Leading Priorities for US Chief Marketing Officer in 2009

RIVERS
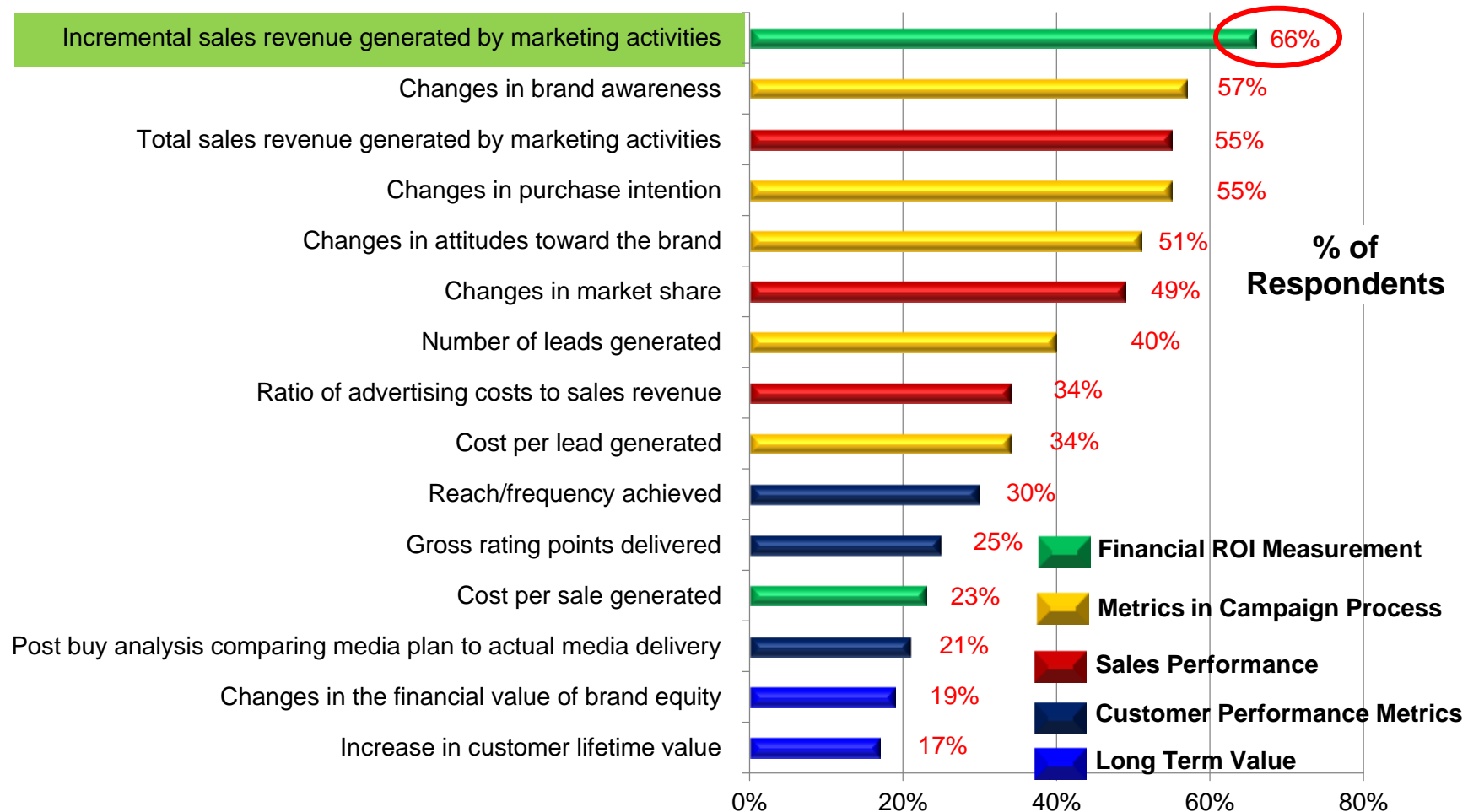

% of Respondents

Priority	%
Achieving measurable ROI on my marketing efforts	50%
Developing marketing programs that integrate online and traditional media	43%
Translating the brand experience across different touch points	32%
Cutting marketing budgets without cutting performance	31%
Optimizing our portfolio of brands	26%
Selecting better methods to uncover relevant consumer insights	23%
Measuring brand effectiveness	20%
Refreshing our brand's image	19%
Evolving our brands as the company's business strategy evolves	18%
Building a corporate culture rooted in our brand	17%

➢ Top Priority is to **achieve Measurable ROI .**

➢ 2nd level priority is to **integrate online and offline media**, **understand customer experience,** & **cut marketing budget.**
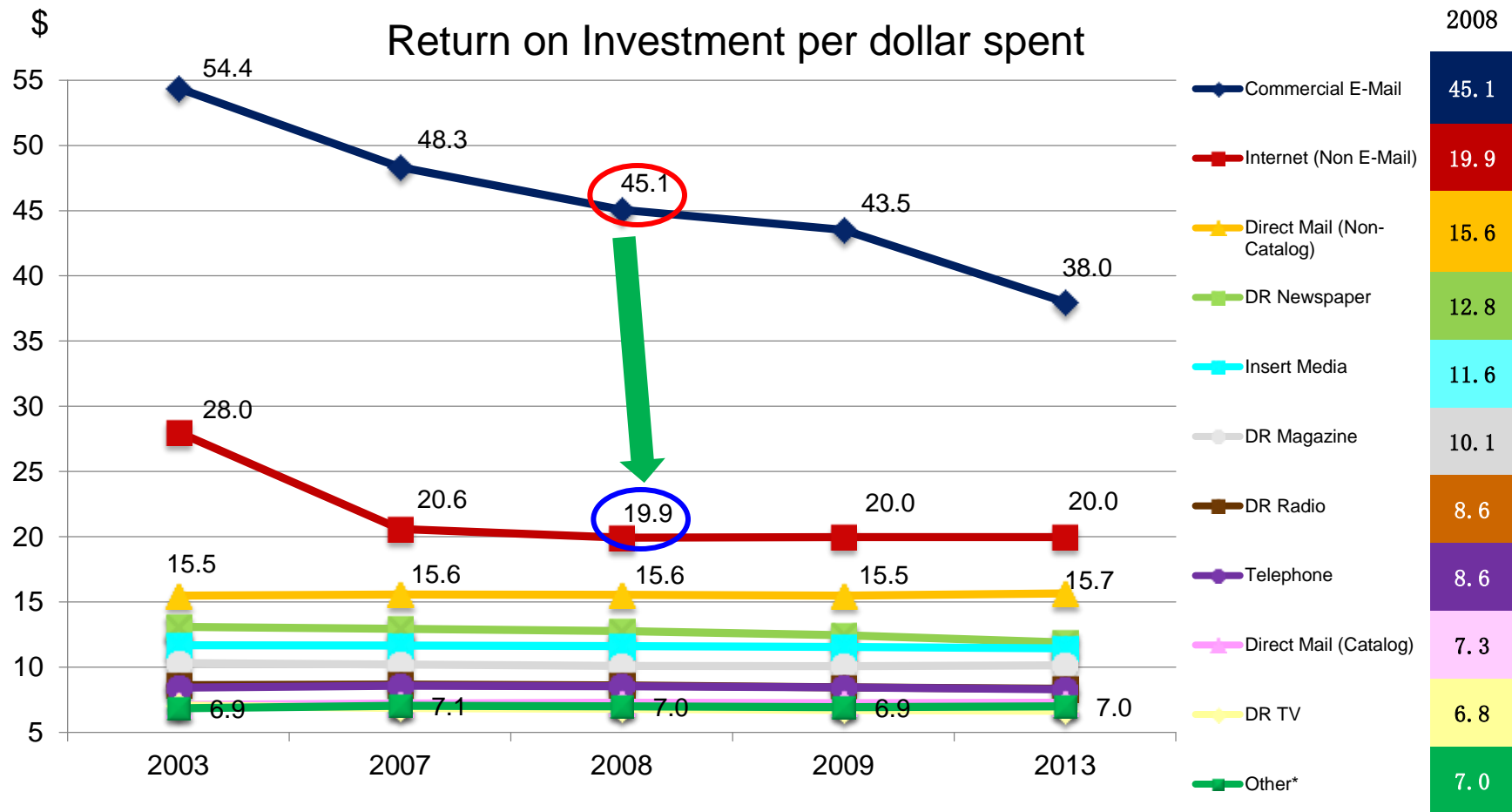
Note: n=101
Source: JupiterResearch and Verse Group, "CMO Priorities for 2009."

Different ROI Definition in Marketing & Sales

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% of Respondents

Category	%
Incremental sales revenue generated by marketing activities	66%
Changes in brand awareness	57%
Total sales revenue generated by marketing activities	55%
Changes in purchase intention	55%
Changes in attitudes toward the brand	51%
Changes in market share	49%
Number of leads generated	40%
Ratio of advertising costs to sales revenue	34%
Cost per lead generated	34%
Reach/frequency achieved	30%
Gross rating points delivered	25%
Cost per sale generated	23%
Post buy analysis comparing media plan to actual media delivery	21%
Changes in the financial value of brand equity	19%
Increase in customer lifetime value	17%

Legend:
- **Financial ROI Measurement** (green)
- **Metrics in Campaign Process** (yellow)
- **Sales Performance** (red)
- **Customer Performance Metrics** (dark blue)
- **Long Term Value** (blue)

➢ Financial ROI Definition: **ROI=Total Sales / (Total Cost of Sales +Cost of Campaign+ Overhead) – 100%**

➢ The highest response of marketing & Sales ROI definition is about incremental sales revenue, which is same as Financial ROI.

➢ Metrics in Campaign Process is at the 2nd highest response level, as they're the measurable metrics to improve Financial ROI.
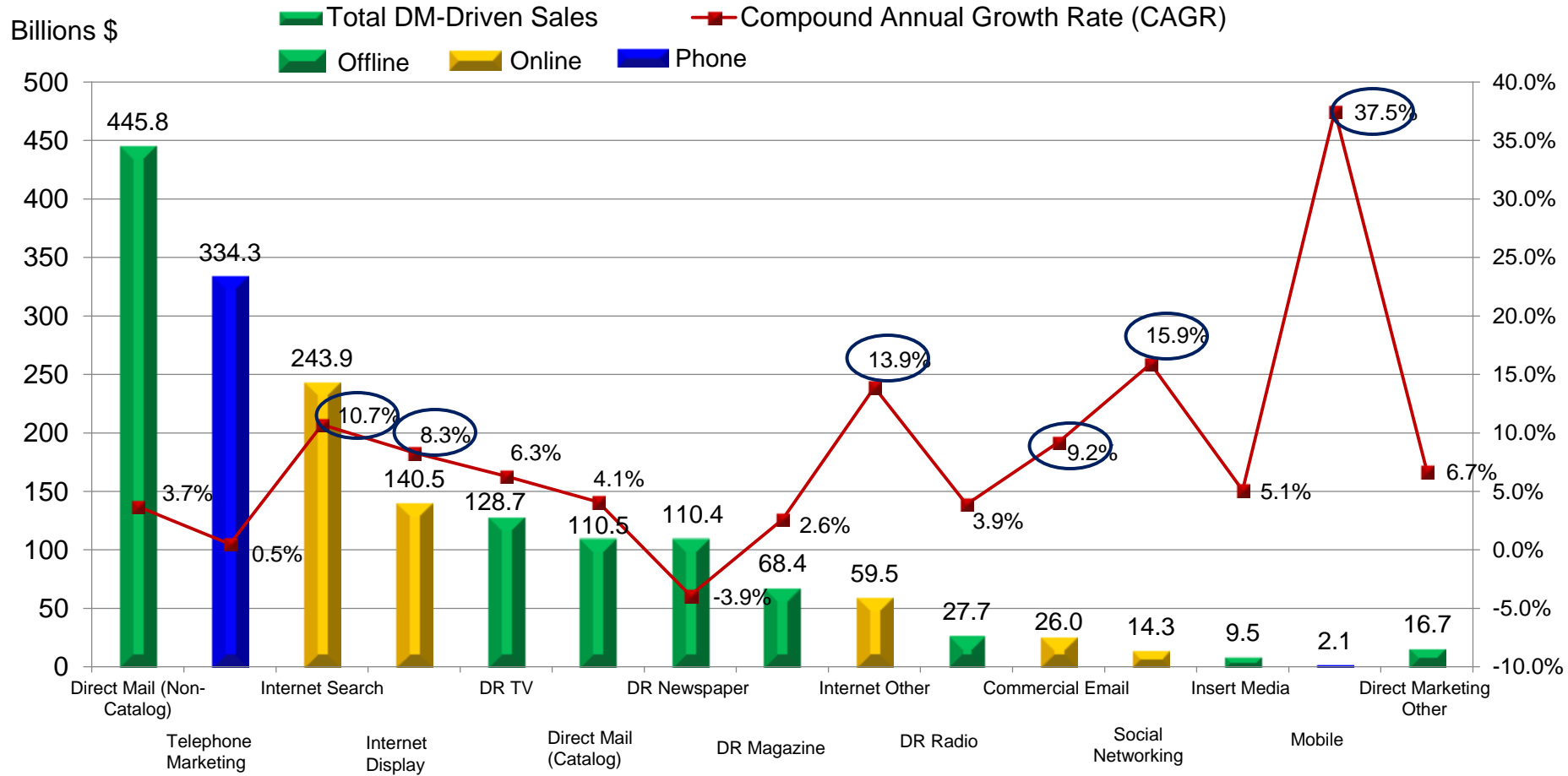
Source: ANA, Forrester Research

US Direct Marketing Media: ROI 2003-2013

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Return on Investment per dollar spent

Legend	2008
Commercial E-Mail	45.1
Internet (Non E-Mail)	19.9
Direct Mail (Non-Catalog)	15.6
DR Newspaper	12.8
Insert Media	11.6
DR Magazine	10.1
DR Radio	8.6
Telephone	8.6
Direct Mail (Catalog)	7.3
DR TV	6.8
Other*	7.0

Chart values by year (2003, 2007, 2008, 2009, 2013):
- Commercial E-Mail: 54.4, 48.3, 45.1, 43.5, 38.0
- Internet (Non E-Mail): 28.0, 20.6, 19.9, 20.0, 20.0
- Direct Mail (Non-Catalog): 15.5, 15.6, 15.6, 15.5, 15.7
- Other: 6.9, 7.1, 7.0, 6.9, 7.0

➤ For 2008, an investment of $1 in direct marketing Ad expenditures is predicted to return $11.63 in incremental revenue, which exceeds the $11.56 in 2007 and will improve to $11.74 in 2009.

➤ In 2008, email ROI is expected to be $45.7 per each $1 spent, more than twice the ROI of other mediums including search and display (Non-email Online Marketing).

Note: *Other includes all other trackable DM delivered media including outdoor, facsimiles, podcasting, displays, and kiosks.
Source: The Power of Direct Marketing, 2008-2009, The Direct Marketing Association (DMA).

Total US Direct Marketing-Driven Sales in 2009-2014

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Billions $

Legend: Total DM-Driven Sales | Compound Annual Growth Rate (CAGR) | Offline | Online | Phone

Chart data (Total DM-Driven Sales, Billions $):
- Direct Mail (Non-Catalog): 445.8 — 3.7%
- Telephone Marketing: 334.3 — 0.5%
- Internet Search: 243.9 — 10.7%
- Internet Display: 140.5 — 8.3%
- DR TV: 128.7 — 6.3%
- Direct Mail (Catalog): 110.5 — 4.1%
- DR Newspaper: 110.4 — -3.9%
- DR Magazine: 68.4 — 2.6%
- Internet Other: 59.5 — 13.9%
- DR Radio: 27.7 — 3.9%
- Commercial Email: 26.0 — 9.2%
- Social Networking: 14.3 — 15.9%
- Insert Media: 9.5 — 5.1%
- Mobile: 2.1 — 37.5%
- Direct Marketing Other: 16.7 — 6.7%

➢Total 2009 direct marketing-driven sales of $1.738 trillion are projected to average 5.1% annual growth through 2014.

➢ Direct mail (Non-catalog), Telephone marketing and Internet Search are still the top 3 DM vehicles，however, Mobile + Online direct marketing tools are forecasted to have a CAGR over 8%.

➢ In 2009, direct marketing has captured 54.3% of all advertising spend in US， and is forecasted to remain above 53 percent for the next five years.

Source: The Power of Direct Marketing 2009-2010, Direct Marketing Association

ROI Case 1 – Revenue Increment of Value Migration in Customer Segmentation

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Cluster 6 - Extremely High In FY05-FY08

Revenue Group/ Relevant Index	Number of Customers	Total Annual Revenue (USD)	Average Current Annual Revenue Per Customer	Total Expected Annual Revenue (USD)	Revenue Increment (USD)	Pccount	Employee_Count	Server_Count
Medium+ Small+Bottom	5x	1.xxM	2x.xK	6.xxM	4.xxM	1,xxx	1x,xxx	7x
Top+Big	7x		1xxK			1,xxx	2,xxx	1x

4.4 times

1.6   5.6   6.3

Cluster 3 - High In FY05-FY08

Revenue Group/ Relevant Index	Number of Customers	Total Annual Revenue (USD)	Average Current Annual Revenue Per Customer	Total Expected Annual Revenue (USD)	Revenue Increment (USD)	Pccount	Employee_Count	Server_Count
Small+Bottom	1xx	1.xxM	5.xK	6.xxM	5.xxM	8xx	3,xxx	2x
Big+Medium	2xx		3x.xK			3xx	1,xxx	1x

5.8 times

2.3   2.0   2.6

Total Increment Revenue

9.xxM

> Software Company A conducted a targeted campaign on customers in Cluster 6 & 3 (5x & 1xx), and successfully migrated the low-revenue contribution customers to high-revenue contribution customers. The total annual increment revenue reached 9.xx million USD.

> The hardware infrastructure and staff number indexes of low-revenue contribution customers are much higher than those of high-revenue contribution customers, which is the critical guarantee of the success of incremental revenue of 9.xx million USD.

Predictive Analytics is Important Because It delivers Value

> ➢ "The median ROI for the projects that incorporated predictive technologies was 145%, compared with a median ROI of 89% for those projects that did not."
>
> - **Source: IDC, "Predictive Analytics and ROI: Lessons from IDC's Financial Impact Study"**

Why is Predictive Analytics so critical to business decisions?

	Before Analytics	After Analytics
Banner ad click through rates	0.3%	21%
Mail response rates	0.5%	18%
Conversion rates (post-response)	0.9%	10%
Buyer repeat rates	2.0%	60%

Source: Performance of analytics targeted to certain consumers cross-industry and channel, research from Forrester, Jupiter, Amazon.com and Ovum (DM Review, Feb 11, 2003)

ROI Case 2&3: Incremental Contribution of Direct Mail through Predictive Model

RIVERS

Bank A

ROI Case 2: Seasonal Sales Event

	Actual Mailing	Mailing to same number of model group	Mailing to first 100,000 model group
Incremental sales due to mailing	$1,389,273	$2,066,666	$1,135,165
Gross margin	35%	35%	35%
ROP cost $ 464,427 (total)	$111,343	$111,343	$36,283
Direct mail cost (net)	$343,702	$343,702	$112,003
Direct mail contribution (bottom line)	**$31,200**	**$268,288**	**$249,022**
ROI	**7%**	**59%**	**168%**

Only difference in 300,000 Targeted customers

ROI Case 3: Reactivation Mailing

	Inactive criterion group**	Model group*
Size of mailing	16,728	16,567
Incremental sales due to mailing	$34,314	$190,451
Gross margin	35%	35%
Direct mail cost (net)	$23,672	$23,672
Direct mail contribution (bottom line)	**-$11,662**	**$42,985**
ROI	**-49%**	**182%**

Only difference in 16,567 Targeted customers

We will help you to do Midas touch.

* Model selection from customers 8+ months inactive, using highest all-information active scores.
** Selection by straightforward inactivity criterion, selecting all customer 9,10 and 11 months inactive.
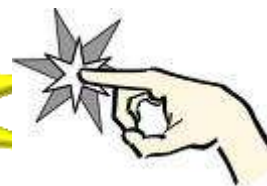
Confidentiality note: Dollar values are fixed multiples of actual values.

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	Customers before Selection	Customers after Selection （Target）	Increasing Revenue (M USD)	Cost Saving (M USD)	Closing Rate	Closing Rate Improvement
Marketing Situation (Traditional)	10,000	10,000	0	0	30%	0％
Improving Scenario 1（Cost Saving）	10,000	3800	-20%	+62%	63.2%	+110％
Improving Scenario 2（Increasing Revenue）	26,316	10,000	1.26	0	63.2%	+110％

Marketing Situation & Improving Scenarios: In 2007, we conducted a marketing campaign to 10,000 customers with 30% closing rate.

In 2008, prediction model selected the predicted high response customers, by increasing 110% closing rate (18M USD Revenue.)

Scenario 1:
- Keep 10,000 campaign customers before prediction model selection, and the number is reduced to 3,800 after selection.
- Conduct the campaign to 3,800 customers and win 2,400 closing contract (63.2% closing rate)，increasing 110% closing rate (saving 62％cost while reducing revenue 20%)

Scenario 2：
- To keep 10,000 campaign customers after prediction model selection, increasing the number to 26,316 before selection.
- Conduct the campaign to 10,000 customers and win 6,316 closing contract (63.2% closing rate), increasing 110% closing rate (increasing 18M USD revenue with same cost)

Core Competence
- Review the past, predict the future
- Marketing Model, predicting accurately

Model Application in Red Figure

26,316 — **10,000 Customers before Selection**

Build Prediction Model

7,895 — Actual Sign (3000)   18,421 — Actual Not Sign (7000)

Model Prediction   **Model Prediction**

6,316 — 80% (2400)   1,579 — 20% (600)   14,737 — 80% (5600)   3,684 — 20% (1400)

Accurate Prediction   Wrong Prediction   Accurate Prediction   Wrong Prediction

No Campaign

Cost Saving (6200) 62%

Campaign

Win/Target (2400/3800)

6316/10000

RIVERS

➢ **Cross-sell sells new products to existing customers** by identifying the product relationship and consumer spending behavior.

➢ **Up-sell** applies the relationship between old and new products in same line, **to sell new upgrade products to existing customers.**

Customers
- P4
- P2
- P1
- P3
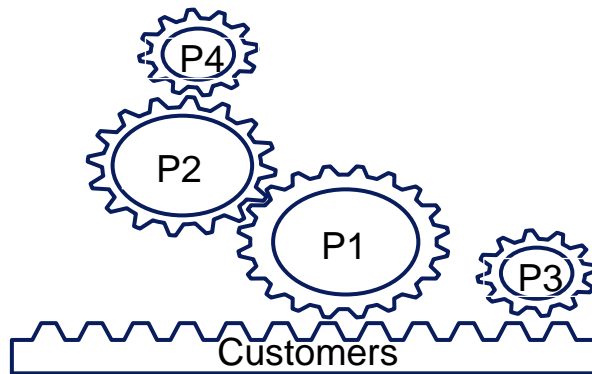
Product- Product relationship

■ To analyze the relationship and replacement between business and products (upgrade)

■ To find appropriate products portfolio and upgrade approach

Customer-Product Relationship

■ To analyze different customers' products interesting characters

■ To find sales opportunities by different customers for related product

Associate Analysis

To provide data support for products' cross-sell, up-sell and new product development.

Response Analysis

Through response model, to lift response rate and output target customer list

**30% of Cash Management Accounts through Sales Visit**

	Cross-sell Model Selected	Random Selected
	291%	100%
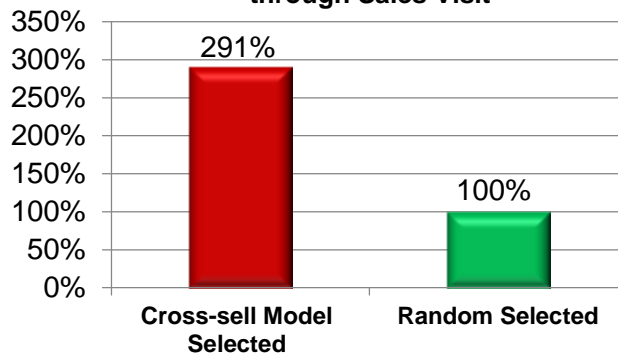
2.91 times of performance result compared with that of Random selected

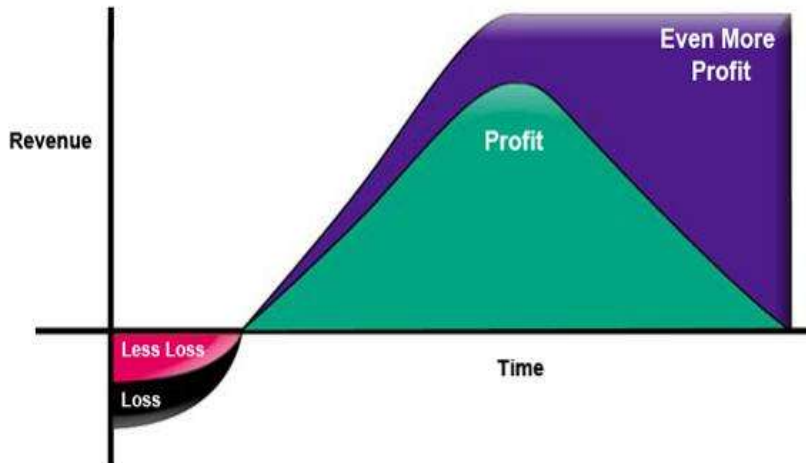**35% of Credit Card Fee-Based Accounts through Mailing**

	Cross-sell Model Selected	Random Selected
	213%	100%
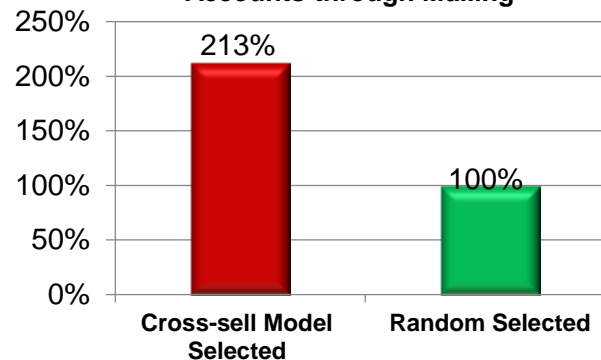
2.13 times of performance result compared with that of Random selected

35% of Auto Insurance Accounts through Mailing

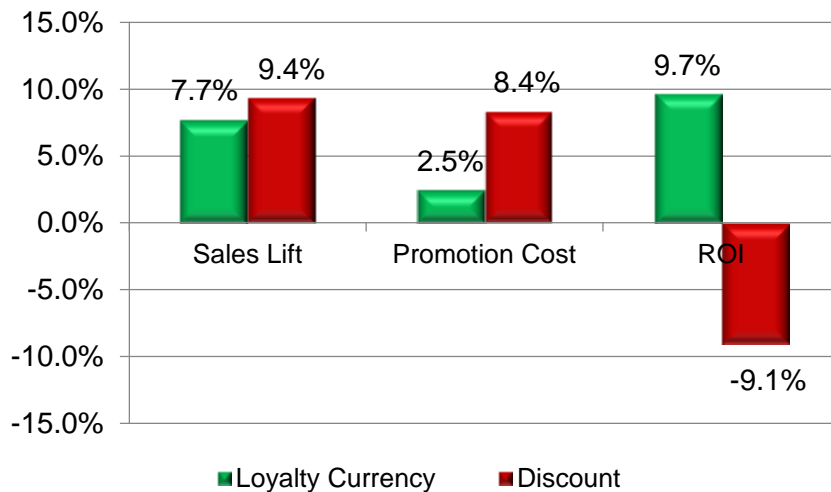|	Cross-sell Model Selected	Random Selected
	174%	100%
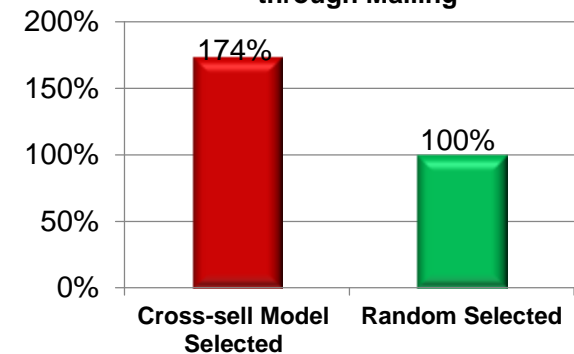
1.74 times of performance result compared with that of Random selected

Loyalty Program Boosting Customer Lifetime Value

Loyalty Currency Vs. Discounts

Chart values — Loyalty Currency (green) vs Discount (red):
- Sales Lift: 7.7% / 9.4%
- Promotion Cost: 2.5% / 8.4%
- ROI: 9.7% / -9.1%

➢ Loyalty Currency Promotions are more profitable vs. Discounts:

- While discounts drive a higher overall average item-lift, they have a significant higher cost.

- Air Miles promotions generate a significantly higher lift relative to cost.

➢ With Loyalty Programs you can identify optimal offers by category in terms of Sales Lift and ROI.
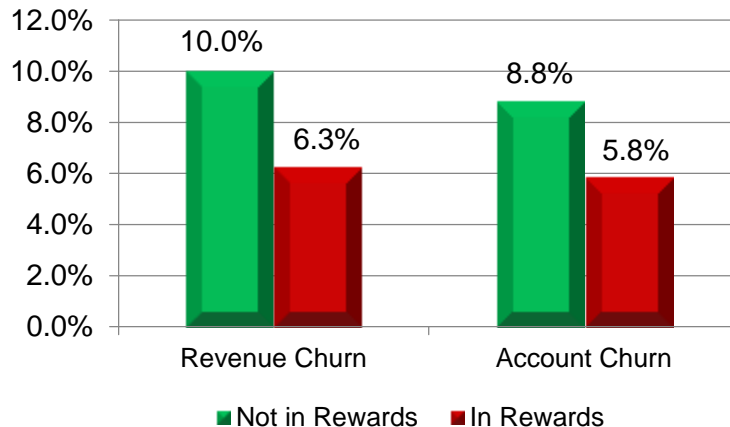
Annual Profit Return on $100 spent

$

| 60 |
| 40 |
20
-20
-40
-60
-80

48

-62

New Customer   3rd Year Customer
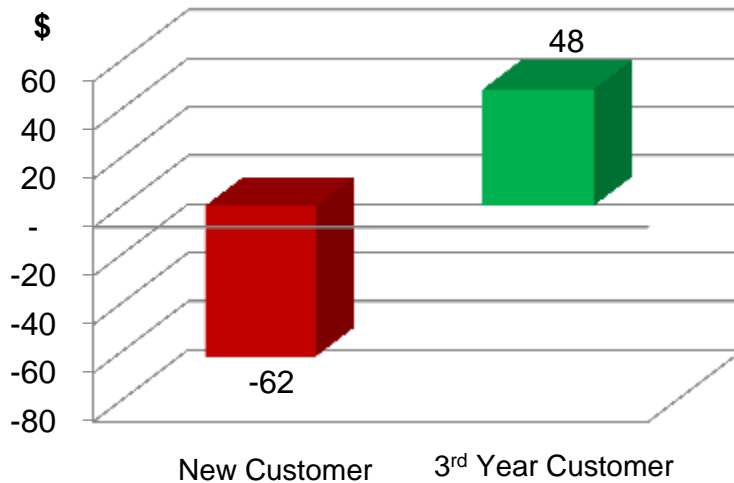
Retention pays better than acquisition

➢ $100 spent brings -$62 return in annual profit for each New Customer

➢ $100 spent brings $48 return in annual profit for 3rd Year customer

Telecom Rewards Program

| 12.0% |
| 10.0% |
| 8.0% |
| 6.0% |
| 4.0% |
| 2.0% |
| 0.0% |

10.0%
6.3%
8.8%
5.8%

Revenue Churn   Account Churn
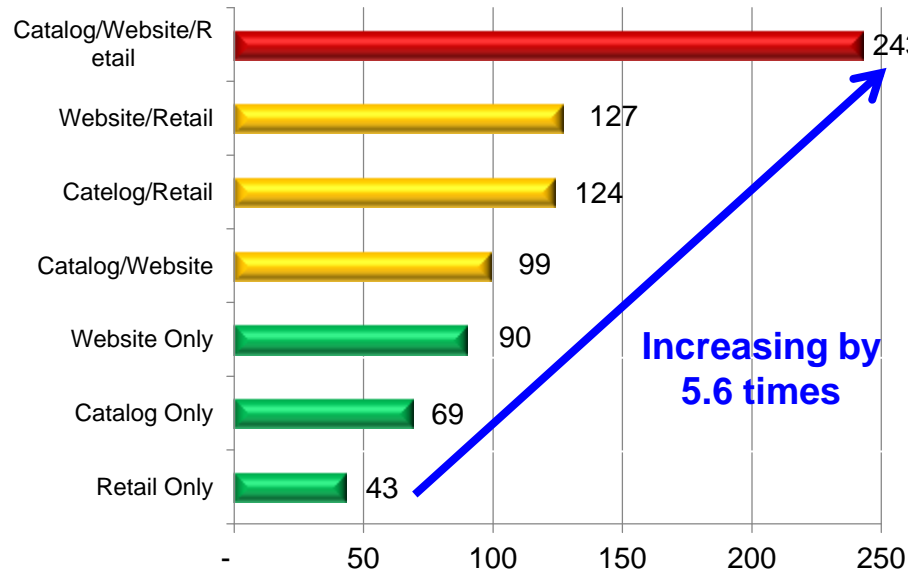
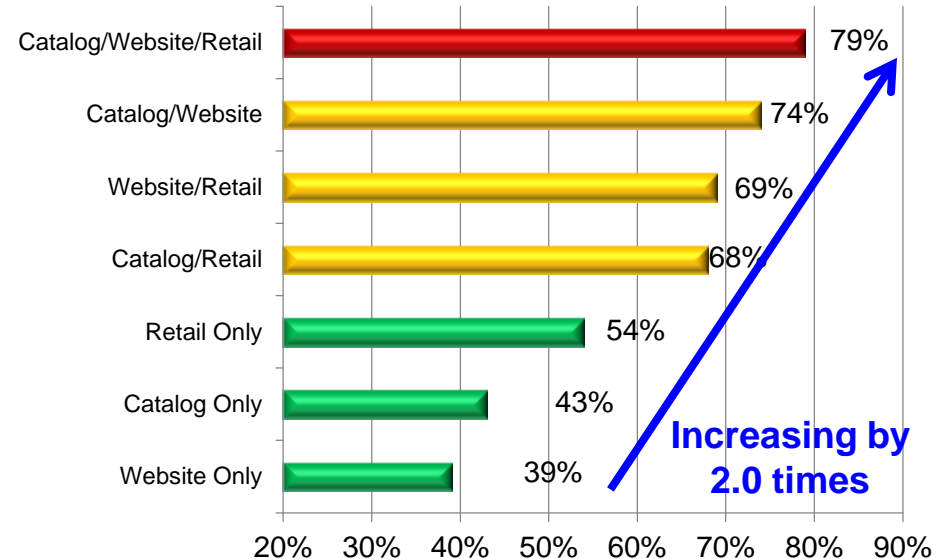■ Not in Rewards   ■ In Rewards

Loyalty programs boost retention

➢ Customers in Rewards have less percentage of churn both in Revenue Churn and Account Churn.

➢ Telecom company conducts loyalty or retention programs when finding valuable customers are reducing their orders or spending.

Total Spend ($)

Channel	Value
Catalog/Website/Retail	243
Website/Retail	127
Catelog/Retail	124
Catalog/Website	99
Website Only	90
Catalog Only	69
Retail Only	43

Increasing by 5.6 times

Retention Rate in 2nd Year

Channel	Value
Catalog/Website/Retail	79%
Catalog/Website	74%
Website/Retail	69%
Catalog/Retail	68%
Retail Only	54%
Catalog Only	43%
Website Only	39%

Increasing by 2.0 times

➢Customers who interact with companies over multiple channels are more profitable than single-channel customers (Increasing by 5.6 times).

➢ In addition, companies need to conduct marketing communication and sales with more channels.

➢ Customers who interact with companies over multiple channels are more loyal than single-channel customers (Increasing by 2.0 times).

➢ More sales = Higher overall retention levels

Source: Double Click