WebTrends®

Focus on Results

THE ESSENTIAL GUIDE TO WEB ANALYTICS

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CHIEF Marketer™

FOCUS ON RESULTS

THE ESSENTIAL GUIDE TO WEB ANALYTICS

Foreword

by **JASON PALMER**
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Web Analytics is the Foundation for Proving and Improving Your Marketing Performance

In the rapidly changing world of marketing, how can you turn challenges into opportunities? How can you make sure that your message is reaching the right audience and your marketing initiatives are meeting performance goals? The answer is simple: the web. Today, it's a given that the web must be at the center of your marketing strategy: it's the medium that lets you maximize the measurability and relationship building efforts of your business.

But in order to take advantage of the power of the web, you need the right solutions in place to unlock the information it holds in store for you.

Profitably Acquire New Customers

Search marketing has emerged as one of the most effective channels for reaching potential customers. According to Forrester, paid search spend is expected to grow from $7B in 2006 to $11.5B in 2010. But search is complex as well. Managing an increasing number of

keywords across different networks means you need to profitably scale your paid search investment. It's also important to determine the impact search has on your offline demand. This guide will show you some of the ways your search marketing efforts can be measured against offline results.

Measure and Optimize for Success

It's important to measure Key Performance Indicators (KPIs) consistently—you need to have a common language to communicate across your organization to drive towards the same goals. It's also vital to measure all of your campaigns together, whether you're measuring a pay-per-click keyword buy on a search engine, an email campaign, a banner ad and so on. Consolidating performance data driven by multiple channels into a single consistent metrics framework lets you make decisions with confidence. We'll provide best practices for developing consistent KPIs and integrated metrics so you can get an accurate picture of which marketing efforts are performing well—and which ones aren't.

Strengthen Customer Relationships

Finally, the web affords the ability to target your customers more effectively. Until now, data has been largely aggregated and impersonal. That's all changing—smart marketers are making the most of clickstream analysis to segment their customers and create customized email marketing campaigns that resonate with them. They're providing better customer service by understanding the visitor behind each visit, and developing targeted online and offline marketing programs based on the preferences of their customers. In this guide you'll learn the trends in developing loyalty strategies that improve retention, and ideas for using customer insight to optimize your marketing performance.

So as you're reading through the guide, consider how your organization uses web analytics to improve your online channel as well as your overall marketing results. Marketing analytics can have a dramatic impact on the success of your organization. For Virgin Atlantic, it meant increased visibility into KPIs through desktop alerts. For Designer Linens Outlet, it meant reducing cookie rejection by 97.3 percent. For ShopNBC, it meant an increase in net contribution margin of over 400 percent. What can marketing analytics mean for you?

Enjoy the Guide

WebTrends is proud to partner with *Chief Marketer* to develop this guide and we share in their mission to provide innovations and solution that can help you make critical connections between multiple marketing disciplines. We've pulled together these outstanding articles on web analytics and results-focused measurement in order to give you the insights you need to succeed in the changing marketing landscape.

Brand Metrics: Which Ones Should You Track?

by **RAY SCHULTZ**

October 20, 2006

What causes you to wake up at 3 a.m. in a sweat?

For marketers, it may be response rates and clickthrough rates.

For CFOs, it's cash flow and net asset value.

Guess which one has the scarier dreams?

Sadly, too few marketers understand what drives CEOs and CFOs, and they often find their budgets being used as slush funds—or worse.

Case in point. A woman at a Texas company tracked open and clickthrough rates, awareness and lead ROI. But she was fired, said Laura Patterson, president of VisionEdge Marketing, speaking at the Promo Live conference in Chicago.

"I didn't understand what impact she was having," the CEO told Patterson. "She gave me all kinds of numbers, but I didn't understand how to translate that information into how it was affecting our business."

Patterson added: "We have to make a connection between the work we do and the revenue the company produces."

CFOs are interested in efficiency, but Patterson argued that at some point "you are as efficient as you are going to be." That means you have to be able to document growth.

She noted that a colleague of the fired exec survived by tracking trial rates, adoption rates and category growth rates.

Based on her firm's research, two-thirds of all marketers do not include metrics in their marketing plans.

"That's scary," she said.

Moreover, only l8% measure share of wallet, and even less report it regularly to management. A mere 10% measure customer lifetime value.

And yet those are the very metrics that might allow them to prove that they are moving the needle.

And if they fail to stop putting out spreadsheets with 200 tactical metrics on them?

"The marketing discipline will fade away and we will be left reporting into two organizations: finance and sales," Patterson said. "It's happening in some companies."

So what do you track?

In short, everything. But stick to the things that will move the business/sales needle when reporting to C-level executives.

Activity based metrics are not going away. But operational metrics are "where we get to change the conversation, and become strategic member of team," Patterson said.

For starters, a company might measure leads per rep, lead aging, campaign ROI, the program-to-people ratio, cost per billing dollar and program spend vs. headcount. All those will impress a CFO.

Next, try these on for size:

1. The number of share determiners (customers that others follow). This should be done by segment.
2. Average lifetime value
3. Size of deals
4. Customer attrition rate
5. Number of deals per segment
6. The percentage of demand per channel

From that, start building models and track leading indicators like:

1. Share of preference
2. Share of wallet
3. The number of share determiners per segment
4. Net advocacy
5. Customer franchise value
6. Your rate of growth compared with the market's rate of growth
7. Market value index.

Predictive metrics are the final frontier, Patterson noted. But she warned that "you have to believe in integrated marketing for this to work. It's not about one ad."

She added that marketing people should be compensated based on performance. They should own their programs.

Want to build a marketing dashboard? Make sure it includes the following:

1. New business metrics
2. Competitive metrics
3. Customer value metrics
4. Overall net advocacy score.
5. Market value index
6. Product information

A good dashboard should show how marketing is moving the needle, help assess what is and isn't working and foster decision-making. It should also produce a unified view into marketing's value and enables better alignment between marketing and the business.

Want some more metrics to dice? Patterson offered these.

Market Share Indicators:

- Share of preference
- Share of voice
- Share of distribution
- Rate of customer acquisition
- Rate of growth: market

Lifetime indicators:

- Purchase frequency
- Share of wallet
- Advocacy/loyalty
- Tenure

Brand equity indicators:

- Price premium
- Net advocate score
- Customer franchise value
- New product acceptance/adoption rates
- Product margins

Meanwhile, Pamela J. Batalis, who runs the MarketKeys agency, urged listeners to focus on "behavior, not stated intent." She also said that brand equity metrics must be viewed through "predictable, validated lens."

Batalis added that brands must engage consumers through "any media touchpoint that results in brand equity."

And she noted that sales are the only truly meaningful measure. People said they loved Krispy Kreme donuts a few years ago, but that didn't mean they would drive out of their way to a Krispy Kreme shop, Batalis recalled.

"If awareness is your be-all and end-all, you've got a long way to go," she said.

Analytics in Perspective: Keep It Simple and Relevant

by **LANE MICHEL**

September 9, 2006

Sudoku got bigger last month.

You may not have been able to carry on your toothpaste or drinks on your last flight, but many tried out sudoku puzzles or helped the person next to them work the solutions. (One reader asked me to tell everyone to please get his own sudoku book or software.)

One of the successful techniques for quickly solving sudoku puzzles is to test the relevance and appropriate usage of logical solutions and then project the "impact" on the entire puzzle. That's simply how you get customer and data-driven analysis with the numbers you have today.

Relevance

The key to ensuring that analytics is relevant is to fully align the techniques, tools, and data you use with the business problem you are trying to solve. Applying a state-of-the-art technique to an issue that would be better addressed using a more straightforward approach is making the means more important than the end. It's ineffectual.

One leading national bank was grappling with customer-retention challenges as well as potentially big opportunities in customer acquisition. Its internal analytics team was advocating the application of multiple advanced techniques, some of which had not been proven in that environment before. The approach could best be described as "this is a big, hairy, important problem requiring impressive analytics." The executive was skeptical and overwhelmed. Would he ultimately get an answer that was technically elegant but of little practical value?

Our approach was to 1) quickly understand the business challenges and opportunities, 2) use simple and proven predictive modeling techniques, 3) add a dashboard depiction of results that the executive's team could use to track progress and learning, and 4) recommend specific strategy and tactics to target the right customers for retention and acquisition. By proposing a simpler but more relevant and aligned approach, we ensured that relevance drove results:

- Assisted in identifying an $89 million yearly direct mail "mover" retention opportunity for the bank
- Doubled direct mail response rates
- Enabled testing and learning for more focused customer and prospect targeting

Impact

At its heart, predictive modeling is about enabling prioritization among poor, marginal, and superior marketing investment opportunities for topics such as customer relationship development. Key to making that happen is the ability to effectively deploy analytic techniques that produce measurable impact.

A multinational hotels company had historically engaged in a one-size-fits-all approach to marketing even though it had very rich data on customer stay patterns. It was considering many analytic techniques and direct marketing tactics to unlock the potential in stay patterns. We conducted a very tightly scoped and rapidly executed analysis that involved highly focused predictive modeling techniques to put attention only on the most important insights from its customer data. The impact was quick and sharp:

- The stay-propensity models ranked the hotel's guests in terms of following-year stay potential.
- The models predicted that focusing on approximately 20% of hotel guests would address almost 90% of the five-plus stay opportunities in the following year.

This kind of actionable and high-impact insight represented a revolution for our client, which acted quickly to use our models to capitalize on this opportunity. Marketing spend was shifted and performance was better than ever.

Usage

Appropriate usage of analytics techniques is a key part of achieving the kind of impact demonstrated above. Used properly—meaning based on a thorough understanding of the business opportunity combined with the right data selection and preparation—analytic techniques can create huge opportunities. Used inappropriately, these sophisticated approaches lead to a lot of wasted time and, worse, potentially misleading business direction.

We recently worked with a travel organization whose analytics-based approach to customer retention had, it thought, worked very well over the years. But returns were diminishing, and it didn't know how

to improve them. Upon our closer examination of the company's use of analysis in marketing decisions, we found a key off-target definition of attrition combined with an inappropriately executed program of predictive modeling was masking a significantly larger attrition problem.

We quickly applied proven and relevant techniques encompassing a new definition of attrition behavior and defined new attrition metrics. The client is now implementing new marketing programs that are stemming attrition rates.

My colleague Niall Budds, the vice president heading up our analytics practice, collaborated with me this month. He and I purposely avoided formulas or technical definitions of the statistical and modeling techniques used in all three of these examples. We'd be happy to share that information with you, though. Believe me, Niall has it all in gory detail.

Here's what we'd like you to ponder:

- Conducting analysis does not always mean getting or waiting for more data.
- Know that the appropriate, simplest possible analysis and modeling techniques are being applied so that you can make timely, sound, and predictable decisions.
- Institute the discipline to use analysis in critical stages of marketing workflow and in some way with every marketing team member. This may just be your key source of competitive advantage in the very near future.

Anthony Power has an article entitled "Analytics Without Numbers: Perspectives Learned from Sudoku" on MultichannelMerchant.com. The article is a good read on putting analytics in perspective—and it should keep the puzzle craze accelerating!

Scoring Your Firm on the Metrics Maturity Model

by **RICHARD H. LEVEY**

July 26, 2006

Marketing has taken the first steps toward accountability, but the journey is long, and most of it lies ahead, not behind.

That's the overarching message from the Association of National Advertisers (ANA).

When the ANA launched its Marketing Accountability Task Force in October 2005, it identified four key elements needed for successful measurement: data, analytics, culture and process embedment. A firm's maturity in each of these categories falls within one of four places: It can be Aware, Practicing, Established or Leading.

As of today, organizations tend to be somewhere between "aware" and "practicing" for each of the four elements. The following descriptions offer insight into where readers' own firms may be—and what could be ahead for them, according to the ANA.

Companies that are aware of data's potential employ executives who have access to information that is limited by type or function. When the organization moves to practicing, business units have depth of information in a few key areas, although it is not available through an integrated platform.

Those organizations that are established in their data practices use a partly integrated system, with access to a broad spectrum of time-series data that includes geography, customers and functions.

At the top of the pyramid, those firms with leading data practices have fully integrated systems that allow them to look at a rich trove of data. They also have the ability to perform rapid cross-functional analytics, and take advantage of a variety of cutting-edge online analytical processing tools.

In terms of metrics and analytics, those firms that are aware of these functions primarily use accounting-oriented, backward-looking systems with primitive capabilities.

The danger here is that metrics are cherry-picked by each business unit, and used to avoid responsibility, rather than to give insight. On the next rung, they use limited mix modeling that is primarily oriented toward specific campaigns or expenditures, but they don't have any integration throughout the organization.

Those that are established have identified predictive success factors and rely on a core group of systems and metrics tied to a larger, overarching strategy.

And those that are leading use predictive and integrated tools capable of generating real-time response. These tools and systems are continuously in use, and continuously influence both marketing campaigns and operations.

The culture factor reflects how ingrained metrics are throughout the entire organization. In companies that are aware, metrics are primarily a function of finance, with a few competing metrics established by other business units.

Those that are practicing have a management mandate to use metrics, with a dedicated multi-department team having responsibility for coordinating analysis for the entire company. Meanwhile, established organizations rely on sophisticated dashboards to share information, and important metrics are broadly understood. "Leading" firms use metrics and ROI calculations in every product and plan.

The final criteria is process: how deeply embedded metrics and analytics are within the fabric of the organization.

Those in the aware stage use metrics only within discrete that are practicing have an appointed team coordinating them, and review and modify them annually.

In firms where metrics processes are established, ultimate responsibility for them resides at a high level within the company, and a stable and accepted set of them are used in planning exercises. And in leading firms marketing metrics are incorporated into planning, and they drive end-to-end marketing processes.

Need to Know vs. Nice to Know: A Web Primer

by **KEVIN GOLD**

May 31, 2006

As Internet business owners, we are bombarded with advice on how to manage, market and grow our businesses. Because of the sheer volume of information, we are forced to weed through the "need to know" versus the "nice to know."

Think about this...

Last month, you spent $2,000 on advertising to send 5,600 visitors to your web site and it generated 26 sales. Did last month's activity move you closer to your goals? You don't know, right? Well you need to know.

Why? Because you have to decide whether to invest more or less money on the same advertising strategy or to try out a new one next month.

And you have to decide if your current web site strategy motivates your visitors to act or if you need to adjust your web site's sales copy, headlines, pricing and layout.

In other words, you have decisions to make BUT no information to guide you.

Performance metrics are measures that evaluate the performance of your advertising and web site strategies.

Also called "Key Performance Indicators," performance metrics form a dashboard to gauge the effectiveness of your current advertising and web site strategies. They identify the gap between where you are today and where your business goals require you to be tomorrow. As business executive Thomas S. Monson stated, "Where performance is measured, performance improves. Where performance is measured and reported, the rate of improvement accelerates."

The following three performance metrics are essential for all web businesses.

1. Conversion rate
2. Cost per action
3. Value of a buyer

If you concentrate on just these three, you will achieve your goals with confidence. Why? Because you cannot manage what you do not measure.

Conversion Rate: Your Performance Lever

Web site conversion is a process of turning web site visitors into prospects and customers. The most common web site conversions, generically called "actions," include:

- Generating email opt-ins
- Producing product sales
- Signing up subscriptions

These actions produce measurable outcomes. Ideally, the actions you want to measure are those most closely tied to the growth of your business; therefore product or service sales are the most common actions tracked.

The quality of your advertising strategies (e.g. Overture, Google AdWords, and Yahoo via natural search) and the efficiency of your web site (e.g. sales copy, layout, and headlines) are measured by your conversion rate.

Your conversion rate evaluates: (1) the quality of the visitors attracted by your advertising strategies and (2) how satisfied your visitors are interacting with your web site.

Your conversion rate is calculated as follows:
Completed Actions / Total Number of Visitors = Conversion Rate

It is important to use the same time range when gathering your completed actions and the total number of web site visitors. For example, if last month 1,000 visitors visited your web site and 10 purchased your product, your "sales" conversion rate is 1%. For every 100 visitors to your web site, 1% of them are satisfied.

Knowing your conversion rate, you can make "informed and actionable" decisions. You manage a continual process of testing new advertising and web site strategies, quickly determining their influence on your conversion rate and you either adjust them if your conversion rate drops or maximize them if it increases.

As author Jim Clemens states in his article, "Don't Wait to See the Blood!" (www.clemmer.net)**:**

> Improving... performance without constant feedback is like trying to pin the tail on the donkey when we're blindfolded; only through knowing where we are, can we change where we are going. As a lever, increases to your conversion rate exponentially increase your revenue, profit, and ROI. Like precision instruments used by a high-performance car mechanic, your conversion rate enables you to rev-up your advertising and web site "sales engine" to accelerate goal achievement.

Cost per Action: Effectiveness of Your Advertising Dollars

Your "cost per action" is the advertising cost you pay for one completed action. As with your conversion rate, an action may be generating an email opt-in, producing a product sale or downloading a white paper. For example, if last month you spent $1,000 on

advertising to generate 2,000 visitors and 20 of them subscribed to your newsletter, your cost per action for a newsletter subscription is...

$1,000 ad cost / 20 subscriptions = $50.00 Cost per Action
Or,
Advertising Cost / Total Completed Actions = Cost per Action

Once again, it is important to use the same time range when gathering your advertising cost and your total completed actions.

Your cost per action shows how well your advertising and web site strategies perform relative to your advertising investment. Ideally you want a low cost per action. This is achieved by either increasing your conversion rate (adjusting your web site strategy) or reducing your advertising cost (adjusting your advertising strategy).

The importance of your cost per action magnifies when compared to your "Value of a Buyer."

Value of a Buyer: Learn What You Earn

Your "value of a buyer" is the average gross profit you earn from a completed action. It evaluates the efficiency of your advertising and web site strategies at turning visitors into profitable customers.

To calculate your value of a buyer, you'll need some additional data including:

- Average Action Value: how much an action is worth to you (e.g. your sales price.)
- Gross Profit: how much you make on a product or service sale excluding ad costs.
- Average Action Value x Gross Profit as % of Sales = Value of a Buyer

For example, last month you spent $1,000 on advertising to generate 2,000 visitors to your web site. Twenty visitors bought at an average of $100 per sale with a gross profit margin of 90%. Therefore, your value of a buyer was... $100 average sales value multiplied by 90% gross profit = $90.00 value of a buyer

Thus, you generate $90 in gross profit for every customer through your web site. By comparing your cost per action to your value of a buyer you quickly gain an understanding of what strategies to maximize, adjust or drop to increase performance.

If your cost per action is less than your value of a buyer, you are making money and are able to increase your advertising budget or maximize your current web site strategy. However, if cost per action is greater than your value of a buyer, you are losing money and need to reduce your advertising budget, find alternative advertising strategies or adjust your web site strategy to increase your conversion rate.

Your value of a buyer is a benchmark for gauging whether to increase your advertising budget or "pause" it for necessary adjustments, before you sacrifice profitability on a poorly performing advertising or web site strategy.

Knowing these three performance metrics reduces the fear associated with operating a web business. They help quickly identify the most effective advertising and web site strategies among the thousands available for your business. And by educating yourself, you become armed with "need-to-know" information that guides your strategic thinking, establishes an objective baseline for determining "more or less" and ensures you are heading in the right direction to goal achievement.

Marketing Performance Management: Break Conventional Marketing Wisdom

by **LANE MICHEL**

April 28, 2006

"We need *Freakonomics* for marketing!" As I reread Steven Levitt and Stephen Dubner's book on a plane flight, the woman sitting next to me practically shouted that out.

Freakonomics is all about getting to the economic facts that we are oblivious to but that nonetheless drive behavior, results, and outcomes. For just about all of us, it's far more convenient, expeditious, and satisfying to follow conventional wisdom. It's safer. It's also wrong.

My seat companion on that flight helped me create this example of how we get it wrong when we rely on conventional wisdom to make marketing decisions.

A leading wireless telecommunications company spent millions on segmentation. The segments looked a lot like its company-branded service lines. Its agencies knew that churn was a "fact of life" in

its industry. The company works hard at getting more people into its stores. It also began trying to connect directly with customers via the Internet. It was accepted that there really was no way to measure marketing spend in as much as 90% of the media mix. So it benchmarks spending of competitors, matches it, and works to differentiate it messaging. Then it happened.

A major competitor reduced its churn in half, gobbling market share and creating significant economic value and the greatest return on customer by far in its industry.

No one at the other telecom company believed that what the competitor had done was sustainable. Many apparently claimed it as false because they "knew" the competitor spent basically the same proportional amount on the same media mix. But the competitor figured out that investments in retention and new service methods would reduce churn while still allowing it to acquire more households. The mix and spend looked similar, but the facts driving the competitor's strategies were new. And our example company did not get it.

We are all a little too much like this company. Think about this:

- History shaped how your company markets to its prospective and current customers—it's the history of what's worked before for you and your competitors; the marketing skills your people bring to the job.
- What you measure in marketing activities and performance grew out of that history. It is stamped on your marketing organization, all but vaccinating your people against new ideas, making change a struggle.
- The "deathonomics" in your marketing organization will keep you stuck in that same old conventional way of marketing—unless you challenge that wisdom with facts.

There is a way to break through. Right now, good old hardcore database marketers everywhere should be smiling big: Data-driven discipline in marketing is the key to breaking down the beliefs and assumptions that cause us to keep turning out unpredictable and underperforming results.

Read *Moneyball* by Michael Lewis. This book describes how renegade, data-driven disciplined analysis challenged the conventional wisdom that governed professional baseball. When a couple of economist-statistician types began aggregating baseball facts, they were able to describe and predict higher team performance using disciplined analysis of those facts. Everyone ignored them for years. They didn't fit how the experts "knew" baseball had to be managed. The breakthrough came when one then another and another leader started testing, using, and adopting the new insights created. And they started winning more while spending less money.

The analytics of marketing is a better way to manage your marketing team. Here are two quick examples of breaking conventional wisdom and achieving stellar results.

One of the largest Latin American hotel chains believed it had a million members in its loyalty program. But "loyal customers" were showing little familiarity and dwindling interest in the chain. Conventional wisdom was that marketing had to spend on at least most of these million customers. Value and needs analysis showed something very different: Only 40,000 customers were really loyal.

Investing in that 4% of customers generated profits that far exceeded expectations.

A major investment firm reoriented its structure and budgets to focus more on new customer segments than on functions. It started with an extensive analysis of customer needs. Instead of "fund owners," customers were viewed in households. Metrics were altered to focus on increasing total value and worth rather than increasing the number of accounts. The satisfaction and financial returns continue to be provocative today (see "CRM Is Not for Micromanagers" in the April 2003 issue of *CIO Magazine*).

Don't keep making comfortable decisions based on what you "know" has been right. Get that econometrician type into your core team and put him to work on challenging the wisdom that holds you back.

Is Marketing ROI Dead?

by **MICHELE EGGERS**

October 5, 2006

Used to be that getting lift on your creative tests, great response rates, or a positive return on investment (ROI) on a specific campaign was good enough for marketing to declare success. Unfortunately, that isn't cutting it these days because of the increasing scrutiny being placed on marketing organizations as a whole. The chief marketing officer (CMO) and senior marketing executives are under constant pressure to prove their impact on overall business.

Pinpointing the specific event that shifted the microscope to the CMO and the rest of the marketing team is hard. It's likely the culmination of a series of events, such as endlessly increasing

competition; increasing business complexity; more demanding customers; increased regulatory scrutiny; the proliferation of products and channels; growing shareholder activism; and so on.

What makes gauging accountability for marketers difficult is the isolation of needed information. Marketers need to realize that it's not realistic to function long term in a silo where you can't align your activities and successes with the rest of the organization.

For example, a campaign manager at a retail bank runs a campaign for a no annual fee credit card to all existing checking account customers. She gets a high response rate and positive return on investment for that specific campaign. What she doesn't know, however, is that she cannibalized the response rates from one of their higher margin product campaigns, and sold the product to a segment of customers that utilizes more costly transaction channels and that is costing the company a great deal of money from a customer service perspective. Even worse, she has very little insight on how this campaign aligns with sales programs, broader marketing activities, and has no idea of the impact that this campaign may have on strategic marketing goals.

So, what should marketers do to avoid the challenges faced in the above example? The key is to shift the measurement thinking from being so campaign- and product-ROI focused to being more customer-centric. Granted there are often organizational and cultural challenges surrounding such a profound shift in thinking. But there are steps managers can take to evolve their marketing departments into this new frame of mind for managing performance.

First, establish what the goals, objectives and key performance indicators (KPIs) should be for the marketing organization. The only way for marketing organizations to truly evolve how they manage performance is to attack it from all levels of the team, so you'll need to ensure there's executive sponsorship. Also, keep in mind that tying incentives to these goals and KPIs will increase the likelihood of adoption. Once marketing executives define the overall goals and strategic objectives of the department they must commit to ensuring alignment occurs downstream.

For example, if the CMO's key goal for the year is to grow customer profitability, then there needs to be a clearly defined set of metrics that will help enable that. Instead of measuring a campaign on the response rates or ROI it achieved for that specific credit card campaign, it needs to be measured on how much it was able to grow customer profitability across that customer segment, or some other metric that can tie back to customer profitability growth.

Next, managers need to establish a marketing performance management (MPM) framework to define, manage and improve those metrics. While defining objectives and metrics on paper is a start, it will not enable you to manage the metrics over time. By building a framework for MPM, you will have the ability to define your goals, objectives and supporting metrics, and then manage them over time to ensure that you are able to meet—or exceed—expectations. And, in doing so, you have a system of record for marketing's success that the CMO can take back to the boardroom.

So, is marketing ROI really dead? Hardly. But clearly the importance of standalone campaign and other one-off ROI measurement will diminish. As we continue to evolve to more customer centric organizations and can better measure and manage the value of our customers over time through marketing performance management systems, campaign ROI will gain new life as a key driver for the overall impact marketing has on your organization: It just won't be the only driver.

The "Holy Grail" of Marketing Metrics

by **MICHELE EGGERS**

November 2, 2006

This article will impart some provoking thoughts for your journey toward creating the most relevant metrics to build into your marketing performance management (MPM) framework.

Think about the key dimensions of the business that you're managing. Try to look at marketing from all angles to broaden the measurement viewpoint. Most metrics can be categorized into four dimensions. First, look at the processes of the marketing department. Is your marketing team running efficiently?

For example, are you ahead or behind schedule on executing marketing campaigns and are your external marketing services providers (e.g., agencies, fulfillment houses, data providers) meeting your deadlines? By managing the performance of the marketing team through metrics, you will have a better pulse on their efficiencies; and, if inefficiencies arise, you can isolate quickly and act swiftly. By proactively managing the marketing process, you will improve the bottom line through decreased costs and increased productivity.

Second, you need to be able to track the overall effectiveness of marketing programs. I'm not talking about specific campaigns—like how the broadband cross-sell marketing campaign did via the web with the three free months offer to existing digital cable customers. That's a campaign performance report.

And, while those detailed reports are important, I'm talking about an aggregated view of the effectiveness across all of those marketing programs—both direct (e.g., personalized email offers, catalog campaigns) and broader media vehicles (e.g., search engine marketing, trade promotion, print ads). By having both a top-down aggregated view and the ability to drill-down into the details, you will have a better understanding of the impact each is having on the business to determine what the right media mix should be.

The third dimension is broader business metrics. This really focuses on non-program specific measurement. These types of metrics are very relevant to all C-levels and create a bridge of common measurement infrastructure. For example, sales growth, market share, total sales and total profits are important to not only the CMO, but to every other executive in the boardroom. By measuring these metrics along side the other dimensions, you will be able to better determine if they are in alignment, and how the metrics are impacting each other.

In my opinion, the fourth dimension is the most important of all—the customer. The reality is that, with the exception of marketing process, the others all directly, or indirectly, impact customer metrics. And, it will be important to understand how these other metrics positively or negatively influence the customer relationship. Some examples of customer metrics include products per customer, net-adds, customer profitability, customer satisfaction ratings, and customer lifetime value.

So, if there were a "holy grail" for marketing metrics, the one I would be sure to include would be customer lifetime value. There is no better way to positively affect your bottom line than to nurture the relationship you have with each of your customers to maximize its value over time.

As far as the rest, it will be what's right for your business. The good news is that there are marketing performance management solutions that do provide best practice metrics like those we've discussed. It doesn't mean that you will likely use them all, as each business is unique, but at least you won't feel like you're flying blind; rather, that there's a chance of getting close to that "holy grail."

Quantifying Online Search's Impact on Offline Demand

by **CAM BALZER**

September 22, 2006

Marketers increasingly look at search as a valued customer acquisition channel delivering much more than immediate transactions or conversions. One of our multichannel retail clients, for instance, strongly suspected that a significant number of customers who had initially been exposed to the brand via search marketing were converting in-store rather than online. They trusted their intuition, and we developed a method, an "offline multiplier," to help them quantify this additional impact of search.

An offline multiplier mathematically attributes online and offline value to search engine marketing investments by quantifying the return on search from store purchases. The offline multiplier quantifies the amount of offline sales influenced by search for each $1 tracked to

search online. While chief marketers responsible for multichannel brands should take the time to develop an offline multiplier, you can in the meanwhile take more-immediate actions to capitalize on a search-to-store effort this holiday season. With Black Friday and four Cyber Mondays approaching, a mountain of marketing opportunity awaits.

For best results with the search-to-store shopper, keep three considerations in mind:

1. The nature of the search-to-store shopper
2. How to quantify search-influenced demand
3. Simple ways to cater to the search-to-store shopper

Search-to-store shoppers are calculated, educated, and well read. Most determine what they want first, relying on search before and after store visits. Then they find a local retailer stocking the product.

March 2005 research from the Dieringer Research Group highlights this type of shopping behavior: More than 80 million U.S. consumers a year make offline purchases after researching online; the vast majority bought more than what they researched once they got into the store. Additionally, a comScore study of Q4 2005 gift-buying behavior found that the majority of marketers' search conversion, 63%, occurred offline.

Despite the evidence, most marketers still need a hard number to work with in order to factor offline demand into campaign metrics. But quantifying the exact scope of what we call "search-influenced demand" is not simple.

To create an offline multiplier and calculate total search-influenced demand, you must understand specific attributes of your vertical market sector, your customers' behavior, and the differences across product categories. The size of your offline footprint—the number and location of brick-and-mortar stores—helps quantify geographic locations where a search-to-store strategy can be leveraged. A higher average purchase price, meanwhile, equates to higher consideration and an increased likelihood of the transaction happening in a store.

Recently we conducted an in-depth survey for a major housewares merchant, polling the client's online customers as well as an anonymous panel regarding their shopping and purchase behavior online and offline. We determined that the client's customer base exhibited an offline multiplier of $2.50: For every dollar in online sales generated, an additional $2.50 is generated offline, bringing the total revenue impact of search marketing to 3.5 times the basic search-to-click online revenue.

Offline multipliers can go much higher. In some retail verticals, marketers can expect to find offline multipliers as high as $5-$7. Once marketers understand this dynamic, search program data take on new light, accounting for more actual sales, and become more accurate and actionable.

Because shoppers exhibit such strong search-to-store behavior, you should consider ways to cater to search-to-store shoppers in the coming holiday season:

1. **Ask your search team how they quantify the offline impact of search.** If you like search's directly tracked performance, just wait until you better understand its offline impact.

2. **Consciously seek out these high-value cross-channel customers.** Simply thinking of the search-to-store customer as a target can make a major impact on your keyword selection and search campaign strategies.
3. **Buy affinity or behaviorally targeted keywords**. Invest more on terms that reach consumers interested in lucrative product categories or categories presenting great cross-sell potential. Place emphasis on the keywords most likely to create significant in-store activity. You can be more flexible with their online ROI metrics.
4. **Localize national campaigns.** Implement geotargeting to greet customers with landing pages touting local stores, especially with products highly likely to transact offline, such as furniture or major appliances. And be sure that these landing pages make the offline channel readily available and appealing.
5. **Implement complementary merchandising tactics.** For instance, whenever possible, encourage "buy online, pick up in-store" customers to purchase additional items in the store before they leave.

As you complete your 2007 budgeting, be sure to consider the offline impact of search. Build a conservative assumption into your metrics that accounts for the full scope of "search-influenced demand." Plan to validate your assumptions in 2007 and reap the benefits of an expanded view of search.

Nine Database Marketing Sins

by **HEATHER RETZLAFF**
October 18, 2006

The early morning session at any conference can do a lot to put attendees on the right path for the rest of the day.

Fortunately, Arthur Hughes's "Nine Deadly Mistakes in Database Marketing" session on Tuesday morning at DMA06 in San Francisco was no snoozer. The author, vice president, and solutions architect of technology-enabled marketing firm KnowledgeBase Marketing held the audience's attention with clever anecdotes, case studies, and stories about direct marketers who have excelled and failed when it came to leveraging their databases.

After admonishing attendees that every marketer should not only have a database of customer information and preferences but also actually use the information, Hughes emphasized that "database marketing only works if customers benefit from it." To illustrate his point, Hughes gave nine ways that marketers fail in database marketing:

1) **Lack of a marketing strategy.** Database building, Hughes said, is easy, but making money with a database is difficult. To create a strategy, marketers need to figure out what motivates customers, then market to them via user groups, newsletters, loyalty programs, status levels, and event-driven communication such as birthday gift purchase reminders. Above all, Hughes said, you should put yourself in your customers' shoes: "Would it work for you?" he asked.

2. **A focus on price instead of service.** Database marketing should be used to build loyalty, something that discounts and coupons don't do, because they train customers to think about price rather than quality. Hughes said marketers should use databases to provide a dialogue and recognize and serve customers.

3. **Failure to use tests and controls.** Marketers must set up control groups when testing new communications so that there is a standard metric to compare new metrics to. "You should do this every time you send out messages," said Hughes. "There should be a difference, and if there's not, then you're wasting your time." Key metrics to measure: response rate, return on investment, lifetime value, and profit.

4. **Lack of a segment strategy.** The entire database should not be treated equally, Hughes said. Rather, customers should be segmented and marketed to in a way that will resonate. For example, an airline's "silver level" passengers should be marketed to more heavily than its "gold level" customers because the company has more to gain from converting the silver-level flyers to even more frequent customers. The gold-level passengers, meanwhile, have already reached their fullest potential in terms of spend, so the airline will not see as much return on continuing to market to them at such high levels—though of course the airline still needs to invest in them in order to retain their business. (See #7.)

5. **Failure to use the web.** Use your database to personalize customers' online experience by greeting them by name when they visit your web site. Follow this with immediate feedback when an order is place by providing a confirmation page and email.

6. **Building the database in-house.** The skills to create a well-functioning database are far different from other IT skills, Hughes said. With scores of vendors with experience building databases, he advised marketers to outsource the building of the database and to focus on marketing instead.

7. **Treating all customers alike.** It sounds so simple—and it is: Loyal customers are more profitable than new or disloyal customers. Yet many companies fail to continue marketing to profitable customer segments. Hughes told attendees to budget for a retention strategy... which leads us to...

8. **Failure to develop a retention program.** This can be as simple as communicating with customers. "People like to hear from you," said Hughes.

9. **Lack of a forceful leader.** Database marketing success requires directing the activities of internal and external departments. Without a leader, goals across multiple departments won't get accomplished.

Using Metrics to Shape Your Direct Marketing Plan

by **BRUCE WAGONER**

August 9, 2006

Justification is the name of the game when it comes to determining a direct marketing budget. It's no longer good enough to make generalizations about how much revenue you'll make or what the margin contribution to your bottom line will be.

Today, management wants to know what the ROI is going to be before releasing funds. And they want to see detailed proforma metrics as the justification, regardless of the size of the program.

When kicking off a DM campaign or program we often start with the question: "How do you define success?" The answers vary from "better response rates" to "increased awareness" to "increased sales." We often respond with another question that speaks to the amount of budget available to support the program. Sometimes the budget is defined, sometimes not. And then the real question becomes one of determining the appropriate budget that can deliver the success criteria in question, and to do so with an acceptable ROI.

ROI is the End-Game

ROI has become the yardstick that business uses to judge performance. To be effective as an analytical tool, however, the data that goes into the calculation must be reliable.

In particular, response and/or conversion data sometimes is either not available or suspect and yet an ROI needs to be estimated in order to persuade management to release funding. Perhaps there is no response history because the product or service is new, or marketing conditions have changed which will have an effect on future response rates, or the response history is questionable because of incomplete or inaccurate data. Regardless of the reason, response and/or conversion rates need to be developed so that a realistic revenue estimate can be established and then compared back to costs associated with the program.

Weighted Averages Can Bridge the Gap

One answer that works reasonably well if one doesn't have enough reliable data is creating a range of data points (high, middle, low) and apply a weighted average using criteria that either ties back to:

- Industry norms
- Earlier campaigns for similar products or services
- Previous tests done on the product or service in question

This process of establishing a weighted average can also be applied to the revenue side of the ROI ratio. For example, the chart below recaps an ROI calculation using weighted averages for a financial services company offering insurance products to businesses. In this example it knows that smaller accounts (those with less than 50 employees) are each worth $5,000 annually. Middle markets accounts (51-150 employees) are worth $40,000 and large accounts (151+ employees) are each worth $80,000 each. Let's assume this is a cross sell program where we will target all existing customers. We've decided that the expected response rate will be between 0.45% and 0.60% for the DM effort and the expected conversion rate will be 50%.

Assuming a universe of 2,500 customers we will generate between 5-8 new sales. Using the revenue amounts previously discussed we then calculate a total year 1 revenue range that ties back to the high and low response rate range for each account grouping. Once this revenue range is established we assign probability weights to each group of accounts and calculate the total expected revenue estimate that ties back to the initial response rate range. These weight averaged revenue estimates are then divided into the budget to create the ROI ratios.

Financial Services Company Cross Sell Campaign ROI Chart
Universe—2,500

Response Rate	Low-0.45	High-0.6%	
# Responses	11-15		
Conversion Rate	50%		
# Sales	5-8		
Revenue per account	$5K	$40K	$80K
First year revenue	$25-$40K	$200-$320K	$400k-$640K
Probability weight	40%	50%	10%
First year weighted revenue	Low-$150K	High-$240K	
Budget	$35K		
ROI	+4.25:1 -Low	+6.86:1 -High	

Working with a Pre-Determined ROI

Many times a client will start the process with a pre-determined budget and a sales goal. Thus, the ROI has already been set and what's left is developing the strategy to achieve both sides of the ratio. We, as DM practitioners, sometimes feel trapped because either the budget or the sales goal is unrealistic in light of expected response and/or conversion rates. In many cases, however, the client is justified in challenging us to work with limited dollars and/or aggressive sales goals because the client must map the program's ROI back into their overall business model.

The problem some DM practitioners fall into is allowing unrealistic response and/or conversion metrics to be used to make the ratio work. Sometimes a "break through" idea will emerge that boosts results in a dramatic way. But that is usually the exception, not the rule. The more likely scenario is that actual response/conversion metrics fall short and the program is judged a failure when, in fact, the program was doomed from the start because of an unrealistic ROI.

One way to avoid this trap is for the DM practitioner to build a case for using a longer time horizon that will show where the breakeven point is between revenue and cost. At least everyone can see how long it will take before a customer becomes profitable. An extension to this is looking at the lifetime value of the customer and calculating the ROI against that timeframe.

A Final Word of Caution

It's easy to take comfort in calculating ROI on a proforma basis. But in reality a pro forma ROI is only an indicator of how successful a program will be. It is not a guarantee. As DM practitioners it is our job to point out any limitations that will affect their reliability. Just presenting the numbers without discussion/rationale is dangerous at best. Clients need understand the relative importance that should be placed on a given metric so that expectations can be managed from the outset.

The ABCs of Search Data Diving

by **BRIAN QUINTON**
October 18, 2006

Six years ago, you could do search engine marketing badly and still make out well, because so many other people were handling it even more ineptly.

But today the level of the game has been raised all around, and search marketers need to take a deep dive into their performance reports on a regular basis to make sure that they're spending enough on profitable pay-per-click campaigns while culling the ones that don't produce conversions.

Attendees at the Direct Marketing Association's DMA06 conference in San Francisco got a crash course in what to look for from their search engine marketing data from George Michie, vice president of client services for the Rimm-Kaufman Group, a search engine marketing firm.

The first step is gathering the performance data you'll need, said Michie, including search terms, ad copy, landing pages, and URLs. Use

keyword-level performance data (costs and sales) aggregated over a two- to three-month period; an order audit that ties order numbers and amounts to keywords and search engines; and reports of your actual costs for keyword campaigns on each search engine.

If any of this data is difficult to come by, that's an early warning that an SEM campaign is not properly run. "If you can't tie costs, sales, and clicks together, how are you running your bid-management campaign?" Michie asked.

Next, check how many search terms you have. Rimm-Kaufman Group recommends 5-10 keywords for every SKU you sell. Fewer than that risks lost sales and less efficiency.

Be sure to separate your branded search terms—trademarks, brand names, and domain names—from searches on more-competitive terms. Many users employ the search query box as a navigation tool, surfing to a site by entering the brand or the trademark phrase. "Those are folks who are walking through your front door," Michie said. "You're not generating any incremental sales there." They will find you just as surely if you shift search budget from your branded terms to other phrases that might attract incremental shoppers.

With branded terms segmented out, take a look at your phrases in descending order of costs to see if the terms you're spending the most on are producing the best click performance, or if terms you're spending less on are performing well and deserve the budget attention that will push your ad higher on the results page.

Michie also recommended finding missed opportunities by looking at keywords in descending order of sales. Low-traffic terms with multiple orders probably deserve more love, too, to raise the ad rank.

Finally, take a look at your data sliced in a variety of ways: by traffic volume, by product category, by landing page, by product manufacturer, and so on. "If you spend $2,000 to generate $25,000 [in sales] on a low-traffic term, you're being far more efficient than you need to and may be leaving opportunities on the table," Michie said.

One substantial problem in trying to run this kind of analysis on search marketing campaigns, he added, is the question of properly attributing credit for sales. Sales that occur in a store, on the phone, or through an email coupon very often began with a search, Michie said. To properly tune your search efforts, make a point to use dedicated 800-numbers in search ads or coded coupons in email.

And consider instituting policies that measure the amount of channel spill from search, such as calling 100 first-time phone customers to ask how they found you or having cashiers ask the question at the point of sale.

Using Customer Knowledge to Optimize Channel Performance

by **MARC FANELLI**

November 27, 2006

Once a retailer has created a centralized customer database and has been measuring multichannel campaigns, they can start analyzing cross-channel customer behavior to ensure that they're investments in specific channels are delivering maximum value to their customers as well as their business. Most retailers will derive significant value from developing multichannel optimization strategies by using customer insight to drive major investment decisions.

When used as the driver, that insight is the impetus for:

- Rationalizing store mix in a trade area
- Identifying profitable locations for new stores
- Improving inventory management and assortment planning
- Adjusting catalog mailing strategies
- Implementing new customer service options on the web

Multichannel retailing requires new levels of analysis that add channel criteria into the statistical mix. Each channel must be scrutinized on several fronts: which customers prefer which channels, how each channel contributes to the sales process, and what is the return on channel investment. Sales and marketing measurement must be expanded in the form of enterprise-wide, cross-channel response tracking and campaign results analysis tools to include the following gauges of channel performance:

- **Channel preference.** Companies must track through which channels customers prefer to buy and research their purchases. While some consumers communicate regularly across several channels, many will choose a primary channel. Knowing this information will help companies determine ongoing contact strategies and channel investments.
- **Channel mix.** Multichannel consumers by definition interact across several touch points. Companies must be able to identify which of their customers are truly multichannel consumers. And they must measure how each channel impacts the sales process—which channels facilitate product research, which capture sales, and how does each channel interact with the rest to create a total shopping experience.
- **Channel shift.** Consumers tend to move across channels for several reasons: store openings, product category, or mere convenience. Some migrate most of the shopping preference from one channel to another. Creating a differentiated customer experience requires vigilant tracking of these patterns and integration into a company's contact strategy.
- **Channel ROI**. Companies must also measure the profitability of each channel—how much customer demand for each channel nets relative to its respective operating budget.

Cannibalization of the direct channel is one of the biggest challenges and risks for companies who view opening stores as a growth strategy. One method of channel optimization that can provide visibility into the risks of channel shift when opening stores is trade area analysis. Through this type of analysis, companies use multichannel transaction information coupled with a geographic information system to visualize the store network performance to determine the optimal mix and location of stores in a specific area. In many instances, retailers believe that a natural channel shift of 10%-20% occurs when opening stores. But through trade area analysis, we've found that each location is different and there are situations where channel shift can be as much as 60%.

While the reasons for this shift to occur vary, by analyzing the concentration of Internet or catalog shoppers in a specific trade area in addition to other location variables, retailers can better forecast the impact that store will have on the other channels sales and develop strategies to mitigate the inevitable channel cannibalization. Ultimately, trade area analysis can assist with making decisions about marketing investments by measuring the impact mailing catalogs or email offers are having on store sales and providing a fact base to change catalog circulation patterns. The value of trade area analysis is the alignment of resources to meet the demands of your customers, maximizing the ROI in both channels and marketing.

Channel optimization is the next logical step in using customer knowledge to improve the customer experience, building loyalty, and profitably increasing revenue. Especially for those catalogers who plan to use retail stores to build their brand and their sales, channel optimization is a critical key to success.

Web 2.0: What It Really Means to You

by **DAVID FRY**
December 1, 2006

Not only are more consumers shopping online than ever before, but they are expecting more from their online experience as well. With Web 2.0 technologies allowing for a new level of interaction, consumers are looking for e-commerce to emulate the in-store experience.

"Web 2.0" is in fact quickly becoming an overused term, but it is generally defined as a second generation of web sites that use new technologies to change the experience for the consumer. With interactive tools such as AJAX, tagging, and various forms of instant consumer feedback, marketers can provide new and better experiences that go beyond shopping to encompass online collaboration and social networking.

The time has come to stop thinking of your web site as a company-controlled message. Instead you need to view it as a conversation with customers and prospects. A number of new technologies can help you get the conversation started and keep it rolling.

The Power of AJAX

AJAX, which stands for Asynchronous JavaScript and XML, delivers a consumer experience that eliminates the traditional web experience of clicking page after page and waiting for those pages to load. Instead, users transition through multiple page states without refreshing the page.

For instance, if you're shopping online in the linens department of a web site and you're looking for pillowcases, you'll start with the top category of bedding and then drill down to sheet sets, sheets, and finally pillowcases. As you select each category in which you're interested, the number of items decreases while the amount of information increases. The page automatically refreshes so that you don't need to wait for it to reload.

When you start in the top category of bedding, you'll see the related categories and thumbnail images. Once you reach the pillowcases, you'll get a view with larger images that show various brands by color and thread count. When you choose the product you're interested in buying, rather than going to a new page, you'll see the listing expand within the window to give you information about the product, including the price.

The buying process is also streamlined with AJAX. Instead of your being bumped to the shopping-cart page each time you want to add an item to the cart, the page is automatically updated with more information on the specific products while the items are seamlessly added to the cart. This becomes more like an in-store experience. People shopping in a brick-and-mortar store, after all, don't take each item that they intend to purchase to the counter one at a time; they add them to the cart as they browse through the store.

Tagging is It

Borrowing from the method that retailers use to categorize products, sites have begun to encourage customers to tag the items they view. This practice of tagging, or social tagging, turns merchandising into a grassroots strategy. For example, if a retail site has a name for a product, such as a cardigan, but customers are buying the item after searching for "button-down sweaters," allowing customers to add that tag can help increase future sales when other shoppers also search for "button-down sweaters."

Everyone's a Critic

Increasingly, online shoppers are social networkers who are blogging and sharing experiences at sites such as Del.icio.us; uploading videos to YouTube; using AJAX applications such as Gmail and Google Maps; sharing data feeds via RSS; and downloading TV shows from iTunes. Social networking applications can mirror the in-store experience of friends or family shopping together and talking about the products as they browse.

When customers have a good experience shopping on your site, they're likely to discuss it on other web sites, where your existing and prospective customers can read about your company. Of course, if people have a negative experience, you can be fairly certain that they're going to talk about that online too.

Shoppers respond very positively to web sites that offer customer reviews—even when the reviews themselves aren't positive. Providing reviews garners loyalty and trust among shoppers, adding to their interactive experience.

Companies need to understand that, with instant customer feedback online, the online market has become a conversation where the

company's message generally is the first word, not the last word. Once a customer has an interaction with a company, for better or for worse, that interaction can be retold on a blog, a message board, or a wiki (a collaborative site where all users can add and edit content), and others generally will chime in to share similar experiences.

You can make these social technologies work for you by using them to connect with customers. By proactively listening and responding, a company can show that it is genuinely interested in its customers, thereby creating a "buzz" online.

Getting Accustomed to Customization

Another avenue where merchants have responded to the demands of Web 2.0 consumers is the creation of web sites for specific niches. Consumers looking for petite clothing or Chevy parts can visit a retail site tailored to their specific interest rather than a big-box merchant that offers a broad range of apparel or auto parts on one site. To further increase customization, some sites, such as those that sell women's handbags, allow shoppers to choose the color, fabric, and pattern to create a one-of-a-kind version of the product.

By using new technologies to recreate the in-store experience and encouraging customer feedback, you can increase online success and create customer evangelists who will help spread the word about your products and brands.

Three Trends That Will Transform Your Loyalty Strategy

by **KELLY HLAVINKA**

September 9, 2006

As we look into the future of loyalty-marketing innovation, three major trends will emerge. In fact, some leading-edge companies are already taking advantage of these concepts and tactics.

Trend #1: The Power of the Network

Marketers have long known the power of engaging in dialogue with customers. But those who push the boundaries of customer dialogue also understand the power of communities of consumers united in affinity for a brand, bound by geography, or engaged in similar lifestyles. The growth of these consumer network-building systems is the first seismic shift in the loyalty landscape.

In the loyalty game, helping to create customer groups bound by shared interests is a way to develop a sense of community around your brand. Communities have always evolved organically, without help from marketing, but today smart marketers are tinkering with the DNA of their customer bases to push the boundaries of customer communities outward.

Within the context of the loyalty-marketing space, when we think of how best to leverage the power of consumer networks, what we're really talking about is implementing a dialogue marketing strategy. The better your ability to grow dialogue between you and your customers and among your customers themselves, the stronger your brand will become. For loyalty innovators, that means moving beyond two-way communications to enable customers to connect with each other, share insights, and exchange relevant information through facilitating platforms.

Trend #2: The Power of Data

Retail executives at the uppermost levels have come to understand the critical importance of loyalty data. Yes, they still want to see incremental behavior shifts that lead to a measurable return on investment. But they also see that, when it comes to leveraging loyalty-program data, most companies have barely scratched the surface of opportunity.

It's a hoary truism: Information is power. But this spotlight on the power of customer loyalty-program data reveals a fundamental debate brewing about the purpose of loyalty programs: Is it enough for a program to generate incremental return on investment? Or does the real power of loyalty data reside in our ability to drive customer insight back into the core business model?

The former depends on the latter. It's true that without the data, you can't get the ROI. But to unleash the program's real potential, you'll need to embrace the second seismic shift: leveraging loyalty data to enhance your brand's core value proposition through personalization and customer experience management. Particularly in the retail space, loyalty programs will play a pivotal role in identifying customers coming into the stores and harnessing data to change how they shop, how they experience the store, and the benefits they receive on site.

So far, the emergence of this trend is still limited to the handful of retailers who understand that the in-store experience is what drives their success. In addition to the gold standard held aloft by such forward-thinking retailers as Tesco, and a handful of other brands, including M&M Meats, a 340-store Canadian food retailer; luxury car brand Jaguar; and Shoppers Drug Mart, the Canadian health and beauty retailer, are translating data into customer experience.

Simply put, you can't manage a relationship or enhance the in-store experience without knowing who your customers are. And indeed, before you can really leverage loyalty-program information to enhance your company's core product, you need to understand what insights you can glean from the data you've already collected. Basic ROI analysis is no longer the end game. It's just the starting point.

Trend #3: The Power of Convergence

An epic confluence of events and factors outside the loyalty space will form the third seismic shift that will influence your loyalty strategy. In the global marketplace, three major areas of convergence are giving rise to a second generation of multimerchant loyalty coalitions: corporate convergence, in which mega-corporations continue to gobble one another up, with the corresponding size of their customer bases growing more astounding every day; CRM convergence, in which the next generation of CRM technology helps these same companies organize every aspect of their businesses around customer segments; and point-of-sale (POS) technology convergence, in which the next wave of payment and identification innovations will eventually collide in their ability to enable sustainable brand-customer relationships.

Coalitions typically form through entrepreneurship: A would-be coalition operator establishes a stable of "everyday spend" partners that includes a grocer, a fuel retailer, a credit-card issuer, a telecom, and a host of smaller retailers. The operator then takes the value proposition to market and asks customers to enroll. Such is the genesis of the world's most successful coalition programs, including the Canadian Air Miles Reward Program, Fly Buys in New Zealand and Australia, the U.K.'s Nectar program, Malaysia's Real Rewards, and Germany's Payback.

But what about the United States? The answer lies in the ability of its corporations to take advantage of these converging trends. The new model may see a proprietary loyalty program run by one of these new mega-corporations evolve into a national coalition. By leveraging new CRM technologies to move data swiftly through the enterprise, and by building new payment and identification systems that will make consumer participation a snap, a major corporation could launch a coalition without signing the usual suspects in grocery, telecom, and fuel.

Several corporations are already poised to take this leap: Citi with its ThankYou Network program; American Express's Membership Rewards; The Kroger 1-2-3 Card program; even one of the legacy airlines could spin off its proprietary frequent-flyer program and evolve it into a coalition—like Air Canada is doing with Aeroplan.

As consumers pull out their coalition cards several times a week while shopping at top brands, coalitions will win the battle for share of mind. And the first companies in each sector to align their brands with a top-tier loyalty coalition will enjoy a formidable first-mover advantage. The bottom line: You'll need a strategy to evaluate whether an emerging coalition is the right one for you.

ADDITIONAL RESOURCES

As the worldwide leader in web analytics, WebTrends offers a full range of educational resources to help ensure your long-term success. Be sure to check them out at webtrends.com.

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