

Measuring ROI in the Brave New World of Customer Management by Bryan Pearson

Marketing is often the largest expenditure in an organization, so naturally it comes under close scrutiny from those tasked with measuring accountability. When carried out effectively, marketing measurement should be able to establish a cause-and-effect relationship between areas of investment and business performance. But the return-on-marketing-investment equation is not always as simple as measuring sales, costs and profits. Today's CMO is not responsible solely for cost management; he or she likely oversees customer experience management, brand equity building and product innovation, all of which are harder to quantify on the balance sheet.

So how has life changed in the brave new world of customer management? First of all, customer data is king – and there's lots of it. But while many marketers express disappointment with the quality and timeliness of available data, this may not be the most serious barrier to measuring ROI. The real problem is that as companies struggle to gain insight into their customers, data is being generated and collected in volumes far beyond our ability to consume it.

The appetite for information continues to grow in most organizations, and every request for new data begs several more. Yet often it seems the more data we have, the less we know. Customer data only has value when it can be mined for actionable insights and applied to business decision making. On the other hand, when an organization is drowning in data, there is no boost to either financial or customer performance.

The rise of customer management has changed the role of marketing. In customer-centric organizations, marketers guide the evolution from brand awareness to advocacy, along with every customer experience, touch point and channel in between. Each of these activities has its own set of metrics to assess continued spend-in-brand, channel development and experience management. And all of the associated satisfaction measures, engagement scores and attitudinal shifts are indicators of performance. But can they really be linked to the bottom line?

Tried and true campaign measures are likewise not up to the task of gauging ROI in the new world. So it is not surprising that both CMOs and CFOs find themselves struggling to link customer activity with marketing effort, and in turn with financial performance. Customer-centric ROI measures, while new and evolving, are still most useful when tied back to established revenue, sales and cost measures. The good news is that retailers are beginning to have some success in meeting this challenge. Many are finding they can work back from traditional retail sales measures, such as comp store sales, and link them to customer lift activity in calculating required marketing investment. For many non-retail categories, however, it is difficult to put a price on shifts in customer activity.

This brings us to segmentation and the role it can play in marketing measurement. Too often customer segments are used simply to target markets or map out communications strategies. But increasingly, segments are also gaining favor as financial performance measures. If a customer segment is designed to



AllianceData.

LoyaltyOne

438 University Avenue, Suite 600
Toronto, Ontario M5G 2L1
416 228-6500

loyalty.com



capture basic metrics such as spend, cost and margin, and at the same time is predictive of future customer activity such as LTV, there is a solid basis for linking financial and customer measurement. This new discipline of “predictive” accounting is far more effective than traditional “descriptive” accounting measures when it comes to making marketing investment decisions.

Here is where the CFO should sit up and take notice. Customer activity measures lift the fog on the results of individual campaigns and can be more easily tied to the overall corporate outlook. For customer-focused companies, therefore, segment activity and migration should move up the ranks to become key indicators of today’s performance and predictors of tomorrow’s profitability.

So where do we find ourselves today? Embracing the new world of customer management means handling unprecedented amounts of data, developing more imaginative approaches, integrating a wide array of strategies and taking into account multiple customer dimensions. In this complex environment, there is no silver bullet that solves the marketing ROI challenge.

Nevertheless, it’s clear that wherever customer behavior can be quantified, it yields more telling, actionable and accountable metrics than traditional methodologies. The marketing universe has changed, and the ROI focus must now be on behavioral measures. As this evolution continues, new data sources, technologies and tools will make it possible to manage a marketing dashboard that tracks programs in real time on a global scale, reporting results that drive operational effectiveness and facilitate speedy decision making. So for marketers, the brave new world – with all its measurement challenges – is unquestionably an exciting and rewarding place to be.

Bryan Pearson is President of LoyaltyOne and Canada’s AIR MILES Reward Program. He can be reached at bpearson@loyalty.com



AllianceData.

LoyaltyOne

438 University Avenue, Suite 600
Toronto, Ontario M5G 2L1
416 228-6500

loyalty.com