

HITTING THE SWEET SPOT

HOW MARKETING CAN USE BUSINESS
INTELLIGENCE AND CORPORATE
PERFORMANCE MANAGEMENT SOFTWARE
TO IMPROVE PERFORMANCE



COGNOS®

THE NEXT LEVEL OF PERFORMANCE™



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INTRODUCTION

“I know I waste half the money I spend on advertising. The problem is, I don't know which half.”

John Wanamaker, the retail and marketing pioneer, made that observation more than a century ago. Some people argue that since then not much has changed. While marketing has grown increasingly sophisticated—more refined tactics, savvier use of new media, public opinion and market research, and even academic study—only a handful of programs deliver outstanding results. Ads fall flat. Mail-in campaigns miss their marks. Brands fail to capture the imagination. And millions of dollars, in Wanamaker's prophetic words, are wasted.

For more than 100 years, this situation had been accepted, however grudgingly, by marketing and senior executives alike. But now, things are changing. As competition intensifies and profit margins shrink, marketers can no longer hide from the CEO's scrutiny. CEOs now see no good reason to exempt marketers from the kind of accountability demanded of other corporate managers. Marketing departments are increasingly being challenged to present a solid business case to justify their budgets, their activities, and their strategic value to the organization.¹ “We are way past the point when the [VP Marketing] can say to the CEO or CFO ‘Trust me,’” says Bill Moulton, President of the Marketing Science Institute. “Every other part of a company is being held accountable in financial terms.”²

Many marketing executives agree. “What we have now is an appreciation for the importance of measuring the impact of marketing programs,” says Gregory Reid, Chief Marketing Officer at Yellow Roadway.³ According to Karen Haefling, CMO at Cleveland-based KeyCorp, “there's a new accountability in marketing that hasn't been there in the past. Companies are beginning to realize that it's important for their marketing strategies be aligned with their business strategies.”⁴

For marketers, this new environment presents a challenge and an opportunity. The challenge will be to articulate the value their teams provide to their organizations in a way executives can understand; for example, using “hard” financial metrics such as ROI. To do this, they need to better understand their own performance. They can do this by increasing insight into the needs of their customers, the effectiveness of their campaigns, and the strength of their brands. They also need to understand the key drivers of their future success. The opportunity lies in leveraging these insights into statistically sound and strategic recommendations about the company's direction and long-term goals.

Business intelligence and corporate performance management software from Cognos can help marketing overcome this challenge and seize the opportunity to deliver the results that CEOs now demand.

¹ Jim Nail, *Mastering Marketing Measurement*, Forrester, September 2002.

² *Marketers turn to metrics to measure impact of their initiatives*, SearchCIO.com, August 21, 2002.

³ Elaine M. Cummings, *Metrics Revolution*, CMO Magazine, September 2004.

⁴ Ibid.

MEASURING MARKETING

Marketing has worked in a measurement vacuum. Unlike sales or finance, marketing has worked without commonly accepted performance indicators such as close rates or earnings per share. Some companies do measure marketing ROI, but definitions and success criteria vary across industries. Some companies use metrics that are unrelated to the overall business strategy.⁵ Others rely on attitudinal-based metrics like brand awareness and purchase intent. These approaches do not provide the answers or reveal the full impact of the marketing budget.⁶

There are also inconsistencies in the level of detail with which companies know their customers. Some, like those in the consumer packaged goods or pharmaceutical industries, monitor customer and market activity from week to week and are sensitive to even the smallest shifts. For these companies, millions of dollars can be won or lost within one tenth of a percentage point. Others have very little insight into customer behavior, satisfaction, and loyalty.

“Many companies still don’t have a clear picture of their overall marketing performance, which may be why they cannot assess it,” says Tim Ambler, a senior fellow at the London Business School and author of *Marketing and the Bottom Line*. “They prefer to fumble around in the dark. But they may not like what they see when the lights go on.”⁷

Another challenge is getting historically decentralized marketing groups to agree on a common set of metrics.

This historic lack of comprehensive measurement, according to Yellow’s Reid, has fueled perceptions that marketing is not important in setting a company’s strategic direction.⁸ Yet marketing needs to be at the forefront of strategic planning. Marketers need to build and maintain strong brands, anticipate market trends, identify new markets, and achieve closer alignment with strategic goals. Marketing departments that continually struggle to do this, or that deliver only sporadic successes will see their budgets shrink, their key functions outsourced, and their access to senior executives reduced to exchanging nods in the elevator.

MARKETERS LOOK FOR ANSWERS WITH TECHNOLOGY

A survey conducted by Forrester Research and the Association of National Advertisers found that measurement was the top priority. Among the findings:

82 per cent experienced difficulty measuring multimedia campaigns

78 per cent experienced difficulty measuring the sales impact of their promotions

57 per cent experienced difficulty delivering customized communications

55 per cent had trouble targeting high-value prospects and gaining insight into customer behavior.

In each case, more than 80 per cent of respondents reported that technology could be helpful in solving these problems.

Source: *Mastering Marketing Measurement*, Forrester, September 2002.

⁵ Elaine M. Cummings, *Metrics Revolution*, CMO Magazine, September 2004.

⁶ Jim Nail, *Mastering Marketing Measurement*, Forrester, September 2002.

⁷ Elaine M. Cummings, *Metrics Revolution*, CMO Magazine, September 2004.

⁸ Ibid.

THREE KEY MARKETING ISSUES

Identifying and Understanding Your Most Valuable Customers

Every marketer dreams of hitting the elusive “sweet spot”—delivering the right message to the right audience at the right time. Hitting this sweet spot on a consistent basis lets marketing establish a strong, consistent, and profitable conversation with their target audience and helps them align their marketing messages and tactics with the company’s overall strategic goals. To do this, marketing needs to create detailed customer profiles. These can include the customer’s specific industry (sometimes down to the SIC code), purchase history, satisfaction levels, demographic information, and so on. Without these profiles, marketing usually succeeds in only two-thirds of the equation: the right message and the right time, but the wrong audience; the right audience and right time, but the wrong message, and so on. Valuable customers receive inconsistent or contradictory messages. Their responses become less predictable and satisfaction rates are a mystery. Potential new customers are unknowingly passed over as marketing wastes time and money talking to people who aren’t interested.

Understanding Campaign Effectiveness

When a campaign succeeds, marketing receives accolades from executives who ask to see that success repeated. But if the campaign fails to deliver a second time, or if a different campaign to the same audience falls flat, marketing scrambles to figure out why. Marketing dollars are finite—marketers need to evaluate the effec-

tiveness of each of their campaigns—the cost, the audience, the industry, the message, the frequency, the tactics, the response rate, and the proportion of qualified leads generated. This kind of insight would help marketing align their campaigns with strategic corporate objectives and deliver better results. Marketing would know why particular campaigns would be successful and be able to repeat that success. Without this kind of analytic rigor, marketing runs many different risks: devoting too few resources to key strategic markets, spreading resources too thinly over too many markets; or attracting customers who take a long time to buy or don’t buy enough.

Evaluating Brand Performance

A brand is the most visible expression of a company’s mission and values. In fiercely competitive industries (for example, pharmaceuticals, consumer packaged goods, and, increasingly, banking), strong brand performance can win against the competition and add millions of dollars to the bottom line. Strong brands are also essential to drive successful new product launches, and they can be the only calling card a company has when trying to open the door to new markets.

“The onus is on marketers to demonstrate returns on marketing investments.”

Bill Moulton, President, Marketing Science Institute

Source: “Marketers turn to metrics to measure impact of their initiatives,” SearchCIO.com, August 21, 2002.

Creating a successful brand can be a long and expensive process; measuring its strength and the additional value it creates is one of marketing's greatest and most persistent challenges. Marketing needs visibility into every facet of brand performance—recognition and penetration rates, performance against competing brands in the same space, competition against in-house or private label brands, performance and ROI across different media and in different channels, and so on. This helps ensure that their brand is providing the desired visibility, product performance, and return on investment.

Too often, marketing measures brand equity using descriptive adjectives or associations. Donald Lehmann, a marketing professor at Columbia Business School and Executive Director of the Marketing Science Institute (MSI), says “if you tell your CEO, ‘We’ve just increased the presence of our brand,’ he’ll nod and say, ‘That’s nice.’ But he can’t really evaluate it.”⁹ Other times, marketing uses both quantitative and qualitative research, from product sales data to public opinion surveys but may lack the analytical capabilities. So if their brand is not performing as anticipated, or is losing market share to the competition, marketing is still unable to understand why.

⁹ *Marketers turn to metrics to measure the impact of their initiatives*, SearchCIO.com, August 21, 2002.

COGNOS: THE WORLD LEADER IN BUSINESS INTELLIGENCE AND PERFORMANCE MANAGEMENT SOFTWARE

With more than 22,000 customers in more than 135 countries, Cognos is the world leader in business intelligence and performance management software.

Industry analysts, experts, and customers recognize Cognos leadership in business intelligence, scorecarding, and enterprise planning—the three integrated software capabilities that enable corporate performance management.

Cognos is the leading choice in major industries. Cognos customers include:

- 80 percent of the Fortune 1000.
- 9 of the top 10 banks in both the U.S. and Europe.
- 24 of the top 30 pharmaceutical companies worldwide.
- 4 of the top 5 global insurance companies.
- Major manufacturers including Welch's, Kennametal, Bridgestone, and Georgia-Pacific.
- Public sector organizations including the U.S. Army, City of Albuquerque, and the Palm Beach School District.

HOW BUSINESS INTELLIGENCE SOFTWARE HELPS RESOLVE THESE ISSUES

Business intelligence (BI) software enables organizations to understand their business performance in greater detail than that provided by CRM systems or financial spreadsheets. BI provides visibility, clarity, and insight into an organization's performance. It does this by allowing companies to aggregate different kinds of data—financial, demographic, sales, product, CRM, and other data and then optimizing it for reporting and analysis. BI can also create a reliable and agreed-upon source of consistent information and a commonly shared context for collaborative decision-making.

Advanced capabilities for greater insight

BI helps marketing “crack the measurement barrier” to reveal the full impact of their budget, programs, and tactics. It provides easier access to data and enables marketers to link cause and effect in their promotions.¹⁰ Through reports and analysis, marketing can identify, analyze, and report on trends, understand what drives changes in performance, and see where and why they are ahead of or behind plan. Data visualization presents performance trends and information using intuitive symbols, graphs, or gauges. Event detection uses automatic email alerts to keep users abreast of changes in marketing performance as they happen.

BI is also a key entry point into corporate performance management (CPM)—a process that joins business strategy with technology to align tactics with goals and create greater competitive advantage.

10 MARKETING QUESTIONS YOU CAN ANSWER WITH BUSINESS INTELLIGENCE

1. Which customer segment will respond best to a particular offer?
2. Which customer segment offers the most revenue potential?
3. What's the top-selling product mix in each region?
4. What response rate per region are we getting for marketing promotions?
5. Who are my top customers? How have their purchase patterns changed?
6. What is the cost per qualified sales opportunity?
7. How quickly do leads move through the pipeline?
8. What is my market penetration in each region?
9. Which customers are loyal?
10. Which product has the highest profitability?

¹⁰ Jim Nail, *Mastering Marketing Measurement*, Forrester, September 2002.

Helping every industry, every role

BI brings benefits to many different industries. Financial services companies can segment their customer base and then adjust service levels depending on the profitability of each segment. For example: a bank may discover that it can raise service fees or close particular branches after figuring out how its services are used by its high-value customers. Pharmaceutical companies can measure the market penetration of their leading antacid across different geographic regions. Manufacturers can analyze the seasonal effects on buying behavior to create campaigns that capitalize on peak demand periods, or analyze trends in product quality, scrap rates, or down time across shifts, plants, or individual machines.

BI provides every member of a marketing department with the specific information they need to make better decisions at the precise moment they need it. Product and brand managers can measure and analyze the performance of their campaigns as they unfold to refine or drop the ones that are delivering sub par results. Senior executives can identify emerging trends in a particular market and compare new markets to their existing customer base to choose the best new opportunities. Every insight can be shared across the organization for a tighter and more effective integration with other departments. Sales and marketing can examine their markets and customer base using the same information and agree on the most effective messages and tactics. All of this information can be integrated into strategic corporate goals and continuously monitored, analyzed, and managed.

Key BI Benefits for Marketing include:

- Increased ROI per campaign
- Stronger brand performance
- Detailed customer profiling
- More targeted spending
- More accurate lead forecasting
- Increased customer satisfaction

Identifying and Understanding Your Most Valuable Customers

BI can help marketing hit the sweet spot more often and for better results by matching its customers with its most effective promotions. Marketing can create detailed profiles of its most valuable existing customers and correlate these elements with third-party data to identify strategically important new markets. Better profiling helps marketing identify customers who are the most receptive, profitable, or strategically important to the company. Profiles can be correlated with the current sales pipeline to see whether or not marketing is attracting the right kinds of customers and make changes before all the money has been spent. This shortens the sales cycle and contributes to a lower cost of sale. It also identifies which customers are most likely to buy high-margin products, add-ons or accessories, or take advantage of up-sell or cross-sell initiatives. Marketing can also correlate these profiles with their customers' purchase history and other sales information to calculate RFM (recency, frequency, and monetary)—a measure of customer loyalty.

Understanding Campaign Effectiveness

Management consulting firm McKinsey says marketers can improve the effectiveness of their campaigns by adding analytic rigor to an often-unfocused budgeting process. This helps them view the use of metrics as part of a broader, more integrated approach to understanding what marketing programs are trying to achieve and how to get the biggest bang for the buck.¹¹

This is what BI does. BI can provide marketing with greater insight into market trends, help them define the parameters for a successful campaign, create automatic monitoring and analysis capabilities, and provide an environment in which the results can be discussed and shared—all before a single brochure goes out the door. Enterprise BI allows marketing to analyze and rank promotions to eliminate those that don't perform and focus on the ones that do. This can be done with or without CRM data. Campaigns can be evaluated by the number and quality of leads generated, the overall costs, the cost per lead, the cost to close, and so on.

"[Using Cognos] has, quite simply, changed the way we do business. We can now recognize critical relationships between marketing cost and sales revenue—previously very difficult to identify. The Cognos solution has sped up the decision-making process in a market that is crowded with competition and is typified by transient brand loyalties. It guides future sales and marketing activity to an extent that just wasn't possible before.

Simon James, Business Systems Manager,
Allied Domecq Spirits & Wine Division, U.K

¹¹ *Marketers turn to metrics to measure impact of their initiatives*, SearchCIO.com, August 21, 2002.

Marketing can analyze the performance of each of their campaigns from beginning to end to continually refine subsequent campaigns, making them more effective and the results more repeatable. It also helps marketing justify next year's budget.

Evaluating Brand/Product Performance

BI can help marketing look after the care and feeding of their brands to ensure that they remain strong and deliver the desired results. Marketing can monitor every aspect of their brand performance and streamline their strategies related to product mix, product pricing, and discounting policies accordingly. They can analyze how their brand is performing across different channels, product lines, or programs to allocate resources to those areas where the brand will deliver the best return or

capture market share. Third-party market research data or other external data sources can be aggregated and analysis conducted to identify new areas for growth. For example: a consumer packaged goods company can identify new geographic markets by analyzing the performance of its various brands in its current locations and correlating that information against its overall awareness in the market.

“[With Cognos,] we can fine tune sales and profitability projections on a daily basis. We can see the results of a marketing activity much quicker, much more accurately—and respond confidently. This has lead to better sales performance all round. Which means better profit.”

Simon James, Business Systems Manager,
Allied Domecq Spirits & Wine Division, U.K

CREATING A HIGH-PERFORMANCE ENTERPRISE: CPM

Business intelligence is an essential component in building a high-performance enterprise—one in which every employee at every level is focused on achieving the company's strategic goals. Companies can build a performance culture through corporate performance management (CPM)—a practice that involves aligning tactics with strategy at every level of the organization, and then using integrated planning, scorecarding, and business intelligence software to monitor and report on performance in a collaborative and closed-loop system.

CPM also helps companies leverage their substantial investments in IT and their vast amounts of corporate data into better decision-making and greater competitive advantage. It provides companies with a single version of the truth around which to drive, monitor, and understand their performance. It gives them a clear sightline into what's affecting performance in any area. And it enables them to react quickly to changing conditions or to take advantage of new opportunities.

Through CPM, companies can resolve performance issues and improve performance within a department or business unit, or deploy it across the entire organization. They can move improve financial outcomes by using to rolling forecasts that focus on key drivers; they can increase accountability for performance; and they can see and understand their performance in greater detail. This happens by combining three integrated software capabilities: enterprise planning, scorecarding, and business intelligence.

Enterprise Planning

Cognos Enterprise Planning is an integrated solution for planning, budgeting, forecasting, modeling, consolidation, and financial reporting. It helps you articulate what you want to achieve—and how you will achieve it—using a hierarchy of plans, measures, and reports that flow from broad strategic objectives to tactical plans across departments, divisions, and locations. It relies on the input and commitment of hundreds or thousands of people who must execute against changing performance goals.

Scorecarding

Cognos scorecards give everyone a precise understanding of where they stand in relation to

strategic goals. Personal scorecards reveal how each employee's decisions affect overall corporate performance. Executive scorecards reveal whether or not the company is on-track to meet key objectives in earnings and revenue. Green light indicators show where performance is on track; red lights reveal where success is at risk. Cause-and-effect diagrams show how performance in one area affects outcomes in another. And strategy maps let people follow the corporate strategy from the boardroom to the shop floor.

Business Intelligence

Business intelligence delivers the information people need to make the best business decisions. Cognos business intelligence transforms vast stores of operational data into useful information and delivers it at the right time, using the terms and formats that employees can understand. It also gives them the power to analyze data on their own with simple mouse clicks, then share their findings with colleagues to improve collaboration.

HOW CPM CAN HELP MARKETING

CPM can improve marketing performance in key ways:

- creating a commonly shared perspective on performance across departments, product lines, or geographic locations;
- linking “traditional” metrics such as brand awareness to hard-core financial concepts such as EPS or ROI;
- leveraging investments in internal and purchased data into greater insight;
- helping CMOs better align marketing activities with strategic goals;
- increasing responsiveness to trends in product, market, or customer performance; and
- letting CMOs report on their performance in ways that a CEO or CFO can understand.

Figure 1 shows how these combined capabilities could work in a typical marketing department. Using CPM, marketing can go beyond single “pockets of performance” measures. For example: not only could a manager

identify their top customers, but also the cost to acquire and keep them, whether this cost is rising or falling, and how much it will cost to acquire similar customers in new markets in the future, and the impact these higher costs will have on financial outcomes. From there, a manager can make a number of strategic decisions. For example: if the cost to acquire top customers is rising, he can choose to reallocate financial resources and automatically update their plan to ensure they stay on target. Or he can shift priorities from targeting new customers to leveraging existing ones and create new metrics to monitor performance against this new goal.

By extending marketing measurement to include financial plans and metrics—by embracing CPM—marketing can go beyond reporting on leads, market share, or cost per close to gain a wider and more rounded perspective on performance. Marketing executives can have what is now an imperative—a reliable way to measure—and communicate—the overall effectiveness of their organization.



CPM capabilities can be adopted in a specific department or across the entire organization.

SUMMARY

Marketing departments face increased scrutiny into their effectiveness and increased pressure on their budgets to deliver profitable customers to their organizations. Business intelligence can help them overcome many of the key challenges they face. By extending business intelligence with other CPM software capabilities, marketing can better understand their effectiveness and improve their performance.

ABOUT COGNOS

Only Cognos delivers solutions to drive an organization's performance to the next level, by enabling them to drive, monitor, and understand their business performance. Cognos enables corporate performance management (CPM) with software capabilities for planning, scorecarding, and business intelligence. Cognos CPM solutions are the key to aligning strategy and actions

across the enterprise and outperforming the competition. Cognos serves more than 22,000 customers in over 135 countries. Cognos solutions and services are also available from more than 3,000 worldwide partners and resellers. For more information, visit www.cognos.com.



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