

DATA-DRIVEN MARKETING

How to use data correctly and drive growth

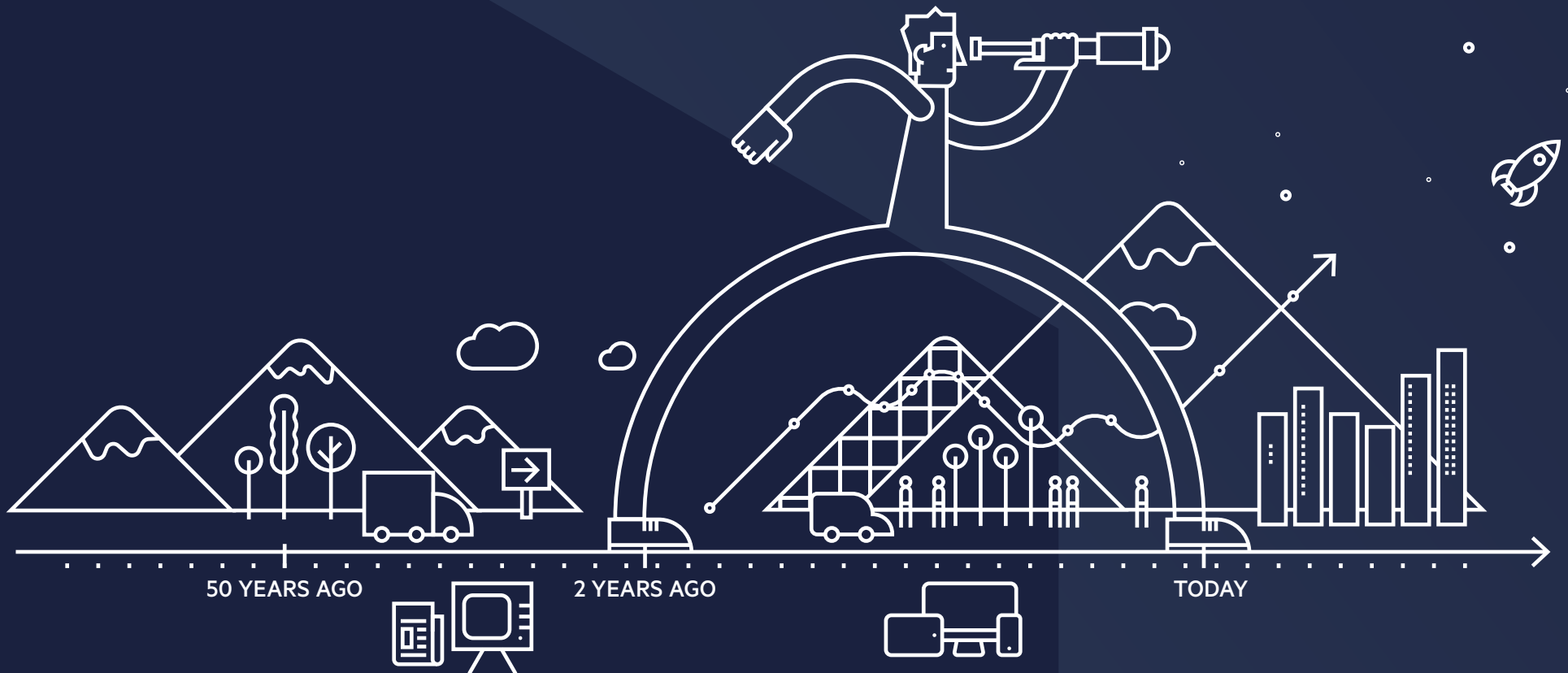


Table of Contents

1. Why Data-Driven Marketing
2. The Basics of Data-Driven Marketing and the Customer Journey
3. How to Drive Growth
4. How to Optimize the Customer Journey
5. Results: Connecting the Dots Between Strategic Goals, Tactics and Attribution
6. The Road to Data-Driven Marketing
7. Conclusion

Why Data-Driven Marketing

Marketing has experienced a fundamental shift recently. Techniques and thinking that worked for 50 years have grown stale, with the lone surviving tenet: the customer is always right. Business success is now directly related to how closely we listen to the customer.

The American Marketing Association defines “marketing” as:

“ the activity, set of institutions, and processes for creating, communicating, delivering and exchanging offerings that have value for customers, clients, partners and society at large

However, this traditional definition no longer works. You can blast your product’s “value” message across the Internet all day long, but customers just don’t buy that way anymore.

Here’s an alternative definition to consider:

“ Marketing is a strategic discipline that uses closely integrated technology to connect with existing and potential customers, to drive conversation about a product or a service, better understand their needs, learn their behavior and present meaningful answers

Marketing organizations are undergoing digital transformation and incorporating more scientific, technical and data-driven strategies. Marketing professionals are tasked with quantifying, executing, measuring and expanding a growth strategy based on customer-centric approaches and data-driven decisions. A CMO or VP of marketing is no longer looking for a shotgun model—spending money to broadcast a message, converting a fraction of the impressions, then re-investing profits into further broadcasting. The new model involves technological innovation combined with targeted spending and executed to maximize precision and drive growth.

For organizations to succeed in a competitive landscape, they need to employ data-driven marketing. Only with data can they achieve organizational transformation in technologically advanced, closely integrated, zero-dollar-waste systems where the only true North is growth and customer success.

Customer Accountability

Businesses are at the beginning of their digital transformation journey right now, with customer demand pushing them in the right direction. Customers and the competitive landscape demands truly optimized and personal experiences; however, processes and even business philosophies now need to catch up. Most areas of strategic importance are still not being connected together adequately to enable decision making and resource allocation to be based on data-driven insights.

Research indicates 91 percent of senior corporate marketers believe successful brands use customer data to drive marketing decisions, yet 39 percent say their own company's data is collected too infrequently.

51 percent claim lack of data sharing within their own organizations is a barrier to effectively measuring ROI.

39 percent say they cannot turn their data into an actionable insight.

We all have data in some shape or form, and certainly in great volume. But the increasing size and variety of sources make it difficult to analyze and derive simple conclusions. Marketers still believe data is not successfully and fully utilized in automation, marketing process and decision making. As a result, decisions are still based largely on opinions. Even mature marketing organizations struggle to understand their customer's journey and what steps influence it in what ways.

The reason for this is twofold:

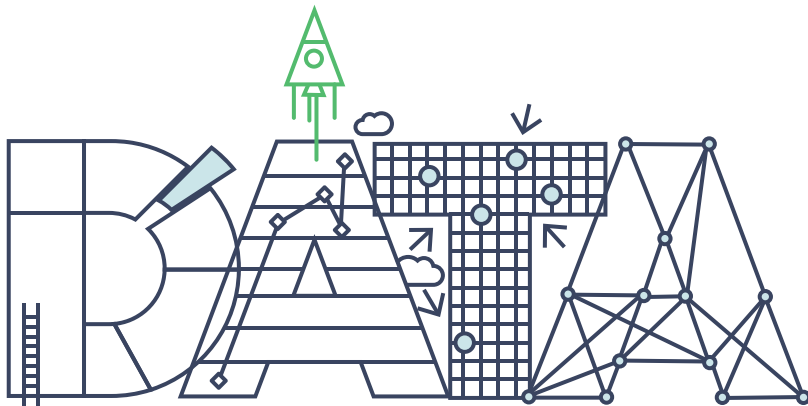
- Even large datasets fail to make meaningful connections to desired outcomes in a well-connected 360-degree view, taking into account multiple variables affecting volume, probability, average cost and revenue.
- The sheer volume of accumulated data simply doesn't fit the old "spreadsheet" model anymore. Insights are based on much larger datasets and discover more complex patterns requiring visualization, validation and process integration.

Each organization can benefit from transparency in goal-centric metrics, and those metrics need to have a very meaningful standardized tie-in with the marketing and sales process.

The solution is simple but not easy: data analysis based on business goals needs to be embedded in each and every organizational process, so insights can automatically drive action, leading to improved metrics. The redefined purpose of data-driven marketing is to allow organizations to focus and refine each step of their customer's journey through meaningful conversations, carefully measured interactions and timely, strategic and serendipitous intervention.

Challenges for Data-Driven Marketers

Have you ever heard the phrase, “Our CFO is very data-driven”? Of course not. For someone in finance, this is an absolute given. Numbers and data are the sole basis of all financial operations. The organization would not survive a month if every financial report, projection and key performance indicator (KPI) were not executed with the highest degree of precision, based on accurate and risk-averse models. This expectation is now extending to the marketing organization.



Marketing and business executives have become strategically and very closely connected to growth. Their only true strategic objective is to maintain growth, and this objective relies on sophisticated technology and data-savvy teams to understand customer needs and growth drivers. Combine this expectation with the modern-day plague of impatience, and marketers often have less than a year to complete very challenging journeys.

- **The quest for attribution:**

Every activity needs to connect closely to revenue generation. Further, there needs to be a specific model to explain any volatility or trend, so it can be influenced in an optimal direction.

- **The quest for marketing budgets:**

The question of revenue attribution can be political. Budgets are often redistributed as a company gains a better understanding of channel interplay, leaving CMOs struggling to justify hiring, budgets and spending, without providing a clear sense of impact.

- **The quest for a customer journey:**

Understanding the customer journey is a true guiding point, but it's also complex. Every customer takes a separate path, so journey data is diverse. Sophisticated models can not only detect structure, trends and patterns in the customer journey but translate them into actionable terms.

- **The quest for centralized customer data:**

The era of siloed, unintegrated systems is over. Businesses now need a complete picture of all customer interactions: both on and offline, as well as those managed across diverse systems such as WCM, CRM, ERP and more.

- **The quest for true ROI and ROI optimization:**

The big data space has provided us with broad technological confusion as well as a few specific answers to the most basic questions such as, “how do I optimize ROI on an ongoing basis?”

- **The quest for omni-channel:**

The growing number of channels will remain a primary driver for shifting to a data-centric philosophy entirely. Being omni-channel in itself means having the full 360-degree view of the customer data, integrated systems and unified processes. Essentially, omni-channel is a solution that mandates a data-driven marketing philosophy.

- **The quest for real-time marketing:**

Individually customized real-time customer communication remains a prized goal. To succeed, businesses must mature, not only with technology, but with content and process, as well.

There is an endless supply of solutions claiming to solve the data-driven marketing challenge, but marketers and business executives require a solid understanding of the technological principles each embodies to prioritize and make the best decision for their organization.

The aim of this book is to introduce you to the theoretical components, technological principles and overarching process needed for a data-driven system to come together. Through examples and illustrations, we explore the practical application of technology—taking you from buzz words such as “Big Data” and “Customer Journey” into an overview of actual business problems and how they can be solved.

How to Use This eBook

The book is divided in the following sections:

- **Basics of Data-Driven Marketing and the Customer Journey:**

How are goals, insights and process connected to the customer journey? How is data extracted from customer engagements and contact information?

- **How to Drive Growth:**

What are traditional and data-driven perspectives on the main marketing objective: to drive growth in key business indicators?

- **How to Optimize the Customer Journey:**

How do we organize the process for optimizing engagement and understanding customers so we can find the fastest, data-driven way to increase growth metrics?

- **Results: Connecting the Dots between Strategic Goals, Tactics and Attribution**

How do we prove results in a data-driven fashion?

- **The Road to Data-Driven Marketing:**

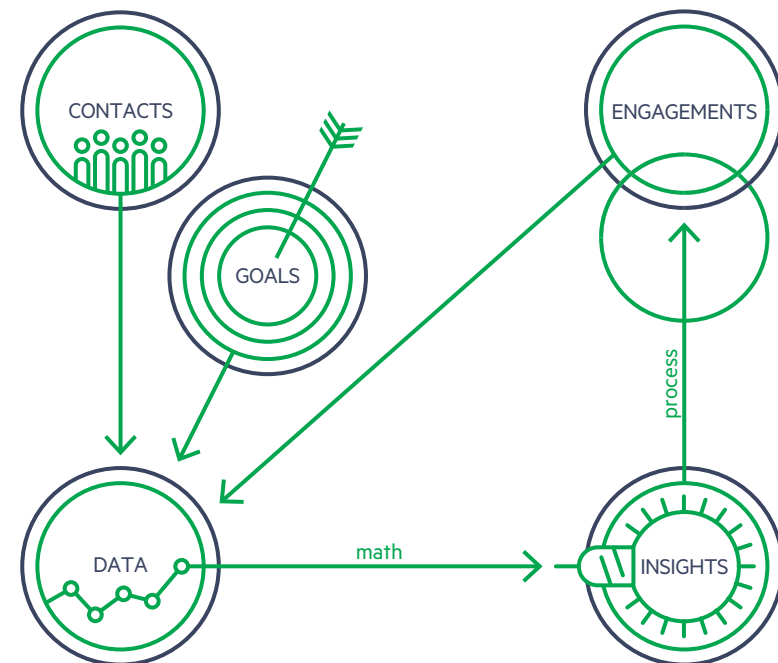
How do we get from buzz words into the actual questions Big Data can answer, and what are the best ways to ask them?

Basics of Data-Driven Marketing and the Customer Journey

There is good news for marketers. Data-driven marketing can be broken down into easily digestible components. In fact, the basics can be translated into specific and understandable terms and connected together in more sophisticated frameworks to formulate business process. It's critical to evolve our thinking beyond some existing abstraction models, such as the marketing funnel. This chapter will introduce a construct describing the components businesses need to carefully identify and consider along the journey to becoming fully data-driven.

To start, the first important concepts are goals, contacts, engagements, data and insight.

Here is a simplified illustration showing how they interact in a data-driven process. Start by building engaging user experiences, and drive users to a well-defined set of business outcomes. After tracking the data, you can derive insights based on both positive and negative patterns and business results. Those insights result in actions, or repeatable actions in the form of process.



The main components of this process are as follows:

- 1. Goals or Desired Outcomes:** These are clearly defined and cover two perspectives:
 - a. Definition of success:** “How many customers have converted and what made them convert?” is an important question to ask. But the next question should be, “convert to what?” In reality, organizations have multiple goals tracked by different departments, potentially including clicks, test drives, trials, purchases and customer lifetime value. It is a data-driven marketer’s mandate to move definitions and success tracking from short-term metrics (a click) to long-term metrics (customer lifetime value).
 - b. Metrics to influence and improve:** Having a clearly defined goal and action plan is a good way to structure and centralize key performance indicators, track progress and prove attribution.
- 2. Engagements/Interactions:** These represent different steps in the customer journey, spanning multiple channels. They can be online and offline interactions, both in the digital and physical worlds. Everyone has a series of engagements defining his or her experience. An experience has multiple layers, including what content the customer sees, how the content is designed and what the interactions are. This path will be unique for every customer, and for some, it will be a very long sequence of diverse engagements.
- 3. Contacts:** Contacts are a combination of all anonymous or non-anonymous customers or prospects interacting with you in a certain way. They carry a number of demographic and behavioral traits, which can be fully contextualized to drive decisions about new interactions and/or devise new ways to understand customers and their interests.

4. Insights: Data is only as good as the insights you derive from it. In a very simple case, going from data to insights is a matter of crunching the numbers. With the relatively new boom in big data technology, we are going through a technological disruption. But behind the buzz words of this disruption is a simple problem to solve for marketing: how to provide a clear interface to derive meaningful conclusions to key marketing questions. Getting from data to insights is a matter of having the right data, defining the right problem and having the right technology behind the scenes.

5. Process: Insights are only useful if they are clearly and distinctly connected to process or automation. The point of data-driven marketing is to let data reveal hidden gems that drive business action. This is why analytics systems must be an inseparable component of execution or process systems. Together, these systems can determine actions, control the path to actions and track their effect thereafter. The role of data-driven marketing is to seek those insights and act upon them, either through automation or through process, and then clearly prove and measure attribution.

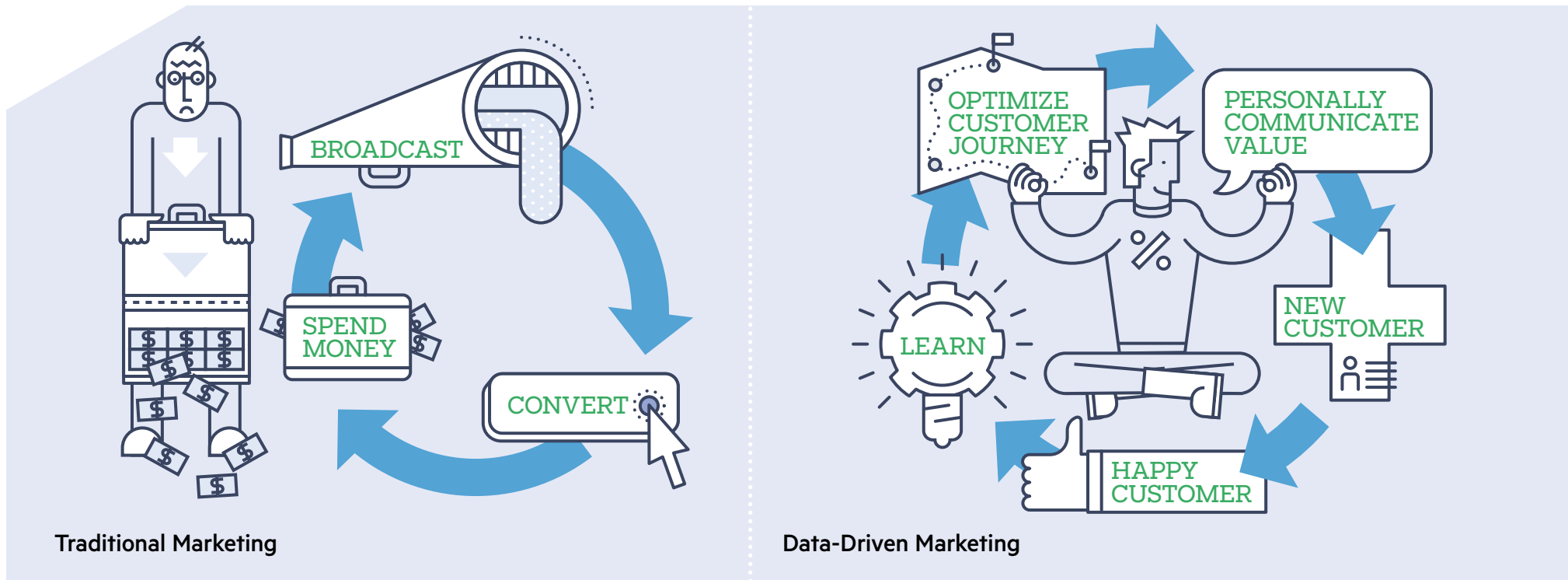
If we look at things in a circular process such as this one, we get a system of constant data-driven improvement in which you prioritize with the help of data, then execute, measure, automate and reprioritize.

The diagram on this page proposes an entirely new circular process for marketing professionals to follow.

The marketing process shown on the left-hand side of the illustration below is the “funnel” model. The data-driven model shown on the right is very different, and poses different answers to some of the most important business questions:

- **How** do you drive growth?
- **How** do you optimize the customer journey?
- **Who** is my customer?
- **How** do you optimize process?

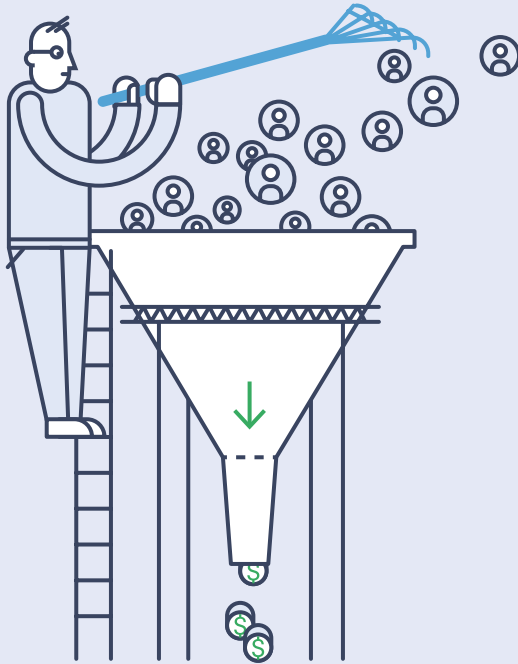
In the next sections we explore how traditional marketing has tackled those questions, and how data-driven marketing reframes the thinking around them.



The standard definition of marketing revolves around communicating value. For a long time this has translated into a circular model of spending, broadcasting, converting and spending the profits again. This model is getting more expensive and more inefficient by the day.

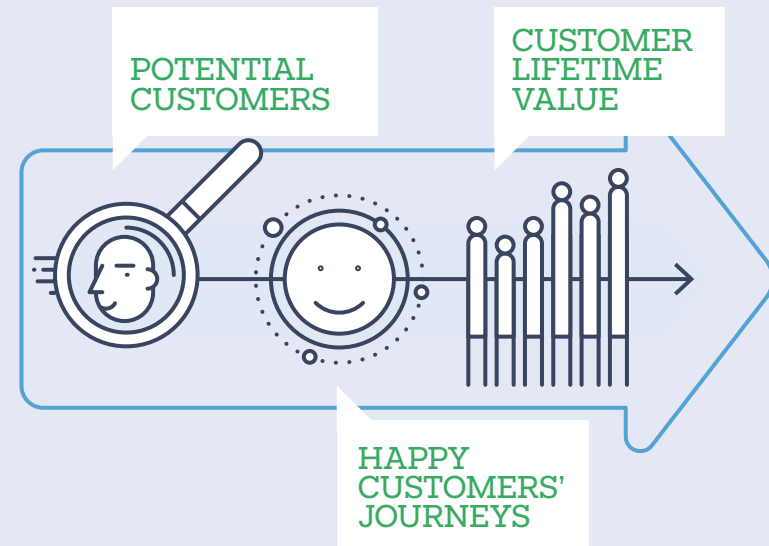
Armed with data-driven process, marketers can take a completely different, more personal approach toward customers. Learning from existing customer data, they can apply what they've learned to target customers and improve personalization. The more customers you have, the more you can perfect your approach; the more you perfect your approach, the more customers you get.

How to Drive Growth



Traditional Marketing

We have been using the funnel for decades, but it fails to help us prioritize the best customers and recognize them early on. This is no longer in the scope of sales – you need scale and you need to be able to scale your marketing methods.



Data-Driven Marketing

Having a map of the customer journey allows you to predict very early on who your potential customers are and serve relevant experiences for them in real time. This allows you to prioritize both customer segments and marketing activities.

Determining the role of data in the big picture requires a quick look at the the following formula:

$$\text{NUMBER OF ACHIEVED GOALS} = (\text{NUMBER OF CONTACTS WHO ENGAGED}) * (\text{AVERAGE CONVERSION RATE})$$

If the goal is a sale, then the total revenue matters more than the number of sales. For example, if you sell 1 million packs of gum for \$1 each, this is different than getting 20 superstores to buy a shipment of 2 million gum packs each. So if we add the revenue factor for each of these, then the formula simply states total volume, the velocity and how much revenue you get on average from an achieved goal as the factors you need to grow.

Traditional Perspective: The Marketing Funnel

Improving business outcome using the traditional funnel approach has three aspects:

- **More volume:**

Adding more people to the top of the funnel increases revenue or any other goal, since a fixed percentage of them will convert. For the most part, this is statistically plausible if you assume you are getting more of the same type of users with the same type of conversion rate. However, this presumes your assumptions are correct, and it's very difficult and extremely expensive to achieve. Typically, to increase quality you decrease quantity, and different techniques decrease in effectiveness. As the law of #\$\$ty clickthrough rates clearly states:

Over time, every marketing strategy results in decreasing clickthrough rates.

More to the point—your target market segment is not infinite. A volume-based approach is essential, but there are traditional and data-driven ways to increase volume. The data-driven methods work on the basis of “more of the right buyers,” and you can clearly see the difference between “more of the right buyers” and “more people and let’s hope some of them turn out to be the right buyers.” This is yet another difference between data-driven and traditional approaches to volume.

- **Better conversion rates:**

You can achieve much higher conversion rates through customer journey optimization for critical steps. Customers frequently follow such steps beginning with popular landing pages or home pages. Optimizing these areas provides some return and may prove experimentation and A/B testing to be an effective way to influence the customer journey. Starting with the most frequented experiences generally makes sense, and traditionally, this is where digital marketing professionals have focused. But what happens when that potential has been reached and you're still below your goal?

- **Higher average profitability/revenue per goal:**

This metric is very tricky to influence and doesn't have a clear answer in the traditional marketing sense. A traditional marketing methodology promotes the opposite—discounts and promotions. In reality, the amount of revenue you get per customer certainly depends on business strategy, but in general, influencing this metric usually entails a change of customer type, quality of product, product strategy, perceived value or other variables widely considered in the field of product and strategic marketing. Here, the data-driven answer is a bit simpler: more of the right buyers. But only after providing them with the right experience would they be more likely to increase their spend.

So, which one of these should you focus on? Impact on any and all of these parameters would account for the same growth. They are directly proportionate: a 30-percent increase in volume has the same effect as a 30-percent increase in conversion rate or a 30-percent increase in average profitability. Since conversion rates are typically smaller numbers, they seem likely to be the easiest to change. If your conversion rate is one percent on one million leads, for example, growing it to 1.3 percent seems more doable than getting 300,000 new qualified leads. Below we'll see different data- and customer-centric ways to achieve increasing profitability and desirable outcomes.

But here's the trick: not all customers and experiences are the same. Funneling more and faster is not an answer to sustainable growth. The business world has learned this the hard way. Funneling more and faster as a model is a linear system; it has a beginning state and an end state. No linear system can ever work in a finite space. Imagine that your market segment is growing by 10 percent this year, then eight percent next year, then 7.3 percent next year and you target 12 percent year-over-year growth. The only way to achieve that growth is to cause negative growth in some of your competitors, otherwise you will run out of marketplace buyers at some point. This is why the funnel model is reaching its limit, leaving businesses to pursue more customer-centric models.

Data-Driven Perspective: The Customer Journey

A different model, the so called “customer journey,” approaches growth with a different philosophy. It is not a simple flow measurement—measuring people in and out of the buying cycle and seeking to increase them. Instead, it captures every single step of every single customer. It does that to find patterns. With patterns, you can resurface priorities at will, such as who are your most important customers, which prospects have the biggest customer potential, which customer engagements are working and which can be improved. The customer journey fixes some of the biggest flaws in the funnel, namely, its inability to prioritize customers and actions.

Why has the industry migrated toward this model? This is where the customer-centric trend comes into play. The right customer, when he or she is happy, engaged and promoting, brings a level of circular attribution and exponential growth that becomes sustainable. Additionally, knowing exactly what made a customer convert helps you convert more customers in kind. This is then coupled with the increasing expectations of customers to be more connected and receive personal and compelling experiences prior to conversion. The confluence of factors means that meeting and exceeding customer expectations requires solving multiple problems, while creating a model of sustainable, sometimes exponential growth amid a continuous learning system that improves customer acquisitions and produces happy customers.

This is the win-win scenario for which data-driven and strategic marketing strives.

A smarter way to phrase the question is, “What is the optimal growth in key metrics that influences my goals and is achievable over a period of time?” As with many things, it depends. The world of marketing and digital experience

relates very closely to your capacity to influence a certain outcome in a certain amount of time. If someone can give you insights about 50 campaigns that present the biggest opportunity for your conversion optimization, can you execute on all 50 in a week, a month, a year?

This is why it's important to consider a strategic and tactical perspective. Draw models and process based on a long-term strategy, but consider optimizations and tactics as they relate to the next step with the most potential to produce a maximum measurable impact.

But what exactly is this model for growth from which we can derive tactics? Again, this is where customers come into play.

- **Start from your existing and ideal customers.** Learn why you have become successful in acquiring and converting them and where you have failed the rest.
- **This becomes an insight to acquire more** of your best customers—where do they come from and what are they interested in? This is an insight you can apply within a demand generation or advertising strategy.
- **Based on those insights,** you can also optimize some of the key routes they go through and become more successful in acquiring new customers. This in turn resurfaces new insights on new routes to optimize.

Simply put, in a data-driven marketing world, we first answer the question, “What do we want to achieve: sales, donations, sales conversation?” With data we can start answering questions such as:

- “**Which** customers deliver this result most often?”
- “**What’s** the profile?”
- “**What** are the trends and patterns in the customer journey that lead to a positive result?”

How?

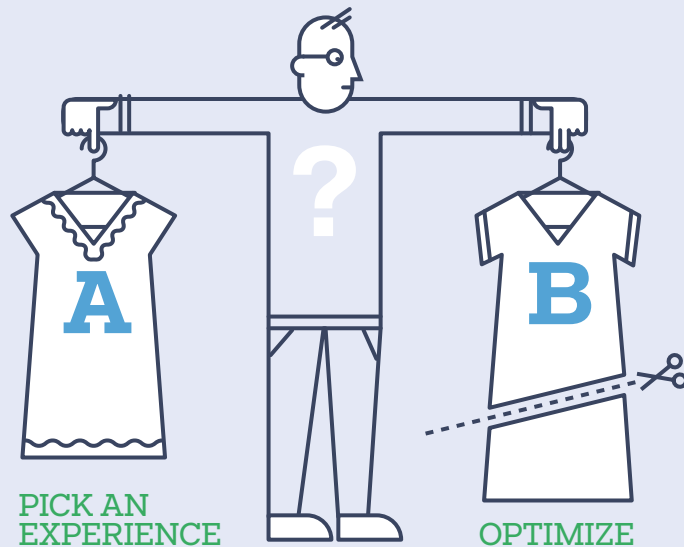
Consider the 80/20 rule of productivity. Twenty percent of the things you do bring 80 percent of the results. A more likely rule for your business is the following: two percent of your visitors bring in 80 percent of the revenue. This is an essential component to consider when starting to examine the customer journey. What are the dynamics that attract your best and happiest customers, at both a macro and micro level? Influence the customer experience for those folks first, so when a similar customer comes in, you can usher them toward a faster path to conversion. Repeat and refine the process for each successive group until the level of granularity is so acute it approximates a personal conversation.

The next chapter takes a granular look at data-driven optimization techniques on top of a similar 80/20 rule.

How to Optimize the Customer Journey

Going back to the basics, we looked at a few terms that define our process for building and analyzing the customer journey. Now to optimize our approach, we need to look at how to improve them further:

- Better engagements
- Better customers
- Better goals
- Better data
- Better insights
- Better process



Traditional Marketing

When you need to influence a metric, you usually start a guessing game of what to do: what promotion to run, what to optimize, which customers to target. This usually means everybody working six times as hard, but a lot of this effort doesn't help your actual growth in an optimal fashion.

Engagements:

Engagements are the largest and most meaningful set of data points we have. Each user has a number of engagements across different channels. Our optimization purpose is to build, present and drive such engagements to increase the probability of customer conversions.



Data-Driven Marketing

In data-driven marketing you learn from customer success and apply it to customer acquisition and conversion. Data around the customer journey helps you find key segments, steps and experiences that will influence exactly the tactic you are targeting, transforming your team into a zero-waste system.

Optimizing Engagements: A Data-Driven Perspective— Reverse Engineering Customer Success

Optimal engagement patterns for each customer are unique. No two are necessarily the same—but they can be. That's where the data comes into play. Recognizing and leveraging behavior patterns presents a huge business opportunity.

Start with successful conversions. What do you see? Are there customer journey patterns in common? What was the shortest and the most common path? What path is typical for my target buyer? This type of analysis provides meaningful segmentation on your customers based on behavioral data, as well as a segmentation of engagements based on their impact and attribution—both by themselves, and in combination with other noteworthy engagements.

A customer journey by definition is a chain of engagements, so gaining insight about a combination of engagements that produce better conversions is invaluable. In a website, the main way you guide the journey is simply through linking— navigation, calls to action, banners and so on. In a sales conversation, you interlink mentions of certain benefits, collateral, customer successes and so on, essentially controlling the flow. Insights about individual step attribution toward the larger goal gives you vital information about what resources to emphasize or replicate. Insights on engagement order illustrate the flow you need to optimize and how to best arrange your journey.

Consider this: in a customer journey, you have to examine each page or email viewed, sales call made, event or billboard seen, or document downloaded, and millions of other engagements. Each user has participated in some combination of touch points in a certain order and timeframe,

bringing his or her personal context based on demographics, interests and behavior. It's difficult enough to track these in one system, but because of cross-channel challenges, you might have difficulties consolidating dispersed data in disparate systems and reconciling it to know it's coming from the same customer.

Mapping the customer journey is very difficult to visualize on a macro level, not to mention draw enough insight to impact business results. The analytic work is exhaustive because the path is unique for each customer, and the number of possible paths is immense. However, when we break down these engagement and customer segments into who has beneficial behavioral engagements, we can see certain combinations produce more than others. For example, customers browse activity gear because they are outdoor enthusiasts, they ask about car safety because they are new parents, and so on. By combining these behaviors with demographic data, you'll find some paths in the journey are more closely associated with certain demographic characteristics or profiles.

Try to answer this for your business: what combination of interactions work best to achieve your goals, and for which customers does this have the greatest effect?

One way to answer this question is to have an opinion based on some superficial data and observation. We sent out a survey that included a question about job position; 40 percent of our buyers turned out to be marketing directors. While this is good insight, but how do you classify someone as a marketing director if he or she is just browsing anonymously on a cell phone, for example? More importantly, do you know what type of engagements are important for this director and what to present? If not, here are some important segmentation questions:

- **Is this segmentation** focus, decision, opinion, or data-based?
- **What other segments** in your purview could be bigger growth drivers? Which specific industries, sub-industries or demographic groups, for example?
- **Are certain customer journeys** enough to qualify customers in a meaningful segment?
- **How quickly and accurately** can you predict conversion rates based on a specific segment?

These optimization questions are impossible for humans to process. To come up with a meaningful list of customer segments that are low-hanging fruit or experiences with the opportunity to drastically improve your goals, you need to look at endless behavioral and demographic criteria, most of which will turn out to be close to irrelevant. However, some will prove to be very important—this is your insight.

Standard marketing data derived from surveys or even benchmarks cannot answer this question because:

- **It requires a full 360-degree view** of the journey for each successful customer.
- **The number of possible combinations** grows extremely quickly—exponentially, in fact. If you have 32 parameters—say 16 regions and 16 web pages—that you care about, then you have over four billion combinations of them, but in reality only a few dozen will prove to be meaningful.

This is the secret behind how Google serves ads and how Netflix recommends movies: certain algorithms draw insight as to which exact combinations of behaviors are the big money makers and which components in those combinations have the biggest attribution. Then, they dictate which the best next experience is for them. This is not technologically impossible; it's simply not yet commoditized for companies that do not have a data science department.

The Customer

In business, your main priority is to have a keen sense of your current customers. This helps determine who your ideal customers are and what your growth plan should be to retain and acquire more. In the comparison between the data-driven and traditional models, you'll see that data-driven marketing principles don't take a drastically different approach toward customers. Instead, they create better in-depth understanding and better connections with data to drive insights, as opposed to some more superficial decision-making techniques.

A Traditional Look: Segmentation, Surveys and Statistical Data

Traditionally, customers play a role in marketing planning, but decision making is typically based on a high-level understanding of the customer. Some of the traditional principles have been:

- **Manual segmentation based on demographic data:** In traditional marketing, behavioral segmentation has been difficult until recent years. The main factors driving segmentation are demographic: job title, industry and geography for B2B sales, age, gender, family status and interests for B2C. Based on those, marketers have created models to picture and profile customers.
- **Survey-based marketing:** In surveys, we use specific methodology to get a snapshot of the audience at one point in time. Based on that snapshot, businesses make decisions about what channels, products and services to develop, what type of marketing materials to create, what is the health of key KPIs such as a Net Promoter Score or Customer Satisfaction Rating.

- **Lead scoring:** A more advanced model is lead scoring, which is the ability to accumulate behavioral and engagement data to achieve some type of predictability over whether someone will become a customer and offer some level of automation. The benefit of scoring is that it is easy to understand and works with automation process (lead reaches score X, they get passed to sales). The drawback is that the prioritization created by lead scoring is still created based on opinion-driven criteria.

Manual segmentation is used to frame certain campaign and promotion planning, create personalized offers and experiences with the brand, locate advertising media and create marketing messages that are intended for a particular segment.

Surveys and a handful of other data points have been the traditional marketer's way of proving or disproving assumptions made in the manual segmentation.

Scoring is currently used by some of the more advanced organizations to achieve some level of automation in the segmentation and sales enablement process.

For example, take the oldest question in marketing: “How did you hear about us?” This comes from a time in which systems were unable to track the exact customer journey that a certain large client has taken, and further pinpoints its starting point. There are a few problems that exist in such a method:

- **Most of your customers will not answer** this type of survey; the type that does answer it usually has similar traits (wants to win the free thing you are offering), which introduces bias into the numbers. Even the ones that do answer might not remember to give a very data-centric response.
- **The question incorrectly assumes** that how the customer heard about you is the main characteristic, and by prioritizing the most common answer, you’ll yield unlimited growth.
- **Simple surveys are entirely too narrow** in scope to review the thousands or even millions of questions you need each customer to answer precisely to prioritize campaigns, messaging, flow, digital experience and cross-channel outreach and to maximize customer acquisition. A survey is not able to cover the information breadth you need, giving you only a partial view, although the data points measured may be accurate.
- **While potentially helping to identify a value segment, this approach fails** to account for the next action step: automating future activities to guide business-critical customers through their experience. Essentially, it disregards the next step of what happens after they hear about you.

The answers to these questions are within the scope of data-driven marketing.

Customers: A Data-Driven Perspective— Micro Segmentation, Behavioral Profiling and Validated Learning

To understand the data-driven principles behind customer development and the role that strategic marketing plays in it, you have to know “lean” and “agile” principles and implement them correctly. The main goal of data-driven marketing, in this case, is focused on the following KPIs:

- **Minimize cost to acquire a customer**
- **Maximize customer lifetime value**

Why those metrics? Because of this simple business rule:

Cost to Acquire Customer < Customer Lifetime Value

This formula is particularly popular with startups, but it’s also critical for any business to track and control. In very simple terms, Customer Lifetime Value on average should be larger than the Cost to Acquire a new Customer—in the range of 3x, 4x or 5x larger—if one is to maintain a successful, growing business.

This approach uses profitability-based decision making, and it’s much more sophisticated than using traditional metrics, which simply measure small windows of interaction, such as clicks, page views or customer satisfaction ratings.

Strategies of the data-driven approach include:

- **Studying customers with high Customer Lifetime Value**
- **Targeting cost for acquisition for similar customers**
- **Validating and refining metrics—constantly**

Data-Driven Marketing Process



The main idea here is to start by listening and incorporating past data. This will help you find patterns revealing a successful customer journey, while exposing a few critical things:

- **Which** customers are likely to take that journey
- **Which** customers are already on that journey
- **What** can further influence their path, delivering the “Best Next Experience”

Traditional vs. Data-Driven Segmentation

There are several differences when segmenting customers according to traditional versus data-driven marketing approaches:

Traditional Marketing

Segmentation criteria are selected by humans based on opinion and superficial data.

Number segmentation criteria are limited, usually to 3-10 factors, including job position, geography, industry and so on.

Classifying and prioritizing customers and marketing actions cannot happen in real time. Distribution of priorities is derived from scarce data and statistical methods, such as surveys.

Data-Driven Marketing

Segmentation criteria are intelligently derived from data.

Segmentation criteria are data-derived and can be any behavior, trait or interaction, as long as it indicates a segment with specific behavior similarities and is predictive of results.

Classifying and prioritizing customers happens in real time, based on a full analysis of the voluminous customer data.

Essentially, a data-driven approach removes anything opinion-based or based on scarce and incomplete data. Instead, it starts with the question “Who is my customer,” and lets data reveal patterns to guide decision making. From high-level data such as customer title—33 percent Marketers, 54 percent Developers and 13 percent unclassified—to low-level, granular data that delves into thousands of microsegments based on unique characteristics or behaviors, the data-driven approach is extremely powerful.

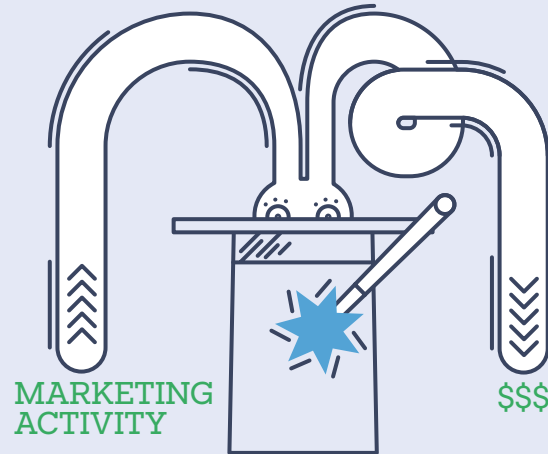
Example: Netflix movies are classified in 80,000 different categories. These categories help it gain a unique understanding of your movie preferences, which influences not only the recommendation engine, but the entire decision-making process of what movie catalog would drive up subscriptions.

The original Netflix series “Orange is the New Black” and “House of Cards” are examples of strategic decisions to draw viewership and subscriptions. What you may not know is that those decisions were data-driven ones based on observations about relationships between a viewer’s preference for seemingly unrelated categories. But it wasn’t an executive who suggested looking at whether there is a relationship between people who like Kevin Spacey movies, people who like British political dramas and people who like dark, cerebral shows. It was an algorithm that identified that combination, providing actionable data for Netflix to act upon. The results are evident: profits and revenues have more than doubled, and Netflix passed the 50 million subscriber milestone.

Results: Connecting the Dots Between Strategic Goals, Tactics and Attribution

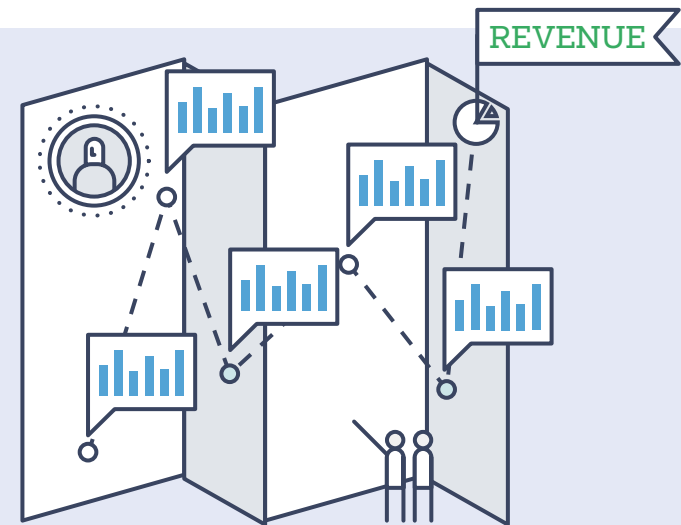
A goal is a natural and intuitive term in the business world, but it has yet to make its way to the everyday marketing process. While a business usually has clear and specific revenue and sales goals with a prioritized and quantitatively outlined set of goals on a conceptual level, a marketing organization rarely deals with that type of structure.

As marketers, we have become obsessed with data, but have had just a few years of data with which to connect the dots and catch up to sales mechanisms that have had a 50-year head start. We haven't yet reached the stage where quantitative goals for a marketing department are the norm, not to mention goals for each individual or team.



Traditional Marketing

Marketer A: We launched five major campaigns this year, reaching 20 million users in 30 different countries. Our website redesign provided a great experience increasing page views and time on site and our mobile traffic is up 300%. After launching a new product and massive advertising campaign, we received 210 mentions in the media and 1M impressions on Twitter. As a result our company revenue grew with 32%.



Data-Driven Marketing

Marketer B: By targeting key segments with maximum buying potential through cross-channel campaigns and dynamic personalization, the marketing department contributed to 20% of the revenue increase and 35% of the customer lifetime value increase, exceeding our overall goal of 30% growth this year by 2%. The marketing initiatives drove 10x return on investment on budget and provided a twofold increase in the customer lifetime value/cost per acquisition ratio. Here are the clear points that attributed to this...

There is nothing wrong with the story shared in scenario A. In fact, it seems very impressive, and one might conclude that this is a driven organization because it cites a lot of data. However, it provides no business answers to the following questions:

- 1. How did these tactics** contribute to revenue growth, and exactly which ones?
- 2. What type of budget** should I allocate for next year to produce even higher growth?
- 3. What customers** should we prioritize?
- 4. What initiatives** should we prioritize?

A similar assessment from CMO A might lead to the logical conclusions of investing more money into campaigns and increasing the budgets. However, as these investments grow over time, the return on them will decrease. As data-driven professionals, we need to move quickly toward attribution models. This is a main aspiration of data-driven marketing: to have full context and journey attribution percentages for each activity—as well as the full cost—attached to each activity. Only this way can you calculate a true ROI and fine-tune your spending and effort in ways that maximize relevancy.

Marketing Goal vs. Business Goal

The difference between marketing and business goals is the way they're defined. In the first case, we can see a clear example of a goal based on marketing data. In the second example, we track goals based on financial data such as revenue, fulfillment and services, as well as by reviewing forecasting models for customer lifetime value for each acquired account. Business goals are not “instant gratification” goals, satisfied by a click, view or impression. These goals are achieved in due time, making it challenging to connect them to earlier stages of the customer journey.

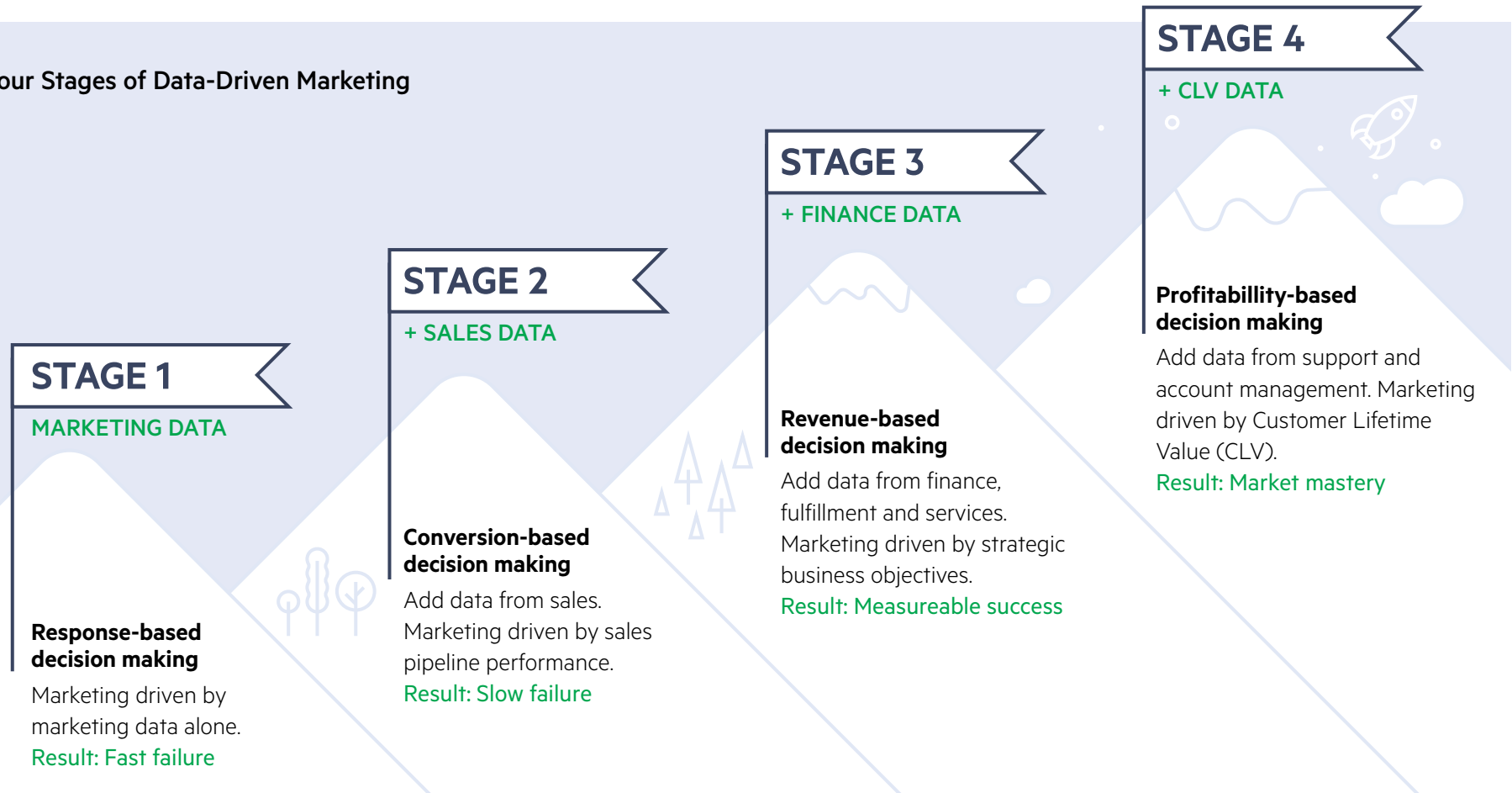
In both cases, the business teams are responsible for contributing to revenue. But when you look into a short-term goal, the revenue impact is difficult to quantify. There's a tenuous connection between random growth in prospects entering the sales funnel, perhaps in response to campaign activity, and an associated increase in customers at the other end. That scenario can be just as easily coincidence as causality.

In data-driven marketing, maturity and success is directly correlated to how far ahead your goals are—long term goals such as increasing Customer Lifetime Value usually yield much better long-term results.

Interestingly enough, the more mature your process is, the fewer goals you end up tracking. In stage 1, you might have to review page views and data for various assets, trying to make sense of data, while in stage 4, you strive for one very special metric: the Customer Lifetime Value. Your main goals then become to increase the number of customers and/or increase the Customer Lifetime Value for each.

To achieve that goal, you must examine how much each of your actions and your spending contributed to generating Customer Lifetime Value.

Four Stages of Data-Driven Marketing



Whether a prospect completes a form, registers for a webinar or downloads a whitepaper is not a goal by itself. It matters only whether or not there is contribution to the end goal. The technical challenge is that:

- 1. Most companies don't have all marketing, sales, financial and account management data** for a single customer together in one system. This requires very sophisticated integration platforms, good ways to purge and consolidate data, and enormous volumes of storage.
- 2. The companies with sufficient data don't have** the ability to process it to provide enough macro-level insights.
- 3. These goals do not provide the "instant gratification"** that a click provides. Even after you have the infrastructure to process data, there is a waiting time for the cycle to close, resulting in the accumulation of months or years worth of data.

Therefore, our immediate goals are to try to connect customer journey data across every channel and start with as data-driven an approach as possible. Over time, shift goals to cover more sales, financial and even retention or lifetime value data. In this way, you can progress through stages 1-4 at a pace that works for your organization.

The Road to Data-Driven Marketing

Shifting to a data-driven marketing approach is much more than buying the right piece of technology. It's a process that requires a complete commitment from stakeholders across the company, and even with that, will likely take several months to implement.

In this chapter, we'll highlight some aspects of the technical conversion to a big data approach that are good to avoid. This frees you to focus on the organizational journey, which is, in truth, the most important part. This map of the journey tackles all of the quests and challenges described in our Challenges section.

- **Cross-channel data:** This is a big infrastructure challenge because we need to combine data for each customer from each channel. It has both integration and data integrity implications because you must accommodate easy data source additions, large data storage and ways to anchor customer data from diverse channels to the same person.
- **Customer intelligence through record and scoring systems:** Once you can properly understand customer data, you can start adopting general customer intelligence. This has different implications for sales and marketing, because each requires unique data to have an impact on their part of the customer journey. Systems need to accommodate both.
- **Customer journey understanding:** While customer insight often starts with opinions and gut instincts, data injects objectivity. Simple questions about which course to take are settled by applying buyer journey behavior to similar customer prospects. Seek success by using what has already proven to be successful.
- **Long-term business goals:** The journey toward true data-driven infrastructure starts with a mind shift away from superficial metrics toward long-term goals. The focus should be on identifying your long-term goals and leveraging whatever positively influences those goals. This enables marketing teams to define and diligently track KPIs and strategize to influence them. Further, it provides the tools needed to answer questions around true ROI, cost of acquisition, forecasting, optimized marketing planning and so on.
- **Accurate predictions (predictive analytics):** Once your goals are set, with the complete dataset available, you can make much more accurate predictions. At this point, a lead score becomes more meaningful, taking you from a relative number of points assigned to an actual conversion probability you can predict with great accuracy. Shifting from opinion-based heuristics to data-driven models is a key step toward automating the sales and marketing machine of a data-driven organization.
- **“Best next action” for each customer (prescriptive analytics):** Accurate predictions on a macro level (forecasting), as well as micro level (customer conversion) are stepping stones to another level: prescriptions. Once you can predict behavior, you can prescribe next steps. This is similar to how Google can predict your likelihood to click on a certain ad with great accuracy. It uses data to present ads proven to be successful with people similar to you. By having the previously mentioned protocols in place, technology can now be effectively leveraged to help improve and prioritize the marketing process and increase customer conversion rates organically.

- **Proven attribution for marketing actions and true ROI:** Proving marketing attribution is traditionally challenging, as you need to manipulate parameters and track success. Statistics and the scientific method offer ways to prove cause and effect between different actions, and data-driven marketing has a major task in pulling the story together. Broad marketing activities provide little clarity into how they specifically contribute to metric growth. With a clear understanding of journeys, goals and conversions, you can devise ways to prove attribution in very specific terms. Then you can mold an organization that plans, executes and delivers based on true ROI, thus maximizing every effort.
- **Full cycle of automation to maximize ROI (real-time marketing):** Imagine the following: you get an insight and send an email to all people in that segment to promote an offer. Results? Instant success for that customer base. But what happens for the next 1,000 that will come in the next year? For this, you need to automate, making sure they get the same real-time offer or experience that will drive them further.

All steps in the marketing maturity process are, in one way or another, within the scope of what's commonly referred to as big data or data science. With the right tooling, you can cover all bases and start improving the different steps. But the point of these steps is to direct you toward a repeatable, circular process with a scientific basis, providing all necessary marketing metrics and leaving your team with a clear priority list and set of iterations.

Conclusion

Data-driven marketing presents a number of challenges that are both technological and behavioral in equal measure, each requiring a mindset change.

Pursuing the perfect data-driven end result will yield continuous predictability, prioritization, attribution and automation. This can be integrated with the creative process to provide maximum impact and fast growth.

With a mind shift into data-driven marketing, marketers can move away from deprecated notions like the marketing funnel, counting clicks, opinion-driven decisions and one-way communications. Instead, they can turn infrastructure into a smart, self-improving intelligent system to guide them to real customer conversations.

Until recently, this seemed like science fiction, as opposed to marketing practice. But now, the road ahead is taking shape. It consists of understanding components of the customer journey and how it can be changed and expanded: ultimately providing more and more value. With current technology, most of these steps take a matter of weeks to initiate and benefit from.

Data-driven marketing won't be the gold standard for a few years, which puts you in a unique position. You can get ahead of the curve by changing the game for your organization, being an innovator and reaping all the credit.

If you want to learn more about data-driven marketing or consult a technology expert about jumpstarting this process for your organization, request a demo of Progress® Sitefinity™ Digital Experience Cloud.

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