THE ULTIMATE CEO GUIDE TO MARKETING MIRACLE$

Drive Sustainable Pricing Power. Avoid Double CFO Syndrome.

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To all **CEOs** who want to deliver sustainable,
profitable growth for their organizations.

To all **CMOs** who want to deliver business impact,
not just creative impact.

To all **CFOs** who want to allocate resources to deliver
both short-term efficiency and long-term effectiveness.

To all **C-Suite and Boards** with the ambition to sow,
grow and harvest cash flow by developing
Brands with Sustainable Pricing Power.

Thank You

To all CEOs, CMOs, CFOs, Board members,

To all Marketing-Finance (pr)academics and associations,

To all publishers and seminar organizers,

Who helped us crystallize our thoughts over the years.

Thanks (again), Christian Loos and team from KitchenNYC, for design consistency.

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Foreword

THE THIRD WAY

by Felipe Dutra (Executive Chairman at Milk MakeUp;
former Chief Financial & Technology Officer at Anheuser-Busch InBev)

Throughout my career I have been fortunate to serve in many different leadership roles: from finance and operations to technology, general management, and board governance. Over three decades helping build one of the world's largest consumer products companies, I learned that every function views the business through its own lens. Finance sees capital. Marketing sees customers. Sales sees growth. Operations sees execution. Technology sees capabilities. Human Resources sees talent. Each of these perspectives is valid, and each is incomplete. The single greatest responsibility of a CEO is to integrate them into one coherent enterprise.

Chris Burggraeve and Jonathan Knowles focus on a tension that exists in almost every executive team: the natural friction between Marketing and Finance. Marketing asks the organization to invest in opportunities whose returns compound over years; Finance is entrusted with allocating scarce capital responsibly while delivering predictable financial performance today. Both are doing precisely what they were hired to do. The problem arises when the organization begins optimizing for one perspective at the expense of the other.

In my experience, however, this tension points to something much larger. Organizations rarely fail because one function performs poorly. Rather, they fail because one function succeeds at the expense of another. Marketing builds awareness while operations struggle to deliver. Finance improves margins while innovation slows. Sales drives volume while pricing deteriorates. Technology modernizes systems without changing customer outcomes. Human Resources recruits exceptional talent into an organization that has lost strategic clarity. Individual functions succeed but the enterprise underperforms.

The CEO's job, therefore, is not simply to reconcile competing priorities. It is to find the third way—neither the CFO's lens nor the CMO's, but an enterprise view that integrates both—creating alignment around a common ambition and continuously answering one fundamental question: how do all of our capabilities reinforce one another to create sustainable value?

I find the authors' emphasis on Pricing Power particularly compelling. Pricing Power is often treated as a marketing concept, yet I share their belief it is something much broader: the economic consequence of an enterprise working well. Customers willingly pay more because products are better. Products are better because innovation is stronger. Innovation is stronger because talent is exceptional, and talent is exceptional because the culture attracts and develops outstanding people. Execution is reliable because operations perform consistently. Margins expand because finance allocates capital intelligently. Trust increases because governance is sound. The customer, after all, experiences only one company, not its individual functions. Pricing Power thus becomes much more than a marketing KPI. It is one of the clearest external validations that the entire operating model is functioning as intended.

The modern economy has only reinforced this reality. The largest companies in the world increasingly derive most of their value from intangible assets: brands, technology, customer relationships, data, people, culture. These assets rarely appear on a balance sheet, yet they determine an organization's ability to generate cash flow for decades. The authors are right to insist that CEOs and Boards treat investment in these assets as capital allocation, not discretionary expense.

Among these intangibles, one deserves more attention than it usually receives: culture. If I were to add a single element to the framework presented in this book, it would be culture as the multiplier that connects strategy with execution. Strategies are discussed in conference rooms; culture determines what happens after everyone leaves the room. Culture determines whether an organization learns faster than its competitors, adapts faster, executes more consistently; and whether its leaders think like owners or like managers. Over many years I have become convinced that culture is not simply another intangible asset. It is the human operating system through which all other assets create value.

One lesson I have carried throughout my career is that organizations behave exactly as they are designed to behave. People respond to incentives, and functions optimize for the metrics on which they are evaluated. If Marketing is rewarded for awareness, Finance for quarterly earnings, Sales for volume, Operations for efficiency, and Technology for implementation, alignment becomes extraordinarily difficult. Conversely, when leadership establishes common objectives and shared accountability, collaboration flows naturally.

This is where the CEO's role becomes irreplaceable. Enterprise integration cannot be delegated. Only the CEO can create a common language across functions. Only the CEO can align incentives. Only the CEO can ensure that short-term performance strengthens, rather than weakens, long-term competitiveness: continuously balancing the inevitable tensions between today's results and tomorrow's opportunities.

Chris and Jonathan describe the danger of what they call the "double CFO syndrome": the CEO who acts as a second CFO rather than as the integrator of Finance and Marketing. Whether or not one agrees entirely with the terminology, the underlying message is an important one. No single function should dominate how an organization thinks about value creation. Equally, no function should believe it owns growth. Growth belongs to the enterprise; every function contributes to it, and every leader is responsible for it. The cure for the double CFO syndrome is not a CEO who champions Marketing instead. It is a CEO who takes the third way: elevating neither, but integrating both.

The strongest companies I have known never described themselves as finance-driven or marketing-driven. They were enterprise-driven. Every function understood both its own mission and its contribution to the success of every other function. That mindset is the third way in action: it transforms silos into systems, budgets into investments, and functional excellence into enterprise excellence.

Leadership is an exercise in integration: the ability to reconcile what often appears irreconcilable. Discipline with entrepreneurship. Efficiency with innovation. Short-term performance with long-term investment. Customer value with shareholder value.

This book offers a valuable framework for navigating those tensions, and I hope readers will embrace its central message: sustainable value creation is not the result of one outstanding function. It is the result of an entire organization moving together toward a common purpose. That, ultimately, is the CEO's most important responsibility. And perhaps the organization's greatest competitive advantage.

Introduction

WHY PRICING POWER MATTERS TO ALL

This book has a simple thesis – that anyone who aspires to a CEO position needs to focus on Pricing Power. We argue that Pricing Power is the evidence that a business has deployed its resources effectively.

The CEO role requires you to align and orchestrate the contributions of every function of your business in the pursuit of sustainable value creation. Peter Drucker, the leading management thinker of the last 100 years, described the CEO as

"The link between the Inside that is the organization and the Outside of society, economy, technology, markets and customers. Inside there are only costs. Results are only on the outside."[1]

To integrate the Inside and the Outside, a CEO must understand how to harness the unique contributions of all functions. For this book, we focus specifically how a CEO can make their CMO and CFO work better together.

The **CMO** (mostly) provides the external focus on the opportunities that the business could pursue. The **CFO** (mostly) provides the internal focus on how the financial and other resources of the business should be optimally allocated. Both are needed. Left to their own devices, both the CFO and CMO would likely run the business into the ground.

Finance without Marketing? A better mousetrap that nobody wants.
Marketing without Finance? A beautiful story that goes bankrupt.

We argue that Pricing Power is the performance indicator that requires Marketing to focus on value creation for which customers are willing to pay, and Finance to distinguish between "good costs" (those that generate customer Willingness to Pay) and "bad costs" (those that do not earn an adequate return).

In **Chapter 1**, we describe the essential role that the CEO plays in promoting an integrated view of performance and the existence of "double CFO syndrome" in companies where the Finance culture is dominant.

Chapters 2 through 6 examines how this tension manifests in a prioritization of short-term profits at the expense of the long-term franchise.

Chapters 7 through 11 explain how this tension can be resolved.

We conclude in Chapter 12 with five recommendations for how to establish an enterprise-level agenda and the central role played by Pricing Power.

[1] From "The American CEO" article, Wall Street Journal, December 30, 2004

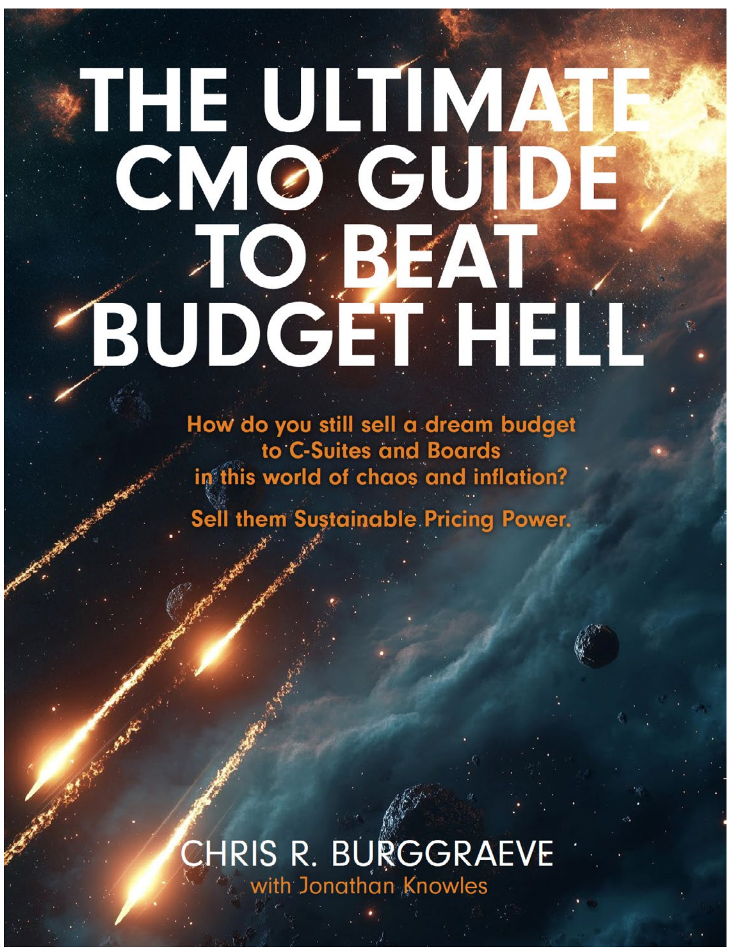
"Double CFO syndrome"

Over 70% of CEOs come up from finance and sales/operations. Only 10% of the Fortune 250 CEOs have any direct marketing experience (mostly in B2C), and barely 4% have held a CMO-like role. The result is an institutional bias towards the Inside and the prioritization of Finance over Marketing. The CMO effectively faces two CFOs.

Our goal is to contribute to the development of (future) CEOs, to help them to drive value for their company (or region). To overcome double CFO syndrome, the **CEO-CFO-CMO connecting language we propose is the language of Sustainable Pricing Power.**

(Future) CEOs may currently sit in any function within the business – operations, sales, finance, supply chain, HR, accounting, marketing – but they all need to learn how to integrate Inside and Outside, in pursuit of sustainable, profitable growth. That goal can only be achieved when the CEO combines the CFO's bias towards short-term financial performance with the CMO's bias towards building long-term customer preference.

This CEO Guide is a complement and extension of previous work. In June 2025, we published **"The Ultimate CMO Guide to Beat Budget Hell"** (free download on www.vicomte.com).



That book's subline was: **"How do you still sell a dream budget to C-Suite and Boards in this world of chaos and inflation? Sell them Sustainable Pricing Power"**. It was designed primarily to meet the need of CMOs to secure continued investment despite the meteor shower of issues hitting most businesses these days.

During the many presentations of this Guide last year, we probed for the most critical budget alignment issues for CMOs. A key new insight surfaced:

CMO's claimed their CEO now acted more than ever like an additional CFO, instead of being the CEO integrating Finance and Marketing. That insight was particularly relevant in B2B, and in (the ever more) Private Equity owned businesses. However, even B2C marketing leadership observed this issue, especially on country/regional level.

Hence this new CEO Guide. We extended our earlier work in three ways:

1) We now make the case for marketing investment explicitly from the perspective of the (future) CEO, not just from the perspective of the CFO and CMO; Note we interpret the "CEO" title broadly. It stands for the overall company CEO, as well as for its senior geographical or divisional leaders. These are often referred to as CEOs or general managers of their division/region/country. They are all senior budget holders.

2) We refined the Creating Marketing Miracle$ model and the 5-step Roadmap to address the priorities for the whole enterprise, but the model is perfectly applicable at country or regional level. After all, Brands are sold locally (even Global Brands), and many budget decision structures start at a granular country level.

3) We added relevant new marketing-finance material.

Our goal is help all those who aspire to general management positions by providing a framework for integrating what Peter Drucker terms the Inside and the Outside - more commonly described as integrating stakeholder value with shareholder value, or Marketing with Finance.

Chris Burggraeve & Jonathan Knowles
New York & Miami, Summer 2026

Chapter 1

What does it take to be a CEO?

Hint: what got you here, won't get you there

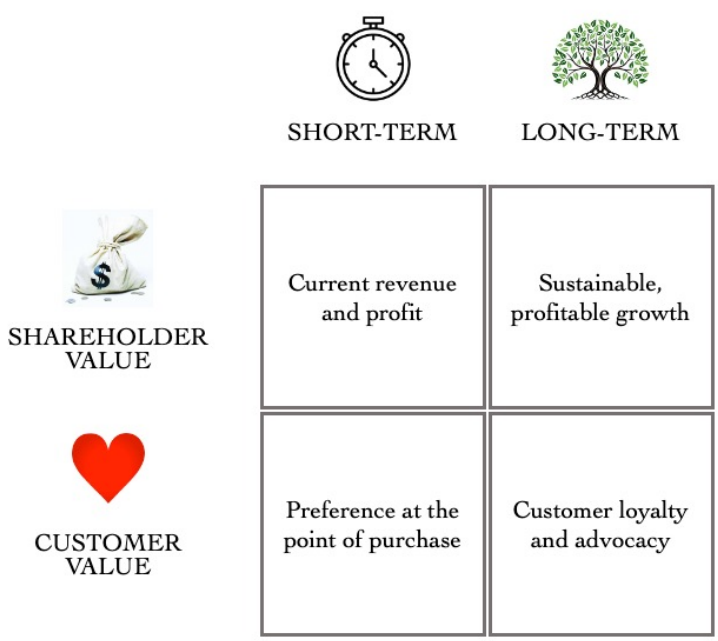
Yogi Berra famously quipped "When you come to a fork in the road, take it". Like Peter Drucker, Yogi Berra saw the job of leadership as being to reconcile tensions. We argue that there are two core tensions that a (company/regional) CEO faces. Value for Who? And Over What Time Period?

Every CEO must balance the competing demands of investors and customers. Both want value for the money they are giving to the business. In the short term, the easiest way to increase value to investors is to reduce the value that you are giving to customers by cutting costs or raising prices. Equally, the easiest way to give more value to customers is to lower prices that you charge to them – but this reduces the level of return you provide to investors.

This highlights the second tension: the trade-off between the short-term and the long-term. What is expedient in the short-term is rarely the best solution in the long-term.

The job requirement for being a CEO is the willingness to confront these two tensions, and to define their role as being to find the right balance between creating value and monetizing it, and between current and future performance.

A CEO, needs to satisfy all four quadrants of the diagram below **simultaneously**:



It is in the job description and DNA of the CFO to be biased towards the top left quadrant: maximizing the current financial performance of the business.

Likewise, it is in the CMO's job description and DNA to be biased towards the bottom right quadrant: securing recurring revenues from existing customers and building a pipeline of future customers.

To reconcile the natural tension between the CFO and the CMO, a CEO must facilitate collaboration between the CFO and CMO so that the business delivers value to both investors and customers, and across both time horizons. This requires combining the CFO's bias towards efficiency with the CMO's bias towards effectiveness.

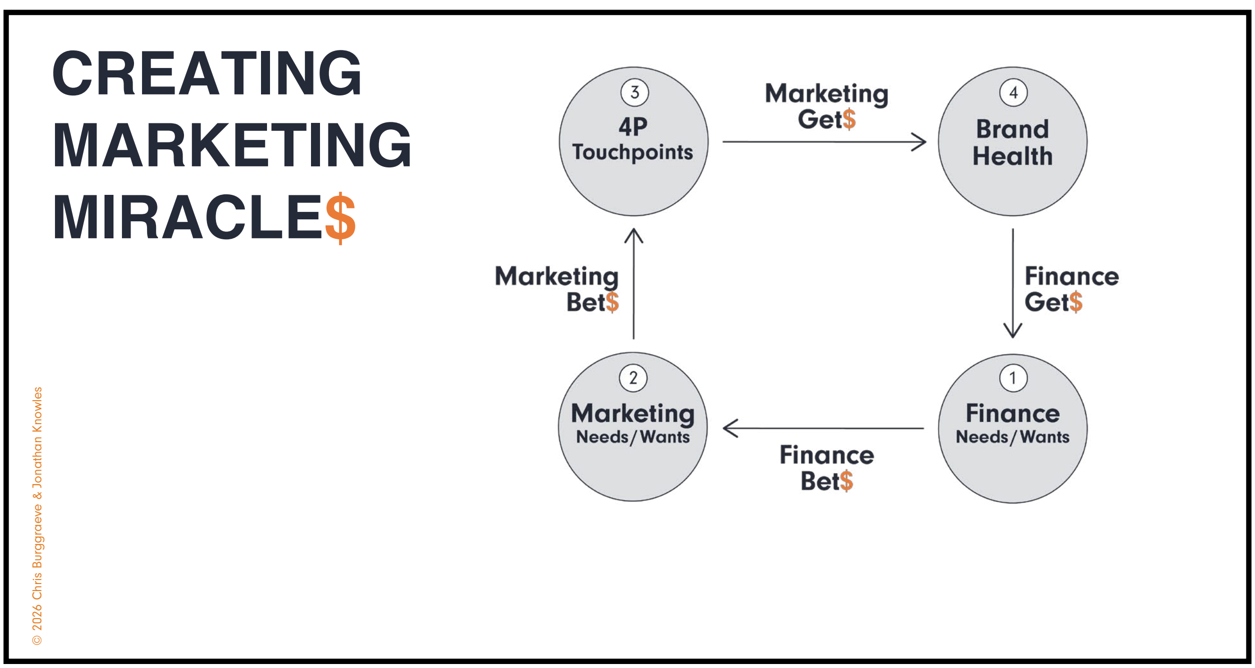
This does not often happen when 70% of CEOs share the same skill set and worldview as their CFO. It only happens when the CEO has a clear mental model for what drives sustainable, profitable growth.

If the CEO does not have this, the CMO effectively faces two CFOs.

Creating Marketing Miracle$

If a CEO is going to generate sustainable, profitable growth, then she/he must be able to describe the process by which this dynamic happens, and what are the respective roles of the CFO and CMO. In other words, an integrated theory of the value creation process.

At its most basic, this process can be visualized as follows:



The process begins in the bottom right circle with Finance entrusting funds to Marketing, making the "bet" that Marketing will be an effective investor of these resources.

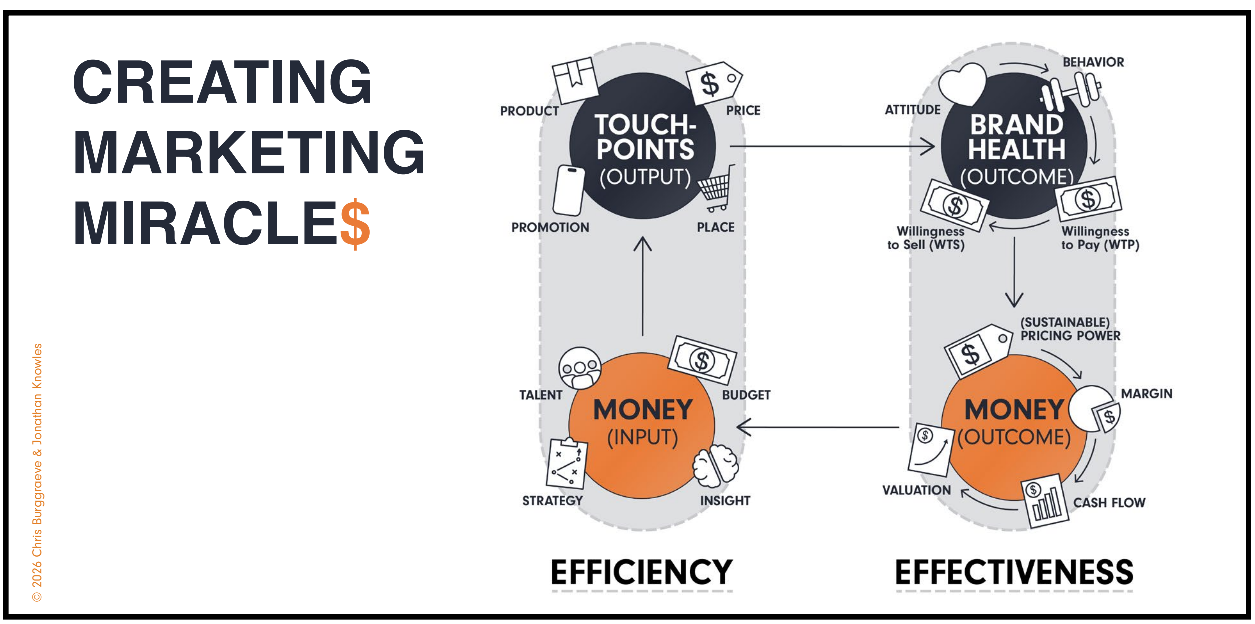
After conducting the appropriate research and establishing the market opportunity, Marketing places its own "bet" by investing in the combination of touchpoints (the 4Ps of Marketing execution - Product, Place, Price, and Promotion) most likely to realize that market opportunity. The CMO does this by establishing the presence and preference among desirable customers (Brand Health) that can be monetized through their current and future purchase decisions. This flow of revenue back to the business completes the investment cycle.

The challenge for the CEO is that this cycle takes time to complete and requires investment in establishing the presence and preference for the business (Brand Health). Only then will the company's products and services be consistently chosen at the moment of purchase.

This process is not a simple gumball machine where your 25 cents gets you a gumball every time. Your 25 cents has first to fund the development of a strategy for customer value creation (marketing strategy); then a coherent set of tactics (the 4Ps) for delivering that value to customers; the outcome is a preference for your company expressed in the form of Pricing Power and the decision to purchase your product over alternatives. Only then does your 25-cent investment get translated back into cash.

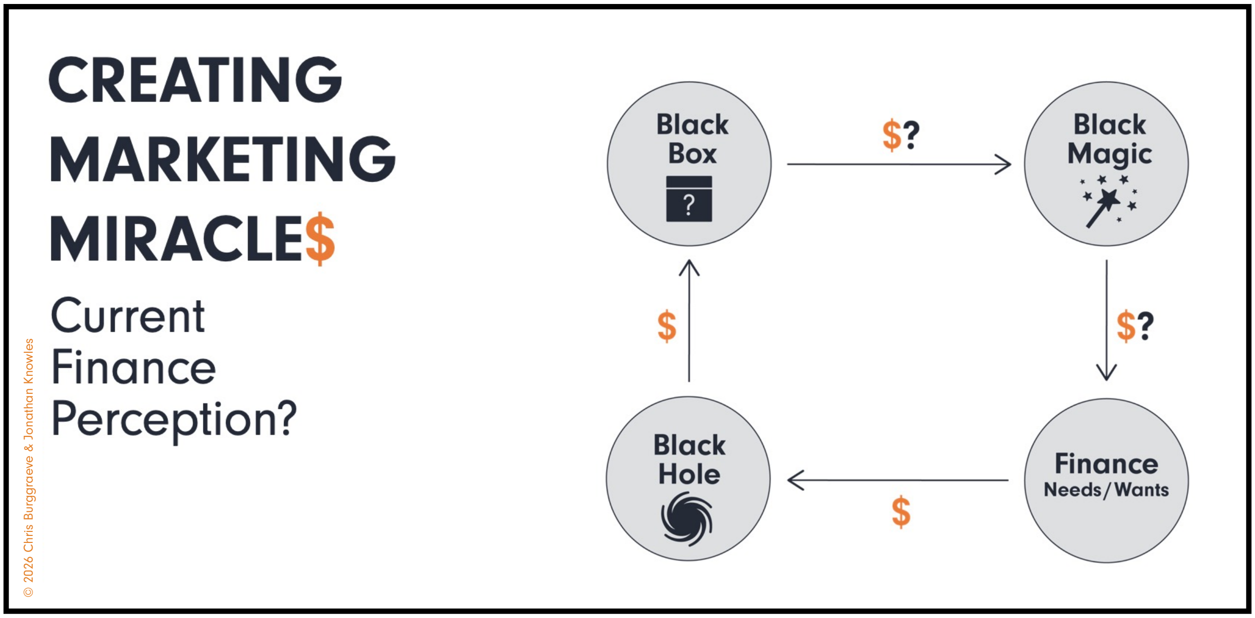
There is no route to sustainable, profitable growth that does not pass through the earned preference of customers (Brand Health) and the creation of Pricing Power.

Here is a fuller version of this model, highlighting some of the key performance indicators of Finance and Marketing:



The End of Marketing as a Black Hole, a Black Box, and Black Magic

Viewed from the perspective of Finance, marketing investment often feels like pouring money into a black hole, which is then invested in what feels like a black box, which spits out some black magic. Finance neither understands nor trusts that Marketing knows how to deliver what Finance needs and wants (pricing, cashflow, margin and valuation).



The Marketing Miracle$ model provides a framework that explains how marketing creates business value so that the metaphor of 'marketing as a black hole' can finally be put to rest.

Equally, it explains why Finance's instincts for optimizing for short-term performance will create a systematic underinvestment in the business and its ability to attract future customers.

Marketing is the Sowing, Growing and Harvesting of Cash Flow

A good way for a CEO to establish common ground between the CFO and the CMO is to define the role of marketing as being the "sowing, growing and harvesting of cash flow".

The job of Marketing is to create assets in the form of customers whose awareness and preference for the business means that they have a Customer Lifetime Value (CLV) that exceeds the cost of creating and maintaining this awareness and preference (note the financial bias in referring to this as "Cost of Acquisition" – CAC – as if a customer was simply a piece of equipment being purchased rather than a relationship to be nurtured).

The CFO is more comfortable when investing in physical assets and existing products for which there is predictable demand. But CFOs know that the success of any business ultimately relies on recruiting new customers and developing new product lines, so she/he understands the need to make investments in things with less predictable returns.

This tension between the allure of predictable current revenue and the necessity to create future revenue despite its lack of predictability can be resolved. It requires the recognition that cash flows come with four levels of certainty.

Finance has its Own Version of the classic Marketing 4Ps

Finance professionals often talk in terms of a 70:20:10 approach to budget allocation:

> **70% of resources** go to the core of the business, with the goal of reinforcing existing demand and sustaining pricing power
>
> **20% of resources** go to exploring opportunities that are adjacent to the core – expanding into neighboring product categories or geographic markets
>
> **10% of resources** go to experimentation – investing in opportunities where the chances of success are hard to predict, but the scale of the value that could be unlocked is considerable.

When a CEO frames the task as "sowing, growing, and harvesting cash flow", it a small step for the CFO to adjust this 70:20:10 mindset to think in terms of four levels of certainty around how future cash flow can be sown, grown and harvested:

> **Predictable** – this is reliable revenue that can be harvested from existing customers and products
>
> **Probable** – this is "near certain" revenue but is vulnerable to unanticipated moves by competitors
>
> **Possible** – this is revenue that exists as part of the TAM (Total Addressable Market) but which the business is not currently well positioned to capture
>
> **Potential** – this is revenue that depends on innovation, the development of the market, the evolution of customer needs, and the actions of competitors

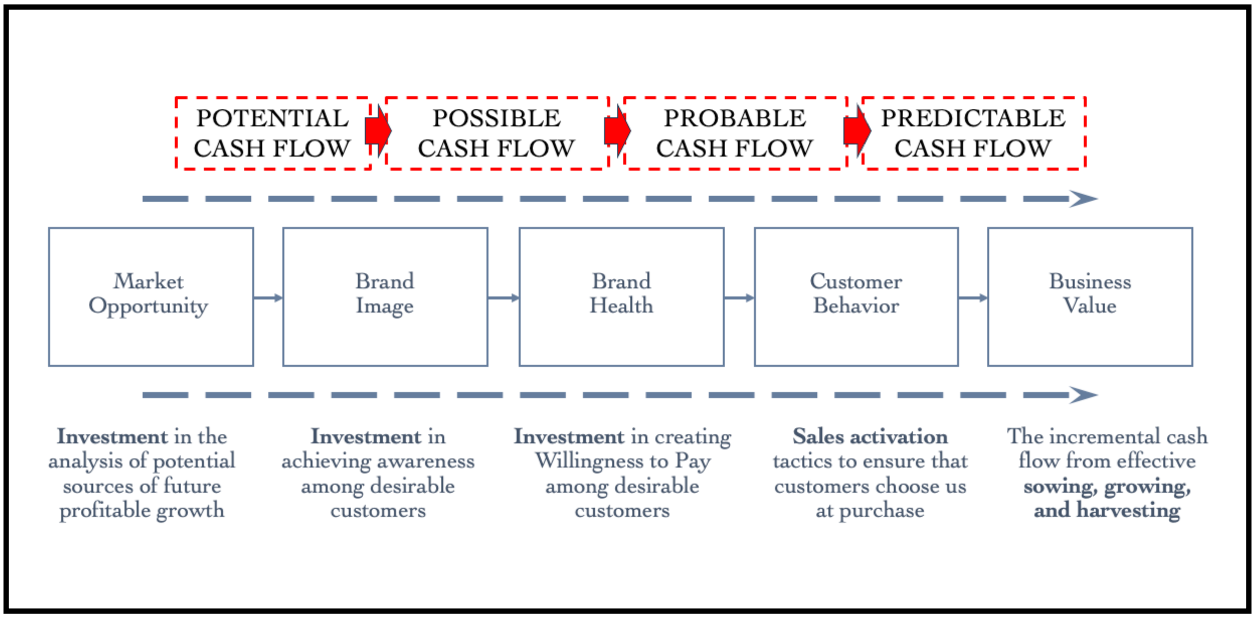
By doing so the CEO surfaces the tension between the natural biases of the CFO and CMO.

The CFO is most comfortable in the zones of Predictability and Probability. She/he loves the "annuity" revenue from loyal customers and competitively superior products. The next best thing is revenue with a high level of probability. Both these types of revenue enable the CFO to put together operating plans based on solid calculations of their risk-adjusted Net Present Value.

Much of the work of the CMO exists in the zones of Possibility and Potential where the future, profitable revenue of the business relies on numerous, compounding factors over the time it takes to move a customer from initial contact to signed contract.

So, what should the CEO do to harness this CFO-CMO tension productively?

The CEO should encourage the CFO and CMO to collaborate on the appropriate allocation of resources across the sow, grow and harvest activities of marketing.



The marketing budget should be explicitly defined in terms of the combination of activities and tactics that, depending on the state of the market, existing customer preferences and competitive intensity, deliver the following combination of cash flows:

> **Predictable** - Activities that are essential for supporting the core, recurring revenue of the business
>
> **Probable** - Activities that prior experience shows to be effective in attracting new customers with a high level of certainty
>
> **Possible** - Activities that unlock new revenue opportunities for the business through incremental innovation in the product, its distribution, its pricing, or its market positioning

Potential - Activities that are stretch goals (maybe even "moon shots") for the organization but which offer the potential to introduce a revolutionary innovation that disrupts the category or even creates a new one

Seen through this lens, the value chain of Marketing is the process of investing in the combination of activities that create the potential for profitable revenue, then nurture this into possible and probable value, then lock in the value as predictable, profitable revenue.

This explains why **investing all your marketing resources in "performance marketing" is like a farmer eating their seed corn.** You are not creating demand – you are simply activating sales from two sources – opportunistic buyers; and buyers with a level of awareness and preference for your brand based on your investments in prior years. It means you will be well-fed in the short-term, but there will be no future harvest.

The path to sustainable, profitable growth (aka Creating Marketing Miracle$) depends on putting in the "hard yards' of investing in market, channel and customer development. It involves the CEO recognizing the need to invest in market opportunities that offer the potential and possibility of future success, but it lacks the revenue certainty that the CFO would prefer.

This process of Creating Marketing Miracle$ lays the foundation for a shared vocabulary and clarity around the key performance indicators that should be used:

For the CMO, the framework indicates how to express the contribution of marketing using "the language of finance"
This book covers topics such as the 4 Ps of Finance, the Math of Marketing, the concept of Intangible Capex, and Pricing Power as the definitive indicator of Brand Health. These provide the CMO with a way to present the marketing budget in a way that the CFO can evaluate on her/his own terms

For the CFO, the model provides a model for how customer value is created, not just monetized
We explain why Brand Health is an economic asset even if the accountants cannot put it on the balance sheet; how Brand Health acts as a multiplier on financial performance; and why it matters when a competitor consistently invests in brand building while your company does not

For the C-Suite and Board, the model provides a governance framework.
We put forward a set of questions to ask your senior leadership team about the strength and sustainability of the company's market performance, and the critical importance of Pricing Power as the indicator of this

For the CEO specifically, we offer a framework for aligning your CFO and CMO around a shared model of value creation

At the core of this Guide is the Marketing Miracle$ model: a simple and street-smart framework to help CEOs recognize the blind spot that may arise if their careers have not included any significant exposure to marketing and the associated danger of their organizations succumbing to "double CFO syndrome".

Getting to There from Here

Now we are clear about the destination, let's discuss the issues that a CEO needs to address to create the opportunity for Marketing Miracle$.

Top of the list is the sorry state of the typical relationship between the CFO and CMO.

The **Managerial Marketing-Finance Gap**, what academia has termed the **MMF Gap** for decades, is one of the most persistent and costly dysfunctions in business.

The MMF Gap is a road to nowhere.

The next chapter will help understand it better.

Chapter 2

The Managerial Marketing-Finance Gap

And the budget hell it creates each year again for everybody

Every year, the same ritual. Budget season. The marketing team prepares its deck. The finance team sharpens its pencils. What follows is rarely a conversation between equals. It is more often a negotiation between two parties who speak different languages, hold different assumptions, and distrust each other's motives. Every. Damn. Year.

Welcome to the stubborn Managerial Marketing-Finance Gap (MMF Gap).

Academic research has named and documented the concept for nearly 7 decades as one of the most persistent structural dysfunctions in corporate management.

The MMF Gap is not just a budgeting inconvenience. It costs companies market share, margin, talent, and long-term value. It promotes short-termism. It drives good marketers out, and it turns good CFOs into unwitting saboteurs of the very growth they are trying to protect.

The MMF Gap exists on three levels: 1) between functional marketing and finance teams, 2) between CMOs and CFOs in the C-Suite, and 3) between the marketing mindset and the financial governance priorities of the Board.

THE MMF GAP EXISTS ON 3 LEVELS:
FUNCTIONAL TEAMS, C-SUITE, AND BOARDS

"They just don't understand."

Each level reinforces the others. The result is systematic under-investment in brand building, a proven bad practice that undermines the long-term health of any firm. Systematic under-investment in marketing is a proven road to competitive decline. Companies that only invest in short-term performance marketing never develop a true customer base.

The Managerial Marketing-Finance Gap operates simultaneously at three levels, each reinforcing the others.

At the functional level, marketing teams and finance teams work in parallel silos, rarely sharing data, metrics, or objectives. Marketing optimizes for brand KPIs that finance does not understand or trust. Finance optimizes for short-term P&L metrics that marketing finds reductive and damaging. Both are doing their jobs. Neither is serving the interests of the whole company.

At the C-Suite level, the tension between CMO and CFO has become structurally embedded. Academic research reveals that only one in ten CEOs has a marketing background, and only one in forty Board members. The concepts and frameworks of finance dominate the discussions in the C-Suite and the boardroom. Marketing is represented at the table only sporadically, and rarely in the room when the most consequential strategic conversations are taking place.

At the Board level, the governance framework is built around financial oversight, risk management, and operational compliance. Brand investment and intangible asset building are not part of the standard board agenda. Directors fulfil their duty of care, loyalty, and obedience to shareholders. However, the creation and protection of intangible assets only seldom features on the standard board governance agenda.

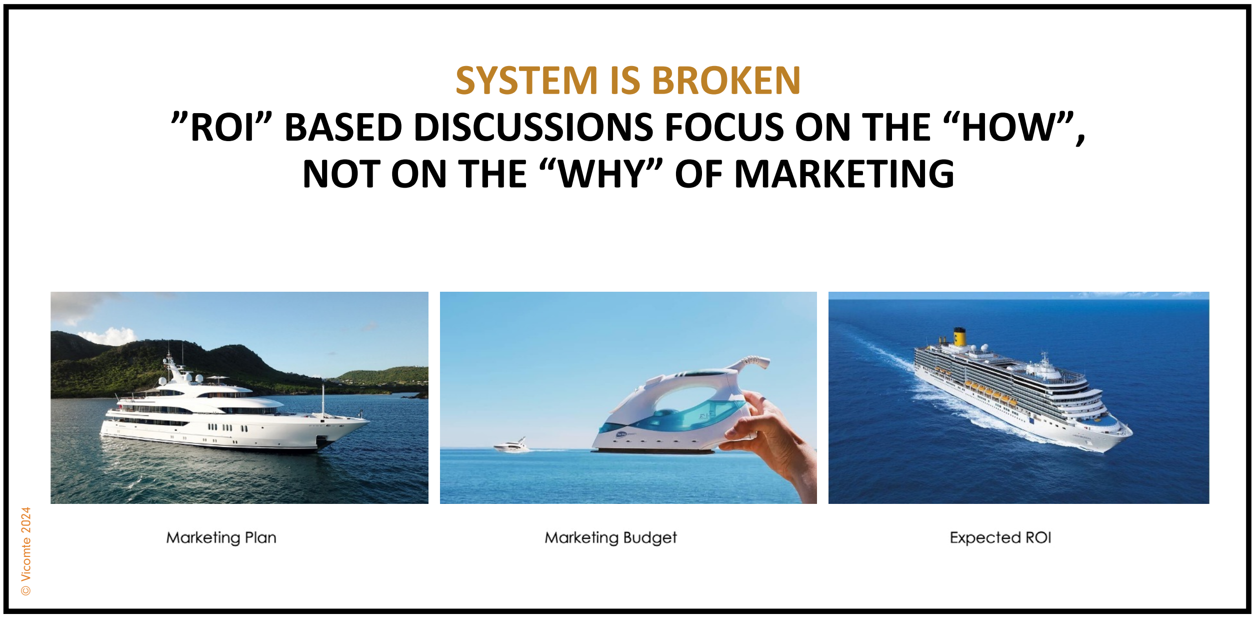
The CMO's Version of Hell

For the CMO, budget season is Dante's ninth Circle. Endless debates and iterations to justify the marketing budget. In[JK1] the post-covid inflation world, setting and justifying budgets is harder than ever.

Consumer behavior swings wildly. Economic anxiety reigns supreme. The meteor shower never stops. Inflation, tariffs, geopolitical disruption, AI revolution. Each one resets the conversation.

The CFO's first move is to protect the current P&L. The marketing budget, still regarded as a discretionary line item by most Boards, is the easiest thing to cut.

Many CMOs face near-impossible expectations: to create Marketing Miracle$ with only a fraction of the budget asked for:



As a marketer, you always have three options: love it, leave it, or change it.[JK2]

> **Love it (Freeze).** You accept the situation. You optimize under constraints. You find ways to make the best of the budget you are given. Not ideal, but often the pragmatic choice.
>
> **Leave it (Flight).** You believe the company has no interest in brand building. You look for your next chapter. There is no shame in this. But caution: the grass is always greener, etc.
>
> **Change it (Fight).** You believe that Brand plays an essential role in achieving sustainable, profitable growth. You are convinced you can educate the owners and management on what it takes to build brands over the long term, while delivering short-term results.

If you choose option 3, read on - this Guide is written to help you create common ground with your CEO and CFO.

The CFO's Version of Hell

Let's flip the picture. The CFO is also in the Pressure Cooker.

The modern CFO is squeezed from every direction. The Board demands growth but also demands discipline. The CEO expects ambitious targets and cost control simultaneously. Activist investors scrutinize every line of the P&L. Regulators add compliance layers. And interest rates, after a decade of near-zero, have snapped back so capital has a real cost again.

The CFO is always 'marking to market': every quarter, every board meeting, the business is being valued in real time. This pressure to deliver in the short-term means that the margin protection of today can become the market share loss of tomorrow. A CFO who cuts the marketing budget to hit Q3 earnings looks smart for one quarter, but may have handed the market to a competitor for the next decade.

Most CFOs are not naturally hostile to marketing. Many are genuinely uncertain about how to think about the value that marketing produces. Intangible assets (brand equity, customer relationships, pricing power) are not listed in the financial statements they were trained to read (see later in other chapters). The language marketers use ('brand health,' 'share of voice,' 'awareness scores', 'mental and physical availability') feels like a foreign dialect. It sounds like cost without proof of return.

In the absence of a shared framework, the CFO's rational response is caution. Cut what you cannot measure. Protect the margin you can see. This is not malice. It is asymmetric information — and it is the root of the MMF Gap.

The result of this stubborn MMF Gap: every level of the organization systematically undervalues the contribution of brand building to long-term enterprise value. So what is a CEO to do?

We argue the stubborn MMF Gap is driven by stubborn stereotypes feeding it. That is why the next chapter is all about a deeper understanding of the people whose work a CEO needs to integrate better. Let's get insight in what may drive the "warring tribes". Not just as professionals, but also as humans.

Chapter 3

Warring Tribes: CMO vs. CFO

Dual portraits, real stereotypes, and the divide they create

Marketers claim they are experts in understanding audiences. They may indeed be insightful about customers, but many are bad at understanding the most important internal buyer of their budget: the CFO. And CFOs, for their part, rarely invest any time in understanding what good marketers *actually* do; and *why* it matters to the financial performance that CFOs are responsible for.

In our workshops, we often kick off with a fun exercise. Simple visuals to expose people's perceptions and stereotypes.

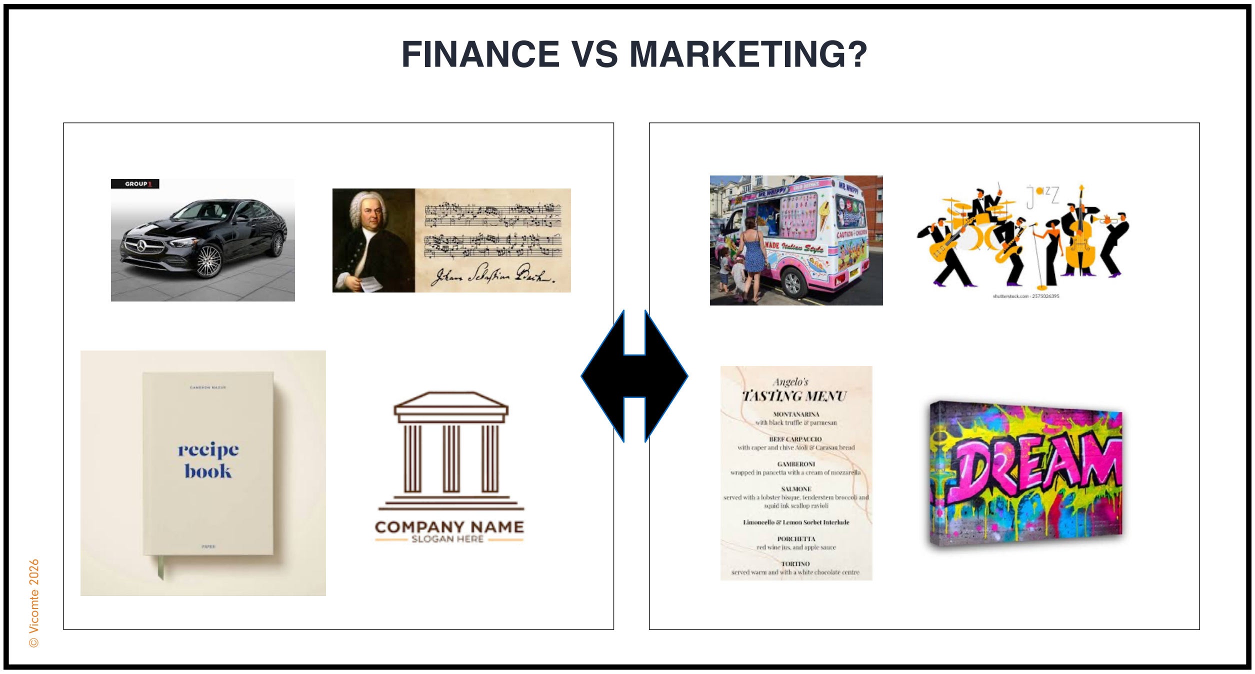
Here is the first laugh, Picture a CFO asking a CMO to describe their job.

Participants love this game. Let's do one more.

What if your function was a car? A music style? A kitchen? A building?

Finance: a solid black Mercedes	**Marketing:** the ice cream van
Finance: scripted mathematical Bach	**Marketing:** free style jazz
Finance: a rigid recipe book	**Marketing:** a chef tasting menu
Finance: builds boring temples	**Marketing:** allows self-expression

Try your own version. Fun and games guaranteed.



Finance tends to see marketing as the 'TikTok department': frivolous, wasteful, and resistant to accountability.

Marketing tends to see finance as the "bean-counters": rational, short-term, and lacking in imagination.

And then this insight pops comes up. Time and again, one hears this statement: "everybody can do marketing". Everybody (including the spouses and kids of board members) is allowed to have (and express) an opinion on "what the consumer thinks". On the product, on the packaging color, on the ads, on the events, on which media platform to sell, etc. Everybody is an expert – because everyone is a consumer.

Conversely, nobody outside Finance would ever dare to express an opinion on rearranging the P&L and balance sheet for fun. Or voice suggestions on how treasury management should be done. Or how GAAP or IFRS ought to really work.

Our key point: There is a deep knowledge deficit on both sides. Sun Tzu's most cited principle applies here with full force:

"Know the enemy and know yourself. In a hundred battles, you will never be defeated."
(Sun Tzu)

The caricatures are lazy. They cause real damage. The first step to closing the divide is to see the other side as it really is: a function under pressure, doing its best with the tools it has, and with its assumptions about what value creation means.

What follows are two portraits of a typical day in the life of the CMO and CFO, written with empathy for both, and ending with an honest map of where the objectives align, where they diverge, and how the stereotypes entrench the divide.

A Day in the Life of the CMO

The CMO's morning starts with brand health data, campaign performance dashboards, and an agency briefing on the new brand platform. Before lunch, there is a marketing leadership team presentation on the Q3 marketing plan, giving rise to subsequent tough conversation with the digital team about declining social reach. In the afternoon: a talent review with HR, a media planning session with the agency, and an hour lost to an emergency rebrand request from sales, who have decided to change the product packaging.

The CMO is juggling multiple time horizons simultaneously. Short-term sales activation, medium-term brand equity building, and long-term strategic positioning. Their mental model of customer value creation is multi-dimensional, non-linear, and deeply contextual. A brand campaign that is being criticized for producing zero immediate sales lift may be building the pricing power that delivers the company's margin in year three.

What does the CMO fear? Being seen as a cost center. Not be taken seriously by the C-Suite. Being misunderstood by people who reduce the richness of marketing to 'TikTok and awareness scores.' Being the last person in the C-Suite to hear about a strategic pivot that will require the brand strategy to be rebuilt. And, deeper than all of these: being unable to prove, in the language of the CFO, why their work matters.

What does the CMO need? Colleagues who appreciate the basis for Marketing Miracle$. A shared model that explains marketing's contribution to sustainable business success.

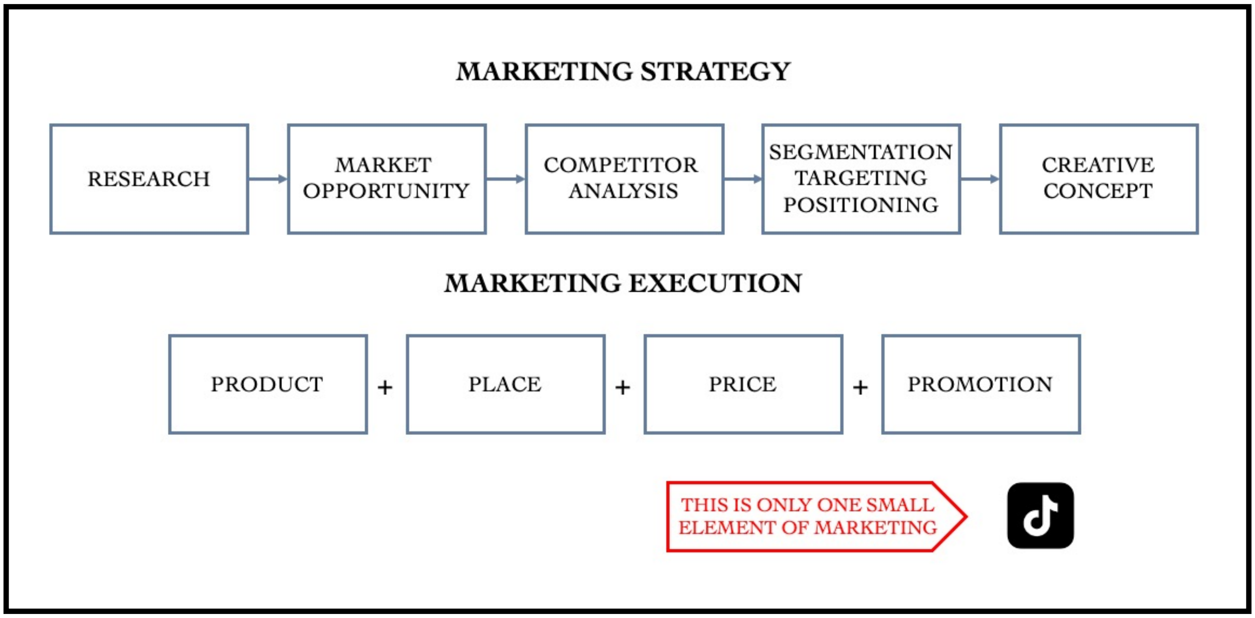
What Finance Thinks of Marketing

Ask a room of CFOs what 'marketing' means and you will appreciate the scale of the MMF Gap.

Research shows that 92% of senior finance executives associate marketing primarily with digital marketing, and 86% associate it with advertising. Only 29% see marketing as responsible for Product. Only 25% see marketers as having a significant role in Pricing. Only 7% expect marketers to think seriously about Distribution & Sales (Place).

To stereotype in today's day and age of social media: marketing = TikTok. This is not what marketers want to hear but it is the perception marketers have allowed to develop, especially over the two and a half decades since the digital revolution began. By obsessing over every new communications channel and relying on digital-supplier-provided vanity metrics, marketing ceded its strategic credibility.

The result: **the CFO sees marketing as a cost to be managed or optimized via AI, not as an investment in future cashflow.** It is natural that, when the CFO faces a cash shortfall, the marketing budget is the first to be cut.



A Day in the Life of the CFO

The CFO's morning starts with the overnight treasury report, a call with the investor relations team about the upcoming earnings release, and an unscheduled conversation with the CEO about a supplier who has raised costs by 12% due to tariffs. By mid-morning, there is a budget review with two division heads, both of whom have submitted requests for incremental investment. These will require either reducing the overall earnings forecast, or cutting expenses somewhere else.

The CFO is the guardian of the company's financial integrity. Every decision they make is evaluated against a rigorous framework of risk, return, and capital allocation efficiency. Their job is to ensure the company can meet its obligations, fund its growth, and deliver on the commitments made by the management team to the Board, and the expectations of investors. The vocabulary is EBITDA, cash conversion cycles, net working capital, WACC, NPV. The time horizon is the quarterly report and the annual budget cycle, with one eye always on the long-term credit rating and P/E multiple.

What does the CFO fear? Being caught off-guard by an unanticipated expense. Being unable to explain to the Board why a major investment produced no return. And, most acutely in the current environment, being caught between a Board demanding growth and a P&L that can only support it through a level of brand investment that current metrics cannot justify.

What does the CFO need? Confidence that marketing investment is genuinely different from marketing expense. Proof that brand equity translates into pricing power that will be reflected in the income statement. A metric they can track, that is visible to investors, that connects the intangible work of the marketing department to the tangible outcomes the Board cares about.

What Marketing Thinks of Finance

The marketing team's view of finance is equally jaundiced. **Finance are the spreadsheet junkies.** The people who approved the acquisition of three companies but won't sign off on a brand tracking study. The ones who celebrate cost-cutting as strategy and miss the point that you cannot cost-cut your way to growth.

There is a kernel of truth in every stereotype. But what marketers often miss is that the CFO is operating under genuine constraints, not just ideological ones.

They are accountable to investors who demand returns in a specific timeframe. They are responsible for a capital allocation framework that requires measurable inputs and outputs. They are not being obtuse. They are asking the same question in every budget meeting: 'How can I be certain that allocating resources this way will generate an attractive return?'

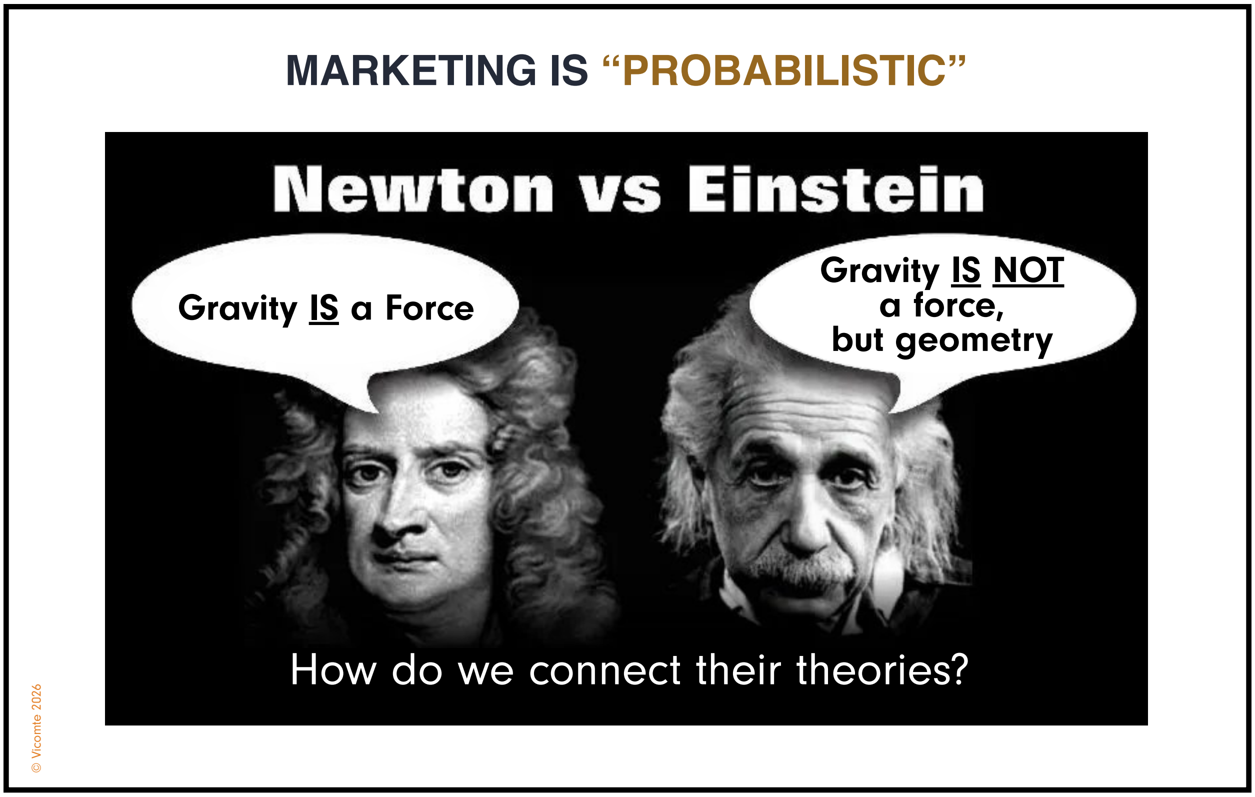
The tragedy is that marketing usually has the basis for the answer to that question but fails to express it in a language the CFO understands. So, instead, the CFO asks about ROI and the conversation devolves into a discussion about short-term sales or channel efficiency not overall marketing effectiveness.

Stereotypes entrench the MMF Gap

Newton and Einstein both had a theory about gravity. One was deterministic, the other one probabilistic. Finance is like Newton. Marketing is like Einstein.

Newton viewed gravity as an invisible attractive force acting instantly across space. Einstein's General Relativity defined gravity not as a force, but as the curvature of spacetime caused by massive objects, dictating how things move. Gravity is geometry.

Einstein proved to be more fundamentally 'right' conceptually but both are valuable for everyday use. Einstein's complex equations simplify down into Newton's mathematical laws when speeds are slow and gravity is weak. Scientists use Newton for simple tasks like calculating rocket trajectories, and Einstein for highly precise technology like GPS.



The world needed/needs both Newton and Einstein. Yogi Berra would approve of taking both forks in the road.

The question is whether the CEO and Board do.

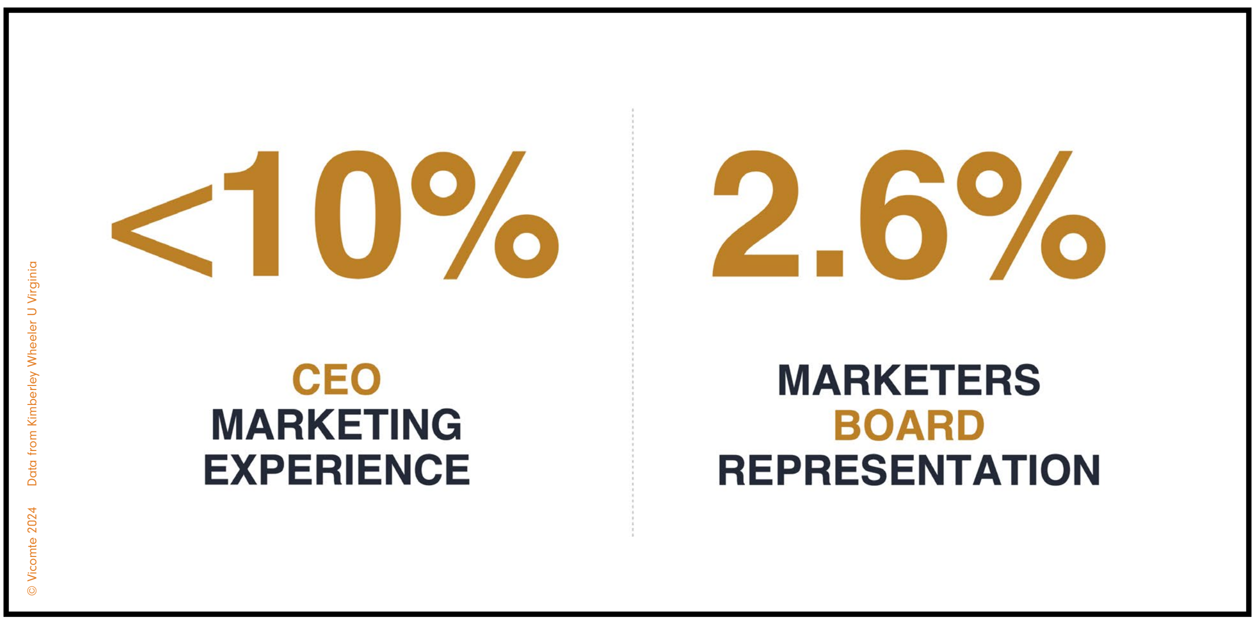
Chapter 4

Double CFO Syndrome

The origin of the MMF Gap

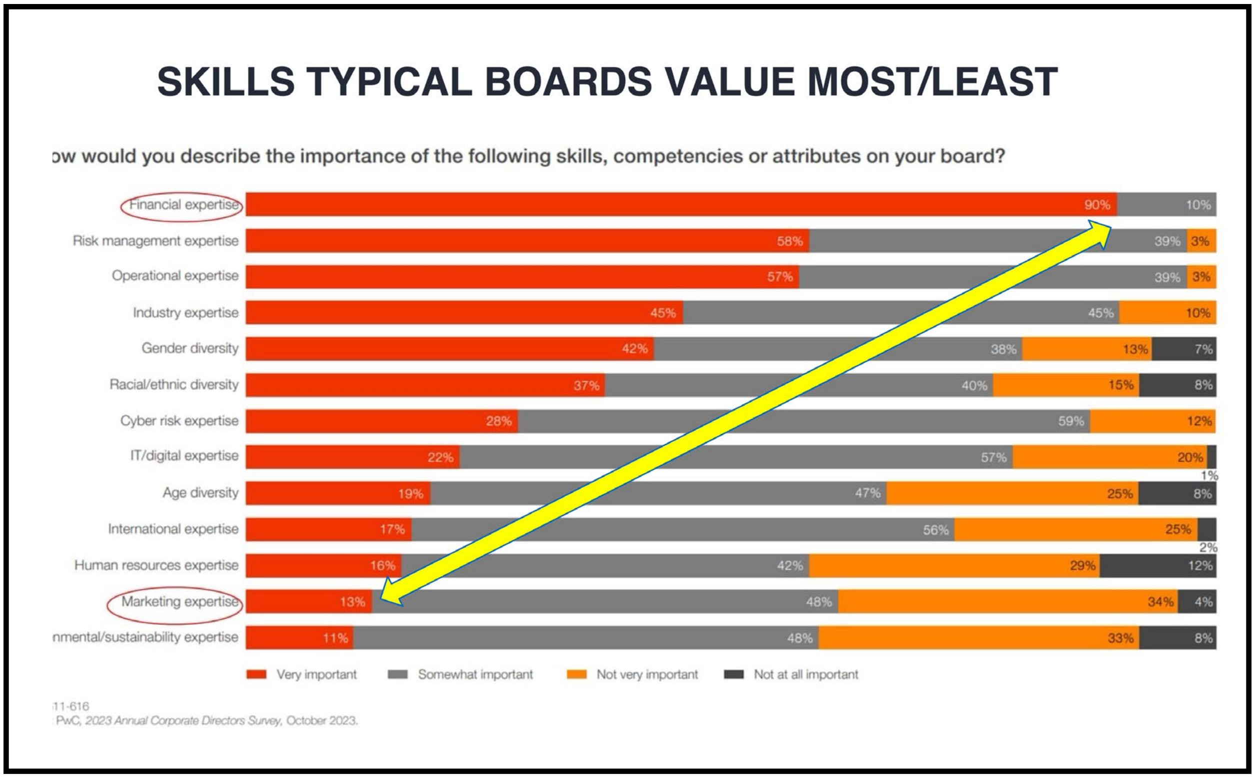
Given the clear difference of perspectives from the CFO and the CMO, the business would benefit from an integrative view. But this rarely happens because many CEOs and their Boards are unaware of their strategic blind spot: their lack of understanding of the fundamentals of customer value creation.

Academic research has revealed a striking fact: at best one in ten CEOs, and only one in forty Board members, comes from a marketing background. This is not a recent development. It reflects decades of structural choices about which functions are seen as producing the most measurable, directly attributable value.



Research from PwC documents the skillsets most prevalent in boardrooms: financial expertise, risk management, and operations. Marketing ranks at the bottom, just above sustainability. Boards are filled with former CEOs, COOs, financial and legal experts, and the occasional academic. They understand value from the Inside perspective of the business model. They rarely understand value from the Outside perspective of the customer.

The chart below shows the skills and competencies typical Boards tend to value most, and least. Finance on top. Marketing close to the bottom.

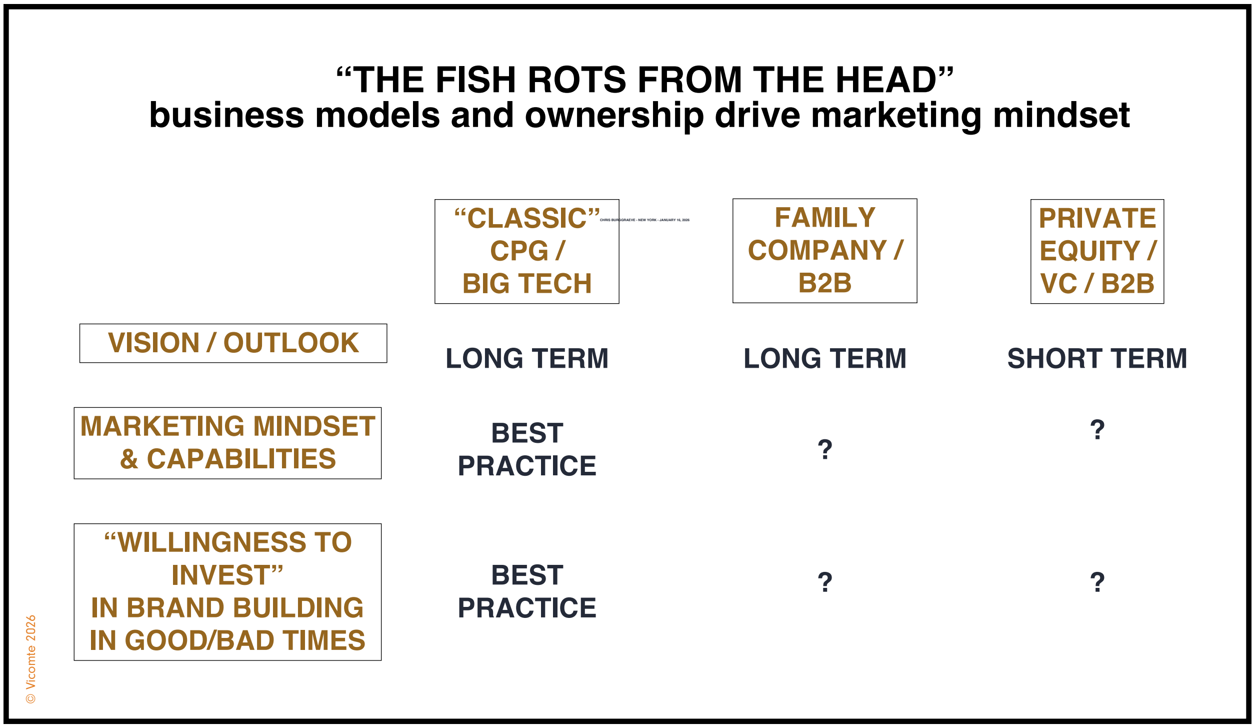


This creates a fundamental asymmetry. When the CMO walks into the boardroom to present their budget, they are presenting to an audience that does not share their basic assumptions about how value is created. The burden of translation falls entirely on the CMO.

"Double CFO Syndrome": when the CMO faces not one, but de facto 2 CFOs.

Few companies outside the CPG (Consumer Packaged Goods) and Consumer Tech industries think as long and hard about Brands as P&G, Unilever, Coca-Cola and AB InBev, or Amazon, Apple, Google and Microsoft.

These companies are the source of most university marketing training, most marketing case studies, most conference awards, and many career dreams. However, most companies simply do not have that level of marketing understanding in their C-Suite and boardroom. They lack the 'marketing mindset' DNA necessary to create Marketing Miracle$ and build brands with sustainable pricing power over the long term. They have a significant blind spot.



The problem tends to be more acute in the increasingly large number of companies owned by private equity or venture capital. The investment horizon of these business models is typically anywhere between 1-10 years. Most PE portfolio company CEOs, and therefore their CMO (if they have one), and their CFO (they always have one), need to optimize over the short term, not the long term.

The CEO is de facto a second CFO.

To be clear, we are not judging the value of the PE model. It is what it is. We have worked with some who understand very well how building a strong Brand improves the exit price due to the increase in the EBITDA/Revenue multiple. Prospective buyers value future cash flow. These select PE firms blend "CPG like" short- and long-term thinking.

Our advice to CMOs is just: "choose wisely". If you are a CMO at a CPG or leading consumer tech company who is contemplating a potentially more lucrative offer from a PE owned firm, think carefully about your cultural fit. Check the business model of the company you plan to work for. Check the true marketing mindset of the C-Suite and Board.

In short: check for "Double CFO Syndrome". Check whether you will be two against one, or a real success trio.

Boards Under Pressure: The Human Reality

A word about the Board. Board service is hard. It requires members who can guide a company not only in good times, but especially in bad times. The proverbial buck stops at the board level. Value creation is difficult. There is never a dull moment.

It is essential for marketers to understand some basic board governance principles:

1) **duty of care**: making all reasonable decisions to protect the company's interests;

2) **duty of loyalty**: always acting in the best interests of the company, never for personal gain:

3) **duty of obedience**: respecting the limits of the board's power and keeping the company on course toward its stated mission.

These are not bureaucratic abstractions. They are the lens through which every board decision is made, including decisions about marketing budgets.

When a board approves a large marketing investment that produces no immediate visible return, someone in that room will be asked to justify the decision. This is why the CFO's or CEO's caution about marketing spend is not simply ideological. It is partly legal. And why CEOs need to ensure their CMO speaks the language of the board.

Before we move into solution mode, there is another inconvenient truth that the CEO and the Board need to confront: the key drivers of value are no longer tangible assets, but *in*tangible assets.

Chapter 5

Intangibles are the new Tangibles

Why Intangible Assets matter to C-Suite and Boards

If a business is to generate sustainable, profitable growth, it needs a strong collection of assets as the "factory" for generating this growth. Historically this meant owning a lot of physical assets in the form of land, buildings, and machinery. Now it means having a powerful combination of capabilities, knowledge, and relationships.

Look back 60 years and the five most valuable companies in America were notable for the scale of their physical assets: 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. What they have instead is powerful capabilities, knowledge, and brands.

We argue that the resource base of a modern business consists of three types of capital:

What it owns (tangible capital): Equipment, machinery, buildings, vehicles, inventory, land, cash. The financial statements do a good job of recording these. You can touch them.

What it knows (intellectual capital): Patents, software, R&D, trademarks, copyrights, processes, licenses, and trade secrets. You can sense their importance, but you cannot touch them. Combined with physical capital, they produce the products and services that offer an attractive value proposition to target customers.

Who it matters to (relationship capital): The relationships and partnerships the business has created with customers, suppliers, distributors, regulators – and its employees. As noted by Felipe in his foreword, a company's culture is a true intangible asset because it determines how employees act when nobody is looking. The quality of your internal and external relationships define whether these is a preference for doing business with your company. The meaning and emotions embedded in these relationships are what turns your business and its products into Brands.

Three Real-World Examples

To bring to life these three types of capital, consider three companies.

IKEA owns furniture stores you can walk around in (tangible capital). They also have restaurants where you can eat the famous Swedish meatballs: a physical experience that builds a special level of customer intimacy few other furniture stores offer (relationship capital). And they have developed an entire ecosystem of design knowledge, logistics systems, and the beloved 'Democratic Design' philosophy — intellectual capital that allows them to deliver design at a price point no competitor has fully cracked.

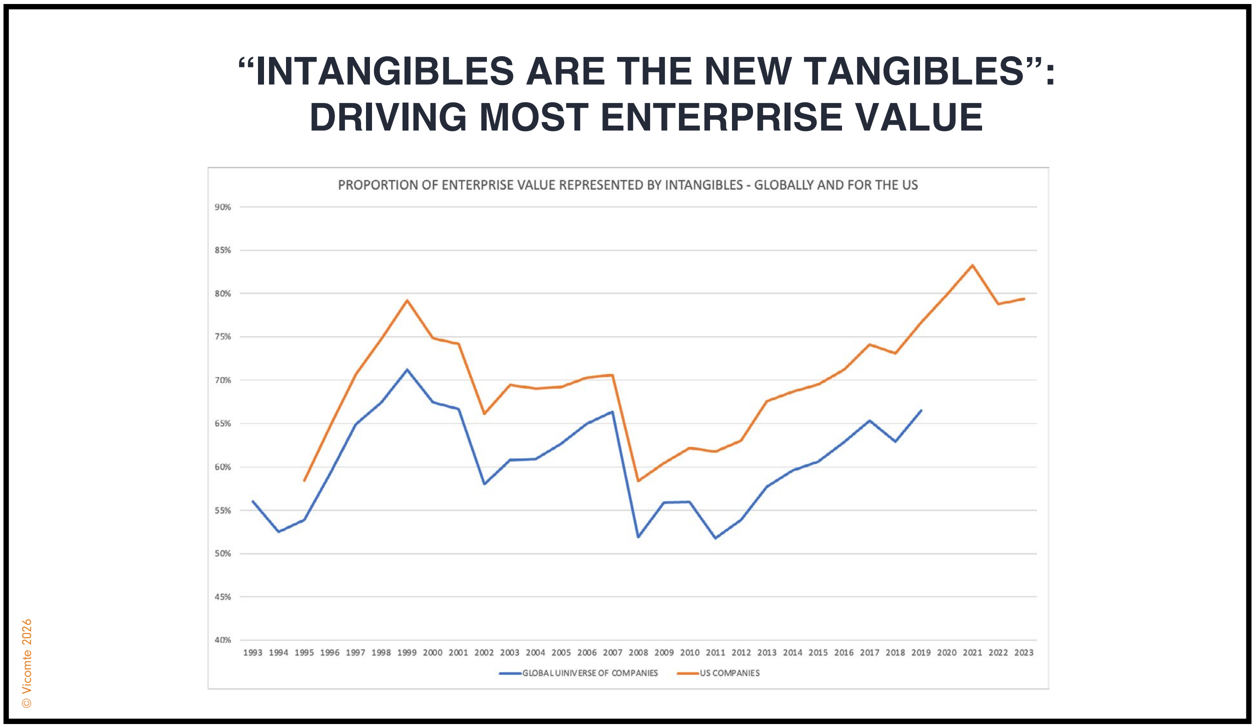
Booking.com and Spotify have almost no real tangible assets other than offices and computers. They have built distinctive knowledge and technology platforms (intellectual capital) and established special partnerships with the hospitality and music industries (relationship capital). Their brand is their primary asset: the thing that determines whether travelers and music fans choose them over a functionally equivalent alternative.

Disney creates business models that weave together physical assets (theme parks) with distinctive intellectual property (Star Wars, Marvel) to create unforgettable customer experiences ('Where Dreams Come True').

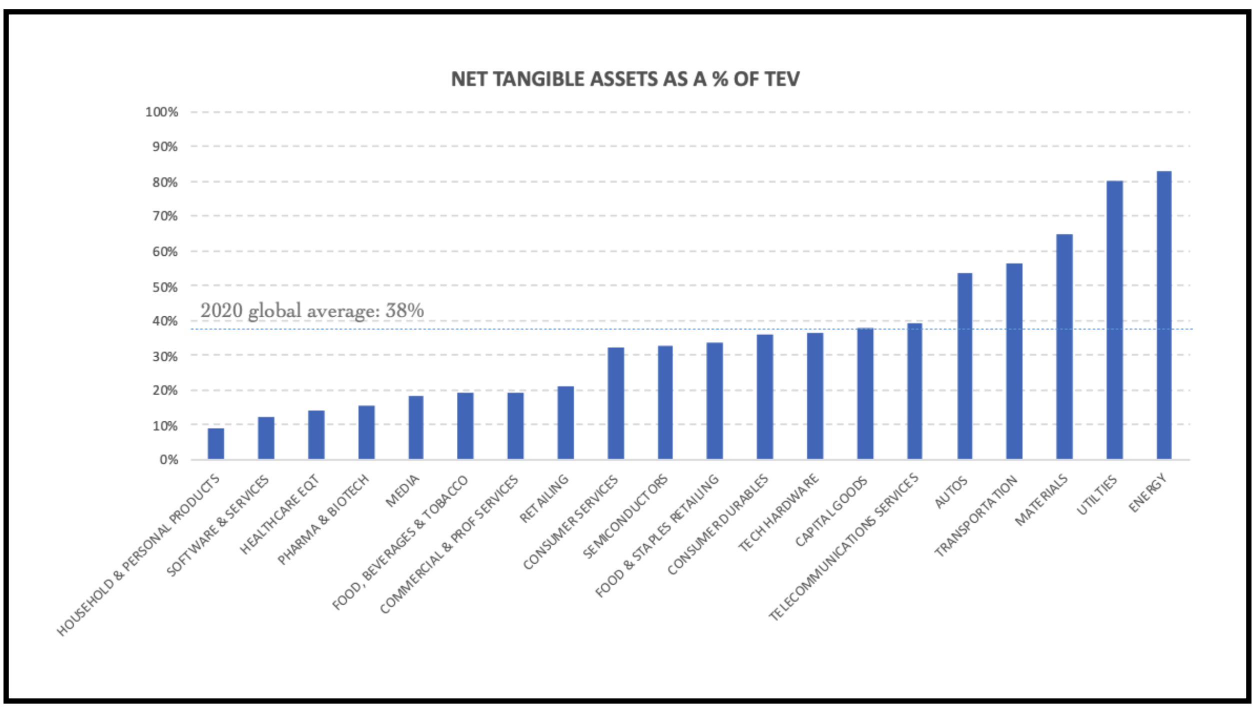
The value of these companies relies on a system of complementary assets, which is why accountants argue that only "separable" assets can be valued on a standalone basis. The relationship capital built through consistent investment in customer experience, quality, and emotional resonance, acts as a multiplier on everything else. This is what the CMO builds. It is what the CFO is responsible for protecting. It is what the CEO is accountable for nurturing over time.

Intangibles have overtaken Tangibles as the Drivers of Value

Intellectual capital and relationship capital now account for 70% of global corporate value, and approximately 80% of corporate value in the United States. Let that sink in. Physical assets now represent only one fifth of the value of US companies.



At the industry level, consumer goods and technology companies occupy one end of the spectrum in terms of their reliance on intangible forms of capital rather than physical capital while energy companies and utilities sit at the other end.



Why This Creates Board Anxiety

The average age of a Board member is in the low 60s. Most grew up in a tangible world. They are comfortable with what they can touch and feel. CFOs and CEOs, as well as Wall Street, are more confident when assessing tangible assets. The current tariff war started by President Trump is, at least in part, an attempt to bring more tangibles back to the US. Tangible assets are reassuringly real. Intangibles seem insubstantial by comparison.

Boards and management wrestle with understanding how intangible assets are defined, measured, and valued. 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 the true value of the intangible assets a company owns can be observed. The excess of the acquisition price over the book value of the acquired business indicates the value of these intangible assets.

Most board members recognize, however, that it is their fiduciary duty to build and nurture intangible assets. They know that these assets represent the intellectual and relational components of the company's business model. In combination with its physical assets, they form the system responsible for creating sustainable and growing returns for shareholders and all other stakeholders.

They recognize that – from a strategic management perspective - investments in R&D, talent development, and Brands should be viewed as "intangible capex" rather than current expenses no matter what accounting conventions require for reporting purposes.

Chapter 6

Now What? The CEO's Agenda

What only the CEO can do

We have noted that getting to the CEO position typically involves acquiring deep mastery of one of the key functions of the business. But we have argued that being a successful CEO involves understanding the entire system of value creation.

Let's recap on how we have framed the key challenges that only the CEO can address:

A. To unite the realities of the Inside and Outside

B. To combine effectiveness of outcomes with efficiency of operations

C. To identify the key resources that are the "factory" of the business

This marks the transition point in the Guide where our focus shifts from understanding the challenge, to addressing it.

In the following chapters, we frame the agenda of the CEO as follows:

1. To create a Shared Understanding of Value in the C-Suite
2. To explain the Math of Value to their CFO/CMO
3. Why to promote Pricing Power as an enterprise-level priority
4. To invest in Pricing Power, in good times and in bad times
5. To create Marketing Miracle$, by becoming a Pricing Power Champion

Chapter 7

A Shared Understanding of Value

Integrating the Inside and the Outside

We now turn to the integrative view that brings together the Inside and the Outside. We visualize this in a framework for managing the tension between value creation for customers and value capture for investors, over both the short- and long-term. In other words, a model of the process for how cash flow can be sown, grown and harvested.

George Bernard Shaw is credited with observing that "England and America are two countries separated by a common language".

The same might be said of Marketing and Finance because they use many of the same words – equity, security and leverage – but mean different things.

Nowhere is this difference more important than in the concept of value.

> **For marketers, value is a <u>customer</u> concept**. It represents the ratio between the perceived benefit that a product or service offers to the customer and the price being charged. Value is defined by the customer.
>
> **For finance people, value is defined from the perspective of the <u>producer</u>**. Value is created when revenue exceeds the total costs of making and selling the product or service. Value is a measure of internal efficiency.

The magic happens when the **CEO insists on the integration of the two concepts of value**. For sustainable, profitable growth to occur, both versions of value creation need to be satisfied:

CMO VIEW	CFO VIEW	CEO VIEW
Outside (Customer)	Inside (Firm)	Integrated

$$\frac{\text{CUSTOMER BENEFITS}}{\cancel{\text{PRICE PAID}}} \times \frac{\cancel{\text{PRICE RECEIVED}}}{\text{ECONOMIC COSTS}} = \frac{\text{CUSTOMER BENEFITS}}{\text{ECONOMIC COSTS}}$$

Marketers provide the **consumption** perspective – what benefits customers are seeking, and at what price (plus how this compares to alternatives). Finance understands the **production** perspective – the costs involved in producing the products and services that will deliver the desired benefits. **Neither discipline has the complete picture**.

This means that marketers have an obligation to understand enough about the cost and margin structure of their businesses to be able to identify how to deliver profitable growth. And Finance needs to accept that there is such a thing as "good" costs (ones that deliver a benefit for which the customer is happy to pay a premium) and "bad" revenue (opportunistic sales at low margin that undermine pricing power and dilute the integrity of the brand).

The consumption and production concepts of value are interdependent because the price paid by the customer is the revenue received by the business (that is why there is a strikethrough in the chart above). The equation for a successful business therefore collapses down to optimizing the ratio between the delivery of customer benefits and the costs of doing so.

If you focus too much on the benefits to the exclusion of costs (the typical error of marketers), then the business tends to fail quickly. But if you focus too much on costs to the exclusion of benefits (the typical error of finance), then the business may do well in the short-term before demand collapses.

Neither the CMO nor the CFO can run the company alone.

FINANCE WITHOUT MARKETING?

A PERFECTLY ENGINEERED PRODUCT NOBODY WANTS

MARKETING WITHOUT FINANCE?

A BEAUTIFUL STORY THAT GOES BANKRUPT

It requires the CEO to recognize that the conflict between the CFO and CMO is because each is trying to maximize their respective value ratio. The CMO wants to "win" with customers; the CFO wants to "win" with investors.

The CEO needs to remind each of them that the interests of the business are best served when Marketing and Finance collaborate to optimize the ratio between the cost structure of the business and the scale of the benefits delivered to customers.

The CEO is the one that is responsible for ensuring that the business is performing well in *each* of the four quadrants of the box we showed in Chapter 1.

The short-term AND the long-term

The CEO's role in promoting an integrative view is vital given the time lag between investments and returns.

Both Marketing and Finance have well-developed mental constructs for the importance of both the present and the future, and how they relate to one another.

For the CMO, this is most obviously represented in the concept of the marketing funnel. "Creating a customer" is a process that begins with identifying prospects and nurturing them through a sequence of steps that leads to a sales transaction and to an ongoing relationship.

This customer journey takes time. The CMO is constantly balancing its spending between the "sowing" and 'harvesting" aspects of customer management – specifically, between focusing on reaping the returns from past investment in customers (charmingly referred to as "monetization") while also sowing the seeds of future customer relationships and the revenue they will generate months or years from now.

The CFO has similarly strong concepts of how to represent the present and the future – namely, the Income Statement and the Balance Sheet.

The Income Statement (and associated Cash Flow statement) show how the business has performed over the recent past (typically, the latest quarter or year) in terms of revenues and costs. NOPAT (Net Operating Profit After Tax) represents the residual profit that can be used to pay the investors who provided the debt and equity capital.

The Balance Sheet is the cumulative result of all the past transactions that the company has undertaken (although there are limitations which transactions get to be recorded, and therefore the completeness of the view provided by the Balance Sheet). In essence, these retained resources represent the "factory" for the generation of future revenue and profits.

For the CFO, this "factory" consists of the assets that appear on the Balance Sheet – the tangible assets like factories and cash.

The CMO considers the "factory" of the business to be the quality and endurance of customer relationships.

This difference of perspective explains why the concept of "performance marketing" was so attractive to Finance and detrimental to Marketing.

Performance marketing appeared to the CFO as a much-needed improvement in the efficiency of the operating model of the business – applying the same discipline to marketing as had already been applied to operations via lean manufacturing, TQM (Total Quality Management) and Agile.

And, for a while, performance marketing did deliver spectacular results in industries where customer purchases were spontaneous, discretionary, and driven by convenience and price. In other words, contexts in which transactions occur largely in the absence of relationships.

This focus on activities to drive sales among customers who were actively "in market" resulted in a systematic underinvestment by many companies in establishing preference and pricing power for the future, eroding the longer-term competitive position of the business.

The two forms of risk

Both the CFO and CMO agree that risk management is a critical component of how to manage the business effectively. They disagree on how much risk the business should take.

The CMO lives in a world of constant change – customers ageing into and out of their target segments; shifts in customer preferences; new competitors using new technologies and new channels as the basis for offering a superior value proposition to customers.

The CMO is responsible for ensuring that the awareness and salience of the company's offerings remain high among the target audiences to whom the company can offer distinctive value. The CMO is understandably paranoid because she/he knows that whatever got the company to its existing level of success is unlikely to be sufficient to sustain it going forward.

The CMO has no option but to embrace change and the risks it entails.

By contrast, the CFO lives in a world where annuities are highly prized – those "set and forget" investments that continue to generate predictable returns on capital year after year. Call them "strategic moats" or "structural advantages" (often a polite way to refer to "de facto monopolies" that the business has achieved through industry consolidation or regulatory capture), these are "assets" that effectively guarantee stable cash flows into the future.

The result is the CFO has in mind two different concepts of risk - beta and alpha.

> **Beta** is a measure of average risk and is used to determine the cost at which the company can raise capital. Beta is a central component of the Capital Asset Pricing Model (CAPM) that describes a linear relationship between risk and return.
>
> **Alpha** is a measure of excess returns: the degree to which a company exceeded the earnings that its beta would have predicted but creating or exploiting advantages.

The CMO needs to be aware of these two concepts of risk if she/he is to engage effectively with the CFO, especially when talking about creativity.

The willingness of a CFO to fund a marketing investment will be heavily influenced by whether the CMO is offering the "alpha" or "beta" version of creativity.

"Beta" creativity should be the priority of any budget discussion. It refers to all the actions taken by Marketing to ensure the business **at least maintains** the required levels of awareness and preference among target customers, ensuring that customer acquisition and retention continue at a rate that delivers predictable, enduring cash flows to the business.

"Beta" creativity is what category-leading brands use to refresh and reinforce existing Brand Health, to increase the levels of Predictable and Probable cash flow.

"Alpha" creativity is a key weapon for challenger brands that want to **capture market share** from the category leader. This is the type of creativity that dominates advertising awards like the Cannes Lions, generating creative impact and peer admiration, but too often does not translate into immediate business impact.

"Alpha" creativity aims to disrupt the market in pursuit of create Potential and Possible cash flow.

An excessive focus on disruptive creativity by the marketing industry has had the consequence that when the CMO says "creativity" what the CFO hears is "needless risk".

The CEO knows that the truth lies in understanding the appropriate context for an alpha or a beta approach. Sometimes the right thing is to maintain an existing strategy – and sometimes that is the riskiest possible thing to do.

Strategy is hard because it involves making difficult trade-offs regarding risk, timeframes, and the relative importance of the consumption or production perspective on value. The answer is generally "it depends" – so it is necessary for the CEO is establish a clear framework for the criteria being used to evaluate these trade-offs.

The starting point is the Math of Value.

Chapter 8

The Math of Value

The mechanics of how value is created and captured

Finance is the language of business. While the CFO may be the person most fluent in this language, it is the responsibility of all members of the C-Suite to achieve a sufficient level of proficiency so that they can participate in meaningful discussion about strategy. The CEO can support this process in two ways: promoting a common understanding of the Math of Value; and promoting the importance of Pricing Power.

For the CEO to harness the contributions of the entire organization, it is important to promote a shared understanding of the mechanics of how a business is valued.

The **Gordon Constant Growth Model** is a simple model for estimating the value of a company with a steady growth rate. The formula says that the value of the business can be approximated by dividing its profit by its cost of capital minus its growth rate:

$$\text{THE VALUE OF A BUSINESS} = \frac{\overset{\pi}{\text{FREE CASH FLOW } \textbf{(PROFIT)}}}{\underset{\beta}{\text{COST OF BORROWING } \textbf{(RISKINESS)}} - \underset{g}{\text{GROWTH RATE } \textbf{(GROWTH)}}}$$

This makes intuitive sense: 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, if you prefer, reducing the risk that they will not materialize).

Let's illustrate the dynamics of value via a series of examples. Let's start with annual profit of \$10, a cost of borrowing of 10%, and zero growth. As we show below, the value of the business can be estimated at 100 under these conditions:

WORKED EXAMPLE

$$100 = \frac{\overset{\pi}{10}}{(\underset{\beta}{10\%} - \underset{g}{0\%})}$$

If profits increase from \$10 to \$12, the value of the business rises to \$120

IF PROFITS INCREASE:

$$120 = \frac{\overset{\pi}{12}}{(\underset{\beta}{10\%} - \underset{g}{0\%})}$$

If profits fall to \$8, then the value of the business falls to \$80:

IF PROFITS FALL:

$$80 = \frac{\overset{\pi}{8}}{(\underset{\beta}{10\%} - \underset{g}{0\%})}$$

If profits remain at \$10 but the growth rate increases from zero to 2%, the value of the business rises to \$125:

IF GROWTH INCREASES:

$$125 = \frac{\overset{\pi}{10}}{(\underset{\beta}{10\%} - \underset{g}{2\%})}$$

Note that the value of the business rises by the same amount when growth stays at zero but the cost of financing the business becomes cheaper (e.g. due to a lower interest environment or investors reduce the rate at which they are prepared to supply capital):

IF THE COST OF CAPITAL FALLS:

$$125 = \frac{\overset{\pi}{10}}{(\underset{\beta}{8\%} - \underset{g}{0\%})}$$

The opposite occurs when money becomes more expensive to borrow:

IF THE COST OF CAPITAL RISES:

$$83 = \frac{\overset{\pi}{10}}{(\underset{\beta}{12\%} - \underset{g}{0\%})}$$

Knowing the Gordon Constant Growth model is not going to transform anyone into a corporate financier, but it does deepen their awareness of the three factors that cause the value of a business to change.

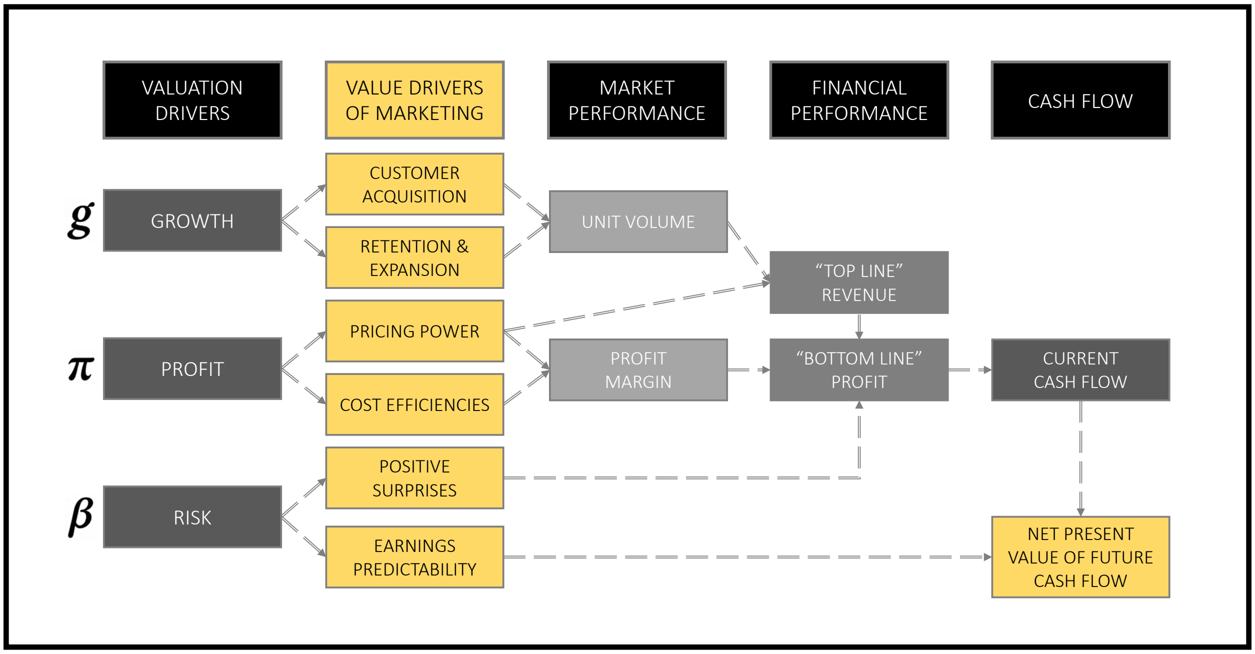
In particular, the Math of Value provides a way for the CMO to express the value of marketing in terms that the CFO understands.

By linking marketing actions to the three drivers of financial value, the CMO can explain the real-world variables that go into the numbers of the CFO's spreadsheet. In other words, how the Outside connects to the Inside:

> **Growth:** the combination of a) number of customers and b) their lifetime value
>
> **Profit:** the combination of a) price and b) cost
>
> **Risk:** the combination of a) earnings stability and b) positive surprises

Driver of Financial Value	Marketing Lever	Impact to Business
Growth	Customer Acquisition	Identify, attract and acquire new customers
	Customer Lifetime Value	Maximize the renewal and expansion potential of installed base
Profit	Customer Willingness to Pay	Increase customers' perceived value of brand offerings
	Supplier Willingness to Accept	Attract more favorable terms from suppliers and employees
Risk	Cash Flow Certainty	Improve the reliability and predictability of cash flows
	Alpha Generation	Use customer insights to maximize the probability of positive outcomes

For the CEO, these six factors give the business case for marketing investment, expressed in the language of Net Present Value that the Board understands and respects.



Growth Factor 1a: Customer Acquisition

There is a good reason why some CMOs are given the title of Chief Growth Officer (even if we are not a fan of this trend, if only because CFOs don't feel the need to change their title). In these companies, the CEO has determined that the number one responsibility of marketing is to drive customer acquisition.

Typically, this means the CMO's key responsibilities are for the Promotion and Place aspects of the 4Ps — ensuring the company and its products are top of mind and easy to locate in relevant purchase situations. In the language of the Ehrenberg Bass Institute, these companies are focused on high mental and physical availability.

Growth Factor 1b: Customer Lifetime Value

One-off sales are worth far less than recurring revenue relationships so successful businesses – especially in B2B markets with concentrated buyers – invest in attracting the right customers. In such companies, the CEO may define the CMO role in terms of a Chief Customer Officer because of the importance of understanding those customers to whom the company offers distinctive value and with whom an enduring profitable relationship can occur.

Profit Factor 2a: Pricing Power

The acid test of whether you are perceived to offer distinctive value is Pricing Power. In the next chapter we explain why Pricing Power is the key outcome that the CEO should expect from brand investment.

Profit Factor 2b: Cost Efficiencies

Pricing Power also works on the supply-side of the business by increasing the Willingness to Supply/Sell (WTS) among those who supply key inputs (whether as employees, partners, suppliers, or providers of capital).

We discuss this concept further in the next chapter on Sustainable Pricing Power.

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 keep earnings stronger for longer. He has referred to Brand as a moat and as a major reason for certain of his investments (Coca-Cola, See's Candies, Apple, American Express).

The more a brand is consistently chosen by its target audience, the higher the predictability of its revenues and the stability of its earnings.

As we discussed in the previous chapter, sustaining this dynamic requires the "beta" version of marketing creativity - the ability to keep a brand feeling fresh, relevant, and attractive to its existing audiences and new customers, year after year. This is power of "boring" brand consistency, refreshed regularly.

Think Mastercard ('Priceless'), Snickers ('You're not you when you're hungry'), and Cadbury ('There's a glass and a half in everyone'). Consistent management of a strong creative concept creates an enduring brand that reduces the risk premium in the Gordon Growth Model, lowering the cost of money by making future earnings more certain.

Risk Factor 3b: Marketing Creates Positive Surprises

The "alpha" version of creativity is designed to do the opposite. It aims to disrupt the current dynamics of the category so that a challenger brand can gain market share from the incumbents by being seen to offer new and distinctive value.

Think Chobani, Red Bull, Salesforce. Think Apple with 'A bicycle for the mind' and '1,000 songs in your pocket.'

This type of breakthrough generates the positive earnings surprises that investors love to see because they indicate that the company has found *unanticipated* ways to generate very attractive returns on capital.

Conclusion: Do You Speak the Math of Value?

One of the key tools for achieving alignment across the organization is for the CEO to promote a common language in which strategic decisions can be debated, and the financial implications evaluated.

The last two chapters have talked about two components of this common language – a shared Understanding of Value and the Math of Value. It is now time to discuss a third component – the enterprise-level significance of Sustainable Pricing Power.

Chapter 9

(Sustainable) Pricing Power

Warren Buffet's metric that unites the CEO, CFO and CMO

What is the best single measure of your progress in building a sustainable business? Warren Buffett, one of the world's most successful long-term investors, has given us the answer: "Pricing Power". This is where the worlds of the CEO, CFO and CMO truly converge.

Pricing Power represents the ability to raise prices, not just once, in a moment of market opportunity, but consistently over time, cycle after cycle, without losing customers to competitors. It is the proof that the brand has built genuine, lasting value in the minds of its customers. Value that can be monetized by the Sales team.

We have been asked many times where the idea came from. To be clear: we did not invent the concept. Neither did Warren Buffet. It has been around nearly 100 years. Our mission is simply to resurface it, as the most promising bridge to solve an old problem.

Pricing Power: A Brief History

Pricing power's academic **roots go back to the theory of monopolistic/imperfect competition** developed by Edward Chamberlin and Joan Robinson in the early 1930s. Working independently, they each showed how most markets sit on the spectrum between monopolies (where a firm can dictate prices) and perfect competition (where a firm has no control over prices). The implication was that most real-world firms face downward-sloping demand curves and have some latitude to set prices above marginal cost.

This idea was formalized by Abba Lerner in 1934 whose Lerner Index expresses the gap between price and marginal cost as a percentage of price. A price-taking firm operating in perfectly competitive markets has an index of 0 while the index for the monopolist is potentially unconstrained.

Pricing Power was initially regarded as an industry-level phenomenon that reflected the competitive intensity of the industry, rather than something that the individual firm could achieve. But that changed in 1962 with the hearings by the Senate Antitrust and Monopoly Subcommittee on the steel industry, and President Kennedy publicly calling out U.S. Steel over a price increase many saw as unjustified. Oligopolies and unions were seen as able to raise prices and wages somewhat independent of demand, making **"who has the power to set prices"** a live macroeconomic and antitrust question rather than just an abstract theory.

From there, the **concept migrated from the realm of public policy and into the realm of corporate strategy and investing.** Michael Porter's 1979 Five Forces framework provided not only a framework for diagnosing the intrinsic level of pricing power an industry but also a playbook for how the individual firm could enhance its own pricing power.

On the investor side, the most influential popularizer was **Warren Buffett**, who argued that pricing power was the single most important test of a good business, a framing (later tied to his "moat" concept) he cemented in his shareholder letters and in his **2010 testimony** to the Financial Crisis Inquiry Commission.

"The ability to raise prices without curtailing share or losing demand to a competitor."
(Warren Buffett on Pricing Power)

For the history buffs among you, here is a working reading list, grouped by lens:

> **Theory / Strategy Foundations**: Joan Robinson's *The Economics of Imperfect Competition* (1933) and Edward Chamberlin's *The Theory of Monopolistic Competition* (1933) are the original academic texts on why firms have latitude over price; Michael Porter's *Competitive Strategy* (1980) reframed that latitude as an industry-structure question (Five Forces); Bruce Greenwald and Judd Kahn's *Competition Demystified* (2005) simplified Porter's framework around barriers to entry and customer captivity as the real sources of durable pricing power.
>
> **Investing / Moats**: Warren Buffett never wrote a standalone book, but his *Berkshire Hathaway Letters to Shareholders* (compiled by Max Olson and others) are the primary source for the "moat"/pricing-power framing; Pat Dorsey's *The Little Book That Builds Wealth* (2008) is the most cited popularization of Buffett-style moat analysis for a retail-investor audience; Philip Fisher's *Common Stocks and Uncommon Profits* (1958) is a key source of inspiration for Buffett's philosophy of quality-over-price.
>
> **Pricing-as-a-discipline:** This is where Hermann Simon dominates. He's a German economics professor (University of Mainz, then Bielefeld) who left academia to found Simon-Kucher & Partners in 1985, now the world's largest pricing consultancy. His 1997 book *Power Pricing* is credited with introducing "pricing power" into the mainstream business vocabulary.
>
> His popular appeal is driven by the story-driven narrative of *Hidden Champions* (1996) and *Hidden Champions of the 21st Century* (2009) about mid-sized German companies that dominate niches partly through pricing discipline. More recent books include *Confessions of the Pricing Man: How Price Affects Everything* (2015)

and *True Profit! No Volume!* (2021) where he lays out his argument against managerial obsession with volume and market share.

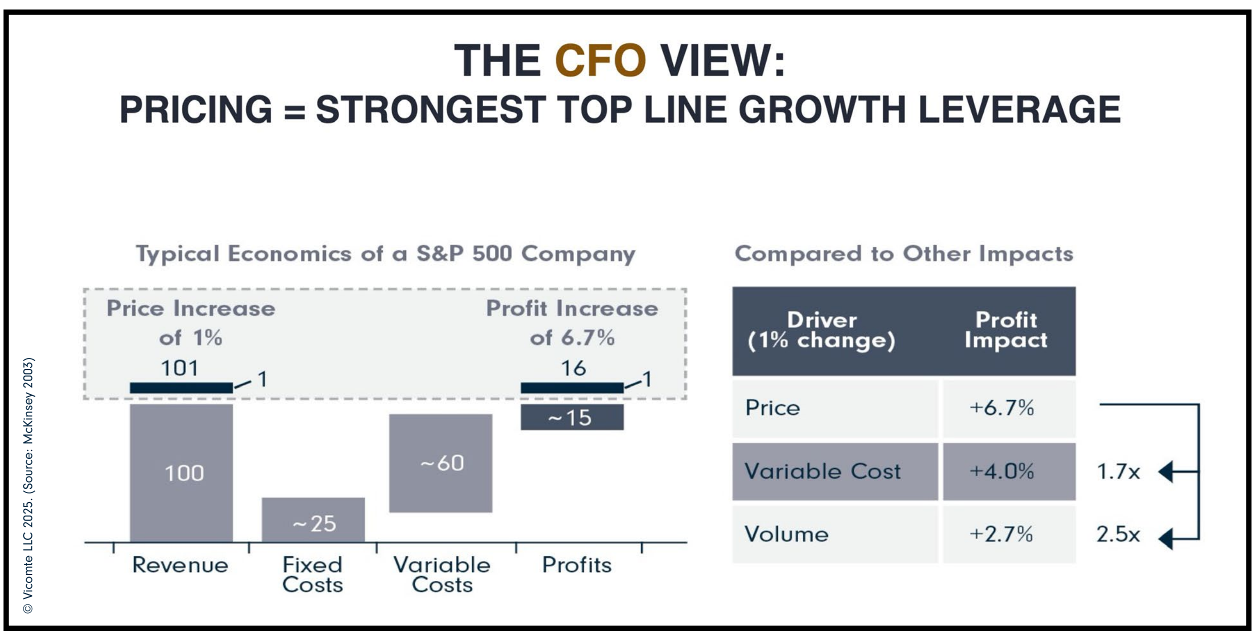
Thomas Nagle and Reed Holden's *The Strategy and Tactics of Pricing* (1987, now in later editions with Georg Müller and others) is the standard MBA textbook on value-based pricing.

Startups / Tech: We add Peter Thiel's *Zero to One* (2014, with Blake Masters) to the reading list because he makes pricing power central to his thesis that tech companies and startups should aim to become quasi-monopolies with real pricing power due to the differential value that they offer. He urges tech companies and startups to focus on how they can resist the drive towards commoditization (the "zero" in the title refers to the Lerner Index for conditions of "perfect competition").

Why Pricing Power Matters

Price is the least understood of the 4Ps in the Marketing Mix. Yet it is the single highest-leverage variable on the P&L. A CEO, CFO or CMO who do not understand the connection between brand investment and pricing (power) is missing one of the most important ways to increase business value.

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:



When a CMO defines Brand Health in a way that links directly to Pricing Power, they change the dynamic of the budget discussion, because the discussion now focuses on an outcome the CFO can touch and feel. It is what is on the invoice. The money that comes into the bank. The number that, multiplied by unit sales, produces the topline.

Measuring Pricing Power: Two Conditions

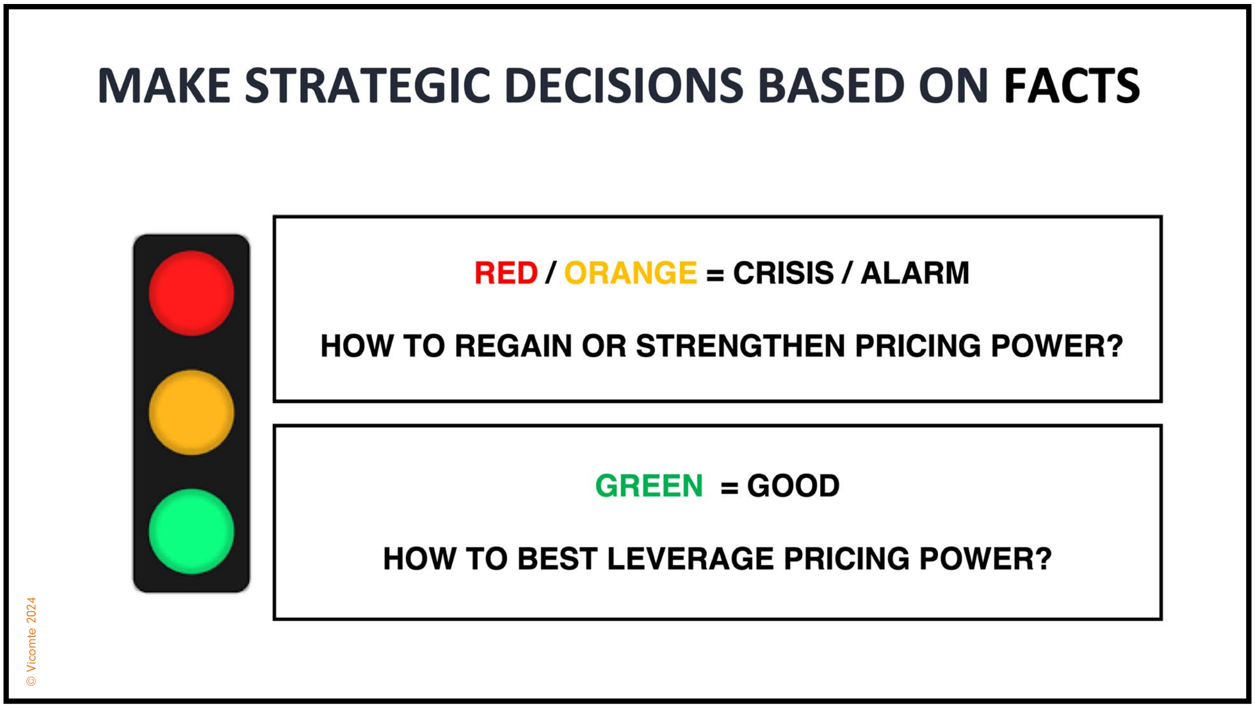
To measure true Pricing Power, Warren Buffet suggests one needs to test two conditions over a period that reflects the appropriate rhythm of business. For most companies, three years or three business cycles is the appropriate choice. We understand selling nuclear power plants every few decades, or cars every decade, is different from selling monthly subscriptions, or from selling milk every day, but the base principles tend to apply across categories.

> **The necessary condition:** Is your net price (post discounts, not gross price) on your key product or service in your key markets growing at or above your own input inflation? (Not just the country's average CPI, which can be misleading reference)
>
> **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.

Our recommendation to clients is to create a small task force between Marketing, Sales, and Finance, sanctioned by the CFO and CEO, to build simple spreadsheets with traffic lights: Red, Orange, Green.

> **Green:** How much, and where, do we need to invest in our Brand assets to keep this good thing going? Are we currently leaving money on the table? These are strategic discussions to have between Marketing, Sales, Finance, and the CEO.
>
> **Orange/Red:** Alarm or crisis. The Brand does not seem to have the required strength to sustain prices and margin. Did we invest enough in brand equity? Was our allocation between short and long-term optimal? What does the fundamental Value Proposition look like? Do we need new insights?



The resulting discussions will be illuminating. Emotions will run high. Expect heated debates, as the numbers may contradict certain long-held beliefs by certain functions. But this is where the rubber meets the road between the CMO and the CFO.

Pricing Power Impacts Top *and* Bottom Line

Creating Willingness to Pay (WTP) among customers is the demand-side aspect of Pricing Power. It demonstrates that the company has achieved a differentiated position in the minds of customers.

However, Pricing Power also acts on the supply-side by enhancing suppliers' **Willingness to Sell/ Supply (WTS).**

Harvard professor Felix Oberholzer-Gee visualizes the WTP/WTS dynamic as a "value stick" that depicts how WTP and WTS create the boundaries for the total amount of value that can be shared between the company, its customers and its suppliers.

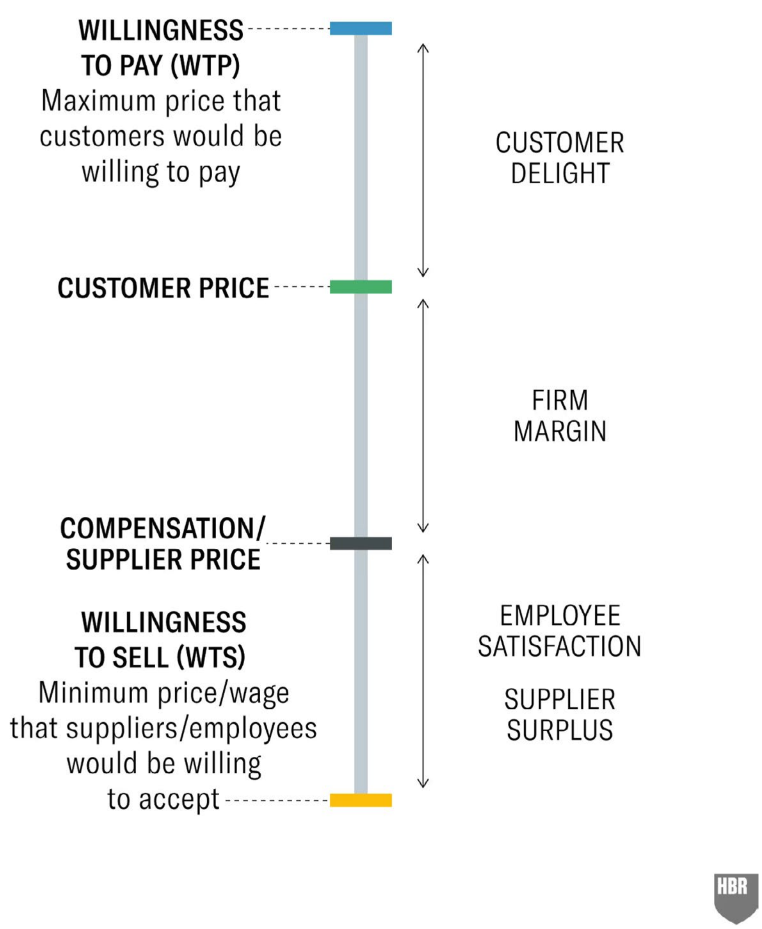
The supply-side opportunity to expand the margin opportunity takes various forms:

- Employees may join and stay longer at lower cost (stronger Employer Brand)
- Banks may offer lower interest cost for lower perceived risk of default
- Investors may pay more for shares, lowering the cost of equity

- Suppliers may accept better payment terms to get you as a client
- Customers may accept you as a reference supplier at lower marketing cost
- Regulators may accept lower risk-mitigation requirements

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.



The different members of the C-Suite all have their own set of KPIs. In the absence of an enterprise-level KPI, this may cause them to work in silos.

We argue that **Pricing Power is a unifying concept that integrates the agendas of the CEO, CFO, and CMO.**

It provides a common reference point for every significant management decision - How does this affect either the price paid by the customer to the company, or the price paid by the company to its suppliers?

Sustainable Pricing Power and Ethics

Just because you can increase prices does not mean that you should. Pricing Power has important ethical consequences worth debating at the C-Suite level. A company can easily damage its reputation by abusing its Pricing Power. Shareholders may love the short-term gains. But customers will defect if they feel exploited. And boards should care, because over time, reputations matter. Governments will regulate super-earnings.

The 2026 FIFA World Cup tournament that took place in the United States, Canada and Mexico, is a highly visible example of the ethics of pricing power, in a market defined by limited supply and massive demand.

Fans were in uproar because FIFA applied dynamic pricing to the tickets for the first time, resulting in eye-watering ticket prices for every seat. Unlike previous World Cups where prices were largely the same across games, FIFA figured out how to extract the full market value from the unique asset it owns and offers, rather than leaving this upside to scalpers and flippers who had previously profited from democratically priced tickets.

Strictly financially speaking, FIFA cannot be blamed for trying to extract all the value it can from its unique global asset, for the benefit of its limited set of shareholders: the federations of each nation.

Fans had a choice to buy a ticket or not. They could vote with their wallet. Well over 6 million did, out of a claimed global demand over half a billion people. FIFA leveraged their 'willingness to pay' successfully, pricing at/above perceived value for many. FIFA claims stadiums were 99.7% full for the 104 games – arguing that this vindicated dynamic pricing as the right policy decision for matching limited supply to the levels of individual demand for each match. The global TV viewing audience also had a choice: buy a subscription; or find a place to watch for free.

From a shareholder point of view, FIFA seemed to have scored a winning goal. From a broader stakeholder point of view, it possibly scored an own goal.

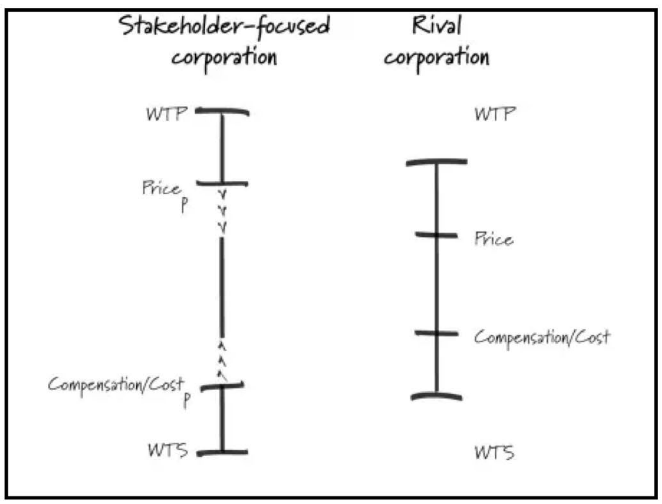
The 2030 World Cup will show whether dynamic pricing is a sustainable policy for FIFA when they face a very different political, cultural, media, and sports environment in Spain, Morocco and Portugal.

But FIFA provides a useful test case for the value of scarcity and the scale of the Pricing Power that results when there is excess demand for a limited resource.

It is a valuable lesson for every business – how do we create excess demand?

Professor Oberholzer-Gee's research shows that purpose-driven brands consistently demonstrate higher WTP and lower WTS. The margin potential of a company focused on building brands with a *genuine* relevant social benefit is structurally higher than that of a company focused only on short-term shareholder value.

THE BEST MARKETERS FOCUS ON SUSTAINABLE PRICING POWER.
PRICING POWER "AND" PURPOSE, NOT "OR". NO GREEDFLATION.

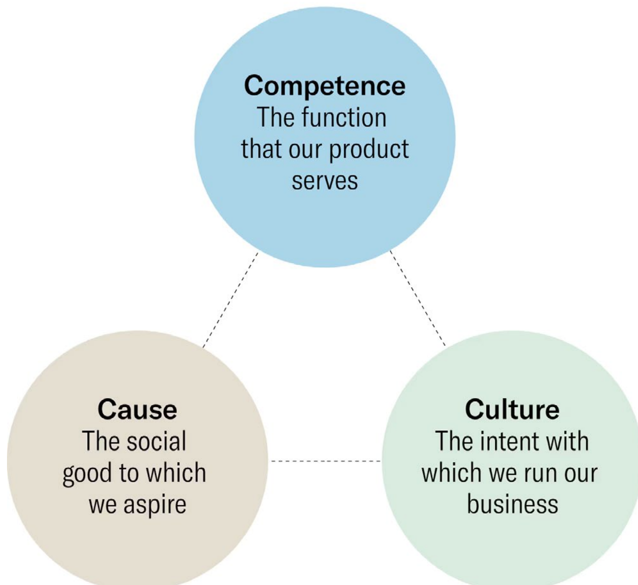


Purpose has had some bad press recently. Our view is that this reflects a fundamental lack of clarity about the role of purpose in business strategy. Specifically, the confusion caused by the confounding of "purpose" with "cause" – an error caused by the wildly popular but conceptually flawed book "Start With Why" by Simon Sinek (2009).

As explained in Jonathan's 2022 Harvard Business Review article "What is the Purpose of your Purpose?" our view is CEOs need to be aware that there three meanings of purpose. Only then can purpose be articulated in a way that is relevant to the context business, and an authentic expression of its identity:

The Three Senses of Purpose

Despite its elevation in corporate life, purpose remains a confusing subject of sharply polarized debate. A primary reason is that it can be understood in three distinct ways.



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As part of this, the CEO needs to consider the four business agendas that will be affected by the specific way in which the purpose is expressed:

Where Purpose Affects Your Organization

Purpose can have an impact on four business agendas. To determine what that is, ask yourself these questions.

DEMAND GENERATION
How can purpose increase consumers' preference for our products and services?

EMPLOYEE ENGAGEMENT
How can purpose strengthen the connection that employees feel to the work and to one another?

GOVERNANCE & SUSTAINABILITY
How can purpose help reinforce our reputation as a good corporate citizen and a strong ESG performer?

STRATEGY & BUSINESS VALUATION
How can purpose enhance our opportunities for profitable growth and reduce business risk?

Time to Create Marketing Miracle$

Not all brands have the unique pull of a World Cup, yet it is a great case for companies to reflect on the true pricing power of their own brand portfolio.

How much money might you be leaving on the table today? If you were to have unconstrained pricing power due to the uniqueness of your offering, how would you balance short- versus long-term pricing decisions, seen through the lens of all stakeholders?

There are hundreds of examples of this tension in our daily life; consider the recent increases of your various streaming services, insurance bills, grocery bills, utility bills, rental bills, education bills, etc.

Which Brands are doing it right, time and again? Which Brands do you (or did you) stop buying? Why?

What this illustrates again is the CEO's role in providing an integrated view that reconciles the tensions that otherwise threaten the alignment of the business.

Nowhere is this more important that in providing a framework within which the CEO lays out a clear hypothesis for what is required for Creating Marketing Miracle$.

Chapter 10
Creating Marketing Miracle$
How the CEO closes the MMF Gap

We have defined the CEO's role in terms of reconciling two major tensions. First is to deliver value to both customers and investors. Second is to deliver performance both now and in the future. Creating Marketing Miracle$ is the framework for doing so.

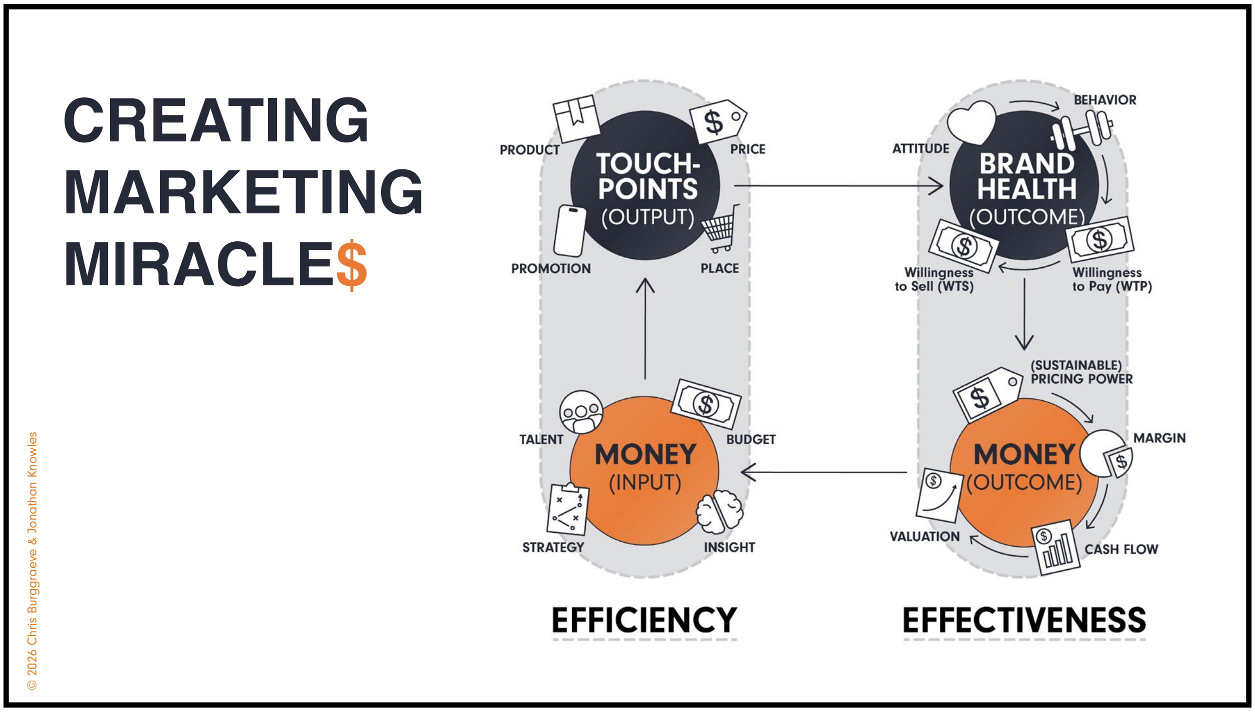
At its core, the CMM$ model rests on three interconnected insights.

1. **Marketing and Finance are siblings, not enemies**.
   They provide two perspectives on the same question — how does the company create sustainable, growing value? Marketing builds the demand-side of that equation (most notably through customer Willingness to Pay). Finance optimizes the supply-side and the capital allocation. They need to work together, not against each other.

2. **THE connecting metric between CEO, CFO and CMO is Pricing Power.**
   Pricing Power, per Warren Buffet, is the ability to raise prices without curtailing share or losing demand to a competitor. It is simultaneously the most important marketing outcome and the most important financial signal.

   It is the one KPI that both the CMO and the CFO can objectively track, debate, and agree on. It is concrete, measurable, and directly linked to the P&L.

3. **Sustainable Pricing Power is built through consistent, evidence-based investment in Brand Health over time.**
   It is not bought. It is not manufactured in a single campaign. It is earned, compounded through creative consistency, across stakeholders, and tested every time the company raises price and its customers/stakeholders say yes.



Four simple connected circles. Two on the left, the *efficiency* side. Two on the right, the *effectiveness* side.

The left side is about *input* versus *output*. The right side is about what truly matters: *outcomes* – some defined in terms of marketing outcomes (Brand Health) and some in terms of financial outcomes (sustainable pricing power, cashflow, margin and valuation).

The "$" sign in the model's title is the symbol of this alignment.

The dollar sign indicates that the outcome of all marketing investment should ultimately be measurable in financial terms. Not as a concession to the CFO, but because money is the language of business. Success is defined in terms of cash flow.

Marketing that does not improve the financial performance of the business over time is not good marketing. And finance that cuts marketing to preserve short-term cash flow at the expense of future cash flow is not good financial stewardship.

Creating a Shared Vocabulary Around Marketing Effectiveness

This guide has explained why anyone who aspires to be a CEO needs to have a vision for marketing **effectiveness** that goes beyond narrow arguments about the ROI of individual campaigns or channels (these are arguments about short-term **efficiency**).

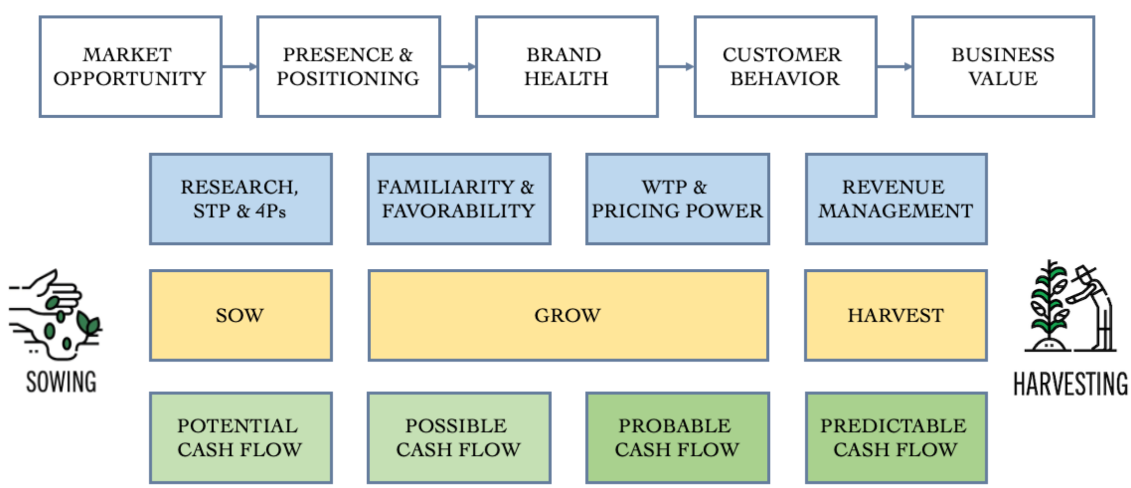
At the heart of this is clarity among the senior leadership team around Inputs, Outputs, and Outcomes.

As described in the Creating Marketing Miracle$ framework, these are as follows:

- In the bottom left circle, the money provided by Finance is the initial **input.** This money is used to fund Marketing's work on creating a strategy for customer value creation and monetization
- In the top left circle, the **output** from this work is observed in a marketing execution plan involving the efficient, coherent use of the 4Ps (Product, Place, Price, Promotion)
- In the top right circle, the **outcome** from this marketing execution plan is the creation of the desired awareness, preference and willingness to pay amongst target customers (Brand Health)
- In the bottom right circle, this Brand Health is evidenced through sustainable pricing power that delivers superior sales performance and delivers the predictable cash flows that are the required financial **outcome** of marketing effectiveness

The CMM model expresses the marketing value chain in financial terms so that the CFO can be confident that the CMO is serious about financial accountability.

Laid out sequentially, the CMM$ model describes the process used by the CMO for investing the funds provided in the budget. This process begins with identifying a strategic market opportunity (defined as one that offer the potential for sustainable, profitable growth) to "sowing" the seeds of future success through to the eventual harvest.



Chapter 11

Brand Health Today is Pricing Power Tomorrow

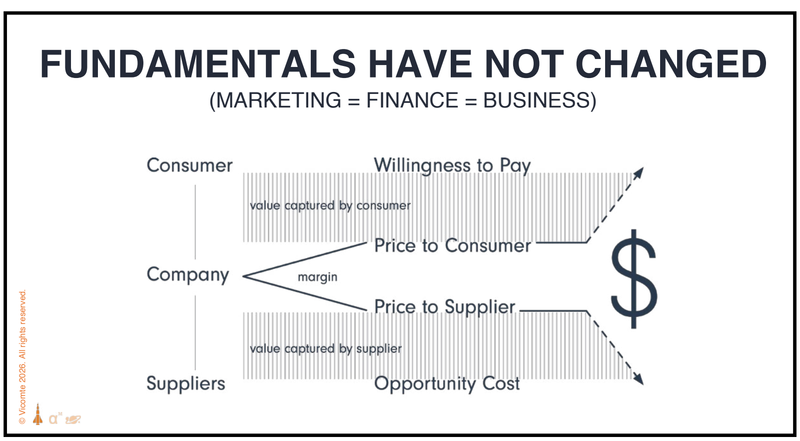
How much to invest, and why consistency beats brilliance

The best marketing companies are the ones that invest consistently, in good times and in recessionary times. The secret is consistency, not in flashy brand relaunches that make for good media stories (and make or break marketing careers). These are the "hard yards" of systematically building sustainable pricing power, while monetizing it on a continuous basis. The recent uptick in inflation spike is the challenging environment for which the best companies have been diligently preparing. Inflation is the acid test for a company's true marketing capability excellence.

Ask ten marketers to define "Brand Equity" and you are likely to get fifteen different answers. These may include concepts like brand awareness, mental and physical availability, brand associations, perceived quality, brand loyalty, and proprietary brand assets. All of these are valid aspects of Brand equity.

As you have seen in the CMM$ framework, we prefer to refer to "Brand Health" rather than Brand Equity. This incorporates not only attitudinal and behavioral KPIs, but especially an assessment of how the consumer or customer in the end *values* your Brand in their mind. All investment in how much the customer knows you, likes you, or engages with you is only an investment if it ultimately translates into strong and growing **Willingness to Pay** (WTP) that you can monetize.

If it does not, it is just warm feelings with no financial value. You may have a favorable image and a stellar corporate reputation, but you do not have a strong Brand. The best marketers demonstrably grow WTP, as a precondition for Pricing Power.



For the C-Suite and Board, there is just one definitive test of Brand Health:

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

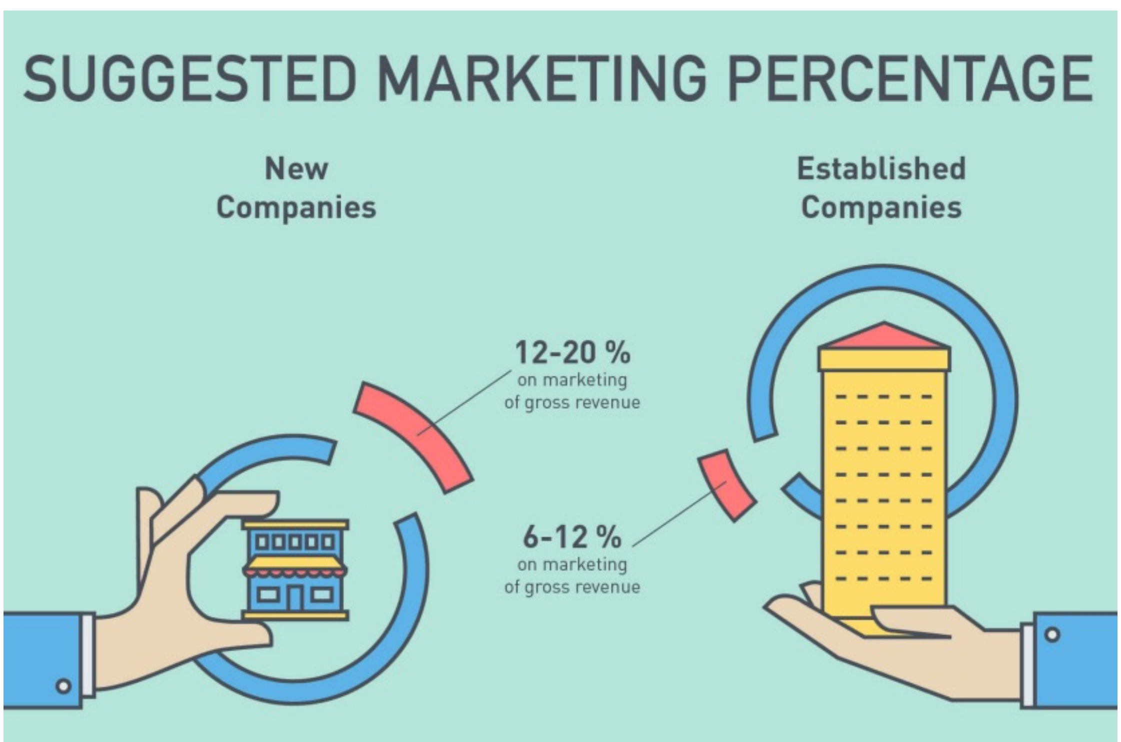
Professor Aswath Damodaran teaches corporate finance at NYU's Stern School of Business and has been voted 'Professor of the Year' nine times by his MBA students for his first principles approach to valuation. A recent example was his calculation that 82% of the value of Coca-Cola derives from the Pricing Power of the Coca-Cola brand name.

How Much to Invest: The Benchmarks

How much should one invest year after year to build Brands with Sustainable Pricing Power?

There is no one-size-fits-all answer. Every company is different. Every brand has its own competitive context and lifecycle. However, there are historical benchmarks, confirmed by academic research and by many case studies across marketing databases (WARC, Effies, etc.).

The market-leading consumer companies - those that have Sustainable Pricing Power- tend to invest between 6–12% of their gross revenue each year in the Promotion 'P' component of the Marketing Mix. Younger companies need to invest relatively more, as they are building a brand from scratch.



The critical point is that your marketing budget should be set at the minimum amount required to establish sustainable pricing power among your target customers. More than that is a waste. Less than that is a guarantee that your customers will see you as a substitutable commodity.

The benchmarks above illustrate what it tends to take. If you only invest 1%, you either are the lucky statistical outlier, or, more likely, the chances are high Pricing Power will soon flash orange or red.

The benchmarks are an indication of the typical minimum firepower needed, not of how it is deployed. In terms of how these funds should be allocated, that is a separate art and science that is beyond the scope of this Guide. For that, we refer you to Les Binet and Peter Field's pioneering work, *The Long and the Short of It* (2013). Based on extensive research, they introduced what became known as the 60/40 rule: allocate 60% of the marketing budget to long-term brand building activities (mostly beta creativity, some alpha), and 40% to short-term sales activation campaigns (again mostly beta).

Note their emphasis on both "sowing and growing" (the Long) and "harvesting" of cash flow (The Short). It is vital to engage in both long-term brand development and short-term sales activation if the full market potential of the business is to be achieved.

Be the Master of Your Destiny and Avoid "Swimming Naked"

For consumers, inflation erodes your purchasing power.

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 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. 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, over the decades since the mid 1980s inflation was not the nightmare it is today.

For companies, cost-push inflation erodes margins from the bottom.

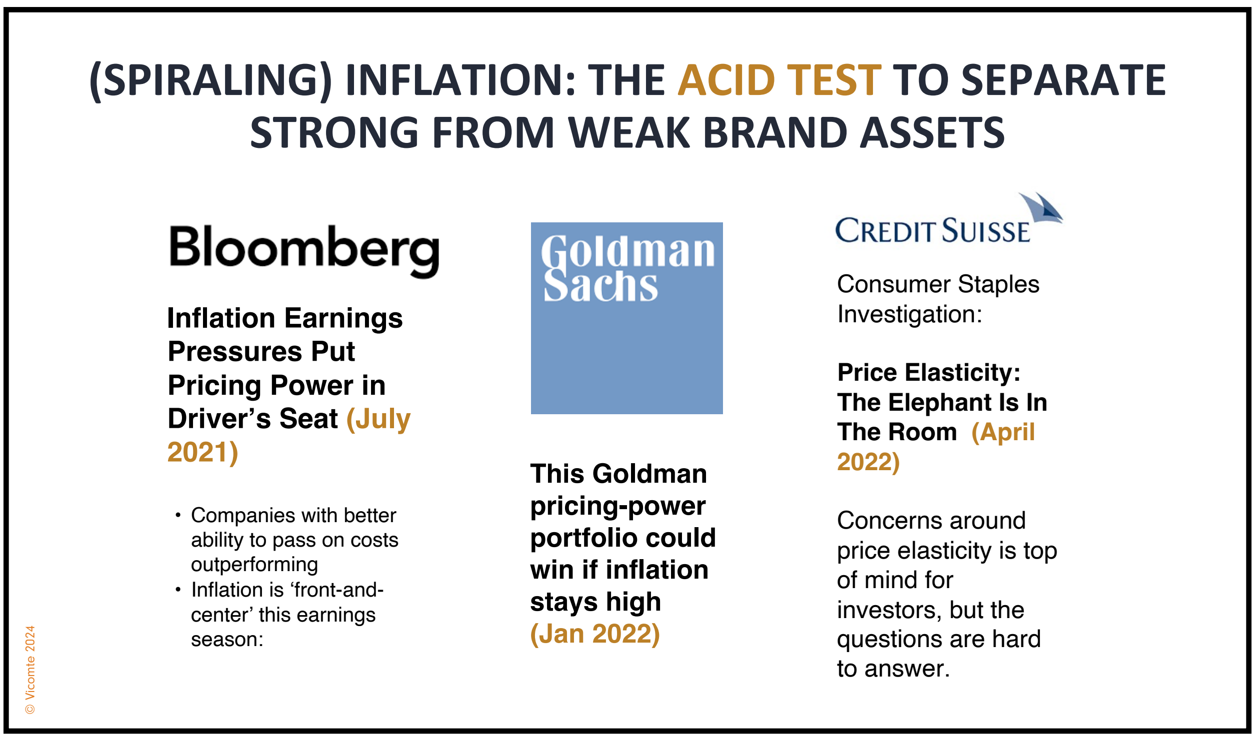
For almost four decades, Wall Street mostly ignored the concept of Sustainable Pricing Power, especially when money became cheap in the ZIRP environment (Zero Interest Rate Policy) after 2008. Prices of goods and services grew slowly and steadily. No alarm on Wall Street, nor on Main Street.

Then, in Q1 2020, covid hit. Covid resulted in the meteor storm we all face today. Business inputs suddenly became more expensive, creating the need to raise prices to customers to preserve margin (let alone to keep growing it). The 2026 US-Iran war added yet another energy crisis and cost-push inflation layer on top of what was already there.

Warren Buffet observed dryly about inflation:

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

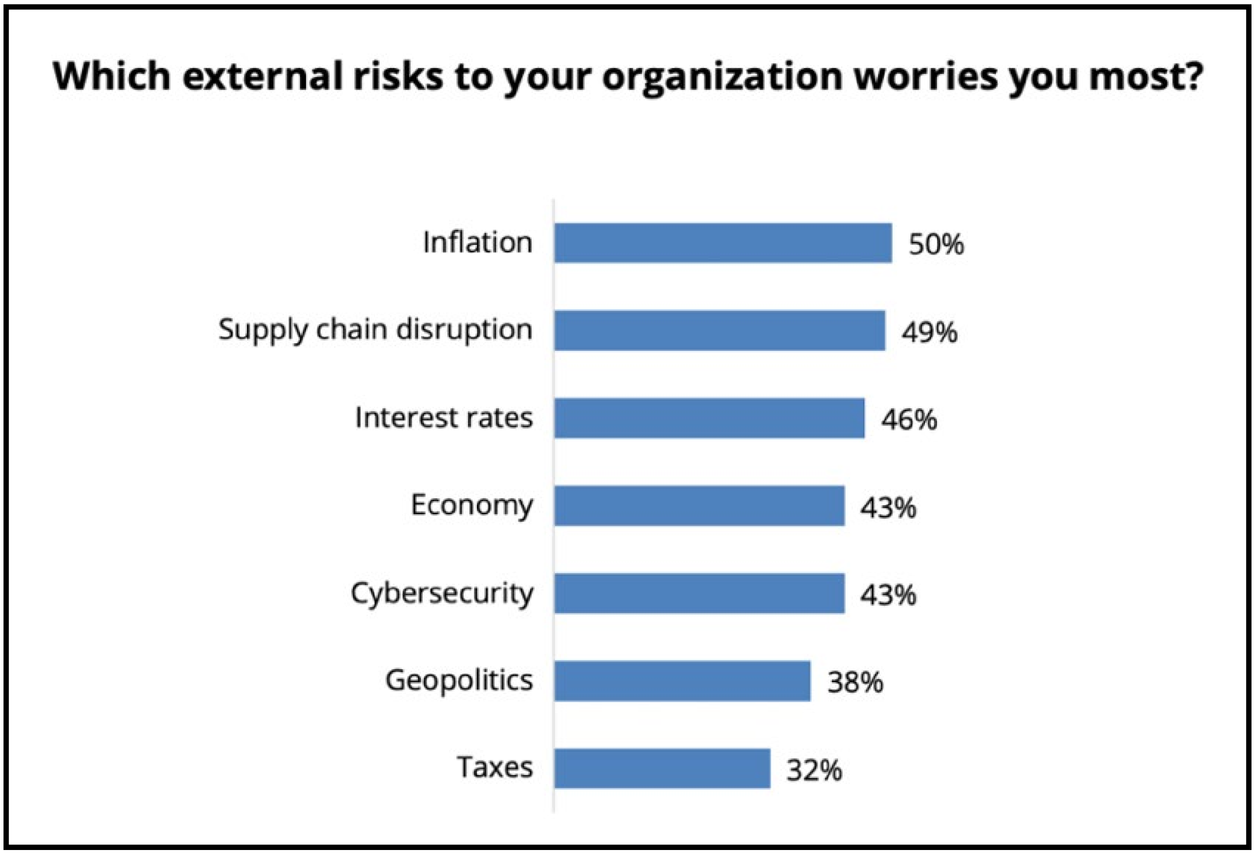
Since 2021, Wall Street has been evaluating companies based on those who could/can handle inflation, and those who couldn't/can't. Companies that were unprepared for inflation have responded by pressing pause on their decision making, and on investments, as they try to figure out the new environment. They became less attractive to investors.



Wall Street continues to make lists of which companies will be able to defend their margins in this new world. That would be the ones with Sustainable Pricing Power, like Apple's iPhone, whose continuous past investments in brand building have resulted in the Brand Health necessary to maintain/grow real prices without losing demand – despite the inflationary pressure cooker.

Apple fought hard to keep the price of its phones below the symbolic price of US$ 1,000. But "chipflation" left it no choice but to breach this threshold in 2018. The impact of the rising cost of a major ingredient has pushed the next gen top iPhone over US$ 1,000. Apple has benefited from an affluent and loyal customer base, with a high WTP. The key question for other C-Suites and Boards is whether their WTP is strong enough to be able to maintain demand while crossing important psychological pricing thresholds.

The Deloitte Q2 26 CFO survey that inflation tops the list of the factors that most concern CFOs:



How can you ensure your company is on the list of those that analysts view as well equipped to deal with the challenges that inflation creates?

As we argued throughout this Guide, it required an integrated theory of value creation, manifested by a close CEO-CMO-CFO partnership. Only then is there a coordinated focus that extends from production to sales, from quality management to customer service, from HR to procurement, from R&D to supply chain, on creating Brands with Sustainable Pricing Power.

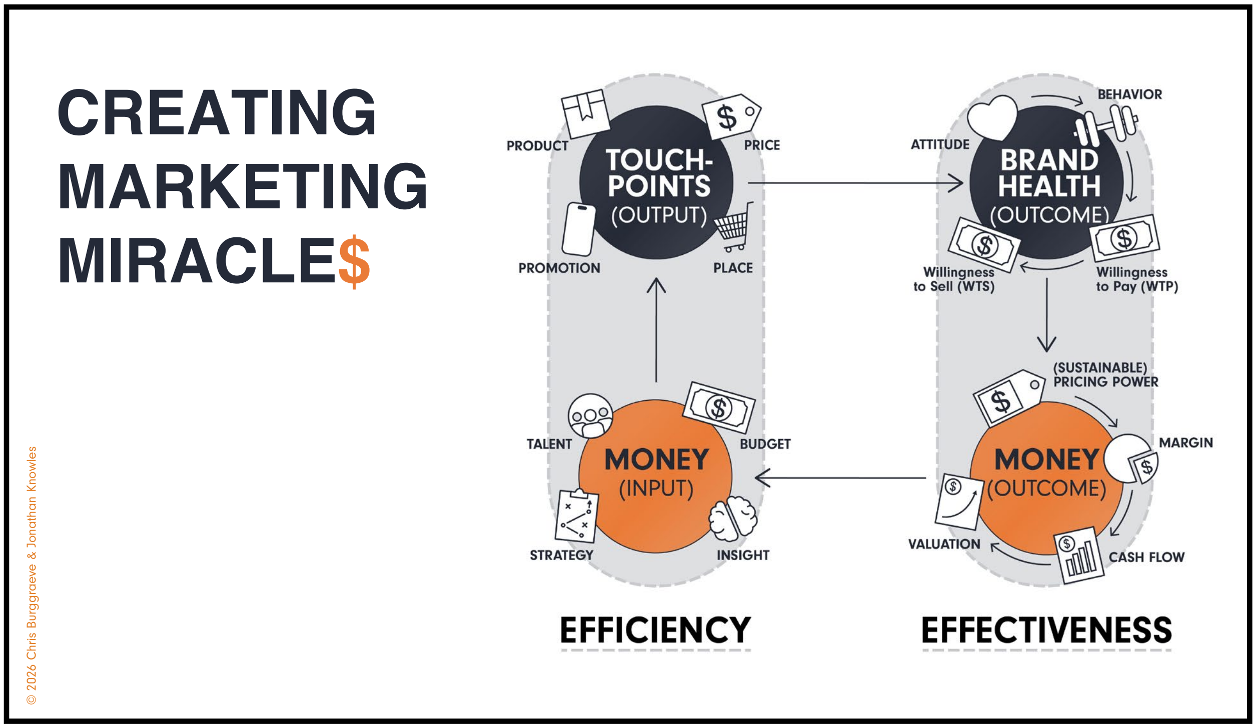
Let's make that happen.

Chapter 12

Become a Pricing Power Champion

A shared roadmap for the CEO, CMO, and CFO (and the Board)

The Creating Marketing Miracle$ model provides the shared language and shared metrics needed to close the MMF Gap. But a model on a page does not change a culture. What changes a culture is CEO leadership, the courage to have honest conversations across the MMF divide, role modeling by CMO and CFO, shared accountability and incentives, and last but not least, the hardest part of all, consistent practice over time.



We will take you through a practical 5-step roadmap to become a Sustainable Pricing Power champion. **It is led/sponsored by the CEO, and executed by the CMO and the CFO**.

Step 1: Get Your Company in the Right Marketing-Finance Mindset

The first step is purely internal, and it requires the CEO's blessing. No alignment between Marketing and Finance is sustainable without CEO sponsorship. The CEO needs to communicate that the Marketing-Finance dialogue is a strategic priority, not just a budgeting exercise. Share the CMM$ model as a guide to start the dialogue. Flush out the stereotypes.

→ **CMO:** Rethink your relationship with finance. Build shared purpose and goals, not silos. Shift from marketing outputs to business value creation thinking. Stop presenting marketing metrics to the CFO. Start presenting the Pricing Power trajectory of your brand portfolio.

→ **CFO**: Rethink your relationship with marketing. Engage with curiosity rather than skepticism. Recognize that your inability to measure the return on brand investment is a measurement challenge, not a marketing problem. Commit to building better shared metrics.

→ **CEO:** Get your CMO and CFO in the same room. Frame the conversation not as Marketing asking for more budget, but as Management deciding how much to invest what is needed to grow the company's most important intangible assets. The framing matters enormously.

Step 2: Do the Warren Buffett Pricing Power Baseline Test

Before any budget discussion, run the Pricing Power diagnostic. This is the foundation of everything.

→ **The question:** Can you articulate clearly why and how your Brand creates Willingness to Pay, both functionally and emotionally? Is the value proposition differentiated and defensible?

→ **The data:** Do the research. Build the simple spreadsheet with traffic lights (Red, Orange, Green). Gather three years of net pricing data, adjusted for your input cost inflation. Map it against market share or volume trends.

→ **The alignment:** Present the findings to the CMO, CFO, and CEO together. The traffic light conversation is one of the most valuable strategic discussions a management team can have. It focuses the entire organization on the true health of the brand.

→ **The brutally honest assessment:** If your brand is Green, how to keep the right things going? How to avoid complacency? If your brand is Orange or Red: what went wrong? Was it under-investment? Wrong allocation between long and short-term? A value proposition problem? The product itself? Align on the root cause, fix the real problem, before debating the budget.

Step 3: Advocate for Intangible Capex to Build and Monetize Pricing Power

Once the baseline test has been done and the team is aligned on where the brand stands, the budget conversation can begin. Get the framing right.

→ **The right framing:** The marketing budget is not a cost. It should be framed to the Board as "intangible capex". It is the investment the company makes each year to build and maintain an asset (Brand Health) that produces Pricing Power over time. Frame it in the language of capital allocation, not expense management (even if the accountants will require you to expense it per GAAP or IFRS rules).

→ **The benchmark:** Strong brands invest 6–12% of revenue in brand building. Use this as the starting point. Are you investing at or above the benchmark for your category? If not, what is the strategic rationale for under-investment? Why and how can you truly be more efficient, without marketing myopia shortcuts?

→ **The allocation:** Apply the 60/40 rule as the starting point. Calibrate the ratio to your category's specific in-market ratio. Ensure the long-term/short-term balance is explicit and deliberate, not accidental.

→ **The risk argument:** Frame under-investment as a risk, not just a missed opportunity. If the brand's Pricing Power is already Orange, under-investment turns it Red. Red means margin compression, volume loss, and market share erosion. The CFO who cares about risk should care deeply about this. So should the CEO and the Board.

Step 4: Avoid Swimming Naked / Track Brand Strength and WTP

Investment without measurement is trust without accountability. The alignment model requires both.

→ **Brand Health tracking:** Establish a regular brand health dashboard, jointly owned by Marketing and Finance, that tracks the key leading indicators of Pricing Power: consideration, preference, perceived quality, brand strength vs. key competitors. Make it a standing item on the CEO-CMO-CFO agenda (every 3-6 months depending on the rhythm of your business).

→ **Price elasticity monitoring:** Monitor price elasticity by brand, by channel, by market. Establish early warning systems that flag when elasticity is rising (a signal that brand equity is weakening). Do not wait for the annual pricing review to discover the problem.

→ **Shared data ownership:** Pricing Power requires data from Marketing (brand equity), Sales (volume and mix), and Finance (net pricing, discounts, margin). This data is rarely integrated. Make its integration a joint CMO-CFO project. Trust builds through shared data, shared insight, and shared ownership of the results.

→ **Regular joint reviews:** Meet regularly to review brand health and pricing trends together (reflecting the buying rhythm of your sector). Plan jointly. Learn continuously through an evidence-based approach. Iterate the value proposition as needed.

Step 5: Create a Marketing-Finance Talent Pipeline

Sustainable alignment is a cultural achievement, not a one-time initiative. Under the co-leadership of the CMO and CFO, it requires building financial fluency into the Marketing function and brand literacy into the Finance function.

→ **For Marketing:** Build financially fluent talent that understands value creation and habitually asks 'how does this drive business impact?' Invest in training that goes beyond campaign measurement to corporate finance fundamentals: the P&L, the balance sheet, intangible asset creation. Create a curriculum led jointly by the CMO and CFO.

→ **For Finance:** Build brand-literate talent that understands the difference between a brand metric and a vanity metric, and that can evaluate marketing investment proposals with genuine insight rather than blanket skepticism.

Invest in training around brand equity economics, pricing power measurement, and the long-term/short-term tradeoffs in brand investment.

→ **Rotation programs:** Consider talent rotation between Marketing and Finance teams at the mid-management level. Nothing builds mutual understanding faster than spending six months doing the other function's job. The CMOs and CFOs who work best together often have some experience on the other side.

→ **Shared incentives:** Perhaps most importantly: align incentive structures. If the CMO is measured on brand awareness and the CFO is measured on quarterly earnings, the MMF gap is reinforced by the compensation structure. Consider adding Pricing Power metrics, or brand health metrics leading to Pricing Power, to the scorecards of both functions (as well as in the CEO's own incentives, to signal what matters to everybody). What gets measured, gets managed. Incentives drive behavior.

Benefits for the CMO: Selling the Required Budget, and a Seat at the Table

With the alignment model in place, the budget conversation changes fundamentally. You are no longer selling a budget. You are presenting an investment proposal for the company's most important intangible assets, with a clear hypothesis about what it will produce in terms of Pricing Power, margin, and long-term enterprise value.

Use the Math of Value framework. Connect your investment request to the six levers: customer acquisition, customer lifetime value, pricing power, cost efficiencies, earnings stability, and positive surprises. Show how each element of the marketing plan addresses one or more of these levers.

Sell them happiness and sell them fear. Nothing moves a finance-driven person as much as the fear of loss. Show them the cost of not-investing: declining brand equity, rising price elasticity, margin compression, competitor market share gains. Avoiding the downside scenario is often more compelling than talking about the upside.

In classic marketing terms: selling your Budget is about creating pull, not push. It is about being perceived by the Board and the CEO as the best investor of intangible capex they could imagine — someone who defines marketing as the 'sowing, growing and harvesting cash flow,' who explains how the six Math of Marketing factors feed into the Math of the Business, and who measures brand equity in terms of Sustainable Pricing Power.

Benefits For the CFO: More Cashflow, Better Margins, Higher Valuation

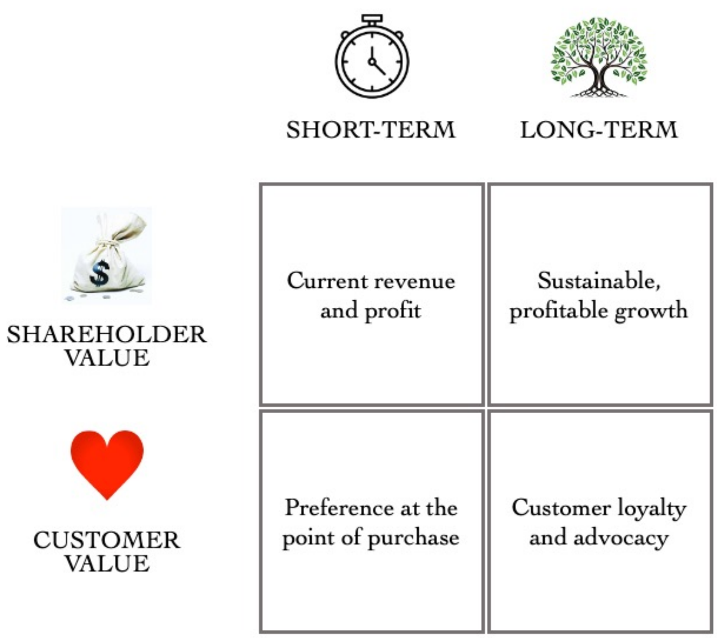
The CFO who understands the Creating Marketing Miracle$ model has a strategic advantage. They can be the board's most credible voice on intangible asset management. They can ask better questions of the marketing team: not 'can you justify this spend?' but 'is this investment sufficient to maintain our Pricing Power trajectory?' They can translate brand health into financial risk, a language the Board already speaks.

The CFO who partners with the CMO, who insists on joint brand-finance reviews, who advocates for consistent brand investment through the cycle, who frames the marketing budget as intangible capex rather than discretionary expense, is the CFO who helps the company build lasting competitive advantage. They are the CFO who does not have to explain, in year five, that the company has been swimming naked.

Finance remains the language of the boardroom. But the boardroom's most important conversations are increasingly about intangible assets. The CFO who can speak fluently about brand equity, Willingness to Pay, and Pricing Power has a competitive advantage in the boardroom as real as any financial model.

Benefits For the CEO: a Stronger Company able to Balance Short *and* Long-Term sustainably

Leadership is the art of turning "zero sum" challenges into "positive sum" strategies. While many choices involve *or* in the short-term, we have shown how *and* thinking should be used over the longer term.



This Guide has argued that, to integrate the Inside and the Outside, a CEO must harness the unique contributions of both her/his CMO and CFO.

The CMO provides the external focus on the opportunities that the business could pursue.

The CFO provides the internal focus on how the financial and other resources of the business are allocated;

The CMM$ model offers the framework for the CEO to integrate the CFO's bias towards short-term financial performance with the CMO's bias towards building long-term customer preference.

A Personal Experience: The AB InBev Story (Chris)

The CMM$ model is not something a CEO can implement overnight. It requires courage, discipline, and teamwork between the teams of the CMO and CFO. But I can tell you: it works. It is worth the effort.

I lived it at various companies. Brand equity today IS Pricing Power tomorrow. Pricing Power is earned, every day. It should never be taken for granted.

I developed most insights and thinking around this model during my general management and senior marketing roles in The Coca-Cola Company in Greater Europe, and especially as the first Global CMO for InBev, later AB InBev (2007–2012).

At ABI, company success was defined since years in terms of a finance-only measure: "ebitda margin expansion". As an outsider, not coming up from its own close ranks, I had to convince a rather marketing-skeptical CEO, CFO, and fellow C-Suite members, that investing in building preference and consideration for our top Brands was necessary if we were to achieve pricing that would stick in the marketplace over time, and hence secure sustainable ebitda margin (expansion) growth. The classic short versus long tension.

Most of my C-Suite colleagues had a similar profile: engineers with US MBAs. Self-declared rational and finance-first people. (AB) InBev had, and still has, an exceptionally strong company culture, and a habit to code everything. Whatever my marketing team came up with, it would have to meet these hurdles. The senior leadership and the Board would need proof of the marketing investment theory.

Luckily, we had many years of consumer tracking and pricing data. We set up a smart data analytics team across marketing, sales, and finance, which went off to do a very rigorous six sigma-style project. After a few months of data crunching (before AI times), the team established clear correlations between variations in brand strength ("preference" type scores) and net pricing growth stickiness.

We shared the results with the top 200 leaders of the company and with the Board – training everybody in what started to be known to this day as the "AB InBev Way of Marketing". It took quite some time to land, as biases are hard to change. Yet ultimately the Board and the C-Suite accepted the core principle it needed to invest systematically in Brand equity to preserve our future as a business.

Brand Health Today is Topline Tomorrow

As a result, in budget planning and in pricing decisions, Marketing earned a seat at the table alongside all other key functions. Budgets were created with more realism about the relative equity and pricing strength of each Focus Brand. Critically, senior geographic P&L leaders, from the CEO down, got Brand equity targets in their incentives for the first time in history. It anchored the change in daily operating life. The business responded very positively in the years after, reaching record high share prices.

To be clear: it did not mean the classic "war" for the marketing budget was over. Far from it. AB InBev is a notorious champion of the (often misunderstood) Zero-Based Budgeting culture. Each year, every month even, every function needs to fight hard for its resources. But at least the base principles had been established. The data had spoken. Once the evidence was truly understood, the conversation changed permanently.

Felipe Dutra was my esteemed CFO colleague at that time. As per his musings in the foreword, I also learned about the Third Way. I learned that from a CEO perspective, the whole is greater than the sum of its parts. I, and the entire Marketing team, had to adapt to ABI's distinct culture. It became better integrated with the other functions (nicknamed "the fourth muscle"), by translating marketing's focus on Brand Health into the uniting finance language of Pricing Power. It required an open mind and willingness to (un)learn on behalf of the C-Suite and Board, for which I was grateful.

It was not always easy, but it has been a career-defining fight worth fighting.

The Stairway to Heaven

The CEO has a choice. To stay in his/her comfort zone and act "as a second CFO", or to be the one who integrates the Outside with the Inside. It requires developing new muscles. It requires courage of conviction in the tough inflation times.

Both CMO and CFO face a choice. The CMO can continue to fight alone, in a budget language the CFO does not trust, for an investment the Board cannot fully evaluate. The CFO can continue to apply financial discipline to a budget line they do not fully understand, making short-term decisions with long-term consequences.

The 3 key players can choose to close the gap. To build a shared model. To speak each other's language. To avoid double CFO syndrome. To focus on the one metric that unites them: Pricing Power.

Marketing miracle$ do not happen by accident. They are the product of consistent investment, honest measurement, and above all, alignment between the two functions best placed to create sustainable enterprise value together.

The path is clear. The model exists. The metrics are available. The only remaining question is whether your company will choose to accept the challenge of developing a Brand with Sustainable Pricing Power.

We wrote this guide because we believe most companies will. Not because they are idealists. Because they are pragmatists. Because the cost of the MMF Gap is now too high to ignore.

Because the meteor shower is not stopping. And because the companies that create Marketing Miracle$ will be the ones that survive it.

***"The road to Hell is paved with good intentions.
The road to Heaven is paved with good action."***

VICOMTE

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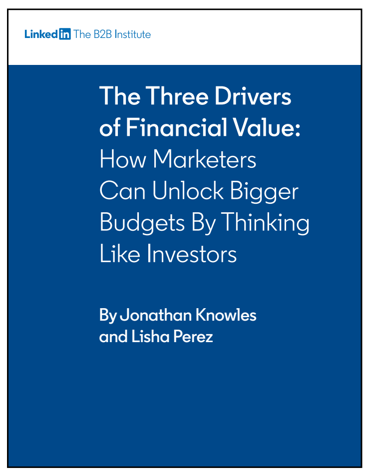

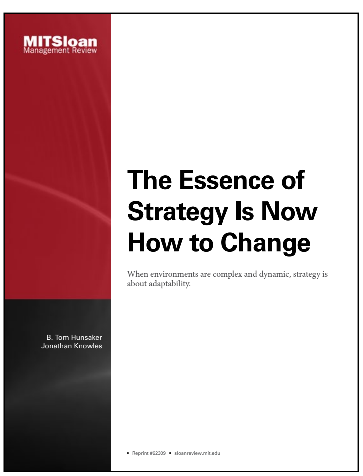

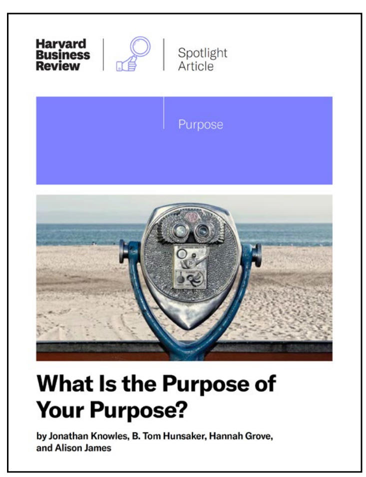

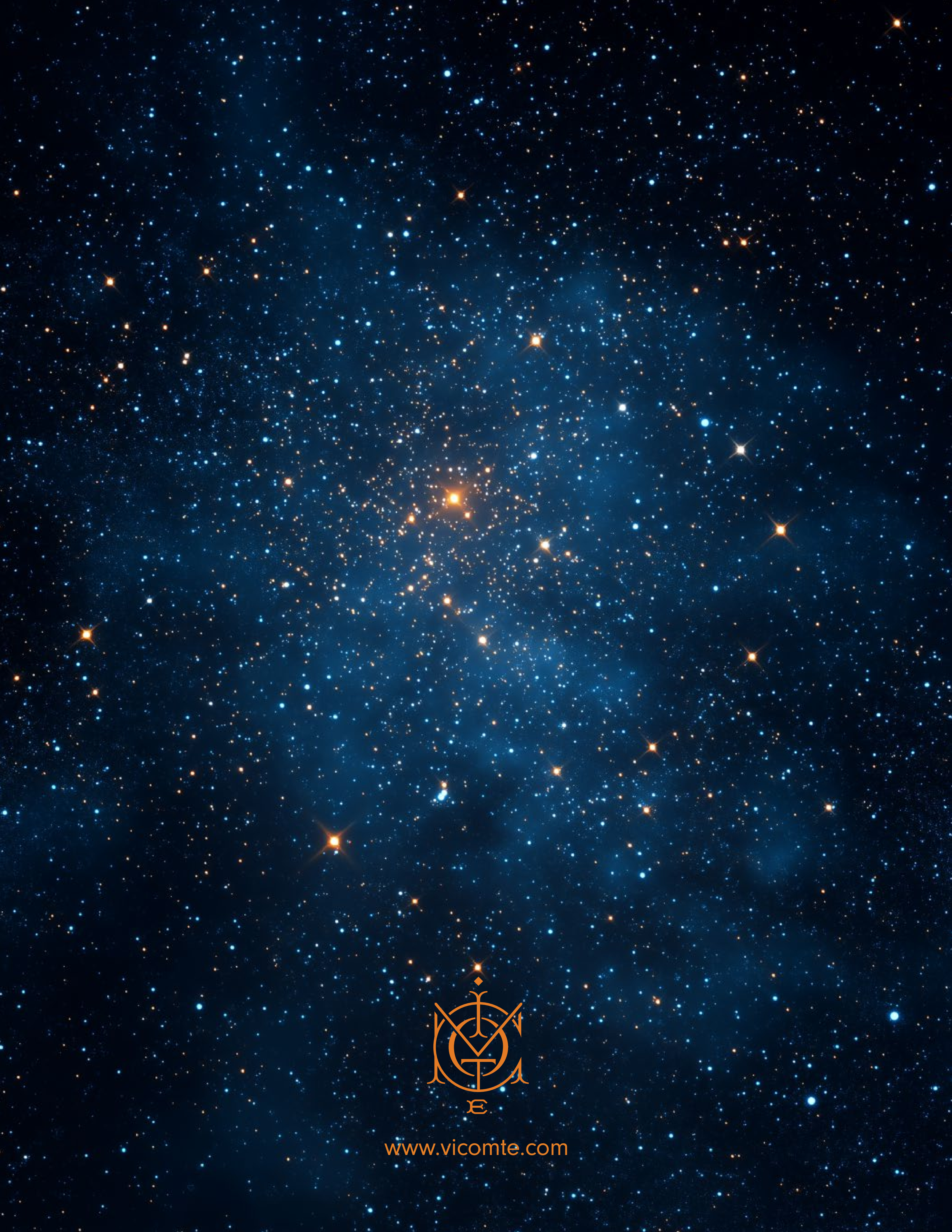
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