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Marketing Impact
by LLYC

GUIDELINES

EVALUATING MARKETING & COMMUNICATIONS ROI

LLORENTE Y CUENCA

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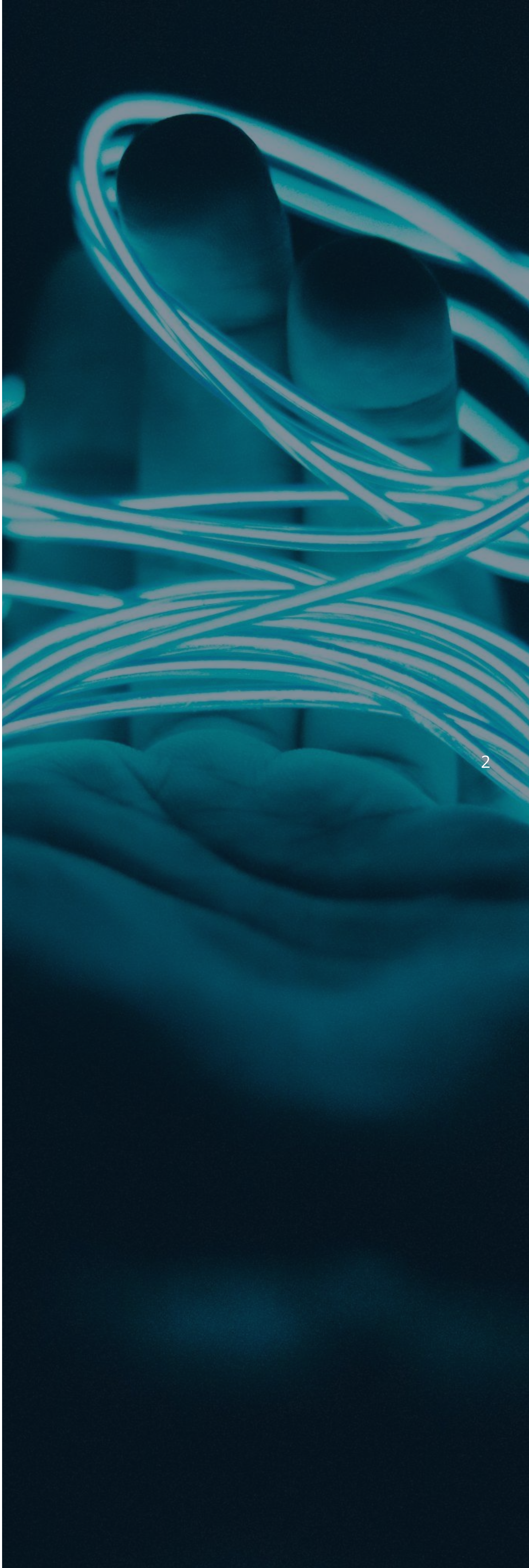

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STRIVING FOR RELEVANCE AND ROBUSTNESS AIMING AT BUSINESS RESULTS

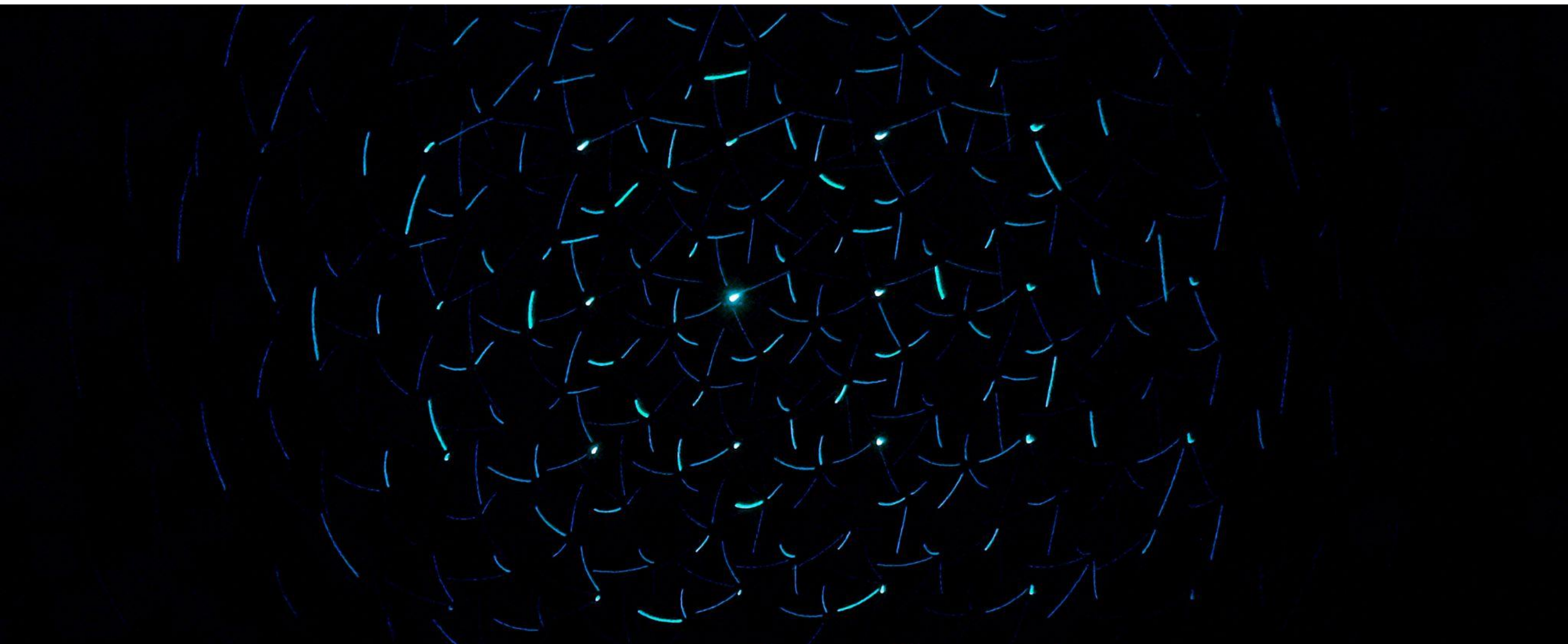
For many years, organizations have been eager to find a way to prove marketing's worth in real economic terms. Managers have struggled to relate marketing inputs to business outputs and have tried, for way too long, to work with not-so-credible attribution models, settling for less demanding performance metrics that are out of the scope of interest of the rest of the organization outside the marketing department.

PRESENTATION

When consumers buy a product at a supermarket, a car at a dealer, a trip online, or an insurance policy through a broker, how do we know which marketing projects have impacted those acts of purchase? Which was the influence of those projects in each decision-making process?

This is "the" recurring challenge marketing departments must face if they want to link their activities to the business. This is where most known attribution models fall short in pinpointing the genuine impact of marketing on a business's bottom line.

Today, almost every attribution model used in digital media can isolate which acts of purchase have been impacted by the marketing campaign. But almost all of them fail to show the influence of such a campaign on the decision-making process of clients. In the off-line world, it is even worse, as marketers struggle to find ways to trace acts of purchase to their several originating touchpoints.



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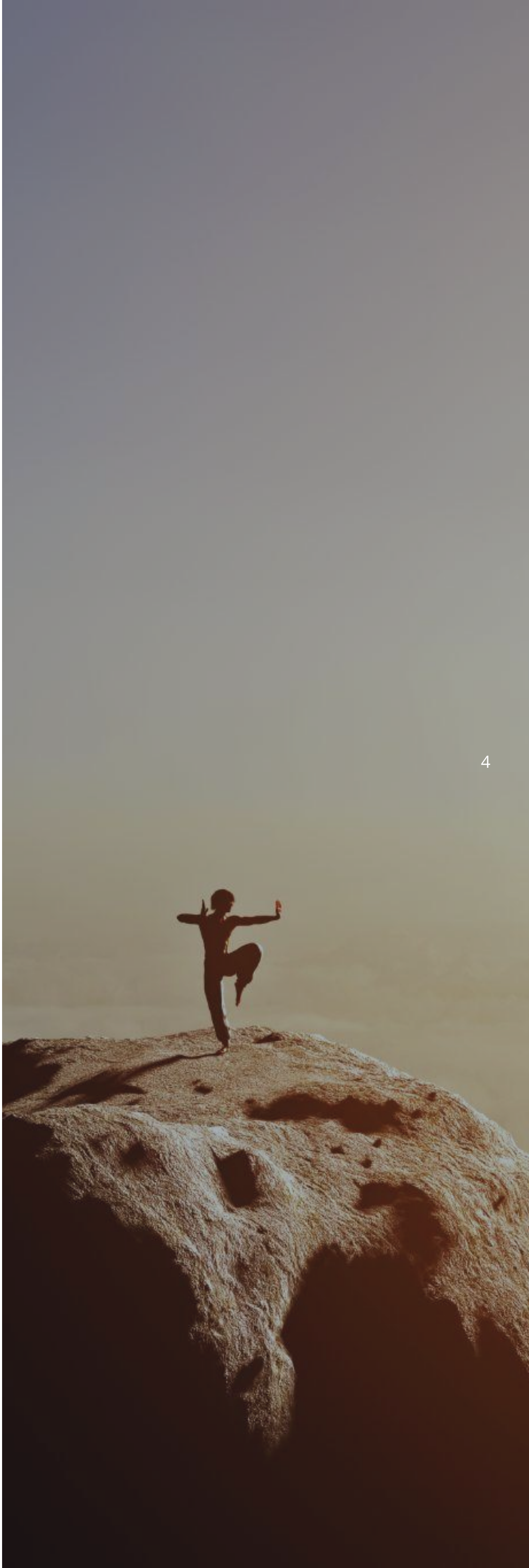
FACTS

The evaluation of sales and/or marketing economic return involves work that transcends the project itself from the communication (marketing in its broadest sense) point of view. It is necessary to exercise internal discipline and rigor in establishing criteria, planning the evaluation and data collection, and finally analyzing the data to draw valid, robust, and credible conclusions that can be turned into action. The deployment of any ROI evaluation cycle should primarily serve four purposes:

- **VALIDATION**
- **OPTIMIZATION**
- **EVALUATION**
- **PLANNING**

71% of marketers are planning to measure the ROI for marketing projects

23% of marketers say they measure the ROI of marketing projects



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THE EVALUATION CYCLE: PLANNING AND EXECUTION

THE PLANNING PHASE

OBJECTIVES

The first step for an effective ROI evaluation planning and execution is to set proper and measurable objectives. At the broadest level, they should be aligned with the overall marketing and business strategy, as well as with the mission and vision of the organization. It is necessary to gather information about all variables that influence and are influenced by the project under scrutiny, and establish an initial diagnosis based on available information. This process will create convergence between projects and campaigns and the business. Objectives must have specific performance indicators, be limited in time, and have a clear compliance milestone quantitatively defined. They need to be established at the marketing chain of impact level and include:

1. **Positioning objectives**
   What do I want people **to think** about my brand, offer, product, and/or service?

2. **Education objectives**
   What do I want people **to know** or learn about my brand, offer, product, and/or service?

3. **Interaction objectives**
   What do I want people **to do** during the execution and after?

4. **Costs objectives**
   How much do I want **to spend,** save and/or avoid?

5. **Revenue objectives**
   How much money do I want **to collect** from sales impacted by my project?

6. **Return objectives**
   How much money do I want **to earn** through my project?

Setting objectives entails...

The process of setting objectives is performed through consultation meetings with those managers and directors who hold information relevant to the definition of performance indicators, periods of projects influence on customers decision making process, and success threshold. The idea is to verify which information is available and to determine whether that information is enough to set clear results-oriented and measurable objectives.

OBJECTIVES SHOULD HAVE THE FOLLOWING ELEMENTS

Time
Define the actual period of measurement. It may go beyond execution. You want to collect information during the period of influence of your project on the decision-making process of customers.

Indicator
It's a quantifiable performance metric. A "relationship" for instance, is not something you can count. Hence "Improving our relationship with..." will never be an objective unless you use a measurable indicator.

Quantity
It is the success threshold.This quantifiable figure dictates whether you've met your goal. Without it, gauging success becomes reliant on subjective evaluation criteria.

"...IF YOU DON'T KNOW WHERE YOU GO, YOU MAY END UP ANYWHERE"

ESTABLISHING RELATING FACTORS

This stage represents the search for a criteria to define the cause-effect relationship between everything that happens in "the world of marketing"and its impact on the profit and loss account. It represents your attribution model that should indispensably address the following questions:

How many acts of purchase were impacted by the project under evaluation?

It means that you need to isolate the number of acts of purchase that have been impacted by your project. Standard attribution models often use control groups, regression, and in some cases, trend line analysis. But, while these are the standard attribution models currently used by most corporations (in addition to less robust discretionary attribution models based on subjective criteria or algorithms used mainly by digital media), they all base their findings on correlations. Caution should be then exercised as correlation does not mean causation. There are plenty of examples of marketing failures after decisions made based on correlations that later proved not to be a causation.

What is the influence of the project on the decision making process of customers?

This is the missing element from most, if not all, current attribution models. Digital channels, as much as all other experiential channels or touch-points, fail to isolate which portion of the benefit generated by an act of purchase that was impacted by the project under evaluation, can be attributed to said project. Digital media made an attempt by establishing arbitrary criteria (first click, time decay, etc.) that fall short of being robust, let alone credible. To define the influence of projects on the decision making process of clients there is only one way: quantitative research.

MONETARY CONVERSION CRITERIA

The monetization criteria is the part of any evaluation model that should set the monetary reference upon which the attribution model will be applied. Once you are able to isolate the number of acts of purchase impacted by the project and the influence of the project on each act of purchase, you shall multiply both of them by the defined monetary base value. This is the only robust and credible way to obtain, in real economic terms, the actual profit generated by each one of those acts of purchase.

In most cases, this monetary base value is represented by the gross or operations margin that is calculated by subtracting from the price of sale, the actual costs of goods sold including distribution and excluding your marketing budget. In those cases where this information is not available, considering the marginal contribution of marketing might be a viable alternative. Another value of reference could be the actual value (in net profit) of a client in one year (not the customer lifetime value). Using EBITDA should be a last resort,as it includes all the efficiencies and inefficiencies of the business, tainting whichever result you may obtain.

As part of the monetization criteria process, an evaluation model shall also be able to calculate not only the direct costs of any project, but also the indirect costs that behave as direct. In other words: the time spent by all personnel within the company involved in planning, executing and monitoring the project.

DATA COLLECTION PLAN

Measuring the ROI of marketing projects is not a post-execution analysis. It is rather a diagnostic tool for planning purposes. Hence, the collection of data relevant to the evaluation, must be planned in advance, during project planning.

BEST PRACTICE: MILESTONES OF AN EFFICIENT DATA COLLECTION PROCESS.

Indicator
One of the two main purposes of the data gathering process is to verify whether objectives are met or not. In this regard, any plan to collect information should compile at least one metric related to each objective.

Source
Who will we be collecting the information from? Who is the owner of the information I need? In some cases it may not be the user or buyer.

Timing
A correct timing guarantees the efficacy and relevance of the collected information. A bad timing could lead to wrong conclusions and biased scenarios.

Logistics
Data collection planning is also about its logistics. Choosing the right tool to collect and store the information will grant access, and usability of the data.

MONETARY BENCHMARK TO USE IN THE ATTRIBUTION MODEL

THE EXECUTION PHASE

EXECUTION

After planning the evaluation, a validation and optimization process should define clear and objective criteria to decide whether to invest or not in a given project. Thanks to the planning process, marketers shall be able to validate whether the company will make money or not if objectives are achieved. Validating the commercial viability of a project and defining plausible scenarios that should optimize economic outcomes, is also another consequence of good evaluation planning. Should the project enter the execution phase, everything planned - project and evaluation- should follow step by step whatever outlined in the planning phase. Collecting data, analyzing it and calculating the actual ROI of marketing projects is not the end of the road. Through the data and results achieved and measured, marketers should be able to generate business intelligence that will improve future planning processes. This business intelligence could adopt the form of conversion ratios, historical data, a defined purchasing decision-making pie, etc.

REPORTING ROI SHOULD INCLUDE BUT NOT BE LIMITED TO:

A. A description of the methodological framework and evaluation planning.

B. SWOT analysis from the integration of marketing and business perspective.

C. Vision of the organization's alignment to ROI Marketing and its degree of capability to conduct an ROI evaluation.

D. Definition of relating factors and monetary conversion criteria.

E. Data processes (including collection plan) and display.

F. ROI calculation for the project.

G. Profitability analysis.

H. Business intelligence generation.

I. Conclusions and recommendations for future projects.

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MAKE IT COUNT. BE ACCOUNTABLE

BENEFITS

Engaging in value generation experiences.

Learning and experimenting how to measure impact.

Innovation beyond technology.

Managing beyond profits.

Impact management: towards economic, social, and environmental sustainability.

Data management: how and for what purpose.

Analyzing real-world case studies..

PARA DISFRUTAR Y REFLEXIONAR:

Capacitaciones y talleres

Conferencias

Consultoría

OUR SPECIALISTS

Pablo Turletti
CEO of Marketing Impact by LLYC

Pablo Turletti is an expert on management, efficiency, and profitability with more than 25 years of international experience in Europe, USA, Latin America and the Middle East. He is regularly featured on several media outlets like Forbes Magazine, where he acts as a contributor and member of its Communication Council. With a blend of analytical acumen and innovation, he's guided giants like Heineken, Mapfre, Nike, and Philips. Beyond his professional engagements, he holds positions on several boards and imparts executive education and corporate training worldwide.He is also a sought-after keynote speaker that has shared the stage with Barack Obama, Ken Segall, and Bill McDermott among others.

AUTHORS' NOTE

For more information, please contact:

Pablo Turletti
CEO of Marketing Impact by LLYC
pablo.turletti@llorenteycuenca.com

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