

The background of the slide is a blue-tinted image of several US dollar bills, including a \$100 bill and a \$20 bill, arranged in a collage-like fashion.

Speaking in Numbers, the Language of Bottom Line Business

**Dwight Risky, PepsiCo
Kate Sirkin, Starcom MediaVest Group (SMG)
David Stewart, University of Southern California**

**A Panel Discussion Presented to the
IIR 9th Annual Conference on Return on Marketing
Investment
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The Boardroom Project



Mission
To Establish
Marketing Measurement Standards
for Continuous Improvement
in Business Performance

The Boardroom Project



**Marketing Professionals Coming Together to
Address Marketing Accountability (2004+)**

Dave Stewart (Chair) University of Southern California

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Dwight Risky Pepsico

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Meg Blair rsc

Mitch Barns BASES / M&A

What is ROMI?



...defined as the revenue (or margin) generated by a marketing program divided by the cost of that program at a given risk level.

Guy R. Powell (2002), Return on Marketing Investment,
(Albuquerque, NM: RPI Press), p. 6.

This is an economic (financial) measure!

Why ROMI Must Be A Financial Metric



- It's the *Language* of the company
- It's the way companies *report* and are evaluated
- It's the way to *compare* alternative actions
 - Across products, markets, customers
- It provides *accountability*
- It promotes *organizational learning* and cross-functional team work
- It's the Way to Answer Questions about the "*Optimal Marketing Mix*"

Framing the Problem



Marketing does not lack measures, but...

- It lacks *standard* measures and metrics
- It lacks metrics explicitly linked to *financial* performance in predictable ways
- In many areas, but not all, it lacks formal processes for *auditing* marketing metrics models
- It is highly *idiosyncratic*
 - You cannot improve a process until the process has been defined

An Analogy: The Quality Movement



Marketing is Where Quality Was 50 Years Ago

- Highly Idiosyncratic
- Viewed as A Cost (Scrap and Re-work as “Low Cost” Substitutes for Quality)
- Lacking Standard Metrics
- Lacking Standardized Processes

The Quality Movement has spent 50 years proving itself (this has cost money)

- Developing Metrics
- Creating Standard Processes
- Linking to Financial Performance (through demonstrated cost savings and higher returns in the market)
- Demonstrating its Value

Standards Must Be Linked to Something



- Marketing Standards Must Be Linked to the Objectives of the Firm
 - Financial Performance
 - Growth
- Marketing Standards Must Be Linked to the Common Language of the Firm
 - Financial Performance
 - Shareholder Value
- Marketing Standards Must Reflect Both Revenue & Costs

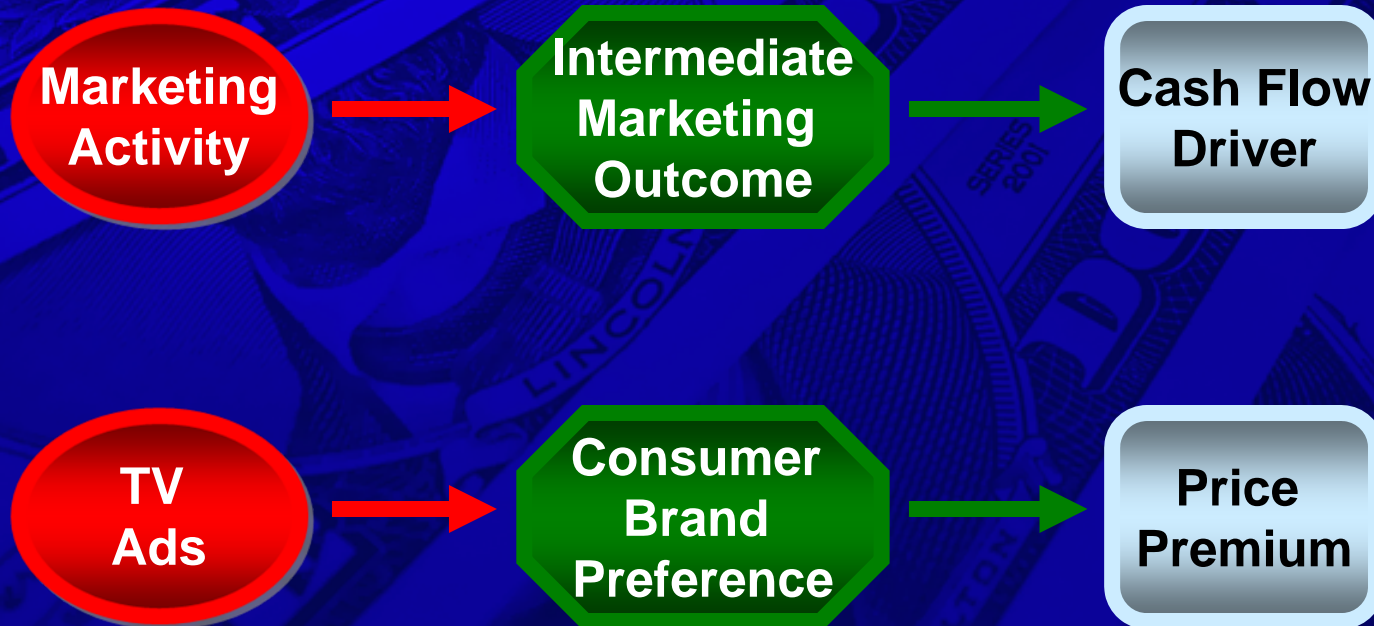
Cash Flow Is the Ultimate Marketing Metric



- Cash flow is the primary financial metric of the firm
 - It is a measure that is consistent across markets, products, customers, and activities
- Objective of marketing is to identify sources of and to produce cash flow
- There are a small number of drivers of cash flow
 - Cash is obtained from a source (customer acquisition and retention, share of wallet within category, share of wallet across category)
 - Cash is produced through a business model (margin, velocity, leverage)
- Every marketing activity should be causally linked to these drivers and ultimately to cash flow
- Intermediate marketing metrics may be useful and even necessary to make this causal link BUT such intermediate metrics must be validated and tested against cash flow

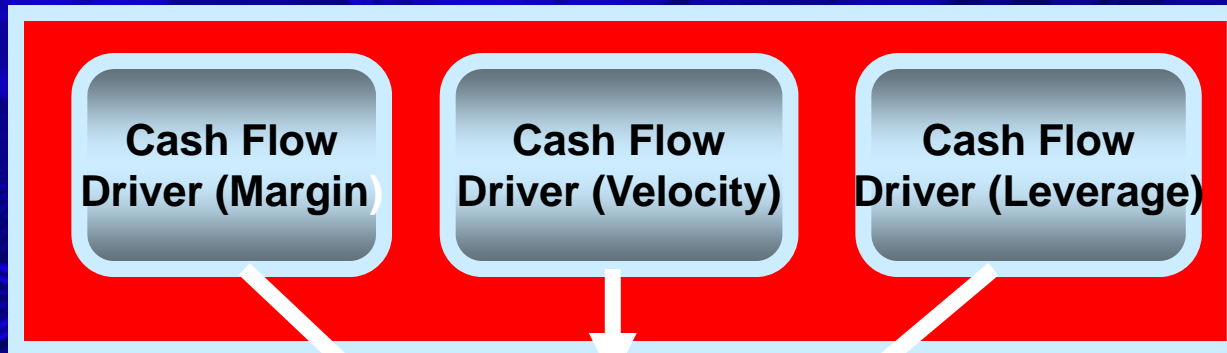
Linking Marketing Outcomes to Financial Performance (Marketing Metric Audit Protocol -- MMAP)

There Is a Need to Causally Link Specific Marketing Actions and Intermediate Marketing Outcomes to Each of The Three Types of Returns from Marketing



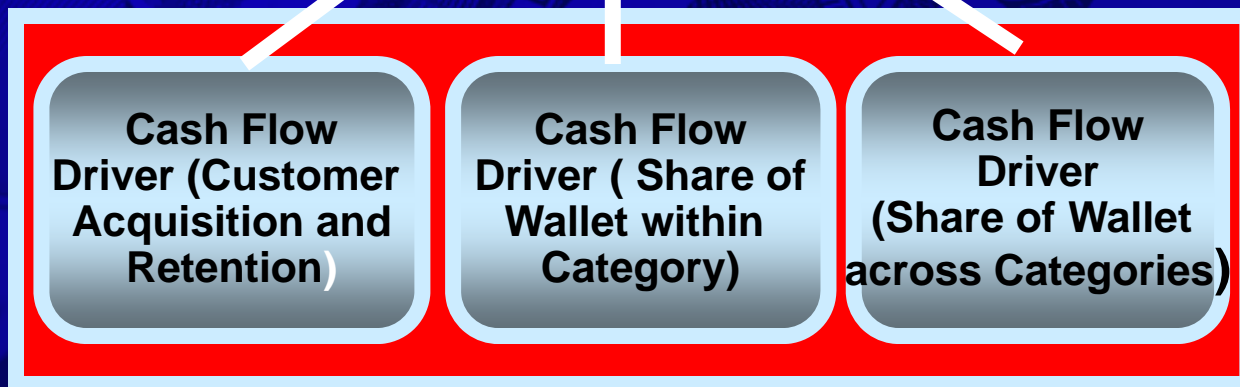
Step 1: Identify Cash Flow Drivers for the Business

Business
Model:
(How the
firm
generates
Cash)

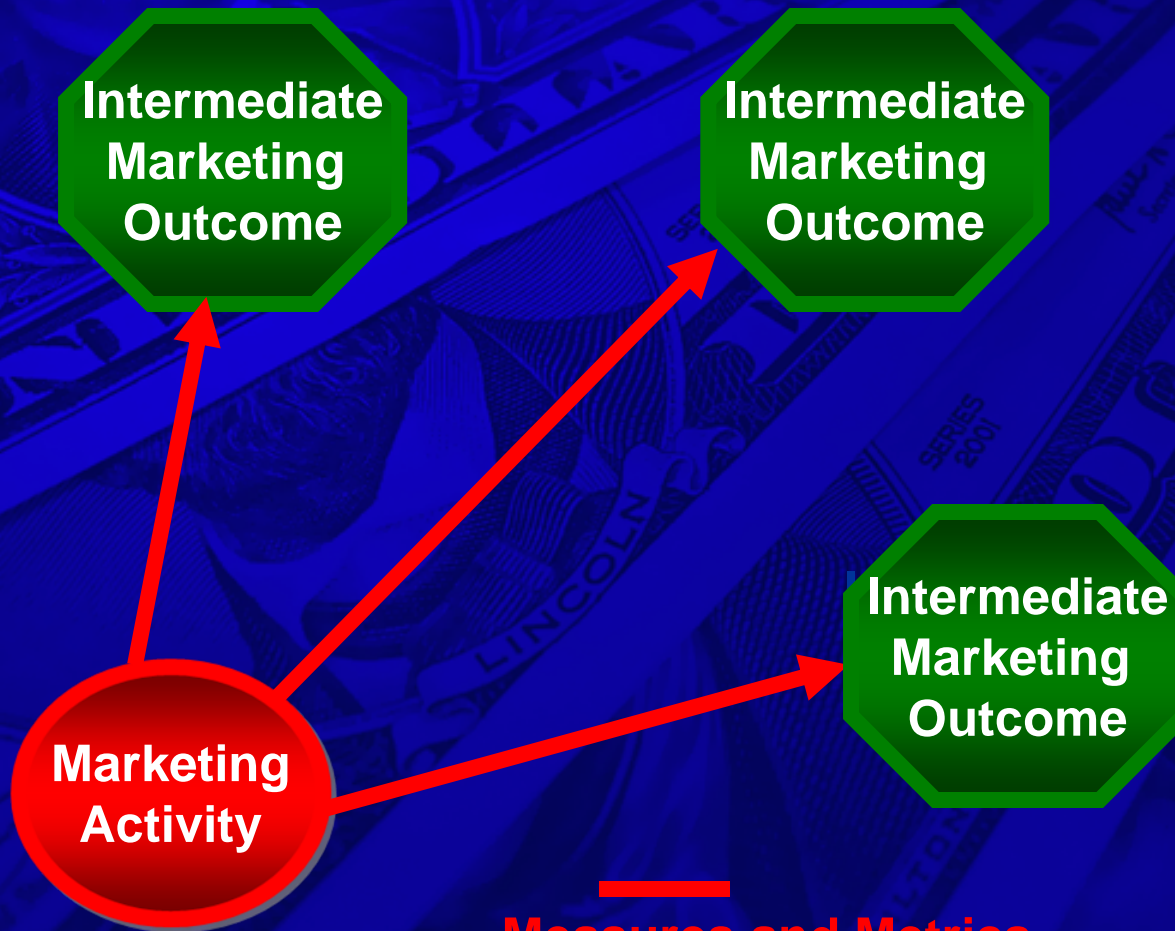


Cash Flow

Source
Of Cash



Step 2: Identify Measures of Marketing Outcomes



Measures and Metrics

Step 3: Identify the Conceptual Link of Intermediate Metrics to Cash Flow Drivers

An Example

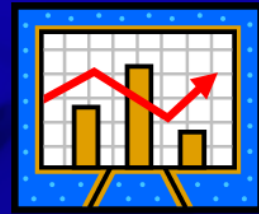
	Cash Flow Drivers					
	<u>Source of Cash</u>			<u>Business Model</u>		
	Customer Acquisition and Retention	Share of Wallet Within Category	Share of Wallet Across Category	Margin	Velocity	Leverage
<u>Intermediate Marketing Outcome Metric</u>						
Market Share		✓		✓		
Leads Generated	✓			✓	✓	
Purchase Intent	✓				✓	
Brand Preference (Equity; Loyalty)	✓	✓	✓	✓	✓	✓
Customer Satisfaction (Retention; Loyalty)	✓		✓	✓		
Coupon Redemption Rate		✓			✓	
Distribution Coverage	✓	✓			✓	

Note: this would be done for both short-term and long-term

Step 4: Identify the Causal Links of Marketing Activities



Validation and Causality Audit



- Every Intermediate Marketing Outcome Metric Should Be Validated Against Short-term or Long-Term Cash Flow Drivers and Ultimately Cash Flow
 - This will cost money, but
 - It will facilitate forward forecasting & improvement
 - . . . which should be the criteria for validation



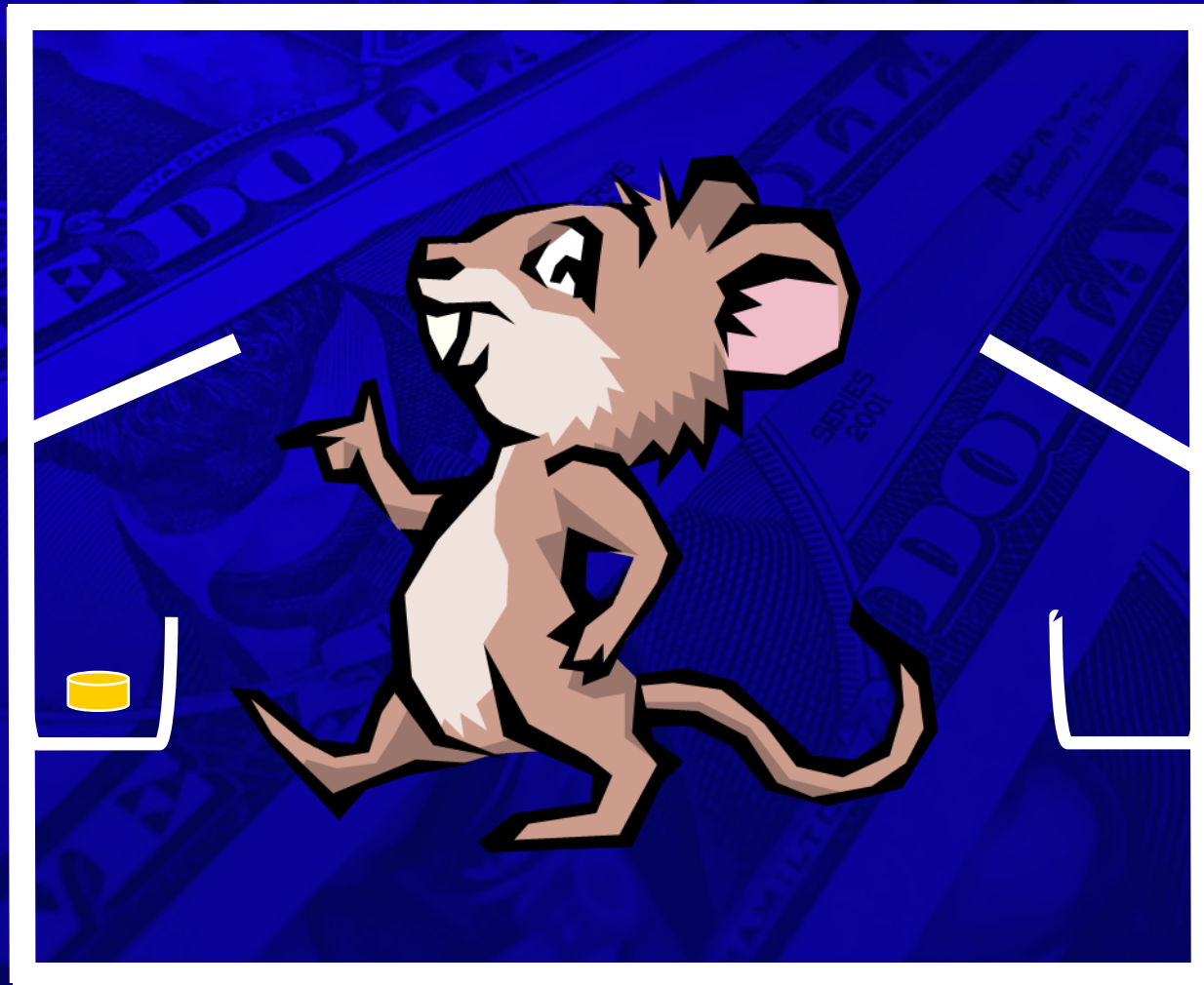
Case Study 1: Frito-Lay

Main Objective: Grow the Business Faster

- A wide variety of marketing “levers” to pull
- Pulling them requires resources
- The challenge: Figure out how well each works
- Learn how to use them more effectively



**Marketing Mix allows us to learn
“contingencies of reinforcement”**



Main Objective: Grow the Business Faster

- A wide variety of marketing “levers” to pull
- Pulling them requires resources
- The challenge: Figure out how well each works
- Learn how to use them more effectively
- Avoid:
 - “Superstitious Behavior”
 - “Learned Helplessness”

Frito-Lay Case Study

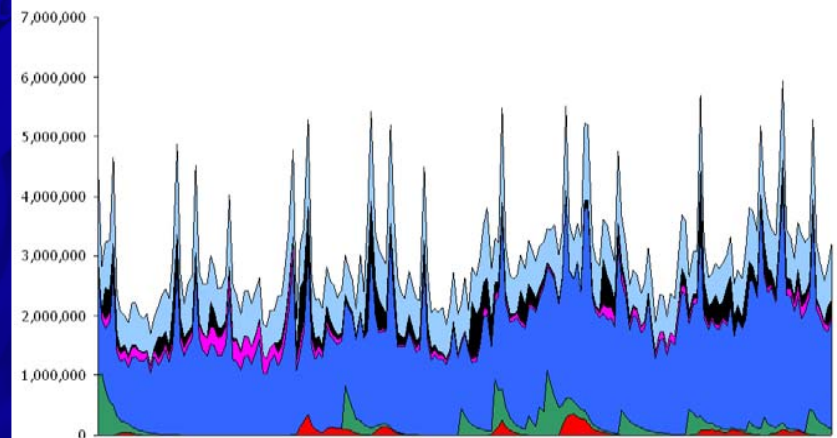
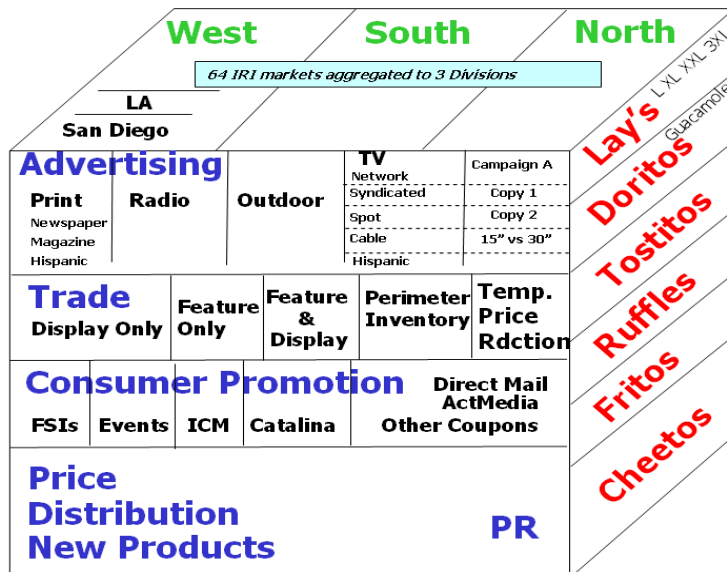


- Marketing Mix employed for 5 years
- Consistent models – Portfolio Approach
- Periodic rather than intermittent analysis and reporting
- Viewed from four perspectives:
 - Feedback – How did we do?
 - How should we adjust?
 - Forecast – How will we do after plan adjustments?
 - What have we learned about what makes them work?

The Frito-Lay Approach

- All MacroSnack push & pull activities
- Environmental data – unemployment, Consumer Price Index, etc.
- Market level, rolled-up to three divisions
- Key output: Base and Incremental volume “due-to” various marketing activities

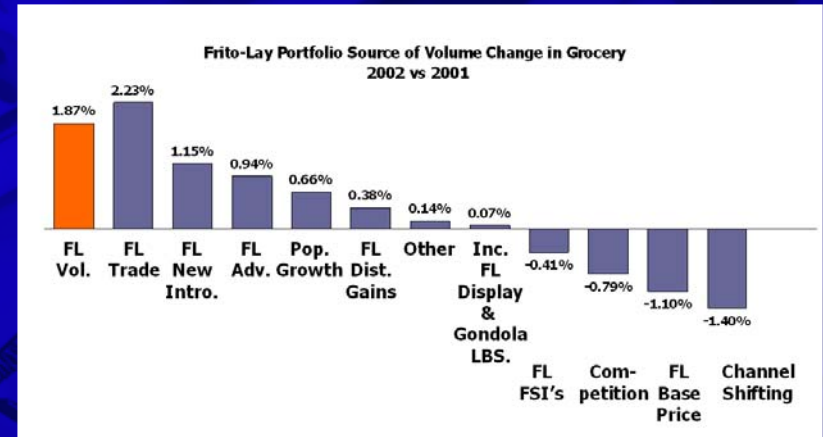
Frito-Lay Growth Driver Database Engine



Key deliverables

Growth Drivers (& Restrainers)

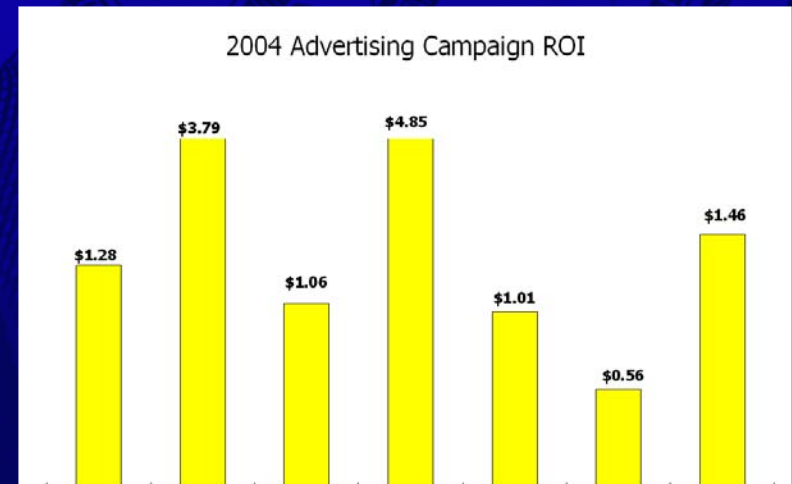
- What helped/hurt pound growth in a given period of time vs. same time year ago



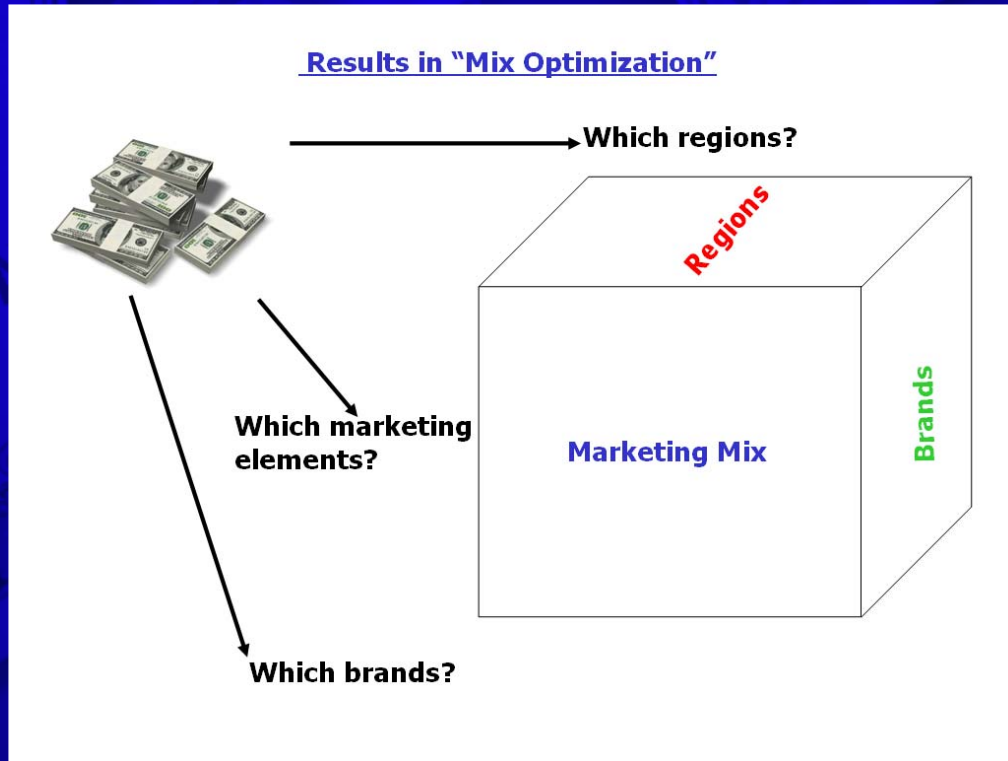
Effectiveness/Efficiency "Report Card"

For both PORTFOLIO and BRAND:

- Effectiveness Measures:
 - Incremental #'s per GRP
 - Incremental #'s per Coupon
- Efficiency Measures
 - Cost Per Incremental Pound
 - Cost Per Incremental Dollar
 - ROI



How we use it



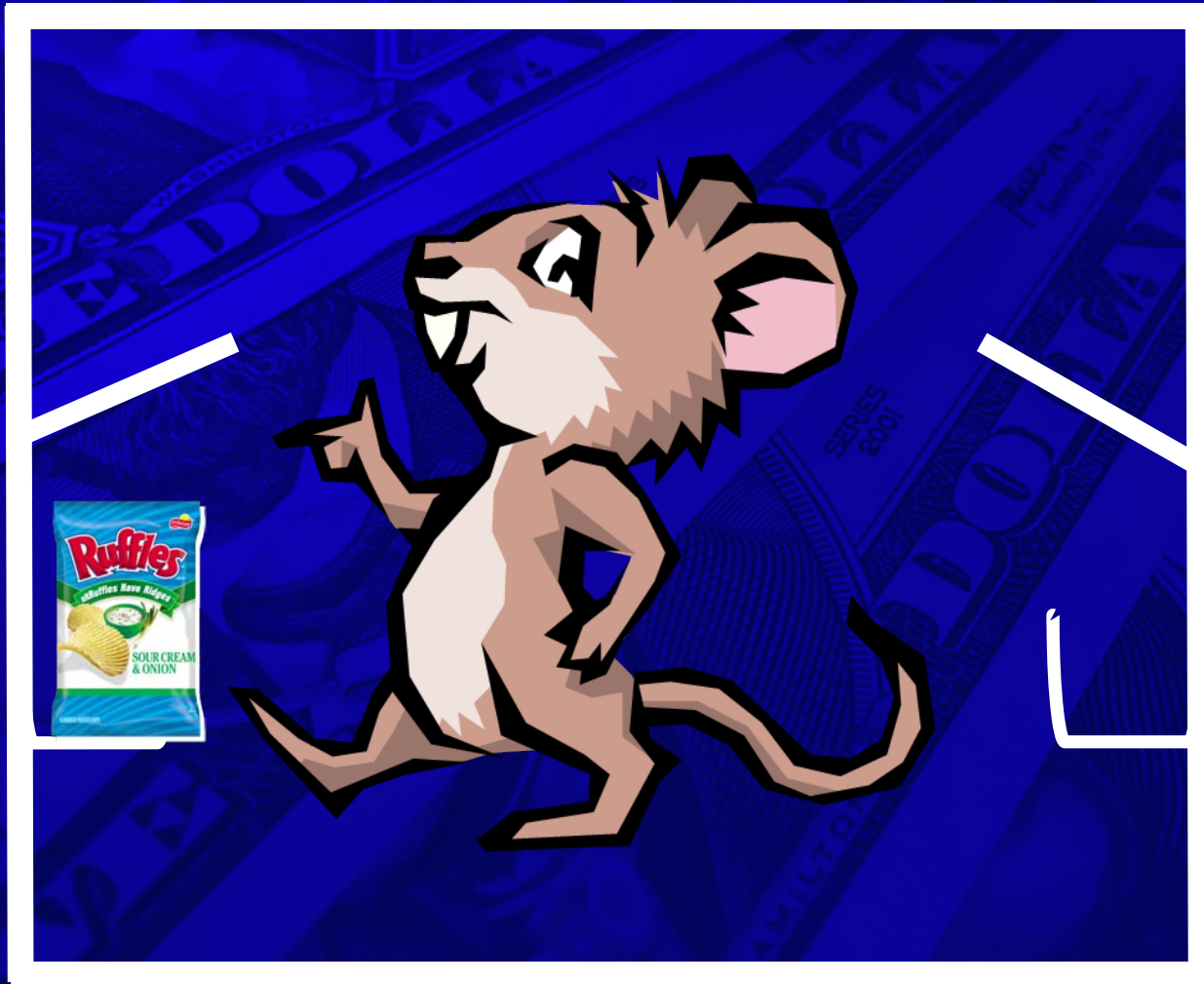
- How to allocate limited marketing resources
 - > which brands to fund
 - > which region/divisions to fund
 - > which mix activities to fund
- ... provide the most incremental volume and highest Return on Investment

How Do We Make It Better?

- Coverage
- Speed
- Comparability
 - Need for standards

This is the link to The Boardroom Project.

**Marketing Mix allows us to learn
“contingencies of reinforcement”**





Case Study 2: Optimizing Customer Contact

The Evolution of ROMI from Media Agency Perspective



SMG Three Pronged Approach to Measuring ROMI

**Market
Mix Modeling**

**Brand
Health Analytics**

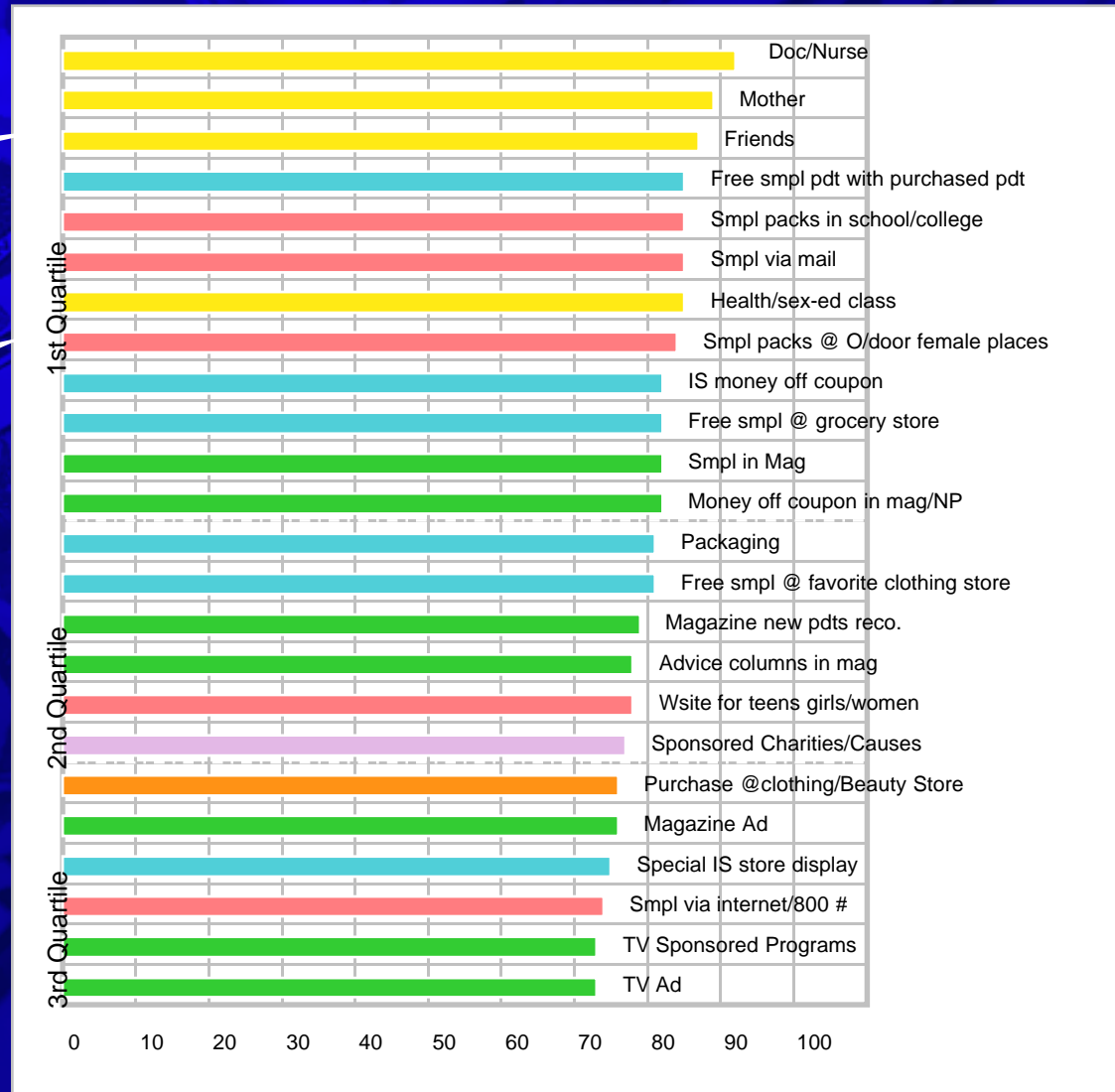
MCA

Outputs	Relationships between marketing efforts and ST sales	Relationships between marketing efforts and	Consumer brand experience metrics
	Coefficients - by media, copy		
	Saturation levels		
	Half lives		
Impacts	Effective weekly weights by medium	Helps understand BRAND AWARENESS, IMAGE AND POSITIONING in relation to marketing efforts	Optimal IMC mix
	Scheduleing tactics	Helps predict awareness linked to media weight	Measures current and projected campaign effects
	Focus on R/F	Helps understand how the CONTEXT IS WORKING TO DRIVE THE BRAND MESSAGE AND	Measures TOTAL CONSUMER BRAND EXPERIENCE
	For currently used media	For currently used media	CURRENT AND POTENTIAL CONTACTS

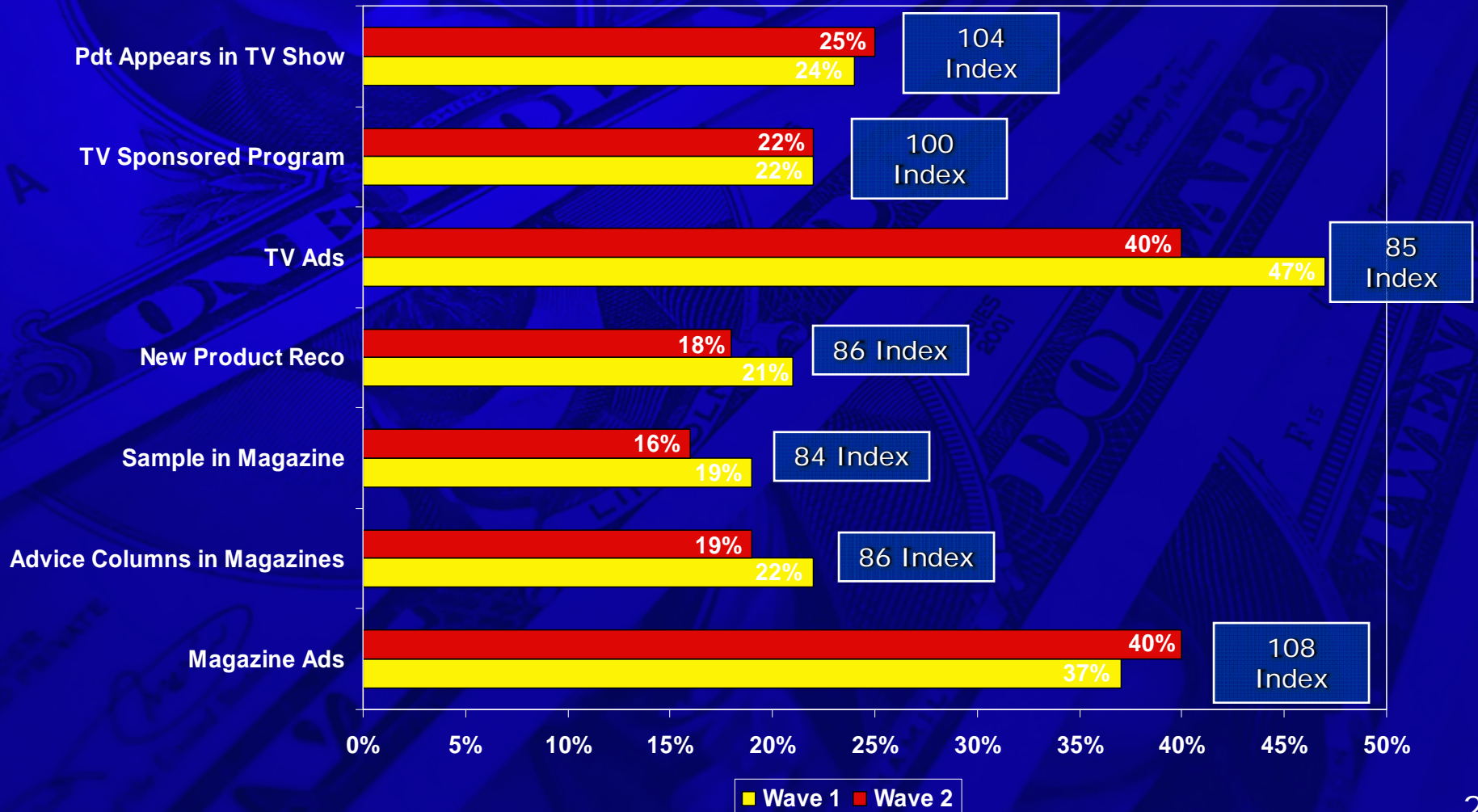
MCA Contact Clout Factors Provide Most Influence Contacts

Advice/reco from trusted sources

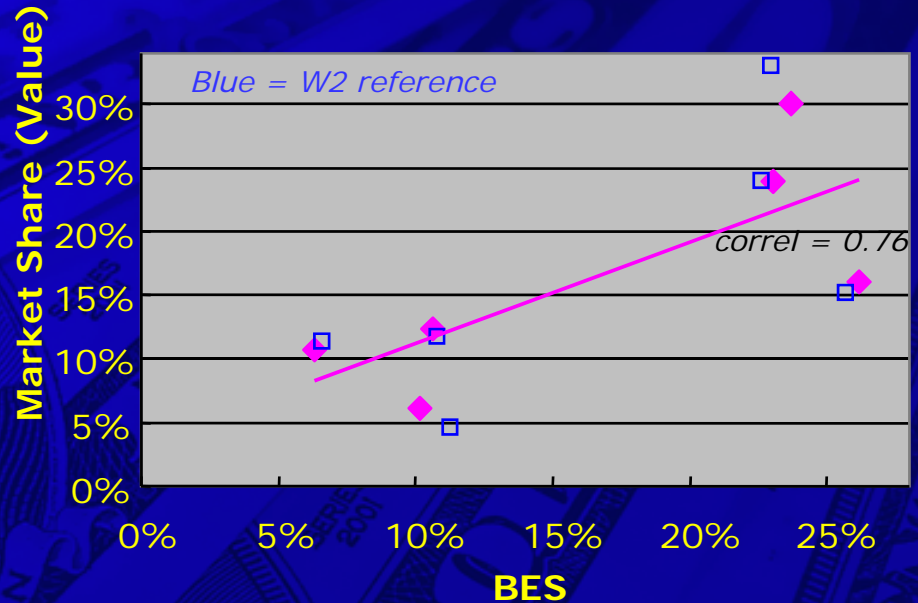
Try before you buy with samples



MCA Decomposition of Brand Experience with Changes over Time in Mass Media



Ultimate Goal Is To Link The Metrics To Deliver ROMI



Brands	BES	Market Share (Value)	Market Share (Volume)	Value Index	Ratio BES/MS
W	26%	16%	15%	1.1	1.61
S	24%	30%	30%	1.0	0.78
L	23%	24%	29%	0.8	0.95
E	11%	12%	12%	1.1	0.85
Ce	10%	6%	7%	0.9	1.65
Ch	6%	11%	6%	1.8	0.58
	100%	99%	99%		
Correlations BES/MS (Value):		76%			
Correlations BES/MS (Volume):		80%			

Conclusions

- Why The Boardroom Project?
 - Need for standards
 - Link to financial performance
 - Importance of forward validation
 - Continuous improvement
- Join Us?
 - ARS-group hospitality suite (Suite 973)
 - 6:00 – 8:00 pm

Questions for the Panel

- How do you deal with the fact that the outcomes of many marketing activities are hard to measure and difficult to separate from other factors? How do you get the numbers?
- Unlike operations or finance, many marketing outcomes are associated with a great deal of uncertainty. Isn't it misleading to offer numbers that seem precise?
- Doesn't the use of the same numerical measures reduce creativity and innovation?

