Originally printed in MarketingNPV Journal *vol. 5, issue 1, pages 17-19*

A dialogue on marketing measurement

Rob Malcolm
President, Global Marketing, Sales, and Innovation
Diageo

You may not know Diageo, but you surely know several of its brands. The London-based company is the world's largest spirits manufacturer, with core brands such as Johnnie Walker, Smirnoff, Bailey's, Guinness, Tanqueray, and Jose Cuervo contributing to Diageo's $15.7 billion in revenues in 2007. As the company's president of global marketing, sales, and innovation, Rob Malcolm has the enviable (and challenging) task of overseeing this broad portfolio of brands. Malcolm sat down recently with MarketingNPV managing partner Dave Reibstein to discuss marketing's role at Diageo and his methodical approach to measuring marketing's effectiveness. The interview, part of MarketingNPV's Measured Thoughts webcast series, can be viewed at www.MarketingNPV.com. An edited version of the transcript follows.

Dave Reibstein: ***How would you define marketing's role at Diageo?***

Rob Malcolm: Very simply, we think of marketing as the place that drives growth. We use kind of a trite expression: "the engine room of demand creation." What we're about is growing our brands by making them more relevant and more powerful [to] consumers.

Reibstein: ***So how are you measuring how well marketing is accomplishing that role at Diageo?***

Malcolm: There are a number of measures. The first measure is, are we meeting our top- and bottom-line objectives? The second measure is, how strong and successful are the brands? Are they hitting their growth objectives both in top-line growth and bottom-line growth? A third measure is brand health. We have a number of measures that determine whether the brands are healthy. And the last measure is what we do to measure the effectiveness of our brand spend. So there are quite a number of measures.

Reibstein: ***I'm going to ask you about each one of those. But before we get into that, I'm trying to get a sense of how you go about determining the overall size of your budget.***

Malcolm: The marketing budget actually starts later in the process, once we determine the overall financial goals for the company in terms of the top- and bottom-line growth, return on investment, and cash flow. Those are the four big measures that we have. Once we've determined what those are, we then do an analysis of our portfolio.

Reibstein: ***Where do the goals come from?***

Malcolm: The goals come from the financial goals we have for the company.

> *"Our brand planning actually starts with a consumer metric. What change in consumer behavior do we need to achieve to deliver growth aspiration that we have for a brand?"*

What kind of growth goals do we want to deliver based on the expectations of our investors? We have aspirations to be one of the top consumer-goods companies. We measure ourselves against a peer group of 17 other consumer-goods companies. Our goal is to be consistently performing in the top third of those 17 companies. You work backwards from that and [ask], "What does history tell you the growth needs to be in order to consistently be in the top third?" — and that begins to frame the overall goals of the company.

Reibstein: ***I know all of my students aspire to be in the top half of the class. I know that's really difficult and for you to have achieved that against the premier companies is a great accomplishment. I'm going to take us back to the question about how you think about putting together your budget.***

Malcolm: We start with the financial or growth goals, then we begin to

continued>>>

Copyright © 2008www MarketingNPV LLC

Originally printed in MarketingNPV Journal *vol. 5, issue 1, pages 17-19*

continued from page 19

look at the portfolio and the makeup of our portfolio of brands. Which mix of brands in which geographies with which level investments are most likely to generate those kinds of top-line growth rates and financial returns? So we look at the allocation of resources on a categories basis, on a brand basis, and importantly on a geography basis.

Reibstein: ***I can understand the allocation going to brand, going to different geographies. But in terms of the overall size of the budget?***

Malcolm: The size of the budget comes from two different dimensions. One is a sense check: What sort of reinvestment rate makes financial sense in our overall model? Historically we've been able to grow and deliver our financial goals with an advertising and promotion budget at somewhere between 15% and 18% of our outside sales. Sometimes it's been a little bit more when we've stepped up investment in new geographies; sometimes it's a little bit less. But around that 15, 16, 17% of what we call "net sales value," or NSV, is the overall number that works in the Diageo metrics.

But we don't apply that model to how we build up marketing budgets by brand or by country. We look at the growth rates that we need to achieve and what we know about the levels of investment on each brand in a given geography, and we build the marketing budget from the bottom up to get to those goals.

Reibstein: ***So does each brand manager create a budget, which ends up aggregating to your level?***

Malcolm: It's the bottom-up and top-down process. The brand manager or brand director (if it's a global brand) will be looking at the overall growth goals and what they know about what it takes to grow and achieve those goals. And they'll build a budget from the bottom up. Then we'll add them all up — and everything the brand managers want to do always adds up to more than what the company can afford — so then we go through a process of making choices.

Reibstein: ***And that process?***

Malcolm: That process is based on what kind of returns we see being generated by those investments. How believable or credible or how much proof the brand manager or brand director has that the proposed plan will deliver what he or she says it will. What our history and what the competitive environment suggests. All of those come into play.

Reibstein: ***Can you share with us a little bit about the analytics and other tools you use for trying to assess the budget levels on the brand?***

Malcolm: All of our brand planning actually starts with a consumer metric. What change in consumer behavior do we need to achieve to deliver the growth aspiration that we have for a brand? So if we are setting an aspiration of growing the brand 10%, how many consumers need to change how much behavior to generate that growth?

Reibstein: ***Is that in terms of how many more drinks per consumer or how many more consumers?***

Malcolm: It depends upon the brand. If our analytics suggest that [consumers] are participating in our brand for some of the relevant occasions but the best way to grow is to capture more occasions, not necessarily more users, then the metrical drive is to more frequency of consumption — "share of throat," if you will. If it's a brand that is new, we're building the franchise and the metrics suggest the strategy will be driven more by acquiring new users. So once we've decided on the consumer driven strategy for each and every brand, we then begin to look at the different marketing tools and how much to invest that can drive that behavior change. That's where the metrics come in.

Reibstein: ***And is there a standard set of metrics that you use across the entire portfolio of countries and brands?***

Malcolm: There's a standard set of processes that we use to calculate the consumer behavior change that we need to get there. And we use a similar research methodology on every one of our brands around the world that segments our consumers based on their level of loyalty to the brand and their level of consumption frequency. And all of our brands use that same scale — we call it the 4 A's scale from awareness to adoration — which allows us to look across the world through a similar set of metrics that we can use to influence our investment choices.

Copyright © 2008 MarketingNPV LLC

Reibstein: ***What I've heard is, there are loyalty levels that you look at, there is the number of consumers, and there's the degree of maturity of the brand. What else can you add to that?***

Malcolm: On every single brand, we'll say the best way to grow this brand based on our analysis of the loyalty scale will be some change in behavior among some consumers. Then we will go into the experience on the brand and [ask], "What do we know is able to cause that change? Is it advertising? Is it some element of promotion? Is it some element of trial? What are the vehicles that we have experience with that have proven effective at beginning to shift that level of behavior?" And because we start with metrics — how many consumers need to shift how much behavior — our experience will begin to tell us how much money behind a certain activity is sufficient to achieve that numerical change in behavior.

Reibstein: ***Do you look retrospectively at the return that you've had from your expenditures?***

Malcolm: We do. We start with the strategic framing of what we're trying to accomplish with the tools. Then we go back and look at the return we've gotten in the various investments, whether advertising or a digital piece or experiential marketing. We look every year in our annual cycle at what worked last year, what didn't work, and which of those elements achieved the consumer shift in behavior that we were looking for through our annual business review cycle.

Reibstein: ***And are you held accountable to the return?***

Malcolm: Absolutely. Every year, I'm measured on the productivity of the investment in marketing. I'm held accountable for the growth levels we've committed to the brand and those are associated with the level of investment. So if we achieve growth levels better than or equal to what we set out with and spent equal to or less than at an overall level, that suggests we're on track. But then we have more detailed metrics by brand [and] by country that go underneath that.

Reibstein: ***And you hold everybody else down the line accountable in an equal manner?***

Malcolm: Absolutely. So my guys who look after the brands globally have a set of "key performance indicators" for their brand every year. And they are not just held accountable, but a good part of their compensation is tied to their delivery of those metrics.

Reibstein: ***So we've talked about your budgetary process. I want to get a sense of how you try to capture short-term effects vs. trying to think about long-term effects.***

Malcolm: We have a very simple tool — and one of the things at Diageo we believe in is that simple tools get used. Complex tools don't get used. So we have a very simple 2x2 matrix where we look at, on one dimension, what's the return on investment based on the return we see in the business. The other dimension is what's the effect on consumer attitudes or behavior? We call that the "equity measure." So we evaluate every year on every meaningful brand 80% of the A&P spend against its return on investment and its equity effect in our 2x2 matrix.

And then we begin to look within that and see what that tells us. If we have something that is performing very effectively in brand-equity change but is not delivering the financial return on investment, we look at how we can make that more efficient because it's a good thing. If we look at something that is generating a return on investment, a short-term push, but not building the equity, we look at it and [ask], "How can we get more equity value? What are the changes to the program?"

Those that are up in the upper right-hand corner — that get return and equity build — we call "Stars." Those in the lower left-hand corner, that neither affect equity nor return, are the "Dogs." And we affectionately know this analysis as the "Dogs and Stars" chart [see related article at http://www.marketingnpv.com/articles/bylined/diageo_dogs_and_stars].

More Insights from Rob Malcolm Online

Dave Reibstein's conversation with Rob Malcolm continues online. Go to http://www.marketing-npv.com/about/webcasts/measuredthoughts to see Malcolm's insights on:

- translating brand equity into financial value
- tracking non-financial metrics
- the changing role of research in supporting allocation decisions
- testing and experimentation methods
- Diageo's "share of throat"