

PART VI

STEP 5: POSTPROGRAM ANALYSIS AND FUTURE PLANNING

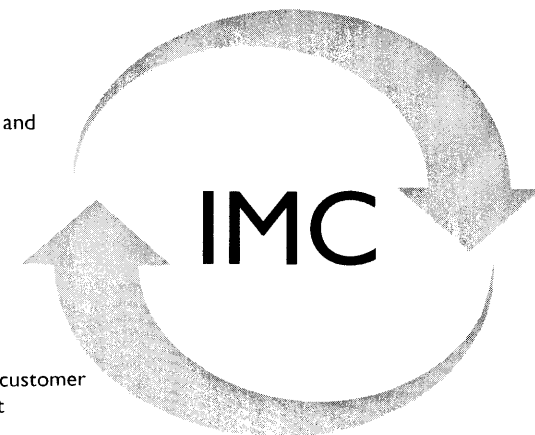
1. Identify customers
and prospects

2. Valuation of
customers/
prospects

3. Creating and
delivering
messages and
incentives

5. Budgeting,
allocation, and
evaluation

4. Estimating
return on customer
investment



POSTPROGRAM ANALYSIS

As we stated at the outset of our description of IMC, a problem that has plagued traditional marketers is the inability to close the loop on any communication program by measuring its actual impact in financial terms. The reason for the problem is simple: marcom managers typically have little or no input into the budgeting process for the programs they manage. They work strictly with allocations and/or fixed budget amounts determined by senior management. Since traditional marketing provides no means through which marcom can prove its impact—and therefore its potential returns—marcom managers have been relegated to the role of bystanders in the fast-emerging finance-driven marketplace. All that is about to change. Value-oriented IMC planning finally allows marcom to close the loop by measuring and evaluating its programs in terms that finance-driven firms understand. That is the goal of step 5 of the IMC process.

How IMC Closes the Loop

As we showed in the last chapter, IMC is able to answer the following three questions for senior management:

- How much should we, as a firm, invest in marketing communication programs?

- What type of financial return will we receive?
- Over what time period will our returns occur?

By the time a firm reaches step 5 of the IMC process, these questions have already been answered, since the marcom manager has fairly accurate estimates of both short-term and long-term returns on the marcom investment. In step 5, the manager need only measure actual financial results of the marcom program over time to determine its success. This, of course, requires the cooperation of sales, accounting, finance, customer service, and many other functional groups in the company—all of whom have been involved from the outset through each of the first four steps of the IMC process.

Obviously, once returns have been measured, the next step is to repeat the marketing and communication approaches that have succeeded and revise those that have not. Similarly, evaluations of the customer and prospect groups that were selected for the marcom program must be made. If the groups delivered anticipated returns, it makes sense to continue programs against them. If returns fell short of expectations, some type of change will obviously be needed. Marketers have always known that sometimes customers are just not ready to purchase or are unwilling to change their behavior. But the beauty of the five-step IMC process is that the marketer learns the response from marcom efforts quickly, since short-term results are evaluated within the current fiscal year. Thus, the program can quickly be adapted or adjusted as needed. Identifying successes and failures provides input for future programs, thus closing the marcom loop.

Measurement of Actual Returns

Measuring short-term returns—those business-building returns that are realized within the current fiscal year—is not a complicated process. All the baselines are already in place. The marketer knows the value of certain groups of customers and/or prospects in terms of their current income flows to the organization (steps 1 and 2 of the IMC process). He or she has developed and delivered appropriate messages and incentives through predetermined media vehicles (step 3), and has esti-

BACK-TO-FRONT PLANNING?

Many managers have great difficulty with a key element of IMC planning. They cannot understand why the budgeting part of the process comes last. In traditional marketing, budgeting happens before any marcom program ever gets under way. Management first determines how much can be spent, and marcom managers are charged with building programs within those financial constraints. It is the management style of "command and control," with marcom relegated to a tactical rather than a strategic role.

The IMC process turns this around. Instead of beginning with a budget, one arrives at a budget through the planning process. The reason that budgeting belongs at the end is quite simple: until the marcom manager knows who the best customers and prospects are, has some idea of how and in what way marketing communication can impact their behaviors and change their attitudes and beliefs, and then forecasts what the financial value of those changed behaviors is likely to be, he or she has no idea how to answer the three key questions posed at the beginning of this chapter for senior management. That is, management has no idea how much to invest, what level of returns to expect, or how long it will take to generate those returns.

Viewed in this way, it becomes clear that traditional budgeting and allocation procedures are, for the most part, simply the hopes and dreams of senior management influenced by the marcom managers and their agencies, the media, and others involved in the communication process.

mated potential returns in the form of changes in income flows from these customers or prospects as potential returns (step 4). Because each goal has been thoroughly thought out and investigated in these first four steps, the marketer is in a position to determine easily whether the goals have been achieved and whether forecasted returns have been obtained. All that is necessary is a comparison of actual customer responses and sales data from the current fiscal year.

A key value of postprogram analysis is the opportunity it provides for continuous learning and improvement. It's possible to determine fairly accurately what worked and what didn't by looking at actual outcomes. If a marcom program didn't work or didn't live up to estimates, there is now a basis for evaluation and change. Those programs that did work can be repeated or improved and the others changed, adapted, or abandoned. The marcom group becomes a learning group and, in the process, becomes more relevant to customers, prospects, and management over time.

Long-term returns—those that build a brand's equity over time—are measured using actual sales results in exactly the same way as explained in the previous chapter. Quite simply, the marcom manager determines the financial value of the customers or customer groups over a multiyear time frame—say, three to five years—by looking at their actual income flows during the determined period. As with short-term results, the IMC planner is then able to adapt or adjust the marcom plans—communication programs, investment levels, delivery systems, and the like—to maximize future returns over time.

The planner can also see the relationship between the short- and long-term effects of each program. While it is common to focus on either short-term or long-term financial returns from marketing communication investments, depending on the views of management, there is little question that short-term results have an impact on long-term returns. The challenge is relating the two. In the IMC process, long-term returns that accrue to the organization are an accumulation of short-term returns from investments in the same customers and prospects. The use of customer investments as the basis for all marcom measurement activities is the integrating factor.

Three C Analysis: A New Integrated Model of Long-Term Brand Value

As stated earlier, the IMC evaluation model is based primarily on customer income flows. While the greatest focus is on financial returns, or cash flows, there are other values connected with ongoing customer

contributions, customer advocacy being one of the most important.¹ *Customer advocacy*, as we use the term here, goes beyond the traditional view of customer loyalty (that is, willingness and desire to continue a relationship with an organization by repeatedly purchasing or using its brand). Customer advocacy encompasses customer loyalty but also extends to proactive customer behavior to recommend the brand to others, to wear the brand's logo or icon on apparel, or otherwise make a public statement showing his or her enthusiasm and support for the brand.

The ability of the firm to estimate the customer value of the brand results from the development of in-depth and detailed customer data gathering and information created and stored in rich, complex databases such as those described in steps 1 and 2 of the IMC process (see Chapters 4 and 5). Since these databases have only been developed over the past ten to twelve years, it is clear why the approaches to marketing and marcom planning and development are changing so rapidly. The changes are being driven by the new data technology and thus are dynamic and innovative.

To measure the integrated short- and long-term impact of marketing communication, three items are needed. For convenience, we'll term them the "Three Cs":

1. **Customer contribution.** This is the income flow from the customer or customers over time, measured at the contribution margin line (see Chapter 9). It comprises the net dollars the organization spends on marketing communication; therefore, net dollars must be measured as the return.
2. **Customer commitment.** This is a simplified version of the customer share of requirement or share of wallet concept explained in Chapter 10. The premise here is simple: customers vote with their wallets. They buy products they believe in or prefer. This is a much better measure of customer favor than attitudinal measures that ask how customers feel or relate to the product or service. In the Three Cs approach, customer commitment is determined for each individual segment, because experience shows that various segments show different levels of commitment to the various brand or brands.

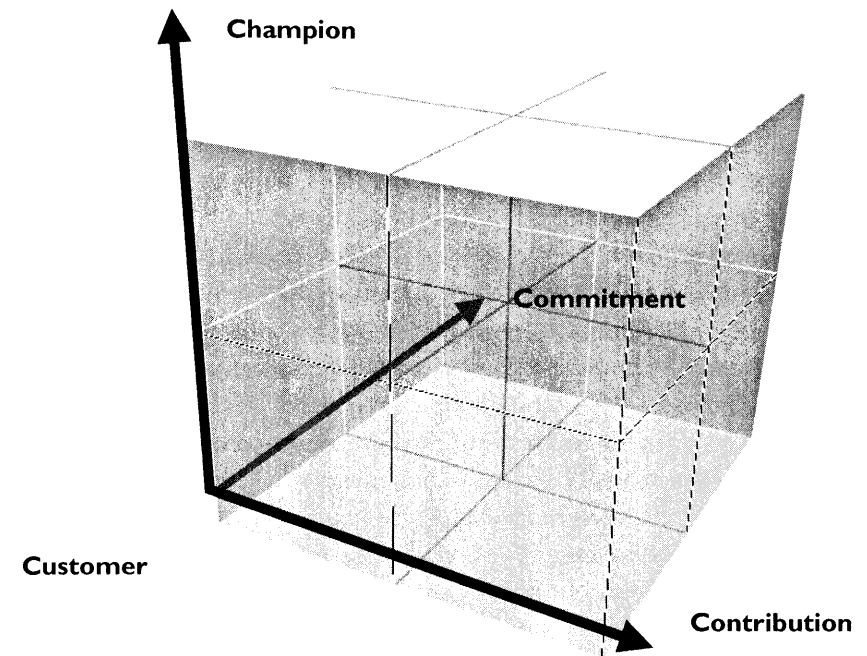
3. **Customer champions.** This refers to how involved with and supportive of the brand the customer is, in other words, how much or how little the customer will advocate the brand to others. The strongest measure here is whether or not the customer actually recommends the brand to a friend, relative, or colleague. Again, it is a measure of behavior, not just attitude. Hopefully, these customer-delivered messages and incentives will then result in an additional sale to a new customer or customers by the firm at relatively low cost.

Exhibit 12.1 illustrates the Three Cs concept. By using basic customer identification, either individually or as part of a group, along with the Three Cs, the planner is able to construct a three-dimensional "customer cube." When these three measures are combined, they create a box within the cube—a number for contribution, a number for commitment, and a number for contribution. This cube not only clearly identifies where the customer currently stands in terms of behavior, it also offers some guidance to marcom managers in terms of what future behaviors would be most beneficial to both the customer and the marketer. Knowing where the customer is on these three key measures is fundamental to measuring the level of investment and return on customers and customer groups. By identifying these numbers, the firm can place a value on the customer. If the customer is low on one attribute, the firm can initiate marketing communication programs to attempt to move them in a specific direction in the cube.

As an example, by knowing where the customer is in the customer cube, the marcom manager can identify certain objectives for the communication program. Some might be as follows:

- To retain the existing behavior of the customer
- To promote new behaviors among the customer group
- To build incentives or rewards to encourage customers to become champions or advocates
- To allow the manager to determine whether or not to invest in the customer based on the current and potential value that might be returned to the firm

Exhibit 12.1 Three Cs Measures of the Brand



Adapted from Clive Humby, "Customer Measures of the Brand" (presented at the Cranfield School of Management Conference on Leveraging Brand Equity to Create Strategic Value, Cranfield, England, April 19, 2002). Used with permission from dunnhumby associates.

The objectives behind Three C analysis are as follows:

1. **To help the marcom manager understand changes in behavioral activities among individual customers and various customer segments.** For example, Three C analysis helps determine which customers moved from one segment in the cube to another as a result of marcom programs and which did not. Changes by customers over time must be directly related to the various marcom activities that have been implemented, otherwise the credit belongs elsewhere. If, for example, a household starts buying baby food and diapers during a measured fiscal year, this is likely not the result of a marcom program but is more probably due to a change in the structure of the household. Three C analysis provides insight into

what marketing communication has contributed and what has occurred externally, driving behavioral changes.

2. **To help the marcom manager understand how customers migrate from one box in the cube to another.** Analyzing migration provides insights into lifestyles and life patterns. If customer migration can be observed over time, it should be much easier to create relevant, effective, and efficient marcom programs that will influence behavior in the future.
3. **To provide an indicator of how difficult it might be to change customer or prospect behaviors through the use of marcom programs.** Being able to identify customers, communicate with them, and then measure the results of communication quickly helps marcom managers isolate customer groups for whom marcom can be a powerful change agent and those for whom other forms of marketing or corporate activity might be required. Of course, in some cases, customer behaviors simply can't be changed no matter what the organization does. These are the customers and prospects for whom the process provides the most insight. If they cannot be influenced with marketing communication, there is little sense in continuing to invest against them.

Identifying the Benefits of the Three C Approach

There are some obvious benefits to the Three C approach since it combines both short- and long-term measures of the return on marketing communication programs. For example, the approach integrates short-term marcom investment decisions and monitors their impact across each segment. Thus, the analysis provides a measure of both current and future value of each customer or segment.

Perhaps the greatest benefit of the Three C approach is that it provides a direct benchmark of marketing and communication returns, because it measures the critical variable changes in actual customer behaviors. Through that measure, it helps overcome the inherent danger of viewing or measuring "average" customers for the brand. This averaging of customers, marketing activities, and marcom programs

creates major problems for the organization. Traditional measures like average purchase cycle, average income, or average usage, for instance, mask critical information on what the individual customer or customer group is actually doing. An example will help illustrate this point.

Comparing Traditional Averaging Measures with Three C Measures

An adventure travel company with a total of one million customers offers vacation trips designed around such activities as whitewater rafting, mountain climbing, bungee jumping, wilderness hiking, and other outdoor activities. Some customers repeat the same vacation each year, while others try a variety of different adventures. Using traditional analysis measures, the marcom manager would see that, on average, each customer generates a contribution margin of \$50 each year. The customer base, however, is quite fluid. That is, a certain number of customers each year decide they do not want adventure vacations any longer for various reasons. Thus, there is churn in the customer base of about 20 percent per year on average. (Of course, some customers stay with the company for more than five years and some stay considerably less, but, on average, the defection rate is about 20 percent per year.) As a result of churn, the firm estimates that the average customer stays for about five years. Thus, at the end of the five-year period, the adventure travel company has essentially turned over its entire customer base (20% attrition \times 5 years = 100% of customer base).

If the net present value of the total customer base were calculated using the firm's discount rate of 15 percent, it might look something like Table 12.1.

The total projected net present value (at a 15 percent discount rate) of the firm's customer base is approximately \$119.5 million. Based on this estimate, the firm could develop some idea of how much it could afford to invest in marcom programs against its total customer base during the coming five years, knowing that on average each customer is responsible for approximately \$50 in contribution margin. Further, the firm could likely develop plans that would attempt to acquire new cus-

Table 12.1 Adventure Travel Company**Average Customer Analysis—Old Model**

Bases:

- 1 million customers
- \$50 contribution
- 20% defection rate
- 15% discount rate

	Customer Count	Average Contribution Margin	Total Contribution Margin
Year 1	1,000,000	\$50.00	\$50,000,000
Year 2	800,000	\$50.00	\$40,000,000
Year 3	640,000	\$50.00	\$32,000,000
Year 4	512,000	\$50.00	\$25,600,000
Year 5	409,600	\$50.00	\$20,480,000
Net present value over 5 years: \$119,583,590			

Adapted from Clive Humby, "Customer Measures of the Brand" (presented at the Cranfield School of Management Conference on Leveraging Brand Equity to Create Strategic Value, Cranfield, England, April 19, 2002). Used with permission from dunnhumby associates.

tomers and other plans that would be designed to retain the existing customer base, although this might be somewhat difficult since, in many cases, the firm doesn't know which customers will leave. From this analysis, however, it would appear that the marcom manager would have to develop some very effective acquisition programs to offset the annual departure of approximately 20 percent of the customer base. Additionally, it is likely that some retention programs would be needed as well, since the assumption is that only 20 percent of the customer base presently defects. If that number were to go higher, even less future income could be projected.

The problem with this analysis, however, is that the company almost never has an "average" customer base or an "average" year. Some years, customer income flows are up; some years, they are down. By averaging the years and applying a discount rate across all customers, the management of the adventure travel company has masked the true value of customer groups. This could well mislead the marcom manager in terms of what types of programs are needed. Thus, a careful analysis is needed.

The new Three C model suggests that an analysis be made of each customer group each year to determine and understand the actual value

of various customers. If, instead of looking at an average of all customers, the marcom manager estimated the income flow from specific customer groups, dramatic differences in the total value of the adventure travel company customer base would be revealed. As shown in Table 12.2, the customer base is aggregated into loyal customers, core customers, borderline customers, and passive customers. When the net present value of each aggregate group is analyzed, based on customers' contribution rates and their tendency to defect, the income flow to the organization over the next five years comes to \$146.2 million not \$119.5 million (again using a 15 percent discount rate).

The different estimate of future returns comes from an understanding of the contribution margin income flows from various customer groups, their group defection rate, and their value by year to the firm. For example, 50,000 loyal customers provide the firm with \$350 per year in contribution margin, not the \$50 from the average of all groups. Further, this "best customer" group has a much lower defection rate, only 2.5 percent, compared to the average for all customers of 20 percent. Thus, different marcom programs are needed for this group than for those customers who provide less contribution margin and have far greater tendency to leave the customer base. The other calculations shown in the table are just as revealing. Thus, an IMC approach places value on customers, in as much detail as possible, for it is this kind of analysis that provides an understanding of the true ongoing value of the brand and the marcom efforts.

Table 12.2 Adventure Travel Company**Segment Customer Analysis—New Model**

Customer Count	Contribution Margin	Defection Rate
50,000 loyal	\$350 contribution	2.5%
200,000 core	\$100 contribution	7.5%
300,000 borderline	\$30 contribution	12.5%
450,000 passive	\$8 contribution	33.4%
Net present value over 5 years: \$146,273,381		

Adapted from Clive Humby, "Customer Measures of the Brand" (presented at the Cranfield School of Management Conference on Leveraging Brand Equity to Create Strategic Value, Cranfield, England, April 19, 2002). Used with permission from dunnhumby associates.

Tracking Customer Migration Through Three C Analysis

To this point, only the existing customer segments have been investigated in different ways, that is, by their differing values. One of the more important challenges facing the marcom manager is to influence the behavior of the existing customer base. Returning to the adventure travel company example, one of the key goals might be to encourage present customers to move from one segment to another. Table 12.3 illustrates this situation and the change in value that occurs if the marcom program is successful.

There are still four basic aggregate groups (loyal, core, borderline, and passive). However, the table shows what happens if only 10 percent of the customers in each of the three bottom groups move up one segment—that is, if 10 percent of passives become borderlines, 10 percent of borderlines become cores, and so on. Further, the table illustrates what happens if another 10 percent of each of the groups moves down one segment. Over the next five years, the total estimated net present value of the adventure travel firm's income flow moves from \$146.2 million up to \$167.6 million, a gain of over \$21 million during the period, or an increase in value of 15 percent during the specified time frame.

Similarly, major benefits occur to the travel organization if different percentages of the customers move from one segment to another. As

Table 12.3 Adventure Travel Company
Impact of 10% Movement Between Segments

Customer Count	Contribution Margin	Defection Rate
50,000 loyal	\$350 contribution	2.5%
200,000 core	\$100 contribution	7.5%
300,000 borderline	\$30 contribution	12.5%
450,000 passive	\$8 contribution	33.4%
Plus: 10% of customers promoted up one segment 10% of customers moved down one segment		
Net present value over 5 years: \$167,646,065		

Adapted from Clive Humby, "Customer Measures of the Brand" (presented at the Cranfield School of Management Conference on Leveraging Brand Equity to Create Strategic Value, Cranfield, England, April 19, 2002). Used with permission from dunnhumby associates.

shown in Table 12.4, if 12.5 percent of the customers are promoted up one segment and only 7.5 percent of the customers are demoted down one segment, the value grows to \$184.9 million from the \$167.6 million, or an increase of roughly 10 percent.

But, income flows and likely profits for the adventure travel company can likely be further improved if the organization is able to reduce customer churn, or the number of customers leaving the company during any one year. Table 12.4 incorporates this scenario. By reducing the overall defection rate for each segment by just 10 percent (among loyalists from 2.5 percent to 2.25 percent, and so on), the overall average defection rate decreases from 20 percent to 18 percent. With this reduction in churn, the adventure travel organization would increase its net present value over the next five years to approximately \$184.9 million.

From this example, it is clear how important the management of customers, their purchases, and their loyalty to the organization have become. Key, of course, are the analysis and the ability to identify customers and their value and monitor their movement within the organization's portfolio. It becomes very clear as well that having specific behavioral goals for specific customer groups and then developing marcom to influence the behavior of those customers becomes the key challenge for the marcom manager. This ability to segment, measure the value of, and follow the migration of customers through the length of

Table 12.4 Adventure Travel Company
10% Reduction in Churn

Customer Count	Contribution Margin	Defection Rate
50,000 loyal	\$350 contribution	2.25%
200,000 core	\$100 contribution	6.75%
300,000 borderline	\$30 contribution	11.25%
450,000 passive	\$8 contribution	30.00%
Plus: 12.5% of customers promoted up one segment 7.5% of customers moved down one segment		
Net present value over 5 years: \$184,991,712		

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association with the organization becomes a major factor in the success of the marcom program and ultimately the success of the company.

Moving Forward with the Three C Approach

It should be clear by now that the Three C approach of viewing short-term returns as the foundation for long-term returns makes inherently good sense. Long-term returns are simply a compilation of a series of short-term returns with some allowances for compounding, risk, and the like. The primary value, of course, is that this methodology integrates short-term marketing investment decisions and monitors their impact across each customer segment in terms not just of their current value but of their potential future value as well. In addition, the use of an ongoing method of analysis and evaluation provides a useful benchmark for measuring the value of future marcom programs, since it is directly connected to the behaviors of various customer groups rather than just their attitudinal change.

Most of all, the Three C approach overcomes the danger of looking at data in terms of “average” customers and “average” investments and returns. It shows the value of marcom programs as they relate to actual customer groups and thus refines the traditional measures that are still widely used.

Back to Step 1

As we have discussed, a core activity during step 5 of the IMC process is the evaluation of results, which then become the basis for future marcom programs. In other words, the results of the initial program help define the goals and objectives for the next. The planner quite simply takes everything he or she has learned about customers and prospects and evaluates how well each step of the process worked. He or she can then repeat the same questions asked in the first four steps: Were the correct customers and prospects identified? Were they properly valued?

Was the correct mix between messages and incentives made? What type and level of response was achieved? With answers to these questions in hand, the planner is able to begin again at step 1 of the IMC process, with each new program refining and improving the last. It is this closed-loop approach, where results are used to develop future plans, that distinguishes IMC planning from traditional marketing approaches.

Moving On

Perhaps the greatest value of the Three C approach is that it further confirms that the brand, since it reflects the relationship between the customer and the organization, must be treated as an asset of the firm. While intangible, the brand still contributes great value to the organization as brand equity builds up during relationships with customers. That allows the firm to understand that, for the most part, its success comes from ongoing relationships with customers and prospects and that those returns are commonly generated as a result of customer loyalty. Further, the Three C approach provides a methodology by which investments can be made in various customer groups based on their value and their potential.

This leads back to the four common goals of the marcom manager that have been demonstrated throughout this text: to acquire new customers; to retain existing customers at their present income flow levels; to increase the present and future value of existing customers or prospects by upselling or cross selling; and to change the value of existing customers by migrating them to various products and services in the organization's portfolio. These objectives, in turn, lead right back to the start—the strategic organizational goals set out in guiding principle 4: increase cash flows from customers; accelerate cash flows from customers; stabilize cash flows from customers; and impact shareholder value.

Thus, the circular nature of IMC planning allows marcom managers to close the loop on the marcom process. Step 5 leads back to step 1, as data analyzed during evaluation of the IMC program feeds directly into

and acts as a starting point for new and continuing marketing communication programs.

At this point, there is only one additional element of financial measurement to be addressed: finding some way to value the brand or identify the brand equity that has been or could be created as a result of marketing communication. This, of course, directly benefits the shareholders or owners of the firm. That subject is discussed in detail in the next chapter.