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STUDY FINDS MARKETERS DON'T PRACTICE ROI THEY PREACH

More Than Half Don't Use ROI Metrics to Plan Budgets; 28% Rely on Gut Instinct

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For all marketing's obsession with return on investment, it's not used to set budgets, according to a new study.

A survey of 243 CMOs and other marketing executives found that 57% don't establish their budgets according to ROI measures. Sixty-eight percent of respondents said they base their budget decisions on historical spending levels, while 28% said they go with gut instinct. And 7% said most of or all their spending decisions aren't based on any metrics at all.

The study was conducted in January and February by the Columbia Business School Center on Global Brand Leadership and the New York American Marketing Association, and results were presented at the Brands Innovation Technology conference in New York on March 5.

The state of the art remains surprisingly primitive, according to the survey, in which half of respondents didn't include any financial outcome when defining marketing ROI, and 22% use the most basic measure -- brand awareness -- to gauge marketing ROI without necessarily determining even whether the awareness is positive.

As one respondent colorfully put it, his company's marketing ROI measurement is like "pissing in the wind."

Maybe the marketers shouldn't be blamed. A presentation at the Marketing Accountability Standards Board summit last month in St. Petersburg, Fla., showed how questionable even widely cited marketing-effectiveness measures can be.

MASB President Meg Blair noted that four major brand-valuation firms (Interbrand, Millward Brown's BrandZ, CoreBrand and Brand Finance) peg General Electric's brand value at between $30.5 billion to $50.3 billion. Two of those firms had GE's brand value rising in the past year: one by 2%, one by 12%. Two showed its valuation falling: one by 4%, one by 10%.

To address the discrepancies and move toward marketing-effectiveness measures that might gain broad acceptance, MASB is preparing to launch a Brand Investment and Valuation Pilot study as soon as next month. The intent of the study, to be concluded by 2014, is to develop a widely accepted methodology that marketers can use to value their brands and guide their investment decisions. It will include an analysis of a Kimberly-Clark Corp. brand, among others, Ms. Blair said.

Despite the confusion about metrics, there's little question that brands and the marketing that builds them play important roles in financial performance. An MASB presentation by Bob Laux, Microsoft 's senior director-financial accounting and reporting, found that the portion of value of Standard & Poor's 500 companies attributable to intangible assets catapulted to 81% from 17% between 1975 and 2009. Brand value makes up a substantial chunk of that 81%, but how much or how to measure it remains in question.

The MASB pilot will use the brand-preference measure used by ComScore's copy-testing service, ARSGroup (Ms. Blair's alma mater), as a basis for assessing and tracking changes in brand values. Mike Hess, exec VP-data fusion and integration at Nielsen, will oversee the project. Ms. Blair said the other valuation players are free to participate.

Despite growing data about marketing, particularly those generated by digital and social media, many marketers still feel they don't have the right information. They also doubt that their companies adequately share or collect data, according to Don Sexton, a marketing professor at Columbia Business School.

Overall, 45% of organizations were satisfied with their measurement of marketing ROI. Large organizations with sales of more than $25 billion were more likely to be satisfied (56%). CMOs were more likely to be satisfied with ROI measurements (54%) than marketers below the VP level -- possibly because they're closer to the problem, Mr. Sexton said.

"A lot of people ... don't have any clear idea of what marketing ROI is," Mr. Sexton said. "A lot of them use metrics that don't measure finance at all. Some said, "That's a good question.' Others said, "If my boss is happy, that works for me.'"

That more than a fifth of marketers use brand awareness as their primary metric is disturbing, "since it could be good or bad," Mr. Sexton said. "TWA had terrifically good brand awareness before they went out of business. Everyone said, "We know you. We don't like you.'"

Mr. Sexton said the survey identified another fifth of marketers with even lower criteria—reach and frequency—to determine effectiveness, regardless of whether reaching consumers actually affected sales or profits.

Digital and social media have the least-developed ROI measurement, said David Rogers, executive director of the Brite program at Columbia.

While channel- or media-specific engagement metrics predominate -- for example, retweets on Twitter, "likes" on Facebook and clicks in other digital media -- companies rarely link them to sales or other indicators of brand health, such as net-promoter scores or customer-satisfaction survey results.

Though 85% of marketers use social networks in some way, Mr. Rogers said, "we found that only 14% of companies using social networks have any kind of financial metric tied to it." More-established digital media, such as email marketing and search-engine optimization, are far more likely to be evaluated based on financial impact, he added.

"There's all this assumption that digital is easier to measure because there's all this data attached," Mr. Rogers said. "The question is what it really measures. They're not data that can easily be tied to ROI at this point."