2008 Marketing ROI & Measurements Study

The fourth annual research study on marketing ROI and measurements, featuring an assessment of the use of data and intelligence for managing marketing effectiveness and growth.

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Really useful marketing analytics

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Innovating the path to marketing profitability.

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Introduction and Research Methodology

Lenskold Group is pleased to present you with our fourth annual study on marketing ROI and measurements. We continue our tradition of using a large base of survey respondents to provide one of the industry's most reliable sources of insights on this topic. Once again, we are complimenting the survey analysis with our recommendations for turning insights into action so you can improve your ability to measure and manage marketing profitability.

The *2008 Marketing ROI & Measurements Study* was conducted in the first quarter of 2008 with the support of MarketingProfs, an online marketing community with more than 300,000 members worldwide. The study includes responses from 834 marketing practitioners participating in the online survey worldwide*. Marketing practitioners are defined as those individuals responding for their own company. Survey participants that indicated they were external consultants or agencies responding for their client organizations, or academics and industry experts responding for the general business community were excluded from this analysis (differences from the reported results are noted within the detailed findings).

This *2008 Marketing ROI & Measurement Study* includes our ongoing tracking questions, which have been part of the annual surveys conducted by Lenskold Group and MarketingProfs since 2005, and a new set of deep-dive questions concentrating on the use of data and intelligence in managing marketing ROI. In addition, a short module was included in the questionnaire and used to generate the separate *B2B Lead Generation Marketing ROI and Performance Evaluation Study* (released separately and currently available at www.marketingprofs.com).

* Note on survey results: A total of 834 participants qualified for this module of the survey, however, since responses to every question were not required, participants could choose to skip questions. Therefore the base of responses varies by questions even though all participants were presented with the opportunity to answer all questions. "Don't know" responses were removed from the base unless noted. Analyses were tested at the 95% confidence level unless noted.

This research report was sponsored by Kneebone™ Inc., a provider of marketing performance software and services designed to help companies increase marketing effectiveness with better insight. Kneebone actively contributed to defining the research topics and questionnaire format. Given their experience and expertise in working with companies to analyze and leverage marketing data to guide performance improvements, we have invited them to contribute a commentary on the survey findings, presented in its own section. All other portions of this report were analyzed and reported on by the Lenskold Group independent of sponsor influence. We are grateful to Kneebone for their contribution to this project and also to MarketingProfs for their support in executing the survey with their members.

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Executive Summary

As we look at marketing ROI adoption over the past four years, we see a mix of good news and bad news. Adoption of marketing ROI and profitability metrics is back on track and use of these metrics by one in four (26%) marketing organizations is not bad. The vast majority (75%) of companies are making progress in at least some form of their measurement and ROI capabilities. But considering that marketing ROI has been among the top priorities of marketing executives for more than five years, adoption is slow. Marketers are still struggling with some of the basics such as measuring the incremental impact of their marketing and diagnosing performance gaps. Marketers are dependent on good measurements, analyses, and insights in order to manage the effectiveness and efficiency necessary to ultimately drive growth.

1. Marketers generating highly effective and efficient marketing have better insight and ROI discipline.

Just 9% of marketing practitioners indicate their marketing is both highly effective and efficient. Close to half (45%) of these marketers report they expect their companies to experience much greater growth than their competitors, compared to just 18% of the overall base of marketers surveyed. They show greater strengths in their abilities to measure marketing performance and gain access to information for analysis. Over half (53%) use ROI and profitability metrics to assess their marketing effectiveness and most (61%) assess their ability to measure the financial returns of marketing as either a real source of leadership or as good as it needs to be. They also manage to secure sufficient budget to achieve their goals (63% vs. 34% overall).

2. Marketers are making progress in ROI and measurement capabilities.

Marketing ROI adoption is back to 2006 levels after a dip in 2007 levels with 26% of marketers reporting that their firm uses ROI or similar financial measures to assess marketing effectiveness. There is a clear commitment to improving marketing measurements and ROI capabilities as 75% of marketers report making progress on at least one of the seven performance measurement areas we assessed. These improvements areas included general categories, such as improving measurements of marketing impact on sales, initiating new modeling, and improving profitability, as well as infrastructure improvements, such as adding systems or analytic staff.

3. Measurement abilities are lagging.
We asked the marketing professionals surveyed to rate their ability to measure several aspects of marketing performance and the negative ratings (bottom two scores on a 5-point scale) always exceeded the positive ratings (top two scores on a 5-point scale). Even on basic capabilities, such as measuring the incremental impact of marketing initiatives, only 28% provided positive ratings compared to 36% providing negative ratings. Their self-assessed scores on their ability to diagnose performance gaps ran 26% positive vs. 44% negative. Many marketers recognize that they are lacking in their ability to assess the incremental impact of marketing and to diagnose what is necessary to improve performance. These fundamentals need attention in order to truly measure, manage, and deliver greater returns on marketing investments.

Measurement capabilities are rated more positively for companies that indicated making progress over the past year in either improving the ROI/financial analyses of marketing or initiating new modeling and/or internal analytics with outsourced partners. Of those companies initiating modeling/analytics with outsourced partners, 51% provided positive ratings on their ability to measure the incremental impact of marketing initiatives (compared to 29% of overall participants) and 49% reported positive ratings on their ability to measure the optimal allocation of the overall budget (compared to 31% of overall participants).

4. Challenges and opportunities tied to gaining data access.
At a minimum, access to sales and marketing information is essential for establishing the connection between marketing initiatives and the incremental impact on sales performance. In fact, those companies who indicated they had made progress on measurement and ROI capabilities were much more likely to indicate that they had access to detailed sales data at the individual customer level (the highest level we presented), reported by 55% of that group compared to 30% of those who made no significant progress in measurement and ROI capabilities. Companies outgrowing their competitors were also more likely to have access to detailed customer sales data (54% vs. 36% of slower growth companies). That means that roughly half of the overall base of marketers surveyed has to manage without customer-level sales data.

The data gaps are not just on the sales side but also on tracking marketing data. In terms of the ability to gain access to critical information, 39% provided negative ratings (bottom two scores on a 5-point scale) for their ability to get marketing spend data with daily or weekly data and 37% reported negative ratings on their ability to get customer level promotion/contact history. Here the problem is driven by marketing's own inability to capture and retain this level of detail.

5. Approach to marketing planning influenced by ROI capabilities.
Better access to data, improvements in measurements, and adoption of financial ROI analyses should ultimately lead to budgeting and planning decisions that put marketing resources where they can generate the most profitable returns. The ROI process is intended to provide the insight necessary to guide those decisions and develop more effective strategies and tactical plans. There were clearly different approaches to marketing planning based on measurement and ROI analysis capabilities.

The most common approach to planning, reported by 38% of marketers, was planning driven by top-down objectives, targets, and annual budget allocation. This was used even more often by companies outgrowing their competitors (41% vs. 23% of slower growth companies). Companies using ROI and profitability metrics had a much higher use of rolling plans continuously updated with current forecasts and marketing adjustments. Companies using only traditional, non-financial metrics and those growing slower than their competitors were both more likely to report using planning and budget allocations based on slight modifications to prior year plans.

The ability to manage planning with the most current insight available is dependent on good measurements and ROI analyses. Those with less measurements, analyses, and insight maintain the status quo based on prior year plans and are therefore unable to shift their budgets to higher performing, more profitable marketing opportunities.

The bottom line is that the commitment to improve data quality and access, combined with the discipline to improve measurements and ROI capabilities, are necessary to improve marketing effectiveness, marketing efficiency, and business growth.

Recommendations

Improving marketing performance to reach the level of highly effective and efficient and delivering greater growth requires improvements in infrastructure, processes, and organizational practices. The benefits of such actions are clear and the need for the marketing organization to improve its profitability will not fade away. Insights into marketing performance and the financial contribution to the business can become a clear competitive advantage. Data, systems, and automation to support marketing analyses have never been more powerful, available, and cost effective as they are today. We are still in the era of transforming marketing accountability and marketers must take action.

The following 10 steps bring together the findings of this research to provide you with a high level roadmap as you consider how to continue, *and accelerate*, your journey on the path to profitable growth.

Underlying infrastructure to measure and manage profitability

1. **Aggregate and get analytic access to the best sales, marketing, and customer data available.**
   More detailed data enables deeper insights into marketing performance. There are industries where detailed customer data is limited or unavailable. But companies with highly effective and efficient marketing showed much larger advantages primarily with data within marketing's control, including better detail on marketing spend data, response and lead data, and promotion/contact history. The effort to aggregate the data is high initially but you create a lasting resource that unlocks great insight and opportunities.

2. **Add systems and data mining capabilities.**
   Roughly one third of marketers indicated their company made progress on adding internal systems and/or data mining capabilities over the past year. This infrastructure investment to provide insight into sales trends and marketing performance is part of the critical foundation that provides both short-term and long-term payback.

3. **Add marketing analytic staff.**
   Depending upon your company size and current analytic capabilities, it may be beneficial to add marketing analytic staff to leverage the data and systems

assets you have available. Internal marketing analytic staff offer the opportunity to provide ongoing business intelligence, ad hoc exploratory analyses, and serve as an informed liaison to external analytic experts used for more advanced modeling and analyses.

<u>Processes and practices to leverage insights as competitive advantage</u>

4. **Measure incremental impact and marketing performance gaps.**
   One of the most critical steps in managing marketing performance is to identify the measurements and analyses that best capture the incremental impact of marketing as well as help diagnose the performance gaps to guide improvements in future marketing. Marketing executives must set expectations that lead to standard practices for measurements. As measurements of basic marketing impact are established, this should evolve to more advanced measurement techniques for capturing the incremental impact of integrated, multi-channel campaigns and identifying the spending-level point of diminishing returns.

5. **Improve ROI/financial analysis to boost effectiveness and efficiency.**
   Both marketing effectiveness and efficiency are improved using insight into the financial returns generated by marketing. This starts with a standardized marketing ROI analysis used to project and calculate the profit potential of marketing initiatives. This type of analysis aligns marketing effectiveness to business growth. It also helps to build the business case for getting marketing budget levels that are sufficient to achieve your goals.

6. **Initiate modeling with internal or external resources.**
   Companies that had improved their measurement capabilities by initiating new modeling and analytics with outsourced partners stood out as one of the higher performing segments. In addition to the increased insight gained from modeling and analytics, companies also benefit when external partners can provide a deeper level of analyses and an objective perspective on how to best apply the insight into marketing decisions.

7. **Develop deeper insight into profitable customers and lifetime value.**
   Insight into the marketing impact on profitable customers/segments is one of the most critical steps for managing marketing performance. Companies with highly effective and efficient marketing rated this as their second highest

strength in measurement abilities. Calculating customer lifetime value is more challenging but is extremely beneficial in transforming from measurements of short term impact on sales activity to longer-term impact on customer value.

8. **Shift to a rolling marketing planning approach as insight improves.** Companies with highly effective and efficient marketing favor the approach of a rolling plan continuously updated with current forecasts and marketing adjustments. This approach can unlock profit opportunities for companies that have good quality data, analyses, and insights and can operationally manage with this high level of flexibility.

Managing highly effective and efficient marketing performance

9. **Apply measurements and insights to improve marketing profitability.** There are still companies that need to shift their mindset to view measurements not as the final step of closing out a marketing initiative, but instead as the source of insight to improve future marketing performance. New measurements and analyses will be designed better and offer more value if done so with a clear understanding of how the intelligence will be used to change strategic and tactical decisions.

10. **Drive effectiveness first; then improve efficiency.** Your initial efforts should concentrate on improving marketing effectiveness in terms of generating incremental sales and customer value. ROI analyses and insight into performance gaps should identify where and how modifications can be made to improve effectiveness and profitability. Efficiency involves maintaining high performance levels while carefully reducing costs. While overall marketing efficiency can also increase by cutting investments into unprofitable marketing initiatives, it is best to first attempt to make those initiatives more profitable.

Marketing organizations continue to move forward but the slow pace is indicative of the big barrier – the culture – that is hesitant to embrace greater accountability but is beginning to recognize the advantages of greater insight into performance and profitability. The time has come to act – before competitors jump ahead in their effectiveness and efficiency, and before any economic disruptions create greater budget pressures and even higher levels of accountability.

Sponsor Commentary

Kneebone notes that while the 2008 study measures the state of marketing effectiveness, the more poignant comment is the one it makes on the state of the marketing profession. As a company that helps transform marketing with financial effectiveness, we are always listening for what marketing professionals need.

"This study will give you confidence that you are not alone"

The reality is that marketers struggle with budgets (period.) From budget setting which is top-down to measurement that is backward-looking, marketing is caught without the means to validate investments. The lack of resources for marketing business intelligence is what leads to almost every deficiency highlighted in the study. What characterizes the organizations that break out from the vicious cycle is remarked on in the study: *detail*. Successful marketers have begun to collect and use detailed investment, lead, and sales data and use it to make the business case for marketing effectiveness.

"Insisting on detail gives successful marketers the edge".

In general, marketers are quick to adopt innovation…just not so eager to add more to their budgets or workload. The first challenge, and this seems to be typical in successful approaches, is getting someone else to do the work. Marketing's internal IT and analytic resources are stretched and experts are few and far between. Expanding the view beyond legacy systems and traditional metrics is specialized work. Marketers making progress with outsourced analytics are benefiting from better measurement abilities, including the ability to measure the incremental impact from marketing. In our experience, looking beyond campaign targets and offers will lead to improved financial effectiveness.

"A limited view of history may lead to the loss of millions of dollars".

Marketers are increasingly confronting issues that have to do with data detail and integrity. If you've wrestled with your own data, you know that getting it into shape means that you can depend on it and everyone in your organization trusts it. The study shows that the same marketers that are succeeding with data also have better performance. Not only does the study validate the benefits of good data and analytics, it demonstrates that the investment in them pays off for their company. Curiously, relative to 2006, very little progress was made**.**

"Marketers wavered in their support for ROI in 2007"

In 2006, marketers who boldly went where no one else had gone before in may have found out the perils of being pioneers. Great data and analysis doesn't come easy, or cheap, and maybe marketing's journey has been plagued with data despair and over-promise. Perhaps 2007 was a year to lick wounds. Maybe 2008 is the first opportunity to come back fighting. So, for the few that made it to the next level, there was good news to report in first half 2008.

> *"The news is this: Marketers are becoming healthier by taking a prescribed approach to marketing's challenges."*

On the face of it, marketing seems to be making progress. Of the 18 questions asked, there is a positive story in every aspect of the survey. Both the pursuit of data and the desire for better analytics were endorsed by respondents. The Lenskold Group does an excellent job of describing the conditions for success for the data, teams, and process. Almost every step has additional resources required. Kneebone connects massive, messy data for marketers to see and use and prescribes an innovative analytic approach that adapts to your company and its marketing opportunity.

> *"Kneebone connects massive, messy data for marketers to see and use and prescribes an innovative analytic approach that adapts to your marketing style"*

How will you fund marketing effectiveness in your organization? Making a business case for marketing effectiveness is about funding the analytics; first you get the investment, then you get the data organized, then you get the insight, then you get the profitability. Kneebone is uniquely qualified to help you.

> *"The trick is learning how to get data organized with detail you can't do without".*

We have this advice; insist on detail and you'll find support for funding. You'll not suffer the despair and over-promise of previous years and you will be happy to report your progress in next year's study. Thank you for your participation as a respondent or audience this year.

> "*We invite any and all challenges to our ideas and hope to have the opportunity to contribute to your progress."*

Detailed Findings

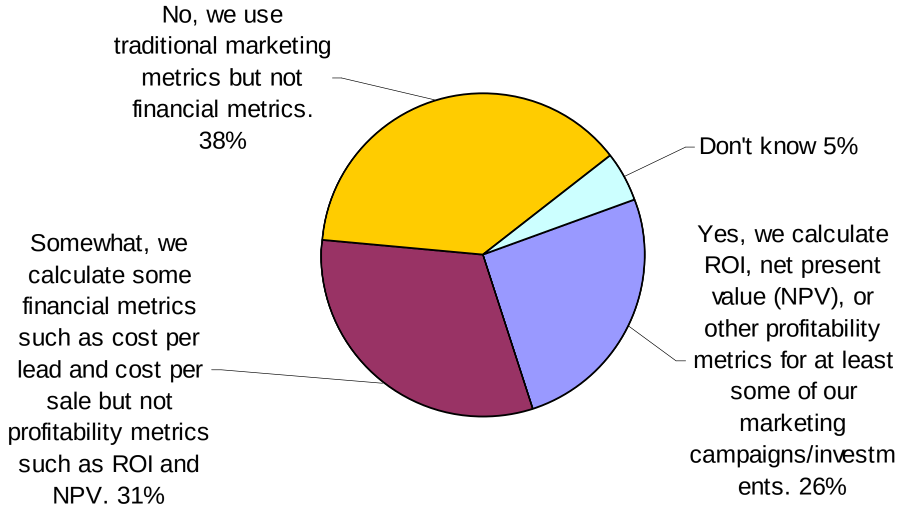
1. Marketing ROI Trend Performance

Note: Results reported in Section 1 courtesy of Lenskold Group & MarketingProfs.

One in four (26%) marketing professionals surveyed indicated that their firm currently calculates marketing ROI or other profitability metrics for their marketing investments and campaigns. The 2008 results match those of 2006 after an unusual drop in our 2007 findings.* Thirty-eight percent (38%) of marketers are using only traditional metrics with no profitability metrics and 31% are using some financial metrics but not profitability metrics (See Figures 1 and 2).

Figure 1: Use of Marketing ROI and Profitability Metrics - 2008

Does your firm calculate marketing profitability, ROI (return on investment) or a similar financial measure to assess marketing effectiveness? (n = 712)



** This unusual and temporary downward trend in marketing performance measurements also showed up in the 2007 ANA/MMA Marketing Accountability Study conducted independently.*

Figure 2: Use of Marketing ROI and Profitability Metrics – 4 Year Trend

Does your firm calculate marketing profitability, ROI (return on investment) or a similar financial measure to assess marketing effectiveness? (n = 832, 791, 759, 712)

	2005	2006	2007	2008
Yes, we calculate ROI, net present value (NPV), or other profitability metrics for at least some of our marketing campaigns/investments.	18%	26%	18%	26%
Somewhat, we calculate some financial metrics such as cost per lead and cost per sale but not profitability metrics such as ROI and NPV.	31%	28%	35%	31%
No, we use traditional marketing metrics but not financial metrics.	45%	31%	41%	38%
Don't know	6%	15%	6%	5%

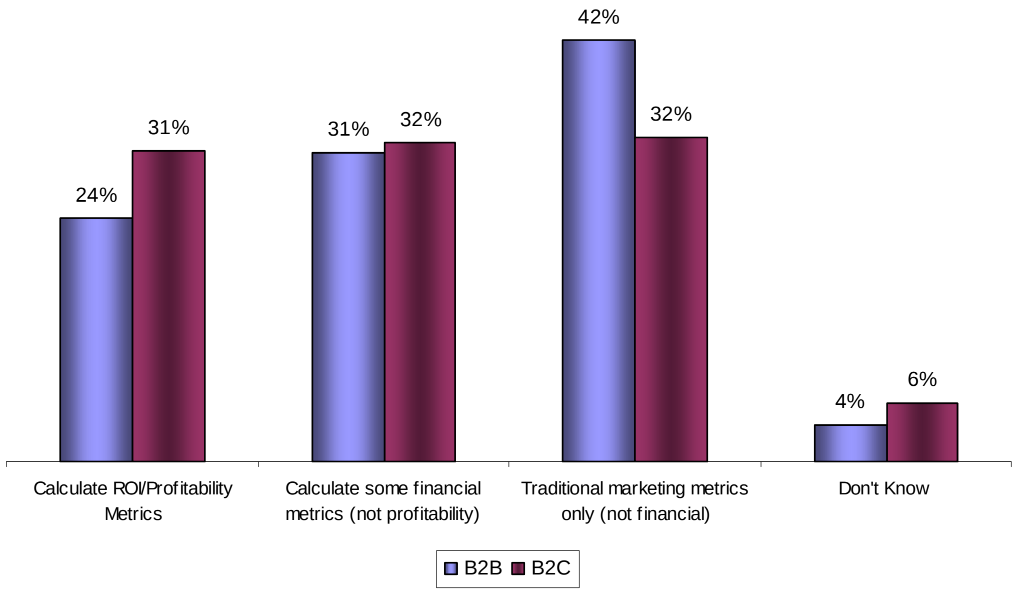
The 2007 decline in reported use of ROI and profitability metrics could have been a backlash to the sharp increase in 2006. It is possible that the jump in adoption levels in 2006 were either driven by internal pressures, not executed with the right infrastructure, or not meeting expectations. Scaled back use in 2007 may have provided marketing organizations with the opportunity to adjust their approach and move forward with quality. The adoption cycle for CRM solutions went through a somewhat similar pattern roughly a decade ago.

The 2008 results match those of 2006 after an unusual drop in our 2007 findings.

Companies with half or more of their revenue coming from business to consumer (B2C) sales had slightly higher use of marketing ROI and profitability metrics at 31% compared to 24% for companies with half or more of their revenue coming from business-to-business relationships (B2B). See Figure 3.

Figure 3: Use of Marketing ROI and Profitability Metrics – B2C vs. B2B Companies

Does your firm calculate marketing profitability, ROI (return on investment) or a similar financial measure to assess marketing effectiveness? (n = 255 and 403)



Marketers were asked a self-assessment question, describing their ability to measure the ROI generated from marketing. A combined total of 17% believe their ROI measurement ability is either as good as it needs to be or a real source of leadership. Another 40% are somewhat short of where they need to be, while 43% perceive their capabilities as a long way from where they should be. Here again these are back to the levels from two years ago (see Figures 4 and 5).

As we have reported in previous years, our direct conversations with companies that are clearly leading the industry in marketing ROI best practices indicate that they continuously set the bar higher as they strive to reach new levels of marketing performance and profitability measures. The perceptions differ as some best practice companies recognize their leadership position while others consider their position as "somewhat short of what it could be," based on their commitment to move beyond their current position to achieve new levels of ROI management and performance.

Figure 4: Assessment of Abilities to Measure Financial Returns - 2008

In your opinion, how effective is your company's ability to measure the financial returns (ROI) generated from marketing investments? (n = 834)*

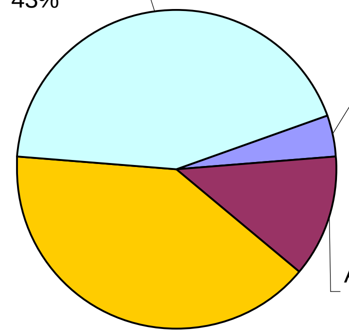


Figure 5: Assessment of Abilities to Measure Financial Returns – 4 Year Trend

In your opinion, how effective is your company's ability to measure the financial returns (ROI) generated from marketing investments? (n = 832, 329, 759, 834)*

	2005	2006	2007	2008
A source of real leadership	2%	4%	2%	4%
As good as it needs to be	6%	12%	7%	13%
Somewhat short of where it could be	38%	42%	40%	40%
A long way from where it could be	53%	42%	51%	43%

A combined total of 17% believe their ROI measurement ability is either as good as it needs to be or a real source of leadership.

** Note: A slight wording change from the previous version of the question used in the first three years was tested this year using a split sample. The original version of the question wording, "In your opinion, how effective is your company's ability to measure the financial returns (ROI) generated across all forms of marketing?," showed no statistical difference from the new version. We will use the new version from this point forward. Results reported for 2008 include combined responses for both versions of the question.*

2. Improvements in Measurements and ROI Capabilities

While the use of marketing ROI measurements appears to be somewhat flat since 2006, a deeper analysis included in this year's research study shows significant progress underway across many different areas of measurement and ROI capability improvements. In all, 75% of respondents indicated improvement in at least one area of the list we provided while only 25% indicated "no significant improvements in this area."

As Figure 6 shows, the ability to measure marketing impact on sales, one of the most critical foundations of a good marketing ROI process, tops the list with more than one in three (36%) making progress. Equally encouraging is the fact that 29% report applying measurements to improve profitability. Twenty-six percent (26%) indicate they have improved their ROI/financial analysis of marketing (roughly half of this group were among the group that had indicated they are currently measuring ROI or profitability metrics while the other half of those making improvements in this area report still using non-ROI financial metrics or traditional metrics).

In all, 75% of respondents indicated improvement in at least one area of the list we provided while only 25% indicated "no significant improvements in this area."

Roughly one-third (34%) of marketers said their marketing organization has added internal systems and/or data mining capabilities. New modeling and analytics were initiated with either internal staff (26%) or outsourced partners (10%). And 23% added marketing analytic staff, a sign of a long-term commitment to better-informed marketing decisions. See Figure 6.

Figure 6: Progress on Measurements and ROI Capabilities

In which of the following areas of measurements and ROI capabilities has your company made progress over the past year? Check all that apply. (n = 712)

	% Making Progress	
Improved measurements of marketing impact on sales	36%	Total of 75% making at least one improvement
Added internal systems and/or data mining capabilities	34%	
Applied measurements to improve the profitability of marketing initiatives	29%	
Initiated new modeling and/or internal analytics with internal staff	26%	
Improved ROI/financial analysis of marketing	26%	
Added marketing analytic staff	23%	
Initiated new modeling and/or internal analytics with outsourced partners	10%	
Other areas of improvement (Specify)	3%	
No significant improvements in this area	25%	

Companies that report using marketing ROI and profitability metrics also report making much more progress in the diverse areas of measurement and ROI capabilities than companies using just traditional metrics. Figure 7 shows that 40% of those using just traditional metrics made no significant improvements in any of their measurements and ROI capabilities – an indication that their organization's culture is satisfied with the status quo. The good news is that roughly one in four of those using traditional metrics had improved measurements of marketing's impact on sales (27%), added internal systems or data mining (25%), or applied measurements to improve marketing profitability (23%). Those companies using marketing ROI metrics are continuing to progress in all these areas at close to double the rate of those using just traditional metrics.

Figure 7: Progress on Measurements and ROI Capabilities – ROI Metrics Users vs. Traditional Metrics Users

In which of the following areas of measurements and ROI capabilities has your company made progress over the past year? Check all that apply. (n = 712; see Figure 1 for question defining segments)

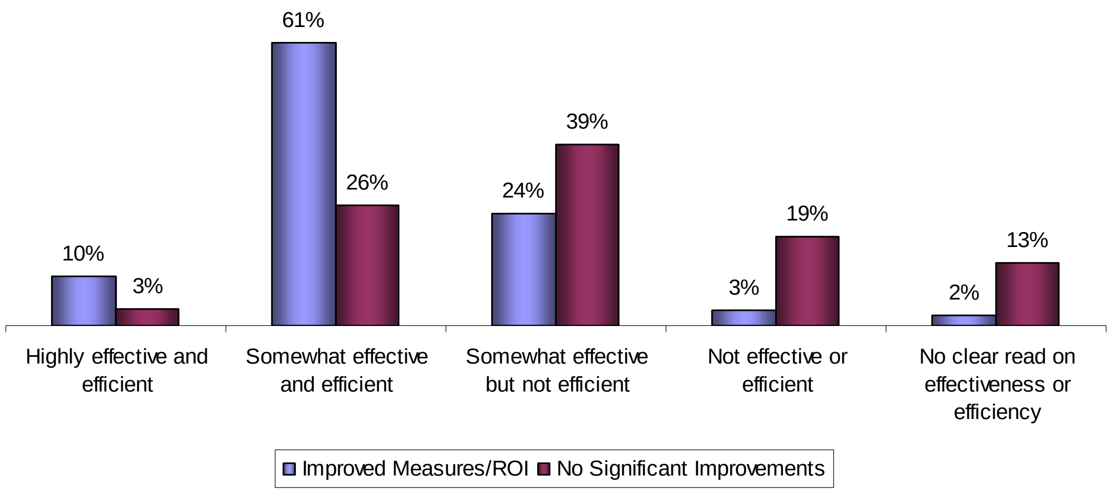
	Use ROI Metrics	Traditional Metrics Only
Improved ROI/financial analysis of marketing	57%	8%
Improved measurements of marketing impact on sales	53%	27%
Added internal systems and/or data mining capabilities	47%	25%
Applied measurements to improve the profitability of marketing initiatives	39%	23%
Initiated new modeling and/or internal analytics with internal staff	34%	19%
Added marketing analytic staff	31%	15%
Initiated new modeling and/or internal analytics with outsourced partners	14%	6%
Other areas of improvement (Specify)	4%	2%
No significant improvements in this area	9%	40%

Those companies using marketing ROI metrics are continuing to progress in all these areas at close to double the rate of those using just traditional metrics.

Companies making improvements in their measurement and ROI capabilities were more likely to report outgrowing competitors and higher levels of effectiveness and efficiency of their marketing. Companies that had reported some form of improvement in measurements and ROI capabilities indicated their marketing was somewhat or highly effective (combined top three choices shown in Figure 8) by a margin of 95% to 68% over companies indicating no significant improvements in their measurement and ROI capabilities. The gap widens when looking at the portion that also reported that their marketing was somewhat or highly efficient as well as effective (just the top two choices), with 71% of those who made one or more improvements in their measurement and ROI capabilities indicating marketing efficiency compared to just 29% of those who made no improvements. See Figure 8.

Figure 8: Marketing Effectiveness and Efficiency – Improved Measures/ROI vs. No Significant Improvements

Which statement best describes your marketing effectiveness and efficiency. (n = 533 and 179; see Figure 6 for question defining segments)

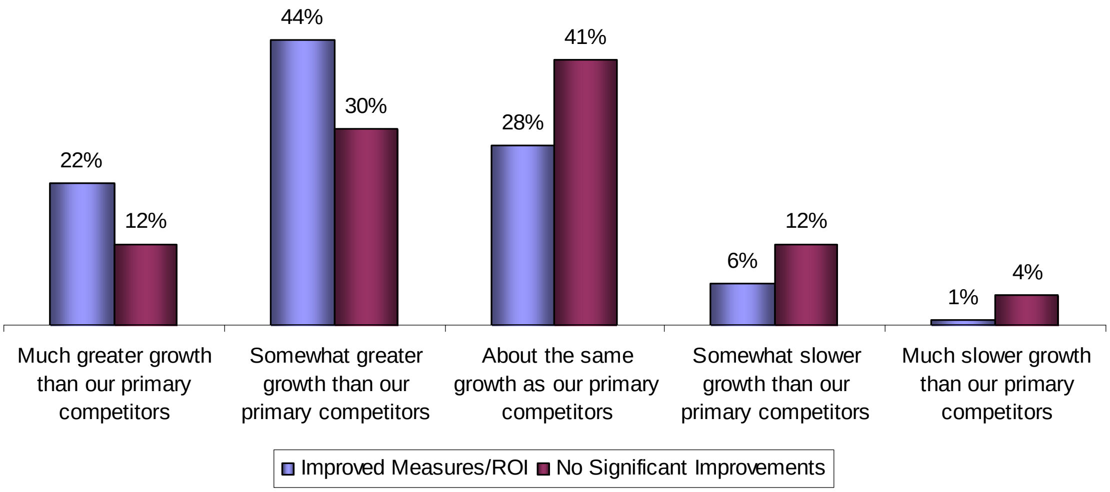


Companies making improvements in their measurement and ROI capabilities were more likely to report outgrowing competitors and higher levels of effectiveness and efficiency of their marketing.

As shown in Figure 9, two-thirds (66%) of those marketers reporting improvement in one or more of the measurement and ROI areas presented also expected their company to outgrow the competition compared to just 42% of those with those who indicated no improvements.

Figure 9: Expected Growth – Improved Measures/ROI vs. No Significant Improvements

How would you describe your firm's expected growth in the upcoming year relative to your primary competitors? (n = 533 and 179; see Figure 6 for question defining segments)



We asked marketers to rate their ability to measure different aspects of marketing performance on a scale of 1 (very poor) to 5 (excellent). The negative ratings (1 and 2) outweighed the positive ratings (4 and 5) for every one of our seven measurement areas, indicating a general dissatisfaction with their current measurement abilities. Roughly a third remained neutral on each rating.

There was nearly an even balance between positive and negative ratings for the ability to measure the optimal allocation of the overall budget (32% positive vs. 35% negative), the impact on profitable segments (31% vs. 36%), and the incremental impact of marketing initiatives (28% vs. 36%). Measuring the incremental impact of marketing is a critical foundation for managing marketing effectiveness and it should be of concern that a third are struggling and only 28% are reporting positive ratings.

The lowest ratings went to measuring the spending level point of diminishing returns (15% vs. 54%) and calculating customer lifetime value (18% vs. 56%). Also challenging are the ability to diagnose performance gaps (26% vs. 44%) and measuring the incremental impact of integrated multi-channel campaigns (21% vs. 45%). See Figure 10.

Figure 10: Ratings on Measurement Ability

How would you rate your ability to measure the following on a scale from “1” for very poor to “5” for excellent? (n = 643)

	Top 2	Bottom 2	Gap
Optimal allocation of the overall budget	32%	35%	-3%
Impact on profitable customers/segments	31%	36%	-5%
Incremental impact of marketing initiatives	28%	36%	-7%
Diagnosing of performance gaps	26%	44%	-17%
Incremental impact of integrated, multi-channel campaigns	21%	45%	-25%
Calculating lifetime value	18%	56%	-38%
Spending-level point of diminishing returns	15%	54%	-39%

An analysis segmenting results by the type of improvements made provides insight into the related capabilities of those segments. Two areas of improvements stood out from the others. The first segment, consisting of companies that made improvements in their ROI/financial analysis, showed higher ratings in areas that were logically associated with ROI, including their ability to measure the incremental impact of marketing initiatives, the incremental impact of integrated multi-channel campaigns, and the optimal allocation of the overall budget. See Figure 11.

Figure 11: Ability to Measure – Companies Improving ROI/Financial Analysis of Marketing

How would you rate your ability to measure the following on a scale from "1" for very poor to "5" for excellent? (n = 174 and 637; see Figure 6 for question defining segments)

	Top 2 Ratings		
	Improved ROI/financial analysis of marketing	Overall	Gap
Incremental impact of marketing initiatives	44%	29%	15%
Incremental impact of integrated, multi-channel campaigns	35%	21%	14%
Optimal allocation of the overall budget	45%	31%	14%

This segment was also more likely to indicate their marketing budget levels as sufficient or more than sufficient to achieve their goals (51% for this segment vs. 37% of the total survey base).

The second noteworthy segment consisted of companies that had initiated new modeling and/or internal analytics with outsourced partners. This group even rose above the similar segment consisting of companies that had initiated new modeling and/or internal analytics with internal staff. As shown in Figure 12, those marketers that initiated new modeling/analytics using outsourced partners have more positive ratings on their ability to measure diverse aspects of marketing effectiveness.

Those marketers that initiated new modeling/analytics using outsourced partners have more positive ratings on their ability to measure diverse aspects of marketing effectiveness.

Figure 12: Ability to Measure – Companies Initiating Modeling/Analytics with Outsourced Partner

How would you rate your ability to measure the following on a scale from "1" for very poor to "5" for excellent? (n = 69 and 637; see Figure 6 for question defining segments)

	Top 2 Ratings		
	Initiated new modeling and/or internal analytics with outsourced partners	Overall	Gap
Incremental impact of marketing initiatives	51%	29%	22%
Calculating lifetime value	36%	18%	18%
Optimal allocation of the overall budget	49%	31%	17%
Diagnosing of performance gaps	43%	25%	17%
Impact on profitable customers/segments	46%	30%	16%
Incremental impact of integrated, multi-channel campaigns	34%	21%	13%
Spending-level point of diminishing returns	28%	15%	13%

Clearly the modeling and analytics provide a deeper level of measurement insight across a broad spectrum of marketing performance as shown in Figure 12. The added advantage of modeling and analytics initiated with outsourced partners compared to internal resources is likely to result from either more advanced levels of analysis, or the added advantage of additional insight and perspective that outside experts can bring as part of their deliverables.

3. Access to Information and Sales Data for Analysis

Good measurements are ultimately tied back to the ability to access good quality data. Marketers rated their ability to gain access to critical information for analysis more favorably than their ability to measure (using the same 5 point rating scale).

As presented in Figure 13, positive ratings (4 and 5) were provided for access to sales reports at both the level of monthly detail (64%) and the level of daily or weekly detail (54%). Access to financial data was a positive for 55% while 21% reported negative ratings. Information on prospects and customers throughout the purchase funnel ranged from a high of 48% positive for customer level sales data to a low of 37% for customer level contact history. Information on the sales pipeline and response/lead data is available for roughly four in ten respondents (41% and 40%, respectively).

Somewhat surprisingly, marketing spend information at the daily or weekly level is available for only one-third (33%) of marketing organizations. While marketing spend information is generally known on a campaign or initiative level, there are many companies that have no systems or processes to aggregate this into actionable data, especially not on a daily or weekly level of detail. Establishing access to this level of marketing spend detail is important to support marketing effectiveness measurements using modeling techniques. After all, in order to understand the impact of your budget allocation on customer behaviors and financial outcomes, you must first know how that budget is being used to deliver marketing.

Somewhat surprisingly, marketing spend information at the daily or weekly level is available for only one-third (33%) of marketing organizations.

Not surprisingly, getting online and offline data linked is a positive for 24% compared to negative ratings from 47%.

Figure 13: Ratings on Access to Info for Analysis

How would you rate your group's ability to gain access to the following types of critical information for analysis? Please use a five point scale where 1 indicates "very poor" and 5 indicates "excellent". (n = 552)

	Top 2	Bottom 2	Gap
Sales reports - monthly detail	64%	15%	49%
Financial data such as revenue and/or profitability	55%	21%	34%
Sales reports - daily or weekly detail	54%	23%	31%
Customer level sales data	48%	24%	24%
Sales pipeline	41%	29%	12%
Response and lead data generated from marketing	40%	31%	9%
Customer level promotion/contact history	37%	37%	0%
Marketing spend with daily or weekly detail	33%	39%	-6%
Online and offline data linked	24%	47%	-22%

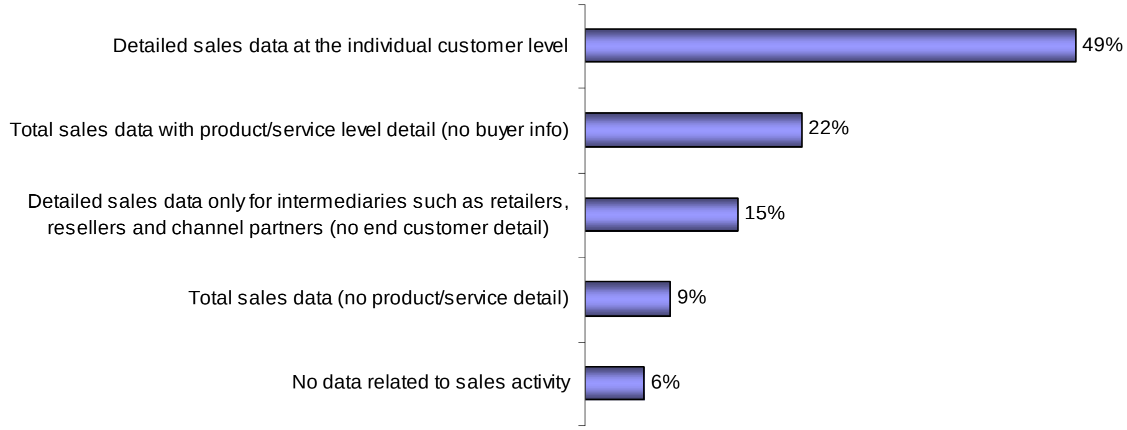
Survey participants were asked to identify the best level of sales data available to them by choosing one statement from the following list of choices (ranging from most to least detailed data):

- Detailed sales data at the individual customer level
- Detailed sales data only for intermediaries such as retailers, resellers and channel partners (no end customer detail)
- Total sales data with product/service level detail (no buyer info)
- Total sales data (no product/service detail)
- No data related to sales activity

Almost half (49%) indicated they are able to get detailed sales data at the individual customer level. Twenty-two percent (22%) can get product and service detail for their sales data but not individual buyer detail. Detailed sales data from intermediary channels is available for 15% of respondents. Fortunately, only a combined 15% are limited to aggregated or no sales data (9% and 6%, respectively). See Figure 14.

Figure 14: Best Level of Sales Data Available

Which of the following statements best describes the level of sales data you can access for marketing analysis? Choose the one statement that best applies. (n = 548)



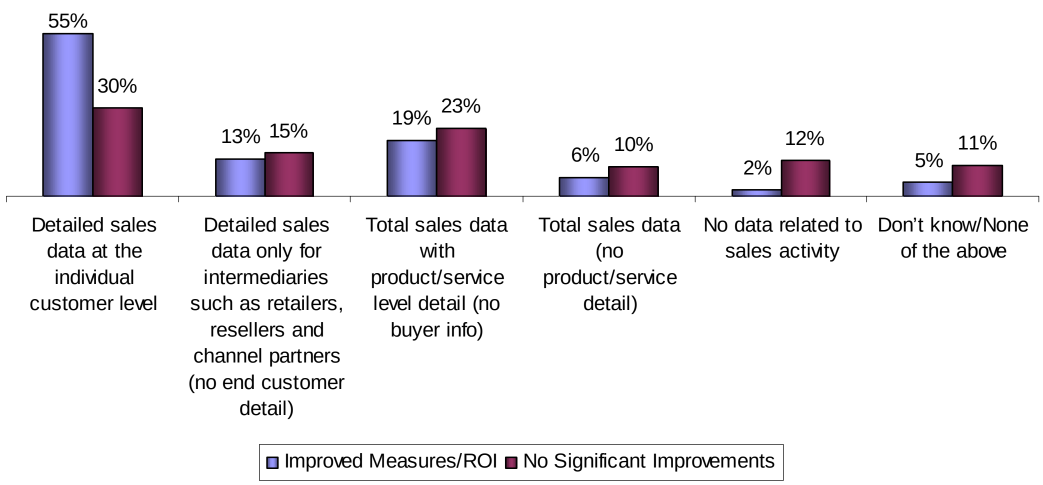
Companies with access to detailed sales data at the individual customer level are well positioned to leverage analytics to manage and improve marketing profitability. Analyses can uncover purchase patterns, customer value, and marketing influence to guide targeting decisions, strategic planning, and integrated marketing initiatives. Where detailed customer data is lacking, analytics can be applied at the market segments level instead of the individual contact level.

Companies with access to detailed sales data at the individual customer level are well positioned to leverage analytics to manage and improve marketing profitability.

Access to sales data is correlated to measurement and ROI progress. Companies that reported making some form of improvement in their measurement and ROI capabilities were much more likely to indicate they have access to detailed sales data at the individual customer level by a margin of 55% to 30% of those making no significant improvements. See Figure 15.

Figure 15: Level of Sales Data Available – Improved Measures/ROI vs. No Significant Improvement

Which of the following statements best describes the level of sales data you can access for marketing analysis? (n = 533 and 179; see Figure 6 for question defining segments)

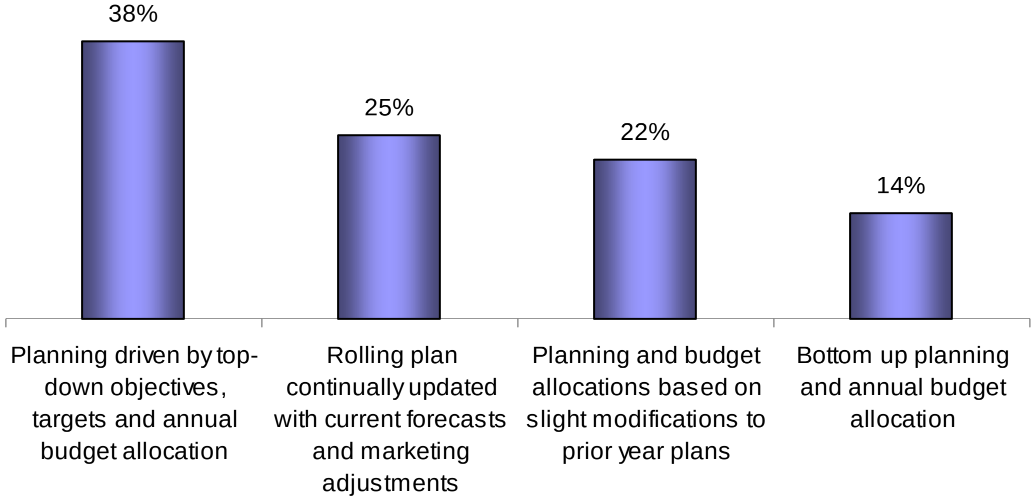


4. Marketing Planning Process

The most often used marketing planning process of the choices presented was "planning driven by top-down objectives, targets and annual budget allocation" which was selected by 38% of participants. Roughly one in four indicated using either a rolling plan with continuous updates (25%) or budgets based on slight modifications from the previous year (22%). The remaining 14% report using a bottom-up planning process for budget allocation.

Figure 16: Marketing Planning Process

Which of the following statements best describes the marketing planning process at your company? Choose the one statement that best applies. (n = 553)

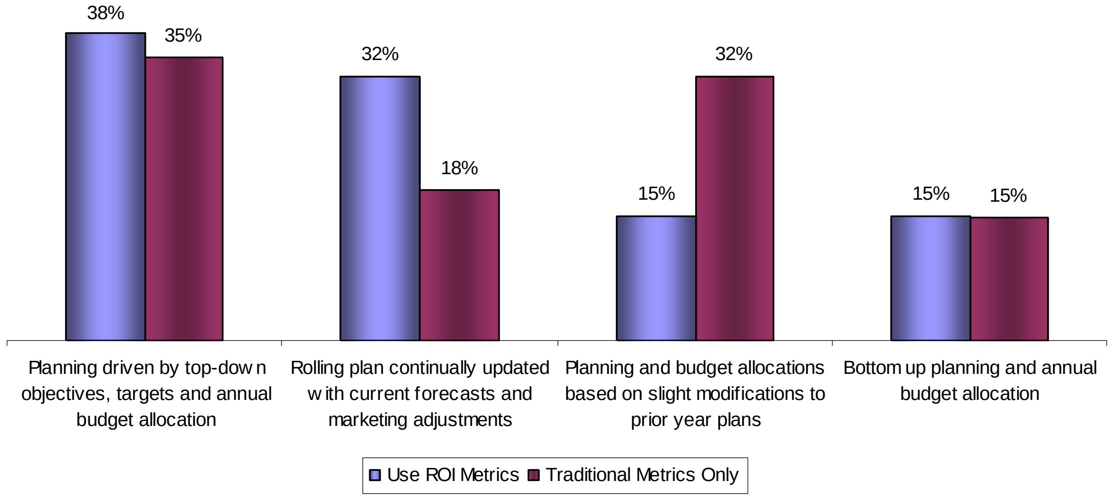


Companies using traditional metrics were much more inclined to report a planning process based on prior year plans (32% vs. 15% of ROI metrics users), which requires less analysis of market trends and opportunities, while the approach for companies using ROI/profitability metrics was rolling plans continually updated with forecasts and marketing adjustments (32% vs. 18% of traditional metrics users), which requires constant tracking of performance and market conditions. See Figure 17.

The approach for companies using ROI/profitability metrics was rolling plans continually updated with forecasts and marketing adjustments.

Figure 17: Marketing Planning Process – Users of ROI Metrics vs. Traditional Metrics

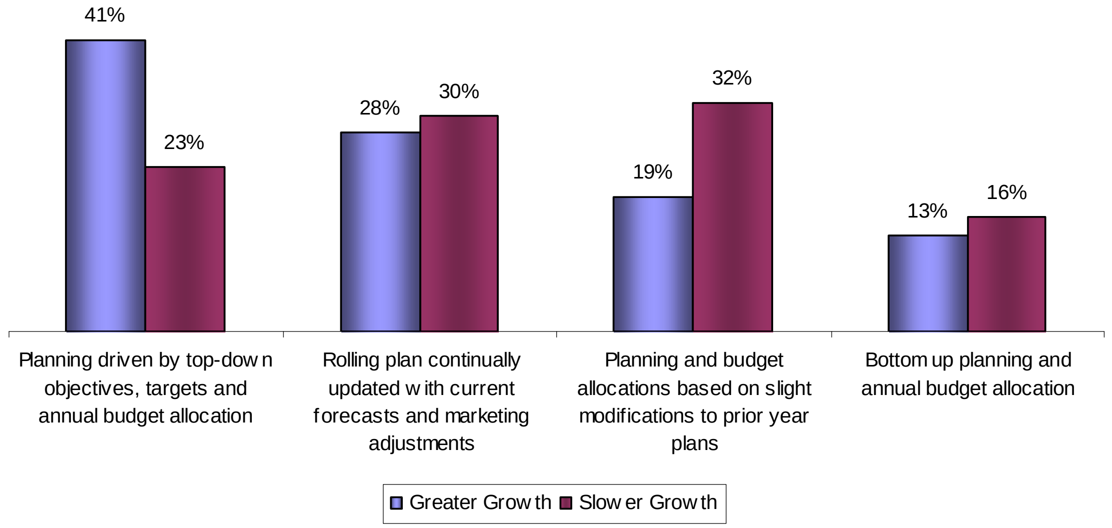
Which of the following statements best describes the marketing planning process at your company? Choose the one statement that best applies. (n = 152 and 214; see Figure 1 for question defining segments)



Similarly, companies that expected slower growth than their competitors also tended to base their marketing planning on prior year plans (32% vs. 19% for faster growth companies). Companies expected to outgrow their competitors were actually most likely to plan based on top-down objectives (41% vs. 23%).

Figure 18: Marketing Planning Process – Greater Growth vs. Slower Growth Companies

Which of the following statements best describes the marketing planning process at your company? Choose the one statement that best applies. (n = 316 and 57; see Figure 25 for question defining segments)

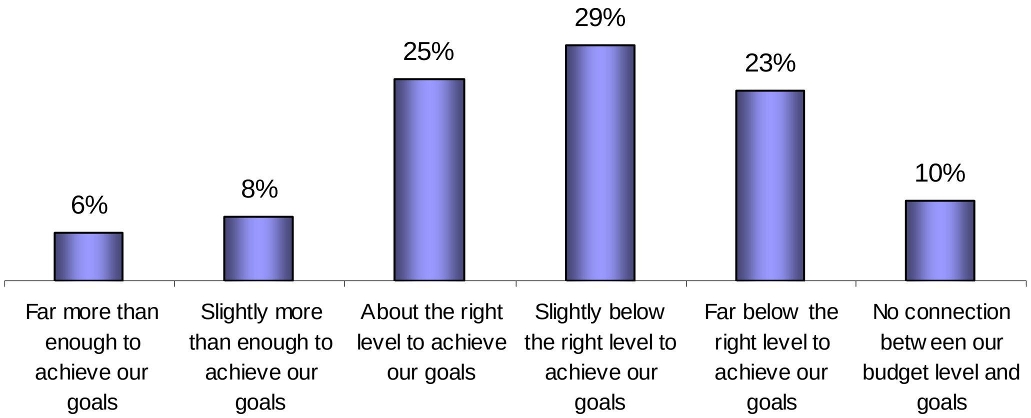


5. Budget and Goals

Roughly half (52% combined) of the marketers surveyed indicate their budget is slightly or significantly below the level necessary to achieve their goals. Twenty-five percent (25%) feel the budget level is about right, 14% believe the budget is above the level necessary to meet their goals and the remaining 10% indicate there is no connection between the budget and goals. See Figure 19.

Figure 19: Sufficient Budget to Achieve Goals

Which statement best describes how well your marketing budget aligns to your goals? Choose the one statement that best applies. (n = 517)



It is not unusual for marketing organizations to get challenged to deliver higher goals with less budget. Better marketing ROI analyses and measurements make the connection between marketing investments and goals that are financially quantified more apparent, even if the analyses are based on directional data or agreed upon assumptions. Almost half (49%) of those companies using marketing ROI and profitability metrics indicate their budget is sufficient or higher compared to just 29% of those using traditional metrics. And as shown in Figure 24 in the next section, high performing companies are more likely to secure sufficient budget.

Roughly half of the marketers surveyed indicate their budget is slightly or significantly below the level necessary to achieve their goals.

6. Profile of the Highly Effective and Efficient

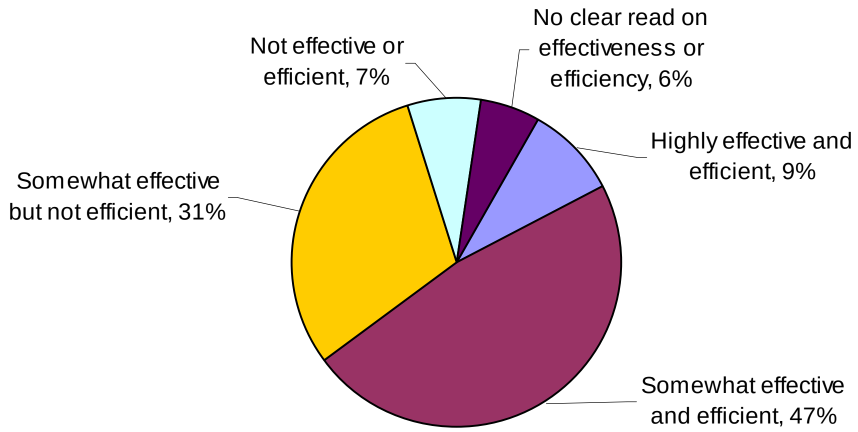
Our question on the combination of marketing effectiveness and efficiency required participants to choose the one statement from the list below that best described their performance. Marketing performance cannot really be efficient without first being effective so the scale was set accordingly.

- Highly effective and efficient
- Somewhat effective and efficient
- Somewhat effective but not efficient
- Not effective or efficient
- No clear read on effectiveness or efficiency

Almost half (47%) described their marketing at the modest level of somewhat effective and efficient. Thirty-one (31%) percent indicated their marketing is somewhat effective but not efficient. Only 9% believe they are achieving both high effectiveness and efficiency, a group that can easily be considered "high performers." See Figure 20.

Figure 20: Marketing Effectiveness and Efficiency

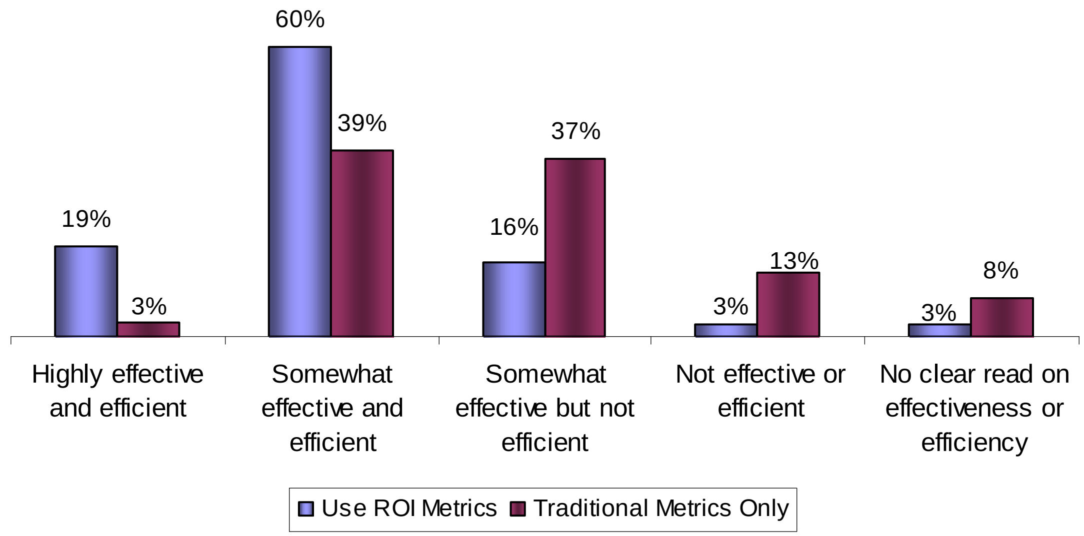
Which statement best describes your marketing effectiveness and efficiency. (n = 712)



While effectiveness can be judged by any metric, including non-financial traditional metrics, calculating the efficiency of marketing does require some level of financial analysis. This is somewhat confirmed as the companies using marketing ROI and profitability metrics have a combined 79% reporting at least some efficiency compared to just 42% for those companies using just traditional metrics. The portion indicating the top choice of highly effective and efficient was 19% vs. 3% for those two groups, as shown in Figure 21.

Figure 21: Marketing Effectiveness and Efficiency – ROI Metrics Users vs. Traditional Metrics Users

Which statement best describes your marketing effectiveness and efficiency. (n = 186 and 271; see Figure 1 for question defining segments)



Those 9% who report having highly effective and efficient marketing provide insight into the profile of high performance companies. Their marketing performance translates to business success as 45% indicate they expect much greater growth than their competitors (compared to 18% of the total base).

More than half (53%) are using ROI and profitability metrics to assess marketing effectiveness (vs. 26% overall) and 61% consider their ability to measure the financial returns of marketing as either a real source of leadership or as good as it needs to be (vs. 17% overall).

This high performance group reported stronger levels of measurement ability and better data access, which indicates that these highly effective and efficient marketing organizations are benefiting from greater levels of insight. These high performers report over double the positive ratings on their ability to measure diverse aspects of marketing performance. Top ratings went to their ability to measure the optimal allocation of the overall budget where 75% provided a rating of 4 or 5 on a 5-point scale where 5 meant "excellent." Roughly two-thirds provided positive ratings for their ability to measure the impact on profitable customers/segments, the incremental impact of marketing, and diagnosing performance gaps (69%, 65% and 63%, respectively) as shown in Figure 22.

Figure 22: Ability to Measure – Companies with Highly Effective and Efficient Marketing vs. Overall Base

How would you rate your ability to measure the following on a scale from "1" for very poor to "5" for excellent? (n = 56 and 671; see Figure 20 for question defining segments)

	Top 2 Ratings		
	Highly effective and efficient	Overall	Difference
Optimal allocation of the overall budget	75%	30%	45%
Impact on profitable customers/segments	69%	29%	40%
Incremental impact of marketing initiatives	65%	27%	38%
Diagnosing of performance gaps	63%	23%	40%
Incremental impact of integrated, multi-channel campaigns	52%	19%	32%
Calculating lifetime value	51%	17%	34%
Spending-level point of diminishing returns	48%	13%	35%

These high performers report over double the positive ratings on their ability to measure diverse aspects of marketing performance.

Marketers with highly effective and efficient marketing consistently showed better access to data for analysis. The advantages over the general base of marketers were primarily for data points that marketing could control with a certain amount of discipline and automation effort. These companies provided positive ratings on their ability to gain access to marketing spending data (70% vs. 30% overall), response and lead data (75% vs. 38%), and customer level promotion/contact history (67% vs. 35%). See Figure 23.

All of these data points are generally available to marketing but not aggregated and made accessible for marketing. Sales pipeline data is also information that could be captured and made available as companies understand that the investment necessary can provide significant value in measuring and managing marketing performance.

Figure 23: Ratings on Access to Info for Analysis - Companies with Highly Effective and Efficient Marketing vs. Overall Base

How would you rate your group's ability to gain access to the following types of critical information for analysis? Please use a five point scale where 1 indicates "very poor" and 5 indicates "excellent". (n = 56 and 578; see Figure 20 for question defining segments)

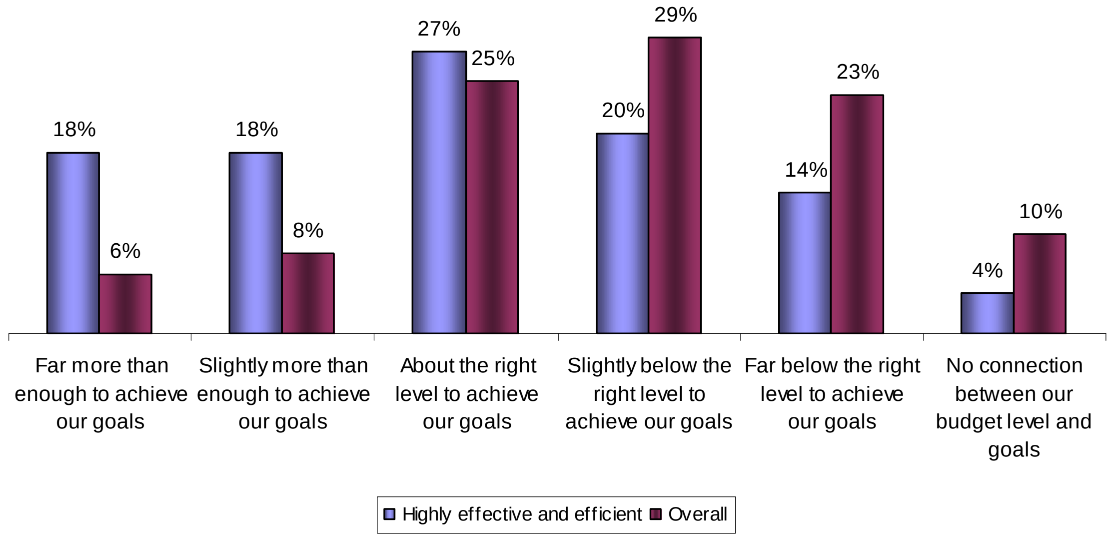
	Top 2		
	Highly effective and efficient	Overall	Difference
Sales reports - monthly detail	78%	61%	18%
Financial data such as revenue and/or profitability	78%	52%	26%
Response and lead data generated from marketing	75%	38%	37%
Sales reports - daily or weekly detail	70%	50%	20%
Marketing spend with daily or weekly detail	70%	30%	39%
Customer level sales data	68%	46%	22%
Customer level promotion/contact history	67%	35%	32%
Sales pipeline	59%	37%	23%
Online and offline data linked	48%	22%	26%

The advantages over the general base of marketers were primarily for data points that marketing could control with a certain amount of discipline and automation effort.

Not surprisingly, companies with highly effective and efficient marketing – who are also more likely to use ROI and profitability metrics, have better access to data, and have better measurement abilities – are able to secure the right budget level to achieve their goals (63% vs. 39% overall).

Figure 24: Sufficient Budget to Achieve Goals - Companies with Highly Effective and Efficient Marketing vs. Overall Base

Which statement best describes how well your marketing budget aligns to your goals? Choose the one statement that best applies. (n = 51 and 516; see Figure 20 for question defining segments)



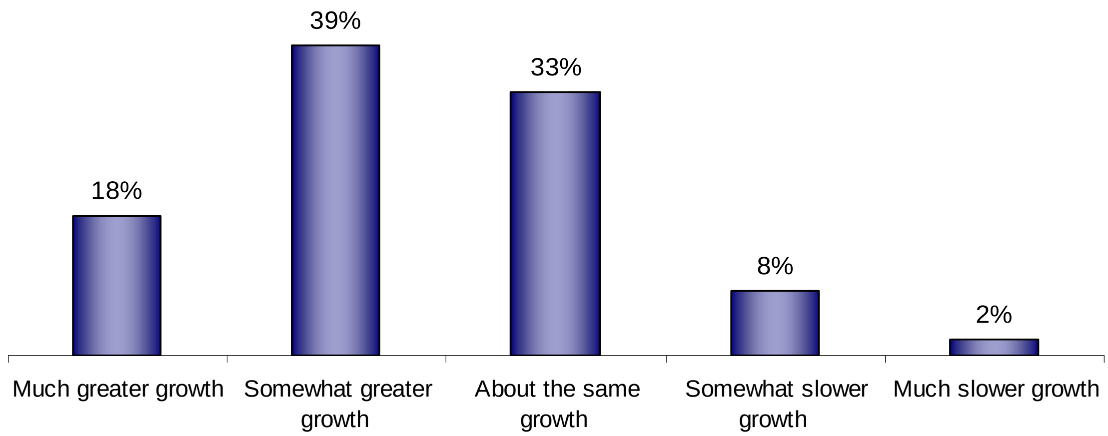
Companies with highly effective and efficient marketing - who are also more likely to use ROI and profitability metrics, have better access to data, and have better measurement abilities - are able to secure the right budget level to achieve their goals.

7. Growth Drivers

Expectation for growth relative to primary competitors was generally optimistic. More than half (57% combined) of the survey participants expect to outgrow their competitors in the upcoming year. One-third (33%) expect comparable growth and a combined 10% expect to lag behind their competitors. See Figure 25.

Figure 25: Expected Growth Relative to Competitors

How would you describe your firm's expected growth in the upcoming year relative to your primary competitors? (n = 712)



To share more insight into potential correlations to growth, the following bullet list summarizes where companies that are expecting greater growth than their competitors differ from those companies expecting slower growth.

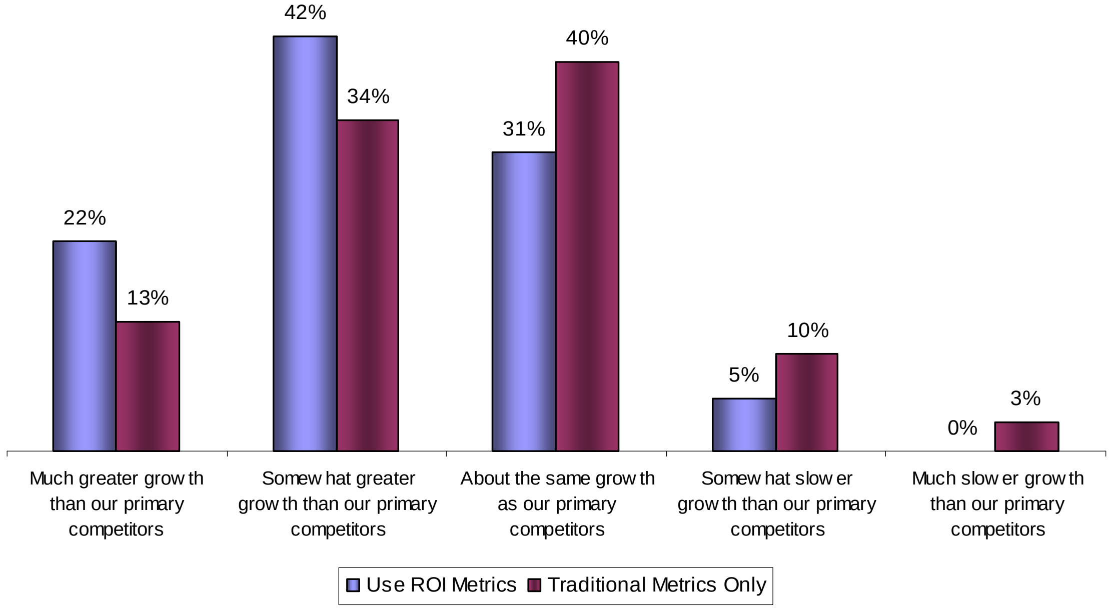
- Greater growth companies were more likely to be using ROI metrics (29% vs. 14% of slower growth companies).
- Slower growth companies were more likely to report making no significant progress in their measurement and ROI capabilities over the past year (42% vs. just 18% of greater growth companies).
- Greater growth companies were more likely to have access to sales data at the individual customer level (54% vs. 36% of slower growth companies).
- Greater growth companies tend to approach their marketing planning via top-down objectives (41% vs. 23% of slower growth companies) while slower growth companies drive planning and budget allocation based on modifications to prior year plans (32% vs. 19%).

- Greater growth companies provided much higher positive ratings on our diverse list of marketing performance measurement capabilities. The most significant gap was in their ability to measure the marketing impact on profitable customers/segments where positive ratings from 41% were quite higher than the 10% of slower growth companies.

Two-thirds (64%) of those marketers using ROI metrics expect to outgrow their competitors compared to roughly half (47%) of those using only traditional metrics. Only 5% of companies using ROI/profitability metrics expect to lag behind their competitors in the upcoming year.

Figure 26: Expected Growth Relative to Competitors – Users of ROI Metrics vs. Traditional Metrics

How would you describe your firm's expected growth in the upcoming year relative to your primary competitors? (n = 186 and 271; see Figure 1 for question defining segments)



Two-thirds (64%) of those marketers using ROI metrics expect to outgrow their competitors compared to roughly half (47%) of those using only traditional metrics.

8. Comparisons by Company Size

The results and trends reported here are generally consistent across smaller, medium and larger companies. For this analysis, company size was based on revenue. Each of the three revenue segments represented close to a third of those surveyed with 32% reporting less than $5 million in revenue, 30% reporting revenue between $5 million and $50 million, and 29% indicating a revenue level above $50 million (all US dollars; 8% indicated Don't Know; see Figure 29 in the Participant Profile section).

Key differences identified include:

- The use of marketing ROI metrics was slightly higher for mid-size and larger companies (29% and 28% vs. 23% for smaller companies), however the self-assessment in terms of the companies' ability to measure the financial returns from marketing investments showed larger companies less satisfied. Only 11% indicated it was as good as it needs to be or a real source of leadership compared to 17% of mid-size companies and 22% of smaller companies.
- Larger companies had a slight advantage in terms of adding marketing analytic staff (14% vs. 7% for smaller companies).
- Larger companies reported planning their marketing based on top-down objectives, targets, and budget allocation (49% vs. 40% for mid-size companies and 27% for smaller companies). Smaller companies favored the approach of a rolling plan continuously updated with current forecasts and marketing adjustments (33% vs. 23% for mid-size companies and 13% for larger companies).

9. External Perspectives

The survey results throughout this report include only those from marketing practitioners and did not include the responses of external agencies/consultants responding on behalf of their clients, or academics and industry experts responding for the industry as a whole. Their opinions were very consistent with marketing practitioners but we want to avoid those slight cases of a bias that may come from an external perspective.

In comparing these three groups, there were no differences of major significance or relevance. A few interesting differences to note:

- Academics/industry experts were more optimistic on our ROI self-assessment question with 26% believing the ability to measure financial returns from marketing was as good as it needs to be or a real source of leadership (compared to 17% of marketing practitioners). Agencies/consultants were more consistent with marketing practitioners with 19% indicating the same favorable ratings.
- Agencies/consultants were more likely to perceive marketing they are familiar with as highly effective and efficient (16% compared to 9% of marketers and agencies)
- Agencies/consultants perceived that more of the marketing planning is driven by top down objectives (43% vs. 36% of marketers and academics) and less on last year’s plans compared to marketing practitioners (13% vs. 21% of marketers and 22% of academics/industry experts).

Participant Profile

The following charts show the profile of the survey respondents included in the analysis.

Figure 27: B2B vs. B2C Business Model

Does your revenue come primarily from consumers (B2C), business customers (B2B) or a combination of both? Please choose the statement that best describes this mix. (n = 593)

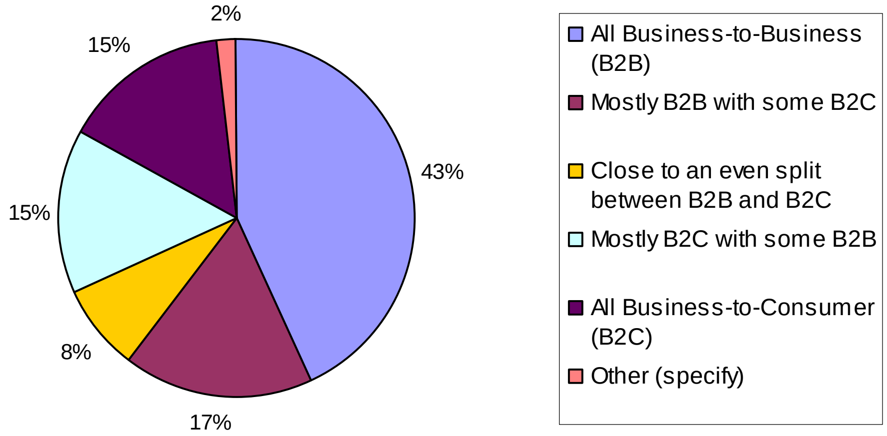


Figure 28: Region

In which geographic region is your business based? (n = 536)

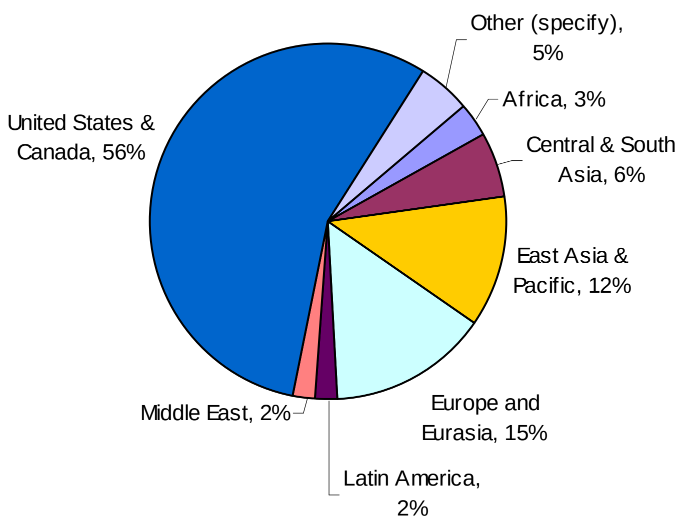


Figure 29: Company Size based on Annual Revenue

Approximately how much revenue did your business generate last year (for government and non-profit groups, please use your expense budget)? (n = 536)

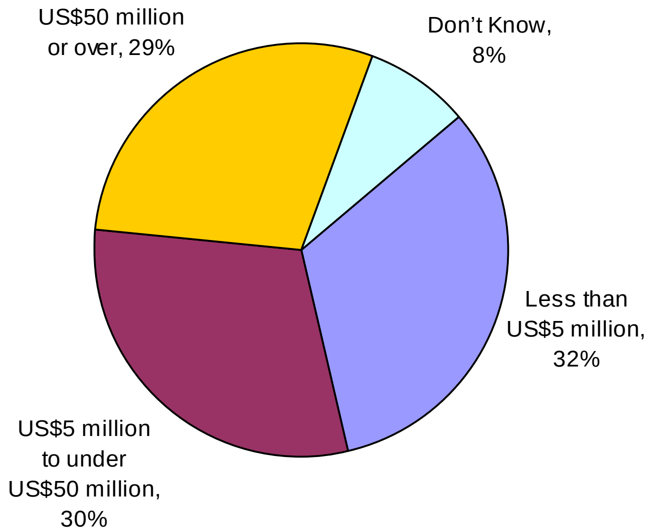


Figure 30: Approach to Selling

Which of the following best describes your company's primary approach to selling? (n = 536)

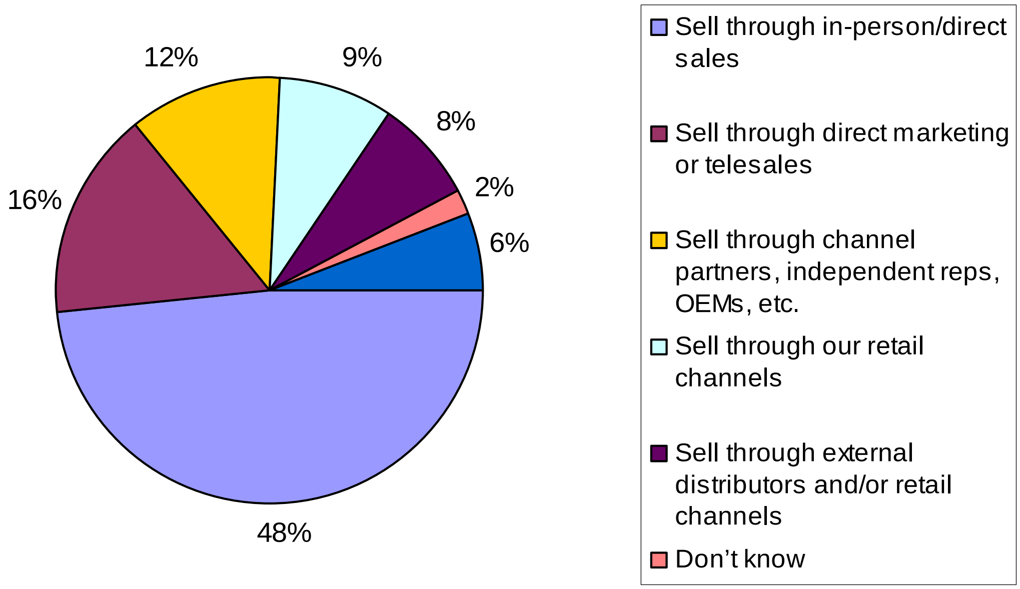


Figure 31: Role of Marketing

Which of the following best describes your marketing organization's role within the company? (n = 536)

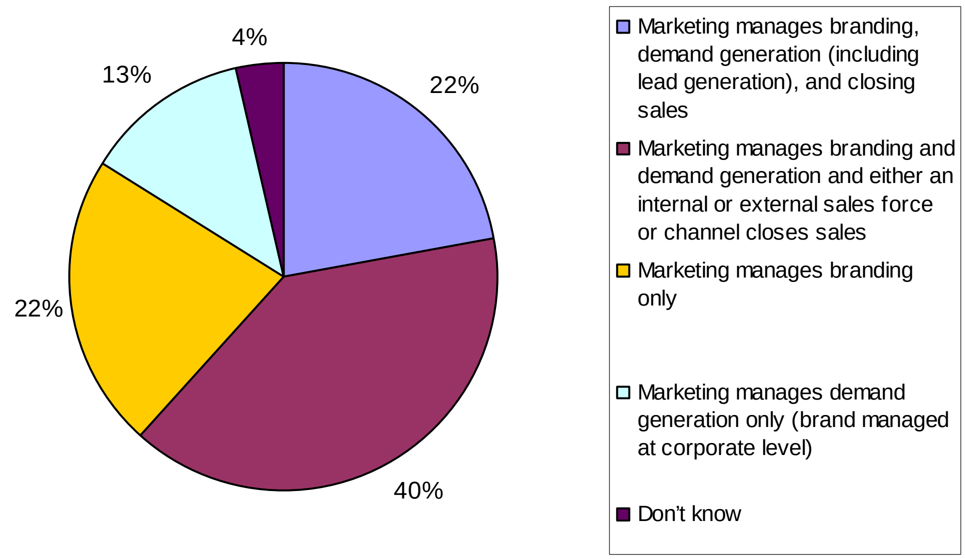
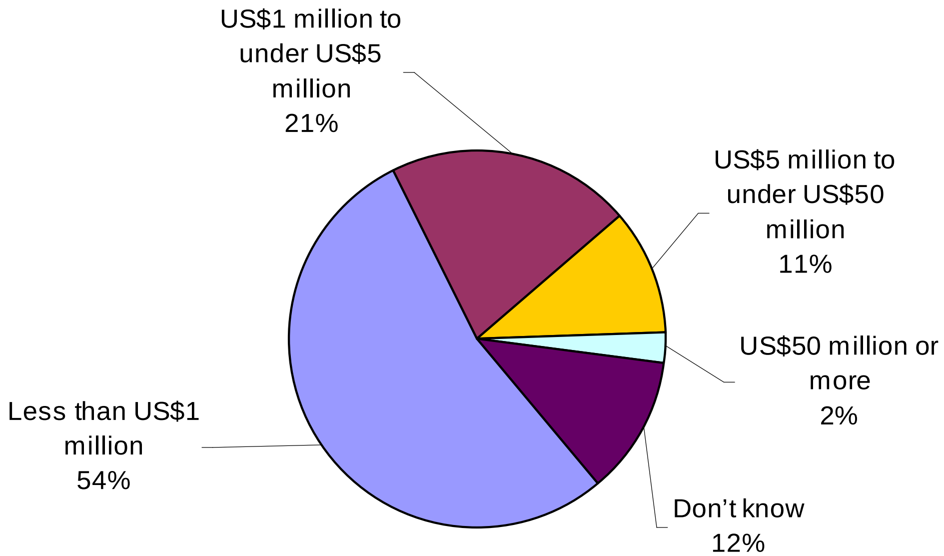


Figure 32: Marketing Budget

Approximately how much did your company spend on marketing, advertising and sales activities in 2007? (n = 536)



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 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
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- Customer acquisition and lead generation program profitability improvements with integrated strategic and analytic services
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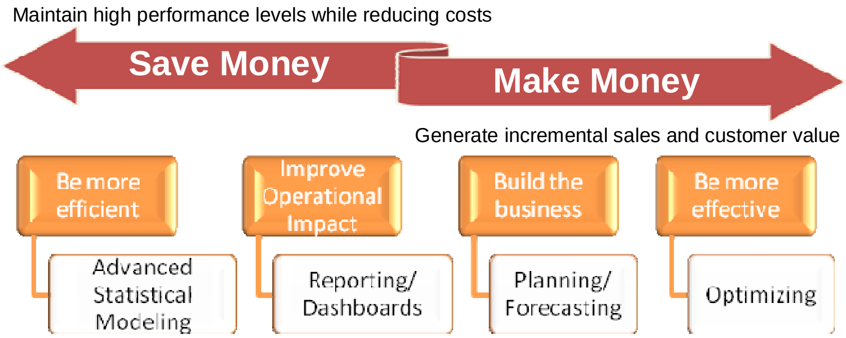

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