PART
I

Essentials

CHAPTER

1

The Marketing Divide

Why 80 Percent of Companies Don't Make Data-Driven Marketing Decisions–And Those Who Do Are the Leaders

A senior marketing manager in a Fortune 100 company once told me: "Every week I have to go to a gun fight, the senior executive leadership meeting, and I am tired of going to this gunfight carrying only a knife." His frustration was the result of having no concrete data to answer hard questions about the value of marketing activities in his division. We are living in difficult times, and marketing measurement and data-driven marketing are becoming increasingly important. Now more than ever, managers need to justify their marketing spending, show the value that they create for the business, and radically improve their marketing performance.

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Why is data-driven marketing so difficult for many organizations? There are many reasons, ranging from "we don't know how" to the challenge that branding and awareness marketing activities are fuzzy and don't directly impact sales revenues in a short time period. The challenge is compounded by the exponential growth of data. International Data Corporation (IDC) estimates that data storage is growing at 60 percent per year, which suggests the volume of stored data is doubling approximately every 20 months. These vast amounts of data are overwhelming and marketers struggle, with limited time and resources, to measure the efficacy of what they do.

A few marketers and organizations, however, have mastered data-driven marketing principles and marketing metrics. Invariably, these individuals are heroes within their firms, are promoted faster, and rise to more senior positions. As we will see, organizations that embrace marketing metrics and create a data-driven marketing culture have a competitive advantage that results in significantly better financial performance than that of their competitors.

A few years ago, I asked Barry Judge, now senior vice president and chief marketing officer (CMO) of Best Buy, who Best Buy's primary competitor was. He said Wal-Mart. Not so surprising since Wal-Mart is the world's largest retail channel; and with its amazingly efficient supply chain and economy of scale, driving price and margins to the bare minimum, the company has radically changed the global retail landscape. However, I thought he was going to say Circuit City, so I asked why he did not.

"They just don't get it," he told me.

Circuit City's marketing strategy was to constantly run sales. This drew customers into stores and drove sales revenues. But since the advent of Wal-Mart, margins in retail are thin, so running sales actually loses money for the business; that is, it has a negative profitability. The result, as Judge put it, is a "death spiral," where continual sales are needed to drive revenues that continuously lose money.

Of course, the Circuit City story is now history; the firm went bankrupt and liquidated in January 2009. A similar story has played out across mid-tier retail in the United States over the last two decades: Marshall Field's in Chicago and John Wanamaker, the venerable Philadelphia retailer, for example, are now consolidated, along with hundreds of other well-known regional retailers that were unable to compete profitably. These stores now fly the Macy's flag.

But Best Buy is different. Sure, a significant amount of the marketing budget is spent on demand generation marketing—this is marketing designed to get customers into the stores. However, Best Buy spends more money on branding, customer relationship management, and infrastructure to support data-driven marketing compared with competitors. Best Buy also keeps score: measuring the results of marketing initiatives in a feedback loop of adaptive learning to optimize its marketing.

Best Buy marketers analyze customer purchasing characteristics and demographics on a store-by-store basis. For example, they identified one segment in certain geographies, which they called "Jills." This segment is a "soccer mom" who may well be working but is also running the family. She also makes the primary electronics purchasing decisions for the household. Based on these data, Best Buy customized the marketing for specific stores where there are a significant number of Jills in the surrounding population. The marketing included large in-store banner advertising of moms with kids using electronics, direct-mail advertising, and changing up the product mix to appeal to Jills. The resulting sales lift (percentage change) in these stores was then measured before and after the marketing activities.

This example illustrates the marketing divide: a few firms "get" marketing, and many do not. The result is that firms that get marketing have a competitive advantage, and those that do not often struggle, gradually losing market share and/or profitability, to end up eaten by competitors or to go out of business.

In collaboration with Saurabh Mishrah and Alex Krasnikov, I have surveyed 252 firms capturing $53 billion of annual marketing spending on marketing performance management and return on marketing investment (ROMI) best practices. The research demonstrates the existence of a divide between market leaders and laggards. A few statistics from the research highlight the gaps in stark contrast:

- Fifty-three percent of organizations do not use forecasts of campaign ROMI, net present value (NPV), customer lifetime value (CLTV), and/or other performance metrics. (See Chapter 5 for the essential financial metrics and Chapter 6 for CLTV. Free downloadable templates accompany all financial metric examples.)

- Fifty-seven percent do not use business cases to evaluate marketing campaigns for funding. (For best practices, examples, and templates, see Chapters 5 and 9.)

- Sixty-one percent do not have a defined and documented process to screen, evaluate, and prioritize marketing campaigns. (For best practices and examples, see Chapters 3 and 11.)

- Sixty-nine percent do not use experiments contrasting the impact of pilot marketing campaigns with a control group. (For best practices and examples, see Chapters 2 and 3.)

- Seventy-three percent do not use scorecards rating each campaign relative to key business objectives prior to a funding decision. (For best practices and examples, see Chapter 3.)

I was shocked by these findings, since they suggest that the majority of marketing organizations do not have professional processes in place to manage marketing and that most do not use marketing metrics in their day-to-day marketing activities. After all, if there is no business case or ROMI defined prior to campaign funding, how can you measure success after the fact? The divide is even more pronounced when we look at marketing organizations' use of data:

- Fifty-seven percent do not use a centralized database to track and analyze their marketing campaigns (see Chapters 2, 6, 9, and 10).

- Seventy percent do not use an enterprise data warehouse (EDW) to track customer interactions with the firm and with marketing campaigns (see Chapters 8 through 10).

- Seventy-one percent do not use an EDW and analytics to guide marketing campaign selection (see Chapters 2, 6, 8 through 10).

- Eighty percent do not use an integrated data source to guide automated event-driven marketing (see Chapters 8 through 10).

- Eighty-two percent never track and monitor marketing campaigns and assets using automated software such as marketing resource management (MRM) (see Chapter 11).

The vast majority of organizations therefore do not use centralized data to manage and optimize their marketing. The leaders, however, are on the other side of the divide and are the smaller percentage of firms, less than 20 percent, that actually do data-driven marketing and use metrics for measurement in their day-to-day marketing activities. As we will see later, these firms have significantly better financial and market performance relative to competitors.

Why is there a marketing divide, and why is it so hard for organizations to do data-driven marketing? These statistics are symptoms of why data-driven marketing and marketing measurement are so difficult for many organizations: the internal processes do not support a culture of measurement, and they also do not have an infrastructure to support data-driven marketing and marketing metrics. But beyond these high-level processes, my experience is that most marketers are overwhelmed with data and do not know where to start in terms of measuring the right things to drive real results. Furthermore, 55 percent of managers report that their staff does not understand metrics such as NPV and CLTV. (Financial metrics such as NPV are discussed in Chapter 5, and Chapter 6 is all about CLTV.)

Don't be discouraged if your organization is one of the 80 percent that does not use data-driven marketing and/or you are not familiar with these metrics—this book is about the simple secrets of the leaders. The goal of this book is to give you transparent metrics, tools, examples, and a road map to actually do data-driven marketing and apply marketing metrics in your organization.

The 15 Essential Marketing Metrics

When I first started executive training at Microsoft in 2003, some Microsoft marketers suggested that what they needed was a "killer app" (software application) for ROMI. What was funny to me is that Microsoft makes the killer app: it is called Microsoft Excel. The spreadsheet is an incredibly powerful tool.

In this book, I focus on relatively simple, but effective, metrics and frameworks for marketing measurement and data-driven marketing, and Excel is a great tool to get started. More advanced tools and techniques exist for linking marketing to sales. These techniques are indeed useful; regression, for example, is often used by packaged goods firms to correlate marketing spending with revenues. However, these methods have significant limitations, including the need for large, clean data sets, which often are not available to most companies. The approach of this book is therefore to focus on a framework for marketing measurement, balanced scorecards with the few key metrics that point to value, and approaches for analysis that are relatively straightforward to implement. (As a side note, regression definitely has its uses. In Chapter 9, I discuss how Meredith Publishing uses regression to figure out what product a

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customer might buy next, and I compare regression analysis with other data-mining methods such as decision trees for EarthLink customer retention marketing.)

To get started, there is a lot you can do with Excel, and I provide downloadable spreadsheet templates for all of the quantitative examples in this book. For ongoing data-driven marketing, you will most likely want to automate the process, and especially if you have a large customer base, you will need marketing infrastructure, including a database and more sophisticated analysis tools. Approaching this journey is the focus of the next chapter, "Where Do You Start?" and Chapter 10 answers the question "What's it going to take?" in detail for infrastructure.

My perspective is to concentrate on as few metrics as possible that capture the most value for marketing. In summary, the 15 essential metrics for marketing I define are:

1. Brand awareness
2. Test-drive
3. Churn
4. Customer satisfaction (CSAT)
5. Take rate
6. Profit
7. Net present value (NPV)
8. Internal rate of return (IRR)
9. Payback
10. Customer lifetime value (CLTV)
11. Cost per click (CPC)
12. Transaction conversion rate (TCR)
13. Return on ad dollars spent (ROA)
14. Bounce rate
15. Word of mouth (WOM) (social media reach)

Again, don't worry if you are not familiar with some or all of these metrics. They are explained in detail with examples in Chapters 3 through 7.

The first 10 metrics are what I call the classical marketing metrics. Metrics numbered 1 through 5 are the essential nonfinancial metrics discussed in Chapters 3 and 4: these metrics define the efficacy of

branding, customer loyalty, comparative marketing activities, and marketing campaign performance. Metrics numbered 6 through 9 are the essential financial metrics every marketer should know. Note that return on investment (ROI) is *not* one of these metrics—we will discuss why in Chapter 5. Rounding out the top 10 is CLTV, the essential financial metric for customer value–based decision making; Chapter 6 is entirely devoted to this metric.

Over 100 years ago, John Wanamaker said the famous line: "Half the money I spend on marketing is wasted—the problem is I don't know which half." More recently, a CMO told me: "Half the money I spend on marketing is wasted, but today I know which half: TV advertising." His comment reflects the rise of the new media for marketing, the network (both Internet and cell phone), and the ability to track marketing activities in this medium like never before.

Of the 15 essential metrics, the last 5, metrics numbered 11 through 15, are what I call the "new age marketing metrics": search engine marketing effectiveness is captured by metrics numbered 11 through 13. Bounce rate, metric #14, is the key metric to understand how good your web site is, and the new frontier of social media marketing is captured by metric #15, word of mouth. Chapter 7 covers these metrics in detail with lots of examples. Feel free to jump to Chapter 7 at any time—it is an in-depth discussion of Internet marketing best practices. However, throughout the following chapters, I give multiple examples of how to use the Internet to radically improve marketing performance. Let's start the journey with a few general case examples of data-driven marketing and how to use marketing metrics in practice.

Case Examples

So what do you do if you are a small company with a small customer base? The answer is that you can purchase lists that are targeted. A few years ago, I received a postcard mailer at my house. On the front was a picture of a nice golf course with the slogan: "Mark, A Special Invitation." What caught my eye was that it was specifically for me.

Wow, I felt special. Of course, we all know the scenario—we sort our mail into piles: bills in one, letters from Mom in another, and junk in the third. The junk mail is summarily tossed in the trash. Hence, traditional direct mail is incredibly expensive, due to the high printing and mailing costs, and is often ineffective since customers don't look at it. However, the postcard I received was different.

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First, somehow they knew I like golf, possibly surmised from my purchasing history, and second, it was addressed to me, Mark. The customization and targeting meant that I put the card on one side—it did not go directly in the trash. There are then good odds I will look at the back. The back was particularly interesting. There was a custom web uniform resource locator (URL): www.companyname.com/Mark.Jeffery. Realize that anyone who types in the URL and clicks return can be tracked and followed up with a phone call as a lead, even if he or she doesn't complete the web form to provide more information.

Figure 1.1 is a similar example for the 2008 Porsche Turbo Cabriolet new product launch. A stamped "raw" metal plate was delivered to existing Turbo Cab owners to coincide with the press announcement of the new product launch. The mailing provided personalized log-in credentials and encouraged visits to the web site with: "The raw Porsche 911 Turbo Cabriolet awaits your color selection." On the web site, the customers chose their favorite color and ordered a personalized Turbo Cab poster.
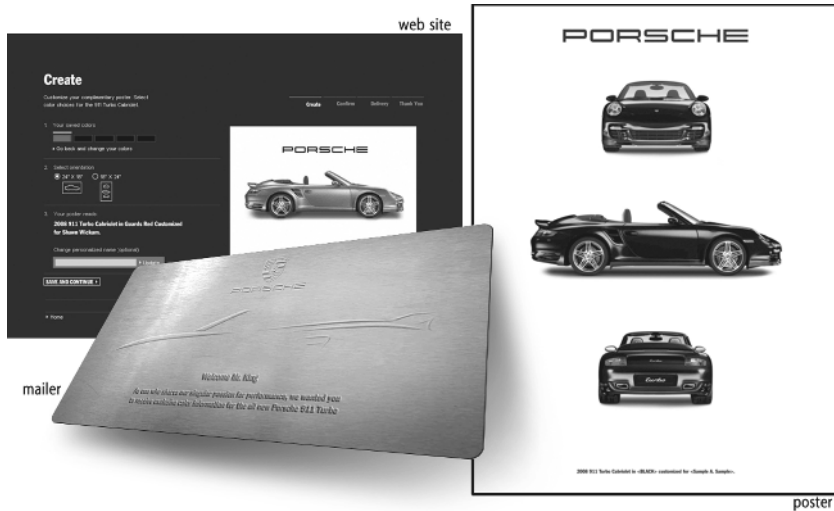

Figure 1.1 Porsche Turbo Cabriolet new product launch integrated direct-mail marketing. A letter with a customized stamped "raw" metal plate encouraged customers to visit the web site and order a customized poster with "their" new car color.

Source: Adapted from Porsche Cars North America Marketing.

The design of the campaign, integrated with the Internet web site, enabled end-to-end tracking. There were 2,700 unique log-ins with an average session time of almost 15 minutes, and 5,670 posters were ordered. Interestingly, there was also a significant WOM component, with nearly 500 send-to-a-friend invitations. (See essential metric #15—WOM, in Chapter 7.) The campaign overall had a 30 percent response rate, and 38 percent of Turbo Cab buyers during this period received the mailer.

The response rate and time on site is truly amazing given the high cost of the product ($130,000) and target demographic: busy executives, lawyers, and doctors. But what's great about this example is that the direct-mail marketing was designed for measurement and was integrated with the Web, enabling the capture of customer response data and identifying potential leads.

Customization and data-driven marketing can have a significant and measurable performance impact for both small and large firms. Large organizations clearly have an advantage in terms of size and resources, but few truly leverage this advantage in their marketing. As another example, let's look at a large Fortune 500 business-to-business (B2B) company.

The DuPont Tyvek® brand is well known in the United States. The reason for the product's success has to do with both the innovative properties of the material and DuPont's marketing of the innovation.[1] Tyvek has unique properties that liquid water cannot pass through, but water vapor can, and it is extremely durable. Tyvek today is used in packaging, protective apparel, envelopes, covers, graphics, and home construction.

Tyvek's permeability makes it extremely useful in the construction market, where it is used as a building envelope, wrapped around the frame of a building to allow moisture to escape while preventing water/rain from penetrating. This helps mitigate the growth of mold and mildew caused by condensation, protecting homes and buildings from expensive water damage. Figure 1.2 is an example of recent print advertising for DuPont Tyvek.

Data-driven marketing and marketing metrics start with the principle of keeping score for all major marketing activities. In the case of the print advertising in Figure 1.2, this is challenging, since the advertising is designed to brand Tyvek by creating awareness for the product and an emotional attachment that your home is safe with Tyvek. However, in addition to the print marketing, DuPont used the sponsorship of Jeff Gordon in NASCAR.

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Figure 1.2 DuPont Tyvek print advertising.
Source: DuPont Marketing, Note 1.

NASCAR, or U.S. stock car racing, is a very interesting sport from a marketing perspective. NASCAR is the number one in-person attended sporting event and the number three most watched sport on TV in the United States: approximately 80 million people regularly watch NAS-CAR. Combined with Formula 1, auto racing is the number one live event in the world. The viewership demographic for NASCAR also tracks the U.S. population well, with income and age closely matched to the U.S. population. DuPont sponsors Jeff Gordon, who has won the NASCAR championship—the race for the cup—four times, and according to an ESPN sports poll is the eighth most recognized sports figure in the United States.

For the Tyvek Home Wrap product, the activation campaign included painting Jeff Gordon's number 24 car with a Tyvek "TV panel" on the back for a 2006 race in Kansas, and TV advertising blanketed the Kansas area during the race to build consumer awareness. The primary focus of the campaign, however, was on three sets of B2B customers for the Tyvek product: retailers, builders, and specialists in construction.

Figure 1.3 is an example of the print poster marketing for Tyvek Home Wrap sent to building distributors throughout the United States.

Figure 1.3 Tyvek Home Wrap activation poster.
Source: DuPont Marketing, Note 1.

The offer was for an "ultimate race weekend" luxury box for the race and opportunity to actually meet Jeff Gordon. Awards went to the top 24 retailers across the country who sold the most DuPont products, the top 24 builders who bought the most DuPont products, and the top 24 specialists who signed up the most new and existing retailers.

The results of the campaign were impressive: 438 retailers signed on, 202 new and 236 existing, and there was a 186 percent sales increase during the promotional period, as measured by pallets of Tyvek shipped. Most important from a data-driven marketing perspective was that DuPont kept score. They measured pre- and post-campaign sales; which resulted in a significant ROMI.

A weakness of the marketing measurement was that the impact of the brand and awareness component of the marketing was not captured particularly well. Anecdotal evidence suggests a significant brand component, however. Figure 1.4 is the Tyvek logo that is visible on all new construction that uses the Home Wrap product. The following was posted on the www.NASCAR.com blog:

> My favorite NASCAR memory includes our favorite driver, Jeff Gordon, and my son, Logan. When Logan was two, we would drive by new housing developments and he would tell us which houses were Jeff Gordon's. We didn't put it together for a couple of months, but every time we would walk by or drive by a new housing development Jeff Gordon almost always had a house there. Finally, we realized our two-year-old was matching the DuPont Logo from Jeff Gordon's

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Figure 1.4 The Tyvek Home Wrap branding visible for several weeks on all new construction using the product.

Source: DuPont Marketing, Note 1.

racecar with the DuPont House Wrap logo (Tyvek) on the new homes. Kudos to DuPont for its brand.

We will discuss branding and awareness marketing metrics and measurement in more detail in Chapters 3 and 4. For now, the takeaway is that the Tyvek Home Wrap campaign primary objectives were designed to be measured; DuPont marketing was keeping score, and the pre-post change in number of pallets shipped justified future marketing investments.

As a next example, let's look at Sears's direct-mail marketing. Sears is a venerable retailer that in recent years has fallen on hard times and as a result was taken over by Edward (Eddie) Lampert in 2004; Lampert previously bought bankrupt Kmart for cents on the dollar. In the United States, Sears started by creating one of the first product catalogs at the turn of the century and enabled settlers on the frontier in the United States to have access to the same products as those living in the major eastern cities. These products could be ordered at the frontier store and the order sent by telegraph back east; the product would arrive in "real time" several weeks later by steam locomotive.

In 2001,[2] Sears's annual revenues were more than $30 billion, and its financial challenges stemmed primarily from changing consumer preference toward big-box specialty retailers located in the suburbs. I remember receiving the Sears "phone book" catalog at home when I was a child and sitting excitedly as I picked out my Christmas wish list. Today, the phone

book catalog is replaced by the much smaller color mailer, approximately 20 pages, that is a newspaper insert or is direct mailed. The following example is for the 2001 Sears mailers that were direct mailed with the objective of getting customers to come to the stores. This example is for a very large marketing budget and involves analysis of a large amount of data, which many readers may not have access to. But it is a great example, and I give examples of how to get started with a small amount of data and a limited budget in the next chapter.

The original marketing consisted of direct mailing more than 250 million catalogs per year, targeting 14 to 18 million customers spread over 18 separate mailings. These mailers generated incremental sales of $900 million per year. The existing campaign targeted the top 40 percent of customer households, based on recency, frequency, and monetary value. There was also limited geographic versioning. That is, the southern United States, such as Florida, got a different mailer from Chicago, in the Midwest, since the weather is very different in these two geographies. However, everyone in the Midwest received the same mailer, as did everyone in the South.

Clearly, the mailer was driving significant sales revenues, but what was the profitability of this marketing? If we assume the mailer cost $1, order of magnitude, to print and mail, then the marketing is costing approximately $250 million per year. These mailers were driving incremental revenues of $900 million. The marketing cost was therefore approximately 25 percent of these revenues. But we know the margins for retail in the United States are very thin, due to competition from Wal-Mart, and are approximately 10 percent or less, again order of magnitude. What does this mean? It means that this marketing initiative, while driving significant sales revenues, was losing more than $100 million per year!

The marketing management team realized that business as usual, the standard marketing, was helping to dig a hole for Sears. The solution was to segment the market and target the direct-mail marketing. Market segmentation, of course, is a very old idea. Segmentation 20-plus years ago was very difficult, with limited data and only primitive computers, so marketers typically focused on three segments: high, medium, and low.[3] But, today, data-warehousing technology enables data mining and much more fine-grained segmentation (see Chapter 9).

For this example, Sears used an EDW and analytics to split the targeted customers into 25 distinct segments, based on a robust series of variables, attributes, and purchase characteristics. They then versioned

the mailers, based on products and categories relevant to the various groups. Furthermore, they eliminated the strict cutoff that included only the top 40 percent of customers, and instead captured "upsell" opportunities among lower-value customers with upside potential.

What happened? The mailer revenue increased $215 million dollars per year, based on improved targeting and campaign management. That is, Sears took a $900 million marketing initiative and made it into a $1.1 billion initiative. But what I most like about this example are the detailed metrics to quantify the performance improvement of the campaign: there was 1 percent improvement in number of trips generated among customers who received direct mail, 5 percent improvement in average purchase dollars per trip, and 2 percent improvement in gross margin, as "right" product featured captured sales without reliance on "off-price" promotions.

That is, people who receive the mailer come to the store more and, when at the store, buy more. But, better still, there is a very significant improvement in gross margin. This is attributed to what I call the "Ah, that's exactly what I need!" effect: if you show customers you have the product they want when they need it, there is much higher probability they will purchase and you don't have to put the product on sale (see Chapter 9).

The changes in this example are a few percentage points, but when there are a large number of customers and margins are small, the impact is very large. The 2 percent improvement in gross margins has a huge financial impact, for example. In the final analysis, the catalog targeting project alone had an NPV exceeding $40 million. This is an exceptional ROMI for a print direct-mail campaign. (Financial metrics such as NPV are discussed in Chapter 5.)

This section has given four different examples of how to radically improve the performance of marketing. There are many more throughout this book. The summary takeaways are that data-driven marketing in its simplest form is "keeping score," which enables justification of marketing investments. The act of measurement can improve marketing performance by making explicit what is working and what is not and by ensuring that marketing dollars are invested in activities that are measured to be high performing. At the next level, data-driven marketing uses analytics to dramatically improve performance. These techniques can be used by both large and small organizations with dramatic results.

Michael Porter is widely regarded as the father of modern competitive strategy.[4] Porter's works include the famous five forces analysis,

which is a framework for defining a firm strategy given competitors and market forces. Porter defines sustainable competitive advantage as the *coordination of activities that are not easily duplicated*. At the highest level, strategic advantage from marketing is created by the coordination of activities that are not easily duplicated, and data-driven marketing and measurement are significant components of those activities.

Marketing Budgets: Key Differences between the Leaders and the Laggards

In order to better understand marketing measurement and data-driven marketing, I conducted a research study entitled "Strategic Marketing ROI: Myth versus Reality." This new study focused on the processes needed to drive marketing performance and ROMI. For the study, we first interviewed senior marketing executives at firms such as Best Buy, Microsoft, Continental Airlines, HP, Dell, Lowe's, and many other firms. These interviews helped focus the research and enabled the team to understand the essential research questions. We then created a survey capturing the best practices identified from the interviews.

Of the 2,000 mailed surveys, we received 254 total responses: 92 percent of the respondents identified their role as CMO, chief executive officer (CEO), or their direct reports. Average corporate revenues in the study were $5 billion and the average marketing budget was $222 million; the research ultimately captured $53 billion of annual marketing spending. The respondents to the survey were primarily large firms, but, as we will see, many of the results are applicable to both large and small marketing organizations.

The first two insights from the research were discussed in the first section of this chapter: the vast majority of marketing organizations do not keep score, and do not leverage data and analytics for marketing. The next insight was how marketing organizations invest their budgets. If you ask CMOs how they spend their budget, you most often hear the percentage spent on TV, print, Internet, direct mail, telemarketing, and so on. But this breakdown is not particularly useful, since it does not tell us what these organizations actually do with their money. That is, what is the intended outcome of the marketing?

The research takes a different approach and asks what the marketing investments are actually intended to do. Specifically, we defined buckets of funding for demand generation marketing, branding and awareness,

customer relationships, shaping markets, and infrastructure and capabilities. These buckets are defined as follows:

- *Demand generation marketing*. These are marketing activities to drive revenues in a relatively short time period after the marketing campaign. Examples are sales, coupons, and events.
- *Branding and awareness*. These marketing activities drive awareness and can include sports sponsorship, naming rights to events or properties, and advertising (TV, print, Web, or e-mail) designed specifically for awareness, not to promote an upcoming sale.
- *Customer relationships*. This marketing focuses on creating a personal link to the customer that drives loyalty and engagement. Examples might be thank-you notes after a purchase and loyalty programs such as concierge shopping services.
- *Shaping markets*. These marketing activities are designed to make the market receptive to your products or services, often through independent third-party recommendations. Examples include analyst relationships for B2B firms and social media blogging to influence perception.
- *Infrastructure*. These investments are in technology and training to support the marketing team. Example technology investments include EDW, analytics, and marketing resource management software that supports data-driven marketing.

We then asked the respondents to tell us what percentages of their budgets fell into these categories. Figure 1.5 is the average spending breakdown in these buckets reported by the 254 respondents. Demand generation marketing is marketing intended to drive sales in the near term, and on average 52 percent of marketing spending falls in this category. At the next level up, branding and awareness is 10 percent and customer equity marketing is 12 percent, respectively. Infrastructure and capabilities, the technology and training to support marketing, is 14 percent of spending.

One observation is that approximately 50 percent of marketing budgets go to demand generation marketing activities. Demand generation marketing (such as sales, coupons, or events) is designed to create revenue, and these sales revenues are recorded a short time after the marketing (when the coupon is cashed or the customer visits the store for the sale he or she saw advertised). By definition, if you know the sales
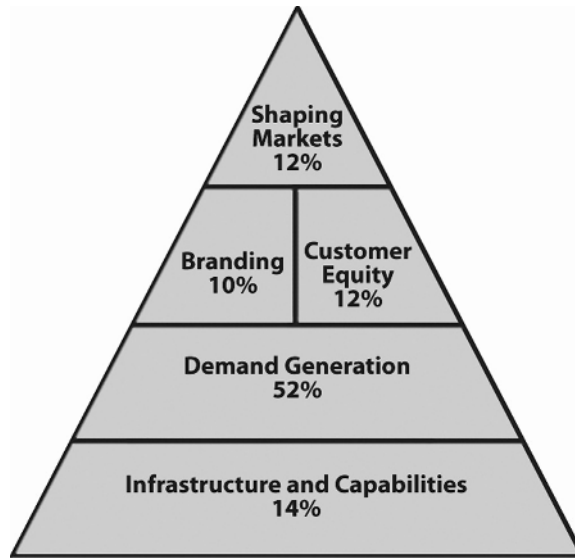
Figure 1.5 Average percentage breakdown of the marketing
investment portfolio.

revenue from the marketing and the cost of the marketing, you can use
financial metrics to quantify the marketing performance. This is an
important insight: *financial metrics can be used to quantify approximately 50
percent of marketing activities*.

At the beginning of this chapter, we started by discussing a market-
ing divide between firms that "get" marketing and those that do not.
Figure 1.6 is the marketing investment portfolio mix for the top and
bottom 25 percent performers. Figure 1.6 illustrates the marketing divide
in stark contrast.

First, note that the low performers invest 4 percent less than the
average on marketing overall, and the high performers invest 20 percent
more than the average on marketing. Furthermore, low performers spend
more on demand generation marketing. How much more? They spend
10 percent more of their marketing budgets, meaning the low performers
invest 58 percent versus 48 percent for the high performers. Also note that
the high performers invest more in branding and customer equity—a total
of 27 percent for the high performers versus 18.5 percent for the low
performers. Finally, notice that the high performers spend significantly
more on marketing infrastructure—16 percent for high performers versus
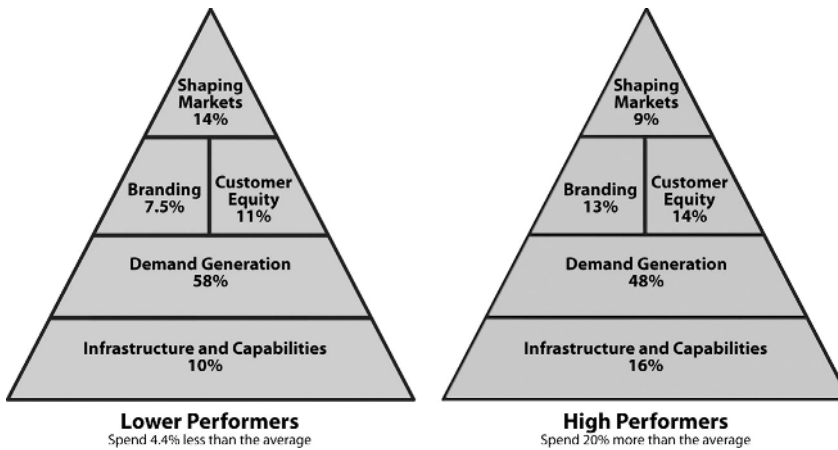10 percent for the laggards.[5] Taken together, these data validate the

Figure 1.6 Research data to support the marketing divide.

hypothesis that leaders invest less in demand generation marketing, on a percentage budget basis, and more in branding and customer equity. The leaders also spend more on infrastructure to support data-driven marketing.

In summary, the research shows that the marketing divide is real and that there is a significant difference between leaders and laggards: the leaders spend less on demand generation marketing and more on branding and customer equity and on infrastructure to support data-driven marketing. Chapter 11 delves into the research in more detail, and as we will see, the leaders have processes in place to optimize marketing management. As a result of these processes and their different marketing spending, the leaders have significantly better sales growth and financial performance compared with the laggards'. It may come as no surprise that the key marketing processes of the leaders include using metrics to keep score and using data-driven marketing (see Chapter 11).

Using Marketing Metrics to Weather Difficult Economic Times

In dark economic times, a natural reaction of senior business leaders is to aggressively cut costs. However, choosing a hatchet rather than a scalpel can have significant impacts on both short-term and long-term firm performance. Even though marketing may seem like an easy cost-cutting target due to the difficulty with which its returns are quantified, it is

important to note that there is a significant link between market-leading firms' investment in marketing and their performance during and following a recession.

Research shows that a better strategy is to *increase* marketing spending. In a study of U.S. recessions, McGraw-Hill Research analyzed 600 companies covering 16 different Standard Industrial Classification (SIC) industries from 1980 to 1985.[6] The results showed that firms that maintained or increased their advertising expenditures during the 1981 to 1982 recession averaged significantly higher sales growth, both during the recession and for the following three years, than firms that eliminated or reduced advertising spend. By 1985, sales of companies that took an aggressive advertising approach during the recession had risen 256 percent over those that failed to keep up or increase their advertising spending.

Paradoxically, market-leading firms actively invest in marketing during an economic downturn. In analysis of the 1990 to 1991 recession, Penton Research Services and Coopers & Lybrand, in conjunction with Business Science International,[7] found that better-performing businesses focused on a strong marketing program, enabling them to solidify their customer base, take business away from less aggressive competitors, and position themselves for future growth during the recovery.

Examples across industries include:

- In the 2001 technology industry recession, Intel invested $2 billion in new chip manufacturing facilities and aggressively marketed new dual-core technology in order to grab market share from competitor AMD.

- In 2008, three years into a recession in construction, Johnson Controls rolled out a new ad campaign continuing its "Ingenuity Welcome" effort. The campaign, which included significant print and online advertising, demonstrates Johnson Controls' efforts to build energy-efficient environments for customers.

- Hanley Wood, one of the most successful B2B publishers of the last decade, is facing challenging times. Hanley Wood CEO, Frank Anton, admits his company is getting "hammered" by the downturn, but says the company is continuing to invest aggressively in digital, event, and magazine marketing.[8]

- Other examples include Revlon and Philip Morris in the 1970's recession—they both increased advertising to gain market share. In

the first quarter of 2009, Procter & Gamble, PepsiCo, Verizon, and NewsCorp Media all increased their ad spending at the peak of the global financial meltdown and recession.

Spending on marketing to drive performance is not limited to times of recession. As we discuss throughout this book, real results happen in good times and bad when you invest in marketing and apply data-driven marketing principles.

The First Step: Defining the Data-Driven Marketing Strategy

We have discussed how sustainable competitive advantage is created by the coordination of activities that are not easily duplicated, and there is a marketing divide between leaders and laggards. One might conclude that leaping the marketing divide is an impossible task, since the leaders have capabilities that are not easy to duplicate. I argue, though, that the leaders follow a similar pattern and have a small set of capabilities that are providing them substantial performance gains in marketing. Understanding and implementing these capabilities can give your organization a similar advantage; the trick is to focus on the right things.

As a first step, it is useful to have a framework for developing a data-driven marketing strategy. The framework in Figure 1.7 starts with defining the strategy and objectives and then collecting relevant data (see Chapters 2, 3, 6, 9, and 10 for detailed examples).

The ability to "know yourself" before starting the journey is both simple and profound. Research has shown that the data warehousing projects that fail do so most often failed because management did not have a plan for what to do with the data once they were collected. That is, data were collected from across the enterprise at great expense in terms of time and money, and then the team could not figure out what to do with them. This "data dilemma" should be faced up front, and the strategic plan should be figured out before funding the larger project to build the database.

Throughout this book, I share stories of how organizations defined their data-driven marketing vision and strategy and their journey through execution. Specifically for the first two steps in the framework shown in Figure 1.7, the next chapter, and Chapter 6 give examples of how to define your strategy and collect customer data. Chapter 10 is all about data-driven marketing infrastructure and answers the questions

Figure 1.7 A framework for data-driven marketing strategy.

Source: Adapted from Russell Winer, "A framework for customer relationship management," *California Management Review,* 2001.

"What data do you need?" and "What's it going to take?" for small, medium, and large customer bases.

Working with managers, I often find that there is a misconception that you have to have all of the data before moving to the next step in Figure 1.7. This is absolutely not the case. The idea is to figure out which data are important using the 80/20 rule: ask what is the 20 percent of data that will give 80 percent of the value? Then think through how to get these data first. In a large company, these data are most likely in two or three of the existing siloed data marts (small databases). Small companies may not have access to large amounts of data. But, again, ask the questions—what data do you have, or could collect/purchase, that will potentially deliver the highest value? I share examples of how to do this from Royal Bank of Canada and Continental Airlines in Chapter 2.

The next step is analysis to understand your customers. As a first cut, I encourage using Excel if the data set is for several thousand customers. For millions of customers, you will most likely need more industrial-strength tools (see Chapters 6, 8, 9, and 10). The approach often involves fine-grained segmentation, which then leads ultimately to customer targeting and data-driven marketing activities. The Sears

examples given earlier in this chapter followed this pattern: data collection and analysis that led to insight on customer characteristics, then targeting and direct mail data-driven marketing. Chapters 6 and 9 discuss how to do segmentation and targeting analysis through real examples.

In the framework in Figure 1.7, privacy issues are near the bottom. One can argue that this should be a first consideration. There is no question that privacy is very important and there are a variety of international laws to protect personal privacy. In 2004, METRO, the large German-based food retailer, stopped using radio frequency identification (RFID) tags on products for electronic checkout due to fear of individuals' personal information being compromised. Privacy laws in different geographies should, of course, be observed, but in the United States at least, a person's information is as cheap to obtain as the cost of a T-shirt.

What do I mean by this? People often sign up with their address and contact information for in-store promotions that give a free gift of a hat or T-shirt, or drop their contact information into a jar at a chance to win a free lunch. In the United States, the vast majority of us have a grocery store card in our wallet. Why? To get discounts at the grocery store, of course.

Note that there is a crystal-clear value proposition to the grocery store "loyalty card" that everyone who uses the card accepts: you provide your household detailed shopping data to the store and in return get discounts. Hence, collecting customer data (business-to-consumer [B2C] or B2B) requires a clear value proposition—what's in it for me, the customer or B2B partner. There is also an implicit contract that the data will be protected and not shared without permission. This contract is essential to build trust with the customer. It should be formally stated in your corporate privacy policy and easily accessed on your web site and marketing to collect data. We discuss data collection in the B2B context in the next chapter.

The framework in Figure 1.7 concludes with metrics to "keep score," and this is the primary focus of this book. I believe that if you can measure marketing, you can control it and radically improve performance. The next chapter answers the question "Where do you start?" and provides strategies for overcoming the five major obstacles to data-driven marketing. Chapter 3 gives a framework for marketing measurement focusing on the 10 classical marketing metrics. The complete 15 essential metrics are then expanded upon in detail in Part II.

In 1974, bar code scanners were introduced in retail, and for the first time this enabled the tracking of individual consumer product purchases at the point of sale. This technological innovation spawned "marketing science," the idea that marketers could quantify marketing using analytic principles. Today, the Internet and cell phone networks are enabling the next leap in data collection of customer interactions with marketing. I tell my MBA students that now is the best and most exciting time to be in marketing. The new data-driven approaches and infrastructure to collect customer data are truly changing the marketing game, and there is incredible opportunity for those who can act upon the new insights the data provides.

Chapter Insights

- A marketing divide exists between organizations that do data-driven marketing and use marketing metrics and those that do not.
- The 15 essential metrics quantify the vast majority of marketing activities.
- Research shows that firms that "keep score" for marketing have significantly better financial and market performance compared with those that do not.
- Higher-performing firms spend more on branding, customer equity, and technology for data-driven marketing and spend less money on demand generation marketing.
- Sustainable competitive advantage from marketing is derived from the coordination of activities that are not easily duplicated.
- There is a framework for developing a data-driven marketing strategy; you don't need 100 percent of the data to get started.