



# Performance-Driven Marketing

Quantifying the Business

Impact of Your Marketing

Expenditures

building your business

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*Are you measuring the performance of your marketing spending? If your answer is no, you're not alone. According to a recent survey of Chief Marketing Officers at the nation's leading technology companies, over 80% expressed dissatisfaction with their ability to benchmark the business impact and value of their marketing programs<sup>1</sup>. Not surprisingly, only 17% had a comprehensive performance measurement system in place. The good news? Building a performance-driven marketing system in your organization is within your reach.*

<sup>1</sup>THE CMO COUNCIL Measures and Metrics: The Marketing Performance Audit; Assessing Marketing's Value and Impact, June 9, 2004

## Establish Performance Targets for All Marketing

The first step in improving marketing performance is simply to start measuring performance. If you want to build a performance-driven marketing approach within your organization, a good place to start is living by these words: “if you can measure it, you can improve it”. Marketers spend countless hours obsessing over positioning, creative executions and media negotiations. All are important elements of a marketing campaign, but too often overlooked is the establishment of a quantified measure of performance to objectively determine the level of campaign success.

How many times have you heard comments like “the dealers love this ad,” “our CEO thinks this is really funny,” or “everyone is talking about the new campaign”? Positive feedback like this is great, but it just doesn’t hold up in the Board Room in an era of increased pressures for financial and corporate responsibility and accountability. And wouldn’t you rather hear comments like this anyway?

**“Sales are up 15%”**

**“We have added 5 market share points”**

**“Lead-to-sales conversion rates have doubled”**

If you’re not sure where to begin in establishing performance metrics for your company, remember that marketing performance metrics should be driven by marketing objectives, and marketing objectives should be driven by corporate objectives.

### **Begin by answering these questions:**

What is your company’s unique value proposition?

What are your company’s corporate goals?

How will your company define success in achievement of these goals?

How will your company measure the impact of marketing on achievement of these goals?

**You might conclude that your marketing should focus on improving one or more of the following:**

- Growing revenue
- Growing sales volume
- Adding new customers
- Increasing market share
- Retaining current customers
- Increasing revenue per customer
- Decreasing new customer acquisition costs
- Building brand awareness

Ultimately, the decision of how marketing performance will be measured should be shared and agreed to by various business stakeholders in your organization, including marketing, sales and finance.

## Measure Marketing Performance against Established Targets

Once marketing performance targets are established, take the time to create a performance report and identify the source of information necessary to build the report. A common mistake is establishing targets and beginning to execute campaigns without the tools and reporting systems necessary to actually measure performance. Another common mistake is becoming paralyzed by the vast array of hardware and software available, or the sales push to buy now what you'll need years from now.

**Measurement:**

- Start with the performance targets
- Build performance reports to monitor performance against the targets
- Identify the data sources to populate these reports
- Assign the responsibility of populating the report to your marketing team, agency or IT Group as appropriate
- Don't become a victim of technology "analysis paralysis"

**The following example includes templates for performance reports:**

US Motors is launching 2 new hybrid SUVs: The "Alpha," a \$40,000 V8 with a \$10,000 profit, targeting upscale urban professionals; and the "Gamma," a \$10,000 economy model with a \$1,500 profit, targeting recent college grads.

US Motors will mail test drive incentive offers to targeted customers for the higher priced model and will offer printable test drive incentives on their website for the lower priced model. They will also test 2 different versions of the mail offer and 2 different versions of the web offer. Figure 1 shows program names or channels, various approaches tested within a given channel, volumes, costs and results in terms of the numbers of responders and the response rate.

In this example it appears that DM2, the more expensive mail package, performed better than DM1. In addition, the website message in HP1 was stronger than that of HP2.

Figure 1

A	B	C	D	E	F	G
PROGRAM NAME	TEST CELLS	TARGET VOLUME	FIXED COST	COST / PIECE	# OF RESPONDERS	RESPONSE RATE
campaign, media, or channel	target, creative, offer	# pieces mailed, # of entries, # of visitors, etc.	cost of creative, printing & media / postage	D / C	# of callers, BRCs received, etc.	F / C
Alpha Direct Mail	DM1	100,000	\$50,000	\$0.50	2000	2.00%
Alpha Direct Mail	DM2	100,000	\$100,000	\$1.00	3000	3.00%
Gamma Home Page Offer	HP1	100,000	\$-	\$-	500	0.50%
Gamma Home Page Offer	HP12	100,000	\$-	\$-	200	0.20%
<b>Total</b>	<b>All</b>	<b>400,000</b>	<b>\$150,000</b>	<b>\$0.38</b>	<b>5700</b>	<b>1.43%</b>

Following the same example as Figure 1, Figure 2 shows the impact of various incentives, the total cost, the sales volume, sales conversion rates and the marketing return on investment or ROI expressed as the profit generated from the marketing dollars invested. There are many conclusions we can draw from this report that will help us decide how to improve performance of future campaigns.

Figure 2

H	I	J	K	L	M	N	O	P
INCENTIVE COST	VARIABLE COST	TOTAL COST	SALES	SALES CONV. RATE	AVG. COST / SALE	AVG. / UNIT PROFIT	TOTAL PROFIT	MARKETING ROI
cost of "offer", cash, gift, etc.	F x H	D + I	total sales attributable to the program	K / F	J / K	Total profit / units sold	N x K	Profit return on expenditure O / J
\$100	\$200,000	\$250,000	100	5.00%	\$2,500	\$10,000	\$1,000,000	400.00%
\$50	\$150,000	\$250,000	150	5.00%	\$1,667	\$10,000	\$1,500,000	600.00%
\$25	\$12,500	\$12,500	25	5.00%	\$500	\$1,500	\$37,500	300.00%
\$25	\$5,000	\$5,000	10	5.00%	\$500	\$1,500	\$15,000	300.00%
<b>\$64</b>	<b>\$367,500</b>	<b>\$517,500</b>	<b>285</b>	<b>5.00%</b>	<b>\$1,816</b>	<b>\$8,956</b>	<b>\$2,552,500</b>	<b>493.24%</b>

## Observations and Possible Conclusions:

**DM2 delivered more responders even though the incentive was smaller.** For future campaigns, we might conclude that a more comprehensive, informative communication piece is more of a response driver than the amount of the incentive for this particular target audience. DM2 is also the most efficient communication piece in terms of ROI.

**HP1 and HP2 were both efficient in terms of driving leads, sales and ROI.** For future campaigns we should use HP1 as the volume “control” campaign and test new messages against this message to try and beat the performance of HP1. We can also assume that in the web environment, the HP1 message will “burn out,” response rates will decline and we will need new a new control message that we should be testing now.

## Scale Successes

You’ve established marketing performance metrics, you have consensus from key business stakeholders that these are the right performance metrics, you have a performance report and a team of people executing campaigns and generating performance reports on a regular basis (Okay, maybe it’s just you). Take a look at the report. What do you see?

The results may surprise you...for better or worse. Perhaps the campaign that everyone loved isn’t really delivering performance in the area that you’ve identified as your primary marketing performance target. On the other hand, your report may identify big successes, efficiencies or growth opportunities. When you identify these successes, scale them.

### Try to answer questions like these:

How many more prospects can we reach with these same characteristics?

How many other customers can we identify that are as responsive or as profitable as these?

How many more prospects will be responsive to this offer?

How many more prospects can we reach through this channel?

Identify the successful elements of every campaign and assess the size of the opportunity to grow those successes.

## Build a Disciplined Approach to Monitoring and Improving Performance over time

Once you build this process in your organization, don't make the mistake of throwing all of your resources into the first campaign. The likely outcome will be "this stuff doesn't work" or "it doesn't work as well as we thought it would". Instead...

### ...start small.

Identify opportunities for growth and build on campaign successes. Start small, build on opportunities and you will soon establish a track record of success with certain customer segments, sales channels, marketing messages and offers. Make sure you have a system in place to archive your reports and benchmark today's performance vs. past performance.

## Add Technology as Needed

Don't invest your whole budget in hardware and software. Equally important, don't wait on technology, or your technology budget approval, to begin measuring and improving your marketing performance. Evidence obtained from the specific successes of your initial performance-driven marketing tests will likely justify and inform technology investments. Over time as your marketing becomes more data-driven and sophisticated, your marketing opportunities will be clearer, your performance targets will become easier to define and your need for specific technology support will also become clearer.

During the explosive growth of E\*TRADE in 1999 and 2000, the customer base grew several fold with a large investment in marketing. However, each of the online, direct, email, and partner acquisition campaigns started small and were closely monitored to identify scalable opportunities, which grew over time.

## Getting Started

There are plenty of reasons why so many marketing organizations don't have a performance-driven marketing process in place today. "We've never done this before," "we're too busy with other critical initiatives," or "we cannot afford the technology investment right now," are some that come to mind. There is one very compelling reason to get started in building and managing a performance-driven marketing system in your organization...

**“It is the only way to objectively measure and improve the performance of your marketing spend.”**

Whether you do it yourself, assign the responsibility to your staff or hire an expert... don't wait. Your results may surprise you and regardless of how well you're doing when you start, you are moving in the direction of ongoing performance improvement.

## Performance-Driven Marketing Step-by-Step

### 1. Establish Performance Targets (begin by answering these questions):

- What makes your company unique?
- What are your company's goals?
- How will your company define success?
- How will your company measure the impact of marketing?

**TIP:** You may have several targets. They should be specific and quantifiable.

**Example target:** Decrease new customer acquisition costs from \$200 to \$100

### 2. Measure Marketing Performance

- Start with performance targets
- Build performance reports to monitor performance against the targets
- Identify data sources to populate reports
- Assign the responsibility of populating the report
- Don't become a victim of technology analysis paralysis

### 3. Scale successes:

- How many more prospects can we reach with these same characteristics?
- How many other customers can we identify that are as responsive or as profitable as these?
- How many more prospects will be responsive to this offer?
- How many more prospects can we reach through this channel?

### 4. Remember:

- Start Small
- Add Technology as Needed

**GET STARTED!**



If you have any questions or if you need assistance with any element of your performance-driven marketing process, you can contact me via email at [tony@thunderfactory.com](mailto:tony@thunderfactory.com), or via telephone at 949.363.8500.

#### **About Tony Harkey**

In his role as Executive Vice President and Managing Director, Performance-Driven Marketing, Harkey spearheads THUNDER FACTORY's direct response programs, both online and offline. Harkey's mantra is, "If you can measure it, you can improve it." He employs this approach in demonstrating greater ROI for clients' and prospective clients' marketing campaigns.

#### **About THUNDER FACTORY**

THUNDER FACTORY was founded in 2000 to fill a void among marketing firms by delivering integrated performance-driven marketing services with a single-minded focus on helping clients build their business. The firm provides a variety of services in four key marketing areas: strategy development, communications (including advertising, public relations, web development and direct/online marketing and collateral development), partnerships, and brand development. Clients range from Fortune 100 corporations to mid-sized, pre-IPO companies, and include Ameritrade, AT&T Wireless/Cingular, Computer Associates, Dr. Pepper/Seven Up Company, Fleetwood RV, McKesson Corp., San Jose State University, Match.com and ZANTAZ. Headquartered in the San Francisco Bay Area, THUNDER FACTORY also has offices in Los Angeles, New York City and London, as well as affiliates in Hong Kong, Salt Lake City and Sydney, Australia. For more information, visit [www.thunderfactory.com](http://www.thunderfactory.com).

