Making the Intangible... Tangible

A loyal customer base can be leveraged—in good times and bad.

By Lawrence A. Crosby and Sheree L. Johnson

**INTANGIBLE ASSETS** have become more and more important in today’s economy. The evolution from an industrial to an information age has shifted the weight of strategic asset management from a dominant focus on capital, plant, and equipment to a more balanced eye on a new organizational wealth housed in more intangible assets.

An intangible asset is defined as a source of future benefits that is without a physical embodiment. The Financial Accounting Standards Boards has proposed a framework for categorizing intangible assets that includes assets that are statutory-based (e.g., patents, copyrights, and trade names), contract-based (e.g., licensing agreements, royalty arrangements, and non-compete contracts), technology-based (e.g., information systems, procedural manuals, software programs, and blueprints), workforce-based (e.g., technical expertise, creativity, and recruiting and training programs), organization-based (e.g., organization structure and processes, board members and affiliations, financial policies, and cultural norms), customer-based (e.g., customer lists, customer records, and credit records), and market-based (e.g., brand names, logos, and distribution channels).

Perhaps a bigger issue than defining an intangible asset is how to measure and value one. When a company invests in tangible assets like machinery or computers, the accounting for the transaction is recorded as cash paid out of liquid funds (an asset account), and a corresponding amount is debited as an asset on the balance sheet. This requires reduction in cash with no corresponding expense to the P&L. Instead, the expense is incurred gradually as the asset is depreciated. In contrast, when a company invests in an intangible asset, such as when it begins a new research undertaking or launches a new brand, the investment appears both as a negative cash flow and as an expense item.

Both types of investment have the same objective—to achieve higher profitability in the long term by sacrificing cash flow in the short term. The difference in accounting treatment, however, can give decision-making preference to investments in tangible assets over intangible assets. It may be easier to get approval for a half-billion-dollar capital equipment expansion than a million-dollar increase in a customer service budget.

It would appear that the financial quarterly reports that the analysts watch so closely aren’t, in fact, telling the whole value story. Some believe that intangible assets are the foundation for stock price premiums. The book value of a company consists of the visible equity (tangible assets minus visible debt), while the stock price premium is generated by a firm’s intangible assets such as brands, customer relationships, supplier relationships, management structure, R&D, software, employee education and experience, and so on. Within this framework, both non-financial measures to gauge intangible assets and financial measures to value visible equity can be jointly used to provide a complete indication of financial success and shareholder value.

We definitely see this concept accepted in certain businesses today. Amazon.com, for example, had its CEO Jeff Bezos challenged at an event when a young woman came to the microphone and asked him a question: “I have 100 shares of Amazon.com. What do I own?” Bezos’ response included “brand, customers, technology, distribution capability, deep e-commerce expertise, and a great team with a passion for innovation and a passion for serving customers well.” At the time, Amazon’s market capitalization was nearly $13 bil-
lion while its total asset base was less than $2.5 billion. This demonstrates that making an intangible asset tangible by valuing the asset is a critical step in strategically managing the asset.

### Valuing Brand Loyalty

Brand loyalty is undeniably a corporate asset. Numerous studies over the past decade indicate that an increase in customer loyalty can increase profitability. The key word here is “can.” Customer loyalty, in and of itself, is no guarantee of a company’s financial health. Investing in customer loyalty builds an asset. Organizations spend billions of dollars annually on capital investments and on research and development. Likewise, these expenditures are no guarantee of financial health. Having a loyal customer base is, however, a foundation asset that can be greatly leveraged—in good times and bad.

Consider Apple Computer and Harley-Davidson. When these companies lost their performance edge in their markets and their financials suffered drastically, each company continued to maintain high levels of customer loyalty to their brands. Once the companies refined their strategies and aligned their business models and business management practices with those strategies, they were able to very quickly turn their brand loyalty asset into improved financial performance.

For a brand manager with concrete revenue and unit growth objectives, brand loyalty is anything but intangible. For example, one of our clients discovered that, through repurchasing and cross-selling opportunities, a mere 1% increase in their customer loyalty index could increase revenue by as much as 5%. The brand manager, whose revenue growth goal may be 10%, could achieve almost half of that goal through a customer loyalty strategy!

This type of measuring and valuing of an intangible asset—brand loyalty—begins to build a strong business case for making the intangible tangible and leveraging the asset to its fullest financial potential.

### Strengthening the Asset

Building and strengthening customer loyalty to your brand cannot be the sole domain of your marketing organization or your agency. It is not only the development of the brand name, a distinctive shape, color scheme, and so forth. Nor is it only an effective advertising campaign. Managing an asset requires a multi-layered and integrated set of functional strategies—marketing, manufacturing, customer service, human resources, and the like—for achieving financial objectives.

Managing the asset begins with identifying and understanding the cause and effect relationships. What touch points and attributes of the brand affect customer attitudes and behaviors? What are customers looking for in the products and services we offer? How do these influencers vary over the life of the customer relationship? How do these influencers vary in different customer segments? How can we influence these attributes by our actions?

And don’t overlook the critical role of emotions in fully understanding the causal relationships. Human actions (including purchase) are always motivated by emotion. Where there is no emotion, there is no motivation. Emotion, motivation, and motion exist as an interactive system. And the rational and the emotional work together. Emotions act to facilitate the consumer’s ability to grasp the benefit promised by the brand. If we can make an emotional connection with the brand’s promise, then we are motivated to act (i.e., purchase).

While it is the role of marketing to communicate the desired brand attributes and emotions through such avenues as advertising and direct mail, the promise must be delivered through manufacturing, the call center, distribution channels, billing, service departments, and the like. Achieving this requires an organization that fully understands the needs of the customer and is fully aligned to deliver on the brand promise.

Strategic asset management maximizes the performance assets that have a direct and significant impact on achieving corporate objectives. Companies and organizations depend on vital assets to drive their business. Brand loyalty, as a strategic asset for a corporation, must be measured, managed, and monitored closely. The healthier and stronger the asset, the better an organization will be able to leverage the asset to achieve financial objectives. Valuing the potential benefits of the brand loyalty asset to the corporation creates a strong business case for organizational attention and commitment. Aligning the activities of the organization to the brand loyalty causal factors will maximize the asset investment.

### About the Authors

Lawrence A. Crosby is the CEO of Synovate Symmetrics. He may be reached at lcrosby@symmetrics.com. Sheree L. Johnson is special adviser for strategic marketing for Synovate Symmetrics and may be reached at sjohnson@symmetrics.com.