IMPROVING THE TOP AND BOTTOM LINES THROUGH ROMI MEASUREMENT SYSTEMS AND PROCESS MANAGEMENT

Return on marketing investment (ROMI) is quickly becoming the prevailing paradigm for the marketing scientist. This article explains why ROMI improvement will lead executives to see marketing spending not as "the cost of doing business," but a "wise investment *in* the business."

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Partly in response to the Sarbanes-Oxley Act of 2002, the boards of directors and top executives of the largest US public companies are looking at areas where huge amounts of money are being spent, with an eye towards higher levels of accountability. Marketing expenditures are squarely in the headlights and an industry sea-change called ROMI (return on marketing investment) is emerging as the new mental model for the marketing profession.

Some executives believe that marketing faces a unique challenge, as many key financial outputs, such as sales forecasts and returns, are "based on abstract or estimated data generated through nonstandardized processes."[1] In any case, it is clear that there is tremendous pressure on chief executive officers, chief financial officers, and chief marketing officers to strengthen process management and controls in order to deliver quantifiable results to their shareholders.

Although major organizational and process changes will be required to deliver to the ROMI imperative, this is a once-in-an-industry-lifetime opportunity for marketing executives to rise to the occasion, accept the challenges involved in transformation of this nature, and stick their necks out to lead the charge. Dr. David

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THE SCIENCE HAS DEMONSTRATED THAT EACH INDIVIDUAL TV AD HAS ITS OWN DISCRETE BUSINESS VALUE IN IMPACTING CONSUMER PREFERENCE.

Stewart, the Robert E. Brooker Professor of Marketing at the University of Southern California's Marshall School of Business, observed the simplicity of the ROMI revolution: "The way marketing becomes accountable is through the process of measuring, managing, and improving the return from specific things they do that cost money."[2]

The role of marketing communications

It has been proposed, demonstrated empirically, and generally accepted that the role of marketing communications is to create consumer preference for a brand in a manner that results in higher sales, price point, market share, market value, and cash flow. The ROMI movement has led to a new set of measurement solutions based on a proven measurement of consumer brand choice, empirical knowledge, and the needs of the emerging ROMI environment.

To date, however, there has been a lot of talk about ROMI, but little aggressive action. Most executives will admit that their measurements need to improve—particularly those that represent the impact of marketing activities on the hearts and minds of consumers, both critical elements of consumer brand choice and, therefore, of marketing communications success. Yet confusion remains regarding how to begin measuring and then improving ROMI.

Much of the movement to date is represented by industry associations as well as ad hoc groups forming task forces to survey the landscape and determine action steps. The Association of National Advertisers (ANA), for example, established the Marketing Accountability Task Force to review best practices across numerous verticals, compile standards for defining marketing return on investment (ROI), and describe tools that can simplify ROI calculations; and the Boardroom Project (an ad hoc group of cross-discipline industry thought leaders chaired by USC's Dr. Stewart) has recently come forth with its work in defining ROMI measurement standards as well as a suggested protocol for auditing and selecting marketing metrics that meet the standards.

An interesting parallel to this ROMI sea-change is the auto industry, where US companies did not readily accept W. Edwards Deming's statistical methods of measurement and process management in manufacturing. Deming went on to Japan as a result of finding no ear for his message in the United States and, with his quality management approach, helped the Japanese out of their post-World War II economic problems and beyond (Toyota is projected to surpass General Motors as the world's largest auto manufacturer within this decade). Similar discomfort exists today in the marketing and advertising community. As Deming pointed out, it's the process that requires change, not the people. Marketers must think about the science of measurement and process management in order to improve performance and ROMI.

Start ROMI improvement with television investments

Television is still the most powerful, but also the most expensive, activity in the marketing communications budget with advertising costs rising about 19 percent over the past two years. The science has demonstrated that each individual TV ad has its own discrete business value in impacting consumer preference for a brand, and that managing the ads relative to their business values along with the media is worth five times (holds five times the leverage) as managing the media alone.

Some marketers are beginning to get a grip on their returns from television investments, at both the brand and enterprise levels. They realize that if they walk away from television advertising, they will save money short term but erode market share; yet if they stay with television in spite of increased costs, profit margins will drop. Because neither of these decisions is a compelling choice, the best option is to improve the return by managing the ads while managing the media buys. Heretofore, media dollars have been allocated on an "ad neutral" basis.

The ARS Group's APM®Facts (with the Outlook Planner) provides the measurement of brand choice and future market impact for each television ad in the portfolio, and thus a means to forecast returns and optimize the media investments going forward by allocating weight behind the strongest ads

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and for only as long as these ads are working. Process change/management using this ROMI measurement solution and planning tool improves the return at both the top and bottom lines more than enough to cover the recent cost increases of the medium overall. Furthermore, it provides marketing management the flexibility to achieve desired business results across brands in the portfolio over the next quarter.

The US movie industry serves as an analogy for this process of deciding how much to invest behind the ads. The large movie studios understand that they will produce a few big winners, a few losers, and many films in the middle. Once the movie is in hand, they manage their marketing and distribution expenditures wisely. Winners get advertised and promoted heavily for optimal return from the box office through the end of the chain. Losers proceed quickly to video stores, and the ones in the middle get varying amounts of marketing support and enter the distribution chain relative to their appeal levels and forecasted business returns. Media dollars are allocated in a similar fashion behind ads, based on the forecasted business value of each product in the portfolio.

The ROMI future

ROMI is fast becoming the new mental model for marketing and thus for the marketing scientist as well. Yet as measurement takes center stage, organizational changes are required for improving financial performance. It is critical to understand and address both parts of the ROI equation—the costs and revenue/margin return—as well as to understand, master, and adopt the statistical approach to process management and improvement. Companies must measure everything that marketing does with metrics that predict the business results of the planned activities. Metrics that do not predict the business outcomes of a marketing activity, or are not actionable, should be tossed aside. The metrics need to be data-warehoused, along with other drivers, and continual research-on-research needs to be conducted to create and manage the knowledge required to improve the marketing process, output, and results on an ongoing basis. As the industry looks for the drivers of success, also referred to as "diagnostics," it must keep only those that go beyond explaining the past to those that help marketing executives improve performance.

The road to ROMI improvement means that the corporate paradigm of marketing spending will shift from "a cost of doing business" to "wise investments in the business." ■

NOTES

[1] D.Gill, "Sales & Marketing's Compliance to 404 of Sarbanes-Oxley: An Analytics Perspective," *Upper Quadrant* (2003).

[2] Quoted from Dr. Stewart's address to the IIR ROMI Conference in 2005.

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