## 2024 ANA

# Marketing Impact Measurement Study

## FIRST LOOK: DISCUSSION GUIDE

JUNE 2024

TYPE 2 CONSULTING

ANA BUSINESS MARKETING

CMO CONFIDENTIAL

# INTRODUCTION

## It seems that every CMO job is defined differently.

This variation strongly contrasts with the consistency across companies in how the other C Suite roles are defined.

In many instances this leaves the CMO and the marketing team relying on a homegrown hodgepodge of measures that vary from one company to the next.

Like snowflakes, no two are alike.

This problem arises from the fact that there is no consistently acknowledged method(s) and definitions to evaluate the impact of marketing on business growth and value.

Even amongst marketers, it is challenging to gather agreement on how to consistently measure the impact of marketing on the financial results of a corporation.

This can result in members of the investment community including CEO's, CFO's, and board members challenging, misunderstanding or even outright dismissing marketing's value.

# *INTRODUCTION*

Building upon outcomes from the recent ANA Marketing Capabilities Framework Study and the ANA Global CMO Growth Council/McKinsey & Company Study "The Power of Partnership: How the CEO-CMO Relationship Can Drive Growth," our Members saw an opportunity to further clarify, define and support the value marketing brings to business growth and to impact outcomes. Which is why we launched this work.

The path we took was to explore the challenges from a B2B first lens, while being cognizant of how this work may benefit the broader marketing community.

Working with 5X CMO and former ANA Board Member, Mike Linton, and with Jonathan Knowles of Type 2 Consulting, we took three initial steps.

- **1.** The first involved establishing a member steering council as well as a group of academic advisors and contributors to validate the challenges and need to identify generally accepted definitions and measurement models through a "Finance First" lens.
- **2.** The second involved assembling and analyzing an extensive library of more than 500 documents on marketing accountability, allocating them into different "schools of thought" using a semantic clustering algorithm.
- **3.** The third step - which we've begun to explore - includes examining whether the industry you work in, and/or your product life stage influences your marketing model. Therefore, we explored the financial structure of companies to see how many different business models we could observe too.

## *INTRODUCTION*

We are pleased to share that these pieces of research together resulted in establishing initial models and findings. What really has us excited is the opportunity for ANA members (like you!) to react, contribute (which we ask you to do near the end of this document) and to help identify the factors that determine how the role of marketing should be defined, organized, and measured in your context.

So this document is a starting point, not a conclusion. It is deliberately structured as a discussion document to prompt reflection, feedback, and debate. Our goal is to empower you to further demonstrate the value and impact marketing has on your company's business.

We look forward to engaging with you in the months ahead.

Bill Zengel
Senior Vice President
ANA Business Marketing

# *INPUT WELCOME!*

This project was conceived under the banner of "thought leadership" but our goal is to prompt discussion. In that spirit, we lay out **five observations** that are intended to prompt you to endorse or amend them.

# Observation 1:

## *VARIETY IN MARKETING IS INTERPRETED AS INCONSISTENCY*

Business executives think of business as a set of structured, repeatable processes with clear performance measures that indicate the effectiveness with which the process is delivering the desired outcomes. Not so much with Marketing.

When they look at marketing, they see a wide variety in the activities undertaken, the processes used, the basis for evaluating effectiveness, what desired outcomes are achieved, and within the timeframe in which they are expected.

The perception may be that there's a lack of discipline, rather than the understanding that different marketing approaches may be needed to best pursue different business goals.

*NOTE: The discussion guide here can be self-directed, used amongst you and your team, or you can request an ANA facilitator at no cost.*

# Discussion

## Is this the way marketing is viewed in your business?

*Does the C Suite in your organization perceive marketing to have a meaningful and measurable financial contribution and impact to the business and its growth?*

*Can you clearly define marketing's contribution and impact to the business and its growth as it relates to those goals?*

*Do you and your team evaluate marketing exclusively based on the types of tactics utilized?*

# Observation 2:

## *MARKETING IS THE STUDY OF MARKET CONTEXT*

We argue that marketing is the only business discipline that is externally focused.  Marketing is responsible for analyzing the business environment to understand how the company can attract and retain customers.

Marketing looks deeply to understand customers, their pain points and needs, and how to best address them with a unique value proposition. What those customers want, how they can best be reached, what information they want and when, how often...plus, once these customers are engaged, how to best serve them to support their ongoing needs which evolve over time.
All of this can be the job of marketing to figure out.

Our research showed that these are the aspects of context that it is especially important for marketers to understand:

1. How does your company acquire customers?
2. How does your company retain customers?

The research identified five foundational financial models (the cost and asset structure that individual companies need to compete in their industry) and six foundational marketing models (different ways that marketing can be managed and measured) applied across these industries, and which we explore further later in this document.

# Discussion

## Do you feel context has changed the way you approach marketing depending on the company or industry you've worked in?

# Observation 3:

## *IF YOU CAN MEASURE CUSTOMER LIFETIME VALUE, YOU SHOULD*

Customers are the basis of business. Until a customer sees value in your offering and decides that the purchase price is worth paying, your business has costs but no revenues.

The implication of this is that if you can project and predict customer lifetime value, you should. Customer data is the most direct line of sight to your revenues now and in the future.

Marketing is about acquiring and retaining customers who offer an attractive lifetime value (LTV) because they can be reached, recruited, and retained at reasonable cost. Maintaining and growing existing customers is one of the most efficient ways to generate business growth.

If you believe that the purpose of business is to attract profitable customers, then it is hard to beat CAC (Customer Acquisition Cost) to LTV (Lifetime Value) as a measure of success.

# Discussion

## Is it possible to measure customer acquisition cost for your business? Do you do so?

## Is it possible to measure LTV? Do you do so?

# Observation 4:

## *IF YOU CAN'T MEASURE CUSTOMER LIFETIME VALUE, WHAT'S THE NEXT BEST THING TO DO?*

The key challenge for B2B marketers is to attract the type of customers with whom there is the greatest potential for a profitable relationship over time.

Our research suggests that two criteria are critical to the form of marketing you should use to reach these customers:

- Is the customer buying a "product" or a "brand" or an "experience" or a "combination"?
- Do you have access to time series data on customer purchases?

# Discussion

## How would you describe your business on these two criteria?

# Observation 5:

## *B2B MARKETING IS THE SOWING AND HARVESTING OF CASH FLOW*

Peter Drucker, a well-known management consultant, educator, and author, said the purpose of business is to create a customer – in other words to generate sales.

The challenge in B2B is to ensure that these sales are coming from the right type of customers – those with whom you can have a profitable relationship, not just a one-off transaction.

In B2B markets, unless you are content to sell purely on price, you cannot harvest if you do not sow.

The purpose of marketing is to find the appropriate balance between "sowing" (establishing the basis for future customer relationships and revenue) and "harvesting" (realizing the revenue from prior investments in transforming prospects into customers). Both are forms of "performance marketing" – the only difference is the timeframe within which the marketing expense is expected to translate into revenue.

## Discussion

**Sowing is long-term. How much do you invest of your marketing budget into sowing annually?**

**How do you define long-term? Do you share the same definition as your C-Suite? 3 months? 6 months? 1 year? 24 months or longer?**

## Here's a recap of the questions raised by these five observations:

These are areas to explore and understand more deeply as we strive toward a consistent way to demonstrate how marketing is applied in the context of business needs to drive the best possible outcome.

*Q1*

**Is there confusion or clarity in your business about the role of marketing?**

*Q2*

**Do you feel context has changed the way you approach marketing depending on the company or industry you've worked in?**

*Q3*

**What level of customer data do you have? Is CAC:LTV something you can measure?**

*Q4*

**What aspects of how your business acquires customers and makes money have the greatest influence on how marketing is managed and measured?**

*Q5*

**How much do you invest in marketing annually to build future customer relationships?**

# THE ORIGIN OF THE PROJECT

ANA members have expressed the desire for marketing tools and frameworks relevant to the specific dynamics of B2B businesses. Mirroring other corporate disciplines such as operations or finance, members are seeking generally accepted foundational principles that give rise to a set of repeatable processes and predictable outcomes.

This project was motivated by the simple hypothesis that there was not a singular, universal answer. What if there are multiple models for marketing, each appropriate to a specific business context?

Marketers understand that wherever there are differences in a population, there is the opportunity for segmentation.

And core to our work were two segmentation analyses:

1. The first focused on the financial structure of business – how much variation is there in the cost and asset structure of different industries?
2. The second focused on the marketing accountability literature – how many different frameworks were being put forward?

We discovered:

- Despite the huge variety of financial business models, companies can be segmented into **five financial model clusters** based on the relative importance of different cost components.
- Despite the huge variety of marketing approaches put forward in the marketing accountability literature, articles can be segmented into **eight marketing model clusters** based on the concepts and language they use - two of these clusters focus on the "why" of marketing and six focus on the "how" of marketing.

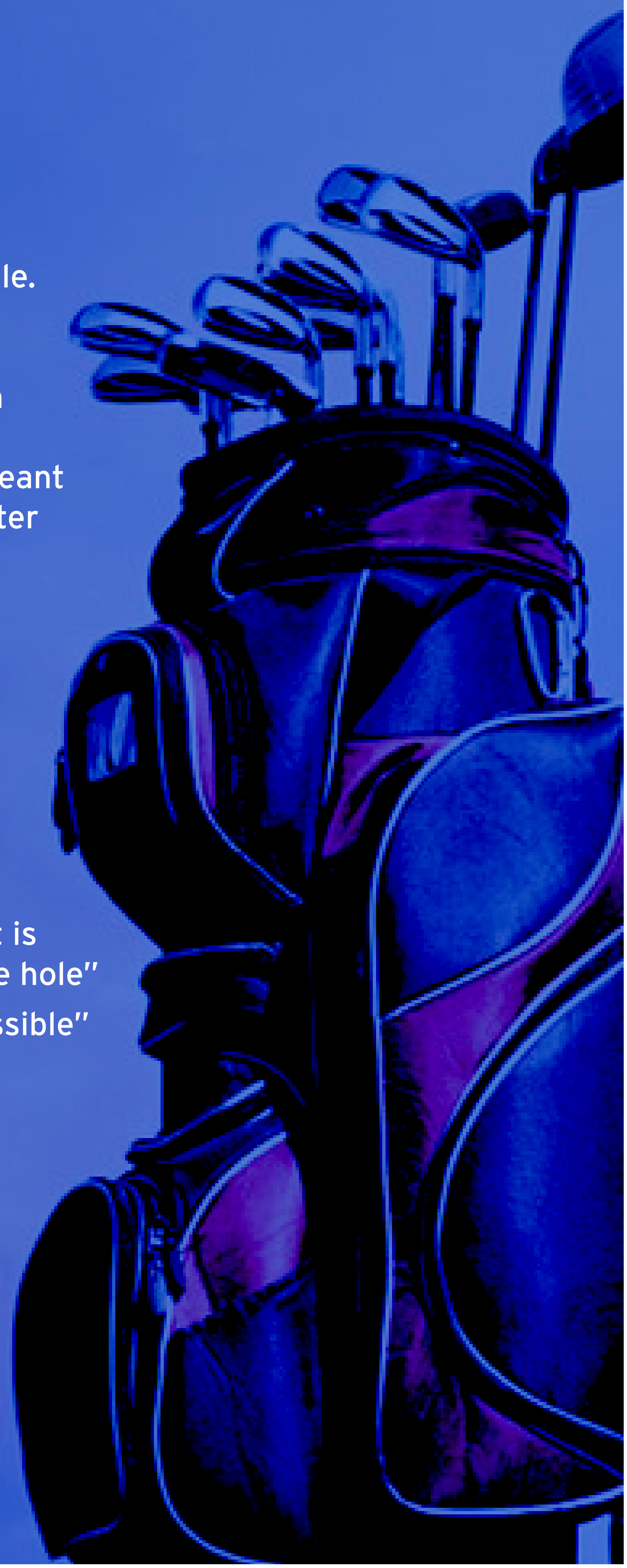
These findings suggest that the variety observed in marketing is evidence of adaptation to context. Variety is a feature of marketing, not a bug. The optimal approach to reaching customers and prospects matters.

## *GOLF AS AN ANALOGY*

Simply put, golf is about using a set of specialized clubs to get a ball into a hole using as few strokes as possible. Each club has a specialized purpose, and you would not use one club throughout your game to accomplish the various results you are trying to achieve. For example, a "driver" is meant to hit the ball a great distance, a putter is a club for a short distance.

Using this analogy, we can characterize the eight "schools of thought" that we found in the marketing accountability literature in terms of the following conversation:

- CEO: "The goal of business is to win in the market. In golf terms, it is about getting the golf ball into the hole"
- CFO: "Using as few strokes as possible"
- CEO and CFO: "What role does marketing play?"
- CMO: "Marketing provides the set of specialized clubs we need to get the ball off the tee, down the fairway, onto the green, and into the hole. I know which club we should use depending on the type of shot we need to make".

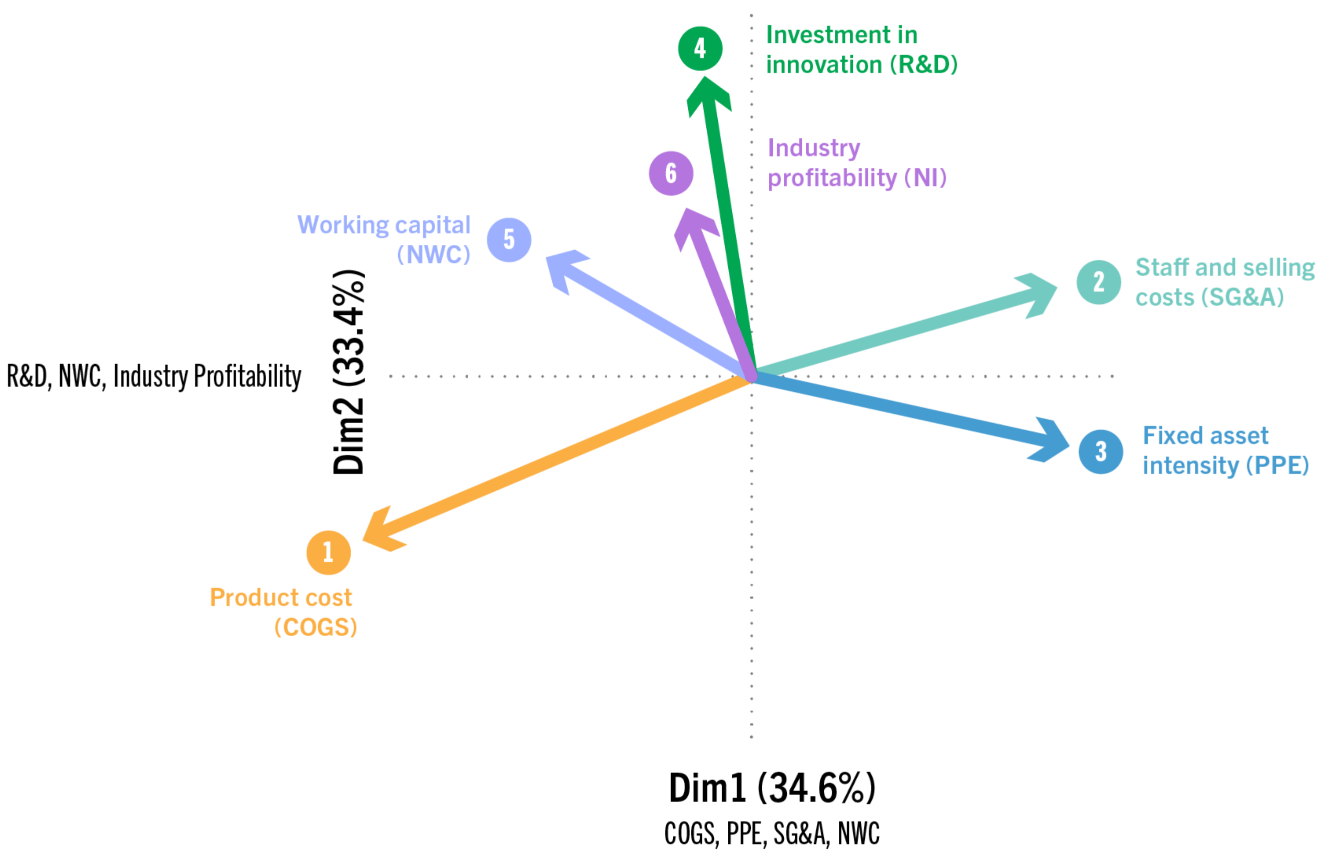


# FINANCIAL ANALYSIS AND INDUSTRY SEGMENTATION

Our initial segmentation effort focused on differences in the cost and asset structure that companies use across different industries.

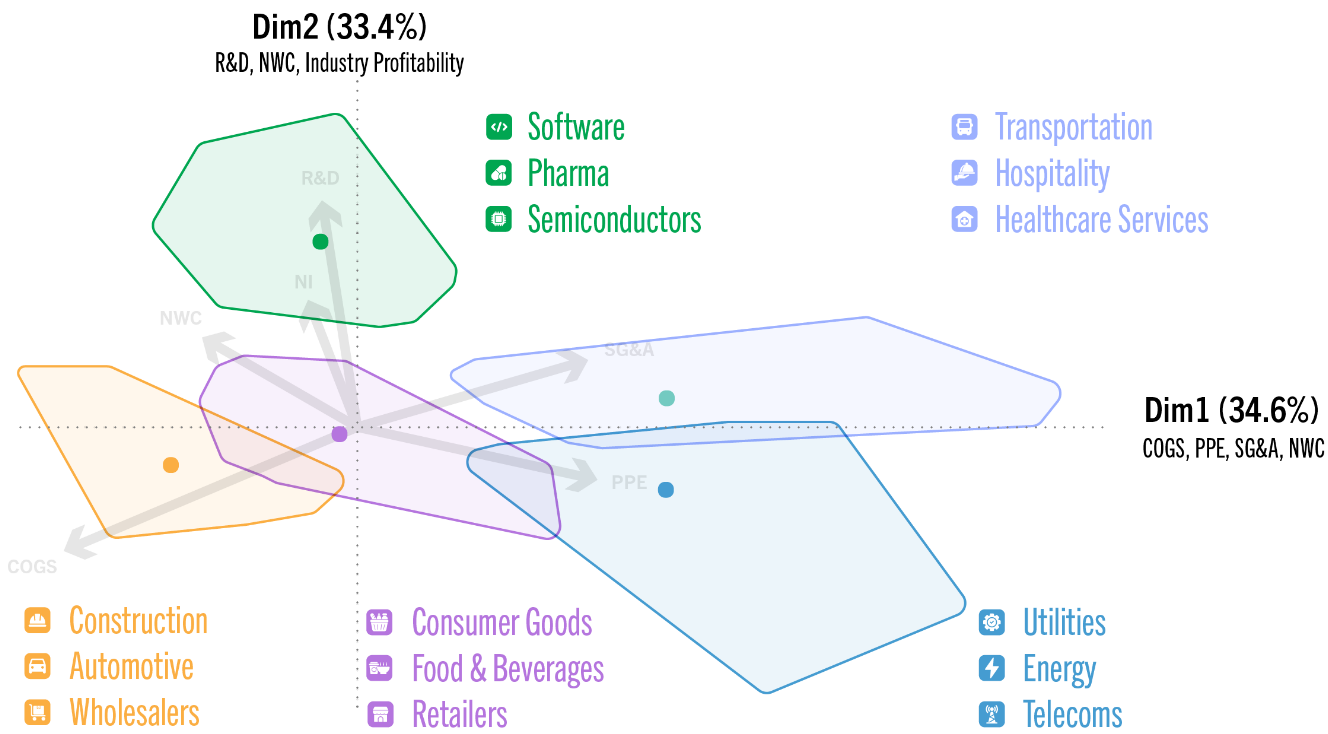
By comparing the Income Statements and Balance Sheets of the largest 2,000 companies in the U.S. over the period 2019 to 2023, we were able to isolate the six key variables on which their business models could be contrasted:

1. How much of the sales price is represented by the product itself?
2. How much is spent on staffing, selling, and marketing?
3. What level of fixed assets are required to run the business?
4. How much is spent on innovation (R&D and exploration)?
5. How much working capital does the business require?
6. How structurally profitable is the industry?



# *FINANCIAL ANALYSIS AND INDUSTRY SEGMENTATION*

This analysis reveals that industries can be grouped into five clusters based on the relative importance of different forms of expense:




The X axis of the map reflects the degree to which an industry has high product costs (COGS – Cost of Goods Sold) or high staffing costs (SG&A – Selling, General & Administrative).

The segment on the far left comprises industries with very high product costs (construction, automotive, wholesaling) while the segment on the far right are industries where staffing represents the single largest cost (transporation; hospitality; healthcare services).

The Y axis of the map is formed by two major factors – the degree of physical assets required; and the level of spending on innovation.

The segment in the top left of the map comprises industries that are notable for the proportion of revenue that is invested in R&D or other forms of innovation (software; pharmaceuticals; semiconductors).

## *FINANCIAL ANALYSIS AND INDUSTRY SEGMENTATION*

The segment in the bottom right of the map comprises industries that require high levels of physical assets (utilities, energy, telecoms).

Occupying the center of the map is a segment which comprises industries that rely on a mix of all these costs (consumer goods; food and beverages; retail products).

This map illustrates the large differences in the cost and asset base of different industries and the dangers of assuming that there is an "average" B2B company.

The table below shows how much variation there is on each cost or asset measure:

| For every dollar of revenue: | Average | High | Low |
|---|---|---|---|
| Cost of goods sold | 59 | 90 (wholesale) | 15 (transportation) |
| SG&A | 17 | 37 (transportation) | 4 (energy) |
| R&D/Exploration | 3 | 19 (pharma) | 0 (multiple) |
| Financing/tax | 14 | 42 (transportation) | 3 (construction) |
| Operating profit | 7 | 18 (tech hardware) | 1 (wholesale) |
| | | | |
| **The balance sheet contains:** | **Average** | **High** | **Low** |
| Working capital | 13 | 51 (construction) | - 9 (utilities) |
| Fixed assets | 53 | 292 (infrastructure) | 4 (construction) |

Given these differences in industry dynamics, is it not improbable that there might also be differences in how marketing is managed and measured across each?

# *LITERATURE META-ANALYSIS*

Our second segmentation exercise involved building a large library of articles about marketing accountability. We did this by collecting a set of recommended articles from the project Steering Council and some articles extracted from the existing libraries of the ANA and Type 2 Consulting. We worked with a team of academic researchers to use these 150 "seed" articles to build out an expansive library of more than 530 articles.

As important as the size of the library was the deliberately heterogeneous nature of its composition. We wanted to reflect the type of materials that business leaders actually read so we included articles from academic journals, management reviews, business and trade publications, blogs and white papers.

Using advanced text/semantic analysis, we identified eight segments in the literature – two focused on the "why" of marketing and six focused on the "how" of marketing.  Each cluster was defined by the relative frequency with which they used certain concepts and terms.

# The Two "Whys" of Marketing

## Strategic Rationale for Marketing

**Distinctive terms:** Revenue growth; market share; brand equity; corporate reputation

**Implications:** Marketing is about how a company wins in the marketplace

## Financial Rationale for Marketing

**Distinctive terms:** Earnings growth; earnings stability; total shareholder return (TSR); excess shareholder return

**Implications:** Marketing is about how a company delivers superior investment returns

# The Six "Hows" of Marketing

### Product Marketing

**Distinctive terms:** Product quality, product attributes, product lifecycle
**Implications:** The product should be the focus of attention
**Objective:** Delivering superior functionality

### Employee-led Marketing

**Distinctive terms:** Customer experience; employee engagement, corporate purpose; discretionary effort; employee management
**Implications:** The employee should be the focus of attention
**Objective:** Distinctive customer experiences

### Account Based Marketing

**Distinctive terms:** Ideal customer profile, account plan, customer lifetime, relationship management, purchase cycle
**Implications:** The individual customer should be the focus of attention
**Objective:** Maximizing relationship value

### Brand Marketing

**Distinctive terms:** Brand building, brand equity, demand generation, top of the funnel
**Implications:** The brand should be the focus of attention
**Objective:** Creating meaningful difference

### Customer Cohort Marketing

**Distinctive terms:** Customer cohort analysis, customer acquisition cost, customer retention/attrition, propensity to purchase
**Implications:** The customer cohort should be the focus of attention
**Objective:** Maximizing the lifetime value of purchases

### Performance Marketing

**Distinctive terms:** Sales enablement, revenue generation, channel marketing, return on marketing investment, bottom of the funnel
**Implications:** The sale transaction should be the focus of attention
**Objective:** Delivering sales at the lowest cost

# *LITERATURE META-ANALYSIS*

*Please note: These are the top approaches that emerged from the literature analysis. We are not suggesting that these are the only approaches. Most marketers use a blend of marketing approaches. This research initiative is continuing, and by continuing the next phase of input and research, we will be expanding upon these initial findings.*

These six approaches vary in what they believe to be the fundamental "unit of account" (focus of attention) against which the success of marketing activity should be judged:

- Product Marketing
- Brand Marketing
- Employee-Led Marketing
- Account-Based Marketing
- Customer Cohort Marketing
- Performance Marketing

Initial interviews with CMOs are providing feedback that indicates certain trends and best practices toward what we hope will be an ideal framework for CMOs to report on and share marketing's measured impact to the business they serve.

# *FINDINGS-TO-DATE*

This project was motivated by the hypothesis that there was not a singular, universal solution to the challenge of how marketing should be managed, measured, and reported.

Based on two segmentation studies, we discovered that:

- Companies can be segmented into **five financial model clusters** based on the relative importance of different cost components.
- The marketing accountability literature indicates there are **six main approaches** to how marketing can be defined, managed and measured.
- Together, these explain why we observe such variety in how marketing is conceptualized, managed, and measured and indicate how to provide the rationale for the approach that best fits your business.

Our conclusion is that marketing adapts to context, and that this adaptability is the necessary response to dynamics of different industries. In evaluating the various contexts outlined in this paper, we will further explore a roadmap that can be used by the CMO to manage marketing's workflow, and by the CEO to measure marketing's impact based on their specific business context.

We hope this work provides you with a useful framework for discussing how the variation in marketing reflects differences in business context, and how to identify the approach to marketing that is optimal for your context.

We look forward to discussing these ideas with you.

# *HOW TO ENGAGE*

This report is only the beginning of a long-term study for optimally representing marketing's impact to business growth. If you would like to be a part of this ongoing work, we encourage you to contact us, and take the following actions:

1. Use this QR code or **click here** to send us your contact information.
2. Use this Discussion Guide with your teams and peers to explore the observations we've shared, and let us know your feedback at **b2b@ana.net**
3. Let us know if you are willing to be interviewed.
4. Share a case study of what has worked well.

# APPENDIX 1:

## CONTRIBUTORS TO THIS WORK

We are grateful to the following companies and institutions for contributing to this work, either through the Steering Council or via individual consultations:

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