

## Where Are You on the Ladder of Insight?

Marketing ROI is the current buzz in marketing circles. It's like the old saw about trying to build a plane while you're flying it. These days, it's more like trying to rebuild all the gauges and navigation systems without veering off course or running out of fuel.

When you become a pilot, you first learn to fly a single-engine propeller plane only in sunny skies so you can see everything. Eventually, you graduate to multiple engines and flying by instrument, which lets you fly at night and in low visibility. The instruments keep you oriented upright and level, even when your instincts might otherwise mislead you. Any pilot will tell you that learning to trust the instruments is difficult at first, but once you do, you find yourself free to enjoy their flexibility (and feedback). You stay on course more and reach your destination faster and more efficiently.



Running a marketing department these days is increasingly like learning to fly on instruments. There are so many data points — so many potential obstacles — so many competing messages crowding airwaves and mailboxes and so many false horizons. By necessity, most organizations have had to adopt carefully designed instruments to help keep on course when challenges outpace instincts. So which instruments do you need to navigate your marketing course? If we listed all your options here, we'd have to use type so small it would be indecipherable. Our objective here is simply to provide an overview of key marketing instruments so you can see where your organization is located and heading in relationship to others. To extend our aerial metaphor, imagine you are on a ladder. As you climb higher, you get better visibility and perspective. At each rung you must use certain tools to take you higher. As you get higher, you see better as instruments give you visibility you would not have otherwise had.

This, euphemistically is what we call the Ladder of Insight. You need to assess where you are on it, and whether or not it's necessary to climb higher.

### **Level 1 — Sales Tracking, Test Markets, Market Research**

At the Ladder's first rung, 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.

### **Level 2 — Ad Hoc Program and Initiative ROI**

As you step up, the CMO requires new programs and initiatives 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 re-assessed at each point that another round of discretionary expenditures are required (see [Should We Shoot This Program?](#)). When they run their course, the programs are subjected to a final ROI measurement and studied post mortem for insights into possible improvement opportunities.

Note, 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.

### **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.

#### **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.

##### Level 4 Key Questions:

**What good is a consistent measurement methodology in an increasingly discontinuous world where competitors enter and exit freely and technology reinvents communication and distribution channels annually?**

The benefit is not so much the measurement algorithms themselves, but just having a methodology to use as the basis for comparing and a process to guide the options for applying, adapting, or replacing it. This minimizes the risks of reacting on instinct to changes, which might appear to be more or less threatening than they really are.

**Is it fruitless to try to prove the benefit of long-term brand-building activities with financial analysis?**

No, it's fruitless to resist. If you can't do it, the company will eventually bring in someone who can. The question is rarely a referendum on brand building, but one of adjusting the budget for it. Without sound measurement methodology to help forecast the implications of those scenarios, the answer will usually be to cut.

**Is the question of long-term brand-building effectiveness related to the quality of creative advertising?**

Clearly. But how many times can we blame a lack of results on bad creative before we either admit that brand advertising has too high a risk or change the way we go about developing advertising.

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. (See [Measuring the Softer Side of Marketing](#).)

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. (For a step-by-step guide to risk-adjusted project assessment, see [How Much Unnecessary Risk Is in Your Marketing Plan?](#))



### **Level 5 — Integrated Measurement**

Here, at the top of the Ladder, 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.

Some multinationals, like Diageo and Unilever, have gone so far as to integrate their far-flung operations into a common measurement structure that allows corporate resource allocation not only by product category but also by market.

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.

### **Moving Up the Ladder**

So, now that you have a sense of where your organization stands, how do you get to the next level? Below are recommended priorities for each level seeking to advance. But before you charge headlong up the ladder, consider these questions:

1. What are your objectives? How will the company benefit from the evolution? Can you quantify it to gauge the potential return on the investment in achieving it? If even a broad-based cost/return effort evades you, you might need some outside help to avoid false steps that will prove costly in terms of credibility.
2. How broad is your company's commitment to improvement? Does marketing (along with your CEO and CFO) champion this effort, or is it another challenge thrust upon you to just handle so you can get on with your real work? Unless CMO, CFO, and CEO are enthusiastically supportive of an agreed set of objectives along with a process and timeline, progress will be undermined by disputes on methodology, parochial

resource defense, and mixed messages sent to the troops who have to do the really hard work of changing their way of thinking and acting.

3. Speaking of the troops, does your marketing team have the skills and change leaders to carry your organization to higher levels of achievement? In times of change, most teams have four distinct types of staff memberships. The larger the organization or the greater the magnitude of change you seek, the more Champions you'll need. Give them broad direction, then let them run with the effort, while you rally the Bystanders, channel the Loose Cannons, and weed out the Weak Links.

	<b>UNDERSTANDING</b>	<b>COMMITMENT</b>
	Low	High
High	Bystanders	Champions
Low	Weak Links	Loose Cannons

**From *Marketing and the Bottom Line* by Tim Ambler, Prentice Hall Publishing**

Following are migration charts of recommended priority action steps to move from one step to the next. (If you are at Level 0, you are likely there for reasons relating to organizational turmoil or absence of CEO interest. In either case, your circumstances will dictate a more customized approach to getting on the Ladder.)

Regardless of where you're starting from, define your objectives and timeframe for achieving them. Meet with your team to review and discuss expected challenges, obstacles, and strategies to overcome them.

Going from: | [Level 1 to Level 2](#) | [Level 2 to Level 3](#) | [Level 3 to Level 4](#) | [Level 4 to Level 5](#) |

**Summary**

Regardless of your present level there are four caveats, which are all too often forgotten in pursuit of measurement enhancement.

1. It's about the quality of marketing. Good measurement will improve the quality of marketing decisions and both the efficiency and effectiveness of execution. But good measurement will surely highlight bad marketing too. Don't get lost in measuring at marketing's expense.
2. You are what you measure. Be careful to define your metrics, especially those linked to compensation. You will undoubtedly find the organization focusing on achieving them. Test your proposed metrics with groups of managers before announcing them. See how they might be tempted to change behavior. A little early prevention can avoid costly misdirection.
3. Delegate wisely. Team involvement and commitment are crucial to success. Expect enthusiasm in some and suspicion in others. Choose your champions from the pool of capable and the organizationally sensitive types. But don't let disagreements on methodology paralyze or sabotage the effort. Involve an objective scientific source to render opinion on the soundness of the approach, but reserve the final decision for you. Be sure that finance agrees with it.
4. Be consistent. Avoid joining the Metric-of-the-Month Club by investing the time to select the real business and marketing yardsticks of success. Pay particular attention to their validity and reliability over time and their staying power. The right metrics will accommodate an ever-changing mix of programs and initiatives.

Finally, climbing the Ladder of Insight is much more about the journey than the destination. It is a learning process for your entire marketing organization (as well as company management). 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.

**For more perspective on this issue, we recommend:**

[Improving Marketing Effectiveness](#) — Robert Shaw, Cranfield University, Economist Books.

[Marketing ROI](#) — James Lenskold, McGraw Hill Books

[Marketing and the Bottom Line](#) — Tim Ambler, Prentice Hall Books

