

**Measuring What Matters:**  
*Balancing Short-term and Long-term Marketing Metrics*

By Kathleen M. Hosfeld

*"We spend half our money on advertising that doesn't work," goes the old saying.  
"Trouble is, we don't know which half."*

According to a study published by the Marketing Science Institute, the issue of measurement in marketing has grown bigger than how to determine where to spend advertising dollars. As many companies – even those that are not publicly traded -- adopt a stock-based mentality and short-term quarterly focus, it's meant that what can't be measured is marginalized – and a focus on long-term profitability may be the victim.

The study, titled "Can Marketing Regain its Seat at the Table?," was conducted by researchers at the University of Arizona. Their findings, which summarized the views of more than 40 companies, were that marketing has lost its role in influencing corporate strategy in many organizations. Owing in part to the leadership of executives without marketing backgrounds, marketing has been pushed down to the business unit level and is increasingly conflated with sales. There, marketing efforts must increasingly justify themselves on the basis of short-term return on investment.

**Are We Measuring What Matters?**

Long-term versus short-term emphasis is a key issue in measuring aspects of the marketing mix. If the organization's management focus is skewed too much toward quarterly earnings, the only thing that gets measured is something that has a short-term return. This is the case particularly when companies cut expenses (including marketing expense) to enhance quarterly reports.

"Philosophically I think everyone would agree that long-term profitability is the goal," says Susan Maupin, a senior marketing executive with office-products giant, Staples Inc.

"However, the realities and pressures for a manager to hit his or her daily and monthly numbers (and having to explain to senior management why they're missing their numbers) has more immediacy and urgency. We'll get back on track later, we'll get back to our brand position after we successfully hit our numbers. There IS no long-term if we can't make it through this short-term."

Many are discovering, however, the sum of many short-term quarterly gains doesn't always add up to long-term profitability. Some are recognizing there's no long-term if we focus solely on short-term, because profitability often depends investments of energy and resources over time.

**Clear Strategy is a Strong Determinant of Profitability**

Consider two bodies of research that look at the characteristics of highly profitable companies. Let's start with a chestnut: Michael Porter. Although his approach to strategy development may be incomplete, a portion of his research continues to hold true to this day: the Porter's U Curve. In researching the benefit of size/scale on profitability, Porter found something very interesting. He found that companies could be virtually any size and remain profitable provided that they had a



strategy – and he characterized the main strategies as niche, differentiated or cost-price. The companies at the bottom of the U-Curve (low profitability) were those with no defined strategy.

Flash forward to a study conducted by three business professors on strategic archetypes. Using a multi-item scale for measuring a company's approach to strategy, one of the questions they wanted to answer is what type of approach to strategy would lead to profitability.

Analyzing 150 companies, they categorized firms as defenders, prospectors, analyzers and reactors. Defenders are companies that create gains by prominence in their particular industry or product; prospectors by product innovation and change, and analyzers by being careful followers of change. Of these first three, all demonstrated profitability. The fourth type, the reactor, performed less well by comparison. The reactor, by definition, has no defined strategy, but simply responds to opportunities or threats that appear in the market.

Picking your strategy and committing to it over the long-term; aligning around its implementation, is one of the keys to profitability. And the degree to which you have a strategy or not can be measured.

### **Holistic Orientation to Marketing Is Also Key to Profitability**

What the University of Arizona researchers discovered in their survey of 40 companies is that when marketing is pushed down from the corporate level to the business unit level, marketing takes on a sales focus and other key elements of marketing may fall between the cracks. These include market research, marketing professional development, and new business development (R&D).

So what? The issue isn't whether marketing is at the corporate or business unit level. It's whether or not all the elements of marketing are practiced throughout the organization. Another study correlates profitability with depth of marketing skills. It defines the key skills as planning (the ability to write and implement marketing plans), scanning (environmental scanning and analysis), product and service development, pricing ability, promotion and communications, and finally sales/distribution. The more proficiency a company has with each skill correlates to higher profitability. This means that focusing strictly on branding and sales – although they can be measured – is not the optimal path to long-term profitability.

### **Changing the Culture of Decision-Making**

If we want to take a stock-based approach to thinking about marketing and profitability, instead of focusing on analysts and quarterly results, let's think like financial planners. A good financial planner will tell you to be aware of but not controlled by quarterly ups and downs. Rather, we need to identify the predictors of sustainable success and adopt a "buy and hold" mentality of marketing practice. Let's pick a long-term strategy or brand, invest in it and commit to it for the long-term. Let's diversify our strengths by adding new marketing competencies to our "portfolio."

"It's a daily struggle for many organizations between having a differentiated brand that doesn't have to compete on price with having a fire sale in a heartbeat if sales are down over a one week period," says Staples exec Maupin. When "the market turns down the strategy of being an industry leader squarely faces off against a cost-cutting strategy."

Still Maupin says that her firm and others have done well with a careful balance between the long-term and short-term practices, and investing in the deep and broad marketing skills that are needed for a holistic approach.





Note: We want to acknowledge the Sightline Institute, a sustainability think tank, for its long-time use of the phrase “measuring what matters.”

Kathleen Hosfeld is the President of Hosfeld & Associates, Inc. Since 1989, Hosfeld & Associates' strategy and marketing services have launched, grown and inspired visionary for-profit and non-profit organizations and projects. We help clients think more clearly and boldly about their goals. We provide the skills and resources clients need to implement breakthrough strategies for profitability, service, and contribution. For more information, please visit <http://www.hosfeld.com>

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