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Truly Accountable Marketing: The Right Metrics for the Right Results

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A recent study by researchers Germann, Lilien and Rangaswamy showed that companies who deploy marketing analytics obtain 21 % more Return on Assets (ROA) in competitive industries. Unfortunately, few companies appear able to deliver on this promise. In the absence of smarter organic growth, they tend to focus on mergers and acquisitions, which yield high risk and questionable returns (as detailed in Donald Lehmann's article, p. 16). Marketing accountability is essential for sustained organic growth, but the challenges to it loom large. In my experience across categories and continents, the major steps in truly accountable marketing include defining the right results, using the right metrics and finally acting on the collected insights. As Peter Drucker put it back in 1967, ''The question we must ask is not, 'How many figures can I get?' but 'What figures do I need? In what form? When and how?' We must refuse to look at anything else.''

The right results: tailoring dashboards and using financial terms correctly /// The right metrics start with defining the right results: Which informed decision needs to be made? Managers are frustrated by the gap between the promise and the practice of effect measurement, between big data and online/off-line integration. In their March 2013 article, McKinsey experts share that many companies skip the step of generating a ''plan for how data, analytics, frontline tools, and people come together to create business value. The power of a plan is that it provides a common language allowing senior executives, technology professionals, data scientists, and managers to discuss where the greatest returns will come from and, more [importantly], to select the two or three places to get started.''

Different companies have different plans depending on which decisions need to be informed by data and at which level. Figures 1 and 2 illustrate the analytic dashboard structures used for a major car manufacturer in the U.S. and a midsized business-to-business reseller in Europe, respectively.

For the U.S. car manufacturer, the marketing decision involved trade-offs among profit objectives, product development, price, distribution and marketing communication in the annual budgeting cycle. For that decision-making process, the simple scroll bar in Figure 1 provided an overview of these trade-offs and thus allowed more fruitful negotiation and decision. Slide bars allow for displaying many decision variables at the same time and allow the user to investigate the projected profit impact of small and large changes. In this particular case, managers successfully argued that next year's profit targets were highly unlikely given the older product age and negotiated a higher marketing communication budget to compensate for this gap.

In contrast, the midsized business-to-business reseller was more interested in allocating euros to off-line and online marketing actions with the aim of accelerating short-term profits. As a result, its dashboard focuses on marketing communication channels. The decision-maker can change any of the marketing actions and observe the projected profit impact over time. This is important when marketing actions have vastly different wear-in times. For example, faxes worked immediately, but flyers (direct mail) took many periods before resulting in a sale. Moreover, the decision-maker cared about obtaining results at specific times, such as reaching quotas by quarter's end. The analytic dashboard tool in Figure 2 helped the decision-maker reach a decision that actually yielded ***14 times*** higher profits, as detailed in the Practice Prize Video of the Marketing Science Journal.

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The right results are also a key to ***online effectiveness***. A European online retailer did not trust the results of last-click attribution, because managers felt that content-integrated actions like banner ads on an affiliate website brought in better customers than content-separated actions like re-targeting. Our analysis indeed found that both types of ads were equally effective in getting web surfers to the online retailer, but those who came in with content-integrated ads were much more likely to ultimately make a purchase. While management intuition was thus correct in ***how*** their budget allocation should change, they still needed the analytics to show them ***how much*** the optimal allocation differed from the current allocation.

Importantly, the right results are measures that work for both marketing and finance. Marketing jargon alone does not suffice; it is crucial to ultimately link budget and budget allocation decisions to company profits as seen in Figures 1 and 2. In his article here, David Reibstein details how to link marketing with the bottom line (p. 22).

The right metrics: slow-moving attitudes and fast online action /// Beyond one's own and one's competitor's marketing and "hard" performance metrics, such as sales and profits, the right metrics often include customer "attitudes": their thoughts and feelings about brands. Our interview with Nicholas Chesterton from Unilever demonstrates how important these metrics are and how Unilever discovered their value in econometric models (p. 48). As detailed in my book (see Further Reading), we can test which of these attitude metrics are leading key performance indicators and which drive hard performance over time. Shuba Srinivasan eloquently explains in her article on mind-set metrics (p. 28) how we can quantify the relation between marketing, customer attitude metrics and the bottom line. As shown in her Figure 1 (p. 31), marketing can both leverage brand attitudes into profits (the "transactions" route) or invest in building stronger brands (the "mind-set route"). A similar line is taken in our GfK research article (p. 54), in which Raimund Wildner and Guido Modenbach also present a solution for integrating slow-moving factors like loyalty into a model to determine the long-term ROI of advertising. In their analysis, two-thirds of brands obtained a sales revenue lift greater than the cost of advertising.

FIGURE 1:

Slide bar dashboard structure for large car manufacturer

By changing the levels of the marketing variables, see how profits change:

Profits 5.00

MARKET VARIABLES

Product age (months)	24
Price	30
TV ads	1,381
Online ads	198
Distribution share	20

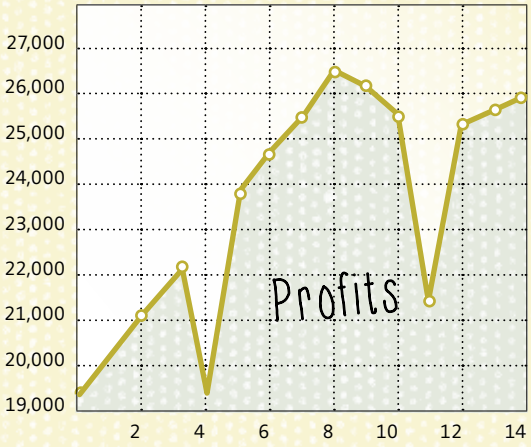
FIGURE 2:

Marketing dashboard prototype for midsized furniture reseller

Period	Flyers	Faxes	Adwords
1	0	400	100
2	0	0	50
3	0	0	50
4	4,000	0	100
5	0	0	100
6	0	0	100
7	0	400	100
8	0	0	100
9	0	0	50
10	0	0	50
11	4,000	0	100
12	0	0	100
13	0	0	100
14	0	0	100

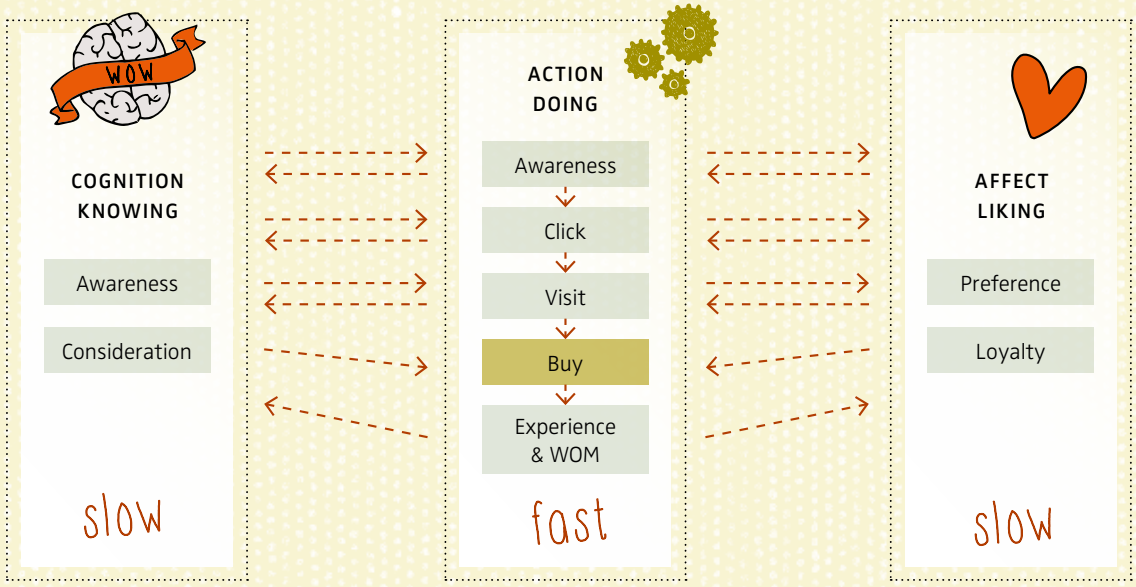
PROFITS GRAPH (INOFEC MODEL)

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Total Profits: $ 333,068,88

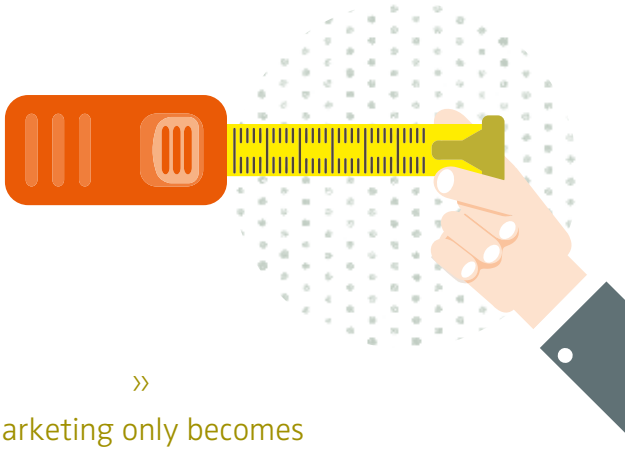
FIGURE 3:
Integration of slow moving attitudes with fast online action on the road to purchase



While attitude metrics provide useful information, they might be too costly to collect at the point when a decision needs to be made. Fortunately, you can quickly and cheaply get metrics on ***online customer actions***, such as click-through rates for banner ads and paid searches, website visits and browsing behavior and social media activity. The benefit of online metrics is that they do not require customers to actively answer questions as attitude surveys do. However, they also do not represent your entire customer population: How many consumers of products like toilet paper would engage with the brand online? So the big question is if these online metrics help explain and predict brand sales.

With GfK and Google, we set to address this question for 15 product and service categories. Even in low-involvement categories such as toilet paper, online customer activity proved helpful because it ***moved with sales*** and helped diagnose success and failure. The impact of online activity on sales was more pronounced for high-involvement products and services, which can often be bought online (e.g. lodging, insurance). However, online activity metrics did a much poorer job than customer attitude metrics to ***predict*** brand sales a few months out. Fast online action can create a lot of noise that may distract marketers from managing long-term brand health. Sometimes, however, a cool online activity does translate into a broader improvement in brand health, which is then later picked up by representative attitude metrics such as awareness, consideration and brand love. Therefore, we recommend integrating fast online action and slow-moving customer attitudes as intersecting lanes in the road to purchase, as shown in Figure 3.

The interactions among and between attitude metrics and fast online action call for a careful analysis of synergies in customer touchpoints. As Prasad Naik and Kay Peters show in their article (p. 34), synergy is most important in building awareness and affect. If you want to move the needle on either of these crucial brand building blocks, it is best to think about a combination of off-line and online marketing and measurements. An excellent example is Old Spice's 2010 "The man your man could smell like" campaign. This commercial was first aired during the Super Bowl, allowing high reach and awareness. As a next step, the actor in the commercial made response videos to fans' social media requests, in one case encouraging a girl to accept a marriage proposal by a guy who had tweeted the request. Affect for the brand grew substantially and was easily shared online. Within a year, Old Spice doubled its sales.



» Marketing only becomes more accountable once you take the leap of faith from interpreting metrics to taking action based on concrete insight. «

What does it take to identify the right metrics and link them to the right results? In a survey of over 200 senior executives, Germann and his colleagues uncovered five key success factors: top management support, a supportive analytics culture, information technology support, the appropriate data and analytic skills. All factors are covered in detail in my book.

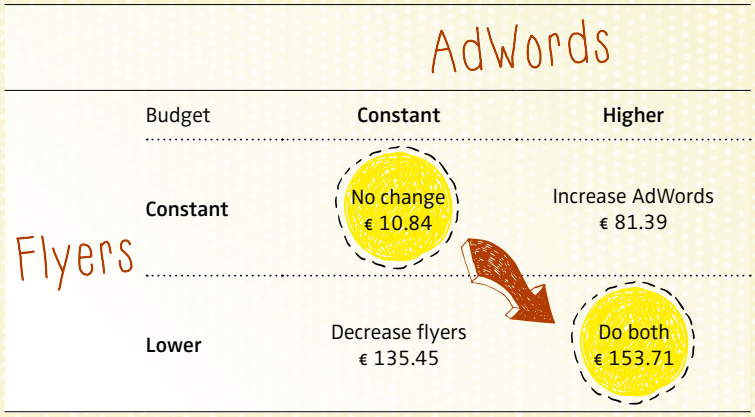
Truly accountable marketing /// As Albert Einstein remarked, "Information is not knowledge; the only knowledge comes from experience." In other words, you only arrive at the right (or better) results if you change what you do. Dominique Hanssens has an insightful article (p. 42) outlining the steps to achieving and sustaining long-term benefits from advertising. Marketing only becomes more accountable once you take the leap of faith from interpreting metrics to taking action based on concrete insight. In the words of a manager I worked with: "Lots of data and lots of action, but no link between the two." Leading companies have made millions by ***acting*** on their interpretation of analytics results. A key example in durables is Samsung, who in 2000 reallocated its marketing budget from North America and Russia to Europe and China and from air conditioning units and vacuum cleaners to LCD monitors and televisions. Within just two years, Samsung's brand value increased 30 %, revenues increased from $ 27.7 to $ 34.7 billion, net income grew from $ 5.1 to $ 6 billion and market share in LCD monitors and TVs went from eighth to second.

Instead, many managers and organizations are reluctant to change despite enthusiasm about investment in data, analytics and dashboards. Risk aversion is part of this reluctance, but so is uncertainty about how company gains will benefit the individual decision maker — and who will be blamed if things go wrong. As one manager told us, "Look, I believe your metrics and your model. The company will most likely save $ 80 million by cutting advertising spending. However, I will not see one cent of these savings. Moreover, if anything happens to go south and we lose 1 % market share, I will be fired for cutting advertising." How much money is wasted and how many promising opportunities are not pursued in companies because of similar reasoning? Of course, consensus on metrics and compensation schemes can alleviate part of this issue. But senior leadership must also "walk the walk" by insisting on sound data and analysis to justify changing or maintaining the status quo and by demonstrating how to act based on the insights. As Harrah's – Caesars Entertainment CEO Gary Loveman put it, "There are two ways to get fired from Harrah's: stealing from the company, or failing to include a proper control group in your business experiment."

Proven ways to overcome resistance to "optimal" recommendations include moving to the proposed optimal allocation gradually and demonstrating real-word gains through a field experiment. The midsized company Inofec did both, as detailed in the Practice Prize paper by Thorsten Wiesel, Joep Arts and me. Based on econometric models relating marketing to sales, we showed that some marketing actions such as flyers gave back less than €1 for each euro spent, while others such as AdWords gained much more. Management agreed to cut spending on mail flyers in half and to double paid search spending. However, we convinced them to first design a field experiment, in which we split the country into four regions, similar in their customer potential and past sales. The results of this field study are presented in Figure 4.

FIGURE 4:

Profit impact of spending levels for different marketing actions



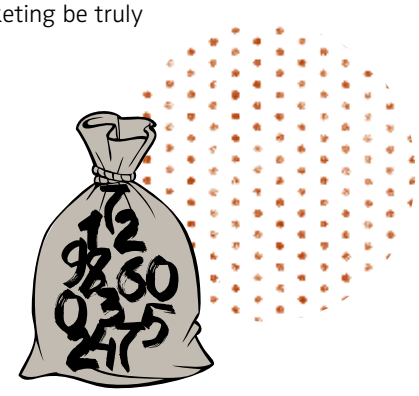
The first region received the previous marketing budgets with no changes, while the second region had both lower spending on flyers and higher spending on AdWords. The other regions applied either lower spending on flyers ***or*** higher spending on AdWords, keeping the other marketing actions at the previous level. We agreed to run the field experiment for three months and track net profit. The resulting numbers in Figure 4 demonstrate that the region without changed spending levels showed on average a daily net profit of € 11 higher in the three months of the experiment in comparison to the three months before it. The highest net profit was obtained in the region that did both, which recorded a net profit of € 153 higher during the experiment versus before it. However, the company could also achieve substantially better results when acting on either recommendation. In times of organic growth demands, it may be better to forego some efficiency to obtain higher sales and, in this case, doubling AdWords without reducing flyers. In times of budget trouble, it may be key to maintain sales while spending substantially less, for example, by decreasing flyers.

In sum, it all comes down to connecting the right metrics of leading performance indicators with, on the one hand, marketing control variables of the decision-maker and with financial performance, on the other hand. What is needed is a concise set of interconnected metrics that relate both to actions you can take – such as changing the marketing budget or allocation – and to the company's goals, which can include profits, cost savings, organic growth etc. Such accountable marketing is necessary for improving data use for recurring and quantifiable decisions, and it frees up time for scanning the environment for opportunities. Peter Drucker stated, ''The manager should use the computer to control the routines of business, so that he himself can spend ten minutes a day controlling instead of five hours. Then he can use the rest of his time to think about the important things he cannot really know – people and environment. These are things he cannot define; he has to take the time to go and look. The failure to go out and look is what accounts for most of our managerial mistakes today.''

OVERVIEW: HOW TO IMPROVE MARKETING RESULTS

- Connect the right metrics on leading indicators with marketing control variables and financial results
- Take action based on metrics and insights
- Overcome organizational resistance to change
- Take smarter risks

Thus, far from extinguishing innovation and creativity, truly accountable marketing helps managers take smarter risks by assessing experimental projects and forecasting the profit potential of bigger, bolder initiatives. In the words of CMOs at Target, Fidelity, MasterCard and H&R Block, ''Science enriches the art in marketing, and art accelerates the science.'' If the art is ''asking the right questions to create winning strategies,'' science is ''using data and analytics to answer questions, inform decisions and optimize marketing efforts.'' Only when art and science come together can marketing be truly accountable.
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