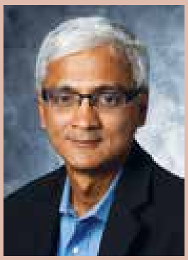
Marketing and ROI: Perennial Questions, New Realities



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A volatile and digitalising world demands a rising ability of marketing to align to hard outcomes – the sort demanded by shareholders and other key stakeholders, including top managers. The marketer creates value by building core customer connect, something that, given new realities such as hyper-personalisation, is becoming increasingly complex. Equally, he or she does this by focusing on the intangible and powerful components of brand creation, valuation and expansion. A firm's CMO is the CFO's true partner in unlocking the value of intangibles.. Studies find that, measured by Tobin's Q (the ratio of market to book value), corporations that have a CMO significantly outperform those that do not. Underlining marketing's criticality to growth, and at the same time, stressing that growth is a desired outcome, firms like Coca-Cola, Kellogg and Hershey's have in fact replaced the traditional CMO designation with the designation of Chief Growth Officer, with capability sets clearly aligning to the ability to deliver growth. The scrutiny on marketing spends is thus greater than ever, which makes it vital to build a clear line of sight from marketing strategy and initiatives to the creation and enhancement of shareholder value.

A strong marketing mindset at the organisational level is associated with greater innovation, higher customer satisfaction, and improved financial metrics such as EPS.

BUILDING A MARKETING MIND-SET

Today's fast-paced environment demands a marketing mindset across the organisation – and for good reason. Research suggests that doing so is associated with significantly higher customer satisfaction and innovation, as well as improved financial metrics such as earnings per share (EPS). Building this is not easy and CMOs must look beyond traditional, sales-oriented metrics, such as penetration in existing markets, entry into new markets, introduction of new products/services, new customer acquisition, and new channel opportunities. The need of the hour in fact, is for all top managers, not just CMOs, to look towards profitability, customer retention and critically, lifetime customer value.

Organisations must think differently about marketing-related assets than they have in the past. Innovation, for instance, is more

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than just investments in R&D, and requires a creative approach to 'go to market' strategies. M&A decisions, too, must be viewed from the wider lens of market- and growth-based criteria, and not just from the angle of financial synergies and cost savings. P&G, for instance, acquired Gillette as a means to expand its market for personal-care products to men, and to create new opportunities for cross-selling. Building a long-term focus is also critical, because investments in brand-building and innovation often take time to deliver returns. It is only natural then that the marketing function is ideally driven by forward-looking metrics such as customer engagement, lifetime duration and value, as well as brand perception and shareholder value.

INTANGIBLES MATTER

Brand value...

Like an iceberg – most of which lies hidden underwater – intangible assets like brand value, customer engagement, the quality of the distribution network, and human and intellectual capital, contribute substantially to firm value. Studies find a clear relationship between measures like Tobin's Q and stock market valuation. To illustrate, in 2015, 38% of the market capitalisation of India's top 100 firms was attributable to brands.

...and customer satisfaction

Numerous studies find that customer satisfaction is one of the main determinants of market value. Satisfied customers make repeat

Satisfied customers make repeat purchases, are less likely to look for 'deals', and are more open to cross-selling. All of this boosts margins.

purchases, which boosts cash flows, lowers the cost of retaining customers, and thereby raises margins. Moreover, since personal recommendations carry far greater weight than advertising does, they create a positive 'word of mouth' effect. In turn, this lowers the cost of acquiring new customers. Satisfied customers are also less likely to look for 'deals' or promotions, which allows the firm to earn price premiums, and so further boost its cash flows. Finally, an engaged customer base enables cross-selling. When, for example, a company launches new products, not only are existing customers more likely to buy, but they are also likely to buy quicker. For all these reasons, higher customer satisfaction leads to higher cash flow levels, quicker cash flows, and lower variability. This reduces risk, lowers the cost of capital, and boosts market value.

In B2B businesses, cash flows are often impacted by the dynamics of the sector in which a customer operates. Still, other things being equal, an engaged corporate client will add value. For example, satisfied customers might have 'influencer' value, generating interest in a brand through blogs, or at presentations at industry forums. Customers are also valuable for their deep knowledge of the product/service, which allows them to directly provide inputs to the company on potential issues, or share suggestions for improvement – or even new products.

Yet, whether the business is B2C or B2B, a strong and engaged customer base brings with it an additional benefit: by serving as a willing captive audience that can pilot-test new products, it can help the firm expand into new markets or adopt new technologies.

LINKING ACTIONS TO OUTCOMES

Plainly, then, even more than industry-specific factors – competitive intensity, or the regulatory environment – or resource allocation, it is intangibles such as brands and customer relationships that determine business outcomes. However, it is the marketer's job to demonstrate the value of marketing, and to communicate this clearly to the top management team. Finance-oriented metrics, such as those jointly developed by CFOs and CMOs, are fundamental to this. For instance, decisions to expand manufacturing capacity must be taken by linking future demand and new customer acquisition with such tangible measures as cash flows.

Intangible assets such as brands and customer relationships are also core to measurable metrics such as stock market outcomes. Market value today is driven by the level, speed and stability of cash flows. Strategies and action plans must therefore be linked to these dimensions, with the CMO beholden to communicate the actions he/she has undertaken or is planning to undertake to drive firm value. In turn, this demands an ability to quantify intangible assets such as goodwill, by splitting them into their various components: brands, customer relationships, technology, and reputation. Rather than 'increasing goodwill', the clear, actionable goals then become, say, 'brand-building', or 'strengthening customer relationships'. ■