



Getting Serious About Marketing ROI

Management science, common sense and perseverance are a required combination for success.

By Lawrence A. Crosby

A RECENTLY released study by The Conference Board provides an assessment of the state of marketing return on investment (MROI) measurement in firms today, and concludes that this business practice is still in its early stage of development (Beaman, Karen V., Gregory R. Guy, and Donald E. Sexton (2008), *Managing and Measuring Return on Marketing Investment*, New York: The Conference Board). Although there are increasing expectations for marketing to deliver measureable results and demonstrate satisfactory MROI, approximately one-third of the surveyed firms have made no efforts to measure MROI and one-third have been working on it for less than two years. Only 22% of those that have made an effort report good progress. The study sheds light on the drivers and barriers to progress, as well as best practices.

On the metrics front, it is no doubt easier to measure marketing inputs than results. Of the 36 marketing metrics evaluated in the study, “marketing spend” was rated number one in usage. The authors conclude that “making progress on MROI requires forward-looking measures (leading indicators) of marketing success or failure.” Measurement is complicated by issues concerning delay between spend and results and the contaminating influence of non-mar-

keting controlled factors. Despite those challenges, it is interesting to note that “loyalty/satisfaction” was rated number two in usage, number two in quality (behind “net profit”) and number one in effectiveness. It’s unclear from the study whether companies actually calculate the financial ROI of marketing investments, or are simply looking for a lift in key indicators like loyalty, retention, share, volume or margin. (I suspect the latter.) It is also unclear whether they are considering the single-period return or a multi-period average return that could span more than one year. (I suspect the former.)

In today’s turbulent economic conditions, it would not be surprising to find more firms taking a serious look at MROI. Following are suggestions on approaching this task with the customer bond clearly in focus.

Think Hierarchically

In the May/June 2008 issue of *Marketing Management*, we introduced the brand scorecard as a means to manage the customer experience. You can think of marketing investments as potentially impacting a cause-and-effect hierarchy of scorecard metrics:

Level 1. Measures of key marketplace and financial outcomes.

Level 2. Measures of demand pull (attraction and loyalty).

Level 3. Measures of touchpoint improvement.

Level 4. Measures of activity and investment.

While the measures at Level 1 are, of course, the ones that ultimately matter, the scorecard assumes measures at Level 4 3 2 1. For strategic investments, the intervening metrics in the hierarchy can prove critical in assessing longer-term ROI. The issue is one of delays. Take for example, a marketing decision to re-brand and all of the costs associated with that. In Period 1, the only detectable effects might be at the touchpoint/expectations level (which would be a function of the new positioning). Perhaps at Period 2, brand perception changes begin to impact measures of demand pull—such as brand equity and loyalty. Finally, in Period 3, there’s an uptick in share, volume, margin, etc.—from which the financial ROI might be calculated. It would seem inappropriate to hold decision makers accountable for an “achieved” ROI in Period 1 or 2 based on their rebranding decision. But it would be reasonable to expect shorter-term gains in Level 3 and Level 2 metrics.

Tactical investments might flow rapidly through this hierarchy—obvi-

ating the need to measure intervening metrics. For example, customers might see a clothing store's private sale for its best customers as an improvement in the "price" touchpoint, increasing their relative attraction to the store (at least temporarily) and their loyalty (special rewards for special customers). While those effects are desirable, management is mainly hoping for accelerated revenues and reduced inventory. So while the store incurs incremental costs by holding the sale, management is happy if the sale results in an immediate improvement in the gross margin return on inventory investment.

Think Cross-Functionally

To some extent, MROI conjures-up an image of a siloed marketing department, with its own set of metrics, making decisions in isolation. Is this what the "M" in MROI really stands for? Are we

promotion, Web site, point of purchase, salesperson, product, customer service, repair, warranty, community involvement). Clearly, then, there are a variety of units making marketing-related investment decisions, which need to be brought under the umbrella of MROI. It's also apparent that no single department can be held solely responsible for higher-level metrics like market share, volume and net profit.

Again, it seems advantageous to have a hierarchical scorecard/performance management system that, at its lower reaches, can pinpoint the impacts of investment decisions by individual departments. So, for example, an investment by the customer service department in a new voice recognition system might be partly judged against scores from a transactional customer satisfaction survey conducted right after call center experiences occur (Level 3 metric). By

exposed to the investment initiative. The control group consists of the unexposed (often subject to the current/old ways of doing business). So in the voice recognition example, the treatment group might be customers contacting a call center (via random routing) with the new system in place. The control group would be customers contacting a call center that is still using the old IVR system. Comparing the customer satisfaction scores of the two groups reveals the impact of the Level 4 investment on the Level 3 satisfaction metric.

Many marketing-related investments are conducive to experimentation, due to their incremental rollout—but that is not always the case. An exception might be the national launch of a new ad campaign during the Super Bowl. But even then, quasi-experimentation is possible. One alternative is to consider all metrics measured prior to the launch as representing the control, and all metrics measured subsequent to the launch as coming from the treatment group. This is an approach sometimes used in marketing mix modeling based on time series data.

MROI measurement is probably not an option in our increasingly accountable business environment. But even in periods of high growth, ensuring that marketing-related investments deliver a satisfactory ROI is a solid business discipline. After all, we are stewards of shareholder wealth. MROI measurement complexities, while challenging, can be scientifically overcome with proper attention and patience. As the bottom line of The Conference Board report indicates, the duration and intensity of effort are the main ingredients to success. ■

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talking about the marketing department or the marketing function? The old saying "marketing is everybody's business" comes to mind here.

Many companies still have an intact marketing department that may or may not include sales—and likely has its own budget for underwriting programs, campaigns and process improvements. It would be a managerial mistake not to measure the results of those budgeted expenses/investments. At the same time, companies are much more aware today that the marketing objectives of attracting, retaining and building customer relationships are jointly owned by multiple departments and functions. This is made evident in customer experience models that contain an increasingly wide swath of touchpoints (e.g., advertising/

understanding the chain of effects from customer service satisfaction to overall loyalty, to retention, to net profit, the ROI of the technology investment can be estimated even though the higher-level metrics are jointly influenced by multiple departments. Such causal analysis might even reveal that the satisfaction improvements made a positive contribution to net profit, despite overall profit holding steady or even declining.

Think Experimentally

The above example also highlights the need to think experimentally. The hallmark of an experimental design is having a treatment and a control group. In the MROI context, the treatment group might be consumers or B2B buyers, who are known to have been