Marketing by the Numbers: How to Optimize Marketing ROI

An excerpt from The Ultimate CRM Handbook
Consider this figure: $100 billion. That’s the amount of money the Global 1000 spends on marketing and advertising across all media. It’s no small amount, but it’s apparently not enough to halt the erosion of customer loyalty that’s been accelerating during the past decade. According CNW Marketing Research, actual customer loyalty (i.e., repeat purchase of the same brand) in the auto industry has dropped 5 percent from 1990 to 2000 and continues to decline. More than one-third of all brands analyzed dropped in customer loyalty by double-digit percents—some by more than 30 percent. In the North American automobile market alone, this loyalty decline accounted for nearly $25 billion in sales that switched hands.
Effective Marketing Is Essential

To quote an old song, “Something’s happening here; what it is ain’t exactly clear.” Certainly, today’s customers are a fickle lot. When their demands and needs are not readily met, they won’t hesitate to shift brands, find a new distributor, partner with another manufacturer, or seek out an alternative service provider. But shouldn’t $100 billion be enough to help persuade customers to demonstrate more loyalty to brands and companies?

The problem isn’t necessarily the amount of money being spent (although CEOs and CFOs may beg to differ). The real dilemma is how and where the dollars are allocated. Obviously, some amount of marketing expenditures are hitting their mark, because companies are still in business. However, few if any companies are able to determine with any certainty which marketing programs consistently return genuine business benefits to the company and which simply siphon away profits. And that inability to determine the ROI of each marketing activity undermines the entire marketing effort—precisely at a time that companies need a highly effective marketing function the most.

Nothing about today’s customers or markets is certain, a fact that marketers know all too well. With change now a constant, marketing managers recognize that they have to develop effective marketing programs to grow—not only to keep existing customers and bring in new ones, but also to open unexplored markets and create new opportunities in those markets thought to be mature. Well-designed and well-implemented marketing activities, they know, are key to generating sales and revenues. For many companies that sell fast-moving consumer goods, a major marketing effort—including new-product development, distribution, advertising, and promotion—can generate as much as 40 percent of short-term sales. In the consumer electronics industry, the introduction and promotion of new products can stimulate as much as 80 percent of those sales.

Even old products can find new life in rapidly developing markets with the support of an effective marketing function. For example, the introduction of a new technology into certain markets can send the old products into a tailspin—witness, the fate of products such as rotary telephones, PDAs, and computer processors. However, when DVD players hit the mainstream in North America, sales of VCRs in such places as Indonesia and Latin America actually increased by double-digit percentages because savvy marketers discovered there was still significant unfulfilled demand for such “old” technology in these “new” geographies and supported the products accordingly.

In addition to capturing value from previously untapped sources, an effective marketing campaign is invaluable in maintaining and increasing customer satisfaction and loyalty. Marketing is the principal communicator of a company’s brand promise and customer experience—everything the company says it will provide through its products and services, including customer satisfaction, support, technical solutions, guarantees, price points, discounts and coupons, prompt distribution, and the like. Effective marketers that ensure there’s no mismatch between what the company promises and what it delivers are much more likely to experience strong customer loyalty and repeat business than competitors that frequently let customers down or confuse them with conflicting messages and experiences. Nordstrom, L. L. Bean, and Home Depot, for example, have spent decades crafting an image of a company that offers “no-hassle” service—and continue to delight loyal customers by accepting product returns smoothly and with a smile, no questions asked.

To be sure, an effective marketing program is essential to business success today, regardless of industry. However, many companies—even the leaders—are discovering that their marketing capabilities are letting them down just when they need them most. And they’re paying for it at the cash register and on Wall Street.

For some companies, their marketing limitations have manifested themselves in missed opportunities. Levi Strauss is a classic example. The purveyor of jeans that were once the epitome of “cool” and the object of desire by teens and young adults everywhere, Levi badly lost its way in the 1990s. Confused by the new wave of customers with different needs and values, the company struggled to develop relevant new products. While selected Levi’s ad campaigns have been memorable, others have been flops and campaigns are changed on a regular basis.
Wrong Market, Wrong Message

One year, Levi’s astounded J.C. Penney, its largest customer, by delivering its back-to-school line to the retailer 45 days late. Such stumbles would have been easy to shake off in the “old days,” when Levi jeans were essentially the only option. But in a decade that spawned dozens of competitors, these miscues threatened the viability of the entire enterprise. According to estimates by Fortune, the market value of Levi Strauss—a privately held company—has been halved since 1996, from $14 billion to approximately $7 billion.

Likewise, General Motors continues to struggle with market share because consumers under 35 have abandoned the company as GM’s established customer base ages. While GM ignored younger consumers (referring to Generation X and Y customers as “unprofitable”), Ford, Honda, and Volkswagen catered to the segment’s needs. Honda developed an after-market program designed to help youths customize their cars to reflect their own image. Ford began a young-teen marketing campaign. And VW, perhaps the hippest of car makers today, made huge inroads among 20-somethings with a series of fun, quirky ads featuring hip music and characters. Only recently has General Motors recognized its error and begun to embrace the younger crowd. But youth-oriented products such as the Pontiac Vibe, Sunfire, and Aztek—the last of which GM’s own head of product development, Robert Lutz, has publicly derided—show that GM still has a long way to go. Honda, on the other hand, launched the CR-V, with its extra large door openings and a low SUV price, targeted at the sporty youth market. In its marketing efforts, Honda boasts, “Plus, with even more headroom inside, you can chauffeur lots of your friends.” Meanwhile, the long-suffering Cadillac brand is about to go through a makeover. It will be interesting to see if lessons have been learned from their own styling errors and the successes of their competitors.

Other companies placed their bets on poorly conceived marketing strategies and campaigns, often overestimating their markets and making promises they could not keep, despite their best intentions to do so. K-mart, for example, developed a strategy of emphasizing low prices, and went head-to-head with Wal-Mart, even though that losing proposition was evident to just about everybody except K-mart managers. This strategy, “supported” by a sharp cut in advertising, sounded the venerable retailer’s death knell. Similarly Gap Inc. spent 20 years building a base of loyal customers, but then ignored their tastes when it decided to pursue a younger group more interested in trendy (some say ugly) clothes than in classically styled, high-quality apparel. The results have been disastrous. The company has chalked up a stunning 18 consecutive months of declining same-store sales and has seen its stock price plunge 71 percent from its high in February 2000. “We have disappointed some of our core customers,” admitted Gap CEO Mickey Drexler. “We misread some of the market.”

Ineffective marketing also has resulted in inconsistent customer experiences for patrons of many businesses. A number of companies suffered setbacks from their ill-conceived plans for Internet shopping. They created sites where customers could make purchases, touting how “easy and convenient” it was to shop over the Web. But customers who tried to return items were disappointed. Web-only retailers clearly hadn’t thought through how they’d deal with returns, and the resulting expense and confusion customers endured eventually drove them away. Many retailers with brick-and-mortar stores fared no better in the early days. They confounded customers who tried to return a Web-purchased item to a store in the mall by refusing to accept such returns. Stung by the experience, many customers took their business elsewhere.

Even a venerable company like Coca-Cola has not been immune to marketing missteps that can inflict considerable damage on its brand, masterfully crafted for decades. Seeking to restore earnings growth two years ago, Coke embarked on a major reorganization that pushed decision-making out of its company headquarters into business units around the world. The move backfired, however, as the company’s talented HQ marketing team left the company. Left to their own devices, the business units disbanded the global agency network, created a number of embarrassing, conflicting, and ineffective ad campaigns, resulting in two years of lower growth in sales volume, a reduced market share, and loss of ground to PepsiCo in the brand space.

Coke is now reconstructing its global approach.
Why Marketing ROI Is in Decline

So what’s the problem? Why have once-proud companies begun swinging back and forth from global to local or modern to traditional positioning as they struggle to find the right concept, the right message, and the right market for their products? Why are businesses of all types finding it so difficult to keep pace with customers that admittedly have become more mobile, sophisticated, demanding, and fickle? Why have so many marketing efforts produced such poor results despite investing significant company resources?

Five factors are largely responsible for the current state of affairs:

- Use of obsolete marketing tools
- Fragmented nature of marketing processes
- Lack of objective measurements
- Image of marketing as a creative pursuit that’s not subject to rigor and discipline
- Lack of consistency and broad corporate perspective

Obsolete Marketing Tools

One of the most significant problems with marketing is that marketing professionals in many companies are using outdated practices and tools to plan and execute marketing programs. In fact, marketing today still is largely based on the brand management principles pioneered by Procter & Gamble in the 1920s. Clearly, these principles have been successful in the past. However, they alone no longer can be counted on to generate value for the company in today’s marketplace.

A prime example is how ineffectual marketing techniques can become institutionalized. Many mass-marketing techniques, such as broadcast advertising, continue to be very effective while others, such as couponing and excess price promotion, have spiraled out of control. Historically, brand building accounted for more than 50 percent of a budget yet, in the 1990s, most brand-building investments dropped to between 20 percent and 40 percent of total investments, with the rest going to trade and price promotions. Numerous studies, including the trade-driven Efficient Consumer Response initiative in the grocery industry, have confirmed the wastefulness of promotional tools such as couponing. And yet their use continues to grow.

Not surprisingly, as the use of ineffectual techniques has grown during the past 10 to 15 years, the return on marketing investment of these efforts has declined steadily. Econometric analysis has shown couponing, for example, to return only 29 cents on each dollar invested—one of the lowest returns of marketing-mix items. Yet companies continue to pour millions into the medium. One executive at a major American auto manufacturer recently said: "70 percent to 80 percent of all new-car incentive dollars spent and incentive advertising is wasted on people who were planning on buying the car anyway and didn’t even know they were getting an incentive, or the incentive is too low to sway their purchase decision."

Fragmented Marketing Processes

A second problem is that many companies have fragmented marketing processes. The typical marketing function takes control of the creative aspect of marketing, but rarely the analytical aspect. Thus, a lot of time and money are spent on developing ad campaigns, but not on managing and analyzing customer data or on improving the company’s ability to interact with its customers. This is one of the primary causes of the inconsistent customer experiences noted earlier, especially in companies where the creative marketing efforts are top-notch, but the practical details of communicating with customers (or enabling them to communicate with the company) are rarely provided for.

In an Accenture survey of marketing executives in the United States and the United Kingdom, more than half of the respondents (57 percent) reported that their marketing campaigns are not well-integrated and coordinated with other areas of their companies, particularly information technology (IT) and CRM. The results are a low return on marketing investments and a high frustration level for creative managers in developing effective campaigns and giving customers the consistent messages and experiences they want.

Lack of Objective Measurements

A third major problem in a company’s ability to devise an appropriate marketing campaign is that it typically lacks the objective metrics that gauge the performance of its marketing programs. The Accenture survey revealed that 68 percent of marketing executives have difficulty measuring the ROI of their marketing campaigns. That doesn’t necessarily mean that they don’t measure anything. Many companies still use the classic tools and metrics—focus groups, usage and attitudes surveys, awareness tracking, and market share—to help them gauge
their effectiveness. While these measurements are important, there is rarely a process to aggregate this information into accurate return on marketing investment calculations and, as a result, do not prevent them from pouring time and money into ineffective vehicles and unprofitable markets.

Most companies bemoan the lack of widespread marketing accountability but then fail to take action. Others actually take pride in applying “instinct-driven marketing.” We endorse the use of experience and judgment, but believe these should be deployed on an accountable ROI foundation just like the other areas within a company (see below).

**Lack of Rigor and Discipline**

A fourth problem is that, in many companies, marketing still is viewed—by both marketers themselves and those outside of marketing—largely as a creative process or an art that’s not subject to the discipline and rigor that other business functions are. As a result, many marketing departments are allowed to function with less scrutiny and less accountability than other departments, and marketers often resist the use of tools or technologies that they believe impinge on the creative process. The fact is that marketing has been given a free ride for years by everyone, both inside and outside the company, and has not—at least until very recently—felt the same pressure for accountability from the financial markets as most other areas, notably purchasing, manufacturing, and logistics.

Executive “churn” has set in at all levels of most major company’s managerial teams. This churn has destroyed long-term experience and learning, and led to a serious shortfall in the ability to take a broad perspective of business issues. And the problem is even worse at the top where, since the 1990s, churn has hit the boardroom, leaving few CEOs who, historically, would have managed their corporations for years or even decades (see chart). A recent Business Week article revealed that since 1997, 65 percent of the Fortune 500 have had their CEOs replaced (Figure 1). In many cases, these leaders are lasting fewer than 12 months in the job.

The net result is that the cultivation of “brand memory”—which was passed from manager to manager and kept alive by the long tenures of those involved in the historic success of the company—has been obliterated.

**Figure 1. CEO Turnover**

[Graph showing CEO turnover from August 1999 to November 2000 with data points indicating announced departures at US companies]
Reining in Marketing ROI

It’s clear that the time has come for companies to measure and improve the return on marketing investment. But how? The first order is to adopt a new approach to marketing that consists of six major steps:

1. Quantify the effects of past marketing efforts.

Marketing executives are finally coming under pressure—from CEOs, CFOs, and shareholders, among others—to quantify the effects of past marketing campaigns. Most companies conduct an annual marketing analysis, relating marketing investments to top-line sales and market share. Then they make decisions for the next year’s campaign without having adequately quantified the effects of each individual marketing element’s impact on growth and/or profitability. Now, however, it is much easier to gather all the data and measure that effort in great detail. Most consumer industries have good access to monthly and or weekly industry sales data. For example, Supermarket Scan data can provide weekly transactions of fast-moving consumer goods, while two main national pharmacist-report systems—IMS and Scott Levin—provide similar high-quality data for pharmaceuticals. Traffic to Web sites can be measured on a daily basis in terms of the number of visitors and their purchase behavior.

Similarly, marketing activities can be recorded with increasing specificity and granularity. Whether a campaign reaches its audience by way of television, radio, cinema, print, or billboard, reliable estimates of the number of “eyes” that see an ad are readily available for both companies and their competitors.

Once the data is collected and organized, marketers can use time-series analysis to determine which elements of the marketing program have delivered results and which elements have under-performed. Then the marketing mix can be reallocated to accelerate growth or cut costs. Given today’s technology, marketing directors have no excuse not to be able to explain the return their marketing investments have yielded.

Judgment, experience, and creativity will always play a leading role in marketing, but they should not be applied to the exclusion of a disciplined approach to ROI.


It is easier for a company to quantify the effects of its own marketing efforts, but more difficult to estimate those of its competitors. Managers clearly do not have all the resources they would like when it comes to evaluating how the competition is performing. Nevertheless, it is possible, using the same techniques just described, to examine competitive performance and assess its effectiveness.

Thus, it is possible to track most competitors’ results and activities in terms of advertising and price promotion, perform the same time-series analysis, and piece together a fairly detailed and insightful image of key competitors’ strengths and weaknesses. A full marketing-mix analysis should be part and parcel of any company’s assessment, as should a holistic view of the entire industry and all its players. Such an analysis can create deep insight about the nature of
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competition and give the company undertaking the review a clear competitive advantage. Not only will company managers learn more about their own marketing processes, they may come away with a better understanding of the competition than competitors have of themselves.

3. Identify under-performing initiatives before they become too costly.

Time-series analysis reveals important insights into how different parts of the marketing mix are performing. It can track, for example, the base sales of a product or a brand as an indicator of how loyal customers are, regardless of special promotions or marketing blitzes. In addition, it can show how effectively various elements of the marketing mix are contributing to the overall effort. If television ads are having a 25 percent greater impact than, say, radio or cinema, which cost 60 percent less, managers can carry on a debate grounded in hard numbers rather than impressions or prejudices as to which media channels merit increased investment.

Marketing mix analysis can highlight those activities with the highest ROI at the same time that it flags the ones that are likely to show negative or mediocre returns. Especially in difficult economic times, it is essential to know which activities are working well. All too often a downturn in the economy is taken as a signal to make drastic cuts in the marketing budget without doing a disciplined review of risks and opportunities. Numerous studies have shown that cutting marketing investment during a recession can cause more harm than good. These decisions should be analysis-driven not reactionary.

4. Establish accountability for each element of marketing activity.

Some marketing activities are designed to increase awareness of a brand; others, to introduce a new product; still others, to encourage repeat buying and build brand loyalty. Despite this division of labor, many companies evaluate their marketing campaigns by looking solely at sales, as if the marketing effort were a single-faceted activity.

Here is one place where marketing executives can take a lesson from human resource personnel. Just as key performance indicators (KPIs) are established, measured, and validated for people working for a company, so the elements of a marketing campaign must be put to the test. And as the KPIs are established and people are rewarded for reaching or surpassing performance goals, so the various activities of the marketing campaign can be incentivized. For instance, managers can link an investment in television advertising to shifts in brand awareness. If the brand currently has 60 percent awareness, they might specify that the TV advertising must increase that awareness to 70 percent. Once that goal is reached, they could continue to set incremental increases, accompanied by appropriate awards.

Alternatively, suppose that marketers plan to attach an instant-purchase coupon to the larger-sized packets of their products to encourage greater consumption. If the average family's consumption of a product is 1.5 kg. per month, a special consumer-promotion activity could be held responsible for increasing this amount to 2 kg. a month. Similar links could be established, say, between direct-mail activities and household penetration. The important matter is to establish reasonable, reachable—and appropriate—goals for each marketing activity, specify clearly what those goals are, and reward each element appropriately if it achieves the desired outcome. In combination with ROI analysis, tracking interim “brand health” measures will create a more robust program.

5. Identify products and markets that offer significant growth potential.

Many executives direct their companies as if they were driving a car while looking in the rearview mirror.

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That is, they look primarily at past sales and revenues—where they have been, not where they are going. Given that companies have to demonstrate growth, the quantifiable methods now available can prove very helpful in showing managers where they should place their company's future efforts. For example, improved forecasting changes in markets, market share, and profit margins can point a company toward competitive advantage and market dominance.

Data on demographic makeup and market profiling can help marketers forecast a brand's future household penetration, frequency of purchase and consumption, replacement rate, changes in weight and packaging, and so forth. Such measures can guide them in planning a brand’s future category size and setting its market share. Manufacturers could use such information to better predict future sales and profits of its major brands and invest against a future rather than past view. In turn, more robust consumer-driven forecasts will drive down supply chain costs by reducing stock-outs and excess inventories.

While this kind of marketing data is highly quantitative, the analysis can be used to strengthen conclusions of a strategic nature. The more complex a company's operations, the more value this approach has. Today, companies evaluate markets by category or geography. A single view is now required. Take, for example, a company that sells 50 different products in 80 countries. It must be able to view results continuously during the year, both by brand/category and market; evaluate its marketing efforts globally as well as locally to determine where the greatest opportunities lie; and be able to reallocate across categories. Once those determinations are made, resources can be aligned and reallocated to drive growth and higher profits.

6. Reallocate marketing resources to capitalize on new growth opportunities

In some companies the allocation of resources is based on who shouts the loudest. Others conduct detailed planning exercises at the country or category level, but few look across countries and categories. This fractured view prevents optimization. How does the country manager from France compare her opportunity to better or worse opportunities in Germany or Spain? How does the toothpaste category manager compare his opportunity to better or worse opportunities in shampoo or deodorants?

Many companies find this step the most difficult to implement, in part because they rely on ineffective ways of allocating resources. Too often it’s a matter of rewarding business units on the basis of last year’s sales (another case of the rearview mirror approach to driving). Or managers allocate resources on the basis of a brand’s current market size. Neither achieves his full potential as the investment—too much or too little—hinders proper growth. To make matters worse, an under-rewarded business unit may find that the resources it receives actually fall below a minimum threshold of required investment and that, accordingly, the investment is wasted.

Systems and processes must be put in place to quantify and compare investment opportunities in an “apples to apples” fashion. The practical side of this equation is often hard to implement, since reallocating resources may mean the loss of jobs, products, plants, or even an entire brand. Managers rewarded for growing their own business will fight for higher than appropriate resources. If, for example a business unit currently accounts for only 3 percent of the company's profit, but it can be shown that this unit should and could account for 6 percent in the near future, the forward-looking manager will direct an appropriate amount (perhaps as much as 6 percent) of marketing resources to that opportunity now rather than waiting for growth that depends on that investment. The problem is that this investment will probably come from a larger business with less future potential. The current larger business can, however, defend today's budget easier than a growing (probably less profitable) business. A data-driven process is required to ensure that growth is optimized.

A system and process based on investing today proportionally to future profit growth potential would represent a radical improvement for most companies.
Marketers rightly say that intuition, experience, and judgment play a big role in their marketing allocation decisions. While these factors will continue to serve important functions in designing and directing a marketing campaign, they alone cannot ensure a high and reliable rate of return on the marketing investment. Every part of the marketing mix—television advertisements, print, packaging, rebates and promotions, incentives to distributors, coupons for consumers, and the like—must undergo the rigorous examination that an advanced econometric analysis provides. Otherwise, its contribution to the success or failure of the marketing campaign cannot be determined with any validity.

For global allocation, a similar quantitative system and process should be deployed to facilitate the decision-making process.

In contrast to widely held opinion, the marketing process is not mere “guesswork” or “gut reaction,” nor is it purely a creative or artistic pursuit. Rather it can and must be quantified and optimized in ways that most companies have not yet taken advantage of—just as companies have streamlined their manufacturing processes or made their logistics activities more effective and efficient. Given the challenges that all companies face today in being heard above the market noise, it’s essential that they begin to take a more disciplined and rigorous approach to marketing—one that not only makes their activities more effective, but also identifies where money is being wasted or misspent. The ultimate goal should be to eventually embed an ROI mindset, system, and process into the overall marketing infrastructure to help ensure that scenarios such as those that struck Levi Strauss, Gap, and K-Mart are avoided.

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Footnotes

1 “Brand Loyalty,” CNW Marketing Research

2 2001 Sales numbers were obtained from NADA (2001) and www.Autonews.com.


6 Statistics are drawn from “Insight-Driven Marketing: Using Customer Insights to Build Brand Loyalty and Increase Marketing ROI,” a research report released by Accenture in 2001. The report is based on a telephone survey of 175 marketing and customer relationship managers at companies in the United States and United Kingdom.

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Accenture is the world’s leading management and technology services organization. Through its network of businesses approach—in which the company enhances its consulting and outsourcing expertise through alliances, affiliated companies and other capabilities—Accenture delivers innovations that help clients across all industries quickly realize their visions. With approximately 75,000 people in 47 countries, Accenture can quickly mobilize its broad and deep global resources to accelerate results for clients.

Jeffrey Merrihue is a Partner in Accenture’s Customer Relationship Management practice. Mr. Merrihue specializes in marketing economic value effectiveness and is the global lead for Accenture’s Marketing Return on Investment practice. Mr. Merrihue has worked with companies across a variety of industries including consumer packaged goods, automotive, electronics and high tech, financial services and chemicals. Mr. Merrihue has deep marketing strategy experience based on 15 years in international marketing, and joined Accenture from Initiative Consulting, a firm he founded and where he served as Chairman and CEO. He obtained an MBA in International Business from Babson College.


The Ultimate CRM Handbook contains contributions from more than 30 of Accenture’s leading CRM practitioners, and distills Accenture’s latest CRM strategies and concepts into proven, practical ideas for designing and delivering value-focused, financially sound CRM solutions. The Ultimate CRM Handbook provides insight and practical advice on CRM issues such as: the link between the customer experience and brand value, using customer insights to engineer more profitable and satisfying customer relationships, and produce a better return from their CRM investment. In addition, key clients and analysts agree, as you can see in the select quotes below.

“Customers are, and will always be, at the heart of the Virgin brand. As illustrated in this important new book, our never-ending pursuit of excellence in customer treatment has paid big dividends.”

—Sir Richard Branson, Chairman, The Virgin Group

“A smart and practical book about CRM that’s good for any executive who wants to create stronger, more profitable customer relationships. The Ultimate CRM Handbook not only helps executives understand how customer relationships are changing – it shows them what to do about it.”

—Beth Eisenfeld, Research Director, Gartner Inc.

“The Ultimate CRM Handbook’ captures what it takes to manage the whole customer experience including all interactions. It is an excellent collection of ideas for any business person who is trying to understand CRM and shows how they can improve their bottom-line business performance.”

—Charles Stevens, Corporate Vice President, Microsoft
