Winning the Marketing Measurement Marathon

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Introduction

Business marketing has always been a grueling and competitive sport. But over the past decade, new buying processes, new media and new management expectations have landed marketers in a radically altered landscape. This adds new challenges as the ground shifts beneath marketers' feet. It's like running a marathon in an earthquake.

One result of this change is a greater need for marketing measurement. Marketers face increased pressure to justify their programs to senior management. They also need better measures to identify the most productive uses for their funds. Marketers need a clear view of their results to have any hope of success. Running in an earthquake is hard enough without also wearing a blindfold.

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This paper will describe what marketers need from their B2B marketing measurement systems and how they can get it.

What's the Problem?

Today's business marketers have more data than ever. They can easily measure how many people open an email, visit a Web site or download a white paper. If they have a good marketing automation system, this information is already stored in one place and available to analyze. So what's the problem?

Actually, there are several. One is reporting. Most marketing reports ask operational questions: how many emails did we send? How many names did we gather? The answers are important but don't address the fundamental question of how much value did a marketing campaign deliver . That requires a more sophisticated approach that connects past results to future behaviors and, ultimately, to revenue.

Another problem is the data itself. It may be voluminous, but it's not necessarily organized for accurate analysis. One individual may have several unconnected accounts; members of a purchasing team may not be linked to each other or to sales opportunities. Marketing contacts may not be categorized to reveal their role in the buying process. Data may be stored in operational systems that keep only current values, making it impossible to track when an item was entered or how activity levels fluctuated over time. Or, even if historical detail is retained, it may not be stored as special structures, such as "data cubes" or "star schemas", needed for efficient segmentation and trend analysis.

Finally, there's testing. Even perfectly complete, perfectly accessible information on the marketing treatments received by each person and on their subsequent purchases would not reveal the contribution of each treatment to the final result. At best, you'd know the result of the treatments as a group. Without explicitly testing individual treatments or groups of treatments, you can't estimate the true incremental value that each treatment created.

What Marketers Really Need

Let's make sure the goals are clear. Marketers need to measure both the value of their efforts as a whole and the values of individual programs. Aggregate measurements help them justify their budgets to CEOs and CFOs. Program measurements help them to optimize those budgets by spending on the most productive campaigns.

The first thing that marketers need for program measurement is a framework to categorize marketing programs. The framework is organized around the stages in the purchase process. From this perspective, the purpose of each marketing activity is to move leads to the next stage in the process. This allows direct comparison between programs aimed at the same stages. It's as if each stage has its own marketing budget and programs serving the same stage compete to earn it. (One program may actually affect leads in different stages. This makes the calculation more complicated but doesn't change the basic idea.)

Next, marketers need a consistent measure to compare disparate programs. A measure like click-through rate may be valid when comparing two email programs, especially if both programs address the same process stage. But there's no direct way to compare click-through rate on an email to Web visits from keyword advertising.

The search for a consistent cross-program measure quickly leads to customer value. This is a complicated topic, but for most business marketing purposes it can be equated with revenue. Whatever the methodology, the critical point is that all marketing programs should have a measurable impact on future revenues and that these revenue impacts can be compared directly.

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The obvious challenge with measuring future purchases is that they haven't happened yet. With sales cycles running for weeks, months or even years, few business marketers can defer measuring their programs until the actual purchases have occurred. In addition, most marketing programs are targeted at the earliest stages in the buying cycle. This means that many other events may affect buyers' behavior before the purchase itself. For both reasons, a practical measurement system must project future purchases almost immediately after the program is executed.

Conveniently enough, the same purchase stages that classify marketing programs can also be used to predict future revenue. Remember: the goal of each marketing activity is moving leads from one stage to the next. This means that the measurement system must identify the lead's current stage and capture transitions from one stage to the next. With statistics available on past performance, it's fairly simple to calculate the expected transition rates through all the successive stages up to their actual purchase.

Thus if marketers can measure the incremental number of leads moving to the next stage because of a program and can project future behavior, they can assess the revenue that program will generate. Marketers can compare this revenue with the program's cost to calculate Return on Investment (ROI). Once they have calculated similar ROIs for other programs, they can pick the most productive future investments.

How They Can Get It

Although stage-based program measurement is conceptually simple, it faces many practical challenges. Data integration, content tagging and testing were mentioned earlier and apply to any measurement program. Others relate to the stage-based approach itself.

- **Stage assignments.** Stages need precise definitions to classify individuals. These definitions may include some static attributes, such as having an approved budget or scheduled decision date. But most will be driven by behaviors such as information requested and the frequency of Web site visits. Converting the raw details of this behavior into accurate stage definitions requires complex queries that incorporate patterns in which materials are viewed, how often, how recently and in what sequence.

  The relevant patterns must first be uncovered through painstaking analysis of historical data. The trick here is producing definitions that correlate with buyers' actual progression towards a purchase. Once the patterns are understood, they must be translated into queries that can be run efficiently and will correctly classify the majority of prospects. In practice, different buyers follow different paths, so each stage definition will include multiple factors. The system will test each lead for all factors in all stages and then examine the combined results to assign the lead's current stage. Note that the answer may not be clear: one lead may match patterns in several stages, but the system must still choose just one.

  Also bear in mind that leads won't move through the sequence in lockstep. Some may skip ahead several stages at once, some may remain stuck in one stage for a long time, and some may move backwards or drop out altogether. The system must allow for these paths without creating random oscillations that hide important patterns.

- **Value projections.** The stage-based approach estimates the net value of a marketing program based on its ability to move leads from one stage to the next. This requires some estimate of subsequent stage-to-stage transitions through the actual purchase.

  The simplest assumption is that these transition rates remain constant: that is, a 10% increase in new leads results in a 10% increase in sales. Although this is a reasonable starting point, marketing programs often do affect subsequent transition rates. For example, offering a $10 gift card may yield more new names than a white paper, but those people will probably convert at a lower rate.

  Such deviations will be uncovered when the actual results are in, but that will be too late if poor marketing decisions have already been made using earlier projections. A reliable system should allow marketers to estimate such effects in advance and automatically adjust projections as new data becomes available. For example, the system might use quality scores of leads generated by an acquisition program to estimate how far those leads' performance might deviate from average.

  The system must also provide analytical tools to help marketers improve such projections and to report on performance trends.

- **Program interactions.** The stage-based method measures the impact of each program independently. This is a central advantage because it lets marketers calculate the program's incremental ROI. However, marketers actually run many programs simultaneously and buyer behavior is the product of the programs' combined effects. Changes that make sense individually might be bad in combination: a company that ran two redundant lead qualification programs might do well to eliminate either one, but suffer if it dropped them both. Conversely, programs with marginal independent benefit can sometimes support each other: a free trial offer to Webinar attendees might be much more productive than either the Webinar or the free trial by itself. Because interactions are most likely between programs at the same stage in the buying process, the stage-based method can help to identify where interactions may exist. But marketers must still remember to look for these interactions and set up formal tests to understand them before reacting to ROI results for individual programs.

- **Analytical database.** Stage-based measurement is based on tracking when individual leads move from one stage to the next. But operational databases, including most marketing automation and CRM systems, store only the current value of most data elements. If any of those elements are used in the stage definitions (or if the stage definitions themselves have changed), loss of old values would make it impossible to reconstruct a lead's stage assignment at an earlier time. Even if the old data were available – and most data, in fact, will be stored in the activity history – massive calculations would be required to determine earlier stage assignments and to identify transition dates. Thus, as a purely practical matter, a stage-based measurement system must keep a record of each lead's stage changes.

  But just adding a stage history is not enough. Marketers need to correlate the stage changes with marketing programs and responses, and to analyze these for groups that may only be defined after the fact. This sort of analysis is difficult in a traditional marketing automation database because it is designed for operational tasks such as sending messages, capturing responses and updating lead scores. Such files are optimized to access all data about one lead, not selected items about many leads. Running massive analytical queries against an operational database would slow down response for operational processes that are running concurrently. The problem is magnified when the marketing automation system is running a server shared by multiple clients.

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  For all these reasons, a stage-based measurement system needs its own database, separate from the operational marketing automation system and designed for analytical processing. Happily, the data warehouse industry has been refining such analytical systems for decades. So the tools and knowledge needed to build them are widely available to marketers who recognize the need.

What to Look For

By now, two things should be clear: stage-based measurement is immensely valuable and building a stage-based measurement system is not easy. Fortunately, most marketers won't build their measurement system from scratch. Rather, they'll use either a stand-alone measurement system or, more likely, features built into a marketing automation product. What should they look for when deciding whether a system can truly meet their needs?

They should certainly start with the technical requirements presented above: data integration, content tagging, test management, stage assignment, value projection, program interaction, and an analytical database. But those are just table stakes. A technically superb system will fail if marketers can't actually use it. Therefore, marketers also need to judge the effort required to deploy the system and apply its results.

Let's start with deployment. Marketers will probably have some idea of the stages that make sense for their business or feel comfortable with a standard set such as AIDA (awareness, interest, desire, action). But, as we've seen, the real work is in creating and validating the stage definitions. So marketers should look for tools to help with the initial data analysis, a simple interface for converting those findings into classification rules, and more tools to visualize and validate the results. Ideally, the vendor will provide a starter set of rules that have proven useful for other clients. Marketers can use these as a foundation for their own rules or simply deploy them as-is until they learn more about their own situation.

Easy deployment also requires integration with the rest of the marketing programs. Content and programs need to be tagged with stages so they fit into the stage framework. This should be as simple as possible, meaning that standard fields are already defined to hold the tags and that prebuilt rules and reports read those fields. Similarly, system calculations should be designed to draw on other standard data elements such as program costs and revenues imported from CRM opportunity records.

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Using the results requires reports that are easy to understand and act upon. Marketers will certainly want a summary report showing the projected ROI and dollar value for each program. But they'll also want the option to drill into this report to see program details, comparisons against benchmarks, and critical assumptions that go into any projections. The more technically inclined will want to dig deeper into measures such as statistical confidence levels, trends and volatility. Having this information available is especially critical in the early stages of deployment when skeptics within and outside of marketing must be convinced that results are reliable.

Static ROI reports are just the start. The system should present alerts that highlight programs performing significantly better or worse than expected and programs whose projections have changed substantially from one period to the next. Ideally, the system would recommend specific actions, such as which programs to expand and which to cut back. But this requires business simulation and optimization that understands resource constraints, incremental costs, audience limitations, and target functions. Most marketers and most marketing automation systems won't reach that level for some time.

Finally, the system should leverage its capabilities to support functions beyond program-level measurement. The same projection capabilities used to estimate program value can be applied in aggregate to estimate the volume and timing of future business expected from the existing inventory of leads in each stage. This can help with sales forecasts and budgeting. A simple what-if capability – even without advanced simulation – can show the expected impact of changes in the marketing budget. Aggregating results by channel, product or buyer segment can compare performance along dimensions other than program, helping to identify problems and opportunities for improvement.

What Next?

Business marketers today need all the help they can get. Stage-based measurement offers a major improvement in their ability to deliver better results with fewer resources and to demonstrate the value they deliver to the business. But most marketing departments lack the resources to develop such systems on their own. Marketing automation vendors can step into the breach by adding stage-based measurement as a standard operating process. The vendors who do this will benefit themselves and help all marketers meet the challenges of the future.

About Raab Associates Inc.

Raab Associates Inc. helps marketers make the most of today's marketing technologies. Each engagement starts with a thorough assessment of your company's business situation. We then work with you to identify the solutions best suited to your unique combination of needs and resources. We continue to work with our clients through deployment to ensure that each project meets its objectives and lays the foundation for future growth.

David M. Raab has more than 30 years of experience as a marketer, consultant, author and analyst. He has consulted with major firms in financial services, health care, telecommunications, publishing, consumer goods, technology and other industries. Mr. Raab has written hundreds of articles on marketing issues and addressed audiences in North America, Europe, Asia and Australia. He is author of the *Raab Guide to Demand Generation Systems* (www.raabguide.com) and *The Marketing Performance Measurement Toolkit,* available at www.racombooks.com.

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