SAGE HANDBOOK OF MARKETING THEORY

Orientation and Marketing Metrics

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INTRODUCTION

Most business disciplines vie for more attention from senior management. Their claims are based on competing views about the management orientation most likely to deliver business success (for example, a financial orientation versus a production orientation). Marketers claim that marketing, as the sourcing and harvesting of cash flow, is the lifeblood of any organisation. A market orientation leads to the development of customer and distribution channel franchises (Day and Wensley, 1983) and is likely to enhance profitability (Narver and Slater, 1990; Kotler, 1997; Slater and Narver, 2000). Market driven organisations achieve this success through the skills of market sensing and customer linking (Day, 1994).

Since market orientation is far from universal among organisations, we can conclude that not all executives agree about the importance of marketing. Part of this is due to different understandings of the word "marketing." Marketing can be broadly defined as being *both* the whole company's activities designed to satisfy customers and achieve its own objectives thereby ("pan company marketing") *and* the activities of the functional marketing department (Webster, 1992). A third view defines marketing by the activities that constitute the marketing budget, i.e. marketing research, communications and promotions (Ambler, 2003).

The nature of an organisation's orientation determines the type of metrics to which it attaches the greatest importance. This chapter begins by analysing the four factors that influence the selection of marketing metrics, in other words the key marketing performance indicators. It continues with a review of the evolution of marketing metrics and discusses the emergence of the concept of brand equity - possibly the most important concept for marketing in the last 50 years – and discusses its role as a key construct in the assessment of the productivity of marketing in financial terms. We examine the different ways in which brand equity can be defined and valued.

We then review four metrics that claim to be the single or dominant indicator of performance (what we term "silver metrics"). We draw the conclusion that no single metric is adequate for performance assessment and therefore none is adequate for planning purposes either. We note that these "silver metrics" can often be used in combination with other metrics of marketing performance to provide a compelling portrait of how the company is performing in the market – these combinations create a market, or marketing, dashboard.

We conclude with a discussion of the limitations of our work, suggest a number of areas for future research, and highlight our main conclusions.

INFLUENCES ON THE SELECTION OF MARKETING METRICS

In this section, we outline the four factors that influence the selection of the marketing metrics that an organisation chooses to track for the purpose of planning and/or performance monitoring.

The mandate for marketing

What companies mean by "marketing" will largely determine the metrics they use to measure its performance and how it is planned. Narver and Slater (1990) were the first to develop a robust definition of market orientation and to articulate the three mechanisms through which a market orientation was linked to enhanced business performance:

1. Customer perspective: Assessing the benefits from the customer's point of view as distinct from a purely internal perspective (e.g. realising supply efficiencies or immediate profit-making);
2. Long-term perspective: Emphasising long-run profitability through building customer relationships, not just achieving immediate transactions;
3. Comprehensive perspective: Adopting a firm-wide, cross-functional perspective to create and sustain customer satisfaction and thereby long-run profitability.

These findings were reinforced by their replication study a decade later (Slater and Narver, 2000) and by a meta-analysis of 56 studies (58 samples) in 28 countries which showed that, although market orientation is a consistent predictor of firm performance, stronger effects were found for studies set in large, mature markets, such as the USA, relative to emergent cultures (Deshpandé and Farley, 2004). Market orientation using the Kohli, Jaworski and Kumar (1993) MARKOR scale gave stronger results (Ellis, 2006).

It is ironic that the definition of marketing success as synonymous with business success is not always embraced by its own practitioners. For example, the American Marketing Association (AMA) has only recently changed its preference for defining marketing in terms of "process" in favour of one that defines marketing in terms of satisfying stakeholders at large.

The AMA has revised its formal definition of marketing four times during its 75 year history. We extend the analysis of Wilkie and Moore (2006) and Darroch et al. (2004) who in turn extended Cooke et al. (1992) to include the 2007 definition:

1935 – Marketing as Push (AMA 1948, 1960)
"The performance of business activities that direct the flow of goods and services from producers to consumers"

1985 – Marketing as the 4 Ps (Sevier, 2005)
"The process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives"

2004 – Marketing as Management (Keefe, 2004: 17; Sevier, 2005)
"Marketing is an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."

2007 – Marketing as Social Benefit (AMA, 2008)
"Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

The evolution of the AMA's definition of marketing provides insight into the changing priorities for marketing. In the earlier decades, the focus was on production and the processes to follow. By 2004, the definition had become both customer-focused and longer-term, emphasising the need to build relationships rather than manage transactions. By 2007, sensitivity to the public debate about corporate social responsibility (Holder-Webb et al., 2009) and to the exclusive focus on the manager's, or marketer's point of view (Wilkie and Moore, 2006) resulted in the excision of any reference to the conduct of marketing in order to benefit the company itself, its employees and shareholders. Meanings change with time: marketing was originally framed in terms of what the customer did, i.e. go to the market. Today we usually, but not exclusively, see marketing as what the firm, or provider of goods and/or services, does. The coming years will no doubt witness an increasing emphasis on the engagement and community dimensions of marketing as social media technologies enter the business mainstream.

The perspective in this chapter is of the provider seeking to exchange the goods and/or services for cash, i.e. the "pan company marketing" perspective (Webster, 1992) of achieving profits from meeting customer needs (Kotler and Keller, 2006).

This is consistent with the definition of marketing adopted by the UK Chartered Institute of Marketing (CIM 2008) as the "...management process of anticipating, identifying and satisfying customer requirements profitably."

Business Model and Metric Selection
The second major influence on the selection of planning and performance metrics is the firm's business model. A firm is interested in measuring those variables that best capture the links between management actions and the eventual financial outcomes. These will differ both across industries and within industries. The marketing metrics relevant to a producer of industrial steel will differ from those relevant to an airline; and metric selection for an airline with a "hub and spoke" strategy will differ from those appropriate to an airline with a "point to point" strategy. The role of marketing metrics is to monitor the performance of the company on those dimensions most critical to the strategy it has selected for exploiting its differential advantage in creating, and capturing, value.

Measurement does not itself improve performance. Rather metrics should be seen as part of a learning process that enhances future profits by improving the planning and implementation process. As we note in the conclusion of this chapter, we consider the linkage of measurement to performance improvement to be an important topic for future research.

Goals and Metric Selection

A third influence on the selection of metrics is the firm's perception of its marketing goals and the stages toward those goals. The most common goal, and sometimes the only explicit goal, is to achieve a certain level of financial performance, typically expressed as shareholder value (Rust et al., 2004a). While articulating a financial objective for the company is helpful, it does not clarify the particular strengths and distinctiveness of the business that enables this financial performance; nor does it separate the short from the long term; nor give employees anything to believe in. As Collins and Porras (1995) have shown, long term success needs more than financial goals; employees and customers need to understand the vision/mission of the business and the values to which they believe the company holds firm.

Metric selection should therefore be a function of what intermediary processes and functions the company views as critical to generating sustainable financial success. The popularity of the concept of the "Balanced Scorecard" (Kaplan and Norton, 1993) reflects this appreciation that market success is a function of how effectively the company manages the health of a number of resources critical to generating that success (the Kaplan and Norton framework encourages managers to view their business health from four perspectives: financial, customer, internal business process, and learning and growth).

The timeframe relevant to marketing measurement

The fourth influence on the selection of marketing metrics is the timeframe over which performance should be evaluated. If marketing activities are believed to impact only the short-term performance of the business, then each reporting period can be treated as a discrete entity. If it is believed that financial performance in any given reporting period benefits from a combination of marketing activity within that period and the influence of marketing activity in prior periods, then a more sophisticated set of metrics is required.

For example, suppose we pick the last calendar year as the evaluation period. We could take the accumulated cash as our performance measure but this would be both simplistic and potentially misleading. An accountant would first want to know the amount of cash held at the start of the year. Finishing with £1M is impressive if we started with £200,000 but less impressive if we started with £2M. The accountant would also want to know what receipts and payments came in during our year but were due for the previous year. Similarly he will want to know what net cash flow is due to us at the year end. This reflects the accounting principle of "matching" – ensuring that the revenues and expenses of the business refer to the same time period.

Effective business management requires an understanding of how the period under review is methodically separated from the time periods before and after for the purpose of performance evaluation. Any business with a long sales cycle, or for which corporate reputation is important, should seek to quantify the benefits generated in the current time period but which will generate cash flow until future time periods.

The issue of the appropriate timeframe for performance measurement is particularly important for marketing because human choice behaviour is a complex function of many different influences, and that our predisposition to buy certain products may reflect many years' of exposure to their products and communications. As we discuss later, the concept of brand equity is therefore a critical component of performance evaluation from the marketing metrics perspective

THE EVOLUTION OF MARKETING METRICS

In this section we review how metrics have evolved largely in practice and then why there has been so little dependence on theory.

Marketing performance measurement has been an elusive goal for over 100 years. Ever since John Wanamaker, the US department store magnate, allegedly remarked that "I know that half of my advertising is wasted – I just wish I knew which half" (a remark also widely attributed to William Hesketh Lever, the founder of what is now Unilever), marketers have been challenged to demonstrate the business impact of their activities.

The connotation of the remark is negative but it is worth remembering that both Wanamaker and Lever were extremely financially successful. Marketers often fail to appreciate that the remark can be made in respect of any activity that combines uncertainty, risk and reward. When advertising a vacant position, the company pays for a readership of 10,000. Yet only one person gets the job. If that was the most efficient medium to reach the unknown future employee, none of the money was wasted, and certainly not 99.99%. In similar vein, a drilling company is not admonished simply because a proportion of its test wells prove to be dry.

There are two reasons why the productivity of marketing investments needs to be judged for its overall effectiveness, rather than the efficiency of any one tactic:

- First, there is often a complex interaction of factors that lead a customer to buy a given product or service via a certain channel (an online purchase may well be the result of favourable in-store experience, and vice versa);
- Second, the evaluation of the productivity of marketing investments is complicated by the fact that conspicuous waste may add to the perceived quality of the brand (Ambler and Hollier, 2004).

The Wanamaker remark exemplifies the need to define goals and terms with some care. The demonstration of marketing effectiveness has to deal with three specific challenges:

1. Defining goals with sufficient precision to make comparisons possible;
2. Distinguishing between "effectiveness" (achieving the goals at whatever the cost) and "efficiency" (the ratio of return to cost). Considerations of efficiency may well require a firm to moderate its goals or the resources provided, as there is little point in setting goals that cannot be achieved with the given resources;
3. Collecting the data to measure performance versus the goals and also diagnostics, e.g. stages toward those goals and explanations for variances.

The history of marketing metrics

The measurement of marketing performance, and especially advertising, has traditionally focused on the impact on sales (Lehmann and Reibstein, 2006), although some earlier work included measures of profit and/or cash flow (Day and Fahey, 1988; Feder, 1965; Sevin, 1965). From an academic perspective, the predominance of sales-based approaches reflects the fact that sales data are accessible whereas profit data generally are not.

The focus of marketing performance measurement shifted in the 1980s to market share as the predictor of cash flow and profitability (Buzzell and Gale, 1987). This relationship was subsequently modified (Gale, 1994) to show that both share and profits were driven by perceived quality, although the interaction between perceived and actual quality was problematic.

The importance of perceived quality was further demonstrated by Aaker and Jacobson (1994) who demonstrated that movements in stock prices could be better explained a combination of changes in ROI and brand equity (the latter defined as "perceived product quality") than by changes in ROI alone.

Firms' ability to maintain a competitive advantage in product quality has subsequently declined due to the increasing convergence of quality standards that resulted from the widespread adoption of Six Sigma (a management process for identifying and removing defects and errors in the production process) and TQM (Total Quality Management). This "commoditisation" of quality resulted in the emergence of a number of other factors that had hitherto been secondary or tertiary variables in the algorithm of business success. These variables expressed the nature of the customer's relationship with the product, service or provider and the quality of the overall user experience. Notable examples are customer loyalty (Dick and Basu, 1994), brand equity (see Keller 1998 for review) and customer satisfaction (Ittner and Larcker, 1998; Szymanski and Henard, 2001). Ittner and Larcker (1998: 2) found that "the relationship between customer satisfaction and future accounting performance generally is positive and statistically significant."

This evolution in marketing measurement was a reflection of the wider trend in business towards supplementing financial analysis with a more broadly-based, future-facing analysis of the determinants of business success. As noted previously, this trend was popularised and accelerated by the emergence of the "Balanced Scorecard" (Kaplan and Norton, 1993) that offered a way to translate business strategy into objectives and measures across four perspectives.

The understanding of business performance as a function of the interplay of a variety of resources was enhanced by Srivastava et al. (1998). Their depiction of brand equity and trade networks as forms of relationship assets with demonstrable market value was instrumental in a reassessment of what had hitherto been seen as "soft" factors in the algorithm of marketplace success.

In similar vein, Clark (1999) showed how financial measures (profit, sales, cash flow) could be supplemented with non-financial indicators (market share, quality, customer satisfaction, loyalty, brand equity), input (marketing audit, implementation and orientation) and output (marketing audit, efficiency/effectiveness, multivariate analysis) measures.

This broadened definition of the metrics relevant to marketing performance measurement has been helpful as it reflects the reality of the influences on customer purchase behaviour. But it has also led to an explosion of choice.

Meyer (1998: xvi) claimed that "firms are swamped with measures" and that some have over 100 metrics. This variety makes comparison difficult between results of different studies (Murphy et al., 1996). A literature search of five leading marketing journals yielded 19 different measures of marketing "success", the popular of which were sales, market share, profit contribution, and purchase intention (Ambler and Kokkinaki, 1997).

This plethora of metrics is damaging to marketing's credibility among those that do not recognise that marketing is contextual. Firms compete using different strategies, skills and resources. The metrics relevant to one firm's approach may not be relevant to another's. Standardisation is helpful for shared understanding and comparisons across companies but the business context and the need for competitive differentiation will result in a variety of relevant metrics. This is especially true when the market environment is evolving rapidly as a result of new technology, such as is currently the case with social media technology platforms. Part of the skill in marketing is identifying which metrics will most help with planning and performance evaluation.

The competing requirements for standardisation and insight have led to the creation of "dashboards" (McGovern et al., 2004; Reibstein et al., 2005) that combine the key metrics required to manage the business into a single display. Typically, they provide specific data on the relevant intermediary steps between the marketing activities and the financial returns to the company.

There appears to be a common pattern in the evolution of marketing metrics and the development of the marketing dashboard for senior management (Clark, 1999):

- Little awareness of the need for marketing metrics at top executive level;
- Seeking the solution exclusively from financial metrics;
- Broadening the portfolio of metrics to include a miscellany of non-financial metrics;
- Finding some rationale to reduce the number of metrics to a manageable set of about 25 or less (Unilever, 1998).

Marketing metrics theory

"Perhaps no other concept in marketing's short history has proven as stubbornly resistant to conceptualization, definition, or application as that of marketing performance" (Bonoma and Clark, 1988: 1). This situation has arguably persisted over the ensuing 20 years: metrics seems to be led by practice with theory post-rationalising practice. Many other sciences advance in this way and in this section we discuss the limited theoretic approaches firstly in terms of context and then through the use of four theoretical perspectives.

Marketing performance assessment can be understood as a sub-area of the broader field of marketing information use. Marketing information use has been examined from multiple perspectives including the organizational view of knowledge utilization (Menon and Varadarajan, 1992); market information processes (Moorman, 1995); learning organization (Sinkula, 1994; Slater and Narver, 1995; Sinkula et al. 1997; Baker and Sinkula, 1999; Sinkula, 2002); and systems theory (Wright and Ashill, 1998).

Ambler, Puntoni and Kokkinaki (2004) identified five theoretical perspectives that could be said to underlie metrics selection: control, agency, institutional, market orientation (the perspective of this chapter) and brand equity (discussed in depth in the next section).

Control theory: this is essentially the accountant's perspective that the appropriate metrics are those which measure deviation from plan and encourage marketers to return to plan. If the plan is created only with financial numbers, then they will be the dominant metrics.

Agency theory: this uses the economics approach to the transmission of information up and down the firm's hierarchy. Positive (for the agent) information will be communicated upwards to the extent that the gain obtained from its disclosure does not exceed the cost of gathering and processing the information. Metrics requirements will be communicated downwards by the higher levels in order to induce the required behaviour by the lower levels,

Institutional theory: this sees metrics selection as a symptom of, so to speak, club membership. As executives move from firm to firm within a sector, they will bring the metrics they are used to and share the metrics used by the firm they are joining. In other words, metric selection can be seen as much in terms of social networking as a part of the firm's rational strategy.

One consequence of market orientation is a requirement to measure the market that management sees and to analyse the firm's place within it. Whilst all the above theories contribute to the understanding of metrics, this chapter is primarily concerned with the consistency of marketing orientation, performance and the metrics to demonstrate that performance and/or variances from it. This perspective shares common ground with control theory – the difference being that control theory looks inwards and largely to accounting whereas market orientation looks outwards to customers, consumers and competitors.

As noted earlier, performance assessment involves two main types of metrics: those that describe short term performance (i.e. between the beginning and end of the time period in question), and those that describe future performance. Brand equity is critical to the latter as it refers to the asset built by good marketing that represents a reservoir of future cash flow that will accrue to the business (Ambler, 2003). We cannot measure the future but we usually can identify today's metrics which either because of theory or past experience can be expected to predict future performance. Performance metrics selection and brand equity selection are therefore very similar.

BRAND EQUITY
The term "brand equity" first emerged in the marketing literature of the late 1980s and was popularized initially by Aaker (1991; 1996) and later by Keller (1993; 1998). The idea that marketing creates an asset which could be valued, bought and sold resonated in a business environment in which purchases and sales of intangible assets were gaining prominence and where the buyers might wish to add the acquired assets to their balance sheets. The UK firm Interbrand pioneered the independent valuation of brands, helping Rank Hovis McDougall defend itself against a hostile takeover from Goodman Fielder Wattie in 1988 (Lindemann, 2003: 31). Soon after, in 1989, GrandMet bought Heublein and needed to put some of the brands, notably Smirnoff vodka, on its balance sheet in order to avoid the appearance of insolvency (Simms, 1997). Other companies that took advantage of the opportunity to add the value of acquired brands to their balance sheets included Nestlé (which bought Rowntree), Philip Morris (which bought Kraft General Foods), Ladbrokes (which acquired Hilton) and GrandMet (which acquired Pillsbury) (Salinas and Ambler, 2008).

These developments prompted a debate about whether intangible assets should be reported on the balance sheet. In essence (and in most countries worldwide), companies are allowed to record the <u>cost</u> of <u>acquired</u> brands on their balance sheets but if they do so, they have to conduct an annual review to confirm that the <u>value</u> of the asset is higher than the figure on the balance sheet (this is technically known as an "impairment test") (Harding, 1997). The technicalities of the accounting treatment of brands are beyond the scope of this chapter.

For a wider business audience, the balance sheet issue should have no relevance. Companies may, if they wish, report the valuation of their brands, both acquired and home-grown, in the narrative sections of their annual reports and, in the UK at least, are encouraged so to do (ASB, 2006). To an investor, whether the figures appear on one page or another is immaterial: auditors still have to warrant that the narrative section is a reasonable representation of the company's financial position.

The growing business appreciation of the economic significance of brands fuelled, and was fuelled by, the emergence of a number of "league tables," ranking the world's most valuable brands. Pioneered in 1994 by the (now defunct) *Financial World* magazine, the tables indicated that brands (on average) represented nearly 20% of their parents' market values. Certain consumer and luxury goods brands accounted for more than 50% of their parents' market values. The scale of these numbers established brand equity as a mainstream business topic.

Whilst the new specialist brand valuation sector was establishing its methodologies and approaches, market research agencies were developing ways to define and measure their non-financial version of brand equity. Their interest was not in establishing the financial value of a brand; it was on devising approaches that more accurately characterised the nature and strength of a customer's relationship with that brand. This led to research methodologies such as Research International's Equity Engine, Young & Rubicam's BrandAsset Valuator, Ipsos' Equity Builder, and Millward Brown's BrandDynamics. Each of these involves identifying the sources of brand equity (typically aggregated into categories such as functional, economic, and psychological equity) and/or measuring the strength of customer engagement with the brand.

Lehmann and Reibstein (2006) identify two classes of metrics: consumer behavioural measures, such as loyalty and market share, and "intermediate" measures, such as awareness and intention to purchase (Park and Srinivasan, 1994). Keller (1993: 8) defines customer-based brand equity as "the differential effect of brand knowledge on consumer response to the marketing of the brand," and thus focuses on intermediate measures that he suggests have two components: brand awareness and brand image.

Agarwal and Rao (1996) found that ten popular brand equity measures (such as perceptions and attitudes, preferences, choice intentions, and actual choice) were convergent. Perceptions, preference and intentions (that represented five of the ten metrics) predicted market share but more dimensions of brand equity are needed to predict behaviour: "It may not be necessary to subject respondents to difficult questions in order to obtain accurate measures of brand equity. Simple, appropriately worded, single-item scales may do just as well" (Agarwal and Rao, 1996: 246). Customer-based measures, however, are limited by consumer surveys failing to elicit accurate information about the store environment in terms of prices and promotions of different brands (Park and Srinivasan, 1994).

Until recently the problem of multiple definitions of brand equity was mitigated by the limited interaction between the marketing, finance, and accounting functions. Two developments in recent years have changed that:

1. The growing appreciation of the importance of intangible assets;
2. The demand for higher levels of marketing accountability.

The business case for marketing depends in no small part on developing a credible way of quantifying the proportion of intangible value that is attributable to brands, and demonstrating the role of marketing in building the value of the brand asset. Note that we define "brand equity" as an asset and distinguish it from the financial worth of that asset, i.e. brand value or valuation. An asset may have different values for different purposes for different people but it is still the same asset. Brand equity may be measured in many ways, financially and non-financially. As brand equity is essentially multi-dimensional (Keller, 2003), firms need multiple measures to describe it.

Even if the goal is not to ascribe a single financial number to the brand asset, it is important for marketers to be able to describe the mechanisms by which brand equity results in increased cash flows to the business. Srivastava and Shocker (1991: 5) define brand equity as "a set of associations and behaviours on the part of a brand's customers, channel members and parent corporation that permits the brand to earn greater volume or greater margins than it could without the brand name, and that gives a strong, sustainable and differential advantage." Brand equity reflects consumer loyalty and the volume of their purchases and/or willingness to pay a premium price for the brand and/or willingness to continue to purchase. Ailawadi et al. (2003) suggest these factors could be combined as "revenue premium," that is the additional price times the additional volume of the brand relative to an unbranded similar product.

If a firm has built up large intangible assets, it can expect a continuing flow of sales and profits without further investment, at least for a time. Brand equity thus helps to predict future business prospects (Balasubramanian et al., 2005; Jacobson, 1990) and the creation of shareholder value (Madden et al., 2006).

Based on a sample of 275 companies, Mizik and Jacobson (2008) found a direct relationship between perceived levels of brand differentiation and the level of stock returns one year later. They also isolated the metrics most strongly related to improvements in current earnings (quality, familiarity and differentiation), and those most predictive of future earnings (relevance and vitality). They established a useful rule of thumb— that when brand equity changes, one third of the impact shows up in current earnings, and two thirds in future earnings. This finding supports the notion of brand equity as an asset in the financial sense of the term, namely as a source of cash flow in future time periods.

Brand equity can also be seen as "sustainable competitive advantage because it creates meaningful competitive barriers" (Yoo et al., 2000: 208), including the opportunity for successful extensions, resilience against competitors' promotional pressures, and the creation of barriers to competitive entry (Farquhar, 1989; Keller, 1993).

Brand Value

It would clearly be convenient if brand equity could be measured with a single financial number. If that was the case, then the contribution of marketing to business value in any given period could be expressed as the profit or net cash flow generated in that period plus the difference in brand valuation from the beginning to the end of the period. A single number for performance, or "silver metric", would simplify management.

There have been a number of approaches to brand valuation - see Salinas and Ambler (2008) for a comprehensive review. A common approach is to equate brand equity with the residual of market value once the value of the other identified assets of the business have been deducted (Simon and Sullivan, 1993).

Kerin and Sethuraman (1998: 260) also employ the relationship between stock market prices and a firm's intangible assets: "From a financial perspective, tangible wealth emanated from the incremental capitalized earnings and cash flows achieved by linking a successful, established brand name to a product or service."

These approaches are inadequate in that they are not able to identify the proportion of intangible value that is attributable to brands as opposed to other forms of intangible asset. Lev (2001) tried to address this issue by proposing a taxonomy of intangible assets. His approach was superseded by the International Accounting Standards Board which put forward five categories of intangible assets based on the underlying forms of intellectual property (such as patent, contract, copyright or trade mark). These are outlined in the guidance notes to International Financial Reporting Standard 3 (2004) which covers the treatment of goodwill arising from business combinations.

In principle, the market value of a company could then be expressed in terms of its net tangible assets (expressed at market prices) plus the net present value of the cash flows that are expected to flow from its current stock of intangible assets. This approach is consistent with "efficient market theory" that says that current stock prices are determined by expectations about the future based on current information (Lane and Jacobson, 1995). Brand value could be estimated as part of this process and would represent the present value of the cash flows anticipated as a result of brand equity.

The methodologies used by brand valuation practitioners are based on a variant of this approach. Technically known as "economic use" approaches, they involve the direct estimation of the incremental cash flows that accrue to a company as a result of having a brand. The most commonly used of these is the "earnings split" approach whereby the earnings of the business are divided between the assets that support them. Incremental earnings above those that are earned by a commodity product are credited to a variety of intangible assets, of which brand equity is one. These separate earnings streams are then expressed as a net present value using discounted cash flow (Perrier, 1997; Arthur Andersen, 1992). Variations of this Discounted Cash Flow (DCF) methodology are used in the calculation of customer lifetime value (CLV) (Gupta and Lehmann, 2005; Venkatesan and Kumar, 2004) and customer equity (Rust et al., 2004b).

A second, widely-used approach is "the relief from royalty" approach – especially common for justifying internal transfer pricing within international companies. This method begins from an assumption that the business does not own its brand but licenses it from another business at a market rate. What royalty would it pay for the use of the brand? Under this method brand value is the net present value of the royalty payments made (Salinas and Ambler, 2008). This methodology is favoured by the fiscal authorities and the courts because it calculates brand value by reference to documented, third-party transactions involving brands of equivalent strength in equivalent industries.

Brand valuation is definitely required for certain tax and transactional purposes but its use for marketing performance assessment is more controversial (Ambler and Barwise, 1998). They cite seven reasons:

1. The difficulty of distinguishing between the future cash flow that is due to past marketing actions from those due to future marketing actions;
2. Subjectivity;
3. Coarse grain (brand valuation cannot be fine tuned enough to pick up short term results);
4. Temporal shift of assumptions (the underlying forecast assumptions are not like for like);
5. Blinkered or narrow vision of the future;
6. Lack of theoretical underpinning or market comparability;
7. The use of any single number for a multi-dimensional concept.

Financial performance measures may therefore be a necessary part of, but are not in themselves sufficient for, defining overall business performance. The exclusive use of financial measures may actually undermine long-term performance (Collins and Porras, 1995).

"SILVER METRICS"

The importance of accountability has led to the emergence of a number of metrics whose respective sponsors claim each to be the only metric needed - the "silver metric" for marketers. We briefly report the merits of three candidates: Return on Customer; ROI; and variants of Discounted Cash Flow (DCF) such as customer equity or Customer Lifetime Value (CLV). All of these are discussed more fully in Ambler and Roberts (2006). We also examine the merits of Net Promoter Score.

Return on Customer
Peppers and Rogers (2005: 16) define Return on Customer (ROC) as "a firm's current-period cash flow from its customers plus any changes in the underlying customer equity, divided by the total customer equity at the beginning of the period". Reviewing both the change in short-term cash flow and the change in the marketing asset makes sense but whether two such different things should be added together is another matter.

The algebraic analysis is laid out in Ambler and Roberts (2006) but the bottom line is that ROC does not measure performance at all. It reports the <u>accuracy</u> of the previous year's forecast of cash flow in the period just ended, together with the <u>consistency</u> of the two sets of forecasts, that is those made last year and this year, across the two forecasting dates.

This highlights a generic problem of performance evaluation and the key distinction between a "forecast" and a "plan". A plan is what one intends to do and the desired consequences; a forecast is what one expects will happen. One can plan to picnic for a sunny day but then forecast rain. If the day turns out grey but not wet, it is above forecast but worse than plan. Whether it was ever a good plan, would be a matter for discussion.

If a forecast fails to materialize, it is a bad forecast. Better than forecast performance indicators say little about how well the business has done, but plenty about the quality of the forecast. So we can never say that performance was good or bad, only that it was better than plan, or last year, or forecast, or competitors. Performance is relative and the comparators matter.

Return on Investment
ROI has become a fashionable term for marketing productivity – but marketers rarely mean ROI when they say "ROI." Return on investment is correctly defined as the net incremental cash received as a ratio of the net incremental cash outflow employed in obtaining that return. Finance people adhere to a strict definition of the term and do not appreciate its usage as a catch-all term for marketing accountability and/or various forms of marketing measurement.

In 2005, the American Marketing Association issued a White Paper on marketing accountability (American Marketing Association, 2005: 8) that identified six "ROI Measures Currently Used":

- Incremental sales revenue
- Ratio of cost to revenue
- Cost per sale generated
- Changes of financial value of sales generated
- Cost of new customer (sic)
- Cost of old customer retention

Note that none of these six measures corresponds to the correct definition of ROI. If marketers' goal in espousing ROI is to convince their finance colleagues that they are serious about accountability, it is counterproductive to define ROI in a way that their finance colleagues do not recognise.

Srivastava and Reibstein (2005) drew attention to a logical flaw with using ROI for performance evaluation, that is dividing the profit by expenditure whereas all other net benefit metrics are calculated by subtracting expenditure. Division rather than subtraction creates a conflict between cash flow or profit (subtraction) and the ROI ratio (division). Marketing's mandate is to generate the maximum cash flow for the business, not to maximise the efficiency of any one form of investment. The profit or economic value added or increase in shareholder value from marketing all require the costs to be subtracted from sales revenue along with the other costs.

The law of diminishing returns explains why pursuing ROI causes underperformance and sub-optimal levels of activity. After ROI is maximized, further sales will still make profits but at a diminishing rate until the response curve crosses the expenditure line to yield incremental losses. That is the point of maximum profitability (in terms of the quantum of profits).

Other problems with ROI as a performance measure include:

- Knowing what the performance would have been without the marketing activity being considered. In other words, what is the baseline used for comparison?
- Looking only at short-term performance and ignoring changes in brand equity (that is necessary to adjust for inherited and postponed effects);
- Marketing expenditure is not necessarily "investment" as the use of ROI implies. It is expensed through the P&L Account and not added to the Balance Sheet.

DCF Methods

Discounted cash flow (DCF) methods are based on comparing the cash flow for the year plus the Net Present Value (NPV) of future years' cash flow with the NPV at the beginning of the period. The same approach has been used for at least seventy years (Williams, 1938) although variants are introduced at regular intervals, notably Shareholder Value (Rappaport, 1986), Brand Value (see above), Customer Lifetime Value (Gupta and Lehmann, 2005; Venkatesan and Kumar, 2004) and Customer Equity (Rust et al., 2004b).

The case for using DCF to compare alternative strategies when the plan is being crafted is strong, not least because the environmental variables can be standardized across the options. Some of the problems below, such as the quality of forecasting and subjectivity, still apply but to a lesser extent than when one set of people compare their NPV calculations with another set of people's NPV calculations prepared in a different context a year earlier.

In other words, the use of any DCF method as a silver metric for performance evaluation is flawed for the following five reasons:

1. NPVs, calculated at different points in time, confuse variances in managerial performance with contextual variances outside their control;
2. Performance variances versus forecast are certainly due to poor forecasting whereas variances versus plan confound forecasting with execution successes/errors;
3. Using DCF takes credit now for future marketing activities which, as they have not yet happened, should not be included in the evaluation of past performance;
4. We can estimate the future in various ways, but we cannot measure it;

5. If forecasts are used for performance assessment, then those being assessed, and the assessors, might have difficulty judging their reliability, given the incentives for those involved in their preparation to create forecasts that show their performance in the best possible light

If a firm had reliable, shared 20-20 foresight, then the long-term improvement in DCF, with suitable controls for the consistency of future year variables, would be a valid indicator of marketing performance, along with short-term cash flow. But such is not reality.

Net Promoter Score
Reichheld (2003) has asserted that the "Net Promoter Score" (the percentage of people willing to recommend a brand minus those who are not) is an accurate predictor of a company's growth prospects. He suggests that this one metric can replace a whole battery of attitudinal and behavioural questions that appear in most research questionnaires and that it is, without qualification, the one number that every company should seek to grow.

Because of its radical simplicity, the Net Promoter Score approach has been widely adopted by companies. At the same time, it has been widely criticized by academics and market researchers on a number of counts. In the first place, Reichheld and the Harvard Business Review appear to have refused to release his data for independent analysis, as is common practice. Secondly, other researchers have not been able to replicate his findings (Keiningham et al., 2007; Schneider et al., 2007). Thirdly his findings are inherently implausible for the same reason as his "loyalty effect" (Reichheld, 2001) has been found wanting (East et al., 2006), that is for putting the emphasis on customer retention rather than acquisition (Reichheld, 2001). In that earlier work he claimed that brand users become increasingly loyal over time and therefore increasingly more likely to pass on that enthusiasm via word of mouth. That may be true under specific circumstances but, as East et al. have demonstrated, recent converts are more likely to share their new enthusiasm than long-term brand users. Initial delight with a service may prompt customers to be active in their recommendation; ongoing satisfaction is not generally something that people go out of their way to publicise.

The fallacy of the "silver metric"
Theory and business practice shows that there can be no single set of metrics which suits all sectors and firms, still less a single metric. Contextual determinants include the sector, the size and age of the business, the strategy selected, and the rate of change of the firm's commercial environment. To the extent that metrics represent milestones on the firm's chosen strategic path, strategy should determine which metrics are used. In particular each firm will have, explicitly or implicitly, a business model linking the use of resources with performance. As firms are increasingly recognising, they need a dashboard of key metrics to drive the business in the product marketplace (Clark et al., 2006; Reibstein et al., 2005).

AREAS FOR FURTHER STUDY

A key area of interest for practitioners is the relationship between metrics development and performance. The causality could run either way: better performance could provide resources for more metrics development, or more metrics development could drive better performance. Some limited research in that area (Clark et al., 2006) showed no direct relationship between metrics, or the use of metrics, and performance, but the relationship was mediated by organizational learning. In other words, metrics should be seen as part of the process of learning which has long-term performance benefit even if it has short-term net cost. This is consistent with the observation that fast-moving managers are reluctant radically to improve their metrics systems. This area for future research should be integrated with future dashboard research.

Swartz et al. (1996) showed that firms tend to perform better on those measures which are most visibly tracked. In other words, companies tend to get what they measure. Market share, for example, tends to increase where that is the dominant focus, and customer satisfaction where that is the most actively tracked measure. If this is borne out by further research, then it would imply that firms need to monitor a representative set of metrics of the whole business model in order to maximize the bottom line: selective measurement leads to skewed business results.

One particular area for further research is the development of appropriate metrics to characterise a firm's position in the emerging social media landscape. To date, marketing metrics have reflected a broadcast media environment in which customers have been largely passive recipients of marketing stimuli. Valuable work can be done to determine the nature of the marketing metrics best suited to monitoring marketing performance in an environment of peer networks and customer communities.

Finally, we have not been able fully to answer the questions surrounding market orientation and the marketing metrics that senior management regard as most significant. Those two are closely linked, not least because metrics usage is itself an indication of orientation. Context affects the drivers of orientation and/or metrics selection. For example, if a certain orientation, within a sector, is more productive, we need to understand why some senior sector management adopt it, and some do not. And we need to understand the dynamics in changes of orientation and metrics selection.

CONCLUSIONS

The linkage between market orientation and business performance has been established by a number of researchers across different industry contexts and for firms of different size (Kara et al., 2005; Narver and Slater, 1990; Slater and Narver, 2000). However the connection between market orientation and the discipline of marketing is weakened whenever marketing is understood to refer to a limited set of activities, e.g. just marketing communications.

The restoration of marketing to its strategic role of the sourcing and harvesting of cash flow can only be achieved when marketers articulate the strategic mandate for marketing and embrace the challenge of demonstrating how, and by how much, marketing is able to enhance overall business performance and value. Quantification, preferably in financial terms, of plans and performance is strongly demanded (Clark, 1999; Moorman and Rust, 1999; Marketing Science Institute, 2000; Shaw and Mazur, 1997). Reflecting this, the Marketing Science Institute has rated marketing metrics as a top tier project in recent years (Lehmann and Reibstein, 2006; Marketing Science Institute, 2000).

This chapter has concluded that using purely financial metrics for marketing measurement is inadequate because they do not express the multi-dimensional nature of the marketing asset, that is brand equity. This asset is crucial in both planning and performance evaluation as it expresses the quantum of marketing's impact on the future cash flows of the business. Since these cash flows cannot be measured today, performance has to be judged by short-term profit, or cash flow, together with any change in brand equity.

Brand equity measurement requires non-financial as well as financial metrics. Together, these metrics must accurately characterise the extent of the brand's ability to generate future cash flows. As yet no single metric has emerged that meets this requirement. This, together with the importance of contextual factors in determining marketing strategy and performance, means that marketing measurement will always require a suite of metrics rather than a single one.

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