

## Measuring Marketing Effectiveness

In an intensely competitive, multi-channel environment, advertising can be the key to business survival. But you also have to be sure that your investments yield a true competitive advantage and generate the best possible marketing ROI.

The 100 largest U.S. retail banks spend roughly US\$2 billion on advertising each year. As such, understanding the performance of ad dollars is a necessity for today's banks.

### Overall Advertising (Ad) Spend Performance\*

(2006-2008)

Quadrant	Growth in transaction account deposits per ad dollar	Growth in non-transaction account deposits per ad dollar	Growth in loans per ad dollar
<b>Top</b>	\$52	\$405	\$77
<b>2<sup>nd</sup></b>	\$10	\$229	\$34
<b>3<sup>rd</sup></b>	-\$3	\$113	\$25
<b>Bottom</b>	-\$35	\$18	\$5

\* Source: Aite Group

Pressures to reduce expenses are causing marketing departments to determine where they can minimize advertising expenditures without harming business results.

Because of the complexity involved in accurately measuring advertising impact, the existence of external impacts, and the difficulty in setting up control groups; many companies are struggling to measure the impact of their advertising spend.

### Econometric Modeling

A successful approach to measuring advertising effectiveness involves econometric analysis of your marketing and promotion activities along with other factors that affect sales performance to determine the impact of each element in your marketing mix, effectiveness, and ROI

The strengths and weaknesses of your marketing programs can be determined using advanced data mining techniques and innovative modeling methods. Then issues can be addressed with changes in pricing, promotion, advertising, and other factors.

Econometric analysis examines external influences such as competitive actions, seasonality and economic conditions to understand how these factors impact your sales performance. The results can then be used to better plan future advertising, promotion, pricing, and other marketing activities for improved sales performance and to reallocate marketing resources for increased ROI.

Econometric models provide: 1) a standardized measurement across lines of business, marketing channels, and markets, 2) a measured historical performance, 3) a forecast of performance, and optimization of investment by media mix / channel and across lines of business.

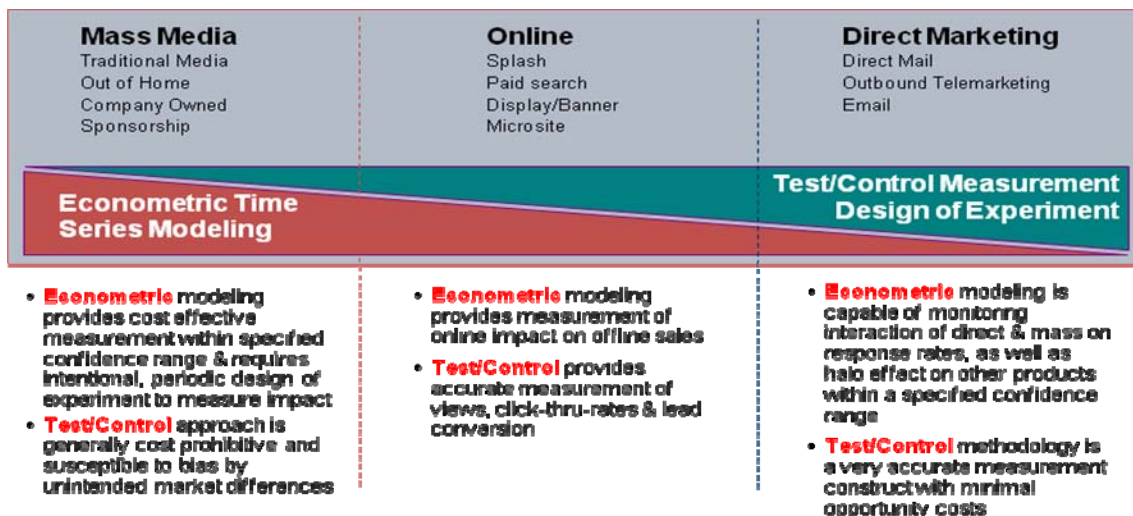
Econometric modeling typically involves inputs of key factors, channels & products. Key factors include external data like consumer confidence, economic data, competitive ad spend and internal data like product and process improvements. Channel data incorporates TV, radio, magazines, point-of-sale, branch, and direct mail info. Product data includes lending, deposit, and ancillary banking products.

Historic values are then gathered for the modeling inputs and arranged in time-series fashion to allow for adjustments to be made for historical performance like seasonality, diminishing returns, distribution/availability, competitiveness, national/local mix, media lay down, message saturation, and interaction effects.

The inputs of key factors, channel, product info, and time-series data are then used to develop a model that explains the impact on account generation and ultimately the NPV or ROI of various marketing spend; thus providing the means to measure the impact of individual marketing actions on customer behavior in a controlled manner. All marketing dynamics are considered in the model so that the affect of any one component can be properly isolated and measured.

While econometric modeling can be a very valuable tool for measuring the impact of hard to quantify actions like media spend, no single measurement methodology is capable of providing the necessary insights into the effectiveness of marketing tactics across all channels. Thus, a combination of econometric modeling and test/control methodologies usually provides the most accurate and cost effective means of measuring marketing effectiveness

Below is a chart outlining when it's appropriate to use econometric modeling, a more traditional measures of measurement like test and control methodologies, or a combination of the two.



## Experimental Design (Test/Control Methodologies)

The multi-faceted nature of marketing programs can make isolating the impact of individual marketing components on subsequent customer behavior daunting because individuals are exposed to a variety of messages and offers through many different channels.

It is common for the effect of specific marketing activities on consumer behavior to be overstated or understated because the impact of other marketing activity is not properly accounted for, resulting in a biased measurement and missed opportunities.

The multivariate nature of good experimental/test design provides the means to measure the impact of individual marketing actions on customer behavior in a controlled manner.

An extension of experimental design, and a useful technique for measuring advertising effectiveness (especially mass media), is “Matching”.

Matching is a widely-used method of evaluation for Mass Advertising effectiveness. It is based on contrasting the outcomes of participating markets with the outcomes of “comparable” non-participants. Differences in the outcomes between the two groups are attributed to the media initiative. In a baseline period, test and control matched according to their similarity on a key performance variable (like new accounts). The advertising campaign is then introduced and the difference between the two groups can be properly viewed as the impact of initiative.

Experimental design can be a good stand-alone technique for measuring advertising effectiveness in easily measured channels like Direct Mail. However, it’s especially useful when used in combination with econometric modeling for channels that are more difficult to measure, such as Online or Mass Media.

## Metrics

In addition to econometric modeling and use of test/control methodologies, various metrics are also useful in measuring marketing effectiveness.

Portfolio metrics, like new account signings, activation, retention, and customer behavior, are utilized to match test and control markets, measure pre/post campaign performance, and determine the total impact of advertising campaigns. Cost-effectiveness metrics like NPV or ROI are used to determine if the benefits of an advertising campaign justifies its costs. And measurements like profitability and various risk metrics are used to measure longer-term impacts to the portfolio.

## Summary

In today’s highly competitive and ever changing media landscape, you need to be confident that your marketing efforts are breaking through, reaching your target audience, and effectively driving the desired return on investment. Econometric modeling, test/control methodologies, and in-depth advertising effectiveness analytics can reveal both the impact that your advertising efforts have on your brand's performance and on your company's financial well-being; positioning your company well to develop future successful advertising campaigns that achieve your marketing objectives and maximize ROI