ANA Marketing Accountability Task Force Findings

October 8, 2005

Leading the Marketing Community

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Background

In a January 2005 ANA survey of senior marketers, accountability was listed as their number one issue. Work in this area has been and is a key initiative of the ANA and to respond to the concerns of its members, the ANA convened a marketing accountability task force. The purpose of the task force was twofold: (1) to review current best practices used by ANA member companies to improve their marketing accountability; and (2) to provide a practical catalog of accountability metrics used by industry practitioners from which marketers may choose those appropriate to their unique situation.

Twenty ANA member companies participated in this task force and we are indebted to them and their representatives for sharing their accountability experiences, their organizational issues, successes and challenges. The fact that companies of this caliber and people suffering from permanent calendar-overload took the time to participate is testimony to the urgency and timeliness of the subject. We thank the ANA Board of Directors, currently chaired by Jim Stengel, Global Marketing Officer, Procter & Gamble, for their invaluable input into this project.

Lastly, the ANA thanks Gordon Wade, Founding Partner of the EMM Group, for his tenacity, enthusiasm and skillful leadership of this task force.

We hope this report contributes to making marketing more accountable so that consumers and customers have an enhanced sense of value, profitable brands may flourish, shareholders may be enriched and marketing professionals may see their chosen profession recognized for its irreplaceable contribution to our economy and culture.

Study participants reveal several trends that have coalesced to create intense interest in marketing accountability

1. Every other function is held accountable for its return on investment. No longer can marketing expect a free pass from management and shareholders. Marketing is competing with every other function in the company for a limited pool of shareholder dollars. If this function alone cannot or will not prove its relative efficiency, management will not keep feeding the beast.

2. Management has no other place to turn for additional savings. Every other function has been six sigma'ed and TQM'ed into fighting trim. Management believes the supply chain has no more slack. Management believes operations are wound tight. The view from the corner office sees the marketing function as the last grape with any juice left unsqueezed.

3. Marketing can be measured more precisely today than in the recent past. The confluence of a torrent of data, powerful hardware and agile software has totally changed the measurement environment. Marketing can no longer claim with any credibility that its effectiveness can't be measured. Relatively precise results from new marketing alternatives such as the Internet, have fed management's desires to understand the relative efficiency of all marketing expenditures. Ignorance of the law of ROI is no longer an effective defense.

4. Marketers know they cannot fulfill their role as drivers of growth and as satisfiers of consumer needs unless, and until, they prove the worth of their function.

5. Marketers are beginning to understand embracing accountability has its rewards as well as challenges. With the appropriate metrics from a robust accountability initiative, marketers can now optimize expenditure choices across the entire spectrum. Instead of wondering which half of last year's expenditures were 'wasted', marketers can determine how to make virtually all of next year's dollars count.

6. The focus on accountability has an ethical aspect. Many marketers understand that marketing funds aren't 'theirs'. They understand these funds belong to shareholders who have a right to expect more professional stewardship of their funds.

7. Lastly, some marketers are beginning to abandon the historic defense that marketing is an art which cannot be measured, only 'appreciated', like a fine wine or an evocative perfume. The modern marketer is beginning to see marketing as a 'process' with measurable inputs and outputs producing reliable, repeatable results. The process approach which revolutionized the supply side has finally come to the demand side.

Summary and Conclusions

- Accountability is more dependent upon corporate conviction than upon algebra on steroids. Create a culture of accountability.
- Marketing should aggressively embrace the responsibility for the short-term ROI of its expenditures and go beyond to demand accountability for nurturing brand equity, the single most valuable asset of any company.
- Measuring marketing ROI can be done with significant accuracy but it takes process, determination, and money. No magic bullet exists but the capability to measure upwards of 90% of what most companies spend on marketing is available today.
- Superior metrics will not in-and-of-themselves deliver superior marketing results defined as robust brand equity leading to volume and profit growth. Metrics are a thermometer, a simple but powerful diagnostic tool. No one was ever cured by a thermometer and marketing will not be cured by metrics. The cure demands a rigorous end-to-end marketing process within which metrics play the same critical role they played in Dr. Deming's total quality reformation of the supply side.
- Every business vertical, indeed every company, will have unique metrics dependent upon what management expects marketing to deliver. Start by understanding management's strategic expectations of marketing, and then measure that.
- A best practice metrics profile has emerged along with a metrics maturity model. Each company should measure itself against this profile and maturity model.
- Although a precise map remains to be delineated, the view from different peaks on the analytical landscape clearly shows the way to the land of superior financial outcomes goes through brand equity and leads to brand loyalty. Once bound to a brand by a combination of brand experience and emotional benefits, consumers are willing to reward brand owners with higher margins for each individual purchase occasion, often for a lifetime.

Approach and Methodology

This project began with a sharing meeting of a group of companies held at Procter & Gamble in September, 2004. The meeting revealed the diversity of practical challenges faced by different verticals. An especially obvious difference was that between business to business (B2B) and business to consumer (B2C) companies. The key driver of difference among the verticals is the availability of reliable, granular, malleable and relevant data. Some verticals, such as consumer packaged goods and consumer financial services, are awash in a tsunami of data. For them, the challenge is merely organizing the data upon powerful software platforms permitting sophisticated analytics limited only by the analyst's imagination. Other verticals had unique sources of data and unique expenditure options enabling and requiring unique metrics.

For that reason, beginning in May, 2005, we invited a diverse group of companies representing numerous verticals in both B2C and B2B, to join the ANA marketing accountability task force. The companies who chose to participate, were a diverse group which, taken together, offered a 360 degree view of the opportunities, challenges and alternatives to enhancing marketing accountability.

We asked the companies to fill out a short survey primarily to orient the study organizers towards areas of specific interest. Then we had conversations with representatives of the participating companies to clarify our understanding of the state of accountability. After these conversations, we collected internal scorecards as well as other internal documents relevant to the subject.

Then we searched the Internet to identify white papers, monographs and journal articles dealing with the broad subject of accountability. Suffice it to say that this subject has generated lots of interest from a broad variety of industry participants ranging from various marketing trade organizations, academics, consulting firms and more than a few practitioners. We have included some of the more helpful articles in the bibliography of this report. Where we can identify a specific original source for a concept or idea (like 'net promoter score') we have provided specific attribution. We readily acknowledge that the overwhelming percentage of the concepts have emerged over the years from the work of countless pioneers and practitioners too numerous to identify and in most cases anonymous.

One thing is certain, the work in this study draws from many sources, most importantly the contributions of the participating companies. We wish to acknowledge them all even if it must be done as a group rather than individually.

One group who deserves special mention is the third-party marketing services providers such as research houses, advertising agencies and the like. These professionals often lead the way in developing new techniques to measure accountability and ROI. Two firms specifically were quite helpful, Marketing Management Analytics (MMA) and the Advanced Technology Group (ATG) of the media buying giant, Mindshare. Each group was careful to sift through their vast experience, remove any client specific detail and then summarize their findings for our study team. We deeply appreciate their help.

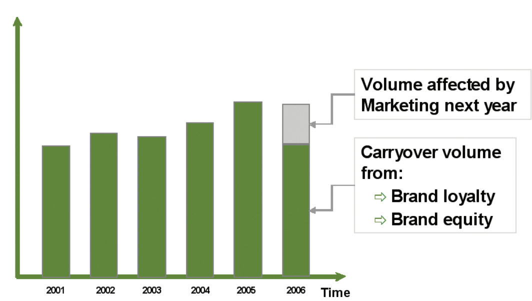
It should go without saying that the authors of this summary report accept 'accountability' for any errors in fact or conclusion.

Accountable For What

Much of the discussion around 'marketing accountability' is focused intently around ROI or ROMI, the return on marketing investment. This focus, some would say obsession, reflects an understandable desire for a 'one-number' metric that puts marketing on the same evaluative standard as all other business expenditures. The reasoning goes that if marketing can provide reliable standard ROI figures for each of its expenditures, top management will then be enabled to deploy capital efficiently among the various competing demands for corporate resources such as buildings and grounds, capital equipment, research, operations, and marketing.

The problem with the ROI focus on specific marketing line items is that these expenditures affect a very small percentage of the company's volume even in the short-term. For most companies in almost every vertical, marketers could spend zero dollars over the next twelve months and the company would still generate sales from what the analysts call 'carry over' or 'base line'. The table below shows that for most companies the expenditures being measured effect about 20 to 25% of next year's sales and the carryover is 75 to 80% or more. What's this so called carry over? Who's accountable for that?

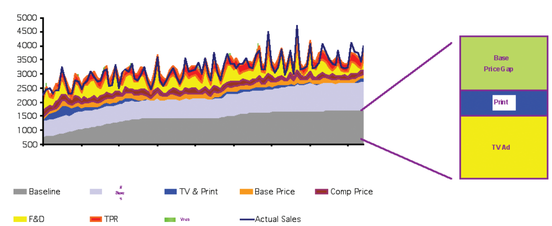
ROI Driving Incremental Revenues?



During our discussions with the participating companies, one of the representatives put the question quite artfully: "I know that this year's expenditures affect only a small portion of next year's sales. I know that we have 'carryover.' What I want to know is how much each short term marketing expenditure contributes to long-term carryover."

The technical answer to her question is contained in the box below:

Contribution to Baseline



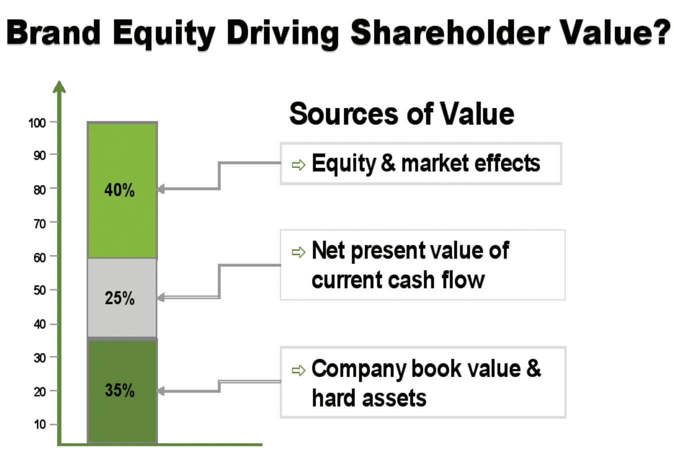
- ⇨ To understand short and long term contribution to baseline adopt a two phase approach
- ⇨ Phase 1: Decompose Baseline (Long Term Impact)
- ⇨ Phase 2: Regress sales against all variables including baseline and media (short term Impact)

Courtesy ATG

But she is actually asking a more profound question:

For what should marketing be accountable? For the short-term response to this year's expenditures? Or for something qualitatively different and more fundamentally important? Is there something of permanent value for which marketing is responsible beyond the short-term return on a few line items in the budget?

The table below attempts to provide an answer by looking beyond the annual income statement to shareholder value as measured by Wall Street. For most companies, total shareholder value could be deconstructed into three components: (1) the 'book value' of the corporation, the hard assets such as buildings, capital equipment and cash; (2) the adjusted net present value of this year's profits and then (3) the 'difference' between those two amounts and the total value of the company represented by share price multiplied by the number of shares outstanding. That 'difference' for most companies turns out to be a fairly large number, something in the range of 35 to 50% of total shareholder value.



Economists call that large somewhat mysterious value by several names: things such as 'intangible value, market effects or good will.' Some call it 'brand equity' because it represents the belief that investors have in the long-term profit-generating value of the brand behind the stock ticker symbol. Whatever one calls that difference number; everyone agrees that it is tied to an expectation driven by a series of rational and emotional beliefs about the future performance of the company. One might even suggest that it is related to the 'carryover' a company will get in the absence of any short-term marketing expenditure. It's the loyalty the company has earned with a core group of customers who prefer the brand because of the value stored in their minds from positive brand experiences, impressions and promises.

The question remains, who owns this enormous component of shareholder value, or equity? Certainly the CEO is ultimately responsible for overall shareholder value but marketing can and should accept a major responsibility for that intangible because it is marketing which is responsible (or should be responsible) for understanding consumer needs, facilitating development of critical functional and emotional attributes and positioning the brand with consumers.

So when critics and colleagues demand that marketing be accountable: a fair retort is 'accountable for what?' The answer should be that marketing is accountable for efficiently building long-term brand equity.

Therefore, any 'marketing accountability' project has to respond to the returns on short-term expenditures but even more importantly for the effect that any marketing expenditure has upon those perceptions of the brand that drive the rational and emotional loyalty to a brand that we often perceive as 'brand equity"

As marketers we should accept the responsibility for prudent investment of this year's budget while reminding management of our responsibility for building long-term brand equity, a responsibility of far greater value to the shareholder.

The Culture of Accountability

Metrics, and the accountability they imply, create problems in all functions within all company cultures. Metrics and marketing is an especially volatile mixture because the marketing function has had few metrics in the past and other metrically dense functions within the company are deeply suspicious about marketing's sudden 'foxhole' conversion to the discipline of metrics. Add in the assumption within marketing itself that metrics are directly connected to personal compensation and career advancement then one has the recipe for major cultural push back.

Nothing emerged quite so clearly from our discussions with study participants as the cultural impedimenta associated with metrics and accountability. Indeed, several participants voiced the opinion that unless a company created a 'culture of accountability', no amount of analytical artifice would succeed. Marketers must WANT to be measured, must embrace accountability or even the most artfully designed metrics program will ultimately fail.

According to study participants, three conditions seem essential to creating this culture of accountability:

1. Leadership from the top. Unless top management demands accountability and helps resolve disagreements among competing approaches to accountability, the culture will reject metrics or simply freeze in place. If management is unhappy with the pace of cultural accountability, the first place to look is the mirror;

2. Inclusivity. Metrics can not be successfully deployed by or within one functional silo. By their very nature, metrics have a transfunctional intercompany significance. Unless various functions within the corporation such as finance, operations, business information and HR are aligned, the entire edifice of metrics will collapse; and

3. Process. The key to creating cultural buy-in is an inclusive process that creates confidence in the numerical accuracy and relevance of the metrics as well as their perceived fairness and comparability. Please see the brief discussion in the inset box regarding a metrics process on the next page.

The chart below outlines a metrics development and embedment process. Following a process such as this accomplishes several critical objectives:

(1) it aligns the marketing metrics with other corporate stakeholders in the larger accountability culture thereby enhancing marketing's credibility within the company; (2) it focuses the company on management's expectations for the marketing function; (3) it ties marketing's metrics into the larger business planning process so that the company provides the resources which are required to meet the expectations embodied in the metrics; and (4) it mandates sharing of marketing's progress with the larger internal corporate stakeholder group thereby providing visibility to marketing's contributions.

Using metrics developed from a sub-process such as this to knit together a larger end to end marketing process is one of the principal hallmarks of a best practice marketing function.

Metrics Development Process (1 of 2)

Create cross functional team	Identify marketing 's strategic intent & deliverables	Select Metrics	Develop Data Strategy	Set targets for each metric
Include key stakeholders such as finance, brand management, market research, and executive leadership Coordinate with other organizational metrics initiatives	Confirm strategic intent with senior management Translate marketing strategic intent into explicit initiatives with quantifiable objectives	Select metrics for each desired outcome For each potential metric, test for relevance to future decision - making	Determine data sources, frequency of collection Define calculation algorithms Data collection requirements will likely force prioritization of metrics	Link to marketing planning process

Metrics Development Process (2 of 2)

Review metrics & targets with stakeholders	Calculate current values	Share with organization via dash boards	Review. revise process (ongoing)
Ensure perceived validity, relevance and practicality of selected metrics and targets Link to other organizational metrics initiatives as appropriate	Calculate metrics and target values Consider values relative to prior time period, target and competition	Design metrics hierarchy: what metrics to report at various levels of organization Use color coding (red, yellow, green) to indicate state of metrics relative to target as appropriate	Build review and revision steps into ongoing process Perform analytics to identify metrics with greatest predictive capability Seek to reduce, simplify metrics set

Definition and Types of Metrics

In any discussion of a complex subject, some confusion is introduced by the use of words which understandably have different meanings to different people. This requires that we occasionally stop to define terms which are regularly used in any accountability discussion. Words such as 'measure' and 'metrics' have two have importantly different meanings.

A measure is a one-number fact such as 100 miles or 5 gallons. A metric is almost always some combination of measures that permit an analysis or a conclusion. For example, I drove 100 miles and used 5 gallons of gas therefore I got 20 miles per gallon. 20 miles per gallon is a metric. If I paid $3 per gallon for that gas, my cost per mile (another metric) was 15 cents. With this data I can benchmark the efficiency of other cars, of types of gas and perhaps even of personal driving styles.

Many different kinds of metrics exist. One type is an 'input' metric. In marketing, a well known, frequently quoted metric is the cost per thousand viewers of a specific media buy. e.g. 'we spent $20 per M target viewers'. This is a classic 'input' metric.

A second type of metric is an 'intermediate' metric, a calculation along a stream of inputs and outputs which measures some sort of result but not an ultimate result. Awareness metrics are classic 'intermediate' metrics. We know that investment 'A' generated more awareness than investment 'B' and that has some value. What we don't know is the effect or outcome of that awareness on behavior. That takes us to the third type of metric, an 'output' metric.

A classic 'output' metric produced by 'market mix modeling' is that for every one dollar invested in night network TV, a brand generated $2.50 in incremental profit for an ROI of $2.50.

Another caveat relates to the time period represented by the metric. Most are remarkably short-term in nature, even though everyone recognizes that many marketing expenditures, especially advertising, may attract a new loyal customer who creates a stream of profit for decades. To counterbalance the frenzied focus on the immediate, an understandable response to Wall Street's incessant demands for quarterly earnings, some marketers are beginning to develop metrics around the 'lifetime value of consumers and customers'. This is a useful and revealing concept except in a few industries where purchase cycles and decision processes negate its value (e.g. power generation dynamos).

Another definitional distinction involves attitudes versus behaviors. The purpose of marketing is changing attitudes. The purpose of changing attitudes is changing behaviors. Not surprisingly, metrics come in two flavors, those that measure attitudes and those that measure behaviors. Most non-marketers (such as CFO's) prefer behavioral metrics, an understandable bias. Most marketers spend lots of time looking at various kinds of attitudinal metrics because they believe that attitudes drive behaviors, another understandable bias.

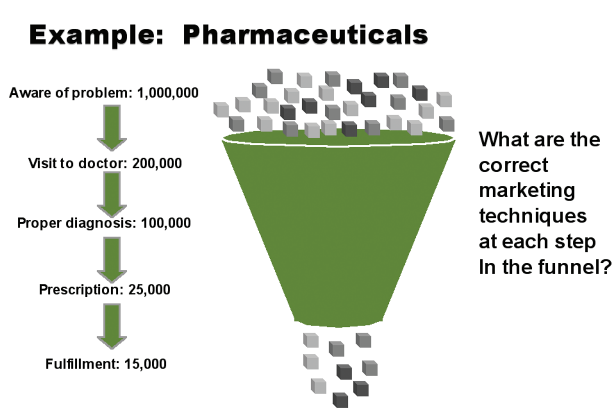
Much of the exciting, breakthrough work in marketing metrics today is being done at the frontier where attitudes transform into behaviors. Sophisticated analyses measure which attitudinal drivers change brand preference and link to a purchase change. From there, it is a few short steps back up the marketing value stream to identify which investments change which attitudes the most efficaciously.

Some of our study participants are enabled to do this today primarily because of the felicitous convergences of attitudinal and behavioral data from identical sources.

Just as some metrics address attitudes and other behavior, metrics also occur at different points on the marketing value chain. One of the objectives towards which marketers are gradually advancing is identifying key metrics for virtually every marketing decision from customer insights, where all successful marketing begins, to some of the more ephemeral areas of endeavor such as public relations and product placement in a TV show.

One intriguing variant of this longitudinal search for metrics that interconnect across a demand creation chain is the identification of purchase decision 'funnels' in industries such as pharmaceuticals, insurance and autos. In these industries, marketers are looking at each level in the purchase decision funnel to tease out the ROI of marketing effort to see which alternative works more efficiently at each level in the purchase decision process.

Purchase Funnel / Transaction Model



Metrics Maturity Model

We speak of 'accountability' as if it were a state of being much like hypnosis. Accountability is actually a journey which has many stations along the way. When evaluating your company's unique location on the journey, marketers may find it useful to review the emerging metrics maturity model show below.

That model has four major axes:

1. Data;
2. Analytics;
3. Culture, and
4. Process embedment. Each deserves a brief discussion.

What We Know Today

Metrics Maturity Model

	Aware	Practicing	Established	Leading
Data	Limited by type and function Unreliable time series inchoate	Available in limited, important areas Stable & consistent over time No integrated platform	Broad spectrum time series data across geographies, customers & functions Some integration	Integrated Data platform across customers & expenditure types Capable of rapid cross functional analysis
Analytics & Metrics	Accounting -oriented Backward looking Inputs vs. outputs No framework Primitive analytics	Limited mix modeling Oriented towards specific campaigns or expenditures No integration	Some predictive 'success factors' identified Stable techniques Metrics tied to strategy	Predictive & integrated Multiple tools, real -time response Continuous optimization capability
Culture	Metrics a responsibility of finance Competing metrics by BU	A management mandate a multi-functional team accepts responsibility Masses of measures reported upward	Sophisticated dashboards encourage sharing Metrics broadly understood Professional metrics leadership	Woven into every project & plan Understood, shared & lived Seen as desired capability
Process Embedment	Pockets of projects No tie to annual process	An appointed team Ad hoc process Annual review and modification	Recognized high level ownership Stable , accepted , mature metrics Linked to planning	Robust multi -functional process integrated into planning Metrics drive end -to-end marketing process

Most organizations are between "Aware" & "Practicing"

Source: Model adapted from DoD Metrics Review, May '04

1. Data — Accountability implies quantification and quantification implies data, most desirably time series data, permitting sophisticated analytics. Data is so basic that it becomes a critical factor in determining how 'accountable' any marketer can be. One of the major problems for many marketers, especially B2B marketers is the paucity of data directly connecting marketing expenditure to a shift in attitudes or behavior. This inhibits the development of accountability. But there is light at the end of the tunnel. The Internet is now enabling the capture of survey data at levels of granularity previously not affordable. This offers marketers, especially B2B marketers a new way to capture the data needed to create metrics and establish their accountability.

   At the other end of the data spectrum are companies with astounding levels of transaction data captured at the level of the individual customer. In these fortunate verticals, this data becomes of enormous value when it is mounted upon a software platform permitting manipulation through one of the online analytical processing tools (OLAP). These tools enable a level of analysis only dreamed about as recently as a decade ago.

2. Metrics and Analytics — The confluence of masses of time series data, powerful computer hardware and agile software has enabled a revolution in analytical sophistication. Unfortunately many marketers have not advanced past the use of virtually useless marketing input data (e.g., 'cost per 1000 impressions down 10% versus last year!'). At the opposite end of the spectrum are companies with market mix analytics embedded in real-time marketing spending models permitting rapid changes in marketing spending by target consumer and marketing element. Some are experimenting with advanced analytical techniques such as 'agent based modeling' that permits the use of non-time series data and often uncovers 'emergent behaviors' not revealed by conventional multi-variant, market mix modeling.

   Still further out are marketers trying to measure the value of new permission based media, the relative 'engagement' value of one medium versus another and the 'ROI' of 'emotion' versus rationally-based ad copy appeals. Some of these issues are in their early stages of understanding but creative marketers are making progress in all these areas. (Please see below for a brief discussion of engagement.)

Engagement Metrics

Marketers are attempting to develop metrics around 'engagement', the capability of a marketing investment, most typically an advertisement of some type, to capture and retain the attention of a consumer in a favorable manner. Many academic and commercial third parties are addressing this subject primarily because of the concern over wasted ad investment against today's harried, multi-tasking consumer. Work in this area, some of it by an ANA committee, is on going and will unquestionably evolve over time.

At present, the most mature approach to engagement seems to be one developed by a third party commercial firm located in Nicosia, Cyprus, Integration-imc. Their model develops engagement metrics around 'brand experience points' and 'brand experience shares' which appear to have some predictive value. We have not included their metrics in this paper because they are proprietary to Integration-imc.

3. Culture — We spoke above about the ‘culture of accountability’ in which marketers not only expect to be measured but demand it. In these cultures, accountability is so deeply ingrained that an attempt is made to measure virtually all expenditures with metrics recognized company-wide. At the other end of the spectrum are companies where metrics are owned by Finance or created intermittently according to standards separate for each SBU or operating location. In these immature organizations, metrics becomes part of a game aimed at avoiding serious accountability. Between these extremes are organizations who struggle to establish fair and sustainable metrics understood as such by all the key departments across all SBU’s.

4. Process Embedment — A key to creating a culture of accountability is a process that enrolls key members of the organization to develop fair measures which can be sustained over time. In the immature organization, no metrics process exists. Individual departments or even managers create measures without attaining the organizational input from experts in finance, IT, operations and market research who are often critical to the development of a serious metrics effort. By contrast, mature organizations have a robust metrics process which involves key stakeholders and takes pains to integrate marketing metrics into an overall balanced corporate scorecard approach which gets wide visibility across all SBU’s and functions. A critical objective of the process is to provide marketing metrics with the same credibility that is accorded metrics in operations, finance and manufacturing.

Emerging Characteristics of Current Best Practice

Shown below are the emerging characteristics of current best practice.

- A culture of accountability — We have discussed this above but it is so basic it needs to be re-iterated here. Best practice companies embed accountability into their culture. Leadership must demand it and marketers should welcome it.

- An inclusive process — Another basic and complementary characteristic of accountability. A top-down endorsed, inclusive process insures metrics that are more credible across the all functions within the company.

- Metrics tied to strategic expectations — Metrics must be tied to management's expectations about marketing and to company strategy. If management expects marketing to build brand equity then measures that. If delivering sales prospects is important, measure that. If increasing the lifetime value of customers is important, measure that. Do not try to build a dashboard with fifty dials and dropdowns. Focus on what management expects from marketing. Please see the Appendix to this report for a catalog of metrics by strategic intent.

- Measures of marginal productivity — Optimizing marketing ROI requires marketers to measure not only the average ROI of an expenditure but also the ROI of the last dollar invested behind marketing vehicle A. Unless marketers understand the 'slope of the yield curve' by expenditure type, one cannot know the point at which expenditure must be shifted from vehicle A (e.g., TV) to vehicle B (e.g., magazines). Third-party providers understand this issue well and are prepared to address it.

- Optimization modeling — The calculations on marginal ROI developed by what is commonly referred to as 'market mix modeling' is necessary to drive mathematical models that optimize marketing spending. These sophisticated software enabled models are offered by third-party providers but many companies create their own using off-the-shelf software or licensed proprietary software. These models represent a quantum leap in marketing efficiency and are correctly viewed as one of the two or three major developments in the history of marketing.

- Experimental design — This relatively new testing design protocol enables marketers to optimize an individual marketing program (such as a direct mail campaign) which may have dozens of independent variables producing thousands of potential combinations. Using proven mathematical techniques, experimental design enables marketers to winnow down a field of dozens of variables to the small combination of alternatives that produce the optimal result.

- Lifetime value of a customer — Many measures of marketing efficacy tend to be short-term in nature i.e., the revenue generated over the next 12 months by a specific expenditure. Given the unfortunate focus on short-term results from Wall

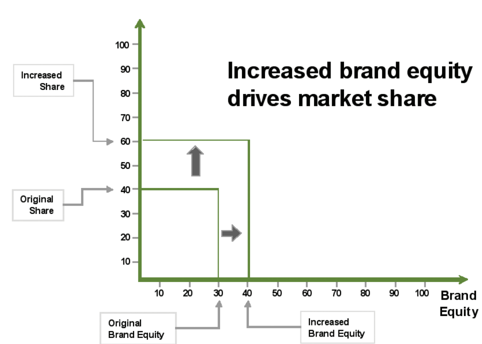
Street, such myopia is to be expected if not desired. But, consumers have needs which sometimes last for decades and therefore some brand owners find it desirable even necessary to compute the lifetime value of a customer. This measure helps companies calculate how much to invest to convert a customer to a brand. A longer-term focus casts a more favorable light on conventional advertising which often shows a negative ROI in the short-term but a positive ROI when that advertising is given credit for the long-term revenues generated by a loyal customer attracted by the advertising. Lifetime value measures are particularly valuable in many business verticals such as finance, insurance and CPG. By contrast, this calculation probably has little value in some long purchase cycle categories (e.g., power generators). In most instances, however, the LCV calculation is worth the time it will take practitioners to develop a set of assumptions and accounting conventions necessary to produce the measure.

- ROI down a transaction funnel — Many practitioners, especially those in 'considered purchase' categories such as automotive, insurance and pharmaceuticals, have identified a purchase-decision pathway or decision funnel, through which the consumer traverses on the way to a final decision. These leading edge practitioners find different 'ROI's' of effort at different stages in the decision cycle and different response to different marketing interventions at the same stage in the cycle. This discovery raises a larger related question regarding the ROI of expenditures in the overall marketing process prior to these relatively transparent expenditures on specific media. For example, everyone recognizes the value of a consumer insight that provides a profound competitive advantage. How do we determine the ROI of our market research expenditures? Packaging expenditures? Promotional signage at retail? Sales collateral?

- Factors contributing to brand equity enhancement and market share growth. — Many marketers use brand tracking studies to ascertain perceptions of the brand across a battery of emotional and functional benefit characteristics. Leading-edge marketers have gone beyond to understand what factors are driving brand equity, brand preference and market share. They then design their marketing plan to change the attitudes and behaviors around the factors driving overall brand equity and brand share.

The chart below shows how one marketer can prove that increases in brand equity are directly associated with increases in brand share. This marketer is able to deconstruct equity into various 'contribution to preference' drivers and focus effort on the functional and attitudinal elements which are associated with increasing equity and share.

Brand Equity Drives Market Share



- Brand equity and brand loyalty links to brand profitability and shareholder value — Marketing's most important long-term responsibility is building brand equity. Therefore the discussion of accountability often leads to a discussion of the relationship between the ROI of building brand equity, its effect on profitability and ultimately on shareholder value. This subject has generated numerous academic studies over the past decade. A particularly interesting study was conducted by Stern Stewart, the developers of the 'Economic Value Added' metric for financial analysis. In this study, Stern Stewart linked economic value added to aspects of brand equity using the Brand Asset Valuator model of Y&R.

  No one study answers these questions definitively but our review has identified pieces of a mosaic such as the Stern Stewart study which clearly suggests higher brand equity drives brand loyalty which in turn produces higher margins and greater shareholder value. Some leading edge marketers are focusing on developing loyalty metrics to help them understand the ROI implications of moving customers up from one lower level cohort on a loyalty ladder to a higher level cohort or the relative effect of one marketing investment against cohort A at point B etc.

Major areas of challenge — As a part of our study, we asked participants what issues were particularly vexing to them. Some have been mentioned elsewhere in this document, others are new. Here's a quick enumeration and response based on data collected from participants and third-parties such as research providers.

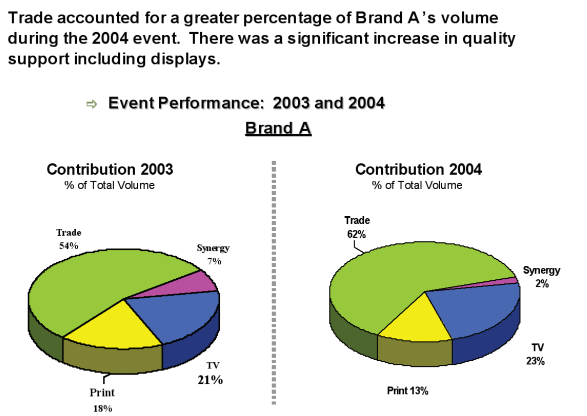
- The link between long-term brand equity and the ROI of specific expenditures — We have discussed this above but two other data points need to be added. Several third-parties provided evidence that it is possible to 'deconstruct' the short- and long-term effects of various marketing expenditures, i.e., which expenditure seem to build longer-term equity and which seem to degrade it. Without endorsing a method or a supplier, suffice it to say that this can be done. To no one's surprise, these studies indicate that advertising expenditures are more associated with building long-term strength while various price expenditures may be more efficient in the short-term but tend to degrade equity longer-term.

- Data Availability — This is by far the most universal and frustrating problem inhibiting accountability especially in many B2B verticals. In these verticals, companies often lose track of their product in a complex supply chain replete with third-party distributors. In these situations, marketers have one basic alternative… get clean data from a new source outside the value chain and build metrics around the new data. This means collecting customized data either from direct interviews or from one of the relatively new Internet-based panels. This costs money but the alternative is to keep spending money year-on-year with no idea of the relative worth of expenditure A vs. B. Any management team that is demanding marketing proves its worth should have some logical difficulty in denying a request for research funds to measure that worth. Many companies are understandably enamored with the simplicity and apparent power of the 'net promoter score' metric. We would simply point out that one must expend some research funds to develop this metric if it isn't being provided within some existing brand tracker.

- Integrated Marketing Campaigns (data clarity) — Many marketers report problems in deconstructing the effect of individual components of an integrated campaign involving the use of multiple simultaneous marketing channels or investments. From a technical analytical perspective, this is a common challenge to third-party analysts and one which they can effectively address.

  The most difficult challenge is when these components of an integrated campaign: (a) Occur perfectly co-terminously so that analysts cannot use variations in timing as an analytical lever; or (b) When one of the elements of a campaign is so small that the natural variations in the data simply overwhelm the reading of a component comprising, for example, '3%' of an overall campaign. Under these circumstances, analysts can apply certain advanced techniques to provide perspective but by far the most desirable path is to prepare for analysis by creating test and control groups. The willingness to create test and control panels is a leading edge indicator of a 'culture of accountability'.

The chart below demonstrates an analysis of an integrated campaign by MMA. The chart shows the relative contribution of each element of the campaign and goes beyond to estimate the 'synergy' traceable to the combination of elements, i.e. the incremental effect of the combination above that generated by the individual elements. In MMA's experience; 'synergy' is relatively small in most integrated campaigns.



- Innovation et al — Some participants mentioned difficulties in developing measures for specific strategic responsibilities of marketing. For example, one participant mentioned that management wanted marketing to lead 'innovation' so her department needs to advance a metric that would provide insight into their performance in this regard. Still others cited 'competitiveness' as a marketing responsibility for which metrics were being sought, 'customer centricity' was still another responsibility for which some marketers were looking for metrics.

  This need relates directly to one of our principles of best practice, identifying management's strategic expectations of marketing and developing metrics to express progress or lack thereof in the targeted responsibility. In the appendix to this report we have started the compilation of metrics by strategic intent so that marketers may begin the process of choosing a metric or set of metrics to meet their management's expectations.

The chart below shows the standard format used to present metrics by 'strategic intent.' For example, if management determines that marketing's strategic intent is to increase the overall lifetime value of the customer base at the lowest cost in marketing $'s, this metric offers a way to measure marketing's success. This approach rewards marketing, especially the advertising component for attracting customers who contribute profits for years. It also rewards selling more product to current customers or trading current customers up to higher value products.

Metrics Definition Template	
Marketing Efficiency	∆LCV/ annual marketing cost
Definition/ Calculation	LCV Current yr –LCV yr last yr / marketing $'s current year
Source of data	Syndicated panel data, company sales records and marketing budget data
Calculation or technique	Compute the aggregate lifetime value of customers in franchise, subtract last year's value. Divide the difference by annual marketing costs
Verticals where appropriate	Valuable across many verticals, B2B and B2C
Problems or concerns	Requires sophisticated calculation regarding customer loyalty decay curve. LCV not universally appropriate

Linking metrics to planning —
A persistent challenge for all marketers is linking metrics to the broader process of marketing planning. Too many marketers see the development of metrics as an end unto itself and have not realized that metrics are a component of an overall more advanced marketing process. This, in turn, presents virtually all marketers with a major challenge because they have no well-defined marketing process. Therefore even if they have the metrics, they are thoroughly bamboozled by where and how to use them other than to mount them on a dash board and duck.

Several marketing service companies are providing a partial answer via very sophisticated computer models that incorporate market mix modeling ROI's into real-time budgeting models. These software-enabled models represent a major breakthrough but they deal more with the tactical aspects of marketing and do not address the more strategic end-to-end marketing process beginning with consumer and customer insights.

Metrics Are Not Enough

Metrics are not an end unto themselves. Metrics play the same role in marketing that a thermometer plays in medicine. Although it is a powerful diagnostic tool, a thermometer alone has never healed anyone. Metrics alone won't save marketing. But metrics can be a powerful ingredient in an integrated regimen that can build brands, drive customer loyalty, and grow volume and profits. That overall regimen is a holistic marketing process that starts by gaining insights into the customer's deepest needs and moves down an orderly path to which each preceding step serves as input to the next and all are driven by insights, metrics and best practice marketing content.

The process approach described above is standard, even required, in virtually every other business function except marketing. The extraordinary improvements in supply side productivity are directly traceable to the broad scale embedment of process advocated by Drs. Deming and Juran. Despite the proven value of process, marketing remains strangely, some would say shamefully. averse to process. One thing is certain, the same management that today is demanding metrics will start demanding a serious marketing process tomorrow.

Get ready.

In the meantime, use the catalog of metrics in the appendix to identify or suggest an appropriate approach for your situation. Start by asking your management to identify their strategic expectations of marketing. If it's trial, choose some trial generating metrics, etc. At most companies, management has several expectations of marketing ranging from building brand equity to generating trial, spending dollars efficiently and building a stronger more capable marketing resource. That's why most practitioners will want to build a balanced scorecard of complementary metrics.

To facilitate the building of a balanced scorecard, we have labeled the examples by strategic intent. The appendix contains more than 50 different metrics that address different strategic intents. We hope these samples provide useful input as you assemble you scorecard.

About EMM Group, Inc.

EMM Group is the creator of and world leader in enterprise marketing management, the marketing transformation that combines process, best practice marketing content, metrics and technology to build strong brands that drive growth.

Our mission is to embed the discipline of enterprise marketing management at thought leading companies in every business sector around the world.

Our approach is detailed in our book, The New Marketing Mission, How Process, Metrics and Technology Can Unleash Growth.

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Bibliography: Marketing Metrics Resources and References

Here are articles, Web sites, and Blogs we found helpful when preparing this report.

Articles:

Coming Up Short On Nonfinancial Performance Measurement, Ittner & Larcker, Harvard Business Review, 2003
This article makes a compelling case for the power and importance of "causal modeling" in the creation of non-financially oriented marketing metrics, such as consumer attitudinal states.

Brand Portfolio Economics, 2002 Mercer Management Consulting white paper
This article describes a framework for brand portfolio management, and outlines an analytical approach for assessing brand equity and its impact on consumer buying behavior

The Power of Brand Delivery, McKinsey Consulting position paper, 2001
This paper provides a helpful overview into the use of choice-based analytical approaches to understanding the drivers of brand equity, as an important initial step in the design of brand equity metrics.

Customer Satisfaction, Cash Flow & Shareholder Value, Gruca & Rego, 2003 MSI Working Paper Series
This article summarizes a study examining the impact of customer satisfaction on operational cash flows. The report attempts to quantify the impact of customer satisfaction on the magnitude and variability of future cash flow.

What Value Marketing? – A Position Paper on Marketing Metrics in Australia
2004 paper documenting findings from the Australian Marketing Institute's Marketing Metrics project. The paper outlines a framework for marketing metrics, and documents the most commonly used marketing metrics in various areas. Much of the framework material is derived from Tim Ambler's 2003 edition of "Marketing and the Bottom Line."

The One Number You Need to Grow, Frederick Reichheld, Harvard Business Review, 2003
Reichheld's classic article outlines the justification, calculation, and appropriate interpretation of the elegantly simple and powerful Net Promoter metric.

The Value of Strategy Decisions, 2005 Advanced Competitive Strategies article
This article provides a simple yet powerful approach to quantifying the impact of alternative strategic initiatives, an approach that is worth consideration in the evaluation of assessing the potential impact of marketing initiatives.

Measuring Marketing Effectiveness and Value: The Unisys Marketing Dashboard, Miller & Cioffi, 2004 Journal of Advertising Research article
A comprehensive description of the design and implementation of a marketing metrics dashboard at Unisys Corporation, with particular emphasis on the critical corporate cultural change management issues that need to be addressed.

Metrics for Linking Marketing to Financial Performance, Srivastava & Reibstein, 2004 Marketing Science Institute working paper
A detailed overview about the current state of academic attempts to link marketing activities and financial outcomes

Exploring the Brand Value-Shareholder Value Nexus for Consumer Goods Companies, Kerin & Sethuraman, 1998 Journal of the Academy of Marketing Science article
An important academic study exploring the link between brand value and shareholder value.

Getting Real About Customer Lifetime Value, Werner, 2003 Marakon Associates paper
A detailed exploration of the Customer Lifetime Value (LCV) concept and its importance in understanding marketing importance

The Customer Lifetime Value Concept & Its Contribution to Corporate Valuation, Bauer, Hammerschmidt & Braehler, 2003 Yearbook of Marketing and Consumer Research
A detailed exploration of the use of CLV and its linkage to company shareholder value.

Economics' Gift to Marketing, 2003 Mercer Consulting Journal article
This article provides a useful introduction to the use of the analytical technique of choice modeling to the assessment of brand equity.

Predicting the Unpredictable, Bonabeau, 2002 Harvard Business Review article
An introduction to the marketing modeling technique known as agent-based modeling (ABM), which offers the potential for delivering unique insights into the financial and brand equity implications of marketing investments.

How the Pursuit of ROMI Is Changing Marketing Management, September 2004 Journal of Advertising Research article
This article describes a framework and set of criteria for successful implementation of marketing ROI (ROMI) programs

Promotion Effectiveness: More Important Than Ever for Consumer Products Companies, 2005 AMR Research article
This article proposes a new set of metrics to understand promotions effectiveness, focusing on key supply chain dynamics.

Processes and methodologies for creating a global business-to-business brand, 2002 paper by Randall Rozin
The author of this paper is the Global Manager of Branding and Marketing Communications with Dow Corning Corporation. He provides a comprehensive framework for brand building in the B2B arena, complete with thoughts on appropriate metrics.

Online Panels: The New Frontier of B2B Research, Richard Thornton, UK Director, Market Research, Ciao GmbHBIG Annual Conference, May 2005
This paper summarizes recent European research into the benefits and potential limitations of using online customer panels for B2B customer attitude assessment. Good summary of the issues and considerations involved.

Web sites:

www.marketingnpv.com
Magazine/website covering topics in the overall area of marketing ROI

marketingtoday.com
Good source of current news articles pertaining to marketing accountability and ROI.

www.themeasurementstandard.com
A magazine/site (free content with registration) offering surprisingly actionable and specific articles devoted to media metrics.

www.msi.org/msi/publications.cfm
Publications site for the Marketing Science Institute (MSI) – many metrics-related white papers available here

www.cmomagazine.com
Magazine/website with intriguing and unique content, and a reasonably active blog. Good editorial integrity, as evidenced by their distinguishing “vendor whitepapers” from other content.

www.marketingprofs.com
Lots of academic-oriented marketing metrics content, some pearls among the more theoretical pieces.

www.brandfinance.com
Some unique brand valuation and brand scorecard white papers on this brand consultancy’s site

www.bettermanagement.com
This site contains several articles on the subject of corporate performance management with specific applications in marketing and marketing strategy

www.brandchannel.com
Interbrand’s site offering unique white papers on the assessment of brand equity

www.btobonline.com
Site/magazine devoted to the broad area of B2B marketing, including some pragmatic and helpful B2B metrics articles.

www.marketingadvocate.com
Site devoted to B2B marketing techniques, technologies and processes. Good collection of relevant white papers on a wide variety of B2B marketing and technology topics.

www.marketingsherpa.com
Content and paid download site devoted to marketing ROI and related topics – good unique content

Blogs:

blog.startwithalead.com/weblog/public_relations_pr/
One of the better blogs devoted to B2B marketing topics, with a particular emphasis on public relations metrics

decker.typepad.com/
General marketing blog with some unique perspectives and entries on creating a “culture of marketing ROI”

www.buzzmetrics.com/blog/
The official blog of BuzzMetrics, a word-of-mouth research and planning firm, and co-founder of the Word of Mouth Marketing Association (WOMMA). Unique reflections on the “discipline” of word-of-mouth marketing and the societal and business impact of consumer-created content.

www.morningstarmultimedia.com
“Professional services marketing blog” which many entries devoted to the discussion of marketing ROI

Introduction to the Appendix

(Appendix to ANA Marketing Accountability Task Force Findings)

The work of the ANA Marketing Accountability task force was twofold: (1) to review current best practices used by ANA member companies to improve their marketing accountability; and (2) to provide a practical catalog of accountability metrics used by industry practitioners from which marketers may choose those appropriate to their unique situation. This need relates directly to one of the task force's principles of best practice - identifying management's strategic expectations of marketing and developing metrics to express progress or lack thereof in the targeted responsibility.

Current best practice suggests that metrics reflect the strategic intent which a company's management has for its marketing function. If management expects marketing to build brand equity then measure that. If delivering sales prospects is important, measure that. If increasing the lifetime value of customers is important, measure that. With this principle in mind, the appendix that follows groups metrics by strategic intent.

Every company and every vertical is different. That's why the appendix includes several metrics under each strategic intent. These unique metrics represent different ways which study participants responded to their management's request for accountability about a specific strategic intent they attribute to the marketing function.

The appendix provides a method of calculation, likely data sources and the types of verticals for which this metric may be appropriate. We do not claim this list is exhaustive. We expect, indeed we hope that this 'starter' list will inspire users to develop different but more appropriate metrics for their company.

This appendix represents but a beginning. We welcome comments, questions and additions from every marketer.

Innovation

In many companies, marketing has at least a partial responsibility for innovation. Some study participants reported difficulty in developing appropriate metrics for innovation. When we queried others about how they were measuring ‘innovation’, they reported the metrics listed below. Two of these metrics seemed particularly creative. One compared the projected sales value of their innovation pipeline to the gap in their sales forecast between the total sales gain needed to meet Wall Street’s expectations and the projected value of current products. Another participant claimed to measure ‘speed to market’ with innovation as a critical metric in a category where product news is of paramount importance.

Innovation	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
$ sales	Sum of sales of products/services/ retail locations < 3 yrs old	Internal Company sales	Simple addition. Results compared to previous year	Virtually universal	Simple, broadly applicable, practical measure
% of $ sales from innovation	Sum of sales of products/services/ retail locations < 3 yrs old divided by total sales compared to previous year	Internal Company sales	Simple addition and division	Virtually universal	Simple, broadly applicable, practical measure
Innovation competitiveness	Sum of sales of products/services/ retail locations < 3 yrs old divided similar sales of leading competitor	Internal Company sales, estimate of competitive sales from third party syndicated data or competitive public data	Simple addition and division	Virtually universal	Competitive data sometimes hard to calculate. Requires agreed internal data collection protocol
Profitability of New product/ service	Ratio of margin of new products /services versus existing product/ services	Internal Company cost and profit data	Divide profit margin of new products /services by that of existing products /services	Virtually universal	Accounting conventions required to determine overhead attribution among new/current products
New product/service pipeline sufficiency	Ratio of estimated sales of new product portfolio vs. stated sales goals	New product estimates from 3rd party or internal source and stated company sales goals.	Addition of new product estimates divided by stated sales goals	Virtually universal	Determination of time periods for comparison. Source of new product sales estimates (e.g. external third party new product estimation service or internal source)

Innovation	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Customer growth from new products/ services	% of new product/service/location customers new to brand/company customer base	Household panel data, customer survey, CRM sales records	Divide new customers/consumers of product/ service by known customer /consumer set before new product	Virtually universal	Determining number of new customers. Some verticals may require customer survey to ID new customers
Research productivity	Number of patents received versus previous year	Patent filings	Compare current years patents to previous years	Most product oriented marketers	Many valuable innovations are not subject to patent filings. Patents per se do not guarantee commercial or competitive value
Organizational innovation	Number of suggestions annually or number of suggestions /employee	Internal company 'suggestion box'	Collect suggestions and total or divide total by number of employees	Virtually universal	Quality of suggestions. Executive response to employee input. Recognition of quality. An input measure. No guarantee of commercial value
Innovation implementation	# of cost reduction suggestions from employees implemented	Internal suggestion and cost reduction data	Capture of cost reduction ideas implemented within past 12 months	Virtually universal	Capture of source of cost reduction suggestion and implementation. Determination of cost reduction realization
Cost reduction innovation	$ value of cost reduction suggestions from employees implemented	Internal suggestion and cost reduction data	Capture of cost reduction ideas implemented within past 12 months	Virtually universal	Capture of source of cost reduction suggestion and implementation. Determination of cost reduction realization
Quality of innovation	# of new product/ service ideas given 'top 2 box' rating	Consumer response to idea in survey or after trial	Standard 'definitely would buy/probably would buy' survey response among target audience	Most goods and services categories	Use of standard research protocol providing benchmarks. Probably requires external third party research intervention. Not a basic responsibility of marketing
Extension of consumer /customer franchise	# of customers/consumers purchasing new product /service within year one after introduction	Household panel data, customer survey, CRM sales records	Collection of purchases dependant upon data collection method used	Most goods/ services/retail categories	Those purchasing may not be new to franchise merely transferred from other product/service or retail location
Speed to market	Average time period from receipt of patent approval or 'top two box' score	Internal marketing records	Difference between date of receipt of positive legal or marketing notice and introduction of idea into sales with customer	Many product /services/retail categories	Isolating start date. Additionally, marketing not in control of many development issues

Differentiation

Many brand equity models put a premium on the brand's being seen as different by consumers. It's no surprise that many participants reported metrics aimed at measuring marketing's success at positioning the brand as 'different' from competitors. Difference comes in many 'flavors'. Some measure 'better value', others more emotional attributes such as 'makes me feel better about myself' or 'makes life more enjoyable'. The precise collection of words depended upon the product category but the intent was to measure 'difference'.

Differentiation	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Special product/ service/ store	Average rating on 5 point scale in answer to description 'This is a special store, product or service'	Customer survey comparing service or product to benchmark products and services	Ranking on 5 point scale compared to benchmark products, stores or services	Virtually universal	Care required in framing question, selecting respondents and benchmarks
Unique product/ service/ store	Average rating on 5 point scale in answer to description 'This is a unique store, product or service'	Customer survey comparing service or product to benchmark products and services	Ranking on 5 point scale compared to benchmark products, stores or services	Virtually universal	Care required in framing question, selecting respondents and benchmarks
Product/service/ store ranking on 'value'	Average rating on 5 point scale in answer to description 'This store, product or service is a good value'	Customer survey comparing service or product to benchmark products and services	Ranking on 5 point scale compared to benchmark products, stores or services	Virtually universal	Care required in framing question, selecting respondents and benchmarks
Product/service/ store ranking on 'makes life more enjoyable'	Average rating on 5 point scale in answer to description 'This is store, product or service that makes life more enjoyable'	Customer survey comparing service or product to benchmark products and services	Ranking on 5 point scale compared to benchmark products, stores or services	Many retail, service and product categories	Care required in framing question, selecting respondents and benchmarks
Product/service/ store ranking on 'makes me feel good about myself'	Average rating on 5 point scale in answer to description 'This is store, product or service that makes me feel good about myself'	Customer survey comparing service or product to benchmark products and services	Ranking on 5 point scale compared to benchmark products, stores or services	Virtually universal	Care required in framing question, selecting respondents and benchmarks

Customer Centricity

At many study participants, marketing owns the customer and is responsible for keeping the company 'customer centric'. Not surprisingly, the metrics for this important strategic intent of marketing are many and varied across B2C and B2B. They range from familiar concepts such as 'customer loyalty' to less familiar ones such as Frederich Reichheld's 'net promoter score' and the number of training hours that a B2B company invests in its customers.

Customer Centricity	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Customer or consumer loyalty	% of customer/ consumer needs in category being satisfied by product, service or retail outlet	Household panel data, customer survey, CRM sales records	Value of company product/ services divided by total customer purchases from all competitors offering similar products and services	Most goods/ services/retail categories	Difficult calculation in many verticals because of data voids
# of products purchased	# of companies multi-product line purchased by average customer/ consumer	Company sales records or survey of end users of third party distributors	Capture the number of company products purchased by each customer. Compute the average	Many B2B verticals	Distribution through third parties may complicate data capture
Rating as vendor by customers	Customer ranking of company as vendor or supplier	Customer survey permitting comparison to many customer suppliers	Ranking on 5 point scale in response to question: How do you rank company X as supplier?'	Many B2B companies	Often more influenced by product or service level than by marketing per se
Training of customer personnel	Average hours of training provided to customer's employees	Internal training records	Capture number of hours from company and customer records. Convert to Hrs/customer employee	Those where company and customer success depends upon knowledgeable customer employees	Training sometimes self administered by employee, difficult to capture
Customer ranking of products and services	Customer ranking of company's products or services	Survey of customer personnel familiar with products	Ranking of company products /services on 5 point scale permitting comparison to competitor's product's/services	Many B2B verticals	Often more influenced by product or service level than by marketing per se
Net Promoter score (Riechheld concept)	Difference between strong 'promoters' of company and detractors	Customer survey	Calculation developed by Riechheld. See article in bibliography	Most goods/ services/retail categories	Requires adherence to disciplined survey methodology developed by Riechheld

Customer Centricity	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Key Characteristics ranking	Customer ranking of company on key performance attributes of product or service	Customer survey	Ranking on five point scale of selected attributes important to customers	Most goods/ services/retail categories	Requires knowledge of important attributes, careful choice of respondents, framing of questionnaire
Customer profit on company products	The $ profit realized by client on company's products	Customer records or customized study	Can be simple capture of customer resale data or sophisticated activity based costing study in complex supply chain industries	Company's products are resold to third party or consumers	Requires collaboration of customer. May require sophisticated data collection and cost accounting approach (ABC). May not be marketing influenced

Marketing Efficiency

If marketing accountability means anything, it means spending the marketing budget efficiently. Therefore it's no surprise that participants reported a broad range of marketing efficiency metrics. Many of these metrics were generated by sophisticated market mix modeling but some were simpler such as the focus on controlling 'nonworking' $'s as a percent of the total advertising budget. Special mention should go to the sophisticated attempt to capture the change in lifetime value of the company's customer franchise divided by the total marketing expenditure for the year. This is a particularly artful attempt to reward advertising for attracting a customer that generates revenue for a lifetime.

Marketing Efficiency	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Δ LCV/ annual marketing cost	LCV Current yr –LCV yr last yr / marketing $'s current year	Syndicated panel data, company sales records and marketing budget data	Compute the aggregate lifetime value of customers in franchise, subtract last year's value. Divide the difference by annual marketing costs	Valuable across many verticals, B2B and B2C	Requires sophisticated calculation regarding customer loyalty decay curve. LCV not universally appropriate
Non working $'s control	Non-working $'s as % of total marketing or ad $'s	Internal budget records	Capture all ad expenses not directly touching consumers (department overhead, commercial production costs, research, website development, etc) divide by total marketing or ad costs	All categories	Requires accounting convention identifying 'non-working' dollars
Recall or persuasion per $ of ad production	Respondent recall (or persuasion) divided by the total cast of production	Syndicated research provider and internal cost records	Divide recall by cost of producing campaign, index versus past campaigns e.g. recall of 15/$300k = 5 recall points per $100K	All categories	Short term measure. Higher production values may 'wear well'
Return on advertising investment	Return per dollar invested in specific period by specific media investment	Time series data analytics	Isolation of incremental revenue and associated costs using market mix or multi variate analysis	Any vertical or expenditure meeting specific conditions primarily availability of time series data	Requires time series input data, usually requires experienced third party analysis, specific conditions. Not applicable to many B2B expenditures

Marketing Efficiency	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Return on promotional investment	Return per dollar invested on promotional option (e.g. price reduction, couponing, etc)	Time series data analytics	Isolation of incremental revenue and associated costs using market mix or multi variate analysis	Any vertical or expenditure meeting specific conditions primarily availability of time series data	Short term focus. Requires specific conditions, usually requires experienced third party analysis. Not applicable to many B2B expenditures
Customer value versus acquisition cost	Calculate lifetime value of customer. Divide by acquisition cost	Internal marketing and customer data	Identify direct costs associated with customer enrollment. Calculate lifetime value of customers similarly acquired. Divide value by acquisition cost	Many verticals where direct to consumer marketing makes calculation both important and relevant	Requires rigorous accounting controls and sophisticated calculation of customer worth. Decay curve or loyalty level is key
Reduce sales cycle time	Identify historic time required to close sale on new account or new product/service. Measure change over time	Internal sales records	Review sales records from CRM files to identify sales cycle for new client or new product /service	Any vertical where marketing closely supports sales with prospect focused efforts	Marketing does not control all elements of sales cycle. Metric requires accounting conventions and policy agreement

Trial Generation

In many companies, trial generation is perceived as one of marketing's most important strategic responsibilities. Therefore, metrics about trial generation appeared on many of the dashboards which study participants forwarded for our perusal. These trial metrics came in many forms but the three shown below capture the common ways of measuring trial generation. These metrics were often complemented by those calculating the cost per new trier, the cost of a new customer, etc. These metrics were especially important in verticals such as consumer financial services and Telco where gaining new customers absorbs virtually all marketing funds not focused on equity building.

Trial Generation	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Extension of consumer / customer franchise	# of custom-ers/consumers purchasing new product /service within year one after introduction	Household panel data, customer survey, CRM sales records	Collection of pur-chases dependant upon data collec-tion method used	Most goods/ services/retail categories	Those purchasing may not be new to franchise merely transferred from other product/service or retail location
New accounts	# of new accounts added in past period	CRM sales records or dis-tributor records	Capture of new accounts from sales or distributor records	Most B2b verticals	New account activity rarely the sole responsi-bility of marketing
Trial of new location/branch	# or % of targets visiting or purchas-ing from new retail outlet or service branch	Internal sales records from location	Capture of cus-tomer data from new location	Many retail and B2b verticals	May require adjustment for cannibalization of existing location. May require identification of target consumers to compute % penetration

Lead Generation

In many B2B companies, lead generation for the company's sales force is the primary responsibility of the marketing function. This seemingly simple concept presented study participants with many problems ranging from separating leads among overlapping marketing efforts to associating a lead with efforts which occurred well before it actually showed up in the hopper. Companies who are serious about isolating the effectiveness and efficiency of lead generation often must create rigorous test and control areas or panels. Even this innocent approach often created problems when a specific sales region realized it was functioning as a 'control' market and thereby being deprived of effort directed into the test area.

Lead Generation	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Number of sales leads generated	# of sales leads generated by campaign in period	Company contact center	Capture of leads in response to outbound or inbound inquiry	Most goods/ services/retail categories	Requires means of identifying campaign generating lead
Cost / sales lead	Cost of campaign divided by # of sales leads generated by campaign in period	Marketing cost records. Company contact center	Determine incremental cost of campaign. Divide by # of leads in response to outbound or inbound inquiry	Most goods/ services/retail categories	Requires internal accounting conventions regarding cost definitions. Requires identification of campaign generating lead
Lead conversion ratio	Percentage of leads converted into a sale	Company contact center. Company sales records	Determine # of leads in response to outbound or inbound inquiry. Divide into number of leads converted to sale	Many B2B categories	Requires internal accounting conventions regarding what constitutes a sale. Requires identification of campaign generating lead

Awareness

In most companies B2C or B2B, creating awareness is one of the primary responsibilities of the marketing function. As we pointed out in the body of the report, 'awareness' is an 'intermediate' metric which is qualitatively better than an input metric but much less valuable than an output metric such as one that measures a behavior induced by marketing e.g. sales. None the less, many marketing departments are held responsible for 'awareness', a metric that turns out to be almost more trouble than it is worth. In B2B companies, a related metric, 'inclusion in a purchase consideration set', has more to recommend it but also presents problems in isolating the activity causing a prospective buyer to include a specific company in its group of prospective suppliers.

Awareness	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Top of mind awareness	Unaided and aided awareness of company among selected respondent base	Survey	Response by selected respondents to survey question regarding awareness of company	All verticals	Awareness does not imply preference. Survey can be structured to provide data beyond awareness. Choosing respondents and developing research protocol are critical
Consideration Set Inclusion	% mentioning company as within consideration set for goods or service purchase	Survey	Response by selected respondents to question: 'What brands/ companies would you consider for this product or service'	All verticals	Survey can be structured to provide valuable data beyond 'consideration'. Choosing respondents and developing research protocol are critical

Advertising Copy

Developing effective advertising copy is one of the few responsibilities for which the marketing function can rightfully claim almost sole ownership internally. As you might expect, metrics for this responsibility appear on lots of dashboards. These metrics range from a focus on 'persuasion' and recall to various measures of characteristics such as 'news value', 'difference', etc. One interesting metric emerging in service and retail verticals measures the balance between equity focused and price /promotion advertising in the companies media mix. Although technically more of a media metric, we included it here under ad copy.

Advertising Copy	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Absolute Recall and index of recall	% of respondent audience recalling key message elements/ index versus comparable categories	Syndicated research provider	Specific technique varies by third party research provider. All involve exposure of commercial to targeted respondent audience and query of points recalled	All categories	Research service should provide norms to permit indexing versus commercials from comparable categories
Absolute persuasion and index of persuasion	% of respondent audience adjudged to be positively persuaded by credibility and appeal of copy benefit promise	Syndicated research provider	Specific technique and response metric evaluation varies by third party research provider.	All categories	Research service should provide norms to permit indexing versus commercials from comparable categories. A 'gold standard' issue for third party providers
Absolute 'Different' and index of difference	% of respondent audience judging product /service or company to be positively 'different' from competition	Syndicated research provider	Specific technique and response metric evaluation varies by third party research provider.	All categories	Research service should provide norms to permit indexing versus commercials from comparable categories
Absolute 'Likeability' and index of 'likeability'	% of respondent audience judging commercial, product /service or company to be 'likable' or 'enjoyable'	Syndicated research provider	Specific technique and response metric evaluation varies by third party research provider	All categories	Research service should provide norms to permit indexing versus commercials from comparable categories. Likeability does not necessarily imply preference
Absolute 'New information' and index of 'news'	% of respondent audience judging commercial provides 'news or new information'	Syndicated research provider	Specific technique and response metric evaluation varies by third party research provider	All categories	Research service should provide norms to permit indexing versus commercials from comparable categories. News itself not necessarily persuasive

Advertising Copy	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Engagement	Absolute and trended measure of extent to which specific media alternatives are engaging and influencing consumers	Various syndicated and proprietary services	Varies by external provider. Usually requires customized survey	Most verticals, B2C and B2B	Emerging discipline. Suppliers should provide norms and validation techniques
Equity advertising as % of total advertising	The percent of total advertising dollars devoted solely to equity building with no short term demand enhancement elements	Internal advertising expenditure records	Capture total advertising expenditures for all channels. Identify those expenditures solely focused on equity building. Divide them by the total	Most verticals, B2C and B2B	Requires internal policy agreement or accounting conventions to isolate equity building ads

Margin Enhancement

This 'strategic intent' underscores the complexity of the metrics issue because in most companies, the marketing function has little or no direct responsibility for 'margin'. In some verticals, however, the marketing function does play a roll in managing margin as part of the overall demand creation value stream. In other verticals, management views 'margin enhancement' as a critical indicator of marketing's ability to position the product as a superior value in the minds of consumers.

Margin Enhancement	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Average margin and trended index	Net margin on targeted goods and services	Internal records	Identify margin before corporate overhead	All categories	Marketing only one factor influencing margins
Discount avoidance	% of sales, units or orders sold at full margin without discount.	Internal records and third party syndicated reports	From third party reports or company records identify $ sales of products / services sold at full margin. Divide by total sales. (or units or orders)	All categories	Marketing only one factor influencing margins and competitive conditions
Willingness to pay a premium	% of target willing to pay a premium price for product or service	Survey	Response to survey question or series of questions aimed at eliciting value judgment from consumers /customers	Many verticals and product categories	Marketing only one factor influencing margins and attitudes towards value
$'s per unit sold	The revenue realized per unit of product or service sold	Internal company records	Capture total units sold (hotel rooms rented/ air line miles sold.) Calculate total revenue for period. Divide revenue by units	Verticals where marketing is responsible for revenue management	Marketing only one factor influencing margins and overall demand

Brand Equity

Brand equity metrics in one form or another appear on a high percentage of participant dashboards and rightfully so. This metric captures the most important long term responsibility of marketing, the one 'strategic intent' for which marketing ought to demand ownership and accountability. Metrics in this group come in a variety of types. Some utilize external third party brand equity measures from numerous reputable suppliers with a panoply of interrelated measures and lots of benchmarks across categories. Other companies focus monomaniacally on 'owning' one benefit which they measure in the absolute and relative to competition. Still others develop sophisticated total equity or preference scores by rolling up a battery of measures from a 'brand tracker'. Marketers should definitely capture brand equity using the methodology which balances unique category characteristics, cost and competitive issues.

Brand Equity	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Price premium value	The price premium consumers are willing to pay for a brand or service delivered by a specific brand	Proprietary survey methodologies	Response to a set of specific queries that isolate the premium associated with the brand often using proprietary third party techniques augmented by conjoint analytical approach	Many verticals and product categories	Marketing only one factor influencing margins and attitudes towards value
Attribute/benefit Ownership	Significant difference vs. competition in brand's identification with attribute deemed important to the brand	Brand tracker type survey	Research which provides quantified delta of brand versus competitive set on specific emotional or functional benefit	Many verticals and product categories	Marketing only one factor influencing margins and attitudes
Willingness to pay a premium	% of target willing to pay a premium price for product or service	Survey	Response to survey question or series of questions aimed at eliciting value judgment from consumers /customers	Many verticals and product categories	Marketing only one factor influencing margins and attitudes towards value

Brand Equity	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Bonding/ emotional attachment	A measure of the emotional bond between brand/ company and the customer	Brand equity survey	A computed figure based on a battery of responses in several proprietary third party brand equity models	Many verticals and categories	Consumer/customer attitudes towards brand/company influenced by non marketing factors (e.g. usage experience, innovation, importance of functionality
Category driver ownership	Significant difference in brand's identification with attribute proven to drive category preference	Brand tracker type survey	Research which provides quantified delta for brand on attribute/ benefit computed to be primary contributor to preference in category	Many verticals and product categories	Marketing only one factor influencing margins and attitudes towards preference

Purchase Behavior

These metrics and others involving campaign response appear on a high percentage of dashboards especially in verticals where the marketing function spends large amounts of money to generate an immediate consumer response. In these verticals and others, the marketing function spends lots of energy and money on the more promotional side of the ledger as opposed to equity building. It should be no surprise that management wants to know how consumers responded to these shorter term more tactical efforts. One metric, however, stands out for having a longer term more strategic value and that is the annual value of a consumer or customer. This is a fundamental metric that all marketers should understand and utilize in marketing planning. In a few verticals, this metric is of no value (e.g. power generation turbines bought every 20 years) but in most categories this is one metric everyone should capture.

Purchase Behavior	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Frequency of purchase	The number of times a con-sumer /customer purchases during a specific time period	Household panel, loyalty card, company sales records, survey	Capturing of purchase behavior from various sources	Many b2C and B2b verticals and product categories	Marketing function may not control levers most valuable in driving frequency of visit
Annual purchase value of consumer/ customer	Sum of all pur-chases in the past year	Household panel, loyalty card, company sales records	Capturing of purchase behavior from various sources	Many b2C and B2b verticals and product categories	Marketing function may not control levers most valuable in annual purchase
Transaction value	The average value of an individual consumer /cus-tomer purchase transaction	Household panel, loyalty card, company sales records	Capturing of purchase behavior from various sources	Many b2C and B2b verticals and product categories	Marketing function may not control levers most valuable in transaction value

Marketing Human Resources

This metrics group's strategic intent is to provide management with an insight on the marketing department's capability building. It is meant to answer the question: 'Are we building an effective, competitive marketing capability internally'? The subject of capability building is growing in importance across all functions and verticals. Marketing is receiving its fair share of scrutiny in this regard. Measuring the capability of the marketing human resource is difficult because the ultimate metric is the competitive impact of the department's output. Nonetheless, some companies are beginning to capture various 'soft' and 'hard ' measures to understand the broad subject of marketing human resource 'capability'.

Marketing Human Resources	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Learning organization	Ranking of marketing department as learning organization by marketing employees	Brand tracker type survey	Internal survey with rank on scale by marketing employees	All verticals and product categories	Should be compared to other functions and trend
Department Training	Amount and quality of training for marketing personnel	Brand tracker type survey	Internal survey of training quality with rank on scale by marketing employees plus capture of completed training hours	All verticals and product categories	Should be compared to other functions and trend
Attitude toward department	Ranking of marketing department for 'investing in me'	Brand tracker type survey	Internal survey with rank on scale by marketing employees on question concerning perception of commitment to employees	All verticals and product categories	Should be compared to other functions and trend
Relative respect	Ranking of marketing department on relative respect within company by marketing employees	Brand tracker type survey	Internal survey with rank on scale by marketing employees versus other functions.	All verticals and product categories	Should be compared to other functions and trend
Turnover barometer	Ranking of recent voluntarily departed employees	Company personnel records	Capture personnel ranking of recent voluntary departures. Average and trend	All verticals and product categories	Should be compared to other functions and trend
Training hours	Average training hours /training courses taken by Marketing staff	Internal company records	Capture # of hours in training classes or number of training courses passed.	Broadly appropriate for virtually all verticals	Does not speak to quality of training or its effect on business

Marketing Human Resources	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
% of marketing employees advancing in grade	The percentage of employees employed > 2 years who were advanced in grade	Internal company records	Identify employees employed > 2 years. Identify # advanced in grade. Calculate % advancement	Broadly appropriate for virtually all verticals	Must be used as part of battery of balanced scorecard metrics. Compared to industry norms etc
Turnover	A balanced scorecard including turnover among employees< 2 years, among employees ranked superior, among middle management tier	Internal company records	Identify separated employees place within measured group, derive %. Compare over time	Broadly appropriate for virtually all verticals	Needs to be placed in perspective of vertical and tracked over time. Rationale behind turnover needed

Public Relations

The somewhat ephemeral nature of the public relations function has led to a frenzy of metrics development. Several highly competent industry groups have developed approaches worthy of study. As one of our study participants pointed out, the irony of all these efforts to 'justify' public relations is that everyone intuitively agrees about the power and credibility of an artful PR campaign. Nonetheless, it remains challenging to disaggregate the effects of PR from many other company activities. This is especially true because many companies lean hardest upon PR to mitigate the negatives of some external untoward event. The felonious attempt to point the 'finger' at Wendy's is a classic example of the challenges of creating PR metrics. The chart below offers some creative metrics shared with us.

Public Relations	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
AVE's (advertising value equivalent)	The conversion of non paid media mentions into the equivalent of advertising gross rating points	Third party data providers	Capture of impressions by media type and then their conversion into the equivalent of paid gross rating points	Many verticals and product categories	Difficult to ascertain quality of mention, context, message delivered or affect on message recipient. A classic 'input' measure
Target Stakeholder Response	Attribute ranking among selected stakeholders (Industry thought leaders, media, shareholders, etc)	Brand tracker type survey	Survey research of targeted stakeholders on key industry and company attributes	Many verticals and product categories	Requires proper selection of respondents and survey technique
Critical article response	The percentage of major industry articles especially those with a critical viewpoint which contain the company's detailed response	Internal tracking	Identify all major articles in key publications. Compute percent containing a specific response from the company	Many verticals and product categories	Requires definitions regarding major article and company response. Does not measure credibility or impact of response only ability to respond
Response to specific effort	# or % of visits on website to specific communication to targeted constituency	Web tracking software	ID respondents to E-mail campaign to specific constituents with targeted message. Calculate # targets or % responding in suggested manner (e.g. visits to website)	Many verticals and product categories	Does not measure effect of message in changing attitudes only effectiveness in driving target to web page

Public Relations	Definition/ Calculation	Source of data	Calculation or technique	Verticals where appropriate	Problems or concerns
Attitude change among target	Δ in attitudes among test and control target audience	Web tracking software	ID respondents to E-mail campaign to specific constituents with targeted message. Measure attitudes pre and post among test and control	Many verticals and product categories	Requires careful selection of test and control groups
Media impact indices	Index of impact including # of stories, quality, tonality etc	Proprietary measures from third parties	Third party syndicated sources apply proprietary selection and evaluation metrics	Broadly available for virtually all verticals	Generally do not measure effect or 'output' of PR effort only 'inputs' or 'intermediate' metrics or qualitative measures
Attribute ownership among target audience	Ranking on monadic 5 point scale of key strategic attribute among selected target audience	Survey research	Select target audience. Identify attribute to measure. Use simple metric like 5-point monadic	Broadly available for virtually all verticals	PR effort not only influence on respondent rankings. Research must focus on attitudes tied more closely to PR activities
Awareness of 'good works'	Awareness among selected respondents of company's 'good works'	Survey research	Select target audience. Establish unaided and aided awareness of company's involvement in specific cause or response	Broadly available for virtually all verticals	Awareness does not necessarily translate into improved attitudes
Attitudes among those aware of 'good works'	Ranking on brand tracker among those aware/unaware of company 'good works'	Brand Tracker or survey	Identify activity to measure. Use simple metric like 5-point monadic. Compare aware versus unaware respondents to isolate value of 'good works'	Broadly appropriate for virtually all verticals	PR effort not only influence on respondent rankings. Research must focus on attitudes tied more closely to PR activities