

# What's Your Return on Innovation?

Has marketing's focus on accountability stifled its spirit of innovation



How do you build a marketing department that is both innovative and ROI-driven



A roundtable discussion follow-up to a *Reveries* survey featuring:

Chris Arnholt  
of **Carnival Cruises**

Lisa Baird  
of **IBM**

Kellie Krug  
of **Visa**



Jim Holbrook  
of **Zipatoni**

**Most of the Reveries survey respondents said the marketing industry's focus on ROI has tended to inhibit innovation. Why do you think they said that?**

**Kellie Krug:** It's actually something that we've been spending time thinking through at Visa. We're trying to find the balance between ROI and staying committed to the ROI process, but also maintaining some flexibility and some creativity and innovation.

It's hard, primarily because when we think about being innovative we are often in new, uncharted areas that typically don't have the kind of metrics that are required to complete the ROI analysis. That's where we struggle—in terms of not doing the same thing over and over just because we know the metrics behind those activities.

**Chris Arnholt:** People want guaranteed results, and if you have no risk, you run the risk of not innovating. Part of it has to do with the company culture. I feel very blessed to be at Carnival Cruise Lines, where, right from the top, we have stable management that makes great, sound business decisions.

You need that kind of supportive environment, and the right people in place that think things through and, with great alacrity, respond to market conditions. Even if you don't hit a home run every time, you reduce the risk by having the right people with sound business backing them.

**Lisa Baird:** Think about today's complex marketplace. It's global, and with different channels depending on where you are—internet versus stores, if you're a retailer. How do you bring all of that data together and put it together in a simple fashion that creates ROI? It's really frustrating. In some senses it was easier to come up with great products in a vacuum—the idea of the “garage inventor.”

But when you think of innovation from a true impact standpoint, I keep going back to that visceral, that incredible, relentless focus on customer needs, customer “pain points.” The best ideas come from an understanding of who your customer is, what they're buying, what they're doing, what they care about, and planning innovation against that. So, I think this focus on ROI has helped innovation. It's helped it become real, and important and market driving.

**Jim Holbrook:** Innovation can happen if you're on a journey, but it doesn't happen if you've got a fixed deadline. When you need results by the end of the month, or quarter, that limits the ability to experiment, explore, ponder or dig in.

The planning process is all about incremental improvement over last year's plan. Very few people do zero-based budgeting. So, it's: “80 percent of what we did last year worked, so we'll just do a little bit more of that. We'll drop out the 20 percent that didn't work, and we'll just stretch what did work a little further.” All of a sudden you're left with a lot of stretched stuff, and not a lot of new stuff.

To access the results of the Reveries survey on “Innovation and ROI,” please visit: [reveries.com/reverb/research/innovation\\_roi](http://reveries.com/reverb/research/innovation_roi)

**What steps should marketers take to ensure that innovation becomes a driver of ROI?**

**Baird:** Up front in the process we have research, and our consultants are really working with our clients to fundamentally understand needs. When you tap into that need and combine it with business understanding, you win. That's been proven time and time again across every single industry, and across every single country in the world.

If you, as a marketer, conduct fundamental research, combined with people either within your own company or outside business consultants who can frame a strategic plan against those needs, you are going to make innovation a driver of ROI.

**Holbrook:** You need to look at marketing in four quadrants along the sales/brand axis and along the now/future axis. If you look at all four quadrants, you can stretch beyond what you're just doing today. So, if currently all of your budget and activities are in the sales/now box, look at brand/future and what you might do there. It's a gap analysis around what you're not doing. Explore the uncharted territory. We have a poster of a chart that captures all of this at Zipatoni and I'm happy to mail a copy of it to anyone who emails me at [jim@zipatoni.com](mailto:jim@zipatoni.com).

People need to experiment more. That's what this is about. The planning process really inhibits experimentation because you can't submit a budget that says, "Oh, ten percent of this I'm just going to do something with, but I don't know what it is." Every penny has to be accounted for, six months or three months in advance of the fiscal year. But if you've got to account for it, you can't experiment with it.

**Arnholt:** You have to make sure the team has what it needs. I have meetings every year where we put together a formal



Source: Zipatoni

budget. But budgeting is a process that ebbs and flows every day based on what happens. You reconsider things that you may have planned a year ago.

One of the things we like to do when we're putting the budget together is to look at things that are tried and true and that work, but also re-think everything. We don't just do it because we did it the year before. We consider what's going on in the market, what upcoming trends might be, and factor some of that in. We have some money set aside for things like that.

**Krug:** From a process perspective, innovation really needs to be instilled from the top down. There needs to be the ability to take some level of "risk" from an innovative and creative perspective—exploring a new channel that is a little untested, like 'blogs for instance.

There also needs to be some flexibility in the ROI analysis of innovative programs. On occasion, you need to be a little less rigorous from an ROI perspective sometimes because that's really how breakthrough ideas happen.

**How would you go about designing a marketing department that is both innovative and ROI-driven?**

**Arnholt:** It all goes back to the people. I hire people based on their attitudes. You have core skills that you need, but you've got to hire based on attitude and the team. If you've got the right people in place and embrace challenges with good, sound business judgment, it's hard to lose.

It goes back to my answer on the budget, too. You set up a piece of it based on tried-and-true elements that you're going to keep doing because they work. But then there's another piece—a new distribution channel or whatever it is—where you should set aside some money to explore.

**Baird:** I'd have to say it in one word—"headlights" into what the future's going to hold. It's not just about what your consumers are needing. Marketers today are pretty good at true customer research. But where's technology going? Where's the market going? Where's demand going? What's happening in whole new areas where you can have those headlights in the future? →



**Kellie Krug**



**Chris Arnholt**



**Lisa Baird**



**Jim Holbrook**

← I'll give you an example of one that's captured my imagination. Think about weather. People have treated weather as if it's pretty unpredictable. It just happens. But so many things can be impacted by the weather. Now, think of what people are doing in industry today to forecast weather and put together entire programs against weather risk management.

**Krug:** There needs to be the ability and commitment from the top that it's okay to take some risks. That's what it's all about to come up with truly great ideas. The marketing organization needs to be committed and continue to talk about driving innovation. People need to be measured on their innovativeness. It needs to be dimensionalized for people.

There's a lot of value in sharing internally within an organization so that other people can see that innovation is happening throughout the organization. Reading publications like *The Hub*, attending seminars, looking at what other brands are doing and understanding that thought process are also very important.

**Holbrook:** The pendulum is always swinging. At first marketing is the driver, and if the results aren't good, the pendulum swings the other way and sales is the driver—or manufacturing, or whatever. And then that's not working so it swings back again. There's this constant shifting going on because you can't ever get it quite right.

In my mind, it's not as much about the organization as it is about alignment around the goals. If there's a clear alignment around the goals, it doesn't matter so much who's where. It matters if you're aligned with working on the goals. But at most companies, the goals are squishy or they contradict each other. So, alignment is the key, but that's hard.

**In your experience is innovation most often a result of internal or external resources, or is it a combination?**

**Baird:** I think it's both. Short answer is that your internal resources know the company strategy. But you need to mix it up with good external thinking and open your mind to true collaboration from the outside. Today's environment is too complex, it's too big and it moves too fast to be totally insular.

Particularly if you are in businesses that are global, you've got to create alliances or what we call an "eco-system" of internal and external constituents to help make your business happen. For ten years, we've had one strategic partner—Ogilvy & Mather—who goes to market with us in every market around the world with all of our marketing communication.

**Krug:** Some of the most innovative brands and ideas come tangentially from ideas that have been used either in other countries, categories or industries and have been slightly transformed to be part of a new way of looking at a category.

At Visa, our agencies are such a part of all of our efforts. They really and truly are team members. But that goes without saying that agencies are a great place for innovative, objective thinking. But I think they also can—and need—to be part of the process, and truly measured as well. The way they're measured and evaluated needs to include innovation.

**Arnholt:** It's always a combination. It's like what they say about great advertising—that it's the result of not only a great advertising agency but a great client. It takes two partners. Our advertising agency is really like an extension of our marketing team.

There's a real art to opening your mind and always trying to look at things. Some people sort of have boxes around how things should be done. But if you can give a person the respect to hear out an idea and see if it makes some semblance of sense, you might achieve a real breakthrough.

**Holbrook:** Innovation has to be championed internally and fostered and stimulated externally. Insular groups are less innovative than groups that are stimulated by outside resources and thinking. That's absolutely a fact, no doubt about it.

There needs to be an internal champion who has the clout and the *cojones* to champion innovation, to set aside budgets, to foster that, to take risks, and to look for good ideas. That person has to

be relatively high up in the organization. They have to have the right resources to feed the flame.

**The survey respondents overwhelmingly picked Apple's iPod as the brand that's done the best job of driving ROI with innovation. Are there other brands that deserve the recognition?**

**Baird:** IBM is in the B-to-B segment, so the way that we look at innovation and ROI is more in terms of how we are helping our clients innovate every day at every other point of their business. In the consumer segment, I too, would join everybody in saying that Apple's iPod is a tremendous success.

Apple is a company that embraces using research as well as business thinking to tap into new needs. What they do in terms of doing that up front in the marketing planning process is good. They seem to do that very well. What is equally admirable, and that we can all take lessons from as marketers, is not only the product itself, but the process of creating innovation.

**Krug:** Apple has a phenomenal track record, and they have had it for years. They just continue to stay fresh and innovative. I also think Target is really innovative. The wake-up call program they did the day after Thanksgiving was really, really innovative in terms of taking that brand and really bringing it to customers, literally into their homes.

Starbucks continues to make coffee much bigger than coffee. They keep coming out with new products and new ways to look at coffee. Over the last couple of years, people have gotten really focused on ROI and a lot of folks feel like it's become kind of a straightjacket. You scratch your head and think: "Apple, Starbucks and Target—do they have to do an ROI analysis?" They are all really successful businesses.

**Arnholt:** The reason that iPod stands out is not only because they hit a home run

with a product, but also because they remain true to who they are. Any brand that sticks to its core values and is true to itself, and listens to the customer, will hit a home run.

The Carnival product has become such an incredible quality product, and our mission statement is to exceed our customers' expectations—to fulfill their vacation dreams. If we stay true to that, we're staying true not only to the customer, but also to the brand and how it impacts the customer.

**Holbrook:** One of the classic examples recently is Benjamin Moore, which created a paint can that has a pourable, drip-proof spout. Okay—how hard was that? Duh. Why didn't I think of that? To me,

that's really what innovation really is. Nextel is incredibly innovative. They've done a great job with their push-to-talk service, which is unique in the marketplace. The list goes on and on.

The real question is, how do you move beyond ROI? And I think that's what people are coming to now. If you simply live by the rules of ROI, that's necessary, but not sufficient. You will keep your job but not get promoted. So, how do you deliver the ROI you need to deliver, but also deliver more? Eighty or 90 percent of the people in the marketing profession are sweating ROI, and ten or twenty percent are trying to think beyond ROI. Those are the people who are going to succeed going forward. ■

## About the Panelists

**Chris Arnholt** is vice president of marketing services for **Carnival Cruise Lines**, with responsibility for all aspects of Carnival's marketing communications, including advertising and promotions, as well as partnership marketing (travel agency co-op program and compensation/commissions). She also oversees Carnival's in-house desktop publishing/creative department and develops marketing strategies for the company's site on the World Wide Web.

**Lisa Baird** is vice president of worldwide integrated marketing communications for **IBM**, with responsibility for strategic brand, product and services advertising, media strategy and agency operations, direct and interactive marketing, and event and sponsorship marketing. She is responsible for overseeing all marketing communications activity in IBM's business units and geographies.

**Jim Holbrook**, president and CEO of **Zipatoni**, began his career at Procter & Gamble in the early 80s, later becoming chief executive of the Beech-Nut baby food subsidiary and assistant to the Chairman of the Board of Ralston Purina. In 1996, Jim became enchanted with the lure of Zipatoni (having been a long-time client) and helped lead the agency from a 60-person creative boutique to a 200-person force in the industry.

**Kellie Krug** is vice president of merchant marketing services at **Visa USA**. Her team is focused on working closely with large-volume merchants to develop marketing efforts to meet mutual goals and objectives. Kellie's background includes developing strategic marketing programs that include integrated marketing elements including promotions, direct mail, advertising, point-of-sale and partnership activation.