Contributing to the Bottom Line:

Marketing Productivity, Effectiveness and Accountability[1]

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July 2005

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Abstract

There is increasing scrutiny of marketing activities and a growing demand for greater accountability of the marketing function. The present paper asserts that such accountability cannot be achieved until generally accepted standards for the measurement of marketing outcomes are adopted. The paper identifies three broad types of marketing outcomes and suggests that two of these types of outcomes are candidates for the development of standardized measures. The role of standards, essential characteristics of standards, and how they may be developed are addressed. Twelve general propositions related to standards for assessing marketing outcomes are offered.

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Introduction

The demands for accountability and the justification of expenditures within the marketing discipline have reached epic proportions. While few would disagree with the view that marketing is important and adds value to the firm and for the customer, measuring and quantifying such contributions remain a challenge. Numerous surveys of industry professionals offer similar conclusions: there is broad dissatisfaction with marketing's ability to measure its contributions to the firm (American Productivity and Quality Center with the Advertising Research Foundation 2001, American Productivity and Quality Center with the Advertising Research Foundation 2003, Cook and Talluri 2004, Nail, et al. 2002, Nail 2004). A survey by the Council of Chief Marketing Officers concluded:

> "Marketing -- known more as art than science -- has been the last of the corporate functions to formally develop and adopt processes and standards that can be tracked and measured quantitatively." (CMO White Paper 2004b, p. 2.)

Even as pressure from senior executives and boards of directors for greater marketing accountability has mounted, recent legislation has added to the challenge. Sarbanes-Oxley places marketing directly in the sights of regulators. Forecasts by marketers are used by virtually all other functions within the firm. As a result the marketing function will be required to provide more accurate and complete information about its expenditures and projections of future results. In this new regulatory climate the questions asked of managers change from “what did you know?” to “why didn’t you know?” (Kornbluh 2004). As one observer notes:

> “Marketing has broad exposure to Sarbanes-Oxley compliance. According to industry research firm Gartner, ‘Sarbanes-Oxley will require enterprises to closely monitor and track their marketing expenditures. To do this, the marketing function must be transformed to comply with the new requirements.’ Indeed, Sarbanes Oxley compliance requires significant operational changes and investments in new systems and processes. Marketing is a particularly visible target for efforts associated with Sarbanes-Oxley compliance because it manages material amounts of spending, often with weak systems and processes.” (Kornbluh 2004, p. 2).

The imperative for greater accountability co-exists with an environment in which there is little agreement on how to measure the contributions and outcomes associated with marketing activities. Indeed, there is no generally accepted definition of return on marketing investment even within the same organizations (Nail 2004; CMO Council 2004a) and the vast majority of firms are ill-prepared to generate the types of accountability measures that will be required in the future. Marketing requires generally accepted measurement standards if it is to meet the challenge of accountability and retain credibility in the boardroom. Should marketing fail to develop such measurement standards, other business functions will certainly do so and there is a risk that marketing will be marginalized as just a tactical function to be managed by more strategic disciplines.

Defining Relevant Metrics Marketing Accountability

Marketing has a long history of paying attention to measurement and the creation of metrics. There is no shortage of outcome metrics in marketing and these metrics can be very useful when appropriately applied. The problem is that most of the metrics used to assess the outcomes of marketing activities are tactical and not directly relevant to the overall financial performance of the firm (Lehmann 2004). The link between traditional marketing metrics and the financial performance of the firm is seldom explicit (Rust, Ambler, Carpenter, Kumar, and Srivastava 2004). Srivastava and Reibstein (2005) note that "pressure is being placed on marketing to justify expenditures and to translate their measures into financial outcomes, which is the language used by the rest of the firm." (p. 85).

The Standards Imperative

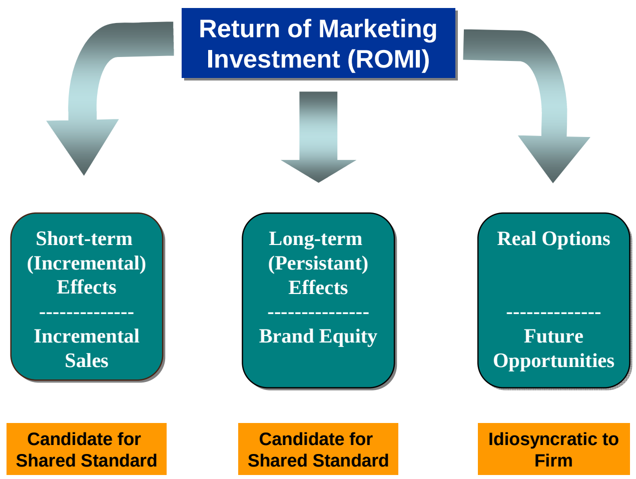
Standard metrics for assessing the outcome of marketing activities have the potential to facilitate and improve a variety of management decisions: (1) optimization of resources in such activities as media planning and design of the marketing mix, (2) forecasting, including both forward forecasting and the analysis of various “what if” scenarios, and (3) the assessment of financial return and return on investment. One impediment to the identification and adoption of standard metrics is the perception that the effects of marketing activities tend to be highly idiosyncratic with respect to an individual business. This perception appears to be particularly acute with respect to the effects of advertising (Bucklin and Gupta 1999, p. 264). The perception of such idiosyncratic effects almost certainly has some basis in reality, but it is less clear that such differences are associated with the actual outcomes of marketing activities. Rather, such idiosyncratic effects may be attributable to the limitations of the marketing mix models employed and the idiosyncratic nature of the data on which such models are constructed. If these are the reasons for such apparent idiosyncratic effects it is all the more reason for development of standard metrics for directly assessing the impact of marketing activities rather than trying to tease them out of historical data.

It is also important that outcomes arising from marketing activities be clearly identified with respect to their effects over time and the degree to which they may be common to all (or most firms) or are genuinely idiosyncratic to the individual firm. Only those effects that are common across firms are candidates for a shared measurement standard.

Three Classes of Marketing Outcomes

Although there are many types of marketing metrics there are three broad classes of measures that can be identified based on the duration of the measured effect and the extent to which the measured effect is common to all firms. These three classes of measures are (1) short-term (short lasting) effects, (2) long-term (effects that persist over time), and (3) real options. **Figure 1** provides an illustration of these three classes of marketing outcomes (see Figure 1).

Figure 1
Three Types of Return on Marketing Investment



Short-term effects are well recognized in marketing. They are the focus of much of the marketing mix modeling activity that is carried out by firms. Most often, the economic manifestations of such short-term effects are relatively immediate incremental sales (relative to some baseline). However, it is also important to recognize that there may be opportunity costs associated with **not** engaging in a particular marketing activity. Thus, loss of sales in the short-term may also provide an indicator of marketing decisions (in this case, the decision not to spend on some activity). Such short-term effects can be quantified in a meaningful fashion across firms using such common metrics as change in market share, incremental revenue and profitability. While the data and processes for creating such metrics may pose a challenge, the underlying metric can and should be standard across markets, brands and firms.

Long-term outcomes are effects that also occur rather immediately but these effects tend to persist over time (DeKimpe and Hanssens 2004). Although there have been efforts to estimate such long-term effects (see e.g., Hollis 1997, Scott and Ward 1997), such effects are generally recognized to be difficult to estimate and there is no generally accepted standard for measuring these effects directly (Bucklin and Gupta 1999, p. 262). Nevertheless, these longer-term effects have the potential for translation into standard economic metrics, such as a persistent change in incremental sales relative to a baseline or a price premium for each unit sold. As a result, these longer-term effects are also candidates for standardized measurement, that is, use of a metric comparable across brands and firms.

Finally, there are outcomes of marketing actions that are genuinely idiosyncratic to the firm. In recent years there has been growing interest in what has been called "real options" (Copeland and Antikarov 2003, Luehrman 1998 a & b). The concept of real options is of relatively recent origin in finance. At the simplest level it is an approach to decision-making that attempts to explicitly recognize the dynamic nature "of future decisions where management has the flexibility to adapt given changes in the business environment." (Mun 2002, p. 82). Copeland and Antikorov (2003) define a real option as "the right, but not the obligation, to take an action…at a predetermined cost…"(p. 5).

Options cost money to create, just as investing in financial options costs real money. However, they also create flexibility and opportunities in the future that would not otherwise be available. Options tend to be highly idiosyncratic to the firm (only a firm that has already invested in a customer relationship system has the option to use this system as part of its marketing to its customers; only Procter and Gamble has the option to develop extensions of its Tide brand). Pindyck (1988) suggests that, as much as half the value of a firm lies in the portfolio of real options it possess.

Marketing investments are different from financial investments (Devinney and Stewart 1988). Many marketing activities are about creating and sustaining real options. These options have value because they afford future opportunities for the firm. The creation of a Website creates opportunities for communication with consumers and for product distribution that would not be available but for the creation of the site. Among the more important options in which firms invest are brands. Strong brands create opportunities (options) for premium pricing in the future, for brand extensions, and for cross selling, among others. These opportunities may or may not be exploited by the firm but they are real and have value. Indeed, one especially important option open to a firm that has invested in the creation of a brand is to sell the brand. The value of a brand if the option to sell it were exercised is a measure of the potential value of the option. Although firms may not, and most certainly do not exercise all options available to them, these options have economic value. To the extent that marketing activities create such options they must be considered part of the return on marketing investment.

Because real options exist only within the context of the individual firm and its unique resources, they are idiosyncratic. Although they can certainly be compared with respect to their economic value, both within and across firms they are not suitable for a shared standard metric in the same way short-term and long-term effects are. Nevertheless, they should be considered in any comprehensive analysis of the return on investment associated with marketing activities. The creation of such options is seldom explicitly recognized as a contribution of the marketing function. Yet, if real options really do account for half the value of a firm it would be imprudent to ignore them.

The value of real options created by marketing activities can be assessed retrospectively by examining historical data regarding the outcomes associate with specific decisions. Thus, the value of exercising of an option to extend a brand may be determined by the relative success of the extension is terms of sale or profitability. Conducting such exercises within a firm can reveal just how much value marketing has added through the creation of real options and can serve as a benchmark for thinking about the value of options not yet exercised and the potential return on the creation of new options. Prospectively estimating the value of options is more challenging as is linking specific marketing actions and expenditures to this value. This is the real challenge for the individual firm because it is largely the idiosyncratic options and decisions associated with exercising these options (or not) that define the firm's competitive advantages and future value.

Thus, marketing may create value for the firm in at least three distinct ways: (1) through creation of short-term incremental outcomes, (2) through creation of longer-term, relatively persistent outcomes, and (3) through creation of real options for the firm. The first two outcomes lend themselves to the development and use of standard metrics that have common meaning across markets, firms, and brands. Much of the current frustration with assessment of marketing's effectiveness grows directly from the absence of such standards. There are certainly major issues related to availability of data and the organizational processes necessary to produce such standard metrics. These issues are about implementation, however. While they are not trivial, there is a more fundamental issue at the root of the angst regarding marketing's contribution to the firm. This issue is philosophical and revolves around the absence of agreed upon standards and even recognition of the importance of and critical need for standard metrics. In the remainder of this paper we examine the role of standards in business enterprises and offer twelve propositions that should define the characteristics of standard metrics of marketing productivity and effectiveness.

Developing Standards

Standards are so common that they are often taken for granted. The history of particular standards and how they came into being is often lost. Setting standards has never been easy. There is a rich literature of the economics of standards and standardization that makes it clear that marketing is not unique with respect to the difficulty it has experienced developing generally accepted measurement standards (Blind 2004, Grindley

1995, Toth, 1984). Standards are important because they provide economic benefits. The availability of a generally accepted standard relieves the individual firm of the costs of developing and maintaining its own unique internal standards. Absent a standard, whether broadly available or unique to an individual firm, there is no efficient means for assessing quality. Standards are an efficient means for discriminating high quality from low quality. If buyers cannot distinguish a high quality seller from low quality seller, the high quality seller's costs cannot exceed those of the low quality seller or the high quality seller will not survive. This is called adverse selection or the moral hazard problem in economics. This type of problem currently exists in the areas of marketing measurement, marketing research, and marketing mix modeling where idiosyncratic solution and "black boxes" abound (Bucklin and Gupta 1999).

There are, or course, potential solutions to the adverse selection problem other than the development of a standard. Buyers can carefully screen the quality of measures and models, but this requires significant investment in developing internal expertise, the expenditure of time and resources on the review of alternatives, and an organizational infrastructure to support such activities. Standards reduce such transaction costs because there is less need for buyers to spend time and money evaluating products and services prior to purchase. Alternatively, sellers can build long-term reputation or can guarantee a certain level of quality, but this increases the costs of the seller and creates a moral hazard problem if the buyer does not accept the representation of higher quality and the seller cannot recoup its higher costs. Thus, the presence of generally accepted standards resolve these problems and creates opportunities for the realization of economies of scale by the standards provider and lower costs to buyer through cost sharing.

One major impediment to the develop of standard metrics within marketing is the view of some firms that they may be able to achieve competitive advantage if they are able to create a better measurement tool for informing management decisions than is available to their competitors. This issue is not unique to marketing or market metrics. Indeed, this issue has been played out in a broad array of contexts. Any potential competitive advantage must not only be weighed against all of the on-going costs of going it alone but also relative to the opportunity costs and comparative advantages of the firm (that is all of the other ways in which a firm could invest its resources). It is not at all clear that a firm that is very good at product development is better off investing in the development of metrics instead of developing additional products.

History suggests that there are three general approaches by which standards have been developed: (1) government edict, (2) agreement by industry bodies and (3) market contests. Although it might appear that government edict or agreement by industry bodies are the more efficient means for standard setting, the reality is that most standards are set through market competition. Government standards are usually created only after a long and labor intensive process, and there are many areas in which government has no interest or where the parties involved are so narrow as to make government intervention inefficient (Grindley 2002). While agreement by an industry body might appear to offer advantages, Grindley (2002) has observed that:

> “Strategies that rely on official acceptance divert effort and alone are unlikely to be effective. Agreement is hard to achieve and is unlikely to be adhered to unless backed up by market pressures. Standards bodies are inherently conservative… . …official adoption takes a great deal of precious time. Standards bodies also tend to concentrate on the technical aspects of standards, whereas the most important factors may be on the market side…. …standards may be too important to the firms’ future to be negotiated in committees and have to be settled in the market-place. Years of negotiation over DAT [digital audio tape] within standards organizations failed to resolve basic differences between manufacturers and recording companies over copying, and meetings became platforms for dissent.” (p. 13).

The empirical reality is that most standards evolve by following the main firm in the market or as the outcome of a standards contest in the market. Generally, the most effective way to establish an efficient standard is not by refining the committee process but by turning over more of the standard setting process to the market. Indeed, within marketing today there are a number of standards that exist by virtue of market competition. Examples of such standards include the media ratings data provided by A.C. Nielson and Arbitron.

Thus, it may be most efficient for marketing organizations to encourage competition among third party measurement providers in order to facilitate the identification of alternative standards for specific purposes and the emergence of a standard provider. It is, of course, conceivable that such a market competition could produce alternative providers who meet a common standard that is established by some industry body. It is likely that identification of such a common standard will follow from market competition. If common measurement standards are to be developed there is a need to identify general characteristics of an ideal measurement standard.

Observations, Measures and Principles of Marketing

Marketing metrics must be identified along at least two dimensions.[2] First, the activity that gives rise to an outcome for which the metric is appropriate must be identified. A sales call is different from a network television commercial. Though both may ultimately be measured in terms of incremental sales, the ability to command a premium price or some other economic measure, more proximate metrics for these two activities may be different (though they should still be linked to economic outcomes).

Second, there are the characteristics of the metric itself. These are the basic observations or the underlying data. There is a need to assure the integrity of underlying data (observations) whether they are UPC scanner data, television ratings data, consumers' responses to survey questions, or some other type of raw data. Obviously, the failure of basic research hygiene compromises the quality of data, and this, in turn, increases error in the data and any inferences drawn from it. Marketing has done a creditable job of establishing standards for observations. Such organizations as CMOR, CASRO, and ARF, among others have developed comprehensive standards for the collection of data. However, there is little in the way of formal audit processes for most data collection activity and the market is largely the vehicle by which quality is, or is not, assessed.

Raw data is not, in itself, of much use for marketing planning and measurement of outcomes. Rather, inferences based on the observations are more useful because they provide insights regarding traits and processes. Thus, a set of observations regarding consumers' choices, attitudes, and associations may be inferred to be a measure of brand equity; observations regarding consumer satisfaction, intention to repurchase, and willingness to recommend a brand may be inferred to represent customer loyalty. These inferences or "derived facts" are subject to verification.[3] There are well known methods for establishing the reliability and validity of such measures. These methods are commonly employed in academic research in marketing and are frequently a requisite for publication in the field. In practice, reliability and validity are often assumed, though there are clearly data providers and firms that pay considerable attention to such characteristics of measurement. Increasing requirements for marketing accountability will undoubtedly increase the focus on the reliability and validity of derived measures. At a minimum there will be pressure to show that decisions based on derived measures include attention to the measurement characteristics of the underlying data and inferences based on it.

Finally, various derived facts, or measures, are used to make inferences and decisions about the firm, its businesses, and its customers. Thus, measures of brand equity or customer loyalty must be related to the economic value of the brand or some other factor relevant to the firm and its business. Relationships among marketing activities, specific

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[2]We are grateful to Michael Duffy of VNU who suggested this taxonomy.

[3]The differences between observations and inferences based on observation have been discussed in the measurement literature, which distinguishes between fundamental measurement and derived measurement (Campbell 1920, Wright 1997).

measures of outcomes, and relevant financial results provide justification for management decisions. It is likely that Sarbanes-Oxley will ultimately require marketers to justify expenditures and decisions in terms of principles derived from analyses of these relationships. The identification of such principles will rest on the integrity of the underlying observations and the validity of the derived measures and associated inferences.

Standards for the Measurement and Reporting of Measures of Marketing Productivity and Effectiveness

The prior discussion raises the question of what characteristics an ideal measurement standard should possess. No measure is ideal but until there are guidelines for evaluating metrics there can be no standard and no basis for improvement in the future. We offer twelve general propositions regarding the characteristics of ideal measurement standards. We agree with various authors that the formal definition of ROI in accounting is inappropriate for assessing the impact of many marketing outcomes because it inherently focuses on short term returns (see Ambler 2003, Devinney and Stewart 1988). However, marketing literature and practice have tended to use ROI (or ROMI) in a more generic sense to refer to any outcome of marketing activity regardless of whether that outcome occurs in the short or long term. We will adopt this generic use of the term for purposes of simplicity.

1. <u>Return of Marketing Investment (ROMI) is inherently a financial construct. No measure or measurement system is complete without a specific link to financial performance</u>. Marketing has a long history of attention to measurement and the creation of metrics. The marketing discipline is replete with measures. There is no shortage of outcome metrics in marketing and these metrics can be very useful when appropriately applied. Nevertheless, most of the metrics used to assess the outcomes of marketing activities are tactical and not directly linked to the overall financial performance of the firm. It is critical that measures of return on marketing investment be firmly grounded in the business model of the firm and provide information and direction regarding economic and financial outcomes. The availability of these measures should also be consistent with the timing of the firm's financial reporting and decision-making.

There are several reasons why this should be the case. First, this is the way the firm reports its results. If marketing is to be a credible contributor to the strategic success of the firm it must translate the outcomes of its activities into economic metrics that are consistent with the way in which the firm reports its results. Second, economic metrics, or metrics that can be clearly linked to economic outcomes are the only measures that provide managers with the information necessary for planning, budgeting and prioritization. Even actions with relatively comparable outcomes, such as scheduling media within the same medium, require a common metric that informs allocation decisions.

Most management decisions involve trade-offs among alternative actions that have non-comparable outcomes, at least at the tactical level, however. It is impossible to be confident in any decision involving non-comparable alternatives unless the outcomes associated with those alternatives can be translated to a common scale: the decision to invest more in a firm's website must be weighed against using the same resources to develop and run more television advertising; the decision by a soft drink manufacturer to obtain exclusive pouring rights at a particular venue (at a cost) must be weighed against alternative marketing activities; and any marketing expenditure must be weighed against alternative non-marketing investments and the potential for increasing profitability in a given quarter by not making the expenditure at all. Every management action also carries some risk and there is no easy way to determine whether risk is justified without also understanding the associated financial return. Finally, marketing will always be suspect if it is unable to quantify its contributions in economic terms. The firm is ultimately held accountable for financial results, among other things, and marketing cannot be a credible exception.

2. <u>Measures of Return on Marketing Investment should reflect the standard financial concepts of return, risk, the time value of money and the cost of capital</u>. Alternative marketing actions cannot be compared without consideration of risk and return. Investments in marketing vary with respect to expectations of return on the investment and the time the return is received by firm. Measures of return on marketing investment should explicitly recognize these differences. The value of outcomes realized in future periods should be appropriately discounted to reflect the time value of money. The

appropriate discount rate should reflect the firm’s cost of capital; a dollar today is worth more than a dollar tomorrow.

Marketing actions in which the firm invests also differ with respect to the certainty of outcome and risk of failure. A safe dollar is worth more than a risky dollar. Measures of return on marketing investment should provide a means for accessing risk and for adjusting return on investment for differences in the risk associated with marketing actions. In most circumstances the relevant risks for consideration with respect to marketing actions are business risks, that is, the variability in a firm's sales and its ability to sell its product(s).

3. Measures of Return on Marketing Investment should provide information for guiding future decisions and for predicting future economic outcomes as well as provide retrospective evidence of the impact of marketing actions. There is ample evidence that investment in marketing activities can produce positive returns for the firm. These returns may be substantial. This evidence tends to be retrospective, however. While retrospective analysis is useful and may provide evidence of the efficacy of marketing actions it does not specifically inform future decision making or provide a means for forecasting future outcomes.

Measures of return on marketing investment should provide a reliable and robust means for forecasting the likely outcomes of marketing actions. Such measures should also provide a basis for making decisions regarding non-comparable marketing actions (such as a decision between advertising and promotion), regarding marketing actions and other non-marketing actions by the firm, and regarding marketing actions and contributions to the firm's profitability.

4. Measures of Return on Marketing Investment should recognize both the immediate, short-term effects of marketing actions and longer-term outcomes, as well as the fact that short and long term effects need not be directionally consistent.

Marketing actions may have multiple effects. These effects may be immediate and short-lived or they may be more gradual and persistent. Measures of return on marketing investment should recognize these multiple effects and provide a means for assessing trade-offs between short-term and long-term effects. Short-term and long-term measures of marketing actions are most amenable to the development of standardized measurement systems that might be shared across firms. Although more idiosyncratic in terms of measurement, firms should recognize and seek to quantify the real options created by the firm.

5. Measures of Return on Marketing Investment should recognize the difference in total return on investment and return on marginal return on investment. Knowledge of the total return on marketing investment, while useful, may be less helpful in many circumstance than knowledge of the return on incremental investment. Marketing decisions are often of a form that requires an understanding of the return on the last dollar spent. Economies of scale in some marketing activities may mean that there is greater

marginal return on the last dollar invested than on the first dollar. On the other hand, the law of diminishing returns applies to some marketing activities and suggests that beyond some threshold investment, each additional dollar spent produces less return than the previous dollar.

Many marketing decisions take the form of determining whether an incremental investment in one action produces a superior return relative to an incremental investment in some other action. Measures of return on marketing investment should inform such decisions as well as provide information that suggests the point at which additional investment in a particular action is no longer justified by the expected return.

6. Measures of Return on Marketing Investment should recognize that different products and markets produce different rates of return. Products and markets differ with respect to their size, rate of growth, profit margins, and relative competitive positions of competing firms, among other things. Measures of return on marketing investment should recognize these differences and their implications for the financial performance of the firm. A measure suggesting strong brand equity for a brand in a small, static market has very different financial implications than a comparably strong measure of equity for a brand in a large, growing market.

7. Measures of Return on Marketing Investment should distinguish between measures of outcome and measures of effort. Many measures employed in marketing are measures of effort (e.g., number of sales calls, reach and frequency). Still other measures focus on

efficiency (e.g., CPM) or productivity (average cost per sale). While such measures are useful, inform decision-making and represent a means for managing and controlling costs, they are incomplete when considered alone. Measures of return on marketing investment should include indications of outcome(s) and effectiveness as well as efficiency and productivity. Measures of effectiveness and outcome should include a direct or known and explicit indirect link to financial performance.

8. <u>Measures of Return on Marketing Investment should provide information that is meaningful and comparable across products, markets, and firms</u>. Firms operate in a global economy and often manage complex portfolios of products. For this reason measures of return in marketing investment should be meaningful and comparable across products and markets. Only in this way can firms make decisions that maximize return on investment across a firm's portfolio of products and markets. It is also important that shareholders and other constituents be able to meaningful compare the marketing performance of firms.

There is certainly a place for measures that are specific to particular products, markets or firms. There are dimensions of products, markets and firms that are idiosyncratic and for which idiosyncratic diagnostic, process, and outcome measures are both useful and necessary. Such measures are not a substitute for metrics that are robust across products, markets, and firms.

9. Measures of Return on Marketing Investment should clearly identify the purpose, form and scope of measurement. Just as there is no single best measure of the performance of a firm or of financial return there is no single best, all-purpose metric for return on marketing investment. As with financial metrics, where different metrics provide different insights into performance and inform different kinds of decisions, there will be a role for multiple measures of return on marketing investment. Such measures should be clearly identified in terms of their purpose, form and scope. Measures may provide indications of immediate or longer-term effects and of the effects of a single marketing action or the combined effects of multiple actions.

Measures may also be of different forms. Some measures, such as market share and incremental sales may provide a direct link to economic performance. Other measures, such as measures of brand equity, may be more indirect or may be derived through statistical estimation. The functional relationship of indirect and derived measures to financial performance should be defined and validated. The use of models and metrics based on historical data is useful but is not a substitute for forward validation.

10. Measures of Return on Marketing Investment should be documented in sufficient detail to allow a knowledgeable user to assess their utility using generally accepted standards of measurement development and to make comparisons among alternative measures. Third-party commercial information providers offer numerous measures and metrics of the effects of marketing actions and return on marketing investment. Claims of the utility and validity of such measures should be verifiable and subject to independent

audit. Independent verification of claims by individual firms is less efficient and less robust than validation that is transparent and publicly accessible. At a minimum, providers of marketing metrics should provide sufficient information about the measurement properties and validation of their measures to provide a reasonable basis for comparison of alternative measures with respect to their cost, timeliness and predictive validity.

11. Measures of Return on Marketing Investment should be assessed relative to generally accepted standards of measurement development and validation. There exist well-established standards for the conduct of marketing research and the development and validation of measures and metrics. Measures of return on marketing investment should adhere to these standards and exhibit characteristics that reflect best practices in measurement development and validation. Providers of such measures should make known and users of these metrics should know these characteristics for individual measures. Appendix A provides a list of the attributes of an ideal measure.

12. Measures of Return on Marketing Investment should be recognized as a necessary investment for assuring sound decision-making, accountability, continuous improvement, and transparency for all stakeholders. Marketing information is a necessary element in the management of the firm. The costs of marketing information should be considered a part of the management and control function of the firm rather than a marketing expense. The marketing function should not be placed in the position of making trade-offs between

expenditures on marketing actions and expenditures on marketing information and controls.

There are ample reasons to believe that the development and use of effective measures of return on marketing investment can produce greater returns for the firm while reducing total current marketing costs. The returns and cost savings obtained by firms that have successfully embraced the continuous quality improvement movement give us confidence that similar attention to the role of marketing in contributing to the financial performance of the firm will produce significant returns.

Summary and Conclusions

Serious attention to ROMI is long over due. Pressures from senior management, boards of directors, and regulatory agencies arising from Sarbanes-Oxley will force marketers to become more accountable or be reduced to the role of executing tactics while other business functions make decisions about resource allocations and marketing actions. It behooves the marketing discipline to develop defensible measures of its contributions and the return on investment in its activities. Gil (2003) observes that:

> “The sales and marketing function faces a unique challenge in erecting its internal control structure because some of its key finance-oriented outputs (sales forecasts and projections) upon which many other functions rely, are based on

abstract or estimated data and are generated through nonstandardized processes." (p. 1).

There is much unnecessary confusion about ROMI. While there are many marketing metrics that may be useful for diagnostic and tactical purposes, ROMI is ultimately about economic outcomes, i.e., financial results. Only measures that can be linked to financial results will be credible because the firm is required to report its results in financial terms. Managers must make trade-offs involving decisions with non-comparable outcomes that can only be evaluated in financial terms.

The present paper identifies three broad classes of marketing outcomes: short-term outcomes, long-term (persistent) outcomes, and the creation of real options. It is suggested that measures of short-term and long-term outcomes lend themselves to the development of standard measures within and across firms. Real options are idiosyncratic to the firm and therefore require firm specific metrics for assessing their value and the return on the investment required to create them.

The paper identifies characteristics of ideal measures and argues that effective measurement standards for marketing outcomes are more likely to develop through market competition rather than through the efforts of a single firm or the actions of an industry body. A first step in facilitating such market competition is identification of a set of broad guidelines for use in evaluating market metrics. This paper offers twelve such guidelines.

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Appendix A
Characteristics of Ideal Measures[4]

There exists a long history of theory and research related to the development of measures in marketing. This theory and research suggests the attributes that characterize the best practices in marketing measurement. In general, an ideal measure should:

(1) be relevant, that is, it addresses and informs specific, pending decisions and actions;

(2) be grounded in theory, that is, it is validated against other measures and constructs and possess a known functional relationship to other measures and constructs;

(3) be complete and distinct, that is, it has all of the necessary qualities and capabilities to provide insight and it is clearly different and separable from other constructs with respect to its meaning and implications;

(4) be diagnostic that is, it is able to distinguish or identify the cause or reason for a given outcome, suggest specific intervention(s) for change and include a means for assessing that the intervention has had desired effect;

[4]A conference of the Marketing Science Institute identified ten characteristics of an ideal measure of brand equity that were reported in Ailawadi, Lehmann and Neslin (2003). These characteristics are included in this appendix along with several other characteristics generally associated with best practices in measurement development.

(5) be valid and predictive, that is, it provides information about the future, accurately predicts the outcome of pending action, and is able to identify and quantify future outcomes;

(6) be objective, that is, it provides facts, explanations and information that are meaningful and not subject to personal interpretation or distortion by personal feelings or prejudices;

(7) be based on readily available data, that is, it is based on facts or observations that can be readily obtained across time and circumstances;

(8) be intuitive and credible, that is, it possesses face validity and inspires trust and confidence;

(9) be robust and calibrated, that is, it means the same thing across products, markets, conditions and cultures;

(10) be reliable, that is, it is dependable and stable over time and conditions but also able to reflect real changes;

(11) be sensitive, that is, it can identify and differentiate meaningful differences in outcomes and actions;

(12) be <u>simple and empowering</u>, that is, it is straightforward, uncomplicated and easy to use and its meaning and implications are clear and can be adopted and acted upon easily; and

(13) be <u>transparent and subject to independent audit</u>, that is, claims with respect to specific properties and/or capabilities should be substantiated and open to independent verification.

(14) be subject to <u>on-going quality assurance and improvement</u>, that is, there exist formal processes for assuring the reliability, validity and sensitivity of the measure and for making the measure better and more useful.