

#4 in the ISBM Perspectives Series

A Conversation on ROMI

Why do many business marketers resist return on investment accountability?

Measuring “ROMI” (return on marketing investment) is a perennial favorite at or near the top of business marketers’ priorities. It repeatedly ranks among the top challenges business marketing thought leaders cite in ISBM’s biennial Trends Study surveys.¹ But for many business marketers, ROMI is a threatening, maybe even frightening concept forced on them by CEOs and CFOs demanding marketing program accountability. The challenge can be especially bewildering for B-to-B marketing people who often believe that marketing activities cannot be managed “by the numbers.”

At the Institute for the Study of Business Markets, where a large proportion of our 60 or so corporate members deftly use ROMI metrics to guide B-to-B marketing decisions, developing and refining ROMI techniques is a major part of our research and training agenda. From that perspective, we see many marketing organizations across industry—whether or not ISBM members—with ROMI measures that are flawed or nonexistent because managers don’t have an adequate understanding of how to track the results of their marketing investments.

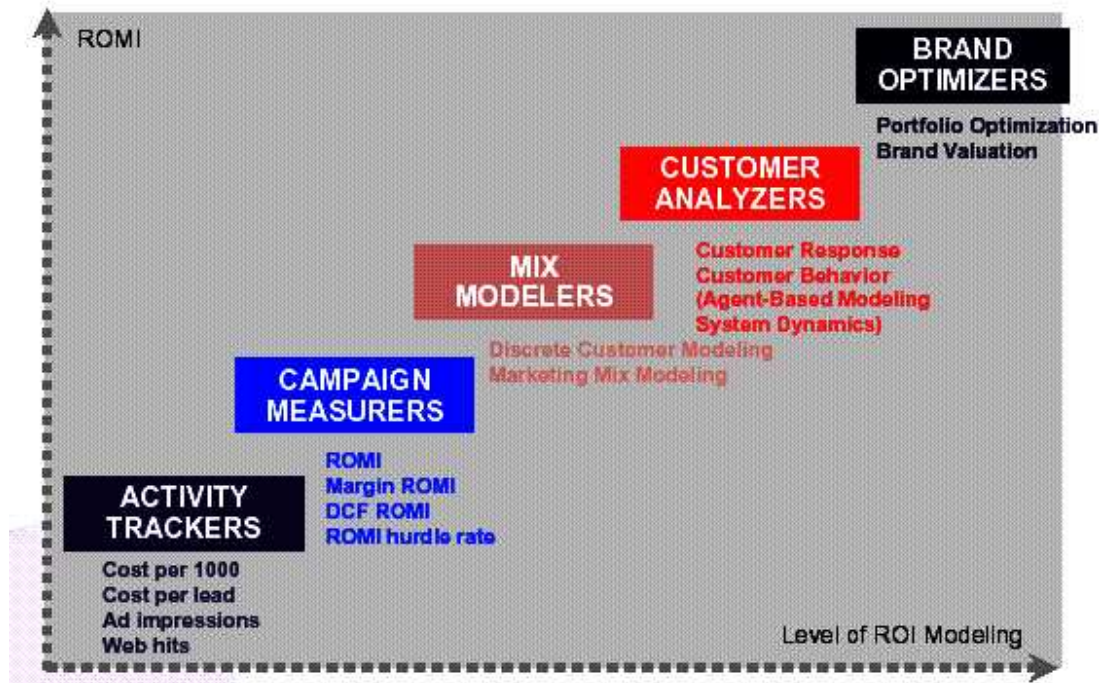
Certainly, the value of ROMI and other performance metrics is irrefutable. According to one of the marketing thought leaders with whom ISBM works, Guy R. Powell, the ROMI expert heading Atlanta-based DemandROMI, LLC, organizations with a “ROMI culture ... nurture and grow their brands, and maintain focus on their customers without sacrificing effectiveness. ... Marketing based on a clear model of your market allows marketing executives to make many, clearly defined small steps to deliver long lasting results along a continuum of improvement. The result is improved decision making and resource allocation based on valid marketing metrics for both the short and long term.”

Powell does not shy away from bold quantitative predictions about the value a ROMI-based marketing process—such as depicted in Exhibit 1—offers to B-to-B organizations. Among the benefits he points to are:

- Reduce inefficient spend by 10-15%
- Reallocate 30-50% of budget to improve tactics
- Improve advertising response rates by 125%
- Reduce marketing communications process times by 30-40%
- Grow top-line revenue by 10-20%
- Increase profit by 5-10%

And, on the personal dimension, “Marketing professionals who focus on marketing metrics and accountability earn up to 20 percent more than those who don’t,” Powell asserts.

Exhibit 1 The Romi Continuum™



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Nonetheless, successfully applying investment return metrics to actual marketing management still eludes most companies. For example, less than 20 percent of high-tech companies have the meaningful marketing metrics they want, according to the prestigious CMO Council, based in California's Silicon Valley (cmocouncil.org). An organization of chief marketing officers from nearly 1,000 technology companies, the CMO Council surveyed members in 2004. According to its "Measures and Metrics: The CMO Council Market Performance Measurement Report," the organization found that more than 80 percent of respondents were dissatisfied with their ability to measure marketing's impact on their business performance. There's little indication that such attitudes have changed.

Therefore, we've wondered: Why is ROMI-based marketing management such an elusive process? Is it simply marketers' foot-dragging or a genuine reflection of some exceptionally strong qualitative aspect of the art of marketing that resists number crunching? Powell, instructor of the ISBM course, "Measuring and Improving Marketing Effectiveness," and author of *Return on Marketing Investment: Demand More from Your Marketing and Sales Investments* (Albuquerque: RPI Press, 2002), recently shared his multi-dimensional view of that question in a recent conversation.

Process View Needed

The biggest problem in a B-to-B environment, Powell said, is the “difficulty marketers have pulling together an end-to-end evaluation of marketing and sales effectiveness.” Marketers’ efforts to measure program importance often fail at the start because they do not properly set comprehensive goals. Marketing expenditures “are made without the ability to measure their results and without a clear definition of their success or failure.”

Then there’s the marketing-sales dichotomy. Marketing generates leads for sales development, “But the question arises, what’s the definition of a ‘lead’?” Powell noted. In the “communications gap” between the ways sales and marketing treat leads, “marketing defines a lead as having a certain *probability* of closing, while sales defines a ‘good’ lead as having a *certainty* of closing.”

Different sales and marketing department expectations create confusion about who is to qualify leads. Is it marketing’s responsibility to ascertain the degree to which a lead is “hot,” “warm,” or “cold” before handing only the ready-to-close leads to salespeople? Powell asked. Or is qualification the job of the sales force and channel partners who should assess new leads for themselves? Timing compounds the problem, as hot leads can grow stale and warm leads can be nurtured to become hot later in the lead management cycle. “But the salesman looks at what might have been tomorrow’s potential customer and says, ‘That’s not a lead. I’m worried about this month.’”

Such qualification confusion leads to budgeting issues that add to the fog, Powell added. Who pays, sales or marketing departments, for qualification and, say, telequalification: inside sales, or a Web-based lead-appraisal operation?

As a result, the classic we-vs.-they silos separating marketing and sales people inhibit a seamless lead generation-to-closing information process, creating the legendary “black hole” into which, marketers complain, leads passed to the sales force disappear, never to be heard about again. When marketers fail to understand both the emotional and business needs that motivate salespeople, they perpetuate the miscommunication, Powell said. He pointed to an unfortunate propensity at many B-to-B companies where people with little marketing or sales training and experience—administrative assistants or engineers, for example—become responsible for lead handling programs. “They might understand the product issues, and how to get collateral out, but they don’t understand the sales process and what’s needed for proper lead qualification. It’s clear to me, when I go into an organization and get blank stares when I ask, ‘Where is your lead nurturing?’”

Powell recommended that lead qualification and nurturing should be functions handled by marketing departments, particularly because salespeople need to spend their time closing active accounts. “A sales manager will look at leads and requests to qualify them and report back thinking, ‘What’s in it for me?’ Marketing in control

of an inside sales and qualification function can incentivize its people to get the qualification data right.”

Data and Risk

Data availability and use also retard growth of the ROMI culture, Powell explained. “There’s not a company in the world that has all the marketing data it wants. Data are like a drug: the more you have the more you want.” Those attitudes apply in all organizations, even data-rich consumer market firms such as Procter & Gamble, where managers spend three to five percent of their marketing budgets on data collection, Powell said.

“But marketers, especially on the B-to-B side, do not put much in their budget for data collection: zero to less than half a percent. So they don’t even ask about data collection processes and the quality of the information they need. They just complain that they cannot do anything because they don’t have the data.” When the sales department asks for a larger budget to hire more salespeople, it can point to a revenue increase predicted by widely used sales force automation customer relationship tracking tools. But absent ROMI analyses, marketing cannot link specific revenue gains to increases in its budgets, nor can it protect its budgets from spending cutbacks, Powell reasoned. “In my workshops for marketers, we spend a lot of time talking about the importance of data and modeling their programs.”

Risk is intrinsic to business; profit is the reward for assuming risk. Risk can also inhibit decision making, as Powell sees it. Different types of risk inhibit developing a ROMI culture.

The risk of wrong forecasts is greater in B-to-B than in B-to-C marketing because of the small market data samples and relatively fewer customers B-to-B marketers work with. Statistically based predictions of future performance are much less precise in B-to-B, Powell noted, “giving naysayers the chance to say that a model won’t work.” However, the very exercise of running a pilot test on a model “can create a cultural mind-shift in the organization. Then everyone in the company wants to run a model.”

Also, Powell continued, there’s the “program risk” of uncertainty surrounding the predicted performance of individual marketing tools. A direct mail campaign, for example, is likely to have a more predictable outcome than a public relations campaign or a trade show.

Then there’s the exogenous risk that fast-changing market and competitive factors will invalidate painstakingly created ROMI models. The timid marketer begins to wonder why he or she should even try. “What if there’s a dock workers’ strike?” “What if the weather turns bad?” “What if my agency is late getting materials together for the big trade show?” go the excuses.

Value-chain complexity compounds such exogenous risk, Powell pointed out, citing, for example, the business marketer’s direct dependence on the downstream market success of its OEM customers. Also, some marketers confuse their understanding of

channels and of customers, hobbling their ability to model their processes. “I find people thinking they do B-to-B marketing because they’re selling consumer products to retail chain buyers. That’s totally wrong. Instead I’d call it channel marketing. You need a good understanding of how your market works before you can measure your effectiveness.”

Personal Proclivities

Many marketers consider creativity to be very important to their work, particularly in terms of marketing communications. Quantitative controls and decisions by-the-numbers get in the way, they reason. Various popular psychological models purporting to track marketers’ emotional decision styles, supposed “right-brain” thinking, extroversion, and the like reinforce such thinking. Although he does not embrace any specific behavioral model for marketers, Powell does agree that personality factors do play a role when marketers confront metrics.

Because personal proclivities do play a role, “I think creative marketers should have a marketing analytics function they can turn to. They don’t necessarily need to know what’s in the numbers; they can turn to someone who does,” Powell observed. “Creative input is critical to marketing, but once you’ve got your creative strategy, you need to know how to execute it. For example, which media are best for the message?”

Then there’s the all-too-human desire to avoid accountability, to not have to answer for shortcomings. Human failings aside, Powell noted, marketers often do not set quantitative program objectives, so they’re unable to rigorously examine how marketing programs drive actual revenue. They are unable to answer fundamental ROMI questions such as “Which ‘I’” and “Which ‘R’”? Relying on easily visible metrics such as counting advertising inquiries or Web site hits isn’t enough, Powell insisted. Spending on marketing simply to “get the word out,” “reposition our image,” or fulfill other ill-defined objectives that, hope-upon-hope, might do something nice for sales volume makes accountability an impossibility.

Furthermore, the marketer’s suppliers, such as advertising and public relations agencies, “don’t want to be measured. There’s a political pressure against metrics; they don’t want to know how badly they might be doing. On the other hand, we’ve found that once they have metrics in place, the agencies embrace them heavily when they can point to improved results.”

Solutions to the problems of marketing accountability and creating a ROMI culture begin with training. When marketers learn that performance metrics are within their grasp and learn how they can track marketing results, the excuses disappear, Powell concluded, explaining the success of his workshops such as those provided to ISBM members. Once trained, “Marketers have a comprehensive answer when the CEO asks, ‘Why should I invest in marketing when I can get better results by hiring more salespeople?’”

— *Bob Donath*

¹ See, on the ISBM.org site, “Know Thy Customer: The very heart of marketing—understanding customer needs and what they really value—tops business marketers’ priorities,” by Ralph A. Oliva.