

Marketing Effectiveness



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What is marketing effectiveness?

“Marketing effectiveness is the quality of how marketers go to market with the goal of optimising their spending to achieve good results for both the short-term and long-term. It is also related to Marketing ROI and Return on Marketing Investment (ROMI)”.

Who is the primary audience for this paper?

Procurement people dedicated to managing marketing services, embedded in Marketing with regular involvement and high influence over marketing sourcing activities.

This group can be proactive and add value not only in managing the performance of agencies, but also in influencing the Marketers’ pre-sourcing activities. The knowledge of marketing activities and tools should be high therefore, that is where procurement should lead the implementation of ROI and measurement of marketing effectiveness.

This paper provides a thorough explanation of tools, methods and approaches, as well as a list of providers in the market of such tools and consultancy services. Please note that the named providers are given as examples and are not endorsed by CIPS, other providers are available.

Why is measuring marketing effectiveness/ROI a hot topic?

There is increasing pressure on client organisations, especially in the current economic climate, to reduce costs. This is coupled with pressure on both marketing and procurement to demonstrate cost savings, in addition to getting value from the investment in marketing. We all know that the role of procurement in buying marketing services has increased. This has raised more questions about the financial openness and transparency that needs to be in place for all agency contracts.

“Measuring marketing effectiveness at every level is no longer an option. It's central to survival.” **The Chartered Institute of Marketing (CIM)**

“Marketing Effectiveness: It's More Than Just ROI” **WPP/Millward Brown**

What is the purpose of measuring marketing effectiveness?

The purpose is to demonstrate that the marketing budget is being well spent. Much of the time, it is about managing perceptions. Senior marketing staff know that, after raw materials, marketing is often the second highest budget area and that some companies sometimes feel unsure whether it is being spent wisely.

Having measurement in place will help to address the above concern and provide hard evidence to answer questions such as: did spending £Xm on this campaign lead directly to an increase in sales? It is not designed as a weapon with which to attack marketing and marketing budgets, but rather will help to promote evidence-based discussions about marketing budgets (as well as, perhaps, jobs!). Not all Marketers are as financially aware as they could be, though increasingly marketing training emphasises the need to evaluate the effectiveness of key activities. We think this is where procurement can step in and work alongside, marketing to help them put broad effectiveness and more specific ROI measures in place as appropriate.

Why is it relevant to marketing buyers?

We think it is something tangible that Marketing buyers can do to demonstrate that they are not just about saving money, but about achieving added value as well. It is one element of a good Supplier Relationship Management model that procurement should roll out to its marketing suppliers as part of their contract management process.

IPA says marketers fail to measure ROI- Campaign 06 June 2008:

A widespread ignorance among marketers about how to calculate the financial payback from ad campaigns has been revealed in new research commissioned by the Institute of Practitioners in Advertising (IPA). (www.ipa.co.uk)

It suggests that less than 20 per cent of marketing activity is measured to show how much contribution it has made to the bottom line.

The findings were revealed in 2008 to coincide with the introduction of a guide, “Measuring Marketing Payback”, published jointly by the IPA and ISBA, the body that represents advertisers, in May 2008. The guide offers tips on how to measure marketing's effects and calculate its contribution to shareholder value.

The guide highlights some common pitfalls, such as confusion of revenue with profit, pointing out that a campaign costing £1 million that generates £10 million of sales has not paid for itself ten times over.

It also emphasises that net profit is the key performance indicator for marketers, while return on marketing investment is a measure of efficiency and is only of secondary importance.

Hamish Pringle, director-general of the IPA, said: "To get marketing's contribution to business growth recognised, it's essential that marketing directors can measure marketing payback correctly."

We also advise you to look at the paper about savings produced by the CIPS Marketing & Purchasing Specialist Knowledge Group as it links into the concept of measuring ROI and effectiveness.

Best Practice for the procurement of marketing services

A survey by FindGood found 42% of companies now use procurement when selecting a marketing agency. The US Association of National Advertisers revealed 82% of companies use procurement to review agency procurement. Here are 10 best practice tips for the procurement of marketing.

1. Ensure a good relationship.

Recognising the value of strong relationships is essential and focusing on the needs of marketing, making an effort to understand the competitive market your product/service plays in and invest time in researching the agency market will foster such relationships.

Strong relationships will form if you can empathise with your stakeholders' challenges, showing knowledge of their market and willingness to collaborate.

2. Manage risk

Procurement should take risks by trying new suppliers, agency start ups; different commercial principles; use gain-share fees to encourage innovation .with the outputs the agencies are delivering for your marketing clients.

3. Know the service you are buying. Is it the people or their innovation?

The best procurement professionals know marketing is an investment to maximise, not a cost to minimise. To effectively measure quality – which in marketing procurement is as important as assessing cost – procurement needs to know what problems they are trying to solve. Choosing the right agency partner is a competitive advantage and the right team at the right investment can dramatically improve strategic, creative and ROI.

4. Empathy

Ask questions such as “Can you share with me what is important for the success of your work? What are you measured against?”

How do your suppliers support you in achieving your objectives? “How is the performance of your suppliers relative to your expectations?”

5. Ensure that supplier communication is open and transparent

Marketing is an area open to a subjective level of interpretations.

Ensure early supplier involvement to obtain its input and expertise, and allow suppliers to advise on the best approaches. This ensures best practice, recent innovations and to eliminate waste before the project starts.

6. Make the brief clear, insightful and detailed.

The brief must be clear, insightful and detailed, having benefited from early involvement of procurement and other key stakeholders.

7. Consider value rather than cost.

When buying advertising, media, direct marketing and design, procurement must remember the agencies’ role is to provide “solutions to problems with infinite possible solutions”. It stands to reason these solutions also have highly variable value, effectiveness or ROI.

Procurement must ensure that the agencies are managed, remunerated and incentivised to deliver their optimal value.

8. Ensure relevant measures

In marketing procurement there is huge scope for the value of a marketing service being driven by intangible elements such as creativity or insight.

9. Ensure close liaison with the agency

Your involvement with, and opinions on, how the respective agencies are performing as teams, beyond the evaluation of their written submissions or proposals, help the agencies to treat you as a key member of the client team .

10. Collaborative Contract Management

Clients appoint marketing suppliers to deliver measurable, business driving objectives.

The payment schedule should relate to clear delivery milestones that reflect the nature and duration of the task and which should be jointly agreed, including provision for risk-sharing.

Pay a fair base fee to ensure the best team is committed to your business, combined with a well-structured, motivating performance related fee (PRF) element. PRF targets should be clear, within the agency's influence, ambitious but attainable.

Baily, P., Farmer, D., Jessop, D., Crocker, B and Jones, D.(2015) Procurement Principles and Management. Ch16 11th ed. Pearson

What are the different methods commonly used? And what are the consulting agencies providing services in this area?

There is a vast array of agencies offering different types of services in this sphere, of whom only a representative sample is included below. Before committing to a particular course of action, it is worth thinking about what you want to evaluate and how much you are prepared to spend on it, as well as factors such as resource and data availability.

More ideas about evaluating effectiveness can be found in various publications, for example the annual IPA Effectiveness Awards publication. (www.ipaeffectivenessawards.co.uk).

1. Advertising effectiveness/Brand strength

These agencies offer services to assess the effectiveness of communications in achieving defined marketing goals and in building brand equity. Typically, this will include quantitative pre-air testing of rough material/finished films, on-air campaign tracking and brand image/appeal scores.

Example agencies: ARS Group, Hall and Partners, Millward Brown (WPP)

2. Promotional/Sales effectiveness

Agencies that evaluate the cost-effectiveness of promotions (usually at point-of-sale) in creating incremental sales and profit, usually employing retailer sales/ consumer panel data and some modelling techniques.

Example agencies: ACNielsen, Dunnhumby (Tesco's Clubcard and other data), IRI/TNS

3. Media auditing

Evaluation of the cost-effectiveness of media planning and buying, usually against a representative pool of other advertisers, looking at prices and other value measures, such as position in break.

Example agencies: Accenture Marketing Sciences (formerly Media Audits), Billetts, Fairbrother Lenz Eley

4. Brand valuation

Techniques that aim to put a true financial value on a brand, as if it were a quoted stand-alone business, using a variety of techniques, for example discounted EBITDA, royalty rates and so on.

Example agencies; Brand Finance, Interbrand

5. Market mix modelling

This aims to evaluate how different elements of the marketing activity plan, for example TV advertising, PR, retailer promotions, have an impact on brand sales and profit, and calculate an ROI figure (some form of incremental profit per pound spent in the marketing budget) for each element, using econometric modelling, regression analysis and so on.

A number of different types of agency/consultancy offer services in this area.

Specialist stand-alone: for example Brand New Way, Data2Decisions, Fuel Data Strategies, Holmes and Cook, MarketingQED, Ninah Consulting (now part of Zenith Optimedia), OHAL (one of the biggest and longest-established, now part of WPP), Spectrum

Market Research agencies: for example Millward Brown, (which offers a service that integrates ad effectiveness testing/tracking and econometrics)

Management consultancies: for example Accenture Marketing Sciences, PwC Marketing Science Practice

Academics: for example Cass Business School/Professor Robert Shaw

Media/Comms Planning and Buying, usually as a division separate from the core business: for example Carat Insight, DDB Matrix, Initiative Media MAP, Mindshare Futures, OMD Brand Science, PHD Confidential

Are there any gaps in the ability to measure/feasibility to measure?

Key issues/gaps are:

- 1. Data availability:** for robust econometric analysis 2-3 years detailed back-data is required.
- 2. Cost:** although now lower than previously, tracking studies and econometric model construction are not cheap.
- 3. Direct linkage between marketing activities and sales:** without 'single-source' data, (such as data that allows you to track marketing impacts and sales results for the same individuals, such as the Dunnhumby/Tesco database) it is still difficult to observe the direct impact of marketing/advertising efforts on purchasing behaviour. (This is, of course, easier with companies and brands that have a direct relationship/database of their own customers).

NB: the agencies quoted in this paper are examples, the list we have provided is non exhaustive.

Mini Case Study: BA

Organisations such as BA have led the way in setting up specialised procurement teams to work with their marketing functions.

Their approach is that they are not buying a commodity but are paying for creativity, time and the desire of a client to work with this organisation. Obtaining the cheapest option will not produce the best value they cannot work hand in glove with a supplier.

Procurement's role is to facilitate this relationship by helping to identify critical suppliers and cementing partnerships

So why has marketing services remained outside procurement's remit for so long?

Marketing people have tended to have a perception that what procurement does, is to buy things cheaper; yet, many will have no idea of the creative element of procurement's work.

The issue of cost versus value highlights one of the difficulties of exerting influence over marketing services: measuring effectiveness

Supplier relationships is another important area of potential added value procurement can bring.

Despite the increased pressure professional procurement can bring, suppliers generally welcome the benefits of improved processes, in terms of more definable specifications and performance targets, making disputes less likely. Suppliers want contracts which motivate them and incentivise them. They want to feel more involved in the business and have longer term relationships (Emmett, S Crocker, B and Moore, D (2010) Excellence in services Procurement Cambridge Academic)

Data collection/useful links related to the topic

Papers

<http://www.warc.com/News/TopNews.asp?ID=22832&Origin=WARCNewsEmail>

<http://www.gfknop.com/customresearch-uk/expertise/marketingeffectiveness/index.en.html>

ISBA best practice toolkit "Evaluation"

"Measuring Marketing Payback", best practice guide, IPA/ISBA, May 2008

"Marketing Effectiveness", CIM, November 2001

"Marketing Effectiveness: It's More than Just ROI", Millward Brown POV, February 2008

"KPIs for marketing reporting, a framework for effective marketing disclosure", IPA 2008-09-10 Conference

<http://www.centaurconferences.co.uk/conference.aspx?conferenceid=e7f655a8-bfa3-47fe-a21e-9d132c29db5b>

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