

[Taking the guesswork out of cross-channel marketing](#)

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Category

[Marketing](#)

Key topics

[Consumers](#), [Marketing](#)

An evidence-based approach to audience segmentation can boost sales revenue by more than 16 per cent

How do you know which marketing actions will work with your customers?

It's an all-too-familiar question for most marketers. And the complexity of the challenge only increases with the size, scope and international remit of your organisation. Which do you prioritise: direct mailing or email? Whom do you target? How do you assess the value of your customers, and how do you segment them? And if you're operating in several countries, will a one-size-fits-all approach yield the best results?

Figuring out how to effectively allocate marketing resources to increase returns, companies too often turn to gut feeling or past experience.

But our research shows an evidence-based approach not only takes the guessing out of designing the most efficient marketing strategy, it can also boost sales revenue

by more than 16 per cent.

Doing the maths

We know email and direct mailing are typically profitable: studies suggest that for every pound spent on email marketing you can expect an average return of £38. Similarly, direct mailing usually generates a robust response rate of around four per cent. It's clear these channels represent powerful opportunities to reach target audiences.

We found we were able to increase revenue for the company by 8.4 per cent

What's less clear is how these channels work in a complex scenario where different variables like customer segmentation, cross-border dynamics, and online and offline sales responsiveness can effectively muddy the water for marketers.

We know from previous studies by other academics that different demographic groups respond differently to marketing. While promotions, for instance, might work with prospects, they fare less well with acquired customers and might even produce negative effects. Add to that cultural differences at country level that moderate the effectiveness of marketing communication, and you have a recipe for complexity than can translate into hefty marketing spend and less than optimal return on investment.

We wanted to see if econometric modelling could take the confusion out of this. And whether it could provide a framework by which we could accurately measure these variables in order to make firm and reliable forecasts about impact on revenue – and provide guidance to companies on which specific marketing actions to take with different target segments in order to yield optimal results.

Working with data sets provided by [L'Occitane](#), a well-known multinational, multichannel retailer, we began by quantifying different audience groups across six countries. These groups were then organised into six consumer segments based on the value they have for the company – from prospects through to high-value repeat customers.

We expect our model to deliver a revenue lift of as much as 16.4 per cent across the six countries we analysed

Next we modelled consumer response to L'Occitane's own and cross-channel marketing actions and looked at how this varies both by segment and by country. Using statistical analysis, we were able to make predictions about the effectiveness of different marketing actions like direct mailing of catalogues or email promotions. This meant we could extrapolate concrete recommendations for the company about how to best reallocate its resources for return on investment.

Our immediate findings produced interesting results.

We found that email campaigns influence both online and offline sales, but only in three of the six countries studied. With direct mailing, we observed no differences between the countries, although as a strategy, we found it to be more effective with prospective customers across the board.

To test our framework in a real-life setting, we conducted a field study for L'Occitane in Italy in 2017. Between July and November, we tested the model across four variables: no marketing action, only emails, only direct mails and a mixture of both. To push things a bit harder, we included a fifth dimension: whether customers had said they could be contacted through a particular channel or not.

And the results were as significant as they were concrete.

For every pound spent on email marketing you can expect an average return of £38

Our field study for L'Occitane in Italy revealed direct mail is only truly effective for customer acquisition. With email, only those customers with a pre-existing relationship with the company were positively receptive to the communication.

Translating this intelligence into concrete resource reallocation decisions, we found we were able to increase revenue for the company by 8.4 per cent.

But that's not all.

When L'Occitane came to us they brought with them an assumption that mailing catalogues directly to high-value, well-established customers was the best

marketing strategy. Our framework suggested otherwise. Processing the data, we found prospects were a better bet for catalogues – a strategy the company had never previously pursued.

By recalibrating the allocation of resources, we expect our model to deliver a revenue lift of as much as 16.4 per cent across the six countries we analysed. For L'Occitane, that translates into an impact in the order of hundreds of millions of euros.

Direct mail is only truly effective for customer acquisition

From the art to the science of marketing

The model we have developed can be just as readily applied to companies and organisations that use direct mails and emails across a range of sectors and industries.

We have recently worked with a US-based clothing company using the model and generated a revenue-lift of just under 10 per cent.

As a method of boosting financial performance, it is as simple as running the calculations and then creating a spreadsheet that can be easily managed by marketing or finance executives to forecast revenue and profit impact.

We see our research as part of a paradigmatic shift in which marketing is moving from an “art” to an evidence-based discipline – one in which art and science have equal importance.

There's a wealth of data out there that is being generated via multiple customer touchpoints. The challenge to companies is to think about how they recalibrate not only their marketing actions and tools, but also their culture, financial structures and strategies, in order to truly harness this data. And convert it into opportunities.

This article draws on findings from [“Direct mail to prospects and email to current customers? Managing multichannel marketing for L'Occitane”](#) by Albert Valenti and Shuba Srinivasan (Questrom School of Business), Gokhan Yildirim (Imperial Business School) and Koen Pauwels (D'Amore-McKim School of Business). The paper was awarded the INFORMS Society for Marketing Science Gary L. Lillen Practice Prize for 2018.

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Dr Gokhan Yildirim is Associate Professor of Marketing at Imperial Business School.

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