

Optimising the Online Marketing Mix

Online Marketing Challenge: The need to do better marketing

While businesses are seeing ever-increasing number of visitors and shoppers passing through their online outlets, they are still struggling to turn these click throughs (eye-balls) into revenue or even profit! This brutal economics of the 'new business' model are forcing them to think hard about how they treat their customers and what they can do to improve (or even just commence) the relationship with their customers. The old adage of acquiring new customers costing many more times than retaining an existing customer takes a new turn in that online businesses can only hope to survive or make a profit through repeat business (as the coffers of the new economy ebusinesses can only support brand building for so long).

However, as the 'old economy' discovered over a decade ago, marketing is at the core of bridging this relationship gap. By doing better marketing, by moving beyond the 'traditional' mass marketing, by treating the customer as an individual (or at least as a group of individuals), by offering them what they want when they want it, online businesses have the opportunity to (positively) *influence their customer's behaviour*. So the key online marketing challenge is *customer conversion*:

- converting surfers into browsers
- converting browsers into buyers
- converting buyers into repeat buyers
- and repeat buyers into profitable customers

Online Marketing Opportunities

However, this brave new world of online marketing has huge scope for trying new ways to market, for providing new avenues for traditional marketing techniques updated for the internet age. Whether it be:

- marketing solely through online presence (web site content), or
- the updated mass advertising (through banner ads),
- targeted marketing (with the aid of personalisation engines), to
- the individualised experience provided by recommendation engines, or
- the community based membership and loyalty schemes

a business' web site alone offers extensive marketing opportunities. Partner web sites, through affiliate marketing programmes, also add to this web of marketing options. Augment this with the new direct mail (targeted email, to display the latest offers or promotions or contact for service renewal) and add in all the traditional offline marketing approaches (such as media ads, direct mail, call centre) and you have a potent marketing mix for influencing your customers' behaviour.

Beyond enriching the mix, online marketing inherits many of the advantages that makes the internet such an attractive place to do business. In particular you now have the opportunity to try out different approaches quickly and cheaply. Beyond this you can determine the results of these experiments in online marketing, and then react to the feedback provided in refining your messages and techniques. Again, both of these marketing activities can be achieved in short time periods and at low cost.

So now your marketing activities have produced a myriad of opportunities to:

- Observe customer behaviour, which in turn allow
- Increase in customer or business understanding, resulting in the chance to
- Learn for the next activity

Turning this one shot process into a virtuous cycle, repeated as often as your business can afford, allows your business to continually learn about customers by understanding responses to business actions. So while marketing may traditionally have been a cost-centre and tactical requirement,

focussed purely on campaigns and creative success, it now becomes a learning process about your customers and their behaviour. And now your marketing team is also transformed, now creating ideas, market testing these ideas on your customers, and measuring the results to do what they want to do – better marketing!

Example Tactical Marketing Technique

Of all these online marketing options, recommendation engines (and in particular the technique of collaborative filtering) have, arguably, been receiving the highest profile in the media through their use in the online retailing success stories at Amazon.com or CDNow. While in the past we may have asked a friend for a suggestion for book or CD to buy, recommendation engines fill this role online and return several recommendations. They do this by taking a selection of books or CDs you like, have rated purchased and, by finding people who have similar preferences to you, tell you what else they've read or listened to.

From a business perspective, recommendation engines seem to work well for a number of reasons. Initially, the increased revenues generated through additional purchases based on recommendation engine suggested purchases. This can be thought of as similar to the display of items beside a checkout of a traditional store, encouraging further purchases while in the queue, and have resulted in well known successes like the purchase of \$1000 sofa out of the blue. However, if a customer has used the site several times, and has received valued recommendations, there is a loyalty aspect through the invested time in implicitly storing of the customers preferences within the system but also the explicit registration purchase details (credit card, delivery address).

Technically, also, collaborative filtering works well through

- no requirement to have any knowledge of objects being recommended,
- being designed to deal with large inventories of objects,
- improved recommendations with use, by having more recommendations available and more data to provide more accurate recommendations
- targeted recommendations through clubs or communities, with separate recommendation databases built for coarse customer segments based on, for example, geography, interest, organisation

However, some of these benefits are a double-edged sword and there are some disadvantages of using collaborative filtering. For example,

- the fact that they require no knowledge of the items being recommended also means that they have no knowledge about objects being recommended (so Mozart and Madonna might be flavours of ice cream). A knock on effect of which might be that they can't tell whether the recommendation is sensible, so the mistakes they make can look very, very stupid
- related to this is that they ignore lots of other relevant information - both about the customer and market/business in question e.g. what is on offer today
- the recommendations tend to focus on one aspect of purchase behaviour. So if I have used the system a lot, and have a diverse taste in books, they tend to pick on one category of books at the exclusion of all others - typically because people with whom I have the greatest 'affinity' purchase these. A side effect of this is that the recommendations can be quite unsurprising, without offering anything too different.
- there is always the risk of negative impact on customer if recommendation is inappropriate, perhaps due to a previous purchase for someone else or as a present (though this can be dealt with by excluding purchases / rating from the profile).
- on its own there is little scope for differential marketing, which to some extents is what CRM is all about.

Comparing a recommendation engine with a good 'traditional' sales person demonstrates some of these drawbacks. For example, when I go into my local gentlemen's outfitter to buy a new shirt, my favourite sales person is likely to make a judgement about me and what he might sell me before approaching me for the big sell. So, he might first observe my behaviour in terms of what I look like,

what I've bought, what might go with this or what I'm currently looking at. Perhaps then he engages me and asks if I'm looking for something special or if I've bought something similar previously. Maybe he also brings into play what he knows is on offer in the store or what his experience of selling tells him how or what to sell to me. In summary, this good salesperson brings together all he knows about me and his business, to treat me as an individual (or at least try to make me feel like an individual) and offer something appropriate for that visit.

Strategic Marketing

The point of this last example was not to down play recommendation engines as a useful tactic to encourage increased purchasing among your customer base. Its easy to knock the system when it doesn't get it right all the time and can we really expect past purchases to be completely predictive of future interests in a purely deterministic/mechanistic way?

More to the point, is that the marketing options we've mentioned so far are all tactical, all techniques used to achieve a short term aim. The question is not really whether these tactics are good or work well, but more to realise that ultimately it will be more important to take a broader strategic view of all your interactions with customer, and understand which are working best for which customers at which offers or products and at which times. After all what is the point of religiously following one tactic that does work, while ignoring others which might work even better!

So with options available to them at little cost, and with the competition and shareholders breathing down their necks, the smart marketers can then deploy a mix of these tactics to maximise not just click-throughs or eye-balls but the bottom line of revenues and profits. The smart marketers also realise that they

- don't necessarily know, in advance, what will work best,
- can get creative and try things out,
- need to measure how effective that marketing action was,
- need to analyse what worked best for whom and when,
- need to analyse how this effected other parts of their business and
- can try to improve their approach for next time.

Need to measure! Need to analyse! Get strategic!

Measuring Marketing

Getting strategic requires a combination of

- measurement, to determine:
 - what influence this all marketing is having on your customers, and
 - whether it is working at all at making them better customers, where better is determine by the metrics appropriate for your business (be it customer acquisition rates, revenue increases or contribution to overall profitability) and
- analysis to determine what works for whom and when.

Going back to picking on recommendation engines, it could be said that all recommendation engines "work" – any purchase at all from a recommendation will improve the revenue generated compared to where that purchase was not made). But the question is – do they work "best". For example, how do we know that the recommendation engine is just working during the week when people are at work and perhaps don't have enough time to search through a catalogue for that last minute birthday present for a love one. Whereas at the weekend a combination of having the time to browse and an offer of an online discount voucher could have resulted in a higher value sale.

Only way to find out is to try a few alternatives, whether it is to deploy different tactics or different offers or different creatives at different times, and then measure the results for each customer in terms of real success defined in terms of your business and your business objectives.

At this point, online marketing has another huge benefit over its traditional predecessors in that all the data you need to measure your marketing performance is already online! It could almost be said that the tactical marketing tools in the mix are completely dependent on storing data online to even function at all.

- the contents and personalisation supplied via your web site can be tracked through the web logs.
- the performance of your affiliate marketing programmes can be tracked on your partner's site logs, through your web logs and probably also through the third party tracking organisation who supports the whole affiliate programme.
- your email and traditional direct mail campaigns can be tracked as part of your e-enabled campaign management process.
- and last but not least, the contributions to the bottom line of the purchase or transaction information are recorded and stored in your e-commerce server logs.
- you may even go the whole hog and store the lot in a data warehouse!

But this data alone does not make strategic marketing magic. Part of the path to this goal comes from integrating these data sources together, including data from all channels, across all product ranges and with all marketing contact, producing a *complete holistic view of your customers' behaviour and interactions* with your business. But, we're still not quite there yet. This enterprise wide view is only as good as the people who manipulate it. Your IT staff maybe able to query it. Your statistical analysis team maybe able to run their complex data-mining algorithms across it. But it is not until you give all this data to your skilled marketing analysts, who know your market, know your business and know what influences your customer behaviour that the full value release is obtained.

Key Benefits of a Holistic Customer View

So in summary, creating this complete customer view has a number of benefits across your business:

- *Marketing benefits*: understand how each of your online marketing options is working best, down to the detail of any given customer as an individual.
- *Business benefits*: measure and predict real CRM ROI to develop maximized returns from marketing activity
- *Employee benefits*: empower the marketers to produce insightful, creative, profitable marketing at e-speeds; completes the key combination of customer data, business knowledge and analysts skill and understanding
- *Customer benefits*: predict and fulfil customers' immediate needs as an individual by having this level of detailed understanding about each customer, resulting in an increase in revenue and profit across the whole business

You CAN Do This!

While this all might sound too good to be true, all of the opportunities for doing better marketing are available to you today. To summarise:

- data is now available to track customer response and purchase history. All these systems create huge volumes of data, which can be transformed, stored and accessed online
- tools are now available to handle the bringing together of all customer data: the complete customer view is a reality as is the integration of the data from all your contact points and back end systems on all your customers - why sample?
- interfaces now exist so that business & marketing people can interact with data to learn how to optimise the marketing mix