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Results-Driven Marketing: A Guide to Growth and Profits

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Results-Driven Marketing: A Guide to Growth and Profits

The changing world requires a more rigorous approach to marketing. But that doesn't mean you have to sacrifice creativity to analysis.

by Johannes Bussmann, Gregor Harter, and Evan Hirsh

Perhaps no metaphor is more common in business than the equation of marketing with war. Marketers speak incessantly of "conquests." Their corporate colleagues are members of a sales "force," working in "territories." Together, they launch "campaigns," using "flights" or "volleys" of advertising, in an attempt to "win" share.

It's unsurprising, then, that today, many sales and marketing executives feel they are engaged in — and losing — a two-front war.

On one side, they face increasingly demanding consumers: "I want it in this color, in this configuration, at this price, and if you can't deliver tomorrow, I'll source it over the Web from any dealer who can within a 600-mile radius."

Meanwhile, the cry from above is equally strident.

CEOs and shareholders want "more bang for their marketing buck"; "more market share for less advertising spend"; "more new-product hits with less investment in new product development." The message from consumers and CEOs is strikingly similar: "We want more value for our money."

This loud and insistent mantra puts sales and marketing departments in a bind. How can they generate profitable top-line growth in mature, often flat, markets that are experiencing severe price pressures? And, at a time when the CEO's agenda is to improve return on investment by simultaneously increasing returns and conserving investment, how can they deliver near-term results without sacrificing long-term brand equity?

It's a conundrum that marketers everywhere face. How can they square this uncomfortable circle? The answer may not be to everyone's liking: There is no magic bullet; rather, hard work is required. And that work can be put off no longer. ROI marketing — the application of sophisticated measurement techniques in the service of optimizing marketing spending — is now no longer just a nice idea, but an imperative for corporate survival. As one chief marketing officer told us: "Marketing is dead if it's not building the business."

The world has changed, and marketing must change too. Marketing needs to become, in a word, rigorous — or risk the onset of rigor mortis.

That change is coming, and it is already having a profound impact on how businesspeople think about marketing. It is eliminating marketing activities that are costly and inefficient. It is empowering employees with information, tools, and responsibility and, in turn, holding them accountable for their decisions. It is leading to a new marketing culture in which decisions are based on rigorous analysis and testing rather than gut feel and guesswork. Most of all, it is ensuring that marketing spend is a fact-based investment yielding high returns instead of a potentially money-losing exercise in creative wishful thinking.

This article is adapted from *Results-Driven Marketing: A Guide to Growth and Profits*, a *strategy+business Reader* published in fall 2005. A collection of articles from *strategy+business* and by the senior marketing and sales experts at Booz Allen Hamilton, the global strategy and technology consulting firm, the book is a guide to this transformation. If we were to continue the military metaphor, we might call it a battle plan. But marketing is not warfare. Rather, it is a discipline. So please consider *Results-Driven Marketing: A Guide to Growth and Profits* an exercise manual, a handbook for healthful marketing.

Marketing's Fifth Discipline

There used to be Four Ps of marketing: product, price, place, and promotion. This simple *aide-mémoire* provided a touchstone for marketers everywhere, a clear summary of the first principles. In a maelstrom of change, marketers could rest assured that the basics remained untouched.

Those days have gone. It's not that the Four Ps are in themselves wrong, or even that they have been superseded by a "new and improved" formula that cleans up markets quicker and whiter. It is simply that they fail to put enough attention on the most important P in business — profitability. For "profitability" read "return on investment" — the fifth marketing discipline.

This fifth P lies at the heart of the pressure now being felt by marketing departments to deliver returns on marketing investment. The reality is that, as markets mature and experience commoditization, marketers need to adopt the analytical ways of their more numerate corporate colleagues. They need to embrace sophisticated financial tools and techniques to justify marketing spending — and their own positions.

The simple fact is that measurable outcomes are now expected for marketing programs. A recent study by Booz Allen and the Association of National Advertisers, the leading U.S. marketing trade organization, shows that measurable outcomes are now expected for marketing programs, with 66 percent of executives saying that true ROI analytics are marketing's greatest need. Yet, most companies are still using surrogate metrics, such as awareness, instead of ROI measurements. Those that don't change face a bleak future.

As Philip Kotler, distinguished Northwestern University professor and doyen of marketing thinkers, recently observed: CEOs are "growing impatient with marketing. They feel that they get accountability for their investments in finance, production, information technology, even purchasing, but don't know what their marketing spending is achieving."

The timing of leaders' demands is no coincidence. Look around. In many industries, the old medicine isn't working anymore. Marketing activities constitute a rapidly growing portion of companies' cost structure. Meanwhile, the returns are increasingly questionable.

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Take consumer packaged-goods (CPG) companies. Advertising and media, trade promotion, and consumer promotion spending now account for as much as 25 percent of sales among CPG companies in the United States, up from 15 percent in 1978. Trade spending today is the second-largest item on the profit-and-loss statement for most of these companies, following cost of goods sold.

Yet, as Leslie H. Moeller, Sharat K. Mathur, and Randall Rothenberg show in "The Better Half: The Artful Science of ROI Marketing," one of the chapters in *Results-Driven Marketing,* on average, for every dollar spent by major CPG manufacturers to generate incremental volume, marketers gain a short-term return of just 80 cents — that's a return on investment of negative 20 percent. Retailers, by contrast, see profits from almost three-quarters of all promotional events.

Such statistics confirm prejudices that marketing is a fuzzy discipline — an inexact art rather than a rigorous science.

None of this will come as any surprise to marketers. There is broad agreement that the "black arts" of marketing require a more solid grounding in science. Yet, to date, efforts in this area have not stuck: Marketing as a discipline still lags behind other functions when it comes to rigorous investment-supporting analysis.

In fact, in many industries the return on marketing spending, which has historically been quite low, is going lower. Consider the situation facing U.S. carmakers. The automotive industry has the worldwide capacity to produce around 80 million cars and other light vehicles a year, but it is currently running at only 75 percent capacity. Most of the excess capacity is in the U.S. and Europe, where manufacturing costs are highest and sales are growing more slowly. As the stockpile of new cars increases, carmakers' ability to "move the metal" increasingly relies on offering buyer incentives.

At America's Big Three automotive manufacturers, incentives have more than tripled since 1990, reaching nearly $3,800 per vehicle, or 14 percent of the average sales price, according to CNW Marketing Research. Yet Detroit has continued to lose share in the U.S. (by 1.6 percentage points in 2002 alone) to imports whose incentives are half as high. GM's share of the U.S. market, for example, has slumped from 30 percent in the mid-1990s to 26.7 percent in April 2005.

For all the spending devoted to marketing, few marketing strategies deliver lasting results. Standout products and services are rare.

Poor Panaceas

Various "panaceas" have been introduced into marketing and sales departments in recent years. Unfortunately, most have had the curative power of 19th-century patent medicines. Take customer relationship management (CRM), once heralded as marketing's "smart weapon." Huge amounts of money have been invested in CRM systems and loyalty programs. In 2000, for example, the top 16 European retailers alone spent in excess of $1 billion on loyalty programs. Yet the correlation between customer loyalty and profitability is often weak or nonexistent. Recent Harvard Business School research into loyalty programs, for example, found that long-term customers were as expensive to serve as non-loyal customers, or even more expensive.

There is a growing recognition, even in sectors where marketing has traditionally taken a backseat, that a more rigorous approach to marketing is now required. In industry after industry, marketers are being asked to transform their practices.

At the $152 billion industrial and finance company General Electric, for example, CEO Jeff Immelt has stated that "sophisticated marketing" is now one of the company's three imperatives, along with risk taking and innovation. "Jeff has launched us on a journey to become one of the best sales and marketing companies in the world," David R. Nissen, CEO of GE Consumer Finance, recently told *Business Week.*

In the financial-services sector, marketing has taken on heightened importance as institutions conclude that their options to grow through acquisitions and product differentiation are diminishing. "The financial-services business is commoditizing; if you think this is still a relationship business, you are kidding yourself," the executive vice president of one bank told us. The chief marketing officer of another bank explained that marketing is increasingly expected to use analysis to identify — and in some cases create — new markets for financial-services products.

For marketers in other industries, from pharmaceuticals to telecommunications, the challenge is no less urgent.

Marketing with Rigor

We are not the first to suggest that marketing needs to become more scientific, nor will we be the last. The debate about whether creativity or analysis is more important in marketing has been around for years. But the idea that there has to be a tradeoff between the two, we believe, is flawed. It is not the case that by doing more analysis, marketers need to be less creative; in fact, the reverse is true. By being more scientific, they can focus their creative efforts on the activities that will yield the best return on the investment.

At Procter & Gamble, for example, Chief Executive A.G. Lafley has brought new rigor and creativity to the company since 2000. In the past two years alone, P&G has raised its new product hit rate — the percentage of new products that deliver a return above the cost of capital — from 70 to 90 percent. And that's in an industry where half of all new products fail within 12 months of launch.

This is not the first time that Booz Allen has been directly involved in demonstrating the point that a more rigorous approach would greatly benefit marketing. Back in the 1950s, a young Booz Allen consultant named Conrad Jones was asked by the son-in-law of Clyde Cessna, founder of the eponymous small-plane manufacturer, "Where's that airplane in every garage we hear about?" Apparently, official sources had made the brash prediction that there would be 300,000 private planes by the early 1950s. The prediction did not materialize.

An in-depth investigation by a Booz Allen team revealed that there was little evidence to support the claim. The team then analyzed the private plane market and found that potential customers were in the top 2 percent of financial strata. On the basis of this finding, they redesigned Cessna's sales strategy to focus on potential purchasers rather than enthusiasts. They developed a training curriculum, tracked sales data, and created a market index, helping Cessna Aircraft Company define an industry that endures today. Fifty years later, Booz Allen's Customers, Channels, and Marketing Management group has helped hundreds of leading corporations improve marketing, sales, and customer relationship programs.

We've come a long way since the 1950s — and so has our analytical toolkit. But tools get you only so far. Changing the marketing mindset is much harder. Happily, there is now a growing awareness that analysis has a bigger part to play.

Arun Sinha is chief marketing officer of the $4 billion postal services company Pitney Bowes. One of a new breed of marketer who understands the role of analysis, he has experience that includes helping revitalize Colgate's oral care brands; launching Ford's Mercury Sable car; and spending 10 years at Philip Morris. When Mr. Sinha joined Pitney Bowes in 2002, he instigated the first branding exercise in the company's history.

To rebrand Pitney Bowes, Mr. Sinha began by talking to 2,000 customers in eight countries and then to employees, salespeople, executives, and customers. "It wasn't about the conventional wisdom of how to rebrand a company but about analysis," he explained when we interviewed him. "And that's how marketing has changed. It used to be more downstream — warm and fuzzy — now it is upstream analysis and relationships. Companies that succeed do these things well."

The fact is that most companies haven't done a lot of ROI marketing — or haven't done it rigorously. The firms we talk to are experiencing one of two scenarios: Either the company has good data but it is locked away and not used to make decisions; or the company doesn't have the data, a situation that is relatively easy to remedy. The good news is that the necessary data exists in almost every industry, or can be generated without too much pain. The less good news is that integrating that data into the decision-making process is hard work.

Those companies that start now will have an advantage. Our research suggests the payoff is worth the pain. In our experience, ROI marketing usually increases profitability by between 15 and 30 percent.

Real ROI

All marketing activities are amenable to ROI measurement and optimization: trade and consumer promotions, pricing, media advertising, product placements, and even product assortment and the content of sales calls. Brand marketing campaigns can be assessed on the basis of returns to the bottom line. We know because we've done it.

How do you make ROI marketing a reality? That's the subject of *Results-Driven Marketing: A Guide to Growth and Profits*. Think of it as an evolutionary manifesto, if you will, or a scratching post for your brain. Chapter by chapter, it touches each of the eight links of the value chain:

Connecting with Markets

The first touchstone is, naturally, connecting with markets themselves

— and today that means markets that are constantly evolving. In their chapter, "The Co-Creation Connection," C.K. Prahalad, the Harvey C. Fruehauf Professor of Business Administration and professor of corporate strategy and international business at the Ross School of Business, University of Michigan, and coauthor Venkatram Ramaswamy challenge the way we think about value creation.

Companies, they explain, spent the 20th century managing efficiencies to create products and services that they thought consumers wanted. They must spend the 21st century managing consumer experiences. This is because we are moving to a new form of value creation, where value is not created in isolation by the firm and exchanged with customers, but instead is co-created by the consumers and the company acting together.

"Companies have grown used to viewing consumers as passive target markets for what they create," write Professors Prahalad and Ramaswamy. But markets are not passive; "they are now becoming more like forums…. In the 'market as a forum,' consumers actively define value the way they see value — as experiences — and push companies to see it the same way."

Naturally, this increases complexity — and there is a trade-off between the extent to which firms can tailor experiences to individual consumers and their own need to remain profitable. That is the issue explored by Booz Allen's Keith Oliver, Leslie H. Moeller, and Bill Lakenan in the chapter entitled "Smart Customization: Profitable Growth Through Tailored Business Streams." They explain how research among firms including Unilever, Campbell Soup, Rohm & Haas, BP Castrol, Sprint, Ericsson, and Time Warner reveals a two-to-one performance gap between "smart customizers" and "simple customizers." They then offer a roadmap to help firms optimize their business processes in the face of complexity.

Understanding Customers

Allied to evolving markets is the second touchstone: understanding customers. Markets, after all, are the sum of individual customer needs. There is no substitute for understanding how their purchasing decisions affect the firm's bottom line. In "Customer ROI: The New Science of Profitable Customer Relationships," Booz Allen's Mike Fritsch explains how a new approach called customer profitability management (CPM) is supplanting customer relationship management (CRM) by providing the missing link between customers and the creation of value. "Almost 50 percent of a company's customers are likely to be either unprofitable or only marginally profitable," writes Mr. Fritsch. "Yet many companies have introduced CRM systems and loyalty schemes that do not differentiate on the basis of profitability."

Also firmly on the trail of profitable customers are Guillermo D'Andrea, chairman of the marketing department at Instituto de Altos Estudios Empresariales, Universidad Austral in Buenos Aires; E. Alejandro Stengel, a Booz Allen senior director; and Anne Goebel-Krstelj, a former Booz Allen consultant. In "Six Truths about Emerging-Market Consumers," they explain that selling consumer products to Latin America's 250 million low-income consumers — men and women who constitute 50 to 60 percent of the region's population and wield some $120 billion in annual purchasing power — is more than an attractive opportunity: It is a necessity for large corporations trying to accelerate their growth.

Moving Beyond Commodities

And if customers and markets are important, so, too, is differentiation. Much has been written about the commoditization of products and services, and its squeezing effect on margins. But, as Sam I. Hill, Jack McGrath, and Sandeep Dayal remind us in their *s+b* classic "How to Brand Sand," it doesn't have to be this way. The authors, current and former Booz Allen marketing specialists, explain that it is possible to brand not only sand (actually diatomaceous earth, a chalky white mineral used as an industrial absorbent and filtration medium) but also wheat, beef, bricks, metals, concrete, chemicals, corn grits, and an endless variety of other commodities traditionally considered immune to the process.

From sand to vodka: In their chapter, "The Superpremium Premium," Leslie H. Moeller, Nick Hodson, and Brad Wolfsen examine the other end of the commodities spectrum — the creation of new "superpremium" brands in markets that are already considered overloaded. They explain how, in the seemingly saturated markets for vodka and gasoline, smart marketers have built multimillion-dollar superpremium brands.

Mastering Brands

Of course, creating a brand is one

thing; nurturing and sustaining it over the long run, quite another. In "Reality Is Perception: The Truth about Car Brands," current and former Booz Allen consultants Evan Hirsh, Steve Hedlund, and Mark Schweizer examine how customers perceive automobile brands. Their findings, based on extensive research, suggest that the barrage of advertising laden with lifestyle and emotional imagery is largely ineffective, as car buyers are pretty shrewd about what car brands actually stand for thanks to their own experiences in two key areas: product quality and total ownership cost. It is on these two criteria that automotive marketers should focus their attention.

If brand attributes have to be relevant to consumers, so, too, do brands themselves. In "The Relevance of Brand Relevance," David A. Aaker, vice chairman of Prophet Brand Strategy and professor emeritus of marketing strategy at the Haas School of Business at the University of California, Berkeley, explains: "A brand in decline often is in trouble not because of an intrinsic problem, but because the product category or subcategory with which it is associated is fading."

Professor Aaker cites the example of hardware, paint, and flooring stores, which have struggled to remain relevant as Home Depot and Lowe's, with their broad selection of products and services, have subsumed existing categories and, in effect, created a new kind of brand. The management of brand relevance requires a hardheaded approach. It also brings us to the next touchstone.

Connecting with Customers

Understanding customers is a good start but is not in itself sufficient to drive growth and profits. Instead, marketers — and the brands they promote — must connect with customers in new and more efficient ways.

In "The Advertising Saturation Point," Evan Hirsh and Mark Schweizer assert that far from throwing advertising money at the problem, companies should adopt a more scientific approach. Inspired by economic theory, the authors argue that there is an optimal level of advertising spending for any given product. Such "saturation points" may or may not be identifiable for every type of product, but they are clearly evident in the automobile industry. Every car brand, be it Ford, Chevrolet, or Toyota, has its own unique optimal saturation point, argue Messrs. Schweizer and Hirsh. What's more, "each can be predicted in advance, before a budget is set, and thus can be used in planning advertising spend strategies." Best of all, these saturation points correlate closely with results.

Elsewhere, the effectiveness of advertising is also being questioned. In the consumer products industry, for example, consumers are increasingly resistant to conventional advertising and marketing, making it ever more important to connect with them at the point of purchase. Where better to start, then, than out in the field with the merchandising sales force? In "Making the Most of 'Feet on the Street': A Better Outsourced Sales Force," Booz Allen's Edward Landry and Jaya Pandrangi explain that in the rush to outsource merchandising sales forces, companies' lack of analysis means they are missing important opportunities.

Building Relationships

We move from connecting with customers to the thorny issue of building results-driven relationships with them. In "The Myth of Customer Satisfaction," Mark Klein, chief executive of the marketing consulting firm Loyalty Builders, and Arthur Einstein, a cofounder and former principal at the advertising agencies Lord Geller Federico Einstein and Lord Einstein O'Neill, question one of marketing's sacred cows.

"Why are customers who say they're satisfied not necessarily repeat customers?" the authors ask. "Because satisfaction is a measure of what people say, whereas loyalty is a measure of what they actually do. Many managers still don't recognize this fundamental difference, so they use customer satisfaction and customer loyalty interchangeably, as though they were synonyms."

Building profitable customer relationships is also the theme of the next two chapters in *Results-Driven Marketing*. In "The Barista Principle: Starbucks and the Rise of Relational Capital," Ranjay Gulati, the Michael L. Nemmers Distinguished Professor of Strategy and Organizations at Northwestern University's Kellogg School of Management, Sarah Huffman, a former research fellow at Kellogg, and Gary Neilson, a Booz Allen senior vice president, explain how the success of Starbucks was grounded in its unerring focus on relationships. And "A New Window onto CRM Success," by David Moloney, formerly of Booz Allen, and Robert Bustos-McNeil, a Booz Allen senior associate, sheds light on how leading companies are using new techniques to analyze lifetime customer profitability and drive results.

Maximizing Talent

New marketing tricks also require new marketing skills. The penultimate touchstone considers how marketing talent can best be deployed to achieve results. In "The Fall and Rise of the CMO," Gail McGovern and John A. Quelch of Harvard Business School chart the rise of a new type of results-driven marketer in the C-suites of corporate America. "But," they warn, "the track record of CMOs, so far, is mixed." Indeed, the average tenure for CMOs is only 23 months. What lies behind the churn among CMOs?

Professors McGovern and Quelch attribute CMO attrition rates to five factors: CMOs tend to be outgoing personalities who like to grab the limelight, even though this can rub the CEO the wrong way; too often these high-powered, talented individuals feel constrained by a lack of authority; expectations for the CMO's impact on business performance are too high; they're experts in marketing but don't have multifunctional management depth; and the need for a CMO is not clearly defined. Managing this volatile cocktail of issues is something marketing chiefs need to master — or perish.

In "Making the Perfect Marketer," Paul Hyde, Edward Landry, and Andrew Tipping analyze the results of ongoing research by Booz Allen and the Association of National Advertisers. Their findings point to both succor and soul searching for marketers. The good news is that most C-suite executives recognize that marketing is becoming more, not less, important. The bad news (which supports the findings of Professors McGovern and Quelch) is that in many organizations CEO and CMO agendas are dangerously out of alignment.

Organizing for Results-Driven Marketing

This brings us neatly to the final touchstone. Results-driven marketing will not happen on its own. It will require a great deal of work. It will also require marketing departments and professionals to regroup and reorganize. There is ample evidence that marketing departments are currently undergoing large-scale restructuring. What is less clear is what the outcome of that process will be.

The book's final two chapters examine what it will take to make results-driven marketing a reality. In "The Brand-Guided Organization," Gregor Harter, Alex Koster, Michael Peterson, and Michael Stomberg of Booz Allen report on a study that shows that brand-guided companies — firms that use their brand values as a compass for decision making in the business — outperform their rivals.

Finally, in "The Better Half: The Artful Science of ROI Marketing," Booz Allen's Leslie H. Moeller, Sharat K. Mathur, and Randall Rothenberg remind us of John Wanamaker's famous charge against marketing. "I am certain that half the money I spend on advertising is wasted," the founder of the eponymous Philadelphia department store is said to have quipped. "The trouble is, I do not know which half."

Such ambiguity is no longer necessary — or acceptable — say Messrs. Moeller, Mathur, and Rothenberg. They explain how analysis quickly, precisely, and clearly allows the marketing wheat to be separated from the chaff, so that the most effective marketing initiatives can be used to generate growth and profits for the future.

In applying the new results-driven marketing approach, the authors affirm that "the barricades between information silos can come down; that everyone in the organization can share data and analytical tools; and that marketing and sales strategies can be transparent, measurable, and adaptable on the basis of real results, not historical anecdotes.... The better half will prevail. And at long last, old John Wanamaker will be able to rest in peace."

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