



METRICS

Karen Haefling, CMO at KeyCorp, says there's a new accountability in marketing that hasn't been there in the past. "Companies are beginning to realize that it's important for their marketing strategies be aligned with their business strategies," she says.

It's time for marketing to stand up and be counted. Literally. As one Chinese proverb reminds us: The person who says it cannot be done should not interrupt the person doing it. **By Elaine M. Cummings**

REVOLUTION

Nostalgic for the '90s? Don't be. Sure, everything seemed so simple back then. As long as the stock was high and the market cap was growing, everyone was happy. The only metric that mattered was shareholder value.

You knew it couldn't last, but you played along, thankful for a deep pool of marketing resources and a wink and a nod around ROI. But when the bubble burst and the economy tanked, an old word crept back into the lexicon: accountability.

PHOTO BY ROGER MASTROIANNI

Measuring Marketing

Certainly, you already had plenty of metrics in place, particularly those of you at larger organizations well schooled in tracking sales leads, market share and CPM. But these pockets of performance measures don't provide the big picture senior managers are now seeking. What you lacked was a way to measure—and communicate—the overall effectiveness of your marketing organization.

So, as bottom lines were scrutinized and budgets slashed, marketing became an easy target because it was the least accountable. With a long history of relying on traditional marketing metrics—those that were easily measured but not necessarily the most important to the business—marketing was slow to respond to the ROI challenge. Until now.

"I've always felt that marketing drove profitable revenues," says Karen Haefling, CMO at Cleveland-based KeyCorp, the parent company of financial services firm KeyBank. "But now there's a new accountability in marketing that hasn't been there in the past. Companies are beginning to realize that it's important for their marketing strategies be aligned with their business strategies."

Haefling is one of the CMOs who gets it. She understands the need to guide her staff through the difficult changes required to bring more discipline to every facet of marketing. "We know that measuring the effect marketing has on a company's bottom line is not something that can be achieved simply by popping in the software du jour," says Haefling.

What she and others also know is that there's an urgency to get it done—and done right—in order to gain competitive advantage and improve company performance. "I feel the

pressures to deliver financial results like everybody else," says Colin Sabol, general manager of marketing at GE Infrastructure in Trevose, Pa. "The good news is that marketing is no longer seen as a support function. We're now in the game. We're part of the daily rhythm of the operations of the business."

Welcome, then, to the new world of marketing metrics, one that requires a more strategic perspective of marketing effectiveness, pre-

sented in ways that the CEO and CFO can understand. The road ahead offers both promise and peril for marketing leaders, with ROI as the primary driver. Doing it right means that CMOs will be better positioned to request additional funds for new initiatives and to fend off attempts to slash what were previously perceived as discretionary expenses.

Unfortunately, the main problem with marketing ROI is that there is no consensus about

"In the end, you exist to grow the business. The CEO has to spend time on marketing strategy, and the CMO has to be closely aligned with finance." —Yellow Roadway CMO Gregory Reid



RUP 12

RUP 13

FUJI RUP

FUJI

PHOTO BY DAN PEARCE

SLOW TO BUY INTO the metrics madness, CMOs are now ready to measure. But no one said it was going to be easy.

Almost **50%** say ROI data is hard to obtain...

...More than **40%** say it isn't granular enough...

...And more than **33%** say it isn't timely enough.

SOURCE: ANA/FORRESTER RESEARCH SURVEY

what the term actually means. Everyone agrees ROI has a place; no one can agree about where that place is.

A recent survey by the Association of National Advertisers (ANA) and Forrester Research highlighted the challenge in striking terms: 78 percent of the respondents said measuring the sales impact of marketing was difficult, and most couldn't even agree on the definition of ROI (see "Defining Moments," at right). "Measurement continues to be the hardest task in managing marketing campaigns," says Jim Nail, principal analyst at Forrester.

"ROI techniques can help assess how other critical marketing metrics that capture customer perceptions and behaviors lead to a change in long-term customer value," says James Lenskold, president of the Lenskold Group and author of *Marketing ROI: The Path to Campaign, Customer, and Corporate Profitability*. "Without the ROI measure, decisions such as improving customer relationships and loyalty cannot effectively guide marketing investments and maximize profits."

In addition to ROI, metrics should include key performance indicators that are predictive of future performance and brand health, and insight about why strategies are or are not working. "But ROI is the ultimate measure for guiding marketing investments, because every marketing decision affects a company's ability to generate profitable sales," says Lenskold.

Unfortunately, many companies still don't have a clear picture of their overall marketing performance, "which may be why they cannot assess it," says Tim Ambler, a senior fellow at the London Business School and author of *Marketing and the Bottom Line*. "They prefer to fumble around in the dark. But they may not like what they see when the lights go on."

Many CMOs struggle with how to successfully make the transition to measurement programs without disrupting campaigns and strategies that seem to be working effectively. Many of these programs lack the supporting expertise in finance and analytics required to capture more of their potential value. "Money is being left on the table," says Lenskold, "and that's profit that could be going directly to the bottom line."

The key to developing a better focus

DEFINING MOMENTS

ARMED WITH TECHNOLOGY, analytics and data, CMOs still find it hard to measure a return on marketing investment—or ROMI—in a standard way.

"There's no consistency," says Bob Liodice, CEO of the Association of National Advertisers, "but research shows a clear trend. Marketers are interested in applying more sophisticated techniques to find it."

ROMI is generally defined as the revenue generated by a marketing program divided by the cost of that program at a given risk level.

How does your company's definition of ROMI match those surveyed?

Incremental sales revenue generated by marketing activities	66%
Changes in brand awareness	57%
Total sales revenue generated by marketing activities	55%
Changes in purchase intention	55%
Changes in attitudes toward the brand	51%
Changes in market share	49%
Number of leads generated	40%

SOURCE: ANA/FORRESTER RESEARCH SURVEY

around marketing ROI efforts, most practitioners and experts agree, is to begin with the objective, not the tools. "Start with an end in mind, and find a way to measure it," says You Mon Tsang, founder and CMO of Biz360 in San Mateo, Calif.

"You don't need to measure everything just because you can," says Kristin Zhivago, author of the book *Rivers of Revenue: What to Do When the Money Stops Flowing*. "You need to prioritize. To go from here to there in my car, I don't need to know the temperature of the windshield washer fluid, but oil pressure is pretty important. And the gas gauge is even more critical."

In other words, don't implement a series of random metrics just because they sound important. "Sometimes you end up measuring the activity and not the outcome," says Sergio Zyman, former CMO at Coca-Cola and author of *The End of Marketing as We Know It*. "In the end, it doesn't matter how much you're spending to increase airline ticket sales if those dollars are aimed at people who are afraid to fly."

The challenge at many companies is getting historically decentralized marketing groups to agree on a common set of metrics. That's where the CMO comes in. "We all have limited financial resources," says GE's Sabol. "It's not fiscally efficient to expect separate IT support for each unit. Likewise, it's better to consolidate marketing around one set of metrics."

Tyco, as it picks up the pieces from its scandal-plagued past, has slowly integrated pieces of a marketing function that once had been fully decentralized. "We used to have 50 different PR firms for Tyco," says Charlie Young, CMO at the Princeton, N.J., company. "There's simply no way that 50 firms can become engaged around a single topic and not add their own spin." The solution? "We consolidated and coordinated our efforts. We eliminated the wasted effort."

STARTING POINT

The key to finding the right metrics—and establishing accountability—is to start with an understanding of the company's overall objectives and then link a set of strategic goals to them, says Gregory Reid, CMO at Yellow Roadway in Overland Park, Kan. "To do that, you need to look at the current state of benchmarking that you already

Measuring Marketing

have," he says. "Understand where you are and find the metrics that will be most important to evaluate where you're going."

Reid began tracking marketing's impact on ROI when he was with Procter & Gamble. "P&G taught me to think about marketing impact, predictability and ROI," he says. "I've taken those concepts to every organization that I've been with subsequently."

Marketing's historic lack of comprehensive measurement, Reid says, fueled perceptions that the marketing group was not important in setting a company's strategic direction. But those perceptions are beginning to change. "It wasn't that you couldn't [measure marketing effectiveness] before," he says. "Technology certainly makes it easier now, but it's always been possible. What we have now is an appreciation for the importance of measuring the impact of marketing programs."

So it should come as no surprise, Reid adds, that companies showing a commitment to measuring marketing tend to be better at delivering profitable revenue growth. "Financial measures are the primary way to track results," Reid says, "but in the end, the entire organization exists in order to profitably grow the business and increase the return to its shareholders. So it's important that the CMO is closely aligned with the CEO and the CFO when it comes to marketing strategy."

GE, whose culture is defined by measuring quality using techniques such as Six Sigma, has extended those activities to the marketing function. When Sabol measures customer retention rates, he demonstrates in financial terms the investment necessary to acquire a new customer. To track customer satisfaction, GE performs weekly "Voice of Our Customer" surveys that ask a random sample of customers in specific product and industry segments about such issues as pricing, value and delivery.

GE also uses metrics around new product introductions. "Every year, I target the amounts of revenue and gross profits we'll achieve," says Sabol. "If I achieve my goals,

I ensure product line vitality and higher gross margins, which in turn drives higher ROI."

Sabol admits that when it comes to measuring impact, marketing faces some unique challenges. "Alone, ROI cannot be used as an effective measurement tool for marketing because the value of relationships, attitude, brand awareness and reputation are difficult to calculate in financial terms," says Sabol. "It's not so easy to tie marketing to the income statement because we own only portions of it. But ultimately we know that premier marketing drives premium returns."

HELP ME HELP YOU

At KeyBank, marketing's traditional communications role has morphed into a far more strategic position. "Operations knows that metrics will help us help them," says Haefling, who has spent much of her 25-year career working on ways to improve marketing metrics. "Frankly, if you can't show some measure of worth—whether financial or value-added—you shouldn't be doing it."

KeyBank focuses on various metrics—acquisition rates, conversion rates, ROI—as they relate to each marketing initiative. "I can also

measure the quantitative impact of performance activities," says Haefling. "Did the call get made in two days? Or did we have more success when a sales call was preceded by a mailing?" In the past, KeyBank had only high-level research surveys on satisfaction and loyalty. "Now, with a rich client data warehouse and powerful campaign management tools, we can pinpoint the actual effects of specific actions for specific clients," she says.

Haefling also looks to quantify softer measures: What was the customer's reaction? What was his or her preference? How does the bank compare with its competitors? "I do that by taking surveys or looking at referrals," she says.

The methods are not new, but KeyBank's use of them is, Haefling claims. "When we know the perceptions of our clients and the underlying drivers of those perceptions," she says, "we can use them to design new strategies that can be tested with a specific set of clients to see if their actual purchase behavior changes."

The longer KeyBank measures and tests its data, the smarter it gets. The company has tracked detailed marketing costs at the project level for seven years. It regularly evaluates the impact of certain marketing tactics on individual projects. And it has built statistical models for various products using data on client behavior and drivers of demand. "It's a continuous-improvement approach," says Haefling. "We've created an overall Marketing Scorecard that measures both the effectiveness and efficiency of our initiatives and our entire marketing organization against preset goals derived from internal and external benchmarks. Then we can test against and learn from the activities we measure."

Haefling presents the findings to executives on a quarterly basis, but individual initiatives are reviewed much more frequently with the relevant business unit. At budget time, she relies heavily on such measures to make a case for resources. "This is a journey," she says, "that requires good data, strong analytics, flexible tools and, most of all, a mindset to measure."

Tyco also thinks in terms of Six Sigma tools to connect marketing's goals back to its business's goals. "In the past, a lot of great work seemed soft—easy to question and, therefore,

"In the past, a lot of great work seemed easy to question and, therefore, easy to eliminate. Marketing dollars got redirected because the measurement of them was not so rigorous."

—Tyco CMO Charlie Young

BOOKSHELF METRICS

Marketing and the Bottom Line: The Marketing Metrics to Pump up Cash Flow By Tim Ambler (Prentice Hall, 2003)

Boards devote nine times more attention to counting cash flow than to wondering where it comes from. Ambler analyzes the impact marketing has on the financial well-being of a company and tells how to design metrics that make marketing more accountable for what it does.

Marketing ROI: The Path to Campaign, Customer, and Corporate Profitability By James D. Lenskold (McGraw-Hill, 2003)

Marketing is an integral component of any company's profitability (or lack thereof), and executives should expect a measureable ROMI just as they do for any other essential expenditures. Lenskold provides a formula that can be adapted to match each company's operational and financial requirements.

Return on Marketing Investment: Demand More from your Marketing and Sales Investment By Guy Powell (RPI Press, 2003)

In the past, marketing only had to generate leads, improve brand awareness or develop flashy graphics. Now executives are challenged to generate revenue and "meet the numbers." This book is a tool for CMOs looking to improve their ability to produce real results in revenue growth.

Enterprise Marketing Management: The New Science of Marketing By Dave Sutton and Tom Klein (John Wiley & Sons, 2003)

This manifesto gives CMOs the know-how to create marketing that works. Sutton and Klein provide a clear path for creating a compelling, data-driven brand position that puts ROI at the center of everything that marketing does.

The End of Advertising as We Know It By Sergio Zyman (John Wiley & Sons, 2002)

In a follow-up to his bestseller, the former CMO of Coca-Cola challenges advertising to answer to the bottom line. Backed by case studies, Zyman reinvents advertising as a scientific process in which every expenditure generates a return.

to measure—and improve—marketing performance. "The methodology is agnostic to the area of discipline in which it is performed," he says. "It's as good for marketing as it is for manufacturing, and it can work for everything if you adopt it properly and condition your team not to be afraid of it."

"It isn't possible to dunk the whole [marketing] function in Six Sigma, but we can establish a set of strategic goals for marketing that are tied to our CEO's goals," he says.

Such techniques have helped put marketing on equal footing with operations and other departments at Tyco. "Marketing metrics have helped us save millions of dollars at Tyco," he says. "We'll save in excess of \$5 million in general printing costs alone just by taking a more granular look at our printer relationships."

Those are the types of numbers that can help turn the CFO from adversary to ally—a critical step for the CMO. "The CMO and the CFO have been like oil and water in a lot of companies," says Yellow Roadway's Reid. "That's a huge mistake. Marketing is the one function that needs all others to succeed. You need to have a great relationship with everyone."

The best way to do that, many CMOs agree, is to say it with numbers.

"If you want to be an equal partner in any business endeavor, you need to bring something to the table," says Sabol. "You need to be able to measure—and validate—what you're doing."

More CMOs understand this; instead of shying away from the challenge, they are embracing it. "Strong marketers want to be measured," says Biz 360's Tsang. "They're not afraid, because they know marketing works."

Adds Sabol, "We love this pressure, because we know that we generate an ROI as high—or higher—than other functions in the company. So bring it on." ●

Managing Editor Elaine M. Cummings can be reached at cummings@cxo.com.

Online Extra cmomagazine.com

FROM THE SOURCE Learn how to measure the effectiveness of your marketing efforts by asking someone who's already doing it. Submit questions to **Gregory Reid**, CMO of Yellow Roadway. Details at www.cmomagazine.com/printlinks.