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ROMSI

HOW TO MAXIMISE THE RETURN ON YOUR MARKETING & SALES INVESTMENT - 2014

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ABOUT ACE

ACE – Allied Consultants Europe – is a strategic partnership of 11 leading European management consulting firms. We are experts in the fields of strategy, organisation change and business performance, and have been working together – as one – since 1992.

In 21 offices all over Europe, more than 700 consultants offer local know-how and international expertise to our clients, in both the public and private sectors. ACE regularly publishes reports and conducts European surveys on a wide range of business issues. This year's online survey reflects 360 CEOs and CMOs view points from 11 countries across Europe.

Furthermore, we conducted 40 face-to-face interviews with our business partners. We would like to thank all our clients and business contacts for providing valuable insights on how they allocate and optimise their M&S budgets. We hope you get a good return on your investment on the following pages.

The ACE EMI project team:
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PREFACE

How to maximise the return on your marketing & sales investments (ROMSI) within limited budgets

Two decades ago, companies managed their Marketing and Sales (M&S) activities by mainly using classical sales channels like retail outlets, sales force and communication platforms, such as TV or printed media as their main customer touch points.
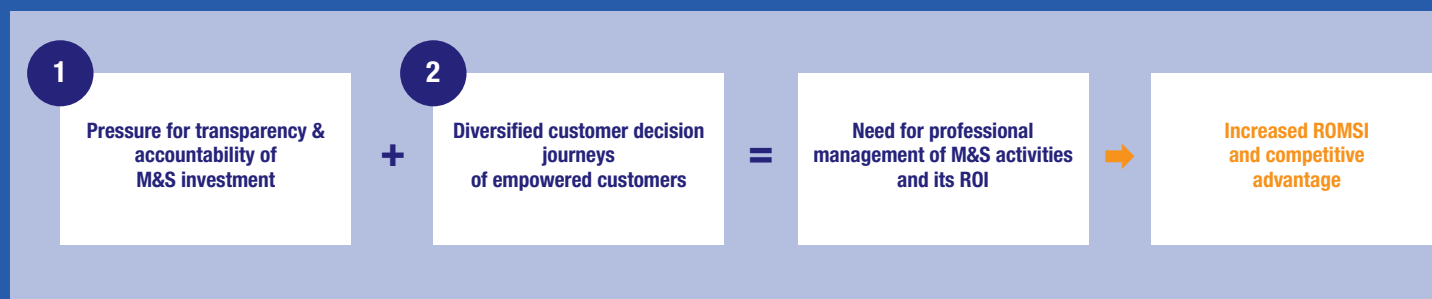
And some M&S departments tried to estimate their respective Return on Marketing and Sales Investments (ROMSI), through a set of key performance indicators (KPIs), usually per platform or within one, but certainly not across all of their M&S activities – promotions, sales force, outlets or media mix. However, times have changed. Nowadays, consumers are more empowered and their customer decision journey (CDJ) is multi- and cross-channel, on-

and offline, global and local, which leads to yet more customer-driven touch points for M&S managers, instead of the few past company-driven ones. Today's challenge is to create positive and sustainable customer experiences throughout the customer journey and across all channels, ideally with reduced and fewer resources and costs. These days, all M&S activities need to be accounted for to justify future spend otherwise budgets might be cut. This report focuses on how to maximise your ROMSI within limited budgets by optimising your M&S investments across all M&S activities.

Our latest research demonstrates that although the CDJ has dramatically changed over the last few years, the budgeting processes within European organisations have not. Even today, there is still a strong focus on using last year's annual budget and actual spend as a rough guide (38% of all online respondents) to allocate future resources. In fact, less than one in five companies systematically evaluate the impact of their M&S activities before allocating their resources.

At the same time, they acknowledge the need to better understand why and where they spend their budgets due to an increasing pressure to reduce costs by cutting the amount of

HOW INCREASED ROMSI COULD TURN CHALLENGES INTO OPPORTUNITIES AND COMPETITIVE ADVANTAGE

1 Pressure for transparency & accountability of M&S investment

+

2 Diversified customer decision journeys of empowered customers

=

Need for professional management of M&S activities and its ROI

➡

Increased ROMSI and competitive advantage

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any unnecessary and uncommitted M&S costs. Over half (56%) of Chief Marketing Officers (CMOs) feel unprepared to deliver analysis that can identify which of their M&S activities have had the most impact.

We invite you to learn from best practice examples, how to maximise your ROMSI and get answers to questions, such as:
– What is the real impact of my M&S activities on our revenue and how can I measure and improve it?
– Which of my M&S activities are critical to success?
– How should I (re-)allocate my M&S resources in order to maximise the ROMSI?

Enjoy the *read* – and if you are online have fun interacting on the following pages! And, of course, feel free to get in touch with us, as we are always happy to provide more food for thought and discussion.
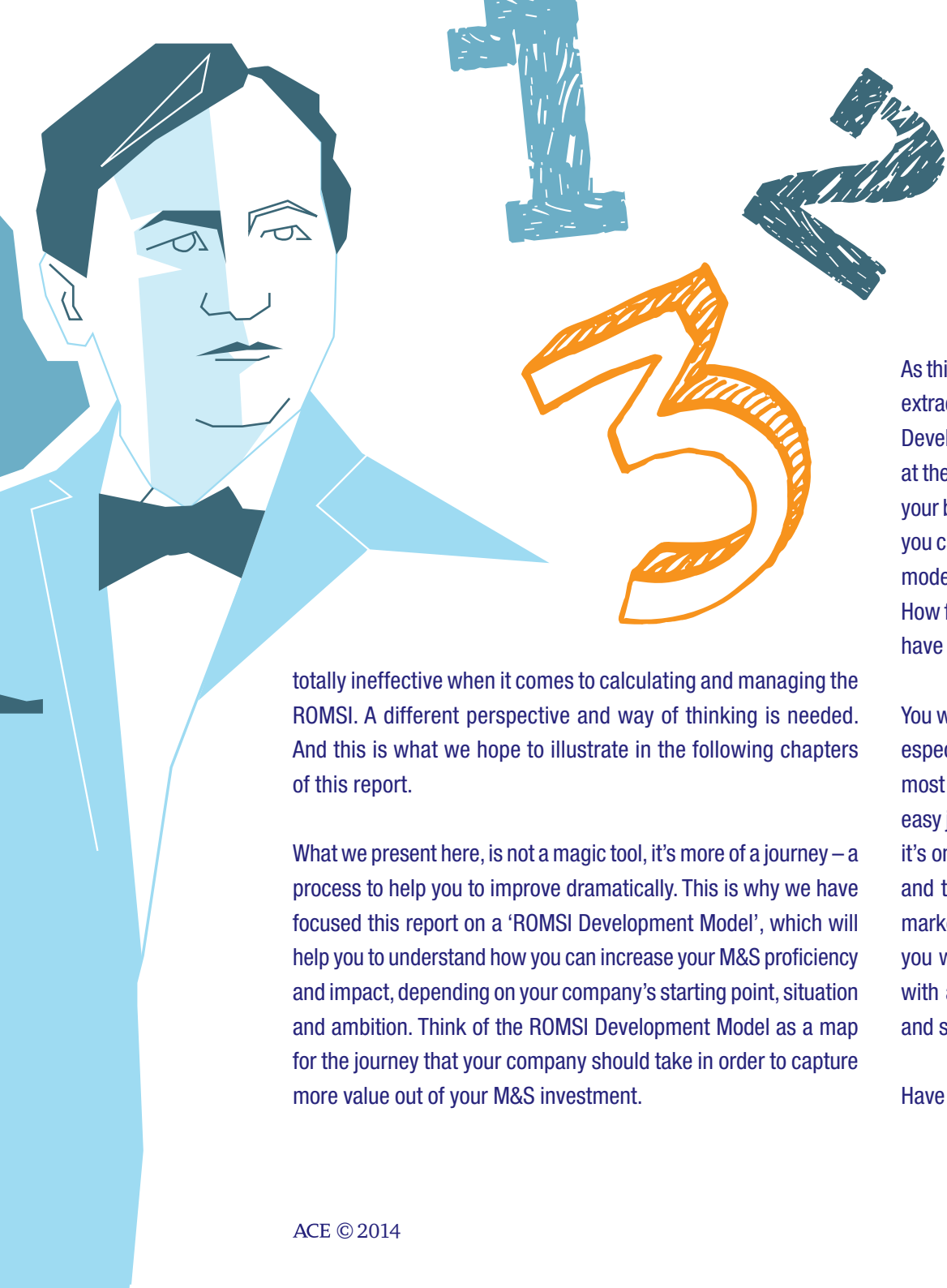
EXECUTIVE SUMMARY

Many years ago, American businessman John Wanamaker was quoted saying that "half of the money he spent on marketing and advertising was wasted; he just didn't know which half." Almost a century passed by and amazingly we still struggle with measuring the return on marketing and sales investments (ROMSI).

Companies spend on average between 10–15% of their revenues on marketing and sales (M&S), and this varies depending on the industry, market context and the company's life cycle. One key finding of our research is that although most firms monitor some of their key M&S activities, very few actually take a comprehensive approach to maximise the return from their M&S budgets.

We know from experience it's not easy, but we believe it's worth it. After all, we're talking about at least 5–7.5% of revenue, assuming that you agree with Wanamaker's conclusion that half of the M&S budget is wasted. In this report, we will show you how to approach the issue and help you to not only save money, but also increase your market impact with a similar or even a reduced M&S spend. This goes for both B2B and B2C companies – the only difference may be the amount of the total M&S budget, hence the potential nominal saving.

Our findings reveal that the overall perception of ROMSI is that you can only calculate it when you know exactly how much you have spent (total cost) per activity. Basically, what is the total return associated with this – and only this – activity. This widespread, traditional way of accounting and business thinking, however, is

5–7,5%

As this report demonstrates, there are in fact, many ways you could extract more value out of your M&S spend. Although the ROMSI Development Model has six built-in elements, you could just start at the beginning by better monitoring total costs and the impact of your budget and strategic goals. Then, depending on your ambition, you can go even further, and end up building complex econometric models that will help you to maximise your overall M&S budget. How far you proceed along the model is totally up to you. You don't have to reach the final level to see improvements in your ROMSI.

You will reap dividends just by following the first one or two steps, especially if you are starting at a lower level, as in the case of most of the companies that we interviewed. We know it's not an easy journey, otherwise you would have already undertaken it. But it's one certainly worth pursuing, because of the money involved, and the increasing competition and velocity embedded in most markets. As one CMO we interviewed, put it: "It's up to you whether you want to continue with a 'guess, trial-and-error' approach or with a different process and spirit in order to gain more insight and speed."

Have a nice journey!

totally ineffective when it comes to calculating and managing the ROMSI. A different perspective and way of thinking is needed. And this is what we hope to illustrate in the following chapters of this report.

What we present here, is not a magic tool, it's more of a journey – a process to help you to improve dramatically. This is why we have focused this report on a 'ROMSI Development Model', which will help you to understand how you can increase your M&S proficiency and impact, depending on your company's starting point, situation and ambition. Think of the ROMSI Development Model as a map for the journey that your company should take in order to capture more value out of your M&S investment.

SETTING THE SCENE

**STRATEGIC AMBITION AND MARKET AND CUSTOMER DEVELOPMENT
ARE KEY TO THE M&S MANAGEMENT PROCESS**

The company strategy and the market and customer development approach are vital for managing M&S activities. The decisions made in these processes determine the playing field for M&S activities, such as which markets, brands, customers or channels. The management of M&S activities has to ensure that resources are spent on the most effective activity in the M&S portfolio within the defined playing field.

The overall strategic ambition, which sets the relevant underlying priorities, is the most important contributing factor. As the diagram opposite illustrates (Figure 1), Market and Customer Development, Organisation and Disruptive Technologies are the three pillars that support the strategic ambition and are crucial in managing M&S activities well. There is a strong influence and interdependency between these pillars, and it would make little sense to improve a marketing activity that is not aligned with them. Therefore, to make an impact, the market development approach needs to be aligned with the people involved. There will be no effect if the people within those areas are deeply silo-driven, and not cooperating together to achieve the same goals. In the following chapter, we elaborate on how your M&S planning and activity process can be managed in the most efficient way and how the ROMSI Development Model can help to improve your M&S impact.

FIGURE 1
KEY INFLUENCERS TO THE M&S MANAGEMENT PROCESS

M&S Activity Management Process

– Planning
– Executing
– Simulating and allocating
– Analysing and optimising

Market & Customer Development

– Market trends & relevant developments
– Segmentation & prioritisation
– Markets & Customer Decision Journey (CDJ)
– Market/customer development activities

Organisation

– Alignment with goals
– Cross-functional teams
– Right skills at right place
– Change management: customer driven journey

Technologies

– Digital media/social networking
– Impact of Big Data
– Impact on Customer Decision Journey (CDJ)

Strategic Ambition

STRATEGIC GOALS:

short/mid/long term horizon

THE ROMSI DEVELOPMENT MODEL

HOW TO BETTER MANAGE AND CAPTURE MORE VALUE FROM YOUR M&S ACTIVITIES

Due to diverse strategic ambitions and commercial models, companies manage their M&S activities differently. However, there are certain common steps, which are applied by all companies, such as: planning, allocating, executing and optimising (see Figure 2). The essential point here is that some companies are better at this than others, and the level of sophistication within each step will also impact their overall performance and the level of their ROMSI.

The 'ROMSI Development Model' is a matrix (see Figure 3 on page 13), which describes different levels of professionalism (represented on the vertical axis) and the growing complexity within the M&S activity management process (on the horizontal axis). It illustrates which and how certain 'elements' need to be improved to optimise the M&S activity management process.

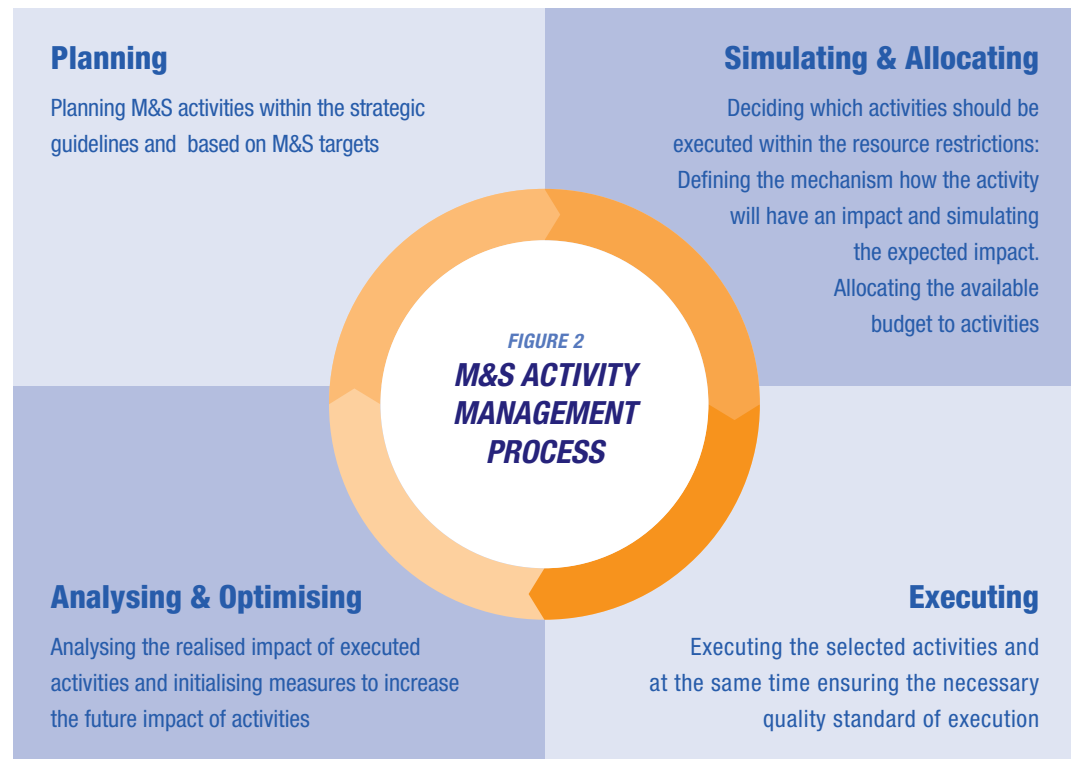There are six elements (see light blue boxes on horizontal axis in Figure 3) or levers to pull.

The first is about getting an overview of all the planned and implemented M&S activities. The second element is about the process of resource allocation, detailing how the different M&S activities should work. The third and fourth elements are about managing and optimising single M&S activities. And the fifth and sixth elements describe the management and optimisation of the whole M&S activity portfolio. The different levels of professionalism for each element are described in the full version of the development model. Click here for more information. Alternatively, turn to page 45 of this report.

The ROMSI Development Model demonstrates that the more

elements you cover on the horizontal axis, and the more professional you are at managing each element (see vertical axis), the more you are likely to capture value out of your activities, and as a result the higher your ROMSI.

For example, a company may only have a simple overview of their M&S activities – not knowing exactly how much has been spent on all activities, or only measuring some impact, but with no idea of any existing synergies between the different activities (= low professional level ⇨ low left/centre level of the ROMSI Development Model – see Figure 3. Or a company has full transparency of all their M&S spend, knowing the elasticity of their activities and optimising on them respectively, as well as optimising the whole activity portfolio by simulating expected   >
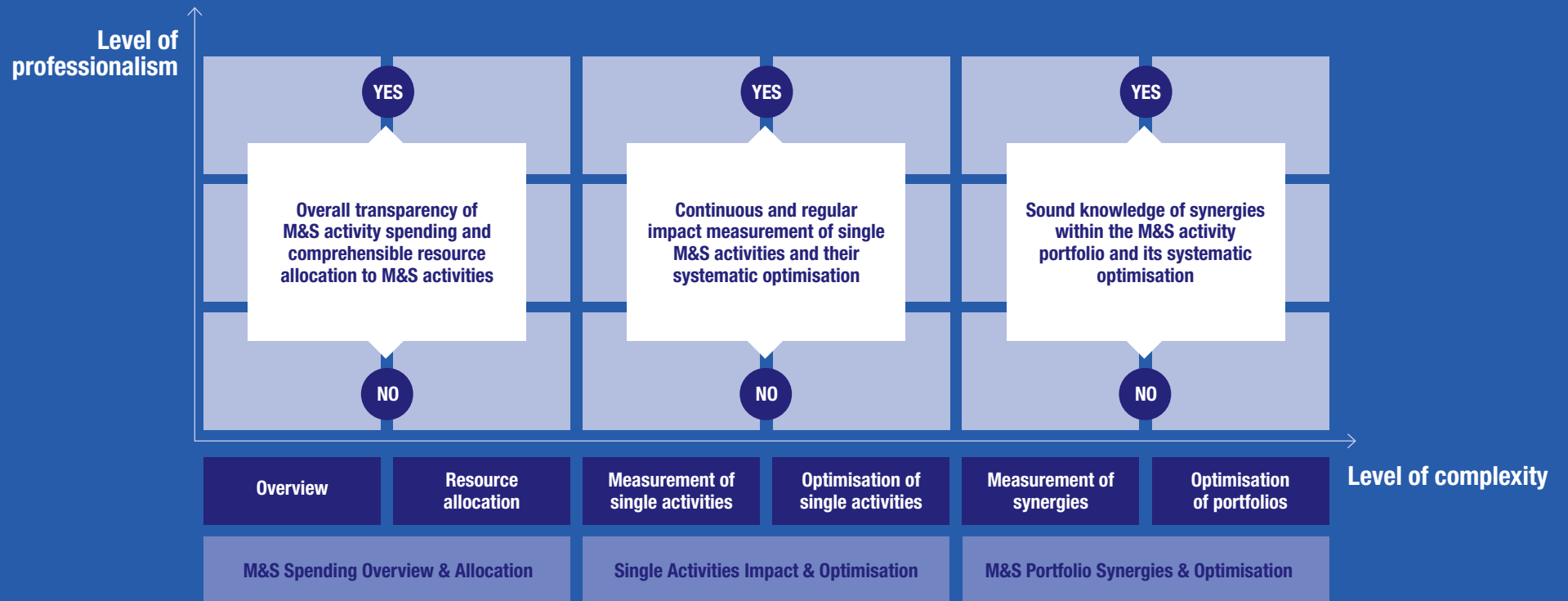
Planning

Planning M&S activities within the strategic guidelines and based on M&S targets

Simulating & Allocating

Deciding which activities should be executed within the resource restrictions: Defining the mechanism how the activity will have an impact and simulating the expected impact. Allocating the available budget to activities

FIGURE 2
M&S ACTIVITY MANAGEMENT PROCESS

Analysing & Optimising

Analysing the realised impact of executed activities and initialising measures to increase the future impact of activities

Executing

Executing the selected activities and at the same time ensuring the necessary quality standard of execution

> impacts based on evaluated synergies (= high professional level ⇨ upper right corner of the ROMSI Development Model).

Unfortunately, travelling from the bottom left to the upper right corner of Figure 3 is not an easy journey, because the more elements you want to cover, the more complex they become. Furthermore, no matter what level you start at, you always find yourself in an iterative process (see Figure 2 again), which if applied consistently over time will already provide you with improved data and insights that will ultimately allow you to adjust your spending and improve your ROMSI.

The good news, however, is that there are already best practice examples of companies managing the different elements at a highly professional level, which can be found in the following chapters of this report.

FIGURE 3

THE ROMSI LEVEL CAN BE INFLUENCED BY A HIGH DEGREE OF PROFESSIONALISM AND/OR MORE COMPLEX AND SOPHISTICATED TOOLS AND APPROACHES

Level of professionalism

Level of complexity

YES	YES	YES
Overall transparency of M&S activity spending and comprehensible resource allocation to M&S activities	Continuous and regular impact measurement of single M&S activities and their systematic optimisation	Sound knowledge of synergies within the M&S activity portfolio and its systematic optimisation
NO	NO	NO

Overview	Resource allocation	Measurement of single activities	Optimisation of single activities	Measurement of synergies	Optimisation of portfolios
M&S Spending Overview & Allocation		Single Activities Impact & Optimisation		M&S Portfolio Synergies & Optimisation	

THE ROMSI DEVELOPMENT MODEL

SIX ELEMENTS, INSIGHTS & RECOMMENDATIONS

On the following pages, you will find comprehensive explanations of each element of the ROMSI Development Model with concrete recommendations of what and how companies should change in order to improve processes and ultimately increase the ROMSI.

REALITY CHECK

What do companies actually do?
(Results from our research)

RECOMMENDATION

How should you change?
What can be learnt from best practice examples?

BENEFITS

Why should you change and improve?
And what are the benefits?

3.1 OVERVIEW

A STRUCTURED OVERVIEW OF ALL M&S ACTIVITIES IS A BASIC REQUIREMENT TO OPTIMISE THE ROMSI

The first and basic element of our model is about the level of transparency a company has over its M&S activities – such as sales representatives, visual merchandising, sampling, promotions, TV campaigns or social media activity. Do you know exactly which M&S activities you have implemented and how much resources each activity absorbs? We found out that the real M&S spend within a company is often a lot higher than the M&S budget suggests because some activities, such as a new package design or a new shop layout, often appear in other non M&S-related budgets across different departments.

REALITY CHECK

According to our research, 73% of companies have an overview of all, or at the very least, their main implemented M&S activities across the whole company. Although this is a high statistic, it indicates that more than a quarter of companies still do not have enough transparency. Furthermore, only slightly more than half of all respondents (57%) actually know how much they spend on each of their M&S activities.

RECOMMENDATION

If you are struggling to get a systematic overview and breakdown of your M&S spend, we recommend that you:

1. Collect all data related to planned and implemented M&S activities and the financial resources involved. This overview could, for example, be a simple excel table. For this, you ideally need to do the following:
   – Provide as much complete data as possible on M&S activities and spend.
   – Update the list more often – not just once a year.
   – Identify clearly the top M&S activities (approximately 20%) that account for 80% of your total M&S investments.

>

>   – List other M&S activities you are currently not investing in, in order to get a full overview of all possible M&S activities.

2. Calculate your spending based on different customer segmentations and along the different phases of the CDJ. This analysis will help you to identify bottle-necks and quickly move spending from one channel to another to better follow your customers.

3. Plan and track all of your M&S activities in a proper system (for example an ERP system, or even better a CRM system to measure the impact of a specific activity, as well as cost) structured by type of activity, type of cost and cost centre. Our research reveals that M&S departments in companies that use a joint planning and tracking process not only have a better understanding of their activities, but also a clearer picture of how much of their M&S budget is already spent.

As a result of this overview, you will find it easier to define your ideal budget (as opposed to your real M&S spend) by simply discussing each listed activity, its cost and, if available, any generated impact, such as an increase in turnover, share of voice compared with market share or its perceived contribution to your overall M&S goals. If this discussion is jointly held with managers from both M&S departments, the benefits will be immediate.

It's vital that you include all relevant market and customer-related activities. This means also including those which often get missed out, such as, number and cost of sales representatives, product development, product package design, and so on.

BENEFITS

Having a systematic and complete overview of your M&S activities provides the following benefits:

– It simply enables you to professionally manage your M&S activities. Without a complete overview there's no possibility of professionally managing or improving the ROMSI.
– It also helps you to identify your biggest cost drivers and at the same time critically question whether they are your biggest impact drivers.

– You know where your entire budget is going and what the status of your spending is. Therefore you always have an understanding of how flexible you are in terms of reallocating your resources.

What do successful market players do differently? They have a better understanding of what M&S activities they have invested in. In fact, our research reveals that 68% of successful companies know how much they invest, opposed to only 50% of those who have below market average performance. Although we can't guarantee ultimate success, what an overview will certainly provide you with is valuable insights on where improvements are needed.

CASE STUDY

TRACKING THE RESULTS OF YOUR MAIN M&S ACTIVITIES WILL HELP TO FOCUS ON THOSE WITH PROMISING GROWTH

A CMO of a company in the apparatus construction industry, interviewed for this research, revealed that they started with simple overviews of their main M&S activities to track and adjust their overall M&S spend. And more recently, they invested in a system to better track their M&S activities and costs. Having implemented a SAP system, it wasn't long before the M&S departments started to benefit from the hard facts and figures they were being presented with. All M&S activities are now allocated to certain cost centres and at the same time to certain

>

> kinds of activities. They have up-to-date statistics on exactly how much has been spent in total, per type of activity, per cost centre, sales region and so on. As a result, this company now notices very quickly when something is wrong within the implementation of all or a certain M&S activity. They also continuously compare their M&S spend with other available market and business data, such as market share, revenue per brand or product groups to identify diverting trends and, therefore, are able to quickly adjust their M&S investments to those segments that promise better future growth.

3.2 RESOURCE ALLOCATION

ALLOCATE YOUR M&S BUDGETS JOINTLY AND ALIGN THEM WITH YOUR STRATEGIC AMBITION AND CUSTOMER INSIGHTS

With budgets under pressure, it is at times impossible to realise all planned activities – see Figure 4. You need to decide where and how to distribute your M&S resources. It is about systematically allocating your budgets, ideally in a joint process between both marketing and sales departments, following your company's overall strategic ambitions and goals. This discussion should take place at least once a year, if not more regularly, and ideally should be based on a joint forecast.

REALITY CHECK

When allocating resources and deciding on budgets, one in four CMOs admit that they distribute their budgets without looking at hard facts or figures. In fact, approximately a third (38% of all online respondents), use last year's budget with perhaps some revisions.

FIGURE 4
EVALUATION PROCESS OF M&S ACTIVITIES
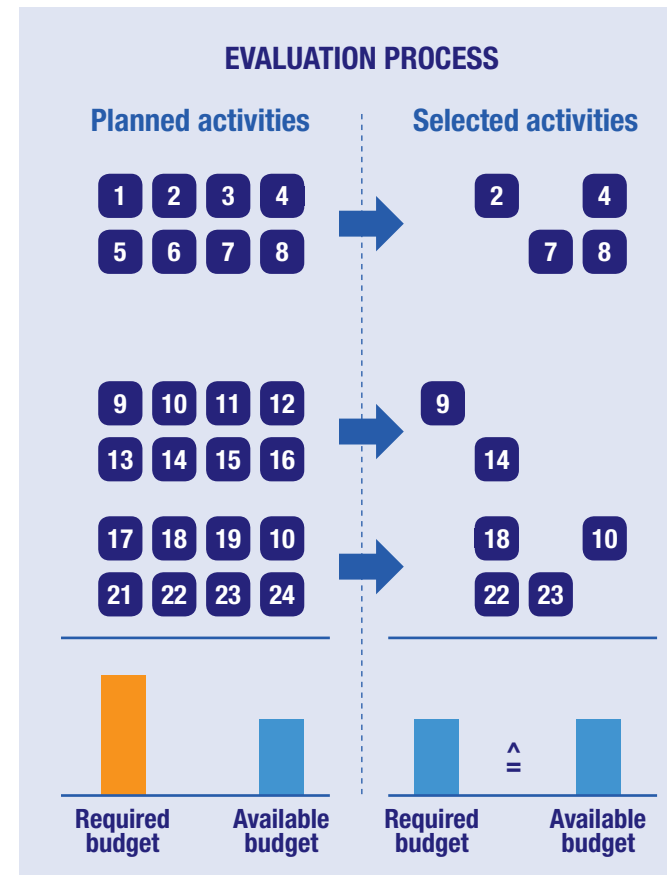
Since we repeatedly hear clients and business contacts alike confirm how volatile markets are and, particularly, how consumer behaviour has changed, it is surprising that such a high percentage of companies still use old statistics and budgets to allocate future resources. Our research also suggests that the majority are not pooling M&S resources. This basically means there's a lot of room for improvement as M&S departments need to work together more, as well as continue to learn from each other's experiences and insights to ultimately reach their customers in a more efficient way.

RECOMMENDATION

We suggest you that you and your M&S staff together:

– Take changed CDJs into account when segmenting your target groups and setting up M&S activities.
– Cooperate, discuss, interpret available data and customer insights across all relevant departments/teams; implement a regular and ongoing process of collaboration between both departments – this should not be a one-off event, but grounds for better team work.
– Base your budget allocation on the strategic guidelines and

FIGURE 5

ALLOCATION MODEL OF M&S ACTIVITIES, COSTS AND ACHIEVED KPIS

CUSTOMER KPIs

GIC KPIs

BRAND STRATEGY

TARGET
SEGMENTS

SOCIAL
MENTIONING

ODUCTS
%
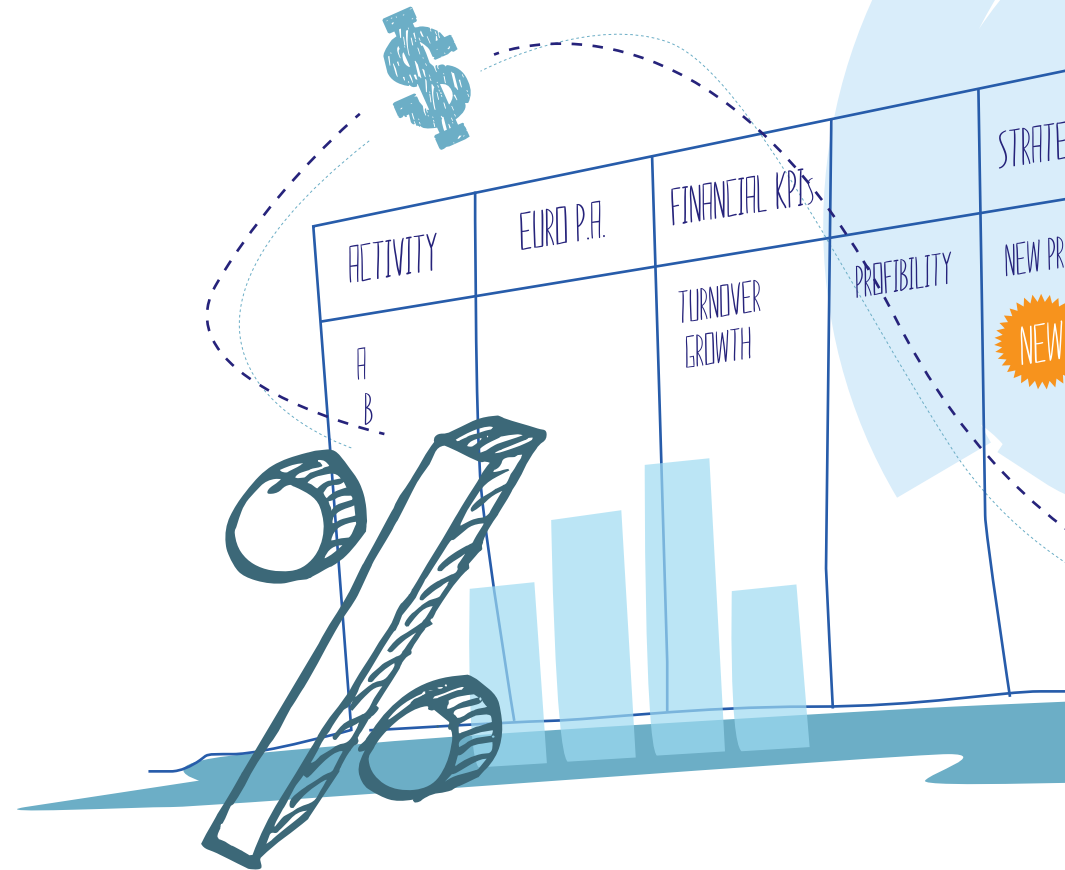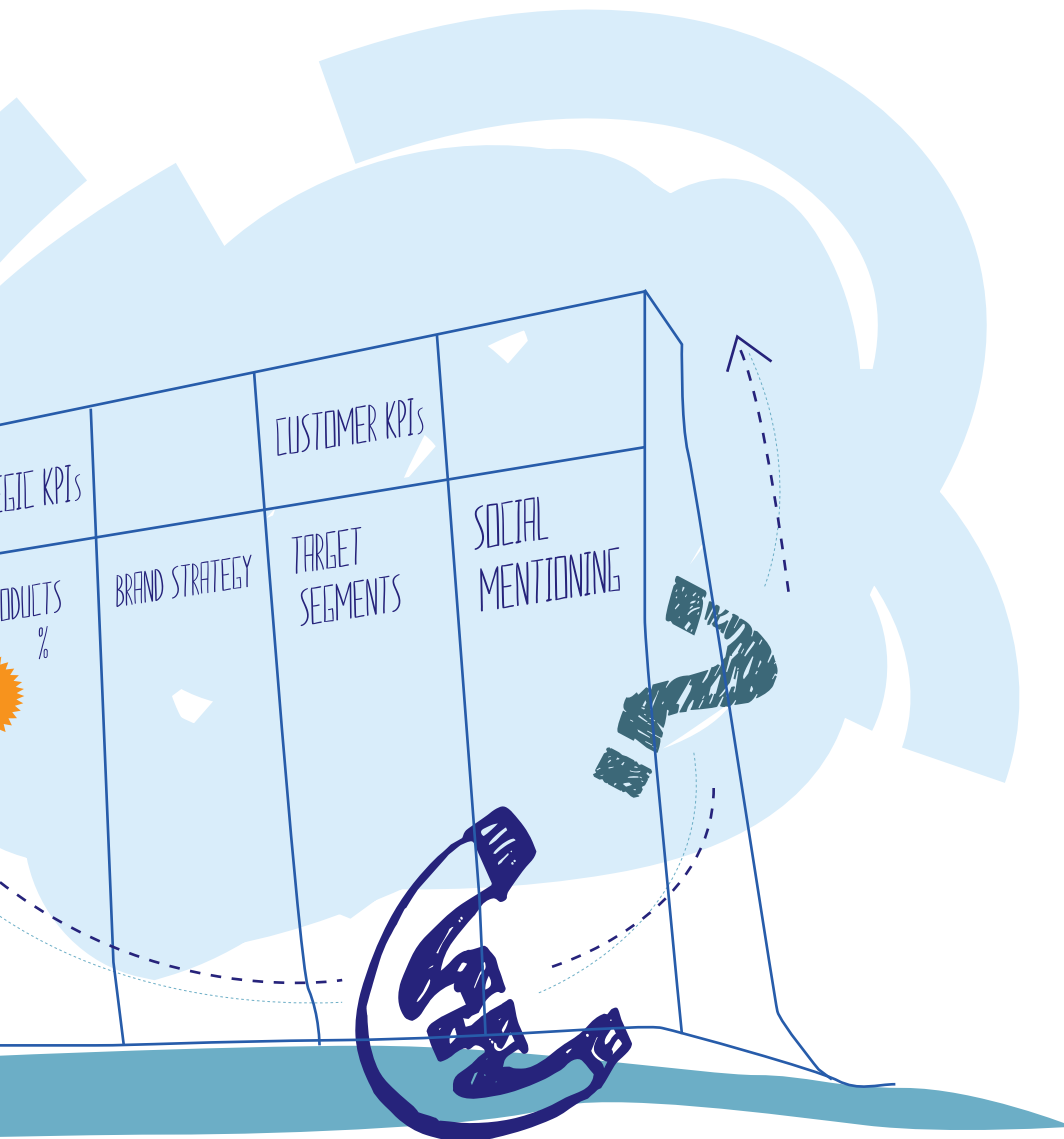
customer and brand development approach – remember to adjust your budget allocation to potentially changed priorities.

– Set up and implement a simple allocation model (see Figure 5): the data generated from the first step (overview of your M&S spend – see page 15) should be enriched with a set of criteria and KPIs to better discuss and re-evaluate results achieved. The more real data and detailed information you feed into this model (such as channels, segments, and regions), the more precise your evaluation and scenario planning will be. The results will provide a strong argument to reallocate your budgets, whilst counting on the support and consensus of your M&S managers who are jointly involved in this important process. Finally, a budget allocation based on real market and business facts, combined with insights of your staff will help you to reach your clients and help you to prevent resources from being wasted.

However, be aware of potential risks that significant changes in your budget allocation may bring (shifting significant budget from one activity to another). You want to avoid disruption and negative surprises for your target customers. Simple control patterns may help to oversee and regulate planned changes in a given year.

BENEFITS

A professional and adequate resource allocation of M&S activities leads to:

– Improved cooperation between M&S departments, which leads to more transparency and better customer insights, which is absolutely necessary in order to improve your planning process and avoid wasted budgets.
– A better planning and allocation process, which will also help to add additional criteria to measure your success. We all focus very much on revenue – its growth or decline as an ultimate success factor. There are other aspects which may justify a marketing and/or sales investment, which might need more time to foster revenue growth, but help you to position your company and brand in a better way, through the use of tools, such as net promoter score (NPS) or a break even analysis per customer segment (instead of your products or distribution channels).
– More focus on effective activities. The 80:20 Pareto rule will help

you to concentrate rather than equally distributing your scarce resources, and focus on the most effective ones instead.

It will be difficult to move further up the ROMSI Development Model if you don't get these basics right – as a food retailer that we interviewed confirmed. Their constant budget tracking process serves as vital input for their more sophisticated econometric models, which are then used for more accurate forecasting. It makes little sense to measure individual activities later on, if the allocation process and its respective budget have been based on faith or guesstimates. You can only measure it, if there has been a thought-through and agreed process beforehand.

CASE STUDY

POOLING M&S RESOURCES AND BETTER COOPERATION BETWEEN M&S DEPARTMENTS CAN IMPROVE ROMSI RESULTS SIGNIFICANTLY

We interviewed a leading company in the flooring industry, which decided to add online-channels (distribution and communication) to their already existing ones. Before adding these new channels, the company planned and controlled its M&S activities and budgets separately. The new strategy, however, not only led to a deeper integration of the M&S departments, but also influenced the management of their overall M&S activities. One consequence of this, amongst others, was that the budget became jointly decided and allocated based on customer insights and the overall company's strategic targets. Now, every month all M&S managers meet to discuss new developments in the distribution channels and other customer touch points. They also discuss quantitative trends

(such as revenue, cost, and traffic) and qualitative developments (such as hotline information, social media releases and contact information), and they also jointly decide on any necessary allocation adjustments – which affects approximately 20% of the total budget. These changes led to a ROMSI increase of more than 35% – achieving not only a growth in terms of revenue, but also a reduction in spending.

Another impressive best practice example of a professional M&S planning process is from a CMO at a leading FMCG company that we interviewed – see Figure 6 next page. This process shows just how important the alignment between long-term goals and short-term
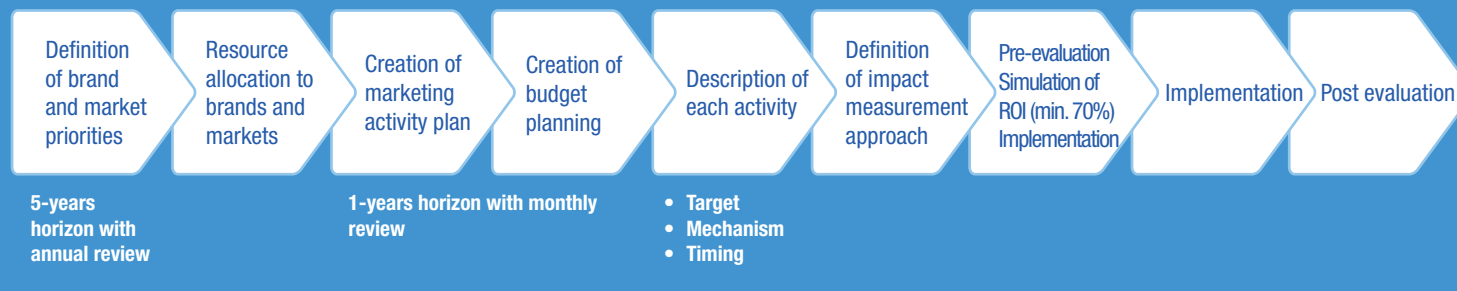
> actions is. This firm's budget planning process includes last year's figures as a starting point; however, these numbers are adjusted according to new targets for volumes, profit and innovation. The allocation of this new budget then follows the overall priorities of the brand, channels or regions, customer insights and past experiences. Also, before allocating a share of the budget to a newly launched M&S activity, this company revealed how they tried to forecast their expected ROI on this specific activity. The CMO explained that they also used an agreed set of precise, activity-related KPIs – coupled with historic (own or market) data, which also takes into account regional differences and insights from M&S managers – to forecast the expected outcome. New budget per activity is only approved if this planned activity generates a minimum return of 70% of the investment.

This company believes that long-term M&S goals are an important umbrella for any M&S budget and activity planning. Their comprehensive approach to collecting all this data and insight to forecast potential growth significantly supports every M&S allocation decision made.

FIGURE 6

M&S PLANNING PROCESS AT FMCG COMPANY

| Definition of brand and market priorities | Resource allocation to brands and markets | Creation of marketing activity plan | Creation of budget planning | Description of each activity | Definition of impact measurement approach | Pre-evaluation Simulation of ROI (min. 70%) Implementation | Implementation | Post evaluation |

5-years horizon with annual review

1-years horizon with monthly review

- **Target**
- **Mechanism**
- **Timing**

3.3 MEASUREMENT OF SINGLE ACTIVITIES

MEASURING THE IMPACT OF SINGLE M&S ACTIVITIES TO IDENTIFY THE MOST SUCCESSFUL ONES

Now we focus on how companies measure the impact/return of their different M&S activities. Companies invest a huge amount – on average 10–15%, but in some industries even up to 30% – of their revenue on M&S activities; therefore it's vital to know what the added value of each individual activity is. Of course, measuring each activity is a must before you can start work on optimising the ROMSI; unless of course, you want to stick to faith and past experience only.

REALITY CHECK

Our research revealed that one in two respondents actually measure the impact of their revenue for their main M&S activities – often only at the beginning and with no consistency later on. In fact, only one-tenth of companies surveyed know the impact of all their M&S activities (13%). Often necessary KPIs are lacking or are too expensive to implement, especially for above-the-line activities, such as TV advertising or other types of mass media activities. Although there is an abundance of available data in digital marketing, companies struggle to interpret and draw necessary conclusions from them.

Furthermore, those that do measure their return on M&S investments, often do so separately. One of the main reasons why a perfectly planned advertising campaign with promising ROI may fail is down to human and organisational reasons. The fact that companies are often unable to specify the most important M&S activity (generating the highest ROMSI) means that they are also unable to identify the more successful M&S activities. This is often due to:
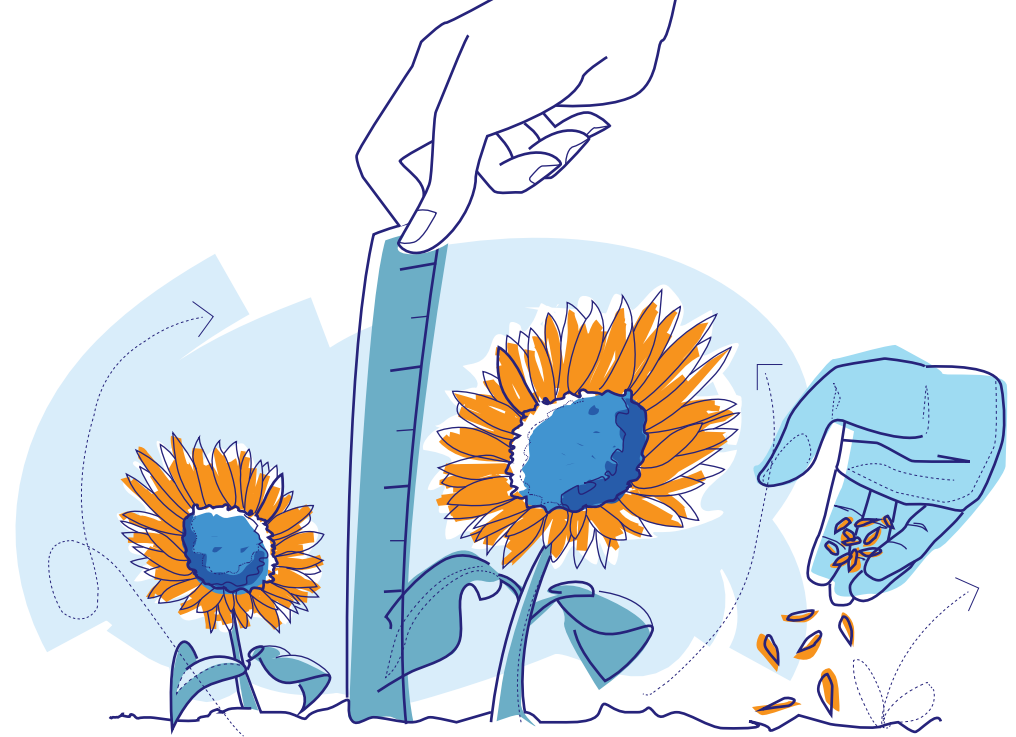
– Lack of adequate in-house tools.
– Complexity of existing tools in the market and potentially a lack of internal resources (monetary and human).
– Lack of reliability and preciseness in existing tools.

RECOMMENDATION

Given that it is often difficult to calculate the precise return on the investment of M&S activities, the following points need to be considered and can assist you when planning an activity, and calculating its impact:

1. Identify the principal variable/s or cost drivers that need to be tracked to evaluate the impact (positive success or negative failure) of the individual activity and also the main requirements of the execution: segment of customers, time frame, and budget and, of course, who is going to be responsible for each activity and so on. We already know that it's quite complicated to measure all M&S activities, but you should at least measure the main ones, and extract the main data, such as cost drivers, highest impact, etc.

2. It's not enough to measure the ROMSI once a year! Ideally, it should be done more frequently, such as on a quarterly basis, or even better continuously, in real time.

3. Correlation between activity and impact: In order to be able to measure the ROMSI, pilots should be executed during a period of time that is comparable (avoid seasonality for example). Often extraordinary time periods can affect an activity and makes it non comparable to other activities.

4. An agreed definition and execution plan from both M&S departments, clarifies the overview and eases the traceability process. This will make it easier for you to define how to measure, and actually measure the impact, both locally and globally.

5. Controlling the quality of the execution is very important as often a perfectly planned advertising campaign with a promising ROMSI may fail due to human and organisational reasons/ errors, such as placing an ad that is irrelevant for a particular target group, in the wrong journal or producing a campaign or advertising message that fails to generate interest.

CASE STUDY

FOCUSED COLLABORATION BETWEEN M&S DEPARTMENTS WILL PAY DIVIDENDS IN THE LONG TERM

Over the last few years, a European healthcare producer started to face ever increasing competition to sell their core products. However, they realised that when they communicated directly with hospitals/doctors they had a higher conversion rate, because they had a strong ability to 'convince' their customers to buy and use their products. As a consequence of this knowledge, they initiated a project to engage with potential buyers through more dialogue along the relevant customer journeys in order to increase the number of customers. So, the marketing department of this firm initiated an online marketing >

BENEFITS

It goes without saying that increasing your knowledge of ROI on M&S activities leads to other direct benefits for your company because:

– Increased transparency and accountability of activities and their impact, if only of your major ones, will help to optimise future allocation of resources, financial and human.
– Any budget adjustments will then be made based on hard facts instead of faith or past experiences.
– A clearly defined and communicated process of measuring the ROMSI allows you to set the objectives you want to achieve with every activity, and helps you to think about the ways you can execute and measure it.

> campaign, which included a combination of direct mail, advertising in relevant media and activities focused on special customer touch points. The marketing department kept a close eye on results, measuring not only the number of leads but also the conversion rate to customers, which heavily depended on sales.

The interesting part was that marketing also took responsibility for converting potential leads into customers and were measured on that too – even though that was predominantly a sales task. So marketing was not only focused on targeting and identifying the 'right' leads, but they proactively followed up on sales even after they had handed over the leads to the sales department. As a result of this focused joint effort, this specific campaign generated 50% more customers – much higher than previous campaigns where both M&S departments had worked more independently.

3.4 OPTIMISATION OF SINGLE ACTIVITIES

OPTIMISING SINGLE M&S ACTIVITIES HAS A TWO-FOLD ADVANTAGE – A FOCUSED M&S PORTFOLIO AND A JUSTIFIED M&S INVESTMENT

Once you know the impact of each activity, you must use this knowledge to optimise your results and achieve a better ROMSI. And it is possible to optimise the impact of your M&S activities to achieve maximum impact with as little investment as possible. How? If you know the elasticity of your M&S activities, you can define the minimum required budget that will generate the maximum impact.

REALITY CHECK

We have discovered that M&S track single activities, but they do not use their past lessons and experiences when planning or revising activities. The lack of quantitative information makes it difficult for them to evaluate activities, which also negatively affects the decision-making process. Approximately half (52%) of the respondents interviewed do not know their optimum investment to get the maximum impact out of their activities. In fact, only 8% of companies surveyed are confident that they have this information.

Most of the larger, and better performing companies interviewed, however, apply a basic breakeven analysis to understand at what point their M&S investment is paid back. So, for example, imagine that you are a manufacturing company planning a promotional activity to increase the sales volume of a product with an offer of a 10% discount. In this case, you would carry out a breakeven analysis to calculate the percentage increase of sales that would guarantee the same benefits without the promotion. If the sales increase is very high, you wouldn't launch the promotion as it directly affects your profit margin. So, if you are going to engage in discount offers, it's vital to know what your minimum level of price discount is.


RECOMMENDATION

The best practices listed here come directly from companies that are used to running tests or pilot projects per activity. The objective of these tests is to know the elasticity of every activity by measuring their impact in similar circumstances with different budgets. This way an investment level is defined and optimised, depending on the elasticity of each activity. Apart from defining the ROI and optimum investment level, it is important to evaluate the impact of every activity more than just once a year. It's necessary to update the results of every pilot performance, and readjust the optimum level when circumstances, such as customer behaviours or perceptions, change over time. Our advice:

– Evaluating projects and activities on a regular basis makes it possible to react to changes in customer behaviours. And it is important to be flexible with your changes and apply these lessons when designing the next activity.
– It's also important to mix teams from both M&S departments to ease and improve the planning and running of pilots.

– We also suggest that you take your customer segmentation and their specific CDJ into account to get a better result.
– Avoid overspending on any given M&S activity: calculate and evaluate the quality of customer contacts (often the first few dialogues/exchanges with customers are far more valuable than the 8th or 10th) across all platforms to prevent diminishing marginal utility. This should include activities such as price promotions, sampling and so on. If you know your break-even point and price elasticity, you can adjust your planned budgets to get an optimal result.

FIGURE 7

OPTIMUM INVESTMENT LEVEL OF M&S ACTIVITY

Market Impact

Optimum Investment Level

Investment Level
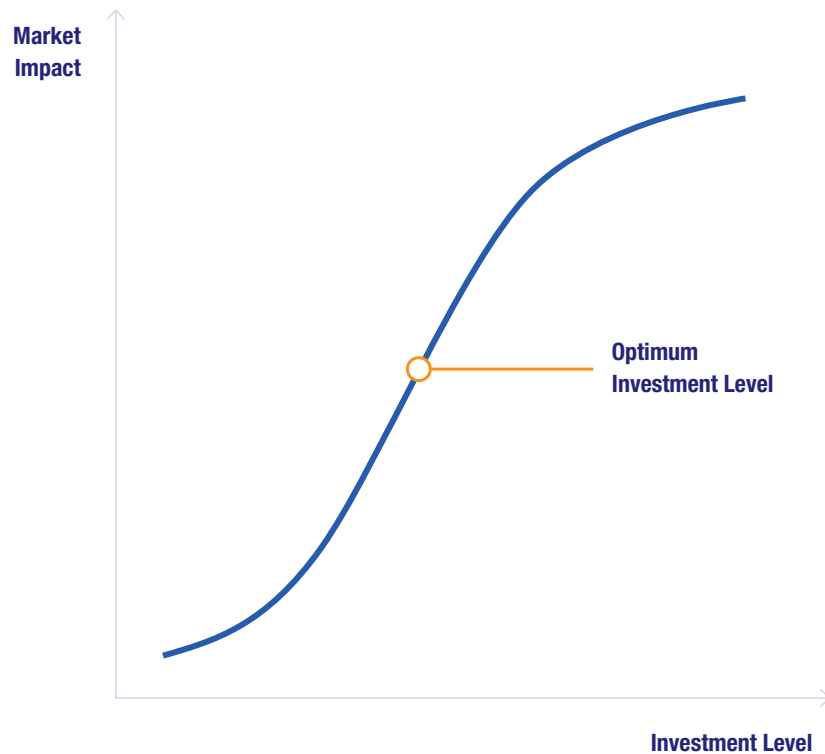
BENEFITS

Optimising the impact of your activities will help you to achieve:

– A more efficient allocation of your M&S budget as you could get better results with the same amount of budget.
– A greater impact on customers – increasing sales in some customer segments, by focusing various activities on them.
– Greater product/brand awareness or the same amount of awareness with fewer resources, which allows you to reallocate your budget and launch other activities you didn't plan.
– The same impact with less spending or a better impact with the same spend.
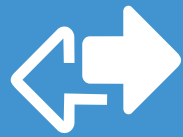
CASE STUDIES

EVALUATING AND ANALYSING PILOT ACTIVITY RESULTS WILL HELP YOU TO INVEST IN THE RIGHT MIX OF M&S ACTIVITY FOR YOUR BUSINESS

A Spanish home decoration retailer explained its new digital media campaign and how it managed to measure the ROI generated from the different online platforms.

The company needed to evaluate the best online platforms to reach its different customer segments – for example, young women, mothers, couples and so on – and to identify the right amount of investment for each platform. Different pilot activities for each channel and each customer segment were measured and compared. The M&S teams jointly evaluated and measured KPIs – such as frequency, visits and duration per visit – to define the most successful platform and planned spend for each

segment. Based on this information, they agreed on the final media mix. After just one year, the success of this new digital media campaign has been clearly noted: an average increase of 30-40% per individual KPI – ensuring the right investment was spent on the appropriate media mix – see Figure 8 (with disguised numbers).

Another best practice comes from a leading Swiss FMCG company, which relies on measuring price elasticity for its different products and services. This tool helps to identify the responsiveness of its customers and their demand, in relation to any potential price changes they plan. It calculates the expected revenue increase or
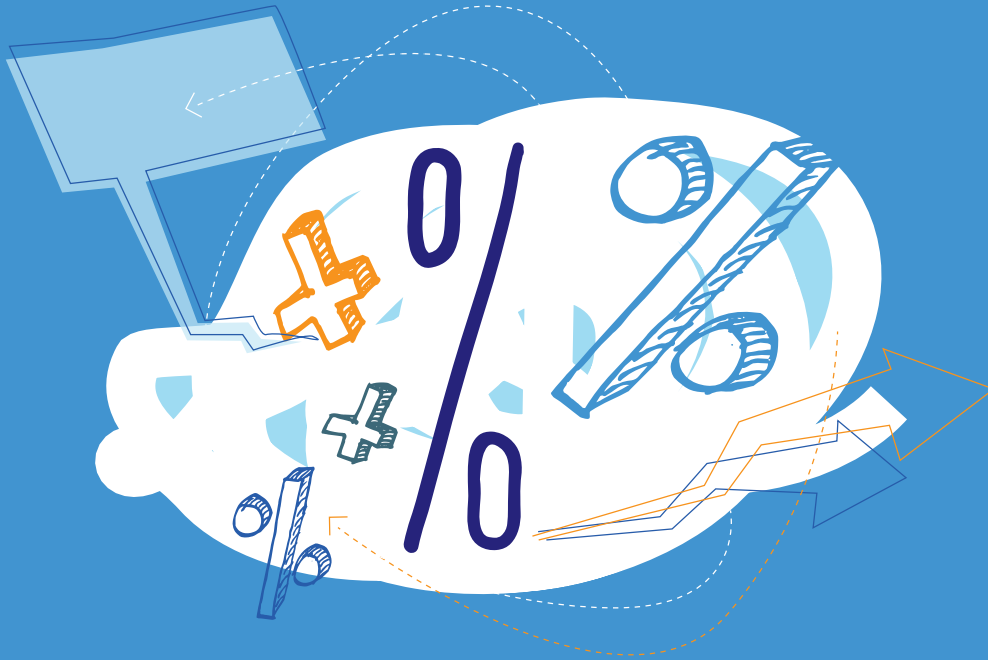
decrease according to different price promotions (with varying price offers; in combination with or without displays, for example – see Figure 9 opposite.

These results are generated by different pilots run in different, yet comparable stores – for example all city stores with similar characteristics over several weeks. Then they analyse and evaluate the different scenarios based on the respective real retail sales outcome of each store by quantifying the correlation and elasticity. The higher the price elasticity, the bigger the effects of a price decrease in terms of additional sales and higher revenue. This calculation is then used to define the optimum price and supporting conditions.

FIGURE 8

CHANGE IN DIGITAL CAMPAIGN LEADS TO BETTER KPIS

E-COMMERCE	MONTH 1 (current year)	MONTH 2 (current year)	MONTHLY AVERAGE CHANGE % (vs. year before)
Visits	110,000	96,000	+ 45%
New Visits	64,000	56,000	+ 80%
% New Visits	58%	58%	+ 10%
Returning Users	45,000	41,000	+ 60%
% Returning Users	41%	42%	+ 4%
Average Visit Duration	0:03:51	0:04:09	+5%

FIGURE 9

COMBINED EFFECTS OF PRICE PROMOTIONS AND SUPPORTING MEDIA AND POS MATERIAL

Promotion support / Price discount	- 5%	- 10%	- 15%	- 20%
Without further support	+ 9%	+ 22%	+ 38%	+ 77%
With In-store POS poster	+ 12%	+ 30%	+ 48%	+ 85%
With classified ads in local retailer flyers	+ 10%	+ 27%	+ 43%	+ 81%
Combination of both	+ 16%	+ 45%	+ 61%	+ 92%

3.5 SYNERGY MEASUREMENT OF PORTFOLIOS

GETTING BETTER INSIGHTS INTO THE MUTUAL IMPACT AND SYNERGIES OF YOUR M&S ACTIVITIES

Companies typically perform many different M&S activities at the same time. The issue here is to understand how and when these activities work better together, and how to maximise the impact on the market. Is the promotion of a specific product performing better, for example, when it's coupled with a direct marketing campaign, an advertising campaign, or an in-store visual merchandising activity? Or should there be a bigger sales force actively promoting the product instead?

REALITY CHECK

Our research shows that approximately 35% of CMOs try to measures the combined effects of all or some of their M&S activities. We wouldn't expect 100%, as some companies have a low M&S budget or rarely perform different campaigns at the same time.

Nevertheless, 35% is a low statistic. That said it's also a sign of the opportunity that lies in front of many companies who are not aware of the combined effects of the commercial activities they invest in. This opportunity is relevant on two levels:

1.   M&S costs/investments.
2.   Market impact (sales, brand equity, loyalty, etc).

In short, approximately 65% of companies could save money and or increase sales. Many firms are aware of this, but they tend to think that is very difficult to measure the synergies between all of their M&S activities or that the benefits that lie ahead are not that big. There are two main reasons that stop many firms from doing this. On the one hand, there is an enormous respect for any econometric modelling and concern about the amount and quality of data involved; on the other hand, the range of different KPIs in the various departments prevents a joint perspective and discussion on synergies.

COST

RECOMMENDATION

There are many ways to measure and manage M&S synergies. None of them are 100% correct, as you can only try to predict the combined effects based on the variables that you take into consideration. Some companies think they are already doing a good job by dividing the market impact by the number of activities they put in place at the same time. But that's a misleading way to estimate synergies. To assess M&S synergies, companies should ideally take the following steps:

1. Define and agree on the business environment and scope of your analysis: "What if… questions" will help to lead the discussion between your M&S managers.
2. Identify key issues, dynamics and variables (internal and external) and try to organise them by theme.
3. Discuss the causal map and the expected future scenario with your M&S managers; this causal mapping of major themes will give you invaluable insights into what your main levers are and the causes that

influence your business (for example customers, channels, products and external variables, such as the weather).

4. Assess how single M&S activities (e.g. new packaging) are affecting the strategic goals and the results expected (both in the short- and long-run) and under which conditions they perform best.

To better measure the combined effect and synergies for this latter activity, we recommend that you:
– Perform tests with different set-ups and measure the
– different impacts.
– Avoid getting lost in detailed data analysis and only focus on the biggest drivers.
– Keep track of costs and market impact by customer segment and the CDJ phase.
– Interpret, discuss and assess the findings of a specific campaign with all departments involved.

BENEFITS

Usually the higher the M&S budget, the better value you create by measuring and managing synergies amongst the different commercial activities. Nevertheless resources are always tight for marketers and you want to get the highest ROMSI within the available budget. Other benefits include:

– You gain insights into which combination of activities has made the biggest impact.
– It helps you to refocus your overall (and complex) M&S portfolio and get rid of less successful activities.
– The on-going discussions between your M&S managers will add the needed qualitative dimension to your evaluation, thanks to their in-depth experience in customers and channels. This is important as pure analysis and data-driven metrics often run the risk of being too one-dimensional and not realistic enough to include as many as possible variables.
– Ultimately, this enhanced cooperation also leads to more alignment between your M&S departments and their focus on your overall strategic ambitions – instead of just following isolated departmental goals.
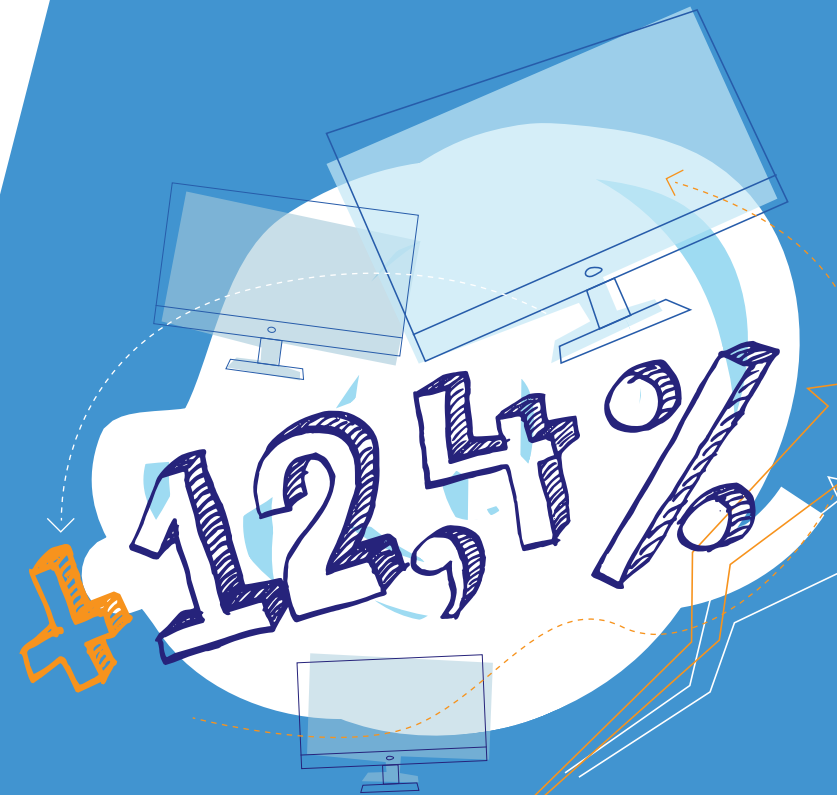
CASE STUDIES

BETTER ALIGNMENT BETWEEN M&S DEPARTMENTS TO IMPROVE THE FOCUS ON STRATEGIC OBJECTIVES, THROUGH STRONG INCENTIVES FOR EXAMPLE, CAN INCREASE THE ROMSI SIGNIFICANTLY

A large Italian company in the consumer electronic business tried to revamp its sales relying only on TV advertising. It reached a remarkable increase in sales of +5.2%, with an investment of only €3.5 million, due to a very well-designed campaign. The same company achieved an increase of +9.3% a year later, with a lower budget, focusing on the restyling and re-launch of its most important product line, and by redesigning the sales force structure and their incentives. This time, the focus was on increasing distribution by offering strong incentives to the sales force that were able to list the product line in new accounts. However, that +9,3% could have become +12,4% had it been coupled with in-store activities, according to a test pilot in a specific region. The marginal investment in visual merchandising in selected stores had a very positive ROMSI, since the company was mainly relying on brand equity, whilst competitors were better managing the CDJ in store. This type of thinking can make a big difference and help you to get the most out of your M&S budget. This is because you get a better insight into which combined activities have the biggest impact through a stronger alignment between the various departments. And this is easier when you focus on your company's goals, instead of individual targets.

3.6 SYNERGY OPTIMISATION OF PORTFOLIOS

OPTIMISING YOUR M&S ACTIVITY PORTFOLIO FOR MAXIMUM ROMSI GAIN

Some large leading companies understand the opportunity that can be captured by optimising on the right combination of M&S activities with the appropriate resource allocation of their entire M&S activity portfolio. It's not easy and it's not cheap. Our interviews suggest you need to invest at least €50-100k for more sophisticated modelling.

They devote part of their budget and some of their best people in measuring and modelling ways of optimising their M&S budgets. In fact, our research suggests that one full-time employee spends approximately 20% of their time on on-going analysis. However, these companies reap rewards in potential savings as the overall M&S budget becomes more efficient, and they understand that "what you don't measure, you can't manage" and "what you don't manage, you can't optimise."

REALITY CHECK

Very few companies reach the last step of our ROMSI Development Model – only a meagre 5%. The few that do gave us different perspectives on how to optimise M&S activities successfully. Although most of these firms are engaged in building econometric models and using sophisticated software to perform multivariate analyses with their statistics, it became clear that it's not just a software or a mathematical issue.

RECOMMENDATION

Some common, basic traits that emerged from our interviews with the few CMOs that are successful at optimising their M&S activity portfolio, include:

– List and assess the key internal and external market variables in a joint effort with the different departments/functions involved, as recommended in the previous chapter (see Figure 10); the

greater the influence of external factors, the more difficult it will be to reliably simulate future results, hence consensus in the cross-departmental evaluation on all drivers is crucial.

– Test and analyse the ROMSI of each key M&S activity with more sophisticated tools (e.g. using multivariate statistical methods to evaluate various outcomes).

– Continue to improve estimates over time, by adding more internal and external variables progressively.

– Build an econometric model in case sophisticated predictions are needed.

Overall, we found that even a step-by-step approach in the beginning including experience, insight and analytical data will significantly increase the quality of your measurements and hence potential savings over time. You need not wait until the perfect model has been developed. Start building your own models and improve them over the coming months and years.

BENEFITS

Although it might seem that you need a rather complex tool-set to become proficient in measuring your ROMSI, our research reveals that simply following the first two phases of our ROMSI Development Model, coupled with some simple multivariate statistical methods (taking into considerations only a few key variables) delivered some real benefits, such as:

– Great value to the management discussion – based on hard facts – and a better optimisation of the respective M&S activity portfolio.

– More transparency in trade-offs between individual commercial activities.

– Constant improvement over time in ROMSI (higher market impact, with less money) and ultimately moving to a more efficient commercial model. As a matter of fact, a retailer that we interviewed, reported he has moved from a direct marketing model to a brand-product centric-model, saving more than 10% of the M&S budget, while growing faster in like-for-like sales in just five years.
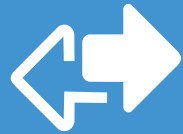
CASE STUDY

MEASURING THE IMPACT OF YOUR M&S ACTIVITIES WILL PROVIDE YOU WITH HARD DATA AND KEY INSIGHTS TO HELP YOU BETTER ALLOCATE RESOURCES TO INCREASE YOUR ROMSI

A leading food retailer relies on its own data (both quantitative and qualitative) and econometric modelling to calculate and quantify the ROI of their M&S investments. Part of their approach is to identify key revenue growth drivers (external and internal) amongst all of their M&S activities. This is done through an econometric model, which isolates and quantifies the impact from each of the M&S activities to calculate the ROI. The model tries to explain the movement in sales (revenue and number of transactions) using different variables – including advertising, marketing activities, POS material, seasonality, weather, consumer confidence, etc.

The analysis can thus support fact-based decisions regarding campaign performance – for example, which campaigns are doing well and which are not, in terms of their ability to deliver ROI. This information is utilised when planning for future campaigns with similar messages and media types.

The output from the analysis is also used on a more strategic level. Data from the analysis is fed into the yearly marketing budget planning process, and is allocated into overall themes, messages and media types. This allocation is based on past historical results,
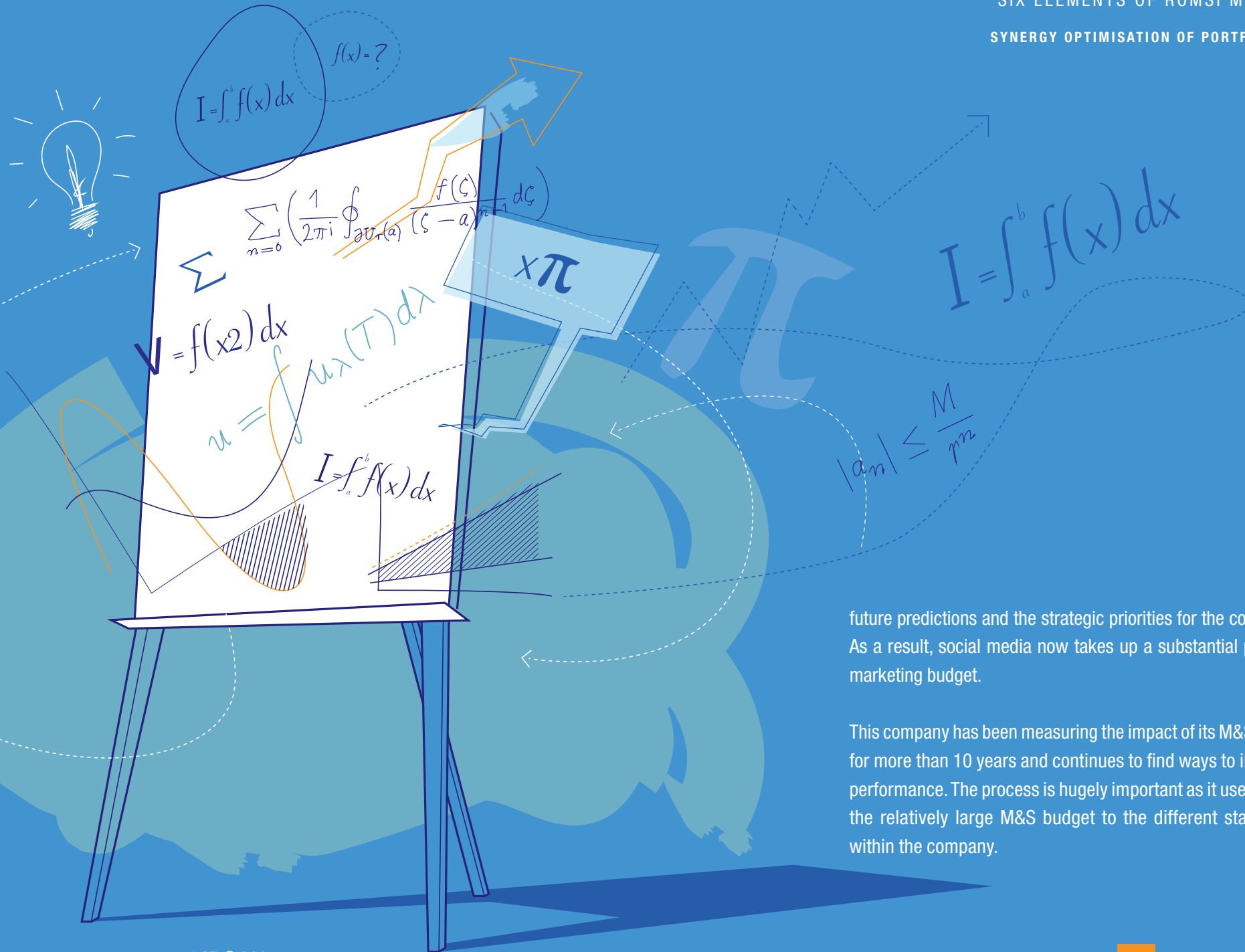
future predictions and the strategic priorities for the coming year. As a result, social media now takes up a substantial part of the marketing budget.

This company has been measuring the impact of its M&S activities for more than 10 years and continues to find ways to improve its performance. The process is hugely important as it used to justify the relatively large M&S budget to the different stakeholders within the company.

CONCLUSIONS & OUTLOOK

4

From our extensive research, we learnt that those companies that perform better than their industry peers had the following characteristics:

1 M&S budget allocation is based on a systematic approach

A comprehensive and transparent overview of all M&S expenditure across the company and its relative markets, segments, channels and customers is a must. Key cost drivers need to be identified and compared with their respective impact (if available, measured, otherwise discussed and agreed between M&S) applying the 80:20 rule. We found that those companies that are highly professional or mature in managing their M&S activities always invested in at least a few efficient research tools or approaches (e.g. field tests). Ultimately, although this is considered an expensive cost, it leads to higher savings within the M&S budget – hence, an investment worth making.

The cooperation and consensus between the marketing and sales departments is crucial to success, yet taking into account their different responsibilities and roles within the organisation. Fact-based overviews, enriched with their team's insights (into customers, markets and channels) and experience will take the ROMSI analysis to the next level.

Companies apply an 'inside-out' view – they compare their own data (hard and soft facts, as described above) with those of their competitors (if available) or at least their overall industry. Learning from the failures of others may help to prevent repeating the same mistakes.

2 The discussion on measuring ROMSI takes place across departments and not be limited to M&S only

It is vital to understand and agree which KPIs a company eventually wants to apply to measure their activities. Often, the finance department uses a different set of KPIs to measure success or failure of an investment, hence agreement and alignment across departments is important to identify the right and same set of KPIs, which ultimately leads to achieving the overall company's ambition and its strategic goals. These KPIs need to be:

– Easily available and accessible (otherwise nobody will use them); also their time frame needs to be taken into account (short-term versus long-term objectives).
– Smart and operational (revenue as such is too broad a measure, so use those that better measure sales leads, customer satisfaction, customer impressions and so on).
– Comparable with in-house historic data, competitors and industry.

3 Higher M&S performance needs to be reflected in individual and team incentive structures!

Our research clearly suggests that a direct link to salary and M&S performance helps to improve the overall ROMSI. It also seems that traditional definitions of M&S roles and responsibilities need to be closer to the outside world where empowered customers, new decision journeys and changed sales funnels ask for a more holistic approach. Furthermore, the much-discussed influx of finance-related KPIs needs to be reflected in the expertise of today's M&S managers.

4 Increased efficiency in M&S processes – internal and external – creates additional room for cost savings

Most companies are not satisfied with their overall M&S allocation processes and see room for improvement. Only a professional M&S budgeting process justifies subsequent impact analysis or control. Furthermore, some lean thinking would help to identify waste – in other words, free up additional budgets for more effective and direct activities. Think about evaluating and consolidating your suppliers, for example, and the way you manage them internally.

We hope you have found these insights and ideas – providing a step-by-step approach to measure and improve the impact of your M&S activities – invaluable. If you use our ROMSI Development Model as a map, it will not only help you to identify where your starting point is, but it will also help you to arrive at your planned destination and those thereafter.

A simple first step:
If you are interested in professional support to improve your M&S processes and to increase your ROMSI there is a first simple and concrete step: Together, we perform a short but systematic evaluation of your current processes to identify your main areas for improvement and possible solutions. You can then decide whether you wish to go ahead on your own or if you want to benefit from our range of proven tools like drag-approach, buyer experience cycle, buyer utility map, bottleneck analysis, paper computer, touch point creation and optimisation – to improve your ROMSI.

Please feel free to get in touch to discuss the best approach for your company.

APPENDIX

5

THE M&S MATURITY MODEL SHOWS THE MATURITY WITHIN EACH ELEMENT AND OVERALL IN TERMS OF MANAGING THE M&S ACTIVITIES

Professionalism

	Overview	Systematic resource allocation	Measurement of single activities	Optimisation of single activities	Measurement of synergy of portolio	Optimisation of impact of portolio
High	All running, planned activities including their absorbing cost and resources are documented in a system	Resources are allocated based on company targets in a joint, transparent & systematic process. The impacts are forecasted	The impact and the intensity level of every single M&S activity is measured in real-time	Marketing, sales and PM set the level of investment based on historically impact level and the optimum investment ratio on a continuous basis	The interdependencies and joint impact of all activities are measured in a system	Using simulation the ideal activity portfolio for different circumstances can be defined making it possible to maximise the joint impact
Medium	All M&S activities and their related costs are documented in a system	Resources are allocated based on previous years and company targets in a joint process of M&S	The impact of many rather easily traceable activities are yearly measured as well as the level of intensity of the activities	Marketing, Sales and PM discuss optimisation potentials and evaluate the optimum investment ratio periodically	The combined impact of some activities is measured	Certain activities are only implemented in combination with specific other activities, as the combined impact is higher
Low	No systematic overview of all sales and marketing activities	Resources are allocated on an ad-hoc basis during the year	The impact of few easily traceable activities are measured yearly	The Sales and Marketing departments independently discuss optimisation potentials on a yearly basis	The combined impact of none or a single activity is measured	There is no or very limited coordination in the planning and execution of activities within the portfolio

Elements of managing the M&S activities

THE TEAM

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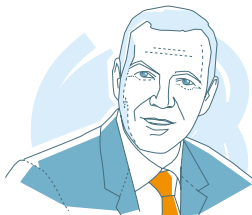
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