



**An exploratory study in the South African Fast Moving Consumer Goods Industry (FMCG) on the role of brand management and its impact on financial measures**

A research report presented to the  
Graduate School of Business Leadership  
University of South Africa

In partial fulfilment of the requirements for the

**MASTERS DEGREE IN BUSINESS LEADERSHIP,  
UNIVERSITY OF SOUTH AFRICA**

By

**NOKUTHULA FIHLA**

Student Number: 71376461

01 December 2009

## **Abstract**

The subject on the role of branding in delivering financial growth has been a debate for most marketers and financial managers. This is because the marketing subject by its nature is intangible and therefore difficult to measure. This misunderstanding has resulted in many authors calling for marketing to be accountable and focus on marketing investments that will deliver long term value for the shareholders. This study explores the role of branding in the South African FMCG industry and three main areas are explored namely whether marketing strategies are focused on increasing sales or future business growth. The second area is whether the inclusion of brand equity measures as part of the financial company reports, will give them the focus that they deserve. Thirdly it explores whether there is a link between brand building initiatives and financial measures.

A qualitative research method was used as it gave the researcher an in depth understanding of the role of brand management within the FMCG industry and its impact on financial measures. A total of fifteen employees were interviewed using semi-structured interviews. The findings indicate that companies still focus on measures that drive short term gains instead of long term growth and that brand building activities are compromised by brand harming activities such as regular price cutting. Future research to evaluate the impact of marketing activities that drive short term sales on brand equity and subsequently shareholder value is recommended.

## **Acknowledgements**

I would like to take this opportunity to extend my sincerest gratitude and appreciation to all those busy individuals who sacrificed some of their precious time in order to allow me to interview them and for the great insights they shared with me.

A special thanks to my supervisor, Hennie Visser who through his guidance, support and encouragement, not only motivated me but inspired me to enrich and complete this arduous study timeously.

I would also like to thank my family and friends especially my beautiful son Luthando who has been very supportive throughout this journey over the past three years.

Lastly this journey would not have been the same without the support and encouragement from my fellow MBL group members (MID0207A) and other fellow MBL students who selfishly shared information with me. A special thanks to two of my best friends Siphithi Sibeko and Dr. Thami Mweli, the journey would not have been the same without your support.

Nokuthula Fihla

## Declaration

I hereby certify that the report is my own work and all references used are accurately reported.

A handwritten signature in black ink, consisting of the letters 'N.F.' in a stylized, cursive font, enclosed within an oval-shaped scribble.

Nokuthula Fihla

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## **1. Chapter 1: Orientation**

### **1.1. Introduction**

The words 'brand' and 'branding' are widely used in the business environment and yet the meaning still varies. The well accepted definition by the American Marketing Association has been offered by Professor Peter Doyle as "A brand is a name, symbol design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors" (O'Malley, 1991 :107). This definition of branding, although old, is still widely used today with slight adjustments. Today a brand is defined as "a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers" (Wood, 2000: 664). Branding has been used over the years to give more businesses a competitive advantage and to differentiate them from competitors.

Over the years there has been a debate as to whether building strong brands does create shareholder value and this debate continues to this day. According to Doyle (2001), brands are not objectives but strategies to create shareholder value and therefore should not be used to obtain short term gains. The biggest dilemma facing many organisations today is that branding is often relegated to the marketing function and brand measures do not form part of the company's financial reports. This then results in brand building initiatives being viewed as money wasting activities and not investment that will help generate future cash flows. Because of this myopic view, the financial and marketing functions do not always see eye to eye when it comes to investing in brands.

This text will delve into the theory behind branding, how the subject has evolved over the years and the linkage between branding and the financial performance in organisations. Further to this, this text proposes a qualitative study to

investigate the roles of brand management and its impact on financial measures from a South African perspective. This study is envisioned as being qualitative in nature and will be conducted using a case study methodology.

## **1.2. Research objectives**

The research objectives of the study are as follows:

- To gain insights on the role that brands and brand equity plays from a South African perspective.
- To gain a better understanding of how companies in the Fast Moving Consumer Goods (FMCG) such as Simba Pty. Ltd. and other organisations within FMCG analyse the role of branding and its impact on financial growth.
- Contrast the findings of the study with that of literature.
- Draw comparisons between Simba and another organisation within FMCG on how branding activities are measured and reported and how this is linked to financial measures?

## **1.3. Assumptions of the study**

Below are the assumptions made for this study:

- It is an assumption that most organisations in South Africa have metrics in place to measure marketing performance and brand equity and that these are measured regularly.
- In most organisations, executives do not review the performance of the main marketing asset and how it has changed but tend to focus more on financial metrics
- Although marketing is seen as an important function to drive business objectives, organisations do not use their brands effectively as important drivers of future business growth.

#### **1.4. Statement of the problem**

The fundamental objective of any business is to create shareholder value. It is believed that most businesses use marketing strategies to drive short term sales instead of investing in brand building activities that will drive long term growth and thus creating sustainable financial growth.

It is well documented that consumers buy brands and that strong brands (brands with strong equity) turn to be more profitable than brands with no equity (Low and Lamb, 2000; Hong-bumm, Woo & Jeong, 2003). Brands therefore have a significant role to play in not only generating short term sales but in creating long term value for shareholders. Because marketing professionals tend to speak a different language to that spoken by the executives and financial professionals, many financial professionals and executives do not give brands the attention that they deserve. According to Doyle (2000), marketing should not be relegated to the marketing function but should be embraced by the whole organisation starting with the top executives. This is because marketing is important in creating value for shareholders as marketing activities have a direct impact on the share price of most companies. In a study conducted by Madden, Fehle and Fournier (2004) to demonstrate the creation of shareholder value through brands they concluded that there is a positive and significant relation between brand equity and stock returns. Bates (2008) highlights that there is a big divide between brand equity and shareholder value because it is often difficult to link the traditional marketing measurements and bigger picture accounting metrics and as such many organisations therefore do not link marketing metrics to financial performance.

Although the link between branding and financial performance seems to be a global issue, some countries have made some strides trying to link the two in order to drive shareholder value. Unfortunately, when a balanced scorecard (BSC) was developed by Kaplan and Norton (1991), in an attempt to link financial and non financial measures, marketing professionals did not show up

and therefore marketing measures were omitted in the balanced scorecard. Srivastava, Shervani & Fahey (1998) developed a concept of Market Based Assets (MBA) a framework developed to allow firms to raise the profile of the brand within the company and to manage a structured investment in that brand so as to achieve the maximum corporate benefit.

Some multinational companies such as Coca Cola, Shell, PepsiCo, McDonald's and IBM have attempted to link marketing metrics with financial measures. According to Ambler (2003), for McDonald's, marketing is assessed quarterly by top management against pre-set targets in conjunction with financial measures. IBM changed their strategy from a product and sales oriented company to a market oriented company by putting excellent marketing metrics in place that were measured in conjunction with financial measures. As a result of this, the company was able to maintain its leadership position and is rated the ninth largest company in the Fortune 500 despite the proliferation of new agile competitors.

Although not much literature is available on the role of branding in financial growth from a South African perspective, it is the researcher's view that some organisations especially multinationals do recognize the value of their marketing asset (brands) in delivering financial growth and therefore have measures in place to track brand equity and measure this consistently. However, whether this information is used in conjunction with financial measures and whether it is shared with the senior management in these organisations is still not clear. Research agencies operating in South Africa such as Millward Brown, Nielsen and Research International have instruments available to measure short term sales, distribution, as well as brand equity measures and most organisations especially within the FMCG industry use these services.

Although there is enough evidence globally to suggest that branding does result in financial growth and those companies with strong brands tend to be more

resilient and deliver better results, there is still a general perception that branding does not play a vital role in financial growth. This is because branding is not a tangible asset and as brand metrics are not reported in most organisations' annual reports. This perception seems to be also prevalent in South Africa as it is believed that most organisations do not use marketing activities to drive long term growth and thus creating sustainable financial growth.

It is therefore against this background that this study endeavors to investigate the role played by branding in financial growth from a South African organisations' perspective.

### **1.5. Sub problems**

The sub problems that flow from investigating the research problem could be formulated as follows:

- Whether marketing strategies are focused on increasing sales or future business growth?
- If brand equity measures are reported as part of the financial company reports, will they receive the focus that they deserve?
- Is there is a link between brand building initiatives and financial measures?
- If most companies agree that their brands are major marketing assets, why do many of them not give enough attention on how to measure marketing performance?

### **1.6. Delimitation of the study**

Like most studies, this research report has limitations.

- The scope of this study is first based on a comprehensive literature review on marketing, branding, brand management, the evolution of branding and brand equity, the role of branding in financial growth and global insights on the role

of branding. The literature will formulate the basis for the study and is therefore critical.

- The sample was convenience-based and therefore the results do not generalise to randomly drawn samples representative of the population. The study focus is on two FMCG companies and the interviews were conducted with Gauteng based managers. Therefore the study is not conclusive for any other company, industry or region.
- For the purpose of this study, the interviews were used to garner information on how marketing activities are measured, how this information is used and whether there is a link between brand management activities and long term financial growth.
- Respondents are not from the top ranks in the companies used for the study. Therefore the results of the interviews could be different if top executives were included.
- As Simba Pty LTD is not listed annual report information could not be obtained or made public.
- The last limitation concerns the context of the study (*South Africa*) which put constraints on the generalisability of the results to other companies and other national contexts. However, the use of South Africa other than United States or United Kingdom of which most of the literature reviewed emanates from, increases an understanding of the role of brand management and its impact on financial measures in other contexts and helps to demonstrate the universality and global importance of the role of branding.

The scope and focus of the study is designed for the Masters of Business Leadership (MBL) and is deemed sufficient for the purpose of acquiring the MBL degree.

### **1.7. Importance of the study**

Although there is sufficient literature to suggest that there is a linkage between brand equity and financial growth, most of the literature has been based on the United States of America or European perspectives. There is modest information on how South African marketing managers measure the effectiveness of branding and brand equity in strengthening financial growth. As highlighted earlier, many companies that possess great brands and outstanding brand management competencies have failed to generate value for shareholders in recent years due to the economics of the market that they operate in and the strategies that managers pursue (Doyle, 2001).

This study endeavours to investigate how managers in South African companies use brands as part of the business strategy to drive growth and create shareholder value. It is envisaged that this study will at least benefit marketing managers who in these tough economic times seem to battle to justify allocation of marketing resources because the role of branding is still perceived in many organisations not to be a source of future cash flows. If marketing managers can start focussing on initiatives that will not only drive short term sales but strengthen brand equity whilst creating shareholder value, then brand building initiatives will be regarded as part of business strategy that will drive future business growth.

A recent study conducted by research house Millward Brown (2008), on the impact of recession on brands revealed that brands that succeed tough economic times are those that are consistently supported amidst the bad economic conditions as this further strengthens brand equity. It is therefore envisaged that this study will help marketing managers to focus on brand investments that will drive business profitability.



### **1.8. Contribution of the study in relation to the existing body of knowledge**

Primarily, the study will contribute to the little knowledge available in South African context on the role of brand management and its impact on financial measures whilst shedding some light on how FMCG organisations in South Africa evaluate branding activities and its financial implications. As highlighted by Ambler (2003), marketing maximizes shareholder value by first attending to the needs of customers through building strong brands. Because there is such a disconnect between brand equity metrics and financial metrics, most companies still do not see the need to report brand equity metrics to the shareholders as it is not perceived to be of financial value. This study may possibly pave a way for further research on the impact of not reporting brand equity metrics on financial reports and the effect this may have on the share price especially for listed companies.

Furthermore, this study will not only be of interest to marketers but to financial managers as well who are always battling to justify marketing budgets, because this is sometimes perceived to be an unnecessary spend and not counted as an investment that will deliver future cash flows thus creating shareholder value.

## 1.9. Clarification of concepts

This section outlines a concise list of definitions and clarification of concepts used in this study. The definitions and concepts are according to Ambler (2003) and Best (2005).

**Table 1.1: Definition and clarification of terms and concepts**

Marketing	The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services, organisations, and events to create and maintain relationships that will satisfy individual and organizational objectives.
Brand Equity	The marketing effects or outcomes that accrue to a product with its brand name compared with those that would accrue if the same product did not have the brand name.
Market Orientation	The degree to which a business has a strong customer focus and competitor orientation and works as a team across functions to develop and deliver a market-based strategy.
Branding	A name, symbol or design (or a combination of them) that identifies one or more product and it is something that is bought by the consumers.
Brand loyalty	A measure of the degree to which a buyer recognizes, prefers and insists upon a particular brand; brand loyalty results from continued satisfaction with a product considered important and gives rise to repeat purchases of products with little thought but with high-involvement.
Brand awareness	Refers to the number of consumers who have heard or are aware of your brand. It can be spontaneous or prompted.

Market share	A widely use ratio to express sales and maybe either volume or value. It is what the company or brand achieves as a percentage of total market.
Brand valuation	The financial growth of the brand equity. Refers to the present value of expected cash flows attributable to the brand equity.
Executive	Upper management or the executive directors of an organisation who are responsible for ensuring that the running of the business will create value for shareholders.
Shareholders	Individual, group, or organisation that holds one or more shares in a firm and whose name the share certificate is issued. Also called a stockholder.
Shareholder value	The ultimate measure of a company's success is to enrich shareholders. For a publicly traded company, Shareholder Value (SV) is the part of its capitalisation that is equity as opposed to long-term debt. For a privately held company, the value of the firm after debt must be estimated using one of several valuation methods, e.g. discounted cash flow or others.
Marketing investment	Marketing expenditure that builds brand equity as distinct from achieving short term gains such as sales discounts, price promotions and other expenditure such as market research.
Market Based Asset (MBA)	A concept used to evaluate the impact of marketing activities on shareholder value. It proposes that the marketing's primary role is to develop and manage market based assets.

### **1.10. Outline of the research report**

Chapter 2 starts with the literature supporting the foundations of the study with insights to the statement of the problem. This is then followed by the most important chapter of this report, a comprehensive literature review on marketing, branding, brand management, the evolution of branding, brand equity, the role of branding in financial growth and global insights on the role of branding is discussed as this will formulate the basis for this study.

Chapter 3 is the research methodology, the sample, research design, discussion guide and data analysis methods. Qualitative interviews were conducted in a form of a case study to help learn more about how managers in South African organisations perceive the role of brand management in financial growth. Semi structured interviews were used to gain insights and gather information. The outcomes of this study are discussed in relation to the literature review. Chapters 4 and 5 are the research results, discussion, critical analysis, conclusions and recommendations.

### **1.11. Summary**

This study is envisaged that it will shed some insights on the complicated subject of brand management and its impact on financial measures. The following chapter forms the basis for this research as there has been many articles published on the importance of linking marketing activities to profitability and finally shareholder value.

## 2. Chapter 2: Literature Review

### 2.1. Foundations of the study

The theory on this subject is grounded on the principle that although it is well accepted that marketing initiatives help firms acquire and retain customers (Rao and Bharadwaj, 2008) and that strong brands tend to be more resilient during hard economic times (Leiser, 2004), it is still difficult to measure the impact of marketing in financial growth. This is because brands by nature are intangible assets which cannot be incorporated in the financial statements. The subject on the role of branding in financial growth has been a debate for financial and marketing professionals for decades. Marketers on one hand believe in the essence of investing in brand building initiatives whilst with financial managers, investing in brand building initiatives only makes sense if it delivers value for shareholders (Doyle, 2001).

According to Doyle (2001), in recent years companies that were regarded as the paragons of brand building such as Procter and Gamble, Coca Cola and Gillette have stumbled and as such CEO's were fired for failure to create value for shareholders even though they were able to create brands that are strong and well liked by consumers. Research has shown that strong brands with strong equity tend to be resilient to price elasticity (Ailawadi, Lehmann, & Scott, 2003) and deliver strong sales (Leiser, 2004); however it is still not clear how most organisations link the intangible measures of marketing with the tangible financial measures. In a study conducted by Ailawadi *et al.* (2003), their findings was that there is a positive correlation between brand equity and price and therefore it was concluded that brand equity makes consumers less sensitive to price increases and thus enables the brand to charge a premium price. A high-equity brand was also found to result in significant sales gains when it cuts its price.

Because a firm's value is the discounted cash flows distributed by the firm to its shareholders, it has been suggested that marketing activities must be linked to cash flows (Doyle, 2000). This however, is still not practiced by many organisations that only link brand activity measurements to sales. According to Ambler (2003), what organisations need are measures of brand performance that go beyond short-term sales and market share.

Brand equity is normally used by most organisations as a measure of how strong the brand is. Brand equity has been considered in many contexts, Aaker (1991), defines brand equity from a consumer perspective of brand loyalty, awareness, perceived quality and brand image whilst other authors such as Farquhar (1989) define brand equity from a financial perspective (added value endowed by the brand). Because brand equity is so important for marketers, many invest millions in marketing activities that are meant to increase it; however there seem to be no link between brand equity measures and financial performance. Many organisations track brand equity consistently in order to ascertain consumer satisfaction, awareness and loyalty amongst other things. Although this is a good practice, it does not add value if this information is not shared with the rest of the organisation especially the executives.

According to Ambler (2003), there is a big difference between measuring brand valuation, market share and brand equity and more often than not most companies focus on brand valuation rather than brand equity. Brand equity is the asset itself whilst brand valuation measures what the asset is worth. It is therefore logical to put measures in place to track how the asset (brand equity) is performing. In essence, building strong brand equity can influence future consumer behaviour and therefore increase the value of a brand (Ambler, 2003). According to a survey on top 100 most valuable global brands 2009, knowing a brand's value is important as it enables business leaders, investors and other stakeholders to make better decisions such as the return on investment in marketing initiatives (Millward Brown, 2008). The brand value is calculated based

on the intrinsic value of the brand derived from its ability to generate demand and is based on customer opinion (brand equity) and financial performance (Millward Brown, 2008). This therefore supports the view that brand equity tracking is important to ensure that the value of the asset is sustained.

A study conducted by Hong-bumm, Woo & Jeong (2003), on the effect of consumer-based brand equity on firm's financial performance, they concluded that a lack of brand equity in hotel firms can damage potential sales flow and that strong brand equity can cause a significant increase in revenue. These findings were based on the fact that consumers base their choice of hotel and how much they are prepared to pay on key factors such as: brand loyalty, awareness, perceived quality and brand image all of these which are key components of measuring brand equity.

From the discussion above, it is evident that brands are the heart of any business and if well managed, they can help increase the firm's financial value however the question is how many organisations are focussing on the short term (sales and market share) versus long term (investing in brand building activities that will drive long term growth and thus creating sustainable financial growth value of the firm).

## **2.2. Marketing defined**

There are many definitions of marketing and as such the subject of marketing is not clearly understood by many people who seem to confuse selling with marketing. To most people, marketing is about selling and advertising of goods or services but the well accepted definition by the American Marketing Association (AMA) is "the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services, organisations, and events to create and maintain relationships that will satisfy individual and organisational objectives" (Baker, 2008).

Ambler (2003) defines marketing as the management process responsible for identifying, anticipating and satisfying the needs of customers profitably. Ambler (2003), further highlights that marketing is the creation and harvesting of inward cash flows however when people talk about marketing they usually mean one of at least three things:

- Pan company (a holistic view looking at what the whole firm does).
- Functional (what marketing professionals do).
- Budgetary marketing (which sees marketing as expenditure which does only advertising and promotion).

Doyle (2000) takes on a different angle and defines marketing from a shareholder view by defining marketing as a management process that seeks to maximize returns to shareholders by developing and implementing strategies that build relationships of trust with high value customers and to create a sustainable differential advantage. During the mid-1980s, however, academic interest began to focus on issues associated with the management of relationships through a concept of "relationship marketing" which was first defined (in a services marketing context) by Berry (1983) as: attracting, maintaining, and enhancing customer relationships. This definition although different from the traditional one accepted by AMA still has to do with meeting and satisfying the needs of customers/consumers.

As a discipline, marketing is in the process of transition from an art which is practised to a profession with strong theoretical foundations. In doing so it is following closely the precedents set by professions such as medicine, architecture and engineering, all of which have also been practised for thousands of years and have built up a wealth of descriptive information concerning the art which has both chronicled and advanced its evolution (Baker, 2008). If marketing is to develop, it too, must make the transition from art to applied science and develop sound theoretical foundations, mastery of which should become an essential qualification for practice (Baker, 2008). According to Doyle (2001), marketing is not an advanced subject like economics or accounting and as such



it becomes very difficult to quantify. Marketers however own the concept of brands and brands are known to be of significance in increasing the value of firms. Marketers therefore tend to spend a lot of time and effort in building strong brands and brands are considered as valuable assets in most organisations.

Although it is clear from the definitions above that the main role of marketing is to meet the needs of consumers or customers, how these needs are met is always a challenge for most organisations. This is because the subject of marketing is intangible and as such the perception of marketing tends to be different for different people. Because of this, it is very difficult to measure marketing effectiveness in organisations and as such marketers tend to use different measures or none at all. According to Baker (2008), marketing starts with the market and the consumer; it recognizes that in a consumer democracy money votes are cast daily and that to win those votes you need to offer either a better product at the same price or the same product at a lower price than your competitors.

According to Marcus and Collins (2003), most marketing organisations are faced with the following critical challenges amongst others:

- More demanding customers who expect tailor made offerings and communications that is aligned with their needs, preferences and lifestyles.
- The ability to support a growing number of marketing activities to drive the customer-centric enterprise while concurrently facing increasing pressure to justify marketing resources and expenditures.
- Dealing with a variety of loosely coordinated marketing silos such as corporate, communications, products, customers, channels, fields and markets that lack sufficient focus on collaboration around key, high-value processes.

Marcus and Collins (2003) further highlights that to be effective, the marketing function must evolve from focusing on products and transactions into placing

more emphasis on customers and relationships that are aligned with enterprise goals and strategies.

Although marketing is perceived to play a significant role in many organisations, most still fail to put marketing measures in place to measure marketing effectiveness. According to Rajagopal (2008), marketing metrics are considered to be effective tools for measuring the qualitative parameters of brand performance in a given market and time, allowing the firm to measure the effectiveness of brand-building activity in reference to brand investment (financial inputs) and brand impact (growth outputs) in the business.

The most common marketing concepts used are Branding and Brand Equity and although these are sometimes used interchangeably, they are two completely different constructs. These two constructs are used largely in organisations to measure marketing performance in relation to marketing investments. Branding and brand equity are also gigantic topics on their own and the role played by these constructs in creating value not only for customers but shareholders has been a subject of debate in many organisations. In order to understand a role that they play, it is important to gain a deeper understanding of the meaning of these and how they have evolved over the years. According to Doyle (2001), to most marketing professionals, brands are the very heart of marketing.

### **2.3. Branding defined**

There are many definitions of what branding is and the common thread in most of these definitions is that a brand must be clearly differentiated. The earlier definition of a brand was proposed by the American Marketing Association “a brand is a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors” (O’Malley, 1991:107). Although this definition was criticised for being too product-oriented and with an emphasis

on visual features as a differentiating factor, Dibb, Simkin, Pride, & Ferrell (1997) modified this original definition to a name, term, design, symbol or any other feature that identifies one seller's good or service as distinct from those of other sellers. The key change in the definition by Dibbs *et al* (1997) is “any other feature” as this allows for intangibles such as brand image as a point of differentiation and not only the tangible visual features.

Ambler (2003) takes on similar viewpoint to that of Dibb *et al* (1997) by expanding the definition further as a name, symbol or design that identifies one or more product and it is something that is bought by the consumers. Ambler (2003) further emphasise the difference between a product and a brand by highlighting that unlike a product, which can be produced in a factory and it can be copied by a competitor, a brand is unique. Earlier definitions by Ambler (1995) was based on a consumer oriented approach by defining a brand as a promise of the bundles of attributes that someone buys and provide satisfaction.

The attributes that make up a brand may be real or illusory, rational or emotional, tangible or invisible. Wood (2000) supports this view and highlights that a brand can be defined from different perspective such as consumers' perspective and/or from the brand owner's perspective. In addition, brands are sometimes defined in terms of their purpose, and sometimes described by their characteristics.

According to Leiser (2004), the understanding of brands today is far beyond the simplistic view of a logo, tagline or advertising image but a set of expectations and associations evoked from experience with a company or product. Furthermore, it is all about how customers think and feel about what the business or product can deliver across the board. Batey (2008) elicit differences between a product and a brand as follows:

- You buy a product for what it does; you choose a brand for what it means.
- A product sits on retailer's shelves; a brand exists in consumers' minds.

- A product can quickly be outdated; a brand is timeless.
- A product can be copied by a competitor; a brand is unique.

Davis (2002) reiterates that consumers do not have a relationship with a product or service but he/she may have a relationship with a brand because a brand is a set of promises and therefore the strongest brands own a place in the consumer's mind. Furthermore, strong brands can increase the value of a company as investors are willing to pay more for intangible asset such as a strong brand (Motameni and Shahrokhi, 1998; Davis 2002; Ambler, 2003; Rooney, 1995). In the context of this research paper, the question could be asked "What is a strong brand?"

According to Aaker (1996), a strong brand has a strong brand equity which is a set of assets such as: brand name awareness, brand loyalty, perceived quality and brand associations. However building strong brands is a challenge in today's environment as there are substantial pressures and barriers both internal and external. Aaker (1996), further highlights that one needs to understand these pressures and barriers in order to develop strong brand strategies. Some of the barriers highlighted by Aaker (1996) are: price, proliferation of competitors, fragmented media and so forth (refer to Appendix 1 for a full list).

Barron (2003) takes on a view that strong brands are built on a solid internal foundation based on four fundamentals:

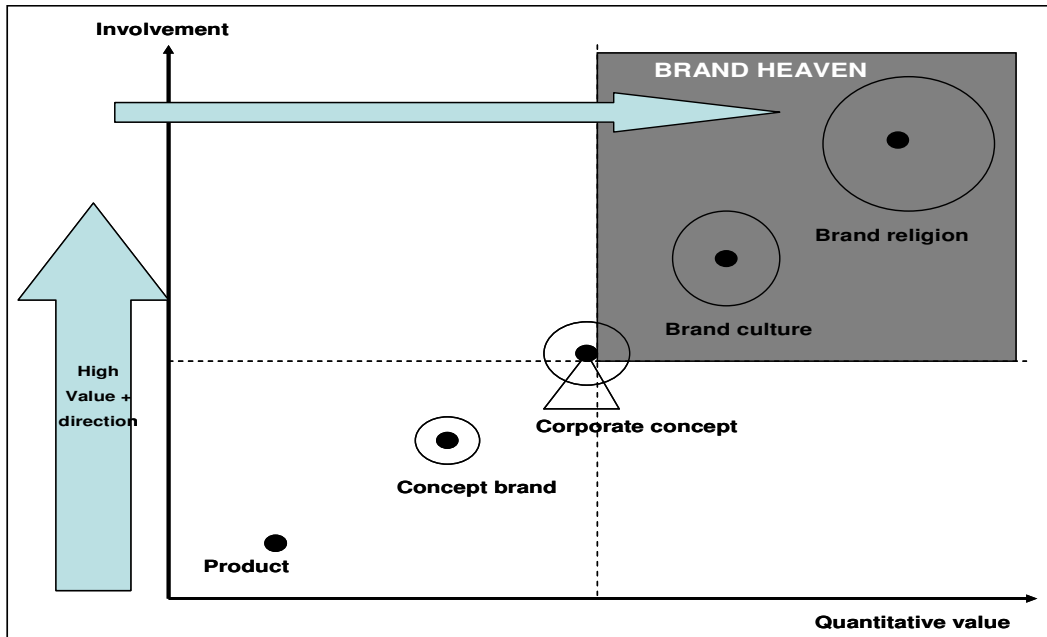
- Create a brand intent
- Align the organisation
- Deliver customer experience
- Measure and refine

Creating brand intent maximises the area of intersection between what a company does well and distinctively and what its targeted customers want or need. When brand intent is clear, it is important the whole organisation is aligned

to ensure that the entire organisation is able to deliver the brand intent as this will help deliver customer experience through organisational capability and processes. Finally, a good evaluation programme will ensure that brands stay on intent (Barron, 2003).

Nandan (2005) suggests that strong brands have two very key distinct features namely brand image and brand identity however no matter how good a company is such as having a unique vision, strong management or superior product if the core benefits of the brand are not clearly communicated to the right target audience, the brand will ultimately fail. This is evidenced by well known strong brands such as Coke, Pepsi, Mac Donald's, Nike, Apple etc. that are always communicated with clear benefits, brand image and identity. Also, managers of strong brands understand the changing needs of consumers and the micro and macro environments. According to Davis (2000), an understanding of competitors is vital in building a strong brand and the failure to understand one's competitors is ultimately the failure to know one's customers: who they are, how they think, and how the brand can be adapted to meet their needs.

According to Kunde (2002), strong brands are made when value is attributed to a product and consumers become involved with it. Kunde (2002) uses a brand religion model to emphasize how brands can be expressed clearly using a mixture of qualitative and quantitative values and this is depicted in figure 2.1 below.



**Fig. 2.1 Brand religion model (source: Kunde, 2002)**

The different brand positions in this model as defined by Kunde (2002: 111) can be summarised as follows:

- Product: products without any kind of value added to the generic elements.
- Concept brand: brands driven by emotional values rather than product properties.
- Corporate concept brand: brands that merge consistently with the company.
- Brand culture: brands that are so strong that to consumers they become synonymous with the function they perform.
- Brand religion: the ultimate brand position, held by brands that have become a must, a belief system, to consumers.

Strong brands are developed over time and the branding literature increasingly suggests that the strength of a brand is not due to the strength of creating a difference in customer perceptions but rather brand strength is due to the meaning that the brand creates (Kay, 2005). Brands however need to be relevant

and appeal to the new generation of consumers and that is why branding has evolved over the years and strong brands are always being revitalised to maintain relevancy and to attract new consumers.

## **2.4. The evolution of branding**

The definition of branding has evolved over the years and the Oxford English dictionary (Oxford, 2009) traces the development of the word “brand” from the German word “brandr” which referred to the mark made by burning with a hot iron and its usage was first noted in 1552. According to Jevons (2005), branding was discovered long before the earliest definition of marketing in 1561 which therefore strongly suggests that branding was defined before the marketing subject was discovered. Over the years the definition of branding has evolved from referring to a brand as a name, symbol or logo” (O’Malley, 1991:107) to people’s perception about a product or a company (Barron, 2003) and over time definitions within the business literature have included value enhancement or adding value (Jevons, 2005).

According to Rooney (1995), the use of branding by big business is nothing new and branding itself is more than one hundred years old with the majority of countries having started trademark acts to establish the legality of a protected asset as far back as 1890. The years 1800 through to 1925 were known as the richest period of name giving (Hambleton, 1987). The 90’s saw a change in branding with a focus on creating mutually beneficial situations for the consumer and the brand. According to Berry (1993), many companies realised that they needed adequate price control measures and effective and efficient brand building activities to strengthen the brand equity. Companies started applying brands to more diverse settings where the role of branding has become more important.

The harsher environments in the 90's forced organisations to work harder to gain profits and thus there was a shift in the way brand management was organised as it became a team effort within organisations with a focus on enhancing the customer experience (de Chernatony, 1996). The concept of branding also became more globalised with global brands gaining more recognition and value. According to Motameni and Shahrokhi (1998), brands that are available in many different countries have more value than brands that are available in a fewer markets.

Over the years, companies have used branding as part of marketing strategy to grow and diversify their businesses and during the 1980's, brands were used as valuable assets for takeovers on the open market and this saw a rise in acquisition of branded companies (Rooney, 1995). The increase in acquisitions in the 80's resulted in many brands suffering because of the change in management that is always associated with acquisitions and this resulted in many brands losing a clear image in the consumers mind (Rooney, 1995).

According to Beverland (2005), brands have always been commercial agents and brand managers take pride in their ability to meet the needs of their target market. However, these two desires are in conflict with the recent trend towards positioning brands as "authentic," emphasizing the timeless values desired by consumers while downplaying apparent commercial motives. The dual problem for the firm is in creating images of authenticity while dealing with the challenge that authenticity presents for brand management. As such brands that seem to be too focused on the bottom line and not on societal issues are sometimes viewed as not authentic.

According to Henkel, Tomczak, Heitmann & Herrmann (2007), market saturation and consumer confusion have changed the role of branding dramatically during the last decades. Consumers therefore try to handle the flood of apparently exchangeable products and services by demanding those goods that provide a



holistic and coherent consumption experience. As a result, brands are no longer simple product labels, but they are communication platforms towards customers and other stakeholders that convey specific attributes of products or services as well as company values and mission statements. Kunde (2002), highlights that today, however the western world is over supplied and there is an over abundance of everything and we live in an era of excess. Offering more of the same is no longer a viable option and differentiation and uniqueness are important. Kunde (2002) further highlights that there is only one place that marketers must be serious about and that is the human mind.

As highlighted in the earlier sections, consumers do not purchase products but purchase brands and therefore top of mind awareness is important. If your brand can maintain top of mind awareness and is unique and clearly differentiated, it becomes easier for consumers to select this brand over those of competitors and it becomes part of their repertoire. However no matter how much marketing support goes behind a brand, it is important that the right message about what the brand stand for is communicated. Today, brand management is still as complex as it was before as brands are not static but evolve all the time and the role of brand custodians is to ensure that the brand remains relevant in consumers' mind and repertoire.

## **2.5. Brand Management best practices**

Companies that apply brand management best practices seem to show better financial results than those that do not apply best practices. Dunn and Davies (2004), suggest that having a brand focused business should be a top to bottom approach driven by top executives. In today's environment, branding should not be limited to marketing departments but companies should adopt brand driven businesses strategy and must understand every way in which their brand/s touches their various stakeholders and how to manage various stakeholders in managing the brand effectively (Dunn and Davies, 2004). This view is supported

by Barron (2003), who argues that strong brands need to create an intent that is focused on creating an internal environment that is brand focused and that all employees led by the senior management team need to understand the significant role that brands play in the organisation.

Barron (2003), further highlights how big brands like Harley Davidson, Home Depot, Dell Computer and Wal-Mart have invested in developing strong brands with a focus of creating a positive customer experience by constructing a solid internal foundation before reaching out to customers with a clearly articulated intent and this has yielded top of category share performance. This view is also supported by Davis (2002), who adds that brands should be managed as assets using a top down approach where senior executives embrace the concept that brands should have a leading seat at the strategy table and use the brands to drive key strategic decisions. Also if senior executives are vocal and show commitment to the brands, then employees within an organisation will start taking ownership of the brand.

According to Groucatt (2006), companies need to understand both the internal and external factors that can affect brand management and therefore by understanding these influencing factors an organisation can review their brand's position within the marketplace. Moreover, they can aim to forecast or scenario-plan possible outcomes for their brand. Brand management today has proven adaptable to differing firm and marketing environments over its existence. Shocker, Srivastava and Ruekert (1994), add that given the dramatic changes in the competitive nature of the markets, firms face difficult tradeoffs between the increasing importance of coordinating brand activities, both within and outside the organisation and the pressures to decentralize decision making and eliminate entire layers of management to cut costs.

Successful companies in the new millennium have been those who have learnt to reinvent their business models whilst still increasing values for both consumers

and shareholders. According to Johnson, Christensen & Kagermann (2008), the success of companies such as Apple with the launch of the IPOD was based on having a good business model that supported innovation through four factors: strong customer value proposition, profit formula (based on revenue and margin model), key resources and processes. For this business model to work, it is important that organisations do not leave innovations to the marketing and research and development departments but it requires total commitment from all functions and must be endorsed by the executive team.

From the above review, it is evident that brand management best practice is important not only in creating strong brands that are relevant to the consumers but help deliver financial growth and that the role of brand management should not be relegated to the marketing team but it is the responsibility of the entire organisation. According to Best (2005), a strong market orientation cannot be created by a mere proclamation but by adopting a market based management philosophy whereby all members of the organisation are sensitive to customers' needs and are aware of these needs. The benefits of strong market orientation are: better understanding of competitors, customer focus, customer satisfaction and high profits (Best, 2005).

## **2.6. Brand Equity**

Brand equity is another concept that is closely related to branding and brand management. The concept of brand equity was invented in 1980's and only gained popularity in the 1990's (Aaker, 1991). It is therefore still a relatively new and complex concept that is often difficult to describe. The steadily growing literature contains several often divergent viewpoints on the dimensions of brand equity, the factors that influence it, the perspectives from which it should be studied, and the ways to measure it. However, there is agreement among researchers on the general definition of the concept. Brand equity is defined as the marketing effects or outcomes that accrue to a product with its brand name

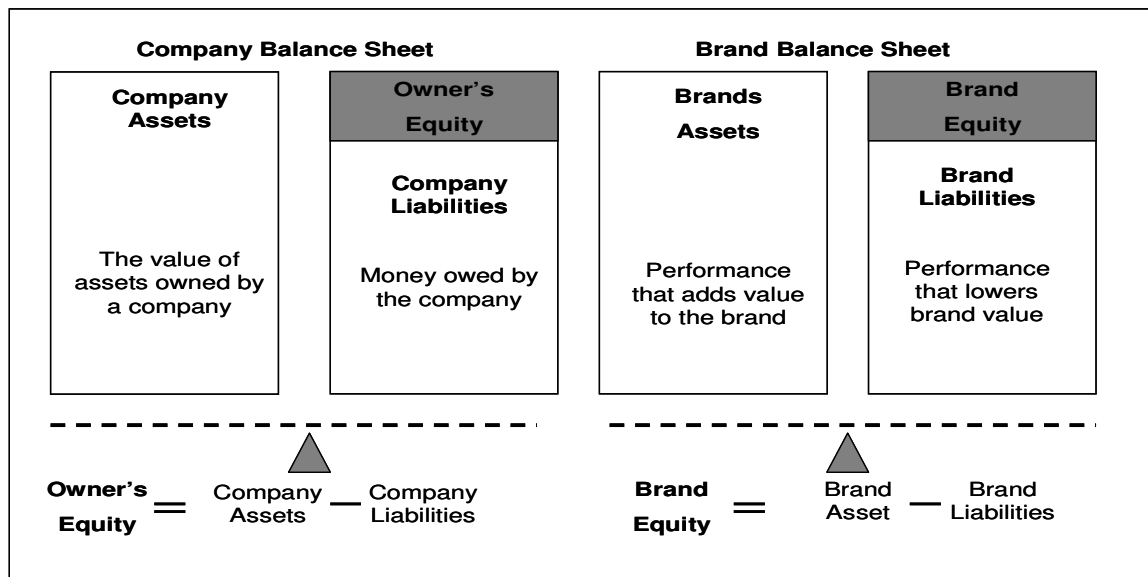
compared with those that would accrue if the same product did not have the brand name (Aaker 1991; Dubin, 1998; Farquhar 1989; Keller 2003; Leuthesser 1988).

Ambler (2003: 281), defines brand equity as “ an important intangible asset for the company, it can be seen as the reservoir of results gained by good marketing but not yet delivered to the profit and loss account”. Yoo, Donthu & Lee (2000), define brand equity as the difference in consumer choice between a branded and unbranded product given the same level of product features. Aaker (1991) defines it as a set of assets and liabilities connected to a brand that add to or detract from its value to the customer and to the business and creating brand equity profile involves the identification of the various customer associations with a brand and levels of customer awareness and loyalty that set it apart from competitors. Leiser (2004), concur and adds that all those associations (positive, negative and neutral) evoked from customer experience with a brand combine to create the brand’s equity.

Because brand equity is such a complex subject, it can be viewed from a variety of perspectives. Motameni and Shahrokhi (1998), highlights that although brand equity is generally viewed from two perspectives such as: marketing decision making and financial perspective, there is a need to view brands from a global perspective especially since successful maintenance of global image and recognition translates into hard currency in international business as is the case with the likes of McDonald’s and Coca Cola. Marketing decision includes aspects such as awareness, loyalty, quality and propriety brand assets with an aim of improving efficiency of the marketing process. Financial decision on the other hand involves financial market value based techniques (Motameni and Shahrokhi, 1998).

Best (2005), defines brand equity the way the term equity in business is normally defined as depicted in figure 2.2 below. According to Best (2005) in a business,

the owners equity is the value of the owner's holdings in the company and is determined by the difference between what a company owns in assets and what a company owes in liabilities, therefore the larger the ratio of assets to liabilities the greater the owner's equity. Brand equity can also be assessed the same way and to calculate brand equity one must simply subtract the total brand liability score from the total brand asset score (Best, 2005).



**Figure 2.2: Brand Balance Sheet and Brand Equity (Best, 2005)**

Brand equity can also be used to distinctly separate selling from marketing as in essence selling seeks an immediate order for a product and aims to increase the revenue line of a profit and loss account immediately whilst marketing invests resources before it expects to reap the rewards (Ambler, 2003). Brand equity has become the most valuable asset for many companies. Kohli and Thakor (1997), make a very good point by highlighting that consumers do not buy jeans but buy Levi's and no one buys corn flakes but Kellogg's and furthermore, the strength of the brand names have resulted in acquisitions amounting to billions for the following companies:

- Nestle acquired Perrier for \$2.5 billion.
- Phillip Morris acquired Kraft for \$13 billion.
- Nabisco was sold for over \$25 billion.

According to Ambler (2003) there is also a distinct difference between the asset (brand equity) and what the asset is worth (brand valuation). Brand equity also plays an important role in increasing the value of the business and companies pay good money for these assets (Ambler, 2003; Motameni and Shahrokhi, 1998). Aaker (1996) highlights that there are four major assets through which brand equity generates value and these are: brand name and awareness, brand loyalty, perceived quality and brand associations (see appendix II).

Because of the value that brand equity adds for shareholders, it is still surprising that there are still debates as to whether brand equity building activities are important or not and as a result companies that are focused on short term gains do not perceive brands as important assets. By viewing brands as assets, companies are better able to put their brand building expenditure in context with the value that those brands deliver (Davis, 2002).

According to Yoo *et al* (2000), there are several dimensions of brand equity and any marketing action has the potential to affect brand equity because it represents the effect of accumulated marketing investments into the brand. Furthermore, brand name recognition with strong associations, perceived quality of product, and brand loyalty can be developed through careful long-term investments. In a study to examine selected marketing mix and brand equity, Yoo *et al* (2000), recognised that there are two types of marketing management efforts from a long term perspective of brand management namely: brand-building activity and brand-harming activity. It was observed that frequent use of price promotions is a typical example of brand-harming activity whilst high advertising spending, high price and distribution through retailers with store images and high distribution intensity are good examples of brand-building activity. The results of regular price cutting can negatively affect brand equity as a perception is created that product quality has been compromised. In their recommendations, Yoo *et al* (2000), suggests that managers should avoid

frequent price cuts or a consistent low price strategy because they lower perceived quality and product image.

From the above discussion, it is evident that brand equity is a major marketing asset of many firms and that it can be used to drive long-term growth and deliver value for shareholders. Although brand equity plays a significant role in increasing shareholder value, it is important that measures are put in place to track it. It is a well known fact that what is not measured is not managed and therefore tracking and measuring brand equity assist in creating brands that consistently deliver on their promise. As brand equity is an intangible asset, most people struggle to quantify it however various tools are available that have been used effectively by many organisations to measure brand equity as discussed in the following section.

### **2.7. How is Brand Equity measured?**

According to Rust, Ambler, Carpenter, Kumar, & Srivastava (2004), it is important to measure marketing asset of a firm which they define as customer focused measures of the value of the firm (and its offerings) that may enhance the firm's long-term value. To measure this, they focus on two approaches: brand equity and customer equity. Measuring brand equity deals with the measurement of intangible marketing concepts, such as product image reputation and brand loyalty. Rajagopal (2008) supports the view of measuring the marketing asset of a firm and highlights that the major advantage of a brand measurement system is that it links brand management and business performance of the firm and is a strategic management tool for continuous improvement rather than a static snapshot in time of the brand's performance.

An effective brand measurement system therefore helps businesses to understand how the brand is performing with the framework of customer values and against competing brands.

According to Ambler, 2003 many companies measure brand equity to ensure that marketing activities are aligned with the company's strategy and to ensure that investment is used for the right brands. Ambler (2003) further defines marketing metrics as quantified performance measures regularly reviewed by top management which can be classified into six categories such as:

1. Consumer intermediate: such as consumer awareness and attitudes. The measure lies in inputs (advertising) and behaviour (sales).
2. Consumer behaviour: such as quarterly penetration.
3. Direct trade customer: distribution availability.
4. Competitive market measures: market share (measure relative to a competitor or the whole market).
5. Innovation: such as share of turnover due to new products.
6. Financial measures: advertising expenditure or brand valuation.

Multinationals such as Coca Cola, PepsiCo, McDonald's, IBM and many others have marketing metrics in place that are used globally to measure and track brand equity.

According to Kish, Risky & Kerin (2001), PepsiCo measures and tracks brand equity using a propriety model called Equitrak™ which is based on two factors: (1): Recognition – how broad and deep is a brand's awareness and (2): Regards: which measures how people feel about the brand and includes brand reputation, affiliation, momentum and differentiation. The Equitrak™ model used by PepsiCo not only tracks the company brands but competitor brands as well and is used by all subsidiaries in different countries. McDonald's UK has key areas for metrics to track their marketing quarterly: 1. Sales transaction (which also includes customer satisfaction, value for money and cleanliness), 2. Market share and



brand equity measures (awareness, and advertising recall) and 3. Mystery diners who visit the stores to evaluate the service level (Ambler, 2003). Shell also uses a global tracker which provides metrics and diagnostics for their brand versus competitors across 70 countries and has a range of questions including awareness, trial, purchase, loyalty and image (Ambler, 2003).

The key therefore is to balance financial and non financial goals and many authors do agree that top management must support this and regular review of both financial and non-financial goals is necessary to drive a market orientated business. Dunn and Davies (2004), suggest that having a brand focused business should be a top bottom approach driven by the top executives. The concept of market orientation therefore plays a significant role. According to Barwise & Farley (2004), both external and internal forces are steadily forcing firms to be more market oriented and research suggests that market-oriented firms tend to enjoy superior performance. This view is supported by Best (2005), who says that a strong market orientation cannot be created by a mere proclamation but by adopting a market based management philosophy whereby all members of the organisation are sensitive to customers' needs and are aware of these needs. The benefits of strong market orientation are: better understanding of competitors, customer focus, customer satisfaction and high profits (Best, 2005; Ambler, 2003).

Davis (2002) adds that brands should be managed as assets using a top down approach where senior executives embrace the concept that marketing should have a leading seat at the strategy table and use the brands to drive key strategic decisions. Also if senior executives are vocal and show commitment to the brands, then employees within an organisation will start taking ownership of the brand.

## **2.8. The role of brand management and its impact on financial measures**

One of the many changes that have taken place in the past quarter of a century is the emergence of successful brands as the potential source of long term competitive advantage. Davis (2000), emphasizes that many companies exist because of the brands they own and not the other way round and as a result of this, companies should maximise their financial returns by utilizing the power of the brands. The subject on whether strong brands deliver financial growth has been an ongoing debate for a while and one can argue that if brands provide a primary point of differentiation from competitors, they are valuable assets to companies and should therefore be given the focus they deserve. Unfortunately this is not always the case in most organisations as the understanding of the role of branding within organisations is never the same especially between the marketing and finance functions.

According to Doyle (2001), most marketers are still naïve and hold a view that brands are an objective to deliver sales growth and not as a strategy to drive shareholder value. Because of this, there is always a conflicting view between the marketing and finance teams as to what role does branding play in creating shareholder value? Also, if brands are assets just like the tangibles and can be used to create shareholder value then why is it that brand measures are not part of most companies' financial statements and why is it that marketing metrics are not discussed at executive level?

According to Bates (2008), contrary to what some marketers may think, shareholders are logical and know that marketing efforts do drive company business and overall value, they just need proof, and they need it in their language. The biggest challenge therefore is drawing links between the intangible world of marketing to the clear-cut vocabulary of business performance. As highlighted by Butterfield (1999), the basic problem with marketing management is that its objectives are unclear and marketing

managers have come up with a variety of metrics for evaluating campaigns and justifying their performance. The most common criteria for measuring the effectiveness of marketing are increases in sales and market share (Butterfield, 1999) but not shareholder value.

In a research note by Marcus and Collins (2003), top ten processes for the twenty first century are identified and these include amongst others: marketing visibility, accountability and value measurement. Achieving greater visibility and accountability of marketing efforts requires enterprises to develop and deploy formal, standardised processes and systems for the planning, budgeting and tracking of marketing efforts. Marcus and Collins (2003), concluded that although traditional value-added marketing processes will continue to play a role in the evolution of the marketing function, marketers need to focus their attention on new processes and capabilities and therefore businesses must find time to develop and master more-advanced marketing processes by improving the efficiency of the marketing function and by shifting resources, to be better aligned and to produce greater value.

### **2.8.1. What determines shareholder value?**

It is universally accepted that the primary task of management in organisations is to maximise returns to shareholders (Black, Wright & Bachman, 1998; Bender & Ward, 2002; Brigham and Ehrhardt, 2005). According to Doyle (2000: 300), “modern finance is based on four principles: the importance of cash flow, the time value of money, the opportunity cost of capital and the concept of nett present value. Cash is the bases of value as it is what is left over for shareholders after all the bills have been paid and cash has a time value because a pound today is worth more than a pound tomorrow”. The opportunity cost of capital is the return investors could obtain if they invested elsewhere in companies of similar risk. The nett present value concept calculates the value of an asset as the sum of the free

cash flows discounted by the opportunity cost of capital. Therefore by maximising the nett present value of a business, managers are pursuing those strategies most likely to maximise the returns to shareholders (Doyle, 2000).

In a paper presented at the 'Marketing in the new millennium conference', Smith (2005) highlights the importance of managing customers and brands against shareholder value as investors are no longer passive but are more influential and love businesses that attract more customers, keep them longer and have them spend more. The role of marketers therefore is no longer just about advertising to create brand awareness and short term sales but marketing can become the key driver of shareholder value by enhancing its knowledge of consumer and brand understanding with financial and value creation agenda. According to Rappaport (1998), sales growth increases economic profits only if the operating margin on the additional sales covers the higher costs and investment incurred in achieving the growth.

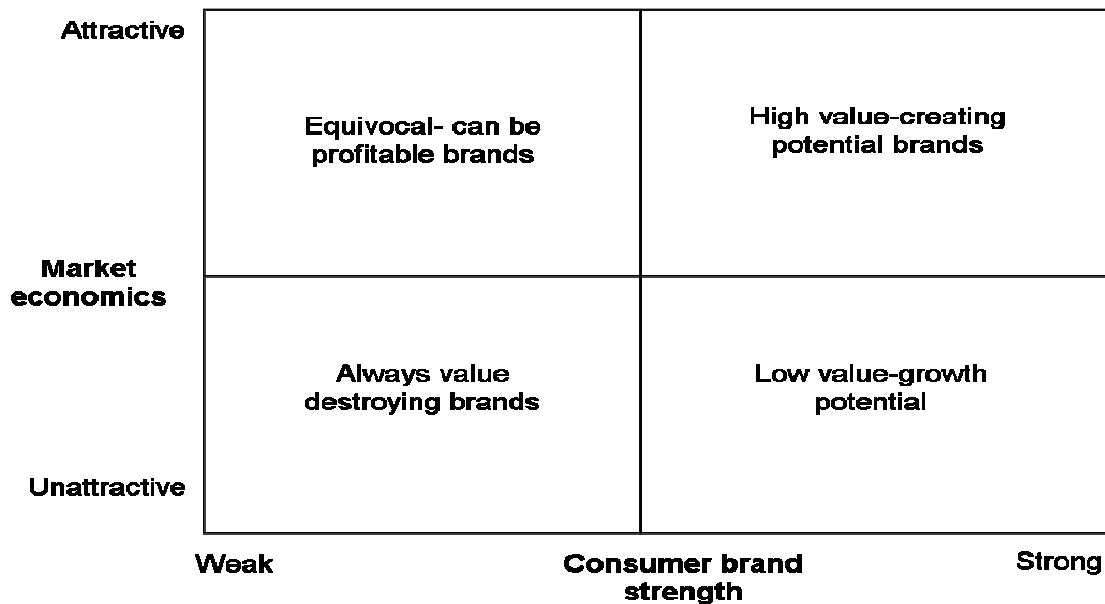
In an empirical study to demonstrate the creation of shareholder value through brands conducted by Madden, Fehle and Fournier (2004), to explore portfolio performance of two sets of stock prices: one comprising firms with a proven emphasis on branding and one without this demonstrated commitment (the latter serving as a benchmark), they concluded the following:

- There is a positive and significant relation between brand equity and stock returns.
- World most valued brands (WMVB) portfolio significantly outperformed benchmark portfolios.
- The increased returns from branding are not associated with higher risk as might be expected given the efficient market hypothesis.

Although the study conducted by Madden *et al* (2004) confirmed a positive relationship between brand equity and stock returns, it does not constitute evidence of shareholder value creation.

Doyle (2000) supports the view that marketing has changed from creating value for the customers to creating value for shareholder by developing relationships with valued customers and creating a competitive advantage. Indeed, there is increasing recognition in marketing that the field must become more financially accountable (Srivastava, Shervani, & Fahey, 1997). Because managers of a publicly traded firm have a mandate to maximise the shareholders' wealth, there is more discussion of how marketing actions must be aimed toward this goal. The implementations of measurable metrics that link marketing to financial growth have become more significant.

Doyle (2001) also takes on a different angle on brands and highlights that having a strong brand is not good enough as this depends on the market environment as well. According to Doyle (2001), strong brands in attractive markets will always be profitable and create value for their shareholders however weak brands in unattractive markets will always be unprofitable and will not produce returns above the cost of capital. Fig. 2.3 below is a diagram summarizing this.



**Fig 2.3: Market economics and the value creating potential brands (Source: Doyle, 2001)**

According to Reynolds and Phillips (2005), many of the problems that underlie brand metrics are based on the traditional measures such as sales and market share which are obviously flawed, yet market share has endured as the gross measure of brand health. Reynolds and Phillips (2005) cite that the reason this is so is that market share is easily measured and understood, and readily translates into the universal language of business success in obtaining sales in the competitive marketplace. It is because of this that these authors recommend a holistic view of brand metrics by starting with the premise that all share is not equal, and thus recommends a combination of multiple constructs such as (1) relative barrier or brand price, (2) brand quality perceptions, (3) brand purchase loyalty, and (4) self-report future brand purchase trend. They recommend that this general measurement framework for “true” brand equity when applied longitudinally permits the evaluation of marketing return on investment (ROI).

Almost twenty years ago, Interbrand applied for the first time a brand valuation model, which would later become internationally known through its publishing by Business Week. This model validated a basic principle: a brand can be measured in a way similar to a tangible asset, through the discounting of the cash flow (net present value) generated by the brand compounded by its strength on the market (Roslender and Hart, 2006). All the models that followed – especially those set up by brand consulting companies – were based on this principle, which was also accepted by the international accountancy and evaluation standards (Brandient, 2007; Madden *et al*, 2004).

Rajagopal (2008) supports the view that it is important to put measures in place for brand performance and as a result brands scorecard is recommended that will help with metrics for brand’s marketing and financial performance. The balance scorecard was first designed by Kaplan and Norton (1992) as a measure to include non-financial measures of firm’s performance. Although the balanced scorecard has been used in business as a management system to measure

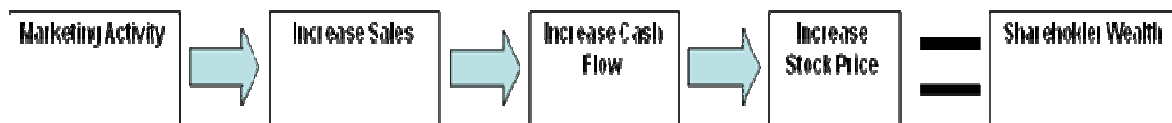
performance, it has been criticised because it does not solve the problem of connecting marketing performance indicators and a company's ultimate value (Bates, 2008). It is therefore important to enhance the understanding of marketing-finance interface by developing a framework that captures the linkages between marketing activities and the creation of shareholder value.

Srivastava, Shervani & Fahey (1998) developed a concept of Market Based Assets (MBA) to augment the linkage between marketing and finance. The MBA framework was developed to evaluate the impact of marketing activities on shareholder value. The framework developed by Srivastava *et al* proposes that marketing's primary role is to develop and manage market based assets such as customer relationship, channel relationship and partner relationship which in turn increase shareholder value by accelerating and enhancing cash flows thus lowering the volatility and vulnerability of cash flows and increasing the residual value of cash flows. According to Srivastava *et al* (1998), market based assets are principally of two related types: relational and intellectual and are primarily external to the firm and generally do not appear on the balance sheet and are largely intangible.

In order to understand how assets generate financial growth, one needs to dissect the definition of assets. Barney (1991) defines an asset as any physical, organisational or human attribute that enables a firm to generate and implement strategies that improve its efficiency and effectiveness in the market place. As such assets can be tangible or intangible, on or off the balance sheet and external or internal to the firm. According to Doyle (2000), tangible assets only account for a small proportion of the market value of companies and that the market to book ratio in Britain's largest companies averages three, which suggests that two-thirds of the market value of these companies lie in intangible assets.

Doyle (2000) suggests that marketing assets can be divided into four types: marketing knowledge, brands, customer loyalty and strategic relationship.

Because marketing assets do not appear on the balanced sheet, it is never easy to measure its value. Indeed it is a well accepted factor in business that cash is king. Doyle, 2001, highlights that in the past few years, companies that are known to be paragons of brand building have stumbled as CEO's failed to deliver value for shareholders by focusing on marketing strategies that created high awareness and great value brands that customers wanted but did not generate sufficient cash to build businesses that were viable long term. Marketing literature has already demonstrated that a marketing action yields cognitive and effective outcomes which in turn lead to purchase (Rao and Bharadwaj, 2008). This is based on the assumption that marketing action will increase sales, which in turn will increase expected cash flow, which in turn will increase the stock price and thus shareholder wealth.



**Fig 2.4: Schematic representation of how marketing activities increase shareholder value (Source: Rao and Bharadwaj, 2008)**

The diagram above (Fig.2.4) is a simplified version assuming that a marketing action will increase sales and thus shareholder value., This is not always the case as not all brand activities result in sustained financial growth. This is especially true for “Not-for-Profit” companies. The discussion that marketing actions must be linked to cash flows because the cash flows distributed to investors ultimately determine the value of the firm has also been supported by Srivastava, Shervani & Fahey (1998) and Rust, Zeithamal and Lemon, (2004). Although the literature has begun to discuss how marketing activities or building strong brands will increase sales, which in turn will increase expected cash flow, which in turn will increase the stock price and thus shareholder wealth (Doyle, 2001; Srivastava *et al*, 1998; Rappaport, 1986), there is still not much evidence on how strong brands deliver financial growth.



Rao and Bharadwaj (2008), argue that the link between marketing action and shareholder wealth is not that simple and that marketers must be able to address how their actions affect expected cash flows and this requires a modeling of the nature of the uncertainty facing the firms. Various internal and external factors will have an impact on marketing activities. In reality, not all marketing activities result in increased sales or even stronger brand equity. There is also evidence that buyers respond differently in different states of economy. Findings by Lamey, Deleersnyder, Dekimpe & Steenkamp (2007) suggest that buying behaviour depends on the state of the economy and as such private labels products purchases are asymmetric and increase or decrease based on the state of the economy.

According to Leiser (2004), there is no doubt that strong brands do impact on financial performance with brands like Coca Cola and IBM whose brand carries an estimated value of \$69.6 and \$51.2 billion respectively. Leiser (2004) argues that businesses need to do a better job of optimizing the wealth of information that can be unearthed by leveraging brand equity and develop better associations that contribute to how they relate to business results. Van Mesdag (1997) defines the purpose of a brand as the profitable continuity of the organisation that owns it and a priority of a brand owner as the determination of the segment that the brand caters for and the maintenance and strengthening of the brand in that segment.

Ambler (2003), suggests that customers are not owned by suppliers and that although shareholder value is the leading business principle of the twentieth century it is still in essence the same as dealing with Discounted Cash Flow (DCF) and customer lifetime value (CLV) which are concepts that have their own flaws. Valuation of brands should not be based on a single measure but a combination of various metrics is required. In essence, marketing maximises shareholder value through first attending to the aspirations and needs of customers and employees (Ambler, 2003).

It is evident that brands can play a significant role in increasing financial growth; however this can only be attained if marketers focus their strategies on activities that will create long term growth rather than short term gains and sales. Also the link between marketing action and shareholder wealth is not that simple and therefore it is important that marketers develop strategies that are aligned with the goals of the business. As highlighted by Doyle (2002), strong brands, customer awareness, market share and satisfied customers are not goals in their own right, but means to create shareholder value.

### **2.9. Global insights: perception of the role of branding in financial growth**

As highlighted in the above sections, a brand is intangible and therefore not easy to measure. According to Seetharaman, Nadzir & Gunalan (2001: 243), “a brand can be defined as an asset that does not have physical existence and the value of which cannot be determined exactly unless it becomes the subject of a specific business transaction of sale and acquisition”.

Although many businesses strongly believe that strong brands results in financial growth, not too many are able to measure this because of the intangibility of a brand and accountants have come up with different methods for brand valuation. According to a research conducted by Seetharaman *et al* (2001), different countries treat brands valuation differently. In the USA, there is no special valuation issued by the Accounting Principles Board (APB) hence they use market capitalisation. In the UK and Australia, accounting rules require companies to write off the goodwill obtained through acquisitions, this rule however drew protest from a lot of UK companies who argued that acquired brands were not goodwill but identifiable assets. In Malaysia, companies prefer not to see brand issues in the balance sheet.

For marketers, the best way of measuring the value of branding is through brand equity metrics, market shares and short term sales gain. Ailawadi, Lehmann & Scott (2003), proposes the use of revenue premium as an outcome measure of brand equity. Revenue premium measure provides a useful guide to the value of a brand during mergers and acquisitions, it is easy to calculate and can be monitored on an ongoing basis for several brands in several product categories. Ailawadi *et al* (2003), also proposes the use of private labels as a benchmark product with no equity, as this helps depict how the brand would look like if it had no equity and the results show that high revenue premium brands gain share when they cut prices but lose relatively little when they increase price.

Reynolds and Phillips (2005), starts from the premise that all market share is not created equal and therefore recommends measuring brand equity using the share tier approach which includes three components to defining loyalty: beliefs, behaviour and the likelihood of these two factors remaining constant in the future. Reynolds and Phillips (2005) concluded that using the share tier approach not only provides insights about the true equity component of the brand's share but is also possible to relate it to the brand's overall financial performance.

One of the key reasons highlighted by Ambler (2003) as to the strength of financial information being easily available is that value analysis emanates from accounting information and the responsibilities in this sector are closely integrated however this is not the case with market information. Even though most organisations acknowledges that marketing and brands are important in driving financial growth, and conducts an enormous amount of research to obtain market related information, this is still not well integrated and readily available. Market data on consumer behaviour, marketing metrics etcetera is still not integrated within most businesses and there seems to be pockets of information owned by individuals and not shared with the rest of the business.

Although not much data is available from the South African context, it is the researcher's assumption that most organisations use brand equity and market shares as key marketing measures and that brand measures are not reported in many organisations' balance sheets. Also it is the author's assumption that most organisations in South Africa do not link marketing measures with the firm's financial measures and that the focus is more on short term gains such as sales and market share rather than long term shareholder value.

### **2.10. Market Orientation**

There are many views of what market orientation is but the most common one is that it is a way organisations create a culture with strong focus on customers. Market orientation is a business culture focused on the continuous creation of customer value that is posited to be a source of competitive advantage that positively influences business performance (Slater and Narver, 1990; Farley, Deshpande & Webster, 1993). A substantial number of studies are reported in the literature that test hypotheses relating a market orientation to a firm's performance as measured by financial measures such as profit, relative profit, return on investment or assets, and non-financial measures such as new product success and innovation (Farley *et al*, 1993). The empirical results generally confirm a positive relationship with measures of performance, though the strength of the association is often weak (Pelham and Wilson, 1996).

Best (2005) defines market orientation as the degree to which a business has a strong customer – focus and competitor orientation and works as a team across functions to develop and deliver a market-based strategy. Best (2005) further demonstrates that marketing knowledge is a key correlate of a strong market orientation and customer focus and that efforts to improve marketing knowledge have been shown to increase market orientated attitudes. Ambler (2003) defines marketing as the means whereby a firm achieves its key objectives and further

highlights that market – orientated firms consciously take the consumer's viewpoint first. A consumer first attitude generally helps the organisation to prioritise and service and customer satisfaction become very important within the organisations.

According to Narver, Slater & MacLachlan (2004), the concept of market orientation implies both responsive market orientation, which addresses the expressed needs of customers, and proactive market orientation, which addresses the latent needs of customers (that is, opportunities for customer value of which the customer is unaware). In the numerous market orientation performance studies to date, the measure of market orientation has consisted virtually entirely of behaviors related to satisfying customers' expressed needs rather than satisfying their latent needs as well. In the present study, Narver *et al* (2004) extended the measurement of market orientation to match the full scope of the concept such as measuring both responsive market orientation and proactive market orientation. Their findings implied that for any organisation to create and to sustain new-product success, a responsive market orientation is not sufficient and, thus, that a proactive market orientation plays a very important positive role in an organisations' new-product success (Narver *et al*, 2004).

From the above, it is evident that although as defined by Ambler (2003), marketing is the means by which organisations achieve their key objectives by meeting the needs of consumers or customers, it is important that the entire organisation create a culture that is market orientated. As highlighted by Best (2005), market orientated organisations tend to be more profitable than those that are not and furthermore market orientation helps break down the silo mentality within organisations and promotes team work (Narver *et al*, 2004). Also the executives can play a significant role in ensuring that the organisational culture promotes market orientation.

In most organisations, employees are very important stakeholders who have a significant role to play in ensuring that the business creates value for shareholders. It is therefore important that employees within the business fully understand the business objectives, how the business addresses the needs of the chosen market segment and what role each individual can play. In organisations that are market orientated, employees play a significant role as they are usually the first point of contact with consumers and therefore their knowledge of the business goals and a general understanding of the market is important

### **2.11. Marketing performance measurements**

In section 2.7, brand equity measurements are discussed. However, it is also significant to understand how marketing performance is measured in general. Traditionally, in the past marketing performance measurement has traditionally focused on top line financial metrics such as sales and sales growth (Ambler, 2003). In recent years, marketing performance has been moved to financial attention which has shifted to the bottom line expressed as net cash flow, profits or shareholder value (Lehmann and Reibstein, 2006).

According to Ambler (2003), how well marketing is performing depends on three types of comparison: what was expected; external benchmarking against the market or competitors; and adjusting for any brand equity in order to compare like with like. Measuring marketing performance is critical and in a study conducted by CMO (CMO Council, 2004) it was found that companies that have formal performance measurement systems consistently achieved a higher level of Chief Executive Officer's confidence in the marketing function, and that companies using marketing performance measurement systems tended to outperform the market in terms of sales growth, market share and profitability. It was also suggested that in addition to the above, marketing accountability raises the role

of marketing, its influence and its stature within the organisation, and this can result in buy-in and support from other functions (The CMO Council, 2004).

According to Rajagopal (2008), marketing metrics are considered to be effective tools for measuring the qualitative parameters of marketing performance in a given market and time, allowing the firm to measure the effectiveness of brand-building activity in reference to brand investment (financial inputs) and brand impact (growth outputs) in the business. Ambler (2003) supports this view and reiterates that marketing metrics must be aligned with business strategy in order to ensure that long and short term goals are balanced.

According to Ambler (2003), marketing metric is a quantified performance measure regularly reviewed by top management and can be classified into six categories, namely:

- Consumer intermediate: such as consumer awareness and attitudes. The measure lies in inputs (advertising) and behaviour (sales).
- Consumer behaviour: for example quarterly penetration.
- Direct trade customer: distribution availability.
- Competitive market measures: market share (measure relative to a competitor or the whole market).
- Innovation: such as share of turnover due to new products.
- Financial measures: advertising expenditure or brand valuation.

According to Ambler (2003), different companies use different metrics to measure marketing performance and that there are five stages of assessing the marketing performance and these are:

### **2.11.1. Unaware**

During this stage, the organisation is not aware of the issue and marketing is not seen as something requiring the formal attention of the executives. Ambler (2003) further highlights that among leading US and international marketers, twenty five percent did not routinely report marketing performance information to their executives whilst four percent did not know if they did.

### **2.11.2. Financial evaluation**

In stage two, assessment is seen in terms financial evaluation and commercial matters for an executives' attention needs to be expressed as money. During this stage, difficulties in affording and setting marketing budgets normally lead to questions on return on marketing expenditure (ROME). Also this stage can typically be perceived as a 'black box' approach to marketing as executives are only concerned with financial inputs and marketers do not see a need to share marketing measures with executives (Ambler, 2003).

### **2.11.3. Many measures**

In stage three, financial measures are seen as inadequate and therefore a plethora of non-financial measures come into use in order to balance the financial measures. This then results in a diversity of measures in different functions and can be confusing. During this stage, it is important for organisations to recognize the need for rationalisation and move to a more focused assessment using measures that truly matters.

### **2.11.4. Market focus**

Stage four sees a company developing market focus and management streamlining the variety of financial and non – financial metrics in order to give a single coherent view of marketing using the metrics that are regarded as most important. For most organisations during this stage traditional profit and loss



indicators such as sales and profitability are used in conjunction with consumer and competitive metrics.

#### **2.11.5. Scientific method of assessment**

During stage five, a scientific assessment method is adopted and the database of the past and current metrics, derivatives and diagnostics is analysed mathematically in order to provide a short list of predictive measures. According to Ambler (2003), not too many companies claim to have reached this stage and most of them aspire to being able to measure and track each part of their business model as in an ideal world one should be able to track the competitive effects of marketing on consumer mindset consumer behaviour and shareholder value.

No measure can exist in isolation and it is important that there is an alignment between business strategy, goals, brand market segment and metrics. According to Ambler (2003), the strength of metrics usage flows from their alignment with strategy and goals across the whole firm. This view is echoed by Patterson (2004) who emphasizes that in order to determine which success factors to measure and the appropriate metrics for each, marketers must have a clear understanding of the company's goals.

## **2.12. Summary**

From the literature review, the following could be concluded:

### **2.12.1. Marketing**

- Just like the accounting and economics fields, the marketing field must become more financially accountable.
- There is a need for marketers to realise that marketing activities must be linked to financial goals and overall business goals.
- Good marketing is not found in the marketing function but is reflected throughout the organisation as having a market oriented approach.

### **2.12.2. Branding**

- Brands have a significant role to play in financial growth thus creating value for shareholders.
- Strong brands have a strong brand equity which is a set of assets such as: brand name awareness, brand loyalty, perceived quality and brand associations.
- Strong brands can increase the value of a company as investors are willing to pay more for intangible asset such as a strong brand.
- An understanding of competitors is vital in building a strong brand and the failure to understand one's competitors is ultimately the failure to know one's customers.
- Brands need to be relevant and appeal to the new generation of consumers.

### **2.12.3. Brand Equity**

- Brand equity is an important marketing asset for organisations.
- Measuring and tracking brand equity is important in ensuring that the organisation's marketing asset is well managed.
- Brand equity metrics should be linked to financial measures.
- An effective brand equity measurement system helps businesses to understand how the brand is performing with the framework of customer values and against competitors.
- Brand equity activities should not only lead to outcomes such as customer satisfaction, loyalty and market share but must ultimately serve to increase shareholders wealth.

### **2.12.4. Brand Management:**

- Having a brand focused business should be a top to bottom approach driven by top executives.
- Branding should not be limited to the marketing function, companies need to adopt a brand driven businesses strategy.
- Senior management teams need to understand the significant role that brands play in the organisation.

### **2.12.5. Branding and financial growth**

- Most organisations still do not have systems in place that link marketing performance and financial growth.
- Brands are not an objective to deliver sales growth but should be used as a strategy to drive shareholder value.
- The role of marketing should not be just about advertising to create brand awareness and short term sales, but marketing needs to become the key driver of shareholder value by enhancing its knowledge of consumer and brand understanding with financial and value creation agenda.

- Companies that invest more in building strong brands seem to have better returns as indicated by a positive and significant relation between brand equity and stock returns.
- It is important to enhance the understanding of marketing-finance interface by developing a framework that captures the linkages between marketing activities and the creation of shareholder value.
- Although there is enough literature that links branding activities to financial growth, more work still needs to be done in order to ascertain how this is measured in practice.

The research proposition formulated that answer the questions asked in the formulation of the research problem and research sub-problems are as follows:

1. Brand measures are used in the organisations researched to reflect financial growth in these organisations.
2. Brand equity is considered as an important marketing asset in these organisations.
3. In these organisations, there is a clear marketing assessment system that is used and this is regularly shared with the executives.

### **3. Chapter 3: Research Methodology**

#### **3.1. Introduction**

The previous chapter highlighted the literature available on the subject of branding and financial growth, in this chapter the research design in general is discussed followed by a discussion of the sample, methodology and data collection. The research questions are also highlighted as these were used as part of the discussion guide.

#### **3.2. Research approach**

There are various methods that can be used to conduct research and these can be either qualitative, quantitative or a combination of both (mixed method). According to Leedy and Ormrod (2005), quantitative research is based on positivist theory and is a systematic, objective investigation of phenomena and their relationships. Quantitative research is normally characterised by quantification and mathematical model development. Qualitative research on the other hand is based on interpretive theory and involves in depth understanding within a context and is characterised by rich, complete and detailed descriptions. Usually, the research problem will define how the research will be conducted and the researcher selects the research methodology based on the purpose of the research. If the purpose is to explain, predict, confirm, validate or test a theory, then quantitative method is selected. However if the purpose of the research is to describe, explain, explore, interpret or build a theory then qualitative research method is recommended (Leedy and Ormrod, 2005).

For the purpose of this study, qualitative research method was selected as it gave the researcher an in depth understanding of how organisations within FMCG view the role of brand management and its impact on financial growth. For the purpose of this study, two organisations were used for this exploratory research namely, Simba PTY Ltd. and Tiger Brands Ltd. The nature of the

problem statement presented in this research is such that in depth and broad information is required from each respondent. This information could only be extracted through in depth interviews with employees from the two organisations.

### **3.3. Research Design**

This study was of qualitative nature with the primary aim being to gather data from two organisations within the Fast Moving Consumer Goods (FMCG) such as Simba (Pty) Ltd, a subsidiary of PepsiCo International and Tiger Brands Limited. The research findings were then compared to the literature reviewed. Semi structured questionnaires were used to help the researcher gather information from marketing and brand managers.

The type of the research design was a case study to help the researcher learn more about how managers in South African FMCG perceive the role of brand management and its impact on financial results. According to Leedy and Ormrod (2005), a case study may be suitable for learning more about a little known or poorly understood situation. It may also be useful for investigating how an individual or program changes over time as a result of circumstances or interventions.

### **3.4. The sample**

A sample of managers from the two organisations was identified. The sample included employees who hold junior and middle management positions within their companies (brand managers and marketing managers). The respondents were all based in Gauteng and are employees of Simba PTY Ltd. and Tiger Brands Limited. All respondents were proficient in the language of English and thus all interviews were conducted in English. All respondents have a tertiary qualification, which made the discussion easier, as they are familiar with the strategic nature of the concepts that were discussed.

In total, a sample of fifteen respondents was interviewed. The respondents were assistant brand managers, brand managers, senior brand managers and marketing managers (table 3.1 below)

**Table 3.1: List of respondents**

<b>Position of respondents</b>	<b>No. of Respondents interviewed</b>
Brand Managers	Five
Senior Brand Managers	Four
Marketing Managers	Four
Assistant Brand managers	Two

### **3.5. Data collection and discussion guide**

Data was collected through personal interviews and an audio tape was used to record the interviews. Permission was requested from the respondents to use the audio tape to record the interviews. Notes were also taken during the interviews. The websites of the two organisations were also used to obtain background information on the company's strategy and annual reports where applicable. Tiger Brands was the only publicly listed company in South Africa whilst Simba is not listed. Three years annual reports (2006 to 2008), obtained via Tiger Brands website, were analysed to assess whether marketing and brand equity information is shared with the shareholders.

The following discussion guide was used to for the interviews and the questions posed were to address the research problem (The complete discussion guide is in Appendix III).

### **3.5.1. What role does marketing play in an organisation?**

This was part one of the interview which was used to explore the role played by marketing in organisations. This was more a general discussion and a series of open ended questions were used under this heading in order to explore the following:

- Alignment between marketing and the business strategy.
- Explore the role of marketing activities in relation to brand equity and financial growth.
- Ascertain whether marketing is used to drive short term sales or long term growth.
- Explore the role played by the executives in driving a market orientated organisation.

This question was also used to garner the respondents' understanding of how marketing in general is perceived in their organisations and on the role played by the executives in ensuring that market orientated organisations are created. The next sections of the interview were then used to get more information on the relationship between branding, brand equity and financial growth.

### **3.5.2. Branding and Brand Equity**

This section also had a series of open ended questions which were used to explore the role of brands, brand strategy, brand equity and how these are managed within the business. The respondents in this instance had to give more examples on marketing assets definitions, brand equity measurements and reporting. The questions below were used as a guide to gain an in depth understanding of the role of branding and brand equity within the selected organisations.

- Explore the definition of a strong brand.
- Explore the role of branding in the organisation.



- How are brands managed within the business?
- Explore what is the marketing asset of the organisation and why?
- Brand equity: Is this measured?
- What tools are used to measure brand equity and how often is this done?

### **3.5.3. Financial growth**

The final part of the discussion guide was used mainly to understand the relationship between brand management and its impact on financial growth. The open ended questions were used to garner vital information on the marketing metrics used, how often are these conducted and on how the information is escalated to the various stakeholders. This was the most significant part of the interviews and the respondents' understanding of the importance of having marketing metrics in place was probed in detail. As all respondents were employed in organisations with multiple brands, it was important to establish which brands are supported and why and the criteria used for deciding on the marketing investments.

- Comments on how financial growth is measured in the organisation?
- To what extent are quantitative marketing performance measures reflected in annual reports?
- What percentage of nett revenue goes to marketing investment in your organisation?
- How is the marketing investment split across the different brands (if there are multiple brands)?
- Does the executive team make an effort to discuss marketing measures and brand equity measures? How often is this done?
- What percentage of marketing measures is reflected in company reports?
- Do your reports incorporate competitor information?
- In your organisation, is there a relationship between strong brand/s and financial growth?

### **3.6. Measurement instruments**

According to Leedy and Ormrod (2005), a measurement instrument is the technique used for the collection of data regarding a specific concept. There are various instruments that can be used as techniques to collect data such as questionnaires, interviews etcetera. For the purpose of this study, interviews were used to garner more information on the research problem and this method helped the researcher to contextualise the study.

A semi structured interview questionnaire was used to guide the researcher with the interview. Respondents were requested to give detailed information and probed to give more examples where possible.

### **3.7. Data analysis**

The data obtained was analysed based on the case study qualitative method as recommended by Leedy and Ormrod (2005) with the following steps:

1. The researcher identified interview questions and then transcribed the interviews.
2. Detailed facts about the case study such as name of the organisation and the position held in that organisation were organised accordingly.
3. Data was categorised to help cluster it into meaningful groups such as the role of marketing within the organisation, branding and brand equity, branding and financial growth.
4. The researcher then interpreted single instances and described the facts based on documents and occurrences related to the cases study.
5. Patterns were identified where the data and their interpretations were scrutinised for underlying themes and other patterns.
6. A synthesis and generalisation to construct an overall portrait of the case was then conducted.
7. Conclusions were drawn based on the convergence of the data and recommendations were made.

### 3.8. Validity and Reliability

The internal validity refers to the ability of a research instrument to measure what it is purported to measure, while external validity of research findings refers to the data's ability to be generalised across persons, settings, and times (Leedy and Ormrod, 2005). The internal validity of the discussion guide used in this study has not established. Further, the measurement instrument which form part of the discussion guide is a combination of a method proposed by Ambler (2003) on how firm's marketing assessment systems are rated and questions posed by other authors (Doyle, 2000; bates, 2008) which provide insights onto the subject. The establishment of the validity of this instrument is beyond the scope of this study. The external validity is also not confirmed, since the sample for this study is convenience base and limited to only two organisations, this can therefore not be used to generalise any findings across the population.

According to Leedy and Ormrod (2005), reliability and validity are closely linked and reliability is a necessary contributor to validity, though not a sufficient condition for validity. Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error. According to Cooper and Schindler (2003), various options are available to improve reliability and these are discussed below, within the context of this study.

- **Minimise external sources of variation:** In this regard, there should be consistency between respondents and their environment. In this study this is not possible as each respondent has his or her own opinion about the same issue depending on their experience and organisations.
- **Standardise conditions under which measurement occurs:** For the purpose of this study, this is not possible as conditions differ for individuals as stated above. The conditions therefore could not be standardised.
- **Improve investigator consistency by using only well-trained, supervised, and motivated persons to conduct the research:** For the purpose of this study, the researcher could not obtain the services of a

well trained researcher. As was set out in chapter 1, the researcher is conducting this study within the context of a masters' degree in business leadership, and as such has received no formal training to conduct research.

- **Broaden the sample measurement questions used by adding similar questions to the data collection instrument, or add more observers or occasions to an observational study:** As time was a big factor during the interviews, respondents only answered questions that were posed to them and in some instances gave examples to enrich the insights. The researcher was cognisant of not taking too much time from the respondents.
- **Improve internal consistency of an instrument by excluding data from analysis drawn from measurement questions eliciting extreme responses.** Most of the questions for this study allowed for open ended answers and therefore this has not been possible.

As this study was convenience base, the reliability is not robust; however the findings are sufficient to draw conclusions on the set subject based on the information obtained from the employees from the two organisations.

### **3.9. Limitations of the data and ethical issues:**

Marketers within FMCG are generally busy individuals and therefore obtaining information had several limitations such as time constraints, confidentiality issues and limited accessibility to marketing personnel. Some individuals were self conscious of the answers they gave and therefore tried to give answers that were deemed to be intelligent and not necessarily practical. Other employees declined to participate for fear of disclosing confidential company information and this became a serious limitation for the study. Initially the sample was going to be middle and senior marketing executives however due to the unavailability of most marketing executives the sample was changed to middle and junior managers.

Because of this, the nature of the responses may vary according to the respondents experience within their organisations. Despite these limitations, the information provided by the respondents offers sufficient insights to answer the posed research questions

It is also important to note that the sample was also selected purely on convenience and therefore all respondents interviewed in this study were accessible to the researcher and therefore no significant representation is purported.

### **3.10. Summary**

The sample was not randomised but was based on convenience due to the time constraints and availability of respondents. The interviews were conducted at a venue convenient for the respondents such as their place of work. Although the use of a voice recorder was helpful in recording the interviews, it was however found to be intimidating as other respondents did not feel comfortable using it. In such instances this device was not used at all. One of the disadvantages of using interviews is that not all respondents are articulate in expressing their views and as a result, more probing was used in order to gain more insights. After the interviews, data was categorised into meaningful groups and interpreted and this is discussed in the following chapter.

## **4. Chapter 4: Research Results**

### **4.1. Introduction**

In this chapter the data collected through structured interviews and information gathered through the organisations' website is synthesised and findings presented in a coherent and logical manner in order to provide meaning and insight into the research problem. The research data is presented according to the clusters described below. The first part of the research results looks at the role of marketing and the role played by the executives in creating marketing orientated organisations. This is then followed by findings on the role of brand management, brand equity metrics and reporting of these metrics. The final part is on the link between brand building initiatives and the impact they have on financial performance. The results of the interviews are then followed by findings from the content analysis where annual reports were used to establish if marketing performance metrics are reported in conjunction with financial measures.

### **4.2. The role of marketing in FMCG organisations**

The most common definition of marketing by the respondents was more aligned with that of AMA which is a the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services, organisations, and events to create and maintain relationships that will satisfy organisational objectives and consumer needs (Baker, 2008). Most of the respondents looked at marketing more from a consumers' view and not from an organisation's perspective. Twelve out of fifteen respondents emphasised that marketing was used to meet the needs of the consumers and when probed further it was clear that this is done in order to meet the business goals. Only few of the respondents though mentioned anything about maximising shareholder value. Although the focus for most of the marketers interviewed seems to be more on identifying the needs of the consumers and ensuring that these were

met, having the right products that will help deliver growth was also mentioned as important.

It was unanimous that marketing plays a significant role in these organisations in driving future growth. All employees interviewed agreed that marketing is very important in their organisations and that the role of marketing is not just relegated to the marketing department and that the executive team is very involved in marketing matters. It was also evident that marketing strategies are totally aligned with the business strategy and the marketing teams seem to understand the vision and objectives of the business and as such all marketing investments, innovation and tactical marketing promotions are used as objectives to meet business goals.

#### **4.3. Alignment between marketing and business strategies**

According to Doyle (2001), strong brands can be undermined by a poor marketing strategy that is not geared to creating shareholder value. This is due to that marketers seem to often set their strategic objectives to maximising awareness, growth or market share rather than value of long term cash flow. Doyle (2001) further points out that when this happens; brand's value is eroded by the cost of servicing too many low profit accounts.

From the qualitative research conducted it was apparent that in both these organisations, there is strong alignment between marketing strategy and business strategy. Marketing strategy and marketing plans are not done in isolation but emanates from the business strategy. Although not much information was obtained as to the process followed by Tiger Brands on strategic planning, this information was obtained from Simba. Strategic planning process within this organisation is conducted by all business units and is linked to the corporate strategy. It was also a consensus from all the respondents that failure

to align marketing strategies with the business strategy can result in marketing activities that do not add value to the business.

#### **4.4. What role do the executives play in driving a market orientated organisation?**

When asked as to what role the executives played in creating market orientated organisations, the respondents had conflicting views on this even those from the same organisation. Whilst some respondents agreed that it is important for the executives to create and drive market orientated organisations others did not see the importance of this. Some of the answers given in this regard are quoted below:

- “A market orientated organisation is created by focusing on what the market wants and ensuring that the business addresses those needs and this does not have to be driven by the executives”.
- “When everyone within your business understands the importance of meeting the needs of consumers and work together in ensuring that these needs are met, then you know you have a market orientated approach”.
- “Executives must also understand what marketing is all about in order to create a market orientated organisation and in our organisation all executives understand what marketing is all about”.
- “It is important for the executives to create a market orientated organisation as it helps enforce a culture of cross functional teams working together and without the support of the executive team this cannot happen”.

The majority of respondents were in agreement that executives play a vital role in creating market orientated organisations as this enforces a culture of team work and that everyone in the organisation becomes aware that meeting the needs of consumers is important.



#### **4.5. Branding and brand equity**

Brands are perceived to play a significant role within the FMCG industry in South Africa as noted in this case study. All respondents were in agreement that their organisations spend a lot of investment behind the brands in order to protect or enhance brand equity. Although the definition of what makes a strong brand varied for each respondent, it was unanimous that a strong brand not only has strong brand equity but can drive strong financial growth as well. Although generally all respondents agreed that it is easier to command a premium for strong brands, most agreed that sometimes lowering the price of a strong brand helps increase sales volume and this is often done in these organisations to drive short term sales.

Respondents concurred that although they manufacture products that satisfy specific consumer needs, they actually market brands with personalities and therefore all activities around the different brands must be able to meet consumers' expectations and live up to the brand values. Brands are also considered to drive more value when compared to non branded products and that strong brands have an advantage of commanding a premium as well and the same cannot be said for unbranded products.

An interesting observation was that all marketers were in agreement that their organisations exist because of the strong brands that they have. The following were the most common attributes that are associated with a strong brand.

- It has a high level of awareness.
- Has high penetration.
- Perceived quality.
- Has loyal consumers
- Is relevant

Below are some of the answers (quotes) that were used by the respondents to define what a strong brand was:

“A strong brand is the one that is resilient and has stood the test of time”.

“The good thing about brands in general is that they exist in consumers’ mind and all we have to do is to nurture them and ensure that they continue to have a strong equity”.

“When consumers are prepared to pay a premium for a brand without thinking twice about it then you know you have a strong brand with equity”.

“When consumers are more passionate about the brand than you are then you know you have a very strong brand”.

“Strong brands are associated with high affinity, trust and respect”.

Another construct that respondents struggled to define was brand equity. Although brand equity is widely used in organisations, many people struggle to define it. There was no clear consensus as to what a marketing asset is or should be. Some respondents referred to image as a marketing asset whilst others mentioned reputation, strong brands and brand equity as key marketing assets. When probed further on brand equity, respondents were able to articulate that brand equity is an important marketing asset that adds value to the business.

#### **4.6. Measurement and reporting of brand equity metrics**

Brand equity is considered an important marketing asset in these organisations and there are processes in place to ensure regular tracking of brand equity metrics. Simba uses a global PepsiCo propriety model (Equitrak™) which was developed by Kish, Risky & Kerin (2001) and this model is based on two factors: (1): Recognition – how broad and deep is a brand’s awareness and (2): Regards: which measures how people feel about the brand and includes brand reputation, affiliation, momentum and differentiation. This is then tracked every quarter and performance is measured against the set objectives and against competitors. The information from the tracking model is used together with financial numbers when reporting the quarterly business review which is shared with the executives. Tiger Brands does not have a propriety model however a

model similar to that of PepsiCo is used and all core brands are tracked regularly against competitors and this information is also shared with the executives regularly. Over and above the brand equity measures, Tiger Brands also does regular research such as usage and attitudes studies to establish consumers' attitudes towards the brands.

Although marketing is considered as important in these organisations, executives still tend to focus more on quantifiable measures such as market share, distribution and sales. Information on sales, market share and profitability is normally reported and reviewed by the executives on monthly basis whilst brand equity metrics although shared with the executives are generally not discussed. Twelve of the fifteen respondents unanimously agreed that executives do not put as much emphasis on brand equity metrics as they do on financial metrics which is an indication that marketing does not take a front seat in the executive discussions. The brand metrics that are used are usually reported on a brand score card and an example of this is shown in Appendix IV.

The brand scorecard enables the marketers to understand how brands are performing against the objectives and competitors. Brand activities are normally used for two objectives in these organisations firstly to strengthen brand equity and to drive sales. The respondents concurred that their main aim as marketers is to do activities that will drive long term growth such as brand building activities, they did however mention that more often than not they try to link this to immediate sales as this is easy to quantify and helps with the justification of the marketing expenditure to the executives. The respondents were aware that this practice can sometimes harm the brand equity instead of strengthening it as sales driving initiatives are usually accompanied by price promotions. It was also interesting to note that within Tiger Brands, there are certain brands that are never promoted on discounts as this is perceived to be erode brand equity, however this is still practiced with other brands.

Different organisations use different metrics to measure and track marketing and most organisations use brand equity as their main marketing asset. To rate the two organisations' marketing assessment system, a questionnaire adapted from Ambler (2003) was used to ascertain how they evaluate their marketing performance (see Appendix V). The metrics systems used in these organisations focuses mainly on brand equity tracking. Over and above this, other measures used include the following:

- Market shares: This is compared with competitors and is also measured regionally
- Product Innovation: Number of new product development per annum and the contribution of these to the total business.
- Customer Satisfaction: The number of current consumers who are currently satisfied/dissatisfied with the service or products offered by the business and the reasons for this.
- Distribution: The number of stores that are serviced by the organisation and whether product is available in these stores

As Tiger Brands is a listed company, annual report information is made public and this was analysed to establish whether brand equity metrics are discussed in these reports. From the annual reports obtained for Tiger Brands for 2007 and 2008 (Tiger Brands website, 2009), it was established that brand equity measures are not used in these reports (see Appendix VI). These reports are used mainly to report on financial measures and other issues pertaining to the business. Where mentioned, the information on brands and marketing performance is on the section of Chief Executive Officer's review and under the divisional review sections. Market share, volume and revenue are the only measures used in these reports pertaining to brand performance. Product innovation is also highlighted in the reports.

In an attempt to establish how other publicly listed companies in South Africa report their marketing metrics, two other annual reports of publicly listed companies such as SAB Miller and AVI were analysed and are shown in Appendix VII. From these reports, it was established that there is very little information on marketing measures that is shared with the shareholders (SAB Miller website, 2009; AVI website, 2009). More information on brand building initiatives and marketing strategies is however made available to the shareholders in these reports. As Simba Pty. Ltd. is not a publicly listed company, information on annual reports was not available.

#### **4.7. Link between brand management and financial measures**

The discussion on how brands deliver financial growth was a contentious one because although all respondents agreed that a strong brand with strong equity is sustainable and can deliver strong financial growth; only a few of the respondents could quantify this. The reason for the respondents' failure to grasp this concept was attributed to the fact that there are no clear measurements for long term growth and sales and market shares are used as the key financial measures. Business forecasting also seems to be based on previous year's financial results and marketing performance measures seem to somehow take a back seat.

It was observed that within Tiger Brands, marketers not only focus on marketing activities but have a general understanding on matters impacting on the brands such as operational efficiencies, sales deals and promotions to name a few. With this general understanding marketers are in a better position to make informed financial decisions impacting on brand management. For all brand activities, objectives are set based on brand equity metrics, market shares, sales and profits. Respondents also highlighted that financial managers more often than not are only interested in financial numbers such as sales, profit and market share and not so much on marketing measures. This then becomes a challenge for

marketers as all activities that are for brand building must be somehow linked to short term sales. The challenge with this is that should sales not increase in the short term, the campaign is then perceived not to have been successful even though brand equity scores are showing an increase which is a good indicator of future growth.

From this exploratory study, it was noted that within the FMCG industry, organisations tend to use a percentage of nett sales to allocate marketing investment and this can range from 3-10%. Although the marketing teams allocate budgets according to the annual plans and focus for that particular year, it seems as if the big brands are given priority over smaller brands. This is because within these organisations, bigger brands tend to deliver better financial results and have the highest profit contribution. The biggest concern though from the marketers interviewed was that more often than not, they have minimal control of how budget is allocated to their brands as this is decided by the executives who only look at financial numbers before deciding on this and tend to ignore the marketing performance metrics and innovation. This then poses a challenge for marketers who end up focusing on brands that have historically delivered strong growth whilst neglecting initiatives of strategic importance.

When asked how the return on marketing expenditure (ROME) is determined, it was clear that there is still a gap in having quantifiable measures on ROME. None of the respondents could give precise information on how this is measured. Some respondents cited the success of each marketing campaign against the set objectives whilst others mentioned the impact of marketing activities on brand equity or the bottom line.

Market share gains, short term volume uplift and increase in brand equity scores were some of the measures cited. Also it seemed as if most marketers do not have any standard methodology on how marketing ROI is measured and therefore this creates tension between the finance department and marketing

because the finance department ends up viewing marketing investment as a waste of money which cannot be accounted for. In essence, because most often than not marketing activities are usually conducted in parallel with other activities such as price promotions etcetera, this becomes a challenge for marketers to isolate the impact of brand building activities on brand performance.

Most of the respondents were in agreement that sometimes strong brands are unable to deliver financial growth and this could be attributed to a myriad of factors such as improper brand management which can destroy brand equity. They also concurred that sometimes their attention focuses on doing too many brand activities instead of focusing on those that strengthens brand equity.

Both these organisations market a number of different brands however marketing activities are focussed on those brands that tend to deliver better financial results as measured by the Profit and Loss statement. Marketers also have a responsibility to ensure that brands remain profitable.

#### **4.8. Summary**

The findings above confirm that in most organisations, marketing activities are used to drive short-term sales growth instead of focusing on long-term growth. This is still mainly due to that marketing is still not an advance subject with quantifiable measures that are easily understood by everyone in the business. Although in the two organisations used for this case study, marketing metrics are used in conjunction with financial measures and brand management is perceived to play a significant role in driving future growth, there is still an opportunity to ensure that brand building activities are not undermined by activities that are brand harming.

## **5. Chapter 5: Discussion, Conclusion and Recommendations**

### **5.1. Introduction**

According to Doyle (2000), the days of marketers not being accountable to shareholders are vanishing as he highlights that marketing should be a management process that seeks to maximise returns to shareholders by developing and implementing strategies that build relationships of trust with high value customers and to create a sustainable differential advantage. From the above results, it is evident that the respondents who were mainly marketers understand the significance of brand management and its impact on brand equity and financial performance. The challenges however are how to balance short term and long term growth.

### **5.2. Discussion and Critical Analysis**

According to Doyle (2000), the days of marketers not being accountable to shareholders are vanishing as he highlights that marketing should be a management process that seeks to maximise returns to shareholders by developing and implementing strategies that build relationships of trust with high value customers and to create a sustainable differential advantage. From the above results, it is evident that the respondents who were mainly marketers understand the significance of brand management and its impact on brand equity and financial performance. The challenges however are how to balance short term and long term goals.

#### **5.2.1. The role of marketing in FMCG organisations**

The main role of marketing within FMCG as highlighted by the respondents is to build brands that appeal to the target market. One respondent mentioned that their role as marketers is to create awareness of the brand with the hope that once consumers are aware they will buy it thus inducing trial and once they have



bought it marketers must ensure that consumers continue purchasing the product and this can only be achieved if consumers love the brand. The job of marketers therefore does not end at the first stage which is creating awareness but they have to ensure that their brands are always top of mind in consumers' repertoire.

Pearce and Robinson (2005), define strategic management as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It is a dynamic and continuous process aimed at aligning business strategy, performance and business results to ensure effective service delivery and ultimately achieve profitability and competitive positioning of the organisation (Pearce and Robinson, 2005). Linking of marketing plans to business goals is also very important as it ensures that all marketing activities are conducted to support the vision of the organisation. This was evident in this exploratory study as both organisations have a clear process of linking marketing and organisational strategies. As a result of this all brand management activities are used to drive business growth. The only challenge is that this sometimes is undermined by activities that can be brand harming such as price promotions as mentioned above.

Linking of marketing plans to business goals is also very important as it ensures that all marketing activities are conducted to support the vision of the organisation. This was evident in this exploratory study as both organisations have a clear process of linking marketing and organisation strategies. As a result of this, all brand management activities are used to drive future business growth. The only challenge is that this sometimes is undermined by activities that can be brand harming such as price promotions. According to Dunn and Davis (2004), building a brand based business strategy requires several key changes in organisations and the CEO's must embrace brands as strategic assets that need to be nurtured and built over time.

Although there is enough literature available to support that a focus on brand building activities does increase the value of brands (Dunn and Davis, 2004; Rust *et al*, 2004; Yoo *et al*, 2000), there is still a big dilemma facing marketing in that measuring marketing is often done with metrics that differ from those important to the firm and to shareholders. As highlighted by Bates (2008), the results of this is that shareholders and managers are often unclear on the value provided by marketing and that brand equity and shareholder value seem to be concepts in different languages, unable to connect and resulting in disastrous marketing cuts. Alignment between marketing and business strategies

### **5.2.2. The role played by executives in driving market orientated organisations**

There is no doubt that executives have an important role in ensuring that organisations are market orientated. As cited by many authors, there is a positive relationship between marketing orientated organisations and a firm's performance on measures such as profit, return on investment on assets and non financial measures such as new product success and innovation (Farley and Webster, 1993). From this study, the respondents concurred that creating a market orientated organisation helps the business deliver on the promise to the consumers and that market orientated organisations tend to promote teamwork.

### **5.2.3. Branding and brand equity**

The research conducted within these two organisations confirmed that branding is important and that in order for consumer to choose one brand over those of competitors, they need a compelling reason to do this. Also it was evident that no brand can remain static and even the strongest brands such as Black Cat, Simba Chips, Tiger Oats etc. are revamped regularly in an attempt to remain relevant.

It was not unanimous that brand equity is the biggest marketing asset within these organisations and that brands with strong equity are more resilient and can

deliver value for shareholders. This confirms what has been discussed under the literature review that brand equity plays an important role in increasing the value of the business and that companies pay good money to acquire these assets (Ambler, 2003; Motameni and Shahrokhi, 1998). Although building strong brands is important, according to Aaker (1996), this is a challenge in today's environment as there are substantial pressures and barriers both internal and external and that one needs to understand these pressures and barriers in order to develop strong brand strategies. These barriers were also highlighted by most respondents as they mentioned that strong competition, price and the changing media environment are some of the challenges that they are facing today.

#### **5.2.4. Measurement and reporting of brand equity metrics**

It was also clear that organisations within the FMCG industry have measures in place to track brand equity and these measures are regularly reported to the executives. Although this information is shared with the executives, the focus in executive meetings still tend to be more on quantifiable metrics such as market share, distribution and sales. This then confirms one of the sub problems of this study that although most companies agree that brands are their major marketing asset, many of them still do not give enough attention on marketing performance measurements. According to Rajagopal (2008), the major advantage of a brand measurement system is that it links brand management and business performance of the firm and is a strategic management tool for continuous improvement rather than a static snapshot in time of the brand's performance. No matter how good the metrics systems organisations may have, it does not serve the purpose if this information is still not used by the executives.

The key therefore for organisations is to balance financial and non financial goals and many authors do agree that top management must support this and regular review of both financial and non-financial goals is necessary to drive a market orientated business. Dunn and Davies (2004), suggest that having a brand focused business should be a top bottom approach driven by the top executives.

Since marketing is considered as important in these organisations, more emphasis must be given to brand equity metrics by the executives.

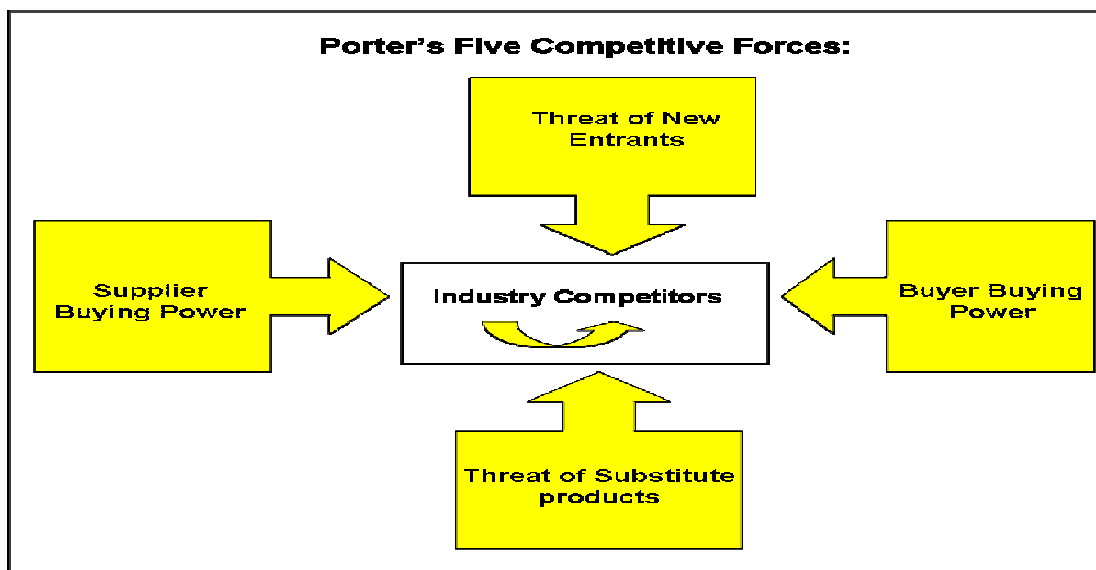
According to Ambler (2003) there is a tendency by business managers not to put marketing measures in the annual reports if it is not a requirement, this then increases the risk of ignoring potential problems and infringes the right of investors to be informed of how and why cash flows from customers. In South Africa, there are no formal requirements for listed companies in pertaining to reporting on marketing issues in annual reports. This was confirmed in this study as Tiger Brands Limited, still does not share this information with the shareholders and brand equity measures are still not reported in the annual reports. This non availability of brand equity measures in annual reports cannot be generalised as a norm within FMCG industry in South Africa as only annual reports from three organisations were analysed.

#### **5.2.5. Link between brand management and financial measures**

Because marketing is not an easy subject to measure, respondents struggled to give a general view of how brand management is linked to financial measures. From the two organisations, it was evident that the link between brand management and financial measures is a bit vague. Whilst some respondents referred to short term financial information, others referred to brand equity as a measure for future growth.

As mentioned in the section above, measuring marketing performance is not that easy as there are various factors that need to be considered when measuring marketing performance. Marketers mentioned that besides internal factors, there are other external challenges that force them to focus on short term performance and price was mentioned as a key challenge mainly because of the demand from retailers for lower prices. The FMCG industry seems to be very competitive with very strong buyers and suppliers and thus making it difficult for companies to be

profitable. Thinking of Porter's five competitive forces (Fig. 5.1), it can be said that because of strong buyer power from retailers, price is the biggest factor that drives growth within this industry. Most companies within the FMCG industry are forced to use price promotions as a tactic to drive sales. These companies tend to split their marketing expenditure into shopper and equity building promotions. The strong buyer power has also resulted in marketers shifting their focus from brand building initiatives to activities focusing on short term volume gains such as price promotions.



**Fig 5.2 Porter's five competitive forces (Source: Thomson *et al*, 2007)**

According to Ambler (2003), price promotions and other activities that are done in order to build or enhance relationship with the retailers should not be part of marketing building activities. It is said that sometimes strong brands fail to deliver shareholder value and this is mainly because strong brands can be undermined by a poor marketing strategy that is not geared up on creating shareholder value but based on maximising awareness, market share and short term growth instead of creating long term value (Doyle, 2001). This myopic focus on short term gains was evident during this study as most marketers confirmed that marketing activities tend to be used to increase market shares or drive short term gains.

This confirms one of the sub problems that marketing strategies in most organisations within FMCG are more focused on increasing short term sales instead of driving future business growth. If the focus is not on enhancing future growth, then all the marketing investment becomes a waste of valuable resources. It is evident that the link between brand management and financial measures is still not well understood within the FMCG industry. Although it is well accepted that marketing initiatives help firms acquire and retain customers (Rao and Bharadwaj, 2008) and that strong brands tend to be more resilient during hard economic times (Leiser, 2004), it is still difficult to measure the impact of marketing in financial growth. This is because marketing is still not an advance subject and therefore there are still no standardised scorecards in place to help marketers deal with this.

### **5.3. Recommendations and conclusion**

From this study, it was established that brand management plays a significant role in driving the future of organisations and that it is important to align brand management activities with business goals in order to ensure sustained growth. However, it was also found that organisations within the FMCG industry tend to use marketing to focus on driving short term sales gains. Brand equity was considered as an important marketing asset that can be used to increase the value of the organisation and therefore it is important that this marketing asset is nurtured.

#### **5.3.1. Marketing and brand equity metrics**

An effective brand measurement system helps businesses to understand how the brand is performing with the framework of customer values and against competing brands. Regular assessment of marketing performance especially brand equity measures is important as it enables organisations to track performance against set objectives and against competitors. A better

understanding of how the brand is performing will ensure that this marketing asset is protected and nurtured. Although from this exploratory study it was noted that there is a process in place to measure and track marketing performance in these organisations, it is recommended that this information should not only be used by the marketing function but should be discussed regularly by the executives in conjunction with financial measures.

### **5.3.2. Brand management and financial growth**

Marketers are always under pressure to deliver short term gains and this then becomes a major constraint that hinders them from focusing on brand building initiatives that will help strengthen brand equity and thus increasing shareholder value. According to Doyle (2000), management have found marketing budgets an easy target when they needed to improve short term profits and therefore cutting brand support will normally boost profitability without significantly affecting sales in the short run. Unfortunately there is never any consideration on how this can lead to longer term erosion in market share and price premiums. Further research is recommended to establish whether a link exists between brands that are supported consistently and the impact of this on the shareholder value.

### **5.3.3. Disclosure of marketing metrics information**

Marketing is an intangible subject and as such difficult to quantify. This exploratory study has demonstrated the significance of measuring both the tangible and intangible assets of the business. Disclosure of marketing metrics is important in ensuring and that financial and non financial measures are reviewed. Brand metrics and marketing information are key determinants of future cash flow and are good indicators of how well the marketing investment is effective. Having these measures in place can help the business focus their investment on brands that will give sustainable growth. It is therefore recommended that organisations not only focus on financial information in their annual reports but share information on their marketing objectives and marketing approach. A

standard reporting format is recommended that can be developed to make it easier for investors to find marketing information on brand equity metrics.

In conclusion as defined by Doyle (2000), marketing is a management process that seeks to maximise returns to shareholders by developing and implementing strategies that build relationships of trust with high value customers and to create a sustainable differential advantage. The findings of this research confirms the views of other authors that marketing needs to be more accountable and that there is still more work that needs to be done in ensuring that marketing measures are used in conjunction with other important measures such as financial metrics.



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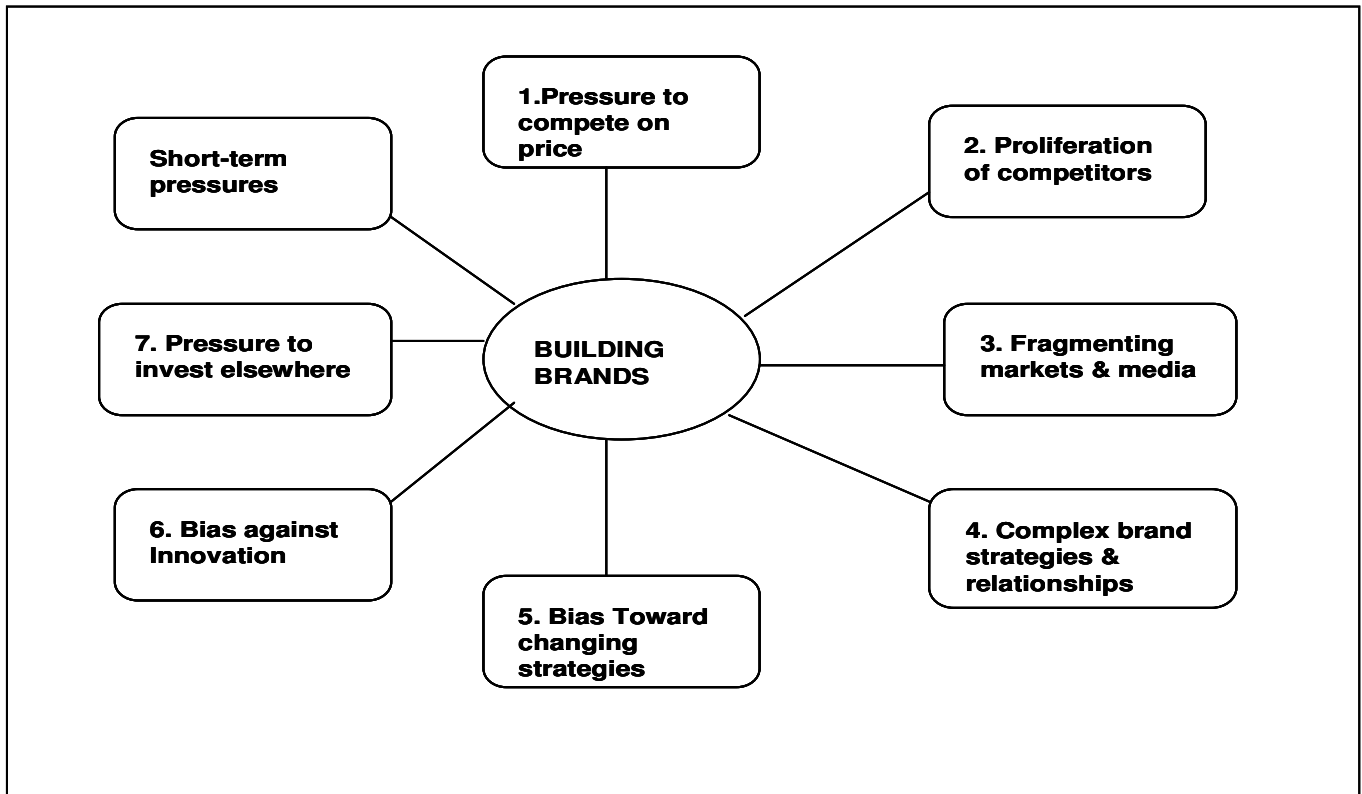
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## 6. Appendices

### Appendix I: Reasons why it is difficult to build strong brands

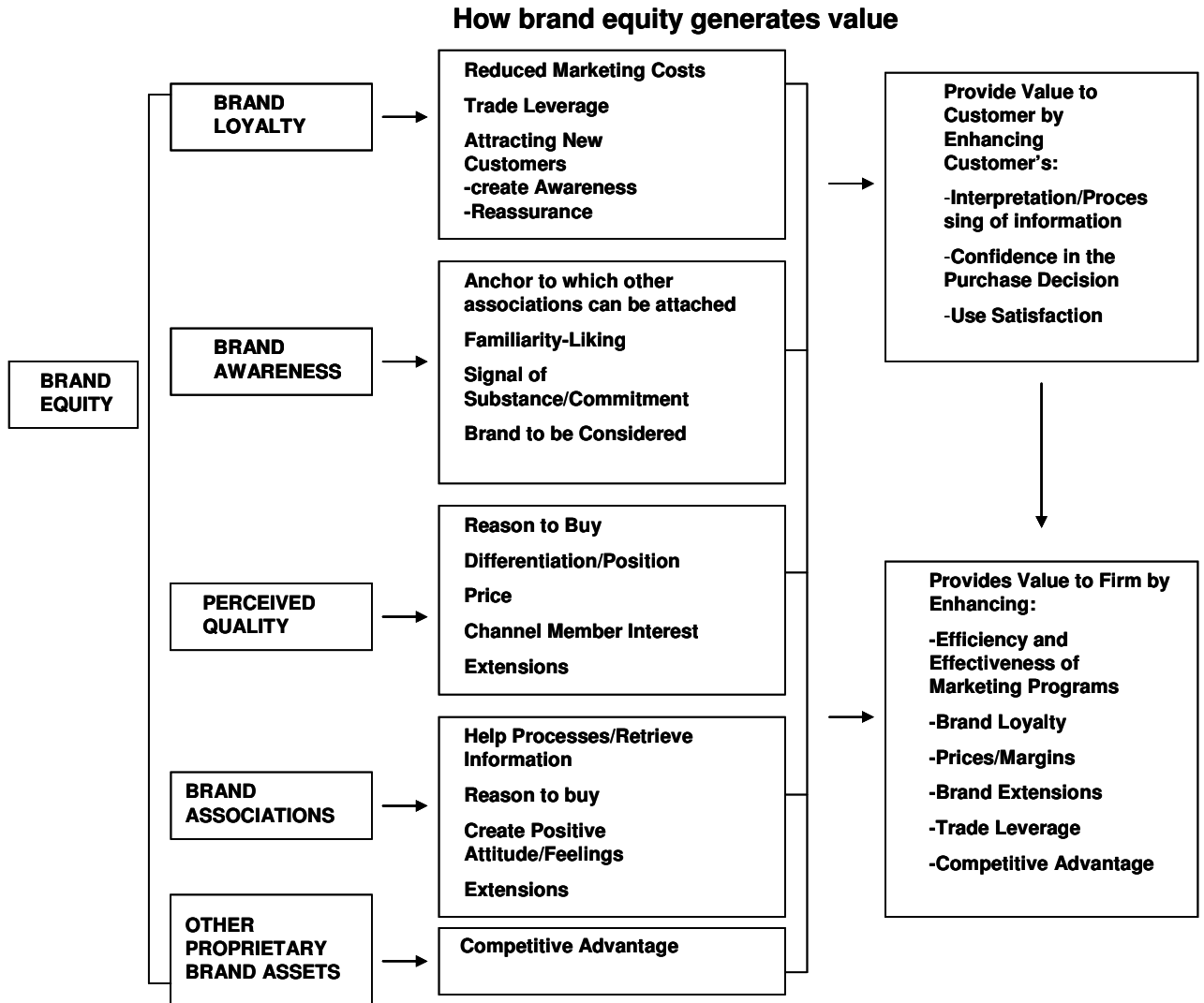


(Adapted from: Aaker, 1991)



## Appendix II:

Four major assets through which brand equity generates value



(Adapted from: Aaker, 1991)

## Appendix III: Interview guideline

### **SEMI-STRUCTURED INTERVIEW QUESTIONNAIRE**

Dear Colleague,

I require your assistance in completing my thesis as part degree requirements for Master of Business Leadership (MBL) degree with the UNISA School of Business Leadership (SBL). My research is in the area of branding and shareholder value. More specifically, I am doing a qualitative study based on semi structured interviews to establish how different organisations within the FMCG in South Africa link brand activities to financial growth and whether there is a correlation between strong brands and shareholder value. This study is focussed on different brand measures used by organisations and how these are correlated to the financial measures.

For the interview, please allow me 30 minutes of your time. Your frank responses to the questions in each of the marketing areas will help characterise the importance of branding and identify what is working well and where improvements may be required. Your data will be used to help determine patterns, themes and trends and how these contrast or merge with the literature reviewed. Also the findings will be shared with you should you be interested.

All your responses will be treated in the strictest confidence and should you wish that your identity remain anonymous, this will be respected.

I thank you in advance.

Kind Regards,

Ms. Thuli Fihla

Contact details:

Tel: +2711 928 6000

Mobile: +27836561460

Email: [Thuli.fihla@intl.pepsico.com](mailto:Thuli.fihla@intl.pepsico.com)

## The Role of Branding in Financial growth

<b>Name (optional):</b>
<b>Company Name :</b>
<b>Position/Title :</b>
<b>Years in the company:</b>

<b>1. ROLE OF MARKETING</b>
<ul style="list-style-type: none"> <li>• Explore an understanding of the role of marketing</li> </ul>
<ul style="list-style-type: none"> <li>• Elaborate on the alignment between marketing and the business strategy</li> </ul>
<ul style="list-style-type: none"> <li>• How does marketing create growth in the business? Explore the role of marketing activities in relation to brand equity and financial growth</li> </ul>
<ul style="list-style-type: none"> <li>• Explore the role played by the executive team in driving a market orientated company.</li> <li>• How much time does the exec give to marketing issues?</li> </ul>
<ul style="list-style-type: none"> <li>• Is marketing used to drive short term sales or to drive long term growth?</li> </ul>
<ul style="list-style-type: none"> <li>• Does the company business plan show the non financial goals and link them to market goals?</li> </ul>
<b>2. BRANDS AND BRAND EQUITY</b>
<ul style="list-style-type: none"> <li>• Explore the role of branding in the organisation</li> </ul>
<ul style="list-style-type: none"> <li>• How are brands managed within the business?</li> </ul>
<ul style="list-style-type: none"> <li>• Explore what is the marketing asset of the organisation called?</li> </ul>
<ul style="list-style-type: none"> <li>• Brand equity: Is this measured?</li> </ul>
<ul style="list-style-type: none"> <li>• What tools are used to measure brand equity and how often is this done?</li> </ul>
<ul style="list-style-type: none"> <li>• Brand equity: How is the information shared within the organisation</li> </ul>
<ul style="list-style-type: none"> <li>• What is your definition of a strong brand?</li> </ul>
<b>3. FINANCIAL GROWTH</b>

<ul style="list-style-type: none"> <li>• What marketing measures are used in your organisation?</li> </ul>
<ul style="list-style-type: none"> <li>• To what extent are quantitative marketing performance measures reflected in annual reports?</li> </ul>
<ul style="list-style-type: none"> <li>• Is there an alignment between business goals, brand strategies and brand measurements used?</li> </ul>
<ul style="list-style-type: none"> <li>• What % of net revenue goes to marketing investment in your organisation?</li> </ul>
<ul style="list-style-type: none"> <li>• How is the marketing investment split across the brands (if you have more than one brand)?</li> </ul>
<ul style="list-style-type: none"> <li>• Does the executive team make an effort to discuss marketing measures and brand equity measures?</li> </ul>
<ul style="list-style-type: none"> <li>• How often do the execs assess marketing performance?</li> </ul>
<ul style="list-style-type: none"> <li>• Do you agree with the statement that brands are economic assets whose function is to create value for shareholders?</li> </ul>
<ul style="list-style-type: none"> <li>• If the answer to the above is yes, how is this achieved in your organisation?</li> </ul>

## Appendix IV: An example of brand scorecard template

<b>Department: Marketing</b>																		
<b>Brand Scorecard:</b>																		
<b>Brand Name:</b>																		
<b>Year:</b>																		
<b>Year: 2009</b>																		
		Jan	Feb	Mar	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4	Total
<b>Measure</b>	<b>Source</b>																	
<b>Financial Measures:</b>																		
<b>Internal metrics</b>																		
Volume																		
Volume Contr (of total company)																		
Value																		
Value contr (of total company)																		
Margins																		
Innovation % of total																		
<b>External metrics</b>																		
Volume																		
Volume Contr (of total category)																		
Value																		
Value contr (of total category)																		
Market (volume & value)																		
Distribution																		
Average RSP																		
<b>Brand Equity measures</b>																		
Total Awareness																		
Penetration																		
Ever Tried																		
Frequency																		
Loyalty																		
Quality																		
Satisfaction level																		
Consideration																		
Commitment																		

**Appendix V: Ten questions to rate the firm's marketing assessment system**

1.	Does the exec regularly and formally assess marketing performance?	(a) Yearly (b) six monthly (c) quarterly (d) More often (e) Rarely (f) Never
2.	What does it understand by customer value?	(a) Don't know. We are not clear about this (b) Value of the customer to the business (as in customer lifetime value) (c) Value of what the company provides from the customer's point of view (d) Sometimes one , sometimes the other
3.	How much does exec give to marketing issues?	.....%
4.	Does the business/marketing plan show the non financial corporate goals and link them to market goal?	(a) No/no plan (b) Corporate no, market yes (c) Yes to both
5.	Does the plan show the comparison of your marketing performance with competitors or the market as a whole?	(a) No/no plan (b) Yes, clearly (c) In between
6.	What is your main marketing asset called?	(a) Brand equity (b) Reputation (c) Other term (d) We have no term
7.	Does the exec's performance review involve a quantified review of the main marketing asset and how it has changed?	(a) Yes to both (b) Yes but only financially (brand valuation) (c) Not really
8.	Has the exec's quantified what success would look like five or ten years from now?	(a) No (b) Yes (c) Don't know
9.	Does your strategy have quantified milestones to indicate progress towards that success.	(a) No (b) Yes (c) What strategy
10.	Are the marketing performance indicators seen by the exec aligned with these milestones?	(a) No (b) Yes, external (customer & competitors) (c) Yes, internal employees & innovativeness) (d) Yes, both

## Appendix VI: Example of Tiger Brands Ltd. Annual report: information on marketing performance measurements





## continued success



Despite margin pressure, we continued our innovation strategy with success. Product renovations and new products were launched with success within Albany Bakeries as well as the breakfast and rice businesses.



### Grains

The business performed well despite severe margin pressure from significantly increased input costs and delayed implementation of price increases.

The gap between global demand and supply of agricultural commodities narrowed during the year resulting in dramatic increases in raw material costs. In addition, the high fuel price increased input and distribution costs. The company applies conservative procurement risk management policies and considers alternatives for key raw materials. The focus on continuous improvement delivered further cost savings across the value chains.

The profit in Milling and Baking was negatively impacted by the delay of two price increases to the market. The delays in price increases were part of a wide range initiative to restore the reputation of our business following the fine imposed in 2007 by the Competition Authorities. Despite margin pressure, we continued our innovation strategy with success. Product renovations and new products were launched with success within Albany Bakeries as well as the breakfast and rice businesses. The business is strengthening the platform for long-term value creation by investing in new production capacity in the breakfast business and additional capacity in the wheat milling and baking businesses.





International prices of soft agricultural commodities and fuel are already declining. The prospect of lower product prices to consumers should stimulate increased demand during 2009.

#### Groceries

The groceries business continued to perform strongly amidst high inflation and intense competitive rivalry. A number of product categories that reflected pleasing growth were Chakalaka, tomato products, tomato sauce, mixed vegetables and vegetable stews. The key brands that have driven the groceries performance were All Gold and KOD.

These results have been achieved as a consequence of a clear growth strategy, which included focus on margins, expanding innovation, rigorous cost management, highly focused brand investment, a customer centric approach and the benefits of a stable management team.

A highlight of the year was the commissioning of the pasta plant in Isando, which is a state-of-the-art facility, producing the full pasta range with spaghetti and macaroni as the key lines.

All Gold tomato sauce achieved its highest market volume share in May on the back of a campaign theme around the All Gold 100th birthday.

Baked beans continued to show strong volume growth. The

commissioning of the expanded tomato sauce plant commenced in November 2008. This will enhance the capacity for tomato sauce production.

Peanut butter has performed strongly showing significant volume growth despite the price of peanut butter having doubled as a consequence of the significant increase in the cost of peanuts.

The Chakalaka product has managed to sustain significant volume growth.

The objectives for the forthcoming year for groceries will be based primarily on organic growth and innovation around the core categories.

A key enabler of the strategy is the significant investment behind expansion projects such as the commissioning of the tomato sauce plant which commenced in November 2008 and the baked beans line which is expected to be commissioned in October 2009.

#### Snacks & Treats

The solid performance of Snacks & Treats in 2008 can be attributed to optimising demand creation, relentless focus on service level improvement and disciplined cost containment.

The core sweet range growth was fuelled by core brands Smoothies, Maynards and newly acquired Jelly Tots. In particular, the value add Smoothies with a liquid centre has been well received by consumers.

The chocolate product portfolio recovered well in the second half of the year driven by its barline performance. This is as a result of the impact of innovation on the core brands of Black Cat and TV Bar together with our entry into the water-based product.

The snacking category continued to boost portfolio performance through the sustainable innovation and support programme behind the Jungle branded products.

Significant capital expenditure has taken place over the past year which has created additional manufacturing capacity and capability to service the expected demand towards 2014.

Continuous Improvement remains a key enabler and despite high commodity cost pushes, impressive progress has been made in terms of improving throughput.

2009 will include a growth plan to strengthen the core business, with continued focus on efficiency, improvement and organisational capability.

#### Beverages

The Beverage business completed the year with volumes below the prior year due to cool and wet summer conditions. Profitability, however, was a particular challenge with the business falling well below expectations.



## sustainable innovation



The snacking category continued to boost portfolio performance through the sustainable innovation and support programme behind the Jungle branded products.

The poor profitability was attributed to the cost push pressure on input materials, inventory liquidation to correct the inventory position in the first half of the year and escalating distribution costs driven by fuel price increases. The highlight for this business was the performance of the Energade brand. During November 2007 Energade had a design and label relaunch that refreshed the brand and ensured that it remained the pre-eminent sports energy drink in South Africa. Energade also continued to drive and leverage its successful promotions and sponsorships of the pinnacle sports teams in South Africa, the Springboks and Proteas. The brand also

continued to obtain mileage as official drinks sponsors of premium sporting events such as the Energade Triathlon Series and the Comrades Marathon. Other efforts to drive growth included initiatives to leverage Tiger Food Brands into the beverage sector with the launch of Beacon Hot Chocolate during winter 2008. This launch was well received by both the trade and the consumer.

The KOO Veggie Fruit Drink was launched at the end of 2007 and the All Gold Tomato Cocktail Drink was launched in March 2008.

2009 will focus on the core beverage business in order to restore profitability levels.

## Appendix VII: Example of AVI Limited and SAB Miller Limited Annual reports: information on marketing performance measurements



### The SABMiller Marketing Way

The SABMiller 'Ways' are at various stages of development. The enhanced Marketing Way, relaunched at the start of 2008, is a toolkit for helping businesses to 'own the growth' by sharpening their skills in analysing and segmenting their markets, identifying the profitable opportunities and deciding where and how to concentrate their efforts.

The process of compiling the Marketing Way showed the kind of collaborative learning that the group as a whole is working towards. Instead of the corporate centre laying down the rules or trying to manage the local marketing process, we took the best ideas and expertise from around the world and distilled them into clear principles, an end-to-end process framework and a set of tools for businesses to apply as appropriate. In this way, each local team retains its autonomy but can benefit from the learning and insight of SABMiller as a whole.

As the Marketing Way is rolled out, we'll provide comprehensive training and support to help our teams to work with it effectively and embed it into their operations.

## Strategic priority two

### Developing strong, relevant brand portfolios in the local market

As the global beer market overview on page 6 explains, most of our markets exhibit at least three major trends. One is premiumisation as consumers move up the scale from economy to mainstream and mainstream to premium beers in search of brands that offer prestige and differentiation. Another is fragmentation. Contrary to expectations a few years ago, consumers at the top end are varying their choices and becoming more interested in speciality brands, craft beers, foreign imports and other sub-divisions of the premium segment. And a third trend is the growing importance of female consumers.

Our central strategy is to identify the trends and dynamics in each market, then to create the right mix of brands to capture the opportunities in each location. We're helped in this respect by having a huge and varied global portfolio of brands on which any of our businesses can draw – not to mention our ability to innovate as consumers demand new tastes, new presentations and new drinking experiences. The key is to deploy our brands so that each adds value through its own distinct positioning.

Managing full portfolios of brands in this way is more complicated than the single-brand approach. A premium beer with an unusual heritage will need different marketing to a mainstream brand – something more akin to viral marketing that gives consumers a sense of having discovered it for themselves. Brands targeted at the clubbing generation, of legal age drinkers, might be best communicated through new media such as the internet, as we're doing with Miller Genuine Draft in Russia. Among the skills we need, we're learning the best ways to communicate with multiple target audiences.

Around the group, businesses such as Miller in the USA and Kompania Piwowarska in Poland have continued to evolve their portfolios to match the opportunities in their respective markets. Panama and Botswana are two examples of businesses that have renovated mainstream brands successfully. The case of Miller Chill shows how an innovative premium product can fill useful gaps in more than one market – its success in the USA followed by an equally successful launch in Australia. In Poland and Russia, the strategy of marketing the Redd's brand to women is generating good results. Other successes are detailed in this section.

Revenue was 7,9% higher than in 2008 as a result of selling price increases in response to high input costs, particularly raw materials, partially offset by lower sales volumes. Strong competition in all categories saw volumes decline compared to last year, however, underlying consumer demand was sound, albeit with less growth than in the last few years. Gross profit margins were constrained in the first half but recovered as some raw material costs softened aided by the stronger Rand in the second half of the year. In addition, the disposal of a non-core subsidiary that packed private label teas and coffees resulted in lower volumes but an improved product mix with better profit margins. The gross profit margin for the year of 39,5% was slightly higher than the 39,4% achieved in 2008 with improved coffee margin largely offset by lower margin in the creamer category. Selling and administration costs were well contained overall and operating profit margin increased from 12,2% to 13,4%. Operating profit increased by 18,1%, from R189,1 million to R223,4 million.

Tea revenue grew by 10,0% with a 21,0% increase in average realised prices partially offset by lower volumes. The cost of black tea imported from African growers has remained high throughout the year due to reduced supply from this region. A strategy of allowing limited loss

of market share while maintaining prices to protect profit margins has yielded good results for Entyce with gross profit margin for the year maintained at the same level as last year despite the significantly higher input costs. Key brands have been well supported with advertising and product development, helping to hold strong positions despite prolonged discounting by competitors in this category. These activities include the new, more distinctive packaging for Five Roses as well as the launch of the Five Roses African Blend variant. Other initiatives that will enhance our brands' proposition in this category are well advanced and will help us to compete strongly in the year ahead.

Coffee revenue grew 32,1% due mainly to price increases in response to high raw material costs, with purchased coffee beans costing on average 56% more than last year in Rand terms. Volumes were slightly lower but have been relatively stable at price points that support higher operating margins than last year. There has been good progress in building a stronger Frisco proposition with new Frisco packaging; a new "Frisco Strong" variant and new pack sizes that provide meaningful price point differentiation for consumers. Tougher times for consumers have led to down-buying into our affordable brewed coffee products which have high market shares and better profit margins.



	2009 Rm	2008 Rm	2007 Rm	2006 Rm	2005 Rm	Change 09 vs 08 %
<b>Entyce</b>						
Revenue	1 670,5	1 547,5	1 339,1	1 228,2	1 153,8	7,9
Operating profit	223,4	189,1	160,6	147,2	137,5	18,1
Operating margin (%)	13,4	12,2	12,0	12,0	11,9	9,8
Capital expenditure	60,5	53,3	25,5	25,2	28,2	13,5