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Editor's Cut

Happy New Year and what have you done for me lately? Even as the New Year brings renewed optimism for an IT rebound – read the December CIO Magazine Tech Poll™ summary in this issue - CEOs and CFOs are scrutinizing marketing budgets and demanding ROI accounting for dollars spent. In good times "soft" measurements like brand awareness, preference, and intent to purchase were not challenged and marketing was not required to cost justify every dollar spent. Times have changed and so must we.

The CMO Council has initiated a Marketing Performance Measurement (MPM) task force to develop technology industry performance standards and practices for measuring marketing ROI. The task force includes a seasoned team of marketing professionals with additional support from an advisory group of more than a dozen CMOs. Companies represented on the steering committee include AOL, Documentum, Eastman Kodak, Juniper Networks, Pitney Bowes, Qualcomm, SAP, Siebel, StorageTek, Tektronix, and Wipro Technologies.

The first order of business for the task force is to identify the metrics used to assess marketing performance and the obstacles to effective marketing performance measurement. This will be accomplished through qualitative interviews with a small sample of CEOs and COOs early this month. The qualitative findings will be used to shape a much larger quantitative study of CEOs and COOs later in January.

The research will provide the basis for developing not only MPM standards and practices but also a clear definition of marketing's role and impact within the organization. It's part of the CMO Council's mandate to help technology CMOs maximize their performance and create value for their organizations.

Target date for MPM project completion is April 2004 with a public announcement planned for the following month in New York. Marketing Magnified will keep you up to date as the work progresses.

The majority of the articles in this month's issue follow the bottom line performance theme. Marketing ROI and how to get it will be the focus of the publication through 2004. If you have a point of view, join the conversation.

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Tech Awakens After Long Slumber

A new poll of corporate chief information officers forecasts spending on IT this month will rise six percent, the strongest January forecast in three years.

The results of the CIO Magazine Tech Poll conducted in December shows that 45 percent of all businesses and 55 percent of businesses with over 5,000 employees report having a "significant" application backlog. Results also show that respondents claim visibility on tech spending for first quarter 2004 noticeably brightened in the past 30 days.

The study conducted by CIO Magazine in partnership with Deutsche Bank Securities and Prudential Securities Inc. surveyed 185 chief information officers. Nearly 42% of the respondents work for global corporations.

Gary Beach, CIO's Group Publisher, notes "My conversations with chief information officers suggests "momentum" is in place for continued improvement in tech spending. Some even have "upside" contingencies for tech spending based on quarterly profit performance of their firms."

A cautionary note, however, was sounded by 46 percent of respondents who predict spending will remain "unchanged" in 2004. Further, nearly 60 percent of respondents say visibility for tech spending remains "cloudy" due to political and financial risks. And, 28 percent (the highest ever) report "sufficient capacity" will negatively impact tech spending in 2004.

Somewhat counter-intuitively, the poll reports a significant drop among chiefs who report IT talent is "plentiful". The 3.6 percent projected compensation increase for IT workers is the highest increase in nearly two years. For complete poll results go to: <http://www.ciotechpoll.com>.

Study Confirms Strategic Role for Digital Marketing

A new survey of marketing and advertising executives shows that nearly two-thirds of marketers now see digital marketing as having a very high or high level of strategic importance within the organization. Further, three-quarters of respondents said they planned to increase their digital marketing budgets in 2004.

The Digital Marketing Dialog Survey was sponsored by BtoB , The CMO Council, and USA TODAY and commissioned by Responsys, Inc. during the fourth quarter of 2003. Over 400 global marketers and ad agencies responded to the on-line survey.

Over 70 percent of respondents said brand awareness and recognition is a key use of digital marketing, reflecting the growing strategic importance of digital marketing. However, bottom line concerns took precedence as nearly 85 percent of those surveyed noted new customer lead generation as the key reason why digital marketing is used.

Spending on digital marketing is expected to jump in 2004 with the biggest year-to-year increase expected in the 11-20 percent of total marketing budget category. Nearly 40 percent of those who forecast spending for 2004 said they would spend more than 20 percent of their marketing budget on digital marketing.

Six out of ten respondents said digital marketing programs are gaining in popularity primarily because of their low cost of implementation, speed of delivery, and measurable ROI. Nearly 65 percent said low cost was the number one driver of digital marketing. At 81 percent, email marketing campaigns were the leading component of the digital marketing mix, followed closely by website interactions and content delivery, e-newsletters, and on-line advertising.

Interestingly, many marketers gave themselves barely passing grades when it comes to digital marketing. Nearly 40 percent gave their use of on-line marketing a C grade or lower, admitting there is plenty of room for improvement to utilize digital marketing more effectively. Half of all respondents said top improvements would include improved customer profiling and analytics, integration of both on-line and off-line marketing channels and touchpoints, integration of email campaigns with personalized website interaction with customers, and integration of customer information and eCRM/e-support systems. Over half of all respondents are focused on bottom line measurement with emphasis on customer leads, web site visits, click through rates, and customer response rates.

Respondents noted three primary barriers to getting effective digital marketing results. Spam and other email filters and email inbox clutter were mentioned by over 60 percent of respondents as key barriers, followed by the development of qualified email lists. Recent anti-spam legislation and privacy issues are also impacting e-marketing efforts. Nearly half of survey respondents said they would place more emphasis on the quality of email lists and over 40 percent have adopted a policy of opt-in email communications only.

The most frequently cited brand leaders in digital marketing included such companies as Amazon, Barnes & Noble, Dell, Apple, HP, Radisson Hotels, United Airlines, IBM, eBay, and Wells Fargo, suggesting that consumer brands with a strong on-line presence are leading the way in digital marketing campaigns and initiatives.

The survey included all major industry sectors, including financial, retail, travel, healthcare and packaged goods. B2B represented over 60 percent of the sample and a combination of B2B and B2C made up an additional one quarter of the sample. Almost 70 percent of the respondents held the title of Director of Marketing or above with CEOs representing nearly thirty percent of the sample. Nearly 80% of respondents were from companies with less than \$100 million in annual revenue.

Complete study findings will be released on January 12. An interactive on-line roundtable to discuss the findings with a virtual audience of 200-plus advertisers and marketers is planned for January 27.

First IDC CMO Best Practices Awards for Marketing Measurement and Metrics Announced

BearingPoint and Wipro Technologies are the recipients of the first annual IDC CMO Advisory Service Best Practices award for Marketing Measurement and Metrics. The CMO Advisory Panel selected the winners from technology companies that spanned IT software, hardware, and services industry sectors.

The winning entry was from BearingPoint, headquartered in McLean, Virginia. One of the largest business consulting and systems integration firms, BearingPoint outlined an Integrated Marketing Scorecard that rolls results up into an overall marketing score, yet easily allows senior management to drill down for details. This dynamic scorecard incorporates a set of metrics across pre-defined categories in alignment with evolving corporate priorities so that it is responsive to changes in the business. It also employs both hard and soft metrics from internal and external sources to give a true picture of marketing effectiveness.

"BearingPoint presented a well researched, thoroughly documented, and relevant scorecard system that reflects real internal commitment and multi-disciplinary participation," said , an IDC CMO Advisory Panel member.

Runnerup Wipro Technologies, a global IT services and consulting organization based in India, outlined their integrated Lead Generation (ILG) program – a closed loop demand generation strategy – to support their organization's ambitious growth rates. Through strong processes and systems giving a 360-degree view of the customer, ILG synergistically leverages various pull and push mediums to move customers closer to purchase and loyalty. The program has paid rich dividends to Wipro – including brand reach, increased business leads and lead conversions, shorter sales cycles and a high return on marketing investment.

"This approach has superior fit with Wipro's business model and market position," said Geoffrey Moore of the IDC CMO Advisory Panel.

The IDC CMO Advisory Panel is an independent and external body of judges that provides objectivity to the review process. Judges are provided with a ranking system that focuses on quantifiable business results. Published cases will also be analyzed in the context of IDC's Tech Marketing Benchmarks Database to compare marketing effectiveness with the Key Performance Indicators established by IDC based on overall industry averages, including Marketing Budget Ratios, Marketing Productivity, Program-to-People efficiency and a number of other performance metrics.

The CMO Advisory Panel is comprised of a group of technology marketing leaders including: Geoffrey Moore, managing director of TCG Advisors and founder of The Chasm Group; Donovan Neale-May, executive director of the Chief Marketing Officer (CMO) Council and managing partner of Global Fluency; Frank Cutitta, CEO of the International Advertising Association; and, Jonathan Angel, senior editor of Technology Marketing magazine.

Message to Marketing: ROI

After three years of a worldwide economic slowdown and technology meltdown, chief executive officers are giving their direct reports the same message: "Improve results with less budget." ROI is the message and the mandate.

Marketing is one of the largest company expenses and the pressure to produce results is strong even in the best of times. Now, marketing departments – with fewer human and financial resources – often feel the hot breath of the CEO to produce even more with less. Technology marketing departments large and small are working harder than ever to improve results and keep their jobs.

Marketing results are often viewed by the executive team as "soft" or "fuzzy" - accepted in good times but challenged in bad times. Achieving executive buy-in for marketing program spending and ROI credibility rests squarely on the marketing department's ability to set clear, focused, achievable, and measurable marketing objectives and establish accurate, consistent, and believable results tracking programs.

The most important consideration when setting marketing objectives is to link them with the company's key business objectives. This will ensure that marketing spending supports the company's financial and strategic goals and integrates marketing strategy at the highest level. Well-integrated business and marketing objectives bring increased credibility and a better understanding of marketing's role and importance within the organization. Determination of specific marketing objectives requires discipline and analysis. Clarity and focus are required to develop marketing objectives that effectively and efficiently support business objectives. Analysis of time, money, and resources and prioritization of programs based on business strategies and ROI potential are essential first steps. Focusing spending on a few clear, achievable and measurable marketing objectives will return a higher ROI and help demonstrate marketing effectiveness.

Setting financial objectives that tie directly to the business plan will demonstrate marketing's impact on revenue. Brand awareness objectives that measure not only recall but also understanding of the brand promise, brand differentiation, brand relevance, brand credibility, brand preference, and brand consideration will help you show the value of your marketing campaigns. And, behavioral objectives such as purchase conversion, customer satisfaction, retention, acceptance of brand price premium, and brand loyalty will help offer proof that your targeted marketing programs are producing bottom line results and long-term brand equity.

A crucial part of setting marketing objectives is determining how these objectives will be measured. Measurement raises both credibility and cost issues. Credibility increases by degree of measurement precision but so do costs. Setting fewer but more focused marketing objectives with higher ROI potential tied to strategic business objectives will allow you to build higher precision results tracking into your marketing programs. This will also help ensure executive level understanding and acceptance of the marketing program as a key contributor to the overall success of the company. Once results tracking programs are designed and implemented it is important to maintain consistency of methodology to ensure that results can be benchmarked and analyzed accurately over time. Confidence in results helps break down believability barriers and improves marketing planning.

Setting marketing objectives that are strategically integrated with the business planning process, focusing on a few key objectives with the highest ROI potential, and building reliable, high-credibility results tracking into your marketing programs are important steps to proving the marketing department's value.

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The Impact of Brands On Shareholder Value

There is widespread acceptance that brands play an important role in generating and sustaining the financial performance of companies. With high levels of competition and excess capacity in virtually every industry, strong brands help companies communicate why their products and services are uniquely able to satisfy customer needs.

The last twenty years have witnessed a dramatic divergence between the net asset value of companies and their market capitalization. The aggregate market-to-book ratio of the S&P 500 rose steadily from an average of around 1.4 at the beginning of the 1980s to around 3.5 in the mid-1990s. It accelerated rapidly in the late 1990s to reach a peak of 7.3 at the height of the dot.com bubble in early 2000 before falling back to its current level of around 4.5.

A market-to-book ratio of 4.5 implies that the tangible assets of a business account for less than 25% of the value that investors are placing on a company. Intangible assets such as patents, trademarks, business systems, distribution rights, brands, customer databases and the quality of a company's management and workforce account for the remaining 75%.

As yet, there is no methodology for measuring the financial contribution of brands that enjoys credibility in the boardroom. The brand health metrics traditionally favored by marketers (such as awareness and preference) have no proven relationship to shareholder value, in large part because they focus on the present health of the brand rather than its future potential.

Relevant differentiation is a measure of brand health that explicitly addresses the future potential of a brand. The Differentiation component measures the perceived uniqueness of the brand; the Relevance component measures the breadth of the appeal of the brand. In financial terms, Differentiation is a powerful predictor of a brand's ability to sustain a premium margin, while Relevance is a powerful proxy for the depth of the market penetration that a brand can achieve.

The BrandAsset® Valuator - developed and maintained by the Corporate Research Group at Young & Rubicam - has been measuring the brand health of some 20,000 brands across 40 countries since 1993 in terms of the four constructs of Differentiation, Relevance, Esteem and Knowledge. Only recently, however, has the BrandAsset® Valuator data been married to a financial database of similar scale and authority, the Economic Value Added (EVA®) database developed and maintained by the financial consulting firm, Stern Stewart & Co.

Combining the two databases has allowed for rigorous investigation of the definition of brand health that is most highly correlated with value creation, and of the scale of the impact of brand health on the valuation of companies across different industries.

The work by BrandEconomics - the subsidiary of Stern Stewart created to perform this analysis - demonstrates that the valuation of companies can be expressed as a function of their profitability and brand health. Profitability, measured in terms of returns above the cost of capital alone, typically explains some 50% of the variance in the observed valuation of companies. Adding a brand health variable - measured in terms of relevant differentiation - typically raises the explanatory power to between 70 and 80 percent of the observed variance in valuation. Valuation is a function of three primary variables: profitability, growth, and risk. Investors care about the level of free cash flow of a company (profitability), the prospects for increasing cash flow (growth) and the volatility of these cash flows (risk). BrandEconomics' work implies that brand health provides a powerful proxy for investors' expectations about the growth potential and riskiness of a company.

This should come as no surprise to marketers who have long spoken about brand "permission" and brand "loyalty". What are these except for measures of growth and the sustainability of

earnings? The BrandEconomics work (available for download from www.brandecon.com) now provides conclusive econometric evidence of their impact on company valuation.

Similar validation is contained in as yet unpublished research by Susan Fournier from Harvard University and the Tuck School at Dartmouth and Tom Madden and Frank Fehle from the University of South Carolina. The study - Brands Matter: An Empirical Investigation of Brand Building and the Creation of Shareholder Value – is available for download from <http://ssrn.com/abstract=346953>). Their research demonstrates that over the period August 1994 to December 2000, a portfolio of 111 highly-branded companies produced a monthly return 0.57% above the total market average at a beta of 0.85. This is powerful evidence for the impact of brands on increasing the earnings of companies and lowering the volatility of those earnings.

These two studies provide the most compelling evidence to date for the financial significance of brands. In addition, the work by BrandEconomics has identified a measure of brand health - relevant differentiation – that is meaningful both in terms of customer value and shareholder value. Marketers that focus on the relevant differentiation of their brands can be certain that they are contributing to value creation.

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Study Shows On-Line Lead Generation Taking Bigger Bite

A new study released last month showed 44 percent of 2004 technology marketing budgets will be spent on-line for lead generation, underscoring increasing pressure within the industry to demonstrate marketing results.

Marketing expenditures for on-line activities now rival those spent off-line, according to the study. Nearly 60 percent of technology marketing budgets were allocated to off-line marketing in 2003 but that number is projected to drop to 56% in 2004. Marketing budgets for 54% of those companies surveyed will increase in 2004 and only 7% are anticipated to decrease.

The 2004 IT Marketing Trends Study co-sponsored by Bitpipe, Inc. and Sam Whitmore's Media Survey surveyed 359 technology companies, advertising agencies, and public relations firms. The research compared and contrasted results from the first wave study, conducted in the fall of 2002, and forecast spending priorities for 2004.

On-line lead generation expenditures are projected to increase to 44 percent of total technology marketing spending in 2004 versus 40% spent in 2003. On-line activities in 2002 represented only 38% of total spending. The study showed that on-line advertising's share of budget will rise from 14 to 16 percent while on-line sales lead generation will increase its share of spending from 26 to 28 percent.

"The data on 2004 spending plans for technology companies indicates a strong trend toward online sales lead generation," said Jay Habegger, Bitpipe, Inc.'s chief executive officer. "Our study shows that 73 percent of the companies surveyed are planning to do more on-line sales lead generation programs in 2004 than in 2003."

Webcasts and email newsletters registered the biggest jump in popularity. Webcasts will grow from 55 percent use in 2003 to a projected 73 percent in 2004. Advertising in email newsletters is expected to jump from 44 percent use to an anticipated 60 percent in 2004.

"Companies are allocating more budget to marketing activities that can be measured," Steve Voit, Bitpipe, Inc.'s vice president of sales and marketing said.

"This study showed that 63% of respondents said they have an effective methodology for measuring the quality of their sales leads to help determine marketing ROI. Clearly, the growth in measurable on-line lead generation activities underscores the growing need for marketing accountability."

Download complete study from: <http://www.cmocouncil.org/resources.html>

Preparing for the Upturn:

The 3-by-3 Marketing Model for Emerging Growth Tech Companies

All the market signs point to a healthy growth in tech spending in 2004 amid a broader economic recovery. Emerging growth tech companies (\$2 to \$20 million in revenue) also can expect to see growth this year.

A recent poll conducted by Paulson Company, Inc., an investment firm specializing in small and emerging growth companies, reported that the technology industry is among the top three emerging growth sectors.

Given these optimistic signs, 2004 is a critical time to focus on marketing. Think about it. The biggest reasons why companies failed during the dot.com bust were all functions of marketing. The three major reasons why tech ventures don't succeed are failure to:

- 1) Offer something innovative and superior that customers will want and pay for.
- 2) Build awareness and interest throughout the broader market.
- 3) Attract and engage individual customers by understanding their specific needs.

An effective marketing capability also helps companies succeed in other key areas of business: raising capital, developing products, and attracting a strong management team.

Given the central importance of marketing, tech company decision makers must consider how much to invest in marketing, in which initiatives, and how to accurately measure the return? Having worked with dozens of companies from small ventures to Fortune 500s, our experience is that you don't have to spend millions of dollars on marketing initiatives. You must, however, invest strategically in the right areas. With the proper marketing "portfolio", you can succeed cost effectively, maximize your ROI across all marketing initiatives, and generate significant bottom-line results in the first year.

The 3X3 Model Overview

Blue Mine Group's 3X3-marketing model incorporates a balanced portfolio of nine highly effective, least-cost marketing initiatives for emerging growth tech companies. Each component of the model focuses on one of the three primary drivers of marketing value:

- 1) Optimizing market effectiveness through a savvy, well-managed strategy
- 2) Creating market awareness and visibility
- 3) Attracting and engaging individual customers throughout the sales cycle

Marketing Driver One: Strategy – Optimizing Marketing Effectiveness

Prior to investing in communications, it is critical to make sure you understand your target market, have an offer that meets their needs at much greater value than competitors, and clarify how you are going to measure results.

- 1) Market research. Market research allows you to gain a clear and accurate perspective of your market challenges and opportunities to ensure your offering is properly positioned in the marketplace.
- 2) Positioning and branding. It is critical to reach all of the right decision makers in a way that convinces them that your offerings meet their needs better and at a lower cost than any alternative.

3) Performance management. This is your system to measure marketing performance and ROI. It should measure generated brand awareness, market response and conversion rates, and bottom-line sales performance.

Marketing Driver Two: Market Awareness – Building Visibility and Credibility

The only way to generate interest is by letting the right decision makers know who you are and how they'll benefit from using your products and services. To do this, you need to be visible where they look for solutions. The next three components of the 3X3 model focus on building effective brand awareness and credibility through:

4) Online marketing. The Internet is one of the most common places tech decision makers go to research, evaluate and purchase new products and services. A strong Web presence is critical. It's also one of the most effective, least-cost methods to communicate with your customers and prospects at maximum frequency.

5) Media relations and advertising. A strong media presence is another important way to reach your customers and prospects. Your program should focus on media relations and be complemented by the right mix of advertising.

6) Trade shows and conferences. Trade shows and conferences are excellent platforms to reach customers and prospects. There are hundreds of events held each year where tech industry executives and decision makers go to network with peers, attract new customers, and learn about and evaluate new products and services.

Market Driver Three: One-To-One – Educating and Engaging Customers

Once your prospects know about you, you'll need a plan to gauge their interest and win their sale. This involves building one-to-one relationships with them and guiding them through the purchase cycle. Effective one-to-one marketing includes:

7) Publications and newsletters. Educate individual customers and prospects through a series of: customer newsletters (print and online), white papers, application case studies, research reports, technical briefs, company overviews, etc.

8) Company seminars and workshops allow you to engage your individual customers and prospects in a more personalized and valuable way, and make the transition from "educating" to "selling."

9) Relationship marketing is the overall process of building individual relationships and migrating prospects and customers through each stage of the sales lifecycle. Consistently delivering a satisfying customer experience at each stage of the purchase cycle is the key to achieving brand preference, loyalty, and repeat business.

The 3X3 model is a proven system to help you focus your product development on clearly identified market needs, generate significant brand awareness and credibility to drive sales, and engage individual customers to address their needs better than competitors.

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