“You need some of that soft fluffy brand stuff” said the hard-nosed City analyst

Making the intangible tangible is what effective marketers do. For decades the IPA, the professional institute for the UK's leading advertising, media and marketing agencies, has collated and published evidence of this in action.

Our publications have demonstrated how marketing that improves so-called 'soft' brand metrics – such as fame or differentiation – can translate into sustained growth in 'hard' business metrics of revenue, pricing power and profit.

Below, we evidence how financial analysts and investors view the link between a company's brands and marketing and its performance and valuation.

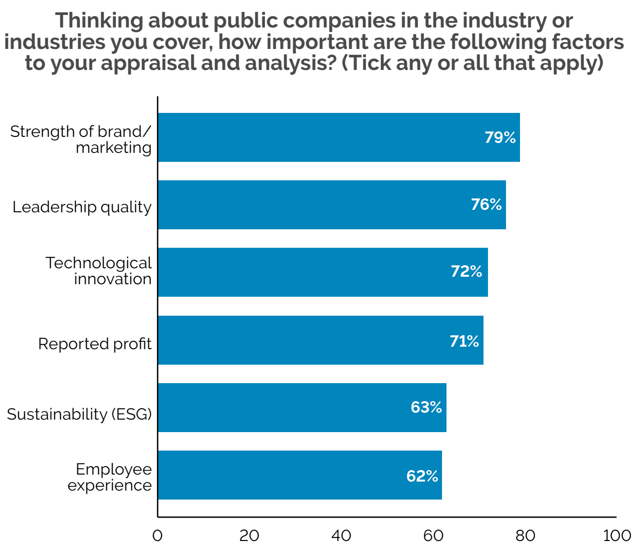
These findings should provide some encouragement to marketers that the importance of strong brands and marketing is increasingly being acknowledged by financial audiences. They should also be a wake-up call that more work is needed to demonstrate effective marketing operates with transparency, accountability and commercially credible metrics.

How financial analysts view marketing

According to a 2023 survey of UK and US financial analysts[1], 80% of contemporary investment analysts examine marketing expenditure at the stock exchange listed companies they cover (up from 6% of analysts in a UK survey in 2005).

When asked to choose important factors for them when appraising businesses, more analysts cited the strength of a company's brands and marketing than chose quality of the company's leadership, record of technological innovation or profitability. Analysts who regularly examined companies' marketing spend were also more likely to see this spend as an investment and contributor to business growth.

Figure 1: The strength of a company's brands and marketing is the most often cited factor by analysts when appraising companies



Source: Marketing is an investment, (IPA, 2024)

However, significant numbers of analysts (38% of UK analysts) also thought marketing expenditure lacked transparency, and analysts who tracked companies' marketing spend were more likely to think this spend could be more effective.

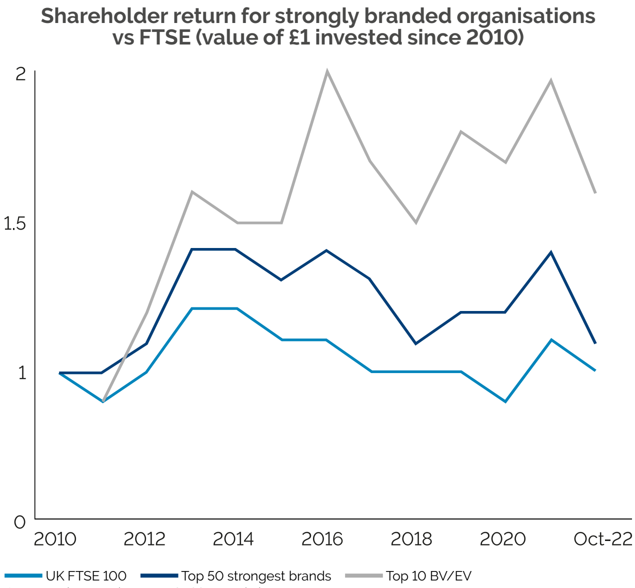
The financial returns from developing strong brands are worth the effort

Although the data points above suggest that marketers still need to build more confidence in brand marketing and its metrics, there is solid evidence of the benefits of being seen as a brand-led business.

Analysing data from both the S&P 500 and the FTSE 100 indices, a report commissioned by the IPA from Brand Finance, the valuation consultancy[2], calculated that in the UK, the top 50 brands delivered shareholder returns 30% higher than the FTSE 100 average in 2021 and 10% higher in January to October 2022 (when the report was published). Those strongly branded organisations which had a high ratio of Brand Value (BV) to Enterprise Value (EV), delivered even greater growth, stability and returns.

In 2021, shareholder returns from the high BV/EV ratio group were 80% higher than the FTSE 100 average.

Figure 2: Strongly branded organisations outperform the market



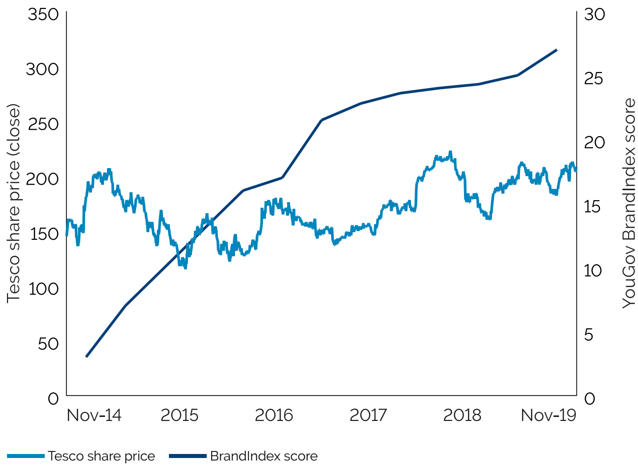
Source: Why Brands Matter 2022, Brand Finance

Strongly branded companies recovered quickly from economic downturns in 2012, 2018 and 2020. In addition, global data suggested strongly branded companies paid at least 3% less on their debt.

Tesco rebuilt its brand to revive its business

After Tesco reported a record loss and its lowest ever consumer trust score in 2015, it adopted a turnaround strategy that put being helpful at the heart of operational changes and brand marketing. Policies to reduce queues and make returning products easier were introduced alongside advertising that often featured staff going to greater lengths to deliver better service.

Figure 3: Tesco's BrandIndex score recovered before its share price in 2015–19 turnaround



Data source: YouGov BrandIndex 12 week moving average; Tesco share price, Yahoo Finance
Source: Adapted from Tesco 2020 IPA Effectiveness Awards case[3]

By the end of 2019 the brand posted its highest Trust, Quality and Value scores in over nine years. Its scores for reputation (used as a proxy for trust in the brand) registered the highest increase seen in the category, and an econometric model estimated that marketing drove 45% of the increase in Tesco's revenues, equivalent to an extra £1.8bn. As Tesco's brand and business performance improved, the long-term trajectory of its share price was also more positive.

The full case study, which won the 2020 IPA Effectiveness Awards Grand Prix, includes sufficient statistics to persuade even the most sceptical City analyst of the financial value of investing in that 'soft fluffy brand stuff'.

When businesses build brands, brands can build businesses. There is irrefutable evidence that effective brand marketing leads to more customers, market share, sales and profits.

The FT, the leading global business title, and the IPA, the professional institute for the UK's leading advertising, media and marketing agencies, have been sharing this evidence through a series of FT advertisements, each with a free online summary of corresponding proof.

For more support to help your business improve its marketing and brand effectiveness, visit **ipa.co.uk/effectiveness**

1 See data from survey of analysts in *Marketing is an investment*, (IPA, 2024)
2 *Why Brands Matter 2022: New Evidence*, (IPA/Brand Finance, 2022)
3 *From running shops to serving customers: The Tesco turnaround story*, (IPA, 2020)