessment criteria used by use by Payne and Davidson at Cranfield University School of Management (McDonald & Dunbar; 2004:4) which gives an indication of the type of marketing information the financial community needs to make an investment decision. In addition we assess the companies by using our own Grand Total measurement model based on Ambler's (2003:94) level of maturity model which displays five levels of sophistication in terms of companies' marketing orientation. However, we will adapt Ambler's model to reflect the level of maturity as reflected in annual reports.

### 4.7 Rating Scale Procedure

The researcher has used the following process to evaluate the marketing information contained in annual reports. A checklist has been used consisting of the categories financial metrics, brand equity, customer metrics, segmentation, innovation, competitors and internal/external factors, strategy and glossary.

Each category is made up of subcategory. The researcher directly rates each subcategory, allocating an itemized rating scale for each subsection. The rating is done as follows:

| | | | |
|---|---|---|---|
| 1 | = | very poor | (No information available) |
| 2 | = | poor | (Some general and vague information or statement is made but not substantiated) |
| 3 | = | average | (Some information is given with explanation or substantiation) |
| 4 | = | good | (Good and relevant information is provided) |
| 5 | = | excellent | (A lot of information and detail is provided with examples and well presented) |

At times direct quotes from various companies will be used as examples to support the rating. If companies have not been specific and only mentioned the topic in general, this will be included as part of the qualitative analysis.

The glossary will be assessed according to its presence or not.

Each company will be given an overall rating. The rating scale will assist with comparison of the data and correlations within the scores can be inferred from the data.

From the results we can extrapolate the importance senior executives place on marketing as a strategic tool by conveying marketing information to shareholders. It can be inferred that the more information is displayed, the more market orientated the company is.

## 4.8 Qualitative Method

The data collected is based on a checklist containing Ambler's marketing metrics framework pertaining to annual reports. However, because numerical rating scales are very limiting for content analysis, any information deemed useful and pertaining to marketing issues will be collected. The researcher records this data as thoroughly, accurately and systematically as possible by reading through each annual report from beginning to end. Quotes are collected and will be used as examples in the results section to substantiate findings and to highlight issues which might not be sufficiently covered in Ambler's framework.

## 4.9 Research Questions

This research examines the use of marketing metrics and marketing issues reflected in annual reports of SA listed companies in an attempt to assess the level and quality of information provided and its worth to investors and stakeholder. The research question focus on qualitative and quantitative aspects of marketing as portrayed in annual reports. The research problems are as follows.

### 4.9.1 Research Question 1 (Quantitative):

**To what extent are quantitative marketing performance measures (metrics) reflected in annual reports?**

Research by the Marketing Leadership Council in the USA in 2001 (Ambler:2003:17) has shown that 63% of blue chip member companies are dissatisfied with their marketing performance measurement system, wasting an estimated 26% of their budgets. Guidelines in 2003 by the Accounting Standards Board stated that more information about marketing investment and brand equity should be provided to shareholders but in practice "annual reports have very little information on these topics" (Ambler; 2003:277). This study aims to assess the current state of marketing metrics reflected in annual reports in listed SA companies.

**4.9.1.1 Secondary question (Financial metrics):** How are financial marketing metrics reflected in the annual report?

To be of value financial metrics should be compared to the company's internal benchmark or goals and/or to its previous year's performance and to competitors (Ambler;2003:264). The study will assess how common this best practice is.

Each company's representation of financial marketing metrics will be compared to Ambler's financial metrics (2003:305) to check whether the current year's metrics (namely sales, marketing investment, profit/loss) are compared to the company's own benchmark and/or prior year and comparison with competition as this constitutes best practice. The ICAEW report (Ambler; 2003:264) has added two more indicators, namely return on capital and market/ customer profitability which we have added to the checklist (refer to annexure 2).

Each company will be assessed according to a checklist (refer to annexure 2). The checklist for brand equity measurement assessment is based on several guidelines as suggested by Ambler (2003:306). The study will address the percentage of companies giving quantitative, measurable information on these.

**4.9.1.2 Secondary research question (Brand Equity marketing metrics):** What % of elements on customer metrics are reflected in the annual report? How is total brand equity reflected in the annual report?

**4.9.1.2 Secondary research question:** What % of elements on other customer metrics are reflected in the annual report?

**4.9.1.3 Secondary research question:** What % of elements on segmentation metrics reflected in the annual report?

**4.9.1.4 Secondary research question:** What % of elements pertaining to competition are reflected in the annual report?

**4.9.1.5 Secondary question**: What % of elements on innovation metrics are reflected in the annual report?

**4.9.1.6 Secondary question:** What % of elements on environmental aspects and strategy are reflected in the annual reports?

In addition, a more detailed analysis of types of metrics used will be done. These will refer to the following:

- Assessment of how the brand is reflected in annual reports will be based on Ambler (2003:136) (refer to annexure 1 and 2)
- Assessment on how much information on customer segmentation reflected in the annual report will be based on Payne's segmentation (McDonald & Dunbar 2004:4).
- Assessment of innovation as reflected in the annual report will be based on Ambler's evaluation (2003:16)

### 4.9.2. Research Question 2 (Qualitative):

**To what extent are qualitative marketing issues reflected in annual reports**

**4.9.2.1 Secondary question:** What type of marketing aspects are reflected in the annual report?

**4.9.2.2. Secondary question:** To what extend are marketing aspects reflected?

A brief descriptive, qualitative summary shows what marketing issues are deemed important enough by companies to be mentioned to shareholders and other stakeholders. An assessment is made as to the detailed description concerning each marketing aspect based on a similar checklist as in qualitative assessment to determine the depth of marketing issues reflected upon. An overall grand total score will result for each company, giving an indication as to the worth it places on communicating its role of marketing. The topics covered pertain to:

| | | | |
|---|---|---|---|
| 4.9.2.1 | Brand | : | How is the brand reflected? |
| | | : | What aspects of the brand are highlighted in the reports? |
| 4.9.2.2 | Customer | : | What aspects of the customer are reflected upon? |
| 4.9.2.3 | Segmentation | : | What do annual reports state about segmentation? |
| 4.9.2.4 | Competition | : | How much information and what type is provided on competition? |
| 4.9.2.5 | Innovation | : | What role does innovation play in terms of marketing? |
| 4.9.2.6 | Environment & | : | Are external and mentioned with direct reference to marketing? |
| | Strategy | : | Is marketing aligned to the company's strategy? |
| | | : | Does and how does the chairperson mention marketing? |
| 4.9.2.7 | Source | : | Under what section of the annual report (i.e. source) are aspects pertaining to marketing reflected upon? |
| 4.9.2.8 | General | : | Does the annual report provide a glossary of marketing terms? |
| | | : | What general remarks or trends arise when assessing this sample of annual reports? |
| | | : | Have the quantitative marketing measures been supplemented by comments? |
| | | : | Have marketing issues been supplemented by auditable quantitative measures? |

### 4.9.3 Research Question 3 (Maturity Level):

### How much emphasis is placed by companies on marketing performance assessment as reflected in annual reports

The management team, employees and shareholders should know what marketing is suppose to achieve and whether it is doing so (Ambler:2003:95). The companies will be graded according to level and depth of information obtained to give an indication of their level of sophistication regarding their use of marketing metrics. This will give an indication as to the importance companies place on overall marketing assessment. Based on the information gained during the analysis, the companies will be rated and evaluated according to the "grand total maturity model" which is based on Ambler's (2003:94) five stage maturity model (refer to annexure 3).

The grand total maturity model is derived by obtaining total rating score per company by summing up all the 23 elements assessed in this analysis. The five levels of the model (ranging from level 1 "poor" to level 5 "excellent") assist with depicting the overall information on marketing metrics and marketing information contained in annual reports of JSE listed companies.

The brand equity elements which are assessed pertain to familiarity/ awareness, penetration, reputation, customer satisfaction, customer loyalty, availability/ distribution channel. Further aspects (each with their own elements) which form part of the 23 elements of the grand maturity model are other customer metrics, segmentation, competition, innovation and environmental and strategic aspects. Other customer metrics refer to market share or market presence, relative price or pricing strategy and sales to new customers. Segmentation elements are based on McDonald and Dunbar (2004) and include % of profits in total market produced by segment, ratio of profit produced by segment to weight of segment in total population, % defection rate and customer retention rate by market segment, extent to which profitability of top ten customers are known and reflected. Environmental and strategic aspects assess whether external factors influencing marketing trends are discussed and whether risk factors influencing cash flow are mentioned. Other aspects include whether key marketing performance indicators are stipulated and aligned to company strategy, whether the chairman's review supports marketing and quantifies the main marketing assets.

The aim is to assess whether companies make use of sophisticated marketing metrics, leading to improved decision making on behalf of external stakeholders. Assigning brand equity could be an indication that companies place more value on marketing than those who do not. If the annual report reflects only the essential marketing measurements, it can be deducted that the level of marketing sophistication is not high.

#### 4.9.3.1 Secondary research question (Worth to Shareholder):

Are the marketing aspects communicated to shareholders sufficient for good investment decision?

By analyzing the reports we can assess whether the information displayed sufficiently reflects all the information necessary to make a good investment decision. This question will be addressed based on information required by investors as stated in the Davidson 1999 model (McDonald & Dunbar; 2004:6).

## 4.5 Limitations of Study

The sample size is relatively small as it represents less than ten percent of listed companies, covering several sectors. The research is not confined to one industry sector as it aims to convey a general overview towards the field of marketing. However, it reduces the sample representation of sectors sometimes to only one or two. A more in-depth industry specific approach may be considered at a later stage should certain trends be found.

The sizes of the companies vary substantially from national to multinational companies and from single to multi-brand. This research covers a broader spectrum of companies rather than in-depth analysis of one type of company or sector. This research does not cover the small and medium enterprise (SME) sector.

The research is based on secondary information, limited to publicly available printed annual reports. Any updated information or electronic versions of annual reports or supporting material has not been used. The main constraint however is time.

## 4.6 Conclusion

The research design follows a content analysis methodology and makes use of assessing quantitative and qualitative marketing information obtained in annual reports. The sample of companies is drawn from a range of sectors mainly retail, food, financial services, media and technology and all are listed on the JSE.

The assessment criteria is based on a checklist which consist of several factors such as financial and brand equity metrics, other customer and segmentation metrics and information pertaining to innovation, competition, environmental and strategic factors, glossary of marketing terminology as well as other aspects or trends which might arise.

Each company is rated per category on the checklist by using a five point rating scale (1 = very poor, 5 = excellent). In addition each company is allocated an overall score for brand equity and for the grand total to make comparison possible and to detect trends.

The research questions aim to establish to what extent quantitative marketing performance measures and qualitative marketing information are reflected in annual reports and to assess whether marketing aspects communicated to investors are sufficient for good investment decisions. The following section discusses the research results.

# CHAPTER 5: Research Results

## 5.1 Introduction

The results pertaining to this research are set out below. They refer to the quantitative and qualitative aspects of marketing issues as presented in annual reports of companies listed on the JSE. Financial aspects (sales and profit, marketing expenditure/ investment), brand equity aspects (comprising of brand awareness, penetration, reputation, customer satisfaction and loyalty, distribution channel) form part of the assessment criteria. In addition other customer and segmentation metrics are assessed as well as information provided on competition, environmental and strategic issues pertaining to marketing, prevalence of a marketing glossary and source of origin. The results obtained are based on rating scales between level 1 (very poor) to level 5 (excellent). These ratings are based both on qualitative and quantitative information. Total brand equity and total grand score are also measured to enable easier comparison.

## 5.2 Financial Aspects

Ambler (2003:264) suggests that financial marketing measurements should be compared to a company's internal benchmark or goals and/or to its previous year's performance and to competitors.

### 5.2.1 Sales and profit growth in comparison to competitors

All companies report on sales growth and profit/loss growth is compared to prior year (as stipulated by regulatory requirements). Only one company, a media company, compares % sales growth to its competitors. No other company benchmarks itself against competitors or mentions any competitor activity.

### 5.2.2 Marketing Investment

Not one of the companies mentions their value, volume or percentage of marketing investment.

## 5.3 Brand Equity

Brand equity is measured according to six factors namely awareness/familiarity, penetration, what customers think (reputation), what customers feel (customer satisfaction), customer loyalty, availability/distribution. The total brand equity results are shown below, followed by results for each individual brand equity component.

### 5.3.1 Total Brand Equity

Factor analysis has validated this generally accepted measure of brand equity, summing these six items into one single measure. The results confirm the feasibility of having one general factor that is driving the responses to these six items. This is due to the fact that all six items load highly on the first factor, and also the fact that the first factor explains over 93% of the variation in the data.

**Table 5.1: Explanation of Brand Equity Rating Scale**

| Rating Scale | Explanation | |
|---|---|---|
| 1 - 1.5 | Very poor | No information available |
| 1.5 - 2.5 | Poor | Some general and vague information or statement is made but not substantiated |
| 2.5 – 3.5 | Average | Some information is given with explanation or substantiation |
| 3.5 – 4.5 | Good | Good and relevant information is provided |
| 4.5 - 5 | Excellent | A lot of information and detail is provided with examples and well presented |

The total brand equity is tabulated as follows:

**Table 5.2: Frequency and percentage distribution of Total Brand Equity ratings**

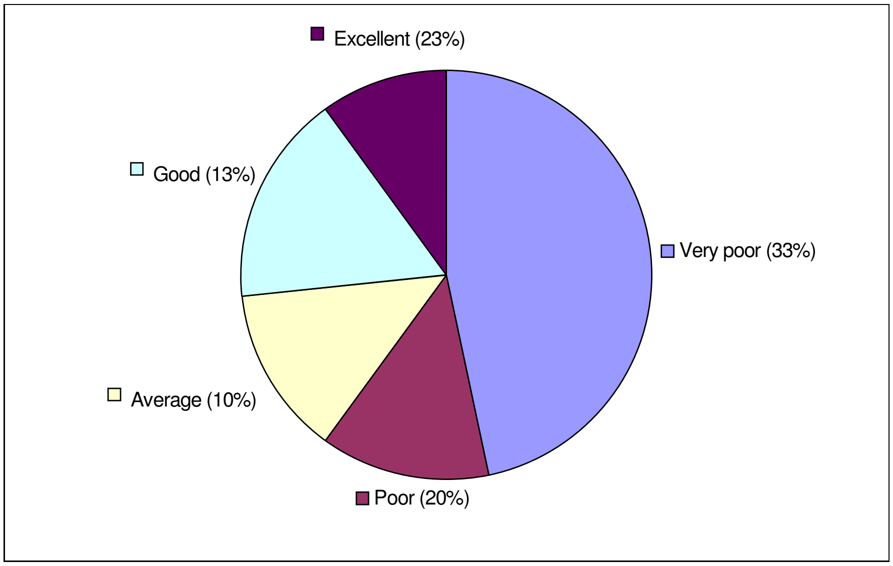
| Total Brand Equity Rating | Frequency | Percentage | Cumulative |
|---|---|---|---|
| **1** | 10 | 33% | 33 |
| **2** | 9 | 20% | 53 |
| **3** | 3 | 10% | 63 |
| **4** | 4 | 13% | 76 |
| **5** | 7 | 23% | 100 |
| **Grand Total** | 30 | 100 | |

The table 5.2 above and pie chart figure 5.1 below show that 53% of listed companies on the JSE supply no or poor information on their brand equity which is measured by elements such as brand awareness, penetration, reputation, customer satisfaction, loyalty and distribution channels.

The table and pie chart reflect that 33% of companies are rated “very poor” in terms of brand equity. This means that no information was presented by the companies’ annual reports pertaining to brand equity. 20% of companies were rated “poor” providing poor or vague information. 10% of companies are rated average providing some information, whilst 13% of companies were rated good and nearly a quarter (23%) are rated excellent, disclosing a substantial amount and detailed information with examples. This shows a bi-polar tendency with companies either not supplying information or providing very good information on their brand equity.

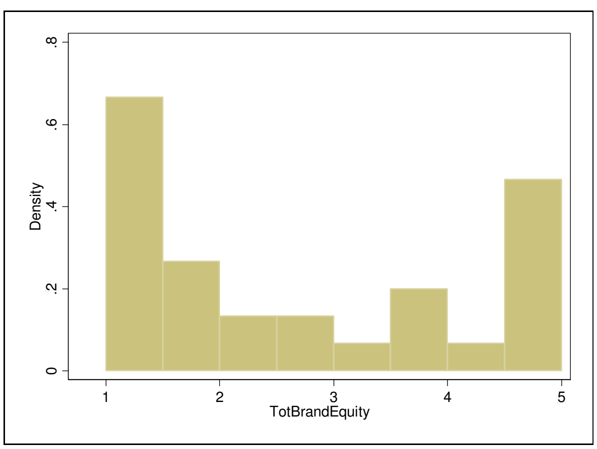
The food sector performed best with the highest mean (2,95), followed by retail sector (mean 3), technology/ telecommunications (mean 2,78) and financial services with a mean of 2,03.

**Figure 5.1: Pie chart showing rating percentage of companies' Total Brand Equity**




The histogram figure 5.2 below is another way of showing the information obtained in annual reports on total brand equity measures. The components of brand equity comprise of brand awareness, penetration, what customers think (reputation), customer satisfaction, customer loyalty and availability and distribution channel. The majority of companies provide no information, although a quarter of companies give excellent information on all aspects of brand equity. The histogram shows a non normal distribution with a bi-modal tendency and low middle density.

**Figure 5.2: Histogram showing rating level results of brand equity**



### 5.3.2 Brand Equity Elements

The following results have been obtained on each element of brand equity by using the following rating scale:

**Table 5.3: Rating Scale for Elements of Brand Equity**

| Rating Scale | Explanation |
|---|---|
| 1 | Very poor |
| 2 | Poor |
| 3 | Average |
| 4 | Good |
| 5 | Excellent |

**i. Familiarity:**

63% are rated poor or very poor providing no or too little information while 37% are rated good or excellent. Familiarity gives an indication of how well known the company is to the public or specific target market. It assesses a customer's perceived value for money, i.e. the company's image.

**Table 5.4: Frequency and percentage distribution of Brand Familiarity**

| Rating of Familiarity | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 13 | 43.33 | 43.33 |
| 2 | 6 | 20 | 63.33 |
| 3 | 0 | 0 | 63.33 |
| 4 | 4 | 13.33 | 76.67 |
| 5 | 7 | 23.33 | 100 |
| **Total** | **30** | **100** | |

**ii. Penetration:**

Very poor and poor rating levels are obtained by 57% of annual reports with 37% rated good and excellent. Information on penetration refers to active customers in comparison to the total intended market, in other words the growth the company has been able to achieve and its future growth potential.

**Table 5.5: Frequency and percentage distribution of Brand Penetration**

| Rating of Penetration | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 15 | 50 | 50.00 |
| 2 | 2 | 6.67 | 56.67 |
| 3 | 2 | 6.67 | 63.33 |
| 4 | 2 | 6.67 | 70.00 |
| 5 | 9 | 30 | 100 |
| **Total** | **30** | **100** | |

### iii. What customers think (Reputation):

Very poor and poor rating is obtained by 57% of annual reports whereas 37% provide good and excellent information. Reputation of a brand refers to individual brands as well as corporate brands which can be measured by target markets or customers' perceived quality and brand preference.

**Table 5.6: Frequency and percentage distribution of Reputation**

| Rating of reputation | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 12 | 40 | 40 |
| 2 | 5 | 16.67 | 56.67 |
| 3 | 2 | 6.67 | 63.33 |
| 4 | 3 | 10 | 73.33 |
| 5 | 8 | 26.67 | 100 |
| **Total** | **30** | **100** | |

### iv. Customer Satisfaction:

Results show nearly even distribution in annual reports between very poor/ poor at 50% and good/ excellent rating at 47%. Customer satisfaction measures what end consumer feel and is reflected in market trends and movements.

**Table 5.7: Frequency and percentage distribution of Customer Satisfaction**

| Rating of Satisfaction | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 12 | 40 | 40 |
| 2 | 3 | 10 | 50 |
| 3 | 4 | 13.33 | 63.33 |
| 4 | 1 | 3.33 | 66.67 |
| 5 | 10 | 33.33 | 100 |
| **Total** | **30** | **100** | |

### v. Customer Loyalty:

Nearly two thirds (60%) of companies do not provide any or only insufficient information in their annual reports on customer loyalty. One third (33%) provide good and excellent information.

**Table 5.8: Frequency and percentage distribution of Customer Loyalty**

| Rating of Loyalty | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 15 | 50 | 50 |
| 2 | 3 | 10 | 60 |
| 3 | 2 | 6.67 | 66.67 |
| 4 | 2 | 6.67 | 73.33 |
| 5 | 8 | 26.67 | 100 |
| **Total** | **30** | **100** | |

**vi. Availability/ Distribution:**

The majority of annual reports at 56% provide reasonable to good information on availability of product or distribution channels. 43% provide no or insufficient information.

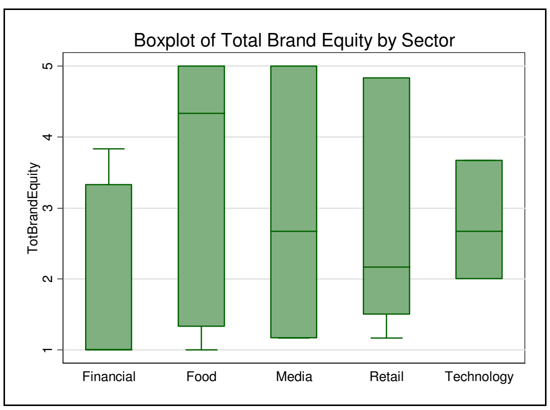
**Table 5.9: Frequency and percentage distribution of Availability/ Distribution Channel**

| Rating of Availability | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 11 | 36.67 | 36.67 |
| 2 | 2 | 6.67 | 43.33 |
| 3 | 4 | 13.33 | 56.67 |
| 4 | 3 | 10 | 66.67 |
| 5 | 10 | 33.33 | 100 |
| **Total** | **30** | **100** | |

### 5.3.3 Comparison of total Brand Equity between Sectors

A box plot figure 5.3 below shows the brand equity rating levels by sector. Three sectors have been omitted because of their very low sample number. According to this the information provided in annual reports by the financial sector is lower than the technology sector whereas food, media and retail are similar. (However, the Kruskal Wallis test (p value=0.5362) and t-test (p value = 0,445) do not find any evidence that the true means of financial and technology sectors are different to each other).

**Figure 5.3: Box plot showing sector's rating scale of brand equity**



## 5.4 Other Customer Metrics

Below are the results of some other customer metrics (market share, relative price, sales to new customers) which do not form part of brand equity measurement but are validated as important measurements according to various research. The rating scale used is as follows:

**Table 5.10: Explanation of Rating Scale for Customer Metrics**

| Rating Scale | Explanation |
|---|---|
| 1 | Very poor |
| 2 | Poor |
| 3 | Average |
| 4 | Good |
| 5 | Excellent |

### i. Overall market share/ market presence:

Very poor or poor rating is obtained for 57% of the sample with 23% obtaining a rating of excellent at level 5.

**Table 5.11: Frequency and percentage distribution of Market Share or Market Presence**

| Rating of Market Share or Market Presence | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 16 | 53.33 | 53.33 |
| 2 | 1 | 3.33 | 56.67 |
| 3 | 3 | 10 | 66.67 |
| 4 | 3 | 10 | 76.67 |
| 5 | 7 | 23.33 | 100 |
| **Total** | **30** | **100** | |

### ii. Relative price:

Nearly all companies (90%) do not provide any or poor information on pricing.

**Table 5.12: Frequency and percentage distribution of Relative Price**

| Rating of Relative Price | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 26 | 86.67 | 86.67 |
| 2 | 1 | 3.33 | 90 |
| 3 | 1 | 3.33 | 93.33 |
| 4 | 1 | 3.33 | 96.67 |
| 5 | 1 | 3.33 | 100 |
| **Total** | **30** | **100** | |

### iii. Sales to new customers:

Of the sample 83% does not provide any information but four out of 30 companies provide full details.

**Table 5.13: Frequency and percentage distribution of Sales to New Customers**

| Rating of Sales to New Customers | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 25 | 83.33 | 83.33 |
| 2 | 0 | 0 | 0 |
| 3 | 1 | 3.33 | 86.67 |
| 4 | 0 | 0 | 0 |
| 5 | 4 | 13.33 | 100 |
| **Total** | **30** | **100** | |

## 5.5 Segmentation Metrics

These measures are based on research conducted by Payne (McDonald & Dunbar 2004:4). The rating scale used in assessing information obtained from annual reports pertaining to segmentation is as follows:

**Table 5.14: Rating Scale for Segmentation**

| Rating Scale | Explanation |
|---|---|
| 1 | Very poor |
| 2 | Poor |
| 3 | Average |
| 4 | Good |
| 5 | Excellent |

### i. Percentage of market represented by segment:

Forty percent of annual reports do not report on percentage of market represented by segment and 10% vaguely mention it. Nearly half (47%) of the sample achieve rating of good or excellent.

**Table 5.15: % of market represented by segment**

| % of market represented by segment | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 12 | 40 | 40 |
| 2 | 3 | 10 | 50 |
| 3 | 1 | 3.33 | 53.33 |
| 4 | 4 | 13.33 | 66.67 |
| 5 | 10 | 33.33 | 100 |
| **Total** | **30** | **100** | |

### ii. Percentage of all profits in total market produced by segment:

The majority of annual reports at 78% do not provide any but 17% provide detailed information.

**Table 5.16: Frequency and percentage distribution of % of total market produced by segment**

| % of profits in total market produced by segment | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 23 | 76.67 | 76.67 |
| 2 | 0 | 0 | 0 |
| 3 | 0 | 0 | 0 |
| 4 | 2 | 6.67 | 83.33 |
| 5 | 5 | 16.67 | 100 |
| **Total** | **30** | **100** | |

### iii. Ratio of profit produced by segment to weight of segment in total population:

Only 1 company provide this information whereas 90% do not mention segmentation at all.

**Table 5.17: Frequency and percentage distribution of profit produced by segment to weight of segment in total population**

| profit produced to weight of segment | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 27 | 90 | 90 |
| 2 | 2 | 6.67 | 96.67 |
| 3 | 0 | 0 | 0 |
| 4 | 0 | 0 | 0 |
| 5 | 1 | 3.33 | 100 |
| **Total** | **30** | **100** | |

### iv. Percentage Defection Rate:

The vast majority of 90% do not mention defection rate but 10% (3 companies) provide good or excellent details.

**Table 5.18: Frequency and percentage distribution of % Defection Rate**

| % Defection Rate | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 26 | 86.67 | 86.67 |
| 2 | 1 | 3.33 | 90 |
| 3 | 0 | 0 | 90 |
| 4 | 2 | 6.67 | 96.67 |
| 5 | 1 | 3.33 | 100 |
| **Total** | **30** | **100** | |

### v. Customer retention rate per market segment:

Only one company provides information on customer retention rate per market segment.

**Table 5.19: Frequency and percentage distribution of Customer Retention rate per market segment**

| Rating of Sales to New Customers | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 28 | 93.33 | 93.33 |
| 2 | 1 | 3.33 | 96.67 |
| 3 | 0 | 0 | 96.67 |
| 4 | 1 | 3.33 | 100 |
| 5 | 0 | 0 | 100 |
| **Total** | **30** | **100** | |

### vi. Top 10 Customers/ Actual or potential Customer Lifetime Value:

Out of this sample of annual reports 24 companies (80%) do not provide this information compared to 5 companies (17%) who do.

**Table 5.20: Frequency and percentage distribution of Top 10 Customer/ Actual or potential Customer Lifetime Value**

| Top 10 Customers or CLV | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 22 | 73.33 | 73.33 |
| 2 | 2 | 6.67 | 80 |
| 3 | 1 | 3.33 | 83.33 |
| 4 | 2 | 6.67 | 90 |
| 5 | 3 | 10 | 100 |
| **Total** | **30** | **100** | |

## 5.6 Competition

Except for two companies, an airline (the only one to mention its competitor by name) and a media company, none of the companies make any mention of or comparison to their competitors.

The percentage of market share held by competitors are not mentioned, neither are brands of competitors, nor their message or medium used by competitors nor are any major launches or number launches by competitors mentioned.

## 5.7 Innovation Performance

Most companies do not mention the number of initiatives or the number of innovations launched but mention and elaborate on various initiatives and innovations. Three companies (10%) show the % revenue gained due to launches during the year under review. None report on the last three years (as suggested by Ambler [2003:306]).

### i. Initiatives in process:

Half of the companies' annual reports do not mention initiatives, but 40% cover the topic well.

**Table 5.21: Frequency and percentage distribution of Initiatives in Process**

| Rating of Initiatives in Process | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 11 | 36.67 | 36.67 |
| 2 | 4 | 13.33 | 50 |
| 3 | 3 | 10 | 60 |
| 4 | 5 | 16.67 | 76.67 |
| 5 | 7 | 23.33 | 100 |
| **Total** | **30** | **100** | |

### ii. Percentage Revenue due to launches:

90% do not mention this, while three companies cover it well or very well.

**Table 5.22: Frequency and percentage distribution of % revenue due to launches during last year**

| Rating of % revenue due to launch | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 27 | 90 | 90 |
| 2 | 0 | 0 | 90 |
| 3 | 0 | 0 | 90 |
| 4 | 2 | 6.67 | 96.67 |
| 5 | 1 | 3.33 | 100 |
| **Total** | **30** | **100** | |

### iii. Innovations launched:

50% do not or only vaguely mention innovations while 27% cover the topic well or very well.

**Table 5.23: Frequency and percentage distribution of Innovations launched**

| Rating of Innovations launched | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 12 | 40 | 40 |
| 2 | 3 | 10 | 50 |
| 3 | 4 | 13.33 | 63.33 |
| 4 | 3 | 10 | 73.33 |
| 5 | 8 | 26.67 | 100 |
| **Total** | **30** | **100** | |

## 5.8 Environmental and Strategic Aspects

The question addressed aspects mentioned in annual reports such as external factors influencing marketing trends, internal factors influencing marketing performance, key risk factors influencing cash flow, whether marketing is in alignment with strategy and whether marketing or the customer is supported or mentioned by the chairperson. The results are as follows:

**Table 5.24: Rating Scale for environmental and strategic aspects**

| Rating Scale | Explanation |
|---|---|
| 1 | Very poor |
| 2 | Poor |
| 3 | Average |
| 4 | Good |
| 5 | Excellent |

### i. External factors influencing market trends:

A third of companies' response is poor, but 63% answer it satisfactorily, well and very well.

**Table 5.25: Frequency and percentage distribution of External Factors influencing Market Trends**

| Rating of External Factors | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 6 | 20 | 20 |
| 2 | 5 | 16.67 | 36.67 |
| 3 | 7 | 23.33 | 60 |
| 4 | 4 | 13.33 | 73.33 |
| 5 | 8 | 26.67 | 100 |
| **Total** | **30** | **100** | |

### ii. Environmental influences on marketing:

37% do not provide any information whereas nearly half (47%) of answers are good or excellent. Two thirds (63%) give information pertaining to this topic.

**Table 5.26: Frequency and percentage distribution of Environmental influences on marketing**

| Rating of Environmental | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 11 | 36.67 | 36.67 |
| 2 | 0 | 0 | 36.67 |
| 3 | 5 | 16.67 | 53.33 |
| 4 | 6 | 20 | 73.33 |
| 5 | 8 | 26.67 | 100 |
| **Total** | **30** | **100** | |

### iii. Key risk factors influencing cash flow or risk assessment per segment:

Nearly half (48%) of the sample give no or insufficient information.

**Table 5.27: Frequency and percentage distribution of Key Risk Factors influencing Cash Flow or Risk assessment per segment**

| Rating of Risk on Cash Flow | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 8 | 26.67 | 26.67 |
| 2 | 6 | 20 | 46.67 |
| 3 | 4 | 13.33 | 60 |
| 4 | 4 | 13.33 | 73.33 |
| 5 | 8 | 26.67 | 100 |
| **Total** | **30** | **100** | |

### iv. Is marketing stipulated and aligned to strategy:

41% do not make a connection between marketing and strategy. However, 59% of companies mention marketing/ customer in their annual report with 41% providing good or excellent input.

**Table 5.28: Frequency and percentage distribution of Marketing's alignment to Strategy**

| Rating of Marketing alignment to Strategy | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 11 | 36.67 | 36.67 |
| 2 | 1 | 3.33 | 40 |
| 3 | 5 | 16.67 | 56.67 |
| 4 | 2 | 6.67 | 63.33 |
| 5 | 11 | 36.67 | 100 |
| **Total** | **30** | **100** | |

### v. Does chairman report mention marketing, quantify market assets and how it has changed:

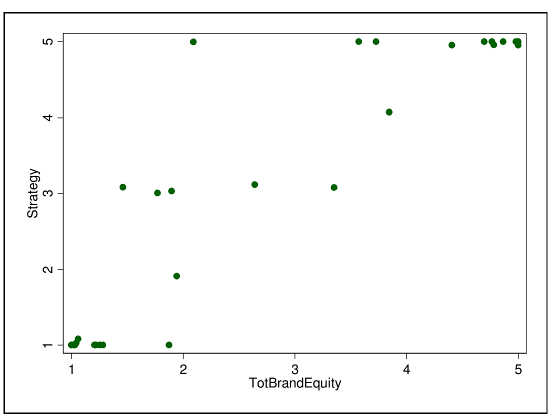
47% of chairman's reports do not mention or only vaguely refer to marketing or customer. A third (33%) of chairpersons' reports support, outline or highlight aspects of marketing.

**Table 5.29: Frequency distribution of Chairman mentioning marketing or quantifying market assets**

| Rating of Chairman's support for marketing | Frequency | Percentage | Cumulative |
|---|---|---|---|
| 1 | 12 | 40 | 40 |
| 2 | 2 | 6.67 | 46.67 |
| 3 | 4 | 13.33 | 60 |
| 4 | 2 | 6.67 | 66.67 |
| 5 | 10 | 33.33 | 100 |
| **Total** | **30** | **100** | |

In addition when looking at the figure below the spearman correlation confirms a strong linear association between marketing's alignment to strategy and brand equity. This correlation shows that, in the annual reports of companies studied, brand equity is strongly related to marketing's alignment to strategy. In other words, where marketing is aligned to a company's strategy, information on brand equity is also well presented in annual reports. 1 is a perfect correlation and this value is 0.91. The scatter plot below illustrates this:

**Figure 5.4: Correlation between Marketing's alignment to Strategy and Brand Equity**



## 5.9 Reporting Standard

No uniform reporting standard exists in any annual reports.

In most cases information pertaining to the brand is mentioned under the CEO's report and less frequently in operational review. One company chooses to report brand in its sustainability report.

In most reports the sections where customer satisfaction is mentioned, differs substantially, varying from chairman's, CEO's, managing director's report, selling section, sustainability report, operational review, corporate governance, chief financial officer's report, stakeholder relations and service section. Segmentation is mainly dealt with under corporate governance, operating review, financial review or CEO report. Innovation is covered under CEO report, operational review or sustainability report. Issues pertaining to strategy or risk assessment are mainly covered under chairman's and/or CEO's report.

## 5.10 Glossary

None of the companies have a glossary with marketing definitions or brand terminology.

## 5.11 Information required by Investors

A study by the Cranfield University School of Management (McDonald and Dunbar, 2004:6) investigated what type of information is necessary for external financial community to make a decision. By using the Cranfield University research criteria on marketing aspects deemed important to investors, my research results show the following number and percentage of companies (rated excellent) who reported well or very well (rating level 4 and 5) on the following:

**Table 5.30: Information deemed important by investors versus information supplied by companies' annual reports**

| Information deemed important by investors | Number of Companies | % of Companies |
|---|---|---|
| market share | 10 | 33% |
| key competitors | 1 | 3% |
| marketing investment | 0 | 0% |
| innovations (new product statistics) | 11 | 37% |
| brand awareness | 11 | 37% |
| customer satisfaction | 11 | 37% |
| distribution coverage | 13 | 43% |
| relative price (price elasticity) | 1 | 3% |

## 5.12 Grand Total Maturity Model

Ambler (2003:94) has developed a marketing performance assessment model which has been adapted to assess how much emphasis is placed by companies on marketing performance and elements as reflected in annual reports. (Refer to annexure 3).

**Table 5.31: Rating scale of annual reports' grand total maturity level**

| Rating Scale | Mark Allocation | Percentage | Explanation |
|---|---|---|---|
| Level 1 | 23 - 34 | < 33% | Very poor |
| Level 2 | 35-57 | 33-49% | Poor |
| Level 3 | 58-79 | 50-69% | Average |
| Level 4 | 80-91 | 70-80% | Good |
| Level 5 | 93-115 | 80-100% | Excellent |

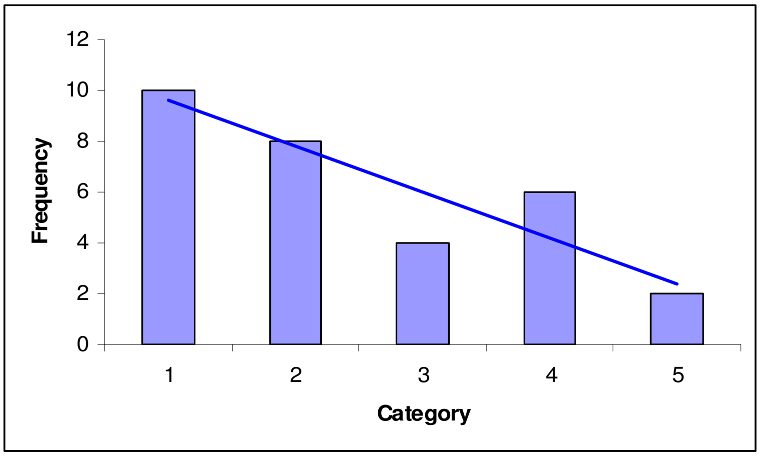
The results in table 5.32 below and figure 5.5 below depict the grand total of all 23 marketing elements measured in this research. It reflects the checklist and comprises of all the components of brand equity, other customer measurements, segmentation, innovation metrics, competitors and environmental and strategic factors. The brand equity elements are based on information provided in annual reports pertaining to familiarity/ awareness, penetration, reputation, customer satisfaction, customer loyalty, availability/ distribution channel. Other customer metrics refer to market share or market presence, relative price or pricing strategy and sales to new customers. Segmentation elements include % of profits in total market produced by segment, ratio of profit produced by segment to weight of segment in total population, % defection rate and customer retention rate by market segment, extent to which profitability of top ten customers are known and reflected. Environmental and strategic aspects assess whether external factors influencing marketing trends are discussed and whether risk factors influencing cash flow are mentioned. Other aspects include whether key marketing performance indicators are stipulated and aligned to company strategy, whether the chairman's review supports marketing and quantifies the main marketing assets. The results are as follows:

**Table 5.32: Frequency and percentage distribution of annual reports' rating level as per Grand Total Maturity Model**

| Rating | Frequency | Percentage | Cumulative |
|---|---|---|---|
| **1** | 10 | 33.32 | 33.32 |
| **2** | 8 | 26.65 | 60 |
| **3** | 4 | 13.32 | 73.29 |
| **4** | 6 | 20.00 | 93.29 |
| **5** | 2 | 6.66 | 100 |
| **Total** | 30 | 100 | |

The overall grand total score shows that 60% of JSE listed companies in this sample provide insufficient marketing information in their annual reports. One third of the companies (33%) provide no or hardly any information on the 23 elements. Of the annual reports 27% provide poor and insufficient information. Of the sample thirteen percent provide average and sufficient information but much of the information can be improved. 20% of companies provide good information and 7% provide excellent information. This shows that most companies (60%) are at maturity level 1 and 2 which indicates a “poor” rating with few at maturity level 5 (rated “excellent”). This shows a strongly negative trend in maturity level. These results are shown in the histogram below:

**Figure 5.5: Frequency of Annual Reports rated as per Grand Total Maturity Model**

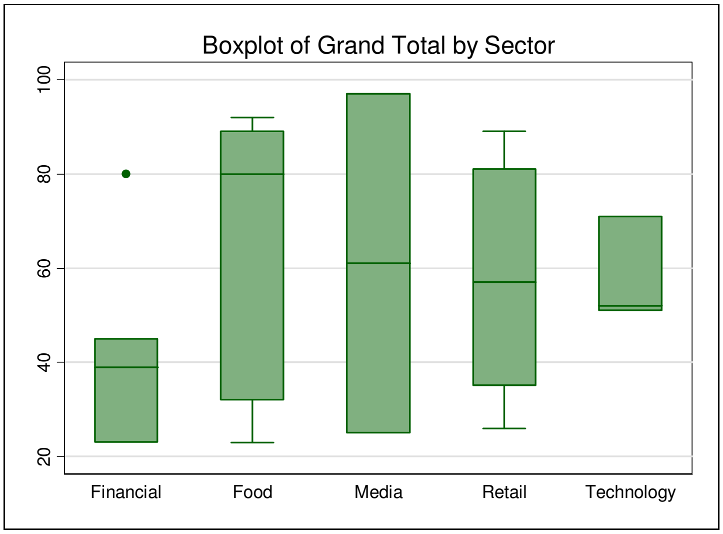



### 5.12.1 Comparison of Grand Total by Sector

By adding up all the scores we arrive at a grand total score. The total grand score is made up of all 23 elements under review. These are brand equity, other customer measurements, competitors, segmentation, innovation and environmental and strategic factors.

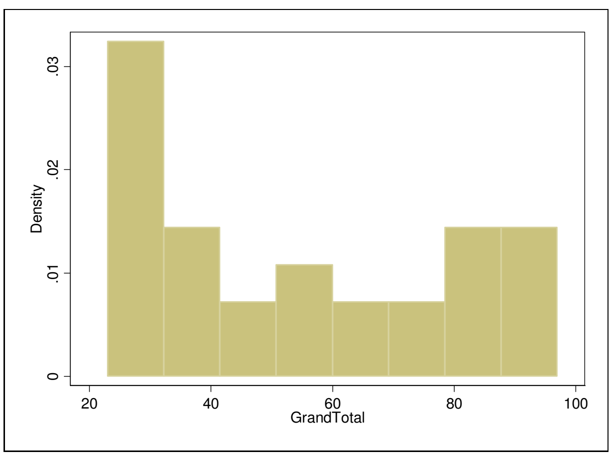
The box plot figure 5.6 below shows comparison by sector (excluding the sectors which are only presented by one or two companies), by highlighting the data of the middle 50% (i.e. between the 25$^{th}$ and75th percentile). As can be seen, the food sector has the highest median, followed by media and retail whose median is nearly the same. The sectors seem to depict similar results. Although the food sector has the highest grand total mean, it is also highly variable within the sector.  It can also be is seen that media companies vary greatly in their total grand score.  Because of the high degree of similarity or overlap of boxes, no conclusive statement can be made. However, the box plot shows that the financial sector has the lowest mean, lowest overall score and is performing substantially worse than the technology sector. The dot indicates an outlier and extreme value of one bank. (However, the results are statistically not significant due to relatively low sample number and probability of 0,689).

**Figure 5.6: Box plot depicting rating scale of all elements by sector**




The histogram, figure 5.7, below shows the proportion of distribution of companies' annual reports according to the rating level of the grand total maturity model. The results show a non-normal distribution with high density at the extremes (as oppose to a normal symmetric, bell shaped curve). The histogram shows that the majority of annual reports are rated very low, few obtain middle (average) ratings, displaying low density in the middle, whereas some annual reports are rated highly, resulting in increased density at a high maturity level of 4 and 5.

**Figure 5.7: Histogram depicting Grand Total**




Although the histogram (refer to figure 5.2) and box plot (refer to figure 5.3) of total brand equity shows slightly different results to the histogram (refer to figure 5.7) and box plot (refer to figure 5.6) above of the grand total maturity model, the trend is similar. Both histograms show a high extreme value at the lowest rating level, with low density in the middle and higher density towards the well performing side of the graph, displaying a bi-modal tendency. This means that either no information or good or very good information is provided in annual reports.

### 5.13 Summary of Findings

The trend appears to be that the majority of companies supply very limited information on marketing metrics and marketing information.

The quantitative information in general is not answered well, with none of the companies mentioning marketing investment.

The research findings of this sample of JSE listed companies show a bi-modular tendency pertaining to brand equity metrics. The results on overall brand equity show that half (53%) of the companies do not provide any or poor information on their brand and customer attitudes and feelings towards it. However, 26% of companies supplied good and excellent information.

The findings for elements of brand equity are as follows: The majority of companies reported poorly on brand familiarity (63%), penetration (57%) and reputation (57%) and customer loyalty (60%). Slightly improved results are obtained for customer satisfaction where nearly half of the companies (47%) provide good or excellent information. The aspect of availability is answered by more than half of the companies (56%).

When comparing sectors the food, media and retail perform similarly, although results show that the financial sector performs worse than the technology sector.

Nearly a quarter of the companies (23%) provided good information on overall market share or presence, whereas only three (10%) companies provide information on pricing and only five (17%) provide information on sales to new customers.

Segmentation metrics are generally not reflected in annual reports.

The vast majority of companies (93%) do not mention competitors. Only 2 companies (7%) refer to their competitors.

Half of the companies provide information on aspects pertaining to innovation, although the vast majority (90%) do not show revenue gained due to launches during the past year.

Environmental aspects influencing market trends are covered by two thirds of the sample, however a third of the sample does not provide information or only insufficiently. However, when referring specifically to risk factors influencing cash flow or market segments, companies perform less well with nearly half (49%) not providing any or insufficient information. A bipolar tendency is evident when assessing whether marketing is stipulated and aligned to strategy. Eleven companies (38%) did not provide any information as opposed to eleven companies (38%) which gave excellent information and where alignment between strategy and marketing was evident. Similar results are obtained when reviewing whether the chairperson's report mentions aspects pertaining to marketing. The findings show that there is a direct correlation between strategy and brand equity.

Other findings include that no standard reporting format exists. Information pertaining to marketing is spread throughout the annual reports. None of the companies provide a glossary of marketing definition or brand terminology.

When comparing these research results to information required by investors, this study shows that sometimes none of the companies provide information whereas at best just over 40% of the companies provide the relevant information necessary for investors to make a good investment decision.

When combining all the marketing related elements (financial, brand equity, other customer and segmentation metrics, competitors, innovation and aspects pertaining to environmental and strategic aspects) analyzed in this research and summing them up into a grand total score, it becomes evident that nearly two thirds (60%) of companies obtain a score of less than 50%, in other words providing insufficient information. On the other hand, 27% of companies provide good and excellent information.

# CHAPTER 6: Discussion, Conclusion, Recommendations

## 6.1 Introduction

Marketing performance should be reflected by metrics and marketing information to indicate the progress the company is making in comparison to industry norm. By using generally accepted marketing metrics it is possible to value marketing's output such as increased market share, improved brand awareness, market penetration and customer retention ratios. In this way marketing will be able to guide a company's strategic positioning and improve competitiveness. These measures and trends should be reflected in annual reports to give a better understanding of the industry and type of business which will enable investors to make a better and well informed decision about the company.

Below research findings are discussed by referring to financial aspects, brand equity, other customer metrics, competition, environmental and strategic aspects, concluding with general comments. Examples of annual reports are included under each section.

## 6.2 Financial Aspects

In order to benchmark a company's performance it is essential to compare it to the industry norm or against its competitors. Ambler (2003) suggests that financial metrics should be reported in relative terms (and not absolute numbers). Performance can be assessed in terms of comparing current achievement against previously determined internal goals (namely a baseline), against external benchmarks such as market indicators and competitors (taking adjustment into account) (Ambler, 2003:26).

### 6.2.1 Sales and profit growth in comparison to competitors

The results of the "sales and profit growth" analysis in this research show that, although sales and profit performance is compared to previous year, none of the companies compare them with their own goals or to competitors. A lack of comparison could point towards a company not having an explicit marketing strategy with quantifiable milestones or measurements or not having a clear understanding of its overall marketing performance.

### 6.2.2 Marketing Investment

Investment into brand and brand loyalty can create a long term relationship with the customer because a positive customer attitude towards a brand results in quicker response, thereby accelerating cash flow and therefore increasing shareholder value. Marketing expenditure is an investment into an asset which often is the most valuable one a company owns (Sinclair, 2007:26).

To assess a brand's contribution, the marketing expenses have to be deducted from the gross profit. It is therefore essential for a company to know the marketing expenses (or investment) and to reflect the percentage in the annual report. An indication as to percentage of marketing investment can give an indication of how a company values its brand building activities. As brand equity evolves over time, it can only create substantial value for a company if investment occurs. Realistic expectations by for example investors and stakeholders can only occur if initial investment is known, measured and benchmarked against industry norms.

The result of this research shows that there is a lack of information on investment into brand building and marketing activities because none of the companies report on it. Therefore companies create the impression that they do not value marketing activities or that they do not measure marketing's worth.

A study in the United Kingdom in 2002 conducted by the Cranfield University School of Management (McDonald and Dunbar, 2004:6) showed a lack of knowledge by senior marketing practitioners and company executives about financial impact of marketing expenditure. Nearly a third (31%) did not know, did not measure and did not report to these to the board whereas only 1% had complete knowledge. This shows that if companies do not show their marketing investment expenditure in annual reports, there is a likelihood that they do not measure nor report it to their board.

This research shows that only two companies mention percentage increase in advertising spend, which forms part of the marketing mix and is only one element in building brand equity and therefore does not provide the overall information on marketing investment. Advertising forms part of the marketing mix which contributes to strengthening the brand equity and profit of a company. An individual element's contribution however, is not sufficient because optimal expenditure should be seen across the marketing mix. Expenditure on all elements need to be taken into consideration in order to assess the contribution to building of brand equity.

*Example*
Spar (2006) mentions that media spend for brand "Tops" increased by 54% and television advertising was introduced and "for the first time Tops brand awareness continues to improve" (Spar, 2006). However, it is not clear whether the reason is the medium TV or because of general increase inn advertising spend.

In another example, a producer and marketer of alcoholic beverages (Distell, 2006) mentions substantial increase in marketing investment in pursuit of improving quality (including packaging), supported by advertising campaigns to stimulate demand. However, no indication is made as to percentages or amounts of marketing investment or anticipated benefits resulting from the campaigns. The company states however that "new levels of brand visibility were achieved with expansion of the market activation team and roll-out of focused trade channel merchandising drive" (Distell, 2006:23).

Although financial measurements are important, they do not fully depict reality and future potential of a company. Therefore it is essential to include information on brand equity in annual reports.

## 6.3. Brand Equity

A brand name creates a customer's response and is for many companies its most valuable asset. A brand is nothing without the customer. For a company to move towards market orientation and becoming more customer focused means that it needs to understand the role the brand is playing in creating value for the company. Managing brand equity is important as it transfers value from the market to the shareholder.

Brand equity elements are closely related to positioning (Ambler, 2003:126). Understanding the elements of brand equity and monitoring any changes in brand equity metrics allows a company to define its product benefits, more closely define its target market, create a competitive advantage through differentiation and improve its distribution strategy. The United Kingdom's Accounting Standards Board suggested in 2003 that shareholders should be informed about marketing investment and brand equity (Ambler, 2003:277).

### 6.3.1 Total Brand Equity

The results pertaining to total brand equity (refer to table 5.2, figure 5.2 and annexure 6) show a tendency of bimodal distribution. Results show that 53% (refer to table 5.2) of annual reports (rating level 1 and 2) give insufficient information about their brand equity, while just over a third (36%) obtained rating level 4 and 5 displaying good or excellent information, for example Massmart, SAB Miller and AVI (refer to annexure 11.1 to 11.3). These results indicate that the majority of companies create the perception that they do not place value on managing their brand equity. In addition results show that the majority of companies create the impression that they do not know their target market, positioning or competitive advantage. By including and documenting brand equity aspects, companies can create a more positive perception about their capabilities and growth prospects.

### 6.3.2 Variance in Rating of Brand Equity Components

Several companies display a substantial variance in rating scales within the brand equity components (refer to annexure 6). Some companies (e.g. Spar, Nedbank, Naspers, Dimension Data) have scores varying from 1 to 5 for the various elements measuring brand equity. All six elements contribute to measuring the performance of brand equity. However, some companies do not mention some elements "brand equity" in their annual reports, resulting in a lower overall brand equity score.  The variance in rating of elements would reduce the overall brand equity rating, not because the company is less brand orientated but because the company does not mention a certain element (for example Naspers on reputation, Metropolitan on customer retention, Afrox on familiarity and penetration. Because of the detailed information given on other brand aspects and overall good brand rating, for some companies it can be deducted that they have the information available internally (for example Spar and Dimension Data). However, it could also point to a problem with the company's structure. This is likely to be the case with a large financial services company (Nedbank, 2006). Nevertheless, the aim of this research is to assess how much and what type of information is reflected in annual reports of listed companies.

*Example:*

Dimension Data (2006) for example do not elaborate on brand familiarity/ awareness. However, the company states in a section "help our clients" how each product offering (e.g. network integration, security, data centre, storage and converged communications) can assist clients (Dimension Data, 2006:3). Sections on customer interactive solutions, "our approach with clients" and "the business value we bring" lists how the company helps clients to address critical business issues. The company sees the client as important and states that the client experience with the company will determine customer satisfaction, spend level and whether client becomes a life-long client.  The CEO states, "[we] will improve our focus on account penetration to strengthen client relationships and service adoption within our client base" (Dimension Data, 2006:13).

### 6.3.3 Brand Architecture & Structure

Companies with a well defined and clearly depicted brand and corporate structure convey a more professional impression and with reference to the examples below are less likely to encounter potential problems.

*Example: Rating Level 1*

A company in the fishing industry (Oceana; 2006) does not elaborate on marketing's position in the company structure. However, in assessing the annual report it becomes evident that this company is lacking in brand structure. The fishing, processing and cold storage company is a vertically integrated with some well known brands such as "Lucky Star" and "Glenryck" in the United Kingdom. It seems that more synergies can be gained by better aligning brand architecture and product branding. The structure and naming of divisions is confusing and misleading. The corporate brand ("Oceana Brand") is not appropriately used as it refers to the supply chain and includes fishing fleet with some (but not all) marine products, marketing and distribution of some unbranded products (fishmeal) and some branded caned fish products, as well as referring to activities in some (e.g. Namibia) but not all countries. Another brand, the "Blue Continent Products" includes other types of marine products (e.g. mackerel, hake, tuna) whereas commercial cold storage forms part of a third division.

*Example: Rating Level 5*

AVI is a consumer brands company with a focus on food, beverage and fashion brands. The company has implemented a new structure with five business units, namely the beverage brands, retail snacking brands, fashion brands, chilled and frozen convenience brands and out-of-home brands (AVI, 2006:13). The group has a strong portfolio of market-leading brands such as I&J, Denny, Indigo, Spitz etc. Each of these brands has a detailed report on revenue and volume % change with explanations. Each brand category is broken down into product groups and revenue and volume is provided with explanations. Pricing, capital expenditure (however not marketing specific), innovations and market share are explained.

## Brand Equity Elements

Discussions on findings pertaining to each brand equity component (i.e. brand awareness, penetration, reputation, customer satisfaction, loyalty, availability) are described below. The majority of companies report poorly on brand familiarity (63%), penetration (57%) and reputation (57%) and customer loyalty (60%). Slightly improved results are obtained for customer satisfaction where nearly half of the companies (47%) provide good or excellent information. The aspect of availability or distribution channel is answered satisfactorily, well or very well by more than half of the companies (56%).

### 6.3.4 Brand Equity: Awareness/ Familiarity

Brand awareness and familiarity is an indication of a customer's knowledge of the company. It measures a company's distinctiveness out of which arises loyalty and buying behaviour (a customer's purchase intention). Not knowing the extent of brand awareness can lead to poor positioning of a company and improper allocation of marketing investment. High brand awareness makes introduction of new products or product extension easier. It is therefore important for a company to show investors that it has a clear positioning strategy which it communicates and which is understood by consumers.

A company's life cycle is likely to influence the extent of awareness/familiarity. Brand awareness plays a more important role for companies which are in an expansion phase whereas familiarity is a better indication for more mature companies. In multinational companies this can vary between countries. Nevertheless, measuring brand familiarity and reporting on it is a very important aspect of the marketing function and should not be ignored.

The finding of this research (refer to table 5.4 and annexure 6) is worthwhile noting as they show that nearly two thirds (63%) of the companies refer to brand awareness or familiarity in an insufficient manner as no (43%) or insufficient (20%) information is provided. The tendency is to describe the company's product offering and brand architecture rather than referring to brand awareness. On the other hand, 37% of the sample present their knowledge on brand awareness/familiarity in a good or excellent way. The highest mean or average score (at 3,29) was obtained by the food sector, followed by retail and media, both at a mean of 3.

*Example: Rating Level 5*

A good example of depicting brand and brand awareness is Ellerine's which has13 retail brands in the furniture and appliance sector. All Ellerine's (2006) brands are depicted by LSM positioning. Under the annual report's operation division each brand is discussed in detail, stating product offering, presence in countries, target market, growth of stores and upgrades, competitive edge, operating margin and position as brand leader. Brand's familiarity is verified by external surveys such as Markinor Brand Awareness and Sunday Times surveys.

### 6.3.5 Brand Penetration

Information on brand penetration should indicate whether a customer segment is growing or declining and reasons due to for example expansion of customer base or greater demand from the same customer base should be known. Indication as to penetration and reasons would ensure that the company follows the right strategy.

In this sample companies have the tendency to either answer this section very well 30% (9 companies rated excellent at level 5) and 50% not at all (15 companies rated at poor at level 1) (refer to table 5.5). Those companies that obtained a high score for "awareness/familiarity" also tended to get a high score for "penetration", because both of these measures refer to the brand (as oppose to customer or distribution channel).

The lower rated companies tend to use a general term such as "market leader" and had a tendency to confuse penetration with distribution channel. This shows a lack of understanding of the term market penetration.

*Example: Rating Level 1*

For example, one company rated level 1 mentions "Oceana International has for years been promoting brand recognition and developing structured and reliable distribution and logistics channels to improve market penetration and margins" (Oceana, 2006:22). The company does not mention how the division "Oceana International" fits into the structure. Neither does the company elaborate on how the brand was promoted or which distribution channels were pursued.

## 6.4 Brand Equity: What customers think (Reputation)

A strong brand can command a price premium and increase market share based on a company's power based on customer loyalty and higher switching costs. Brand equity can enhance loyalty (resulting in repeat business and increased barriers to competition). Well differentiated brands are more responsive to advertising and promotion and can improve distribution channel clout in the market place. Higher equity brands tend to have a lower marginal cost of sales and marketing. Strong brands convey a clear and sustainable differentiated position and enhance clarity within an organization and attract and keep high quality customers.

### 6.4.1 The Customer Orientation

It is important to know what customers think to enable assessment of the strength of a brand and to adjust to change. A brand is a long term investment. Investors therefore should be interested in the effect of a brand on the end consumer as this can give an indication of future trends which can be compared to the direction and action the company is planning to take.

In this sample (refer to table 5.6 and annexure 6) 40% of companies did not mention reputation and 17% only referred to reputation, resulting in a total of 57% unsatisfactory information. However, 37% of companies information is good or excellent (level 4 and 5).

Several companies mention mechanisms of obtaining information on customers (e.g. call centre, surveys, focus group discussions, direct mail) but do not provide any data on customer needs, market segment share, percentage satisfaction or complaints.

*Example*

Two companies mention customers in their mission or value statement but nothing further about the client is stated in the annual report. Lower rating levels 1 or 2 tend to use general statements, for example a retail company stating in its mission "To maintain prominent position… through marketing of branded merchandise supported by fine customer service…" (Rextrueform, 2006).

The marketing strategy envisaged by a retail company includes "improving customer perception of the company" (Pick n Pay, 2007) but is not further elaborated upon. A market (or customer) orientated company would focus on understanding and attending to customer needs and achieving customer satisfaction by building strategies which attract, satisfy and retain customers. Companies should have a customer-first attitude (Ambler, 2005:21) because customers are the source of cash flow.

One example in the financial services sector shows that the focus is not on the customer, but that an inward looking approach prevails. For example, during the year under review the company re-positioned itself to "demonstrate a deeper understanding of financial needs and cares about the communities and our country" (Nedbank, 2006:63). The by-line is "Make things happen", supported by above and below the line campaigns, sponsorships and increased social investments. The aim is to present the group as a caring brand. The report states that this new strategic focus arose from a dynamic process with input from 500 senior managers (Nedbank, 2006:63). It seems that external stakeholders, such as customers, were not involved in establishing the strategy. Defining the brand as "a caring brand" arose from internal input only. It would be desirable and advisable to establish whether banking clients see "caring" as a priority for their financial needs. Not having involved clients or not having conducted research pertaining to the new brand strategy highlights a weakness. Keeping the function of branding separate from the operational service divisions and thereby the end consumer is unlikely to enhance the situation. In addition, the annual report in its operational review section states that a key part of strategy was to be seen as "a bank for all" (and not as a "caring brand"). This shows some confusion as to the company's strategy.

## 6.5 Brand Equity: What customers feel (Customer Satisfaction)

Ambler (2003:306) points out that relative end-user satisfaction should be measured and reflected with trends in annual reports. The term relative refers to customers' satisfaction with company's product or service indexed against satisfaction with the competitors. In this research none of the companies did this. In addition Ambler (2003:306) suggests perceived product quality (as perceived by end user) to form part of the metrics. The emphasis is on end user which in some industry sectors is not the same as immediate trade customer.

As can be seen (refer to table 5.7 and annexure 6) companies reporting on customer satisfaction show a clear bimodal tendency with 50% reporting not at all or poorly on customer satisfaction, whereas 47% of companies do well or very well. At a lower rating level of 2 statements about customer satisfaction are not verified and common phrases such as "substantial increase in customer base" and offering "world-class solutions at competitive prices" (Data Pro, 2006:5) are predominantly used.

*Example: Rating level 2 and 3*

Pick 'n Pay (2007) states as one of its key values their passion for their customer and that "[we] will fight for their rights" (Pick 'n Pay, 2007:3), but apart from mentioning an in-depth customer research resulting in two major target groups of which one is an untapped opportunity, little is said about the customer in the annual report. The report mentions that the strategic focus is on sustainable development (as oppose to for example, the customer).

A retail company (rating level 2) has a section called "our customer" where it highlights its strategy to encourage cross-selling between its various product offerings and its focus on attracting and retaining more loyal customers with high disposable income whilst being accessible to aspirational customers with lower disposable income (Woolworths; 2006:36). However, the company gives no indication of the process of how to attain these objectives and states that its strategic focus is on innovative products.

One company (Woolworths, 2006) mentions under customer service that a key requirement is ensuring product availability and attending to length of till queues and improving check-out experience as "customer satisfaction remains key" (Woolworths, 2006:42). These aspects should form part of a "standard" service and are not going to build sustainable competitive advantage. This example shows an insufficient understanding of the worth of marketing as well as showing non-alignment to strategy.

*Example: Rating Level 5*

The company in this example sees the consumer is as a key stakeholder. The various types of dialogue channels, customer interaction and research interaction (e.g. hotline, product surveys, consumer immersions) are mentioned. One of the company's strategic initiatives is to have consumer insight which refers to having "an intimate understanding of our consumers' lives, habits, needs …" (Rainbow Chicken, 2007:10). Customer focus refers to a win-win partnership where "products need to be within easy reach of our consumers every day" (Rainbow, 2007) (refer to annexure 11.4).

The sustainability report of this company (Rainbow) displays a section on consumer insight, consumer care service and meeting customer requirements. Statistics show number of calls (queries, compliments, complaints, % complaints versus total number of calls) and how complaints were and how a product recall was dealt with.

## 6.6 Brand Equity: Customer Loyalty

Relationship marketing such as good customer and supplier relationship can reduce the level of working capital and fixed investment and enhance cash flow. Stability of cash flow can be enhanced by a good relationship with customers and channel partners. According to Reichheld (2000) a loyalty based company should be delivering superior value to the customer. This has a positive effect amongst others in terms of increased revenue (because of repeat purchase and referrals) and reduced cost (because of lower acquisition cost, guaranteed base profit and improved commitment and trust in a relationship). Improved retention can result 25% to 85% improvement in net present value of a customer (Ahmed and Buttle; 2001). Customer retention should be an important business goal because is can increase long term profit. A company which displays some trends or information on customer loyalty and retention shows that it is professionally managing its customer relationships.

Ambler (2003:306) suggests measuring customer loyalty/ retention as percentage of start-of year customers still active at year end. None of the companies surveyed showed this measurement.

Findings (refer to table 5.8 and annexure 6) further show that that one third of companies report on customer loyalty, but 60% do not refer to or only poorly refer to loyatly. The Institute of Chartered Accountants of England and Wales (ICAEW) report (Ambler; 2003:264) suggests to include metrics on customer retention. Only one company in this sample reports specifically on customer retention.

The strategy to focus on growth and new customers or on customer retention and loyalty will vary depending on the life cycle of the companies. In multinational companies the strategy also varied amongst countries, with some countries loosing customers and market share, causing the company to enter and build a new market in other countries. However, information on customer loyalty and the company's approach towards it can give the investor or stakeholder a better indication as to management's ability to optimally operate their company.

*Example: Rating Level 5*

One food company (Rainbow Chicken, 2007) mentions its new implementation of category management in fresh and frozen division for selected customers and Food Solutions division strategy of building partnerships with key customers, indicates a focus on customer relationship management initiative by the company. This is the only report mentioning key customers by name.

Another company [rated highly in total brand equity (Ellerine, 2006)] mentions its credit retail division implementing customer relationship management initiatives. The report states that "loyalty of the brand remains high as shown by the reserve rates" (Ellerine, 2006:34) and has been enhanced by implementation of customer for life concept. However, quantitative data is not given, although it can be assumed that the company has these internally available.

One company in the telecommunications sector specifically mentions its company-wide campaign aimed at instilling a sense of ownership in staff towards the customer, called EOTC ('Everyone Owns the Customer') based on an outstanding service charter (Altron, 2007:66). This company has a section under "stakeholder relations" called 'customer relations', thereby substantiating the importance the company places on its customers. This company also understands the importance employees play in creating brand equity.

## 6.7 Brand Equity: Availability/ Distribution Channel

Availability or distribution shows the extent to which products are available for purchase to the end consumer. With reference to annexure 6 and table 5.9, in general this aspect of brand equity was described fairly well (56% provided reasonable to good information), stating the supply chain and depending on the sector, either new retail outlets or processes and systems (e.g. enterprise resource planning systems) in the technology sector.

## 6.8 Other Customer Performance Indicators

Market share and market value and price elasticity are mentioned as information needed by investors to make an investment decision according to a study conducted by Cranfield University School of Management in 2002 (McDonald and Dunbar, 2004:6).

### 6.8.1 Market Share

Table 5.11 and annexure 7 show that very poor or poor rating was obtained by 57% of companies which means that these companies do not give an indication to their total market size (measured in value or volume). However 23% obtained high rating scores of 5.

### 6.8.2 Pricing

Pricing strategy should form part of competitor analysis and give an indication as to a company's positioning and target market. Referring to table 5.12 we can see that only one company explicitly reported on relative price (value of market share divided by volume of market share). Apart from companies in the food sector most did not refer to pricing strategy (refer to annexure 7 and table 5.12).

*Example:*
Distell (2006:24) mentions its pricing strategy in the UK being a concern and margins being under pressure in Germany resulting in pursuing a strategy of targeting other markets in Europe and North-America for their wines. The company AVI (2006:22) also addresses pricing per brand unit and gives explanations, for example it had to reduce its pricing for the brand Denny to protect its market share and to ensure that all products are sold.

### 6.8.3 New Sales

Reflecting sales to new customers (as percentage of total turnover) indicates the growth of the company during the past year and gives an indication whether marketing strategy and tactical activities the company employed are suitable.

Results from table 5.13 (and with reference to annexure 7) show that only four companies (13%) report on sales to new customers, whereas 83% did not report on this. However, one company mentions the potential of new sales arising from new stores. Not disclosing any information on new sales could point towards companies not measuring this or creating the impression of avoiding disclosure due to inefficiencies in its operations such as misallocation of marketing resources into sub-optimal markets.

## 6.9 Segmentation

Successful brand management can only occur if a company is market orientated, has segmented its target market and records customer behaviour (Ambler, 2003:213) and preferences. Segmentation of customer target groups is important because their relative attractiveness differs. Companies can gain by focusing on high value segments which are aligned to corporate strategy. However, the Cranfield University School of Management study of 500 leading European companies shows that few companies measure customer segment or profitability or retention rate (McDonald and Dunbar, 2004:4). A research conducted in the United Kingdom during 1979-2000 reveals that since a company's peak performance year, over 25% of companies do not exist any longer and nearly 33% have been acquired (McDonald and Dunbar, 2004:3). McDonald and Dunbar argue that much is due to poor segmentation practice.

This research (refer to table 5.14 to table 5.20 and annexure 8) shows that results on segmentation metrics and qualitative information pertaining to segmentation in annual reports is poor. Analysis shows that the tendency is for companies to describe their brands and product offerings and not their key customer target markets. There are some good examples (34% rated level 5) for example a retail company (Ellerine, 2006), which clearly shows visually the brand segmentation with number and % of households, average income and LSM level, number of outlets and geographical spread (refer to annexure 11.5).

An argument can be made that for example '% of all profits in total market produced by segment' and 'ratio of profit produced by segment weight of segment in total population' are measurements which should be presented at board level but not necessarily in annual reports. This can explain why companies in this sample did not report on % of profit produced by segment (77%), ratio of profits by segment (90%) and defection (87%). In addition 80% of companies did not provide knowledge on their top ten customers or customer lifetime value. However, it can also be an indication that companies do not measure this and do not know their top customers.

## 6.10 Competition

Good positioning and competitive advantage is only possible with competitor knowledge. . Knowledge on key competitors is essential for industry analysis to enable a company's positioning and strategy and should form part of the marketing function.

It is remarkable that this topic is not addressed by companies in their annual reports (with two exceptions), especially as knowledge on competitive activities is essential for well planned and implemented marketing and corporate strategies and activities. Taking advantage of strengths and opportunities and avoiding threats and limiting weaknesses can only occur with competitor and industry knowledge. Annual reports should give an overview of a company's performance, achievements, positioning and strategies which is very limiting without industry and competitor analysis. An overview of or comparison to competitors in annual reports is necessary and should be possible without divulging confidential information and incurring a competitive disadvantage.

Except for two companies, an airline (Comair, 2006) (the only one to mention its competitor by name) and media company (Kagiso, 2006), none of the companies made any mention of or comparison to their competitors. Kagiso Media (2006) graphically states share of revenue and reach of customer per alternative competitive media channel (i.e. print, TV, Radio, outdoor, cinema, internet, direct mail) and mentions its main competition, giving reasons as to it not being a risk factor (refer to annexure 11.6).

The tendency is for companies to mention their differentiation or competitive edge in general terms, for example, “the competitive edge of the brand is its bedding and bedroom merchandise which are complemented by a wide range of appliances and high-tech goods (Ellerine, 2006:35).

In most instances competition is referred to in very general terms such as “commercial printing remained highly competitive “(Caxton, 2006:4) or “despite competitive action” (Oceana, 2006) or “the domestic market for alcoholic beverages will remain fiercely competitive” (Distell, 200614). One company (Dimension Data, 2006) mentions that it uses a global service centre as a benchmark against competitors but gives no further information on its competition.

It is likely that companies have information available on their competitors. In order for companies to convey a benchmark as to positioning and competitive advantage, it is advisable to include some information in relation to key competitors.

## 6.11 Innovation

Marketing capabilities drive innovation and enables a company to gain sustainable competitive advantage (Weerawardena, 2003) by differentiating its product and services through timely responses and initiatives. Ambler (2003:172) points out that key components of innovation are strategy, process and culture. Innovation does not arise form the market but is driven by the company internally. Companies elaborating on their innovation capabilities in annual reports therefore demonstrate their commitment to change.

Ambler (2003:306) suggests that innovation can be measured by share of turnover represented products launched during the past three years, measured incrementally to exclude cannibalization. Ambler also suggests showing the change in sales of products already being marketed three years before. In this sample none of the companies report on the past three years. Only one company mentions revenue increase in sales resulting from the past financial year. Half of the annual reports cover the topic ‘innovation’ and ‘initiatives’. Half of the companies do not mention any initiatives but

40% covered the topic well (refer to table 5.21 to table 5.23 and annexure 9). Retail companies refer to "initiatives" as new store openings.

Product innovation is seen by more than a quarter of companies as a differentiator and 27% of annual reports cover the topic well, for example, New Clicks' Body Shop brand. However, half of the companies present inadequate information. Product extensions (e.g. New Clicks' Musica e-commerce business for online purchase, home delivery and download of music) and joint ventures (e.g. Virgin Mobile with New Clicks' Musica Brand stores) are included in this section referring to innovation.

*Example:*
A food processor and distributor (Rainbow Chicken, 2006) mentions the number of new products launched in the individual quick frozen category and various new flavour meals. It also mentions how these launches were supported through which medium (e.g. TV advertising, in-store promotion, point-of-sale activity etc).

Despite Ambler's recommendation on monitoring the number of initiatives and innovations, depending on the type of industry and size of company, quantifying in numbers might not be practical for some multinational companies. Those rated excellent at level 5 (27%) have addressed innovation as part of their strategy, for example, at a technology company innovation forms part of its strategy (Dimension Data, 2006:6). The company mentions that differentiation comes from its ability to identify and capitalize on market trends of which the company has chosen four core areas to focus on.

## 6.12 Environmental and Strategic Analysis

Marketing strategy and goals should be based on and closely aligned to corporate strategy. Marketing should be seen as essential in providing input to corporate strategy as the role of marketing involves (amongst others) performing industry analysis and competitive advantage, market segment attractiveness and market accessibility. All of these are strategic concepts which form part of marketing. Marketing also has the role of conducting internal assessment of current business performance, for example, internal competitive cost advantage, differentiation advantage or market advantage (Best, 2005:333). Marketing strategy arises out of the analysis and can take various forms such as investment to grow, new market entry, protecting or optimizing position or harvesting and divesting. Environmental and strategic factors are closely linked to marketing, and therefore it is essential to clearly indicate in annual reports their influence and effect on the market and the marketing function.

This section (refer to table 5.25 to table 5.29 and annexure 10) assesses the following aspects: External factors influencing marketing trends, whether environmental influences on marketing performance are discussed, whether key risk factors pertaining to cash flow are mentioned, how marketing is in alignment with strategy and how the chairperson's report mentions marketing/ customers.

### 6.12.1 Environment and Strategy

Table 5.26 shows that approximately two thirds (63%) of companies deal with external and environmental factors influencing marketing trends sufficiently, well or very well. A direct influence of environmental factors on marketing performance measures or direct reference to cash flow (as suggested by Ambler, 2003) is not made. Although not always explicitly referring to effects on marketing or cash flow, in companies rated level 4 good or 5 excellent (38% of companies) it can be deducted from the information provided.

*Example: Rating level 5*

A good example is Distell (2006), producer and marketer of alcoholic beverages, whose managing director and chairperson state that increased competition and global oversupply and a stronger Rand resulted in many producers returning to the domestic market (Distell, 2006:27) and that a threat prevails of unscrupulous traders diminishing the quality of SA wines raising concern about negative effect on the efforts of long term brand building (Distell, 2006:14). The company also discusses in detail environmental influences and the trends influencing purchasing power of consumers, both domestic and export market. For example, "customer discretionary spending remained high, helped by personal tax cuts, … and number of home owners continues to rise" (Distell, 2006:19).

Another example is an integrated, full-spectrum gases and welding production business (Afrox, 2006), who under the section 'medical gases and products' mention an underdeveloped home care market and niche emergency services market as growing opportunities. The 'personal protective equipment market 'is described as being potentially 50% bigger than the existing industry's product market (Afrox, 2006:30). Although no further details are given the company has clearly targeted its growth markets.

### 6.12.2 Key Risk Factors

Table 5.27 shows (and with reference to annexure 10) that nearly half (47%) of companies surveyed do not cover this aspect or raise a problem without mentioning course of action. Companies following international benchmark standards and King II guidelines generally covered this topic well (40% of companies) as key risk management forms part of the corporate governance report. None however refer to risk assessment per segment.

### 6.12.3 Marketing Alignment to Strategy

Of the companies in the sample (refer to table 5.28) 40% did not mention or did not make any connection between marketing and their strategy whereas 44% provide good and excellent information and in alignment to strategy. Altogether nearly two thirds (61%) of companies mention marketing or the customer in their annual report.

It is interesting to note (refer to figure 5.4) that a strong correlation exists between brand equity and strategy. This shows that companies who emphasis brand equity and score highly on brand equity tend to have a well formulated marketing strategy which is aligned to the company's strategy. The companies who provide poor information on brand equity also tend to have non-alignment of marketing and strategy.

*Example: Rating Level 3: Non-Integrated Marketing Strategy*
In one example, a financial company customer services (which is dealt with by the retail division and gives support to other business divisions) is separated from the "brand" which is dealt with by 'group strategy and corporate affairs'. This results in very selective and confusing reporting. Customer attrition rate is a concern according to the company. The company is an example where various marketing aspects such as customer service and company image are not well integrated. The only division to report very limited data on customer segments (as opposed to product/ service offering) is the retail division which mentions only its five primary client segments. But no further descriptions are given, apart from stating the divisions' key product areas. The brand, on the other hand, is said to "play a major role in managing the group's image and reputation" (Nedbank, 2006:62). Because the report does not say anything about customer needs or marketing aspects (apart from a brand building campaign) it is an indication that no corporate marketing department exists, resulting in strategic misalignment.

*Example: Rating Level 5: Holistic, integrated Strategy*
Marketing strategies which are well aligned clearly set out the focus of marketing strategies. The Spar group, for example, state clearly its four marketing focus areas (driving the brand, improving price perception, being best in fresh and promoting healthy living). These link up well with the company's tagline "Good for you". The strategic approach is holistic and addresses the distribution system by encouraging the groups' retailers to improve the customers' shopping experience and improve ranges. The company supports this by implementing a new technological system based on radio frequency, voice activated picking process for inbound stock and inventory and new advance retail point-of-sale system and new mega distribution facility.

SA's largest processor and marketer of chicken (Rainbow Chicken, 2007) describes its strategy in detail as well as its process and how for example customer satisfaction is performed. The chief executive officer's report includes a table showing the company's strategy framework centered around five key initiatives of which the first two are consumer insight and customer focus. The company states that central to its strategy is recognizing that the consumer is at the heart of the business and to deliver meaningful innovation and long term shareholder value, it requires an intimate understanding of consumer needs (Rainbow Chicken, 2007). This shows the company's long term perspective and emphasizes that people and great brands are key enablers. The strategy also explains how each of the three core brands are positioned, for example, for Rainbow Chicken to become preferred choice by "taking ownership of all customer contact points". Here the emphasis is on channel distribution. Farmer Brown want to be the leader ("premium choice in fresh and value added chicken" while Rainbow Food Solution aim at food service, emphasizing quality and innovation. Clear positioning assists the company in focusing on the unique value proposition for each of its brands.

One of Distell's (2006) values for example is "customer service orientation". The company has a section in the annual report depicting "our brands at a glance", they refer to themselves as "brand crafters" and state "We create brands quite literally from the ground up… and shape into brands that have become icons" (Distell, 2006:1). The performance of their leading brand (Amarula) is shown per country. The report mentions the increase in awareness of the brand and improved recognition. The improved presence and distribution channels of brand Savanna is highlighted and mention of Africa's sales volume being driven by key brand recognition is mentioned as well as brand leaders and awards.

Dimension Data (2006:7) is a good example of marketing alignment with company's business strategy which links the four main areas of strategy to its clients. One of the four operational strategies is "client experience". The company states how its offering will assist the client and how it has the potential to "build a stronger, long standing client relationship" Dimension Data (2006:7) by the company becoming more engrained in a client's business.

#### 6.12.4 Chairperson's Support

Leadership literature states that senior executives have much impact on the effectiveness of an organisation (Yukl, 2006:380) and through their power and authority can influence attitude and behaviour of people. The chairperson's level of support towards marketing and customers in annual reports gives a good indication of the importance a company places on marketing and its customers. It can also give an indication whether marketing is aligned to strategy as senior executives emphasise strategic as oppose to tactical issues.

Nearly half (47%) of chairperson's reports (refer to table 5.29 and annexure 10) do not mention or vaguely refer to marketing or customer. However, a third (33%) of chairpersons' reports (rated level 4 and 5) supported marketing, outlined it well and gave it strategic emphasis. None of the chairpersons' reports quantify marketing assets or how the marketing asset (brand equity) has changed compared to previous year, industry benchmark or competitors (as suggested by Ambler,2003). However quantifying complex measures such as brand equity into one number can be misleading. The information provided in annual reports is of a more descriptive nature.

As can be expected a strong correlation exists between marketing being strategically aligned and mentioned in chairperson's report. The companies where the chairperson emphasizes the importance of the customer seem to be more market orientated and marketing tends to be well aligned with the company's business strategy. (This is confirmed by the high correlation between strategy and brand equity). The higher rated companies also either have implemented or are in the process of implementing a more customer orientated strategy.

*Example: Rating Level 5*

For example, Distell's managing director report states that during the year under review the company redesigned its operating system to "build a stronger marketing focus" (Distell, 2006:23), establishing multi-functional teams which resulted in progress towards "a truly customer- and consumer-orientated organization". The company also states that to compete successfully globally a strongly market-orientated approach which "places customer and consumer at centre of our thinking" (Distell, 2006:25) is essential.

AVI's (2006:7) chairperson comments that the company's core strength is AVI's brand management and marketing expertise and the company's aim is to "aggregate brand portfolio's into groupings where core skills, market instincts and business activities are as similar as possible".

The chairperson's report of a retail company (Ellerine, 2006) dedicates a full paragraph to the customer and states "we are proud to have several generations of the same families [as customers]" (Ellerine, 2006).

## 6.13 General Comments

Some general trends pertaining to annual results are briefly discussed below. These are selective reporting, lack of knowledge on marketing, no uniform reporting standard, use of general terminology and misuse of marketing terminology and raising problems without providing suggestion of improvement.

### 6.13.1 Selective Reporting

The tendency for companies is to selectively report in annual reports on their brand performance or market share growth or to report on results for certain divisions only. There sometimes is a lack of uniformity in divisional reporting (for example Nedbank).

Companies rated highly in brand equity give reasons how sales growth is driven and some mention all elements of the marketing mix including in-store-point of sale, store navigation, media mix, window display, quality of advertising (e.g. New Clicks Musica Brand). The tendency was however, to highlight and give detailed examples of certain brands only.

Ambler (2003:34) suggests that multinational companies who have many brands, should divide the whole organization into brand market units. The equity value of these larger brands (often 80% of shareholder value comes from 20% of major brand market units), can be reflected individually, whereas one brand equity value should be taken as an average of many smaller brands. It therefore is possible for global companies to represent brand equity.

*Example:*
Distell (2006) for example highlights the international performance of one of its major brands (Amarula) in value, volume, % of total exports and shows the same statistics for its wine (but not brand specific) (Distell, 2006:8). The report states general highlights eg. "outperformed industry growth rate of bottled wine exports" and mentions that 1 brand (Savanna) achieved new listing in the UK" (Distell, 2006:8). This report also states sales revenue % increase in Rand value and % increase in sales volume, locally, internationally and in Africa. Locally growth is compared to the previous year and the report states that spirits and ready-to-drink performed better than its wine category.

### 6.13.2 Lack of Knowledge on Marketing Concept

McDonald (2006:427) states that some companies have the tendency to equate the marketing function as mainly being concerned with promotions and advertising. A few (three) companies in this sample confirm this.

*Example:*
A financial company (Nedbank, 2006) seeks to mainly build its image via promotions and advertising. The CEO report states that the company invested in a brand building campaign to make the brand more accessible, aspirational and caring. The CEO states that "repositioning the brand extends beyond just marketing and is part of the broader strategy that includes pricing, distribution and product innovation" (Nedbank, 2006:36). However, the marketing mix and the 4 P's (product, price, place, promotion) form part of marketing. This shows that the understanding of the marketing function is limited and confusion prevails between marketing function and marketing concept.

### 6.13.3 Reporting Standard

Companies do not use a standard reporting format. In general, finding comprehensive information in the annual reports pertaining to market strategy, the brand equity and customers is not easy because the information is spread throughout the annual reports.

Because brand equity does not constitute a uniform understanding, information is made up of several elements and is made more difficult by companies having several brands in various sectors and is especially complex with multinational companies operating in several countries. This could lead to loss of information on behalf of the reader and makes comparison between companies more difficult.

*Example:*

Distell (2006) in its social responsibility section for example states its advertising principles and rules applying to promotional events in detail, “advertisements will be directed towards brand selling with a view of establishing brand loyalty” (Distell, 2006:38).

### 6.13.4 Use of General Terminology

Generalization and vague statements are prevalent in many annual reports. For example, product segment profitability is stated as “menswear continued to loose market share” and “toddler wear has seen large volume growth” (Woolworths, 2006:37). Other examples include “fresh line produce and bakery are major contributors to the company’s fresh offering” (Spar, 2006) and “exclusive brands captured significant share of the categories in which they trade” (Spar, 2006:9). The term “one of the leading brands” is a meaningless statement but is regularly used in annual reports.

The CEO of food processing and distribution company states that “average occupancy and activity levels [in the commercial cold storage division] were good, mostly in poultry, fish, meat, vegetables and fruit products” (Oceana, 2006:23) and “demand and prices were good” (Oceana, 2006:21) .

### 6.13.5 Misuse of Marketing Terminology

Companies rated overall brand level 1 (very poor) and level 2 (poor) at times used incorrect terminology.

*Examples:*

“The group has positioned the hotels as conference facilities” (Gooderson, 2007:8) and made vague and unsubstantiated statements such as “the hotel and leisure industry has shown immense growth these last few years and we expect revenue to continue to increase in line with the growth expectations of the economy” (Gooderson, 2007:13).

A CEO of a retailing company called the phrase LSM (lifestyle measure) “living standard measure”. The same company mentioned “we endeavour to reach customers by continuously restocking with new merchandise” but states in the next sentence that “turnover growth did not meet expectations”, indicating that the company does not know its target market needs.

In the operational review of a large financial services company (Nedbank, 2006), each division has a section called "target market and activities". However, under this section the company describes its product and/or service offering and at times describes operational procedures. The section does not explain the target market needs nor the target market characteristics (e.g. demographics, LSM, etc). The use of the term "target market" is therefore inappropriately used (except for one division, namely the retail division).

#### 6.13.6 Highlighting problem without solution

Some companies (Woolworths, 2006) mention problem areas (for example "despite more aggressive acquisition strategy, rejection rates for credit application is close to 50%"). Weaknesses or threats are sometimes highlighted but many reports do not mention any planned action or remedy to the problem.

*Example*:
A financial company mentions that a key objective of its retail division is to "stem market share loss" (Nedbank, 2006:54), stating number of new clients but also number of attrition which points to a problem, but nothing is said about any remedies except "intensify our efforts in both acquisition and retention" (Nedbank, 2006:54).

### 6.14 Information Required by Investors

A study by the Cranfield University School of Management (McDonald and Dunbar, 2004:6) in the United Kingdom revealed what type of information is necessary for external financial community to make a decision. Investors rated market share the highest at 91%, others included market value (86%), key competitors (85%), marketing investment (71%), new product statistics (innovation) (68%), brand awareness (62%), customer satisfaction (60%), distribution coverage (68%) and price elasticity (72%).

Below is the percentage of information as reflected in annual reports by this sample of companies who are rated good or excellent (refer to table 5.30).

**Percentage and number of companies disclosing investor pertinent information in annual reports:**

| Information Required by investors (UK research) | % of Companies | No. of Companies |
|---|---|---|
| Market share | 33% | 10 |
| Key competitors | 3% | 1 |
| Marketing investment | 0% | 0 |
| New product statistics (innovations) | 37% | 11 |
| Brand awareness | 37% | 11 |
| Customer satisfaction | 37% | 11 |
| Distribution coverage | 43% | 13 |
| Price elasticity | 3% | 1 |

*(Adapted from Source: Davidson, H.; 1999; "Brand Finance"; Cranfield University School of Management in McDonald & D; 2004:6)*

Despite 91% of investors in a United Kingdom survey (McDonald and Dunbar, 2004:6) wanting information on market share, only a third of companies in this sample provided this information. None reported on marketing investments and only 1 on competitors, both highly desired information by investors. This research shows that the information deemed important by investors is at best provided by 43% of companies and in the worst case (namely marketing investment) by none of the companies. Information provided in annual reports is therefore insufficient for investors. Similar findings pertaining to very little information displayed in annual reports of United Kingdom companies have been found in the Cranfield University School of Management research (McDonald and Dunbar, 2004:6).

Approximately 85% of UK companies (Ambler, 2003) agree that shareholders have the right to information about brand equity which often is the company's most valuable asset. However, only a few companies display metrics to their shareholders. Of the UK sample 40% have up to five market performance indicators but the average number is two indicators. Half of the companies in the UK survey use sales volume, product distribution (availability) and new product launches within the year as their only indicators (Ambler, 2003). This research of SA listed companies shows that sales is obligatory and therefore stated by all companies. Information on distribution is stated well or very well by 43% of the companies whereas new product launches by 37% of companies, which is slightly lower than the UK sample.

## 6.15 Grand Total Maturity Model

On average 27% of UK's top 1000 companies in 2004 are effective in using their annual reports as key marketing documents, according to Corporate Mailing Matters research (Greenyer, 2006:240). According to the research findings in this sample of companies listed on the JSE, 28% provide good or very good information based on the grand total maturity score.

The findings (refer to table 5.32, figure 5.5 and figure 5.6) are based on 23 equally weighted factors. These factors include all elements of brand equity, elements of segmentation, innovation, competition and environmental and strategic factors. When combining all these elements into a grand total score, it becomes evident that nearly two thirds of companies (61%) provide insufficient information, while less than a third (28%) provide good or excellent marketing related information in their annual reports (refer to table 5.32). The Research Strategy Management Inc. for the Public Relations Society of America survey (2000) revealed that investors rated annual reports as the most important source on which to base an investment decision. The results of this survey of annual reports in SA listed companies shows a lack of information on marketing metrics and other marketing related aspects and highlights the need for improved disclosure.

*Grand Total Maturity Level 1*

More than one third (36%) of companies are rated at level 1 and obtain 33% or less for all the marketing information provided in annual reports. This means that no or very poor information pertaining to marketing was provided. These companies seems to be unaware of marketing as an asset. Based on the very poor information provided in the annual report it can be deducted that marketing does not receive formal attention by senior executives and in the company's perspective does not require mentioning in the annual report.

*Grand Total Maturity Level 2*

One quarter of companies (25%) achieved rating level 2, i.e. between 33% - 49% , providing insufficient information. The information provided is poor with general or vague, unsubstantiated statements. Marketing concepts and terminology is misunderstood and inappropriately used.

*Grand Total Maturity Level 3*

Eleven percent of companies achieved average rating at level 3, between 50% – 69%. These companies provide some information with some explanation or substantiation and some measurements exist, but most of the information and examples are used selectively, not providing a general overview.

*Grand Total Maturity Level 4*

Just over one fifth (21%) of companies are rated level 4 for their grand total and obtaining between 70%-80%. These companies display a market focus. Good and relevant information is provided for most of the 23 elements. Non-financial and quantitative measurements are both present.

*Grand Total Maturity Level 5*

Companies rated excellent (between 80% - 100%) at level 5 were only 7%. These companies provide excellent information with substantial amount of information and detail, supported by examples. Information is substantiated, scientifically analyzed and professionally presented.

## 6.16 Conclusion

The objective of marketing should be to increase long term cash flow because increase in cash flow determines shareholder value (Doyle, 2000:257). The present value of cash flow is based on the level of cash flow, its speed, duration and risk. By reading an annual report an investor should be able to assess whether a company has an effective customer value proposition, whether the brand is integrated into a business value chain, the brand's attractiveness compared to competitors and whether brand strategy is geared towards maximizing shareholder value, by for example, using the optimal marketing mix to achieve maximum net present value of a brand's future cash flow.

This research shows that the extent to which quantitative metrics and qualitative marketing information disclosed in 2006/7 annual reports of companies listed on the JSE is not sufficient in giving an overview of marketing performance and therefore not sufficient for investors to make a well informed investment decision.

It is worthwhile noting that the majority of companies (53% [refer to table 5.2] when taking the total brand equity and 60% [refer to table 5.32] when taking the grand total maturity score into consideration) provide insufficient information on marketing in their annual reports. This shows that the majority of companies do not display marketing metrics and marketing information in a meaningful and useful manner.

The majority of companies do not display quantitative metrics such as financial, brand equity, other customer and competition metrics as suggested by Ambler (2003) and on which this research is based. The vast majority of companies present no or very little information on segmentation as suggested by McDonald and Dunbar (2004). More and better information is presented in annual reports on innovation and environmental and strategic issues pertaining to marketing, with environmental and strategic aspects taking a more narrative form. The tendency is for companies to display more in-depth and better qualitative information than disclosing quantitative information in their annual reports. Major differences by sectors are not prevalent (although the financial sector performed the poorest) but more sector specific future research might be advisable to substantiate conclusive findings.

Information pertaining to marketing investment, competition and segmentation has not been mentioned by the vast majority of companies. Marketing investment is important in the creation of long term gain such as stronger brand equity and enhanced customer loyalty. Knowledge on key competitors should form part of the marketing function and is essential for industry analysis to enable a company’s positioning and strategy. Segmentation forms an essential part of marketing as relative attractiveness of target segments differ and companies should focus on segments which are aligned to their corporate strategy and create optimal value to their company. By not providing sufficient information pertaining to marketing investment, competition and segmentation in annual reports, companies create the impression that management does not know how to measure these aspects or does not value these aspects sufficiently to reflect upon them in annual reports. Not providing sufficient information can also be interpreted as a lack of responsibility towards external investors and stakeholders.

However, apart from marketing investment all other qualitative aspects analyzed in this research are reported upon by some companies (for example one third of annual reports contain good or excellent information on brand equity). Therefore, despite the challenges of reflecting marketing metrics and marketing information, it is possible for companies in their annual reports to disclose suitable marketing metrics and information.

Shareholders should be viewed as customers and communications therefore plays an important role. Communications and the message sent to shareholders should not differ from the message sent to other stakeholders such as employees or consumers. Disclosing marketing metrics forms part of professional marketing of the corporate brand to investors. Management can build trust and build the corporate brand by displaying and sharing knowledge with shareholders on marketing metrics (Ambler, 2003:217).

The understanding of the role and function of marketing and brand equity varies amongst corporate companies as stated in the literature review. This is evident in some annual reports where a high variance of scores amongst brand equity elements is apparent. Those companies that do not have a good understanding of the role marketing can play and the importance of integrating the worth of the brand into the whole organization, have displayed a sub-optimal brand structure and non-alignment of strategic goals. This is supported by the high correlation between brand equity and marketing alignment to strategy. A lack of marketing knowledge can result in a potential loss of income. This could be a conclusion by the reader if companies do not reflect the marketing information and explanations sufficiently in annual reports.

Those companies who have demonstrated a holistic approach and inclusion of the marketing function in long term strategic goal setting, have created a good base for investor confidence. The majority of annual reports however make it difficult for an investor to make an informed decision because of the limited knowledge provided.

There seems to be some lack of understanding of the value in assessing or reporting on what customers think, feel and customer loyalty and how marketing can add to the worth of an organization. Brand familiarity or awareness presents the customer's or target market's knowledge of the company giving an indication as to long term trends such as loyalty and purchase behaviour. Penetration gives an indication whether a segment is growing or declining and good reputation and high customer loyalty can provide a company with competitive advantages. All of these factors give an indication as to the company's future strategy, goals and growth potential, all of which are important to investors' long term interests. Despite these advantages, nearly two thirds of companies (between 57% and 63%) report poorly on these elements of brand equity (refer to tables 5.4 to 5.9).

Marketing can function as the link between understanding the consumer's point of view and assist with creating a consumer-first attitude. Marketing can assist with building up brand asset. Only by consistently reporting on all brand equity elements can marketing become better understood, adding to good corporate governance and providing the information necessary for good investment decision.

Annual reports should give some indication as to the future growth prospects and strategy of a company to entice or inform investors and stakeholders. It is therefore advisable to incorporate information on innovation, environmental and strategic aspects and their effect on marketing.

Innovation can be the differentiating factor in creating competitive advantage for a company. Ambler (2003:172) argues that innovation does not arise from the external market but is driven by the company internally. Companies elaborating on their innovation capabilities in annual reports demonstrate their commitment to continuous adaptation and change. Despite the importance innovation can contribute to a company's success, the results of this research show that only half of the annual reports cover the topic 'innovation' and 'initiatives'.

External factors influencing marketing trends and environmental influences on marketing performance are highlighted by two thirds of annual reports. Key risk factors affecting marketing and chairperson's support for marketing or customers is addressed in just over half of the annual reports, whereas nearly half of companies do not show any marketing alignment to strategy. Marketing goals and strategy arise out of analysis of current business performance, market attractiveness and competitive advantage (Best, 2005:339). Not disclosing marketing alignment to corporate strategy can be an indication that marketing analysis (or business strategy analysis) is not performed properly, which in the long term is likely to result in deterioration of business performance.

Some general trends which become evident in annual reports are selective reporting on for example certain segments or brands, no uniform reporting standard, lack of knowledge on marketing, use of general terminology and misuse of marketing terminology and at times raising problems without providing solutions. These trends encompass a wide spectrum of challenges which cannot all be solved by improving on marketing information in annual reports, but some can be avoided or limited.

The percentage of companies providing the required information in annual reports as stipulated by investors varied from nil to 43% (refer to table 5.30). In other words, less than half of the listed companies provide the information deemed necessary by investors to make an investment decision. In this research marketing investment is not mentioned at all, whereas pricing and key competitors are each only addressed by one company. Market share, innovation, brand awareness and customer satisfaction is answered well or very well by less than 40% of annual reports analyzed in this research. These results show a poor level of reporting in annual reports and substantiate previous research by the Cranfield University School of Management (McDonald and Dunbar, 2004:6) and others.

The scoring as per the grand total maturity model shows that a third of companies are at a very low maturity level 1, implying that no information is provided and companies are unaware of marketing as an asset. More than one quarter of annual reports are rated at maturity level 2, indicating insufficient information and tendency to generalize and to use vague statements. On the other hand, one quarter of companies are rated at maturity level 4 and 5, providing good or excellent information displaying a distinct market focus and providing substantiated qualitative and quantitative information. Although the level is low of companies providing sufficient information in a their annual reports on all 23 marketing aspects measured in this, these companies are from various industry sectors which shows that it is possible for companies to progress to a higher level and to display good marketing information, regardless of the industry sector.

Although more research needs to be done on correlation between market orientation, marketing disclosure in annual reports and company performance, this research seems to indicate that the more market oriented companies are, the more likely they are to disclose marketing information and metrics and the more successful they seem to be.

Annual reports can become more valuable to investors, analysts, other stakeholders and ultimately improve the company's performance if companies disclose financial and non-financial marketing measures and provide information on their brand, competitors, customers and marketing strategy in a more in-depth, substantiated manner supported by a long term view.

## 6.17 Recommendations

Shareholders own the assets of a company and it is managements' duty and responsibility to protect and create shareholder wealth. The main recommendations pertain to improved disclosure of marketing metrics and marketing aspects in annual reports. In summary, it is recommended to develop and use a standard format. Some suggestions as to inclusion are made below. In addition it is recommended for the JSE to revise and refine its reporting criteria in terms of a marketing report. It is recommended for companies to assess their own level of maturity, to compile their own reporting criteria in order to strive for a higher level of reporting maturity.

### 6.17.1 Disclosure of Marketing Metrics and Marketing Information

Marketing metrics and marketing information are key determinants of future cash flow and indicate that management is monitoring, evaluating and managing the business. Companies are advised to communicate their marketing approach and to use standard marketing metrics in annual reports. These should include financial as well as non-financial performance measures and qualitative information and pertain to strategic marketing goals, objectives, achievements and performances (benchmarked against industry norm or competitor activity). All companies are advised to disclose information on their marketing investment, brand equity, competitors, customer measurements and segmentation, innovation and environmental and strategic aspects.

Core marketing metrics should be reflected upon in annual reports (preferably with trends) and supplemented by narrative explanation. It is suggested that some measurements should be benchmarked against company specific criteria, benchmarked against industry norm or against key competitors. Metrics should be consistent over time, highlight the trends and be auditable, i.e. reliable and professionally sourced (Ambler, 2003:305). The aim should be for annual reports to become more valuable and for companies to show an understanding of brand equity and other marketing aspects and to take a more long term approach. Below are some suggestions for inclusion in annual reports:

- Financial Aspects such as sales or profit growth should be compared with internal goals and against external benchmarks (either industry norm or key competitors).

- Some indication should be given as to percentage of total investment into marketing and possibly proportion of investment into certain aspects of marketing.

- By including and documenting brand equity aspects, companies can create a more positive perception about their capabilities and growth prospects.

    - Brand specific metrics include an indication of total brand equity. Companies which have many brands can select the few major brands which constitute most of the company's profit and report on them individually while reporting on an aggregate for the remaining smaller brands (Ambler, 2003:111).

    - All elements of brand equity, namely awareness/familiarity, penetration, reputation, customer satisfaction, customer loyalty and availability/distribution channels, should be reported on for major brands or for the corporate brand as a whole.

    - It is recommended to give a brief outline of brand architecture and structure with an explanation of how the brand fits into the company's corporate strategy.

- It is strongly recommended to include a brief analysis of the competitive environment and key competitors. This will give a better overview as to the company's positioning and competitive advantage. Examples of information for inclusion in annual reports can be percentage of market share held by competitors, competitors' brands and their message or medium used or any major launches performed by competitors during the year under review (Ambler, 2003).

- Annual reports should give some indication as to company's various customer segments and possibly their attractiveness and trends in performance. This section could include metrics on market share (in relation to total market size) and sales to new customers to give an indication of growth prospects.

- Innovation is an indicator of how well a company adapts to change and should be included, although its emphasis depends on the type of industry sector.

- It is recommended to include a section giving an overview of marketing strategy. This section should include how environmental factors influence market trends and marketing performance and what measures the company has taken or is taking in overcoming any major challenges. In addition, this section should indicate how marketing is aligned to corporate strategy and give an overview of marketing's performance during the year under review and an indication of marketing's longer term vision and objectives.

- Marketing is defined in various ways and therefore annual reports include a marketing glossary and marketing terminology index to create uniformity and a better understanding of the marketing construct.

Many of the marketing metrics and aspects suited for publication in annual reports should already be internally available (Ambler, 2003:307). Incorporating them into the annual reports should not create excessive cost or effort. In addition to ensure commercial confidentiality company's management can with their auditors assess metrics for inclusion on an individual basis (Ambler, 2003:307).

### 6.17.3 Standard Reporting Format

Based on this sample of JSE listed companies no uniform standard format exists. It is recommended that a standard reporting format be developed which includes qualitative and quantitative criteria, as suggested above.

A standard format will improve communications and make it easier for investors and stakeholders to find marketing information in annual reports.

A suggested format can be based on above recommendations or on existing guidelines such as Ambler's (2003). A more inclusive option is to compile a format with the assistance of, for example Marketing Association of South Africa. Alternatively, the global reporting initiative guidelines (GRI) which are endorsed by the United Nations and which provide an international framework for information to stakeholders of a company on its economic, social and environmental performance (i.e. the triple bottom line) can be reviewed to include more specific marketing related guidelines.

### 6.17.2 JSE Reporting Criteria

It is recommended that all companies listed on the JSE should be obliged to report on specific marketing items.

These could for example include information sought by investors (McDonald and Dunbar, 2004:6) such as market share and market value, key competitors, marketing investment, new product statistics (innovation), brand awareness, customer satisfaction, distribution coverage and price elasticity. Alternatively, research pertaining to South Africa could establish a slightly different need amongst investors on which these items should be based.

More stringent criteria in terms of marketing reporting should be made obligatory by the JSE for listed companies. In particular, attention should be given to market share, marketing investment, key competitors and customer measurements, whilst keeping cognizance of commercial confidentiality.

It is suggested that marketing academics and professionals in South Africa compile suitable measures appropriate to each industry sector to create better implementation and more uniformity.

### 6.17.5 Maturity Model

By taking the needs of the investor community into account and by identifying company specific needs, companies can assess their current status in terms of the grand total maturity level as reflected in their annual reports. Being aware of their current status and baseline can assist companies in driving towards improved marketing knowledge disclosure and possibly higher level of market orientation.

Properly reflecting marketing performance measures and strategic marketing factors in annual reports will result in improved monitoring of performance, improved transparency and corporate governance and better investor relations.

# CHAPTER 7: Abstract

**Examining the use of marketing metrics in annual reports of SA listed companies**

Hilke Gartz and Prof. Peet Venter (SBL, University of South Africa, RSA)

## Abstract


**Purpose**

This paper analyses the use of marketing metrics and marketing information and metrics contained in 2006/7 annual reports of companies listed on the Johannesburg Stock Exchange. The assumption is that the annual reports are the vehicle whereby listed companies communicate to their shareholders and other stakeholder constituencies.

**Methodology**

The assessment criteria is based on Ambler's (2003) suggested marketing metrics and qualitative data is based on a checklist compiled from various academic sources. The elements which are assessed pertain to brand equity, other customer metrics, segmentation, competition, innovation and environmental and strategic aspects. The information obtained is compared to information required by investors and rating is done based on a grand total maturity.

**Findings**

Research results indicate that the use of quantitative metrics and qualitative data is very limited. The majority of companies display a lack of information pertaining to marketing. The results reflect a bi-modal tendency. Half (53%) of the companies do not provide any or poor information on their brand whereas 26% of companies supplied good and excellent information. The grand total score indicates that nearly two thirds (60%) of companies obtain a score of less than 50%, providing insufficient information. On the other hand, 27% of companies provide good and excellent information. Segmentation metrics are generally not reflected in annual reports, neither are competitors. Innovation and environmental aspects influencing market trends are covered by two thirds, however a third provides insufficient information. Other findings include that no standard reporting format exists. Information pertaining to marketing is spread throughout the annual reports. None of the companies provide a glossary of marketing definition or brand terminology.

**Research implications**

More in-depth research needs to be conducted on various industry sectors and amongst investors as to their needs.

**Originality/ value**

The paper is of value to corporate executives, marketing and communication practitioners who seek to improve communication and to convey optimal information for the investment community. The aim is to stimulate executive management to revise their relationship towards customers, the brand, marketing strategy and investors.


**Keywords:** Marketing metrics, marketing performance measures, annual report, shareholder value

**Paper type:** Research paper

## Introduction

In recent years the need to show what marketing contributes to business success has been raised time and time again. The Marketing Science Institute has stated that marketing performance measures (metrics) have for consecutive years in mid-2000 been identified as one of the top priorities which need to be attended to (Ambler, 2003:xiii). Marketing is confronted with many challenges and needs to be clarified. Marketing metrics can assist with achieving this. One way of assessing a company's perception of the importance of marketing, is to assess the marketing content of publicly available documents such as annual reports.

Marketing's traditional role has been that of the key enabler between the customer and the company and annual reports are one of the key communication tools with investors and stakeholders. To give the marketing function its due credit (and more importantly, allow it to play its proper role), marketing has to become a strategic function which can be measured, researched and developed. Traditional accounting methods, pressures from financial markets and senior executive management's performance drive have caused many companies to emphasize short term outcomes. With a move towards more stringent corporate governance and increased transparency the trend nowadays is to incorporate values of intangible assets and to take a more long term view in establishing the worth of a company. Executives need to be well informed and knowledgeable, thereby enabling good decision-making, while investors need to be assured that management is monitoring, evaluating and managing the business as best as possible.

Shareholders need to base their decisions on facts and best practice and to have access to information regarding their investment. Research suggests that companies and shareholders gain from disclosing marketing related information in their annual reports.

Research (Ambler, 2002:48; McDonald and Dunbar, 2004:4; Greenyer, 2006:240) has shown that little information on marketing is shown in annual reports and that more can be done. To make good decisions, measures such as quantifying and assessing the value of marketing metrics are necessary.

The main assumption of the study is that annual reports are seen as vehicles whereby listed companies communicate with their stakeholder constituencies. The researcher hopes to stimulate new ways of thinking about the importance of marketing metrics with a view to improving the perception of the importance of the marketing function.

The primary objective of this research is to determine the quality and type of disclosure pertaining to aspects of marketing and usage of marketing metrics in annual reports of companies listed on the JSE.

Assessment will be done by evaluating the quantitative aspects based on Ambler's (2003) suggested marketing metrics measurements and other measurements such as McDonald and Dunbar's (2004) segmentation analysis. Secondly, assessment of the qualitative criteria will be based on the extent and quality of the marketing contents in annual reports. Aspects such as brand, customers, competition, segmentation and strategic marketing information will be addressed. Trends and general tendencies observed in annual reports will also be reported on.

The qualitative and quantitative aspects will be combined to result in a rating per company for total brand equity and for a grand total score. This overall level of maturity as depicted in annual reports will give an indication of the importance companies assign to marketing in their communication with shareholders and whether sufficient marketing metrics and aspects are communicated for investor and other external stakeholder purposes.

## Literature Review

The perception of the value which the marketing function can add to a company has seemingly deteriorated in recent years. The approach of this research is to establish whether sufficient information on marketing is provided in annual reports for investors and other stakeholders and to highlight some of the challenges which need to be overcome. Suggestions are made as to what type of marketing metrics to use in annual reports and which elements to use in evaluating brand equity and other marketing measures.

Annual reports are one of the main showcase communication tools for stakeholders. Assessing the amount and content of marketing related aspects in annual reports can be seen as a reflection of the marketing maturity of South African listed companies. The aim is to get a better understanding of the importance companies place on marketing in their annual reports, to highlight marketing aspects which lack information and to recommend areas of improvement.

### The Origins of Marketing

Traditional marketing tools originated in the 1960's and had a more strategic approach. Limited understanding and application by marketers led to inappropriate use of tools, particularly the sole emphasis on the 4 P's (Grönroos, 1994:5). The result is that marketing decisions are taken on an operational level, thereby emphasizing short term results and taking a transactional, short term focus rather than incorporating long term goals which emphasizes sustainable business growth.

### Role and Status of Marketing

There seems to be a lack of understanding of what constitutes marketing and its importance to contribution to the success of an organization. The role and status of marketing has diminished in many companies (Brown, 2005). In contrast, creating and delivering value to customers is seen as one of the top business priorities (Brown, 2005). There are several reasons, some of which are mentioned below, which have led to the marketing discipline not delivering its full potential.

The American Marketing Association (2007) defines marketing as "a process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organisational objectives". However, there is a lack of understanding of what marketing entails. Key responsibilities of marketers vary, depending on the company. Some marketers are accountable for profits, product specification, pricing and sales while others have been downgraded to a sales support function in charge of advertising and promotions (McDonald, 2003). Strategically important aspects of marketing such as price, new product decision, advertising budgeting have been taken over by other functions in an organisation (Sheth and Sisodia, 2005).

The traditional style where push model characterized marketing (between 1950 to 2000) is moving towards trust-based marketing (Sheth and Sisodia, 2005:11) where companies work closely with customers and stakeholders to enhance their success. The implication is for companies to form a closer collaboration with customers and stakeholders, and annual reports are one of the main communication points.

Strategic and tactical marketing tools have been available for more than 40 years (Baker and Holt, 2004:561), but have at times not been employed by corporate companies. Customer key account profitability for example states that marketing spend should focus on profitable customer segments, but knowledge of real profitability remains low (Denison and McDonald, 1995:18).

In South Africa approximately R18 billion was spent on above the line media during the year ending in June 2006 according to ACNielsen's Adex (Sinclaire, 2007:25). International guidelines state that about a third of total marketing investments are used for above the line exposure. This would translate to marketing professionals in South Africa spending about R55 billion which constitutes 4,5% of its gross domestic product (Sinclair, 2007). Marketing expenditure is therefore substantial and executives query whether their companies receive value for their money from their marketing initiatives.

The general consensus is that marketing is difficult to measure. According to Sinclair (2007) and other academics (McDonald, 2006; Ambler; 2003) it is possible to place a value on the output of marketing activity such as increased distribution, improved brand awareness and strengthening the key attributes in relation to competitors. When data such as market share, penetration, retention ratios or awareness is properly collected and analyzed it is measurable and reliable (Ambler; 2003). Reporting on marketing metrics will achieve a better understanding of why and how the business works (Ambler, 2003:142) and functions as a measure of control.

For marketing performance to be seen as a leading discipline in corporate companies (on pr with other main functions such as finance) and to be recorded accordingly in annual reports, marketing metrics and marketing information need to be consistently applied. To do so we need to understand some of the challenges.

**Accounting Regulations**

Countries differ in their regulations and approach as to what needs to be included in the balance sheet. Canadian and British accounting regulations suggest that annual reports should not only reflect historical perspectives but also express to shareholders prospective analysis and expectations of the future.

Brands are defined as assets according to the new International Financial Accounting Standards (IFRS), but do not have to be displayed on the balance sheet. The Accounting Standards Board in the UK published new guidelines in 2003 for the “Operating and Financial Review” section(s) of company annual reports (Ambler, 2003:209) and recommend that shareholders should be informed about marketing investment and particularly brand equity.

Marketing experts such as McDonald and Ambler believe that quantifying for example brand equity into traditional financial data is not sufficient and a different approach is necessary to make sense. The balance sheet in the annual report is not the only part providing information necessary for shareholders to take a decision. The other parts in the annual report such as chairman’s and chief executive reports, operational review and sustainability reports can play a major role in giving more in-depth understanding of the company’s activities and future prospects.

**The Role of Annual Reports**

A corporate annual report is the main statement reflecting a company’s financial reporting system. Annual reports are seen as a “barometer of a company’s fortune and future” and not as purely financial reports (Greenyer, 2006:240) and its purpose is to communicate information to shareholders and other interested parties. Shareholders own the assets of a company and it is managements’ duty and responsibility to report on, protect and create shareholder wealth.

According to the American Institute of Certified Public Accountings’ Special Committee on Financial Reporting (Ho and Wong, 2004:62) effective functioning of capital markets depends on effective information sharing amongst companies, securities analysts and shareholders. Improvements in information sharing should increase management’s credibility, analyst’s understanding of a company, investor’s confidence and patience and potentially shareholder value (Ho and Wong, 2004:69).

"Financial reports need to take on the role of marketing documents" (Greenyer, 2006:240), especially considering the trend of growing number of small shareholders and shareholders increasingly being customers of a company (Greenyer, 2006:240). In order to reflect these marketing messages, data-driven marketing is becoming necessary.

**Research on Annual Reports**

On average 27% of UK's top 1000 companies in 2004 are effective in using their annual reports as key marketing documents, according to Corporate Mailing Matters research (Greenyer, 2006). According to a survey by Research Strategy Management Inc. for the Public Relations Society of America (2000) investors rated annual reports as the most important source on which to base an investment decision.

On behalf of the Centre for Business Performance the Institute of Chartered Accountants in England and Wales researched annual reports and surveyed executives of 350 FTSE companies in 2002. Results show that low levels of reporting on intangible assets occurred and only limited reasons were provided (Ambler, 2002). According to this research many annual reports give general information on brands and marketing but marketing metrics (quantitative measures normally viewed internally) are not regularly and consistently reported upon (Ambler, 2002:48).

Despite the poor disclosure on marketing, most executives agreed that more marketing information could be given and 85% of executives agreed that shareholders were "entitled" to be informed about a company's main assets which includes brand equity. Analysts questioned also agreed that more information on market and brand equity should prevail in annual reports.

The research showed that the most admired companies were those displaying the most marketing information. In addition, the research showed that analysts confirmed that companies who consistently disclosed marketing related information were outperforming the FTSE index. From the shareholders point of view disclosure meant that management saw a professional understanding of the market as important (Ambler, 2002:48), thereby increasing transparency.

***Disclosure***

There is a debate on how much of the market metrics should be revealed in public available documents such as annual reports. Arguments against divulging marketing information are competitive confidentiality, potential misuse by the press, different disclosure rules per country and multinational companies disclosing too detailed information for example on segmentation and customer metrics. Research (Ambler, 2003:211) amongst UK companies shows that although confidentiality was the reason for not disclosing market statistics, the majority of companies acknowledged that the competitors already had the information. Commercial confidentiality can be a real concern and Ambler (2003:254) suggests that companies could review disclosure on a metric-by-metric basis with auditors. Marketing metrics and marketing information are key determinants of future cash flow. Showing key metrics shows that management is monitoring, evaluating and managing the business.

***Corporate Governance***

Corporate governance issues causing the demise of companies such as Enron and WorldCom have increased the pressure for companies to reflect more accurately the state of the company, improved accountability and transparency. Disclosing a cross-section of professionally gathered marketing metrics will add to transparency (Ambler, 2003). Companies with superior information transparency signal better corporate governance (Chiang and Chia, 2005:95). Other arguments for disclosing market information are achieving shareholder and investor respect, thereby leading to higher share prices and improved investor relations. (Ambler, 2003:214).

**Creation of Shareholder Value**

Approximately 60% of shareholder value resided in intangible assets (Sampson, 2007:29). Excluding brand value can lead to the worth of companies not reflected fairly. In addition, brands are resources that can generate future economic benefit for a company (Sinclair, 2007:26). A strong brand can be a competitive advantage and can for example result in negotiating lower distribution costs. It is likely that 80% of the shareholder value comes from approximately 20% of brand market units (Ambler, 2003:35). Therefore managing brand equity and reflecting this in annual reports is a crucial as it transfers value from the market to the shareholder.

Understanding a brand as a financial asset and key driver of shareholder value is gaining in importance. The current trend is to acknowledge and increasingly incorporate the worth of intangible assets. 70% of company value is linked to intangible assets, the largest being the brand (Henderson, 2004:6). One key indicator of a company's performance on the stock market should be the strength of a brand (Henderson, 2004:6). Companies with strong brands consistently outperform their main stock market indices while companies with weak brands underperform. This is according to worldwide research, including stocks of S&P 500, Fortune 100 and FTSE 100 (Henderson, 2004:6). Disclosing market information can achieve shareholder and investor respect, resulting in higher share prices and improved investor relations. Kirschenheiter's (1997) research results show that the more information about share values such as a well known brand was available, the more positive it impacted on share prices despite the balance sheet not showing this. In addition, in their research Bowd and Bowd (2002) showed that reputation can be attributed to a large degree to market valuation (i.e. share price).

In capital markets success is measured in terms of shareholder added value. Strong brands result in greater returns for shareholders while doing so at a lower risk level (Madden, Fehle and Fournier, 2006:224). Research by Madden *et al* (2006:225) correlated stock prices and brand value and showed that changes in brand equity are associated with changes in the value of a company. Strong brands result in a performance advantage i.e. create shareholder value by achieving higher returns relative to the relevant market benchmark. Studies conducted by Interbrand 'most valued brands' in 1995/6 showed that a positive relationship between financial brand value and market-to-book value ratios existed (Madden *et al.*, 2006:225). Further studies in 1998 showed that brand values are significantly and positively related to stock prices and returns and a study in 1993 showed that brand equity made up a large component (15%) of the replacement value of a company. Another study by Conchar, Crask, Zinkhan in 2005 (Madden *et al.*, 2006:227) showed a significant positive relationship between a company's advertising and promotional spend and the market value of the company, therefore giving support to the brand-building activities and financial performance of a company. The empirical study conducted by Aaker and Jacobsen (1994) showed that brands create shareholder value. However, creating shareholder value is not only created through higher stock returns or better market capitalization, but only if company's returns are higher in comparison to other investment opportunities, taking risk into account (Madden *et al.*, 2006:231).

Approximately 85% of UK companies agreed that shareholders had the right to information about brand equity which often was the company's most valuable asset. However, only a few companies displayed metrics to their shareholders. 40% of the sample had up to five market performance indicators but the average number was two indicators. Half of the companies surveyed used sales volume, product distribution (availability) and new product launches within the year as their only indicators (Ambler, 2003).

A company's financial performance cannot be property evaluated without considering brand equity (Ambler, 2002:47). Brand equity often is the main reason for a company's market capitalisation exceeding its book value (Ambler, 2002:47). However, the move is away from a single measure to incorporate different aspects of a brand and market performance. This is known as marketing metrics which should be reported to shareholders in order for them to understand where the cash is coming from. Ambler (2002:47) states that the issue about a brand is not merely whether it should appear on the balance sheet but to inform shareholders about the condition of assets and what the company is doing to build them. Shareholders are entitled to know how their company approaches the creation and management of cash flow (Ambler, 2002:47).

**Challenges to overcome**

Very little marketing information is reported in annual reports (McDonald & Dunbar, 2004:4). Ambler's (2003:307) recommendations based on the research suggested that companies and shareholders would gain from reporting on marketing performance and brand equity in their annual reports.

Some of the challenges according to Webster (2005:6) are that there are few incentives for executives to move away from the transaction based generally accepted accounting principles and securities regulations which often ignore to support customers' interests.

***Non-financial Information & Terminology***

This necessitates non-financial information, for example behavioural (consumer loyalty and market penetration) and cognitive information (people's attitudes and awareness) to be gathered and reflected in annual reports. In addition marketing practitioners need to understand and apply financial terms, whereas executives need to understand what marketing entails and how it can be measured. A mutual understanding needs to be created as to the company's definition of brand equity, understanding, valuation and agreement on usage of marketing metrics and their reflection in annual reports.

***Long term perspective***

Investment guru, Warren Buffet, judges a business amongst others according to attractiveness of its long-term prospects and the firm's capacity to create value. Executives need to take a long term view and not only focus on short term gains.

***Customer Orientation***

Experts state that marketing indicators need to be more closely aligned to customers and competitors. Cash comes from customers (Ambler, 2003:23) but often companies do not know their segment's profitability and future intentions, according to Cranfield University School of Management study of 500 leading European companies (McDonald and Dunbar, 2004:4). Senior UK managers give nine times more attention to spending and counting cash flow than figuring out where it comes from or how to increase it (Ambler, 2003:1). Customer orientation and innovativeness is central to long term success of a company.

***Segmentation***

Although the cost of dealing with a customer determines profitability, the Cranfield University School of Management study of 500 leading European companies has shown that very few organizations measure segment or customer profitability (McDonald and Dunbar, 2004:4). The annual report should give an indication of management's understanding of and importance placed on customers.

**Measuring Marketing's Performance**

Madden *et al* (2006:224) point out the different schools of thought pertaining to functional areas of finance and marketing, resulting in different tools for marketing performance measures. These include Srivastava's marketing based asset model, the discounted cash flow method, Kaplan and Norton's balanced scorecard, the Scandia navigator and economic value added (EVA) approach. EVA focuses on better financial performance measures while tehbalanced Scorecard highlights the importance of including non-financial measures, emphasizing longer term measures such as customer satisfaction and defection rates and employee satisfaction.

### *Marketing based Asset Model*

Srivastava *et al* (1998:8) developed a framework for assessing the impact of marketing on shareholder value by using market based assets. These assets (e.g. customers, channels, partner relationships) improve shareholder value by accelerating and improving cash flow, lowering vulnerability and volatility (i.e. risk) of cash flow and increasing residual value. Marketing professionals therefore need to measure and demonstrate their value creation of future performance. To grow shareholder value a company must grow and refine its customer base, focus on longer term customer relationships and loyalty. This will result in more stable business and therefore lower cost of capital, culminating in shareholder value.

### *Balanced Scorecard*

Kaplan and Norton's balanced scorecard takes a holistic view and increased cross-functionality by integrating four perspectives, namely financial, customer, internal business and innovation/ learning (Yeniyurt, 2003:136). The scorecard assists management by translating the vision, communicating the strategy and linking it to departmental and individual objectives, assisting with the planning function and providing feedback measures. Ambler (2003) has used the same principles to refine measurements specifically aimed at the marketing function.

### *Scandia Navigator*

The Scandia navigator was developed to incorporate the worth of intangible assets, namely intellectual capital. It also places value in its measurement on the human perspective emphasizing employees' satisfaction (Yeniyurt, 2003:136). Ambler (2003:177) emphasizes employees as an integral part of internal communication and suggests ways of measuring these. However, Ambler does not focus on measuring knowledge or intellectual capital, but emphasizes the importance of measuring "innovation" which can be seen as part of the learning and knowledge process.

### *McDonald's Model*

McDonald (2006:428) proposes a model that incorporates marketing as a function for strategy development as well as for tactical sales delivery. He proposes three levels of measurements. Level one, the most important, defines the markets and understands its value. Level two and three focus on the measurement of marketing metrics.

### *Discounted Cash Flow*

Strong brands, customer awareness, market share and satisfied customers are "not goals in their own right but means to create shareholder value" (Doyle, 2001:21). Brands need to create shareholder value by maximizing the discounted value of future cash flows (Doyle, 2001:29). Creation of value depends on a company's strategy and on the economics of the markets in which these companies operate. Marketing, however, does play a key role in driving shareholder value, but financial concepts have to be understood. The present value of a brand's future cash flow is a function of and should result in an increase in cash flow, in the speed of the cash flow as well as extended duration of cash flow or reduction in risk of cash flow (Doyle, 2001:26). If this does not occur, managers should not focus on the brand. Not understanding shareholder value can lead to inappropriate allocation of resources preventing a company to find new more profitable markets. However, brands have to be invested in.

**Measuring Brand Equity**

Brands have different meanings and can be interpreted as their value to the customer, value to the company or value in terms of competitive advantage (Ambler, 2003:42). Experts (McDonald & Dunbar 2004; Ambler, 2003) believe that quantifying for example brand equity into traditional financial data is not sufficient. Brand equity is a long term performance indicator and adjustment need to be made when using the measure in the short term. If marketing is seen as an investment, then this should be measured and reflected in an increase or decrease of brand equity. Brand valuation should be assessed according to their worth, but should not be the sole measurement of brand equity. The assessment needs to include non-financial drivers, take account of changing influences. Measures should be related to benchmarks or norms and expressed in relative terms to competing alternatives (Ambler, 2003:29; Uncles, 2005:414) and an explanation should be provided on how for example brand loyalty is calculated as it can be ambiguous otherwise.

Uncles (2005:414) points out that deciding on which metrics to use can be contentious. Allio (2006:255) suggests to use a small set of critical multidimensional metrics which are aligned to company strategy and which convey more than simple budgetary indications. Davis (2002:355) suggests the use of a brand asset management model and that brand metrics should be based on SMART, namely strategic alignment, must be market driven (understanding the cause of measure through “the market’s eyes not company’s internal lens”), give guidance as to action required, repeatable and consistent and have touch points covering customer experience. Brand metrics should be presented in quantitative and qualitative format. Performance measurement systems according to Yeniyurt (2003:138) should focus on value creation process and the measurement system should involve five perspectives, namely financial, customer, internal processes, innovation and organisational culture and climate, especially in multinational companies. Including organization culture and climate in the measurement framework will complement forward-looking measures. Uncles (2005:416) points out that marketers should not loose their creativity. Metrics should nurture innovation and entrepreneurial spirit (Uncles, 2005:417) and people skills should not be ignored, despite difficulties in measuring them. The notion of measuring innovation and various aspects relating to employees is also strongly supported by Ambler (2003:177).

***Internal Marketing***

The two main internal indicators of marketing performance according to Ambler (2003) are innovation and employees and should be included in marketing metrics. Innovation is not driven by the external market but arises from within the company. Strategic leadership is necessary as culture and processes are only the enablers (Ambler; 2003:154). Creating a corporate brand requires a holistic approach. The external and internal reputations of a brand are inextricably linked because customers form their impression from interaction with employees (Ambler; 2003). Sustainable advantage can be obtained through excellence of execution as this is where contact with the customer occurs and not through its strategy (Brown; 2005). This leads to the need of internal marketing and empowering people in the organization who are in direct contact with customers.

***Performance Measure Characteristics***

Before applying any measures, the company needs to have clearly defined its brand positioning, target markets and segments. Performance can be assessed in terms of comparing current achievement against previously determined internal goals (namely the baseline), against external benchmarks such as market indicators and competitors (taking adjustments into account) (Ambler; 2003:26). Instead of reporting in absolute numbers, companies should consider reporting in relative prices to their competitors. Metrics should provide direction in line with company strategy while enabling control. Metrics need to add information and very volatile or static metrics should be excluded. Metrics need to be prioritized and the sector that matters most gets preference. Metrics should provide usable information which is of value to the organization. The measures should not only predict success but should also point out potential problems. Companies should spend less time planning and rather compare planned with actual metrics and analyzing the differences (Ambler; 2003:29).

Ambler (2003) suggests that companies should state the usual three financial measures (sales, cost, profit) with six general brand equity measures, adding approximately twelve tailored corporate specific metrics to the measurement. This enables industry comparison while retaining company specific performance measures.

***Implementation of Metrics***

Successful implementation of professional marketing metrics can be enhanced if an audit is conducted to assess the stage of market orientation within the organization and its current use of metrics. In order to choose metrics, candidate metrics need to be compiled and verified. Preference of these reporting units should be given to the value they add to shareholders. The major units need to be reported on individually while minor ones are averaged. For marketing to be perceived as playing a central role in an organization, it must integrate across specialized silos within marketing and across functional business units and other managerial disciplines in order to leverage from synergies, to provide value to the customer (Brown, 2005) and to report on metrics.

Consistency in measuring is essential, otherwise it looses its meaning (Ambler; 2003:123). Ideally marketing should be represented on board level and to inform the board annually or bi-annually on key marketing performance metrics. This gives an opportunity for assessing shareholder needs and improving relations. The traditional way of budgeting according to historical expenditure is not necessarily optimal, depending on the strategic aim. The company needs to look at strategic alternatives and their outcomes in combination with financial evaluation. The levels of expenditure necessary to achieve higher income need to be assessed, aligned and correctly allocated.

## Methodology

To achieve the objectives of this study 2006/7 annual reports are analyzed from a cross-sectional sample of 30 companies listed on the Johannesburg Stock Exchange (JSE). The sample constitutes 7% of the population of 455 companies. The main sectors include retail, food and beverage, financial services and media, although samples from technology and telecommunications, travel and leisure, chemicals and construction are also present.

Quantitative and qualitative data is analyzed via content analysis assessing all the sections of the annual report, including chairpersons and chief executive officer's report, operational review, sustainability report and other sections. The data is evaluated based on a checklist. Each element on the checklist is allocated a mark according to a five point rating scale (ranging from level 1 very poor to level 5 excellent). In addition general trends are noted with examples as reference. The quantitative checklist is based on Ambler's (2003) suggested marketing metrics which are based on guidelines drawn up by Accounting Standards Board in London in 2002. The qualitative data is compiled from various academic sources.

In addition, the information obtained is compared to information required by investors and to arrive at a grand total maturity model. A total rating score per company is obtained by summing up all the 23 elements assessed in this analysis to arrive at a grand total maturity model. The five levels of the model assist with depicting the overall information on marketing metrics and marketing information contained in annual reports of JSE listed companies.

The brand equity elements which are assessed pertain to familiarity/ awareness, penetration, reputation, customer satisfaction, customer loyalty, availability/ distribution channel. Further aspects (each with their own elements) which are assessed are other customer metrics, segmentation, competition, innovation and environmental and strategic aspects. Other customer metrics refer to market share or market presence, relative price or pricing strategy and sales to new customers. Segmentation elements are based on McDonald and Dunbar (2004) and include % of profits in total market produced by segment, ratio of profit produced by segment to weight of segment in total population, % defection rate and customer retention rate by market segment, extent to which profitability of top ten customers are known and reflected. Environmental and strategic aspects assess whether external factors influencing marketing trends are discussed and whether risk factors influencing cash flow are mentioned. Other aspects include whether key marketing performance indicators are stipulated and aligned to company strategy, whether the chairman's review supports marketing and quantifies the main marketing assets.

## Research Results

The trend appears to be that the majority of companies supply very limited information on marketing metrics and marketing information.

The quantitative information in general is not answered well, with none of the companies mentioning marketing investment.

The research findings of this sample of JSE listed companies show a bi-modular tendency pertaining to brand equity metrics. The results on overall brand equity show that half (53%) of the companies do not provide any or poor information on their brand and customer attitudes and feelings towards it. However, 26% of companies supplied good and excellent information.

The findings for elements of brand equity are as follows: The majority of companies reported poorly on brand familiarity (63%), penetration (57%) and reputation (57%) and customer loyalty (60%). Slightly improved results are obtained for customer satisfaction where nearly half of the companies (47%) provide good or excellent information. The aspect of availability is answered by more than half of the companies (56%).

When comparing sectors the food, media and retail perform similarly, although results show that the financial sector performs worse than the technology sector.

Nearly a quarter of the companies (23%) provided good information on overall market share or presence, whereas only three (10%) companies provide information on pricing and only five (17%) provide information on sales to new customers.

Segmentation metrics are generally not reflected in annual reports.

The vast majority of companies (93%) do not mention competitors. Only 2 companies (7%) refer to their competitors.

Half of the companies provide information on aspects pertaining to innovation, although the vast majority (90%) do not show revenue gained due to launches during the past year.

Environmental aspects influencing market trends are covered by two thirds of the sample, however a third of the sample does not provide information or only insufficiently. However, when referring specifically to risk factors influencing cash flow or market segments, companies perform less well with nearly half (49%) not providing any or insufficient information. A bipolar tendency is evident when assessing whether marketing is stipulated and aligned to strategy. Eleven companies (38%) did not provide any information as opposed to eleven companies (38%) which gave excellent information and where alignment between strategy and marketing was evident. Similar results are obtained when reviewing whether the chairperson's report mentions aspects pertaining to marketing. The findings show that there is a direct correlation between strategy and brand equity.

Other findings include that no standard reporting format exists. Information pertaining to marketing is spread throughout the annual reports. None of the companies provide a glossary of marketing definition or brand terminology.

When comparing these research results to information required by investors, this study shows that sometimes none of the companies provide information whereas at best only one third of the companies provide the relevant information necessary for investors to make a good investment decision.

When combining all the marketing related elements (financial, brand equity, other customer and segmentation metrics, competitors, innovation and aspects pertaining to environmental and strategic aspects) analyzed in this research and summing them up into a grand total score, it becomes evident that nearly two thirds (60%) of companies obtain a score of less than 50%, in other words providing insufficient information. On the other hand, 27% of companies provide good and excellent information.

## Conclusion and Implications

The objective of marketing should be to increase long term cash flow because increase in cash flow determines shareholder value (Doyle, 2000:257). The present value of cash flow is based on the level of cash flow, its speed, duration and risk. By reading an annual report an investor should be able to assess whether a company has an effective customer value proposition, whether the brand is integrated into a business value chain, the brand's attractiveness compared to competitors and whether brand strategy is geared towards maximizing shareholder value, by for example, using the optimal marketing mix to achieve maximum net present value of a brand's future cash flow.

This research shows that the extent to which quantitative metrics and qualitative marketing information disclosed in annual reports of companies listed on the JSE during 2006/7 is not sufficient in giving an overview of marketing performance and therefore not sufficient for investors to make a well informed investment decision.

The majority of companies do not display quantitative metrics such as financial, brand equity, other customer and competition metrics as suggested by Ambler (2003) and on which this research is based. The vast majority of companies present no or very little information on segmentation as suggested by McDonald and Dunbar (2004). More and better information is presented in annual reports on innovation and environmental and strategic issues pertaining to marketing, with environmental and strategic aspects taking a more narrative form. The tendency is for companies to display more in-depth and better qualitative information than disclosing quantitative information in their annual reports. Major differences by sectors are not prevalent but more sector specific future research might be advisable to substantiate conclusive findings.

It is worthwhile noting that the majority of companies (53% when taking the total brand equity and 60% when taking the grand total maturity score into consideration) provide insufficient information on marketing in their annual reports. This shows that the majority of companies do not display marketing metrics and marketing information in a meaningful and useful manner.

Information pertaining to marketing investment, competition and segmentation has not been reported on by the vast majority of companies. Marketing investment is important in the creation of long term gain such as stronger brand equity and enhanced customer loyalty. Knowledge on key competitors should form part of the marketing function and is essential for industry analysis to enable a company's positioning and strategy. Segmentation forms an essential part of marketing as relative attractiveness of target segments differ and companies should focus on segments which are aligned to their corporate strategy. By not providing sufficient information pertaining to marketing investment, competition and segmentation in annual reports, companies create the impression that management does not know how to measure these aspects or does not value these aspects sufficiently to reflect upon them in annual reports. Not providing sufficient information can also be interpreted as a lack of responsibility towards external investors and stakeholders.

However, apart from marketing investment all other qualitative aspects analyzed in this research are reported upon by some companies (for example one third of annual reports contain good or excellent information on brand equity). Therefore, despite the challenges of reflecting marketing metrics and marketing information, it is possible for companies in their annual reports to disclose suitable marketing metrics and information.

Shareholders should be viewed as customers and communications therefore plays an important role. Communications and the message sent to shareholders should not differ from the message sent to other stakeholders such as employees or consumers. Disclosing marketing metrics forms part of professional marketing of the corporate brand to investors. Management can build trust and build the corporate brand by displaying and sharing knowledge with shareholders on marketing metrics (Ambler, 2003:217).

The understanding of the role and function of marketing and brand equity varies amongst corporate companies. This is evident in some annual reports where a high variance of scores amongst brand equity elements is apparent. Those companies that do not have a good understanding of the role marketing can play and the importance of integrating the worth of the brand into the whole organization, have displayed a sub-optimal brand structure and non-alignment of strategic goals. This is supported by the high correlation between brand equity and marketing alignment to strategy.

A lack of marketing knowledge can result in a potential loss of income. This could be a conclusion by the reader if companies do not reflect the marketing information and explanations sufficiently in annual reports.

Those companies which have demonstrated a holistic approach and inclusion of the marketing function in long term strategic goal setting, have created a good base for investor confidence. The majority of annual reports however make it difficult for an investor to make an informed decision because of the limited knowledge provided.

There seems to be some lack of understanding of the value in assessing or reporting on what customers think, feel and customer loyalty and how marketing can add to the worth of an organization. Brand familiarity or awareness presents the customer's or target market's knowledge of the company giving an indication as to long term trends such as loyalty and purchase behaviour. Penetration gives an indication whether a segment is growing or declining and good reputation and high customer loyalty can provide a company with competitive advantages. All of these factors give an indication as to the company's future strategy, goals and growth potential, all of which are important to investors' long term interests. Despite these advantages, nearly two thirds of companies (between 57% and 63%) report poorly on these elements of brand equity. Other customer metrics such as price elasticity or pricing and sales to new customers is not mentioned by the vast majority of companies, despite sales to new customers being a direct indication of growth achievements during the past year.

Marketing can function as the link between understanding the consumer's point of view and assist with creating a consumer-first attitude. Marketing can assist with building up brand asset. Only by consistently reporting on all brand equity elements can marketing become better understood, adding to good corporate governance and providing the information necessary for good investment decision.

Annual reports should give some indication as to the future growth prospects and strategy of a company to entice or inform investors and stakeholders. It is therefore advisable to incorporate information on innovation, environmental and strategic aspects and their effect on marketing.

Innovation can be the differentiating factor in creating competitive advantage for a company. Ambler (2003:172) argues that innovation does not arise from the external market but is driven by the company internally. Companies elaborating on their innovation capabilities in annual reports demonstrate their commitment to continuous adaptation and change. Despite the importance innovation can contribute to a company's success, the results of this research show that only half of the annual reports cover the topic 'innovation' and 'initiatives'.

External factors influencing marketing trends and environmental influences on marketing performance are highlighted by two thirds of annual reports. Key risk factors affecting to marketing and chairperson's support for marketing or customers is addressed in just over half of the annual reports, whereas nearly half of companies do not show any marketing alignment to strategy. Marketing goals and strategy arises out of analysis of current business performance, market attractiveness and competitive advantage (Best, 2005:339). Not disclosing marketing alignment to corporate strategy can be an indication that marketing analysis (or business strategy analysis) is not performed properly, which in the long term is likely to result in deterioration of business performance.

Some general trends which become evident in annual reports are selective reporting on for example certain segments or brands, no uniform reporting standard, lack of knowledge on marketing, use of general terminology and misuse of marketing terminology and at times raising problems without providing solutions. These trends encompass a wide spectrum of challenges which cannot all be solved by improving on marketing information in annual reports.

The percentage of companies providing the required information in annual reports as stipulated by investors varied from nil to 43%. In other words, less than half of the listed companies provide the information deemed necessary by investors to make an investment decision. In this research marketing investment is not mentioned at all, whereas pricing and key competitors are each only addressed by one company. Market share, innovation, brand awareness and customer satisfaction is answered well or very well by less than 40% of annual reports analyzed in this research. These results show a poor level of reporting in annual reports and substantiate previous research by the Cranfield University School of Management (McDonald and Dunbar, 2004:6) and others.

The scoring as per the grand total maturity model shows that a third of companies are at a very low maturity level 1, implying that no information is provided and companies are unaware of marketing as an asset. More than one quarter of annual reports are rated at maturity level 2, indicating use of generalization and vague statements and at times misuse of marketing concept and terminology. On the other hand, one quarter of companies are rated at maturity level 4 and 5, providing good or excellent information displaying a distinct market focus and providing substantiated qualitative and quantitative information. Although the level of companies providing sufficient information on all marketing aspects measured in this research in their annual reports is low, these companies are from various industry sectors which shows that it is possible for companies to progress to a higher level and to display good marketing information in annual reports.

Annual reports can become more valuable to investors, analysts, other stakeholders and ultimately the company's performance if companies disclose financial and non-financial marketing measures and providing information on their brand, competitors, customers and marketing strategy in a more in-depth, substantiated and long term view.

## Recommendation

Shareholders own the assets of a company and it is managements' duty and responsibility to protect and create shareholder wealth. The main recommendations pertain to improved disclosure of marketing metrics and marketing aspects in annual reports. These are as follows:

Companies are advised to communicate their marketing approach and to use standard marketing metrics in annual reports. These should include financial as well as non-financial performance measures and qualitative information. Companies are advised to disclose information on their marketing investment, brand equity, competitors, customer measurements and segmentation, innovation and environmental and strategic aspects and to report on them in the following manner:

- Financial Aspects such as sales or profit growth should be compared with internal goals and against external benchmarks (either industry norm or key competitors).

- Some indication should be given as to percentage of total investment into marketing.

- By including and documenting brand equity aspects, companies can create a more positive perception about their capabilities and growth prospects. Total brand equity and brand equity elements should be reflected as well as brand architecture and structure.

- It is strongly recommended to include a brief analysis of the competitive environment and key competitors.

- Annual reports should give some indication as to company's various customer segments.

- It is recommended to include a section giving an overview of marketing strategy.

- Marketing is defined in various ways and therefore annual reports should include a marketing glossary and marketing terminology index to create uniformity and a better understanding of the marketing construct.

In addition it is recommended that a standard reporting format be developed to improve communications and to make it easier for investors and stakeholders to find marketing information in annual reports.

It is also recommended that all companies listed on the JSE should be obliged to report on specific marketing items. These could for example include information sought by investors.

Finally, companies can assess their current status in terms of the grand total maturity level as reflected in their annual reports. Being aware of their current status and baseline can assist companies in driving towards improved marketing knowledge disclosure.

Properly reflecting marketing performance measures and strategic marketing factors in annual reports will result in improved monitoring of performance, improved transparency and corporate governance and better investor relations.

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# Appendix

## ANNEXURE 1

### Financial Metrics Checklist

| Sample | Actual metric | % growth compared with goal and/or prior year | % growth compared with competition |
|---|---|---|---|
| Company A | Sales | Volume/value | Market share |
| | Marketing investment | Period cost | Share of voice e.g. advertising |
| | Profit/ loss | e.g. economic profit | Share of profit |
| | Market/ customer profitability | | |

(Source: Adapted from Ambler; 2003:126 and ICAEW report in Ambler; 2003:264)

## ANNEXURE 2

### General Marketing Metrics Checklist

(Adapted from Source: Ambler; 2003:136, and ICAEW report (Ambler;2003:264) and Payne, A (1999) in McDonald & Dunbar; 2004:6) )

| | Source | Brand Equity Metric | Measured by |
|---|---|---|---|
| 1. | Ambler, T | Degree of familiarity | Salience, i.e. familiarity to other brands in the consideration set |
| 2. | Ambler, T | Penetration | Number of customers or number of active customers as % of intended market ; What customer groups/ segments make up sales |
| 3. | Ambler, T | What customers think about brand (degree of image/reputation) | Brand preference as a % of preference of other brands within the consideration set or intention to buy or brand knowledge |
| 4. | Ambler, T | What customers feel about brand (audience perception/ customer satisfaction) | Customer satisfaction as % average for the consideration set |
| 5. | Ambler, T | Customer loyalty and retention | This may be behavioural (Share of category requirements, repeat buying, retention, churn) and/or intermediate (commitment, engagement or bonding) |
| 6. | Ambler, T | Availability/ distribution channel | Distribution, e.g. weighted percentage of retail outlets carrying the brand |
| | | **Other Customer Metrics** | |
| | Ambler, T | Market share/ market presence | |
| | Ambler, T | Relative Price | |
| | Ambler, T | Sales to new customers | |
| | | **Customer Segmentation Metrics** | |
| | Payne, A. | % of market represented by segment | |
| | Payne, A. | % of all profits in total market produced by segment | |
| | Payne, A. | Ratio of profit produced by segment to weight of segment in total population | |
| | Payne, A. | Defection rate (%) | |
| | Cranfield University | Customer retention rate by market segment | |
| | | Actual/ potential customer or segment/ customer lifetime value/ Top 10 customers known | |
| | | **Innovation Metrics** | |
| | Ambler, T | Number of initiatives in process | |

| | | | |
|---|---|---|---|
| | Ambler, T | Number of innovations launched | |
| | Ambler, T | % revenue due to launches during last three years | |
| | | **Competitors** | |
| | | Are key competitors mentioned | |
| | | Is the % of market share of competitor mentioned | |
| | | Are the brands of competitors mentioned | |
| | | What message and/or medium do the competitors use | |
| | | Are the number of launches by competitor mentioned | |
| | | **External / Internal Factors** | |
| | | Are current external factors influencing the market trend mentioned? | |
| | | Are the environmental influences on performance measures discussed? | |
| | | What are the key risk factors influencing cash flow/ Is the risk assessment performed for each segment | |
| | | Are the marketing performance indicators stipulated and aligned with company strategy milestones? | |
| | | Does the chairman's report involve quantified review of the main marketing assets and how it has changed? | |

## ANNEXURE 3

## Grand Total Maturity Model

Adapted from Ambler's Five Stage Maturity Model (Ambler, 2003:94)

Ambler (2003:94) has developed a marketing performance assessment model. There are five levels of maturity reflecting companies' assessment concerning the importance of marketing and marketing assets. By adapting Ambler's model, the following criteria have been used to allocate levels of maturity of companies in terms of marketing metrics and information conveyed in annual reports.

To obtain an overall rating (namely the grand total) per company, 23 factors reviewed in this research were summed up and equally weighted with lowest mark allocation being 23 and highest 115 marks. The factors surveyed include all elements of brand equity, elements of segmentation, innovation, competition and environmental and strategic factors as per the checklist.

Level 1 : The range of marks is between 23 and 34 marks (below 33%)

Very poor
No information provided
Company is unaware of marketing as an asset.
Marketing does not require formal attention and requires no mentioning in the annual report.

Level 2: The range is between 35 and 57 marks (between 33% – 49%)

Poor
Some general and vague information or statement pertaining to marketing or customer is made but not substantiated
The marketing concept and terminology is misunderstood and inappropriately used

Level 3: The range of mark allocation is between 58and 79 marks (between 50% - 69%)

Average
Some information is given with explanation or substantiation
Information and examples are used selectively
No detailed overview is given
Some measurements exist selectively

Level 4: The range is between 80 and 91 (between 70% - 80%)

Good
There is a market focus
Good and relevant information is provided on most elements, namely brand equity, customer measurements, segmentation, innovation metrics, competitors, environmental factors
Non-financial aspects and quantitative measurements are both present

Level 5: The range is between 93 and 115 marks (between 80% - 100%)

Excellent
A lot of information and detail is provided with examples
Information is professionally presented
Information provided is substantiated and scientifically analyzed

## Annexure 4 List and Description of Companies

| Sector | Company | Description |
|---|---|---|
| **Retail** | RexTrueform | The company manufacturing and retailing men and women fashion, the “Queenspark” brand with outlets in SA and Australia and two franchises in Namibia and Botswana. |
| | Massmart | Massmart is a managed portfolio of 9 wholesale and retail chains. These are “Game”, “Makro”, ”Builders Warehouse”, “CBW”. |
| | Woolworths | Woolworth’s Holdings includes Woolworth’s retail (mainly food, clothing, home ware), and Woolworth’s financial services, Country Road Ltd which operates in Australia, New Zealand and SE Asia. |
| | New Clicks | The company is made up of brand retail stores: “Clicks”, “Diskom”, “Musica”, “The Body Shop”, “Style Studio” with 660 stores in southern Africa, focusing on home ware , health, entertainment and beauty. |
| | Pick n Pay | It has three main divisions, namely retail, group enterprise and Franklin’s in Australia. |
| | Ellerine | The group has 13 retail brands in furniture and appliances sector with 1156 outlets. Its five divisions consist of credit retail (e.g. “Rainbow Loans”, “Green & Richards”), value retail and decorating (e.g. “Wetherlys”, Ösiers”, “Furniture City””, “Mattress Factory”), financial services and services (e.g. “Early Bird”). |
| | Spar | Spar is present in southern Africa and consists of the food retail brands “Superspar”, “Kwikspar”, “Spar” and “Build It” (retailer in hardware and building material) and “Top Spar” (liquor retail). |
| **Food & Beverage** | Oceana | Fishing, production, distribution of fishmeal and marine products and commercial cold storage. Company has various brands, including “Lucky Star” and “Glenryck”, export and distribution to UK and Africa. |
| | Rainbow Chicken | SA’s largest processor and marketer of chicken. Main brands are “Rainbow Chicken”, “Farmer Brown”, “Rainbow Food Solutions” |
| | SAB Miller | One of world’s largest brewers with brewing interests and distribution agreements in over 60 countries across 6 continents. Six of its brands are part of the world’s top 50 beer brands; also one of largest bottlers of Coca-cola products in the world. |
| | Astral Foods | Is a SA food group with key activities in animal feed, animal feed pre-mix, broiler genetics and broiler operations, production and sales of day-old broilers and hatching eggs. The group activities are performed under various brand names e.g. “Country Fair”, “NuTec”. |
| | All Joy | Develops, procures, produces a range of tomato sauces, mayonnaise, salad creams, special sauces, drinking chocolates, other condiments and preserves. Annual report does not mention any brand names. |
| | AVI | AVI is a consumer brands company focusing on food, beverage, fashion brands. These include “I&J”, “Denny”, “National Brands Ltd”, The Real Beverage Company”, Ä&D Spits”, ”Ïndigo Cosmetics”. |
| | Distell | Produce and market wines, spirits, ready-to-drink alcoholic beverages and export internationally |
| **Financial Services** | Brait | Brait is an international investment and financial services group focused on private equity, corporate finance, group investments and specialized funds. Clients are listed and unlisted companies, government institutions, high net worth individuals. Investments are made in southern Africa, Europe and North America. |
| | Brimstone | This investment corporation invests private equity into mainly branded consumer goods, healthcare, fishing and financial services sector. |
| | Nedbank | It is one of the four largest banks in SA and offers wholesale and retail banking through 3 main business divisions. These are Nedbank Corporate, Nedbank Capital, Nedbank Retail and include a joint venture with Imperial Bank offering motor vehicle |

| | | |
|---|---|---|
| | | financing under the brand "Motor Finance Corporation". |
| | Mercentile | This banks forms part of a holding company in Portugal and provides international and domestic banking services and insurance brokerage services. |
| | Metropolitan | Transformed from life insurance to financial services group in SA consisting of health, retail, government employees medical scheme, asset management, collective investments. |
| **Media** | Caxton | A publishing company in SA |
| | Kagiso | A SA broadcasting and entertainment company with three main divisions consisting of radio (East-Coast, Jacaranda, Heart 104.9, Kaya FM, etc) , online information solution "Lexis Nexus" and exhibition business. |
| | Naspers | It is a multinational media entity with operations in Africa, Europe, USA, South America, South-East Asia, Russia. They have operations in pay TV, internet, instant messaging subscriber platforms and provision of related technology, printing and distribution and publishing of magazines, newspapers and books. |
| **Technology &** | Dimension Data | The company plans, builds, supports and manages IT infrastructure solutions. It specializes in network infrastructure and solutions based on network-reliant technologies like security, IP telephony, storage and contact centres. IT is an IT service and solutions provider in 35 countries with approximately 6000 clients and 10 000 employees. |
| **Telecommunications** | DataPro | Integrated telecommunications, an alternative telecom operator in SA providing voice and data services to southern Africa. It's primary brands are "Data Pro", "@tlantic International Services" and "VoxTelecom". |
| | Altron | The company works towards consolidating its position as leader in the telecommunications, power electronics, multi-media and info-technology sector in SA. It has 3 main operating groups: Altech, Bytes and Powertech. |
| **Travel &** | Comair | The airline has two leading brands, namely "British Airways" and "Kulula.com". The company refers to itself as "SA's biggest on-line retailer". |
| **Leisure** | Gooderson | Provides accommodation, food and beverage and restaurant services to leisure, international and conference tourists. Their product and service offering includes time share resorts, financial services, properties, hotel and lodge management. |
| **Construction** | PPC | The Pretoria Portland Cement (PPC) company provides cement (e.g. under brand "Surebuild") and is a subsidiary of Barlworld Ltd. |
| | WBHO | Wilson Bayly Holmes-Ovcon Ltd (WBHO) are one of the leading building and civil engineering contractors in southern Africa. |
| **Chemicals** | Afrox | African Oxygen Ltd (Afrox) is SA's market leader in gases and welding products and is a subsidiary to an international group who are world leaders in industrial gases and engineering. |

## Annexure 5

Detailed notes per company and as per checklist is available on request

## Annexure 6 Annual Reports' Ratings: Brand Equity

### Rating of Brand Equity Elements and Total per Company

| | Sector | Familiarity | Penetration | Reputation | Customer Satisfaction | Loyalty | Availability/ Distribution | Total Brand Equity |
|---|---|---|---|---|---|---|---|---|
| **Rex Truform** | Retail | 1 | 1 | 2 | 1 | 1 | 1 | 1.17 |
| **Massmart** | Retail | 4 | 5 | 5 | 5 | 5 | 5 | 4.83 |
| **Woolworths** | Retail | 1 | 1 | 3 | 3 | 2 | 1 | 1.83 |
| **New Clicks** | Retail | 5 | 5 | 4 | 5 | 4 | 5 | 4.67 |
| **Pick n Pay** | Retail | 1 | 1 | 2 | 1 | 1 | 3 | 1.50 |
| **Ellerine** | Retail | 5 | 4 | 5 | 5 | 5 | 5 | 4.83 |
| **Spar** | Retail | 4 | 3 | 2 | 1 | 1 | 2 | 2.17 |
| **Oceana** | Food | 1 | 2 | 1 | 1 | 1 | 2 | 1.33 |
| **Rainbow Chicken** | Food | 4 | 5 | 5 | 5 | 5 | 5 | 4.83 |
| **SAB Miller** | Food | 5 | 5 | 5 | 5 | 5 | 5 | 5.00 |
| **Astral Foods** | Food | 2 | 1 | 1 | 2 | 1 | 1 | 1.33 |
| **All Joy** | Food | 1 | 1 | 1 | 1 | 1 | 1 | 1.00 |
| **AVI** | Food | 5 | 5 | 5 | 5 | 5 | 5 | 5.00 |
| **Distell** | Food | 5 | 5 | 5 | 5 | 1 | 5 | 4.33 |
| **Brait** | Financial | 1 | 1 | 1 | 1 | 1 | 1 | 1.00 |
| **Brimstone** | Financial | 1 | 1 | 1 | 1 | 1 | 1 | 1.00 |
| **Nedbank** | Financial | 5 | 4 | 2 | 2 | 3 | 4 | 3.33 |
| **Mercentile Bank** | Financial | 1 | 1 | 1 | 1 | 1 | 1 | 1.00 |
| **Metropolitan** | Financial | 4 | 5 | 4 | 3 | 2 | 5 | 3.83 |
| **Caxton** | Media | 2 | 1 | 1 | 1 | 1 | 1 | 1.17 |
| **Kagiso** | Media | 5 | 5 | 5 | 5 | 5 | 5 | 5.00 |
| **Naspers** | Media | 2 | 3 | 1 | 3 | 3 | 4 | 2.67 |
| **Altron** | Technology | 1 | 1 | 4 | 5 | 4 | 1 | 2.67 |
| **Dimension Data** | Technology | 2 | 5 | 3 | 4 | 5 | 3 | 3.67 |
| **Data Pro** | Technology | 2 | 2 | 2 | 2 | 1 | 3 | 2.00 |
| **Comair** | Travel | 2 | 1 | 1 | 3 | 1 | 3 | 1.83 |
| **Gooderson** | Leisure | 1 | 1 | 1 | 1 | 2 | 5 | 1.83 |
| **Afrox** | Chemicals | 1 | 1 | 5 | 5 | 5 | 4 | 3.50 |
| **PPC** | Construction | 1 | 1 | 1 | 1 | 1 | 1 | 1.00 |
| **WBHO** | Construction | 1 | 1 | 1 | 1 | 1 | 1 | 1.00 |

# Annexure 7 Annual Reports' Annual Reports' Ratings: Other Customer Metrics

## Rating of Other Customer Metrics per Company

| | Sector | Market Share/ Market Presence | Relative Price | Sales to New Customers |
|---|---|---|---|---|
| **Rex Truform** | Retail | 1 | 1 | 1 |
| **Massmart** | Retail | 5 | 1 | 5 |
| **Woolworths** | Retail | 1 | 1 | 1 |
| **New Clicks** | Retail | 4 | 1 | 1 |
| **Pick n Pay** | Retail | 1 | 1 | 1 |
| **Ellerine** | Retail | 5 | 1 | 3 |
| **Spar** | Retail | 4 | 1 | 1 |
| **Oceana** | Food | 1 | 2 | 1 |
| **Rainbow Chicken** | Food | 5 | 1 | 1 |
| **SAB Miller** | Food | 5 | 1 | 5 |
| **Astral Foods** | Food | 1 | 1 | 1 |
| **All Joy** | Food | 1 | 1 | 1 |
| **AVI** | Food | 3 | 5 | 1 |
| **Distell** | Food | 5 | 4 | 1 |
| **Brait** | Financial | 3 | 1 | 1 |
| **Brimstone** | Financial | 1 | 1 | 1 |
| **Nedbank** | Financial | 1 | 1 | 1 |
| **Mercentile Bank** | Financial | 1 | 1 | 1 |
| **Metropolitan** | Financial | 5 | 3 | 5 |
| **Caxton** | Media | 1 | 1 | 1 |
| **Kagiso** | Media | 5 | 1 | 1 |
| **Naspers** | Media | 2 | 1 | 1 |
| **Altron** | Technology | 1 | 1 | 1 |
| **Dimension Data** | Technology | 1 | 1 | 1 |
| **Data Pro** | Technology | 4 | 1 | 5 |
| **Comair** | Leisure | 1 | 1 | 1 |
| **Gooderson** | Leisure | 1 | 1 | 1 |
| **Afrox** | Chemicals | 3 | 1 | 1 |
| **PPC** | Construction | 1 | 1 | 1 |
| **WBHO** | Construction | 1 | 1 | 1 |

## Annexure 8 Annual Reports' Ratings: Segmentation

### Rating of Segmentation per Company

| | Sector | % of Market represented by segment | Customer or segment profitability/ % of all profits in total market produced by segment | Ratio of Profit produced by segment to weight of segment in total population | % defection rate | Customer retention rate by market segment | Actual / potential Customer or segment CLV or top 10 customers |
|---|---|---|---|---|---|---|---|
| **Rex Truform** | Retail | 1 | 1 | 1 | 1 | 1 | 1 |
| **Massmart** | Retail | 5 | 1 | 1 | 1 | 1 | 1 |
| **Woolworths** | Retail | 1 | 1 | 1 | 1 | 1 | 2 |
| **New Clicks** | Retail | 5 | 1 | 1 | 1 | 1 | 1 |
| **Pick n Pay** | Retail | 2 | 1 | 1 | 1 | 1 | 1 |
| **Ellerine** | Retail | 5 | 1 | 1 | 1 | 1 | 1 |
| **Spar** | Retail | 4 | 1 | 1 | 1 | 1 | 1 |
| **Oceana** | Food | 1 | 1 | 1 | 2 | 2 | 1 |
| **Rainbow Chicken** | Food | 5 | 1 | 1 | 1 | 1 | 5 |
| **SAB Miller** | Food | 5 | 4 | 1 | 1 | 1 | 1 |
| **Astral Foods** | Food | 2 | 1 | 1 | 1 | 1 | 1 |
| **All Joy** | Food | 1 | 1 | 1 | 1 | 1 | 1 |
| **AVI** | Food | 5 | 5 | 1 | 4 | 1 | 1 |
| **Distell** | Food | 5 | 5 | 1 | 1 | 1 | 1 |
| **Brait** | Financial | 4 | 4 | 1 | 1 | 1 | 1 |
| **Brimstone** | Financial | 1 | 1 | 1 | 1 | 1 | 1 |
| **Nedbank** | Financial | 2 | 1 | 1 | 5 | 1 | 1 |
| **Mercentile Bank** | Financial | 1 | 1 | 1 | 1 | 1 | 1 |
| **Metropolitan** | Financial | 5 | 5 | 1 | 1 | 1 | 4 |
| **Caxton** | Media | 1 | 1 | 1 | 1 | 1 | 1 |
| **Kagiso** | Media | 5 | 5 | 5 | 1 | 1 | 5 |
| **Naspers** | Media | 4 | 1 | 2 | 1 | 1 | 3 |
| **Altron** | Technology | 1 | 1 | 1 | 1 | 1 | 1 |
| **Dimension Data** | Technology | 4 | 1 | 1 | 1 | 1 | 4 |
| **Data Pro** | Technology | 5 | 5 | 2 | 1 | 1 | 1 |
| **Comair** | Leisure | 1 | 1 | 1 | 1 | 1 | 1 |
| **Gooderson** | Leisure | 1 | 1 | 1 | 1 | 1 | 2 |
| **Afrox** | Chemicals | 3 | 1 | 1 | 4 | 4 | 5 |
| **PPC** | Construction | 1 | 1 | 1 | 1 | 1 | 1 |
| **WBHO** | Construction | 1 | 1 | 1 | 1 | 1 | 1 |

## Annexure 9 Annual Reports' Ratings: Innovation

### Rating of Innovation Metrics per Company

| | Sector | No. of initiatives in process | No. of innovations launched | % revenue due to launches during last year |
|---|---|---|---|---|
| **Rex Truform** | Retail | 2 | 2 | 1 |
| **Massmart** | Retail | 5 | 5 | 4 |
| **Woolworths** | Retail | 3 | 3 | 1 |
| **New Clicks** | Retail | 4 | 5 | 1 |
| **Pick n Pay** | Retail | 3 | 3 | 1 |
| **Ellerine** | Retail | 5 | 4 | 1 |
| **Spar** | Retail | 4 | 4 | 1 |
| **Oceana** | Food | 2 | 1 | 1 |
| **Rainbow Chicken** | Food | 5 | 5 | 1 |
| **SAB Miller** | Food | 4 | 5 | 1 |
| **Astral Foods** | Food | 1 | 1 | 1 |
| **All Joy** | Food | 1 | 1 | 1 |
| **AVI** | Food | 5 | 5 | 1 |
| **Distell** | Food | 2 | 2 | 1 |
| **Brait** | Financial | 1 | 1 | 1 |
| **Brimstone** | Financial | 1 | 1 | 1 |
| **Nedbank** | Financial | 1 | 1 | 1 |
| **Mercentile Bank** | Financial | 1 | 1 | 1 |
| **Metropolitan** | Financial | 4 | 3 | 1 |
| **Caxton** | Media | 1 | 1 | 1 |
| **Kagiso** | Media | 5 | 5 | 5 |
| **Naspers** | Media | 4 | 4 | 4 |
| **Altron** | Technology | 5 | 5 | 1 |
| **Dimension Data** | Technology | 5 | 5 | 1 |
| **Data Pro** | Technology | 1 | 2 | 1 |
| **Comair** | Leisure | 3 | 3 | 1 |
| **Gooderson** | Leisure | 2 | 1 | 1 |
| **Afrox** | Chemicals | 1 | 1 | 1 |
| **PPC** | Construction | 1 | 1 | 1 |
| **WBHO** | Construction | 1 | 1 | 1 |

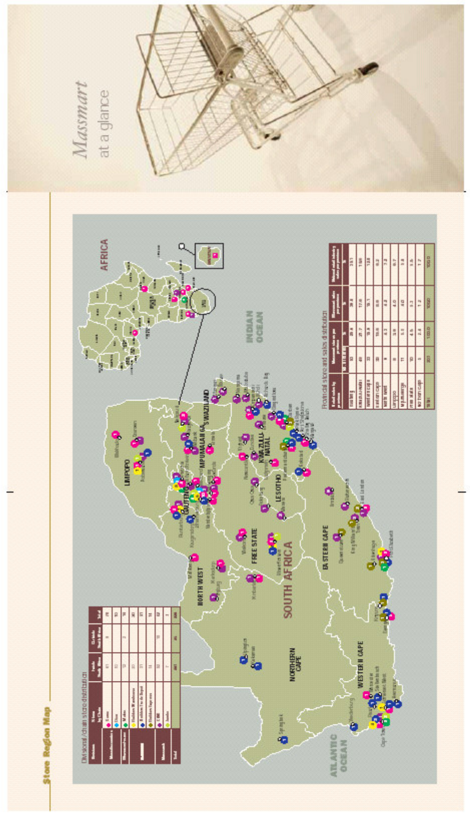
# Annexure 10 Annual Reports' Ratings: Environmental and Strategic Aspects

## Rating of Environmental and Strategic Aspects per Company

| | Sector | Are current external factors influencing the market trend mentioned | Are environmental influences on performance measures discussed | What are key risk factors influencing cash flow or is risk assessment performed on each segment | Are marketing performance indicators stipulated and aligned with company strategy milestones | Does chairman's report mention or quantify main marketing assets and how it has changed |
|---|---|---|---|---|---|---|
| **Rex Truform** | Retail | 1 | 1 | 1 | 1 | 1 |
| **Massmart** | Retail | 5 | 5 | 5 | 5 | 5 |
| **Woolworths** | Retail | 3 | 4 | 2 | 3 | 1 |
| **New Clicks** | Retail | 3 | 5 | 5 | 5 | 4 |
| **Pick n Pay** | Retail | 1 | 1 | 1 | 3 | 3 |
| **Ellerine** | Retail | 5 | 4 | 4 | 5 | 5 |
| **Spar** | Retail | 4 | 3 | 3 | 5 | 5 |
| **Oceana** | Food | 2 | 1 | 2 | 1 | 2 |
| **Rainbow Chicken** | Food | 5 | 5 | 5 | 5 | 5 |
| **SAB Miller** | Food | 5 | 5 | 5 | 5 | 5 |
| **Astral Foods** | Food | 5 | 3 | 2 | 1 | 1 |
| **All Joy** | Food | 1 | 1 | 1 | 1 | 1 |
| **AVI** | Food | 5 | 5 | 5 | 5 | 5 |
| **Distell** | Food | 5 | 5 | 5 | 5 | 5 |
| **Brait** | Financial | 4 | 3 | 4 | 1 | 1 |
| **Brimstone** | Financial | 1 | 1 | 1 | 1 | 1 |
| **Nedbank** | Financial | 2 | 1 | 1 | 3 | 1 |
| **Mercentile Bank** | Financial | 1 | 1 | 1 | 1 | 1 |
| **Metropolitan** | Financial | 3 | 4 | 4 | 4 | 4 |
| **Caxton** | Media | 2 | 1 | 1 | 1 | 1 |
| **Kagiso** | Media | 4 | 4 | 5 | 5 | 5 |
| **Naspers** | Media | 3 | 4 | 3 | 4 | 3 |
| **Altron** | Technology | 3 | 3 | 4 | 3 | 3 |
| **Dimension Data** | Technology | 5 | 5 | 3 | 5 | 5 |
| **Data Pro** | Technology | 2 | 1 | 2 | 2 | 3 |
| **Comair** | Leisure | 4 | 4 | 5 | 3 | 2 |
| **Gooderson** | Leisure | 2 | 1 | 2 | 1 | 1 |
| **Afrox** | Chemicals | 3 | 5 | 2 | 5 | 5 |
| **PPC** | Construction | 3 | 3 | 3 | 1 | 1 |
| **WBHO** | Construction | 1 | 1 | 1 | 1 | 1 |

## Annexure 11 Example of Annual Reports

### 11.1 Massmart: A good example of rating level 5 (excellent) for brand equity, disclosing marketing specific information, substantiated and well presented.



**MASSMART Holdings Limited**

| | | 2006 Stores and members | 2007 Estimated sales contribution | 2007 Growth vectors | 2009 Target stores and members | 2009 Targeted PBT returns on sales |
|---|---|---|---|---|---|---|
| High volume, low gross margin, low expense distributor of consumer goods | | 228 owned stores<br>478 members | 100% | Massmart's growth strategy<br>• Build portfolio through acquisitive and organic growth, based on category expertise<br>• Mitigate portfolio costs through internal collaboration and joint initiatives (not centralised)<br>• Incentivise for alignment | 283 owned stores<br>478 members | Achieved in 2006 4.3%; Target *5.0%; International Benchmark *6.2%<br>* Pro forma using 2006 sales mix and target margins |
| Massdiscounters (General merchandise discounter) | Game<br>Dion | 70 stores<br>10 stores | 28% | • New large Game stores in Africa<br>• New small Game format stores in South Africa<br>• Reposition Dion | 91 stores<br>10 stores | Achieved in 2006 7.1%; Target 7.0%; International Benchmark Walmart ex food 7.4% |
| Masswarehouse (Warehouse club discounter) | Makro | 14 stores | 24% | • New stores in RSA<br>• Leverage customer relationship management competence | 16 warehouse clubs | Achieved in 2006 4.1%; Target 4.0%; International Benchmark Metro AG C&C 5.0% |
| Massbuild (Home improvement retailer) | Builders Warehouse<br>Builders Express<br>Builders Trade Depot | 20 stores<br>14 stores<br>31 stores | 15% | • New stores in RSA<br>• Integrate acquisitions<br>• Roll out new brands | 34 stores<br>34 stores<br>32 stores | Achieved in 2006 7.6%; Target 8.0%; International Benchmark Home Depot/B&Q 10.0% |
| Masscash (Food wholesaler and buying association) | CBW<br>Jumbo<br>Shield | 62 stores<br>7 stores<br>478 members | 33% | • Manage for cash and returns<br>• Limited store growth | 62 stores<br>7 stores<br>478 members | Achieved in 2006 2.1%; Target 3.0%; International Benchmark Makro South America 3.0% |

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massmart annual report

## 11.2 SAB Miller: A good example rating level 5 (excellent) providing full disclosure on brand equity

### Our strategic priorities
### Developing strong, relevant brand portfolios in the local market

In every market, the consumer's choice of beer is influenced by a range of needs and preferences. Consumers may make different choices according to the occasion or the type of outlet that they are in, be it a bar, a restaurant or a nightclub. In some cases, the choice of beer is an aspirational statement: in others, it affirms the drinker's identity. Some consumers associate beer with 'wind-up' occasions such as parties, others with winding down at the end of a day's work. Older, more traditional drinkers will have different habits to younger, more experimental consumers.

For these reasons, it's no longer sufficient for a successful brewer just to do well in the mainstream segment. To maximise our profits in each market, we need a portfolio of brands that spans consumers' needs on different occasions and across the spectrum from premium to economy.

As we seek to understand consumer preferences and create brand portfolios that are relevant and appealing, we have a strong competitive advantage in our 'market mapping' system – a formal process for identifying the main clusters of consumer preference in any given market and comparing these with the brands currently on offer.

What we often find in new markets is that some consumer needs are ignored while others are over-served by too many undifferentiated brands. We then begin the process of adjusting the portfolio to span the market. This may mean refreshing and repositioning our brands, importing brands from elsewhere, adding innovation to existing brands or creating new brands altogether.

In many markets, the fastest-growing demand is for premium beers. To strengthen our offering, we've refreshed some of our local premium beers such as Zolotaya Bochka in Russia and Club Colombia in South America. At the same time, we've responded to the rapid growth of international premium brands by launching Peroni Nastro Azzurro, Miller Genuine Draft and Pilsner Urquell in more markets.

**Refining the portfolio in Colombia**
The South American markets which we entered in 2005 presented an opportunity to apply knowledge and techniques that were well proven in other parts of the world. In Colombia, for example, research into drinking patterns showed that beer was not seen as aspirational – a perception reinforced by shabby bottles and unappealing surroundings. When we completed our market mapping, comparing the main areas of consumer needs to the existing portfolio, we found a lot of brands clustered together in the mainstream segment and nothing of any appeal to the premium or party segment – or to women.

These results determined our plan of action. In the mainstream segment, we prised apart the three overlapping brands of Aguila, Pilsen and Poker so that each addressed a distinct national consumer segment rather than trying to cater for all consumers in its own geographical region. These brands are also being refreshed and renovated with new packaging and better presentation. In the premium segment, we introduced Peroni Nastro Azzurro at a high-profile launch in one of the country's most exclusive venues. We refocused Brava and relaunched the local brand, Club Colombia, with new packaging, improved taste, and endorsements from Colombian celebrities. Most recently we added Barena, aimed at consumers in the 'status' and 'rumba' segments. In these ways, we've not only laid claim to the premium segment but hope to have raised consumers' perception of the beer category as a whole.

We are pleased with the results to date, with lager volumes for the year growing in Colombia by 11% on a *pro forma* basis.

Aguila, the number one selling lager brand in Colombia.

12 SABMiller plc Annual Report 2007 Chief Executive's review

For more information on our India operations, visit www.sabmiller.com/sabmiller.com/en_gb/Our+business/Our+markets/Africa+and+Asia/India

Overview

**Strong relevant local brand portfolios**
In each market we build a portfolio of brands that span consumer needs on different occasions and across the spectrum of the economy, mainstream, and premium segments.

| | Economy | Mainstream | Premium |
|---|---|---|---|
| USA | Milwaukee's Best, Miller High Life | Miller Lite, Miller Genuine Draft | Leinenkugel's Sunset Wheat, Peroni Nastro Azzurro, Miller Chill |
| Poland | Zubr | Tyskie, Lech | Miller Genuine Draft, Redd's, Pilsner Urquell |
| Tanzania | Eagle Lager | Kilimanjaro, Safari Lager | Castle Milk Stout, Castle Lager, Miller Genuine Draft |

We're also innovating. The Polish business recently introduced new packaging for its fruit-flavoured Redd's brand, along with new variants in the form of Redd's Red and Redd's Sun. In Russia, Redd's has been given a further twist to take it out of the exclusively male domain and make it attractive to women. Innovation also extends to the way beers are served. In Europe, stylish new dispensers for Peroni Nastro Azzurro have helped to reposition the brand in bars and clubs.

While our European operations are adding excitement and choice at the premium end of the market, affordability considerations are more pressing in Africa. While the trend among sophisticated, urban drinkers is towards premium brands such as Castle, there are large numbers of subsistence-level consumers who currently drink home-brewed alcohol but would like to upgrade to affordable, branded alternatives.

One of SABMiller's answers is the Eagle brand, available in Uganda, Zambia, Zimbabwe and Tanzania. The innovation in this case is to make the beer from locally grown sorghum rather than imported raw materials. This creates a cash crop opportunity for local farmers, which in turn encourages tax breaks from governments and this feeds through into a cheaper selling price. Eagle is now our second largest pan-African brand.

Between the premium and economy segments lies the mainstream market. This still accounts for the bulk of our sales around the world, so it's vital to keep our core brands refreshed, attractive and appealing. We continue to work on our mainstream brands across our business with the emphasis on better packaging, stronger positioning and clearer differentiation.

Operating and financial review


**Innovation in South Africa**
In common with other markets, South Africa is seeing tremendous growth in the premium sector. Some of the greatest successes are in the flavoured alcoholic drinks particularly popular with women. In order to compete better in these upmarket segments, SAB Ltd introduced Lavacious Lemon, a variant of its Brutal Fruit range, in September 2006. At the same time it also launched Sarita, an apple-flavoured ale in an attractively shaped bottle with an innovative, ring-pull cap. Sales have exceeded expectations and we're gearing up production to meet demand.

Sarita advertisement campaign launched in September 2006.

**Miller taps the global portfolio**
A feature of the US market this year has been the growing interest in 'worthmore' beers, both local and imported. Miller Brewing Company has exploited this opportunity through brand acquisitions, product innovation and by leveraging SABMiller's global brand portfolio.

Among other moves, Miller has expanded distribution from its Leinenkugel brewery and purchased the Sparks brand, a caffeinated alcohol beverage. By way of innovation, it has launched new beer flavours such as Leinenkugel Sunset Wheat and Miller Chill, a Mexican-inspired, chelada-style light beer. A national roll-out of Miller Chill is now under-way.

Miller has also been able to fill some of the gaps in its offering by selecting from the 200 brands in the wider group portfolio – a resource that many of its competitors simply do not have. Alongside the very successful Peroni Nastro Azzurro, Miller is introducing Aguila from Colombia, and Cristal and Cusqueña from Peru.


Miller Chill, Mexican inspired, Chelada style beer.

Governance

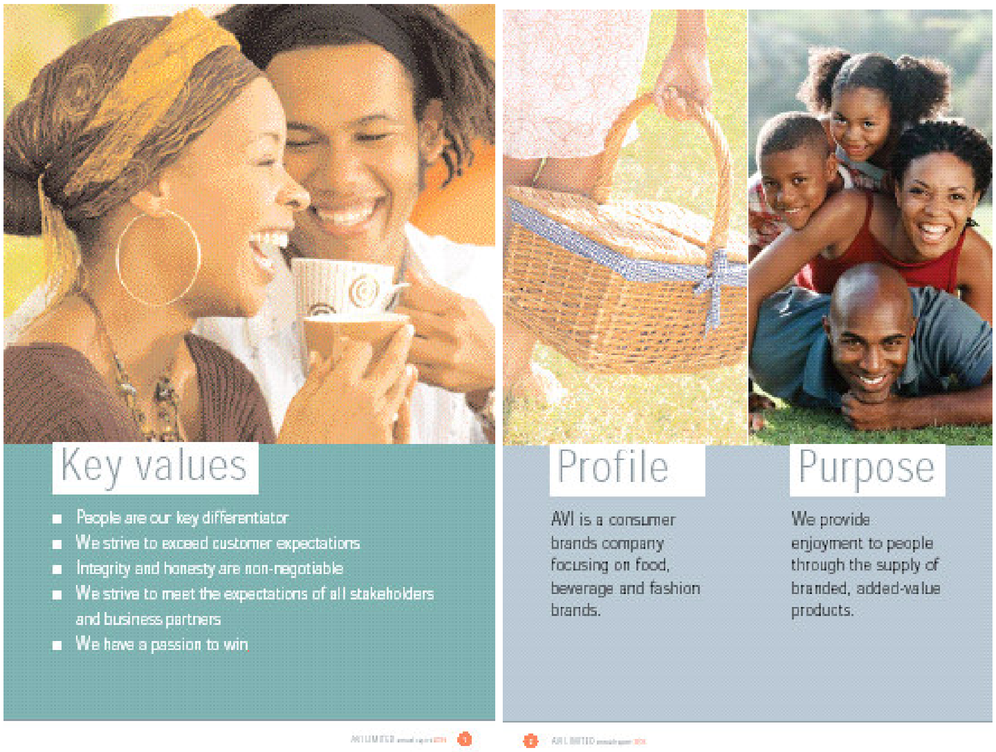
Financial statements

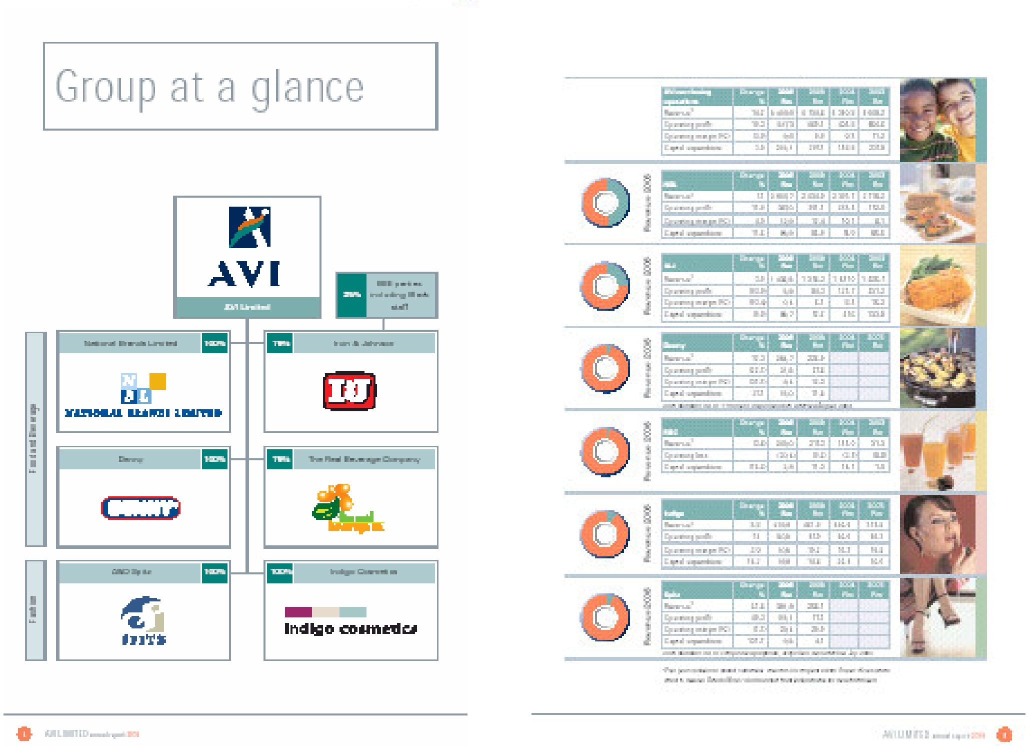
Shareholder information

For more information on our South Africa operation, visit www.sabmiller.com/sabmiller.com/en_gb/Our+business/Our+markets/South+Africa

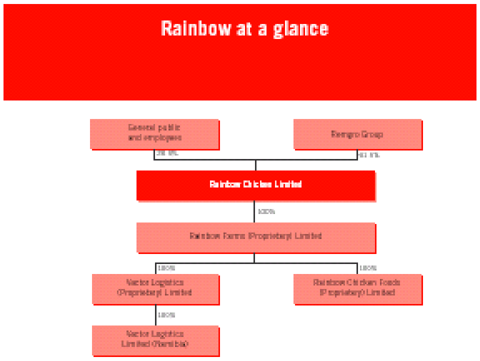
Chief Executive's review SABMiller plc Annual Report 2007 13

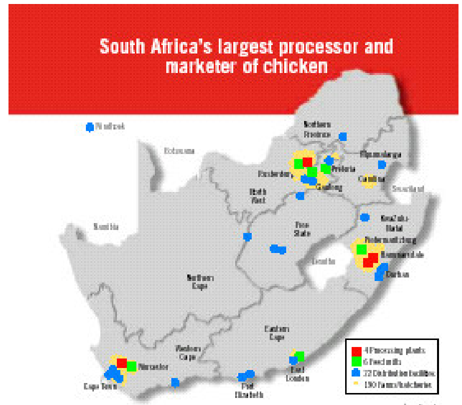
### 11.3 AVI: A good example rating level 5 (excellent) of the customer forming part of strategy and marketing receiving chairperson's full support

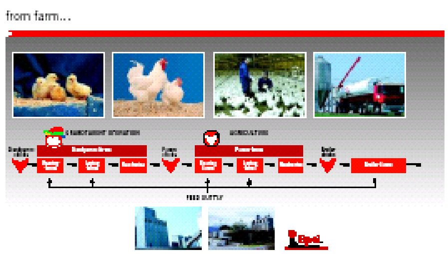


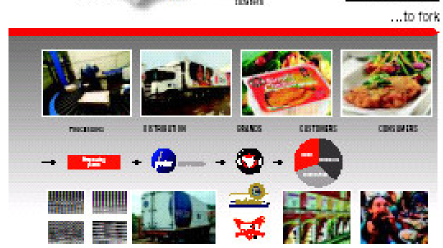



## 11.4 Rainbow Chicken: A clear presentation of its brands in a vertically integrated business

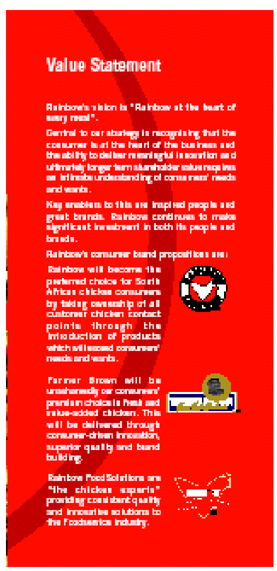



Imagine life without
RAINBOW
Chicken.



## 11.5 Ellerine Holding's excellent example of brand and % market represented by Segment

2 Ellerine Holdings Limited Annual Report 2006

Ellerine Brand LSM Positioning

Ellerine Holdings Limited Annual Report 2006 3


Source: AMPS 2004
Created by Ellerines Group Marketing: Last update 1 December 2005

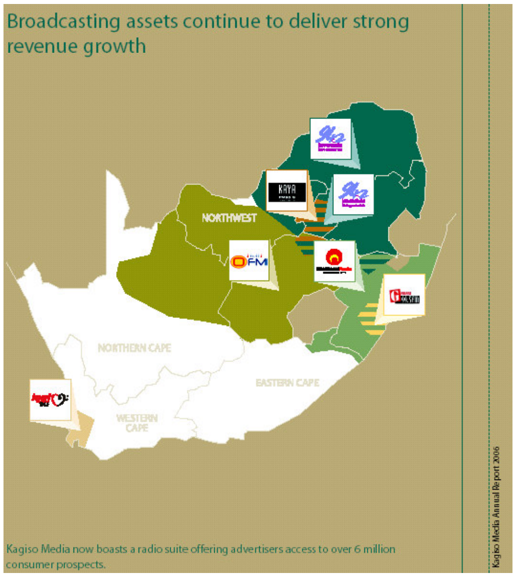
### Divisional Brand Segmentation – Number of stores
continuing operations

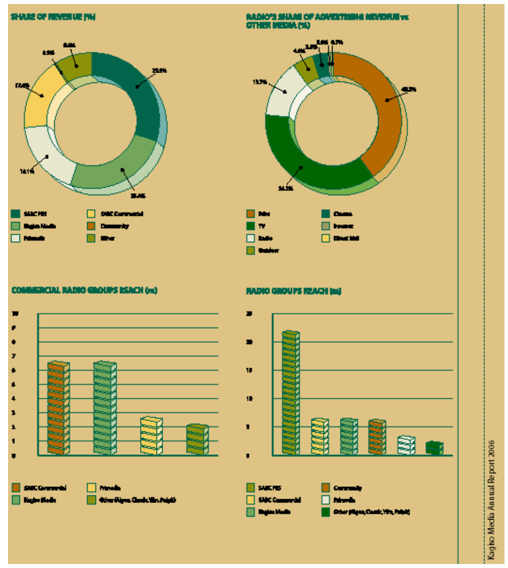
| | 2006 | 2005 |
|---|---|---|
| Ellerines | 309 | 309 |
| Town Talk | 150 | 142 |
| FurnCity | 162 | 155 |
| TRADITIONAL CREDIT RETAIL DIVISION | 621 | 606 |
| Lubners | 92 | 85 |
| Beares | 147 | 145 |
| Savells Fairdeal | 145 | 138 |
| Geen & Richards | 58 | 47 |
| UNIVERSAL CREDIT RETAIL DIVISION | 442 | 415 |
| Furniture City | 24 | 23 |
| Dial-a-Bed | 19 | 19 |
| Mattress Factory | 25 | 20 |
| VALUE RETAIL DIVISION | 68 | 62 |
| Wetherlys | 14 | 12 |
| Osiers | 11 | 9 |
| DECORATING DIVISION | 25 | 21 |
| FURNITURE RETAIL | 1 156 | 1 104 |
| Services – Early Bird | 44 | 44 |
| Financial Services – Rainbow Loans | 70 | 59 |
| TOTAL STORES | 1 270 | 1 207 |

### Geographical spread

| | | m² | | m² per outlet | | Outlets | |
|---|---|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Furniture | RSA | 703 706 | 668 819 | 693 | 698 | 1 016 | 958 |
| | Botswana | 25 223 | 27 904 | 587 | 558 | 43 | 50 |
| | Lesotho | 10 971 | 11 351 | 645 | 668 | 17 | 17 |
| | Namibia | 24 754 | 22 528 | 651 | 549 | 38 | 41 |
| | Swaziland | 7 189 | 6 825 | 654 | 620 | 11 | 11 |
| | Zambia | 4 414 | 4 414 | 736 | 736 | 6 | 6 |
| Sub Totals | | 776 257 | 741 841 | 686 | 685 | 1 131 | 1 083 |
| Early Bird | RSA | 7 829 | 5 778 | 178 | 131 | 44 | 44 |
| Rainbow Loans | RSA | 4 529 | 3 663 | 65 | 62 | 70 | 59 |
| Wetherlys | RSA | 36 985 | 33 341 | 2 642 | 2 778 | 14 | 12 |
| Osiers | RSA | 14 037 | 12 330 | 1 276 | 1 370 | 11 | 9 |
| Sub Totals | | 63 380 | 55 112 | 456 | 444 | 139 | 124 |
| TOTALS | | 839 637 | 796 953 | 661 | 660 | 1 270 | 1 207 |

## 11.6 Kagiso Media's Comparison with Competitors



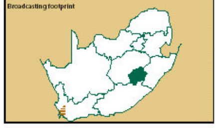




**HEART 104.9**

Real, sincere and approachable, Heart 104.9 has found considerable appeal in the affluent coloured age 25 – 49 market in Cape Town where it currently enjoys a leadership position. The station truly cares about and continues to show its heart for the people of Cape Town as it actively engages in the lives of the community through various innovative initiatives.

Heart 104.9 is a premium, energetic, 'Proudly Capetonian' station that epitomises an urban adult contemporary lifestyle, with its main focus being to provide listeners with compelling programming and their favourite music.

Broadcasting footprint



| HEART 104.9 | | |
|---|---|---|
| (R'000) | 2006 | 2005 |
| Operational performance | | |
| – Revenue | 20 238 | – |
| – Operating profit | 2 228 | – |
| Earnings contributions* | 732 | 100 |
| Operating profit margin (%) | 11,0 | |

* 2005 included from 1 June 2005

Kagiso Media also acquired a 33,3% economic interest in P4 Radio Cape Town in June 2005. In February 2006, the station was re-launched as Heart 104.9.

The station set itself a target to grow the market share of the target audience (coloured 25 to 49, LSM 6 – 10) from 27% to 35%* of the available audience.

By May 2006 Heart 104.9 had captured a 34% market share of its core audience, overwhelmingly the leading station in the Cape Town metropole.

In a short period since the re-launch, Heart 104.9 has established itself as Cape Town's most caring station with community projects like a feeding programme for school children during winter (Heart Warming Campaign) and raising money for the Red Cross Children's Home.

Heart 104.9 has grown its average per day listening by 17% year on year in a market that has not shown any growth at all. Another huge improvement at Heart is listener loyalty. The core market listens to the station for an average of 16 hours per week compared to 11 hours for KFM and eight hours for Good Hope FM. This statistic is important to advertisers as it allows their message to have greater impact on Heart because of listening durations offering brands more impact from greater exposure.

While Heart is only expected to make an impact on the national advertising market in 2007, local advertisers have warmed to the new product and the station continues to gain significant support in Cape Town.

*RAMS (May 2006)

**IGAGASI 99.5**

If it's the funky young black adults of urban KwaZulu-Natal you're after, iGagasi 99.5 is the station for you. Currently attracting more than 600 000 listeners every week, iGagasi 99.5 continues to provide advertisers with unmatched levels of brand activation in the black, LSM 5 – 8 market in KwaZulu-Natal, a province that boasts the biggest tourism market in South Africa.

The station also boasts a state-of-the-art satellite studio at Umlazi's Mega City shopping complex, offering advertisers superbly targeted promotional opportunities.

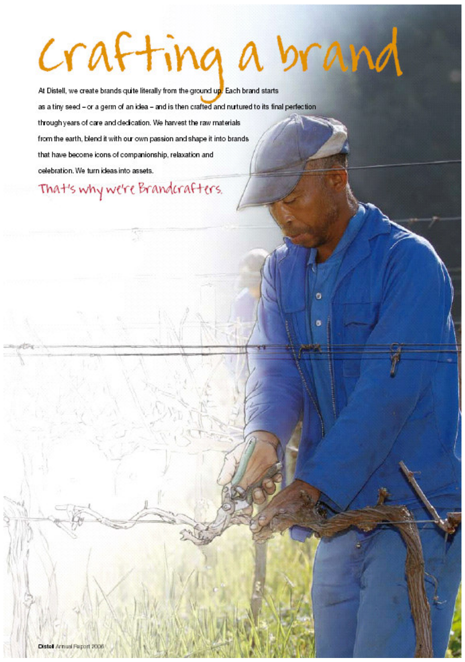
Broadcasting footprint

| IGAGASI 99.5 | | |
|---|---|---|
| (R'000) | 2006 | 2005 |
| Operational performance | | |
| – Revenue | 10,176 | – |
| – Operating profit | 446 | – |
| Earnings contributions | (115) | (8) |
| Operating profit margin (%) | 4,4 | |

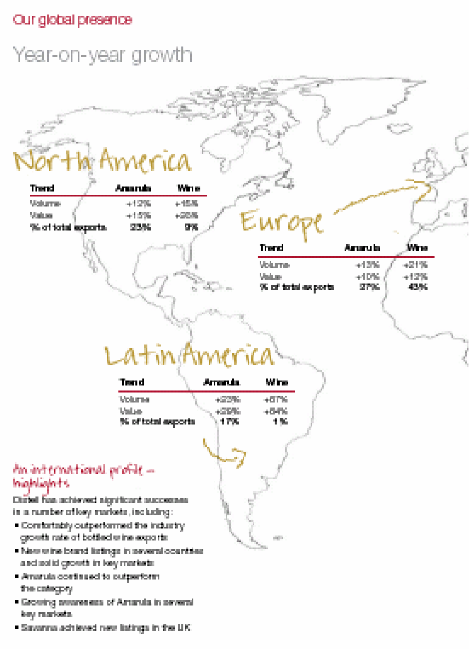
* 2005 included from 1 June 2005

Kagiso Media Annual Report 2006

## 11.7 Distell's is a very good example of Brand and Customer Focus and integration with strategy





## 11.8 Naspers is an example of the tendency in annual reports to use general terminology

Review of operations

*Daily Sun*'s circulation grew to more than 500 000 per day, making it the biggest daily in Africa. Readership numbers increased to 3,8 million, making it the widest-read print media product in South Africa.

In the Western Cape the daily edition of the weekly tabloid, *Son*, grew its circulation to 81 000 copies per day. An English copy, *Cape Son*, was also launched during this year. The weekly soccer tabloid review, *Soccer Laduuuuuma!*, reached record circulation heights above 320 000.

Additional community newspapers were launched, including a bigger portfolio of the *City Vision* emerging market product and eight zoned editions of the *People's Post* newspaper in the Western Cape. An exciting new concept, the free community magazine, *My Week*, was launched. A total of 17 editions with a total print run of 422 000 were published up to 31 March 2007. The new newspaper, *Sondag*, has since been launched.

The newspaper division was re-organised into two separate businesses: publishing and print, and distribution. This should lead to increased focus and improved customer service.

Our newspapers' journalists again performed well in winning the prestigious Mondi Shanduka Newspaper Awards, Sanlam Community Press Awards and a variety of other awards. In respect of newspaper printing and typography we scooped a number of awards.

*Magazines*

Media24 Magazines publishes over 60 magazines and is the leading magazine publisher in Africa, with a significant share in the South African market.

Media24 Magazines had an active year, launching a number of new titles, including *InStyle, TRUE LOVE babe* and *Men's Health Living*. A number of motoring titles were acquired during the year, including *topCar, TOPbike, topdeals* and *Drive Out*. An Afrikaans motoring

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Review of operations

In August 2006 the group acquired a 20% interest in the leading sports publisher in China, Titan Media. Titan capitalised on the general interest in soccer in China, which was stimulated by the 2006 FIFA World Cup soccer event.

Beijing Media Corporation Limited (BMC), in which MIH has a 9,9% interest, operates a leading Beijing newspaper, *Beijing Youth Daily*. BMC had a challenging year due to advertising regulations affecting the newspaper industry.

Good progress was made in analysing new markets. Although an inflated equity market in India is still creating unreasonable valuation expectations at present, MIH believes the print media industries in India and Russia present opportunities.

In Africa, *DRUM* (East Africa), *KICKOFF* (West Africa), *TRUE LOVE* (East and West Africa) and *tv24*, a Portuguese TV listings magazine (Angola), continue to be developed.

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## Annexure 12 List of Tables and Figures

### List of Tables



### List of Figures

## Annexure 13 Statistical Analysis

```
. gen GrandTotal= familiarity+ penetration+ customerthink+ customerfeel+ loyalty+ a
> vailability+ marketshare+ relativeprice+ newsales+ segment+ profitability+ ratio+
>  defection+ retention+ clv+ initiatives+ innovations+ revenue+ external+ internal
> + cashflow+ strategy+ chairman
(2 missing values generated)
```

**factor analysis validates summing these 6 items into 1 single measure.**

```
. factor  familiarity- availability
(obs=30)

            (principal factors; 3 factors retained)
  Factor     Eigenvalue     Difference     Proportion     Cumulative
------------------------------------------------------------------
     1        4.51671         4.02994        0.9315         0.9315
     2        0.48677         0.45834        0.1004         1.0318
     3        0.02843         0.06793        0.0059         1.0377
     4       -0.03950         0.01879       -0.0081         1.0296
     5       -0.05829         0.02673       -0.0120         1.0175
     6       -0.08502               .       -0.0175         1.0000

               Factor Loadings
    Variable |      1          2          3    Uniqueness
-------------+--------------------------------------------
 familiarity |   0.83820    0.38293   -0.05693    0.14755
 penetration |   0.89244    0.30084    0.03276    0.11197
customerth~k |   0.90645   -0.21543   -0.09501    0.12290
customerfeel |   0.90277   -0.30732   -0.03437    0.08938
     loyalty |   0.83062   -0.29269    0.09872    0.21467
availability |   0.83133    0.15201    0.06452    0.28162
```

**Basic tabulations from here:**

```
. tab familiarity

Familiarity |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         13       43.33       43.33
          2 |          6       20.00       63.33
          4 |          4       13.33       76.67
          5 |          7       23.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab penetration

Penetration |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         15       50.00       50.00
          2 |          2        6.67       56.67
          3 |          2        6.67       63.33
          4 |          2        6.67       70.00
          5 |          9       30.00      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab customerthink

Customerthi |
         nk |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         12       40.00       40.00
          2 |          5       16.67       56.67
          3 |          2        6.67       63.33
          4 |          3       10.00       73.33
          5 |          8       26.67      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab customerfeel

Customerfee |
          l |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         12       40.00       40.00
```

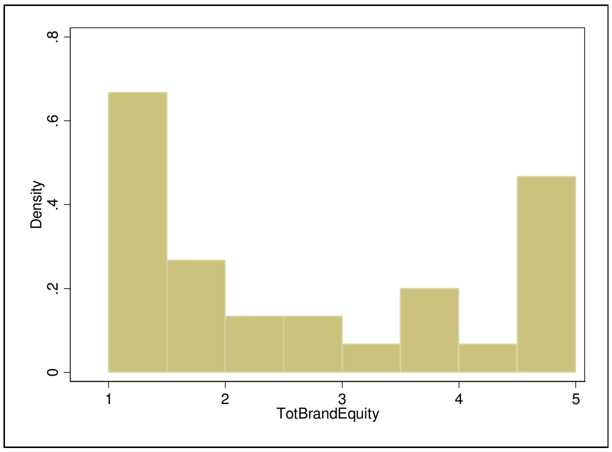
```
          2 |          3       10.00       50.00
          3 |          4       13.33       63.33
          4 |          1        3.33       66.67
          5 |         10       33.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab loyalty

    Loyalty |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         15       50.00       50.00
          2 |          3       10.00       60.00
          3 |          2        6.67       66.67
          4 |          2        6.67       73.33
          5 |          8       26.67      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab availability

Availabilit |
          y |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         11       36.67       36.67
          2 |          2        6.67       43.33
          3 |          4       13.33       56.67
          4 |          3       10.00       66.67
          5 |         10       33.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab marketshare

Marketshare |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         16       53.33       53.33
          2 |          1        3.33       56.67
          3 |          3       10.00       66.67
          4 |          3       10.00       76.67
          5 |          7       23.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab relativeprice

Relativepri |
         ce |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         26       86.67       86.67
          2 |          1        3.33       90.00
          3 |          1        3.33       93.33
          4 |          1        3.33       96.67
          5 |          1        3.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab newsales

   Newsales |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         25       83.33       83.33
          3 |          1        3.33       86.67
          5 |          4       13.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab segment

    Segment |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         12       40.00       40.00
          2 |          3       10.00       50.00
          3 |          1        3.33       53.33
          4 |          4       13.33       66.67
          5 |         10       33.33      100.00
------------+-----------------------------------
```

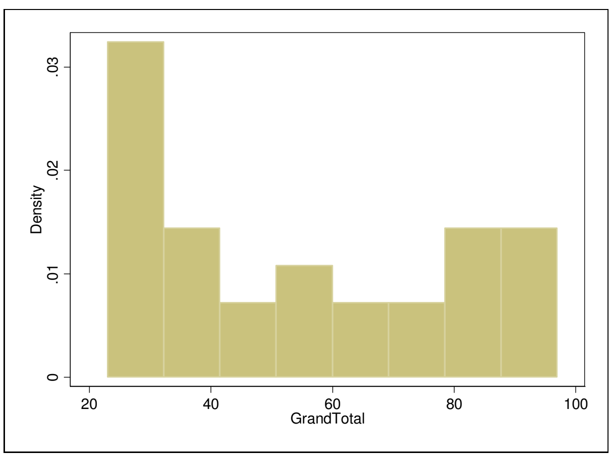
```
      Total |         30      100.00

. tab profitability

Profitabili |
         ty |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         23       76.67       76.67
          4 |          2        6.67       83.33
          5 |          5       16.67      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab ratio

      Ratio |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         27       90.00       90.00
          2 |          2        6.67       96.67
          5 |          1        3.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab defection

  Defection |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         26       86.67       86.67
          2 |          1        3.33       90.00
          4 |          2        6.67       96.67
          5 |          1        3.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab retention

  Retention |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         28       93.33       93.33
          2 |          1        3.33       96.67
          4 |          1        3.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab clv

        CLV |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         22       73.33       73.33
          2 |          2        6.67       80.00
          3 |          1        3.33       83.33
          4 |          2        6.67       90.00
          5 |          3       10.00      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab initiatives

Initiatives |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         11       36.67       36.67
          2 |          4       13.33       50.00
          3 |          3       10.00       60.00
          4 |          5       16.67       76.67
          5 |          7       23.33      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab revenue

    Revenue |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         27       90.00       90.00
          4 |          2        6.67       96.67
          5 |          1        3.33      100.00
------------+-----------------------------------
      Total |         30      100.00
```

```
. tab innovations

Innovations |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         12       40.00       40.00
          2 |          3       10.00       50.00
          3 |          4       13.33       63.33
          4 |          3       10.00       73.33
          5 |          8       26.67      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab external

   External |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |          6       20.00       20.00
          2 |          5       16.67       36.67
          3 |          7       23.33       60.00
          4 |          4       13.33       73.33
          5 |          8       26.67      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab internal

   Internal |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         11       36.67       36.67
          3 |          5       16.67       53.33
          4 |          6       20.00       73.33
          5 |          8       26.67      100.00
------------+-----------------------------------
      Total |         30      100.00


. tab cashflow

   Cashflow |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |          8       26.67       26.67
          2 |          6       20.00       46.67
          3 |          4       13.33       60.00
          4 |          4       13.33       73.33
          5 |          8       26.67      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab strategy

   Strategy |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         11       36.67       36.67
          2 |          1        3.33       40.00
          3 |          5       16.67       56.67
          4 |          2        6.67       63.33
          5 |         11       36.67      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab chairman

   Chairman |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |         12       40.00       40.00
          2 |          2        6.67       46.67
          3 |          4       13.33       60.00
          4 |          2        6.67       66.67
          5 |         10       33.33      100.00
------------+-----------------------------------
      Total |         30      100.00
```

```
. tab totbrandequity

TotBrandEqu |
        ity |      Freq.     Percent        Cum.
------------+-----------------------------------
          1 |          6       20.00       20.00
       1.17 |          2        6.67       26.67
       1.33 |          2        6.67       33.33
        1.5 |          1        3.33       36.67
       1.83 |          3       10.00       46.67
          2 |          1        3.33       50.00
       2.17 |          1        3.33       53.33
       2.67 |          2        6.67       60.00
       3.33 |          1        3.33       63.33
        3.5 |          1        3.33       66.67
       3.67 |          1        3.33       70.00
       3.83 |          1        3.33       73.33
       4.33 |          1        3.33       76.67
       4.67 |          1        3.33       80.00
       4.83 |          3       10.00       90.00
          5 |          3       10.00      100.00
------------+-----------------------------------
      Total |         30      100.00

. tab GrandTotal


Grand Total |      Freq.     Percentile    Cum.
Mark Allocation
------------+-----------------------------------
         23 |          4       13.33       13.33
         25 |          1        3.33       16.67
         26 |          1        3.33       20.00
         29 |          1        3.33       23.33
         32 |          2        6.67       30.00
         33 |          1        3.33       33.33
         35 |          1        3.33       36.67
         39 |          1        3.33       40.00
         41 |          1        3.33       43.33
         45 |          2        6.67       50.00
         51 |          1        3.33       53.33
         52 |          1        3.33       56.67
         57 |          1        3.33       60.00
         61 |          1        3.33       63.33
         67 |          1        3.33       66.67
         71 |          1        3.33       70.00
         76 |          1        3.33       73.33
         80 |          2        6.67       80.00
         81 |          1        3.33       83.33
         86 |          1        3.33       86.67
         89 |          2        6.67       93.33
         92 |          1        3.33       96.67
         97 |          1        3.33      100.00
------------+-----------------------------------
      Total |         30      100.00


. summ GrandTotal totbrandequity, detail

                         GrandTotal
-------------------------------------------------------------
      Percentiles      Smallest
 1%           23             23
 5%           23             23
10%           23             23       Obs                  30
25%           32             23       Sum of Wgt.          30

50%           48                      Mean           53.43333
                        Largest       Std. Dev.      25.10074
75%           80             89
90%           89             89       Variance       630.0471
95%           92             92       Skewness       .2912199
99%           97             97       Kurtosis       1.608792
```

```
                       TotBrandEquity
-------------------------------------------------------------
      Percentiles      Smallest
 1%            1              1
 5%            1              1
10%            1              1       Obs                  30
25%         1.17              1       Sum of Wgt.          30

50%        2.085                      Mean           2.677333
                        Largest       Std. Dev.      1.548267
75%         4.33           4.83
90%        4.915              5       Variance       2.397131
95%            5              5       Skewness       .3716987
99%            5              5       Kurtosis       1.530157
```




```
. kwallis GrandTotal, by (sector)

Test: Equality of populations (Kruskal-Wallis test)

  +------------------------------+
  |     sector | Obs | Rank Sum |
  |------------+-----+----------|
  |  Financial |   5 |    42.50 |
  |       Food |   7 |   101.00 |
  |      Media |   3 |    44.00 |
  |     Retail |   7 |    96.50 |
  | Technology |   3 |    41.00 |
  +------------------------------+
```

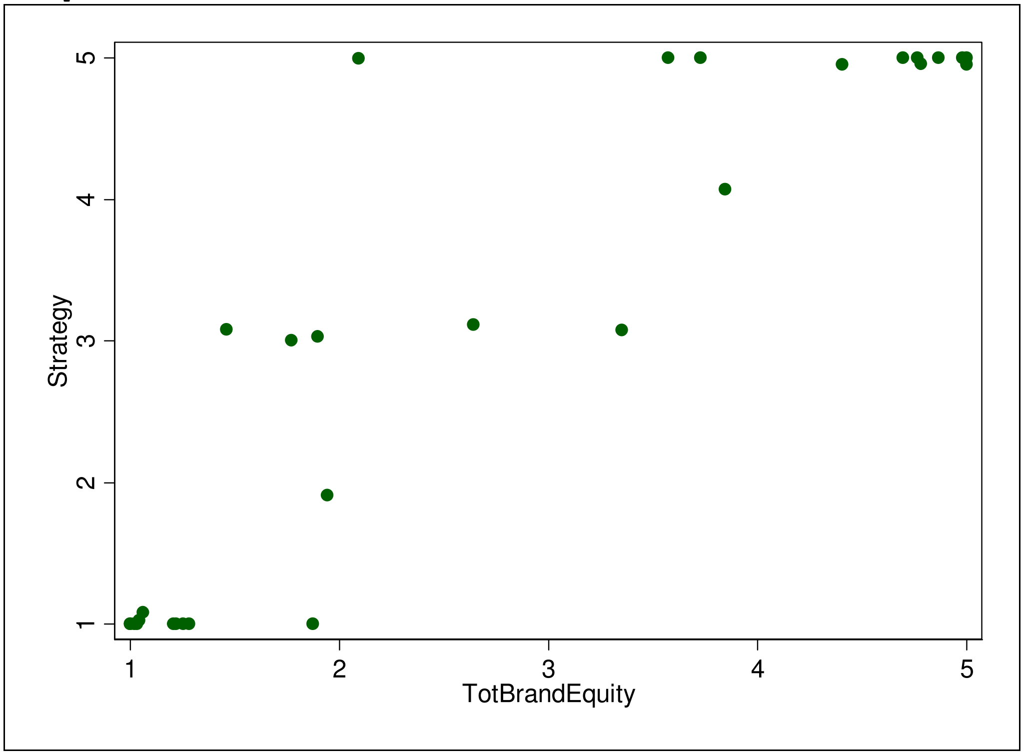
```
chi-squared =     2.391 with 4 d.f.
probability =     0.6642

chi-squared with ties =     2.397 with 4 d.f.
probability =     0.6632


. gen ind1=(sector=="Technology")

. replace ind1=(sector=="Financial")*2 if ind1==0
(5 real changes made)

. replace ind1=. if ind1==0
(17 real changes made, 17 to missing)

. ranksum GrandTotal, by(ind1)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

        ind1 |      obs    rank sum    expected
-------------+---------------------------------
           1 |        3          18        13.5
           2 |        5          18        22.5
-------------+---------------------------------
    combined |        8          36          36

unadjusted variance       11.25
adjustment for ties       -0.13
                     ----------
adjusted variance         11.12

Ho: GrandT~l(ind1==1) = GrandT~l(ind1==2)
             z =   1.350
    Prob > |z| =   0.1771


. log close
       log:  C:\Documents and Settings\gregd\My Documents\Consulting\Hilke Gart
> z\Log2.smcl
  log type:  smcl
 closed on:  15 Nov 2007, 16:23:04
-------------------------------------------------------------------------------------
```

**Here are summary stats for the 6 brand equity items, firstly overall and then by sector:**

```
. tabstat  familiarity-totbrandequity, statistics(mean p50 sd n) f(%9.2f)

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      2.53      2.60      2.67      2.80      2.50      2.97      2.68
     p50 |      2.00      1.50      2.00      2.50      1.50      3.00      2.09
      sd |      1.70      1.81      1.71      1.77      1.76      1.75      1.55
       N |     30.00     30.00     30.00     30.00     30.00     30.00     30.00
--------------------------------------------------------------------------------


. bysort sector: tabstat  familiarity-totbrandequity, statistics(mean p50 sd n) f(%
> 9.2f)

-----------------------------------------------------------------------------------
-> sector = Construction

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      1.00      1.00      1.00      1.00      1.00      1.00      1.00
     p50 |      1.00      1.00      1.00      1.00      1.00      1.00      1.00
      sd |      0.00      0.00      0.00      0.00      0.00      0.00      0.00
       N |      2.00      2.00      2.00      2.00      2.00      2.00      2.00
--------------------------------------------------------------------------------

-----------------------------------------------------------------------------------
-> sector = Financial

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
```

```
---------+----------------------------------------------------------------
------
    mean |      2.40      2.40      1.80      1.60      1.60      2.40      2.03
     p50 |      1.00      1.00      1.00      1.00      1.00      1.00      1.00
      sd |      1.95      1.95      1.30      0.89      0.89      1.95      1.42
       N |      5.00      5.00      5.00      5.00      5.00      5.00      5.00
--------------------------------------------------------------------------------

-----------------------------------------------------------------------------------
-> sector = Food

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      3.29      3.43      3.29      3.43      2.71      3.43      3.26
     p50 |      4.00      5.00      5.00      5.00      1.00      5.00      4.33
      sd |      1.89      1.99      2.14      1.99      2.14      1.99      1.92
       N |      7.00      7.00      7.00      7.00      7.00      7.00      7.00
--------------------------------------------------------------------------------

-----------------------------------------------------------------------------------
-> sector = Leisure

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      1.50      1.00      1.00      2.00      1.50      4.00      1.83
     p50 |      1.50      1.00      1.00      2.00      1.50      4.00      1.83
      sd |      0.71      0.00      0.00      1.41      0.71      1.41      0.00
       N |      2.00      2.00      2.00      2.00      2.00      2.00      2.00
--------------------------------------------------------------------------------

-----------------------------------------------------------------------------------
-> sector = Media

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      3.00      3.00      2.33      3.00      3.00      3.33      2.95
     p50 |      2.00      3.00      1.00      3.00      3.00      4.00      2.67
      sd |      1.73      2.00      2.31      2.00      2.00      2.08      1.93
       N |      3.00      3.00      3.00      3.00      3.00      3.00      3.00
--------------------------------------------------------------------------------

-----------------------------------------------------------------------------------
-> sector = Resources

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      1.00      1.00      5.00      5.00      5.00      4.00      3.50
     p50 |      1.00      1.00      5.00      5.00      5.00      4.00      3.50
      sd |         .         .         .         .         .         .         .
       N |      1.00      1.00      1.00      1.00      1.00      1.00      1.00
--------------------------------------------------------------------------------

-----------------------------------------------------------------------------------
-> sector = Retail

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      3.00      2.86      3.29      3.00      2.71      3.14      3.00
     p50 |      4.00      3.00      3.00      3.00      2.00      3.00      2.17
      sd |      1.91      1.86      1.38      2.00      1.89      1.86      1.69
       N |      7.00      7.00      7.00      7.00      7.00      7.00      7.00
--------------------------------------------------------------------------------

-----------------------------------------------------------------------------------
-> sector = Technology

   stats |  famili~y  penetr~n  custom~k  custom~l   loyalty  availa~y  totbra~y
---------+----------------------------------------------------------------------
    mean |      1.67      2.67      3.00      3.67      3.33      2.33      2.78
     p50 |      2.00      2.00      3.00      4.00      4.00      3.00      2.67
      sd |      0.58      2.08      1.00      1.53      2.08      1.15      0.84
       N |      3.00      3.00      3.00      3.00      3.00      3.00      3.00
--------------------------------------------------------------------------------
```

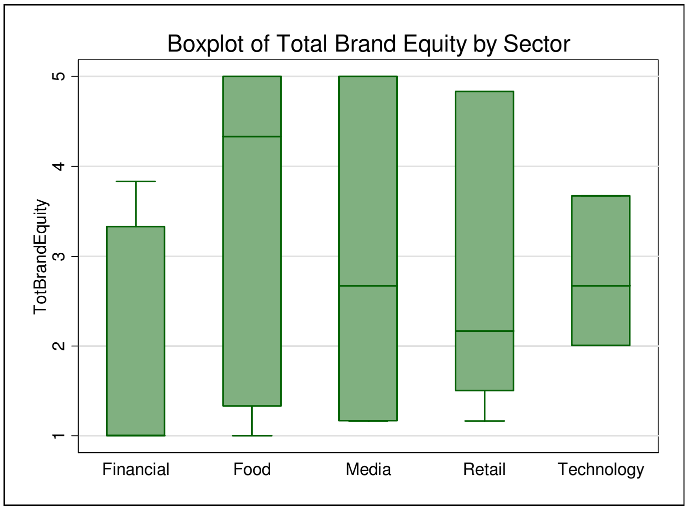
**The spearman correlation below**




```
. spearman strategy totbrand

 Number of obs =       29
Spearman's rho =       0.9142

Test of Ho: strategy and totbrandequity are independent
    Prob > |t| =       0.0000
```

**Boxplot of the Brand equity score by sector**

```
. preserve

. drop if sector=="Leisure" | sector=="Construction" | sector=="Resources"
(5 observations deleted)

. graph box totbrandequity, over(sector) title(Boxplot of Total Brand Equity by
Sector)
```




```
. kwallis totbrandequity, by (sector)

Test: Equality of populations (Kruskal-Wallis test)

  +-----------------------------+
  |      sector | Obs | Rank Sum |
  |------------+-----+----------|
  |   Financial |   5 |    39.50 |
  |        Food |   7 |   104.50 |
  |       Media |   3 |    43.00 |
  |      Retail |   7 |    97.50 |
  |  Technology |   3 |    40.50 |
  +-----------------------------+

chi-squared =     3.105 with 4 d.f.
probability =     0.5404

chi-squared with ties =     3.131 with 4 d.f.
probability =     0.5362
```

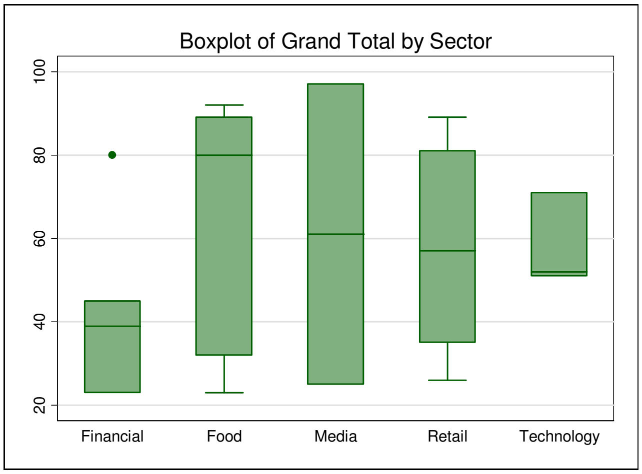
**The last part conducts a ttest between technology and financial and again does not find evidence that the true means are different (p=0.445).**

```
. gen ind1=(sector=="Technology")

. replace ind1=(sector=="Financial")*2 if ind1==0
(5 real changes made)

. replace ind1=. if ind1==0
(22 real changes made, 22 to missing)

. ranksum totbrandequity, by(ind1)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

        ind1 |      obs    rank sum    expected
-------------+---------------------------------
           1 |        3          16        13.5
           2 |        5          20        22.5
-------------+---------------------------------
    combined |        8          36          36

unadjusted variance       11.25
adjustment for ties       -0.54
```

```
                     ----------
adjusted variance         10.71

Ho: totbra~y(ind1==1) = totbra~y(ind1==2)
             z =   0.764
    Prob > |z| =   0.4450
```

**Grand Total score**

```
. graph box GrandTotal, over(sector) title(Boxplot of Grand Total by Sector)
```




```
. kwallis GrandTotal, by (sector)

Test: Equality of populations (Kruskal-Wallis test)

  +-----------------------------+
  |     sector | Obs | Rank Sum |
  |------------+-----+----------|
  |  Financial |   5 |    41.50 |
  |       Food |   7 |    97.00 |
  |      Media |   2 |    28.00 |
  |     Retail |   7 |    93.50 |
  | Technology |   3 |    40.00 |
  +-----------------------------+

chi-squared =     2.256 with 4 d.f.
probability =     0.6887

chi-squared with ties =     2.262 with 4 d.f.
probability =     0.6876


. ranksum GrandTotal, by(ind1)

Two-sample Wilcoxon rank-sum (Mann-Whitney) test

        ind1 |      obs    rank sum    expected
-------------+---------------------------------
           1 |        3          18        13.5
           2 |        5          18        22.5
-------------+---------------------------------
    combined |        8          36          36

unadjusted variance       11.25
adjustment for ties       -0.13
                     ----------
adjusted variance         11.12

Ho: GrandT~l(ind1==1) = GrandT~l(ind1==2)
             z =   1.350
    Prob > |z| =   0.1771

. restore
```

```
.
end of do-file
```