

H A R V A R D | B U S I N E S S | S C H O O L



## Marketing Metrics

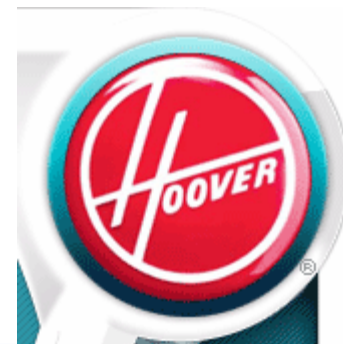
Sunil Gupta  
May 17, 2007

AMA Doctoral Consortium, 2007

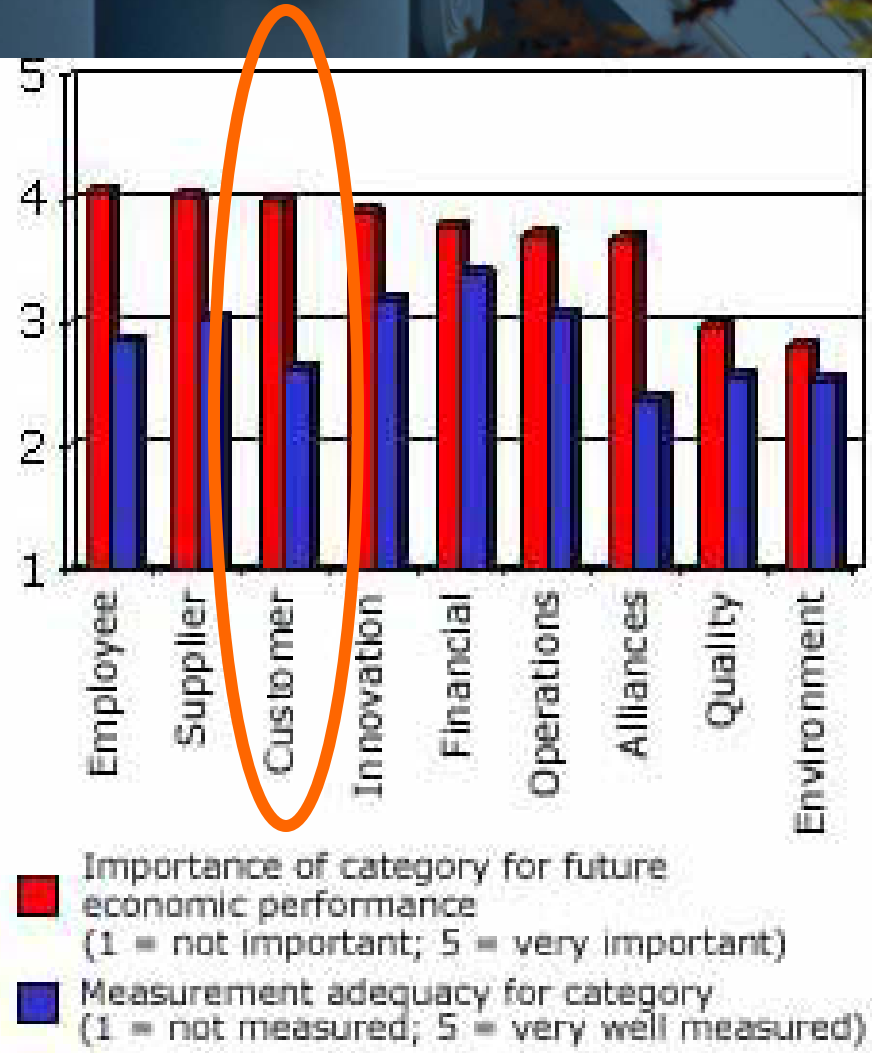
# Is Marketing Creating or Destroying Value?

“In the United States, top executives **lose their jobs** when their companies sell too little. In Britain, it can happen when their companies **sell too much.**”

—The New York Times, March 31, 1993

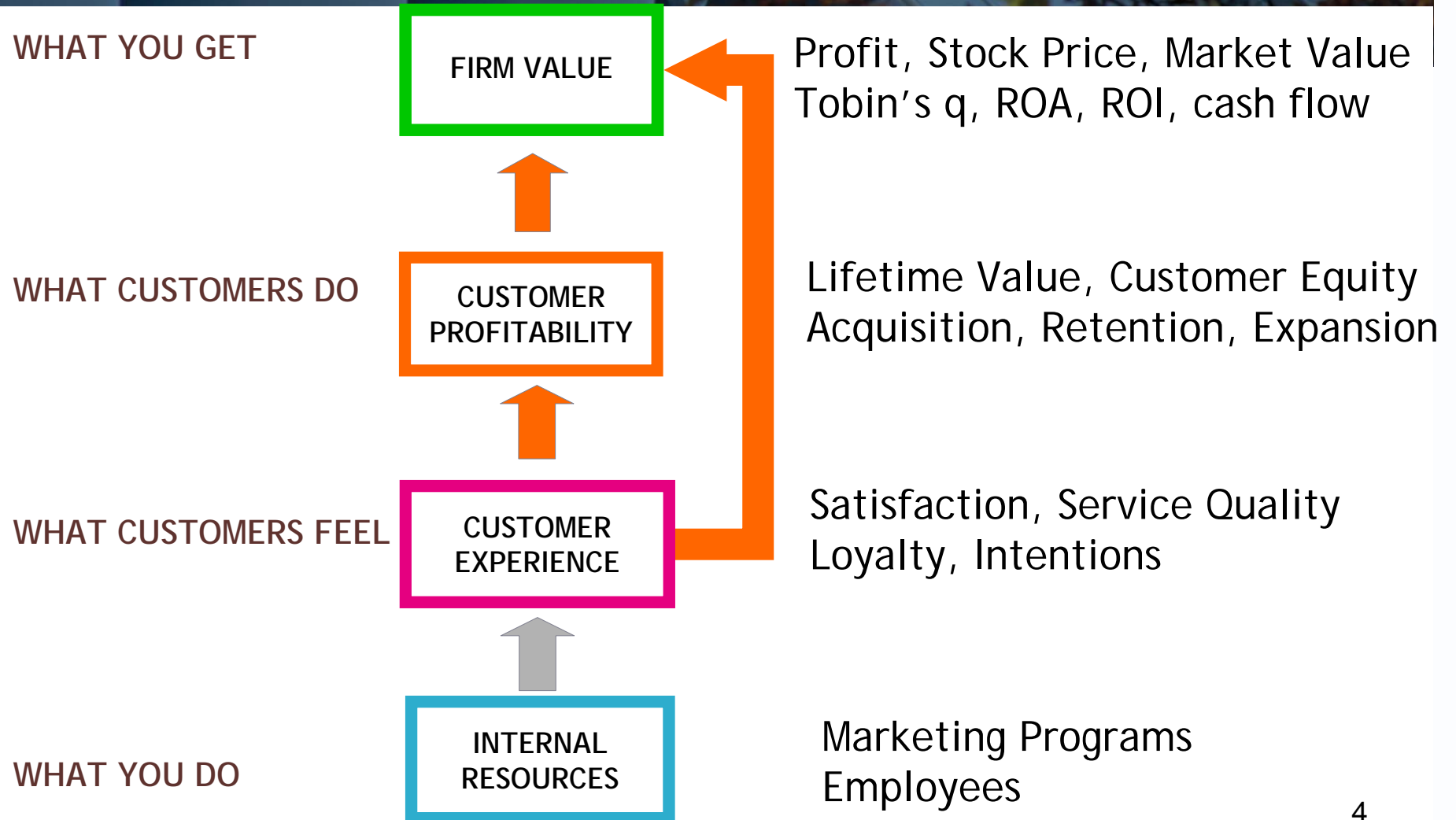


# The Need for Marketing Metrics



Source: Ittner and Larcker "Non-financial Performance Measures: What Works and What Doesn't," 3  
<http://knowledge.wharton.upenn.edu/>

# Linking Actions to Results



Gupta, Sunil and Valarie Zeithaml (2006), "Customer Metrics and Their Impact on Financial Performance," *Marketing Science*, Nov-Dec., 718-739.

# Satisfaction improves financial performance

1 point or 1% increase in satisfaction (ACSI) increases

market value by \$275 m Anderson et al (2004), based on 200 US firms

by \$240 m Ittner & Larcker (1998), based on 140 US firms

Cash flow by \$55 m Gruca and Rego (2005) based on 105 US firms

ROI by 2.37% - Anderson and Mittal (2000) based on 125 Swedish firms

ROA by 0.59% - Hallowell (1995) based on 12,000 customers from a retail bank

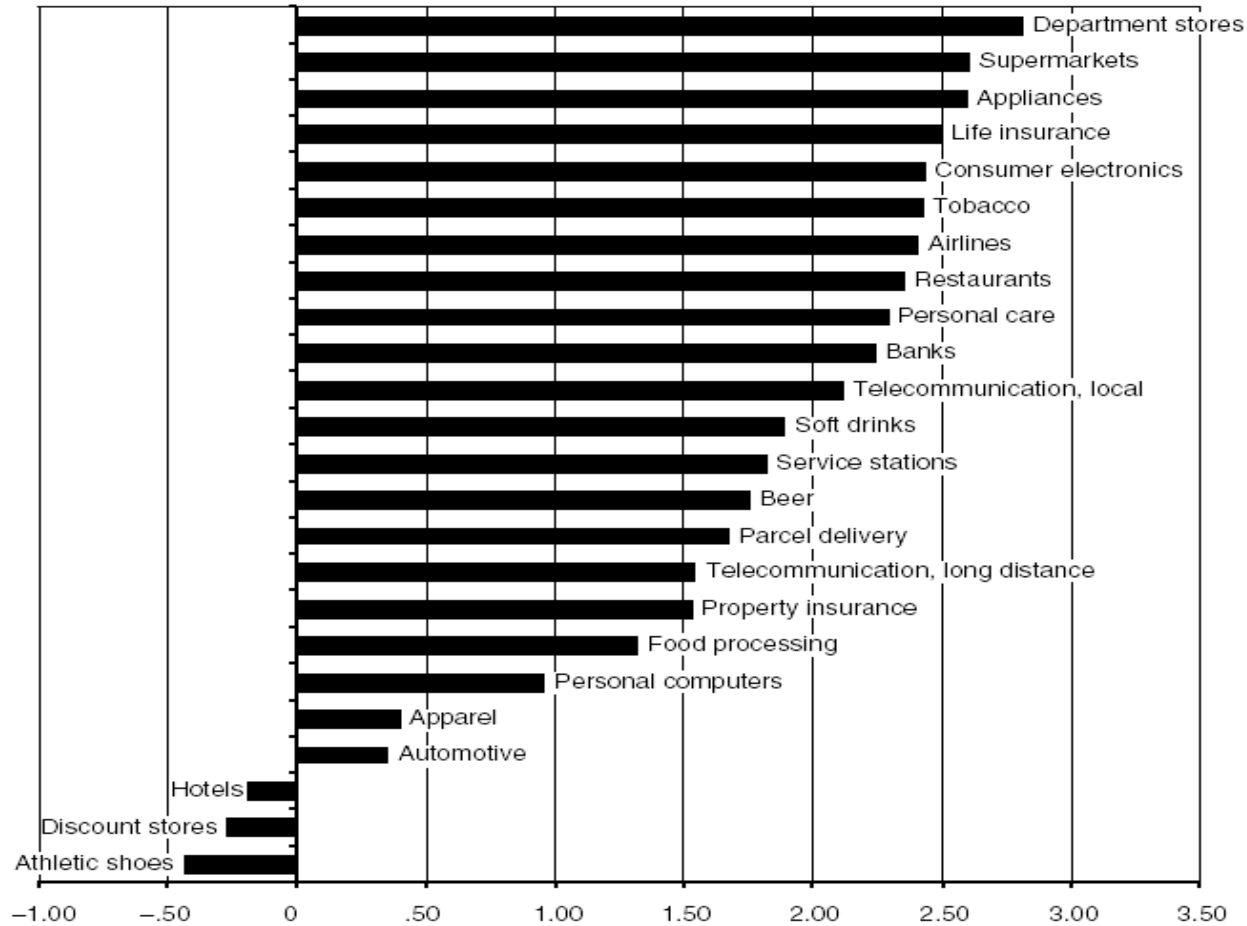
worth 11.4% of current ROI - Anderson, Fornell and Lehmann (1994) based on Swedish firms

## ... but doubts remain

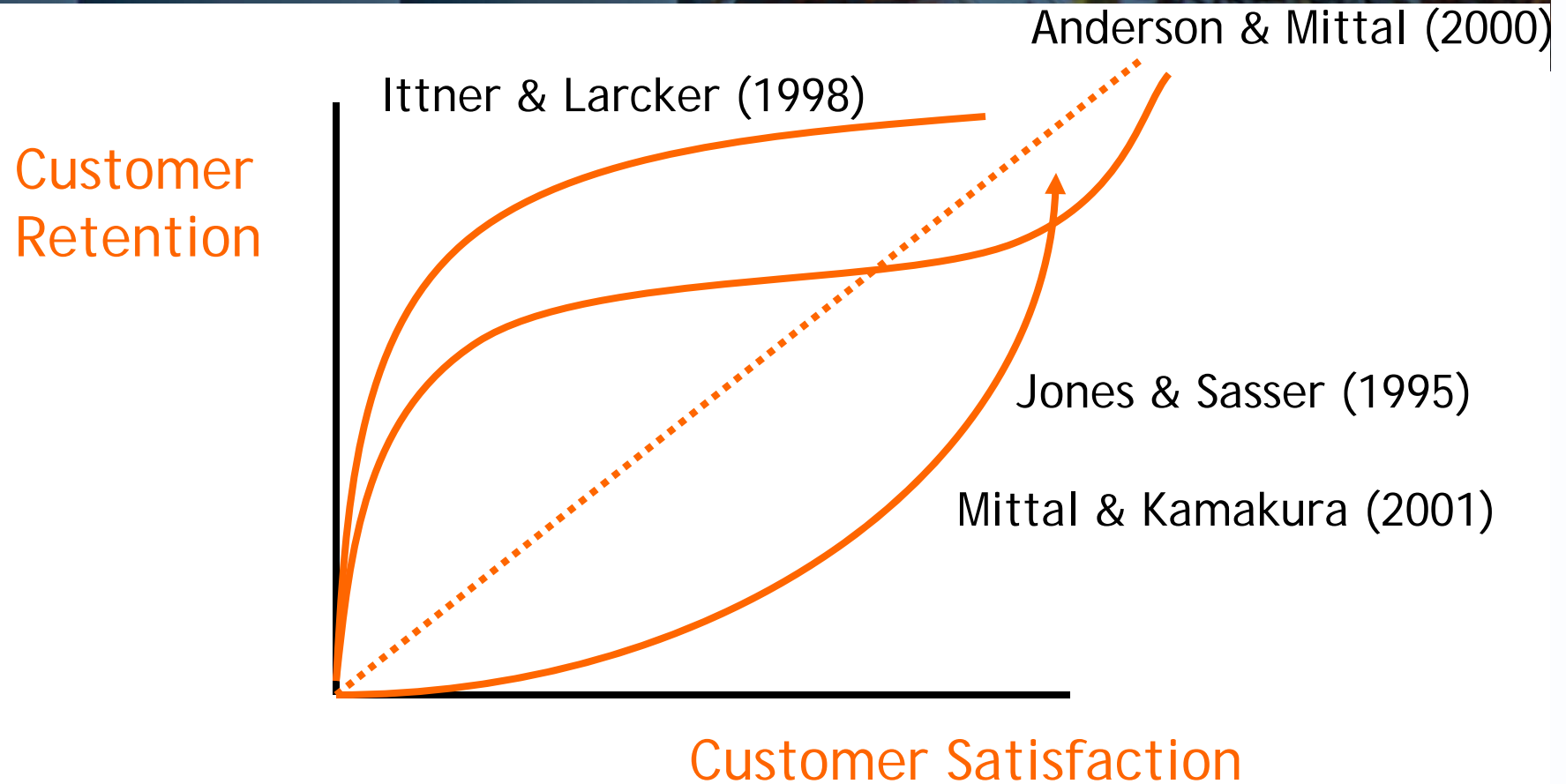
- Satisfaction at  $t_1$  correlated with intention at  $t_1$  but it is **uncorrelated** with intention at  $t_2$  (Mazursky & Geva 89)
- Satisfaction at  $t_1$  had **no impact** on financial performance at  $t_1$ , but changes in satisfaction between  $t_1$  and  $t_2$  affected changes in profits between  $t_2$  and  $t_3$  (Bernhardt et al. 2000)
- Satisfaction is **not associated** with future-period stock return, except for firms in computer/internet sector (Mizik and Jacobson 2007).

# Satisfaction-profit link varies by industries and firms

Why?



# Satisfaction-retention link



Satisfaction-intention link is concave, satisfaction-behavior link is convex  
 - Mittal and Kamakura (2001)

# CLV helps in better Customer Selection

- **32% customers** were unprofitable
  - Niraj et al. (2001) based on 650 customers of a distributor
- **Top 30%** cross-selling prospects have predicted usage probability of greater than **80%**
  - Kamakura et al. (2003) based on 5,500 customers of a Brazilian bank
- Revenue from **top 30%** customers based on **CLV model** was **33% higher** than the top 30% customers selected based on **RFM model**
  - Reinartz & Kumar (2003) based on 12,000 catalog customers
- Profit from **top 5%** customers as per **CLV model** was **10-15% higher** than the profit from top 5% customers from **other models**
  - Venkatesan and Kumar (2004) based on 2,000 B2B customers

# ... and in better resource allocation

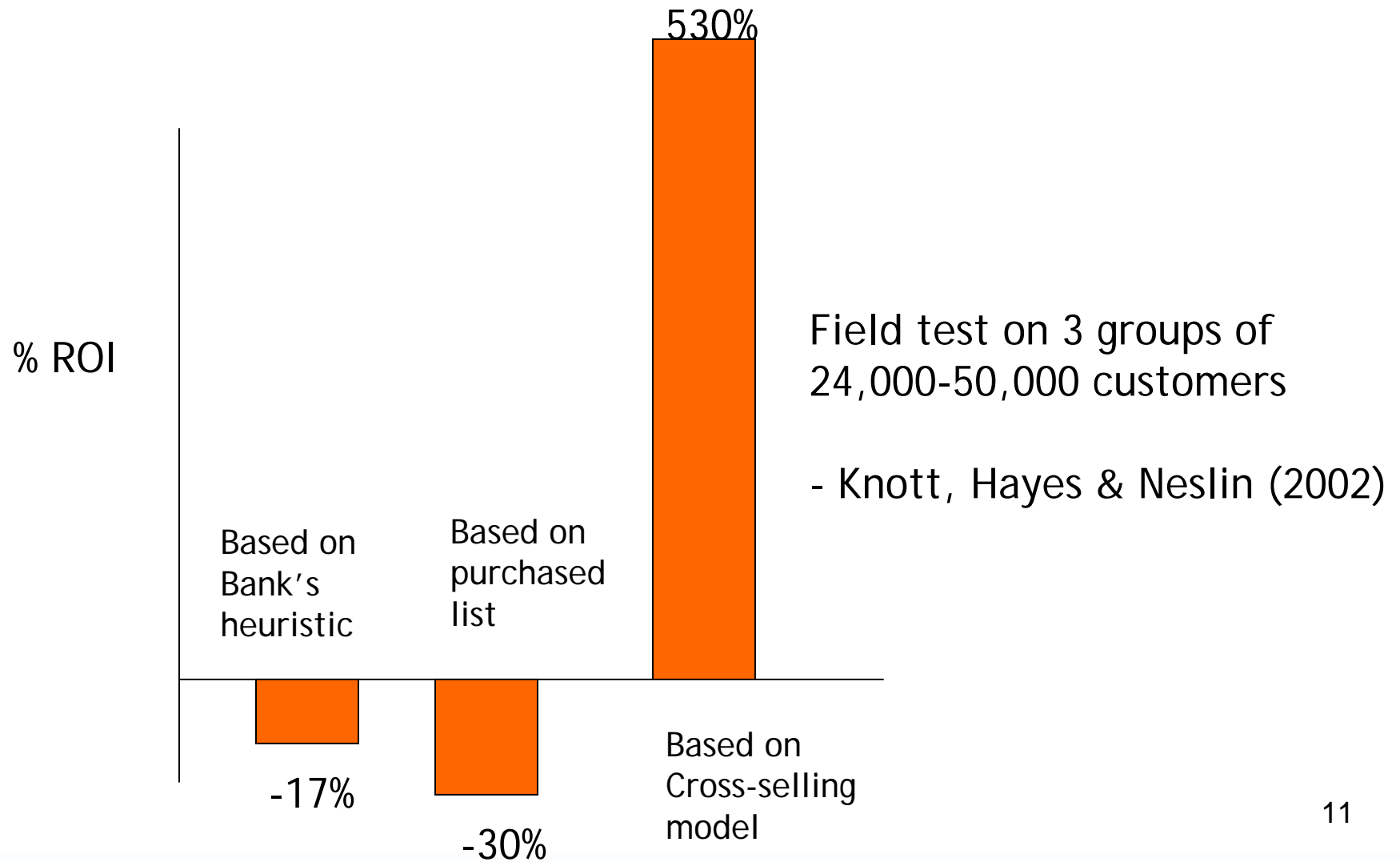
## How Wrong Can You Be?

How much money could a company make if it optimized its direct-marketing expenditures? Here's what we found when we ran the numbers for three companies in three very different fields.

Company	How much more or less should be spent on direct marketing to reach optimal levels.	How much profits would increase if spending on direct marketing were optimal.
B2B	↓ -68.30%	41.52% ↑
Pharmaceutical	31.40% ↑	35.80% ↑
Catalog retailer	↓ -30.70%	28.90% ↑

Source: Thomas, Reinartz and Kumarv (2004), "Getting the Most Out of All Your Customers," *Harvard Business Review*, July-Aug, 116-123.

## ... and leads to higher ROI



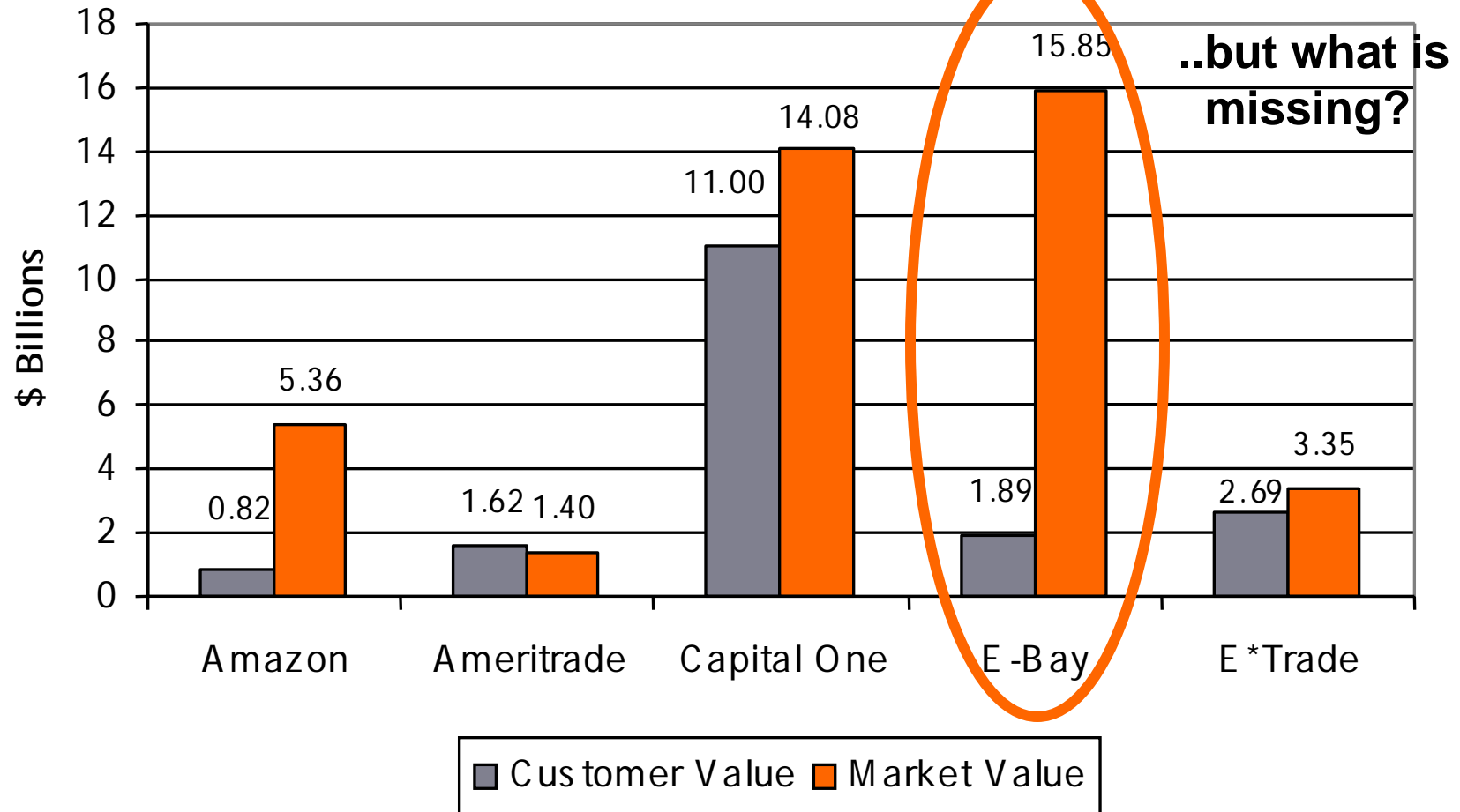
## ... but how accurate are we in predicting CLV?

Of the top 20% of customers, 55% are misclassified

Of the bottom 80% of customers, 15% are misclassified

- Malthouse and Blattberg (2005)

# CE can serve as a proxy for firm value



Source: Sunil Gupta, Donald R. Lehmann, and Jennifer Stuart (2004), "Valuing Customers," *Journal of Marketing Research*, February, 7-18.

# Network Effects



<p><b>1 Create Your Free Account</b> Set up your free <b>My Monster</b> account to:</p> <ul style="list-style-type: none"> <li>• Create &amp; Post Resumes</li> <li>• Complete Applications and Interviews</li> </ul>	<p><b>2 Search for Jobs</b> Enter your desired job information and <b>search</b> the huge Monster database! Use your Monster resume to quickly apply online.</p>	<p><b>3 Manage Your Career</b> Get all of the advice, articles, and tools you need to manage your career in our <b>Career Center</b>.</p>
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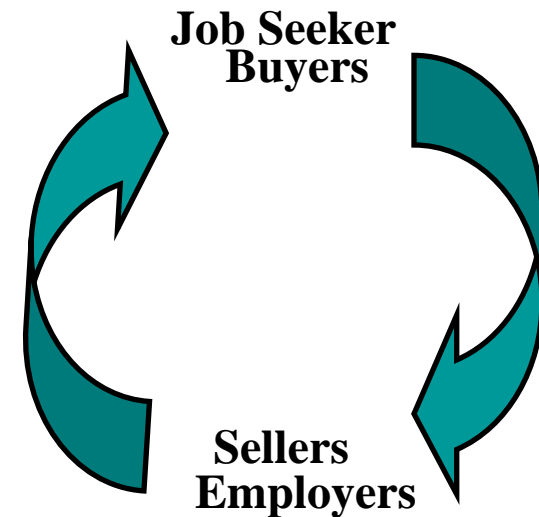
Need to fill a position fast? Post A Job lets non-Monster Office HQ customers post a single job listing in minutes.

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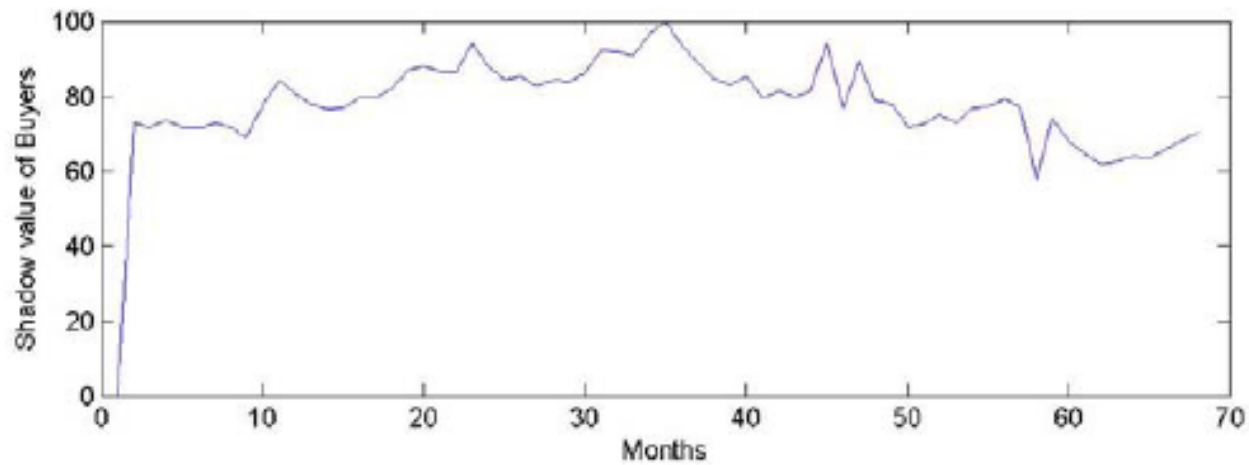
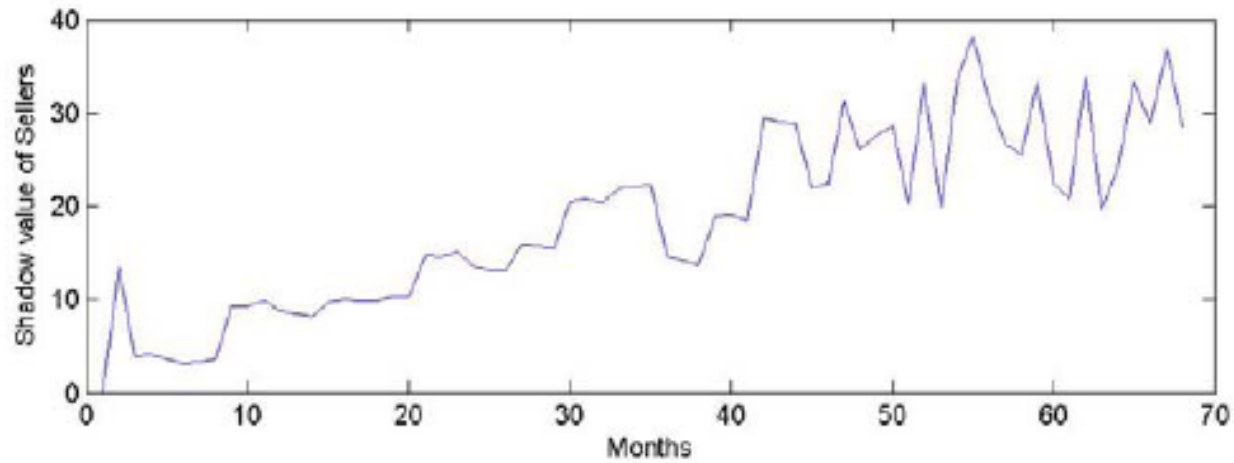
**PURCHASE Multiple Job Postings** - Buy in bulk and save

[Resume Access](#) - Search our resume database



Value of a “free” customer?

# Value of a “Free” Customer



Source: Gupta, Sunil, Carl Mela and Jose Vidal-Sanz (2006), "The Value of a 'Free' Customer," *Working Paper*.

# Social Networks



MySpace sold for \$580 Million

### Get Started on MySpace!

Join for free, and view profiles, connect with others, blog, rank music, and much more!

» Learn More

### Create Your Profile!

Tell us about yourself, upload your pictures, and start adding friends to your network!

» Start Now

### Browse through Profiles!

Read through millions of profiles on MySpace! See pix, read blogs, and more!

» Browse Now

### Invite Your Friends!

Invite your friends, and as they invite their friends your network will grow even larger!

» Invite Friends Now

facebook

login register about help

Welcome to Facebook!

**Facebook is an online directory that connects people through social networks at schools.**

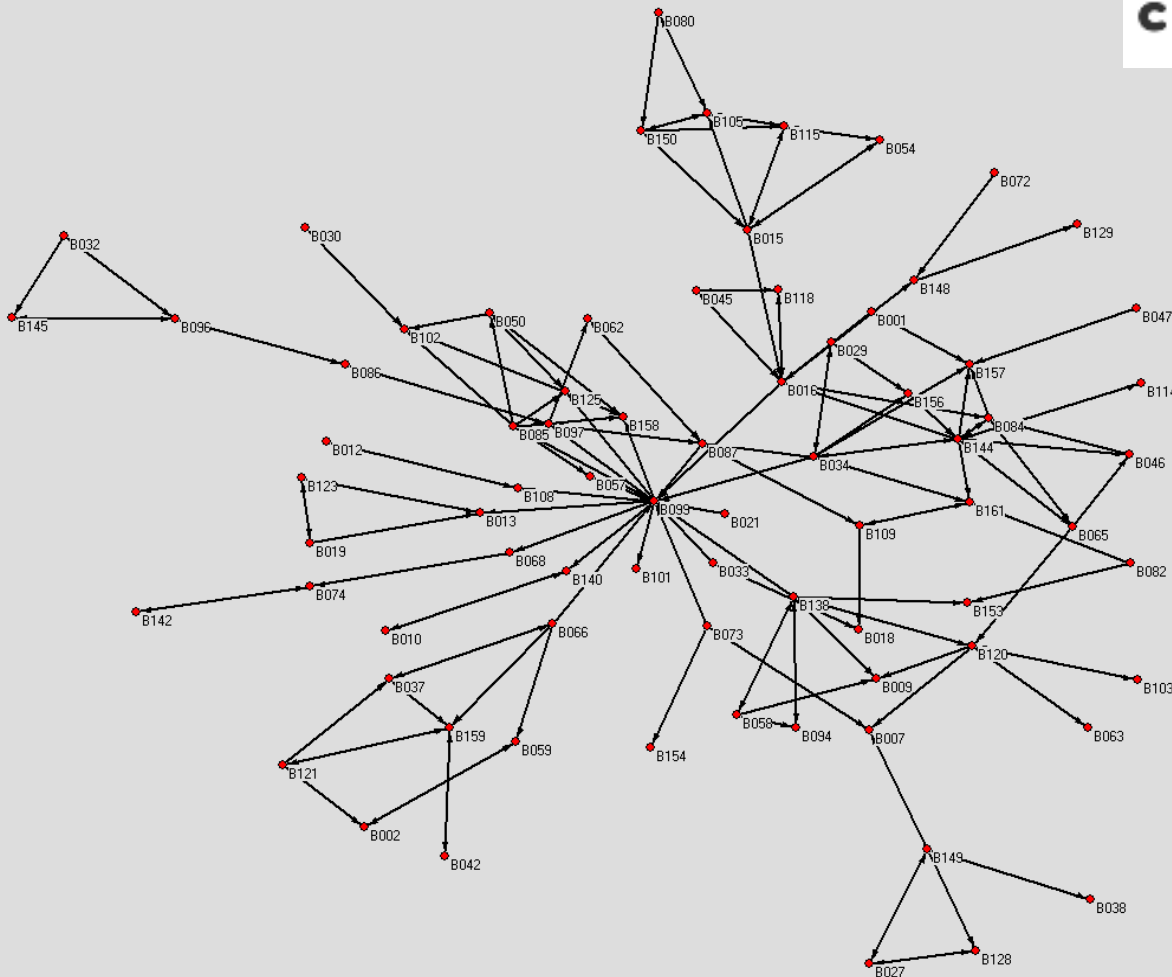
Now there are two Facebooks: one for people in **college** and one for people in **high school**.

The site is open to [a lot of schools](#), but not everywhere yet. We're working on it.

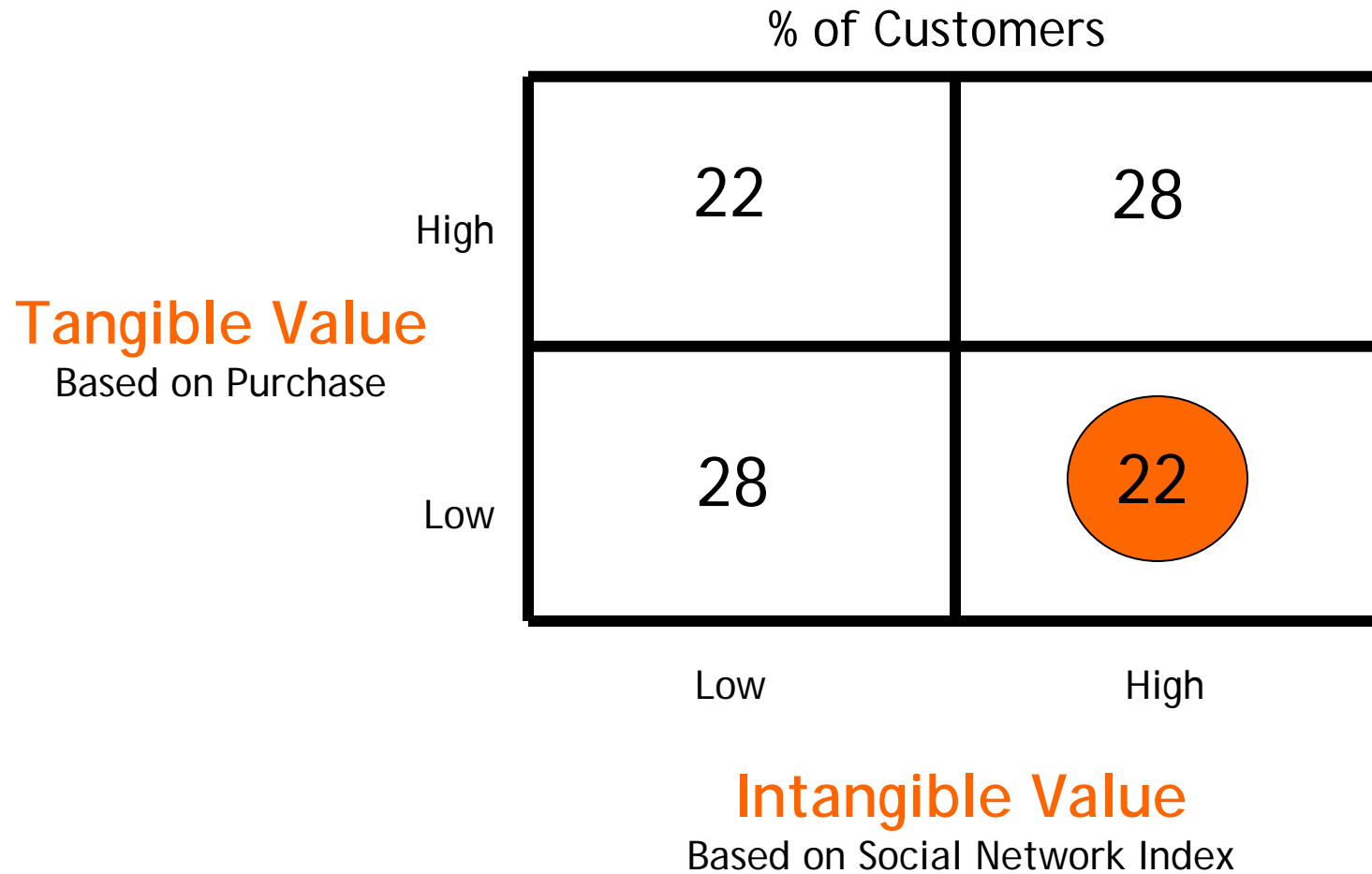
You can use Facebook to:

- Look up people at your school.
- See how people know each other.
- Find people in your classes and groups.

# Social Networks



# Customer Value in a Networked Society



Source: Iyengar, Raghuram, Sangman Han and Sunil Gupta (2007), "Customer Value in a Networked Society," *Work-in-progress*.

# Summary: The Profit Chain and its Links

