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Measuring marketing's worth

You can't spend wisely unless you understand marketing's full impact. Here are five questions executives should ask to help maximize the bang for their bucks.

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It's 8 AM, and the chief marketing officer is wading through his inbox. A board member has e-mailed him about an opportunity to invest in an emerging digital platform. It looks cool, but it's speculative and not cheap. Minutes later, the chief financial officer appears in the doorway: "The boss wants to sign a big sponsorship deal. Can we drop out of TV for a couple of months to pay for it?" The CMO has barely started to explain what happened the last time the company went dark on TV—an aggressive rival grabbed market share—when his assistant interrupts. The CEO is calling. "What's going on with our brand image?" she asks. "The latest monitor report looks bad." The CMO promises a full debriefing later in the day, but he's not looking forward to the conversation. Brand scores are down, and the reasons are tough to manage: factors such as bad experiences with intermediary retailers and mediocre word of mouth.

The number and strength of such competing pressures has been growing. Seven years ago, when digital advertising was still in its infancy and long before social media had become a marketing force, we described in a *McKinsey Quarterly* article how many traditional mass-marketing advertising models were under attack and suggested some approaches to make marketing investments count in an increasingly complex environment.[1] Since then, we have been fortunate enough to see more than 200 organizations tackle the difficult issue of how to improve marketing's return on investment (ROI). Over that period, as new kinds of media have grown in importance and mobile communications have created new opportunities to reach consumers, the ROI challenge has become more intense.

In the face of growing complexity, relentless financial pressure, and a still-challenging economic environment, marketers are striving to exploit new-media vehicles and to measure their impact through new analytic approaches and tools. Most are making progress. Yet we are consistently struck by the power of asking five seemingly basic questions. These questions, detailed in this article, cut to the heart of the quest to drive returns on marketing spending. Coming to grips with them, and gaining alignment across the C-suite, is critical for making real progress rather than becoming bogged down by excessive firefighting and ultimately futile debates about the precision and certainty of measurement.

1. What exactly influences our consumers today?

The digital revolution and the explosion of social media have profoundly changed what influences consumers as they undertake their purchasing decision journey.[2] When considering products, they read online reviews and compare prices. Once in stores, they search for deals with mobile devices and drive hard bargains. And after the purchase, they become reviewers themselves and demand ongoing relationships with products

[1] See David Court, Jonathan Gordon, and Jesko Perrey, "Boosting returns on marketing investment," mckinseyquarterly.com, May 2005.

[2] See David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, "The consumer decision journey," mckinseyquarterly.com, June 2009.

and brands. Although companies have access to terabytes of data about these behavioral changes, many still can't answer the fundamental question: how exactly are our customers influenced?

One global consumer products company, for example, had for years relied heavily on traditional marketing, such as television and print ads. Concerned about the growth of new media, the company decided to research just what was influencing the choices of consumers—and found that only 30 percent of them cited traditional advertising. In fact, in-store interactions with consumers were more important in communicating the company's message and driving potential buyers to consider its products. Yet salespeople, once critical to actually closing deals, had declined in importance because consumers regarded Internet reviews as more objective. In addition, these trends were not universal. While the influence of advertising had declined for existing products, the impact of TV remained strong for some new products, especially in emerging markets. Armed with insights such as these, the company was able to construct a marketing allocation model that factored in both the consumer importance and cost-effectiveness of different points of interaction. This enabled much sharper decisions about its marketing mix, both by geography and in relation to specific product situations.

Time and time again, we find that companies are aware of the growing importance of touch points such as earned media but don't understand the true magnitude of their effects or how to influence them. The solution is usually to commission research that gets at the heart of understanding the consumer's decision journey. Such foundational work must shine a light on the touch points and messages that actually influence consumer behavior. Marketers must be ready to use the findings to debunk accepted wisdom and legacy rules of thumb. In today's fragmented media world, only by knowing how the way consumers interact with your company has evolved can you begin to make more cost-effective marketing investments that truly influence purchase decisions.[3]

2. How well informed (really) is our marketing judgment?

Marketing has always combined facts and judgment: after all, there's no analytic approach that can single-handedly tell you when you have a great piece of creative work. A decade ago, when traditional advertising was all that mattered, most senior marketers justifiably had great confidence in their judgment on spending and messaging. Today, many privately confess to being less certain. That's hardly surprising: marketers have been perfecting the TV playbook for decades, while some of the newest marketing platforms have been around for months or even weeks. But it can be tough to admit publicly that your judgment is incomplete or out-of-date. And given the money required, it's hard both to make a rational investment case for additional marketing spending and—in the same breath—to admit that you are really making a passionate guess.

[3]See Roxane Divol, David Edelman, and Hugo Sarrazin, "Demystifying social media," mckinseyquarterly.com, April 2012.

Marketers often hear that the answer to improving their judgment in this rapidly changing environment is data, and some companies have sophisticated analytical tools. Yet it's difficult to integrate all of this information in a way that not only provides answers that you trust but can also inform smart marketing changes. We counsel a return to what creates great marketing judgment: start by formulating hypotheses about the impact of changes to your marketing mix and *then* seek analytical evidence.

One insurance company, for example, spent a year working on a complex demand model to try to understand the impact of its growing marketing spending in light of declining sales. Yet output from the model "felt wrong," and the analytics were too complicated for business leaders to understand. It was only when the company articulated specific questions it was trying to answer, and designed targeted modeling exercises to prove or disprove them, that it was able to eliminate a lot of "noise" in the data and uncover a clear relationship between marketing spending and business results. That's when the internal dialogue shifted from "should we be spending on marketing at all?" to "what's the optimum marketing spending needed to hit our targets?"

We are excited by the possibilities that "big data" and advanced analytics create—no question. But data remain only as useful as the expertise you bring to bear, and good judgment will remain a hallmark of the best marketers.

3. How are we managing financial risk in our marketing plans?

Successful communication requires hitting the right audience with the right message at the right time: a small, moving target. With traditional media, marketers have mitigated the risk of failure through years of trial and error about what makes great advertising. That's not the case with today's new media. Influence can shift rapidly, and there is little accumulated experience about which messages work, when marketers should apply them, how they can be scaled, or even whom they influence. Looking to external agencies is little help; they're in the same boat. At a basic level, the degree of ROI risk—getting the sales results you want from a given amount of marketing spending—has increased.

Yet while spending on new media is a risky bet, it's a bet companies feel compelled to make. So the question becomes how much risk is too much—or, for that matter, too little. We've seen efforts that result in short-term sales dips: a retailer moving too quickly away from circulars and a consumer-goods player reducing TV spending too fast. We've also seen companies feel the heat from investors for rapidly ramping up spending on digital channels without cutting it elsewhere.

The global consumer products company we mentioned earlier offers an alternative approach. While its customer research suggested that significant changes were required in the way it allocated marketing spending, executives didn't want to choose an excessively risky path. They therefore set risk parameters that enabled some changes in the marketing mix but limited the total shift in any given year. There was a maximum percentage for spending on unproven vehicles, for example, as well as limits on annual spending reductions in some channels or increases in others. This simple allocation model ensured a gradual move to emerging media, mitigating risk while providing breathing room for piloting, testing, and learning.

That approach also can help with scenario planning: one media provider developed a straightforward decision support tool for precisely that purpose. Geared to brand managers, not postdoctoral researchers, the tool used simple response curves that allowed the marketer to simulate different scenarios of marketing spending. The tool was embedded in an easily used PowerPoint slide and proved invaluable for settling on marketing approaches that hit the sweet spot for a number of variables, from cost to effectiveness to risk.

Such decision tools do more than provide marketers with valuable information. They stimulate dialogue about real trade-offs and help to manage expectations across business units and functions whose cooperation is often critical when companies change the broader commercial mix. Managing risk is critical, and marketers shouldn't be shy about putting this issue squarely on the table. With thoughtful scenario planning and cross-functional participation, such discussions can be extremely rich and rewarding.

4. How are we coping with added complexity in the marketing organization?

As the external marketing environment becomes more complex, so must the internal environment. Marketers historically had only a handful of communication vehicles; now they have dozens of them, and the number is growing rapidly. This proliferation has led to the emergence of both external and internal specialists, with accumulated experience not only in media channels (such as social media) but even in individual vehicles (such as Facebook). The exponential growth in marketing complexity seems unending and needs to be managed.

We've found three things that are always true in managing complexity within the marketing organization. First, you'll require a number of specialists. You just will. You can't get the skills and knowledge you need in just one person, and you're not likely to get everything you need internally. Second, you'll need somebody who both integrates marketing efforts across channels and communications vehicles and focuses on the bottom line. In packaged-goods companies, this was—and may still be—the role of brand managers, but the basic requirement is that it must be done by *someone*. Finally, you'll need absolute clarity in processes, roles, and responsibilities not only within the marketing organization but also throughout your company (across functions and business units) and externally (with agencies and external vendors). The trust-based relationship between companies and agencies isn't at risk, but everyone will have to accept that roles are changing. (For more on organizational moves companies should make in a world of more pervasive marketing, see "Five 'no regrets' moves for superior customer engagement," on mckinsey.com.)

Addressing complexity in a comprehensive way requires a dedicated effort. Senior executives at one North American consumer-packaged-goods company, for example, tried to sketch out their own "future of marketing" with an eye to how they would need to work differently over the coming five years, given the company's growth priorities. No one pretended to have a crystal ball, but examining the implications of several generally accepted trends in consumer behavior and media consumption habits made some bold forecasting possible. The company then debated the future of brand managers and specialist centers of excellence and what that future implied for resources required centrally and in business units. Finally, it asked what should be stopped or dramatically deprioritized. By undertaking this exercise, the consumer-packaged-goods company saw how it could keep its marketing headcount and budget relatively flat, while massively shifting senior leadership's role, the culture of marketing, and the capabilities of specialist and generalist resources.

5. What metrics should we track given our (imperfect) options?

In an ideal world, the financial returns and the ability of all forms of communication to influence consumers would be precisely calculated, and deciding the marketing mix would be simple. In reality, there are multiple, and usually imperfect, ways to measure most established forms of marketing. Nothing approaches a definitive metric for social media and other emerging communication channels, and no single metric can evaluate the effectiveness of all spending. Yet you *must* have a way to track progress and hold marketers accountable. That's nonnegotiable. How do you do it?

Even in the absence of a single way of measuring ROI for different channels, marketers should move toward an apples-to-apples way of comparing returns across a range of media. One international logistics company, for example, faced this necessity after committing more than $200 million to rebrand itself following a series of acquisitions. Senior executives wanted proof that the effort was working—and in a form they could readily understand, not marketing jargon.

So the company adopted a simple three-step approach: measuring the impact of advertising on consumer recall, on the public's perceptions of the business, and on sales leads and revenue. With these data in hand—and proof that the rebranding effort was ultimately improving performance—members of the C-suite had the assurance they needed to reaffirm the investment and to commit themselves to more complex measurements, such as marketing-mix modeling. Because the metrics were developed internally, members of the company's board were similarly reassured.

Likewise, one consumer-packaged-goods company uses econometric analysis and frequent brand tracking to assemble a scorecard of returns in the short term (average and marginal marketing ROIs within 12 months) and the longer term (progress on brand equity and brand loyalty for periods of more than 12 months). The company is tantalizingly close to its ultimate goal of truly being able to make decisions about short- versus long-term trade-offs and to deliver complete answers to "show me the money" requests.

Metrics are rarely perfect. Yet the volume of data available today should make it possible to find metrics and analytic opportunities that take advantage of your unique insights, are understood and trusted by your top team, provide proof of progress, and lay a foundation for more sophisticated approaches to tracking marketing ROI in the future.

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The marketing environment continues to change rapidly and often feels like a moving target that's impossible to hit. It's genuinely difficult to overemphasize the magnitude of the change or the challenge. Yet time and time again, we find that marketers who have good answers to the five basic questions are better equipped to do battle for the effectiveness of marketing and to win the war for growth.

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