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CORPORATE FINANCE PRACTICE

Why can't we be friends?

Five steps to better relations between CFOs and CMOs

The application of data analytics offers a useful approach to build more collaboration in support of stronger growth.

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Marketing is in the midst of a performance revolution. The application of advanced analytics and plentiful data has allowed chief marketing officers (CMOs) to demonstrate the return on investment from marketing activities with a degree of precision that's never been possible before. With companies spending as much as 10 percent of their annual budgets on marketing, depending on the industry—a whopping \$1 trillion globally—this rapidly developing ability to put hard numbers against marketing performance is music to the ears of both CMOs and CFOs.

To date, however, the reality of marketing analytics has fallen short of the promise. Just 36 percent of CMOs, for example, have successfully used analytics to demonstrate quantitatively the

marketing return on investment, or MROI.¹ This suggests that nearly two-thirds still rely on qualitative measures or none at all. In fact, a 2012 survey showed that 63 percent of projects do not use analytics to inform marketing decisions.² And the lack of an analytical approach has contributed to a barrier between marketing and finance—often leading to difficult budgeting conversations. One financial-services CMO told us how CFOs typically perceive his function: “Marketing has a vague status. We’re going to give a certain amount of dollars to those guys. They’re going to make ads and do whatever it is they do. And let’s hope it generates demand.”

To reverse this perception, we believe that CMOs must become true collaborators with CFOs and

adopt an MROI approach that's driven by analytics. The good news is that the same mountains of data that can deliver an array of value-creating insights can also help CMOs demonstrate marketing return on investment at a level of detail that the CFO expects. In our work with clients in dozens of sectors over more than five years, we have found that the strongest CMO–CFO partnerships develop when both parties take five actions: open their books to scrutiny, focus on the metrics that matter, balance short-term and long-term value creation, consider savings as well as spending, and seek opportunities to collaborate.

The opportunity is enormous. In our experience, companies that adopt this marketing-analytics approach can unlock 10 to 20 percent of their marketing budget to either reinvest in marketing or return to the bottom line.

Create an 'open book' mind-set

Creating transparency into operations is the starting point for marketing to help CFOs understand where and how value is being gained or lost. CMOs often find it hard to say how much they actually spend—by product, market, or strategic intent, for example, or by activity—on IT, different parts of the purchase funnel, digital and social media, or nonadvertising activities such as sponsorships, promotions, and trade events. It can be challenging because different regions may allocate the same spending to different categories. A trade-fair expenditure might fall into short-term spending in one market, for instance, but long-term brand-building spending in another.

Bringing people and activities into line is essential but seldom easy. Marketing departments are often reluctant to look beyond their own fiefdoms; it's also time-consuming to align spending categories accurately—and a major task to communicate the value of doing so. An automotive company, for

example, held more than a dozen workshops in six months to explain why it mattered and to ensure that the global marketing function clearly understood the value of analytics. The company used this process to develop a common approach for answering the seemingly basic question of why it was spending marketing dollars. For example, was it trying to promote the brand or draw customers into the showroom? Drawing such distinctions makes it easier for any CMO to answer basic questions about where and how marketing dollars are spent—and makes budgeting discussions much more productive.

Focus on the metrics that matter

Ideally, the relationship between the CFO and the CMO needs to function more like a partnership, in which the two explore together the performance that drives shareholder returns. That means CMOs will need to focus on the metrics that are most aligned with corporate business goals, which CFOs can help identify. Typically, these will not be brand awareness, share of voice in the market, or the number of “likes” on Facebook—areas where many currently focus—unless those numbers can be tied to profit. CMOs must demonstrate and track marketing's impact by focusing on those key performance indicators (KPIs) that are most important for shareholder value such as return on investment, net present value, and operating margins.

Marketing KPIs that don't directly address shareholder value and the company's objectives don't tell the CMO or the CFO where marketing efforts are having the most desired impact. This doesn't portend an end to the creativity required to touch people's emotions; it only means plumbing the same reservoirs of data that spark that creativity to better define when and where to target audiences with which messages—and to demonstrate the value in doing so.

In collaboration with the CFO, the CMO can develop a set of objectives that directly contribute to financial objectives and business goals. At the automotive company referred to earlier, for example, the CMO and CFO worked together with their teams to draw up a global set of financial and nonfinancial metrics for the short and long term. Financial metrics would typically include obvious numbers such as sales, return on investment, and cost per customer, while nonfinancial metrics included the number of people visiting dealers or long-term indicators of the health of the brand such as the number of customers considering the brand.

We've often found it helpful to create a chart to illustrate how business and financial goals at the top cascade down to marketing KPIs, then to tactics and strategies that can deliver on those KPIs, and finally to those metrics that measure the effectiveness of those strategies or tactics. In practice, marketing KPIs need to incorporate customer-acquisition and retention targets and costs. These metrics can easily be translated back into the company's top-line or bottom-line performance, which resonates more with the CFO.

Given the complexity of marketing today, it can be difficult to develop metrics that prove categorically that an initiative is working. The metrics still matter in those cases, but what matters more is that the CMO and CFO agree on them.

Balance short-term and long-term value creation

One of marketing's biggest challenges has always been managing the trade-off between short-term spending to boost sales and longer-term brand building. Econometric analysis can estimate the benefits of different combinations of marketing tactics—so-called marketing-mix modeling (MMM)—and to some extent is effective

in helping allocate budget resources. Yet such activities drive only 20 to 40 percent of total sales, and so traditional MMM reflects a small portion of the total value of marketing investments, much of which can be attributed to the harder-to-measure power of the brand. The brand naturally takes much longer to develop, up to five years, but it has far greater staying power than a single piece of advertising.

Long-term brand performance is affected by many factors, which makes measuring the impact of investment challenging and the data harder to unearth. Calculating short-term effects separately from long-term benefits can help managers isolate which marketing activities truly build brand equity. With those calculations in hand, marketers can go to the CFO with the data to inform nuanced decisions about where to put dollars to boost short-term returns or build long-term equity.

Consider one food brand, for example. Marketing managers decided to connect with customers using Facebook advertising bolstered by contests, relevant sponsored blogs, photo-sharing incentives, and shopping-list applications. The approach delivered sales results similar to traditional marketing, including TV advertising and print promotions, at a fraction of the cost. Brand managers, therefore, considered massive cuts to their TV- and print-advertising budgets in favor of spending more on social-media channels. However, when they included long-term effects in their calculations, they realized that the contribution of TV advertising significantly outpaced online displays and social media at delivering the emotional connection needed to build brand equity.

Look at savings as well as spending

The concept of lean has driven tremendous productivity globally, largely by cutting waste and

improving efficiency. While the concept's origins are in manufacturing, it has long been applied in nonmanufacturing settings, including the finance function.³ Most marketing functions would also do well to embrace lean concepts—certainly they would find it worth taking a close look at procurement. Any savings could be invested elsewhere, and the effort would demonstrate responsible stewardship of company resources.

A data-driven approach to procurement isn't a new concept, though marketers have been slow to embrace it. Something as simple as benchmarking marketing's spending on external agencies could lead to astonishing cost savings and, once again, the CMO can go to the CFO with solid evidence on budgeting. At one consumer-packaged-goods company, for example, a series of strong brands had evolved in separate silos, each with its own marketing budget. On closer examination, marketing managers discovered the company was spending three times the industry benchmark on coupons, 50 percent more than the industry average on research, and overtesting TV commercials without improving them. It was also using more than four dozen market-

research companies to conduct similar tasks. As a result of this insight, the company overhauled its spending on promotions, market research, and advertising, redirecting nearly 20 percent of its marketing budget to more growth-oriented tactics.

Seek opportunities to collaborate

As obvious as it may seem, one way to improve the CMO–CFO relationship is for both parties to recognize that they're on the same team. CMOs should invite finance to participate in marketing's planning process to build bridges but also to benefit from financial expertise. Spending time in the same room is a good start. Taking the time to speak with the CFO about the shape of the company and any shifting priorities will allow CMOs to be more attuned to the business and to move more quickly to make adjustments as necessary.

The experience at one global insurance company is illustrative. The company's CMO found himself under pressure from the board to demonstrate the value of marketing activities—while at the same time, the company's competitors were massively outspending it, solidifying their “top of mind” position with consumers. He recognized

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that he needed not only to justify the current marketing budget but also to ensure it was more effective to meet the challenge from competitors.

To build support for his effort, the CMO reached out to other parts of the business, including finance, explained that he wanted to adopt a more investment-oriented approach to marketing, and invited them to support the effort. They agreed on three goals for both the marketing and finance departments: to better clarify the role of marketing to the business, to better inform the analytics with their combined input on the assumptions, and to better understand the results coming out of the analysis. The CFO appointed a representative from finance to join the effort—and the CMO agreed, up front, to discontinue any activities that proved uneconomic.

In the end, the CMO was able to demonstrate quantitatively the impact of marketing on business goals and save his budget. Moreover, in the process of doing so, he developed a tool to show where his next marketing dollar should go and what he could expect in return. This allowed the CMO to follow an investment-oriented approach to marketing decisions, pursuing campaigns and other activities, and it provided the finance department with confidence that marketing was investing wisely.



An analytical approach to marketing may not mean the end of difficult budgeting conversations between the CMO and CFO. But the emergence of marketing-data analytics provides them a new common ground on which to compare notes and achieve a better understanding of marketing's role in driving real business value. ○

¹ The CMO Survey, "Highlights and insights: August 2013," cmosurvey.org; the survey is cosponsored by the American Marketing Association, Duke University, and McKinsey & Company.

² The CMO Survey, "Highlights and insights: February 2012," cmosurvey.org.

³ Richard Dobbs, Herbert Pohl, and Florian Wolff, "Toward a leaner finance department," *McKinsey on Finance*, Number 19, Spring 2006, mckinsey.com.