How Marketing Contributes to the Bottom Line

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There is increasing scrutiny of marketing activities and a growing demand for greater accountability of the marketing function. This article asserts that such accountability cannot be achieved until generally accepted standards for the measurement of marketing outcomes are adopted. The article identifies three broad types of marketing outcomes and suggests that two of these are candidates for the development of standardized measures. The role of standards, essential characteristics of standards, and how they may be developed are addressed. Twelve general propositions related to standards for assessing marketing outcomes are offered.

INTRODUCTION

Marketing is one of the last of the wild frontiers in American business today, a place where "cowboys" with wild ideas can literally create fortunes out of thin air. Given access to huge corporate budgets, marketing promises to take (not so) small investments and bring back huge returns. Through the late 1990s, marketing budgets and the organizations that consumed them spent more and more, promising larger market share, higher sales, and greater customer loyalty that would, in theory, generate greater cash flow for the corporation and its shareholders.

But like the "wild west" era of American history, the ending of the dot.com boom signaled the close of the old marketing frontier, where marketing practitioners could promise big results without having any real way to quantify them. Sometimes, but all too rarely, they could point to greater market share or higher unit profitability to claim success for the marketing campaign. More often the returns on marketing expenditures were measured by showing greater awareness, changes in customer beliefs and attitudes, or similar measures. But how efficiently was that money being spent and what is the relationship of these marketing metrics to the financial performance of the firm? What other information could they give the executive suite to prove their value to the company? Though good executives asked these questions in times of plenty, as corporations try to spend their resources more efficiently in the 21st century, marketing professionals like cowboys of old are having a hard time adapting to this new frontier.

Marketing mix modeling has increasingly found a role in offering managers some insight into the return on marketing expenditures and activities, but such models produce results that are only as good as the data that are available. A central problem is that marketing lacks the kind of accountability and measurement metrics common to the rest of the corporation. While manufacturing and service organizations can quantify their costs down to a fraction of a penny and project their return on investments, marketing remains a corporate dark science, where its practitioners can generate desirable results, but cannot tell you how they achieved them. As long as the "wins" outnumbered the "losses," campaigns were thought to be successful. This was the mentality that pervaded industry through the late 1900s, when more and more money flowed into marketing than at any other time in American history.

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Amazingly, consumers of marketing products had no benchmark against which to measure their campaigns, nor does one exist today.

The problem of measuring marketing's efficiency is profound: unlike other segments of the corporation, where the language is unequivocably tied to the language of finance, marketing has no common units of measurement. It is not that marketing professionals cannot agree on whether to use yards or meters; they cannot agree whether we are trying to measure volume, distance, or some other third- or fourth-dimensional characteristic.

Things are not as bad as they seem, however, for the marketing profession is going through the growing pains of professionalization that are a sign of its success. Like all industries where success brings emulation, and emulation brings lower profit margins, marketing has grown increasingly competitive over the last decade as traditional campaigns yield lower sales, while cheaper, alternative forms of advertising grow increasingly attractive to occupants of the executive suite. Calls for greater accountability also come from federal regulators trying to get a better handle on the validity of financial numbers corporations use to boost their stock price. Though aimed at making corporate *accounting* more transparent, the Sarbanes-Oxley Act of 2003 will undoubtedly affect marketing as well. With marketing budgets consuming more than 30 percent of some company budgets, it is not unreasonable to assume that marketing projections, and the financial assumptions underlying them, will come under increased scrutiny as a result of this new financial reporting law.

Driving this movement from inside corporations are the financial and chief executive officers who must certify the accuracy of their financial statements or risk jail under provisions of Sarbanes-Oxley. As a result, members of the executive suite are requiring more accurate and complete information about marketing campaigns *before* they begin, with rigorous follow-up to track results against earlier projections. This is especially true for consumer goods manufacturers, where marketing departments often have the largest line item in the budget, but also have the weakest system for tracking their impact. In this new regulatory climate, the practice of guesstimating marketing outcomes is increasingly under pressure to accurately predict sales and revenues. In essence, managers are no longer being asked: "what did you know?" Today, the question is: "why *didn't* you know?" (Kornbluh, 2004).

The imperative for greater financial accountability of marketing departments coexists within an environment in which there is little agreement on how to measure the contributions and outcomes. To date, there is no generally accepted definition of return on marketing investment (ROMI) even within firms known for their marketing prowess (CMO Council, 2004a; Nail, 2004). So, it is no surprise that a vast majority of firms are ill-prepared to conform to the types of accountability and outcome measures likely to be imposed from outside forces. Thus, marketing professionals must either develop their own standards against which to measure their efforts or risk having such standards imposed on them from without.

DEFINING RELEVANT METRICS MARKETING ACCOUNTABILITY

Marketing has a long history of paying attention to measurement and the creation of metrics, especially when it comes to claiming success, but it has done nothing to standardize the way it defines success. The problem is that most of the metrics used to assess the outcomes of marketing activities are tactical and not directly relevant to the overall financial performance of the firm (Lehmann, 2004). An example of this would be measuring the impact of a coupon drop on the sales of a new product, metrics that identify the benefits of distinct marketing programs. Because the impact of this kind of program is unique to a given campaign or product, it lacks the kind of universality required of financial reporting. And while the financial results of many firms depend on marketing, the link between traditional marketing metrics and the financial performance of the firm is seldom explicit (Rust et al., 2004). In their 2005 paper, Srivastava and Reibstein note that "pressure is being placed on marketing [divisions] to justify their expenditures and translate them into likely financial outcomes, which is the language used by the rest of the firm" (Srivastava and Reibstein, 2005, p. 85). For a very long time, this imprecision was tolerated as a necessary evil, part of the cost of doing business. Yet, as marketing consumes a larger and larger portion of some firms' budget, combined with diminishing returns produced by traditional marketing venues

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such as print and electronic media advertising, the imperative to quantify marketing's direct contribution to the bottom line grows.

THE STANDARDS IMPERATIVE

Many historians trace the origin of quality standards to W. Edwards Deming, a bureaucrat working under MacArthur in postwar Japan. By establishing manufacturing standards for that country's war-ravaged manufacturers, Deming's quality movement allowed for better predictability, which in turn enhanced the corporation's ability to make long-range plans based on realistic assessments of the market. Just as manufacturing executives need to be able to predict how many widgets they will sell in the next quarter, marketing professionals need to do the same thing with their "product," the marketing campaign. For the budget conscious executive, establishing tracking and outcome measurements on marketing has the potential to (1) optimize resources in such activities as media planning and design of the marketing mix, (2) improve forecasting, including both forward forecasting and the analysis of various "what if" scenarios, and (3) allow assessment of ROI.

For critics who say it cannot be done, consider that sophisticated buyers of marketing are already imposing their own metrics in deciding what works and what does not. After developing its own proprietary impact measurement system that tracked media buys to customer response, General Motors' Cadillac division found that it was not getting its money's worth sponsoring the Professional Golfers' Association Tour. Instead, its greatest impact was produced by highly targeted, relatively inexpensive campaigns aimed at collecting the names of prospects. This measurement system gave Cadillac executives the confidence to refocus their marketing, halve their marketing budget, and *still* see unit sales increase (*Business Week*, 2004).

One impediment to identifying and adopting standard metrics is the perception that marketing campaigns simply cannot be measured against others because they are idiosyncratic to the product or company. For critics of marketing, it is the existence of these idiosyncrasies that reinforces the call for accountability and the development of metrics against which success can be measured. Because the main goal of any marketing effort is to increase cash flow for the corporation, the current approach of "after-action" reports, which try to tease useful information from historical data, lacks the predictive value of forecasts made in other disciplines.

It is also important that outcomes arising from marketing activities be clearly identified with respect to their effects over time and across industries. Only those effects that are common across firms are candidates for a shared measurement standard.

THREE CLASSES OF MARKETING OUTCOMES

There are only two classes of marketing outcomes that are suitable for the development marketing metrics. These are (1) short-term (short lasting) effects and (2) long-term effects (those that persist over time). The third type of marketing outcomes, real options, is less applicable because of its idiosyncrasies to branded products, but lends itself well to the conceptualization of standardized metrics that can be used on the first two classes of outcomes. Figure 1 provides an illustration of these three classes.

Short-term effects are well recognized in marketing and are the focus of much of the marketing mix modeling activity that is carried out by firms. Most often, the economic manifestations of such short-term effects are relatively immediate incremental sales (relative to some baseline) immediately following the launch of a marketing campaign. Inherent in the implementation of such short-term marketing programs is the opportunity costs associated with *not* engaging in a particular marketing activity. Thus, loss of sales in the short term for firms that do not engage marketing may also provide an indicator of such opportunity costs (in this case, the decision not to spend on some activity). Such short-term effects can be quantified in a meaningful fashion across firms using such common metrics as change in market share, incremental revenue, and profitability. While the data and processes for creating such metrics may pose a challenge, the underlying metric can and should be standard across markets, brands, and firms.

Long-term outcomes are effects that tend to persist over time (DeKimpe and Hanssens, 2004), such as a program to encourage

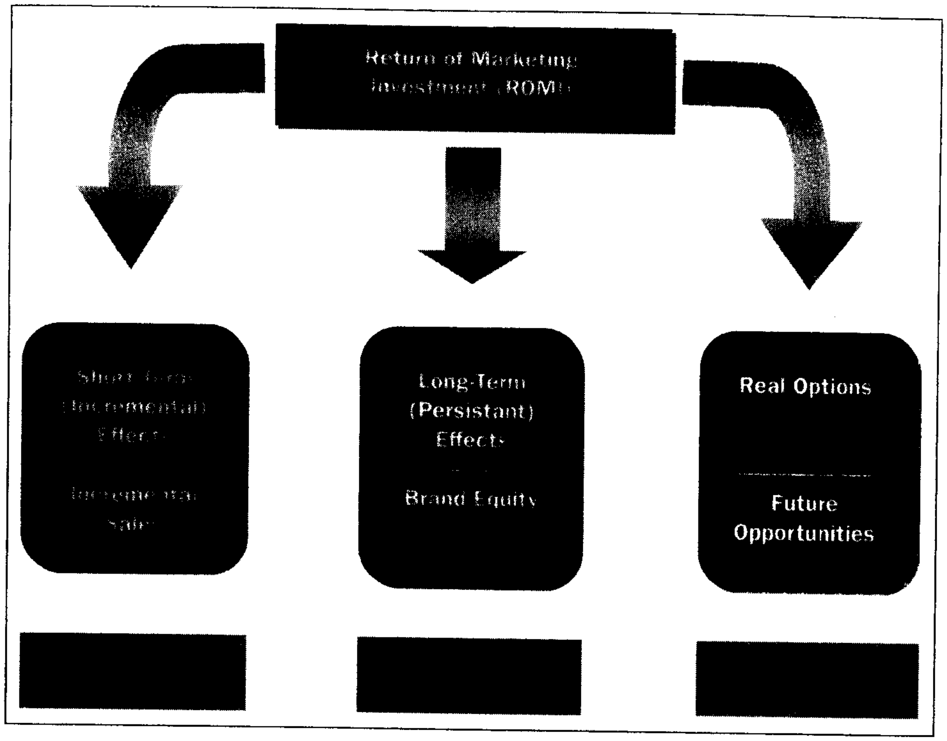

Figure 1 Three Types of ROMI

repeat purchases. While Hollis (1997) and Scott and Ward (1997) both tried to evaluate long-term effects of marketing, most analysts agree they are difficult to estimate because there is no generally accepted measurement standard (Bucklin and Gupta, 1999, p. 262). Nevertheless, these longer-term effects have potential for translation into standard economic metrics that can be used across brands and firms, such as a persistent change in incremental sales relative to a baseline or a price premium for each unit sold.

The success manufacturers have had tracking marketing expenses on branded products proves that marketing metrics can and are used by major corporations to make sound financial decisions. Because manufacturers have already invested heavily in measuring how their investments in marketing affect their branded goods, they provide insight into the crucial elements of any universal measurement standard. As companies come to realize the economic potential value of existing lines of branded products, the relatively new concept of "real options" is being used by financial professionals to explicitly recognize the present and future values available to the owner of a branded product line (Mun, 2002, p. 82). Copeland, Antikarov, and Copeland (2003) define a real option as "the right, but not the obligation, to take an action . . . at a predetermined cost . . ." (p. 5). Options cost money to create, just as investing in financial options costs real money, but they produce tangible results, creating flexibility and opportunities in the future that would not otherwise be available. These opportunities tend to be highly idiosyncratic to the firm, and thus ill suited for universal metrics. Only a firm that has already invested in a customer relationship system has the option to use the concept of real options as part of its marketing to its customers; only Procter & Gamble has the option to develop extensions of its Tide brand. Pindyck (1988) suggests that as much as half the value of a firm lies in the portfolio of real options.

Marketing investments are different from financial investments, particularly as they relate to return because they cannot be broken down into simple financial equations because there are too many variables. As Devinney and Stewart (1988) point out, marketing activities are about creating and sustaining real options because they afford future profit opportunities for the firm. Building a website creates opportunities for communication with consumers that would not be available, but for the creation of the site. Among the more important options in which firms invest are in brands. Strong brand identities create opportunities (options) for premium pricing, brand extensions, and cross selling. The classic example is the reinvention of Arm & Hammer Baking Soda. As families baked less and less and bought more ready-made cakes and breads in the 1930s, Arm & Hammer set about creating new uses for its already well-known name brand, suggesting its use as a replacement for air freshener, detergent, and toothpaste. Opportunities may or may not be exploited by the firm, but they are real and have value—as demonstrated by Arm & Hammer's new line of products that include baking soda as a primary ingredient.

One especially important financial option open to a firm that has invested in the creation of a brand is to sell that brand's portfolio. The value of a brand sold in such a manner is a measure of the potential value of that brand's option value. Although firms may not (and most certainly do not) exercise all options available to them, they still hold real economic value. To the extent that marketing activities create such options, the value these

Strong brand identities create opportunities (options) for premium pricing, brand extensions, and cross selling.

options create must be considered part of the ROMI.

Because real options like extending a brand into new markets exist only within the context of the individual firm and its unique resources, their usefulness in developing market-wide metrics is limited, but not useless. Typically, one measures the value of real options by examining historical data regarding the outcomes associated with specific decisions. Measuring the value of exercising of an option to extend a brand can be performed in terms of sales or profitability, which in turn can reveal just how much value marketing adds to the bottom line. Through the creation of real options, marketing professionals can use their financial results as benchmarks for evaluating options not yet exercised and estimating their potential return. Prospectively estimating the value of options is more challenging, especially for the individual firm, because it is largely the idiosyncratic options and decisions associated with exercising these options (or not) that define the firm's competitive advantages and future value.

Thus, marketing may create value for the firm in at least three distinct ways: (1) through creation of short-term incremental outcomes, (2) through creation of longer-term, relatively persistent outcomes, and (3) through creation of real options. The first two outcomes lend themselves well to the development and use of standard metrics that have common meaning across markets, firms, and brands. There are certainly major issues related to availability of data and the organizational processes necessary to produce such standard metrics, but these issues are about implementation. While these problems are not trivial, the more fundamental issue at the root of the angst regarding marketing's contribution to the firm involves the establishment of agreed upon standards. In the remainder of this article, we examine the role of standards in business enterprises and offer 12 propositions that should define the characteristics of standard metrics of marketing productivity and effectiveness.

DEVELOPING STANDARDS

Standards are so common that they are often taken for granted; yet the setting of standards has never been easy. What is clear is that market imperatives often break down barriers to their acceptance of new, "universal" metrics. Marketing is not unique in this respect (Blind, 2004; Grindley, 1995; Toth, 1984). Consider the problems railroads faced at the end of the 19th century when there was no such thing as time zones. Until standardization, each town and city along a rail line had a slightly different concept of what constituted "noon," making a mess of scheduling. Instead of waiting for government to act, the rail industry imposed "time zones" on the United States (Pacific, Mountain, Central, Eastern) that were later adopted by government. Standards are important because they provide economic benefits—in the case of railroads, they made the concept of "noon" universal across a giant geographic area, enhancing rail safety.

The availability of a generally accepted standard relieves the individual firm of the costs of developing and maintaining its own unique internal standards. Absent a standard, whether broadly available or unique to an individual firm, there is no efficient means for assessing quality. If buyers cannot distinguish a high-quality seller from a low-quality seller, the high-quality merchant's costs cannot exceed those of the low-quality jobber or the high-quality seller will not survive. This is called *adverse selection* or the *moral hazard problem* in economics. This type of problem currently exists in the areas of "black box" marketing measurement, where consultancies offer predictions on certain marketing styles or campaigns without explaining how they arrived at their conclusion. Today, it is possible to engage the services of three different "black box" consultant groups, give them all the same data, and receive in return three completely different predictions (Bucklin and Gupta, 1999).

There are, or course, potential solutions to the adverse selection problem other than the development of a standard, but these generally shift costs onto the consumer. Buyers can carefully screen the quality of measures and models, but this requires significant investment in developing internal expertise, the expenditure of time and resources on the review of alternatives, and an organizational infrastructure to support such activities. Standards reduce transaction costs because they eliminate the need for buyers to spend time and money evaluating products and services prior to purchase. Alternatively, sellers can build long-term reputation or can guarantee a certain level of quality, but this increases the costs of the seller and creates a moral hazard problem if the buyer does not accept the representation of higher quality and the seller cannot recoup its higher costs. Thus, the presence of generally accepted standards resolve these problems and creates opportunities for the realization of economies of scale by the standards provider and lower costs to buyer through cost sharing.

One major impediment to the development of standard metrics results from the competitive pressure of the marketplace. The view of some firms is that they may be able to achieve a competitive advantage through the use of a proprietary measurement tool that is better than metrics available to their competitors. This issue is not unique to marketing and has been played out in a broad array of contexts. Any potential competitive advantage gained from proprietary marketing metrics must not only be weighed against the costs of going it alone, but also against the opportunity costs associated with all of the other ways in which a firm could invest its resources. In such a scenario, executives of a firm that is very good at product development need to consider whether money that could be spent developing metrics would produce greater returns if it went instead into the development of additional products.

History suggests that there are three general approaches by which standards have been developed: (1) government edict, (2) agreement by industry bodies, and (3) market "contests." Although it might appear that government edict or agreement by industry bodies are the more efficient means for standard setting, the reality is that most standards are set through market competition. Government standards are usually created only after a long and labor intensive process, and there are many areas in which government has no interest or where the parties involved are so narrow as to make government intervention inefficient (Grindley, 1995). Indeed, in the case of the meat packing industry, government standards were used by dominant firms (Hormel, Armour) as a means of eliminating competition through the creation of standards so high that only the best capitalized firms could afford to adopt them.

The second approach at establishing standards through industry-wide consortiums is equally problematic. While many within a given industry may agree with the need for marketing metrics, Grindley (1995) observed that:

> Strategies that rely on official acceptance divert effort and alone are unlikely to be effective. Agreement is hard to achieve and is unlikely to be adhered to unless backed up by market pressures. Standards bodies are inherently conservative . . . official adoption takes a great deal of precious time. Standards bodies also tend to concentrate on the technical aspects of standards, whereas the most important factors may be on the market side . . . standards may be too important to the firms' future to be negotiated in committees and have to be settled in the market-place. Years of negotiation over DAT [digital audio tape] within standards organizations failed to resolve basic differences between manufacturers and recording companies over copying, and meetings became platforms for dissent (p. 13).

A further problem with coalition-led entities setting standards is the incentive to use the standards setting board to their competitive advantage. This was one of the principal reasons why President Franklin Delano Roosevelt's National Industrial Recovery Act (NIRA) ultimately failed; to stop "overproduction" in various industries, the NIRA established planning collectives that were to determine fair price and production methods. Dominated by larger, more established firms, the planning boards quickly used their administrative law powers (later to be found unconstitutional) to undermine smaller competitors. (This is discussed in detail in Hawley, 1966, pp. 53–71.)

Given these problems with the first two approaches toward establishing metrics, the empirical reality is that most standards evolve by following standards established by the market. The classic example concerns videotape format, Betamax versus VHS. While the Sony Corporation was first to market with a "standard" for the rest of the industry, Sony made using the standard so cumbersome that competitors opted for the relatively "open" source code format of VHS. Today, you cannot find a Betamax-formatted machine except in museums.

We find the same market-driven standards process has already occurred in some parts of marketing, as in the case of media ratings data provided by the Nielson Media Research and Arbitron companies. Both firms developed their own standards independent of the market they intended to serve, and then imposing these standards on the television and radio industries by appealing to media buyers, who in turn used measurements of market share to determine pricing for advertising time. It also seems that the market is only inclined to support *one* third-party tabulation firm and not several competitors. When radio measurement giant Arbitron tried to compete against Nielsen in the television ratings business, the market could not support both and Arbitron eventually terminated the venture.

Thus, it may be most efficient to encourage competition among third-party measurement providers in order to identify standards for marketing organizations—a kind of Arbitron rating system designed to measure the cost-effectiveness of marketing campaigns. While it is conceivable that such a rating agency could use standards established by industry consortia, it is more likely that such third-party, independent measurement agencies will emerge from competition to provide measurement data to the people who decide the marketing department's budget: the executive suite. As with the financial metrics used by any CEO or CFO in business today, providers of independent marketing analysis will have to establish baseline standards that will transgress industries and product types. If such common measurement standards are to be developed, it will become incumbent upon whoever provides marketing evaluation that they identify general characteristics of a measurement standard.

OBSERVATIONS, MEASURES, AND PRINCIPLES OF MARKETING

Marketing metrics must be identified along at least two dimensions. Of primary importance is identifying the activity that gives rise to a quantitatively measurable outcome. A sales call is different from a network television commercial. Though both may ultimately be measured in terms of incremental sales, metrics should be able to "weight" the relative importance of these activities to the bottom line, thus focusing attention more precisely on activities that cost more and thus having greater potential for positive (or negative) financial impact.

Second, there are the characteristics of the metric itself. As with any quantitative tool, marketing professionals need to assure the integrity of the underlying data (or market observations) upon which decisions will be made in the same fashion that a certified public accountant verifies financial results. The need for accuracy and standards in the collection of raw data, whether it be supplied by UPC scanners, television ratings, or some other type of sampling, is the most basic step toward establishing recognizable, universal marketing metrics. Obviously, the failure of basic research hygiene compromises the quality of data, and this, in turn, increases error in any inferences drawn from it.

Thus far, the marketing profession has attempted to develop standards through professional trade organizations. Groups like the Council for Marketing and Opinion Research (CMOR), Council of American Survey Research Organizations (CASRO), and the Advertising Research Foundation (ARF) have developed comprehensive standards for the collection of data. And while each organization has helped professionalize marketing through the development of common terminologies and guidelines, none of them has taken the step of developing formal audit processes for outcome verification. Most data collection activity in the market today is driven by large corporations interested in trends of specific brands and markets, and not in measuring the marketing inputs and outputs writ large.

For this reason, raw data are not, in themselves, of much use for marketing planning and measurement of outcomes. Rather, inferences based on the observations are more useful because they help identify traits and processes in the market. Thus, a set of observations regarding consumers' choices, attitudes, and associations can measure brand equity; observations regarding consumer satisfaction, intention to repurchase, and willingness to recommend a brand can be used to represent customer loyalty. These inferences or "derived facts" are subject to verification, and here there are well-known methods for establishing the reliability and validity of such measures. The differences between observations and inferences based on observation have been discussed in the measurement literature, which distinguishes between fundamental measurement and derived measurement (Campbell, 1920; Wright, 1997). Following these protocols is now generally accepted as a requisite for those wishing to publish academically. As practiced in the commercial sector, however, data reliability and validity are often assumed, and while there are many conscientious data providers that pay considerable attention to such, data reliability is still a major problem toward establishing useful marketing metrics. As the pressure for marketing accountability increases, it is likely that reliability will improve, as firms increase their focus on the reliability and validity of derived measures. At a minimum, there will be pressure to show that decisions based on derived measures pay close attention to how the characteristics were measured.

Finally, various derived facts, or measures, are used in making inferences and decisions about the firm, its businesses, and its customers. For this reason, measures of brand equity or customer loyalty must be related to an economic value. Relationships among marketing activities, with specific measures of outcomes, gauge financial results and provide justification for management decisions. Again, the influence of Sarbanes-Oxley will encourage this type of accountability, as marketers will increasingly be required to justify their expenditures in terms of ROI, like the rest of the corporation. The validity of such forecasts will largely depend on the integrity of the data used to make them. In the next section, we address the problem of data integrity and measuring outcomes.

STANDARDS FOR THE MEASUREMENT AND REPORTING OF MEASURES OF MARKETING PRODUCTIVITY AND EFFECTIVENESS

The prior discussion raises the question of what characteristics an ideal measurement standard should possess. Until there are guidelines for evaluating metrics, there can be no standard and thus no basis for improvement in the future. Below, we offer 12 general propositions for the development of ideal measurement standards. We agree with various authors that the formal definition of ROI used in accounting and economic forecasting is inappropriate for assessing marketing because of its emphasis on short-term returns (see Ambler, 2003; Devinney and Stewart, 1988). Regardless of this limitation, most marketing literature and practice have tended to rely on ROI (or, ROMI, where the "M" stands for "marketing") in a more generic sense as a means of outcome measurement. We adopt this ROMI approach here for purposes of simplicity.

1. *ROMI must be an inherently financial construct. No measure or measurement system is complete without a specific link to financial performance.* Marketing has a long history of attention to measurement and the creation of metrics, yet most of the metrics used to assess the outcomes of marketing activities are tactical and not directly linked to the overall financial performance of the firm. It is critical that measures of ROMI be firmly grounded in the business model of the firm in order to provide decision makers with information and direction regarding economic and financial outcomes. The availability of these measures should also be consistent with the timing of the firm's financial reporting and decision-making processes.

There are several reasons for following an ROI approach. First and most importantly, if marketing is to be a credible contributor to the strategic success of the firm, it must speak the same financial language as the rest of the firm, *and* it must translate outcomes into economic metrics comprehensible outside the marketing department. Second, economic metrics, or metrics that can be clearly linked to economic outcomes, are the only measures that provide managers with the information necessary for planning, budgeting, and prioritization. Even actions with relatively comparable outcomes, such as scheduling media within the same medium, require a common metric that informs allocation decisions.

Most management decisions involve allocation of limited resources among alternative tactical actions that may have noncomparable outcomes. It is impossible to be confident in any decision involving noncomparable alternatives unless their outcomes can be translated to a common scale: the decision to invest more in a firm's website must be weighed against developing and running more television advertising; the cost for exclusive pouring rights at a particular venue for a soft drink manufacturer must be weighed against the alternative of increased advertising in traditional media. In short, any marketing expenditure must be weighed against alternative nonmarketing investments, and measured against the potential for increasing profitability as a result of marketing in a given quarter versus not making the expenditure at all. Because every management action carries risk, those decisions that lack outcome metrics become inherently riskier, as individuals charged with making decisions have no easy way to determine whether the risk they are taking is justified. Finally, marketing will always be suspect if it is unable to quantify its contributions in economic terms. Because ALL firms operating in a capitalist economy are held accountable for their financial results, their marketing departments cannot be a credible exception.

2. *Measures of ROMI must reflect the standard financial concepts of return, risk, the time value of money, and the cost of capital.* Alternative marketing actions cannot be compared without consideration of their financial risk and return. Investments in marketing differ with respect to expectations they create for return, in both monetary and temporal terms. Managers want to know what return they will get for a dollar invested today, and when those results will be felt by the firm. Measures of ROMI should explicitly recognize these differences. The value of outcomes should further be discounted to reflect the time value of money, calculated against the actual cost of capital rate used elsewhere in the firm.

Marketing investments also differ dramatically from other corporate investments in the level of risk executives are willing to accept. Unlike new vehicles or physical plant, there is a good chance in all marketing investments of outright failure, or zero ROI. Measures of ROMI should provide a means for assessing risk and for adjusting ROI for differences in the risk associated with marketing actions. In most circumstances, these risks are business risks, affecting the variability in a firm's sales and its ability to sell its product(s).

3. *Measures of ROMI must inform future decisions by accurately predicting future economic outcomes as well as provide retrospective evidence of the impact of marketing actions.* There is ample evidence that investment in marketing activities produces positive returns for the firm. Frequently, these returns are substantial. Evidence of such successful marketing campaigns tends to be retrospective however, explaining why a certain marketing operation was successful, without explaining how the same approach could inform future decision making, or predict its financial benefit.

Measures of ROMI should provide a reliable and robust means for forecasting. Such measures should assist in the decision-making process by examining noncomparable marketing actions (such as a decision between advertising and promotion) and assessing their potential contributions to the firm's profitability.

4. *Measures of ROMI must recognize both the immediate, short-term effects of marketing actions and longer-term outcomes, as well as the fact that short- and long-term effects need not be directionally consistent.* Marketing actions may have multiple effects, some immediate, others more gradual and persistent. To be of any use, measures of

ROMI should recognize these multiple effects and provide a means for assessing them. For cross-industry standards, short- and long-term measures of market share and profitability seem most amenable to the development of standards. Although more idiosyncratic to manufacturers of branded products, firms should also recognize and seek to quantify the value of real options created by the firm.

5. *Measures of ROMI must recognize the difference between total return on investment and return on marginal return on investment.* Knowledge of the total return on marketing investment, while useful, may be less helpful in many circumstances than knowledge of the return on incremental investment. To be effective, marketing decisions often require an understanding of the return on the last dollar spent, especially where marketing efficacy grows over time. An effective metric would be able to track both this increased return at the margin as well as be able to determine when a marketing campaign reaches a point of diminishing returns; each additional dollar spent produces a lower ROI than the previous dollar.

Many marketing decisions take the form of determining whether an incremental investment in one action produces a superior return relative to an incremental investment in some other action, for example, internet web banners versus traditional Sunday newspaper advertising. Measures of ROMI should inform such decisions as well as provide feedback identifying the point at which additional investment in a particular action is no longer justified by the expected return.

6. *Measures of ROMI must recognize that different products and markets produce different rates of return.* Products and markets differ with respect to their size, rate of growth, profit margins, and relative positions of competing firms. Measures of ROMI should be able to recognize these differences and calculate their implications into a financial performance matrix for the purposes of forecasting. Dominating the market for fabric softener in Missoula, Montana means one thing to a firm's bottom line; the same market share in Manhattan has a dramatically different impact.

7. *Measures of ROMI must distinguish between outcomes and effort.* Many measures employed in marketing are measures of effort (e.g., number of sales calls, reach, and frequency). Still other measures focus on efficiency (e.g., cost-per-thousand exposures) or productivity (average cost per sale). While such measures are useful and help inform decision making, they are incomplete when considered alone. Measures of ROMI should include indications of outcome(s) and effectiveness as well as efficiency and productivity. Measures of effectiveness and outcome should include a direct or indirect link to financial performance.

8. *Measures of ROMI must provide information that is meaningful and comparable across products, markets, and firms.* Firms operate in a global economy and often manage complex portfolios of products. For this reason, measures of ROMI should be useful to executives working anywhere the organization does business, across geographic and political boundaries. Only in this way can firms make decisions that maximize ROI across a firm's portfolio of products and markets. It is also important that shareholders and other constituents be able to meaningfully compare the marketing performance of the firm in all of the markets in which it competes. There is certainly a place for measures that are specific to particular products, markets, or firms, but such measures are not a substitute for metrics that are robust across products, markets, and firms.

9. *Measures of ROMI must clearly identify the purpose, form, and scope of measurement.* Just as there is no single best way to measure a firm's financial performance, there is no single best metric for ROMI. Financial metrics based on a cash, accrual, or percentage-of-completion methods of accounting yield different results from the same numbers, and each is appropriate for certain types of business. Like financial metrics, there is a role for multiple measures of ROMI. Such measures should be clearly identified in terms of their purpose, form, and scope. Measures may provide indications of immediate or longer-term effects and of the effects of a single marketing action or the combined effects of multiple actions.

Measures may also be of different forms. Some measures, such as market share and incremental sales, provide a direct link to economic performance while other measures, like that gauging brand equity and customer loyalty, may be more indirect. The functional relationship of indirect and derived measures to financial performance should be defined and validated through statistical sampling. While useful, metrics based on historical data are not substitutes for forward validation.

10. *Measures of ROMI must be documented in sufficient detail to allow a knowledgeable user to understand their utility and make comparisons among alternative measures.* Third-party commercial information providers offer numerous measures and metrics to measure marketing actions and their ROMI. Claims of the utility and validity of such measures should be transparent and subject to independent audit. At a minimum, providers of marketing metrics should provide information about how metrics were developed and provide a reasonable basis for comparison of alternative measures with respect to their cost, timeliness, and predictive validity.

11. *Measures of ROMI must be assessed relative to generally accepted standards of measurement development and validation.*

There exist well-established standards for the conduct of marketing research. Measures of ROMI should reinforce these standards and exhibit characteristics that reflect best practices in measurement development and validation. Providers of such measures should clearly identify the processes by which individual measures are developed and verified. The Appendix provides a list of the attributes of an ideal measure.

12. *Measures of ROMI should be recognized as a necessary investment for assuring sound decision making, accountability, continuous improvement, and transparency for all stakeholders.* Marketing information is a necessary element in the management of the firm, so the costs of marketing should be considered a part of the management and control function rather than simply a marketing expense. The marketing function should not be placed in the position of making trade-offs between expenditures on marketing actions and expenditures on marketing information and controls.

What each of these suggestions implies is that marketing needs to develop an independent audit process for its activities. In many ways, the systems needed to make marketing more efficient and cost-effective are already available to us, in the form of the corporate finance department. By discussing, evaluating, and making marketing decisions in the language of finance, we can develop an audit process to track functions of the marketing department in the same manner we measure manufacturing inputs and outputs. The market for financial reporting also suggests guidelines for the level of marketing forecast analysis.

Certified public accountants provide three levels of financial preparation for their clients: compilation, review, and audit. Each costs more than the next, and each is required at different levels of financial involvement. Banks that make small loans to businesses typically only require a "compilation" statement, where accountants simply take data provided by their customer and reformat it in such a way as to be comprehensible to the lending institution. Typically, compiled financial statements are accompanied by a letter from the accountancy corporation indicating that the figures contained in the following pages are the representation of the management. Data contained in a "reviewed" or an "audited" statement, however, are "certified" by the accountancy for their accuracy. As the size of financial risk increases, banks and creditors typically require greater financial accountability of their would-be clients, accountability that can be tracked and verified by third-party accountants.

While there are many marketing metrics that may be useful for diagnostic and tactical purposes, ROMI is ultimately about marketing contributing to a firm's financial bottom line.

There is no reason the same three-tiered approach could not be applied to metrics developed to measure marketing. As the cost and scope of a marketing campaign increases, it is not unreasonable to expect a similarly higher level of outcome analysis and review. As with financial analysis, firms can use different levels of marketing metric verification as a means of prequalifying vendors, as well as tracking their subsequent performance in the market. Those firms that avoid such independent analysis will do so with the knowledge that by forgoing independent verification of their claims, they will necessarily lock themselves out of work available to firms willing to undergo the audit process.

SUMMARY AND CONCLUSIONS

Serious attention to ROMI is long overdue. Pressures from senior management, boards of directors, and regulatory agencies arising from Sarbanes-Oxley will force marketers to become more accountable to executives and shareholders, or the marketing department will be reduced to the role of executing tactics decided by other parts of the firm. In an era of financial austerity, it behooves marketing professionals to develop defensible measures of its contributions and the ROI in their activities. As Gil (2003) observed:

> The sales and marketing function faces a unique challenge in erecting its internal control structure because some of its key finance-oriented outputs (sales forecasts and projections) upon which many other functions rely, are based on abstract or estimated data and are generated through nonstandardized processes (p. 1).

There is much unnecessary confusion about ROMI. While there are many marketing metrics that may be useful for diagnostic and tactical purposes, ROMI is ultimately about marketing contributing to a firm's financial bottom line. Only measures that can be linked quantitatively will be credible because the firm is required to report its results in financial terms. Managers must make trade-offs involving decisions with noncomparable outcomes that can only be evaluated in financial terms.

The present article identifies three broad classes of marketing outcomes: short-term outcomes, long-term (persistent) outcomes, and the creation of real options. It is suggested that measures of short- and long-term outcomes lend themselves to the development of standard measures within and across firms. Real options are idiosyncratic to the firm and therefore require firm specific metrics for assessing their value and the ROI required to create them.

This article identifies characteristics of ideal measures and argues that the development of effective measurement standards for marketing outcomes are more likely to result from market competition rather than through the efforts of a single firm or the actions of an industry body. A first step in facilitating such competition is identification of a set of broad guidelines for use in evaluating market metrics. This article offers 12 such guidelines. JAR

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APPENDIX

Characteristics of Ideal Measures

Note: A conference of the Marketing Science Institute identified 10 characteristics of an ideal measure of brand equity that were reported in Ailawadi, Lehmann, and Neslin (2003). These characteristics are included in this Appendix along with several other characteristics generally associated with best practices in measurement development.

There exists a long history of theory and research related to the development of measures in marketing. This theory and research suggests the attributes that characterize the best practices in marketing measurement. In general, an ideal measure should:

1. Be *relevant;* that is, it addresses and informs specific, pending decisions and actions.
2. Be *grounded* in theory; that is, it is validated against other measures and constructs and possesses a known functional relationship to other measures and constructs.
3. Be *complete and distinct;* that is, it has all of the necessary qualities and capabilities to provide insight and it is clearly different and separable from other constructs with respect to its meaning and implications.
4. Be *diagnostic;* that is, it is able to distinguish or identify the cause or reason for a given outcome, suggest specific intervention(s) for change, and include a means for assessing that the intervention has had the desired effect.
5. Be *valid and predictive;* that is, it provides information about the future, accurately predicts the outcome of pending action, and is able to identify and quantify future outcomes.
6. Be *objective;* that is, it provides facts, explanations, and information that are meaningful and not subject to personal interpretation or distortion by personal feelings or prejudices.
7. Be *based on readily available data;* that is, it is based on facts or observations that can be readily obtained across time and circumstances.
8. Be *intuitive and credible;* that is, it possesses face validity and inspires trust and confidence.
9. Be *robust and calibrated;* that is, it means the same thing across products, markets, conditions, and cultures.
10. Be *reliable;* that is, it is dependable and stable over time and conditions, but also able to reflect real changes.
11. Be *sensitive;* that is, it can identify and differentiate meaningful differences in outcomes and actions.
12. Be *simple and empowering;* that is, it is straightforward, uncomplicated, easy to use, and its meaning and implications are clear and can be adopted and acted upon easily.
13. Be *transparent and subject to independent audit;* that is, claims with respect to specific properties and/or capabilities should be substantiated and open to independent verification.
14. Be subject to *on-going quality assurance and improvement;* that is, there exist formal processes for assuring the reliability, validity, and sensitivity of the measure and for making the measure better and more useful.