MEASUREMENT OF MARKETING EFFECTIVENESS

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Abstract

In the world is still more placed emphasis on marketing activities in the companies. If the marketing department can evaluate the effectiveness of own activities, it increases the trust of all departments in the company. And it is possible to better plan the company investments, to create the profit and to invest further. The future of marketing departments is mainly based on their ability to evaluation activities and to demonstrate own importance in the company. It is a reason to develop and interested in the topic, which deals with measurement of the marketing effectiveness. The paper deals with the marketing effectiveness, points to its importance for company activities and shows the most necessary methods for measurement of marketing effectiveness and suggests benefits.

Keywords: marketing, effectiveness, measurement of marketing, Activity Based Costing, ROMI

Introduction

Marketing effectiveness is the quality with which managers go on the market to optimize their spending in order to achieve a good results in short-term and long-term period. Introduction of the marketing measurement is a process that is often criticized, because it only focuses on short-term objectives. But in fact, by definition, is focused on marketing activities that can be implemented to improve short-term and long-term results. Short-term improvements are measured in terms of profit and long-term improvements are focused on improvement of the brand equity in the minds of company customers and improvement of the image.

Marketing Performance Assessment is an important complement to marketing activities in companies. Its importance is growing with amount of invested resources in the marketing.

Each manager feels responsible for the investment, finance, manufacturing and information technology, but does not know how to identify marketing spending. Measurement of the marketing effectiveness is a little bit of art and a little bit of science. This is particularly difficult in B2B environments, where are long sales cycles and a lack of understanding of the marketing strategy. It is necessary to improve the measurement of a profitability of invested capital and marketing ties with a corporate finance. Every marketing department must understand that it is important to measure the effectiveness of their activities and so are necessary correct the measuring methods. Marketing survey was made, where 54% of respondents from top management in the chemical industry are not satisfied with the effectiveness measurement of marketing activities.

Marketing is defined as a system of knowledge about the market, where the company wants to implement its products, the products and their trends (technology, interest groups), the behaviour of competitors and consumers. Marketing is also a activity for acquirement this knowledge.

Marketing effectiveness is defined as the optimizing quality of spending to achieve the desired results in a period of time.

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Marketing performance can be defined as the ability to achieve the objective of marketing.

Marketing audit can be defined as the system that checks the effectiveness of marketing activities.

Goal of the research

The goal of the research is to highlight importance of marketing measurement in companies and describe the most important measuring methods that can be successfully used in practice. The paper deals with the method of ABC (Activity Based Costing), index ROI (Return on Investment) and ROMI (Return on Marketing Investment).

The research methodology is based on the secondary research. The secondary research occurs when a project requires a summary or collection of existing data. Information in the paper are collected from various sources, databases, publications and conference papers. Here are also presented own ideas, proposals and opinions on this topic.
Introduction to marketing measurement

Marketing process can be understood like actions and activities of marketing professionals, leading to the fulfillment of a company strategic goal. The goals, together with the mission, define the strategic plan. Part of the marketing process is the analysis of marketing opportunities, selecting target markets, designing marketing mix, marketing strategy and implementation.

Company establishes marketing mix consisting of elements that are under company control - the product, its price, method of distribution and communication policy. In order to be able to establish marketing mix and to realize it, they must make firm marketing analysis, planning activities, implementation strategies and monitoring.

One of the complex systems for control effectiveness of marketing activities is a marketing audit therefore the measurement of marketing performance is not possible to do without the right marketing audit and the control. According to Kotler the marketing audit is kind of independent review of marketing company performance, which aim is to identify problem areas and marketing opportunities and recommend plan to improve the marketing performance of company.

The goal of the marketing audit is not only to praise the company, but to point out weaknesses and to suggest how to tackle them. The results will bring changes that are encountered with the incomprehension of workers in the start. Proper implementation of the proposed recommendations will not only improve the marketing activities of the company, but will also improve internal company communications and higher interest of marketing staff with business objectives. The importance of the marketing audit and its added value lies in the fact that the company will show the true face of his marketing activities and leading to recommendations that create conditions for improvement of the marketing management, and increasing market success of the audited company. Every company should evaluate from time to time its overall approach to the market through the marketing audit. To traditional accounting audit, quality audit, environmental audit or security audit, company should also include marketing audit.

Measurement of marketing effectiveness

Measurement of marketing effectiveness will now receive more priority from managers and will cease to be an ancillary activity, it will gradually become a competitive factor. While do not exist unit process for the marketing measurement, its management or decision making, but if it would exist, the competition would disappear and each manager would decide with the same model.

It is known hypotesis that the ability to measure marketing positively influences on the company performance. The correctness of this hypothesis is confirmed by many marketing experts.

For measurement of marketing there are important metrics. Metric is defined as the ability to evaluate economic performance using a comprehensive set of indicators (financial or non-financial). And it is good to know that for the measurement of overall performance should be to use two types of indicators - financial and non-financial.

Activity Based Costing

ABC method is not primarily selected to measure the effectiveness of a marketing activity. The main significance rests in eliminating unnecessary costs, which can ultimately increase a profit. Principle of the method is based on the cost allocation to individual activities and it is important to focus on overhead costs.

ABC method is developed from 80’s last century, reason was dissatisfaction of large companies with assigning costs to individual products. All these companies used the traditional costing (direct salaries, direct costs .......)

Its aim is to achieve allocating overhead costs by their causes, the costs are attributed to sub-activities. Company activities schedule to elementary activities (e.g. transport, storage, control ...), while examining the necessity of the costs for these activities (process accounting).

Activity Based Costing is defined as a method to measure costs and performance activities, resources and cost objects. Resources are assigned to activities and actions are then assigned to cost objects on the basis of use.

The aim of a calculation by the elementary processes is achieved by allocating of overhead costs by cause of creation. These calculations detect and assign costs by elementary activities. Calculations begin by distribution of company activities in the elementary activities (e.g. Ordering materials, income and expenditure of material, transport and storage of material, quality control, internal transport, packaging
products, expedition), primarily focusing on areas which create overhead. There examines, what costs create activities and they test their importance.

The great advantages of the ABC method are an overview of the actual costs of all products therefore to create opportunities to reduce a overhead costs for unnecessary operations. The disadvantage of this method is just breakdown of overheads on elementary activities and assignment to each product, where large companies implement this method more than 3 months.

ABC method obtains the following information:
- Costs of various activities and processes
- It shows more real cause of the cost
- It focuses on the important cost items
- It provides reliable information on costs of products and services
- It points to the profitability of individual products and customers
- It allows to identify the costs of activities, which not create profit

Using the ABC method for measurement of the marketing effectiveness is evident. Due to this method is possible to identify costingness, which can be compared with the benefits and there is the opportunity to show unnecessary activities, after their removal the effectiveness of activities is increased, which manager can quantify as a profit or a profitability.

**Return on investment ROI**

Index ROI can be used for measurement of marketing effectiveness. ROI can be expressed as a percentage of net profit and costs for this activity.

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ROI = \frac{Net\ Profit[\€]}{Investment[\€]} 
\]

In marketing, it is possible to meet with a similar index and it is ROMI (Return on Marketing Investment). It is new metric and it is not like ROI, because marketing is not the same kind of investment. If ROMI is positive, and marketing spending will be deemed as justified.

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ROMI = \frac{IRAM}{MS} \times \frac{P}{P} 
\]

where:
- IRAM – Incremental Revenue Attributable to Marketing [€]
- P – Profitability [%]
- MS – Marketing Spending [€]

There are 2 approaches of the marketing measurement, the first is aimed at measurement of the marketing effectiveness in the short-term period, this means for detection of the increase profit, that is due to marketing activities, the second approach is focused on the long-term period, where spending for marketing in long-term period brings the improvement of a company image, brand value and market share.

**Marketing in short-term period**

Example of marketing activities, that can be assessed in the short-term period are discount coupons, there is possible to assign increasing revenue directly to the marketing activities.

Example calculation of ROMI:
Marketing spending = 1000 €
Revenue due to marketing activities = 5000 €
Profitability = 10%

\[
ROMI = \frac{R \times P}{MS} 
\]

where:
- R – revenue [€]
- P – profitability [%]
- MS – Marketing Spending [€]

Result:
ROMI = 5000 * 10% / 1000 * 15 = 50%

For this calculation is necessary to have the result more than 100%, e.g. if ROMI = 100% thus cost of the marketing activity equals profit of the marketing activity. If ROMI is less than 100% is good to consider application or continuation of the concrete marketing activity.

**Figure 1.** Dependence of sales on marketing spending

Figure 1. indicates a revenue development dependent on a marketing spending. From a certain point (point A) may get a saturation of the revenue and for each manager is important this point to know not to invest more as is needed.

Due to ROMI is possible find out the benefits of marketing activities and the marketing is seen positive, because can give reason for own costs.

**Marketing in long-term period**

Cost of the marketing does not only reflect a higher revenue but also in improvements of other parameters, that it is not easy to measure them, for example: a company image or a loyalty of customers, but due to the marketing activities increase also these values, it means that marketing activities do not only increase the short-term parameters but also parameters, that do not change in short-term period. And if ROMI is less than 100%, it is possible, that the marketing activity may pay from long-term vision, because a customer value is increasing and that is possible to find out after a longer time.

**Figure 2.** Time dependence of sales
Figure 2. indicates, that marketing activity may display after long-term period. After the end of a marketing activity the revenue has a permanent higher value due to increasing long-term parameters (e.g. company image). With increasing awareness of the company and products some customers are loyal to brand. Every marketing activity also help to long-term development of the company and has influence on the increasing of market share.

Discussion

If the marketing department can quantify the effectiveness of activities, it increases confidence of each department in the company. In this company a marketing managers plan better their investments, which may create next profit and to invest further. The future of every marketing department is mainly based on evaluation of own activities and demonstrated the importance for the company. And so it is necessary to develop topic, which deals with measurement of marketing performance and effectiveness.

ABC method can successfully reduce overhead costs, it increases the profit and profitability. After proper implementation of the method manager receives a perfect overview of the company activities and costs for each product, while costs have really value in comparison with traditional calculation of the cost. And so manager can decide on the merits of the products and assess the benefits (effectiveness) of the each product or service.

A simple example of using this method may be a company producing 2 different products, where by the traditional calculation are costs 100€ for each product. Using the ABC method in practice is common that result of the traditional calculation disagrees with the result of the ABC method, e.g. the first product cost is 90€ and for the second product 110€. This phenomenon is due to detailed breakdown of overhead costs for each product. This means that overhead costs are divided into individual activities and these activities are associated with each product, and it is obvious that different products are produced by using different activities with different costs.

Conclusions

Managers more emphasis on marketing activities of company. The reason for this trend is the desire to achieve sustainable profit and develop their own company to compete still harder.

Improvement of the company effectiveness is possible only if first numerically we evaluate activities to show the progress and the growth. Therefore, the current marketing effort to come up with a method which can comprehensively evaluate the company activities.

There is important to know the values of non-financial and financial parameters. With a success we can use index ROMI, that point to progress in long-term and short-term period.

References