Point of view

Measurable marketing: a review of developments in marketing's measurability

Andrew Greenyer
Group 1 Software, Watford, UK

Abstract

Purpose – This paper aims to review recent changes in the nature and capabilities of responsive marketing, particularly the balance shift from cold prospecting to customer development, in order to challenge preconceptions about today's marketing metrics.

Design/methodology/approach – A variety of recent research outputs are reviewed, covering the topics of data availability, marketing communications channels, campaign outsourcing, and customer re-recruitment.

Findings – The paper concludes that marketing return on investment (ROI) is increasingly measurable, but the balance of expectation has recently changed. Information on the customer or prospect, along with the ability to speak to them through certain channels, has become more restricted. And customers increasingly expect personalised, relevant communications from companies they already do business with. So marketers are having to invest in data gathering and campaign targeting. New developments have improved some areas: response modelling has increased in sophistication, and existing communications with customers are now being harnessed for marketing purposes.

Research implications/limitations – The research reported in this paper would benefit from further in-depth study, especially regarding best-practice use of existing channels to the customer, such as statements, regulatory correspondence and loyalty communications.

Practical implications – In practical terms, this paper highlights the need to re-appraise metrics used to measure and monitor marketing ROI, in particular whether to use in-house customer relationship management (CRM) systems, or whether to outsource the process.

Originality/value – The paper forms a timely prompt for marketing experts to challenge the received wisdom of marketing communications measurement, where the assumptions made five years ago cannot necessarily be treated as appropriate to the current situation.

Keywords Measurement, Consumer marketing, Marketing communications, Return on investment

Paper type Viewpoint

The last 15 years have seen enormous strides made towards greater marketing measurability. Will this continue? How close has the investment in marketing become aligned to truly attributable sales results? This is a topical issue, because typical expectations for return on investment from marketing have recently changed. This article reviews those changes insofar as they apply to business-to-business (B2B) organisations, and identifies how those changes have made marketing in general – and customer relationship marketing (CRM) in particular – more affordable and therefore more attractive to the management board. Most of the statistics in this article refer to UK and European research, but their broad direction is applicable to marketing measurability throughout the Western world.

A few years ago, database analysis was mistakenly seen as a substitute for market research, partly as a result of market research companies' competitive worries, and partly because of the overstated claims of third-party data owners. Experience has now shown the two techniques to be entirely complementary (indeed one third-party data owner now provides weighted sample research contacts and insight verification services in tandem with market research companies).

Database analysis gives insights into behaviours – who buys what products, when, and how often. Market research, on the other hand, is concerned about why business people make the purchases that they do. Especially when introducing new product lines, both techniques are required for effective sales success. Market research indicates which types of people will buy (in B2B the basic types are early adopters, early mainstreamers and late followers). Database analysis helps find them and test those market research insights. The latest development here is the ability to rapidly analyse responses to phase 1 of a campaign, in order to adjust the parameters of which people receive phase 2 and beyond. Being able to do this rapidly and automatically has been proved in many examples to increase response and conversion rates substantially.

The balance between profitability and critical volumes is also now better understood. The ability to identify profitable customers brings with it a temptation to focus all attention on this attractive sub-group, and ignore the wider customer base. Shareholders and markets have encouraged this crude policy by demanding constant improvements in profitability. However, it is often the mass of less profitable (even down to zero) customers who are critical to maintaining a

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company's fixed overheads and scale of operations. It has therefore been recognised by business managers that part of their return on investment model is to maintain critical mass in the customer base, and suppress customer defection rates.

Data scarcity

Two further recent developments have radically affected the return on investment expectations and calculations. External intelligence on customers and prospects – in the form of lists that a company can buy on the open market – are becoming scarcer. Recent research from Lloyd James Group (2005) indicates a 5-10 per cent drop in available data on the market (across B2B and B2C lists). And opt-out rates from the Electoral Register now stand at 29 per cent (Experian, 2005) (a concern just as immediate for Directors at Home campaigns as for consumer campaigns). This has occasioned a small but significant shift of marketing investment away from new customer acquisition, and towards existing customer development. Research from Pitney Bowes/Marketing UK (2004) indicates that by the end of this year, 51 per cent of marketing investment will go into customer marketing, and 49 per cent into prospect marketing. Marketers always used to be told that the cost of a sale to an existing customer was far less than recruiting a new customer. Actually, things are not quite so simple. Existing customers expect communications from a company that they already patronise to be highly targeted and intelligent. The mantra of the "customer relationship" has raised people's expectations hugely. This means that the company has to invest in collecting information on its customers and targeting marketing communications to them very accurately.

Existing channels to the customer

Luckily for the measurement of return on marketing investment, there is good news on the cost of speaking to customers. Although legislation such as the EU Directive on Privacy and Electronic Communications has severely limited the extent to which e-mail and phones can be used in marketing (look, for instance, at the registration levels of the Corporate Telephone Preference Service), technology has recently opened up existing customer communications (statements, customers service letters, bills, etc.) to the possibility of carrying marketing messages. Our research amongst 1,000 top companies has revealed average response rates from such piggy-back marketing (at 5.9 per cent; Group 1 Software, 2004b) to be close to the typical result of a stand-alone B2B direct marketing push (6.7 per cent; Direct Mail Information Service, 2004) – at an absolute fraction of the cost. This helps to make up for the disappointments regarding e-marketing, now seen to be not so much of a "free" channel as originally thought. Abuse of e-mail marketing has meant that response levels have fallen dramatically.

Annual and other financial reports

In further bid to extract extra value from existing customer touchpoints, companies are looking at their financial reporting requirements and examining whether this touchpoint with investors can be better used for communicating key marketing messages. This twin task of customer and investor relations is especially relevant in developed economies that have experienced escalating levels of small shareholder growth since the 1980s, and where high volumes of shareholders are often also customers of the company. Look, for instance, at the explosion in shareholder base size at flotation for both Norwich Union and Friends Provident. And this phenomenon is magnified when we take account of major reseller channels such as banks (I am thinking especially of the huge Abbey National small shareholder-customer community).

Demutualisation is not the only driving factor. Ever since the Thatcher years, Britain has increasingly become a nation of shareholders – particularly the kind of high net worth individuals who tend to be SME owners. This means that the number and range of companies that have to communicate with large shareholder bases has increased dramatically in the last ten years. And which companies do small shareholders feel most comfortable investing in? Why, those that they know through being regular patrons. Therefore, there is a growing imperative for company managers to use the key communications with shareholders – namely the annual and quarterly financial reports – to communicate management policy effectively and pre-empt likely concerns amongst equity holders. Financial reports again need to take on the role of marketing documents.

Putting key marketing messages through an annual report requires all the disciplines of data-driven marketing. Content needs to address the concerns of different shareholder types or groups of shareholder. Accompanying letters and other documents also need to be similarly personalised and segmented in order to manage investor and investor-customer relations. According to research from Corporate Mailing Matters (2004), the application of creative marketing techniques to proxy voting forms can substantially raise response rates from their low typical level of around 15 per cent (an absolute necessity for some EGM voting requirements). Investor-customers provide marketing professionals with a warm research base, and a community on whom new initiatives can be tested, all of which can piggy-back annual or quarterly report mailings. To quote more fully from the Corporate Mailing Matters (2004) research, it found that on average, 27 per cent of UK top 1,000 companies are effective in using their annual reports and quarterly statements as key marketing documents. Moreover, industries traditionally strong in direct marketing are most developed in bringing financial reporting and marketing together, including retail (32 per cent), telecoms (30 per cent), automotive (28 per cent) and banks (28 per cent).

The fact is that a company's annual and quarterly reports are regarded by important influencers as so much more than simple financial reports. City sentiment, the press, competitors, reseller networks, and the general public all use financial, interim and quarterly reports as a barometer of company fortunes and futures.

Accessing transactional data

However, return on investment from marketing to existing customers is entirely dependent on the ability to correlate customer characteristics with actual buying patterns. Target marketing is, after all, a process of identifying likely purchasers. In the last three years, marketers have seen significant advances in cheaply and quickly drawing customer information out of legacy systems (billing, finance, order

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management, EPOS, stock management, etc.). Formerly, accessing such information was cumbersome and expensive. Special interfaces had to be programmed in to extract the data without causing the legacy line-of-business system to fall over (and result in, say, the billing system failing). This was a particular problem for volatile industries (such as IT and telecoms) where the customer data one needed to analyse and apply to campaigns today might not be the same as your requirements six months later. Firms simply could not afford the cost of writing new interfaces twice a year. That barrier no longer exists thanks to a relatively new software category called "extract, transform and load" (ETL). In layman's terms, this software allows non-technical people to build new data input filters on the fly, and inexpensively.

Having covered a number of recent developments that are helping to make marketing more measurable, it is also important to examine the specific areas of measurement that are becoming the norm in best-practice organisations.

Short-term revenue and channel integration

First, analytical work by marketers turns information into intelligence; that intelligence then has to be used to create customer cross-selling campaigns that deliver short-term revenue. Nowadays, no board of directors will readily agree to customer marketing investment that does not deliver some level of tangible short-term gain. Such management pressures have led to marketers dividing their major customer initiatives into stages, each of which can be shown to produce a bottom-line result. This is no bad business discipline, many would argue – especially since the "big bang" approach to CRM has indeed led to major financial loss through failure (particularly in companies targeting large volumes of SMEs). So staged initiatives, each with a return on investment from short-term uplift or cost saving of some description, have become the norm.

In reality, the last decade of bottom-line growth has been won through being able to mount tactical marketing campaigns that generate short-term revenue. In a business environment burdened with servicing increased levels of debt finance, reliable short-term cash flow is critical to demonstrating growth, meeting bank covenants, issuing highly rated bonds and maintaining successful investor relations.

In a parallel trend, more and more responsibility for customer interaction is being forced upon the call centre. In research commissioned by Group 1 in February 2004, the call centre was ranked as either first or second most important touch-point in the banking, insurance, IT, utility, and telecoms industries (Group 1 Software, 2004a). This has brought with it a lot of glib talk about the imperative need to "integrate channels to the customer", a phrase that is easy for armchair academics to spout but which has often been difficult and expensive to achieve in practice.

Certainly, disjointed treatment of the customer is a bad thing, and tends to increase the chance of customer defection. Yet rarely is someone (a marketing director) given the backing and the clout to effect complete integration of information flow and action prompts between all channels to the customer.

So organisations are left considering how, and by how much, to integrate their channels to the customer.

In addressing this challenge, a company needs to address three concerns:

(1) How reliant is it on each channel – principally covering face-to-face, post, phone, e-mail and web? Where is the weight of customer traffic, and how is that likely to change in the near future? The best way to find out about future trends is to survey a representative sample of the customer base. Any data-driven organisation will be doing this anyway.
(2) How important a differentiator is service? Commodity products (IT reselling is good example) that have neither price nor product feature advantage in their markets will be sold almost entirely on service. Patented innovations, on the other hand, will be less concerned about service as a competitive differentiator (that is not an excuse for anyone to provide bad service, by the way).
(3) What is the object of channel integration: to control how a customer is dealt with or to better support the judgments a branch assistant, a call centre agent, a salesperson or a CSR is making? In most real-life cases, the answer will be a mixture of both – a form of limited empowerment, if you like.

All these considerations will affect the level to which channel integration is implemented.

For instance, is there a commercial purpose to having a customer's transactional information (bill, statement, loyalty account data) easily available across all channels? And if such line data is to be retrieved in the call centre, should it be viewed by the agent in exactly the visual form that the customer receives it so that they can easily navigate the document together? In other words, how much of a customer's history with the company needs to be made available, where, and with what recency?

Winning back lost customers

Second, companies need to measurably employ customer information to win back customers who have defected. There are few greater hallmarks of intelligent customer marketing than an organisation that keeps in touch with lapsed customers and persuades them to come back. Investing in this process has borne substantial commercial gain for many utilities and telecoms companies in recent years. In fact, in the mobile telecoms, business travel and commercial insurance markets particularly, the ferocity of competition and the mobility of customers has meant that a combination of effective customer retention and successful customer re-recruitment has become an essential business objective for players that aim to survive the next few years.

SME loyalty programmes

The third output that a rich data-basis enables is some form of corporate loyalty programme that delivers measurable business improvement, whether that measure be improved retention rates, reduced cost of sale, incremental cross-sales or enhanced customer profitability. Of course, having lots of good data does not guarantee these outcomes – that requires intelligent application of customer knowledge to appealing offers and initiatives. Equally, the integration of different channels to the customer (from in-store or in-branch, to contact centre, to statements and bills, to resellers, to website) is required so that each customer is recognised and treated in a personalised fashion however they approach the company. The charge that a significant proportion of loyalty schemes

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and CRM initiatives do not deliver return on investment (such as the famous Gartner prognostication in 2001 that over 50 per cent of CRM initiatives do not produce measurable payback; Gartner, 2001) should be taken seriously. However, the cost of entry, especially in terms of technological support and essential software, have reduced considerably since the beginning of the decade, and barriers to success have in large part fallen.

Cost of entry

Customer data in general, and modelled data in particular (a necessity in B2B where specific customer attributes are scarcer than B2C), have been a relatively low priority for medium-sized companies up to now, perhaps because they have felt that database marketing and CRM were beyond their purse. The perceived capital cost of a CRM investment has been a major disincentive to engage in data-driven marketing at all. Again, things have moved on here. After experiencing a massive downturn in sales in 2002-2003, CRM software vendors pulled themselves together and started to explore alternative sales models. Outsourcing of whole CRM business processes has also grown. The traditional outsourcing focus has been on the call centre. Recently, however, database bureau businesses have transformed themselves into outsourced analysis departments, campaign management back-offices, or database hosts. According to data management specialist CDMS (2005), campaign management outsourcing is used by over one third of top UK corporations. In short, then, costs have fallen, the need for capital commitment has crumbled, and liquidity has been assisted through the option of monthly service charge payments to an outsource provider.

Modular approach

As an addendum to the changed financial picture of CRM, it should also be noted that companies are now able to take to CRM on a modular basis. Now, although purists would argue that only a "big bang" approach delivers the real thing, that option has never been palatable to senior management. A staged approach, with measurable proof points, makes it much easier to convince the main board. Some of the isolated functions of a good CRM programme should usually be able to deliver a measurable return: serving up segmented messages on the website to improve click-through; improving retention with more controlled customer service workflow; using digital print and variable mailing insertions to improve campaign response rates; extending marketing initiatives to existing (no extra cost) touchpoints such as invoicing, stores, newsletters or customer correspondence. Achieving a measurable return on investment at each stage makes it much more likely that the full CRM investment will be approved by management, will make the organisation value the CRM initiative more, and help identify bottlenecks in a low-risk fashion.

However, none of these advances – in software rental, outsourcing or modular take-up of CRM – is of any import if critical volumes cannot be selected for marketing activity, if analysis is being conducted across only a (probably unrepresentative) part of the customer community, or if respondents cannot be dealt with in an apparently personalised (at best) or broadly relevant (at the least) way. Responsive advertising – whether direct mail, telemarketing, e-mail marketing or direct response adverts – cannot manage with data gaps and needs modelling to fill them.

Summary

In conclusion, marketing ROI is increasingly measurable, but the balance of expectation has recently changed. Information on the customer or prospect, along with the ability to speak to them through certain channels, has become more restricted. And customers increasingly expect personalised, relevant communications from companies they already do business with. So marketers are having to pump investment into data gathering and campaign targeting. On the other hand, new developments have improved some areas: response modelling has increased in sophistication, and existing communications with customers are now being harnessed for marketing purposes.

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About the author

Andrew Greenyer has worked for Pinpoint Analysis, advising clients on how to segment, target and reach their respective customers, for ICD as Client Services Manager, and as Head of Analytical Services Division for The Database Group. He joined Group 1 Software in 2000 where he is now Director of Customer Relationship Solutions. Andrew has lectured on the Diploma in Direct Marketing and on the subject of Segmentation and Geo-demographics. Andrew Greenyer can be contacted at: AGreenyer@group1software.co.uk

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