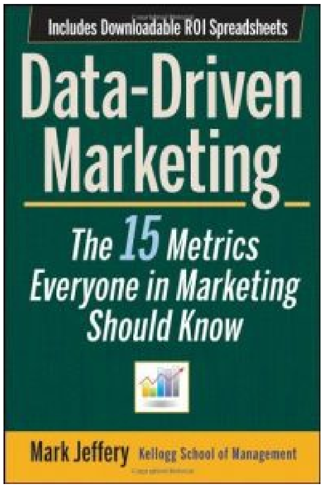

Book Data-Driven Marketing

The 15 Metrics Everyone in Marketing Should Know

Mark Jeffery
Wiley, 2010

Recommendation

Many marketing insiders are not fans of quantitative business analysis. They prefer the creative side of the business. But in today's cost-cutting, profit-focused environment, marketers should understand the data metrics that define their results. This important book explains these utilitarian, beneficial metrics. Technology and innovation expert Mark Jeffery, writing in a disarming, first-person style, presents the case for using data. He cites companies that have applied data to drive sales and to deploy their marketing budgets more effectively. *BooksInShort* suggests that this book could elevate the perceptions, performance and results of many non-data-oriented marketing departments, and could advance an individual marketer's career.

Take-Aways

- Data-driven marketing seeks the right promotional tools to drive the right product to the right consumer.
- Firms utilizing data can better define their strategic objectives, engage in data-driven marketing activities, segment customers, build customers' trust and quantify what works.
- Marketers who regularly use data are promoted faster and hold more senior positions than those who don't.
- More than 80% of companies do not use data-driven marketing to build sales.
- Marketers can use 15 measurements to track consumers, from their awareness of a product or service to their loyalty repeat customers.
- The first five track nonfinancial matters, the next four are financially relevant, the 10th metric calculates customer lifetime value and the last five relate to Internet marketing.
- For example, the "take rate" shows how many customers accept a marketing offer.
- The "bounce rate" shows how quickly Internet visitors leave a website.
- Marketers can accurately measure online "word of mouth" and exploit it for enhanced sales.
- Effective "market basket analysis" predicts future purchases based on previous ones.

Summary

Tough Times

As marketing departments come under increased pressure to produce measurable results, more nonmarketing executives are scrutinizing marketing managers and challenging them to justify their budgets. But many pivotal marketing functions, such as branding and image, are not directly connected to generating revenues, and many marketers don't know how to measure them. In fact, studies have found that 55% of marketers do not use basic marketing metrics at all, and 80% do not use marketing data to make decisions.

> "We are living in difficult times, and marketing measurement and data-driven marketing are becoming increasingly important."

One commonly cited problem is that marketers do not possess the relevant data or, if they do, they don't know how to interpret it. Yet marketers who regularly use data are promoted faster and hold more senior positions than their less data-literate counterparts. For example, when author Mark Jeffery asked the chief marketing officer of Best Buy to name his main competitor, he responded, "Walmart." Jeffrey had expected him to name Circuit City, but the marketing officer explained that

Circuit City constantly held sales, which diminished its already thin profit margins. Circuit City operated in a downward cycle – holding nearly constant sales to drive revenues – and went bankrupt in 2009. Best Buy, however, tracks customers using purchasing characteristics and demographic metrics. It learned, for example, that women made significant purchasing decisions about its products, so it began tailoring promotions and merchandising to women and their kids.

> "You can measure everything."

Data-aware firms are able to define their strategic objectives more clearly, create and exploit databases, engage in data-driven marketing campaigns, segment customers, build customer trust and quantify what actually works. All you need are the right data. For example, Walgreens tracked how its customers responded to sales flyers inserted in newspapers. Using geographic mapping, the company discovered that its customers primarily shopped at Walgreens stores within two miles of their homes. Walgreens then focused its advertising on zip codes with stores within two miles of large customer clusters. This saved the company's marketing budget $5 million.

Crucial Marketing Metrics

Data-based marketing uses 15 major measurements – 10 classic marketing metrics plus five Internet-related calculations – to track customers as they progress from becoming aware of a company's product or service to being loyal repeat customers. This is reflected in the "marketing behavior impact model," which emerged in the 1960s. This model, which remains valid, is sometimes called the "purchasing funnel." It tracks the continuous purchasing cycle through the stages of customer awareness, evaluation, trial and loyalty. The primary metrics of classical marketing start with "the five essential nonfinancial metrics":

1. **"Brand awareness" –** When potential customers want to buy a product, ideally they will think of your product first. Such "top-of-mind recall" has positive ramifications for branding and overall awareness. Firms lacking the time and budget to build awareness can use low-cost websites and text messaging. To maximize these cost-effective alternatives, include a URL or texting number in your TV, print and billboard ads.
2. **"Test-drive" –** When customers compare products or services, they make an evaluation, which may be based on price, innovations, features, and so on. The number of product literature downloads from websites or the volume of ad impressions online can show the scope of your customers' evaluations.
3. **"Churn"** – Marketers can measure repeat customer loyalty by the "churn rate" – the number of customers who stop using your product after one year. In the cellphone industry, customer turnover, or churn rate, averages 22% annually. A lower churn rate means higher annual sales.
4. **"Customer satisfaction"** – Word-of-mouth is one of marketing's most important drivers and can be summarized by the question: "Would you recommend this product or service to a friend?" Yes indicates a satisfied customer.
5. **"Take rate"** – This measures the number of customers who accept a marketing offer. In a direct marketing campaign, you can measure responses by counting the number of solicitations you send out compared to the number of people who take your offer. The take rate measures campaign costs and the individual new-customer acquisition costs. For companies engaged in demand marketing, this is an important metric that also affects branding and loyalty marketing.

> "If you can measure marketing, you can control it and radically improve performance."

The next set of five metrics includes the "four essential financial metrics" and the most essential measurement, "customer lifetime value":

6. **"Profit" –** Marketing departments can inadvertently reduce profits by running excessive discounts and promotions that might boost sales but that also cut margins. Companies with exceptional supply chain management skills, such as Dell and Walmart, sell enormous quantities at low prices. Profit is also tied to gains in market share, but many companies gain share and let profits suffer. The better approach is to avoid price competition while building brand equity and customer loyalty.
7. **"Net present value" (NPV)** – A positive NPV indicates that a campaign's benefits exceed its costs. NPV is important when making marketing decisions or assessing the cost of a campaign and its expected long-range return. It allows marketers to gauge their performance over time. If your business wants to attract outside investors, it must compete with the expected rate of return available to them in other industries. Investors also use NPV to calculate the worth of companies.
8. **"Internal rate of return" (IRR)** – While marketers should know their return on investment (ROI) on each campaign, the IRR is an even better metric. It shows the rate at which a profit compounds internally, compared to a discount, or hurdle, rate as a result of a campaign. The IRR depends on the length of time a campaign lasts and whether it makes a profit. A positive IRR indicates a worthwhile campaign.
9. **"Payback"** – This calculation shows how long it will take for a campaign to reimburse its costs and show a profit. Factor it into your marketing decision. For new product launches, a payback should occur within one to two years. Payback calculations for any new product or campaign should match the company's similar investments.
10. **"Customer lifetime value" (CLTV)** – A fact of life in modern business is that all customers are not equal. Some do more business with you than others. Marketing and sales strategists should recognize this reality, which makes CLTV the most important marketing metric. CLTV is a function of customer acquisition cost, margins generated by each customer over specific time frames, and the costs of marketing to and serving the customer. This metric also employs a risk assessment measure that shows the likelihood that the customer will defect within a year. While CLTV may be the most complicated metric a marketer must know, it basically reflects the profit per customer within a time period, discounted by the time value of money. The main function of CLTV is to determine a customer's buying lifetime, which, in practice, is often three to five years.

> "There are no negative-profitability customers, only negative-profitability business processes or service channels."

The Internet marketing environment changes constantly, so it's challenging for marketers to navigate. If you use search engine marketing (SEM), watch the five "internet marketing metrics" that complete the 15 essential marketing measurements:

11. **"Cost per click" (CPC)** – In the early days of Internet marketing (the mid-1990s), advertisers paid on the basis of the cost per thousand impressions. But after Google incorporated in 1998, advertisers had a better metric to use: CPC. This shifted the measurement to the company being searched. Studies have found that buying or researching products is the reason people conduct 46% of all searches. CPC is related to the click-through rate (CTR), the number of viewers who click on a link.
12. **"Transaction conversion rate" (TCR)** – Internet searches originate when a customer begins to explore using search engine recommendations, such as

Google’s lists, or they start when consumers follow ad banners. In SEM, the transaction conversion rate multiplied by the click-through rate equals the take rate, in that it reflects the probability of purchase.

13. **“Return on ad dollars spent” (ROA)** – This is the equivalent of the ROI for Internet marketing. ROA measures the efficiency of spending on sales messages. SEM provides extensive data to advertisers, enabling you to use ROA and other metrics to enhance your search-engine strategy. This datum can indicate, for example, how the placement of key words on a webpage boosts your search engine results. This data can help you find the best search engine publisher, such as Google or Yahoo, while also helping you refine your strategy.
14. **“Bounce rate”** – This measures the real-time performance and effectiveness of a website or another ad medium by tracking how many viewers leave a site – or “bounce” ¬– after a short time period, often five to 10 seconds. Using this data, marketers can determine which medium works best, how they need to refine an ad or whether they can use it as a benchmark. Marketers can also employ this data to drive consumers to specific pages on their sites, so customers can evaluate salient product features and compare them against competing items. SEM companies track customer searches on a click-by-click basis. Using branded keywords, SEM researchers cite the benefit of certain phrases, such as “Expedia vacation” for people looking for travel deals. However, experts note that you should not rely solely on branded keywords, but should also use other search words that are relevant to your marketing campaign. Marketers can begin their search analysis using free software from Google, Yahoo and Microsoft.
15. **“Word-of-mouth” (WOM)** – Social media plays a crucial role in WOM and viral marketing. This can include writing blogs, making “friends” on social sites and creating Facebook pages. Despite social media’s popularity, its metrics prove difficult to analyze. Initially, for instance, marketers did not have a metric that linked social media use to future buying behavior. The WOM metric provides that link. It uses the number of direct clicks from a website plus the number of clicks from recommendations divided by the number of direct clicks, including impressions from any marketing source. Marketers see WOM as the “social media multiplier” since it indicates the impact of a web impression.

Using Data to Improve Results

Since web marketing provides rapid feedback, it should accelerate the tempo of any promotional campaign. The result is “agile marketing,” which has produced dramatic results, for example, on the QVC Home Shopping Network, which monitors sales in real time. When an on-air salesperson’s statement generates phone calls, producers ask the salesperson to repeat the statement. Whether a campaign is electronic or traditional, data-driven marketing sets out to find the right combination of marketing tools to direct the right product to the right consumer. It accomplishes this goal in three ways:

1. **“Propensity marketing”** – This model uses demographic data and past behavior to predict the exact product that various consumers want and when they want it. The Meredith media and marketing firm uses a model that tests results about every nine months to verify results.
2. **“Market basket analysis”** – When a customer makes a purchase, this model works to predict similar purchases the same customer may make in the future. Amazon uses this metric to suggest related product titles based on a customer’s previous purchases. Researchers derive this data by using cluster analysis, which helps them find “association rules,” or buying patterns, for specific products and consumers.
3. **“Decision trees”** – These diagrams are visual representations of the way events or purchases connect. Marketers use segmentation analysis to isolate meaningful variables within these connections to show the types of products customers buy, and what factors predict future purchases or customer defections.

> “Start small and get the quick win.”

While these techniques appear complicated, marketers will benefit from understanding what these models can accomplish, how to interpret the data and how to make intelligent decisions based on that information.

About the Author

Mark Jeffery is the Director of Technology Initiatives and a senior lecturer at the Center for Research in Technology and Innovation at the Kellogg School of Management. He has published multiple Harvard Business School Publishing case studies.