

3 Techniques to Prove Marketing Value

How CMOs can defend their marketing budget in an uncertain economy



CMOs need to protect the resources they need to deliver value

Boards and the C-suite expect CMOs to lead the way to revenue growth in 2023 despite the inflation, supply chain constraints and rising talent costs that continue to make everything more expensive. And though marketing budgets as a share of revenue rebounded in 2022 to more than 9%, according to the 2022 Gartner CMO Spend and Strategy Survey, they are still lower than they were in 2019, forcing CMOs to achieve more with less. If economic conditions degrade further, the C-suite may follow the typical playbook of cutting marketing budgets to manage costs, threatening marketing's ability to deliver value. In times of economic uncertainty, CMOs need a strategy to protect their budgets and, with it, their results.

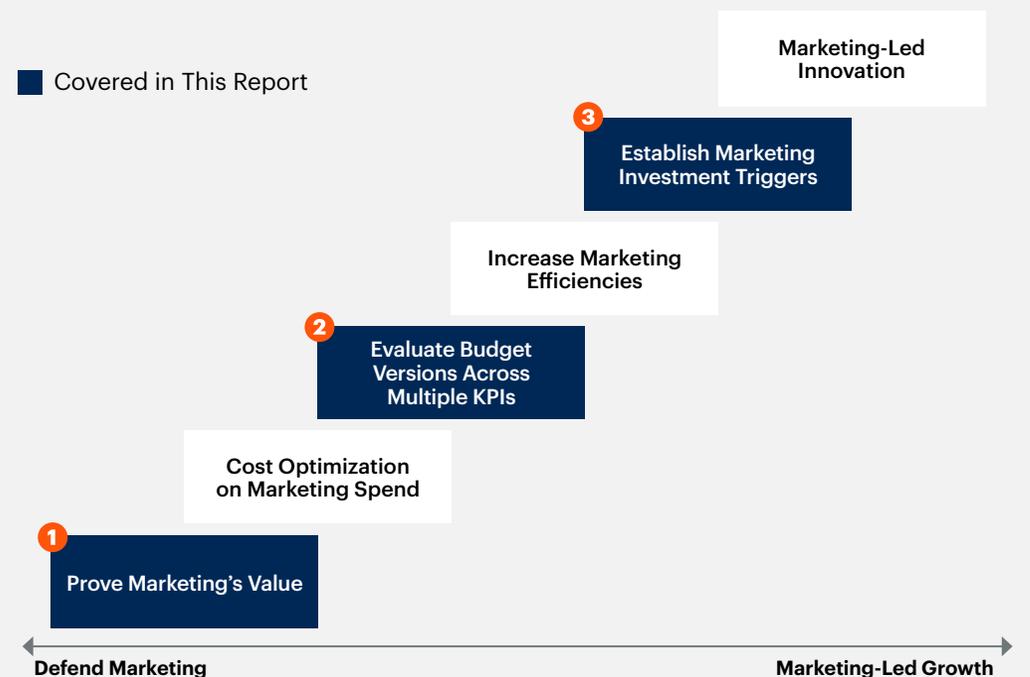
This eBook presents three approaches that focus on quantifying how marketing drives demand and communicating that to executives. They are:

- Prove marketing's value.
- Evaluate different versions of the marketing budget across multiple KPIs.
- Establish triggers for adjusting marketing investments.

These approaches leverage marketing analytics and marketing mix modeling — not budget cuts or efficiency approaches — to establish guideposts for planning.

CMOs Respond to Economic Uncertainty in a Variety of Ways

■ Covered in This Report



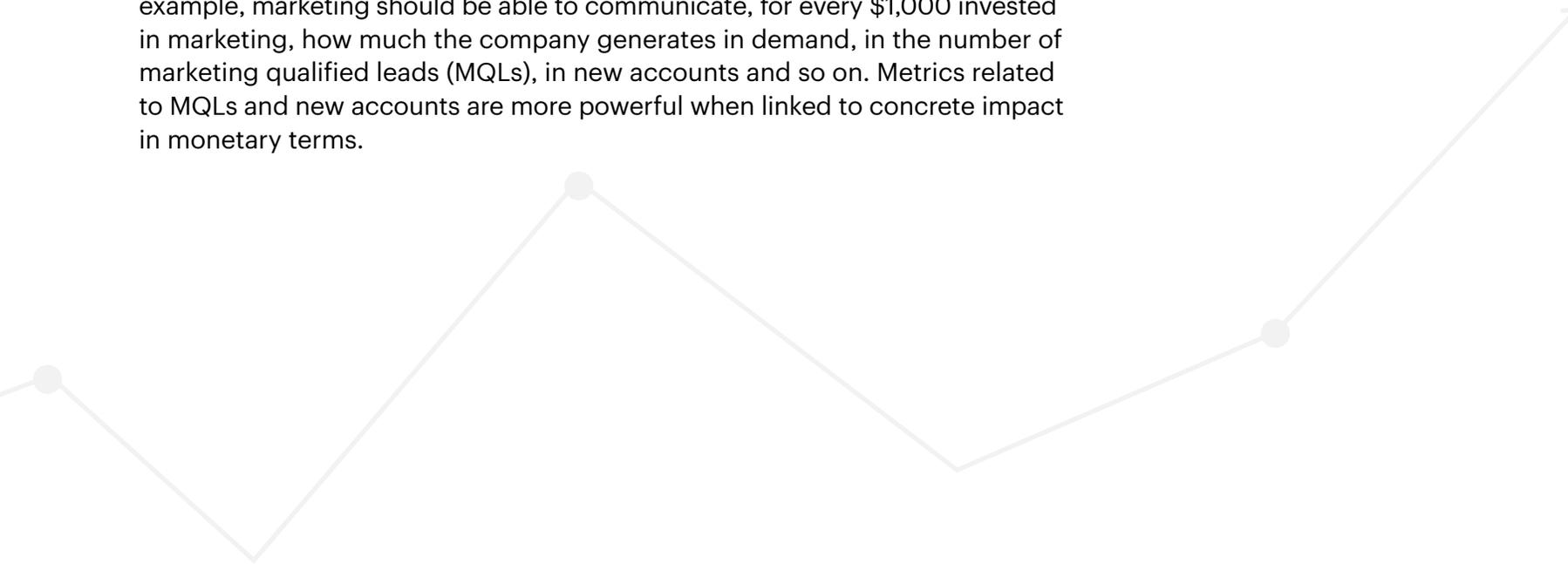
Source: Gartner

Prove marketing's value

Most companies have clear growth plans. When economic headwinds challenge them, marketers must show the connection between marketing investments and growth to protect them.

To do so, it is important to know the overall value of every marketing dollar spent and communicate that in terms the executive team cares about. For example, marketing should be able to communicate, for every \$1,000 invested in marketing, how much the company generates in demand, in the number of marketing qualified leads (MQLs), in new accounts and so on. Metrics related to MQLs and new accounts are more powerful when linked to concrete impact in monetary terms.

Metrics are stronger, as well, when tied to annual strategic priorities. For example, if a bank has a goal of opening 100,000 new checking accounts in a calendar year, marketing should have an aggregate estimate of how \$1,000 of investment translates to new account acquisition. If customer loyalty is the goal, marketing should show how marketing investments deliver retention.



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Prove marketing's value

The exact calculation a given organization uses will depend on its maturity in using marketing analytics coupled with the availability of relevant data.

↓ Low Maturity

Less mature organizations with less data should offer metrics at the aggregate level for the year. For example, an organization that spends \$300,000 on new customer growth in 2021 and acquires 1,500 new customers during that year would have a customer acquisition cost of \$200 per customer. Use benchmarks when usable data doesn't exist.

↑ High Maturity

More mature organizations with more data provide details and granular metrics for different activities. Metrics reflect the true, incremental value caused directly by marketing, which is updated monthly and can be broken down into finer detail. Underlying methods tend to be more advanced. One technique is marketing mix modeling, which leverages techniques to identify the exact incremental impact of specific marketing activities to inform investments and adjustments to strategy.

Evaluate different versions of the marketing budget for how they affect different KPIs — not just ROI

CMOs often assume that ROI is the best metric to prove marketing’s value to the enterprise. But relying on ROI alone may harm marketing’s ability to deliver against a broader set of enterprise goals.

Enterprises also care about market share, profitability, sustainability and so on. To build a value case for marketing, CMOs should instead leverage the broader concept of return on objectives to show how marketing investments deliver against a diverse set of goals.

Why Marketing ROI Is Not a Perfect Metric

| | Actual | Alternative A (10% Decrease in Marketing Spend) | Alternative B (20% Increase in Marketing Spend) |
|-----------------------|--------|--|--|
| Volume (Indexed) | 100.0 | 95.0 | 110.0 |
| Revenue (\$B) | 10.0 | 9.5 | 11.0 |
| Marketing Spend (\$B) | 2.0 | 1.8 | 2.4 |
| Variable Costs (\$B) | 4.0 | 3.8 | 4.4 |
| Fixed Costs (\$B) | 2.4 | 2.4 | 2.4 |
| Net Profit (\$B) | 1.6 | 1.5 | 1.8 |
| ROI (%) | 80.0 | 83.3 | 75.0 |

Assumptions

- Variable costs as 40% of revenue
- Marketing spend is separated out from all other costs
- Ten percent decrease in marketing spend = 5% decrease in revenue
- Twenty percent increase in marketing spend = 10% increase in revenue

A 10% decrease in marketing spend may sound compelling when it yields a significantly higher ROI than other spend options ...

... however, it could prevent marketing from pursuing more profitable alternatives.

Source: Gartner Analysis. Based on the work of Professor Tim Ambler, London Business School

Evaluate different versions of the marketing budget for how they affect different KPIs — not just ROI

Evaluate budgets across multiple metrics to stimulate dialogue about trade-offs, such as revenue versus margin growth, short-term versus long-term growth, growth for one product line versus another.

Marketers are better able to maximize returns when they evaluate multiple scenarios, including those that look forward using the predictive models available with marketing mix modeling and which include a simulation interface or tool.

Low Maturity

Conduct scenario planning based on aggregated activity spanning multiple metrics. Data will most likely be available for metrics related to customer value, sales volume and marketing expense. Additional metrics will require new investment, but make sure insights can be delivered fast enough to leverage for key decisions.

High Maturity

More mature programs will have access to syndicated data, survey trackers, proprietary data streams and affinity modeling. These deeper insights allow marketers to calculate market share and consumer sentiment-type metrics — the value of which is high when the economy is uncertain, and teams can leverage them to scenario plan and weight the benefits of different approaches.

Establish marketing investment triggers

Marketing teams should identify triggers that signal when conditions change, and they need to revisit their strategic plan. Triggers improve planning in two ways. They:

1. Ensure plans stay relevant by prompting a review when assumptions fail to hold up
2. Spark the need for investments when in-market behavior exceeds a predefined threshold

Example triggers include:

- Loss of market share
- Decreases in product consideration
- Increases in competitor spending
- Declines in new customer value
- Increased acquisition costs
- Erosion of conversion rates

Triggers Improve Strategic Execution of Plans



Strategy Triggers Ensure Plans Stay Relevant

- Identify and use **assumptions** as triggers for strategy review.
- Contain a measure for validation that can be falsified.



Example: The inflation rate will hover between 4.2% and 6.1% for the next 12 months.

Source: Gartner



Investment Triggers Spark Likely Need to Respond

- Identify **market changes** as triggers for course change or investment.
- Documenting assumptions ensures transparency and distinguishes objective facts from beliefs.



Example: Customer acquisition cost increases of 15% trigger upper funnel marketing review and investment decision.

Establish marketing investment triggers

An organization's choice of trigger metrics should balance slow metrics that don't change that quickly or the updates to which are infrequent and quick metrics that are revised weekly, daily or even more frequently. Identify the right one or two triggers that balance speed with accuracy for the executive team. The benefits of using a quicker trigger metric than your competition can be immense.

↓ Low Maturity

Track costs per activity (such as cost per webinar sign-up, form fill out or website visitor) in aggregate for a given time period. Consider diverting resources to competitive intelligence, such as tracking messaging by competitors, by monitoring owned digital properties and paid advertising.

↑ High Maturity

Track trigger metrics, such as conversion rates, in more detail and level of granularity — for example, by customer segment, geographic region or details related to a purchase. These detailed metrics allow teams to make granular changes and measure the results. For example, mature teams can cut paid digital campaign spending in one geographic region for a specified time and compare performance results to those of a similar geography. These “natural experiments” provide the strongest evidence of marketing impact.

When budgets still need cuts

Conditions may still require CMOs to reduce their spending. These cuts can hurt, especially when they impact staff and contractors who've made real contributions to your marketing performance.

When evaluating the trade-offs needed to cut budgets, consider three strategies:

1

Think long term

A study on the budgeting decisions made during the last global recession found that winners in six of 11 industries took proactive budget cuts which enabled them to accelerate growth investments when conditions eased.

2

Reprioritize

Many marketing teams overinvest in legacy processes and skills. Use cuts as an opportunity to accelerate simplification, consolidation, automation and outsourcing decisions. Focus training on new skills needed to advance your team, such as experimentation, enabling them to update assumptions and reveal areas for improvement.

3

Reinforce triggers

A study on the budgeting decisions made establishing "claw back" triggers reinforces the importance of marketing by establishing conditions under which to make considered investment reductions.

Actionable, objective insight

Gartner has a broad set of resources focused on promoting more advanced marketing measurement. Consider scheduling an inquiry to help guide you through this research and highlight the few notes most suited to your particular circumstance and needs. Common reference materials include:

- ✓ **What CMOs Need to Know About Marketing Attribution, Measurement and Testing**
- ✓ **Maturity Model for Marketing Analytics**
- ✓ **Broaden Your Marketing Measurement Toolkit to Address Both Tactics and Strategy**
- ✓ **Manage Marketing Measurement Trade-Offs by Identifying Your Measurement Profile**
- ✓ **How to Identify, Illustrate and Increase the Impact of Marketing Analytics**

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