

Taking The Mystery Out Of Marketing



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Ask an executive to approve a capital investment decision of any size and you'd better be prepared to justify your proposal quantitatively, with reams of data, projections and analyses. But ask an executive to approve a marketing budget, and you'll probably need nothing more than last year's budget and next year's sales projections—and, perhaps, some subjective judgments about what *did* work then and what *might* work in the future.

No manager would dare commit millions of dollars of capital to a project without extensive analysis of its payback, net present value and internal rate of return. Yet every day, com-

panies invest millions of dollars in marketing resources—including advertising, promotions, discounts and distribution—without a fact-based understanding of the performance of their marketing investments in the past or the dynamics of marketing success in the future.

Rules of thumb or “a sense of the market” are simply not sophisticated enough for making good marketing decisions, whether the issue is a new advertising strategy or a change in the marketing mix. Market response models are a potent weapon for the marketing decision maker, a tool that takes advantage of a company's growing body of market-based data, rigorous analytical techniques and the power of information processing. As the name implies,

Isn't it time you had a fact-based understanding of the performance of some of your marketing investments?

this analytical tool uses a model to simulate the impact of marketing plans, competitive factors and economic conditions.

Ultimately, market response models help companies design strategies that result in improved marketing effectiveness—in some cases up to 100 percent—and substantial cost savings. And they offer a potentially powerful side effect: building market response models and using them to make critical marketing decisions can actually fuel teamwork and foster cross-functional integration among groups and departments that don't often work together—even though they should.

Analytical Marketing

Marketing has long suffered from a dearth of sophisticated tools, especially when compared to most other management functions, despite the rapid increase in the sheer volume of marketing data available (mostly through increasingly sophisticated market research). For example, companies have tried to make the intuitive knowledge of marketing managers explicit by asking successive questions along the lines of, "What would happen to market share if we doubled the advertising budget? Cut it by 50 percent?" and so on. The resulting relationship—the curve connecting the points of judgment—is a crude although effective way to predict the sales or market share impact of changes in the marketing mix. It's a simple way to quantify the subjectivity that is inherent in most marketing decisions. Of course, the starting point is still a subjective one, based on hunch and not on objective data.

Another, more analytically rigorous approach has been to "field test" marketing decisions by using controlled experiments in other markets to determine, all other variables being essentially equal, the impact of a pricing change or a different advertising tactic. While such field tests are effective at demonstrating the validity of a decision, they are expensive to implement. Perhaps more important, controlled experiments are "single use only." They don't enable a marketing manager to develop a base of knowledge applicable to the *next* marketing decision.

Each new decision requires a new experiment, which is both time-consuming and expensive.

Market response models, on the other hand, become more powerful with use and refinement of the underlying data. They can provide a new level of insight into marketing decision making by turning existing data into meaningful information—information for action.

Performance-Based Data

The key to creating good market response models is to begin with *good* data—which does not necessarily mean market research data. Market research may have gotten more sophisticated but, in essence, most market research asks consumers to predict their own buying behavior under different scenarios. Market response models, on the other hand, rely on data about what customers actually do—actual buying behavior. They use the past to predict the future.

The data can come from a variety of sources. Bar code scanners, for example, have become virtually ubiquitous in grocery stores and other retail outlets, increasing productivity at the point of sale and helpful in managing inventory and other operational procedures. They also provide a potential gold mine of marketing data, and those retailing marketers that have learned the value of those data have discovered a potent competitive weapon. Market response models seek to leverage this kind of performance-based data, using computing power to get at the data and manipulate it for greater insight.

Scanners represent an easy-to-tap and obvious source of market-based data. Getting the data for other types of companies may require a bit more effort, as the example of a financial services company demonstrates. The bank had ambitious goals for its certificates of deposit

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Too many firms approach marketing as if it were some kind of voodoo. They make subjective judgments about what worked in the past and what *might* work in the future. And whereas these companies would never commit millions of dollars in capital to a project without extensive analysis of its payback, they willingly throw money at marketing without a fact-based understanding of the performance of their marketing investments.

(CD) business in terms of market share and profitability, but faced a mandated decrease in its marketing budget. Complicating the exercise was a constantly changing cost of funds (which, of course, affected CD rates and profitability) and intense local market competition. Creating the right marketing strategy, and right out of the box, was crucial.

The bank developed a market response model using historical data on prices, advertising and customer deposit behavior to explain what drove customers (in terms of retention and new accounts) and to simulate the consequences of various pricing strategies. The model indicated the right place for the bank to be—the price point that represents the best tradeoff between profitability and market share. It also indicated which competitors—and which of their actions—were most damaging, as well as which competitors could safely be ignored. By building and applying a market response model, the bank boosted profitability by \$17 million annually on its CD product.

Another example, again outside the obvious retail example, involved a high-tech communications services provider enjoying strong product sales. The company based its marketing and advertising strategy on promotions and discounts, despite a clearly superior product in terms of features and benefits. A market response model, however, indicated that getting the best deal was not the paramount issue for customers. That insight led to the decision to avoid discounting and, instead, stress benefits in the company's advertising and communications strategy.

In this case, the company was extremely reluctant to tamper with a successful marketing campaign. The solution was to supplement the market response model with a controlled experiment to measure the impact of various ad executions and spending levels on market performance. The control was a market where *nothing* was altered. The experiment proved that the predictions of the market response model were accurate, and the company cut its ad budget in half without sacrificing sales—a 100 percent improvement in marketing productivity.

It's vital to understand that the success of market response models depends primarily on the underlying data; quality inputs are a necessary precondition to quality outputs. Fortunately, most companies have good data—they collect data every day on every transaction—although it remains a challenge to make that data accessible, to link various databases into a coherent whole, and to make it uniform.

But when that hurdle is cleared, market response models and today's high-powered information technology make it relatively easy to turn data into a strategic asset. This kind of data is the raw material for market response models and, because it is performance-based and "real world," it's not likely to get shelved with the rest of the market research studies.

There's a key side effect, and a highly beneficial one, of tapping this kind of raw material for market response models. It leads to marketing teamwork. Too many marketing functions are managed independently, despite the growing body of empirical knowledge that suggests the team approach has real and lasting value. It's now well established that product development teams—composed of scientists, engineers, manufacturing experts and marketing executives—can lead to improved quality, lower costs and a decrease in time-to-market.

A Holistic Approach

A similar phenomenon occurs when a company approaches marketing from a holistic, team-oriented approach, using representatives from sales, product management, advertising and promotion, distribution and market research, for example. Importantly, using a company's core customer and product data as a resource platform for making marketing decisions actually fuels the team dynamic. It encourages *fact-based* decisions over political ones, leading to better decisions. And it encourages marketing executives to talk across their respective functions in search of the common—and usually greater—good. Teamwork is never easy, but applying market response models can help.

Market response models represent an effective way to deal with information overload, turning data into insight and understanding. They offer a solid analytical framework from which to approach marketing strategy and decision making, and they represent a performance-based feedback mechanism, a source of continuous improvement within the marketing function. Ultimately, market response models give business leaders a basis for measurement—and when you can measure something, you can manage it. MR

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