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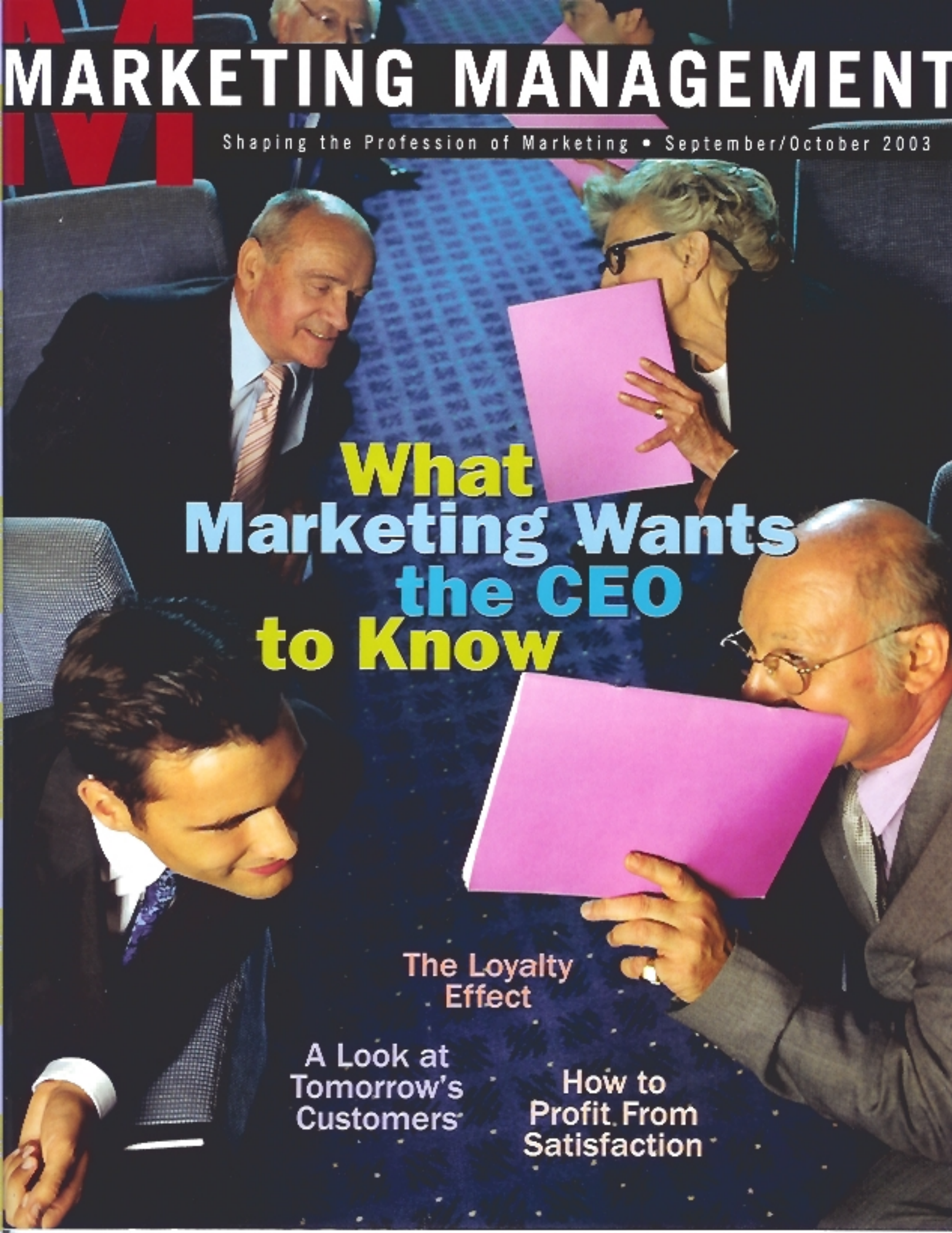

What Marketing Wants the CEO to Know

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From the editor

Corporate executives are always on the lookout for a better way to measure the effect of their business strategies. In our lead article, Ross Goodwin and Brad Ball integrate business and marketing metrics, showing the benefit of the marketing metrics side of the equation. They also point out that before 1996 and Fred Reichheld's book, *The Loyalty Effect*, most companies focused on acquisition of customers. Reichheld and others fostered a sea change in management thinking, and suddenly the focus shifted to customer retention. Now after nearly a decade in the loyalty/retention camp, Goodwin and Ball are advocating an alternative view that they believe will better balance customer acquisition with customer retention.

In another article, Reichheld, along with co-author Christine Detrick, reasserts the positive impact that loyal customers have on profitably. It might appear that both sets of authors have some conflicting ideas, but that's not the case. Goodwin and Ball point out that if your company has low market share, then retention strategies alone won't make you successful. Rather, your best efforts should be spent on acquiring new customers and beefing up market share. They say that your strategies must depend on your market share. If you have a 50% market share, then you had certainly better employ techniques and strategies to hold onto that 50%!

A common thesis here is that in the end what you really want to do is reduce customer churn. Whether you're in customer retention mode or acquisition mode, you need to eliminate those customers that come and go and the high costs that accompany them.

How many businesses today really do understand customers? We addressed this topic last issue, but here we're focusing on the cost of failing to pay attention to this key metric. Authors David Swaddling and Charles Miller say the typical customer satisfaction measurement/customer relationship measurement programs that are supposed to be contributing to customer retention are not doing their job. And, as has been pointed out by Reichheld and others, satisfied customers aren't necessarily loyal customers. Swaddling and Miller emphasize segmentation and targeting and advocate understanding how customers think and make purchase decisions. Glynn and Jones have another take on the problem. They suggest a method of constant market testing where your understanding of how to optimize treatment of customers continues to evolve.

In the end, the costs to companies of ignoring the metrics discussions and debates will only lead to mediocre performance at best and total failure at worst.

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What Marketing Wants the CEO to Know

It's time for marketing to step out of the shadows and trumpet its achievements.

BY ROSS GOODWIN AND BRAD BALL

Stung by the customer acquisition frenzy of the late 1990s, today's businesses are playing it safe by focusing their marketing efforts on existing customers. This customer loyalty mantra—first espoused by Frederick Reichheld—appears even more attractive in the face of the current morbid economy.

Yet new evidence, including Werner Reinartz and V. Kumar's "mismanagement of loyalty" research, suggests that loyalty shortsightedness is detrimental to business health. The link between loyalty and profits is weaker than expected, and the justifications for investing in loyalty programs may crumble upon examination.

While there's still great merit in promoting loyalty, the key to business success lies in creating a balanced marketing strategy that supports both customer retention and customer acquisition. Superiority in one area can't overcome a deficiency in the other. The sum of both provides breakthrough market share and the growth that CEOs expect.

To that end, we've created a business success model that can help CMOs develop and implement their marketing strategies. This holistic method integrates corporate branding, category communications, and

EXECUTIVE briefing

If you ask senior executives what constitutes business success, profitability and growth are likely to be top of mind. Ask them to define the role of marketing in that success and the question is likely to be met with shrugs or blank stares. Yet marketing is a key contributor to profitability and growth—more so than generally acknowledged. To help CMOs establish a voice at the CEO's table, this article outlines a framework that directly links marketing to the bottom line and clearly quantifies its impact on both customer acquisition and retention.

category experience management into a single framework that allows CEOs to assess and optimize the impact of marketing on bottom-line growth.

Acquire or Retain?

Over the past few months, only a few courageous business leaders, including Hewlett-Packard (HP), FedEx, and Cisco, have launched aggressive marketing plans to attract new or former customers. Their reasoning is simple. Their categories are mature, and their offerings are commodities. Since customer loyalty metrics are equal among equal foes, these companies must shift to a business success model that generates and retains customers.

In evaluating the effectiveness of their efforts, these organizations are likely to do what many others have done: pursue closed-loop CRM programs that reduce marketing waste and deliver short-term ROI. Our goal, however, is to initiate *long-term* measures of business success and answer the question, "Is my marketing spend improving my revenue growth and market position?" This requires an entirely different thought process—one that takes marketing to a new level.

Business success in the marketplace begins and ends with customer acquisition and retention. Once a company is able to produce a steady stream of competitive products that meet market needs, three domains (branding, marketing, and customer experience management) drive its gains in customer acquisition and retention. (See Exhibit 1.)

While branding and marketing focus primarily on customer acquisition, they also aid customer retention by communicating a lack of superior alternatives. Likewise, customer experience management is targeted at customer retention, yet it can lead to positive word-of-mouth that influences customer acquisition. To achieve marketplace success, all three domains must be seamlessly integrated.

Most companies, unfortunately, place these functions in silos, with little alignment or coordination. In cases where the domains are integrated—such as companies like HP—the question of resource allocation remains. CMOs find themselves asking whether customer acquisition (branding and marketing) or customer retention (customer experience management) is more important.

Before 1996, the answer for most companies was "acquisition." However, since the publication of Reichheld's *The Loyalty Effect* (Harvard Business School Press, 1996), there's been a sea change in senior management thinking. Today, it's widely believed that a single-minded focus on customer retention is the most significant factor in business success.

Consider the following, however. A firm with 50% market share has the same number of customers as non-customers. Therefore, the revenue impact of a 1% change in the company's customer acquisition rate equals the revenue impact of a 1% change in its customer retention rate.

Contrast that with a firm that has a 16.7% market share, or five times as many non-customers as customers. A 1% change in the customer acquisition rate has five times the revenue impact of a 1% change in customer retention. Similarly, a firm with 12.5% market share has seven times as many non-customers as customers, so the effect of a 1% acquisition change is seven times greater than that of a 1% retention change.

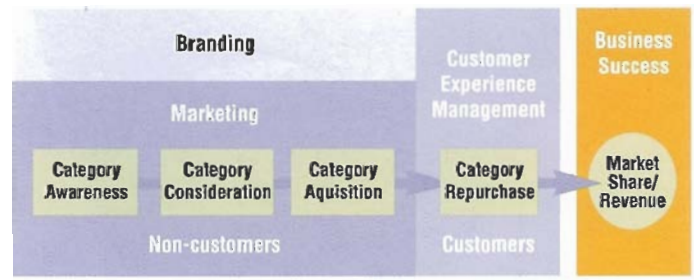
This is particularly telling for those who subscribe to Reichheld's belief that acquiring a customer is five to seven times more expensive than retaining one. While the acquisition investment may indeed be greater, depending on the company's market share and cost structure, the potential payoff may be worth every penny.

Clearly, the 12.5% and 16.7% market share firms should invest more heavily in customer acquisition than retention. Furthermore, since most organizations have smaller market shares than those represented in our examples, the surprising conclusion is that most companies should follow suit. (i.e., invest relatively more in customer acquisition than in retention).

Linking marketing to revenue. Does our analysis mean that Reichheld is mistaken and businesses should abandon

Exhibit 1

Acquire or retain?



customer retention? Absolutely not, customer loyalty will always be vital to business success. However, CMOs must remember that the acquisition tools of branding and marketing are equally vital and often more important. A deficiency in branding or marketing cannot be overcome by superior loyalty. Nor can superior branding and marketing compensate for loyalty deficiencies. Market leadership is driven and maintained by exceptional strategy and tactics across all three domains.

Hence, a strategy that balances the procurement and preservation of customers is necessary for business success. (For some new thoughts on how to procure and preserve customers see Reichheld and Detrick's contribution on page 24.)

Nonetheless, for most product lines, capturing new customers is more important than sustaining existing ones. Marketing is the predominant force driving this requisite customer acquisition, and its goal is to instill or alter the perception of value in a particular product category, driving the customer to make a purchase. Firms that communicate superior product value achieve higher acquisition and retention rates than their competitors.

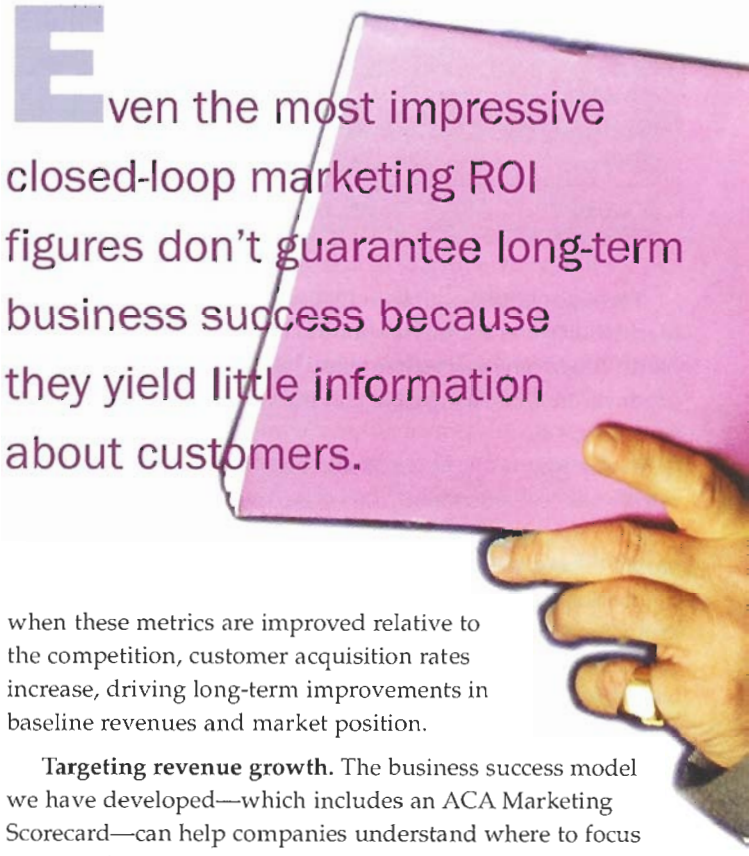
As mentioned earlier, the ROI of marketing—in particular, outbound marketing—is often measured via the standard metrics of "closed-loop marketing," a component of CRM. These metrics include lead-to-sale conversion rates, cost per impression, cost per qualified lead, and so on. Although a robust discipline, closed-loop marketing emphasizes short-term results, usually involving monthly or quarterly sales improvements. Most companies employ this approach to ensure that marketing campaign budgets are wisely spent. However, these campaigns generally have a brief time frame and, when the program ends, sales return to their normal baselines.

Even the most impressive closed-loop marketing ROI figures don't guarantee long-term business success because they yield little information about customers. While a company's short-term revenue may improve, its long-term market position may remain unchanged. A business with exceptional short-term ROI can still linger in last place in the market. Furthermore, closed-loop marketing metrics don't provide the strategic insight necessary to outgrow and outpace the competition.

There are competitive marketing strategy metrics that can be used to drive customer acquisition and measure long-term success in areas such as market leadership, market share, and revenue growth. However, most companies neglect them. These metrics, first introduced in the 1960s, have traditionally included awareness, consideration, and preference (ACP) rates. In our model, we have replaced preference with acquisition, employing a proprietary acquisition measurement process that directly links our metrics to revenue growth. Why are awareness, consideration, and aquisition (ACA) metrics important? Consider the following:

- If customers aren't aware of you, they can't consider you.
- If they don't consider you, they can't purchase from you.
- If they don't purchase from you, they can't experience your competitively superior services.

Any deficit in this cause-effect chain will reduce market share and revenue relative to the competition. Alternatively, when these metrics are improved relative to the competition, customer acquisition rates increase, driving long-term improvements in baseline revenues and market position.



Targeting revenue growth. The business success model we have developed—which includes an ACA Marketing Scorecard—can help companies understand where to focus their marketing programs in order to achieve maximum sales growth. The scorecard is designed to quantify the impact of marketing on a specific product category, thereby enabling CMOs to set targets for improvement.

Exhibit 2

Targeting revenue growth

ACA MARKETING SCORECARD Product Category Programs

Company	Category Awareness	Conversion Rate	Category Consideration	Conversion Rate	Category Acquisition	Category Repurchase	Market Share/ Revenue
Company A	84%	63%	53%	31%	16.7%	73.1%	38.4%
Company B	69%	30%	21%	27%	5.7%	61.1%	12.8%
Company C	57%	28%	16%	26%	4.1%	54.9%	8.3%
Company D	58%	23%	13.5%	24%	3.3%	54.3%	6.7%

Exhibit 3

Allocating marketing spend

GBU Products-Service Category	Incremental Revenue	Incremental Profit
PLA-AP-	$24,989	$8,824
PLB-LAR	$11,167	$2,323
PLA-EUR	$12,769	$868
PLC-EUR	$6,365	$573
PLC-NA	$4,594	$519
PLA-LAR	$3,059	$257
PLC-AP	$2,968	$243
PLD-EUR	$315	$123
PLD-NA	$342	$121
PLD-AP	$86	$30
PLD-LAR	$67	$25
PLC-LAR	$561	$22
PLE-NA	$237	$17
PL XXX-XX	$123,921	$-6,072

The real-world example in Exhibit 2 on page 21 offers ACA Marketing Scorecard metrics for the top four suppliers in a North American high-tech market. Within this marketplace, products are interchangeable and there are no barriers to switching.

In any row, multiplying "awareness" by the conversion rate yields "consideration." Likewise, multiplying "consideration" by its conversion rate yields the acquisition rate. As you would expect, the scorecard metrics decline as you move from the market leader to the market laggard. A change in the acquisition rate predicts a subsequent change in a company's market share (all other factors being constant).

Every firm's situation is different, but when our scorecard was applied to company D, a 1% increase in the company's acquisition rate yielded a 1.9% increase in its market share and a corresponding 28% increase in revenue. Alternatively, a 1% increase in company D's retention rate yielded a mere 0.13% increase in market share and only a 2% upturn in revenue.

As is the case for most businesses, improving the acquisition rate—the goal of marketing—has a far greater impact than improving the retention rate. Moreover, an increased acquisition rate can also lead to an increased retention rate, as we will observe later.

Company D's fourth place position is not due to inferior loyalty (retention rate), but to inferior marketing (acquisition rate). But where does the weakness lie? Is there a deficiency in awareness? In consideration? Or in conversion to acquisition? A comparative glance at the ACA metrics indicates that company D's biggest deficit is in the consideration rate—13.5% vs. 53% for the market leader. If that rate remains constant, company D would have to increase its consideration rate to 18.3% just to raise the acquisition rate by one percentage point. This would require corresponding increases in the awareness and awareness-to-consideration conversion rates—which is where company D should focus its marketing efforts.

The ACA Marketing Scorecard can help you optimize marketing spend and focus your marketing programs by revealing the marketing areas that will yield maximum sales growth. Furthermore, the scorecard's highly specific metrics enable you to monitor the progress of individual target areas, providing an understanding of the impact (or lack thereof) of marketing activities on revenue growth.

While our example is centered on "product category," ACA Marketing Scorecard metrics should also be tracked by market segment, geography, and competition to provide a complete understanding of the marketplace.

Applying ACA metrics. Although ACA Marketing Scorecard metrics indicate areas of strategic focus, they're not designed to provide tactical advice. For example, we don't know why company D's consideration rate is low or what the company should do about it. Supplementing the scorecard with qualitative research can result in these answers. Why do customers prefer certain suppliers? How did they arrive at their preferences? What sources of information were used? The responses will help determine the specific marketing messaging that company D needs to develop and communicate. Once the campaign is under way, the ACA Marketing Scorecard can be used to track its long-term success.

Allocating marketing spend. The ACA Marketing Scorecard can also be used as a strategic planning tool when allocating marketing dollars across regions and product lines. Once the link between scorecard metrics and revenue has been established, it's easy to determine how revenue will be affected by an incremental change in the customer acquisition rate.

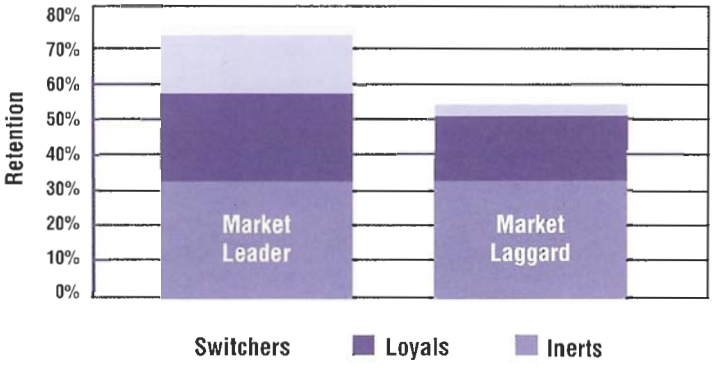
In Exhibit 3, we have outlined the revenue impact of marketing programs that increased a technology company's acquisition rates by 1%. The revenue increase averages 6% across all product lines. However, for some products, the profit impact is small or non-existent—or the profit remains negative. In these situations, the CMO must determine if the marketing programs are worth continuing. He or she might also consider allocating a heavier portion of marketing dollars to the products that represent the greatest bottom-line influence. In either case, it's obvious that a uniform investment in marketing spend across all product lines and regions is not the strategy for maximal bottom line growth.

Additionally, the marketing scorecard can be used by enterprises that deploy multiple, diverse strategies for mature, growth, and emerging markets. While the CMO may decide each segment's relative marketing investment a priori, the scorecard can help marketing ensure optimal investments within each segment.

Measuring branding campaigns. As companies around the world jump on the brandwagon, they need to determine the impact of their corporate branding campaigns on business success. However, branding campaigns typically encompass a

Exhibit 4

The nature of loyalty



wide range of disparate products, services, and geographies. Consequently, measuring their impact is difficult and/or limited to a broad-brush approach. The marketing scorecard offers a focused alternative that's simple and intuitive.

With the scorecard, corporate branding campaigns are considered "successful" only to the extent that they tilt customer choice in favor of the company. The scorecard's metrics enable you to directly measure that "tilt" on a product-by-product basis across all regions. If the metrics—in particular, customer acquisition—don't improve for at least some product or service categories, then the corporate branding campaign isn't enhancing business performance.

But what if the goal of the branding campaign doesn't involve performance? What if the goal is softer, for example, to position the company as "easy to do business with" or "innovative"? The financial worth of these goals can also be measured. The first step is to chart the campaign's impact on the ACA metrics of each regional product and service category in each segment. Once the impact is determined, our framework can be used to link the ACA metrics to the company's bottom line, thus measuring the branding campaign's incremental effect on revenue, in the aggregate or by product line.

Obtaining insight into the nature of loyalty. Finally, ACA Marketing Scorecard metrics can be utilized to provide insight into the nature of customer loyalty. When examining the behavioral loyalty of customers, three segments are employed:

- The Inerts—who can't be bothered to switch
- The Loyals—who generally remain faithful to a company
- The Switchers—who switch whenever they perceive a superior offering

Exhibit 4 employs these segments to delineate the customers of company A and company D introduced in our earlier example. It's not surprising that the market leader (A) attracts a greater number of "Switchers" than the market laggard (D). The leader is also more likely to retain these mercurial customers, since they see nowhere else to go. (This is directly related to the well-known "double jeopardy" effect, wherein companies with smaller market share also have a smaller percentage of retained customers.)

In addition, the market leader has a slight edge in the "Loyals" segment, due to a superior post-sales customer experience. This pattern repeats itself in all of the markets we observed. This leads us to conclude that company A's market leadership is not the result of the post-sales experience, but rather of a vastly superior perception of value. As we stated in our article in the Spring 1999 issue of *Marketing Management*, firms that create and communicate superior value have higher customer acquisition and retention rates than their competitors.

A Voice at the CEO's Table

Through the ACA Marketing Scorecard, today's CMO is able to directly link marketing's efforts to revenue and company growth. Properly created ACA Scorecard metrics provide the missing financial link between the language of marketing (brand awareness, attribute recognition) and the language of senior management (revenue growth and operating margin).

Consequently, marketing is able to gain a voice at the CEO's table—and to clearly articulate its reason for being there. By leveraging the scorecard metrics, marketing can prove that it's essential not only to acquiring new customers, but to preventing erosion in the existing customer base.

While marketing's impact in the former area is widely known, its role in customer retention is less recognized. Yet marketing programs and activities can have a dramatic effect on current customers by continually tilting their perception of value toward the firm. Therefore, solidly constructed long-term marketing programs and activities can meet a dual need: They can entice new customers and reassure those already in place.

While a balanced approach between customer acquisition and post-sales "customer experience management" is highly recommended, our work demonstrates that an emphasis on the former strategy over the latter will grow revenue much more quickly.

As marketing continues to play a significant role in business success, regularly using the ACA Marketing Scorecard can validate its impact. Scorecard metrics can be used to sharpen business planning and competitive strategies, to allocate marketing dollars in a more precise manner, and to monitor the effectiveness of marketing investments.

As a result, marketing can be directly aligned with the issues that keep today's executives awake at night—revenue performance and growth. CEOs will be able to recognize the true ROI of marketing, finally welcoming marketing to their table and insisting on a return invitation. ■

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