"This book empowers marketers to infuse their function with an investor's mindset and drive sustainable marketing performance."

Pieter Nota, CEO Personal Health & CMO Royal Philips

MARKETING PERFORMANCE

How marketers drive profitable growth

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MARKETING
PERFORMANCE

INTRODUCTION: SMART MONEY

If your marketing department were publicly traded, would you buy a share? If the new campaign were a pay-TV channel, would you subscribe to it? If next year's media plan were a business proposition, would you invest in it? If you hesitate even for a split second – and we would not be surprised – this book is for you. To take its proper place among its fellow functions, marketing needs to evolve from a cost centre to a profit centre. As the CMO, or as an aspiring marketing leader, you don't want to ask the members of the board or the shareholders of your company for budget clearance. You want to present them with an investment opportunity. You don't want your marketing plan to be perceived as a necessary evil, but as a good business proposition. You want marketing to advance the performance of your company in predictable and sustainable ways. You rightfully aspire to generate returns on marketing investment, be it in terms of sales, profit, market share, or brand equity. Make it happen, and you will never have to justify a budgetary line item to the CFO again – or smile and listen patiently as your fellow executives praise a competitor's creative campaign, asking why you never come up with something as clever as that, despite the fortune you are spending on all those hot-shot agencies. Sounds tempting? Then read on.

This is not a textbook for students of marketing theory. There are more than enough of those already. This a performance handbook for marketing practitioners. With trademark clarity, McKinsey's Marvin Bower defined performance as follows: "By performance, I do not mean just profits. Rather, I mean achieving the goals and objectives of any type of organization in an effective and efficient manner, with profits being one measure of the success of a business firm. Responsible decision makers all seek to improve the performance of their organizations." In this spirit, we aspire to provide marketing executives with hands-on decision support across all major performance levers, from budgeting and mix optimization to vendor management and organization. In contrast, we will not explore the underlying theory in more detail than is necessary for the practical purposes of this book. If you want to know more, please refer to the more comprehensive discussion of many of the concepts presented here in *PowerBrands*, now in its third edition, and *Retail Marketing and Branding*, now in its second edition.

This is not even primarily a book about marketing. It is a book about return on investment, focused on how an ROI mindset will help you transform the marketing function into a profit centre. Our primary objective is to empower you to open up new areas of growth for your company. Of course we don't have all the answers. But we are confident that the success factors we have derived from our work with leading marketers will help you plan, measure, and optimize the contribution of the marketing function to corporate performance. We encourage you to initiate a conversation about strategic priorities, even if that is the last thing some executives expect from the CMO. Don't hesitate to take on the big issues: What, exactly, are our goals and objectives as a company? Top- or bottom-line growth? Market share or profit margins? Short-term sales or long-term loyalty? Defend the home turf or conquer new segments, categories, and territories? This book will help you explain to your fellow executives how their answers affect your decisions: Which investments do I focus on? What messages do I send to customers? Which marketing instruments take priority? What kinds of tools do I need?

This is not a scholarly treatise. You will find that this is a straightforward book, down to its clean-cut structure and accessible language. It reflects our belief that simple things can make a big difference, even in a complex world obsessed with ever more data, ever more elaborate algorithms, and ever more intricate processes. Complexity is the enemy of agility, a key asset in a changing environment. Big data and advanced analytics are not ends in themselves, but means to an end, and that end is better marketing performance. We advocate data-driven decision making not for its own sake, but because we are convinced that quantified metrics are indispensable complements of experience and common sense. We explore topics like systematic insight generation and advanced analytics not because they are fashionable, but because we have found that they help companies establish a culture of evidence-based performance management. This is also why we have included dozens of application examples and case studies from a wide range of industries and countries. These examples provide both proof of principle and inspiration for your own agenda.

This book is based on our experience as consultants to senior marketers worldwide. It is anchored, quite simply, by the things that work: concepts, tools, and success factors that we have helped develop and apply in our work with clients. In this book, we set out to help you advance marketing performance with every dollar you spend, every decision you make, every person you hire, every service provider you buy from, and every ad you put on the air. We are acutely aware that your time and resources are scarce, and that you cannot possibly pull all levers at once. To help you pick your battles, we have arranged our material along the lines of five fundamental questions about marketing performance, reflecting the decisions you face in your work as a marketing executive:

- How much should I invest?
- How should I shape my messages?
- How will I reach my target group?
- How do I ensure excellence in execution?
- How can I drive change and sustain impact?

See the overview in Exhibit I.1 for details. But don't mistake it for a to-do list. You can't check off sections, chapters, and success factors like items in a work plan. A marketer's work is never done. While you are in the process of sizing your budget, competitors will change the game by driving up their share of voice. While you are still busy optimizing your mix of instruments, media owners will come up with new vehicles and formats. While you are in the middle of negotiations with a vendor, new service providers and solutions will pop up. A Paris-based CMO sums it up as follows: "Marketing performance management is like painting the Eiffel Tower. Just when you think you are done, it's time to start all over again." So, if in doubt, go for speed

Business questions		Success factors
Where to spend?	1	*Budget sizing:* Combine multiple lenses to right-size your marketing budget
	2	*Allocation:* Put your money where your strategy is
What to say?	3	*Insights:* Discover what really matters to consumers to sharpen your proposition
	4	*Storytelling:* Take a publisher's mindset and tell stories that cut through the clutter
How to connect?	5	*One currency:* Compare apples to apples as you make trade-offs between instruments
	6	*Science:* Apply advanced analytics to drive fact-based mix optimization
Which way to execute?	7	*Smart activation:* Trim the fat off key instruments to drive incremental benefit
	8	*Partners:* Build performance partnerships with marketing service providers
How to drive change?	9	*IT solutions:* Use marketing ROI decision support solutions to transform your company
	10	*Agility:* Infuse your organization with a return on investment mindset

Exhibit I.1 Test success factors for answering your top five business questions.

and simplicity rather than for the perfect programme that will take years to develop and may be outdated when it finally takes shape.

We encourage you to dive into these pages with an open mind, be bold enough to ask the big questions, start with small improvements, and scale up the things that work – for your company, your brand, and your department. Not all the topics we cover will be equally relevant for all readers, but we are confident that there is something here for everybody who is serious about marketing performance.

There is an ocean of opportunity between perfection and inaction. Even if the challenge seems daunting, doing something is bound to be better than doing nothing at all. In our work with many of the world's foremost marketing executives, we have found that pragmatic, ROI-minded CMOs are consistently successful at forging alliances with their peers, engaging the supervisory board, and transforming the marketing function for the greater good of their companies. We encourage you to take control of the return on marketing investment, let others know what you are doing, and invite them to join your cause. Before long, the smart money will be on you.

June 2016
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Dennis Spillecke, *Cologne*

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How do I ensure excellence in execution?

How can I drive change and sustain impact?

1 – BUDGET SIZING

Combine multiple lenses to right-size your marketing budget

Why does budget sizing matter?

How much should you spend on marketing? It's the biggest question of all, and yet many companies settle on an easy answer. Most years, they spend whatever they spent the previous year. If they make adjustments at all, these are often a function of overall company performance: if the company is prospering, the budget goes up – sometimes beyond what is necessary or effective. And in times of stagnation or decline, marketing budget cuts are as certain as death and taxes, even if reduced marketing support is the last thing a troubled company needs. This is because a lot of companies still define their marketing budget as a percentage of past sales. In effect, budget sizing is decoupled from business requirements. Budgeting inertia is further aggravated by the fact that many companies buy media many months – if not years – in advance.[1] If you are serious about turning the marketing function into a profit centre that contributes to the company's bottom line, put an end to these wasteful practices and introduce zero-based budgeting. First conceived in 1970 by Peter Pyhrr[2] – a controller at Texas Instruments at the time – zero-based budgeting is about "reviewing every dollar in the annual budget", [3] taking nothing for granted, and only signing off on budget positions that promise sufficient returns. Applied to marketing, this is nothing short of a paradigm shift – from a cost item to an investment opportunity.

The role of marketing is not a constant, nor is your mandate as the CMO. Markets change, and so does your company's competitive position. Even your brand profile and your business model are bound to evolve over time. Such changes need to be reflected in the size of the marketing budget. Consider, for example, the case of an insurance company that depends on frontline excellence. If sales force performance is lagging, you may have to intensify your marketing communication to drive short-term consumer pull while your peers in sales do their homework to fix the underlying issues. Now fast-forward five years into the future. Aggressive new market entrants have declared a price war, and your competitors are launching secondary brands to secure their share of the lower end of the market. In this new situation, you will want to invest in brand building to strengthen your brand, justify your price premium, and protect the profitability of your company.[4] Now fast-forward 20 years into the future. Your brand is the top dog, and you are the market leader. You are finally able to decrease the marketing budget and allocate funds to other functions without putting your business at risk.

Whatever happens, we encourage you to put an end to "budgeting as usual." The size of your budget should reflect your ambitions for future growth, rather than the past performance of the company. Start treating budgeting as a profitability driver and build your budget as an investment case rather than as a cost item.

How to drive marketing performance with fact-based budget sizing

A few years ago, an electronics retailer embarked on a radical experiment. For an entire month, the company cut its ad spend by 60 percent. It was a top-management decision, just to see what would happen. Revenues plummeted. Store managers felt betrayed by the corporate centre, and their motivation dropped to an all-time low. But while the experiment substantiates the direct sales impact of advertising, it doesn't say much about the appropriate budget level. Indeed, 40 percent of last year's budget may be too little, but how much is enough?

Cause-and-effect relationships between the marketing budget level and market success are notoriously difficult to establish. There are simply too many other influencing factors: the creative quality of your campaigns, your mix of marketing instruments (see Chapters 5 and 6), prices, promotions, distribution, weather, seasonality, consumer confidence, competitors, financial markets. In light of this complexity, no tool or algorithm can give you the right budget level at the push of a button.[5] Historic relations between cause and effect should not be the only driver of sizing decisions anyway. Your company's objectives for the future and your own perception of market dynamics are equally important. Instead, we propose a multi-lens approach to budgeting that is both systematic and pragmatic. It starts with transparency creation and moves on to combine three perspectives on overall budget size (Exhibit 1.1).[6]

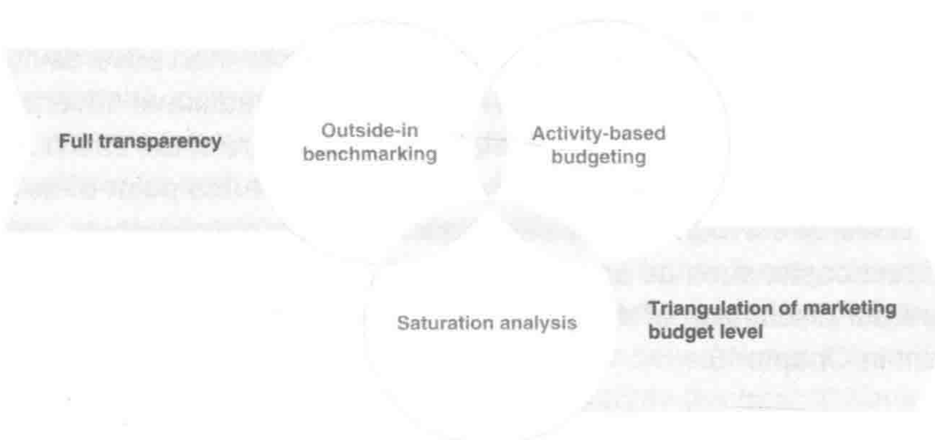

Exhibit 1.1 Five elements of budget sizing.
Source: McKinsey

Create full budget transparency; you will be surprised by what is hidden in the cracks and crevices of your organization

Transparency creation – it's easy to say and hard to do. This is because the marketing budget is scattered across so many different business units, functions, and departments at most companies. While most CMOs are in charge of all advertising, responsibility for activities such as co-op campaigns, sales support, public relations, owned media, and sponsorships often resides elsewhere in the organization. Yet all these activities affect your target audience in some way or another, and they should all contribute to your overall marketing objectives. A substantial share of the budget can also be hidden in the P&L of local subsidiaries, franchise partners, or affiliate companies.

So, before you even think about sizing, compile a comprehensive list of all the buckets in your current budget. Obviously, the number and granularity of budget positions will vary from company to company. Conceptually, taking stock should include all investments that are made to advance customers – current as well as prospective – towards your company on their purchase decision journey from awareness and consideration to purchase and loyalty. You don't need us to tell you that marketing is so much more than advertising. But in some industries – such as retail or B2B – traditional advertising typically only accounts for a relatively small share of the total budget. Make sure your transparency effort also captures point-of-sale activities, direct marketing, sales support, events, sponsorships, and indirect costs, such as agency fees and production expense. Compare our discussion of the "total cost of ownership" of a given touch point in Chapter 5.

The structures of most organizations – and the respective decision rules – are often the products of history and politics rather than business requirements. Typically, the marketing budget mirrors this internal view. As a result, the building blocks of the budget are often departments and business units, rather than products, channels, or target groups. But the budget should be a function of the market you are serving, the objectives you are pursuing, and the instruments you are using to reach these objectives. To promote an investor's mindset, we recommend you create transparency in two respects:

- Which objective is a given investment meant to support – brand building, customer acquisition, or sales support for a specific product or service?
- Which instrument, or combination of instruments, are we using to reach that objective in our target group?

This will lay the foundations for optimizing the allocation of funds to business units (see Chapter 2) and instruments (see Chapters 5 and 6). Ideally, investments should be split according to where and how they reach your audience: on TV, in a print ad, online, as a leaflet that is delivered to their homes, in a store, in the form of an addressed direct mailing, or as part of a loyalty programme. This will help you take on a consumer perspective, rather than worrying about budget ownership. Keep in mind that costs incurred at the same touch point may be split between multiple departments. For example, your company's website may be co-funded by the IT department, corporate PR, and your own function. Some marketing activities may not be treated as marketing expenditure at all. For example, co-funded sales stimulation campaigns are often managed as stand-alone profit centres. While this is good news from a return on investment perspective, it can turn transparency creation into a nightmare. Depending on the size and the complexity of your organization, transparency creation can take several weeks, but it is worth the effort. It will not only help you quantify the total "I" (investment) in "ROI" (return on investment), but often also triggers a productive debate among executives about appropriate allocation keys and accountability assignments.

Systematic transparency creation is imperative not only at the corporate level; it should be a matter of course for all your direct reports and their teams – be it to allocate funds to investment units (Chapter 2), to quantify the true cost of each touch point (Chapter 5), or to apply advanced analytics and optimize the mix of marketing instruments (Chapter 6). In each of these respects, transparency is the prerequisite of reliable, fact-based decision making. In this chapter, we will focus on the total size of the budget.

Outside-in: Conduct benchmarking analyses to find out what it takes for your voice to be heard

Your marketing activities don't take place in a void. You are in constant competition with other companies for customer attention. In a noisy environment, it isn't always easy to make sure your voice is heard. Of course, volume isn't the only way to get your audience to listen. A relevant message, a creative campaign, and a compelling story are equally important to engage your target group. But it's all for nothing if your messages never break through to them.

Marketing expenditure as a percentage of revenues is perhaps the most common indicator of relative marketing intensity. While this metric varies greatly with industry and country, it is a quick and easy way of determining whether you are spending in a healthy range. Typical ad-to-sales ratios range from 1 to 17 percent (Exhibit 1.2), but there is a wide spread within each industry.[7] In any case, you should have a good reason to spend either significantly below or above the average for your industry.

Of course, marketing as a percentage of sales is a highly aggregated figure, and it can easily be distorted. For example, if you are a B2B2C company selling to intermediaries, your ad-to-sales ratio will look disproportionately high. This is because sell-in to retailers is lower than sell-out to end customers. Because of such