

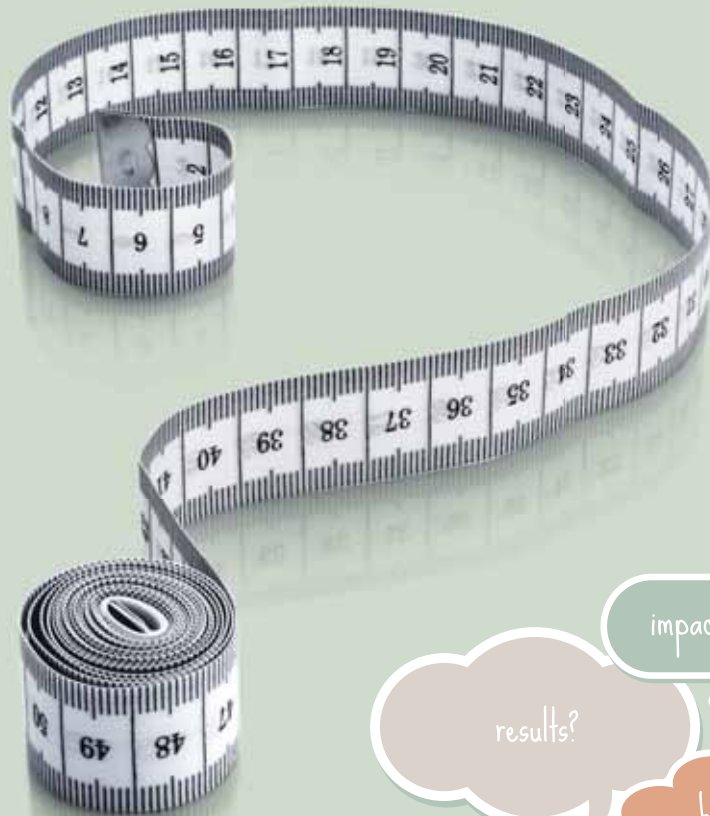
MARKETING PERFORMANCE

influence?

success?

excellence?

satisfaction?



impact?

results?

benefit?



Proving Marketing Success Pays Off!

MARKETING PERFORMANCE MEASUREMENT AND ITS EFFECTS ON MARKETING'S STATURE AND FIRM SUCCESS

Don O'Sullivan and Andrew V. Abela

It has been widely argued that an inability to account for marketing's contribution has undermined its standing within the company. Furthermore, the effect of marketing activities on business success is underestimated. To respond to this pressure, marketers are investing in the development of performance measurement abilities. In this study of senior marketing managers in high-tech firms, the effect of the ability to measure marketing performance against business performance is examined. The authors also explore the effect of the ability to measure marketing against marketing's status within the company. Results indicate that this ability is essential given that it has a significant impact on company performance, profitability, stock returns, and marketing's stature within the company. Considering these effects, the closing managerial implications are highly relevant for marketing professionals.

Marketing's Contribution to Business Performance is Questioned by Top Management

Marketing budgets in many companies are currently under threat as they look to minimize discretionary spending in response to growing economic uncertainty. Marketing is seen as unaccountable and thus a discretionary expenditure. Marketing has failed to provide CEOs, CFOs and other senior executives with useful information on marketing's effectiveness, efficiency and contribution to the value of the company. As a consequence, top management tends to see the cost side rather than positive outcomes of marketing activities and seems to hope that reducing marketing spending will go unnoticed by the market and will hardly affect business.

Marketers' inability to account for the function's contribution to business performance is further recognized as a key factor in marketing's loss of status within organizations. Senior management teams in most companies spend less than 10 % of their time discussing marketing issues and are often dissatisfied with marketing's contribution.

Greater marketing accountability is assumed to help in this situation. Measuring and documenting marketing success should clarify its impact on firm performance. Underlying the demand for greater accountability is the assumption that improvements in marketing's ability to document results will actually raise the company's per-

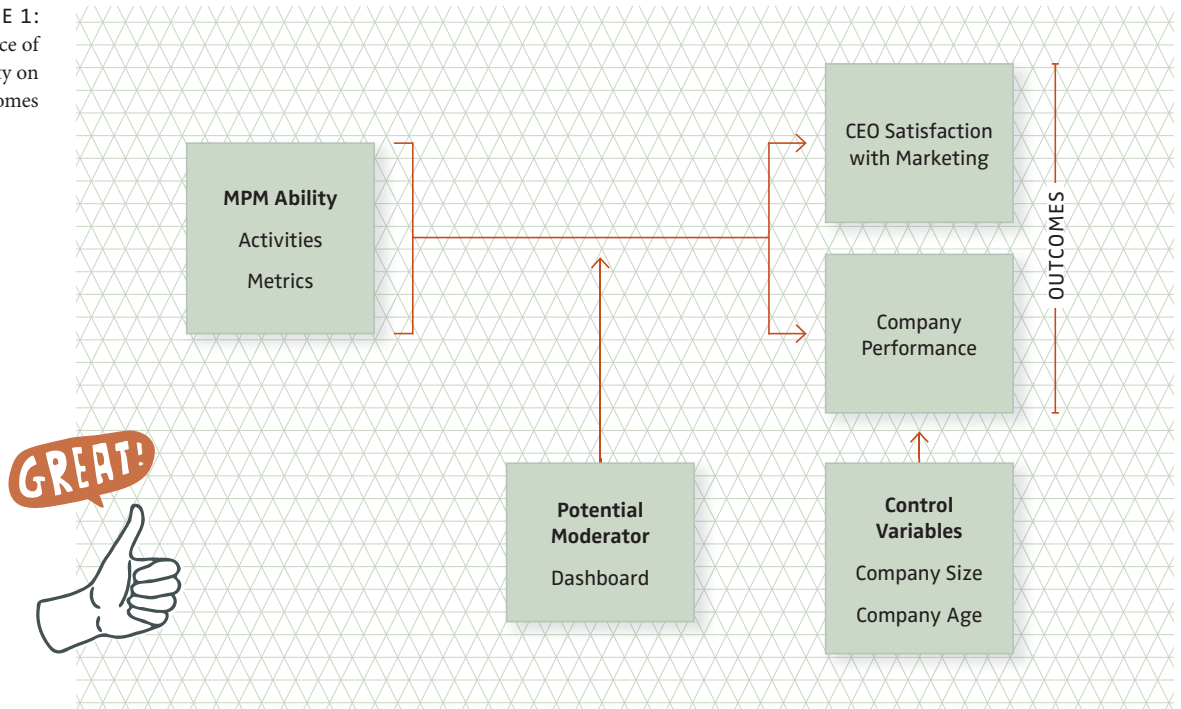
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FIGURE 1:
Assumed Influence of
MPM Ability on
Different Outcomes



formance. Consequently, marketers should also benefit from higher levels of respect gained for the marketing function among senior management.

How Marketing Performance Measurement (MPM) is Expected to Help

Marketing performance measurement can be qualified as the assessment of the relationship between marketing activities and business performance. Figure 1 outlines the basic model which illustrates how MPM is assumed to work.

It can be summarized as follows:

If marketers learn to account better for their contribution to the company (MPM ability — a term that is discussed in detail further down)

- > marketers will benefit from higher levels of respect for the function among senior management (first outcome) and
- > firm performance will actually be raised (second outcome)

Based on this model, seven interrelated assumptions (propositions) are presented. They reflect existing knowledge on the ability to measure marketing perfor-

mance. In a second step, the assumed relationships are tested in the study presented below. Given the considerable effects of MPM, managerial implications are highly relevant to marketing professionals who are interested in having an impact within their companies. Implications are discussed in the final section.

MPM Raises Firm Performance

Several arguments link MPM to improvements in marketing and firm performance. First, the mere fact that some output will be measured has a positive effect on results. It encourages greater attention to the activities to be measured (“what gets measured gets done”). Second, it has been suggested that marketing’s contribution to the achievement of strategic goals is underrepresented in firms that do not measure marketing performance. Performance of such firms may suffer as a result. Third, it has been argued that MPM should lead to learning, which should enable improved marketing decisions and, consequently, improved performance. Fourth, MPM offers performance feedback, which has consistently been found to influence both managerial attitudes and behavior, in a manner that is favorable to the specific subject. *Therefore MPM ability should positively influence firm performance.*

MPM Increases Ceo Satisfaction with Marketing

It has long been recognized that the marketing function generally plays a limited role in the process of strategy formulation. An important reason for this is that marketers struggle to measure and communicate to top management the impact of marketing activities on firm performance. Elsewhere, researchers have observed that marketing has the greatest influence and stature in companies with clear measures of marketing's contribution. *Thus, MPM ability is expected to be positively associated with CEO satisfaction with marketing.*

Criteria for developing Successful Measurement Systems (MPM ability)

An assumption underlying much of the current interest in the accountability of marketing is that the choice of the measures employed matters. Of course there are many ways to document marketing performance and it is likely that the extent and method of measurement have an impact on the expected outcomes. Therefore it makes sense to also apply differentiated basic approaches to performance measurement. Specifically the ability to measure performance across a *wide range of marketing activities* and the ability to assess marketing performance using a *comprehensive set of metrics* are of interest.

While the two aspects are clearly related, in that they both contribute to a company's MPM ability, they are also distinctly different. For example, one firm may be able to measure the performance of direct selling or on-line marketing activities but advertising effects are not documented. The next firm does survey the performance of its advertising or public relations (activities) only in terms of changes in awareness (nonfinancial metric), whereas yet another company may be able to measure them in terms of revenue change (financial metric) and against specific goals and competitor performance (benchmark metric).

The study investigates both aspects separately. The relevance of measuring disparate marketing activities is well documented in marketing literature. On the other hand consultants, researchers and practicing marketers have concluded that in their choice of metrics, firms should employ both financial and nonfinancial metrics and compare these against goals and competitors.

The following assumptions focus on the impact of the range of activities (e.g. advertising, direct selling, PR) that are measured: *the ability to measure performance across a wide range of marketing activities is expected to positively influence firm performance and CEO satisfaction with marketing.*

The next assumptions focus on the comprehensiveness of the metrics aspect. Companies that are able to assess marketing performance using a broad set of metrics (financial and nonfinancial, in relation to goals, and in relation to competitors) should therefore outperform those that lack this ability. More specifically, *a comprehensive set of measures is expected to positively influence company performance and CEO satisfaction with marketing.*

What about Dashboards and their Effect on Performance and CEO Satisfaction?

Figure 1 also shows dashboards as a variable that might influence the relationship between MPM ability and its potential findings. Dashboards are a variation of a balanced scorecard and are used as a means to report key metrics to senior management. Generated by corporate information systems, dashboards provide a refined set of marketing performance data and communicate an overview of strategic performance. Two important elements of dashboards are that they provide automated or (close to) real-time reporting and that they enable users to

» If marketers learn to better account for their contribution to the company, they will benefit from higher levels of respect and business performance will be raised. «

“drill down” to program-level details. Dashboards are viewed as a means by which information can be summarized and readily communicated to senior decision makers. It is argued that this distilling of data increases the perceived value and managerial use of information, which in turn creates a closer link between marketing activities and company goals. Therefore, the use of a marketing dashboard is proposed to act as a moderator in the relationships between ability to measure and performance and CEO satisfaction as stated: *the greater the use of a marketing dashboard, the more positively MPM will influence company performance and CEO satisfaction.*

According to previous studies, company size and company age do have an impact on performance. Therefore they are also included in Figure 1 and were controlled in the study (any effect from these variables was isolated allowing the effects identified before to be observed).

INVESTIGATING MPM EFFECTS

A Study of High-Tech Companies

An online survey of senior marketers in high-tech companies in North America covering MPM ability, CEO satisfaction with marketing and firm performance provided the primary data for the research. High-tech companies were considered suitable because, within this sector, marketing has been under intense pressure to demonstrate its contribution to firm performance. Responses from 312 senior marketers (members of a U.S. based marketing organization and a Business Week research panel, response rate of 26.4 %) were used. In addition to collecting sub-

jective measures of business performance from key informants, objective performance data on company profitability and stock returns was used to crosscheck the results. The objective measures were ROA and size-adjusted stock returns. Data was available only for public companies. Therefore the sample size for this part of the analysis was smaller (94 for ROA and 82 for stock returns compared with 312 for the primary analysis).

Online Questionnaire

The questionnaire was developed on the basis of a thorough literature review on MPM. Additionally, preliminary in-depth interviews with 17 chief marketing officers were conducted to gain a better understanding of motivations for measuring marketing performance. The final questionnaire contained 19 items covering the company's ability to measure MPM (range of activities and set of metrics). Seven-point scales anchored by verbal descriptions from “poor” to “excellent” were used. Outcome measures on firm performance and CEO satisfaction and on the potential moderator variable “dashboards” were collected comparably.

Data Analysis and Results

In order to test relationships, *hierarchical moderated regression models* were calculated. *Regression analysis* was used to describe relationships between dependent (firm performance and CEO satisfaction in our case) and independent variables (MPM ability). The *moderated* version allowed for analyzing effects of the assumed moderator variable “dashboard”. *Hierarchical* analysis permitted the evaluation of the relative importance of single variables. It can explain how much an additional variable adds to the prediction of a criterion, over and above other predictors. Here, for instance, it was applied to isolate the effect of using either a wide range of activities or a variety of measures in MPM as well as the effect of the control variables (company size and age). Table 1 gives an overview of the results of the analysis.

As proposed, MPM ability was significantly and positively associated with both firm performance and CEO satisfaction with marketing. When looking at different forms of MPM measurement the results were slightly mixed. The use of a wide range of activities had a positive impact on both firm performance and CEO satisfaction with marketing in the analysis of the primary data. The entry of metrics into the equation had a significant impact on CEO satisfaction with marketing but not on performance.

» The development of MPM ability requires marketers to divert part of their budget and attention away from actual marketing programs and toward measurement efforts. «

	Performance		CEO Satisfaction		ROA		Stock Returns	
	Prediction	Supported	Prediction	Supported	Prediction	Supported	Prediction	Supported
MPM Activities								
MPM	+	Yes	+	Yes	+	Yes	+	Yes
Activities	+	Yes	+	Yes	+	Yes	+	No
Metrics	+	No	+	Yes	+	No	+	No
MPM × dashboard	+	No	+	No	+	No	+	No
Activities × dashboard	+	No	+	No	+	No	+	No
Metrics × dashboard	+	No	+	No	+	No	+	No

Notes: + = a positive predicted relationship. Yes = the prediction was supported. No = the prediction was not supported.

When analyzing the effect of the independent variables on secondary data outcomes, MPM ability also had a significant impact on both ROA and stock returns. This is consistent with findings from the primary data. Activities proved to have a positive impact on ROA, but the results are not significant for stock returns (partial support for primary data analysis).

A prior *factor analysis* of the items measuring MPM activities produced four factors that were also integrated in the regression equations. One factor referred to abilities to measure direct activities (below-the-line and on-line marketing). The second factor referred to management and analysis activities. The third factor contained PR and stakeholder relations measurement abilities and the fourth factor comprised items referring to brand and advertising performance measurement.

For company performance, the entry of the PR factor into the model with firm size and firm age explained a significant level of additional variance in business performance. For CEO satisfaction, the entry of the management and brand factors into the model explained significant levels of additional variance. However, the impact of individual factors was rather limited. It suggests that a focus on individual dimensions is unwarranted and that a consideration of the full spectrum of activities provides a greater impact. When related to the

secondary output data, none of the four factors or metrics had a significant impact on stock returns, but the entry of metrics into the model with firm size and firm age explained a significant level of additional variance. Again, *the limited impact of individual factors indicates that consideration of the full set of activities may offer the greatest benefit as a driver of firm performance.*

All relations were further tested for moderating effects of dashboards. Contradictory to the assumption, no significant levels of variance were explained in any case. The data provided no evidence that the use of marketing dashboard is positively related to MPM ability or business performance and CEO satisfaction.

IMPLICATIONS FOR MARKETING MANAGERS

Invest in Marketing Performance Measurement

The development of MPM ability requires marketers to divert part of their budget and attention away from actual marketing programs and towards measurement efforts. This would be counterproductive if it did not improve performance. The study provides support for just such a diversion of resources, indicating that it can positively affect both firm performance and marketing's status within the organization.

TABLE 1:
Summary of Results



Measure Performance across the Entire Range of Marketing Activities

Given that MPM ability offers demonstrable benefits, the question arises as to what should be measured and how. Although this study clearly identifies four factors that make up the activities aspect of the ability to measure performance (direct marketing, public relations, brand, and management), it is noteworthy that each factor alone has relatively weak relationships to company performance and CEO satisfaction with marketing. This implies that efforts to drive improvement in ability to measure a single marketing activity, no matter how important the activity is to the company, are less valuable. Instead, a comprehensive effort to develop the ability to measure performance across the entire range of marketing activities should be employed. In addition, the results suggest that the ability to use a comprehensive set of metrics is associated with higher CEO satisfaction. Even if no separate impact on company performance attributable to metrics was found it might still be helpful in CEO relations. However, measuring a wide range of marketing activities seems to be more crucial.

Monitor the Value of any Marketing Dashboards Used

The study questions the merit of the current high level of practitioner enthusiasm for marketing performance dashboards. Such dashboards have been presented as a means to communicate performance data more effectively. However, no moderating effect of dashboards on the relationship between MPM and company performance or CEO satisfaction with marketing could be observed here. Because this is one of the first studies to explore the impact of performance dashboards in marketing and, given that their adoption and functionality continue to evolve, the findings on their effects are not definitive. Researchers and managers alike need to continue to explore this emerging field.

Do not Lose Track Of Long-Term Marketing Objectives

While clear benefits are underscored to both companies and marketers who enhance marketing performance measurement abilities, it is appropriate to end with a word of caution. Marketing performance measurement requires a matching of outcomes with specific marketing input. In recent years, marketers have focused on

{Box 1}

CONCLUSION



Proving Marketing Success Pays Off

This research provides compelling evidence that where marketing is capable of providing meaningful performance measures, it commands significantly higher board level respect. More compelling again is the strong impact that marketing has on the company's financial performance in companies that are successful in capturing marketing's contribution.

Measuring marketing success ensures marketing budgets

Faced with the demand for greater levels of accountability, marketers can either respond by providing more comprehensive and meaningful measures of return on investment or wait for budgets to be cut. Further, the success of marketers in demonstrating marketing's contribution will, in large part, determine the future influence of marketing within organizations.

those activities that have the most readily identifiable return. Ultimately, it appears to be easier to obtain funding for those activities that are most measurable. Lead generation, direct marketing and other below-the-line activities have benefited from this trend, most noticeably at the expense of awareness and brand building activities. Nevertheless, it is important to develop measures for long term, strategic marketing aspects. Marketing activities frequently deliver results across multiple periods which constitute crucial elements of marketing success. Therefore ways to integrate such long term effects need to be developed. Avoiding the fact that the easily measurable dominates the important strategic and longer term objectives is favorable both to marketing as a discipline and its possible scope of impact. •

FURTHER READING

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KEYWORDS:

Marketing Function, Marketing Abilities, Marketing-Accounting, Performance Measurement

{Deutsche Zusammenfassung}

Es macht sich bezahlt, Marketingerfolge nachzuweisen!

AUSWIRKUNGEN DER MARKETINGBILANZIERUNG AUF DEN STATUS DES MARKETINGS UND DEN UNTERNEHMENSERFOLG

Don O'Sullivan und Andrew V. Abela

In vielen Unternehmen sind die Marketingbudgets unter Druck. Die Wirtschaftskrise hat dazu geführt, dass alle Ausgaben, die nicht unumgänglich erscheinen, minimiert werden. Davon ist auch der Marketingbereich betroffen, da häufig kein Nachweis für die Wirksamkeit von Maßnahmen erbracht wird. Marketingmanager haben es vielfach versäumt, die Unternehmensleitung mit brauchbaren Belegen über Wirkung und Effizienz von Aktivitäten und den Beitrag des Marketings zum Unternehmenswert zu versorgen. Marketing wird deshalb oft als reiner Kostenfaktor betrachtet und sein Einfluss in Unternehmen ist gefährdet.

Die Autoren gehen davon aus, dass gute und nachweisbare Marketingergebnisse die Unternehmensergebnisse positiv beeinflussen und dadurch auch ein entsprechender Status der Marketingmanager in Unternehmen gesichert werden kann. In einer Studie überprüfen sie die angenommenen Zusammenhänge und können diese weitgehend bestätigen.

Die wichtigsten Erkenntnisse im Überblick

- > *Investitionen in die eigenen Fähigkeiten, Marketingerfolge zu messen, machen sich bezahlt*
Teile der vorhandenen Budgets sollten für die Messung aufgewendet werden. Die Fähigkeit, Marketingleistungen zu dokumentieren, hat positive Auswirkungen auf die Unternehmensergebnisse, auf die Zufriedenheit der Geschäftsleitung mit dem Marketingbereich und auf die Höhe der Marketingbudgets.
- > *Die ganze Bandbreite der Marketingaktivitäten sollte abgedeckt werden*
Auch wenn einzelne Aktivitäten besonders wichtig sind, zeigt sich ein positiver Einfluss auf das Unternehmensergebnis nur dann, wenn alle Aktivitäten gemessen werden. Sowohl quantitative als auch qualitative Messgrößen sollten verwendet werden.
- > *Auch für strategische Marketingziele sind Kennzahlen wichtig*
Obwohl taktische Ziele leichter messbar sind, sollten längerfristige und strategische Aspekte nicht ausgeklammert werden. Kennzahlen sollten auch für weniger leicht fassbare, für einen nachhaltigen Erfolg des Marketings aber wesentliche Aktivitäten entwickelt und dokumentiert werden. •

Den ausführlichen Artikel in englischer Sprache finden Sie auf Seite ...

Schlüsselbegriffe:

Marketingfunktion, Marketingfähigkeit, Marketingkennzahlen, Marketingbilanzierung, Marketingdokumentation, Unternehmenserfolg

... 42.



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