



## BRAND LEARNING

# Commercial Effectiveness – Why It's Key To Effective Marketing



The challenge for marketers to be more 'commercially accountable' is not a new phenomenon, so the recent upsurge in demand for capability building in 'commercial effectiveness' is not surprising. However, there is significant diversity of opinion about the scope of the topic. In this article, Marketing Capability Directors Linda Miller and Deborah Caldwell explore what commercial effectiveness is, what it covers and the critical success factors for building capability in this area.

### What *is* 'Commercial Effectiveness'?

Being 'commercially accountable' or 'effective' is key to effective marketing. Whilst the language differs by organisation, the sentiment is usually the same: knowing how marketing can drive tangible value for the business. The ultimate goal is to maximise the impact and benefits of marketing investment for both the organisation and the end customer or consumer.

However, what does tend to vary more is what the skill area does and doesn't include. This diversity can present a challenge for capability programme developers. The 'presenting problem' from clients is often expressed as 'help us make our marketers more commercial'. But while there is agreement that this *isn't* about 'finance for non-financial managers', there is very little alignment about what *is* in scope.

Reflecting on our experience in commercial capability development for marketers, we have identified some success factors which will provide direction and support to others looking at this skill area.

### Success factor 1: Marketers need to understand the correlation between insight, brands, customer satisfaction and profit

Marketing can be seen as a 'high spend' function, and it can be irritating for those who have to justify small investment to see significant marketing investments being made with little understanding of what impact they are delivering. It's even more frustrating when someone from Marketing pitches up at an internal meeting and talks about insight, or brand building, or the need to create emotional customer bonding without connecting it to business impact!

There is a significant body of published evidence that demonstrates the link between satisfied customers and shareholder value. Satisfied customers are created when the business understands what people need and then delivers against this. Brands that address functional needs brilliantly and establish higher order emotional connections are bought by more people, more often and at more robust prices. The issue is that, in the complexity of everyday business and the focus on driving specific activities, marketers often fail to make this clear and understood by others, and in some cases, lose sight of it themselves.

#### From Insight To Profitability



Success Factor 1: Understand the connection between core marketing activities and profitability.

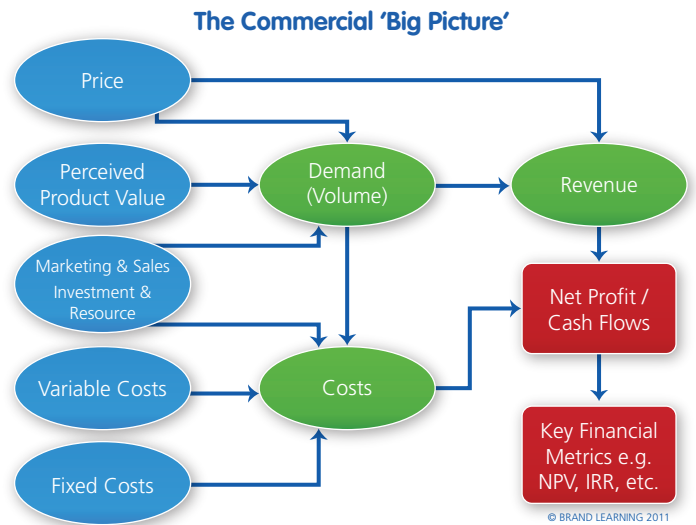
© BRAND LEARNING 2011

**Success factor 2: Marketers need to see the commercial ‘big picture’**

In any organisation, marketers need an appreciation of the bigger commercial picture, where their ‘part’ of the drive for business contribution comes in and how they can influence this broader context. We appreciate the practical complexities of this in both B2C and B2B business, particularly service organisations where the Marketing teams are often remote from the Product, Pricing and Proposition teams (who often have control in this area), making it tough to attribute cost lines to specific propositions.

We would argue, however, that lack of control through organisational structure and remit does not excuse Marketing from ‘opting out’ of their responsibilities or working on their credibility amongst cross functional peers. Marketers must understand, show an appreciation of and ‘speak the language’ of all the other functions that are more behind the scenes – Operations, Finance, R&D etc.

Historically, FMCG marketers held responsibility for the entire brand P&L, at least to the level of overheads. There was an expectation that marketers would understand the dynamics between pricing, volumes and the various cost lines.



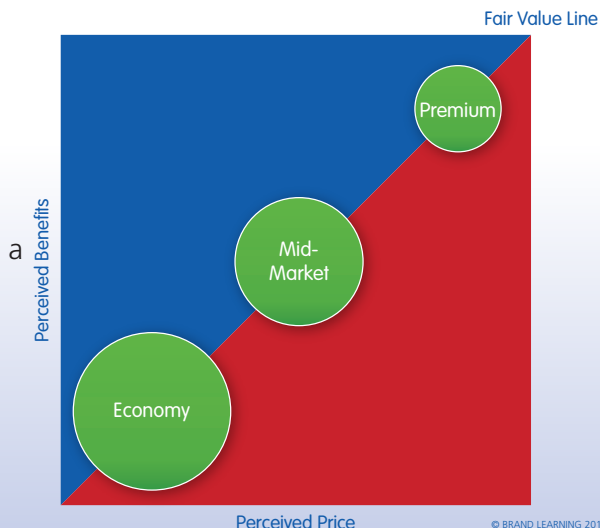
Success Factor 2: Marketers need the commercial big picture.

Organisations may have changed, and roles become more specialist, but this is an aspiration we would charge all marketers with, regardless of the dynamics of their business.

Without a working familiarity of how money is made in their organisation, it is inevitable that marketers will not be as effective as they could be on the critical business levers and will find it difficult to make commercially sound decisions.

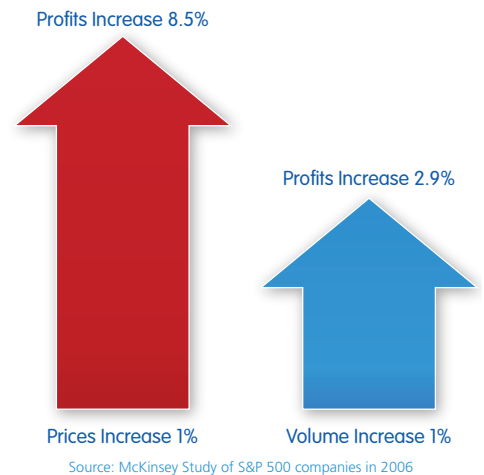
**Success factor 3: Pricing – the overlooked driver**

Pricing changes, balanced by added value to customers, can have a disproportionate impact on the bottom line and, given the huge influence of customer perceptions of value on pricing, contributing to pricing decisions should be a priority for Marketing. Yet understanding of core pricing concepts and processes is a common weakness. Diagnosis into this area reveals an absence of agreed pricing and promotional strategies to guide decisions (despite a wealth of data), and many marketers openly admit lack of confidence in this area.



Success Factor 3: Clear Pricing and Promotional Strategies, based on the concept of the Fair Value Line, are needed to manage the critical price lever.

**Pricing - The Overlooked Driver**



Success Factor 3: Pricing has disproportionate impact on the bottom line – yet it is an often overlooked area for skill development.

Without a working familiarity of how money is made in their organisation, it is inevitable that marketers will not be as effective as they could be on the critical business levers and will find it difficult to make commercially sound decisions.

A negative consequence of this lack of understanding can be excessive volume chasing activities involving promotional price cutting. Many promotions are not profitable in the short-term and, in the long-term, if unchecked, can undermine both perceived and real value of a brand, leading to a downward spiral in profitability.

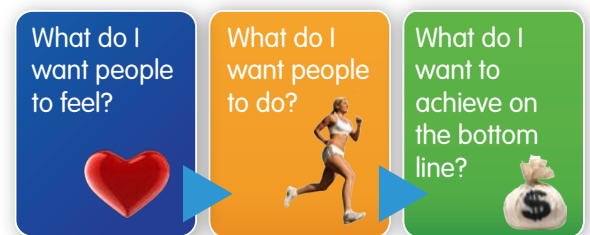
Another misguided approach is to think ‘cost-plus’ when thinking about pricing, rather than the far more appropriate value-based approach. Customers pay for what they value,

not what it costs organisations to deliver. The price of an iPad is significantly more than other pads, but the cost of goods may not be. There is low awareness of the concept of the Fair Value Line: customers weigh up price vs. perceived value to them and will buy higher priced products and services if the benefits offered relative to competitors offset the extra cost. Pricing strategies should always be developed based on insight into what customers value, and in conjunction with positioning and product/service development work. Promotional activity can then be viewed in its proper context i.e. a temporary change in the value equation for tactical reasons, rather than being an on-going tool that can undermine longer-term brand value.

#### Success factor 4: Good objective setting is non-negotiable

Marketers can get submerged in the development and implementation of specific activities. Evidence\* shows that setting compound objectives e.g. ones that include attitudinal, behavioural and value objectives significantly increases effectiveness. The same study also demonstrated that aiming for shifts in emotional rather than rational equities, and in penetration rather than loyalty for attitude and behaviour respectively also has a positive impact. While marketers will frequently set activity objectives, e.g. CTR's for on-line, awareness levels for advertising, they don't always take these on and link to the chain of changes that end in profit goals.

#### The 'Right' Objectives



© BRAND LEARNING 2011

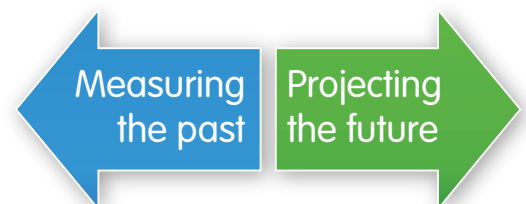
Success Factor 4: Set the right kind of objectives.

\*IPA Marketing in the Era of Accountability: Binet & Field 2007

#### Success factor 5: Marketers need commitment to assessing commercial impact of past and future activities

Return on investment is often used as a general term, but has a precise meaning i.e.  $ROI = (\text{incremental marginal profit resulting from an activity}) / (\text{cost of marketing activity}) \times 100$ . In theory this should be calculated for all key activities. However, it is difficult to isolate incremental marginal profit from a complex activity. There are so many other variables in the mix, and what would have happened to sales if the activity had not taken place (a required profit number for the calculation) is hard to determine. Econometrics (the application of regression analysis to multiple activities/sales to isolate the impact of each variant) can be of benefit but is costly and only possible in some markets. In practice we found very few businesses had a systematic approach to working out what had worked for them.

Building business cases going forward is also a challenging exercise. Ideally, discounted cash flow (DCF) calculations should be used. This is the calculation giving a single number to assess if an investment will payback, and if so, by more than simply putting the money in a savings account! Here, marketers need to develop assumptions about likely volumes, realised pricing, and anticipate all resources required over a reasonable period of time, all of which is extremely difficult to do. Past experience and empirical evidence from outside the business can help guide sensible hypotheses, as can use of test and learn programmes, volumetrics etc. However, while even the most skilled, commercially astute marketers will not be able to predict accurately – they can reduce margins of error.



Success Factor 5: Measure the past, and develop evidence-based assumptions to assess future returns.

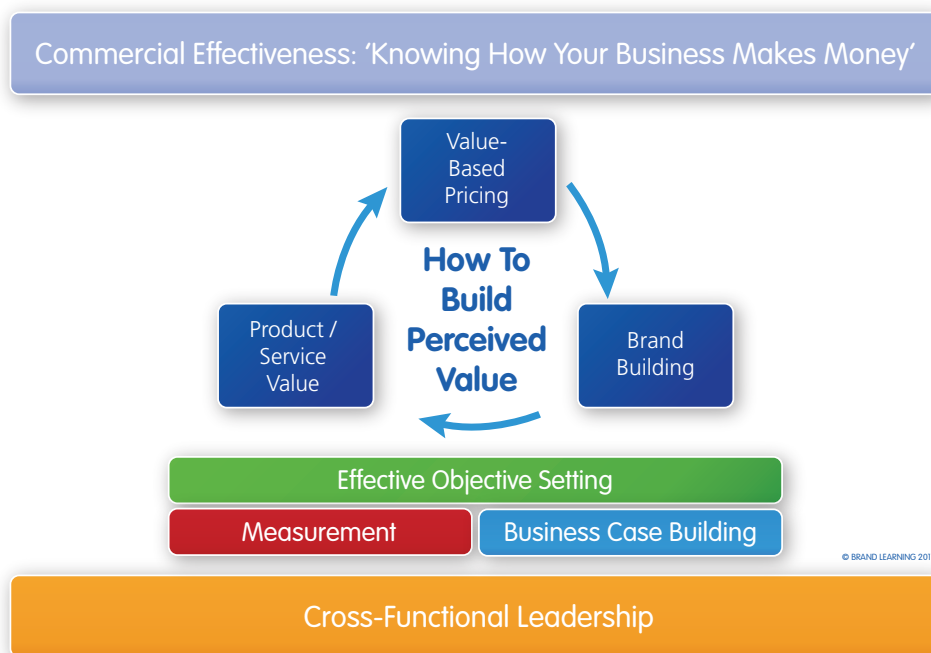
#### Success factor 6: Building commercial capability requires leadership

Finally, commercial capability development can be 'fast-tracked' by programmes that go beyond processes and skills to influence the cultural and organisational dynamics within a business. Upping Marketing's 'game' in this area requires real leadership, from the top and throughout the functions.



## Commercial Effectiveness: Key Tips

1. Check how knowledgeable the Marketing community is about knowing what works in their sector and explore how good a grasp they have of the key sensitivities that impact profitability in the business.
2. Think about how much focus should be on pricing, and how much you want to integrate it with brand building activities and product/service value proposition development.
3. Consider how the Marketing community typically set objectives – are they routinely linking activity measures with behavioural and business measures?
4. How robust are the assumptions used to drive forward looking business case development, and once an activity has happened how routinely is this measured?
5. What type of cross-functional integration and leadership is in place?
6. Finally, do marketers embrace their commercial accountability?



*Use our simple framework to understand the factors that influence commercial impact.*

Our starting point was the challenge of defining the scope for capability building in Commercial Effectiveness amongst marketers. The identified success factors and potential solutions can, we believe, enable marketers to be far better equipped to deliver the ultimate goal of such an initiative – that of driving Marketing’s impact on the bottom line (and hence its reputation and credibility). Moreover, by enabling organisations to scope their specific requirements in this skill area, they can start to increase the efficiency and effectiveness of Commercial Effectiveness programmes and their commercial effectiveness as organisations – a suitable aspiration for this critical area!

Copyright © BRAND LEARNING 2011

### For further information:

Please contact us on **+44(0) 20 8614 8150** or [team@brandlearning.com](mailto:team@brandlearning.com)

BRAND LEARNING, Burgoine Quay, 8 Lower Teddington Road, Kingston Upon Thames, Surrey, KT1 4ER, UK

[brandlearning.com](http://brandlearning.com)