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Have it All! Raise ROI & Add Customers

May 31, 2007
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Market growth often comes at the expense of efficiency, and vice versa. iKnowtion's senior partner and director, consulting explains how to accomplish both.

All businesses want to be growth businesses. All businesses want to be efficient businesses. So, all businesses want growth and efficiency.

But those two ends don't always go hand in hand or are compatible at the same time. For instance, early stage companies are typically more concerned about growth and gaining a toehold in the market than they are about showing the most attractive balance sheet. They want to survive first, and then focus on building profits.

Likewise, mature companies that have made it through the rigors of start up and expansion, and have found their rightful place in the market (or perhaps have become satisfied with their place), usually turn their sights on boosting margins, cutting costs and generating good returns for their stakeholders, especially those who stuck by them during the lean profit years.

This, in a simplified nutshell, is the trajectory of most businesses as described by many business experts. The lifecycle is straightforward, neat and tidy. And it sounds eminently logical.

However, I suspect that most clients I have ever worked with would argue with this depiction and declare that they have always felt the pressure of both sword points. Senior management declares, "You've got to work harder because you are not meeting your growth goals" as often as, "Your budget is going to be cut unless you can improve the ROI on your activities." So, in most cases, you become a slave to both masters: growth and efficiency.

The way many marketers try to survive in this environment is to develop quantitative tools that give them a way to attack either the growth goal or the efficiency goal, as necessary. For example, a tool that estimates a customer's share of wallet or one that projects whether the customer is on a growing or shrinking revenue path can be useful in isolating where additional growth could be acquired from the existing base. Similarly, a look-a-like model that tries to identify potential top customers in a prospect universe is a traditional way of pinpointing additional revenue opportunities.

On the efficiency side, targeting models are great at helping to narrow your focus to those customers who are most likely to respond to a solicitation or to those most likely to give you the greatest revenue per contact. Meanwhile, a channel preference model can help you get more customers to transact in low-cost channels and thereby improve marketing efficiency and customer profitability.

As useful as these tools are, however, it generally takes a great deal of coordination to work them simultaneously to generate the gains needed to satisfy both growth and efficiency goals. Instead, the marketer should have available a comprehensive tool that will give him the flexibility not only to attack either issue alone, but, more importantly, both issues together. The underlying benefit, of course, is that gains in efficiency can free up budget that can immediately be redirected toward more sales growth.

As an example, a few years ago our company developed an optimization tool that enabled our client, in a direct marketing application, to find the best solution for allocating incentive offers (essentially cash discounts) to its existing customers based on a set of objectives and constraints. This tool could be used to allocate the incentive dollars in order to maximize incremental product sales without worrying about the cost per sale or the profitability of the sale. Or, the tool could be used to allocate the incentive dollars to generate the most incremental sales at a specified maximum cost per sale. Better yet, the tool could be used to find the optimal solution for alternative scenarios of target sales and cost constraints. In other words, the tool could help the marketer attack both the growth and efficiency goals together, and give him information on many choices easily.

How this solution was developed is best left for another article, but suffice it to say the tool has become an incredibly valuable instrument to manage marketing investments for our client. Now the client uses the tool regularly to evaluate alternative marketing investment scenarios and to select the incentive offer allocation that satisfies the sales and cost requirements outlined by the planning committee.

In summary, while the growth vs. efficiency issue is conceptually interesting, it may be moot. The fact of the matter is I have yet to meet a CMO who wants to be recognized as "the most cost-effective marketer" (growing a business is in his DNA) and, by the same token, I can't imagine any CFO suppressing his interest in squeezing out higher ROIs on marketing spending. So, there really is no debate. Marketers need to be prepared to achieve both growth and efficiency concomitantly, and that means developing tools that enable them to understand the tradeoffs and find solutions that score on both fronts.

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