Q&A with David Reibstein (Wharton)

David Reibstein doesn't dwell in an ivory tower despite his impressive academic credentials and nearly infinite list of published research. This former executive director of the Marketing Science Institute (1999-2001) also cohosted the 2002 and 2003 CMO Summit meetings at Wharton. He relates well to marketers but also bridges the gap between CMOs and CEOs, recommending a shared focus on financial and marketing-specific metrics.

He took some time with *MarketingNPV Journal* to comment on the status quo of marketing and its necessary evolution, which is only just beginning.

MarketingNPV (MNPV): Marketing metrics has been the top research priority of corporate marketing professionals for the past six years, according to MSI. What has been the progress toward the establishment of these metrics? Are corporate marketers successfully determining their measurement needs? Are they successfully instituting measurement practices?

Dave Reibstein: They have not yet been successful, and yet that's a broad sweeping statement for me to make. For the most part we can say they're still not there, otherwise they wouldn't still be saying we need help.

Companies that have individual measures are in so much better shape. I think that what they're doing is they're demanding some level of accountability for each marketing program. Those that can't show accountability and those with low accountability are cut back.

A large number of companies don't even know how many customers they have or how many customers they retain each year. The challenge remains for marketers to get better at their math. It requires just a little sharpening of their pencils. A lot of marketers aren't doing that because it relies on a lot of forecasting of the future, and marketers aren't comfortable with forecasting because it's uncertain. Uncertainty is not bad. It just needs to be calculated and measured.

MNPV: How can marketing accept that uncertainty, calculate it, and show it to finance?

Reibstein: We shouldn't be shy about that. Finance understands very welll how they calculate uncertainty. And marketing's been able to reduce uncertainty without calculation — if you have a strong brand and loyal customers, you know that you will have sales in the coming year.

It's hard to forecast new customers and new sales. It's much easier to forecast sales of an existing product or sales from already acquired customers. Marketing culture has looked at immediate results, and marketers blame finance for being myopic, focusing on quarterly numbers. But marketing has been focused on, "Here's this ad, and here's what it's going to do" and not, "So if we get this awareness and articulate it downstream, what's it going to mean?"

MNPV: Are you suggesting converting marketing measures such as number of customers, customer lifetime value, and annual retention rates to financial metrics?

Reibstein: Number of customers and retention are really important metrics for us, and I don't think they should be laying side by side with the financial metrics. We need a way to articulate number of customers and CLV. I can get marketing to say, "I think this is a superior way of doing things, and I think it's a great way to express things if I had great numbers." But the numbers don't matter. Quantifying number of customers and customer lifetime value, even if they're weak numbers, gets measurement started.

But we can replace some marketing metrics. Return on investment is great, but we don't want to just look at the immediate returns on market spend. We have to calculate the net present value of marketing spend. We want to look at what it's going to bring downstream. These actions make marketing more productive.

But what it's going to take to get marketers to reveal their numbers to finance is the competition doing marketing better. Darwin is right; there will be some survival of the fittest, and there will be some companies that go out of business because they never adapt. In the meantime, marketers are able to be inefficient as long as the competition is inefficient as well.

MNPV: So who are the pioneers that are raising the bar in their industry and will prove to be Darwin's fittest?

Reibstein: One of the things I think is just phenomenal about Amazon is that they're constantly experimenting. They learn not just what programs work but how to present a Web page to you on the individual level. They can even see what you'll respond to and what you'll buy on sale at what promotional price. Amazon has learned that its big spenders shop differently than its low-value spenders.

Another example is Harrah's. Harrah's has a whole list of customer segments and what works best for each. They've perpetually experimented on a small scale. It allowed them to get greater buy-in so marketing could go in and start spending more. We're going to see some evolution. Imagine what all of the other casinos have to do. There will be learning from others soon.

MNPV: For those initiating the evolution, is a bigger marketing budget assured?

Reibstein: The CFO should increase marketing dollars because marketing has figured out what it does right. In essence, finance should be saying, "Thank you for saving us money." But finance is still treating marketing more as a cost center. Marketing will continue to be treated as a cost center until we can demonstrate the value of marketing.