Justifying Marketing Automation and Pilot Program

Introduction

Marketing automation - is the name given to software platforms designed for marketing departments and organizations to simplify processes by automating repetitive tasks. Marketing departments and employees benefit by specifying criteria and outcomes for tasks and processes which are then interpreted, stored and executed by software, which increases efficiency and reduces human error. Marketing campaigns themselves can be more effective because they are able to respond to certain events (a request for samples) and changes in behavior to deliver the right relevant message, to the right person, at the right time. These software platforms can record and react to interactions to automatically begin a relationship and personalized dialog that absent in traditional “spray and pray” marketing programs.

Although the term marketing automation has been around for nearly a decade, the technology available today provides new meaning to the term. Simply put, marketing automation combines improved process and technology to increase the effectiveness and efficiency of marketing communications.

The key to motivating an organization to adopt an automated marketing approach is to prove, by formal method, that the principles and benefits of marketing automation can be realized. Our 9 step approach is designed to capture the financial benefits for your CFO and also the means to demonstrate a measureable proof program. The proof program demonstrates the concepts and supports accurate measurements of the effectiveness of the application of marketing automation against an existing manual marketing processes. It can also be used to evaluate the technology platform’s ability to support your company’s marketing automation needs within your existing IT infrastructure. The latter can highlight changes needed derive the benefits adopting marketing automation.

Nine Steps to Pilot

The 9 step process is accomplished in 4 phases over the period of 2-3 months.

- Discovery and Return On Marketing Automation Investment (ROMI)
- Demonstration; a small proof of concept vehicle is created to educate and gain support
- Pilot; provides a fully functional program as the means to measure feasibility and effectives
- Wrap up; answers the question where do we go from here

Phase 1 - Focus on your **CFO** needs:

To meet the demanding pressure for proof of marketing effectiveness, especially in today's economic environment, marketers need marketing automation. By optimizing today's technology along with process re-engineering, your marketing programs can achieve incremental increases in revenue, reductions in cost, and can enhance the customer relationship with your company. But what comes first, the chicken or the egg?

Marketers continue to struggle with gaining budget to automate their marketing programs. By learning to speak in terms the CFO will appreciate, marketers can initiate discussions and better collaborate with executives to determine a return on marketing automation investment and obtain buy-in.

In today's world of reduced budgets, marketers must be prepared to justify a return on a marketing automation investment (ROMI) to their CFO.

Furthermore, marketing automation has evolved and is no longer limited to on-line activity or campaign management. Forrester Research analyst Suresh Vittal, in a 2008 report "Topic Overview: Enterprise Marketing Software," describes marketing automation's progression as "a new breed of marketing automation (that) provides a broader platform to deliver multichannel marketing programs, which improve campaign velocity and relevance, better accountability of all marketing programs, and overall improvement in marketing effectiveness and efficiency. They aren't just focused on email but multiple channels like direct mail, web, call center and even mass advertising."

Quantify the Value to Your CFO

So why isn't everyone maximizing automation techniques? The challenge lies in quantifying the value marketing automation delivers so that budget can be allotted toward automating programs. In today's world of reduced budgets, marketers must be prepared to justify a return on a marketing automation investment (ROMI) to their CFO. Because there is a myriad of potential value, and every organization is unique, monetizing the value of marketing automation can be daunting. Taking the process one step at a time, keeping the analysis simple, and focusing first on a high level potential return on investment is the best place to start discussions with your CFO.

Approach

Here is an overview of the steps to take to determine an ROI for your company investment in marketing automation. We've provided an MS Excel based workbook at www.meitasoft.com to help capture and compute your MROI.

Step 1: Determine your current ROMI.
Step 2: Score your potential improvement in marketing program performance with automation.
Step 3: Calculate your new ROMI and revenue improvement.
Step 4: Determine your preliminary profit improvement before cost savings and cost of marketing automation.
Step 5: Estimate your cost reduction improvements and calculate the total preliminary profit improvement.

Step 6: Estimate the cost of your marketing automation investment.
Step 7: Calculate your marketing automation investment ROI.

Step 1: Determine Your Current ROMI

It's likely that you already know your ROMI. You may even have your ROMI calculated at the campaign level. Your overall current ROMI number is where you start. If you don't know your ROMI, you can either calculate your ROMI, or for exercise purposes, you can use a published standard ROMI for your industry.

Step 2: Estimate your ROMI Improvement

To determine improvement in ROMI evaluate the impact marketing automation has on programs that drive revenue by using the scale below:

Points	Impact Level
1	No impact expected
2	Little impact expected
3	Moderate impact expected
4	Significant impact expected
5	Major impact expected

Customer programs are ideal candidates for marketing automation techniques for two significant reasons. First, revenues from existing customers are often considered low hanging fruit, especially in recessionary times. Second, marketing automation brings considerable value to the company-customer relationship. Consider use of automation to improve return on customer programs in the following ways:

- *Extend lifetime value with focus on customer life stage/life cycle*. These types of programs require deep customer understanding, highly relevant communications with precession timing. Marketing automation applied to these types of programs, provides greater customer insight, allows triggers to be applied for effective timing and enables a near one to one level of communication. Score your program based on your organization's ability fully to understand the customer, communicate with relevancy and communicate with effective timing.
- *Loyalty programs*. Loyalty programs can achieve improvement through improved customer analysis, better segmentation, and identifying the right type of reward for each customer segment. Lifts can also be achieved through greater personalization of customer messages.
- Up-sell and cross-sell programs. These programs get major benefits from marketing automation. Analysis to predict propensity, setting triggers to optimize timing, and automatic customization and personalization can quickly improve revenues. As you

score these types of programs consider the level of analysis your organization performs: If programs are triggered automatically to generate revenues faster and if communications are personalized and offer relevancy.

- *Churn reduction*. Programs that are designed to reduce churn are particularly vulnerable to lack of analysis. Inability to track customer behaviors that predict defection, or inability to track customers by profitability leads marketers to focus their efforts on all customers, not just the profitable ones ready to defect. Worse, when the wrong communication hits the wrong customer at the wrong time, the communication can actually have the reverse effect, reminding the customer to end the relationship with your company. Triggered programs can manage ill timed messages to improve these programs in addition to personalized communications.

After scoring your programs, step back and review the results for subjective reasonableness and adjust the results as appropriate. The scoring methodology was created based on information from various studies, but your results may vary depending upon your specific circumstances. Consider adjustments based on your industry, size of company, competition, primary distribution channel, etc.

Use your point total to determine an incremental increase in your ROMI using the chart below.

Total Points	**3-4**	**5-7**	**8-11**	**12-15**
ROMI Improvement	0%	15%	40%	60%

Step 3: Determine Your New ROMI

This step simply involves the math, applying a percent improvement over your current ROMI, and adding the old ROMI plus the ROMI improvement to calculate a new estimated ROMI based on programs performing with automation. Example:

Step 4: Determine Your Preliminary Incremental Profit Improvement

In this step, take your total marketing budget, or the dollars currently budgeted for programs, that are impacted by applying automation. Drop in the current sales that are generated from these programs. Using your anticipated improved ROMI determined in Step 3, calculate sales generated due to your new ROMI. Subtract from Current sales to obtain your incremental sales improvement. Apply your company's gross margin, to determine the gross profit generated. Apply a percentage to capture additional General and Administrative costs to the incremental sales increase. Subtract that cost to determine your preliminary incremental profit.

	Annual
Marketing dollars applied to ROMI Calculation	500,000
Sales generated from Marketing Investment - Current ROMI	2,500,000
Sales generated from Marketing Investment - New ROMI	3,500,000
Sales Improvement	1,000,000
Gross Profit rate	60%
Gross profit generated	600,000
Incremental Sales, General and Administrative costs	10%
Additional General and Administrative costs	60,000
Preliminary profit improvement	**540,000**

Step 5: Estimate Your Cost Reduction Improvements

There are three primary areas where marketing automation can save hard dollars. These include: improved marketing productivity, improved targeting and cost reduction in collateral spending.

Increase marketing productivity—Marketing automation reduces the cost of time consuming complex processes, eliminates duplication of work, facilitates obtaining data and information, reduces overtime and eliminates excessive dependence on the technology team. Improvements in marketing productivity are typically quantified as a reduction in labor requirements or a reduction in head count. Estimate cost of duplicate work, extra work due to complex manual systems that can be eliminated if automated.

Cost reductions with improved targeting—Improved targeting can increase the return on campaign investment or reduce overall costs. In many cases, where a campaign or promotion does not yield the anticipated return, the program is canceled and the spend stops or the program scope is reduced and the spend decreases. Consider any programs that are known to be "a shot in the dark" and capture the cost of those programs. Another option is to estimate a percentage of target improvement and calculate the reduction of cost in execution.

Cost reduction in collateral and promotional materials—Marketing automation platforms deliver print documents as e-documents providing substantial cost savings. They can also include print on demand capabilities that reduce the cost of printing, storing and distributing collateral materials. The advantage of a fuller automation system lies in the ability to let the customer determine the type of collateral they need. Print needs can be analyzed to produce and distribute promotional materials in "just right quantity." Consider the reduction of print substitution with e-collateral and print costs, storage, and cost of distribution.

Step 6: Estimate the Cost investment for Marketing Automation

Justifying Marketing Automation and Pilot Program

When estimating the cost of implementing marketing automation total cost of ownership should be considered. Options for implementing marketing automation include: software-as-a-service (SaaS), purchased on premise solutions and in-house development. All three have pros, cons and risks to consider.

According to Forrester Research (Suresh Vittal's 2008 presentation "Enterprise Marketing Platforms: The Future of Integrated Marketing"), the marketing automation provider landscape is fragmented and confusing. You have already determined programs and cost reduction areas that provide the greatest potential for return. Use this information to create a checklist of functionality an automation system must have to support your objectives. Secure estimated costs from providers that fit your needs.

If desired, SaaS is rapidly becoming the platform of choice for most marketing business owners, especially in this economy. SaaS provides faster realization of automation value and presents less risk to both the marketer and the CFO. Costs vary, but $12,000 per month is a reasonable estimate.

Step 7: Final Ratio of Profit Return on Investment

Having calculated your total profit potential (incremental profits plus decreased costs), subtract your annual investment and divide that sum by your total invest. The resulting ratio is your primary return on marketing investment.

$$\text{Return on Investment} = \frac{\text{Incremental Profits} + \text{Net Decreased Costs}}{\text{Incremental Investment}}$$

Many marketers want to stay on their course to higher levels of technology integration and automation. Some marketers are just beginning the journey. In today's reduced budget environment, nearly all marketers are struggling to justify the funds required for automation to their CFO.

Marketers can gain acceptance from the CFO if improved marketing performance can be quantified. The seven steps described above demonstrate how improved marketing performance is monetized, stated in increased profits for your company.

The ROI formula presented is a high level formula and is not based on net present value. The steps are designed to understand the potential value of marketing automation for your company and are designed to establish a common language with the CFO.

Step 8: Develop a Demonstration Vehicle

Having satisfied your CFOs needs to understand the benefits of investing in Marketing Automation it’s time to create a demonstration vehicle in order to educate and sell the new approach to your team. Select a program that was scored in Step 7 to have the highest potential ROI value. Develop the demonstration capturing old and new work flows and reports. Show the expected time, labor, and cost savings. Describe expected marketing benefits and how they will be measurements. Develop the automated marketing program demonstration vechcle, being clear that it is a demonstration only. True marketing and technical benefits can be measured in Step 9, the Pilot Program.

Pilot Program

Step 9: Pilot Program

The Pilot Program is a small scale study conducted before production in order to check the feasibility of deploying Marketing Automation. It builds out the program selected in Step 8 only to the degree that it can be measured. Pilot business and technical goals and success metrics are defined and results are compared. The pilot process can be iterative to improve the design of the selected program or to increase the measurements scope. On the technical side, the pilot is used to test the design of all or parts the full-scale deployment.

The components that make up the pilot (processes, workflows, program, rules, documents, reports, applications, and integrations) can be adjusted. This can turn out to be valuable: should anything be missing in the pilot, it can be added and chances are, the full-scale deployment will be less expensive.

Wrap up

Having completed all Nine Steps to Quantify and Prove the Value of Adopting Marketing Automation we now summarize the results against the metrics defined. Recommendations, strategies, priorities, and potential next steps are created.

Contact us for help completing your MROI – fcusick@meitasoft.com 781-738-1727