Editorial: Does marketing measure up to expectations?

For many years this Journal has been one of the world leaders in a campaign to get marketers to focus on measuring the results of their activities, with the implication that knowing what works is the first step in improving what is done.

IBM has just completed some research into how marketing directors view the world, and in particular their priorities for the next few years. One of their top priorities is something called 'marketing transformation'. We are not sure that most know what they mean — and to be honest it is a term we are wrestling with too. But the idea is exciting! To us, it means combining the best advances in marketing, sales and service — from anywhere in the world — to change how marketing works. Nothing is ruled out. We have been reviewing everything we — and our business partners — have done to change how we — and our clients — market, and learning from all of this. Much of what we covered has its origins deep in the world of database and direct marketing. The other main origin is of course e-business in all its guises. The effect of the combination of the two has been dramatic. Without these changes, Nectar would be just an interesting promotional add-on rather than an intimate part of the marketing strategy of its partners. Without these changes, the idea that a company's brand can be developed and managed mainly through how it interacts with customers through a coordinated combination of channels would seem laughable. Though we know that companies sometimes

struggle to achieve coherence and cost-effectiveness in their marketing using all these new approaches, enough succeed to make it clear to the others that the attempt is worthwhile.

Does this make a difference to how we should plan and organise our marketing? Of course — and in some companies there have been big changes. Gone are the separate customer database and market research departments, merged into a customer insight department. Gone are the separate departments managing individual channels, such as mail, call centres or the e-channel, to be replaced by a team managing delivery channels. Brand is no longer the preserve of the brand manager and the advertising agency — it is a shared accountability. Gone is the idea of a five-year business plan and a two-year marketing plan, with the current year's plan unchanged for the whole year. Feedback from the market now arrives in hours, even minutes, and policies can be changed in days, even hours. This acceleration of the feedback loop into real time has put new pressures on marketing managers — they need to understand more quickly in order to react coherently. The development of much improved standards covering everything from customer data to electronic interaction has also facilitated outsourcing of many marketing tasks — even systems for managing the sales force have been available on an applications service provision basis for some time. While the debate about the strengths and

weaknesses of outsourcing for different marketing activities continues to rage, very few large marketing departments do not outsource some aspects of their activity (and we exclude from this the nearly always outsourced marketing communications).

That is the general point. When we look at the area of marketing effectiveness — the concern of this journal — a similar story emerges. In the last two decades we have taken great leaps forward in gathering, analysing and interpreting data from marketing and its related functions of sales and service. For most companies marketing spend is between 3–10 per cent of turnover, so the sums of money involved are not small. For these companies, marketing is a strategic investment rather than a support cost. This means that getting it right influences the organisation's long-term competitiveness and prosperity. However, it is hard to optimise it. It is hard to identify impact and value, especially when it comes to longer term or strategic benefits. The costs can usually be identified readily, but benefits are more often uncertain. Marketing is a competitive business, so inevitably there are winners and losers. In a support function it is possible for every player to be optimally efficient (at least in theory!). Inevitably, it seems, a high proportion of total marketing spend is 'wasted'. The problem is compounded by problems of definition. For example, should we consider all customer-facing investment and activity or just specific areas such as advertising and promotion? There is an important distinction between efficiency and effectiveness — spend can be efficiently executed yet ineffective when judged against strategic goals, so efficiency alone is not enough.

Problems of definition and measurement are compounded by today's environment — new models, channels,

new technologies — facing the customer and in the back office, new types of relationship, and even new customer behaviour, for instance, the use of mobile phones by young people.

All the more reason why companies need to focus strongly on marketing effectiveness, and to admit the possibility that this focus may lead to a radical rather than incremental change in how marketing money is spent. In our work, we have found that an explicit drive by management to improve marketing effectiveness pays in several ways. The first is through elimination of waste spend: typically we see savings of 15–30 per cent of total marketing spend. More importantly, aligning investment behind an organisation's main priorities shows that 40–50 per cent of total spend needs to be reallocated. This usually comes as a result of a comprehensive review of effectiveness.

The gains made by reallocation can be conserved in two ways. First, organisations need to develop the capability to sustain improvements in performance in the market. Secondly and perhaps more importantly, they need to build a foundation for transformation in the market. In many cases this means establishing the essential measurement conditions for customer-orientation to lead the organisation, but it may also lead to changes in the way supply chains are managed to reduce costs all the way through to the customer. Of course, achieving absolute effectiveness is impossible, but the basics can be achieved. This means putting the right analytical effort into tracking the effectiveness of large investments, into sustained improvement and into being smarter than the competition.

There are various approaches to improving marketing effectiveness. They include:

- a process led-approach — do you have good marketing processes?
- strategy-led approach — is spend aligned to strategy?
- analytics-led approach — is payback on activity proven?

These approaches can be applied equally to private, public or voluntary sectors — all covered in this edition of the Journal. The outcome of applying these approaches is that spend is aligned to strategy and based on a shared view as to how marketing works as a system and what the key marketing issues are, while the budget is divided into the 'right' components, the overall spend is 'right' and the budget is spent efficiently and effectively.

It is worth noting that this approach requires that marketing works as a reinforcing system of activities, and this is usually very specific to an organisation and its environment. A key prerequisite is a sound understanding of the market and particularly the customer (needs, attitudes, buying and usage process etc). In some areas it will be better to spend more to achieve greater effectiveness (accompanied by greater cuts or switches elsewhere). Proportionate cuts across the board rarely (never) represent the best outcome. Priority-based budgeting helps to re-base the budget but care has to be taken that the resultant 'portfolio of spend' is balanced and aligned strategically. Care needs to be taken to break the budget down into 'buckets' that are not too big or small and which make management sense. This is because management must have real ownership of

the decisions they will be responsible for implementing. Invariably a raft of efficiency/effectiveness improvement issues are identified, the benefit of which can be taken as more bang per buck or 'fewer bucks'.

The implications of this are clear. We can learn from success and failure in CRM. Here, the most important learning was that companies that understood that they were changing their model of customer management and so needed to use change programme management techniques and to have people dedicated to managing change tended to succeed. Companies that left the transformation to be managed solely by the internal clients — those who would be using the new capability — failed or had severe problems. The same applies to marketing in general and to the management of marketing efficiency and effectiveness in particular. For marketing directors, it is a warning. If you want to be in your jobs in a couple of years' time, set up a change management team that will be judged solely by its success in making your marketing faster, higher quality and more cost-effective. Or your finance director may do it for you!

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