This Knowledge Now discusses why the return on investment from marketing spend is a hot topic for procurement.

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Marketing Effectiveness

CIPS Marketing Specialist Knowledge Group (2009)

What is marketing effectiveness?
“Marketing effectiveness is the quality of how marketers go to market with the goal of optimising their spending to achieve good results for both the short-term and long-term. It is also related to Marketing ROI and Return on Marketing Investment (ROMI)”.

Who is the primary audience for this paper?
Procurement people dedicated to managing marketing services, embedded in Marketing with regular involvement and high influence over marketing sourcing activities.

This group can be proactive and add value not only in managing the performance of agencies, but also in influencing the Marketers’ pre-sourcing activities. The knowledge of marketing activities and tools should be high therefore, that is where procurement should lead the implementation of ROI and measurement of marketing effectiveness.

This paper provides a thorough explanation of tools, methods and approaches, as well as a list of providers in the market of such tools and consultancy services. Please note that the named providers are given as examples and are not endorsed by CIPS, other providers are available.

Why is measuring marketing effectiveness/ROI a hot topic?
There is increasing pressure on client organisations, especially in the current economic climate, to reduce costs. This is coupled with pressure on both marketing and procurement to demonstrate cost savings, in addition to getting value from the investment in marketing. We all know that the role of procurement in buying marketing services has increased. This has raised more questions about the financial openness and transparency that needs to be in place for all agency contracts.

“Measuring marketing effectiveness at every level is no longer an option. It’s central to survival.” The Chartered Institute of Marketing (CIM)

“Marketing Effectiveness: It's More Than Just ROI” WPP/Millward Brown

What is the purpose of measuring marketing effectiveness?
The purpose is to demonstrate that the marketing budget is being well spent. Much of the time, it is about managing perceptions. Senior marketing staff know that, after raw materials, marketing is often the second highest budget area and that some companies sometimes feel unsure whether it is being spent wisely.

Having measurement in place will help to address the above concern and provide hard evidence to answer questions such as: did spending £Xm on this campaign lead directly to an increase in sales? It is not designed as a weapon with which to attack marketing and marketing budgets, but rather will help to promote evidence-based discussions about marketing budgets (as well as, perhaps, jobs!). Not all Marketers are as financially aware as they could be, though increasingly marketing training emphasises the need to evaluate the effectiveness of key activities. We think this is where procurement can step in and work...
alongside, marketing to help them put broad effectiveness and more specific ROI measures in place as appropriate.

**Why is it relevant to marketing buyers?**

We think it is something tangible that Marketing buyers can do to demonstrate that they are not just about saving money, but about achieving added value as well. It is one element of a good Supplier Relationship Management model that procurement should roll out to its marketing suppliers as part of their contract management process.

**IPA says marketers fail to measure ROI** - Campaign 06 June 2008:

A widespread ignorance among marketers about how to calculate the financial payback from ad campaigns has been revealed in new research commissioned by the Institute of Practitioners in Advertising (IPA). ([www.ipa.co.uk](http://www.ipa.co.uk))

It suggests that less than 20 per cent of marketing activity is measured to show how much contribution it has made to the bottom line.

The findings were revealed in 2008 to coincide with the introduction of a guide, “Measuring Marketing Payback”, published jointly by the IPA and ISBA, the body that represents advertisers, in May 2008. The guide offers tips on how to measure marketing’s effects and calculate its contribution to shareholder value.

The guide highlights some common pitfalls, such as confusion of revenue with profit, pointing out that a campaign costing £1 million that generates £10 million of sales has not paid for itself ten times over.

It also emphasises that net profit is the key performance indicator for marketers, while return on marketing investment is a measure of efficiency and is only of secondary importance.

Hamish Pringle, director-general of the IPA, said: "To get marketing's contribution to business growth recognised, it's essential that marketing directors can measure marketing payback correctly."

We also advise you to look at the paper about savings produced by the CIPS Marketing & Purchasing Specialist Knowledge Group as it links into the concept of measuring ROI and effectiveness.

**What are the different methods commonly used? And what are the consulting agencies providing services in this area?**

There is a vast array of agencies offering different types of services in this sphere, of whom only a representative sample is included below. Before committing to a particular course of action, it is worth thinking about what you want to evaluate and how much you are prepared to spend on it, as well as factors such as resource and data availability.

More ideas about evaluating effectiveness can be found in various publications, for example the annual IPA Effectiveness Awards publication. ([www.ipaeffectivenessawards.co.uk](http://www.ipaeffectivenessawards.co.uk)).

1. **Advertising effectiveness/Brand strength**
These agencies offer services to assess the effectiveness of communications in achieving defined marketing goals and in building brand equity. Typically, this will include quantitative pre-air testing of rough material/finished films, on-air campaign tracking and brand image/appeal scores.

Example agencies: ARS Group, Hall and Partners, Millward Brown (WPP)

2. Promotional/Sales effectiveness

Agencies that evaluate the cost-effectiveness of promotions (usually at point-of-sale) in creating incremental sales and profit, usually employing retailer sales/ consumer panel data and some modelling techniques.

Example agencies: ACNielsen, Dunnhumby (Tesco’s Clubcard and other data), IRI/TNS

3. Media auditing

Evaluation of the cost-effectiveness of media planning and buying, usually against a representative pool of other advertisers, looking at prices and other value measures, such as position in break.

Example agencies: Accenture Marketing Sciences (formerly Media Audits), Billetts, Fairbrother Lenz Eley

4. Brand valuation

Techniques that aim to put a true financial value on a brand, as if it were a quoted stand-alone business, using a variety of techniques, for example discounted EBITDA, royalty rates and so on.

Example agencies; Brand Finance, Interbrand

5. Market mix modelling

This aims to evaluate how different elements of the marketing activity plan, for example TV advertising, PR, retailer promotions, have a impact on brand sales and profit, and calculate an ROI figure (some form of incremental profit per pound spent in the marketing budget) for each element, using econometric modelling, regression analysis and so on.

A number of different types of agency/consultancy offer services in this area.

Specialist stand-alone: for example Brand New Way, Data2Decisions, Fuel Data Strategies, Holmes and Cook, MarketingQED, Ninah Consulting (now part of Zenith Optimedia), OHAL (one of the biggest and longest-established, now part of WPP), Spectrum

Market Research agencies: for example Millward Brown, (which offers a service that integrates ad effectiveness testing/tracking and econometrics)

Management consultancies: for example Accenture Marketing Sciences, PwC Marketing Science Practice
Academics: for example Cass Business School/Professor Robert Shaw

Media/Comms Planning and Buying, usually as a division separate from the core business: for example Carat Insight, DDB Matrix, Initiative Media MAP, Mindshare Futures, OMD Brand Science, PHD Confidential

**Are there any gaps in the ability to measure/feasibility to measure?**

Key issues/gaps are:

1. Data availability: for robust econometric analysis 2-3 years detailed back-data is required.
2. Cost: although now lower than previously, tracking studies and econometric model construction are not cheap.
3. Direct linkage between marketing activities and sales: without 'single-source' data, (such as data that allows you to track marketing impacts and sales results for the same individuals, such as the Dunnhumby/Tesco database) it is still difficult to observe the direct impact of marketing/advertising efforts on purchasing behaviour. (This is, of course, easier with companies and brands that have a direct relationship/database of their own customers).

NB: the agencies quoted in this paper are examples, the list we have provided is non exhaustive.

**Data collection/useful links related to the topic**

Consultancy services:
- [http://www.ohal.co.uk/](http://www.ohal.co.uk/)
- [http://www.hudsonrivergroup.com/?gclid=CMKe1OC2gJICFQeHIAodlSRB2A](http://www.hudsonrivergroup.com/?gclid=CMKe1OC2gJICFQeHIAodlSRB2A)
- [http://www.ars-group.com/](http://www.ars-group.com/)
- [http://www.marketingqed.com/products/MixModelling.html](http://www.marketingqed.com/products/MixModelling.html)

Papers

ISBA best practice toolkit “Evaluation”
“Marketing Effectiveness”, CIM, November 2001
“KPIs for marketing reporting, a framework for effective marketing disclosure”, IPA 2008-09-10
Conference
[http://www.centaurconferences.co.uk/conference.aspx?conferenceid=e7f655a8-bfa3-47fe-a21e-9d132c29db5b](http://www.centaurconferences.co.uk/conference.aspx?conferenceid=e7f655a8-bfa3-47fe-a21e-9d132c29db5b)

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