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Not Just Effective
But Efficient
*A New Blueprint for
Marketing in an Era
Of Fragmented Media*



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Not Just Effective but Efficient

A New Blueprint for Marketing in an Era of Fragmented Media

The good old days of marketing likely never existed. There probably never really was a time when the media landscape was simple and all the outcomes were predictable, when budgets rose by a comfortable percentage each year and the only reason a top corporate marketer needed to watch his back was to see who was about to pat him on it.

Still, for chief marketing officers at big companies, the pressure has never been greater. To a large extent, this pressure is a function of proliferating media options. The CMO who once had to be well versed primarily in print and television advertising, and to occasionally immerse himself in a billboard campaign or sponsorship, now has to worry about newer types of advertising—starting, of course, with the Internet. And he has to make his decisions—YouTube or MTV? The Super Bowl or *Time* magazine?—at companies that are scrutinizing all expenditures for their effect on the bottom line. “Two years ago, I put 10 percent of my advertising budget into online,” the CMO of a Big Three auto company told us recently. “Today, it’s 30 percent. Two years from now, it will be 50 percent. And overall budgets aren’t growing.” It isn’t easy to manage that kind of change, which may explain why the tenure of the average CMO has shortened to 23 months.

What to do? In truth, there is no magic formula for simplifying a job that has become bigger, more complicated, and less forgiving. But a more rigorous handling of marketing’s two levers—the creative/

media lever on the one hand, and the cost lever on the other—can increase a CMO’s chances of doing a bigger job with the same resources.

Effectiveness vs. Efficiency

Traditionally, CMOs have concentrated on the first lever, **marketing ROI**, which measures how effectively companies are reaching their markets with their media efforts. Of course, this is the CMO’s first job—to come up with marketing ideas that have a demonstrable impact on near-term sales or long-term awareness. Often, marketers concentrate on this part of their job and, as long as they stay within budget, don’t concern themselves with the second lever, **marketing sourcing**. Sourcing involves maximizing the efficiency of marketing activities through things like volume purchasing, centralized vendor negotiation, the creation of standard specifications and pricing, and the adoption of best practices and improved back-end operating models.

The reason efficiency typically falls lower on the CMO’s agenda is that so much of the budget is out of his control—handled at the business-unit level and through relationships of every size, many of which have existed for decades. Still, the pressure get better results, with no increase in funding, is prompting some CMOs to pay closer attention to how their organizations handle procurement. After all, every dollar saved is a dollar that can be reinvested, often in the newer media that CMOs are just starting to get their arms around.

Why Marketing ROI Is Harder Than Ever

Marketing is more art than science, and with a few exceptions, it has never really been possible to understand with mathematical precision the effectiveness of every expenditure. This is not to say that CMOs don't have access to authoritative data; they often do—in particular, to data about the customer. And the effectiveness of tools like direct mail (for which there are decades of data) and in-store promotions (with their proven impact at driving immediate sales) are relatively easy to measure. After that, it all gets murky in a hurry.

Print, television, and even billboard ads (now that Nielsen Media Research Inc. is embedding tracking devices in some consumers' cars) offer a variety of metrics—circulation figures, audience ratings, and the number of cars that drive by, for starters. But are the people reading the newspapers actually pausing over the advertisements? The measurement systems can't tell us that any more than they can tell us whether the person watching a rerun of *Seinfeld* is actually watching the ads, or the commuter driving past the iPod billboard saw that it was there.

Other forms of marketing are just evolving. A case in point is the Internet, partly because it is so new and the measures that are considered desirable (number of visitors, number of page views, time spent per page, number of completed transactions) change every month. Then there are the marketing activities whose objectives are less classical—Lexus sponsoring the U.S. Open tennis tournament, for instance, or General Electric Company creating spots about its support of the environment. Indeed, sponsorships may not be measurable at all (see Exhibit 1).

CMOs have to evaluate these different media types from two perspectives in order to devise an overarching marketing strategy. A **vertical** evaluation ranks options *within* media: Is it better to advertise in the *New York Times* or *USA Today*, on *60 Minutes* or *Dateline NBC*, on ESPN's Web site or MySpace? A **horizontal** evaluation ranks options *between* media: Given the organization's goals, what percentage should it be spending on the Internet versus national newspapers versus billboards out on Interstate 80? In theory, these evaluations aren't all that different from those that marketers were doing 15 years ago. What is new is the number and types of inputs that must be factored in.

It's only after a CMO has determined which marketing activity to use that he can start to think about measuring the program's success. To do this, he needs to align the activity with a tangible goal—creating awareness, convincing consumers to try a product, getting them to become regular customers. Then the CMO must develop specific metrics to measure performance against those goals (see Exhibit 2, page 3).

The Imperative to Be Efficient

The challenge of being efficient is made clear by the example of one consumer packaged goods company—hypothetical, but similar to many companies across industries. The CMO controls only about a third of his company's marketing budget. He oversees the company's media buy and, naturally, has a clear handle on where that goes. But he can't say what is happening with the other two-thirds of the company's marketing money, the billions of dollars that are being spent at the business-unit level.

Exhibit 1

Is Marketing Measurable?

Results are...

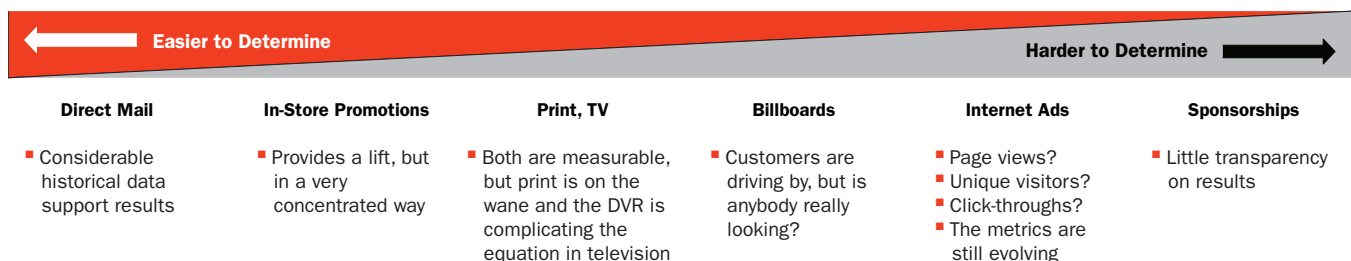
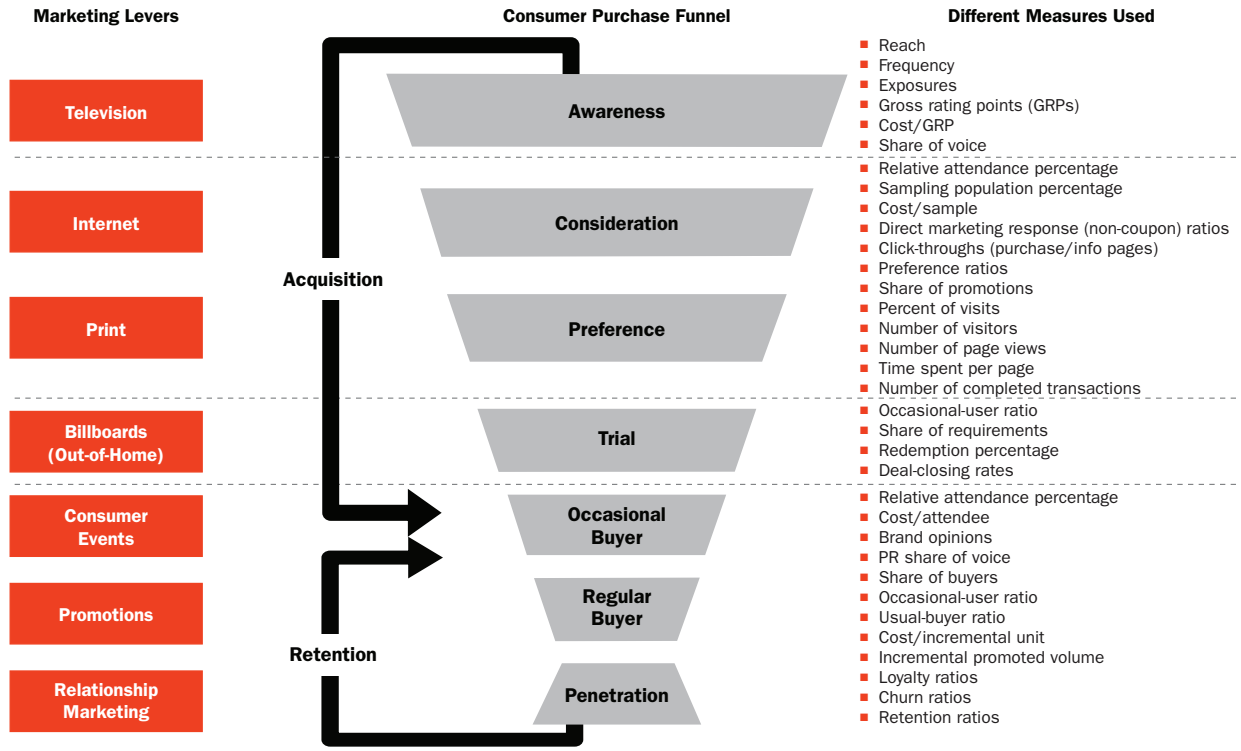


Exhibit 2
The Consumer Purchase Funnel



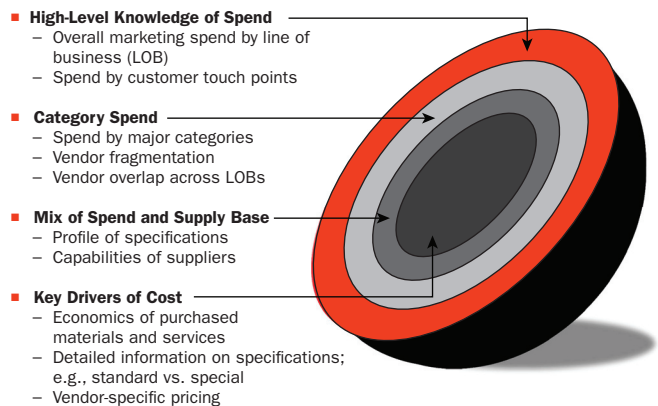
Source: Booz Allen Hamilton

Another company illustrates how decentralization can cause inefficiency. Through its various business units and managers, the company had relationships with almost 100 print vendors around the country handling different kinds of marketing materials. The company is reducing that number to fewer than 12 while taking pains to ensure that the remaining vendors have the geographic dispersion and tailored capabilities to meet the company's needs. The transition hasn't been painless, as long-standing ties have been severed and new relationships have formed. But once the company gets past this stage, it will be in position to drive volume discounts, create structured pricing, and generate a much more transparent picture of its marketing spend. Together, these improvements could easily save tens of millions of dollars to plow into other marketing activities.

By no means are we suggesting that the challenges here are simple. CMOs can't flip a switch and undo decades of corporate practices to bridge the gaps between the people who see their jobs as driving ROI and those who control costs. But neither can

they afford to operate at such a high level that they don't recognize when materials are being purchased inefficiently or business-unit managers are making wasteful spending decisions. They need to peel away the layers and get to the core of their marketing spend (see Exhibit 3).

Exhibit 3
Layers of Marketing Spend



Source: Booz Allen Hamilton

CMOs can begin to take steps to be more efficient—steps that may be as simple as insisting that the right coding is used for all line items and that invoices and vendor reports are sufficiently detailed. In our experience, the savings from becoming more rigorous about marketing sourcing can start at 15 to 20 percent—and go up from there. Therein lies the budget increase every CMO is looking for.

Five recommendations can ease the transition to more efficient and effective marketing.

1. Know Your Spend

The CMO must rigorously analyze expenditures around the marketing mix and up and down the supply chain: both the amount being invested in creative development, media, and materials and the distribution of expenditures by business unit and geographic area. This scrutiny will make the marketing spend transparent—the first step in identifying areas for possible improvement.

The thing to understand here is that transparency is liberating—it's the basis for sound decision making with respect to both ROI and sourcing. Even at the highest level, general knowledge about where and how money is being spent, and specific knowledge about the number and identity of vendors, will often provide insight into whether the expenditures are consistent with overall marketing goals.

2. Measure Your Effectiveness

To handle the proliferation of media options, it's critical that CMOs put in place some sort of capability for measuring effectiveness. This mandate doesn't change the fact that it is impossible to measure every form of marketing. Rather, it is an argument for identifying the things the CMO *can* measure and supporting those with enablers—including audits by third-party firms, improved data availability, and new analytical skill sets. The pay-for-performance contract—whereby what gets spent depends on what gets achieved—is another route to more predictable ROI.

These enablers will make it easier to do midcourse corrections. Better analytics can allow the CMO to divert 10 to 15 percent of his marketing budget to more promising initiatives.

3. Leverage Centers of Excellence

At most big companies, a certain amount of decentralization around marketing is probably inevitable and may even be beneficial. Still, even at companies that have decided to live with such fragmentation, there need to be mechanisms—whether formal or informal—for sharing best practices about ROI and sourcing as well as about cost management. At the very least, such centers of excellence can serve as a valuable first step toward letting managers share what they've learned and toward building leverage across the organization.

4. Manage Your Efficiency

Often the operating aspect of spend is driven by the creative process and managed through relationships, whether internal or external. Decision making is fragmented, and incentives to manage costs are limited. Controlled chaos reigns, with numerous vendors, no structured pricing, a multitude of processes, and “specials” everywhere.

Clearly, there are benefits to gaining more control. The goal isn't for a CMO to quash creativity—quite the opposite. By instilling discipline through structure and scale, CMOs free their marketers to focus on marketing. The question, really, is how to do it. There are two ways to build an enhanced sourcing capability: internally or by partnering with procurement. Neither is easy, but with a 15 to 20 percent savings opportunity, this is a job no CMO can afford to overlook.

5. Adopt the New Blueprint With an Eye to Success

There's no question that CMOs can benefit from becoming more efficient. The departments, dollars, and egos involved are all huge, however, so the key is to find a place in the organization where the new effectiveness-and-efficiency equation is likely to produce a result that is positive, material, and visible. Handled badly, a pilot project can destroy the organization's momentum and enthusiasm for change. Handled well, the pilot can give the blueprint and its CMO-sponsor the credibility they need to make a bigger change tomorrow.

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