# Marketing Effectiveness: Beyond the Short Term

While the results of marketing investments are most readily measured in the short term, marketing's beneficial effects often extend well beyond the initial weeks or months following a particular campaign or activity. Therefore, marketers who have a clear idea of how their activities will work in both the short and the long term are able to balance their immediate and long-term objectives in their brand management decisions.

M I L L W A R D   B R O W N ' S   P O V

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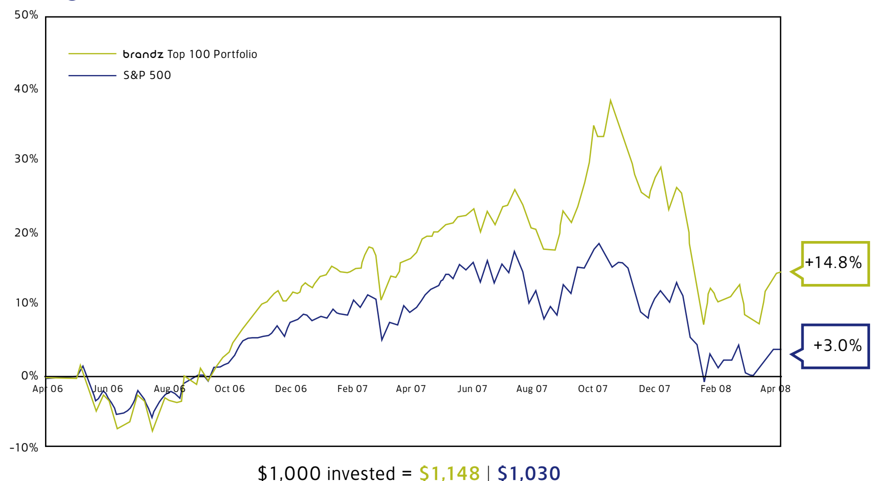
As I discussed in my previous POV, *Marketing Effectiveness: It's More Than Just ROI*, there is more to marketing effectiveness than what can be readily expressed in terms of return on investment. There is also more to marketing effectiveness than what can be observed and measured in the short term. But while marketers recognize the value that can be realized over the long term, they are often uncertain as to how to achieve it. Compared to short-term outcomes, long-term effects are harder to plan for, in part because they are harder to define and measure precisely.

The need to demonstrate marketing effectiveness in the short term is a given. While this need is felt most acutely by marketers at publicly owned companies that must report quarterly earnings, marketers at privately held companies are also subject to pressure for proof of return on investment. And it is not surprising that businesspeople look for a quick payback. Investments are made on a continuing basis, and in deciding how much to invest for the next period, it's helpful to know how recent activities have performed. For example, did a recent campaign lift sales sufficiently to generate incremental profit over and beyond the cost of the campaign?

Most marketers, however, also recognize that there is more to marketing than incremental short-term payback. They know that today's marketing investments will yield something beyond today's immediate response. They know that their brands' current market positions have been built over years, perhaps even decades, and that in their brands' performance today they are observing the legacy of previous marketing investments — for example, in today's loyal buyers, who were once new customers. The Millward Brown Optimor BrandZ™ Top 100 Most Powerful Brands Ranking testifies to the value that is attributed to brands by the financial markets. Figure 1 shows the performance over time of the companies owning the brands in the BrandZ Top 100 versus the S&P 500.

**Figure 1 brandz Portfolio Performance vs S&P 500**




$1,000 invested = $1,148 | $1,030

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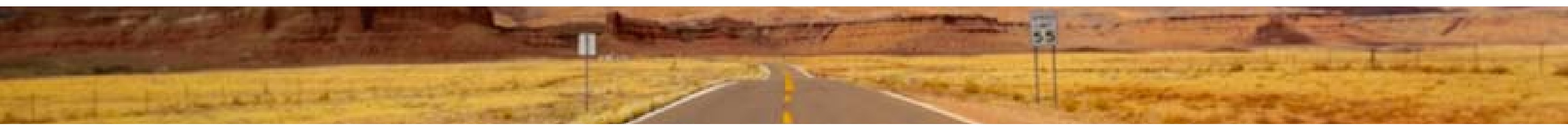


So, if marketers know that a long-term consequence of successful marketing is an increase in brand equity, what activities should they pursue today to maintain and increase their brands' equity and leverage it in their business? How can marketers better make current investment decisions with an eye toward their implications beyond the short term? I suggest that they start by drawing on several core research approaches to build a base for effective brand management.

### Understanding Carry-Over Effects

Long-term marketing effectiveness often begins with the notion of carry-over effects — the degree to which various activities not only generate sales in the short term but also continue to have effects in the long term. Many analytical techniques start with an extensive historical series of data (i.e., two to three years' worth) in order to capture the long-term impact of various marketing events.

*Traditional historical analyses of long-term sales effects don't reveal anything about brand equity building or customer retention.*

This type of analysis can show the amounts and types of marketing expenditures (e.g., media weight and messages) and the types of scheduling (e.g., at key seasonal periods or in pulses) that have worked best over time at generating sales. This knowledge can be invaluable for strategic planning. But one limitation of traditional historical analyses of long-term sales effects is that the results are not always ready to apply in time for decision making. Sometimes investment decisions must be made without the luxury of time to observe the unfolding of long-term effects across multiple years of data.

Another problem with this type of analysis is that it doesn't capture the other important ways in which marketing works beyond producing immediate incremental effects. It doesn't, for example, reveal anything about brand equity building or customer retention.

One approach that decision makers can adopt to overcome these problems is to identify measurable proxies for some of the future effects of marketing and then track these proxies on an ongoing basis. This has proven especially useful for brand measurement. Decisions can be based on the movement observed in these surrogate variables.

Among the various ways of looking at the future benefits of marketing investments, two of the most useful frameworks are brand and customer value. Each is defined in terms of how assets that build future profit streams are created.

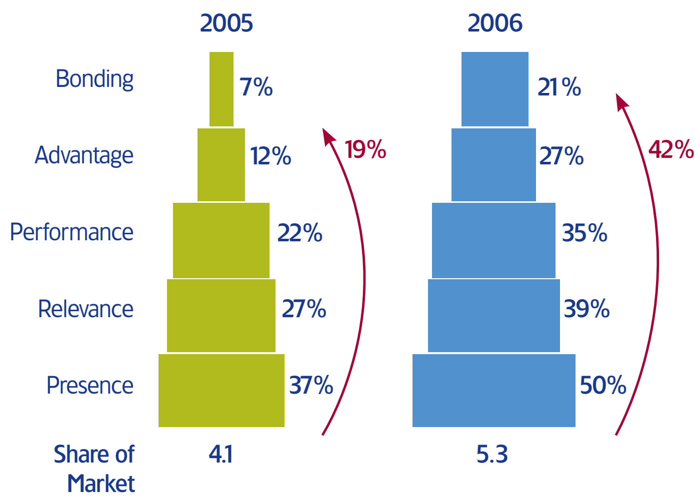
### Brand Assets

In terms of brand assets, research conducted by Millward Brown across a wide range of product categories has identified a number of drivers of brand equity that contribute to future in-market sales performance. These drivers can be represented by the five levels of the BrandDynamics™ pyramid:

- Presence (the extent of a brand's presence in the market)
- Relevance (the extent to which an offering is relevant and appealing to consumers)
- Performance (fulfillment of basic functional promise)
- Advantage (perceived advantages over competitors)
- Bonding (a brand's ability to generate loyal customers)

These dimensions can be measured reliably in consumer surveys, reported at regular intervals, and used to guide future brand planning. By periodically updating the link between these metrics and actual financial performance, brand stewards can help sustain confidence that investments will eventually pay back in the creation of brand asset value.

The BrandDynamics pyramid describes brand health through the absolute size of each level, as well as the percent conversion from presence through bonding. Figure 2 shows how AdeS, a soy-based fruit drink in Mexico, increased its market share as these measures increased from 2005 to 2006.




## Brand-Level Decisions to Enhance Future Value

Armed with surrogate measures of brand health, brand managers can feel confident about making decisions to enhance the future value of their brands. Many of these decisions may seem risky because, in the short term, they will not produce tangible effects. Investments in improving the brand experience of customers often fall into this category. Consider the time it takes to make infrastructure changes, such as changing the physical environment at all restaurant locations in a chain. Yet each time one of these changes influences a single customer on a particular occasion, overall brand value increases, albeit in an imperceptible way. With repeated successes over time across the total customer base, noticeable shifts in the brand asset value will result.

For example, Starbucks recently announced several steps being taken to improve the customer experience in its outlets. These changes include the elimination of some non-coffee product lines and investment in new coffee-making equipment that allows more visual contact between baristas and customers. If, as the company's management believes, these changes lead to a better overall experience for each customer, the company's financial performance should improve, along with the long-term health of the brand.

Creating and modifying brand positioning is another type of long-term brand decision making. Managers who oversee large, complex brand portfolios, such as restaurant chains, beverages, foods, or personal care, periodically reassess whether they are correctly positioning all the brands. Are they addressing their competitors in an optimal way? What about the open spaces in the market? Current brand metrics indicate what's important and enable decision makers to anticipate the benefits of positioning changes.

McDonald's has introduced several such changes over the last few years. In 2005, McDonald's launched the "Balanced Active Lifestyle" framework, which offers diverse menu choices, support for community programs, and substantial nutritional information to address the needs and well-being of customers. The "Forever Young" redesign of restaurants that is presently underway is the chain's first major infrastructure change in decades.

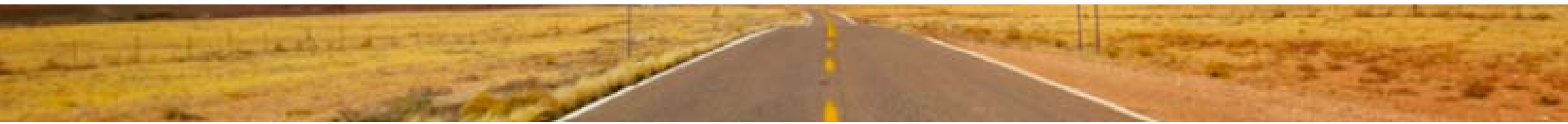
These kinds of strategic brand-level changes will take time to implement and generate financial impact. However, they can be monitored and evaluated in the present to see that they stay on track toward the intended goals.

*Marketers know that in their brands' performance today they are observing the legacy of previous marketing investments.*

### Customer Assets

For customer assets, some of the key metrics are the elements of the customer-lifetime-value equation, such as duration of customer life, number of products purchased, and usage frequency. When combined with acquisition and servicing costs and future revenue projections, the net present value of the customer can be estimated. For example, customer profitability in a retail bank can be derived by determining for each customer the amount of revenue generated (from checking, savings, and credit accounts), the associated costs from the acquisition channel (direct mail response, Internet, or branch), and the cost of ongoing servicing (teller visits, call-center inquiries, and online banking).

Typically, the relevant long-term measures can be derived from this type of transaction data, along with some primary research data to estimate category behavior for



share of wallet calculations. Importantly, these measures can be used to look at individual customers or segments to tailor marketing treatments. For example, branch personnel can be armed with customer value metrics in real time during a visit, along with suggested "next logical product" offers that will fit the customer's profile and create value for the bank.

A limitation of these measures is that they take a long time to observe. For this reason, we sometimes turn to proxy variables that can be measured in the present to estimate some aspects of long-term customer value. Such measures might include reported customer satisfaction, willingness to recommend the brand, and intention to continue as a customer. However, it must be noted that these measures, while useful, don't provide information about the cost to acquire or service a customer. Thus they cannot serve as true proxies for customer profitability.

***By periodically updating the link between brand health metrics and actual financial performance, brand stewards can help sustain confidence that investments will eventually pay back in the creation of brand asset value.***

### Customer-Level Decisions to Enhance Future Value

Customer management initiatives that are intended to increase value by lengthening the customer lifetime or increasing the number of products sold per customer often cannot be proven to work in the short term. However, a growing body of industry research, summarized by Richard Staelin of Duke University, demonstrates the positive profit impact of these drivers. These generic findings can be periodically validated within the specific company to increase decision-maker confidence.

The customer loyalty program is one approach to increasing duration. The intent is to tie a customer's accumulation of benefits to increased time with the company. When properly designed, these programs increase customer asset value by creating conditions that increase the likelihood of future (not present) purchases.

Another approach to creating customer value is to focus on servicing high-value customers with special offers and treatments. The implicit assumption (which can be verified separately) is that it is more efficient to invest in customer retention than in the acquisition of new customers. The effectiveness of this retention approach can't be seen immediately, but changes in metrics like average duration of high-value customers can be monitored to detect trends and directional changes in value.

Overall customer value for the company can also be increased by improving the selection of customers based on their expected value. Targeting can be based on actual behavioral data or proxies for potential value, such as survey measures of available share of wallet. This approach goes beyond the application of broad customer acquisition metrics (such as response to an offer) or retention metrics (such as self-reported satisfaction), which assume that any customer is worth attracting.

### Conclusion

In the frenzy to achieve immediate payback, marketing decision makers risk omitting the future effects of marketing investment from consideration. For ideas on approaching long-range planning, they might take a lesson from top managers at the world's most successful companies, who make long-range decisions on a regular basis. When these leaders make decisions to invest in the future, they lay out their vision and justify the sacrifice of short-term income for long-term gain. Likewise, marketers should learn to make the case for an action by explaining both the short-term cost and the long-term payoff. In order to more forcefully and clearly make their case, marketers must refine and improve the art and science of decision making for the future.

**To read more about long-term marketing effectiveness, please visit www.mb-blog.com.**

[1] Richard Staelin, "Creating Customer and Company Value through CRM," (presentation, MSI Conference, Santa Monica, CA, March 1–3, 2006)