

# Integrated Marketing Optimization

July 2008



## **Introduction**

In a phrase, integrated marketing optimization is the practice of simultaneously

### **maximizing customer lifetime value, and minimizing costs per acquired and retained customer**

Setting objectives around hard metrics like revenue and cost, marketing optimization is a highly accountable, data-driven discipline. With the infrastructure to properly define, track, measure, test and analyze the interactions with your customers in-market, we can expect returns for our optimization efforts in the following ways:

- Increased customer acquisition and retention rates
- Reduced customer acquisition and retention costs
- Increased customer life time value

## **A Word on Integration**

The benefits of integrating your optimization efforts across channels are many-fold. The simple discipline of cross-channel consistency often leads to impressive results. If the web page you send your customer to is consistent with the direct mail piece that brought her online, experience tells us you'll have a greater chance of success at getting her to apply for your service, register for your newsletter or fill her shopping cart.

Integration means the ability to the forest *and* the trees. It means not only taking a macro view across multiple channels, but across multiple disciplines as well. The lines between a successful direct mail campaign and an optimized ecommerce engine, between acquisition and retention rightly begin to blur for the integrated marketer who seeks to maximize customer lifetime value, not just clicks or sales.

Most marketers today are in charge of multiple disciplines and operate in-market across multiple channels. This paper describes an integrated approach to a multi-discipline, multi-channel environment.



# I. The Metrics

## Inputs

Several key inputs are needed before we begin:

1. Considered media- A list of the media you're considering and wish to include in your analysis, eg: paid search, display media, radio direct mail, television, etc.
2. Cost per impression for each media/channel. How much will you have to pay to get your messages through the channel?
3. Expected response rates per media/channel. What percentage of your targets do you expect to respond to your campaign?
4. A sales conversion funnel – how many of your prospects do you expect to turn into customers and how many of those will upgrade, etc.

In the sales funnel example below, for instance, we think we can get .8% of our prospect database to raise their hands and ask for more information. We think we can engage 2.5% of those in ongoing communication with us. We think 4% of those will become qualified, taking steps toward purchase, and we think 80% of those people will complete the purchase and become a customer.

Example: Cost per Thousand Impressions

Channel	CPM	Rate
Direct mail	\$500	2.4%
SEM	\$20	.71%
Digital	\$120	1.5%
radio	\$800	2.1%
TV	\$2,000	2.0%
Print	\$300	1.8%

Example: Sales Conversion Funnel

Funnel Stage	Conversion Rate
Prospect database	.8%
Handraisers	2.5%
Prospects	4%
Qualified prospects	10%
Customers	80%

It's up to you to determine the differences between a prospect and a qualified prospect and what constitutes handraising. As you move through a number of marketing iterations, you may want to adjust these criteria, and you'll certainly want to adjust the percentages you predicted. In the initial stages, hazard your best guess. The optimization process will steer you in the right direction over time.

## Acquisition goals



The first thing we ask any marketer at the start of an optimization engagement is what are you trying to achieve? How much revenue are we aiming for over what period of time? If segments have already been identified, provide these projections per segment. For instance, we might shoot for \$2,500 from a business account over the next six months and \$100 from a consumer account over the next three.

Marketing goals can vary. They might include email registrations, white paper downloads, an account set-up, an upgrade, a new customer transaction and any or all of the above. Below is an example of the acquisition goals for a financial services firm expressed as the number of business and consumer accounts opened per quarter.

If your acquisition goals don't involve revenue, still put number to the customer actions you're trying to elicit—know what they are worth to you relative to each other. For instance, a webcast registration is worth 4x a white paper download.

The bottom line is that you have a target and that your sights are set on something measurable and achievable. Another great benefit of marketing optimization is that it gives a more accurate, more reliable picture of what's going on with your marketing dollars against your marketing goals. If your acquisition targets are off base, you'll know it sooner rather than later if you're engaged in the discipline of optimization.

### **Optimization = Learning + Action**

One of the most important benefits of practicing marketing optimization is that you learn about your audience and your business.

#### *In-Market Learnings*

You may find after you're in-market, for instance, that a loan request (qualification criteria) didn't result in a funded loan (acquisition) nearly as often as you thought. Completed loan requests turn out not to be a strong predictor of future revenue. Those who submit credit histories, however, do turn out to reliably convert into customers about 8% of the time.

#### *Optimization Action*

Change your criteria for qualification from "completed loan request" to "credit history provided" and the conversion rate at that point in the funnel changed to 8%.



EXAMPLE: Acquisition Schedule by Segment and Product

	3Q 08	4Q 08	1Q 09	2Q 09	3Q 09	4Q 09
<b>Business Checking</b>	75	113	169	228	262	301
<b>Business Money Market</b>	25	38	56	76	87	100
<b>Consumer Checking</b>	30	45	68	91	105	121
<b>Consumer Savings</b>	20	30	45	61	70	80
<b>Consumer Credit Card</b>	15	23	34	46	52	60

### Customer Life Time Value

Know what your customer's are worth, what they cost and over what time period. Is Mrs. Park from Detroit likely to be worth \$100 in March, \$50 in April and \$25 in June? Will I have had to acquire her through a direct mail piece and what will that cost? If you don't know these data points today, guess and start measuring. Again, the practice of optimization will soon tell you how far off you are.

When calculating customer lifetime value, it's helpful to have an accountant's input. When you calculate the cash flow over time from your customers, discounts must be made for things like the net present value of money's collected in the future, the risk of not collecting at all, etc.

In the end you should come up with a figure that represents what this particular customer is worth to you over the lifetime of your relationship with him or her.

### Allowable cost per acquisition

Profitable marketing practice begins by identifying the point at which your efforts become profitable. Often marketers set the *allowable cost per acquisition*, or the costs they are willing to take on to acquire and keep a customer over the lifetime of the relationship, at some derivative of the customer lifetime value. For instance, if the customer lifetime value is projected as \$1,250, we are willing to spend up to \$1,062, or 85% of his lifetime value to acquire and keep the customer.

### A note on acquisition vs. retention

With an integrated marketing approach, not only do we look at the big picture channel-wise, we also look at the big picture customer-wise. Once we begin measuring success in terms of customer lifetime value rather than individual customer action, we've lifted the silo between



acquisition and retention. We now manage customer relationships in one cohesive process with the same objective: maximizing customer lifetime value.

### **Let's Review**

Integrated marketing optimization means maximizing customer lifetime value while minimizing acquisition and retention costs. The practice involves:

1. Knowing the costs and projected response rates for the media you're considering
2. Setting measurable goals by which to measure your marketing efforts
3. Estimating total customer lifetime value for all known customer segments
4. Setting corresponding allowable cost per acquisition, per segment

#### **How do I know if I should target a group as a separate segment?**

1. Does the group have unique properties, behaviors or motivations that make it identifiably different? For instance, do my small business customers have different needs from my consumer customers?
2. Is the group worth a different amount to you? Is it more or less profitable doing business with them?
3. Will it matter to the group if I communicate with it differently? Will they respond differently to different messages and offers?

If you answered yes to any one of these questions, you have a segment on your hands.

Again, art of the optimization process is to continually refine over time. The longer we are in-market, the more segments we'll identify and the more targeted and customized our messages will become.



## II. Channel Strategy

### Staying Profitable

Marketing optimization keeps a constant eye to profitability. Determine the profitability dynamics for each channel you are considering as follows:

1. Collect an up to date schedule of the promotion costs associated with each channel you are considering, for instance:

Example: Cost per Thousand Impressions Per Channel

Channel	CPM
Direct mail	\$500
SEM	\$20
Digital	\$120
radio	\$800
TV	\$2,000
Print	\$300

2. Calculate the response rate needed from each channel in order to do business profitably.

**Inputs:** Allowable cost per acquisition and promotion cost per thousand.

EXAMPLE: Breakeven response rates for customer worth \$29 in a channel with a CPM of \$500

Customer Life Time Value		\$46
Margin	15.00%	
Allowable Cost per Acquisition		\$29
Promotion Cost Per '000 (including Media and Lists, etc.)	500.00	
% Response Needed to Breakeven and Make Desired Profit Margin is		1.71%

3. Perform this exercise for each segment and each channel.

EXAMPLE: Breakeven Response Rates per Channel Per Segment

	Quarterly		Profitable Response Rates				
	Net Margin	DM	SEM	Digital	Radio	TV	Print
<b>Business</b>	\$24.25	2.06%	0.08%	0.49%	3.30%	8.25%	1.24%
<b>Consumer</b>	\$28.60	1.75%	0.07%	0.42%	2.80%	6.99%	1.05%
<b>Affiliate</b>	\$17.10	2.92%	0.12%	0.70%	4.68%	11.70%	1.75%

### The Ideal Channel Mix



Your channel mix is the formula for how you will spend your marketing dollars. As you vary the mix, reducing dollars spent finding hand raisers online or adding dollars to a direct mail piece for turn qualified prospects into customers, you'll notice the total spend, number of acquisitions and cost per acquisition change.

You've already identified a cost per acquisition you can live with. Vary your channel mix to evaluate mix alternatives while staying within the required cost per acquisition. There will be an infinite number mixes within your budget. Consider your specific offering and target audiences and which channels are the best fit. For instance, if your audience is the AARP, they will likely deliver below average response rates online and above average through direct mail.

EXAMPLE: Channel Mix

Rate	Stage	Media	CPM	Impressions	Spend	Rate	Acquisition
2.00%	HANDRAISERS	SEM	9	2,000,000,000	\$18,000,000	0.08%	1,600,000
		Display	75	10,000,000	\$750,000	0.70%	70,000
		DM	150	50,000	\$7,500	2.00%	1,000
4.00%	PROSPECTS	SEM	9	10,000,000	\$90,000	0.08%	8,000
		Display	75	10,000,000	\$750,000	0.80%	80,000
		DM	150	5,000	\$750	0.80%	40
6.00%	SUPSECTS	SEM	9	10,000,000	\$90,000	0.08%	8,000
		Display	75	10,000,000	\$750,000	0.80%	80,000
		DM	150	5,000	\$750	0.80%	40
6.00%	ONE PRODUCT	SEM	9	10,000,000	\$90,000	0.08%	8,000
		Display	75	10,000,000	\$750,000	0.80%	80,000
		DM	150	5,000	\$750	0.80%	40
25.00%	MULTI PRODUCT	SEM	9	10,000,000	\$90,000	0.08%	8,000
		Display	75	10,000,000	\$750,000	0.80%	80,000
		DM	150	5,000	\$750	0.80%	40
<b>CPA</b>	<b>\$318.21</b>				<b>\$22,120,500</b>		<b>69,516</b>



**Let's review**

1. Keep an eye to profitability. Know what you need to get out of a channel in order to operate in it profitably
2. Model a number of channel mix alternatives at the required cost per acquisition and decide upon one.



### III. Campaign Strategy

#### Campaign Metrics

Once again we begin with a set of metrics or measurable goals. Earlier, we set goals for customer lifetime value—the forest, if you will. Now we need to focus on the trees, or the individual campaign goals.

In the example below, the customer actions we are attempting to drive—the top row of the table—are the metrics for the campaign. The campaign will be measured by how well each channel fills each stage of our sales funnel with prospects and customers.

EXAMPLE: Campaign Metrics

		Site Visits	Inquiries Made	Registrations	Calls	Purchases
Campaign: LAUNCH	HANDRAISERS	Media				
		SEM				
		Display				
PROSPECTS	DM	SEM				
		Display				
		DM				
ONE PRODUCT	SEM	SEM				
		Display				
		DM				
MULTI PRODUCT	email	email				
		On site				
		DM				

#### Building the database

Integration begins with setting up a measurement system that tracks your efforts across the full spectrum of your communications channels and vehicles. But it doesn't become a reality until you can track each customer moving through that spectrum.

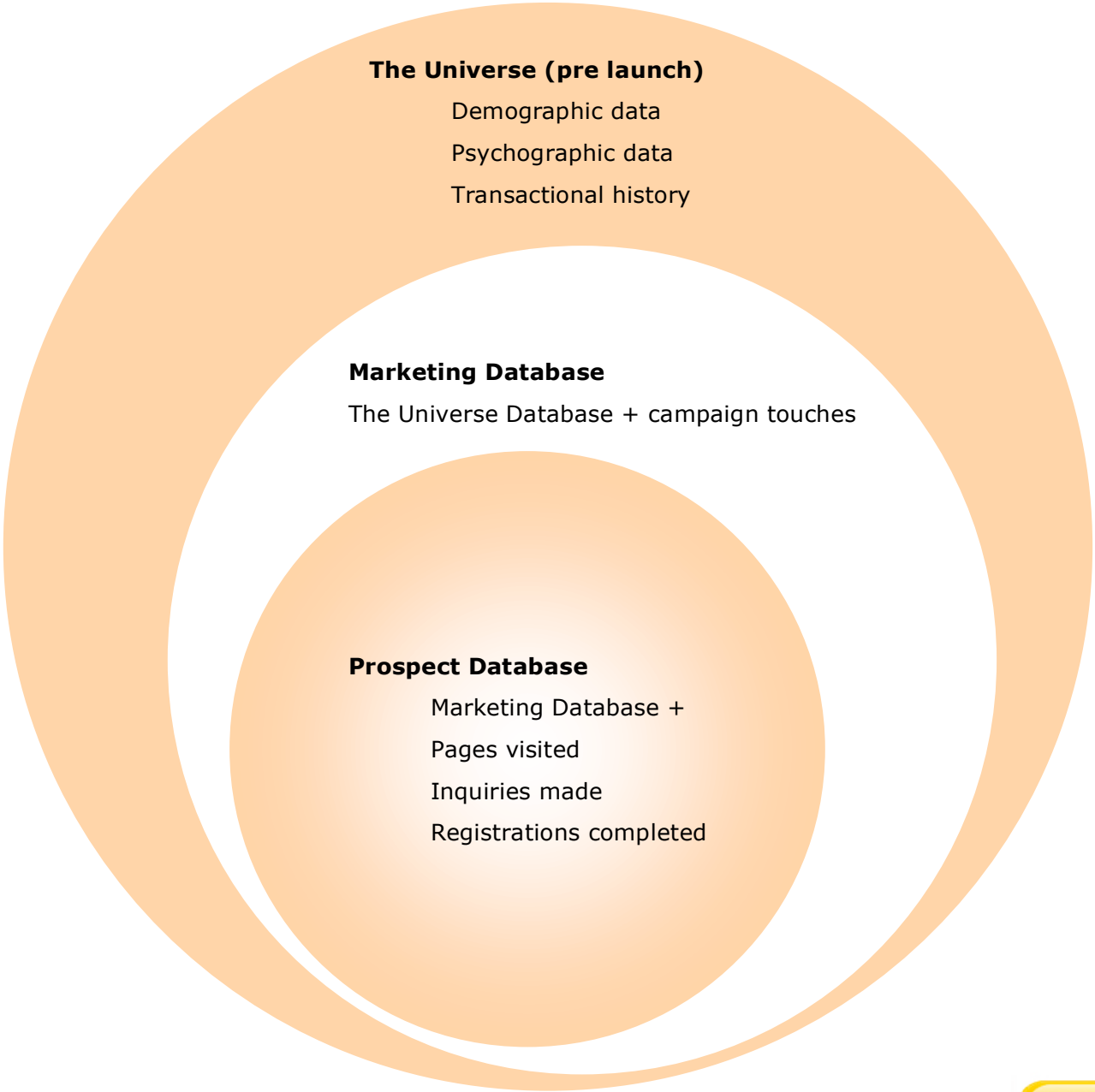
Develop the marketing database establishing a single customer ID that will follow customers and prospects across all their interactions at all touchpoints in all channels. Capture data each time a customer interaction takes place and append customer records accordingly.

For instance, when Bob first enters your marketing database, you may meet him as a single, 25 year old male, a new homeowner with an annual income of \$60K, a credit rating of 600 and history of spending 68% of his disposable income on home electronics. The



longer you are in-market with Bob, you will also come to know his as: 1. non-responsive to your February direct mail piece, 2. non-responsive to your March email campaign, 3. having clicked on your display ad on ww.wsj.com, 4. having made two pricing inquiries in the last six weeks, and 5. having forwarded your last promotional email to a friend

You will find your database getting both smaller and bigger at the same time—shrinking in the number of contacts you’re targeting, growing in the amount of data associated with each.



Measuring Bob’s behavior relative to your efforts will help you build predictive models for the anticipated behaviors of other guys like Bob, or, to develop segmented forecasting models. After a few cycles in market and enough successful conversions under your belt to feel confident about the reliability of your data, you’ll begin to make optimization calls like:

1. Remove males under age 25 from direct mail campaigns
2. Increase display budget for [www.wsj.com](http://www.wsj.com)
3. Test offers and calls to action on pricing inquiries pages to increase conversions

### **Developing a contact strategy**

From the Universe of possible targets, develop a set of list criteria for pulling your first list of prospective targets for building the marketing database. Are your targets older or younger? Middle income or top 2%? Do they live in urban areas, rural or both? Are they mostly married or single? Are they homeowners? Your contact strategy should include frequency and number of touches per segment and channel.

### **Offer Strategies**

Now it’s time to decide what you will say in your campaign. Merchandising, offer management, copywriting, creative development and the production of marketing assets are entire marketing disciplines in their own right, not covered in this paper. The important thing about developing offer strategies within the context ongoing marketing optimization is that it they include a test plan.

Again, start with your best guess as to which messages and offers are best for whom and when. If you do have variations of any part of the campaign you’d like to test, remember to test only one variable at a time or you won’t know what’s responsible for any change in performance.

In our example below, we vary the offers while holding the calls to action constant. Our next wave of testing would include holding the *optimized offers* constant (or those which proved more successful in-market), and delivering variations on the calls to action.

#### **Don’t Skimp On Testing!**

The cornerstone of your marketing optimization practice will be a program of on-going, iterative testing of your in-market messages, measuring how they perform within and across channels and segments. Optimization means changing your messages and offers according to what the test data reveals is working.



EXAMPLE: Offer Matrix for Segment A

Campaign	Media	Behavior	Call To Action	Offer
HANDRAISERS	SEM	Request info	Find out more	Visit our site
	Display	Request info	Find out more	Visit our Branch
	DM	Request info	Find out more	Call Us
PROSPECTS	SEM	Provide info	Register now	Free checking
	Display	Provide info	Register now	Free webcast
	DM	Provide info	Register now	Free iPod
ONE PRODUCT	SEM	Purchase	Sign up	Free checking
	Display	Purchase	Sign up	Fees waived
	DM	Purchase	Sign up	Free miles
MULTI PRODUCT	email	Purchase again	Get a Low Interest Loan	Fixed payments
		Purchase again	Get a Low Interest Loan	Fees waived
	On site	Purchase again	Get a Low Interest Loan	Fees waived
	DM			

### Optimize!

1. Measure how each variation works toward achieving your campaign goals, and make changes to the campaign accordingly. 2. Measure how all campaigns in your channel mix perform against your acquisition and customer lifetime value and optimize the mix accordingly.

### Let's review

1. Set campaign goals measured in customer behaviors, eg: site visits, transactions, downloads, uploads.
2. Develop a database with a single customer ID that follows your prospects within and across channels. Append your database with marketing data about interactions with your customers gathered in-market
3. In a systematic, controlled fashion, vary the messages and offers you send to your customers and track the relative success of each against your campaign goals.
4. **Optimize!** Structure your next campaign to incorporate what your last campaign revealed was optimal, and set up a test plan to vary another element of the campaign.



## Conclusion: A Word on ROI

The most important thing to remember about marketing optimization is that there is no arrival. Optimization is about affecting *relative* change, not *absolute* change. You will never achieve optimal optimization.

But you will have more control over your marketing practice, a more reliable view of what's going on, more insight into your audiences and we believe, more success. Many marketers ask for hard numbers on how they might benefit from an investment in optimization. The most reliable response is, "it depends on the relative effectiveness of your marketing to begin with."

The ROI on an investment in marketing integration and testing and optimization varies enormously by not only the relative sophistication level of the organization to begin with, but also the category, the budget, the offering, etc. One thing we can say with confidence is that a commitment to an optimization practice ensures you're getting the *best possible return on your marketing dollar* given your operating environment.



BONNIE THOMAS

Bonnie has nearly 20 years of sales and marketing experience across a number of industries including telecommunications, consumer goods, and biotechnology. Her interactive marketing adventure began with Avenue A | Razorfish where she helped to position and drive revenues for a full array of digital marketing tools and services including media planning and buying, search optimization, web development, and email marketing. Bonnie went on to market several on-demand marketing applications including Offermatica, Memetrics and Scout Labs.

With her agency, Site Marketing, Bonnie helps marketers to adopt smart positioning, acquire more profitable customers and optimize marketing ROI both online and off.

