Measuring marketing performance: a review and a framework

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Critics of marketing commonly allude to problems with its accountability and credibility. In order to address these issues, marketing professionals have been called on to demonstrate the contribution of marketing to firm performance. A better understanding of current research in marketing performance can better enable marketing managers to justify its expense. Given the foregoing, it was determined to (1) review the current status of marketing performance studies, and (2) develop a comprehensive, yet concise model to measure the performance of marketing. To begin, the main terms used in marketing performance are clarified. Then, a detailed review of marketing performance studies is provided. An integrated Model for Measuring Marketing Performance (MMMP) is then proposed. Finally, some conclusions are drawn and some directions for future research are suggested.

Keywords Marketing performance measurement, Marketing metrics, Literature review

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Introduction

Marketing professionals are under ever-increasing pressure to justify their firms' expenditure on marketing. Researchers in marketing have cautioned that the inability of marketing to demonstrate its contribution to firm performance has weakened its standing within firms (Ambler and Roberts 2008; O'Sullivan and Abela 2007; Stewart 2008). In order to save marketing from this crisis of confidence, there have been a number of significant calls for more research into the measurement of marketing performance (e.g., Bolton 2004; Lehmann 2004). Such research has been continuously ranked as a top priority by the Marketing Science Institute (2002, 2004, 2006).

Rust et al. (Rust, Ambler, Carpenter, Kumar and Srivastava 2004, p. 76) stated powerfully that:

> *The effective dissemination of new methods of assessing marketing productivity to the business community will be a major step toward raising marketing's vitality in the firm and, more important, toward raising the performance of the firm itself.*

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Therefore, a better understanding of the assessment of marketing performance could help marketing practitioners to quantify their contribution to the financial performance of firms. In the service of contributing to such understanding, this paper has the following research objectives:

1. To review the current status of marketing performance studies.
2. To develop a comprehensive yet concise model for measuring marketing performance.

The remainder of the paper is structured as follows. Firstly, the main terminology used in marketing performance is clarified. Then, the synthesised inter-relationships that exist between the key concepts are illustrated. Next, a detailed review of marketing performance studies is provided. A general trend is identified, and the existing studies that are related to marketing performance are categorised. Using this review of marketing performance research, an integrated Model for Measuring Marketing Performance (MMMP) is then proposed. Finally, some limitations of the research are presented and discussed, and conclusions are drawn.

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Conceptual foundation and clarification

A review of the literature has shown the interchangeable, sometimes even conflicting use of key concepts such as marketing effectiveness, marketing efficiency, marketing productivity, marketing performance, and marketing metrics. Such indiscriminate use of these key terms has led to significant confusion in the basic concepts involved. For example, Weber (2002) considers the concept ‘marketing productivity’ to be concerned with effectiveness, whereas Clark (2000) and Morgan et al. (2002) consider the concept to be concerned with efficiency. Other researchers have noted that the terms “marketing efficiency” and “marketing effectiveness” are used interchangeably (e.g. Connor & Tynan 1999). In order to promote clarity and precision of usage and to explain how the term “marketing performance” is used throughout this paper, the use of the concepts mentioned above is reviewed and analysed.

Marketing effectiveness: Drucker (1974, p. 45) considers effectiveness to be doing the right thing. In the organisational literature, effectiveness is considered from the perspective of the extent to which a certain performance achieves the goals of the organisation (Clark 2000). Similarly, in the marketing literature, marketing effectiveness is described as the extent to which marketing actions have helped the company to achieve its business goals (Ambler, Kokkinaki, Puntoni and Riley 2001).

Marketing effectiveness has attracted a great deal of attention in academic and managerial circles (e.g. Appiah-Adu, Fyall and Singh 2001; Dunn, Norburn and Birley 1994; Ghosh, Schoch, Taylor, Kwan and Kim 1994; Homburg, Grozdanovic, and Klarmann 2007; Kotler 1977; Vorhies and Morgan 2003). According to Connor and Tynan (1999), the majority of studies of marketing effectiveness have relied essentially on the use of one or more of three key approaches developed by Kotler (1977), Hooley and Lynch (1985) and Carson (1990).

Marketing efficiency: In order to clarify the distinction between effectiveness and efficiency, Drucker (1974, p. 45) states that: "*Effectiveness is the foundation of success - efficiency is the minimum condition for survival after success has been achieved. Efficiency is concerned with doing things right. Effectiveness is doing the right things*". Thus, efficiency is concerned with the outcomes of business programmes in relation to the resources employed in implementing them (Walker and Ruekert 1987). More specifically, efficiency concerns the relation between the results of marketing (marketing output) to the effort and resources put into marketing (marketing input), with the aim of maximising the former relative to the latter (Bonoma and Clark 1988). The literature on this topic uses a wide variety of methods to measure input (e.g. marketing expenses, knowledge and technology, man-hours) and output (e.g. sales, profit, services, cash flow).

Marketing productivity: Sevin (1965) was one of the first to entertain and develop the concept of productivity in the marketing discipline. The terms that are used in relation to marketing productivity are borrowed from elementary physics, where productivity equals the ratio of the effect yielded to the energy expended (Sevin 1965). From a marketing perspective, Sevin (1965, p. 9) defines marketing productivity as *"the ratio of sales or net profits (effect produced) to marketing costs (energy expended) for a specific segment of the businesses"*.

Although various conceptual and operational definitions of marketing productivity have been proposed, no consensus has been achieved (Sheth and Sisodia 2002). Marketing productivity has been considered from a range of different perspectives. It was traditionally viewed primarily in terms of efficiency (e.g. Sheth and Sisodia 1995). Much of the early work on marketing productivity made use of distribution cost analysis or functional-cost accounting (e.g. Alderson 1948; Cox 1948; Feder 1965; Parker 1962).

The traditional view of marketing productivity has improved our understanding of the identification and measurement of both the costs of marketing and the revenue that results from it (Morgan et al. 2002). It has, nevertheless, suffered from a number of serious problems with respect to concept and implementation (see Morgan et al. 2002 for a review). Firstly, any measure of efficiency depends upon knowledge of the causal relationships involved, in that it is these that link input with output. In fact, we generally have little knowledge of such relationships in marketing, and the nature of the transformations involved remains unclear. Secondly, productivity analysis tends to ignore the effect of the time lag between marketing input and the resulting change in output. Thirdly, productivity analysis places an emphasis on the amounts of marketing input and the resulting output, rather than on quality. Finally, marketing productivity analysis ignores other dimensions, such as effectiveness and adaptability. In addition to such conceptual limitations, marketing productivity analysis has one further serious flaw, in that it assumes that marketing input and the resulting output can be assessed both economically and accurately, and that such an assessment will remain stable over time.

Recently, the conceptualisation of marketing productivity has been broadened. For example, Sheth and Sisodia (2002) perceived marketing productivity from a customer-centric perspective by defining it as "*effective efficiency*", i.e. marketing productivity should include dimensions of both

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efficiency and effectiveness. Ideally, the marketing function of a company should generate loyal and satisfied customers at low cost. However, it is all too often the case that companies either create satisfied customers at unacceptably high cost, or alienate customers in their quest for marketing efficiency.

In contrast to Sheth and Sisodia's (2002) approach, Rust et al. (2004) have advanced the traditional efficiency view of marketing productivity by introducing the concept of the 'chain of marketing productivity'. This is a model that relates the specific actions taken by the firm (i.e. the Marketing Action) to the overall condition and standing of the firm (i.e. The Firm). The model starts by considering the strategies used by the firm that could include promotion strategy, product strategy, or any other marketing or firm strategy. These strategies inform the tactical marketing actions of the firm, such as advertising campaigns, efforts to improve service improvement, branding initiatives, loyalty programmes, and other specific initiatives designed to have an effect in the market. These tactical actions then influence customer satisfaction, attitudes toward the brand, loyalty, or other customer-centred attributes. For the firm, these measures may be aggregated to yield marketing assets, which may be measured by indicators such as brand quality, customer satisfaction, or customer equity. Customer behaviour thus influences the market, the changing market share of the company, and its sales. A firm's market position may thus be considered as being determined by that firm's marketing assets. The financial impact of marketing actions can be evaluated by a variety of methods, such as return on investment (ROI) or the economic value added (EVA). Publicly traded firms may also seek to increase their market value/capitalisation or shareholder value. The marketing productivity framework described herein extends the scope of a firm's marketing activities to its overall value. Marketing activities influence intermediate outcomes (the thoughts, feelings, knowledge, and ultimately the behaviour of customers), which in turn influence the firm's financial performance. Using this framework, it is possible to show how expenditure on marketing adds value for shareholders.

Marketing performance: It is somewhat surprising that a review of the literature has failed to unearth a clear and explicit definition of the term "marketing performance", even though research on marketing performance is well established (AMA 1959; Feder 1965). Bonoma and Clark (1998, p. 1) note that: "*…perhaps no other concept in marketing's short history has proven as stubbornly resistant to conceptualization, definition, or application as that of marketing performance…*".

The only consensus that has been reached in both the strategic (e.g. Chakravarthy 1986; Morgan and Strong 2003) and marketing literature (e.g. Clark 2000; Clark and Ambler 2001; Morgan, Clark and Gooner 2002; Vorhies and Morgan 2003) is that marketing performance is multidimensional in nature. However, that which constitutes a superior marketing performance may differ between businesses (Vorhies and Morgan 2003). Because the effectiveness and efficiency dimensions of performance may not converge and may even be inversely related in the short term (Bhargava, Dubelaar and Ramaswami 1994), firms tend to make important decisions that reflect a trade-off between emphasising either effectiveness or efficiency in the setting of their marketing goals and allocation of resources (Walker and

Ruekert 1987). Following on the approach used by Homburg (2007, p. 21), marketing performance is herein defined as: "*…the effectiveness and efficiency of an organization's marketing activities with regard to market-related goals, such as revenues, growth, and market share…*".

Ambler (2000) also points out a lack of precision in the terminology used to describe marketing performance. He proposes the adoption of the word 'metric' to capture a top-level measure of marketing performance (Shaw and White 1999). The term "marketing metrics" will now be discussed.

Marketing metrics: Ambler (2000, p. 61) provides a detailed explanation of marketing metrics:

> *A 'metric' is a performance measure that top management should review. It is a measure that matters to the whole business. The term comes from music and implies regularity: the reviews should typically take place yearly or half-yearly. A metric is not just another word for measure – while all metrics are measures, not all measures are metrics. Metrics should be necessary, precise, consistent and sufficient (i.e. comprehensive) for review purposes. Metrics may be financial (usually from the profit and loss account), from the marketplace, or from non-financial internal sources (innovation and employee).*

The Marketing Science Institute (2004) defines marketing metrics as: "*…the performance indicators top management use (or should use) to track and assess the progress - specifically the marketing performance - of a business or business unit*."

In summary, some of the basic terminology of marketing, such as marketing effectiveness, marketing efficiency, marketing productivity, marketing performance and marketing metrics, has been the cause of considerable conceptual confusion in the literature. Given this confusion, the first objective of this paper was to discuss these concepts individually and to draw distinctions between them. Table 1 (overleaf) summarises the definitions of these concepts and the related literature.

These concepts must not be seen as being isolated from one other, rather they are highly inter-related. Using the review of the literature given above, some inter-relationships between these terms may be seen, as illustrated in Figure 1 (overleaf). There is general agreement regarding the multidimensionality of marketing performance, with marketing efficiency and marketing effectiveness being two subcategories of the broader notion of marketing performance. The traditional view of marketing productivity is concerned primarily with the effect of efficiency on the marketing function (shown as the - - - - - line in Figure 1), but the modern view considers marketing productivity to include both marketing efficiency and marketing effectiveness (shown as the – – – - - line in Figure 1). As a result of these contrasting views, the term "marketing productivity" will not be used in this study, in order to avoid confusion. Because the concept of marketing performance reflects its multidimensional character and has proved to be less controversial, the term "marketing performance" will be used. O'Sullivan and Abela (2007) also adopted this term in their study of the relationship between marketing performance and firm performance.

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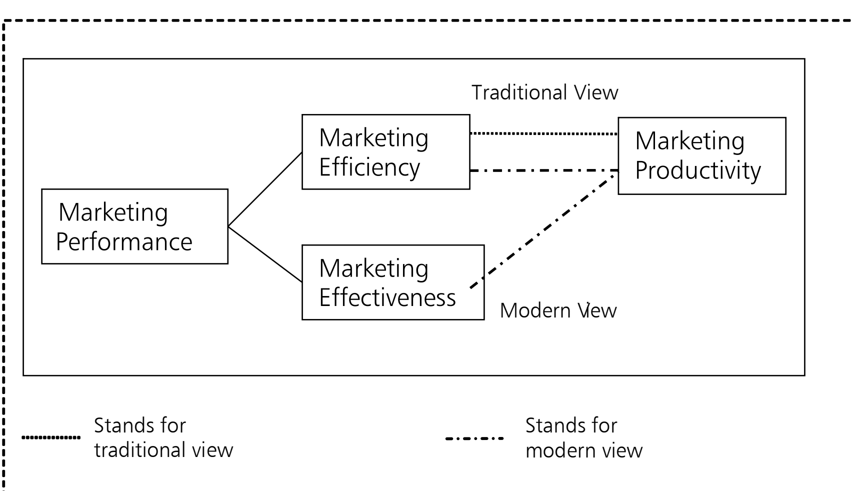
Table 1 Summary of definitions of key concepts

Concept	Definition	Literature
Marketing Effectiveness	Doing the right thing. Comparisons of performance to the goals formulated from market strategy.	(Appiah-Adu, Fyall and Singh 2001; Clark 2000; Dunn, Norburn and Birley 1994; B C Ghosh, Schoch, Kwan, Kim, and Yau 1993; B. C. Ghosh, Schoch, Taylor, Kwan and Kim 1994; Kolter, Gregor and Rodgers 1977; N. A. Morgan, Clark and Gooner 2002; Norburn, Birley, Dunn and Payne 1990; Webster 1995)
Marketing Efficiency	Doing things right. Comparisons of output from marketing to input of marketing	(Bonoma and Clark 1988; Clark 2000; Walker and Ruekert 1987)
Marketing Productivity	- The ratio of sales or net profits (effect produced) to marketing costs (energy expended) for a specific segment of the business - Effective efficiency.	(Bucklin 1978; Dublinsky and Hansen 1982; Feder 1965; Sevin 1965; Sheth and Sisodia 2001, 2002; Skinner 1986; Weber 2002; White, Miles and Smith 2001)
Marketing Performance	A multidimensional process that includes the three dimensions of effectiveness, efficiency and adaptability; the effectiveness and efficiency of and organisation's marketing activities with regard to market-related goals, such as revenues, growth, and market share.	(Ambler and Kokkinaki 1997; Ambler, Kokkinaki and Puntoni 2004; Bonoma and Clark 1988; Bonoma 1989; Buzzell and Chussil 1985; Clark 1999, 2000; Eccles 1991; Feder 1965; Herremans and Ryans 1995; Kaplan and Norton 1992; N. A. Morgan, Clark and Gooner 2002; Welch and Welch 1996)
Marketing Metrics	The performance indicators that top management use (or should use) to track and assess the progress - specifically the marketing performance - of a business or business unit.	(Marketing Science Institute 2004)

Figure 1 Synthesised inter-relationships among the key concepts



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A review of marketing performance studies

This section starts with an identification of general trends in the use of marketing performance measures. A categorisation of studies related to marketing performance is then given. Finally an integrated Model for Measuring Marketing Performance (MMMP) is proposed.

General trend of marketing performance measurement

Although there is little consensus on how to measure marketing performance, some general trends may be identified from studies of marketing performance. Clark (1999) provided a review of the history of measuring the performance of marketing and suggested three shifts as shown in Figure 2 (overleaf).

Firstly, there was a move from the use of financial to nonfinancial measures of output (shift No.1 in Figure 2). Early work on the measurement of marketing performance focused mainly on the financial measures of profit, sales (unit and value) and cash flow (Bonoma and Clark 1988; Feder 1965; Sevin 1965). There is some unease about the use of financial measures to assess business performance, however (Eccles 1991). Traditional accounting systems have been criticised for the lack of consideration they give to long-term factors (Chakravarthy 1986). Newer, nonfinancial measures of output, such as customer satisfaction, customer loyalty, and brand equity have attracted considerable research interest (Clark 1999). Davidson (1999) also recognised the growing importance of nonfinancial measures of performance in his emphasis of the fact that intangible assets, such as brand, technology, competence and customer loyalty, have gradually become more important measures of corporate performance.

Secondly, there has been an expansion from the measurement of just the output yielded by marketing to measuring the marketing input as well (shift No. 2 in Figure 2). Marketing activities (input) such as marketing audit, marketing implementation, and market orientation lead to intermediate outcomes such as customer satisfaction, customer loyalty, and brand equity, which in turn lead to financial output. The intermediate outcomes may therefore be considered as marketing assets (Srivastava, Shervani and Fahey 1998) that may be used to produce superior financial performance.

Thirdly, there has been a gradual change in emphasis from the use of one-dimensional to the use of multidimensional measures of performance (shift No.3 in Figure 2). Bonoma and Clark (1988) and Walker and Ruekert (1987) suggested independently that the measurement of marketing performance should include the assessment of both marketing efficiency and marketing effectiveness. More researchers now agree that marketing performance is multidimensional (e.g. Ambler, Kokkinaki and Puntoni 2004; Vorhies and Morgan 2003).

More recently, a new trend has appeared that links marketing performance to firm value, and in particular to shareholder value (shift No.4 in Figure 2) (Lehmann 2004; Luo and Bhattacharya 2006; Luo and Donthu 2006a; Rust, Ambler, Carpenter, Kumar and Srivastava 2004). This trend has emerged due to demands for marketing to have greater accountability and credibility (Luo and Donthu 2006b; O'Sullivan and Abela 2007; Stewart 2008). For marketing professionals truly to occupy an equal seat at the executive table,

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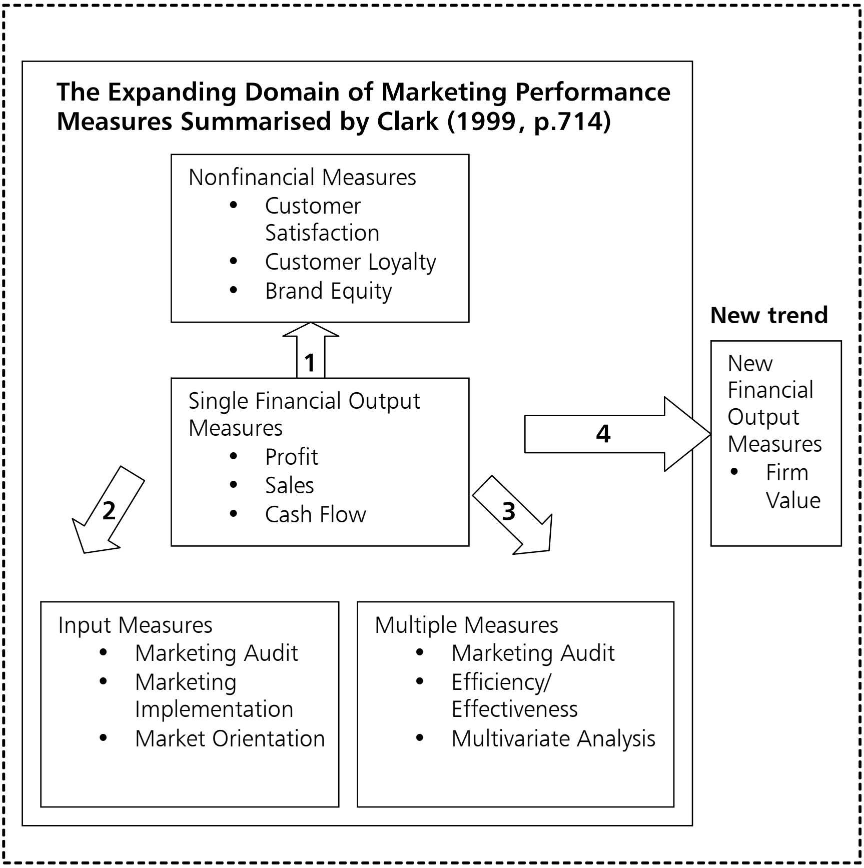
Figure 2 General trends in the measurement of marketing performance



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they must define and deliver quantitative measurements that demonstrate the contribution of marketing to the value of the firm (Lehmann 2004).

As a result of this requirement, the number and variety of measures that are available has increased. While companies rarely suffer from having too few measures (Kaplan and Norton 1992), it has been suggested that marketing researchers should develop sets of measures that are small enough to be manageable but comprehensive enough to give an accurate evaluation of performance (Clark 1999). Figure 2 shows the general trend regarding the measurement of marketing performance measurement.

Categorising studies related to marketing performance

According to O'Sullivan and Abela (2007), research on the measurement of marketing performance may be divided into three streams, namely (1) the measurement of marketing productivity (e.g., Rust, Ambler, Carpenter, Kumar and Srivastava 2004), (2) the identification of metrics in use (e.g., Ambler 2000; Barwise & Farley 2004), and (3) the measurement of brand equity (e.g., Aaker and Jacobson 2001; Ailawadi, Lehmann and Neslin 2003). However, this classification is incomplete and needs to be updated in order to incorporate more recent studies. For this reason, the study described herein provides a comprehensive review of studies related to marketing performance. As a result, the following research themes are identified (see Table 2 for a summary): marketing accountability and credibility, marketing productivity, the interface between marketing and accounting, linking marketing performance to financial performance, the selection of metrics, and the use of marketing metrics in organisations. The paper further identifies those metrics that are most frequently used to link marketing to firm performance. The key metrics are customer satisfaction/customer lifetime value, branding/brand equity, innovation, and market share.

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Table 2 Categorisation of studies related to marketing performance

Research field	Study
Marketing Accountability and credibility	(Stewart 2008; Verhoef and Leeflang 2009) O'Sullivan and Abela 2007 Luo and Donthu 2006b)
Marketing Productivity/ Marketing performance Assessment	(Ambler and Roberts 2008; Bucklin 1978; Bush, Smart and Nichols 2002; Clark 2000; Connor and Tynan 1999; Davidson 1999; Day and Fahey 1988; Donthu, Hershberger and Osomonbekov 2005; Dublinsky and Hansen 1982; Duffy 2002; Kotler 1977; McGrath 1993; Mehrotra 1984; Morgan, Clark, and Gooner 2002; Murphy 1997; Rust, Lemon and Zeithaml 2004; Rust, Ambler, Carpenter, Kumar and Srivastava 2004; Selnes 1992; Sevin 1965; Sheth, Sisodia and Sharma 2000; Sheth and Sisodia 2002; Skinner 1986; Thomas 1984; Weber 2002; White, Miles and Smith 2001)
Marketing and Accounting Interface	(Brownlie, Saren, Wensley and Whittington 1999; McManus and Guilding 2008; Phillips and Halliday 2008; Sidhu and Roberts 2008; Ward 1995)
Linking Marketing performance to financial performance	(Ambler 2003; Bolton 2004; Gao and Bradley 2007; Lovett and MacDonald 2005; Luo and Donthu 2006a; O'Sullivan and Abela 2007)
Marketing Metrics Practice in organisations	(Barwise and Farley 2004; O'Sullivan 2007)
Selection of Metrics	(Ambler, Kokkinaki and Puntoni 2004; Clark 1999; Farris, Bendle, Preifer and Reibstein 2009)
Key Metrics Identified:	
Customer satisfaction/ Customer loyalty/retention customer lifetime value	(Aksoy, Cooil, Groening, Keiningham and Yalçin 2008; Anderson and Sullivan 1993; Hogan, Lehmann, Merino, Srivastava and al. 2002; Kumar and Petersen 2005; Tuli and Bharadwaj 2009; Wiesel, Skiera and Villanueva 2008)
Branding/brand equity	(Aaker and Jacobson 1994; Ambler and Roberts 2008; Krasnikov, Mishra and Orozco 2009; N. A. Morgan and Rego 2009; Sriram, Balachander and Kalwani 2007)
Innovation	(Sorescu and Spanjol 2008; Zhou, Yim and Tse 2005)
Market share	(Clark 1999; Kaplan and Norton 1992)

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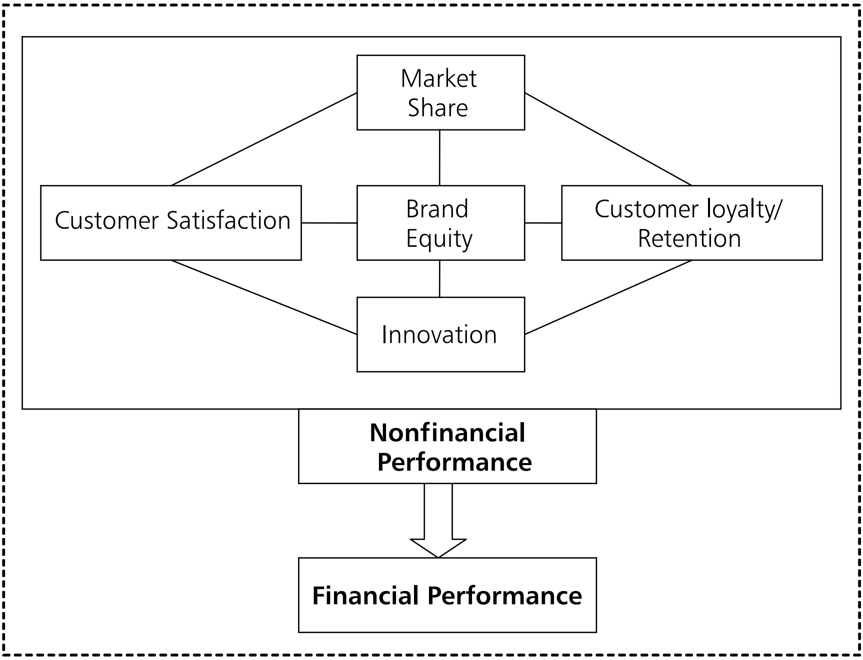
Developing an integrated framework for measuring marketing performance

From the literature on marketing performance, it may be seen that a system that incorporates nonfinancial measures into new financial ones is urgently required. Although there is no generic tool for measuring marketing performance, Clark (1999) suggests that better use should be made of the existing measures, rather than devising new ones. Judging from the literature, five dimensions of the measurement of marketing performance are the most crucial: market share, customer satisfaction, customer loyalty/retention, brand equity, and innovation.

Given the rapidly rising costs of marketing, marketing managers are under pressure to provide more convincing evidence that "*…planned marketing strategies will indeed yield more value for the company and its shareholders…*" (Weber 2002, p. 705). As a result of increasing pressure to justify marketing expenditure, a better measure of marketing performance that can demonstrate the contribution of marketing to the value of the firm is clearly required (Stewart 2008). A performance measurement model that can provide the link between nonfinancial performance and financial performance is needed. In consequence, the five dimensions of measuring marketing performance should be linked with financial performance, and to this end a synthesised model for measuring marketing performance is proposed (Figure 3). As illustrated in Figure 3, these five constructs (market share, customer satisfaction, customer loyalty/retention, brand equity, and innovation) form the nonfinancial measures, and their joint impact on financial performance should be examined. These joint impacts are shown as lines that link the five constructs in the upper box.

Figure 3 Model for measuring marketing performance (MMMP)



Conclusions and future research

The twin aims of this paper are to review the current status of marketing performance studies and to develop a marketing performance measurement model. This study contributes to the marketing literature in several ways. Firstly, by examining a number of marketing performance related terms, the study makes the first attempt to highlight some distinctions between these concepts and to draw the inter-relationships between them. Secondly, by incorporating more recent studies, the present research has identified key research themes on the measurement of marketing performance, thus providing a more holistic picture of the current status of marketing performance studies. Thirdly, the study proposes a new integrated Model for Measuring Marketing Performance (MMMP). The model provides an integration of existing measures of marketing performance and new measures of financial performance. Therefore, the model enables marketing professionals to demonstrate the contribution of marketing to firm performance.

Following the proposed theoretical model for measuring marketing success, an immediate need for further research is to apply the model using empirical data obtained from firms.

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