Market Accountability and Metrics

What is Marketing Accountability?

'For years, corporate marketers have walked into budget meetings like neighbourhood junkies. They couldn't always justify how well they spent past handouts or what difference it all made. They just wanted more money – for flashy TV ads, for big-ticket events, for, you know, getting out the message and building up the brand. But those heady days of blind budget increases are fast being replaced with a new mantra: measurement and accountability.'

Diane Brady, with David Kiley & Bureau Reports
Business Week, 13 December 2004

Marketers are in the spotlight like never before, with CEOs and CFOs and even other directors demanding more accountability – an uneasy discipline for many (if not most) marketers. In the absence of such accountability, no wonder the marketing budget is the first to get cut when 'the going gets tough'!

As numbers represent the language of business, marketers need to adopt a more quantitative approach to the development and implementation of marketing plans and associated activities. They need to be able to explain, justify and where appropriate, support with numbers, their plans and their progress – what's been, is being or is going to be done and why, how, when, by whom and with what results.

Welcome to the world of 'Marketing Accountability'!

It's a hot topic – and getting hotter – if research carried out by the CMO (Chief Marketing Officer) Council in the US is to be believed. A recent Marketing Outlook Survey involving 350 top marketers identified the Top Challenges they faced in 2007 (% agreeing) as:

1. Quantify and measure the value of marketing programmes and investments – 48.3%
2. Improve the efficiency and effectiveness of the marketing organisation – 38.7%
3. Grow customer knowledge, insight and conversation – 33.7%
4. Improve the allocation and ROI of marketing spend – 28.4%
5. Extract greater value and profitability from customer relationships – 24.2%
6. Increase credibility, influence and perceived value with senior management – 23%

And, of course, Nos. 1-5 deliver No.6 – something marketers desperately need if they are to be considered high performance partners in profit generation and shareholder/stakeholder returns.

Defining High Performance

Accenture and The Marketing Society recently joined forces to conduct a series of interviews with some of the UK's most pre-eminent marketing executives across all industries in order to shed light on the state of marketing measurement (Jackson, B., Spooner, J. & Ingleton, R., 'Measuring Up', Accenture, 2006).

The research specifically sought to understand the importance of marketing measurement to these companies' business; the processes, systems and resources these organisations have in place to gauge marketing performance; and the impact that marketing measurement is having on overall business performance.

The research found that high performers had 3 broad characteristics of marketing measurement:

1. **High performers live a measurement culture**. They place measurement at the centre of the organisation, with marketing measurement a boardroom agenda item; they accelerate their learning through a systematic process of "test and learn"; and they effectively share and utilise marketing measurement insights and best practices across the organisation.
2. **High performers invest in the right skills and capabilities**. They recruit and develop individuals to build a consistent base of marketing know-how, analytical skills and commercial perspective; support the marketing function through strategic partnerships with an extended team of finance and research specialists; and use appropriate technologies to help them analyse critical data.
3. **High performers measure intelligently and comprehensively**. They operate a clear measurement strategy aligned to business goals and outcomes; and they measure what matters – provided it's cost-effective and actionable.

The research also uncovered '3 golden rules of measurement':

1. **Measure what matters, not what you can** – cut through the clutter and focus on what really matters
2. **Only measure if it's actionable** – emphasis on 'need to know' rather than 'nice to know'.
3. **Only measure if it's worth the candle** – establish cost 'v' benefit and try to get more for less.

Back to Basics – Marketing...

On the one hand, it's interesting, and on the other, very disturbing to note that all of the CMO's 'Top Challenges for 2007' are in fact contained within one of the most widely used – in the UK at least – definitions of marketing...

'Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably'

CIM Website (cim.co.uk) July 2007

So the (really) bad news is that we're already supposed to be doing it i.e. measuring profitability, as for most marketers, the ultimate goal is making more money and there are only 4 or 5 ways to make more money:

1. More customers
2. Buying more products
3. More often
4. At higher prices
5. And/or with lower costs

Back to Basics – Metrics

So what we need in order to measure marketing performance is a collection of key marketing metrics which enable us to determine whether or not we're achieving the above.

Metrics are simply measures marketers can and should use to assess both the efficiency and effectiveness of both their strategic and tactical marketing efforts.

It's useful to differentiate between strategic and tactical activities and metrics. 'Strategic' relates to top level strategies and objectives which are broadly 'customer' (and/or market) related, for example, more customers, buying more products, more often, customer satisfaction (read delight), loyalty, commitment, profitability, willingness to recommend and/or search or perhaps even wait – as the product is not in stock, I'll wait until it is, rather than buy something else – true commitment! Whereas, 'tactical' relates to the activities we undertake in order to achieve the strategic objectives and metrics. Generally, these relate to marketing mix activities and cover every aspect of the mix from product and/or service quality, through marketing communications to convenience and tangible (physical evidence) parameters.

As Drucker postulated, efficiency is 'doing things right' whereas effectiveness is 'doing the right things' and we need to do this at both the strategic and tactical level in order to deliver the right outcomes. Doing this religiously and consistently in a 'what-how' fashion ('what' do we want to achieve at the strategic/customer level and how should we go about doing this (i.e. with what implemented in which way, in other words, what do we want to achieve at the tactical level and how should we go about it...) enables objectives to 'cascade' or 'waterfall' through the whole organisation translated into objectives, tasks (what), processes (how) and metrics at every level (directors, manager, staff and departments).

So, all the time, we're questioning and hopefully determining the what, why, how etc. of everything we do – 'will this get the right result?' (effectiveness) and 'are we doing this in the most appropriate, productive and cost effective way?' (efficiency). Such questions lie at the heart of a well designed and operational 'marketing accountability' approach.

Let's have a look at this in a little more detail by looking at a couple of examples, one linked to increasing sales, the other customer satisfaction – both of which represent 'strategic' objectives with associated metrics.

In the former, we're using advertising (the tactic) in order to achieve the ultimate objective (increasing sales), so how might we assess the efficiency and effectiveness of our advertising? To keep it simple, let's assume we're running a direct response press advertisement. In terms of assessing advertising efficiency, we'd perhaps examine reach i.e. reaching the maximum number of the right people in our target audience (for the lowest cost ideally) or perhaps 'Gross Rating Points' (calculated by multiplying reach with frequency). As for advertising effectiveness, it's simply..., yes, sales!

If we were interested in assessing our customer service performance (a key determinant of customer satisfaction and potentially loyalty and commitment), the number of calls handled per hour might give us an indication of our efficiency or productivity, whereas the percentage of issues resolved first time might be a great measure of customer service effectiveness. As it happens, this ‘tactical metric’ has a major strategic impact (which itself is measurable internally) – research by TARP (www.tarp.com) and others consistently shows that service recovery excellence, such as resolving issues quickly, result in customers becoming more loyal than if they hadn’t had any issues in the first place!

Why is Marketing Accountability important?

The importance of marketing accountability and assessing the efficiency and effectiveness of our marketing efforts should be so obvious that one might describe it as a ‘common sense’ approach. However, as we all know and ironically, ‘common sense’ is not that common!

Let’s have a look at what some measurement gurus have to say about numbers, metrics, measurement and knowledge...

- ‘When you can measure what you are speaking about, and express it in numbers, you know something about it; but when you cannot measure it, when you cannot express it in numbers, your knowledge is of a meagre and unsatisfactory kind’
  - William Thomson (Lord Kelvin) – Popular Lectures & Addresses, 1891-94
- ‘In an economy where the only certainty is uncertainty, the one sure source of lasting competitive advantage is knowledge’
  - Ikujiro Nonaka, Harvard Business Review, Nov – Dec, 1991
- ‘If you can’t measure it, you can’t manage it’, ‘what gets measured, gets done’ and ‘metrics motivate!’
  - Robert Kaplan & David Norton – The Balanced Scorecard, 1996
- ‘...every metric, whether it is used explicitly to influence behaviour, to evaluate future strategies, or simply take stock, will affect actions and decisions’
  - John Hauser & Gerald Katz – Metrics: You are What you Measure, 1998

So, measurement is very important! At a fundamental level, we all have limited resources and competing calls on these scarce resources, hence the need to know whether we are doing things right (efficiency) and doing the right things (effectiveness).

In addition to tracking past, present and future performance and more proactively, well chosen metrics can help marketers discover new insights (through data analyses or more specifically ‘customer analytics’), aid decision making and substantiate improvement and/or investment recommendations, predict future trends, stimulate the creation of new initiatives, objectives and targets, even validate or challenge existing assumptions and/or ‘rules of thumb’ and establish ‘Return on Marketing Investment’. These will be discussed later.

The real value of measurement comes from learning and the action which follows it! This can build confidence and even help motivate people (directors/managers/staff) to achieve specific objectives.

All of the above will improve the ‘credibility, influence and perceived value’ (CMO Challenge 6) of both marketers and marketing. So much more positive than ‘marketing accountability’ and worst of all ‘marketing control’!

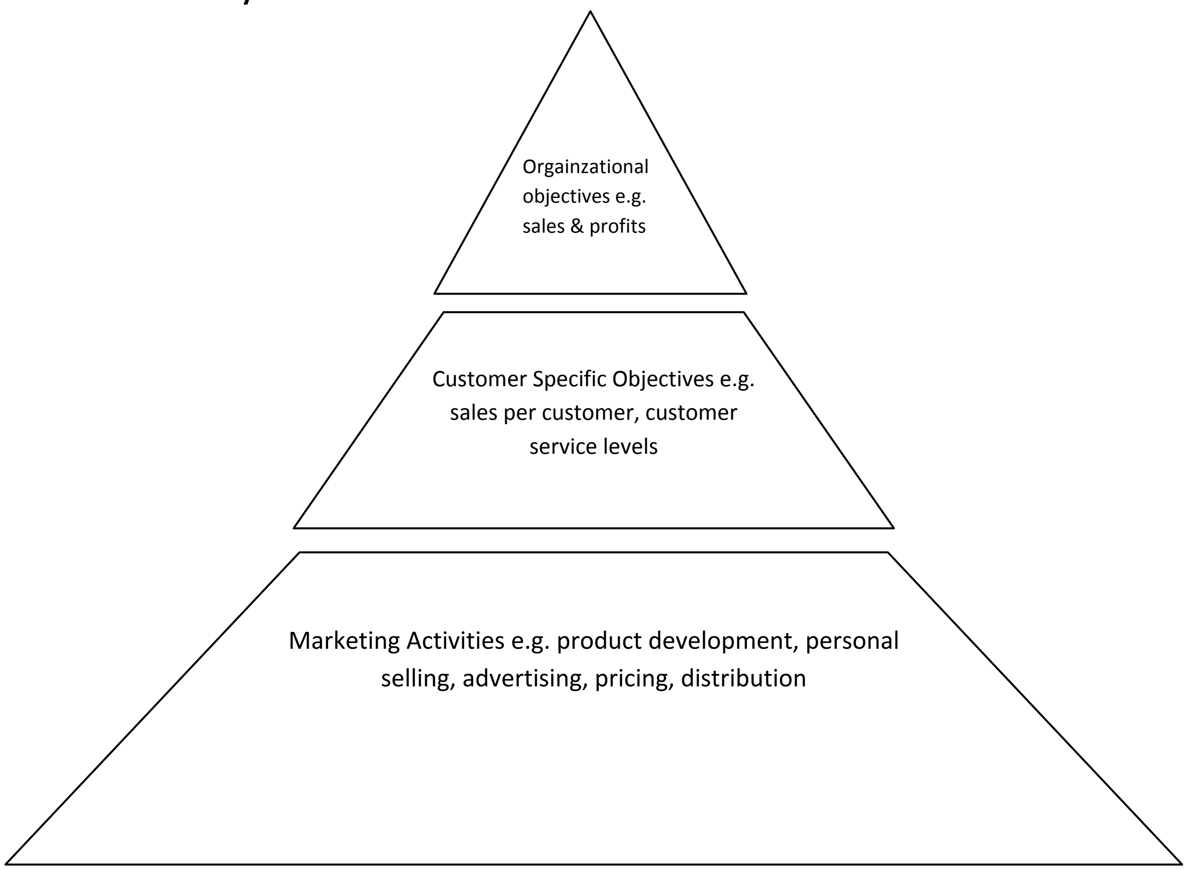
How marketing accountability can be achieved

Anticipating more and more questions along the lines of 'what exactly do we get in return for our substantial expenditure on marketing?', 'how successful was that last direct mail campaign?', 'should we do more or fewer events?', 'what's the link between PR activity and sales?', 'should we spend more on direct marketing next year?', 'what is the ROI of our website?'..., it's not a question of whether to deploy some form of 'Marketing Performance Measurement System' but how to do it.

Marketing Performance Measurement System (MPMS)

Put simply, a MPMS comprises a comprehensive set of marketing performance metrics that enables informed marketing decisions to be made and actions to be taken because it quantifies the efficiency and effectiveness of past marketing actions through the acquisition, collation, sorting, analysis and interpretation of appropriate data and the generation and reporting of marketing information (based on an excellent definition of a PMS in 'The Performance Prism' by Neeley, Adams and Kennerley)

The Performance Pyramid



Starting at the top of the pyramid, we have to define the organisation's key objectives which normally include growth in sales, profits and where appropriate, TSR (total shareholder return). There may also be other stakeholder objectives at this level i.e. people who have a vested interest in what the organisation does and how it does it e.g. internal customers (its people), local community, media, suppliers, intermediaries etc., with a 'win-win' emphasis.

At the next level, we have 'customer' specific objectives. This is where marketing (and other functions such as sales and customer service, for example) have to deliver in order for the top level objectives to be achieved.

At the bottom level, we have lots of examples of what marketers do in order to deliver or help other colleagues and/or departments deliver prospects and customers, trial, adoption, loyalty and commitment.

Identify Key Drivers

The place to start the metrics journey is at the top of the pyramid. I'd even recommend re-visiting CIM's definition of 'Marketing' and the 4 or 5 ways to make more money, as this gets the focus on customers, value and competitiveness, for example. This will help determine the key value drivers in our industry which it is sensible to both define in detail and measure closely.

Measure What's Measurable

In terms of getting started, measure what's measurable e.g. direct marketing is by definition measurable...

'The distribution of products, information and promotional benefits to target consumers through interactive communication in a way that allows response to be measured.'

David Jobber – Principles of Marketing (5th edition, 2007)

Direct marketing includes activities such as direct mail, direct response advertising, telesales, catalogues, direct sales and 'digital media' such as website, email, blogs, IDTV, mobile SMS/MMS, RSS, SEM (Search Engine Marketing), viral/eWOM (Word of Mouth) and wikis.

Astonishingly, recent research undertaken by the marketing consultancy Prophet, found that less than half of the respondents measured their direct marketing in any way, which is not only almost incredible, but must be bordering on commercial negligence! (See the '2006/2007 State of Marketing Study' (www.prophet.com).

Some Idea is Better than No Idea!

In terms of 'indirect marketing', activities such as advertising, branding, press relations and publicity, events, sponsorship etc., it is important to get some idea how these contribute towards the big picture. In the absence of an econometric model (a state-of-the-art technique which can, in principle, isolate the individual impact of and synergies between different elements of marketing activity on sales), simple 'common sense' questions to new customers such as 'how did you find us?' should be (but are rarely) used. Surveys, tracking studies and other tools and techniques such as the use of 'control groups' (where we can measure the response of specific groups exposed to some, all or no marketing activity, to determine whether there's a different and statistically significant response) – can all give us some idea regarding whether and how things are working.

Metric Definition Template

Here's a simple template for defining your metrics or measures and you'll find 'one prepared earlier' for guidance. Completion is best done in teams (including individuals who have a stake in it!) and generally takes about 15-20 minutes, but can take 30 or 40 minutes, to complete.

Metric Definition Template

	Examples
Measure:	Customer complaints
Purpose:	To understand which aspects of what we do causes customer dissatisfaction so that we can improve our service
Relates to:	The need to satisfy customers and retain their custom
Target:	Reduce our customer complain ratio from 5% to 1% next year
Formula:	$\frac{\text{Number of customer complaints}}{\text{Number of customer orders in period}} \times 100$
Frequency:	To be measured and reviewed quarterly
Who measures?	Emma Barnes, Quality Manager
Source of data:	The customer complaints system
Who acts on the data?	Emma Barnes, Quality Manager
What do they do?	Analyse complaints by key process, ensure process managers analyse the cause(s) and apply corrective measures
Notes and comments:	Need to remind staff of the importance of recording complaints on the customer complaints system so that all complaints are captured on the system

Adapted from Neely, Adams and Kennerley (2002) The Performance Prism, FT Prentice Hall

Sample Metrics – Strategic

Customer...

Customer satisfaction, Commitment, Delight, Acquisition, Retention, Churn, Advocacy, Referral (or willingness to); Net Promoter® Score (Promoters – Detractors, Frederick Reichheld); Loyalty; CLTV (Customer Lifetime Value); Profitability; SOW/SOT/SOS (share of wallet, throat, stomach); ROC™ (Return on Customer – Peppers & Rogers), CPA/CPL/CPQLDS/ACPO (cost per acquisition/lead/quality lead delivered to sales/allowable cost per order); Average Order/Basket Size and Value; Brand Parameters such as equity and valuation; Market share (volume/value); Willingness to Search or Wait; Complaints, Suggestions, and 'Thank Yous'.

Sample Metrics – Tactical (Marketing Mix)

Product/Service – Quality; performance; sales/margin/profit; reliability; responsiveness; share; suggestions; new product trial; adoption; market success; cycle time (concept to launch); awards...

Price – Perceived VFM (value for money); elasticity of demand (responsiveness to a change in price – elastic = responsive, inelastic = unresponsive); relative to competition.

Promotion – Marketing communications efficiency and effectiveness (e.g. **advertising** reach – efficiency and recall or response – effectiveness; awareness/salience – unprompted/prompted; share of voice; cost per thousand (CPM)...; **public relations** – quality of exposure (+ve, -ve, neutral, position...); advertising value equivalents (AVE); web traffic; leads generated per event; **personal selling** – Sales (volume, value, margin...); lead conversion; customer development; **sales promotion** – take-up; channel participation; samples despatched; coupon redemption; **direct marketing** – response; click-stream; click-through-rate (CTR – website/email); conversion.

Place – Availability in channel, % on-time/intact/complete deliveries; online 'v' off-line; channel integration and usage; channel conflict; channel commitment; channel performance.

People – Satisfaction (internal customers), commitment, delight, acquisition, retention, churn or staff turnover; loyalty; advocacy; referral (or willingness to); profit per employee; employee development (e.g. training days); suggestions; complaints; absenteeism.

Process – Administrative efficiency and effectiveness (e.g. billing errors and handling complaints); recovering service failures; on and off-line activity (web stats & analytics); SLA (Service Level Agreement) performance

Physical Evidence – Perceived quality of people, premises, equipment such as computers, website, collateral (all of which are particularly important in service marketing environments).

Return on Marketing Investment (ROMI)

This is a very interesting phenomenon in that virtually every marketer is aware of the term and broadly understands the basic principle behind the concept. However, it appears very few –

certainly less than 20% - know how to do it. Prophet research found that 84%of respondents to their study admitted that ROMI was not well understood in their businesses. ROMI has even been described as 'The Holy Grail of Marketing'!

Return on marketing investment (ROMI) can be measured in a number of ways. By way of introduction, we shall examine one measure as given by the following formula:

$$ROMI = \frac{\text{Net Marketing Contribution}}{\text{Marketing Expenditure}}$$

Net marketing contribution is defined as the difference between total revenue and total variable costs. The advantage in using such a measure is that it encourages management to regard marketing expenditure as an investment rather than a cost, which is no mean achievement (see Tim Matanovich (2000) Value Measures in the Executive Suite, Marketing Management, Spring, pp35-41).

By being able to show the return on marketing investment, marketing managers are in a better position to seek future funds since past investments have been justified. An example is given by Simon Thompson (then Honda's marketing director) who asked an audience at a marketing conference if anyone had an infinite marketing budget. No one raised their hands. He then claimed that he did. Why? Because he was able to show the return on his marketing investment. He was able to determine the incremental uplift in car sales following the innovative advertising campaigns (e.g. 'the cog', 'hate something, change something, make something better' and 'the choir'). What Mr Thompson was saying was that by using marketing metrics he could justify his marketing expenditure, making the seeking of future funds so much easier. Not to mention confidence and peace of mind and that comes with knowing that your marketing is both efficient and effective!

Useful References

Accenture/Marketing Society

www.marketing-society.org.uk/downloads/awards/2007/MeasuringUp_MarketingMeasurementExcellence.pdf

Making Marketing Measure Up (Business Week Article)

http://www.businessweek.com/magazine/content/04_50/b3912109.htm

The Performance Prism

http://www.som.cranfield.ac.uk/som/research/centres/cbp/products/prism.asp

Prophet

http://www.prophet.com/downloads/whitepapers/effectiveness-imperative.pdf

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