



2006/2007 State of Marketing Study

The Effectiveness Imperative

Marketers Face the Challenge of Measuring Up

What people are saying...

"Technology has transformed the [audience] measurement platform. That which was once considered to be beyond the scope of quantification has bowed to the reality that **everything, in fact, can be measured.**"

— Bob Liodice, President and CEO, Association of National Advertisers

...

"We're **still learning** exactly how to measure effectiveness."

"We see a **lack of analytical models** to measure one of our primary tactics, radio advertising."

"We do measure our public relations efforts, but (metrics) are primarily focused on output. We **don't really have a true understanding of outcome.**"

— Participants, Prophet's 2006/2007 State of Marketing Study

The Effectiveness Imperative



Marketers continue to face an uphill battle when it comes to creating an effective marketing organization that demonstrably drives the business.

Increasingly, senior management looks to marketing to enable, if not drive, short- and long-term business growth. Yet marketers typically don't see themselves at the wheel for this particular journey. Many seem trapped. They don't think marketing is the answer to the call for growth, probably since they remain at arm's length from many critical drivers and, ironically, from the customers they aim to serve.

Marketers have wrapped themselves in a cocoon of comfort rather than confront a challenging environment they're not sure how to deal with. The new media landscape is changing rapidly, as are customer behaviors. Customers are better informed, more equipped than ever before, and are aggressively using new media. Yet marketers aren't sure how to use new media, much less measure its effectiveness. As a result, they're getting left behind as they stick to their comfort zones and the traditional marketing tactics that fall within them.

Senior management not only wants, but demands that marketing does more than repeat its past patterns of unrequited spending. Increasingly, the Chief Executive Officer is personally leading the charge, actively seeking out a new breed of senior-level marketer to partner in the process of driving impact. The "empowered" CMO is up to the challenge, by virtue of ownership and employment of more levers influencing the customer experience, a taste for experimentation, a knack for getting closer to the customer, and an eagerness to step up to new levels of accountability. And yet, this new CMO remains the exception to the rule. The majority of senior marketers decline to depart from the road well-traveled, varying little from year to year on their media usage, measurement and usage cycles, failing to differentiate between short- and long-term goals, and constrained by perceived barriers to deeper and more meaningful measurement.

Such were the findings of Prophet's 2006/2007 State of Marketing Study: The Effectiveness Imperative. The initiative was conducted in November and December, 2006. It involved over 100 senior-level marketers, nearly half from businesses with annual revenues of between \$1 billion and \$9.9 billion, and more than 60 percent from businesses of 5,000 or more employees.

Nearly half the respondents from U.S., U.K., and German businesses were the senior-most marketing executives in their organizations, with 62 percent corporate marketers and more than half accountable for revenue, margin, or volume.

Sixty percent see their marketing spend remaining flat. And nearly one-third of the respondents ranked improved effectiveness of marketing spend as one of the top three priorities of their chief executives, companies, and the marketing group.

The Drive to Business Growth

As studies show, including our own 2005 State of Marketing Study, it's understood that senior management doesn't just expect, but demands marketing to deliver

Marketing Effectiveness: Ongoing improvement of the marketing process

- Understanding the impact of marketing investments on several business metrics (e.g., market share, sales/revenue, margins, shareholder value).
- Assessing independence and interdependence of all types of marketing spend, including traditional measured media to such emerging media as Web videos, search, blogs, or product placement.
- Evaluating ROI of marketing spend relative to other marketing levers like price, product/service, and channel/distribution.

business growth, specifically to the bottom line. And when it comes to what does drive growth, respondents ranked execution of business strategy (72 percent), improved customer experience (64 percent), and new products (52 percent) as among the most important factors.

Yet while these and other critical drivers should fall directly under or at least touch on marketing's purview, respondents acknowledged that they continue to play a minimal role in those areas of the business that most closely touch the customer and, as such, are integral to continued business growth. Well over one-third of respondents to our study admitted to playing no role in either customer service delivery or in pricing. Nearly half were uninvolved in activities to enhance sales force strength. Instead, the vast majority indicated purviews that lay within the traditional boundaries of classic MarCom activities (advertising, online marketing, promotions, etc.) and marketing and brand strategies.

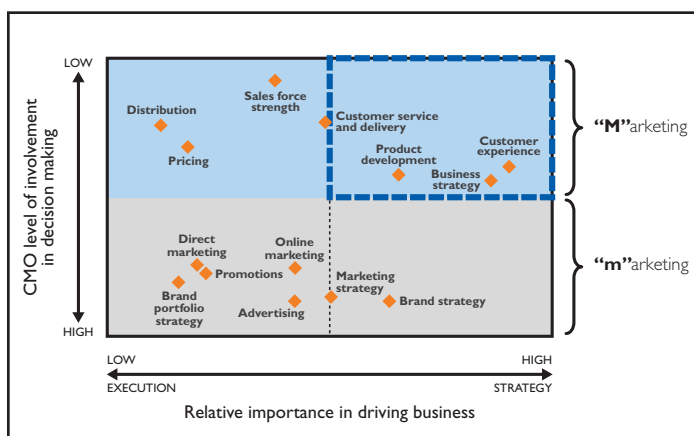


Figure 1: Marketers do not have a seat at the big table.

This dichotomy between marketers' intent and actual influence underscores a significant risk to the brand promise and customer experience: The best strategy and most creative advertising are not sufficient to create the kinds of customer relationships or drive the material impact that are expected of today's senior-level marketers and the groups they lead.

We Know We're Effective Because...

"Important for us is ... to be able to measure the response to the stimulus ... the effectiveness and the efficiency of every medium and the effectiveness and efficiency of the whole media mix and communication plan."

— A.G. Lafley, Chief Executive Officer, Procter & Gamble

"How you spend the marketing budget is often many times more important than how much you spend. The key to hitting home runs is to have a process of experimentation for all elements of marketing surrounded by sound approaches to evaluating their effectiveness."

— David Aaker, Vice-Chairman, Prophet

Marketers today are in a quandary. They want to heed the call for business growth and they know achieving the goal lies with the customer. Yet, they have little influence over many of the most critical levers influencing customers' relationship with the brand and business.

The pressure they're feeling is heightened by the rapid pace by which the new media environment is changing, and the equally fast clip by which customer behaviors are changing in response. Consider: Statistics show the average individual spends 23 percent of his or her "media time" online. An astonishing 70 percent of media consumers use multiple forms of media simultaneously. And, not surprisingly, "word of mouth" is gaining huge ground as a key influencer of consumer actions.

And marketers are getting left behind. Unsure how to use or measure new media, they're sticking to their comfort zone—the tried and true of traditional media tactics. Despite the phenomenal growth in new media tactics and usage, the vast majority remain focused on traditional advertising in traditional media in allocating marketing spend (28 percent in 2006 and 27 percent for 2007). Meanwhile, only 11 percent of their budgets was earmarked for non-traditional media advertising in 2006, which inched up to almost 13 percent in 2007.

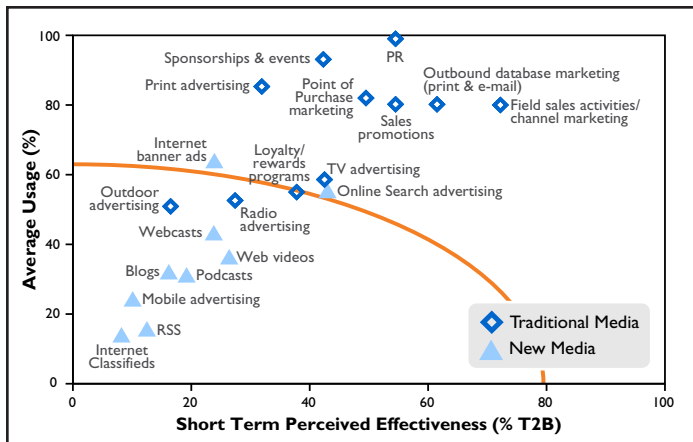


Figure 2: Marketers are only using what is effective in the short-term—and primarily traditional media.

Still, looking at the spectrum of tactics in their toolbox—whether traditional or new media—only one third of respondents considered them to be effective.

But how would they know, when no marketing activity is measured consistently by more than 54 percent of respondents? The most measured activities, according to the findings, were sales promotions and print advertising, cited by 54 percent of those respondents who do employ metrics. Close behind were sponsorships and events (53 percent) and television advertising (52 percent). Some of the most measurable activities—loyalty and customer relationship management programs and Internet banner advertising, for example—were among the least measured, by 39 percent and 38 percent, respectively.

This lack of consistent and pervasive measurement is likely a contributing factor to the following: Fully 84 percent of respondents admitted that Marketing Return on Investment is not well-understood within their businesses.

A full 40 percent of respondents' companies put greater emphasis on the overall budget rather than ensuring that the budget was ideally allocated—indicating that more attention needs to be paid to creating the optimal marketing mix. Yet that's difficult to achieve given the number of

barriers to better understanding marketing return on investment: 57 percent of respondents acknowledged that they have neither the right models nor analytic tools; 48 percent cited a lacking in market data and research.

Given attitudes on effectiveness, combined with analytic failings, it's no surprise that marketers stick to tradition in how they spend. Asked to estimate their 2007 spend across various marketing activities, nearly 30 percent of respondents cited traditional media advertising, followed by sales or trade promotion at 19 percent. Only 13 percent cited advertising in non-traditional media. And those allocations deviated only marginally from 2006 budgets.

Clearly, marketers are sticking to what's comfortable in following the traditional investment paths, even as the environment—customer behaviors, media consumption habits, and technological advances—continues to change at a lightning-fast pace.

In fact, respondents showed they were of two minds over the possibilities presented by this brave new media world and its implications for their programs moving forward. More than half of the survey respondents indicated it would play a critical role in the future marketing mix. Yet more than one-third admitted: "I do not understand how to best use and leverage new media to meet my business objectives."

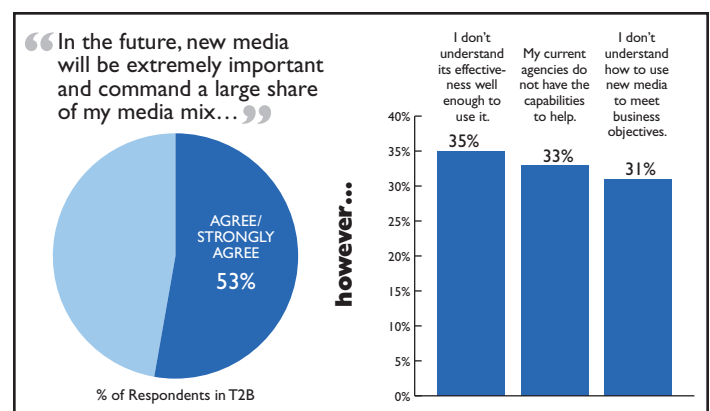


Figure 3: Most marketers are intrigued and confused by new media.

An Environment Ripe for Empowerment

“To answer the ultimate question of how you get a seat at the table... Our response was you build the table... [Our] analytical tools aren’t just for marketing...when you build these, everyone comes to the table because they want a part of that... it informs what the company does.”

— Lawrence Flanagan, Chief Marketing Officer, MasterCard

Despite the apparent difficulties many marketers have in overcoming the prevailing inertia, change is in the offing, and the pace is picking up. That’s because marketing effectiveness is no longer an option—it’s fast becoming a corporate imperative. Nearly 75 percent of respondents to our study told us that marketing effectiveness has become one of their organization’s top three overarching priorities. And nearly one-third said they have been charged by their chief executives to deliver.

It’s combining to create an environment ripe for the emergence of the “empowered” CMO—the kind of leader

it takes to transform the marketing organization into a corporate contender.

Empowered CMOs also behave differently. An average of 12 percent of empowered respondents’ budgets were allocated to new media, for example, versus only 9 percent for more traditional senior marketers. E*TRADE CMO Nicholas Utton is one empowered executive who has undertaken extensive customer research to influence the pioneering of new media and distribution channels as a means of deepening customer relationships.

Empowered CMOs are also more forward-thinking in proving out their strategies, as shown by their willingness to try in-market experimentation to test out the effectiveness of traditional tactics. For example, our study found that 52 percent in the empowered category use “test and learn” to measure their television advertising, which only 27 percent of non-empowered CMOs do. And 63 percent use it to test out loyalty programs, versus 29 percent of traditional marketers.

The Empowered CMO

“Empowered” means...

- Giving corporate decision makers the ability to wield extensive influence in shaping the company and propelling financial performance.

“Empowered” CMOs are...

- Disciplined thinkers who can balance developing “big, breakthrough ideas” with the ability to “land the plane.”
- Strategic thinkers with a relentless focus on the customer.
- Expansive thinkers about marketing’s role in driving growth.
- Able to demonstrate value to the organization through effective investment and ROI measurement.
- At the table: “Have the CEO in their corner.”

These individuals are more likely than those not empowered to have greater executive support and accountability...

- 54 percent called marketing effectiveness a top CEO, business, and marketing group priority, versus 10 percent of the respondent group as a whole.
- 50 percent of empowered CMOs play a decision-making role in pricing, whereas only 25 percent of non-empowered CMOs play any role at all in this critical driver. Sixty percent of empowered CMOs play a decision-making role in product development; only 40 percent of non-empowered CMOs have any involvement.
- Empowered CMOs are more likely to be accountable for revenue (67 versus 15 percent), margin (57 versus 10 percent), or volume (58 versus 10 percent).

In-market experimentation has been critical to UnitedHealthcare CMO Chris Gibson in her drive to demonstrate to senior management marketing's importance beyond simply communications to actually driving business growth. By conducting tests in several different markets, the initial pilot gathered the data needed to show how varying different elements of the 4 Ps significantly moved the needle on business growth.

Meeting the Effectiveness Challenge

Answering the call for change requires changing mindsets, developing new processes, and fostering an environment for productive collaboration. Among the steps marketers can take to bring themselves—and their organizations—to the next stage:

Anticipate needs. Staying ahead of the curve on trends and developments that are influencing customer choices requires marketers to sharpen their insights and be able to respond accordingly. Critical to bringing this about is the ability to collaborate to a far greater degree with customers. This means actually paying attention to what they say and do, whether by monitoring blogs and other new media venues, or by crowdsourcing, and being willing to try more innovative research techniques to gain more fruitful insights and improve the relationship.

Think “M”arketing, not “m”arketing. The ability to think more broadly about the impact of all four Ps on business economics is what separates the empowered CMO from less influential senior marketers. It's that which will allow Marketing to become a key driver of the leadership agenda.

Test and learn. Trying different marketing tactics on a smaller scale will allow marketing to do a better job of proving out approaches in a way that offsets financial risk. Fostering a test-and-learn culture allows marketers to look forward, rather than relying so heavily on historical models. It involves experimentation with new initiatives, new

media, and the optimal ways to blend new with traditional outreach to the customer. And it requires a sharp focus on the balance between short- and long-term objectives.

Create alignment. The most successful businesses have overcome the vacuum created by siloed structures. Marketers have a key role to play in building collaborative relationships with other functional areas in the organization as well as with other executives on the team. Marketing will grow its influence if it comes to the table with insights and knowledge that help its partners within the organization—and the organization as a whole—drive meaningful results.

Build a scorecard. Marketers must become accountable for their actions. Critical initiatives must be measured systematically and consistently. By building their case and owning up to results, they will create, over time, a more effective marketing organization.

Take risks. Marketers must acquire a new comfort level with the notion of taking risks. The new media that so entices today's consumer—and customers—must be explored. The ability to break out of the “traditional” mold is an imperative.

Achieving marketing effectiveness is no longer an option, at least for marketing organizations and their leaders that are committed to ensuring they're playing a pivotal role in the success of the overall business. By understanding the challenges and then responding to them in a measured, forward-thinking and customer-focused way, the individual marketer, the marketing group, and the organization will all benefit in the long run.

About Prophet: Prophet (www.prophet.com) helps senior marketers more effectively use brand and marketing to drive profitable growth. Our services range from accelerated growth strategies, to effective global brand management approaches, to more efficient allocation of brand-building resources. Prophet has offices in Chicago, Hamburg, London, Madrid, New York, San Francisco, Tokyo, and Zurich.