

Forrester Consulting

MAKING LEADERS SUCCESSFUL EVERY DAY

August 2009

Integrated, Customer-Centric Marketing

Exposing Marketing's Delusion

A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc.

FORRESTER®



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Executive Summary

In March 2009, Merkle, Inc. commissioned Forrester Consulting to evaluate how companies perceive and practice “Integrated Customer Marketing.”¹ The study sought to discover the role that customer value plays in marketing, how companies segment customers, how they integrate communications across channels and business lines, and how they measure marketing success.

In conducting 149 phone-based surveys and 10 in-depth phone interviews with senior marketers, Forrester found that most marketers overestimate the extent to which they integrate their communications, segment their customers, and measure their marketing success.

Key Findings

Forrester’s study yielded four key findings:

- **Marketers overestimate the extent of their customer-centricity.** While marketers classify themselves as “customer-centric,” Forrester found that their actions were not focusing on the customer. Many of the individuals we surveyed had not established frameworks for customer value and customer experience as key performance indicators.
- **Marketers overestimate their measurement capabilities.** Forrester found that although marketers are using measurement, their findings are not being used or not being used properly to guide their strategic decisions.
- **Marketers overestimate the scope of their customer segmentation.** Marketers tell us that they use a broad range of segmentation approaches, but Forrester found that mass and direct communications aren’t aligned and marketing, sales, and service communications aren’t integrated.
- **Leaders and Laggards differ vastly in their approach to customer communication.** Forrester created a maturity model and self-diagnostic tool to help companies determine their level of maturity with regard to integrated marketing.

Integrated Marketing Is Easier Said Than Done

For years, marketers have chased the Holy Grail of marketing: To deliver the right message to the right person at the right time through the right medium. Yet, most structure their company around their products or business lines. As a result, they lack a holistic view of their customers and communicate with them from multiple silos. To be successful, marketers must become more customer-centric — which requires the organizational clout and strategic remit to establish customer experience and customer value as key performance indicators for the enterprise. Adopting a customer-centric approach allows marketers to develop strategies that maximize total customer value, ensure consistent management of the customer experience, and provide responsible governance of customer communications.

The concepts of integrated and customer-centric marketing are not new. But very few firms practice them either in a systematic, or effective, manner. In an era of Social Computing — one in which peer reviews are more highly regarded than what companies tell consumers — companies must recognize that today's consumer really is in control. Consumers can dictate how marketers communicate with them — directly or through their general advertising. The time has come for companies to move beyond lip service to deliver on the promise of customer-centric marketing and business strategy. In this environment, marketers must convince their organization that consumers expect to be communicated with in a way that is of value and relevant to them.

In this study, Forrester researched how firms segment, integrate, and measure their marketing and customer communications. We began by examining how an integrated approach to programs and communications across the enterprise drives the prevalence of a customer value framework. Such an approach is required to maximize customer lifetime value. This type of segmentation, integration, and measurement provides a framework for marketers to establish:

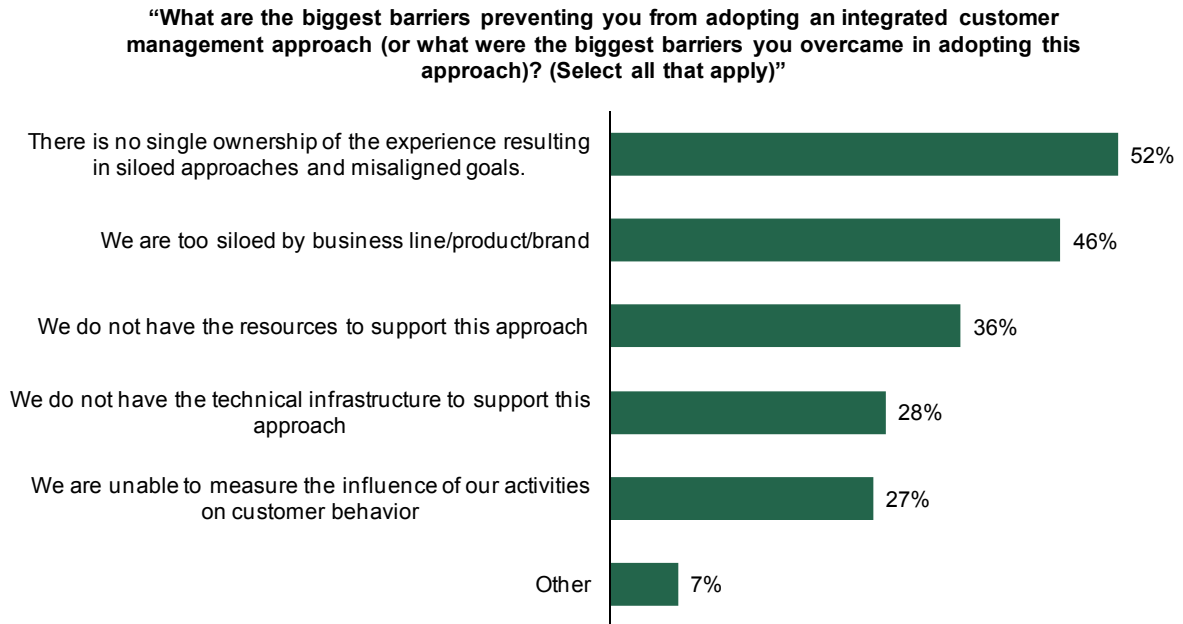
- **Customer value as a key performance indicator.** Many firms calculate customer value, but few leverage it as a key performance indicator to drive business success across their entire organization. Too often, we see customer value calculated in different ways throughout an organization — and actually causing more harm than good, as it creates divergent views of the relative value of each individual customer. Establishing a consistent customer value metric helps ensure that all business lines work together to maximize customer value as it relates to the enterprise.
- **Consistent customer segmentation across the enterprise.** Most firms employ a broad swath of segmentation approaches. Brand marketers conduct market research. Design professionals commission ethnographic research. Direct marketers develop behavioral and transactional segmentations. But few firms employ a consistent segmentation approach across their enterprise or throughout the life cycle of their customers. The use of consistent customer segmentation across the enterprise provides a richer, more complete picture of customers by combining customer attitudes, interests, needs, and behaviors.
- **A standard marketing measurement framework.** Without a consistent approach to measurement, marketers struggle to determine where they should allocate their budgets. Without a framework to attribute results to specific marketing activities, the common approach of basing spending decisions on historical activity may be as good as any other. To be truly effective, however, marketers need a standard and consistent measurement framework that allows them to accurately assess the *incremental* impact of each element of their activities and determine where best to dedicate their marketing dollars to boost customer value.

The Organization And Technology Are The Biggest Barriers

Sending relevant messages to customers and communicating with them in a way that improves their experience is something that most companies say they want to do. Why don't more companies do it? More than half of our survey respondents report that their firms lack a single owner of the customer experience, which results in siloed, inconsistent approaches and misaligned goals within the organization. Others point directly to silos, a lack of resources and technical infrastructure, or the inability to measure the influence of marketing activities on customer behavior (see Figure 1).

Most marketers understand the business value of strong information systems and data infrastructure, but many struggle to integrate data — particularly online data — to create a multichannel view of their customers. Organizational issues further inhibit marketers' efforts. IT organizations struggle to settle on a common organizing data structure, lack online domain expertise, and struggle with fragmented systems that support disparate channels.²

Figure 1: A Siloed Approach Is The Greatest Barrier To Adoption Of A Customer Management Approach



Base: 149 US senior-most marketing people and marketing managers
Source: A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc., August 2009

Marketers Overestimate Their Abilities

Integrating customer marketing isn't easy. It requires vast coordination to align strategy, leadership, organizations, processes, and technology to be successful. When we asked marketers about the extent to which they practice an integrated and customer-centric marketing approach, most seem to believe that they are far more advanced than they are. In fact, most marketers are in denial. They tell us that their organizations are customer-centric, that they consistently and systematically measure marketing, and that they have a broad approach to segmentation. But, further investigation found gaping holes behind those claims.

For marketing to evolve and actually become customer-value-driven, segmentation-led, and integrated in its treatment of customers, marketers must begin with an honest assessment of their current state. The time for delusion is over.

Marketers Think They Are Customer-Centric

Customer centricity is not a new concept. Most firms want to think that they put customers first, but in reality, most are structured around products, services, or lines of business. However, 44% of respondents to our survey claim that their organization's culture is more customer-focused than brand- and product-focused, versus 35% that say they are more brand- or product-focused. The claim to customer centricity appears more an aspiration than a fact, however. As we dug deeper into what marketers told us, we found that:

- **Very few use customer engagement as a primary factor in their communications.** Understanding how a customer or prospect is engaged with your brand and then tailoring resources, products, services, and communications to reflect their engagement level demonstrates a customer-centric business approach. Unfortunately, only 11% of marketers say customer engagement is the primary factor in their customer communications, and 32% say it is often a factor (see Figure 2). For 20% of respondents, it is seldom or never a factor.

"We struggle to measure customer engagement. We don't have a system to manage it, in part because nobody has singular responsibility for managing it. Unfortunately, it's just not a priority." (A senior marketer at a high-tech company)

- **Only one-third systematically employ a contact strategy.** Of those for whom engagement is not their primary factor in determining how they communicate with their customers, only 35% say they have a systematic approach to delivering the right message to the right person at the right time and through the right medium. Forrester views an enterprisewide customer contact strategy as a clear reflection of a customer-centric organization.³ It requires organizational alignment, governance, and a common measurement framework to be effective — without such an approach, a claim to customer centricity is on shaky ground.

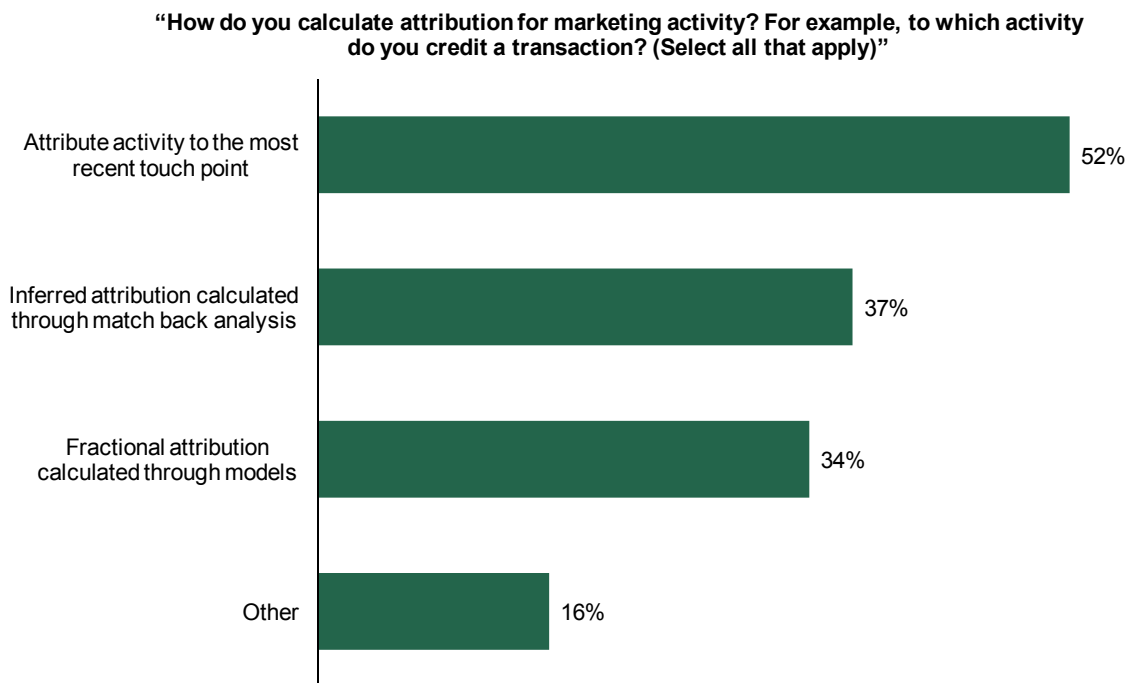
"We don't really have a contact strategy. Deciding which message to send to which customer is a crapshoot. We try different things and hope that something sticks. It's really a best guess based on the data that we have." (A vice president of marketing at a financial services company)

- **Only half calculate customer value and fewer still use it beyond marketing.** Exactly 50% of the respondents to our survey say that they have a customer value metric, such as customer lifetime value. Unfortunately, however, only 49% of those that have a value metric

say they use it outside of marketing. Even more dishearteningly, 29% of those that have a value metric say that it is not consistent throughout their marketing organization, and 31% say that they are unable to measure the incremental impact of their marketing activity on customer value. It's hard to argue that your organization is customer-centric when you don't calculate customer value or can't measure the impact your activity has on it.

"We measure profitability where we can, but we are only starting to tackle what a customer lifetime value metric might look like. Historically, our business lines have been too separate — the concept of value for each was very different — but we are starting to bring those perspectives together and are thinking about how to calculate lifetime value at a household level." (A senior marketer at a financial services company)

Figure 2: Customer Engagement Only Sometimes Affects Customer Communication



Base: 149 US senior-most marketing people and marketing managers
Source: A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc., August 2009

Marketers Believe They Consistently And Systematically Measure Marketing

Without a consistent and systematic framework for marketing measurement, integration just isn't feasible. Fifty-five percent of marketers say that they use a standard or consistent framework to measure all marketing activity, and that percentage grows to 61% within connected businesses versus 38% of disconnected businesses (i.e., those that sell to their end customers through an intermediary). Once again, when we explored the results further, we found that:

- **Measurement doesn't drive budget allocation.** Despite the claim that they rely on a systematic approach to marketing measurement, almost two-thirds of marketers (64%)

allocate budget across marketing disciplines based on historical spending, and 56% do so simply based on planned activity (i.e., they use direct mail for acquisition purposes. Why? Because that's what they do). Media mix modeling — which allows marketers to understand the incremental impact of specific media and activity — is employed by less than a third of respondents.

“We do try to track the impact of our marketing activity, but to a large extent we are winging it — we make decisions based on past history, personal preferences, and what our agencies say is working for other clients. Frankly, it's a lot of trial, error, and guesswork.” (The head of marketing at a CPG company)

- **Marketers put their emphasis on financial metrics.** When asked how they measure the extent to which customers and prospects are actively engaged with their brand, 63% of marketers selected the frequency of purchases. Fifty-four percent selected the frequency of interactions with their brand, and 47% the level and depth of brand interaction — far more specific measures of engagement. Similarly, when asked how they assess the impact of their marketing activity, 80% of respondents selected “financial impact — such as revenue or ROI.” In interviews, however, marketers tell us that they struggle to isolate the financial impact of their activity.
- **Marketers are missing the point more than half of the time.** When calculating attribution — such as deciding which marketing activity to “credit” for a transaction — more than half of the respondents attribute activity to the most recent touchpoint. If a prospect or customer saw a TV ad, received a direct mail piece, received three emails, and then searched for an item and bought it from their company, the entire “credit” for driving the sale would be allocated to the firm’s search engine marketing efforts or activity. Only a third of marketers calculate fractional attribution through models across their activity. Far from enjoying a systematic and consistent approach to marketing measurement, marketers’ entire approach is broken. They emphasize financial criteria, which they fail to measure in a robust and accurate manner, and then they use those findings to plan their budgets for their next campaigns.

Marketers Claim Customer Segmentation Extends Broadly

Marketers tell us that they use a broad range of segmentation approaches, including demographic (77%), market research (58%), behavioral (47%), attitudinal (31%), and ethnographic (16%). And, almost half of respondents (47%) claim that they have a segmentation scheme that is consistent throughout their organization. Frankly, we question this claim. Why?

- **Mass and direct communications aren't integrated.** A segmentation scheme that is consistent across an organization ensures that all groups plan and execute marketing communication in an integrated and consistent manner. However, only 27% of marketers say that their marketing is very integrated across brand and direct communications. Almost three-quarters of respondents struggle to understand the impact that brand and mass communication have on each other, and, therefore, they don't plan programs and campaigns to maximize their combined effectiveness.

“We compare data between brand and direct teams, but it's not really integrated. Customers often tell us that they see an offer in one medium and receive a different offer in another. Customers get frustrated.” (A senior marketer at a financial services company)

- **Customer information isn't integrated across marketing, sales, and service.** When asked to what extent customer and prospect communication activities are integrated throughout marketing, sales, and service, only 18% said their activities are highly integrated — in that they track and measure the impact that each discipline has on the other. In addition, only 30% of respondents say that they unite disparate customer information from sales, service, and marketing into a single management framework for global insights, targeting, and measurement.

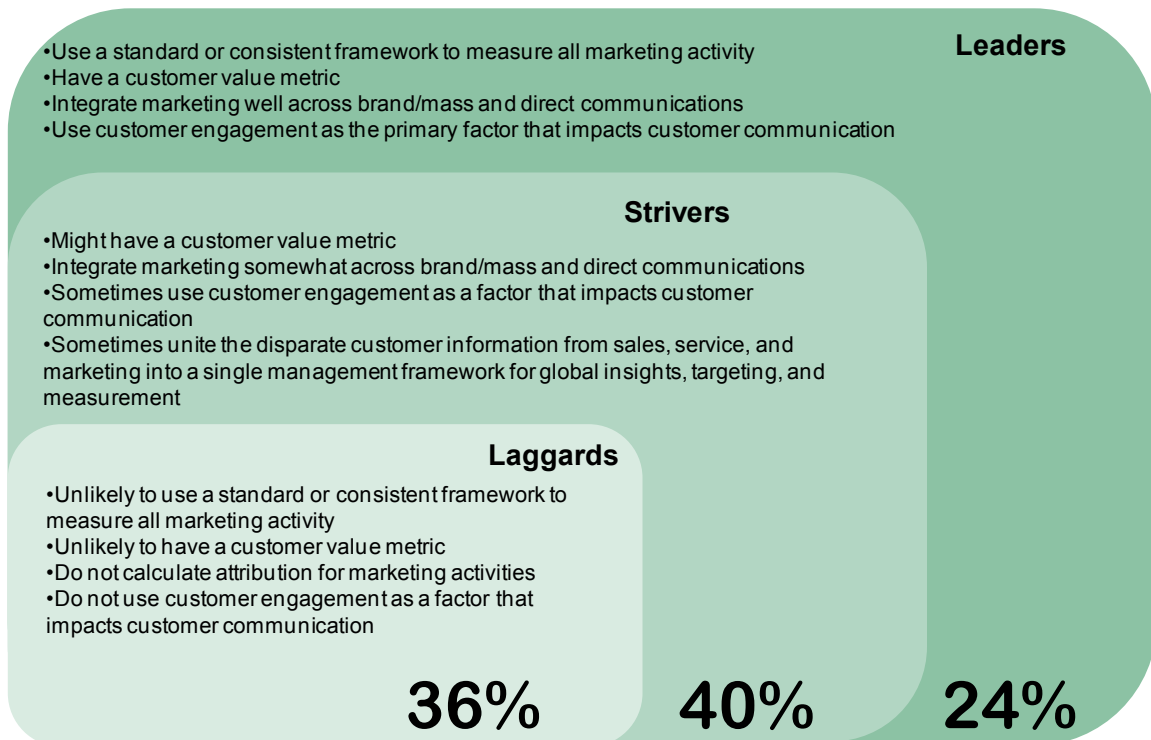
“One of our problems is that we don't have a single repository of customer information. It's hard to coordinate activity when each group has a very different view of the customer. It's a big downside of our siloed business structure.” (A senior marketer)

Significant Differences Exist Between Leaders And Laggards

Few firms have mastered enterprisewide segmentation, integration, and measurement, but we identified differences among the respondents to our survey. We classified respondents into three groups (see Figure 3):

- **Laggards.** At the lowest level of maturity are the Laggards. These organizations are unlikely to use a standard consistent framework to measure marketing activity, and they are unlikely to have a customer value metric or accurately attribute results to marketing activities. In short, their marketing efforts are far from integrated.
- **Strivers.** The largest segment is composed of Strivers. These organizations, frankly, are trying. They might have a customer value metric, integrate marketing across mass and direct communications, and/or unite the disparate customer information from sales, service, and marketing into a single management framework.
- **Leaders.** At the top of the table are the Leaders: They use a standard framework to measure all marketing activity, have a customer value metric, integrate marketing effectively across mass and direct communications, and use customer engagement as the primary factor that affects customer communication. Leaders are integrated marketers.

Figure 3: A Marketing Maturity Model For Integrated Marketing



Source: A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc., August 2009

Leaders Integrate Their Customer Marketing

Leaders embrace the notion of segmentation, integration, and measurement. They are more likely to:

- **Use a customer value metric.** Eighty percent of Leaders have a customer value metric, compared with just 20% of Laggards. The foundation of their approach is in understanding and maximizing customer value. To be truly effective, firms should have a consistent concept of value, which requires organizational collaboration and integration across lines of business and functional areas.
- **Integrate marketing across mass and direct marketing.** Sixty-three percent of Leaders have highly integrated marketing across brand/mass and direct, compared with only 2% of Laggards.
- **Use a standard or consistent marketing framework.** Ninety-four percent of Leaders have a consistent framework to measure all marketing activity compared with 17% of Laggards. A consistent marketing framework ensures that all lines of business and media owners pull in the same direction to help maximize customer value at an enterprise level.
- **Have a more strategic remit within their organization.** Marketing measurement and customer insight is a key driver of corporate strategy within 26% of Leaders but only 7% of Laggard organizations. In addition, only 6% of Leaders say that marketing has little influence outside the marketing group, compared with 35% of Laggards.
- **Expect budgetary increases.** In the next 12 months, 31% of Leaders expect their marketing budget to increase, while 23% expect it to decrease. In contrast, 10% of Laggards expect an increase and 37% expect a decrease.

Develop Your Organization's Integrated, Customer-Centric Marketing Approach

Given the benefits of embracing segmentation, integration, and measurement — improved customer experience, a more strategic remit for the marketing department, and the expectation of budget increases — it is worthwhile exploring the steps that organizations can take to improve their customer-centric maturity. Forrester recommends that firms:

- **Evaluate their maturity.** Organizations should use the maturity level scorecard to assess themselves and identify areas for improvement. Distribute the self-diagnostic scorecard to all groups that communicate with customers. To identify differences in how the organization communicates with customers, Forrester recommends taking a very conservative approach to scoring.
- **Determine their organizational readiness to evolve on the maturity scale.** Technology and organizational structure are the two most common barriers to how firms mature in relation to segmentation, integration, and measurement. Consider working with service providers if your IT team doesn't have the skills or resources, and work with an individual business unit before tackling the entire organization if the political landscape resembles a minefield.
- **Start small and build on their progress.** If necessary, begin with individual programs, channels, or business units. Continually measure, track, and communicate your progress,

and use a variety of metrics to demonstrate improvements, such as improved customer experience or satisfaction, higher customer lifetime value, and greater influence over corporate strategy. Forrester has tracked the marketing and IT relationship since 2002 and has seen it shift from dysfunctional to adequate during the first four years — only to have it sour again in the past two years. Today, IT gets a low confidence vote from marketers, who rank it second lowest in competence. In an effort to limit IT's involvement in their business, many marketers outsource to improve ROI.⁴

- **Socialize customer intelligence beyond marketing.** Once customer insight teams have proven their value within the marketing organization, they should seek to leverage their insight more broadly throughout the enterprise. This requires a strategic approach to ultimately drive corporate strategy and enterprise revenue. How can they do so? Build a team that can turn data into customer strategy; clearly demonstrate the value of customer intelligence; and align team success with business results.⁵

Assessing Your Integratration And Customer-Centric Marketing Maturity

To assess your organization's maturity, complete the scorecard below:

Integrated, Customer-Centric Marketing

Integrated Marketing Maturity Scorecard
 To determine your company's maturity level, score your organization on each of the following questions.

Do you use a standard or consistent framework to measure all marketing activity?	Select one response Yes 2 points No 0 points	<input style="width: 40px; height: 20px;" type="text"/>
Do you have a customer value metric, such as customer lifetime value?	If do not have a customer value metric: 0 points If have a customer value metric: 1. Is it consistent throughout your marketing organization? 2. Is it used outside of marketing? 3. Do you have the ability to measure the incremental impact of your marketing activity on customer value? If yes to all 3 2 points If yes to 2 1 point If no, to all 0 points	<input style="width: 40px; height: 20px;" type="text"/>
How do you calculate attribution for marketing activity? For example, to which activity do you credit a transaction?	Select all that apply 1. Attribute activity to the most recent touchpoint 2. Fractional attribution calculated through models 3. Inferred attribution calculated through match back analysis If yes to all 3 2 points If yes to 2 out of 3 1 point If yes to 1 out of 3 0 points If no, to all 0 points	<input style="width: 40px; height: 20px;" type="text"/>
How integrated is your marketing across brand/mass and direct communication?	Select one response Very integrated: We understand the impact that brand and mass communication have on each other and we plan our programs and campaigns to maximize their combined effectiveness. 2 points Somewhat integrated: We plan our brand and mass communication together for our programs and campaigns but do not always measure their mutual and combined impact. 1 point Not very integrated: We use both brand and mass communications, but do not plan or measure them together. 0 points Not integrated: All communication is planned and measured in isolation, or we only communicate in either brand or mass channels. 0 points	<input style="width: 40px; height: 20px;" type="text"/>
How integrated are your customer and prospect communication activities throughout marketing, sales and service?	Select one response Very integrated: We track and measure the impact that communication in each discipline has on the other. 2 points Somewhat integrated: We track communication in each discipline and "hand over" insight from one discipline to the next. 1 point Not very integrated or not integrated: We inform other divisions about activity but do not share insight or results. Or each discipline operates in isolation. 0 points	<input style="width: 40px; height: 20px;" type="text"/>
Does a customer's engagement level influence which message is sent, at what time, and through which medium?	Select one response It is the primary factor 2 points It is often a factor 1 point It is sometimes a factor 0 points It is seldom a factor 0 points It is never a factor 0 points	<input style="width: 40px; height: 20px;" type="text"/>
Do you unite the disparate customer information from sales, service, and marketing into a single management framework for global insights, targeting, and measurement?	Select one response Yes 2 points Somewhat 1 point No 0 points	<input style="width: 40px; height: 20px;" type="text"/>
Total score		<input style="width: 40px; height: 20px;" type="text"/>

Your maturity level: Laggards = 0 to 4, Strivers = 5 to 8, Leaders = 9 or higher

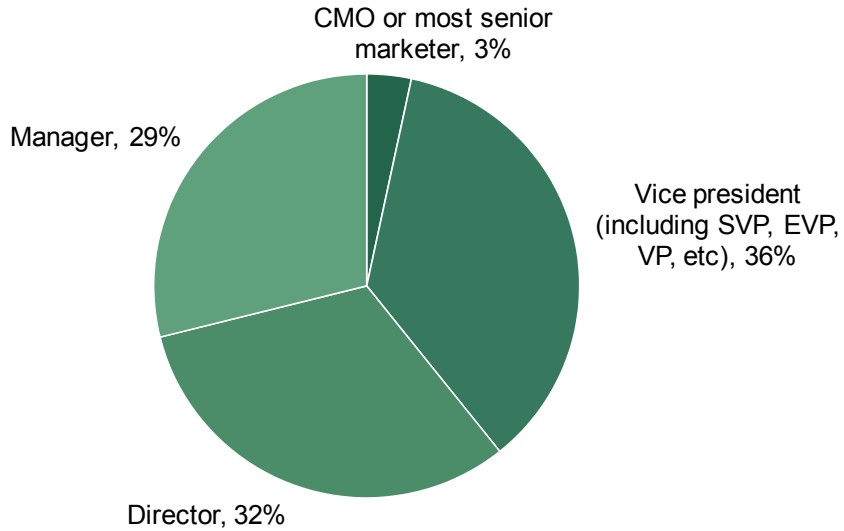
Source: A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc., August 2009

Appendix A: Methodology

In this study, Forrester conducted a phone-based survey of 149 US senior-most marketing people and marketing managers within organizations in the United States to understand the maturity of integrated marketing. Survey participants included chief marketing officers (CMOs) or senior-most marketers, and those holding vice president of marketing, director of marketing, and manager of marketing roles. Forrester also conducted 10 interviews to explore these topics in more depth. Participants were asked about their current marketing metrics and measurement, segmentation, and the integration of marketing throughout their organization. Participants in the 10 interviews were offered a summary of our study findings and a gift card as an acknowledgement for time spent on the survey. The study began in April 2009 and was completed in July 2009.

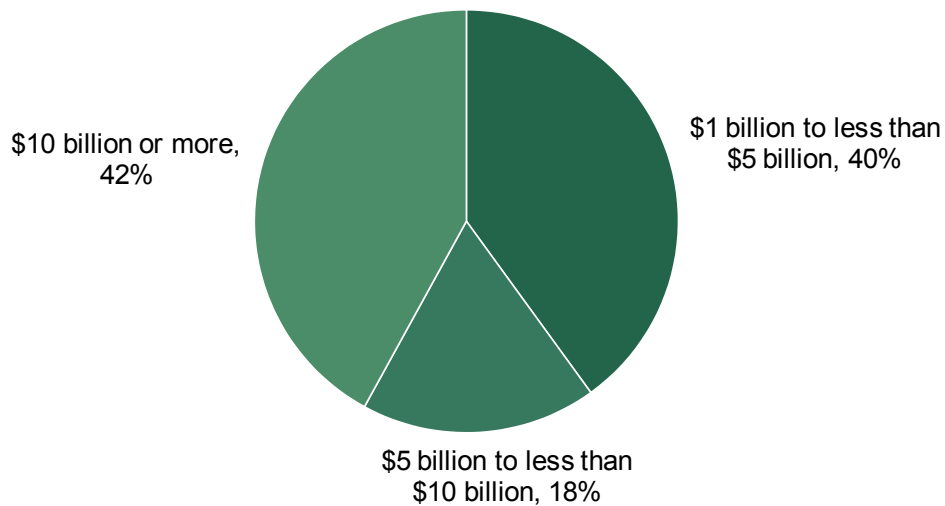
Appendix B: Demographics/Data

“Which of the following most closely describes your job level?”



Base: 149 US senior-most marketing people and marketing managers
Source: A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc., August 2009

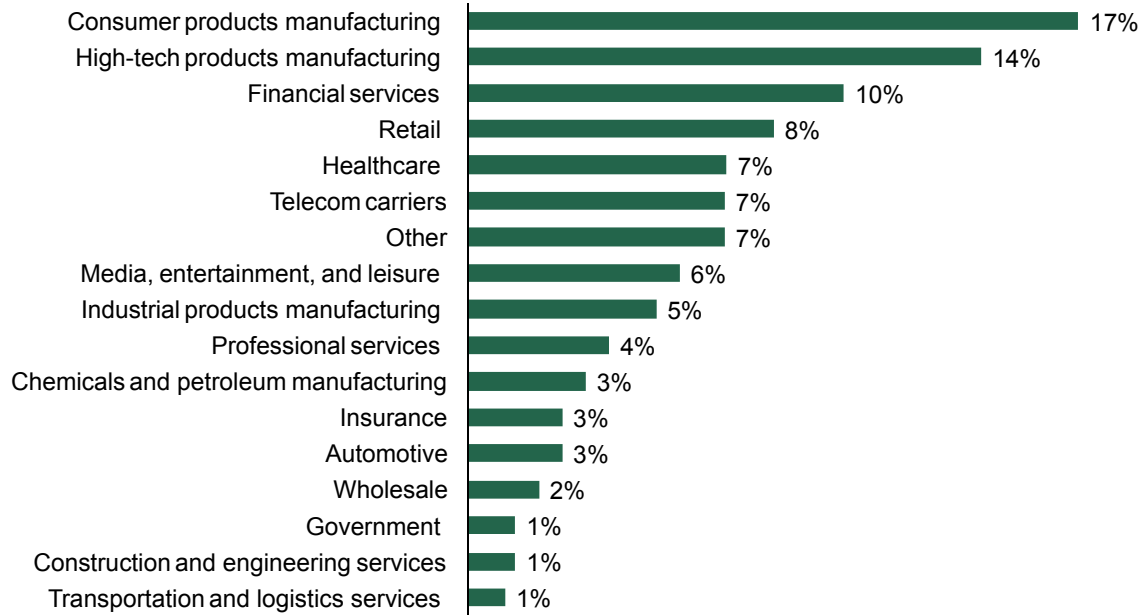
“Approximately what are your company's revenues worldwide?”



Base: 149 US senior-most marketing people and marketing managers
Source: A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc., August 2009

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“To which industry does your company belong?”



Base: 149 US senior-most marketing people and marketing managers

Source: A commissioned study conducted by Forrester Consulting on behalf of Merkle, Inc., August 2009

Appendix C: Endnotes

¹ Integrated Customer Marketing is a Merkle-trademarked term that the company describes as “a systematic approach to delivering customer interactions that create competitive advantage and drive shareholder value.”

² A comprehensive view of the customer helps marketers deliver productive customer experiences, support marketing measurement, and drive new business opportunities. However, despite longstanding efforts, today's customer databases lack the information to support productive conversations across channels. Why? Marketers tell us that organizational as well as data- and technology-related issues prevent them from stitching together a comprehensive view of the customer. To help solve this conundrum, Forrester has identified four steps that marketers must adopt to improve their chances for success. Source: *Creating a Multichannel View Of Your Customer*, Forrester Research, Inc., June 19, 2008.

³ Increasingly, today's consumers try to limit their exposure to marketing communications. Yet few firms seek to implement a contact strategy across lines of business and communications channels in order to improve customer experience and maximize program profitability. To help frame a customer contact strategy, Forrester has identified five key dimensions marketers must focus on: 1) establish a customer-centric marketing culture; 2) rethink business processes; 3) create a centralized view of the customer; 4) use analytics to drive customer communication; and 5) invest in a consistent measurement framework. Source: *Defining an Enterprisewide Customer Contact Strategy*, Forrester, Research, Inc., October 22, 2008.

⁴ Forrester surveyed 224 direct marketers to understand how relations with internal and external partners affect technology adoption. Across the board, marketers recognize the need to improve customer information systems and measurement technologies in order to build better online and multichannel customer experiences. Three types of technology support influence how marketers plan to achieve these goals: 1) IT Partners have a dedicated IT support group; 2) Marketing Partners have a marketing services support group; and 3) Independents have neither IT nor marketing services support. IT Partners are consensus-driven buyers looking to quickly expand their technology base to include optimization technology. Marketing Partners have adopted the most technologies but face insight and measurement challenges. Independents have the lowest technology adoption and are less satisfied with all of their technology partners. Source: *Understanding The Marketing And IT Relationship*, Forrester Research, Inc., March 31, 2009.

⁵ Marketing leaders working to drive customer centricity within their firms recognize that left-brained, quantitative skills are crucial for success. These marketing execs often spend millions building the technology infrastructure required to create a comprehensive view of the customer and the "customer insight" team to mine it. In many firms, this asset — the customer database and the team that owns it — plays an increasingly pivotal role within the enterprise. But not all of these groups share the same success. This report focuses on best practices for "socializing the customer database" in order to extend the value of customer insight throughout the enterprise. Source: *Best Practices: Socializing The Customer Database*, Forrester Research, Inc., July 23, 2007.