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The marketing ruler

20 October, 2005
By Stephen DiFranco

Third of three parts

The true value of the program

In this case, the purpose of these programs was to get more interaction between these 11,000 registered users. A major goal of reach marketing is to get them to respond to each other. The most powerful form of marketing is when someone who believes in a product as a user endorses and recommends it to another user. The Harvard Business Review recently did a piece that said the only question you really need to ask anybody is, did you like my product enough that you'd recommend it to your friends. To do things that gave them reason to come to our VIP site. To give them more awareness of our company so that they were more likely to buy a Maxtor product than a Seagate, or Western Digital, or Hitachi.

I happen to be one of the biggest fans of micro sites. My team launched a site called TechBuilder.org that we sold to CMP. The question we asked was how many people who go on this site are also on our Maxtor.com site? Three per cent. That's all the overlap was. The purpose of this site, what I signed up for when I created it, was to capture a different set of users than I'd captured before. And that was what I wanted to get measured on. I told the company, that's worth X amount of dollars to us, because we know every reseller that we turn on is X amount of lifetime revenue.

Creating a micro site is a lot more than just writing a check. In fact, all of this stuff is a lot more than just money. It's about a lot of elements. It's about how much labor you put in. It's about how well you leverage the assets you already have. How does your staff's labor and sweat get put into these dashboards and your return on investment?

I'll walk you through a quick case study.

We realized that the association we had with Macintosh was slipping. We did storage. Apple users are actually a bigger user of storage than anyone else. They use graphics, eat up lots of file space, external disk drive storage is very popular; this is a very important market for us. So we went to the MacWorld show and we set up our new drive. The deal we cut was when we got the booth we get the list. Unique code costs, we did unique codes, because we're trying to track. We got a 5,800 unit response to the website to opt in to get a free toy.

The gross margin from the units we sold from the campaign was \$40,367. The reason I bring this up is you would say I basically only made \$367 from this campaign. That's my ROI. I'm going to show you why you're wrong.

We sent out a beautiful little advertisement that increased our brand

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value. How are we going to calculate that into the ROI? We had an opportunity to advertise with these people twice. What effect did the second advertisement have on brand valuation? What was the value of our brand to them because we responded so quickly? We gave them a USB cable with our name on it that's going to hang on their desk for the next five years?

What's the real value

When I go to the POS report I can tell you the stores that the people who got the coupon went to. I now have a paper trail. I now have a relationship with the stores. I've just done a program that proved to Micro Center and Best Buy that I can bring customers into their stores. What's the value of that?

There are four things we want to track in our lives as marketers.

" Return on your group's energy units.

" Return on whatever marketing assets you've got or added to. I added 37,000 people to my database. What's the value of that over the next several years? Apple users are storage hounds. What happens when they move from making PDFs and PowerPoints to making videos? What is the lifetime value of that customer to me?

" Return on leverage. We took a show, saved \$10,000 for the list. We could say the show cost us \$10,000 and the list was free, but isn't there an additional added value because we're tying a show to a campaign?

" Return on investment. We made \$367.

We lay this all out into this equation. Where did I get this equation from? Rule 1.

This is an equation which I believe accurately showcases the value of the different elements in relationship to each other. Over and over I found out that when I use this formula and get one or better, that program in the end gets a response from sales that says that was a good program. Whenever I have a program where this is less than one, inevitably sales says, "What program?"

So the investment was about \$40,000. The use of assets, (because I was able to use some internal resources, I didn't have to externalize the whole thing) I put a value of .9 on that. The energy units were about \$4,000 of internal labor costs. Every program that we run we track internal labor costs as though we were an agency. Why? Because about every year somebody in finance comes up and says, "Can't we fire all these people and just out-source this?" I say: "Absolutely we can, but that campaign that cost us \$4,000 will now cost us \$15,000. That graphic artist whose fully loaded benefit cost is \$100 an hour, to get that graphic artist is \$150 if I go out of the house." We in-sourced at Maxtor.

Basically I take a quarter of the value of the energy units, multiply it by what I consider the leverage point, add to that twice the value of any savings I have (if you save a dollar in this business you really save two, because you're going to reuse it). Add that to the amount of revenue you pulled off the program divided by the cost of the program. If it comes up at one or greater, that program added value. You effectively leveraged the assets you had and provided a positive value to your company.

0.9 is not a subjective number. If I am using a database I already own, as an example, how much of that database is adding value to or taking value from the total cost of the project? If we're using our internal database, that theoretically should be less expensive than going out and getting

something. Therefore, the capital and operational cost you get to put into that database, in this case ten percent that we're willing to depreciate from the cost of the database, we multiply it by 0.9. Why do I take the time to do that? It's a real cost. At some point I have to prove that the value of creating that database existed. This allows me to show that the database had value.

Using depreciation in marketing never enters a lot of people's minds, but we create marketing assets. We create a brand bible, from which theoretically it should become less expensive to do branded products because we already have those decisions made.

In the end

What this really does in the end is two things. It gives us a way of evaluating whether a campaign is effective or ineffective. In the end what we do either adds value to the company or it doesn't. I'm not smart enough and I didn't have the systems at Maxtor to track every program to every sale. You can do that if you're doing lead generation for Siebel, I suspect, but the majority of us are trying to sell a lot of goods to a lot of people, and that's when it gets really hard to do ROIs. Another part of it is we're not just trying to give the company \$10,000 more, because if that's what we're doing, shoot the marketing department and hire more sales people. What we're really trying to do is change the conjoin. We're really trying to change the relationship of price to value. So that in the end we can charge more for our products rather than less for our products.

It's a technique that allows us to go back to the CFO and say, "You know that 100,000 we spent last year to build this brand bible? Well I've been able to save over the course of the year X amount of dollars on X amount of projects, and see how I've included that into the cost of the ROI of the projects."

What these techniques do is bring to light the true value of the assets you've created and it also gives you the opportunity to go to your finance team or your CFO or your general manager of the project a valid and responsible measurement system for the assets you've asked them to create. Over time the marketing teams that have been the most effective in securing programs are the teams that have been most successful in validating the use of their programs.

Figure out these value elements. Work out an equation that allows you to honestly evaluate programs as effective, or ineffective. I believe that 10 years from now, these are the concepts that will turn marketing measurements from return on investment to return on opportunity.

Stephen DiFranco served as Vice President, Corporate Marketing for Maxtor Corporation from 2002 to 2004 and was responsible for Maxtor's global marketing strategy including all marketing activities, channel development, corporate branding initiatives, and marketing communications. Prior to joining Maxtor, Stephen served as the executive vice president of marketing for WebGain, Inc., a software provider for enterprise companies. From 1998 to 2000, Mr. DiFranco was director of marketing for Iomega Corporation, and held the general manager role for its professional products and business division. Before Iomega, Mr. DiFranco was with Sony Electronics, Inc. from 1989 to 1998. During his decade with the company, he held a variety of senior marketing positions. Mr. DiFranco also acted as Sony's spokesperson on the economic impact and professional application for DTV, and served as liaison to network TV executives on issues relating to implementing DTV for sports production. Stephen is currently Vice President of Consumer Sales and Marketing at Advanced Micro Devices (AMD.) Mr. DiFranco is one of several regular content contributors to Amazon Consulting, a high tech partner consulting organization based in

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