



# 101

## Measuring the Payback on Your Marketing Investments

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# 1. The Lowdown

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The purpose of marketing measurement is to enable the firm to take smarter risks to achieve growth and attain competitive advantage. It is motivated by a desire to be more aggressive, efficient, and effective with the marketing budget.

## 2. Why do I need to know about it?

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In every organization all functions are expected to provide a compelling rationale for expenditures. Having a clear understanding of the relative attractiveness of alternative marketing investments enables senior management to prioritize and allocate resources effectively. Sound marketing measurement practices build credibility for the marketing function and help to ensure that marketing plays an active, significant, and recognized role in creating value for the business.

## 3. Where to start?

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1. Before starting, it's important to be clear on exactly what you are trying to achieve. Is your company interested in understanding performance to date, planning for the future, reallocating marketing expenditures, or all of the above? What is the expected value of having that information? How much money might you save or redirect if only you knew better? Without a clear vision of what you're trying to accomplish, you can't identify the right tools or achieve meaningful insight. This vision isn't restricted to marketing—marketing, finance, and other functions must be aligned to ensure that the objectives and approach are soundly constructed.
2. There is no single magic metric that captures the essence of marketing investment payback. While there are many metrics, only a few are right for a company's situation, and they must be supported by the executive team, not just by marketing. Also, having too many metrics can be paralyzing.
3. Return on investment (ROI) is prone to manipulation and can inspire a false sense of confidence. Revenue, gross margins, and profit are suboptimal, since they are outcomes which are neither predictive nor diagnostic. Make sure that measurement includes strategy as well as tactics—both are important. Forecasting financial value creation from strategic alternatives considers long-term success. Optimizing near-term tactics helps achieve targets over the next few quarters. When measuring marketing investment payback, consider incremental customer value, baseline measures, and customer behaviors.



4. The cost of good measurement tools can be high, but the returns can be higher. Marketing mix models identify incremental contributions of each marketing mix element and easily cost up to \$500,000 for a single brand, yet they can provide a structured approach to understanding the relationship between inputs and outcomes. Funnel models help companies understand the progression from prospects to loyal customers. Satisfaction models link customer loyalty drivers to profitability. Pricing realization models track the extent to which companies are capturing or squandering profit-making opportunities.
5. It is important to make judgments explicit—we all make judgment-based decisions, most of which are well informed. Being explicit about assumptions and judgment enables us to share them with others and allows them to be challenged.
6. Everything can be measured—the question is how much time or money is required to achieve confidence in the outcome and what is the value associated with higher confidence. Don't exclusively focus on data you have on hand or that is easy to collect—that only serves to reinforce the current view of the world. Market research and other data gap-filling techniques, like experimental design and structured guessing, inform and enlighten you when perfect information isn't available.
7. Don't waste time on brand valuation. When it comes to monitoring financial return from brand-building investment, most marketers find it far more effective to keep close watch on relative competitive pricing, customer loyalty rates, or other economic value generators.

## 4. The thing to remember is...

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Marketing effectiveness is about assessing the historical performance of the last marketing dollar spent. The focus of measurement is on learning from the past while informing expectations about future outcomes. Diagnostic insight is the treasure to be mined.

There is a natural evolution of competencies that begins with being able to estimate and measure initiative ROI. Over time, with additional effort, capabilities can progress to enable marketing mix tactic optimization. The next progression is generally portfolio management of resources and then finally strategic asset allocation.

Significant collaboration between marketing, finance, and other functions is necessary to align investment measurement objectives and uses to be confident about assumptions and to invest in process skills and tools.



## Related Resources

Interested in learning more about marketing measurement? [Sign up for complimentary](#) (ANA members only) Webinar series, April to June 2009, with Pat LaPointe.

## About MarketingNPV®

MarketingNPV is a highly specialized advisory firm that links marketing investments to financial value creation, providing continuous improvement in the effective and efficient allocation of marketing resources. The firm uses processes and tools tuned to measure the payback on marketing investments, track the right performance metrics, and forecast the economic impact of changes in strategy or tactics. MarketingNPV maintains the world's largest online archive of articles and resources about marketing measurement, in addition to publishing MarketingNPV Journal. Learn more at [www.marketingnpv.com](http://www.marketingnpv.com).

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