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Proving Media Value

This white paper is adapted from a presentation delivered by Richard Van Deusen, Managing Director of Media Strategies, Inc. at the National Meeting of the Communications Media Management Association (CMMA), on October 8, 2002. This is one of the seven critical success factors the author has found to be key drivers of best-in-class corporate media communications departments.

The most important operational critical success factor for any internal media services department, as it is with any service support function, is that of providing credible metrics to prove the value of the organization and its deliverables to management. Like all service functions, which are not directly tied to core enterprise businesses, media production can appear to be a luxury. Media services becomes a candidate for total outsourcing or elimination because it is difficult to identify the direct contribution made by media deliverables to the enterprise bottom line. Media managers, consequently, perennially face the problem of proving the value of the media they produce and the function they manage.

We have found that a number of media departments have been very successful in developing effective tools to implement this critical success factor. For many others, however, it appears to be an insurmountable challenge. This white paper provides some tools to help media services departments develop tactics to implement this critical success factor – proving value.

While customer surveys can provide some validation they don't provide metrics and they also occur after the fact of production and distribution. What is needed are credible, unbiased metrics that will meet the needs of management and the CFO to identify the real value added of media investments, prior to investing in its production. Metrics is the application of mathematics to specific functions; developing numbers to measure or compare actions or activities.

Here then, are a number of suggestions, ideas, and recommendations.

MEDIA ASSETS

The generally accepted accounting practice has been to account for production costs as expenses in the year a project is produced. However, we have seen more and more companies using short-term depreciation as more appropriate accounting practice. Depreciation certainly makes sense if the program will be in use for three years or more. After all, media deliverables are physical products, they have an acquisition cost, they are on the shelf, and they can be used more than once by more than one person over an extended period. The decision to depreciate will depend on enterprise accounting practices, but may have certain tax advantages as well as provide a means of deferring the entire cost over time. This is particularly valuable for programs that have high production costs. Depreciation provides a longer period over which spread the cost and a longer period to show a saving or generate revenue and may have budget or tax advantages for the enterprise.

Until computerized cost modeling came along, depreciating short-term assets was complex, time consuming and usually not worth the effort.

Computers changed that in two ways. First, they legitimized shortening depreciation schedules. Now it is standard practice to depreciate desktop computers over three years rather than the 5-10 years or more for other assets. These days, depreciating almost any technology for more than three years is a stretch.

The second change is that we now have computer programs to calculate depreciation schedules. Microsoft Excel[®] has four or five functions just for that purpose. If the media deliverable has at least a three-year life cycle, it may make good business sense to explore the possibility of depreciating rather than expensing the investment.

Depreciated or expensed, developing credible metrics to determine the value of media deliverables will require a full analysis of costs and a reasonable estimate of the potential returns on the investment. The more analytical the tool, the more precision is required.

COSTS

- **Direct costs.** Easy to identify, particularly if the media department is on a full chargeback cost allocation system. Direct costs may be the contract price for an outsourced production or the cost of staff time and purchased materials or services required to produce the program internally including initial duplication and distribution.
- **Indirect costs.** Not as obvious but no less important in calculating the total cost of the project. Chargeback systems usually incorporate an indirect cost allocation formula to include the per-project share of non chargeable staff time, rent, depreciation, shared supplies, utilities, accounting, legal and HR charges, for example.
- **Ongoing/Maintenance costs.** If the program will continue in use for some time, we have to assume it will continue to accrue additional charges for duplication, storage of masters and order fulfillment. This may also include minor updating modifications or corrections if content or technical errors are found over time.

Normally the investment return or savings generated by a project will occur over a period of time. Depreciating the cost facilitates allocating the expense to the ROI over the life of the program.

It may also be worth considering deducting a certain percentage of the future value of the media assets being created from the total project cost. Much of the footage and many of the graphics created may be re-used or repurposed for other clients, other projects or other media. By establishing a potential future value for these assets, the cost of the project can be reduced for the present client. The in-house media departments now are looking at media assets in the same way an independent production company would, though it is a bit of a gamble in that the media services group is relying on future sales of the repurposed materials to recover their underbilling.

Figuring the costs is relatively easy. Identifying the return or income generated by the project is more complex and may require help from the client and the accounting department.

RETURN

To quantify the ability of the media deliverable to move product, impact productivity – generate a real rate of return – we need to look at several categories:

- **Direct revenue.** The program results in a sale. It makes money for the enterprise.
- **Indirect or “attributable” revenue.** This program helps a sales representative make the sale, or improve sales skills so she can make more sales. It results in a measurable productivity increase that drives revenue to the bottom line.
- **Goodwill** is what another company will pay to buy your company above and beyond the value of hard assets because of your reputation and brand value. Media contributes to the value of goodwill by creating a favorable attitude toward the company or product that results in more business, promotes brand identity or improves community relations for the institution. This is not easy to quantify and will require cooperation of the accounting department.
- The program adds to the **knowledge management** data base inventory which, in turn, is shown to generate a real return to the enterprise. As example, Texas Instruments, Hewlett Packard, Microsoft and many others sell product training courses, which generate either a direct profit or lead to more product sales.
- The **Media Asset Value** may also be a direct revenue generator. As example, selling media clips or stock photos outside the enterprise. The Boeing Corporation film library is an excellent and highly profitable example.

While the direct revenue streams may not be easy to identify, they do exist. Value can be added by exploring every possible way the media produced can drive revenue to the bottom line.

SAVINGS

Not as valuable as direct revenue, but certainly important. Savings are the ability of the media deliverable to reduce enterprise operating costs or make it possible to conduct a business activity at a lower cost. Here are a few possible areas of savings.

- **Direct Time.** The time saved by using one media over another or rather than traditional means. A Web cast, which means 200 people don't have to spend 20 minutes each walking to and from a central meeting site.
- **Time Compression.** The ability to communicate the information in less time. Many years ago Hewlett Packard found that the organizational and content discipline required to convert a live training class to videotape reduced the amount of time required to teach the subject by a factor of six.

- **Travel Costs.** Whether for training or communications, media can reduce the cost of travel and the time required for that travel. These are obvious calculable savings.
- **Alternative Distribution.** Producing one media over another can save duplication and shipping costs. CDs may be cheaper to duplicate and distribute than printed brochures. Much of the value of BTV broadcasts and Webcasts lies in their being less expensive than road shows.
- We are also tempted to include the cost savings of either **outsourcing or insourcing** the work over alternative production methods. Depending on the circumstances it may be feasible to do that, but it also must be assumed that the project is being produced in the most cost-effective way possible, therefore we're not so inclined to include this as a valid savings measurement. After all, the greatest savings would be achieved by not producing it at all.

Savings, like revenue, are specific to individual companies and industries. Every opportunity should be considered and both revenue and savings should be included in calculating the ROI of a specific project. A BTV broadcast to market a new mutual fund to investors can not only generate direct sales revenue; it may also save on the cost of putting on an analyst road show reducing travel, time, compressing the time required to present the data and saving executive staff time.

CALCULATING ROI

This is where it all comes together. The results will either show a positive return, lead to canceling the project, changing direction to find a more appropriate investment, or deciding to proceed in spite of the cost. Generally, however, we're looking for a go/no-go decision. Moreover, the ROI calculation should be done in advance. Doing it after the fact is looking for justification for having done the project in the first place. Too little – too late.

Here are four suggested ways to develop ROI calculations. The first two, Net Present Value (NPV) and Internal Rate of Return (IRR) are standard accounting methodologies. They serve to answer the question of whether the media project is a good use of company financial resources.¹

- **Net Present Value** calculates the gross dollar return on the investment over the life of the project in today's dollars. The result shows the net present value of a future sum. If we look at investment in a media product as a capital investment, we can look at payback periods. For example, if we produce a training course that is intended to reduce the cost of servicing our product, we can project the potential return out over a number of years – the anticipated life expectancy of the program. Your comptroller will want to see a Net Present Value (NPV) or discounted cash flow approach, which calculates the present value of future revenue or savings. This calculates the cost of money and projects the cost of the project and savings out to a future date, discounted for that cost of money. It is the opportunity cost or the loss of potential revenue if that money were invested in some other instrument, such as bonds, or equipping a new lab, or buying a new punchpress.
- **Internal Rate of Return** calculates the rate of interest earned on the investment in the project and compares it with market rates or alternative investments. Internal Rate of Return is a

¹ NPV and IRR formulas, along with detailed descriptions of the process, can be found in the most commonly used computer spreadsheet applications.

way to calculate the interest actually being earned by the investment through its return of revenue. Here you are guessing at a discount rate to which will yield an IRR of zero. If the discount rate that you come up with is higher than what could be earned through alternative investments, the project is a go. Like the Net Present Value, it requires projecting a project life cycle and being able to come up with quite accurate estimates of future revenue.

- **Profitability Index**, also called Benefit/Cost ratio, which is not as common and perhaps less complex than the previous two. This is described in more detail below.
- And the last strategy, one that we are now refining for this purpose, is a **Balanced Scorecard**. Balanced scorecards are a way of calculating the advantages or disadvantages, the pros and cons of specific actions. It allows us to rank options numerically. It is a subjective way to convert less than hard data to metrics and to develop baseline comparisons.

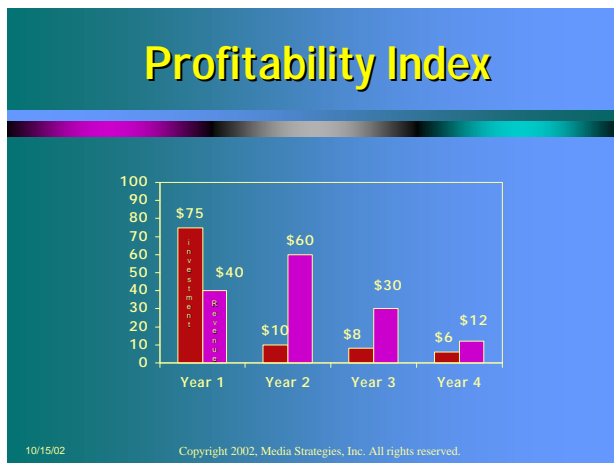
PROFITABILITY INDEX

Profitability Index uses Net Present Value calculations to formulate a ratio designed to rate the feasibility of investing in a project. To develop a profitability index divide the net present value of the revenue and savings by the net present value of the cost of the project. If the PI is greater than 1.0, the project should be approved, unless it is in competition with one that earns an even higher PI rating. The higher the PI, the more value there is in doing it. The Profitability index can be used with a single project, whether expensed or depreciated, or it can be applied to the output of an entire department or an entire function.

Profitability Index

$$\text{Profitability Index} = \frac{\text{NPV Revenue/Savings}}{\text{NPV Cost/Expense}}$$

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PI can be illustrated in this example. The life of the project is estimated to be four years, it is decided to expense the cost in the first year rather than depreciate the cost over the four-year life cycle. Ongoing duplication and distribution costs are predicted in the second through fourth years.

As shown in the chart, the total life cycle cost is projected at \$99,000. Using an 8% cost of money discount rate yields a net present value for the investment of \$95,881. The discount rate may be based on the interest lost by not

being able to invest that money in interest bearing accounts or some other factor, usually an enterprise standard. For the purposes of establishing the NPV, it is assumed that the investment is made at the beginning of the first year, while revenue does not begin to flow in until after the project is completed or near the end of the first year. The magenta bar on the chart shows the es-

timated revenue or saving resulting from doing this project. In this case, we are optimistically estimating revenues totaling \$142,000 over the life of the project. The Net Present Value of that revenue is \$121,113.

Applying the formula, the profitability index calculation shows a positive PI of 1.26, which is certainly enough to justify going ahead with the project.

There are two disadvantages to these three accounting methodologies. First is the need to project, with a certain degree of accuracy, the potential revenue gains or savings from the project. That is particularly difficult if there is no historical basis for these calculations. It's not possible to rely on guesswork; the calculation must be based on realistic assumptions. The second disadvantage is that very few media projects stand on their own. They are supportive or integral with other media or tactics. Even if reasonably accurate savings and revenue calculations can be made, it may not be easy to isolate the individual media component from the rest of the project.



Therefore, we need to consider an alternative, namely a Balanced Scorecard approach.

BALANCED SCORECARD

The Balanced Scorecard was developed in the early 1990's at the Harvard Business School as a measurement system to enable organizations to clarify their strategies and translate them into action. Rather than looking at past financial performance this method assesses future values in terms of customers, employees, processes, technology and innovation as well as some prediction of financial outcomes.

What is proposed here is an adaptation of the Balanced Scorecard methodology in much the same way my associate Ernie Bumatay applied it to the outsource/insource decision model we published in 1996.² The whole Balanced Scorecard process involves TQM and what are called "Double-Loop Feedbacks," essentially a stakeholder evaluation process. However, for the purposes of this paper, we will use the basic technique as at tool to evaluate a specific media project. The objective is to forecast how much the media deliverable will contribute to the overall success of the project as well as the value of the specific contribution that is expected to be made and the return on the investment.

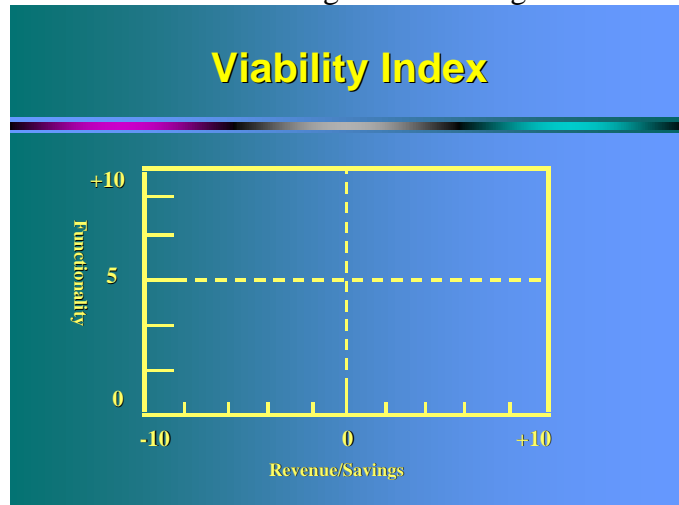
Throughout this exercise, we'll be using scales of one to ten (1:10), however, any grading system can be applied as long as it is consistent. We have noted that in using scales of 1:5 or 1:10, users tend to carry ranking out to decimal places, e.g. 3.5 or 7.26, so it might be well to use the most detailed scale practical, perhaps 1:100.

² *Outsource or Insource, Making the Right Choice*, published by Media Strategies, Inc. in 1996 contains a description of how to apply the balanced scorecard to the outsourcing decision.

We begin with an overall viability ranking – is this something that should be done? This process is similar to a marketing analysis. There are two scales on this ranking. The vertical scale measures the media contribution to the **functionality** of the project; its importance to the outcome.

The lower the score, the less impact the media itself will have on the anticipated outcome of the overall project. A PowerPoint report on the outcome of a marketing initiative might receive a “0”, unless that presentation was intended to lead to a redesign of the marketing plan as part of the project outcome.

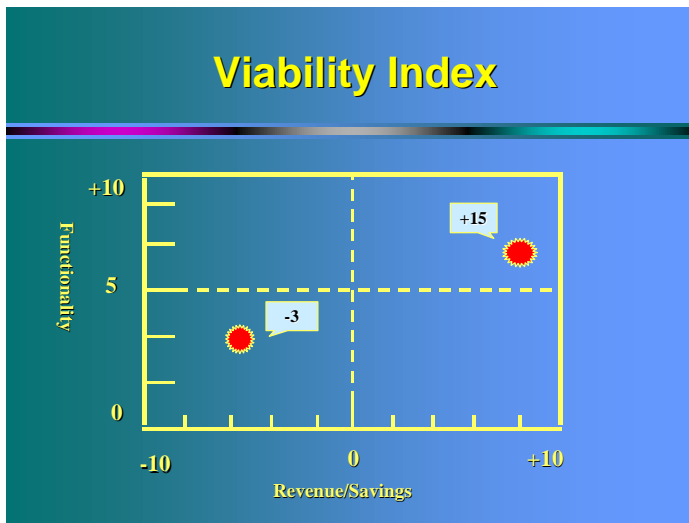
At the highest level (10), the engagement is intense. That is, the project could not exist without the media component. The most active engagement would be a CD-ROM direct marketing mailer. The functionality scale asks the degree to which the media is expected to contribute substantively to the overall outcome of the project.



The horizontal **Revenue/Savings** scale measures the indirect or direct contribution to enterprise revenue and/or savings attributable to the media deliverable. The greater the revenue or savings, the higher the ranking. If the project will not generate revenue or savings and only represents an expense, the ranking will fall on the negative side of zero. The greater the cost the lower the number. A separate ranking in our balanced scorecard will account for any cost savings generated by choosing one media over another, i.e., Webcasting over print.

At the far right of the scale, the project is expected to make a demonstrable, measurable and credible contribution to the enterprise bottom line. It is designed to be instrumental in generating revenue or will result in a direct reduction in the cost of doing business. We combine the two numbers to come up with a cumulative rating. The higher the rating the more likely the success of the project. The lower the number, the more its viability is open to serious question.

Here is an example of how two projects might rank:



A Webcast of the CEO’s quarterly report, while certainly in line with the mission of improving employee communications, would still have relatively low functionality (+4). It represents only an expense to the enterprise with no perceived direct or indirect contribution to revenue or savings (-7). That combination earns a cumulative rating of -3.

At the other end of the scale would be a satellite broadcast or Webcast directly to potential customers designed to increase sales. This example has a

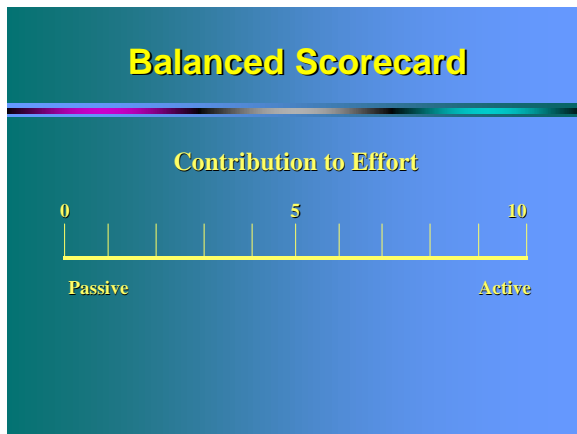
relatively high degree of functionality (+6) as an important component of a marketing strategy and is expected to produce a significant amount of revenue (+9) for a cumulative score of +15.

Use of the Viability Index is certainly optional, but it can offer a way to judge the potential value of a project. If a project scores low in the viability ranking, it may be worth considering different ways of doing the project or exploring different media so as to raise the ranking by lowering the cost, moving it more toward a revenue generation model and/or increasing the functionality by designing it to be more integral to the overall marketing or communications strategy of the organization.

Once the project has passed this initial screening, then it’s time to move on to the balanced scorecard.

What we are proposing here is an example of how a scorecarding system might be developed. The dimensions in the following section may be modified, eliminated or added to suit the circumstances. However, once defined, it is essential that they be used consistently to yield valid and credible results. Note that it is only possible to develop valid metrics if all stakeholders are invited to participate in the ranking process. Usually this would be done by means of a stakeholder survey to include all of the potential dimensions to be ranked in the process along with a full description of the ranking process and parameters.

BALANCED SCORECARD RANKINGS

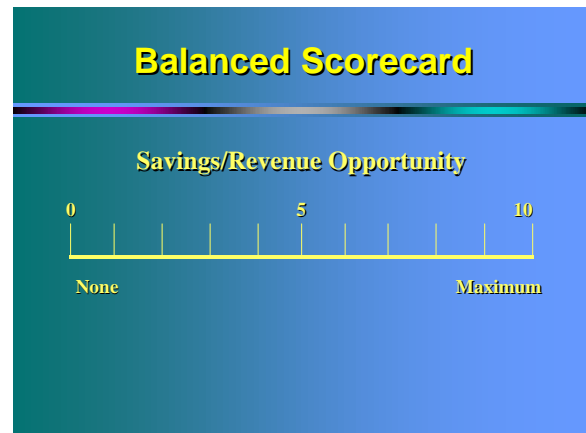


Contribution to Effort – This is a scorecard ranking of the functionality scale. Will the media deliverable be critical to the success of the project or a minor part of a greater effort? Will it be a highly visible leader in the overall project – or perhaps the only deliverable? Will it be important to the outcome or of minimal or no identifiable value? Nice to have rather than essential to have.

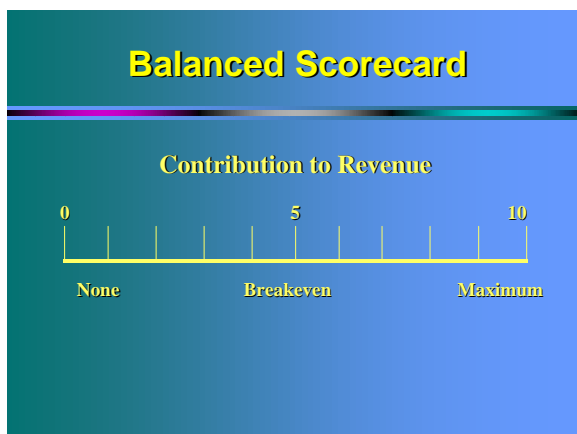
The key question is whether the project is in alignment with enterprise objectives or strategic plans. If it is not, then it certainly would warrant a

“0” ranking. Such a low scorecard projection in any dimension should lead to a serious questioning of the value of doing the project at all.

Revenue Opportunity – Because revenue generation and cost savings are very important in the balanced scorecard rankings, we give more weight to that dimension by setting up two scales. One ranks the opportunity for the media deliverable to participate in revenue generation and/or cost savings. In other words, can the media actively promote sales and generate savings or will it be strictly a business expense with no opportunity to demonstrate ROI.

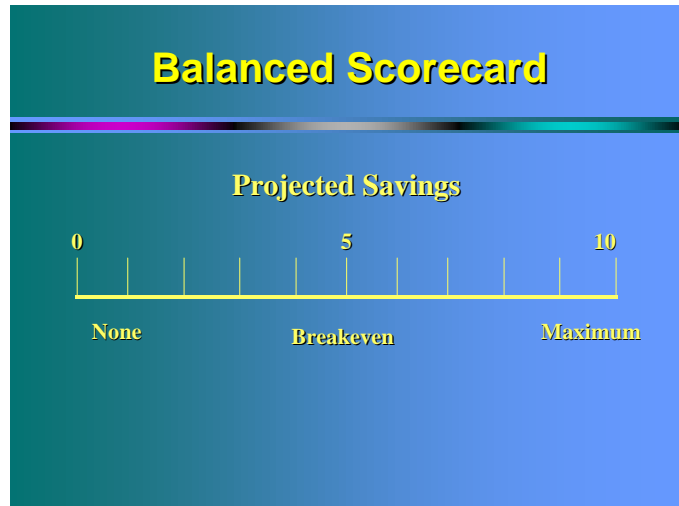


The difference, for example, would be between a direct marketing piece and a program to pump up the sales representatives to go out and make more sales without offering any specific product or marketing training.



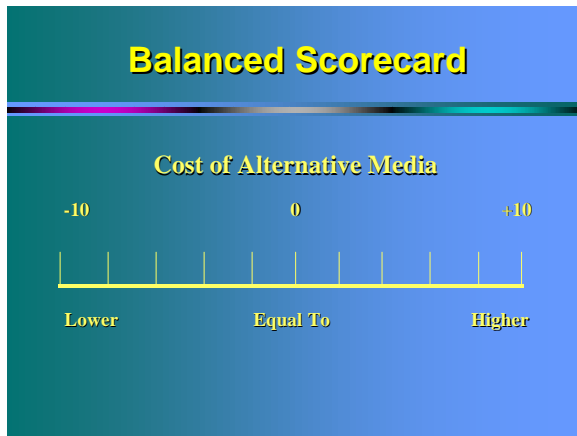
Contribution to Revenue – The next score is based on how much revenue will be generated by and attributable to the media deliverable. What is projected to be the contribution to revenue? If the revenue generated will equal the cost of the project, then the score would be five, or a break-even. The maximum assumes the highest possible anticipated return. A high revenue generation opportunity score, (10), and a low actual revenue projection (0) pretty much cancel each other out

Realized Savings – This dimension asks what cost savings are expected as a result of doing this project. If the anticipated cost savings equal the cost of the project, it would score a five. If there were no cost savings at all, it would score a zero in this dimension. As we’ll see, cost savings and revenue generation can create a cumulative effect, on the other hand, minimum or no projected savings, like revenue generation, can cancel out the score of savings opportunities. The savings to be identified here are reductions in the enterprise cost of doing business, selling a product or rendering a service.



This dimension does not include any savings that might result from selecting one media over another since the media, whatever it may be, does represent an additional cost to the enterprise. We will deal with that in the next dimension.

The final dimension we’re going to present here is that of the cost of **alternative media**. As noted earlier, there may be potential cost savings by doing a Webcast rather than a live event or meeting. In this case, we use “0” as the point where the proposed project is the same cost as one or more alternatives. The minus scale indicates where the cost of the selected media will be greater than one or more alternatives. In other words, if the proposal is for a live BTV broadcast it will likely be more costly than producing a print piece or conveying the same information via a Webcast. Therefore the project will be ranked at less than “0” for this dimension. If the proposed media is less expensive, say choosing print over BTV, then the ranking will fall on the plus side of the scale.



The Scorecard Summary

Here is how two theoretical projects might compare on the balanced scorecard summary.

	Contribution To Effort	Revenue Opportunity	Revenue Contribution	Realized Savings	Alternative Costs	Total Score
Project A	2	4	2	5	- 1	12
Project B	10	9	9	4	+ 1	33

Project A was a last minute idea, not much opportunity to plan or integrate it into the overall marketing effort. It was valuable but not critical to the effort. There was some opportunity to participate in revenue generation, but little revenue was expected. However, cost savings would be nearly enough to cover cost of project. It would also be slightly more expensive than alternative media. The total score is twelve.

Project B was conceived early in the overall planning process and was a marquee part of the effort. It had strong revenue generation opportunity and the projected revenue would be more than enough to cover the cost. As a benefit some savings are projected, though not equal to the project cost. The cost would also be somewhat less than alternative media. Clearly a positive scorecard ranking of 33.

In application of the scorecard, anything scoring less than 20 would be questionable, though a very strong revenue ranking can override other considerations. Projects scoring 6 or higher on revenue and revenue opportunity and projected savings should be pursued.

Rankings

Of course, the scores are not something the media manager or producer develops off the top of his or her head. The key to the balanced scorecard approach is the feedback loops. As many stakeholders as possible should be asked to rank the project on all the dimensions. Those scores can then be totaled or averaged or weighted (some stakeholders may carry more weight than others may) as appropriate to come up with a final ranking. To do this requires developing a rather sophisticated set of survey instruments as well as maintaining a candid relationship with those stakeholders.

Stakeholders of course include the client, but may also include direct management and representatives of the marketing, human resources accounting and financial planning areas.

Measurement

It is not enough to simply go ahead with a project on the basis of a high scorecard ranking and leave it at that. The long-term success of this method lies in collecting results after the project is completed and comparing them with the initial assessment. Over time, a significant database will be developed to validate the scorecard methodology. Changes or additions to the dimensions may evolve over time as well as more sophisticated measurement tools. Consistency is important, but so is flexibility.

Scorecard Potential

The balanced scorecard can be expanded to apply to a group of projects, a line of business, a specific media service or an entire business unit. The Media Valuation Project we proposed at the Fall 2002 CMMA conference will seek to develop additional tools and techniques to measure value and to communicate those values to management. Bear in mind that this is in the earliest stages of development. The balanced scorecard described here has yet to be tested and validated. However, we do believe this methodology offers an exceptional opportunity to accomplish an objective that has been eluding media managers for a very long time.

One intriguing long-term possibility is to use this technique to develop an industry standard measuring tool to rank in-house media departments. As my associate Ernie Bumatay has suggested, a kind of “JD Power” customer satisfaction ranking for the media industry. We will certainly consider that option.

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