Gartner for Marketing

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3 Techniques to Prove Marketing's Value

How CMOs can defend their budget

CMOs need to protect the resources they need to deliver value

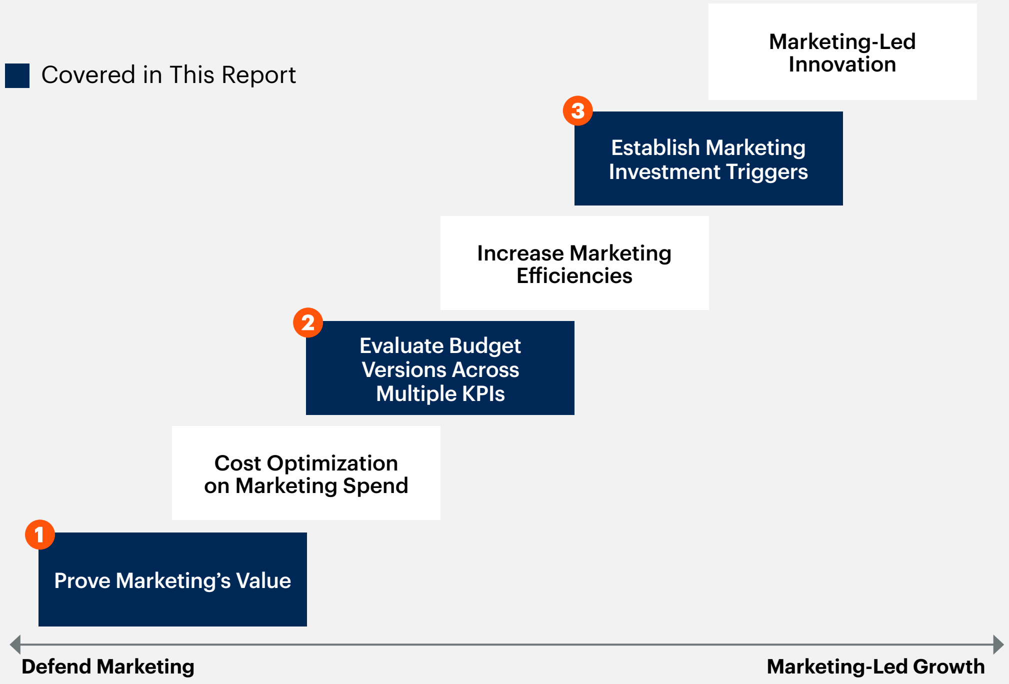
In today's business landscape, CMOs are under increasing pressure to drive revenue growth for their organizations. Marketing leaders facing the challenge of achieving more with limited resources can develop a strategy that safeguards their budgets and, in turn, delivers impactful results.

This comprehensive guide equips CMOs with three effective approaches to quantify the impact of marketing and demonstrate its value to the entire enterprise. They are:

- Prove marketing’s value.
- Evaluate different versions of the marketing budget across multiple KPIs.
- Establish triggers for adjusting marketing investments.

These approaches leverage marketing analytics and marketing mix modeling — not budget cuts or efficiency approaches — to establish guideposts for planning.

CMOs respond to economic uncertainty in a variety of ways



Source: Gartner

Prove marketing's value

Most companies have clear growth plans. When economic headwinds challenge them, marketing leaders must show the connection between marketing investments and growth to protect them.

To do so, it's important to know the overall value of every marketing dollar spent and communicate that in terms the executive team cares about. For example, marketing should be able to communicate, for every $1,000 invested in marketing, how much the company generates in demand, in the number of marketing qualified leads (MQLs), in new accounts and so on. Metrics related to MQLs and new accounts are more powerful when linked to concrete impact in monetary terms.

Metrics are stronger, as well, when tied to annual strategic priorities. For example, if a bank has a goal of opening 100,000 new checking accounts in a calendar year, marketing should have an aggregate estimate of how $1,000 of investment translates to new account acquisition. If customer loyalty is the goal, marketing should show how marketing investments deliver retention.

Prove marketing's value

The exact calculation a given organization uses will depend on its maturity in using marketing analytics coupled with the availability of relevant data.

Low Maturity

Less mature organizations with less data should offer metrics at the aggregate level for the year. For example, an organization that spends $300,000 on new customer growth in this fiscal year and acquires 1,500 new customers during that year would have a customer acquisition cost of $200 per customer. Use benchmarks when usable data doesn't exist.

High Maturity

More mature organizations with more data provide details and granular metrics for different activities. Metrics reflect the true, incremental value caused directly by marketing, which is updated monthly and can be broken down into finer detail. Underlying methods tend to be more advanced. One technique is marketing mix modeling, which leverages techniques to identify the exact incremental impact of specific marketing activities to inform investments and adjustments to strategy.

Evaluate different versions of the marketing budget for how they affect different KPIs — not just ROI

CMOs often assume that ROI is the best metric to prove marketing's value to the enterprise. But relying on ROI alone may harm marketing's ability to deliver against a broader set of enterprise goals.

Enterprises also care about market share, profitability, sustainability and so on. To build a value case for marketing, CMOs should instead leverage the broader concept of return on objectives to show how marketing investments deliver against a diverse set of goals.

Why marketing ROI is not a perfect metric

	Actual	Alternative A (10% Decrease in Marketing Spend)	Alternative B (20% Increase in Marketing Spend)
Volume (Indexed)	100.0	95.0	110.0
Revenue ($B)	10.0	9.5	11.0
Marketing Spend ($B)	2.0	1.8	2.4
Variable Costs ($B)	4.0	3.8	4.4
Fixed Costs ($B)	2.4	2.4	2.4
Net Profit ($B)	1.6	1.5	**1.8**
ROI (%)	80.0	**83.3**	75.0

A 10% decrease in marketing spend may sound compelling when it yields a significantly higher ROI than other spend options ...

... however, it could prevent marketing from pursuing more profitable alternatives.

Assumptions

Variable costs as 40% of revenue

Marketing spend is separated out from all other costs

10% decrease in marketing spend = 5% decrease in revenue

20% increase in marketing spend = 10% increase in revenue

Source: Gartner Analysis. Based on the work of Professor Tim Ambler, London Business School

Evaluate different versions of the marketing budget for how they affect different KPIs — not just ROI

Evaluate budgets across multiple metrics to stimulate dialogue about trade-offs, such as revenue versus margin growth, short-term versus long-term growth, growth for one product line versus another.

Marketing leaders are better able to maximize returns when they evaluate multiple scenarios, including those that look forward using the predictive models available with marketing mix modeling and which include a simulation interface or tool.

Low Maturity

Conduct scenario planning based on aggregated activity spanning multiple metrics. Data will most likely be available for metrics related to customer value, sales volume and marketing expense. Additional metrics will require new investment, but make sure insights can be delivered fast enough to leverage for key decisions.

High Maturity

More mature programs will have access to syndicated data, survey trackers, proprietary data streams and affinity modeling. These deeper insights allow marketing leaders to calculate market share and consumer sentiment-type metrics — the value of which is high when the economy is uncertain, and teams can leverage them to scenario plan and weight the benefits of different approaches.

Establish marketing investment triggers

Marketing teams should identify triggers that signal when conditions change, and they need to revisit their strategic plan. Triggers improve planning in two ways. They:

1. Ensure plans stay relevant by prompting a review when assumptions fail to hold up
2. Spark the need for investments when in-market behavior exceeds a predefined threshold

Example triggers include:

- Loss of market share
- Decreases in product consideration
- Increases in competitor spending
- Declines in new customer value
- Increased acquisition costs
- Erosion of conversion rates

Triggers improve strategic execution of plans

Strategy Triggers
Ensure Plans Stay Relevant

- Identify and use **assumptions** as triggers for strategy review.
- Contain a measure for validation that can be falsified.

Example: The inflation rate will hover between 4.2% and 6.1% for the next 12 months.

Investment Triggers
Spark Likely Need to Respond

- Identify **market changes** as triggers for course change or investment.
- Documenting assumptions ensures transparency and distinguishes objective facts from beliefs.

Example: Customer acquisition cost increases of 15% trigger upper funnel marketing review and investment decision.

Source: Gartner

Establish marketing investment triggers

An organization's choice of trigger metrics should balance slow metrics that don't change that quickly or the updates to which are infrequent and quick metrics that are revised weekly, daily or even more frequently. Identify the right one or two triggers that balance speed with accuracy for the executive team. The benefits of using a quicker trigger metric than your competition can be immense.

The largest differences in the use of triggers across organizations at different maturity levels tend to be the use of faster, more granular trigger metrics, including conversion rates, customer acquisition costs and customer value.

The planning tools in marketing mix modeling can also predict the impact a trigger event will have on different marketing activities, such as paid search versus display.

Low Maturity

Track costs per activity (such as cost per webinar sign-up, form fill out or website visitor) in aggregate for a given time period. Consider diverting resources to competitive intelligence, such as tracking messaging by competitors, by monitoring owned digital properties and paid advertising.

High Maturity

Track trigger metrics, such as conversion rates, in more detail and level of granularity — for example, by customer segment, geographic region or details related to a purchase. These detailed metrics allow teams to make granular changes and measure the results. For example, mature teams can cut paid digital campaign spending in one geographic region for a specified time and compare performance results to those of a similar geography. These "natural experiments" provide the strongest evidence of marketing impact.

When budgets still need cuts

Conditions may still require CMOs to reduce their spending. These cuts can hurt, especially when they impact staff and contractors who've made real contributions to your marketing performance.

When evaluating the trade-offs needed to cut budgets, consider three strategies:

1

Think long term

A study on the budgeting decisions made during the last global recession found that winners in six of 11 industries took proactive budget cuts, which enabled them to accelerate growth investments when conditions eased.

2

Reprioritize

Many marketing teams overinvest in legacy processes and skills. Use cuts as an opportunity to accelerate simplification, consolidation, automation and outsourcing decisions. Focus training on new skills needed to advance your team, such as experimentation, enabling them to update assumptions and reveal areas for improvement.

3

Reinforce triggers

A study on the budgeting decisions made establishing "claw back" triggers reinforces the importance of marketing by establishing conditions under which to make considered investment reductions.

Actionable, objective insight

Gartner has a broad set of resources focused on promoting more advanced marketing measurement. Consider scheduling an inquiry to help guide you through this research and highlight the few notes most suited to your particular circumstance and needs. Common reference materials include:

- Incrementality Measurement: A Marketer's Best Friend
- How to Advance Your Marketing Analytics Function
- Demonstrate and Improve the Impact of Marketing Analytics
- Communicate Marketing Value and Impact to Internal Audiences
- 3 Steps to Implement OKRs That Align and Focus Marketing Efforts
- Change the Perception of Marketing From Cost Center to Profit Driver

Gartner for Marketing Score

Generate Marketing Insights	Attract and Engage Customers	Activate Content and Channel Strategy	Manage Brand and Reputation	Manage Operations	Lead the Function
Manage Customer Data Assets	Identify & Prioritize Marketing Opportunities	Set Advertising Strategy and Media Mix	Determine Brand Architecture	Optimize Budget, Resources & Processes	Define Marketing Strategy
Generate Customer and Market Insight	Deliver Personalized Communications	Define and Manage Content Strategy	Develop Brand Strategies and Positioning	Manage Agencies & Vendor Partners	Design Marketing Organization
Define Segments, Personas & Journeys	Build Customer Loyalty	Enable Sales and Channel Partners	Activate the Brand	Manage & Develop Talent	Guide Innovation
Conduct Marketing Analytics	Identify & Support Brand Influencers	Create and Execute Multichannel Campaigns	Manage Company Reputation	Leverage Marketing Technology	Evaluate & Communicate Marketing Performance
Conduct Customer Performance Analytics	Manage Digital Commerce		Monitor Brand Health		Champion a Customer-centric Culture

Benchmark your marketing function against your peers.

Measure, prioritize and improve your marketing function’s capabilities — with support from Gartner experts.

The Gartner Marketing Score tool helps with:

- Strategic planning
- Functional transformation
- Resource allocation
- Consensus building

→ **Learn More**

Actionable, objective insight

Explore these additional complimentary resources and tools for marketing leaders:

eBook

Gartner Marketing Predictions for 2024

Uncover the top predictions and new trends shaping the future of marketing.

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Guide

The 2024 CMO Leadership Vision

Explore CMO priorities, trends and strategic actions to focus on in 2024 and beyond.

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Tool

The Gartner Marketing Budget & Efficiency Benchmark

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