

DISPATCHESTM

Insights On Brand Development From The Marketing Front

Sunday, February 15, 2009

STATE OF MARKETING SURVEY – RETURN ON INVESTMENT (ROI)

This is the second article summarizing learning from the BDNI “State of Marketing” Survey, which we undertook with subscribers of DISPATCHES during the second-half of 2008. The purpose of the survey is to gain a fix on how marketing is currently perceived and practiced within different sectors (FMCG, Pharmaceuticals, MDD and All Other) throughout the world (North America, Europe and Asia/Other). A total of 183 managers responded to the survey.

The first article reviewed the *perceived importance of marketing*. Key findings are as follows:

- While marketing is clearly perceived as being important within the respondents’ organizations (41% answered “yes” to the statement “Senior Management perceives marketing as the most important function in the company”) the vast majority (59%) believe that other functions within the company (e.g., sales in MDD) are judged to be “most important.”
- On the other hand, the vast majority of respondents assert that they believe “marketing should be perceived as the most important function in the company” by a 4:1 margin (80% state “yes” with 20% “no”).
- Marketing appears to be contributing the most CEOs in our respondents’ organizations. More than 40% claim that “The CEO in my organization comes from” “marketing.” This is significantly higher in FMCG (62%) and Asia (73%).
- Marketing is perceived to be considered more important by senior management in FMCG and Asia. Its importance appears to be significantly diminished in MDD and Europe (of which this geographic area was heavily skewed by MDD respondents).

For details on the first article, State Of Marketing Survey – Importance of Marketing, [click here](#).

This second article deals with the *perceived importance and knowledge of Return On Investment of marketing mix elements and initiatives* by marketers.

Return On Investment Of Marketing

John Wanamaker (U.S. businessman who is credited with creating the first department store and who was heralded as an “advertising genius”) is attributed with saying, “Half the money I spend

on advertising is wasted; the trouble is I don't know which half." Reason would suggest that it is extremely important for everyone in the organization, no less marketers, to understand the ROI for not just advertising but all marketing mix elements (e.g., promotion, public relations, etc.) and initiatives (or, if you prefer the term, "tactics"). This is particularly true, and critical, in the current economic environment where we cannot afford to be wasteful.

It's clear that the world economy is in a dire situation. We are facing a severe and pernicious recession that is giving rise to a fear of the "d" word. Many companies are spilling, if not hemorrhaging, red ink. Virtually all organizations are cutting their operating costs to the bone and beyond in an effort to shore-up their bottom line and ensure their very survival. A question on everyone's mind is what marketing support spending is productive and what is not. What do we cut? What should we ride? In what, and where, should we invest more heavily?

If we don't know the ROI for our activities then we are really not managing the business, it's managing us. Knowing the ROI on each element of your marketing mix and each individual initiative could enable marketers and their organizations to more accurately forecast and produce intended business results. Additionally, it will enable them to do more with less since they will have an understanding of what is productive and what is not. When we come out of this recession those marketers who know the ROI for each initiative are bound to come-out on top because they will have been able to manage their brands more productively.

Importance and Knowledge of ROI

But where do we stand on the perceived importance of ROI and actually knowing it? Well marketers believe, and rightfully so, that "Knowing the ROI for each marketing mix element and initiative is essential." As shown below 83% of respondents respond "yes" to the aforementioned statement. This belief is fairly consistent across all sectors with the exception of the Pharmaceutical sector, which is somewhat lower with only 74% answering in the affirmative. As per geography, Asia/Other appears to appreciate the need to know ROI the most, as indicated by more than 9 out of 10 respondents (94%) claiming they believe knowing ROI is essential.

Knowing the ROI is Essential

	Total		Sector								Geography					
	(184)		FMCG (51)		Pharm (53)		MDD (50)		Other (30)		NA (97)		Europe (47)		Asia/Other (36)	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Yes	153	83	45	88	39	74	43	86	26	87	77	79	39	83	34	94
No	31	17	6	12	14	26	7	14	4	13	20	21	8	17	2	6

The frightening part of all this, however, is that marketers do not appear to know the ROI of their marketing mix elements and initiatives. Less than 10% claim they "know the ROI." 44% claim they "do not know" the ROI and 48% claim they "sort of" know it, which, to us, is little better than "do not know" responses. The Pharmaceutical and MDD sectors appear to be further behind when it comes to knowing ROI with "0" and "2" percent, respectively, claiming they know the

ROI. The “All Other” sector (which includes marketers from the service sector) appears to have the best handle on knowing ROI, albeit still at low a low level, with nearly 1 out of 4 (23%) claiming they “know” it. And while the Asia/Other geography claims a higher level of knowledge regarding ROI at 17% this is far from satisfactory.

We Know the ROI

	Total		Sector								Geography					
	(184)		FMCG (51)		Pharm (53)		MDD (50)		Other (30)		NA (97)		Europe (47)		Asia/Other (36)	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Yes	15	8	7	14	0	0	1	2	7	23	8	8	1	2	6	17
No	81	44	20	39	25	47	25	50	11	37	44	45	23	49	12	33
Sort of	88	48	24	47	28	53	24	48	12	40	45	47	23	49	18	50

BOATS & HELICOPTERS:

It’s no wonder that marketing is not perceived to be as important as we marketers would like it to be (and should be if practiced professionally). How could it possibly be more important if we do not know the ROI of our marketing mix elements and initiatives? We must get our heads and hands around ROI if we are to be taken more seriously in the organization. It is essential to know ROI to predictably impact business growth and brand health now and in the future.

Knowing ROI is smart business. Some *actions to consider* for becoming a smarter marketer are as follows:

1. **Put it to a test.** Ensure your marketing plan includes test marketing of alternate marketing mix elements and specific initiatives. We need in-market experience to determine what works, what doesn’t and why. These tests will produce an arsenal of proven weapons we can rollout to more successfully compete in growing the business in future years.
2. **DO NOT cut test market funding.** Listen to Mr. Wannamaker. Half your marketing support could be wasted. It may be less but chances are it’s more, far more than you ever imagined. (We could go round and round arguing about this but the fact of the matter is you really don’t know do you?) Cutting testing funds in favor of supporting what may not be working today is mortgaging the future growth and health of the business, with little likelihood of immediate return.
3. **Be accountable.** Provide a forecast of expected business results from every initiative. Commit yourself to the intellectual rigor of determining potential expected outcomes. Put a value on each initiative in the marketing plan. At the very least this will raise important

questions and lead to a shared understanding of the potential value of your planned tactics.

4. **Finish the job.** Our work isn't finished when we execute our tactics. It's at best the mid-point. Our work isn't finished until we complete an analysis of the results (i.e., inspect for what we expect – see #3) and share those results with the organization. In this way we share knowledge and contribute to developing a learning organization. This is smart business!

An Invitation to Share Knowledge

We want to hear from you. We want to get a dialogue going in our DISPATCHES marketing community. Specifically, we want to know how do you feel regarding the aforementioned findings and suggested actions. Please share your thoughts. Blog your comments regarding this subject and the following questions:

- Why don't you, or your organization, know the ROI on each marketing mix element and initiative you employ?
- Given these difficult economic times and the absence of knowing the ROI of marketing activities (such as advertising) can senior management feel comfortable (or at least justified) with slashing marketing budgets?
- How would/do you defend, no less increase, marketing support in any or all of the marketing mix elements and initiatives proposed in your marketing plan without knowing the ROI?
- How can/do you choose one initiative versus an alternate one if you (or your organization) do not know the productivity (i.e., ROI) of each?
- What do/can we do to learn the ROI of our marketing elements?

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