EBOOK

How to Validate the Value of Your Marketing

A Step-By-Step Guide

planful

Introduction

One of the skills that differentiates successful marketers is the ability to effectively and accurately communicate the value they are adding to the overall business. The problem is, amidst all their other responsibilities, it's difficult, time-consuming, and frankly, confusing, to even attempt to articulate the business value they've created. When you can't substantiate that value in the language of business, others in the organization have a hard time understanding and believing in the value of marketing. Not surprisingly, that results in credibility issues, funding battles, and career churn.

Contents

The Challenges of Calculating Business Value

When it comes to the challenges that marketers face, we've been able to extract some common themes. For starters, marketers often make decisions out of fear versus having easily-accessible data to drive confident decisions. This isn't anyone's fault, by the way; it's just that up until now, the standard marketing tools haven't been able to provide a comprehensive view into this type of data. The tools that do exist are quite specific, and therefore force marketers to attempt to measure results at the channel or tactical level.

It's very common to see marketers communicating their results in terms of leads. Very few calculate results in terms of ROI. Now, ROI is an important calculation that certainly has its place, but when it comes to validating the business value of marketing within the entire organization, it's not enough—as you'll see in the following example:

If Campaign 1 had an ROI of 5.0x, and Campaign 2 had an ROI of 0.6x, which campaign offered the most value to the overall business?

The answer is: it depends. We need to know more information. How much was invested in each marketing campaign? How much business value did each campaign create?

If Campaign 1, with a 5.0x ROI, has a value of $5,000 to the business, and Campaign 2, with a 0.6x ROI, has a $500,000 value to the business, Campaign 2 is actually more valuable because it brought in half of a million dollars. In other words, ROI on its own is not enough information. It's necessary, but not sufficient.

If a marketing team reported that a campaign was expected to have an ROI of 3x, then the question that the CFO and others in the organization would (or should) be asking is, "3x of what?" But if, instead, that marketing team shared that a $100,000 campaign is going to generate $400,000 for the business, that statement has meaningful impact to everyone and is expressed in business (e.g. financial) terms that all stakeholders appreciate.

And yet, despite the limitations that marketing leads, and even ROI, present when attempting to communicate marketing results to the rest of a business organization, virtually **no marketers measure their results as a dollar value**. That's understandable; it's an involved and time-consuming process.

However, determining the dollar value of the work you're doing is imperative because money is THE universal metric across all disciplines in a business. It is how business performance is measured, and it's the most transparent way to tell everyone whether a campaign will have a meaningful impact on the company. In other words, calculating the dollar value is the key to validating the business value of marketing within the entire organization.

The Key Steps toCalculating Marketing's Business Value in Financial Terms

Let's go step by step through the process. **In order to calculate the business value of marketing, you will need to:**

1. Choose and standardize how you will express the value.
2. Make sure you are measuring at the right level—by campaign, not by tactic.
3. Examine your business' conversion funnel and determine the conversion rates at each phase.
4. Map each campaign to the appropriate phase.
5. Calculate the average lifetime value of a purchase.

Step 1: Choose and Standardize How You Will Measure Business Value:

Business value is some version of profit, whether that's contribution margin, gross margin, operating margin, or EBITDA. So first, pick the version that makes most sense for your organization. You will need to be able to look at your tractable marketing metrics and see them culminating in financial benefit to the company in the future. If you can measure your pipeline reasonably accurately, you're close to determining profit. If you're measuring revenue, you're even closer. Just standardize a consistent financial measure so you can compare contributions by campaign and monitor performance over time.

Business value is not a marketing metric like reach, likes, registrants, views, visits, downloads, logins, or positive press coverage. While these can be tracked, and have their place as "business-value adjacent," they do not communicate business value or anything meaningful to colleagues outside of the marketing organization.

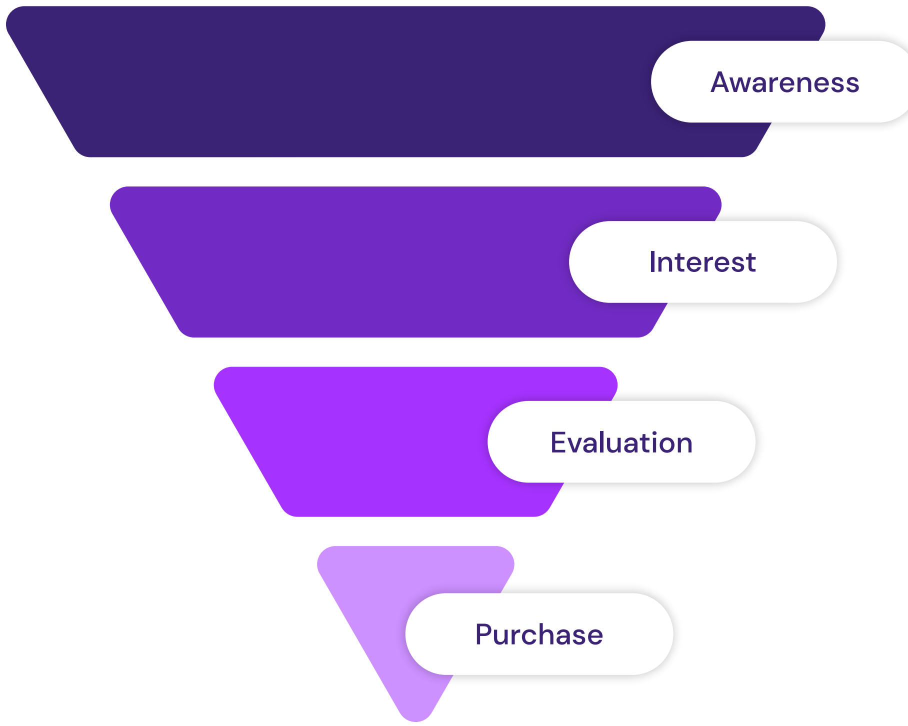
Step 2: Measure at the Right Level—Campaigns, Not Tactics:

We commonly work with marketers who want to ascribe business value to a specific marketing tactic like a white paper. But not every tactic is measurable or describable in terms of ROI or business impact. In order to really track business value, you have to take a step back from specific tactics and examine your marketing at the campaign level.

Define your campaigns so that the metric is a quantifiable and measurable number of people or businesses either appearing in your pipeline or progressing to the next stage in it. As you'll soon see, you can put a value on that. (Note: If you can't track a tactic back to a specific campaign and/or goal, you should reassess why you are doing that tactic in the first place.)

Step 3: Examine the Conversion Funnel and Determine Conversion Rates:

Locate your marketing activity's metrics in whatever conversion funnel makes the most sense for your business. If you're a multi-offer company, you may need more than one funnel. For illustration purposes, we will use this one:



Take some time to think through the conversion rates from one stage to the next; if you capture conversion rates well, you will be able to accurately forecast the business value of your marketing activities. Also, remember this is not a one-time calculation. Conversion rates will change over time based on factors you control (messaging, price, etc.) and factors you don't (seasonality, competitor moves, etc.). Once you have agreed on your conversion metrics, everyone must use them for all marketing campaigns related to that offer. Consistency is key.

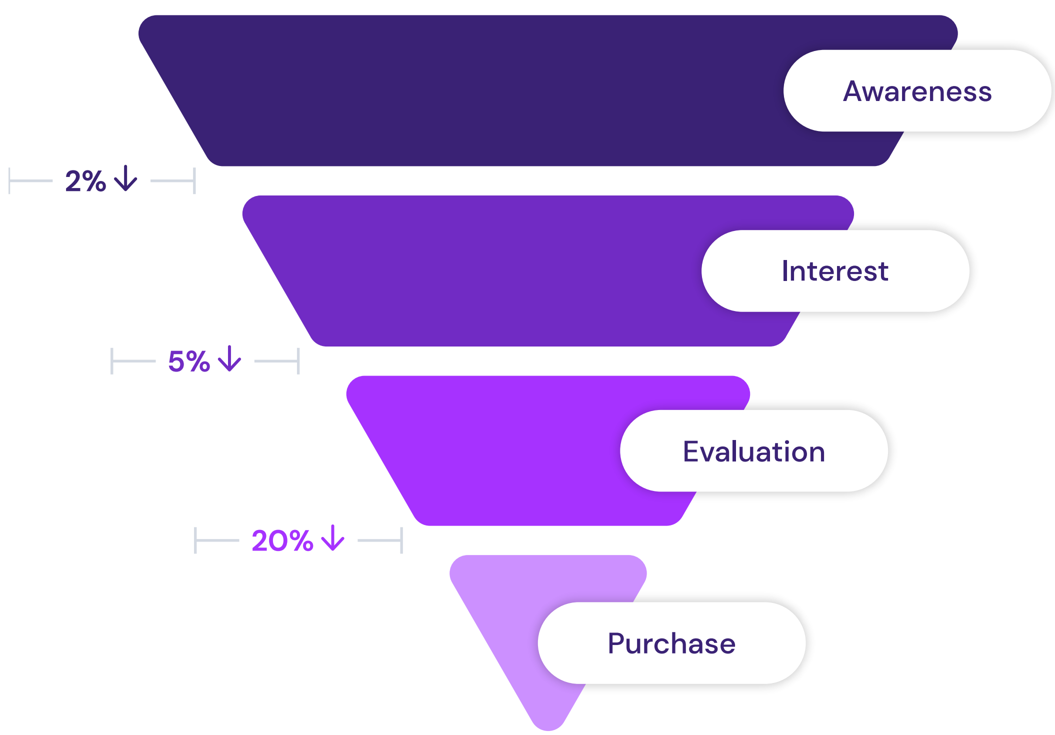
Step 4: Map Each Campaign to the Appropriate Phase in the Funnel:

For example, the goal of an awareness campaign is to put people in the Awareness stage, a thought-leadership campaign may be to move people from Awareness to Interest, and a sales-enablement campaign should move people from Evaluation to Purchase.

Step 5: Determine a Realistic Average Lifetime Value (LTV) For Your Customer:

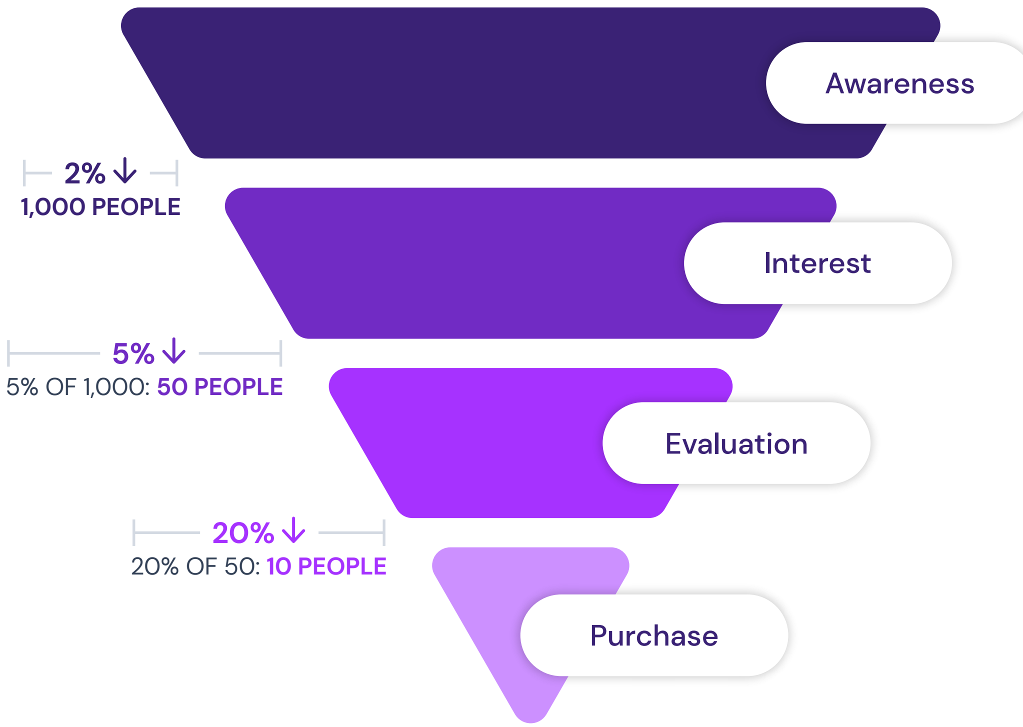
Ideally, the average lifetime value of a customer should be expressed in terms of profit, but if you can't get that, use revenue. Whichever you choose, just remember to be consistent across all of your campaigns.

In our example here, we have determined that 2% of people move from Awareness to the Interest stage, 5% move from Interest to the Evaluation stage, and 20% move from Evaluation to Purchase.



Let's say this company wants to move 1,000 people from the Awareness phase of the funnel to the Interest stage. What would the dollar value of those 1,000 leads be, if the LTV of a customer is calculated to be $10,000?

If 1,000 people land in the interest phase, that means 5%, or 50, will make it to the Evaluation phase. Of those 50, 20%, or 10 people, will make it to the Purchase phase.



If it has been calculated that the average LTV of a customer is $10,000, then the dollar value of that campaign would be $10,000 x 10, or $100,000. **The value of each lead can then be calculated to be $100, or $10,000 divided by 1,000 leads.**

A Word on Long Deal Cycles

We often talk with marketers who engage in long deal cycles. If your business has a 12-month sales cycle, it can be difficult to tie today's activities to a financial outcome. But if you can create a funnel that flows all the way through to deal closure, and map your campaign metrics into that funnel, then you can calculate a projected business value for your marketing activities even when they are at the top of the funnel and won't generate business value until the next fiscal year. You can also easily show why investments in the current year are required for next year's growth.

Marketing has its own language, which makes it difficult to communicate the value of marketing to the broader business. Learn how Planful for Marketing helps you convert marketing effort into the language of business so you can articulate Marketing's impact on overall financial performance, justify more investment in marketing programs, and reach peak marketing performance.

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Marketing plays an important role in business, but it's not enough just to know and believe that—you need to be able to prove it to others in the organization. That's especially true as you work more closely with your CFO and the finance team to justify marketing spend and prove that investments in marketing are worthwhile. **The good news is, it can be done!**

By calculating business value at the campaign level, you can clearly show the impact marketing is having, and will have, on the business in terms of dollars—a universal metric for everyone in the organization. Sharing the worth of your work in this way helps build confidence in the value of marketing and eliminates the need for funding battles because the numbers will simply speak for themselves. Better yet, it puts you on equal footing in the c-suite because other executives and board members will quickly grasp and compare marketing investments against other potential investments across the company.

About Planful

Planful is the pioneer of financial performance management cloud software for Marketers. The Planful platform drives peak financial performance across the business and is used around the globe to consolidate planning, budgeting, and analytics into one view. Planful for Marketing enables marketers to optimize their marketing performance and true business value by ROI. Superior to traditional disconnected spreadsheets and disparate tactical marketing systems, only Planful for Marketing delivers a unified, collaborative marketing solution with process automation for improving agility, efficiency, and business value of marketing investments. Planful for Marketing provides full visibility of real-time insight for better decision making and operational marketing excellence. To learn more visit www.Planful.com/Marketing.

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