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Market Metrics:
What Should We Tell the Shareholders?

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

For companies in the 21st century, the creation of value will increasingly depend on intangible assets (knowledge, systems, data, intellectual property, brands and market relationships). This study concerns a particular kind of intangible asset: in addition to current sales and profits, successful marketing builds a reputational asset in the minds, mostly, of its stakeholders, especially its customers. This is most often called brand equity which is the term used in this report (including for companies which have not traditionally thought of themselves as having brands). The issue we address is what companies should tell their shareholders about their stewardship of this asset. Specifically, we examine how large UK companies report on marketing, and on their successful management of brand equity, through the medium of annual reports, and we make recommendations for best practice. There are powerful arguments why it is in companies' interests to follow these guidelines, eg to support the share price. At present there is a lack of reporting guidelines in this area. We offer this report as a step towards establishing widely accepted best practice.

RESEARCH RESULTS

We analysed annual reports and surveyed company directors and financial analysts.

Review of disclosure in annual reports

- We analysed the most recent annual reports of 125 FTSE 350 companies.
- Many annual reports give general information about brands and marketing, but marketing metrics (ie quantitative measures likely to be seen internally by the board of directors of a market-oriented business) are not reported regularly, nor consistently across companies.
- Only a minority of companies are observing the ASB advisory guidelines for marketing disclosures in the operating and financial review (ASB 1993), ranging from 16% (marketing spend) to 53% (new products).
- Where marketing and brand indicators are provided, 66% were qualitative rather than quantitative.
- We did not include as metrics the historical costs of brands shown in a few balance sheets, (even though tested for impairment) since they are not current performance measures.
- Approximately 40 % of the sample reported between zero and five indicators (qualitative and quantitative) with 15 the upper limit. On average only two metrics (quantitative only) were reported.
- Sales volume and product distribution (availability) were the most frequently reported (60 %) brand equity measures with new products in period the only other indicator reported by more than 50% of firms.
- The disclosure practice of multibrand companies, which include some leading marketing businesses such as Cadbury and Diageo, on average differed little from those of single-brand companies except that multibrand companies exhibited less intercompany variation and reported three metrics on average.

Interviews with chairmen and senior executives

- We completed 47 face-to-face interviews with chairmen and senior executives of FTSE 350 companies.
- At the level of general comment on annual reports, certain views were frequently voiced. While many interviewees believed that the level of disclosure in annual reports was "about right", they often went on to express dissatisfaction with the amount of what was seen as “boilerplate” now required. Some questioned the value of annual reports which were largely unread by shareholders, arguing that analysts and institutional shareholders received special briefings and received, subject to London Stock Exchange rules, the information they requested.
- On the specific issue of market metrics disclosure, most thought that more marketing information could be given and 85 % agreed that shareholders were “entitled” to be informed about the company’s main assets, including brand equity. The most admired annual reports by other companies, such as BP, Diageo, Tesco and WPP, tended to have more marketing information.
- Competitive confidentiality was first given as the main reason for the current lack of disclosure of marketing information in general. On probing and considering individual metrics, however, most agreed that competitors already had access to most of the marketing metrics in which they were interested. 22 % would not disclose relative price for competitive reasons. No other metric scored higher than 17 % on this ground for non-disclosure.
- At the same time, we found general consistency in the level of perceived competitive threats, brand differentiation and use of board time on competitive issues. In other words, the perceptions of competitive reasons for non-disclosure should be taken seriously but tested.
- On average companies claimed to disclose in their annual reports about 20 % (ie three) of the marketing metrics seen by their boards; 15 % are not disclosed for competitive reasons and 60 % for other reasons.
- The main other reasons given were the level of detail and potential misuse by the media and analysts, who were considered irresponsible.
- We found no correlation between the relative value of brand equity, as represented by the price to book ratio, and the number of marketing metrics disclosed. This may be because unadjusted price-to-book is a crude measure of the value of brand equity.

Interviews with analysts

- Questionnaires went to 1,568 analysts, followed up by telephone interviews. This stage was in conjunction with Brand Finance Ltd. 290 responses were received (18.5 %).
- The analysts agreed about competitive reasons for non-disclosure but, unsurprisingly, are seeking many more marketing and brand equity metrics than annual reports now contain.
- There was little difference between the analysts specialising in branded goods and services and those in non-branded areas.

Summary of research results

In summary the findings were:

- There is a real challenge facing companies, auditors and regulators in establishing useful disclosure without increasing the reporting burden, compromising confidentiality, and requiring disclosure for metrics not appropriate for the specific context of that business.

3.2. *Relative price*, ie value market share divided by volume market share.

3.3. *Quality* as perceived by the end user.

3.4. *Customer loyalty/retention*, eg percent of start-of-year customers still active at year-end.

3.5. *Sales to new customers* as a percent of turnover.

3.6. Share of turnover represented by *products launched in previous three years* (measured incrementally to exclude cannibalisation, by also showing the change in sales of products already being marketed three years before).

3.7. *Availability/distribution*, ie the extent to which the products are available for purchase by final customers.

Firms should also provide a *glossary of marketing and brand terminology* which should be the general (or at least industry) standard for annual reports. Companies would still be free to use alternative expressions and meanings but different usages should be clarified where they are important. The terms used in this report are broadly defined in Appendix A but their application would need to be adapted for each sector.

4. Most of these metrics are already reported internally. They should not increase the size of, or the cost of preparing, printing and distributing, the annual report. Firms should have the option of *publishing and archiving full annual reports in electronic format only*, thus building on the existing trend to provide shareholders with abbreviated reports tailored to their interests. Web access to full annual reports should be available to all shareholders.

5. Firms should not be expected to disclose target metrics, ie detailed future marketing intentions.

6. Most metrics are already known to competitors. Nevertheless *commercial confidentiality* is a real issue and possible disclosure should be reviewed, on a metric-by-metric basis, with the auditors. Where shareholders will gain more from discretion, that should be observed.

These recommendations are proposed as non-mandatory best practice guidelines. Our aim is to increase the value of company reports while helping firms take a long-term view of their brand(s) and business. At the same time, we have tried to avoid rigid one-size-fits-all prescriptions which might increase companies' reporting costs and/or fail to take account of the real issue of commercial confidentiality and the differences in the relevant metrics in different industries.

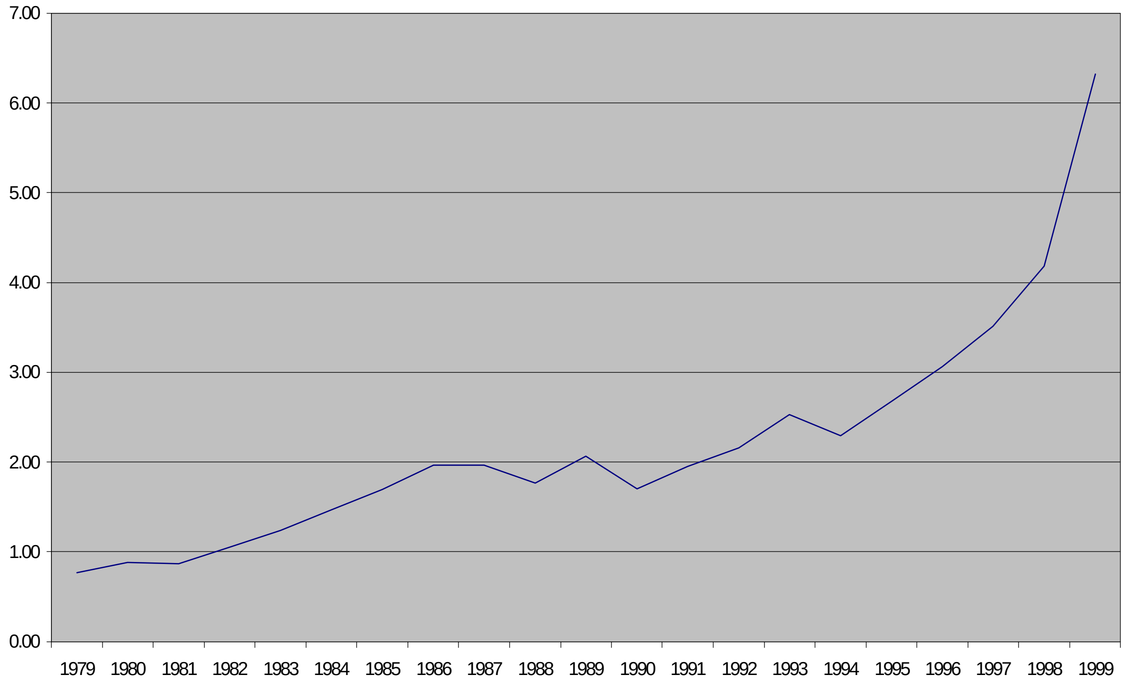
ACKNOWLEDGEMENTS

We are grateful to the Centre for Business Performance at the Institute of Chartered Accountants in England and Wales for funding this research and to the Steering Committee: Anthony Carey, Professor Hugh Davidson, Angela Hennessey and Professor Richard Macve. Brand Finance Ltd under the leadership of David Haigh collaborated in the analysts survey and kindly collected and shared their data. Peter Lane co-ordinated the senior management interviews along with Phil Garner, Ian Hannah, and Ann Stewart all of whom did an excellent job in bringing their experience to bear on these subtle issues. We are also grateful to Sofia Collantes, Jane Novak and Marina Snaith for their valuable research support and to Jane Mole, Margaret Walls and Sayeda Choudhury for managing the production of the report.

1. AIMS AND SCOPE OF THE STUDY

For companies in the 21st century the creation of value will increasingly depend on the control of intangibles, including intellectual property, systems and data, human capital, and market-based intangibles. There is evidence of the growing importance of intangibles in the modern economy in the sharply rising price-to-book ratio (Figure1). If stocks are sensibly valued, and the economy is not getting less competitive, the price-to-book reflects the proportion of off-balance sheet (essentially intangible) to on-balance sheet (essentially tangible), assets in the economy.

Figure 1: Aggregate price to book ratios for all UK quoted industrial and commercial companies



Source: Authors; Datastream and LSPD data

This view is supported by a new study by the UK Department of Trade and Industry (DTI 2001), which states that a company's current and future success will increasingly depend on "its ability to create value from the intangible assets." (p.1) Based on interviews with 50 successful UK companies they name seven categories of intangible asset: 1) relationships, 2) knowledge, 3) leadership and communication, 4) culture and values, 5) reputation and trust, 6) skills and competencies and 7) processes and systems.

This report focuses on one class of intangible: in addition to sales and profits, successful marketing builds a reputational asset in the minds of stakeholders, and especially customers. This is most often called *brand equity* which is the term used in this paper. We examine how companies report on marketing and on their stewardship of brand equity through the medium of annual reports, and we make recommendations for best practice. At present there is a lack of reporting guidelines in this area. We offer this report as a step towards establishing widely accepted best practice.

In the context of this report, every going concern has brand equity, including firms such as manufacturers of industrial products which have not traditionally seen themselves as having brands. Hence, brand equity includes general corporate reputation, together with other more specific customer attitudes and current behaviours likely to impact the firm's future performance in its markets. Brand equity, the asset, should not be confused with *brand value*, an estimate of the financial value of that asset.

1.1 The background: Accounting for Brands

Brand equity, or reputation, is often the main reason why the firm's market capitalisation exceeds its book value. The underlying rationale for reporting this asset is that the "health" or strength of the firm's brand equity is a leading indicator of its future financial performance. Because of the importance of brand equity, and the need to present healthy balance sheets after expensive brands had been acquired, in the late 1980s some firms started to include brand equity valuations in their balance sheets. In 1989, the Institute of Chartered Accountants in England and Wales (ICAEW) commissioned a team at London Business School, including two of the current authors, to study this issue and its implications for future accounting standards.

The LBS report (Barwise et al 1989) recommended against the inclusion of brands – ie brand equity valuations – in the balance sheet, mainly on the grounds that brand valuations are not sufficiently reliable to justify balance sheet recognition. The report argued that the major problems of brand valuation are inherently intractable and apply equally to acquired and to home-grown brands:

"First, there is the difficulty of reaching agreement on a sensible and useful premise of value. Second, there is the problem of separability. And third, placing a value on a brand (however defined) involves many subjective judgements about the future of the brand and the importance of marketing factors". - Barwise et al (1989:77)

These arguments gained broad acceptance and the practice of recognising brands in the balance sheet, particularly internally generated or "home-grown" brands, did not become widespread.

FRS10, implemented from 23 December 1998 in the UK, is explicit in its recognition tests for both internally generated and acquired intangibles. In effect, acquired brands can be recognised, subject to various tests, but internally developed brands cannot. The criterion for separate recognition of acquired intangibles is that they can be "measured reliably", which embraces currently used brand valuation techniques. Furthermore they must be tested for impairment, ie the current arm's length value must not be below the balance sheet valuation.

One reason why FRS10 is much more permissive on acquired than on home-grown intangibles is that its subsequent treatment of acquired intangibles and general goodwill is much the same, so that it may not greatly matter if acquired brands are separately recognised.

1.2 The need for guidelines on the reporting of marketing metrics

In 1989, the inclusion of brand valuations in firms' internal management information systems was actively debated in marketing circles as a potential counter to perceived managerial short-termism when planning, or sometimes when mid-year cutting, marketing expenditure. Marketers may claim that advertising is an "investment", rather than an expense, but the asset that results from that investment did

A decade on, about 17 percent of large UK firms who employ marketing professionals incorporate brand equity valuations into their internal reporting systems (Ambler 2000:52). But the more recent trend is to move away from a single, inherently subjective valuation for each brand towards a range of measures of different aspects of brand strength and market performance. These are usually called *marketing metrics*. The aim has been threefold: to align measurement (and behaviour) with strategic goals, to make marketing more accountable, and to provide diagnostic information for top management decision-making.

Hence external reporting and internal management systems are following the same path. The financial reporting issue now is not "brands on the balance sheet", but the broader question relevant to all firms – of how to report the firm's stewardship of brand equity, and other aspects of its performance in its markets, to the external audience. Currently, firms have no guidelines on this. Such reporting should be facilitated by the fact that, in well-managed firms, the relevant marketing metrics are now being collected routinely and reported to the board. The question then becomes, what are the advantages and disadvantages of disclosing some or all of these metrics in the annual report?

The alignment of internal and external reporting has been a central feature of "value-based management". If the goal of management is to increase value for shareholders, we should expect to see managers using performance measures that mirror those used by investors. Helping firms install such metrics has been a major activity for strategy consultants in the last decade. But this is a two-way street, and increasingly investors are asking to see the metrics that management use. A recent report by the ICAEW (2000) proposed guidelines for reporting management's strategy, its assessment of the firm's competitive advantage, and the metrics which it uses. Since brand equity is, in part, the current state of that competitive advantage, these metrics are often much the same.

Marketing aims to maximise current and future cash flow from its ultimate source, the customer, through to its post-marketing-expenditure contribution to shareholder value. The upstream reservoir, ie the brand equity asset, which marketing has created but which has not yet reached the firm's top line, needs to be taken into account when assessing the firm's performance, especially if that asset is more valuable than the firm's other assets added together.

The extent to which brand equities are generally their companies' most valuable assets is clouded in semantics. The difference between market and book value cannot be wholly attributed to brands for four reasons:

- Market values may be inflated (eg dotcom companies in 1999, Higson and Briginshaw 2000) or deflated,
- Other intangibles such as management skills, technical knowhow, patents and databases are not part of brand equity,
- It is difficult or impossible to attribute future cash flows to particular assets, especially intangibles (the separability problem), and
- Book assets may be under- or over-valued on the balance sheet.

On the other hand, employee brand equity is part of the total brand asset just as internal marketing is part of marketing. In this report, however, we focus on the external market; we do not make proposals for reporting employee brand equity (Ambler 2000).

We argue that, for most companies, brand equity represents a sufficiently important part of the company's ability to create value to suggest that shareholders (as well as directors) need marketing information to take a well-informed view of the business. And yet, as we will see, marketing metrics are rarely provided in annual reports. This prompts us to investigate why this is and the advantages and disadvantages of reporting marketing metrics. Balancing the advantages with the risks and disadvantages, eg competitively sensitive information, in turn suggests that some guidelines are needed.

1.3 Aims and structure of the report

The Centre for Business Performance of the ICAEW commissioned us to report on views and current practice on reporting of information on marketing and brand equity in UK Annual Reports, and to recommend best practice in reporting brand stewardship. The purpose of the research is to advance understanding of how companies can communicate information about stewardship of brands and other types of market-based intangible assets, which we group together under the label "brand equity", to investors. The study provides guidelines on what companies should disclose about brand equities in their annual reports and how this should be done.

There were three elements in the research programme: an analysis of annual reports, a programme of top management interviews, and a survey of financial market analysts.

Analysis of Annual Reports

We analysed annual reports of 125 companies from the FTSE 350, including 90 single-brand companies and 35 multibrand companies, to assess the quality and quantity of existing reporting on market-based intangible assets. Based on the findings of the "Marketing Metrics" project (Ambler 2000), we tracked the disclosure of over 50 marketing metrics under six general categories:

- Consumer/end user thoughts and feelings
- Consumer/end user behaviour
- Trade customer/retailer
- Competitive
- Innovation
- Financial

The complete list of metrics is listed in Appendix A. The results are reported in Section 2.

Top Management Interviews: The Boardroom Perspective

We wrote to 150 chairmen/chief executives drawn from the FTSE 350, and completed interviews with 47 companies, a response rate of 31%. The interviews were conducted by four independent consultants, all previously senior executives in large corporations. The interviews addressed the following core issues:

- What annual reports should include about marketing

- The marketing metrics seen by boards
- Inhibitions, for competitive and other reasons
- The effects further disclosure might have on share prices
- The most admired disclosure by other firms
- A general question on the extent to which shareholders are entitled to information on brands

The results are reported in Section 3.

Survey of Financial Market Analysts

Data were collected from a sample of UK financial market analysts in three stages: using a three-page mail questionnaire, telephone interviews, and six in-depth personal interviews.

The questionnaire stage of the research was in conjunction with Brand Finance, an independent management consultancy that specialises in marketing finance and brand valuations. The survey was conducted by sending the questionnaire to 1,568 analysts. 290 responses were received (18.5%). Approximately one half of the analysts were selected based on the sample of companies used in the annual report stage of the project. Bloomberg's information about company coverage by leading equity analysts gave a list of 891 analysts covering the companies in the earlier sample. This was augmented by the Brand Finance list from previous surveys which was drawn from the *Briton's Index* (PR Newswire Europe). The results are reported in Section 4.

Sections 5 and 6 discuss the pros and cons of further disclosure and give our conclusions and recommendations.

2. CURRENT PRACTICE AMONG FTSE350 COMPANIES

2.1 Technical background: essential definitions and marketing metrics

Before considering how companies disclose brand equity information through the medium of their annual reports, we give some essential definitions and review previous research on companies' internal marketing metrics.

2.1.1 Essential definitions

There is widespread confusion about terminology in this area. We start by providing some definitions which, while they may not be adopted universally, provide a framework for future reference.

The American Marketing Association is redefining "*marketing*" and encountering a wide diversity of opinion. Their 1985 version reads: "Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives"[1]. In practice, there are three main meanings of "marketing" (Ambler 2000):

- A company-wide business philosophy which gives priority to satisfying customers' wants and needs as a means to achieving the company's goals. In this sense, marketing as a customer-orientated culture can be applicable to nonprofit organizations as well as businesses.
- What the company's marketers do, typically developing and launching products, packaging, branding, pricing, advertising, promotion, and distribution.
- The activities covered by the marketing budget, usually just advertising and promotion. It is this last meaning which is the one people typically mean when they talk of the "return" on marketing.

Unless the context indicates otherwise, we intend the first, company-wide, meaning, since this is the ultimate source of brand equity. Specifically, brand equity is not created by marketing people, or the marketing budget, alone.

When we refer to "*product*" in this report, we mean both physical goods and/or services.

Although most US definitions of "*brand*" exclude the underlying product, in the UK a "brand" is the gestalt or bundle consisting of a product, marketed under and identified by a particular brand name (and other trademarks, eg logos), its packaging, and added values attributed by consumers and others to that brand name. It is what the customer buys. The US/UK difference in brand definition is not significant for brand equity which both see as the asset emerging from marketing activity.

Colloquially, "brand equity" is what people have between their ears about the brand. More formally, it is the awareness, attitudes, associations, memories and habits which cause people to choose the brand more often and/or in larger quantities and/or at higher prices than would otherwise be the case. The growth of e-procurement by businesses and online shopping by consumers means that we now need to

[1] http://www.ama.org/about/ama/markdef.asp

extend the definition of brand equity to include information about the brand in computer as well as human memory.
"*Customer brand equity*" is the part of the total brand equity in the minds of customers (and their computers) as distinct from other stakeholders, eg employee brand equity which is the reputation of their employer in the minds of employees.

Brand equity or reputation, unlike brand names and other trademarks, does not legally belong to the firm. The extent to which it is separable and can be bought or sold is debatable and context-specific (Barwise et al 1989). In some cases, a brand name can be changed with no impairment of brand equity, eg when Marathon became Snickers (Barwise et al 2000) or, arguably, when Andersen Consulting became Accenture. In others, such as Marks & Spencer, brand equity may be weakened with no change in the brand name. In the usual situation, however, the value of brand equity is a significant proportion of the total value of the business, and actually increases as customers buy more of the brand and are satisfied by its consistent delivery of the expected benefits.

A "*metric*" is a performance measure that top management should review regularly. It is a measure that matters to the whole business. The term comes from music and poetry and implies periodicity: the reviews should typically take place yearly or half-yearly. PepsiCo, for example, uses a full year's data every six months and considers more frequent *complete* reviews unhelpful (Ambler 2000). Obviously some metrics, such as sales revenue, are reviewed monthly. Metric is not just another word for measure: metrics should be necessary (ie they should always be relevant), precise, consistent and sufficient (ie comprehensive) for review purposes.

Metrics may be financial (usually from the profit and loss account), from the marketplace, or from non-financial internal sources (eg those concerning innovation and employees). "   are lower-level measures that explain variances, eg sales by channel. "   are changes in a metric from period to period (eg year-on-year percentage increase in revenue).

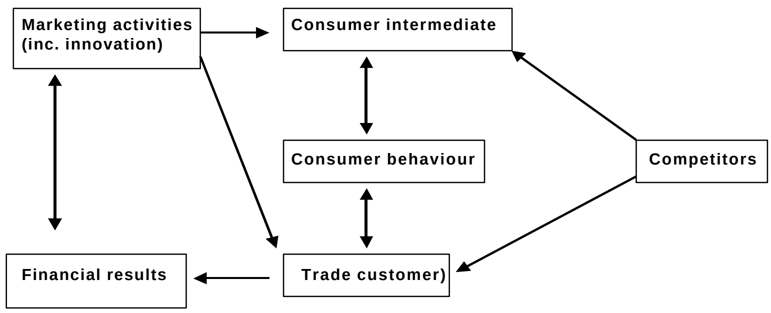
2.1.2 Marketing metrics

The significance of marketing metrics stems from the expectation that a company will prosper if it has a clear direction and business model based on product-market performance. In other words, marketing metrics form part of the quantification of both the objectives and the means to those objectives. They are strategic milestones by which progress can be assessed. They are not the only milestones but as indicators of future cash flow in the market, and of current cash flow as it is transferred to the company, marketing metrics are crucial for the understanding of any company's business.

In this model marketing activities, including innovation, are funded by previous financial results or the expectation of future cash flow. They drive changed end user (consumer) perceptions, eg through advertising and PR, and immediate customer behaviour through pricing, sales and merchandising. End user behaviour both influences, and is influenced by, intermediate factors (ie brand equity or what is in consumers' heads) and trade (or related, eg purchasing department) activities. At the same time, competitors are undertaking similar activities. The company's cash flow and financial results are directly affected by sales to the trade which may be why the consumer/end user sometimes gets less attention at board level.

Figure 2 shows a generalised business model:

Figure 2: Generalised business model



Source: Kokkinaki and Ambler (1999)

The distinction between the end user and the channels (trade customers) applies to a greater or lesser extent in all sectors, and not just consumer branded goods. In the business-to-business sector, the buyer of specialised equipment is usually not the person who uses it. In chain retailing and financial services, the branch takes the place of the trade customer although sales are recorded at the consumer level.

Kokkinaki and Ambler (1999) classify marketing metrics into six categories (related to the six boxes in Figure 2):

1. "Consumer intermediate", for example consumer awareness and attitudes.
2. Consumer behaviour, for example quarterly penetration.
3. Direct trade customer, for example distribution availability.
4. Competitive market measures, for example market share, measured relative to a competitor or the whole market.
5. Innovation, for example share of turnover due to new products.
6. Financial measures, for example advertising expenditure or brand valuation

Ambler and Riley (2000) identified the 19 most widely used metrics for internal evaluation of marketing performance and, by implication, brand equity (Table 1).

Market size and its growth are excluded as not technically metrics since they do not describe the company's or brand's performance. On the other hand it is surprising that standard metrics recommended elsewhere, eg Davidson (1999), such as market share, relative price and marketing investment (spend) do not feature.

Table 1: Widely used metrics (UK and Spain)

Metrics category	Metrics
Consumer Intermediate	Awareness Perceived quality Consumer satisfaction Relevance to consumer Perceived differentiation Brand/product knowledge
Consumer Behaviour	Number of new consumers Loyalty/retention Conversions
Trade Customer	Customer satisfaction Number of complaints
Relative to Competitor	Relative consumer satisfaction Perceived quality
Innovation	Number of new products Revenue of new products Margin of new products
Financial	Sales Gross margins Profitability

Source: Ambler and Riley (2000)

The ICAEW (1999) has recommended disclosure of the following metrics in each company's Operating and Financial Review (or equivalent): market growth and share, customer retention, acquisition and satisfaction, and price premium. Ambler (2000) proposed nine standard metrics derived from the profit and loss account and five brand equity metrics as shown in Tables 2 and 3.

Table 2: Standard P&L metrics

P&L metric	Compared with plan	Compared with competition
Sales	Volume/value	Market share
Marketing investment	Period costs	Share of voice
Bottom line	Profit	Share of profit

Source: Ambler (2000)

Table 3: General consumer brand equity metrics

Brand equity metric	Measured by
Relative satisfaction	Consumer preference or satisfaction as percent of average for market/competitor(s). The competitive benchmark should be stated.
Commitment	Index of switchability (or some similar measure of retention, loyalty, purchase intent, or bonding)
Relative perceived quality	Perceived quality/satisfaction as percent of average for market/competitor(s). The competitive benchmark should be stated.
Relative price	Market share (value)/Market share (volume)
Availability	Distribution (eg category-value-weighted percent of retail outlets carrying the brand)

Source: Ambler (2000)

Taking these sources together with Coleman and Eccles (1997) and Kaplan and Norton (1992), we selected 13 metrics (from the full list of 54 shown in Appendix A) for the purpose of prompting senior executives in this research (described in Section 3):

- Brand awareness
- Market share (volume and/or value)
- Relative price
- Number of complaints (level of dissatisfaction)
- Consumer satisfaction
- Distribution/availability
- Total number of customers
- Perceived quality/esteem
- Relative perceived quality
- Actual quality
- Customer retention
- Other measures of loyalty
- New product development

2.2 Methodology for analysis of annual reports

We analysed annual reports of 125 companies from the FTSE 350 to assess the quality and quantity of existing public reporting of market-based intangible assets. The list of companies included in the samples and a comparison to the population are included in Addenda 1 and 2 (see www.london.edu/marketing/centre_for_marketing/Reporting_on_Brands).

Different industries display different patterns of disclosure (Botosan 1997). The sample was designed to match the sector weighting of the FTSE 350 at the start of the research, with certain exclusions. We excluded investment companies and certain industrial and commercial sectors that are a minimal percentage of the FTSE 350 (eg, forestry and paper).

2.2.1 Single-brand company sample selection

The single-brand sample comprises 90 UK FTSE 350 publicly listed companies that meet the following criteria:

- are single brand companies
- were listed on London Stock Exchange since 1989
- have continuous histories.

The single brand criterion usually means that the main trading brand is also the corporate brand, ie what the customer buys carries the same name as the company. The main trading brand is defined as the brand that contributes 80% or more of the company's total turnover. For instance, Dixons was not included in this sample because the company comprises four major brands: Dixons, Currys, PC World and The Link. Arguably, boards of directors would be more likely to report brand issues when the brand was identical for customers, shareholders and employees as they would not be faced by the difficulty of explaining a portfolio of brands. Conversely, it is possible that multibrand companies like Diageo, especially those selling fast-moving consumer goods (FMCG), would be more brand aware and therefore provide shareholders with more brand information. We sampled multibrand and single brand companies separately to assess these conjectures.

The sample was limited to companies listed on London Stock Exchange since 1989 so that we could assess year-to-year consistency and verifiability of disclosure of market related intangible assets and marketing in annual reports over years. Some studies argue that firms' disclosure policies appear to remain relatively constant over time (Botosan 1997, Healy et al. 1995). However, as the existing accounting and reporting model has proved increasingly inadequate to meet the needs of the stakeholders in a modern corporation, companies have been encouraged to include more information about the main factors underlying the results and financial position (eg ASB 1993)[2].

Companies with continuous histories are defined as not having changed their corporate identity since 1989, and having not made acquisitions/disposals of business units that contributed more than 20 percent of the company's total turnover in any one single year. The continuous history/identity criterion was introduced to ensure that the corporate brand was consistent over the ten-year period. This was

2 Statement issued by Accounting Standards Board in July 1993 as a formulation of best practice but not a standard, ie intended to be persuasive, not mandatory. It was endorsed by the Hundred Group of Finance Directors and the London Stock Exchange.

because the original intention was to compare the most recent annual report with one from 10 years earlier. However, in the event, the detailed level of current reporting was considered too low for the historical comparison to be meaningful.

2.2.2 Multibrand company sample

The single-brand criterion excludes companies such as Cadbury Schweppes and Diageo, some of which might be expected to provide examples of best practice since they are leading marketing exponents. Accordingly a separate multibrand sample was drawn from the FTSE 350 to include some sectors that are under-represented in the original single brand sample. In general, but not exclusively, the largest multibrand companies by turnover in each under-represented sector were chosen. We also included some smaller companies in the sample in order to limit any bias toward larger companies in our results.

2.2.3 Disclosure index

The ‘level of disclosure’ in an annual report cannot be measured directly in the way we can assess the power of a car engine or the charge of an electron. Rather, measuring information disclosure is similar to indexing tests on an organised scale, analogous to IQ scores.

In order to assess the level of disclosure of marketing assets in annual reports, we used the disclosure index method. This method involves (1) creating a list of selected items that may be disclosed; (2) scoring each item for type and salience of disclosure; and (3) calculating an index score for a particular company or a set of companies (Marston 1991).

The list of selected items that may be disclosed was derived from a set of marketing indicators based mainly on findings of the “Marketing Metrics” project (Ambler 2000), as discussed in Section 2.1. Specifically we tracked over 50 marketing indicators that can be grouped under the six general categories (Appendix A).

While this is a long list of marketing indicators, it is worth emphasising that it is far from exhaustive. Companies had many additional marketing indicators that were specific to a particular industry. For example, the pharmaceutical companies had very detailed information on their product development pipelines.

Each indicator was scored on two dimensions: (1) presence/type of disclosure and (2) salience of disclosure.

- *Presence/type*. We distinguished qualitative indicators (eg “market share has increased this year”) from metrics where the numbers are given (eg “our market share is 15.7 percent”). Thus our presence/type measure notes whether an indicator is quantified and (whether qualitative or quantitative) notes three possible comparisons: (A) to previous years (B) to competitors or (C) no comparison.

- The *salience* dimension scores the space devoted to an indicator, from less than a sentence to more than a chapter.

The scoring of a multibrand company is more challenging because each brand in the portfolio could potentially have marketing indicators associated with it. We addressed this issue by scoring indicators regardless of the number of brands for which they appeared. If the same indicator was mentioned many times, it was scored only once. For example, if each brand in the portfolio had had a sentence about market share, the company would have been scored with a sentence for market share and not the addition of all those sentences to make a paragraph. When an indicator appeared in numerous places in varying levels of depth, the most descriptive/quantitative was recorded.

While the disclosure index method reduces the subjectivity of measuring the level of disclosure, it is impossible to remove all subjectivity. The following example of scoring for the indicator "new products in period" demonstrates the challenge of determining what level of information qualifies as an indicator.

The following statement from Williams Plc addresses new products but the reference is so general that it was not scored as part of our study. As a rule of thumb an indicator must say something specific and not just be a statement that could be applied generally.

> *"New product development and sales and marketing initiatives enabled us to build on the strength of our brands worldwide."*

Williams Plc, Annual Report 1999

Compare this to the following statement from Tate & Lyle, which was scored as a qualitative indicator.

> *"New products launched included 5kg and 10kg Granulated, Finer Fondant Icing, Rough Cubes, Marzipan made with Lyle's Golden Syrup flavour and Organic Sugar. Further new products will be launched during the current year helping to maintain the profile of the Tate & Lyle brand in the UK."*

Tate & Lyle, Annual Report 2000

Whilst indicators like "gross margin" have very specific definitions, other indicators such as "perceived quality/esteem" represent more general concepts. Thus a certain degree of judgement is required to determine what qualifies as an indicator. For example relative (competitive) price is technically defined as share of market value divided by share of market volume. However, none of the companies in our sample reported that level of information.

We did not treat the historical cost of brands shown in a few balance sheets as a metric, even though tested for impairment, as it is not a current performance measure. In other words, if brands are shown at their original cost this does not provide information on current performance.

2.3 Results

Very few companies disclosed marketing assets quantitatively in their annual reports. While many companies commented on broad topics such as brand strength or customer service, few gave precise data to help an investor determine performance in these areas. For example, compare these two statements regarding product and brand performance:

> *"In personal care, innovation helped deodorants, hair and oral to another good year. Overall personal care sales were up and we increased our market leadership in several categories. In particular, excellent progress was achieved in Brazil. In Foods, volumes fell in ice-cream – though market share improved – and in yellow fats."*

Unilever, Annual Report and Accounts 1999

> *"Advertising and promotion spend for the year is up £24M to £301M at constant exchange rates, with most of the increase behind our Core 4 brands – particularly Ballantines and Kahlua. Despite a 14 percent increase in marketing investment, the net brand contribution from the Core 4 brands increased by 7 percent as a result of a 10 percent increase in gross margins."*
>
> Allied Domecq, Annual Report and Accounts 2000

While the first statement includes many important words such as "innovation" "market leadership" and there is very limited information actually being conveyed to the investor.
Just under 40% of the companies had five or fewer indicators in their annual report (Table 4). The most indicators disclosed by any company was 15, with three companies reporting that upper limit; Lex Service (Distributor), PowerGen (Electricity) and Scottish Power (Electricity). The three companies with no marketing indicators were British Land (Real Estate), Enterprise Oil (Oil and Gas) and Great Portland Estates (Real Estate).

Table 4: Number of marketing indicators per company

Number per company	Frequency	%
0	3	2
1 to 5	45	36
6 to 10	56	45
11 to 15	21	17
16 +	0	0
Total	**125** **100%**	

A few indicators appeared in many companies. Three appeared in more than half of the companies, 21 appeared in 10% or more (Table 5). 18 indicators were not present in any of the companies.

Of the four items recommended for disclosure in the current OFR (ASB 1993), new products (53% of companies) and gross margin (45%) were the most likely to be mentioned or reported. Market share was mentioned by only 37% and marketing spend by only 16%. Note that most of these disclosures are merely qualitative.

Table 5: Marketing indicators that appeared in 10% or more of the companies

Indicator	Percent of companies
Sales volume (units)	60
Distribution/availability	60
New products in period[1]	53
Gross margin[1]	45
Number of new consumers	40
Market share[1]	37
Perceived quality/esteem	34
Total number of consumers	30
Relevance to consumer	30
Awards	30
Price sensitivity/ elasticity	28
Loyalty/ retention	26
Channel mix	22
Consumer satisfaction	22
Technical support to customers	17
Marketing spend[1]	16
Perceived reliability	15
Awareness	14
Image/ personality/ identity	14
Salience	11
Satisfaction from new products	10

[1] Recommended for the current Operating and Financial Review (ASB 1993)

Table 6 distinguishes disclosed indicators that were quantified (metrics) from those with only verbal mentions, as well as whether comparisons were made, with prior years or competition. 66% of disclosures were verbal only, and 70% included no comparison. Only 20% were quantified metrics with a comparison with previous years (18%) or competition (2%). Even including verbal-only disclosures, only 7% included any comparison with the competition, despite the fact that most companies today operate in highly competitive markets.

Table 6: Presence/type of disclosure of indicators (%[(1)])

All disclosures (N = 834)	Comparison with Previous year(s)	Comparison with Competition	No Comparison	Total
Verbal only	6	5	55	66
Quantified	18	2	15	34
Total	23	7	70	100%

(1) Figures may not add up due to rounding

Certain indicators (especially financial ones) were more likely to be quantified while others such as awareness and perceived quality/esteem were more likely to be verbal only. However, all these indicators can be quantified. The following consumer satisfaction statements compare a qualitative and a quantitative indicator. The first statement was scored "mentioned verbally with comparison to previous years" while the second was scored as "quantified with comparison to previous years." Consumer satisfaction appeared in 25 annual reports of which 80% were verbal only.

> *"Throughout the Scandinavian markets, we expanded our portfolio of hotel and cruise products. These have positively affected prices, utilisation and margins, as well as leading to record levels of customer satisfaction."*

Airtours plc, Annual Report and Accounts 1999

> *"Network reliability increased to 99.9 percent and the number of interruptions experienced by customers reduced by 17 percent. A customer satisfaction survey carried out in May 1999 found that domestic satisfaction levels remained high and unchanged at 93 percent. Satisfaction among business customers fell slightly to 82 percent, although those who were extremely satisfied rose from 15 percent to 28 percent."*

PowerGen plc, Annual Report 1999

Table 7 compares the distribution of disclosure indices for single- and multibrand companies. The index is calculated by first taking the average number of disclosures for all companies which is 6.67. The number of indicators for each company is then compared to the average so that an index score of greater than 1 represents above-average disclosure and an index score of less than one represents below-average disclosure. As noted below, the average disclosure (number of indicators per company) was not significantly different, for the two groups, with single-brand companies having 6.57 indicators per report on average versus 6.94 for multibrand companies. The multibrand companies clustered closer to the average, 83% having indices between 0.5 and 1.5.

Table 7: Comparison of levels of disclosure

Disclosure indices (1)	**Single-brand % (N = 90)**	**Multibrand % (N = 35)**	**Total % (N = 125)**
Less than 0.5	26	9	21
0.5 - 0.99	27	40	30
1.0 - 1.5	28	43	32
More than 1.5	20	9	17
Total	100%	100%	100%
Avg. indicators per company	6.57	6.94	6.67

(1) Number of indicators relative to the average (6.67)

Table 8 shows the number of quantitative metrics per company for both single- and multibrand companies. 65% of the sample had two or fewer metrics, including 16% with none. The largest number of metrics per report was nine with only one company (Scottish Power) having that number.

The multibrand companies had more metrics per company with 46% having four or more metrics versus only 26% of the single-brand companies. Thus the average number of metrics per company was 3.2 for the multibrands versus only 1.9 for the single brands. The three multibrand companies with six or more metrics were SmithKline Beecham (6), Unilever (6) and Nycomed Amersham (6). The five single-brand companies with 6 or more metrics were Scottish Power (9), Eurotunnel (7), PowerGen (7), Safeway (7) and Barratt Development (6).

Table 8: Number of metrics per company

Number of metrics	Single brand % % (N = 90)	Multibrand (N = 35)	Total (N = 125)
0	20	6	16
1	32	14	27
2	22	23	22
3	9	11	10
4	8	14	10
5	3	23	9
6+	6	9	6
Total	100%	100%	100%
Average metrics	1.9	3.2	2.3
Average indicators	6.6	6.9	6.7

Table 9 shows the average number of indicators by industry group. Most industries groups had close to average disclosure of 6.7 indicators per report. The highest were the non-cyclical services (food and drug retailers, telecommunications services), IT (software and computer services) and utilities (water and electricity) industries with 7.9, 7.5 and 7.5 indicators on average per report. At the low end were the cyclical consumer (automobiles) and resources (mining, oil and gas) sectors with 3.5 and 2.0 indicators on average per report. However, these two sectors have low representation in our sample with only two companies in the cyclical consumer sector and five companies in the resources sector so these results may not generalise.

Table 9: Average disclosure (number of indicators per company) by industry group

Industry group[1]	**Average number of indicators per company**	**Disclosure index score**
Non-cyclical services	7.9	1.18
IT	7.5	1.12
Utilities	7.5	1.12
Basic	7.3	1.10
Cyclical services	7.1	1.07
General	7.0	1.05
Non-cyclical consumer	6.7	1.00
Financial	5.2	0.78
Cyclical consumer	3.5	0.53
Resources	2.0	0.30
Average (N = 125)	**6.7**	**1.00**

(1) 1998 London Stock Exchange categories

Table 10 shows the average disclosure by size of company. Larger companies (by pre-tax profit) disclosed significantly more marketing indicators (average index of 1.31 for the top quintile versus 0.80 for the bottom two quintiles). (We chose profit as the measure of size because some financial companies in our sample do not have a comparable turnover figure).

Table 10: Level of disclosure by size (profit before tax) of business

Quintile (20%)	**Average profit before tax (£ bn)**	**Average disclosure index**
Largest	7.8	1.31
Next largest	3.3	1.13
Middle	1.8	0.96
Next smallest	1.0	0.80
Smallest	0.6	0.80
Total	**2.8**	**1.00**

2.4 Conclusions from the analysis of annual reports

The key conclusions from this analysis were:

- Although many annual reports give general information about brands and marketing, marketing metrics, ie quantitative measures likely to be seen internally by the board of directors of a market-oriented business, are not reported regularly, nor consistently across companies.
- Few companies are fully observing the ASB advisory guidelines for marketing disclosures in the operating and financial review (ASB 1993), with a range of 53% (new products) down to only 16% (marketing spend) .

- Where marketing and brand indicators are provided, 66% were qualitative (ie verbal only) rather than quantitative, while 70% involve no comparison with previous year(s) or competition.
- Approximately 40% of the sample reported between zero and five indicators (qualitative and quantitative) with 15 the upper limit. On average only two quantitative metrics were reported.
- Sales volume and product distribution (availability) were the most frequently reported (60%) with new products in period the only other indicator reported by more than 50% of firms.
- The disclosure practice of the multibrand companies, which include some leading marketing businesses such as Cadbury and Diageo, on average differed little from single-brand companies except that multibrand companies exhibited less inter-company variation and reported more metrics on average (3.2 versus 1.9 for single-brand companies).
- The largest companies reported more metrics than the smaller ones (within the FT350). There was little variation between industries.

3. THE BOARDROOM PERSPECTIVE

3.1 Technical background: theory and previous research on accounting disclosure

By *recognition,* accountants mean the inclusion of the cost or value of an asset in the balance sheet of the firm. The alternative is *disclosure*, somewhere else in the financial statements, of either (i) the cost or value of the asset, or (ii) data which help the reader evaluate the asset. This report is about the actual and potential disclosure of marketing metrics

In terms of information there would appear to be little to choose between recognition and audited disclosure of, say, a brand valuation. However, asset recognition has been conjectured to have a number of contracting and signalling consequences.

In this section, we briefly review the research literature on boards' hypothesised motivations for disclosing or not disclosing information, and the empirical evidence to-date. In section 4.1, we will review the complementary market-based accounting research (MBAR) literature, which focuses on the impact of disclosure on investor behaviour and therefore on stock prices.

The board and market-based perspectives are closely interrelated. The board's motivations for disclosure are strongly influenced by its beliefs about the likely stock market response, while the market response is strongly influenced by investors' and analysts' beliefs about what lies behind the disclosure.

3.1.1 Agency and institutional theory

There are two main theories, about boards' motivations for disclosure: agency theory and institutional theory (Eisenhardt 1988, Kalbers and Fogarthy 1998).

In an *agency theory* framework, shareholders are seen as principals who seek to obtain maximum economic benefit from the behaviour of management, seen as their agent. This allows the examination of the separate interests of company owners and board directors (management), given the inability of shareholders directly to oversee the actions of management (Jensen and Meckling 1976, Berle and Means 1932, Jensen and Meckling 1976, Eisenhardt 1989). Both parties expend considerable money and effort on a variety of communication and control processes to reduce the agency costs associated with information asymmetry (Jensen and Meckling 1976, Fama 1980, Fama and Jensen 1983). Otherwise the stock market might discount the value of the firm, based on the likelihood of adverse selection, shirking, and moral hazard (Alchian and Demsetz 1972, Jensen and Meckling 1976).

Agency theory makes rational-economic assumptions about how directors will choose the information to be included in annual reports. It assumes that the economic consequences of disclosure derive from "contracting costs" (ie transaction costs, such as legal, negotiation, and information search costs) and "agency costs" (ie monitoring and bonding costs and the costs of management behaviour which is less than optimal for shareholders). The causal link from accounting to cash flows is through mechanisms such as compensation plans, government regulation, debt covenants, and the impact on stakeholder perceptions, sometimes known as "political visibility". Broadly, the practical implications are about finding a contractual relationship between the two parties which reduces the gap between their economic interests.

In the current context, the essence of agency theory is that it predicts that information which is positive for share prices over time will be disclosed to the extent that provision does not exceed the costs of obtaining and publishing it, including costs arising from providing advantage for competitors and the personal costs or risks to management. Agency theory predicts that, in the absence of these costs, managers would fully disclose all their credible information (Grossman 1981, Milgram 1981, Ross 1979). But if there are proprietary costs, managers will disclose only above a certain threshold (Verrechia 1983). Further, they will disclose only relatively good news, if there are costs, or if the information asymmetry between managers and investors is high enough. Early theory assumed that disclosure would be symmetrical in that both good and bad news would be disclosed. Managers may disclose bad news to discourage competition (Darough and Stoughton 1990, Wagenhofer 1990) while seeking to provide good news to shareholders (Dontoh 1989).

Agency theory expects disclosures to be truthful. This is based on the assumption that financial reports are audited and that users have legal protection against misrepresentation. But some papers (Gigler 1992, Newman and Sansing 1993) discuss “cheap talk” where disclosures are no longer constrained to be truthful.

Agency theory hypothesises an economic explanation for boards’ disclosure decisions. It makes the usual, deliberately oversimplified, rational-economic assumption that these decisions are entirely motivated by the board’s financial self-interest (ie greed and impatience, tempered by fear – the same generic motives as for investors in financial economics). In contrast, *institutional theory* looks for sociological explanations of disclosure practices, based on social norms and directors’ desire not to stand out from the crowd.

Institutional theory assumes that companies prefer not to reveal their internal workings to outsiders (Meyer and Rowan 1977, Zucker 1988, Orton and Weick 1990). Institutional theory has been applied to the choice of accounting methods (Mezias 1990), to public sector accounting (Covaleski and Dirsmith 1991), and to the application of new technology (King et al. 1994).

DiMaggio and Powell (1983) suggest that several mechanisms drive disclosure towards similar formats:

- Regulatory bodies (stock exchange and professional accounting institutes) force, or at least influence, disclosure and the manner of disclosure *(“coercion”)*.

- Corporate *mimicry* is largely informal, eg through non-executive directors.

- *Normative* influence stems mostly from internal and external professionals. They may be concerned, for example with ethics and the setting of high standards.

Institutional theory suggests that formal disclosure in annual reports may be more about ritual than about real control. This view tends to assume that analysts routinely enjoy direct access to company directors, reducing the significance of formal financial reporting via the annual report.

Agency theory would therefore indicate that firms should disclose information about marketing and market-based assets until the benefits are outweighed by costs, eg due to harm from competition or “misuse” by analysts or investors. The decision should be strictly rational. In contrast, institutional theory would suggest that marketing disclosure is more driven by social conformity. This may be supported by conventional *perceptions* of harm, eg from competitors using the disclosed information, but these perceptions do not necessarily withstand rational analysis.

Kalbers and Fogarty (1998) conclude that neither theory by itself explains what boards do. Their study of audit committee effectiveness in the US found that both types of mechanism – economic and social – operate in combination.

3.1.2 Empirical evidence on accounting disclosure.

Empirical studies of voluntary accounting disclosure almost all relate to earnings forecasts. Many studies (reviewed in King, Pownell and Waymire 1990) found that there were more “good news” forecasts than “bad news” forecasts. Some studies (McNicholls 1989, Pownell, Wasley and Waymire 1993) suggested similar numbers of good news and bad news forecasts. However Skinner (1994) found that managers pre-empted bad news in the quarterly results by making a forecast more frequently than they pre-empt good news. *Voluntary* disclosure in the annual report is disclosure beyond that mandated by accounting standards. A relatively new literature is emerging, close to the interests of the current project, which documents and explains differences in the quantity and quality of accounting disclosure. A related literature investigates the development of investor relations functions, and the processes of corporate communication.

One line of research has attempted to explain variations in disclosure levels among firms in the context of the annual report. Most of these studies have been conducted within a particular national context. Raffournier (1995) explores the determinants of disclosure in the annual reports of Swiss listed companies. He concludes that the extent of disclosure is positively related to size, internationality, percentage of fixed assets, size of auditing firm and, to a smaller extent, industry type and profitability. No significant relationship was found for leverage and ownership diffusion. When examined simultaneously, the only significant variables were size and internationality, but a high correlation between size and other variables suggests that size serves as a proxy for several influences.

However, a few studies are international. The research has focused on either the overall level of corporate disclosure, or specific types of disclosure such as social responsibility, environmental, segmental and voluntary disclosures. Meek and Gray (1989) studied the 1985 accounts of 28 firms from four European countries, all listed in London. They found that the disclosures of these firms comfortably exceeded the London listing requirements. They attributed this to the pressures of competitive capital markets. Halme and Huse (1997) provided a study of environmental disclosures by 140 firms from four European countries in 1992. Consistent with the predictions of institutional theory (and also, potentially, agency theory), industry affiliation was the most significant determinant of environmental disclosures.

Some work has been carried out on the relationship between the informativeness of disclosure and firm characteristics as perceived by analysts (Lang and Lundholm 1993, Imhoff 1992). Lang and Lundholm (1993) examined the relation between the disclosure practices of firms, the number of analysts following each firm, and properties of analysts’ earnings forecasts. They found that, with each industry, firms with more forthcoming disclosures had on average a greater analyst following, more consensus among analysts’ earnings forecasts, more accurate forecasts, and less variable forecast revisions.

A second line of empirical research explores the impact of disclosure on the cost of capital. If disclosure raises stock prices, other things being equal this reduces the cost of capital. There is some evidence for this, although the effects appear to be small. Botosan (1997) examines the association between disclosure level and the cost of equity capital by regressing firm-specific estimates of the cost of equity capital on market beta, firm size, and a measure of disclosure level. This measure is based on the amount of voluntary disclosure provided in the 1990 annual reports of a sample of 122 US manufacturing firms. For firms that attracted a low analyst following, the results indicate that greater disclosure was associated with a lower cost of equity capital. For firms with a high analyst following, however, no evidence was found of an association between the measure of disclosure level and the cost of equity capital.

Lev, Sarath and Sougiannis (2000) use R&D expense rather than marketing expenditures to investigate whether conservative accounting, in the form of immediate expensing of investment in intangibles, leads to undervaluation and thus a higher cost of capital. They examined over 1500 R&D-intensive companies and concluded that companies with a high growth rate of R&D but relatively low growth in earnings, were systematically undervalued by investors.

3.1.3 Control theory

At a broader level, boards' reporting to shareholders can be seen as an issue of control, similar to the board's own control of the firm using internal management accounting and other systems.

The word "control" is used in many ways in the management literature and no generally accepted definition has emerged. However, it is widely agreed that control usually involves some combination of direct feedback on behaviour and feedback in response to outcomes (eg Henderson and Lee 1992). The balance between behaviour and outcome control within firms depends on the uncertainty and measurability of outcomes. As outcomes become harder to measure or less reliable as an indicator of the manager's "true" performance, behaviour control becomes more appropriate (Ouchi 1979, Eisenhardt 1985, Gupta and Govindarajan 1991).

In the context of this report, shareholders' control of the boards of public companies is entirely limited to outcome control (except in a few exceptional circumstances). This study can be seen as an attempt to reduce the disadvantages of the situation by reducing the gap between actual board performance and the limited set of outcome measures currently included in the annual report.

3.2 Methodology for top management interviews

We wrote to 150 chairmen/chief executives of FTSE 350 companies requesting face-to-face interviews around various aspects of brand reporting. These 150 firms were selected on the basis of (a) being a trading entity (we excluded investment companies) and (b) location (we restricted interviewing to be in or near London). 47 companies agreed interviews – a response rate of 31 %. The main reason given for refusing interviews was "company policy".

Occasionally, two company respondents took part in an interview but each company is reported as one unit with the senior respondent shown in Table 11. As expected a number of the interviews were delegated to other senior executives.

Table 11: Job titles of respondents

Chairman/CEO	20
Finance Director/CFO	10
Marketing Director (on main board)	3
Company Secretary	1
Head of Investor Relations	13
Total	**47**

The interviews were conducted by four independent consultants, all previously senior executives in large corporations. Rather than a questionnaire, an interview guide **(**see Addendum 3 online at www.london.edu/marketing/market_metrics) allowed the conversation to flow as naturally as possible. Each respondent was aware of the purpose of the interview and interviewers were sufficiently knowledgeable and experienced to allow the discussion to roam, within time limits, according to the contribution the respondent wished to make. As a result, not all questions were asked of all respondents.

The interviews addressed the following core issues:

(1) What annual reports should include about marketing

(2) The marketing metrics seen by boards

(3) Inhibitions, for competitive and other reasons

(4) The effects further disclosure might have on share prices

(5) The most admired disclosure by other firms

(6) A general question on the extent to which shareholders are entitled to information on brands

In most cases, respondents agreed that the interviews should be taped; these were later transcribed for analysis.

3.3 Results

3.3.1 What annual reports should include

43 of the 47 respondents considered that the recent tendency to require more information in annual reports was well judged and of these, 41 felt that the information provided was about right. Four thought there was too little and two too much. In other words, most respondents at this stage expressed satisfaction with the status quo.

However, when we moved from the general to the particular, criticism grew. Some respondents considered that annual reports were a waste of time, money and paper. Analysts and fund managers all had direct access. Private shareholders barely looked at them and those who were sufficiently interested obtained their information from their brokers, the media and the Web. There was a widely held view that the information now required was excessive and much was not meaningful**:**

"I think Sir David Tweedie's comment, where he said that annual reports are largely written by accountants for accountants, is about right. It's enough information but it doesn't mean a lot, on a wide variety of fronts." (Electronics/electrical sector)

"I think full disclosure is absolutely appropriate but it is more important that it should be meaningful. I recall the first time we included a corporate governance report and I am sure our report read the same as every other FTSE 100 company report. It is probably something that a firm of auditors prepared proforma and everybody else followed." (Transport)

"The report and accounts [has] page after page after page of garbage where we state publicly a whole range of our governance that we take off the word processor, which are devoid of meaning and are now expanding to such a degree that the report and accounts have moved from being a meaningful and constructive document to one full of …platitudes. So I am getting increasingly irate that I have to tell everybody that I am honest, straightforward, that I don't practise inequality, that I do staff and we don't have any system of persecution, that I don't have a racist policy. We've never had any of these policies so we have to make them up." (Retailer)

"I am quite comfortable with the requirements as they are at the moment but there are quite a lot of lobbying groups that are trying to put different issues on the agenda on a pan company, pan world basis. If you're not careful there is a meaninglessness about that." (Manufacturer)

"We've added six more pages this year in our annual report all to do with governance and I think, and it's a sad thing to say, that the governance issues are taking over the annual report which means there is less concentration on actually what the company is all about and what it stands for. It is a backward step. So the annual report is getting less clear and we are now under pressure for environmental auditing which is another pain and for a [firm] like us in different countries it is going to cost us millions of pounds all for the annual report, and we can't see any value in it. I think the accountants are doing the industry a great disservice by not making good decisions about what the shareholders really want to know." (Financial services)

Table 12 gives the number of respondents (out of 47) who agreed about the addition of certain marketing and/or brand equity information. Note that "brand equity" for a single brand (named) company would include reputation and goodwill.

Table 12: Possible additions to annual report information

Possible additions	**# agreeing(1)**
Marketing activities	27
Brand equity metrics	12
Marketing expenditures	7
Brand valuation	4
Any of these	28
None of these	19
Total	47

it must be one of the greatest brands in the UK but I wouldn't put a value on it." (Retailer)

When the questions moved from brand equity as a whole to specific measures, however, much of the confusion was dispelled. Table 13 shows (a) some key marketing metrics which are seen by the respondents' boards, (b) whether respondents thought those metrics would be of interest to analysts, (c) whether they would be prepared to publish the metrics and, if not, whether this is for (d) competitive or (e) other reasons.

Some comments on metrics companies would rather not disclose were:

"The biggest thing I would be nervous about would be the level of complaints and consumer satisfaction." (Retailer)

"A lot of in-depth client information would be new and also industry surveys we do.... I think customer satisfaction would be new and they wouldn't be able to get that from their own sources, not unless they are very diligent researchers (and some of them are) but on average, no." (Media)

3.3.3 Competition as a reason for non-disclosure

Competition formed the major, but far from only, reason for non-disclosure. 29 respondents (60%) gave this as a significant reason overall. We explored this further, later in the interviews. 12 respondents (30%) considered that competitors already had this information but for the other 70%, the metrics would provide new information. 31 respondents (66%) gave consistent answers both times.

Taking the much lower figures in Table 13, column (d), for individual metrics, it would appear that competitive reasons are given as a generic objection to disclosure, but when the responses are explored for specific metrics, competition becomes a valid reason for non-disclosure in only a minority of cases (average 14% versus 55% for other reasons).

Table 13: Whether marketing metrics should be published

Metric	**(a) Metrics seen by board %**	**(b) Interest to analysts %**	**(c) Would be prepared to publish %**	**(d) No for competitive reasons %**	**(e) No for other reasons %**
Market share (volume and/or value)	83	74	52	13	30
New product development	80	70	37	17	41
Perceived quality/esteem	72	37	11	17	67
Relative perceived quality	70	39	11	17	67
Relative price	67	59	24	22	50
Actual quality	67	37	15	15	65
Total number of customers	63	54	30	15	50
Customer retention	61	52	20	13	63
Customer satisfaction	61	39	20	15	61
Awareness	59	41	24	13	59
Number of complaints (level of dissatisfaction)	57	28	7	15	74
Distribution/availability	50	30	11	11	74
Other measures of loyalty	39	30	9	11	76
Average	**59**	**42**	**19**	**14**	**55**

Many respondents felt that competitors already had access to many of the marketing metrics we were considering, so that making them available to shareholders would pose little threat of commercial damage.

"I mean frankly most of this information gets out anyway. Competitors know pretty well what's going on in the market place. We wouldn't necessarily want to give away too much information about margins. We might say for example there's been a pretty heavy attack on costs and wherever possible the pricing has gone up and therefore markets have improved. I think it would be that kind of general information." (Leisure company)

"The difficulty is the conflict between giving information to shareholders who may find it interesting and giving information to competitors and customers who may use it as a stick to beat you." (Manufacturer)

"I am quite happy to share all of that information [list of metrics in Table 12], *and we do share it, but we tend to share it on an ad hoc basis via presentations. For example we told the City that half the customers advertising on our website were repeat business. That information is in the public domain, they could track that. We don't tell them how much we spent so what we tend to do is package public information for them in a way that is digestible."* (Media)

"No, interestingly I heard an interview with someone from the BBC last night and she was refusing to give the BBC's marketing spend because she felt it would help competitors. I don't have that view at all. If you are strong in the market place, if you are a strong brand and competing healthily with quite a positive strong voice I think it's important. No it [competition] *wouldn't inhibit me at all."* (Media)

"I don't think it's a major issue. It's so complicated that I don't think it would be of any great interest to the competition. We all know in a general sense what each other does – sometimes even working on the same customer sites beside each other." (Support services company)

As with the more general responses, companies in the same sector had opposing views:

"Yes, we certainly do not tell our competitors how many customers we have on the internet. We are very cagey about market share in certain territories…" (Financial services)

"Yes and no. If it were sensitive to one's competitive position you wouldn't want to give it but I actually think people often exaggerate how much it is competitively sensitive. There are so many market services, particularly in an industry like ours, which is very transparent, and there is an awful lot of market research done which is widely available and written about, so I don't think that there is a tremendous amount of what we are trying to do is market sensitive." (Competitor to the above financial services company)

Table 14 contrasts the extent to which respondents considered competition a threat with the extent to which they considered their offerings were differentiated in the minds of their customers. In theory, the more differentiated the offerings, the less should be the threat of competition. In other words, the two responses should have a negative correlation. In the event the correlation was -0.19. This is in the expected direction but not statistically significant with such a small sample.

Overall, the boards gave about 10% of their time to competitive factors such as understanding or responding to competitors. This may seem less than the figures in the first column of Table 14 might suggest but the amount of board time given to competition did have a 0.34 correlation with the level of perceived threat reported above. This result is statistically significant at the 0.01 level, despite the small sample.

Table 14: Competitive threats versus differentiation

Scale	Competitive Threat	Differentiation
Immense/very high	19	7
Medium high	13	11
Medium	9	14
Slight	3	6
None	3	9
Total	47	47

Clearly, competition is a factor in deciding the marketing information to be disclosed. Future marketing plans, for example, were regularly cited as confidential (though this was not directly asked).

3.3.4 Other reasons for/against disclosure

Other widely stated objections to further disclosure were the amount of detail and the feeling that the media and analysts use any information they are given "against" companies. The perception is that measures are misunderstood and/or stored for subsequent destructive criticism. Another objection was that "hypothetical" figures (intangible asset measures) are potentially misleading. According to the detailed criticisms, as distinct from the earlier general acceptance, there is already too much information provided, and spurious analysis, which lead to confusion.

"The main reason that I wouldn't disclose any of those is because I didn't want to feed the analysts…….If you disclose ten numbers, ……your enemies will seize on the two that are bad and they will hit you round the head with them. I don't think shareholders would be any better off. These guys use the data like a drunk uses a lamppost for support rather than illumination." (Retailer)

Two conclusions may be drawn:

- Reports are getting so big that boards are reluctant to add more detail.
- Boards lack confidence in analysts and others to use the information responsibly.

Nevertheless, the management of these companies give most of the marketing metrics in Table 13 enough credence to review them at board level. The review percentages range from 39% to 83%. Whilst it is true that directors have more expertise with these metrics than shareholders, it should be possible to provide some key measures of brand equity along with some guidance on how they should be used. The accounts are not withheld on the basis that some people might not understand them.

"Only 30% read the document. They look at the chairman's statement, the chief executive's view, they look at the pictures and they look at the salaries, that's it. They never read the small print. The people who do read the small print are the people who are paid to invest for others or to advise on better buys [and they] don't read the annual report because they get the information direct. So it's a bit of a non document." (Financial services)

"I am very cynical about how much of annual reports are really read and if I look at the time taken to prepare annual reports and amount of executive effort that is involved in doing it – I don't know how effective it is - I really don't." (Leisure company)

"Reports are getting fatter and fatter and I could imagine doing it if I was going to separate a document for a limited audience which …. is where we're going: this is a readable document that is for someone who really wants to understand the company. Separate it from the financials which you could just put on CD and distribute and separate from the retail investor who just wants to have a bumper sticker description of how we are doing. But it is very difficult to make that shift at the moment." (Construction materials)

"If you provide a detail you can't stop providing that detail and so more detail equals more work. But if it's not useful to the market and shareholders, then what's the point?" (Media)

In summary, in addition to competition there were three reasons against further disclosure of marketing metrics:

- Shareholders' lack of interest
- Level of detail in annual reports and resulting size (and cost)
- Appeasing analysts only leads to more demands for information.

3.3.5 Admired annual reports

Indirect support for further disclosure comes from the companies whose annual reports are most admired by these respondents. Of the 45 respondents for this section, 12 admired no reports, possibly because they read few or none. 58 reports were admired in total. The four companies mentioned three times and the eight mentioned twice are shown in Table 15.

13 respondents considered that the admired reports showed more marketing information than the respondents' companies. Five of the 13 admired them more for that reason but one did not and the rest were unsure. None of the admired companies was perceived as showing less marketing information than the average.

Table 15: Admired annual reports

BP	3
Guinness/ Diageo	3
Tesco	3
WPP	3
Asda	2

Bass	2
Coca Cola	2
Co-op Bank	2
ICI	2
Logica	2
Railtrack	2
SmithKline Beecham	2

"I think generally they [PepsiCo] include more [marketing information]. I think the difference is between consumer facing businesses. Almost everybody who reads this is potentially a customer of ours and that would be true of Pepsi. I don't think it's about disclosing information it's about giving a feel for what the business is doing and it's about writing about the business in a way a step on from just self love. Annual reports tend to be very dull or they tend to be written about how marvellous they are." (Retailer)

"They [Young & Rubicam] don't disclose more, they present it in a more added-value way. They are building equity by their annual report. More about their brand equity, yes, they are a more branded organisation so they can communicate more single-mindedly on their brand equity." (Media)

"One of things that I think is good is they [Agrico] do disclose quite a lot of marketing information. They don't have a lot of competitors. One of the things that makes it very interesting is they talk a lot about markets but that's also partly because they are so unusual in terms of what they do they have to be good at explaining it in a way that's interesting and exciting. Trying to get a maker of electricity generators to look like a really sexy company is quite a skill and they have achieved it." (Pharmaceuticals)

"The extent to which I admire them [other reports] would [depend on the] establishment of a coherent and meaningful strategic story backed up by leading performance indicators and by the history of actual performance against those indicators and the objectives. It really is about the coherence, succinctness and relevance of it all. If they could catch their business in one graph, I would be happy to see one graph." (Construction/materials)

When the respondents were looking at other companies' annual reports they liked to see specific marketing metrics and thought better of those companies that provided them.

Further points which emerged were that:

- Some companies do use their annual reports strategically for competitive advantage, eg to pre-announce products or intentions (15/47);
- Some companies include sales discounts or temporary money-off promotions in their marketing expenditure (8/42, 5 don't know);
- Most (29/47) considered that disclosing the marketing metrics seen by the board would make no difference to their share prices because much of the information was already in the public domain; and;
- Only a minority thought that disclosure would either dampen or amplify the oscillations in their share prices (10 amplify, 3 dampen, 22 no effect and 7 don't know).

3.3.6 Shareholder entitlement to information on brand stewardship

Apart from an open-ended final question to sweep up any outstanding points, the interviews concluded with a somewhat leading question about whether shareholders are entitled to information about the firm's most valuable assets. 85% (40 of 47) agreed that shareholders were entitled to have information
uable assets

"Yes, very much so and I am slightly surprised that shareholders don't ask for more disclosure." (Transport)

Some qualified that:

"I wouldn't agree with you. I think the shareholders' right is to be custodians of their assets and if by releasing that sort of information, we're making ourselves more vulnerable and more misunderstood, I wouldn't have thought it was in the shareholders' best interests." (Retailer)

"In some ways I'm not sure I could disagree in that they own the company - it's a bit like they may be intellectually entitled to it - most of them wouldn't know what to do with it and could significantly misinterpret the document. So whilst I could probably logically agree that they're entitled to it, when [it comes to] giving it to them I would say absolutely no way!" (Media)

"I think they get as much as they need. Remember there are two quite different reports. There's this one which is the much more popular version. You will see there the middle band – that breaks out the turnover and the operating profit for the business and they see that is as much as they are really wanting to absorb." (Leisure)

"They are entitled to have the information but whether providing that information (whatever it actually means in detail) is actually in their interests is probably a question management can answer better than shareholders. That brings us all the way back to competitors and customer reaction. I think many companies hang back on market-related information … not because they don't want shareholders to know but they don't think it's actually in the shareholders' interest to know." (Manufacturer)

"Entitlement is a funny word. Shareholders own the business. On the one hand shareholders can ask for anything they like and on the other hand they can own somebody else's company. It's a bit of balance. It depends how many of them asked for it and for what purpose. If one of our major shareholders asked for something and they had a valid reason for asking for it and they don't want to put it on the front page of the Sunday Times then we would be duty bound to have a sensible conversation about it." (Retailer)

"I suppose so, what are they going to do with it? If they have more information on an intangible asset, it is going to be one of these funny calculations one of these brand marketing firms push and probably pretty meaningless, because it totally depends on the forecast that is embedded in the value. So they may be entitled but whether it would be actually any better than the general view the stock market takes of the long term cash flow of the business, I would doubt." (Leisure)

"I think the shareholders are entitled to know whatever they wish to know, but the question is what is relevant and what can be offered that doesn't have a disproportionately detrimental impact on their best interests is what we are saying. So it is our duty to present the information in a form that gives them the best insight into the business with the minimum amount of data and information but at the same time not to disclose information that is really not in their interests to disclose, in other words that corrupts our competitive position." (Construction/materials)

Some thought disclosure would amplify share price oscillations:

"I don't think you can be that definitive. I mean when you think about it information at the shareholder/board level is about understanding about where the business is and where it is going to. If you reveal all of that information direct to shareholders, it can over-inflate the share price… because you are always talking about the fluctuations…. As soon as you've actually got a rise in share price the shareholders compare the actions that then take place to what the debate and discussions and evaluation were, then you might well miss expectations. You would… make people (Healthcare)

"The problem with disclosing information of this sort is when you are doing well, that's good news to disclose to your competitors, when you go through the odd period when maybe a product isn't doing very well that's when you don't want your competitors to know because you want to have that time to get it sorted… before the competitor comes back…. New product development, you want the whole world to know about when you launch the product, [but] you don't want anybody to know about it until you launch the product." (Leisure)

But are all shareholders equal?

"There is an argument that sometimes arises that there are unequal levels of information given by companies where the analysts are being told more than smaller shareholders. Anybody that thinks that isn't the case is wrong - it is manifestly the case - so the issue I think is one of justification. How can you justify that? I think you justify that by the small shareholder would be in a much worse plight if the market was ill-informed because the small shareholder doesn't deal at the speed with which the institutional shareholders can deal. They don't follow the shares everyday and therefore they are actually getting a better crack of the whip by the market being informed even though they are not being informed. I think where there is a bigger problem, it is not so much between the institutional block and the small shareholder block, the bigger problem I think comes in the relationship within the institutional block." (Manufacturer)

Despite these qualifications, the conclusion is that competition has been overstated as a reason for non-disclosure. Looking back at Table 13, it seems improbable that competitors do not have access to market share and relative price information should they require it. In line with this general conclusion, only a minority on any specific metric gave competition as a reason for non-disclosure.

Our overall conclusion is that boards will supply more marketing metrics if the demand is there and if they think the information will be responsibly used. On the other hand, they have no great desire to add to the weight of annual reports which have already grown substantially over recent years. They are sceptical of the ability of shareholders to use or understand marketing metrics, or indeed much else, in the annual reports.

4. THE FINANCIAL MARKETS PERSPECTIVE

4.1 Technical background: market based accounting research

Any discussion of the role of accounting disclosure must be grounded in a view of the efficiency of capital markets in pricing traded companies' shares. In an efficient market, share prices are "fair" in the sense that shareholders and analysts price companies on the basis of their estimates of future cash flows impounding all available information at that point in time. One reason the Accounting for Brands study (Barwise et al 1989) argued against the recognition of brands on the balance sheet was that balance sheet valuations, especially when supported by little or no explanation, would contain no new information. In an efficient capital market, investors would have fully recognised that a company had brands and would have taken this into account in forecasting future earnings and cash flows.

The efficient market notion is easy to parody. Finance professors themselves tell some version of the parable of the distinguished economist who is crossing the quad with a graduate student. The student says "Look, there is a $100 bill on the ground!" Without looking down, the professor is able to dismiss the possibility. "No, if there had been, someone would already have picked it up." Accounting is particularly vulnerable to this impossibility theorem. In a capital market populated by skilled equity analysts with timely access to management, it would be easy to conclude that financial reporting never matters. In fact, research suggests that there is some truth in both views. Ever since the pioneering study by Ball and Brown (1968), research has consistently shown that some accounting disclosures contain information, but that investors also have access to a much wider, and often more timely, information set. In consequence, by the time of formal disclosure, much information - in Ball and Brown's data the great majority - is already impounded in stock prices.

In practice there are two empirical questions that are hard to separate: (i) are *markets* efficient (in that they impound information in a timely way)? and (ii) do particular *accounting* disclosures contain incremental information?

Whereas a decade ago most financial economists would have pointed to a large body of empirical research arguing overwhelmingly for market efficiency, most would now be more agnostic. Little systematic evidence has emerged to challenge the efficient market view that investors can see through the veil of accrual accounting practice to the underlying cash flows. But there is now a lot of evidence that stock prices do not display the instantaneous adjustment to new information that has long been considered a central tenet of an efficient market. Kothari's (2001) recent review observes that a major new research field has emerged to investigate long-horizon stock returns. It is likely that most or all of the reported anomalies will turn out to reflect inadequate research design rather than market inefficiency, so the dominant academic hypothesis remains that capital markets are broadly efficient. But in the presence of mixed empirical evidence, academics are thrown back onto deriving support for efficiency from arguments from first principles about the behaviour of markets with certain structural attributes.

Another contentious question is how much market-based accounting research can tell us about the regulation of accounting disclosure. It is a necessary condition for accounting disclosure that information should be both *reliable* and *relevant*. Researchers test for "value relevance" using what we may call "levels" and "changes" methodologies:

- *Levels* studies add the variable of interest to a regression containing, typically, a book asset and a net income measure, as explanatory variables for share price. If the variable enters the estimated equation with a significant coefficient of the predicted sign, this supports its relevance for valuation.

- *Changes* studies relate the change in the level of the explanatory variable, or its incremental disclosure, to changes in stock prices. Though changes studies promise a much sharper test of relevance, a reliable event study of the effects of disclosure changes is also much harder to execute.

We review some studies of the “value relevance” of marketing disclosures below (see also Holthausen and Watts’s (2001) recent review and critique of the literature).

The extent to which we can draw conclusions for reporting guidelines or standards from relevance research, and particularly from levels studies, is controversial. A number of papers have drawn attention to econometric problems in this literature (eg Lys 1996, Skinner 1999), and value relevance studies are vulnerable to the possibility that the explanatory variable under review is merely proxying correlated omitted variables.

It is probably best to see value relevance studies as attempts to falsify the relevance hypothesis. It would be hard to argue the value relevance of variables that were uncorrelated with stock prices, but it is difficult to draw regulatory conclusions from positive results in value relevance studies. Studies that relate accounting or other data to levels of stock prices are vulnerable to a “so what?” response. The very presence of this data in the price, even if demonstrated, might suggest no need for further disclosure.

Value relevance is about the role of disclosure, but accounting has other purposes. “Other factors that appear to affect the nature of GAAP include contracting, litigation, political and tax considerations” (Holthausen and Watts 2001). Ball, Robin and Wu (2000) provide an example of how ostensibly similar GAAPs in a number of Asian countries can generate very different degrees of timeliness and conservatism of earnings.

The first subsection reviews a number of studies that relate measures of marketing performance to stock prices or stock returns. The next subsection reviews some recent commentaries calling for greater disclosure in this area.

4.1.1 Evidence on the value relevance of marketing metrics

Simon and Sullivan (1993) estimate the proportion of the market capitalisation of the firm that is attributable to “brand equity”. In their model the value of intangibles is a function of industry factors which permit superior profits (proxied by the 4-firm concentration ratio and a regulation dummy) “brand factors” which create value through premium prices (proxied by advertising expenditure and order of market entry), and market share factors. They conclude that market share is jointly determined by brand factors and advertising expenditure relative to rivals, and non-brand factors, proxied by the firm’s share of both patents and R&D, relative to competitors.

Aaker and Jacobsen (1994) use Equitrend estimates of perceived brand quality produced by Total Research Corporation, based on market surveys of 100 major brands in 33 product/service groups between November 1989 and February 1993. They find a positive relationship between changes in perceived brand quality and stock returns measured over the previous twelve months. Neither salience (brand awareness) nor advertising spend contained information incremental to RoI. However, Aaker and Jacobsen do not conclude that companies should report brand quality information, arguing instead that their results show that this information is evidently already available to investors from other sources.

Hirschey and Weygandt (1985) regress Tobin's Q [the ratio of market capitalisation to the replacement cost of the firm's assets] on advertising to sales, R&D to sales, the portion of the four-firm concentration ratio not explained by advertising and R&D, growth, and the stock price beta of the firm. Their sample is 390 durable and 390 non-durable goods firms from the 1977 US Fortune 500. They find that while R&D is significant in explaining the cross-sectional variation in Q, advertising is significant in non-durable goods, but not durables.

Bublitz and Ettredge (1989) regress abnormal stock returns over the accounting year on abnormal changes in advertising and R&D, controlling for earnings. A positive coefficient implies that the expenditure creates an asset beyond the current period. On this basis R&D does create an asset, but advertising does not.

Ittner and Larker (1999) add to the literature (eg Amir and Lev 1996, Foster and Gupta 1997, Mavrinac and Seisfeld 1997, Banker, Potter and Srinivasan 1998) examining the relation between non-financial measures and financial performance. They find a modest relationship between customer satisfaction indexes and performance. They find that customer behaviour and financial results are relatively constant over a broad range of customer satisfaction. Performance changes only after satisfaction crosses various "threshold" values and diminishes at high satisfaction levels. They also find that customer satisfaction measures are not fully reflected in accounting book values and can be economically relevant to the stock market.

Barth et al (1998) use estimates of the value of some leading brands, published in Financial World Magazine between 1992 and 1997, to test brand effects on share price and annual stock returns. Brand valuations used the Interbrand methodology . Brand valuations were significantly positively related to advertising expense, brand operating margin and brand market share, but not to sales growth. Aggregate brand value estimates were found to have incremental explanatory power over these factors and appeared to contain incremental information to *recognised* brand assets and analysts earnings forecasts.

4.1.2 Survey evidence on the desirability of further disclosures

Arthur Andersen (1996) investigated current practice in "narrative reporting" in annual reports among UK listed companies, to determine the extent to which the ASB's recommendations on Operating and Financial Review structure and content had been adopted (ASB 1993). The survey notes the paucity of forward-looking information and reconfirms that most companies' narratives add little, if anything at all, to the information already provided in the statutory financial statements.

Coleman and Eccles (1997) report City opinion on the value of 21 commonly used financial and non-financial performance measures, and whether reporting of those is satisfactory. Market-related measures that analysts find important and not adequately reported are market share, new product development, customer retention, and product quality. The paper reveals "a clear need for deeper disclosure of future-oriented business information. Those well-performing companies brave enough to embrace this new financial reporting model will be rewarded by the capital markets' greater understanding of their business and, over time, with sustainably higher market values."

Eccles and Mavrinac (1995) survey corporate managers, financial analysts, and portfolio managers to examine their opinions on disclosure regulation and how companies communicate with the capital markets. Their analysis indicates that, while all three groups think market functioning is imperfect, they do not see a need for increased financial reporting regulation. Rather, the results suggest that companies can improve the processes of disclosure and communication by developing a strategy for corporate information disclosure, upgrading the role of investor relations, and voluntarily reporting non-financial information. Such improvements would increase management credibility, analysts' understanding of the firm, investors' patience, and potentially, share value.

There are few empirical studies relating fundamental marketing data to value measures, and it is hard, for the reasons outlined above, to draw clear conclusions about the desirability of new disclosure from such studies. In the case of "brands in the balance sheet" one can mount a convincing argument that they contain no incremental information. It is much harder to demonstrate empirically, or even to develop a principled argument, that some new disclosure will contain incremental, value relevant, information. Some of the opinion surveys referenced above demonstrate a strong belief in the value of incremental marketing disclosures, and our own survey of analysts, reported below, found some similar views. On its own, market based accounting research cannot arbitrate on just what should be disclosed by firms. Instead, these disclosures will have to pass the complex of tests that generate acceptable new accounting.

Probably the most fully articulated set of proposals for disclosure on intangibles are those by Baruch Lev (2001). Lev argues that intangibles are key to the creation of value and that what is needed is a reporting system that tracks the whole of the firm's value chain. He proposes that firms should be asked to report a value chain scoreboard under three broad headings, "discovery/learning", "implementation", and "commercialisation". In Lev's framework, disclosure about brands/marketing is dispersed through the scoreboard. Hence he includes customer acquisition costs and network relationships with customers as part of "discovery/learning". Under "implementation", Lev asks firms to report measures of the creation of intellectual property and of the technological feasibility of products, but also some customer measures, including marketing alliances, brand support, and stickiness and loyalty measures. His "commercialisation" disclosures include some financial disclosures of revenues, cash flows and costs, but with greater disaggregation of innovation and alliance revenues and disclosure of market share and market growth. He also asks for "growth option" disclosures including market potential.

Clearly, Lev's is one of many potential frameworks, and a lot of work would be required to assess its applicability in different sectors. Our evidence suggests that metrics are quite context-specific. In this case, accounting rules would need to be broadly drafted, particularly if the aim is to encourage management to reveal the metrics it is using internally. On the other hand we are recommending significantly greater disclosure. Broadly drafted accounting rules cannot demand specific disclosure, which will essentially remain voluntary. Theory predicts that managers will fully disclose their information, to the extent that the perceived benefits (to themselves and/or the shareholders) exceed the perceived costs. However, many studies, including the current one, and casual observation, suggest that the voluntary disclosure of information on intangibles is minimal. Nonetheless, Lev argues that the credibility and profile associated with FASB or ASB endorsement of a framework will jump-start a culture of voluntary disclosure.

those mostly orientated towards the end consumer (eg pubs and restaurants, or fast moving consumer goods like tobacco or beverages); “non-branded” are the companies mostly orientated towards other businesses (eg mining or metals); “semi-branded” are companies that offer an equal mixture of both (eg utilities).

Responses were tested for internal consistency which was good overall. For example, 80% of respondents who agreed with the question *“I rate companies which provide extensive disclosure of marketing information more highly than those which don’t”* also gave low scores for the question *“How much do you think the disclosure of detailed marketing information would compromise the competitive position of public companies in the sector you cover?”*.

Table 16: Industrial sectors in the sample and number of analysts

Branded			
Banks	20	Support services	8
Beverages	12	Transport	11
Insurance	16	Utilities	6
Leisure, entertainment, and hotels	16		76
Media	18		
Retailers	24	*Non-branded*	
Telecommunications	11	Aerospace and defence	9
Other branded	4	Chemicals	9
	121	Construction and building materials	12
		Engineering and technology	8
Semi-branded		Investment companies	6
Food Processors	5	Mining and metals	9
IT products and services	13	Other non-branded	40
Oil and gas	14		93
Pharmaceutical	19		
		Total	
290			

The interviews addressed the following issues:

(1) Whether the disclosure of detailed marketing information would compromise the competitive position of public companies

(2) Whether companies that consistently disclose more marketing information tend to outperform the FTSE index

(3) Whether analysts tend to rate more highly companies that disclose extensive marketing information

(4) The adequacy of information currently provided by public companies

(5) The importance of certain performance measures to making investment decisions.

4.3 Results

This section reports the analysts' perceived costs and benefits, adequacy and consistency of disclosure.

4.3.1 Competitive costs and benefits of disclosure

Table 17 shows that most respondents (95%) believe that there are some competitive costs of disclosing marketing/brand equity metrics. Over 25% of analysts in the branded and semi-branded sectors, and over 15% in the non-branded sector, believe further disclosure would compromise the firm's competitive position "very" or "quite" seriously:

Table 17: Extent to which disclosure would compromise competitive position

% of responses	Branded %	Semi-branded %	Non-branded %	Total %
Very seriously	2	5	2	3
Quite seriously	25	25	14	21
To some extent	45	47	48	47
To a limited extent	22	16	31	23
Not at all	5	7	4	5
Total	100%	100%	100%	100%

To probe possible benefits from disclosure, analysts were asked whether they agreed with the statement: "Companies that consistently disclose more marketing related information tend to outperform the FTSE index". Table 18 shows that the majority of respondents did not have an answer and others divided evenly except in the semi-branded and non-branded sectors where two thirds disagreed.

Table 18: Relationship between disclosure and FTSE index performance

% of responses	Branded %	Semi-branded %	Non-branded %	Total %
Agree	21	18	16	19
Disagree	19	26	24	22
Don't Know	60	55	60	59
Total	100%	100%	100%	100%

However, when asked whether they personally would rate higher a company that discloses more marketing information, the proportion of positive answers grew to about 50% (ranging from 46% in the non-branded sector to 56% in the branded sector). The proportion of negative responses also rose somewhat, to about 30% (Table 19):

Table 19: Personal rating of higher disclosure companies
(agree more highly rated)

% of responses	Branded %	Semi-branded %	Non-branded %	Total %
Agree	56	50	46	51
Disagree	28	32	32	30
Don't Know	16	18	22	18
Total	100%	100%	100%	100%

4.3.2 Adequacy of present information

Analysts were asked whether public companies in their sector currently provide adequate information for investors on the specific aspects of marketing, brand equity, and innovation shown in Table 20 .

- A clear majority responded that not enough information is provided on the value of brands (72% “no” versus 22% “yes”), the value of intangibles generally (67% vs 26%), advertising expenditure (63% vs 33%), pricing strategy (61% vs 33%), and marketing expenditure (58% vs 38%).

- Responses were equally divided on whether companies provide adequate information on future market trends (49% vs 49%).

- The only issues for which a majority felt that the information provided is adequate were new product development (68% yes vs 26% no) and channel and distribution strategy (52% yes vs 39% no).

- There was little difference in the responses from analysts in the three different sectors.

These findings were supported by the personal interviews which revealed that new product development and channel and distribution strategy tend to be highly industry-specific. Industries whose future cash flows rely heavily on new product development (eg pharmaceuticals and high-tech) or distribution (eg fast-moving consumer goods) have long been aware of the importance of this information for their market valuations and customarily provide the market with sufficient information. On the other hand, there are industries that do not rely heavily on distribution channels (eg automotive parts makers) or new products (eg distributors), in which case analysts do not expect them to disclose much.

For future market trends, the interviews revealed that knowing their market's current situation and trends is seen as part of the analyst's job. They should have their own opinion rather than rely on companies to provide this information. Thus it is useful that companies show their awareness of the market trends, but it is less important than the other metrics.

Table 20: Marketing/brand equity information adequacy

% of responses	Branded %	Semi-branded %	Non-branded %	Total %
The value of their brands				
No	76	63	74	72
Yes	21	33	14	22
DK	3	4	12	6
The value of their intangible assets				
No	69	67	65	67
Yes	25	29	25	26
DK	7	4	11	7
Advertising expenditure				
No	60	70	60	63
Yes	36	29	32	33
DK	3	1	8	4
Pricing Strategy				
No	57	64	62	61
Yes	39	32	28	33
DK	4	4	10	6
Marketing expenditure				
No	60	54	59	58
Yes	37	42	34	38
DK	3	3	6	4
Future market trends				
No	55	37	51	49
Yes	44	62	46	49
DK	2	1	3	2
Channel and distribution strategy				
No	32	46	41	39
Yes	60	45	47	52
DK	7	9	12	9
New product development activity				
No	31	17	27	26
Yes	64	78	63	68
DK	4	5	10	6

Analysts were also asked "How *useful* do you think the following performance measures are when making investment decisions?" Table 21 shows their average responses (weighted from 0 for "Not

Most of the measures were on average seen as "very" or between "fairly" and "very" useful. In particular, market share (growth, value and volume), sustainable price premiums, and consumer/customer retention rates are all seen as very useful metrics for analysts (all 3.9-plus on the six-point scale). Perceived quality (3.7) and consumer/customer satisfaction (3.6) were also rated as useful. Brand awareness (3.2), staff retention (3.0) and staff satisfaction (2.7) were only borderline.

Table 21: Importance of marketing metrics for investment decisions

Metric	Branded	Semi-branded	Non-branded	Total
Market share (growth)	4.4	4.4	4.3	4.4
Market share (value)	4.1	4.3	4.0	4.1
Sustainable price premium	4.0	4.0	4.0	4.0
Market share (volume)	3.8	4.1	3.9	3.9
Consumer/customer retention rates	4.0	3.8	3.7	3.9
Perceived quality	3.7	3.8	3.7	3.7
Consumer/customer satisfaction	3.7	3.5	3.5	3.6
Brand awareness	3.3	3.4	2.8	3.2
Staff retention rates	3.0	2.9	2.9	3.0
Staff satisfaction	2.8	2.7	2.6	2.7

(1) 6-point scale with end-points: "Not useful at all" (weighted 0) and "Extremely useful" (weighted 5)

The respondents' opinions did not differ significantly according to the sector they covered (branded, non-branded, or semi-branded). Thus the perceived need by analysts for marketing/brand equity disclosure is not affected by whether the sector is what is traditionally seen as "marketing" (ie branded) or not.

4.3.3 Consistency of disclosure

When we asked analysts to comment on the results of the survey in personal interviews, the consensus was that a reduction in disclosure is generally interpreted by the market as a negative signal, while an increase is interpreted as a positive signal. Given the way in which analysts interpret changes in the amount and quality of communications, we cannot conclude that inconsistent voluntary disclosure in itself carries shareholder costs, because increases in communication, although an inconsistency, are perceived by the market as a positive signal. Nor was there any suggestion in the interviews that disclosure followed in a later year by non-disclosure would overall be taken as negative

At the same time, 19% of respondents answered that FTSE companies which have been consistently disclosing marketing information do earn higher than average, and 52% agreed with statement "I rate companies which provide extensive disclosure of marketing information more highly than those which do not".

Our preliminary conclusion that there are shareholder benefits in consistent voluntary disclosure, ie companies that consistently disclose more marketing related information tend to outperform the FTSE index, was confirmed only partially due to the fact that "inconsistent" disclosure includes both increases and decreases in disclosure levels.

Based on the results of the survey and personal interviews we can, however, conclude that analysts believe that companies which consistently disclose marketing information or which increase disclosure of such information tend to earn better than average returns.

5. PROS AND CONS OF MORE EXTENSIVE AND SYSTEMATIC DISCLOSURE

5.1 Summary and discussion of research results

This report has concerned two aspects of intangible assets: how boards now report on their market based intangible assets (brand equities) to their shareholders through the medium of annual reports, and how they should. We were also asked to comment on the understanding and consistency of usage of terminology, eg “brand equity”. We found wide confusion with these marketing concepts and we began the report with our definitions for clarity thereafter. The three principal rounds of research reviewed annual reports, interviewed chairmen and senior executives and, finally, surveyed financial analysts.

The analysis of annual reports revealed that only two quantitative marketing metrics, on average, were disclosed (three for multibrand companies). Taking all indicators – both qualitative and quantitative – the average was about seven for both classes of company. Apart from sales value (turnover) and volume, distribution (availability) was the only other indicator disclosed by more than 50 % of firms.

The conclusions drawn from the interviews with Chairmen and senior executives were:

- Brands, brand equities, market-based assets, marketing metrics and brand valuation are widely misunderstood terms.
- Competition is a factor in non-disclosure but, after probing, only accounts for 20 percent of the reasons for non-disclosure.
- Companies lack confidence in the reliability of non-financial marketing metrics.
- They also lack confidence in analysts to use the information "responsibly".
- Boards will supply more marketing metrics if the demand is there and if they think the information will be responsibly used. On the other hand, they are reluctant to add to the weight of annual reports which have already grown substantially over recent years.

The most admired annual reports by other companies tended to have more marketing information.

Table 22 compares boards’ willingness to publish with previous recommendations by Kaplan and Norton (1992), Coleman and Eccles (1997) and ICAEW (1999).

The analysts agreed about competitive reasons for non-disclosure but, unsurprisingly, are seeking many more marketing and brand equity metrics than annual reports now contain. There was little difference between the analysts specialising in branded goods and services and those in non-branded areas.

5.2 Advantages of disclosing marketing metrics

There is some support from the analysts’ survey for consistent voluntary disclosure, eg that companies that consistently disclose more marketing related information from year to year are seen as tending to outperform the FTSE index. Furthermore the companies whose reports are admired by Chairmen and senior executives tend to provide more marketing information than most.

Table 22: Readiness to publish recommended metrics

Metric	Recommended for publication: Kaplan & Norton (1992)	Recommended for publication: Coleman & Eccles (1997)	Recommended for publication: ICAEW (1999)	Would be prepared to publish (%) [1]
Market share	✓	✓	✓	52
Customer retention	✓	✓	✓	20
Number of customers	[2]	[2]	[2]	30
Consumer satisfaction	✓		✓	20
Relative price		✓		24
New product development		✓		37
Actual quality		✓		15
Perceived quality		✓		11
Relative perceived quality				11

[1] From Table 13
[2] Customer acquisition was their recommendation. This can be derived from the year-on-year change in the number of customers, adjusted by the customer retention rate.

We would also conjecture, on the basis of agency and behavioural accounting theory, that companies which commit themselves to reporting marketing metrics are likely to perform better against those metrics.

Furthermore, the provision of brand equity information is likely to bring the assessment of short-term performance into better balance with longer-term expectations since brand equity represents a major store of unrealised future cash flow.

Going further, we would argue that, for most`companies, brand equity is one of the company's most valuable assets, so that the firm's financial performance cannot be properly evaluated without allowing for the enhancement or diminution of brand equity (Ambler 2000). To do so is the equivalent of using production figures to estimate sales without allowing for inventories at the beginning and end of the financial period.

5.3 Disadvantages

There appear to be five potential disadvantages:

- Disclosure of competitively sensitive information. This needs to be tested against what competitors already know, or could know if they were interested.
- Misuse by analysts, media and other outsiders.

- Providing unnecessary hostages to fortune, ie giving information which may create damaging comparisons in years to come.
- Increasing the size and cost of annual reports. Providing six metrics, say, as against three today need not add more than two or three paragraphs to the operating statement. In the context of a 60-page document, much of which is devoted to what is widely seen as boilerplate, this disadvantage has little substance. As noted below, greater use of the Web for the complete annual report would minimise production and postage costs.
- Shareholders do not want, and would not understand, information about marketing and brand equity. These are “details”.

These or similar claimed disadvantages were all probably used in earlier days to object to the publication of profit and loss accounts and balance sheets, eg at the time of the 1929 Companies Act. It is true that many shareholders, and indeed many boards of directors, are unfamiliar with some of these concepts and their significance but they will not become any more familiar whilst the metrics remain locked in the cupboard. Information on one of the firm’s most valuable assets cannot be dismissed as mere detail. Nor can it be assumed that shareholders are too stupid to understand if that asset has grown or diminished when the measures are properly explained.

On the other hand, these disadvantages reflect valid and genuinely felt concerns among company directors. The issue is to strike the right balance.

5.4 Evaluation and practical options

The balance appears to favour more, and more systematic, disclosure, but the specifics will depend on company and competitive circumstances. Furthermore, change is unlikely unless there is demand from shareholders and others, together with leadership from those companies keen to demonstrate their marketing credentials. We noted that one company with an outstanding marketing reputation only supplied one marketing metric in its annual report.

One practical option would be to include a special category in the current annual reports awards scheme for the best disclosure of brand equity. A second option would be to highlight the importance of brand equity disclosure in the current company law review which is expected to set standards for companies’ reviews of operations in their reports.

The optimal amount of disclosure, and what is appropriate, will vary from company to company according to circumstances. In order to achieve some independence in the consideration of which marketing metrics, if any, should be reported, we propose that the board discusses with the auditors how any change in brand equity(ies) will be disclosed in the annual report. In some cases, full quantification, with trends, will be appropriate but in other cases that would harm the company and, thereby, shareholders’ own interests.

Although current annual reports favour qualitative indicators of marketing over metrics, we have some concerns with qualitative statements being deemed adequate. These concerns are compounded by the current state of consultations for company law reform and the OFR (Operating and Finance Report) which will largely replace the current Directors’ Report in annual reports. The proposals in 5.83

onwards of Document 5 (DTI 2000a) are broadly consistent with our conclusions but go further in some areas. Some of their key proposals are, together with our comments:

- "trends and comparisons year on year" (p.159). We agree.
- Use of the Web "but the traditional paper approach cannot simply be dispensed with" (p.159). We agree.
- The mandatory overview to include market changes, new and discontinued products, changes in market positioning, turnover and margins. To new and discontinued products and positioning we would add "where material". Furthermore, disclosure before the event would normally be considered too commercially sensitive.
- (Where and to the extent material) key relationships with employees, customers, suppliers and others. All the examples here are internal apart from policies on creditor payment. We argue that this would be better covered by external and employee brand equity together with any supplier reporting deemed material.
- Dynamics of the business, including competition, changes in market conditions and customer/supplier dependencies. Also future programmes to maintain and enhance tangible and intellectual "capital" and brands. Making future expectations explicit must be speculative and/or commercially risky. The committee qualifies this in 5.90 by saying "directors would not be expected to make forecasts in relation to the forward-looking material" (p.186) but they would still be expected to reveal their plans. We doubt the practicality of this in a marketing context.

These are excerpts from a long list of things to be disclosed although some of them are in the current ASB (1993) recommendations. Although the consultation process thus far has been mostly supportive (DTI 2000b), the implications may not yet have reached those expected to implement them. As our review of annual reports shows (also Andersen 1996), implementation of the current OFR, so far as marketing indicators are concerned, is patchy at most. In the seven years since they were promulgated, little appears to have changed. Unless the proposals become "standards", the new proposals may be treated similarly.

Alternatively companies could respond in the "boilerplate" fashion which a number of our respondents stated as their current approach to the various kinds of additions imposed on annual reports. Once some form of words has been formulated to satisfy the authorities, the formula is likely to be copied with minor variations and shareholders will be none the wiser.

We propose, quite simply, that the marketing and brand information proposed here and by the Company Law Review Steering Group (CLRSG) should take the form of quantitative metrics when it is material (ie worth telling) and be omitted when it is not. Generic statements such "we have a good relationship with our customers" are not meaningful. Following Davidson's
Reporting", we suggest that relevant and selective marketing information is somewhere between "quantitative" and "audited" measurement. In other words, the process follows that outlined by the CLRSG in which the auditors do not warrant the accuracy of the figures but ensure that the directors have followed a sensible process to select and establish them. Shareholders need less, but more meaningful, information.

So far as the metrics themselves are concerned, there are competing attractions between the empirical and the theoretical or normative. On the empirical side we can take the metrics most companies acquire, and those that most often reach their boards, as being, presumably, the measures they find most informative and use these as the basis for a shareholder shortlist. On the theoretical side, we can deduce the relevant metrics directly from the generalised business model in Figure 2.

Table 23 brings these together along with those recommended in the light of this comparison, Tables 1 and 22 and the research overall.

All metrics should be presented as trends with year-on-year comparisons. Beyond ensuring that each category is represented, we could find no neat logic for determining our shortlist beyond these criteria:

- It needed to be as short as possible.
- While brand valuation has many uses and we commend it for board attention as part of any brand's strategic review, it has significant flaws for the purpose of annual reports even outside the balance sheet (Ambler and Barwise 1998).
- Awareness, whether top-of-mind or total, is an important indicator for young brands, it has much less value for those well established in their sectors. Accordingly, we do not regard it as a universal indicator.
- Marketing investment should include all marketing expenditure apart from short-term activities which do not build brand equity, eg price promotion. Advertising metrics were dropped as a standard because only a minority of companies spend large amounts on advertising.
- Customer satisfaction has been shown (Vredenburg and Chow-Hou, 1986; Varki and Rust, 1997; Ryan, Rayner and Morrison, 1999) to be a less good predictor than relative satisfaction. An 80% score would be good if the competition registers 70% and bad if they are at 90%.
- On the other hand, perceived quality has been shown to be a strong predictor of both market share and profitability (Gale 1994).
- The key aspects of customer behaviour are the extent to which they are gained and lost. These put turnover into perspective, eg more business with the same customers or more churn. Since the amount of business with customers is more important than their absolute number, we propose acquisition is shown as a percent of turnover. This makes the business from new customers comparable with the incremental business from new products.
- In the case of trade channels, we see the amount of that space that is occupied (weighted by each outlet's total sales of the category) as the key metric. Out of stocks, [relative] satisfaction and complaints are all important but secondary to whether the brand is there in the first place.
- Market share and relative price are arguably the two main measures of brand equity. They should be taken together because apparent strength on one metric (eg increased share) may actually denote weakness if the other is moving the other way (eg relative price declining).

Table 23: Recommended Brand Metrics for Annual Reports

Category (See Figure 2)	**Empirical (Table 1)**	**Theoretical (Table 22+)**	**Recommended**
Marketing activities		Marketing investment Advertising as % of marketing Share of voice Actual quality	Marketing investment
Consumer intermediate	Awareness Perceived quality Consumer satisfaction Relevance to consumer Perceived differentiation Brand/product knowledge	Perceived quality/esteem Commitment	Perceived quality
Consumer behaviour	# new customers Loyalty/retention % Prospect conversions %	New customers as % of turnover Loyalty/retention % Total # customers	New customers as % of turnover Loyalty/retention
Trade customers	Customer satisfaction # complaints	Availability/ distribution Average stock outs	Availability/ distribution
Innovation	# new products Revenue of new products Margin of new products	New product development	Incremental % of turnover attributable to products launched in last 3 years
Competitive metrics	Relative satisfaction Relative perceived quality	Market share Relative price Relative satisfaction Relative perceived quality	Market share (volume) Relative price Relative satisfaction
Financial results	Sales volume/turnover Gross margins Profitability	Economic value added	

- Whether market share (or the total market) should be shown as volume or value will, as noted above, depend on context. Relative price as the ratio of the two can, in any case, provide the conversion.
- Market size should be disclosed, with a clear definition, but is not shown above because, since it does not show performance, it is not technically a metric.
- Finally we have omitted sales turnover and profitability as this information is already available in the financial statements. Sales volume should be added where turnover is misleading, eg in alcoholic drinks where a large (and varying across countries) amount of turnover represents excise duty. Sales and profit contribution for the top brands of multibrand companies, however, should generally be disclosed.

Multibrand, multinational companies will have difficulties in deciding the appropriate levels of aggregation. A few large brand-country units may account for most changes in profits, in which case those metrics would be most informative. Alternatively, the corporate brand may dominate the others and be sufficiently homogeneous to be the most appropriate reporting entity. Alternatively again, some metrics may be relevant at corporate levels, eg marketing investment, whereas others only make sense at the individual brand level, eg perceived quality. The rule should be that disclosure candidates should be extracted from whatever the board finds most informative at high level (ie metrics). If the level of detail is too much for the printed annual report, it can be put onto the Web.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Best Practice recommendations

The best practice (non-mandatory) recommendations arising from this study are:

1. Companies should report on brand equity and market performance in the operating and financial review (OFR) sections of their annual reports using the following principles:
    - 1.1. The report should give marketing metrics, ie *quantitative* measures, supplemented by commentary. Text alone has little value.
    - 1.2. Metrics should be compared, at least, with the prior year and thus need to be *consistent over time.* If the definition of a metric changes, the prior year should be restated on the same basis.
    - 1.3. If a company has more than one brand, or metrics are otherwise not summable, the metrics should be given for the whole company (where applicable) plus a small number of brands (usually only two or three) which represent most shareholder value.
    - 1.4. If a metric is regularly reviewed by the board, it is presumed to be a candidate for disclosure to shareholders subject to confidentiality, see below. Auditors should informally test the reasons for non-disclosure.
    - 1.5. The metrics should be *auditable*, ie reliable and professionally sourced. All measures and definitions (including market definitions) should be explicit and precise. Metrics should be reliable and professionally sourced.

2. The metrics which present the best summary of brand equity and market performance will differ from sector to sector and, to a lesser extent, from company to company. For example, the size of the market and market share might be better conveyed in value terms in some sectors and in volume terms in others. In addition to *market definition and size*, the core metrics which almost all firms should report (with trends) are:
    - 2.1. *Market share* together with a brief description of the "market".
    - 2.2. *Marketing investment*, ie the expenditure on marketing intended to build brand equity. This excludes, for example, sales discounts, price promotions, and the cost of distribution.

3. Other metrics relevant to most sectors, and therefore candidates for disclosure, are:
    - 3.1. *Relative end user satisfaction*, ie the satisfaction with this company's products as a percent of satisfaction with competitors'.
    - 3.2. *Relative price*, ie value market share divided by volume market share.
    - 3.3 *Quality* as perceived by the end user.

3.4. *Customer loyalty/retention*, eg percent of start-of-year customers still active at year-end.

3.5. *Sales to new customers* as a percent of turnover.

3.6. Share of turnover represented by *products launched in previous three years* (measured incrementally to exclude cannibalisation), by also showing the change in sales of products already being marketed three years before).

3.7. *Availability/distribution*, ie the extent to which the products are available for purchase by final customers.

Firms should also provide a *glossary of marketing and brand terminology* which should be the general (or at least industry) standard for annual reports. Companies would still be free to use alternative expressions and meanings but different usages should be clarified where they are important. The terms used in this report are broadly defined in Appendix A but their application would need to be adapted for each sector.

4. Most of these metrics are already reported internally. They should not increase the size of, or the cost of preparing, printing and distributing, the annual report. Firms should have the option of *publishing and archiving full annual reports in electronic format only*, thus building on the existing trend to provide shareholders with abbreviated reports tailored to their interests. Web access to full annual reports should be available to all shareholders.

5. Firms should not be expected to disclose target metrics, ie detailed future marketing intentions.

6. Most metrics are already known to competitors. Nevertheless *commercial confidentiality* is a real issue and possible disclosure should be reviewed, on a metric-by-metric basis, with the auditors. Where shareholders will gain more from discretion, that should be observed.

These recommendations are proposed as non-mandatory best practice guidelines. Our aim is to increase the value of company reports while helping firms take a long-term view of their brand(s) and business. At the same time, we have tried to avoid rigid one-size-fits-all prescriptions which might increase companies' reporting costs and/or fail to take account of the real issue of commercial confidentiality and the differences in the relevant metrics in different industries.

6.2 Using both the annual report and the Web

Any proposal to increase annual reporting risks being lumped in with other pressure groups calling for more information. Some companies felt strongly on this issue. Whilst one could claim that marketing as the source of the company's main cash flow and brand equity as often the most valuable asset make this a special case, there are many special cases.

Some companies are now providing synopses of the annual reports to all shareholders with the full document on demand. It may be time to take this one stage further. Companies should be given the option to lodge what they regard as unnecessary information (for most shareholders) on the Web with permanent records being held by Companies House. This would be equivalent to the US system with additional filings (eg 10K) held by the SEC.

Once that administrative arrangement is in place and marketing terms, such as brand equity, clarified, best practice suggests disclosure of key marketing metrics either in the electronic version only, in that, and the full report, or in both these and the synopsis. Shareholder demand would establish which combination of these three media was most appropriate for the company.

Similarly, best practice should be to report the top standard metrics or to replace them with those more relevant to the company's situation and strategy. In other words, reporting the most relevant metrics would be best practice whereas reporting no marketing metrics would not be.

6.3 Limitations

The methodology was designed to secure a broad understanding of disclosure issues for boards and analysts in the context of annual reports. We were not attempting a rigorous testing of hypotheses structured from existing literature. Accordingly, the sampling techniques, for example, do not guarantee that the responses are fully representative although the degree of consensus within each group gives a basis for confidence.

Non-response bias, if it exists, seems more likely to cause us to report more exposure than exists. In other words, we expect that the more open companies were more likely to participate.

Furthermore, these issues are context-dependent. Firms in more competitive sectors have to be more sensitive about disclosure.

This research highlights some confusion about the roles of the annual report and this too is context-dependent. Greater clarification by each company about the particular roles of its own annual report might assist its own disclosure decisions but general guidelines would require more research. Furthermore, this report has not considered disclosure other than through annual reports and the Web.

We did not set out to link disclosure with performance. For example, if greater disclosure is associated with increasing shareholder value, a research question is the direction of causality. It is possible that disclosure would drive performance but it is also possible that superior results would drive disclosure.

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APPENDIX A: DISCLOSURE OF MARKETING METRICS IN ANNUAL REPORTS

Marketing Metrics: Annual report disclosure

	CONSUMER / END USER THOUGHTS AND FEELINGS	Key	
	Awareness	1	Prompted, unprompted or total
1	Salience	1	Prominence, stand-out
2	Perceived quality/ esteem	1	How highly rated
3	Consumer satisfaction	1	Confirmation of expectations
4	Relevance to consumer	1	"My kind of brand"
5	Image/ personality/ identity	2	Strength of individuality
6	(Perceived) differentiation	2	How distinct from other brands
7	Commitment/ purchase intent	2	Expressed likelihood of buying
8	Other attitudes, e.g. liking	2	May be a variety of indicators
9	Knowledge	2	Experience with product attributes
	CONSUMER / END USER BEHAVIOUR		
11	Total number of consumers	1	
12	Number of new consumers	1	
13	Loyalty/ retention	1	e.g. % buying this year and last
14	Price sensitivity/ elasticity	1	Any measure of volume sensitivity
15	Purchasing on promotion	3	
16	# products per consumer	3	The width of range end user buys
17	# leads generated/ inquiries	3	Number of new prospects
18	Conversions (leads to sales) %	3	Prospect to sales conversions
19	# consumer complaints	2	Level of end user dissatisfaction
20	Warranty expenses	3	Cost of quality rectification
21	Weight ratio	3	SOM/{Penetration* Loyalty (share of requirements)}
22	Target market fit	2	Actual and target consumer profile match (demo/ psychographics)

	TRADE CUSTOMER/ RETAILER		
23	Cost per contact	3	Cost of sales call
24	Distribution/ availability	1	e.g. number of stores
25	Share of shelf	2	Retailer space as % total
26	Features in store	2	Number of times during year
27	Pipeline stockholding (days)	3	Stock in channel
28	Out of stock	3	% of stores with no stock
29	% sales on deal	3	Proportion of sales on promotion
30	On-time delivery	3	
31	Customer Satisfaction	2	
32	# customer complaints	2	
	RELATIVE TO COMPETITOR		
33	Market share	1	% SOM (Share of Market) by Volume
34	Relative price	2	e.g. SOM Value/ SOM Volume
35	Loyalty (share)	1	Share of category requirements
36	Penetration	3	% of total who buy brand in period
37	Relative consumer satisfaction	3	e.g. satisfaction vs. competitor
38	Relative perceived quality	3	Perceived quality as % leader
39	Share of voice	3	Brand advertising as % category
	INNOVATION		
40	# of new products in period	1	New product launches
41	Satisfaction from new products	2	
42	Revenue of new products	2	Turnover, sales
43	Margin of new products	2	Gross profit

	FINANCIAL		
44	**Sales**	1	Value (turnover)
45	**Sales volume**	1	Quantity of sales in standard units
46	**% discount**	2	Allowances as % of sales
47	**Gross margins**	1	Gross profit as % sales turnover
48	**New customers gross margins**	2	Ditto but for recent customers
49	**New customer acquisition cost**	3	
50	**Marketing spend**	1	e.g. ads, PR, promotions
51	**Profit/ Profitability**	1	Contribution, trading, or before tax
52	**Shareholder value/ EVA/ ROI**	3	The true financial bottom line
53	**Stock cover**	2	Inventory expressed as days sales
54	**New products revenue share**	3	

Key: 1 Disclosed in more than 10 percent of reports
2 Disclosed in some but <10 percent
3 Not disclosed

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