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To improve your Marketing ROI is it more important to get better at what you are already doing, or to find better things to do?

Make sure that what you are measuring is what you think you are measuring.

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MARKETING ROI

IS WHAT YOU'RE MEASURING REALLY MARKETING ROI?

Marketing ROI is a topic of increasing interest. And it's about time. However, there are some things you have to get straight before you can have a useful discussion on the topic. Namely, what do you mean by Marketing; by Investment; and by Return? This paper looks at Marketing ROI from a management perspective and provides insights into this important metric.

It seems everyone is talking about Marketing ROI these days. Given our focus on process, and a "manufacturing" approach to Marketing/Sales, you have to know we are excited at the prospect of others finally "getting it" regarding the measurement of Marketing results.

However, we believe that what passes for Marketing ROI these days is not really true Marketing ROI, but something else — something related and possibly useful, but not, in fact, true Marketing ROI.

While learning to measure and use results to create a true ROI, it's important to make sure that what you are measuring is what you think you are measuring so that the conclusions you draw are meaningful¹. To help with this understanding, let's make sure we are using agreed upon terms and that what you think is meant by Marketing ROI is accepted by those whose opinion is important to you.

Marketing

Let's start with what is defined as Marketing. Currently virtually everyone talking about Marketing ROI is focused exclusively on measuring the ROI of marketing communications, branding, advertising or similar

Marketing expenditures. That's fine, but is that Marketing ROI? Rather, is it promotion, or at best customer acquisition and retention, ROI?

But wait you say, isn't that Marketing? Sure, if you ignore the entire front-end of the Marketing process, which includes marketing strategy, product/service selection, market segment selection, marketing research, etc.

Most of the current focus on Marketing ROI is really describing an aspect of Marketing Communications — namely Marketing Mix ROI. Clearly, Marketing Mix ROI is potentially a good thing to measure, but it certainly does not indicate the return on your full Marketing investments. In truth it may not even be the best first thing to measure.

Even though Marketing Mix ROI may be a good thing to measure, it may not be sufficient. For example, based on a limited definition of Marketing ROI that only covers the back-end of marketing, General Motors should be doing very well. They spend a fortune on advertising, brand building and promotion to get people into their dealerships. We suspect this advertising (or at least some of it) results in increased showroom traffic

¹For additional insight, see the Customer Manufacturing Group white paper, *Managing By The Numbers*, available for download at www.customermanufacturing.com

<p>(a measurable result of the investment in advertising and promotion) and people buying cars (albeit with heavy discounts).</p> <p>The ROI on this marketing may even be positive. But General Motors is losing market share at a scary rate. Why? Because they have been spending money on the wrong aspects of Marketing.</p> <p>If you don't get the products right, it becomes increasingly difficult to promote and/or sell your way out of the problem. General Motors, like too many companies, appears to believe that Marketing's job is to promote what the company makes. While that is true, it is also Marketing's job to help create the right products for tomorrow's market. Doing that well also makes the return on advertising and promotion spending much easier to achieve.</p> <p>The Marketers at General Motors have failed to do that job well. In other words, while a portion of their Marketing (the promotion piece) may have a positive ROI, their true Marketing ROI is abysmal.</p> <p>Calculating a complete Marketing ROI may be beyond the scope of most (maybe all) companies today. If you then choose to measure the ROI of any aspect of Marketing, you need to decide what activity to measure, define what you are measuring within that activity, and the time-frame of interest.</p> <p>This leads to a need to understand local optimization. Some of today's experts and authorities on Marketing ROI create compelling models to mea-</p>	<p>sure from a selection of various campaigns, promotions, branding schemes, retention programs, etc. This is all to help the Marketing professional select from that mix, the best portfolio of actions. We have no doubt that, given a reasonable model, many Marketers could create an optimal Marketing Mix ROI. However, maximizing the Marketing Mix ROI is not necessarily the right way to maximize Marketing ROI.</p> <p>The portion of the Marketing function responsible for promotion, retention, etc. is only a part of the overall Marketing/Sales process. As discussed previously, this process starts with understanding the environment within which you compete; identifying new products and services to compete in that market (as well as identifying new markets to serve); working with development to make sure the right new product or service is created correctly; producing launch strategies and tactics; promoting existing and new products and services to new and existing customers; supporting sales in the creation of new customers and the retention of those customers.</p> <p>Experienced business professionals know that optimizing any one of those activities will not necessarily increase output. In other words, just because you have created an effective Marketing Mix with optimal ROI, does not mean you are investing in the right area of the process.</p>	<p>You may get short-term results (for example, the incentive campaign General Motors pioneered to stimulate car sales), but not be improving throughput of the system.</p> <p>You may, in truth, just be milking the "work-in-process" ... optimally. And while that might be a good idea to generate cash to fund the right investments for the future, there is still the question of knowing what the right investments are.</p> <p>Marketing activities can be short-term focused, or they may be based on developing a long-term brand position. Some are reactive to competitive moves, while others reshape an industry. Consider what Southwest Airlines has done over the last 30 years to change the competitive landscape in the airline industry.</p> <p>They have been so effective in creating a different way to serve customers that many other airlines today are trying to emulate them. A key Marketing activity is knowing what to emulate for your specific market. If you want to measure Southwest's Marketing ROI, you have to decide what you are measuring, and over what time frame.</p> <p>We are not suggesting that measuring short-term activities is wrong or not useful. We are urging you to consider as much of the process as you can, and if you choose to focus on</p>
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Marketing Mix ROI, be sure to recognize the interconnectedness of the various activities you are choosing to measure.

Return

Return, meaning what is the payback on the investment. Over what time period? Return on advertising is often measured over a short time frame. However, in the last 10 years the refocus on brands and branding has caused some people to state that since advertising is part of brand building, perhaps its return should be measured over a longer period of time.

When returns are expected (anticipated or hoped for) over a long period of time, it is necessary to make assumptions regarding those potential returns in terms of their magnitude and likelihood in order to develop an ROI model. While you can clearly measure the results in arrears, a decision today is required, and then future measurements can be made to determine “how things turned out.”

A problem with this model for projecting returns is that you can reject investments with long-term returns based on the uncertainty of those returns. It has been alleged that no single research expenditure in the pharmaceutical industry can ever be justified on an ROI basis because the returns (if there are any) commence about 14 years after the initial expenditure, and are so unlikely that calculation of a return is impractical.

In his doctoral dissertation, our colleague, Robert Johnson demonstrated that even simple advertising expenditures have returns that are short-term, intermediate-term, and long-term in nature and that returns on those expenditures have to be calculated over varying time-frames. Marlboro is still the leading cigarette brand based on advertising expenditures decades ago.

Investment

Many vendors couch their proposals or bids for goods or services to you as an investment. They suggest that what you are spending your money on is not a cost or an expense, but an investment. This sound good, but is it an investment ... really? Clearly, if you get a return it is an investment, but what if you don't? Is it then an expense ... or a bad investment? We would argue that is a distinction without a difference.

A significant portion of your Marketing spending is on so-called fixed expenses: salaries and overhead. How do you allocate those costs to the investment in any given Marketing program? Does it matter? It depends.

If you are trying to understand total Marketing ROI, then allocation is not important. If you are only considering the ROI of a particular activity, then it is important to understand what portion of the overall Marketing investment is being used by that activity that could be used by another

activity if it were not focused elsewhere. This leads us to an important discussion of choosing what to invest in.

Your choice of where to invest your Marketing budget has at least as big an impact on your return as how well you execute the activity in which you choose to invest. Constraint Theory has clearly proven that if you want to increase the throughput of any system (including a Marketing/Sales system), adding resource anywhere but the top constraint will not increase throughput². Most current Marketing ROI discussions ignore this truth.

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Just because it is easier to measure ROI on advertising does not imply that you should invest your Marketing budget in that way. A critical task for Marketing is selecting where to invest, not just how well to execute a particular set of tasks.

Return On Investment

To improve your Marketing ROI is it more important to get better at what you are already doing, or to find better things to do? Most of the current discussion in the literature focuses on getting better at what you are already doing. This is a flawed concept.

² For an additional discussion of Constraint Theory see the Customer Manufacturing Group white paper, *Using The Theory Of Constraints To Increase Sales*, available for download at www.customermanufacturing.com.

Becoming more efficient without being effective is a poor investment³. While you may get a brief up-tick in sales from a Marketing campaign and thus appear to have a positive ROI from that activity, it may be masking a fatal lack of investment elsewhere in Marketing that will ultimately prove your undoing.

Improving Your Marketing ROI
 Since Marketing is a *process* – by definition, a *linked* set of activities in which the downstream activities use the upstream⁴ activities’ output as their input – it follows that ineffectiveness (or poor ROI) for any activity has three possible sources: a bad process internal to the activity, bad input from upstream activities, or failure to agree on what the output should be. Since the output constitutes the “return” it is important that a valid, agreed upon output be measured.

If the Marketing Communications activity is measuring its ROI based on leads generated, and the actual return desired is “sales”, then there is a disconnect, since sales volume is a different measure of return

than leads generated. In any case sales volume is almost always determined by the outputs of many other activities besides Marketing Communications.

If you measure the ROI of, say the Marketing Communications function, and find it wanting, the usual thing to do is to try your best to improve the workings and behavior of the Marketing Communications function. (For example the advent of Marketing Mix modeling and other tools and techniques to try to improve the performance of the function.)

While this may improve results somewhat, the more likely *systemic* cause of the poor Marketing Communications ROI is that it is getting bad input from its upstream activities. Perhaps poor market data; maybe bad product development decisions; or possibly an ineffective partnership with product development. Or conceivably these upstream activities are actually running fairly well, but the linkage from them to each other and/or to Marketing Communications is broken.

MARKETING ROI,
 WHILE
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 FOCUS ATTENTION.

It has been reported recently that Microsoft has a major initiative to improve its overall Marketing process by having a significantly larger involvement by Marketing in the product development process. Despite the massive spending that Microsoft does on product launch, they have found themselves out-marketed by companies in market

and product niches that Microsoft does not already dominate. And these companies are out-Marketing Microsoft with virtually no Marketing Communications budget.

The point is that since Marketing is actually a process, unless you look at the process issues involved in any aspect of Marketing performance, you will be missing the true causes or limitations of any results. And if you don’t understand the true causes of performance, you can hardly improve it.

Final Thoughts

As in previous business processes that embraced ROI, Marketing is learning by doing. However, as the last business function to accept this business practice, Marketing can learn from the lessons of those other business functions.

The most radical, yet sensible, suggestion that we can make is that Marketing ROI, while increasingly popular, is the wrong place to focus attention. Treating marketing as an investment was a topic of discussion in MBA classes thirty-five years ago, and it was not considered a good idea at that time either. The kernel of truth leading to the recent popularity of this approach is that Marketing and Sales needs to be held accountable for their efforts and expenditures.

³Efficiency is about doing things right. Effectiveness is about doing the right thing. Doing the wrong thing well will not, ultimately, deliver a positive return on investment.

⁴Upstream and downstream are process terms that describe the activities that come before (upstream) and the activities that come after (downstream) the activity of interest. For example if you are measuring the ROI of a lead qualification team, its upstream activity is probably lead generation so if bad leads are generated, it may be difficult to qualify enough of them. The downstream activity might be the sales organization who is expecting “hot” leads from the lead qualification group, who believe they are tasked with generating “qualified” leads.

As we have said for years, “seat-of-the-pants” management of these crucial areas of business activity cannot be acceptable. Our approach, as detailed in many of our white papers, is to treat Marketing and Sales as part of an integrated process, subject to process management techniques, and to balance the effort and expenditure across the process rather than to consider the “returns” of individual campaigns that are part of the process. Marketing ROI is not “wrong,” but it is exceedingly difficult to properly measure and doing so does not match the contribution that could be achieved by applying that same effort to a process management approach.

It is more important to do the right things (and then do them well) than to do the wrong things well. Marketing ROI advocates should focus their attention on assuring that the right Marketing activities are funded (invested) rather than focusing on whether the activity funded generated a positive return on investment. You can go out of business while generating a positive Marketing ROI that is measuring the return on the wrong activities.

More Information

If you would like more information about how to apply a process to improve your marketing/sales function, simply contact us and we’d be happy to help you get started. From sweeping marketing/sales management process strategies to specific branding or product launch services, Customer Manufacturing Group can help.

Detailed information on our services and a number of Special Reports and cassette tapes are also available.

If you’d like to learn more about Customer Manufacturing Group, or for a complimentary subscription to *Customer Manufacturing Updates*, give us a call at (800) 947-0140, fax us at (408) 727-3949, visit our website at www.customermanufacturing.com, or e-mail us at info@customermfg.com.

We have offices in major cities in the United States, and our experts travel extensively throughout the world. If you’d like to schedule a meeting when we’re in your area, just let us know.