Measuring return on brand communication

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Abstract Marketing is being challenged and has few responses when it comes to providing a financial view of investment and returns. In this paper the author develops a step-by-step approach to help marketing managers provide answers to the three questions senior management continues to ask of marketing and commnunication managers: (1) how much should the firm invest in marketing and communication, (2) what will be the return and (3) over what period of time will those returns occur? Schultz argues for a financial model that involves estimating the value of customer groups, investing at the appropriate level and then measuring both the short-term and long-term returns for the organisation.

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CHANGES IN MEDICAL MARKETING

Some critical questions

- Is there a new health-care business model?
- Which are most critical to the organisation, intangible or tangible assets?
- Should we measure cash flows or book value?
- Is shareholder value or market share the best yardstick?
- Should the focus be on market capitalisation or earnings?
- Should the firm be evaluated on speed-to-market or long-term strategy?

These are the questions being asked at senior management levels on how a medically-related business should be evaluated in the 21st century marketplace. The main question for marketers is: How does the job of the marketer contribute to, or indeed relate to the business strategy that senior management is trying to accomplish?

Unfortunately, in too many instances, marketing people appear to be commonly off track and what they are doing seems to be un-related to how the business is being run. Thus, important questions, from a marketing point of view, are:

- What is the role of marketing and brand communication in the overall success of the business?
- How can marketers budget for marketing and communication investments, and measure results?

With these in mind, every medical marketer should consider the following:

1 As a marketer, how much should the firm invest in brand communication?

The answer should be based on the financial models employed by the marketing people. But, where are those models? This leads to the second question:

2 What level of return will be attained on the marketing or marketing communication spend?

Again, the answer should be based on the marketing financial models. But, where are those models?

The third question, again, is a simple one:

3 Do we know over what time period the marketing returns will occur? Again, one would assume there are marketing models to provide these answers. But, where are they?

The answer is: The challenges are getting greater.

Unfortunately, these questions challenge most marketing managers. Marketers are investing the financial resources of the organisation but have very weak measures of how returns will be determined. And, in many cases, the returns they are measuring have little or nothing to do with financial returns. At the senior management level, the most important issues are (a) how much should we invest in marketing and (b) how much revenue or value does marketing bring back. That is an on-going challenge, which marketing has, to most senior management, been unable to answer.

The following are suggestions on how marketers might begin to more directly answer the above questions.

RELATING MARKETING TO KEY MANAGEMENT QUESTIONS

First, it may be helpful to assume the role of a very senior manager, or member of the board of a firm. In that role, based on the way businesses operate, there are only four main issues. That is, as a senior manager there are basically four tools available in order to manage the business. These can be called credos.

The first credo is to make the business grow. If the firm is a publicly-held company, it must be grown at the level of the market analysts, not at the satisfaction of the employees or management. Market and marketplace expectations must be met. A problematic example of this would be John Chambers, the CEO of Cisco, the technology firm. He is still growing the Cisco business at about 20 per cent per year. Since the previous growth rate of Cisco was 60 per cent per years, market analysts have begun to discredit him and the shareholders began to lose faith. But this is reality. Many CEOs have been discarded because they did not grow the business to the satisfaction of the analysts and ultimately, the shareholders.

The second credo is to remember that only two things really matter: cash flow and shareholder value. The question in the minds of senior manager is: What are marketing, communication and branding doing to either increase cash flows or drive shareholder value? Unfortunately, the current yardstick for this evaluation primarily in the short term, is current cash flows. In addition, the returns marketing creates are generally not final returns or outcomes. That is because today, almost everything in the organisation is adjusted to determine its net present value through some type of discounted cash flow calculation. Thus, as a senior manager, what the marketing people do in the future is interesting, but the primary concern is what happens now, in the present – current cash flows that hopefully can be turned into future shareholder value.

Much of the problem with marketing is that there is continual talk about investing in the brand to build brand value. But, consider this: As a senior manager, you can invest US$100,000 in a brand building programme today, and then based on a net present value calculation determine that five years from now that investment will only be worth US$60,000. That's a difficult decision for a manager to make, but that's what discounted cash flows are all about. How much money would any senior manager want to put into marketing, communication and branding under that scenario?

This is the burden of the marketers. They make promises for the future. But, to the organisation, the future does not matter nearly as much as the present. Certainly not in a cash flow or a discounted cash flow and a net present value marketplace. One of the biggest problems marketers face therefore, is promising future value when the company is living in the present.

The third credo is that a senior manager (CFO) generally has three choices for investments to grow the company. He or increasingly, she could invest it in (a) R&D for new products, to bring new items onto the market, to grow geographically, to recruit, etc. or (b) it could be invested in supply chain improvements. That is software to reduce the internal and external friction, cut the time, get to market faster, etc. That would be positive, because the money saved would drop directly to the bottom line; or (c) the CFO could give the money to the marketing and communications people.

When the CFO asks: 'What am I going to get back on this investment?', the marketing people answer: 'People are going to like us. They're going to know our corporate colour. They're going to be able to repeat our brand name in their dreams. They're going to be able to hum our jingle'.

To which group should the CFO give the money? The answer, historically, has been: to R&D. Only in the last 10 or 15 years have CFOs started to consider investments in logistics, operations or supply chain management. In other words, the CFO and other managers are saying: R&D and logistics and technology are critically important. If there is any money left over, maybe it can be given to marketing. But, the marketing people will spend it on things that cannot be measured or evaluated. The other groups generate returns. Historically, senior management has seen marketing money spent on advertisements, commercials, brochures, development of dealer folders or presentations for physicians. All are things that are diffucult to evaluate and for which returns are diffuclut to measure.

Is this view harsh, or realistic? In the ways that senior management measures success, there is little difference. All they ask is: 'Did you increase cash flows, short-term cash flows; Are you accelerating cash flows? That is, you getting the money sooner; Are you reducing the volatility of the cash flows?' To CFOs, cash flows that go up and down create issues in the amount of resources they have to manage. With cash flow volatility, they do not know how much to keep on paying hand, how much to pay out, how much to borrow and so onl. Thus, their investment management is hampered.

The fourth credo is 'Can I increase shareholder value?'

The question marketing people should be asking themselves is: 'What are we doing that answer those all important questions? Are we increasing cash flows? Are we accelerating cash flows? Are we stabilising cash flows for the organisation? Or, are we building shareholder value', that is, increasing the long-term value of the organisation.

FROM MARKETING 'TALK' TO MANAGEMENT 'TALK'

Part of the problem is that marketers talk marketing talk. Marketing people do not talk management talk. Marketers argue that their senior management needs marketing training. That the CEO and CFO need to learn what marketing is all about. The belief is: They are badly educated in marketing and must be taught 'what marketing is and how to do it!

Unfortunately, many marketing people do not realise that most senior managers do not care about marketing! What they want to know is what the marketing people do and how those things relate to how the business is run. The point here is that perhaps marketing people should stop talking marketing talk and start talking management talk. By talking management talk, the only thing that really matters then, is what are the financial investments required and what financial returns will accrue. That is the challenge.

There is no suggestion here of changing effective marketing strategies. What is suggested is that marketing should be made more relevant to management issues and to how the business operates. Thus, marketing people should start talking about what senior management is interested in, what corporate strategists and planners are interested in and how they are trying to drive the organisation forward, rather than talking only about marketing tactics and activities.

Given that background, the whole issue of net present value now becomes relevant. The basic premise of net present value (NPV) or discounted cash flows (DCF) is that money to the firm today is worth more than money tomorrow. That is what creates many problems for marketing, simply because so much of what marketing does is designed to create future revenue streams. Therefore, the challenge for marketing is to develop ways of bringing marketing into the present and also to making it relevant to the firm and the future.

First, marketers must be able to relate any investment in brand communication to some type of return on that investment. That means the investment must provide either short-term cash flow benefits or longer-term organisational value to the shareholders. What is needed is a simple financial model. Thus, the challenge is how to relate investments in marketing to increased cash flows, accelerated cash flows, a reduction in the volatility of cash flows and/or an increase in shareholder value.

RELATING MARKETING AND COMMUNICATION TO CORPORATE GOALS

The interesting thing is: Marketing and communication can do all of those things. But, the activities have to be framed in the right way and marketers have to begin talking about the right things. The problem, of course, is that the types of measures and metrics needed, cannot be provided through traditional marketing and communication measurement systems. Traditionally, in communication, practitioners have tried to measure communication effects. That includes such things as attitude change, awareness, communication recognition, etc., all of which are difficult to relate to financial returns. For example, if a marketer spent US$100,000 to create a 1 per cent gain in brand awareness, is that good or bad? How does that awareness change relate to any of the above measures, ie increases in cash flows or improvements in shareholder value? That can only be done with financial models.

NEEDED: FINANCIAL, NOT ATTITUDINAL MODELS FOR MARKETING AND COMMUNICATION

Increasingly, it is clear that the only return a marketing organisation gets is from its customers. Therefore, marketers must begin thinking about investing in customers, consumers, end-users and channels and then measure those returns. Thus, the goal of marketing, branding and brand communication in the future must be: did this investment help the firm acquire new customers, did it help us maintain our present customer base, did it help grow returns from present customers or did it help us migrate customers through our product protfolio? Going forward, marketers should stop trying to measure the delivery systems, and instead develop measures of the returns they get from customers; the people who have the money.

A financial model is one that relates dollars in, to dollars out. It is based on customer behaviours, that is, what people actually do. It uses a closed loop system that focuses on the generation of incremental returns. To measure incremental returns, the critical activity must be the ability to separate short-term and long-term values. That means the marketing manager must manage senior management expectations, ie investments in and returns from short-term programmes, and differentially, those of long-term investments and long-term returns from other types of marketing activities.

Problems with short-term and long-term programmes generally surface with branding programmes. There often is no specific, attributable short-term sales increase as a result of a brand programme. Senior management faults the programme, using as evidence, 'the sales needle didn't move'. And, often it doesn't! Branding programmes are generally not designed to create short-term changes; they pay returns in the longer term. One of the key skills of the marketing manager must be to manage internal expectations among senior managers, of what marketing can and can't do.

A FINANCIAL FRAMEWORK

To manage those expectations, the following elements are needed:

First, simplified structures and disciplines. That means financial values that come from customer behaviours, not just attitudes. To do that, closed loop system or measurement of return are needed. That will allow the marketer to estimate or calculate the returns-on-various customer investments.

That then allows the marketer to answer the management question: Does any of this work? Not simply: 'Did our ad work?' The question should be: 'Does any of this marketing activity, altogether, have any marketplace impact for the firm?'

The second element in the process is for the marketer to think about how customers and prospects see, hear or experience the various brand communication activities. That is not just how the marketer sends the messages out, it is how the customer or consumer receives them. By and large most organisations are set up as functional silos. The people in the silos do not need to talk to people in other functional silos, because they are 'specialists', eg 'If I am the expert or perceived as the expert in an area, why do I need to talk to other specialists?'

The marketer should start with some idea of how customers look at the communication, not what the 'experts' think. The research we've done suggests that customers do not wake up in the morning saying: 'I wonder what brands I can remember this morning'. Instead, they aggregate all the brand knowledge they have. They put all the communication elements from the brand together and most of all, they simplify what they know about them, the brand and the marketer. In other words, they aggregate all their impressions, put the all together and say, 'This is what I know about this brand and this is what I know about that brand'.

The next issue the marketing manager should consider is to consilidate all the functional activities. Instead of worrying about how th allocate advertising or sales promotion, or the like, the focus should be on achieving the strategic goals of the firm. For example, incentives could be offered to customers through an advertising programme. Sales messages could be delivered through PR. Incentives could be delivered through PR programmes as well. In other words, the 21st century marketer should forget the traditional communication distribution systems of advertising, sales promotion, public relations etc. and think about how customers use messages or incentives, and how those tools can be used to impact the on-going value of the firm.

Brand communication measures must have financial value, and the only way a marketer can identify financial value is to use the behavioural data of what people do – not what they say – what they do. This data use is common in other marketing situations, but rare in medical marketing.

The physician is a channel and no channel has money. They write the script and then hand it off to the channels. The channels then distribute the product and keep a fairly large portion of the income. Of course, some of it is returned to the marketer but that percentage appears to be declining. Thus, marketers much understand that the only person with money is the end-user, not the channels.

WHY BRAND COMMUNICATION IS DIFFICULT TO MEASURE

The model historically used to measure the impact and return on marketing and communication is called 'The Hierarchy of Effects'. It is the way all media advertising is planned. It was developed in 1961 by a professor at the University of Chicago and a research professional. It originally was a hypothetical model of how advertising works but has since been expanded to include all types of brand and marketing communication. But, it is just that, a hypothetical model, since it has never been proven in the marketplace. There is no evidence that people go through the process shown in the model nor in the specific steps they take. That's true, no matter how widely marketers believe in it. No wonder the marketing profession is accused of being all 'smoke and mirrors'. There is another measure called DAGMAR: Designing, Advertising Goals for Measured Advertising Results. It is based on the same premise as the 'Hierarchy of Effects' model and is also an unproven methodology that sounds good but is difficult if not impossible to relate to brand communication financial investments and returns. Thus, from an investment and return view, DAGMAR has little marketplace value.

The marketer must always be aware that organisations spend money on sales, marketing or communication, for only four reasons: (a) to acquire new customers, (b) to retain present customers, (c) to grow present customers and (d) to migrate those customers through the product portfolio. That is why marketers must relate what they do to the kind of things that are important to the firm.

Here, technology can help the marketer. The increasing availability of data, databases, longitudinal data, measures over time, new statistical techniques, data, mining, neural networks, and many other new techniques made possible by declining computing costs, encourage these new approaches to marketing and marketing communication. Marketers can use these technologies to better understand and explain customer behaviour, rather than always trying to predict it. If the marketer can observe the behaviour, then he or she should be able to use the attitudinal data to understand why customers, prospects ans users, do what they do and understand why they did it. Changes in behaviour can then be related to changes in financial returns and that can provide the needed closed loop system.

The closed-loop measurement system is quite simple. In essence, marketers start with groups of customers and estimate or calculate their financial value. What is the value of an existing customer and in keeping that existing customer? What is the value of a lapsed customer? What is the value to a new prospect going forward? How much should be invested in those people? If we know what those people are worth, now for the first time we have a way to think about how we should create a brand communication budget. The goal is investing finite corporate resources against best customers and prospects to generate optimal returns; a financial model pure and simple. With that kind of closed-loop system, the best customers can be identified and valued; the present and potential income flows can be determined, and marketing and communication strategies can be developed to change those behaviours. Thus, various levels of customer investment through brand communication can be developed. These can then be measured and at least an estimate of what the return might be can be established.

SEPARATING SHORT- AND LONG-TERM COMMMUNICATIONS VALUE TO MANAGE EXPECTATIONS

Then, there is the separating of the short-term and long-term return on customer investment. Again, the whole idea here is investing scarce brand communication resources against best customers and prospects to optimise returns. The key element to consider is incremental value, ie, getting back more than is initially spent. Every organisation has an internal hurdle rate or an internal rate of return requirement. It will typically be somewhere between 8–20 per cent. This means that if the expected percentage of return from a brand communication programme is perceived by senior management to be less than the internal rate of return they expect, the money will more likely be allocated to other corporate investments, eg acquisitions of other companies, geographic expansions, operations or logistical software, etc. as mentioned earlier. Thus, the impact of brand communication should be evaluated, not only by what is generated in gross sales dollars, it is what kind of incremental return the marketers bring to the organisation in real terms. The real question for marketing and communication is: 'Will I get more money back if I spend than if I don't spend?' In other words, if the brand communication is taken away and nothing is spent, what will happen to the business? That is the ultimate test.

This then, relates back to the planning process used to identify customer groups – retain loyalties, grow the potential, capture the emerging markets or divest or reduce expenditure in other areas. However, what about building long-term corporate value? How is a brand built? How are, or should a brand investments be made? In particular, how can the firm cope with brand investment given the current economic climate, which says, on a net present value basis, the money is needed back today, not tomorrow. That is a major challenge.

Marketers have to move away from communication time frames, and deal with the only relevant time frame inside the organisation: the financial time frame. The critical ingredient here is that the financial time frame is what drives the organisation. There is no way to deal with future income flows. Only present income flows are relevant. Thus, the marketing and communication concepts have to be adjusted to fit the financial time frames. Almost nothing has financial value beyond the current fiscal year. That is why, when people talk about life-time customer value, the financial people say: 'Very interesting, but not terribly relevant, because there is no way to deal with future income flows to the firm.'

Brand communication value has to be separated into short term (this fiscal year) and long term (beyond this year). This provides a new method of budgeting and the allocating of brand communication programmes, which is a radically different approach to that currently in place. Using this methodology, short-term business building can now be related to long-term brand building value. Thus, some activities are designed to create immediate return for the organisation and those are separated from the kinds of activities that are designed to build the organisational value, ie, build the brand and build the returns over time. If a customer's worth is known, the investment in that customer, and the returns from that customer in the short-term can be determined. Thus short-term returns within the current fiscal year can be appreciated and can primarily be measured through transactions. The cost of the brand communication can then be treated as an immediate expense, and related to marginal cost and marginal revenue. Then, all of the short-term marketing, communication programmes and all the money spent can be treated as a variable cost of doing business. What this does for the marketer and the organisation is to create a different communication planning model. As long as the marketer can generate returns greater than the cost of the marketing programmes, there will be a positive return. As long as the return meets the financial requirements of the firm, the 'hurdle rate', the firm should be willing to continue to invest in marketing and brand communication programmes. While this sounds like an ideal situation from the view of the brand or marketing manager, many marketing managers do not like the idea. The reason is because historically, marketers spent their time on allocation models that are concerned with how and where to spend their available resources, not on measuring returns from those marketing investments. When the present system is compared with the investment return closed loop model described above, in which unlimited money is available, but the short-term returns must be estimated and realised, one can see why measurement and accountability is interesting to marketing and communication managers, but extremely challenging as well.

With regard to brand building, long-term returns over multiple years must be the time frame used. It is within the time frame that brand or shareholder value, or 'Brand Equity', as it is often called, can and should be determined. This is the equity that is being built up inside the organisation and that has marketplace value. Using an equity approach leads to considering the brand as an asset, something that has financial value for the organisation. In many cases, even for pharmaceutical medical companies, one of the most important things owned is the individual brand. It often can have greater financial value than other investments, such as in plants or factories, or other facilities. In many cases, marketing managers often discover when the brand is valued, they are managing hundreds of millions of dollars in brand value. If this brand value is treated as an asset, then investments should be made in it, returns generated from it and it therefore should be continually replenished. It is true the brand requires organisational investment, it does not grow on its own, but actually declines every day if no continuing investment is made – customers move away and new competitors and new products and technologies appear. If the brand can be regarded as an asset and it is treated the same way as, eg, plants and factories, the fixed cost of replenishing the brand business can be understood. The cost of 'x' dollars to maintain the brand is not going to be questioned, as that is part of the operating procedure of firm. Brand investments thus become a fixed cost of doing business.

SUSTAINING A MARKETING COMMUNICATION BUDGET

One of the major challenges to a brand or marketing manager is the often discovered result of a budget cut or reduction. Management decided to reduce expenses. The budget is cut. Marketing communication and even sales forces are reduced or omitted entirely. What happens?

The answer, possibly surprisingly, but commonly, 'Not a thing'. The reason nothing happens is because the marketplace momentum has been built up over time by the brand an dthe organization. People will continue to prescribe, people will continue to buy, and thus, in the short term, there will appear to be no impact on the brand or the firm. Typically, this could continue for perhaps as long as 3–9 months. Senior management during this time would be right in pointing out that: 'We took all your money away and the business kept bubbling along, what are you contributing?' The only retort to this is that the situation is only short term. But, once the momentum of the brand or the firm starts to turn down, the cost of turning it around, typically, is 6–12 times as much as it would have cost to maintain it. The story for management is brands are dynamic and brands must be maintained and this continuation of momentum is absolutely critical.

It is necessary to understand what makes up brand momentum. Generally, we can think of brand momentum as being composed of three parts: (1) marketing activities the organisation conducts, such as investments in the sales force, product materials, advertising and the like. The second part (2) environmental factors, has to do with the general economy, the kinds of illnesses and diseases that are rampant in the world today and so on. The third factor (3) is brand equity. This is often called the 'goodwill' of the firm. It consists of the trust and reputation the firm has developed, the number of customers it has and their loyalty and so on. Combined, these three factors make up the on-going momentum of the firm and the success it has and will continue to have in the marketplace. The major problem is that this brand momentum is not part of the general accounting procedures and practices. Thus it is difficult to measure and difficult to recognise in the overall value of the firm. But, brand communication measurement is not all wine and roses. There may be some tax consequences from using a marginal cost and marginal revenue approach to short-term brand programmes. There may well be some consequences of changing the way the brand is looked at by the marketers and the overall issues of tangible versus intangible assets. Thus, taking a financial approach to brand and marketing investments does create some issues on the present versus future value of the organisation. But, given the current state of marketing, and brand measurement and return, they would seem well worth the cost.

CONCLUSION

In conclusion, this paper has suggested what is possible, practical, and can be done by marketers in terms of brand communication investments and returns. Marketing and communication have to provide forms of financial measure. Marketers require something that is practical and plausible, something that works globally, something that is relevant to manage, something that is technologically possible in most organisations and most of all, the organisation cannot be reorganised just to put in a measurement system.

Finally, this paper has suggested ways of how to make marketing, communication and branding a strategic tool not a tactical activity in the company. If communication can become a strategic, tool for the firm, it can become relevant at the senior management levels. Thus, the key element in this approach is for marketers to start using management concepts, not just marketing concepts. By talking about the things that senior management is interested in, a substantial change can be made in how marketing is viewed within the organisation.