

Driving More Profitable Business Investments With Holistic Commercial Effectiveness Analysis *(Helping CEOs, CFOs and CMOs Sleep Better at Night)*

Prologue

Through our recent work in assessing the ROI measurement landscape, Sequent Partners has seen a tidal shift in sentiment toward marketing mix modeling. Long a stalwart of corporate finance and marketing, some people still view mix models as too slow, too macro and too backwards-looking. The speed and agility of digital attribution modeling flickers ahead, like the glittering lights of Las Vegas against the starkness of the desert night, and marketers are urgently thinking about ROI measurement and driving business investments with ROI insights—at the tempo and granularity of today’s decision-making.

But there’s something else happening. Something more important. Digital attribution, no matter how sophisticated, is still solely about a marketer’s digital investment. It rarely takes into account the impact of traditional marketing and other important factors. Historically, marketing mix models—again, no matter how sophisticated—have been about the marketing and media mix, which can represent as little as 10% of corporate budgets, depending upon the industry. It’s evident to us that in many industries, successful marketing, both traditional and digital, is highly dependent on not only working together, but also working with sales, operations and other important internal investment areas. We’ve come to realize that too much of the dialogue in analytics is focused on the digital and offline marketing silos.

Today, data from this broader array of organizational investment areas is readily available. The analytic approaches used in marketing mix and digital attribution, with their precision, reliability and quantitatively grounded insights, can decipher the real ROI and synergies across a company’s full investment portfolio. They can provide a view into the growth and profit opportunities offered by all elements of the investment portfolio—product, operations, sales, and even human resources. They can identify efficiencies and synergies between these elements and the array of external macro-economic and competitive factors. They can guide management along the path of business transformation by shedding light on profitable new ways of operating the enterprise.

Business Transformation Catalysts

It's time to catapult these data management and analytic capabilities to the forefront of managing and optimizing commercial investments. It's time for the industry to adopt a broader vision.

All of this is possible today and expands the vision and value of what modeling can do. Marketing mix models grew up in the CPG world almost 30 years ago, when often a shorter set of important drivers such as trade, promotion, and advertising were evaluated. But business needs have evolved significantly since then. Salesforces, for instance, can dramatically affect the impact of marketing. In-store or in-restaurant factors such as manager tenure, staff experience, POS systems, checkout lanes, tipping policies, etc., are often meaningful influencers on both traffic conversion and sales.

What's behind the ability to capture all these sales drivers? Why now? The answer is, unsurprisingly, technology and advancements in data infrastructure and management. In the past, a few megabytes or gigabytes of data were used in modeling exercises. Today, it's not uncommon for terabytes of data to be used to fuel models to a customer segment level, targeting specific value propositions and actions, on an ongoing basis. Modeling now tackles the decisions that keep the CEO and the CFO up at night.

We're certain that marketers who don't embrace this expanded vision of analytics impacting a broader array of corporate investments will be left behind.

We happened upon proof that makes us confident in this belief.

The venerable marketing analytics consulting firm, MMA, known for being the first company to commercialize marketing mix modeling in 1989, opened their vault and offered a glimpse into the transformation that is taking place in today's analytics—and what the future will look like. MMA shared several cases in which analytics and models have generated hundreds of millions of dollars for their clients by impacting critical areas of corporate spend well beyond marketing. These cases demonstrate that in the right hands, models that once looked only at marketing mix can provide the breadth, depth, and long-term engagement that can transform businesses.

MMA calls this approach "Commercial Effectiveness." We call it the future. This practice will minimize the risk of misattributing sales to the wrong investment, opens the range of possibilities for driving growth, and broadens the menu of ways companies can optimize their investments and manage the synergies between them.

We thank MMA for sharing these cases and sponsoring this paper.

Preview

MMA's "Commercial Effectiveness" cases all demonstrate how analytics can transform businesses. Many new best practices are highlighted in this paper—breadth and depth of analytics, "big data," modeling/analytics that go way beyond marketing, and the need for continuous high-level engagements to help clients achieve lasting value.

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We'll see best-practice cases in which:

- More granular geographic and consumer segmentation enabled targeting of high-return customers. The store-level analysis/clustering for a retailer revealed the unique competitive environment each store faced and how marketing targeted high-value shopper segments. The adoption of these insights resulted in a revenue boost of \$20 million.
- A telecommunications service maximized ROI by understanding the very different value and responsiveness of each customer segment. Juggling the need to grow and retain their most profitable customers with new rate plan announcements and new product launches, the company looked for the most efficient ways to reach high-value customers and determine the right response to local competitors.
- A pharmaceutical manufacturer brought down its sights to the physician level and implemented new analytics capabilities to develop an integrated go-to market strategy that included DTC advertising, physician-focused marketing, and the salesforce. The company's optimized commercial strategy generated a profit lift of \$60 million in 1 year!
- Applying fact-based analytic recommendations and having an effective ongoing client engagement strategy can generate positive business results, and represents best practice. A footwear retailer enjoyed \$100 million in incremental profits as a result of heavy-duty, analytically-grounded consulting that started with the board of directors and the CEO/CMO and cascaded down through all levels of the organization.
- Extending the breadth of analytics to encompass all business drivers, synergies, and attribution effects provides a holistic view of long-term and short-term trade-offs. This full business view benefitted a luxury goods retailer that clearly identified both the short-term (within 1 to 6 months) and the long-term sales impact from their marketing, PR and sponsorship investments. Through this learning, they implemented a balanced strategy and brand-building initiatives that enabled them to beat quarterly earnings by \$11 million per quarter and drive year-over-year growth across the United States, China and Western Europe. All of this was accomplished without a single dollar of incremental investment.
- The need for speed in analytics has never been greater. A global pharmaceutical company reaped significant benefits when they reduced their end-to-end analytics processing time from 12 weeks to 4 weeks. This aligned their analytic results with ongoing planning and decision windows, thereby enabling rapid reads and course-corrections of their commercial strategies. It gave them the flexibility to refine mature brand plans and react more quickly to competitive threats in DTC marketing, health care professional marketing and district-level salesforce programs. Through the deployment of a near-real-time commercial data management and modeling capability, this company realized over \$500 million in incremental revenue in 2016.

Let's look at these cases more deeply.

Commercial Effectiveness Modeling at a Granular, Customer-Segment Level

Marketing mix models are traditionally focused on, well, the marketing mix. But marketing mix is just one part of the investment picture. This case study illustrates the power of broader commercial effectiveness analytics and shows how data gathering and modeling went far deeper than usual. By collecting store locations and operations data, distance from competitors, employee attributes, marketing and digital data, promotional data, competitive pricing and differential response by consumer segments, the client was able to implement targeted commercial strategies to unlock significant revenue and margin opportunities that resided at the store-cluster and customer-segment level. This case study also demonstrates how close engagement with a cross-functional management team is essential for translating learning into action and achieving successful business outcomes.

A specialty retailer in the vision care industry was confounded by a decline in foot traffic and an increase in conversion rates and sales. Better sales are a good thing, but declining foot traffic isn't. It didn't make sense. The company needed to know what they should do—or not do—to stem further decline in foot traffic, because it is historically one of the most important drivers of sales.

MMA, the company's General Manager, and the Finance and Marketing departments worked together to create an initial hypothesis and a series of potential response strategies. Then, by working with the data and all the stakeholders, they arrived at a fact-based, data-driven analysis. Determining the key drivers of business performance was the starting point. All the drivers of retail sales, such as price promotions, advertising, and specific store environments, were included in the analytics. In addition, employee attributes, the nearby presence of competitive retailers, and competitive advertising were examined. The thorough discovery process, which effectively acted as a "gap analysis," was essential to helping understand the "current" and "want-to-be" states that would make the insights understandable and usable within the business. Capturing those stakeholder perspectives smoothed the adoption of the analysis across the sales, marketing, operations and finance organizations.

Through the comprehensive analysis of all business-driving factors, including exogenous variables such as weather and the economy, the team learned that declines in foot traffic were attributable to the rapid expansion of discount competitors within close proximity of their retail locations. The Achilles heel of retail, declining shopping mall traffic, also exacerbated the problem because the retailer was overexposed in mall locations. The combination of these two problems accounted for >3% declines in foot traffic.

But that wasn't the whole story. The client wanted to maximize the impact of their investment with high-value customers. Segmenting customer and sales data into cohorts revealed that traffic declines were concentrated among "browsers" and other "low-value" consumer segments. In fact, these segments of consumers exhibited extremely low conversion rates and actually prevented the client's

sales team from servicing higher-value customers in a timely manner. Their trips tended to be social and entertainment-oriented, rather than specifically related to immediate vision care purchases.

The story became more complicated when it was determined that the broad-based foot traffic losses were less of a concern than originally thought. Only several isolated geographies accounted for the declines in foot traffic and meaningful customer and sales attrition.

This finding led to the recommendation that the retailer abstain from a broad-based competitive defense strategy in favor of a more targeted campaign for high-value markets and customer segments. Working with a cross-functional team of marketing leaders and a real estate group, the team identified the most impactful customer segments in key markets of interest and optimal tactics with which to engage a local competitive defense strategy.

An action plan was developed and shared with the extended executive leadership to counter these competitive challenges. Getting a handle on the source of the foot traffic problem and its impact on retail sales was crucial to implementing a fully cross-functional, targeted defense strategy. Ultimately, the vision care retailer identified over \$5 million in ineffective investments and re-allocated them into more productive initiatives. Those efforts—targeting high-value customers in key markets—produced a \$20 million increase in revenue within 6 months and helped the retailer maintain and even grow dollar share in spite of heavy competitive activity.

Overall, the consumer segmentation and granular location analysis and tactics at the store level made all the difference to this model of commercial effectiveness. The insights moved seamlessly into the client's business planning and measurement processes. The resulting analytic work highlighted the need to holistically evaluate all the variables that work together to optimize investments and increase revenues, profits and share. This case study offers a great story for modeling beyond the marketing mix.

Modeling at the Market-Segment Level

Sequent Partners is a huge proponent of more discrete models that consider customer segments, rather than a presumably monolithic “market.” Given the vast array of data available, and the fine levels of granularity possible for marketing efforts, it only makes sense that commercial effectiveness studies examine ROI with the same depth. This case study also underscores the need for thorough client engagement throughout the process and at all levels to achieve real business transformation.

The importance of more granular modeling efforts came to life for a telecommunications service provider whose business questions centered on identifying the right promotions, tactics and investment levels for different segments of consumers during peak demand periods throughout the year. More than ever, high cost per acquisition causes providers to focus on reducing churn and retaining their customers, while the ongoing threat of competitive disruption at a local level requires a focused market-by-market, customer-by-customer strategy.

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Business discovery and strategy sessions with C-suite leadership and Marketing, Finance, Retail Operations, and Analytics and Research teams uncovered a number of underlying themes and hypotheses. Although their overall objective was to continue to drive overall growth, they were struggling to grow and retain their most profitable customers. They also had a number of unanswered business questions related to brand-building versus promotional efforts, the impact of rate plan changes and new hardware launches, the most efficient way to retain and grow high-value customers, and the right response to local competitors.

The company had a broad-based strategy for reaching all customers, but management did not consider it particularly effective. There was a feeling that a balance of brand-building initiatives to drive new customers and rigorous targeting and promotional strategies around key customer segments was needed to achieve their growth objectives.

A multi-pronged analytics approach was devised to look at all commercial drivers across the various customer channels. Market penetration, cost per acquisition, average return and average responsiveness per credit segment were included in the study that revealed four distinct credit segments: Super-Prime, Prime, Near-Prime and Sub-Prime. The total market potential of each segment was evaluated and a separate analysis was carried out to estimate the average return per unit across credit tiers.

Furthermore, the analysis was conducted at the DMA level and revealed the sensitivity of each segment to marketing (broad-based and direct), pricing/promotions, operations and external factors.

The study concluded that the promotional responsiveness was very high for the Sub-Prime and Near-Prime segments. These segments were also especially responsive to direct marketing efforts. Higher credit segments were less responsive to direct marketing efforts and overall sensitivity was lower. The Prime and Super-Prime segments also had higher conversion rates through the online channel.

Demonstrating how comprehensive broader analytics can be, the findings were used to create a balanced brand-building and promotional strategy with a focus on credit tier and market level marketing strategies—differential promotions, channels, discounts/rewards, upfront deposit structures and product placements. Once the value opportunity was uncovered, there was overwhelming support across the organization for this change. Implementation of this strategy had an immediate impact of increasing the acquisitions in high-value segments. In the first 6 months, high-value acquisitions increased by 6%.

Additionally, with a better credit mix of acquisitions and risk mitigations, unprofitable churns were reduced. Overall, with a lower cost per acquisition as well as a lower risk profile, the telecommunications service provider is poised for continued profitable growth over the coming years.

In this case, as in the vision care case, the company successfully uncovered new opportunities and drove new revenues by evaluating the real drivers of business performance and looking at consumers in relevant segments, and their behaviors by response channel and market. It also put marketing

strategists in touch with the human beings who purchase their services, rather than an abstraction called “the market.” The active engagement of MMA with the client’s cross-functional management team expedited the buy-in, change management and effective activation required to achieve these results.

After seeing the value of this program, the company invested in data automation and processes to align this capability with their quarterly planning cycles and now provides near real-time information to key decision makers across the organization and field force.

Engaging The C-Suite for Organizational Adoption of Modeling Results

Throughout our interviews with hundreds of modelers, marketers and agency people about best practices in analytics, many people talked about critical organizational hurdles that confound the application of smart analytics results. We know organizational adoption can be as big a hurdle as not having the right model inputs or the right model math. Lack of trust and understanding of the finer points of modeling issues generally limit the modelers’ influence at the upper levels of an organization. Furthermore, many companies have been executing strategies a certain way for years via traditional processes without the benefit of predictive analytics. Now that these powerful capabilities are available, companies face the challenge of getting their organizations to migrate beyond “gut instinct” and to trust fact-based measurement and planning solutions.

The simple issue of organizational structure can either make or break successful implementation of commercial effectiveness modeling solutions. By engaging at the level of the CMO, the CFO and even the CEO, implementation decisions will be more productive.

MMA’s vault provided many interesting case studies showcasing C-suite involvement from start to finish across a number of industries. One of the recent case studies stood out as a best-in-class example. The commercial effectiveness model for a footwear retailer initially uncovered that price was the single most influential business driver. Recent price increases had resulted in double-digit declines in transactions and unit sales.

A price optimization study was recommended to discover specific pricing actions to mitigate these performance declines.

The CMO, the head of Merchandise Planning and the CEO all worked with the modeler to develop a framework to drive strategic and tactical pricing decisions. Through this additional research, multiple pricing opportunities were identified, including:

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- Identifying high- vs. low-elasticity categories, and increasing the price of low-elasticity products while holding/reducing the price of high-elasticity products.
- Protecting entry-level price points, because they were much more sensitive and should be excused from further increases.
- Optimizing price cadence across the season, given that highly seasonal products had different elasticities by season, and optimizing targeted markdowns to yield significant efficiencies.

The study recommendations were approved by the Board of Directors and then broad-base organizational alignment was achieved. To activate the findings, a cross-functional committee (including MMA) was then created to oversee the organizational transformation required to revamp the price-setting process. This committee, along with the merchant team, embedded the new process and activated based on the findings of the model.

Within the first year of implementing these pricing recommendations, the retailer realized over \$100 million in profit gain while stemming unit sales and traffic declines. The strength of this case study is the continual involvement of the modeling company, and the involvement of the CMO, CFO and CEO to drive analytic findings through to corporate strategies and tactical implementation.

The work here understates a simple and very important message. For analytics to be effectively adopted, they must be used to do more than just measure marketing ROI. Marketing ROIs that can't be translated into commercial gains, specifically increases in revenue and/or profits, only raise more questions around the effectiveness of investments. This is one of the reasons that commercial effectiveness is, for lack of a better way of putting it, so effective. Marketing investments interact with many other corporate investments, directly impacting the financial performance of those investments, and vice versa. To get a true read on how these investments will produce revenue and profits, all the factors must be measured together, reflecting their total synergies and attribution effects. It is only by doing so that one is able to account for true attribution, true incrementality, and the true effects on key financial metrics.

Putting The Sales Force in The Model

Sequent Partners appreciates the tenacious drive to commercial effectiveness modeling, incorporating all variables, not just advertising, price and promotion. We're excited to see employee satisfaction or the lifetime value of employees, such as salespeople, appearing as critical model inputs. The added depth and breadth of this approach really bears fruit, and importantly produces considerable incremental and measureable value, as this next case study illustrates.

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MMA shared a case study involving a top-to-bottom sales force optimization effort within the framework of a commercial effectiveness analysis. A pharmaceutical drug manufacturer, in a highly competitive therapy area, wanted to understand if their sales force targeting, call plan and structure could be optimized. They needed answers to several critical questions about the optimal size and structure of the salesforce. They also needed to explain over and under-performing sales districts, and determine the short-term and long-term ROIs of their sales force efforts.

MMA developed a commercial effectiveness model that included all consumer marketing, health provider marketing, sales force, operations, product and external factors at the individual physician level. The result was a model of exceptional breadth and depth based on data at the widest and most granular available levels. This model enabled the marketer's cross-functional team to see the synergies between marketing and sales force programs, as well as areas of inefficiencies. In addition, MMA provided strategies for targeting and optimizing physician segments by sales district. Throughout this effort, the team was able to establish best practices for under-performing and over-performing districts and reveal the drivers behind performance at this highly granular level.

Through a series of subsequent discovery and working sessions with the marketing team and sales operations, the recommendations led to improved sales force alignment, call plan optimization and targeted placement of the sales force in high opportunity districts. As a result of the initial value generated through this program, the drug manufacturer operationalized it to align with their ongoing business planning processes throughout the year.

Ultimately, the client realized a \$60 million increase in Year 1 profit by optimizing the size and structure of the sales force. A commercial effectiveness model that went broad to integrate sales force and marketing, as well as deep, to the physician level, was necessary to provide the insight and day-to-day operational guidance behind this business transformation. Effective client engagement across all key functions was required to make it stick.

Modeling and Long Term Brand Health

The business world is often focused on short-term sales to the detriment of longer-term brand-building and sustainable growth strategies. Companies' addiction to short-term price and promotion tactics to achieve short-term financial objectives is wreaking havoc on brand equity. In the next case study, we see that the added breadth of accounting for "upper funnel" changes in awareness, purchase intent, etc., provides more productive insights and links brand metrics to financial metrics. Managing the synergies between sales and brand health ends the unsatisfying, forced trade-off between short-term business performance and long-term business growth. Making marketing investments based on returns beyond this quarter, or the current fiscal year, requires significant client management engagement and trust.

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Although not standard practice, there is little question that addressing changes in long-term brand equity should become a best practice for all companies. MMA's commercial effectiveness modeling took a more complete approach in a case that not only demonstrates the importance of managing brand equity, but which also highlights the interactive, synergistic effects of media.

An apparel manufacturer had three sides to their business—their “brick and mortar” retail shops, their e-commerce business and wholesale distribution of their products. After implementing a new customer segmentation a few years back, they steered much of their marketing investments to highly targeted digital media. Although this strategic shift to digital appeared to deliver efficiency gains and drive a short-term increase in sales, it disguised declines in overall awareness and brand health, which resulted in a significant decline in new customer acquisition and traffic. As a result of the reduction in upper-funnel media such as TV, the effectiveness of the lower funnel digital conversion drivers began to suffer over time. In short, the TV advertising wasn't there to continuously expand the reach of this brand and drive consumers to the digital activities. The lack of TV advertising actually reduced the effectiveness of digital.

Untangling the impact of these effects was further complicated by differing channel trends, which masked underlying brand health issues not seen at more aggregate reporting levels. Even though the brand's wholesale channel was generating strong revenue, their consumer-facing business was flat.

The move to digital was addressed first. We're aware that many marketers have experienced brand and sales declines from hyper-targeted digital efforts, and we've seen a commensurate return to broader targeting and media. In this case, a broader reach digital plan that also maintained sufficient frequency was created as an initial solution.

The following year, however, the consumer-facing business revenues soured, as did the brand's KPIs (awareness, consideration.) At that point, the brand began to reconsider broader reach media such as TV and print to meet revenue goals. The analytic consulting team demonstrated to the CMO and CEO that the size of the target audience and purchase velocities were responsible for the revenue gap, and recommended broadening the reach of the retailer's message. The lack of TV advertising, and its synergistic effect on digital conversion rates, had been one of the primary causes of revenue loss. Remedying this situation by providing upper-funnel fuel for the lower-funnel engine began to reverse the negative revenue trends. After 2 years of slowing these trends, the brand returned to positive growth in their consumer business, and reversed sales declines by 5% (an incremental \$28.5 million in profit) during the second half of the year.

The Need for Speed

While interviewing executives across many industries, it became clear that a big hurdle to unlocking value from holistic analytics is “speed to insight.” Highly dynamic marketplaces require analytic results in the hands of decision makers within their “window of actionability.” To increase adoption, activation and overall value from

commercial effectiveness programs, the timing of results have to be aligned with business planning cycles and decision windows. We were excited when MMA shared a case study in which a client reduced their end-to-end analytics processing time from 12 weeks to 4 weeks. In about 18 months, the client took advantage of the latest analytic and technological advancements to automate 80% of data acquisition and implement a rapid commercial optimization process. We view this as an excellent example of the benefits of removing barriers to drive significant business transformation.

MMA shared a case study that demonstrated how much more successful a commercial effectiveness program can be when barriers related to data, technology, cross-functional alignment and analytics are removed.

A global pharmaceutical company was looking to improve the efficiency and effectiveness of their commercial investments in DTC marketing, physician marketing and sales_force. They wanted to establish a consistent measurement and optimization approach across all therapy areas and business functions. Through a comprehensive discovery process, the vision and roadmap became clear: to align analytics with key decision windows throughout the year for mature brands, and to establish a real-time commercial optimization capability for launch brands.

Several significant hurdles stood in the way. More than seven different analytic approaches were being used across therapy areas. There were issues with data availability and latency. Organizational alignment was another hurdle. Last but not least, analytic capabilities and tools were incompatible. All these hurdles had to be overcome before the vision of consistent measurement and optimization could be realized.

MMA partnered with this client on the design and implementation of a real-time commercial data management capability, which integrated MMA's modeling platform into the new data management platform, and deployed end-user tools for ongoing commercial optimization and tracking. This facilitated the necessary change management and training to drive adoption, activation, continuous improvement and value tracking across the organization.

The key components of this program included:

- Commercial data management and automation—A truly cross-functional initiative. The client's IT group and MMA's data management team built an automated acquisition, cleansing, integration and reporting capability that looked at marketing, operations, salesforce and external business drivers on a monthly basis.
- Standardized analytics—Nimble enough to be customized by the brand. Because each specialty drug brand had a unique sales dynamic, it was critical to balance the brands' needs with broader, standardized requirements.
- Rapid modeling process—By integrating data management and MMA's customized modeling platforms, the end-to-end processing was reduced to 4 weeks. It was critical that this work operate at a highly granular level—at the physician level.

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- Decision support tools—Consistent measurement, optimization, tracking and refinement across the brands, throughout the year, was made possible with a business scenario planning platform. Deployed at the brand and portfolio level, the tool helped support decisions across the organization.
- Change Management—Gaining buy-in on the analytics and then embedding the results into ongoing business planning processes required a significant focus on change management at all levels of the organization.

In this uncommon example, this approach transformed all aspects of strategy, budgeting and business planning. As a result of the analytics being embedded across the organization and their portfolio of brands, this company realized an unprecedented increase in revenue of more than \$500M in 1 year.

Postscript

Sequent Partners has been privileged to peek into these revealing commercial effectiveness case studies. We believe that broader, more granular and timely modeling of key investment strategies that reach beyond the marketing silos is the wave of the future. We hope you have found them instructive. They demonstrate the payoff associated with bringing the precision and reliability of modeling analytics into a fuller set of drivers of business success -- sales forces, retail environments, media synergies, high value customer segmentations, etc. This approach to modeling fuels new ways of steering investment strategies that transform businesses.

That's the promise of commercial effectiveness modeling, and we hope it's something the entire industry will adopt. It elevates the impact modelers have in transforming business.