

CLV Roadmap for CPG

Measuring and Improving the Long-term Impact of Marketing

The Market Research Event

October, 2009

Rick Abens,
Foresight ROI, formerly at ConAgra Foods,
Board Member Marketing Accountability Standards Board



Who is MASB?

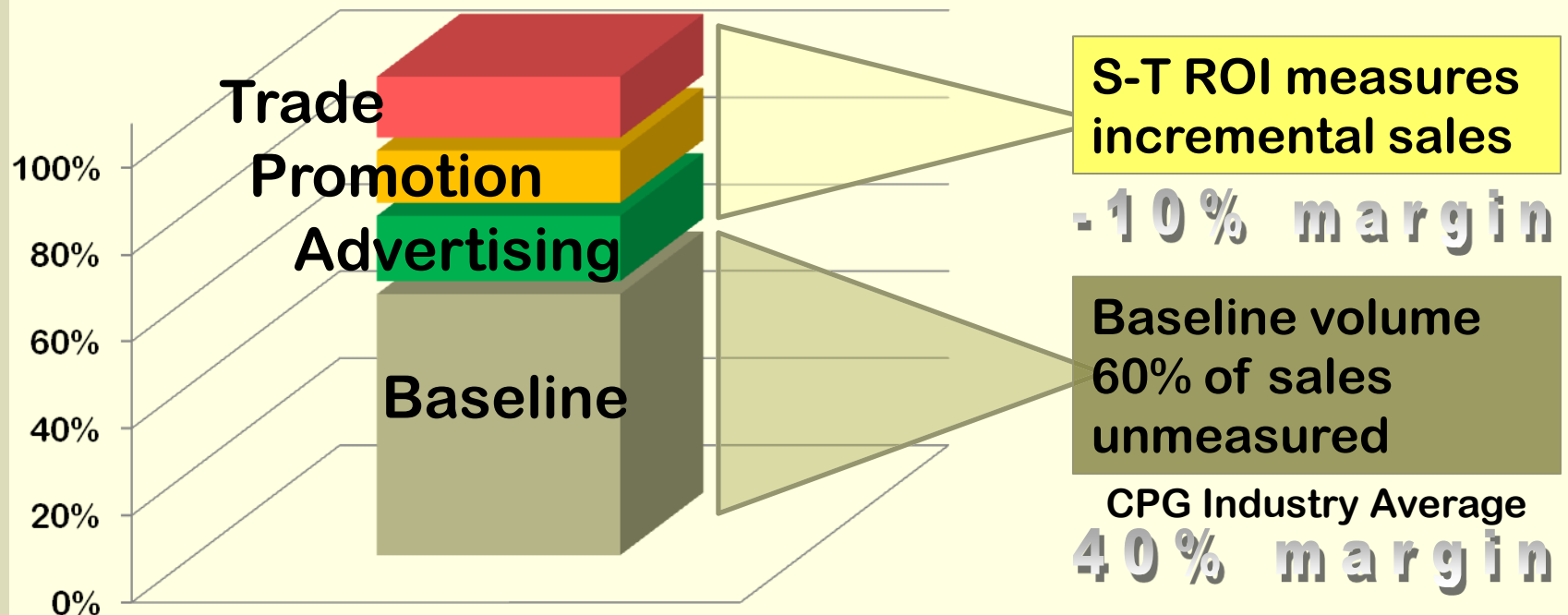
- **Non-profit cross-industry body of CMOs, CFOs, Researchers, Academics**
- **Purpose is to raise the influence of marketing in the board room**
 - **By establishing marketing measurement & accountability standards**
 - **Conducts projects for industry advancement and education**

Key marketing issues for consumer packaged goods companies

- **How do we drive long-term growth with marketing?**
- **How do we develop customer acquisition and retention marketing strategies that are impactful?**
- **How do we match the right offers to the most responsive customers?**

Short-term ROI marketing mix assessment covers the smallest and least profitable sales volume

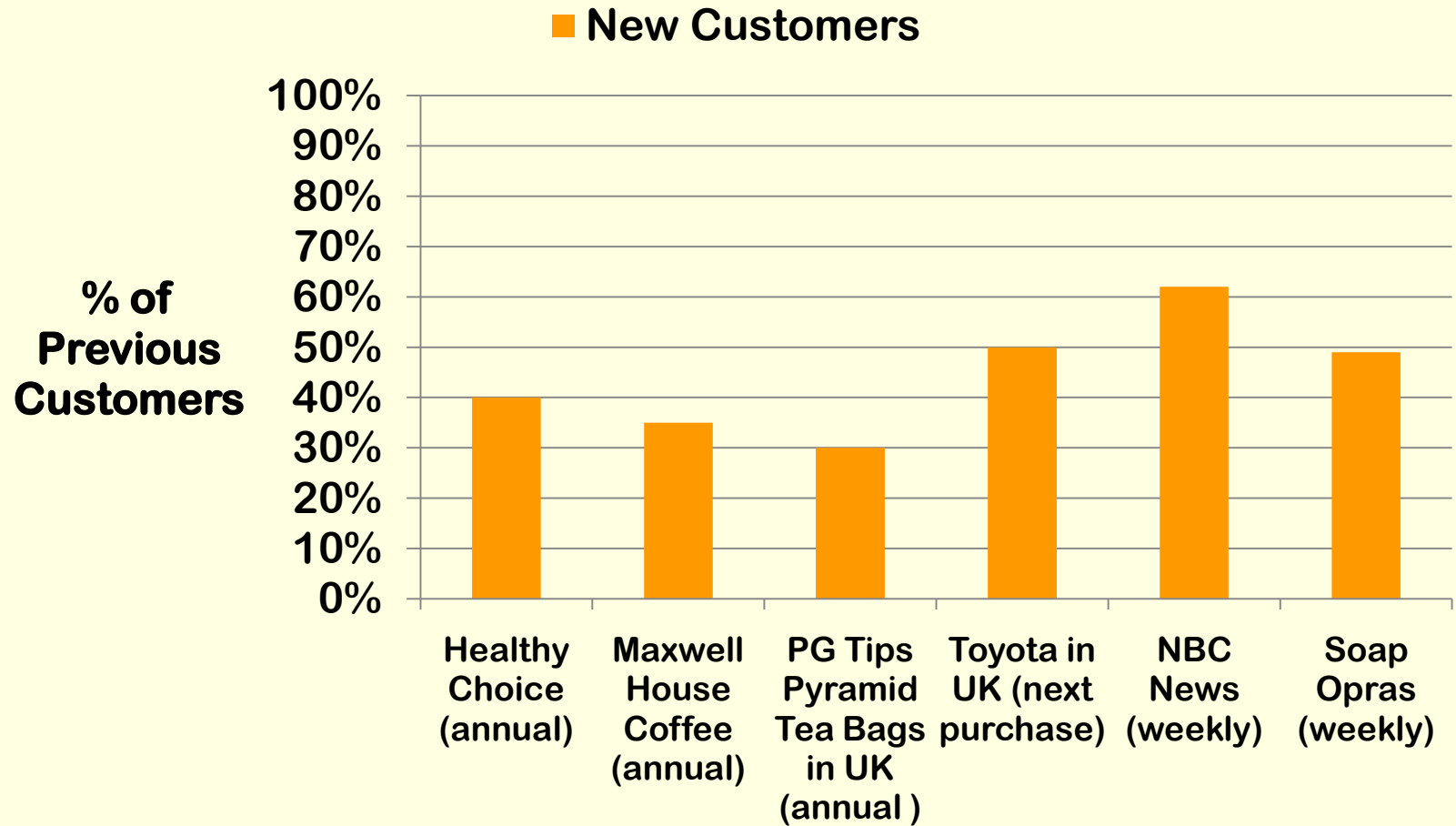
Sources of Sales Volume



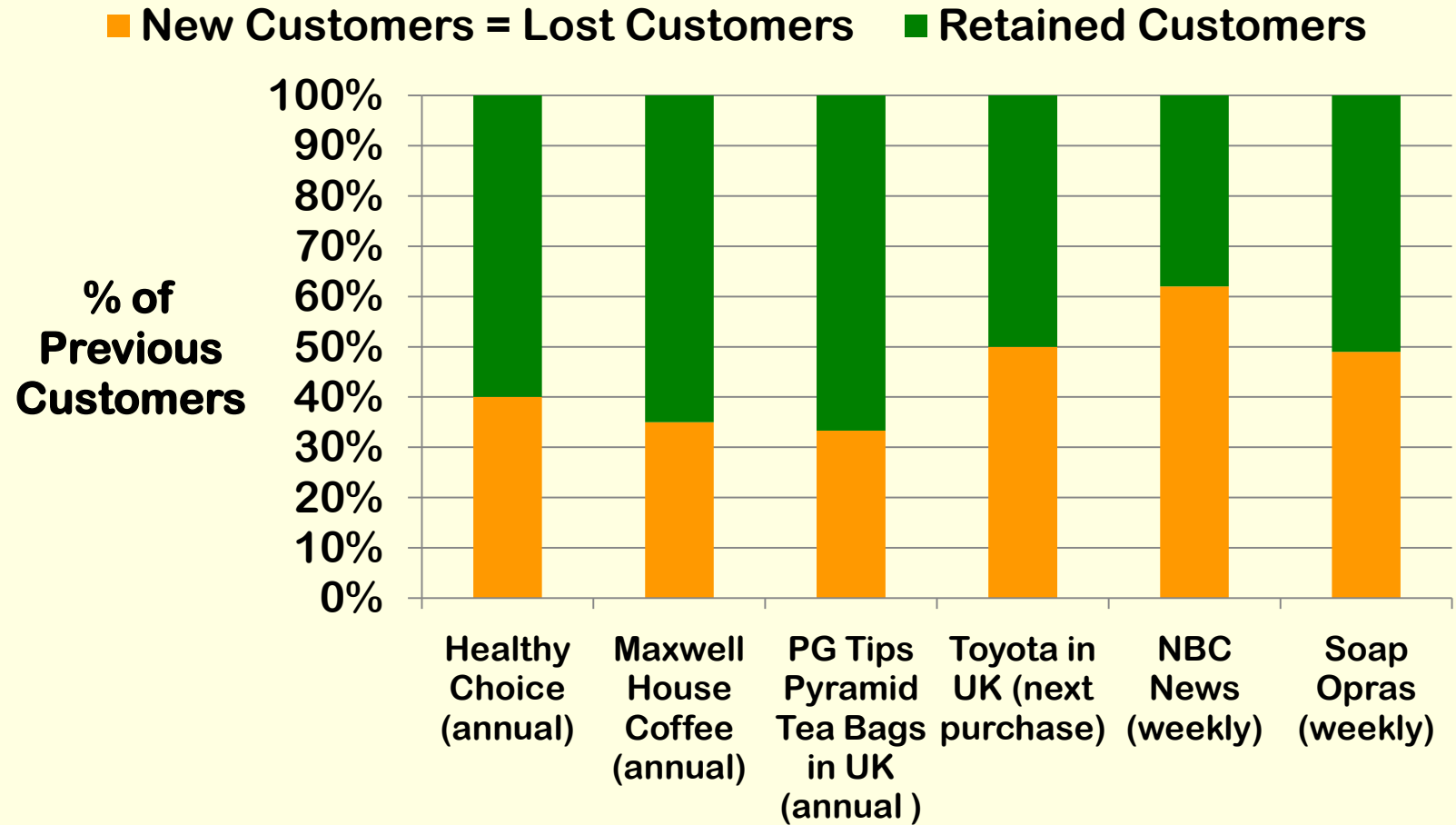
Sources of Growth

- 1. Acquire new customers**
- 2. Retain more customers**
- 3. Increase purchase size**

Looks like these businesses are growing driven by new customers



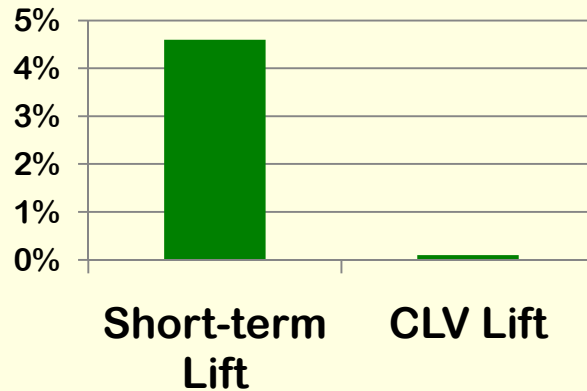
The new customers only replaced the lost ones instead of driving growth



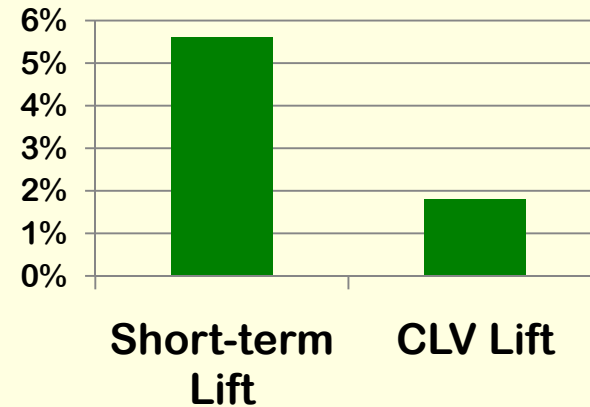
Driving the right B2C customer behavior is key to growth

Impact of a one-week 30% price reduction

Heinz Ketchup



Hunt's Ketchup



Customer (consumer) behavior impact

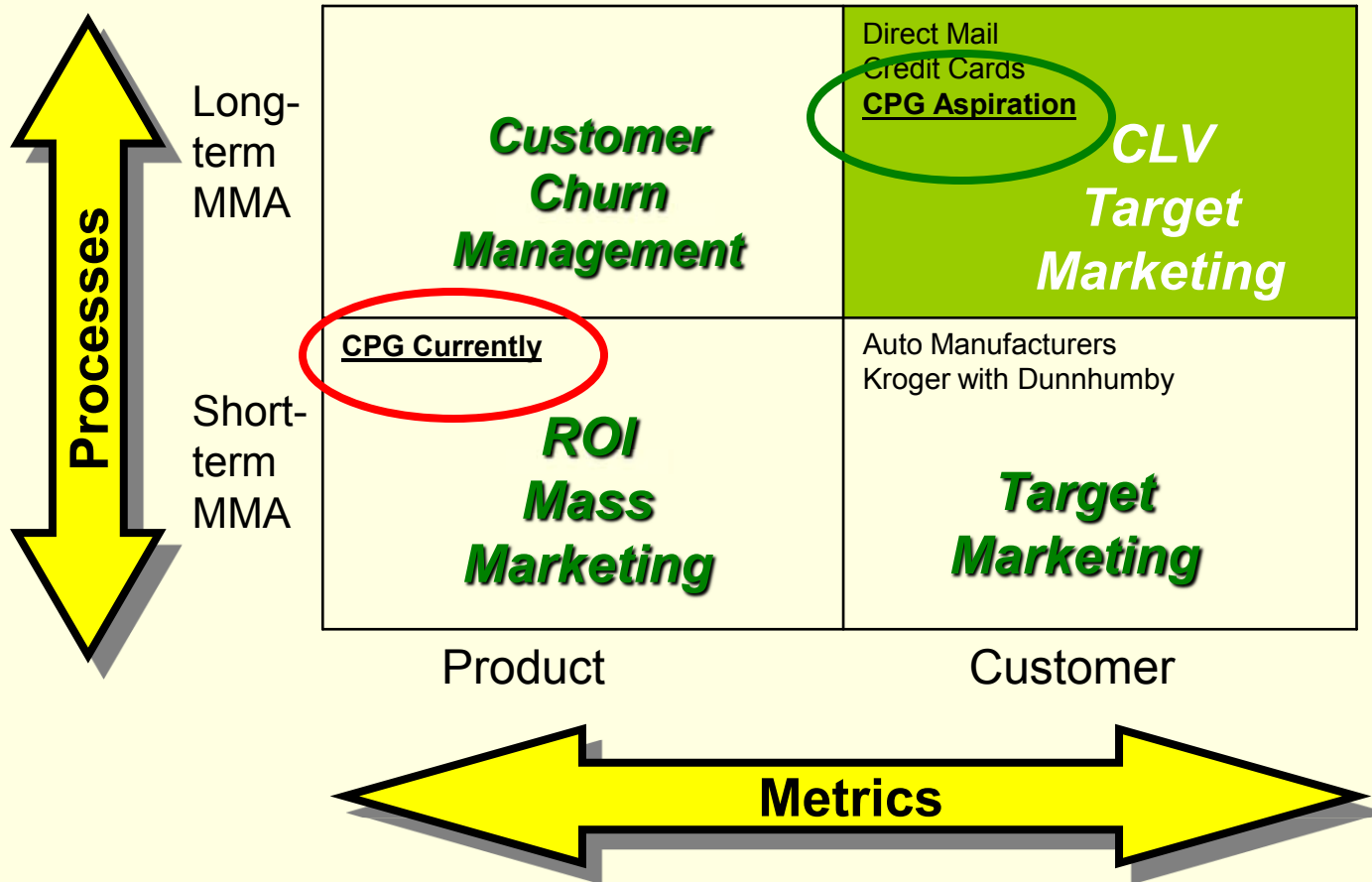
Own customer purchase acceleration

Increased purchase size and category usage

Source: Dominique M. Hanssens and Shijn Yoo (2008)

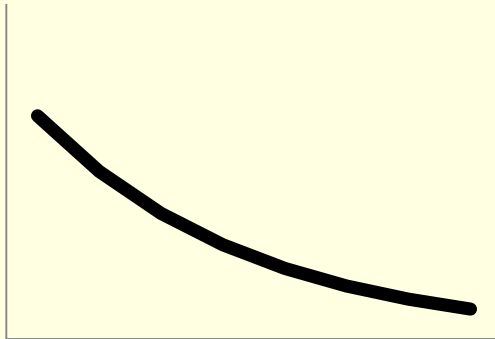
Customer Lifetime Value for CPG

Getting to CLV with metrics and processes

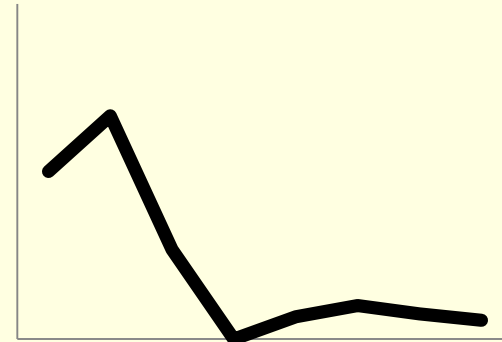


Choices for marketing long-term impact

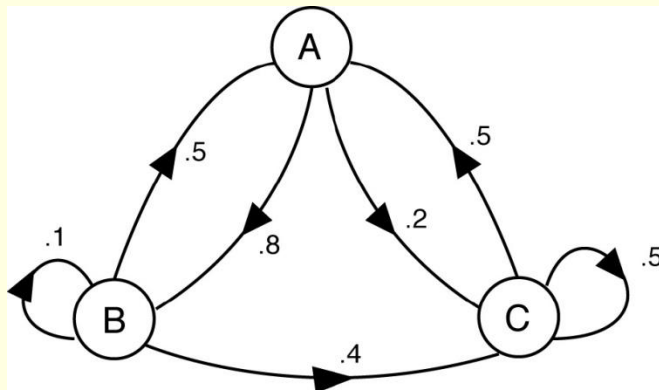
Distributed Lag



Impulse Response Function

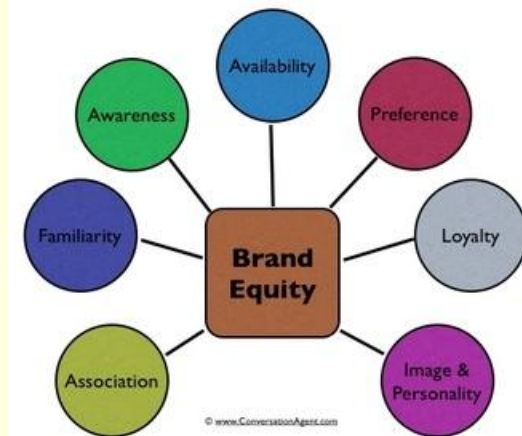


Markov



Markov graph of transition probabilities between states A, B and C

Brand Equity



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Vector Auto Regressive approach represents the dynamics of marketing effects

Developed in the 1980's as an economic application to account for:

- Co integration of variable drivers
- Interdependencies of independent variables
- Dynamic lag effects and variable evolution



What is VAR?

- **Systems of equations**
- **Branch of regression analysis where independent variables are all previous values in a time series (Autoregression)**
- **Explains the evolution of a set of variables as a function of their past evolution (Vector)**

VAR system reports marketing results in terms of consumer behavior

VAR Inputs

Marketing Drivers

Distribution
Advertising
Coupons
Discounts
Merchandising
Other tactics

Environmental Drivers

Competitive
Seasonality
Weather
Other factors

Variable Dynamics

Variable synergies and causalities

e.g. Coupons + Merchandising
e.g. Advertising effects on dist.
e.g. Lag effect of advertising
e.g. Seasonality–marketing synergies
All other synergies and causalities

VAR Results

Time
1 2 3 4 .. n

Purchase Results

Acquisition
Retention
Purchase size

Three Applications

Applications: Long-term growth



- **Cut advertising in 2005**
- **Marketing mix analysis predicted volume loss for one year**
- **Unexpected sales losses in 2006 and 2007**

Applications: Customer Retention



- Heavy buyers eat 56 steaks per year
- Indispensible ad campaign
- Growth turnaround and Ogilvy advertising award

Applications: Targeting



dunnhumby

- Kroger stock down 20% 2001 - 2004
- Dunnhumby targeting system implemented in 2004
- Kroger stock up 40% 2005 – 2009, though WMT flat

Summary

- Manage long-term and short-term growth
- More control over acquisition, retention and purchase size strategies
- Develop targeted integrated programs that create synergistic effects

RickAbens@ForesightROI.com

www.ForesightROI.com

www.theMASB.org