

WPP

Why a Ruritanian Poltergeist
can be as Valuable as an
Automated Processing Plant



Jeremy Bullmore

Reproduced from the WPP Annual Report and Accounts 2009

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We're in the boardroom of a company that makes fast-moving consumer goods. At the heart of today's agenda is budget allocation for the forthcoming year. The two most prominent supplicants are the Production Director and the Marketing Director.

The Production Director has a meticulously-prepared case for an increase in capital expenditure. A concerning proportion of the company's manufacturing capacity is obsolescent. Working together, Production and Procurement have put their requirements out for tender and have interrogated the competitive proposals within an inch of their lives. They are wholly satisfied that they've got the most cost-effective deal. Full-colour plans and scale models are on display to augment the imagination. Visits have been made to other sites where equivalent plant has been installed – to the complete satisfaction of the operators. The suppliers' calculations of expected ROI have been double-checked and audited: the predicted payback is mouth-watering. Unless this programme is fully funded, competitive pricing of the company's goods may soon become impossible.

The Production Director's case is a sturdy one: proposed investment at its most responsible, with deeply reassuring numbers attached to every item. Like the assets it's designed to protect and enhance, it's wonderfully tangible: it's concrete. And so is the language in which the recommendation is framed.

The Marketing Director is responsible for the company's brands. On the company's balance sheet, they are categorised as intangibles. Marketing budgets have traditionally been decided on the basis of last-year-plus-a-little. The Marketing Director's most

high-profile recent campaign is aimed at teenagers and features a Ruritanian poltergeist who wears a kilt and is called Feliks. Although there's evidence to suggest that this campaign is greatly appreciated by its target audience, and sales are indeed buoyant, not every member of the Board fully appreciates Feliks nor is familiar with the largely digital media on which he features. When compared with a new robotic processing plant, a kilt-wearing Ruritanian poltergeist doesn't intuitively strike them as being as deserving a recipient of precious, finite funds.

The Marketing Director makes an excellent case. He doesn't resort to jargon, sensibly plays down the creative awards that Feliks has accumulated and musters an impressive array of research that demonstrates a strong correlation between levels of marketing spend and his brand's market share and profit contribution. The Board listens attentively to his presentation and asks intelligent questions. But as the Chairman puts it in summary: times are tough, and there's universal agreement that costs must be contained. So on balance, with economic conditions being what they are, and with the brand's momentum looking gratifyingly healthy, rather than the suggested increase, perhaps some modest reduction in promotional support would be the more responsible course of action at this moment in time.

At the end of the Board Meeting, the Marketing Director is not as happy an executive as the Production Director.

The above cameo, of course, is fiction. But it was prompted



by a remarkable investors' note issued by the Consumer Staples Research team from Deutsche Bank, Europe, in January 2010*. Its stated purpose was to analyse "the effect of advertising and promotional investment on the consumer staples sector, its impact on profit growth rates and the likely shape of profit recovery coming out of the recession."

Throughout their report, the Deutsche Bank team use 'A&P' as shorthand for this investment.

Here are three of their conclusions.

- **"Brands are critical in consumer staples** Intangible assets account for more than 100% of the market value of the consumer staples sector reflecting the power of brands built up over many decades. Indeed, just as Capex protects the tangible assets, advertising and promotional spend builds and protects the value of consumer brands."
- **"The importance of A&P is not well understood** A&P spend is the second largest cost for the staples industry and critical to the health of brands and thus valuation. However, financial disclosure of these items is generally poor and 73% of respondents in our investor survey said that they did not have a good idea of how the industry spends its marketing budget."
- **"Actions in recession key to shape of recovery** Our analysis shows that companies who continue to invest, grow faster, and we can see clear trends in terms of A&P investment during the downturn. The actions of companies through the recession have diverged significantly and it is those actions that we believe will drive the trajectory of subsequent profit recovery."

Their analysis of over 30 large European and US consumer staples companies over more than 15 years shows “that companies that increase A&P to sales ratios deliver sales growth 30% faster than those who do not.” And while it’s self-evident that cutting marketing spend delivers an immediate cost benefit, “companies that increase A&P deliver profit growth faster than those that cut A&P.” They add the chilling comment: “Losing market share can be quite a profitable experience – it is the cost of stabilising and rebuilding a brand that is expensive.”

What the Deutsche Bank note does, among many useful things, is to remind us of the remarkable differences in vocabulary, in the use of language, that are employed when we talk about a company’s different assets.

A company’s tangible assets are exactly that. They’re tangible. The money that is commonly agreed to be necessary for the maintenance and enhancement of those assets has a commonly agreed name: capital expenditure, or Capex. A public company’s Capex is necessarily disclosed.

A company’s brands, perhaps representing more than 100% of its market value, are called intangibles. Synonyms for intangible include insubstantial, elusive, vague, ethereal and indefinable. The money that every company knows to be necessary for the maintenance and enhancement of those assets has no commonly agreed name. Among the 30 companies scrutinised, Deutsche Bank identified 10 slightly different terms for A&P expenditure. The precise composition of different companies’ A&P expenditures also varies widely – and in several instances, their expenditures are not disclosed at all.

To attempt to compare the relative values of Capex and A&P would be as pointless as attempting to determine which is the more important wheel on a bicycle. To be unable to make what you sell is neither better nor worse than being unable to sell what you make. But because of their uniquely elusive quality, the value of brands – rather more than the value of machinery – badly needs periodic championing; and so, it follows, does the importance of A&P.

Mere products may have life cycles – and tangible assets certainly do. But if nurtured and nourished by its A&P, a brand can be for ever.

It seems somehow appropriate that the only company asset capable of returning a profit for all eternity should be called an intangible. ■

Acknowledgments

* *European Consumer Staples: The Importance of A&P*,
15 January 2010. Deutsche Bank AG, Consumer Staples
Research team.

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Jeremy Bullmore

Jeremy Bullmore was born in 1929. His first job, in 1954, was as a trainee copywriter with J. Walter Thompson in London, where he stayed until retirement in 1987. He became successively writer/producer, creative group head and head of television; from 1964 to 1975, head of the creative department; from 1976 to 1987, chairman. From 1981 to 1987 he was a member of the JWT worldwide board and chairman of the Advertising Association.

From 1988 to 2001 he was non-executive director of the Guardian Media Group and, from 1988 to 2004, a non-executive director of WPP. He is past president of Nabs and past president of the Market Research Society. He is currently a member of the WPP Advisory Board and a columnist for *Campaign*, *Management Today*, *Market Leader* and *The Guardian*. He was awarded a CBE in 1985 and the Advertising Association's Mackintosh Medal in 2011.

His publications include: *Another Bad Day at the Office?*, Penguin, 2001; *Behind the Scenes in Advertising Mark III (More Bull More)*, WARC, 2003; *Ask Jeremy*, Haymarket, 2004; *Apples, Insights & Mad Inventors*, Wiley, 2006.

He has three grown-up children and lives with his wife Pamela in London and Wiltshire.

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