THE ULTIMATE CMO GUIDE TO BEAT BUDGET HELL

How do you still sell a dream budget to C-Suites and Boards in this world of chaos and inflation?

Sell them Sustainable Pricing Power.

CHRIS R. BURGGRAEVE
with Jonathan Knowles

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To all **senior marketers (CMOs)**
with the ambition to sell their dream budgets
in a smarter way to their senior executives.

To **C-Suites and Boards**
with the ambition to increase cash flows,
by leveraging Brands with Pricing Power.

Thank You

Jonathan Knowles, from Type 2 Consulting, my esteemed co-author.

You made me a better finance-first marketer over the last years.

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Table of Contents

Foreword

It seems like marketers, and their companies, are hit by a non-stop meteor shower. Covid was hard enough to navigate Brands through. However, building Brands in the post-covid pressure cooker world feels harder than ever. Nobody is getting a break. Inflation roared back after 4 decades, eroding corporate margins and people's purchasing power. Tariffs create further havoc with the established world order. Consumer sentiment swings wildly. Economic anxiety reigns supreme. Investments get reevaluated. Marketing budgets get cut.

Marketing miracle$ - with a dollar sign – can only happen with consistent levels of Brand investment. Through good times, and through crazy times. Lacking financial fluency, and having a penchant for creativity over business impact, marketers are finding it harder than ever to secure budgets. If marketers do not demonstrate to their executives that they understand how business value is created, they will fail to deliver the contribution of marketing, harming the company in the long run.

The Ultimate CMO Guide to Beat Budget Hell is a playbook to help marketers to sell dream budgets, despite the crazy world they now operate in. To do that in a way that benefits the firm and *all* stakeholders, marketers need to learn to speak the language of money better. It is the *only* language the CFO, the C-Suite and the Board *can,* and *want* to understand. Marketers think they sell a budget in isolation. In fact, we will show you they need to sell based on *the right emotions* to *self-described rational* finance people. Yes, they are people too.

We have been studying what academia refers to as *the Managerial Marketing-Finance Gap* for years, as operators and as academics. This Guide was conceived following many workshops and discussions on the topic around the world. It will repeat some ideas from our previous publications, as well as offer new material. You can **download it 100% free on www.vicomte.com**. It is a second *give back* to our cherished, hard-working, and often under-appreciated global marketing community. Of course you are welcome to share it, and discuss it, with your C-Suite and Board.

We deliberately sprinkled some references to how the concepts of *hell* and *heaven/paradise* have been interpreted throughout history across literature, philosophy, and popular culture. After all, this document offers the Path to Paradise to all the marketer's pain and suffering in selling their dream budget to their executives, in a world hit by non-stop meteor showers:

The Path to Paradise Begins in Hell
(Dante Alighieri – Inferno)

Chris Burggraeve / Jonathan Knowles
New York & Miami, June 2025

We are on a Highway to Hell

(AC/DC)

Chapter 1

Welcome to Budget Hell

Love it. Leave it. Or change it.

Every year marketers face the same ordeal. Budget season again. In the new post covid inflation world, selling budgets is harder than ever. Endless debates and iterations to sell and justify the marketing budget for the next business cycle. Marketing faces the torments of the dementors from Finance in ways never experienced before. Every dollar is fought over. Not once per year, but multiple times throughout. It saps our energy. It crushes our soul. In the end, most of us do not sell our dream budget. Instead, we face near impossible expectations: to create marketing miracle$ with half of the budget asked for. Welcome to Dante's ninth Circle of Hell.

The slide below shows what academia has described as *the Managerial Marketing-Finance Gap* (MMF Gap). The simple reason? Marketing is seen by many C-Suites and Boards as a *discretionary* line item in the P&L. They treat it as a kind of slush fund to help protect or to juice short term profits, as well as to protect their own careers in the process. The definition of insanity is to do the same thing repeatedly, and yet to expect different results. The annual budget process is like the animals running the zoo.

Systematic under-investment in marketing or consciously cutting marketing budgets during the year to boost short-term profitability is a proven bad practice by senior management. Only investing for the short-term, in so-called *performance marketing* (a deceptive rebranding of what we used to call *sales activation*), and investing nothing in long-term branding, is a proven road to hell. There cannot be ongoing extraction of value and monetization in the absence of investment. Financial analysts call it out as *over-earning*. Academics write about *myopic management*. Numerous case studies have illustrated how this bad practice undermines the long-term financial health of any firm.

Still, it happens every year. The process drives many marketers to madness (and others too). When they don't succeed in selling or protecting their dream budgets, they complain about "the bloody Finance people not understanding them", or about "the short-term focused CEO not understanding long-term brand building", or about "having a Private Equity Board that only cares about financials". All very frustrating indeed. However, what can be done about it?

Three Choices

Life is about choices. Complaining gets you nowhere. Here is some inspiration from top cyclists. *Paris-Roubaix*, often called the *Hell of the North*, is an iconic French cycling classic best known for its incredibly challenging cobbled sections. There are many memorable quotes from riders that capture the race's intense nature and unique character:

"What I went through, only I will ever know."
(Phillippe Gaumont)

Your life is your responsibility. You made/make a choice as a marketer to work for your company, including for its senior leadership.

"The route is not responsible for your problems. It's you. And you alone."
(Marc Madiot)

You have 3 options: love it, leave it, or change it. Freeze, flight, or fight. All 3 are legitimate choices.

Love it (Freeze).

You accept your fate. You learn to love the situation you are in. You may have a mortgage, and a family to take care of. You remind yourself you *chose* to work for a PE firm with a short-term horizon. You knew from the business model design that the Board and C-Suite were focused on short-term optimization, but you took their money anyway. You will not swim upstream. There is no point. You will make the best of it. As in linear programming, you will optimize under constraints. You may move on when the company sells, or you may not. You will suffer in silence.

Leave it (Flight).

You believe this company ate your soul. They are emotional zombies. They are marketing neanderthals with zero understanding of how Brands should be built. There is nobody in the C-Suite or on the Board you see who might be willing or able to change that. They are spreadsheet junkies high on silicon snake oil and ROAS. You don't want to lose more of your precious time with them. Fair enough. Call it a day. Move on. Start again. Choose your next chapter wisely. Once bitten, twice shy.

Change it (Fight).

You believe in your company's Brand and you think you can awaken the marketing souls of your C-Suite and Board. You are a fighter. You have a missionary zeal in you. You don't want to give up yet. You can educate the owners and management of the company on what it takes to build Brands over the long-term, while also achieving short-term business results. How to walk and chew gum. You believe you can teach them that the right yearly investment in marketing, with the right allocation of the money, is indeed the Path to Paradise.

Bridge the Marketing-Finance Divide

If you chose option 3, this Guide is for you. These pages share hard-earned lessons of how you may go about it. How *not* to sell a yearly budget from your perspective, but how to sell an *investment in intangible capex* that appeals to the emotional needs, wants and fears of your C-Suite and Board, starting with the CFO. If a cyclist wants to have a chance to win Paris-Roubaix:

"You have to beat the course, before you try to win the race."
(Oier Lazkano)

It all starts with getting to know your perceived tormentors. Isn't it a marketer's core skill to understand the audience they serve? To study them, and to find actionable insights that will help to create and strengthen new behaviors and perceptions?

As such, marketers should study the unserved and underserved needs and wants of the C-Suite and Board much more closely, in the same way they would try to understand consumer and customers or other external stakeholders. They will quickly find out their main complaint about senior leadership is …justified. The large majority does *not* understand marketing and brand building at all. As per a Chinese proverb:

The fish rots from the head.

Hell is Other People

(Jean-Paul Sartre)

Chapter 2

The Devil you should Know

What does your C-Suite and Board need, want and fear?

Marketers claim they are experts in understanding and building audiences. They may indeed be insightful about their external stakeholders, like customers and consumers. They may know about some of their internal stakeholders, like the HR partners who help build the corporate brand. However, many *suck* at truly understanding the core internal buyers of the marketing budget: the finance-driven C-Suite and Board. But senior leaders are people too. They have their own needs, wants and fears. Don't sell them a budget. Sell them a solution to their problems, in a way that makes them feel good. In a language they can and want to understand.

Many marketers are afraid of numbers and math. Afraid of the language of money. Many are simply not interested. But you chose option 3, so you are curious to learn more. Senior management may talk a lot about long-term strategy and brand-building. However, when they are in the *room where it matters* (the boardroom), they only talk about finance, risk management, and operations. They talk the talk, but don't walk the walk. You know why?

They don't know what they don't know. Academic research revealed that only at best 1 out of 10 CEOs, and only 1 out of 40 Board members have a marketing background[1].

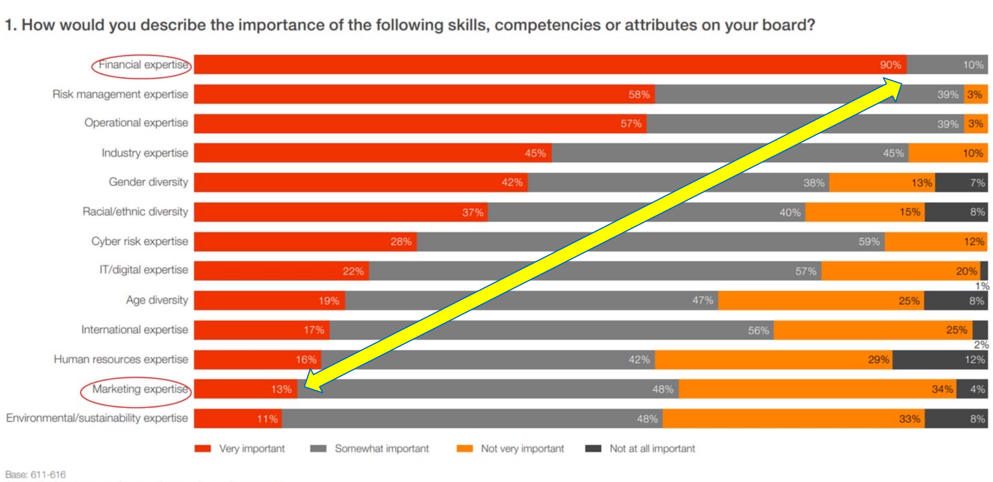
Know your Audience

Marketers can learn from military strategy, which is all about knowing your audience (aka *the enemy*). From ancient China to modern warfare theorists, the fundamental principles of conflict, victory, and strategic advantage have been analyzed, debated, and refined by strategic thinkers like Sun Tzu, Carl von Clausewitz, B.H. Liddell Hart, Martin van Creveld, and John Boyd. Though separated by centuries and cultures, their collective wisdom formed the foundation of modern strategic thought, and continues to influence military doctrine, business strategy, and leadership principles worldwide.

Sun Tzu's *The Art of War* (5th century BCE) remains perhaps the most influential treatise on strategy ever written. His enduring principles include:

> **Strategic Superiority through Intelligence:** "Know the enemy and know yourself; in a hundred battles, you will never be defeated." Sun Tzu prioritized thorough intelligence gathering and self-awareness as the foundation for strategic success.
>
> **Victory without Battle:** "Supreme excellence consists in breaking the enemy's resistance without fighting." Sun Tzu valued winning without direct confrontation through psychological advantage, misdirection, and positioning.

PWC research below documents the skillsets most prevalent in board rooms: financial expertise, risk management and operations. Marketing is at the bottom, just ahead of sustainability. Boards are filled with (former) CEOs, COOs, financial and legal experts, and an occasional academic. They understand value from the perspective of the business. But they rarely understand value from the perspective of their customers.



Few companies outside the consumer-packaged goods (CPG) industry think as long and hard about Brands as P&G, Coke, Unilever or AB-InBev. The latter are the source of most of the university training, of many marketing case studies, of most festival awards, and of many career dreams. Most companies simply do not have that level of marketing understanding and capability, and certainly not in the C-Suite and in the boardroom.

So, how do most finance-driven C-Suites and Boards perceive marketing? They think of marketing as mere social media storytellers. To stereotype: marketing is TikTok.

92% associate marketing with digital marketing. And 86% with advertising. But only 29% see marketing as responsible for the P of Product. Only 25% see marketers as having a significant role in the P of Pricing. Only 7% of marketers are expected to think about the P of Place (Distribution).

What is marketing primarily responsible for in your company?

Activity	Spring-24	2025
Digital Marketing	87.2%	**91.9%**
Brand	87.2%	**89.8%**
Advertising	83.1%	**85.6%**
Social Media	82.2%	**80.1%**
Marketing Analytics	76.3%	**76.3%**
Positioning	66.2%	**75.0%**
Promotion	69.4%	**70.8%**
Marketing Research	70.3%	**69.1%**
Marketing Technology	65.8%	**68.6%**
Lead Generation	70.8%	**64.8%**
Public Relations	60.3%	**62.3%**
Competitive Intelligence	47.0%	**51.3%**
Customer Insight	54.8%	**47.9%**
Customer Experience	43.8%	**40.3%**
Customer Relationship Management	36.1%	**36.4%**

Activity	Spring-24	2025
Market Entry Strategies	34.2%	**33.9%**
e-commerce	32.0%	**32.6%**
Revenue Growth	41.1%	**32.2%**
New Products or New Services	31.1%	**28.8%**
Innovation	28.3%	**26.3%**
Pricing	25.1%	**25.8%**
Sales	24.2%	**19.5%**
Market Selection	23.7%	**16.9%**
Talent Acquisition & Retention	19.2%	**12.7%**
Privacy	11.4%	**11.9%**
Customer Service	9.6%	**11.4%**
Sustainability	9.1%	**8.9%**
Distribution	4.1%	**7.2%**
Stock Market Performance*	1.4%	-

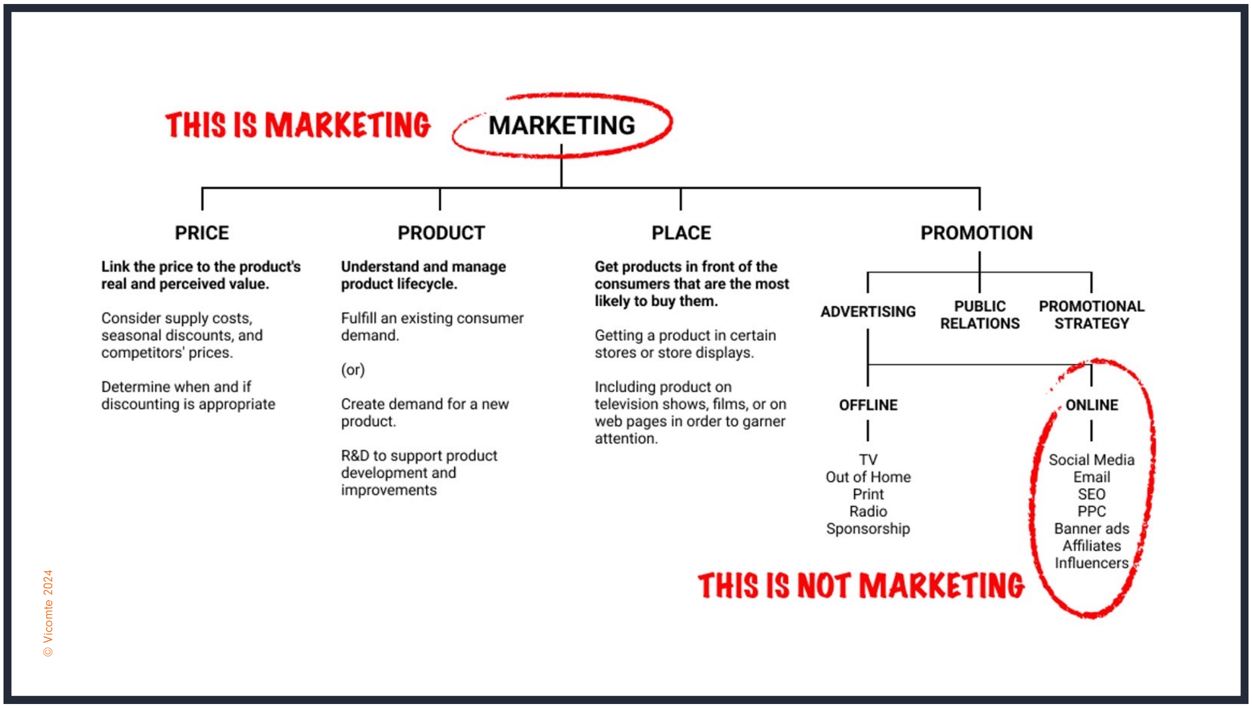
*No responses received in 2025

The CMO Survey 2025 by Deloitte, Fuqua School of Business, and the American Marketing Association
n = 281 marketing leaders at for-profit marketing leaders at US companies (99% of respondents are VP-level or above)
Data collected between January 21 – February 12, 2025
For more insights, check: https://cmosurvey.org/results/

As marketers, *we* let that perception develop and harden, especially over the two and a half decades since the start of the digital revolution. We shot ourselves in the foot by obsessing over every new shiny technology and communications channel, cleverly supported by digital media supplier-provided (vanity) metrics the CFO does not (want to) understand. It is why so few senior marketers are at the table in the C-Suite, let alone represented on the Board, the room where the strategic conversations ultimately take place.

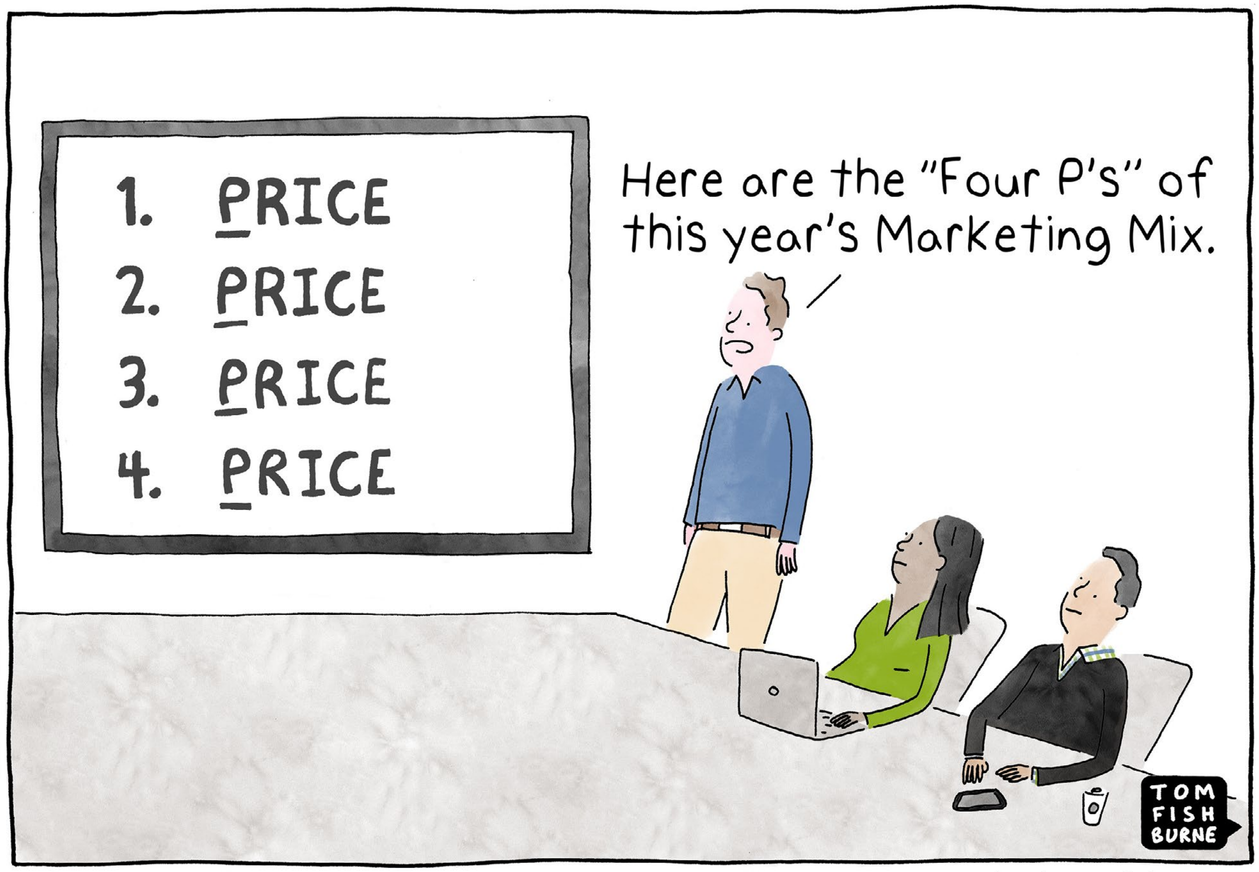
Throughout this Guide we will encourage marketers to go back to the fundamentals and explain to the C-Suite that there are, in fact, four essential components in marketing:

1. Diagnosis (aka market research)
2. Options generation (aka market strategy aka STP – Segmentation, Targeting, Positioning)
3. 4Ps (aka marketing execution aka GTM - Go to Market Strategy)
4. Measurement and adaptation (aka marketing effectiveness)



More provocatively, we will argue that marketers should describe *Sustainable Pricing Power* as the key *outcome* from all the marketer's work.

Price is the most under-appreciated of the 4Ps. Price is also the bridge between the customer's concept of value (benefit to price) and the business' concept of value (price to cost). The best business marketers vie for a seat at the Price table, as well as getting involved on how decisions on Product and Place affect the customer's perception of value. Chapter 5 will go deeper on the topic of pricing, and on the critical importance of *(Sustainable) Pricing Power*.



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Boards *should* know more about marketing, and especially about the concepts of building Pricing Power via intangible capex. However, before you judge them, let's understand a bit more of what Boards see themselves as accountable for.

Boards Seats are Hot Seats

Most marketers have little sense of the pressure on those in the C-Suite. They (should) see or listen to the CEO, and they may know the CFO. They recognize that executives are busy people, but few are aware that the real performance pressure on the C-Suite comes from an entity marketers tend to know less about. The Board. The *Room where it Happens*, or where it should happen. What do people there really do there, other than the (mostly mistaken) perceptions of a few handsomely paid nice dinners and golf events?

Boards should be all about creating long term value for their company or organization, within legal and societal parameters. Board service is not for the faint hearted. It comes with the *burden of greatness*. If you want to be elevated to the upper echelon, be prepared to accept the air gets very thin up there. No place to hide anymore. Boards need members that can guide the company not only in good times, but especially in bad times, when the organization is under real pressure.

The list of pressure points that a Board deals with is endless, and more complex by the day. They get the meteor shower too. From existential cash needs and endless fundraising, arguments on key personnel decisions and operating models, customer issues, cybersecurity protection urgencies, sexual harassment cases, activist investors, dealing with increasing compliance requirements, board culture and personality chemistry issues… all the way to decisions dealing with the fallout of climate change and geopolitics (real wars and culture wars, pandemics, economic anxiety, regime change, strategic country exits, etc.).

There simply is never a dull moment for most Boards. There are different pressure points at different times. The pressure points are different for start-ups, scale-ups and for bigger, established companies. However, the proverbial buck stops at the Board level. Value creation is hard. Board service is hard.

For outsiders, it is easy to complain about C-Suite and board level decisions. What they forget is these decisions are complex and often must be made with imperfect information. They forget how many stakeholders need to be considered. For boards, reputation and perception management in the social media era is generally a nightmare. To bring stakeholders along each time, careful communication of sensitive board decisions internally and externally has become a critical skill in and by itself.

It is essential to understand some basic board governance principles, such as the concepts of *duty of care*, *loyalty* and *obedience*. Put simply, directors are supposed to take care of their house with common sense, as good homeowners would. Here are the best definitions found on NACD's website (National Association of Corporate Directors) and some related sites on good board governance:

1. **Duty of Care.** This is the legal obligation imposed on board members, requiring them to adhere to a standard of reasonable care, and to avoid careless acts that could foreseeably harm others and lead to a claim of negligence. It is the responsibility of a board member, individually and collectively, to take all reasonable measures necessary to prevent activities that could result in harm to the company's interests.

2. **Duty of Loyalty.** Board members may never use information obtained as a member for personal gain. They must always act in the best interest of the company or organization. This duty revolves primarily around board members' financial self-interest. Every board member's compliance with the organization's policy surrounding conflicts of interest starts with full disclosure of any potential conflicts, to avoid the appearance of impropriety. This offers the governance committee or board an opportunity to review and evaluate potential conflicts and resolve any issues. When a conflict of interest does

arise, the affected director has an obligation to recuse himself/herself from participating in the discussion and/or decision.

3. **Duty of Obedience.** This is all about respecting the limits of the board's power, and about using that power to help the organization fulfill its mission, all while also respecting and obeying the law. Board members must not act inconsistently with the organization's purpose or mission. That means guiding decision-making to help keep the company on course toward its stated objectives, and implies Directors need to be ready to question management's initiatives, investments, or other plans that could degrade or derail the purpose or mission.

Board members can get sued. Liability is a major concern. Companies take out special Directors and Officers Insurance (D&O) for its Board and executives. It is designed to protect individuals from personal losses if they are sued because of serving as a director or an officer of a business or another type of organization. D&O typically covers legal fees and other costs (e.g. expert studies, consultants, etc.) resulting from a lawsuit.

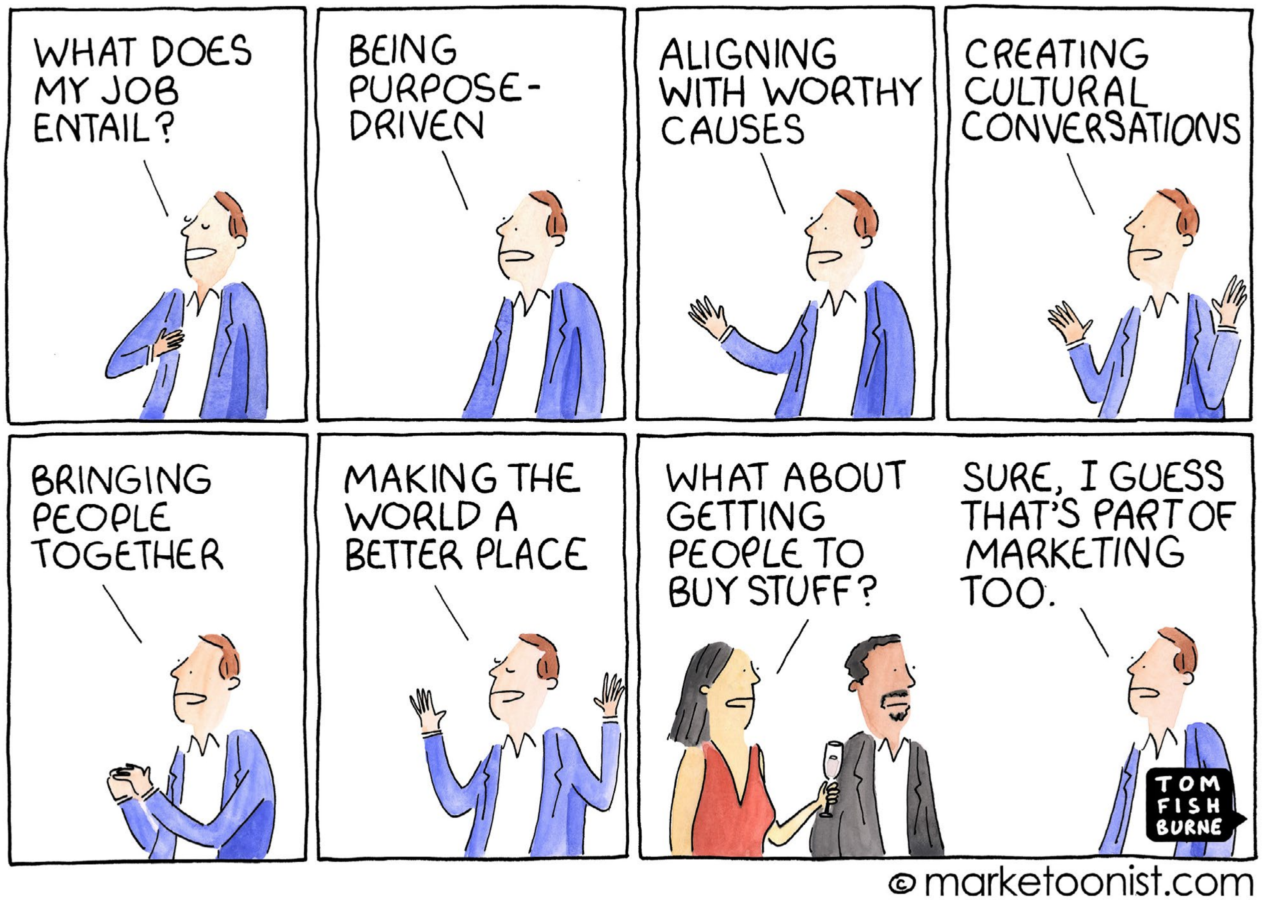
Directors who fulfill their core fiduciary duties are less likely to be sued successfully for decisions that have poor outcomes, thanks to a legal doctrine known as the *business judgment rule*. Under this rule, courts may offer immunity in cases against directors provided the company can prove the decisions were made in good faith (as oppose to bad faith), made with the care a reasonably prudent person would use (instead of with gross negligence), and lastly, made with the reasonable belief that it was in the best interests of the corporation (as opposed to being to its detriment).

Board service implies a heavy set of responsibilities. In return for the time/efforts/risk, boards pay a total board compensation. The objective is twofold: 1) to align interests of shareholders and directors, and 2) to provide value to directors for value received.

Rosetta Stone

Marketers don't need to become accountants or treasurers or CFOs to sell their dream budgets to the C-Suite and the Board. However, they do need a basic understanding of value creation to be able to sell effectively to the (ultimate) buyers of their budget. Plus they need to understand what makes senior leadership tick on an emotional level – both professionally and personally.

When marketers become effective at translating marketing into finance, they become a Rosetta Stone, integrating the customer and business concepts of value in a way that resonates with people who pride themselves on being rational. Finance professionals will warm to a definition of marketing as the "sowing and harvesting of cash flow" and the idea that brand building is a form of *intangible capex* that, given time and consistent investment, results in a business asset in the form of a brand with *Sustainable Pricing Power*.



Get to know your finance peers. Spend time with them. Ask questions. Show an interest in understanding the financial parameters of the company. Get to know the person behind the role. Find out what motivates the CFO, the C-Suite, or the Board on a professional and (if possible) on a personal level.

Ask yourself: when does my board or C-Suite feel *happy*?

In general, when the organization is thriving. That usually includes strong financial performance, including growing cashflows, revenues and profits. When the company enjoys a rising share price or a higher ranking in terms of revenues or reputation. On a personal level: when they get big bonuses. When they get peer recognition. When their career flourishes.

Now ask yourself: when does my board or C-Suite feel *unhappy*?

Typically, when financial results fall below expectations or targets. When relationships with key internal (colleagues) and external stakeholders (capital, consumers/customers, communities) are not as optimal as they could be. Additional pressure and sleepless nights can come from strategic initiatives failing or falling behind schedule, from loss of customers, from declining market shares, from lack of recognition from industry peers and media, from legal and compliance woes, from regulatory and quality problems, etc. Stock options and bonuses are in the doldrums. Careers derailed. Status under question.

For C-Suites and Boards, both happiness and unhappiness start with *the numbers*.

So, let's examine what goes into the two sets of numbers they care most about – the Profit & Loss Statement and the Balance Sheet.

Discover the Math of Marketing.

The fact that there's a Highway to Hell and only a Stairway to Heaven says a lot about anticipated traffic numbers

(Darynda Jones)

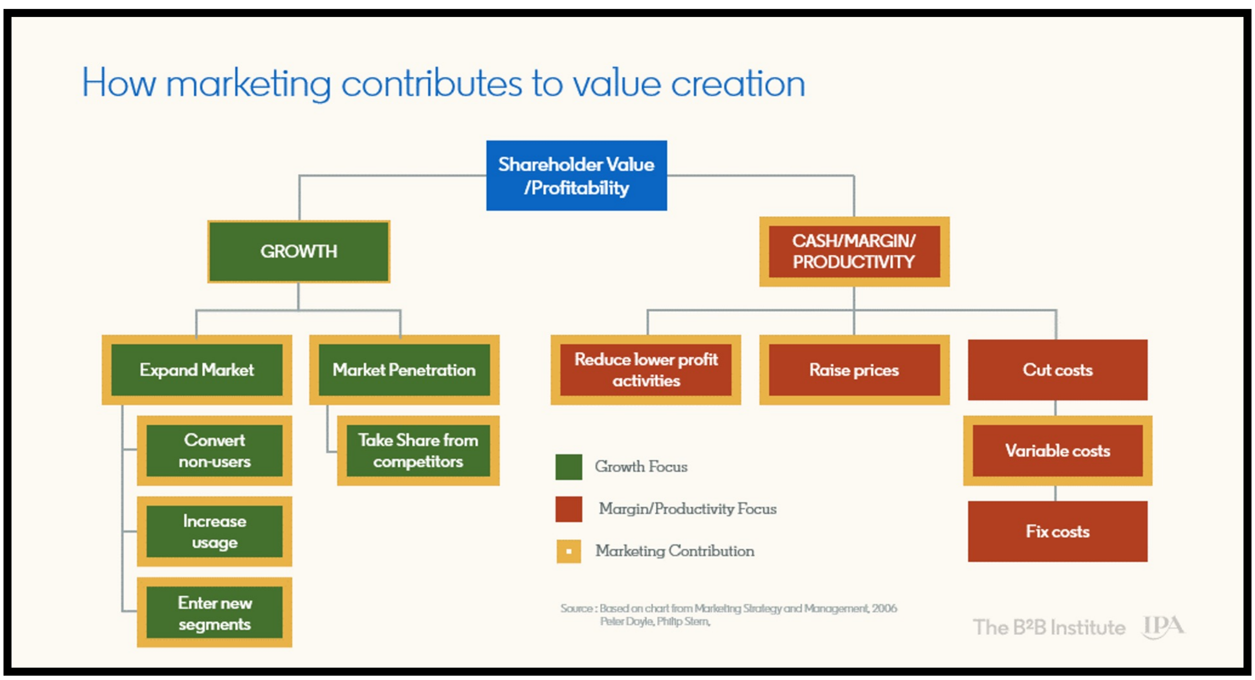
Chapter 3

The Math of Marketing

Marketers need to learn a new Love Language.

Most marketers don't like math that much. They find it cold and dispassionate. A story without characters. A brutal over-simplification of the richness and complexity of real life. But this is exactly why the numerically-oriented people who get to sit on Boards or serve as CEOs and CFOs love math. It is clear and unambiguous. It deals with the facts, not the fluff. If marketers want to get their dream budget, they need to be able to explain the Math of Marketing.

How does marketing contribute to value creation? In the chart below from the UK-based Institute of Practitioners in Advertising (IPA), the green boxes (growth) show where marketing believes it plays the primary role: creating new customers and retaining/growing existing customers. The red boxes (margins/productivity) are assumed to be for finance.



But notice the yellow borders around many of the red boxes. These indicate places where marketers make an important contribution. The purpose of marketing is not just to deliver growth, but *profitable* growth. What is the point of growth if the margin is zero? The business will be bigger, but it will not be more valuable.

The good news is the Math of Business is surprisingly simple. The value of a company is a function of three – and only three – variables: growth, profit, and risk.

Finance people use a convenient formula - the *Gordon Growth Model* – for estimating the value of a company. This formula says 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 materializing).

The first step in explaining the business contribution of marketing to the C-Suite and Board is to unpack these three variables to reveal how the Math of Marketing contributes to the Math of Business:

1. Growth: The combination of a) number of customers and b) their lifetime value

2. Profit: The combination of a) price and b) cost

3. Risk: The combination of a) earnings stability and b) positive surprises

1. FINANCIAL DRIVER The Math of Business	2. MARKETING DRIVER The Math of Marketing	3. BUSINESS OUTCOMES Impact on Financial Performance & Valuation
GROWTH	CUSTOMER ACQUISITION	"The purpose of business is to create a customer" (Drucker) Identify, attract and acquire new customers
	CUSTOMER LIFETIME VALUE	"Land, expand, renew" Maximize the value exchange potential of each relationship
PROFIT	PRICING POWER	Increase Customer Willingness to Pay (WTP) Deliver high benefits relative to price
	COST EFFICIENCIES	Increase Willingness to Supply (WTS) Be the partner of choice to suppliers, employees and other stakeholders
RISK	POSITIVE SURPRISES	Generate alpha Use "hunter" creativity to generate outsize response to marketing activity
	EARNINGS STABILITY	Lower beta Use "farmer" creativity to keep customers engaged and prospects intrigued

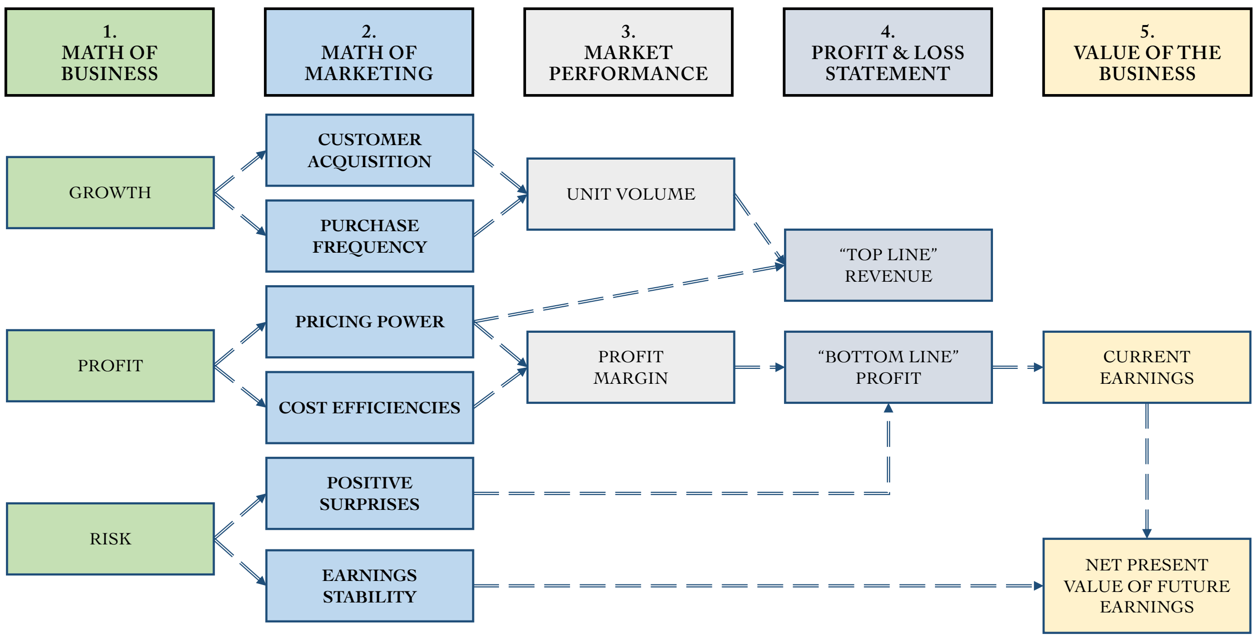
Adapted from "The Three Drivers of Financial Value: How Marketers Can Unlock Bigger Budgets By Thinking Like Investors" (Jonathan Knowles and Lisha Perez, B2B Institute)

The chart below demonstrates how the six Marketing Math factors relate to:

Growth and margin (the IPA chart above) – column 3

Revenue and profit (the Profit & Loss Statement) – column 4

Valuation (the Gordon Growth Model) – column 5



Industry context affects which of these factors is most important. Growth has the greatest value to companies with high margins (such as many tech and pharma companies). Improvement in profitability is the greatest driver of value for companies in mature and declining industries (which is why we see so many mergers between energy companies and manufacturing companies). The impact of risk is seen in the market's response to *earnings misses* (such as those by Nike and Starbucks recently) where the value of the shares dropped to reflect the greater uncertainty associated with the size of their future profits.

Let's go through the Math of Marketing for each factor in more detail.

Growth Factor 1a: Marketing increases customer acquisition

While we prefer nobody would tinker with the CMO title, there is a good reason why some CMOs would love the title of Chief Growth Officer. They are in businesses where the #1 responsibility of marketing is to drive customer acquisition. Their key responsibilities are for the promotion and place aspects of the 4Ps to ensure that the company and its products are top of mind and easy to locate in relevant purchase situations (or, as the Ehrenberg-Bass Institute would say, they enjoy high *mental and physical availability*).

Growth Factor 1b: Marketing improves customer lifetime value

Many marketers – especially in B2B – operate in markets with a concentrated number of buyers. A successful business is one that attracts the right customers (those to whom the company offers distinctive value) and who have the potential for high CLV (Customer Lifetime Value). Marketers know that not every dollar of revenue is created equally - *one-off* sales are worth far less than those to customers with whom a recurring revenue relationship can be established. Marketers need to explain to their ROAS-obsessed finance colleagues the fallacy of *performance marketing* – namely, that every dollar of revenue is equally valuable. Good revenue is about relationships, not just increasing the number of one-off transactions.

Profit Factor 2a: Marketing improves pricing power

Customers buy based on value. And value for the customer is based on the ratio between the benefits that a product or service is perceived to offer and the price that the customer is being asked to pay, as compared to whatever reference is in the mind of the customer. The single most powerful measure of brand equity is whether the customer views the brand as "worth paying for" or "offers good value for money" (this is the full focus of Chapter 5).

Profit Factor 2b: Marketing delivers cost efficiencies

This is typically a harder financial argument for marketers to prove, because it focuses on value that results from the business being aligned around a clear and compelling brand positioning. The impact of this alignment is seen externally (the same media spend produces higher sales response; the business achieves higher overall awareness and social engagement) and internally (employee hiring and retention is improved; suppliers seem more eager to work with the business) – we discuss this further in Chapter 5 as well.

Risk Factor 3a: Marketing improves earnings stability

Warren Buffett is famous for his ability to identify companies with economic *moats* – sources of competitive advantage that mean that their earnings stay stronger for longer. He has referred to brand as a moat and a major reason for certain of his investments (Coca-Cola, See's Candies, Apple, American Express). We talk about this *brand as asset* concept in the next chapter.

The more that a brand is consistently chosen by its target audience, the higher the predictability of its revenues and the stability of its earnings. This requires a specific type of marketing creativity – the ability to keep a brand feeling fresh, relevant and attractive to its existing audiences and new customers. You might think of this as the *farmer* version of creativity and it is highly valuable for established Brands like Mastercard ("*priceless*"), Snickers ("*you're not you when you're hungry*") and Cadbury ("*there's a glass and a half in everyone*") who want to maintain and grow their market share.

Risk Factor 3b: Marketing creates *positive surprises.*

There is a second type of marketing creativity – the *hunter* version - that is more often top of mind for marketers. This is the *disruptive* form of creativity that aims to change the way in which a category is perceived so that the 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 is the type of creativity used by Brands like Chobani, Red Bull, and Salesforce. They made us rethink specific categories, as Apple did with their "*bicycle for the mind*" and "*1,000 songs in your pocket*" language. Surely each of you has their own examples of marketing miracle$.

Marketers may not love math, but it is a Love Language they must learn if they are to sell their dream budget to the numerically-oriented CEO and CFO. They need to embrace the conceptualization of Marketing as the sowing and harvesting of cash flow. To describe the branding budget as the corn that needs to be sown each year if Finance wants to see a harvest. To point out that if you eat your seed corn (i.e. only do performance marketing), there will never be a harvest.

We recognize that marketers may not be excited by storytelling that involves describing their creative efforts in terms of the six Math of Marketing factors and their effect on the numbers in the Profit & Loss Statement but ask them to remember:

Beauty is in the Eye of the Beholder.

A Happy Family is but an Earlier Heaven

(George Bernard Shaw)

Chapter 4

Speak better Wall Street

Why “Intangible Assets” Matter for C-Suite and Boards.

A Board’s duty is to build the strongest balance sheet possible over time. That involves creating the strongest possible collection of *assets*, while incurring the lowest possible amount of *liabilities.* The difference is the creation of *equity* for shareholders. Equity is the value that the company generates for its shareholders. Getting to participate in the increase in this equity is what motivates investors to want to invest in your company.

Many marketers believe that the value of Marketing is not appreciated because Brands do not appear on the Balance Sheet. We humbly urge marketers to steer clear of this topic. The debate is not about whether Brands are valuable, but simply about the arcane rules that govern what types of resources can be recognized as assets in the financial statements.

Marketers should take comfort that, according to an IPA/Brand Finance report, 79% of investment analysts believe that “strength of brand/marketing” is a “very important” factor when appraising the value of a company. Investment analysts recognize that Brands are valuable resources. They value companies based mostly on their P&L performance and want to hear the Brand narrative described in terms of growth, margin, and earnings certainty. They are generally not that interested in the assets on the Balance Sheet (not least because these are recorded at historic cost, not current market value).

By contrast, the Board and C-Suite spend a lot of time thinking about the productive resources of the business, and how these must be managed and renewed. They know that the future revenue of the business depends on investments not just in *physical* assets like factories, but also in *intangible* assets like intellectual property and strong customer relationships. They recognize that investments in R&D, skills training, and brand marketing are forms of *intangible capex*, despite them being classified as expenses by the accountants.

Let’s dig a bit deeper in 1) how *intangible* assets differ from *tangible* assets, and 2) why intangible assets are taking the investor world by storm, yet at the same time cause unease among the C-Suite and Board.

The Rise of Intangibles

Look back 60 years and the five most valuable companies in America were characterized by the scale of the physical assets that underpinned their business models – General Motors, Exxon, Ford, General Electric, US Steel. Now, the five most valuable companies in the world are notable for their relative *lack* of physical assets – Nvidia, Apple, Microsoft, Alphabet, Amazon. Investment analysts wax lyrical about the returns of *FAANG* or *The Magnificent 7* due to their "scalability" (a fancy way of saying that their revenues can grow much faster than their assets).

Forget the funky names for a moment. They come and go, driven by smart investment banks (remember how *BRICS* was once the big thing in investing?). More fundamental is to focus on the new types of capital these companies rely on. We suggest thinking about the resource base of a modern-day business as consisting of three main types of capital: 1) what it *owns*, 2) what it *knows*, and 3) *who* it matters to:

1. **What it *owns* (tangible capital):** These are the *tangible* assets that represent the <u>physical</u> productive capacity of the business. The financial statements do a good job of recording these. They include equipment, machinery, buildings, vehicles, inventory, land, cash, etc. You can *touch* these items.

2. **What it *knows* (intellectual capital):** This is the knowledge base and human expertise that represent the <u>intellectual</u> productive capacity of the business. Intellectual property includes patents, software, R&D, trademarks, copyrights, processes, licenses, trade secrets, etc. You can *sense* their importance, but *you can't touch them*. This intellectual property is combined with the physical property of the company to produce the products, services and business models that enable the company to create attractive value propositions for its target customers.

3. ***Who* it matters to (relationship capital):** These are the relationships and partnerships the business has created and nurtured over time with customers, suppliers, distributors, regulators, and with employees. These relationships create a preference for doing business with the company and represent the <u>emotional</u> productive capacity of the business. The meaning and emotions embedded in these relationships are what turns the business and its products into Brands.

Combining physical, intellectual and emotional capacities effectively creates a *Brand* that acts a *multiplier* on the company's profits and value.

Here are a few simple examples to visualize in your mind the different types of capital.

IKEA owns furniture shops you can walk around in. You can touch everything (tangible capital). They also have restaurants where you can eat the famous Swedish meatballs. Again, you can touch these (eat them). However, the IKEA restaurants also created a level of customer intimacy few other furniture stores offer. It helps to build special memories. It helps to build and anchor a differentiated IKEA Brand in your brain (intellectual and relationship capital). Last, they have an at-home assembly service. They understand that customers love the DIY idea in theory, but they would rather somebody else puts the DIY box together *(where is that last screw?)*. Again, offering service solutions means building intellectual and relationship capital.

Booking.com and **Spotify** have no real tangible assets, other than possibly some offices, computers, etc. They may lease or rent most of the tangibles they need. They have no factories or shops. They have built distinctive knowledge and technology platforms (intellectual capital) and established special partnerships with the music and with the hospitality industry (relationship capital).

These examples illustrate how successful businesses like Disney create business models that weave together physical assets (such as a theme park) with distinctive intellectual property (such as *Star Wars*) to create unforgettable customer experiences ("*Where Dreams Come True*"). The value of these business models relies on a complete ecosystem of complementary assets – and this explains why accountants struggle with the idea that any of these complementary assets can be separated and accurately valued in isolation.

A Brave New Intangible World

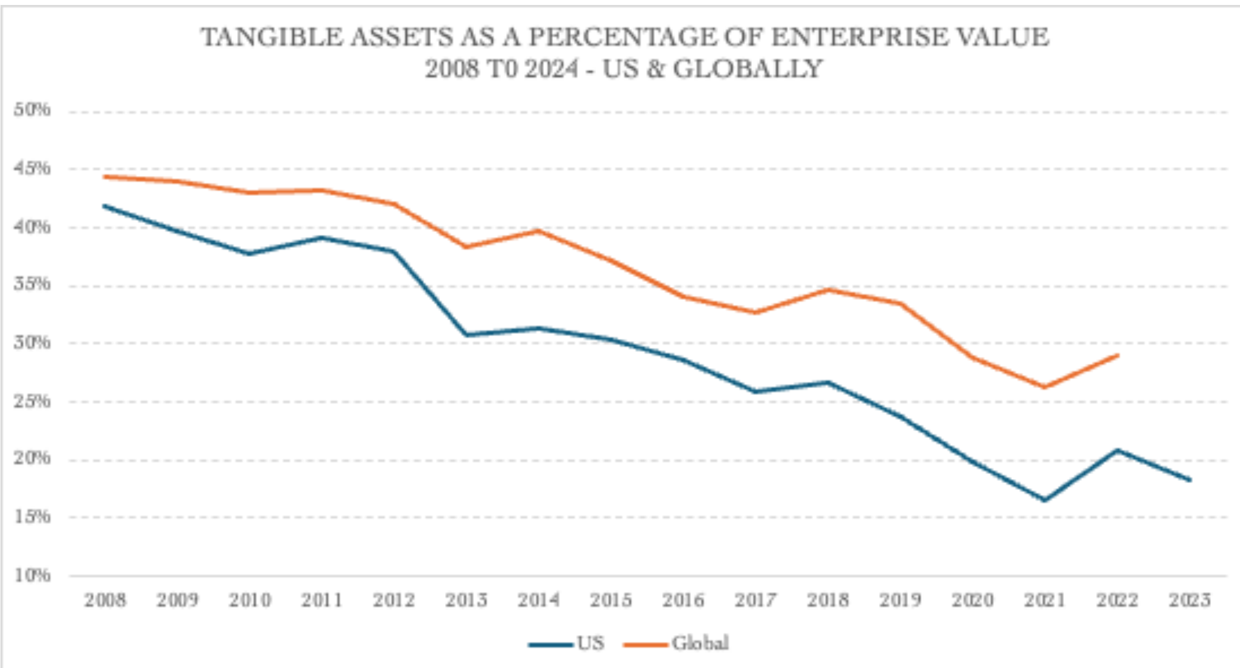
Globalization and digitization have dramatically increased the scale of importance of intellectual and relationship capital by allowing for the emergence of so-called *platform* models. Platforms allow businesses access to tangible assets without needing to own them (e.g. data centers) and/or providing the digital marketplaces where buyers and sellers can meet (e.g. Amazon, eBay, Apple's AppStore for consumer markets; Alibaba, SAP Ariba, Thomasnet for B2B markets).

Access to shared physical assets (e.g. cloud computing or contract manufacturing) and the digitization of commerce has resulted in the decline in the share of business value represented by tangible assets. The chart below is Jonathan's analysis of how tangible assets represented

40% of the value of US businesses as recently as 2008 but now only represent 20%. Globally the number has dropped from 45% to 30%.

Intangible assets now account for 70% of global corporate value, and for about 80% of corporate value in the US.

Let's let that sink in - tangible assets, the type of assets that the C-Suite and Board are most comfortable talking about, now account for only one fifth of the value of the 2,000 largest US companies.



To be clear: there is as such nothing wrong with owning tangible assets. But tangible assets do not scale the way that intellectual property, platforms and certain types of customer relationship can.

One thing fueling the growth of the US economy is how quickly it evolved to be *tangible asset light* by focusing on industries that rely primarily on intellectual property (such as software, biotech/pharma, entertainment) and relationship capital (consumer goods, media).

According to a 2021 *McKinsey* report, the *Rise of Intangible Capitalism* is just starting in earnest[2]. The McKinsey Global Institute (MGI) research found that, by 2019, intangibles accounted for 40% of all investment in the United States and ten European economies, up 29% from 1995. Economic sectors that have invested more than 12% of their gross value added (GVA) in intangible assets grew 28% faster than other sectors.

They estimated that if an additional 10% of companies were to attain the same share of intangibles investment and GVA growth as top growers, this would produce an additional $1 trillion in GVA, or a 2.7% increase across sectors in OECD economies. Companies in the top quartile for growth invest 2.6 times more in intangible assets than the bottom 50% of firms. Note: these data are "pre-AI".

The authors concluded: "The digitized, dematerialized, knowledge-based economy is already here and spreading, and offers huge potential value. The real challenge for firms and policymakers is to manage the transition to this learning society in a way that benefits the many and not just the few.

In other words: how can all stakeholders benefit from the rise of the intangible economy? How do Boards help their companies win in this future? How can CMOs help their Boards?

Confused Boards

Remember how critical it is to understand your audience. Even the most digitally savvy Boards are struggling as they discover the many facets and the surprising new challenges of this new intangible world.

The average age of a Board member is 63. Most have grown up in a tangible world. They love to talk about what they can touch and feel. CEOs and CFOs, as well as Wall Street, feel much more confident in how to assess and measure them. The current tariff war started by President Trump is all about his desire to bring back more tangibles to the US. Tangible assets are reassuringly real. Intangibles seem so insubstantial by comparison.

Boards and management wrestle with the true value of intangible assets. The length of the useful working life of intellectual and relationship capital is a source of much debate. The analysts and accountants argue about how to value them, and whether they should be reported in the financial statements. For now, accounting rules do not allow internally developed intellectual property and Brands to be reported on the balance sheet.

As a result, it is often only after a sale that a board can observe the true value of the intangible assets the company owns. The excess of the acquisition price paid by the buyer over the value of the Balance Sheet assets (the *book value*) of the acquired business is the *goodwill* that these intangible assets represent among customers, suppliers, employees and other stakeholders.

Even if they are unsure about how to measure and report them, most Board members recognize that it is their fiduciary duty to build up and nurture these intangible assets. They are aware that these assets represent the intellectual and relational components of the company's business model. In combination with its physical assets, they form the *business system* responsible for creating a sustainable and growing return, both for shareholders (via dividends or share buy-backs) as well as for all other stakeholders (in financial and non-financial ways). They recognize that investing in R&D, talent development and Brands are a form of *intangible capex*.

Now, how do you assess the relative strength of an intangible asset on a practical level? How does one connect Heaven and Earth?

The answer will again be given by Warren Buffet, arguably one of the world's most successful long-term investors:

Build Brands with Sustainable Pricing Power

Heaven is a Place On Earth with You

(Lana del Rey)

Chapter 5

Think like Warren Buffet

Why "Sustainable Pricing Power" Matters for C-Suites and Boards.

One of the Board's most critical decisions is to hire and fire the CEO. This leader is tasked with delivering on the mandate the Board has given. The CEO will assemble her/his C-Suite team to help achieve this mandate. He or she will put in place the necessary dashboards, a balanced scorecard, and the related monitoring systems to provide the Board with regular updates of progress. The critical discussion here is: what is the best measure to show progress on building strong intangible assets? The answer, according to Warren Buffet, one of the world's most successful investors: building Brands with Sustainable Pricing Power.

Peter Drucker defined the purpose of a business as being "to create a customer". We argue that the purpose of marketing is to create a *Willingness to Pay* (WTP) in the mind of these customers.

This WTP is different for each product and service, and it can vary across occasions and times of the day. Just think about what you are willing to pay for a Coke while on a date in a movie theatre or in a bar, versus your frugalness during a normal shopping trip for home consumption in a retail store.

A company wants to price as closely as possible to WTP for the largest number of people in any given occasion/channel. That is called Revenue Growth Management, an entire science and discipline by itself (and not the subject of this Guide).

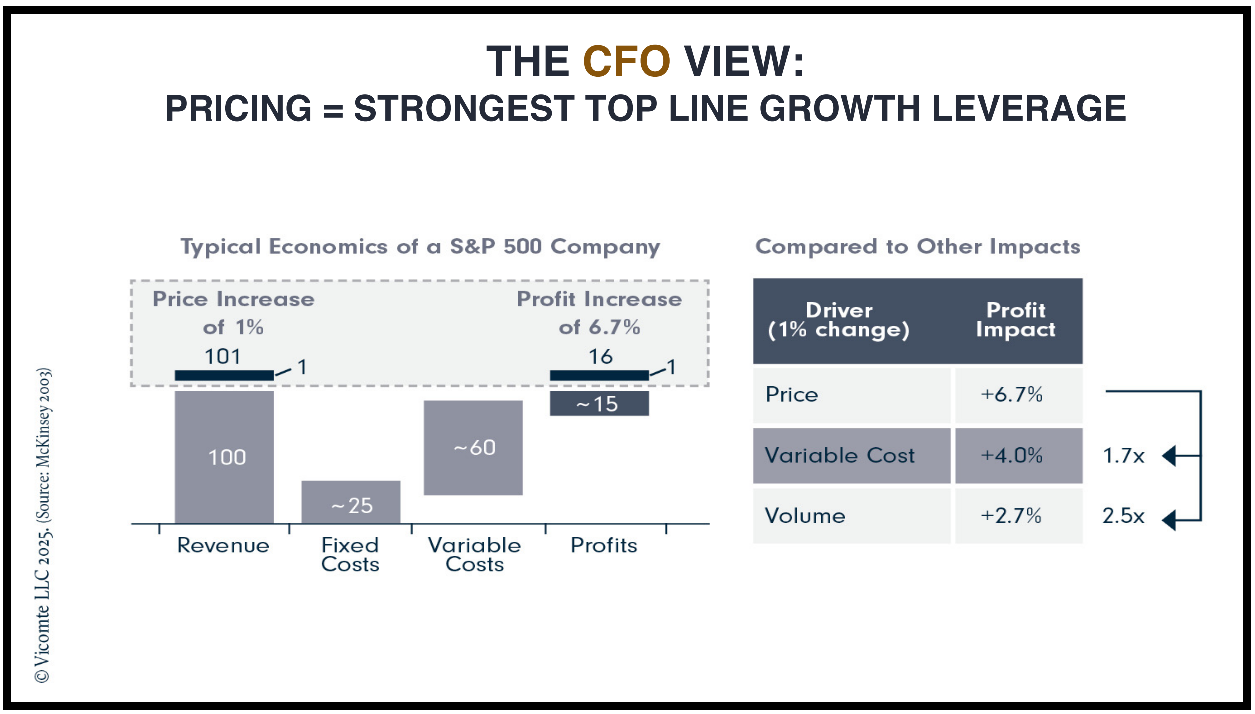
The same concept applies to expenses. The company wants to acquire all the elements needed to make its special sauce as cost effectively as possible. The company has to hire people, buy components, make the product or service, market it, sell it and deliver it.

The outcome is a company with a healthy margin and a strong incentive to grow. Profit margin is the #1 KPI that the C-Suite and boards are concerned with. Are we creating and capturing value? Is our margin growing or declining over time?

CFOs (should) love Price

Marketers are often asked to defend budgets based on ROI. In our experience, this is a rigged game. ROI is a metric of efficiency, not of effectiveness. ROI is about the ratio between an *input* and an *output*. A numerator and a denominator people can argue about until the cows come home. Any smart CFO negotiator can create doubt about either if they don't like the result. They will send the marketer back to the drawing board for (again) a new budget. ROI is a highway to Budget Hell if you get suckered into it.

We propose a better option: a discussion about *Pricing Power*. This will change the dynamic of the budget process because it starts from a real actual and desired *outcome* the CFO can touch and feel. CFOs, and all C-Suite and board colleagues for that matter, cannot dispute it. As with tangible assets, you can *touch* the price (at least, figuratively). It is what is on the invoice. The money that comes into the bank. The number that is multiplied by your unit sales volume to produce your topline.



Price is the factor with the highest leverage for a CFO to drive profitability in a typical company. For the average S&P 500 company, a 1% increase in price has a 1.7x greater impact on profit than a 1% reduction in variable costs and a 2.5x greater impact on profit than a 1% increase in sales unit volume.

However, there is a problem for marketers, as well as for their finance colleagues, in most companies. Few companies have built a great revenue growth management capability for monitoring and managing price by channel/occasion as a key KPI. Most companies lack clear and accessible data. They have limited or non-existent processes to get insights from price data. As we saw in Chapter 2, price strategy is a spreadsheet management exercise between a few people (typically in sales and/or finance), not a core competency where marketing thinking is at the forefront.

Pricing Power

The C-Suite and board, as well as investors, are interested in sustainable value creation *over time.* How pricing evolves over time is what truly matters. Here is Warren Buffet's simple definition:

The ability to raise prices,
without curtailing demand or losing share to a competitor.

To measure *Pricing Power*, one needs to test two conditions, over a period that reflects the appropriate rhythm of business. For most companies this can be 3 years, or 3 business cycles. There are of course exceptions: 1) start-ups and young scale-ups may not have enough history yet, and 2) in certain categories customers only buy a product or service once (e.g. life insurance) or just a few unpredictable times (e.g. a car). Still, even in these cases, thinking about Pricing Power is eminently possible. In this basic Guide, we will stick to the core ideas.

1. **The necessary condition**: Is your *net* price (post discounts, so not your gross price, which can be artificially inflated) to whoever pays your invoices on your key product or service in your key countries growing at or above your own input inflation (so not just the country's average Consumer Price Inflation or CPI)?

2. **The sufficient condition:** At your new net price, do you at least maintain share or volume versus key competition?

Only when both conditions are met can the company say it has *a Brand with Pricing Power*. The data will speak for itself. It usually requires some digging by a small data team to create the scorecard. Our advice, based on experience, is to put together a small task force between Marketing, Sales and Finance, sanctioned by the CFO and CEO, to create simple spreadsheets with traffic lights (red, orange, green).

The resulting discussions will be illuminating. Emotions will run high. Expect heated debates, as the numbers may defy long held beliefs by certain functions in the company. This is where the rubber meets the road between Marketing and Finance**.** The facts will be the facts, as painful or as energizing as they may be. The traffic lights should inspire just two courses of action:

1. **Green:** How much, and where, do we need to invest in our Brand assets to keep this good thing going? Should we test even higher prices? Are we currently leaving too much money on the table? Pros and cons should be debated in a strategic discussion between the key functions in the C-Suite. It is generally not desirable to capture all the WTP (i.e. "take all the money off the table") as a relationship depends on both parties wanting to continue to do business again. See also further below on the *ethics* of pricing.

2. **Orange/Red:** Somewhere between alarm and crisis. The Brand does not seem to have the required strength to sustain the prices and margin hoped for in the financial expectations. What do we need to do to rebalance? Were we profit-greedy in the last years ("over-earning", as the financial analysts would say)? Did we invest enough in brand equity? Or did we invest enough, but was the allocation suboptimal? What about the fundamental Value Proposition behind our Brand: do we still have the right combination of relative benefits and relative price versus the key reference in the mind of our customers? Do we need new insights?

Recognizing Pricing Power

Because of the tariff parts of the meteor shower, many businesses around the world are suddenly rediscovering the importance of having Pricing Power. Many find out they have much less of it than they need. How do you know you (don't) have it?

In economic terms, Brands with Pricing Power have low *price elasticity*. Price elasticity refers to how much the demand for a product or service changes in response to a change in its price. The lower the elasticity, the less sensitive consumers are to changes in price.

> Here is very topical example. To test the Trump tariff premise that "American consumers would pay more for American made", a small US business owner did an actual test[3]. He wanted to check whether people would indeed buy a Made-in-USA version of his specialty shower head.
>
> The results were reported as "sobering". He found it would cost three times as much to produce if he relocated the production from Asia to the US. He therefore raised the sale price by 85%. After several days of testing, *zero* customers bought the USA model.

There is a new Pricing Power playbook or blueprint necessary for tariff-fueled uncertainty. However, what consumers *say* they value is not always a reliable guide to what they will *do* - how they actually spend their hard-earned money. Marketers have many ways to pre-test consumer responses to price changes (conjoint testing etc.), but these tests tend to take time and can be costly. Nothing beats real-life testing, but that also comes with pros and cons.

People always ask us to give examples of Brands with Pricing Power. When we push the question back to them, the likes of Apple come to mind immediately. And when you explore a little deeper, you will find that in virtually every category of B2C and B2B products and services, one can intuitively assess the Brands that have it (or at least, enjoy the perception), and the Brands that don't.

An easy question to ask yourself: what Brand can I not live without? Which Brand will I queue for (online or offline)? Which Brand has my undying loyalty, price be damned?

Do this test. How many people know how much they pay for an Amazon Prime annual subscription? What would the price need to be before they gave up the benefit of free shipping and the other free access features (to Prime video etc.)? What is their real WTP?

Among the streamers, **Netflix** is the service most people would cut last. It has become the unmissable entertainment option for many and is likely to remain so at least as long as they keep delivering great content. When we check in workshops, again, only very few participants knew how much they paid for their monthly subscription. Their commitment to the service remains high even as unlimited free sharing is being progressively reduced.

In 2025, Netflix has about 300 million subscribers. It knows it is winning the streaming war, and it knows it can raise prices more. However, smart price rises are a discipline that requires psychology as well as data science. Sustainable Pricing Power comes with responsibility. The company cannot risk unnecessary backlash and reputation damage. Greed is not good (e.g. Tyson Foods exorbitant price rises during/post covid on meats).

Sustainable Pricing Power

Over the last decade, *purpose* was one of the hottest thought leadership topics, promoted at every marketing and management seminar. Today, it is at risk of being simply forgotten about, or at least *postponed until after the recession*, as you sometimes hear in boardrooms.

Let us be 100% clear: the most purposeful Brands have always been, and will always be, the ones that create *Sustainable* Pricing Power. Sustainability is built on purpose (pun intended). The two are inextricably linked. As far as purpose and pricing power are concerned, the decision is *and*, not *or*.

Management literature and practice loves to say how strategy is about making hard choices. They want you to believe that decisions are about 'or', not 'and'. They overlook the role of creativity.

In his 1994 bestseller *Built to Last*, management guru Jim Collins introduced the concept of the "Tyranny of the *or*," which *pushes people to believe that things must be either A or B, but not both*. He argued that highly visionary companies liberate themselves with the "Genius of the *and*", the ability to embrace apparent contradictions and how they can be solved over time.

Effective brand management is a perpetual high-wire act between two apparently opposing extremes: building long-term brand equity as cost-efficiently as possible, while intelligently monetizing that brand equity in the short-term. What Americans call *to walk and chew gum*.

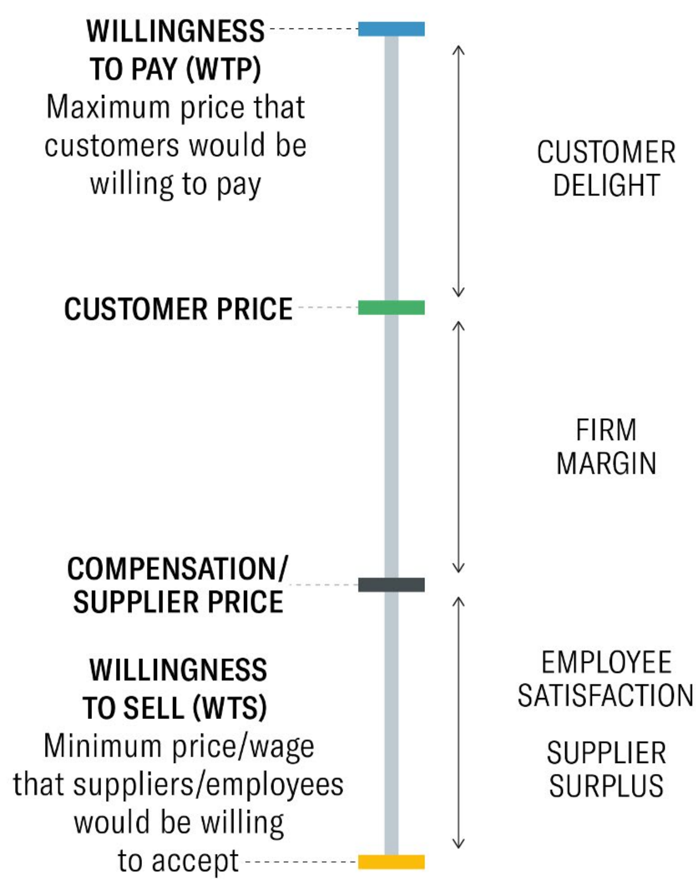
Marketers understand that equity needs to be created *and* that untapped equity in the minds of consumers or B2B customers must be translated ASAP into realized margin. They embrace the objective of bringing real market prices over time as close as possible to their willingness to pay (WTP) while preserving customer goodwill. They want to build and protect the Pricing Power that brand equity represents.

There is another, often overlooked, supplier side aspect to Pricing Power that CMOs might want to share with their CFOs and CEOs. This is powerfully visualized in the concept of the *value stick*, created by Harvard professor Felix Oberholzer-Gee in his 2021 book *Better, Simpler Strategy*.

As we noted above, creating WTP is the customer-side, topline concept marketers should focus on as their number one priority. However, look at the bottom of the value stick in the table below. Companies can also grow margin by lowering costs (as we noted in Chapter 3). Not just by smartly cutting costs in the classic sense, but by elegantly leveraging Pricing Power to further improve what Oberholzer-Gee calls *Willingness to Sell* (WTS) – the price a supplier is ready to accept when working for/with the company.

The Value Creation Opportunity

When companies find ways to increase customer delight, employee satisfaction, and supplier surplus, they expand the total amount of value they create and position themselves for extraordinary financial performance.

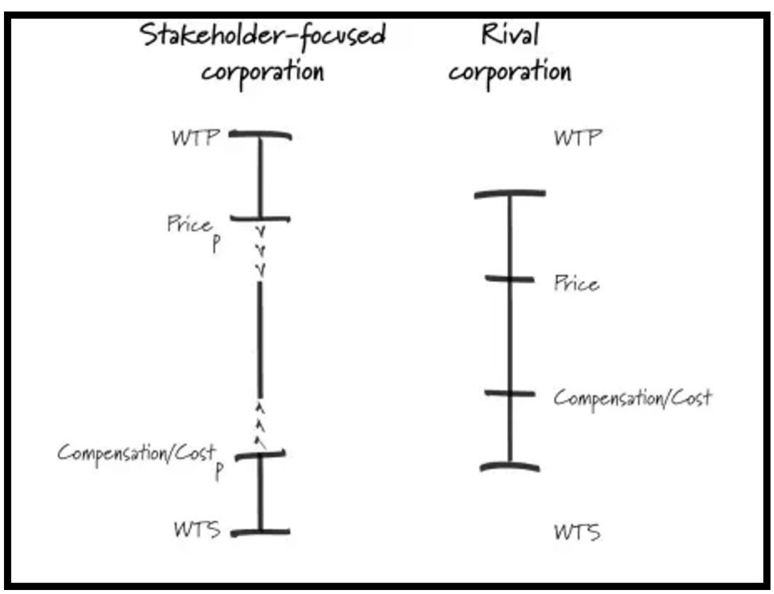


Every decision can be linked back to its impact on price – either the price paid by the customer to the company, or the price paid by the company to its suppliers. Intuitively, one can see how a company with a strong Brand garners additional WTS benefits that can boost its operating margin. CFOs should love this. These benefits include:

Employees:	may join and stay longer at lower cost (stronger Employer Brand)
Debt:	banks may offer lower interest cost for lower risk of default
Equity:	investors may pay more for your shares
Suppliers:	may accept less generous payment terms to get you as a client
Customers:	may accept you as a reference supplier at lower cost
Regulators:	may accept lower risk-mitigation cost

As we alluded to before, Pricing Power has important ethical consequences worth debating in the C-Suite. It is not because you *can* increase prices, or *can* lower WTS, that you *should.* A company or industry can easily damage their reputation by abusing their Pricing Power. Shareholders will love the gains and may not care. But the Board should care because, over time, reputations matter. Governments rightfully will come and tax the super-earnings (or at least threaten to do so). Greece has already shown its EU colleagues it is possible.

Oberholzer-Gee suggests that WTP may be significantly higher for a stakeholder-focused corporation, while its potential WTS can be significantly lower. If this is true, then the margin potential of a company focused on building Brands with a social mission is higher than that of a company only focused on short-term shareholder value.



Close your eyes and picture a company you personally would never work for (for many people, that could be a tobacco company?), versus a purpose-driven company you love (maybe Patagonia?). How much would each have to pay you to work for them? Which company benefits from the stronger WTS? It makes intuitive sense. It all goes back to the Pricing Power of your Brand. Here is an example from Amazon.

> **Amazon Prime** increased its yearly subscription in the US by 17% in 2023, from $119 to $139, compared to about 7-10% inflation that year. Note: USD 20 dollars times about 200 million Prime subscribers globally would translate into up to 4 Bn USD in extra working capital (if all countries participated and few subscribers canceled). That is a big management decision. Given its Pricing Power, the Brand pulled it off. It worked hard for that privilege. The Brand invested a lot in superior customer service (CX) to maintain its "value for money" perception despite the higher price.
>
> The strategic question for the Amazon leadership is about stakeholder versus shareholder. How much did/does Amazon, a self-proclaimed and proven CX champion, really empathize with the pain of its shoppers? What if the board and CEO had said: "We know you are experiencing very tough times, so we'll postpone our price increase?" (like Costco did). What might the impact have been on WTP and WTS over the longer term, especially for a company that needs to attract so much talent to keep growing?

There is genius in *and*. While many choices involve *or* in the short-term, over the long-term we argue that "*and*" thinking can apply. **Creativity is the art of turning "zero sum" challenges into "positive sum" strategies**. The objective is to be purpose-driven *and* to build Pricing Power *and* attract new customers *and* achieve decent margins on current sales.

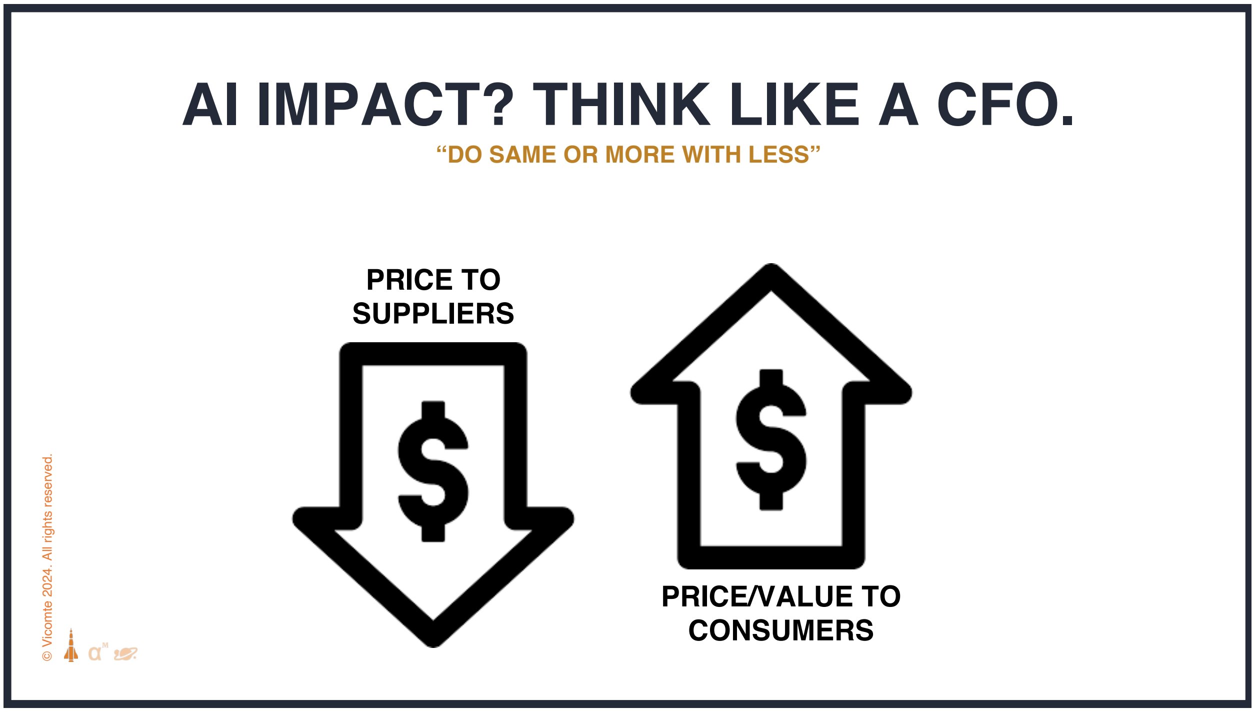
We hope you find the *value stick* to be a useful tool to help you visualize the idea of Sustainable Pricing Power inside your company. Especially with your CFO.

Nobody gets their profit margins handed to them on a plate though. Creating higher WTP and WTS is the result of hard work. Monetizing it requires daily operational excellence. It needs a very focused organization to translate potential WTP and WTS into actual margin. It demands a very close collaboration between Marketing, Finance, and Sales. It is all about a balanced system for value creation, delivery and capture.

AI impacts Pricing Power

We could not *not* talk about how AI might impact Sustainable Pricing Power. AI is another very topical part of the meteor shower, with major impact on life and business over the next decades.

If you want to sell the benefits of an AI related marketing investment or decision to your C-Suite, think like a CFO. Apply the WTP and WTS model above.



Their *default* mode will be to see **AI as a cost reducing productivity tool (improved WTS).** A tool that allows to do *more/same with less*, margin-protecting or even margin-enhancing.

While gen AI is already having a profound impact on marketing activities like customer service and content creation, a Q1 2025 HBR article[4] argues it has the potential to be revolutionary in another key area of marketing investment: market research.

The authors believe that gen AI offers companies unprecedented opportunities to understand customers, better assess the competitive environment, and push data-driven decision-making deep into their organizations. These opportunities fall into four categories:

> **1) supporting current practices** for collecting data and generating insights by making them faster, cheaper, or easier to scale up;
>
> **2) replacing current practices** by leveraging synthetic data (artificially generated data that mimics real people's behaviors and preferences);

3) filling existing gaps in market understanding by obtaining insights and evidence that aren't available in conventional data; and

4) creating new types of data and insights (often with the use of digital twins).

However, Marketers can also show the CFO how **AI can be leveraged to improve topline** – by increasing value perception (WTP) and price realization.

Each of the 3 examples below demonstrates how AI creates better personalized experiences that customers perceive as more valuable, directly impacting their WTP for these services. Yes, they are examples in the (mostly) online world. Yet ask your preferred gen AI, and we are sure you will find inspiring examples for your sector or industry.

Netflix - Their recommendation algorithm uses AI to personalize content suggestions, which has been shown to significantly increase subscriber retention and willingness to pay premium subscription fees. By analyzing viewing habits and preferences, Netflix creates perceived value that justifies their price points, especially as they've implemented price increases over time.

Spotify - Their Discover Weekly and personalized playlists use machine learning to deliver customized music recommendations. This AI-driven personalization has been a key differentiator allowing Spotify to maintain premium subscribers who are willing to pay monthly fees rather than use free alternatives with limited features.

Stitch Fix - Their clothing subscription service uses AI to analyze customer preferences and provide personalized styling recommendations. By combining human stylists with AI tools, they've created a premium service experience where customers are willing to pay both styling fees and purchase recommended items at higher price points than they might in traditional retail settings.

Swimming Naked

For almost four decades, most of Wall Street ignored the concept of Sustainable Pricing Power, especially when money became cheap in the ZIRP environment (Zero Interest Rate Policy) after 2008. Prices of goods and services grew slowly and steadily. No alarm on Wall Street, nor on Main Street.

Then, in Q1 2020, covid hit. Covid resulted in the meteor storm we all face today. Covid created global supply shocks, which in turn caused inflation - something many countries had not experienced in decades. Prices for certain goods and services had already been rising significantly (like college tuition and many pharmaceutical products and healthcare services) but, at the same time, many other goods and services had become cheaper (electronics, clothing, travel etc.). On average, for most people, inflation was not the nightmare it is today.

For four decades, people did not really worry too much about annual inflation of 2-3%. Suddenly, they did. Inflation is a cumulative phenomenon. Price hikes of 10-20% one year create a new baseline for the years after, even if inflation decreases again to 3% in years after.

Consumer sentiment is darkening fast, as inflation can quickly erode your purchasing power as an individual. Depending on the profile of your spending, inflation makes you poorer, unless your salary increases faster than the price of the basket of goods you are buying. For companies, it erodes margin fast from the bottom. All "ingredients" became suddenly more expensive, creating the need to raise prices at the top to preserve margin (let alone to keep growing it).

Every day now, you can read about forthcoming price rises. Amazon shoppers see prices change every day. Walmart, a bellwether among the retailers in the US, announced it will have to increase prices, regardless of President Trump's request to "eat the tariffs". Your Birkenstocks will be more expensive globally (as it runs a global pricing architecture).

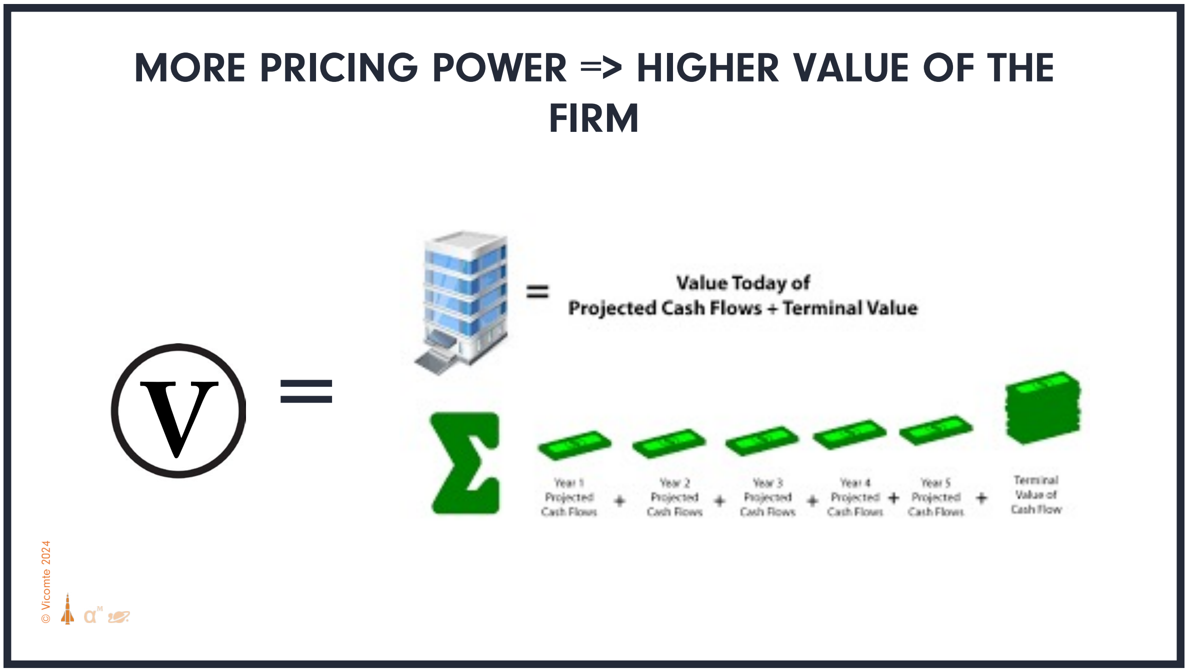
The meteor shower is intensifying every day.

H2 2025 will very likely be a rude awakening in terms of inflation, across many sectors and everywhere in the world. Companies are pressing pause on their decision making, and on investments, as they try to figure out the new environment. Consumers will experience sticker shock like never before. They will face *dynamic pricing* in ways never seen before, and in industries never seen before.

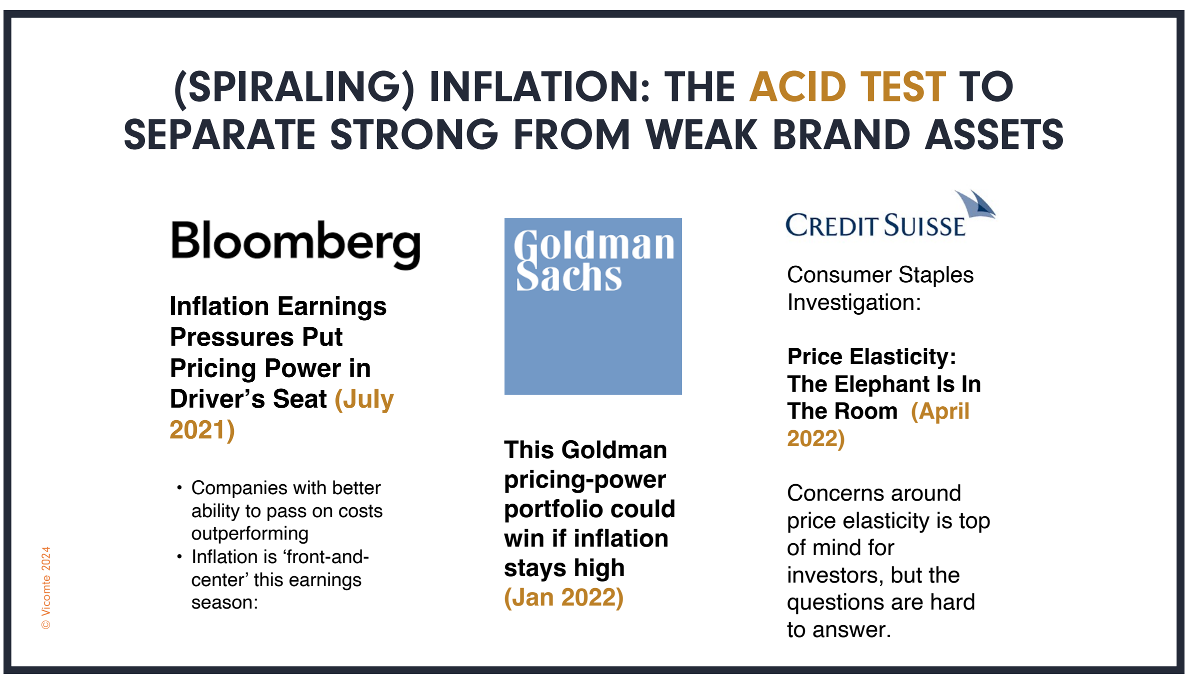
So why did/does Pricing Power matter so much for the likes of Warren Buffet? There are two main arguments for a company or for an investor to want a strong Brand with Sustainable Pricing Power. One offense, and one defense.

Offense. How do analysts calculate the value of a firm? There are many methods, like the Gordon Growth Model we referred to earlier. Another common one is Net Present Value (NPV). This involves projecting the future cashflows of a company over 5 or more years, adding a terminal value, and expressing these values in todays' dollars using the company's weighted average cost of capital (WACC).

A higher NPV is the result of higher future cashflows or a lower discount rate. Pricing Power drives higher valuations both by driving higher cashflows and providing a higher certainty of those cashflows.



Defense. Ever since 2021 Wall Street started to make lists to separate the strong from the weak Brands. Their lists are not going away soon. The current unprecedented meteor shower makes massive uncertainty the *new normal* for business.



Only the best Brands, the ones with Sustainable Pricing Power, will be able to defend their margins in this new world order. Those will be the Brands who were, and will be, brave and smart enough to keep investing in the equity needed to maintain/grow real prices without losing demand.

Warren Buffet observed dryly:

Only when the tide goes out,
do you discover who was swimming naked.

The Trouble with Paradise is that it's Temporary

(Chuck Palahniuk)

Chapter 6

Brand Equity today is Pricing Power tomorrow

How much should companies invest to create strong Brands?

You snooze; you lose. The best marketing companies are the ones that *never* waver on Brand building. They invest consistently, in good times and in recessionary times. The key benefit lies in consistency, not in flashy brand relaunches that make for good media stories (and make or break marketing careers). They systematically build sustainable pricing power over years, and they monetize this effort on a continuous basis. The recent inflation spike becomes the test for which they have been diligently preparing. What Buffet meant is: inflation is an acid test for a company's true marketing capability excellence.

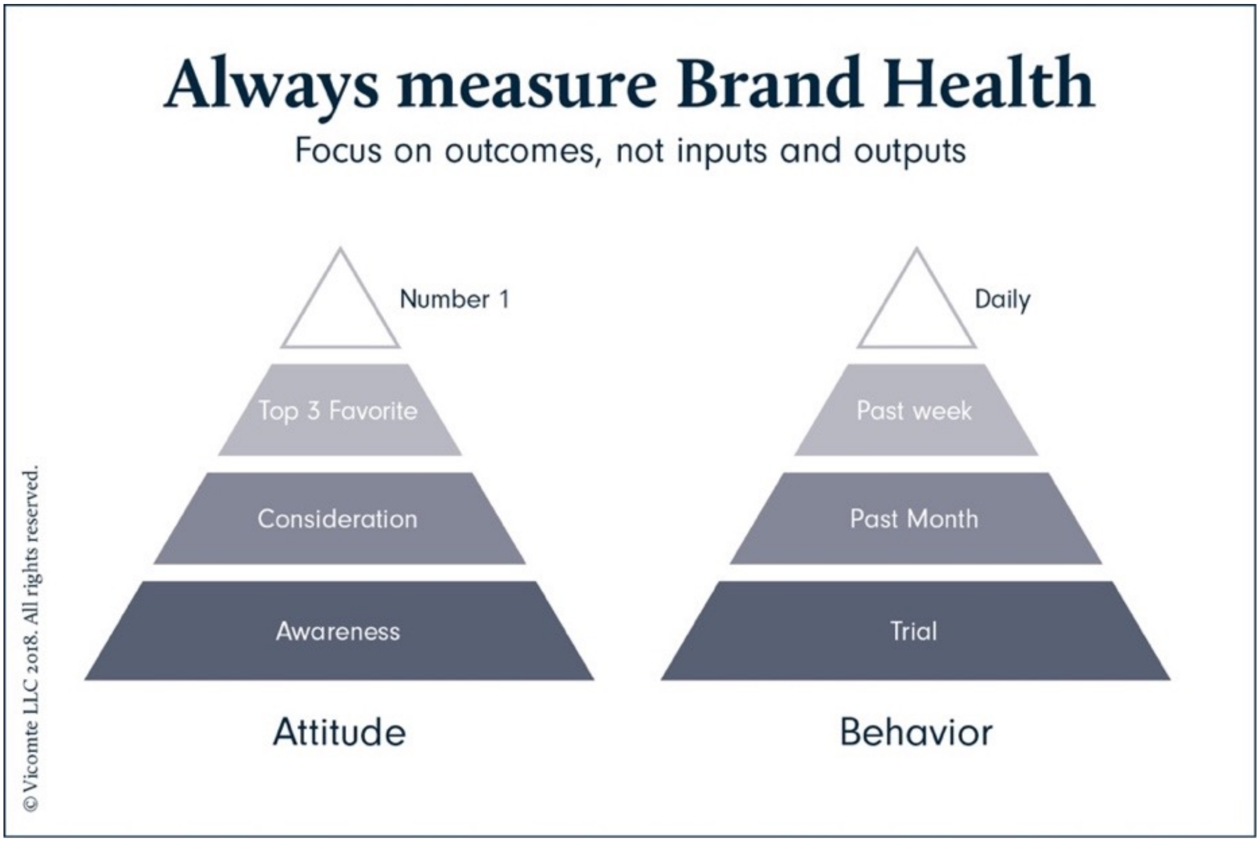
Marketers build WTP in the heads of their customers. They often prefer to call it *Brand equity*. Both constructs refer to the value a Brand adds to a product or service beyond its functional benefits. It represents the positive differential effect that knowing the Brand has on consumer response to the product or service.

A diaper, versus Pampers. A cola, versus Coca-Cola. A beer, versus Stella Artois.

You can do this exercise for your own (B2B or B2C) Brand. Commodity or more?

Professor Aswath Damodoran teaches corporate finance at NYU's Stern School of Business. His practical approach to valuation has contributed to him being voted "Professor of the Year" nine times by his MBA students. A recent example was his calculation that 82% of the value of Coca-Cola derived from the Pricing Power of the Coca-Cola brand name.

Pricing Power is the tangible proof of Brand equity. Ask 10 marketers to define Brand equity and you may get 15 answers. Key components of Brand equity include 1) Brand awareness – how familiar consumers are with your brand, 2) Brand associations – what qualities consumers connect with your brand, 3) Perceived quality – how consumers judge your product/service versus alternatives, 4) Brand loyalty – the attachment customers have to your brand, 5) Proprietary Brand assets – logo/trademarks, selling lines, a distinctive multi-sensory brand identity, patents, relationships and partnerships, etc.



Academic research has shown all these measures to be indicators of Brand Equity. But including them in your budget submission leads to KPI-creep and vanity metrics confusion. We contend that, for the C-Suite and Boards, there is *just one simple and definitive outcome test* of Brand equity you should focus on in (budget) discussions with senior management:

Do you have (Sustainable) Pricing Power, or not?

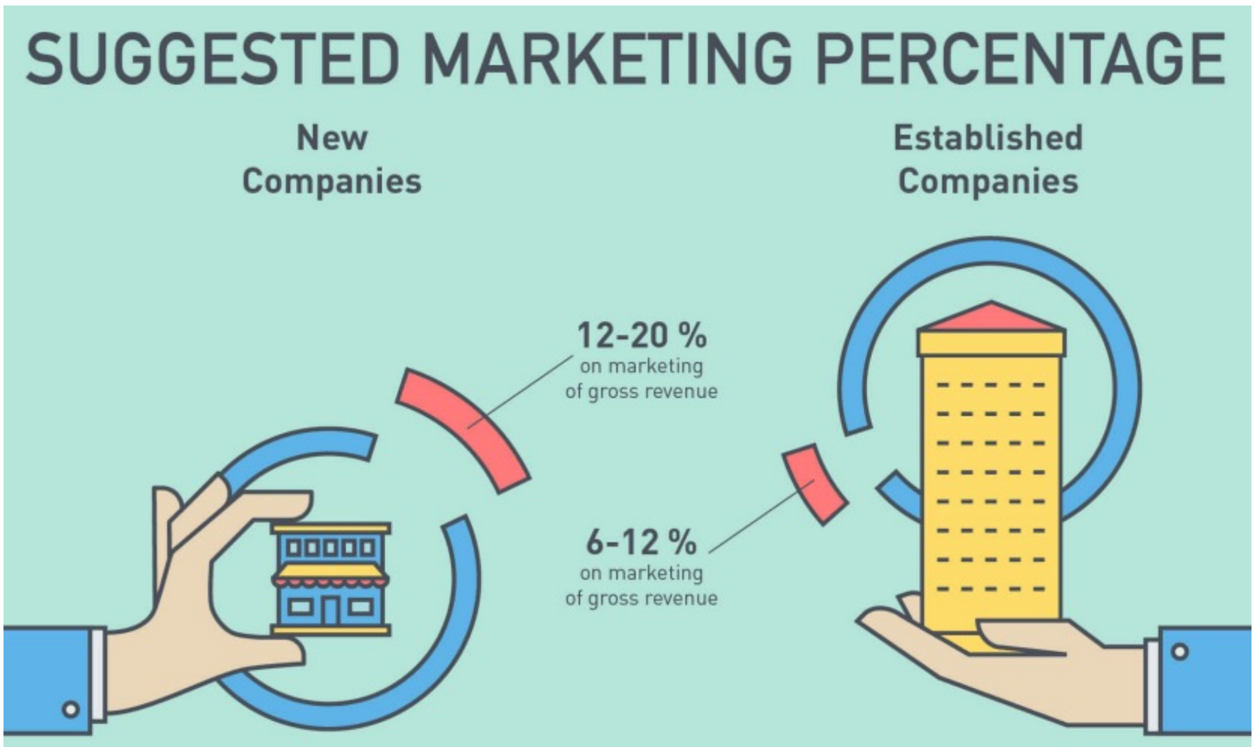
All that investment in how much the customer knows you, likes you, or engages with you, is only an *investment* if it ultimately translates into clear and growing Willingness to Pay that you can monetize. Otherwise, it is just non-monetizable warm feelings among non-buyers. You may have a favorable image and a good corporate reputation, but you do not have a strong Brand.

Investing in Brand Equity

C-Suite and Boards love to brag about Brands. They love buying them, which is akin to buying the sweat and hard work of others. Buying is relatively easy. Smart buying is a skill. Smart *building* of a Brand is the toughest skill of all for any C-Suite. True Brand leadership means demonstrating an ability to drive *organic* growth. To expand the core franchise through good stewardship and effective innovation. One cannot buy one's way to heaven forever.

How much should one invest year after year to build Brands with Sustainable Pricing Power? That is the million-dollar question everybody agonizes about. Spoiler alert: there is no *one size fits all* answer. Every company is different. However, there are Wall Street benchmarks, confirmed by academic research, as well as by many case studies that exist in marketing databases around the world (WARC, Effies, etc.)

The market-leading consumer companies chose to invest between 6-12% of their gross revenue *each year* in the Promotion component of the Marketing Mix. Younger companies need to invest relatively more in Promotion, as they need to build a brand from scratch.



To be clear: the above percentages give an indication of the *absolute* level of firepower companies should consider every year. It says nothing about *how much to allocate* between the short and the long-term, itself a topic of substantial debate in most companies. There is an eternal tug-of-war between the teams in charge of both sides.

For this debate, please read the pioneering work on how to balance both, by Les Binet and Peter Field: *The Long and the Short of it (2013*). It remains as topical today as it was when it was published, and both Les and Peter keep updating their findings. Based on their extensive research, they introduced what became known as ***the 60/40 rule***, suggesting that marketers should allocate 60% of their budget to long-term brand building activities, and 40% to short-term sales activation campaigns.

This is an example of *and* thinking. It recognizes that, in many markets, only a small proportion of buyers were actively "in market" at any given time: the famous ***95/5* rule** of Professor John Dawes of the Ehrenberg-Bass Institute.

It is vital to engage both in long-term brand development *and* short-term sales activation. Analytic Partners have shown that the compounding effect of doing both forms of marketing produces a return that is 40% greater than either activity in isolation.

Importantly, the 95/5 Rule, like the 60/40 Rule, is not a fixed number. It's a sliding scale. But the lesson is always the same: you cannot expect a harvest if you do not sow. Performance marketing is like eating the seed corn each year. You never produce a harvest. Especially not in B2B because it is a long game, much longer than B2C. Most B2B buyers are future buyers. And brand remains the best way to influence future buyers.

"What does the 95/5 Rule look like for my (B2B) category?"

Peter Weinberg and Jon Lombardo have been asked this question hundreds of times during their time at the LinkedIn B2B Institute. Their answer used to be: "run a survey and find out." Of course, no one ever did.

But now, with the synthetic research firm they created (www.evidenza.ai), you can get the 95/5 split for any category on Earth…instantly. Thanks to AI, Evidenza can offer accelerated C-Suite decision making, at a much lower cost, at equal if not better quality, and much more flexibility.

For one of their podcast episodes early in Q2 2025, Peter and Jon ran synthetic surveys across 20 different categories to determine how many buyers are in-market at any given time. What did they learn?

In frequently purchased categories like milk, almost everyone is in-market in a quarter. In rarely purchased categories like ERP software, only 3% of customers are buying. If you sell milk, you can think in months. If you sell ERP, you need to think in decades.

Some B2B categories look more like B2C (e.g. cybersecurity), and some B2C categories behave like more like B2B (e.g. automotive).

It is an interesting question whether investment in brand building by B2B companies is lower because their operating margins are typically lower – or that their lower margins reflect the poor track record of B2B companies of investing in brand building. The proportion of B2B customers out of market at any given time suggests that Brand is not less important in B2B - it's arguably even more important.

The active market in licensing Brands for use in B2B categories gives a clear indication of the economic value that having a strong Brand delivers.

The starting point for negotiations on brand licensing is the so-called **"25% rule"** where the royalty rate is set at a level equivalent to 25% of the profits that the licensee is expected to earn from the use of the Brand. This provides a handy "rule of thumb" for estimating the appropriate level of spending on brand building in any industry to establish this Pricing Power.

Whatever the right mix for your company, the only certainties are these:

1) you need to invest a decent absolute amount each year;

2) if you only invest in the short-term, you will be swimming naked soon (and hungry).

Brand equity today is Pricing Power tomorrow. Pricing Power is earned, every day. It can never be taken for granted. Here is a personal experience:

> Early in my new role as Global CMO for **AB InBev** (07-12), I had to convince my rather marketing-skeptical CEO and fellow C-Suite members that investing in building preference or consideration for our top beer Brands (the so-called "Focus Brands") was necessary if we were to achieve pricing that would be sticky in the marketplace.
>
> Most of my C-Suite colleagues had a similar profile: Brazilian engineers with US MBAs. Self-declared rational people (or so they thought of themselves). They would only believe data proving the theory. They needed numbers and targets.
>
> Luckily, we could leverage many years of consumer tracking and pricing data. We set up a small data analytics team between marketing/sales/finance, and they went off to do a very rigorous statistical 6 Sigma type project. After a few months of data crunching, the team established clear correlations between variations in brand strength and (net) pricing.
>
> Once we took everybody through the conclusions, and with additional training to the top 200 of the company in the newly developed "AB InBev Way of Marketing" (to speak one language), the C-Suite accepted the core principle that we should invest in Brand equity to preserve our future as a business.

As a result, in budget planning and in pricing decisions, Marketing now had earned a seat at the table alongside Sales and Finance. Budgets were created with more realism in terms of the relative equity and pricing strength of the Brands. Importantly, senior management, from the CEO down, got Brand equity targets in their incentives, for the first time in history. It was critical to anchor the change in daily operating life. Incentives drive behavior.

The business responded very positively in the years after. However, that did not mean the war for the annual marketing budget was now over. AB InBev is a champion of the ZBB culture, Zero-Based Budgeting. Each year, each day, everybody needs to fight hard for their budgets. But at least the base principles had been established.

As the global beer category leader, AB InBev continues to consistently invest in what it now calls its “megaBrands". According to the May 2025 Kantar BrandZ Global Brands Report, Corona remains the world’s most valuable beer Brand for the second consecutive year. AB InBev owns eight of the top 10 most valuable global beer Brands. Brand health today is top line tomorrow.

1. Corona
2. Budweiser
3. *Heineken*
4. Modelo
5. Brahma
6. Michelob Ultra
7. Bud Light
8. Skol
9. *Guinness*
10. Stella Artois

Time to sell that dream budget.

Make your CFO your new BFF.

Heaven is under our Feet as well as over our Heads

(Henry David Thoreau)

Chapter 7

Making Wall Street meet Main Street

A Checklist to Sell dream budgets smarter

How to make (Marketing) rubber meet the (Finance) road? Start by avoiding a marketing budget laced with funky marketing KPIs the C-Suite and Board neither understand nor care about. As we have seen, senior leadership is under a lot of daily financial pressure. Instead, use your storytelling skills to sell them something that appeals to them, in their Wall Street language, on a professional and personal level. Sell them a way to achieve the outcomes *they* care about. Contrary to popular belief, most CFOs are people too.

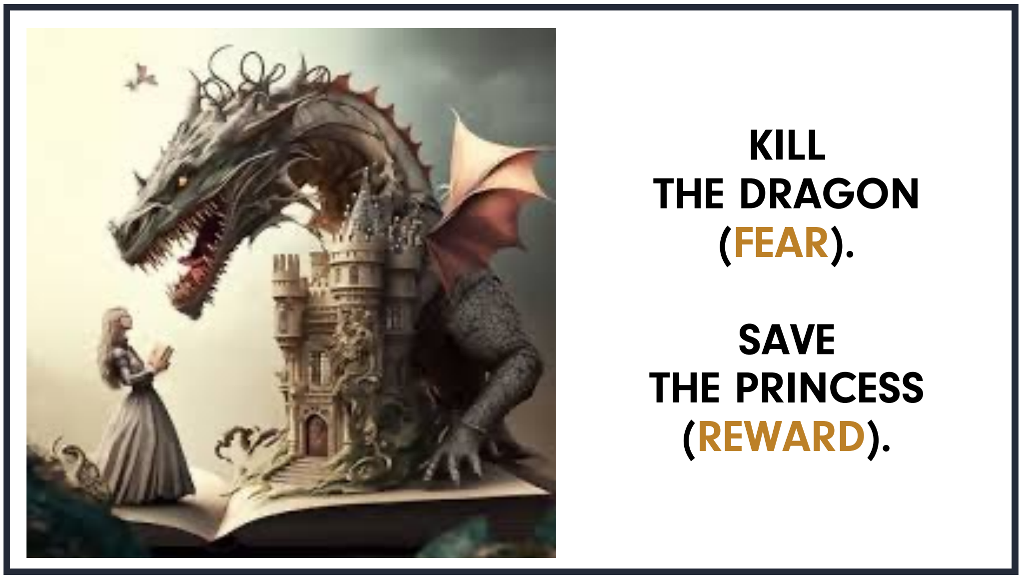
We trust that by now you are convinced that Sustainable Pricing Power is *the* critical financial concept marketers need to master and promote to sell their dream budgets.

It has the benefit of simplicity and clarity for all. It aligns everybody, up to the C-Suite and Board, on a *hard* KPI. It is the bridge between the customer's view of value (benefit to price) and the company's view of value (price to cost).

The more senior leadership can align on the concept, the more they will close that stubborn *Managerial Marketing-Finance Gap* on each level. More CMOs will get a seat at the C-Suite table, and more CMOs may access boards positions over time. Most importantly, business will be better for all.

To get there, marketers need to invest much more time with their underserved internal and external finance stakeholders. It is all about Love Languages. Main Street needs to learn to speak better Wall Street, and vice versa. Ignoring each other is bad for both sides.

Sell them *happiness*, and/or sell them *fear*. Nothing sells a budget to finance driven people as much as the fear of loss. Employ basic archetype psychology to show them how they must invest in Brand equity to kill the dragon (inflation) year after year, as a condition to get the treasure (accelerated cash flows, healthy margins on the P&L, a strong intangible asset on the true balance sheet of the business).



Finance remains the language of the boardroom, so a CMO presenting budgets to the C-Suite and Boards must describe the contribution of the marketing skillset in the financial language their fellow Board and C-Suite members can and will understand. As described in Chapter 3, they must apply their storytelling skills to explain how the Math of Marketing supports the Math of Business.

- The three main characters in this story: Growth, Profit and Risk Management.
- The "happily ever after" ending consists of steady growth in cashflow and earnings, and possibly a place on *The Most Admired List* of companies.

Intangible Whisperers

In our last guide, *The Ultimate CMO Guide to Scarce Board Seats* (2024), we argued that winning boards will be the ones leveraging the proven power of *cognitive diversity* and creative problem solving to address an increasingly complex and unpredictable world. They will focus on creating the intellectual and relational intangibles to create most long-term value for *all* stakeholders.

CMOs can add that much needed cognitive diversity. However, to persuade senior leadership about the right path forward, it is all about being invited in, about gaining influence, about becoming a trusted advisor.

It is about combining principled thought leadership with succinct communication, focusing the minds of fellow C-suite and board members and management on how to drive sustainable WTP and WTS in a diverse and multi-stakeholder world.

Once CMOs have shown that they can contribute to the financial performance of the business, they will have earned the right to add value to other important topics relevant to the Board. These will include what it takes to maintain a strong customer franchise over multiple generations of technology, how best to expand the scope of the business both organically and via acquisition, and how to adapt to changing societal and technological expectations of business.

If you are a CMO aspiring to be in the C-Suite and/or even an aspiring board member, think hard about *why* you would like to serve, do your homework, start networking and learning. Understand what you uniquely can give a prospective board, and what you seek to get in return, over an extended time commitment.

It is all about building *your* boardroom capital and mindset.

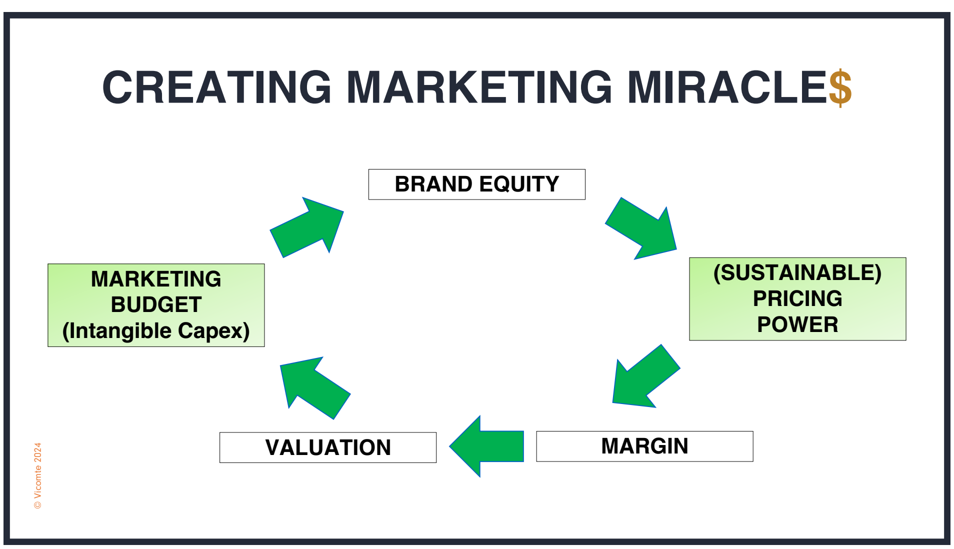
Stairway to Heaven

You read this paper because you chose option 3. Now it is time to start doing the work.

In classic marketing speak, selling your dream budget is all about creating *pull*, not *push*. It is all about being perceived by your Board, and by the CEO of your company, as the best investor of *intangible capex* they could imagine getting on their board, to help them deliver *tangible results*.

It is about being known as someone who is ready to **define marketing as the "sowing and harvesting of cashflow"**, to explain how the six Marketing Math factors feed into the Math of the Business, and to measure Brand equity in terms of Sustainable Pricing Power,

If you can get your company to buy in the base logic below, we contend you will see a whole new dynamic around the notion of marketing budgets. You will dramatically increase the probability to create marketing miracle$.



Here is a simple step-by-step roadmap to help you create and implement **a Marketing-Finance Culture at your company**:

1. Get your Company into the right Marketing-Finance Mindset

- Rethink your relationship with finance: build shared purpose and goals, not silos. True Brand builders must be business builders.
- Shift from marketing outputs to business value creation thinking and outcomes.
- Get buy in to the base logic above with your CFO and CEO:

2. Do the Warren Buffet Pricing Power Baseline Test

- Can you articulate/hypothesize why/how your Brand creates WTP, both functionally and emotionally?
- Do the research: does your Brand have Sustainable Pricing Power, or not?
- Align the team on where you really are: Green, Orange or Red?

3. Advocate for Intangible Capex to (Re)Build and Monetize Pricing Power

- Based on where you are (Green, Orange, Red), how does your Brand affect growth, margin, and the risk profile for the business?
- Are you investing enough and consistently in Brand Equity? Use the benchmark that strong Brands invest 6–12% of revenue and build “creative consistency” over time.
- Are you allocating enough to both short- and long-term goals? Start from the suggested rules (40/60, 95/5, Rule of 25) and see what makes sense for you?

4. Avoid Swimming Naked: Track Brand Strength and WTP.

- Do you monitor Brand Health and price elasticity to adjust early?
- Meet with Finance quarterly (or regularly at least). Plan jointly. Learn continuously through an evidence-based approach. Iterate the Value Propositions as needed. Trust builds through shared data, insight, and ownership.

5. Create a Marketing-Finance Talent Pipeline

- Are you building financially fluent talent that understands value creation and always asks, “How does this drive business impact/value?”
- Create a curriculum to nurture a Marketing-Finance culture, led in partnership by the CMO and CFO. Brands are a means to an end, not an end in and by themselves. Curiosity and creativity compound like capital.

Don’t be dismayed by the meteor showers.

Chose option 3. Fight.

**The road to Hell is paved with good intentions,
while the road to Heaven is paved with good action.**

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CHRIS R. BURGGRAEVE

Award-winning global marketer (former Global CMO AB InBev), turned entrepreneur, investor, advisor, academic, author and NACD.DC® certified board member and chairman

Email: crb@vicomte.com **Mobile:** +1 646 853 3719
Connect: linkedin.com/in/chrisburggraeve/

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JONATHAN KNOWLES

Former finance guy and value-based strategy consultant turned brand consultant, now focused on helping marketers practice "finance first strategy". Author of more than 20 articles in Harvard Business Review and MIT Sloan Management Review.

Email: j.knowles@type2consulting.com **Mobile:** +1 646 345 6782
Connect: linkedin.com/in/jpoknowles/

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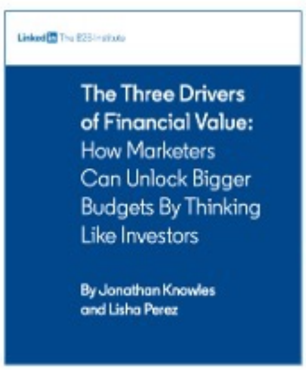

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