IMC

Journal of
INTEGRATED MARKETING COMMUNICATIONS

NORTHWESTERN UNIVERSITY

Department of Integrated Marketing Communications

2005

MEASURING THE RETURN ON YOUR COMMUNICATIONS INVESTMENT

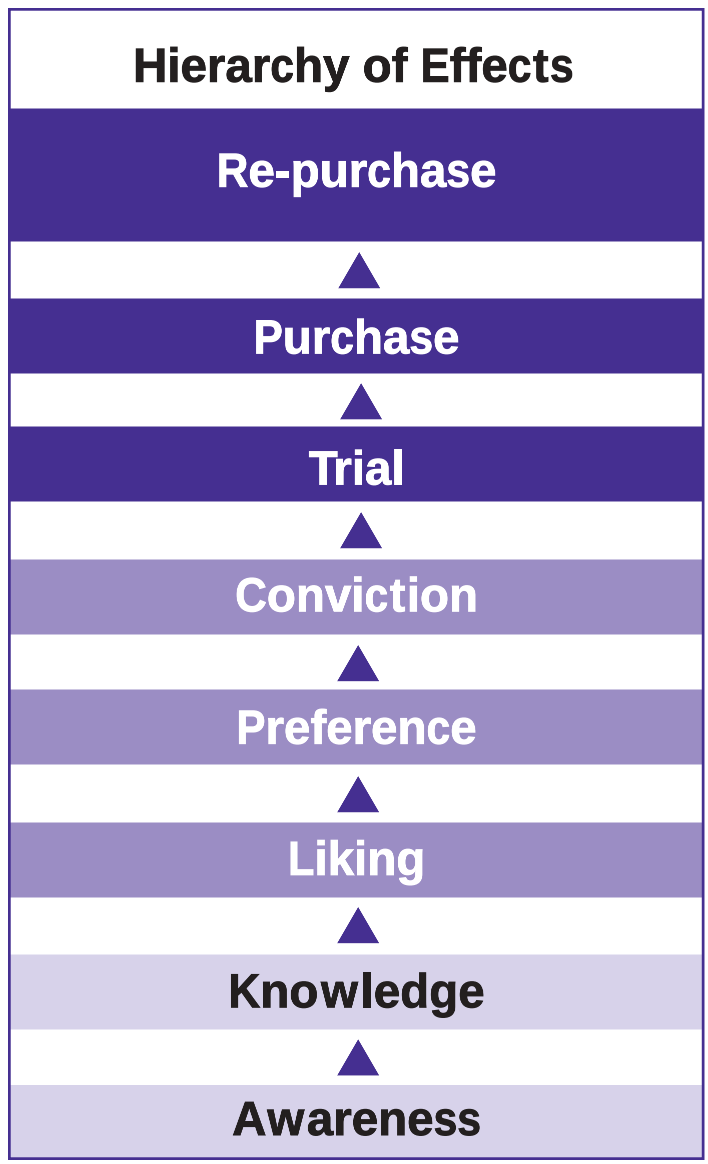
Kacie Jung

Brian Robinson

"Insanity is doing the same thing the same way, day after day, and expecting a different result."
Albert Einstein

It is the responsibility of communication professionals to support their business strategies with a multitude of tools to measure the effectiveness of marketing communications (marcom) programs. With tools already in place to measure such things as awareness, impressions and attitude, there is now the opportunity to go one step further and measure sales effects, which will lead to a more robust measurement system. The goal of this article is to build awareness among communications professionals about the foundational components of a measurement strategy aimed at understanding the financial impact of marcom. It offers insights and suggestions about communications measurement and is intended for communications professionals to discuss and use as they see fit.

When speaking of measurement systems, it is important to note the difference between hard and soft measures. Hard, or "counting" measures, focus on financial cost-input data, including budgets, human resources, time factors, outputs, efficiency and sales performance. Soft measures involve qualitative feedback concerned with motivation, customer priorities/preferences, expectations, perception, attitudes and satisfaction levels. A combination of both hard and soft measures result in a more robust foundation for future planning. A "hierarchy of effects" model, which describes



the stages of individuals' progress in moving from initial unawareness to final action (purchase and consumption), is a good visual reference for discussing hard and soft measures.

Traditionally, communication professionals use soft measures as the foundation of their measurement systems. These types of measures are superior at measuring the first five stages of the hierarchy — awareness, knowledge, liking, preference, conviction and trial. However, each of these measures is unable to link marcom investment to the driving force of business, i.e., sales or financial gains. The inability to create a financial link can lead executives to think that marcom expenditures and programs are of lower importance and priority, which often results in slashed budgets for marcom programs. By establishing measurement systems that measure marcom success through the remainder of the hierarchy stages (purchase and re-purchase), communicators can create a more complete measurement system that includes specific financial results. During the first five stages of the hierarchy, individuals progress through a "thinking" process. It is not until purchase or re-purchase that an action, or behavior, takes place. It is this action that allows communicators to measure the financial impact of marcom investments.

Unfortunately, there are several paradigms at work which seem to hinder the use of hard measures more than they support it. The single largest impediment to the successful adoption of financial measures is fear. At times, marcom professionals fear change – they fear being held accountable for financial measures and they fear the unknown territory of how to combine hard measures with soft measures. Additionally, there is a general lack of knowledge and understanding about measuring the financial results of communications programs. Anxiety about change, combined with lack of knowledge concerning appropriate tools to measure financial results, can put individuals on the defensive. It is imperative that marcom professionals understand and tackle this challenge.

The solution is to educate yourself and your work teams about how to link communication investments to financial results. Arming yourself with bottom-line metrics is enormously powerful, and communicators from companies around the world are beginning to break down these same barriers to realize the power of hard measures.

3M's Commitment to MARCOM Measurement

3M is a global, diversified technology company that values the improvement of process and emphasizes the importance of measurement and accountability. The company has placed increasing importance on marketing and communication leadership, and with that comes the responsibilities of marcom measurement. 3M is currently establishing "return on investment" (ROI) processes that are in-step with the cornerstone corporate initiative of Six Sigma. As defined by iSixSigma LLC, "Six Sigma is a disciplined, data-driven approach and methodology for eliminating defects (driving the number of defects down towards six standard deviations between the mean and the nearest specification limit) in any process from manufacturing to transactional and from product to services (iSixSigma, 2004). 3M adopted Six-Sigma methodology to improve growth in product and service technologies, product and service design, and operational and business processes. The company focuses on improving processes in each of its seven business units, including placing importance on the ROI process for measuring marcom.

After securing senior management support and incorporating the Six Sigma process initiatives, 3M realized its overall method for measuring the financial value of communication programs could be improved. 3M decided to delve deeper to capitalize on relating communication dollars to increases in sales. With the help of Don Schultz of Agora Inc., Martin Block of Block Research Inc. and Northwestern University's Department of Integrated Marketing Communications, 3M created its own process.

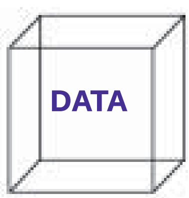
3M's ROI Model

The operational details of 3M's ROI model are based on 3M's proprietary information structure for sales and marcom investments, and therefore the specifics of the model may not be applicable to other companies. However, the overall framework of the model is one that any communicator can benefit from understanding. Therefore, the following analysis of the 3M model is about understanding the general foundation of a strong marcom measurement model, as opposed to detailed steps. The components 3M uses are universal, and can help create the foundation for any metric system.

Understanding the numerous steps of a statistical model can be just as difficult as separately understanding each piece of a puzzle. A single piece or even a section of a puzzle can be difficult to understand. It can be missing key elements or difficult to visualize. When the pieces are connected to create a whole, the true essence of the puzzle emerges. Understanding how the individual components of a marcom measurement model fit together can be just as difficult when you cannot see the entirety of the model. Although each section of 3M's model will be analyzed separately, it is the sum of its parts that create the overall picture.

3M's model comprises four components or building blocks: data synthesis, sales, marketing communications and analysis. The model involves a diligent statistical process that includes analyzing both sales and marcom expenditure data over a designated period of time. The model is neither a forecasting tool nor a crystal ball for future marcom investments. Instead, it is a ROI tool that allows communications professionals to compare past investments and their impact on sales.

Building Block 1: Data

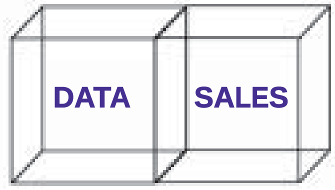


The foundation to a strong and credible ROI model is data. Although the idea of data collection may at first seem simple, it can pose a sizeable hindrance to producing the correct results. Successful data collection includes collecting data from other departments and individuals, organizing it in a consistent manner and establishing data parameters.

Ideally, the 3M ROI model requires sales data (in both units and dollars) and marcom expenditure data for the same time intervals. Point-of-sale (POS) data is also important, as it displays the exact movement of end users, as opposed to distribution sales data.

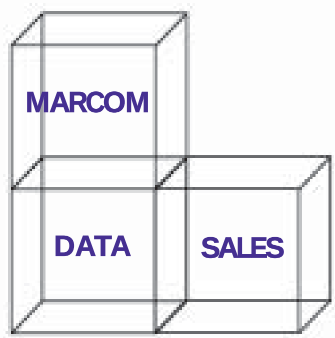
Building Block 2: Sales

Analysis of sales data allows communications professionals to better understand their business. This analysis can be done using regressions and analysis of variances, run with statistical software. The objective is to look for patterns and trends within the sales data. Where are products selling? What prices are they selling at? Are there certain times in the month/year where sales increase or decrease? Focus on average price, price increases or decreases, distributor statistics and seasonality.



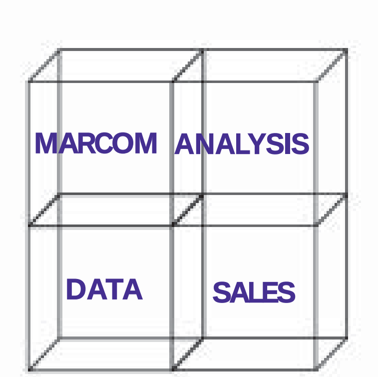
Building Block 3: MARCOM Investments

This building block focuses on marcom expenditures. Similar statistical analyses can be done here as was done with sales data to understand marcom expenditures. Determine the rationale for past expenditures. Why did promotions receive double the investment that packaging did in the past year? Why is one marketing channel receiving more investment than the rest? What is the reason for the decrease in advertising spending in the last two years? Once more, focus on spending patterns and trends to gain an understanding of what past marcom investments entailed.



Building Block 4: Analysis

After understanding the sales landscape and marcom expenditures over one period of time, it is necessary to analyze the direct effects marcom investments have on sales. This requires analyzing sales dollars and units against marcom investments. Statistical regressions can be used to evaluate which tactics have an effect on sales and to what degree. Again, seasonality pattern effects need to be considered, and at times, eliminated. Without seasonality, the relationship between sales and marcom spending can be understood based upon price and marcom tactics. Measure each distribution channel for marcom effects to understand a complete overview of the sales relationships.



An important factor to consider at all times is the lag time on marcom tactics. When advertising, public relations and various other communication tactics are used to reach a target audience, these programs may not result in immediate action. The time it takes for the audience to take action may require communications professionals to look at a more long-term analysis. Running regressions will help explain these lags.

The 3M model, or any similar ROI model, helps communications professionals link expenditures to outcomes, and will ultimately help validate marcom investments.

Building an ROI Model

There are a variety of other ROI models for measuring communication expenditures. Many companies have recognized the need for hard measurement and are taking steps to change how they measure marcom investments. Since some companies have resource constraints, many are unable to internally create their own model. However, there are outside resources available to guide your organization in developing a ROI process tailored to your organization.

It is apparent from the 3M model that there are several fundamentals needed to begin the process of building a comprehensive communications ROI model. By segmenting the measurement process into four building blocks, one begins to overcome the fear of the risk that comes with measuring the results of a program.

Action Steps

1. Understand what you are measuring and why. Secure senior management buy-in. Communicate with management regarding the overall objectives and keep this in mind during the entire process.
2. Know your resources. Involve a cross-functional team (e.g. sales, marketing, finance). Do the research to find out who can help you — not only is this cost efficient by taking advantage of the talent within your own organization, but this ensures buy-in from other parties.
3. Gather the data. This is an integral part of any measurement process. Know in advance in what format you want the data provided (both sales and marcom expenditures) and make sure it is accurate.
4. Run the analysis. Use statistical methods that fit the data provided and the outcomes desired. Analyze sales and marcom expenditures individually. Once you have a better understanding of how these two operate, run an analysis of how each affects the other.
5. Ask questions. Marcom ROI models help uncover further questions you should be asking about your investments and results. When analyzing results, continually ask: Why is this happening? Why is this tactic working/not working? What should we have done differently?
6. Run the analysis again. Once is not enough. Individuals often interpret data analysis differently. It also helps to be as familiar as possible with the statistical tools you used and how you came up with the results. Then, when questions are asked, your answers will be knowledgeable and prepared.
7. Consistently measure and continually make improvements to the marcom plan. ROI models are only valuable when they are used consistently. Continuously track your programs' activities and fit them to your ROI model. Make necessary improvements to your programs based on the patterns you have monitored.

Understanding the Results

8. Use the model as an aid to, not a replacement for, good communications judgment. Statistical analysis without marcom know-how results in failure. Recognize the limitations of the data, not just the model.
9. Be aware of the short-term focus of the model. Analyze results in their proper (short-term) context, recognizing that they do not assess the long-term effects on measures such as brand equity.

10. Now is the time. Begin measuring, improving and validating your own marcom investments. Good luck!

References

1. "Six Sigma — What is Six Sigma?" http://www.isixsigma.com/sixsigma/six_sigma.asp, 2004.

Kacie Jung is a senior business communications analyst at 3M Corporation. 3M has more than $18 billion in sales within its seven business units and international subsidiaries: health care; industrial; display and graphics; consumer and office; safety, security and protections services; electro and communications; and transportation. Kacie serves as an internal consultant to each of these businesses and leads communication projects surrounding communication planning, brand management, positioning and key messages, customer segmentation, and communications measurement. Prior to 3M, Kacie was responsible for international communications at The Home Depot and was in product marketing at Siemens Information and Communication Mobile, LLC. She holds a bachelor's degree from the University of California San Diego and a Master of Science in integrated marketing communications from Northwestern University. Kacie can be reached at kjung@mmm.com.

Brian Robinson is a senior business communications analyst at 3M Corporation. He serves as an internal consultant for 3M's business divisions, corporate organizations and international subsidiaries. He consults on a variety of domestic and international business needs focusing on five major proficiencies: customer insight, message generation, integrated solutions, evaluation and measurement, and brand strategies to create a core competency around the total brand experience. Prior to 3M, Brian had responsibilities for marketing and communications at SWAT 24: Disaster Restoration. He received a Bachelor of Arts from the University of Alabama and a Master of Science in integrated marketing communications from Northwestern University. Brian can be reached at brobinson@mmm.com.