

ROI for Marketing: Balancing Accountability with Long-Term Needs

*By
Robert S. Duboff*



Leading the Marketing Community

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About the ANA

The Association of National Advertisers leads the marketing community by providing its members insights, collaboration and advocacy. ANA's membership includes 370 companies with 8,000 brands that collectively spend over \$100 billion in marketing communications and advertising. The ANA strives to communicate marketing best practices, lead industry initiatives, influence industry practices, manage industry affairs and advance, promote and protect all advertisers and marketers. For more information visit: www.ana.net.

ANA Mission Statement

ANA provides indispensable leadership that drives marketing excellence and champions, promotes and defends the interests of the marketing community. We will accomplish our mission through:

- **Insights**

ANA advances marketing decision-making by acquiring, developing and disseminating unique and proprietary insights to ANA members. Our intellectual capital covers all aspects of the communications process, including brand building, integrated marketing communications, marketing accountability and the marketing organization.

- **Collaboration**

ANA consistently brings members together with industry thought leaders to promote fresh thinking, develop new ideas, provide professional training and facilitate industry-wide networking. The ANA convenes constituents across the entire marketing spectrum including peer marketers, agencies, the media, associations, consultants, vendors, production companies and academicians.

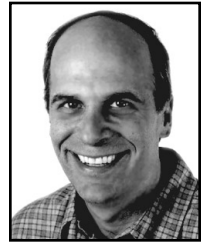
- **Advocacy**

ANA is the voice of the marketing community. ANA leverages its leadership to advance the industry's agenda – engineering progress and transformation while defending core marketing interests and freedoms. On behalf of the industry, we address legislative and regulatory issues, promote industry policies and practices, strengthen the marketing supply chain and align the marketing community towards solutions for societal concerns.

About the Author

Robert S. Duboff

Mr. Duboff is a founder and CEO of HawkPartners, a marketing consultancy. His focus is helping clients develop effective marketing and communication strategies. From 1999-2001, Mr. Duboff served as Ernst & Young's Director of Marketing with responsibility for all marketing activities of the \$4 billion enterprise. He also chaired the firm's Global Marketing Operating Committee. Prior to that, Mr. Duboff was a Vice President of Mercer Management Consulting. During his 20 years with the firm, Mr. Duboff helped launch Mercer's marketing and market research practice, and led this unit for more than a decade.



Mr. Duboff has taught numerous courses on marketing (including Communications and Promotion) and co-authored the book, *Market Research Matters* (Wiley, 2000). He has also written for such publications as *The Journal of Business Strategy*, *Marketing Management*, *The Advertiser*, *Across the Board* and *Leadership & Strategy*. In May 2002 and 2003, he chaired the AMA's first two Marketing Strategy Conferences. Mr. Duboff is a past-chair of the Board of Directors for the Advertising Research Foundation on which he served for two terms.

Mr. Duboff received a B.A. from Amherst College and a J.D. from Harvard Law School. He lives in downtown Boston with his wife and their three great kids.

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Foreword

This is a book with a point of view about ROI (return on investment) for marketing. Each phase of my career has contributed to the perspective. I started as a market research consultant, the craft that still excites me most. Working with clients, I initially learned about the uniqueness of each client (both individual and collective culture) and the importance of process. I came to appreciate that, for all the numeric aspects of market research that originally attracted me to the job, the impact of the work had less to do with numbers and more with the skill with which the numbers were developed and presented.

As I migrated to marketing consulting, I noticed that being seen as a “management consultant” provided access and influence with senior clients that I never received as a “market researcher.” As I moved further up the experience curve to become a “strategy consultant,” I learned how senior management viewed marketing and marketers. Most felt (and still feel) that marketers in their organizations don’t really “get it.” Marketers like to spend money and talk a language of their own (“brand image” or “dynamics,” “look and feel” and the like) rather than the bottom-line language of business. It was relatively easy and natural for consultants to apply the tools of our trade (e.g., the ROI approach we applied to strategic investment decisions) to the unruly marketers.

Then I became the CMO for a large professional global services firm. I tried to install the same ROI discipline I had advocated from the outside – but found it to be irrelevant to budgeting or investment decisions by the firm’s leadership. The level of marketing spend turned almost entirely on how the business was doing at the time and how active competitors were in their marketing.

Recently, I’ve been teaching as an adjunct at Boston College, at MIT’s Sloan School of Management and at Northeastern University. This experience has been extremely valuable to me (and hopefully to the students as well) in terms of forcing me to really think through how marketing can and should work, and the role ROI thinking, metrics, accountability and related processes should play.

I have also returned to consulting, this time with a firm that provides a range of marketing and strategic consulting, with a research fact-based perspective. My co-founder, Scott Berman, has been a great partner and contributor to this book, particularly in thinking about marketing as a portfolio. Scott and I share enthusiasm for the work, which hopefully will continue to help forge a firm that brings that passion to clients. As I write, HawkPartners numbers 17 in addition to Scott and I: Abbey Ahearn, Jennifer Anthony, Debbie Bender, Melanie Bernstein, Josh Burns, Lisa Cole, Ray George, Brooke Hempell, Jonathan Hollenberg, Lori Holmes, Susan Jensen, Nancy Neuffer, Cynthia Posner, Kristin Verdiani, Scott Wilkerson, Steve Wolf and Lori Young-Oliwa.

While I want to thank all of them for their contribution, I particularly want to thank Susan (and her family) for her tremendous support and help over the years, including her patient willingness to work through the multiple revisions this book required.

This book was also helped by a huge number of colleagues over the years, including Eric Almquist, Maureen Berman, Paul Cole, Tony Gallo, Jeff Herman, Susan Rebell, Frank Menser, Chris Meyer, Jim Speros and Lara James. A special thanks goes to Carl Sloane and Peter Temple who first took a risk by hiring me over thirty years ago.

Client relationships have been instructive, too. In particular, Victor Millar, Dan Kolb, Jonathan Hayes, Dave Phillips, Nick Schiavone and Tom Friel have been a joy to work for and with.

I have also benefited from the teachers who took time to really think about their messages and were willing to talk with me at all times. Hadley Arkes, at Amherst, was particularly influential. In fact, the course he taught on Public Opinion helped attract me to market research and remains an inspiration when I teach.

I have also been blessed with great friends and am always comforted by talking with any of the set of three (Rich Hartz, Pete Warshaw and Dick Glover) boyhood friends whom I still see regularly. In addition, Rob Klugman and Robert Sachs have always been helpful to my thinking.

My family is another source of strength. My wife, Janet Berkeley, has always been better at the numbers than I and, with our three sons, Josh, Sam and Brett, consistently challenges my ideas.

Hopefully the point of view and perspectives expressed in this book will challenge the reader and force thinking and improvements in marketing. At times, I have tried to be provocative to spur consideration of the argument at hand. I'm sure I don't have all the answers; but, at a minimum, I've tried to raise all the right questions.

*“ROI on the Internet?
What was Christopher Columbus’ return on investment in America?”
– Andrew Grove, when CEO of Intel*

Chapter One

Return on Investment: The ROI Conundrum

Return on investment? Seems to be a no-brainer; a good check and balance before spending any significant amount of money. In the business context, the term first sprung up as a necessary analysis to justify spending on technology, then called “data processing” or “management information systems.” The idea was that, before investing millions, prudent CEOs and CFOs should demand calculations to demonstrate reasonable payback on the spending for computer systems. Typically, the mathematics focused on savings that would occur in terms of the business needing less people over time, with enhanced productivity resulting from automating what had been done manually.

Over the years, ROI thinking was applied to acquisitions, with most analyses following the technology path by estimating returns due to the need for fewer people once the businesses were merged and duplications eliminated. Sometimes there have been attempts to quantify returns on the positive side through added possibilities for revenues/growth, primarily because of cross-sell/synergistic opportunities.

In the late 1990s, ROI moved to another major expense item: marketing, the focus of this book. Applying the rigors of calculating the ROI of these expenses has generally been welcomed by most everyone outside the advertising trade. After all, the most famous of all business quotes (attributed to various retailers over the years) is: “I know that half my advertising works: I just don’t know which half.” This imprecision is jarring enough to make CFOs target the whole budget.

These marketing budgets (particularly the advertising part) made an easy target for cost-cutting, since for most businesses, after people and IT, marketing is the next largest cost item. Once the waves of downsizing of the work force had been tried, CFOs and CEOs moved to challenge marketing. The challenge has been intensified by the dramatic change in the marketing landscape, as traditional mass media have been fragmented and the Internet era has truly bloomed. At the same time, marketing costs have escalated dramatically. Furthermore, marketers in the late 1900s were ill-prepared for the onslaught by the accountants. Few CMOs had MBAs and budgets were essentially composed by taking the prior year’s spending and multiplying by the growth in revenues over that year.

The cries for more accountability from marketing started in the early 1990s with a Coopers & Lybrand report on leading British companies issued in 1993, and McKinsey & Booz Allen reports about the same time. McKinsey's words then are akin to those being voiced today by leaders at P&G and GE. "Doubts are surfacing about the very basis of contemporary marketing. Fairly or unfairly, many consumer goods CEOs are beginning to think that marketing is no longer delivering."¹

If anything, the drum beat has grown louder and louder ever since, led recently by P&G's CMO, Jim Stengel, who has repeatedly challenged the status quo: "Marketing is a \$450 billion industry and we are making decisions with less data and discipline than we apply to \$100,000 decisions in other aspects of our business."²

As the wave of ROI attention has attacked the marketing function, the marketers and their advisors have capitulated:

"ROI must emerge as the primary marketing expenditure."³

"The tide is shifting toward greater accountability and stronger measurements for marketing."⁴

"We're learning that the best defense is the offense that justifies our marketing programs with metrics enunciated in the bean counters' language."⁵

"ROI Marketing – the application of sophisticated measurement techniques in the service of optimizing marketing spends – is now no longer just a nice idea, but an imperative."⁶

"Increasingly, there's the belief that marketing is the lever that drives revenue and that we need to apply the same level of vigor and insight to the financial decisions in marketing as we do in any other area of the corporation." – Wachovia marketer⁷

"Marketing can be measured more precisely than in the recent past. The confluence of a torrent of data, powerful hardware and agile software has totally changed the measurement environment."⁸

"Measuring Marketing ROI can be done with significant accuracy, but it takes process, determination and money. No magic bullet exists, but the capacity to measure upwards of 90 percent of what most companies spend on marketing is available today."⁹

"Companies can know where and how to apply marketing expenditures to achieve significant, lasting lifts in a product's or service's profitability. You might call our approach "Wanamaker Revenge." [Wanamaker is the retailer most often credited with the 'half of my advertising' observation.] We call it ROI Marketing – the application of modern measurement technologies and contemporary organization design to understand, quantify and optimize marketing spending. The result: improved return on marketing investment, achieved through analytics-based decision-making that directs the funds toward the executing, pricing, product applications, vehicles and/or territories where it will generate sales more profitably. All marketing activities are amendable to ROI measurement."¹⁰

It all sounds good, modern and positive. Marketers are finally becoming business-like and accountable.

The Marketing ROI mentality is in full bloom currently with 35,600,000 hits on Google in mid-2006 for "Marketing Return on Investment." The Marketing Science Institute, in its annual polling of members, has had "Assessing Marketing Productivity Return on Marketing and Marketing Metrics" at or near the top of its members' marketing priorities since 1998.¹¹ Countless articles and several books

have already been written on the subject. Why is this one being added to the inventory? Because well-known marketers, such as those previously mentioned, make the approach sound so reasonable, yet it can be dangerous if not used with caution. This book is being written to show how to reap the benefits of ROI for marketing while avoiding the dangers. It would be nice if marketing could be conducted so simply that one could use modern measurement tools to bypass the need for judgment and experience in making marketing investment decisions. Most of the Google hits and the comprehensive book focusing on ROI (Marketing ROI by James Lenskold) take the understandable stance that ROI for marketing in the modern age is a panacea to guide marketing. In the key such quote from that book, Lenskold writes:

“So are you ready to champion the marketing ROI revolution for your company? In so many areas within an organization, simple changes in the use of ROI tools and an increased focus on ROI can contribute to the growth of company profits. CEOs and senior marketing executives can shift from running endless iterations within the budgeting process to a streamlined marketing investment prioritization process. Marketing managers can improve their campaign strategies with increased intelligence and measures.”¹²

In sum, Lenskold writes, Marketing ROI must be “a primary measure used by companies to remain competitive.”¹³

Marketing ROI sounds like the simple remedy for all CMOs’ ills. If only it really worked that way. Let’s step back a bit before addressing the issue head-on.

Business Goal

The goal of each business is profitable growth over time, but it must be recognized that growth, especially profitable growth, is difficult. Even the best performers find it hard to grow over an extended period of time.

Mercer Management Consulting looked at consecutive 5-year periods, 1990-1995 and 1995-2000, and found that only 8% of major companies grew above their industry average in both periods. Similar findings have been reported by Bain & Co.: “Only 22% of the world’s major firms achieved real sustainable growth of even 5% a year over the 10 year period from 1994-2004.”¹⁴

The 93 companies which grew enough to join the top 50 of Fortune’s 500 over the past 50 years showed a minimal to negative growth rate starting 2 years after they “joined.”¹⁵

So, considering that revenue growth is typically the purview of marketing (with, in some industries, sales), what does this say about:

- The importance that marketing perform well; and
- The historical scorecard of how well marketing has performed?

In fact, the track record for really establishing a brand (or business) strongly in the firmament, is poor. Most businesses can only dream of reaching the pinnacle of the Fortune 500, an accomplishment which means vast resources of people and capital upon which to grow further.

To date, very few companies have been able to achieve long-term success.

- Of the original Fortune 500 (in 1955), only 70 are still operating on their own.

- Of the original Fortune top 25 (in 1955), only 7 are still operating on their own (GE, GM, DuPont, Shell, Goodyear, Boeing & Firestone).
- Looking at the 100 largest companies in the Fortune listing in 1912, by the end of the century (1995), almost half (48) had disappeared and only 19 were still in the top 100.¹⁶
- Of the original Forbes 100 (in 1917), only 29 made it in their original form to 1987 and only 13 survived into the next century.

To summarize, “Charles Handy, Britain’s best-known management writers, once commented that people come and go, but organizations have the potential to live forever. However, research shows they are no longer doing so. The average life expectancy is now 14.5 years and declining.”¹⁷

It’s possible to explain the poor performance of once-prominent companies by the “sin of success” which includes over-confidence, bureaucracy, too much reliance on what got the company there and too little focus on what the future may demand. Robert Redford, the actor and CEO of Sundance, has said: “Be careful not to embrace success. You have to shadow box with success, not embrace it because it will kill you.” This may be the fault of CEOs, not CMOs, but the track record here is remarkably poor. The data show that growth is hard and the context for a debate over Marketing ROI is whether or not it helps in the quest for profitable growth by guiding better marketing management decisions.

The bandwagon’s argument is that ROI measurement will indeed help fuel growth. However, it is important to recognize that there are two vital junctures for the ROI debate – pre and post investment. Many of the many words written on the topic do not make note of this distinction. When marketing ROI calculations are used for decisions about whether or not to make an investment, typically there are no actual measures, simply projections about the future. When people talk about ROI “measurement tools” such as research results or sales/revenues or clicks or media mix models, they either mean projections of these measures once the investment is made or the after-the-fact measurement of what has happened. There is a mid-course time frame, too. That is, many marketing investment decisions focus on continuing or stopping a program. This is probably the simplest focus point since the pre-any-investment context is the most difficult for ROI proponents to support based on the tools (since it’s primarily peering into the future).

This distinction is critical. It’s one thing to advocate measurement and accountability after an investment, but this should not be confused with trying to decide whether or not to make the investment in the first place. So, any discussion of “analytics-based decision-making” regarding marketing ROI calculations should acknowledge this fact. If a CMO is trying to decide whether or not to implement a new, innovative advertising campaign, there are surely less measurements available to make that an “analytics-based” decision, than if the same CMO wants to look back into history to conclude whether or not that innovative campaign launched three years ago now appears to have been a good decision or not as reality played out. This point will be explored more fully throughout the book.

In other words, Marketing ROI measurements actually pertain to one of three different time periods, each with very different objectives:

- Before investment (decision): used to decide whether to invest, or which marketing investment to make

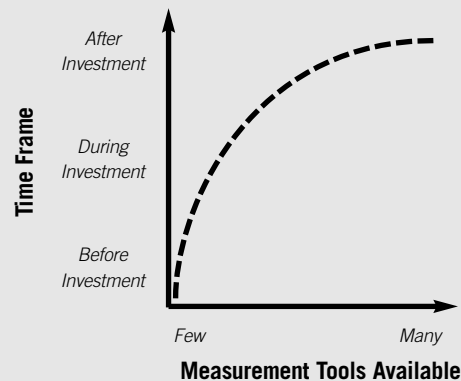
- During investment: for long-term programs (e.g., major sponsorships), used to decide whether or not to continue and/or how to improve the impact
- After investment/accountability: used to ultimately learn the ROI of an investment (albeit the “returns” may not all be in at any given point)

It is important to keep these three time periods distinct when thinking about ROI for marketing (see Figure 1-1) since the “Before Investment” period is most vital to impact decisions, but the context least impacted by actual measurements. Conversely, the “After Investment” period has the most measurement options (and presumably the most accurate measures), but the least direct impact on spending decisions. And, to the extent marketers are held accountable for their investments (particularly for pre-investment ROI projections), these calculations can be quite critical to compensation and/or continued employment.

In addition, there are other important issues that need to be highlighted in a discussion about Marketing ROI:

- Is marketing an art or a science?
 - ROI for Picasso or Jackson Pollock is different than for a direct marketing campaign.
- What are the benefits of ROI calculations? Where can this type of analysis help marketers and businesses?
 - What are the dangers in calculating ROI for marketing?
- Should ROI hurdles (i.e., yes/no decisions) exist for marketing?
 - Should this be for each possible marketing investment, for the budget as a whole or some mixture? What should the standard be for hurdles? Any positive ROI? A higher ROI than specific alternatives? Over how many years should ROI be calculated?
- What is the best way or the best ways to measure ROI?
 - Are there reliable and valid measurements? Do they vary by the type of investment? Are there best practices?
- Does ROI require quantitative measures (i.e., specific numbers) or are more qualitative assessments sufficient?
 - If quantitative, is a range or estimate acceptable? If qualitative, do the normal requirements of reliability and validity apply?

Figure 1-1



- As a decision tool, is the number the final answer? That is, if the computed ROI exceeds the hurdle/minimum, does the investment automatically proceed?

In this sense, does ROI serve as the decision tool akin to the old P&G rule that a new product could only proceed if it exceeded the pre-established hurdle number for stated intention to buy in concept market research?

- Should the ROI be re-calculated periodically, or is this a one-time number which serves only at the go/no go decision point?

Does ROI have a learning heuristic purpose in addition to (or even in place of) use as a decision tool?

- Finally, has marketing's performance improved with the advent of ROI requirements for the function?

As the Marketing ROI movement began in earnest a decade ago, a few marketers and communicators fought back, their main argument being that building brands requires a long-term vision which cannot easily be quantified over time. This view has been derided for being ostrich-like and, in fact, the argument was typically made in a defensive manner ignoring the fact that clever MBAs can, in fact, calculate virtually anything. Furthermore, most of the defenders were also locked into the old model of mass media advertising which mired them in the pre-Internet world with all the credibility of those who defended the horse-and-buggy against the advent of cars.

As "new" marketers have embraced ROI, there has been a paucity of recent debate on the topic as most marketers have capitulated. The debate is needed because ROI hurdles are actually hurting marketing and even retarding the ability of marketers to effectively master integrating all the modern tools. Furthermore, much of the pro-ROI logic and argument seem to refer to the measurement tools that can be used most effectively after the fact of investment, but imply they should influence before investment decisions. In any context, the appropriate debate requires sensitivity to several important distinctions:

- The type of product or service in question
- The product's life cycle
- The purchase cycle

Measuring short-term results for a product that is bought infrequently (e.g., a car, home mortgage or computer system) could curtail marketing which is effectively moving toward sales in a slowly moving funnel.

- Most importantly, the long-term value of building a brand and/or a customer base

In some circumstances, a brand image once established (e.g., Tylenol's) can provide benefits for years; in some categories (e.g., farm tractors) a customer once gained tend to stay loyal for life. Furthermore, a brand which is languishing will require more investment with less immediate return than a brand with tremendous momentum.

Despite all the words written and spoken on ROI, these issues have not been fully covered, which is

what this book attempts to do. Readers will become more informed on the complexity of Marketing ROI and, hopefully, be reminded of, or exposed to, tools for processes and measurement that will help them be even more successful as they pursue the effort to make marketing as effective and efficient as possible.

“Marketing, no matter what practitioners thought in the past, is more science than art. It is no longer necessary to rely on hunch, hope, mythology and experience or on creative breakthroughs and divine illumination. The data and tools currently exist to dramatically improve a company’s marketing program for new and established products and services. All that’s required is the will to use them.”

- Kevin J. Clancy and Robert S. Shulman, Marketing Revolution: A Radical Manifesto for Dominating the Marketplace (NY: Harper Business, 1991), 304.

Chapter Two

The Nature of Marketing

Is marketing an art or science? Why does this matter to ROI? The simplest answer is that how one positions marketing and their expectations about it inevitably influences how one thinks about how to evaluate marketing’s value. For example, thinking about calculating the ROI on a Picasso or Pollock’s work is very different from assessing the ROI on a scientific discovery such as Lipitor or a Blackberry or measuring the ROI impact of a direct marketing campaign.

In general, in recent history, art (even commercial art) is seen as more of a subjective field in which the artist is expected to be following their own vision/muse to some extent. Science (especially applied science) has a more objective aspect. An artist may evaluate their “ROI” in terms of self-satisfaction with economics as a secondary concern. Was Jackson Pollock a successful artist in ROI terms? Certainly his products have produced revenues far beyond the costs. Scientists, too, may evaluate their work on its then heuristic value or aesthetics of the proof, etc., even if there turns out to be little economic appeal.

The very idea of calculating an economic ROI number for marketing implies assumptions such as:

- Dollars are the only evaluation unit
- No intrinsic “artistic” value credit nor credit for “doing the right thing”
- No credit for investing “just in case”

- Enough certainty about the future to make calculations

And, the idea of ROI for marketing spend implies something about decisions for profitable growth – i.e., computing ROI will produce better decisions about marketing spend than any other alternative. In other words, if we think of marketing as primarily a scientific endeavor, ROI measurement flows quite easily. Evaluating art on an ROI basis is more problematic. Since marketing is a mixture, it is worth looking at the marketing craft from each of the extremes.

The issue becomes clearest in the area of marketing that is most typically seen as an art, creating advertisements. The classic tension has been between those who create the ads (“creatives”) and those asked to assess, if not measure, how customers/targets react to the ads (market researchers, who, with their statistician brethren, are often called “marketing scientists”). For years, the battle has raged. The creatives ask for trust, for assumptions that their judgment and creative insight will work, similar to Jackson Pollock’s faith (at least at times) in his art, regardless of the then marketplace’s reaction. The creatives tend to believe that there is no valid tool to measure in advance the impact of their efforts over time and particularly dislike the use of focus groups (often indelicately called “disaster checks”) as the mechanism by which their efforts are either blessed or doomed.

This on-going argument is parallel to another classic marketing struggle – the one which has pitted advertising vs. promotion or, “image” (i.e., “softer”/non-sales message/longer-term communications) or “corporate identity” vs. shorter-term objectives (such as “call to action” marketing). The arguments are similar to those between the creatives and researchers. Image advertising and the softer parts of brand-building are necessary, the argument goes, to help build strong brands, particularly those that can command premium prices, even though there may be no calls to action. These efforts take years to plant and nurture the seeds; and, similar to nurturing a child, the effort takes a core vision with strong values that are continually in communication, but progress is uneven and extremely difficult to judge at any given time. The parent – or CMO – desires and expects faith and patience over the years as they pursue their endeavors. Those who take this perspective point to aspects of brand building in prior generations. When Coca-Cola put Saint Nicholas in its colors, if not image, there were no bean counters demanding to know the ROI on the first ads showing kids leaving Cokes and cookies for that red and white Santa Claus. When Coke had consumers singing “I’d Like to Teach the World to Sing,” no one asked then how much additional cash came in the next day. Or, as Walt Disney said: “I could never convince the financiers that Disney Land was possible because dreams afford little collateral.”

The other side, naturally, turns to the hundreds of well-meaning image ads which fell flat by any measure and maintain that measuring and assessing is the best way to decide whether or not the expenditures proposed make sense (or which of several alternatives appear best).

The Marketing ROI bandwagon is on top of the art vs. science aspect of the ROI for marketing issue:

- “Some marketers are beginning to abandon the historic defense that marketing is an art which cannot be measured, but only ‘appreciated’; like a fine wine or evocative perfume. The modern marketer is beginning to see marketing as a ‘process’ with measurable inputs and outputs producing reliable, repeatable results.” (ANA Marketing Accountability Task Force.)
- Marketing ROI “does not attempt to wring the art of the marketing; that would be both unfair and counterproductive since creativity is essential to effective marketing. Rather, its goal is to bring measurable data to bear on areas that in the past were rarely measured.”¹⁸

- “The art analogy is fitting. After all, people in the industry believe marketing is an art, pure and simple, and wrapping it up in the clock of measurement, statistics and hard facts would be to suffocate the whole process. To them, we say ‘hogwash.’ The creative spark of ingenuity that drives the marketing process ought to be met at every turn with fact-based decision-making.”¹⁹
- Sergio Zyman, former senior marketing executive at Coca-Cola, is a cheerleader for this point-of-view. “Like a scientist, I collect data, I look at it, and then I change my activities to reflect what I’ve learned.”²⁰

In essence, the debate is over faith vs. evidence or, again, art vs. science. What is the right metaphor for marketing? The dictionary definitions for “art” and “science” don’t help resolve the issue, which is really about how predictable marketing outcomes are. Since the craft of marketing clearly has aspects of both art and science, it may be instructive to look at another example of a mixture, commercial movie-making.

Movies (or, at least, major, commercial movies) are seemingly artistic endeavors produced to make a profit by attracting audiences. The studios that produce and/or market them are trying to harness artistic vision(s) and features (e.g., script, actors, setting, etc.) to produce the best product possible within a competitive environment (at a minimum, other movies likely to launch at a similar time). As always, costs can be easily calculated in advance, but revenues cannot. And, as with marketing, the goal could be stated in artistic terms (“the best movie,” “the best ad,” Oscar nominee, Cannes or other advertising award nominees) or in scientific bottom line metrics (revenues, box office, etc.).

In a world of measurement, there are plenty of numbers available before investing to those deciding whether or not to “green light” a movie. People have calculated the box office value of the human components (director, actors) and genres. Once a decision is made to produce a movie, other decisions must be made between initiation and launch.

Some of the decisions that are assessed by marketing techniques include:

- Title
- Marketing emphasis; positioning
- Specific launch date
- Key plot elements, particularly endings

It is the latter category that is perhaps most revealing. Once the film has been shot, it is routinely test screened to generate ideas and often conclusions about how best to market and promote the film. Sometimes there is a concern about a key element – most typically the ending. Sometimes there have been multiple endings shot to accommodate shifts depending on audience reactions in testing. (*Fatal Attraction* is the most often cited example.)

From a strict ROI point-of-view, this makes perfect sense. All commercial movies ultimately are made to produce the most profit. Movie-making should, therefore, utilize all known techniques to maximize audience satisfaction which should generate (through word-of-mouth) the best financial return.

In this regard, it is worth noting that in the case of movie testing, there is a better chance of research

being valid than most other research being done. With movies, the creative product (with alternatives) has been finished and it is being viewed in a setting close to reality (e.g., an actual theater just as other audiences will see it) with the only difference being that the audience knows it is a “test” audience. The main issue in deciding whether or not to rely on the research is whether the audiences are typical or predictive of the actual audiences when the movie is officially released.

Movie-making as pure art would reject this perspective, arguing that the driver should be the vision of the creative team with the end of the movie naturally being one of the most vital parts of that vision.

The traditional marketers (especially creative types) are the movie-makers who believe their visions need to be communicated without restraints or changes mandated by audience research. The ROI marketers believe that even movie endings should be manipulated using the best science available.

Clearly, the world is moving toward this position. In 2006, movies (such as *Snakes on a Plane*) used technology to allow interested consumers to participate before the movie was finalized in order to impact the creative product in terms of plot elements, overall ratings (including partial nudity to yield a more adult rating) and even dialogue (adding language from the star that the core audience wants and expects). The director recognized this as advanced filmmaking, by including his audience.

The same phenomenon is occurring with advertising, as consumers have been welcomed into the creative process by marketers for tasks such as selecting ads from an online pool (e.g., picking the ad among several that Levi’s or Pepsi should air during the Super Bowl) or actually writing the copy (as several marketers have been encouraging). Sometimes this has produced hits, sometimes misses (GM’s Suburban SUV campaign produced a plethora of negative ads and accompanying PR).

Those making investments should naturally want to employ whatever techniques they can to make the returns as high as possible for commercial enterprises. That is not really debatable.

There are at least two critical issues brought up by the analogy to movies (and the broader art vs. science discussion):

1. Can science quantify the future revenue-produced-by-investment side well enough for decision-makers to rely on the numbers generated for long-term decisions?
2. Are the variables (and human nature) so complex that artistic vision/gut feel/faith is better guidance for at least some major marketing decisions than scientific rigor/numbers/reason?

There is likely no right answer to the second question, but there is evidence on the first one.

Is the potential impact of creative advertising or marketing to create a strong brand measurable? If the objectives are to create and/or reinforce emotional connections, can research anticipate the impact the marketing might have over time? Can we then figure out a way to compute an ROI? The possible costs of the investment are not difficult to imagine and count, but what about the dollars that might come in? As another multiple-sourced quote has it, “It’s easy to count the seeds in an apple, but only God can count the apples that will come from the seeds.”

Consider the BMW Films initiative. BMW had ridden a wave in the late 1990s when “Yuppies” were an emerging class of relatively young wealthy people (enabled by the so-called new economy fueled

by the Internet) and BMW came to be (seen as) the luxury car of choice for the upwardly mobile. But, cultural icons turn and just before the turn of the century, Yuppies became a highly negative image as the economy waned.

As often happens in business, BMW faced a problem due to change in the external world that made their past marketing not appropriate for the current situation. What to do? A very creative approach emerged. BMW invested to have five (eventually eight) short films made for viewing on an Internet site. They decided to use top directors (Ang Lee, Guy Ritchie) name actors (Clive Owen in all of them, Madonna as “guest star”) and starring BMW. They also invested \$10 million in TV ads²¹ focused entirely on promoting the movies.

How should we assess this initiative? By all accounts, it was an artistic success. The films were good. If this is viewed as art, the reviews were positive.

Taking the prism of measurement and commerce, how should we evaluate BMW Films? Many people saw the movies (reported as over 9 million hits in the first few months),²² but no one paid to do so, so there were no revenues for BMW (though all viewers did have to register so BMW does have names and contacts). Is this enough?

An enthusiastic marketer could support this program based on the excitement and buzz which brought awareness of the brand in a new and positive, non-Yuppie light. The evidence of all the web traffic and reports of increased trial drives would be cited. In fact, the ad agency converted all the watching into “brand minutes” to show that the effort was far more effective than traditional ads would have been in terms of viewership.

A cynical CFO would point out that sales did not move (enough) and that most of the hits were likely kids and college students lacking the financial ability to actually buy a BMW, even if they wanted to do so. The scoreboard shows a lot of “hits,” but too few “runs,” to use an analogy to baseball.

This is the dilemma of Marketing ROI. BMW Films clearly represents a good idea for the brand; a creative idea executed well. However, there was no way to have a straight economic return (i.e., incremental profits prompted by the investment) within the budget year – or even for the next few years, if only given the expense of the investment and the long purchase cycle for buying cars.

Note, too, that all the numbers (about viewership and hits) have been discovered after-the-fact. Deciding whether or not to make this big investment could not be assessed by all the “new metrics” or old metrics that marketing possesses. No one could know in advance how many people would view BMW Films and what the economic consequences of that viewership might ultimately be. Thus, in this case, ROI marketing thinking, as argued by its proponents, could add little value to the investment decision, though metrics could contribute to a decision whether or not to continue.

Complicating the picture is the fact that the program stopped, presumably because of shifting roles at BMW and changing external conditions. The artist would argue the BMW Film Initiative was worthwhile. The scientist would likely argue otherwise. Who is right?

As noted, marketing is best seen as a combination of art and science. If true, that means the measurement of the return must accommodate both. Marketers should not measure nothing. Clearly, much of the impact of marketing can and should be measured. Accountability is important. However, the part that is artistic in nature (and/or involves innovative techniques with limited or no track record) needs to be assessed in a different manner than direct response marketing.

In addition to BMW Films, some of the best, most innovative marketing investments are good examples of using intuition more than logic or numbers. In the early days of ESPN, Budweiser decided to invest millions to gain beer exclusivity for several years on the fledgling network which then had few viewers. (In fact, Bud's faith is sometimes credited with keeping the network afloat while helping Bud combat Miller Lite in "owning" the core beer drinkers' loyalty.) Fox took a similar leap of faith when it outbid other (more established) networks for NFL football in the early 1990s. By all accounts, the NFL contract was projected as a sure loser in ROI terms, but the vast size of the investment, and then the use of the NFL to build a flagpole of Sunday viewership, gave credibility to the self-dubbed "fourth network" when it needed to establish itself as a viable alternative for national TV advertisers (as well as those developing programming).

Why is Marketing Any Different?

With ROI well-established for CIOs and CFOs, why should marketing be treated any differently? The answer is two-fold:

Marketing's return on any investment necessarily depends on outside actors (and, within that context, competition). The returns on an IT investment are more dependent on factors primarily within the control of the enterprise (assuming the technology performs as expected). While returns on supply chain investments to some extent may depend on outside parties, these are more controllable and predictable because the outsiders have economic reasons to perform as expected. Even ROI calculations on acquisitions are less dependent on outside parties in that those outsiders will be under the control of the enterprise.

In marketing's case (similar to sales), the return depends on the kindness of strangers and, possibly, customers. It's difficult to predict what people will do in response to a marketing initiative and arguably as hard to predict what moves and counter moves competitors will make. The difficulty of predicting human nature makes the intuition behind BMW Films and the decisions of Budweiser and Fox more understandable, if not necessary. The marketers had a problem and felt the move they made might solve it.

For example, consider the ROI on a new advertising campaign. Even assume you can accurately predict how consumers will respond and how many will view it. This should allow for a solid ROI calculation, except won't it make a difference if a direct competitor launches an effective new campaign a month after yours? Can you predict that and build it into your calculation? Suppose instead that a product defect is discovered for a direct competitor. The point: these are different factors than the CIO must consider in deciding on a new IT investment.

With regard to the human dimensions, there are scientists such as Pavlov and Skinner who have studied and modeled human behavior. Some of marketing (e.g., direct campaigns, online ads to attract clicking, infomercials) is amenable to this type of study.

However, there is solid evidence that most every purchase decision has both emotional and rational components. This compounds measurement problems since, while it is difficult enough to assess rationality, it is far harder to measure emotions and emotions can change in a moment. Thus, a product with a discernable measurable competitive advantage would seem to have a predictable, favorable future (assuming that the advantage is important to consumers). However, if the marketing communication somehow doesn't convey the advantage clearly enough, or a rival develops a new

“cool” model that becomes fashionable, or cultural norms turn, the advantage can quickly become meaningless.

Furthermore, even in the most seemingly rational categories (e.g., law or accounting firms), time and again an emotional human connection (e.g., chemistry) between buyer and seller trumps all the rational reasons why one firm might be better qualified than another.

The second difference between marketing and other investments is about marketing’s purview. The traditional dictionary definition of marketing is: “aggregate of functions involved in moving goods from producer to consumer.” This definition is not that different from that of the American Marketing Association: “The performance of business activities that direct the flow of goods and services from producers to consumers.” Neither of these takes into account that all of the impact of marketing is future-oriented. That is to say, all the revenue(s) (in terms of revenues leading to profits) comes necessarily at some distance from the investment. A better definition of marketing is: “Anticipating the future needs of a target market and learning how to meet those needs and how best to communicate what will be relevant to the target.”

There are two aspects of this point:

- Regardless of product or service category, the return will always be subject to the unforeseen (particularly the unforeseeable) in the future (e.g., inflation, disaster, competitive moves, etc.)
- While every ROI is somewhat subject to the future factor, marketing ROI’s relationship to the outside world compounds the problem because:
 1. A customer created as a revenue on any specific investment may remain a customer for years to come, paying back more and more
 2. Some products and services have a long purchase cycle such that there may be no incremental revenue(s) for several years even if the marketing is extremely effective

As Professor Fadar of Wharton College puts it: “If you want to figure out ROI on a new machine for production or mail sorting, it’s relatively easy to look at the incremental costs and revenues associated with that machine. With finance, it’s relatively easy to compartmentalize investments. But, with marketing, it’s messy. But that doesn’t mean you shouldn’t try.”²³

Key Evaluation Criteria

Even if ROI calculations can be made, there is another level of questions that must be considered (though they are often ignored).

- How certain or uncertain is the environment?

Mature products in mature industries using traditional marketing techniques face only the baseline of uncertainty (e.g., primarily disasters and unexpected competitor moves or other jump shifts in Porter’s Five Forces).

ROI regarding innovations in marketing, new ventures, new categories, discontinuous change, new technology and the like are at the other extreme.

- What is the length of customer commitment and ease of change?
Business-to-business agreements with long-term contracts are at one end of the spectrum.
Fast-moving consumer goods in volatile or fashion-driven businesses are at the other.

Factors

Any ROI calculations involve a myriad of decisions, decisions which should be made at a corporate/enterprise level such that consistency exists among various units and over time. This is where many businesses fail in utilizing ROI for its best purposes: each calculation is a one-off or each marketer/business unit has their own pet system. This type of behavior undermines the value of ROI and may also undermine faith in the marketers.

Key decisions need to be made about these considerations:

- **Duration of Revenues.** Over how many years or months should the revenue(s) be considered?
Too often revenue(s) must be measured within the budget life. Almost always (except for the least loyal and faster purchase cycle categories) a reasonable calculation must extend over a year.
- **Customer Value.** Over how many years can a loyal customer be counted? Should the profits be held steady or is there a natural/reasonable pattern of growth or shrinkage?
- **Customer Segments.** Most businesses should not treat all customers as equal for ROI purposes. Some customers are clearly worth more for the short-term (by spending more and/or recommending/selling others) and/or for the long-term (loyalists vs. others).

Note that the short-term value segment will likely not be identical to the long-term value segment.

Decisions need to be made about how to account for those (customers or not) who bring others into the fold (e.g., friends, children, other divisions, etc.).

- **Brand Value.** Should some value be attributed to the brand/reputation?
A strong brand image or reputation built by marketing today has economic value in many ways:
 - Possible future sale of assets (or IPO for a private company)
 - Attracts employees for less cost than businesses without such a reputation
 - Can attract future customers with less/no marketing spend
 - Protects the business in case of an economic downturn, competitive aggression and/or scandal/disaster
 - Allows for new businesses to be launched under the brand umbrella with less marketing costs than others
 - Can provide for a premium price
- **Economic Projections.** How should the value of cash today vs. profits tomorrow be handled (e.g., setting net present value and discount rates)?

- Cost Issues Beyond the Incremental. How should any ongoing infrastructure (personnel costs, agency base compensation, etc.) be considered?

Even with all the attention on ROI and the accountability of marketing, the Titanium jury President of the 2006 Cannes Advertising Festival writes of that jury's criteria: "It can't just be brilliant – it also has to change the game. It's an award for doing it first – basically reward someone for inventing the wheel." The standard he cites is BMW Films (alluded to earlier), which fits the previous criteria, but is still unproven for producing any revenues – and was discontinued after its first run. Nowhere does he even refer to a provable impact on economics.²⁴

The Argument of this Book

In the law, there is the concept of the "slippery slope." The idea is that once you admit a foot in the door, it will be hard to stop the avalanche of future claims from knocking the door down. So, for example, once you decide it is permissible for the state to execute someone, it becomes difficult to draw the line as to which crimes justify the death penalty and which defendants can be punished in this way.

ROI for marketing raises the risk of a slippery slope. It is clearly a good idea to any left brained MBA with natural or learned affinity to balance sheets. It is clearly a good idea to any senior manager who has encountered a creative type such as the recent Cannes jury President who lovingly describes the "big idea" without any reference to whether someday the great thought (which will cost millions to communicate) will actually create any incremental revenues, much less profits.

It is easy to criticize those who laud the science and deride the art, particularly those who say all marketing moves are now measurable. It is particularly easy to criticize their logic for major investment decisions (BMW Films trying to overcome problems for the brand created by external conditions) that simply cannot be measured well in advance. Despite all this, ROI discipline is, in fact, a good enough idea to demand that any significant marketing investment have a defined pathway of how it can create future profits through customers.

But, it is not a good enough concept to justify strict, quantitative barriers to marketing initiatives (or even tactics) simply because the "numbers" don't add up within the budget period. It is more problem than panacea since the logic of ROI measurement seems to force its reasonable proponents to restrictive lengths.

For example, in the excellent ANA book, *Marketing by the Dashboard Light*, the author Pat LaPointe notes that "ROI measurement is a reasonable way to standardize the process of gauging the *relative* value of one marketing investment against another. If every marketing investment is held to the standard of ultimately creating some profitable change in customer or market behavior [A GOOD IDEA], then we can successfully compare all proposed investments using a standardized assessment process to identify those offering the greatest potential for driving profits [A BAD IDEA]²⁵." [Comments in brackets added to represent the author's opinion]

There are three reasons why having rigid ROI standards for every marketing investment decision needs to be questioned:

1. As described earlier, marketing's goals are future-oriented and must work in and on the future customers' minds. Creating a loyal customer today can yield untold profits tomorrow through

his/her future purchases, referrals and parenting. Giving a brand momentum and positive buzz (or starting to regain that status) has value that may literally be incalculable.

2. The measurements are not valid enough even if the focus is all on today. Chapter 3 will discuss this in detail. As Professor Larcher of Wharton (an accounting professor) points out: “It’s very difficult for companies to figure out the return on anything – training, HR practices, marketing, innovation.”²⁶

In addition, the factors listed at the end of the first chapter and earlier in this chapter show the complexity of the marketing issues which require judgments and decisions extending beyond just deciding to apply metric tools.

3. Beyond the customer reached today is the brand. The value of the strongest brands (e.g., Disney, Coca-Cola, IBM) has been created by the totality of marketing over decades.

Let’s use Coke for the final, summary example. The “new Coke” debacle provides another example for the art/science debate. Back in the early 1990s, Pepsi was frontally attacking Coke in the U.S. According to many reports, the Pepsi Challenge approach was most galling to Coke. Essentially, Pepsi conducted blind taste tests and then aired ads showing that respondents preferred Pepsi. Coke replicated the taste tests and had findings similar to Pepsi’s. Eventually, this led Coke to publicly introduce a “new Coke,” one which beat Pepsi in taste tests.

This is a key example of taking a scientific approach to marketing, one that demonstrates clearly why measurement results must be taken into context and decisions about the future are never straightforward, even if the numbers seem to be.

Many commentators have pointed out the illogic of what Coke did (though only a few – mostly those involved in Coke’s decision – try to maintain that the decision was anything but a gaffe).

First and foremost, most of us don’t drink blindfolded. Any test that employs blindfolds is perforce invalid for assessing behaviors of real people in the future. That Coke made this fundamental mistake is particularly surprising since its marketers have generally been the best and brightest with a track record of differentiating its water and sugar products from so many others.

Secondly, the organization discounted its own customers and their loyalty to the “product,” which includes its packaging, name and history.

Using science alone, without considering art with its judgment, experience and knowledge, will likely lead to failure as it did here; so might ignoring science (though here the research findings merely confirmed that consumers of soft drinks prefer more sweet taste to less).

A final comment on this comes from Coke’s CEO in 1985:

“The simple fact is that all of the time and skill poured into consumer research on the new Coca-Cola could not measure or reveal the deep and abiding emotional attachment to original Coca-Cola felt by so many people.”²⁷

The argument is not that marketing should return to those days of yesteryear when expensive advertising reigned supreme. Andrew Grove’s quote that starts this book is instructive. His words are akin to the traditional marketers’ perspective and the Cannes jury President. Yet, the CFOs of the world would point out that Columbus was the CMO and the Queen of Spain was the CEO – after all, it was

Spain's money being invested, not Columbus'. In fact, Columbus likely missed his goal on America and it is unclear whether Spain did achieve a positive ROI.

Science alone cannot be relied on for deciding what to do in the future. Nor can artistic vision decide alone. There are two requirements which every significant marketing initiative and overall budget need to meet:

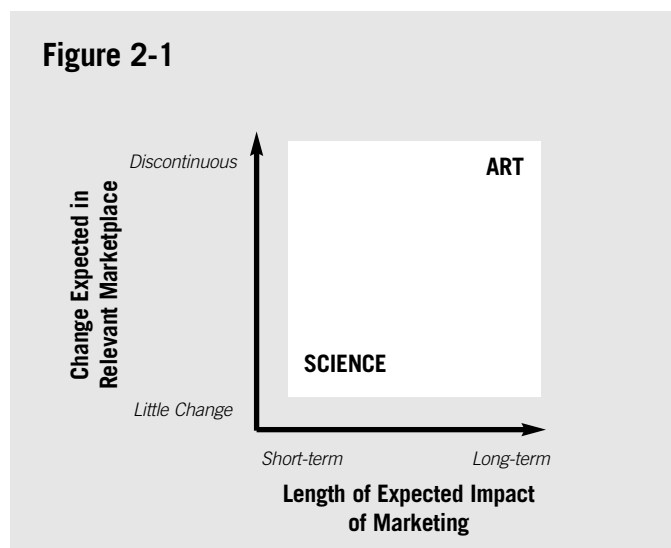
1. Evidence that the initiative (or budget) can work positively to create or reinforce profitable customers and/or a brand to (continue to) attract them.
2. Doing the math to describe how the revenues created by these customers will exceed the marketing (and other) costs associated with whatever is being offered for sale.

(In this vein, it is better to be “generally right” instead of “precisely wrong,” a distinction made years ago by Len Lodish in the still-important book, *The Advertising and Promotion Challenge*.)

Thinking about and using ROI is not simple. At one extreme is a new business or a product/service that is a leap into a new business area (e.g., a new technology). Marketing ROI here should be viewed as a “rough estimate.” The motivating question should be: “Can I develop reasonable calculations that will produce customer revenues and profits in X years?” Marketing should view itself in a commercial, artistic mode, carefully monitoring audience reactions over time. At the other extreme are marketing campaigns for existing products/services in mature businesses. ROI calculations should be used as guideposts and marketers should be scientifically-oriented based on past evidence. As ROI gets harder and harder to achieve in this business, the need for a marketing breakthrough will become apparent and move the marketer into innovative/artistic mode with ROI then seen in the “rough estimate” perspective.

In other words, ROI thinking and discipline should be incorporated into decisions – as should the artistic experience and judgment of the decision-makers. In instances where change and innovation are needed or uncertainty exists, the latter influences are primary. In instances in which the investment are short-term and the market conditions unlikely to change, then science should be primary (see Figure 2-1).

The next chapter will describe what is wrong with the measurements that plague marketing today and the rest of the book will detail the ways to produce the evidence and math needed to light the way forward.



“Measuring more is easy, measuring better is hard.”

– Charles Handy

*“Not everything that counts can be counted,
not everything that can be counted counts.”*

– Albert Einstein

Chapter Three

Measurement

It is easy to see the main challenge posed by any “ROI calculations”: measuring the cost of the investment is always going to be easier than measuring the (possible) return. Sure, even investment has complexities such as how to count sunk costs (i.e., expenses made prior to the current period) and ongoing costs (e.g., staff) that could be allocated to the investment, if made. However, these issues (which require consistent decision rules) pale against the complexities of metrics for the return, particularly in the context of marketing as described earlier with its connections to humans, persuasion and the future.

However, while the possible problems in measurement may be the major argument against viewing Marketing ROI computations as a necessary hurdle, it is important to start on a more fundamental plane with the arguments for and against trying to measure the return at all.

The pro side is relatively straightforward:

Prudent investing requires advance calculations about what the return on an investment might be. This allows for rational comparison between alternatives. Given the size of some marketing investments and certainly given the size of a typical overall marketing budget for a business, the logic for trying to assess the return is strong. And, the ever escalating costs of marketing (be it for media advertising, sponsorships or breaking through increasing clutter) make some checks, if not balances, even more logical and crucial. On a practical level, marketers may have to measure if only because their bosses make them.

In addition, without measurement, how can there be learning to inform future decisions?

The analogy is usually made to tennis or bowling. Without measuring the success of the first shot or roll, how can you more effectively aim the second?

In essence, the thrust of all our business training and acculturation is that quantification is a good

thing and, as noted earlier, the marketing community and investment community have agreed that ROI discipline and measurements for marketing are a good thing.

At the same time, there are some strong reasons to oppose the discipline of trying to measure ROI for marketing at all.

First, reviewing the slew of books about what causes success for businesses (e.g., *In Search of Excellence*, *Will & Vision*, *Built to Last*, *The Living Company*, etc.), none list ROI assessment as a criterion amid a total of thirty or so different standards offered.

In fact, there is far more emphasis on gut-feel and persistence (e.g., Vision, with persistence and innovation in *Will & Vision* and the Big Hairy Audacious Goal in *Built to Last*) than on assessing the relative return of alternative investments. A reader would have to conclude that Faith (coupled with insight into customers) works better than Reason; or, more accurately, big success is more likely through faith; albeit, so may be big failure.

The Innovator's Dilemma (as well as other books) posit a corollary: that focusing on the incremental improvement (the shortest term, most easily measured) can thwart giving sufficient attention to, and ultimately approving, investment in the types of dramatic changes and innovation that might drive continuing, renewed success.

The Living Company studied companies which have survived and thrived for centuries. It concludes that the keys are:

- Sensitivity to the marketplace
- Internal cohesion
- Tolerance for decentralization
- Conservative financing

Second, it is not at all clear what or how to measure to determine return.

Should the focus be on the equity created in a brand name or the total asset of the customer base, or (only) on incremental revenues/profits created by marketing?

Should the focus be on each marketing move or initiative or on the overall marketing spend being proposed?

Is this a relative measure (choosing among investment options) or an absolute yes/no type of assessment?

Third, is the argument that uncertainty is so great (both about competitors and the marketplace) that trying to measure about the future is a waste of time and energy?

And, even if return on the proposed investment can be well measured vs. other potential investments, can you measure what would happen if that investment were not made (e.g., if Intel never started marketing "Intel Inside," if BMW never tried BMW Films, etc.) and/or if a competitor did it instead?

Fourth, and related, even if the focus for ROI can be clearly decided, are the measuring tools available sufficient to the task (the subject of the rest of this chapter)?

In this discussion, the argument will focus on the after-the-fact measures, since pre-investment "calculations" can, at best, be a form of guessing or estimating the future. Clearly, post-audit analysis is

going to be more accurate than pre-investment “measurements.” If after-the-fact data is not dependable, then the before-the-fact information is even more questionable. Related to these points, a major focus must be on the purpose of measuring marketing ROI which, ultimately, can only be to make better decisions to fuel profitable growth than otherwise. If you assume that measurement, even imperfect measurement, is a worthwhile discipline, if only to afford some rationale for investment decisions, then the focus logically should be on the quality of those decisions. Since the onset of the ROI Marketing movement (in the mid-1990s) has the quality of marketing improved? Has the success of companies embracing the discipline outstripped others?

These issues will form the basis of the next chapter, once the underlying measurement aspects are more fully elaborated.

As noted, culturally, U.S. business, in particular, demands metrics and measurement. This starts at the top with public companies providing estimates of performance on a quarter-by-quarter basis; a relatively new phenomenon which might have appeared alien as recently as 20 years ago, but took hold in the mid-1990s. In more slippery slope evidence, what started as an enhancement in information to the investment community has become a staple and defining element for public companies – even those in businesses notoriously hard to predict (e.g., public professional service firms with very short-term transactional business models, airlines subject to consumer whims and fluctuating energy costs, automotive or hi-tech companies depending on customer reaction to new seasons, entertainment companies with fortunes tied to new movie releases). In other words, measurements about the uncertain future have come to have a definitive role in the success of businesses despite the frailties of the “measurements” or estimates. Would this be good for marketing? Has this been good for business in general? In this regard, it is worth noting that virtually all the spate of business scandals from Enron on down have been due to pressures on management to make their numbers projected in their own quarterly or annual estimates. The quarterly estimate trend seems to have peaked in 2000. Now, there are a growing number of large U.S. companies (over 200 of those with revenues over \$500m at one point) which have discontinued the practice.²⁸

The point is that simply producing numbers without rigor behind them can be dangerous. At first, everyone understands the frailty in the numbers, and remembers the projections were made tentatively. But, over time, like the Cheshire cat in Alice in Wonderland, the caveats disappear and we only see the grinning flash of a number.

Marketing can produce Exhibit A: the Nielsen television ratings. These numbers are fraught with problems well recognized by any researcher worth his or her salt. Yet, billions of real dollars are impacted by the ratings with decimal points of audience resulting in incremental dollars in a marketplace based on costs per thousand of viewers in which the precise number of viewers is produced by Nielsen and paid for by the marketers.

The marketplace wants a number and Nielsen produces one without known bias. But, it is hard to consider the numbers produced “accurate” within most definitions of the term.

When Nielsen approaches people to put the measurement machines into their home, more than half refuse. There has been no convincing proof that those who refuse are not different in their viewing tastes and habits than the minority who accept the equipment into their house. If there are differences (e.g., those who allow Nielsen in are disproportionately more likely to trust the police and enjoy TV shows about police), these differences could well skew the results such that Nielsen ratings will not be representative of the broader viewing public.

In fact, Nielsen acknowledges that demographically their samples do not match the universe. While Nielsen weights its results to balance them demographically to the extent possible, this process has inherent problems. First, let's suppose Nielsen can recruit only 100 people in a certain category, instead of the 250 who should be there to make the sample proportionate to the U.S. This means the 100 stand for 250 (i.e., are multiplied by 2.5 in the calculations). This undermines the accuracy of projections because the group is smaller than it should be. It also introduces the potential, again, of a relevant bias seeping in because the few who accept may be different from the majority who don't.

Furthermore, the Nielsen equipment measures only that the set is on a specific channel. The ratings numbers are reported as if all those sets are actually being watched. This number, of course, is then assumed to represent those actually watching all the commercials aired during that time period (though Nielsen is planning to issue rating numbers for the "pods" [groups of commercials] during which ads air). This has generated all sorts of debate, but even if there are ratings for each specific commercial, the underlying assumption is that a set on is an ad watched.

Finally, totally left out of the Nielsen system (for now) are mobile devices, PCs and other dramatically growing sources of viewing, as is group "out-of-home" viewing in bars, dorms, etc. Since young males are considered a key target, it is ironic that all data on them excludes places where many of them watch programs.

Nielsen defends itself vigorously, but the fact remains that the single numbers produced (Alias has a rating of 15.8, meaning 15.8% of all household TV sets were on channels showing it, and a share of 24.2, meaning 24.2% of all household TV sets on during that time were on the channels airing Alias) are multiplied by the appropriate universe to calculate the cost of the ads per thousand pertinent viewer segment. Even if you accept all the frailties of the Nielsen system, there is a range of error associated with the projection of the rating to the universe, just as for election polls and any survey (e.g., projecting the rating to all TV households should be $\pm 2.5\%$ meaning the rating should be read at 13.3%-18.3%). Acknowledging the range inherent in projecting would put many programs into the same range of ratings and certainly cut the perceived precision of the ratings.

In Nielsen's defense, the tools have progressed from the days when their panelists kept pencil and paper diaries of household viewing. This quaint custom has almost entirely been phased out by the company, since Nielsen acknowledges the electronic equipment is better. However, this begs the question of why phase out diaries if, as Nielsen has always maintained, the diaries are accurate, since they are less costly than the machines. By inference, Nielsen now acknowledges the relative inaccuracy of diaries vs. meters that electronically register whether or not the set is on, but the company has never repudiated the numbers the diaries produce to this very day in some markets – numbers that drove dollars as directly as the machines do today. (For example, *The Wall Street Journal* concluded, after studying "The four markets that got people meters last year, Nielsen's old method of using handwritten diaries to measure viewership undercounted young-adult viewers.")²⁹

Similarly, as out-of-home and DVR measurements are about to be added (at great cost to customers of Nielsen), does that mean that the current measurements without them are not accurate?

The Nielsen example is one that shows how "hard" numbers can drive out even sound judgment (if not faith or "art") when they are allowed to do so. The slippery slope point is that once measurements take hold for discipline, convenience or to provide the basis for better decisions, the numbers tend to become dominant. Nielsen numbers are clearly based on sampling which entails a range of error

in projecting to the universe of all viewers, yet human nature focuses on the single number of the Cheshire cat's smile.

What's worse is when the established system is flawed, yet becomes the conventional standard. If Nielsen represents the Emperor in the fable of The Emperor's New Clothes, many marketers are still maintaining the status quo. *Advertising Age* recently headlined: "Who's the Nielsen of the net? Right now, no one." Dressing like the Emperor is set as the standard. The article quotes a "vp-video innovations" at one of the major media buying companies who said: "TV still holds the largest bucket of ad dollars – the more [online video measurement] looks like TV and talks like TV, the faster it'll be able to dip into that bigger bucket." Later in the article she "warned online video had better step up or risk losing share to cable, whose measurement system has the potential to be the most accurate, thanks to set-top box data."³⁰

In other words, whatever system is available and spits out simple numbers from an independent third party will drive the marketing dollars. Is this really reason over faith (as it pretends to be)?

Another example of the impact of numbers, even those without substantiation, is the measurement system Gallup has developed for human team performance, if not leadership of that team. They developed the system for and with Best Buy, and Gallup's then point person (Marcus Buckingham) wrote multiple books touting the system. Many clients followed, despite no evidence the system was predictive or even helpful outside of retail. One Big 4 accounting firm has paid millions for the system with no discernable benefits beyond having a set of numbers quantifying how their people feel about their work teams and the ability to benchmark against Best Buy's teams.

A third example of this phenomenon is the *U.S. News and World Report* rankings of Colleges, which is based on a very subjective set of evaluations, yet has come to have tremendous influence on the schools and, presumably, on those who apply and donate to them.

It is a well-established principle that what gets measured matters and, once a measurement exists, we focus on as simple a number as possible. In the ROI field, there is also the perception by marketers that their bosses demand (or will demand) numbers to support investments. Thus, human nature demands that the CMOs generate ROI numbers.

There are certainly multiple numeric options for the CMO to use, and the metrics can be grouped into these categories:

- Direct measures of sales/revenues that can be directly converted into (potential) profits
- Other direct measures of behavior
- Indirect measures of sales/revenues which need a paradigm/model to be converted into (potential) profits
- Aggregated measures that can produce a longer-term paradigm/model of monetization/value, that then need another paradigm/model to be converted into (potential) profits
- Comparative measures

In all cases, the basic formula is the same:

$$ROI = \frac{\textit{Incremental profits produced by/from the marketing investment}}{\textit{Cost of the marketing investment}}$$

The goal, in other words, is to ultimately determine incremental profits, if any, from the investment. The initial inquiry is measuring the revenues.

Direct Measures of Revenues

Direct ROI-related measures are clearly the least problematic, given that they translate directly into dollars. Common examples of marketing moves that have direct measures of results include infomercials with a call-in/online order of a product/service, other promotions with immediate call-ins, using coupons, etc. Ads which announce something new available for sale (whether at retail or elsewhere) are also amenable to this direct measure. The only wrinkles in using direct measures of impact are factoring in the costs and looking at real revenues vs. promises (i.e., not all call-in orders are ultimately paid for). There may also be an issue of how much of the revenues can be credited to the marketing move as opposed to other factors (e.g., the persuasive ability of sales in the form of a representative on the phone). Finally, in some instances, the background brand equity has played a role (e.g., buying a PC from Dell may have been prompted by a specific offer, but a positive disposition to the brand was created by earlier marketing). Nonetheless, using direct sales in ROI measurements for the revenue(s) part of ROI calculations is far less complicated than any of the other measures. However, the measures are still subject to all the factors raised earlier (such as time frames over which to count revenues and related discount rates for future revenues, whether to use the ROI as a hurdle or a comparison point, etc.). In addition to the points made above, it is always difficult to separate out marketing's impact from that of R&D and product development for new products/services and, for established brands, to separate out current marketing's impact from what has gone before.

Other Direct Measures

There are other measurements which are also direct, but not in dollar signs, such as:

- The number of leads or inquiries generated
- Stock prices or other stock metrics (over a specified time period)
- Number of calls generated
- Clicks/click-throughs
- Visits to a show room

These types of measures have the advantage of reality (they are what they are) and specificity. However, some of them (e.g., clicks/site visits) are susceptible to fraud/padding the number (e.g., by having a few people counted multiple times). Others (particularly the share price) are attenuated from marketing's impact, though often a good measure overall of how a company's growth agenda is viewed by the investment community. However, there are multiple factors at work here beyond marketing's investment and performance.

As noted, hard numbers tend to drown out even hard logic. Often these direct measures (except for the stock price) are used as the sole ROI assessment tool even though the call or click may never actually lead to a sale, much less incremental profit.

There are other hard measures of response to marketing, but discovering the relationship between marketing and the marketplace results can be difficult. For example, think about a direct email campaign designed to increase emotional attachment among a certain set of customers with the objective to increase share of wallet from those customers. The results are measurable (i.e., what these customers spend on the company's products as a share of what they spend in the category), but getting the information and measuring the impact of the campaign is the difficult part, bringing us to the introduction of indirect means of measurement.

Indirect Measures

There are two major categories here – research-based and behavior-based.

The most used research-based measures involve awareness – be it awareness of a specific marketing campaign and/or the brand or simply the name. Other typical research-based measures used for ROI include:

- Attitudinal measures, including:
 - Consideration of the brand/product/service and/or preference
 - Stated purchase intention
 - Satisfaction and/or expressed loyalty
 - Recommendation of the brand/product/service
 - Rating of brand attributes
- Self-reported behavior
 - Purchases
 - Volume purchased
 - Referrals
 - Share of wallet or stomach
- Rationale/explanations for purchases
 - Marketing related (e.g., viewing an ad, promotion)
 - Sales related
 - Emotional or branding image reasons
- Exposure to the marketing
 - Reach (e.g., the number of people who saw the surrounding programs for the ad, visited a website, or attended an event)
 - Frequency (e.g., the number of times the average person reached was in the audience for the ad)

Beyond these customer-focused types of measurements, there are research measures on other stakeholders (e.g., channel participants, stock analysts) as a way to gauge impact.

While this is not a market research text, there are two critical points of note:

At best, all of these research-based measures are indirect metrics for ROI purposes. The motivating idea for ROI, of course, is to measure profits (if any) directly attributable to the marketing investment(s) of concern. As noted, this measurement (the actual profits derived due to the actual marketing) is almost never available (and even if it is, issues remain as to the time frame over which to count the incremental profits, whether to include connected streams of profits such as those due to referrals, etc.).

Secondarily, market research itself is rife with problems relating to validity and reliability, the two key standards of how seriously the numbers produced should be taken. The same concerns described about Nielsen ratings (which is at core simply a market research-based measure) relate to market research more generally. Practitioners often behave as if they are scientists when, in fact, much of research entails artistic judgments about whom to include in the research, how to conduct the study and the sample, as well as how to coordinate and order the questions. In sum, there is no single right way to conduct market research, not even a generally accepted way to ask a key question. Should you use a four point scale or one with five points? In what order should the questions be placed? Should the survey be conducted by telephone or over the Internet? Etc., etc.

The best measurements use experimental design in which the attempt is made to design an experiment with a control group and a treatment group. For example, there might be two matched markets. In one, the marketer would conduct a new ad campaign and/or introduce a new promotion or product variation. In the other, presumed equal, market area nothing new would be pursued. Then, at the appropriate time, sales and revenues could be compared and decisions made about whether or not to launch the campaign or product on a national basis. This type of ROI measurement made and still makes perfect sense (as long as the two markets are comparable).

Unfortunately, this type of ROI measurement is rarely pursued today for a variety of reasons (beyond recognition that there really are few matched markets). There are a myriad of other reasons why use of experimental techniques is fading. In many of the most hotly contested categories (e.g., soft drinks, package goods), once a competitor learns of a test they react to pollute it by running their own stunts, ads, discounts, etc., in the test market. Furthermore, as marketing and development costs have escalated, the investment in a finished TV ad or a new product name and packaging is so great, few if any companies will spend that much simply to run a good test. Third, the advent of the Internet and online communities has complicated limiting offers or new initiatives to a single geographic area.

Despite the above, experimental design has an accuracy factor that cannot be denied. This technique should always be considered, particularly if a finished TV ad is not needed. Internet marketing can certainly be tested without too much difficulty (although, again, the marketer must be prepared for any offers to be extended beyond intended limits) and, of course, solid market research can be designed to simulate what might happen. This is not as good as an experimental design, but is better than no attempt at all (scientific, heuristic or otherwise) to estimate the impact of a possible marketing move.

Market research is flexible in that there are numerous methods available for any particular assessment. And, regardless of the particular technique chosen, there are several hallmarks of successful

use of research related to ROI purposes.

Well done market research can project revenues, preferences or expressions of what the respondents will do. Results (e.g., projected purchase) have to be converted into dollars and ultimately profits for whatever marketing and/or product configurations are being considered. This is particularly important for new product research where various features are traded off by giving respondents choices with varying features and prices. In such instances, the research and resultant dollar figures should always be expressed as a range (e.g., \pm X% of dollars) and seen as an estimate rather than as a single number, which implies more precision.

Research needs to be grounded in the vernacular of the respondent; efforts must be made to ensure this through qualitative development research and thorough testing of questionnaires. In addition to the words used, care must be taken that the “product offering” described in the survey is realistic. Too often, research posits a product that performs far better than the one actually marketed.

Of course, research can and should only impact senior management decisions if it is credible. This requires a process with plenty of input from senior management (i.e., those who will be asked to use and/or bless results).

A complete discussion of these and other research issues can be found in *Market Research Matters*.³¹

However, another issue with research-based measures is the sheer number of possibilities. Even if a business focuses on the impact on customers, there are still a myriad of options to use such as: satisfaction with a specific transaction, overall satisfaction with the product/service, loyalty, etc.

While in one sense, the more measures the better, once you have more than one you run into the problem of wearing two watches and never being sure which is the “right one.” In fact, with regard to the types of metrics that could be used in ROI, a recent book listed 114 of them. This leads some marketers and their advisors to try to isolate on one key metric – which the marketing literature has, at various times, decided should be satisfaction, loyalty or recommendations. The latter variable is the current one in vogue, best presented by Fred Reichheld who earlier helped fuel the emphasis on loyalty (vs. satisfaction). Reichheld’s well-argued evolution now offers “net promoter” as the best measure of health and momentum over time, if not future growth potential. His simple, elegant question uses an eleven point scale about respondents’ proclivity to recommend the business/brand in question. Bottom scores (0-6) are subtracted from top scores (9-10) to yield a single number. Those (in Myers-Briggs jargon, “Ns”³² or intuitive types) who like to know the conclusions more than the underlying details appreciate the big picture clarity.

At best, though, net promoter and its ilk are all still research measures with marketing outputs of percentages and top boxes. These results are not connected until and unless they are converted into business outputs of dollars and cents (if not sense).

There are other techniques used for indirect measures. One is a judgment-based measure (which could also entail research) within the business. It is reasonable to assume that people within an enterprise (in and outside of marketing) might have good judgment about the ROI of marketing (albeit maybe not a precise percentage, but at least a general and/or relative sense of overall payback, or simply judgments about which programs performed best or worst). This could be done on a qualitative/collegial basis, or as a formal internal survey.

While all these research measures are usually derived after-the-fact of investment, there could be

uses before investment, too. If one assumes that the internal market has experience and insight, asking prospectively which marketing programs will perform best would tap into the Wisdom of Crowds (written about persuasively in a recent book³³) – and also help marketers gain internal buy-in for programs by involving peers/others/influentials inside the business in helping to make marketing investment decisions.

Other indirect measures include counting audiences (e.g., the number of people exposed to a sponsorship sign or passing by a billboard, or attending a trade show or speech). Still other indirect counts can come from business records (e.g., number of customers lost or retained in a given period or number of sign-ups).

It is worth noting that marketers often convert these indirect counts into a number they can compare to other numbers. While this will be covered more fully later, it is worth noting here that the general approach is to get an audience figure (e.g., how many people attended an event sponsored by the marketer) and then compare it to the costs of television commercials. In fact, as noted earlier, the agency which created the BMW Films computed the viewership in terms of “brand minutes” spent by people watching BMW Films online and compared the costs of the BMW Films initiative vs. the media costs of buying that much TV audience. They concluded: “When the number of brand minutes delivered by this experience equaled the number delivered by a conventional TV campaign, we could consider ‘The Hire’ a success and the cost was 44% less.”³⁴ Of course, while it is quite likely that viewing *The Hire* was more impactful than viewing typical BMW TV commercials, the bottom line impact is still unclear.

This is the problem with most of these measures: they don’t really solve for the underlying goal of ROI measurement – “did I (or will I) get incremental profit greater than the costs of the investment?”

Aggregate Measures

There are more comprehensive aggregated measures available, too. In the most simple (and probably most used) form, the variables are total marketing spend and total revenue growth. This is used both prospectively (i.e., if we want a 5% revenue growth this year we need to raise our marketing spend by 5%) and retroactively (we spent 5% on marketing last year and achieved an X% growth which means our ROI on marketing was X%/5%). Clearly, those are very broad measures and ignore two main facts (beyond typically looking only at revenues instead of profits). First, revenue production is rarely linked solely to marketing. Revenue and growth can often be attributed more to inflation or to acquisitions or strategy, etc., than to any specific marketing move. Second, in most businesses, there is a lag of weeks, months or years between even the most effective marketing move and the time it impacts on actual sales.

Nonetheless, these kinds of aggregate comparisons are inevitable and, in the absence of other/better measures, as with the Nielsen numbers, a simple division of increase in marketing spend into economic results over the same period is likely the default metric of accountability.

More complex aggregated measures include:

- **Customer equity or customer total value assumptions:**

The purpose of marketing is to create and maintain customers, particularly those who will remain profitable customers over time.

It is possible to calculate the lifetime value of customers (for some businesses, particularly B-to-B, each individual customer; for others, by segment).

An excellent description of how to do this can be found in *Customer Equity* by Robert C. Blattberg, Gary Getz and Jacquelyn S. Thomas (HBSP, July 2001) and *Driving Customer Equity* by Roland Rust, Valarie A. Zeithaml and Katherine N. Lemon (Free Press, June, 2000). (See sidebar on page 40.)

It is therefore possible to compute (or at least estimate) the total lifetime value of the total customer base at any given time.

Thus, instead of growth in revenues or profits of the entire enterprise, one can use the customer asset as a metric for Marketing ROI. The customer base is more closely connected to marketing than is total revenues or profits.

- **Brand equity:**

The calculations here are more complex than for customer assets, though there are several media (such as the *Financial Times* and *Business Week*) and consulting companies that annually estimate the value of certain brands, if not companies. Most of these formulas involve subtracting total tangible assets from market capitalization with the difference being the “brand equity.”

Again, a comparative measure can be used by comparing the marketing spend over a certain amount of time to whatever changes there have been in overall measures of brand value. These types of comparisons are appropriate in instances where the CMO/marketing is responsible for, if not held accountable for, the brand(s).

Comparisons

Finally, marketing can be evaluated by comparative measures such as:

- Market share
- Spending vs. competitors
- Results vs. competitors

The actual measures may be based on surveys, estimates or industry data. In any event, akin to overall revenue growth compared to marketing investment growth, these measures come naturally and are frequently used. CEOs who think/feel that they are spending more on marketing than competitors who are growing faster will tend to feel negatively about their Marketing ROI regardless of what other evidence may exist.

So, perhaps ironically, senior management will tend to use the grossest, most general and simplest measures to assess the overall performance (if not strictly ROI) of their marketing function.

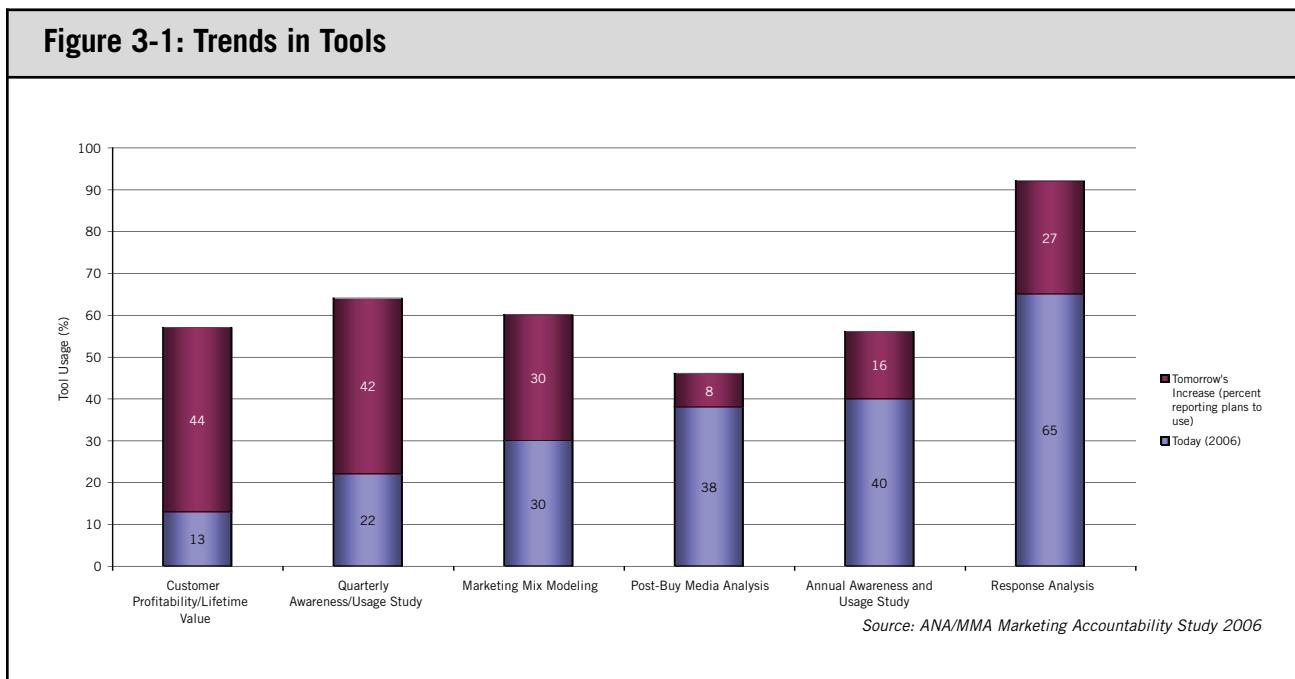
This helps frame the challenge facing marketers and the reason to try to develop better metrics for after-the-fact evaluation of ROI. What is clearest is that no measurement is likely to be highly accurate (particularly to evaluate overall spend), but the trend is toward accountability. If the marketer cannot develop solid metrics, he or she will be subject to the erroneous standard of the simple gross,

default measures most typically used, as well as the scorn of those who think that marketers not on the ROI bandwagon should be left behind, as shown by these quotes:

“The hardest part of instituting ROI Marketing is changing the century old mindset that posits, often explicitly, that marketing is solely an art.”³⁵

“Marketing is a process that is capable of yielding predictable reproducible outputs, not an art whose creative lava flows from the unpredictable eruptions of some magical volcano manned by an itinerant Merlin. The marketing process we espouse is as reliable as grandma’s recipe for chocolate cake.”³⁶

The proponents describe the tools available and talk about the trends in adopting them.



As Figure 3-1 shows, the trend among senior marketers is growing usage of all of the various tools measured that assess ROI (e.g., customer profitability/lifetime value, awareness and usage studies, marketing mix, etc.).

Furthermore, the problem of marketing ROI remains salient. A recent study (*What Sticks* by Rex Briggs and Greg Stuart) generally verified historic findings that most mass advertising doesn’t seem to be effective. The headline conclusion from the study of 36 campaigns with an aggregate investment of over \$1 billion: “37% of advertising budgets are wasted.”³⁷

Given that, who can resist “Grandma’s chocolate cake”? What CEO or CFO doesn’t want to have that discipline and reliability of ROI instead of a decent chance the advertising won’t work? What, then, is the solution for a CMO who recognizes that ROI cannot be calculated reliably to anticipate precisely the impact of any new move and that it cannot even be calculated well (in most cases) to retroactively measure ROI?

While the tools being used may not work well enough, there are ways to assess ROI – both prospectively and retroactively – that make good sense. Chapter 5 will elaborate on the possible solutions, but a preview is in order here.

First, it must be acknowledged that each business is unique. Consultants, academics and business authors far too often behave as if all businesses are subject to the same factors, formulas and bromides. At a minimum, businesses marketing fast-moving consumer products are quite distinct from those marketing complex, ten figure services to Fortune 500 companies. Even grouping businesses by industry rarely eliminates key differences and, certainly, each and every enterprise feels it is somehow unique. Given this, each reader must pick and choose what may work in their individual circumstances.

Yet, another thorny issue is giving proper credit for revenues. Broadly speaking, there are four buckets for the source of revenues – they come from new or current customers buying either new or traditional offerings. When marketing is all focused on prospects and a new offering, the “credit” for these revenues belongs to marketing (alone, if buying does not require sales, or in some proportion with the sales force). In all other quadrants, marketing’s contribution is even more tangled and hard to isolate.

Amid these issues and the myriad of questions/factors listed earlier, there are a few recommendations that are likely to be pertinent across the board. First, any approach to measure or assess ROI needs to have the buy-in of relevant senior management. If the CEO is going to resist any complicated or research-based calculations, then the cost of these efforts themselves will have a negative ROI. Second, it is likely better to be generally right than precisely wrong. Len Lodish’s listing (see Figure 3-2) from twenty years ago still rings true today for far too many variables.³⁸

Figure 3-2: Precisely Wrong?		
	<i>Source: The Advertising and Promotion Challenge</i>	
Problem Area	Precisely Wrong Measurement	Vaguely Right Measurement
Advertising budget	<ul style="list-style-type: none"> • Reach and frequency • Awareness of product <ul style="list-style-type: none"> • Ad recall 	<ul style="list-style-type: none"> • Changes in buyer behavior, short-term or long-term – and resulting profits
Media planning	<ul style="list-style-type: none"> • Gross rating points per dollars spent • Reach and frequency 	<ul style="list-style-type: none"> • Changes in buyer behavior for money spent
Promotions	<ul style="list-style-type: none"> • Costs 	<ul style="list-style-type: none"> • Changes in buyer behavior and resulting profits
Coupons	<ul style="list-style-type: none"> • Redemption rate and costs 	<ul style="list-style-type: none"> • Sales and profit changes caused

The tendency to focus and use precise numbers is likely responsible in part for the continuing inability to tell CEOs (or CMOs, for that matter) which half of their advertising works. Most of the attention goes into exposure – how many people were exposed to the ad. This cuts across media, but the most money on the issue is spent on TV ratings. As noted, Nielsen plans to spend – and charge – more to measure and report commercial ratings (i.e., for “pods” or periods including multiple, consecutive of commercials) noting that this is what advertisers have always wanted. In reality, what advertisers should have always wanted is the ability to learn if the ad has had a positive impact (or not) on how many and what types of people. No matter how high the exposure of an ineffective ad, it will remain ineffective.

In fact, the more exposure of an ineffective ad, the worse. The key is to make sure the ad is effective (not a simple proposition in itself) and then maximize exposure. ROI calculations that only focus on awareness (as many of them do) miss the mark. First things first. Marketers need to measure the impact on the target before worrying about the number of targets who might be impacted.

Third, and perhaps more importantly, given that the measurement tools are likely imperfect for any given business, the key for CMOs, who want to learn and over time optimize ROI, is to develop a reasonable method to convert measures and marketing outputs into dollars of profit. And, the best way to approach this is to use a funnel or paradigm appropriate for their individual business and/or brands.

For example, let's suppose that a traditional five stage funnel perspective works best in customer acquisition and attraction:

Stage 1: Customer gains AWARENESS

Stage 2: Customer develops INTENTION to buy/try

Stage 3: Customer DECIDES to buy/try

Stage 4: Customer ACTS to buy

Stage 5: Customer ACTS AGAIN/BUYS MORE (and/or recommends to others)

In essence, there are research measures for each part of the funnel (sometimes accompanied by actual behavior data). It is necessary to develop insight and understanding of how each step in the funnel can be converted into profits as accurately ("generally right") as possible. Ideally, the marketer should try to develop actual patterns through panel research or other techniques. For example, using the five stage progression above, it is necessary to convert awareness into dollars of profit (i.e., develop a rational number, or range, of incremental profits that accrue over a specified time period from an increase of a given number of people becoming aware of the relevant brand or offer). A marketer could – through a survey – identify people newly aware and then, for example, while not disclosing the sponsor, ask them to participate in an ongoing research project to track whether they ultimately buy. Alternatively, one could intercept new customers (or simply survey customers) and ask about their source and time of awareness. The idea is to develop as rational as possible an approach to be able to convert incremental awareness data into incremental revenues (which then needs to have expenses subtracted using whatever methods make sense to marketers and finance people to yield profits). A similar approach can be designed for the next two steps in the funnel (intention and decision).

With regard to the final two stages, solid data may be available about the lifetime value of each buyer/trier/customer, as well as the value once one becomes a repeat buyer.

If there are no reasonable ways to calculate these conversions, then the marketers should work with top management to try for agreement on what seems reasonable for their business. What range of conversion might be expected among those who state (in a survey) an intention to buy? This would at least afford some metric to use to convert survey results into dollars. Since for ex-post facto ROI calculations, the objectives are learning and possibly accountability, these agreements are workable if senior management concurs.

Using this informed judgment approach can also help in a prospective investment setting. At a minimum, before any significant investment, marketers need to think about whether a positive ROI result

is possible. They need the discipline of “doing the math” to the extent of whether a positive ROI is reasonable. From this perspective, the marketer should think through how many people might see the ad (or the sponsorship or the promotion or the display, etc.) with what progression through the five stages, and possible incremental impact in dollars.

Even such a cursory process would likely yield some winnowing of marketing programs. Take a Super Bowl ad for any existing well-known fast moving consumer product. The cost of one placement is now over \$2 million for a 30-second spot showing (assuming, as is often not the case, that the ad has already been produced). What awareness impact is likely (including whatever “free” PR might occur around this popular marketing showcase)? How might this convert to truly incremental purchases? Even with ancillary benefits (a possible image upgrade, for example; maybe a few additional recommendations and positive reinforcement prompted by the ad) it is quite likely that the incremental profit will not exceed \$2 million since many of these products have a margin from each sale of only a few pennies.

Chapter 5 will pick up on this approach and include guidance into calculating ROI. The key point here is that marketers are caught between the Scylla of demands to produce numbers to justify investment and the Charybdis of not having good numbers to use.

A 2006 ANA White Paper on Marketing Accountability demonstrates the conundrum. It states the impetus of focus: “accountability” is “the number one issue” on the minds of “senior marketers.” Yet, “there is no one definition.” Not only isn’t there agreement across businesses, the individual respondents “offered 5.8 different definitions” on average with “brand metrics” and “sales metrics” the most prevalent.³⁹

The first issue of a new magazine for CMOs (which lasted even less than the average tenure of CMOs) noted: “The road ahead offers both peril and promise for marketing leaders, with ROI as the primary driver... Unfortunately, the main problem with marketing ROI is that there is no consensus about what the term actually means. Everyone agrees ROI has a place. No one can agree what that place is.” The article then cites ANA/Forrester research of CMOs about what is included in their definition or measurement of the “return.”

The results were:

Measure	%
Increase in sales revenue generated by marketing activities	66
Changes in brand awareness	57
Total sales revenue generated by marketing activities	55
Changes in purchase intent	55
Changes in attitudes toward the brand	55
Changes in the market share	49

A subsequent issue of the magazine detailed these top ROI measures being used by CMOs:

1. Consumer satisfaction (research-based)
2. Website traffic
3. Market share (research-based, unless an industry that publishes figures)
4. Feedback from sales and channel groups
5. Advertising effectiveness (research-based, unless direct ads, as above)
6. Qualified leads
7. Brand awareness (research-based)
8. Revenue impact of select programs (may be research-based)
9. Customer churn (again, may be research-based)
10. Revenue impact of all programs⁴⁰

Given these types of measures, the range of what is being used and the lack of consensus about the issue, it's not surprising that half the CMOs stated that ROI data is "hard to find."⁴¹

One of the most experienced and respected CMOs, Jim Speros, now at MMC, provides perspective:

"The need for metrics in understanding how your marketing programs are performing has never been more critical. Operating without clear ROI measures in place is the equivalent of flying a plane in the dark without instrumentation. You'll get someplace for sure, but it may not be where you wanted to go or how you wanted to land. At the same time, even a pilot needs to exercise judgment and intuition based on experience. The pursuit of metrics can also have the unintended consequence of dampening creativity, intuition and risk taking — the essentials of great marketing ideas. Marketing professionals must find the right balance in their approach."⁴²

Using generally right measures and internal processes to agree on the right ones is likely the best way to proceed. The test is in the decisions made and the performance in the future.

In addition, there is a key distinction between the average customer and the loyal customer (e.g., the roughly 20% of customers who are the most loyal and/or the most profitable and account, typically for 80% of the profits). One can theoretically compute the lifetime value of all customers at any given point or of a segment or segments, however defined.

Calculating Lifetime Value of Customers

The underlying concept of customer lifetime value is that a "customer" represents a potential stream of revenues (and hopefully profits) over the customer's tenure as a customer.

To the extent the enterprise has accurate data on activities and spend (e.g., a bank, a credit card company, most business-to-business customers) the historical data on lifetime revenues will be valid. Then the enterprise needs to decide:

How to calculate costs to acquire and serve that customer (an interesting reverse from the normal marketing ROI paradigm in which costs are pretty clear and accurate and revenues involve the more difficult assumptions and measurements).

Over how many years to project the "customer relationship" at what pace of growth, if any, in the revenues?

What discount rate to use for the net present value of the relationship?

What ripple effects, if any, there might be from the customer recruiting other customers?

Beyond these questions, the mathematics can be quite complex.

Customer Equity by Robert C. Blattberg, Gary Getz, and Jacquelyn S. Thomas, and *Driving Customer Equity* by Roland Rust, Valarie A. Zeithaml and Katherine N. Lemon, do an excellent job of describing the theory and practices involved.

This type of metric is logical for marketing with its responsibility for attracting and keeping a profitable customer base. For businesses for which the 80/20 paradigm works, marketing should identify and focus on the 20% and metrics logically should also focus on that 20% (with improvements in the other 80% being gravy, but not the proactive focus of marketing).

Figure 3-3: Range of Possible ROI Perspectives

Scope of Perspective	<i>Each Program Investment</i>				
	<i>Overall Investment</i>				
		<i>Short-term</i>	<i>Long-term</i>		
		<i>Impact on Profits</i>		<i>Impact on Brand Equity</i>	
				<i>Short-term</i>	<i>Long-term</i>
				<i>Impact on Customer</i>	
		Goal Alternatives			

Figure 3-4: Matrix of Future Revenue Sources

What? Source of Revenues	<i>New Offering</i>	1	2
	<i>Traditional Offering</i>	3	4
		<i>New Customer</i>	<i>Current Customer</i>
		Who? Source of Business	

*“Knowledge may be enjoyed as a speculative diversion,
but it is needed for decision-making.
The genesis of ideas and the authentication of knowledge are part of a
continuous process which ultimately brings knowledge to bear on decisions.”*
– Thomas Sowell, *Knowledge and Decisions*

Chapter Four

Decisions

Before detailing approaches to assess ROI of specific types of marketing, it is worth focusing on the types of decisions ROI might influence, else why measure at all? That is, if marketing decisions are not going to be impacted by ROI considerations, then return may not be worth calculating at all. As the 2005 ANA Marketing Accountability Task Force White Paper stated: “The goal is to take those measurements and move to decision-focused management.”

Returning to the three perspectives, the types of possible decisions can be delineated:

ROI Time Frame Perspective	Possible Decisions
Pre-investment	<ul style="list-style-type: none"> • Go/no go on an investment • Selection of the better investment(s) • Setting target ROIs for the investment(s) to justify the expense
Mid-investment	<ul style="list-style-type: none"> • Stop/continue • Mid-course correction
Post-investment	<ul style="list-style-type: none"> • Stop/renew (if possible to continue) • Apply learning to current pre-investment decisions • Accountability – bonuses, other HR decisions, “vendor”-related decisions (e.g., agency compensation)

This, of course, is the foundation of the rationale for Marketing ROI – better decisions. Even accountability, as laudable a goal as that may be, is really a means to the end of better decisions for better performance by rewarding those who made good ones or bringing in new CMOs or others to make those future decisions better.

As noted previously, the most important decisions are the ones made before investing that either sanction or kill the initiative. Most of the ROI literature fails to distinguish between this perspective and those during and after investment, for which ROI measurements are interesting learning, but are too late to have stopped a bad investment. (That is, ROI calculations may stop the bleeding, but not the original injury.)

When a decision-maker (or commentator) looks back on the quality of decisions from the historical perspective, if the decision was a good one, there are only three possible causes:

- Luck
- Perspicacity and foresight (e.g., a philosopher King or Queen, in Plato's version, able to discern truth amid confusion)
- Solid research and knowledge

In general, the best enterprises will depend on the latter two, developing processes that winnow out the better decision-makers (such as BMW Films, advertising on the fledgling ESPN, etc.) and spending the money necessary to understand customers, prospects and emerging technologies all to aid decision-making.

Nonetheless, regardless of the sophistication of information and techniques and analyses, decisions about marketing investments for the future (particularly in cases of innovative, new programs) simply cannot be measured in advance. So, any discussion about the impact of ROI calculations on decision-making must acknowledge this. In fact, relying on general ROI learning (e.g., "humorous ads have never generated a positive ROI for us") can actually be a mistake if the medium (e.g., moving from TV to Internet-based campaigns), the type of message (e.g., a new positioning or campaign), and/or the target (e.g., aiming at prospects vs. current customers) changes.

While proponents of ROI discipline also argue that "far from stifling creativity, the ability to measure what works will allow marketers to experiment with different media and strategies"⁴³ there is no evidence offered. In fact, human nature suggests just the opposite and history is replete with examples of short-term focus and direct response revenue production drowns out longer-term perspectives that might allow for experimentation resulting in short-term shortfalls.

Case Study: Time, Inc.

Time, Inc. magazines provide a classic example of the tensions between short-term and long-term results. For years, marketers working for each of its major publications (e.g., *Time*, *Sports Illustrated*, and *Fortune*) prepared two sets of ads: one describing/positioning the periodical, the other offering premiums to new subscribers. The company would rotate the ads on television and monitor results. Naturally, there was always a flurry of subscription calls after the premium ads and virtually no discernable response after the image ads. Over time, the bottom line dictated more of the former ads and less of the latter. Time, Inc. always has hired the best and the brightest. Marketers knew they needed more image ads to bolster the magazine brands, particularly as TV increasingly threatened *Time* and *Sports Illustrated*. Yet, as Time, Inc. struggled with the migration of subscribers to the web, the magazines grew increasingly dependent on the ads to bring in new subscription revenues. This had two long-term results:

1. Time, Inc. diminished the profits of its flagship products by discounting the price through the free premiums. However, to the extent Time, Inc. rewarded its people for “ROI” in terms of revenues and number of new subscriptions (as it did), the numbers always looked good – even with the lower profits per subscriber.
2. Over time, the brand equity of *Time* and *Sports Illustrated* declined both because of the lack of brand image support and because Time, Inc. undermined the perceived value of the magazines by publicly and often putting the titles “on sale.” The value was also undermined by appealing to subscribers attracted to premiums such as videos instead of those attracted to reading what the magazine offered. In one memorable focus group, a new subscriber said: “What I like best about *Sports Illustrated* are the videos they sent me. What I like least is the magazines they keep sending.”

If, instead of revenues and subscriptions, the measures were full price subscription and renewals, or an aggregate lifetime value of readers, the Time Magazine and Sports Illustrated franchises would undoubtedly be stronger today.

Beyond demands for short-term results, ROI calculations that could influence investment confront the necessary difficulties that predicting the future entails. There is a wide variety of potential factors that could dramatically change the impact of any marketing program or budget (see Figure 4-1). Few businesses have learned how to incorporate uncertainty into their strategic thinking beyond those who have used scenario planning. In fact, most enterprises acknowledge their inadequacies (see Figure 4-2) and, seemingly, decide to ignore uncertainty as they go about their planning.

In the face of these factors, trying to measure ROI in advance is difficult at best. The risk of applying metrics that are not likely to be accurate is compounded for truly new marketing that can easily be stifled by ROI measurements and thinking that are dated and/or not analogous enough. (Not to even mention the arguments in Chapter 3 that the tools used may not be valid or reliable enough.)

Figure 4-1: Types of Marketing/Marketplace Risks

- Security or political risks such as:
 - Market-disrupting events
 - Geopolitical volatility
- End-marketer or customer risks such as:
 - Brand or reputation erosion
 - Customer consolidation
- Competitive risks such as:
 - Disruptive technology
 - New entrants
 - Effective new products/services
 - Successful new marketing campaign
- Financial or economic risks such as:
 - Financial market volatility
 - Recession
 - Inflation

Based on similar chart in Risk Intelligence, David Appgar, Harvard Business School Press 2006, p. 12.

Figure 4-2: Rate your company's ability to monitor and track changes in the business environment...before they occur

Excellent	0%
Good	23%
Needs improvement	61%
Minimal	14%
Non-existent	3%

Source: Early Warning, Ben Gilad.

It's probably a safe bet that experimentation will be even more important over the next few years than it ever has been. As the mass media continue to splinter and the Internet information highway is finally being paved, marketers have a staggering array of options – most of them virtually unknown as to impact and best uses.

Google alone has created a variety of marketing opportunities beyond its popular search advertising. Google's recent deals with MySpace (to, in essence, manage its potential ad spaces) and with MTV and Nickelodeon (providing clips to enhance attraction to other ads on or sold by Google) are new forms of marketing for which no reliable track records exist. In addition, Google recently bought YouTube and is evolving a revenue model for that type of offering. In the future, ads and/or paid entertainment on mobile devices will serve as yet another example of new marketing opportunities without set rules. CMOs who have to meet ROI hurdles for each investment will be hard pressed to provide believable evidence that messaging carried in any of these ways will have a positive payback. CMOs with no such restrictions will be able to experiment and, as Budweiser did with ESPN, may be fortunate enough to hit a sweet spot.

Beyond these issues, there is a distinction made in the growing literature about decision-making between “wrong” and “bad” decisions.⁴⁴ Using inadequate and/or dated information to decide about current marketing alternatives is “bad.” Using knowledge about the marketplace and honestly estimating the impact of innovative marketing may turn out to be “wrong,” but with transparency and clearly labeled assumptions, the decision process is generally right.

But first, from the perspective of better decisions, it is worth looking at the track record of marketing over the past decade as an ROI mentality has become established. As noted in Chapter I, at present, there are surveys indicating that over 50% of major businesses are pursuing ROI assessment in some form or other.

Yet, even one of the most optimistic advocates of measurement admits: “metrics are a thermometer,[a] simple but powerful diagnostic tool. No one was ever cured by a thermometer and marketing will not be cured by metrics.”⁴⁵ To assess whether or not marketing decisions have improved, there are a variety of possible measures. One would be the tenure of CMOs. If the advent of ROI measurements is improving marketing, then it might be expected that the tenure of CMOs is lengthening. Based on the annual surveys of Booz-Allen and Spencer Stuart, however, this is not the case. In the 2006 survey, the research actually reported a slight drop as the average CMO's tenure remains under 24 months. (Of course, it is possible that this finding reflects superior CMO performance as they get promoted faster, but the analysis of the consulting and executive search firms sponsoring the study states otherwise.)

Another approach would be to look at the success of new products – the marketing of which consumes much of a CMO's time and budget (since creating awareness is typically the most expensive marketing objective). While there is no definite measure of new product success rates, there are few, if any, experts claiming that the traditional failure rate (a staggering 90% plus in most written commentaries) has declined. In fact, a 2005 article puts the current failure rate at 95%.⁴⁶

Similarly, no major studies claim that growth has become easier or more sustainable and the average tenure of a new entrant to the Fortune 500 list remains under a decade.

Since not all CMOs embrace nor employ ROI measurements, it is necessary to look further. If ROI discipline is such a good thing, couldn't there be solid quantitative evidence that practitioners out-

perform those that don't? (Of course, if everyone does it equally well, then the overall impact would be negligible; but, clearly not everyone has started down the path.) Will ROI for marketing be akin to the strategic planning movement of 10-20 years when an emphasis on this discipline arose and major companies had influential and large departments studying and crafting the future path? TQM and other disciplines have had advocates and movements within relatively short time frames. Other relatively new disciplines (e.g., supply chain, née logistics) seem to have greater staying power both as "departments" as well as ways of viewing businesses and their value chains.

While the measurements at hand may be weak, the discipline of thinking about ROI is a positive, particularly given that much evidence exists that leadership that manages by numbers tend to outperform those that don't.⁴⁷ Any given measure is not likely to be valid and reliable enough to justify its guiding future decisions, no matter how precise they may appear. The better route is for marketers to work with senior management on methodologies and metrics on which they agree which can provide accountability for learning on both overall budgets and specific major programs, as well.

Nonetheless, the test for Marketing ROI must be whether the time and money spent pursuing it results in revenues sufficient enough to justify the investment in ROI assessment. Clearly, it is too soon to tell, particularly in industries with extremely long purchase cycles. However, so far, there is an absence of compelling support beyond the published reports of a few devotees (e.g., Wachovia Bank, Kraft Foods and JP Morgan Chase were all featured in the same issue of *Point Magazine*, an Ad Age publication for CMOs).⁴⁸

And, again, the focus should be on decisions made based on the discipline. This is tricky terrain for numerous reasons: (beyond difficulty in getting "real data" as opposed to self-reported experience).

- The path not taken can rarely be assessed. What would have happened if a program such as BMW Films had not been stopped prematurely or if a decision maker had taken a risk on a program that tested poorly initially, but might have performed well over time?
- The deconstruction of decisions is difficult. What role did the numbers play amid all the other variables?
- It appears that most decisions have a component of rational and emotional factors at work. Thus, ROI measurements and numbers in general, at best, have a partial impact on decisions; particularly those made in a group setting.

To give fair time to the possible impact of Marketing ROI on decision-making, let's omit for now the situations above and focus on a situation where methods for ROI calculations are arguably well-established enough to rightly impact decisions about future investments.

The television industry may be instructive here. While programmers don't use ROI language, in essence the decisions they make about which programs to air are based on the objective of choosing the programs which will attract the highest advertising fees (typically those that produce the greatest numbers of views of interest to advertisers). There is also attention paid to the relative costs of producing the programs. In essence, then, the decisions are roughly based on ROI thinking, amid other factors. There is also extensive market research conducted to aid the decisions, at least by the three traditional broadcasters. Thus, over time, there is an extensive track record and ample opportunity to learn about what works and what doesn't work. There are also well-tested research techniques to predict performance.

What is revealed by this case study?

1. Despite the acute level of attention and research, the track record of new programming remains low – each year less than 20% of the new programs on ABC, CBS, NBC and Fox survive to a second season.

This is often attributed to there being too few really good possible programs, so that research/marketing could not possibly have a higher success rate. While this may be true, that would imply that programmers either ignore the more general knowledge about what works and what doesn't work and/or that few people can actually use that knowledge to produce programming that enough people will watch.

2. Despite the solid evidence of market researchers about which programs will or won't attract a sufficient audience, it is evident that other factors greatly influence the ultimate decisions about what pilots are selected to have a spot on the schedule. "Desperate Networks"⁴⁹ details how the gut feel of executives and their relationships with various producers has a dramatic impact on these decisions.

- There are also many examples of programs that failed the pilot testing, yet became enormous hits – *American Idol* (documented in "Desperate Networks"), *All in the Family* and *Seinfeld*, which has likely produced the highest ROI of any show ever, are all on this list.

Thus, the argument goes, even if ROI discipline occurs, it may not produce better decisions in the end. So far, despite expensive attempts by very experienced researchers to predict the performance (roughly speaking, the ROI) of alternative possible programs, the track record is not good. The decisions have not improved.

The field of decision-making is currently receiving more scrutiny than before in terms of books and articles with growing recognition that there are few "no brainer" decisions and that decision-making is quite complex. On the one hand, there is growing conviction that decision-making improves if it is a team sport and that each decision-maker is influenced by both rational and emotional factors, just as seen in the TV industry.

A good standard is provided by Ken Roberts, CEO of Lippincott Mercer, who suggests that ROI measurements' "aim is not merely a number, but a clear direction to improved business performance, and the ability to refine that path over time."⁵⁰

Case Study: Aflac

Aflac's advertising campaign is an excellent example of how decisions are or are not influenced by ROI measurement and, from the outside, seems to show good instincts regarding ROI and decision-making.

The campaign with the quacking duck is illustrative of how conclusions about an investment depend on the standards for decision. If one decided that ROI turns solely on awareness, then the campaign which started in 1998 has been wildly successful with (Aflac reports) 90% awareness of the company by U.S. consumers from a base of just about zero.

However, unlike in an impulse consumer category such as chips or candy, virtually none of those aware of the company name can buy the product. It can only be bought by representatives of a busi-

ness who want supplementary coverage to whatever disability benefits they already buy from an insurance provider.

So, by awareness measures, the results are great, but by sales they are problematic given the nature of what is being sold. Through 2004, the bottom line for Aflac was growing, albeit not by the rate the ad budget had grown. In that year, Aflac “evolved” the duck in its advertising as it tried to get more awareness of what Aflac offers (a reasonable evolution), not simply the name. Evidently, Aflac had conducted research showing the lack of understanding of its product, despite having an explanation in almost every ad since 1988. However, even with the evolving duck, it is unclear that awareness of what the product is can convert into added sales more than simple name recognition.⁵¹

The rationale for the initial decision to invest came from the CEO who has said: “I realized I could work for the rest of my career and never get the name recognition above 30 percent unless I tried something different.”⁵²

One assumes that the decision to continue and even up the ante similarly stems as much from these emotional aspects (especially as it is now “his” campaign as much as the CMO’s). ROI-related research as to the lack of understanding of the product was met with a decision to renew, amend and increase the advertising (amid generally favorable rising profits) rather than stop it. Faith as much as reason.

It may well be that the advertising is directly contributing to the bottom line by increasing the confidence of Aflac’s sales force and/or creating greater receptivity among those actually qualified and able to buy. There are often ripple effects that ROI efforts should capture, but typically don’t or can’t because they are nearly impossible to separate out and measure.

Similar examples of hard to measure impacts reported in the media are:

- Xerox studied efficiency and learned it could be increased by cutting the coffee breaks of its employees
- UPS measured efficiency and decided its drivers should spend less time talking to customers during pick up

In both instances, costs per customer declined, but the companies soon found, so did the numbers of customers. For both businesses, the interactions produced value that could not be easily measured (until revenues started to decline).

Jack Welch’s comment on situations such as this: “Too often we measure everything and understand nothing.”

There is also evidence offered by Aflac that the campaign is accomplishing great things in Japan using a duck figure more amenable to that culture than the somewhat obstreperous duck used in the U.S.

In any event, the Aflac advertising decisions seem to be emotional in tenor and/or influenced by the wrong variable (awareness or even knowledge of the offering instead of linkings to sales and profits). Spending more on their market research and calculations would likely have had no impact on the CEO’s decisions. (Perhaps conducting some research on actual buyers would be more instructive – and may have been done, but not disclosed.)

One recent book, *Why?* by Charles Tilly, assesses the ways people try to persuade others. Essentially,

Figure 4-3: Types of Explanations

	<i>Reasons</i>	
	Popular	Specialized
Formulas	Conventions	Codes
Cause-and-Effect	Stories	Technical account

Source: *Why?*, Charles Tilly, 2006.

Scenario Planning

Scenario planning is philosophically attuned to a “reasonably right” approach. The core concept is that thinking about the future should be designed to facilitate making better decisions. There is also a healthy skepticism about precise predictions. The idea is that it is helpful to develop multiple alternative paths that each have some likelihood of coming to pass. The purpose is not to pick one, but rather to think through the implications of each. The alternatives (the scenarios) may contain numbers, but classically they are employed as stories entailing many elements within the mix (that are more qualitative than quantitative).

With regard to prospective ROI thinking, use of scenarios can be helpful to assess whether or not there would be dramatic differences in ROI should any given scenario actually unfold. This allows decision-makers to employ what the author has called “contingency marketing” elsewhere – in essence, when deciding whether or not to invest, considering alternative perspectives of the future and each impact on the proposed program. Arguably, this type of thinking may be more important in investment decisions than strict numeric calculations.

One of the best references to scenario planning remains the 1985 two-part series in *Harvard Business Review*, by Pierre Wachs (reprint #85516 and 85617).

the author suggests four alternative tactics (see Figure 4-3). There are bromides (such as survey results) that reflect conventional wisdom; there are rules of law or etiquette (“codes”); there are technical explanations and there are “stories,” likely the most prevalent style of persuasion. ROI metrics and numbers can inform the wisdom and technical explanations, but are not comprehensive guides to decisions.

Aristotle posited that persuasion has three elements: credibility (likely the foundation), rational and emotional. In essence, Aristotle, too, acknowledges that there are non-rational components influencing decisions.

And, from any perspective, for ROI measurements to be worthwhile, there must be a discernable influence on decisions and decision-makers. At a minimum, this does require credibility of the numbers (the science) if not credibility of the recommender (the artist) as well.

Thus, any effort to install or optimize ROI thinking should start with discussions about what types of knowledge and measures will make a difference in current and future budgeting and execution. Too often, this step is omitted.

Omitting this step leads to one of two sub-optimal results – the ROI-science-based recommendation is ignored or ROI-science-based numbers drive a decision without sufficient weight given to other factors that should be included. What is needed is careful discussion about the role of ROI, the strengths and weaknesses of the measurements, how analogous the past is to the decision at hand, the factors (pro and con) which could tip the balance the other way (e.g., competitor moves, etc.), so that ultimate decisions are as well guided as possible.

Usually having discussions at the front end produces measurements/assessments better fitted to the decision. For example, if the issue involves investment in a new technology where both the stakes and uncertainty are high, a Delphi panel (see sidebar on page 51) or other techniques could become the assessment tool instead of a one-time survey (which historically almost always overstates the possible penetration of something new, particularly technology). Another advantage

of this advance thinking is to properly size the investment in ROI assessment itself.

A major investment with massive uncertainty merits a more intensive study with monitoring throughout keyed to any future incremental investment decision dates. A more modest investment should logically have more modest ROI-related expenses.

It is also vital to recognize the emotional side of decisions and to try to have the preconceptions and preferences of decision-makers put out in the open well in advance of the decision and to probe whether in fact any data is likely to sway the decision-maker(s) and, if so, what type of information produced could be impactful. This type of dialogue would have saved millions of dollars and hours wasted in assessment research that had no impact on decisions.

Such discussions should take into account the pressures for short-term results and all the frequent temerity of decision-makers. The short-term epidemic is a long-term problem starting well before the past decade's obsession on making and meeting quarterly estimates. In 1970, the U.S. inaugurated AMTRAK, nationalizing the previously disparate patchwork of consumer railroads in America. There were pots of money designated to help AMTRAK get off to an auspicious start. The Board narrowed the choices to two:

- Rebuilding the roadbeds in the NE corridor, the area producing the vast majority of passengers and revenues, beset with problems requiring trains to slow to 30 miles per hour at several junctures between Boston and New York. While this effort would require some slow downs and disruptions for six months, after the work, trains would be able to cover the trip in two hours or so (vs. the five it then took) or
- Refurbish the railroad cars

The Board chose the latter with its photo opportunities and quicker time frame (without inconveniencing anyone).

There has been some, though not enough, attention paid to how to plan in advance to make better decisions. Since it is possible to support ROI measurements even if the impact on decisions cannot be discerned – but if, the ROI measurements are accurate (enough) and, over time, they contribute to better decision-making. Similar to an artist gaining experience (knowledge) which greatly improves her decisions, even if the artist cannot point specifically to a piece of knowledge. (There is a bromide, attributed to various artists, that when asked why the art is so

Delphi Technique

The Delphi technique, named after the historical Oracle, is an underused method to help identify likely futures. The core principles involved include:

- Combining the perspectives of diverse experts can produce visions of integrated trends, if not futures, that transcend what any given expert (or any given leadership team) would produce
- Once trends are identified, individual voting on relative likelihood will provide a triage to separate the more likely from less likely trends
- Additional iterations over time will produce even better guidance about likelihood

The classic (if not first) Delphi was conducted by the Rand Corporation on behalf of the U.S. Government in search of possible futures that might emerge as World War II was ending. A variety of experts were questioned and trends collated into coherent, if not integrated, patterns (stories/or scenarios) were developed from these interviews. Then the experts were polled on the likelihood of each pattern.

The technique predates “The Wisdom of Crowds” and the Internet, yet incorporates both. It can be used with “informed consumers,” as well as employees in addition to, or in place of, so-called experts.

expensive when it only took X-hours to draw or paint, the response is: “It took me years to learn how to draw/paint it in X-hours.”)

With this perspective in mind, it is worth assessing what process(es) are best for using ROI measurements to enable better future decisions.

On the broadest level, the objective could be to develop a culture which respects and utilizes ROI measurement as (a part of) accountability for the past, as well as knowledge for the future.

In the 2005 ANA Marketing Accountability Task Force findings, these characteristics are listed as best practices; some are process-related, some are more substantive approaches:

- A culture of accountability
- An inclusive process
- Metrics tied to strategic expectations
- Measures of marginal productivity
- Optimization modeling
- Experimental design
- Lifetime value of a customer
- ROI down a transaction funnel (i.e., down a “purchase decision pathway or decision funnel, through which the consumer traverses on the way to a final decision,” much as described as an optimal approach in the prior chapter)
- Factors contributing to brand equity enhancement and market share growth
- Brand equity and brand loyalty links to profitability and shareholder value

In sum, “the key to creating cultural buy-in is an inclusive process that creates confidence in the numerical accuracy and relevance of the metrics, as well as the perceived fairness and comparability.”⁵³

A core book on the topic suggests that “an effective decision-maker process will fulfill these six criteria:

- It focuses on what’s important
- It is logical and consistent
- It acknowledges both subjective and objective factors and blends analytical with intuitive thinking
- It requires only as much information and analysis as is necessary to resolve a particular dilemma

- It encourages and guides the gathering of relevant information and informed opinion
- It is straightforward, reliable, easy to use and flexible.”⁵⁴

This type of framework makes sense and puts ROI calculations into an appropriate context for helping (but not forcing) a decision.

Given the nature of decisions which entail a subjective element, it is certainly possible to argue that all of the marketing excitement around ROI may be a misdirection from the central problem – a lack of credibility of marketing and/or the CMO in the (rest of) the C-Suite.

If Aristotle is right, without credibility there can be no persuasion, regardless of whatever numbers are produced. The 2005 ANA/MMA White Paper reports on CMO Research in which “only 10 percent of respondents reported a meaningful relationship between their financial and strategic planning department and their marketing department.”⁵⁵ ROI discipline may provide a bridge, but without an underlying relationship of trust in marketers by a CEO, even numbers that support the CMO’s recommendations will likely not be given much credence.

So, generally, CMOs need to fully understand how they and their department are viewed before they install or invest in an approach to ROI. If they already have credibility, they may not need new or different numbers and, if they don’t have credibility, ROI numbers, especially those generated by marketing itself, are unlikely to have an impact on decisions by their superiors.

On a more granular prescriptive level, the issue for CMOs is to establish a systematic approach that is credible to key stakeholders (i.e., marketers and those up and across the enterprise who, at a minimum, evaluate marketing, sets its budgets and work with the function). It should be noted that measurement for measurement’s sake is not worth the investment. Cultures that require numbers that are meaningless, but are given weight in decisions about compensation, for instance, are neither models, nor worth considering.

To the extent there is a seriousness of purpose the CMO must design a process that:

- Gives stakeholders input relative to their importance and insight.
- Drives for decisions about appropriate metrics, their role in future decisions and time frames that make sense for assessment. It is crucial to agree in advance about what range of results will be considered good. It is also vital to detail and memorialize assumptions (e.g., about the economy, competitor activities, etc.) so that adjustments can be made if assumptions prove wrong.
- If consensus is not reached, special techniques (e.g., work-outs, “arbitration,” etc.) must be employed so that the measurement process has value and legitimacy across the enterprise.
- Formal “what does it mean?” sessions at key measurement junctions are necessary to ensure that whatever other value or impact ROI has, there is consideration of what is being learned. Experience suggests that absent this investment of time by stakeholders, all such processes default to the Cheshire cat grin – only the numbers have a shelf life and impact.
- To the extent possible, the stakeholders should as openly as possible decide on the role of measurements in future decisions (possibly using the six criteria above).

For example, in the best cultures, the decision-makers could acknowledge that their bias will be to cut the advertising budget next year. Given that recognized predisposition, the team might then set a higher hurdle for proof that the current advertising is working than if they were assumed to be neutral on the topic and do so openly with the decision-makers so that the proof is impactful.

The point – bolstered by best practices identified in the literature – is that ROI measurements and discipline only have value outside of marketing if there is credibility in the process and deliberated agreement on how best and in what decision context to use the measurements and calculations.

Finally, in using what is learned in ROI evaluations (whether before-the-fact as most of the examples in this chapter, or after-the-fact) the artistic side cannot be ignored. After all, in the world today, there are far more astrologers than astronomers. Or, as Henry Poincare put it: “It is by logic we prove it, it is by intuition we discover” and “all our learning is in the past while all our decisions are in the future.”

***“Data are not information.
Information is not meaning.”***
- Theodore Levitt

Chapter Five

Doing Some Math

The argument thus far is that ROI measurement for marketing is more problem than panacea because once you focus on the rationale for ROI (to improve the quality of marketing decisions), acknowledge the three relevant perspectives (before, during and after investment) and acknowledge the inadequacy of most (if not all) the measures anyway, the conclusions are as follows:

- The bulk of marketing investment is committed well in advance of the marketing spend such that, even with good retrospective measurement, we still cannot pretend to be able to predict the future, particularly for novel products/services and new marketing moves (e.g., a new campaign).
- The after-the-investment ROI focus is certainly a good discipline and can build knowledge to inform future before-investment decisions (though not control the decision). These measurements may be relevant for accountability (including bonuses and promotions) where the measurements are generally right and no major unforeseeable events occurred (whether positive or negative in impact).
- The during-investment ROI is clearly likely to be the most directly helpful in actual decisions (i.e., should we continue as is, modify or stop a major investment). However, it is by far the least common type of ROI perspective since few major investments are designed to be multi-year marketing programs without change.

It is worth noting that all the foregoing pertains to specific investments (e.g., campaigns; initiatives, new products/services) vs. a more global ROI calculation on all marketing spend which by its nature would have to be after-the-fact (e.g., an annual evaluation) and, therefore, retroactive in nature. This annual perspective is a good discipline and, as mentioned earlier, tends to be the historical common sense approach on a gross level of: our marketing spend increased by X% so if our revenues grew less than that we conclude marketing didn't do a very good job this year. And, of course, the traditional budgeting has worked the same way: our revenues grew 5% last year so marketing should get an

increased budget of 5%. Slightly better is the view we need to grow by 10% this year so we'll increase marketing by 10% this year.

Each of these approaches is mostly inadequate because they are premised on revenues (instead of profits) and, for most businesses, are based on the erroneous assumed one-to-one linkage of marketing spend to profits (if not revenues) in any given time period and/or on the assumption that a continuous relationship exists between marketing spend and revenues. Clearly, this assumption suggests that any attempt to do something different in marketing (e.g., a new campaign) will have precisely the same impact as before a linear relationship that virtually never exists.

Nonetheless, there are global methods such as a generally right measurement of aggregated customer value and/or brand equity which can and should be assessed each year that will provide an appropriate degree of rigor, accountability and learning.

In the same vein, there are directionally right techniques and measures that provide the same benefits for specific marketing moves – discipline, heuristic value and, in some cases, metrics for evaluation. These are the focus of this chapter which looks at marketing as a progression or funnel from the potential customer's perspective (see figure 5-1).

The most expensive and public part of marketing is advertising. With the advent of mass media in the mid-1900s, the use of advertising leaped enormously and the economics of scale helped impel U.S. businesses to become national (or be rolled up by others) and, increasingly,

then created a drive for businesses to become global. At the simplest level, since the first ingredient in marketing is to create awareness of the brand (by the target market), while there are numerous descriptions of progression of marketing measures and objectives, they all start with awareness. (See figure 5-2 for yet two more options to those shown in Chapter 3 and earlier in this Chapter.) The cost of advertising enough to achieve an advanced level of brand awareness is high (estimated at \$50 million to launch a new mass market brand in the U.S. alone), but the marginal cost is not as high. That is, investing to quickly create awareness on a national or global basis can only be afforded by deep-pocketed marketers. However, once a brand has achieved that awareness, it has a built-in advantage over those who cannot afford to spend. Thus, the bigger national brands have an advantage over regional or local brands that may not have the capital to advertise.

Regardless of these trends, the continuing cost escalation of advertising (as noted earlier, more than a three-fold increase in cost per thousand for TV audiences in the U.S. over the past two decades)

Figure 5-1: A Typical Marketing and Sales Funnel



and the continuing growth in advertising is helping to drive the cry for ROI calculations. The famous quote about not knowing which half of advertising is working was made over 50 years ago and the marketing industry is still struggling to get the measurements right.

The issue of measuring advertising is particularly complex for several reasons:

1. There are numerous moving parts, such as the number of ads, the variety of ads, the range of media and the length of the campaign.
2. If the awareness and/or positioning of an existing brand has been established, complexity is present. There is always some base line/history that cost something in the past, but has an influence currently.
3. Human nature is at work. We may not be able to truly isolate the effect of advertising on any decision we make even if we aren't influenced by social factors (e.g., many people don't like to think or admit that an ad impelled them to do something).

The flow of advertising's desired impact is the key to developing an approach to ROI calculations – regardless of the three different perspectives. As was described in Chapter 3, the idea is to develop a core “model” that provides guidance into the expected return.

Let's take the perspective of a law firm contemplating launching a new advertising campaign⁵⁶. Suppose further that for this law firm, the average new client has an average lifetime value to the firm of \$1 million in “profits,” however defined (see sidebar “calculating lifetime value of clients” in Chapter 3).

This number can then be used to help decide about the potential ROI of a campaign or to assess its success once launched. Using the simplest progression of advertising from awareness through attitude and forming intention through decision to buy, one can make assumptions of what success would look like. On the most superficial level, a decision-maker could then balance the potential profits against the cost of a campaign (perhaps \$3.5 million, including out-of-pocket costs of development of the campaign, media costs and time spent within the firm on the development). Thus, the decision-maker(s) can assess whether or not the campaign is likely to create four new clients for the firm. (If they are average clients, they would produce \$4 million in profits and, thereby, justify the campaign from a straight ROI perspective since the \$4 million [over time in profits] is \$500,000 more than the costs.)

The decision-maker might consider other factors as well (e.g., what else the firm could do with \$3.5 million that might yield more, and whether \$500,000 more in the future isn't as valuable as having the \$500,000 in cash today), but at a minimum, there is a common sense calculation that shows the investment could yield a positive ROI.

Figure 5-2: Progression of Marketing Objectives

Create	Awareness	Awareness
Create	Interest	Familiarity
Create a	Decision to buy	Preference
Prompting	Action/Purchase	Trial

Of course, the calculations can be complicated quite a bit by working the prospective math through the paradigm with assumptions about:

- Awareness
- Attitude/intent to buy
- Decision to buy
- Actual purchase

Several issues arise in thinking this way. First, there is a set of assumptions made that can eventually be assessed in reality (e.g., how much awareness will be achieved, what percent of those will develop an intention to consider the firm, what percent of those will decide to purchase services from the firm and how many of those will actually be converted to sales, as well as some mathematics, if not a plug figure that converts revenues into profits). Thus, these prospective before-the-fact ROI estimates can become the basis from which to build after-the-fact calculations over time. Second, this approach highlights the limitations of marketing in creating revenues and profits for many businesses. However good and effective advertising for services, such as those offered by a law firm, the ads cannot create sales by themselves. Buyers of such services typically consider several firms and conduct “beauty contests.” Even if/when there is only one firm being considered, if it is a “new” firm, the buyer will want to interview the prospective lawyers first. Thus, a really effective ad would still not produce revenues if the sales presentation is not effective. This is just one example of why ROI measurements should not be dispositive about (future) investment. In the approach suggested here, the decision-making can incorporate a sense of sales presentation success in the rough calculation, which might go something like this:

Awareness	100 potential new clients
Interests/Decision to Consider	20% of those aware (i.e., 20 potential new clients)
Invite to Beauty Contest	0% (or 8 of those 20 interested) (Note: Some potential clients might never have a need to hire a new firm for this practice.)
Act to Hire Firm	50% of beauty contests invitations (or 4)

Of course, advertising of a law firm will inevitably also hit pre-existing clients of the firm presumably, on average, already worth \$1 million to the firm over time. To the extent it makes sense, the decision-maker should also include the impact of the campaign on such clients in addition to the potential value/return through new clients. Here, the focal point would be incremental profits from existing clients. The impact might be relatively easy to discern (e.g., if the ad focuses on a newly launched service of which clients were previously unaware) or quite difficult (e.g., if the ad is a general “image ad” with no new news at all).

In the former instance, the decision-maker would likely estimate a higher impact on existing clients than for the latter. In either event, the math logic is the same. The following questions must be asked:

- How many firms are aware?
- Of those, how many might be influenced to consider buying something else/incremental?
- How many will do so – and how much incremental profit would be involved?

Clearly, these numbers are only rough estimates, but this is a better approach than not doing any math at all before approving an investment and would ensure that there is at least a reasonable chance for a positive ROI. It can also force discussion about how this marketing might work and unfold.

This exercise will also help improve or sharpen the advertising by considering alternatives to the plan (i.e., using additional media, sharpening the message, etc.) as ways to change the resulting equation. Furthermore, the assumptions/ratios can be assessed over time to see if the impact is in accord with initial expectations, which provides the right context for discussions and future decisions based on after-the-fact calculations and/or in those situations with interim assessment of longer-term programs. Finally, this type of analysis should help decision-makers/CEOs and CMOs focus together on how advertising might work for their business and provide a common set of assumptions to be assessed and perhaps modified as time and learning progresses.

It is worth noting that awareness is itself a tricky issue with two main branches:

- “Awareness” of the firm/the brand/whatever is being advertised
- “Awareness” of the ad itself (which is a separate issue from awareness of the brand)

In all cases, the latter is only important to the extent that it creates the former. The typical distinction made is that for a new product or service the objective of the ad is to create awareness of the brand. For a pre-existing brand, the objective may be to increase the awareness and to create saliency for the brand among those already aware. In other circumstances, the objective may be to create awareness of something new or different about that pre-recognized brand.

In any context, there is always an issue about duration. If you advertise something today and effectively create the awareness you seek, will the target retain that awareness when they are actually ready to buy something? This becomes even more complex in categories with infrequent purchases and high levels of advertising by several competitors.

Even in those types of categories (e.g., cereals), the “reasonably right” approach sketched above is a good way to proceed. Assuming a pre-existing, well-known product, the focus could be on saliency (i.e., prompting top-of-mind attention to the brand such that incremental sales might occur on the next trip to the supermarket). The thought process would then follow the same steps as for the law firm, though in this case, there might be a \$25 million cost:

Awareness (i.e., heightened awareness/saliency of brand)	1 million relevant consumers
Attitude/Intent to Buy	5%-10% (50-100K)
Action/Buy	20% (10-20K) 5-10K new customers / 5-10K current customers

Then the decision-maker needs to develop a theory of the residual impact, if any, of the advertising. Are some of these buyers likely to be new ones (in which case the lifetime value of that consumer can be used to represent the return) or are they likely to be one-time-only buyers ready to switch their next purchase to another advertised brand? Thus, the “action” group of purchasers needs to be divided into gradations of future buying behavior before deciding whether or not the investment will generally make sense.

If the decision-maker decides that half the buyers will be new ones likely to develop an average lifetime value for loyalists to the brand in question (which might be \$500 for a cereal), then that yields a maximum of \$5 million from the 5-10,000 (i.e., at the maximum 10,000 x \$500) of new customers and, since the incremental return from the current customers will be even less (i.e., less than \$5 million), the proposed campaign would not be justified in this case. (It is worth noting that while sales per se are not the complicating factor it is with professional service marketing, there can be channel issues such as out of stocks which could deflate the impact of marketing.)

The deliberations might then result in alternatives (most likely adding some hook or new news which could increase the impact among those who become aware). In this regard, ads about something new (e.g., a new brand, a new offer or incentive, etc.) are far easier to assess in ROI terms than just another ad with no new news about a well-known product because the impact is more discernable. It is also true that “the new news” ads typically are more memorable and impactful if well done.

It is also possible that the cereal is in trouble and currently has little traction in the marketplace. In that case, the advertising might be an initial foray at repositioning and trying to create momentum and buzz, and, therefore, the advertising might make sense even without much hope of a positive return, if – and only if – there is some evidence that the ads, if viewed, can have a real impact.

Another benefit of this “reasonably right” progression approach is its amenability to disaggregation into parts of a campaign. What benefits might be added by including radio? Or the Internet? How would a couponing effort compare to, augment or replace a pure ad campaign? If you do both an image/reputation campaign and a call-to-action campaign, do you benefit more than from either alone?

Of course, the numbers are rough and assumptions broad, but trying to be more precise in before-investment calculations is likely to involve partial, if not misleading, measures. For example, often all that is calculated in advance is reach and frequency for the campaign. Any good agency or media buyer can provide “precise” measures of projected reach and frequency, but these are always based on the past (i.e., the past viewership or readership) or projections for new programs/magazines/web sites. In addition, these precise numbers may be misleading because the exposure methodology is suspect (as earlier described for Nielsen ratings and magazine readership data has been even more openly questioned). Furthermore, typically the analysis stops at reach and frequency, leaping over the real issue of what actions will ultimately be provoked by the advertising. Taking the “reasonably right” approach with discipline through the funnel at least provides a thoughtful look at the possibility of a positive ROI.

Most importantly, this approach produces advance estimates so that the business can direct all its interim and after-the-fact measurements (including any dashboards) at assessing those estimates at each part of the funnel. In essence, this provides discipline and accountability, but puts it into a context that is reason-based and doesn’t abuse the measuring sticks nor pretend that decisions about the future can really be measured in advance well enough to dictate decisions.

In that vein, it is also valuable to make explicit any assumptions about the future that the decision-maker made (i.e., at a minimum, expectations about the economy, product/service performance and competitive activities). Scenario planning discipline can provide a valuable adjunct to the process. Businesses that build scenarios (see sidebar on scenario-building in Chapter IV) can filter the “base case” analysis through the funnel by each future scenario as further input to their decision-making.

A final comment or two about advertising:

First, no one has found the silver bullet yet for making accurate ROI calculations about a new campaign before it launches. Whatever progress has been made is in the after-the-fact calculations or reach and frequency alternatives and, as argued in the prior chapter, most of these improvements do not provide enough to be precise solutions.

Second, the current techniques used for prospective assessment have difficulties.

As noted, simple reach and frequency measures, even if accurate, only entail a part of the funnel (awareness) and really only a part of that (exposure), which is particularly suspect as a measure for impact for ads with no new news.

In this regard, media mix models are the latest evolution of media planning tools. These models can integrate various media alternatives to produce an optimal plan in accord with goals for reach and frequency for the given target. Current models are quite sophisticated and, presumably, are quite helpful in planning future iterations of a campaign in which the impact of reach and frequency are well documented. However, in instances where the linkage between the campaign and eventual purchases are not established, while they will still increase efficiency of attaining a given reach and frequency, they will contribute little to ROI. In an instance of ineffectual ads, the model is analogous to rearranging the chairs on the deck of the Titanic. Furthermore, most of the models assume the impact of the ad is similar for any given medium so that all media are equal in the mix except for their price. This may or may not be true, but requires information and study beyond the model.

The other tool is testing of ad campaigns before they are launched, an expensive exercise that is less prevalent than it once was, as pressures for speed have increased. However, businesses can and still often do test their ads in a variety of forms and formats. In some instances, copy is assessed quantitatively through research and compared to norms. Sometimes rough cuts of TV, print or web ads are used. Sometimes the businesses invest in producing the finished ads before testing (though often that investment can push decision-makers to actually use the ads even if the test results were not very favorable).

Besides the expense in development and testing, none of the methods go far enough. The key to ROI is not awareness of the ad or even favorability or reactions to the ad, but what the ultimate impact is – which will always require a leap of faith about how awareness and/or attitudes/intent will translate into revenues and profits. Focusing on the “science” of testing (even if it is well done, valid and reliable) too often obscures the importance of these calculations that convert research metrics into dollars. Furthermore, the evidence is that none of the advance testing of ads has been proven to predict the actual ROI (another reason for the decline in such testing).

Nonetheless, testing, where time and budget allow, is a good idea, but only in the context that it helps one to avoid ads that can’t cut through clutter, create misimpressions or don’t engage the target.

In addition to the contemporaneous integration of advertising across media, there is also the possibility of integration across time periods. That is, there are times (e.g., with a new product such as a

movie) when a marketer may initially strive only for some name recognition and then, as time passes, move onto other more sales-directed objectives. In these instances, the broad progression calculation outlined previously works well by hypothesizing specific goals for each step (e.g., name awareness by 60% of the target) within the overall framework of how that is expected eventually to convert into attitudes, intentions and actions.

Marketers – especially nowadays – try to integrate their messages if only in recognition that stakeholders are no longer separable. The Saatchi & Saatchi ad agency (a hot agency in the late 1980s) served as the cautionary tale for this when they proudly touted their profitability in print ads aimed at the investment community. They ignored the fact that their clients read the same papers – and revolted, hastening the cooling and ultimate break-up of the formerly robustly growing agency. Nike discovered that their hiring practices in Asia, once publicized, negatively impacted buyers of cool sneakers and sportswear in the U.S. So, more and more, within the constraints of any relevant cultural differences across the globe, marketers try to keep their messaging (as well as logos) as consistent as possible.

Should ROI try to peel apart the pieces of mosaic marketing? This is hard to do without intentional variations (e.g., leaving out piece parts here and there so as to test what happens without it). The general approach previously outlined suggests hypothesizing about the contribution of each element, but not at great time or expense. Does the logic support the likelihood that each element has a positive ROI? This approach is worth pursuing for the most expensive parts. However, some programs are truly integrated (such as a contest Campbell's Soup ran within an NBC program, American Dreams, in 2004-05 in which an on-air character participated in a contest in a well-integrated “product placement” as the real contest was run and promoted in ads). In these instances, it is more productive to focus on the whole vs. any single component. Most important is to focus on the message conveyed, not just exposure to the marketing.

Some marketers are also responsible for defining an integrated brand experience (such as in a retail store, or entertainment brands). In these instances, it is worth assessing the overall impact (i.e., what is the brand experience), though it may also be worth assessing, if only qualitatively, the experience conveyed by specific significant piece parts. However, the main practical focus should be on whether the experience ultimately produces incremental profit, not on trying to define the precise contribution of each element. Of course, if an experience is not working, diagnosis among the elements is critical, using conventional tools that don't have to be connected to ROI.

Naturally, to the extent a business wants to use specific metrics with which they have comfort and experience (e.g., copy testing), those metrics can be incorporated into thinking through the funnel approach (e.g., by over time noting how the copy results correlate to eventual actions. If there are no such correlations, the copy testing should be stopped or amended). Whatever the specific measurements, the key is to keep in mind the fact that ultimately there needs to be a payoff and this requires the marketer to connect any specific campaigns to an incremental revenue stream at some point in the future. Too often, articles and case studies relating to ROI cite awareness or click throughs as if those actually represent a return when they are clearly only means on the way to a possible return.

Before leaving advertising, it is worth noting that while the measurement tools are not validly precise, there is still value in assessing the impact of given campaigns, messages, media, etc. to enhance learning – both about the funnel assumptions and to guide future experiments/decisions. As always, this argues for using multiple measurement tools and not relying on any given metric unless its reli-

ability and validity have been well established.

Qualitative and so-called Web 2.0 tools (the latest interactive techniques on the Internet) may provide great value here, especially as adjuncts to survey findings. A key objective is for a business to determine why ads either seem to work or not work – and then memorialize that learning.

Areas of focus should always include:

Credibility of message

- What enhances; what detracts?

Relationship of claims in ads to underlying buyer values

- Are the claims important in ultimate purchase decisions?
- How, over time, can buyer values be influenced?

Relationship to brand positioning/image

- What enhances; what detracts?
- How, over time, can brands be modified?

Emotional connection

- How achieved/if achieved?

Segments

- Did the ad appeal particularly to any given segment?
- Did the ad alienate any segment?

The idea is to conduct research around every significant ad campaign using discussions with targets (be it focus groups, one-on-ones, or even casual conversation) to focus on issues that surveys and ratings data cannot handle. The objective should always be to determine how the next campaign can be better (as well as focusing on how the current campaign may move targets toward incremental purchasing). Web 2.0 techniques (particularly blogs and wikis) offer opportunities for businesses to engage in dialogues with consumers/customers.

In addition, blogs can be viewed as modern day diaries and there is great opportunity to ask (and incent) consumers to keep blogs that record their contacts with and reactions to various ads (e.g., certain categories) and their messages. This can be viewed as quantitative research (as diary panels are), but be more compatible with how consumers respond today and provide the benefit of sparking additional information by the researcher questioning the blogger online and/or reviewing others' comments.

Search

The fast growing trend is an advancement on “traditional” Internet advertising – specifically placing the ad in a search engine keyed and delivered only to those pursuing a search related to the adver-

tiser. In essence, this has always been the advertiser's dream – advertising focused on those (and only those) actively searching for or within the category. In theory, this is the most effective targeting ever available and, as such, Google and others have been able to charge a premium in dollars-per-exposed-person (and their stock has generally skyrocketed).

Initial measures here are presumably quite accurate in terms of how many people pursued the pertinent search and therefore were exposed to the ad. In some instances, it is also possible to accurately measure the number who took the next step of clicking to the advertiser's site. Even though the possible next steps through to any eventual purchase are as difficult to measure as for other advertising, the initial steps can be measured well requiring fewer assumptions in converting to dollars.

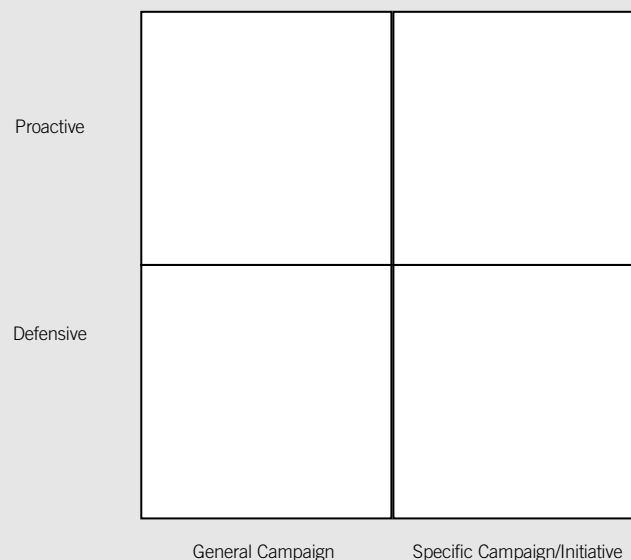
It is particularly important to assess these ratios in search, since there is evidence of fraud in some cases with bogus clicking to increase fees paid if they are based on clicks only.

PR

While advertising, with its disproportionate share of dollars, is the main focus of the ROI for marketing movement, the same logic for ROI obtains for other methods as well. PR presents one of the thorniest measurement problems, since public relations is such a broad field and entails uncontrolled messages (unlike traditional advertising,⁵⁷ the message to various publics from PR is typically dependent on how media choose to present the messages conveyed to them).

PR can broadly be grouped into four different categories; on one dimension is whether PR is being used as a proactive attempt by the business to make a point, or as a defense against real or potential claims or issues. The second axis concerns whether the PR effort is general or specific. This dimension is somewhat parallel to the distinction in advertising between brand/image advertising

Figure 5-3: PR Contexts



(“general”) or that directed at a sale or desired call-to-action (“specific”). (See Chart 5-3) In other words, the PR could be directed at a specific, positive issue to promote (e.g., a campaign to promote the benefit of a new product) or to rebut a claim (e.g., the product does not cause harm). In this instance, the strategy is to get short-term traction. Then there are more general campaigns (e.g., the company is a good corporate citizen or, defensively, the company does not pollute).

The traditional measures of PR impact have been rudimentary and inexpensive compared to those for advertising. The typical assessment of proactive PR (be it general/on-going or specific) has been the volume of media generated (what used to be called “clippings” from print media). In the aggregate, counting press mentions is a flawed method in at least two respects:

- Not all media are equal. An article in the *Wall Street Journal* or *USA Today* has far more impact than articles/mentions in any given local press. The same is true for TV coverage. Some measurements therefore have weighted scores and/or only count certain national/influential media. An alternative is to “count” the mentions as if they were ads and calculate a total audience and either compare the PR costs to advertising equivalents to reach that same audience (almost always providing a favorable comparison due to lower costs for PR) or simply assessing the cost per X number of audience.
- Not all mentions are equal. In fact, some mentions may be negative or critical. In addition, a very positive headline with the brand name in it is more impactful than a positive mention which is buried deep in an article or TV report.

The point is that these measures are not very helpful in measuring ROI. As with advertising, the linkage is needed to sales/revenues and ultimately profits. As described above, the funnel approach can be used here as well to hypothesize (and later test to the extent possible) how awareness of the PR messaging may relate to intentions and incremental purchases.

Unlike traditional advertising, PR cannot guarantee a positive output. Despite best efforts of proactive PR, sometimes the resultant article or TV or Internet report is not positive. The easy examples are reviews of movies or new products in technology for which PR efforts proactively try to put the best spin to reviewers, but may still receive a negative review.

This type of situation may be viewed very much akin to the defensive PR efforts. When a disaster strikes (e.g., a scandal or a product defect) or a continuing PR issue (such as for cigarette companies or shareholder-suits), it is highly unlikely that the PR expense will have a positive ROI.

There are two ways to look at this:

- It is a cost of business, not marketing, and therefore its costs should not be subject to ROI thinking or analysis.
- A negative baseline could be developed (i.e., the costs the business would bear if there were no defensive PR effort at all) as to the worst case scenario. Then, the investment in PR could be assessed against that baseline.

While it is useful to learn about what works (and doesn’t work as well) in defensive PR, in reality, it is unlikely to influence whether or not the business continues to pursue defensive PR. That is, such PR is probably better viewed as a cost of business (while still trying always to assess what works and what doesn’t to improve future efforts) and focus all PR-related ROI thinking and inquiry on proac-

tive PR. (It is worth noting that there is defensive-oriented advertising, too, and when this is pursued, ROI thinking may be equally inappropriate.)

Returning to proactive PR, there are often integrated campaigns (i.e., advertising and PR working together to create awareness, demand, etc.) for which businesses need to decide the value of trying to separate the effect of each or of considering the spend as one investment. Conceptually, consolidation is likely the sounder approach for post-investment analysis and the same funnel approach works at the front end. Trying to isolate the impact of PR from advertising is often quite difficult and the measures are not precise enough to really do this well (again given the fact that awareness of the campaign, which can often be separated, is not sufficient and that by the time action may occur, extensive PR and advertising will likely have hit the same target). However, for learning purposes, it may be worth trying to separate the impact in post-analysis for ROI.

Sponsorships

Sponsorships are another marketing technique which have only been assessed through fairly superficial measures. As with PR, most of the “ROI”-type of analyses focus on the number of people who might (or did) become aware of the sponsor. For example, an SVP of Visa said “the company doesn’t really measure ROI in a dollar-to-dollar sense because it’s challenging to define, but it surveys random people every month about awareness level, brand reference and the like.”⁵⁸ As with PR, this sometimes has been translated into costs per thousand and compared to ad media costs.

These measures may (or may not) be further analyzed as to the value of the thousands reached (i.e., how many fit the target of the business) and/or by considering frequency (e.g., for a sponsorship of a golf tournament those who attend all four days could be counted once or four times). Each of these distinctions can have a major impact on an ROI calculation. For example, many sports stadium sponsorships are in the name of business-to-business brands. Just within Fenway Park in Boston, there is major signage for Granite State Electric, WB Mason and EMC, which now has an entire section named for it. The total audience within the Park (over 34,000 at each of 81 home games or more than 2.5 million a year) is an impressive number, not to mention those who might be added due to viewing televised games and in which they are exposed to signage. However, if one looks only at those who might buy or influence the sale of EMC’s IT-related product offerings, the number falls quite dramatically. Among the 34,000 nightly attendees, one might expect only a handful to be in that set of buyers and influencers. Likewise, the TV audience would only add another few. This, of course, has a dramatic impact on ROI calculations. In addition, many of the true buyers/influencers are likely repeat attendees and viewers, so even on an annual basis there are likely less than 1,000 unique relevant buyers/influencers exposed to the EMC brand through its Fenway sponsorship.

However, EMC’s sponsorship allows the company to wine and dine guests at Fenway and, arguably, those guests are more impressed than they would be otherwise, given the presence there of EMC and, presumably, EMC’s ability to have official Red Sox contacts for their guests. This aspect of the sponsorship must be included in ROI assessment and likely has more influence on sales than all the signage and naming rights. In fact, it’s likely that as many as half of the relevant buyers/influencers who attend at least one game at Fenway do so as a guest of EMC at least once.

Beyond the exposure, as with advertising, the relevant assessment is whether the sponsorship in some manner yields incremental revenues and profits. One can hypothesize some degree of influence on the 1,000 visitors exposed, including the 500 hypothesized as guests of the company. Again, these

guesstimates at least create a structural approach to evaluate the investment (before the fact) and as a baseline/benchmark against which to try to evaluate the return after-the-fact. In this instance, at a minimum, EMC can compare the purchase patterns of its guests to similar companies (i.e., a control group) never invited to Fenway that at least can provide a rough evaluation (on the high side) of the business generated (and profits) to assess against the cost of the sponsorship and the wining and dining expenses.

There are other benefits of the sponsorship which can be included as well, such as the potential positive impact on potential EMC stock purchasers (somewhat speculative at best) to the positive benefit of employees more likely to join and stay with EMC given the fringe benefit of attending Fenway, if not the image involvement of being part of Fenway. In this case, the return might be savings in lowering expenses otherwise needed to attract and keep good employees. At the same time, as with all sponsorships and PR, there are always risks that must be considered if not incorporated formally into ROI calculations. When the Red Sox are popular, there is little downside. But, scandal or poor playing can afflict even the best. Furthermore, structural issues in the building might emerge which could have a reflection on the EMC brand.

With regard to a business-to-business marketed brand such as EMC, the lifetime value of its customers is typically high – likely well over \$1 million each on average. Thus, the math can work nicely even if only a few customers will be gained by the sponsorship or the relationships/lifetime value of “guest” customers can be seen to well exceed the average.

At the other extreme of the sponsorship spectrum are brands for sale right at the stadium. Sometimes, in fact, the sponsorship/signage is a cost of doing business for the right to sell there. In these instances, ROI is more easily calculated through profits generated at the park minus costs (including sponsorship). Then, the incremental value of the association can be added, much as for EMC. Here again, decisions need to be made about how to handle the duplication of audiences exposed to the brand – and, particularly if the brand is formally advertised during TV coverage, a decision is needed to assess the incremental impact of the sponsorship.

In between these extremes are consumer and business-to-business brands without the connection to sales in the stadium or the ability to wine and dine as a part of the sponsorship fees. The approach is to assess how awareness of the sponsorship and/or the affiliation with what is being sponsored might translate into incremental profits. In addition, with sponsorships, there must be some attention given to the potential risks and downsides if problems arise with what is being sponsored (similar in some ways to using a celebrity in advertising). While this is not easily amenable to quantification, it is a factor that must be considered by decision-makers (but is often ignored).

Some sponsorships relate only to a single event, or to a television program or other production. These can typically be assessed similarly to the types of sponsorships above. The current most prevalent techniques are methods which count those who attend or view the event (similar, too, to assessing outdoor advertising, be it billboards or blimps). A good example of current practice: “A study by Exhibit Surveys and EXPO Magazine revealed the average traffic density of attendees per 100 square feet of exhibit space – increased from 2.2 in 2004 to 2.3 in 2005. Attendees spent an average of 7.8 hours on the show floor in 2005, compared with 8.6 hours in 2004. In addition, attendees spent an average of 2.4 days visiting exhibits in 2005, the same as they did in 2004.”⁵⁹

As technology improvements occur, providers have developed ever more sophisticated tools for this measurement. For example, Nielsen now has a tool that would allow a company to know how many

viewers saw a sign signifying their sponsorship during a televised event. In reality, as with the Nielsen ratings, the seemingly precise measure of viewers is actually, at best, an estimate of those who might have been exposed if they were watching at the time. The research investment might have been better spent trying to understand which types of products and services actually benefit from this type of exposure and sponsorship. Will someone exposed to the sponsorship buy more of the product or service either sooner or later? Will some attitudinal adjustment occur (e.g., for a charitable sponsorship) that will eventually lead to (greater) purchase? Do fleeting glimpses accomplish anything (e.g., driving by a billboard)? These types of questions have answers, but little effort is being put into them as most development continues to focus on more precise assessment of exposure instead of the impact the exposure might have. Exposure, and even awareness, likely have very limited impact or return for very well-known brands which are not impulse purchase items (such as beverages and candy).

A related technique is a less subtle “sponsorship” of a program with a product. As with other marketing techniques, the core marketing message can receive even more emphasis through PR or use of other media (e.g., advertising a brand’s status as the “official” NFL, or other sports league’s, telecommunications provider, credit card, etc.). Some connections are quite logical and presumably rationally influence a buyer (e.g., the manufacturer of the official ball); others are more attenuated (e.g., the credit card). In terms of the funnel, the more logical the connection, the higher the presumed ratio of awareness of the connection to influence on eventual purchases.

Promotions – Trade or Sales

One technique which seemingly is straightforward in impact measurement is promotions – whether in-store/through a channel, or direct (with a coupon or rebate or even a more general discount). It’s typically fairly easy to count how many sales were registered in the channel in which the promotion was employed. However, as always, ROI is a bit more complicated than that, in a number of respects.

These questions must be considered in accounting for any promotion:

- How many of the sales using the promotion would have occurred anyway such that the promotion hurt profits rather than producing incremental revenues, if not profit?
- How much long-term harm did the promotion cause by either starting to train customers to wait for sales and/or undermine the premium/prestige the brand otherwise had?
- How should any advertising or PR about promotion be included in the ROI mix – as advertising or as a cost of promotion?
- How many purchasers prompted by the promotion will become loyal future customers? Are the buyers’ price-shoppers who go from one promotion to the next?

These questions are critical to appropriate after-the-fact ROI, particularly the last one. The idea of promotions is to boost sales (in some cases as an introductory/sampling offer). Clearly, the profits on those sales will be less than profits at a full price. (In fact, some promotions knowingly create a loss on each sale.) The key rationale for this is that the sampling/use/enjoyment will prompt each/some users to become (more) loyal customers and buy (more) at full price than they would otherwise. It is this issue on which post-event calculation should focus and pre-investment decision-makers must

consider. And, at the same time, there must be consideration of the extent to which the promotion could undermine the normal pricing. In this regard, it is worth noting that one competitor's discounting may engender other competitors discounting in the near future (as happened in the auto industry post 9/11 when GM launched its 0% APR for car loans which soon became an industry standard instead of a simple one-time promotion for GM). Another cautionary tale is Michelob, which once commanded a premium as the only premium beer (appropriate only for weekends in the advertising). Periodically, there were promotions which grew so frequent that Michelob lost its premium edge which it has never been able to regain.

Promotions are increasingly popular since they seem ideal tools for a Marketing ROI world. Good promotions will almost prompt incremental revenues (and it's important to measure the increment over a base line, not simply accepting all sales using the promotion as the revenues generated by the investment – and to then derive the incremental profits, if any, from those revenues). However, in reality, thoughtful ROI assessments of promotions are fraught with complexities similar to other major marketing techniques.

Non-Sales Promotions

There are also promotions that do not entail discounting. For example, companies offer contests that may be skill-based or luck-based.

The idea of these promotions may be short-term sales-oriented, but typically they are designed to build the image of the brand and/or help emotionally connect with consumers. The costs are the prizes and whatever marketing is done to promote the promotion. The return is harder to discern. The simplest measures are participation numbers. While these may indicate a connection, they may not (e.g., one could participate to win a prize without caring at all about the entity running the promotion).

The return depends, as always, on eventual and incremental sales to those who participate (or those they influence) over the long-term.

Charity

There are other marketing moves which involve affiliations. This occurs most typically with charities. Given that purchases in virtually all categories are influenced by both rational and emotional factors, connections to charities (or to social causes such as the environment) logically provide an emotional connection that enhances the brand in the customer's mind. Sometimes the linkage can be made to be a stronger incentive, for example, when a marketer publicly donates a certain portion of its revenues to a specific charity. As with other investments, charitable donations can be assessed through the funnel over time, though in this instance, companies might well decide to continue making the investment outside of marketing considerations. In this regard, charitable involvement can often have other tangible benefits such as on employee morale, if not retention.

Product Placement

This is a growing phenomenon as a way for marketers seemingly to both cut through clutter and bypass the target's aversion to marketing messages. The idea is to embed (or "place") the product and/or brand name into the entertainment itself. The size of placement investments now exceeds \$4

billion a year. One issue is how the product fits with the entertainment. When Coke is drunk by the judges on American Idol, this is a natural context that likely resonates more positively than Ford's connection to the same program. However, there is little public evidence or proof of this since ROI measurements to date in this arena, too, focus on the audience rather than the impact, as shown in Chart 5-4. One company has developed a "Q-Ratio," based on "50 variables, such as where the product appears in the frame and whether the brand name was spoken clearly. Then, if a placement has a Q-Ratio of .50, then it's worth half of a 30-second commercial. If I got that placement for \$100,000 and a 30-second ad in the same show would have cost \$400,000, then you might say that's a good deal."⁶⁰ A "good deal," but not necessarily positive ROI.

As advertising challenges continue to mount (be it due to increasing clutter or DVRs), placements are sure to continue to grow. Ironically, the more placements, the less impact they may have. Years ago, placements had a real endorsement value. Seeing a product being used in a movie or TV show suggested to viewers that the characters "actually" used that product, which would convey positive impressions from popular characters. Then paid-for-placements (e.g., Reese's pieces in ET, BMW in James Bond's movies) became well publicized as such. By now, there is evidence that consumers assume all products shown on screens during entertainment (and even in books now) are paid for and not genuine. In an analogous situation, there is a current ad campaign featuring "Dr. Z," Dr. Zetsche, the CEO of Daimler Chrysler. A survey indicates that 80% of new car buyers think he is a fictional CEO.⁶¹

Finally, it is worth noting, too, that the term "placement" describes what the marketer is doing, whereas "product usage" would describe the actual use.

Regardless, as more marketing spend goes to placements, hopefully more investment will be made into determining the real impact. In the interim, as with other types of marketing, at a minimum, marketers can develop a hypothesized path that will lead to profits in excess of the investment.

Loyalty/CRM

A final technique for discussion is loyalty programs. These take numerous forms from its early manifestations (such as green stamps in the middle of the last century) through frequent traveler/buyer programs to sophisticated systems which track usage and sends different incentives and offers to different customers (as Harrah's does). Some programs feature recognition (as when United Airlines names planes after its best customers), some are more rewards-oriented.

One aspect of ROI calculations is computer systems used to track, if not manage, a loyalty program. It is well recognized now that most of those investing in these IT systems over the past decade report a glaring lack of positive return.

In fact, a web site dedicated to CRM recently noted: "Whether CRM failure rates were ever really as high as the off-cited 80% estimate is subject to debate, but it's not difficult to find someone to share a tale of CRM woe."⁶²

The key metrics for assessing ROI of these programs does not entail the standard funnel approach, since the objectives are keyed to deepening and/or lengthening the relationships only of current customers. The best measurements will be assessing whether in fact those involved in the program do become even more valuable and/or recommend and/or involve others (be they associates, children or friends) who become customers as well. Annual measures of the aggregated lifetime value of these

customers are a good way to assess if results are generally right. Attitudinal measures (whether “Net Promoter” as described in Chapter 3 or other metric) will also be valuable here. Similar to defensive PR, there may also be an element of stopping erosion of the customer base in which case the ROI may be assessed vs. natural loss, rather than by looking for incremental profits.

Scope of ROI

One final wrinkle is scope of ROI – whether to calculate ROI for the entire marketing budget, and/or the entire advertising budget and/or every marketing line item within any budget cycle.

This is another issue that is often not specified in the ROI literature, though most of the writing refers to ROI in a way that implies ROI should be calculated for each item (or at least each significant item). There is solid logic behind this, if you assume that valid and reliable measurement is available for each such item. Naturally, you’d like to compute the ROI on each so you could decide whether or not to pursue each investment in the case of before-the-fact ROI. Even if you acknowledge that the best you can do is post-investment ROI, there is logic behind calculating the ROI of each major investment both for accountability purposes and for learning to improve future decisions, to the extent they are analogous.

At the same time, most typically, marketing budgets are blessed or blocked in total (but for specific initiatives which may be highlighted and/or occur off-budget cycle) so that an overall ROI calculation is needed for that decision. Furthermore, perhaps the best measures are the overall value of the customer base or asset or the value(s)/brand equity of the brand(s) – if not the overly simplistic growth or fall of revenues.

Thus, there are reasons to calculate ROI/pursue the discipline of ROI, both on an overall basis and for each significant initiative. Chapter 6 will pick up on this point again.

Summary

This chapter has covered most, if not all, of the most popular marketing maneuvers discussing current tools being used (and suggesting an approach to work through the marketing funnels). In all cases, the idea is to take as wide a perspective as possible with a long-term view as to all the ways the marketing could eventually lead to incremental profits.

The difficulty of doing this well cannot be overemphasized. In fact, it is this difficulty which has fueled the half-century of debate between marketers (particularly those using advertising) and CEOs, CFOs and others responsible for balance sheets who clearly watch the costs while worrying about the benefits (and the traditional “you have to have faith” explanations). The concept presented is to present a reasonable explanation and a commitment to assessing its accuracy as time unfolds.

The important pieces of the argument are:

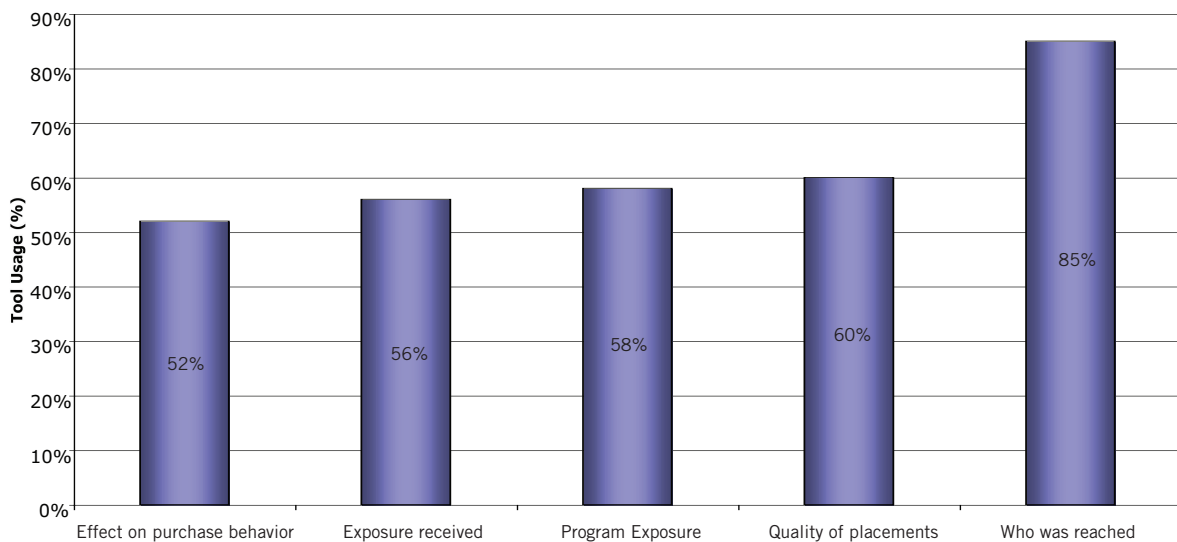
- Avoid relying on numbers which are available from respected sources, but limited as to their usefulness and meaning (e.g., focused only on exposure).
- Ensure for pre-investment analysis that there is a reasonable path to profitability (i.e., positive ROI) with clearly described assumptions at each stage of the progression/funnel.
- Acknowledge the difficulty and complexity of integrated campaigns, of trying to separate history from the present and future, and of isolating one part of the campaign from the rest.

Acknowledge, too, that producing revenues cannot always be attributed to marketing alone and, to the extent possible, sales and channel roles should be examined as well. In some instances (where sales plays a major role, such as for professional service firms), marketing should be evaluated on how well it sets up sales (and how often) and not on profits per se.

- Commit to assessing the reasonableness of the analysis over time and using what is learned about key ratios and relationships to inform future decisions (and modifying long-term commitments and programs where possible).

Figure 5-4: Typical Measurements

Eighty percent of marketers try to measure the impact of product placement.
Here's what they focus on:



Source: CMO Magazine, August 2005

“No amount of sophistication is going to allay the fact that all your knowledge is about the past and all your decisions are about the future.”

– Ian Wilson, SRI International

Chapter Six

The Path Forward

ROI for marketing is a good idea in principle – but only if performed well.

In essence, the proponents advocate calculating and using ROI for every marketing investment decision and assert that this can be done. There are several reasons why this is not good for marketing, nor for business.

Starting with the latter perspective, the reasons for supporting ROI measurement for marketing must be that this will improve the decisions being made and, thereby, improve profitable growth.

A few businesses claim they are profiting from the usage, but there is no broader evidence. While ROI for marketing has been implemented to varying degrees over the past decade, the growth record remains poor, the success of new products and programs remains low and the tenure of CMOs remains less than two years.

Furthermore, the ROI movement is not compatible with how decisions are made. Decisions by senior leaders can rarely be reduced to a single number unless that number has a high degree of certitude (as calculations on cost savings often have). There is almost always an emotional component in marketing. In particular, decisions by CEOs to approve or decline a major marketing program are as likely to turn on the credibility that CMO has with the CEO as much or more than on a specific number used to support the program (especially if that number is generated by research). The well-established marketer with a track record presumably gets the respect, if not the leash, to have their opinions hold sway (as do the movie directors and artists with successful track records). So, often, does the newcomer, a new CMO. (One wonders if the two year average tenure of these newly minted/hired CMOs represents the time period over which faith is replaced by evidence.) In essence, these are examples of individual brand equity and, per Aristotle’s insight, the necessary first step in persuasion is having credibility. In addition, decisions about the future – whether by CMOs or CEOs – need to blend faith and reason, art and science. Use the best numbers available, but also use experience and judgment.

The most important reasons not to always have faith in ROI measures are:

- The biggest decisions are most often about the future time frame while all the numbers are at best predictions/projections based on the past. Thus, the ROI numbers themselves usually require faith to accept their relevance, and faith that they somehow will prove prescient about whatever the future time frame being used.
- The numbers are likely not right, not even generally right. As described in Chapter 3, the range of marketing metrics available are usually blunt tools which are not designed to produce accurate figures for incremental profit even when they are being used to measure the recent past.

There are other problems, too.

ROI measurements are particularly inadequate when innovative marketing is needed. For any truly different program, there is no track record available or analogous that can predict the impact. Given the generally poor performance of businesses at consistently growing profitably, any management tool that is likely (as ROI for marketing is) to depress/restrain innovation should not be implemented. That is, in an environment in which every marketing investment needs a positive ROI number to be approved, marketers will have to rely on the safer tactics such as direct response and promotions which do provide short bursts of revenues (still a mainstay way ROI is being measured), but further erode the equity/value of brands. Similarly, ROI encourages brand name extensions over new brand names because the investment required to market the former is so much less than the latter (since awareness of the name is already established).

There are related “decision rule” issues which further undermine the logic that ROI requirements are a scientific advance in marketing investment decisions. These include whether or not the ROI hurdle is relative (i.e., the best number wins) vs. other marketing initiatives or vs. other possible investments (e.g., R&D) or whether the hurdle is absolute and, if so, what is the hurdle of return that must be achieved.

Another decision is the time frame. There are only two overarching choices. Either you are limited to the budget cycle in question (typically one year), or it is longer. Clearly, in the former instance, there are limits in what can be considered. For example, even in a fast-moving package good category with multiple purchases possible each year, there will be years of incremental value and profits provided by a new customer who becomes loyal. In this instance, unless the return formula includes the full lifetime value of new customers, the return within any one year will only count revenues for that time frame.

Of course, the longer the time frame considered, the greater the concern about the accuracy of the numbers. Clearly all the uncertainties of forecasting are called into question, and the more years considered the greater possible impact of unforeseen events. Furthermore, there is the value of money. Any multi-year return calculations will have to discount the value of future dollars based on the principle that a cash dollar today is worth more than a cash dollar two years from now. Thus, each enterprise has a “net present value” discount rate for dollars of revenue projected in each year after the current one. (Some even start discounting dollars sooner than that.) For many multi-year ROI calculations, the discount rate may become the dominant variable. That is, changing the discount rate could have more of an impact on the total ROI than changing the market share by $\pm 5\%$ or varying the price. What this indicates is the frailty/lack of precision in any multi-year ROI and that financial

assumptions (e.g., the discounted rate of capital) may be as impactful as marketing assumptions.

Yet another decision that needs to be made is precisely which metric(s) to use. Unfortunately, there is not a gold standard (and, of course, if there were, it might well be one that is selected for convenience, akin to the Nielsen ratings, rather than for its quality).

Still another decision is how to handle the other functions (most typically, sales and channels) involved in the revenue production.

A final issue is whether to ignore the imprecision inherent in most of the metrics available. Should a range or estimate be used or the mid-point of an estimate?

There are undoubtedly other issues and decisions involved, but the point is that using ROI metrics for marketing investment decisions is not a simple decision which, once made, disposes of all other decisions. In fact, the appeal of a left brain system to decide on future marketing investments is an illusion. The reality is that important business decisions should always acknowledge the roles of judgment and emotion/gut feel while utilizing whatever relevant information exists. The issues listed above are illustrative of the judgments which must be made even if one accepts the logic and the numbers of ROI for marketing investment decisions.

Again, the problem is more with the extreme perspective that advocates “a standard ROI formula [that] will be used as the primary marketing measure. All marketing investment opportunities could then be easily compared and prioritized.”⁶³

The better path tries to take advantage of the benefits without suffering the pitfalls. The first key is to take the “reasonably right” approach outlined earlier which forces marketers to think through how the investment might produce incremental profits.

This alone is not enough because many marketing programs are so innovative, experimental and/or long-term in nature that candor would require the marketer to acknowledge difficulty in seeing a positive return because the value may simply be in learning what happens to help make better decisions in the future. For example, a marketer may feel it is important to learn about advertising on mobile devices which are being used by the target market. The marketer may simply want to assess three to four different approaches and acknowledge that most, if not all, will likely not work from an ROI perspective, but the learning should help identify approaches that might work well.

The same type of logic obtains for product placements, new sponsorships, new media, etc. The point is that holding every investment to a strict ROI standard (or even to the reasonably right approach) may impede necessary innovation and experimentation. The solution is taking a portfolio approach.

As the earlier chapters explained, a full view of ROI requires a multi-year perspective to be able to capture the full revenue/profit impact of any major investment, since a new customer's value, even for package goods, will play out over the tenure of their loyalty (i.e., over many years) and there may also be ripple effects, such as recommendations they make to others. For longer purchase cycles (e.g., automobiles), any marketing activity this year (except for a discount), even if successful, will likely not prompt actions until future years.

The portfolio approach recognizes the practical concerns of the enterprise (which is likely itself evaluated by its owners on an annual, if not quarterly, performance basis) and the longer-term nature and responsibility of marketers to build brands and/or customers with long-term value. It also recognizes that the shorter the time frame of the assessment, the more likely the measurements will not be upset

by unforeseen events or overwhelmed by assumptions about the level of discount rate used.

Thus, the idea is to assess the ROI on certain initiatives which are designed to have a short-term impact. Sales and promotions are excellent examples, as would be a call-to-action advertising campaign, especially one inviting trial of a new product. The return on these investments would be based on:

- Past history (if any) with very similar events (including introduction of like products) and/or
- Reasonable estimates (so labeled) of revenues

As always, costs need to be subtracted so that the profits created by these marketing tools can be calculated.

As argued before, the best measurement (even with this short-term focus) should include some (conservative) attempt to include the lifetime profit potential of a new customer created by the marketing, as well as any ripple effects (e.g., recommendations) that might occur. (In both instances, over time, the CMO should develop accurate numbers for each of these.)

To the extent that these short-term marketing moves produce a positive ROI, the marketer should have some leeway/budget to invest in initiatives with longer-term payback or innovative (but reasonable) programs for which calculations will be difficult (e.g., a loyalty program trying to create greater trust or emotional connections).

The portfolio approach may also require some assumptions about the status quo. In many instances, marketers feel they must maintain a certain share of voice or lose share of market. This is truer of high frequency purchase categories and categories with frequent deals and promotions. In these instances, the CMO may argue, if we stop our marketing we could lose, even though we haven't proved a positive ROI. In other words, ROI infers an offensive move; by doing this I will accrue more revenues than costs. Yet, in the real world, unless I do this I may lose revenues which would have been mine. (This, in a nutshell, is the Wanamaker's "I don't know which half" dilemma from a different angle.)

In some (fortunate) instances, the portfolio approach may produce enough positive ROI to support this "background noise" marketing, as well as other programs. However, most typically, the portfolio approach cannot overcome a core marketing problem such as situations in which a brand is viewed as a commodity in a mature category. When the CMO cannot construct a "reasonably right" approach to the core programs, then the enterprise has a problem that needs addressing. In this vein, earlier the question was asked, what is the standard for a positive ROI? Is any positive return acceptable? Would \$1 million on a \$500 million investment be good? Likely not. However, if an enterprise has been losing money, such a return might be acceptable, particularly if it represented a large investment this year to get sampling and traction for future growth, with much less investment needed in the future. If the enterprise isn't profitable, should marketing investment be evaluated differently from a situation of high margins? Likely so. If a brand needs a turnaround, should different standards obtain? Again, likely so.

In sum, the advantage of a portfolio approach is that it:

- Recognizes that some marketing has short-term action objectives, and that some (legitimately) has longer-term action objectives.
- Instills a discipline that marketing must make a positive contribution each year/budget cycle.

- Allows for appropriate experimentation and investment when prompting purchases is not the ultimate objective.

The third requirement is process-related. The benefits of discipline and using numbers and science to help improve decision-making require a solid process. At a minimum, the process is key to facilitating decisions since CMO credibility can be enhanced simply by having a disciplined way in which the CMO and management can make decisions. Currently, despite over a decade's attention to the Marketing ROI issue, the 2006 ANA survey of CMOs shows "only about one-third (32%) indicated there was a senior-level sponsorship of measurement initiatives." A similar proportion (36%) has connected their ROI process with finance or used a cross-functional team.⁶⁴ Thus, improved processes are needed for ROI measurements to provide aid and guidance to the enterprise in making, respecting and valuing the investments in marketing spend.

At the same time, while CMOs and marketing can benefit from ROI discipline even in a silo, there is evidence that the benefits are not being felt widely yet, even within the marketing departments. The same recent study that indicated over one-third of advertising spend is being wasted reported: "of the 36 marketers the authors researched only two had a clear definition of success for each marketing effort at the outset."⁶⁵

Every marketing initiative should have clearly stated objectives with a reasonable calculation of how it could lead to incremental profits and a work plan as to how the impact will be assessed over time. (Even with a portfolio approach, it is worth making these calculations for all initiatives as a part of the discipline. The most innovative/experimental marketing moves will likely have the most tenuous and long-term path to profitability.)

Of course, the processes that will work vary as much as business cultures do. However, there are certainly some alternatives and learning available which could prove useful to any marketer.

For example, an excellent qualitative study of 27 companies by the ARF and APQC found these conditions "conductive" to getting the most from ROI practices.

Conditions Conducive to Best ROI Practices:

- When analytics inputs are equal in importance to judgment and experience. Not more, not less.
- When the analyst is part of the business team, not a secondary resource.
- Generally, when interdisciplinary teams are used.
- When practices are continuous, not episodic.⁶⁶

It is worth emphasizing the point about continuous. The ideas of the three perspectives regarding ROI decisions is critical. As noted, most decisions have to be made in advance of the investment and these entail the least solid data and the greatest uncertainty about the future. At the other extreme are the retrospective analyses which have the least relevance for decisions, but the most for learning. At the same time, the reasonably right approach requires the follow-through of researching how reality accords with the hypothesized steps and ratios through the funnel/progression being used. Thus, on-going assessments are critical to provide continuous learning which can then adjust ratios about conversions through the funnel and inform future decisions by what is known about the present and past. An annual fire drill of posting numbers and justifications is the antitheses of this.

It is vital that the marketer have at least a minimum level of discipline which requires that all significant initiatives have a clear objective which fits into the funnel of how marketing moves progress from awareness to revenues. The fact that the study of 36 major campaigns uncovered only two which had such discipline helps to explain why marketing is an easy target for the ROI bandwagon movement.

Another good practice to consider is incorporating internal perspective into the process. In essence, the success of marketing within an enterprise depends on the internal market, as well as the external market. As with all process issues, the relative value of factors depends on the specific culture and profile/preferences of those to whom marketing reports. In some cultures, with some CEOs, the opinions of the internal market (perhaps segmented by level of respondent) may be critical. Thus, marketers may want to regularly research the internal market or key parts of it about specific investments and/or overall marketing performance. Such surveys can be supplemented or replaced by more qualitative approaches. Some businesses employ third parties to do this to enhance objectivity and credibility of findings.

A related alternative is the formation of Marketing Councils, a group of people respected by the marketers (and presumably by CEOs and senior executives, as well) who meet regularly with marketing leadership. Such groups can include (or only include) outsiders, customers, channel partners, etc., or additional councils can be formed.

Other studies have produced recommendations about processes that enhance the acceptance and use of ROI numbers in decision-making:

- Ensure that every stakeholder feels comfortable with the numbers and has sufficient understanding of their pros and cons to use them effectively.
- Use multiple measures where possible. While this runs the risk of having “too many watches,” it is compatible with the reasonably right approach which uses metrics for their insight and directional value, but allows for experience and judgment to trump numbers. From this perspective, if the numbers conflict that suggests extreme uncertainty, a situation in which decision-makers can acknowledge the risk and, either decide to be risk-adverse, or openly rely on judgment.
- Take a flexible approach where views differ. Often a decision-making body can figure out a way to test an option (perhaps even use experimental design if the time frame allows) rather than forcing a yes/no decision when that is not necessary.

Thus, the three elements to reap the benefits of ROI thinking without the many downsides of being too extreme in adopting such an approach are:

- Use a reasonably right approach
- Take a portfolio perspective to marketing investments
- Develop and use an effective process

For all three, the underlying key needs are agreement by marketers and enterprise management and constantly monitoring and amending the process and the learning.

With regard to the latter, it is important for marketers to focus on what they need to know:

- The core of marketing knowledge starts with understanding what the target market values –

their selection criteria, particularly regarding those benefits or attributes for which they will pay a premium and those that will actually prompt a choice. At the same time, the marketer needs to know how the purchase process works and the roles and influences of those involved.

- Next, the marketer will want to know about the purchase cycle, the purchase process and the typical volume bought. This is critical to any ROI calculations that anticipate a marketplace reaction.
- Then, if marketing ROI calculations extend beyond a budget year time frame, the marketer needs to know the lifetime value of customers, either an average figure or by relevant sub-segments. It is also useful to have a loyalty profile of customers if the market is well-defined (i.e., what percent of buyers of the marketers product are loyalists to the product; what percent are sampling, etc.).
- For new products and/or categories, a sense of the innovation profile is required to monitor the product's progress (or lack thereof) across innovators/early adopters to the mass.
- It is also useful to know the trust level that the business commands. If it is high (i.e., the targets tend to trust the communications and the brand) this implies higher levels of conversion. If it is low, the business needs to focus on this (perhaps as a cost of doing business instead of an investment) before investing much in new marketing programs which will have minimal impact without trust.

This point needs emphasis. Without credibility, marketing can never achieve a positive ROI. Making claims or promises that can't be met by the product/service in reality may aid short-term revenues, but this will quickly undermine the brand and any future claims. Without establishing and maintaining (and deserving) trust, all the ROI discipline in the world will not be able to produce a favorable future.

Two final points:

- The business needs to have radar systems in place, trip wires that indicate change may be on its way. This could be through noting behaviors that might be leading indicators of a scenario coming into play or shift in preference in the marketplace. It could be based on periodic soundings of a customer panel or a council composed of early adopters. It could be an on-going Delphi Panel or a periodic sweep of relevant blogs. The point is that marketers and their businesses need a well-thought out system that provides early alerts.
- Most important to the reasonably right approach, the business needs to continually work at understanding how marketing moves work at moving targets (or how targets move themselves) along the funnel from awareness to purchase and then into repeat/more purchases. Without this knowledge, ROI discipline will continue to be fraught with the problems identified throughout this book. With this knowledge, the reasonably right approach and processes will produce superior results over time for the marketing portfolio.

Footnotes

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⁵⁷ One recent trend presents an interesting focal point for ROI as well as the overlap between marketing techniques. Many advertisers have started to encourage (often through contests) consumers to develop ads for the business. The idea is to get "real people" in the process as a way to increase their involvement and, in essence, produce advertising that may be more compelling to other consumers, as well as creating buzz and PR around the campaign.

From an ROI perspective, the investment level may be minimized vs. traditional ad creation (although it may not be since these efforts can cost a lot to promote and gain awareness of the offer).

How about the return? As Chevrolet learned in its 2006 offer to people to create an ad for its SUV Tahoe, the resulting ads (and the buzz) may actually be quite negative. In essence, Chevy provided fuel and publicity to those who feel SUVs are not environmentally positive. Their submissions were then self-released across the Internet. Thus, a retrospective ROI calculation would produce a negative return for this investment. In this respect, even an "advertising" initiative may not have the controlled message characteristic of traditional advertising, albeit the rogue submissions never became the actual ads used by the business.

Chevy learned from this and now is conducting a sophisticated online game with a mystery to solve as a way to get consumers involved in its ethanol-based product (Jean Halliday, "GM's Alternative Reality Yields Real World Results," *Ad Age*, July 10, 2006, p36.), a safer approach to marketing and the environment, too.

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