

# Customer-centric Marketing Performance Management

*How to improve performance by evolving how you measure it*

By Michele Eggers and Jeff Gilleland

## Is Marketing ROI Dead?

Used to be that getting lift on your creative tests, great response rates, or a positive return on investment (ROI) on a specific campaign was good enough for marketing to declare success. Unfortunately, that isn't cutting it these days because of the increasing scrutiny being placed on marketing organizations as a whole. The chief marketing officer (CMO) and senior marketing executives are under constant pressure to prove their impact on overall business.

Pinpointing the specific event that shifted the microscope to the CMO and the rest of the marketing team is hard. It's likely the culmination of a series of events, such as endlessly increasing competition; increasing business complexity; more demanding customers; increased regulatory scrutiny; the proliferation of products and channels; growing shareholder activism; and so on.

What makes gauging accountability for marketers difficult is the isolation of needed information. Marketers need to realize that it's not realistic to function long term in a silo where you can't align your activities and successes with the rest of the organization.

For example, a campaign manager at a retail bank runs a campaign for a no annual fee credit card to all existing checking account customers. She gets a high response rate and positive return on investment for that specific campaign. What she doesn't know, however, is that she cannibalized the response rates from one of their higher margin product campaigns, and sold the product to a segment of customers that utilizes more costly transaction channels and that is costing the company a great deal of money from a customer service perspective. Even worse, she has very little insight on how this campaign aligns with sales programs, broader marketing activities, and has no idea of the impact that this campaign may have on strategic marketing goals.

So, what should marketers do to avoid the challenges faced in the above example? The key is to shift the measurement thinking from being so campaign- and product-ROI focused to being more customer centric. Granted there are often organizational and cultural challenges surrounding such a profound shift in thinking. But there are steps managers can take to evolve their marketing departments into this new frame of mind for managing performance.

### **Establish department-wide goals, objectives and key performance indicators (KPIs)**

The only way for marketing organizations to truly evolve how they manage performance is to attack it from all levels of the team, so you'll need to ensure there's executive sponsorship. Also, keep in mind that tying incentives to these goals and KPIs will increase the likelihood of adoption. Once marketing executives define the overall goals and strategic objectives of the department they must commit to ensuring alignment occurs downstream.

For example, if the CMO's key goal for the year is to grow customer profitability, then there needs to be a clearly defined set of metrics that will help enable that. Instead of measuring a campaign on the response rates or ROI it achieved for that specific credit card campaign, it needs to be measured on how much it was able to grow customer profitability across that customer segment, or some other metric that can tie back to customer profitability growth.

### **Establish a marketing performance management (MPM) framework to define, manage and improve your metrics.**

While defining objectives and metrics on paper is a start, it will not enable you to manage the metrics over time. By building a framework for MPM, you will have the ability to define your goals, objectives and supporting metrics, and then manage them over time to ensure that you are

able to meet – or exceed – expectations. And, in doing so, you have a system of record for marketing’s success that the CMO can take back to the boardroom.

So, is marketing ROI really dead? Hardly. But clearly the importance of standalone campaign and other one-off ROI measurement will diminish. As we continue to evolve to more customer centric organizations and can better measure and manage the value of our customers over time through marketing performance management systems, campaign ROI will gain new life as a key driver for the overall impact marketing has on your organization: It just won’t be the only driver.

We’ve all heard the adage “You get what you measure.” The corollary to that — “You’re unlikely to get what you don’t measure.” — is perhaps even more relevant for companies striving to move beyond narrow ROI metrics within campaign and product silos. Given the goal of a more holistic marketing performance management strategy, how do you determine the right marketing metrics to focus on?

## The “Holy Grail” of Marketing Metrics

Is there a “holy grail” of marketing metrics? Well, no one is going to be able to hand you the list of all the metrics you should be measuring and managing. If only it were that easy! However, below are some thought-provoking suggestions to guide you on your journey toward creating the most relevant metrics to build into your marketing performance management (MPM) framework.

Think about the key dimensions of the business that you’re managing. Try to look at marketing from all angles to broaden the measurement viewpoint. Most metrics can be categorized into four dimensions.

### 1. Marketing process metrics.

First, look at the processes of the marketing department. Is your marketing team running efficiently? For example, are you ahead or behind schedule on executing marketing campaigns and are your external marketing services providers (e.g., agencies, fulfillment houses, data providers) meeting your deadlines? By managing the performance of the marketing team through metrics, you will have a better pulse on their efficiencies; and, if inefficiencies arise, you can isolate quickly and act swiftly. By proactively managing the marketing process, you will improve the bottom line through decreased costs and increased productivity.

### 2. Marketing program effectiveness metrics.

I’m not talking about specific campaigns -- like how the broadband cross-sell marketing campaign did via the web with the three free months offer to existing digital cable customers. That’s a campaign performance report. And, while those detailed reports are important, I’m talking

about an aggregated view of the effectiveness across all of those marketing programs – both direct (e.g., personalized e-mail offers, catalog campaigns) and broader media vehicles (e.g., search engine marketing, trade promotion, print ads). By having both a top-down aggregated view and the ability to drill-down into the details, you will have a better understanding of the impact each is having on the business to determine what the right media mix should be.

### 3. Broader business metrics.

This really focuses on non-program specific measurement. These types of metrics are very relevant to all C-levels and create a bridge of common measurement infrastructure. For example, sales growth, market share, total sales and total profits are important to not only the CMO, but to every other executive in the boardroom. By measuring these metrics along side the other dimensions, you will be able to better determine if they are in alignment, and how the metrics are impacting each other.

### 4. Customer metrics.

The fourth dimension is the most important of all – the customer. The reality is that, with the exception of marketing process, the others all directly, or indirectly, impact customer metrics. And, it will be important to understand how these other metrics positively or negatively influence the customer relationship. Some examples of customer metrics include products per customer, net-adds, customer profitability, customer satisfaction ratings, and customer lifetime value.

In terms of the first three categories, your choice of specific metrics should be based on what’s right for your business. The good news is that there are marketing performance management solutions that do provide best practice metrics like those we’ve discussed. It doesn’t mean that you will likely use them all, as each business is unique, but at least you won’t feel like you’re flying blind.

But if there were a “holy grail” for marketing metrics, the one to be sure to include would be customer lifetime value. There is no better way to positively affect your bottom line than to nurture the relationship you have with each of your customers to maximize its value over time.

However, measuring customer lifetime value can be daunting to say the least. The key to making progress is to break down the challenge of developing customer value metrics into manageable phases.

## Making Sense of Customer Value

When looking at customer value, you should consciously break it down into three distinct elements: current value (or current customer profitability), lifetime value (LTV), and potential value. Current value is a historical view of

each customer's profitability based on the products and services that they have consumed to date from your company. Lifetime value is an extrapolation of each customer's current value into the future based on the products that they own today. And, potential value uses statistical techniques to estimate your customer's propensity to grow more profitably by buying additional goods and services from your company.

Developing customer value metrics, like most endeavors, should be approached as an evolution. If you're just getting your arms around implementing it, you might want to attack customer value in a five-step model.

#### **Phase 1: Focus on the basics.**

Keep the evaluation of customer value to a revenue-based metric based on the number of products owned by the customer. When determining current value, look at the revenues that you have generated from each customer in the past and present, whether that be annual fees, late fees or net purchases – depending on your industry.

#### **Phase 2: Incorporate customer-level costs.**

The two core costs to try to incorporate initially would be service costs (e.g., customer service call costs, waived fees, return costs), and marketing costs (e.g., creative, print, fulfillment, and call center conversion costs).

#### **Phase 3: Adopt a household perspective.**

Understanding customer value from the household perspective is an important step in understanding your overall relationship with your customers. The reality is that while each customer has their own individually calculated value, in many industries -- like retail banks, insurance, and brokerage -- purchases are typically a decision for the household, not just the individual. So, it's important to have a pulse across all individual purchases in the household to see their overall value. And, even in industries where customer-level valuation has stronger merit (e.g., retail, gaming), it's still important to have an understanding of overall household value — especially in determining how to treat these individuals.

For example, when calculating individual value scores, you may find a very high value customer and a negative value customer in the same household. When looking at

these customers separately, you may determine to retain and grow the high value customer and to price-up or out the negative value customer. However, these conflicting treatment tracks may result in losing both customers – which you don't want to do! Hence, a household view enables you to look at all household members and develop a treatment strategy that makes sense.

#### **Phase 4: Calculate a lifetime value score for each customer.**

Recall from earlier, this is an extrapolation of the current value already calculated in the previous steps. LTV scores project future profits that you can reasonably expect without additional investment. You'll need to determine the number of years to project, which typically is three years out. Your financial group will easily grasp and endorse the LTV calculations because these projections are based on current customer holdings, and tend to be more accurate than estimations of customer potential.

#### **Phase 5: Develop a customer potential score.**

Adding this metric should be the last, and most value-adding, phase in the evolution model for customer value. This metric uses all available customer attributes and sophisticated statistical methods to calculate a customer's propensity to grow more profitably through the purchase of additional goods and services. It calculates a customer's propensity to buy each product currently not owned and the incremental profit that would be realized if purchased. The metric then aggregates the incremental profit across multiple products (net of any cannibalization that would occur from products currently owned). Simply stated, customer potential is an estimation of the incremental profit. Why track customer potential as a separate metric from LTV? Because it provides greater insight for incremental improvement and action – more specifically, this metric tells you precisely where to invest sales capacity and marketing dollars in order to have the greatest impact on profitability.

Now, there are other dimensions of customer value to consider that we don't have time to dive into including the role that a customer's credit risk and attitudinal needs play into a customer value model. But, we think this should give you an excellent starting point to make some sense out of customer value. And, in doing so, you should be able to reap more than "cents" in additional profits. ■

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