

Flying By the Seat of Your Pants!

Early pilots didn't have the sophisticated instrumentation and controls that today's aircraft have as standard. Much of the "feedback" that pilots got (and still do to an extent) was very direct - through how the plane felt as it responded to their management at the controls. As the largest surface area in contact with the plane was their rear end, this gave rise to the expression, "flying by the seat of your pants". (*ref factoid.com*)

Staying with our airline analogy, prior to take off there is a rigorous checklist and procedure undertaken by highly skilled individuals that leaves nothing to chance and ensures that passenger safety - the ultimate responsibility - is not jeopardised. By being meticulous about each and every process, the risk of deviation is greatly lowered.

In the business context, many companies take decisions of varying magnitude and risk and then simply observe or deal with the eventuality. While it was possible to fly without the detailed feedback of instruments it is rather more risky and places far more emphasis on pilot judgement and margins of error. The point of this example is that if you have no way of tracking your business performance, how can you be sure that your business or marketing plan is effective perhaps until it is too late to take action, like when the customers have left for another supplier.

Numbers and quantification are part of our everyday lives from our physical to our financial health. If we don't monitor our weight or our blood pressure we risk problems with our health and our hearts. If we don't manage our pensions and investments we risk a shortfall in our retirement etc. etc. In business it is exactly the same - those that don't identify the key indicators then track their performance against them, increase their risk of business failure.

It is crucial to understand what to measure as well as how to go about it. The "what to measure" part of the equation is those success factors that contribute to your business objectives be that growth, profitability, competitive position or arguably most important of all, value to customers.

First some clarification on some terms often used:

Measurements - these are the raw outcomes of quantification e.g. ratios, percentages

Metrics - these are the ideal standards for measurement, the targets that must be met to achieve a certain level of success

Benchmarks - these are the standards by which all others are measured - the aspirational level in the industry. A company seen as a benchmark for others would typically appear in published lists - top 10 etc.

(ref Laura Paterson, MarketingProfs.com November 2004)

Metrics provide us with a quantification of our progress and thereby also supply accountability to others in the business. If we know how far we are progressing against our objectives we can take better decisions about how to act, where and how to adjust and align our efforts with others in the business to reduce the risk of underachieving or even over-expending resources for no greater gain.

Marketing as a business discipline is often cited as being more of an art than a science. This has been a view that has at times downgraded its contribution to the business to one of "soft and fluffy" pursuits around the creative elements. Amongst top performing companies however marketing has a key role as champion of the customer and the contribution combines both creativity and a scientific or data led approach focussed on the importance of truly understanding customers.

Reasons to Measure

A study by Blackfriar in the US reported that only 38% of the US executives surveyed measured their marketing effort. Does measurement actually make a difference though? According to this survey, the differences were as follows:

- Those who measure marketing, spend 41% of their annual budgets in Q2 whereas those who don't plan to spend only 33% in Q2
- 16% of executives in companies that measure their marketing effectiveness said they were dissatisfied with their marketing effort against 28% in those that do not measure

In summary this tells us that by measuring marketing results, there is greater **confidence** in actually taking decisions and spending the budget. Also, senior executives reduce their dissatisfaction with marketing by measuring its impact and so marketing can **demonstrate** its **value** to the company.

This all seems eminently sensible and logical so why then do so few companies really measure the impact of their marketing?

One reason is that marketing is often seen as being dependent on too many other areas to be accountable for customer outcomes – e.g. continuity of product supply, quality of product or service, sales focus, distributors etc., without having direct control of any of these things. The answer must therefore be to find an approach that co-ordinates the planning, implementation, monitoring and control of each area of business operation.

The second is the lack of a timely, co-ordinated and robust method for gaining feedback.

What to Measure

Setting appropriate metrics requires a clear understanding of the customers' priorities, the company's goals and the reality of its operations. Let us consider in more detail here the marketing environment (but this approach applies to all areas of the business including operations and service).

Examples of metrics that marketing can specifically impact upon:

1. Market Share (through acquisition of new customers) so the aspects of marketing performance that would indicate progress here could be:

- Customer growth rate (i.e. how many new customers)
- Share of preference (i.e. versus competitors)
- Awareness levels (i.e. share of voice)
- Share of distribution (i.e. how widespread is your reach through this channel)

2. Customer Retention (through keeping and increasing the value of customers). It is far more costly to acquire new customers than to retain and grow existing ones. [insert loyalty piece here]. If you are very successful at acquiring customers but cannot keep them or secure repeat business, this is indicative of a number of potential problems that need to be investigated around the business from the product to after sales service, to follow up marketing activity. It says something about the potential of the company to provide the value that lives up to the promise of the brand and its marketing. Key performance indicators of customer retention would be those that measure penetration of the customer:

- Recency and frequency of purchase
- Share of wallet
- Value of purchase (i.e. growth)
- Persistency or customer tenure
- Loyalty or better still advocacy of customers

3. Brand Equity

A company's market value is no longer only calculated by its balance sheet. Increasingly such intangible assets as the value of goodwill; strategic alliances and partnerships, and the value of its customers are considerations in the calculation of market value. The key to delivering on the "brand promise" is matching what is delivered with customers' expectations.

Customers perceive value on a number of dimensions – more than simply the price of the product or service. Increasingly they expect that their suppliers, particularly in a competitive environment, will develop their business strategy in line with customer needs. From a service perspective they expect to be treated with respect and that the company will establish the systems, channels, processes and procedures with their convenience and satisfaction in mind. Where the company appears to value its customers and behaves and operates with a focus on their needs, it has been demonstrated that customers are prepared to pay a premium. Their dissatisfaction with the price is often a result of a failure to meet their expectations of value.

The marketing performance indicators therefore would cover such areas as the level of price premium that customers are prepared to pay for their products or services. It could include the level of customer referral or word-of-mouth, new product uptake, awareness of the brand, etc.

Achieving Marketing Efficiency

ICD has worked with a number of companies to improve their marketing efficiency. A central tenet of this support has been the encouragement to devise a marketing efficiency framework by which to compile and model valuable data about marketing activity. The framework is a means of monitoring budget against effect or impact over time and allows ongoing adjustment to be made in terms of spend, placement and breadth of marketing activity. This combined with a focus on customer data analytics (to provide feedback on propensity to buy, profitability etc) effective campaign process (streamlined and robust) and the obvious need for a quality of product and service that actually fulfils customer needs is the basis of an effective marketing organisation.

The key is to ensure that the approach is one that is continuous since it is the virtual cycle of test – adapt – act - evaluate that ensures continuous

improvement. The approach means collecting information on the outcome of activities, analysing these against the inputs and reporting on a regular basis. It may also mean that over time the metrics in themselves have to evolve. The requirements of a start-up company will be very different to one that is managing both new and existing customers; over time, the competitor set will change and the market dynamics also require to be acknowledged. For example witness the impact of the 1% charge on the pensions industry and that of the emergence of the low cost airline on customer expectations. Some metrics will change because they are imposed by a regulator whereas in other markets the expectation will change because a provider takes a lead. For sure, the proper use of the right metrics can provide decision-support to executives to provide the confidence of where to invest their effort and their budgets. Without them, they are flying by the seat of their pants!