

Boosting returns on **marketing** investment

Rules of thumb from the 1960s and '70s are losing their effectiveness. A more rigorous approach is required—one that treats marketing expenditures as investments.

**David C. Court,
Jonathan W. Gordon,
and Jesko Perrey**

Today's chief marketing officers (CMOs) confront a painful reality: their traditional marketing model is being challenged, and they can foresee a day when it will no longer work.

The declining effectiveness of mass advertising is only the most visible sign of distress. Marketers also face a general proliferation of media and distribution channels,¹ declining trust in advertising, multitasking by consumers, and digital technologies that give users more control over their media time.² These trends are simultaneously fragmenting both audiences and the channels needed to reach them. The danger for marketers is that change will render the time-honored way of getting messages to consumers through TV commercials less effective at best and a waste of time and money at worst.

Among marketers, there's much frustration and little agreement about what to do next. Some are reaching for marketing-mix models that use sophisticated econometric methods to tease out the different effects of the marketing mix on business results (see sidebar, "Beware the quantitative

¹David C. Court, "A new model for marketing," *The McKinsey Quarterly*, 2004 Number 4, pp. 4–5 (www.mckinseyquarterly.com/links/17289).

²Michael P. Zeisser, "Marketing in a post-TiVo world," *The McKinsey Quarterly*, 2002 special edition: Technology after the bubble, pp. 89–92 (www.mckinseyquarterly.com/links/17288).

Article at a glance

The proliferation of media and distribution channels, multitasking by consumers, declining trust in advertising, and digital technologies are all undermining traditional approaches to marketing.

Some marketers have responded with marketing-mix models, but in dynamic environments they can pose problems.

Marketers should apply rigorous investment principles—for example, clarifying the objectives of different marketing investments, finding and exploiting points of economic leverage, managing investment risk, and tracking returns.

Improving marketing's return on investment also calls for significant changes in organizational mind-sets and behavior.

cure-all,” on page 42). But the historical data that fuel such techniques may prove an unreliable guide to future returns.

Marketers need a more rigorous approach to a fragmenting world—one that jettisons mentalities and behavior from advertising’s golden age and treats marketing not as “spend” but as the investment it really is. In other words, it will be necessary to boost marketing’s return on investment (ROI). By adhering to the same investment principles that other functions follow, a CMO can improve the alignment between marketing and financial objectives, capitalize on a brand’s most distinctive elements

with greater success, more precisely target the consumers and media vehicles yielding the largest and fastest payoff, manage risk more carefully, and track returns more closely. In short, only by thoughtfully and systematically applying investment fundamentals to marketing can CMOs respond to the complex challenges they face.

The ROI challenge

Today’s ROI challenge has its roots in the halcyon days of mass advertising, in the 1960s and ’70s. Back then, marketers wrote the rules that still inspire many marketing investments—or, as some tellingly say, marketing spend.

Legacy issues . . .

When network television was king, marketers and the ad agencies serving them rightly focused on the massive audiences that tuned into the most popular shows. The emphasis was on “mass messaging”: the development of powerful advertisements imprinting themselves on the minds of consumers. Many marketers based their TV spending on “share of voice,” which meant making sure that the advertising budget of a brand was in line with its market share, the spending of competitors, and the company’s growth expectations. Plans for other media expenditures received less attention.

Golden-age marketers often relied on tools such as day-after recall (a metric tracking how well consumers remembered ads) and compared the results with internal benchmarks to assess the effectiveness of ad copy.

As it became clear that recall wasn't the best measure of creative effectiveness, leading companies developed more elaborate testing regimens, such as the audience response system (ARS), a technique for determining the persuasive impact of new messages as compared with those of competitors. Meanwhile, more precise reach and frequency assessments made media-spending decisions better informed.

While the model worked extremely well for consumer product companies such as Coca-Cola, Colgate-Palmolive, Procter & Gamble, and Unilever, it wasn't perfect. Share-of-voice thinking and up-front media buys can create considerable inertia about spending. What's more, the runaway success of TV-driven brand building meant that many marketers never really had to justify their budgets or to develop metrics that made sense to businesspeople elsewhere in the organization. Indeed, the absence of consensus on how to define—much less measure—returns on marketing investments sometimes put the credibility of marketers at risk.

Nonetheless, in a world of largely captive audiences, effective messaging, plenty of growth, consistent consumer behavior, and well-understood competition, the approaches perfected during the golden age worked very efficiently: they established priorities, managed risk, and measured the impact of spending on consumer attitudes. Indeed, the model worked so well for its pioneers that, during the 1980s and '90s, companies in industries such as pharmaceuticals, retailing, and telecommunications began recruiting marketers from packaged-goods leaders and adopting their techniques.

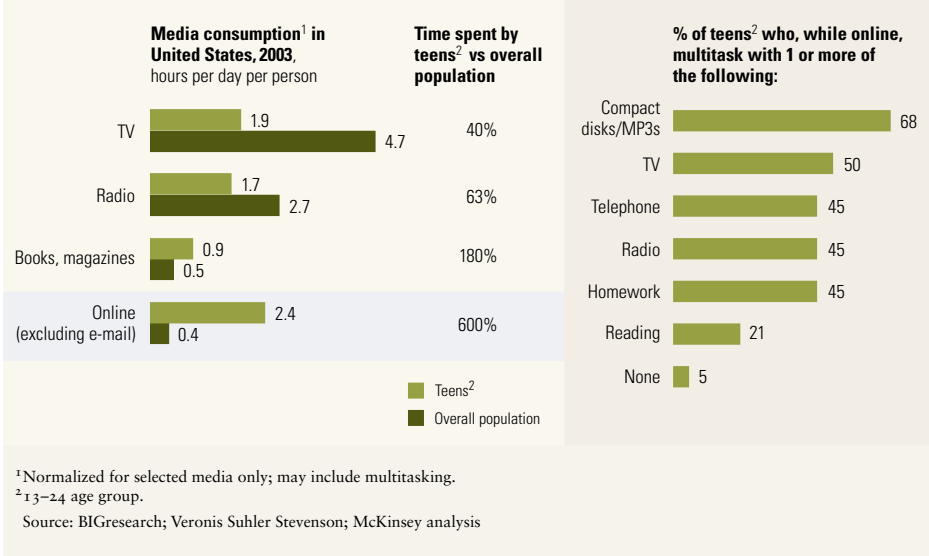
. . . exposed by a changing market

Fragmenting media and changing behavior by consumers are exposing the traditional model's limits. Consider the following trends:

- *Media proliferation.* In the United States, the original handful of TV stations has proliferated into more than 1,600 broadcast and cable TV outlets. Similar trends are under way in Europe.
- *Multitasking.* While surfing the Web, the typical US teenager engages in an average of two other activities, one of which is often homework (Exhibit 1, on the next page). Some 80 percent of businesspeople also multitask.
- *“Switching off.”* Consumers are increasingly selective about what they watch and the advertising messages they trust. According to Yankelovich Partners, 65 percent of them feel “constantly bombarded with too much advertising,” 69 percent are “interested in products and services that would help skip or block marketing,” and 54 percent “avoid buying products that overwhelm with advertising and marketing.”

EXHIBIT I

Fragmented attention

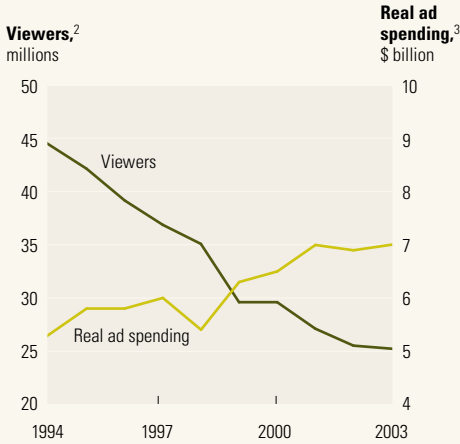


By 2010, we estimate, television advertising could be only 35 percent as effective as it was in 1990. Although the impact of recent trends on business-to-business marketing is harder to measure, it is likely to be similarly dramatic as marketing vehicles (such as sponsorship events and trade magazines) become less effective. And while television in some form will remain a formidable medium for many years to come, marketers of all stripes will also have to interact with consumers in novel ways by focusing more on new media (such as the Web and viral marketing) and mastering an environment where messages have to “pull” customers.

Setting goals, developing messages, and measuring results have thus become more difficult. Marketing expenditures come in an ever-expanding variety of flavors, each with different target segments, payback horizons, and metrics for success. These differences make it harder to follow old budgeting rules of thumb, to focus messages on building mass awareness or loyalty, to optimize spending across a portfolio of brands, and to identify the segments most responsive to different marketing initiatives.³ As consumers become increasingly difficult and costly to reach, it becomes still harder to track the way they use media. At the same time, many marketers have observed a declining level of discipline in the way the potential impact of advertising is tested and its actual impact reviewed. Some think that in today’s fragmented environment it has become more difficult

³Stephen J. Carlotti Jr., Mary Ellen Coe, and Jesko Perrey, “Making brand portfolios work,” *The McKinsey Quarterly*, 2004 Number 4, pp. 24–35 (www.mckinseyquarterly.com/links/17349).

EXHIBIT 2

What's wrong with this picture?Prime-time TV¹ in United States

¹Segment of broadcast day from 8 PM–10 PM; includes 4 major networks (ABC, CBS, FOX, NBC).

²Estimated.

³Adjusted for inflation to 2004 dollars.

Source: Deutsche Bank; *TV Program Investor*, Kagan Research

to measure the impact of marketing programs on jaded consumers. Others suggest that marketing units are too busy delivering messages across proliferating media channels to conduct campaign postmortems.

Although marketers know about these problems, the marketing industry—whose wide-ranging participants include ad agencies, media companies, research providers, and marketers themselves—has adjusted to them slowly. Real spending on prime-time television ads, for example, has continued to rise, even as the number of viewers has plummeted (Exhibit 2). The spending patterns of the US automakers, which increased their marketing expenditures per

car during the 1990s even as advertising became less effective and their collective market share declined, typify these trends. Marketing powerhouses such as P&G are also quite concerned. At the 2004 meeting of the American Association of Advertising Agencies, Jim Stengel, the company's global marketing officer, said, "I believe today's marketing model is broken. We're applying antiquated thinking and work systems to a new world of possibilities."⁴

How marketers should respond

It's time for marketers to be consistent in applying investment fundamentals—such as clarifying the objectives of investments, finding and exploiting points of economic leverage, managing risk, and tracking returns—that have long been well established elsewhere in companies. Such principles of investment management, applied to the marketing function, can create a coherent overview of a company's entire marketing outlay at a time of splintering audiences and media. Following these principles also helps marketers to make specific interventions at the points of economic leverage where returns on investment are highest, thereby mitigating the dilutive effect of a fragmenting environment.

⁴Ken Auletta, "The new pitch," *New Yorker*, March 28, 2005.

Smart marketers won't apply the principles blindly. Translating them to the marketing function calls for a subtle sense of the marketer's art.

Clarify investment objectives

Good financial advisers start by asking clients about their investment horizons, growth expectations, and appetite for risk. Marketing investments should start with similar questions. Answering them helps align the goals of marketers with those of the company as a whole—essential if marketing is to be reconnected to broader business objectives. If, for example, a company needs growth in contiguous businesses to meet its overall objectives, marketing must help more people accept the brand and expand its relevance to a broader set of products. IBM has shown the way by extending its brand through a consistent association with “e-business.”

To address the increasingly acute problem of how to optimize a number of investments, each with different time horizons and measures of success, across brands and media channels, it's also vital to distinguish between “maintenance” and “growth” objectives for different segments and media channels. By maintenance, we mean the minimum spending required for a competitive presence in the marketplace. Competitive spending levels, S-curve analyses, and purchase cycles help determine appropriate levels of

Beware the quantitative cure-all

Some companies wonder if marketing-mix models or marketing-ROI systems are the antidote to the bewildering complexity of today's marketing environment. These analytic techniques, which have been around for years, seem to provide exactly what marketers are looking for: sophisticated insights into the relative importance of different media channels. Indeed, when consumer decision processes, media channels, and basic model parameters are stable, such models work well. We have seen them take in reams of data and complex inputs—weights of mass media, copy-effectiveness scores, relative pricing levels, store-level execution variables, and even weather reports—and provide insightful perspectives on issues facing the underlying business or valuable contributions to the budget-setting process.

Yet savvy marketers have long known that the strength of marketing-mix modeling—a rigorous analytical assessment of the past—is also its Achilles' heel when it is applied to situations

where important changes are under way. Take, for instance, the automotive industry (where the Internet is transforming decision-making processes) or packaged goods (where indirect-marketing approaches, such as product placements, are gaining importance for many brands). In situations such as these, marketing-mix models may provide unreliable forecasts.

Relying on such models without first undertaking a broader rethink of marketing investments also raises another problem: right or wrong, these models may inspire blind faith in analytic results. In our experience, boosting marketing returns cannot be only about getting the numbers. It must start with an understanding of the brand as a holistic economic entity and extend to the way a marketing department does business.

maintenance expenditure. By growth, we mean investments to increase a brand's market share, to drive incremental consumption, or to attract new users to a category.

Although differentiating between these two types of investments can be tricky, the discipline involved in attempting to do so typically promotes a valuable internal dialogue that helps CMOs impose economic discipline. Over time, savvy marketers get better at categorizing investments, identifying the right maintenance levels for different categories, and allocating growth dollars to the products where they will yield the highest returns.

Find and exploit economic leverage

For CEOs, the key to economic leverage is allocating capital to the businesses generating the highest returns. For marketers, economic leverage comes from aligning messages and spending with a brand's most compelling elements. In this way, marketers more precisely target their message to the consumers and vehicles providing the biggest and fastest payoff—an essential task as media channels and segments proliferate. Finding and exploiting economic leverage helps marketers know how much it is worth to increase brand awareness as compared with brand loyalty and which segments are most profitable and most responsive to marketing programs at which stages of the consumer decision funnel.

The heart of this activity is the identification of brand drivers: the critical factors that influence a brand's image and consumer loyalty and that, if improved, increase revenues and profits. In an image-driven business, such as beer targeted at young men, the brand driver could be, "This brand is irreverent" or "I like to drink this brand when I am with friends." In a more transactional business, such as retailing, it could be, "I get good service" or "I found what I wanted."

Most marketers understand their brands' drivers, but few of them use these drivers rigorously enough to manage multimedia programs, nor do they assess the influence of particular drivers on specific customer segments at various points across the consumer decision funnel. Fortunately, proven analytic techniques, such as structured equation or pathway modeling, can help marketers assess the historical outcome of specific programs to enhance brand drivers over time.⁵ In fact, brand drivers can be an integrated metric for determining whether a brand's media and message are effective and in line with the company's strategy.

⁵Nora A. Aufreiter, David Elzinga, and Jonathan W. Gordon, "Better branding," *The McKinsey Quarterly*, 2003 Number 4, pp. 28–39 (www.mckinseyquarterly.com/links/17151).

A marketer that relied heavily on sports sponsorships, for example, faced a big increase in the cost of its contracts during the 1990s. The company had to choose between massive increases in its spending or the risky step of streamlining its sponsorship portfolio. Using the pathways approach, the company identified the sponsorships that best communicated its core brand drivers. This knowledge focused its dollars on owning and exploiting a specific set of sponsorships and helped it maintain near-double-digit growth.

Manage investment risk

It's difficult to boost returns in financial markets without assuming additional risk. But for most businesses, selectively reducing risk is one of the critical elements of improving the return on investments; a savvy strategist, for example, minimizes risk by staging them. Marketers, whose risks were smaller when the media environment was more stable, must now use similar tactics to keep risks in line.

>>> *How can strategists—and marketers—minimize risk while maximizing opportunity? See "Just-in-time strategy for a turbulent world" (www.mckinseyquarterly.com/links/17344).*

Even in a fragmenting world, marketers must push to ensure that they spend 75 to 80 percent of their money on proven messages (such as advertising copy qualified in research) that are placed in proven media vehicles and supported by proven dollar levels (at or just above the threshold levels needed to influence customers). In these proven programs, marketers should seek to regain the testing and validation discipline that many of them once had.

The remaining 20 to 25 percent of spending should finance well-structured experiments. One of the best ways to diagnose a marketing organization's ROI discipline is to assess the extent and quality of the media and messaging tests in progress at any given time. Some will be simple, such as testing higher levels of expenditure or new media for a proven message, reducing the frequency of mailings to see if response rates change, and testing a new advertising message in a particular region. Others, such as a simultaneous test of a new message and new media for a growing segment of profitable customers, are bigger departures from the routine. Marketers who skimp on experimentation, however, may be overtaken by changing media patterns or forced to assume large risks by rolling the dice on unproven programs when markets shift. The recent success of upstart brands such as Red Bull in building consumer awareness through trade promotions, sponsorships, and word of mouth demonstrates the power of alternative approaches. Yet fruitful as they

can be, shifting the bulk of an established marketing plan to them is probably too risky.

Track investment returns

The idea that to boost returns on investments it is necessary to measure them carefully might appear simplistic, but this approach can be a major departure for some companies that take a narrow view of their spending or of how to measure success.

Although marketers formerly could evaluate just the dollars in their marketing budgets, it's now vital to consider *all* of the marketing plan's expenditures, including, at a minimum, all sponsorships, major media, and sales collateral. Many companies should also integrate sales promotion

*Recording all expenditures and ensuring that marketers direct the right messages to the right consumers can make a **big difference***

activity and (particularly for retailers, banks, and consumer telecom companies) store-level spending. The act of recording total expenditures and of ensuring that marketers direct the right messages to the right

consumers can make a big difference. For example, when a leading European mobile services provider realized that it had unintentionally been focusing too much on its existing customers, this understanding led to changes in the budget process.⁶

Making expenditures transparent is a necessary but insufficient step. While all marketers track their progress, few measure it end to end by following the trail all the way from the effect of spending on a brand's drivers to the influence of those drivers on consumer loyalty and the influence of loyalty on revenues and margins and, finally, to the question of whether any increase in profits justifies the spending. Only with an end-to-end view can marketers understand not only the current returns on marketing programs but also, and equally important, why they did or didn't work—information needed to improve future returns.

Start today

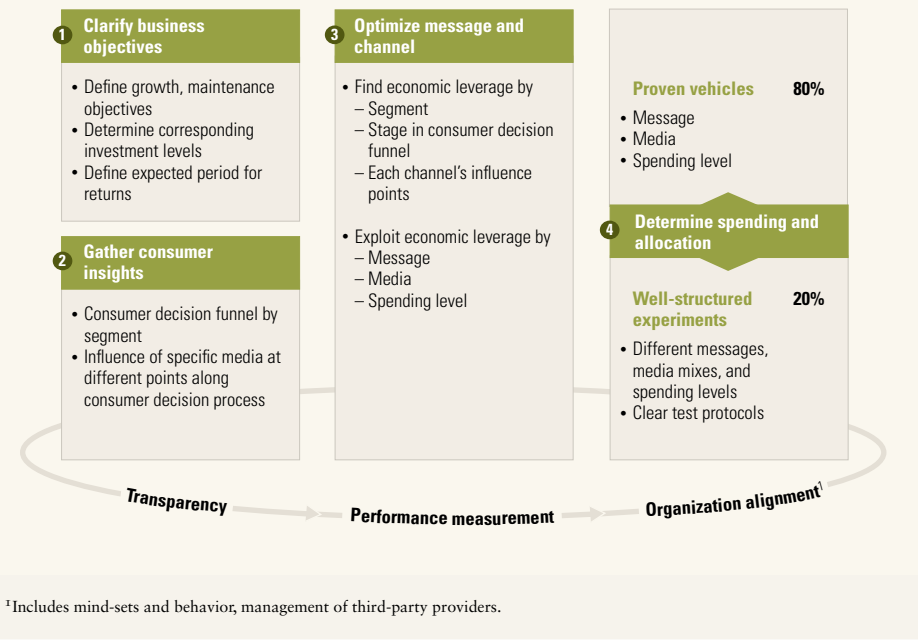
Most CMOs are prepared right now to begin pulling the levers that will improve their returns (Exhibit 3, on the next page). They should start by integrating the existing research and data sets (such as test results, segmentations, consumer decision funnels, and spending analyses) that

⁶Hajo Riesenbeck and Jesko Perrey, *Mega-Macht Marke: Erfolg messen, machen, managen*, Frankfurt, Germany: Redline Wirtschaft, 2004.

EXHIBIT 3

An integrated approach

Critical levers for managing a marketing program



often lie in their file cabinets. Then they can make this information the basis of a unified approach to boosting ROI through these steps.

- Build transparency by identifying (and including in marketing plans) all of the critical buckets of consumer communications spending, even if they are not in the marketing function’s domain.
- Align spending on an “apples-to-apples” basis across brands and countries by adopting simple, universal metrics that distinguish between maintenance and growth investments and between investments in proven and experimental vehicles.
- Isolate the most important drivers across brands and track the drivers’ impact across segments and media channels.

As marketers dive into the issue of ROI, they also will recognize opportunities for selective investments in new tools, capabilities, and relationships. Exciting developments lie on the horizon. New technologies are beginning to track and link the detailed elements of the consumer’s exposure to media with actual purchasing behavior. New modeling approaches are creating more integrated “what-if” simulators by combining econometric tools with

an analysis of brand drivers revealed by consumer research. Third parties such as ad agencies, research providers, and media companies, which must also struggle with a changing environment, may be willing to collaborate in new ways.

Beyond tools and techniques, marketers need to change the mind-sets and behavior derived from the golden age. The requisite transformation represents a major challenge for most marketing organizations, agencies, and media partners. One company, for instance, had to make a bundle of changes to its processes, culture, and people to reinforce and embed ROI thinking in its day-to-day marketing approach. Some changes were symbolic, such as using a hard-nosed analysis of returns to dump a “sacred-cow” sponsorship the CEO favored. Others involved formal training for marketers about the goals they should target and the tools and processes they should use. The company’s business-planning processes, performance assessments, and team structures needed to change as well. Unless an organization’s mind-set and behavior evolve, efforts to improve marketing’s ROI won’t succeed.

Marketers aiming for strong returns should start seeing themselves as investment managers for their marketing budgets. That may be more difficult and time consuming than relying solely on old rules of thumb or new analytic approaches, but it is the only answer in today’s marketing environment. **Q**

The authors wish to thank
Mauricio Ibanez, Jeff Kaplan, Philippe Mauchard, Bart Sichel, and Alvin Silk
for their contributions to this article.

•
David Court is a director in McKinsey’s Dallas office,
Jonathan Gordon is a principal in the New York office, and **Jesko Perrey** is a principal in the
Düsseldorf office. Copyright © 2005 McKinsey & Company.
All rights reserved.

E-mail this article to a colleague
www.mckinseyquarterly.com/links/17174

