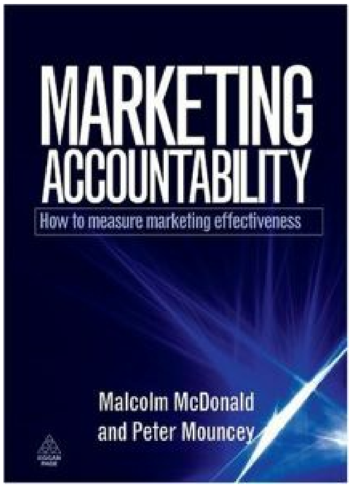

Book Marketing Accountability

How to Measure Marketing Effectiveness

Malcolm McDonald and Peter Mouncey
Kogan Page, 2009
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Recommendation

Forget the past; marketing managers are now accountable for the financial and sales results they achieve with the money they spend. They can claim – with the backing of some marketing professors – that too many factors in the sales and marketing orbit are out of their control: the economy, fickle consumers, onerous competition, balky delivery problems, murky customer service, and so on. True, all of these real-life happenstances can undermine clever ads and promotions. Even so, corporate executives are no longer willing to give marketing a pass on accountability. Professor Malcolm McDonald and marketing measurement expert Peter Mouncey offer a useful solution: a layered evaluation system that firms can apply to align their marketing activities with their strategies and financial results. The authors provide metrics and tactics marketers can rely on to substantiate the impact of their work. The book is pretty technical, but its clear, two-color layout helps make its charts and graphs more accessible. *BooksInShort* recommends it most warmly to marketers who already have some analytical expertise.

Take-Aways

- Marketing has a bad reputation with chief executives and top corporate officers because of its former lack of fiscal accountability.
- Many senior executives focus almost exclusively on controlling expenditures and not on building revenues – but that is marketing's mission.
- Leaders should stop viewing marketing expenses as costs and see them as investments.
- Executives should develop and implement strategic three-year marketing plans, and try to extrapolate from one-year plans.
- For marketing to be accountable, its costs and benefits must be fully measurable.
- Make sure you quantify the right factors, consistently and correctly.
- Employ a rigorous "marketing due diligence" process to ensure that your marketing programs make strategic and financial sense, and create intrinsic value.
- Marketing to audience segments requires knowing their geography, "demographics and psychographics."
- Strategy requires implementation, but every action incurs costs.
- Making the process of marketing accountability work requires having quality data.

Summary

Accountability: Marketing's Fiscal Imperative

For far too long, marketing was not fiscally accountable. That earned the field a terrible reputation among chief executives and other corporate leaders, many of whom still see marketing as primarily tactical, not strategic and, therefore, not important. Conversely, most marketers don't understand corporate finance or shareholder value. Two professional marketing associations, the Marketing Science Institute and the Association of National Advertisers, say this must change. They urge their members to wake up and pay for the coffee.

> "The ultimate test of marketing investment, and indeed any investment, is whether it creates value for shareholders."

The way corporate bosses think doesn't help marketing prove itself. Most CEOs and CFOs focus more on budgets than on revenues, which is what marketing produces. This is an odd problem because more than 80% of a company's value is made up of its intangibles, such as brand awareness, which marketing creates and builds. Hard-number accounting captures only tangible assets, such as equipment. To get a glimpse of the relatively meager attention that corporate leaders pay to marketing, just notice that on most profit-and-loss statements, costs are line-itemed in detail, while revenues – which come from marketing-generated sales – are aggregated on one line. As a result, strategy turns into financial forecasting. To reflect what marketing accomplishes, such reports should show detailed revenue sources as well as expenses.

> "Marketing due diligence will become as de rigueur for assessing intangible value as financial due diligence."

Marketing may also seem ephemeral to top executives because its expenditures take time to generate returns. Top officers need to understand strategic three-year marketing plans (not just one-year plans "extrapolated" over time) just as they already understand long-range budgeting plans. Marketing managers can solve their field's image and accountability problems with one remedy: rigorous analysis of marketing's expenses in light of its accomplishments. This means demonstrating its pivotal role in achieving corporate objectives, profits and results. That goal calls for beginning with a "marketing planning process" that includes these components:

- **A "mission statement"** – Avoid meaningless generalities. In one page, define what your firm offers its constituents. Outline its "competences" and activities. Envision its future.
- **"Corporate objectives"** – Discuss the earnings you want your marketing to achieve; the shape of your business, products and facilities; and your fiscal and production goals. Describe the firm's image-making objectives and its social responsibilities.
- **"Marketing audit"** – Clarify important marketing concerns, both external (market share, market standing and competitive situation) and internal (sales, profit margins, market research, marketing activities). Summarize your audit with a SWOT analysis covering "internal strengths and weaknesses" plus "external opportunities and threats."
- **"Assumptions"** – Cautiously define expectations for your industry, firm and products.
- **"Marketing objectives and strategies"** – Don't confuse the two. Objectives are goals; your strategy is how to attain your goals. Gather data for estimating feasible results.
- **"Alternative plans and mixes"** – Know what your fallback position entails.
- **"Budget"** – Craft a "dynamic," realistic three-year financial prospectus, with a detailed zero-based budget for year one. Define and plan your marketing expenses with an "objective and task approach." Many companies view these expenditures as costs they must control, when, in fact, a firm should see them as investments with real value.
- **"First-year detailed implementation program"** – Draft your tactical plan for the first year. Define a marketing strategy that carries out your objectives and subobjectives.

> "'Data literacy' is a prerequisite for marketing in today's world."

Use market analysis to make sure your marketing efforts deliver both value and earnings. Measure "marketing effectiveness" on three levels:

1. **"Shareholder value added"** – Because investors care primarily about generating returns and avoiding risk, understand the dangers in both your marketing strategy and your action plan. Marketing must provide a better return on its cost than the firm could generate from using the money some other way. The direct channel from marketing plans to shareholder value has four steps: Identify customers, appeal to them so they select your product, earn a greater market share and generate more earnings for investors.
2. **"Linking activities and attitudes to outcomes"** – Establish specific objectives in "market penetration, product development, diversification" and "market extension." Your goals might include reaching deeper into current markets, selling your goods more widely, "developing new products for existing markets" and "developing new products for new markets." For each area, define "critical success factors" and strategies. This analysis will help you select which marketing factors to measure.
3. **"Micro measurement"** – Numerous tools and techniques for calculating specific marketing expenses have become increasingly sophisticated over the past 50 years, so micro measurement is not a problem for most companies.

"Marketing Due Diligence"

Establish a rigorous process for reviewing your marketing strategy. Conduct an investigation that examines your results at the level of strategic business units (SBU), such as a tech company's PC division. Realize that "strong strategy reduces the risk associated with a promised return." Marketing due diligence evaluates your strategy for that kind of solidity, and assesses your program's risk and shareholder value. First, focus your strategic decisions. Determine the targeted SBU's goals and decide how marketing can help the unit increase its revenue. Identify the right customers and find out what they want. "Risk-adjusted" returns matter to your stakeholders, so ask questions that help you evaluate three kinds of risk:

1. **"Market risk"** – Is the market as strong as your plan implies? Are your assumptions about the size of the market valid?
2. **"Share risk"** – Will your strategy deliver the targeted market share? Do you anticipate growth against well-established competitors?
3. **"Profit risk"** – Does the strategy achieve the planned revenue? Are your cost and price assumptions right?

> "Thirty-nine percent of organizations have no data quality standards in place, and 56% have no capability for tracking whether their data quality is improving or not."

Be sure that you measure the right factors. Scrutinize your marketing budget. Know how much you are spending, for what and when. Try to calculate your returns. Your "marketing metrics model" should include:

- **“Corporate performance”** – Consider your targets, results and performance forecasts.
- **“Market segments”** – Break markets down into their internal “target groups.”
- **“Impact factors”** – Pay attention to “qualifying factors,” the services that clients expect as a matter of course; “competitive advantage factors,” the things you do that directly fulfill buyers’ wishes; and “productivity factors,” which enable you to cut costs.

> “If you can’t measure something, you can’t understand it. If you can’t understand it, you can’t control it. If you can’t control it, you can’t improve it.” (H. James Harrington, Ernst & Young)

Using marketing metrics productively requires having a plugged-in analytical team. Include people who manage marketing research, planning, communications, finance and customer service. Pay close attention to the “heart of successful marketing,” segmentation, which requires:

- **“Market definition”** – To use segmentation, you must know your market and how it works. Identify your buyers, including their geographic boundaries, “demographics and psychographics.”
- **“Market mapping”** – Define the “distribution and value-added chain between customers and suppliers in your targeted market.”
- **“Listing who buys”** – Identify the decisions makers who represent “micro-segments.”
- **“Combining...lists of who buys what”** – Drill down to isolate further segments.
- **“Listing why...micro-segments buy what they buy”** – To sell to subsets of people, you must learn their wishes and what benefits they seek. Determine who your buyers are, what goods they purchase, and “where, when” and “how” they use your merchandise.
- **Using “cluster analysis”** – Join micro-segments together into larger chunks if the resulting audiences are big enough to merit independent marketing. Your “final market segments” should be groups of prospects with similar traits and needs.

Segmented Strategy

You have identified your objectives, major market segments and “segment metrics.” Now you can develop your strategy and specific performance standards. Use “impact factor analysis” to ensure that you’re giving consumers in each segment what they want and to evaluate your advantages, both competitively (how you do more for your customers) and operationally (in what ways you get more accomplished). Focus your resources according to “external market research.” Make sure your analysis is objective, particularly when you’re comparing your company with its competitors

> “No CEO or CFO wants to hear that a marketing investment was a gamble.”

Strategy requires implementation, but every action incurs costs. So budget expected outlays and calculate the value of your expenses in light of the benefits they purchase, like increased sales. Base your budget on the cost of the resources you need. Focus expenditures on your objectives and the steps needed to market your goods or services to relevant audiences. Tie your plan of action to your corporate goals. Account for and measure every calculable increment, such as the results of various programs. Identify who needs to see the budget and assessment plans for each marketing step, who will do the measuring, how often and with which metrics. Link “resource allocation to defined actions” so you target your marketing expenditures based on their proven impact. When you are determining which metrics give you the best information and how to use them, keep these factors in mind:

- Correlation does not equal causation.
- Don’t attempt to evaluate intermediary elements, such as “awareness, beliefs, attitudes” and “intentions.”
- Quantify as comprehensively as possible. Each marketing activity, marketing goal and targeted market segment requires a specific evaluation.
- Use econometrics to determine statistically how each marketing step earns money.
- Track “buying cycle” stages by “breaking down measures of marketing and sales” impact.
- “What gets measured gets done,” as the late business guru Peter Drucker once taught.

Pivot Point: Data Quality

You can’t measure anything properly if you do not have adequate information, so establish a good “data management strategy.” Make sure your board members and top executives fully support your approach. You need quality statistics that your active SBUs manage instead of your information technology department. Regularly audit any new data captured during recurring events. Using figures correctly can differentiate your firm from its competitors, since inferior data quality sometimes can cost companies between 15% and 25% of their operating profit.

> “The good thing about not having a strategy is that failure comes as a complete surprise and is not preceded by a long period of worry and depression.” (John Perton, Boston College)

Chief financial officers and their support staffs are good with “detailed costs and cash flows,” that is, “counting the paper clips.” In contrast, marketing executives should excel at “counting market share, sales and top-line revenue.” Each approach on its own has its limitations, so your best strategy is to combine them into one seamless system. A strong marketing accountability program must fully specify all sales, revenues and cost measures. Such analyses should cover the “short-, medium- and long-term.” Your combined measurements should establish your company’s value to its shareholders. In the final analysis, that is what marketing accountability means.

About the Authors

Malcolm McDonald, Emeritus Professor at Cranfield University School of Management, is an international marketing consultant. **Peter Mouncey**, director of the Cranfield Marketing Measurement and Accountability Forum, is a marketing education consultant.
