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Achieving Marketing ROI In Our Lifetime

By Tim Munoz

One of today's white-hot business issues is how to measure Marketing Return On Investment (MROI). Indeed, for many of the most successful global companies, there has been a surprising lack of progress towards the age-old goal of correlating inputs to outputs and in bringing the scientific method to bear on the black hole of marketing expense. Over 75 years ago, retail pioneer John Wanamaker famously issued the challenge to marketers everywhere when he declared, "I know that half my investment in advertising is wasted, but the trouble is, I don't know which half."

Today, the marketing levers that companies must pull to generate demand and to create preference are significantly more complex than traditional marcom activities alone. Mass media continues to be the opiate of choice for many, but enough successful brands have emerged without big advertising budgets — Amazon, Starbucks, eBay, Pret A Manger, et al. — to prove that there are many ways to create brand equity. Most companies now invest in a range of integrated marketing activities (advertising, promotions, direct marketing/Internet, sponsorships, etc) designed to move prospects through a continuous process of awareness, consideration, purchase and loyalty, a.k.a. "the purchase funnel." And marketing practitioners all build some set of metrics for the funnel into their marketing plans. So, if most companies are utilizing a range of tactics and measuring the results, why do so few feel confident about proving MROI?

What makes MROI so challenging is the reality that many of the traditional marketing levers are not working as they previously did. Conventional wisdom tells marketers to focus primarily on building emotional bonds between customers and their products and services; it is considered tasteless or futile to actually try and sell something. All products are the same, right? People with short attention spans want to be entertained, not educated. Yet the reality is that customers overwhelmingly assign their loyalty to the brands that actually deliver what they promise, not the ones that are most clever or hyperbolic. With the explosion of touchpoints, or moments of customer-brand interaction, marketing communications are increasingly less relevant to people who can base their choice on empirical evidence or who can experience a brand in different ways, beyond passive message reception.

Revisiting The Old Standbys

Marketing executives, as well as senior management, collectively agree that the saturation effects of the traditional Advertising & Promotion (A&P) mix are undeniable. Let's start with advertising.

Emotion and subjectivity do play a big role in brand decisions, but not necessarily in the way that advertisers like to think. Far too many companies rely on the same syndicated customer data and underinvest in primary research and true customer insight, so that advertising messages tend to sell the same category benefits (albeit in clever ways) and provide little branded differentiation. A recent U.S. study of seven major advertising categories revealed that consumers confused the top three brands in each category and that the advertising for each was attributed largely to the competitive brands. Undifferentiated messages and lack of customer insight lead to less relevance, as beer marketers chase the same frat boys with the same pitch, or auto manufacturers hype SUVs to the same soccer moms, or IT providers flog the magic of the network. Once a year, at Super Bowl time, advertisers compete to surpass each other in production values, anthemic proclamations, and surprise endings, but the balance of the year sees a hodgepodge of uninspired and derivative ads that come and go in mercifully short bursts. Network television audiences continue to erode while narrowcasting media cable and the Internet often allow viewers to skip ads altogether. The combination of less differentiated platforms, declining relevance, and lower viewership levels means that attitudes and behaviors are being shaped elsewhere and that MROI is an elusive thing when it comes to most advertising spending.

Promotion also has its problems as a tool to generate MROI. While promotion is certainly more measurable than most activities because of its direct response mechanics and its finite timeframes, it is increasingly used as a discounting tool divorced from actual brand building. Mix modeling can quantify with reasonable accuracy the lift from promotional activity, but the benefits are always short-term. Furthermore, it has long been understood

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that giving away margin and training customers to shop on price is a loyalty-killer, antithetical to the whole notion of brand building. Several recent studies have shown that customers are increasingly unwilling to redeem coupons and other response devices, since they now expect a discounted price to be standard – an every day occurrence. Any disruption in promotional response deprives marketers of the ability to collect customer data and to prove MROI. The knowledge asset that promotion has long provided to CPG companies — information on who's actually buying products — is steadily eroded at the same time that the ability of the brand to capture margin is receding.

And consider sponsorships. This marketing lever is being pulled with greater frequency today because long-term, exclusive deals do provide some measure of differentiation, and because there is the promise of building greater affinity with customers through multiple touchpoints. Yet many sponsorships are often divorced from the actual product experience or brand promise: why does my favorite NASCAR have UPS emblazoned on its side? Does the CEO of UPS like race cars? Sponsorships do have a value in galvanizing employees behind exciting activities and in providing a means to cultivate business customers, but the benefits to end users are significantly harder to quantify. Strained associations between product and property don't build brand equity. Truly exclusive deals, like Visa has with the Olympics, do allow companies to reward best customers and to employ data tracking systems on who participates. But sponsorships are becoming increasingly more fragmented — picture the average sports venue covered in logos, or the brand soup that World Cup sponsorship has become — so that the measurement becomes harder, and the MROI less tangible.

While the A&P mix will always be a component of marketing investment, it isn't the only game in town, and its ability to drive measurable results is a tricky task, at best. So, in a world of increased demands on performance and scarce resources, A&P should be complemented not only by different marketing activities (those that can build more differentiation and relevance and that drive behavioral loyalty, rather than short-term awareness) but also by a shift in mindset as to the totality of touchpoints which drive the customer experience and ultimately the customer perception of the brand. This shift is essential, given today's increasingly informed consumer. Shoppers have full and ready access to comparative pricing and performance information online, and can tap into a peer-to-peer network that provides unfiltered data on competing brands. And the reality is that today's post-modern consumer knows that all these image-driven entreaties or fire-sale discounts are at odds with the experience.

Marketing = Measurement

While the global economy seems to be on the upswing, one important outcome of the down cycle was a strong demand, continuing today, for more rigor around marketing investment. The bright lines that have separated Finance and Marketing are being crossed regularly, and perhaps, permanently. The business imperative is to pursue more profitable market segments instead of the monolithic mass market. This requires very different kinds of investment decisions that link business strategy to value creation and that demand a more analytical and systematic approach to setting budgets and tracking results. Marketers can no longer walk into the CFO's office and point to an increase in aided awareness as a rationale for increased investment. Here service businesses have a significant advantage over packaged goods because they know who their customers are and can be more rigorous about measuring the economic impact of different marketing activities. But all companies feel the need to be better able to measure ROI.

Here are two immediate areas of focus for companies that seek better correlation of inputs and outputs, chosen for their ability to accelerate business impact and to integrate marketing more centrally within the enterprise. The first is to reorient the marketing function around the customer experience rather than the A&P mix. The second is to break down the traditional annual planning cycle and to manage the process of planning, allocating, and measuring marketing investments dynamically. Both of these tasks require new or expanded competencies outside the traditional area of marketing communications and more collaboration with peer functions, including Operations, Finance, and Strategic Planning (to name a few). And both will significantly improve the ability of a company to optimize marketing investment.

As marketing tactics have expanded, so have the number of touchpoints or moments of customer interaction. Touchpoints challenge a company to orchestrate sales, marketing, and operations in a much more integrated way, or risk serious attrition. Identifying the high impact touchpoints, those that are best able to shape attitudes and generate desired behaviors, is critical. When the customer experience is mapped and measured, it is invariably eye-opening, indicating levels of over- and under-investment that are misaligned with value creation. The call center or the return desk become as important as the 30-second TV spot or the shelf-talker. Touchpoints break down the customer experience into addressable segments and identify causal links between activities that build awareness, compel purchase, and sustain loyalty. The customer experience becomes a rational construct for marketing investment and, more importantly, a way for the company to measure the true cost/benefit of core processes, since touchpoints move the game away from communications and towards operations.

Each day brings news of companies that are moving away from the conventional A&P mix in an effort to keep the customers they have and to attract competitive users through a richer experience with the brand. For example, Philips scaled back its advertising investment in lighting to focus on providing trained specialists at retail locations who mingle with shoppers and can offer friendly, non-pressured advice on how to use lighting as a design element. Washington Mutual balanced its investment in awareness-building advertising with a comprehensive network of branch representatives who replace ATMs and long-lines with personal attention and surprisingly candid advice about banking services. And American Express continues to use its monthly bill as the main channel of communication with its customers, offering exclusive deals, travel tips and financial planning tools that say more about the brand than any of its tasteful, but judiciously placed TV ads.

The second area of focus is the interdependence of planning, allocation, and measurement. Every company is essentially asking how much, where, and by what means to invest its marketing budget, but since markets are dynamic, customers fickle, competition intense, and profitable growth hard to come by, these questions simply cannot be asked once a year. The staged, protracted approach to planning, allocating, and measuring inhibits a company's speed to market, its ability to capitalize on consumer trends, pre-empt competitors, or adapt to industry changes. By setting rolling, long-term forecasts (1-3 years) that are then continually refined quarter-to-quarter, companies can effectively manage a brand portfolio as they would a market portfolio, following a long-term strategy of growth or value while optimizing their short-term performance and managing their risk. Fact-based analysis replaces wishful thinking as the driver of marketing investment.

Companies that have been remarkably successful with activity-based budgeting, as the phenomenon is called, include Barclays, Dell, BP, and Samsung. Samsung, for example, reevaluated its marketing presence worldwide, saw serious misalignment between the revenue and profit pools and the marketing investment in many countries, and deployed a system to redirect spending away from wasteful A&P and ensure that investments followed business potential. BP follows a rigorous schedule of testing and re-calibrating investments on a rolling basis, based on customer demand, seasonality, new product schedules, and competitive activity for its highly innovative network of BP Connect stations. With activity-based budgeting, a culture of measurement and continuous improvement emerges. The integration of planning, allocation, and measurement ensures that brands are supported for their long-term benefits but identifies opportunities to make course-corrections in real time to address areas of brand vulnerability. The value gap between a focus on spending versus the required focus on investment begins to close.

An important subtext to the planning, allocation, and measurement process is potentially a reorientation towards budgets and who owns them, or who influences them. As high impact touchpoints are identified and prioritized, there needs to be more of a 'budget-line neutral' approach as funding is placed against the activities that are most likely to drive results. This may require simply a mindset shift as to where dollars sit, but it also may require an organizational shuffle to ensure that budget ownership and/or influence is linked to the people in the organization who know what needs to happen in the marketplace and have the ability to make it happen.

Marketers' Capabilities May Need Change

The breadth of what now needs to be addressed in order to effectively reach customers, communicate, and deliver on a brand experience may also require very different capabilities than may have typically resided in marketing. Marketers need to understand what drives the financial aspects of the business — how profits are made/lost and how marketing activities impact that. Think about the contrast between marketing's interest in new product development — to drive top-line growth with some "new" news — and the operations group's analysis of the operational inefficiencies which may result from plant downtime, line switching, etc. to accommodate production of multiple products or line extensions.

The marketing team must also demonstrate the ability to work effectively cross-functionally across the organization. If it turns out that the customer service interactions are key drivers of customer experience and therefore perception of/loyalty to the brand, marketing must be able to work with this functional group to ensure that these front-line individuals understand what the brand is about and "communicate" that through actions when dealing with customers.

A growing body of evidence and best practices validate marketing's ability to create economic value, but too many myths, half-truths, and self-interested hooey still stand in its way. It is always interesting to note how many marketing people defend their practice as "more art than science," but are surprisingly rigid and doctrinaire about their brands and treat marketing as a rarefied cult. Yet as the base of intangible asset value in corporate valuation continues to increase and CEOs speak regularly, albeit uncomfortably, about brands, there will be greater and greater demand to accurately apportion the value of brand and marketing in the asset mix. ROI is here to stay. Now's the time for marketing managers to embrace the rest of the organization and begin integrating business and brand activity more fully.

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