Making Better Marketing Investment Decisions

> *"The trick is* ***to know*** *at the outset when we're making a good decision."*

Marketers are faced with difficult decisions. These decisions are difficult because they almost always involve loads of complexity with trade-offs between important financial and non-financial outcomes for the brand such as hitting revenue targets, yielding profit, maximizing brand value, positioning the brand, and increasing awareness.

The first source of complexity is that marketing outcomes often occur over different time horizons. For example, hitting a revenue target or yielding profit may be a quarterly or annual objective while maximizing brand value and building awareness is a multi-year proposition and requires a long-term commitment. Furthermore, the short-term revenue and profit gains today may well be predicated on many past years of investment in building the brand.

The second source of complexity is that there are multiple investment alternatives. Gone are the days of just television, magazine and newspaper. Today we also have an exploding number of digital and social media options. The number of tactics have made investing marketing funds more complex. With each of these investments there are different rates of return, scalability, interactions and long-term effects.

And if all of that were not enough there are high levels of uncertainty. Which activity is leading to purchase? What is the sweet spot for investment? How much revenue will we get? These are questions without clear cut answers and they can only be known within a degree of probability. So the risks are high.

Therefore, marketing investment decision are difficult because we don't know the outcome before we make the decision. We'll never know. It's complicated. And so, the trick is to know at the outset when we're making a good decision. Routinely making good decisions will lead to good outcomes.

To determine whether a decision is good from the outset we turn to the framework of Decision Quality. Decision Quality is a framework developed from over 50 years of research and practice by researchers and practitioners in the field of Decision Analysis.

Ron Howard, one of the foremost in the field, describes a decision maker as sitting on a three legged stool. At the foundation, the stool sits on a frame. This is the context and overall purpose of the decision. The three legs of the stool are: What can be done, the alternatives; What we know, the information; and What we want, our preferences. The seat of the stool is the model we use to operate on the alternatives, information and preferences to make the decision.

All of these components work together. Without the foundation, legs or seat the stool falls apart and likewise so does the process of making the decision.

Making Better Marketing Investment Decisions, *Cont'd*

MIDA was built around the concept of Decision Quality in order ***to help*** *marketers make better decisions.*

Six Points of Decision Quality for Marketers

1. *Correct Frame*
   for marketers the question is often regarding how to set the investment plan to
   • Hit a revenue target,
   • Build the brand, and
   • Maximize value.
2. *Range of Actionable Alternatives*
   options in the decision cover the range of possible investments in new and old tactics alike, thinking broadly about areas for investment including
   • Product features,
   • Distribution,
   • Pricing,
   • Sales and marketing investment, and
   • Communications.
3. *Valued Outcomes*
   • Financial (revenue, sales volume, net present value, cash flow),
   • Intermediate (leads, clicks) and
   • Non-financial (brand awareness, equity)
4. *Meaningful Information*
   not only historical sales data and ROIs, but also managerial experience with different investment alternatives and possible outcomes.
5. *Forecast Models*
   uses the information to forecast the valued outcomes and risks for each alternative.
6. *Commitment to Action*
   we're making a decision, as opposed to looking for an ROI.

Decision Quality brings clarity to the process of making marketing investment decisions. Many of the complexities get sorted and named, where we can identify, forecast and operate on the multiple factors in the process of making the decision. For example, if the established frame is to hit a revenue target then the time-frame for that target is established and certain alternatives come into focus. Alternatives like introducing new product features or changing communication strategy may not be feasible. Further, the valued outcome, the most meaningful information and forecast model all then come into focus on revenue. And, finally commitment to action clarifies that we're actually involved in making a decision as opposed doing analysis.

With the Decision Quality framework, it's clear to see decision making is in fact a process developing alternatives, forecasting outcomes, comparing the expected results and choosing the alternative that is most valuable.

At Keen we've developed the MIDA decision support system – the name is short for Marketing Investment Decision Analysis – software to help marketers make better and faster decisions. MIDA was built around the concept of Decision Quality in order to help marketers make better decisions. It's a decision model that can be used to relate investment alternatives to forecasted outcomes, help marketers choose the most valuable alternative, and make better investment decisions.