Return on Ideas

Better results from finance
and marketing working together

Chartered Institute of
Management Accountants

The Chartered
Institute of Marketing

Preface

This report is the product of a partnership between the Chartered Institute of Management Accounting (CIMA), The Chartered Institute of Marketing (CIM), the Direct Marketing Association (DMA) and Professor Robert Shaw.

The seeds of the project were sown at a meeting at the Direct Marketing Association (DMA) headquarters in London in the summer of 2005. The meeting lamented that in the 21st century there was still a lack of proper accountability by marketers and an embarrassing dearth of marketing seats around Britain's corporate boardroom tables – a travesty for such a critical business function that is often misunderstood.

The agenda moved on to the wider question of proving the value of creativity in marketing, the effect of good creative marketing on profitability and how it's measured; indeed how marketing budgets should be justified and planned as essential working capital.

The concern was that many companies don't have the right blend of marketing and accountancy acumen to establish the value of their marketing campaigns and plans or account to shareholders on the effectiveness of marketing spend or investment.

Further research led the DMA to the work of Professor Robert Shaw, the author of *Marketing Payback: Is Your Marketing Profitable?*, which encapsulates the best practice in marketing measurement.

The challenge became this – is it possible or practical to create a universally applicable marketing measurement and evaluation model which could be embraced and implemented by any commercial organisation, ranging from global corporates to SMEs (small/medium enterprises), from profit making organisations to non-profit making ones?

The DMA did not want a theoretical solution or just another business book. They wanted a solution that could work in practice and knew that a cross-functional working party was needed including experts in other spheres. CIM and CIMA welcomed the opportunity to address this frustrating business challenge.

The challenge has been brilliantly met over the last two years. *Return on Ideas* has been shared in beta format with many senior business luminaries, and greeted as a fresh and incisive business approach.
In summary, this guidance paper describes an attitudinal and operational framework for creating the best working practices in terms of:

- harnessing the marketing imagination to create value adding ideas
- predicting how much financial value these ideas will contribute
- delivering and demonstrating that value really was created
- establishing learning that will improve future ideas, predictions and results.

This is not to say that every organisation is incompetent. We all have successes and failures. Our challenge to business is this – be honest with yourself, how much of this best practice do you undertake, and how much could you? Are you climbing the ladder from mediocrity to superiority?

Welcome to our change management movement to create 'responsible marketing'.

Robert Keitch, Director of Media Channel Development
The Direct Marketing Association
Charles Tilley, CEO, The Chartered Institute of Management Accountants
Roderick E. Wilkes, Chief Executive, The Chartered Institute of Marketing

Report published April 2009.

Acknowledgements

About the author

Professor Robert Shaw

Honorary Professor of Marketing Metrics at Cass Business School and Director of the Value Based Marketing Forum

Robert Shaw is a veteran observer of marketing and finance, passionate about improving marketing effectiveness, and proficient at penetrating partial and confusing data. Over the past 25 years his analysis and advice has been sought by senior executives in finance and marketing in over 50 companies and professional bodies. He is founder of Demand Chain Partners (www.demand-chain.com). His recent books include *Marketing Payback: Is Your Marketing Profitable?* published by FT Prentice Hall; and *Improving Marketing Effectiveness* published by The Economist.

Contributors

Rick Pullan

Managing Director TBDA
(The Business Development Agency)

Rick is an honours graduate in Economics & Business Studies from Sheffield University. He cut his teeth in sales and marketing with Mars, Glaxo SmithKline and Pedro Domecq. He ran UK Marketing for Alberto VO5 and then as General Manager for five countries in the Far East. Returning to the UK, he became Board Director for Client Services at KLP before setting up database marketing agency TBDA. He has run TBDA for 15 years, written www.smartermarketing.co.uk and been an active member of the DMA Agencies Council, including chairing this Steering Committee for the multi-stakeholder *Return on Ideas* project.

Omaid Hiwaizi

Planning Director, Chemistry

Omaid is one of the industry's hybrids. He studied Mathematics at Cambridge University before embarking on a career as a creative, designing i-D magazine and founding direct marketing agency Hubbard Hiwaizi McCann. He subsequently founded interactive communications agency Crayon, where he was the Planning Partner. He currently oversees the planning function at Chemistry working on UK and global business where he helps clients maximise their marketing budgets, applying world class creativity with rigour. He has been an active member of various DMA Councils and Committees, including developing the vision and brand of the *Return on Ideas* project.

John Hemming

Development Specialist, CIMA

John has been a graduate, chartered management accountant for some 30 years. He studied Commerce at the University of Liverpool and is ACMA qualified. His experience covers planning and performance measurement, in particular strategic planning and balanced scorecard. He has had a variety of senior management roles at major international blue chip companies including strategic change, SAP implementation and business partnering. His planning roles have covered the strategic planning process from market and customer research to monitoring and implementation.
He provided valuable technical input into the *Return on Ideas* report.

Sponsors

The Direct Marketing Association (DMA) is the country's largest trade association serving the marketing communications sector. Formed in 1992, the organisation represents 900 corporate members, spanning advertisers, agencies and suppliers. The DMA is focused on protecting the direct marketing industry by lobbying against overly restrictive legislation, developing standards of best practice and promoting responsible business. For more information please visit www.dma.org.uk

CIMA
Chartered Institute of Management Accountants

The Chartered Institute of Management Accountants (CIMA), founded in 1919, is the world's leading and largest professional body of Management Accountants, with 164,000 members and students operating in 161 countries, working at the heart of business.
CIMA is a leading membership body that offers an internationally recognised professional qualification in management accountancy, focused on accounting in business.
For more information please visit www.cimaglobal.com

The Chartered Institute of Marketing

The Chartered Institute of Marketing (CIM) is the leading international professional marketing body with some 47,000 members worldwide. First established in 1911 it has for almost a century defined the marketing standards that operate in the UK and is the global champion of best marketing practice. The Institute exists to develop the marketing profession, maintain professional standards and improve the skills of marketing practitioners, enabling them to deliver exceptional results for their organisations. For more information please visit: www.cim.co.uk

Contents

Section 1
Executive summary

This report is about how marketing creates money. Good marketing ideas can yield substantial value but bad ones can destroy it. We can give you the means to maximise your return on ideas and get superior results from Finance and Marketing.

Whether you are approaching this challenge from a marketing, management accounting or general management perspective, this report is for you.

For marketers, it is imperative to discover new and better ways of demonstrating marketing performance and improving marketing effectiveness. It's equally critical for management accountants to learn how to assess the returns from marketing and work in partnership with marketing to drive up contributions. And general managers and entrepreneurs who need to know how marketing creates money as a key constituent of their strategic thinking and business development processes.

Over 100 organisations, in all sectors and sizes, took us into their confidence and they talked candidly about what works effectively and what doesn't.

We have distilled the essence of how the best differed from the worst and encapsulated it in a new practical framework – the Infinity model – that can be used by any size of organisation in any market to create greater sustainable value (see figure 1 opposite).

Imagination is fundamental to marketing, creating value by finding better ways of spending marketing money. Ideas wear out, markets evolve, customers and competitors change, campaigns slow down, so marketing spending patterns must constantly adapt to drive value. Imagination is the domain of management accountants as well as marketers. Both must be at ease with imaginative, speculative marketing ideas. Imagination is not, however, just about novelty or artistry for its own sake, ideas must create financial value too.

Predicting future value ensures that every idea is assessed for its financial contribution and not just based on wish fulfilment. Predictions must be jointly owned by management accountants and marketing.

Demonstrating value requires detective work. Finance and marketing both have important roles in gathering credible evidence for review and to provide feedback to improve future ideas and predictions.

The quest to create more money from marketing is a team effort. It isn't just something that happens inside the marketing department in partnership with finance, there are others involved and we detail all roles and responsibilities further in the main report (see pages 22-27).

However these best practices within marketing and finance will only achieve their full potential if the following conditions are right:

- processes that deliver ideas, predictions and demonstrations of value
- people who can imagine, predict and demonstrate value
- freedom to imagine value
- rigour in predicting and demonstrating value.

By adopting this framework, marketing and finance will simultaneously create value and be seen to be accountable for its creation, working in partnership that will be beneficial to the organisation. At the same time marketing will attract more commercially minded people while the role of the management accountant will be more business-related.

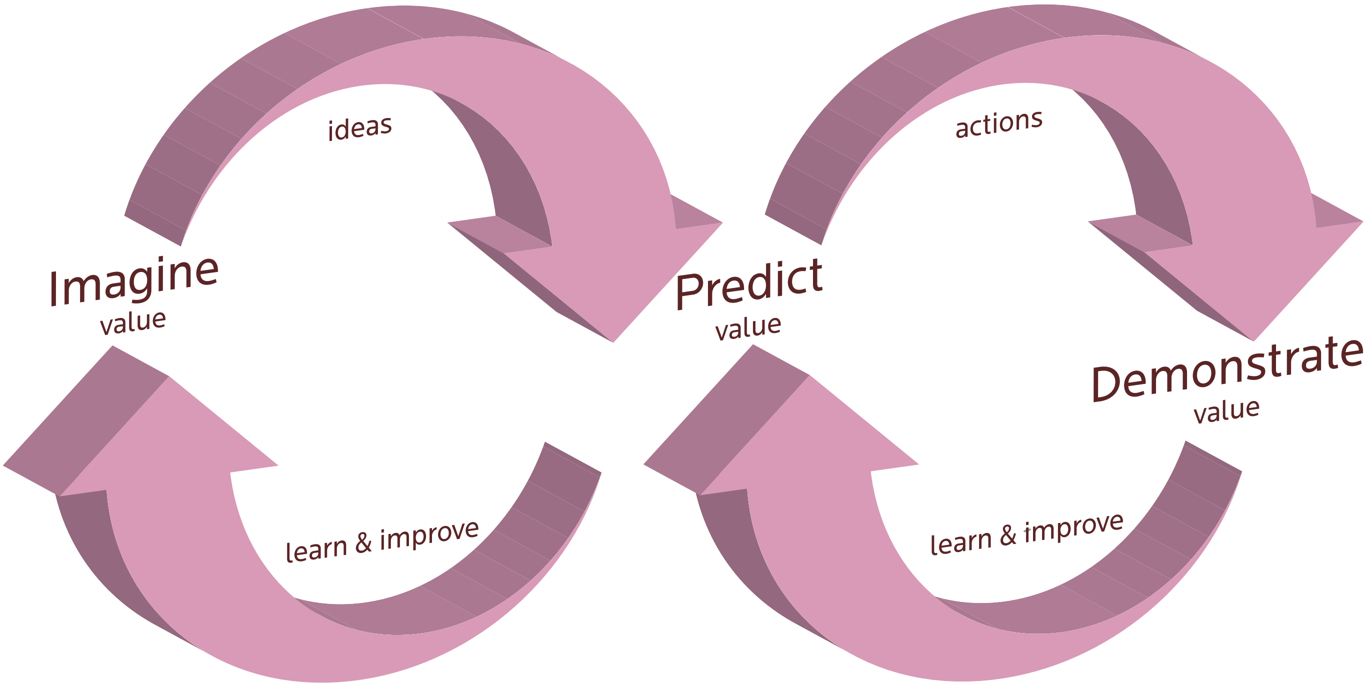

Figure 1
The Infinity Model

Key considerations

- The processes that deliver ideas, predictions and demonstrations of value must run smoothly and should be aligned with other corporate processes.
- It is also a matter of ensuring that marketing kicks off the business planning cycle and ensuring that marketing and financial plans are aligned throughout the financial year.
- A well-balanced team has the mix of people needed to imagine, predict and demonstrate value, with a creative tension between the ideas and numbers.
- Good ideas can come from not only marketing but finance, sales, customer service, production and suppliers.
- Marketing people should be allowed the freedom to imagine and create value adding ideas.
- Rigour should be achieved through leadership and motivation, with marketing insisting on rigorous cost-benefit analysis of their own ideas.
- Ideas should not be killed off or subjected to prolonged delays just because the data about them is not perfect.

Section 2
Context and background

Marketing's costs and contributions have long been the subject of discussion. A century ago the saying *'Half the money I spend on marketing is wasted. The trouble is I don't know which half'* was uttered by Lord Leverhulme, founder of Lever Bros, first President of CIMA and former President of The Chartered Institute of Marketing. Most executives still find this question challenging.

This guidance paper is aimed at demonstrating marketing's contribution to the organisation; how to predict it; and how to find ideas to improve it.

The need for this guidance paper came from joint discussions between the Chartered Institute of Management Accountants (CIMA), The Chartered Institute of Marketing (CIM) and the Direct Marketing Association (DMA). It emerged that members of all three professional bodies were concerned about the value contributed by marketing and what constitutes sound evidence about its value. Pivotal to this, they also recognised the need to maximise the impact of marketing and management accounting by driving the synergies of them working together.

This paper encapsulates findings from several sources. First, and most importantly, the working practices of over 100 organisations were investigated. These included large and small firms from various sectors and industries (see appendix A).

Marketing has different meanings to different people. Even the professional marketing institutes cannot settle on one definition. There is, however, agreement that marketing's purpose is broader than just customer communication and that marketing involves a diverse group of activities which aims to influence customers. As regards marketing activities that were investigated, these included both strategic and operational activities, as shown in figure 2.

Secondly, companies have shared their working practices; inviting us to internal planning and review meetings, showing us plans, budgets, analyses, models and tools. They have talked candidly about what worked effectively and what didn't. While the specific individual findings are commercially confidential, many recurrent themes emerged that are described in this paper.

Lastly, we have also examined the growing body of academic literature that offers help on the methods available to demonstrate marketing's contribution. Accounting firms, consultants and marketing service firms are beginning to offer services in the marketing valuation area, and we have examined what is on offer.

We have harnessed ideas from this research and developed them into a new framework that is applicable to and practical for most organisations. Marketing has the potential to deliver substantial financial contributions, and we have seen how the adoption of this framework can demonstrate and drive up marketing's, and hence the organisation's, value.

Figure 2
Illustrative schematic of marketing activities

Section 3
Good practice guidelines

We've looked at the working practices of over 100 organisations. We found that many marketing managers, unfortunately, have primitive methods of managing marketing money. In the worst cases, marketing managers are on a treadmill; spending money, churning out new ideas, rolling them out at considerable cost and resources into the marketplace. And when they demonstrably fail, they abandon them and churn out more ideas. Worst still, if they neglect to investigate them, failed ideas can remain in the market for months or even years, with the unintended consequences of wasting money and resources. These worst case practices are illustrated in Figure 3.

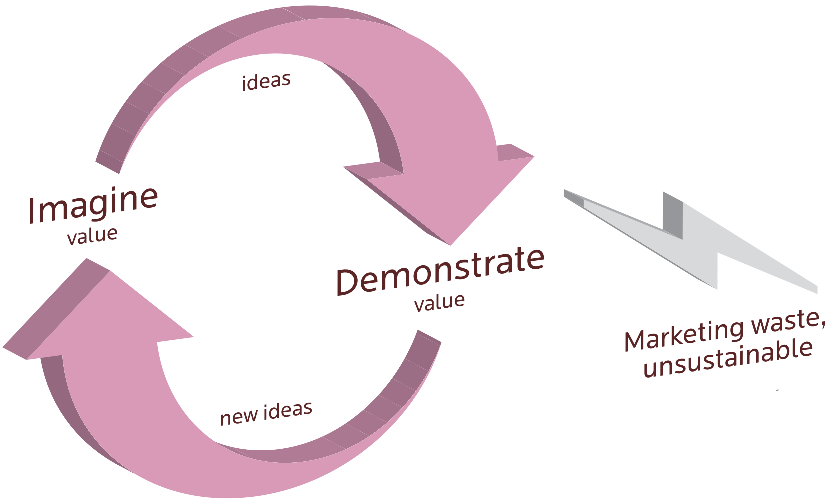

Figure 3
Worst case marketing practices

In the best cases, managers add another, second, feedback loop to the one in Figure 3, as shown in Figure 4. They find ingenious solutions to value creation problems, which are based on a creative tension between financial rigour and the marketing imagination:

- imagining a stream of new ideas
- predicting the winners
- demonstrating which predictions are correct.

These are working practices that any organisation can and should adopt. Managers can assess their adherence to this model by answering the questions in checklist one (page 11). The answers should be 'yes' to the majority of the questions.

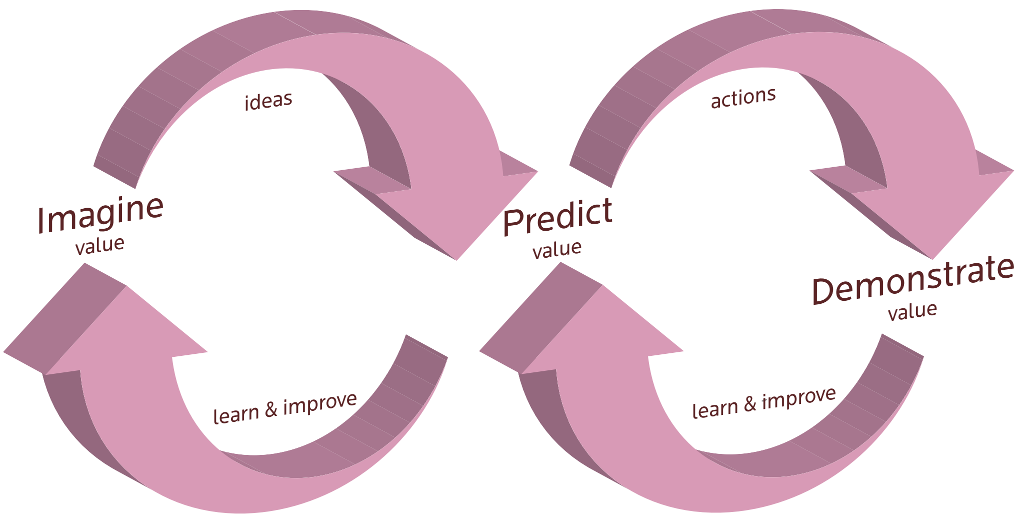

Figure 4
The Infinity model of marketing value creation

Checklist one:
Good practice guidelines

Imagination

- Are we confident that we are being imaginative enough in determining and applying our marketing spending activity?
- Do we manage our new marketing ideas as a risk-reward portfolio?
- To what extent have we optimised the strategic use of our existing marketing budgets?
- Are we doing enough to rejuvenate our existing value proposition by creating lots of ideas that offer new value to our customers and to our shareholders?
- Do we have the appropriate number of operational activities that drive our strategy: not too many to be managed effectively, nor all our eggs in one basket?

Prediction

- Do we insist on rigorous predictions of the financial contributions of all new marketing ideas?
- Do we look for analogies with existing situations to provide clues about how the future will unfold?
- Do we do enough to test and experiment with new ideas rather than discarding them as too wacky?
- Do we observe, record and analyse customers' behaviour enough, and research their preferences and intentions, to understand their likelihood to adopt new products and new marketing?
- Do we do enough to analyse historical cause and effect patterns as a basis for extrapolating the future?

Demonstration

- Do we maintain effective records of marketing activity attributes?
- Can we accurately assign costs to these marketing activities and attributes?
- Are we collecting data from customers that provide evidence of marketing's value?
- Are we using good practice analysis methods to link marketing activity to customer activity?
- Do we gather a chain of evidence linking marketing activities to financial results?
- Have we gathered evidence of how other factors have impacted our results – do we know the effect of competitors, market trends and consumer behaviour on our results?
- Do we have financial models linking customer activity to sales and profit figures?
- Do we insist on post-implementation reviews of every marketing prediction?
- Do we investigate cost-efficiency and drive down waste, scrap and re-work?

By adopting this double cycle, the failure rate of marketing ideas and associated waste can be reduced significantly. It can never be totally eliminated because customers are forever changeable and are never completely predictable. Good senior management accept uncertainty and risk as an innate part of marketing. They do not try to force a 'right every time' philosophy; instead they manage uncertainty using the best methods available.

Section 3.1
How to imagine value

A good marketer has great imagination. Don't misunderstand this statement. It isn't just a matter of artistic sensibility; more than anything it's an ability to conjure up new ideas of commercial significance from the positive and negative responses of customers. Creativity is personally challenging because it entails absorbing criticism, facing rejection and an obsessive search for new, improved ideas. Prediction holds up a mirror to the marketing imagination, and usually the response is 'try again' because customers don't like the idea.

Equally, there are management accountants who are imaginative and work in partnership with marketing colleagues to explore ideas for creating value. Sharing challenges and responding ingeniously to rejections from customers builds a team spirit between the two. Combining marketing imagination with financial imagination leads to a more commercial approach at the early idea generation stage.

Marketers and management accountants use their imagination at three levels:

- strategic portfolio
- value proposition
- marketing mix.

Section 3.1.1
Strategic Portfolio

At the highest level, marketing managers take a helicopter view and decide where to invest marketing money and resources strategically, across the portfolio of current and potential future assets. The best managers are highly imaginative in the way they regard the portfolio.

Good working practices

- There are hundreds of marketing ideas each with distinct properties and functions, and they must be classified and categorised under a small number of headings to make the portfolio manageable. Market segmentation is an important tool to assist with this classification.
- Cash is invested into the brands, products, markets and segments where it will generate the maximum cash inflow.
- Allocating marketing budgets in a fixed ratio to sales revenues is to be avoided, since this over invests in yesterday's breadwinners and starves tomorrow's breadwinners.
- Cost-benefit predictions and the application of consistent risk-reward criteria are used to assess the initial ideas about portfolio investment priorities.

Lou Gerstner, CEO of IBM in the 1990s, looked at the portfolio of IBM businesses in a different way from his predecessor, John Akers. He saw the potential value for a group of service businesses – ranging from maintenance of customer equipment, building of IT infrastructure for clients and even management consultancy – and also saw that the traditional hardware and software businesses had declining value. He understood that the IBM brand and reputation, when he became CEO, would damage the prospects of the service businesses. He therefore invested massively in repositioning and re-launching IBM as a service business, recognising that this was a long term strategy and that customers would take several years to come to accept the new IBM.

Section 3.1.2
Value Propositions

At the next level, marketing managers turn their attention to value propositions. In effect these are the products and services offered, but not the physical ones; rather they are the subjective beliefs of customers about the products and services. That such beliefs exist and are important has been demonstrated on countless occasions. In tests when customers are presented with competitive products in an unbranded form there is often no clear preference; but if a top brand name like Coca-Cola or Accenture is attached, a dramatic switch in preferences occurs.

Good working practices

- Use market research to understand the subjective beliefs of customers about your products and services.
- Think imaginatively about ways to address negative comments and how to exploit positive ones.
- Create a constant stream of practical ideas to keep the value proposition appealing, such as add-on services, re-packaging, re-pricing, financing deals, new varieties, co-ordinated price and feature changes and big new product ideas.
- Monitor these ideas, from their emergence, through prediction and post-launch.
- Subject all value proposition ideas to predictive tests and also demonstrate their sustainable value after launch into the marketplace.
- Plan and schedule the timetable for these activities, and ensure that they are fully understood by sales and operations planning.

Bic® is a famous brand that has had more than its share of failures in terms of value proposition. Bic® perfume and Bic® pantyhose were launched on the basis of management hunch and guesswork, without serious predictive testing. After investing heavily, the products failed to sell. Bic® management admitted defeat and the manufacture and production of these products were closed down.

Harley-Davidson faced massive competition from an invasion of foreign motorcycles that began in the 1950s through to the mid-1980s. Throughout this period, management did not react; they denied that any problem existed, even though the market share had declined to three percent. There was a change of management and modern marketing was introduced. Market research revealed that customers were very loyal; they even had the company logo tattooed onto themselves. The company began to strengthen its value proposition, launching a new range of bikes tailored to the expectations of their loyal customers. This included launching an associated range of branded goods from leather jackets to jewellery to cologne, even pyjamas, sheets and towels. The iconic brand grew, and began to sell to bankers, lawyers, doctors and entertainers.

Heinz is one of the largest food companies in the world, and one of its most powerful brands, Heinz Tomato Ketchup, has been around since 1876. In 2003, a massive research programme into customer attitudes revealed dissatisfaction with the plastic bottle. It was difficult to get the last of the ketchup out of the bottle and it left a dirty mess around the cap. Imaginative thinking led to the design of the Top-Down Tomato Ketchup bottle which, after careful consumer testing, was launched 2003. It not only replaced the older Heinz bottle but succeeded in taking sales from competitors.

Section 3.1.3
Marketing Mix

At the most detailed level is the marketing mix. These are the myriad activities that aim to encourage more customers to buy more products, more often, for more money. Junior marketing managers manage these activities and it is their job to change the mix as ingredients get stale and need refreshing. They must recognise that in today's markets there are a dazzling range of new marketing ingredients available – social networking, blogs, search engines, banners, SMS, email and experiential promotions.

Good working practices

- Review evidence of mix effectiveness by looking at recent activity.
- Rethink the mix based on reviews of this evidence.
- Switch budgets from weak to strong mix elements, on a rolling monthly basis.
- Translate the mix into concrete ideas for future marketing activities.
- Monitor these ideas from their emergence, through prediction and post-launch.
- Subject all marketing mix ideas to predictive tests before launching them and also demonstrate their value after launch into the marketplace.
- Make sure that not too many small ideas are allowed to proliferate without adequate scrutiny.
- Plan and schedule all marketing mix activities and ensure their costs and predicted effects on sales revenues are understood by sales and operations planning.

Innocent Drinks was started in 1998 by three friends; by 2002 sales were £6.5m and its owners wanted to keep growing by 50 percent annually. The mix to succeed involved distribution in all key food and drink retailers; prominent displays on shelves; eye catching promotions (they got grannies to knit woolly hats for the Innocent bottles, and for every one sold they gave 50p to charity); distribution of excess stock to the homeless; a health tips book; Fruitstock festivals, attended by 120,000 people; and free events for retail staff as a thank you. In 2007, their reported turnover exceeded £100m.

Section 3.2
How to predict value

A good marketer will make predictions about the ideas created by their imagination to distinguish between valuable ideas and throwaway ideas. They work with management accountants to understand and select the best prediction methods, taking into account the novelty of the idea, the time horizon and the availability of quality data and the skill available to analyse it. Both the marketer and the management accountant continually update themselves with the latest thinking and techniques (a reading list can be found on page 38 to help you find out more about these techniques).

There are many alternative approaches to choose from and usually two or more methods are employed to avoid over reliance on a single technique. It must be remembered that quality data is not always available when predicting the future and there are always inherent risks which need to be mitigated as far as possible.

Figure 5
Prediction approaches and when to use them

Prediction Approach	When to use it
Analogies, substitutes and scenarios	Ideas for the future: • are analogous to previous ideas • meet the needs served by old ones.
Customer insight and foresight	Ideas for the future are understood by customers. Data is available by asking customers about habits, preferences and intentions.
Tests and experiments	Ideas can be ‘mocked up’ for tests and experiments.
Extrapolations from the past	Ideas for the future are similar to the past. Data on the past is available.

Section 3.2.1
Analogies, substitutes and scenarios

Marketers and management accountants will look for analogies with existing situations, as these can provide powerful evidence with which to evaluate a new idea. The advantage of this approach is that it can be applied to most ideas and is relatively easy and low cost. For example, in the popular UK business venture capitalist TV programme, Dragon's Den, the judges use this method for assessing the majority of ideas.

When something is a substitute for something else, a straight continuation of demand may be used to predict sales; consideration should be given to the length of the transition period and also customer response to the product. It is sometimes helpful to experiment with a range of forecasting assumptions: for example, best case and worst case scenarios.

When an industrial air products organisation invented a technology for producing huge quantities of powdered ice (i.e. snow), they scanned potential analogies and substitutes. One candidate was artificial ski slopes – to replace the dry ski slopes where skiers run on nylon matting. They researched the build-rate of dry ski slopes, the financial models of these businesses and the opinions of ski slope operators. The prediction was that this scenario was potentially profitable, so they invested in the idea. Today there are dozens of these profitable slopes operating around Europe.

Section 3.2.2
Customer insight and foresight

A good marketer and management accountant will also base predictions on customer insight and foresight. They systematically and continually gather information about customer habits, preferences and intentions as a basis for predictions. Habitual aspects of consumption are of major economic importance and so observation of habits can be a useful predictive method. Often its importance is negative, in the sense that 'customers would never do that' because it would be difficult to make them break their habits. Again in the Dragon's Den programme, the judges often use simple observations of customer habits as a predictive screen on ideas and inventions.

Food manufacturers track public eating habits to predict shifts in demand patterns and assess the likely success of new product introductions. The public's habits in using salad vegetables shifted in the past five years towards convenience and observers of this trend successfully launched bagged salad products. They now closely track these trends, looking for evidence of a turning point in the growth of the salad market in order to plan their agricultural capacity investment programme.

Preferences may be understood by simply asking customers why they prefer one product to another. However informal discussions with customers must be used with care, since the manner in which the question is asked can significantly bias the answer. For this reason, customer analysis must be based on professional market research with customers categorised into 'segments' based on their preference-profiles. The population sizes of these segments can be helpful information to the forecaster.

Section 3.2.3
Tests and experiments

A good marketer, with input from the management accountant, will also look for ways of testing or experimenting with new ideas before investing significantly in them.

For example, a test town may be used to discover customer acceptance of new products and repeat purchase levels; the experiment becomes controlled when two or more towns are used, one with special packaging or a special point of purchase display, and the other not. Simulated test marketing is another less expensive approach, which combines testing with customer intention research.

Online research surveys have recently grown in popularity because they can be set up quickly and the responses come back quickly.

> A financial services provider used trade-off analysis to decide between alternative ideas for mini-ISA (Individual Savings Accounts brought in by the UK government in 1999) products prior to launch. They assessed combinations of interest rates and rate guarantees, bonuses, tiering and withdrawal conditions to predict which idea would create the maximum financial contribution. After selecting the best idea and launching it, they tracked its performance and verified the predictions.
> (See Shaw and Merrick, 2005 for a description of these techniques).

> An industrial organisation of bottled gases researched its customers' preferences to predict the likely performance of new products. They discovered that a significant number of customers showed a strong preference for suppliers that could guarantee delivery within a few hours. Based on this research they estimated the number of customers who would be willing to pay extra for guaranteed delivery. They found the size of this segment was large enough to justify the introduction of a premium guaranteed delivery service, which was then launched successfully.

Intentions can be revealed by asking customers 'would you buy this?'. A better approach, though, is to ask them to compare paired products (or even specifications or simulations of the product) and to assess their relative buying intentions. Such 'conjoint analysis' is widely used for consumer products; over 50,000 such forecasts have been researched over the last 10 years in the UK, and their accuracy is well documented. However, to arrive at a forecast requires the use of complex mathematics, and it is better to employ the services of an experienced researcher, if considering the use of this technique.

Section 3.2.4
Extrapolations from past experience

As much as possible should be learnt from the past, as a means of extrapolating into the future. Although the past will never repeat itself perfectly, many patterns in the past provide vital clues to the future, especially in markets where customer habits are important in shaping demand patterns.

- Revenue patterns should be examined and analysed into their component parts.
- Regular cycles, such as weekly and seasonal patterns, can be determined.
- Patterns of order sizes should be understood.
- Correlations between prices and revenue patterns examined.
- Correlations between marketing activities and revenue patterns investigated.

Where there are multiple factors, and the patterns are complex, a good marketer or management accountant is likely to employ the services of an experienced statistician to carry out an annual analysis of the patterns and develop predictive models.

Finally good marketers and management accountants are realists and know that prediction is never perfect. By using systematic methods to screen and select marketing ideas, they create a level playing field for selecting ideas that are most likely to contribute positive value.

Section 3.3
How to demonstrate value

A good marketer will make an effort to work with the management accountant to demonstrate which of their ideas have added value and which predictions were accurate. For every new marketing idea, they make a prediction about its future effects; they also pre-plan how they are going to demonstrate its effect when put into action.

Management accountants will work with the marketers, particularly in bringing in analytical accounting skills to look at incomplete data and draw insights from information. They will develop a systematic approach to the more informal spreadsheet type of analysis and data collection. This is critical, as without it there can be a proliferation of data, with more than one version of the truth, and this can invalidate the demonstration process. Management accountants understand the financial techniques needed as they are very comfortable with numbers and know how to analyse information for effective decision making.

This is not simple accounting, nor is it measurement. It is more like detective work, gathering evidence and piecing together a business case for marketing's value. For the demonstration of marketing's value to be complete, there must be a chain of evidence that links marketing activity and expenditure to its financial benefits, as illustrated in figure 6.

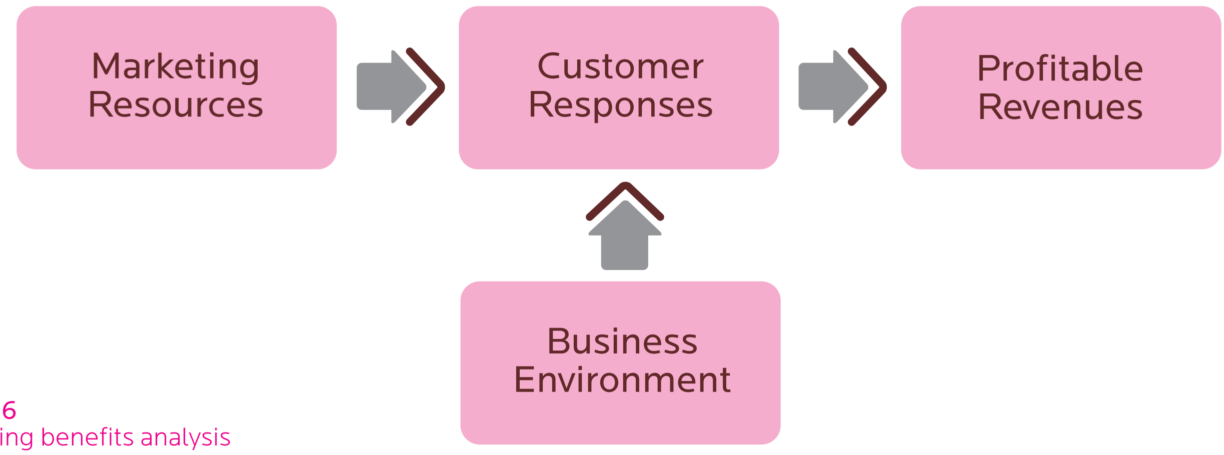

Figure 6
Marketing benefits analysis

Section 3.3.1
Marketing resources

First, the marketer and management accountant set up a system for monitoring and analysing exactly how and why marketing resources are being used and where they are being deployed. This requires segmental reporting to track these resources, for example profit and loss statements (P&Ls) by market, brand, distribution channel, product and end customer. More traditional reporting does not provide this. The management accountant needs to ensure that this reporting happens so that the numbers are meaningful in this respect.

Marketing resource records usually need to be maintained at a level of detail beyond that held in the main accounting systems. They often require techniques such as activity-based analysis of costs, but the support of the management accountant will ensure the marketer has a systematic and valid database of costs and revenues. Management accountants also tend to take a multidimensional view of marketing activity.

Good marketers are diligent in targeting the utilisation of time and money and avoiding ideas and activities that waste resources. Starting with ideas and the process of translating them into activities and campaigns, good marketers predict as early as possible the likely value of the ideas. They do not waste time and money on weak prospects, only targeting the best. Similarly with marketing activities, they are highly targeted with the way they spend money on campaigns, and they eschew the scattershot approach that wastes scarce resources. Segmentation has an important role in helping marketers pick good targets and avoid poor, wasteful ones.

Time is an important dimension and time series data is essential. Other important dimensions include geographic markets, products and brands; usually each brand/product/market has its own time series. For each date in the time series all the key marketing activities are recorded, which may include advertising spots, mailshots, price changes, sales promotions etc. along with the costs of all of the individual activities. Some firms use a marketing resource management (MRM) system for this.

Intel Corporation recently implemented a centralised marketing resource management (MRM) system. The information held in its ERP (enterprise resource planning) systems was too coarse grained to be useful to marketing; and spreadsheets were not an ideal medium, especially for transparency worldwide. Instead they used the MRM system to improve the marketing activity calendar planning, track marketing execution and report on marketing's detailed actual expenditure and expense commitments.

A major UK brewer, until recently, had no idea how much it spent on ashtrays, beer mats and garden umbrellas – not even to the nearest million – because all such expenses went into their ERP system as a 'miscellaneous promotions' budget of several million pounds.

A UK accounting firm, until recently, had no idea how much it spent on brochures, events or corporate hospitality. All expenditure was tracked at partner level but not by its purpose or specific activity type.

A good marketer will ensure that their media agency provides data routinely in a standard format, as an input to the tracking and analysis system. This allows it to be easily analysed. For example, advertising spend pays for lots of media spots, usually bought via a media agency. They keep detailed records of the media spots, dates and costs, along with estimated audience size and geographical coverage. The routine provision of such data, which would not normally be available from internal accounting systems, enables better analysis and decision making.

As these examples show, it is critical for marketing benefits analysis to get data recorded at the lowest level necessary for effective marketing analysis and not just sufficient for internal management accounting.

Section 3.3.2
Customer response analysis

Good marketers find out how customers have responded to marketing activities. They analyse this in detail, comparing differences between products, regions and brands. They look at customer activity and correlate it with marketing activity over time; searching for explanations of what causes strong customer responses and what factors are weak. They don't just gather any old customer data, they insist on getting good customer response data that can be linked back to marketing activity; again on a systematic and routine basis. This forms the basis for effective reporting of marketing activity.

For example, if advertising activity generates customer enquiries, then individual enquiry records should be collected. Collecting data that can link the enquiries to the source advertising is important too, and ingenuity is often needed. Enquirers may be asked 'where did you hear about us?'. Or their location and the date of enquiry may allow it to be tracked back to the media spot. Sometimes the links may be more tenuous, but if statistical analysis is used, links may be discovered that were imperceptible by casual inspection of the data. The more that this data collection becomes routine and standard, the more effective and less ad hoc the analysis process becomes. Both the marketing and finance fraternity (as a whole – not just the management accountant) benefit from the improved understanding and insights that this data provides.

Some marketing activities are easier than others to link to customer responses. Direct marketing is often easy to track. Sales promotions can often be tracked, as long as records can be kept that link sales transactions to the associated promotional activity. Promotional literature and brochures sent in response to customer enquiries should be recorded along with details of the enquirer. Advertising is generally harder to track, and it may be necessary to use market research data about customer attitudes and brand awareness to establish a linkage. Conversely, poor marketers do not link marketing and customer activity (whether or not they collect customer data).

A marketing department of an IT firm spent money on press advertising, events and exhibitions, direct marketing, public relations, literature and brochures. Their data on customers consisted of customer satisfaction research, which had no connection with their marketing activity. They did not look at sales data and made no attempt to link the marketing activities to sales.

Section 3.3.3
Financial response analysis

Good marketers and management accountants investigate the patterns of revenues and profits, and look for clues about the factors that shape these patterns. Sometimes evidence is strong, other times they have to use their judgement, but usually there are enough clues to demonstrate what factors are driving revenues and profits.

A global automobile manufacturer wanted to predict the effects of its European marketing expenditure distribution. Having assessed the customer responses, it then applied profitability by country to arrive at the financial contribution. Since profit margins in Spain and Italy were much lower than in the UK, the model recommended that spend be substantially reallocated to the UK.

In some situations, the management accountants have to supply a different cut of the accounting data to provide a customer view. Once this view has been accepted by the marketing and finance functions, it can become a routine part of the management accounting.

A UK brewer calculated the profitability of its key accounts, taking account of discounts, promotions and trade loans. In order to do this, the management accountant had to manually assemble the necessary financial data, since their computer system did not automatically analyse customer profitability. From this analysis they found that sales representatives had been spending discretionary money on accounts to secure high volumes, because they were bonused on sales revenues. This meant that many accounts were unprofitable. The sales representatives protested that customers would be lost if the system was changed. However, the brewer did change the sales bonus system to reflect profits not revenues. Within months the representatives had renegotiated terms with their customers; none were lost; and all went into profit within a year.

Section 3.3.4
Business environment analysis

Finally, good marketers and management accountants gather data from outside their own firm, about their business environment. They look for external factors that have influenced their revenue and profit patterns. These will include competitor activity, economic trends and daily and seasonal customer habitual activity patterns.

When they have completed this analysis, good marketers and management accountants don’t just look at it as a yes or no answer to the question ‘has marketing added value?’. They learn from their findings and use them to refine their ideas and calibrate their predictions. Learning to select new ideas more reliably is the biggest benefit they get from demonstrating marketing’s value, and it is this that drives their strong financial performance.

A supplier of seasonal foods was concerned about the slowdown in revenue growth over the preceding three years. Its long-term investment in agricultural capacity depended on accurately extrapolating revenue trends. They believed that the apparent slowdown might have been influenced by the recent cool summer, but needed solid evidence. External data on weather was obtained and, with the help of statistical analysis, they showed that weekly sales of bagged salads were significantly influenced by weather conditions. They quantified the size of this weather effect, and this proved that most of the apparent slowdown was caused by the cool summer. However, they did still find a slowdown in growth, but much less than they had originally assumed.

Section 4
The key players

In the organisations that we studied, there was a substantial difference between the best and worst at demonstrating and driving marketing value. This section looks at the people involved, their roles and responsibilities.

Section 4.1
Marketing people and departments

All the organisations studied had a marketing person or people and most had a marketing department. Marketing tended to be an operating unit department. It was seldom a main board function, although in some cases group-marketing or central-marketing did exist. In multi-country businesses, marketing existed at a country level, except for smaller countries served by regional departments.

In the best cases, commercial skills in the marketing department were treated like gold dust. Some marketing directors had started their careers in management accounting before making the switch. And some marketing directors clearly made vigorous efforts to ensure that their marketing teams had good commercial know-how, obtained through job rotation, training, business games and hiring selection criteria. In the better organisations there was a positive creative tension between finance and marketing.

Marketing imagination was widely evident, in the form of written reports, presentations and meetings to discuss and detail ideas about customers. Many ideas did not make it into campaigns and substantial amounts of re-work were common. The review, challenge and signoff process differed from organisation to organisation; in some it seemed streamlined and efficient; in others it appeared bureaucratic, slow and wastefully time-consuming.

Finance often criticised marketing about ideas that were impractical or could never be made profitable. Marketing directors spoke of the difficulties in attracting good commercial talent into marketing. But we also found evidence that commercial skills are not universally valued. In a survey of job adverts on Google, for every 100 finance or sales job adverts that used the phrase ‘commercially astute’, there were only two marketing job adverts.

Marketing’s role was limited, in many cases, to ideas about advertising, direct marketing or promotions. Sometimes marketing was simply an internal service department; running campaigns based on ideas from senior executives outside of marketing who had decided to ‘do some advertising’. This was especially prevalent in professional services, financial services and industrial products and services sectors. Departments, other than marketing, often made decisions about other core marketing responsibilities such as price, product design, brand identity, public relations, sponsorship, sales promotion, distribution and customer service[1]. Marketing’s role in these cases was to offer constructive criticism. But it lacked any authority or influence. Lack of co-ordination between these departments and marketing was widely cited as an issue.

Prediction of marketing’s value was the least understood area. Senior marketing executives in many firms made copious excuses to avoid committing themselves to predictions. Reasons for avoiding predictions included lack of data, uncertainty about the future and lack of accuracy of previous predictions. As a consequence, many marketing ideas were launched without testing, modelling or predicting results. Management accountants were naturally cautious and untrusting of predictions from marketing; citing marketing’s tendency to adopt implausible assumptions and ignore evidence in order to support favoured ideas.

[1] The reason these are core marketing responsibilities is because they are all part of creating ‘the proposition’ for target customer end users and managing the perceptions of the proposition by these customers.

Checklist two:
The key players: questions to consider

Marketing people and departments	• Do your marketing people really understand the organisation's financial strategy? • Do they work effectively with management accounting and the sales department? • Do they have the commercial skills needed to make sound business decisions?
Sales people and departments	• Do your sales people really understand the organisation's financial strategy? • Do they work effectively with marketing and management accounting? • Do they have the commercial skills needed to make sound business decisions? • Are their rewards and bonuses aligned with the financial goals of the business?
Market research and customer insight	• Do your market research people understand the organisation's financial strategy? • Do they work effectively with management accounting, marketing and sales? • Have they done a good job of automating their data gathering and analysis? • Are their priorities too tactical?
Management accountants	• Do your management accountants understand the organisation's business strategy? • Is there adequate management accountancy resource to support marketing? • Do your management accountants understand enough about the purpose, strategies and activities of marketing? • Is the relationship between management accounting and marketing one of strong partnership or is the relationship poor? • Are their priorities too tactical?
Business unit directors, regional directors and other unit directors	• Do your unit directors understand enough about the purpose, strategies and activities of marketing? • Do they treat the marketing budget too much as a discretionary budget? • Do they listen to marketing or are they too prescriptive?
Strategy, planning and innovation	• Is there an effective strategy, planning and innovation process? • Are your strategic plans more than just slogans and aspirational statements? • Do you use balanced scorecards as effective tools for strategy implementation?
Chief executive officer (CEO) and the operating board	• Does your CEO and board understand enough about the purpose, strategies and activities of marketing? • Is there an experienced and commercially astute marketing director on the operating board?

Demonstrating marketing's value is a hot topic and marketers have been keen to try and show marketing's return on investment (ROI); though in many cases it is more superficial than beneficial. In a recent survey, marketers were asked to define ROI : 57% defined ROI as 'brand awareness', 49% defined ROI as 'market share', 40% said 'leads generated', 34% said 'cost per lead', 23% said 'cost per sale'. Respondents often selected multiple definitions (hence the figures do not total to 100%) and not one respondent defined ROI correctly from a financial perspective. This confusion does marketing more harm than good when presenting to colleagues on the board or in finance.

Section 4.2
Sales people and departments

Many organisations had sales people and a sales department or departments. Generally these had a separate reporting line and did not report to marketing. Our overall impression was that sales departments were ahead of marketing departments in their adoption of accountability methods. But there was still much room for improvement.

Imagination was less talked about in sales than in marketing; yet many imaginative changes were happening. Probably the biggest was the impact of procurement and the need for sales to become more commercially sophisticated. Changes in people and process were happening as a result.

Predictions occurred at two main places in sales organisations. In negotiations with customers, sales people were increasingly using modelling tools, usually on laptop computers, to predict the financial impact. Management accountants were also getting more involved with sales negotiations, especially when clients involved procurement professionals in negotiations. In sales forecasting too, organisations were bringing more sophisticated techniques to bear, especially in sales and operational planning. However, marketing's lack of progress in predicting the effects of advertising and brand development was frustrating many forecasting teams.

Demonstrating value was intimately linked with sales bonuses and rewards. Many still used volume or gross revenue as a basis of sales rewards, but some had shifted to net revenue or contribution and they were pleased with the result. Management accountants were actively involved in bonus analyses. Few though had accounting systems that could do bonus calculations at the push of a button and most had to manipulate the data from the accounts on a spreadsheet. A few were using activity based costing as a basis for customer profitability calculations. Value to the customer was also something being researched by many organisations. An agency specialising in customer satisfaction research was usually chosen by the market research department (see market research and customer insight section below). Some organisations used the satisfaction measure as an element of the sales bonus.

Section 4.3
Market research and customer insight

Market research was obtained by almost all the organisations researched. There was a widespread expectation that market research should have a pivotal role in generating ideas, predictions and demonstrations, yet this expectation was seldom met.

Traditional researchers were reluctant to get involved in commercial issues. They preferred the role of customer psychologist or sociologist; with their influence on decision making often limited to providing a library of facts and figures rather than definitive analyses for decision makers.

Market research job titles were often renamed 'customer insight'. Yet ideas and insights from research have been criticised in published surveys of marketing directors as having limited value. Research data was collected rather like badges on a boy scout, aiming for a complete set (irrespective of its lack of practical usefulness). One director commented *'we've not just a data mountain, we've the Himalayas'*. Another said *'there is a strange comfort in lots of data, it makes people feel like they understand and or are on top of the business, even though a relatively small percentage may get used.'*

Demonstrating value was hindered in many organisations by data and departmental silos. Each data source would be subjected to its own independent analysis and the data needed for marketing benefits analysis (see figure 6, page 18) sat in data silos and was seldom analysed in a joined up way. Departmental silos were also problematic. In the worst cases, management accountants paid no attention to market research, even when they were working in partnership with marketing; whilst market research managers showed little interest in the financial data; and senior management accepted the status quo, leaving the technicians in their separate silos.

The best organisations recognised that market research had no intrinsic value or benefits. Its benefits arose indirectly from better decision making, something that required partnership between market research and management accounting. Good practice market research groups created new specialist units that combined research and management accounting to provide decision support analyses and tools for key marketing decisions. Research agendas were based around marketing decision areas. Each application generally required collating data from several sources (for example sales data from AC Nielsen and advertising data from MediaCom). This has been described as 'data fusion'.

Section 4.4
Management accountants

Management accountants in the organisations varied a great deal in their involvement with marketing. In the worst cases, management accountants were focused on counting and controlling spending of past cashflows and showed little interest in where it came from yesterday and where it would come from tomorrow.

While many firms had put management accountants into the marketing and sales departments, they were often given trivial administrative duties. At the same time the presence of a management accountant gave marketing or sales an excuse not to develop their own commercial skills. This seemed worse in marketing than in sales departments.

In the best cases, management accountants were focused on the sources of their firms' wealth and its future fortunes. These firms put specialised staff into marketing and sales but ensured that they were shielded from administrative trivia and put onto more strategic analyses. Marketing and sales were also expected to upgrade their own commercial skills, through their training and hiring policy. The management accountants concentrated on specific decision areas and developed expertise, in partnership with their counterparts in market research. They also outsourced their analysis and modelling work to augment and support internal capabilities.

Section 4.5
Business unit directors, regional directors and other unit directors

Many organisations had a power structure where authority was vested in one of three places. Business unit directors ran part of the company responsible for a product or service type; in banks this might be current accounts, savings or credit cards; in retailers there were often twenty or more of these 'barons', as they were called. Regional directors ran part of the world (e.g. North America) or part of the UK (e.g. the north east). Other unit directors might serve the banking sector, the retail sector or small medium enterprise accounts. Most had little or no marketing knowledge or experience and yet they had an enormous influence on marketing's ability to add value.

In the worst cases, these directors dictated the ideas to marketing with ideas such as, 'I'd like an ad campaign; we need some publicity; let's sponsor the local football team'. The bad directors were poor listeners and took little notice when marketing voiced misgivings about the ideas. They would then blame marketing when the idea failed. They also 'owned' marketing for their area. They jealously guarded the marketing budget, using it as a discretionary cost for cutting when their business unit did badly. Corporate marketing budgets were often cut into 30 or more pieces to give to these 'barons'; something that often diluted them to below the critical mass that would have made an impact.

In the better cases, the chief executive took a firm line with their business directors. Directors were expected to submit marketing plans, which were reviewed and challenged by central marketing, on the basis of the quality of the thinking and the rigor of the business cases. Dotted line reporting was also established between business unit marketing and the central office, to ensure that the directors were giving their marketing teams enough freedom of action. Often, marketing budgets and personnel were allocated across business units on the basis of potential to contribute, and allocation models were used to support such decisions.

Section 4.6
Strategy, planning and innovation

Many of the organisations had no formal strategy process or unit. Strategy often consisted of little more than slogans, dreamt up on away-days by senior executives. Predictions of strategic ideas were noticeable by their absence, and there was a general acceptance that the bigger the idea, the less it needed a formal business case.

Some organisations told us they had disbanded their strategy groups (who looked at markets, competition and customers) and replaced them by merger and acquisition (M&A) teams instead. These M&A teams scouted for opportunities and bargains, made initial contacts and project managed the more promising opportunities through to completion. Few had any formal organisation concerning itself with strategy other than M&A.

Strategic plans did exist in a significant number of organisations. In the majority of cases, however, they consisted of nothing more than a five year projection (or similar) of the annual budget, and their significance was far from clear since no reporting or review process was driven from them.

Balanced scorecards were also encountered in a significant number of organisations. These usually included a customer measure such as satisfaction and, less frequently, brand awareness or attitude measures. Managers expressed frustration with them. They said that the measure seldom changed from report to report; and where traffic light reporting was used it flashed randomly from green to red without explanation. Some had given up in frustration. Scorecards were sometimes set up in the absence of any strategy, or as an alternative to strategy.

Marketing plans were encountered in many organisations. The quality of them was extremely variable (something borne out by earlier work by Cranfield School of Management). Most had no connection whatever with the business strategy, nor with financial plans.

Innovation teams and projects were encountered in many organisations. They were separate from marketing departments in most cases, and sometimes marketing was totally uninvolved. Stage-gate processes were adopted, or were being adopted, in many cases. But they seemed to serve little purpose other than to slow down innovation. Innovation forecasts were mostly guestimates and there was little knowledge of predictive techniques, except in consumer goods companies that widely used conjoint analysis and test marketing. The laxity of predictions meant that in a situation where there were six gates, for instance, all innovation projects would be allowed to proceed unhindered until gate five, when the vast majority would be killed. Or even worse all would be launched and left to die in the marketplace.

In the better organisations, we observed significant differences

- Marketing plans were drawn up (by business units) and reviewed by central marketing to check and challenge the logic of their arguments.
- These were then fleshed out into strategic business plans.
- Strategic options and innovations were logged as a portfolio and forecasts developed and refined.
- Finally, the options that had been given the green light were expanded into budgets, and these were combined with the budgets for business as usual.

Section 4.7
Chief executive officer and the operating board

The role of the chief executive officer (CEO) and operating board in most of the organisations was primarily in ensuring that marketing was doing a high quality job in the operating units. As one CEO commented, 'marketing happens in the operating units and my only job is to ensure it's being done to high standards, I don't try to second guess what's right or best for the units.'

However, in the worst cases, one of several things was allowed to happen by the CEO and board.

- Some would interfere in matters they didn't understand, dictating marketing tactics and operational policy in a way that was ill-informed and damaging.
- Others would ignore bad news from the marketing teams, preferring to believe that the brands were more popular and better liked than they really were and that customer satisfaction was not a problem.
- Others would allow the operational directors to dictate marketing ideas to their 'marketing staff' who were expected to carry out orders and not to question why.

The best had a marketing specialist on the main operating board. Their role was to oversee what was happening at operating business unit level and make sure that the right mixture of freedom and rigor were being employed. We will examine in a later section a framework for implementing this in practice (see page 34).

Section 5
Conditions for success

In our review of the organisations, we noticed several recurrent themes that characterise success and they provide useful guidance to anyone embarking on implementing the infinity model. These are shown below in figure 7: Conditions for success.

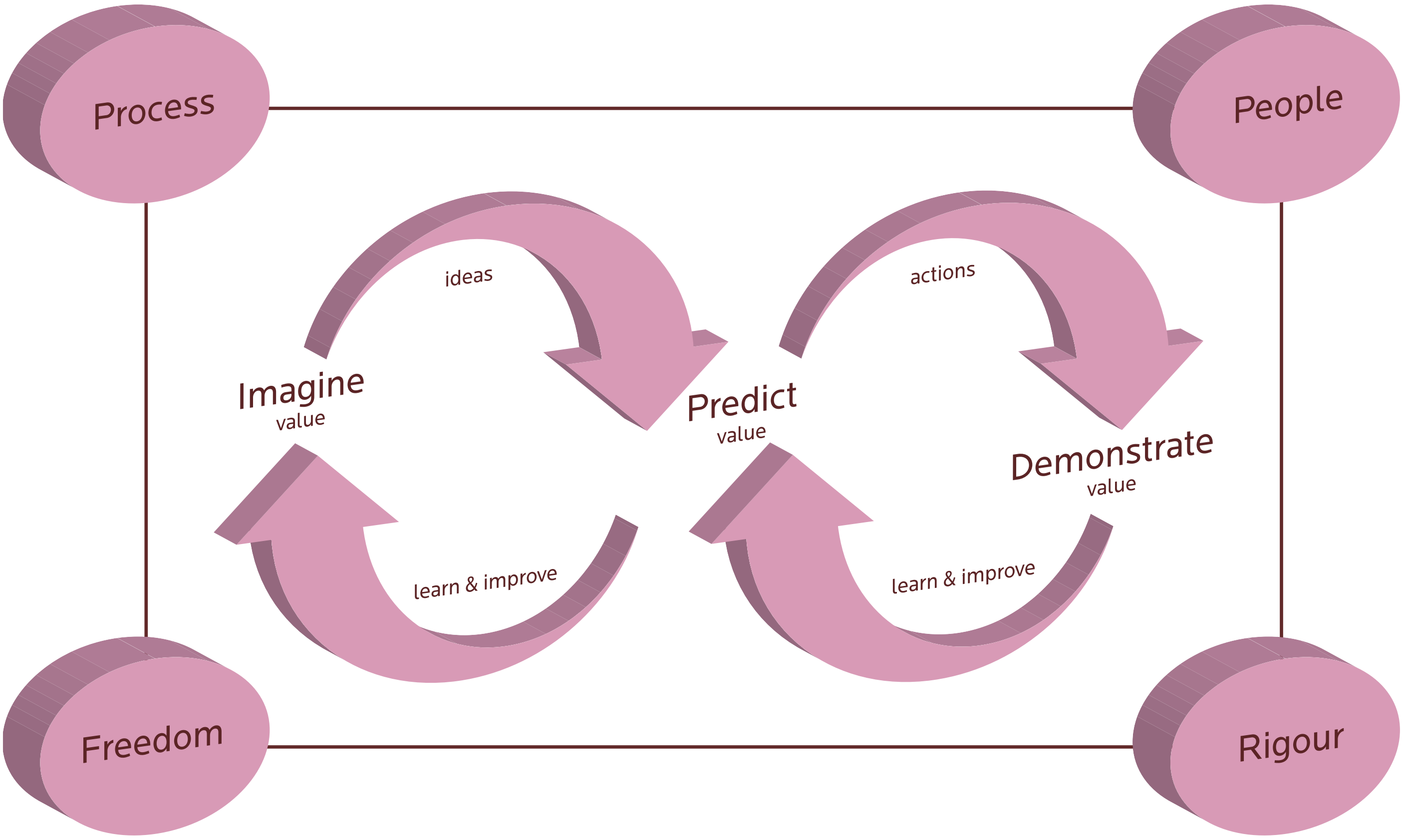

Figure 7
Conditions for success

Section 5.1
Processes for smooth delivery of ideas, predictions and demonstrations of value

The processes in organisations should facilitate imagination, prediction and demonstration, and not obstruct them. This is partly a matter of allocating sufficient time and resources. It is also down to ensuring that other processes are aligned. In particular, it is important that marketing plans and strategies drive the strategic and financial plans of the firm. Marketing and finance should ensure that enough time and skilled resources are available. One way they can do this is to audit the decision making timetable around marketing: from planning and budgeting, to execution.

Investigations should be done into how much time marketing and finance each spend on:
- re-thinking marketing spending and activity
- predicting and testing marketing ideas
- demonstrating marketing's financial contribution.

Good practice organisations will do this as part of their normal planning and budgeting process; analysing activity and priorities and their impact on resource usage. Where people are spending very little time on any of these areas, work should be done to find ways of cutting time on other activities. Some organisations will get external reviews of their processes and benchmark them. This can be done using internal benchmarking as well.

One of our case study organisations found that it was spending hardly any time each month analysing the effect of marketing because its marketing and finance managers were so busy preparing the detailed monthly reporting pack. This involved a lot of manual adjustments and data preparation. The managing director intervened by simplifying the information pack and authorising some automation of the reporting process. At the same time, she insisted on a monthly review of marketing activity, to ensure that it was getting suitable evaluation.

Whilst this example shows the necessary change driven from the top, both marketing and management accountants are equally capable of reviewing their processes and working together to optimise them and focus the right resource on the right priorities. Most process reviews yield twin benefits of reducing resources and making them more effective.

The timetable for planning, budgeting and reporting should also be aligned with the need for imagination, prediction and demonstration of marketing's value.

Another of our case study organisations found that there was insufficient time during the planning phase for imaginative ideas to be created; plans mostly consisted of copies of previous years with a few small amendments. Budgets were drawn up using forecasts that took no account of planned marketing activity; and marketing budgets were cut without taking into account the revenue increases that marketing was targeted to deliver. In this case, the planning and budgeting timetable was revised to allow time for marketing plans and budgets to be prepared before any other budgeting. The chief executive also held the marketing department accountable for keeping to this timetable; something that had not happened in the past.

Section 5.2
People who imagine, predict and demonstrate value

People individually seldom have the breadth and depth of knowledge and know-how to imagine, predict and demonstrate the value of marketing ideas. A combination of minds will create the most valuable marketing ideas. This is co-creation. Marketing and finance working together will more likely sustain a stream of valuable ideas than they will working separately. In the best relationships between marketing and finance there is a degree of creative tension, mutual trust and respect and an ability to produce something together that cannot be achieved alone.

Marketing and finance should work together at all stages in the process of imagining, predicting and demonstrating. Their styles of thinking will be different, from cautious and methodical to impulsive and undisciplined. The manager (whether in finance or in marketing) has a duty to bridge the different styles to make sure that each understands and respects the contributions of the other.

Development of people is important. Classroom training on the rudiments of each others' disciplines is a starting point. But it is useful to augment this with more practical commercial know-how, such as is provided by business games and simulations. Also specialist training in forecasting, modelling and statistical analysis should be provided. Training and business gaming are available from CIM and CIMA for those who wish to develop further.

There is much to be gained from developing mutual understanding and sharing learning and skills that already exist within the organisation. Management accountants are experienced in analytical techniques and analysis. Marketers can help management accountants understand the business and markets they work in and the relevance of non-financial data and measures as a means of managing the business and supporting the financial analysis. The business partnering approach to functions, such as marketing and finance, provides an opportunity for teams to be created to support the business. These teams comprise skills from a broad perspective and are not part of the traditional functional organisation structures.

Bringing in new people with suitable skills is another complementary approach. Checks should first be done to determine whether existing management accountants and marketing staff already have the necessary skills. If they don't, then hiring, outsourcing or using external trainers should be considered. Specialist skills that may be needed include: predictive analysis and modelling; optimisation modelling; and market and customer response analysis.

Section 5.3
Freedom to imagine value

The marketing imagination is easily stifled. But with rigorous prediction and demonstration, the only ideas that should survive are the ones that add value. So the ‘yes, but’ thinking should not be allowed to dismiss shocking or surprising ideas prematurely. Marketing and finance must both learn to say ‘why not’ and ‘what if’ and avoid getting into the ‘yes, but’ mode too soon.

Freedom to imagine value is needed at three levels:

- strategic
- value proposition
- marketing mix.

The strategic level is most important; so marketing should not be excluded from strategic discussions about resource and budget allocation. Research by The Chartered Institute of Marketing (2005) finds only 11% of the FTSE 100 have marketing representation in the boardroom. In smaller firms marketing is even less well represented. Marketing budgets are generally handed down by finance to marketing with limited discussion taking place.

At IBM, under Lou Gerstner, the role of marketing was radically changed. Marketing, for his predecessor, John Akers, had been the brochures and mailshots department, an internal service function supporting the powerful salesforce; and while sales had served on Akers’ executive board, marketing was nowhere. Lou Gerstner changed all that. He combined the job of marketing and strategy, and put marketing on the main executive board. As a consequence, IBM rediscovered its customers and turned around its declining financial results.

Value propositions are also extremely important. Marketing should not be excluded from contributing ideas that will create value for customers and shareholders. Yet many firms ignore the marketing aspects of product development. They leave it to the engineers and technicians; with marketing having the task of advertising or promoting the product after it has been developed.

Good marketers are customer champions. They seek ideas from customers to improve their value proposition. Tesco is an outstanding example of an organisation whose value proposition ideas are sourced from customers – clear aisles, to be able to get what they want at a good price, no queues and great staff. Tesco calls this their Every Little Helps shopping trip for customers.

The marketing mix – advertising, promotion, direct marketing etc. – needs the ‘why not’ and ‘what if’ approach. Unfortunately in the UK, marketing departments are mainly treated as service units. Good organisations should avoid treating marketing as an internal service department, who just do advertising and design brochures, based on ideas dreamed up by non-marketers. At the very least, ideas for campaigns should be an act of co-creation between marketing professionals and non-marketers.

Freedom is about asking ‘why not’ and ‘what if’. Marketing plans should not be based on the ‘last year plus a percentage’ basis. If they are then marketing activity will remain frozen in the past, unable to keep pace with changes in the markets, competition and customers. The marketing imagination should be given free range to come up with ideas at the strategic level, even if at first they seem shocking or impractical; the best ones often are, at first sight. Marketing plans, in most cases, should precede and drive financial plans. This is the approach for any effective budgeting process, but few firms have acquired these capabilities.

This is where the management accountant can provide support to marketing using techniques such as zero-based budgeting and activity-based costing (See references on page 38 / R. Stutely). These techniques can demonstrate the value of marketing activities and help marketing maximise the use of its resources. This is especially true when budgets are squeezed and there is even more pressure to maintain the value of marketing. Once the budget process has been completed, as a joint effort between marketing and finance, then monitoring of marketing performance during the year is on the basis of a shared understanding. This enables any cost or resourcing issue to be managed rather than just financially controlled.

Freedom to imagine is good if counterbalanced against rigorous prediction. Combining the two ensures there is a plentiful supply of ideas and yet only the ones with promising predictions get chosen for implementation.

Section 5.4
Rigour in predicting and demonstrating value

Rigour is needed in predicting the value of marketing ideas prior to implementation and in demonstrating the value they add post-implementation. Rigour comes about when management insist on evidence; they insist on predictions that are more than just 'trust me' statements. People's convictions about marketing ideas should be in proportion to the valid evidence. Assumptions should be tested; they should not just be guesses, wild dreams or empty hopes. At the same time, ideas should not be killed or subjected to prolonged delays just because the data about them is not perfect.

Management should signal clear attitudes to rigour. Spurious accuracy should not exist. It is better to be roughly right than precisely wrong. Sloppiness, subjectivity and bias in predictions or demonstrations of value should also not apply. Pay, rewards and bonuses should reflect a rigorous approach.

Mathematical rigour is often cited as the gold standard. So for this to apply, all significant marketing ideas should be tested by modelling their potential financial value. Predictions or demonstrations that merely indicate shifts in customer awareness and attitudes should not be used. Instead use evaluations that link customer responses to the financials. Marketers need to insist on rigorous cost-benefit analysis of their ideas.

This should then be linked into both the strategic and operational planning processes. There should be a clear line of sight from ideas to implementation, value assessment and ultimately feeding the learning back into the planning process from post-implementation reviews. This ensures complete organisational rigour.

Checklist three:
Conditions for success: points to consider

Process	• Allocate enough time and resources to imagining, predicting and demonstrating. • Audit the time and resources allocated to these activities. • Cut out unnecessary and/or re-prioritise activities to make time available. • Align the timetable for planning and budgeting to allow enough time for imagining and predicting.	• Make sure there is enough time in the periodic reporting cycle to diagnose problematic predictions and understand their causes. • Make sure that marketing stick to this timetable, as they are on the critical path.
People	• Nobody has a monopoly of good ideas – thinking together will co-create more value. • Leaders and managers have a duty to bridge between different thinking styles.	• Marketing and finance must work as partners not adversaries. • People should be developed to think more commercially. • Check that the team has the specialist skills it needs or hire in if required.
Freedom	• Freedom to think imaginatively is important, don’t stifle it. • Say ‘why not’ and ‘what if’; don’t say ‘yes but’ too prematurely. • Include marketing people in your strategic discussions about resource allocation. • Involve marketing people in research and development and product development.	• Ideas for campaigns must be an act of co-creation between marketing and other departments. Marketing should not be treated as just as an internal service that makes brochures and adverts.
Rigour	• Rigour in predicting and demonstrating value is imperative. • Insist on predictions that are evidence based; not ‘trust me’ statements. • Outlaw sloppiness, bias, opinionated subjectivity and dishonesty.	• Rigour must not encourage spurious accuracy. • Predict financial value, not just customer responses.

Section 6
Steps to implementation

In our investigations we discussed how organisations had approached the implementation of the infinity model. The successful ones said it hadn't been a quick fix but a journey, although there had been some quick wins along the road. The working practices of every marketer had to change and to make sure that the new practices were working effectively, a programme of change and implementation was required, as shown in figure 8.

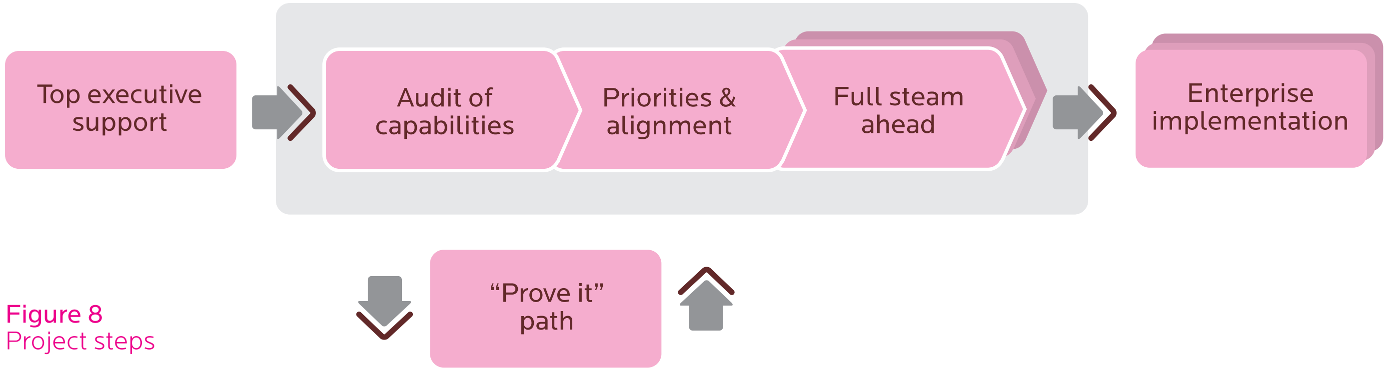

Figure 8
Project steps

Section 6.1
Top executive support

A common sense prerequisite to most successful implementations is support from the top. Setting up a working party and senior steering group can be an effective approach.

Section 6.2
Audit of capabilities

A structured audit of your existing capabilities can help identify gaps and priorities. Checklists for such an audit are provided on page 23.

.

Section 6.3
Prove-it detour

After an audit has been conducted and discussed, top management must next choose which path to pursue. Some have a passion for analytics and modelling and quickly move to the 'full steam ahead' path. The rest choose the slower 'prove it' detour; piloting an analysis or model to show the practical benefits before committing more fully.

Section 6.4
Priorities and alignment

The list of gaps and deficiencies can be extensive. It is important to identify those which, if remedied, are likely to yield the most cost-benefits. The choice is likely to depend on the organisation's strategic goals.

Section 6.5
Full steam ahead

Once priorities, plans and resources are agreed, work can begin on implementation. In a smaller organisation, this may involve one or two techniques operated by one or two managers (e.g. the strategic portfolio model, the marketing mix model). However, in bigger organisations, there may be multiple analyses and models, and many managers may need to learn to use the techniques. In that case, executive education will be needed as well as technique development.

Section 6.6
Case examples of implementation

One organisation had recently implemented SAP and wanted to see how its capabilities could be extended to support marketing. After an audit of existing marketing capabilities, they found there were a series of spreadsheet tools that had already been developed by finance and also in marketing, in parallel with the SAP project. These covered customer acquisition, retention, cross-selling and pricing. None of the tools were fully operational, and their development had been stopped due to the SAP implementation. After the audit, managers in finance and marketing prioritised the completion and testing of these tools. All of these were developed initially using spreadsheet technology. The implementations were successful and they identified several substantial profit improvements that had hitherto been overlooked.

Another organisation audited its existing capabilities and then decided to prove the tools before rolling them out across the company. Their test showed that the technique they had originally favoured (a brand equity monitoring tool) did not deliver the anticipated benefits. They then tested an alternative technique (a spreadsheet template tool for planning and monitoring every marketing idea) and this proved much more successful. Because they had many marketing and finance staff, covering many brands and countries, they needed to train them, monitor progress and provide advice and help. Over a 12 month period every marketer learnt the technique and it became mandatory for all activities. A central team now monitors use of the tool and gathers ideas from the local teams for making it more effective and powerful.

Yet another multinational organisation audited its capabilities, and found a total of 20 analyses and techniques already in use around the organisation. These covered such areas as strategic allocation, innovation, advertising, packaging, sales promotions and pricing. Some of them were already working effectively somewhere in the organisation, and so the challenge was to make them available globally. Others were at an experimental stage and so the challenge was to commercialise them. A central project team was established, based in the UK and staffed by a mix of marketing and finance professionals from around the world. The team now provides guidance and support, as implementation of the techniques is rolled out across the organisation. For new techniques, they provide seed funding to develop the new tools. They have established an intranet resource centre for local managers, and provide training in each of the techniques, as well as a help centre.

Section 7
Conclusions

Marketing can drive value that far exceeds its costs. We have looked at the working practices of over 100 organisations, and found recurrent themes and practical suggestions. Working practices that can be widely adopted have been identified which can be used to demonstrate and drive marketing's value. These have been described in the infinity model, along with checklists to aid with adoption.

Imagination is fundamental to marketing. Finance, as well as marketing, should be imaginative about creating value for the business. Predicting value is also important, in order to test the financial contribution of the new ideas. Predictions should be jointly owned by marketing and finance and should not be based on guestimates, authority or wish fulfilment. Demonstrating value is the best way of testing ideas and predictions.

Demonstrating value will answer questions, such as:
- What does marketing cost?
- How could we be less wasteful and more effective?
- If we stopped marketing tomorrow how much would customers respond?
- What would be the impact on our future financial performance?

We have also described the success factors that encourage these working practices to thrive in organisations.

There are four facets to these success factors: freedom, rigour, people and processes. There needs to be the freedom to imagine and create value, and the rigour to predict and demonstrate value. People in the organisation should be capable of imagining, predicting and demonstrating, and this usually requires teamwork between marketing's creative skills and management accounting's analytical skills. Finally the processes in the business should facilitate imagination, prediction and demonstration of marketing's value, which will require the old processes to be adjusted to ensure that these four facets are aligned.

We have seen how over 100 organisations have risen to these challenges and we can report that it is possible, and beneficial, for marketing to imagine, predict and demonstrate its financial contribution. Applying the infinity model, within the environment of the four success factors and the associated check lists, will maximise your return on ideas and get better results from finance and marketing working in unison. We believe that this is the way of the future for responsible marketing in the 21st century.

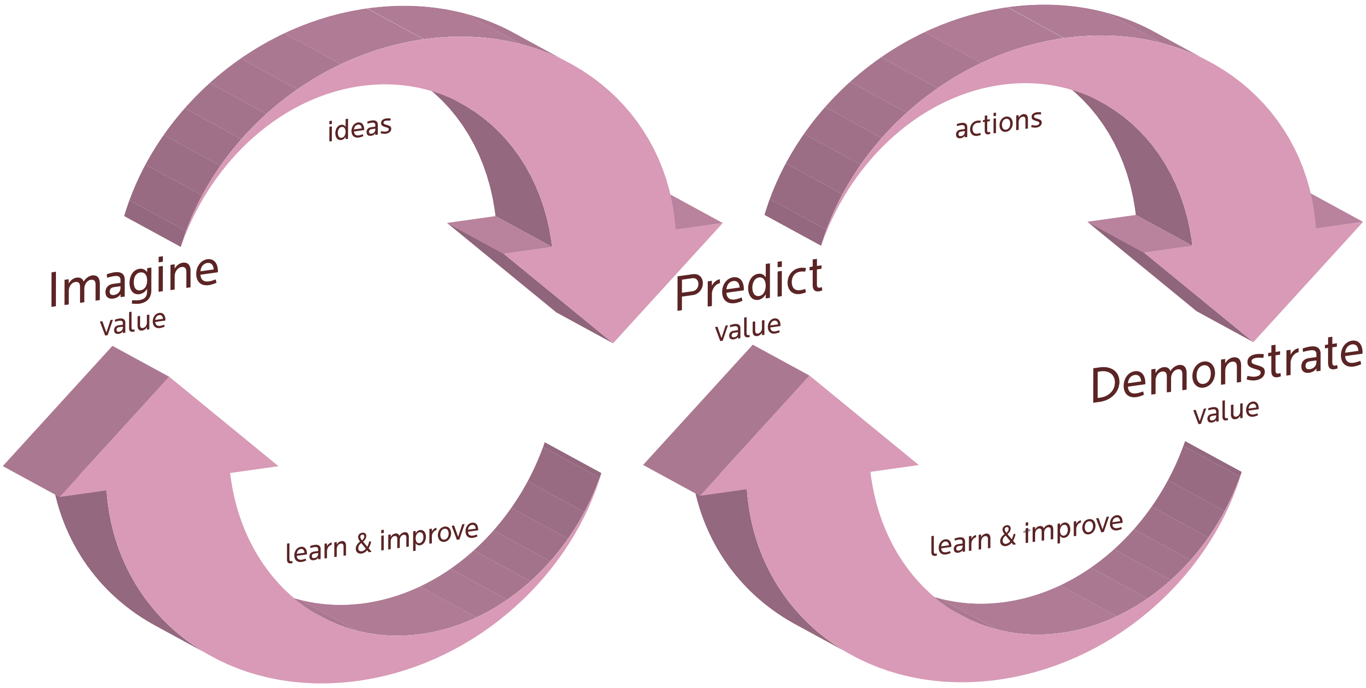

Figure 9
The Infinity Model

References and further reading

General

Ambler, T. (1995), Marketing from advertising to zen, Financial Times/Prentice Hall.
CIMA (2005), CIMA Official Terminology, CIMA Publishing.
Jones, P. (2008), Tycoon, Hodder Paperbacks.
Shaw, R. and Merrick, D. (2005), Marketing Payback – is your marketing profitable?, Financial Times/Prentice Hall.

Imagination

Barlow, N. M. (2006), Re-think: how to think differently, Capstone.

Prediction

Bolt, G. J. (1994), Market and sales forecasting: a total approach, 3rd revised edition, Kogan Page Ltd.

Tennent, J. and Friend, G. (2005), Guide to business modelling, Economist Books.

Demonstration

Chisnall, P. M. (2004), Marketing research, 7th edition, McGraw-Hill Higher Education.

Stutely, R. (2003), The definite guide to managing the numbers, Financial Times/Prentice Hall.

Walsh, C. (2008), Key management ratios, 4th edition, Financial Times/Prentice Hall.

Appendix A
Case study organisations

A key aspect of the project was to explore how companies actually use these methods in practice. We amassed information from over 100 organisations during an investigative research programme from 1997 to 2007.

Managers in these organisations shared with us their working practices, invited us to internal planning and review meetings, showed us plans, budgets, analyses, models and tools, and they talked candidly about what worked effectively and what didn't.

We have also reviewed published case study papers about some organisations. While the specific individual findings are commercially confidential, many recurrent themes emerged that are described in this paper. The following organisations have provided helpful information as inputs to our research:

3M
Age Concern
Arriva Buses
ATS Euromaster
Autoglass®
Bakers
Barclays
Molson Coors Brewing Company
BDO Stoy Hayward
Black & Decker®
BOC (The Linde Group)
The Body Shop
Boehringer Ingelheim
BCA (Book Club Associates)
Boots
BP
British Airways
British Gas
BT (British Telecom)
Britvic Soft Drinks
BUPA
CPP (Card Protection Plan)
Castrol
The Children's Society
Clarke Willmott
Colgate-Palmolive
Cumbria Tourist Board
Diageo
Direct Line
Disney
Dow Chemicals
Eastern Group
English Heritage
First Choice
Ford
Geest
GeoPost
Guinness®
Halfords
Hall & Woodhouse
Heineken®
Hewlett Packard
HBOS
HSBC
IBM
IMI
Inbev
Intel®
Inland Revenue
Kerry Foods
Kodak
Kraft
Lancashire & Blackpool Tourism
Littlewoods Shop Direct Group
Liverpool Victoria Friendly Society Ltd
Magnet
Marks & Spencer
Marsh Ltd
McDonalds
Microsoft
Monsanto
NatWest
Nestle
Next
Nokia
Northern Ireland Office
Norwich Union
Orange
Pauls Agriculture
PerkinElmer
Post Office®
Powergen
Procter & Gamble
RHM
Royal Mail
RSM Robson Rhodes
SABMiller
Samsung
Scottish Enterprise
Scottish National Blood Transfusion Service
Scottish & Newcastle
ScottishPower
Scottish Widows
Shell
Silentnight beds
Skandia
Smith & Nephew
Standard Life
The Stoves Group
Superdrug
Syngenta
Tesco
Tetley
Thameslink
Travelocity
Tupperware®
Ty.phoo
Unibond
Unilever
United Biscuits
University of Dundee
Vodafone
West Midlands Museums
West of Scotland Cancer Awareness

www.return-on-ideas.com

FSC
The mark of responsible forestry
SGS-COC-005502
©1996 Forest Stewardship Council A.C.

CIMA
Chartered Institute of
Management Accountants

The Chartered
Institute of Marketing

recycle
When you have finished with
this leaflet please recycle it

75% recycled
This leaflet is printed
on 75% recycled paper