Topic 12: Digital Marketing Strategy

MKT 485

Chapter Objectives

Understand how digital marketing strategy relates to marketing strategy and digital marketing execution.

Determine the relative importance of demand generation, demand harvesting, and customer relationship management for a company.

Identify how to allocate marketing resources effectively across available digital channels.

Understand how to engage in long-term, profit-maximizing budget allocation.

What Is Digital Strategy?

Strategy	Marketing Strategy	Digital Strategy	Digital Execution

| CEO	CMO VP Marketing	Director – Digital Marketing	Social Media Manager

What Is Digital Strategy?

The strategy framework (broadest) is based on Porter's Five Forces model, a perennial classic in business schools. The CEO of a company needs to consider all aspects of a company's performance: it's financing, operations, HR, marketing, etc.

Marketing strategy encompasses everything having to do with a company's performance in regard to its customers. Product line, product differentiation, competitive advantage, brand positioning, etc. are all considerations that belong to the marketing strategy.

The digital marketing strategy function within the marketing strategy: It is the job of a digital marketing director to allocate resources across digital channels to most effectively carry out the marketing strategy. The framework provided in the topic is meant to provide a template for people in charge of digital marketing to think strategically, primarily about this resource allocation. While a digital marketing director may have to give input on specific implementation decisions such as ad copy, keyword targeting, and the like, those decisions primarily belong within digital execution.
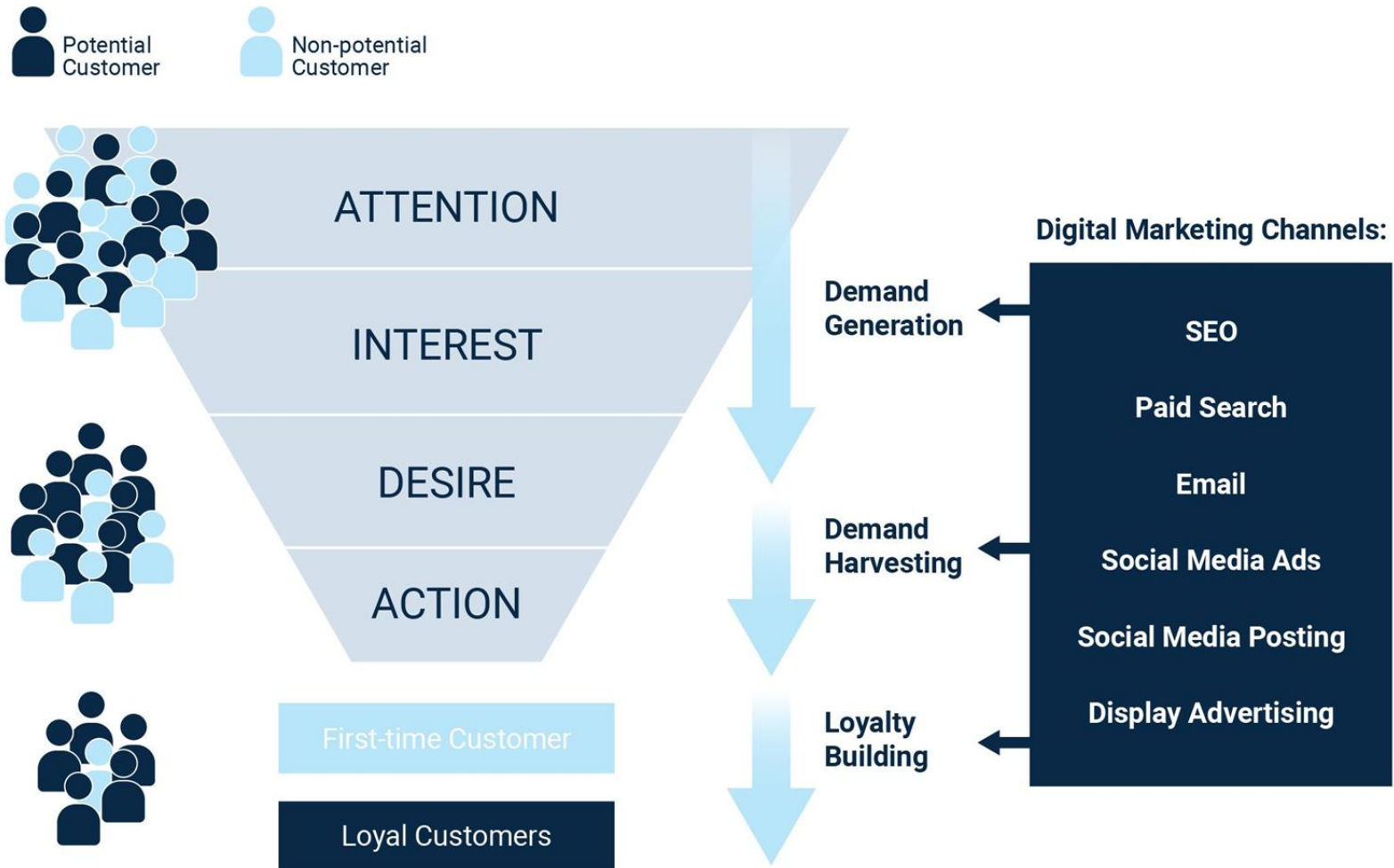
Strategy Framework

The foundation of this framework is the customer generation process, followed by the loyalty-building process. All companies, regardless of their product or business model, must generate and keep customers to stay in business. We divide the customer generation process into two phases: demand generation and demand harvesting. **Demand generation** is information-based. A potential customer who does not currently want a particular product must come across and process information about the product to subsequently have interest or desire for that product. **Demand harvesting**, on the other hand, is geared toward being in front of the right customers (those wanting the product you are selling) at the right time (when they are ready to buy). This distinction is important because the focus of marketing actions changes between demand generation and harvesting. Demand generation efforts must focus on the message and on commanding sufficient attention from potential customers so that they process the information and update their intentions and preferences. Demand harvesting efforts must focus on targeting the right customers. Demand harvesting must also be concerned with messaging, but it is not attempting to change customers' minds but rather to assure customers that their demand will be satisfied by the product offer.

An important reality of digital marketing actions (and marketing actions of any kind) is that potential customers, people who may eventually purchase from you, are mixed with non-potential customers, people who are not likely to ever purchase from you. Money spent on non-potential customers is typically wasted money because it is money spent attempting to generate or harvest demand where no revenue will be generated. Therefore, digital marketers are constantly striving to find ways to increase the **concentration of potential customers** for their marketing messages through the various ad targeting methods available on digital channels. It is typically easier to generate a high concentration of potential customers for demand harvesting efforts than for demand generation efforts. Demand harvesting efforts go to people who have a demonstrated interest or desire for your product, so they are likely to be potential customers. Demand generation efforts go to a less targeted population, so it is difficult to determine who will be open to these influence efforts and who will be immune to these appeals.
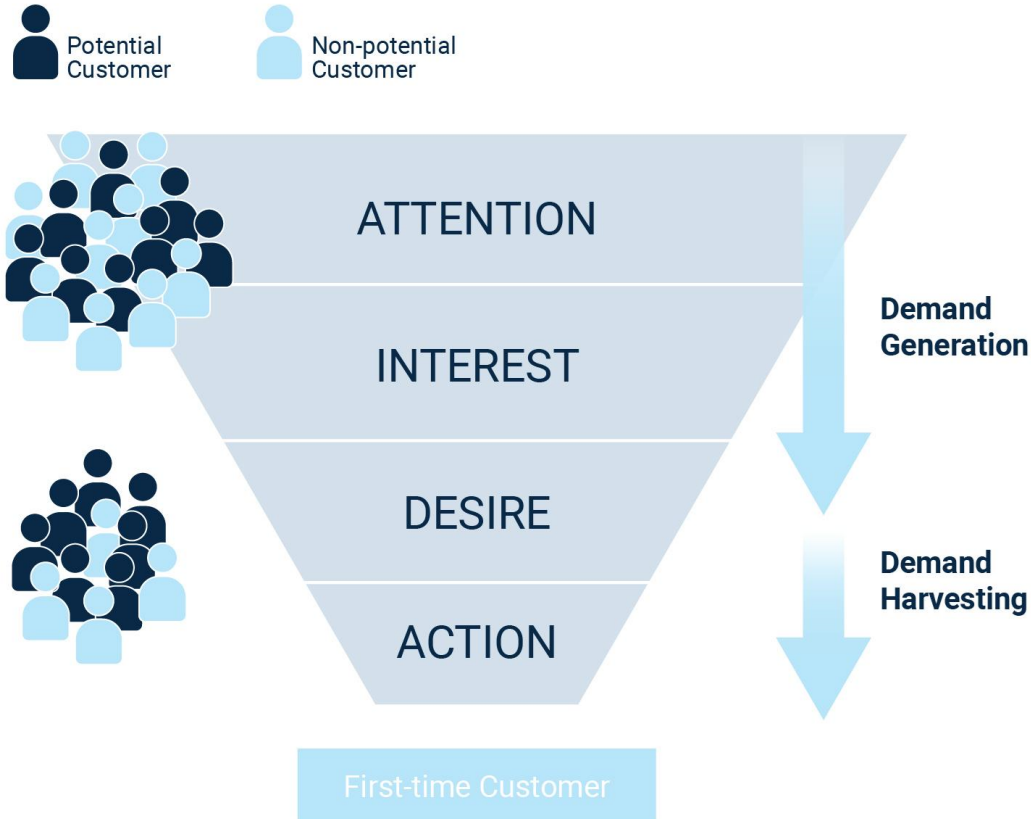
Strategy Framework

Loyalty building efforts are directed at past and present customers, so this target is, by definition, composed largely of potential customers (the exception being past customers who have decided never to purchase from a given company again). The most effective method for building loyalty among past or current customers is to give them superior products and/or services and exceed their expectations. If their first purchase experience meets or exceeds expectations, they are likely to return. But strategic digital marketing actions can increase the likelihood of a return purchase, so those opportunities should not be ignored.

The three marketing efforts of demand generation, demand harvesting, and loyalty building are typically accomplished through the six big digital marketing channels: SEO, paid search, email, social media ads, social media posting, and display advertising. While other channels and tactics exist, these six channels compose the vast majority of digital marketing budgets. **The framework stipulates that a digital marketer should be explicit about which effort he or she is trying to accomplish with investments in any given channel.** For example, if a marketer invests in email and wishes to accomplish all three marketing efforts through email, he or she should explicitly divide the email list along those lines. Email content creation should be conducted to either generate demand, harvest demand, or build loyalty, not all three at once.

Producing Customers

Potential Customer

Non-potential Customer

ATTENTION

INTEREST

Demand Generation

DESIRE

ACTION

Demand Harvesting

First-time Customer

Demand Generation

- Information-based
- Generic to brand-directed

Demand Harvesting

- "Pick me!"
- Removing obstacles

Producing Customers

Demand generation takes many forms. **Primary demand generation** refers to efforts and building demand for a product category. For example, when the Apple Watch was first released, the demand for tech wearables was quite small because the product category was practically nonexistent. Therefore, Apple had to engage in primary demand generation to convince the market that tech wearables were a worthwhile product. Now, however, the demand for tech wearables is well established, so Apple's demand generation efforts focus less on convincing people to engage with the product category but rather to convince people of the superiority of Apple over other brands. That is, its demand generation efforts around the Apple Watch are now brand-directed rather than generic.

Demand harvesting is focused on securing a sale from someone who already wants the product, so it is focused on removing whatever obstacle lies in the way of the purchase that the customer wants to make. This obstacle could be price, availability, risk, or any other hindrance to purchase. Another way to state this is that demand harvesting focuses on reducing purchase friction. Paid search is an iconic example of demand harvesting. The fact that the searcher has entered a particular query is evidence of existing demand, and companies pay Google for the opportunity to be front-and-center for that searcher at just the moment when he or she is ready to purchase. So in essence, paid search is all about shouting, "Pick me!" the loudest.

Creating Customer Loyalty

Loyalty communication

- Enhance customer service
- Cost-efficient

Loyalty

- Purchase breadth
- Purchase frequency
- Purchase amount

First-time Customer

Loyal Customers

Loyalty Building

# Creating Customer Loyalty

Demand generation and demand harvesting efforts typically require some form of paid advertising. But companies often establish direct communication lines with existing customers (e.g., via email). Therefore, **loyalty-building efforts are less about advertising and more about informing and communicating.** The most influential activity in generating increased loyalty from customers is likely to be their experience with the product or service and any additional direct customer service experiences the customer has. But digital marketing communications can enhance these more direct efforts.

When trying to generate customer loyalty, we should be specific about what the desired results of loyalty are. Loyalty should produce one or more of the three results listed on the slide**. Purchase breadth** means the customer purchases a wider variety of products. **Purchase frequency** means they purchase a given product more often. **Purchase amount** might mean they purchase a more expensive version of a particular product. Of course, all three of these could increase at the same time.
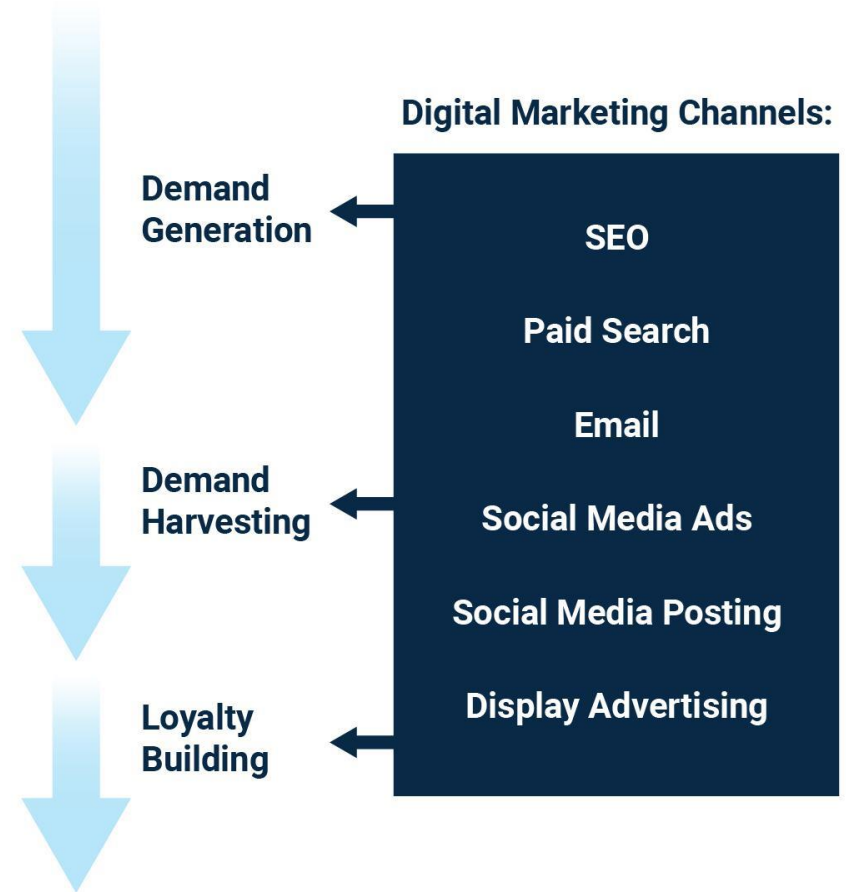
Marketing Efforts
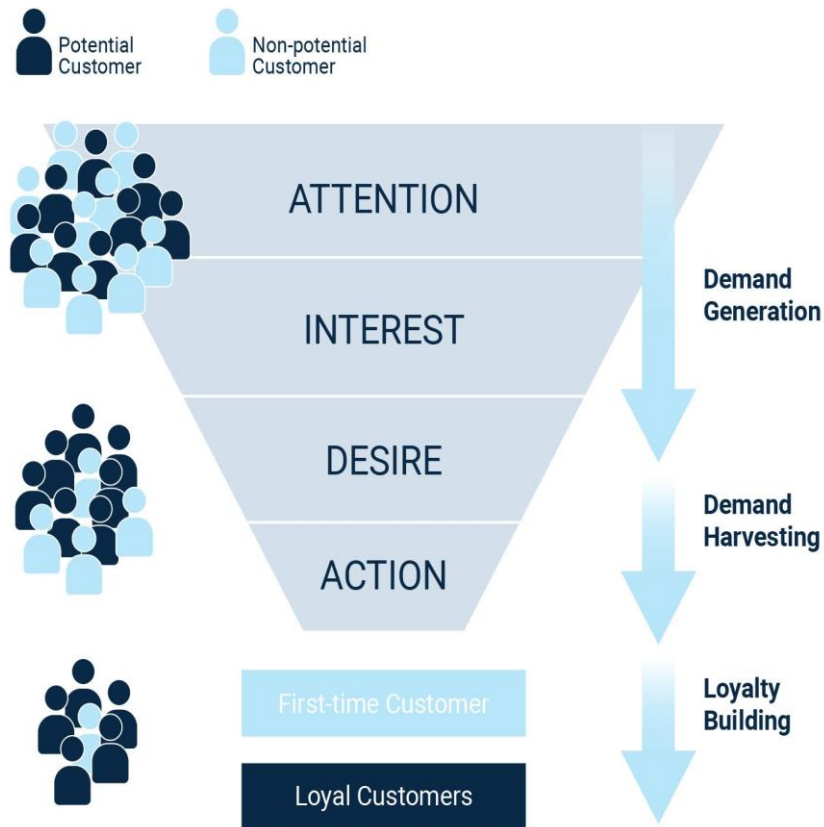
An important aspect of this framework is its insistence that a company be explicit about prioritizing these marketing efforts. A company should not conduct marketing campaigns of any kind without understanding what part of the customer journey it is trying to influence. And a company's digital strategy needs to be clear about which marketing effort will best build its business.

Because of the cost-efficiency **of building loyalty** (due to the inexpensive nature of marketing communications with existing customers), loyalty building should receive priority for any company with a good list of existing customers. For new companies without an established customer base**, demand harvesting** should likely be their top priority. As long as there is existing demand for the products they sell, it is more cost-effective to harvest existing demand than it is to generate new demand. But this new company should have a plan in place for building loyalty, because it will (with luck) soon have customers to build loyalty from.

Resource Allocation

Once prioritization of the marketing efforts (demand generation, demand harvesting, loyalty building) has occurred, the real work begins. Allocating resources across the digital channels in service of these marketing efforts is the key strategic decision that needs to be carried out by the digital marketing director or VP of digital marketing. The primary determinant of the amount of resources that should be allocated to a particular channel is its cost-efficiency. If you can spend $1 in channel A to generate $10 in customer spending, or you can spend $1 in channel B to generate $5 in customer spending, you should clearly invest your dollar in channel A.

Digital Marketing Channels:

Demand Generation

Demand Harvesting

Loyalty Building

SEO

Paid Search

Email

Social Media Ads

Social Media Posting

Display Advertising

Cost Efficiency (Digital ROI)

Customer Concentration

Potential Customer / Non-potential Customer

Think: How many of the people who see my ad are my target market?

X

Exposure Effectiveness

$$\frac{\#Conversions}{\#Views}$$

Think: Is my ad effective in getting people who see it to act on it?

Cost Per Exposure

Think: How expensive is the ad per person who sees it?

=

Return on Investment

Think: How much money am I getting back compared to how much I am putting in?

Cost Efficiency (Digital ROI)

Return on ad spend, or return on marketing investment, or the cost efficiency of marketing expenditures (all the same thing here) is positively related to customer concentration and exposure effectiveness, but inversely related to the cost per exposure.

A high customer concentration increases return on investment because it results in a higher concentration of revenue-generating people seeing your advertising. The exposure effectiveness is an isolated measure of the size of the effect of being exposed to the ad. That is, take a potential customer and expose him or her to the marketing message: how much has that person's purchase intention increased?

Instead of asking which channel has a high exposure effectiveness, ask, "Which channel has the LOWEST exposure effectiveness?" The clear answer is display advertising. People explicitly avoid looking at banner ads, so that limits the potential effect of a banner ad.

Cost Efficiency (Digital ROI)

| Channel	Cost per Exposure	Customer Concentration	Exposure Effectiveness
Email	Low	Medium to High	Medium to High
Search engine optimization	Varies	Medium to High	Medium to High
Paid search advertising	Medium to High	High	High
Social media advertising	Medium to High	High	High
Social media posting	Varies	Medium	Low to Medium
Display advertising	Low	Medium to High	Low

Optimizing Spend

Channel Returns by Channel Investment
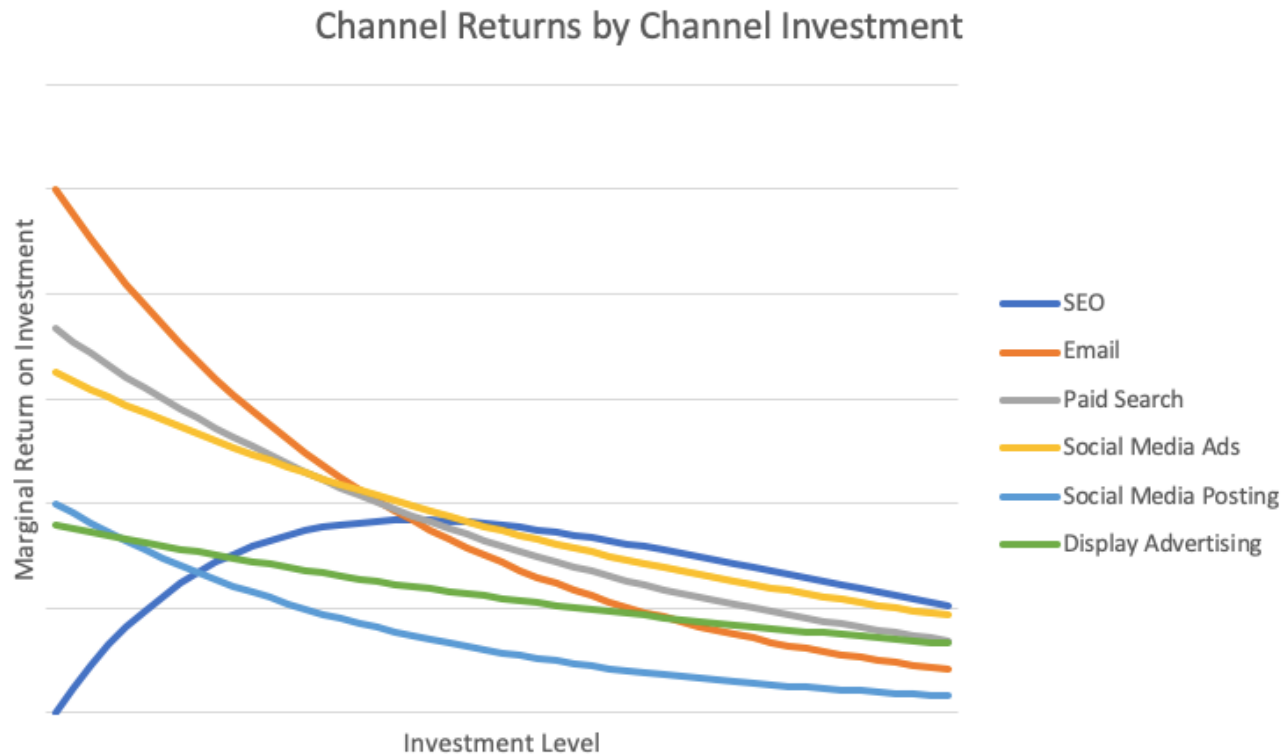
Figure 13.4.1: For most channels managed by a competent digital marketer, returns decrease as investment in the channel increases.

Optimization Obstacles

Channel Returns by Channel Investment

Marginal Return on Investment

- SEO
- Email
- Paid Search
- Social Media Ads
- Social Media Posting
- Display Advertising
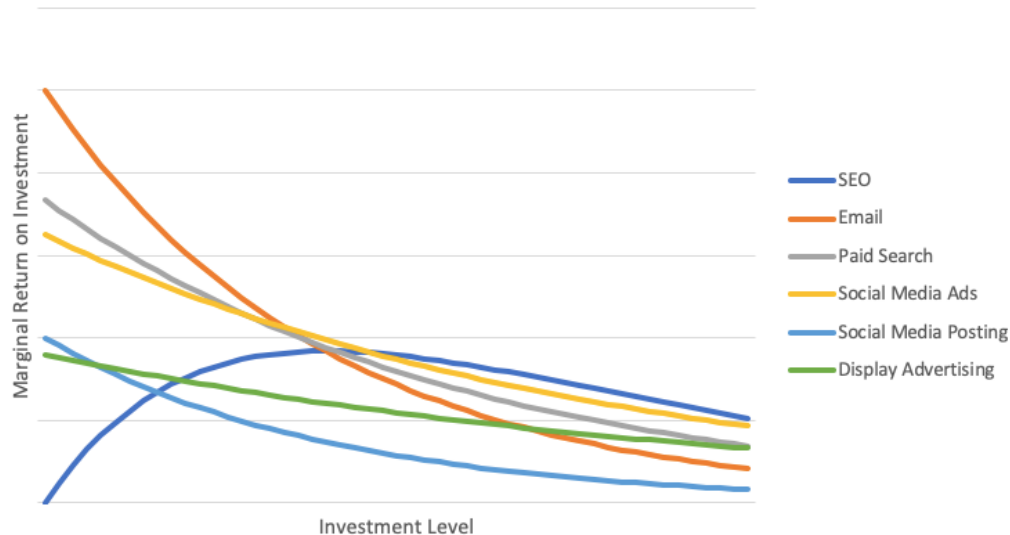
Investment Level

- Limited investment levels

- Changing returns

- Measurement difficulty

- Cross-channel interactions

- Attribution inaccuracies

- Marketing strategy implementation

Optimization Obstacles

Limited investment levels – Companies don't run systematic experiments to find out what the marginal return on investment is in a particular channel at a variety of investment levels. Instead, companies invest a certain amount in a particular channel and observe the overall level of return.

Changing returns – Markets are dynamic. An ad campaign may produce terrific results one week only to become stale the next week.

Measurement difficulty – SEO is a major culprit here. Measuring the true cost of SEO is difficult, or at least inconvenient, because it is paid in employee time rather than to an ad platform.

Cross-channel interactions – This stylized model of marketing returns assumes the effects of email expenditures are experienced only within the email channel. In other words, it assumes that the effects of any marketing expenditures are independent and isolated. But this is rarely the case. Increased expenditures in display advertising might improve SEO efforts by encouraging more searches on the advertised topic.

Attribution inaccuracies – Measuring return on ad spend requires an accurate accounting of both marketing expenditures and the resulting revenue.

Marketing strategy implementation – Even though this framework considers the primary responsibility of a digital marketing director to be the allocation of resources across channels, there are softer skills required that are not captured by this plot. Marketing strategies are not implemented just by giving the paid search director a budget amount. It requires coordination of a number of additional factors, like brand positioning, competitive reactions, new product introductions, etc.

(Other) Digital Marketing Tactics

Conversion rate optimization – It is difficult to even invent a situation in which conversion rate optimization is not a good idea. All companies that engage in digital marketing should invest in CRO.

Mobile application – Most mobile applications never produce worthwhile profits, but a select few are runaway hits. A company should only invest in a mobile application if (1) it has sufficient resources to not only develop but also provide ongoing support for the app, if (2) it is confident it can establish a large install and use base, or if (3) usage of the mobile application will increase customer loyalty. The app is only profitable if (1) the app generates more frequent traffic (and more frequent purchases), if (2) the app generates higher spending, or if (3) the app generates new customers that would not have converted through other channels.

Affiliate marketing – Engaging the help of affiliates is a low-risk method of producing new customers. But there is a danger that affiliates could just steal traffic and force a commission from purchases that the company would have earned on its own.

Influencer campaigns – Many companies have found influencer campaigns to be highly profitable, but these influencer-company relationships are largely ad hoc. Several companies are working to change this.

Direct messaging – WhatsApp and WeChat are direct messaging apps that are wildly popular outside the United States. This success indicates that direct messaging (e.g., through Facebook Messenger) has the potential to become a major marketing channel, but so far, the growth of this channel is rather lackluster.
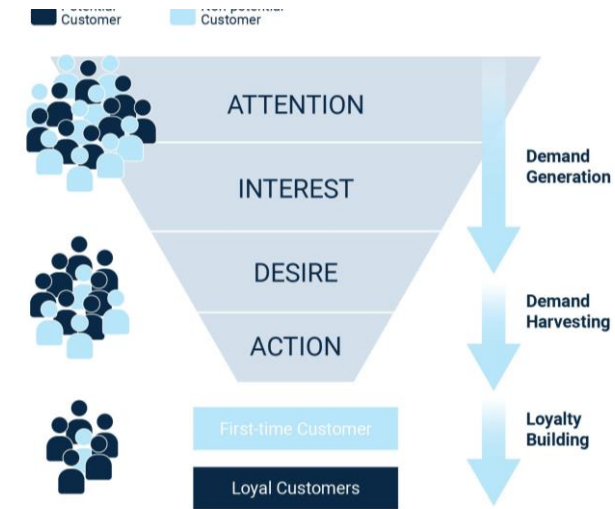
Applying the Framework

- Prioritize marketing efforts

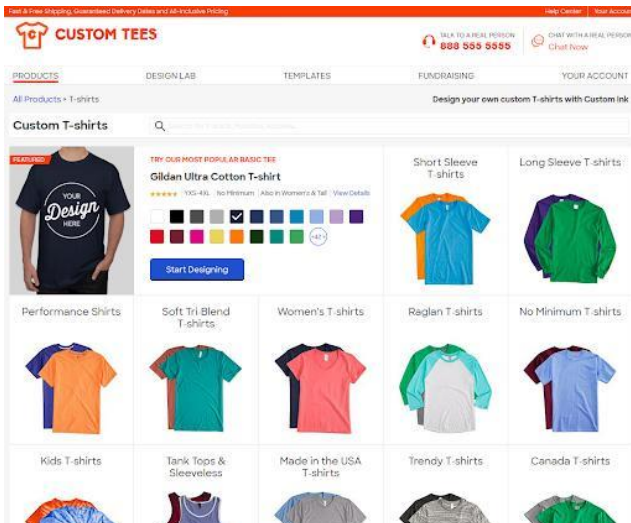- Allocate resources across channels

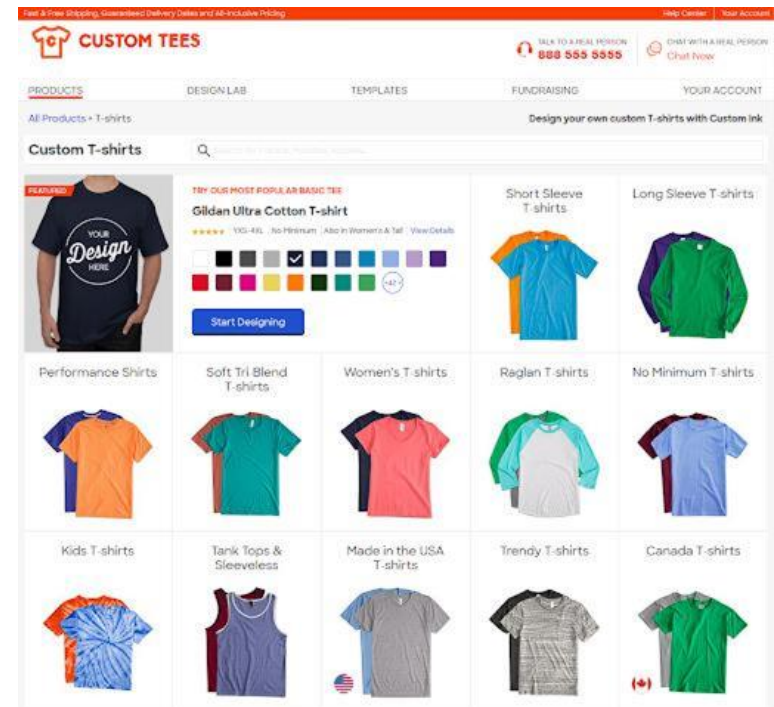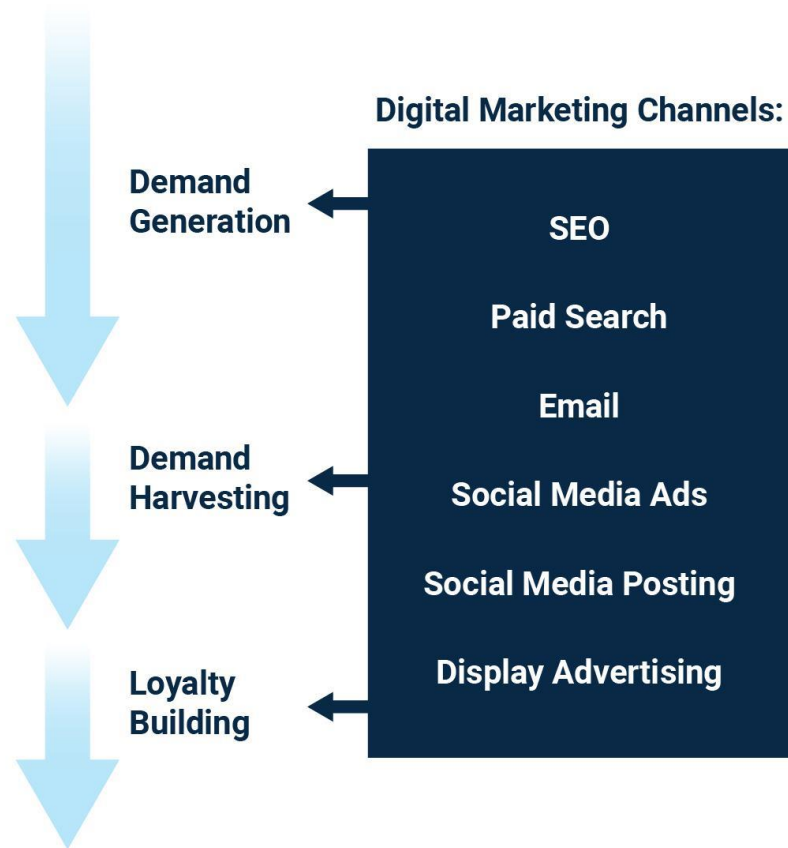- Monitor and adjust
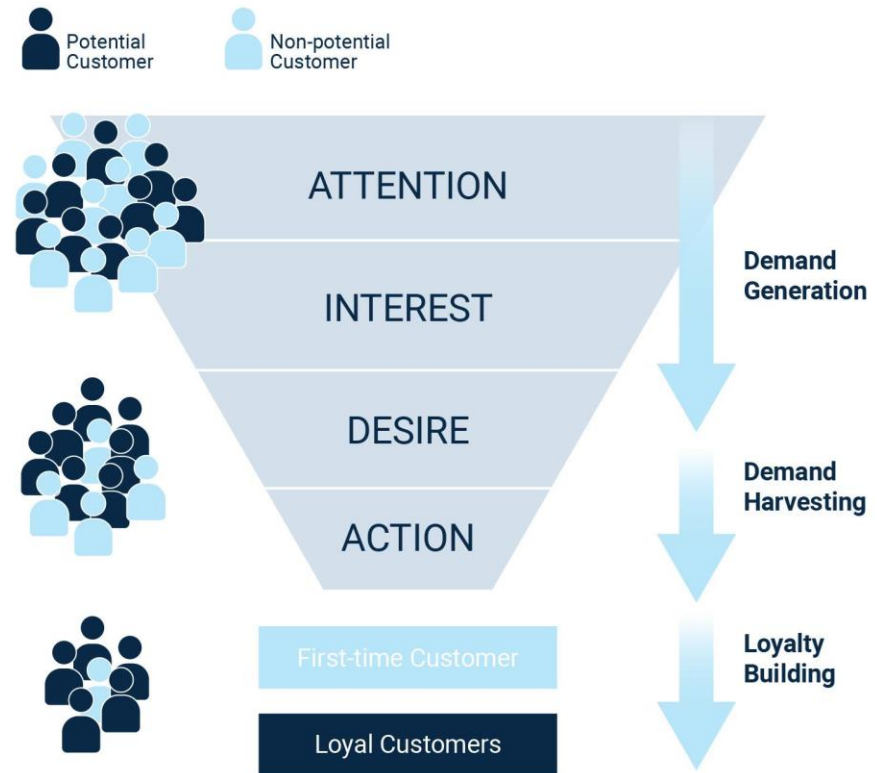
Example: Online Retail
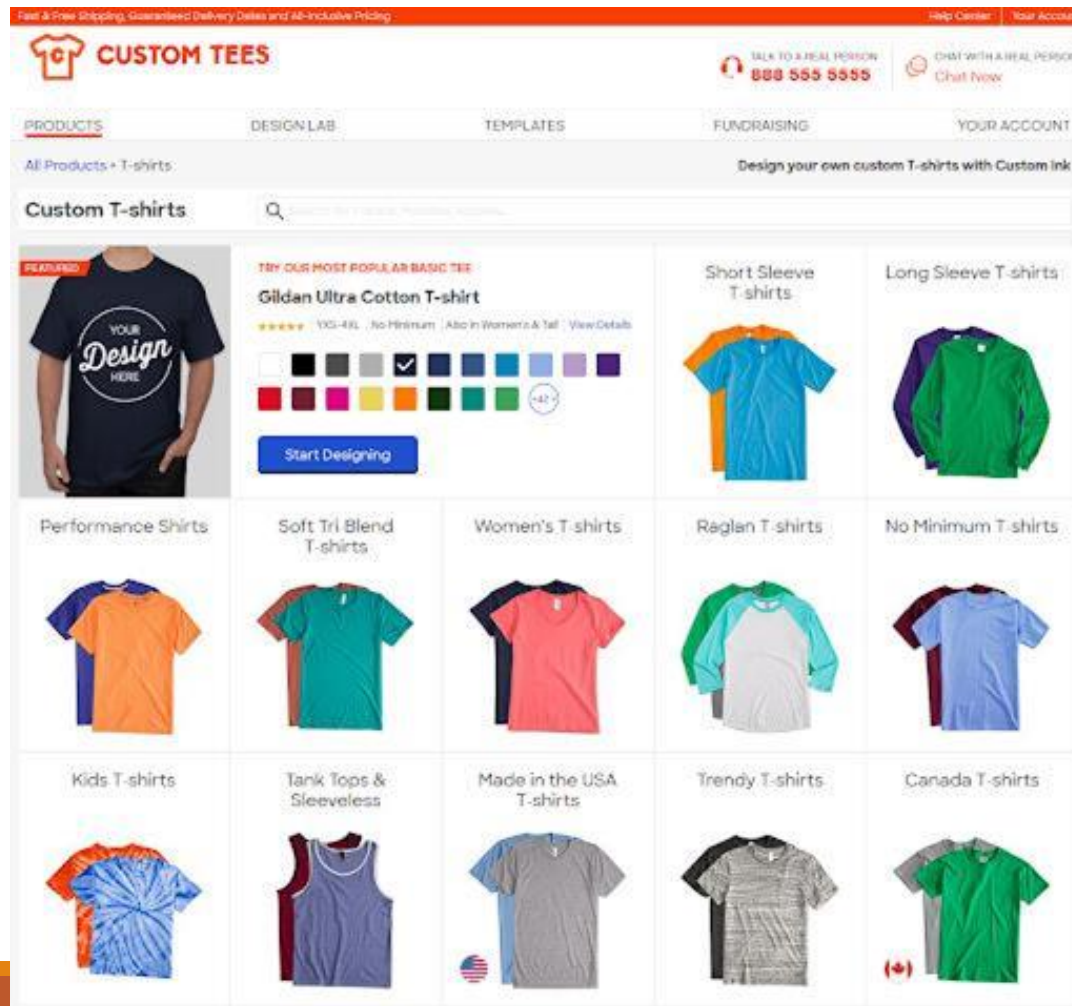
Marketing Effort Priority

Custom Tees does not have any current customers because it is just starting out, so it cannot build loyalty. It must (of necessity) focus on either demand harvesting or demand generation. Demand harvesting will always take priority over demand generation if there is demand to harvest because it has a higher and more immediate return. A simple Google search should verify that there is plenty of existing demand for T-shirt printing, so demand harvesting will be Custom Tees' top priority.

Resource Allocation

Digital Marketing Channels:

Demand Generation ←

- SEO
- Paid Search
- Email

Demand Harvesting ←

- Social Media Ads
- Social Media Posting

Loyalty Building ←

- Display Advertising

Which channel would you use for demand harvesting?
For loyalty building?

Resource Allocation – Harvesting

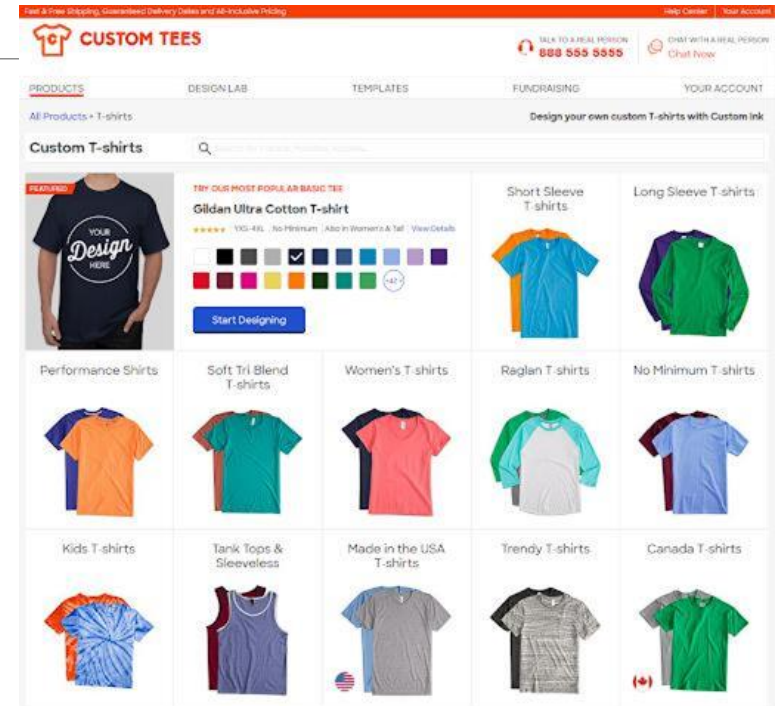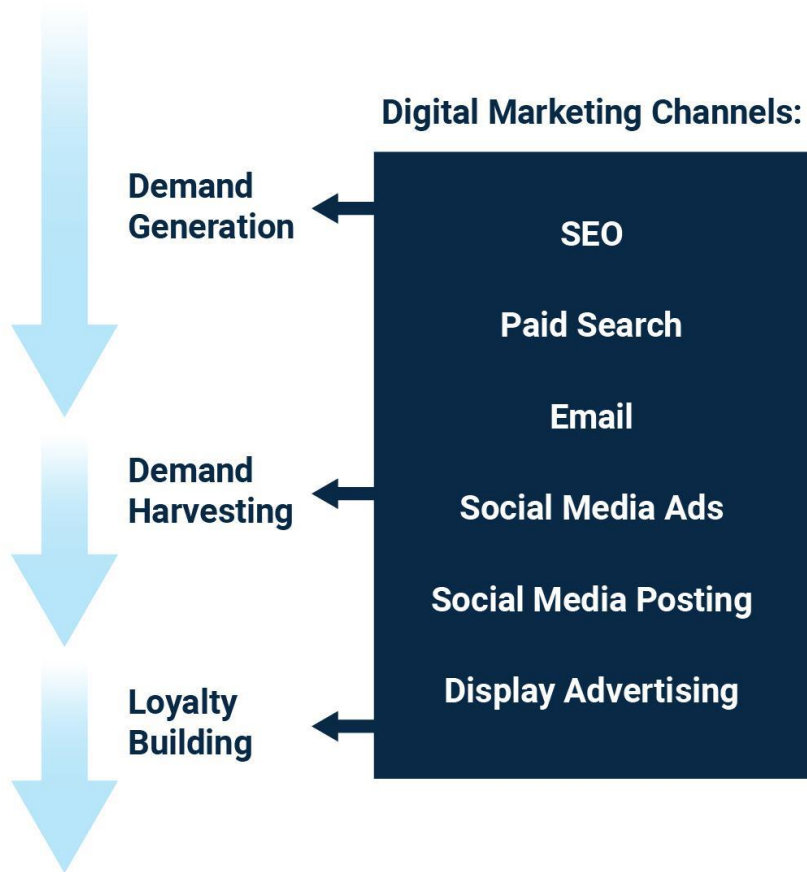| Channel	Expected Returns	Timeframe	Resource Intensity	Allocation
SEO	Medium-high	Long delay	High	Low, but positive
Paid Search	Medium-high	Immediate	Low	Medium
Email	Low	Medium	Medium-high	Low
Social Media Ads	Medium-high	Immediate	Low	High
Social Media Posting	Low-medium	Medium	Medium	Low
Display Advertising	Medium	Immediate-medium	Low	Medium

Resource Allocation – Loyalty Building

Channel	Expected Returns	Timeframe	Resource Intensity	Allocation
SEO	Low	Long delay	High	Low
Paid Search	Low	Immediate	Low	Low
Email	High	Immediate	Medium-high	High
Social Media Ads	Low-medium	Immediate	Low	Low
Social Media Posting	Medium	Medium	Medium	Medium
Display Advertising	Low-medium	Immediate	Low	Low

Monitoring

Digital Marketing Channels:

Demand Generation

Demand Harvesting

Loyalty Building

SEO

Paid Search

Email

Social Media Ads

Social Media Posting

Display Advertising

Metrics Monitoring

Channel	Metric #1	Metric #2	Metric #3	Up/Down Indicator
SEO	Sessions	Conversions	First page keywords	Domain authority
Paid Search	ROAS	Conversion rate	Sales	Marginal ROAS
Email	Sessions	Conversions	CTR	Marginal CTR
Social Media Ads	ROAS	Conversion rate	Sales	Marginal ROAS
Social Media Posting	Sessions	Conversions	Engagement rate	Views per post
Display Advertising	ROAS	Conversion rate	Sales	Marginal ROAS

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