Marketing Accountability: How to Measure Marketing Effectiveness
Malcolm McDonald and Peter Mouncey
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Theme of the Book

Marketing Accountability seeks to measure marketing investment in terms of business effectiveness, enabling senior executives to measure the impact of marketing activities against the goals of the organisation.

Based on seven year’s research into global best practice in marketing, the book introduces a marketing metrics model that, in a systematic way, will help marketing align marketing activities with value to the business.

Key Learning Points

An understanding of:
- why CEOs are demanding greater marketing accountability;
- strategic marketing planning – a framework for what needs measuring;
- a three-level marketing accountability framework;
- the process of marketing due diligence;
- the marketing metrics model and process;
- market segmentation;
- turning strategy into action – developing action plans and budget templates;
- finalising the metrics strategy, identifying the metrics that matter and delivering accountability;
- the importance of data quality;
- measuring the effectiveness of multichannel strategies;
- valuing brands.
Introduction

Intangible assets are accounting for an increasing percentage of corporate value, yet there are few means to measure the return on any investment. Nevertheless, investment communities around the world take account of their value and assess the risks associated with future strategies using those assets. Most budgets and forecasts tend to have a backward-looking bias. A robust strategy for what is sold and to whom and why customers should buy is the prerequisite for long-term commercial success.

Strategic marketing planning

The 10 steps of the strategic marketing planning process

1. Mission
2. Corporate objectives
3. Marketing audit
4. SWOT analysis
5. Assumptions
6. Marketing objectives and strategies
7. Estimate expected results
8. Identify alternative plans and mixes
9. Budget
10. 1st year detailed implementation plan

The Strategic Plan
(output of the planning process)
Mission statement
Financial summary

Phase 1
Goal setting

Phase 2
Situation review

Phase 3
Strategy formulation

Phase 4
Resource allocation and monitoring

Measurement & review
The complex aspects of a successful marketing strategy need systematic attention. The strategic marketing planning process presents a useful means to formulate company strategies, provided it is adapted to its environment.

The first aspect is the strategic marketing planning process itself and the key steps within it. The second aspect is to ensure that the input to the marketing plan is customer focused and looks strategically at the relationships the organisation has with its business environment. The third component of the book is summary guidelines drawn from world-class marketing.

Research proves the benefits of marketing planning to commercial success, for example it gives:

- involvement of all levels of management in the planning process;
- consistency of approach across the organisation;
- a more market-focused orientation across the organisation.

This implies that the marketing planner must be up-to-date on understanding the relevance of trends.

The Profit Impact of Market (PIMS) project identified, from 2,600 businesses, principles to select different strategies according to industry type, market conditions and the competitive position of the company.
A three-level marketing accountability framework

Map of the marketing domain and the three level accountability framework.

A model for marketing accountability is spelt out in three levels:
The first level looks at how to assess whether marketing strategies create or destroy value using a technique developed by the Cranfield School Marketing Value Added Research Club.
The second-level model from the Cranfield Research Club links all expenditure relating to products, marketing and customers to corporate revenue and profit objectives. It demonstrates what should be measured, why, when, and how frequently.

The third level accountability framework relates to promotional expenditure.

The final test to justify marketing investment, and indeed any investment, is whether it creates value for shareholders. Cranfield has been addressing this problem through its Marketing Added Value Research Club and has come up with solutions which face this issue squarely.

**A process of Marketing Due Diligence**

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<td>Explicating the strategy</td>
<td>Assessing the risks</td>
<td>Assessing shareholder value creation</td>
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<td>Uncovering the strategy from written and unwritten sources.</td>
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<td>Calculating the shareholder value creation of the plan after allowing for risk.</td>
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The Marketing Due Diligence process involves both diagnostic and therapeutic business risk and assesses whether the plan creates or destroys shareholder value. This explicit strategy is then assessed for market risk, share risk and profit risk.

Market risk arises from the possibility that the market may not be as large as hoped for in the business plan. Strategies involving new customers and/or new products are more likely to have higher market risk than those involving existing products and customers. Share risk arises from the possibility that the plan may not deliver the hoped-for market share. Profit risk arises from the possibility that the plan may not deliver the intended profits.

The final stage of shareholder value creation is to calculate whether this risk-moderated return represents the creation or destruction of shareholder value.

The Marketing Due Diligence therapeutic process uses the tools of strategic marketing management to manage and reduce the risk associated with the strategy. Using the results of the diagnostic stage to direct efforts suggests improvements to the marketing strategy and the creation of shareholder value.

**What is the connection between marketing and shareholder value?**

Financial due diligence emphasises tangible aspects and therefore is inadequate in assessing business plans for increased shareholder value. Marketing Due Diligence aims to fill this gap. Probably the major business benefit of the Marketing Due Diligence diagnostic process is that it indicates the key risks associated with any proposed marketing strategy. The management team is able to focus its attention on these critical areas of risk and uncertainty and thereby improve the marketing planning process in the future.
Consequently, Marketing Due Diligence should be viewed as an ongoing process rather than a one-off review or audit.

By concentrating planning resources and marketing research effort on the identified key areas, the business should be able to make better predictions. Marketing Due Diligence processes can add value to both internal and external shareholders in a business.

The Marketing Metrics model and process

The Marketing Metrics model was developed to help organisations improve the alignment between marketing activity and its impact on achieving corporate goals. Identifying the most appropriate metrics for measuring the impact of marketing is fundamental. But also the metrics strategy needs to be reviewed. It is important to ensure that other functions within the organisation are fully engaged with marketing in the model’s process to ensure that promises made to the market can be effectively delivered. Sales, customer service and new product development support is vital.

When marketers do focus on business measures, they focus on the wrong ones: sales rather than market share, and volume rather than value.

(Binet and Field, 2007)
Market Segmentation

Market segments are crucial, as segments are the basic building blocks of any marketing model. Three segmentation cases are provided to illustrate how correct market segmentation turned around some loss-making situations. Relating segments to the metrics model, data needs to be captured which describes the type of people or organisations in the segment, and the organisation’s aspirations within that segment. Key metrics describe and measure the current and future situations. Market segmentation is crucial to any understanding of systems for marketing accountability.

Once the key segments in the market have been identified and profiled, objectives agreed, and the segment metrics identified, the next step is to develop the strategies that will enable goals to be achieved and the appropriate measures of performance to be identified. An impact factor analysis model assists in pinning down what the organisation should focus on to satisfy consumers. Metrics identified here are central to the overall measurement strategy.

Turning Strategy into Action and Measuring Outcomes

The impact factor analysis enables strategies to be identified and developed for each segment. The metrics for measuring the performance of these strategies have also been defined and listed. However, strategies can be delivered only through appropriate actions and assessing the budget implications. This identifies the costs of delivering these actions, and the forecast revenue flows or efficiencies that together form the basis for developing a compelling business case for implementing the proposed strategy. Marketing should be responsible for implementing the strategies/impact but this is likely to be with collaboration from other parts of the company. The costs should be zero-based, allocated to resources. Also, linkages need to be made based on cause and effect.
Delivering accountability – finalising the metrics strategy

The metrics from the previous stages of the metrics model will have been developed in the three cross-functional workshops. The output is brought together into a final strategy. This means deciding exactly the metrics to be used and who will have ownership to develop subsets of measures.

Why data quality can make or break accountability

“When we speak of poor data quality it is often understood only to mean inaccurate data, or missing data or inconsistent data. But very often the data failures of organisations have their roots in a failure to understand the value of data.”

(Kelly 2006)

A data quality workgroup consisting of members of the Cranfield University Marketing Measurement and Accountability Forum (MMAF) identified the following as constituting ‘best practice’ in data management to support marketing strategy:

- An enterprise-wide data strategy is essential in achieving high levels of data quality. Marketing strategy is often supported by data managed in other parts of the business, for example in operational areas such as customer service centres, underlining the importance of having an enterprise-wide strategy.
- Data must be collected with company needs in mind, not just one function, with data definitions consistent.
- Data quality needs to be ‘owned’ by business units, not IT.
- ‘Soft’ and ‘derived’ data are becoming increasingly important in developing competitive advantage, and pose particular challenges within a data management strategy. Data quality requires constant attention.
- Communication is an essential component within a data management strategy to ensure commitment.
Multichannel strategies

The heavy investments in websites and CRM systems have led marketers to seek to quantify the value of their investments and demonstrate ROI. Marketing and sales communities haven't always worked well together, but multichannel strategies form an opportunity for both parties to gain in efficiency and in accountability. An example of the latter, is the use of marketing measurement techniques such as control groups to evaluate not just marketing campaigns but also the relative impact of different sales channels.

There is a need in both B2B and B2C markets for more proactive and sophisticated metrics to track the journey taken by our customers across different channels to market. Improvements in metrics need to focus on four areas:

- **Marketing and sales effectiveness at each stage of the buying cycle.** A standalone channel such as a traditional direct sales force, we can measure how well the channel contributes to market share by monitoring its rate of conversion of leads to customers, and hence it’s cost of acquisition. Widening this across channels may require several efficiency ratios.

- **Implementing ‘marketing’ measures across the whole organisation,** such as sales and CRM.

- **Managing the overall return on investment holistically across channels.** Measuring channel effectiveness in isolation - the profitability of the website, the sales force, the retail store or the call centre - is meaningless if the customer hops between several channels during the sales process.

- **Bringing multichannel metrics into the boardroom.** The challenge for multichannel marketing and sales organisations to conduct periodic reviews using common metrics.
Valuing brands and driving corporate value

Marketing people have historically been good at counting market share, sales and top-line revenue. Marketing accountability and reward systems have encouraged such measures, often with a long-term horizon. Finance people have emphasised the short term. Neither on their own meet modern needs - marketing accountability must combine both revenue and cost measures, viewed in the short, medium and long term. Ideally such measures need to come together into one corporate value so that favourable variances can be tracked for enterprise value - the value of the business and its brands to the shareholders.

It is important to correctly value and appreciate the significance of the value of intangible assets and brands and introduce a process for maximizing shareholder value through intangible assets including brands.

Historically, intangible assets were ignored, and accountants treated any excess value arising on acquisition as 'goodwill'. A recent Brand Finance plc analysis of the world's 35 largest stock markets reveals the scale of the problem: The 'Global Intangible Tracker 2007' study analysed 11,000 companies with a total market capitalization of $41 trillion (and a total enterprise value of $47 trillion). This represented 99 per cent of all quoted companies in the world by value. Only a small proportion of the nearly two-thirds intangible assets were disclosed and explained in published accounts.
Financial implications

There needs to be a process for identifying branded business value and the specific value of intangible assets including trademarks or brands. The 'brand valuation' framework described indicates how to understand the impact of each audience on the financial model, and how to map value, track brand equity, report performance to managers via scorecards and then plan business and brand value enhancement strategies using all the information. The approach is holistic because it incorporates both marketing and financial measures, all stakeholder audiences and both short- and long-term perspectives. It empowers marketers to manage their brands just as CEOs manage the wider business.
Components of a Brand Scorecard

About the Authors

**Professor Malcolm McDonald** has recently been named as one of the top ten consultants in the UK and is ranked as one of the top marketing gurus in the world. He is Emeritus Professor at Cranfield University School of Management. Until recently he was Professor of Marketing and Deputy Director of the School. He is Chairman of six companies and operates at board level with many of the world’s biggest multinationals. This title is one of over 40 books that Professor McDonald has written.

**Peter Mouncey**

Peter is a Visiting Fellow at Cranfield School of Management. He is co-director of the Marketing Measurement & Accountability Forum. Widely known in the CRM industry, Peter was the driving force behind the AA’s leading edge in direct marketing and customer relationship development.