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WHITEPAPER

Integrated Marketing Performance Using Analytic Controls and Simulation (IMPACSSM)

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Integrated Marketing Performance Using Analytic Controls and Simulation (IMPACS)

Introduction

Marketers are constantly looking for an edge in the marketplace, and increasingly this means looking for ways to use information about individual customers to sell them more things, or at the very least communicate with them in more relevant and timely ways.

This need has spawned a large, and growing, industry in data aggregation and information technologies aimed at interacting with consumers in many channels and on a one-to-one basis. Furthermore, as the stakes have gone up, marketers have depended more and more on these types of investments, hoping they will improve their marketing efforts and provide the sizable business results needed to achieve their goals.

Unfortunately for them, however, there are no data or technological silver bullets out there and so, more often than not, their efforts have tended to fall short of their intended effect. The problem is not with the underlying concepts or the technologies, but frankly with their application. Years of experience have taught us that one of the biggest failings of marketing decision making is the typical lack of integration across activities and absence of uniform criteria to evaluate alternatives. While it is an old saw, it remains overwhelmingly true that in most companies marketing activities are developed and executed separately, medium by medium, that the information supporting these activities are maintained in independent databases, and that marketing evaluation criteria are not standardized or comparable across activities. Hence, inefficiencies not only occur, but are inevitable.

An Advanced Framework and Toolset

To address this situation, iKnowtion has organized a framework and quantitative toolset aimed at improving the way marketers (1) assess the opportunities for growth within their customer bases and then (2) plan, coordinate, measure, and evaluate appropriate marketing investments. Reflecting our belief that marketers need to integrate their activities more consistently across customer groups, channels, and media, and make quantitatively-grounded decisions based on a realistic assessment of the alternatives, we have labeled our approach IMPACSSM, for Integrated Marketing Performance Using Analytic Controls and Simulation. By design, this framework looks at the marketing problem holistically and tries to arm the marketer with tools that will enable him to manage all of his spending most effectively, while producing the greatest results for his business.

The key to the IMPACS approach is the combination of tried-and-true marketing concepts with specially designed quantitative tools in order to advance both the marketer's understanding of the drivers of business performance, as well as his ability to plan the proper actions to meet important business goals in a changing, and potentially uncertain, environment. Furthermore, by taking a multi-segment, multi-channel, and multi-media approach to managing marketing investments, IMPACS avoids the inefficiencies of disaggregated and "siloes" marketing practices, and links together the demand generation and customer optimization activities that are vital to business growth and profitability.

Importantly, too, because each business is somewhat different, we customize the IMPACS tools to fit the particular situation and reflect the dynamics associated with each business. These analytic tools span a host of familiar and emerging quantitative techniques such as segmentation schemes, customer lifecycle structures, response and propensity modeling, marketing mix modeling, and offer optimization systems.

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The sections below discuss the purpose of IMPACS, its individual components, and the initial steps involved in using its concepts and tools. The benefits of IMPACS are also touched upon briefly.

What IMPACS Is Intended To Do

The impetus for IMPACS emanated from a basic desire to help marketers get more from the money they are spending to achieve their prescribed goals. For instance, we have seen marketers in the automotive industry struggle to find ways to boost vehicle sales while fending off surging competitors. We have also seen marketers in the financial service industry fight to improve profitability associated with high cost channel-intensive customers whom it wishes to retain. In each instance, as well as others, marketers have generally felt that they should be getting more from their spending, but did not know where to begin.

As a result, IMPACS is intentionally structured to address both the business growth and marketing efficiency concerns that confront marketers. Because marketers are routinely held accountable for both of these goals, which generally work against each other rather than in concert, those with whom we have worked have appreciated this aspect of IMPACS. They especially like the ability to understand the performance tradeoffs that exist between different types of marketing investments, for instance seeing what a strategy for added growth might mean in terms of reduced marketing efficiency. They also like the ability that IMPACS can provide to understand where to go if they need to generate incremental business growth or to tighten up their marketing efficiency metrics.

By creating this framework, and emphasizing the importance of mission-critical analytic tools and continuous performance measurement, the intent is to facilitate the marketer's ability to design and execute better marketing strategies, to benefit from regularly generated empirical data about customers and marketing programs, and to build upon, refine, and rollout those marketing successes that could really move the business needle.

In a larger sense, then, IMPACS can serve as the backdrop to an overall vision of marketing analytics (tools and processes) that the Marketing department can "build out" and modify over time. This would be akin to what most IT departments do in building out and adjusting its technology strategy as marketplace demands change. In today's highly competitive and challenging business environment having a planned and disciplined approach to marketing analytics is certainly a better way to ensure that the most is being done to achieve critical business goals. We think the time has come for marketing to take this potentially high impact step and force more rigor into an increasingly vital set of decisions and actions.

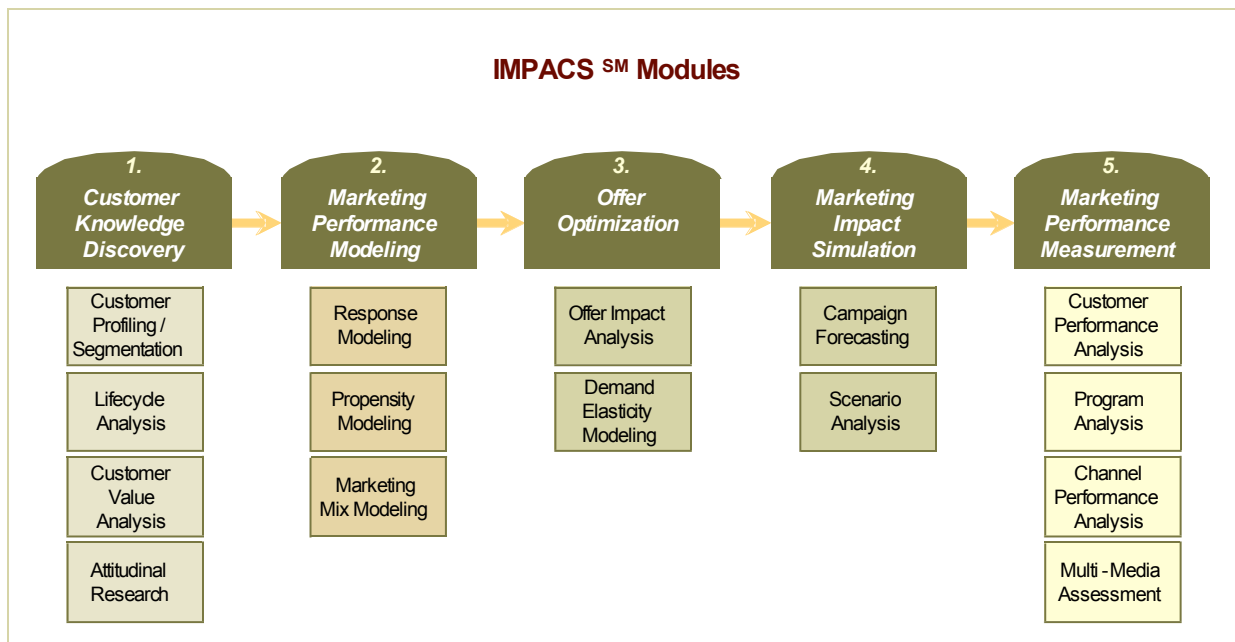
The Modules of IMPACS

The IMPACS framework is made up of five modules, each with a set of analytic tools designed to attack particular marketing issues and respond to the following questions posed by marketers:

- What are we doing in the area of customer knowledge to help achieve our goals?
- What do we know about how customers respond to our marketing programs and activities?
- How do we make sure we are making the best offers to our customers in order to stimulate the most profitable response?

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- What can we do to predict and evaluate the likely impacts of our marketing investments before we actually make them?
- How do we measure marketing performance, and how do we determine what to do to improve our marketing effectiveness and efficiency?



As you can see, these questions include both retrospective and prospective aspects of marketing analysis and decision making. This is critical because it is important to know not only what customers are doing and what has occurred as a result of various marketing investments, but also what is likely to occur based on new investments that are about to be made.

Module 1: Customer Knowledge Discovery

The starting point for IMPACS is customer knowledge discovery, including profiling, segmentation, lifecycle analysis, value estimation, and attitudinal research. Since we believe, as others have said, that “the purpose of a business is to get and keep customers,” it is incumbent upon every business to know as much about their customers, and potential customers, as is economically reasonable. And certainly marketing performance hinges on this knowledge.

However, while all of these various customer analyses are important, we think segmentation stands out above the others, reflecting our belief that differences in the attitudes, behaviors, and potential value of consumers is the leverage that makes investing differentially in consumers pay off. And so let’s discuss segmentation a bit more.

There are many ways to segment consumers (depending on business and marketing objectives), and sometimes it is even wise to have multiple segmentations in effect. In fact, multiple segmentations are the

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best way to get at the who, what, how, and why of customer identification and development. While this might mean integrating some combination of attitudinal, behavioral, product, and channel segmentations (which sounds complicated), it is not that hard to do and the benefits derived from the synergies between segmentation schemes can really make a big impact on marketing success.

Another way to think of multiple segmentations is to consider how customers might evolve and migrate from one group to another across the customer lifecycle for a business. This might lead to having a marketplace segmentation for prospects, a new customer segmentation for first time buyers, and an established customer segmentation for repeat buyers. Since customer attitudes, behaviors, and potential values frequently change over the stages of a customer's relationship, this approach can be very helpful in setting relevant strategies for customer development.

As an example, we find that dividing customers into different lifecycle stages can lead to very powerful marketing opportunities, particularly when the purchase rates of customers show wide fluctuation. For instance, for highly considered purchase items, like homes, automobiles, or other durables, it becomes important not only to know what customer segment an individual is in, but where he is in the buy cycle: Is he browsing, buying, or out of the market? Depending on a customer's status, it may take a bigger incentive to get him or her to respond to marketing stimuli.

However, whether it is one segmentation scheme or several overlaid together, or a segmentation scheme linked with a lifecycle classification scheme, our recommendation is to maintain the segment perspective throughout the application of the remaining IMPACS analytic toolset.

Module 2: Marketing Performance Modeling

In the second module of IMPACS we focus on how consumers respond to marketing stimuli. Thus, while the first module is meant to create a multidimensional view of customers, the objective here is to understand what outcomes are likely to occur when various marketing messages or offers are presented to consumers either in a mass marketing approach or on a one-to-one basis. Consequently, the analytics in this module include statistical tools such as response modeling, product propensity modeling, marketing mix modeling, and other targeting or analysis techniques.

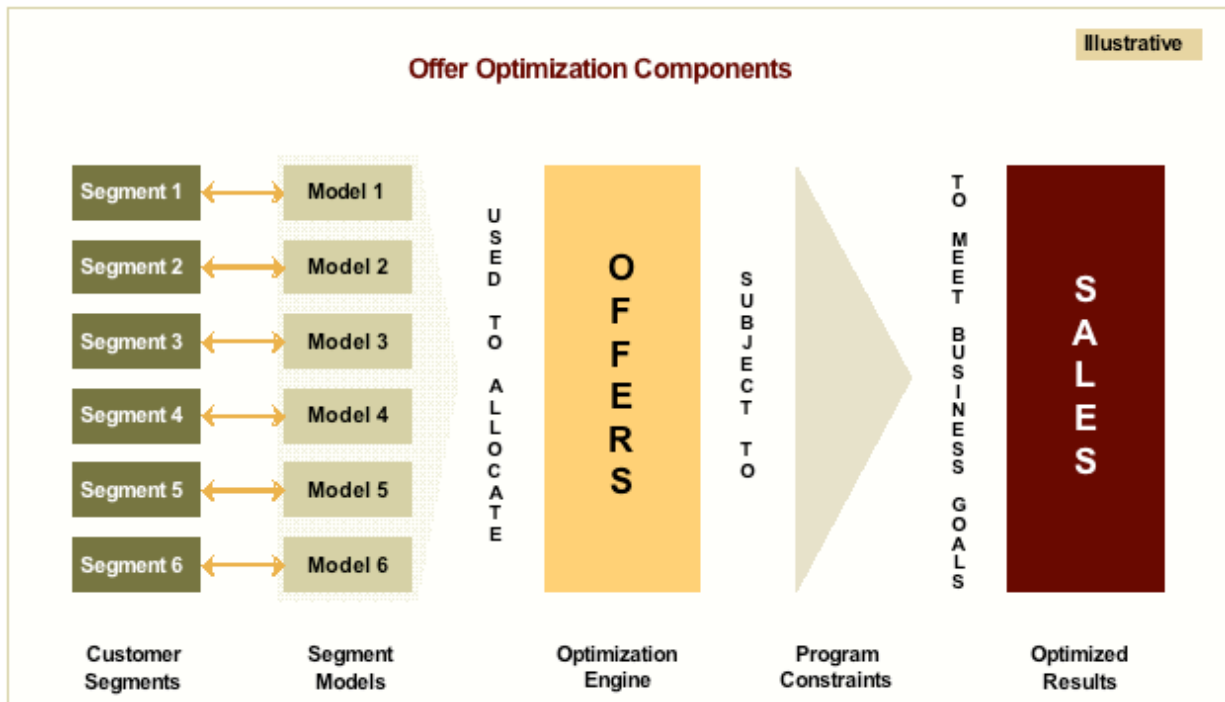
Here too, our experience shows that the more granular the analytic tools can be the more powerful they will be. Many times a single model is estimated at the customer level and results are rolled-up to the segment level for reporting purposes. In other cases, however, estimating one, aggregate customer-level model is not as effective as building separate models by segment. Building separate models by segment often enables more and different explanatory variables to be used to improve the accuracy of each model. In fact, for some solutions we've been able to structure marketing tests with multiple offers by segment such that the elasticity of response can be estimated for each segment. The individual customers within each segment are then scored using the segment model. This information has been critical to the development of optimization programs and to forecasting and scenario simulation solutions, as discussed in the next IMPACS modules.

In the area of marketing mix modeling, which has garnered increased attention from marketers outside of its initial application in consumer packaged goods, our recommendation is to model at the segment level so that the influence of the media mix can be determined more specifically.

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Module 3: Offer Optimization

Optimization is another key driver of marketing refinement, as companies try to do more with the budgets they have allocated for marketing investment. In this module, the focus is on helping marketers determine the optimal offer to make to individual customers in order to achieve the designated business goals. This tool moves companies away from a one-size-fits-all approach to offer delivery and differentiates offers based on the estimated elasticity of response for each customer. As mentioned earlier, this is accomplished by building statistical models at a customer or segment level using data from historical marketing programs. Essentially, the models represent demand curves for the product or service being marketed and are used to find the best offer to extend to a customer to maximize results. In this module, the models are integrated into a system that enables the marketer to find the best solution for each set of marketing objectives and business constraints.



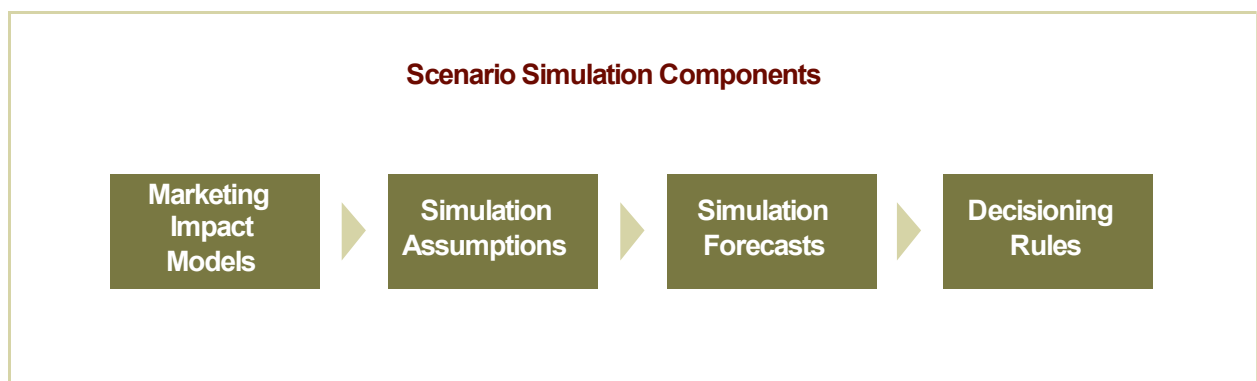
Following our philosophy of building customized tools for each client, we make sure that the components of this optimization tool embody all the critical elements of the client’s marketing equation – the size of the marketable universe, the revenue and margin associated with the products that a customer might buy, the marketing costs associated with the stimuli being used, and so forth.

Additionally, a vital part of this tool is an iterative feedback loop so that new data, and particularly new marketing results data, can be added to the system and used to refine the elasticity of response measures. The end effect is to have a tool that can be aimed at producing the maximum sales or maximum efficiency in a marketing program, or in producing the best tradeoff between the two objectives.

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Module 4: Marketing Impact Simulation

Armed with a segmentation scheme and tools to predict the effects of a wide range of marketing activities, another logical capability for a marketer to have is a tool that can be used to simulate the effects of alternative marketing initiatives on business results. These initiatives could include multi-media marketing campaigns or detailed direct marketing promotions. With added pressure being applied to marketers to justify their investments, they need a way to forecast the business results and marketing economics of their decisions before making their investments. In fact, it is not uncommon to find that they need to forecast the results of their programs before getting approval from, say, the Finance Department to spend the money.



Therefore, this module involves developing tools to predict key business measures including marketing response (such as inquiries and other customer contacts via the phone or web), sales, revenue generation, margin, and profit across all the relevant channels that a marketer might use to deliver marketing communications and transact with customers. The tool facilitates scenario analysis and therefore gives the marketer a means by which he can evaluate a number of possible contingencies in the marketplace. He can also assess the impacts on business results of increasing or decreasing planned activities, perhaps brought on by a change in budget or market condition. For one client, we simulated each quarter the weekly volume of inbound telecenter calls based on the advertising that was being run. The remarkable accuracy of the forecasts allowed the client to use them to determine manpower planning in the telecenter. In another case, we showed what would happen if certain parts of an advertising campaign were to be dropped or if money were shifted from general advertising to direct marketing.

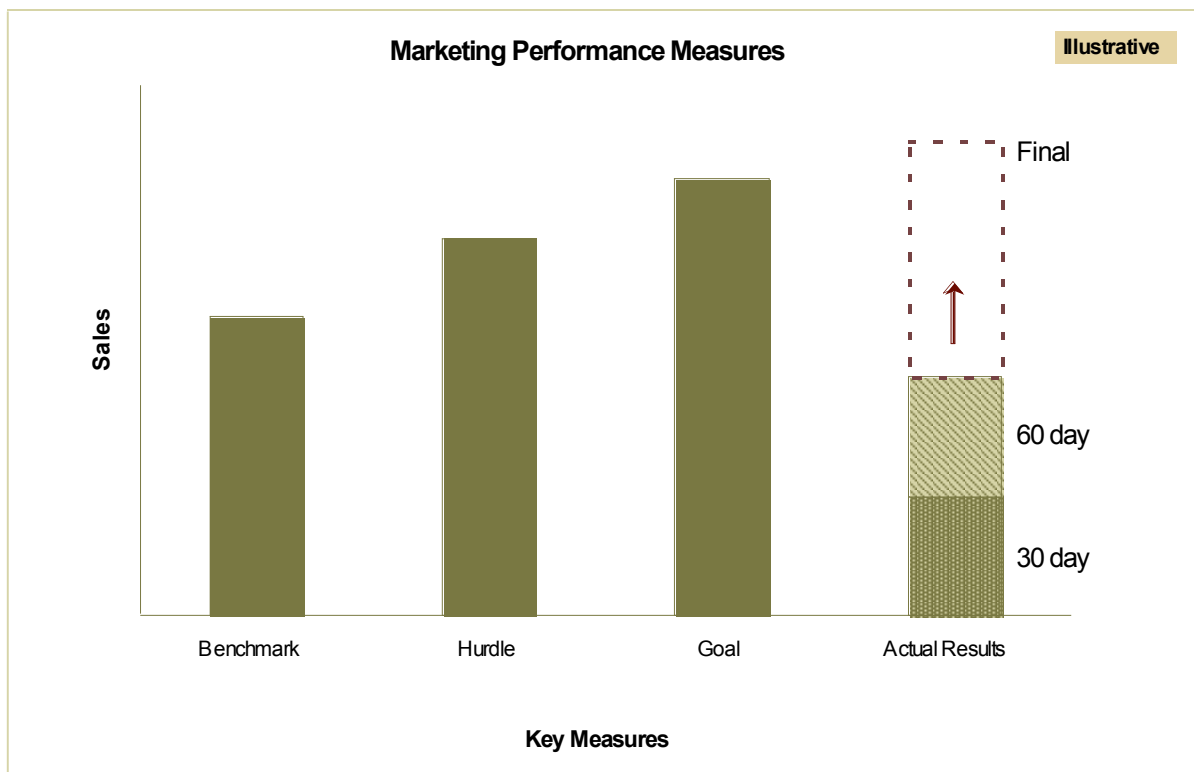
Again, we suggest that these simulation and forecasting tools provide a segment level view of the business. In this way, the marketer can pinpoint differences in performance that may prove crucial to the success or failure of the marketing programs to achieve their goals.

Module 5: Marketing Performance Measurement

The final IMPACS module contains comprehensive measurement and reporting capabilities to assist marketers in evaluating what is working and what is not, and importantly whether they are on track to achieve their business and marketing objectives. These capabilities close the loop on the marketing process and provide the basis for refinement strategies and other adjustments that can move the company closer to its goals.

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While the IMPACS report package contains standard tracking and analysis documents, tables, and charts, a key component of this output is a consolidated scorecard that compares actual marketing performance to three useful metrics -- benchmarks, hurdles, and goals. Benchmarks show what has been achieved in the past in similar marketing activities and therefore provide a historical barometer for how well the marketer is doing in the current period. Hurdles represent those measures that must be exceeded for a program, campaign, or solicitation to meet the minimum requirements for viability. And goals, of course, are the specified business and marketing results that the marketer is tasked to achieve. By comparing current performance to these metrics, the marketer can gain a clear sense of how well he is doing and whether adjustments to his programs and investments are needed.



Implementing IMPACS

As can be seen, IMPACS provides a comprehensive toolset to help marketers determine where opportunities for business growth exist, how to make marketing investments to exploit these opportunities, and what the outcomes of these investments are likely to be. In adopting the IMPACS framework, we recommend that a company start with an initial consulting engagement to answer a few key questions, such as:

- What are the principal business and marketing objectives facing the company?
- What marketing activities are currently underway or are being considered?
- What tools and processes are in place to assist marketing in planning and evaluating its programs?
- What business results and marketing activity data are available for analysis?
- What decisions does the company want to subject to more rigorous analysis?

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These questions are best answered by interviewing a cross section of executives, managers, and staff who have a stake in the outcomes of the company's marketing initiatives. While the information from these interviews when summarized and synthesized can illuminate a great deal about the status of the company's marketing environment, its real value in the context of IMPACS relates to how the people, information, and actions constitute a decision making process. From this knowledge, establishing a roadmap of analytic tools and processes to be developed is fairly straightforward.

Additionally, we recognize that some companies may already have some satisfactory analytic tools in place. In these instances, we recommend merely incorporating them into the IMPACS framework.

The Benefits of IMPACS

The benefits of IMPACS can be both far-reaching and extensive. This is because most companies have not optimized their marketing operations, leaving many opportunities undeveloped and inadvertently continuing to overspend in unproductive or costly areas. Thus, it is not uncommon to see immediate, double-digit percentage improvements in performance as new tools and processes are applied to current programs. Over the longer term, and as new marketing programs are considered, improvements of 20-40% in sales growth, profitability, and marketing efficiency are also possible.

Clearly, however, for IMPACS to be an effective framework the company employing it has to have a strategic vision for how a variety of data and other information can be used to drive marketing performance and be a strong proponent of quantitative decision making. Fortunately, since the trend today is for marketers to be more analytical and familiar with a range of statistical techniques and tools, more companies fit this description today than there used to be.