Bridging Marketing and Finance Using Metrics

By Laura Patterson

Finance departments often criticize marketing's inability to present a tangible ROI and use financial measures. It's a common lament and one we've all heard. Rob Stuart, Executive Vice President & Publisher at CFO Publishing, in a recent conversation reminds us that CFOs expect marketers to come prepared to describe what their ROI is going to be for marketing investments. CFOs want to know how marketing is going to measure success, the key performance indicators for a conference and the ROI targets. CFOs are looking at the big picture and the organization's overall investments.

If we want the CFOs support we need forge a stronger partnership with our finance colleagues. The perception or reality of an antagonistic relationship needs to be replaced with collaboration. And one of the best way to begin to build this relationship is to work from the CFOs comfort zone: data, analytics and metrics.

You may think that you already do. But here's an example of how easy it is to throw things off kilter. A key source of the friction is derived from using the words with double meanings. For example, consider "brand equity". The marketing professional uses the term to describe the health of the brand's franchise with its key audiences; the financial professional uses it to characterize the brand as an economic asset. Whatever their differences, marketing and finance professionals need to find common ground.

Marketing and finance both have well-developed ideas about what value is and how it should be measured. Unfortunately, their ideas are very different. Marketing professionals typically think of value as a customer concept. Value represents the ratio between the perceived benefit that a product or service offers and its cost to the customer and therefore is a concept external to the customer. Financial professionals link value with the concept of value creation, that is, does this activity earn a sufficient return on our investment?" Viewed from this perspective, value is a financial concept internal to the company.

The two organizations need to integrate their ideas. Focusing on the customer benefit alone risks bankrupting the company. Focusing on minimizing the cost base for a given customer benefit may improve short-term profitability but leaves the company vulnerable to a competitor who redefines the customer value equation.

The first step in forging a viable partnership is to identify the marketing metrics that have provided a reliable indication of a brand's ability to generate future cash flow (the criterion for regarding the brand as an economic asset). The conversation should focus on the conditions under which marketing initiatives will contribute to growth in the bottom line, not just a temporary increase in the top line. As a result you create the basis for a productive collaboration between the marketing and finance functions.

It should become obvious that there are multiple variables that can influence the outcome of marketing strategy. The goal should be to concentrate on establishing the combination of those variables that will produce the desired business outcome from which financial value will be created. Making time to engage in this conversation will go a long way toward improving the quality of the relationship between marketing and finance. It provides a rigorous analytical framework within which to explore the financial implications of different market outcomes, and identifies those market strategies that offer the greatest chance of generating both customer and shareholder value.