The Yellow Papers Series

The conflict between accountability & effectiveness

IPA Awards case studies show which metrics really matter for marketplace success

DDB

"The trouble with applying 'accountability' to marketing is that the evaluation is widely flawed, the targets are usually the wrong ones and the result too often leads to the destruction of shareholder value"

Accountability sounds good doesn't it? You require people to measure the value of their actions, and you incentivise them to ensure that they meet pre-defined targets. Occasional raising of the bar drives continuous improvement, and the business prospers. The trouble with applying 'accountability' to marketing is that the evaluation is widely flawed, the targets are usually the wrong ones and the result too often leads to the destruction of shareholder value. Those are the most worrying conclusions of our meta-analysis of 880 national case studies from constitute the IPA data-BANK.

We are not against accountability (in fact we are all for it, since we both earn our livings from it), but if accountability systems (such as value-based remuneration schemes) are to promote business success, then they must be based on the right targets and metrics. aarticle outlines some of the problems, and suggests some possible solutions that enlightened marketers are already beginning to profit from.

Reproduced with permission of Admap magazine, the world's leading source of strategies for effective advertising, marketing and research. Learn more at www.admapmagazine.com

Les Binet is European director of DDB Matrix, DDB's econometrics consultancy. He has won 13 IPA Effectiveness Awards, more than anyone else in the history of the competition. He was Convenor of Judges for the Awards in 2005.
les.binet@ddblondon.com

Peter Field has been a marketing consultant for the last 10 years. Prior to that he ran the account planning departments at Bates and Grey. He set up the IPA dataBANK in 1996 and was a judge of the Effectiveness Awards in 1998. He is an honorary Fellow of the IPA.
peter.field@dsl.pipex.com

Our evidence

Our source is the IPA dataBANK probably the world's largest database on effectiveness, containing over 1200 case studies. This in turn is based on entries to the IPA Effectiveness Awards, the world's most rigorous effectiveness competition. However, the dataBANK includes a lot of additional information that is not included in the published IPA papers, thanks to a confidential questionnaire that authors have to submit at the time of entry.

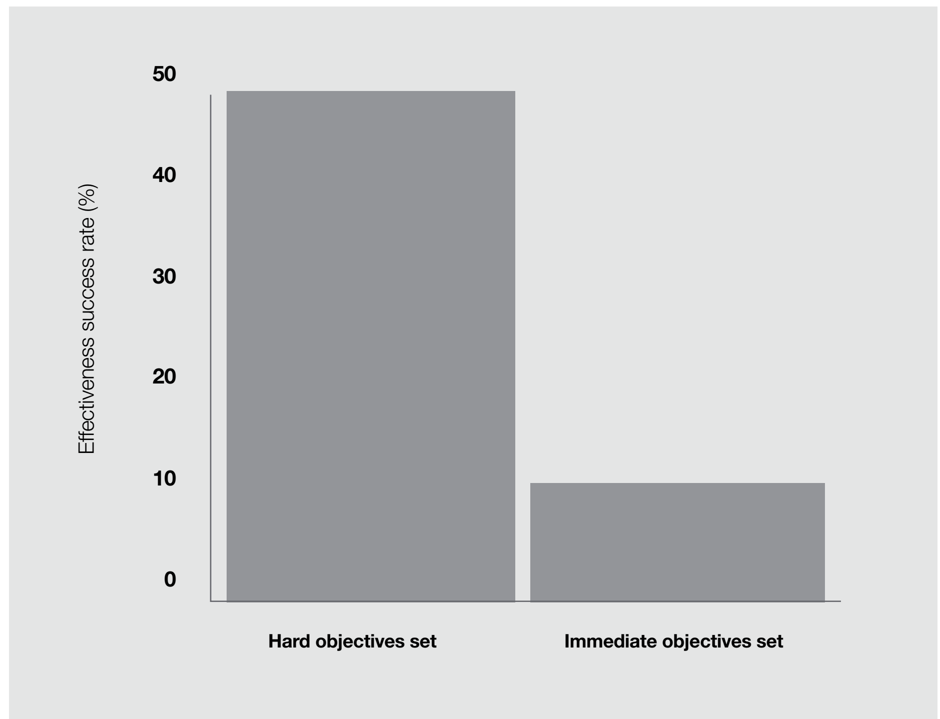
The questionnaire records many details of the trading environment of the brand, of the status of the brand, of the features of the campaign and of its results (both business effects and intermediate consumer effects). In some cases there is even ROI data too – by which we mean rigorously calculated profit returns on marketing investment.

Previous analyses of IPA cases have tended to focus on what does and does not win prizes. Our analysis is different. Thanks to the confidential data contained in the dataBANK, we are able to look at what actually works in business terms, rather than what wins prizes.

Our key measure is what we have called the 'Effectiveness Success Rate' (ESR). This is the percentage of cases that report 'very large' effects in any of a number of key business metrics, such as profit, market share, price elasticity etc. This measure turns out to be closely related to marketing payback (the higher the ESR), the higher the ROI (see our report for details). And unlike actual profit data (which are rarely available), this measure is available for hundreds of cases, allowing us to perform detailed analysis of what drives business success.

Looking at actual business success not only reveals some of the factors that make marketing more profitable, but also exposes some of the common practices that lead to waste and inefficiency. Many of these relate to the tension between effectiveness (doing the right thing) and accountability (being seen to do the right thing). This in turn is closely related to how you measure success.

Fig 1 **The importance of hard objectives**



The measurement problem
There are broadly two kinds of marketing metrics: leading and lagging indicators. Leading indicators are usually intermediate consumer measures of brand health, such as brand awareness or image, which supposedly influence subsequent business performance. Lagging indicators are usually 'hard' measures of factors that directly shape business performance, such as market share and profitability; or measures of consumer behaviour, such as penetration and loyalty.

Intermediate measures are seductive as a focus for marketers, because they tend to move more quickly (hence their use as leading indicators) and impressively, and are easier to link to marketing activity. For these reasons, marketers pay too much attention to them. Worse still, they tend to focus on a narrow range of intermediate measures, particularly awareness.

However, our research shows that there is no single intermediate measure that reliably predicts business success, and that the commonest metrics are in fact some of the poorest predictors. This is probably because marketing can work in many different ways, some of which involve complex, usually emotional and sometimes subconscious effects that are not easily measured by current research techniques.

This is not just an academic problem. Analysis of the dataBANK shows that, while focusing on a small number of intermediate metrics is good for accountability, it actually reduces effectiveness. Perhaps because of its similar tendency to focus on limited measures, it seems from the data that pre-testing also reduces effectiveness. Focusing on the wrong metrics distorts priorities and leads to inefficient marketing. For instance, rational modes of communication are attractive to marketers because their effects are easy to track, making them seem highly accountable. Yet the dataBANK shows that emotional modes of communication are far more effective in business terms, even in supposedly 'rational' markets.

The need to account for their activities and to show that they are responsive to results drives many brand teams to focus only on intermediate metrics. But our research shows that those that do this enjoy considerably less (a fifth as much) business success as teams that focus on hard metrics. And so the tension between accountability and effectiveness begins to build (Figure 1).

Picking the wrong metrics
But that is not the end of it. Even when marketers do focus on business metrics they tend to focus on the wrong ones sales rather than market share or profit, volume rather than value, and customer loyalty rather than penetration. And they almost never focus on price sensitivity as a KPI. Yet the dataBANK demonstrates that brands that focus on profit, value share, penetration or price sensitivity dramatically outperform those that pursue the common goals. Again, the data suggest that this tendency is at least partly driven by accountability and the consequent pressure to choose measures that demonstrate progress most easily. And so the tension between accountability and effectiveness grows stronger.

It is worth dwelling on penetration and price sensitivity for a moment, since they are both powerful routes to business success.

Loyalty or penetration?
We have all been influenced by the work on loyalty of Bain and McKinsey over the years. Not least the famous Bain thought experiment (yes, that's all it was) that a 5% improvement in customer retention could result in a 25–85% improvement in profitability.

The CRM movement has in part been founded on this line of thinking.

We do not doubt the truth of the pronouncement as an observation on accounting realities, just as we do not doubt that being able to turn lead into gold would make us very rich men. But vast amounts of work by Prof Ehrenberg, as well as our more humble evidence from the dataBANK, suggest that loyalty is almost as elusive as alchemists' gold.

Ehrenberg has demonstrated that loyalty, defined objectively as share of category requirements over multiple purchase cycles, is pretty much constant within a category, and is only influenced by the size of the brand. He has also suggested that marketing's most productive goal is therefore to defend or build penetration.

The IPA dataBANK strongly supports this point of view: effectiveness success rates are dramatically higher for campaigns that aim to increase penetration than for those that aim to increase loyalty. Pursuing both is also productive, but pursuing loyalty alone is a recipe for underachievement (Figure 2).

This does not mean that loyalty is irrelevant, or that firms should ignore their existing customers in favour of new ones. Some marketing that focuses on loyalty does turn out to be highly profitable. But the evidence from the dataBANK is that, when such 'loyalty' campaigns do work, they do so mainly by recruiting new customers, not by reducing churn or by extracting more value from existing ones. It seems that maintaining good relations with your existing customers sends out very positive messages to non-customers, particularly when you do it 'in public', so that non-customers can 'overhear'. The O2 and Tesco case studies are good examples. But the evidence from the dataBANK is that making loyalty an end in itself (rather than a means to attract new customers) is rarely profitable, and that loyalty measures make poor KPIs.

Fig 2 **Loyalty Vs Penetration**

Common Practice... is not best practice

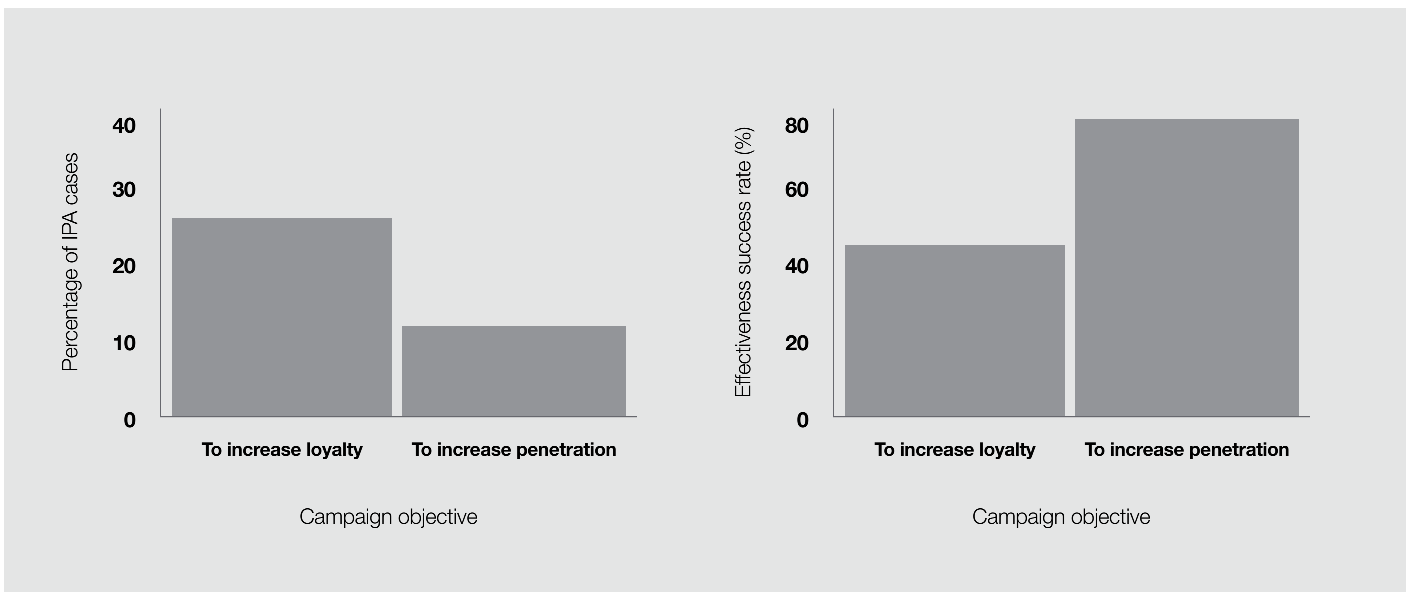
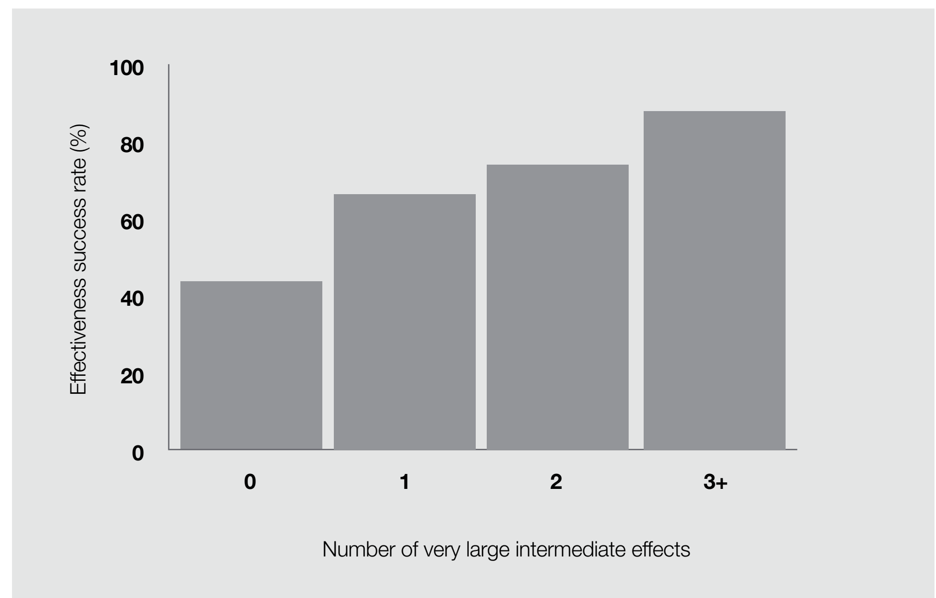


Fig 3 **The more leading indicators the better**



The power of price
Price sensitivity, on the other hand, is an important metric. It is difficult to measure reliably without econometrics, which perhaps explains why only 4% of the cases in the dataBANK targeted it. Yet they enjoyed an extremely high effectiveness success rate (83%). In our view price, sensitivity is a much more useful measure of customers' commitment to a brand than conventional measures of loyalty, because it is something that can be influenced by marketing, and has a powerful impact on profitability.

Perhaps because of its ability to unravel the drivers of profitability, including price sensitivity, the use of econometric modelling has a major impact on the profitability of brands. Again econometrics is a minority sport amongst marketers, albeit one that is growing in popularity. But it is a powerful tool, and one of the few techniques that seems to promote both accountability and effectiveness.

Leading indicators do matter
Clearly businesses need leading indicators to enable responsiveness, and these are important for value-based remuneration schemes: no one can afford to wait and see what the end-of-year profit figures look like. So we are certainly not saying do not use them. But we are saying that brand teams should not be led by them, and that leading indicators need to be used differently. Because although we observed that, individually, no leading indicators are reliable predictors of effectiveness, the dataBANK reveals that, collectively, they are much more reliable. Individual measures such as advertising standout or brand awareness do not predict effectiveness reliably, but the total number of intermediate measures that improve does (Figure 3).

The effectiveness success rate rises almost linearly with the number of very large intermediate effects that are observed. The dataBANK explains why this is so: the more effective a campaign is, the more intermediate effects it tends to generate.

So brand teams should use a 'balanced scorecard' of leading indicators, in which movements across many metrics are much more important than movement in any one. Doing so also makes for greater accountability, if the winning of IPA prizes is anything to go by: generally prize winners tend to demonstrate more intermediate measures than non-prize winners.

But what of the unwelcome complication of pursuing multiple KPIs, and how does this square with the generally accepted wisdom that 'focus' promotes progress?

A smart way round this problem is to combine the multiple metrics into a single 'metric of metrics'. Over time the metric of metrics can be improved, using modelling to refine the relative weightings of the various components so that it best predicts business success.

We came across an interesting and successful example of this from Simon Thompson, former marketing director at Honda UK and now at lastminute.com. Simon refers to this as the 'unified brand metric', and his approach is as follows.

1. Define your current brand position as 100.

2. Take your most admired competitor and define them as 150.

3. Get your research supplier modelling experts to combine all the leading metrics sensibly, so that they amount to 100 for your brand and 150 for your admired competitor – this is your 'unified metric'.

4. Incentivise your marketing team and agencies to improve your brand from 100 to 150.

His experience with this approach is very positive in terms of both effectiveness and accountability, as the gold prize-winning Honda IPA effectiveness paper can evidence.

The same observation about more measures being better applies to lagging indicators too. So although individual hard metrics can be reliable, trustworthy indicators on their own, it is better to look for a balanced scorecard of effects. Again this helps accountability too. The late Simon Broadbent, father of the IPA awards, once likened evaluation to spotlighting a statue:

"**The more lights from different angles you shine on the statue the more clearly you can see it. He was absolutely right. If there is one golden, inviolable rule of performance measurement, it is to always use more measures rather than fewer."**

There is no single intermediate measure that reliably predicts business success, and the commonest metrics are in fact some of the poorest predictors

Prioritise metrics
As well as suggesting a balanced scorecard, with multiple KPIs, the dataBANK also tells us that they should be prioritised as follows.

1. Hard business objectives.

2. Hard behavioural objectives.

3. Intermediate consumer objectives.

Finally, the dataBANK can even suggest a way forward when it comes to communications models. There is one model that not only achieves higher business success than any other, but also proves relatively easy to account for – 'fame'. Brand fame is not the same as brand awareness: it is about creating 'conversation' and buzz around the brand – giving it the sense of being the brand that is making waves in its category, and the authority that comes with that.

Thus fame builds a broad sense of brand health by creating perceptions that a brand is widely valued, whereas awareness merely creates knowledge of its presence. Fame campaigns tend to generate more intermediate effects, more business effects, and produce bigger paybacks. The fame approach should be more popular: it's good for effectiveness and accountability. Suddenly accountability starts to sound good again.

This article is based on Marketing in the Era of Accountability, published June 14. For details please see www.warc.com/MEA07.

DDB Worldwide Communications Group Inc (www.ddb.com) is the fourth largest consolidated advertising and marketing services global network and the most awarded agency network in the world according to Creativity magazine 2006. With more than 200 offices in over 90 countries, DDB provides creative business solutions guided by its proprietary philosophy and process of Co-Creativity. Home to the world's largest multidisciplinary Creative Co-Op, DDB and its marketing partners build and deliver unique, enduring, and powerful brand experiences for competitive advantage. DDB is excited by ideas.

We invite you to visit our website to share yours and keep abreast of ours. We believe that creativity is the most powerful force in business and that ideas get sharper with more minds rubbing against them.

DDB