

Corporate Marketing Accountability

Soft measures of performance give way to hard financial metrics.

Ryan Hendricks, Campaignist Inc., January 2009

Marketing Budgets – Guilty Until Proven Innocent

Today's business leaders and their stakeholders have embraced transparency and accountability like never before. Even the once private realm of salaries, bonuses, and executive perks has become a front-page courtroom drama, with profits and performance playing the roles of judge and jury. As a result, financial planners are now applying a higher level of scrutiny to the budgeting process, with every line item presumed guilty until proven innocent.

Marketing budgets are no longer under the radar. The once routine annual process of apportioning funds to corporate advertising and communications has now been put under the microscope of a new lexicon of business results analytics – *Marketing ROI*. Senior corporate management teams are asking themselves, their agencies, and consultants; “What is the return on our marketing investments, and are there more profitable ways to deploy these funds?”

According to Philip Kotler, best-selling author of “*Marketing Management*”, measuring marketing returns in terms of profits is the most critical challenge faced by marketers and businesses today.

“Getting better financial measures of the impact of marketing programs is the greatest challenge facing marketers today. Marketing has been lax in developing marketing metrics to show what particular campaigns have achieved. CEO’s are no longer satisfied with communication measures of how much awareness, knowledge or preference has been created by marketing programs. They want to know how much sales, profit, and shareholder value has been created.” Philip Kotler

Studies have shown that the effectiveness of a company's MPM processes is a strong indicator of its ability to deliver consistent growth in market share, revenue, and profits. Unfortunately for stakeholders (and fortunately for competitors) the vast majority of chief executives and their advisors are still in disagreement over how the metrics of return on marketing investment should work. The good news is that the confusion will be short-lived based on success in both academic and commercial circles to define processes and develop systems to assist in the management of marketing investments.

The Science of Marketing Performance Management (MPM)

At its core, the science of Marketing Performance Management (MPM) relies on a detailed knowledge of the financial implications of each incremental investment in identifying, understanding, contacting, converting, and cultivating prospects and customers.

In response to widespread interest, a series of books, seminars, and conferences on the topic of Marketing ROI have emerged in recent months, helping to broaden the base of understanding of best-practice approaches to improving the management of marketing investments. While tools for implementing MPM solutions are just arriving on the scene, the processes for maximizing results from advertising and communications are well-documented.

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Make no mistake, the MPM process is not for the faint-of-heart. To successfully measure and apply knowledge gained from advertising and communications to improving the results of present and future marketing efforts, every executional component of campaigns, from mass media elements (TV, radio, print, outdoor, PR, etc...) to database marketing (direct mail, email, telemarketing, etc...) and face-to-face communications (direct selling, seminars, trade shows, etc...) must be isolated, tracked, measured, and compared to alternatives for their individual ability to generate revenue profitably – a daunting challenge for any business.

Even the corporate branding team has become accountable for the sales impact of its investments in generating awareness, preference, share of voice, share of mind, brand recall, etc... While the importance of the role branding plays in positioning a company and its products in the minds of prospects and customers has not diminished, the communications created for this purpose can no longer avoid the inclusion of one or more response elements necessary for gauging its contribution to marketing returns. Regardless of the desired result of the branding investment, the benefit of adding a toll-free telephone number, website address, or other contact mechanism, with or without a call to action, far outweighs the cost.

Standard Objections Have Been Resolved

The few arguments that commonly arise from agencies and internal teams are easily resolved when examined from a Marketing ROI perspective:

Argument #1: 'Response is not the purpose of the ad! We're trying to reposition the company/product in the minds of the audience – not generate inquiries or sales!'

Resolution: *Even a miniscule response base can aid in comparing how well the positioning message has been targeted and received by audiences. There is no good reason to avoid learning from the results of communications intentionally.*

Argument #2: 'It ruins the purity of the creative execution to show a phone number or web address in the ad! Analytics should stay out of the creative development process.'

Resolution: *Regardless of the creative genius behind the execution of advertising and communications elements, its purpose is to enhance the company's ability to turn prospects into customers.*

Argument #3: 'We learn all we need to know from focus groups!'

Resolution: *While focus groups can act as a valuable source of information on how target audiences might respond to marketing communications, they are not a reliable basis for the knowledge needed to optimize Marketing ROI.*

There is no longer an excuse for ignoring accountability for any line item in the marketing budget. Even public relations investments have not escaped the net of accountability.

Steer Clear of Wasted Advertising

The solution is to put the processes in place to identify the best and worst performing mass media, database marketing, and face-to-face marketing investments. To achieve this, the matching of

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investment tactics to target audience media consumption profiles, the cost of each execution, its response rates, prospect conversion rates, contact expenses, and even the spending patterns of respondents must be used to paint a clear picture of the relative profitability of each campaign element. This final aspect – the profitability of customers acquired from marketing investments, must be analyzed within the proper context of the short- and long-term revenue streams. Seemingly unprofitable executions might be more profitable over time due to the spending patterns of acquired customers, than those that appear more profitable in the short term.

Credit card usage provides an excellent example of this. Most banks and credit card issuers will tell you, albeit privately, that their most profitable clients are those who either cannot afford or are unable to manage their finances well enough to pay their bills on time each month, but who eventually do pay. Therefore, while the results of an advertisement placed in a local newspaper might appear at first to have performed worse than a regional publication based on the income levels of the respondents, shifting budgets away from the local paper would negatively impact the company's bottom line.

Steer Clear of Unproductive Execution

In addition to understanding the relative profitability of each element of the media mix as described above, businesses wanting to maximize their Marketing ROI need to keep a close watch on the individual execution tactics used during and following the campaign. Matching the target audience purchasing profile including their status in the buying process, their preferences for where, when, and how to pay, is critical to ROI maximization. If this is done well, the cost and productivity of individual process elements such as the timing of communications, the tactics and vehicles used to follow-up on respondents, the contribution of fulfillment materials to the conversion process, and the success of staff resource and inventory planning can be optimized, further enhancing campaign returns. An in-depth understanding of the alignment between audience segments and execution strategy can often help mitigate poor results from a less than optimum performance by advertising investments.

The path to maximized Marketing ROI is not an easy one by any measure, but those who want to continue to succeed in marketing to prospects and customers, ignore it at their peril.

MPM in the Context of Enterprise Information Systems

Once the above described processes are in place to maximize Marketing ROI, the next challenge is to pull together marketing results information from multiple sources. Several existing in-house information systems such as, CRM, ERP, and other corporate applications each often contain data required to measure and manage Marketing ROI. While many businesses have become adept at gathering and sharing information on customers and prospects, sales force opportunities, suppliers and Inventories, employees and partners, and customer transactions, pulling all of the pieces together in order to gauge the financial results of completed marketing investments in order to compare and rank the performance of individual campaign elements, is still out of reach for most.

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Part of the reason for this is that each enterprise application maintains a different unit of measure at the individual record level; for CRM, it is the customer record; for ERP it is the Transaction; for SFA, the Opportunity; for SCM the Supplier; and, for HRM, the employee. At the same time, all of these discreet systems contain one or more elements that must be logically connected to each other in order to be able to properly manage campaign results and maximize Marketing ROI.

The challenge of maximizing marketing returns increases geometrically when marketing teams are dispersed over a wide geographic area and when campaigns utilize multiple channels. It becomes virtually impossible to synchronize marketing investment strategies and tactics to optimize communications and customer cross-selling opportunities.

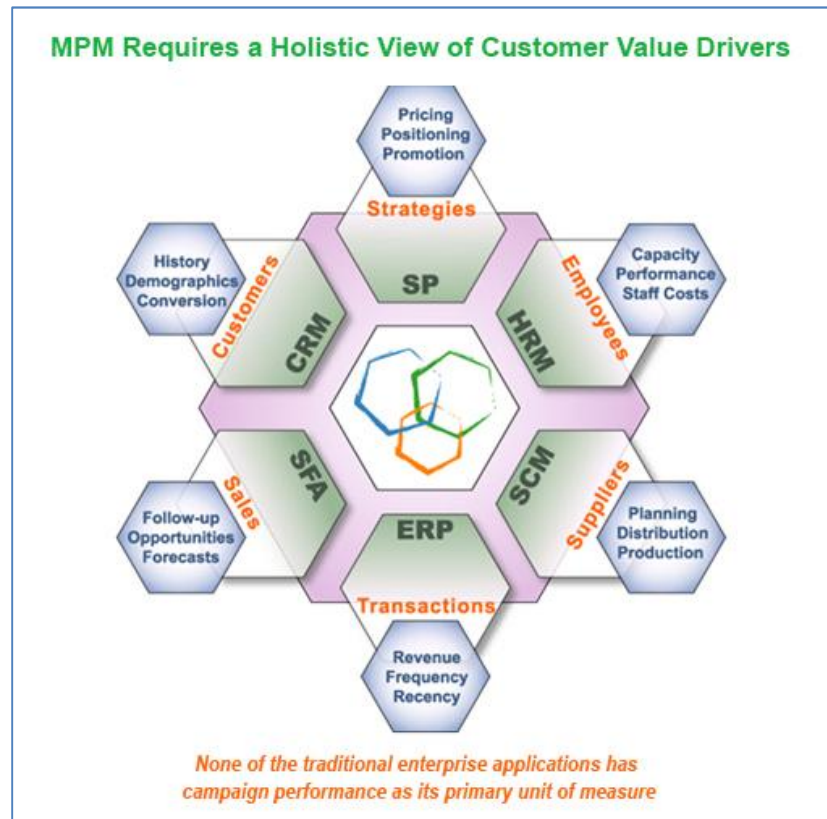
It also becomes more difficult to control and consistently implement corporate positioning and competitive strategies as the challenge of gathering, compiling, and sharing campaign results quickly enough to extend the benefit to ongoing investments is almost insurmountable with existing software tools. This means that companies find it hard to propagate successful marketing investments throughout the company and stand to repeat mistakes made in the past.

Defining the MPM Software Solution

In order to lock in the benefits of implementing Marketing ROI processes and principles throughout an organization as described above, it is critical to track results using software. To do this, it is necessary to pull together all of the relevant campaign-related data collected in the course of developing and executing marketing programs, and make it available to stakeholders in a format that is useful for strategic, operational, and analytic teams:

- **Strategic teams** need to fine-tune pricing, positioning, and media planning strategies
- **Operational teams** need to ensure campaigns are consistently executed profitably
- **Analytic teams** need better tools for understanding campaign success dynamics

In most organizations, this is traditionally done using spreadsheets or simple databases from which reports are generated on a bi-weekly or monthly basis. When analysis of one or more related



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elements such as conversion by audience or channel is needed, a series of ad-hoc queries is usually run by in-house marketing analysts. However, in today's high-velocity competitive global markets, this approach means that a significant percentage of marketing budgets are wasted as executional inefficiencies often cannot be identified until it is too late. Proper management of the marketing investment process requires on-demand access to the latest results from any desired perspective, so that marketing teams can shift underperforming investments to where they will generate the highest profits.

Examples of the seven (7) key results that need to be tracked and likely enterprise systems where they can be found include:

1. **The Contact Base** for the campaign (Media Plan, CRM and SFA systems, includes mass-media 'impressions', database marketing 'records', and face-to-face 'encounters')
2. **Response Rates** by media execution (CRM, and various other marketing databases)
3. **Conversion Rates** by media, follow-up strategy, and inventory projections (SFA, SCM, expressed as a response-to-lead-to-sale percentage)
4. **Marketing Investment** (ERP and HRM, investment defined as 'funds at risk' if no sales occur)
5. **Selling Costs** (SFA, ACCT'G, expenses required to fulfill the obligations related to delivering the promised goods and services, such as special offers, "Welcome Kits", commissions, etc...)
6. **The Cost of Goods Sold** (CGS) as a percentage of revenue (to conceive, develop, and produce), recency, frequency, and value of purchases (ERP)
7. **The Product/Service Revenue** in detail (ERP, SCM, usually found in financial databases and spreadsheets).

An effective MPM solution must be capable of tapping into multiple existing internal and/or external sources including software for managing customer relationships (CRM), human resources (HRM), sales (SFA), suppliers (SCM), transactions (e.g. ERP) and other databases where campaign results data resides and bring it together in a single application environment that understands marketing and makes it easier for marketers to:

- **Learn from past successes and failures** including which tactics and strategies worked best with which audience segments and how were they implemented;
- **Share campaign knowledge in real-time** across the enterprise to support cross-selling efforts to an installed base of customers, or to coordinate multi-location product launches and promotions;
- **Improve the media and sales channel results** of campaigns in process by making it easier to shift budgets to more productive communications investments.

By deploying a single unified platform for forecasting, tracking, and mining campaign results, businesses can ensure the full optimization of investments by geographically dispersed marketing teams. In short, a company's ability to maximize Marketing ROI consistently throughout their organization depends on the quality of the campaign investment process and the tools it has available to steer the outcome toward higher profits.

Integrating Views of Past, Present & Future Marketing Investments

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The most complex aspect of managing marketing investments in enterprises that are constantly advertising and communicating with prospects, customers, suppliers, and other stakeholders, is the integration of what is known about previous results with ongoing and planned campaign investments. This challenge stems from the absence of aggregated results from past and ongoing campaigns in a single application environment that is 'aware' of the logical linkages between the multitudes of elements affecting the outcome of marketing investments.

To successfully integrate available marketing knowledge into an application that provides strategic, operational, and analytic teams with the tools they need to apply what has been learned in the past to maximizing returns from present and future marketing investments, three (3) integrated modular application solutions are needed:

- **Modeling with a Multi-Layered Campaign Calculator:** An application capable of accurately forecasting even the most complex multi-channel, multi-stage, multi-location, integrated campaigns with access to knowledge gleaned from previous marketing investments
- **Monitoring with a Live Campaign Results Cockpit:** An application capable of providing the ability to steer investments in real-time based on the automated analysis of up-to-date marketing results, and the controls to change campaign elements that fail to meet expectations
- **Mining using a Secure Marketing Knowledge Vault:** A network-ready, collaborative, organization-wide application for mining and sharing information on campaign successes and failures, with instant access to internal and external sources of marketing data.



These solutions must also be easily linked to in-house databases and external research sources in order to ensure complete and current information on customer and market realities.

In summary, advances in the ability of businesses to manage relationships with customers, suppliers, employees, partners, and sales channels to a very detailed extent using state-of-the-art software and hardware solutions means there is no longer any reason why marketing investments cannot be managed like any other financial resource.

Companies that recognize the importance of integrating accountability into their marketing analytics, and are willing to meet the challenge of implementing solutions for ensuring maximum profits and revenues from marketing investments, stand to gain a significant competitive edge over their competition. Businesses that hesitate to embrace measures of their marketing performance as a mission-critical management approach limit their ability to grow market share and profits and face an uncertain competitive future.