

THE MOMENT OF TRUTH

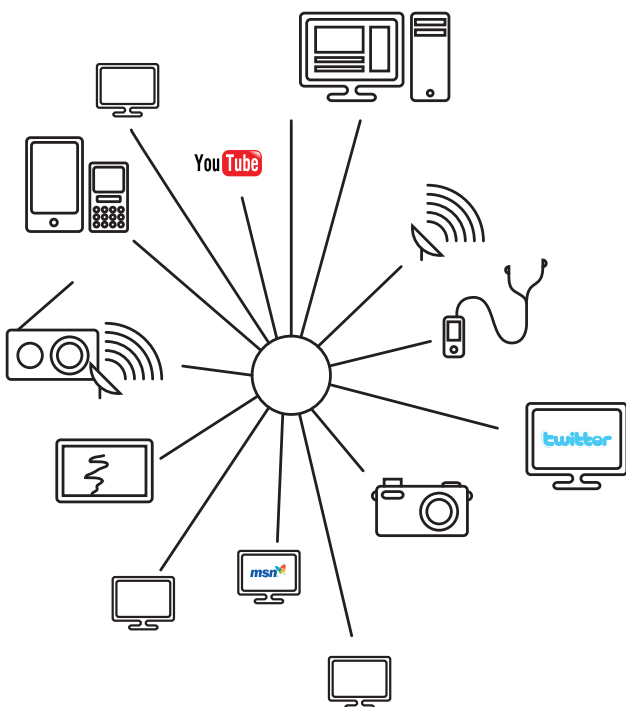
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EXECUTIVE SUMMARY

Changes in consumer behavior, fueled by technology, require new marketing capabilities. Each year, \$112 billion in advertising is wasted¹. A new capability model, to optimize customer value at every interaction, is required. Progressive marketers that embrace this capability model have already realized hundreds of millions annually for their firms. This paper explores the fundamental changes in the business of marketing, then introduces a capability model for driving customer engagement in a connected world. This capability model enables robust optimization at “the moment of truth,” when customers engage directly with brands.

Digital innovation has fundamentally shifted power from brands to consumers. Consumers have access to vast information about products, prices, customer satisfaction, and availability. Meanwhile, new media and new business models undermine traditional strategies while creating bewildering options for marketers. “Tried and true” simply is no longer true.



This white paper outlines a capability model to optimize customer and shareholder value. Its goal is to enable firms to redirect 15%–30% of media spend to higher-performing alternatives. Already, three leading brands have seen benefits exceeding \$100 million per year from the capability model.

THE MOMENT OF TRUTH

MARKETING IS BROKEN

Multichannel buyers spend four to five times more than average,² yet fewer than 35% of marketers track customer behavior across channels.³ It's not surprising, then, that while 80% of CEOs believe they provide a superior customer experience, just 8% of their customers agree.⁴

80% OF CEOS BELIEVE THEY PROVIDE A SUPERIOR CUSTOMER EXPERIENCE, JUST 8% OF THEIR CUSTOMERS AGREE

Mass “broadcast” strategies inherently generate waste in the name of reach – \$112 billion is wasted every year on advertising in the United States. Online advertising is even worse – 80% of “targeted” online advertising fails to even reach its intended audience.⁵ Given that \$14 billion is spent online, over \$11 billion fails even the basic test of reaching a desired customer.

On average, 80% of customers are not profitable, yet most marketing campaigns focus on acquisition volume, not on generating customer lifetime value. What good are 100,000 new accounts if 80% of them don't contribute profit?

In the last year, U.S. consumers generated 500 billion online comments about products and services. A link forwarded by a friend performs 2–4 times better than any other link. Yet, only 7% of executives track the results of this “earned media” in real time.⁶

In a 2009 survey, 30% of participants said they would rather give up sex for a year than give up their mobile phones.⁷ Yet, marketers continue to talk about, but not implement, mobile programs.⁸

BOLD SOLUTIONS ARE NEEDED

Soon, all media will be digital, enabling marketers to specifically measure effectiveness at each point in the customer life cycle, no matter the media used. Direct marketers already profit from this power, adjusting spending by segment in response to specific customer behavior. On average, direct marketers drive \$12 for every dollar invested. The digitization of media enables a sea change in a marketer's ability to rapidly and precisely recalibrate media in response to consumer behavior.

These dynamics also create strategic opportunities for marketers, providing the ability to:

- ▶ Reach and engage your desired audience, and just them, with the best media, at precisely the right time.
- ▶ Leverage deep consumer insights to personalize, then coordinate, experiences over time. Personalized and coordinated experiences are the essence of true customer engagement.
- ▶ Prioritize investment to the most profitable opportunities; in fact, to know precisely where your next dollar should be invested... if at all.
- ▶ Create a virtuous learning cycle about brand affinity, price sensitivity, preferences, in-market timing, and much more. This is the essence of maximizing brand and shareholder value.

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BEWARE OF FALSE PROPHETS

The great forces of the time sentenced Galileo to house arrest for his contrarian belief that the Earth revolved around the sun. Similarly, marketers cling to illusory beliefs that fail to truly maximize financial return.

Many marketers overly favor the bottom of the funnel, missing significant brand-building opportunities. Of course, marketers must convert consumer intent to sales. However, intent doesn't happen by accident – it must first be generated via effective branding and demand-generation programs. Without these steps, revenue is suboptimized and brands are commoditized. Yet, many firms resort to yelling louder, when a narrowcasting strategy would be far more effective.

Numbers do lie – not in calculation, but in assumptions. Many firms mistakenly grant all credit for a sale to the last ad seen (e.g., measuring online success by whether a visitor clicks through). No one attributes a sale at the cash register to the neon sign on the window (the last ad seen), so why measure online success that way? Whether online or not, a sale is overwhelmingly caused by the cumulative effect of marketing prior to the moment of purchase. Understanding the contribution of these impressions is key to rooting out ineffective media.

NO ONE ATTRIBUTES A SALE AT THE CASH REGISTER TO THE NEON SIGN ON THE WINDOW (THE LAST AD SEEN), SO WHY MEASURE ONLINE SUCCESS THAT WAY?

Many marketers have insight about their customers, but lack the capacity to engage meaningfully based on this insight. Great insight, without the ability to execute in a timely fashion, is frustrating. Moreover, advanced audience selection, without scalable personalization of the offer and creative, is like trying to applaud with one hand – impossible to generate the desired outcome.

MOST ORGANIZATIONS HAVE AN OPPORTUNITY TO REDIRECT 15%-30% OF THEIR MARKETING SPEND TO HIGHER-PERFORMING ALTERNATIVES.

Meanwhile, many firms' marketing tactics are the equivalent of a home theater system, designed for surround sound, but in reality producing different sounds from each speaker. The cacophony of disjointed and often conflicting experiences undermines many a brand-building strategy. No wonder brand loyalty is at an all-time low.

Most organizations have an opportunity to redirect 15%–30% of their marketing spend to higher-performing alternatives. But these results won't be achievable via traditional approaches. A new capability model for driving customer engagement in a connected world is needed.

A CAPABILITY MODEL FOR DRIVING CUSTOMER ENGAGEMENT

NEW CHALLENGES REQUIRE NEW CAPABILITIES.

Through our experience with thousands of brands and billions of consumer interactions, Acxiom has cultivated a capability model targeted at optimizing customer value at every interaction.

This capability model is grounded in four interrelated concepts:

1 BROADCASTING TRANSITIONS TO NARROWCASTING.

In this model, advertising reaches desired audiences, and just them, across media. For the first time, advertisers marry their own extensive consumer insights with those of their media/publishing partners in a privacy-assured manner. This enables marketers to focus on the most valuable relationships while reducing investment in less-desirable options.

2 MULTIDIMENSIONAL INSIGHT FILTERS OUT FALSE SIGNALS

No one single perspective into consumer behavior is “the answer” – not online activity-alone, nor purchase behavior alone, nor attitudes alone. Reliance on a single dimension inevitably provides false signals about consumer behavior that waste advertising, or worse, harm the brand. Multidimensional insight filters out these false signals.

3 MARKETING CENTRAL NERVOUS SYSTEM

To narrowcast against multidimensional consumer insight requires a marketing central nervous system, a synapse that sends and receives signals about consumer behavior, then automatically recalibrates on actual consumer behavior. A marketing central nervous system transforms campaigns into conversations.

4 PERSONALIZED AND COORDINATED ENGAGEMENT

This final concept focuses on the moment of truth, when consumers engage with brands. Proper audience selection is only part of the answer. Leaders fuse insight into the experience to drive a higher probability of achieving a service or marketing objective.

Let’s explore each of these concepts more fully, and highlight key requirements to maximize success.

A CAPABILITY MODEL FOR DRIVING CUSTOMER ENGAGEMENT

REACH AND ENGAGE YOUR AUDIENCE

Reaching and engaging your audience, and just them, reflects the needed transition from broadcasting to narrowcasting.

A key underlying principle is recognizing the differentiated value of customer relationships so that investment may be prioritized. Some customers cost less to acquire, buy more, stay longer, have lower service costs, and provide recommendations to their friends. Research indicates that, on average, just 20% of customers are profitable, with the bottom 30% consuming four times annual profit. Progressive marketers will narrowcast predominantly to those relationships that drive the highest customer lifetime value. That way, the inherent waste in broadcasting is dramatically reduced.

However, how an audience is defined matters greatly. Most advertisers cultivate deep insights about their preferred audience – their customers' value, transaction history, price sensitivity, brand affinity, in-market timing, preferences, and much more. These insights are unique to the advertiser, the result of millions invested in research and information systems, and a frequent source of competitive advantage. While media properties or networks offer audiences of their own, these are a poor substitute for the advertiser's own insights.

Most advertisers want to narrowcast based upon their own insights. However, until recently, advertising was a broadcast world – it simply wasn't possible to reach just their audience. Now, with the advent of "safe haven" models like Acxiom's Audience Management System, advertisers and publishers can responsibly match and "anonymize" sensitive information across addressable media. Rather than buying audiences defined by someone else, narrowcasting relies on recognizing that a valuable customer is on your media partner's property now. The advertiser's choice is simple: do you want to make a buy, and if so, what do you want to say? A major retailer, in concert with Yahoo!, saw an 11 to 1 return on ad spend, using this approach.⁹

A safe haven is critical. Advertisers and publishers alike, having invested millions in consumer insight, need to limit distribution of proprietary information for both risk and privacy reasons. The inadvertent disclosure of proprietary insight could have catastrophic impact. Moreover, advertisers and publishers can diversify compliance responsibility in concert with the safe haven provider. Finally, a safe haven can dramatically reduce cost and accelerate cycle time if one works with a partner that has already cultivated an expansive partnership ecosystem.

**TOP 20% OF CUSTOMERS MAKE 500% OF PROFIT.
BOTTOM 30% CONSUMES 400%.
KNOW THE DIFFERENCE.**

REACH YOUR AUDIENCE ACROSS MEDIA.

**LEVERAGE A SAFE HAVEN IN CONCERT
WITH PREFERRED MEDIA PARTNERS.**

A CAPABILITY MODEL FOR DRIVING CUSTOMER ENGAGEMENT

MULTIDIMENSIONAL INSIGHT

Multidimensional insight filters out the false signals of single-dimensional views.

Some say that only online behavior matters, like search or social conversations. Others say that what customers actually do matters most; for example, the recency, frequency, and value of their purchases. Yet others say that customer attitudes and personas are most important. It can be confusing for marketers to prioritize among these conflicting views.

Each of these perspectives, while individually helpful, is in truth incomplete. Searching online for plasma TVs ranks just 24th most predictive for an actual purchase. Knowing all of your consumer purchase behavior gives insight into 2% (or less) of the time even your best customer spends with your brand – what about the other 98%? (And nearly 90% of consumers believe they are above average looking or intelligent, a mathematical impossibility.) Sorry, there are no silver bullets.

Multidimensional insight spans buyers' online and offline activity and attitudes to provide a complete perspective into consumer behavior.

Leaders understand multidimensional insight variances across media, channels, and time. In our experience, progressive marketers focus on nine subcategories of multidimensional insight:

- **Relationship profile** – customer segment history, product ownership history, current and lifetime value, share of wallet, and marketing budget by customer
- **Interaction history** – service, promotion, and response history across channels

- **Brand advocacy** – net promoter score, degree of social influence, brand metrics at a customer level
- **Product propensities** – propensities across the conversion funnel, next-best product to sell, likelihood to recommend
- **Media preferences** – media consumption, explicit and implicit preferences, context preferences, contact cadence strategy
- **Channel preferences** – shopping pathway, preferred buying channel, preferred research channel, partner service channels
- **Geodemographics** – age, occupation, gender, location, ethnicity, family/size of household, life stage, and life event information
- **Interests/attitudes** – purchase intent by category, recreational interests, social causes
- **Monetary indicators** – income, discretionary income, wealth, real property indicators

A multidimensional view requires your strategy, analytics, and creative resources to act differently. Marketing metrics, processes, and skills all need to be updated.

Finally, multidimensional insight requires a scalable matching and analytics engine to cost-effectively create these insights. It's not unusual to receive data from hundreds of sources inside and outside your firm, each conceivably with its own formatting rules. Moreover, nuggets of insight are often hidden in mountains of noise. Best-practice matching not only checks to see if input data is really about the same customer, but also compares it to a knowledge base of previous customer behavior. The addition of a knowledge base can increase the population of matched customer information by 30%–35%.

COMBINE OFFLINE, ONLINE AND ATTITUDES TO CREATE MULTIDIMENSIONAL CONSUMER INSIGHT.

RETOOL STRATEGY, CREATIVE AND ANALYTIC RESOURCES TO THINK MULTIDimensionALLY.

A HIGH-PERFORMANCE MATCHING ENGINE, IDEALLY KNOWLEDGE-BASED AND SUPPORTING ALL DIGITAL FORMATS IN REAL TIME, IS ESSENTIAL.

A CAPABILITY MODEL FOR DRIVING CUSTOMER ENGAGEMENT

MARKETING CENTRAL NERVOUS SYSTEM

The marketing central nervous system is the synapse that sends and receives signals about customer behavior, then intelligently recalibrates based upon what they do (or don't do). The goal is to remember every interaction and learn.

The concept of a single view of the customer is not new. So why haven't more firms achieved it? Of course, organizational design is a major culprit – a unified customer goal is frequently undermined by conflicting channel or product objectives. Moreover, the dramatic increase in channels and media options, particularly social and mobile, has simply overrun most organizations.

The marketing central nervous system also has broad ambitions – to not only send signals that influence customers, but also to sense behavior and intelligently respond. This has significant technology implications. When customer behavior is influenced or sensed, leaders deploy automated decision technology to optimize the outcome.

A key strategy trade-off must be considered. Creating a single physical customer data warehouse is unquestionably IT-efficient. Unfortunately, it is also a multiyear undertaking, outside the typical CMO tenure. A better strategy is to “play the data as it lies.” By placing persistent customer identifiers on existing customer data, marketers can have a logically integrated view of customers in less than 9 months. The results of being “in-market” 1–2 years faster dwarf the small premium in IT expense.

PERSONALIZED AND COORDINATED ENGAGEMENT

Personalized and coordinated engagement addresses the moment of truth, when customers are directly engaged with your brand.

Without the right experience, all that digital audience selection is for naught. A personalized offer and/or creative, on the other hand, can drive fourfold improvements in conversion. Leaders will redirect funding from unproductive reach to fund these personalization efforts. Coordination across channels and product relationships is an essential, closely related concept. Surround-sound marketing is the goal.

Effective listening to customers is an important by-product of a personalized experience. Confirming or adjusting insight about customers promotes a virtuous learning cycle. Listening can be implicit, by observing customer behavior, or explicit, by creating a preference center where customers directly share their communication choices.

A high-performance personalization engine, integrated with the marketing central nervous system, is the key systems requirement to achieve personalized and coordinated engagement.

CORRELATE CONSUMER BEHAVIOR WITH MARKETING ACROSS CHANNELS OVER TIME.

SEND AND RECEIVE SIGNALS THAT INFLUENCE CUSTOMER BEHAVIOR.

PLAY THE DATA AS IT LIES.

CONDUCT CONVERSATIONS, NOT JUST CAMPAIGNS.

FUSE INSIGHT INTO THE “MOMENT OF TRUTH.”

A HIGH-PERFORMANCE PERSONALIZATION AND DECISION ENGINE IS KEY.

HIGHLY ACCURATE AUDIENCE RECOGNITION IS ESSENTIAL.

A CAPABILITY MODEL FOR DRIVING CUSTOMER ENGAGEMENT

RESULTS

Embracing the capability model is a strategic decision, with potentially significant investment and resource implications. By leveraging this model, some firms have already demonstrated in excess of \$100 million in annual benefit. Importantly, each firm redirected existing spend to fund the capability model.

Technology Firm – \$200 million incremental revenue/year, \$4.5 million operating expense savings. *Key insight: frequently asked questions and small orders provide fodder for an effective life cycle messaging program.*

Consumer Goods Firm – \$500 million gross profit impact per year. *Key insight: creating an enterprise marketing central nervous system to prioritize marketing spend reduces unproductive spend, while increasing sales.*

Retail Bank – \$100 million pre-tax profit impact per year. *Key insight: Multidimensional insight uncovers previously overlooked opportunities.*

CONCLUSIONS

The business of marketing and advertising has irrevocably changed, in large part due to technology-fueled innovation. Consumers act differently, and with more power, in their relationships with brands. As a result, tried and true marketing maxims simply are no longer true.

New conditions demand new approaches. A capability model for driving customer engagement in a connected world harvests experience across thousands of brands and billions of consumer interactions.

By focusing on four interrelated concepts, marketers can redirect 15%–30% of spend to higher-performing alternatives. Reaching and engaging your audience maximizes customer lifetime value and roots out unproductive relationships. Multidimensional insight filters out false signals that waste advertising and harm brands. A marketing central nervous system recalibrates programs based on actual customer behavior. Finally, personalized and coordinated engagement ensures your brand is optimized at the moment of truth, when customers interact with your brand. Together, these four concepts comprise a capability model proven to optimize customer value at every interaction.

To learn how Acxiom's Capability Model can increase your ROI and reduce wasted media spend, call 1.888.3ACXIOM (1.888.322.9466) or visit www.acxiom.com.



ABOUT ACXIOM

Acxiom is a marketing services and technology firm focused on customer and audience engagement. It serves 8,800 customers in 40 countries around the world. Acxiom is the #1 agency in the U.S. (AdAge), the #3 innovative user of technology in business services and consulting category (Information Week 500), and #1 in client satisfaction (leading market research firm).

(1) Briggs, Rex and Stuart, Greg. What Sticks: Why Most Advertising Fails and How to Guarantee Yours Succeeds, Kaplan Business, September 1, 2006. (2) Forrester Research, Profiling The Multichannel Consumer, July 29, 2010. (3) Forrester Consulting, "2009 Channel Preferences Survey", September 24, 2009. (4) Bain & Company, Closing the Delivery Gap, 2005. (5) ComScore, March 2009: Research from eight U.S. brand campaigns with budgets between \$400,000 and \$2 million. (6) Sapient Interactive, Smart Agency Survey, 2009. (7) Samsung Electronics, Local Market Survey, October 2009. (8) Forrester – Midyear Planning: Predictions For 2011, July 29th, 2010. (9) Yahoo! 2009.