

Measuring the 5 Levels of Marketing Effectiveness



With so many data points, competing messages, and potential obstacles out there, it's not easy for marketing organizations today to keep on course when challenges outpace instincts. Read on to see where your organization is located and heading in relationship to others, and whether or not it's necessary for you to move to the next level.

Level 1 — Sales Tracking, Test Markets, Market Research

At the first level, sales are tabulated by product/market/region/channel and reported with monthly, weekly, daily, or real-time frequency. Correlations between marketing activities and results are measured by incremental sales in selected test markets versus matched control markets. Market research is used to regularly measure customer and prospect awareness, brand perceptions, purchase intentions, and even market share. [Click here](#) to find out how to move to the next level.

Level 2 — Ad Hoc Program and Initiative ROI

As you step up to the next level, new programs and initiatives should be presented with an expected ROI based upon anticipated incremental profit contribution linked to fully loaded cost. This forecast ROI is usually compared to a finance-imposed benchmark and the decision to commit or abandon is based upon exceeding the hurdle, assuming budget dollars are available.

While in progress, these initiatives are regularly reassessed at each point that another round of discretionary expenditures are required. When they run their course, the programs are subjected to a final ROI measurement and studied post mortem for insights into possible improvement opportunities. At this level and the next, programs and initiatives intended solely to enhance customer and prospect perceptions of the brand or company (i.e., brand advertising, sponsorships, community relations) are often excluded from the analysis because their monetary impacts are difficult to quantify and their contributions accrue over an extended period. [Click here](#) to find out how to move to the next level.

Level 3 — Optimizing Resource Allocation

Once the discipline of project ROI is adopted across marketing initiatives, the absolute ROI hurdle rate is replaced with a relative ROI contribution in which the entire initiative portfolio competes for scarce budget dollars based on forecast returns. This comparison is performed monthly or quarterly to allow resources to be reallocated as market opportunities and threats change.

Optimization techniques are used to produce the highest return in terms of media mix, segment emphasis, and channel management. Highly evolved marketing leaders will take additional steps to require initiatives be presented with a risk-adjusted ROI so their true potential can be better assessed. Inflating the expected risk-adjusted ROI of any given initiative becomes difficult, if not impossible, since flawed assumptions are likely to be uncovered in the first progress review if not during the initial risk assessment. [Click here](#) to find out how to move to the next level.

Level 4 — Brand Asset Valuation

At this level, the department is comfortable with its ability to measure the easily quantifiable items. Now, it must direct its attention to more challenging questions of measuring financial return on expenditures that enhance company/brand awareness, appeal, and preference. The challenge is that such efforts are often intended merely to increase the likelihood of purchases, not specifically to ask for the order. To further complicate it, many branding initiatives are not intended to exist standalone, but as part of integrated programs that combine to stimulate purchase activity.

Nevertheless, at Level 4, marketers must try to identify the measurable outcomes of such activities and correlate them with expected near- and long-term financial benefits. Most marketers will continuously track these key metrics and use statistical techniques to monitor their correlation with sales, gross margins, profits, and goodwill.

It's important to recognize this ability can't be developed overnight, but is derived over time through a consistent approach that leads to reliable correlations between market metrics and financial value. Further, the exact formula used is less relevant than the fact that one was agreed to by marketing, the CEO, and the CFO, and that any evolution pays careful attention to maintaining historic reliability. [Click here](#) to find out how to move to the next level.

Level 5 — Integrated Measurement

Here at the top level, all marketing activities are planned and measured in an integrated framework that incorporates both short- and long-term return.

Many companies employ a balanced scorecard that weighs financial efficiency like ROI and productivity against strategic effectiveness metrics like market share, customer retention and satisfaction, employee satisfaction, etc. Others adopt a financially driven model such as Economic Value Added (EVA), where the cumulative effect of marketing is measured by determining after-tax profits from marketing expenditures (aggregated from Level 2, 3, and 4 activities and modifying certain assumptions about expenses versus depreciable assets) and subtracting the benchmark marketplace return on the capital deployed.

Regardless of the differences in measurement methodologies, the common traits of companies who have reached this highest level are:

1. Goals and objectives are set (and periodically revisited) using quantifiable metrics.
2. Measurement has been integrated into the planning process upfront and is employed throughout each activity's lifecycle, not just at the end.
3. All expenditures are evaluated in the context of maximizing the outcome since management compensation (at the VP level and above) is tied to delivery of goals.
4. The measurement is done at all levels by all marketing managers and integrated into their daily responsibilities, not assigned to measurement policing by an analysis group.
5. The CEO, CFO, and perhaps the entire executive committee have accepted the methodology.

Finally, no matter what your present level, the key determinants of success are more related to organizational, cultural, motivational, and developmental challenges than they are to software or technique. Approach improvement with a strong emphasis on human factors and business process development and all the elements will fall into place.

How to advance from level 1 to 2:

- Assemble sales and margin data in an accessible format with frequent refreshes. You might want to ask IT to help assemble a "datamart" for marketing purposes, which you can access directly and export into a desktop application like Microsoft Excel.
- Set up job-cost accounting, so expenditures can be tracked back to specific initiatives.
- Work with finance to adopt a flexible ROI modeling approach built on agreed definitions of gross margin, contribution margin, pre-tax profit, and net income. Agree on rates for cost of capital and target ROI hurdles. Secure their help in developing analyses, not just reviewing them.
- Require all new programs, campaigns, or initiatives with expected completions of six months or less to submit an ROI analysis prior to funding approval, then match each pre-ROI forecast with a post-ROI analysis. Use gaps and differentials as the basis for continuing training.
- After the first six-month cycle, institute quarterly project assessments mid-stream and introduce "Interim ROI" methods to re-examine the project commitment vis-a-vis changes in the investment opportunity horizon.

- Resist the temptation to reward winning ROI initiatives in favor of visibly rewarding managers for support of and adherence to the system.
- Install campaign management software to help standardize tracking and reporting. This is particularly helpful if you are running dozens of concurrent marcomm initiatives or customer promotions.
- Correlate market research data on awareness, brand equity, purchase intentions, etc. (strategic factors) to financial results like sales and gross margins. Chart strategic and financial factors on the same axis and study for emerging patterns. Note significant events like competitive and regulatory activity or macroeconomic and geopolitical events on the same chart to help uncover relationships.

How to advance from level 2 to 3:

- Continue to invest in the datamart, making it increasingly comprehensive and accessible. Consider adding an analytics package to help standardize access to data and ensure that comparisons between programs and initiatives compare apples to apples.
- Work with accounting to devise a reasonable method of overhead allocation to each marketing project or initiative. Involve team leaders in defining overhead. Establish rules for which projects get allocated and which don't.
- Introduce and train the team on the use of risk assessment tools to become part of each project funding request. Require that all ROI analysis be risk-adjusted and make larger projects subject to peer review to accelerate standardization of risk assessment process.
- Apply optimization techniques to fund allocation between programs, customer segments, channels, acquisition vs. retention, media mix, or other areas where necessities or opportunities exceed available short-term funds.
- Measure and monitor correlations of interdependence between various marketing activities to ascertain which programs are complementary and related to the results.
- Refine and test correlations between branding initiatives, strategic factors from earlier stages, and financial results to improve predictive/explanatory relationships.

How to advance from level 3 to 4:

- Make correlations between pure branding or corporate marketing initiatives and financial results.
- Engage research, planning, and finance teams to work together to determine if branding expenditures can clearly be correlated to increases in profitability (even on a delayed basis) at acceptable ROI.
- Charter (or shadow) the same teams to evaluate changes in market value of the company relative to comparable benchmarks to see if there's a correlation to branding activities.
- Discuss the strategic benefits of continuing branding activities with the CEO and CFO and decide if those activities should be held to a standalone measurement standard, allocated against other marketing activities, or continued for qualitative reasons. [Cautionary note: Before agreeing to continue for qualitative reasons, consider bringing in several brand evaluation consulting firms and hear their different methodologies to see if one fits your situation. An agreement to a qualitative rationale leads to continued budget battles on the basis of emotional factors and harmony is sure to be forgotten with the first market tightening or change at the executive level.]

How to advance from level 4 to 5:

Level 4 normally determines which of two avenues a company will take to achieve Level 5. Regardless of which path you choose, everything is measured both pre- and post-expenditure.

Companies that cannot fully quantify the financial benefit of branding or corporate marketing activities yet choose to continue them should:

- Adopt a balanced scorecard for integrated measurement with the heavy involvement of the marketing team and the consensus of the CEO and CFO.
- Define the scorecard with as few top-level objectives as possible, making sure each is quantified in terms of what is to be achieved, magnitude, and deadlines.
- Align all marketing activities with one or more scorecard elements so relationships can be clearly defined and measured.
- Design compensation and recognition programs for marketing team leaders to reinforce their relationships to specific scorecard elements, but also the balance of the team goals.

Companies that can quantify the financial benefit of branding or corporate marketing activities should:

- Apply the same assessment methodology/metric for all marketing expenditures.
- Translate the expected return from brand or corporate marketing initiatives into these common metrics.

- Allocate and reallocate resources regularly, optimizing the desired balance of short- and long-term results.
- Link management compensation directly to incremental improvements in the selected metrics.
- Integrate marketing expenditure requests back into the corporate resource allocation process using the same metrics as IT, HR, or manufacturing.

