

**Llando Knight Consulting
& Marketing Analytics**

May '08

Overview

The purpose of this document is to help you understand exactly what it is that Llando Knight Consulting specialise in and how we can help you.

The target audience are clients and partners in marketing. This includes, but is not limited to,

- Brand, PR & above the line
- Direct response
- Direct marketing (physical and digital)
- Online (PPC, SEO, broadreach)

The following is a simplified 3-stage routemap to increasing efficiency and effectiveness,

- **Measure:** Measure everything. How do you know your campaign worked if you didn't measure it properly?
- **Understand:** Numbers mean nothing without understanding. Understanding transforms numbers into actionable outputs.
- **Improve:** Actions are worthless without follow through. You've measured, you've understood, now to deliver.

This document is organised to step you through the above route map, giving more detail and bringing more relevance for your business.

Read on for more detail, or visit www.llandoknight.co.uk

1. Table of Contents

2. Measure.....	4
2.1 Overview.....	4
2.2 Brand, above the line & PR.....	4
2.3 Direct response & direct marketing	4
2.4 Online	5
3. Understand.....	6
3.1 Overview.....	6
3.2 Brand, above the line & PR.....	6
3.3 Direct response and direct marketing.....	6
3.4 Online	7
4. Improve.....	8
4.1 Overview.....	8
4.2 Principles in driving improvement in efficiency and effectiveness.....	8
5. The techniques	9
5.1 Overview.....	9
5.2 Techniques - what happened?.....	10
5.3 Techniques – Make it better.....	10
5.3.1 Techniques – Make it relevant	11
5.3.2 Techniques – Make it targeted.....	11
5.4 Techniques – Make it best	13
6. In summary.....	14
6.1 The moral of the story	14
6.2 Final thoughts	14

2. Measure

2.1 Overview

Measurement is the very foundation of the route map to efficiency and effectiveness. If we don't measure what we're doing, we'll never be able to drive improvement.

There's nothing controversial about that statement, you don't need a consultancy to tell you that. Simple principles however are rarely without their challenges.

2.2 Brand, above the line & PR

Let's consider the objective of brand and above the line advertising.

With this activity we plant the seed and hope it germinates and grows. It may be subtle, or overt, but the objective remains, when the customer shops in your market you are top of mind.

But *how* does the customer respond? It could be through any channel at any time and it's in this that we see the challenge in measurement.

How do we untangle the complex interactions across channels & products and measure the *true* value of your brand and ATL spend? How can we possibly know that what really drove the customer to you was the TV or Press ad they saw 3 weeks ago?

The solutions range from the very simple to the very complex. From simply asking the customer, to leveraging econometric models to explain the uplift in your sales attributable to your brand and ATL spend.

2.3 Direct response & direct marketing

Direct response and direct marketing have a key measurement advantage over brand & ATL. You know a lot more about the customer, and you heavily influence their response mechanism.

We can leverage this advantage in two key ways,

- Leave tell-tale signs in the method of response. For example,
 - Use unique phone numbers for each creative
 - Use parameterised links for your website. Simple web analysis tools will know how many times someone has followed a link from your email marketing campaign
- Dare to infer. You know who you mailed. Matching this back to your transactions will allow you to identify those that were mailed and subsequently generated business (within a pre-defined time span). Some of these people may have come to you without you sending the mail, but a control cell in your mailing will help you scale this and understand the incremental benefit that you have generated.

2.4 Online

Online media is by far the most easy to measure. The reason for this is that the path of least resistance for the prospective customer is to respond directly by following a link in your ad.

However, the mantra holds, and the above *is* slightly too good to be true. Online advertising is increasingly fulfilling a brand response role and online broadreach campaigning has the same issues associated with it as detailed in section 2.2.1 above.

Notwithstanding the above, our expertise will enable you to measure your activity across online channel, campaign, creative for the full lifecycle of your customer.

By way of example, our PPC links are tagged such that the channel (PPC), campaign (Google/Yahoo), and creative (small business copy/large business copy) are embedded in the URL and are therefore measured.

i.e.

www.llandoknight.co.uk/index.html?chid=ppc&cmpid=google&crtid=smallbus

www.llandoknight.co.uk/index.html?chid=ppc&cmpid=google&crtid=largebus

www.llandoknight.co.uk/index.html?chid=ppc&cmpid=yahoo&crtid=smallbus

www.llandoknight.co.uk/index.html?chid=ppc&cmpid=yahoo&crtid=largebus

In this way we can fully measure our traffic by search engine and creative copy. This principle extends to banner campaigns, affiliate, natural search, email, etc...

3. Understand

3.1 Overview

Section 2 of this document outlines the importance, challenges and some solutions associated with measurement.

The reality however is that (regardless of the enthusiastic commitments of other agencies) measurement is not infallible and will never give you “*the answer*”.

As such, this should never be our aim. Our aim should be to gather as much *evidence* as we can. As with a court of law, our evidence will have varying degrees of confidence, some will support each other, some conflict, and it's our job to apply our experience & insights to draw our own conclusions.

3.2 Brand, above the line & PR

Due to the nature of these channels, the raw data will never allow us to be fully confident in the return on investment in brand, ATL & PR.

As we saw in section 2, measurement in this channel ranges from simple customer surveys, to complex brand research and statistical modelling.

We should aim to gather evidence from all of these sources to provide insight into our fundamental questions: which media is working, which isn't and what is our ROI?

Each of these sources of evidence has their own levels of confidence. Surveys have sample size issues and statistical models have inherent uncertainty. A mix of quantitative analysis, empirical evidence and intuition will give us a balanced view on the success of our activity.

3.3 Direct response and direct marketing

We can directly measure, or infer, the response rates through these channels with far greater confidence than ATL channels. However, the raw data will never provide a confident result until we overlay further analysis.

So, your £10 incentivised email campaign delivered 100 sales with a profitability of £20 each. Total profit net of the incentive was $£10 \times 100 \text{ sales} = £1000$. The campaign cost £700 to deliver, so we generated £300 profit with this campaign. Right?

If we did this properly we would hold back a statistically significant random sample of the mail file to act as a control. From this we actually see that 15 of the 100 sales that were generated would have come to us as customers had they not received the mailing, so our incremental sales were actually 85 rather than 100. On top of this, we've given £10 profit away on the 15 customers that would have come to us without the mailing. So, now the sums look like this: $(£10 \times 85 \text{ incremental sales}) - (£10 \times \text{lost profit on the 15 sales}) - (£700 \text{ cost of campaign}) = £0$ - hardly worth doing. Right?

Keep digging. The more we think and analyse, and the further we move from raw numbers, the greater our confidence in our conclusions.

Digging further into this we find other factors come into play. Only 85% of the respondents ever claimed the £10 incentive. This reduces the costs and makes the campaign profitable. Further to this, we profile the respondents of this campaign and find that they have a tendency to provide far more repeat business than the average customer. Looking at profitability on a life time value basis we find that the campaign delivers positive return on investment.

The moral of the story is that after using statistical techniques, analysis and common sense we have made a decision to roll this campaign out, on a basis of sound judgment.

3.4 Online

As we saw in section 2 online media at the top of the hierarchy in terms of measurement. That doesn't mean that it isn't without its pit falls and unless you're careful you could be paying for inefficient media.

Consider the example of John. The events that led to John purchasing a product with XY is this,

- Day 1: Skims over a press advert for XY Inc while reading his paper
- Day 5: Hears a radio ad for XY Inc in the background while making a cup of tea
- Day 10: Google searches for the product that XY Inc supplies and follows a sponsored link to their site
- Day 15: After considering his options decides to buy with XY Inc and Google searches for "XY Inc". He clicks on a natural link to get to the site and purchase

A dangerous conclusion: A branded ("XY Inc") Google natural search term generated a sale on day 15.

An equally dangerous conclusion: A branded ("XY Inc") Google natural search term *didn't* generate a sale on day 15.

A mixture of statistical analysis and logic applied to the above conundrum will allow us to apportion a slice of the benefit for the sale to each of the channels that contributed to the sale.

4. Improve

4.1 Overview

We've measured, and with varying degrees of confidence (see sections 1&2), understood the performance of our media channels.

Now what?

Now we improve our efficiency and effectiveness. That is after all what we want to achieve, lower costs and greater return.

4.2 Principles in driving improvement in efficiency and effectiveness

Whatever the media channel, the following principles hold.

1. Challenge your assumptions
2. Is your communication relevant?
3. Is the timing right?
4. Is it targeted at the right people, creatively or otherwise?
5. Is your proposition right?

Given that we do it in a way that can be measured, and we have the insights to understand the results, changes to all of the above can be tested. The winners stick and the losers are discarded. In that way our costs come down and our return goes up.

5. The techniques

5.1 Overview

So far we've made some pretty bold claims and talked about some fairly obvious principles. If it were that easy wouldn't everyone be doing it already?

The truth is that it really isn't that easy. It's a journey. Where ever you are on it, you're doing some things well and some things not so well. There is a scale that everyone sits on. If you're at the bottom of it then it's the small things that make all the different. Tying this into the route map in the intro to this document, if you don't measure anything, and don't have any data then a simple management information system will make a huge difference.

Now you're a stage up the scale. You have some data.

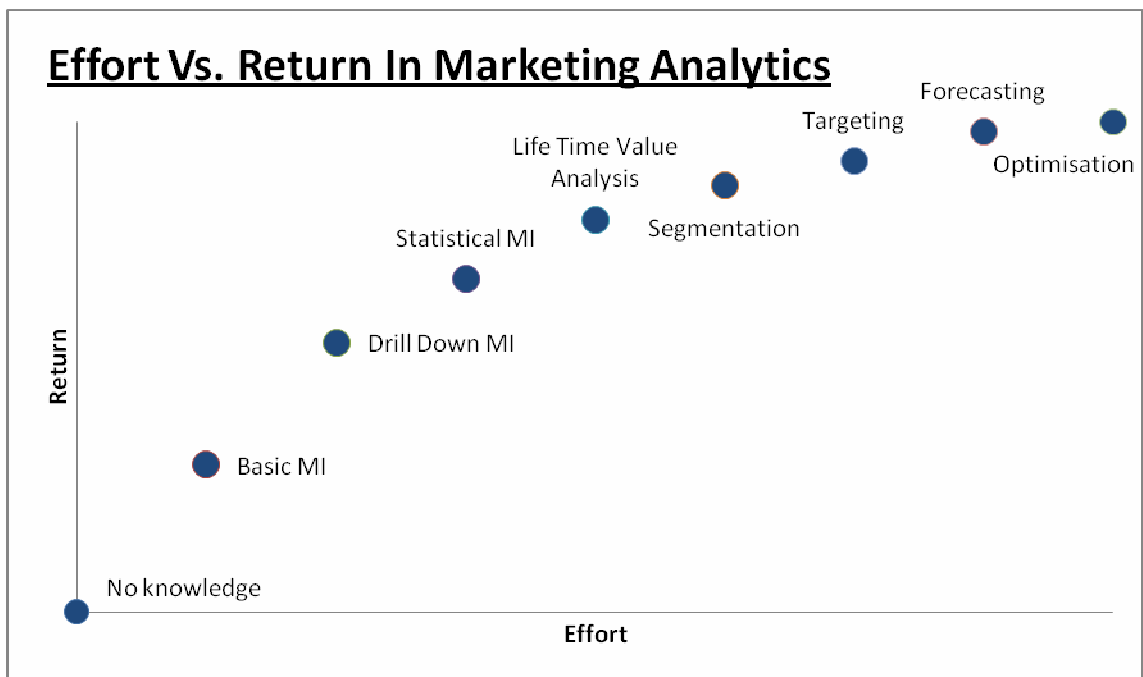
As we saw in section 2 however, this may enable you to make some decisions, but without understanding there is a risk you'll make the wrong ones.

By building capability a stage at a time we move up the scales and generate greater return for your marketing investment.

We can think of this journey in 4 stages,

1. In the dark
 - No knowledge
2. What happened?
 - Basic MI – top level information
 - Drill down MI – by media, demographic, over time, geographic, etc...
 - Statistical MI – did it happen by chance, or was it a real change?
 - Life time value analysis – what is the long term benefit?
3. Make it better
 - Segmentation – not all customers are born equal
 - Targeting – only some prospects convert. Let's focus on them
 - Forecasting – what might the impact be if we were to?...
4. Make it best
 - Optimisation – there are several ways to change several variables with different outcomes. Which combination gives us the best possible outcome?

The below graph represents the return vs. effort relationship as we move up this scale.



5.2 Techniques - what happened?

Techniques for finding out what has happened in your marketing mix, and across the whole business, range from the very simple to the very complex.

Basic MI - Basic MI systems will be in a tool such as MS Excel, MS Access, or perhaps even be static HTML reports. The requirements will have been gathered at the outset and suite of reports will be made available for pre-defined key performance indicators (KPIs).

Drill down MI – The limitation of the above is that you need to know what you don't know when building the system. Very quickly you'll realise that answers aren't so easy to find, and questions lead to further questions. A drill down MI system will allow you to tug at these threads until you get to the core issues.

Statistical MI – Statistical MI will overlay the numbers with real insight. Drill down MI might tell you that Males respond better to your campaigns than Females. Statistical MI will tell you whether this is a genuine difference, or just random fluctuation.

5.3 Techniques – Make it better

Driving improvement in efficiency and effectiveness is our objective. If we slice through the 4 Ps of marketing (product, price, place & promotion) and make it relevant to improvement through analytics we have 2 objectives. Our activity should be,

1. Relevant
 - Creative
 - Proposition
2. Targeted
 - Right time
 - Right person

- Right place

5.3.1 Techniques – Make it relevant

Whether your campaign objective is brand building or direct response, it will never cut through or illicit a response if it's not relevant.

The first stage to making your activity relevant to your target audience is to understand your target audience. The best way to do this is to conduct a segmentation of your customer base.

One segmentation will never look the same as the next. A good segmentation will always have these factors in common,

1. They will be driven by the objectives of the business
 - It should never be an academic exercise
 - A segmentation intended to drive marketing effectiveness will look very different to one intended to provide commercial understanding
2. They will consist C6 main segments
 - Enough to differentiate
 - Not too many to manage
3. They will be as similar within the segments, and as different between the segments, as possible
4. They will not necessarily be easy to summarise in a sentence
 - Be wary of anyone that delivers the following to you; young males, old males, young females, old females. This is very easy to summarise, but is likely very simplistic and less useful
5. They will be overlaid with *as much* relevant information as possible
 - Profile
 - Demographic
 - Geographic
 - Commercial (profitability, life time value, etc...)
 - Favoured media response channels
 - Acquisition cost
 - Lifestyle
 - Etc...

Given that the above are satisfied we can now inform our choice of channel, publication, timing, creative, proposition, incentive, call to action, copy, etc.. to increase relevance and drive response rates.

5.3.2 Techniques – Make it targeted

Using direct mail as our case study here, most would agree that a 25% response rate to a campaign would typically be a success. Let's put that on its head for a second though. This means that 75% of the people you contacted *didn't* respond. 75% of your budget was wasted. Worse still, you may actually have *damaged* your relationship with 75% of your potential future customers.

Using statistical modelling techniques we can identify those more likely to respond, and focus our effort and budget on talking to them.

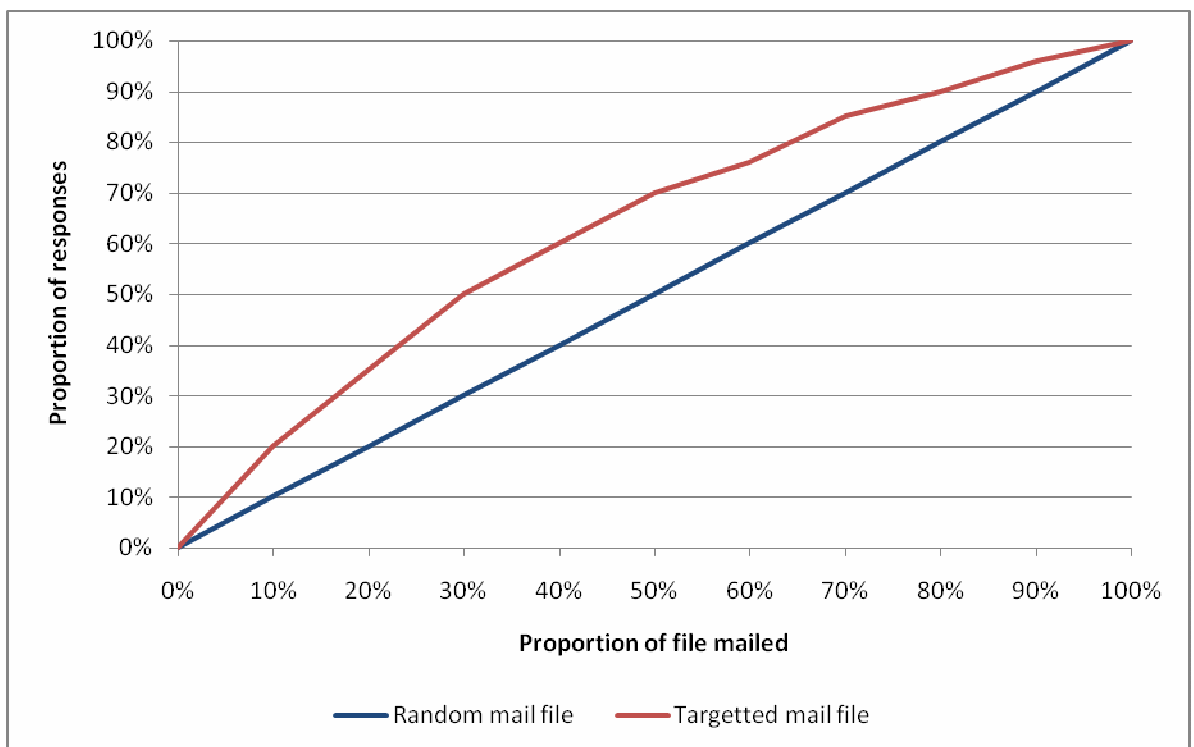
Logistic propensity modelling is a technique which analysis everything we know about our target population as inputs, and models a binary (yes/no, respond/not respond, renew/not renew) output.

So, instead of producing a mail file and mailing everyone in it, we now have the power to rank the people in the mail file by how likely they are to respond. We can then chose who we contact based on sound insight.

If **efficiency** is our objective we can set an allowable marginal acquisition cost and work down the mail file until that cost is hit.

If **volume** is our objective we set a maximum allowable campaign cost and select down the list until our constraint is reached.

The graph below demonstrates the relationship between volume mailed and responses received for a random and a targeted mail file.



Consider these checkpoints:

- When we mail 0% of the file we get 0% of the responses in both cases (naturally)
- When we mail 100%, we get 100% of the responses (again, naturally)
- When we mail 50% of the file, we get C70% of the responses from the modelled file and only 50% from the random file
- To get 90% of the respondents in the file we need to mail 90% of the random file, but only 80% of the targeted file

5.4 Techniques – Make it best

Our above example (5.3.2) focused on driving efficiency in a direct marketing campaign. We were able to target our budget at those most likely to respond, therefore generate greater response for our budget.

This serves as a good example, but the real picture is rarely this simple. In reality, budgets are constrained across the entire marketing mix, and even across the whole business. In the above example we allowed prospects to be mailed if they fell below an allowable marginal acquisition cost. But how do we set this cost? How do we know that even the 'efficient' money spent here couldn't have been *more* efficiently spent in another channel?

The answer is to understand the marginal acquisition costs at each level of spend across all channels. Clearly this is a very complex set of data, with endless combinations of spend across the entire mix and each of these combinations has a different outcome. Which is the best outcome?

Operational Research optimisation techniques are specifically designed to answer just this kind of question. All possible combinations of input are analysed to identify the optimal (best) outcome for an objective variable (in most cases: maximise return).

Now, for a fixed marketing budget we know that we are generating the best return possible across all of our channels.

6. In summary...

6.1 The moral of the story

In this document we've spoken about the benefits of a basic MI system and of a complex multi-variable optimisation model.

We've seen a route map, a journey from being in the dark to delivering 'the best'.

The truth is that no-one (certainly in our experience) from the smallest business to the biggest world-wide banking groups has completely cracked these issues. We're all on the curve somewhere and the first stage to moving up it is to understand our current situation.

Using the route map as a model, Llando Knight Consulting will help you to establish where you currently sit, and build a bespoke plan for helping you to move up the curve.

6.2 Final thoughts

The snag of a white paper like this is that, like all marketing material, it needs to be relevant and targeted. In the case of a document like this that means being pitched at the right level and being concise. That's a tough balance to strike given the subject matter. Therefore it is inevitable that I have waffled too much for some, and not gone into enough detail for others.

The best way to overcome this is to get in touch with us for a proper discussion.

Hope to hear from you soon.

Best Regards,
Tom McGuinness

tom@llandoknight.co.uk

07973 198618

www.llandoknight.co.uk