# COMPANIES GAIN WHEN CMOs AND CFOs MEASURE SUCCESS TOGETHER

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MEASUREMENT IS FUNDAMENTAL TO business, starting with the reporting of profit and loss. But when it comes to marketing investments, choosing which metrics to track can be a challenge. Finance and marketing often clash on this point. The two functions have different points of view, each rooted in its own corporate silo. They also tend to speak different languages, or at least use different nomenclatures, which makes aligning on a common system difficult.

Here's a good reason to fix the problem. Research by BCG and Facebook in 2019 found that strong CMO-CFO relationships can unlock financial improvements of 20% to 40%. (See Exhibit 1.) And we have found in our client work that if CMOs and CFOs examine marketing resource allocation from each other's perspective, they can craft a measurement system that works for both.

Here's how they can go about it.

## Managing Marketing as an Investment

The companies that successfully resolve these issues manage marketing as an investment, much in the way that private equity or venture capital managers do. They apply a handful of principles to how the CFO and CMO work together:

- **Governance.** They establish clear protocols around the decision-making body.
- **Transparency.** They are open about the rules that determine what gets approved.
- **Standards.** They apply well-understood standards to funding decisions.
- **Performance Monitoring.** They follow a consistent and aligned set of KPIs that are rooted in business objectives. Some are sales-focused, others brand-centric. Some are short term, others long term.

EXHIBIT 1 | Improving Marketing Measurement Unlocks Financial Improvements of 20% to 40%

| | | |
|---|---|---|
| **25%** | **20%** | **30%** |
| **Cost improvement** Consumer products company | **Profit gain** Telco company | **Cost improvement** Retailer |
| **40%** | **20%** | **35%** |
| **Effectiveness gain** Auto manufacturer | **Efficiency gain** Retail bank | **Effectiveness gain** Consumer products company |

**Source:** Boston Consulting Group, "Marketing Measurement Done Right," commissioned by Facebook, September 2019.

These companies operationalize these principles in a set of rules that finance, marketing, and the rest of the organization consistently follow. (See the sidebar, The Golden Rules of Marketing Investment.)

Getting there is a journey, however, and a difficult one at many organizations for several reasons.

Not Aligning on Metrics. Finance typically has no role in assessing the validity of the metrics that marketing tracks. It's not that the metrics are wrong. Marketing often uses sophisticated measurement techniques, such as various forms of marketing response modeling, that are often more advanced than the analytics applied in other parts of the organization. But others can have cause for question when there is little or no transparency in how the metrics were derived or nobody offers to explain the methodologies.

Not Pursuing Measurement as a Cross-Functional Initiative. Choosing metrics for marketing performance can be difficult in organizations with multilayered team structures that span many functions and entities, such as strategy, customer insights, brand marketing, digital marketing, analytics, media agencies, tech partners, and marketing ops. At one consumer products company, budgets were simply allocated across categories, brands, markets, and media channels based on historic precedent, while customer feedback, advanced analytics, and other data and reporting went disregarded. The company had a hard time using measurement insights to optimize budgets until it adopted an agile cross-functional team structure that involved finance teams in marketing execution. When marketing and finance began working together to jointly define campaign objectives and consistent measurement methodologies, marketing ROI improved significantly.

Not Integrating Measurement in Other Processes. Companies often fail to integrate measurement techniques into their important planning processes, such as annual budgeting. Doing so would make these processes more responsive to measurement insights. On the flip side, company processes are often not flexible enough to act quickly on measurement insights, for example improving ROI by scaling up spending in a particular media channel based on a test-and-learn experiment. Moreover, at key decision points on mar-

## THE GOLDEN RULES OF MARKETING INVESTMENT

We have seen leading companies adhere to the following rules to keep marketing and finance on the same page regarding budgeting and investment decision making.

- **Common Language and Standards.** Marketing and finance are aligned on a set of KPIs to measure current performance and inform future investment decisions.
- **Cross-Functional Marketing Governance.** Marketing, finance, and other key stakeholders participate in a marketing investment committee with established processes and common metrics. The committee follows a set cadence to review performance and make decisions on future investments.
- **Shared Expectations.** Marketing and finance jointly view marketing as a portfolio of investments. Both accept that not everything will work, but the overall portfolio will drive net positive ROI.
- **Present and Future Considerations.** Marketing and finance both understand and agree that some investments pay off over the long run, but they must also demonstrate near-term ability to lift key business KPIs (such as sales or brand equity).
- **Ability to Start Small and Scale Fast.** Marketing, with support from finance, has a standard operating procedure to scale initiatives into larger investments after proving value through a test-and-learn approach.

keting spending, companies often get bogged down in lengthy debates over marketing's long-term impact (such as building brand equity) versus its short-term impact (hitting quarterly earnings and cash flow targets) because the measurement toolkit does not serve up decisive information.

## Getting on the Same Page

The most important (and often most overlooked) first step in resolving this is to establish a measurement architecture for marketing across the entire organization. This is a set of metrics, typically five to ten, that informs marketing investment allocations across categories, brands, markets, lines of business, and media channels, wherever these decisions are made. The C-suite sees one report with one set of consistently framed metrics that capture marketing spending, short-term impact or ROI, long-term impact or ROI, and contextual factors such as category growth, relative pricing power, and share of voice. Leading companies reduce the reporting to a strategic scorecard or dashboard that enables decision-making across various strategic and tactical dimensions. (See Exhibit 2.)

"We avoid typical analysis-paralysis by focusing on a handful of simple metrics to drive decision making," said the executive director of marketing at a global consumer products company. "This allows us to make decisions quickly and reinvest continuously in initiatives that are driving uplifts."

The most sophisticated companies also prioritize marketing ROI as a corporate objective. They tie marketing measurement to the strategic outlook of a business and view marketing as a key enabler to realize the company's broader vision. Standardized metrics become the common measurement currency of marketing, finance, and other functions. The metrics can be expressed in financial terms, such as annual profit attributable to marketing or shareholder value attributable to intangible assets such as brand.

This kind of alignment on, and adherence to, the metrics prevents marketing from using "random" measures to support perfor-

Exhibit 2 | Scorecards Using a Common Set of Metrics Provide Transparency on Marketing Performance

| | Typical areas | |
|---|---|---|
| | **Short-term ROI** | • Typically a financial metric and can be conceptualized as marketing's "cash flow statement"<br>• Should measure marketing's incremental contribution to the business (via econometrics, etc.) |
| | **Long-term impact** | • Typically a brand-equity metric and can be conceptualized as marketing's "balance sheet"<br>• Should measure equity attributes proven to drive consideration (via brand analytics) or base sales |
| Contextual factors | **Category** | • Metrics that capture the overall evolution and performance of the category and your brand within it<br>• Examples: category volume/value growth, change in average price point, market shares, etc. |
| Contextual factors | **Consumer** | • Metrics that capture key trends with the consumer target, can be "gen pop" or segment-specific<br>• Examples: acquisition by segment, consumer confidence, category net sentiment, etc. |
| Contextual factors | **Competition** | • Metrics that capture marketing and other key activities of the brand's competitors and substitutes<br>• Examples: share-of-voice, innovation and new product launches, relative NPS, etc. |
| | **Budget** | • Metrics that capture the past, current, and planned marketing budget overall and broken down by key business segment and media channel |

**Source:** BCG analysis.

mance. The CMO of a personal care products company put it this way: "We ran a very KPI-focused business, but we found having non-financial, disparate metrics led to strong differences in opinion about what was driving impact, and the disagreements led to spending allocation based on partisanship, not performance."

Once there is agreement on the metrics, the next step is to design the measurement toolkit, which should encompass multiple methodologies across consumer insights, various forms of marketing response modeling, and test-and-learn experiments. These measurement tools can compare marketing investments on an apples-to-apples basis. For example, it's not possible to weigh the efficacy of display ads on Facebook and search ads on Google based on the metrics that can be pulled from the respective platforms. Companies need to invest in measurement tools that produce metrics comparable across media channels and different parts of the organization.

The final step is to integrate the metrics, analytics outputs, and tools into the strategic budgeting process as well as quarterly or monthly course corrections. The critical challenge here is taking a cross-functional approach, something that few companies do. In our research with Facebook, only 7% of survey respondents strongly said that their companies clearly define the roles and responsibilities of each function contributing to return on marketing investment. Organizations that submitted cross-functional performance metrics as part of the annual strategic plan were 56% more likely to believe they had a well-functioning process that helped them understand how marketing contributes to business success.

## Marketing and Finance Should Join Forces

There is no one-size-fits-all approach, and the ways of working need to be customized to company culture. But to achieve success, every company needs a standard process and schedule by which marketing and finance meet to review results and adjust budgets. Training finance team members in marketing topics and marketers on finance practices helps bridge the communication gap. As more people move to permanent remote working, regularly scheduled virtual meetings to touch base on marketing investments and projects can accelerate the expertise exchange in an outcome-based setting. Our research shows that organizations using the same methods and tools for two to three years while investing in incremental improvements are 220% more likely to measure standardized KPIs, 110% more likely to identify patterns and best practices, and 58% more likely to integrate insights as they set marketing budgets.

Since marketing metrics tend to be specific to marketing activities, and financial metrics are more encompassing, the responsibility for aligning the marketing measurement and putting performance into dollar terms falls on the marketing function. But creating a more collaborative strategic budgeting process should be a cross-functional effort. One strategy we have seen work is to establish a steering group that includes representatives not only from the relevant marketing and finance functions but also from strategy, sales, and pricing. While setting up such a structure requires upfront effort, broad-based organizational acceptance is critical to creating a long-term, sustainable marketing measurement capability.

TRANSPARENCY, CLARITY, AND ease of interpretation are all signs of a good measurement system. With such a setup, CFOs feel more confident that they can see where the dollars are flowing and what returns are being generated. CMOs have more time to focus on the forward-looking and creative aspects of the job, and they are empowered to make high-impact decisions more quickly and with more flexibility, in line with shifting market conditions. A standardized metrics architecture that is embedded in organizational processes ensures everyone has a clear view of the measurement inputs and outputs so they can all follow how marketing contributes to the company's success.

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