Creating Value by Improving Marketing Return on Investment

Marketing is, and always will be, a creative endeavor. But it can also be a highly rigorous discipline. As marketing noise and media fragmentation continue to increase, marketers find that Oliver Wyman’s unique approach of econometric analysis with scientific experimentation allows them to better communicate with their customers—and substantially raise their marketing spend.

Oliver Wyman’s Marketing Value Engineering platform helps clients to realize gross profit improvements of at least 5% through revenue increases or spending reductions. We work with executives across a range of industries to untangle their many marketing initiatives and determine the optimal deployment of limited marketing investments.
Seeing the forest for the trees
Consumers and business customers are bombarded daily with hundreds of marketing messages delivered through all manner of media. The proliferation of media and marketing channels, from satellite radio to niche websites to 500 television channels to digital video recorders to iPods, has further complicated the environment. The vast majority of these messages fail to hit their targets.

So when it comes to marketing investments, CEOs and CFOs do not have the same clear picture as with other functions; too often, they suspect missed opportunities and suboptimal spending. They are frustrated because there are few metrics, processes, or standards of accountability to determine what’s worthwhile and what’s wasted. The budget-setting process does not take into account the effectiveness of marketing programs.

In many companies, the root of this problem is the lack of precise measurements. Marketing goals and strategies tend to be set at the corporate level, while resources get allocated and data get analyzed at the market or regional level by functional managers who have limited information about what others are attempting to do in the marketplace. In addition, each group has its own budgets and targets to meet, and it is complicated to coordinate with other internal groups. As a result, companies experience dysfunction on several fronts:

- Senior management does not have good information about the underlying marketing drivers of financial and operational performance. That makes it difficult to justify additional investments or to identify redundant investments.
- Individual managers find it cumbersome to address differences in market opportunities and risks, so everyone winds up with a middle-of-the-road approach based on hunches.
- Managers rarely can directly tie observed metrics to specific marketing spend and are, therefore, unable to justify their marketing investments.

It would be very valuable for executives to be able to anticipate which marketing spend would prompt a response among customers, since even a small improvement in marketing productivity can have a big impact on profitability.

Oliver Wyman’s Marketing Value Engineering platform helps executives answer the following questions by customer segment, product line, geography, media channels, and by message or campaign:

- How much do I actually spend on marketing by different objectives, geographies, and product lines?
- How effective is my marketing spend?
- Where could I trim spend without negative revenue impact?
- How can I reallocate marketing investments to generate higher returns?
- Where should I invest more to generate optimal returns?
Delivering real bottom-line impact
Oliver Wyman’s Marketing Value Engineering platform helps clients increase their gross profits by driving revenue increases or reducing marketing spend. Our clients have realized sales increases of 5-10% at the same levels of spend, or have achieved 10-15% reductions in marketing spend with little or no adverse revenue impact. Overall, gross profit improvements of 5% are typical.

Oliver Wyman’s proven approach allows executives to develop a deep understanding of all customer touchpoints and the impact of spending by marketing lever, customer segment, geography, and channel on key outcomes such as sales, penetration, customer acquisition, churn, market share, and brand strength. By combining historical analysis with in-market experimentation, we can help companies arrive at an optimal deployment of limited resources.

Our approach includes:

- An objective, customer-centric framework to rigorously evaluate the impact of marketing investments
- Sophisticated modeling and tools that combine econometric analysis with predictive scientific experimentation to help craft the most effective future campaigns
- An interactive Decision Support System
- Proven processes to institutionalize the overall marketing productivity improvement effort

Oliver Wyman’s Marketing Value Engineering platform helps companies make the leap from a narrow campaign focus to a coherent strategy that spans the enterprise, and encompasses the entire marketing mix, including:

- Media campaigns through television, online, print, radio, and outdoor advertising
- Promotions, overall and by channel
- Telesales campaigns
- Direct mail campaigns, print and electronic
- Sponsorship and public relations
- Emerging marketing levers such as word-of-mouth and viral marketing

“It used to be a given in the wireless industry that measuring the true return on advertising investment was impossible. There seemed to be too many variables to understand them systematically. As a result, marketing expenditures and allocations to individual geographies tended to be made by a combination of gut feel, organizational politics, and history.

By isolating the data that mattered most, Oliver Wyman gave us new fact-driven insights that have enabled us to manage our business in a significantly higher ROI manner. We can now allocate ad spending to the markets, mediums, and messages with the highest return. As a result, by using Oliver Wyman’s models and implementing their recommendation, we saw a 50% improvement in advertising return in the first six months.

While the project required a significant upfront investment of both time and resources, it is already paying back many times over.”

–Vice President of Marketing Strategy, North American service provider
Our Approach

The Marketing Value Engineering platform brings together two complementary methodologies to understand the link between marketing spend and key outcomes: econometric analysis and in-market experimentation.

### Econometric analysis

We use advanced econometric modeling techniques to assess which marketing resources and activities drive key outcomes such as customer acquisition, customer churn, revenues, market share, and brand strength. We start by developing a comprehensive base of existing data on client and competitive marketing activities and spending levels, by markets, channels, product categories, and brands, as well as data on environmental factors such as macroeconomic variables. The databases help quantify the relationship between different marketing levers and key outcomes metrics.

For example, laptop sales are affected by the levels and types of advertisements through

We quantify the statistical relationship between key outcome metrics such as sales and all relevant marketing levers

Sales versus television gross ratings points (GRPs), direct marketing, and promotion activity

![Graph showing sales, television GRPs, direct marketing, and price promotions over weeks 1 to 26.]

- **Sales**
- **Television GRPs**
- **Direct marketing**
- **Price promotions**

### Nexperiment®

- Validate spend level and allocation recommendations in-market
- Develop in-market experiments for marketing levers where variances were too low or for untested levers

### Institutionalize and update database and models

- Update marketing database
- Assess validity of model forecasts
- Update and refine the models
- Enhance capabilities through additional functionality
different media including word of mouth, website visits, promotions by retailers, competitive activities, seasonality, and even the weather. Using sophisticated modeling, we uncover and quantify the relationship among all these variables and laptop sales. Simple regression models cannot untangle such complicated relationships.

Historical data, however, has a few limitations: it cannot quantify the effects of levers that have not varied much in the past; it cannot project the impact of substantially new and different levels of spend; and it cannot measure the impact of new marketing levers such as viral marketing that have limited, if any, historical data. That is why we often complement it with in-market experimentation.

**In-market experimentation**

Experimental design quantifies the effects of independent stimuli on key outcome metrics, in order to determine how the various components of a marketing campaign influence consumer behavior. Our proprietary Nexperiment® approach is much more precise and cost-effective than traditional market testing such as split mailings, which cannot evaluate more than a few campaign alternatives without growing prohibitively expensive.

Oliver Wyman’s Nexperiment® lets marketers project the impact of many stimuli, even beyond those that have been used in the past, by testing just a few of them. Using mathematical formulas to select and test a subset of combinations of variables that represent the complexity of all the original variables, marketers can model hundreds or even thousands of stimuli accurately and efficiently. This ensures that our clients discover which stimuli are truly driving behavior.

Because we control the introduction of stimuli, we can establish the differences in response that can be attributed to the stimulus in question, such as the advertising message, and not to other factors, such as packaging. In-market experimentation reveals whether variables caused a certain behavior as opposed to simply being correlated with the behavior. We also use this methodology to validate the results of the econometric analysis.

**In-market experimentation systematically introduces and analyzes variance in order to understand how customers will behave**
This interactive tool allows managers to develop “what if” simulations

1. User defines the scope of the optimization
2. User inputs information for all relevant levers (current budget, competitive activity, etc.)
3. Analytic engine computes optimal spend levels, and displays financial results in simple, interactive graphical display
4. The tool provides additional granularity of outputs, e.g., allocation by media type and timing

### Laptop Marketing Spend Optimization

<table>
<thead>
<tr>
<th>Select scope of optimization</th>
<th>Results</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>$100M</td>
<td>$100M</td>
</tr>
<tr>
<td>Model/SKU</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Channel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base price</td>
<td>$500</td>
<td></td>
</tr>
<tr>
<td>Time period</td>
<td>From 04/01/2006 To 04/15/2008</td>
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</table>

<table>
<thead>
<tr>
<th>Budget inputs (i.e., last year’s actuals, experience, etc.)</th>
<th>$MM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Select timeframe of input</td>
<td></td>
</tr>
<tr>
<td>TV</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>$3.5</td>
</tr>
<tr>
<td>Print</td>
<td>$2.0</td>
</tr>
<tr>
<td>Online</td>
<td>$1.5</td>
</tr>
<tr>
<td>Radio</td>
<td>$1.0</td>
</tr>
<tr>
<td>Promotions</td>
<td>$0.5</td>
</tr>
<tr>
<td>Events</td>
<td>$0.5</td>
</tr>
<tr>
<td>Outdoor</td>
<td>$0.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other inputs</th>
<th>Performance of base model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive activity</td>
<td>Media</td>
</tr>
<tr>
<td></td>
<td>Medium</td>
</tr>
<tr>
<td>Sales up-to-date</td>
<td>$44,360,000</td>
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<tr>
<td>Marketing campaign #</td>
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</tbody>
</table>

### Optimizing by media channel

<table>
<thead>
<tr>
<th>Inputs</th>
<th>Optimal</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>TV, 5%</td>
</tr>
<tr>
<td>Print</td>
<td>Print, 2%</td>
</tr>
<tr>
<td>Online</td>
<td>Online, 10%</td>
</tr>
<tr>
<td>Radio</td>
<td>Radio, 15%</td>
</tr>
<tr>
<td>Events</td>
<td>Events, 10%</td>
</tr>
<tr>
<td>Outdoor</td>
<td>Outdoor, 10%</td>
</tr>
</tbody>
</table>

| Total | $11.7M |

### Total Marketing Spend

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Profit</th>
<th>Rev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical</td>
<td>$10M</td>
<td>$10M</td>
</tr>
<tr>
<td>Optimal</td>
<td>$17M</td>
<td>$35M</td>
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</tbody>
</table>

### Total Spend Optimizer

<table>
<thead>
<tr>
<th>Total Spend</th>
<th>$35M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimized</td>
<td>$17M</td>
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</tbody>
</table>
As part of one of the largest global consulting firms, Oliver Wyman is able to bring a number of important advantages to our client engagements.

- **Deep expertise.** For more than two decades, we have led the consulting industry in bringing the most innovative customer science methods to bear on our clients’ business problems. For example, in 1984 Oliver Wyman was the first firm to apply Strategic Choice Analysis® to customer demand issues. We also pioneered the commercialization of latent class models, Hierarchical Bayes random effects models, Information Acceleration™, Nexperiment™, and Strategic Brand Assessment™.

- **People.** Having an in-house customer science team allows us to maintain the highest possible quality standards. Most of our specialist consultants have doctorate degrees in marketing, economics, statistics, anthropology, or psychology. They continue to publish in leading journals such as the *Harvard Business Review, Harvard Management Update, Journal of Marketing Research, The Journal of Professional Pricing, Marketing Management, The Science, and Strategy and Leadership*, and present at industry conferences. Four of our partners are trustees of the Marketing Sciences Institute.

- **Technology.** We do not offer a secret “black-box” approach. Instead, we fully transfer knowledge so that our clients can make ongoing refinements. Our Customer Value Engineering™ methodology, which integrates customer insight with the business economics, creates a platform for building consensus. And our custom desktop tools such as Interactive Strategy Modeling® are designed jointly with clients for maximum effectiveness and adoption.
U.S. wireless carrier
We analyzed the customer acquisition impact of different media by market and identified the optimal media mix in order to maximize new customer acquisition. This led to $50 million in incremental EBITDA, for an increase in marketing ROI of 50%.

Global technology company
We analyzed the ROI of different advertising media and strategies (both mass market and segment-specific strategies) and identified the optimal advertising mix and strategy. The client realized $500 million in incremental revenue at the same level of advertising spending.

Subscription-based service provider
We analyzed the ROI and long-term value of subscriptions through direct, OEM, retail, and other channels and campaigns, then rebalanced the strategy. This led to €14 million in incremental profits following €10 million in additional spending.
Financial services firm
We helped a financial services company save nearly 30% of its prior year marketing budget by optimizing the advertising portfolio by media type and geography. We determined that print media was over 50% more effective at gaining market share, and some geographic markets were over 2.5 times as effective as others. By allocating investment toward print, and investing less in poorer-performing markets, savings of $25 million were possible without loss of market share.

Mortgage finance company
We helped managers understand the interplay of the discrete elements of their marketing mix in order to better allocate media spend. In particular, they needed to understand the short-term impact of advertising on current direct mail activities in order to make improvements. We employed Nexperiment® techniques on TV, radio, and print media to test 108 combinations across 12 markets. This helped demonstrate the uplift in direct mail effectiveness due to increasing the level of media exposure, as well as the accumulation of this benefit over time.

Impact of Nexperiment® for telecommunications, financial services, and publishing
- Telemarketing and call centers: 20% to 100% revenue lift
- Direct mail: 15% to 35% revenue lift
- Mass media: 40% to 50% response lift (best case versus none)
- Email campaign: 1.5 times revenue from promotions (best case versus base case)
- Internet advertising: 1.8 times revenue (best case versus base case)
The team has applied the Marketing Value Engineering platform in a variety of industries:

- Consumer packaged goods
- Over-the-counter products
- Quick-serve restaurants
- Home entertainment
- Wireless devices and services
- Complex consumer products
- Consumer services
- Technology products (both consumer and business)
- Financial services publishing
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Oliver Wyman
Oliver Wyman is building the leading global management consultancy, combining deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm works with clients across a range of industries to deliver sustained shareholder value growth. We help managers to anticipate changes in customer priorities and the competitive environment, and then design their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities.

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