Marketing ROI 3.0

A Process-Centric Framework

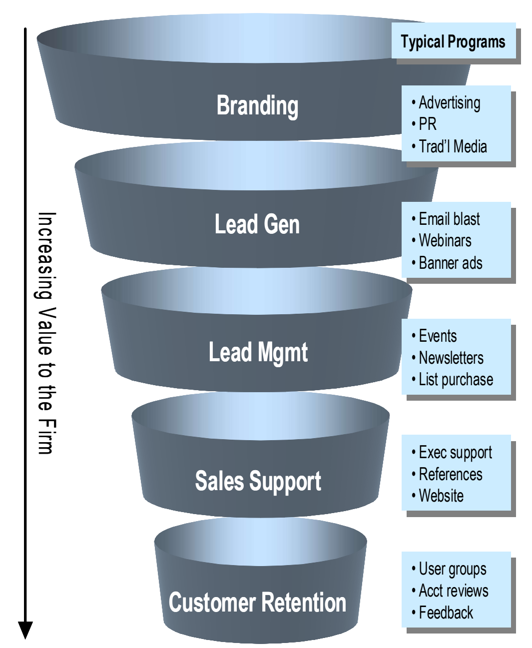
By David Bartenwerfer

The sales pipeline is a well-known management tool. It identifies the various stages of the sales process and is especially common in business-to-business (B2B) sales. Marketers have extended the logic of the sales pipeline to model their own process as potential customers move through the states of awareness to consideration to purchase and to active positive engagement. This is called the marketing funnel. The opening of the funnel is larger at the start of the process (the large pool of available prospects) and 'funnels' down toward the end of the process (i.e., happy customers demonstrating loyalty). While the shape and size of the funnel differ by industry, Exhibit 1 presents an example of a marketing funnel for a typical B2B transaction as well as the programs used to advance prospects towards a purchase.

The marketing funnel represents a visual depiction of the marketing process and its points of interaction with potential customers at different levels of their engagement. As a framework, the marketing funnel can help marketers to identify the objectives of each of their programs and campaigns as well as improve gaps in the marketing process or its upstream dependencies.

EXHIBIT 1

Typical B2B Marketing Funnel



Applying the Framework

The marketing funnel concept can be expanded to serve as a framework to holistically evaluate marketing campaign ROI. To achieve this, marketers should recognize three concepts implicit in the funnel:

- Population Groups — each step of the marketing funnel implies a population of prospects/customers, and each group has a population size;

- CONVERSION RATES — also implicit in the marketing funnel framework is the migration or conversion of members of one population group to the next;
- VALUATION OF POPULATIONS — each population group represents increasing value to a company as prospects are migrated downwards in the funnel towards an eventual (hopefully) purchase.

POPULATION GROUPS

Each stage in the marketing funnel represents a group of customers/prospects who share a common characteristic, which is that they are all at a similar stage in their purchasing process. Exhibit 2 displays the marketing funnel with examples of population groups to the right. In this example, the funnel depicts six steps in the marketing funnel, each representing a population with a particular attribute:

- ALL POTENTIAL CUSTOMERS — the total number of potential customers for a product/service;
- AWARENESS — the number of potential customers currently aware that an offering exists;
- CONSIDERATION — the number of potential customers currently considering purchasing the offering;
- PREFERENCE — the number of potential customers who prefer the product or service;
- ACTION — the number of current customers of the product or service;
- LOYALTY — the number of happy repeat customers of the product or service.

The purpose of identifying these groups is to measure their size and give Marketing a different segmented view of their market. As an example, if market analysis demonstrates that the total population of potential customers is one million (step one in the funnel) and marketing surveys demonstrate that brand awareness is 25%, then the total population of "aware" customers is roughly 250,000, or 25% of one million (the second step in the funnel). Measuring the size of population groups at each level of the funnel gives Marketing organizations an opportunity to track the progress of their overall process. It also gives Marketing a measure of the total value of their efforts to date.

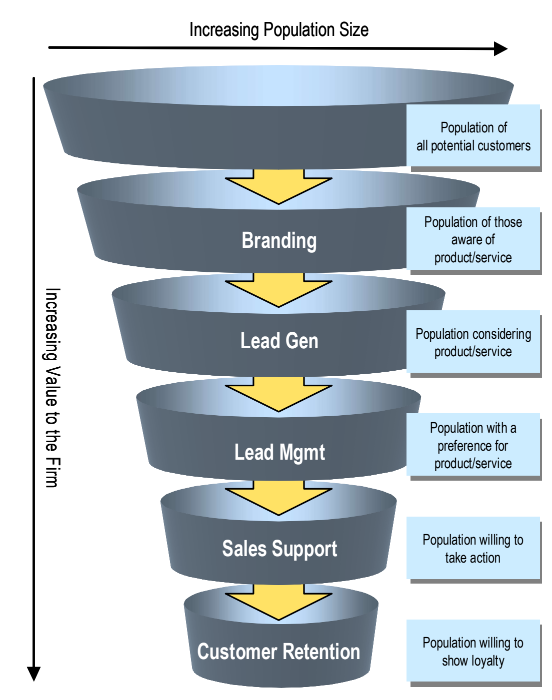
There are a variety of ways to measure the size of each population group. For example, determining the number of prospects in the CONSIDERATION group might call for identifying every unique instance of a company or large department in the leads database(s). Assessing the size of the AWARENESS group might call for periodic surveys of potential users, brand awareness studies, or even proxies like search engine rankings or home page hits for a given timeframe.

While it might seem that extra effort is required to segment prospects in this way, most companies are usually already tracking these metrics. And, the benefits are well worth any incremental effort. Case in point, an internet retailer in the early 2000's with a brand recognition of 88% who was spending millions of dollars on TV advertising and relatively little on customer action or retention programs.

The company took a detailed view of where their prospects resided amongst their identified population groups, which revealed that their assumptions about their ability to retain customers were

EXHIBIT 2

Identifying Population Groups at each Phase



flawed. The results of their analysis suggested a restructuring of their marketing investments, away from branding programs like advertising and toward more 'block-and-tackle' programs like promoting trial and driving retention.

New Web technologies like Facebook, YouTube or even recommendation sites like Amazon have added an additional challenge for marketers in that disgruntled customers now have many avenues to voice their displeasure. This requires companies to first be aware of the level of satisfaction amongst their customers and second to take efforts to keep them engaged and happy. More customers are influenced by recommendations from friends or what they read from other customers than any advertising campaign could hope to accomplish.

Conversion Rates and Customer Migration

Once the customer populations have been defined and measured, it becomes possible to observe the dynamics of the marketing process: customer and prospect migration from one stage to another over time. This migration, measured as a conversion rate, quantifies the amount of each population group that advances to the next group in the funnel during a given time period. Positive customer migration is the fundamental goal for any marketing program and tracking conversion rates helps measure the success of 'advancing the ball downfield'. In this example there are five distinct customer migration paths:

- **Conversion to Awareness** — making a potential customer aware that the product or service exists, usually through branding or banner ad campaigns;
- **Conversion to Consideration** — converting a potential customer who is aware of the product into someone who is considering a purchase (i.e. generating a lead);
- **Conversion to Preference** — migrating from an entry in a lead database to some form of customer preference, such as presenting to key decision makers in a B2B sale. At this point, Sales typically assumes active management of 'hot' leads and Marketing supports the process with events, webinars, seminars and targeted information to communicate value proposition;
- **Conversion to Action** — closing a sale;
- **Conversion to Loyalty** — keeping customers happy and thus gaining repeat business.

Defining and sizing population groups at each level of the funnel sets the stage for the marketer to gain a more complete understanding of the disparate impact of each marketing campaign. Measuring conversion rates enables marketers to gauge the progress of all campaigns with the same objective. Thus, conversion rates provide a metric to quantify and track potential customers as they progress through the marketing funnel, which in turn gives marketers a concrete measure of the level of success of their efforts.

For example, the purpose of a branding campaign is to generate awareness, or in this context to migrate as many of the members of the population of **All Potential Customers** to the **Awareness** group. Similarly, the purpose of lead generation campaigns is to migrate customers from **Awareness** to **Consideration**. Thus, the objective of each marketing program is to migrate customers or prospects from one phase to another.

One software company employed this framework with an interesting twist. This company had developed knowledge management software that could be broadly applied across many business contexts — which created a very large addressable market. However, limited resources prevented the sizable sales and marketing investment necessary to attack such a large and generalized market. Furthermore, their generalized approach did not produce an obvious tangible value proposition for the sales force, hurting their close rate. All along the marketing/sales process the conversion rates were suffering despite their large potential market. So, the CEO decided to add specificity to the product by creating applications for targeted customer segments and processes, each with a distinct purpose and value proposition around which to market, sell, and deploy their software. With that, marketers had a clear message for each customer group, and the sales team had tangible value propositions to sell to specific prospects. This new go-to-market strategy increased their conversion rates through all the steps in the marketing funnel.

VALUATION OF POPULATIONS

Each member of each population group has a distinct and tangible value to a company. When a company runs a branding campaign and introduces many potential users to their product who were previously unaware of it, value has been created, in this case migrating prospects from ALL POTENTIAL CUSTOMERS to the more valuable stage of AWARENESS. Hosting a webinar can inform a group of potential users about the benefits of a product/service, migrating some of those prospects from CONVERSION TO PREFERENCE.

There are many ways to measure the value of existing customers. And from that customer valuation a company can work backwards to measure the value of potential customers at every stage in the marketing process. Consider a company that sells widgets with operating margins of $1,000. For simplicity, assume that each customer purchases on average 10 widgets per order and that the average close rate is 25% during that period. The value for a 'hot lead' (a prospect with a 25% likelihood of purchasing in a given period) then is that same share of the total value of the operating margin on a sale, in this case 25% of $10,000, or $2,500. This analysis is the core methodology in any comprehensive holistic ROI model that enables equilibrating the value for every marketing program regardless of its intent.

Link to the next article in the sequence: *Marketing ROI 4.0: Delivering Results*

AUTHOR

David Bartenwerfer is the founder and principal of Quantum Consulting and Technology. QuantumCT helps product and marketing organizations get smarter and prove, predict and optimize impact and ROI with economic and financial modeling that employs customizable algorithms and technology leading to fast and lasting insight and action. Mr. Bartenwerfer has over twenty years' experience in the High Tech, Internet, Telecom, Media, Financial Services and Retail industries and holds a B.S. in Systems Engineering with minors in applied mathematics and economics from the University of Virginia and an M.B.A. from the Stanford Graduate School of Business. For further information, contact the author at davidbartenwerfer@quantumct.com.