
MASB Standards Project

Applying Customer Lifetime Value to CPG: Pilot Test Summary

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Las Vegas
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Marketing Accountability Standards Board
of the Marketing Accountability Foundation

Other MASB Projects

Project	Customer Lifetime Value (CLV) for CPG (Analyzing)
Issue Addressed	We market to, but do not measure results at consumer level
Project Objective	Demonstrate how CLV models can be reliably applied to CPG (Pilot)
Expected Outcome	Process to measure & forecast impact among targeted consumers
When	2013

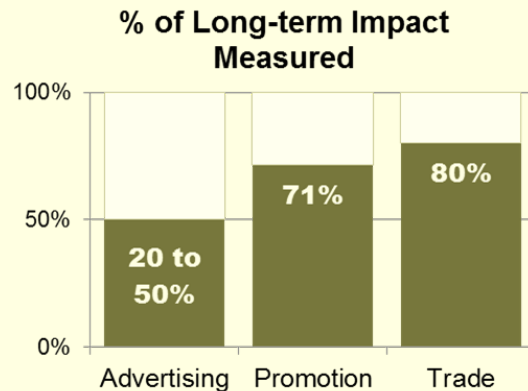
Agenda

- **Background on CLV Project**
 - Purpose of pilot test
 - Scope
 - Methodology
- **Findings**
 - Questions Answered
 - MMAP Audit
 - Limitations of Test
- **Conclusions**
 - Implications for Marketers
 - Hypotheses for testing in larger-scale test

Note:

CLV = Customer Lifetime Value, where customer is the end-user of the consumer packaged good brand

Purpose of the CLV Pilot Test



Can the accountability gap be solved with CLV?

- Must be valid and reliable
- Roadmap from Yoo, Hanssens paper on CLV

40% Churn

**CRM dB
Capabilities in CPG**

Measurement needed for CRM in packaged goods marketing

- Behavioral targeting and personalization

Nielsen-Catalina

Advance the methodology for CPG commercial test

- Digital and TV micro-targeting

Methods and Scope

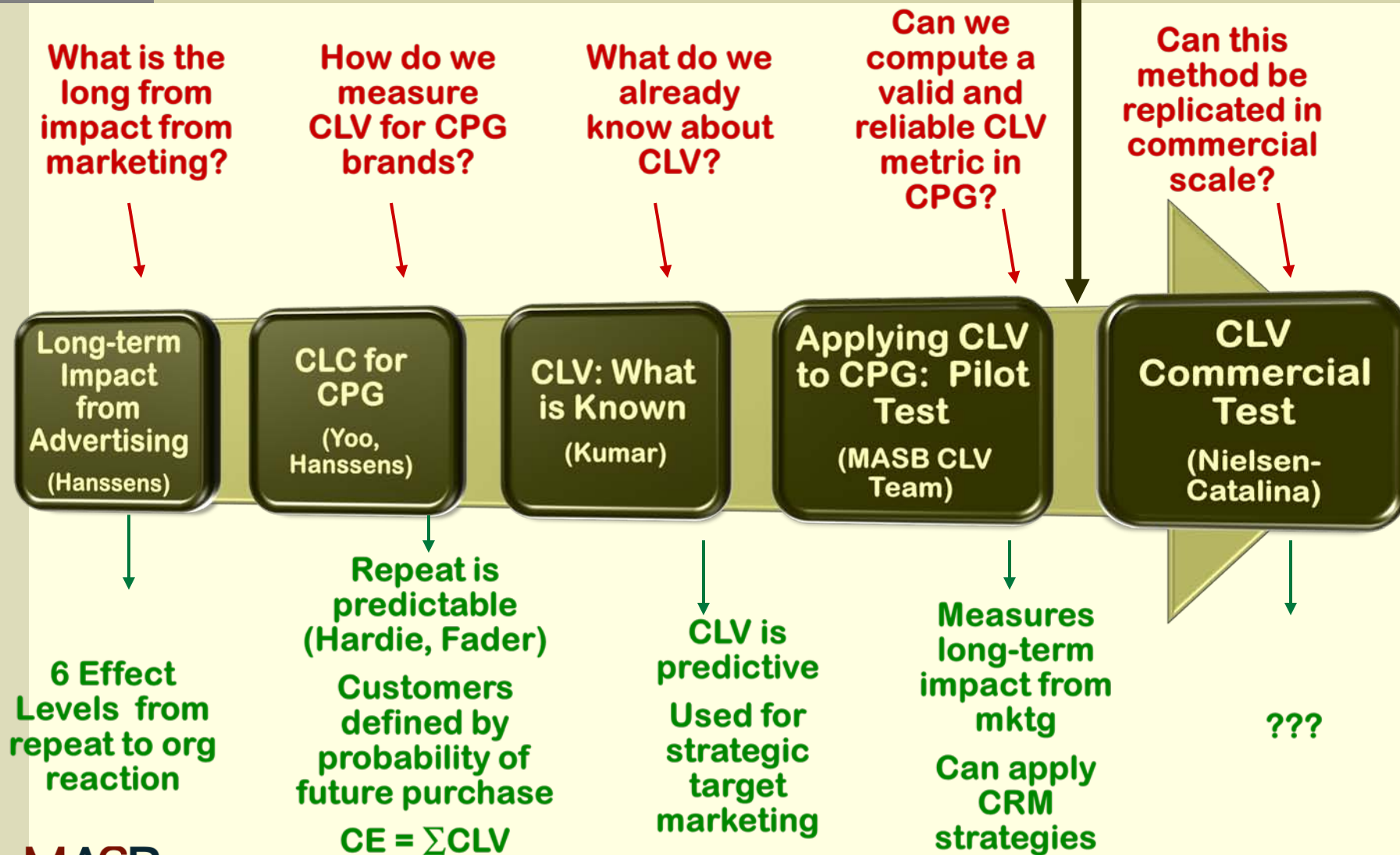
■ Methods

- **Customer Lifetime Value (Customer Equity) for Frequently Purchased Brands, Yoo, Hanssens CLV (April, 2011)**
 - Purchase history can predict repeat purchase (Fader, Hardie, Lee 2005)
 - CLV is NPV value of all future purchases (Gupta, Lehmann, Stuart 2004)
 - Customer Equity is total CLV for all customers for a brand
- **Econometric model to estimate marketing impact on Customer Equity**
 - $CE = \text{Base}_{\text{prior marketing}} + \text{marketing lift} + \text{price lift for prospects and customers}$

■ Scope

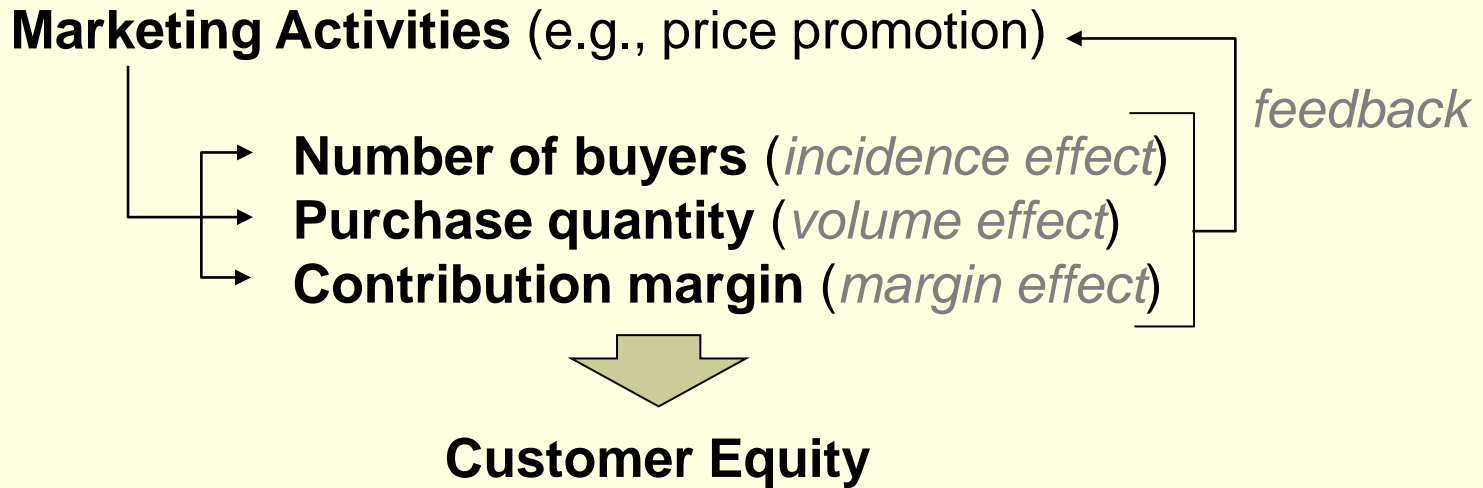
- **Nielsen Homescan purchase transactions, 3 years**
- Sports Drinks
- Carbonated Beverages
- Diapers/Training Pants
- Baby Wipes
- Canned Pasta

History that led us to here



PILOT TEST FINDINGS

CLV captures the value of future purchases which total to CE, like market cap.



Market Cap	Customer Equity
Net Present Value of all Future Earnings <u>by the Firm</u>	Net Present Value of all Future Earnings <u>from Customers</u>

CLV for CPG can be done

Customer Relationship		
	Organized or Direct	CPG = Dynamic/Retail
amazon.com	CLV	CLV per customer
J.P.Morgan		CE Total Brand
COMCAST	□ Acquire & Retain	□ Prospects/Customers □ Purchase probability
	□ Micro Target	□ Behavioral Targets
	□ Differentiated Mktg	□ Differentiated Mktg
	□ Up-sell, X-sell	□ Advertising Elasticity □ Price Elasticity
	□ Test & Learn	□ Reach & Measure □ with Single-source



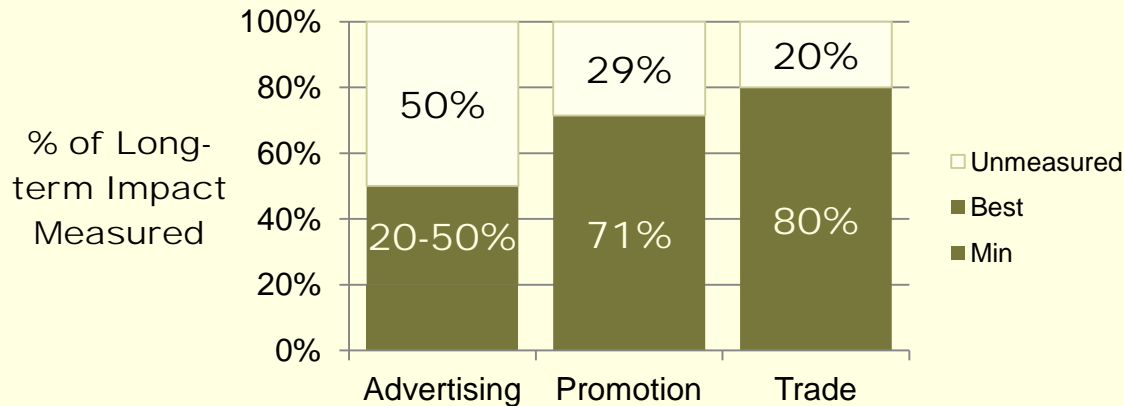
Schmittlein, Morrison, Colombo 1987
Fader, Hardie; Yoo, Hanssens

This pilot demonstrates the capability of applying CLV to consumer packaged goods, not just contract-based industries.

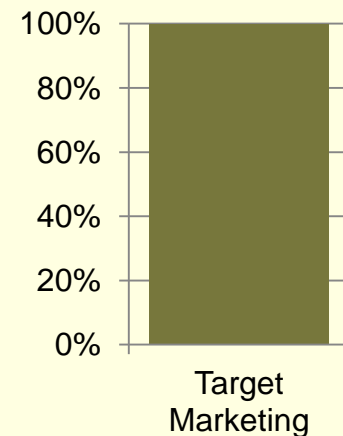
Closes some of the accountability Gap

The CLV structure will help account for the full effects of marketing activities rather than just the short-term effects.

Best ROI Metrics Include a Portion of the Long-term Impact for the Mass Market Only



Marketing CLV Covers the Entire Long-term Impact

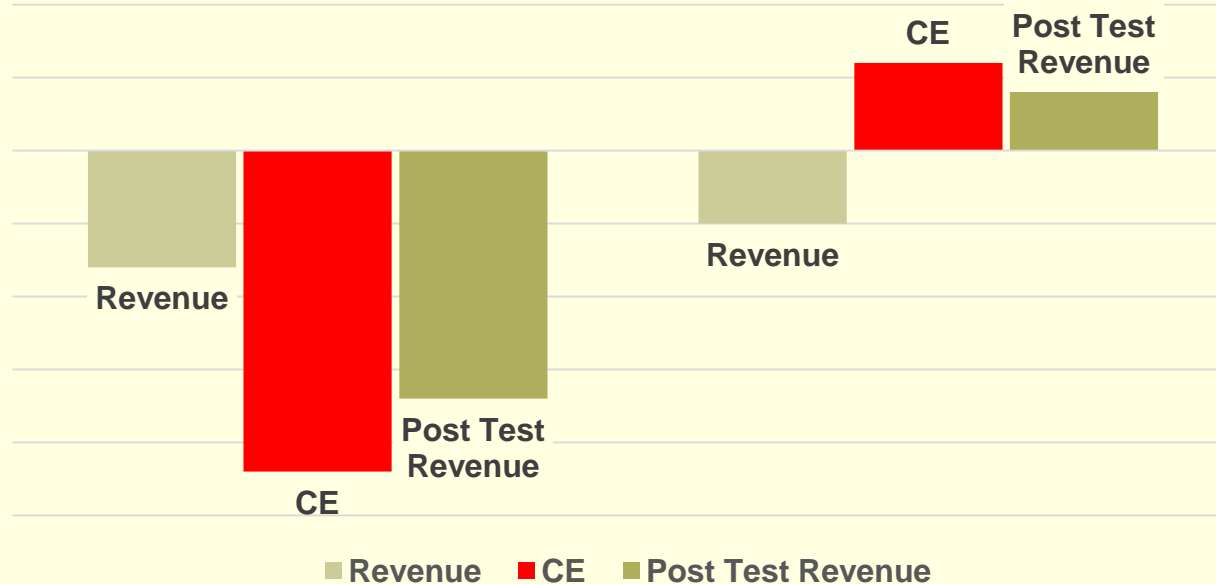


CLV can be predictive

Revenue and Customer Equity Trends

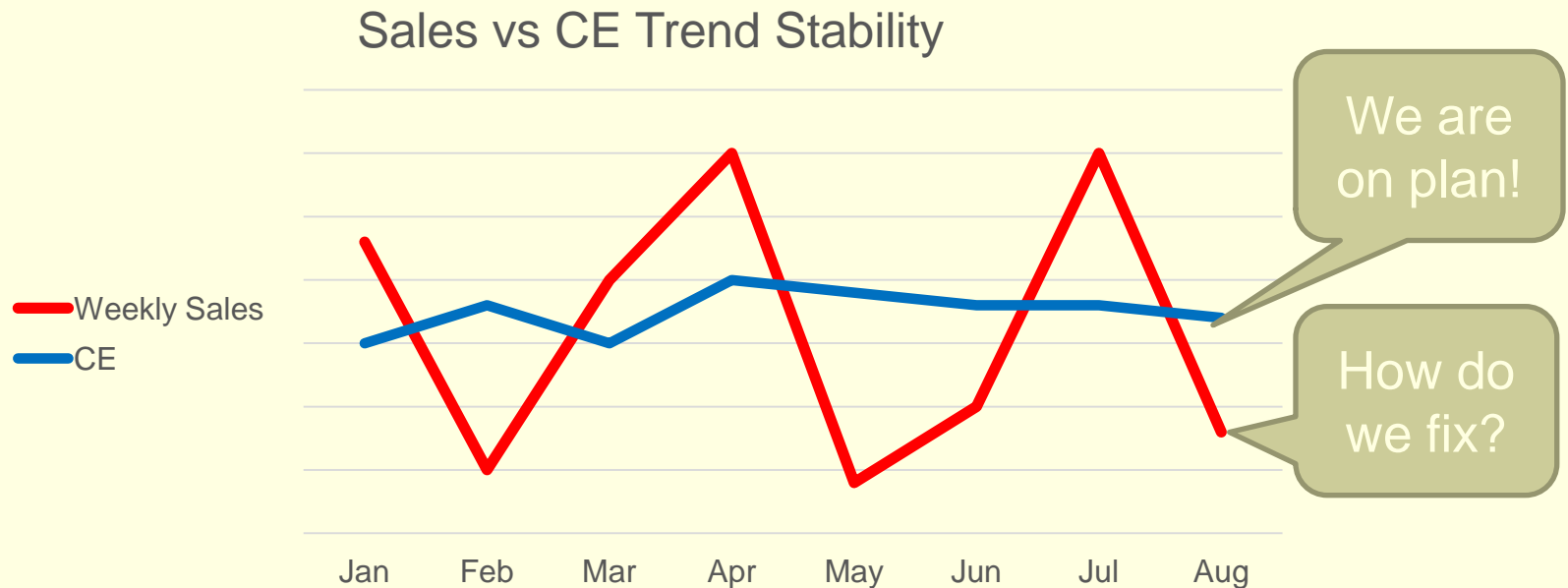
Food Brand

Beverage



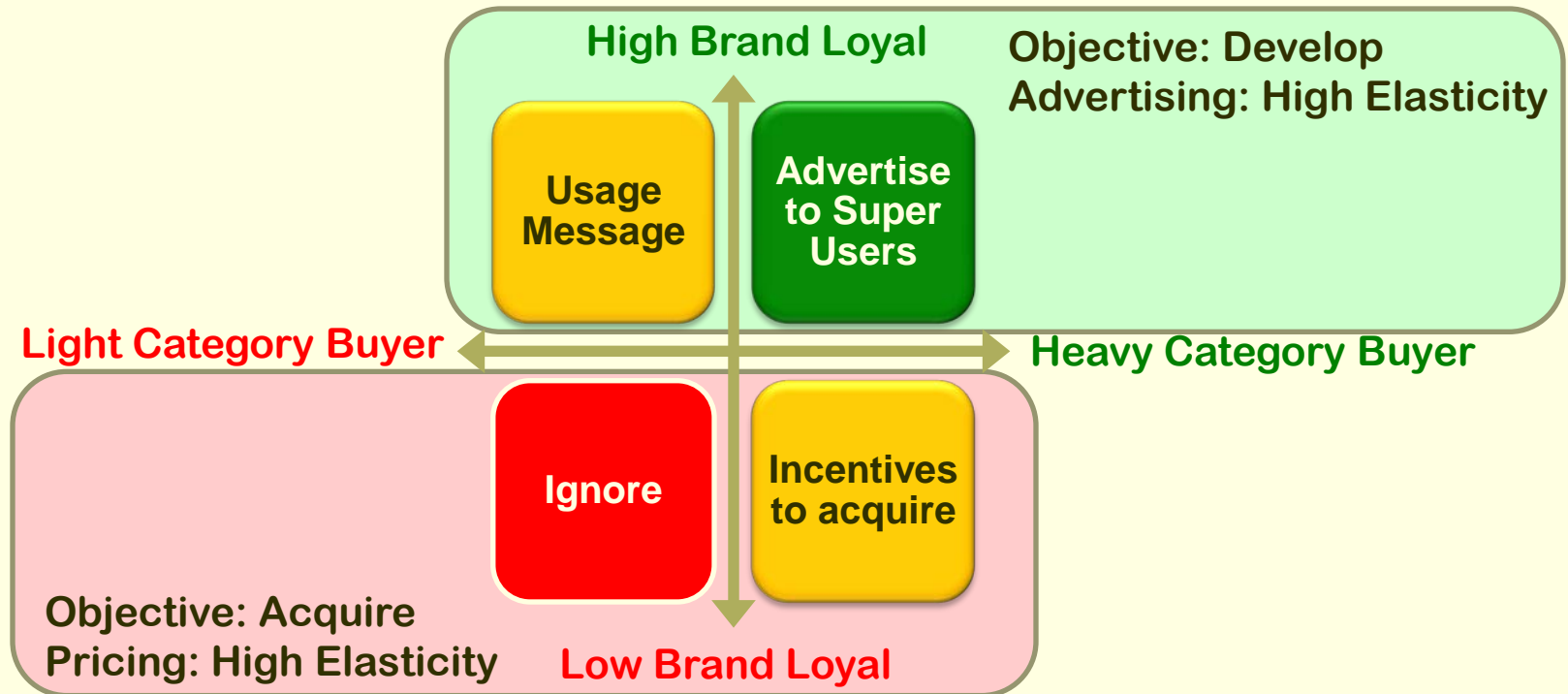
CLV is a forward-looking metric with some prediction capabilities and is more stable than weekly sales.

CE is a more stable metric



- **CE is a slow-moving metric, it shows “direction of brand strength”**
- **As such, CE is important for setting strategy (e.g. advertising and promotion), assuming the brand is profitable:**
 - **Stable CE: continued future profitability expected under the status quo.**
 - **Rising CE: higher profitability is expected under the status quo.**
 - **Declining CE: leading indicator of deteriorating profitability. Change course.**

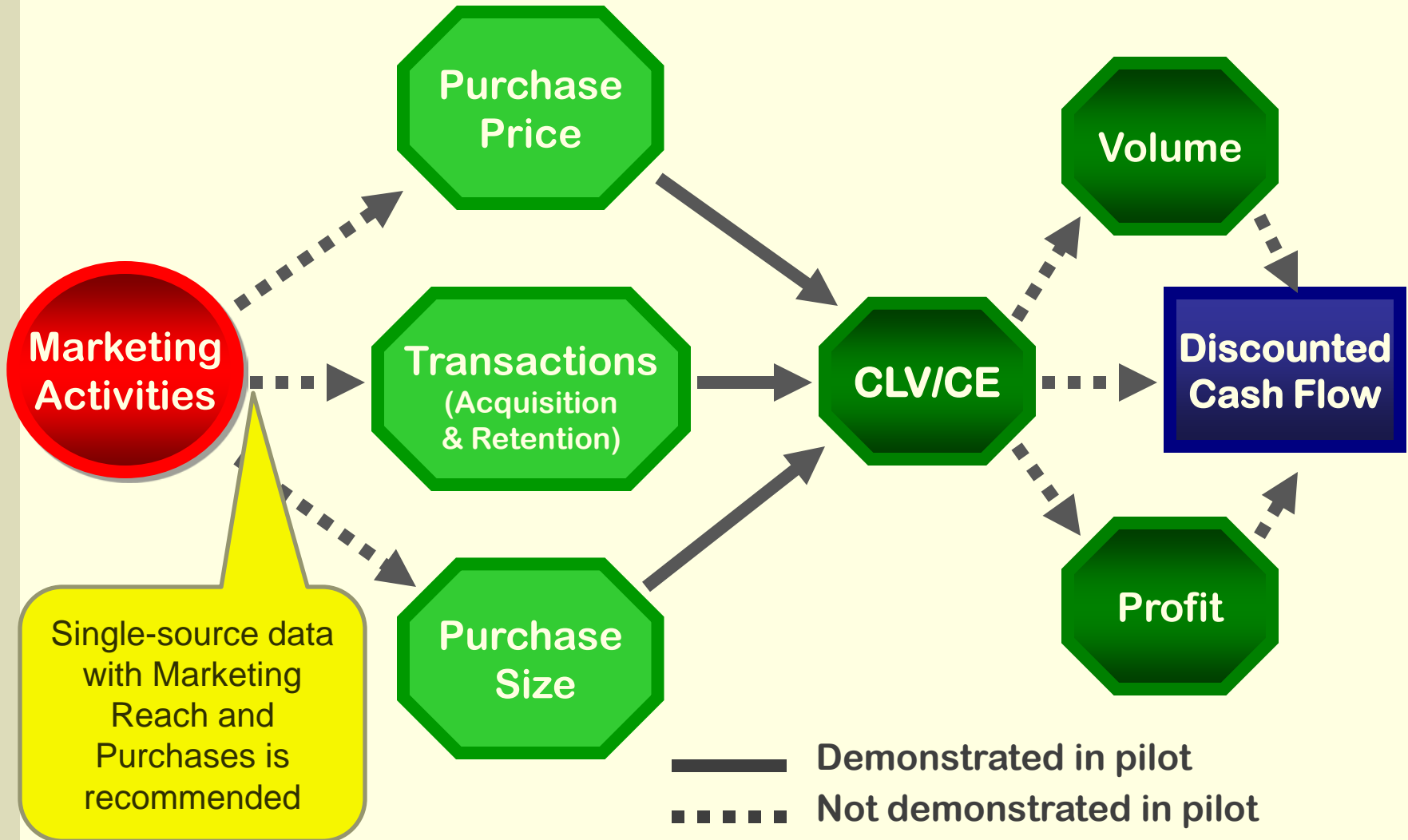
CLV helps use of CRM strategies



Advertising retains customers, while pricing worked to attract customers.

- Ad exposure has a longer-lasting effect for current customers, perhaps because of higher brand engagement
- Inactive buyers of the brand screen out messages for the brand more than active buyers and need an incentive to “give the brand a try”

MMAP Schematic of CLV/CE-for-CPG Pilot Project: Marketing Activity, Metrics & Financial Links



Limitations of Pilot Test

- Panel dataset relied on panelist participation which can wane over a time period of 3+ years causing a small downward bias
- Small sample size limited ability to measure marketing impact on target marketing segments
- Aggregate and thin marketing execution data limited the accuracy of the marketing effects measurement

Conclusions and Hypotheses for Next Phase

Conclusions

- This pilot demonstrates capability of applying CLV to consumer packaged goods.
- Advertising and pricing can be differentiated for customer acquisition and retention efforts.

Hypotheses for Commercial Test

- Passive purchase transaction data collection will reduce bias.
- Single-source reach & measurement data will improve marketing response modeling.
- The probability model can be refined for more balance between active and inactive customers for brands with stable sales.
- Test the ability to target and measure the most valuable customer.
- Test the effect of differentiated messaging on target segments.
- Test the differential effect of advertising to ethnic target segments.

Fit with MASB Mission

**Brand Investment &
Valuation (BIV)**
(Analyzing)

**CPG Customer
Lifetime Value (CLV)**
(Analyzing)

Mission
Establish marketing measurement &
accountability standards across
industry & domain for continuous
improvement in financial
performance...
...for the guidance & education of
business decision makers & users of
performance & financial information.

**Measuring on-line
Marketing**
(Measuring)

**Metrics Catalogue
MMAA Audits**
(Measuring)

**MarCom
Communications**
(Reporting)

**Improving Financial
Reporting (IFR)**
(Reporting)

CLV to CPG Team

Team Leaders



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Coca-Cola



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Eric Schmidt
Coca-Cola



Debi Parcheta
Blue Marble

Team Heroes



Michael Hugo
Nielsen



V Kumar
At Large



Craig Gugel
gugelplex TV



Leslie Wood
Nielsen

Admin



Allan Kuse
MMAF Center



Meg Blair
MAF/MASB

Team Meets: 3rd Friday Monthly, 10:30AM ET



Thank-you!



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