CHAPTER 1

WHAT IS MARKETING'S GOAL?

Relationships. The goal of all organizations is a better relationship with their constituents.

We (marketers) are all looking for long-term, mutually beneficial relationships. We want relationships in which our constituents overlook our minor imperfections, appreciate our subtle differences, and commit to us as much as we do to them. Sounds sort of like the ideal spouse, right?

It is impossible to do a better job explaining how we should view our marketing relationships than Seth Godin did in his amazing book *Permission Marketing* (New York: Simon & Schuster, 1999). With all due respect, I'll paraphrase him: As marketers, we usually don't approach our customers like we would approach a potential spouse, do we? No, we're more like a drunken frat boy at his first freshman mixer. Most marketers approach customers and prospects more intent on the one-night stand than the long-term relationship. We know it's wrong . . . but we do it anyway.

A lot of good things happen when you build better relationships. People tend to stay around longer, they become more engaged, and they tell their friends about the great relationship that they're in.

Want to argue this simple premise? Do you think marketing's goal should be customer acquisition? Higher sales? Lower turnover? Successful campaigns to sell more widgets?

Guess what? If you focus on the relationship, all of those good things will happen.

The funny thing is that relationship marketing has more traditional roots than many of us care to admit. It's mass marketing that is the recent corrupter.

In a letter from Rory Sutherland, vice chairman and creative director of OgilvyOne, he states: "It is the intervening age of broadcast, interruption-based communication that is out of step with today's consumer controlled media world, and it is the people who've grown up in that world who find themselves most wrong-footed."

Excellent point. Our grandfathers knew the value of relationship marketing, whether it was door-to-door selling or acting like Sam (the butcher) from the *Brady Bunch.* Take the time to get to know your customers as individuals. Pay attention to them. Talk to them like human beings (and show them you are a human being rather than an institution).

We know that these tactics work because each and every one of us is also a consumer. Who doesn't appreciate being called by name or having the right drink put in front of him or her without having to ask? We all want to be recognized and appreciated for our contribution and the value we are bringing to the relationship.

But mass marketing is so ingrained in our practices, despite having the most revolutionary tools ever available to us, we still measure success around analytics that should be tertiary at best (i.e., impressions, visitors, opens).

Like any addict, we as marketers need to take a step back and analyze our behavior. The goal isn't based on "hits," is it? The goal needs to be something that really drives your business. The goal is to build long-term relationships (Lifetime Value).

At this point, you really have no choice but to change your ways. You can keep blasting away, hoping that if you yell loud enough, a few people will actually pay attention. The problem is that it's getting harder and harder to yell and be heard. The audience is gaining more control; consumers have the upper hand in the relationship. They have multiple choices for almost every product, service, nonprofit, religious institution, and more. Why should they choose you? Lower prices?

Better location? A higher level of service? Maybe you can establish those as real differentiators, but how long until a similar product or a lower price or a better-located competitor comes along?

As your constituents gain more control, they are turning away from mass marketing tactics and learning to ignore them. Instead, they're talking to each other; going to social networking sites, emailing their friends—you know, good old-fashioned word-of-mouth.

What's really funny to me is the fact that when you talk to organizations about what makes them different (worthy, if you will), this answer always lands somewhere in the top three: our people.

So why do you hide your people behind the facade of a brand or an institution? At the end of the day, people associate themselves with other people that they like. Your constituents want to like you and have a relationship with you.

As a marketer who focused on people, you wouldn't run "campaigns." You would build better relationships. You would treat every conversation as if it were critical to the future of the relationship. You would try not to do anything stupid and would be quick to apologize and make it right if you did.

Valentine's Day should be the national holiday for all marketers. After all, as marketers, our job is centered on playing the cupid between our organizations and our constituents. You want your constituents to love you, right?

This special time of year gives us all an opportunity to reflect and focus on what is really important in our (marketing) lives. So, in the spirit of the season, I offer the following five ways to bring love to your constituents:

1. *Make them feel special.* People don't fall in love with people who make them feel ordinary. We all want to hear things that make us feel original and unique. This goes beyond calling your constituents by the right name and extends to everything you can find out about them.

   If you're serious about a relationship, you weave your significant other's likes into your conversations. If he loves football, you would try to learn something about the game. If she likes fine wine, you would take her to a great restaurant and show off your vast knowledge. The same goes for your constituents.

2. *Be human.* People don't fall in love with institutions, and they are not inclined to fall in love with a brand (Apple and Starbucks excluded, perhaps). Your chance of landing in a great relationship increases exponentially when you show a human side. Introduce your constituents to a real person. For 60+ years, we marketers have focused on institutions, which is an outdated approach. This year let's focus on person-to-person.
3. *Don't smother.* Just like a real relationship, you have got to be respectful of the proper pace. I love the commercial where a woman cooks her date's favorite food, knits him a sweater, and introduces him to her parents . . . all on the first blind date. (I have no idea what this commercial is selling, by the way.)

   All relationships develop at their own pace. Some people will only want an occasional date for a period of time before things really heat up. Come on too strong—and they're gone. Other people want to get married right away. Move too slowly and they are going to find more promising relationships.

   As marketers, it is up to us to sense the right pace for each and every one of our constituents. This is referred to as *frequency control* and it's a critical element for marketers to get right.
5. *Acknowledge when you make a mistake.* Apologize. Be humble and sincere. Ask for forgiveness and offer some token to win the person back. In a relationship, you learn the signs that tell you something is wrong with your partner. Whether it's the cold shoulder, silence, or yelling treatment, you're probably sensitive to these indicators and take steps toward forgiveness if you've done something wrong. Most of us are forgiving of others. We recognize that people make mistakes and an apology goes a long way.

   Smart marketers learn to recognize the problem and alter their communication to get the relationship back on track.
6. *Accept that relationships end.* It is a sad, sad fact: Some relationships do not last forever. Sometimes, they never should have started in the first place. If football is critical to your exis-

> tence, and she hates it, you may have to acknowledge that perhaps this relationship isn't in the cards and let it go.
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> Other times, you make a mistake and the apology isn't accepted. Or your significant other might just find someone he or she likes better. If step four doesn't work, then you need to let it go.
>
> As marketers (like all desperate lovers), we keep coming back. We can't bear the loss or the thought of rejection so we call, show up unexpectedly, and hang on to the relationship. In the real world, this is called stalking.
>
> The problem is that rather than leaving the dumping party with a fond feeling about how mature we are, we become the subject of cocktail party jokes or of a restraining order. Either way, it's bad.
>
> When it's over, it's over. Let it go. Adjust your attitude or find someone else who is more receptive to your communication style. In relationships, there are no guarantees. But there is hope that we will learn from the past and resolve to build a better relationship that extends far into the future.

What are some other aspects of a relationship? How about dialogue or respect? The ability to tell the other party the truth?

Are you afraid of your constituents?

I've been getting a lot of questions about a comment I recently made about companies (and people) being afraid of their customers. It's easy to deny, but true.

There are two facts about your constituents:

1. They are people (some even think of themselves as individuals).
2. You usually know more than they do.

Point 1 is obvious, but ignored. We know our constituents are people, but we don't want to communicate to them on that level. We are afraid they will ask a question we can't answer or afraid they might not like us.

The evidence is all around us. Even in email, my chosen media, most of us choose to hide from our individual customers behind some facade such as info@ or Cust_Serv@ instead of bringing forth our true selves.

Point 2 really hits on how afraid we are of customers. We are afraid to *tell* them anything. We don't want to step on any toes by making a suggestion or telling them when they are wrong.

The fact is that your constituents are loyal to you because there is some perception of *expertise.* If I could (or wanted to) program an enterprise customer relationship marketing (CRM) system or make a delicious pizza, I would. The fact is that customers hire us to be the experts. They take confidence in our confidence. If all we are doing is taking orders from customers, we don't build much value, do we? Where is the loyalty? Customers are loyal to people they can't do without, not organizations that just take orders or scream at them with irrelevant junk.

The time has finally arrived when organizations are getting serious about marketing for what it does best: driving value. Do we *really care* about relationships with customers? Of course not. We care about Lifetime Value (LTV). Relationships are how you can increase the value of your customers and convert your prospects. I hope that's not too cold for you.

I'm going to spend some time covering the basic metrics to consider when thinking about LTV.

LTV Lesson One

Don't pay too much to acquire a customer. The easiest way to get behind the 8 ball on Lifetime Value is to overpay in the first place.

Let's say you're spending $500 a month on a phone book ad. That means you need $500 a month in new business to cover that cost, right? It's so easy!

Wrong! Add in margin and defections, and that number is probably more like $5,000.

One problem is that brand new customers cost a lot more than existing customers to service.

Think about even the simplest example of a pizza shop. Assume the average cost per call in the pizza business is approximately

$1.50. For that first-time caller, it's around $2.50. Think about what that added cost does to the margin on an $8.00 pie. (Now you know why all those pizza places are pushing you to order online.)

There is also order size to consider. Often, the first-time buyer spends less than a returning customer. First-time buyers just want to try you out. You now have a margin squeeze from an order that is both more costly to service and worth less.

You may think, "I'll just average that acquisition cost over multiple orders and make it up."

Do you know your retention rate? In the average business, 50 percent of first-time customers never buy from you again. Are you average? Do you even know your defection rate?

That's the core of LTV—you must know simple stats such as average order size for first-time customers, defection rate, and cost of servicing that first-time customer.

Online, this picture can get even worse. If you are paying for clicks and not converting to a sale, all those costs have to be accounted for in the number of people who actually do convert. The problem is that most of the people who visit your site don't do what you want them to do.

LTV Lesson Two

Most of us are in the habit of measuring profit by product or service. We know that the large extra pepperoni is more profitable than the medium cheese.

But do you know that this thinking is wrong? We've been brainwashed into believing that marketing is all about products. The truth is, profitability needs to be measured by *customer.* Which *customers* are the most profitable? How do you calculate that?

1. Sort your constituents by the amount they spend over a period of time (a simple Excel spreadsheet will work just fine).
2. Group them into buckets for the sake of time (i.e., all customers who spent $40 to $55 over a period of 12 months).

3. For each group, subtract all costs so that you're left with the difference between that and the amount spent. That amount is individual profitability.
4. Taking overall revenue and dividing by individual profitability will give you a profit percentage for each of your buckets.

Here is a simple example: Assume that the Johnson family spent $10,000 on pizza last year. They order every week by calling in. They never know what they want, so it takes an extra minute on each call. They always use a coupon and live on the outer edge of our delivery area.

A second customer, 22-year-old Bill, lives in the neighborhood and spent $3,000 on pizza last year. He responds to your email and orders online. He always gets the loaded meat pizza and picks it up at the store.

Who is the most valuable customer? I don't know. But you need to know for your business, right? When you know profitability by segment, you can then determine how much to invest in acquiring each segment.

And you need to think about how you market to the different audiences based on their actual margin. If Bill starts calling instead of ordering online, or has delivery even half the time, you might see your profits slip.

If you can drive better coupons to the Johnsons based on their individual profitability, get them to place their orders online, or get a few of their neighbors to order so you can spread your delivery costs, the entire profit picture might change.

LTV Lesson Three

How do you increase your customer margins? First, consider customer share of wallet. Are you getting all the pizza business from certain customers? Can you entice them to spend more per order? Can you convince them to come to you for other meals? McDonald's taught us all a lesson when it introduced its breakfast menu.

Disney has been highlighted in several books for its success in increasing wallet share. Disney realized that although it was getting lots of people to the parks, it was only getting a fraction of the dollars spent. The answer? Open Disney hotels and restaurants. Genius.

It's going to be interesting to follow Starbucks' entry into the music business. Does it need to be as big as Virgin? Of course not, it just has to show increased margin per customer.

Same with Apple. Asking simple questions like: "What is a computer?" Or, "What is software?" opened Apple up to a great new world where it enjoys the highest margin per customer in the business.

What about you? Do you know your share of wallet? Before you can increase it, you need to know where you currently stand.

LTV Lesson Four

I'm going to keep saying this: Chances are, you lose money on every new customer. We all know that it is a certain few who are profitable enough to cover the costs of all the losers. Who are they? What do they look like? Can you make sure you hang on to them? How about targeting some of the losers who have characteristics similar to the high value customers early in the relationship in an attempt to move a higher percentage onto the more profitable side of the equation? Of course, there is also the opportunity to convert more into second or third-time buyers.

We once did a study in the dry cleaners market. We found that 89 percent of first-time customers never came back. We also found that customers who came in a minimum of three times stayed more than two years. So what's the short-term goal of a dry cleaner? Get to that third visit!

LTV Lesson Five

Before we talk about retention, we need to consider its goal: to make more money and grow the company.

This is where it is so critical to know your customer margins. Often, it is the least profitable customers who perceive the least amount of value from your offering. As a result, you invest a disproportionate amount of time in trying to convince them to stay. Doing so increases your costs customers and decreases your margins. Additionally, it's likely to dilute your focus on the most valuable customers. Companies often resort to special offers to convince this group to stay, which are then offered to the good customers so no one is "left out." This adds no value to the relationship, while hurting profitability.

If you focus on individual customer value, you can't help but want to leverage more relationship marketing. I once heard this analogy using a stolen printer: A business owner comes to the office one morning and finds his $200 printer missing. So he conducts an investigation. He changes the locks and generally there is a lot of angst about the stolen printer. With this attention, he never loses another printer again.

Meanwhile, customers worth a whole lot more than the printer are disappearing from his organization (and yours) every day. That is why the focus of marketing has to be based on building better relationships. View your constituents as if they are assets (like a printer) and you will naturally want to focus more on that relationship.

Case Study

A Real Margin Challenge for a Real Pizza Place

Pizza Place is a chain of neighborhood pizzerias with over 50 locations. After discovering that the average check for delivery orders placed via the online site was 50 cents more than a phone order, and pick-up orders placed online averaged $1.25 more, it was obvious that the company should attempt to move more of its business online to maximize customer margins.

The company decided on a goal of 10 percent of total orders per week as online orders. It first analyzed the online ordering process and categorized online customers into five buckets:

Bucket 1 customers had registered for an online account and asked to receive special offers and updates via email.

Bucket 2 had made their first online transaction.

Bucket 3 customers had purchased again.

Bucket 4 customers had successfully purchased online at least four times.

Bucket 5 customers were designated as the most valuable patrons. Customers reaching this bucket had ordered an average of 17 times a year.

The company was not only smart to identify different buckets, they also set an overall goal for their efforts: reach 7,000 online orders per week. First, they educated their customers on the online ordering process via personalized letters from their president. After seeing an initial boost in online ordering now that more customers knew it was an option, the company decided to launch its new menu and a "Free Pizza for a Year" contest in which subscribers could vote for their favorite new menu item and their favorite local pizzeria via an email survey. Recipients were able to vote on their favorites directly from the email.

Results: 4,000 Online Orders per Week

During the email program, online orders jumped by a whopping 47 percent, to 4,000 orders per week. Even after the contest winner was announced, the spike in sales sustained for four weeks.

The program resulted in $105,000 in new business, which was over 20 times return on the initial investment. Email registrations and online account holders skyrocketed to 58,000, thousands of which completed online transactions to move them into buckets 2, 3, and 4. Bucket 5—the company's most valuable customers—grew to over 12,000 customers, which translates into a hefty $3.6 million in sales per year.

What Are Other Marketers Thinking?

In their own words . . .

If email marketing were a dictatorship, everyone would be required to listen to me. Thank goodness, everyone has a right to his or her own thoughts and opinions.

That's why several chapters feature what marketers from all different size organizations and industries have to say about the matters at hand. As you are reading their words, keep in mind what I mentioned at the beginning of the chapter: Nearly any primary goal you come up with is likely the outcome of a great relationship.

What Is Marketing's Goal?

By Stewart Rogers
Director and architect of ISS system, IOS
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According to internationally known marketing guru Brian Norris, "Marketing is the ongoing process of moving people closer to making a decision to purchase, use, follow, refer, upload, download, obey, reject, conform, become complacent to someone else's products, services or values. Simply, if it doesn't facilitate a 'sale' then it's not marketing."

There's a lot of truth in that statement. To add to that, I believe there are only two types of businesses: those that have a sales force, and those that take orders.

For those that have a sales force, regardless of whether the sales cycle is one hour or one year long, and regardless of the value of the sale, they must be in the business of "consultative" or "solution" selling (probe, prove, and close). In that environment, it is marketing's goal to create real opportunities for the sales staff where they can follow up *buyers.* This means that the marketing team needs to qualify every prospect, and email can be a useful tool in that respect. As an aside, if their sales force doesn't need to engage in "solution selling," then they should consider sacking the sales force and start order taking instead!

For those that simply take orders, all the work is done in marketing. For these businesses, it's all about getting the phone to ring or the website to click over, and once again email is a kingpin for twenty-first century B-to-B and B-to-C marketing.

So, from an email marketing standpoint, marketing's goal is to send communications to a prospective client until that prospect is either handed over (fully qualified) to a solution salesperson or until that prospect calls in/visits the website to buy the product or service.

This means that marketing is responsible for a number of separate actions when it comes to email marketing. If they choose to outsource, they need to decide which provider will suit their purposes best. If they choose to keep the process in-house, then they'll be responsible for database management, deliverability testing, email client testing, copywriting, sending, tracking, follow-up, and, if a sales force is involved, prospect handover. It's a big undertaking and not something that can be taken lightly or paid lip service.

Email is also more important to marketing than many people think. One of the many "rules of seven" kicks in quite nicely here. Some people say it takes seven touch points with your prospect before they understand you and your brand well enough to take you seriously. I believe it is worse than that, and that it takes seven touch points with a prospect, through three different media types, before they will really involve you wholeheartedly in their buying cycle.

Sending email is a great way to communicate your message on a regular basis and hit those seven touch points, but you shouldn't ignore old-fashioned direct mail and telephone calls if you really want to build your marketplace. My new rule of "seven times three" means, in reality, you have to get in touch with them 21 times in all! It's tempting to use email on its own because it is a low-cost medium, but making it a part of an overall, multi-media campaign is a much smarter move.

What Is Marketing's Goal?

By John Wall
Producer, M Show Productions
Blog: http://www.themshow.com

Call me biased as a marketer (but not without first testing, please), but marketing has the most difficult goal in the company: We must translate how human needs, emotion, and behavior all interact with whatever it is we're selling. There are usually three areas of marketing that do this (an idea I've stolen and modified a bit from Pragmatic Marketing).

1. *Product marketing:* People who make sure that the next version of the Widget 5000 is one that customers actually want to buy, not something thought up by some insane entrepreneur better locked in a broom closet. This is the "translating the human need" goal.
2. *Marketing communications:* The folks shaping and getting the messages straight and out to the press and public. These people get told the human needs by the product marketing guys and figure out which emotions to invoke.
3. *Lead gen:* The marketers who get the actual names for the sales infantry to engage one-on-one. These are really just Super Salespeople. Instead of fighting one-on-one, they use their weapons against all the prospects at once. This gives sales the ammunition to begin their attack to mold the behavior of the prospects (i.e., get them to buy hundreds of thousands of Widget 5000s).

This is a pretty heavy definition, but I think it works well to explain all of the marketing process to those who want that much depth. It describes what a good marketing machine is. For discussions with people who know nothing about (or have no interest in learning about) marketing, it's simpler to define the Ms.

Before Sergio Zyman (former CMO of Coca-Cola) was rolling with his consulting group (http://www.zyman.com), I had already bought into his argument of marketing being all about the Ms. Classic college Marketing 101 textbook talk about the Ps—marketing is about a good Product, the right Pricing, proper product Placement in the marketplace, Promotion (as in advertising), and some new age ones would throw in People for good tree-hugging measure.

Mr. Zyman contends that it's all about the Ms—Marketing is about MORE: selling more products, more often, to more people, for more money.

I've found this to be very useful as it goes right along with the sales guys and their dreams (brand name jewelry, cars, and other items that marketing people tend not to be hoodwinked by). If "more" sounds shallow, I have a friend who calls it "Creating a life filled with abundance." That sounds better, doesn't it?

Chapter 1 Review

- The goal of all marketers should be great relationships.
- Great relationships are the gateway to maximizing customer Lifetime Value (LTV).
- You can build great relationships by treating your constituents in a way that makes them feel appreciated, unique, and valued.
- You cannot be afraid of your constituents. You should always reveal your true self and your expertise, and leverage the information they've provided.
- Pay careful attention to metrics such as cost, revenue per individual, and profit margins.

- Measure profitability with respect to individual constituents, not products.
- Maximize wallet share and profitability by focusing on the customers who already like you and perceive your company as delivering good value.
- Remember that existing customers are much easier to build relationships with and typically cost a lot less than new customers.