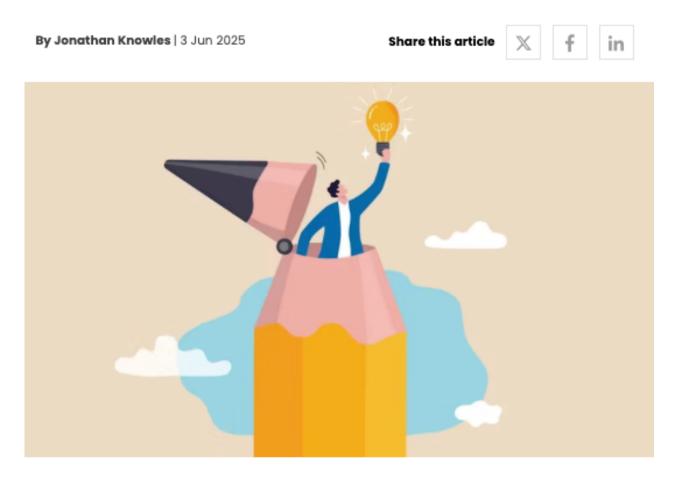
OPINION

How to talk to your CFO about creativity

With Cannes Lions fast approaching, creativity is high on the agenda. But for marketers looking to explain its impact to a cynical CFO, the case is best made through its effect on risk, not growth.



Marketers pride themselves on bringing two much needed qualities to business – empathy and creativity. But CFOs are not intrinsically interested in either.

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CMOs have done a decent job at explaining how customers are the source of revenue of the business, and that empathy is what enables the company's products and services to be successfully marketed to them as the means to achieve their desired outcomes.

Top marketers have a harder time explaining the business case for creativity, especially as their explanations tend to involve terms like "disruptive", "unconventional" and "novel" that the chief financial officer equates with "risky".

Marketers need to recognize that CFOs are paid handsomely to manage risk and to avoid it whenever possible. The reason is that risk equates to uncertainty and investors require a higher rate of return on investments that are perceived to be uncertain. One of the foundational models of finance is the CAPM (Capital Asset Pricing Model), which measures the returns that a project needs to generate, given its level of risk.

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The simplest formula for estimating the value of a business is the Gordon Growth Model and it consists of only three variables. Risk is one of them. The model states that the value of a business with a stable growth rate can be approximated by dividing its profit by its cost of capital minus its growth rate.

This makes intuitive sense even to math-challenged marketers: you can increase the value of a business by increasing its profits, or by increasing the rate at which its profits are growing, or by increasing the certainty of those profits (or, to put it another way, reducing the risk of them not materialising).

Marketers typically try to argue the case for creativity in terms of its impact on growth and/or price. But the CFO is intuitively applying a higher discount rate on this growth and revenue because the "creativity" necessary for achieving it makes it sound more risky.

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'Hunter' and 'farmer' creativity

The better approach for marketers is to describe creativity in terms of its impact on the risk profile of the business. More specifically, to break down creativity into "hunter" and "farmer" variants with different but equally valuable impacts on the risk profile of the business.

The "hunter" version of creativity is the one we immediately think of. This is the disruptive type of creativity that aims to change the way in which a category is perceived, so that a challenger brand is perceived to offer new and distinctive value.

This is the source of positive earnings surprises where the marketing investment generates an unexpectedly large return. This type of creativity reframes how we think about a category, as Apple did with its "bicycle for the mind" and "1,000 songs in your pocket" language for its products. This is the type of creativity used by brands like Oatly, Red Bull, Fenty Beauty and Salesforce.

Recommended

Finance and marketing share three fundamental beliefs

Marketers tend to focus less on the "farmer" version of creativity that keeps established brands feeling fresh, relevant and attractive to their existing audiences and to new customers. This is the type of creativity that Warren Buffett had in mind when he referred to brands as "economic moats". This type of creativity maintains and grows the market share and pricing power of brands like Mastercard ("priceless"), Snickers ("you're not you when you're hungry"), and Cadbury ("there's a glass and a half in everyone").

For a CFO, the "hunter" version of creativity produces "positive surprises" because the response to the marketing investment exceeds what was expected. This is what CFOs call "alpha" – which is shorthand for saying "this investment generated excess returns above its risk-anticipated cost of capital".

The "farmer" version of creativity works to keep the company's earnings stronger for longer. This is what CFOs like to call "beta" – a measure of how much less volatile the earnings of the company are relative to other companies in the same sector. A lower "beta" translates to a lower cost of capital and status as a "blue chip" company (one with stable and growing earnings).

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Reading the room

CMOs can earn the trust of their CFOs by showing that they understand the situations under which the "alpha" or "beta" version of creativity is required. Marketers should ask themselves if the business context calls for reinvention or just a refresh, and, what is the scale and probability of the upside versus the scale and possibility of the downside.

Over the past three decades, Nike delivered a masterclass in both the "alpha" and "beta" forms of creativity. "Just do it" started as an "alpha" creative move in 1988 to change how we thought about the category. Having changed our expectations, Nike shifted to a "beta" creative strategy over the next few decades by consistently delivering fresh executions of the same idea.

But in 2018, they shifted back to an "alpha" creative strategy in the choice of Colin Kaepernick as the face of the 30th anniversary of "Just Do It" campaign – a deliberate decision to disrupt how we felt about a brand that had become too predictable. Nike made a deliberate choice to reposition the brand to increase its appeal among younger, liberal, ethnically diverse consumers globally.

In doing so, it consciously took the risk of losing while a portion of its existing customer base (older and more socially conservative buyers). It was a bold business move that contributed to strong revenue and earnings growth from 2018 through 2021.

It is therefore sad to see Nike also deliver a masterclass in how to lose investor confidence when you fail to pursue either the "alpha" or "beta" forms of creativity. Under John Donahoe's leadership, Nike de–emphasised brand building altogether in favour of "performance marketing" and direct–to–consumer distribution. Nike's revenues fell by 9% year–on–year but investors have driven its stock down by more than 60% from its 2021 reflecting their loss of confidence in the size and certainty of Nike's future earnings.

Marketers use creativity either to change or reinforce how their customers think about the category and the value offered by the brand. This means that strong creative brands only a source of growth and profit margin, but they also help deliver a consistency of earnings that is highly valued by the market. Their role in enhancing the risk profile of the business should be part of your narrative.