

Future value of present spend

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The future value of present spend

October 2024



It's Autumn, that means it's budget season

Because of media inflation, getting a good size budget matters now more than ever

If media inflation continues
you need +4% just to stand still



Empathy
for
finance

This vs.
that

A new
piece of
kit

3 top tips
from
CFOs to
you

Empathy for finance



Finance is comparing bottom up requests & top down realities

Their job is reconciling all of this – making hard decisions and being accountable

Expected available
money
Market demand
Past performance

FINANCE

The business case
The data and evidence
The team that's going to action it



“ Finance professionals value objective analysis, some facts and figures. ”

It's good to have some evidence that there is a strong likelihood that the investment will yield results.

Having a third party corroborate internal viewpoints strengthens the case, it provides a good level of rigour.

Helen Southwell, Finance Director, Yorkshire Tea



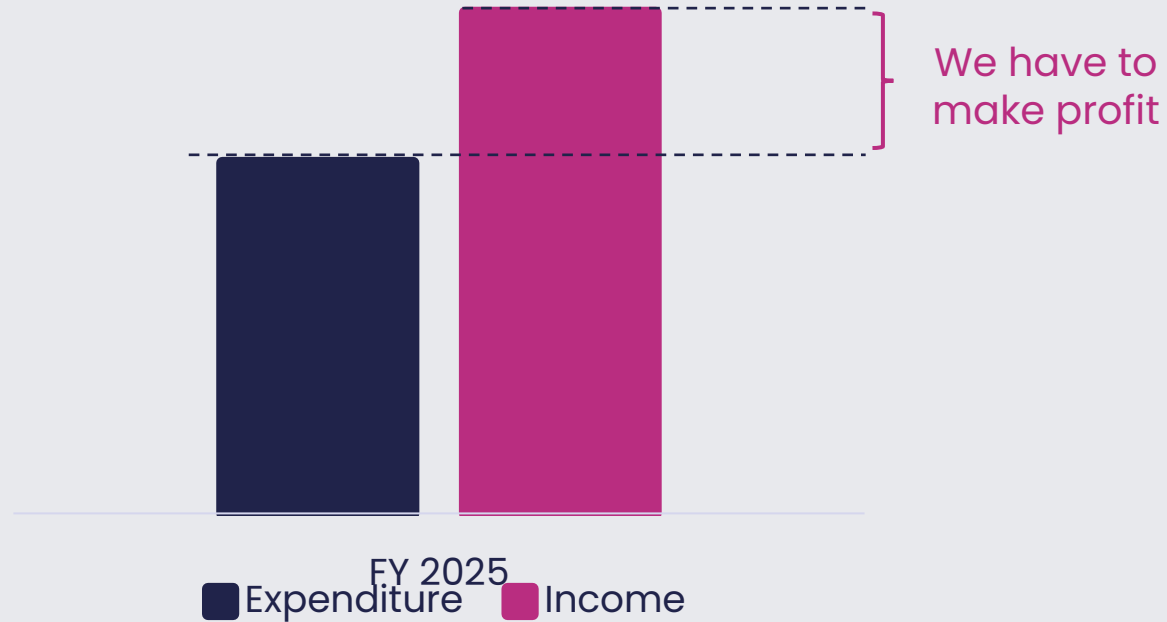
“ We keep a really close eye on market context & performance so that we have our own view of what is likely to happen in the future. We then ensure that our plans and ambitions align with those market expectations. ”

Matthew Birch, CFO, giffgaff

“Everything, in the end, gets into the P&L”

It's like the bible to finance

The P&L

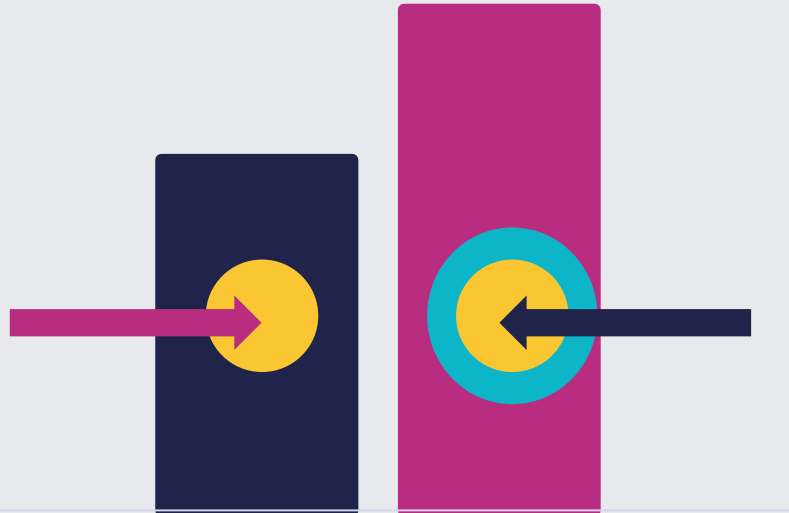


It's simple. If you add to expenses, you have to add to more income

Finance people have ratios in their head for how much more

The P&L

If you add a chunk here by increasing your marketing budget...



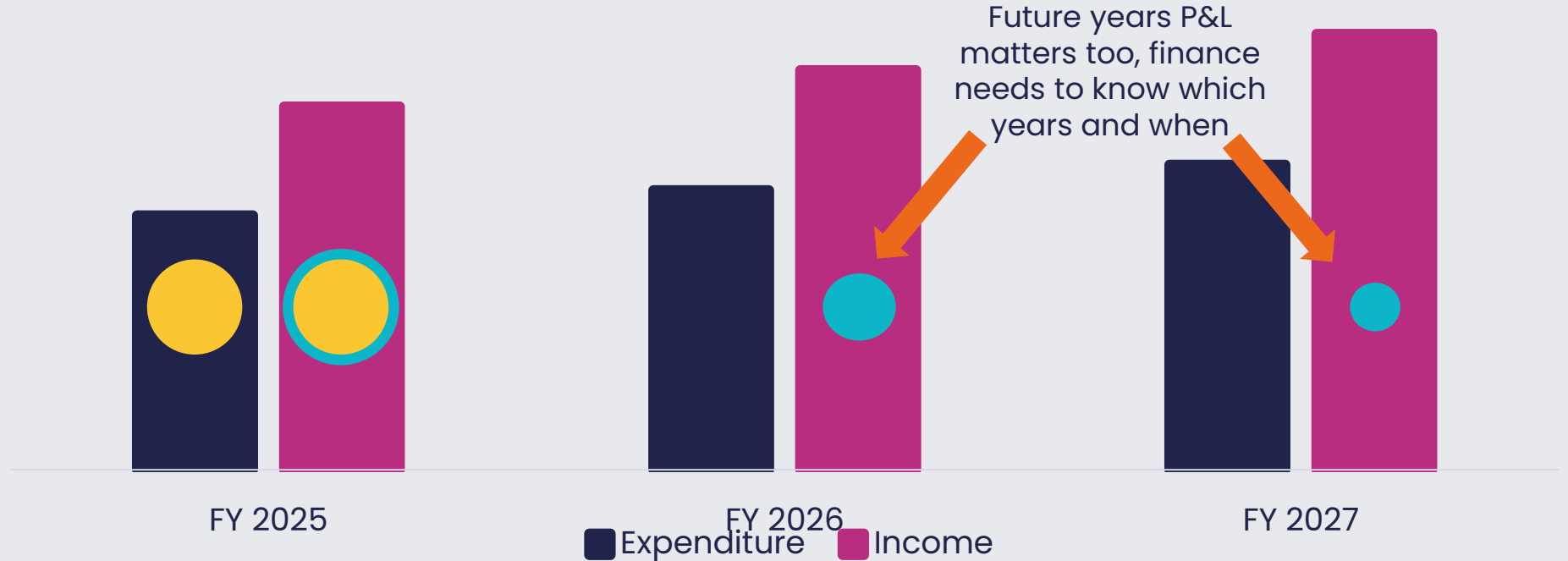
...you have to add a bigger chunk here

FY 2025
■ Expenditure ■ Income

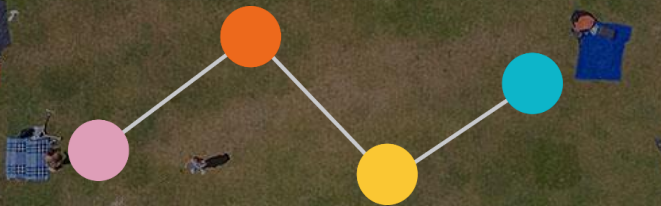
But what if the revenue comes back in future years?

And how to compare different investments that pay off differently in the future?

The P&L, multi-year view



This vs. that





“
What's the revenue that we're
expecting to add this year for this new
campaign?”

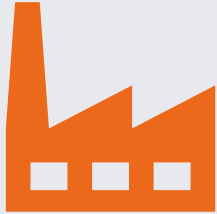
Now let's project the cash flow from
that, the revenue in future years, and
see what the present value of that is.

If it's positive, and if the return is better
than spending the money on
something else, then go ahead and
do it.

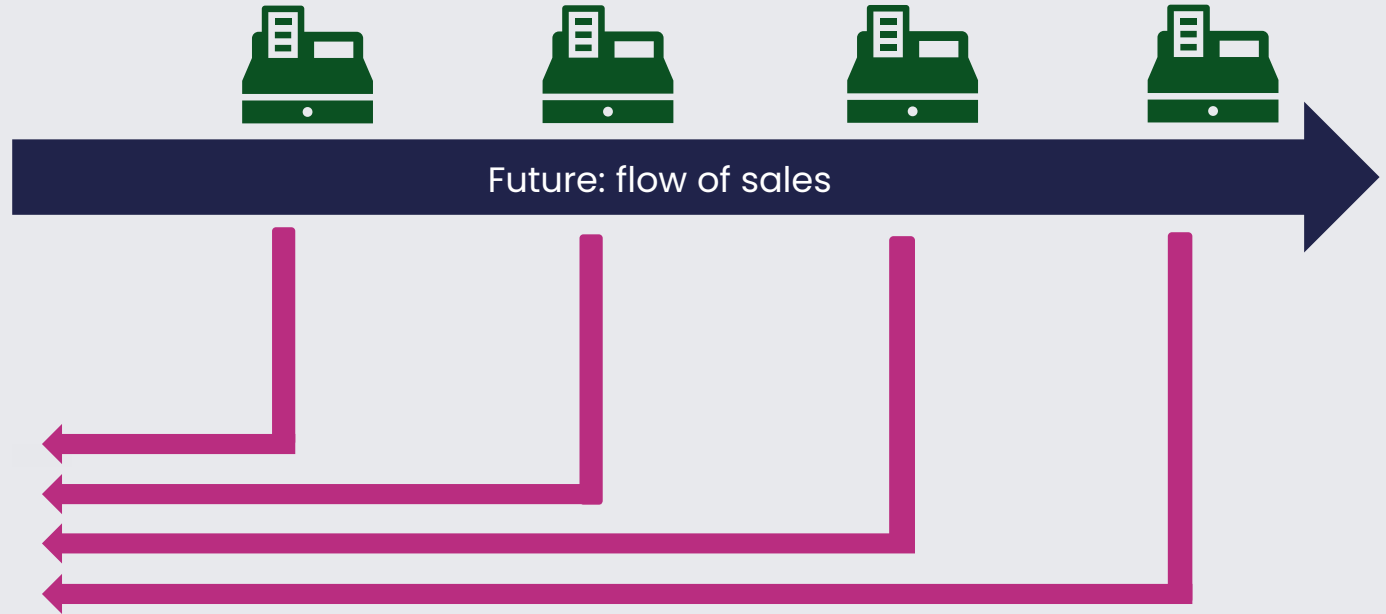
Leandro D'Elia, Fractional CFO, 8X

The decision to buy a new machine for the factory

Buy it now to produce more revenue in future - by making & selling more than we could before



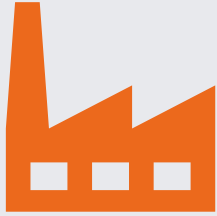
Today:
Buy a new factory



Value of the factory
to your business in
discounted cashflow

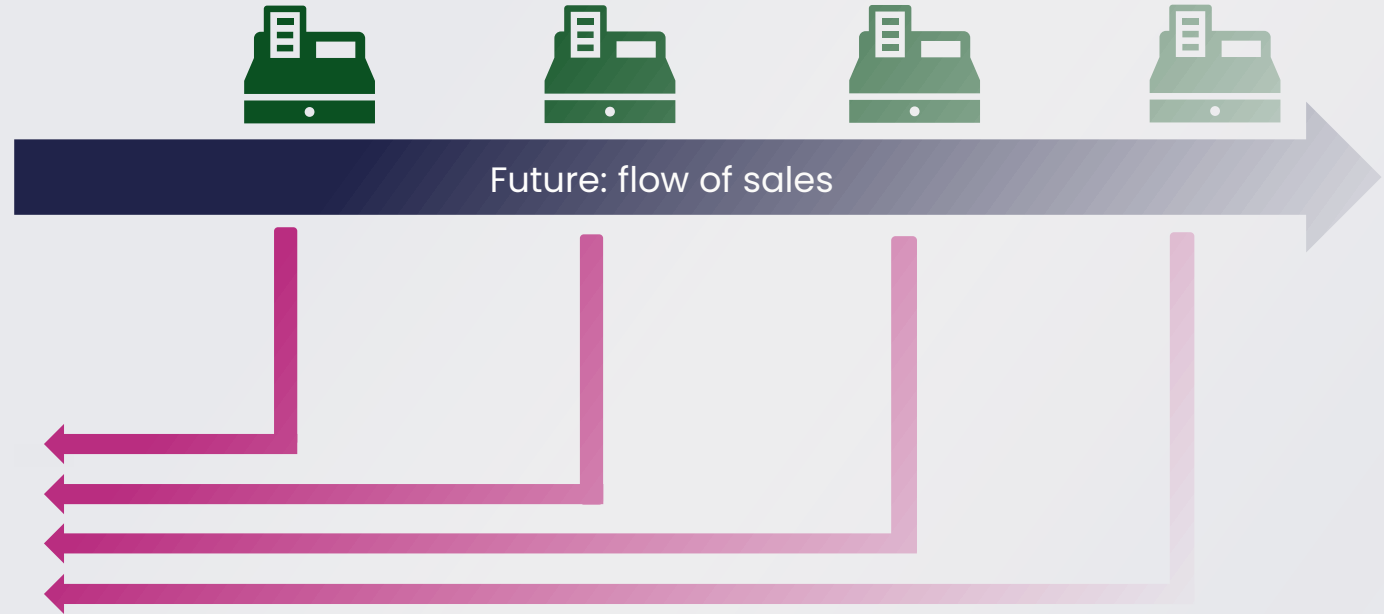
Future cashflow isn't as good as cash right now

Because it's costly to spend money & there's a risk that later payback won't happen



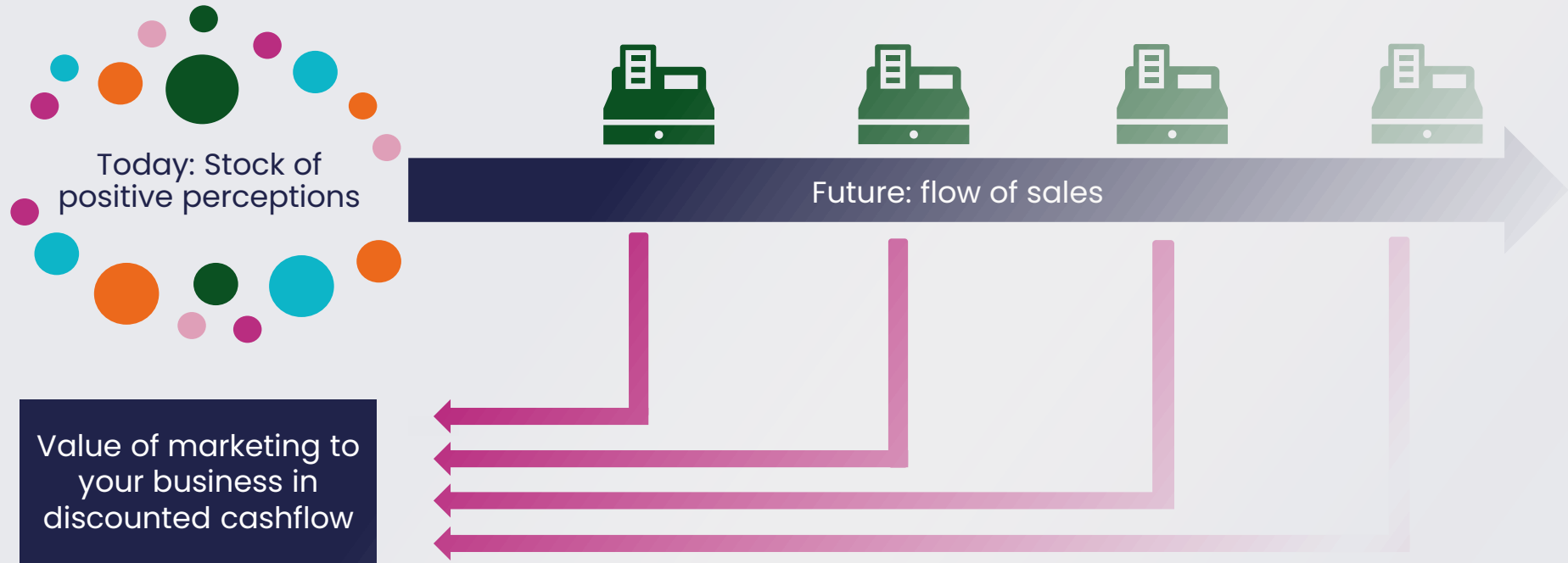
Today:
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Advertising creates a stock of positive perceptions in people's minds

That's an asset that also produces cashflow in future



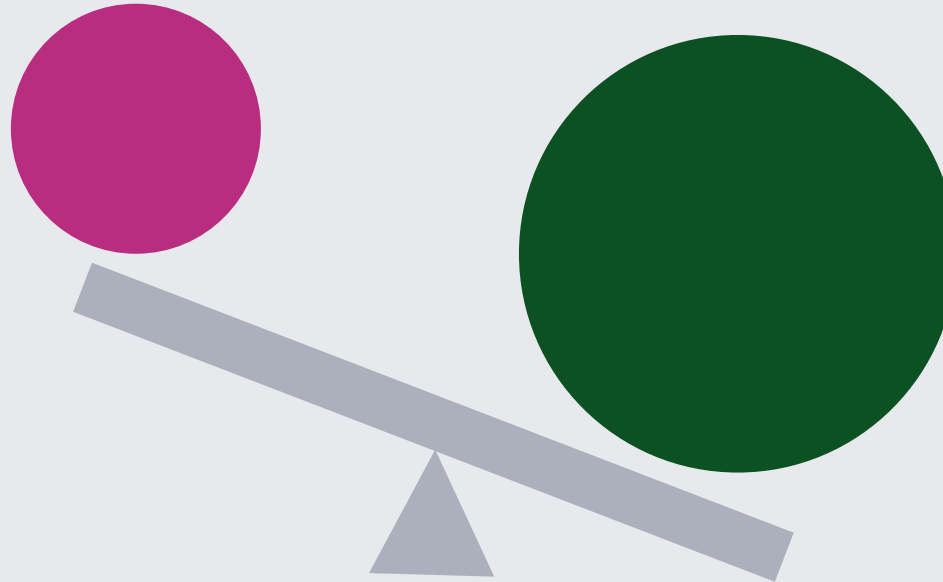
Advertising is often better by this yardstick than other stuff

It's faster to pay back than a lot of things, and less risky

Hire someone into the
product & tech team

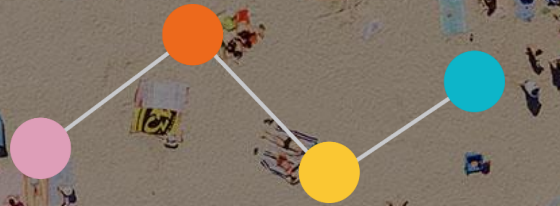
Advertising
campaign

Risky
Long time to payback
Hard to halt
Unknown benefit



Payback starts
now
No hires
Well established
Measurable
Can be changed,
or paused

A new piece of kit



ARC: A brilliant data source on the effect of advertising

Brought to you by econometrics businesses that want the whole industry to be more effective

840

real-world
cases

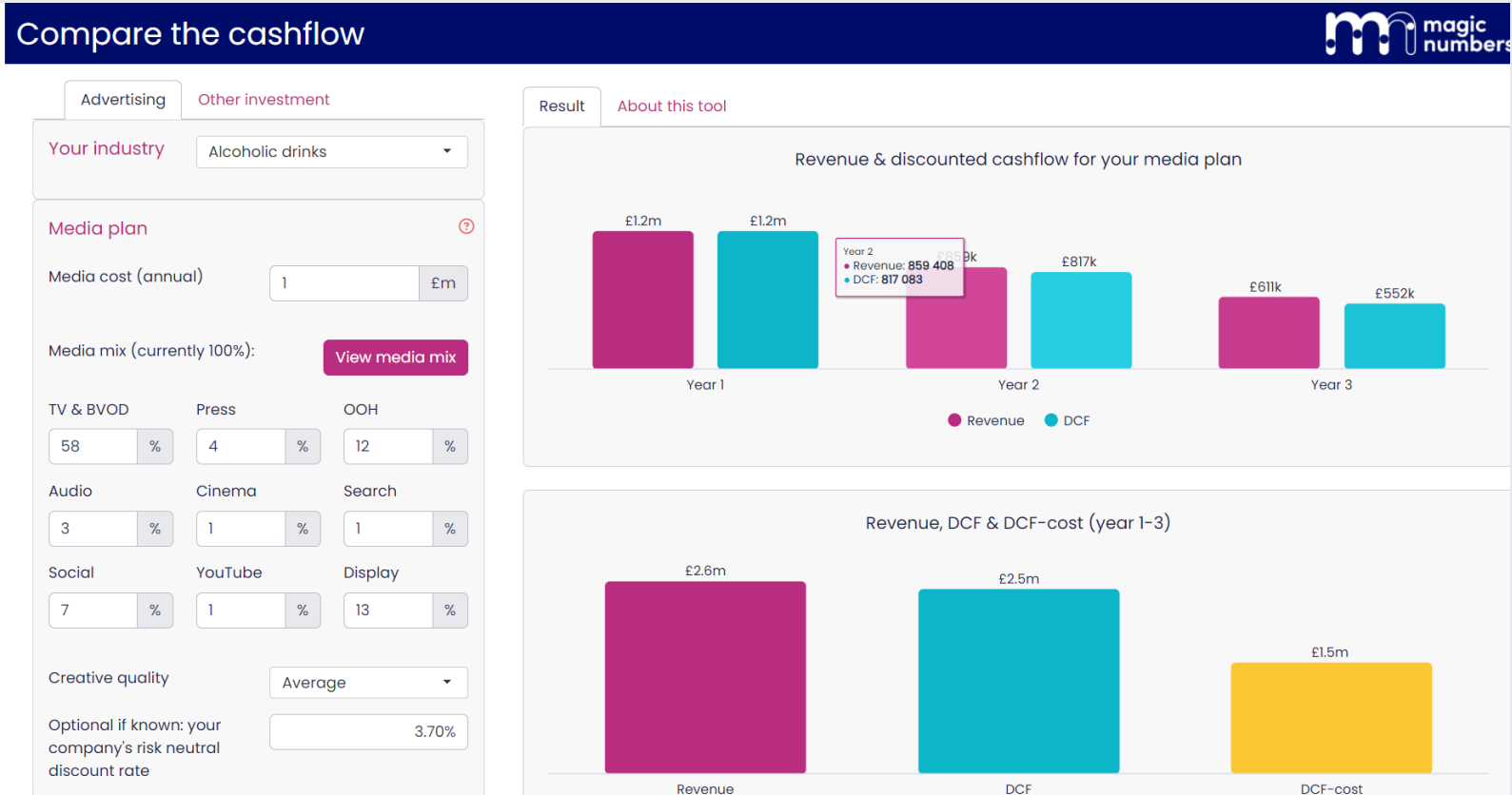
£7bn

worth of
advertising
spend



Compare the cashflow: A tool to help you huddle with finance

Step 1 is to simulate what advertising will do for the P&L and for discounted cashflow



Step 2 is to work with finance to input an alternative investment

Click "calculate" and the tool will compare tell you which one works best in the 2 frameworks

Compare the cashflow

Advertising | **Other investment**

Your industry: Alcoholic drinks

Other investment: Other investment

Total cost (over 3 years): 1 £m

Expected annual return (£m): 0.£ Year 1 | 1 Year 2 | 1.£ Year 3

Risky? 1 3 5

Optional if known: your company's discount rate: 10.00%

Advertising | **Calculate**

Result | About this tool

Revenue & discounted cashflow for your media plan

Year	Revenue	DCF
Year 1	£1.2m	£1.2m
Year 2	£859k	£817k
Year 3	£611k	£552k

Revenue & DCF for Other investment

Year	Revenue	DCF
Year 1	£500k	£500k
Year 2	£1.0m	£964k
Year 3	£1.5m	£1.4m

Comparing the two investments (year 1-3)

Investment	DCF	DCF-cost
Advertising	£2.5m	£1.5m
Other investment	£2.9m	£1.9m

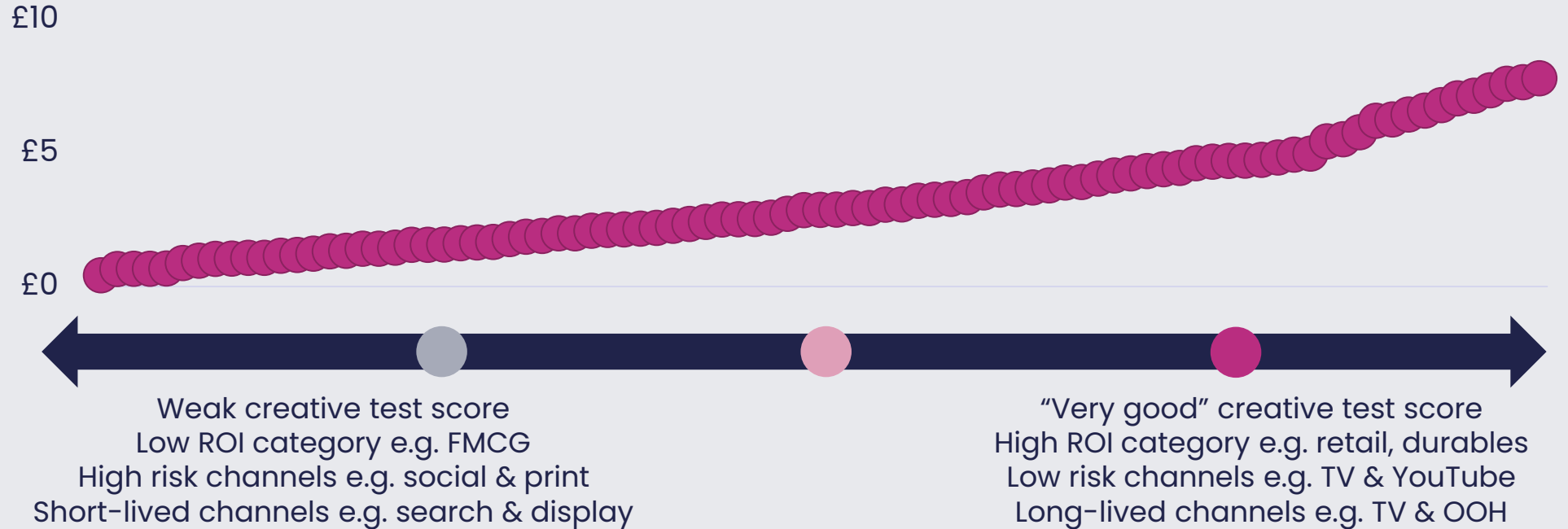
Comparing DCF-cost per £1 of revenue (year 1-3)

Investment	DCF-cost
Advertising	£1.5
Other investment	£1.9

The effect of advertising is highest when all the choices are right

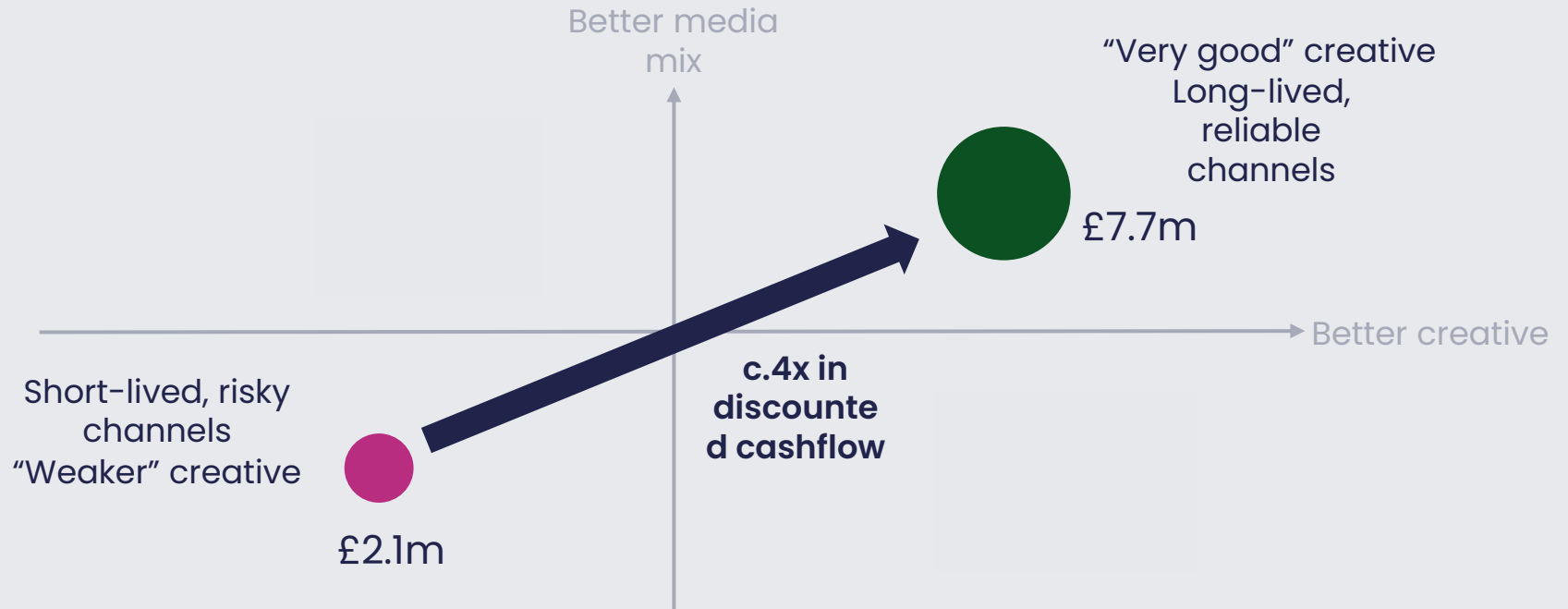
And lowest with weaker creative, short-termism, and risky media channels

Discounted cashflow from spending £1m



Creative and media work together

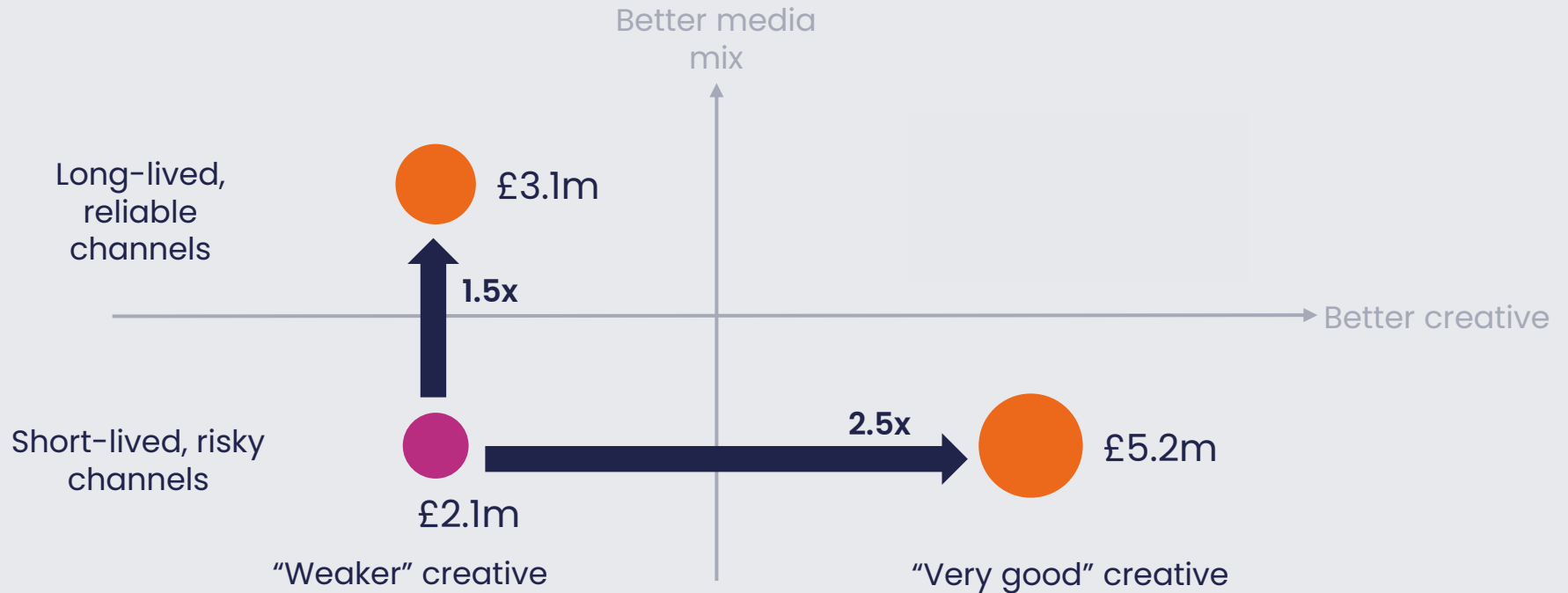
Improving both gets you up to 4x discounted cashflow for the same spend



Bubble size = DCF for £1m spend

If you can only tackle one thing at a time, start with creative

The payoff for “weaker” to “very good” creative is 2.5x vs. 1.5x for worst media mix in ARC to best



Bubble size = DCF for £1m spend

3 top tips from CFOs to you





“
A successful CMO moves
towards the finance way of seeing
the world, because the finance
view of the world will win 9 times
out of 10.
”

You're going to have to change
your great concept into numbers
at some point



“
Be consistent, say ‘The last time I spoke to you, these are the numbers that we had. This is what has changed since then, so this is what the new numbers look like’.”

Because if you don't do that, I can't assimilate this into my bigger picture as to whether we should spend another million or not. Is it going to return or not? I don't know.

Liz Kistruck, CFO, Motorway



“ It’s relationships. It’s so important that we just understand each other a bit better. My relationship with my CMO, and my team’s relationship with hers is really positive and collaborative. ”

Education & awareness really helps on both sides – we ensure that giffgaffers understand finance and the measures we focus on. Bringing finance into discussions early helps expedite well informed investment decisions too.

Matthew Birch, CFO, giffgaff

