"What am I getting for my marketing dollars?" If you’re a chief marketing officer (CMO), you’re probably all too familiar with that question. It’s fair. Companies spend $1 trillion on marketing globally. That’s more than the total profits of the Fortune 500 and just a little less than the gross domestic product of Mexico.

CMOs, however, have traditionally struggled to quantify the return on each marketing dollar or euro spent. This imprecision often forms a barrier between marketing and the rest of the C-suite. Just 36 percent of CMOs, for example, have quantitatively proven the short-term impact of marketing spend, according to the 2013 CMO Survey by Duke University and McKinsey (for demonstrating long-term impact, the number drops to 32 percent). That means that almost two-thirds of CMOs are using qualitative measures to show impact, or aren’t measuring it at all. Almost three-quarters of CEOs, meanwhile, agreed that “Marketers are always asking for more money, but can rarely explain how much incremental business this money will generate.”

Yes, marketers are under enormous pressure to deliver improved returns to keep up with fast-paced changes in consumer behavior, and to turn the complex ocean of big data into meaningful growth. That said, we believe we are entering a new golden age of marketing. For the first time, marketers have the data and the analytical tools to make better decisions, drive real growth, and prove their worth. The key to unlocking that opportunity lies in embracing “smart analytics,” which is the thoughtful use of analytical tools to improve marketing return on investment (MROI).

The returns can be enormous. Based on an analysis of more than 250 McKinsey marketing investment projects over five years across a wide range of industries and regions, we calculate that smart analytics can boost the return on marketing spend by 10–20 percent. Worldwide, that’s up to $200 billion—roughly what US consumers spend online every year1—that can be reinvested in the company or go to the bottom line.

One property and casualty insurance company in the United States saw the improvement up close. It increased marketing productivity more than 15 percent per annum from 2009 through 2012,

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without increasing promotional spend, at a time when spend across the industry grew 62 percent. This was achieved with 11 percent smaller head count and $4.5 million lower market research and data costs. As the CMO put it, "Marketing analytics have allowed us to make every decision we made before, better."

**Five steps to making smarter decisions**

Embracing smart analytics means changing the traditional way marketing is done. In our experience, those CMOs that are most successful at boosting return on marketing investment do five things well: they shake up the budget process, get closer to the customer decision journey (CDJ), address short- and long-term returns, tackle procurement, and ultimately redefine marketing.

**Align investment with growth**

The single most effective way to grow is to allocate marketing resources where markets are growing. In some cases, up to 30 percent of marketing budgets can be reallocated to better match business opportunities. In our experience, the typical impact range for improved marketing return based on reallocation is 10–20 percent.

How that pot of money is allocated, however, is often based on the previous year’s budget, or on which department shouts the loudest. “Beauty contests” during budget discussions reward the coolest proposal rather than the one that’s most likely to grow, or money is allocated based on sales rather than growth potential. Not surprisingly, these are poor ways to manage budgets.

What’s needed are more facts and data that can inform the decision-making process. Managers at one consumer-goods company, for example, took the time to analyze their data and learned that digital contributed almost half of the sales uplift triggered by all marketing. Reallocating spend to digital doubled the brand’s growth rate from 2 to 4 percent with the same overall budget.

To get the most from the budget, companies need to be more sophisticated about the allocation process. First, they need to take an objective look at which channels are delivering the best return on investment (ROI) and where the greatest growth opportunities lie.

Second, budgets need to be based on the right criteria; for example, growth potential, profitability, and gross margins. A good set of criteria is easy to understand and allows functional leaders in the marketing department to align their own budget proposals to the same criteria, so that CMOs can easily compare opportunities.

At a time of rapid change, companies also need to build flexibility into their budgeting process to allow them to experiment and make changes based on performance—and more often than once a year. The Coca-Cola Company, for example, organizes its marketing budget according to a 70/20/10 rule: 70 percent of marketing spend is in Now, or established and successful programs; 20 percent goes to New, or emerging trends that are starting to gain traction; and 10 percent goes to Next, ideas that are completely untested.
Get close to the consumer decision journey

“The best way to get closer to customers is to understand what their behavior tells us,” advises Daniela Mündler, senior executive in charge of marketing at Douglas, a leading European fragrance and beauty retailer.²

Marketers have always focused on the customer, but consumer behavior has changed so radically in the last five years that it can be hard to know which lens to use. Today’s CDJ is an iterative, multichannel one, in which shoppers use a dizzying array of tools and technologies to help make their decisions. Our research shows, for example, that 44 percent of shoppers use their mobile phone while shopping to check websites, compare prices, and learn more about products.³ In France, around a third of shoppers buy online but pick up their product in a store.⁴

These behaviors have yielded new swaths of data that marketers must use to identify battlegrounds (opportunities or vulnerabilities) in the CDJ where they need to focus their marketing spend. A home-appliances company had been spending a large portion of its marketing budget on print, television, and display advertising, to get into the consideration set of its target customers. Analysis of the CDJ, however, showed that people looking for home appliances jump quickly from consideration to evaluation, which they do on retailers’ websites. Less than 9 percent of people ever went to the manufacturer’s site. The client therefore moved its spend from general advertising and into developing relevant content on retail sites. This resulted in a 21 percent lift in e-commerce sales.

Marketers can develop these consumer insights by analyzing relevant internal and external data sources, ethnographic research, qualitative interviews, user behavior metrics, and more, and then stitching them together to develop CDJs for each relevant segment. It’s worth emphasizing that there is, however, no such thing as perfect data. Results can be ambiguous or unclear, and judgment is still critical in turning insights into action. That’s why “message beats media.” For all the analysis of media spend and outcome, companies must communicate the right messages to each consumer segment based on both consumer characteristics and, crucially, the appropriate stage of the CDJ.

Balance the marketing mix for short- and long-term returns

Defining the best marketing mix is no trivial task in this world of proliferating touch points. We’ve found three approaches that deliver the most value:

- Use performance data. Marketing mix modeling (MMM) is a big data approach that allows marketers to determine spend effectiveness based on campaigns across each channel. This approach statistically links marketing investments to other drivers of sales. MMM is particularly useful when analyzing marketing spend effectiveness for budget allocation decisions.

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The dawn of marketing’s next golden age: $200 billion and counting

- **Define reach, cost, quality (RCQ).** Optimize marketing investments based on the cost and quality of interactions to reach a target customer. RCQ helps bring a structured approach to evaluate and test management judgment, and is useful in data-poor environments or for tactical campaign decisions.

- **Ask your customers.** Use surveys to collect data on consumers’ shopping behaviors and combine it with regression analysis to determine the importance of the various stages of the consumer decision journey.

- **Attribution modeling.** Create statistical models to understand effectiveness of each online touch point in driving a user behavior; for example, making a purchase. This approach has evolved from the old practice of allocating credit via often-subjective rules.

Each approach has its advantages, and marketers should find the one that best matches their situation. In our experience, the great MROI value comes from using these tools in concert rather than just relying on one. Marketers that advertise or have offline channels or need to understand the interactions across offline and online require the integrated use of attribution and marketing mix models. An international power company, for example, believed it could improve the effectiveness and efficiency of its marketing spend. It started with RCQ analysis and raised the efficiency of its marketing communications by 10–15 percent by segmenting its target audience better and adjusting its mix of channels. With this success under its belt, the company then turned to MMM to make full use of their data to get a more granular and accurate ROI assessment of marketing spend. The company found that each €1 million invested online generated 1,300 new customers. When they invested the same amount in traditional media, it helped retain 4,300 customers (and hold on to 40 percent of that number over the long term).

In using these approaches, however, marketers need to be careful to balance short- and long-term gains. Since so much data generated today comes from consumers engaging in short-term behavior, such as checking prices on a smartphone or tweeting their network, most of the analysis leads to short-term results. This is the reason that the overall effect of MMM, for example, is typically 20–40 percent of total sales. The brand, which is a longer-term asset, is responsible for the rest. Given this reality, marketers need to overlay mix models with estimates of the longer-term brand-equity effect. Although this is not a perfect science yet, we think it’s better to be “roughly right” than “precisely wrong.”

One consumer food brand almost fell into this short-term trap. It launched a campaign using Facebook advertising, contests, sponsored blogs, photo-sharing incentives, and shared-shopping-list apps. The approach paid off, delivering sales results similar to those generated by more traditional marketing (which included heavy TV advertising and significant print), at a fraction of the cost.

Given the overwhelming success of this effort, the brand considered shifting significant spend from TV and print advertising to social-media channels. When the long-term effects were included in the calculations, however, the impact of digital was cut in half. Significant cuts to TV spend as suggested by traditional MMM would have reduced the net present value of the brand’s profit.
Save on procurement costs

No matter how sophisticated the marketing procurement process is, up to 10 percent of marketing spend is wasted. Taking a data-driven approach to addressing the waste isn’t a new concept, but marketers have been slow to embrace it.

A consumer packaged goods company used a more analytical approach to make its marketing more efficient without jeopardizing effectiveness. It didn’t need to develop a complex advanced analytics model, but instead systematically reviewed the data it had. It soon realized that it was spending three times the industry benchmark on coupons and 50 percent more on research. It was also using more than 50 market research companies to conduct similar tasks. In addition, the leadership was rarely aligned on briefs, which led to multiple revisions of the end product. Equipped with this data, the company overhauled its spend on promotions, market research, and advertising, which enabled it to reinvest almost 20 percent of its budget in driving growth.

One area where companies should focus is understanding agencies’ real cost to serve. That means identifying the right number and mix of people on the account, their seniority and skills, and the real overhead expenses. We’ve seen dramatically different staffing models for similar accounts. Building a better fact base—whether it’s around staffing models or overhead—lets both clients and agencies have clearer discussions on optimal staffing levels, skills mix, and indirect costs. Overhead is another area where we see discrepancies—in some cases, more than 20 percent between what clients should pay, and what they are billed.

When it comes to process, we see opportunities to instill greater discipline into marketing (and therefore more savings and efficiency). A great place to start is the briefing process to commission new creative, since poor briefs too often result in significant wasted time and dollars. Reasons abound: the client feels the agency knows the project so well that it doesn’t provide any brief or delivers a cursory one; clients don’t know what they want and seem to use the first two creative meetings as a way to figure out what the strategy should be. Without quality briefs in place, we have seen campaigns go 15–20 percent over budget. In some cases, this has even resulted in missed airdates due to unnecessary rework, direction shifts, rescheduled meetings, and slow decision times.5

Redefine the marketing organization

Marketing needs to change as a function, and any such transformation should begin with the dictum “Marketer, heal thyself.” Marketers, for example, often outsource analysis, or throw it over the wall to an internal analytics team. The result is that the marketers are then reluctant to implement the findings of the analysis, because they don’t understand it or truly believe in it.

The only way to eliminate this hurdle is for marketers to sit down regularly with analytics teams to question assumptions, provide judgment, listen to the trade-offs, and make decisions about analytical focus. One

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financial services company set up councils within the marketing function that brought the creative and analytic halves of the department together. These councils helped the analysts understand the business goals better and the creatives understand how analysis could better inform marketing programs.

At the same time, marketers have to embrace transparency if they are to answer the question “What does marketing actually do?” “In many companies I’ve seen, marketing has a vague status,” says Nationwide CMO Matt Jauchius. “We’ve built the answers to business questions into the management forums and the regular management meetings, so that now marketing is not a separate thing; it’s integrated into what we do.”

Marketers’ deep insights into customer behaviors should give them significant influence with other parts of the company. Marketers in one telecoms company, for example, used social media to identify issues in the call center that were leading to significant customer attrition. When marketers brought the data to the attention of the call center, its managers were able to quickly make fixes that helped dramatically reduce churn.

Another critical element of transforming to a more effective analytical marketing organization is the ability to act and react quickly. Marketers need to build budgetary flexibility into their campaigns. The best-performing marketing organizations can reallocate 80 percent of their digital marketing budget during a campaign. They are also able to react to campaign performance data and adjust the program within a day. Without that commitment to speed and agility, the marketing function will always struggle to deliver on its potential impact.

The rise of social and digital media has created huge potential for marketers to demonstrate creative and revolutionary ways of bringing the customer closer to the brand. The opportunity will be wasted, however, if the CMO cannot articulate growth and ROI clearly. This is much more than improving marketing ROI; it is about restoring the reputation of marketing and reclaiming the role as owners of the growth agenda.

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