

Evaluating Marketing Strategies

HOW TO LEVERAGE YOUR MARKETING DOLLARS FOR GREATER IMPACT



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WHAT'S THE MOST EFFICIENT WAY TO LEVERAGE MY MARKETING BUDGET?

It's a question every marketer asks every day.

The answer always boils down to applying the tools of the trade in the best possible way — in essence, finding the right strategy for you.

This paper will provide you with the methodology for determining which of two classic strategies is right for you and your situation. It will then give you the tools to prove your strategy is right — even before you execute your campaign.

Skim strategy

The use of direct response marketing techniques to “skim” the cream off the market (a.k.a. the low-hanging fruit) with the least expensive communication possible. This strategy is not a good choice if the identified market is too small, if the chosen communication vehicle does not get enough attention or if a product has a value proposition too complex to communicate in a single mail piece.

Penetration strategy

The use of direct response marketing techniques to “penetrate” deep into a market. All possible buyers are fully aware of your value proposition so they can make an educated decision to move forward in the sales process based on product knowledge and identified need. This strategy specifically overcomes the limiting factors mentioned in the skim strategy above. As you might guess, this strategy is more expensive on a cost-per-touch basis.

Choosing when to invest in your prospect

In the skim strategy, you put your money into identifying the small number of people in a large universe who are already inclined to buy. Once they're identified, qualified responders are turned over to a sales team or a VAR channel.

In the penetration strategy, you have already identified your potential buyers, so you put your resources into a direct marketing campaign to everyone on your list. It is not atypical to spend up to \$50 or more over a number of mail pieces to get someone from this group to respond.

Expected response rates per strategy

If you choose a skim strategy, a response rate of 2% to 3% is considered very good. In a penetration strategy, direct marketers can aim for 10% to 15% — and we've seen 100%!

A CASE STUDY IN USING THE RIGHT STRATEGY

So how do you decide when to use a skim strategy or a penetration strategy? As with everything in direct marketing, it's important to determine this before you pull the trigger.

Here's an example of how this question was evaluated for a provider of enterprise software whose solution encompassed enterprise resource planning, customer relationship management and intellectual property management for a very specific industry.

The product offering is complex, extensive and expensive. Many prospects have difficulty

understanding the utility and resulting benefits from the offering. Because of these challenges, we began by developing a tiered approach to achieve the objectives.

Tiered approach

The tailoring of direct response outreach so that benefit statements are created to match the needs of the targeted job functions. The message would resonate with the intellectual and emotional needs of the specific audience (e.g., C-levels' business needs are discussed in their direct marketing campaign, and technical decision makers are provided benefit statements regarding the feature set and integration).

Campaign approach

Because of the complex nature of the product offering and its various strengths, its benefits and reasons for responding are doled out in manageable amounts. This will assist our cause in two ways: First, the reasons for responding will compound over the life of the campaign and the recipient will gain a clearer understanding of the product's deliverables. Second, the recipient will be provided up to three opportunities to respond.

Also, due to the limited size of the overall mailing universe, it is critical to maximize the penetration of the direct marketing effort. The combined strategy of a tiered campaign approach should provide the very best method for achieving this objective.

The following model illustrates the goal of achieving critical mass:

Critical Mass		
	Skim Strategy	Penetration Strategy
Universe Size (estimated)	3,000	3,000
Cost of Mail Package (avg. example)	\$1.50	\$25.00
Marketing Investment	\$4,500	\$75,000
Response Rates (assumed)	2.0%	10.0%
Number of Responses	60	300
Qualified Rate (assumed)	25%	25%
Close Rate (assumed)	20%	20%
Number of New Deals	3	15
Average Deal Value	\$2,000,000	\$2,000,000
Overall Revenue Generated	\$6,000,000	\$30,000,000
ROI	1333:1	400:1

A whopping \$24 million difference.

CONCLUSIONS

With an average deal size being worth \$2 million, either program is probably within budgetary parameters; however . . .

- The penetration strategy achieves 'critical mass' while the skim strategy does not.
- 60 responses and 15 qualified leads may be seen as too small to capture the focus of an already busy sales force, but 300 leads and 75 qualified responses should get their attention.

- Three sales can drive up to \$6 million, but **15 new sales could drive up to \$30 million.**
- With only three sales, the law of small numbers applies, which means that it could just as easily be zero (no revenue at all).

Therefore, the clear direction is to pursue the penetration strategy to the fullest measure in order to maximize revenue — despite the relatively lower ROI. Remember, while ROI is an important factor, what really counts in every direct marketing effort is **net profit**.

In this case, the only strategy (if you are at all entrepreneurial) is to go for the \$30 million. But, the model can change if your universe size is bigger and if each sell is worth less than \$2 million.

THE NUMBER RELATIONSHIPS CAN CHANGE TO MAKE THE SKIM STRATEGY THE WINNER

These numbers are similar to those you might find in the small group insurance market:

- A larger universe of 3 million
- Lower production costs (due to mailing at this quantity, production discounts make the mail pieces themselves less expensive)
- An average sale value of \$3,500

Critical Mass		
	Skim Strategy	Penetration Strategy
Universe Size (estimated)	3,000,000	3,000,000
Cost of Mail Package (avg. example)	\$0.65	\$17.50
Marketing Investment	\$1,950,000	\$52,500,000
Response Rates (assumed)	2.0%	10.0%
Number of Responses	60,000	300,000
Qualified Rate (assumed)	25%	25%
Close Rate (assumed)	20%	20%
Number of New Deals	3,000	15,000
Average Deal Value	\$3,500	\$3,500
Overall Revenue Generated	\$10,500,000	\$52,500,000
ROI	5.4:1	1:1

With these key changes to the program numbers you can see how the skim strategy is now the clear winner. The penetration strategy demands such unattainable budget requirements that the average sale is not valuable enough to justify the expense. Net profit is non-existent. The winning skim strategy, however, delivers a lower cost of entry and pays off from a profitability point of view (as you can see in the ROI calculation).

These may be two simple spreadsheets, but they can save you untold amounts of time and money — not to mention the potential humiliation of choosing the wrong strategy.

Go figure!