

MASB

Standards Project

Continuous Improvement in Return (CIR)

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Boston



Marketing Accountability Standards Board
of the Marketing Accountability Foundation

CIR Project

| | | |
|-------------------|---|--|
| Project | Continuous Improvement in Return (CIR) (Meier, Banks) | Strategy Document “what is known” about the Science and the Governance required for <u>continuous</u> improvement in return, then create roadmap and measure/track success (revising map over time) |
| Issue Addressed | Continuous Improvement requires more than Science | |
| Project Objective | Document elements of Science & Governance for CIR, then measure success & revise RM | |
| Expected Outcome | Roadmap for all involved in Marketing Accountability Journey | |
| When | 2014 & Ongoing | |

MASB CIR

A science- and governance-based system for marketers and their colleagues to “CIR” i.e. continuously improve financial returns.

MASB team has completed in phase I, since 2014:

- In-depth interviews with 23 CIR experts
 - A complete CIR roadmap
 - Definitions of necessary CIR capabilities
 - Both paper and online assessment tools
-
- Available to all MASB Marketer members and for a fee to non-members

Phase I: involved a wide spectrum of experts, interviewees

| MASB Staff | Project Leads | Team members | Team members (continued) | Best practice interviewers | Best practice interviewees (experts) | Best practice interviewees (teams) | White paper authors and contributors |
|---------------------|---|---------------|--------------------------|----------------------------|--|--|--------------------------------------|
| Meg Blair | Jane O'Keefe | Kelly Johnson | Chris Ciccarello | John Willard | Sunnil Garga | Insurance \$6B+ year/rev | Jim Meier |
| Allan Kuse | Jim Meier | Art Klein | Peter Cushing | Rick Abens | Mike Hanssens | Food & Bev (2) \$6B+ \$15B+ | Greg Banks |
| Erich Decker-Hoppen | Greg Banks | Rick Abens | Lori Kuehn | Karen Crusco | Jeff Winsper | Durable Goods \$50B+ | Frank Findley |
| Karen Crusco | Blue = current CIR staff, leads & members | Manu De Luca | Ash Ambani | | Jim Lenskold | HH Products (3) \$5B+ \$10B+ \$11B+ | Mike Hanssens |
| Kevin Richardson | | Pam Forbus | Rafael Alcaarez | | We in-depth interviewed 23 best practice people in total | Refrigerated Foods \$30B+ | Steve Diorio |
| John Willard | | Tracy Chong | Jamie Richardson | | | | Life Sciences \$30B+ |
| Tony Pace | | Jeff Winsper | Mike Hanssens | | | | Tracy Chong |
| Frank Findley | | Kate Garner | Sunny Garga | | | | Tony Pace |

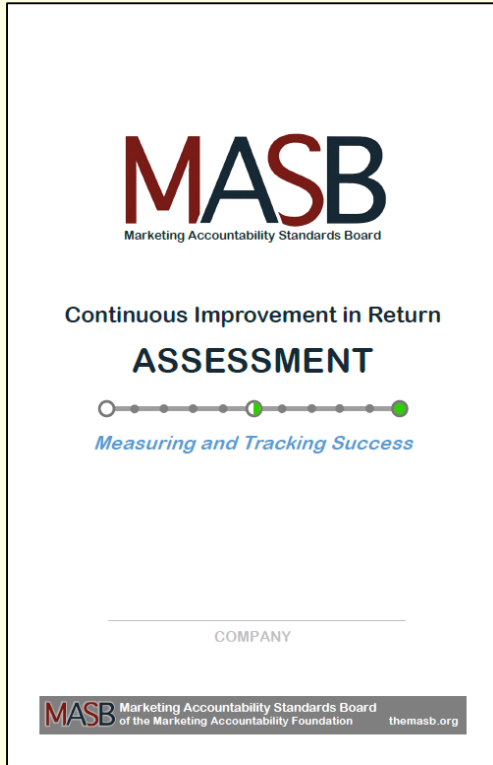
MASB CIR Key Terms & Definitions

| | | |
|---------|---|--|
| Science | ¹ Measurement Development | Process of improving measurement reliability, predictive validity, sensitivity & calibration |
| | ² Integrated Data Bases | A method for managing data from multiple sources and combining it around some type of single ID (e.g. a single customer). Integrated databases provide marketers and other decision-makers with a unified view of these multiple, sometimes disparate, data sources. |
| | ³ Research-on-Research/ Analytics | Process of explaining variance/identifying the causal drivers of the business or human behavior. |
| | ⁴ Knowledge | Profound understanding (of the business process or human & customer behavior) that yield a clear prioritization of action; Learning or principles that yield true predictions with unvarying uniformity (MR Vision 2003). |
| | ⁵ Better Practice/ Continuous Learning | Documented method of operating that yields higher level of performance than other operating behaviors (BID); Process of applying Knowledge to the operating process for improved performance. |
| | ⁶ Forecasting Models | Analytical techniques that represent causal relationships among various conditions & actions taken to achieve specific business results, and forecast future outcomes of various potential actions & conditions (IBID). |

MASB CIR Key Terms & Definitions

| | | |
|-------------------|---|---|
| Governance | ⁷ Cross-Functional Team with CIR Orientation | X-Functional Team w/CI Orientation, Common Purpose & Rewards, Central Funding & Thresholds |
| | ⁸ Common Financial Metric | A financial metric that can be applied to most or all marketing, which is easily understood by non-financial people, (e.g., long-term profit/cash flow). |
| | ⁹ Common Purpose | All or most marketing personnel and suppliers focused on improving against the common financial metric (i.e. definition #8). |
| | ¹⁰ Common Rewards | Rewards for marketing personnel and their suppliers — including pay, promotions, recognition — based heavily upon success against common financial metric. |
| | ¹¹ Central Funding | All marketing investments funded from a single source, which releases funding based primarily upon the likelihood of success against the common financial metric. |
| | ¹² CIR Planning Process | A method of planning for marketing funding, based upon the principles of CIR, most notably: teams compete for funding for their respective brands and vehicles based upon proven (or at least plausible) ability to help hit overall financial metrics. |
| | ¹³ Ever-rising Thresholds | A minimum threshold of financial return is required to receive marketing funds, and this threshold is typically raised year over year. |

Both paper and online assessment tools



CIR ASSESSMENT: SCIENCE

1 Measurement Development



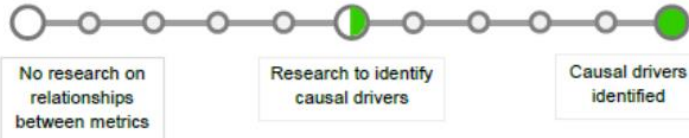
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2 Integrated Databases



NOTES: _____

3 Research-on-Research /Analytics



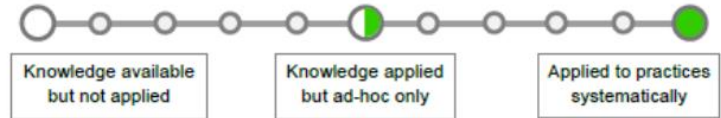
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4 Knowledge



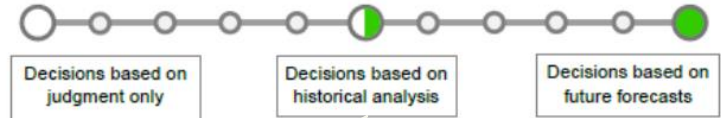
NOTES: _____

5 Better Practice/Continuous Learning



NOTES: _____

6 Forecasting Models



NOTES: _____

Interesting quotes from our two rounds of interviews with Acme – regarding Science:

“You want to get to – whatever is the opposite – of a black box”

“We’ve shown 50%+ financial gains ...yet we are still weak on forecasting”

CIR ASSESSMENT: GOVERNANCE

7 Cross-functional team with CIR orientation



NOTES: _____

8 Common Financial Metric



NOTES: _____

9 Common Purpose

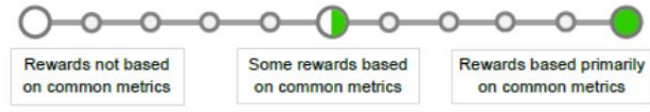


NOTES: _____

Interesting quotes from our two rounds of interviews with Acme – regarding Governance:

“We had to get past obstacle of marketing having its own goals”

10 Common Rewards



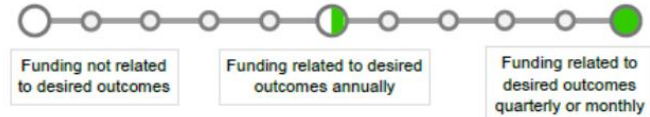
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11 Central Funding



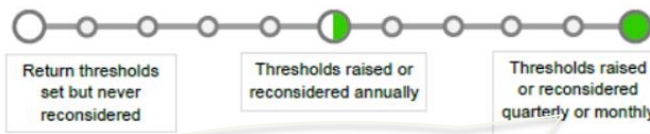
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12 CIR Planning Process



NOTES: _____

13 Ever-Rising Thresholds



NOTES: _____

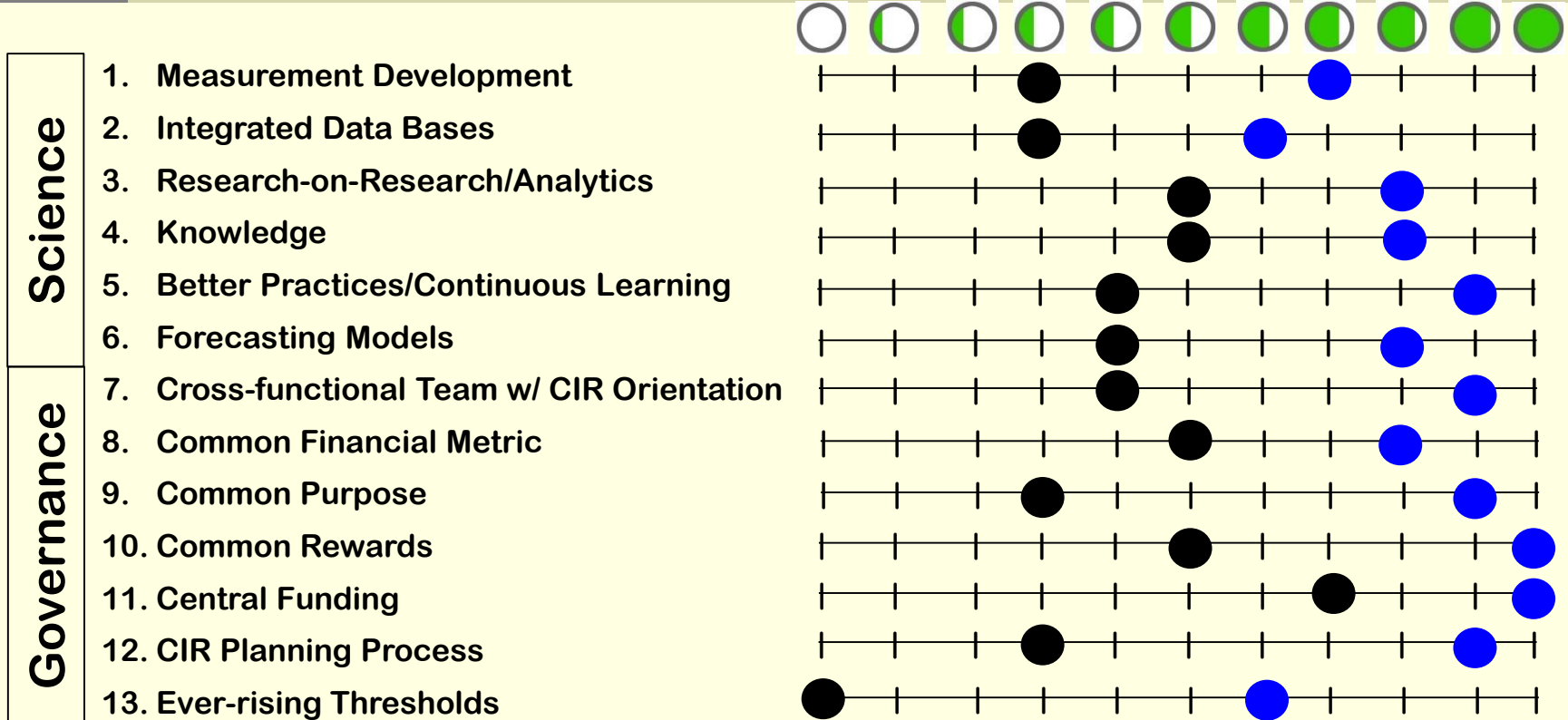
“Every year we expand toward managing 100% of the investment”

Response Has Been Very Positive

“This project is perhaps the Ultimate Game Changer... something that Wall Street would likely embrace... and the EYs and Deloittes should expand their financial audits to include this process... are they using it and have they made headway?”

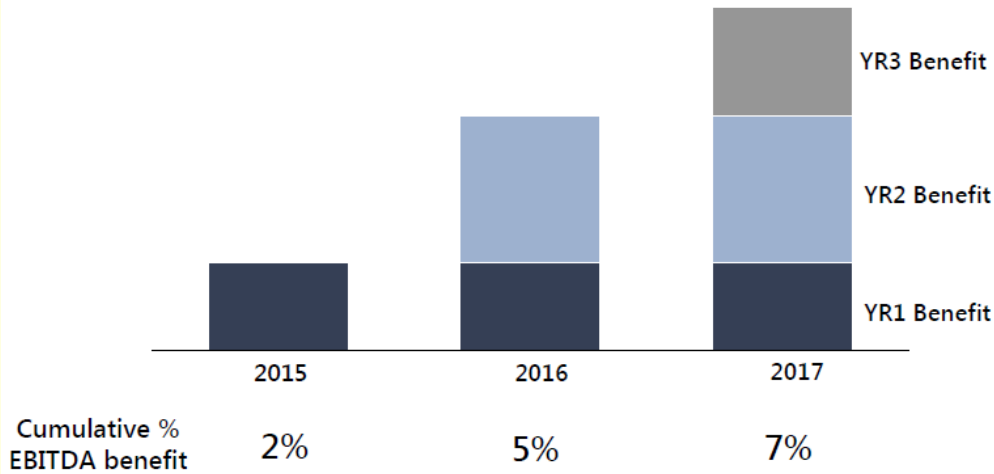
Source: MAF Trustee Meeting January 2017

Here's how CIR works at



Here are the improving returns

MAINTAINING MARKETPLACE PRESSURE WITH
SMARTER, MORE EFFICIENT MARKETING INVESTMENT



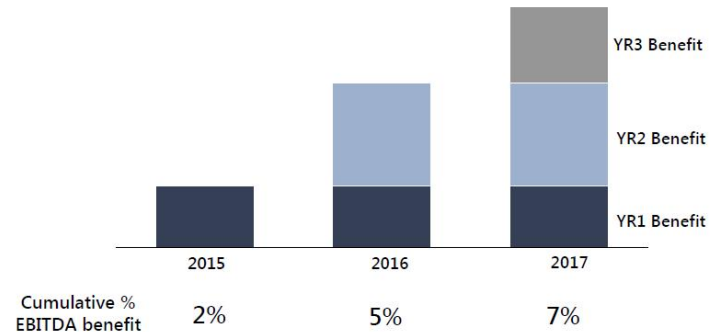
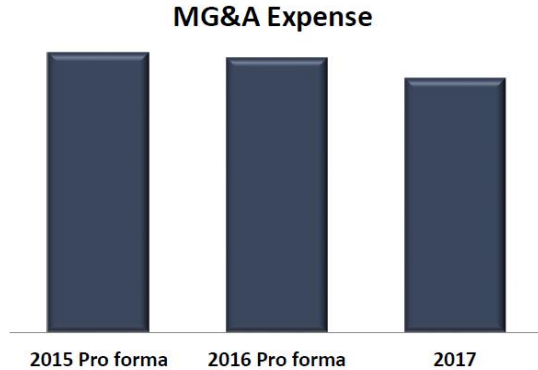
Note: these were not through cost reduction

USE LESS, INVEST WISELY
REDUCING COSTS WHILE MAINTAINING MARKETPLACE PRESSURE



REDUCING MG&A

MAINTAINING MARKETPLACE PRESSURE WITH SMARTER, MORE EFFICIENT MARKETING INVESTMENT



Draft FAQs

- **Take your marketing investment and multiply by 10%. CIR implementation will enable you to deliver that amount to the operating profit line in 2 years**
- ***Give me an example.***
If you currently invest \$100M toward marketing, and your operating profit is \$200M, CIR implementation will get you to \$210M of operating profit in 2 years.

Draft FAQs

- ***So, you're cutting my marketing to \$90M (\$100M minus \$10M)***

No. The bias of CIR is improving marketing effectiveness with the guiding principle being investment optimization rather than profit maximization. While CIR will find areas of expense reduction that can flow through to operating profit, most of the benefit comes from incremental volume (and therefore, margin) as a consequence of re-purposing investment from lower return activities to higher return activities.

- ***So, this is ZBB?***

It absolutely isn't. ZBB is a “start from zero” approach. CIR uses an understanding of where we've historically invested marketing dollars and optimizes that investment based on objective information. It builds on history versus throwing it away, but it is also not a slave to history.

Draft FAQs

- ***Is it OK if we use consultants?***

We're fine either way, and you may in fact need them during the CIR journey. But, at a minimum, a properly-applied CIR assessment can save you significant dollars on the front end by leveraging the experience of CIR predecessors. Consider these predecessors as advisors to help you assess where you stand today and prioritize your areas to improve and most quickly realize benefits. To some degree, these advisors will help you understand what you may already know, eliminating the need for highly-paid consultants.

- ***Can I do better than the 10%?***

Absolutely. The 10% is actually conservative. Your commitment to the effort, however, will be critical. And CIR also anchors certain organizational elements that will enable further sustainable improvement beyond year 2.

Draft FAQs

- ***What about the long-term benefits to enterprise value (stock price)?***
Improved short-term operating results lead to enhanced and sustainable cash flows into the future. This is exactly what investors value. CIR builds off of MASB's idea that brands are a significant driver of enterprise value, and the CMO and CFO must team up as stewards of enterprise value.

Discussion

- What is value of CIR? Is \$20,000 a good point?
- What are the qualifications of an interviewer?
- Would you be interested in being an interviewer?
- Which companies do you think may be interested?

CIR Team Members

Team Leaders



Greg Banks
Foresight ROI



Jim Meier*
MillerCoors

Team Heroes



Kelly Johnson
ESPN



Rick Abens
Foresight ROI



Ash Ambani
PepsiCo



Art Klein
MSW.ARS



Tracy Chong
Strata Insights

Staff



Frank Findley
MASB ED
Sponsor



Tony Pace
MAF/MASB



Erich Decker-Hoppen
Communication



Karen Crusco
Executive Assistant
Admin

*Interim Co-Lead

Thank-you!



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of the Marketing Accountability Foundation**