Program Marketing and Return on Investments
Perspectives from advertising & marketing

A Presentation to the
ACEEE National Symposium on Market Transformation

March 20, 2006

Earl L. Taylor, CMO
Marketing Science Institute
617-491-2060, x239
etaylor@msi.org
www.msi.org
Overview

What is Marketing Science Institute (MSI)?
Evaluating EE marketing ROI

- What we know about marketing ROI
- From product focus to Customer Equity (CE)
- Using CE for EE program evaluations
- Customer equity and WOM marketing
- Implications for EE marketing and program evaluation

References
What is MSI?

**Our Origin:** Since 1961, non-profit MSI has been the “bridge” between academic marketing theory and business practice.

**Our Mission:** To advance relevant, rigorous and readable marketing science to improve marketing practice.

**Our Method:** Member companies choose research priorities; we fund top scholars and disseminate results through:

- Members-only conferences
- Working Papers and other publications
- Roundtables and informal networking
- Collaborative research
## MSI member companies

<table>
<thead>
<tr>
<th>Category</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACNielsen</td>
<td>Eastman Kodak Company, Eli Lilly and Company, Fair Isaac Corporation</td>
</tr>
<tr>
<td>Allstate Insurance Company</td>
<td>General Motors Corporation, GfK Group, Henkel KGaA</td>
</tr>
<tr>
<td>Ameritrade</td>
<td>Hewlett-Packard Company, IBM Corporation, Intel Corporation</td>
</tr>
<tr>
<td>Amgen Inc.</td>
<td>Ipsos, Johnson &amp; Johnson, L.L. Bean, Inc.</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>Lenovo Group Limited, M&amp;M/Mars, McDonald’s Corporation</td>
</tr>
<tr>
<td>Bayer Healthcare LLC</td>
<td>Miller Brewing Company, Milliken &amp; Company</td>
</tr>
<tr>
<td>Bristol-Myers Squibb Company</td>
<td>Monitor Group, Nestlé USA</td>
</tr>
<tr>
<td>Campbell Soup Company</td>
<td></td>
</tr>
<tr>
<td>Capital One Financial Corporation</td>
<td></td>
</tr>
<tr>
<td>Carat</td>
<td></td>
</tr>
<tr>
<td>Carlson Companies</td>
<td></td>
</tr>
<tr>
<td>CBS Corporation</td>
<td></td>
</tr>
<tr>
<td>Chevron Corporation</td>
<td></td>
</tr>
<tr>
<td>Cisco Systems, Inc.</td>
<td></td>
</tr>
<tr>
<td>Citigroup Inc.</td>
<td></td>
</tr>
<tr>
<td>The Clorox Company</td>
<td></td>
</tr>
<tr>
<td>The Coca-Cola Company</td>
<td></td>
</tr>
<tr>
<td>Coles Myer, Ltd.</td>
<td></td>
</tr>
<tr>
<td>Colgate-Palmolive Company</td>
<td></td>
</tr>
<tr>
<td>Condé Nast Publications, Inc.</td>
<td></td>
</tr>
<tr>
<td>Darden Restaurants, Inc.</td>
<td></td>
</tr>
<tr>
<td>Diageo Plc</td>
<td></td>
</tr>
<tr>
<td>DuPont Company</td>
<td></td>
</tr>
<tr>
<td>Eastman Kodak Company</td>
<td></td>
</tr>
<tr>
<td>Eli Lilly and Company</td>
<td></td>
</tr>
<tr>
<td>Fair Isaac Corporation</td>
<td></td>
</tr>
<tr>
<td>Ford Motor Company</td>
<td></td>
</tr>
<tr>
<td>General Electric Company</td>
<td></td>
</tr>
<tr>
<td>General Mills, Inc.</td>
<td></td>
</tr>
<tr>
<td>General Motors Corporation</td>
<td></td>
</tr>
<tr>
<td>GfK Group</td>
<td></td>
</tr>
<tr>
<td>Henkel KGaA</td>
<td></td>
</tr>
<tr>
<td>Hewlett-Packard Company</td>
<td></td>
</tr>
<tr>
<td>IBM Corporation</td>
<td></td>
</tr>
<tr>
<td>Intel Corporation</td>
<td></td>
</tr>
<tr>
<td>Ipsos</td>
<td></td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td></td>
</tr>
<tr>
<td>L.L. Bean, Inc.</td>
<td></td>
</tr>
<tr>
<td>Lenovo Group Limited</td>
<td></td>
</tr>
<tr>
<td>M&amp;M/Mars</td>
<td></td>
</tr>
<tr>
<td>McDonald’s Corporation</td>
<td></td>
</tr>
<tr>
<td>McKinsey &amp; Company</td>
<td></td>
</tr>
<tr>
<td>Mercer Management Consulting</td>
<td></td>
</tr>
<tr>
<td>Merck &amp; Company, Inc.</td>
<td></td>
</tr>
<tr>
<td>Miller Brewing Company</td>
<td></td>
</tr>
<tr>
<td>Milliken &amp; Company</td>
<td></td>
</tr>
<tr>
<td>Monitor Group</td>
<td></td>
</tr>
<tr>
<td>Nestlé USA</td>
<td></td>
</tr>
<tr>
<td>Nielsen Media Research</td>
<td></td>
</tr>
<tr>
<td>PepsiCo, Inc.</td>
<td></td>
</tr>
<tr>
<td>The PNC Financial Services Group, Inc.</td>
<td></td>
</tr>
<tr>
<td>Praxair, Inc.</td>
<td></td>
</tr>
<tr>
<td>The Procter &amp; Gamble Co.</td>
<td></td>
</tr>
<tr>
<td>Rohm and Haas Company</td>
<td></td>
</tr>
<tr>
<td>Royal Philips Electronics</td>
<td></td>
</tr>
<tr>
<td>Schneider National, Inc.</td>
<td></td>
</tr>
<tr>
<td>The Thomson Corporation</td>
<td></td>
</tr>
<tr>
<td>Time, Inc.</td>
<td></td>
</tr>
<tr>
<td>TNS</td>
<td></td>
</tr>
<tr>
<td>Unilever</td>
<td></td>
</tr>
<tr>
<td>The Vanguard Group</td>
<td></td>
</tr>
<tr>
<td>Verizon Communications, Inc.</td>
<td></td>
</tr>
<tr>
<td>VF Corporation</td>
<td></td>
</tr>
<tr>
<td>VISA Worldwide Services</td>
<td></td>
</tr>
<tr>
<td>Wachovia</td>
<td></td>
</tr>
<tr>
<td>Wells Fargo &amp; Company</td>
<td></td>
</tr>
<tr>
<td>WPP Group PLC</td>
<td></td>
</tr>
<tr>
<td>Yahoo! Inc.</td>
<td></td>
</tr>
</tbody>
</table>
What we know about marketing ROI

- Still lack of consensus on metrics of ROI, but …

- Advertising *works* in the aggregate
  - Relative ad spend correlates with increase ROI
  - Relative ad spend correlates with increased market share
  - Advertising creates—and promotions erode—firm value
    - Wall Street rewards marketing/ad spend > promotions
    - Marketing stabilizes business outcomes—lower Beta (stock volatility) translates into lower risk and cost of capital

- Can we *disaggregate* effects to improve marketing mix effectiveness and efficiency?
  - Distinguish short-term vs. longer-term effects
  - Isolate impact of specific elements of marketing mix
  - Measure resulting customer lifetime value (CLV)
Ad spend drives ROI and market share

Impact of Advertising Spend

Percent ROI/Mkt Share

Relative Ad Spend
(3 = Average)

(Average ROI)

(Average Market Share)

(Source: Analysis of PIMS (Profit Impact of Marketing Strategy) data by Ogilvy Center for Research and Development, San Francisco, 1987)
The shift from product focus to customer equity

“Business success is based on customer relationships; however, because customer equity is difficult to measure, many companies continue to focus on metrics that capture product-based strategies rather than metrics that capture customer-based strategies”

Return on marketing (%) = \[ \frac{(CE - E)}{E} \times 100 \]

CE = Customer equity (customer lifetime value X no. of customers)
E = Marketing expense (acquisition cost)

(Source: Rust, Lemon, and Zeithaml)
CE depends on acquisition & retention

(Source: Yoo and Hanssens)
Modeling marketing effects

Sales model

Marketing Mix
- Brand switchers
- Repeat purchasers

CE model

Marketing Mix
- Brand Switchers
  - Lost prospects
  - Acquisition rate
- Repeat purchasers
  - Lost customers
  - Retention rate

Effectiveness

Efficiency

(Source: Yoo and Hanssens)
Segment by CE before ROI evaluation

<table>
<thead>
<tr>
<th>Share of requirements</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Grow category buy rate</td>
<td>Retention</td>
</tr>
<tr>
<td>Low</td>
<td>X</td>
<td>Grow loyalty</td>
</tr>
<tr>
<td>Zero</td>
<td>X</td>
<td>Grow penetration</td>
</tr>
</tbody>
</table>

Marketing ROI is *relative* to opportunity for each type of customer

Compare share of requirements (share of wallet) with category purchase behavior to segment customers

Strategy (and thus ROI) will vary by current CE
Using CE for EE program evaluations

- Puts EE into appropriate *competitive* context
  - Two “brands” – EE vs. Not (less) EE
  - Not choosing EE is lost opportunity until next buying cycle
  - Choosing EE creates CE towards future EE choices

- Customer lifetime value (CLV) measures EE savings won (lost) over lifetime of a consumer
  - Target best opportunities, assess ROI by segment
  - Put focus on transforming attitudes (and thus markets) rather than one-time purchase or participation
  - Move marketing mix away from short-term impact of promotions toward long-term impact of EE brand building
  - Shift evaluation from discrete product saturation *only* to both “hard” and “soft” measures
CE case study: Auto marketplace

(Source: Yoo and Hanssens)
Decomposing dynamics of this market

(Sales from existing customers)

(Sales from new customers)

(Source: Yoo and Hanssens)
Decomposing dynamics of this market

Retention rate

Acquisition rate

(Source: Yoo and Hanssens)
Decomposing dynamics of this market

(Source: Yoo and Hanssens)
Impact on CE of promotions vs. ads

- Acquisition (A) response to the marketing mix
  - Successful offense
    - (“Buying mkt. share”)
    - CE increases with mktg.
  - Ineffective offense and defense
    - CE decreases with mktg.

- Retention (R) response to the marketing mix
  - Successful offense and defense
    - CE increases with mktg.
  - Successful defense
    - (“Free riders”)

(Adapted from Yoo and Hanssens)
Impact on CE of promotions vs. ads

- **For Lincoln**
  - Promotions increase sales and retention (of *existing* customers), so appears successful by traditional sales model
  - However, promotions are *not* attracting *new* customers, so are *not* successful from a CE perspective
  - Lincoln is *paying* existing customers to remain “loyal”
    - “Leaving money on the table” (if some would buy anyway)
    - Analogous to “free rider” problem for EE programs
  - Ads increase sales less, but CE more, than promotions

- **For BMW**
  - Promotions and ads have more balanced impact on both acquisition and retention
CE and word-of-mouth (WOM) mktg.

- How customers are acquired can affect their short- and long-term value through:
  - Direct benefits
    - Greater loyalty and (re)usage (revenues, EE savings)
    - Less cost to serve
  - Indirect benefits
    - Positive WOM
    - Social and technology network effects
- Two MSI studies find that customers acquired through WOM marketing have greater CLV than those acquired through advertising or promotions
Study 1: Web hosting company

- Observed usage during transition from free to paid web hosting to predict willingness to pay

  - “Marketing induced” customers via online banner ad, TV, radio, print ads, e-mail links, direct mail

  - “WOM” customers via links from other web sites, print articles, referrals by colleagues, friends, associations or search engines

- Customers acquired through WOM show
  - Less initial value than “marketing induced” customer, but
  - Greater willingness to pay subsequently
  - Greater WOM recruitment of additional customers
  - Thus, greater CLV

(Source: Villanueva, Yoo and Hanssens)
Study 2: Online banking

- Value (profitability) of a lost customer varies by
  - **Defection** (to a competitor) *vs.*
  - “**Dis-adoption**” (of the new technology altogether)

- Impact of WOM is greatest in early stages of adoption of a new technology

- CLV metrics should include value of early adopters

- Companies should focus on **retention** from outset

(Source: Hogan, Lemon and Libai)
Speculations: EE, WOM marketing and “the strength of weak ties”

- Your friends and family love you ... but casual acquaintances can help you find your next job!
  - Mark Granovetter’s classic study found that most job referrals came through “connectors” linked to other networks

- By analogy, the “credibility” of WOM may be overvalued if WOM potential is greatest for
  - “Weakly” understood phenomena (puzzles) that are
  - “Just mentioned” (not endorsed) to acquaintances
The strength of weak ties
How do you get a job?

Who’s hiring “out there”?

Shared networks/knowledge

Value for job search

Weak ties

No ties

Strong ties

Low
What gets “mentioned”? 

WOM value

(Not on radar)

“Puzzle”

“Goes without saying”

Low

Familiarity/Understanding

What’s this (and does it work)?
Who gets told?

WOM value

 Weak ties

Low Shared circumstances/assumptions (Implied endorsement)

No ties Ingrown
Implications for EE marketing and program evaluation

- Traditional EE evaluation is *product*-centric
  - Market penetration/share of EE appliances
  - Short-term sales results only *(if available!)*
    - Biased toward impact of promotions (rebates) > advertising
    - Not a good measure of market (consumer) transformation

- Move to *customer*-centric ROI metrics/evaluation
  - Focus on Customer Equity (*competitive* acquisition/retention)
  - Note short- and long-term effects
  - Assess market transformation at level of consumer understanding/attitudes (Customer Lifetime Value)
  - **How** customers are acquired matters
    - WOM customers may be more valuable long-term
    - WOM credibility may be greatest among friends (strong ties), but messages (“puzzles”) *propagate* along networks of weak ties
References


Julian Villaneuva, Shijin Yoo and Dominique Hansssens, “The Impact of Marketing-Induced vs. Word-of-Mouth Customer Acquisition on Customer Equity.” *MSI Report* (Forthcoming)


Source: Villanueva, Yoo and Hansssens (MSI Working Paper, Forthcoming)