

# **MARKETING FOR GROWTH**

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# **MARKETING FOR GROWTH**

The role of marketers in driving revenues  
and profits

**Iain Ellwood**

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To Hannah



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Iain Ellwood  
November 2013

# Introduction

MARKETING IS THE STRUCTURED PROCESS of targeting and engaging new and current customers in order to generate sales. Marketers, therefore, play a crucial role in generating revenue and they can play an equally important role in how revenues translate into profit. This is a guide to how marketers can improve their commercial focus and become more influential drivers of business growth. Businesses grow by becoming better at what they do, and by being smarter or more efficient, and this involves developing and improving products, processes, people and standards of service. Part of the marketing role is to pick up on changing customer needs and behaviour and the forces at play in markets - and to do so ahead of the competition. If marketers do this well, they will increase their business's prospects for growth, and their influence and impact within the business.

This book focuses on the role of marketers - and the tools and methods available to them - in identifying and achieving profitable growth. It puts marketing and marketers at the commercial heart of a business with responsibility for strengthening the links between a business's operations and its customers. It examines each part of the growth life cycle, starting with the use of analytics to define the financial size of the prize and to measure the impact of marketing. It explains how to identify the more potentially rewarding customer targets, define more relevant and differentiated customer propositions, and make sure that employees deliver what is promised and that customers become greater advocates for the brand. It reinforces the need for marketing activities to be directly underpinned by strong commercial financial outcomes.

For marketers tired of being viewed by some as a “cost”, the challenge is to take more responsibility for the commercial results of the company. By becoming more financially fluent as well as more accountable and responsible for the commercial outcomes, they will gain greater authority and influence. This may require the development of new skills as well as an attitudinal shift, whereby they see themselves and behave as asset managers making investment and return decisions.

### **About this book**

Each chapter is designed to stand on its own, and together the ten chapters are intended to form a convenient handbook of insights, methods, frameworks and tools for marketers to help them drive growth in their organisations. The chapters deal with the following:

**1 Customer value management** describes the importance of linking marketing activities with commercial outcomes and outlines the main ways that marketing can increase revenues and profits.

**2 Return on investment: measurement and analytics** defines the many different ways to statistically quantify the effectiveness of marketing activities and help predict future returns. The huge amount of customer data that is now available means marketers can make fact-based decisions about new business growth opportunities; prioritise which will deliver the best financial returns and decide how to best spend their marketing budgets.

**3 Barriers to growth** describes the biases that reduce the effectiveness of decision-making by business leaders, providing simple techniques that can help overcome these human traits that might limit growth.

**4 Targeting customers and external stakeholders** defines the different ways of identifying the most valuable customers. Analysis of demographic and attitudinal characteristics helps make sure that new products and services deliver what customers want or need. Targeting a specific segment or part of the population helps companies to manage their resources and gain the best return on investment.

**5 Market opportunities for growth** defines ways to analyse business growth opportunities and prioritise investment in them. In order to arrive at an appropriate balance of risk and reward, this should take account of the needs of current and future customers, and the nature of current and future markets.

**6 Proposition definition** describes how to create a brand proposition that will be compelling to new and current customers. It looks at the importance of a proposition's practical and emotional relevance to customers, its differentiation from the competition and its authenticity, and how the proposition must be reflected in the actual customer experience.

**7 Brand portfolio growth** describes how an organisation's brands can be managed to maximise its overall growth. This might be through a single master brand or a range of different brands for different customer segments.

**8 Growth through employee engagement** outlines the positive difference a high level of employee commitment and engagement makes to the performance of a business. It explores the importance of clear vision, shared values and common behaviour, and describes how to create and manage an effective employee engagement programme.

**9 Growth through customer engagement** defines the most effective ways to engage and influence potential and current customers. It describes how digital and mobile media are having a dramatic effect on how companies connect with their customers and it outlines a framework for improving customer engagement.

**10 Growing service-based brands** looks at the particular difficulties faced by service businesses and how marketing can help overcome them. It highlights the importance of process design, pricing strategy and frontline employees in dealing with the various issues.

There is also a glossary of terms and concepts used in marketing.



# 1 Customer value management

A 2012 SURVEY among chief marketing officers (CMOs) commissioned by Senate, a consulting firm, identified that marketing ranked fourth out of seven board functions behind corporate strategy, sales and product development, and only just ahead of the finance, IT and human resources teams at bringing growth opportunities to the board. The same survey revealed that only 23% of corporate boards are given data relating to customer lifetime value (CLV) that among other things identifies their most and least profitable customers.

Customer value management is crucial to achieving the primary goal of marketing: that is, to increase the number of customers and increase profit per customer. Yet the marketing department will only establish its credentials at board level as an important driver of a company's profits by demonstrating that it is commercially "literate" – that it fully grasps the business's commercial and accounting processes and principles. It must also manage, analyse and communicate its activities and output in financial terms that directors understand and appreciate. In short, marketers need to link their strategy and activities directly with revenue and profit growth.

Customer value management depends on defining marketing activities that make the most impact on the way that business is run and relating them to commonly used commercial and accounting measures, notably shareholder value, revenue and profit growth and customer lifetime value.

## Shareholder value creation

An aim – the overriding aim according to many – of a company is to create value for its owners, what is commonly referred to as shareholder value. Chief executives typically focus on measures such as the share price and dividend. Others, such as investors, analysts and predators, may be just as if not more interested in the free cash flow that the business generates beyond its operational costs. It is the ability to generate cash that makes a business attractive – because cash is real whereas profit is an accounting concept. The free cash flow a business is able to generate involves four factors:

- **Level of cash flow.** How much can cash flow be increased? The greater the cash flow, the more valuable the business.
- **Speed of cash flow.** How quickly can cash be generated? Getting \$1,000 today is worth more than \$1,000 tomorrow because today's money can be put to work earning yet more money sooner than tomorrow's. The quicker the cash comes in, the greater the value to the business.
- **Sustainability of revenues.** How long lasting is this revenue? The more a business is able to maintain its advantage over competitors and sustain its revenues and profits, the more valuable it will be.
- **Risks affecting future cash flow.** How secure is future revenue? Customers, markets and businesses change, and so the more protected and less volatile the cash flow, the greater the value of the business.

## Applying a marketing perspective

The way that marketers can have an impact on these four cash flow factors is as follows:

- Level of cash flow – increase sales revenue through enhanced attractiveness and relevance to the customer and through differentiation of the company's offering in its market segment.
- Speed of cash flow – gain and serve customers quicker and better through smarter segmentation, targeting and customer engagement.

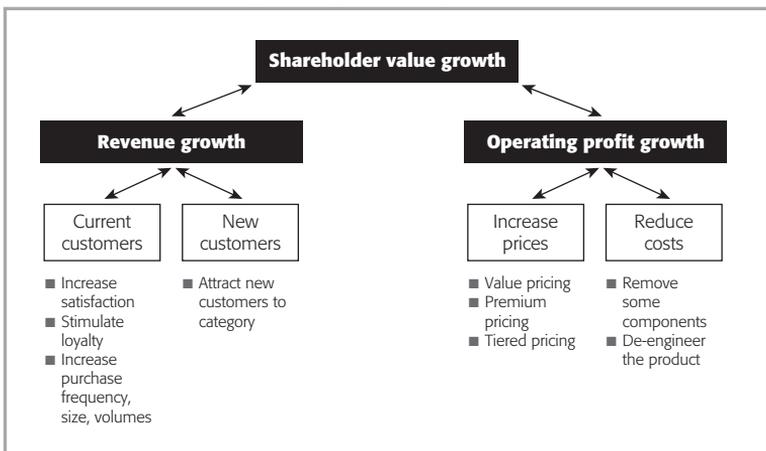
- Sustainability of revenues – build strong brands.
- Risks affecting future cash flow – build loyalty with customers and increase the overall strength of the business’s portfolio of products and services. Branding again plays an important role here.

## Revenue and profit growth

Growth is accelerated through increasing revenues and extending profit margins.

A 2011 *McKinsey Quarterly* study, “Drawing a new road map for growth”, highlighted that most businesses achieve more of their revenue growth from developing the market than from winning market share. This means managing growth at a product or customer-segment level rather than at a macro level such as the overall brand or product portfolio. Revenue growth comes from specific customers, not customers in general. Marketers, with their proximity to customers and markets, are ideally placed to identify shifts in customer trends and buying patterns, and as a result identify opportunities for market development. The data that marketing departments routinely gather and the insight that data provides helps them identify new prospects and refine the offering. It is never enough in the longer term simply to

FIG 1.1 Revenue and profit growth options



play catch-up with your competitors, and it is extremely dangerous to edge into complacency once you have overtaken them. With an eye to growth, marketers must constantly use their experience to sharpen specific propositions around new growth areas.

### **Customer value management**

As the marketing department has responsibility for the relationship with the customer it should take its share of rightful responsibility for customer profitability. This requires marketers to get to grips with what exactly profit is and how it is created, and how products and sales and service offers need to be adapted to increase profitability. Customer value management helps businesses to identify their most profitable customers and tune their offers to increase profitability. This includes developing an understanding not only of today's most profitable customers but also of those who might be profitable in the future. Working out sales and profit per customer minus the cost to acquire and serve that customer helps here as it gives the marketer a view of the overall customer lifetime value associated with a product. Calculating the CLV gives the longer-term value of each customer. Short-term figures are unreliable indicators as they may reflect spikes resulting from, say, discounting.

The CLV brings together estimates of three elements:

- The typical lifetime of a customer. For a car or detergent brand, this might be 40–50 years; for a magazine aimed at teenagers, it might be only three years.
- The year-by-year revenues of a customer, based on product price and the frequency/volume of purchases. Car revenues per customer might be \$30,000 every five years (annual value \$6,000, total value \$240,000–300,000) while the magazine might be \$4 per month (annual value \$48, total value \$144).
- The one-off cost to acquire the customer and the cost to serve or deliver the product. For the car, this should include all elements of acquisition such as advertising and car dealership costs, the product costs and any annual servicing included in the offer to purchasers. For the magazine, it might include celebrity

sponsorship, production costs as well as distribution and website costs.

From these three estimates it is now possible to calculate the net present value (NPV) of the future revenue stream from a customer or customer segment. The NPV is the value now of a future stream of cash flows, adjusted by a discount rate. The discount rate takes into account the fact that \$100 today is more valuable than \$100 in the future. The rate used is meant to reflect the risk that the future cash flow will not materialise and the cost of borrowing should it not. In simple terms, if the estimated discount rate is 10%, for a future cash flow of \$1,000 the NPV is \$909. In other words, the future value of \$1,000 is discounted by \$91. With a time value of money of 10%, \$909 can be invested today and will grow by \$91 ( $\$909 \times 10\%$ ) to be \$1,000 in one year.

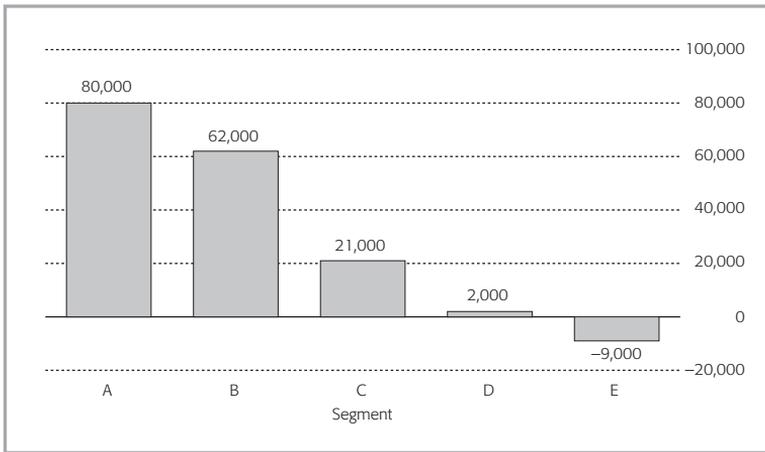
This type of analysis will help establish which customer segments make the most money for the business. It will also help draw attention to those which are not sufficiently profitable because, for example, they are too costly in terms of time and money to attract or to serve.

Most businesses have a rump of customers who are not profitable but who, perhaps because they are loyal, provide a useful revenue stream with low ongoing investment costs. This is covered in detail in Chapter 4.

Figure 1.2 illustrates how the profitability of different customer segments can vary – in this case from the most profitable segments where each customer has a lifetime value of between \$60,000 and \$80,000 to those segments where customers are unprofitable and can be said to be destroying value, and who therefore should be discouraged or avoided, unless there is a way their profitability can be improved. Analysis should focus on the steepness of the profitability line; a steep difference between the highly profitable customers and those that break even indicates that most of the profits come from a hard core of customers. Many loyalty schemes recognise and acknowledge this by “ranking” and rewarding customers according to their value; for example, InterContinental Hotels Group uses the Ambassador level of its Priority Rewards Club to provide additional benefits for its most valuable customers. (Loyalty programmes

FIG 1.2    **Customer segment profitability differences**

\$



are covered in more detail in Chapter 10.) For customers that are unprofitable, it is important to discover whether their profitability can be improved before you give up on them. For example, high-data-use mobile phone users used to be highly unprofitable, but now they are the most profitable customer segment as they are the most frequent users of associated paid-for mobile services such as apps.

### **Grow customer revenues**

Sophisticated NPV analysis requires intelligent and efficient data management without which it is hard for managers to make the best investment decisions. Taking it step by step, starting with a simple segment-based lifetime customer value, will help a business get to the desired level of sophistication. As well as NPV analysis there are a number of other measures that can help determine where greater customer value can be unlocked. For example:

- **Purchase frequency.** Can customers be tempted to buy a product or service more frequently?
- **Basket size.** Also known as cross-selling or upselling. Can customers be encouraged to buy an additional product (cross-selling) or a bigger/more expensive product (upselling)?

- **Share of wallet.** Can a specific store, product or brand become the customer's preferred store, product or brand?
- **Marketing costs.** Can marketing spend be reduced or redirected because customers are acting as advocates for the product, brand or store.

Improvements in any of these aspects will be good for a business, but knowing which make the biggest difference makes it clear where to focus. There are a number of things that marketers can do.

### **Increase the number of profitable customers**

The aim should be to increase the number of the most valuable customers, while not putting off others who are profitable. The development of a strong and clear brand identity helps attract the customers you want while deterring those you do not want. Creating a halo effect also helps – customers who because of their experience of one branded product feel favourable towards other similarly branded products. The halo effect works in other ways too. Travel firms seek out the adventurous segment because it is a small but profitable group of travellers who purchase frequently at high prices and are easy to serve. For a travel brand, its appeal to that segment can also act as a draw to the many other travellers who have aspirations to be more adventurous.

### **Increase cross-selling and upselling**

Once a customer has chosen your product, you can find out more about them and their needs and introduce them to or develop other products that they might like. A range of product variations can be developed that encourage customers to gradually move up the range as they become more sophisticated in their choice or their needs change. Or completely new product ranges can be introduced as firms get a deeper knowledge of their customers' needs and purchasing behaviour.

Supermarkets have been adept at expanding into non-food sales. In the United States, Target sells a wide range of grocery and non-food products, as well as own-label brands such as Up and Up, Archer

Farm and Market Pantry. Tesco's Florence & Fred clothing range now accounts for some £1 billion of the British retailer's revenues or 15% of total turnover and has a higher profit margin than its grocery business. Moreover, as banks lose their lustre, the big retail groups have been quick to move into financial services; Tesco's banking service accounts for just 1.3% of total turnover and 7% of total profits.

### **Increase price by delivering higher value**

Virgin Atlantic's Upper Class service from major cities provides not just a luxury seat on a plane but also a series of additional benefits. These include high-speed motorbike or car transport to the airport, a VIP lounge with a spa, restaurant and bar, as well as an in-flight bar and a massage. All these additional experiences help strengthen the brand's value and appeal to customers. When the journey time is the same whatever class of seat you have paid for, it is such differences that make all the difference.

In a world in which products and services have to a large extent become standardised commodities, it is the additional benefits that create the most differentiation and which enable a premium price to be charged. In their book *The Experience Economy*, B. Joseph Pine and James Gilmore explore the concept that people will pay more for rich, engaging "experiences" than for simple products or services, and that the more emotionally appealing the experience, the higher the price people are willing to pay. Dining at The Ivy in Beverley Hills carries a huge emotional significance that far outweighs its simple interior or the fact that you are paying \$40 for a lettuce that you can buy in a store for \$1.50. Diners are paying for exclusivity, top-quality food, drama and celebrity sheen, resulting in an unforgettable evening. The price they are willing to pay for this runs to hundreds of dollars a head, well beyond the "cost" of delivery.

### **Increase the durability of customer relationships**

The stronger and longer the relationship, the better it is for future cash flows. Porsche, a premium car brand, found that there was often a finite length to its relationship with many of its (mostly) young male customers. Loyalty scores among Porsche owners were high until

they reached their 30s and had families that the sports cars could not comfortably accommodate. Porsche's response was to introduce the four-door Cayenne sports utility vehicle (SUV). By creating an additional, family-friendly product Porsche was able to continue to satisfy customers' needs and extend the relationship. The resulting boost to profits through sales of the Cayenne was 22% in 2011.

Meeting a customer's original need is just the first necessary step in creating the emotional bond that will tie the customer to a brand for the longer term. Customers expect a better level of service with brands to which they have a longer-term commitment than they do when they make a one-off transaction. Such longer-term relationships are often cemented by the benefits provided in addition to the functional ones the brand provides, rewards programmes run by airlines, coffee shops, supermarkets and other retailers. There is reciprocity. Everyone wins: the customers get more for their money, and the costs to the company of providing such benefits are usually significantly lower than the costs of acquiring new customers; furthermore, it already knows that these customers are satisfied fans of the brand.

### **Reduce the cost of acquiring customers**

Finding new customers and convincing them to try a new product or switch from their current supplier is a high-cost process. Getting the cost/benefit balance right is difficult, and there can be no doubt that too much time and money is often spent by marketers on getting people to try something new. However, there are some important differences in how to approach the process between high-growth developing markets and mature developed markets with little or no growth.

In emerging markets, where product ownership levels are low, there are plenty of people who have yet to try and buy new and existing products and services. So the traditional marketing approach of using television advertising to raise awareness of a product, combined with a discount voucher to encourage people to try a new product can work well. But in mature markets, the emphasis needs to be on increasing share of wallet from existing customers. This requires a different set of skills and careful thought, rather than razzmatazz

- which may explain why it does not always get the attention it should from marketing teams. Marketers should never lose sight of the fact that it is less expensive to delight customers who already buy a product than it is to attract and satisfy new ones. Loyal customers are usually more profitable because they cost less to serve. Too many marketing teams focus on the wrong things, spending too much time trying to push new products onto new or unwilling customers rather than nurturing the ones they already have. For businesses with low customer satisfaction, there is little sense in striving to attract new customers when they are no more likely to be satisfied than the existing unhappy customers, who themselves may well be deterring new ones through word of mouth. Throwing money at getting new customers will not deal with the root of the problem: that customers do not like what the company is selling. However, there is only so much that existing customers can buy, and there will be times when there is a strong business case for a campaign to attract new customers.

Generating awareness of a product or service and acquiring new customers is one of the costliest marketing activities. It becomes even more costly to the business if new customers spend little and develop no loyalty to the brand. For marketers, proliferation of the ways to get marketing messages across has not made their job easier. In recent years there has been a shift away from expensive broadcast TV advertising towards narrowcast, emotionally engaging channels such as sponsorship events, forums, blogs and social media. Sponsorship events are effective because company and customers meet face-to-face, often in an energising and dramatic context like motor racing or athletics competitions. Social media are equally engaging as they allow customers to express their opinions to each other and to the company. This instant feedback is critical to customers' initial choice of brand. Investing in social media and customer service is the best way to improve the quantity and quality of peer-group reviews.

The costs associated with acquiring new customers include the costs of telling people about the product as well as those associated with selling and delivering the product or service to them. A classic method of reducing customer acquisition costs is a "member gets member" programme. Citibank offered its American Citigold

customers cash for introducing new customers for current accounts. Both the referrer and the referred customer benefited from the programme, with the referrer receiving \$100 for each new customer (with a maximum of five customers or \$500) and each newly referred customer received \$100 for opening a Citigold relationship package.

### **Increase customer engagement**

Getting customers engaged involves building their awareness of a product and demonstrating its relevance to them. This is covered in more detail in Chapter 9. The process may include activities such as advertising in all its forms, sponsorship, PR and promotions, as well as direct mailing through letters as well as online, events and product trials. The media buying costs (of advertising, especially expensive media like TV and print) are usually the most significant proportion of expenditure, although advertising-agency production charges can be high for high-quality materials. Firms with strong brands like BMW and American Express use their most loyal customers as advocates for their products. This might simply be using them in advertisements, showing them as happy customers. But they also use some customers to provide other customers and potential customers with advice and information about their products. These zealous advocates can be highly persuasive because, being unpaid volunteers, they are perceived to be objective about the brand.

### **Increase customer satisfaction**

The costs of selling and delivering products or services to customers can be high and is covered in Chapter 9. To reduce their costs or improve their offering, many companies have outsourced some of the services they provide. Sprint, an American mobile brand, outsourced part of its network in a \$5 billion deal with Ericsson. The benefits included improvement in the quality of its network coverage. But it has become clear that many of these business process outsourcing (BPO) arrangements have had the effect of leaving customers feeling underserved and less satisfied; furthermore, many are not delivering the level of reduced costs that was anticipated. With costs in China and India increasing by some 17–20% a year and customers being

prepared to pay extra for local call centres, more and more companies are re-shoring activities that they had outsourced offshore.

The cost of selling has traditionally been the responsibility of the marketing function and the cost of delivery has been that of those running operations, but it has become more common for sales and marketing and delivery to be combined. By removing interdepartmental duplication, contradiction and turf wars, there is greater coherence and efficiency, and everything works much more seamlessly and satisfyingly for the customer.

### **Reduce the cost of serving customers**

The aim with any profitable customers is to make sure that they become or remain regular purchasers of one or more of the company's products or services. Even with currently unprofitable customers, it is rare that after an analysis of their needs they cannot be transformed into profitable ones, and it is unwise to discard them too readily. Finding ways to reduce the cost of serving any and all customers can, as the opportunities offered by the internet have shown, turn unprofitable customers into profitable ones and provide a substantial boost to the bottom line.

### **Customer relationship management**

Customer relationship management (CRM) systems are used to manage customers on a more individual basis and help identify sales opportunities. CRM systems rely on big data analysis of individual customer data to make adjustments to marketing activity. Big data is the common term for large-scale data banks of customer information gained from their shopping activities including credit-card, mobile phone and website usage. A global phone provider, for example, knows the amount of texts, phone calls and internet usage of every customer - where they were, how long they took and which websites they looked at. This kind of information gives a business a detailed picture of its customers' habits. Home Depot, an American DIY retail chain, has successfully used CRM to develop an e-newsletter with customised content to drive its high-value members to "The Garden Club" and "My Outdoor" sections of its website. Social media were

used to encourage these members to share tips and style preferences with like-minded members.

CRM can also be used defensively to reduce the risk of customers going elsewhere. Ocado, an online retailer, tracks individual transactions to identify changes in customer behaviour. For example, a customer may have recently started buying baby food and therefore would benefit from a “family voucher” or shopping suggestions. The data can also be used to identify when customers are unlikely to make another purchase. In Ocado’s case, this is when they have bought nothing for more than two weeks. They are then e-mailed a money-off voucher. For customers, the offer of a large saving usually encourages them to keep on using the service. Of course, savvy shoppers can work out these threshold tactics and hold off shopping until they get their voucher, but a good CRM system should be able to adapt to such behaviour.

CRM enables the targeting of promotions that increase basket size or loyalty. However, it can prove expensive to implement a coherent company-wide CRM system because of the way different departments have evolved and handle data capture and analysis. Equally, data capture through loyalty cards, online shopping and social media provides a wealth of data that it can be tempting to overanalyse and overuse, resulting in misconceived or uneconomic campaigns. Furthermore, a company with a lot of data at its fingertips may fall foul of data protection rules, or find that the costs of managing and monitoring its activities become an unwanted and distracting burden.

But CRM has become well entrenched in modern business and the drive to expand and secure the customer base. In the notoriously high-churn mobile telecommunications market, O2 has used CRM to introduce a number of services that enable it to make individual offers to its customers which avoid wastage and increase satisfaction. CRM enables companies to carry out:

- **Real-time sales analysis.** By knowing what is bought, by whom, where, how often and when, a business can match supply more accurately with demand and reduce wasted capacity or stock.
- **Customer profiling and behavioural analysis.** This is the precise segmentation of customers that enables changes in

buying behaviour to be identified – for example, when couples split up or have a child or move jobs and houses.

- **Campaign effectiveness analysis.** It is only through knowing what customers did following a campaign that you can really know how effective the campaign was, and therefore how you can make future campaigns more cost effective.
- **Loyalty analysis.** This enables a firm to track the behaviour of regular customers and to identify which purchasers are likely to become long-term regular customers – and when.
- **Profitability analysis.** This enables the identification of customers who are becoming less profitable, as well as those whose are becoming more valuable and may be ripe for special treatment such as an upgrade in loyalty-card status.

### **The advantages of simplicity**

The profitability of underperforming products or services can often be increased by simplifying the offering, as has happened with the emphasis many firms have put on their online presence as a means of encouraging customers to “self-serve”. For example, low-cost insurance policies are now often sold online through a process that involves automated checklists, algorithms and databases to set prices. Alternatively, marketers may be able to modify their offering, perhaps by providing fewer features to less profitable customers or charging a premium for an enhanced service. Each customer segment’s unmet needs and drivers of satisfaction need to be analysed in order to shape different offers that will deliver the intended outcome. For the bulk of customers, there should be ways to improve low profitability.

Sometimes it is the simpler product that gives a business a competitive advantage. Until recently, bicycles had to have many gears, often 15 or 20, for them to be considered high-end. But fixed-gear bikes with stripped-back features have become more popular, with those buying these “Fixie” bikes being happy to pay more for much less. The overall profitability of these bikes is much higher than the more complex products because they do a single thing really well without the cost of added complexity. Companies should be wary of getting into a features “arms race” with their competitors, as this

will increase cost to serve and almost certainly reduce profitability because of competitive pressure on price.

## **Summary**

Customer value management is at the heart of increasing a business's profitable growth, and because the marketing department is responsible for the relationship with the customer, it should take responsibility for helping to set and achieve revenue and profit targets. Marketers must therefore become comfortable with and well versed in using well-established financial concepts such as NPV. By defining what customers mean to an organisation in terms of their cost and profit to acquire and serve, marketers can demonstrate their tangible contribution to the financial performance of their business while establishing greater boardroom credibility. In a fast-changing world, such analysis will also help them adjust their strategy and plans to what will best generate profitable growth for the business – which may well not be what has worked in the past.

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