

Marketing efficiency 2002: Relevance and approaches from the perspective of German marketing managers

Main findings

Munich, April 22, 2002

Survey of marketing efficiency 2002 – summary (1)

- **68%** of all interviewed companies say that **marketing efficiency is a crucial challenge** for most companies, particularly for large companies operating in marketing intensive industries such as consumer goods
- **71%** of all companies also indicate that the **efficiency pressure** on marketing activities **has significantly risen** in the past three years. The declining efficiency of classic media, the increased number of marketing tools available, and the macro-economic situation are likely causes of the increased pressure
- The companies are **not satisfied** with the efficiency of their marketing activities:
 - 3 out of 10 companies see **savings potential of more than 10 percent** in their marketing/communication budget; at the same time, 34 percent of companies plan on making **budget cuts** in **2002**
 - One in seven companies perceive **potential to increase sales of more than 5 percent** through more efficient marketing
- These findings demonstrate that there is **considerable pressure to act**, since the area of marketing and communication is obviously faced with serious efficiency problems in comparison with other operative functions

Survey of marketing efficiency 2002 – summary (2)

- Roland Berger Strategy Consultants have identified **four barriers to efficiency** in this regard:
 - Barrier 1: Lack of transparency
 - Barrier 2: No targeted marketing budgeting procedure
 - Barrier 3: No use of innovative efficiency levers
 - Barrier 4: Lack of success measurement
- Around **one third** of all companies have **no or very little overview** of their marketing costs (**barrier 1**)
- Only around **half** of the companies interviewed take a **systematic approach to developing proper budgets** for marketing industries. Although companies in industries with traditionally high marketing investments such as consumer goods, telecommunications, and IT have a more systematic approach, only around 70% of companies are systematic (**barrier 2**)
- **Innovative approaches and best practices** in efficiency improvement (e.g. bundling volumes and printing times in the case of print products) are only taken by a minority of companies to date (**barrier 3**)
- In measuring the success of their **marketing activities**, a large number of the interviewed companies tend to be passive: **one third of companies do not** measure the impact of their marketing activities **systematically** (**barrier 4**)

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- **Methodology and sampling of survey**

Survey of marketing efficiency 2002: methodology and sampling

- 103 telephone interviews in March 2002 conducted on behalf of Roland Berger Strategy Consultants
- Base for research and comparison: 2001 survey to similarly structured sample
- Structured questionnaire with open and closed questions
- Target persons: marketing managers of medium and large German companies

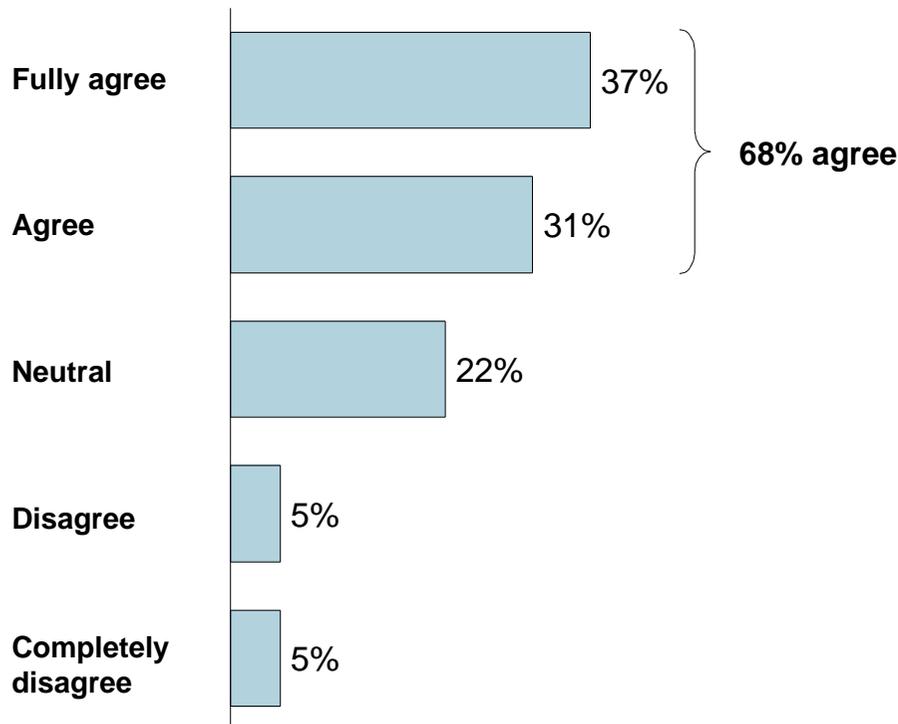
Structure of sample

Industry focus		Revenues		Size of workforce	
Engineered products	20%	Up to EUR 0.25 bn	24%	Up to 999 employees	30%
Consumer goods/retail	21%	EUR 0.25 - 0.5 bn	15%	1,000-4,999 employees	34%
Pharmaceuticals/healthcare	2%	EUR 0.5 -2.5 bn	40%	5,000-9,999 employees	13%
Transportation	20%	EUR 2.5 - 5 bn	7%	Over 10,000 employees	23%
Infocom	16%	Over EUR 5 bn	16%		
Financial services	21%				
Total	100%	Total	100%	Total	100%

B. Main findings

Marketing efficiency is a crucial challenge for more than two thirds of companies

"Marketing efficiency is a crucial challenge for us"

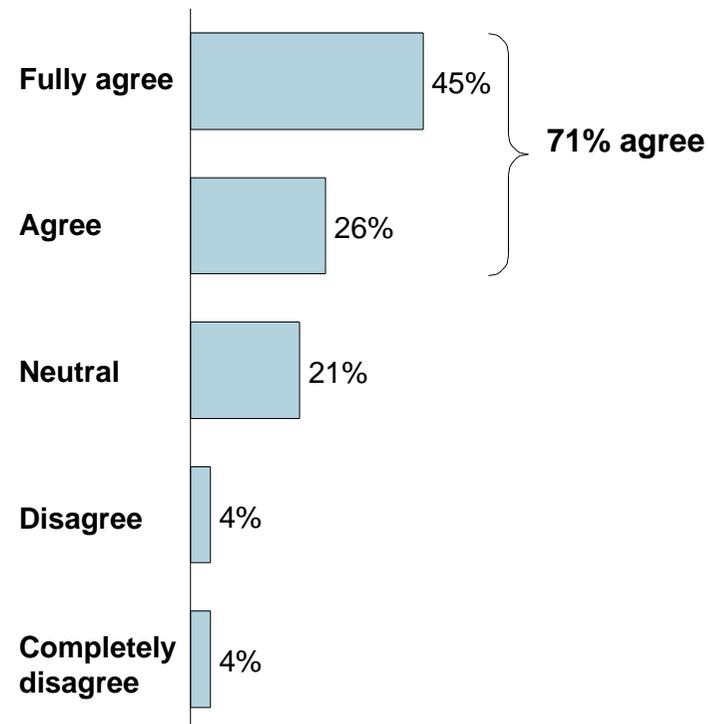


Key facts/notes

- Marketing efficiency is a **top challenge** in marketing for **7 out of 10** companies
- Marketing efficiency is a challenge especially in the **telecommunications** and **IT sector**
- Reasons: **Deregulation** and **market saturation** have led to higher **competitive pressure** and increasing **marketing investments**
- In less marketing intensive industries such as **engineered products, systems engineering, and transport** marketing efficiency is less of a critical challenge
- The intensity of the challenge increases as the size of the company increases (larger budget)

More than two thirds of companies agree that pressure on marketing expenditures has increased considerably

"Increased pressure on marketing expenditures in the past 3 years"

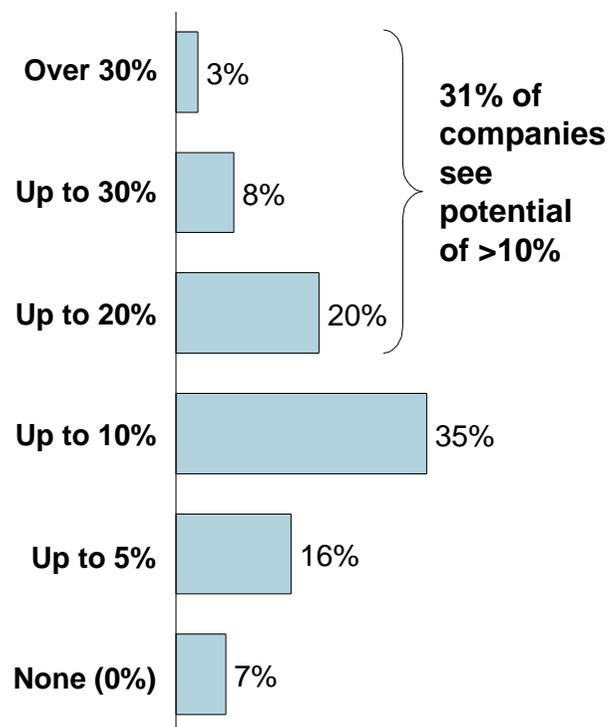


Key facts/notes

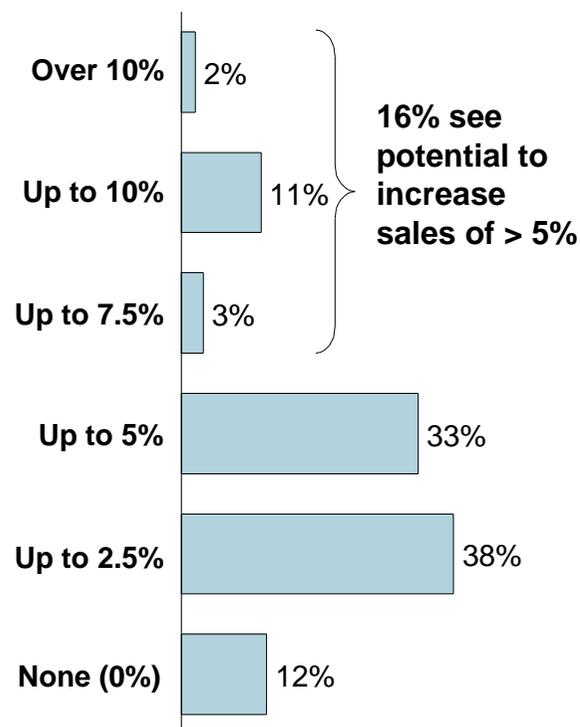
- **7** out of **10** companies feel that pressure to be efficient is increasing
- There are relatively few **differences between industries**
- **The greatest** efficiency pressure is felt in consumer goods and pharmaceuticals companies (high competitive pressure, a broader range of marketing tools, declining efficiency of classic advertising)
- **The lowest** pressure is felt in Infocom (little budget pressure because market growth is so strong) and engineered products/systems engineering (relatively low marketing expenditure)

Companies perceive considerable savings potential in their marketing budgets, but also possible ways of increasing sales

"Savings potential in the marketing budget through systematic planning and budgeting"



"Potential to increase sales through optional use of the marketing budget"

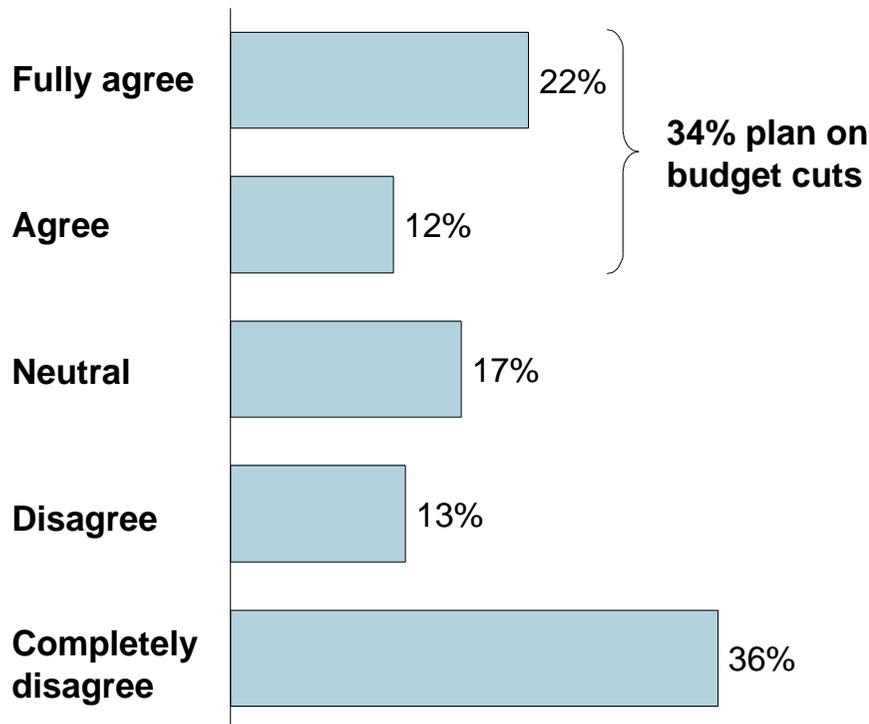


Key facts/notes

- Almost one third of companies recognize savings potential of more than **10 percent**
- Calculated on the total **media spending** in Germany, this means inherent losses of more than **EUR 500 m**
- **One in 7 companies** consider it possible to increase sales by more than **5 percent** through more efficient marketing

More than one third of companies plans to cut its marketing budget – a consequence of the expected savings potential?

"We intend to cut our marketing and communication budgets"

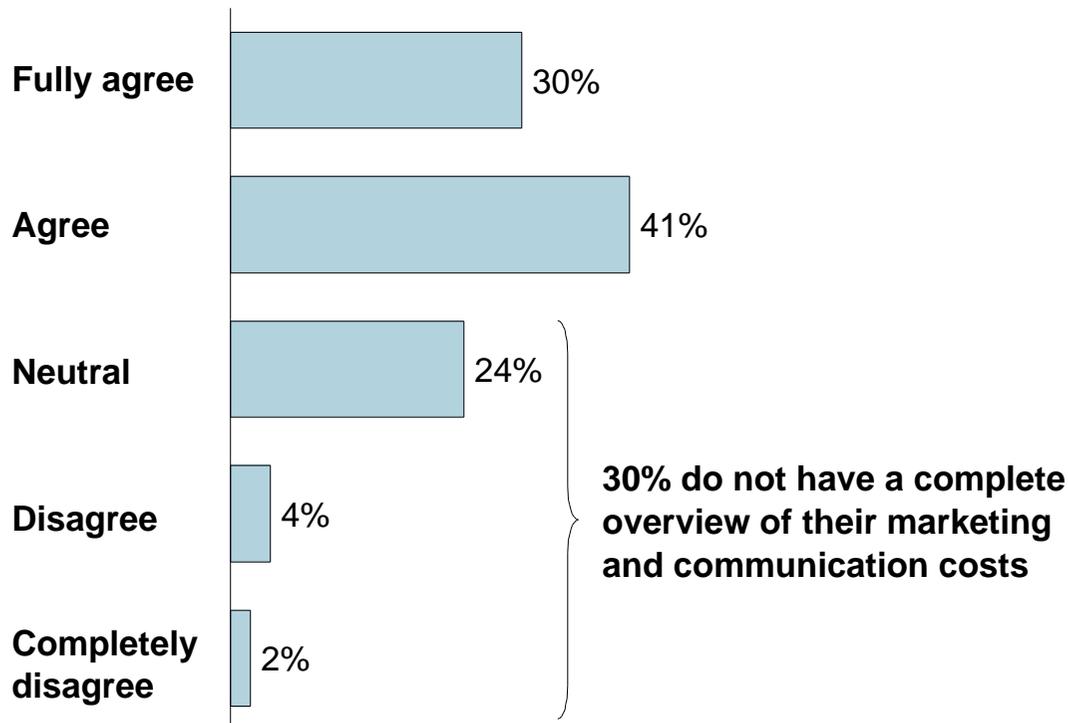


Key facts/notes

- Despite expected **savings potential**, only one third of companies **plan to cut** their marketing and communication budget
- Possible **reasons**:
 - Lack of clarity about **where to make cuts**
 - Limited **internal resources/competence** to realize the potential
 - Marketing efficiency is often not a part of the **overall company's** efficiency-raising program
 - Little interest/competence among **agencies** to optimize marketing efficiency

30% of companies do not have transparency over the actions they are taking – prerequisites for marketing efficiency not in place

"We have an overview of all marketing and communication costs"

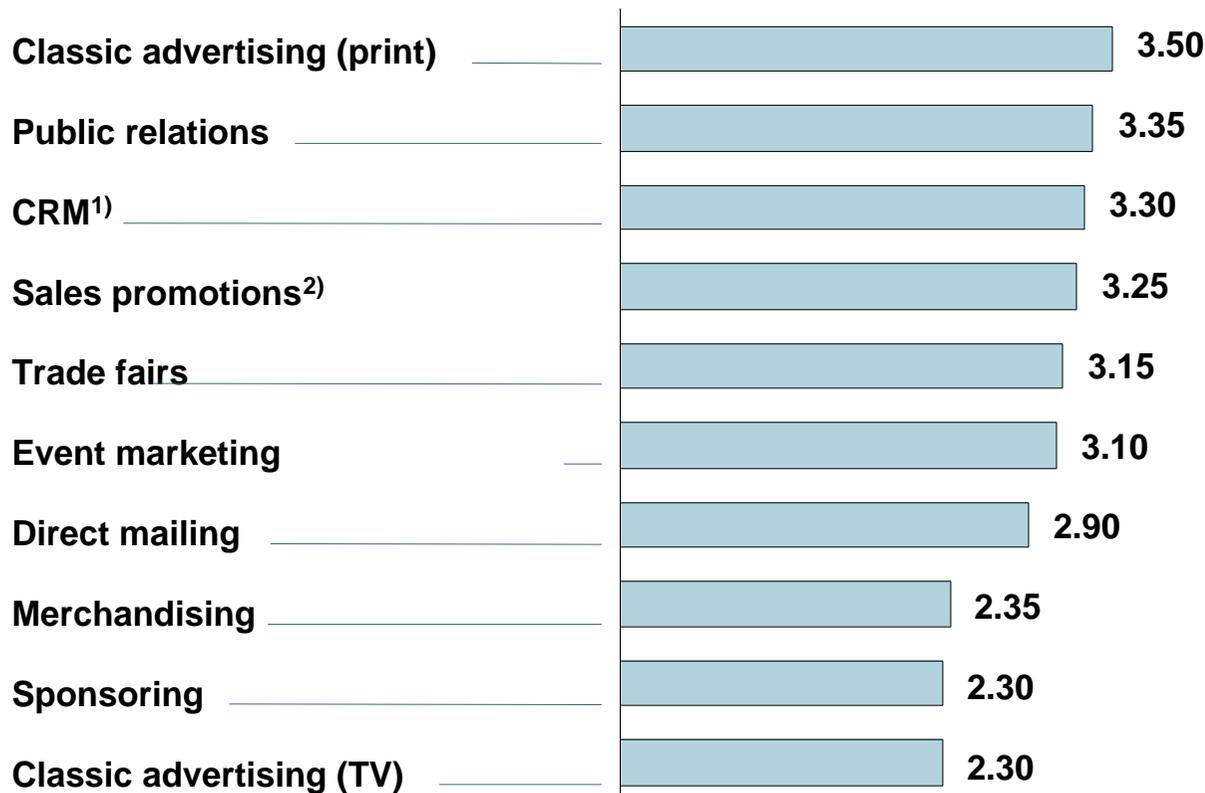


Key facts/notes

- Only **7 out of 10 companies** have **transparency** concerning their marketing activities and have the prerequisites for marketing efficiency in place
- The situation regarding companies' overview over costs in **telecommunications/IT** and **transport** has **worsened considerably** since the last study findings of 2001
- Possible **reasons** for the lack of cost transparency
 - Rapid growth in markets/budgets (especially in telecommunications/IT),
 - An ever increasing **range** of marketing/communication tools

Print advertising, PR, and CRM are the main cost/budget items in marketing – major challenge for efficiency measuring

Ranking of marketing activities by cost/budget relevance



Key facts/notes:

- "Top box": Print, PR, CRM
- TV advertising and sponsoring with **limited** relevance (consequence of falling **media performance/activity efficiency**)
- Besides the classic advertising measurement, a stronger focus is therefore necessary on **PR efficiency** and **CRM campaign management**
- **The reduction in the importance of CRM** in 2002 over 2001 indicates that companies' CRM activities are in a critical situation – **efficiency must be proven**

1 = Not important, 5 = Very important

1) Customer relationship management

2) Displays, shelf stoppers, trial sizes, flyers, prospects, etc.

Source: Roland Berger Market Research, Roland Berger

Industry differentiation highlights the different activity focuses – specific efficiency approaches are needed

Cost/budget relevance differentiated by industry

Top box activities	Engineered products	Consumer goods	Transport	Telecommunications/IT	Financial services	Pharmaceuticals ²⁾
Rank 1	Trade fairs	Cl. advert./print	CRM ¹⁾	Cl. advert./print ¹⁾	Direct mailing	Sales prom. ¹⁾
Rank 2	CRM	Cl. advert./TV	Public relations ¹⁾	Trade fairs ¹⁾	Event marketing	Public relations ¹⁾
Rank 3	Cl. advert./print	Sales prom.	Direct mailing	Event marketing ¹⁾	Cl. advert./print	Cl. advert./print/TV ¹⁾



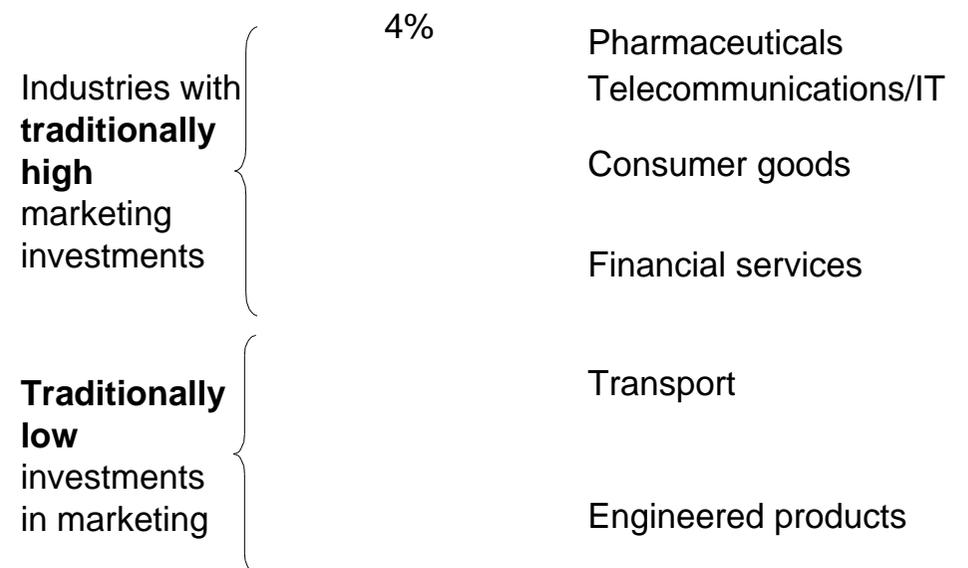
Classic advertising/print	3.55	3.82	3.05	3.94	3.41	3.00
Public relations	3.50	3.23	3.35	3.80	3.23	3.00
CRM	3.65	2.95	3.35	3.44	3.18	2.00
Sales prom.	3.25	3.41	3.30	3.27	3.14	3.00
Trade fairs	4.15	2.73	3.15	3.94	2.19	3.00
Event marketing	3.05	2.82	2.74	3.94	3.73	2.50
Direct mailing	2.75	2.50	3.25	3.31	3.95	2.50
Merchandising	2.25	3.14	2.15	2.19	2.19	1.00
Sponsoring	1.55	2.95	1.85	2.31	2.90	2.00
TV	1.15	3.50	1.58	2.25	2.71	3.00

■ Shadowed boxes = major costs in the industry

1) Identical values; no ranking possible for corresponding measures

2) Only two companies in the sample; findings should only be used as an indication of the trend

Source: Roland Berger Market Research, Roland Berger



Even industries with high marketing expenditures, e.g. consumer goods industry, have shortcomings in the budgeting process

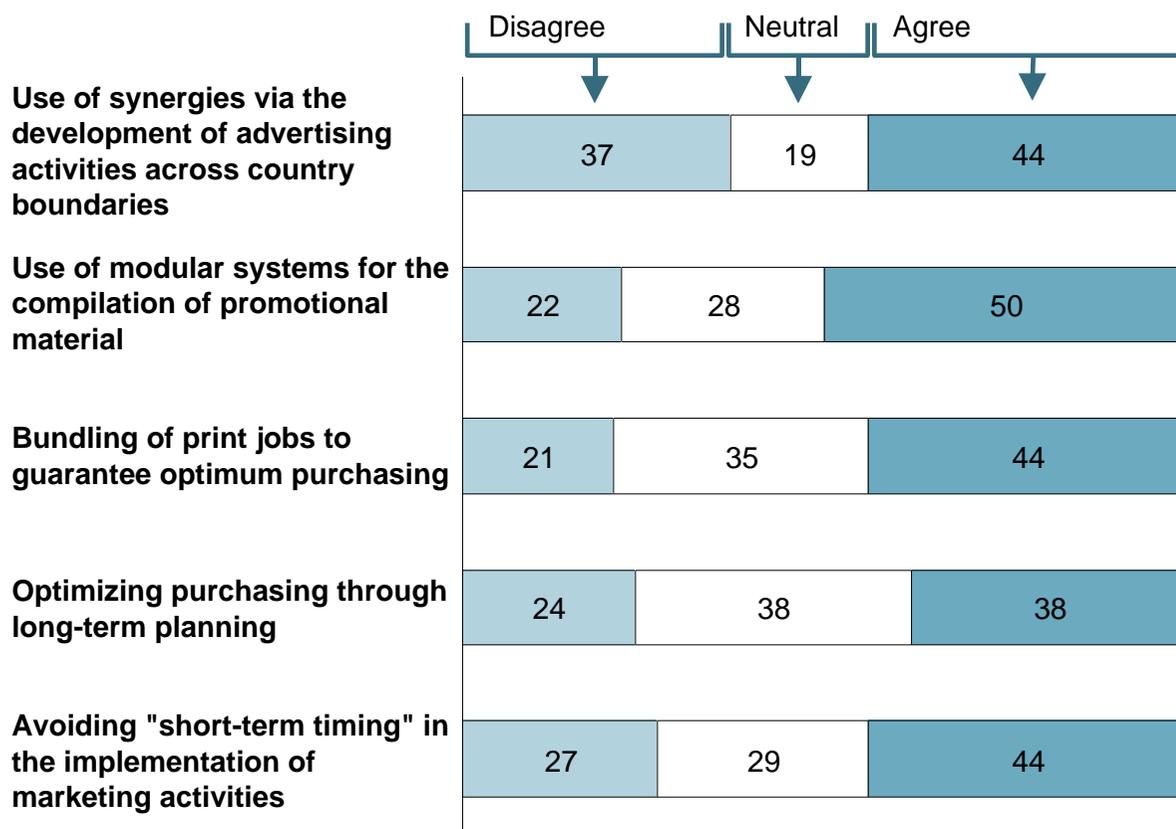
- Industries with **traditionally low marketing expenditure** (engineered products/transport) are **least systematic** when drawing up their marketing budget – obviously little **experience/competence** in targeted budgeting
- **One in three consumer goods and telecommunications/IT companies** is not systematic in drawing up its marketing budget. This is remarkable in view of the high marketing expenditure in these industries. **Mistakes in the budget** and **negative ROMIs¹⁾** for activities/campaigns are the probable consequences
- Companies with no systematic budgeting approach often take the **previous year** as the budgeting guide (**continuation method**)
- Therefore **high-quality yet pragmatic budgeting approaches** are **essential** for effective and efficient marketing

1) Return on marketing investment

Third barrier to efficiency – innovative approaches to raising efficiency in marketing not pursued by the majority

"We have taken the following efficiency-raising activities" (%)

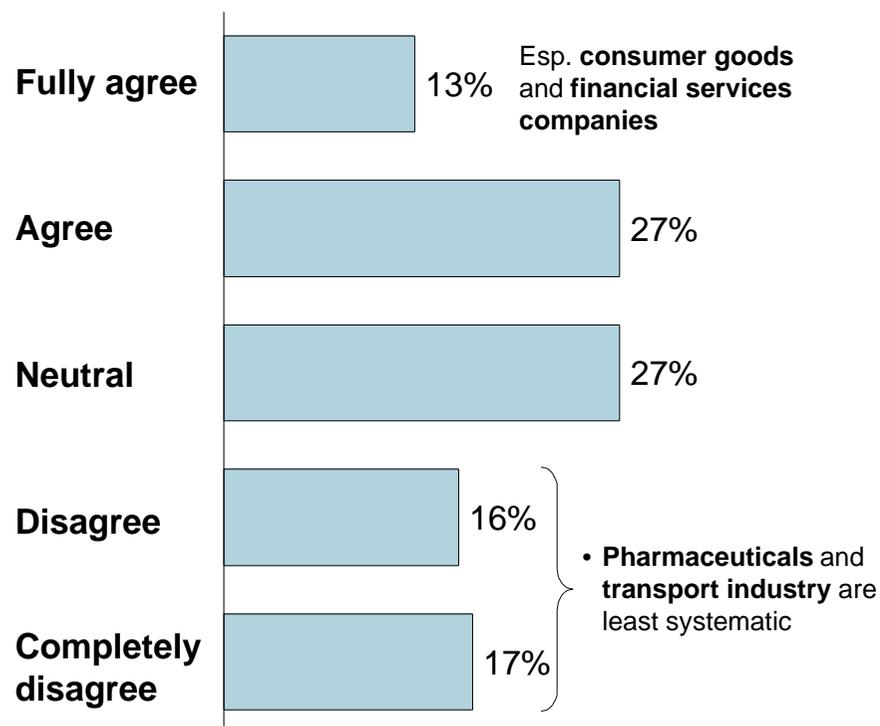
Key facts/notes



- On average, only around **40%** of the interviewed companies use innovative approaches to improving efficiency
- **Company size** does not explain the use/non-use of a particular approach
- Implementation of innovative activities is particularly low in the **telecommunications/IT, financial services, transport** industries

One third of companies do not measure the impact of marketing activities systematically – fourth barrier to efficiency

"We measure the impact of classic advertising activities systematically"



"We measure the impact of direct marketing activities systematically"

