



THE CMO COUNCIL REPORT

Measures and Metrics: The European Marketing Performance Measurement Audit

ASSESSING MARKETING'S VALUE AND IMPACT

JULY 19, 2005

Executive Summary

In the spring and summer of 2005 the CMO Council surveyed over 160 of its European members on the topic of marketing performance measurement (MPM). The survey continues the Council's MPM initiative, which began in 2003, and focuses on the establishment of metrics and measures by which the marketing function can be managed and evaluated. Key findings from the European survey are presented and discussed here, and comparisons are drawn with an earlier survey of over 320 senior marketing executives at mostly North American technology companies. Results of the study clearly point to MPM as a key issue for senior European marketing executives.

Few companies responding to the European survey—less than 20%—have developed meaningful, comprehensive measures and metrics for their marketing organisations. Over 80% of the companies surveyed express dissatisfaction with their ability to benchmark their marketing programmes business impact and value. Yet those companies who have established a formal, comprehensive measurement programme report superior financial returns and higher CEO confidence in the marketing function.

While the results from the European survey are broadly in line with the Council's earlier North American survey, some notable differences are apparent. Specifically, to date, there has been a lower level of adoption of MPM systems amongst European firms. This is reflected in lower levels of satisfaction with ability to measure the performance of a range of marketing activities. Also, European CMOs see MPM as being more problematic and face a greater challenge in securing senior management support for MPM programmes.

A clear gap is apparent between European and North American respondents in terms of MPM adoption. This gap widens further when companies headquartered in North America are excluded from the responses to the European survey. This suggests that North American firms operating the European technology sector tend to lead the way over locally based firms when it comes to the measurement of marketing performance.

The Performance Measurement Imperative

Since the start of the decade, a distinct shift in emphasis can be observed in the marketing activities in the technology sector. It is noticeable, for example, that marketing budgets have been refocused on initiatives that are demonstrably revenue producing such as sales support and lead generation campaigns. Further, many firms have looked to redeploy marketing resources and demand higher levels of accountability from their marketing departments. These are demands that marketing has traditionally been ill prepared to satisfy. **The concurrence of a business environment where accountability is suddenly a key management priority alongside a business discipline that is poorly equipped to account for its activities** has led to rapid and dramatic changes in the marketing organisation and activities of technology firms.

Since the mid-1990s firms have embraced analytics and structured processes across the enterprise. Most notably, sales, finance, and operations functions have been standardised, measured, and benchmarked for key metrics. Entire industries have built up around department level solutions for managing and measuring business processes—Sales Force Automation for sales, Enterprise Resource Planning for finance, operations and HR functions and Supply Chain Management for manufacturing and operations. The availability of sophisticated performance analytics in these functional areas has heightened the need for and lack of performance indicators in the marketing function. The net effect of these developments is that, relative to other functions, **marketing is viewed as having a credibility problem**. Some commentators have suggested that within technology firms, marketing is being diminished to a sales support function. In the US, research by global recruitment firm Spencer Stuart indicates that Chief Marketing Officers in technology firms can on average expect to hold their jobs for less than 30 months. This compares unfavourably with the expected tenure of their senior management peers. CEOs, for example, can expect to retain their posts for 75 months. The extent of the changes currently taking place is further demonstrated in a recent report by consultancy firm Booz Allen and Hamilton, which indicated that 85% of marketing departments in technology firms are currently or have recently undergone a major reorganisation.

Marketing—known more as art than science—has been the last of the corporate functions to formally develop and adopt processes and standards that can be tracked and measured quantitatively. **Marketing functions and activities that have traditionally gone unmeasured are now subject to the rigors of return on investment calculations.** Soft areas like brand equity, communications, and analyst relations are now scrutinised with an eye to return on investment. They need to be. No company can afford to invest for long in programmes without a measurable and understandable return.

The measurement process for marketing is complex, time consuming, and challenging, but it is a necessary step in the evolution of the practice of marketing.

Based on our study, it is our belief that European CMOs now universally understand and believe that measurement of all elements of the marketing mix is critical to their personal success and the success of the company.

MPM, according to our study, is now considered a significant priority and imperative by almost 90% of European marketing executives. Today's **Chief Marketing Officers want to measure and understand their own initiatives and organisation.** CMOs expressed three primary motivations for their new focus on measurement. Firstly, CMOs are looking to MPM as a means of getting better at what they do. As the budget battles become more frequent and uncomfortable, a CMO can make marketing a more effective organisation only by measuring and understanding what is working and what isn't. Secondly, greater demands for accountability on the marketing function from the CEO, the Board, and other executives mandate a greater focus on measurement. Thirdly CMOs view MPM as enabling them to truly command an equal seat at the executive table. MPM is viewed as providing the quantitative measurements that prove the investment in marketing programmes and people is paying off for the corporation. It is also clear that these metrics must be convincingly communicated to the appropriate audiences.

However, most respondents have not yet “cracked the code” on building an approach that is complete and comprehensive, understood by the executive team, and enjoys their full support. **Over 80% of respondents to our European survey are not happy with their ability to measure marketing performance.** Less than 14% of surveyed companies report that they have in place a comprehensive system to measure marketing. A small handful of companies have pioneered the development of systems in their organisations, but these are the exception, not the rule.

Our study also suggests the payoff is clearly waiting for those with the drive and perseverance to make the transition and complete the task. Those companies we surveyed who have developed comprehensive Marketing Performance Measurement systems **substantially outperform their competition in terms of revenue growth, market share, and profitability**. They also enjoy **greater CEO confidence in the marketing function**.

Survey Background




Nearly 1,500 technology companies are currently represented on the CMO Council, accounting for well over \$500 billion in aggregated annual revenues. These include top decision makers controlling more than \$45 billion in global marketing expenditures for many of the world's foremost computer systems, software, networking, communications, consumer electronics, component, distribution, and consulting brands. During the group's annual Summit in 2003, the attendees universally felt that the issue of establishing and benchmarking marketing's return on investment was among the most crucial they faced as senior executives. As a direct result of the interest at that meeting, the CMO Council chose to establish the topic of Marketing Performance Measurement as its primary thought leadership initiative for the year.


To conduct the study, the CMO Council explored the issue through four primary venues:

- A **17-member Task Force** composed of CMOs from leading technology brands. Each of the Task Force members was interviewed in person during January-March of 2004 to provide context and perspective and understand how they addressed the issue of Marketing Performance Management.
- The **entire CMO Council membership was surveyed in March 2004** via a Web-based research tool to assess their views on marketing measures and metrics, and to understand their future plans. Over **320 technology chief marketing officers responded to the CMO Council's MPM survey.**
- In **partnership with BusinessWeek Research, we surveyed a broad panel of CXOs**—senior executives across multiple disciplines—sales, finance, chief executive officers, engineering, and human resources.
- In 2005 the CMO Council's **European members were surveyed.** Over 160 members participated and contributed their views.

We asked these marketing executives what role measurement plays in their departments today. In our study, we found out what a typical corporation currently measures, and what a CMO would like to measure in the future. We asked CMOs to tell us who should be involved inside the corporation in defining and creating the

M A R K E T I N G
P E R F O R M A N C E
M E A S U R E M E N T

 A Task Force of 17 Major Technology Company CMOs

 Over 1,000 CMOs surveyed via the web. 200 surveyed in Europe

 Represent Over \$400B in annual revenue

measurement system. Lastly, we tried to understand if there was any linkage between measurement of the marketing function and the company's overall financial performance.

Over 1,000 senior executives participated in the four research vehicles that have underpinned our MPM research – making it the **most comprehensive and authoritative**

study done on this topic to date by anyone.

This latest research **continues the CMO Council's commitment to establishing thought leadership** on an area of critical importance to marketing executives. The CMO Council intends to continue to build

The CMO Council will continue its efforts to establish thought leadership in this area of critical importance to marketing executives

its intellectual capital, becoming a partner to CMOs who are seeking to understand this new domain and build their own processes, measures, and metrics.

In 2004 the CMO Council published its MPM Report, which provides a framework for technology companies seeking to implement a Marketing Performance Measurement System. **The full MPM framework, endorsed by the CMO Council, was unveiled at the CMO Summit in October of last year,** the annual gathering of the organisation.

The report includes an MPM Model, developed by the CMO Council as a reference for technology marketers, to help individual CMOs demonstrate tangible business value across multiple functional areas, cost justify investments, calculate ROI, better allocate and evaluate resources and spending, continuously adjust and fine tune the marketing mix, demonstrate improvements in brand equity, and most importantly, command greater influence and stature in the management of global technology firms.

Overview of European Research Findings

In general, responses from European members reflected the views expressed by North American members in the original study.



Just under 90% of the companies rate Marketing Performance Measurement a High or Moderate Priority

50% of our survey respondents consider the measurement of marketing to be a high priority for their corporation. An additional 33% consider it to be a moderate priority. The prioritisation of MPM tends to be higher amongst larger companies. Only 16% of respondents to our European survey consider MPM to be a low priority. In the North American study, MPM was rated as a high, moderate, and low priority by 54%, 35% and 11% of respondents respectively. While responses are similar between the two surveys it would appear that the prioritisation of MPM is marginally lower in the European market.



Less than 14% of surveyed companies have formal MPM systems, despite spending up to 25% of their revenue on marketing

Similar to their North American counterparts, most technology companies responding to the European survey **do not have a formal comprehensive marketing performance measurement system** in place. Less than 14% of our surveyed companies have developed a comprehensive system—this is slightly lower than reported in the North American study. Another 23% are either in the development or evaluation phase for a marketing measurement system. Interestingly, when responses from companies with a North American HQ are eliminated, adoption levels drop further with 9% of respondents reporting that they have informal system in place. This indicates that North American companies operating in the European market tend to have more advanced measurement systems than locally based firms.

Nearly **50% of respondents to the European survey say their measurement system is more an informal or anecdotal summarisation** of a variety of measurements that are taken on an ad hoc or semi-regular basis. This is consistent with findings from the North American study and reinforces our view that while large amounts of data

are collected, very few companies integrate this data to build a model that reflects the importance of different information sources, and then garner executive support for that view of measurement's role in the company.

Somewhat surprisingly, almost 20% of European respondents report that they have no measurement system in place. This is twice the level reported by North American firms.



Only 10% of survey respondents are satisfied with their ability to quantify marketing value

Only 10% of respondents to the European survey are satisfied with their company's ability to measure marketing. This is significantly lower than the satisfaction level reported in the North American study. Interestingly, **companies that spend more on marketing performance measurement systems report a higher level of satisfaction with their ability to measure marketing**—demonstrating that investment in a marketing performance measurement system can deliver positive results. Effective communication of the metrics and measures is also important. Responses to the European survey reaffirm findings from the original North American that **frequency of communication of marketing data to senior management was directly correlated with CEO satisfaction with the marketing function**. This clearly signals the importance and benefit of providing performance measures that are acceptable to the senior management team.



The key motivators behind the trend toward MPM are departmental effectiveness, justification of budgets and improved status for the marketing function within the organisation.

Respondents identify the following as the top five factors motivating interest in MPM:

- 1) Effectiveness of marketing organisation and plans
- 2) ROI tracking
- 3) Justification of marketing budgets, programmes, and value
- 4) Accountability demands of senior management and board
- 5) Improved marketing resource allocation

Similar to results from the North American study, MPM is primarily seen as offering the potential of improved effectiveness. However, European respondents are also driven by the need to defend and justify marketing spend. In brief, marketing measurement systems are seen both as a means of building credibility for the function and the CMO, and also as **an analytical tool to optimise resources within the marketing department**—to manage budgets, people, processes, campaigns, and other programmes.



Those companies with a formal, comprehensive MPM system in place outperform their peers on important financial measures and enjoy higher CEO satisfaction with the marketing function

Companies with a formal comprehensive MPM system significantly outperform those companies who lack an MPM system in sales growth, market share, and profitability. There are **statistically significant differences in company performance by level of adoption of MPM**. Specifically, companies with a formal comprehensive MPM system significantly outperform companies that have not even entered the consideration phase, with superior mean performance ratings in relation to sales growth, market share and profitability.

CEO satisfaction with the marketing function varies in a statistically significant manner with adoption of MPM. Generally, **the greater the adoption of MPM, the more satisfied the CEO**. This finding is particularly noteworthy given that Council members have frequently commented on the challenge of ensuring that marketing's voice is recognised at board level. From a European perspective the finding is particularly noteworthy, as both satisfaction with ability to measure and reported CEO satisfaction with the marketing function tend to be lower here than for respondents to the earlier North American survey. This points to a clear opportunity for European marketers.



Companies are limited in their ability to measure most marketing activities. They are most capable of measuring email campaigns, web site statistics, and telemarketing campaigns.

In general, **companies are not especially satisfied with their ability to measure discrete marketing activities.** The highest rated discrete marketing activity achieved an aggregate score of 4.7 on a scale of 1 to 7. The activities that companies stated they are most capable of measuring are direct mail, internet marketing, and telemarketing campaigns. There are several software tools that address these needs in the areas of campaign management, web site analytics, and CRM software. Perhaps the lack of relative satisfaction in these areas with existing toolsets has to do with the fact that while they generate a great deal of data, it is not always clear which data is the most relevant, or how it relates to the success of the marketing effort and a repeatable, scalable model for success.

The activities that companies felt least capable of measuring include branding, channel marketing, sales and marketing collateral, advertising, and market research. While these areas are the 'softest' in terms of the ability to measure, they represent a substantial portion of the marketing spend of a typical enterprise, and therefore need to be subject to analysis. The challenge has been and is to devise strategies and approaches to measure these areas. Ability to measure is broadly similar between the European and North American surveys particularly for activities such as direct marketing and lead generation. However, **respondents to the European survey appear to be particularly challenged when it comes to measuring 'softer' activities such as analyst relations, collateral and brand.**



Currently, the most important measurements to CMOs are revenue, qualified leads generated, sales and channel feed back, and marketing programme ROI.

To no one's surprise, metrics around revenue, bookings, and qualified leads dominate the list of the most important data for an MPM system to

capture. But sales and channel feedback, marketing programme ROI, and customer retention, loyalty and satisfaction also score very highly on our survey. The lowest scoring information metrics are stock price, Wall Street reports, perceptual surveys, and measures of brand equity. However, scores for public financial measures of performance and brand equity are much higher for larger companies. Again there are negligible differences between the European responses and those reported in the earlier North American study.



MPM is rated as being more problematic for European marketers than for their North American counterparts. The key MPM challenges for European CMOs relate to information challenges, creating an appropriate mindset within the organisation and accessing resources to develop MPM systems.

Compared with responses to the North American study, European CMOs rate all of the potential challenges as being higher and more problematic. While the relative importance of these challenges is similar between the North American and European surveys one noticeable exception is apparent—**securing top management’s buy-in and commitment appears to be a significantly tougher challenge for European CMOs.**

The challenges facing CMOs seeking to build an MPM capability tend to relate to three underlying issues.

Firstly, CMOs report difficulty in accessing relevant, accurate and credible data. Issues here relate to data capture, data analysis and identification of a core set of relevant measures. As we noted in the North American study, CMOs who seek to build an MPM system appear to struggle with issues of business process definition, data, and tools to analyse results.

The second set of challenges relate to accessing the necessary resources within the organisation. Issues here include access to budgets, personnel, and the necessary measurement expertise. Again European respondents rate these issues as being more problematic than their North American counterparts. It is worth noting that while access to the necessary expertise is seen as a challenge, knowledge of third-party providers is extremely limited amongst respondents.

The third and final set of MPM challenges relate to achieving the necessary mindset change within the organisation—securing top management buy-in and building trust in MPM reporting. As noted, top management buy-in is a noticeably higher challenge for European CMOs.



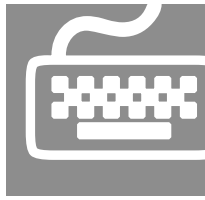
Key MPM system capabilities include executive ‘dashboard’ reporting, automated drill down for analysis of specific programmes and functions, and the ability to report plan versus actual data

When asked what they would ideally like in an MPM system, dashboard reporting capabilities come across as most important, closely followed by the need to be able to ‘drill-down’ into various programme level activities across the entire spectrum of marketing. The ability to benchmark actual versus planned results, and against competitive benchmarks within the industry, are also important.



There is a low awareness of solution providers in the MPM market

In general, there is a low awareness of companies providing MPM solutions or tools. Only 25% of our respondents could name a vendor, suggesting the market is still very much in the early stages. There are several categories of marketing software solution providers, many of whom are approaching the overall marketing measurement from different backgrounds. Some come from the marketing automation and campaign management space, some from the corporate performance analytics market, and some from the CRM or Sales Force Automation market. As these vendor products add features and gain maturity, and as more companies tackle the problem of marketing measurement, vendor awareness and the total available market will grow.



Companies expect to increase their spending on MPM solutions in the coming year

Nearly 60% of respondents to the European survey intend to **increase the amount of money they spend on MPM** over the next two years. Again, as observed in the North American study, **MPM is not necessarily an expensive undertaking**. Respondents typically spend less than 1% of their marketing budget on MPM—a far more affordable proposition than a typical SFA or ERP implementation.

Next Steps for the CMO

Building a robust measurement process for the marketing function is, according to our study of European and North American CMOs, both a major priority for the coming year and a significant challenge for marketing leadership. Many of the CMOs we interviewed are looking for role models and best practices before they kick off their own efforts.

For MPM to be successfully implemented, it requires a commitment from the CMO and CEO, a willingness to make a science out of the art of marketing, involvement of cross-functional executives, and department-wide changes in how programmes are executed and measured. For marketing to truly take a seat at the executive table, forward looking CMOs must enforce the discipline of measurement—and clearly benchmark and report on marketing programmes and activities.

The CMO Council continues to provide leadership on this important topic through the MPM Forum series, the MPM Report and ongoing research initiatives.

Survey Sponsors



