

MULTI-CHANNEL BUDGET ALLOCATION

Determining the right budget mix for your marketing

With the proliferation of marketing channels, marketing has become more of an ecosystem than a direct channel effort. Being able to understand the relationships between your customer marketing channels is a critical component in understanding the effectiveness of your marketing campaigns. In short, understanding how each marketing channel is working together helps to ensure that you are maximizing the efficiency of your marketing budget.

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I am a bad customer for any marketer because I am a multi-channel shopper. In truth, I'm a pretty responsive customer, but I rarely, if ever, take a direct path to purchase from the marketing that I receive. Here is a tale of a recent purchase of mine.

I was looking to update my fan wear for the football season. My favorite team sends me regular marketing emails and catalogs to purchase this fanwear, as does the league. After reviewing the catalog for a specific jersey, I opened the email, clicked through to the website and pulled up the jersey that I wanted. I then, opened a second tab and did a search for that same jersey. I then checked the prices at another team's site (because I player that I like recently changed teams and wanted to see if I should purchase a jersey from his new team). I ended up clicking on the search link to the league site and purchased multiple jersey's from different teams. Which marketing effort should get the credit for my purchase?

The fact is that the story above is not unique. Many of your customers are shopping in this way and it is only going to get more difficult to manage as new ways to interact with your company come online. Marketing, especially direct marketing has become more about managing an eco-system of outbound marketing, inbound marketing and customer interaction channels than the traditional channel specific direct response marketing. Marketers need to better understand how to manage the multiple marketing efforts and ensure that they are spending their budget effectively.

"... organizational and technology related issues prevent [companies] from stitching together a comprehensive view of the customer."

- Forrester Research

CREATING A CONSOLIDATED CUSTOMER VIEW IS KEY

The first key to gaining a solid understanding of your marketing ecosystem, and how your customers interact with it, is to obtain an accurate view of your customer. This may sound like a simple statement, but many companies are not capable of obtaining this view today. Simply put, Customer Data Integration (CDI) is not something that often happens in today's marketing database environment. Most organizations make an endeavor to match customers by customer name or customer ID details to consolidate data. Unfortunately, our customer's are not very good at

using the same login customer ID or login every time that they interact with us, and thus, we often have a database where a single individual or household exists in multiple ways within our database. This makes it virtually impossible to obtain an accurate view of the marketing and interaction behavior.

This is a pervasive problem, a 2008 Forrester study tells us that marketers still struggle with *"...organizational and technology related issues that prevent them from stitching together a comprehensive view of the customer."* This makes it virtually impossible to measure the effectiveness of their marketing efforts across multiple channels.

This is certainly not a simple problem, but it is solvable. The proper technology must be applied to understand the customer across your organization. A Myriad of techniques should be used to consolidate Jim Brown who registered for your email program and James J Brown who just made a purchase at your retail store. Similarly, you need to be able to distinguish him from the Jimmy Brown who shares the same apartment building with James J. Brown. That said, once the consolidated customer view is in place, it becomes relatively straight forward to determine the business rules for understanding your marketing eco system

MULTI-CHANNEL ALLOCATION STRATEGIES

When the complete multi-channel view of your customer is complete, you should have a solid understanding of what marketing efforts the customer has seen and what responses have been elicited from the customer. From here, the marketer needs to establish the business rules for determining how responses are allocated to measure the effectiveness of your marketing budget.

Direct Allocation

Direct allocation is one of the most straight forward and commonly used methods for determining marketing efficacy. In this method, 100% of a particular response is allocated to a particular marketing effort. Most commonly, the most recent marketing effort is awarded 100% of the response. For example, if a catalog was received on Monday, an email on Thursday and there were a transaction on Sunday, Direct Allocation would apply 100% of the response to the email.

Pros

The positive of this approach is that it is simple and straight forward; the most recent effort or marketing channels that can be directly tracked to a response (e.g. an email click through or a search landing page), are awarded the response. This effort actually requires less CDI work than others because most of the marketing efforts are allocated directly within the channel.

Cons

Unfortunately, while Direct Allocation is generally the most straightforward, it often does not reflect true customer behavior. A customer may receive and respond to multiple marketing messages before a purchase. Each has its own unique effect on the actual transaction. Direct Allocation completely discounts the fact that a customer may browse a catalog and then go online or into a retail store to make a purchase. In addition, this methodology favors channels that allow more frequent contact such as email or behavioral targeting.

Fractional Allocation

One way to overcome the issues presented by direct allocation is to utilize a fractional allocation methodology. With Fractional Allocation, a marketer can set business rules that account for multiple marketing messages hitting a customer in a specific timeframe. Utilizing the example listed above, a catalog was received on Monday, an email on Thursday and a purchase was made on Sunday, both the Catalog and Email would receive partial credit for the response. How they receive credit is a matter of business rules and discussion within your organization. For example, a particular business may find that Direct Mail is a higher driver of value for the organization. In this case, the business rule may be something as follows:

- Response within 1 month of send with no other marketing events, 100% allocation
- Response within 1 week, with at least one additional marketing event, 50% allocation
- Response within 2 weeks with at least one additional marketing event, 30% allocation
- Response within 3 weeks with at least one additional marketing event, 20% allocation
- Response within 4 weeks with at least one additional marketing event, 10%.

In this fashion, we take into account time as well as additional marketing channels. The complexity of the business rules is determined by the organization and the importance of each channel relative to customer value. The business rules may be fluid over time, but should only be changed after careful consideration.

Pros

Fractional Allocation helps to clarify the interaction between marketing efforts and channel responses. It is a more true version of the marketing eco-system than a direct allocation methodology and is an attempt to easily clarify the relationships between marketing events and customer interaction channels. This methodology will

allow the marketer to quantify the effectiveness of their multi-channel marketing effort.

Cons

Fractional Allocation is both complex and imperfect. Being based on business rules, the system relies on human intervention to determine the actual allocation of response to channel and thus is prone to human error. It is a best guess scenario to understand the marketing eco-system. In addition, the business rules are too complex to build into a reporting environment, the rules must be run when the transactions are loaded into the marketing database and thus increases the complexity of the database build process.

Market Mix Model

A Market Mix model is a variation on a modeling technique used for years by media buyers called Media Mix Modeling. Advertisers employed the Media Mix model to determine the optimal media buying budget for companies for years. Using these same techniques, Marketers can now gain a better understanding of their entire marketing eco-system to define the optimal marketing budget for a given period of time.

The Market Mix model is best run at a segment level as different groups will interact differently with your company. In short, each category will require a different optimal marketing budget. The methodology will, however, provide the marketer with a solid framework to define the marketing budget.

Pros

The Market Mix model provides the most complete view of the marketing eco-system of the three methodologies discussed in this document. The automated nature of statistical modeling affords the marketer the ability to apply this methodology in several ways to play out what if scenarios with the marketing budget. This affords the marketing department the best ability to define and optimum budget.

Cons

As with any statistical model, it applies past performance and behavior to predict the future. Predicting the future is simply not an exact science. In addition, the methodology requires specific statistical modeling experience that may not exist in all marketing departments. Finally, because Market Mix Models look that the past to predict the future, they are not an optimal method for predicting how a new channel will effect the marketing eco-system.

Conclusion

Today's direct marketing climate is more complex than it was just a decade ago. At our fingertips are both Demand Generation (marketer initiated contacts) and Demand Capture (Customer Initiated interactions) techniques that work together to form a complex marketing eco-system. This new marketing paradigm requires us to modify our techniques for determining the efficacy of our efforts.

While no one methodology is a silver bullet, the techniques described in this document can help marketers to zero in on the correct allocation of their marketing spend. All require that a complete and clean marketing database exist to underpin the effort. Data has always been a key to good direct marketing. Now, a comprehensive multi-channel marketing database is a prerequisite for success.