2007 Marketing ROI Process & Measurements Trend Study

The third annual research study examining the influence of ROI metrics and measurements on growth, with a special assessment of marketing practices for managing and improving profitability.

Conducted in conjunction with:

MarketingProfs

Published by:

Lenskold Group

Innovating the path to marketing profitability.

CONTENTS

INTRODUCTION AND RESEARCH METHODOLOGY

Lenskold Group (www.lenskold.com) and MarketingProfs have conducted their third annual survey tracking the use, challenges and benefits of marketing Return on Investment (ROI) and profitability measurements. Each year, the study consists of a set of core questions as well as new questions addressing a specific area of interest, thus allowing a different emphasis within the analysis.

This year's study examines the strengths of marketing practices relating to managing and improving profitability beyond measurements. It also focuses on the differences in growth and performance between companies that use profitability/ROI metrics and those that do not.

As in 2005 and 2006, the 2007 data was gathered during the first quarter of the year using an online survey of MarketingProfs subscribers.

A total of 1,132 surveys were completed by marketing professionals, marketing service agencies, consultants and academics. Responses from agencies, consultants and academics were excluded from this report. This report covers the responses of 759 marketing practitioners who reported on the status of their companies. Comparisons to previous years draw from a total of 792 participants in 2006 and 832 participants in 2005.

The profiles of the survey participants are generally comparable over the three years with the exception that the proportion of non-U.S. companies has increased each year.

EXECUTIVE SUMMARY

Adoption of marketing ROI processes and measurements is often described as an ongoing journey. Effective ROI processes touch every part of marketing, from global strategic decisions and budget allocation to campaign tactics and target market planning. The processes typically involve introducing or expanding the measurement discipline, data mining and analytics, and financial analysis within marketing.

Roughly one in six marketing organizations uses some ROI measurements, and those companies anticipate growing faster than their primary competitors in the upcoming year. The majority of marketing practitioners say they believe better measurement of marketing's contribution to sales can increase profits by 10% or more, which suggests that regardless of its challenges, ROI is an important facet of marketing success.

EXECUTIVE SUMMARY: 5 Key Findings for 2007

1. Companies that use marketing ROI or comparable profitability metrics are growing faster than their competition and have higher executive confidence.

A key finding in 2007 is the correlation between company growth and the use of profitability/ROI metrics. Equally important is the correlation between the use of such metrics and CEO and CFO confidence.

- When asked to compare their company's anticipated growth versus that of their competitors in the upcoming year, 60% of the companies using profitability/ROI metrics expect somewhat to much greater growth than their competitors. This compares favorably to the 48% that gave the same responses but do not use financial metrics.
- For those companies that measure ROI, 30% indicate that their CEOs and CFOs are *very confident* that marketing investments are profitable, while only 6% of those that do not use financial metrics report the same level of confidence. An additional 51% of each group indicate that their CEOs and CFOs are *somewhat confident*, which raises the totals to 81% and 57%, respectively.

EXECUTIVE SUMMARY: 5 Key Findings for 2007

2. Marketing profitability management is a process that extends beyond ROI calculations and measurements.

This year we looked beyond ROI calculations and measurements and explored key practice areas for marketing profitability management.

Our findings confirm that companies that use ROI also show strengths in these other practice areas:

- Data mining of customer and sales data was considered a strength by companies that use profitability/ROI metrics. (Of companies measuring ROI/profitability metrics, 44% rated their company as strong to very strong compared with only 11% of those companies that rely solely on traditional metrics.)
- The alignment between marketing and sales was much stronger among those companies that use profitability/ROI metrics compared with users of traditional metrics (39% vs. 19%).
- Companies using profitability/ROI metrics were much more likely to see their ability to manage the customer buying cycle as a strength than companies that use traditional metrics (34% vs. 12%).
- Users of profitability/ROI metrics showed a clear edge in targeting and segmenting based on customer profitability, acquiring high value segments and retaining high value segments (see chart 4.3-2 in the Detailed Findings section).

EXECUTIVE SUMMARY: 5 Key Findings for 2007

Although these correlations between profitability/ROI metrics and associated practice areas are interesting, **a more significant finding comes when we compare companies based on their expected growth. Companies that expect to grow faster than their competitors report greater strengths in every one of these seven areas.**

- Companies that anticipate growing faster than their primary competitors show significantly higher strengths in using customer profitability and value for targeting. Of these companies, 40% rate acquiring high-value customers as a strength for their company compared with 13% of companies that do not anticipate such growth.
- Of companies that expect to grow faster than their primary competitors, 44% report retaining high-value customers as a strength compared with only 25% of those companies that expect to grow slower vis-à-vis their primary competition.
- High-growth companies are more inclined to report a strength in alignment of marketing and sales (20% vs. 15% of slower-growth companies) and management of the customer funnel (25% vs. 9%).

EXECUTIVE SUMMARY: 5 Key Findings for 2007

3. Key measurement methodologies remain underused.

For the third year, key measurement methodologies of market testing and modeling remain underused.

- Only 14% of companies indicate they regularly perform market testing using test vs. control groups (a rating of 1 or 2 on a scale of 1 being often to 5 being never). This reliable measure can be low cost and managed without a "no-contact" control group.
- Only 15% of companies report using marketing mix or other modeling techniques. Although the cost and data requirements are much higher than market testing, this methodology can bring valuable insight into the influence of external factors and the synergy among multiple marketing tactics.
- The most often used methodologies were nonfinancial campaign results (52%) and pre-marketing vs. post-marketing sales levels (45%). Both methods are less reliable.
- Companies using profitability/ROI metrics showed approximately double the percentages, rating more frequent use of each methodology.

EXECUTIVE SUMMARY: 5 Key Findings for 2007

4. Funding of measurement and analytics must be part of the solution.

The most significant barriers driving these challenges appear to be driven by the organizational culture and the lack of resources necessary to implement change. **There is a gap between a company's commitment to improve marketing profitability measurements and the funding it is willing to put into the process.** Further, there is clear motivation to put funding in place, since the profit potential is so high.

- Three-fourths (75%) of marketers indicate that their budget for measurements and analysis is either slightly below or far below what they believe is the right level. More than half of these companies (48%) rate their organization's spending as far below the ideal level.
- One-third (33%) of marketers say they believe their CMOs and senior marketing executives have a very high commitment to implementing marketing profitability measurements and processes. An additional 40% report their CMO and senior marketing executives have some interest in exploring these concepts further.
- The majority of marketers (55%) expect that they could generate an additional 10% or more in profit improvements if they used better measurements to capture marketing's contribution to incremental sales. An additional 42% believe that the profit improvement would range from 1% to 10%.

Executive Summary: 5 Key Findings for 2007

5. Marketers are raising their expectation levels which is impacting their satisfaction with ROI measures.

A mere 9% of marketers say they believe their ability to measure the financial returns across all forms of marketing is "a real source of leadership" or "as good as it needs to be." Another 41% indicate that their capabilities are somewhat less than they should be, with the remaining 41% reporting that their capabilities are a long way from where they should be.

Companies implementing marketing ROI solutions that did not participate in this survey suggest that while progress is being made and success stories are being shared, marketers are raising their achievement expectations, which is influencing their satisfaction levels. In fact, the percentage of marketers who consider their ability to measure financial returns to be adequate or better declined from 2006 (16%).

Companies considered leaders in adopting ROI claim that it's a journey of continual improvement. It may be some time before we see very high satisfaction levels with ROI measurements. Companies moving forward with ROI discipline are being rewarded with success and faster growth, suggesting there is an opportunity to gain a competitive advantage in winning a greater share of profitable sales and customers.

RECOMMENDATIONS

In previous years we presented recommendations on how to get started with marketing ROI processes and how to move from basic to advanced processes. Rather than repeat those recommendations, you may find them in the 2006 and 2005 reports available at both www.lenskold.com and www.marketingprofs.com.

This year's recommendations correspond to the new questions asked in the 2007 survey concerning marketing ROI practices beyond measurement and financial calculations. The research demonstrates that companies measuring profitability and ROI are generally strong in the seven areas measured and that higher performance in these areas is more prevalent in companies that expect to grow faster than competitors.

RECOMMENDATIONS

The seven practices measured are:

1. Targeting and segmentation based on customer profitability
2. Use of predictive models for targeting and segmentation
3. Customer retention and churn reduction of high-value segments
4. Customer acquisition of high-value segments
5. Data mining and analysis of customer and sales data
6. Managing the customer buying cycle with tightly integrated marketing (and sales)
7. Strong alignment in planning and implementation between marketing and sales

The summarized results, upon which these recommendations are based, are shown in chart 3.0-1. See *Profitability Management Discipline and Growth* in the Detailed Findings section for information on how **companies using profitability/ROI metrics have greater strengths than those using traditional metrics, as do companies that expect to grow faster than their competitors.**

RECOMMENDATIONS

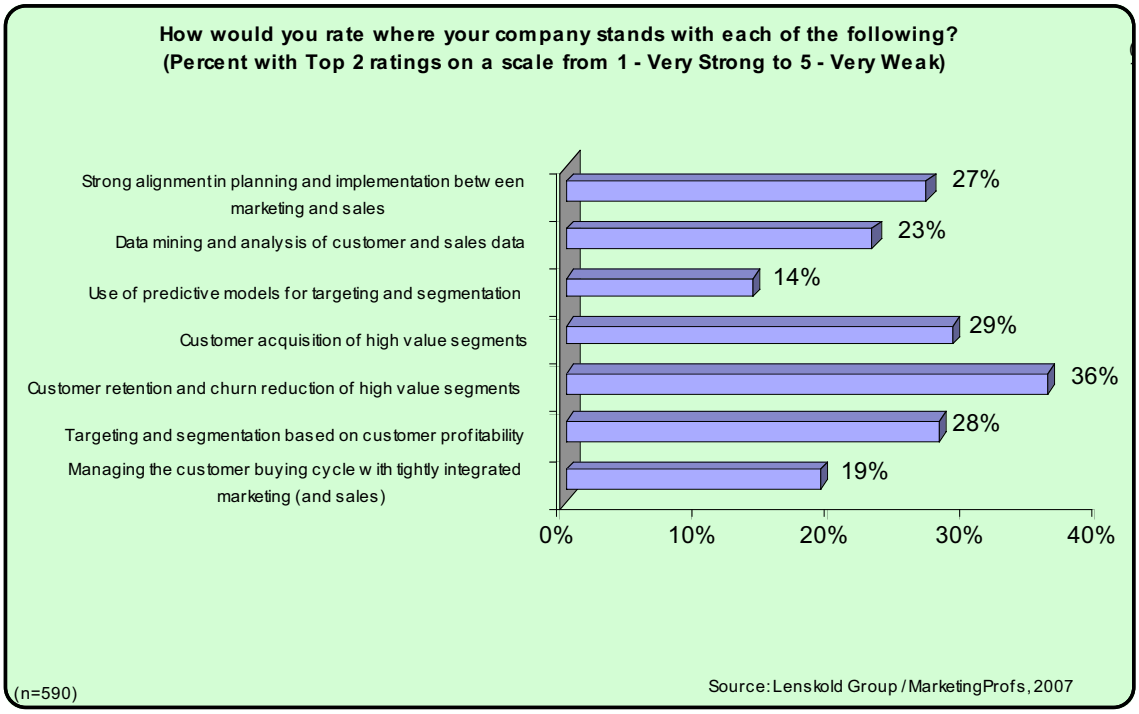

Chart 3.0-1 (base = all marketing practitioners)

Let's start with the process areas included in the study: managing the customer buying cycle (or funnel), aligning marketing and sales and data mining and analysis of customer and sales data. As fundamental as these processes are, only 19% (roughly 1 in 5) to 27% (roughly 1 in 4) of the companies surveyed rate themselves as 1 or 2 on a 5-point scale (1 being very strong to 5 being very weak).

RECOMMENDATIONS

Companies interested in improving their marketing ROI and profitability management capabilities should look closely at this first set of recommendations.

1. **Establish the customer funnel as a central part of your ROI framework and measurements.**

   Measurements that show marketing's impact on the detailed stages of the customer buying cycle provide strategic insight and support tighter integration within marketing and sales functions, where applicable. Companies with effective ROI processes in place rely on the funnel to create correlations between top of the funnel marketing activities (branding and demand generation) and sales generation, customer experience and customer profitability.

RECOMMENDATIONS

2. Align marketing and sales in planning and implementation.

Whether you are selling through an internal sales force and channels or external channel partners and retailers, strong alignment and integration is critical to effectively motivate customers through the *complete* buying cycle. **Profits and positive ROI are generated when the collective impact of marketing and sales activities convert incremental sales.**

Alignment in the planning stage is critical for closing gaps in the buying cycle and identifying opportunities to leverage the strengths of marketing and sales channels throughout the funnel—eliminating the mindset that these are separate stages with marketing playing a role only in the early funnel stages.

There is a strong connection between this alignment and ROI management. Implementing marketing ROI often helps tighten this alignment. Improving alignment makes it easier to implement marketing ROI. The bottom line is that both contribute to improving marketing and sales performance.

RECOMMENDATIONS

3. Tap into your customer and sales data to unlock valuable insight.

The first step to improving your data mining and analytic capabilities is to organize your sales and customer data so it is accurate, centralized and readily accessible. This challenge often holds marketing back from using data and analytics to assess the impact of marketing and create a clear competitive advantage. Business intelligence systems are effective tools for data consolidation, analysis and reporting.

Marketers must use customer and sales data to understand profitability drivers, identify the best customers and prospects, measure how and where marketing is having significant impact, and project future trends. **With solid ROI measurements and frameworks in place, marketing dashboards can be effectively implemented to deliver structured analytics, real-time performance tracking and ROI measurements.**

Targeting drives improvements in ROI on marketing initiatives more than any other factor. Our questions on the remaining four practice areas addressed key aspects of targeting and the impact on profitability. Keep these recommendations in mind as you create an ROI process that is immediately actionable in shifting strategic decisions and influencing bottom-line results.

RECOMMENDATIONS

4. Track marketing effectiveness for high-value segments.

Most marketers are able to define their ideal target audience, at least in terms of the segment that is likely to need their products and services. **Targeting high-value segments in customer retention and acquisition requires an understanding of more than just which customer segments buy the greatest volume.**

You need insight into:

- How customers differ in terms of profitability based on what they buy from your company
- Which segments you can win
- Which segments will continue to be loyal repeat purchasers

Using a financial analysis of customer profitability as the general framework, the process to prioritize high-value segments requires market testing; data mining of customer and sales data; and, potentially, modeling. While it can start with a customer scoring initiative based on expected profit potential at a specific point in time, the scoring ultimately needs to become an ongoing process to reflect more current customer behaviors and data.

RECOMMENDATIONS

5. Establish tiered investments based on customer profitability.

In addition to using customer profitability to determine which segments should be targeted for acquisition and retention activities, **managing marketing profitability and ROI requires aligning spending with profit potential.**

Instead of running financial projections based on the *average* incremental sales value expected from a marketing investment, you should assess the impact against segments of customers stratified by their value potential. This allows you to tier your investments, allocating more budget and resources to more profitable customer segments. You also should scale back on the low end of your target so that the investment levels do not exceed the profits returned.

RECOMMENDATIONS

6. Create ROI processes to identify high-value and high-potential segments to win the greatest share of profitable business.

A mere 14% of respondents report their company has a strength in applying predictive modeling as an effective technique for targeting (ratings of 1 or 2 on a 5-point scale).

The return generated from your investment is dependent on:

- The value of new sales that are "won" from your marketing.
- The percent of customers targeted that actually convert to a win. There may be high-value segments that you target but cannot convert. These can be less profitable than mid-value segments with high conversion rates.

Predictive modeling provides forward-looking insight into which customers are most likely to generate future value, which are most likely to convert to a sale, which products and services customers are most likely to purchase, which customers are most likely to defect and which customers are most likely to be retained. All this information allows you to target your marketing investments against the right customers to generate profitable sales.

RECOMMENDATIONS

If your company is interested in moving its ROI capabilities forward, it is important to focus your efforts on a few specific areas that you can successfully implement. This may involve measuring and analyzing select areas of your marketing to guide specific decisions such as improving retention or acquisition profitability, or implementing select areas of a broad marketing ROI process such as introducing a financial framework, a new measurement methodology or ROI planning tools.

DETAILED FINDINGS

The results from the 759 marketing practitioners in the 2007 study were compared with the same segment from the 2005 and 2006 studies. Since not all questions required responses, the sample size may be smaller if respondents did not respond to certain questions. (Of respondents, 79% completed all questions.)

The first section of the detailed findings depicts general findings and trends covering the core ROI and measurements compared with previous years. The second section presents a deeper analysis comparing companies using profitability/ROI metrics to those using limited financial metrics and those using only traditional metrics.

From there, our analysis concentrates on the seven practice areas that are part of a broader profitability management discipline as well as the differences between companies growing faster than their competition and those not keeping pace with competitor growth.

The *Subsegment Analysis* highlights findings for subsegments of the sample, including business-to-business (B2B) and business-to-consumer (B2C) comparisons and notable differences in large, midsize and small companies.

DETAILED FINDINGS: General Findings and Trends

Responses across select trend questions tended to be closer to 2005 levels and did not reflect the optimism and improvements reported in 2006. These results are inconsistent with other research and the general pulse of the marketing community. We believe that a fourth year of data from next year's study, as well as a new set of probing questions, will provide greater insight into the actual trend.

Perceived Ability to Measure Financial Returns (ROI)

Just under 1 in 10 (9%) of those surveyed rank their ability to measure the financial returns (ROI) of marketing as either "a source of real leadership" or "as good as it needs to be" (see chart 4.1-1).

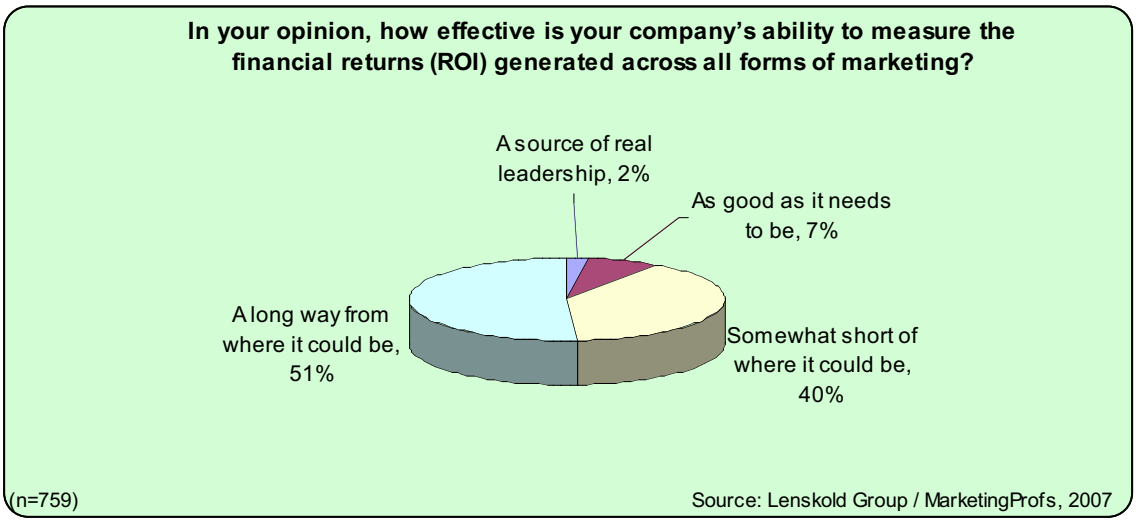

Chart 4.1-1 (base = all marketing practitioners)

DETAILED FINDINGS: General Findings and Trends

Compared with the previous two years, this combined total is closer to 2005 levels (see chart 4.1-2).

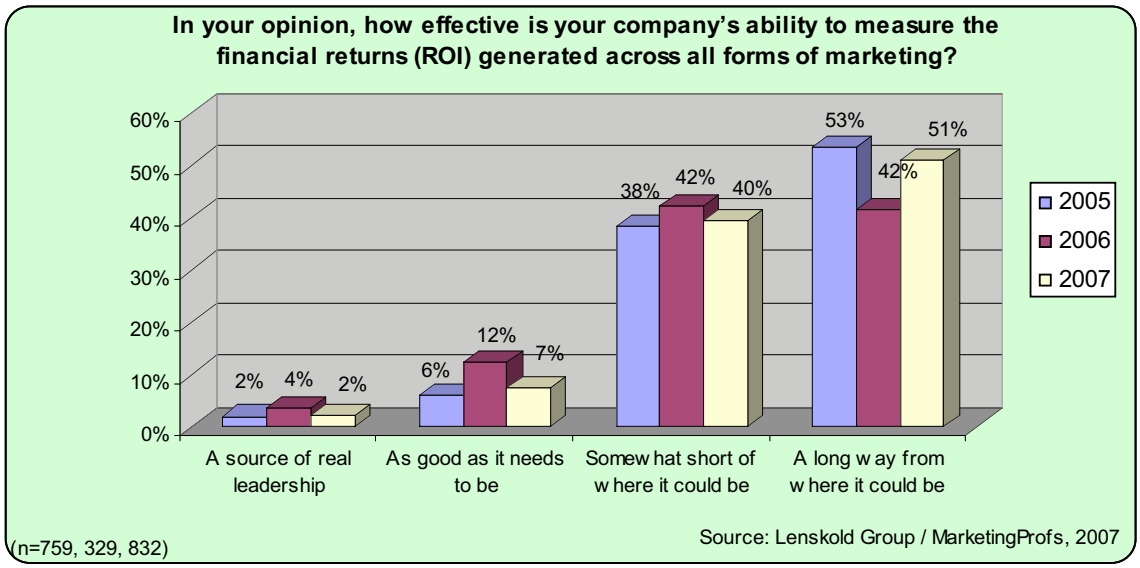

Chart 4.1-1 (base = all marketing practitioners)

Marketing Profitability/ROI Calculation Use

When asked if their company calculated marketing ROI or other profitability metrics to determine marketing effectiveness, 18% of respondents indicated they do so for at least some of their marketing campaigns/investments. An additional 35% of respondents use some form of financial metrics other than profitability metrics, such as cost per lead or cost per sale.

DETAILED FINDINGS: General Findings and Trends

A further 41% use traditional marketing metrics with no financial metrics (see chart 4.1-3).

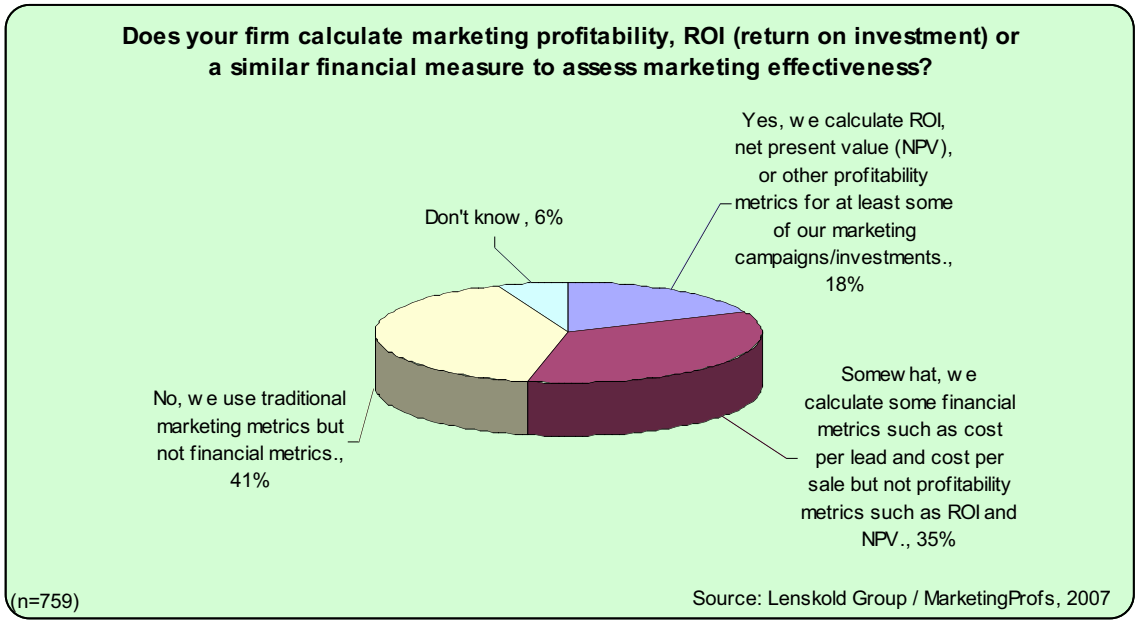

Chart 4.1-3 (base = all marketing practitioners)

Primary Measure of Marketing Performance

When asked what their primary measure of "return" is, companies that use profitability/ROI metrics generally indicated revenue (39%) or sales volume (31%) with **only 10% citing incremental profits (the response best aligned with a true ROI calculation).**

DETAILED FINDINGS: General Findings and Trends

Those companies that do not use profitability/ROI metrics were asked to identify the primary measure used to determine marketing performance. The most common measures cited were incremental sales volume (23%), incremental leads/responses (23%) and incremental revenue (18%). Of respondents, 15% report that their primary measurement is awareness/attitudes/intention improvements. See chart 4.1-4 below for the results to both questions.

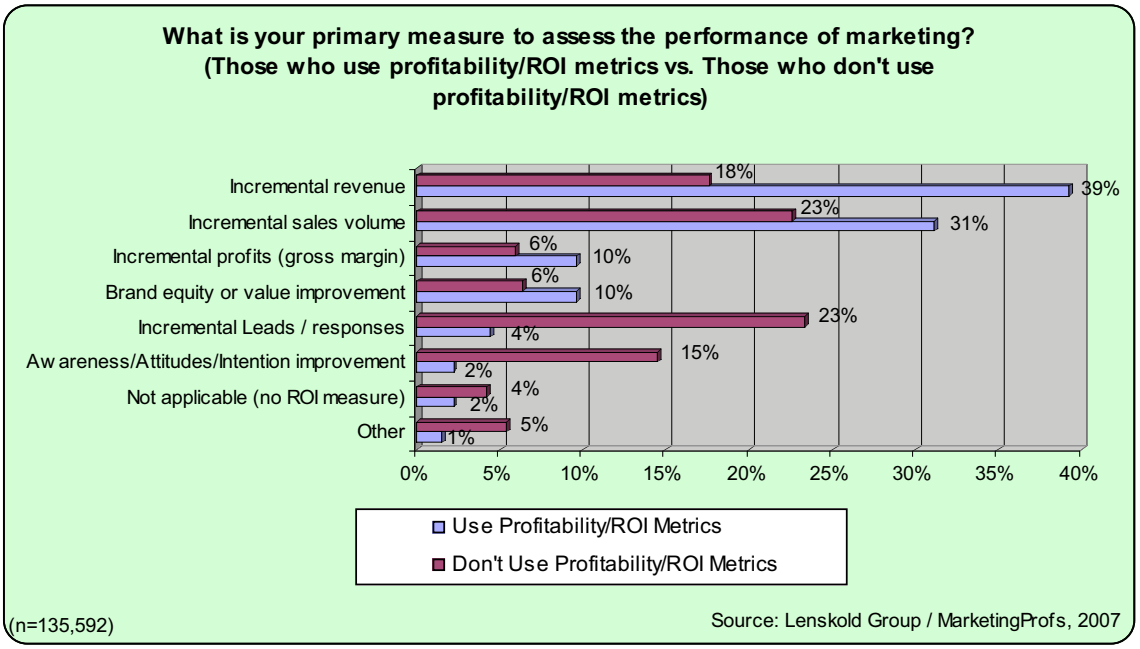

Chart 4.1-4 (base = all marketing practitioners using profitability/ROI metrics vs. all others)

DETAILED FINDINGS: General Findings and Trends

Use of Measurement Methodologies

The use of different measurement methodologies has remained fairly constant with 2006. Nonfinancial campaign metrics such as response rates, brand awareness and lead generation were used most often (52% indicating a 1 or 2 on a 5-point scale ranging from 1 being often to 5 being never).

Comparisons between pre-marketing and post-marketing sales levels was another measurement methodology used often (45% of participants responded with the top 2 ratings). **Market testing and marketing mix modeling, two of the most accurate and reliable methodologies, continue to rank lowest in use** (top 2 scores of 14% and 15%, respectively), while quantitative research scored in the top 2 ratings among 34%. See chart 4.1-5.

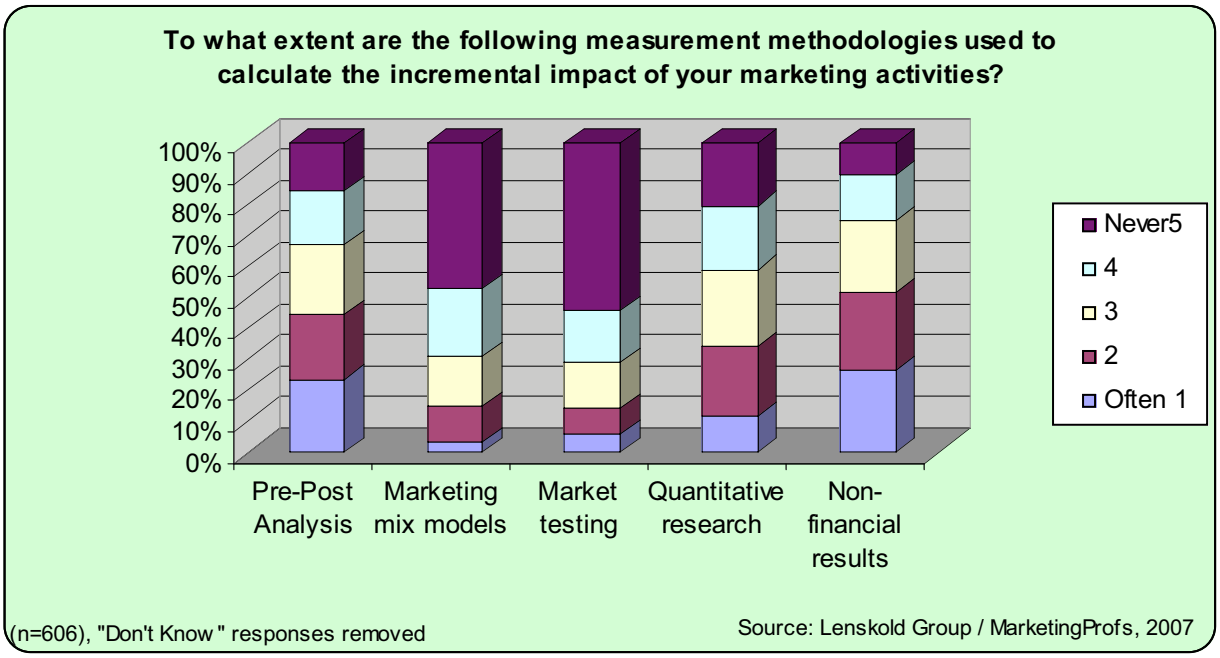

Chart 4.1-5 (base = all marketing practitioners, excluding "Don't Know" responses)

DETAILED FINDINGS: General Findings and Trends

Funding of Measurements and Analytics

According to survey participants, the level of funding for measurements and analysis has been below the "right level" in both 2005 and 2006. This year's study indicates a continuation of this trend **with 75% of marketing practitioners indicating that their funding levels are slightly or far below what they perceive to be the optimal level** (see chart 4.1-6).

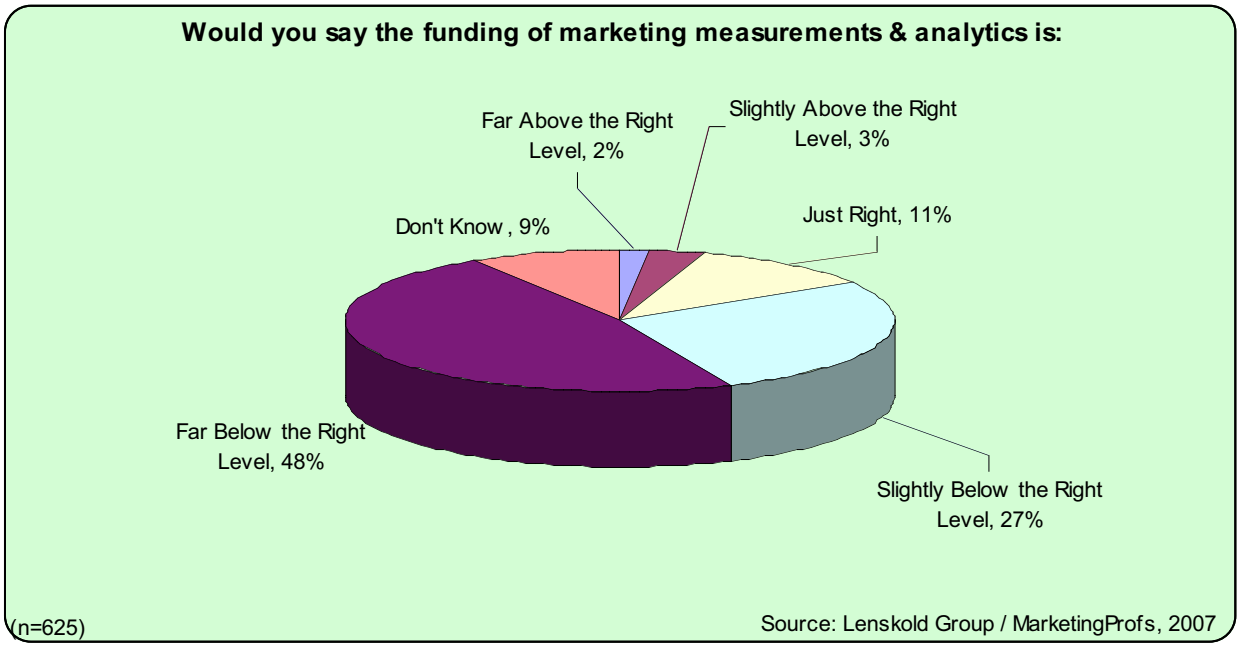

Chart 4.1-6 (base = all marketing practitioners)

DETAILED FINDINGS: General Findings and Trends

CMO Plans for Marketing Profitability Measurements and Processes

One-third of marketing practitioners indicate that their CMO/senior marketing executive has a very high commitment to marketing profitability measurements and processes. An additional 41% indicate these individuals have shown an interest in exploring these concepts further, giving a combined total of 74%.

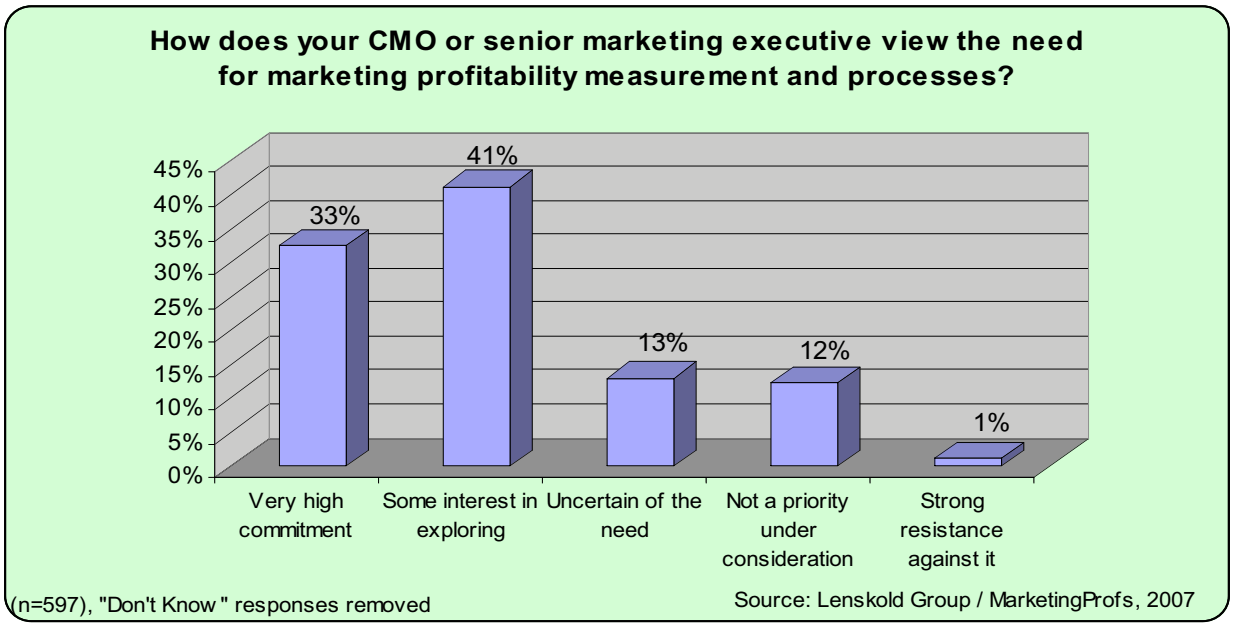

Chart 4.1-7 (base = all marketing practitioners, excluding "Don't Know" responses)

DETAILED FINDINGS: Profitability Metrics and Performance

A key focus of this year's study was to compare the performance of those companies using profitability/ROI metrics against those that do not. The results show clear advantages in growth versus the competition, higher executive confidence and higher perceptions of accountability.

Expected Growth Relative to Competitors

More companies using profitability/ROI metrics anticipate greater growth than their competitors in the upcoming year. In fact, **20% of those calculating profitability/ROI metrics expect much greater growth compared with just 11% of those using traditional marketing metrics.** (Combined totals of much and somewhat greater growth were 60% compared with 48%, respectively.)

DETAILED FINDINGS: Profitability Metrics and Performance

Chart 4.2-1 indicates the alignment between expected growth and level of financial metrics used. Those companies using profitability/ROI metrics have the highest growth expectations, followed by those using some financial metrics and then those using only traditional metrics.

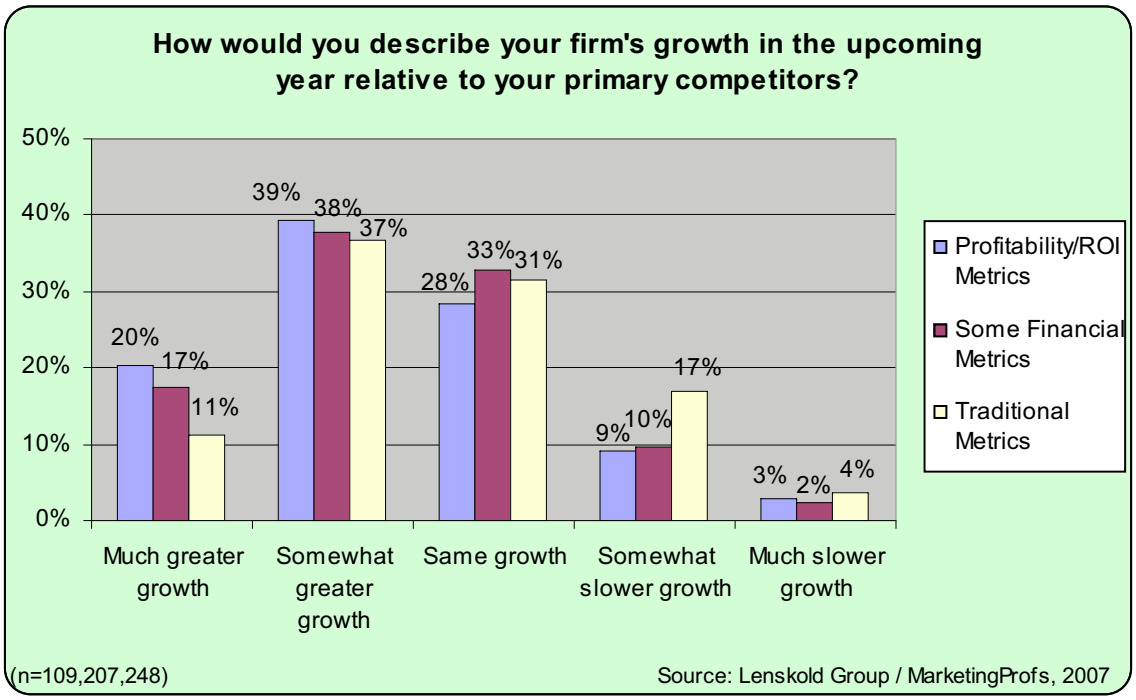

Chart 4.2-1 (base = segments of all marketing practitioners based on use of profitability/ROI metrics, some financial metrics or traditional metrics)

DETAILED FINDINGS: Profitability Metrics and Performance

CEO and CFO Confidence

CEO and CFO confidence that marketing investments are profitable is reported at much higher levels by marketing practitioners in companies using profitability/ROI metrics, with the "very confident" choice selected by 31% of those using profitability/ROI metrics compared with just 6% of those using traditional metrics.

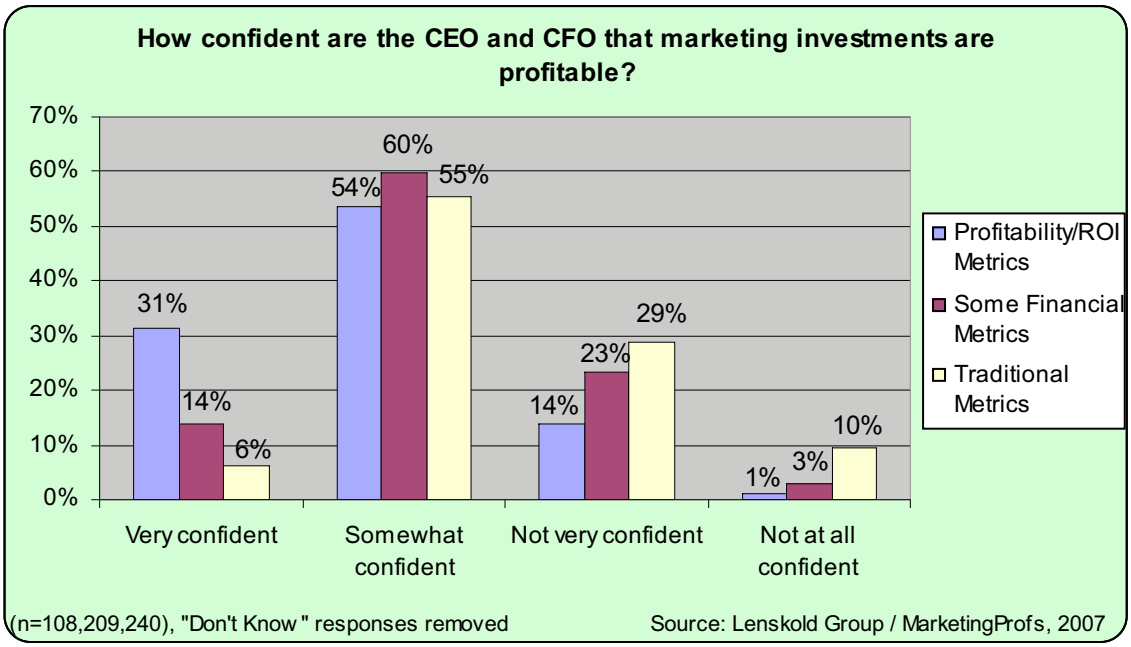

Chart 4.2-2 (base = segments of all marketing practitioners based on use of profitability/ROI metrics, some financial metrics or traditional metrics)

DETAILED FINDINGS: Profitability Metrics and Performance

Perceptions of Marketing Accountability

This is further supported by the responses to the question "How do non-marketing executives view your marketing organization in terms of its accountability?" where **81% of those companies with profitability/ROI metrics reported perceptions as somewhat or highly accountable compared with 56% of those using only traditional metrics** (see chart 4.2-3).

Chart 4.2-3 (base = segments of all marketing practitioners based on use of profitability/ROI metrics, some financial metrics or traditional metrics)

DETAILED FINDINGS: Profitability Metrics and Performance

As shown in chart 4.2-4, in 97% of companies where profitability/ROI metrics are used, marketers perceive marketing to be somewhat or highly accountable. This compares quite favorably to the 82% of companies using only traditional metrics that provide similar ratings.

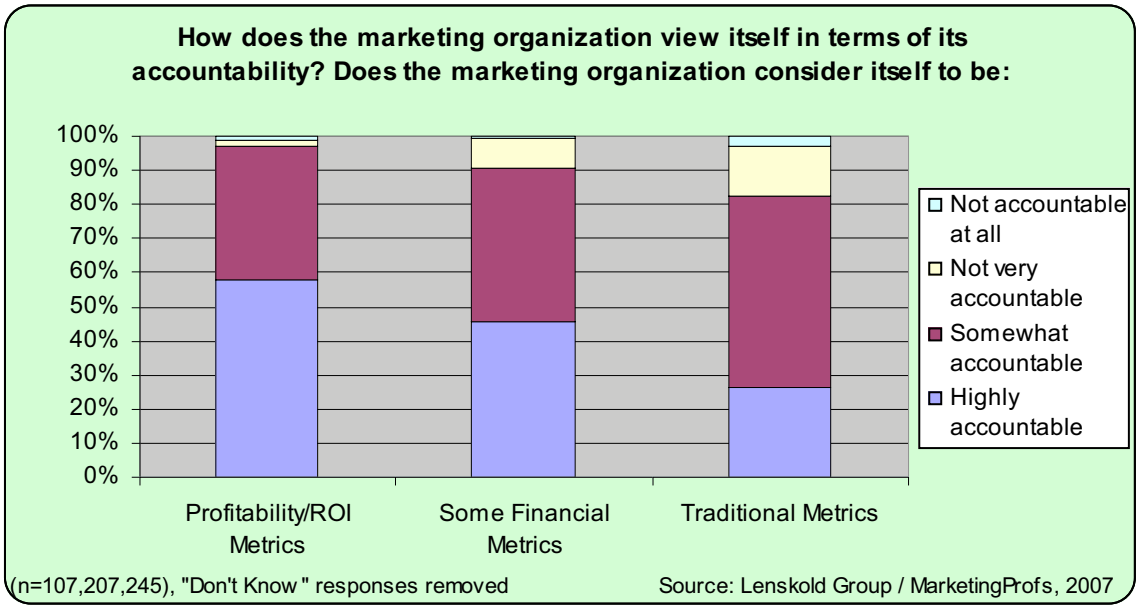

Chart 4.2-4 (base = segments of all marketing practitioners based on use of profitability/ROI metrics, some financial metrics or traditional metrics)

DETAILED FINDINGS: Profitability Metrics and Performance

Use of ROI vs. Perceived Abilities

As would be expected, companies using profitability/ROI metrics rank their ability to measure financial returns (ROI) across all forms of marketing higher than those using some financial metrics or only traditional metrics. **Of those using profitability/ROI metrics, 29% indicate they are at either a leadership or a "good as it needs to be" level.**

The vast majority (54%) of marketing organizations using profitability/ROI metrics report being somewhat short of where they could be, and 18% see their company as a long way from where they should be. Conversely, **73% of companies using only traditional metrics say they believe they are a long way from where they should be** (see chart 4.2-5).

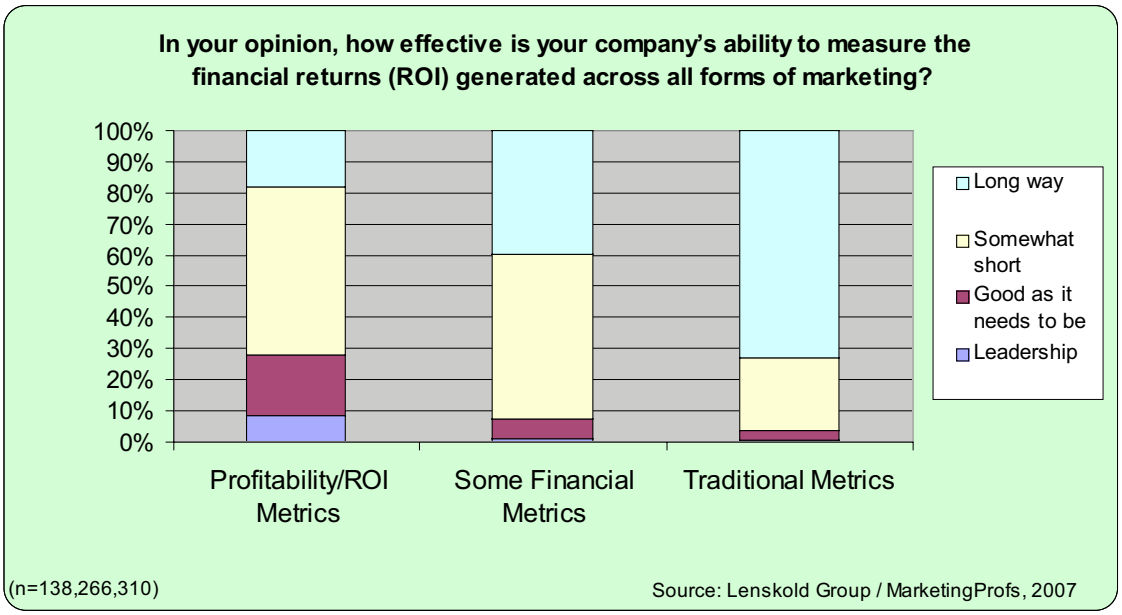

Chart 4.2-5 (base = segments of all marketing practitioners based on use of profitability/ROI metrics, some financial metrics or traditional metrics)

DETAILED FINDINGS: Profitability Metrics and Performance

Approach to New Campaign Launches

The discipline of using profitability/ROI metrics does not mean a corresponding discipline exists for relying more on testing than intuition when launching new campaigns. In fact, as shown in chart 4.2-6, more than half (55%) of those companies using profitability/ROI metrics still rely primarily on either large team intuition (30%) or the limited intuition of a few (25%) over market testing (20%) or testing in qualitative research (25%). However, these companies still have a significant advantage over those companies using only traditional metrics, where 89% rely on some form of intuition to launch new campaigns.

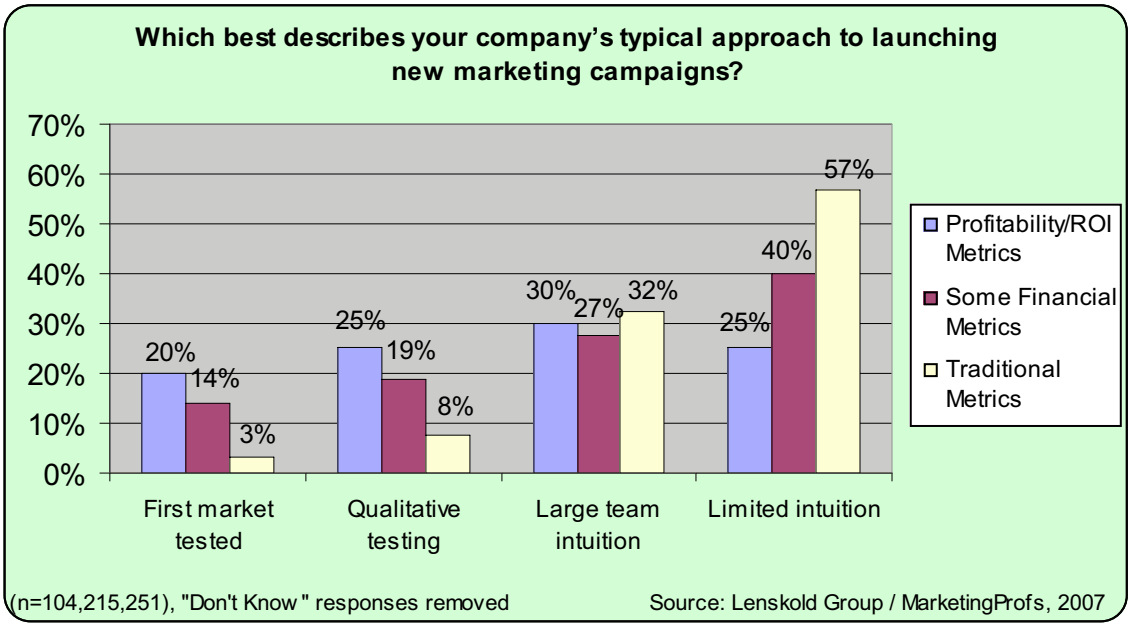

Chart 4.2-6 (base = segments of all marketing practitioners based on use of profitability/ROI metrics, some financial metrics or traditional metrics)

DETAILED FINDINGS: Profitability Metrics and Performance

Greater Use of Measurement Methodologies

In addition to the practice areas, we compared users of profitability/ROI metrics with those using traditional metrics in terms of their usage ratings for the five categories of measurement methodologies researched. As would be expected, those who use profitability/ROI metrics stood out in terms of the top 2 ratings on a scale from 1 being often to 5 being never for every methodology category.

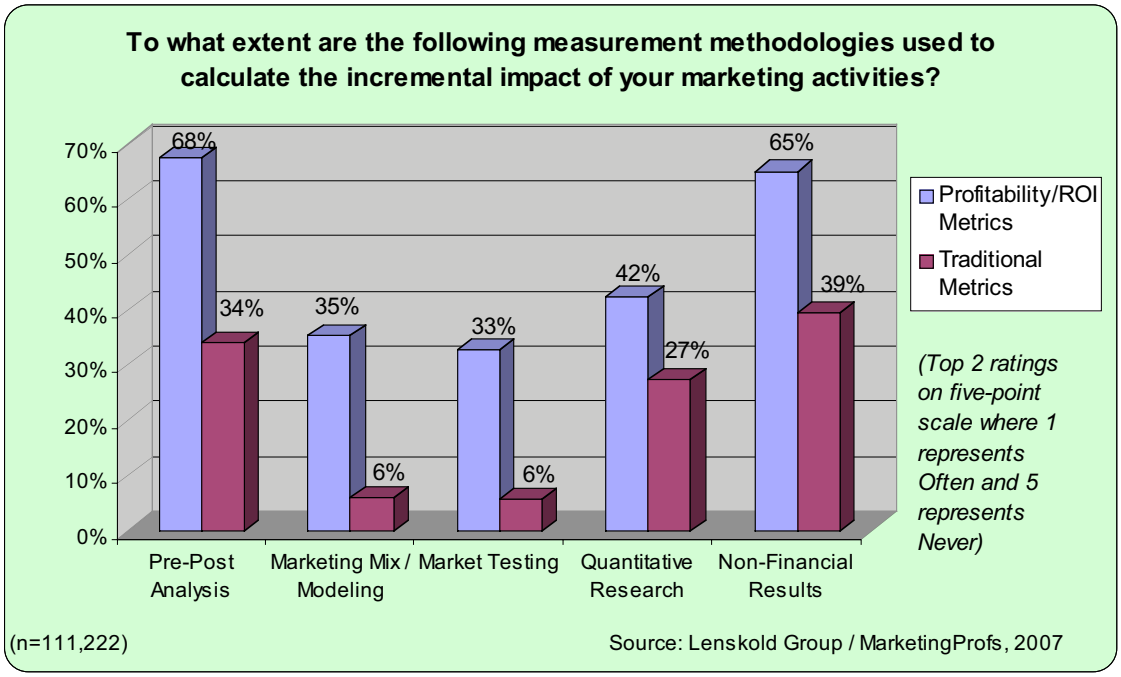

Chart 4.2-7 (base = segments of marketing practitioners based on use of profitability/ROI metrics or use of traditional metrics)

DETAILED FINDINGS:
Profitability Management Discipline and Growth

Using profitability/ROI metrics is just one part of the marketing profitability management process (which we also refer to as the marketing ROI process). In addition to tracking the use of diverse measurement methodologies for the past several years, the 2007 study included a set of self-assessment questions. These questions on current practices addressed key drivers of profitability such as targeting, managing the customer buying funnel, aligning marketing and sales, and data mining.

KEY FINDING: The study revealed that those companies expecting to grow faster than their competition tended to show a higher incidence of using profitability/ROI metrics, greater use of diverse measurement methodologies and greater strength in all the process areas studied.

DETAILED FINDINGS:
Profitability Management Discipline and Growth

Starting with the comparisons of the strengths on key practice areas, the question was phrased as "Using a scale of 1 to 5 [with 1 being very strong and 5 being very weak], how would you rate where your company stands with each of the following":

- Customer acquisition of high-value segments
- Customer retention and churn reduction of high-value segments
- Targeting and segmentation based on customer profitability
- Use of predictive models for targeting and segmentation
- Strong alignment in planning and implementation between marketing and sales
- Managing the customer buying cycle with tightly integrated marketing (and sales)
- Data mining and analysis of customer and sales data

The results shown earlier in this report (chart 3.0-1) indicate that the ratings of strength in these practice areas (1 or 2 on the 5-point scale) range from 14% to 36%. **When we look at those companies growing faster than their competition, these ratings jump significantly across the board but particularly in targeting based on customer value.**

DETAILED FINDINGS:
Profitability Management Discipline and Growth

Growth and Strength in Practice Areas

Chart 4.3-1 shows the following key findings:

- Companies expecting to grow faster than their primary competitors in the upcoming year clearly have a greater focus on acquiring and retaining high-value customer segments, with 40% indicating a strength for acquisition and 45% for retention compared with just 13% and 25%, respectively, for those expecting slower growth than their competitors.
- **Faster growing companies also rated their strength as higher for strong alignment between sales and marketing** (30% vs. 15% for slower growth companies) and managing the customer buying cycle with tightly integrated marketing and sales (24% vs. 9%).
- Predictive modeling for targeting and segmentation can provide insight into the conversion potential of customers in addition to the profit potential. This is currently not a strength for most companies, although it is less so for companies anticipating slower growth (10% vs. 15% for greater growth companies).

DETAILED FINDINGS:
Profitability Management Discipline and Growth

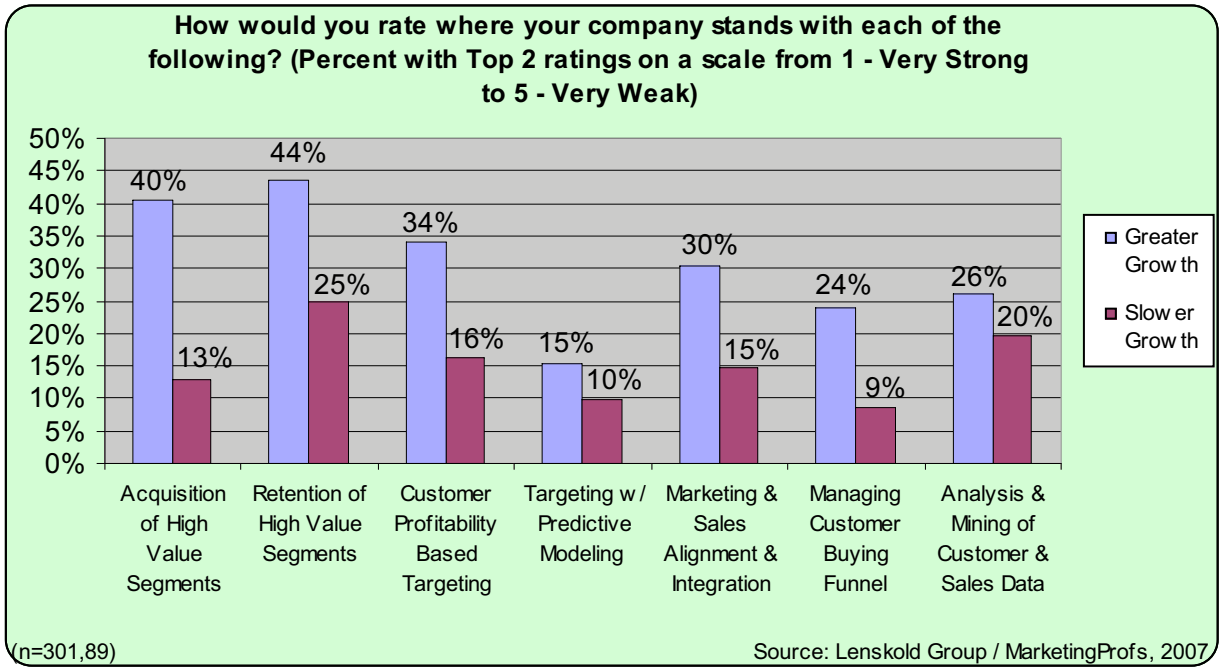

Chart 4.3-1 (base = segments of marketing practitioners based on use of profitability/ROI metrics or use of traditional metrics)

DETAILED FINDINGS:
Profitability Management Discipline and Growth

Profitability/ROI Metrics Use and Practice Area Strengths

The gaps in strength ratings are more pronounced when you look at companies using profitability/ROI metrics compared with those using traditional metrics. At least one-third and up to 44% of profitability/ROI metrics users show strengths in these areas, indicating a strong, broader commitment to performance effectiveness and financial contribution.

Companies using profitability/ROI metrics are much more likely to have a strength in predictive modeling for targeting than those using just traditional metrics (31% vs. 8% based on the top 2 ratings). Data mining of customer and sales data shows the most significant gap (44% vs. 11%), and most other practice areas show roughly double the percent indicating strengths.

DETAILED FINDINGS:
Profitability Management Discipline and Growth

The chart below shows the comparison across all these practice areas.

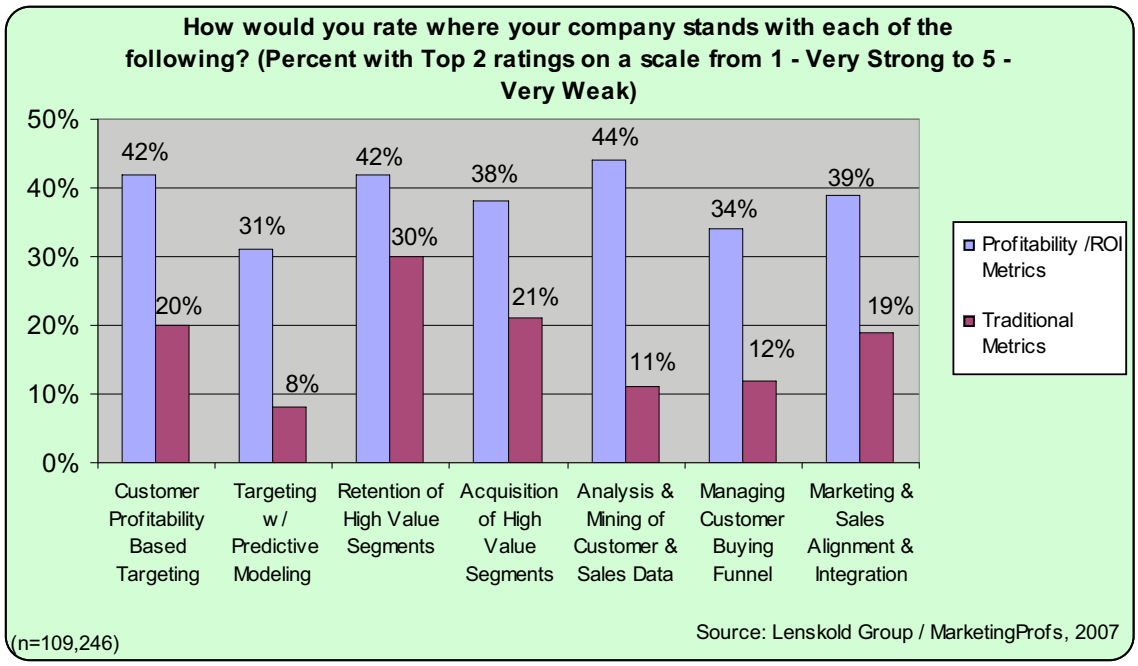

Chart 4.3-2 (base = segments of marketing practitioners based on use of profitability/ROI metrics or use of traditional metrics)

DETAILED FINDINGS:
Profitability Management Discipline and Growth

Growth and Profitability/ROI Metrics Use

As referenced in the previous section, the use of profitability/ROI metrics correlates with greater growth. The chart below shows the difference in the use of profitability and financial metrics for those expecting greater growth compared with those expecting slower growth.

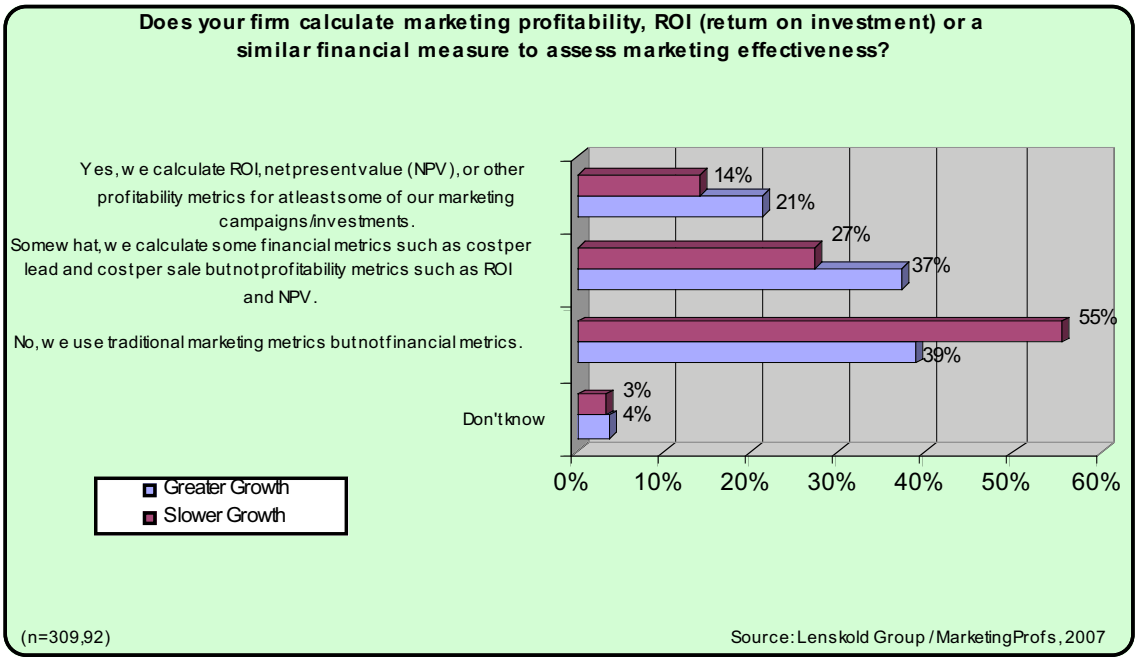

Chart 4.3-3 (base = segments of marketing practitioners based on use of profitability/ROI metrics or use of traditional metrics)

DETAILED FINDINGS: Subsegment Analysis

B2C vs. B2B Companies

Companies that generate all or the majority of their revenue from a B2C model generally report being further along with profitability measurements than those with B2B models. What is interesting is that there are minimal differences beyond the self-assessment of their ROI abilities, indicating that B2B companies are most likely well positioned to take the final steps necessary to put financial analysis into their measurements.

The use of profitability/ROI metrics to evaluate at least some marketing campaigns is reported by 28% of B2C marketing practitioners and 13% of B2B marketing practitioners. B2B measurements remain dominated by traditional metrics (46% of B2B companies compared with 37% of B2C companies).

DETAILED FINDINGS: Subsegment Analysis

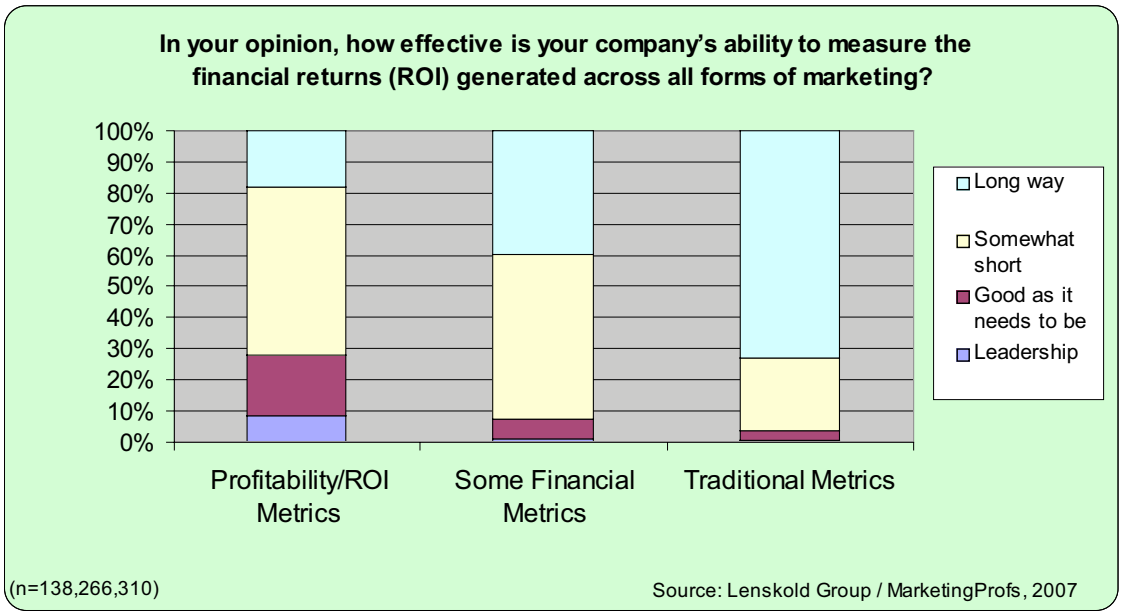

Chart 4.4-1 (base = marketing practitioners based most or all revenue coming from B2B vs. B2C, excluding 9 respondents indicating "close to even split" or "other")

It is important to note that this difference between B2C and B2B companies is likely driven primarily by their sales model and not their customer base. There was a much higher incidence of B2C companies selling primarily through retail (25% vs. 3% of B2B companies), while B2B companies primarily sell through a personal sales force (64% vs. 40% of B2C companies). Companies selling through retail measure profitability/ROI metrics at a much higher degree (39%) than those selling through a sales force (11%).

DETAILED FINDINGS: Subsegment Analysis

Although B2C companies are at an advantage in putting profitability/ROI metrics into place, they are just as likely as B2B companies to indicate their ability to measure the financial returns (ROI) from marketing as a source of real leadership or "as good as it needs to be" (7% vs. 8%). More than half (54%) of B2B companies say they believe they have a long way to go but this does not differ much from the 46% of B2C companies that report the same. As noted earlier in this report, expectations tend to increase along with capabilities.

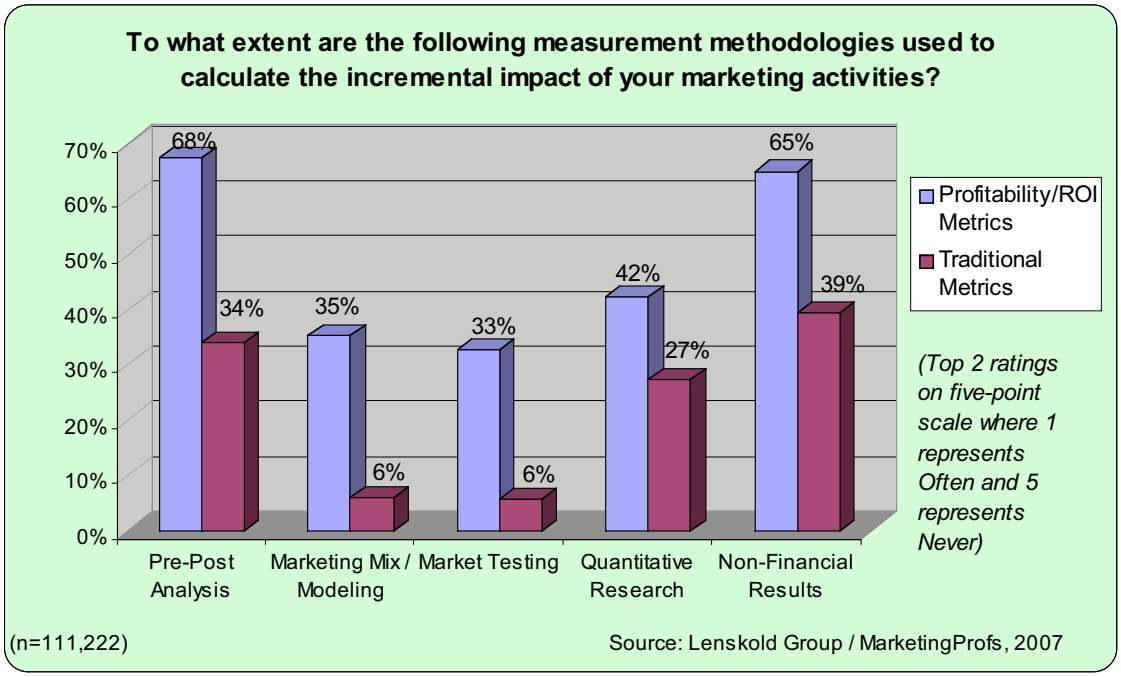

Chart 4.4-2 (base = marketing practitioners split based most or all revenue coming from B2B vs. B2C, excluding 9 respondents indicating "close to even split" or "other")

DETAILED FINDINGS: Subsegment Analysis

Regarding strengths in the practice areas supporting ROI processes, results were generally consistent between B2B and B2C companies, with some notable exceptions. Comparing the top 2 scores, B2C companies have a slight edge with data mining and analysis (27% vs. 21% among B2B companies) and the use of predictive modeling (18% vs. 12% among B2B companies), while B2B companies have an advantage in acquiring high-value customers (35% vs. 25% among B2C companies).

DETAILED FINDINGS: Subsegment Analysis

Other Subsegment Findings

Many subsegments were analyzed, and the noteworthy findings include:

Large companies (revenues greater than $50 million) were more likely to calculate ROI or profitability metrics than midsize ($5 million to $50 million) or small businesses (under $5 million) but less likely to be satisfied with their capabilities. This reinforces the theory that expectations are rising along with capabilities.

- Percent of companies calculating ROI or profitability metrics
  - Large companies 22%
  - Midsize companies 14%
  - Small companies 15%
- Percent of companies indicating their ability to measure **financial returns** across all marketing as "a real source of leadership" or "as good as it needs to be":
  - Large companies 4%
  - Midsize companies 11%
  - Small companies 14%

DETAILED FINDINGS: Subsegment Analysis

- **Large companies were also more likely to indicate their budget for measurements and analysis was far below the appropriate level** (59% vs. 49% for midsize companies and 40% for small companies)

Results from the consultant/agency and academic segments (removed from this core analysis) were very consistent with those reported here for marketing practitioners.

About the Author

Lenskold Group offers one of the most comprehensive and innovative approaches to applying marketing ROI techniques and tools to plan, measure and optimize marketing strategies toward maximum profitability. Lenskold Group combines financial discipline and a unique blend of measurement methodologies to deliver practical solutions that establish accountability and credibility for marketing organizations.

Lenskold Group delivers:

- Customized marketing ROI techniques, tools and processes for planning and assessing the financial contribution of marketing
- Comprehensive, multi-methodology measurement plans that efficiently use limited measurement and analytic budgets
- Marketing-impact tracking and performance analysis
- Custom-developed ROI campaign planning tools
- Prioritization and definition of key metrics for marketing management and dashboard development
- Advanced modeling and analytics specifically designed to deliver ROI analysis and profit-improving decisions
- ROI solutions to guide annual planning, budget allocations, marketing and sales integration, and go-to-market strategies
- Intense two-day Marketing ROI boot camps to accelerate adoption and implementation of ROI measurements and analyses
- Customer retention and churn reduction profitability improvements with integrated strategic and analytic services
- Customer acquisition and lead generation program profitability improvements with integrated strategic and analytic services
- Customer value and growth analysis
- Strategic breakthrough development, planning and measurements

Jim Lenskold is the founder of Lenskold Group, an international speaker and the author of the award-winning book, "Marketing ROI, The Path to Campaign, Customer, and Corporate Profitability" (McGraw-Hill, 2003). White papers, articles and additional information are available at www.lenskold.com

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