



Why the CFO loves you really

17 March 2025

Target
 A ~~~~~
 B ~~~~~
 C ~~~~~



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Seven messages this morning

- Counter to a lot of the received wisdom in the marketing services community, the financial and investment community prizes - and 'gets' - consumer-facing, marketing-intense businesses
- Central to the appeal of these businesses is their 'compounding' quality - the ability to deliver modest but consistent top-line growth, year-in, year-out, and to convert that to profits, reinvestment and dividends to shareholders. What CFO's like to call 'the virtuous circle of growth'
- At the top of this circle is 'organic sales growth' (OSG or 'LFL' growth) - the growth that can be squeezed from existing brands and assets. OSG also drives margins via 'operating leverage'
- OSG is a major influence on the share prices of consumer-facing businesses and gets a lot of attention from investors. Partly because small changes can make a big difference: a percentage point improvement in OSG, sustained over time, has a big impact
- If marketing isn't in charge of OSG, then who is? That, plus the link between OSG and marketing investment, creates a natural point of entry into the financial conversation and inherent appetite for improved effectiveness. A more straightforward and intuitive entry point, in my view, than some of the touted alternatives like putting brands on the balance sheet.
- To get into the conversation, you need to complement the language of operational marketing (penetration, loyalty etc.) with the tougher, more 'bankable' language of price, volume & mix and demonstrate an understanding of the trade-offs between these, profit and marketing investment
- Along with this needs to come a vibe shift around the relationship between marketing & finance and clients & agencies. The CFO ultimately really does love you, believe me. Understanding their dilemmas & speaking their language would be a big step on the path to better & more remunerative relationships

Primer: the world of 'shareholder value' on one slide

What goes on?

Companies aim to deliver a rising stream of profits. Investment analysts attempt to forecast these profits, which collectively forms a consensus

The share price is some multiple of consensus profits that reflects investors' level of confidence in the future trajectory of those profits

Investors reap the rewards (or bear the losses) from rising (or falling) share prices, plus receive cash returns, in the form of dividends & buybacks

Key metrics

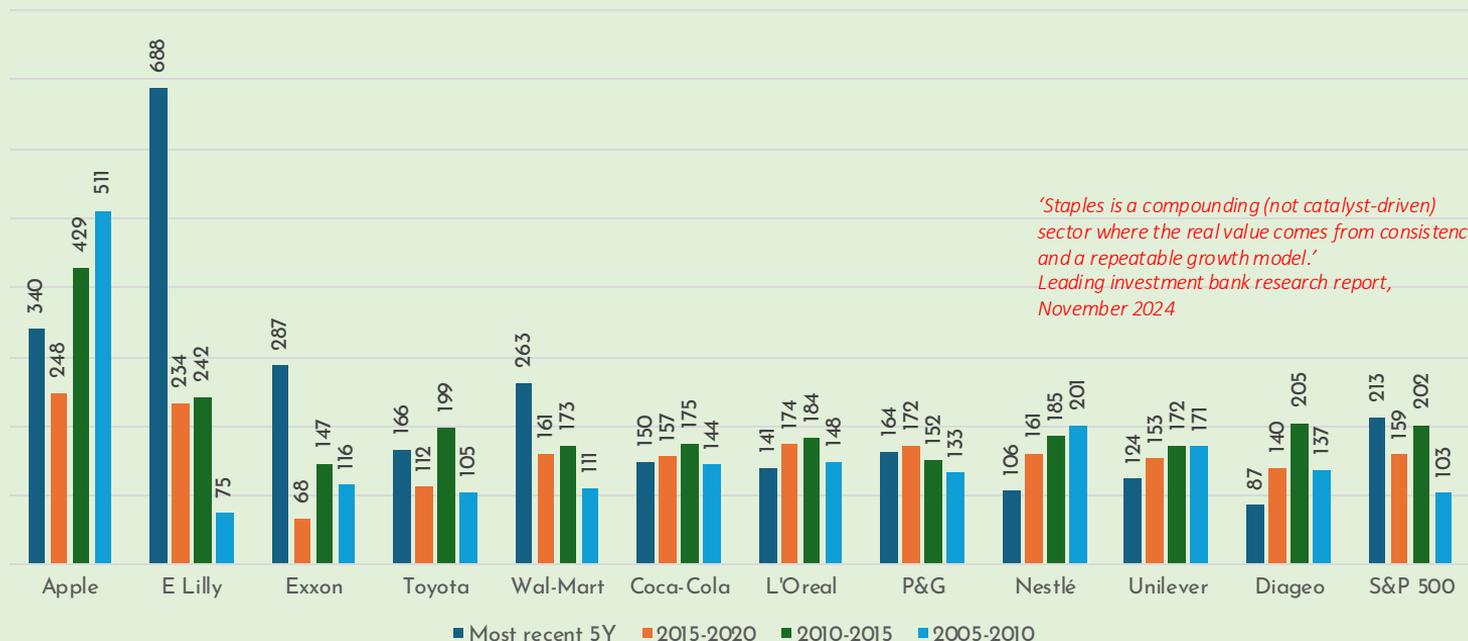
- EPS (Earnings per share)
- EBIT (Earnings before interest & tax (aka operating profit))
- EBITDA (Earnings before interest, tax, depreciation & amortisation)

- Share price
- PER (Price: earnings ratio)
- EV:EBITDA (Enterprise value as a multiple of EBITDA)

- Total shareholder return (share price change plus dividends reinvested)

Mature, consumer-facing companies are all about delivering steady, reliable returns. If you had wanted to get rich (and had perfect foresight) you should have bought Apple in 2005. If you had wanted to build a 'fit and forget' retirement fund, you should have owned Coke or L'Oreal

Value of \$100 invested in leading consumer staples companies vs wider peer set. 5 year intervals over most recent 20 years

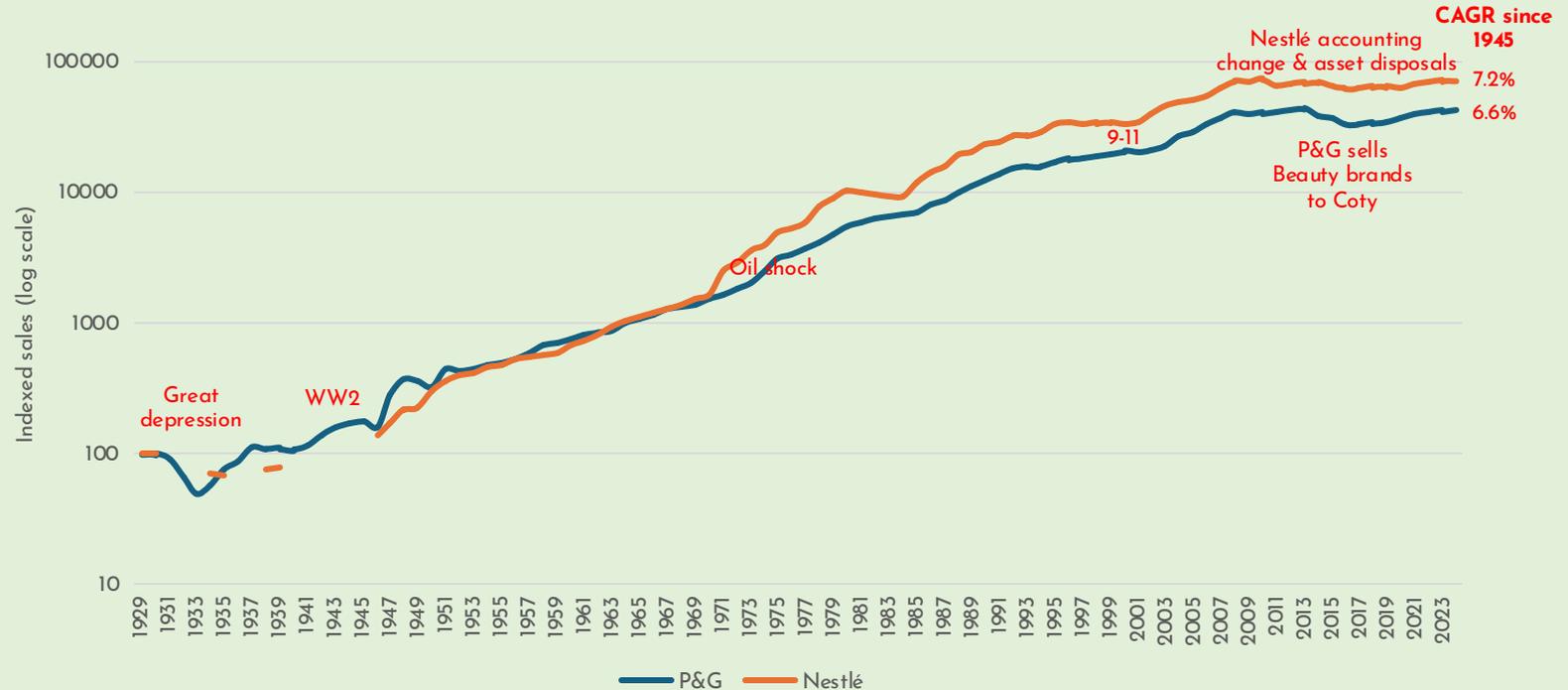


'Staples is a compounding (not catalyst-driven) sector where the real value comes from consistency and a repeatable growth model.'
 Leading investment bank research report,
 November 2024

Source: Author's analysis

Big consumer goods companies have a remarkable track record of growing sales at a mid to high single-digit rate

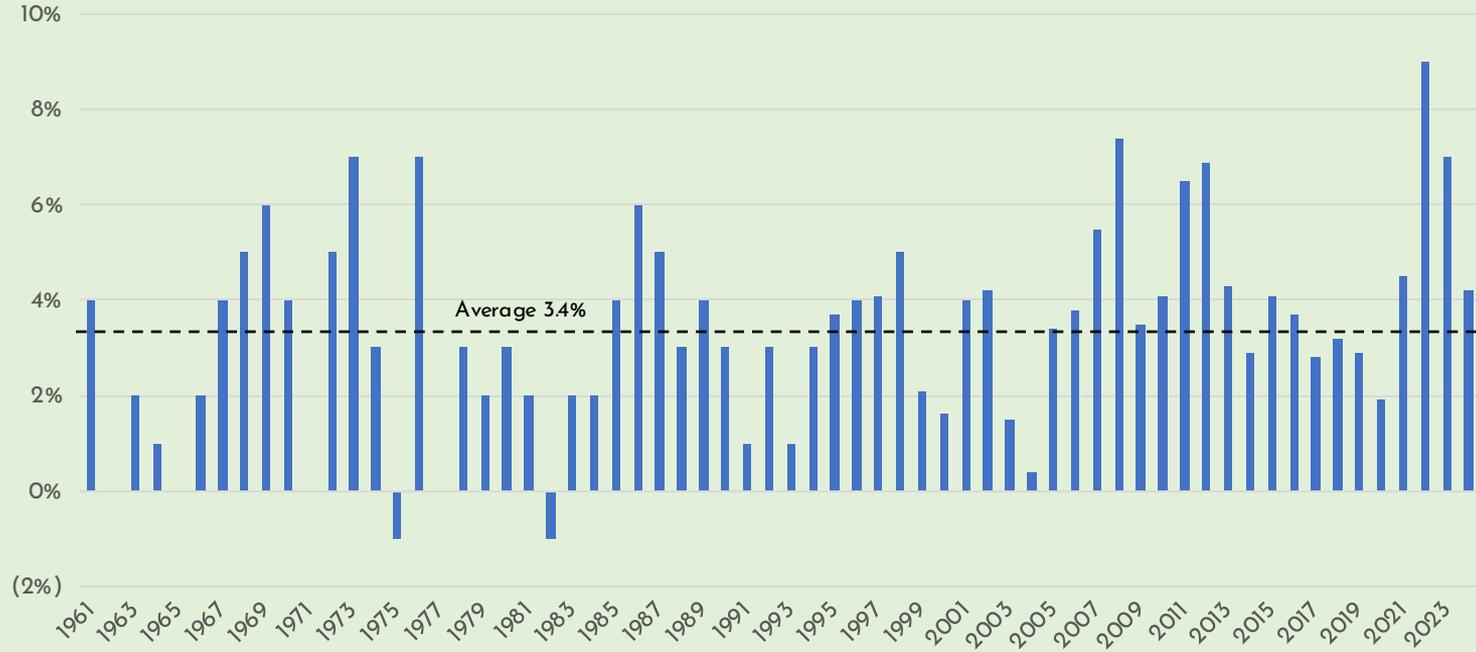
Nestlé & Procter & Gamble: Long term sales evolution in \$ (indexed where 1929=100)



Source: 'P&G: Rising Tide' HBS Press 2003; 'Nestlé 150 Years Nutrition, Health & Wellness' 2015; author's analysis

Further example: Unilever has had only two years of negative top line development in the past 60-odd years, both of which occurred in the epically deep 70s/80s recessions

Unilever's underlying sales growth since 1961 (excludes currency fluctuations and M&A)



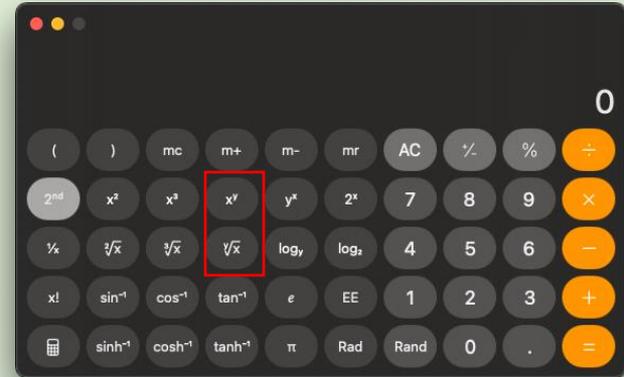
Source: Unilever; author's analysis

Quick crib sheet on understanding compound growth

Sales over time at different growth rates



Useful buttons on an iPhone calculator



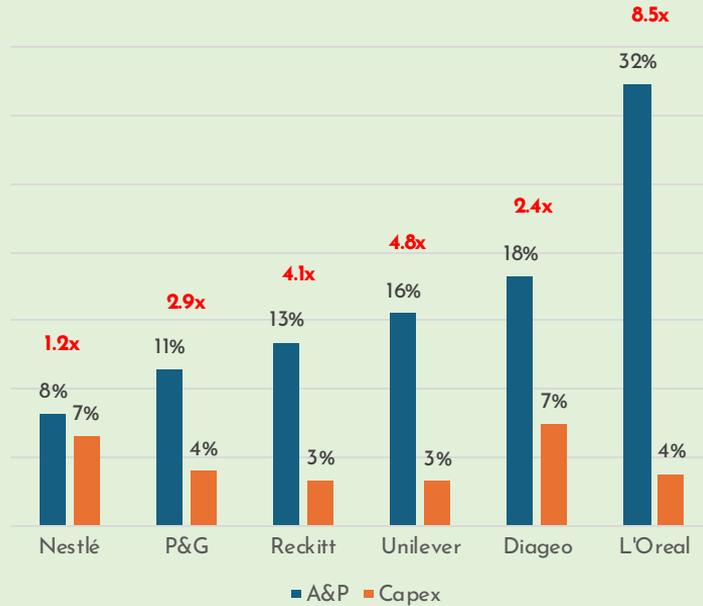
Compound annual growth rate (CAGR) formula

$$\text{CAGR} = \left(\frac{\text{Final value}}{\text{Starting value}} \right)^{\frac{1}{N}} - 1$$

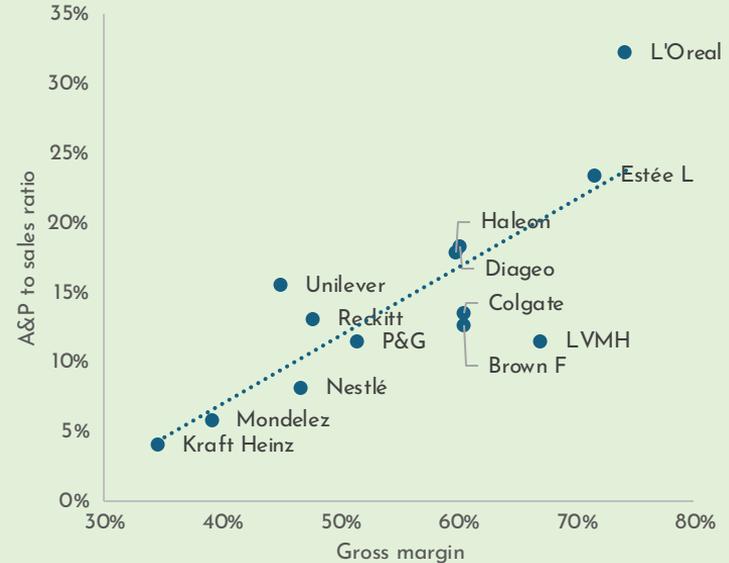
INSIDER

Leading consumer staples companies invest multiples in their brands what they invest in fixed assets. Higher gross margins get reinvested in higher A&P, not returned to the bottom line

A&P & capex as a % of sales, latest financial year



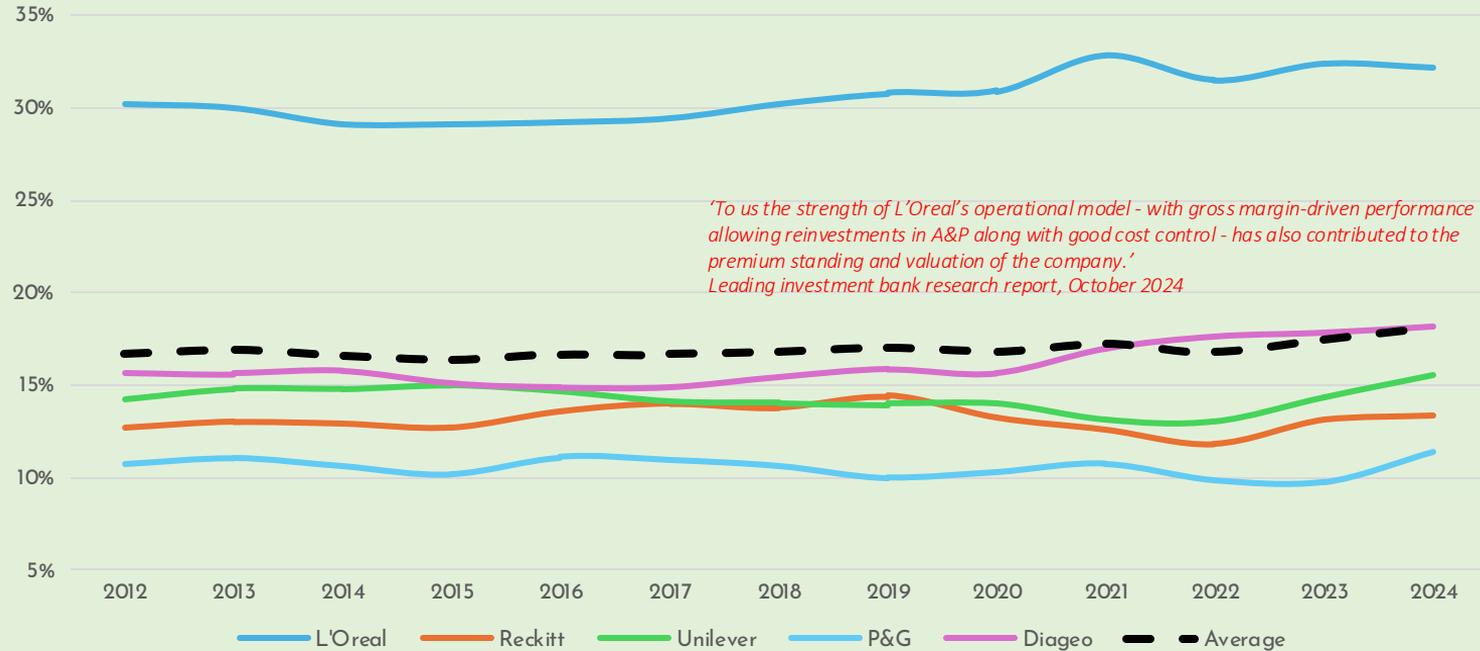
A&P investment vs gross margin, latest financial year



Source: Companies; author's analysis

Investment in marketing amongst the big players is stable over time – limited evidence for ‘cutting budgets in a downturn’

A&P to sales ratios for leading consumer staples players

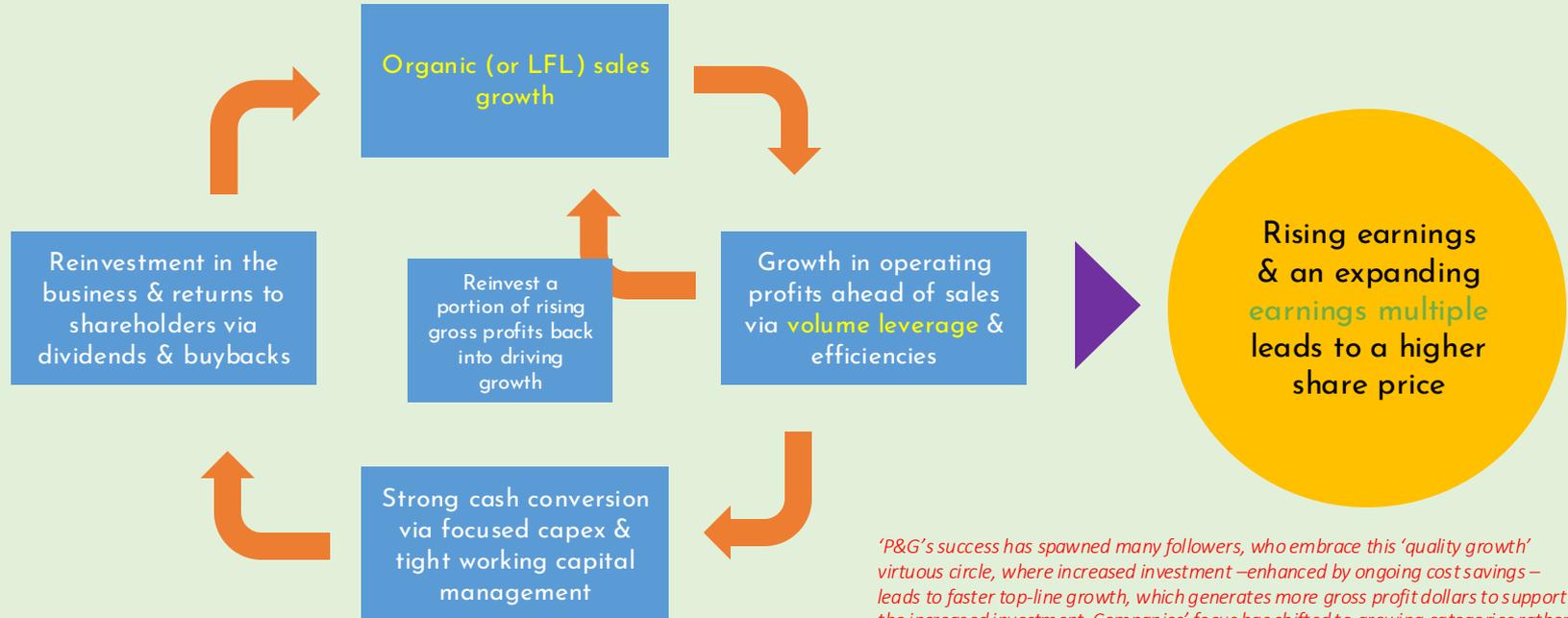


'To us the strength of L'Oreal's operational model - with gross margin-driven performance allowing reinvestments in A&P along with good cost control - has also contributed to the premium standing and valuation of the company.'
Leading investment bank research report, October 2024

Source: Companies; author's analysis

Most consumer-facing companies try to sustain the 'virtuous circle' of shareholder value creation. Top line growth is at the front end of this

The 'virtuous circle' of growth and shareholder value creation



'P&G's success has spawned many followers, who embrace this 'quality growth' virtuous circle, where increased investment –enhanced by ongoing cost savings – leads to faster top-line growth, which generates more gross profit dollars to support the increased investment. Companies' focus has shifted to growing categories rather than using elevated promotional spending to 'rent' market share.'
Leading investment bank research report, June 2024

Some real examples (1)

Examples of sales & profit 'guidance' from major companies (1)

Guidance and outlook

	2024 guidance	2025 outlook	Medium-term guidance
Organic sales growth	Around 2%	Improving vs 2024	4%+ in normal market conditions
Underlying trading operating profit margin	Around 17.0%	Investing for growth	17.0%+

21 November 19, 2024 



OUR VALUE CREATION PLAN 2030 → Multi-year framework

DELIVER ABSOLUTE PROFIT GROWTH IN LINE WITH TOP 1/3rd TSR AMBITION

GROWTH ALGORITHM

- Mid-single digit growth (UVG of at least 2%)
- Modest margin improvement (Fuelled by gross margin)
- Top 1/3rd shareholder returns

CASH GENERATION

- Cash conversion: Sustain around 100% cash conversion over time
- Debt: Around 2x net debt / EBITDA, Strong single A credit ratings
- ROIC: High teens ROIC

CAPITAL ALLOCATION

- Growth & productivity: Capacity and margin expansion, Long-term investment in brands
- Portfolio reshaping: Bolt-on M&A focused on US, India, No transformational M&A
- Capital returns: Attractive dividend (~60% payout), Share buyback with surplus cash

*TSR peers for Remuneration: Beiersdorf, Church & Dwight, Coca-Cola, Colgate-Palmolive, Danone, Estée Lauder, General Mills, Hialeah, Hentel, Kenner, Kimberly-Clark, Kraft Heinz, L'Oréal, Mondelez, Nestlé, PepsiCo, Procter & Gamble, Reckitt Benckiser. **Underlying ROIC = Underlying operating profit after tax / annual average invested capital

40 

Source: Companies; author's analysis

Some real examples (2)

Examples of sales & profit 'guidance' from major companies (2)



Source: Companies; author's analysis

There are big differences in earnings multiples across companies, even within the same sector, reflecting different levels of investor confidence, expectation and perceived risk

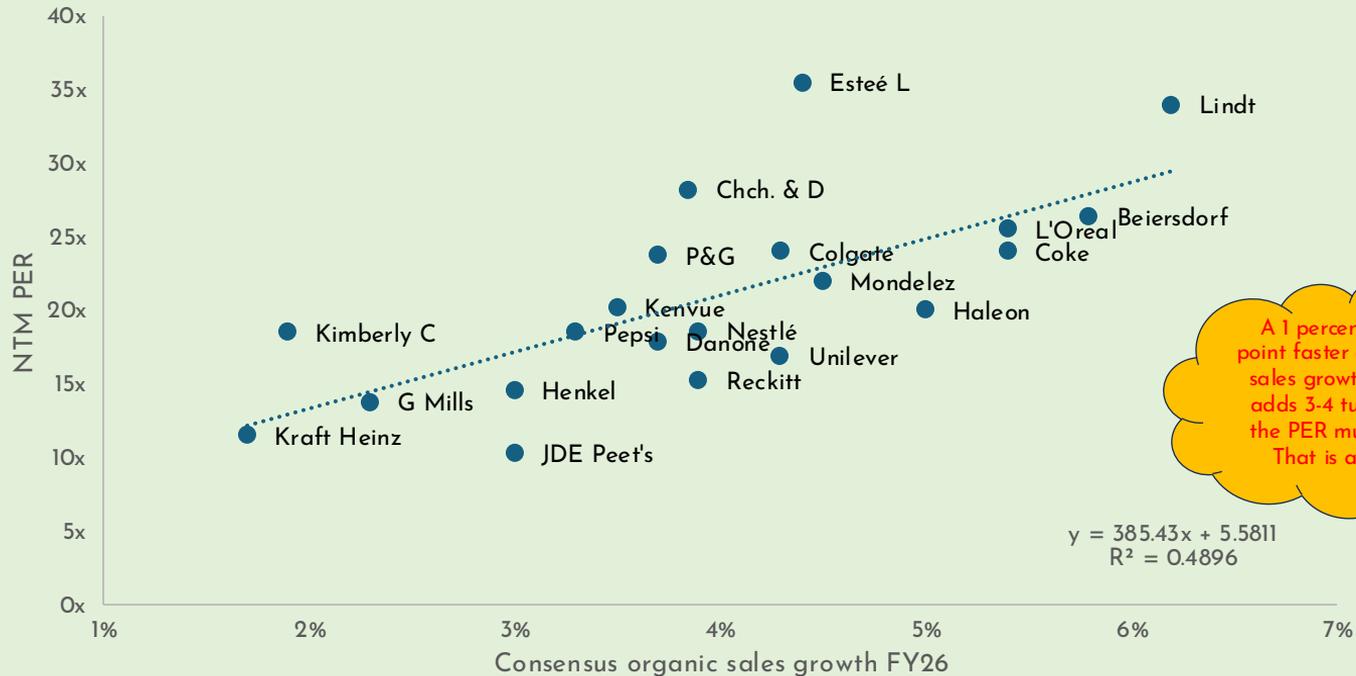
Prospective PE (price earnings) multiples across European & US consumer staples



Source: Author's analysis

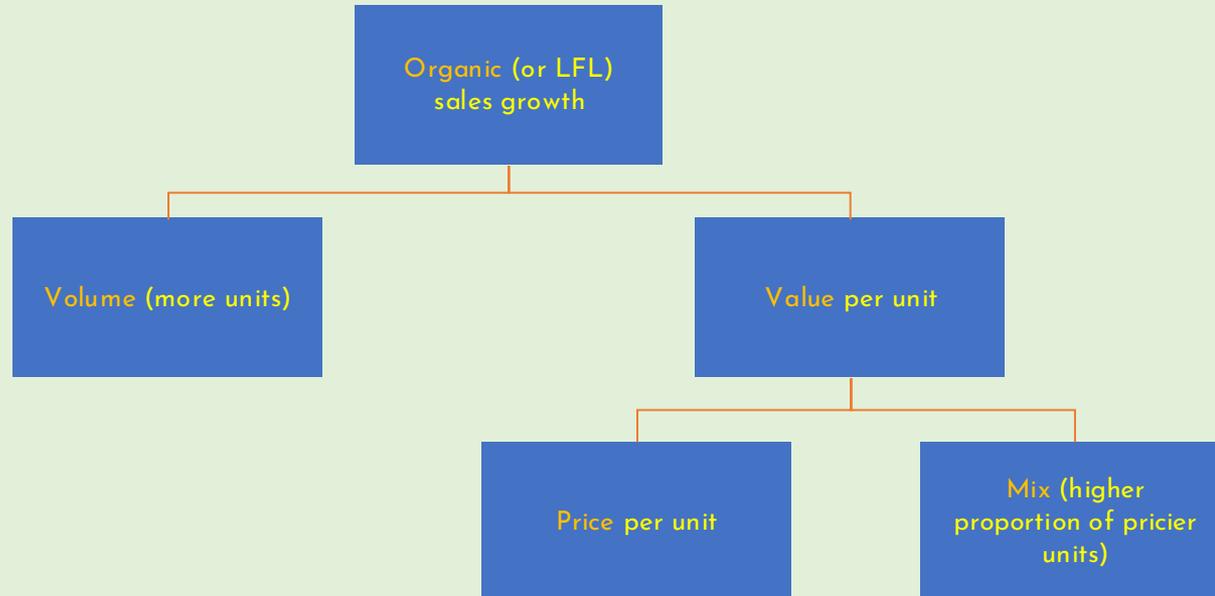
Higher rates of top line growth are strongly associated with higher valuations and hence share prices

Prospective PE multiples vs medium-term organic sales growth expectations across European & US consumer staples

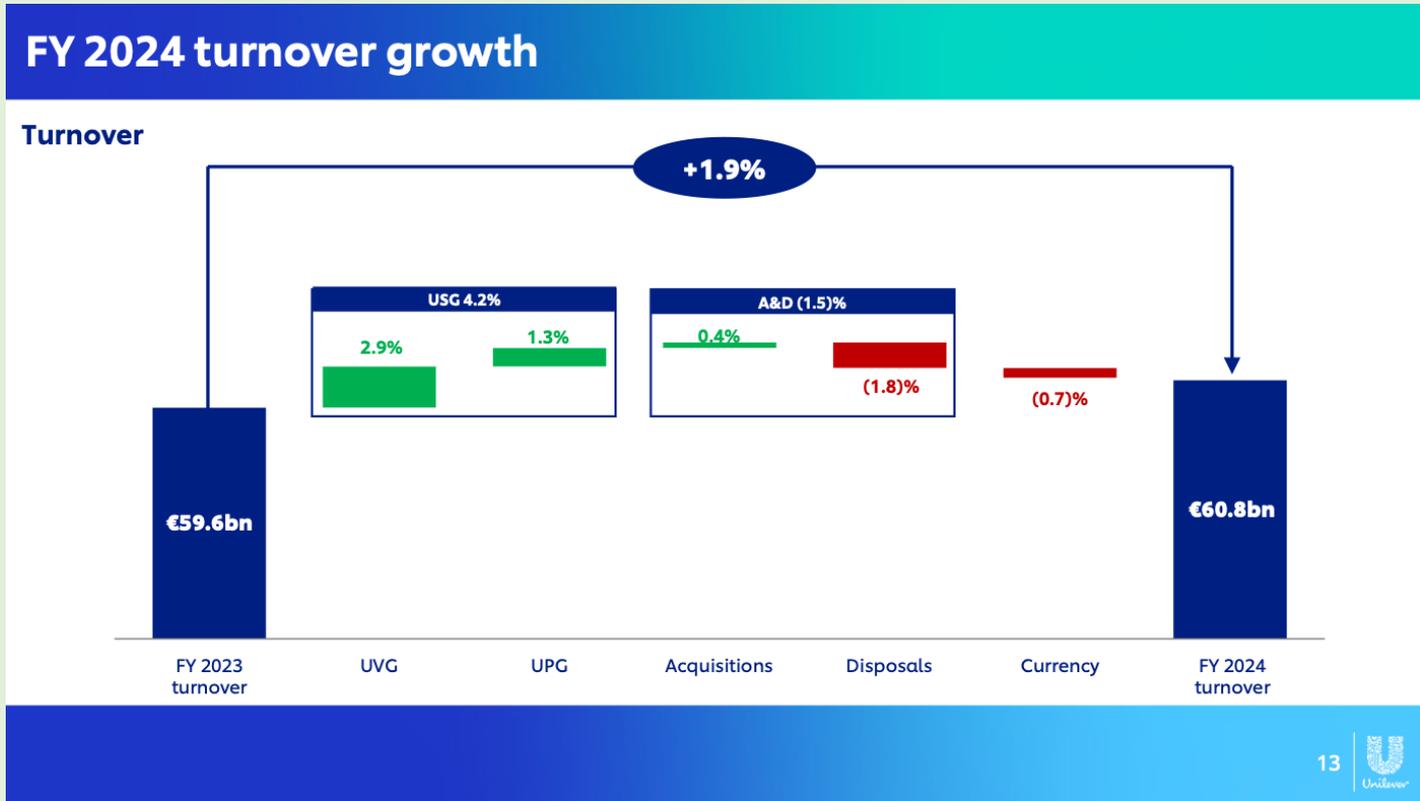


The language of organic sales growth is volume, price and mix. This differs from – but is complementary to – the language of operational marketing: penetration, loyalty, brand equity etc.

Understanding organic sales growth & its component parts



A real example: How Unilever accounted for sales growth at its FY24 results last month



Source: Unilever

Audience participation slot: calculating organic growth drivers at Johnnie Walker

Illustrative case study: organic growth drivers at Johnnie Walker (in £)

Sales report year 1

	Wholesale price	Units sold	Sales value
Red	£9.80	70	£686
Black	£16.40	20	£328
Gold	£32.30	8	£258
Blue	£135.00	2	£270
Wtd. average/total	£15.42	100	£1542

Sales report year 2

	Wholesale price	Units sold	Sales value
Red	£10.29	73	£751
Black	£17.22	22	£379
Gold	£33.92	9	£305
Blue	£141.75	3	£425
Wtd. average/total	£17.39	107	£1860



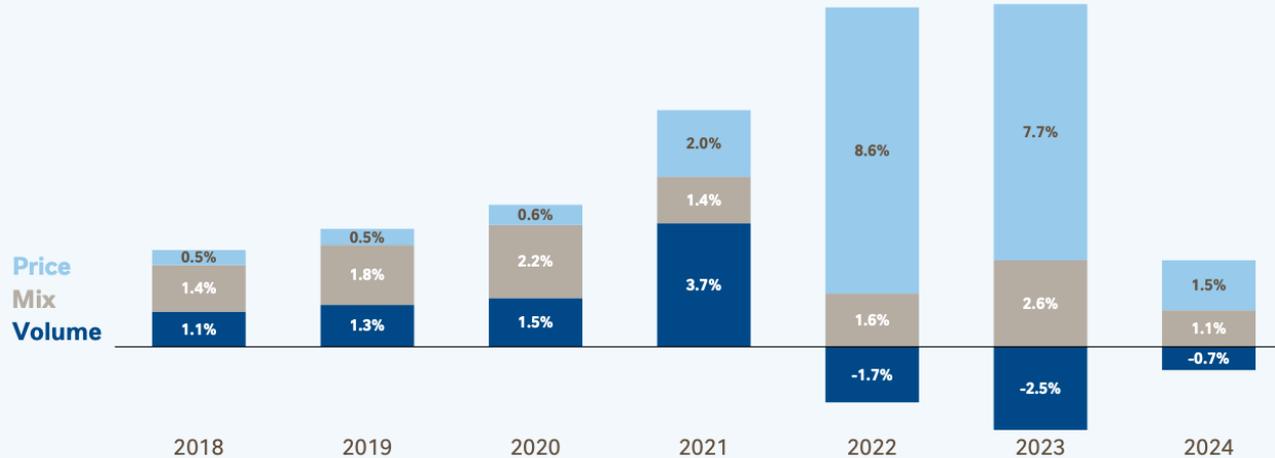
Organic sales variance year 1 vs. year 2



Now a real example: Nestlé since 2018

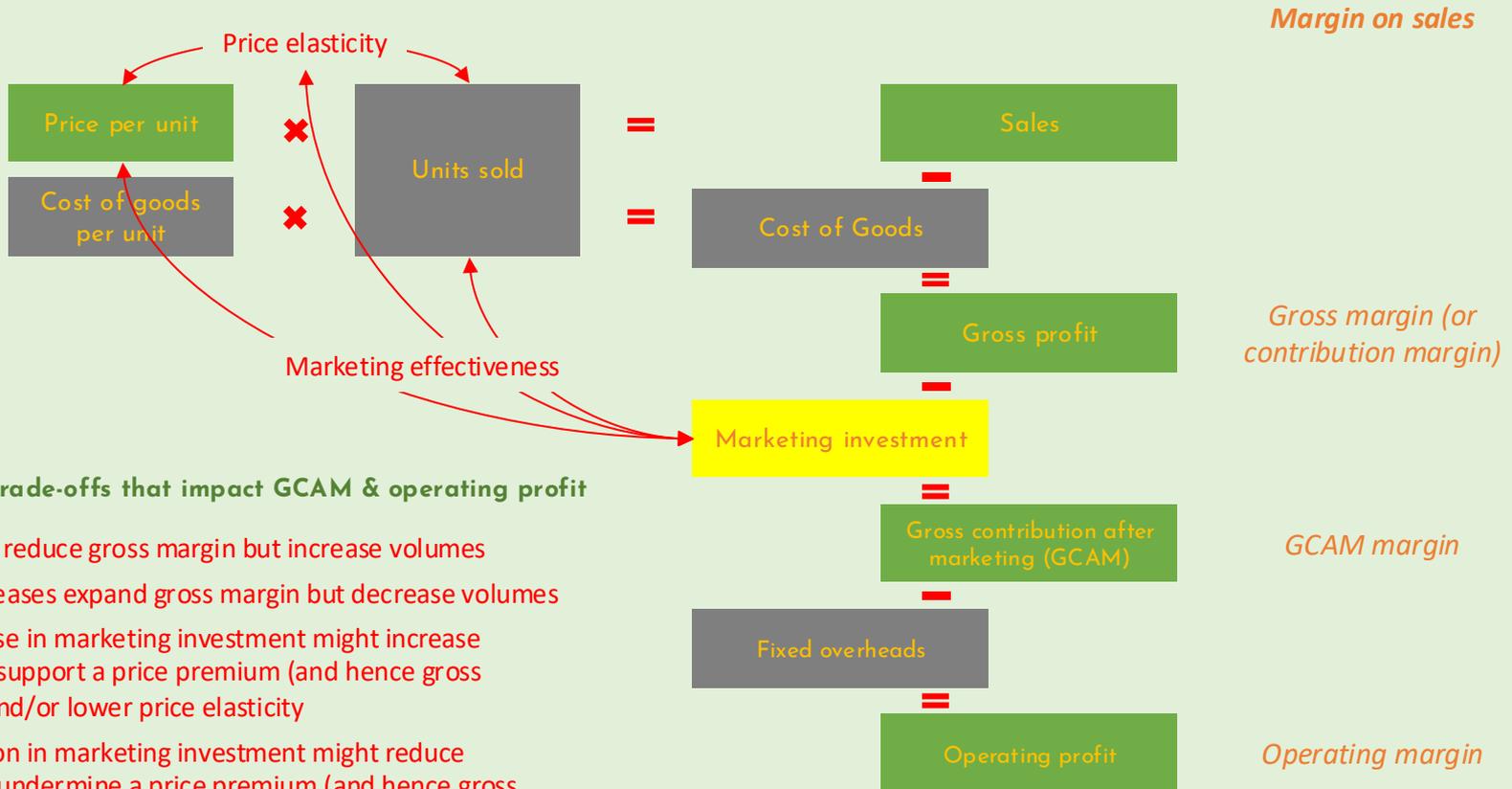
Volume, mix & price

*'We believe that as part of a FY25 margin reset Nestle should materially increase its marketing & advertising spend'
Leading investment bank research report, October 2024*



Notes: Excludes Water, Nestlé Health Science, Volume + Mix are equivalent to RIG

The 'P&L' from a marketing practitioner perspective – understanding the trade-offs in pursuit of maximising 'GCAM' in the short and long term



The big trade-offs that impact GCAM & operating profit

Price cuts reduce gross margin but increase volumes

Price increases expand gross margin but decrease volumes

An increase in marketing investment might increase volumes, support a price premium (and hence gross margin) and/or lower price elasticity

A reduction in marketing investment might reduce volumes, undermine a price premium (and hence gross margin) and/or increase price elasticity

But volume growth also drives profits and margins via the magic of ‘operating leverage’

Impact of volume growth on profitability (note GCAM = Gross Contribution After Marketing)

	Base case		Impact of a 1% volume increase	% increase		Impact of a 2% volume increase & a 5% increase in marketing	% increase
Price per unit	1.00		1.00			1.00	
Units sold	100		101			102	
Sales	100		101	1%		102	2%
Cost per unit	(0.55)		(0.55)			(0.55)	
Cost of goods	(55.0)		(55.6)			(56.1)	
Gross profit	45.0		45.5	1%		45.9	2%
Gross margin	45%		45%			45%	
Marketing	(10)		(10.0)	0%		(10.5)	5%
GCAM	35		35.5	1%		35.4	1%
Fixed overheads	(20)		(20.0)			(20.0)	
Operating profit	15.0		15.5	3%		15.4	3%
Operating margin	15.0%		15.3%			15.1%	

Use 'break-even' analysis to inform your judgements and pitch budget increases

Classic 'budgeting & forecasting' approach

	Base case	Investment case	Increase
Sales	100	108	8%
Cost of goods	(55.0)	(59.4)	
Gross profit	45.0	48.6	8%
Gross margin	45%	45%	
Marketing	(10)	(12)	20%
GCAM	35	36.6	5%
Fixed overheads	(20)	(20.0)	
Operating profit	15.0	16.6	11%
Operating margin	15.0%	15.4%	

Key assumption

'Break-even' approach or 'How much more do we have to sell to recoup the investment?'

Incremental marketing (A)	2
Contribution margin (B)	45%
Sales increase required to break-even ($A/B = X$)	4.4
Base sales (Y)	100
Required uplift (X/Y)	4.4%



CFO says:
Why should I believe your sales forecast?



CFO says:
mmm interesting...yes a c.4% sales uplift should be achievable in my experience

Seven messages this morning (reprise)

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Six things you could do tomorrow

- Familiarise yourself with the guidance your client is giving to its investors and demonstrate awareness of this in interactions. If your client is a public company, bookmark its investor relations website and review its latest results presentations or 'Capital Markets Days' (NZ example [here](#)). Easier and quicker to digest than the Annual Report. If your client is private equity-owned, check the bondholder website. If they are private, ask the client
- Where the client is a public company, set up a Watchlist in Google Finance that tracks its share price and those of its comparable peers. Check that every morning. If it shows big moves up or down, find out why and again demonstrate awareness of this. Check the earnings calendar from the Investor website (NZ example [here](#)) and on the day of announcements tune in to the results webcast and/or review the results presentation. Reflect on the implications for your brand and your budget
- Read my [article](#) in Marketing Week magazine, which summarises the ideas in this webinar in a 5-minute read
- Read [this book](#) if you want an easy canter around what moves the share price of at least one household name consumer-facing business and the effort that went into managing that. Well out-of-date, but more fun than a finance textbook
- Watch the [complete interview](#) with Fernando Fernandez, the new CEO of Unilever, for an insight into how the current generation of CEO's (and analysts) think about marketing. Essential if you are working on Unilever business
- If you don't know it already, ask the client for a calendar of their planning and budgeting cycle and whether you can be involved on your brand or business. They may refuse. In which case ask again next year.