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VIEWPOINT

How to get marketing back in the boardroom

Some thoughts on how to put right the well known malaise of marketing

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Abstract

Purpose – To show how the marketing discipline has lost its boardroom credibility by its own short sightedness over the past half century, and suggest how the situation might be redeemed.

Design/methodology/approach – Personal reflection, based on long, broad and deep experience.

Findings – Whereas success is measured in capital markets in terms of shareholder value-added, balanced against risks associated with future strategies, the time value of money and the cost of capital, marketing management avoids such issues – this despite the fact that most of the capital value of companies resides in intangibles, the very things on which their actions have an impact.

Practical implications – Senior practitioners, business-school academics and marketing consultants will have to change their attitudes and behaviour if the marketing function is to be restored to the boardroom.

Originality/value – A call to arms.

Keywords Marketing management, Risk management, Boards of directors

Paper type Viewpoint

There is little point in wasting the opportunity afforded by an invitation to write a Viewpoint by even more flagellation of the discipline we all love and to which we have devoted our professional lives. The reasons for our malaise were spelled out very clearly in a somewhat tongue-in-cheek paper of mine in the *Journal of Marketing Management* shortly after I retired as a full-time Professor of Marketing (McDonald, 2004).

The very title of the paper surely gave more than a hint of what was to follow: "Marketing, existential malpractice and an etherised discipline: a soteriological comment". In it, fully referenced and evidenced of course for such a distinguished journal, I reviewed the failure of three main contributors to the business of marketing: consultants, practitioners and academics.

As the great J.R.R. Tolkien said, in *The Hobbit*:

> Now it is a strange thing, but things that are good to have and days that are good to spend are soon told and not much to listen to; while things that are uncomfortable, palpitating and very gruesome, may make a good tale and take a deal of telling anyway (Tolkien, 1995).

So, those eschatological academics who smash up marketing and its people, and then retreat into their privileged, protected power bases, taking with them their vast

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carelessness and offering very little to help us find a way forward, can continue, if they wish, to become increasingly irrelevant to the world of practice. In the UK, they are all too easily encouraged by the wretched and destructive RAE.

This is not, of course, to belittle in any way grave debates such as art versus science, phenomenology versus positivism,, etc., etc. and long may they continue. Surely, however, the time has come for us as a community to address the central issue that marketing faces, which is that after fifty years, it has become a laughing stock and is seen as little more than promotional puffery. We should be garnering our formidable scholarly knowledge and wisdom to help marketing become a serious discipline in the real world.

As I said in the aforementioned paper:

> The options then, are clear. Let us stop all this pretence at strategy and concentrate on where the marketing community actually is, which is sales support. Or, let us take marketing centre stage, with a major impact on corporate strategy development.

I ended thus:

> We have a wellspring of young genius up and coming in our university business schools. Our plea is that once they have been trained as rigorous researchers, preferably via a PhD, they should be encouraged to be set free from all that is bad about the current modus operandi and encouraged to address all this genius to the heartland of marketing.

Having already had the privilege, then, of airing my own personal rant, the purpose of this Viewpoint is to offer at least one step forward in the march towards getting marketing back in the boardroom alongside all the other disciplines.

So, here goes!

It seems to have escaped our attention that, in capital markets, success is measured in terms of shareholder value added, having taken account of the risks associated with declared strategies for the future, the time value of money and the cost of capital. This is totally different from traditional notions of profit and, until we take account of that in the marketing community, we will never justify a place in the boardroom.

Certainly, if I were a CEO and asked my chief marketing officer what we had got for our £20 million investment in marketing, to be told that we had achieved an increase in awareness, or a change in attitude, I would show him the door without delay. So let me briefly put this whole measurement business into perspective.

The problem with marketing accountability has never been how to measure the effectiveness of promotional expenditure, for this one we have had for many years. No, the problem occurs because marketing is not just a promotional activity. In world class organisations where the customer is at the centre of the business model, marketing as a discipline is responsible for defining and understanding markets, for segmenting them, for developing value propositions to meet the researched needs of the customers in those segments, for getting buy-in from all those in the organisation responsible for delivering that value, for playing their own part in delivering it and for monitoring whether the promised value is being delivered.

Indeed, this definition of marketing as a function for strategy development as well as for tactical sales delivery, when represented as a map, can be used to clarify the whole problem of how to measure marketing effectiveness. Figure 1 shows three levels of measurement, or “metrics”.

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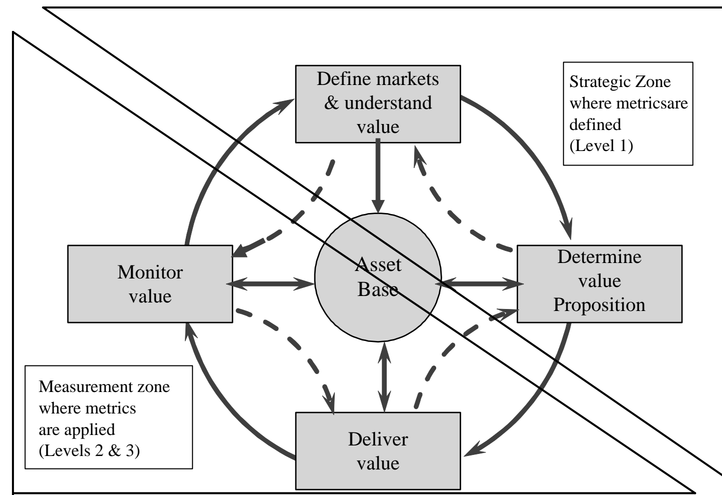

Figure 1.
The marketing domain

Level 1 is the most vital of the three, because it is what determines whether or not the marketing strategies for the longer term (usually three to five years) destroy or create shareholder value added. It is justifiable to use the strategic plan for assessing whether shareholder value is being created or destroyed because, as Kelly (2006) agrees:

> The Customer is simply the fulcrum of the business and everything from production to supply chain, to finance, risk management, personnel management and product development, all adapt to and converge on the business value proposition that is projected to the customer.

Thus, corporate assets and their associated competences are relevant only if customer markets value them sufficiently highly that they lead to sustainable competitive advantage, or shareholder value-added. This is our justification for evaluating the strategic plan for what is to be sold, to whom and with what projected effect on profits as a route to establishing whether shareholder value with be created or destroyed – a point I will expand on later.

Further, however, let us all support Tim Ambler of the London Business School in his quest to rid us of one of the great myths of measurement – marketing return on investment. This implies "return" divided by "investment" and, for marketing expenditure such as promotional spend, is an intellectually puerile notion: a bit like demanding a financial justification for the wings of an aircraft.

Level 3 is the level of micro promotional measurement I have described above and is concerned with, inter alia, up-selling, cross-selling, customer churn, cost-effectiveness and the like.

There is another level, number 2 in this scheme, that few academics or practitioners have addressed to date. I shall describe it briefly here, though once Level 1 measurement has been applied to the long range marketing strategy, it remains central to the issue of marketing metrics and marketing effectiveness.

Figure 2 (to be read from right to left), shows how actions designed to affect customer-critical success factors for each major product are linked to revenue and profit generation. Thus, it links expenditure on marketing and other functional

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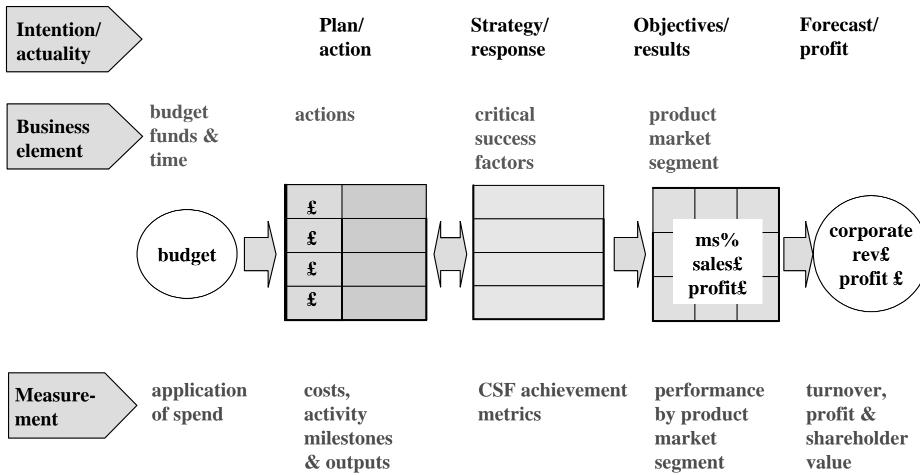

Figure 2. Actions, revenue and profit

activities to marketing objectives and, ultimately, to profitability. It thereby makes it clear exactly what must be measured and why. It also negates the absurd assumption that particular marketing actions can be linked directly to profitability. In truth, they can be associated only with other weighted success factors, the improvement of which should lead to volume, value and ultimately profit.

I stress, however, that the corporate revenue and profits shown at the right of Figure 2 are not the same as shareholder value-added. After many years of research at Cranfield School of Management, it is now possible to establish quantitatively whether a company's planned strategies will create or destroy shareholder value.

Briefly, there are three kinds of risk:

(1) market risk – the market might not be as big as you think it is;

(2) strategy risk – you might not win the market share you plan to; and

(3) profit risk – you might not get the profit margins you plan to.

A detailed pathology of business planning failures over the past 50 years shows that each of these three categories can be subdivided into five more, giving 15 factors that make a plan risky, as in Table I.

These different risks are cumulative, and, whilst the first and second of the three affect revenue, the third impacts on margin. Taken together they form the basis of risk-adjusted assessment. It is then comparatively easy to deduct the cost of capital from these cash flows, to establish whether shareholder value is being created or destroyed.

In a short article, it is impossible to spell out in detail how this process works. Hopefully, however, I have communicated two things: first, that there are at least three levels of marketing accountability; second, that there is a rigorous process for assessing whether a market strategy will create or destroy shareholder value. It is the second of those that will put marketing back where it belongs – in the boardroom.

The risk assessment process that happens to lie at the heart of a marketing due-diligence process takes as its inputs the business plan and supporting data. It

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Table I.
Risk factors

What makes markets risky?	Product category risk is lower if the product category is well-established and higher for a new product category Segment existence is lower if the target segment is well established and higher if it is a new segment Sales volumes risk, which is lower if the sales volumes are well supported by evidence and higher if they are guessed Forecast risk, which is lower if the forecast growth is in line with historical trends and higher if it exceeds them Pricing risk, which is lower if the pricing assumptions are conservative to current pricing levels and higher if they are optimistic
Assessing strategy	Target market risk, which is lower if the target market is defined in terms of homogeneous segment and higher if it is not Proposition risk, which is lower if the proposition delivered to each segment is segment specific and higher if all segments are offered the same thing SWOT risk, which is lower if the strengths and weaknesses of the organisation are correctly assessed and leveraged by the strategy and higher if the strategy ignores the firm's strengths and weaknesses Uniqueness risk, which is lower if the target segments and propositions re different from that of the major competitors and higher if they strategy foes "head on" Future risk, which is lower if the strategy allows for any trends in the market and higher if it fails to address them
The risks of putting things into practice	Profit pool risk, which is lower if the targeted profit pool is high and growing and higher if it is static or shrinking Profit sources risk, which is lower if the source profit is growth in the existing profit pool and higher if the profit is planned to come from the market leader Competitor impact risk, which is lower if the profit impact on competitors is small and distributed and higher if it threatens a competitor's survival Internal gross margin risk, which is lower if the internal gross margin assumptions are conservative relative to current products and higher if they are optimistic Other costs risk, which is lower if assumptions regarding other costs, including marketing support are higher existing costs and higher if they are lower than current costs

actually gives very little weight to directors' optimism and the spin of investor relations. The output of the risk assessment is a number, a tangible expression of the risk created or reduced by the choice of market and strategy. This number is fed into the traditional (and, therefore, trusted) calculations used by investors to assess the value of a firm's strategy. As a result, we are able to answer the big question: does this plan create shareholder value? The answer is often surprising. Companies that promise apparently healthy profits would often destroy shareholder value by delivering returns that fail to justify the risk. The degree to which the plan creates shareholder value, of course, informs an accurate valuation of the company.

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For investors and their proxies such as bankers and analysts, marketing due-diligence enables a reasoned and substantiated investment decision. It transforms a process of portfolio management from a black art to a well-founded technology. It also provides a stick with which to beat incompetent directors who have long hidden in the vagueness of business plans.

For directors and managers, it has two potential uses. It allows for a highly rigorous assessment of the business plan in terms of its potential to create shareholder value. If the plan passes through this diagnostic phase, then the outputs of the marketing due-diligence process become a strong bargaining chip in negotiations with investors and other sources of finance. If the plan fails to pass the test, the results illuminate its weaknesses, and point to readily-implemented corrective action.

My work with the boards of many of the world's leading companies on every continent has taught me that marketing accountability is indeed at the top of almost everyone's agenda. Unless we tackle this seriously in our scholarly endeavours, instead of addressing ourselves in an increasingly irrelevant language in increasingly esoteric journals to increasingly irrelevant issues, we will fall even further behind as a serious discipline and put at risk all of our reputations.

There are, of course, many other pressing issues, such as the increasing power of few major customers and how to respond to it (but few business schools are addressing this major cause of concern), the impact that technology is having on routes to market and integrated marketing communications campaigns, and so on.

My plea to my colleagues who are not retired as I am, therefore, is to use our formidable power base – and, if necessary, the RAE – to make ourselves relevant to the real world, as a route to getting those of us who operate in the real world to be taken seriously in the boardrooms.

This Viewpoint is one small step, I hope, in that direction.

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