

— Foreword

There are a small number of home run marketing programs generated by people with unusual insight and luck that are so brilliant that they don't even require testing. The success is self-evident and people are standing in line to share in the credit. However, the bulk of marketing is very different. Paraphrasing the MasterCard ad "for everyone else there is" a need to measure and improve the return on marketing investments.

The need to measure marketing effectiveness is not new but has received new impetus in the last few years. More than a few CEOs along with their CFOs have instinctively felt that marketing can and should justify their often substantial investments quantitatively. They have imposed ROI disciplines on activities such as manufacturing, sales, IT, and operations. The focus then turns to marketing and the newly empowered CMO is increasingly challenged to measure the impact of marketing investments. Falling back on judgments is no longer adequate.

So why is it hard to estimate the returns to marketing investments? Why have so few firms cracked the code? And why have many of those firms with measurement models done more harm than good by focusing on short-term sales response? The fact is that the two major tools to estimate return have limitations and the difficulty of measuring long-term returns hangs over both. The challenge is to overcome these limitations and difficulties using advances in measurement and analytics that promise to improve both validity and our understanding of underlying assumptions. The book is, in part, directed at understanding and applying these advances.

One measurement tool involves analyzing historical data of marketing programs and their impact on the marketplace. The challenge for the CMO is to develop accessible data bases, create the right measures, and generate enough variation in the marketing so that differential responses can be observed. When the data is in place, often dramatic implications for improving the marketing spend can be made. However, historical data will always be historical data and will be limited when projecting the effectiveness of new programs or investment levels that are outside the span of historical levels.

A second tool is experimentation, whereby marketing programs and their variants are tried out in the marketplace. The result is a

market-based effectiveness judgment that is relative as well as absolute. Experimentation is forward-looking but can be in context with noise generated by competitors as well as other environmental factors. Also, it is limited to testing only a few elements of the marketing program at a time. So it works well when there are a few program elements that are in question and when dynamic experimentation can be employed, whereby the firm continuously experiments, always trying new programs or variants of existing ones.

The problem of measuring the long-term effect of marketing overhangs both approaches. The fact is that some marketing efforts have been shown to have effects only with a two and three year delay. As a result, efforts to get a read within a few months may miss a major outcome of the marketing program. Further, short-term sales may result from programs that damage the brand and business in the long run.

There are a variety of approaches to the estimation of long term effects of marketing. One partial solution is to create surrogates for long-term results. One might be the size and loyalty level of the loyal segment (and perhaps the very loyal segment as well). The business success in the long run will often be based on the existence of a loyal segment that will be willing to stick with the brand even when it has periods in which it faces adversity on terms of features and performance. If immediate increases or decreases in either the size or intensity of the loyal segment can be measured and coupled with the lifetime value of a customer, the long-term measure can be determined without excessive waiting. Another approach might be to back out sales and profits that are clearly caused by people who simply change the timing of purchases or are due to non-loyal segments.

The book describes these two tools and issues surrounding the estimation of long-term results. However, marketing effectiveness, as the book so ably observes, does not and should not stop with measurement tools. The goal is not simply to measure marketing returns but to improve them. Toward that end, there is a need to understand where those effectiveness improvements are going to come from. The book introduces the concept of six levers that marketing has at its disposal — strategy, content, marketing vehicles, investment levels, in-market execution, and fixed cost management. Several observations:

First, the strategy should involve a specification of the target segments and the value proposition for each. If that judgment is not based on customer insight and market analysis, whatever follows is likely to be inferior. Given the strategy, the book discusses how to make sure that the other levers are aligned with the strategy. It turns out that there is often a significant potential to improve the returns

simply by correcting a very bad alignment. The marketing program, for example, may be weighted toward a non-priority segment or may not reflect the value proposition.

Second, there is a need to sort through all the levers to find portions of the marketing programs that are working and those that are not. Often there is success and even brilliance buried in the total of a marketing program that appears only adequate. It is very much like the classic lament of John Wannamaker, a department store innovator from a century ago, who observed that “half the money I spend on advertising is wasted, but I don’t know which half.” Finding the effective half may pay dividends.

Third, there is a need to find the levers that need refinement and should be the basis for experimentation. What are the key levers that are holding back performance or represent real opportunities for improvement? How might the marketing program be changed to realize those opportunities?

Fourth, there will be interactions between the marketing levers. They do not work independently. An exceptional marketing program might falter or fail if the wrong set of media vehicles are used or the wrong investment level is selected. A wrong judgment on even one of the marketing levers could result in the marketing budget being wasted and, even worse, actually cause damage to the brand and the business even if the other levers are well conceived.

Finally, there needs to be a creative search for home run ideas driven by customer insight. Ultimately, the output of the marketing measurement will only be as good as the input. That means in-depth customer and marketing knowledge turned into insight, and the creative development of outside-the-box marketing programs. Good is no longer good enough. Marketing programs that break out need real brilliance.

This is an important book on one of the pressing marketing issues of our time. It combines an understanding of the core measurement issues and approaches with a broader framework of how marketing programs are developed and improved. The measurement and improvement of marketing using a structured, analytical set of concepts, tools, and frameworks should be at the top of the CMO’s agenda and ultimately a part of the management process of every firm. This book will help you get there.

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