Strategic Marketing Performance Management: Challenges and Best Practices

Mark Jeffery and Saurabh Mishra

Center for Research on Technology and Innovation

Kellogg School of Management

Email: mjeffery@kellogg.northwestern.edu

Phone: 847-467-5509

Summary Results

The purpose of this research is to document some of the best practices in strategic Marketing Performance Management (MPM) based on the survey results of more than 250 Fortune 1000 firms. The goal of this research is to discover the different maturity levels of marketing management and investigate the relationship between an organization's MPM maturity and performance. We also investigate the impact of new marketing technologies such as marketing resource management (MRM), enterprise data warehousing (EDW), and analytic marketing on the return on investment (ROI) of marketing campaigns.

> **"I know I'm wasting half of my marketing spend but I actually know which half [TV advertising], and it's an intentional decision."**
> – A senior executive on the benefits of MPM

The research data, collected from over 250 Fortune 1000 firms, shows that 75% of respondents report marketing is essential to their business. We also found from the data analysis that optimizing the management process for marketing, which we call marketing performance management (MPM), leads to higher returns on marketing investments in the form of higher sales growth, increased market share and enhanced brand equity. However, despite the benefits of MPM, very few organizations appear to actually optimize MPM. As a few examples:

- 61 percent of surveyed organizations do not have a defined and documented process to screen, evaluate, and prioritize marketing campaigns
- 57 percent do not use business cases to evaluate marketing campaigns for funding
- Only 52 percent say that they actively modify or terminate under-performing campaigns at any stage of implementation based upon ongoing campaign evaluation

Further, we found evidence that there is a positive link between the use of centralized customer data and analytics with returns on investments in marketing. However, again very few organizations appear to actually use some of the advanced tools available today. As examples:

- 70% do not use an **Enterprise Data Warehouse (EDW)** to track customer interactions with the firm and with marketing campaigns
- 71% of respondents do not use Enterprise Data Warehouse (EDW) and analytics to guide marketing campaign selection
- 82% do not use automated software such as Marketing Resource Management (MRM)

The key question, of course, is why? What has been holding back adoption of techniques and practices that can enable superior marketing returns? The answer, in short, is that adopting these practices means change and change is never easy. Successful adoption of MPM does not just mean putting a fancy framework on a slide, presenting metrics on a spreadsheet or simply implementing a marketing management tool. Instead, it calls for a paradigm shift, a new work culture, a new set of attitudes and behaviors among marketers, and a strong leadership support.

This research identifies a phased path towards a successful adoption of best practices in marketing performance management.

Detailed Findings

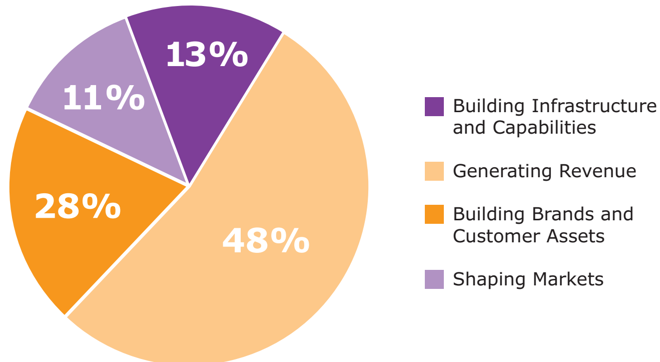
The Case for Marketing Performance Management

"What is the ROI of marketing investments?" "How do marketing expenditures enhance shareholder value?" These are some of the burning questions facing marketing managers today. For a long time, marketing has been considered the "creative" side of business and, since creativity cannot be quantified, marketing has been perceived to lack accountability. However, with increasing financial pressures facing firms in today's hypercompetitive environment, this perceived lack of accountability has undermined marketing's credibility and has begun to diminish marketing managers influence and standing in the firm.

So what can marketing executives do? The answer lies in designing and implementing processes that streamline marketing efforts with overall business strategy to ensure optimal resource allocations that will maximize marketing performance. We refer to this as **Marketing Performance Management (MPM)**.

Marketing Performance Management: A Working Definition

We define marketing performance management as the combination of tools, processes, and methods used to develop, monitor, measure, and control marketing campaigns and programs to increase the return on both individual and aggregate marketing investments. Marketing campaigns are defined to include all direct and indirect organizational marketing endeavors such as promotions, advertising, analyst relations, customer relationship management initiatives, etc.



Detailed discussions with senior marketing executives and leading marketing academicians revealed that in most organizations the overall set of marketing campaigns can be viewed as a portfolio comprising of four distinct parts:

1. Building infrastructure and capabilities with advanced tools such as centralized database, EDW, MRM etc.
2. Generating revenue
3. Building brands and customer assets
4. Shaping markets

Our survey results indicated that on an average, organizations allocate their marketing budgets in the following manner across the marketing investment portfolio:

- 13% in building infrastructure and capabilities
- 48% in generating revenue
- 28% in building brands and customer assets
- 11% in shaping markets

The survey results and interviews overwhelmingly support that taking a portfolio approach to managing marketing activities and implementing MPM has a significant positive impact on organizational performance in the form of higher market share, sales growth, and increased brand equity. As Mike Sands, COO of Orbitz illustrated "You're essentially creating options for the executive team that they didn't have before. And there is a confidence that comes with having a better understanding of your costs and your drivers. You are in much greater control of your spend and that gives confidence up and down the line."

The Current State of MPM

The survey results and interviews show that senior marketing executives are committed to making marketing more transparent to the rest of the organization. They recognize the need to speak the language of finance and strategy, and they are willing to go the extra mile to ensure that the marketing department is well integrated with the business strategy and goals. However, they are also struggling to optimize marketing management in their organizations. Although, the benefits of MPM are evident there is a significant gap in the MPM process in most organizations.

For example, while selecting marketing campaigns:

- 73 percent do not use score cards rating each campaign relative to key business objectives prior to a funding decision
- 61 percent do not have a defined and documented process to screen, evaluate, and prioritize marketing campaigns
- 57 percent do not use business cases to evaluate marketing campaigns for funding
- 44 percent do not consider inter-campaign synergies at the time of marketing campaign selection
- 38 percent do not think holistically comparing worthwhile marketing campaigns to each other, funding the best overall set of campaigns
- Only 47 percent report that marketing campaign selection is guided by forecasts of campaign ROI, Customer-Life Time Value (CLTV), and/or other performance metrics such as customer satisfaction
- Only 32 percent report that marketing campaign selection is guided by experiments contrasting the impact of pilot marketing campaigns with a control group

Once campaigns are selected, during campaign management there are other evident shortcomings:

- 63 percent report that they do not break down each marketing campaign in stages and do not use metrics to review the campaigns at each stage
- 53 percent say they do not actively modify or terminate under-performing campaigns at any stage of implementation based upon ongoing campaign evaluation
- 43 percent indicate that they do not actively track and monitor realized benefits (vs. targets) after completion of marketing campaigns
- 40 percent report that campaigns are often not designed to be measured and specific metrics for success are not defined

Finally, with regards to learning and feedback:

- 43 percent say they do not use metrics to guide future marketing campaign selection and management
- 36 percent of organizations do not conduct post-implementation reviews to solicit campaign team opinions and intuitions regarding successes and mistakes of past campaigns to guide future marketing campaign selection and management
- 34 percent do not use insights gained from analysis of data from past campaigns to guide innovations in future marketing campaigns
- 29 percent do not identify and share lessons gained from both discussions with campaign team members and analysis of past campaign data

Why MPM Hasn't Happened

One of the most revealing insights from the study is that despite the impact of MPM on performance, very few organizations appear to be implementing optimized MPM. What is holding them back? Survey respondents point to a number of specific challenges.

TOP MANAGEMENT SUPPORT

- 69 percent say that business leaders do not understand that ROI is not always applicable to marketing campaigns
- 63 percent said that senior managers primarily make funding decisions for individual marketing campaigns based on their gut feel and intuition
- 50 percent report that the top management in their organizations does not provide specific strategic goals based on metrics such as return on investments (ROI) to guide marketing campaigns

> **"You have to have a good marketing and business strategy, you also have to have the work processes behind the model and you have to have the technology tools behind that. The fourth critical component is the employees. CRM is not a 'You build it, they will come' model for employees. They must WANT to deliver an exceptional customer experience. I mean, do you know how fast I can clean my house when I WANT to?"**
>
> – Kelly Cook, Vice President,
> Employee & Customer Engagement,
> Waste Management, Inc

- 49 percent indicate that marketing is not perceived by the CEO as the main driver of strategic advantage
- Only 68 percent say that their business and strategy decision makers have a good knowledge of marketing

CROSS-FUNCTIONAL ALIGNMENT

- 48 percent do not solicit a cross-functional senior executive input to allocate their marketing campaign funds
- 56 percent claim that in their organization most senior managers perceive marketing as a "necessary evil"
- 54 percent claim that in their organization there is a lack of mutual respect between marketing and other business executives
- 25 percent say that within their organization marketing is not an essential component of business activities
- Finally, 21 percent report that marketing is not an important integrated function within their organizations

EMPLOYEE SKILLS

- 64 percent report that they do not have enough employees who have the skill to track and analyze complex marketing data
- 47 percent said that overall their marketing staff does not have sufficient working knowledge of financial concepts such as ROI, NPV, and CLTV

Importance of personnel skills in enabling a sound MPM process was also echoed in interviews. For instance, one executive told us, "One of the biggest hurdles is personnel and their ability to understand this new world of marketing. The number of people that have really deep eMarketing backgrounds plus the brand backgrounds, could probably measure on one or two hands."

Another executive told us: "One of the many challenges is that there are lot of processes that still rely on human intervention and human prophecies. Whenever you have that happening, you know there is always going to be human errors."

The Role of Advanced Tools and Techniques

In addition to top management support and marketing personnel skills, our analyses underscores the importance of using advanced tools and techniques to manage, design, and execute marketing campaigns. For example:

One of the essential requirements of an optimized MPM is the extensive use of data across all marketing campaigns to develop a sound investment process. Kelly Cook, who is more recently the VP of Employee and Customer Engagement at Waste Management also emphasized, "The great success stories in CRM are because the executives had the goal to centralize the data. You have to centralize the view, and then you manage cross-divisionally everything that you want to have happen to the customer experience. This data is the key enabler of the differentiated customer experience."

However, 83 percent of the survey respondents indicated that estimating marketing campaigns benefits is often a major challenge for them. Our observations indicate that the way to minimize this problem is through the use of new technological tools that enable the complex data collection and analysis required for optimizing MPM. These include a centralized database, customer relationship management (CRM), and marketing resource management (MRM).

Our survey results show that there is a statistically significant positive link between the use of advanced tools and ROI of marketing. Specifically, organizations that are using an enterprise-wide data warehouse to track marketing campaigns, assets, and customer interactions with the firm (along with deploying automated software such as MRM and using active data warehousing to guide event driven marketing campaigns) report higher sales growth, increased market shares, and enhanced brand equity.

However, we again observed that very few organizations appear to actually use some of the advanced tools available today. A few data-points to illustrate this:

- 57% of respondents do not use a centralized marketing database to track and analyze their marketing campaigns
- 70% do not use an Enterprise Data Warehouse (EDW) to track customer interactions with the firm and with marketing campaigns
- 71% of respondents do not use Enterprise Data Warehouse (EDW) and analytics to guide marketing campaign selection
- 79% do not use an integrated data source to guide automated event driven marketing
- 82% never track and monitor marketing campaigns and assets using automated software such as Marketing Resource Management (MRM)

> **"Teradata systematically tracks every customer interaction across the organization in our enterprise-wide Teradata data warehouse. Since we strive to maintain strong and lasting relationships with our customers, it is critical that we create a collaborative sales and marketing culture. We track, analyze and measure the success of every marketing event, campaign, and customer interaction to determine what things work, and what can be improved in helping us obtain and grow customers."**
>
> – Bob Fair, Vice President of Business Strategy and Chief Marketing Officer, Teradata, a division of NCR

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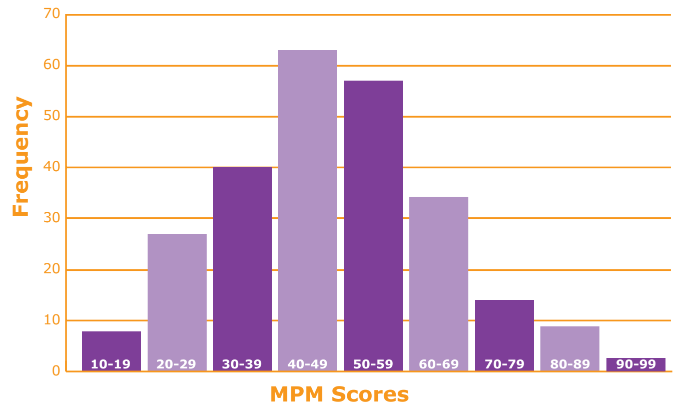
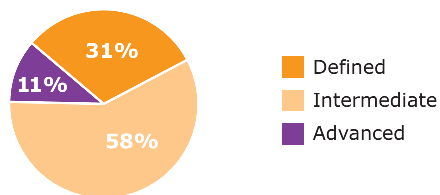
Clearly, there is a pressing need to address these gaps by promoting the deployment and use of advanced tools in organizations. However, it is important to note that the buck doesn't stop at just deploying advanced tools and techniques. Even after deployment organizations differ greatly in their ability to leverage these tools.

Therefore, it is important to adopt a phased approach to the adoption and use of these tools. Establishing a phased timeline with clear milestones will enable successful alignment of these tools with the existing organizational structure. Such an alignment is critical for a smooth transition from the routine way of managing marketing to a more optimized MPM process.





MPM: A Phased Approach

The primary conclusion drawn from the discussions about implementation hurdles is that successfully optimizing MPM is not a matter of a "big-bang" initiative but instead involves a deliberate step-by-step progress. A phased approach will help keep implementation momentum up, foster senior executive confidence that will increase their buy-in, warrant a planned and manageable increase in cross-functional alignment, and give employees enough time to develop their skills and comfort levels with the use of these tools.

THREE STAGES OF SOPHISTICATION

Our analysis identified three broad categories of MPM adoption competency: Defined, Intermediate, and Advanced, each illustrated right. We mapped survey questions into criteria that characterized each category. An MPM "level score" in the range of 0 to 100 was computed for each respondent. The score was based on an average of the total affirmative responses to questions across all categories. The distribution of those scores was used to determine the general category groupings of respondents. A chart of the distribution of MPM scores for all respondents is shown above.

> **"If you are going to fail, fail fast, learn from the experience and quickly try something different."**
> – Mike Sands, COO, Orbitz

STAGE ONE: DEFINED

The average organization in the "Defined" level focuses on developing processes and procedures that provide general objectives and goals to guide marketing campaign selection and management. Organizations at this level have put in place a centralized database that tracks the performance of all marketing campaigns and assets. Finally a learning culture, albeit weak, is in place where campaign team opinions and intuition regarding mistakes and successes of past campaigns is used to guide future campaign selection and management. In short, a "Defined" process is established to manage all marketing activities for the organization.

The benefits of performing these processes are straightforward:

- Decision-making is simplified by a single comprehensive view of all marketing assets, investments, and resources
- Unmonitored marketing spending is eliminated and resource utilization is improved
- Provision of general objectives and goals reduces planning and management rework
- The marketing manager is better equipped to learn from past mistakes and therefore improve marketing management over time

STAGE TWO: INTERMEDIATE

The average organization in the "Intermediate" level has already achieved a centralized view of marketing assets, investments, and resources. "Intermediate" organizations have also adopted the practice of providing general objectives and goals to guide marketing campaign selection and management and also learn from past mistakes. MPM efforts at this level are focused more on rigorous provision of objectives and goals regarding final deliverables of marketing investments and application of advanced metrics for planning, managing, and reviewing marketing investments. "Intermediate" level organizations have adopted the use of **EDW** to track customer interactions with the firm and marketing campaigns. Finally, along with opinions of campaign team members, analysis of data is also used to guide future campaign selection. In short, an "Intermediate" process is established to manage all marketing activities.

The benefits of achieving competency at this level include:

- Improved alignment of marketing spending with corporate strategy to reduce or eliminate stranded marketing investments
- Better communication with a corporation's finance department and corporate leadership through the common language of financial metrics
- Easier comparison of results with peer companies
- Frequent review cycles to help address deviations from plans in scope, budget, and strategic alignment allowing for corrective actions earlier rather than later

STAGE THREE: ADVANCED

The most savvy marketing management teams distinguish themselves by their ability to track and monitor marketing campaigns and assets using automated software such as MRM. "Advanced" level organizations use **Active Data Warehouse (ADW)** to guide automated event driven marketing and utilize score cards rating each campaign relative to key business objectives to guide campaign funding. Finally, they have a holistic view of all their campaigns and apply portfolio management techniques to fund overall best set of campaigns, while continuously monitoring realized benefits and business value (ROI) for marketing campaigns during campaign execution.

The benefits observed by these organizations include:

- Improved valuation of marketing investments
- Broader spectrum of quantitative metrics to use in tracking marketing campaigns
- Ability to maximize the value of the marketing campaign portfolio while ensuring alignment with corporate strategy

Strategic Marketing Performance Management: Challenges and Best Practices

PORTFOLIO SCOPE

The three stages of MPM sophistication are approximations based on the survey responses and personal experiences shared in interviews. As one would expect, few companies fit perfectly in any one of the three stages. A typical organization combines elements from two or three stages, but nevertheless has one stage it primarily resembles.

One can look at the three stages as target outcomes or target capabilities. But how does one actually get from stage to the next? The key is to first prepare a scorecard of the progress of an organization across the various dimensions of MPM. Once the key problem areas have been established a roadmap to address them should be developed.

The best roadmaps include these elements:

- Clear description of the goals and time-line regarding the phased rollout of advanced tools and techniques
- Training program for the empowerment of employees to deal with the change
- Fair assessment and allocation of resources needed to reach the goal

The over-arching best practice is to focus, get early wins to build trust, and build momentum based upon these wins.

Lessons Learned

Implementing MPM is challenging but successful CMOs have learned some valuable lessons regarding what it takes to get the job done. They have served as leaders, driving the effort to optimize marketing's performance. The following is a summary of the lessons CMOs shared during our research:

Create a sound MPM process

Start with common, integrating processes that use score cards and foster business unit involvement. Successful MPM enables alignment to business strategy and direction. It provides rigor and establishes the right balance on priorities. It entails working collectively to define common metrics such as ROI, CLTV that help measure and plan campaign success.

Build an infrastructure for marketing

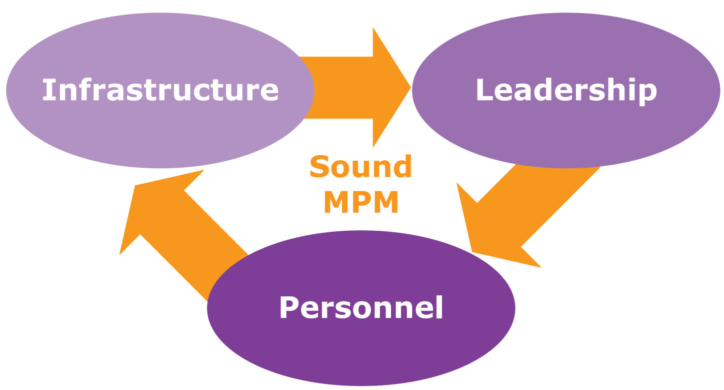
The use of advanced tools and capabilities is no longer a matter of choice, it is a necessity. EDW and analytics enable keeping score. MRM helps to digitize and professionalize the process of marketing. Able deployment of infrastructure makes marketing more agile.

Provide Leadership

Though MPM ought to be a joint responsibility of the senior executive team, the marketing leaders must take the lead to establish the process and metrics. Successful CMOs make efforts to develop a synergistic partnership with other members of the senior executive team. Further, these leaders promote and encourage their employees to facilitate change that is often accompanied in implementing new process and techniques.

Empower Personnel

Last but not the least, it is critical to build a team of trusted people to manage the MPM process. Also, successful CMOs ensure that they provide adequate resource for personnel training in the process, financial skills, and project management. Encouragement in the form of appropriate reward systems is essential to align incentives and retain good people.



Research Methodology

Hypotheses:

The formal research objective was to test four specific hypotheses:

1. A maturity model exists for marketing management.
2. Firms at the highest level of maturity experience tangible performance gains.
3. Firms at the highest level leverage centralized customer data and analytics to realize these gains – that is, there is a link between synchronizing marketing and using EDW to keep score.
4. Firms are held back from maximizing value by a recurring set of hurdles - focusing on these hurdles first will enable firms to unlock value from marketing.

In parallel, the team wanted to find out if there were any broadly applicable stages of MPM effectiveness. By comparing MPM application data with responses regarding implementation hurdles, a general MPM adoption trajectory was identified, and along with it, best practices to help organizations accelerate along that path.

Survey and Interviews

The data needed to test the five hypotheses was gathered through a mass survey and targeted interviews. A survey called, "Strategic Marketing ROI: Myth vs. Reality" was mailed to and made available on the Web to top marketing executives at U.S.–based Fortune 1000 companies. Prior to sending the survey, the research team interviewed 10 senior marketing executives from a representative sample of organizations to gather more detailed examples of implementation hurdles and best practices.

Sample: Respondent Demographics

The team received completed surveys from over 250 respondents. More than 92% of the respondents identified themselves as CMO, Director, VP of marketing or their direct reports. The average respondent has 12 years of marketing management experience. The average respondent's organization generated $5 billion in revenues last year and spent 8% of those revenues on marketing. In total, the survey responses were responsible for approximately $51 billion in annual marketing spending.

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Author Biographies

Mark Jeffery is Clinical Associate Professor of Technology in the Center for Research on Technology and Innovation at the Kellogg School of Management. His research is in technology portfolio management, real options applied to technology projects, and quantifying the business value of information technology and marketing initiatives. He has more than 30 publications in scientific and technology journals, and three book chapters. Dr. Jeffery has also developed 18 original case studies that are used in the Kellogg MBA course he teaches on portfolio and project management, and the Kellogg executive programs he directs called *Managing Customer Relationships for Profit* and *Driving Strategic Results through IT Portfolio Management*. For more information on the Kellogg executive programs, please visit **www.kellogg.northwestern.edu/execed/programs**.

Saurabh Mishra is a Post-Doctoral Research Fellow in the Center for Research on Technology and Innovation at the Kellogg School of Management. His research interests are in evaluating the impact of marketing and technology resources and capabilities on firm performance. He has authored one book chapter and has presented at numerous academic research conferences in marketing. Prior to joining Kellogg, Saurabh earned his PhD in marketing from Kelley School of Business, Indiana University, Bloomington.