Taking on the Metrics Challenge

A Continuing Conversation

Whether it's coming from the C-Suite of senior executives or the marketing organization, the drive for measuring marketing performance remains an utmost priority even though the issue is not a new one. Seven years ago, a study by the Advertising Research Foundation [cite] revealed that "enhanced return on marketing investment" was one of the top priorities CEOs set for their marketing and research functions. The more recent VisionEdge Marketing (VEM) ***"Marketing Performance Management"*** 2007 study surveyed 136 business executives and marketing professionals through an online study. It was a purposive sample therefore all participants surveyed were either members from the C-Suite or those individuals with marketing and sales titles. The survey asked respondents to indicate the grade their CEO would give marketing based on the following criteria: **Aor better** (marketing not only implemented programs but was able to document their contribution; **B+ to B-** (the CEO believes the marketing programs made a difference but the contribution wasn't measured); **C+ to C-** (the CEO isn't sure the marketing programs made a difference, but believes they had some impact even though the contribution wasn't measured); and **D or less (**the CEO doesn't believe the marketing programs made a difference). Out of all the respondents, only17% indicated that their CEOs would give marketing the grade of A and 48% of the respondents felt that their organization's ability to measure marketing performance was only marginally effective (9% indicated that it was completely effective; 30% indicated it was somewhat effective, and 13% felt it was completely ineffective).

According to the CMO Council's ***"The Marketing Outlook"*** 2007 study [cite], "chief marketers face intense pressure from bottom-line focused CEOs and demanding corporate boards to improve the relevance, accountability and performance of their organizations. Measuring marketing performance, quantifying and measuring marketing's worth and improving marketing's efficiency and effectiveness continue to rank among the top challenges faced by marketers. The CMO Council study found that for today's marketers, proving marketing's value is the number one challenge above other challenges such as growing customer knowledge and extracting greater value and profitability from customers.

Fifty eight percent of the respondents in the VEM study indicated that measuring marketing performance was a top priority at their company, yet more than 80% of respondents gave a six or less (on a 10-point scale) in terms of their level of satisfaction with their ability to track marketing performance. Sixty-four percent of all participants revealed they had no marketing performance training or budget. The lack of training is often mentioned as one of the critical obstacles in addressing marketing accountability. An AMA study [cite] indicated that in addition to time constraints and lack of resources, insufficient training and lack of technology or tools pose the biggest obstacles for marketing professional wanting to embark on the marketing accountability journey. A 2006 Deloitte study [cite] of over 460 executives found that lack of well-defined performance measurement capabilities, internal coordination, and clearly defined accountabilities are the biggest challenges to improving measuring marketing effectiveness.

If you do make the investment in marketing accountability will it make a difference? A CMO Council study [cite] found that companies with formal marketing performance systems do outperform companies who lack such a system. In fact, in this study companies with marketing performance systems achieve 29%, 32%, and 37% better sales growth, market share, and profitability respectively.

This article attempts to provide marketing professionals with an approach to measuring marketing accountability by providing a framework that will help them quickly establish appropriate metrics and provide some insight into how to capture these metrics and report them without breaking the bank. Before we launch into a discussion about the framework, let's first establish a definition for marketing accountability. In 2005, the American Marketing Association (AMA) established a definition for marketing accountability that serves us well, "The responsibility for the systematic management of marketing resources and processes to achieve measurable gains in return on marketing investment and increased marketing efficiency, while maintaining quality and increasing the value of the corporation." The definition will help us in understanding the framework we need adopt to successfully measure and prove marketing's value.

A Framework for Marketing Performance Management

Marketing Performance Management (MPM) is the practice of managing marketing effectiveness and value by aligning people, processes and systems to a common set of goals and objectives. Therefore any framework we use needs to align marketing with the business and transform marketing into a performance-driven, outcome-based, customer-centric organization. Such a framework provides the foundation that enables marketing to demonstrate value and broaden our focus beyond sales support by linking marketing to critical business outcomes.

We might usefully remind ourselves of the purpose of marketing. Philip Kotler, S. C. Johnson & Son Distinguished Professor of International Marketing at the Kellogg Graduate School of Management, Northwestern University says that "Marketing has the main responsibility for achieving profitable revenue growth" and that we do this by finding, keeping and growing the value of profitable customers. These business outcomes serve as the basis for both marketing strategy and metrics. Yet surprisingly enough, marketing metrics at most companies do not have a high correlation between marketing activities and business outcomes. Although many companies do have measurement frameworks in place they are just not always set-up in a manner that provides a company with the most accurate assessment of their marketing initiatives.

By using this commonly agreed definition of marketing's role we can develop a marketing accountability framework. All our metrics must in some way relate to finding customers (customer acquisition), keeping customers (customer penetration) and growing customer value (monetization). By taking this approach we can connect marketing's role to essential business outcomes, customer acquisition to market share, customer penetration to lifetime value, and monetization to customer/brand equity and as a result establish three metrics categories. It now becomes a question of which metrics to select from each category that are relevant to your business.

Metrics for Each Category

Within each category there are numerous metrics a company can select. The trick is to choose the select few that will allow the business to confidently make fact-based strategic decisions to best align decisions with resources in order to have the greatest impact on revenue and financial performance. The only way to make the right choice is to select those metrics that most closely indicate how well and by how much marketing is "moving the needle". Therefore the metrics must be created with the business outcome in mind. We can however make a few educated assumptions.

Companies want to increase their market share and grow the value of their customers. As a result, we can focus on a few metrics that are related to each of these. For example, we know that share of preference, share of voice, share of distribution, rate and cost of customer acquisition and rate of growth compared the industry's growth rate are good indicators of how well marketing is moving the market share needle. Likewise purchase frequency, share of wallet, advocacy/loyalty, and tenure are key indicators for customer value. And metrics such as price premium, customer franchise value, rate of new product adoption, product margins all reflect a company's customer and brand equity. These types of metrics may seem a far cry from the metrics typically captured by marketing such as response rates, document downloads, website traffic, etc. Tracking these types of activities is still important and actually may be necessary to see the whole picture. Therefore we have found a *metrics continuum* to be an extremely helpful way to organize different types of measurement.

The Metrics Continuum

Marketing can measure a never-ending menu of items that consume a tremendous amount of energy, time and resources. I recall a Vice President of Marketing that served on a panel with me who proudly mentioned that he tracked 200 unique items and had a full time person dedicated to the task. The Vice President is no longer at that firm. Marketing must focus on the most relevant, essential, and valuable actions and use these as the basis of our metrics and performance reporting.

The VisionEdge Marketing Metrics Continuum (Figure 1) suggests that metrics fall along 5 points on the continuum. It may be necessary to create and report on metrics from each point. In fact, it is possible that activity-based metrics will be needed by members of the functional team to manage their programs and metrics higher up on the continuum and will be needed by the executive team to evaluate overall impact.

By using the continuum we can see that metrics range from simply measuring activities, all the way up to predictive metrics based on analytics and models. Here is a quick review of each point on the continuum. Activity-based metrics essentially involve nothing more or less than counting things. As the creative side of marketing gave way to the analytical data-driven side, counting took center stage. Marketers looked for various things to count and various numbers to report. Tracking website visits, demo downloads, event attendees, numbers of leads, numbers of press hits, or analyst report coverage are examples of an activity-based metrics framework. While this is a good forward step toward measuring, it won't link marketing to business outcomes, nor satisfy the C-suite's need to understand the value marketing brings to the company.

Operational-based metrics are designed to help manage the marketing function as a business. These metrics are designed to improve organizational efficiencies and ROI. Program-to-people ratios, awareness-to-demand ratios, the cost/lead, the cost/sale, and conversation rates illustrate operationally-based marketing metrics. The connection between the marketing 'program' and business outputs become clearer at this point on the continuum and take marketing one more step forward in the right direction. There is just one small hiccup if you stop here on the continuum. Operational Metrics primarily provide the organization with a way to rationalize marketing investments but not necessarily with a way to relate marketing back to strategy and business performance.

As we suggested previously, the focus of any business is on the customers; securing revenue producing customers, keeping these customers, and growing the amount of profitable revenue derived from the customer franchise. Most Operational Metrics do not account for these outcomes. A Marketing Metrics framework must demonstrate how marketing enables the organization to realize these outcomes. Therefore a company must at least make the transition to outcome-based metrics. Outcome-based metrics enable marketers to measure strategic effectiveness, focus on efforts with greatest impact and contribution to the company's valuation, demonstrate accountability beyond sales support, and provide a quality control process.

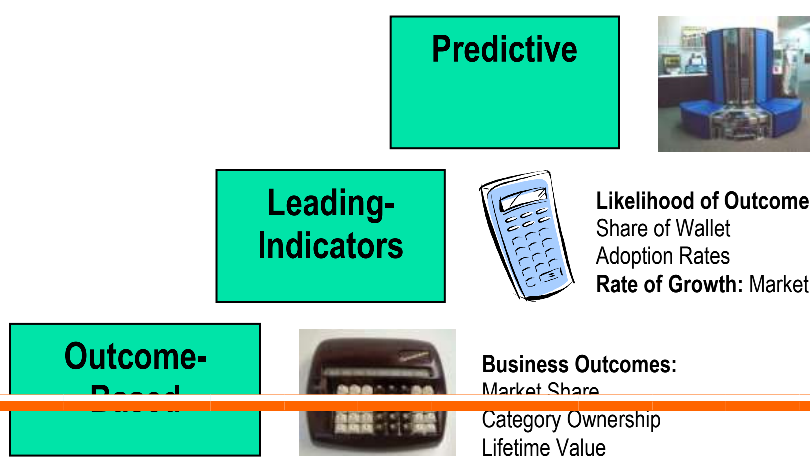

Figure 1: VisionEdge Marketing's Metrics Continuum

Where You Are on the Continuum

In order for any company to achieve its fullest potential, you need to begin the movement along the continuum. It all begins with an examination of your company's present situation. Audits provide a means to assess your company's current metrics and measurement capabilities, and identify the changes, if any are required. While a self-assessment is certainly a good starting point, using a third party will provide an objective perspective. Audits are not new to marketing. In fact, marketing and communication audits are commonly if not routinely performed. These audits typically examine the organization's capabilities related to strategy and brand. A metrics audit examines the metrics, systems, tools, processes, and people in terms of being able to measure marketing performance. Through an audit you will be able to assess the areas where marketing's direction is and is not linked to the company's strategic objectives, where the company is and is not aligned with other organizations, which metrics the company is using, the degree of competency within the organization around metrics and where gaps exist.

The Role of a Dashboard

Regardless of which metrics stage you're in, it is important to have a process for succinctly reporting your progress and your metrics. Once a company defines the metrics and creates the model, it can develop a dashboard. In fact, the CMO Council's Marketing Outlook 2007 study indicated that marketing performance measurement dashboards are at the top of the list in terms of initiatives for 2007. VisionEdge Marketing believes a good dashboard accomplishes seven things:

1. Shows how marketing is "moving the needle"
2. Helps assess what is and isn't working
3. Fosters decision making – is actionable
4. Provides a unified view into marketing's value
5. Enables better alignment between marketing and the business
6. Translates complex measures into a meaningful and coherent set of information

Dashboards can provide a way to visually monitor your metrics and provide you with a feedback system to track progress and connect marketing to business outcomes. In order to create a dashboard for your company, you must identify the most important measures that will indicate success. Once the variables are clarified you can define the performance indicators most linked to each measure and the data needed. Dashboards provide insight into performance, foster decision-making, and align strategy with implementation. A good dashboard maps out the relationships between business outcomes and marketing performance.

From Theory to Reality

Companies are tackling the marketing accountability challenge head on. The following two case studies illustrate how two companies approached creating and using outcome-based metrics to demonstrate marketing's value and to make marketing a more strategic member of the team.

The first example involves the world's largest producer of air-cooled gasoline engines for outdoor power equipment and the largest producer of generators and pressure washers in the United States. The situation at hand involved management relying on a number of marketing efforts to execute a push/pull strategy to market and sell the products. Public relations were an integral component of this effort, and the division had two main PR initiatives. One key program, a 5-year-old educational program designed to assist homeowners with yard and lawn care, relied solely on PR. The program utilized many of the same PR elements each year, such as press releases, media tours, e-newsletters, promotions and contests—all designed to reach the target demographic market—markets with lots of grass.

The company was using media impressions as the primary measurement to evaluate this educational initiative. Executives recognized that this wasn't an adequate metric because it didn't demonstrate how the program was affecting the brand and sales. Company leaders decided they needed a better set of metrics to assess the program's effectiveness, a more useful measurement framework that could be used to demonstrate the program's value. Company leaders wanted a new set of metrics, a process and a model from which to build a metrics framework that would work across PR efforts in just forty-five days. A set of metrics was created based on outputs, outcomes and business results. Outputs-related metrics measured the *effectiveness* of the PR campaign; outcome-related metrics measured *changes* resulting from the PR campaign; and business-results metrics measured how the PR campaign helped the organization achieve a *specific business objective*. A set of metrics was defined for each category in the framework.

Using this type of framework, companies can focus on measures other than impressions so that they can more effectively measure their PR efforts. In this instance, a variety of measures served as the foundation for the model. For example, metrics were selected that supported the programs purpose: to establish thought-leadership, affinity and preference. As a result some of the metrics selected included a message delivery score, share of voice, a geographic metric around markets, a prominence metric and a metric associated with topic, media and cost. Once the metrics were established, they were validated and used to create a model. This involved reviewing all the clips and data from the previous years' results. From the historical data a pro-forma was created to determine whether the metrics were viable and what changes might be needed. The pro-forma also provided insight into how the initiative performed against the new metrics. After some modifications, the model was solidified and a set of performance targets were established. As a result of this process, the company had a set of metrics that went beyond using impressions or comparing print lines to advertising space as a way to measure the impact of PR and the value of the program. How did the new metrics and model impact decisions? First, after completing this initial phase the company could see that, while overall clips were going up, the average message delivery score was not. As a result, the company established a minimum average message delivery score. Executives also revised the messaging and the approach they were using for presenting content and stories to the media.

The second example illustrates how a company in the rugged and reliable specialty printing industry moved from relying on activity-based metrics to developing a set of outcome-based metrics and related dashboard. At this company, the marketing team was being asked by the management team to focus its resources on high-value and high-ROI strategies. While senior management had allocated what they felt was a considerable budget for marketing, the marketing team struggled to satisfy all the requirements within the budget parameters. The myriad and frequent tactical requests regularly stretched the limit of their internal resources. In addition, the marketing organization was being asked to quantify how they were supporting key business objectives, particularly in terms of revenue generation and channel support.

As with many organizations, it wasn't that the company wasn't measuring anything; the problem was with what they were measuring. A review of their metrics found that this organization was primarily measuring marketing activities such as response rates to campaigns, website traffic, numbers of new suspects, etc. Almost without exception, the vast majority of their metrics fell along the activity-based point on the continuum. While these measurements are useful, they were not providing the team with the ability to truly determine the return for the investments they were making nor the impact that marketing was having on the business. In addition, many of the metrics were too internally-focused.

In order for the company to begin their movement along the continuum, a marketing metrics audit was conducted. The audit included analyzing the current marketing plan, collecting marketing metrics and internal marketing processes. The assessment revealed that the organization did not have any metrics related to market or customer indicators or that made a direct link between the marketing efforts to specific business outcomes. As a result, the marketing leadership had no way to measure and communicate their value within, across and up. In other words, they did not have a set of relevant metrics that would enable them to sift through and prioritize the many requests for marketing assistance. In addition, they also lacked a process to help them identify activities that had the most positive impact upon sales and business goals. After this initial assessment, key members of the leadership team were asked to identify those business outcomes critical for the company and which of those they expected marketing to support - and how. In these interviews executives were asked questions that would help determine how this company wanted to measure marketing's success and contribution.

This information was then used to work directly with a cross-functional team comprised of market-and-customer facing personnel such as marketing, sales, channel managers, customer service, as well as business analysts and product managers. This became the core team that worked collaboratively together to create a marketing metrics framework and dashboard blueprint. In a working session, the team mapped and aligned marketing initiatives around the business outcomes and created an initial set of metrics. Once these phases were completed, just as in the first example, a pro-forma was developed using historical data to validate the framework.

The next few steps entailed finalizing the metrics and creating the dashboard. During these phases the focus was on establishing targets and calculations for metrics, defining and evaluating data sources, and creating the visual representation of the dashboard. In this phase the dialogue between marketing and sales and marketing and finance began to change from primarily conversations related to tactics to more business outcome-oriented discussions. Once the model was completed, current data was captured and integrated into the process with iterative steps ultimately bringing the dashboard and metrics into a pilot stage. Prior to the pilot stage, the dashboard and metrics were shared on a limited basis. Once the dashboard and metrics were in pilot stage they were shared across and throughout the company. During this phase and following phases, the work focused on socializing the process and metrics themselves across the organization and moving the dashboard into production. In just four and half months, the company went from no dashboard to a working model.

The transformation was remarkable. By its own judgement, the marketing organization changed from being activity and operationally based to being more market, customer and outcome-based. Traditional metrics related to near-term demand generation remained a part of the mix, but the new metrics enabled the marketing organization to refocus resources and efforts on key strategic business outcomes related to new markets and customers, channel and segment partners, pricing and new products. The project created more than a dashboard and a way for the marketing organization to measure its value, it served as a way for the organization to better allocate its resources and play a more strategic role.

The Future of Metrics

By aligning measurement and metrics with business outcomes, tracking and reporting progress, and ensuring the organization is both competent and proficient in the use of different measurement techniques, marketing can better defend its rightful place at the executive table and its ability to influence the organization's strategic direction. For many companies, improving marketing measurement will require more than just the numbers. Companies will need to invest in ensuring their people are proficient in the use of measurement techniques.

In order to create the kind of metrics proficiency required, a commitment is needed from both ends of the organizational chart; from front-line to the C-suite of senior executives. Every member of an organization needs to understand the value that metrics provide and be and be committed to a culture of accountability. This article provided a metrics framework and continuum that can be used to support your marketing accountability initiative and case studies that illustrate how two prominent companies used metrics to better assess the value of their marketing initiatives.