

— **The Marketing
Accountability
Imperative**

Driving Superior Returns on
Marketing Investments

Michael E. Dunn
and Chris Halsall

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*To my amazing Ethan, whose feisty spark lights up my world,
and to all of my wonderful family, colleagues, and friends,
without whom I would be rudderless*

Acknowledgments

This book draws on the experiences that we have had over the past fifteen years, side by side with our many clients tackling tough issues around how to get better returns from their marketing investments. Sometimes the focus was on diagnosing performance problems, sometimes on building investment cases, sometimes on cost-cutting; but in every case, we worked with committed, dedicated professionals who were trying to figure out how to drive more value and better results for their companies. Although the confidential nature of most of those relationships prevents us from listing these individuals and client companies by name, we want to express our appreciation for every one of those learning opportunities. These people challenged our assumptions, pushed our thinking, and never let us settle for “just good enough.” They are definitely the coarchitects of this story.

Within Prophet, our principal collaborator over the life of this effort, with all of its many unexpected twists and turns, was Cindy Levine. Her insightful and pragmatic direction helped us shape and improve the overall storyline. Her specific feedback on each chapter as it developed helped us to stay focused on the needs of the reader and ensure that the implications were clear and actionable. Finally, her willingness to play an all-around utility role in terms of case research, chapter outline development, project planning, and resource management saved our bacon on more than one occasion over the life of the writing. Cindy—you rock!

The content of this book also benefited directly from the efforts of a number of individuals who have been spearheading the development of Prophet’s marketing effectiveness practice. Andy Pierce, the

de facto leader of that practice, provided a clear anchor point for us with his early and passionate advocacy for a “test and learn” approach to marketing accountability. Chiaki Nishino and Jay Milliken, also seasoned colleagues at Prophet, were excellent thought partners around much of the content, and provided very hands-on leadership in developing the detailed arguments throughout Part Two of the book. Jeff Hennige, another hands-on practitioner, also provided useful feedback and direction, especially for Part Three. David Aaker, Jill Steele, Aneysha Pearce, and Joerg Niessing also provided valuable contributions that helped to shape this story.

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Finally, we would like to acknowledge the patient support of our team at Jossey-Bass, especially our editor Kathe Sweeney. This project definitely ended up following the road less traveled, but it was not always clear it was going to have as positive an outcome as that promised in the Robert Frost poem. Thanks for sticking with this and helping us to get it across the goal line.

San Francisco, California
February 2009

— Introduction

Google? “Do not call” lists? Digital video recorders? Podcasts? XM radio? Direct response TV? Micro-targeting? “National” cable TV buys? Yelp? Bus wraps? Spam blockers? YouTube? Affiliate marketing? Spot Runner? Declining newspaper readership? Guerilla marketing? On-demand? Satellite TV? LCD billboards? Mobile couponing? Immersive “theatre” retailing? Paid product placement?

If you had put a few top-tier marketers from the early 1990s into a time capsule, put them into a deep sleep for the past fifteen years, and then dropped them into a global CMO role circa 2009, what a bewildering world they would find themselves in. We have to believe that most would eventually have their *Planet of the Apes* moment, walking along the beach and seeing the top of the Statue of Liberty anchored in the sand, but it nonetheless might take them significantly longer than it took Charlton Heston to realize that this wonderful, dynamic, and at times outrageously complex monster was indirectly of their making.

Innovation, it would appear, is alive and well in the marketing and communications space. The continued collision of the technology, entertainment, and media worlds has resulted in a rapidly evolving landscape, with more players finding more ways to package entertainment, information, and content across increasingly fragmented delivery systems to an ever-voracious global audience. People are spending more time with media and entertainment, broadly defined, than at any time in the planet’s history—and with the rapid emergence of a growing middle class across China, India, Latin America, and the Middle East, this trend seems, if anything, to be accelerating. Ballyhoo!

Whether this trend bodes well for our species is a debate we will leave to the sociologists, historians, and philosophers. What is clear is that if you are a marketer trying to get your proposition or your promise into the hearts and minds of your prospective customers, the

potential tools at your disposal have expanded a hundredfold. It must seem as enticing and perhaps overwhelming as it would be to walk into the venerable Harrod's Food Hall in London if you had spent your life shopping at a local farmer's fruit and vegetable stand!

One very important side effect of this explosion of media and entertainment alternatives, however, is an increasing fragmentation of audiences, at least in the traditional sense. Forty years ago in the United States, if you placed a well-designed TV ad in prime time on the three national TV networks for a month or a quarter, you could be pretty confident that 70 to 80 percent of the adults in the country would have had repeated exposures to your messages. We dare you to try to find a cost-effective way to reach that broad an audience in 2009! The fragmentation of audiences makes it harder for a marketer to cost-effectively communicate with a mass-market target, especially without including a much more diverse set of communication vehicles and tactics.

The sunnier side of the fragmentation story, however, is that there are many more ways to communicate with narrower, more granular audiences, especially if you have a deep understanding of the very specific type of individuals you are looking for. If you have a hot new sports drink or an interesting new approach to product liability insurance, you are no longer forced to use communication vehicles reaching an audience of whom 98 percent have no interest in your message and are of no interest to you. By contrast, if you can target narrowly and reach effectively, you can spend and invest narrowly as well. The challenges here have more to do with allowing companies to quickly and efficiently access enough of these narrow audiences at sufficient scale to meet their business objectives. On this point, the media owners and media planning intermediaries are still struggling to provide the tools and transparency that enable this to happen quickly and consistently.

Some of the newer social media technologies are finally allowing people to congregate—irrespective of geography—around shared interests and passions, creating new communities of interest that may live in the virtual world and occasionally move into the physical world too. MoveOn.org is an excellent example of this phenomenon in the political advocacy space, as is TripAdvisor in the travel world. Some of these trends may eventually lead to a reaggregation of some of these audiences, as a countervailing force to the fragmentation trend. But we are still in the very, very early days of marketers actually

figuring out how to reasonably access and participate in these communities in a way that still allows the marketers to pursue their commercial objectives; it will remain an interesting area to watch.

The third element in this story has to do with cost. At least on the surface, you would think that there should be a pretty straightforward cost story. If someone is selling you a TV ad that reaches 60 percent fewer people than it may have reached thirty years ago, its aggregate price and perhaps even its price per person should be going down. However, in most traditional media vehicles in the United States—with the exception, perhaps, of newspapers—the cost to purchase advertising has been steadily increasing over the past two decades. So the price of the old stuff keeps going up, while its effectiveness at delivering audiences continues to deteriorate. Many advertisers using traditional media are actually paying more for fewer eyeballs on an ongoing basis. How can this be?

To get at this, you have to think about the demand side of the equation. Could enough new demand for traditional TV or magazine ads have come to the table over the last few decades that it was powerful enough to drive up pricing even in the face of the declining audience reach of the inventory and additional supply? The answer is a categorical yes. Think about it. In 1975, three main sectors drove most of the demand for and investment in advertising across all media vehicles—automotive, manufacturing, and consumer products. By 2005, whole new industries—like pharmaceuticals, financial services, telecommunications, retail, entertainment, and computing—had incorporated some type of material role for advertising and marketing communications investment into their go-to-market models and competitive strategies. With more and more companies starting to leverage classical marketing techniques as powerful growth-enabling tools, this created conditions in which more and more players, with different business models and different cost pressures, were chasing the same inventory, creating the perfect conditions for the paradox of rising prices in the face of declining productivity. Voila—stagflation came to the marketing world way before we had a credit crunch, a U.S. housing crisis, and \$150-a-barrel crude oil!

The fourth and final twist to this story of external environmental factors concerns transparency and measurability. With the advent of cheaper and cheaper data processing and computing power, the performance and effectiveness of certain kinds of traditional marketing vehicles—like direct marketing or consumer trade

promotions—became easier to capture and understand. From the marketer’s perspective, two “classes” of spend started to emerge, one of which had significantly better optics from a transparency, measurability, and financial return perspective than the other. The rapid emergence of some of the internet-enabled vehicles—like paid search (think Google), e-mail, and display advertising, all of which are highly measurable and transparent—only exacerbated these class differences, making the transparency shortcomings in the second class of spend increasingly less tolerable. Of course, just because the financial return of a certain kind of marketing investment was less directly measurable using the existing processes didn’t necessarily mean that it was less effective, but that argument became increasingly harder to defend to a metrics-anchored CFO or CEO—to the ultimate chagrin of some companies (as we shall discuss later).

So let’s see—media choice proliferation, audience fragmentation and potential re-aggregation, marketing stagflation, and the great measurability divide; so why, you might ask, are we writing a book about marketing accountability now? If you are looking at this situation from a distance, as are many interested but not very engaged observers in the C-suite or on the board of directors, the challenges around how to confidently and transparently invest in marketing communications and promotions to drive profitable growth can clearly seem like a Gordian knot. There are too many moving pieces, not always that understandable, with too much technical complexity associated with each component. If you are sitting up close, somewhere in the marketing function or the agency world, it probably feels more like the ancient Egyptian riddle of the sphinx: there was an immediate penalty of death for every unwitting traveler who failed to solve it. Given that the average tenure of a CMO in the U.S. Fortune 500 is less than the life of an average goldfish—the sphinx definitely appears to still be pressing its advantage.

To be clear, notwithstanding our deep belief in the value of marketing and our warm personal relationships with many CMOs, the sphinx is still on the righteous side of this argument. Even in the United States, where the marketing community has pushed hardest and quickest against this issue, the state of marketing ROI understanding is, for the most part, appalling. Even when we boil the concept of accountability down to its most straightforward definition, looking for some directional linkage between in-period investments and in-period returns, we find that most companies are not hitting the mark. Many

organizations are investing millions of dollars of resources in marketing without a shred of defensible, quantifiable evidence as to what financial benefit it is providing the business. In some companies, marketing is the fastest-growing investment line throughout the entire business model, yet it does not have even the most basic “return on investment” mindset surrounding it. Overall, marketers need to make the practice of marketing more evidence-based, without shutting down the contributions that intuitive, instinctual marketing judgment can bring to the party. And an obvious place to start is around the marketing communications and promotions programs.

The good news is that the huge IT-focused and infrastructure-building investments of the last two decades—in areas like customer information management, sales force automation, enterprise resource planning, and decision support—have lowered the overall cost of data capture and have allowed companies to build an attractive set of information assets, ingredients critical to the marketing accountability equation. Other technology-driven advances in marketing science have allowed a sophisticated set of analytic tools to be more easily accessed and deployed with a frequency that is more appropriate to a monthly operating rhythm of business than to the more episodic rhythms of academia. Finally, media-anchored innovations in marketing vehicles allow for much more active, short-cycle time experimentation, with clearer lines of sight into the direct and indirect outcomes the tactics are driving. All three of these forces, when you think of their aggregate effect, make this an excellent time to rethink our approach to marketing analytics and measurement.

Of course, measurement is really just that: measurement, or keeping score. What is even more powerful is the vastly improved decision making that a more comprehensive and real-time measurement system enables. As we will go on to discuss at length in the book, value-creating marketing investment occurs when great analytics underpins compelling marketing strategy development, which inspires world-class creativity and bullet-proof execution. It is so easy to write, yet so hard to do. Highly accountable marketing investment happens when all of these capabilities are working synergistically together to drive compelling returns. The book will discuss common points of failure in each of these capabilities, as well as time-proven approaches to overcoming potential shortcomings within each. The book will also help you understand how to build a comprehensive measurement and decision-making process that will allow you to

make continuous improvements to your efforts in real time and deploy marketing communications investment in a nimble and assertive way to engage and win in the market. Our hope is that ultimately you will be able to dramatically improve your marketing performance over the short and long term, while helping to make your marketing teams and investment more accountable.

So who is this book for? CFOs and financial analysts who are supposed to bring some rigor to understanding this cost line and investment category; divisional presidents and CEOs who are trying to engage their marketing leadership in a productive dialogue about how to improve their marketing performance; VPs of product development; board members who are trying to understand and get comfortable with increasingly aggressive executive requests for more marketing investment; marketers of all stripes who are looking for better ways to both measure their performance and improve the overall accountability of their strategies and tactics; and most important, CMOs who want to be seen as integral drivers of the business and need a comprehensive road map for how to get there.

Given the diversity of potential audiences, each with a different baseline understanding of marketing theory and marketing practice, we have tried to strike the right balance in relation to the specific topics that we are covering and how deeply we delve into each topic. For nonmarketers, we may run the risk of occasionally using too much marketing lingo and not always providing careful explanations before we start a conversation about some relatively well-used marketing construct (like positioning) that may not be that well understood outside of the marketing area. For seasoned marketers, we may run the risk of occasionally spending too much time explaining concepts or practices that you have had in your toolkit for twenty-five years. And for the self-described “non-quant-jocks,” we may run the risk of occasionally drifting too deeply into technical modeling or analytic realms, where we may not always see the forest for the leaves.

We beg your forgiveness in advance if you end up having any of these experiences. We think that an insight-led, marketing-driven approach is an exciting addition to any company’s competitive toolkit, but we understand it will get deployed in the most effective way only if all of the key business leaders—from the board and the CEO to other skeptical C-suite leadership like a CFO or COO—feel confident

in their own understanding of how these kinds of investments can create value and how, over time, the company can put itself on the path to highly accountable marketing performance. So we want this book to be a vehicle that can bring everyone along. To do that, we need to provide a common language and a shared understanding that increases everyone's fluency around critical topics that influence a marketing accountability agenda. We may not always be striking the right balance in serving these multiple constituencies, but we hope that, knowing that our hearts are in the right place, you will be more forgiving. Of course, if you end up having one of those experiences in which our level of discussion misses the mark relative to your knowledge and expectation, just look up from the page, take a deep breath, and then move on to the next section in the chapter. You can pick up the storyline there and, we hope, be none the worse for wear.

We offer only one final caveat. As authors, we made a conscious decision not to address the issue of marketing accountability in its broadest sense. The easiest way to explain this may be the shorthand that we have developed with some of our clients to talk about this—the difference between “Big M” marketing and “little m” marketing. “Big M” marketing addresses all of the classic issues that legendary academic Phil Kotler raised in his early books: the Four P's—product, place, price, and promotions. As most seasoned business people understand, a strategic marketing approach incorporates the interplay of decisions taken in relation to the Four P's as a whole when evaluating the overall strength and viability of a strategy. “Big M” marketing resources can be invested to strengthen our performance along the product P or the price P or the place P just as easily as they can be invested in the promotions P. A comprehensive approach to marketing accountability should incorporate a measurement and prioritization mechanism within each of the four P's and across them, not just within the promotional P. This book does not do that.

On the positive side, many of the core value levers that are discussed in relation to the promotions P can be applied to the other “Big M” marketing investment areas, as can the measurement techniques and test-and-learn orientation that is addressed in the back third of the book. But it felt cleaner and more manageable for us to stay focused on the promotional side of the Four P's equation for this effort, so that is what we've done.

Enough with the preamble. Let's get busy figuring out how to drive more value out of our existing marketing investments and take some profitable market share away from our less "accountable" competitors. ¡*Arriba!*

Michael E. Dunn

Chris Halsall

San Francisco, California


February 2009

PART ONE

**Untying the Gordian
Knot of Marketing
Investment Excellence**

The Marketing Accountability Imperative

Understanding the Marketing Accountability Gap and Beginning the Journey to Close It

 **T**opics covered in Chapter One:

- The marketing accountability gap and its impact
- The root causes of the marketing accountability gap
- The road to more accountable marketing spending

Pressure makes diamonds.

—General George S. Patton

THE MARKETING ACCOUNTABILITY GAP AND ITS IMPACT

Flip a coin. Whether you guessed heads or tails, statistically your odds of guessing right are better than the odds that a major marketing program will be successful. A recent Deutsche Bank study of advertising in the consumer packaged goods industry concluded that only 45 percent of CPG advertising achieved a positive ROI. Another study across a broader cross-section of industries puts the television advertising success rate even lower, at 37 percent. Studies of promotional spending peg its success rate much lower than advertising, with somewhere

between 16 percent and 35 percent achieving positive returns. And these are activities that marketers perceive as being *more* effective than the average marketing program. When we recently surveyed senior marketers about the perceived effectiveness of various marketing activities, 53 percent of them considered television advertising to be an effective activity for long-term brand building, versus an average across activities of just 32 percent. In terms of driving short-term sales, 52 percent considered promotions to be an effective activity, compared to an average of 31 percent across other activities.

Why do perceptions of effectiveness matter? Because the vast majority of companies cannot actually calculate the ROI of their marketing spending programs to uncover the hard truth about their performance. Our survey suggests that as few as 19 percent of companies can consistently and accurately determine what they are getting—*if anything*—from untold millions in marketing spending. So how confident would you be in investing in something that has a lower likelihood of success than random chance and an even lower likelihood that these returns will *ever* be calculated to determine your success or failure? For a surprising number of otherwise successful companies, of all sizes and across all industries and life stages, this is business as usual.

And these are not trivial investments either. It is estimated that over \$322 billion a year is spent on advertising in the United States alone. To put this in perspective, the United States has 4.6 percent of the world's population and 28 percent of the world's economic output, but accounts for fully 48 percent of global advertising spending. According to Morgan Stanley, promotional spending accounts for another \$106 billion a year, bringing the total in 2005 to \$428 billion. What if you add to this figure the cost of sponsorships, loyalty programs, sales collateral, public relations, as well as production costs and agency fees, to try and get a sense of the total annual U.S. marketing spending? Given available benchmarks, it is not unreasonable to believe that this figure could as much as double, but to be conservative let's say that the total figure is only 30 percent greater. This suggests a total annual U.S. marketing spending—not including the cost of marketing staff, market research, or product development—of around \$550 billion, or roughly \$1,800 for each man, woman, and child in the United States.

Not only are U.S. companies spending an extraordinarily large amount of money on marketing, but these investments are growing

at a breathtaking rate. The last several years have seen the double whammy of rapidly increasing spending on traditional marketing vehicles, at the same time that these vehicles are being supplanted by a wealth of new—*entirely incremental*—touch points, led by the Internet. Essentially, the media world is fragmenting, and marketers are keeping a foot on each iceberg as the pieces drift apart.

Since the turn of the twenty-first century, spending on traditional forms of advertising has increased by 44 percent more than the rate of inflation. The Super Bowl offers a good illustration of this phenomenon—of *paying more but getting less*—with traditional media. While the Super Bowl audience declined from 94 million viewers in 1996 to 91 million viewers in 2006, over this time period the cost of a thirty-second spot increased from \$1.1 million to \$2.6 million. Even after adjusting for inflation, this represents a doubling in the cost to reach each viewer.

With customers abandoning traditional media in favor of the Internet, marketers now must expand their presence to less familiar touch points. Forrester estimates that people now spend on average about 23 percent of their “media time” online, compared with 39 percent of it spent watching television, and this gap is closing daily. To keep pace, marketing spending online has gone from nothing to \$16 billion a year in less than a decade and is expected to grow by more than 25 percent per year for the next several years. Our recent survey of marketing leaders found that they are being forced outside of their comfort zone by the shift to new media. Although 53 percent of senior marketers suggest that new media will play an extremely important role in their spending mix going forward, just as many (54 percent) acknowledge that they are unfamiliar with how best to use these new tools to meet their business goals.

In this new, higher-stakes game of marketing spending that we now find ourselves in, how well have marketers risen to the challenge? The results are mixed at best. Marketers have done a very good job of acknowledging that they have a problem, which is the classic first step of any self-help program. Our recent survey of senior marketers found a clear consensus around the critical need to focus on marketing accountability and improve marketing spending effectiveness. Three-quarters (77 percent) of marketers in our survey suggest that improving marketing accountability is one of the top three priorities of either their marketing group or their company overall.

Although there is consensus around the need for greater marketing accountability, only a relatively small proportion of companies have found the solution. Since 2004, the Association of National Advertisers (ANA) has conducted its own senior marketer survey on marketing accountability. In 2005 they found that just 16 percent of companies were confident in their ability to predict the impact of a 10-percent cut in their marketing spending and to get senior management to buy in to their forecast. By 2006 this percentage had almost doubled, with 28 percent of companies “capable and confident” in their marketing accountability. Our senior marketer survey tends to bear out the ANA’s earlier results—finding just 16 percent of marketing leaders confident in their understanding of their company’s marketing ROI. In an environment of finger pointing, the truth may be not that the problem is going away, but that it is becoming more difficult to perpetually acknowledge that you still have the same problem.

Whichever data point you believe about the percentage of companies who now consider their marketing to be accountable, the fact remains that the majority of marketers are still struggling to link the cause and effect of marketing spending and quantify its real returns. Sixty percent of the marketers in our survey said that they lacked the right approaches and analytic tools to drive ROI and accountability (see Figure 1.1). The lack of necessary data, and the complexity of

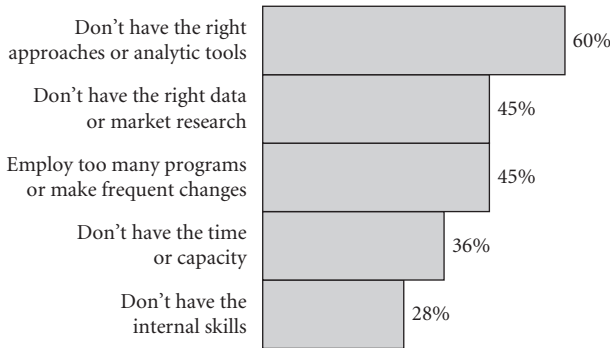


Figure 1.1. Barriers to Pursuing Marketing Accountability and ROI

Note: Survey conducted by Prophet among companies with revenues between \$1 billion and \$10 billion.

Source: Prophet Annual State of Marketing Study, 2007.

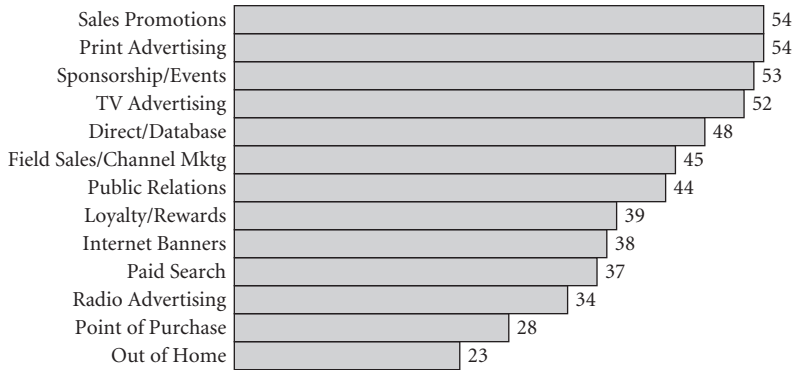


Figure 1.2. Percentage of Companies Measuring Activity Effectiveness

Source: Prophet Annual State of Marketing Study, 2007.

their company's spending mix (that is, too many programs, with too frequent changes) tied for second place as the next greatest barrier to more accountable marketing.

Confronted with these challenges, it appears that many companies have reached a stalemate in their attempts to improve their marketing accountability. Perhaps our most telling finding is the relatively small proportion of spending that gets measured at all for its effectiveness.

Figure 1.2 shows that no spending activity is consistently measured for effectiveness by more than 54 percent of companies. In fact, of the 12 most measured activities, the average is evaluated by only 42 percent of companies. Inexplicably, some of the most eminently measurable activities, such as loyalty and CRM programs and internet banners, are among the least measured. Even direct response—in which the link between cause and effect can be “hardwired” into each campaign—is consistently measured by less than half of companies.

With seemingly out-of-control marketing spending, dubious program returns, and slow progress by marketers to fix the problems, we can now see how small fissures have widened into seemingly unbridgeable gaps.

THE GAP IN EXPECTATIONS

At its core, the marketing accountability gap is really all about expectations: the expectation that marketing programs will perform as promised and grow the business, and the expectation that these

investments will be rigorously measured and managed in accordance with an understanding of their real returns. Clearly CMOs must be disappointed with their progress in linking marketing cause and effect. This is apparent when you compare the 67 percent of CMOs who say that calculating marketing ROI is important with the 60 percent who are dissatisfied with their ability to measure these returns. In turn, CMOs are feeling the heat for not moving the dial on marketing accountability faster. When the ANA asked CMOs whether “pressure on marketing has increased in the last three years,” 99 percent of the respondents said yes, with a further 28 percent saying that marketing accountability is among their CEO’s top three overall priorities.

Many CEOs have been quite vocal on the topic of the marketing accountability gap—most notably Procter & Gamble’s A. G. Lafley and his predecessor Ed Artz, who could indeed be considered the fathers of the marketing accountability movement. Artz is famous for delivering his “Fire the middlemen” speech to an audience of advertising executives in which he decried the lack of marketing measurement, implying that there is more rigor put into evaluating a small-scale facilities investment than there is an advertising programs costing tens of millions. By this point, we are surely preaching to the choir on both the existence of the marketing accountability gap and the critical importance of improving accountability and marketing spending returns. Let’s now dig deeper and identify the root causes of this gap, so that we can gain a better understanding of what it will take to close it.

THE ROOT CAUSES OF THE MARKETING ACCOUNTABILITY GAP

Responsibility for the marketing accountability gap does not rest solely on the shoulders of the CMO and the marketing function. There is plenty of blame—for lack of a better word—to go around the executive floors of most corporations. Moreover, many of the largest factors are not anyone’s fault at all. Some of the key triggering events that brought the marketing accountability gap to the forefront of executive attention were environmental shocks that no one company caused and few could fully anticipate. It is necessary to understand the root causes of the marketing accountability gap not to apportion blame but to provide context for finding the solution. Each of the factors that had a role in creating the marketing accountability gap can be assigned to one of the following three categories (see Figure 1.3):

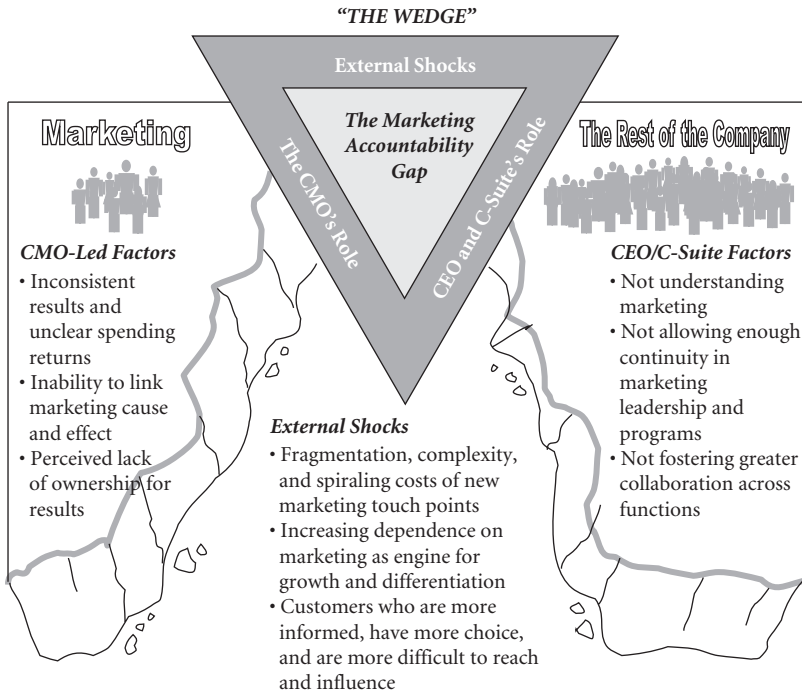


Figure 1.3. The Wedge Creating the Marketing Accountability Gap

- *External Shocks*: The more complex and dynamic new marketing environment
- *CEO/C-Suite Factors*: Greater expectations without greater understanding
- *CMO-Led Factors*: The need to shift the pendulum from “art” to “science”

External Shocks: The More Complex and Dynamic New Marketing Environment

Marketing used to be a lot more straightforward. You developed the best product or service you could, got it distributed, developed a thirty-second television spot and some sales collateral, threw in a promotion or two, and waited for the share to tick up. OK, maybe it was never *that* easy. But it certainly wasn't as complex and frustrating as it has become in the last few years. It takes many more bewildering

marketing touch points to track customers down, and when you do find them there are a great many more competitors screaming for their attention. Moreover, even if you can briefly grab your customers' attention, they are less trusting of your intentions, far more difficult to influence, and less likely to become deeply loyal. In this strange new marketing environment, it has become a Herculean task just to deliver the basics, let alone worry about how accountable your efforts are.

If it is any consolation, many of the factors that are making marketing accountability such a daunting challenge are beyond the marketer's direct control. The Internet and the interactive communications revolution that it triggered are at the core of the marketing transformation that we are living through. New media and technology have reshaped the lifestyle habits of your customers and given them access to comparative information and choice that was never available before. At the same time, technology and innovation have transformed business models to dramatically reduce engineering, manufacturing, and distribution barriers and shift the focus of competition more and more toward marketing. Marketing has become *the* core business of business at the same time that old marketing delivery models are breaking down.

Although technology may have created the trigger for the problematic customer transformation we are experiencing, marketers have to recognize that they are the ones who fired the gun. Negative customer attitudes and behaviors that are manifesting themselves today have been latent for some time. By and large, marketers have harassed and bribed their customer base and treated them as captives; now they are reaping what they have sown. For the purpose of this discussion we will treat these customer behaviors and business model changes as external forces that are beyond the immediate control of any one company, but soon we will get to the culpability of the CMO and CEO.

We have identified several external forces that have contributed to the creation and widening of the marketing accountability gap. In addition to the erosion of traditional marketing vehicles and the complexity of the new marketing landscape that is supplanting them (which we have already touched on), here is a brief overview of some of these other external forces.

More industries entering the marketing spending "big league": Many business model, regulatory, and other changes are drawing new industries into the big leagues of marketing spending. Figure 1.4 shows the dramatic shift in industry advertising spending patterns that has occurred. The effect of this is twofold. First, it creates more demand,

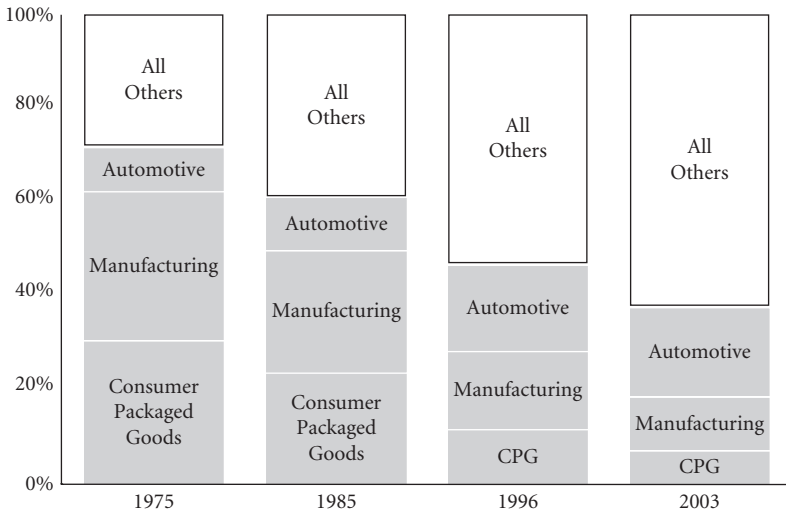


Figure 1.4. Measured Media Spending by Industry

which is causing general media inflation for all marketers. Second, it makes marketing accountability a top-of-mind issue in these industries as the pace of spending growth far outstrips the speed at which capabilities can be built.

The transparency of information available to customers: Prior to the advent of the Internet, marketers controlled the flow of information. Now customers have ready access to near-complete information on product features and pricing from a variety of sites outside of the marketer's control, including forums for unvarnished peer-peer exchange such as Epinions.com and its B2B equivalents. This information has dramatically shifted power from marketers to customers, as B2B customers broaden the reach of RFPs and B2C customers get comparative pricing quotes in real time. Consider the increase in negotiating power that car buyers have when they can purchase a detailed breakdown of manufacturer and dealer costs and margins for any car model online.

One impact of information transparency on marketing accountability is in changing the basis of marketing spending strategies and activities, from long-term equity building and differentiation to a near-term focus on promotions and churn. This change is occurring in many categories, as transparency contributes to a vicious cycle that is accelerating the spiral toward commoditization—the ability

to price-shop creates more “price shoppers,” which attracts more low-priced entrants, which erodes perceived category benefits, and in turn creates more “price shoppers.”

The shift to word-of-mouth (WOM) marketing: An additional impact of information transparency is the need for marketers to shift from more straightforward “telling and selling” interactions with customers to little-understood “influence” strategies that offer an even more obscure path to ROI. Customers have always claimed word-of-mouth among their top influences. In the past marketers played down the importance of WOM because it was beyond their perceived ability to control, and customers lacked efficient tools of mass exchange. The Internet and mobile technology have changed all this and put customers in much greater control of (1) creating their own entertainment forums and content—increasingly abandoning passive marketing mediums, and (2) the brand dialogue—from being *told by marketers to telling others* what they think about the brands that are targeting them.

Although in the past a bad customer service experience may have been shared with only a small circle of friends, now anything with entertainment value has the potential to go viral overnight. A series of dumbfounding telephone exchanges with a bank’s customer service team was posted to a blog, and in less than two weeks they were viewed over a million times. The expression “Don’t get mad, get even” takes on a whole new meaning when there are thirty-five million blogs alone out there to help spread the word.

With marketers no longer in complete control of medium and message, they are forced to sink or swim in the new WOM world. Some marketers are adroitly adapting to the new influence model. During the 2007 holiday season, P&G’s Charmin generated incredible viral buzz by placing free public toilets in New York’s Time Square. This was a savvy move, as it hit the trifecta of (1) fulfilling a desperate unmet need, (2) reaching the epicenter of global media—five major networks broadcast from there—as well as the crossroads of tourists from all fifty states, and most important, (3) being clearly on brand strategy. Customers posted hundreds of videos and positive endorsements that crisscrossed the web, giving the brand a reach well beyond what it could afford with traditional advertising. Moreover, the tactics gave the brand’s equity a bump that can rarely be purchased at any price.

Most marketers, however, are struggling to get their bearings in this brave new world. PR, the logical home for WOM activities, has

traditionally been in the dark ages of marketing accountability—relying on press impressions as a proxy for ROI and only recently adding simple metrics for gauging differences in impression quality. Moreover, PR experts are accustomed to influencing professional media sources, not distributed networks of newly minted individual content producers.

When YouTubers discovered the fun that ensues when Mentos are added to Diet Coke, Mentos marketers became willing accomplices and acted quickly to commercialize the phenomenon—driving a 27-percent increase in sales. In contrast, Coke’s official PR efforts to distance their brand from these experiments were met with widespread derision among their target customers. WOM marketing quickly strips away all artifice and demands a much higher level of congruence between marketing messages and the actions that support them. When a single marketing spending misstep has the potential to destroy years of brand equity, marketers may long for a return to the days when all they had to worry about was ROI.

Customers increasingly inoculating themselves against marketing: The fact that marketers have harassed customers to the breaking point is something we will discuss in a moment. The point is that in addition to retreating to their own little worlds, customers now have more tools at their disposal with which to fight back. We are all familiar with the impact that digital video recorders (DVRs) are having, by allowing customers to zap past an estimated over \$600 million in advertising a year. If marketers do not do more to create a dialogue that customers want to participate in, we will see more use of approaches such as the following to thwart their attempts.

Techniques for Avoiding the Marketing Barrage

- Being added to the “do not call” list
- Using call blockers and call display
- Installing internet pop-up blockers
- Opting out of e-mail lists
- Having antispamming laws enacted
- Lobbying for disclosure on blogs

New competitive intensity is increasing pressure on marketing to perform: there are forces at work that are shrinking the potential

marketing spending prize at the same time that marketing spending is growing dramatically. Many industries are entering a period of slower organic growth, in which the basis of competition is shifting to a costly battle to steal share. We can see this trend in retail white space—where could you place another Walmart, Gap, or McDonald’s in North America if you had to?—as well as financial services, wireless, travel, office services, and many others. Even categories that have been in long-term gradual declines, such as many packaged goods categories, are reaching absurd new levels of competition and proliferation, to eke out incrementally more of what is left. When you launch “Vanilla Expressions” flavored toothpaste as your twenty-eighth SKU, where do you have left to go from there?

Shorter life cycles: Increased competitive intensity is now also coupled with shorter and shorter product and value proposition lifecycles. Technology-driven products are experiencing dramatically pronounced declines in the time from launch to obsolescence. As a wireless CMO said, “In the past, it took people three years to replace their handsets; now that is down to one year.” Even traditional categories and whole business models are feeling the effect of shorter lifecycles. Blockbuster, which dominated video entertainment for almost two decades with few changes in its go-to-market approach, is now being forced to change its entire business model due to video-on-demand threats that emerged in just a couple of years.

The CEO and C-Suite: Greater Expectations Without Greater Understanding

Today’s perceptions about the marketing accountability gap are deeply rooted in old organizational tensions. Marketing has always been a group that stands apart from the rest of the company. No other function is so crucial to business performance and yet so little understood by the rest of the executive suite. Other complex business functions, such as R&D or IT, are characterized by learned skills that smart executives could theoretically master if they put their minds to it. But this is not the case with marketing. Marketing is an invitation-only club because it balances learned skills and hard-to-define intrinsic skills. Although the sales function may also rely on intrinsics, these skills are more easily understood and therefore are not a source of tension.

This intangible nature of marketing, characterized by marketers as “magic” and by nonmarketers as “voodoo,” is at the crux of the

marketing accountability gap. Because marketing relies on art as well as science, the CEO and CFO cannot confidently collaborate with marketing leaders to help steward the needed improvements. This places them in the uncomfortable position of being able to identify the issues around marketing accountability without being able to proffer a solution. Without collaboration as an option, the CEO and CFO must rely on either nagging the CMO to force changes or taking arbitrary actions to effect change, such as cutting marketing budgets or changing out the marketing leaders.

These differing skills and mindsets are further exacerbated by different timescales. Although the CEO should be a company's most strategic position, the CEO and CFO are compelled to focus most of their attention on the three-month increments between quarterly earning announcements. This often does not jibe with the CMO's long-term investments in brand building—particularly if these programs do not offer proven returns during periods of earning shortfalls.

Although the CMO and the marketing organization may bear the lion's share of responsibility for creating the marketing accountability gap (we will discuss this shortly), ultimately it takes two to tango. All the executives—including the CEO—have had a role in creating the problem and must now play their parts in the solution. Some of these contributing factors are described here.

Allowing value propositions to converge: When did all the cars start looking alike—with an “Oldsmo-Buick” indistinguishable from any other “Camry-ola”? Probably about the same time that all the other functional features started converging and ceasing to be a real source of product differentiation. Sticking with our auto example, we can see that year after year the band between best and worst performance in the same car class has become smaller and smaller on functional features, such as the time to get from 0 to 60, horsepower output, fuel economy, warranty coverage, and defect rate. The same is true across B2B and B2C categories, as new business models give every company equal access to the best innovation, engineering, and manufacturing. The remote on a \$500 DVD player may have more buttons, but can you really tell the difference in picture quality from a \$50 player?

Without real functional differentiation, companies must place much greater emphasis on brands and marketing spending to fill the void. This is an issue of CEO and C-suite accountability, because non-marketers must recognize that (1) they could have done more to help make their propositions competitive, by investing more in R&D and

physical plant and collaborating with marketing to create new sources of customer value (such as financing, partnering, and service); and (2) this reduced differentiation has increased the expectations they are placing on marketing performance, whereas marketing's actual performance may or may not have changed at all.

Short tenure of the CMO: If you knew that you had just twenty-three months to live, how would you spend your time? You probably wouldn't focus on anything long-term that didn't offer immediate gratification. Why then would a CMO be expected to behave any differently, when surveys consistently show their "lifespan" to be just two marketing budget cycles or less? Marketing accountability is a long-term proposition, and it requires a marketing leader with both the vision and the mandate to begin a multiyear journey. Constantly churning through CMOs does not increase their incentive to perform; it simply places an unhealthy emphasis on managing the "optics" of their performance.

Accountability without authority: Not only do CMOs have a short lifespan, but they also are on a very short leash. A senior marketer survey conducted by the Marketing Leadership Council found that the majority of CMOs did not control many of the elements that determine in-market success, including pricing, sales force activities, and customer service (see Table 1.1). Demand forecasting was strangely outside of the CMO's scope, given that officers need to be more accountable for market outcomes. There are also interesting differences between B2B and B2C scope, with B2B marketing leaders having more control over upstream activities (planning and development) and B2C leaders more control over downstream activities (sales force and customer service).

	Business to Consumer	Business to Business
Product Development	67%	51%
Planning	50%	68%
Pricing	46%	46%
Demand Forecasting	42%	22%
Public Relations	38%	41%
Sales Force	25%	11%
Customer Service	21%	19%

Table 1.1. Accountability Without Control.

Not allowing marketing programs to run their course: Clawing back funding from marketing programs that are already in the field, whether to fund profit shortfalls or other needs, is a classic problem created by the CEO and CFO. Although some changes cannot be avoided, it is hard to justify the frequency with which imposed changes are made. CMOs rightly consider this one of the top barriers to improving marketing accountability (cited by 45 percent of senior marketers), as this renders marketing programs essentially immeasurable. Moreover, it perpetuates a negative cycle of declining marketing accountability—wherein abrupt program changes cloud their returns and make them more likely to be cut again in the future—while simultaneously freeing the CMO of the burden of performance, which in turn increases the likelihood that questionable programs will be fielded. And so it goes.

The CMO's Role: The Need to Shift the Pendulum from Art to Science

It's not easy being a CMO these days. Only 40 percent of CMOs often feel that their groups are "well regarded and respected" within their companies, and fewer than 7 percent believe that they are influential. This derision is not imagined either, with one CEO recently describing CMOs as "more akin to a recalcitrant child than an adult." Other choice adjectives that turned up in a McKinsey CEO survey include "not commercial," "undisciplined," "inconsistent," "self-important," and of course, "not accountable." All of this feedback is coming at a time when the CEO is placing more and more pressure on the CMO to drive growth or step aside. With the ever-looming threat that the axe could fall at any moment, it's not unreasonable to believe that the Four P's that characterize the CMO's role have become *preoccupation*, *paralysis*, *paranoia*, and *pension*. It's little wonder that most senior marketers (70 percent) would rather sidestep the role of CMO altogether and leave marketing entirely to assume a business leadership role.

Figure 1.5 demonstrates how the CMO can become caught up in the vicious downward spiral of the marketing accountability gap. These dynamics are illustrative of the countless examples that have played out in the business press in the last two years. Of course CMOs are not oblivious to these dynamics, but knowing that they exist does not prevent marketing leaders from continuing to fall victim to them.

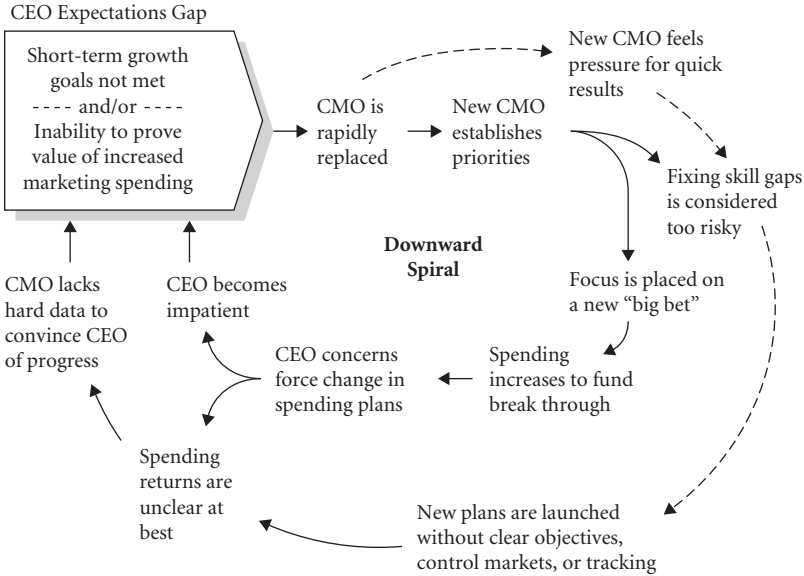


Figure 1.5. The Vicious Spiral of the Marketing Accountability Gap

To break this negative cycle once and for all, CMOs must recognize, acknowledge, and change the several specific mindsets and behaviors that have helped create to the marketing accountability gap.

Hiding behind the art of marketing to avoid its science: The assertion that marketing is an art and a science can no longer be accepted as a defense for weak in-market results or a lack of accountability. Marketing is indeed an art and a science, but the presence of this intangible art can no longer be used as an excuse for the lack of scientific rigor. The pendulum has swung, and marketers must now scramble to catch up to the long-avoided science of marketing and restore balance to marketing’s essential equation.

The marketer’s ability to generate and leverage compelling, quantifiable customer insights—the *cornerstone of marketing*—has fallen into disarray. Marketing accountability suffers when millions of dollars are invested in undifferentiated brands and messages, and when companies wait for outside vendors to solve their measurement gaps for them. The CMO is accountable for allowing customer insights to wither and erode marketing accountability by (1) accepting persistent data gaps year after year; (2) refusing to complement traditional survey-based research with real-world, observationally

driven insights; (3) marginalizing the research function; and (4) accepting a lack of brand differentiation for older brands and mature categories.

The quantitative analytic rigor with which program results are analyzed and evaluated is the other weak link in marketing science. Marketing mix models have been around since the 1980s, and the test-and-learn experimental approach dates back to Archimedes, yet somehow most marketers have not yet discovered the power of these scientific approaches to improve the effectiveness of their spending. The most heavily analyzed category of spending is print advertising, yet only 46 percent of marketers are conducting this analysis. The level of structured experiments is highest with outbound campaigns, but a mere 28 percent of marketers are doing this.

Marketing mindsets must undergo a permanent change to viewing science as *the* critical enabler of the marketing art—by providing clearer direction to create truly breakthrough strategies and programs and by arming marketers with the ability to prove their impact and defend their value. This may not be an easy transition for many marketing leaders who were not required to develop these skills themselves.

Highly visible marketing blunders: Pets.com ushered in not only a new age of marketing spending inflation, but also a new golden age of perceived marketing spending blunders and “What were they thinking?” moments. As we write this, Turner Broadcasting is being fined \$2 million for contributing to a terrorist scare in Boston, where devices used for a guerilla marketing campaign were mistaken for bombs. Other recent head-scratchers include marketers trying to bribe a town to rename itself after a beverage and paying pregnant women to advertise on their bellies. Whether some of these approaches actually work or not, they are contributing to the perception that marketers are becoming so desperate to break through that they are just throwing everything at the wall to see what sticks.

Not responding to fundamental shifts fast enough: Most companies currently have a fairly significant gap between where they are spending their marketing dollars and where their customers are spending their time. For example, although only 6 percent of all advertising spending is currently allocated to online marketing vehicles, as mentioned before, people are spending an average of about 48 percent of their “free time” online. By the time many marketers catch up to their customers’ new media habits, these habits will have shifted once again, to 3G handsets or some new device not yet imagined.

Perpetuating outdated budgeting approaches: Budgeting is where the rubber meets the road with marketing accountability. Without disciplined use of more sophisticated budgeting approaches, it will be difficult for companies to gain the rigorous understanding of the return on their marketing spending that is needed to improve performance. When we compared research done in 1987 with our 2007 survey of senior marketers to understand how budgeting approaches have evolved, we could see some improvements in sophistication, but little progress in overall budgeting discipline (see Table 1.2). Today, 61 percent of marketers claim that they use an understanding of return on investment to set budgets (this question was not asked in 1987), but this must be balanced by the fact that only 19 percent of companies are confident in their MROI capabilities. There has also been an uptick in the use of experimentation, but in twenty years this has increased only from 20 percent to 26 percent of companies.

Most alarming is the percentage of companies still relying to some degree on less productive budgeting methods, with 77 percent still pegging budgets to last year's spending and 25 percent focusing on what competitors are spending. One acid test of your company's marketing accountability is to ask your top five marketers to describe your company's marketing budgeting approach and see how many different answers you get.

Marketing spending groupthink: Marketing failures do not contribute to the perception of accountability, and neither do the timidity and groupthink that more commonly characterize marketing today. This risk aversion is apparent in the "me too" messaging that pervades

Marketing Budgeting Approaches Employed	1987	2007
Objective and task (1987) / Understanding how customers respond to different types of marketing (2007)	50%	50%
Not asked in 1987 / Understanding of return on investment (2007)	NA	61%
What we can afford (1987) / Last year's budget +/- (2007)	50%	77%
Percentage of sales	25%	49%
Experiments / Testing	20%	26%
Match the competition (1987) / Levels of competitors (2007)	8%	25%

Table 1.2. Comparison of Marketing Budgeting Approaches, 1987 to 2007.

advertising and in the pile-on of marketers that occurs whenever a cultural phenomenon begins to take shape. For example, the Teutuls of the TV series *American Chopper* may be great spokespeople, but can each of their disparate endorsement partners—Hewlett-Packard, GoDaddy.com, *The Wall Street Journal*, AOL, and so on—extract the same value from this relationship? Groupthink is also evident in the lockstep approach to spend allocation that is often seen among category competitors. Table 1.3 shows the advertising spending mix for two very different auto manufacturers. Although you would assume these companies' distinct customer targets would require different mix strategies, their spend allocation on each medium does not differ by more than half a percent. How can any marketers expect better-than-category-average returns if they are not willing to step away from category norms and do what is needed for their unique brand?

The disconnect between marketers' beliefs and actions: Our 2007 senior marketer survey showed that B2B companies believe that public relations is the most effective activity for long-term brand building and the third most effective at driving short-term sales (after field sales activities and outbound marketing). No form of advertising came close to PR in its perceived long- or short-term effectiveness. Despite this, B2B marketers spend only about 1 percent of their budget on public relations and over 20 percent on advertising. The effectiveness of PR is also rated higher than advertising among B2C marketers and their contradictory spending relationships are even more pronounced. We see this inverse relationship across several other large categories of spend. When you take this together with some of the other points we have discussed, marketers' behaviors seem somewhat puzzling—they do not believe that the marketing

Advertising \$ Allocation	Mass Market Auto Brand	Luxury Auto Brand
Television	67.2%	66.6%
Print	30.3%	30.8%
Radio	1.4%	1.6%
Outdoor	1.1%	1.0%

Table 1.3. Comparison of Spend Allocation Across Marketing Vehicles.

activities that they are spending the most on are the most effective, yet they are unwilling or unable to take the steps necessary to quantify this performance.

Thinking more touch is better: Marketers are harassing customers to the breaking point with an estimated three thousand messages each day. Yankelovich research suggests that 65 percent of customers feel “constantly bombarded” by marketing messages, which 59 percent feel have very little relevance to them. Marketers have responded to the increasing difficulty of finding customers and holding their attention by amping up the volume of touch across every conceivable traditional and new touch point. The result of this “more is better” approach is twofold: (1) marketers are wasting huge sums on egregious levels of frequency, and (2) marketers are losing focus on the quality of the touch and are thus losing customers.

Making sure customers see an advertisement or any type of marketing message dozens and dozens of times in a single purchase cycle does not increase its effectiveness, it just wastes money. Numerous studies have concluded that advertising recall plateaus after three to five exposures and ROI is maximized at closer to three exposures. Despite this, we are observing amazingly high levels of frequency today, traceable to media fragmentation and marketers’ growing desperation. Worse still, because widespread use of more sophisticated media planning approaches has not caught up with new media complexity, heavy media consumers are sopping up many times their fair share of exposures.

DoubleClick documented this phenomenon by disaggregating the reach and frequency of a recent online advertisement. Although the ad’s average viewer frequency of four times ostensibly hits the frequency “sweet spot” of three to five times, when this was broken down by customer it was determined that 54 percent of customers did not see the ad enough (averaging fewer than three times), whereas 36 percent saw it too often. Indeed, 13 percent of customers saw it more than eleven times—representing over 40 percent of all impressions, a great deal of waste, and likely some very annoyed customers.

It’s easy to fall into the trap of thinking that this customer frustration is with the marketing efforts of everyone *else*, and that you are engaged in a relevant, value-added dialogue with *your* customers. We examined the issue of quality versus quantity of

touch, when we studied the sales force effectiveness of a large B2B manufacturer with an account base of over one hundred thousand customers. The company's sales force made in-person sales calls to the top six deciles of their customers, with the rest buying direct or through other channels. Through our analysis we identified a number of customers across deciles who fell outside of the company's sales territories and were not called on. Customers in deciles 1 to 3 who had sales force contact grew in sales faster than those who did not. However, the reverse was true among deciles 4 to 6, where a customer was more likely to grow in value *if not called on*. Customers can sense when they are not your priority, so if you can't bring your "A" game with each and every touch, it may be better not to bother.

With customers able to tune out the quantity of messages that reach them, the quality of touch is more important than ever before. Moreover, accountability will require marketers to increase their skills in the science of reach and frequency—*across all marketing spending activities*—to drive, rather than outsource, these critical decisions.

Being an undemanding partner: Only in the last few years has there been a movement from marketers to insist that their agency partners have more "skin in the game" and should be compensated—at least in part—based on in-market performance. There is still a long way to go, but one must ask why this move was so long in coming in the first place. As this is being written, Nielsen has just changed their TV ratings scheme to include students away at college, addressing one more measurement gap that has contributed to less accountable marketing spending decisions. Although many more measurement fixes are needed to make spending more accountable and effective, you rarely hear a hue and cry from marketers to demand better service from their providers. To get more accountable and effective contributions from your partners, you have to ask for them.



There are several other CMO-led factors that have contributed to the marketing accountability gap (see Figure 1.6), and probably many more that we have not captured, but at this point you have probably heard enough about the problems and are eager to begin discussing the solutions.

- Emphasizing “art” over “science”
- Spectacular increases in spending
- The lack of well-quantified returns
- Highly visible marketing blunders
- Thinking more touch is better
- Marketing spending groupthink
- Being an undemanding partner
- Disconnected beliefs and actions
- Not agreeing on the definition of success
- Overly simplistic budgeting approaches
- Not managing the full accountability equation
- The “marketing” of marketing results
- Spending to overcome weak propositions
- Stretching brands to their breaking points
- Eroding customer trust

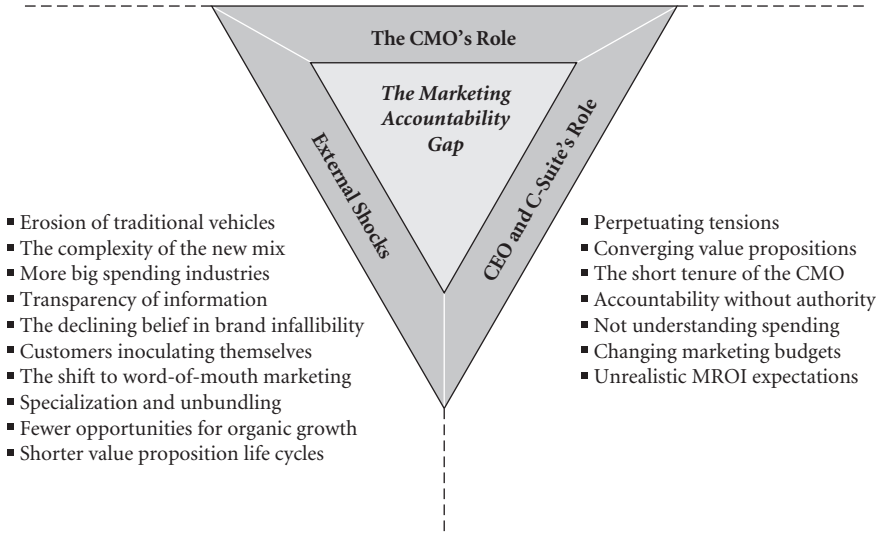


Figure 1.6. Summary of Factors Contributing to the Marketing Accountability Gap

THE ROAD TO MORE ACCOUNTABLE MARKETING

It is easy to lay blame—and indeed, it may appear that we have done more than our fair share of that in the first few pages of this book—but we are by no means dismissive of the critical role of marketing and the value of marketing investments. We are passionate believers in the power of strong brands and effective marketing programs to deliver truly breakthrough business performance. Moreover, we are empathetic to the challenges facing marketers today, because we have been in the trenches with CMOs when they have been forced to debate marketing spending cause and effect—and its fundamental value—with their companies’ CEOs, CFOs, and business unit leaders. We have seen how perceptions about the marketing accountability

gap can destroy trust and subvert marketing's well-meaning efforts to drive business performance.

In the last few years much has been said—perhaps too much—about the nature of this marketing accountability gap and the problems it has created. There is been a wealth of discussion about the problem but precious little said about the solution. We will take no more of your time discussing the problem of marketing accountability and will instead dedicate the rest of this book to providing you with a practical solution.

Defining Marketing Accountability

The first step toward a solution is to agree on a definition of *marketing accountability* so that we have a shared view of what success would look like and an understanding of the challenges we face in getting there. We begin by calibrating your expectations around what we mean by *marketing*. Our definition of marketing, as it pertains to marketing accountability, is both narrower *and* broader than classic definitions.

It is *narrower*, because our focus is on the communications interface between marketers and customers, not on the holistic product or service propositions that marketers are bringing to that interface. We are concerned about where the money is going for traditional and nontraditional marketing communications activities and what companies are getting back from that investment. You may have heard the expression “It’s not what you have, it’s what you do with it.” Marketing accountability is breaking down around this issue of what marketers are doing with the ever-growing millions in marketing spending that is entrusted to them.

The company’s proposition—which includes the brand, the product or service itself, and its pricing, features, benefits, and distribution channels—is of course critical to business success. The proposition is, however, a very large topic unto itself. Optimizing the proposition gets at broader, albeit complementary, strategic marketing issues. Although we believe that many of the principles of accountable marketing communications investment are equally relevant for these “Big M” marketing issues around product, pricing, and distribution, we will not attempt to solve these proposition issues here.

We have addressed how our definition of marketing is narrower; now let’s discuss how it is simultaneously *broader*. Customers build

perceptions based on the totality of all of their direct and indirect interactions or experiences with the company and its products. Marketing, as the primary steward of these accumulated customer perceptions, understands the importance of consistently delivering the brand promise across this “total” customer experience. Any activities that have a material influence on customer perceptions or behaviors—*whether by design or not*—are essentially marketing-related. Any activity that meets this criteria—*wherever it resides in the company, in whatever budget*—should be subject to the discipline of marketing accountability.

When we adopt a broader view of marketing spending that accounts for all company-controlled spending that could influence the customer experience, the spending pool naturally becomes quite large. Figure 1.7 illustrates how this spending grows for a discount brokerage firm. Although the official marketing group controls a sizeable budget of \$55 million for advertising, promotions and loyalty activities, when you consider the other spending that significantly influences the customer experience, the total spending balloons to over \$180 million.

The first thing you observe is that there are many activities that would be considered “traditional” marketing in many companies

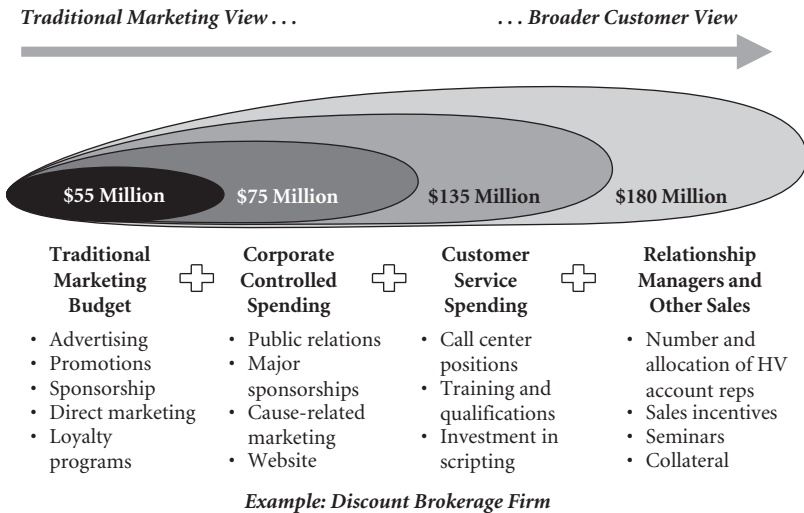


Figure 1.7. Broader View of Marketing Spending

that are instead being managed out of corporate communications, the office of the CEO, or other nonmarketing budgets. It is highly likely that such spending is being applied without a detailed understanding of current marketing strategy priorities. Beyond this spend, the vast majority of customer-facing spend is controlled by customer service and sales. Even if these organizations align to a common overall marketing strategy and have various points of integration, how truly integrated do you imagine their customer investment is? How integrated is it in your business, and what would a similar set of concentric circles look like for your company?

We are not academically arguing for expanding the scope of marketing to the point where it subsumes everything a company does, but rather for taking a more expansive view of all the customer activities and investments that work together to influence customer perceptions and behaviors. In the end, achieving true “marketing” accountability demands that all customer touch point activities and investments be understood, managed, and optimized as a single integrated system—*regardless of whether the activity is driven by marketing, sales, customer service, or finance*—because it is the whole system that should work together to drive short-term customer behavior and long-term customer and brand equity. This book will discuss how to improve the accountability and returns of a broader suite of spending activities—how far you choose to take this in your own company is up to you.

Now that we have calibrated around the scope of marketing we are addressing, we can define what we mean by *marketing accountability*. If Webster’s (or Wikipedia) ever sees fit to tackle this definition, it might look something like this:

Marketing accountability *noun* : The practice of simultaneously optimizing company growth and the return on customer facing spending, through disciplined planning, rigorous tracking and evaluation, and continuous performance improvement. The result of being an effective steward of marketing investments, able to link marketing spending cause and effect, diagnose the root cause of spending performance issues, and make timely fact-based decisions to improve spending returns.

This definition leads off with the real “prize” of marketing accountability and the reason why any of this matters: the promise of improved financial performance—specifically, the goal of simultaneously optimizing *both* company growth and marketing spending returns. This duality is an important point often missed in the discussion of marketing accountability. Programs that optimize their own ROI at the expense of overall growth are not accountable. Similarly, programs that maximize company growth but do so with significant waste or inefficiency are not accountable.

To truly achieve marketing accountability success requires changes to both behaviors and mindsets. Behaviorally, marketing accountability combines the capabilities and processes needed to improve budgeting and planning discipline, perform quantitative tracking and ensure evaluation rigor, and continuously improve spending performance and returns. A marketing accountability mind-set implies responsible, fact-based decision making, which emphasizes discipline and learning over ego and blame.

There are innumerable permutations to how you might define *marketing accountability*, but definitional semantics matter less than what you get from your improvement efforts. The approach to improving marketing accountability that we describe throughout this book offers the following ten important benefits, and you should accept nothing less from any program that you design for your company:

1. Accelerated in-market earnings growth
2. Stronger ROI from each marketing spending program
3. CEO and top-management alignment with marketing accountability as a critical priority and support for the improvement plans that are in place
4. Ever-increasing rigor in quantifying program returns, diagnosing the root causes of performance, and making fact-based, objective decisions
5. Systematic budgeting, planning, and execution processes that are simultaneously faster and more disciplined
6. Elimination of persistent marketing spending, brand, and customer segment data gaps that are a barrier to understanding and decision making

7. Greater cross-functional collaboration, with less organizational tension and finger pointing
8. An ongoing program of in-market experimentation, adaptation, and improvement
9. A long-term road map for improving marketing accountability and performance, which includes investments to build capabilities and improve processes
10. A culture of accountability and performance that is reinforced by formal measurement systems and informal messaging from the top down and from peer to peer

The Value of Improving Marketing Accountability

Over the past decade we have had an opportunity to work with countless companies in their efforts to improve the effectiveness of their marketing spending and the accountability of their marketing function. This work—across industries and geographies, and with companies of widely varying scale, life stage, sophistication, and brand health—has revealed some universal truths about the value of pursuing greater marketing accountability.

First and foremost, it *is* possible to significantly improve your marketing accountability and the business performance of your marketing spending in a short period of time. In the first few months alone, companies can typically identify marketing spending waste equal to 15 to 25 percent of their marketing budgets, which can be redeployed to invest in new growth opportunities. In terms of the extent to which the effectiveness of marketing programs can be improved, the sky truly is the limit. We have observed as much as triple-digit improvements in the rate of return for already effective advertising, promotion, event marketing, and other programs. Over time, these improvements to marketing spending effectiveness have led to much higher rates of revenue growth and in some instances have helped reverse the declines of major brands (see Figure 1.8).

Beyond just getting more from your marketing spending in the near term, we believe that marketing accountability should be pursued in a way that creates an even more valuable ongoing performance “annuity.” Creating this annuity will require companies to develop a test-and-learn capability, invest in closing critical skill gaps, improve the speed and efficiency of core MA processes, and foster a

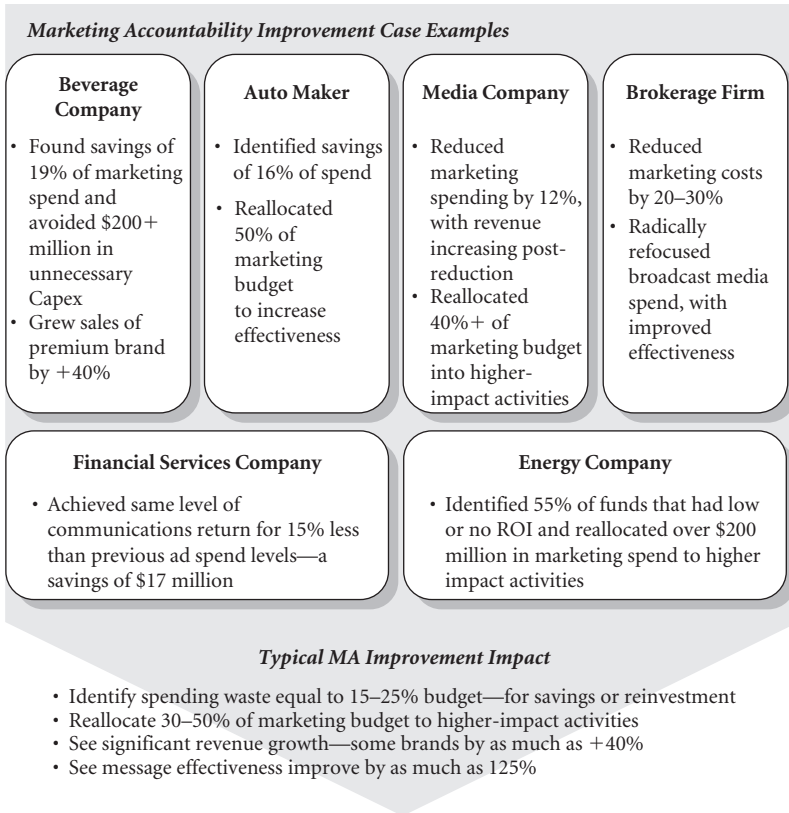


Figure 1.8. The Power of Marketing Accountability Improvement

truly performance-based culture within the marketing organization. When companies take marketing accountability to this next level, the financial benefits of increased efficiency, effectiveness, and growth are clear.

What is perhaps less tangible, but no less important, is the fundamental shift in perceptions that takes place across these organizations around the role and importance of marketing. Companies that can maintain a long-term focus on marketing accountability improvement develop a much better understanding of the challenge of marketing and a greater collective trust in marketing's intent and abilities. The marketing accountability gap that may have once divided the company is replaced with a more productive focus on working together to fix *business performance gaps*.

There are several pioneering B2C and B2B companies—including HP, Pitney Bowes, Kraft, and Citigroup—that have gained significant traction in their overall marketing accountability journeys and are beginning to reap the value from their own marketing accountability “annuities.” Many more companies have solved important pieces of the marketing accountability puzzle that we can learn from. Throughout this book we draw upon the lessons provided by these companies, as well as many more masked examples, drawn from clients we have served on this critical topic for the past fifteen years.

Our Approach to Improving Marketing Accountability

The good news is that there is a clear path forward, which relies more on business fundamentals and discipline than on some little-understood “black box.” The less good—but not unexpected—news is that there are no quick fixes to creating an accountable marketing organization. Although a marketing accountability initiative will offer plenty of early wins, the real improvement prize may take two or three years to come to full fruition. Much like in the story of the tortoise and the hare, the company that is able to maintain a long-term commitment to marketing accountability improvement will reap far greater rewards than the most sophisticated and data-rich company that loses its focus after making initial gains.

In our experience, one common characteristic of companies that lose their way on the marketing accountability journey is that they tend to eschew the basics and instead seek a more rapid “silver bullet” solution. We are all for improving the sophistication of MA decision making, but we will spend the majority of this book discussing basic proven MA analytic approaches and processes. Although most companies are already using bits and pieces of what we will discuss in this book, we are certain that few companies are using the full suite of these tools and approaches to their full potential. Fewer still are doing so in an integrated way, consistently, year after year.

Our approach to marketing accountability is to establish a foundation of fundamental MA skills and practices and then layer progressively more sophisticated approaches on top of this foundation, to continually improve your marketing accountability and in-market results.



It may not be fair that the CMO and the marketing department have taken the brunt of the blame for what is going on in today's marketing environment and for perceptions about the marketing accountability gap. Fair or not, the situation is what it is, and it requires a solution. And more likely than not, it will be up to the CMO or equivalent marketing leader to find that solution. For marketing leaders, this book provides an effective road map for the journey to marketing accountability.

We also wanted to make sure that this book was relevant to the line marketers who live with marketing spending activities on a daily basis and who will be on the front line of marketing accountability improvement. For these readers we have attempted to dive a little deeper in some key areas, to arm them with practical step-by-step approaches and key success factors. As we attempt to add value for both marketing leaders and practitioners, we run the risk of getting too far into the minutiae for some and not far enough for others. We think that the benefits of getting this content in front of marketers of all levels—*who will need to work together to improve marketing accountability*—are worth the trade-offs.

Moreover, this book is not just for marketers. Although primary responsibility may fall to marketing, this does not absolve the CEO, CFO, VP of sales, business unit heads, or other senior business leaders of their responsibility to better understand the issues. This book will help nonmarketing executives recognize what marketing accountability success will look like and understand the type of long-term, cross-company commitment needed to make lasting improvements and foster a more collaborative and productive partnership with the CMO and the marketing function.