



The Increased Importance of ROMI in Difficult Economic Times

Marketing Optimization and Accountability

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ROI Imperative for Marketing in a Economic Downturn

Cutting the marketing budget in tough economic times has been standard practice for many companies because it is viewed too often as “non-essential” to efficient corporate operations. Yet, when you consider marketing to be the one business area that connects a company to the marketplace, this notion seems counter-intuitive. Marketing is about revenue-generating activities that make customers aware of your products and services’ benefits and why they should select yours over those of your competition.

“Maintain marketing spending. This is not the time to cut advertising. It is well documented that brands that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at lower cost than during good economic times.”

**—John Quelch, Professor
Harvard Business School**

Therefore, in a weak economy, the goal should not be to cut the marketing budget. Take advantage of this time to apply better ROI techniques to understand and measure marketing effectiveness —and make better decisions on how to allocate the marketing budget to gain maximum impact.

Marketing Resources Management (MRM) is an excellent set of processes and tools you can use during economic uncertainty to better manage marketing resources, improve productivity, and stretch your budget.

Capitalizing on Marketing in a Down Economy

A recent CMO Council study indicated that cutting your marketing activities will result in selling less than if you kept your marketing efforts steady. Marketing creates demand and revenue by providing customers with confidence about your company and products. If you cut marketing activities, you may cede your core customers to your competition; and when the recession is over, you will have to spend more time and money to win them back. Brand awareness and preference created through consistent marketing will pay huge dividends after the recovery.

While branding and other forms of marketing may drop, direct marketing activities may increase. Companies may shift dollars to direct marketing activities to drive customer demand, using more targeted mediums rather than use those with broad reach. They should certainly adjust the marketing mix and message to reinforce value, as well as have a strong call to action; but the key is not cutting the budget.

The same study profiled the most distinct economic downturns in the last century and found:

- During the Great Depression, Procter & Gamble maintained their marketing levels and introduced Ivory Soap, one of today’s most recognizable brands.
- During the 1974-75 Recession, the top 100 companies at the time were tracked according to sales. The study found that those companies that continued to keep marketing steady had sales increases of 200 percent two years later; while those that cut budgets grew sales by only 50 percent.
- During the early 90’s recession, Intel launched the “Intel inside” campaign that put them on the map.
- Wal-Mart, during the early 2000’s recession, launched the “everyday low prices” concept, which is today the embodiment of Wal-Mart and big box retailing.

While this paper will examine fundamentals that will help CMO’s be more successful at their jobs and improve ROI on marketing during normal economic times; the principles introduced should be applied during a period of economic recession because marketing accountability and the fundamentals of improving marketing ROI take on great importance during these times.

The CMO's Dilemma

According to a major Executive Search Firm study, CMOs of the top 100 branded consumer companies have approximately 24 months to make their mark on an organization, (*Brandweek*, 8/22/06, *Length of CMO Tenure Declines*, Constantine von Hoffman). With an average tenure of only 24 months at these companies, most CMOs will try to make an impact by “building the brand” and moving brand awareness points up the measuring stick. Unfortunately, this focus is often at odds with what other executives want from marketing. For example, the CFO wants marketing to control costs whereas the CEO wants marketing to help grow revenue.

The approach required to solve CMO dilemmas today is far more complex than ever before. Their challenges are centered on not only obtaining an ROI for marketing investments, but also an overall marketing effectiveness that spans strategy, people, process, and technology. Today, marketing is undergoing a fundamental transformation driven by increased consumer resistance to traditional marketing methods, the proliferation of communications channels, privacy-driven legal requirements, legacy systems and manual processes.

Traditional corporate marketing planning, development and management cannot meet these challenges or allow for accountability within an organization.

Analyst Findings

Spend Increases, Spend Tracking Does Not

“Marketing spend continues to increase, yet the ability to track those dollars is marginal at best; most corporate marketing groups still use manual processes like individual spreadsheets. By some figures, marketing spend among U.S. companies has reached nearly \$1.074 trillion dollars.” (Blackfriar’s Communications, Inc).

According to a leading analyst firm, the top 100 consumer firms (companies) spend a total of \$100 billion on media alone, and more than \$250 million on marketing output (customer acquiring activities). Marketing costs have grown 7.5 percent year-over-year for the last decade—four times the rate of inflation. On average, 22 percent of marketing budgets are spent on marketing operations not related to media such as agency/vendor expenses and internal costs.

Yet despite the enormous amount of dollars flowing in the marketing value chain, the ability to track, measure or make those dollars accountable remains mostly undone. In a recent study by ANA and Forrester, nationally polled marketers admitted they could not deliver key measures of accountability. What tends to emerge as a constant theme is the lack of an official marketing system of record for managing budget and spend.

While some CMOs are showing progress at measuring marketing, many do not have the resources. A recent study by Lenskold Group points to the continued under-funding of marketing measurement tools and processes, with 64 percent of respondents indicating they are underfunded. Underfunding is not a surprise, given the level of executive confidence in marketing’s ability to measure Return on Marketing Investment (ROMI) and profitability. Of the companies that measure marketing profitability, only 28 percent report that their CEO/CFO is very confident that corporate marketing investments are profitable.

According to Phil Kotler of Northwestern’s Kellogg School of Management, (90 percent) of CMOs surveyed consider marketing performance measurement a significant priority.

*—Copernicus Marketing
Six Sigma Marketing*

Consumer Distrust of Marketing and Fragmented Channels

Today's marketers have to work harder than ever to get the attention of consumers in a time when media habits are constantly changing and ad avoidance is on the rise.

Finding the most effective channel to deliver messages is one of the most critical and difficult marketing challenges today. According to a recent Yankelovich Marketing Impact Study, 72 percent of consumers surveyed had a negative view toward marketing, 61 percent felt advertisement volume was out of control, and 70 percent have resorted to dodging commercials. Combine this with changing consumer habits and proliferation of media/marketing channels, and the task of creating and measuring an effective marketing program can quickly become overwhelming.

With internal pressures to demonstrate ROI, move the marketing needle and cut costs, the CMO seems to face an insurmountable task.

The Unsolved Marketing Challenge

According to the most recent Marketing Outlook Report prepared by the CMO Council, the top challenge for marketers remains quantifying and measuring the value of marketing programs and investments. While the majority of marketers have the desire to improve marketing ROI; many lack the know-how and the systems, tools and processes that enable marketing accountability.

Let us look at some of the key barriers impacting marketing's ability to improve accountability:

- Siloed marketing strategies, fragmented across business groups, segments, and geographies, combined with
- Lack of alignment, focus, and prioritization
- Lack of end-to-end enterprise processes for planning, executing, and measuring marketing programs to effectively control spend
- Lack of tools for effective visibility and control of marketing investments
- Lack of a common enterprise marketing data dictionary and taxonomy; and
- Lack of systems to collect, analyze, and report marketing data

So how does marketing become more accountable, demonstrate a return-on-investment, and garner the accolades of the CFO and CEO? In this whitepaper we lay out an approach to overcome common barriers, implement best practices, and improve business processes, keeping in mind the CMO's need to increase both their tenure and effectiveness of marketing programs, while improving ROI. In addition, we discuss new technology to improve marketing accountability.

Through working with our clients—companies with both large and small marketing organizations—we found that marketers must begin with an Optimized Marketing Framework which aligns strategy, planning, execution, and measurement; and they must create a true marketing financial system (MFS). *Note: Figure 1 further on this paper details the Optimized Marketing Framework which is the foundation for ROMI.*

Marketing Optimization therefore represents the ideal way for marketers to meet the challenges of marketing in the 21st Century, and provides a company with a marketing engine accountable for generating sales, growth, and sustained customer loyalty. Implementing ROMI solutions can create foundational marketing infrastructure, enable analytical rigor, and produce the consistent processes, data and systems necessary to achieve dramatic and sustainable improvement in ROI accountability.

“Misalignment between three competing forces (i.e. corporate product groups, segment owners and regions) can result in a fragmented approach for funding, managing, and measuring results of marketing campaigns.”

—CMO Council

Marketing Performance Management

“The most successful CMOs bring a strategic long-term view, exceptional measurement and analytical capabilities, and financial management rigor to their role. These business leaders earn their seat at the revenue table and the respect of fellow C-level executives and board members.”

—CMO Council

Define & Align the CMO

“The sole purpose of marketing is to get more people to buy more of your product, more often, for more money. If your marketing is not delivering consumers to the cash register with wallets in hand to buy your product, don’t do it.”

—Sergio Zyman
Former CMO Coca-Cola

As noted earlier, however, this is not an easy undertaking, and often it is stalled by the inability to get started. Naturally, there may be some resistance from the organization, claiming “more process will only stifle our ability to work creatively and hinder our marketing sharpness.” Such fears may be expected but should not cause the ROMI initiative to be cancelled.

The message to instill throughout the organization is that a formal process and a true marketing financial system will provide more time and potential dollars to do creative marketing programs. Later in the paper we discuss the importance of change management to help work through some of these potential barriers.

Business Reasons for ROMI

While the business reasons for ROMI may seem obvious, it is important to state them and gain stakeholder buy-in and commitment before undertaking a ROMI improvement initiative. If the average tenure for a CMO is 24 months, making ROMI a strategic focus will greatly improve the opportunity to increase their stay; and more importantly, increase the effectiveness of their marketing programs and activities. By improving marketing operations and the performance of the organization, marketing ROI can be realized. The business reasons for doing so are numerous and include:

- Bridges the chasm between finance and marketing by creating a better methodology for planning and allocating marketing spend to corporate objectives and increased visibility into approved, committed and actual spend and improved invoice reconciliation
- Improved relationship marketing capabilities to drive growth and customer loyalty
- Better methodology for planning and allocating the corporate marketing budget across geographies, business units, products and targets
- Enhanced visibility into the effectiveness of marketing investment, enabling marketing to be more accountable through objective-based measurement
- Closure of the “knowing versus doing gap” by converting data into action—learning can be used for real-time adjustments

Given the above benefits, the need for change is seldom argued among marketers. In most cases, it is more a question of the capabilities, skills, processes and systems to get there: “Yes, we want that, but how do we get started?”

The Optimized Marketing Framework

The first step toward improving marketing ROI and accountability is to shift the focus from cost to investment. Furthermore we need to understand that ROMI is a financial measurement. Marketing has traditionally been considered a cost center which is largely why it has flown under the radar screen from corporate executives as a revenue generating activity needing to be tracked and measured. In fact, the Financial Accounting Standards Board (FASB) has declared marketing as an expense for accounting purposes. This, however, should not prevent marketers from managing the budget as an investment.

Maximizing marketing effectiveness within the enterprise to increase return on overall investment and optimize end-to-end customer experiences requires rigorous planning and execution.

To achieve this mission, marketing typically consists of three primary areas: strategy and planning, execution, and measurement. Strategy and planning form the high-level marketing goals and objectives. Execution is about the tactics

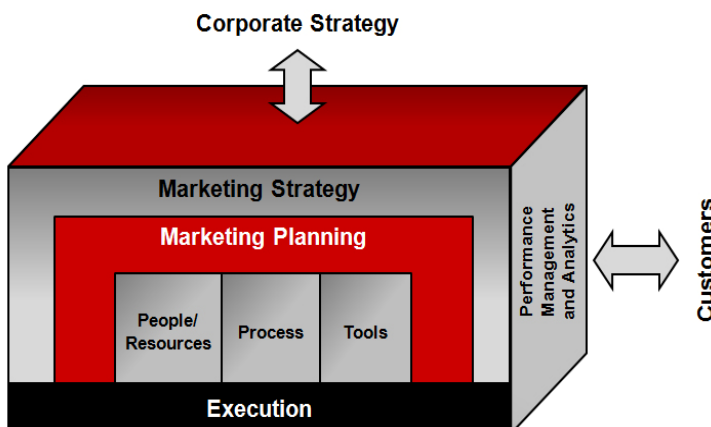


Figure 1 — Optimized Marketing Framework for ROMI

and resources required for marketing activities to meet stated goals and objectives. And, as outlined earlier, measurement is an imperative gaining more importance within marketing.

The key areas for a successful ROMI framework include alignment of planning, strategy, execution, and measurement; and the creation of a marketing financial system of record. Figure 1 depicts the Optimized Marketing Framework.

Strategy and Planning

Based on our experience, most companies we work with say they do a great job of strategic marketing and planning. In fact, most companies typically excel in this area. They understand that strategy must define the role of marketing in driving business outcomes and then those business outcomes must be connected with the marketing activities.

Furthermore, most corporate marketers have a formalized procedure for planning the organization's marketing activities for the year, beginning with an annual look at what products and which customers to invest in, what level of spend is required to market, and a basic Gant-like view indicating the launch of major marketing programs.

Fundamentally most marketers understand that the strategy and planning process drive the following five key aspects:

1. Informs the key metrics and measures for all marketing activity
2. Creates the foundation for establishing causal links to business outcomes
3. Forms the cornerstone of accountability
4. Simplifies the complex reality of integrated campaigns, and
5. Drives a common thread from planning to execution for learning

After the strategic planning process however, most marketing clients admit to not performing as well. As the saying goes, the "devil is in the details." Once the plan is ceremoniously validated and signed off by all key stakeholders, the plan moves to execution and somewhere along the path things get off track.

Marketing Execution

Executing as "planned" seems to be the area where most of our clients come to us for help. Countless marketing meetings render the same conclusion, "we do a great job of planning, but we just don't do so well when it comes to executing off the plan."

The barriers to marketing ROI and accountability directly relate to the shortcomings often found when planning moves to execution. It would be naïve to think it is simply human conditions that prevent companies from executing appropriately after successful planning. The key questions that typically emerge when uncovering the details are:

1. Have we set the priorities correctly?
2. Do we have the right people, processes and infrastructure in place?
3. What are the timelines?
4. What is the budget spent?

For the sake of review, we should understand that marketing execution is the means by which the strategy is implemented and is the bridge to the communication channels reaching customers. We must optimize three key execution enablers to maximize the impact of a company's marketing efforts:

- **People and Resources:** A variety of individuals are involved in executing marketing activities and delivering customer experiences; therefore, a company must clearly define roles and responsibilities for relevant internal groups as well as partners and agencies.

- **Process:** The processes for any customer-facing interaction should be standardized to deliver consistent customer and partner experiences, in the most efficient way possible.
- **Technology and Tools:** Marketing is increasingly dependent upon access to the right information and the right tools to deliver highly targeted customer experiences. Therefore, it is important to understand what technology solutions can enable marketing.

It is the people, process and technology areas of the framework on which marketers should focus when seeking to build ROI. With the right marketing business processes in place, alignment with the right people in the value chain, and the use of enabling tools and technologies; marketers can now begin to close the gap between marketing strategy, planning, and execution.

Mapping the Marketing Business Processes

The first priority in building ROI is creating, documenting, and implementing the business marketing processes. The business processes must enable brand promises to be realized as customer experiences.

“Best practices include defining an enterprise-wide marketing process model across corporate and regions, roles and responsibilities, inputs, activities and outputs identified.”

—CMO Council

Marketing Performance Management

The process model should clearly describe the activities that occur at corporate versus those handled in the regions. Roles and responsibilities need to be documented for each process step, with inputs, activities, and outputs identified. Handoffs from one phase to the next need to be identified, including any intersecting sub-processes like, periodic marketing performance reporting or external agency management.

To increase visibility into the effectiveness of marketing and drive marketers to be more accountable through objective-based measurement; CMOs should lead the development of a consistent enterprise-wide marketing data schema and tools to measure all aspects of marketing, including perception shift, product penetration, customer/partner satisfaction, demand generation, and the hand-off of qualified leads to the sales organization. Consistent marketing data schemas are imperative to getting the most out of marketing automation and accurately measure/report ROI in the marketing financial system. The goal should be to move the organization toward defining processes to enable marketing execution.

Once you have defined your marketing processes and mapped them accordingly, you can consider enabling technologies and tools to help automate the process. According to a 2007 AMA Benchmark Study, 83 percent of global companies use a mishmash of spreadsheet, desktop publishing, and email programs to manage the marketing process. So, even if you have defined marketing processes and aligned them to roles and responsibilities, being managed in a disparate manual way will hinder your progress towards marketing accountability.

Creating the Marketing Financial Package

The discipline of financial management within the finance department is to analyze and forecast the firm's performance, and manage the flow of funds through the firm for various investment opportunities. While the goal should not be for marketers to become finance managers constructing complicated algorithms to manage and track marketing spend, they should take a page from Finance 101 and implement a more disciplined approach. A true financial package for marketing addresses the following areas:

- Captures the total budget and total spend
- Defines and captures Key Performance Indicators
- Implements best practices via workflow and automation
- Aggregates end to end data needed for ROMI
- Delivers the “holy grail”—marketing spend effectiveness

"With an automated marketing system that aligns spend and provides marketing the right visibility into spend, organizations have achieved 20 percent reduction in misaligned spend resulting in a yield of multiple millions of dollars."

—Global Alliance Director
Aprimo

To improve accountability, start with a central system of financial record for improved visibility into marketing spend and return on investment; significant time is lost syncing individual spreadsheets, invoices, and other databases, reconciling marketing budgets. Integrate the marketing system with other business systems for companywide oversight and collaboration.

Building the Foundation: Marketing Resources Management

Marketing Resource Management (MRM) provides the technology infrastructure to support the processes and capabilities that aims to enhance a company's ability to orchestrate marketing accountability. MRM provides the marketing department the central system of record for all marketing plans, budgets, and activities. According to a leading research firm, MRM contains the following set of five key integrated competency areas:

1. Strategic planning and financial management
2. Creative production management
3. Knowledge management
4. Marketing fulfillment
5. Marketing performance management (MPM)

MRM capabilities provide the marketing department a means to capture ROMI, and if implemented correctly, can be the foundation of an integrated marketing strategy. It can also bring together actionable information affecting the planning, execution and measurement of an organization's marketing activities. The core functions within MRM that build the marketing financial system are the strategic planning and financial management components.

Marketing Financial System

The MRM financial component will serve as the central repository for all budget information. This becomes the foundation of the marketing financial system (MFS). The system will provide a central point of contact for all marketing budgets at the activity level and then aggregate them into one view.

Imagine the many line items in a spreadsheet for marketing expenditures, such as research, media, agency costs, trade shows, collateral, lead generation, etc. By replacing the hundreds of individual budgeting spreadsheets and rolling them together, marketers have access to real-time spend data in a central system. Marketing investment costs can be monitored and measured on an on-going basis, and the reallocation of funds within marketing programs due to marketing or performance changes becomes easier.

The MFS will provide the visibility of marketing spend below the GL Account Code Level, enabling budget structures and line items to align with individual marketing programs and supporting activities. It allows marketers to track commitments and invoices in real-time, linking to back-office PO and AP systems, and provides approval authority to individuals and/or groups for spending as determined by your marketing business process.

The new planning and budgeting processes will radically change the way the company operates. Marketing will now create and align its strategies with corporate strategies. As a result, Marketing will provide subsidiary marketers with the guidance they need to create goals, strategies, and tactics that support all up-marketing and corporate strategies. Not surprisingly, the budget allocation process will also need to be modified. The allocation of funds will now be based on the overall marketing strategy, rather than individual marketing groups (or business/product groups).

When implemented properly, an MFS can automate the core processes of marketing operations and streamline the budget and financial reconciliation process. The end result is improved accountability and ROI on marketing investments. Additional

"The marketing function is poised to increase its influence in the organization; establishing greater credibility, expanding its role, and increasing its contribution to the strategic direction of the organization. The [marketing operations] profession is in an ideal position to catalyze this transition."

—Michael Gerard
Director of IDC's CMO Advisory Practice

savings can be realized from vendor pricing and IT support of multiple systems because there will only be one central system to implement and support.

The following example demonstrates the potential savings a typical Fortune 500 company can realize when improving marketing efficiency through a MFS:

Cost Savings From Improved Marketing Efficiency	
<i>(Redirected funds from planning, production savings)</i>	
Company Size	
Annual Revenue	\$50,000,000.00
Total Marketing Spend	2 percent
Total Marketing Budget	\$1,000,000.00
Non-Media Spend (Industry average; 22 percent of marketing budget allocated to overhead)	22 percent
Non-Media Budget	\$220,000.00
5 Year Non-Media Spend	\$1,100,000.00
Industry Average Improvement	12 percent
5 Year Return	\$132,000.00

Effectiveness Improvement from Reallocated Funds	
Company Size Example	
Annual Revenue	\$100,000,000.00
Total Marketing Spend	3 percent
Total Marketing Budget	\$3,000,000.00
Misallocated Marketing Spend from non-aligned programs	10 percent
Misallocated Marketing Spend from non-aligned programs	\$300,000.00
Incremental Revenue	\$5,000,000.00
Margin	10 percent
Margin	\$500,000.00
5 Year	\$2,500,000.00

When assessing your organization's readiness for improved marketing accountability evaluate based on the following key questions:

1. What is the relationship between marketing spend and revenue/profit?
2. Where did we last invest in marketing?
3. What returns did we get from those investments?
4. Where should we make future investments or de-investments based on the return?
5. How was the marketing budget spent?
6. What did we invest in terms of the business outcomes we are trying to achieve?
7. What was the impact of our marketing efforts?
8. What is the confidence we have that this campaign will work before we start to run it?
9. How soon will we know a campaign is working? And do we have a plan "B" if plan "A" is not working?
10. What is the cost to change a customer's attitude about our brand? What is the cost of each sale? By each medium?

Preparing for Change

As discussed earlier, while the strategic imperative for implementing a MFS for accountability is paramount, the task may seem daunting to many companies. We believe in change preparedness to transition your organization. At its core, Organizational Change Management (OCM) encompasses the process, strategies, and activities that support organizational and personal transitions from the current state to the desired future state in order to achieve, and ultimately sustain, a desired business vision and strategy.

Key questions to consider:

- Will we obtain the necessary "buy in," commitment, and ownership from leadership and impacted employees?
- Will we instill organizational confidence that the change being implemented will bring about the intended benefits?
- Will we ensure that people are involved appropriately and have the right information throughout the process?
- Will we be providing employees with knowledge, tools, and techniques that will enable them to effectively lead and implement ongoing improvements and changes?

Some of the greatest hurdles for change within the organization will gain executive level support and commitment, overcoming employee resistance, and keeping ongoing support from management. These hurdles, however, can be easily addressed with sufficient OCM. The following key components define a superior OCM strategy:

- **Leadership and Stakeholder Commitment:** coach leadership to actively lead the transition. It arms leaders with the resources that they need to guide their teams through individual and organizational transitions.
- **Communications:** deliver the right message to the right person at the right time. It aligns the project strategy with that of the overall organization and provides a compelling message to lead the organization through the change.
- **Organizational Landscape:** assess the current organizational environment, develop the appropriate Change Management approach, and build the infrastructure for sustainable change.
- **Learning:** educate the organization on new processes and technologies throughout the project lifecycle, developing the knowledge, skills, and behavior to enable individuals to successfully perform in the future state.

Conclusions

There are incredible benefits gained from focusing on ROMI. In addition, there can be improved relationship marketing capabilities to drive growth and customer loyalty. Using better methodologies for planning and allocating the corporate marketing budget across geographies, business units, products and targets, can also improve the ROI.

Leading companies are investing in new technologies like MRM to help focus the marketing discipline and optimize resources for better management, oversight, and accountability.

The enhanced visibility into the effectiveness of marketing investments will enable marketing to be more accountable through objective-based measurement. ROMI closes the “knowing versus doing gap” by converting data into action, and the lessons learned can be used for real-time adjustments. In addition to the above, there are several other priorities for successfully establishing ROMI.

And in the end, the intent of ROMI is to drive sustainable improvements to process, infrastructure, and organizational areas and as a result, make ROMI measurable and quantifiable, and improves the marketing culture within the company.

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Author Bios

Brian McIntosh, Senior Manager at Hitachi Consulting, has more than 13 years of marketing communications experience on the agency service side. He has worked with several Fortune 500 companies in manufacturing, technology, telecom and tourism industries, focused on both business-to-consumer and business-to-business relationships. He has led cross-functional teams in the development and implementation of channel marketing programs, integrated advertising campaigns, sales promotions, brand positioning and interactive marketing. McIntosh is part of the Hitachi Consulting National Customer and Channel Solutions Practice working with clients in the areas of marketing optimization, sales and channel optimization and ecommerce. Brian is also the National Alliance Manager working with Aprimo. Brian has a BA in Advertising from the University of Northern Colorado and a MBA from Colorado State University.

James Hargrove, Manager at Hitachi Consulting, has eight years experience in both HRIS technologies and Human Resources Management in both products and high-tech industries. His expertise is in implementing workforce technologies, HR process optimization and redesign, HRIS software selection, packaged software implementation, and large-scale change management and organizational transformation strategies that support technology implementations, including PeopleSoft and JD Edwards. Hargrove has a BBA and MBA, with a major in Finance and Accounting, and a Master of Science in Management Information Systems from Texas Tech University.

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As Hitachi, Ltd.'s (NYSE: HIT) global consulting company, with operations in the United States, Europe and Asia, Hitachi Consulting is a recognized leader in delivering proven business and IT strategies and solutions to Global 2000 companies across many industries. With a balanced view of strategy, people, process and technology, we work with companies to understand their unique business needs, and to develop and implement practical business strategies and technology solutions. From business strategy development through application deployment, our consultants are committed to helping clients quickly realize measurable business value and achieve sustainable ROI.

Hitachi Consulting's client base includes 25 percent of the Global 100 as well as many leading mid-market companies. We offer a client-focused, collaborative approach and transfer knowledge throughout each engagement.

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