MARKETING'S ROLE IN THE BOARDROOM

AN EVALUATION FRAMEWORK FOR BOARDS AND DIRECTORS

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MARKETING'S ROLE IN THE BOARDROOM

The purpose of this paper is to provide board directors with a framework to understand the performance of their marketing activities, and evaluate whether the firm's plans going forward take full advantage of available opportunities, protect against environmental threats, and are adequately resourced to succeed.

For many organisations, marketing is the fuel that powers business strategy.

It is intrinsic to how organisations develop and position their services and offerings, approach and deliver customer service and satisfaction, and to how they connect and communicate with other businesses and the community.

Ultimately, marketing is critical to how organisations find and keep customers, make money and grow.

Yet despite its importance, few organisations have granted marketing a seat at the boardroom table; directors have tended to regard it as a curious mix of art and science, less manageable than other functions that boards discuss and monitor.

Directors may recognise that non-financial measures such as customer loyalty and brand recognition are lead indicators of their organisation's financial health. And, indeed academic research demonstrates this quite clearly.

Yet the absence of clear, embedded formulae for marketing effects on business strategy success makes it difficult to factor into board governance and oversight.

Recent research* indicates that board directors cite growth, strategy and talent management as the most critical issues Australian boards are facing.

It follows then, that a board's oversight of marketing as a driver of growth, central thread of corporate strategy, and major factor in talent attraction and retention, is critical.

It is time to revisit marketing's role on the board agenda and how to harness it effectively. This background paper has been prepared to help organisations and their boards gain a better understanding of marketing's role, its components, and its impact on resources, risk, sustainability and performance.

We also hope it will encourage chairs and directors to make room at the table for marketing as a key item on the board's agenda and help them realise the potential that marketing offers for sustainable, accountable growth.

It is time to revisit the potential for marketing activities to prove their value to the firm's potential and to understand the means by which that potential might be realised.

* The Directors' Cut, 2011: Deloitte's ongoing Board Effectiveness survey of Australian Chairs and Directors.

A DEFINITION OF MARKETING

WHAT MARKETING DOES

Marketing is the management of the firm's market-facing activities. While some marketing decisions may be taken by a wide variety of branches within the firm (as with accounting), marketing has an important role in ensuring that these market-facing activities are coordinated and effective.

This does not have to be at the exclusion of other business disciplines. Indeed, there are important and valuable synergies and overlaps between the organisation's different functions. These assets contribute to value by acquiring target customers and then delivering customer satisfaction and loyalty, thereby building revenues and margins, and reducing risk.

THE ROLE OF THE BOARD

MARKETING AS A STRATEGIC RESOURCE

The role of the board with regard to marketing is to:

1. Assess the alignment of marketing strategy with overall corporate planning and financial objectives.

2. Ascertain that marketing planning has comprehensively identified all major marketing potential and environmental threats, and optimised within this opportunity set.

3. Ensure the chosen strategy is executable, and appropriately resourced and supported.

4. Review results and outcomes on a regular basis.

Key marketing activities and programs like market research and promotional campaigns that enhance value delivery to the benefit of customers, employees, shareholders and the broader community should be understood by to the board without a requirement for direct, day-to-day oversight or management.

AN EVALUATION FRAMEWORK

VALUING MARKETING PERFORMANCE AND PLANNING

Ideally, marketing activities and performance should be assessed and evaluated against an organisation's business plan, and considered for their capacity to meet current and future market challenges and changing customer needs.

Specifically, the evaluation process should ensure that marketing strategy builds and maximises business value.

This requires:
- The identification and harnessing of market opportunities
- An allocation of an appropriate level of marketing investment
- Protection against market and operational risks to marketing assets.

This framework proposes eight key steps that a board can take to assess current and future marketing performance.

The eight key steps are:

PREVIOUS PERIOD PERFORMANCE

1. Identify marketing assets. That is, understand the potential sources of value that can be leveraged from the firms brands, customer base, and collaborative relationships.

2. Identify the metrics being used to measure the health and performance of each marketing asset. Understand the commercial rational behind the metrics used.

3. Identify changes to these existing metrics and the factors influencing these changes – for example, evolving market dynamics, ongoing competitor actions, and shifts in business strategy and operations – relative to the previous period and plan.

4. Assess the value added by marketing in the previous period. Investigate the implications that changes in marketing assets have had on business value, relative to plan and other possible past actions.

FUTURE PERFORMANCE

5. Identify significant market issues, opportunities and risks and how they can be managed.

6. Assess whether the current marketing plan adequately takes advantage of opportunities available, relative to other feasible alternatives.

7. Evaluate period performance forecast based on planned marketing investment. Establish projected targets for marketing assets at the end of the period.

8. Assess whether the proposed level of investment in marketing assets is appropriate to realising strategic plans.

PREVIOUS PERIOD PERFORMANCE

1

IDENTIFY MARKETING ASSETS

The marketing assets of a business are the items that drive demand by influencing consumer perceptions and behaviour. Marketing assets can include:

Brands

Including trademarks and related intellectual property, together with associated goodwill. Domain names and trademark licences can be included in the definition of brands. Brand equity, the value of brands in the marketplace, should be measured not from an internal company perspective, but rather from the perspective of the perceived value they provide customers and consumers.

For example, the names, packaging designs and corporate logos and graphic identity systems of companies, together with audience loyalty and customer goodwill that long-established companies and products tend to engender over time.

Channel contracts relationships

Contracts that extend an organisation's distribution capability.

For example, a chain or department store's agreements with major manufacturers to resell fashion labels, computer equipment or household goods that may also be sold through those manufacturers' own exclusive outlets.

Customer contracts and relationships

Customer contracts are typically evidence of future cash flows. If there is evidence that the contract is likely to be renewed, value can also be attributed to customer relationships beyond the contract period.

For example, customer leasing arrangements and fixed term supplier contracts provide levels of guarantee of future earnings, as well as customer lists and details representing value and potential future earnings.

Distribution rights
Contractual rights to distribute another entity's product so as to generate future earnings should be identified as an asset.

For example, the exclusive right to distribute in Australia a certain brand of white goods, or the recordings, publications or media by a specific performer.

Documented marketing know-how
Including market research, advertising collateral and other documented know-how. Patents and production know-how are excluded as we assume that most organisations will regard them as technology related assets.

This can include data assets derived from quantitative research, qualitative interviews, and through advanced data modelling; campaign ideas and executions, and creative assets such as imagery, music and messaging in the form of scripts, taglines and stories. 'Know-how' is a challenging arena for the protection of assets, given the onus of proof lies with the creator to demonstrate origination of knowledge, creation and design.

Product related know-how
Recipes, formulas and design rights.

For example, the closely guarded 'secret formulae' of well-known soft drinks, or the patented engineering designs of mechanical or electronic templates and processes used in car, computer or electric vacuum cleaner design.

2

IDENTIFY THE METRICS BEING USED TO MEASURE THE HEALTH AND PERFORMANCE OF EACH MARKETING ASSET

Understand the commercial rational behind the metrics used.

Most organisations use a range of measurement systems and tools to evaluate the health and performance of their marketing assets.

In some cases – such as in hospitality and other service businesses, where an organisation's people are considered key to building consumer loyalty – both marketing and human resources may share responsibility for managing this vital brand asset.

Brands

There are as many established measurement systems for evaluating brand health (or brand equity) as there are brand, research and marketing agencies to promote them. However, basic formulae for measuring brand equity encompass factors such as a consumer's unprompted awareness of a product, service or entity; the associations evoked by recognition of a brand; the consumer's disposition towards it; and whether the brand has 'momentum' or sustainable relevance.

From such factors, a brand's inherent value and equity may be calculated. Strong brand equity provides a measure of an organisation's future income earning capacity.

Product related know-how

The measures of product-related know-how may reside outside of the marketing function in human resources or finance functions.

For example, in a manufacturing business, an assessment of its product design capability, innovation capacity, and its speed-to-market agility must all be factored into calculating the value of its product development and production capacity. For a service organisation meanwhile, its unique system of incentivising sales or service staff may also be considered under the umbrella of product management and know-how.

Customer contracts and relationships

Customer relationships may be measured both in terms of their depth (how 'sticky' customers are) and their breadth (the quantity and range of products or services purchased (or that may be purchased) by the customer). Measures of depth include customer satisfaction, recommendation by customers, brand loyalty and repurchase intent. Measures of breadth include sales levels, range of products bought, and number of contact points within the organisation. The goodwill that customers hold towards the organisation is measured by customer equity.

For example, a professional services firm will, through its customer relationship management, use client interviews to continually monitor the strength of advocacy amongst its key account contacts, as well as monitoring the range and number of individual or departmental buyers within a specific large client, and the value and range of services that they are buying.

Distribution rights and channel contracts relationships

Distribution and channel relationships should be measured in both formal and informal terms. Formal relationships include contracts and joint ventures. Informal relationships are best measured by stakeholders' perceptual measures such as channel satisfaction.

For example, distributors of a global sporting goods manufacturer in Australia will calculate the value of their collaborators according to a variety of factors. These might include the market popularity of the manufacturer's products; the perception of its corporate brand in the Australian market; the visibility and impact of advertising campaigns and other marketing investments by the manufacturer; and the degree of exclusivity or advantage any single distributor has in selling products within the manufacturer's range.

Documented marketing know-how

Certain marketing activities such as advertising, pricing and product/service features which are used to generate direct responses can be evaluated and sharpened up to provide higher returns on investment. Measures of advertising spend and awareness are examples of existing measures of marketing know-how.

For example, advertising and communications campaigns to launch products under new brands can be extremely costly, given that audience awareness must be built from scratch. However, brand extension – a new product's introduction using an already established brand name – can leverage existing equity by tapping into an audience's familiarity with the values and track record of that brand.

IDENTIFY THE METRICS BEING USED TO MEASURE THE HEALTH AND PERFORMANCE OF EACH MARKETING ASSET

A SUCCESSFUL PRODUCT STRATEGY MAY RESULT FROM A UNIQUE COINCIDENCE OF SEASONAL, ECONOMIC AND SOCIAL FACTORS

3

IDENTIFY CHANGES TO THESE EXISTING METRICS AND THE FACTORS INFLUENCING THESE CHANGES

For example, evolving market dynamics, ongoing competitor actions, and shifts in business strategy and operations – as relative to the previous period and plan.

The performance of an organisation's marketing assets should be viewed in the context of a dynamic environment. A successful product strategy may result from a unique coincidence of seasonal, economic and social factors; such conditions, however, are rarely constant quarter to quarter. The metrics of marketing can never be examined in a vacuum, but must be constantly reassessed in light of continually evolving market conditions.

The following table is an example of a variance analysis for key marketing assets.

VARIABLE	PERFORMANCE	BENCHMARK	VARIANCE
Inputs *Marketing assets (start of period)* • Brand equity • Customer equity • Channel assets, etc. *Marketing investment in period* • Advertising • Promotions • Salesforce • New products, etc.	Level of assets at start of period Actual investment in marketing	N/A Budgeted investment in marketing	 Variance in marketing investment
Environment • Customers • Channels • Competitors • Climate	(Actual) Tastes, size, etc. Strategy/actions Share of voice, price, etc. GDP, consumption	(Planned) Tastes, size, etc. Strategy/action Share of voice, price, etc. GDP, consumption	(Difference) Tastes, size, etc. Strategy/action Share of voice, price, etc. GDP, consumption
Outputs *Marketing performance (in period)* • Sales (volume, revenue) • Profitability, margins • Firm value (market cap) *Marketing assets (end of period)* • Brand equity • Customer equity • Channel assets, etc.	(Actual) Unit and dollar sales Profit and loss, contribution Business value Brand value Customer value Other marketing assets	(Planned) Unit and dollar sales Profit and loss, contribution Business value Brand value Customer value Other marketing assets	(Difference) Unit and dollar sales Profit and loss, contribution Business value Brand value Customer value Other marketing assets
Marketing efficiency *Input/output ratios* $ revenue per sales rep, share of voice/share of sales, etc.	(Actual)	(Planned)	(Difference)

4

ASSESS THE VALUE ADDED BY MARKETING, RELATIVE TO ALTERNATIVE POSSIBLE ACTIONS

Investigate the implications that changes in marketing assets have on business value.

Having assessed the marketing performance in the previous period relative to plan, the next step is to ask: did the return on marketing investment represent acceptable performance? That will depend on other alternative actions that the firm may have undertaken.

Value of marketing activity during the period
To assess the impact of marketing activity on the value of a business, one must estimate what would have occurred had no marketing activity been undertaken, or had it been increased, reduced, or changed in other ways.

The difference between this calculation and the actual results for the period represents the value of the firm's marketing, and can be represented both in short term effects like revenue and profit, and long term impacts on brand equity, customer loyalty, and market capitalisation.

Judging performance
Judging the past performance of marketing assets raises the question as to which benchmark should be used.

Performance relative to plan is one good comparator. The inclusion of both forecast and actual external environmental factors allows the board to factor in variations to the market conditions that were expected at the beginning of the year.

Another popular benchmark is in relating current performance to that of the previous period. This takes into account changes in external factors relative to the previous year.

A third alternative benchmark is performance relative to that of competitors. If this benchmark is used, allowance must be made for non-marketing differences with competitors, and the market-based assets that an organisation has at the beginning of the period relative to competitors.

For example, a competitor's better-known products, or its superior distribution muscle, are important factors to consider when measuring on a level playing field – 'comparing apples to apples', as it were.

ASSESS THE
VALUE ADDED
BY MARKETING,
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ACTIONS

FUTURE PERFORMANCE

5

IDENTIFY SIGNIFICANT MARKET ISSUES, OPPORTUNITIES, AND RISKS AND HOW THEY WILL BE MANAGED

The responses to steps 1-4 provide the tools for boards to assess how effective marketing activity has been in the previous period. They also provide tools to evaluate the ambition and achievability of future marketing plans, as well as the areas that are working well (and can thus be leveraged) or are failing (and thus require remedial action).

The first step in evaluating the future performance of marketing assets is scenario analysis, where the effectiveness of future plans is judged against what can realistically be achieved.

Marketing plans have three major steps and the board should be comfortable that each has been comprehensively undertaken. First, an environmental analysis (or marketing audit) will provide the platform for moving forward, ensuring the plan is grounded with realistic internal and external assumptions.

Second, option generation and evaluation will identify growth opportunities and the need for defence, so that the plan does not leave money on the table and minimises the risk of being blindsided. Finally, option realisation provides a roadmap as to how the plan will be executed by harnessing the firm's marketing (and other) assets, allowing resource allocation decisions to be made across the organisation.

Identifying issues

Identifying ongoing potential and threats.
Growth potential and risk can be calculated by analysing the internal and external dynamics of a firm. Internal criteria involve its strengths and objectives, while external criteria encompass the needs of its target customers, and the characteristics of markets in which those needs will be met, such as competitors, channels, and economic climate.

Analysis leads to a series of questions:

- Where can strengths be successfully harnessed?
- What opportunities would assist/harm the firm in pursuing its objectives?
- What are the known and latent, met and unmet needs of customers by segment?
- What are competitors doing that is prejudicial to the organisation's success, or worth emulating or copying?
- How well are the firm's current channels providing access to market and can they be improved, supplemented or replaced?
- What opportunities and risks arise from the economy, technology, and other related industries?
- What vulnerabilities are exposed by the organisation's weaknesses?

Identifying changing potential and threats.
It is critical that current market trends are examined, given that future marketing performance will be based on the organisation's future competitive and market environment, not its current one.

Questions to ask might include:

- What is happening to the organisation's skill base?
- What are the key company objectives for the next phase of its development
- How are consumer tastes evolving?
- How do we expect our competitors, channels and collaborators to evolve in the next period?

Discovering opportunities

Identifying a range of opportunities enables an organisation to consider various options as part of its marketing strategy.

These options should be assessed in the context of whether an organisation is actually capable of achieving them – and whether its business objectives will be achieved through their successful execution.

This is an area where boards can add considerable value by bringing a depth of experience to supplement that of internal leaders and objectively assessing resource availability and allocation against performance targets.

To ensure plans are comprehensive and examine a broad enough range of options, a formal opportunity identification phase can identify where marketing assets can be best leveraged. For example, cross selling to existing customers, extending strong brand names, and using channel relationships are all valid means of unlocking new opportunity. Additionally, a business should consider how to exploit other assets such as idle machine capacity, financial resources, or unleveraged skills and capability.

Recognising risks

Existing income streams may be at risk from changes in the environment or possible activity in the market. For example, competitive new product launches, increased regulatory control, and changing consumer tastes all offer threats to traditional revenue sources.

Scenario analysis and planning provides a simple, powerful tool to mitigate risks by recognising them early, and by providing impetus for the design of pre-emptive actions.

Generate a set of alternative feasible plans and strategies. These alternative plans will provide a benchmark against which to judge existing plans, but also a springboard from which to brainstorm new ones.

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ASSESS WHETHER THE CURRENT MARKETING PLAN ADEQUATELY TAKES ADVANTAGE OF THE OPPORTUNITIES AVAILABLE, RELATIVE TO THE BEST AVAILABLE ALTERNATIVES

When boards enter the formal planning process for the next financial period they are frequently presented with a series of business proposals, including the marketing plan. It is important to create a benchmark or ste of viable alternatives against which marketing strategies can be assessed.

The goal is to ensure plans are sufficiently ambitious and realistic, when compared to potential alternatives. To achieve this, the board can generate a strategy evaluation form, similar to the one below.

This form will provide a systematic basis on which to compare alternative strategies.

Marketing strategy evaluation	Feasibility of strategy	Reward of strategy	Urgency of strategy	Comments/ observations
Current management marketing strategies				
Branding and product strategies, including marketing mix				
Account management and salesforce strategies				
Channel and route to market strategies				
Possible alternative marketing strategies (from step 5)				
Branding and product strategies, including marketing mix				
Account management and salesforce strategies				
Channel and route to market strategies				

The more rigorous this process of strategy evaluation, the more clearly a business can consider whether any attractive alternative growth options may have been overlooked, or any necessary defensive strategies that have been neglected. It also helps determine whether the organisation actually has the ability to pursue a given strategy, as well as the potential rewards that would result from its successful execution.

7

EVALUATE THE PERIOD'S PERFORMANCE FORECAST BASED ON PLANNED MARKETING INVESTMENT

Establish targets for marketing assets at the end of the period and monitoring yardsticks during it.

The marketing plan should outline selected strategies and provide an overview of the results expected from delivering against them.

The role of the board is to ensure these results pass a reasonableness test. The results can be classified by whether the results accrue during the current period, or whether they create assets that will generate ongoing revenue streams.

Marketing performance measures during the current planning period

- Sales through units, revenue and other measures, classified by product group and market segment
- Other market performance indicators such as market share, customer concentration, etc.
- Profit and contribution, measured through financial indicators such as return on assets, return on investment, present value.

Measures of ongoing marketing assets

- Brand assets – financial measures such as brand equity and consumer measures such as brand image, for example WPP Group's Brand Asset Valuator (BAV)
- Customer assets – financial measures such as customer equity and customer lifetime value, and consumer measures such as customer satisfaction
- Other market based assets such as channel relationships
- Non market based assets such as human resources, if relevant.

8

ASSESS WHETHER THE PROPOSED LEVEL OF INVESTMENT IN MARKETING ASSETS AND RESOURCE ALLOCATION IS APPROPRIATE

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Critical to the success of a marketing strategy is a level of assurance that the necessary financial, personnel, physical and other resources are in place to realise them. Ascertaining whether these resources are sufficient to realise returns on the marketing investment requires two steps. The first is to examine the requirements and availability of resources for each strategy. The second is to ensure that these are at optimal levels.

Resource allocation
Strategy > resources required > resource availability

Resource levels
Strategy > scenario analysis > resource optimisation

In determining appropriate resourcing levels, a useful litmus test is to ask what would happen if 20% less resources were allocated or if 20% more resources were allocated.

It's also useful to consider whether other resources could be more effectively used to achieve the same purpose.

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