

How effectively does marketing drive business success?

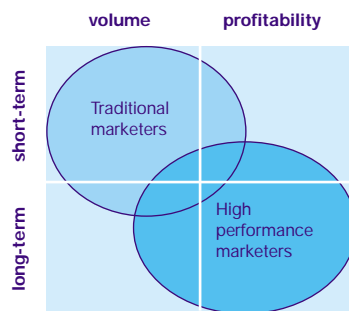
This year's Marketing Forum original research, carried out in partnership with PA Consulting Group and Cranfield School of Management, explores how effectively marketing drives business success. Whilst marketing has the potential to be the primary driver of shareholder value in the business, the survey considers whether marketing and marketers are really living up to this challenge.

The study of over 150 senior marketers in the UK found that marketers were certainly not lacking the right intentions to deliver significant value to both customers and shareholders. Their focus is very much on the 'classic' areas of understanding and satisfying customer needs, achieving competitive differentiation, and driving revenue and growth. However they are often let down by the pursuit of the short-term over the longer-term, and by a lack of commercial discipline, adequate controls, and influence across the business.

Insights

Marketers could unlock more of their value if they took a broader view of their responsibilities, focussing as much on improving profitability as they do on increasing volume

- 75% of UK marketers seek to drive volume-based growth whilst only 13% are seeking to improve economic profit



- Yet profitability typically has at least twice the impact of volume on long-term shareholder value, the primary measure of business success
- Indeed, marketers with economic profit targets are more successful. Their companies deliver an additional 7.9% total shareholder return.

These findings are supported by insights clustered into four areas that are examined in detail in the full report, and described briefly below:

1. Marketers have strategic aspirations but typically act operationally

- Brand building and innovation head up the marketer's agenda, and high performance companies focus marketing effort on these strategic issues.
- Marketers are effective strategically at shaping purchasing attitudes and actions, but less good at influencing change in industry conventions and the broader supply chain.
- When they do act strategically, marketers are better at starting than stopping, e.g. 46% make decisions about new market entry, but far fewer about market withdrawal.
- They seek to allocate costs to understand profitability, but only 17% focus their effort on their most valuable customers, and only 13% on the most valuable products.

2. Marketers are good at creating customer value, but less good at delivering shareholder value

- Marketers say they are best at understanding customer behaviours and needs, and at creatively addressing them. They also admit there is room for improvement
- They claim to constantly pursue innovation in order to improve differentiation. They drive product development, although just over half own the budget for this
- Noticeably, only 39% strongly influence pricing decisions. This means they have limited control over capturing the value of propositions, and their profitability
- They also have very little influence over sales, the driver of their performance targets. Only 18% of marketers strongly influence sales management decisions

3. Marketers seek to improve their controls, but not for more accountability

- Finance directors see marketing as one of the most poorly controlled areas of the business, although marketers believe they are one of the best
- 67% of marketers and 55% of financiers agree that marketing controls urgently need a significant overhaul, and that a dedicated project is required to do this
- However marketers primarily want this to improve customer understanding. Only 37% of marketers are motivated to find a better allocation of spend
- Only 24% of marketers said they wanted to be more accountable for their performance. They will accept accountability if required, but don't proactively seek it.

4. Marketers are strong in conventional areas, but lack business influence

- Marketers are strongest at what we expect – understanding customers, creatively meeting their needs, and communicating their propositions in innovative ways
- There are some significant barriers to success, however, even in their pursuit of revenue. Systems and information fall short, and marketing talent is patchy and not a priority

- The pursuit of profit requires marketers to work with the business, and its leaders. Marketers work well within their function, but appear to have less impact beyond it
- Only 4% of marketers see marketing as the breeding ground of CEOs. They also do not see a need to improve the priority or reputation of marketing within the business

Conclusions

Bringing this evidence together, this research shows that UK marketers are still acting in their traditional domain – understanding and satisfying customer needs, although not always overseeing pricing. Despite their aspirations to build brands for the long-term, they are focused on driving volume-based performance within a short-term timeframe.

We give them 8 out of 10 for “classic marketing”

They are performing much less well in driving profitability. They are good at creating value for customers, but poor at capturing the full value of this back for the business. They are good at starting projects, but less successful at managing them ongoing with focus and sustained effectiveness. They are comfortable on their own turf – doing what marketers have always done, within their functional boundary - however they are much less keen to embrace the complexities of business performance, or lead the strategic business agenda.

We give them 5 out of 10 for “high performance marketing”

On the last point, we also know from parallel research of 6000 companies across 40 sectors (completed by PA Consulting in August 2002), that the strategic market actions which focus on profitability are at least twice as important in driving overall shareholder value, as the former areas which deliver growth. Hence the even greater importance in ensuring that profitability, and in particular economic profit, is at the heart of all marketing thinking.

So how effectively does marketing drive business success?

We give them 6 out of 10

PA Consulting’s research of over 6000 companies also shows that improved returns and accelerated growth (i.e. the outcomes of marketing in its broader definition) are three times more important than anything else a business can do (such as improving operational efficiency) in driving long-term shareholder value.

This strongly indicates that marketing is the primary driver of business success, but that marketers are not in the driving seat.

This raises an issue for CEOs, in terms of who actually is driving this value – especially the strategy to address complex and volatile markets, the focus on

the best sources of value, the strategic innovation to sustain competitive advantage, and the use of pricing to capture the full commercial value of marketing.

It is also an opportunity for marketers to move into the driving seat, to make more effective cases for marketing investment, and to raise customer and market issues to the top of the business agenda. Indeed, there is no better way to achieve this than to seek to convert marketing actions into potential cash and impact on the share price.

Given that marketing is three times more important than other business activities in driving value, and that marketers “score” 6 out of 10 for current performance:

We believe that closing these gaps to achieve high performance marketing is typically worth around 25% improvement to the share price.

1.0 Introduction

1.1 The value of marketing to the business

Business success is measured by shareholder value. A survey of 300 business leaders conducted by PA in spring 2002 found that the creation of long-term shareholder value was the number one priority of 97% of CEOs. In practice, shareholder value is driven by:

- **Better returns** (primarily a marketing challenge) - better margins achieved through price premiums supported by differentiated propositions, focusing on best customers and products, capturing value created through better pricing, building stronger relationships, improving allocation of spend, and effectiveness of marketing activities
- **Accelerated growth** (primarily a marketing challenge) - driving greater sales through strong brands and communication, innovating new products and services to broaden the portfolio, extending the customer experience, entering new markets, finding new niches, developing additional channels, and cross-selling to existing customers,
- **Improved efficiency** (primarily an operational challenge) - achieving cost advantage over competitors through streamlined supply chains, improving productivity of people and efficiency of processes, working in partnership to share resources and outsource non-core activities, and better financial management.

A recent study by PA of 6000 companies across 40 sectors found that the importance of these factors in driving value is typically in the ratio 2:1:1. In other words, marketing (using the broader definition of the activity) is three times more important than operations in driving shareholder value.

1.2 The success of marketers in driving business results

This new research takes this analysis one step further by exploring how effectively marketing drives business success. We consider the responsibilities and influences, the measures and controls, the activities and enablers by which marketing engages with the market and the business. We consider marketing in its broader definition – including the choice of market strategy, the design and delivery of the overall customer experience, as well as the more traditional areas of product and price, channels and communication.

The survey was completed by 156 senior UK marketers in August 2002, whilst 29 finance directors also completed a number of the “controls and measures” questions. Analysis of marketing behaviours against business performance was achieved through analysis of companies’ Total Shareholder Return (TSR), as described in the appendix.

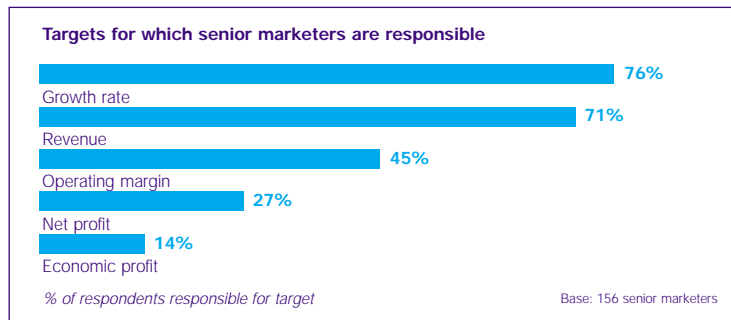
2.0 Key findings

Marketers could unlock more of their value if they took a broader view of their responsibilities, focussing as much on improving profitability as they do on increasing volume

Marketers are currently only 60-65% effective at driving business success, a gap worth around 25% to the share price. They are certainly not lacking the right intentions to deliver significant value to both customers and shareholders, and their aspirations are strongly in line with the pursuit of long-term profitability, through focus and effectiveness coupled with capabilities that are either good or being addressed. However they are often let down by the pursuit of short-term goals and a natural bias for operational rather than strategic action.

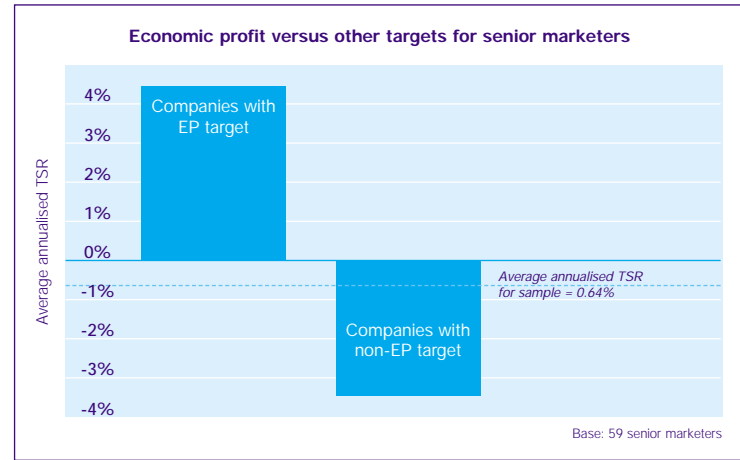
- 95% of respondents are targeted on growth or revenue, whilst only just over half pursue any form of profit measure (Figure 1). Yet profitability has twice the impact of volume on long-term shareholder value, the measure of business success.

(Figure 1)



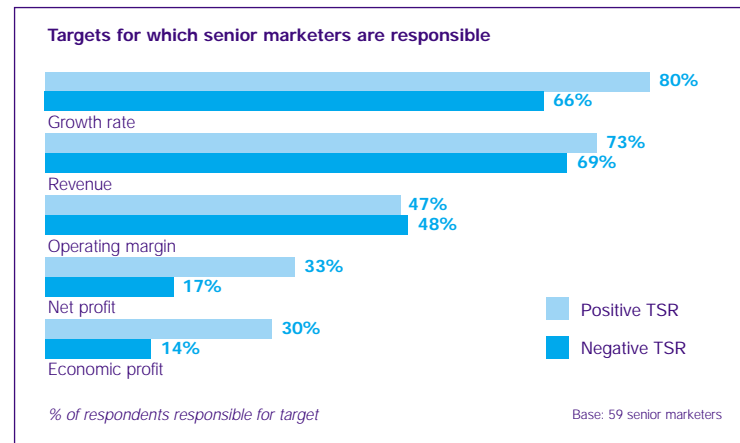
- Indeed only 13% of marketers are either given or set themselves a target based on economic profit (which represents post-tax profits less a charge for capital tied up in the business) (Figure 2). Our analysis reveals that those companies which target marketers on economic profit deliver an additional 7.9% of TSR (see Appendix for a summary of TSR calculation)

(Figure 2)



- Further, those companies that deliver positive TSR (i.e. those companies with a positive annualised TSR) tend to have both more targets per se, and are more likely to be targeted on Net or Economic Profit (Figure 3)

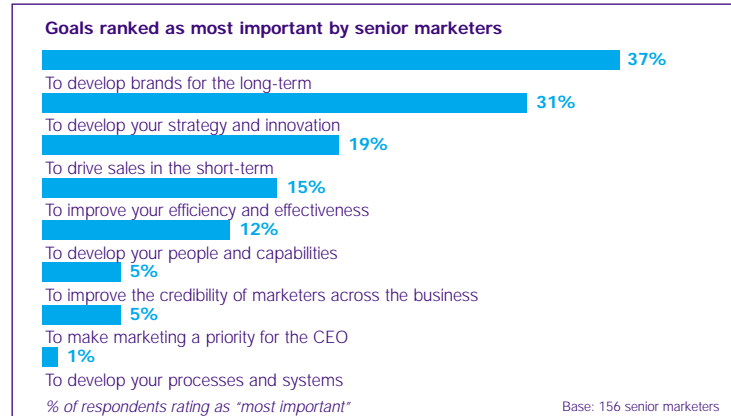
(Figure 3)



2.1 Marketers have strategic aspirations but typically act operationally

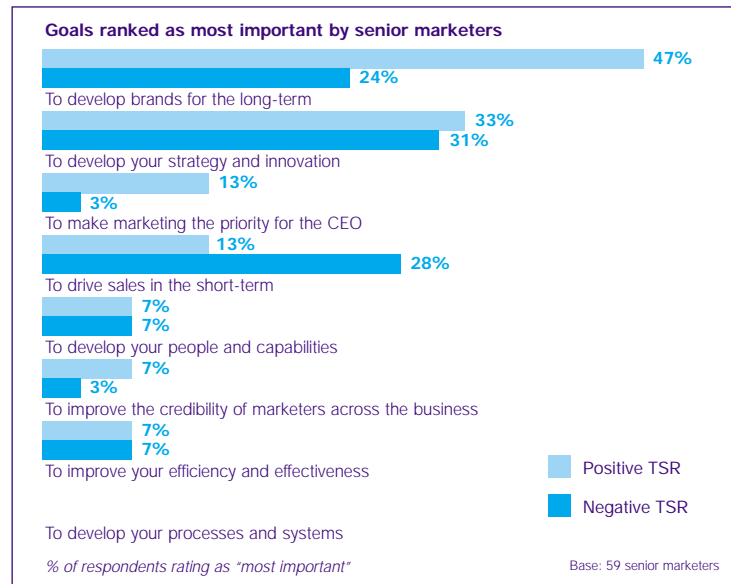
- Brand building and innovation are high on the marketing agenda. As shown in Figure 4 below, strategy, innovation and long-term brand development are described as the most important goals for marketers, well ahead of driving short-term sales and efficiency.

(Figure 4)



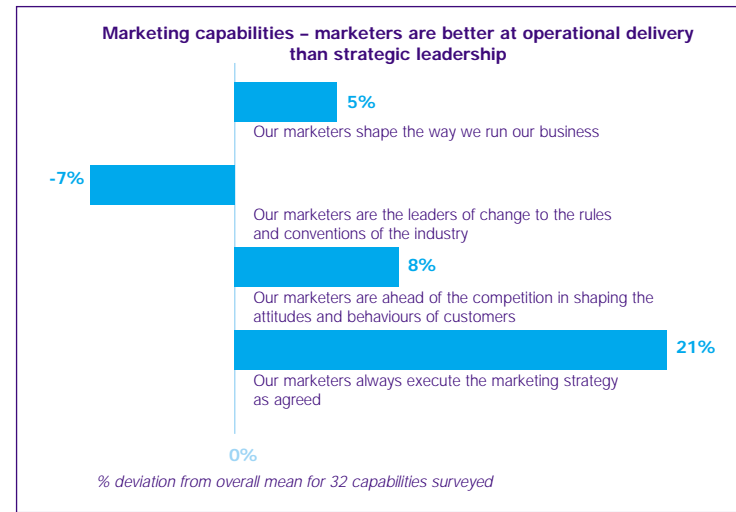
- However, we can see that it is those companies delivering positive TSR that are most focused on brands for the long term, strategy and innovation (Figure 5). Conversely, companies delivering negative TSR are relatively more focused on driving sales in the short term than high performers.

(Figure 5)



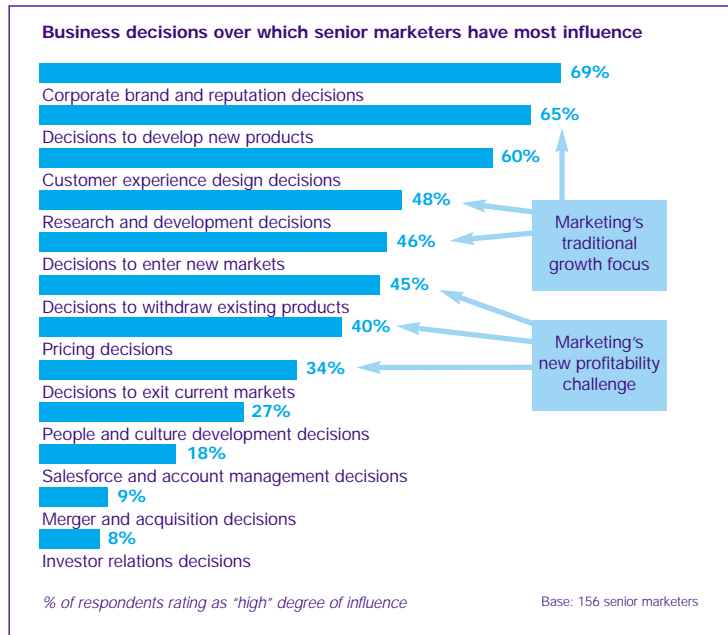
- Marketers in companies delivering poor TSR seem particularly unconcerned about driving the business agenda, with only 3% who consider making marketing a priority for the CEO an important goal (vs. 13% of positive TSR companies)
- Further our analysis of the key capabilities of marketers shows that they rate themselves most strongly in terms of operational execution of strategy rather than in truly shaping the business and the CEO agenda (Figure 6)

(Figure 6)



- Marketers are effective at shaping customer behaviour, but believe that they lack the skills to change industry conventions of influence the broader value chain (Figure 6).
- When they do act strategically marketing managers remain focused on traditional areas of strength, particularly those connected with growth initiatives, and do not yet exercise as much influence over decisions to exit current markets or withdraw existing products (Figure 7).

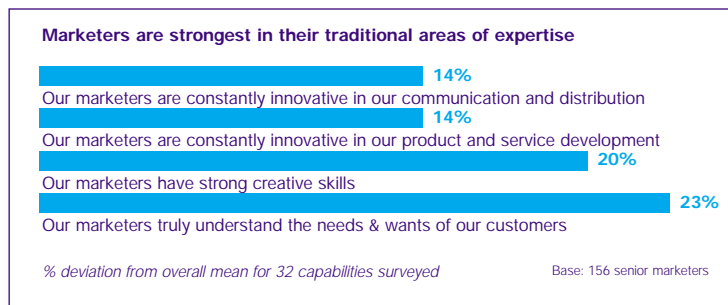
(Figure 7)



2.2 Marketers are good at creating customer value, but less good at delivering shareholder value

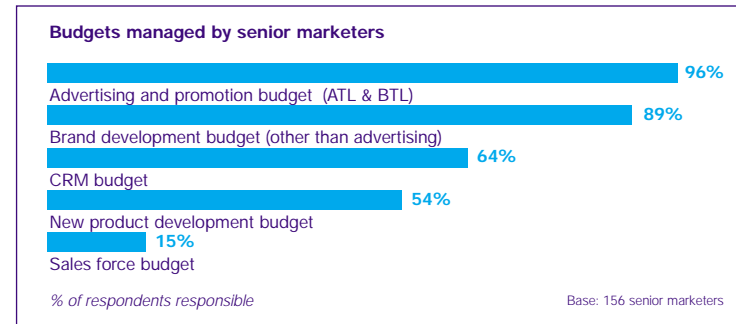
- Marketers' ability to create value for customers is reflected in their rating of their capabilities; marketers are best at understanding the needs and behaviours of customers and at creatively addressing them. (Figure 8)

(Figure 8)



- This is further supported by marketers drive to constantly pursue innovation, in order to improve differentiation and build compelling propositions, although only just over half (54%) actually control the budget for product development (Figure 9).

(Figure 9)

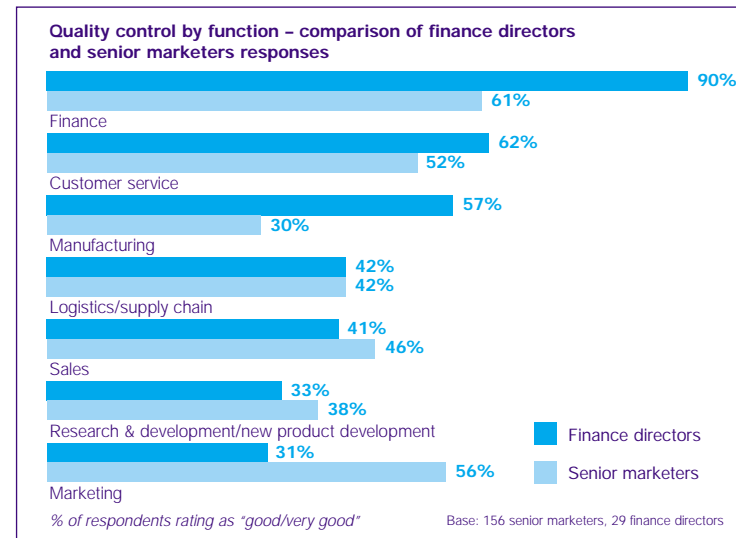


- However, marketers have limited control over capturing the value from their propositions and thus less influence over profitability. Pricing, one of the key drivers of profitability and generally thought of as one the 4 'Ps' of the marketing toolbox, appears to sit less fully in marketing's domain, with only 39% strongly influencing pricing decisions (Figure 7).
- Further marketers appear to have little influence over sales force and account management decisions, key drivers of sales figures and thus the current driver of the majority of marketing targets (growth/ volume). Only 18% of marketers strongly influence sales management decisions (Figure 7)

2.3 Marketers seek to improve their controls, but not for accountability

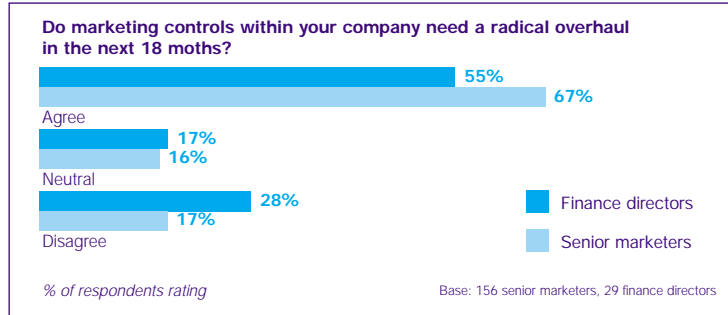
- Finance directors see marketing as one of the most poorly controlled areas of the business, whilst marketing see it as one of the best (Figure 10).

(Figure 10)



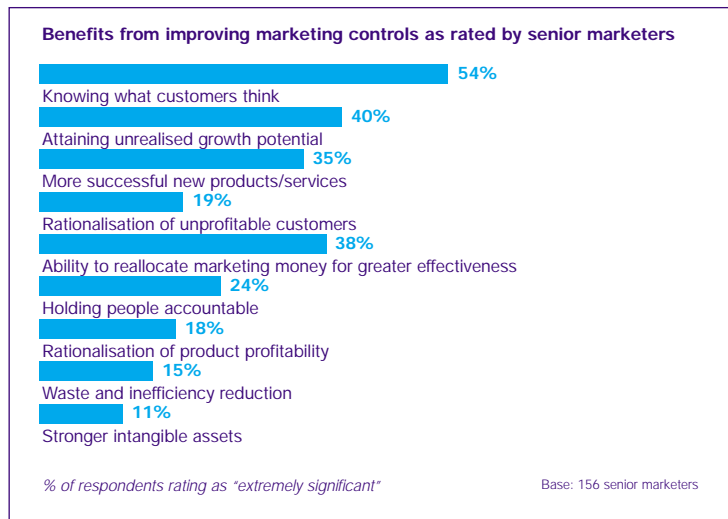
- Yet marketers recognise they can do better. Indeed, they are in agreement with Finance Directors about the need for marketing controls to be radically overhauled in the next 18 months (Figure 11)

(Figure 11)



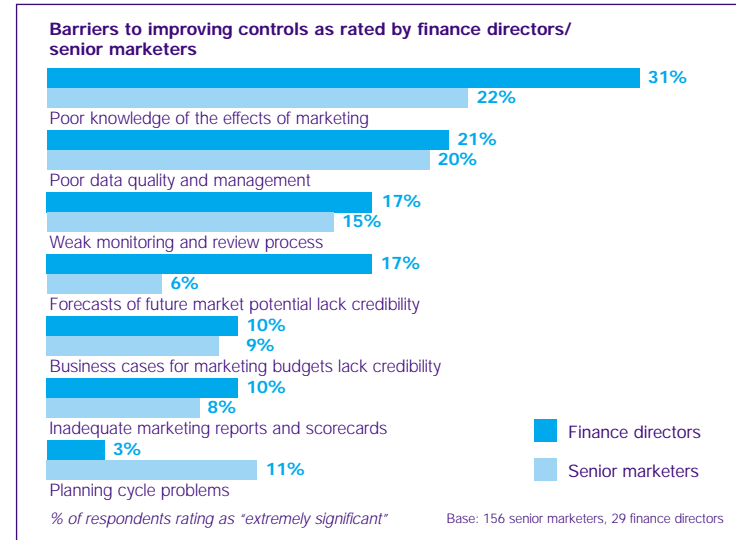
- However, marketers appear confused about the key benefits accruing from any change. Senior marketers are still more focused on benefits around customer knowledge and growth, rather than profitability and accountability (Figure 12).

(Figure 12)



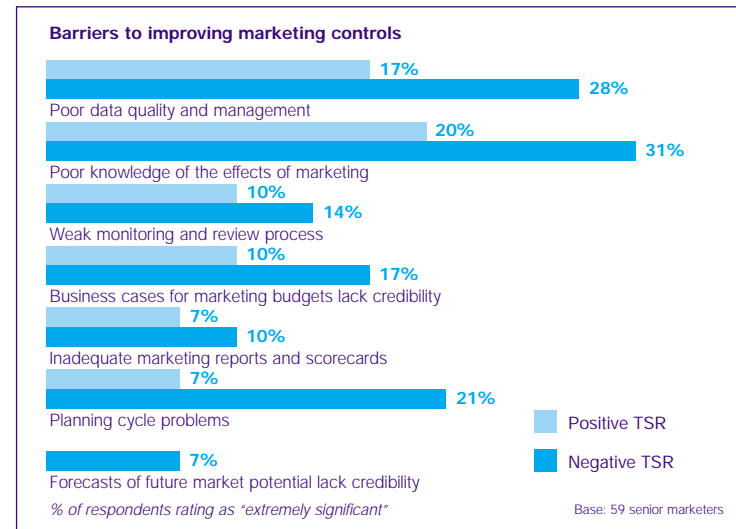
- Senior marketers and Finance Directors both recognise that the most significant barriers to improving marketing control lie in a poor understanding of the effects of marketing, generally poor data, and weak monitoring processes (Figure 13). Finance believe that the lack of credibility in marketers' forecasts of future market potential constitutes another significant barrier.

(Figure 13)



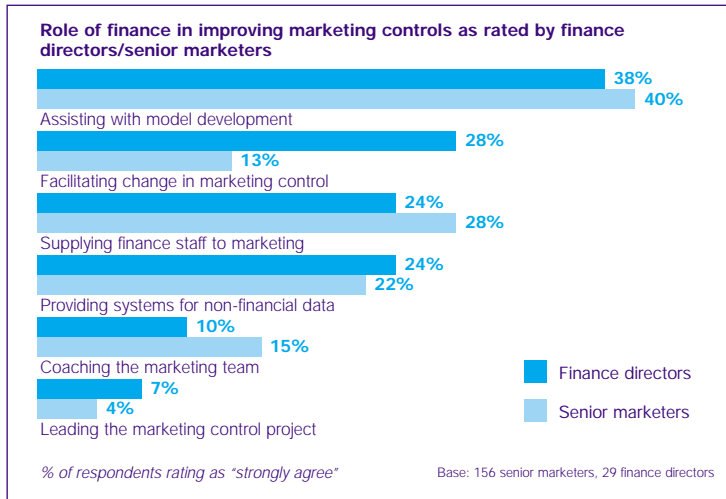
- These issues appear to be particularly salient for marketers in companies delivering negative TSR (Figure 14)

(Figure 14)



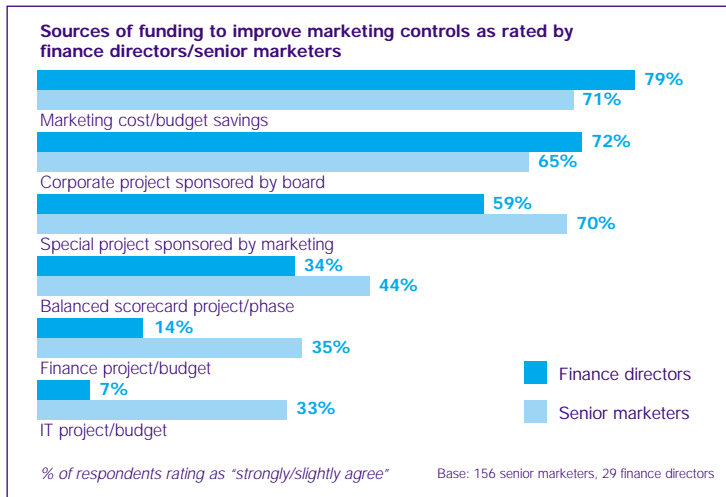
- Marketers see a strong role for finance in helping them to overhaul marketing controls, though they are less willing for Finance to facilitate that change (Figure 15)

(Figure 15)



Funding for such a transformation could come from a number of sources – as part of a corporate project sponsored by the Board, part of a balanced scorecard project, or from the IT budget – yet both Senior Marketers and Finance Directors generally believe that Marketing should be paying its own way to improvement (Figure 16)

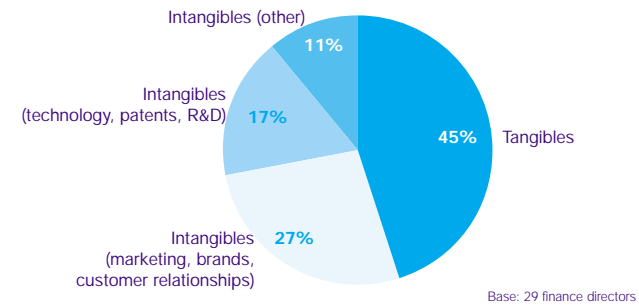
(Figure 16)



It is interesting to observe that finance directors confirm the primary importance of marketing and intangible assets in driving the market value of a company.

(Figure 17)

Percentage of marketing capitalisation driven by tangibles/intangibles as rated by finance directors



3.0 Marketers are strong in conventional areas, but lack business influence

We now take a closer look at what marketers are actually doing to drive performance. We consider two aspects at an overall level, and by their sub-components:

- Marketing activities** – the decisions and actions which drive efficiency, effectiveness, innovation and strategic leadership
- Marketing enablers** – the capabilities and resources such as customer insight, processes, systems and talent

We find that marketers are strongest at what we expect – understanding customers, creatively meeting their needs, and communicating their propositions in innovative ways. There are some significant barriers to success, even in their pursuit of revenue. Systems and information fall short, and marketing talent is patchy. The pursuit of profit requires marketers to work with the business, and its leaders. Yet they typically perform much less well outside their function than within. Marketers do not believe that they breed future CEOs. They also do not see a need to improve the priority and reputation of marketing within the business.

So, at an overall level, *what do today's marketers think they are best at?*

- Understanding customers needs and wants
- Executing marketing strategy as planned
- Having strong creative skills
= Understanding impact of marketing on customer behaviour

And at an overall level, *what do today's marketers think they are worst at?*

- Being recognised as breeding ground for next CEO
- Predicting marketing performance
- Easily accessing data fast

Furthermore, by looking at all the responses within each marketing activity and each marketing enabler, we can develop a much richer picture of marketers' experience:

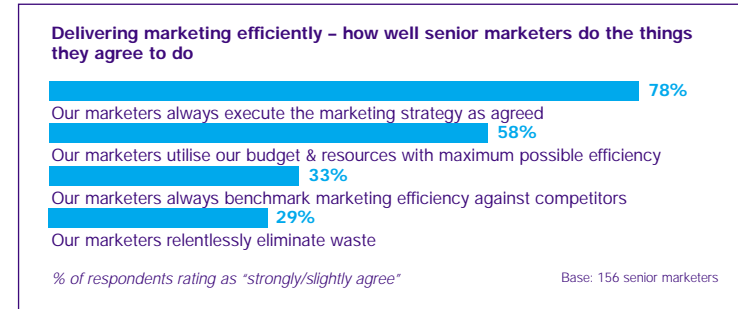
	Marketers are best at...	Marketers are worst at...
1. Delivering marketing efficiently	<i>Executing marketing strategy as planned</i>	<i>Benchmarking marketing efficiency</i>
2. Improving marketing effectiveness	<i>Evaluating and reallocating resources as appropriate</i>	<i>Focusing on the most valuable customers/products</i>
3. Driving marketing innovation	<i>Innovating in communication and distribution</i>	<i>Leading innovation in the marketplace</i>
4. Achieving marketing leadership	<i>Shaping role of suppliers & distributors</i>	<i>Leading change to industry rules and conventions</i>
5. Deep marketing insights	<i>Understanding customers needs and wants</i>	<i>Having better insight/forecasts than competitors</i>
6. Strong marketing processes	<i>Translating strategy into operational action</i>	<i>Making effective use of management time when planning</i>
7. Dynamic marketing systems	<i>Allocating costs to understand product/customer profitability</i>	<i>Predicting marketing performance</i>
8. Great marketing talent	<i>Having strong creative skills</i>	<i>Being recognised as breeding ground for next CEO</i>

Each of these dimensions is individually examined below:

3.1 Delivering marketing efficiently

Marketers are focused on delivery. 78% say that their marketers always execute the marketing strategy as agreed, 58% claiming to be on top of the efficient utilisation of spend and resources. However less than a third of marketers pursue efficiency as a dedicated ongoing task, or benchmark efficiency performance against peers (Figure 18).

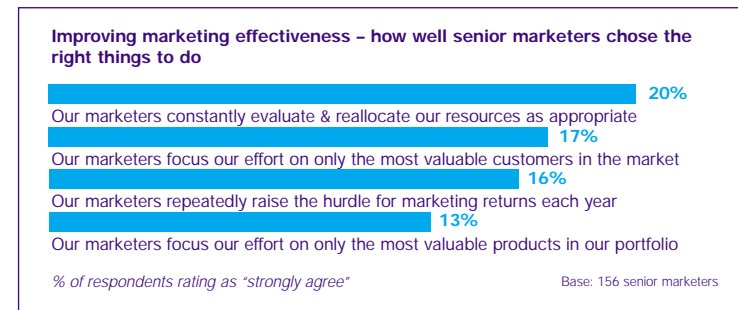
(Figure 18)



3.2 Improving marketing effectiveness

Only 17% of marketers focus on their most valuable customers, and only 13% on their most valuable products (Figure 19). Yet the discipline of value-based portfolio management and focus is typically the underpinning of profitability and high performance marketing.

(Figure 19)



3.3 Driving marketing innovation

Perhaps not surprisingly, given their disposition to create ever more value for customers, the majority of marketers regard themselves as constant innovators (Figure 20). Marketers see innovation as their key weapon in achieving competitive advantage. However, they are more confident that they are innovative, and less confident that they are recognised for it.

(Figure 20)



3.4 Achieving marketing leadership

More surprisingly, given their limited focus on profitability, the majority of marketers perceive that their team is responsible for shaping the way that their business is run (Figure 21). Yet marketers appear to be stronger at strategically influencing customers and colleagues, rather than their industry at large. As sectors converge and new business models emerge, marketers must also shape their market conventions and the ways in which companies currently work to create value.

(Figure 21)



3.5 Deep marketing insights

Not surprisingly marketers believe they are reasonably good at understanding customer needs and behaviour, although elsewhere in the survey they also admit that there is still significant room for improvement. The impact on financial performance is presumably not related to a deep understanding of profitability, confirmed by other questions. Marketers are not confident about their understanding of the true impact of their marketing activities on financial indicators (Figure 22).

(Figure 22)



3.6 Strong marketing processes

This could be as a result of their poor data, yet it is just as likely to come from the lack of strong marketing processes – over one third of marketers are unable to claim that they have collaborative, cross-functional processes with finance (Figure 23).

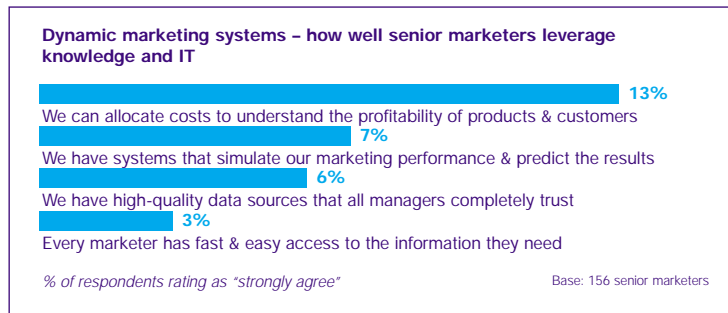
(Figure 23)



3.7 Dynamic marketing systems

Confirming a lack of faith in the IT systems and knowledge management capabilities highlighted previously, marketers observe a notable shortfall in their ability to draw upon the high-quality, easily and quickly accessible information they need in order to operate in today's ever-changing marketing environment (Figure 24). It is worth noting also that only 13% of marketers actually believe strongly that they can allocate costs to understand their sources of profitability.

(Figure 24)



3.8 Unlocking marketing talent

Marketers are well known for their creativity, but less so for their financial prowess - as confirmed by this research. However there are some significant issues regarding their confidence in their capability development. Despite marketing's importance to value creation, marketers rate their chances as future business leaders extremely poorly (Figure 25). They don't help their cause by rating this a very low priority (only 5% see it as important to make marketing a priority for the CEO, and 35% of marketers rated improving the credibility of marketing across the business as their least important goal). Their enthusiasm for leading the business agenda appears limited. This indicates a worrying complacency and lack of business ambition within the marketing community.

(Figure 25)



4.0 Conclusion

Improving marketing's ability to drive business results could add around 25% to the share price

Bringing this evidence together, this research shows that UK marketers are still acting in their traditional domain – understanding and satisfying customer needs, although not always overseeing pricing. Despite their aspirations to build brands for the long-term, they are focused on driving volume-based performance within a short-term timeframe.

We give them 8 out of 10 for "classic marketing"

They are performing much less well in driving profitability. They are good at creating value for customers, but poor at capturing the full value of this back for the business. They are good at starting projects, but less successful at managing them ongoing with focus and sustained effectiveness. They are comfortable on their own turf – doing what marketers have always done, within their functional boundary - however they are much less keen to embrace the complexities of business performance, or lead the strategic business agenda.

We give them 5 out of 10 for "high performance marketing"

On the last point, we also know from parallel research of 6000 companies across 40 sectors (completed by PA Consulting in August 2002), that the strategic market actions which focus on profitability are at least twice as important in driving overall shareholder value, as the former areas which deliver growth. Hence the even greater importance in ensuring that profitability, and in particular economic profit, is at the heart of all marketing thinking.

So how effectively does marketing drive business success?

We give them 6 out of 10

PA Consulting's research of over 6000 companies also shows that improved returns and accelerated growth (i.e. the outcomes of marketing in its broader definition) are three times more important than anything else a business can do (such as improving operational efficiency) in driving long-term shareholder value.

This strongly indicates that marketing is the primary driver of business success, but that marketers are not in the driving seat.

This raises an issue for CEOs, in terms of who actually is driving this value – especially the strategy to address complex and volatile markets, the focus on the best sources of value, the strategic innovation to sustain competitive advantage, and the use of pricing to capture the full commercial value of marketing.

It is also an opportunity for marketers to move into the driving seat, to make more effective cases for marketing investment, and to raise customer and market issues to the top of the business agenda. Indeed, there is no better way to achieve this than to seek to convert marketing actions into potential cash and impact on the share price.

Given that marketing is three times more important than other business activities in driving value, and that marketers “score” 6 out of 10 for current performance:

We believe that closing these gaps to achieve high performance marketing is typically worth around 25% improvement to the share price.

Appendix

Performance analysis

- Total Shareholder Return (TSR) is a measure of total value delivered to shareholders in a particular company, in a period of time
- TSR measures both dividends paid and share price appreciation to give a measure of total returns to an investor holding a particular company's stock. This is expressed as a percentage figure. Thus a one-year TSR of 10% would mean that for every £1 invested in a firm, the investor would get back 10p in one year
- In this study we have used an **Annualised TSR** measure to allow comparison of companies with different amounts of available data
- Annualised TSR is calculated from the Total TSR over the available data period (1, 3, 5 years; as available) as follows:

$$\text{Annualised TSR} = (1 + \text{n-year TSR})^{1/n} - 1$$

Where:

n = time period of TSR data

n-year TSR = Total Shareholder Return over time period n

- As mentioned, this allows us to compare the performance of companies with different amounts of available share price and dividend data
- All TSR data has been taken from Hydra Data, and spans the period 22 August 1997, to 22 August 2002 (as available for the individual companies who have provided contact information).

Definition of above 'positive/ negative' TSR performance

- The 59 companies for whom TSR data was available were divided into two groups based on their annualised TSR performance
- Those companies with a positive annualised TSR were categorised as the “Positive TSR” group (30 companies)
- Those companies with a negative annualised TSR were categorised as the “Negative TSR” group (29 companies).

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