EVALUATION AND MEASUREMENT IN MARKETING: TRENDS AND CHALLENGES

Georgine Fogel, Salem International University

INTRODUCTION

Measurement, evaluation, and effectiveness have become increasingly important in marketing as advertisers and marketers are being held more accountable than ever before. Marketing researchers and practitioners have identified several challenges of measuring and evaluating marketing effectiveness (Duncan, 2002). Three important areas of concern include: (1) Evaluating the Effectiveness of Marketing; (2) Accountability of Marketing; (3) Measurement and Evaluation concerns.

Evaluating marketing communications has been an area of ongoing controversy for the past 30 years. What can we test? Can we translate this testing to real-world environments? How many variables can we control? What are we going to do with the results? All of these questions and more will continue to be debated by the communications industry as client views increasingly become the driving force.

Accountability of marketing will be an area of particular significance to both clients and agencies over the next decade. As management demands more accountability, marketing expenditures will come under increasing scrutiny. As marketers use more "measurable" media (i.e., direct response and the Internet), the push to develop tools that will more effectively measure the impact of IMC platforms such as advertising, public relations, and sponsorships will become even stronger.

While every activity in the marketing mix has both short- and long-term impact, we do not yet have the tools to properly measure brand efforts that have long-term effects. Add to this equation the difficulty in isolating a brand's activities and the process becomes even more perplexing. At the gut level, we may believe that brand communications should be evaluated as an investment (not an expense) while corporate management may hold the opposite view.

The following questions are raised in relation to the measurement of marketing and advertising results: How do we demonstrate the long-term value of brand communications and their positive impact on the balance sheet? Will the trend toward short-term activities with immediately measurable results continue? If so, how will this change the role of marketing practitioners?

The paper examines these important questions by discussing the current trends and practices in marketing. Recommendations are made for researchers and practitioners.

EVALUATION AND MEASUREMENT OF MARKETING RESULTS

It is estimated that general advertisers spend over $1 billion per year for research and copy testing to find out which ad or commercial might move the most merchandise (Stone and Jacobs, 2001). The problem is that many times marketers are forced to rely on such assumptions as: (1) the television spot that gets the highest score will sell the most goods or (2) the people who say they'll buy a product will actually do so. Of course, assumptions like these often do not hold up in the real world.

Prior to the development of mass marketing, merchants had truly personal services, one-to-one relationships and recognized the customers as individuals. The local merchant knew the customers, what they wanted, how and when they wanted it. The shop owner established a two-way

communication with customers recognizing and appreciating doing business with each and every customer (Kahan, 1998).

In today's world of mass advertising and big retail store chains, it is impossible for merchants to know each customer in an individualized fashion. Only with the aid of sophisticated marketing database technology can we capture, analyze, and act on interpersonal marketing opportunities.

Database Marketing

There are two approaches to successful database marketing: (a) cognitive and (b) behavioral analysis. Data base marketing helps marketers to gain a clear understanding of what customers and prospects "look like" (cognitive) and how they act (behavioral model).

Target marketers often go through extensive cognitive analysis of current customers by applying compiled data variables to identify characteristic values. These values include demographic (age, income, presence of children) and psychographic (lifestyle, values, and interests) data elements. By defining characteristic parameters on current customers, statistical models can also be focused on non-customers to identify "like-kinds" of consumers form marketing solicitation. The behavioral analysis is repetitive in humanity which is a positive affliction for data base marketers (Kahan, 1998).

Database System Development

A marketing database helps build customer relationships by capturing historical and behavioral data from an organizations' marketing activities. Increasingly, information is a strategic resources, and databases are used to integrate the breadth of an organization's activities. Information can be used to drive product, channel, and marketing communication programs (Stone and Jacobs, 2001).

Successful database systems can link an unlimited assortment of characteristics or variables together in a dynamic array. There are two kinds of databases: flat file and relational file. A flat file database is a list that is sorted in one sequential order. Each customer record is kept in the same format (customer number, last name, zip code, and phone number indexes). The flat file system becomes cumbersome when customer characteristics are added.

When marketers add customer variables related to behavior, demographics, and lifestyles, it is more useful to create secondary files called "tables." The secondary files are placed in a larger database structure, called "relational" database system. The most widely used behavioral characteristic variables for analysis include products, services, dollar amount spent, frequency of purchases, and recency of purchases.

Analytical Modeling: RFM

It was Sears Roebuck& Co. who first discovered by inserting a catalog with an outgoing order that their most recent customers were most likely to order again. From this simple observation, the mathematical computation that is today referred to as RFM (recency, frequency, and monetary value) was created. RFM is one of the most widely recognized behavioral analysis technique. The process requires that sufficient base customer information (name and address) have been assigned with a unique key, such as an account number. It also requires that all order or sales information is stored electronically with the unique key included with each transactional record. Based on this information, customers are sorted out by (1) date of the last or most recent purchase, (2) total number or frequency of purchases, and (3) average amount spent per order. The process allows for sorting customers ranging from the "best"(111) to the "worst" (555) scores. The procedure allows for building a customer database to include customer

profiles that can be used for allocating marketing funds by strategic objectives.

RFM is a powerful behavioral technique. Through the use of cognitive and behavioral analysis techniques, data base marketers can more effectively use electronically captured information leading to three types of benefits: (1) increased response rates, (2) lowered cost per order, and (3) greater profit.

The RFM technique allows marketers to differentiate between customers. According to the 80/20 rule of Pareto's theory, a small percentage of the customers are attributed with the majority of revenue dollars. As long as consumers exhibit similar behavioral characteristics, the assumption can be made that they will behave in the same way in the future (or a statistically significant percentage will). Kahan (1998) makes the argument that instead of targeting the entire customer file, marketers should target a percentage of each RFM segment from 111 through 555. Marketers should test the response against break-even rates. Then roll out the campaign only to those RFM segments that are proven to achieve profitable response rates (Figure 1).

One of the major benefits of the RFM methodology is that it allows marketers to test marketing campaigns to smaller segments of customers, and direct larger campaigns only towards those customer segments that are predicted to respond profitably.

Customer Lifetime Value (LTV)

Stone and Jacobs (2001) noted that in the past, it was difficult to evaluate how well a company nurtured its customer relationships. Although businesses knew that the number of customers increased or decreased, that advertising attracted some new customers, or that competitors took away others, there were few ways of knowing which customers came or went and why.

With database management, an organization can identify its loyal customers, its repeat purchasers, and its one-time-only "triers." Marketers can also trace the customers' actions and transactions. This ability makes customers a significant and measurable asset.

The concept of lifetime value of a customer (LTV) implies that customers are a source of future revenues and profits than can go well beyond recovering the initial costs of advertising and sales promotion. Generally accepted accounting principles list the value of customers on the balance sheets as "goodwill." The investments in programs to reduce customer defections and improve customer loyalty are written off as an expense rather than an investment that can have a long-term impact on profits. However, when the high costs of creating marketing database are seen as an expense, they can easily fall victim to marketing budget cuts.

Stone and Jacobs (2001) proposed that the LTV of a new customer is the net present value of all future revenues minus all attributable costs that are associated with an average customer. A discount factor is used to recognize that money earned in the future is worth less than money earned today. If profit or loss earned on the first purchase is excluded from the long-term value calculation, the net of the first transaction can be thought of as the acquisition investment. Future purchases begin to offset the investment and contribute to the long-term value of the marketing effort. There are numerous approaches to estimating LTV which also suggests that there is no one "right" way. Most approaches derive a table similar to Table 1.

The benefit of LTV is that if a business can develop an estimated LTV for new customers, this can be used to establish how much to spend on acquiring them. The goal must be to forecast buying levels and resulting profitability of customers. To accomplish this, marketers must first create a hierarchy of expectations and then establish profitability measures at each level. Tables 2 and 3 provide examples of estimated performance for representative groups of customers.

Marketing Audits

A marketing audit is a thorough research methodology for evaluating relationship-building efforts in marketing. It examines the organizational structure, the level of understanding and agreement of marketing objectives and strategies and to what extent planned brand messages are strategically consistent (Duncan, 2002).

An important part of the marketing audit is the gap analysis which compares what managers say is being done to what is actually being done. While the main purpose of evaluating marketing effectiveness is often to create database systems to arrive to quantitative measures of rate of returns and profitability of marketing investment, the marketing audit further helps to identify gaps and barriers in the marketing efforts. The marketing audit is a qualitative practice that has the benefits of:

- Objectively showing the consistency (or inconsistency) of the planned messages.
- Identifying the degree of consensus and focus among managers.
- Identifying the level of internal and external coordination between communication units.
- Indicating which units/persons are needed to increase core competency in integration and MC tools.
- Reinforcing the importance of MC and sending that message throughout the organization.
- Providing a basis for reallocating or re-focusing resources.

The marketing audit is an excellent practice that will likely gain more acceptance as companies increasingly begin to understand how important brands are to their long-term financial success.

CONCLUSION

With an increasing public expectation of corporate business responsibility and concern for ethical behavior, organizations today are looking for new approaches to evaluate and measure results of marketing activities. Marketing research has been undergoing a fundamental change, shifting from measures based on assumptions to ones that are quantifiable.

The paper examined the latest trends and critical issues in measuring marketing effectiveness. Methods discussed included the recency, frequency, and monetary value (RFM) model, customer life-time value (LTV) model, and the marketing audit process.

Through the use of advanced database systems and mathematical modeling, marketing people today have the tools that help determine the impact of advertising and marketing promotion. Marketing researchers and practitioners are advised to become familiar with advanced analytics that measure quantitatively sales by different types of consumer groups, tracks consumer attitudes, responses, purchase patterns, and relationships of profitability and rate of return on marketing investments.

It is projected that in the future, tracking the results of marketing activities both quantitatively and qualitatively will be a basic requirement for developing successful and profitable competitive strategies and brand positioning.

REFERENCES

Duncan, T. (2002). Integrated Marketing Communication: Using Advertising and Promotion to Build Brands. McGraw Hill Publishing, Chicago: IL

Kahn, Ron (1998). "Using Database Marketing Techniques to Enhance Your One-to-One Marketing Initiatives," Journal of Consumer Marketing, Vol. 15. No. 5, pp 491-493.

Stone, B. and R. Jacobs (2001). Successful Direct Marketing Methods. McGraw Hill Publishing, Chicago: IL

Table 1: RFM Analysis

Score*	Recency	Score*	Frequency	Score*	Monetary ($)
1	4/97- 6/97	1	13+	1	1,200.00
2	11/96 - 3/97	2	8-12	2	741.33-1,199.99
3	2/96 - 10/96	3	5-7	3	416.76-741.32
4	12/94 - 1/96	4	2-4	4	128.47-416.75
5	9/93 - 11/94	5	1	5	1.00-128.46

* 1= most recent, frequent or largest $ and 5 = least recent, frequent or smallest $

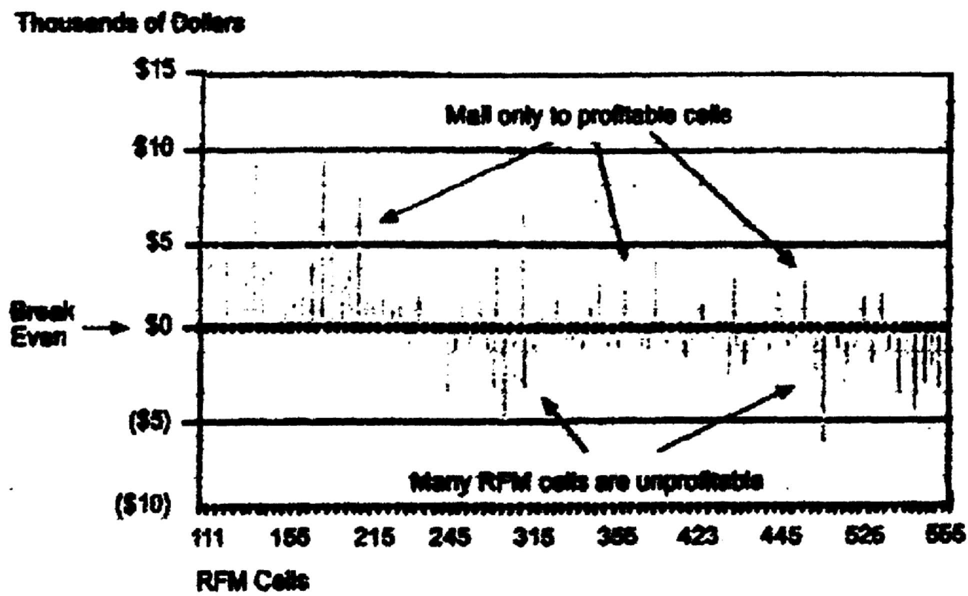

Figure 1. Profit and loss from RFM cells

Table 2: Six-Year Value of 1,000 New Buyers

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Purchase transactions	279	233	168	132	100	79
Average transaction size	$51.22	$51.35	$51.60	$51.75	$52.01	$52.06
Gross product sales	$14,296	$11,940	$8,659	$6,834	$5,200	$4,101
Returns	572	478	346	273	208	164
Net sales	13,724	11,462	8,313	6,561	4,992	3,937
Merchandise costs	6,213	5,189	3,763	2,970	2,260	1,783
Operating costs	1,381	1,153	836	660	502	396
Overhead	2,041	1,704	1,236	975	742	586
Contribution	4,089	3,416	2,477	1,956	1,488	1,172
Selling cost	2,687	2,608	1,799	1,495	1,146	911
List rental income	311	111	84	65	50	39
Cash flow	1,713	919	762	526	392	300
Discounted at 15 percent	1,490	695	501	301	195	130
Cumulative present value	1,490	2,184	2,685	2,986	3,181	3,311
Discounted at 25 percent	1,370	588	390	215	128	79
Cumulative present value	1,370	1,959	2,349	2,564	2,693	2,771

Table 3: Historic Performance for Onetime Buyers

Recency of Last Purchase	Response Percentage	Sales per 1,000	Profit per Buyer at Promotion Costs of		
			$450/K	$500/K	$550/K
Less than 6 months	4.2 %	$2,520	$9.09	$7.90	$6.70
6 – 12 months	3.5	1,995	5.95	4.52	3.10
12 – 24 months	2.4	1,248	- 1.59	3.67	- 5.76
24 – 36 months	1.8	900	- 8.50	- 11.28	- 14.06
36 – 48 months	1.2	564	- 21.99	- 26.16	- 30.32
48+ months	0.9	405	- 35.15	- 40.71	- 46.26