

January 13, 2005

Where Is Marketing Measurement Headed?

by Jim Nail

TRENDS

TRENDS



January 13, 2005

Where Is Marketing Measurement Headed?

A Survey Of Members Of The Association Of National Advertisers

This is the first document in the "Marketing Measurement series"

by **Jim Nail**

with Chris Charron, Sally M. Cohen, and Jennifer Joseph

EXECUTIVE SUMMARY

The demand to make marketing more accountable becomes more insistent every year. Progress is slow. But marketers expect that market mix models will demystify marketing's impact. The statistical techniques behind these models have begun to untangle the effects of multiple media and marketing elements in driving sales, but they haven't totally untied the marketing measurement Gordian knot.

TABLE OF CONTENTS

2 **Measurement Is Difficult**

Measurement Challenges Vary By Industry

Modeling Is The Future Of Measurement

9 **Coming Soon: Getting Started With Market Mix Models**

NOTES & RESOURCES

Forrester surveyed 111 members of the Association of National Advertisers on a range of marketing accountability and technology questions from July to September 2004.

Related Research Document

"Mastering Marketing Measurement"

September 16, 2002 Report

MEASUREMENT IS DIFFICULT

Making marketing more accountable is the battle cry across the marketing industry. To take the pulse of the leading marketers, Forrester teamed with the Association of National Advertisers (ANA) surveying their members' attitudes, actions, and future plans to measure their marketing efforts.¹ In a similar study conducted two years ago, measurement topped the list as the most difficult of 12 aspects of the marketing process.² Things haven't gotten any better. Marketing's dual role — driving short-term sales and long-term brand-building — complicates measurement and leads to tracking multiple metrics.

- **Implementing changes based on ROI analysis is hardest.** While there are technical challenges in building reporting systems and aggregating data, the top two challenges reflect organization and process barriers (see Figure 1-1). More than 80% of respondents cited the ability to act quickly on the results as the top barrier, while almost two-thirds admitted that their company had difficulty agreeing on a definition of marketing ROI.
- **Marketers measure many things.** Reflecting marketing's varied objectives, marketers picked an average of six definitions of ROI from the list of 13 sales, branding, and equity metrics that we presented in the survey (see Figure 1-2). The top two most-used metrics highlight marketing's dual role in sales and branding.
- **Marketers embrace new tools and partners.** Measurement practices are poised to change dramatically (see Figure 2). More than 40% of marketers expect to rely more on market mix models or lifetime value models — twice the level of current tools like response analysis reports or attitude and usage studies. To make this shift, marketers will turn to external measurement specialist companies and their company's business analysis staff before they turn to their agency partners or management consultant firms.

Measurement Challenges Vary By Industry

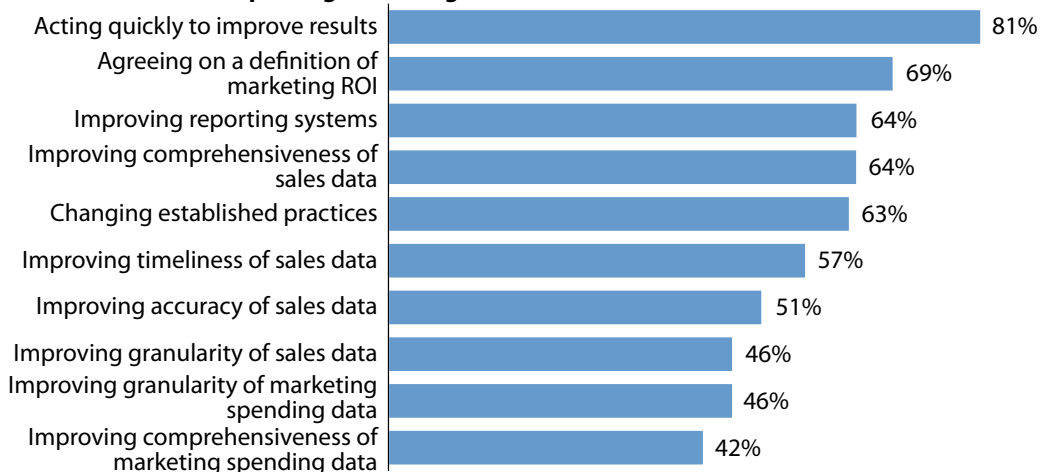
To understand the different challenges faced by companies in different industries, we segmented respondents into four broad classifications, grouping companies with similar products or channel strategies (see Figure 3). Measuring sales impact and measuring across media remained the top challenges for all groups. Differences began to emerge in the measurements that they employ and the barriers that they face (see Figure 4 and see Figure 5).

- **Consumer goods migrate from media measures to models.** We grouped packaged goods, consumer electronics, fast food, and apparel companies together because their products are generally impulse items sold through retail stores, depriving the brands of individual customer data. For this group, attitude and usage studies and media post-buy analyses were the top tools for measuring ROI. But its future lies in modeling customer lifetime value and in market mix models. This group features the lightest users of financial staff and the heaviest users of outside measurement specialists.

Figure 1 Measuring Marketing Is Hard; Multiple Metrics Are Tracked

1-1 Defining ROI, improving tracking, and acting on results is hard

“In improving marketing ROI, how difficult are each of these tasks?”*

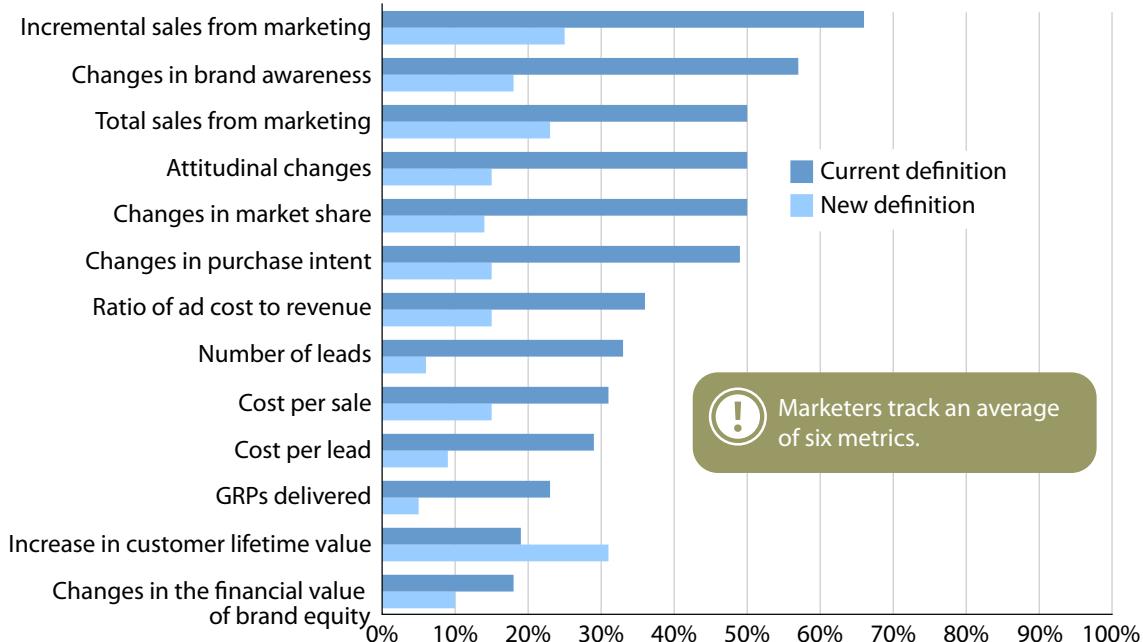


Base: 111 marketing executives

*Percentages represent those who responded “somewhat difficult” or “very difficult.”

1-2 Marketing ROI means many things

**“What is your company’s current definition of marketing ROI?”
“Which new definitions are you developing?”**



! Marketers track an average of six metrics.

Base: 111 marketing executives (multiple responses accepted)

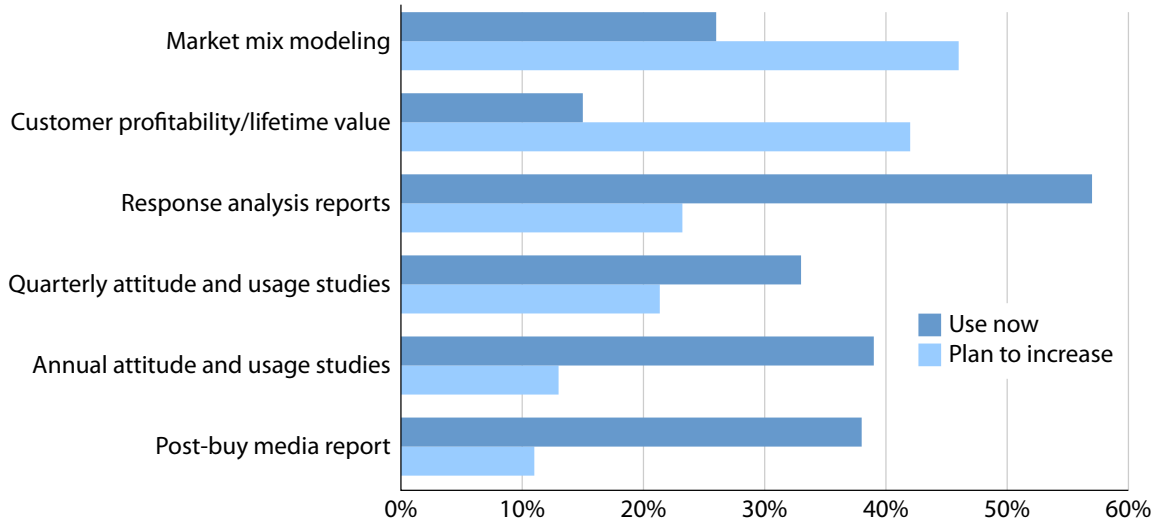
Source: The 2004 Forrester/Association of National Advertisers Survey on Marketing Accountability

Source: Forrester Research, Inc.

Figure 2 Marketers Plan To Use New Techniques And Partners

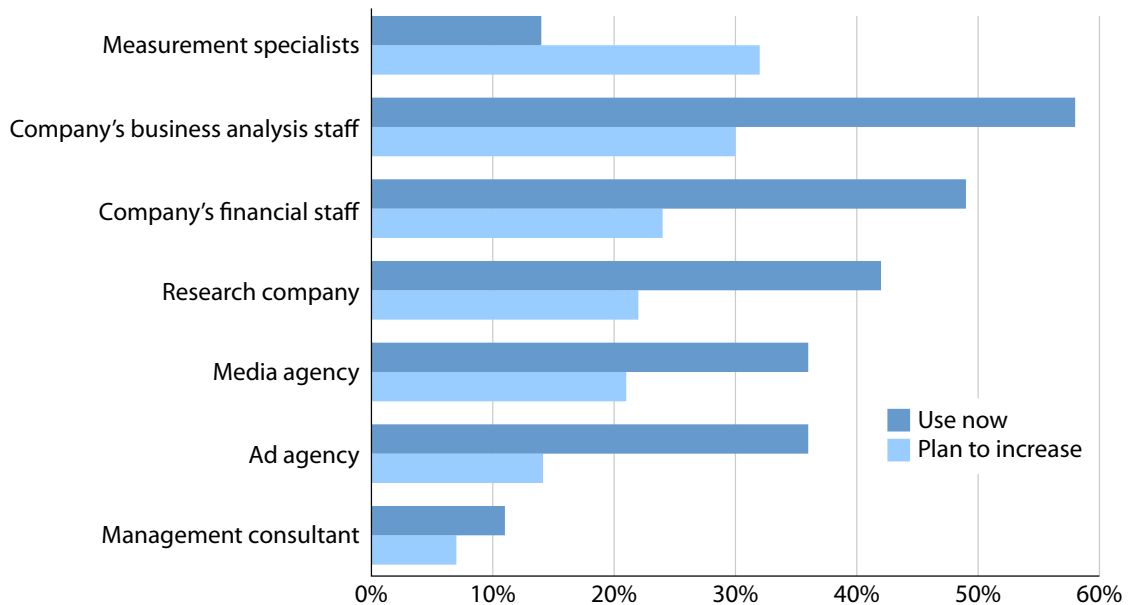
2-1 Market mix modeling is set to boom

“Which tools do you use to calculate marketing ROI today? Which will you increase in the future?”



2-2 Marketers will look outside for measurement expertise

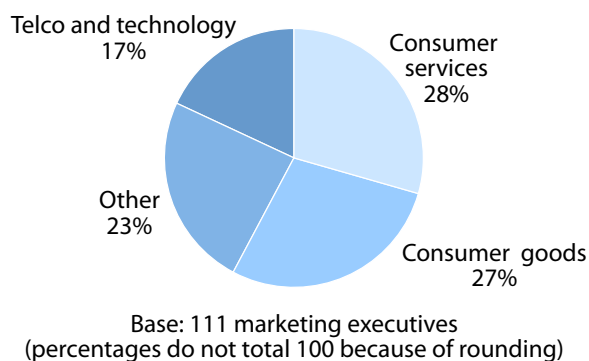
“On whom do you rely for marketing ROI tracking? On whom will you increase reliance in the future?”*



Base: 111 marketing executives
(multiple responses accepted)

Source: The 2004 Forrester/Association of National Advertisers Survey on Marketing Accountability

Source: Forrester Research, Inc.

Figure 3 Respondents Span Industry Categories

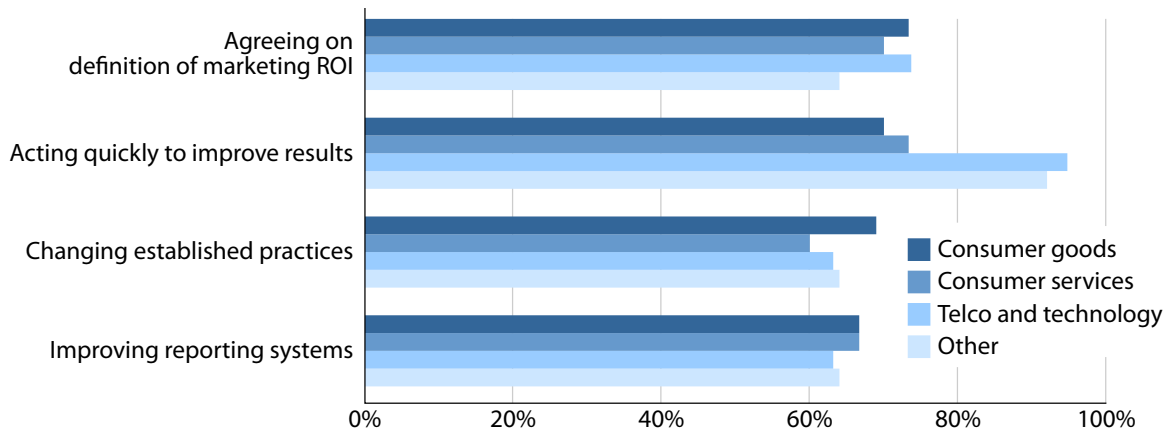
Source: The 2004 Forrester/Association of National Advertisers Survey on Marketing Accountability

Source: Forrester Research, Inc.

- **Consumer services migrate from response tracking to models.** Retail, travel, package delivery, and financial services companies generally have customer level data and, not surprisingly, they rely heavily on response analysis reports. But almost one-third use market mix models today, and half will increase use of this tool. This segment relies heavily on the company's business analysis staff and expects to increase reliance rather than use an outside measurement specialist, implying that it will conduct its modeling internally. This group has the least challenges with obtaining data, although the timeliness of sales data is a barrier.
- **Telecommunications and technology companies focus on response.** A nearly unanimous 95% of computer, peripheral, software, and telco companies cited the ability to act quickly on marketing ROI analysis as the most difficult issue. These marketers show the heaviest use of response analysis reports and their company's financial staff. In the future, they show the greatest interest in market mix modeling, but because their intent to use measurement specialists or rely more on their business analysis staff is modest, it is unclear how they plan to create these models.
- **Other companies lag in all measurement areas.** This diverse group includes industrial, manufacturing, business services, and pharmaceutical companies but is predominantly B2B marketers. Its primary measurement tool is response analysis reports, although 31% of the group indicated "other" or "none of the above" in response to this question. Like the other groups, this segment plans to use market mix modeling and lifetime value models, though at a much lower level. More than the other groups, it plans to rely on research companies, and more than one-third of the group plans to use a measurement specialist.

Figure 4 Different Industries' Challenges Lead To Different Approaches

4-1 "In improving marketing ROI, how difficult are each of these tasks?""*



Base: 111 marketing executives
*Percentages represent those who responded "somewhat difficult" or "very difficult."

4-2 Marketers will shift their mix of measurement tools and analysis resources

**"Which tools do you use to calculate marketing ROI today?
Which tools will you increase use of in the future?"**

	Use today				Will increase use			
	Consumer goods	Consumer services	Telco and technology	Other	Consumer goods	Consumer services	Telco and technology	Other
Response analysis reports	39%	67%	74%	50%	23%	30%	26%	23%
Quarterly attitude and usage studies	16%	43%	47%	38%	29%	20%	29%	15%
Market mix modeling	29%	30%	26%	15%	48%	50%	53%	35%
Customer profitability/Lifetime value	13%	20%	16%	12%	52%	37%	53%	31%

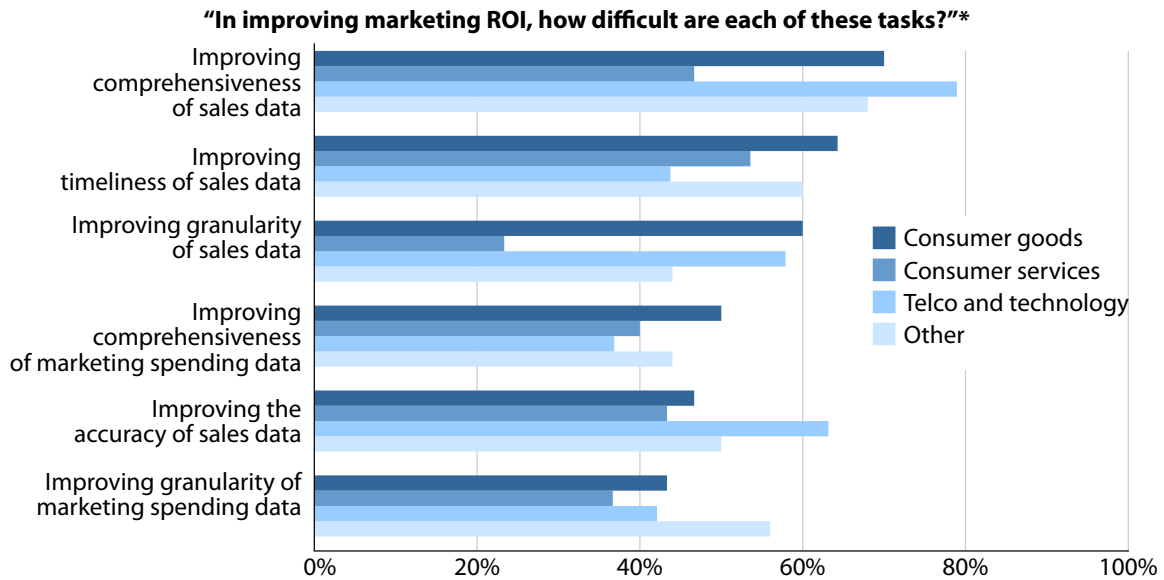
**"On whom do you rely for marketing ROI tracking?
On whom will you increase reliance in the future?"**

Company's financial staff	35%	50%	68%	50%	29%	17%	26%	27%
Company's business analysis staff	61%	67%	53%	38%	19%	47%	21%	31%
Research company	45%	43%	42%	46%	26%	10%	26%	31%
Measurement specialists	23%	17%	11%	8%	45%	23%	21%	35%

Base: 111 marketing executives
(multiple responses accepted)

Source: The 2004 Forrester/Association of National Advertisers Survey on Marketing Accountability

Source: Forrester Research, Inc.

Figure 5 Marketers Strive For Comprehensive And Timely Sales Data

*Percentages represent those who responded "somewhat difficult" or "very difficult."

Source: The 2004 Forrester/Association of National Advertisers Survey on Marketing Accountability

Source: Forrester Research, Inc.

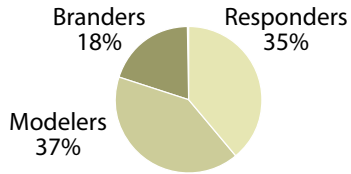
Modeling Is The Future Of Marketing Measurement

How will marketers evolve their measurement practices? To find out, we created three classifications based on their use of specific techniques.³ While all these types of marketers plan to rely more on modeling in the future, each faces different barriers (see Figure 6).

- Modelers have eased, but not solved, the measurement problem.** Modelers use marketing mix and customer profitability models to understand their impact, and they provided the lowest rating for the difficulty of measuring their marketing. Still, 64% rate measuring the sales impact of marketing somewhat or very difficult, and 71% rate measuring effectiveness across multiple media effectively as difficult.
- Responders struggle with the quality of sales data.** Responders rely primarily on campaign response analysis reports. Still, 39% say it is very difficult to measure the sales impact of their efforts, and another 50% say it is somewhat difficult. The timeliness, accuracy, and comprehensiveness of sales data hamper their efforts. This data issue will be critical to solve for the 44% who want to do more advanced modeling.
- Branders try to master response analysis.** Branders rely on attitudinal studies or media post-buy analyses, and more than 80% acknowledge the difficulty of measurement. Half consider campaign response analysis reports their future measurement tool, and 40% are considering market mix modeling. Unlike the other groups, these marketers cite the quality of the marketing spending data as a significant issue.

Figure 6 Responders, Modelers, And Branders Face Their Own Challenges

6-1 Three marketing measurement approaches

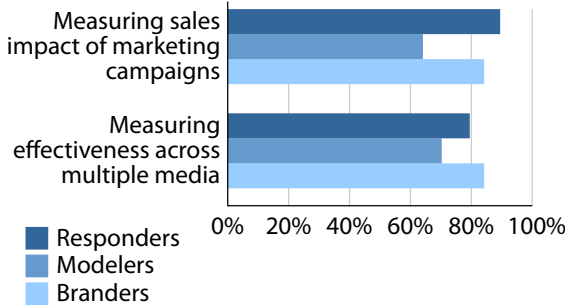


Definitions:

- **Responders** use campaign response analysis reports.
- **Modelers** use market mix and/or customer profitability/lifetime value models.
- **Branders** use attitude and usage studies, media post-buy analysis.

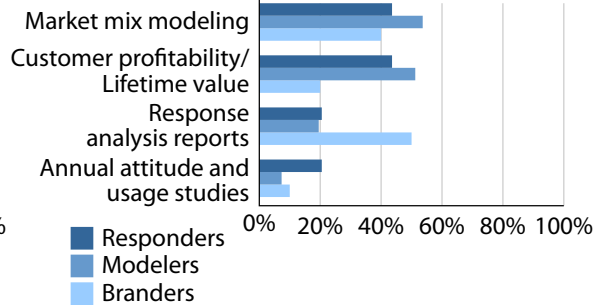
6-2 Modeling eases the measurement challenge

“How difficult are each of the following elements of the marketing process?”*



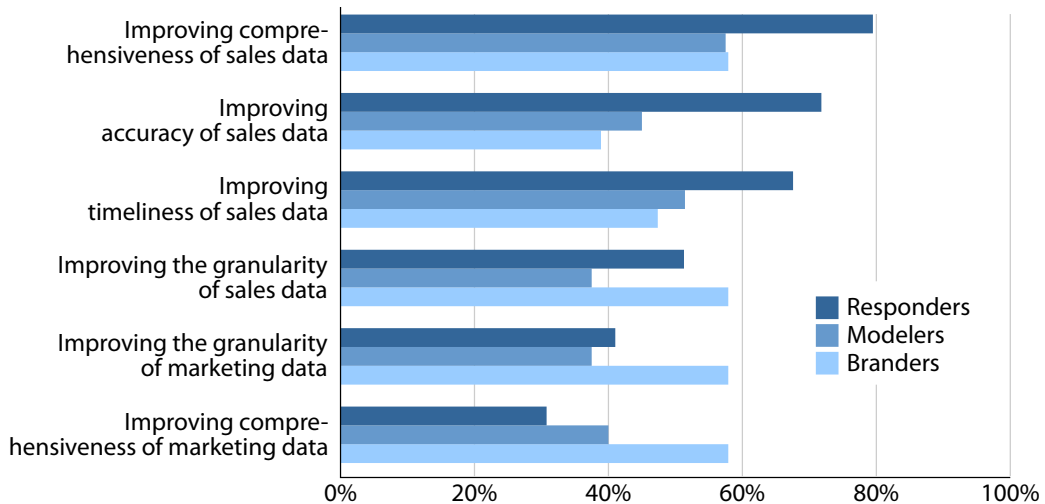
6-3 All segments plan to increase modeling

“What tools for calculating marketing ROI do you expect to increase use of in the future?”



6-4 Responders struggle with sales data; Branders struggle with marketing spending data

“In improving marketing ROI, how difficult are each of these tasks?”*



Base: 111 marketing executives

*Percentages represent those who responded “somewhat difficult” or “very difficult.”

Source: The 2004 Forrester/Association of National Advertisers Survey on Marketing Accountability

Source: Forrester Research, Inc.

COMING SOON: GETTING STARTED WITH MARKET MIX MODELS

Market mix modeling began to evolve in the 1980s and was widely adopted by consumer packaged good companies, such as Kraft, General Mills, and Coca-Cola during the 1990s. In the second part of this series, Forrester will draw on the experiences of companies like these and leading vendors that offer modeling services. Our analysis will present a road map for market mix modeling success, analyzing such topics as defining the scope of a modeling project, vendor selection, methodologies, and implementation.

ENDNOTES

- ¹ The ANA represents more than 300 marketers with 8,000 brands that collectively spend more than \$100 billion in marketing communications and advertising, promoting products and services to consumers and businesses.
- ² In the 2002 study, 82% cited measuring campaign effectiveness across channels as somewhat or very difficult while 78% rated measuring the sales impact of marketing as difficult. See the September 16, 2002, Report “Mastering Marketing Measurement.”
- ³ In classifying respondents, we first selected all who were using either market mix modeling or customer profitability/lifetime customer value modeling and labeled them “Modelers,” regardless of other measurements they might be using. From the remaining respondents, we selected all who used campaign response analysis reports and labeled them “Responders.” The remaining respondents use primarily attitude and usage studies, and media post-buy analysis.

FORRESTER®

Helping Business Thrive On Technology Change

Headquarters

Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617/613-6000
Fax: +1 617/613-5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

Research and Sales Offices

Australia	Japan
Brazil	Korea
Canada	The Netherlands
France	Sweden
Germany	Switzerland
Hong Kong	United Kingdom
India	United States
Israel	

*For a complete list of worldwide locations,
visit www.forrester.com/about.*

For information on hard-copy or electronic reprints, please contact the Client Resource Center at +1 866/367-7378, +1 617/617-5730, or resourcecenter@forrester.com. We offer quantity discounts and special pricing for academic and nonprofit institutions.