



Predictive Analytics for Sales and Marketing

Seeing Around Corners

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Research Brief



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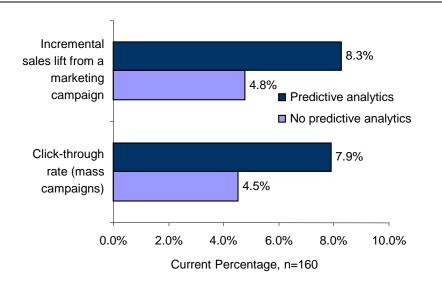
Predictive Analytics for Sales and Marketing: Seeing Around Corners

Aberdeen Group's research confirms that companies which invest in predictive analytics outperform those who don't in key marketing metrics. Long the domain of a specialized group of direct marketers, the wider availability of marketing performance data and the democratization of business intelligence (BI) applications have made predictive analytics possible for a wider segment of marketers. In July 2011, Aberdeen surveyed 160 senior business leaders about their use of analytics in sales and marketing for the September 2011 benchmark study <u>Analytics for the CMO: How Best-in-Class Marketers Use Customer Insights to Drive More Revenue</u>, and asked about the adoption of predictive analytics technology. This research brief will examine the goals and challenges of companies using predictive analytics for sales and marketing, along with the capabilities they have adopted and the marketing performance improvements they achieved.

Better Results through Predictive Analytics

Companies using predictive analytics outpace those that don't in two important marketing metrics. The first is incremental sales lift from a marketing campaign, in which predictive analytics users experience nearly 2-times the lift from marketing campaigns compared to organizations that do not use this technology (Figure 1).

Figure 1: The Positive Impact of Predictive Analytics



Source: Aberdeen Group, December, 2011

Research Brief

Aberdeen's Research Briefs provide a detailed exploration of a key finding from a primary research study, including key performance indicators, Bestin-Class insight, and vendor insight.

Predictive Analytics Definition

Predictive analytics creates a sophisticated mathematical model to use as the basis of predictions. Feeding this model are potentially hundreds or thousands of pieces of data collected on each individual. This model gives marketers insight into the characteristics and behaviors of buyers. The richness of the data, and the rigor of the mathematical modeling, distinguish predictive analytics from business intelligence.

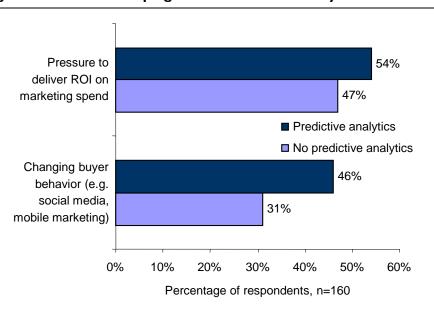


Second, users of predictive analytics see an average click-through rate from their mass marketing campaigns that is 76% higher than that of non-users. Marketers are capable of producing marketing campaigns with a significantly higher impact via more accurate segmentation of the target market and subsequent targeting of marketing offers.

Business Context: Insight Wanted

Marketing organizations strive to deliver a higher return on investment (ROI) from their marketing spend. The Aberdeen Group has seen a consistent trend in marketing toward revenue-driven metrics as the barometer of marketing campaign effectiveness. As seen in Figure 2, the pressure to deliver ROI is a top concern among marketers everywhere whether they are using predictive analytics or not. However, changing buying behavior, such as the use of social media and mobile channels, is a much bigger concern at those companies using predictive analytics.

Figure 2: Pressures Shaping Use of Predictive Analytics



Source: Aberdeen Group, December, 2011

These companies are concerned about the impact that this proliferation of channels may have on the effectiveness of marketing campaigns. They need to incorporate data from these channels and effectively target the buyers therein. Consequently, users of predictive analytics cite the creation of unique customer profiles and improved targeting of marketing offers as their top two strategies. Predictive technologies can enable more precise segmentation of potential buyers and facilitate a deeper understanding of those buyers, their needs, and their motivations. By optimizing the marketing offer and message directed at these buyers, predictive analytics provides an effective path to delivering better marketing ROI - as evidenced by the superior click-through rates and incremental sales lift.

Fast Facts

Aberdeen's September 2011 research study Analytics for the CMO: How Best-in-Class Marketers Use Customer Insights to Drive More Revenue explored the technologies that marketers were using to drive marketing performance.

- $\sqrt{24}$ were currently using predictive analytics
- $\sqrt{43}$ additional marketing organizations plan to adopt predictive analytics within the next 12 months

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Best Practices to Deliver the Value

Companies using predictive analytics are more likely than their peers to adopt a host of competencies and best practices associated with developing and using data-driven customer insights. In marketing applications, predictive analytics is chiefly concerned with making marketing decisions based on the analysis of behavioral data, including that of existing customers.

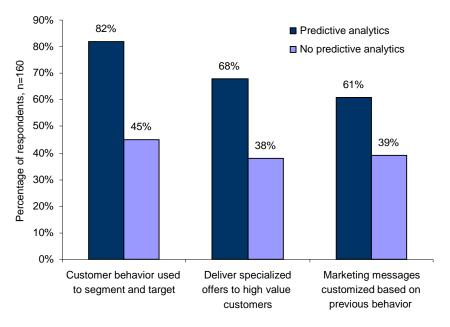
Table I: Access to Marketing Data is Critical to Success

Data Type	Predictive Analytics	No Predictive Analytics
Spending history of existing customers	78%	46%
Behavioral / inbound marketing data on prospects	43%	28%
External unstructured data (e.g. social media)	32%	24%

Source: Aberdeen Group, December, 2011, n=160

Firms using predictive technologies are more likely to have access to richer data about their customers and prospects than those that do not (Table 1). This access to data is just the foundation for other capabilities.

Figure 3: Behavior Data Used to Segment, Target and Personalize



Source: Aberdeen Group, December, 2011

"By breaking customers up into different segments, I was able to see which customers are loyal and strong, who only comes in occasionally, and also identify who I can likely turn into a loyal customer who uses more services and comes in more frequently."

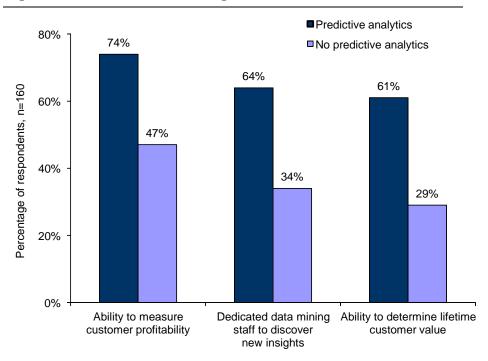
~ Mike Panarelli, Database Manager, Sullivan Tire



As seen in Figure 3, firms investing in predictive analytics are almost twice as likely to use data on the behavior of existing customers to segment their audience and target marketing messages and offers accordingly (82% vs. 45%). When the segmentation is complete, that same body of data is also used to create personalized messages and offers (61% vs. 39%). Organizations using predictive analytics are nearly twice as likely as others to be able to identify the high-value customers and make the appropriate offer to them (68% vs. 38%). Predictive analytics goes beyond simple trend analysis to identify deep patterns and correlations. This deeper knowledge can be an effective tool to help marketers cope with channel proliferation and changing buying behavior. This approach could be used to determine whether a social media campaign will produce greater marketing impact, or whether customers in the mobile channel are more valuable.

But this intensive use of data for predictive analytics isn't an anomaly. As Figure 4 shows, marketing groups that use predictive analytics are far more data-driven than their peers in other aspects of marketing as well.

Figure 4: Data-Driven Marketing Practices Drive Performance



Source: Aberdeen Group, December, 2011

Companies using predictive analytics are 88% more likely to have human resources dedicated to data mining to discover new insights. These insights can be found in the volumes of data most organizations accumulate about their customers. For example, companies that sell products to other businesses will have a computerized record of which customer bought which products and when. Customer service requests are also likely to be captured this way. Insights from these sources can help drive marketing

Fast Facts

Compared to organizations that do not use predictive analytics, proponents are more likely to:

- √ Test the effectiveness of campaign content (64% vs. 49%)
- √ Test discount levels to avoid leaving money on the table (45% vs. 17%)

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campaigns, as well as future product strategy. Technologies like text analysis and sentiment analysis can extract additional meaning from the social media data many organizations are just starting to access.

These same organizations are also more likely to estimate or measure the value of a customer - in terms of both customer profitability and lifetime customer value. In addition to shaping marketing campaigns, these measures have other value. For example, these metrics are vital for the marketing organization to determine the true return on investment of a marketing campaign. They're also extremely valuable in building more sophisticated predictive models to uncover the most efficient path to revenue. As reported in Aberdeen's October 2011 The Marketing Executive's Agenda for 2012, revenue growth is the driving goal of marketing leaders. These leaders are seeking systems and tools that support more predicable revenue attainment from marketing activity.

Key Insights

Aberdeen's research into predictive analytics reveals the following:

- Predictive analytics is still early in the adoption cycle. In the past, the potential benefits of predictive analytics didn't justify the often significant investment in talent and technology required for all but the largest direct marketers. Only 16% of marketers taking part in Aberdeen's survey are currently using predictive technologies. However, the proliferation of marketing data, including data generated by marketing automation systems and social media, will make it harder for chief marketing officers to gain the insights into customer behavior that they need. Fortunately, predictive analytics technologies are becoming easy to use, and promise to deliver faster time to value with lower total costs. Predictive analytics is likely to have increasing appeal for sales and marketing, and to become more attractive for small organizations.
- Marketing must identify clear benefits. As noted, the cost, talent and technology barriers to entry for predictive analytics are lower than ever before. But marketing must still clearly identify the incremental benefits predictive analytics could yield. One way of doing so is by considering the average gains in marketing campaign lift and click-through rate that predictive analytics users reported in this survey and ask: what would be the financial impact of doubling click-through and / or lift?
- A holistic approach is required. Success is rarely as simple as
 just implementing the right technology. Marketing departments
 using predictive analytics have developed well-rounded capabilities
 to make the most of their investment. These include providing
 access to rich and broad sources of data around customer and
 market behavior. In addition, these organizations are more likely to
 measure all aspects of marketing performance, including customer



profitability, lifetime customer value, and the business impact of individual marketing campaigns.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research

Sales Performance Management: How the Best-in-Class Optimize the Front Line to Grow the Bottom Line; December 2011

The Marketing Executive's Agenda for 2012; October 2011

Analytics for the CMO: How Best-in-Class Marketers Use Customer Insights to Drive More Revenue; September 2011 Future Integration Needs: Embracing
Complex Data; July 2011
Predictive Applytics - Driving Sales wi

<u>Predictive Analytics – Driving Sales with</u> <u>Customer Insights</u>; September 2010

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