Optimisation of Touch-point Portfolios

Measuring the Return on Marketing Investment

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Abstract The present paper describes a holistic approach to optimise touch-point portfolios of B2B companies applying qualitative and quantitative methodologies. The measurement of touch-points' implicit importance and cost-per-mille (CPM) represent main tasks and creates the foundation for companies' decision-making on future investments. Primarily the selection of an adequate methodology to measure implicit importance is crucial for the validity of results. Accordingly, different approaches are presented and evaluated using Monte Carlo simulation runs.

The Internet and Social Media have become indispensible sources of information and means of communication in our daily lives. Consequently it is becoming more and more important to ask ourselves what kind of role new media might play in terms of touch-points. After all, we operate online – not just privately, but above all professionally. Companies who advertise react to this trend and predominantly claim they increase the share of online ads as well as their marketing investment in social media. Hence there are two continuing trends: The increase of expenditure on advertising in general as well as the redistribution of advertising expenditure in favour of new media. As a result, the individual company is faced with two main issues when it comes to advertising planning: firstly, how much should we increase marketing investment on behalf of new media? Secondly, is the Return on Investment (ROI) from new media high enough for us to neglect traditional, cost-intensive touch-points just for the sake of a stronger online presence?

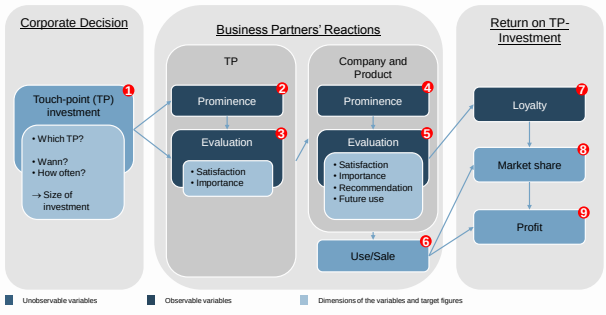
Answering these questions is particularly difficult for B2B companies. On the one hand this requires a certain amount of information on possible dimensions describing the business relations with partners: How is the ROI supposed to be measured? On the other hand, there are various qualitative as well as quantitative analytical tools available to measure the ROI, or even better, the Return on Touch-Point Investment (RoTPI). In order to optimise the touch-point portfolio, one must select an adequate measuring tool from those available. Here it is important to ensure that the approach is not just able to compare the formulated dependent variables (i.e. the quality of business relations) and those parameters the company can control (for example expenditure on advertising for

individual touch-points). In B2B business, the choice of methodology mainly depends on how well it may accommodate the synergy effects of particular touch-points. These synergy effects may come to light when sales representatives increase the quality of their consultation services by means of brochures or samples, for example. Furthermore, respective approaches should also consider the contact quality and not just the frequency of contact as parameters for the allocation of communication expenditures.
Hence this article is meant to aid any decisions regarding the optimisation of touch-points in B2B. In order to achieve this goal, we will first of all introduce and evaluate possible approaches and respective analytical tools. Based on Monte Carlo simulation runs, we will show which methods produce meaningful results in practice under common conditions. Concerning the issue formulated above, on positioning new media in a touch-point portfolio, this would mean that the approach would be able to measure the importance of the Internet and social media as touch-points while also determining their interaction with other touch-points correctly. In B2B it is essential to measure these interaction effects since there are many arguments (high reach, low cost of communication, currency and the contents' variability through partners) speaking in favour of giving up rather cost-intensive and sticky touch-points (for example service hotlines or catalogues). However, this is only recommendable if (potential) customers actually consider these traditional touch-points dispensable, and if there are not any interaction effects in combination with new media.

The Process of Touch-point Optimisation

Assuming the goal is to maximise profits, the allocation of marketing investments in B2B enterprises is predominantly aimed at sales and resale rates. Therein the ROI of marketing investments is always a cost-benefit-coefficient, where the level of profit is compared to the marketing investments (see fig.1, 1 and 9).

Figure 1: Model of the Return on Marketing Investment



In order to allow for better comparability, cost should not be stated as an absolute quantity but rather in terms of cost-per-mille (CPM). This quantity describes the amount of marketing cost for 1,000 customer contacts over a certain period of time.

In order to measure the ROI, one usually chooses a method where ex-post profits over time are compared to the respective marketing expenditure.
However, based on internal operational data, this analysis only yields meaningful results if the marketing investments vary significantly over time. Furthermore, with this method it is not possible to determine the RoTPI for new touch-points (for example in social

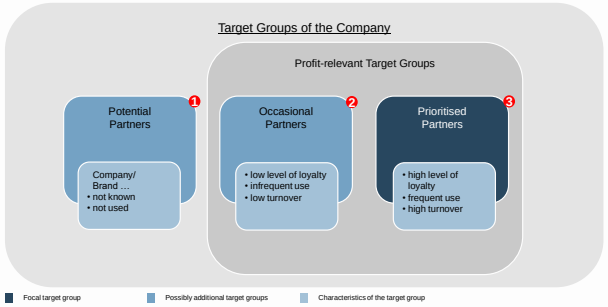
media). Even though test markets theoretically do present an alternative for this matter, they hardly ever prove feasible in practice since they are quite costly and time-consuming.
In order to orientate business partnerships more strongly towards profit objectives, one needs to select different approaches respectively. Hence it is necessary to redefine the target dimensions. In addition to monetary figures, the quality of business relations among the company and its partners takes on a more prominent role. Assuming that positive business relations are also beneficial for long-term profit maximisation, ex-ante analyses based on intrinsic benefits provide valid results on the relevance of individual touch-points. In this regard the focal intrinsic benefits are loyalty to the company/the products (see figure 1: 7), their prominence (see figure 1: 4), as well as their evaluation (see figure 1: 5). In contrast to profit or market shares, these intrinsic target dimensions are not directly observable and are therefore retrieved by means of so-called indicator variables. Overall this holistic approach to touch-point optimisation encompasses the following steps of analysis:

1. Define target dimensions
2. Plan systematic procedure
3. Select touch-points and interaction relations for analysis
4. Separate profit-relevant touch-point recipients
5. Measure the Return on Touch-Point Investment
6. Identify the touch-points' possible synergy effects
7. Optimise the touch-point portfolio based on available results
8. Audit

Different analytical methods are employed for the individual steps of the process:

Qualitative methods play an important role in pre-selecting touch-points for analysis; Here it is not only necessary to select the touch-points relevant for the respective target groups, but instead one must also phrase hypotheses on the respective interaction relations in order to simplify the subsequent steps of the research process. For example, one may identify relevant touch-points by interviewing business partners or experts one-on-one by means of laddering or in focus groups. Additionally, one may also conduct qualitative studies in order to define the most important target groups of the analysis. With respect to the choice of test subjects, it seems reasonable to choose key accounts that are particularly loyal to the company (see figure 2: 3).

Figure 2: Prioritisation of identified target groups

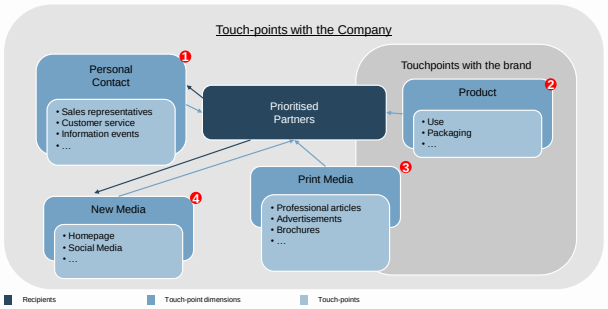


For example, this key account target group would match the issue mentioned above: which role does (or should) new media play in the touch-point portfolio? If the company's objective were to increase the number of business partners, it would also make sense to adapt the touch-point portfolio to the needs and habits of potential partners (see figure 2: 1). Once the distinctive features of the target groups have been determined on the basis of qualitative methods, it is possible to select or group the test subjects of the subsequent quantitative studies based on their featured characteristics.

Measuring Implicit Importance

Ex-ante analyses are conducted in order to determine the individual touch-points' effect on business relations. Due to financial reasons, these analyses are of static nature most of the time. Here the concept of implicit importance is employed in order to determine the RoTPI. By using econometric models, the goal is to examine how much individual touch-points affect the selected benefit variables. The touch-points' explicit importance may be evaluated additionally (see figure 1: 2 and 3). However, since the danger of overvaluation does exist, they do not suffice as the only measuring tool.

Figure 3: Touch-Point Portfolio



For the measurement of implicit importance, all dimensions of the business relation may be taken into consideration as endogenous variables, like for example the company's prominence, or the business partners' satisfaction. In this respect recommendation rates are discussed as potential proxies. Furthermore it needs to be determined whether or how often the test subjects are in touch with the respective relevant touch-points, and how they evaluate them. Subsequently, it is essential to select an appropriate estimation method.

When it comes to validly estimating the touch-points' importance, simple regression analyses may only be considered as adequate analytical tools under stringent conditions. These restrictions require touch-points to independently influence the target dimension and that there be a linear correlation. However, as previously explained,

these assumptions only rarely pertain to touch-point optimisations. Synergy effects are often to be expected, which frequently cause multicollinearity issues; there might be serious bias among estimators. Based on the so-called Shapley Value Solution concept, a number of procedures has been derived that may be used to measure implicit importance, even if multicollinearity occurs. The underlying basic idea is to approximate the importance of a touch-point by means of an additional median relative explanatory contribution. More recent approaches use a random algorithm, which randomly selects exogenous variables from the model, and therefore drastically reduces computing time for complex problems. Produkt + Markt refined this method to the effect that a large number of touch-points may be included in the analysis without lowering the results' validity. For this purpose one half of the relevant touch-points are first used again to estimate models and to define the coefficient of determination of the whole regression, both in a two-step process. The touch-points are selected randomly. In a second step, the respective level of certainty of the repeated estimations is used as an endogenous variable. Furthermore, dummy variables are used to determine which median explanatory contributions the individual touch-points make towards the level of certainty of the whole regression. The refinement of this method is particularly important for companies in the B2B sector, because it allows them to analyse larger numbers of touch-points that are relevant to their business relations with partners.

In comparison to the methods suggested by Grömping, the advantages of the method developed by Produkt + Markt can therefore only be seen when there are at least 15 touch-points included in the analysis. In this respect the assumed correlation structure and chosen effect size of the touch-points particularly influence the quality of all results, because, based on the correlation structure, there may occur serious deviations in the measured importance from the actual value. Hence the method developed by Produkt + Markt does produce an absolute deviation of 3.7 per cent on average (standard deviation is also at 3.7 per cent) when there is a fixed correlation of 0.4 and a level of explanatory contributions by the individual touch-points between 1 per cent minimum and 13 per cent maximum. However, the maximum deviation between target and actual figure lies above 20 per cent with all methods applied. Therefore the authors always recommend a close examination of interaction effects of individual touch-points before measuring the implicit importance. This way one is able to take those explicitly into account during estimation.

Touch-points and Synergy Effects

In order to better understand the touch-points' correlations, the touch-points' synergy effects may be quantified and visualised by means of network analyses. In regard to optimising advertising expenditure, the so-called degree centrality of the touch-points is particularly interesting, in addition to the verification of the assumed touch-point dimensions (i.e. product-related touch-points, personal touch-points, etc., see fig. 3). Degree centrality measures how often touch-points relate to other touch-points. Touch-

points are considered focal if they are significantly interconnected with other touch-points. Furthermore one should additionally analyse the characteristic feature of indispensability more closely, since it significantly affects the modelling of relations between touch-points and benefit variables, as described above. Thus a touch-point may even be indispensible if frequent contacts with the touch-point do not have a positive linear effect on the target variables. For example, if a company does not offer a personal customer service hotline, this may have a significant negative impact on the evaluation of the business relation. Nevertheless it is rather unlikely that a large number of phone calls via hotline will positively influence evaluations. On the contrary, typical business partners will expect that a single call will suffice to solve their respective problems.

Touch-point Optimisation based on RoTPI

After the touch-points' contribution to the selected target dimensions has been measured, in the next step this return may be compared to the CPM of the respective touch-point. With regard to the individual benefit variables determined by the company, the RoTPI should be assessed separately for each one. Instead of just being able to measure which marketing investment impacts the dimensions previously selected by the company concerning business relations, one may now also recognise how marketing investments impact those dimensions. Based on this information, companies may purposefully, sustainably, and holistically orientate their advertising expenditure towards competition and profit objectives. In order to rank all touch-points according to their relevance, Helmold and Hahne suggest using a customer satisfaction index as a target variable. While this does seem like a valid option, it is only partially reasonable since there is a great danger of losing information in regard to the effects of the touch-points. Especially if touch-points with prevailing endogeneity issues (for example product use) enter into the analyses, aggregating data may cause the relevance of other touch-points to be underestimated.

Figure 4: Touch-point optimisation based on the RoTPI

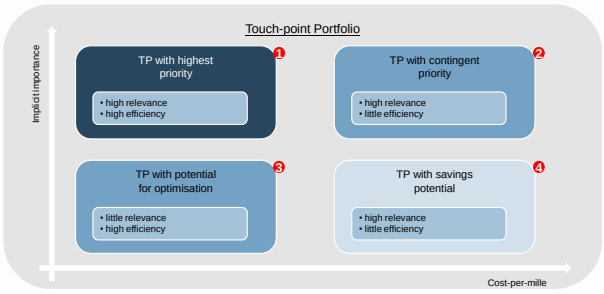


Figure 4 outlines the selection and evaluation of touch-points based on their RoTPI with regard to individual business relation dimensions. According to this graph, touch-points are positioned in a coordinate system based on their relevance and efficiency, and recommendations are derived regarding the future composition of the touch-point portfolio. One should primarily select touch-points that are highly relevant (high level of implicit importance) and highly efficient (low CPM) (see fig. 4: 1). On the other hand, investments may be reduced for touch-points with distinct savings potential (fig. 4:

4). For the remaining touch-points, the size of future investments predominantly depends on their level of indispensability as well as their interconnection within the touch-point portfolio. The indispensability and interconnection were determined during the analysis of interaction effects (Figure 4: 2 and 3).

Conclusion

The optimisation of touch-points is particularly important within the B2B sector, since in addition to superior profit objectives, a large variety of different business relation dimensions between companies and business partners may be considered as potential benefit variables as well. The holistic approach presented in this article allows one to derive recommendations in terms of standard strategies concerning future touch-point investments based on the so-called RoTPI. The RoTPI is based on the touch-points' implicit importance and their profitability. The latter is measured in CPM. Inhere the analysis of the touch-points' synergy effects plays a central role. It is highly interesting for adequately modelling the estimation of the implicit importance as well as for the enterprise itself, since it enables them to properly understand interaction effects among touch-points. This is the only way to plan future touch-point investments in new and traditional media optimally, purposefully, and holistically.

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The Authors

Dr. Ludger Rolfes is a Senior Research Executive at Produkt + Markt and responsible for quantitative as well as qualitative studies in the department of Animal Health and Nutrition Research. Before joining Produkt + Markt in 2007, he obtained his doctorate degree with his dissertation on buying decisions in B2B markets at the chair of marketing at Heinrich Heine University of Düsseldorf.

lrolfes@produktundmarkt.de

Angela Hoffmann is a Research Consultant in the Department of Animal Health and Nutrition Research at Produkt + Markt. Prior to joining the institute in April 2012, she completed her Master's in ecotrophology and her post-doctorate in Agricultural Economics at Christian Albrechts University Kiel.

ahoffmann@produktundmarkt.de