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MANAGEMENT ACCOUNTING GUIDELINE

Evaluating the Effectiveness of Internet Marketing Initiatives

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EVALUATING THE EFFECTIVENESS OF INTERNET MARKETING INITIATIVES

1. INTRODUCTION

Internet marketing (IM), or online marketing, means using the Internet to market and sell goods and services. A great deal of IM activity is directed toward driving customers to an organization's website, where they are encouraged to make purchases online or through another channel. But IM encompasses a broad and growing range of strategies for interacting online with customers and with other stakeholders. The most common IM activities include: preparing an organization's website, placing advertisements on the web, sending email messages, and engaging in "search engine marketing" – efforts to have the organization's name appear at the top of the list when a customer searches the Internet for a particular product or service. In addition to these basics, Internet marketing can include a range of other activities, such as marketing through online games, mobile phones, or direct response television broadcasts. And IM efforts can be directed not only to customers, but also to employees, investors, and other stakeholders (i.e. trading partners, stockholders, media and public interest groups).

IM is advancing rapidly. Both producers and consumers gain new capabilities every day as technology marches forward and companies rush to create innovative

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EXECUTIVE SUMMARY

Though there have been many calls by corporate and academic leaders for the measurement of payoffs of Internet marketing, there has been little developed that provides managers with the guidance they need to evaluate Internet marketing success. It is no longer acceptable to make these expenditures without the rigorous analysis necessary to prove success and to ignore the analysis in formal ROI calculations. It is also unacceptable to continue to approve these expenditures without formal evaluations of past successes and failures.

This guideline provides both measures and a management control framework for implementation of Internet marketing initiatives and develops tools and techniques that are appropriate for measuring the financial returns. It also provides tools and techniques for improved planning and control (evaluation) of Internet marketing expenditures.

value offerings. Internet advertising alone brings in $12 billion in revenue, and the industry continues to grow every month. And the numbers are growing so rapidly that reliable data is difficult to obtain. The total spending on Internet advertising has, however, led to a decrease in advertising spending in other media. Some say Internet advertising is increasing at a 40% annual rate and faster in the U.K. than in North America. Partly because most British media is nationwide, rather than local and regional advertising as in North America, U.K. Internet advertising has increased to 10-15 percent of ad spending and increases monthly. (New York Times 12-4-06) New ways to segment markets, personalize experiences, and respond to expressions of interest create both opportunity and complexity for organizations and their customers. And the impact of online marketing extends far beyond customers. Organizations' external and in-house websites are becoming primary centers for managing relationships with employees, trading partners, stockholders, and the media.

Amidst this whirlwind of activity, managers responsible for online marketing feel increasing pressure to both predict and demonstrate the payoffs from Internet marketing investments. Although opportunities proliferate, resources available to take advantage of them are more tightly controlled than ever. The same forces that create opportunities – technology, globalization, deregulation – also create intense competition in many industries. Competing effectively requires great care in implementing strategy and allocating resources. In earlier days, organizations were willing to liberally fund experimental Internet marketing. But today, IM managers, like other managers, are required to back up requests for funds with a strong business case that promises success. And they must make good on those promises by showing their investments deliver financial returns. So, measuring and reporting on these financial returns is critical for both resource allocation and performance evaluation. It is critical to senior general managers, senior financial managers, and marketing managers.

Fortunately, tools and techniques for tracking performance are emerging rapidly, and the relationship between organizational action and market response is increasingly possible to trace. For some online marketers, pressure to demonstrate results has generated significant change. They no longer just count the number of times users click on an ad or view a particular web page. Now, many are able to track a full range of results, including financial ones. Because they can now demonstrate financial returns, these marketers have (a) gained power in securing resources and (b) improved their capacity to effectively allocate those resources.

Importance of Measuring IM Payoffs

This Guideline combines best practices from marketing, e-commerce, and information technology to develop a method for measuring IM payoffs. Measuring IM performance has become a top priority for both marketing and financial managers for four reasons:

1) IM is important to corporate stakeholders

   First, both marketing and financial managers recognize that online marketing makes up an increasingly large component of the organization's value proposition. A large and growing number of consumers worldwide turn to the Internet for research, purchase, and service support. But IM initiatives don't only affect consumers. Organizational websites are an important source of information and interaction for investors, employees, trading partners, public interest groups, and other stakeholders. Interest in IM activities is expanding beyond marketing departments, as top management is now treating these activities with increased importance.

2) IM is different than traditional marketing

   Being different than traditional marketing, IM offers new ways of interacting with customers and other stakeholders. A rich and broad range of information and services can be provided through online formats, which can be "pulled" by users as needed, rather than "pushed" to interested and uninterested stakeholders through traditional offline formats. This provides both opportunities and challenges. Organizations must focus more attention on facilitating two-way communications. When they do, they can provide offerings customized to unique stakeholder needs. And they can reverse the traditional flow of marketing by allowing users to participate in product design, pricing, and distribution decisions.

3) IM financial returns requires evaluation

   As the demand for effective IM increases, developing the capacity to evaluate financial returns becomes increasingly important. The dot-com bust led to greater emphasis on rationalizing Internet-related expenditures, and IM faces pressures to rationalize its own activities on two competing fronts. Supporters say that IM complements existing marketing strategies by opening new markets, providing novel benefits to customers, and reducing the demand on salespeople and other organizational assets. Opponents argue that IM is too costly, and can lead to an unfocused marketing strategy or to one split between online and offline channels, forcing each to compete for the same customers. Evaluating the financial returns of IM can assist in this debate.

Until recently, these views could not be resolved, because IM activities and outcomes were considered too difficult to measure. Many organizations lack sustained IM experience that will allow them to predict and monitor customer response. In the IM universe, experience is still hard to come by. Rapid developments in technology lead to increased user expectations, while marketers are allocating more resources to developing new skills, capabilities, and offerings. This leaves fewer resources for measuring and managing performance.

4) Evaluating IM is possible and beneficial

Evaluating IM is possible, and calculating payoffs is increasingly demanded by and beneficial to organizations that invest in online marketing. In many ways, IM is becoming a closed-loop system, in which marketing initiatives can be planned, executed, and tested almost immediately. For example, a company can briefly post an online ad and track consumer responses in real time. This allows the organization to directly compare financial returns to the investment that generated them. Pepsi North America documented that "Call Upon Yoda," an ad campaign placed on Yahoo web pages frequented by buyers of 12 and 24 packs of soda, substantially increased sales from the demographic (Wall Street Journal 4-17-06).

In most cases, of course, outcomes of IM are more complex. For example, consumers who don't respond to an ad can still develop a favorable image of the brand through this exposure. And customers holding a favorable image are open to future purchases of the product both online and in stores more often than are others exposed to similar marketing inducements.

Understanding of both the short and long-term payoffs associated with IM investments can benefit organizations enormously. Marketers and other managers who understand these payoffs can better allocate scarce marketing resources among many competing IM initiatives. And after initiatives are funded, these managers can track and direct performance to pursue organizational strategies efficiently and effectively.

Objectives

As demands and opportunities for online marketing grow, organizations devote more and more resources to these efforts. In turn, this increases the need for ways to evaluate performance. For top executives, the desire to demonstrate measurable results from these sometimes risky and unpredictable investments is compelling.

Currently, however, marketing executives lack the comprehensive frameworks that would enable them to systematically measure the payoffs of Internet marketing. Financial managers, who have expertise in management control and performance measurement, often lack the data about Internet plans and activities that would enable them to devise effective measurement schemes. Consequently, payoffs of Internet marketing are rarely measured, ROI for most investments is not calculated, and spending continues to grow without the insight and discipline applied to other organizational investments.

The purpose of this Guideline is to help organizations better manage and evaluate their Internet marketing investments. It has the following objectives:

- To provide a general model that identifies the Internet marketing inputs, processes, and outputs that lead to financial returns (outcomes) for the organization.
- To provide guidance in understanding how organizational and Internet marketing strategies translate into actions and results.
- To provide examples of Internet marketing metrics that can be used to track and manage Internet marketing performance.
- To provide an application of ROI to evaluating IM that recognizes that Internet marketing investments produce both financial flows and valuable intangible assets.
- To provide a simple comprehensive example, using a hypothetical company, of how to put the approach developed in this model into action.

Through these objectives, the guideline provides a systematic approach for (a) planning and justifying Internet marketing initiatives, (b) tracking the ongoing results of investment decisions, and (c) evaluating effectiveness after initiatives have been completed.

Target audience

The target audience of this Guideline is those professionals in the private, public and not-for-profit sectors who plan and evaluate Internet marketing investments. The guideline can be helpful to managers who want to understand how Internet marketing strategies affect an organization's corporate image and profitability. It can be useful to financial professionals, general managers, Internet marketing managers, and marketing managers seeking to better understand how resources allocated to online marketing can ultimately contribute to higher levels of organizational performance. And it can provide guidance and tools for accounting and financial professionals who are challenged with providing discipline and transparency to this less predictable and rapidly evolving field. Finally, it can be helpful to CEOs, CFOs, and other organizational decision makers struggling to identify, document, measure, communicate, or evaluate the profitability of investments in Internet marketing.

2. PRIOR APPROACHES TO PERFORMANCE MEASUREMENT

Approaches to evaluating the performance of Internet marketing tend to fall into two general categories. The first and most prevalent approach is a customer activity-based approach. In this approach, known as the 'clicks-and-hits' approach, the organization tracks IM-related user behavior, such as how many users click on an ad or visit ('hit') the website.

The second approach, which is evolving and becoming increasingly prevalent, can be described as a 'measurement-driven' approach. This approach incorporates measures that go beyond user behavior to combine more sophisticated analysis with rudimentary financial indicators. This section briefly describes these two approaches, and concludes with a discussion of the primary challenge each faces – lack of a systematic framework to link organizational and IM strategy, Internet activity, and marketing and financial performance outcomes. The remainder of this Guideline addresses this challenge by developing such a framework, including relevant measures.

'Clicks-and-hits' Approach

In the earliest days of Internet use, marketing managers were not required to demonstrate effectiveness of Internet marketing expenditures. Marketers rushed to establish an Internet presence without sufficiently understanding (a) what options within Internet marketing were available, and (b) the costs and benefits of each option relative to the corporation's marketing goals. Many corporations proceeded experimentally, gaining experience through trial and error. In this rapidly changing environment, reliable metrics for evaluating performance were rare, and managers relied on gut instinct to drive Internet marketing decisions.

When marketers were pressured to demonstrate the impact of IM programs, many began by using measures that were very easy to capture and understand, such as the number of website hits or percentage of users who clicked on an ad. These measures were very useful for examining trends in traffic patterns, but the impact of this traffic on sales and other marketing objectives was little understood. Standardized approaches for capturing and summarizing website behavior were eventually developed to help make sense of web traffic and patterns. Resulting web analytics tools allowed marketers to develop a more sophisticated and in-depth understanding of website user behavior. Metrics, such as number of unique visitors and the amount of time they spent viewing web pages, provided marketers with new insights into who was accessing the site and how they were using it.

But even armed with a high level of detail about how customers were interacting with the company via the web, marketing managers often lacked the information and processes necessary to understand how user behavior data translates into increased profits and business value. The same metrics have been used across a broad variety of companies, sites, and pages. For example, organizations using websites primarily for after-sales support have used exactly the same kinds of metrics as those selling directly from the site. This is not due to a lack of available data. Many organizations using web analytics gather and store vast amounts of information and develop large, complex databases to house it. But much of that information is never used.

This happened, in part, because organizations who first began to market over the Internet often lacked a clearly formulated strategy. In addition, the rapidly-changing Internet environment made it difficult for marketers to formulate clear expectations about the impact of IM activities. Lacking such clarity, organizations in the early stages of Internet marketing were unable to plan the best ways to measure success; it was therefore impossible for them to determine precisely what data to gather and how to process it.

Many organizations are still stuck in this 'clicks and hits' paradigm. They gather and increasingly report on metrics relating to how often the organization's web pages are viewed and what users click on when they visit, but they lack the ability to link this data to purchasing behavior and other desired marketing and financial outcomes. Evaluation of Internet marketing expenditures must focus on whether profit and shareholder value has increased, rather than merely counting potential customers visiting a website. Steps are now being taken to better measure the effectiveness of advertising expenditures. In the United Kingdom, the Audit Bureau of Circulations is discussing with publishers and media buyers how to base advertising rates, using a recently developed "consolidated media report," that attempts to measure readership levels in both print and online venues (Financial Times 10-3-06).

'Measurement-driven' Approach

When success metrics aren't customized to accommodate specific organizational objectives, and when they aren't built into IM activities during initial design, organizations lack either the intention or the ability to systematically evaluate the drivers and outcomes of IM effectiveness. Instead, organizations naturally gravitate toward adopting performance indicators used by industry peers, or they accept a set of performance measures promoted by software vendors or ad agencies.

These generic metrics certainly provide some useful information, but they often fail to provide sufficient insight into the organizational value IM activities provide. In recent years, however, marketers have felt increasing pressure to demonstrate the effectiveness of their Internet activities to managers outside the marketing function. They are increasingly pressed to provide evidence that investments are driving tangible results.

In the general marketing field, this resulted in widespread reporting of three primary accounting measures: profit, sales, and cash flows (Clark, 1999). More recently, organizations have turned to various forms of ROI measurements to justify their spending decisions. Often, these ROI measures are annual or other periodic measures that fail to consider the long-term nature of many marketing investments, such as those geared primarily toward creating brand awareness.

Both the amount of returns and amount of investments are difficult to measure, and organizations sometimes arbitrarily assign values to various intermediate actions, and use those to calculate returns. For example, organizations may estimate the value of a visit to a particular web page by estimating the number of visitors who will become customers, and then multiplying that number by the average value of all customers to estimate returns. ROI calculations such as these often fail to (a) consider the strategic or tactical objectives of the page, and (b) carefully explore how the mechanisms through which these visitors convert to customers, and how and when these customers generate profits for the corporation.

What the 'clicks and hits' and 'measurement-driven' approaches have in common is their failure to (a) link performance measures to the organization's strategic objectives, and (b) provide quantified models that plan and track Internet marketing investments from intermediate outcomes to financial results. To contribute to an organization's competitive advantage, Internet marketing activities must be aligned with the general organizational strategy, as well as with the strategic objectives of the marketing and information technology functions.

Performance Models in Marketing, E-commerce, and Information Technology

No widely used comprehensive payoff model for Internet marketing yet exists. However, several recent publications address the complex issues of defining and measuring marketing performance (e.g. Clark, 2001; Gupta and Lehman, 2005; LaPointe, 2005; and Farris, et al. 2006), and others that discuss the financial payoffs and ROI of marketing investments (Ambler, 2003; Lenskold, 2003).

One marketing framework proposes a "chain of marketing productivity" with sequential linkages. (Rust et al. 2004) Marketing managers engage in tactical actions that lead to customer responses such as attitudes and intentions. Customer behaviors combine to produce market impact, measured by financial results such as increased revenues and margins, or by market share. And financial results affect shareholder value. These and other recent writers have used this analysis to try to demonstrate how marketing expenditures lead to increased shareholder value.

In the e-commerce field, which overlaps and encompasses many IM activities, much has been learned about the elements that lead to e-commerce success. Epstein [2004, 2005] studied the successes and failures of 32 corporations and their e-commerce initiatives, and finds significant differences in their ability to drive, define, and measure e-commerce success. He further finds that e-commerce initiatives result in improved financial performance for organizations that both (a) link e-commerce processes and financial performance, and (b) develop effective management control systems to manage those factors.

In the information technology (IT) arena, Epstein and Rejc [2005, 2006] have developed the most comprehensive payoff model to date. Like the model provided in this Guideline, their IT payoff model outlines the drivers and measures of success, and provides a basic method for calculating the ROI of IT investments.

The IM payoff model developed in this Guideline incorporates and builds upon elements of prior work on measuring effectiveness in marketing, e-commerce, and IT. In doing so, it fills a significant gap in the IM literature. It provides a concrete set of IM performance measurement concepts and tools, along with a rigorous method for applying them. Marketing managers and financial professionals can use this approach to more effectively plan and evaluate the performance of their IM programs.

3. BUILDING A FINANCIAL PERFORMANCE PAYOFF MODEL FOR INTERNET MARKETING

Building a payoff model for evaluating the financial performance of IM begins with an analysis of the drivers and objectives of IM activities. Online presence and processes are driven by strategic decisions at the highest levels of the organization. IM is an increasingly important tool for implementing, evaluating, and managing organizational strategy. As information technology and marketing sophistication increase, and value chains become increasingly dispersed geographically, the role of IM will continue to expand. In addition the importance of effective IM initiatives will continue to increase. For example, research shows that 30-40 percent of book sales made on Amazon.com are titles that would not normally be found in a traditional brick-and-mortar bookstore. The overwhelming amount of goods available on the Internet, and the fact that the Internet has created many new markets beyond the reach of physical retailers, makes it imperative for companies to gauge the effectiveness of their online presence (Brynjolfsson, 2006).

Few large organizations are able to compete effectively today without carefully developed and managed IM programs. Even very small organizations are increasingly expected to have a presence on the Internet, and demands for online functionality are increasing for all organizations.

At the same time, opportunities for using Internet marketing to generate value are growing rapidly. Technological innovations are exploding, new ways of managing relationships with customers and other stakeholders are being developed, and methods for monitoring and managing IM investments are becoming more sophisticated.

Globalization, outsourcing, and reduction in transaction costs have increased the importance of marketing. These trends, along with rapid technological advancements, have increased the importance of IM as a component of marketing activity.

Although increasing attention has been directed toward understanding how general marketing impacts financial returns, most organizations still know little about how their online presence and activities affect the bottom line. As competition for capital across industry sectors and within firms intensifies, and the demand for an effective Internet presence continues to grow, organizations must become more critical and systematic in evaluating and managing their IM activities.

This Guideline builds a process for evaluating the financial performance of Internet marketing. The process includes four steps:

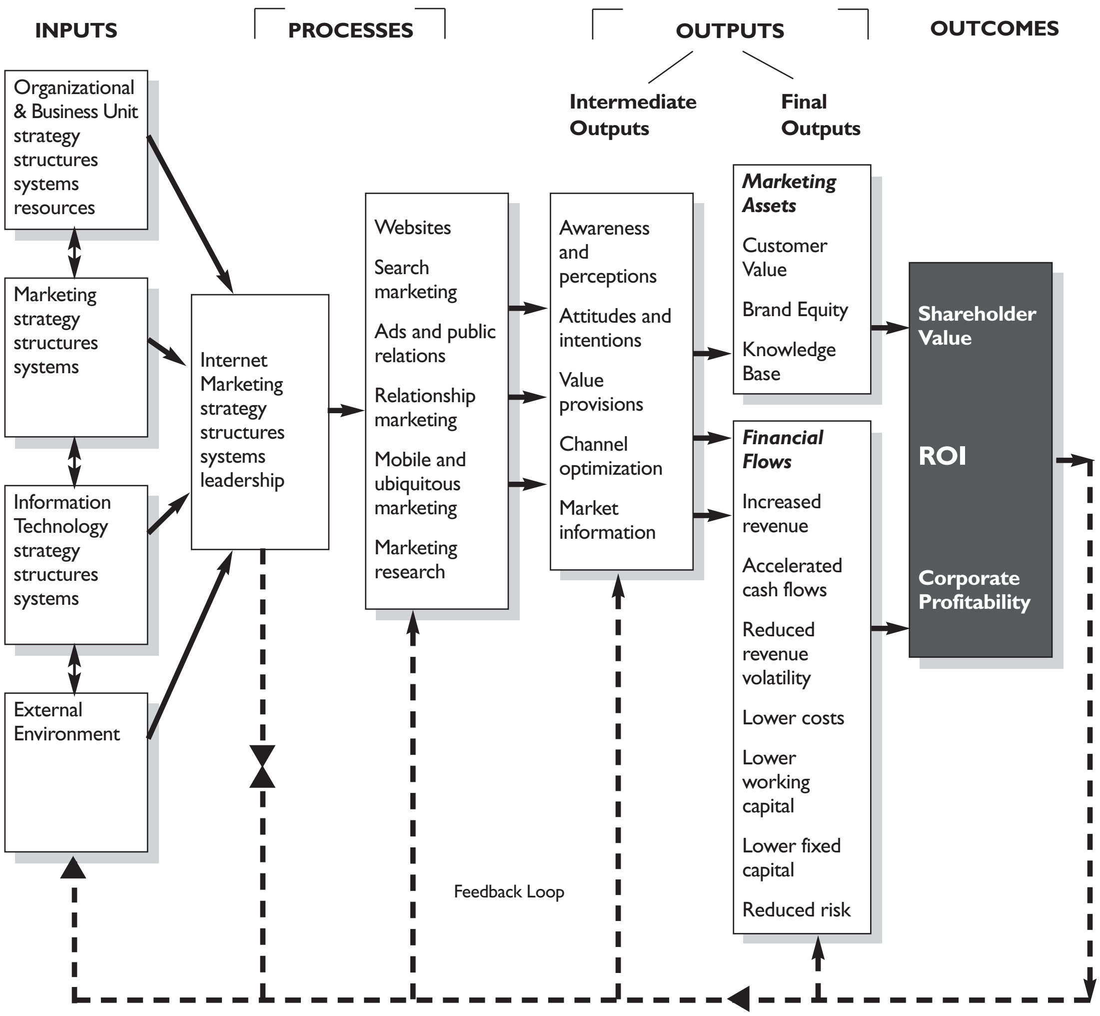
1) **Develop the IM payoff model** (Exhibit 1) that describes the drivers or leading indicators of IM, IM activities, and marketing and financial outcomes;
2) **Identify the linkages** between components of the model to determine how investments in IM activities produce financial returns (Exhibits 2-4);
3) **Define metrics** to plan, and monitor performance for, each component of the model (Exhibits 6-10).
4) **Calculate ROI** by comparing increases in the value of marketing assets and corporation profits to the costs of IM investments (Exhibit 5).

The Guideline also provides a comprehensive example to walk through that illustrates these four steps. This example can be found in section 5.

Step 1: Develop the Internet Marketing Payoff Model

Exhibit 1 provides a typical detailed IM payoff model. This model is a standard systems model

Exhibit 1: Internet Marketing Payoff Model: Antecedents and Consequences of Investments in Internet Marketing



that includes inputs, processes, outputs, outcomes, and feedback loops. The model shows corporate and environmental drivers of IM (inputs), the primary activities of Internet marketing managers (processes), and potential consequences of these activities to customers and the organization (outputs and outcomes). Financial professionals, marketing and Internet marketing managers, and general and business unit managers can easily use this model to more effectively allocate resources and evaluate the outcomes of IM expenditures.

Basic components of the model are as follows:

Inputs:

Influences and drivers of IM activity outside the IM function

Organization and business units devise and allocate resources to implement strategies, structures, and systems. The strategies, systems, and structures of the organization and its business units, and those of its marketing, e-commerce, and information technology functions are important drivers of Internet marketing success. Outside factors such as consumer demographics and technological developments also influence IM.

Processes:

Activities and initiatives undertaken within the IM function

IM formulates its own strategy, structures, and systems which grade a variety of IM activities. Standard IM pursuits include websites, search marketing, ads and public relations, relationship marketing, mobile and ubiquitous marketing (explained below), and marketing research.

Intermediate Outputs:

Marketing objectives pursued through IM

Intermediate outputs include customer impacts, such as awareness and perceptions, along with attitudes and intentions. IM can also be used to provide valuable information and services to stakeholders, contribute to channel optimization, and gather valuable market information.

Final Outputs:

Financial objectives pursued through IM

Final outputs sought by organizations include: 1) marketing assets that generate organizational value over a long period of time, and 2) financial flows that are realized as these assets contribute to profits in the short run.

Marketing assets developed through IM include:

a) customer value – the present value of future sales margins without future investments,
b) brand equity – future benefits relating to trust in and reputation of corporate brands, and
c) the knowledge base – the value of usable information.

Financial flows affected by IM include revenues and costs. Revenues flow from products and services, accelerated cash flows and predictable revenue streams. Cost reductions can be achieved through reduced product and selling expenses, lower costs of working and fixed capital, and reduction in corporate risk.

Outcomes:

Financial results for the corporation

Outcomes represent the financial returns from IM investments. Returns on investments in IM take the form of increases in marketing asset values and profit flows to the corporation. ROI calculations compare these returns to the costs incurred by IM to generate them.

Together, these components combine to make up the IM payoff model. Within the model, the components are linked sequentially. Feedback loops ensure that the components are redefined in response to performance outcomes.

Step 2: Identify Linkages

To use the performance model effectively, marketing managers must take a view that recognizes the relationships between the various components of the model. IM managers can begin exploring these relationships by answering the questions in Exhibit 2.

Exhibit 2: Four Critical Questions on Internet Marketing Payoffs

How does IM support the strategic goals of the organization?

↓

What are the desired outputs for IM?

↓

How can IM processes produce these outputs?

↓

How do IM outputs contribute to the long-term financial performance of the organization?

The first question "How does IM support the strategic goals of the organization?" helps ensure that IM managers recognize how their own strategies and actions are integrated with those of other units, and with the organization's overall objectives. The IM function should develop strategies, structures, and systems that are carefully aligned with those of other key units, and are designed to best respond to external forces. Coordinating strategies in this manner helps ensure that various business and functional units within the organization are aware of the broader objectives and of their own roles in moving the company toward their accomplishment. Such coordination leads to improved cooperation among units, including increased sharing of information and other resources.

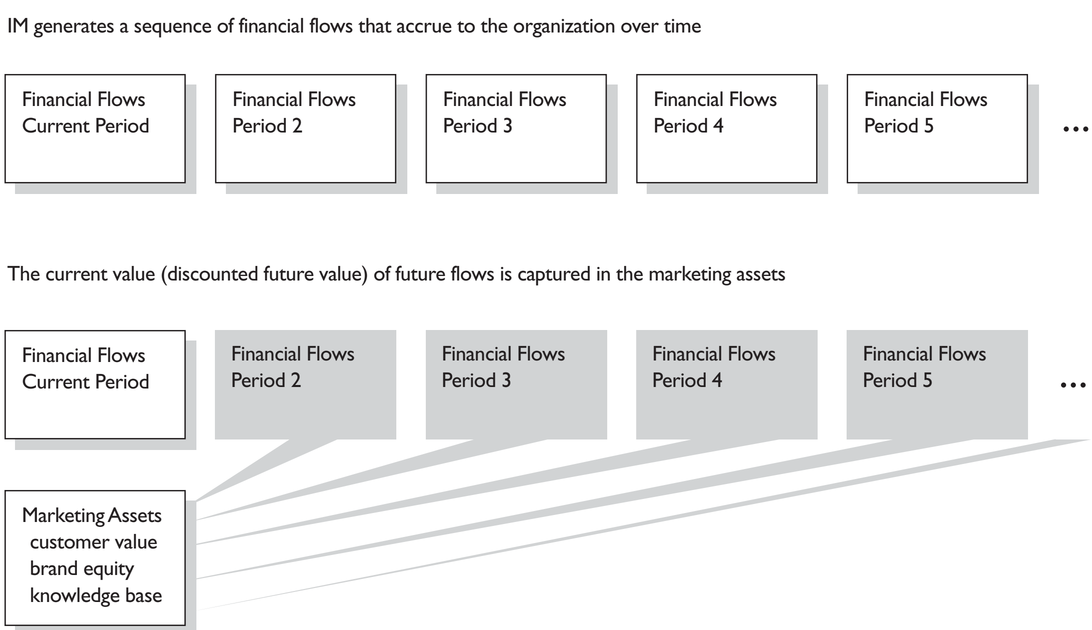
Once strategic goals are defined, the IM manager can ask "What are IM's desired outputs?" Outputs refer to the performance the IM manager hopes to achieve. They include both intermediate and final performance outputs. For some organizations, the purpose of Internet marketing is simply to promote sales (a final output) by providing value (an intermediate output) to customers. For example, a company may seek to increase in-store sales by providing features of value to customers, such as store locators and maps. Due Maternity, a San Francisco company that sells hip clothes to pregnant women, has promoted online and in-store sales by adding features on its website such as a baby-name finder, a photo-sharing service, and a wish list that customers can give to friends and family (Wall Street Journal 9-25-06). Apple provides iPod users free "podcasts" – audio programs that include anything from news to music. Other organizations use the websites primarily to increase brand equity (a final output) by providing public relations information that engenders positive public attitudes and intentions (an intermediate output) toward the organization. McDonalds, for example, uses its website to promote lower calorie food and fruit options as well as its global campaign tied to the Olympics, which stresses the importance of exercise and nutrition (Business Week 8-7-06). Each organization should carefully identify the outputs it seeks to achieve through its IM initiatives.

Having determined these final outputs, marketers can ask the tactical question: "How can IM processes produce these outputs?" Many organizations rush prematurely into IM activities, such as the enhancement of website functionality, or initiation of an email campaign. Unless such decisions are (a) driven by a clear understanding of the organization's strategies, and (b) designed to achieve the desired outputs, IM processes will lack coherence and effectiveness. Marketing managers must specifically identify the outputs they seek and expect from every IM initiative.

The final question: "How do IM outputs contribute to the long-term financial performance of the organization?" is critical for organizations seeking to enhance ROI through their IM investments. This question has received far too little attention from general, financial, and Internet marketing managers, but is imperative for understanding how IM deliverables translate into financial returns. It also provides important guidance and feedback to improve managerial actions and decisions. As shown in Exhibit 1, final output objectives for IM include both marketing assets and financial flows. Although the financial flows are readily visible as part of the organization, the value of marketing assets is realized over time, and as a result, is often ignored when marketing and financial managers evaluate financial performance.

Exhibit 3 shows the relationship between marketing assets and financial flows. Financial flows affect profitability each period through an increase in revenue. In addition, market capitalization and shareholder value can be enhanced by increases in marketing assets (customer value, brand equity, and knowledge base) that produce future corporate financial flows.

Exhibit 3: Final Outputs: Marketing Assets and Financial Flows



Marketing assets generated by IM include customer value, brand equity, and the knowledge base. (For a detailed description of each of these components, and examples of how they can be measured, refer to the section of this Guideline entitled: The Internet Marketing Financial Performance Payoff Model In Depth: Components and Metrics.) Briefly, customer value refers to future sales margins that will be captured without further IM expenditures. Brand equity refers to the effect that brand knowledge has on stakeholder responses to the brand and organization. Brand equity has value when customers buy more or provide word-of-mouth endorsements to other potential customers. The knowledge base refers to the actionable value of customer and stakeholder information possessed by the corporation.

For ROI calculations, the value of these assets is the incremental increase in value attributable to current IM activities. Future flows to be realized are discounted to their current values.

Exhibit 4 provides examples of how marketing assets (customer value, brand equity, and knowledge base) produced through IM can translate into financial flows. In addition to generating higher revenues and enhancing the ability to manage the revenue stream, these assets can lower operating costs, lower capital requirements, and reduce risk. To use the IM payoff model effectively, organizations should carefully specify how IM outputs generate financial payoffs. Sample metrics for the marketing assets and financial flows are provided in Exhibit 9.

Exhibit 4: Examples of Current Financial Flows Derived from Marketing Assets

Marketing Assets				Financial Flows
Customer Value	**Brand Equity**	**Knowledge Base**		
Capture untapped niches	Generate additional revenue through brand premiums	Develop mass customization capability	→	Increased revenue
Provide incentives and mechanisms for immediate purchases	Use customer relationships to speed adoption of next-generation products	Reduce time-to-market through online concept trials	→	Accelerated cash flows
Use dynamic pricing to manage demand	Target marketing to loyal customers during predicted slow periods	Time promotions to smooth demand	→	Reduced revenue volatility
Support sales through online information sites	Reduce customer turnover and support costs	Eliminate product features that are not valuable to customers	→	Lower costs
Ship directly to reduce need for inventory possession	Shift responsibility and risk for inventory management to major suppliers	Match production timing to demand	→	Lower working capital requirement
Shift in-store sales to online sales	Pool inventories with suppliers and customers to reduce warehouse space across the supply chain	Direct in-store sales to products that generate high contribution margin per square foot of fixed space	→	Lower fixed capital requirement
Eliminate customers with prior post-sales problems from promotion lists	Use trust in brand to reduce unwarranted lawsuits	Anticipate and respond rapidly to stakeholder concerns	→	Reduced risk

Step 3: Define Metrics

When guided by a well formulated and clearly articulated strategy, clear, consistent, and logical metrics are among the most powerful tools available to successful online marketers. Metrics can be used to help implement plans, link actions to outcomes, and compare the effectiveness of diverse marketing choices.

The starting point for developing appropriate metrics should be general agreement on each element of the IM Payoff Model. Defining metrics is generally an iterative process, in which the organization gradually clarifies its performance drivers and objectives through the process of forming consensus on how best to measure them.

Metrics are useful to organizations in a variety of ways:

– They can help clarify and add specificity to the organization's definition of success: the outputs and outcomes
– They can help make visible the drivers of success: the inputs and processes
– They provide a basis for communicating objectives and activities throughout the organization, which can foster cooperation among business units
– They can provide a means to monitor and reward performance in accomplishing objectives, and
– They can provide feedback that enables better predictions about the impact of initiatives and more effective allocation of resources.

This guideline provides a set of sample metrics for each item listed in the IM contribution model. These metrics are shown in exhibits 6 through 10. The metrics presented here are but a small sampling of the many and varied metrics that can be developed and customized for tracking and managing IM performance. It is expected that companies will select or adapt a small number of these metrics for use in evaluating performance. Section 5 presents an example of how to use a set of integrated metrics to evaluate performance for a small IM project.

Both financial and non-financial metrics are needed to effectively measure IM performance. Some non-financial items such as market research activity are difficult to measure, and companies often avoid measuring these items. However, if the item plays a critical role in delivering organizational value through IM, an attempt must be made to measure it, preferably in quantifiable terms such as monetary changes or percentages. Even when such measures are difficult to obtain or depend on rough estimates, they can provide a basis for examining trends over time and can provide useful information to managers.

For example, two metrics for the output 'awareness' are: the number of emails opened by recipients, and the number of customers that clicked on a promotional ad. These two metrics can provide different perspectives on the meaning of 'awareness'; thus the choice of metrics helps clarify the objective, just as clear objectives can help in identifying appropriate metrics.

Because IM goals and activities can vary dramatically, it is not possible to provide a list of metrics that can be used by most organizations. Measures are context-specific, and to be relevant they must be customized to meet the unique dynamics of the organization. The lists of metrics provided in exhibits 6 through 10 can be used as a starting point for creative discussions about how best to capture and reflect the organization's unique sets of activities and results. Some may be relevant as shown, some may not be relevant to all organizations, and many can be readily adapted to be useful for decision making.

After identifying appropriate metrics, the organization must apply and report them for improved internal decision making. Many organizations today are developing metrics dashboards. A dashboard is a compilation of key metrics presented in a visual, easy-to-understand format. The dashboard commonly contains between 3 and 20 metrics that are considered important for monitoring and managing IM performance. The comprehensive example provided in section 5 includes a sample dashboard for a small IM project, which is shown in Exhibit 14.

Dashboards are used for a variety of purposes, including: developing performance targets, monitoring performance, evaluating variance between targeted and actual results, analyzing historical trends, and benchmarking performance against competitors.

At its core, the metrics dashboard is a tool for aligning strategic and financial objectives. It provides greater transparency to IM goals and activities, and shows causal relationships between spending on marketing initiatives and their financial payoffs. Such analyses support a variety of managerial actions, such as identifying problems and opportunities, developing and refining IM strategy, structure, and systems, and driving innovations in products and processes.

Step 4: Calculate Return on Investment

Ultimately, to justify organizational investments in IM, marketers must be able to show increased profits resulting directly from each IM initiative. Return on Investment (ROI) is perhaps the most useful method in the marketing manager's toolbox today for demonstrating IM's financial payoffs. ROI is widely used and understood by top managers in the organization. When calculated properly, it provides a clear and convincing evaluation of the payoff of an initiative, campaign, or strategy. ROI provides insights critical for both strategic and tactical decision making. It can be used both to evaluate past performance and to guide future investment.

In most organizations, calculating the ROI for Internet marketing has proven challenging. Comprehensive models for calculating ROI have not been available, and the simple models that have been used are often incomplete, confusing, or misleading. Because of the heavy focus on creativity and innovation in IM, many marketers have tended to evaluate IM initiatives using process measures, such as the number of customers who could be convinced to open an email message or register for a company newsletter. Financial managers have also taken a short-term view of IM, treating costs as periodic expenses to be matched against concurrent revenues. In both cases, these managers have failed to view IM spending as an investment which, like research and development, can produce valuable organizational assets that generate cash flows over several time periods.

The ROI calculation model developed in this Guideline takes a comprehensive approach to evaluating payoffs from IM. As shown in Exhibit 1, financial returns resulting from IM investments take two forms: marketing assets and current financial flows. In calculating ROI, the firm must determine both the scope of the IM project and the relevant time frame for determining financial investment and resulting benefits.

The general form of the ROI calculation for one IM investment, campaign, or initiative, is as follows:

$$\frac{\text{(Marketing Assets + Current Financial Flows)} - \text{IM Investment}}{\text{IM Investment}} = \text{ROI}$$

Marketing assets: the incremental value added to customer value, brand equity, and the knowledge base resulting from the IM investment.

Customer value refers to net incremental revenues anticipated from repeat sales, less expected cost of goods sold and direct sales expenses.

Brand equity refers to future financial flows associated with the brand, which can result from growth in market share, price premiums, reduced cost of capital, reduced stakeholder attrition, and other benefits accruing from the brand.

The **knowledge base** contributes to future financial flows to the extent that it contains information that can be used to improve marketing effectiveness and drive innovations in products and processes.

Current financial flows: the value of the financial flows accruing from marketing assets that are realized in the current period.

Revenues result from current sales to customers and affiliates, accelerated cash flows, reduction in the volatility of revenue streams, or enhanced ability to manage them.

Current **costs** include current cost of sales and direct selling expenses, after taking account of cost savings that result from the marketing investment, such as reduced need for working or fixed capital, and reduced risk-related costs through, for example, facilitating ongoing communication with stakeholders.

IM Investment: the total value of investments relating to the IM initiative. These include investments that have already been made during the current period and those that are anticipated for future periods. IM Investments can be categorized as one-time costs, ongoing costs, and allocations.

One-time costs include the up-front costs of the IM initiative. This can include costs of creative work, investments in hardware and software, and the current period portion of the ongoing costs described below.

Ongoing costs include the costs of operating and managing the initiative. Ongoing costs can include (a) hardware and software maintenance, (b) human resource expenses in IM, marketing, and IT, (c) advertising and promotional expenses, and (d) other ongoing expenses.

Allocations are investments allocated to the current initiative from other past initiatives, or allocations from the current investment to other future initiatives. The cost of an investment, such as IT hardware or a large-scale branding campaign, can benefit many corporate programs beyond the IM initiative under study. Costs can be distributed among initiatives that drive the costs and benefit from them. Allocations should be carefully analyzed to avoid double counting, and to include all relevant costs. Due to the managerial challenges caused by cost allocations, measurement must be carefully considered. Although increased revenue will be included net of lost sales in other units due to cannibalization, it may be necessary to recognize that these sales might have been lost anyway (to another company's Internet sales).

Calculation of the ROI from IM investments (Exhibit 5) is the final step in the four-step method for building a financial performance model for IM investments. Section 4 discusses the components of the IM payoff model in detail and provides examples of metrics for each component.

Exhibit 5: Calculation of Internet Marketing ROI

I **Calculate the Monetary Value of IM Initiative Returns**

	Item	Description	Financial Flows	Marketing Assets
CUSTOMER VALUE:	*Increase in customer value associated with this investment*		Flows realized in current period	Present value of expected flows
Revenue:	Revenue	Sales revenue and other revenue from online and other channels, net of revenue cannibalized from other channels (PV includes premium from accelerated cash flows and reduced revenue volatility)	$ +	$ +
Costs:	Cost of goods sold	Product and service costs, returns and uncollected revenue	$ –	$ –
	Direct selling expense	Cost of special offers, order processing and fulfillment, post-purchase service, incremental staff costs	$ –	$ –
		Net Revenue	$ +................	$ +................
Other Inflows:	Savings from working capital	Savings in costs associated with cash, receivables, inventory carrying costs	$ +................	$ +................
	Savings from fixed capital	Savings in costs associated with fixed assets, such as retail outlets, warehouse, and administrative buildings and equipment	$ +................	$ +................
		TOTAL CUSTOMER VALUE	$ +................	$ +................
BRAND EQUITY:	*Increase in brand value associated with this investment*			
Revenues:		Expected increase in future revenues and other inflows associated with the brand, such as higher response to advertising and public relations, price premiums, expansion of sales to current customers, increase in revenue from affiliate advertising and branding, and other brand-related inflows		$ +................
Costs:		Expected reduction in future costs associated with stakeholder relationships, for example through turnover, attrition, lawsuits, monitoring costs, transaction costs, regulatory costs		$ +................
		TOTAL BRAND EQUITY		$ +................

Exhibit 5: Calculation of Internet Marketing ROI (continued)

	Item	Description	Financial Flows	Marketing Assets
KNOWLEDGE BASE:	*Increase in knowledge base associated with this investment*			
Revenues:		Expected increase in future revenues and other inflows associated with knowledge gained, such as information useful for customization and personalization strategies, product enhancements, cross-selling and up-selling opportunities, and innovations leading to new products and services		$ +................
Costs:		Expected decrease in future costs associated with knowledge gained, such as decreases in production, marketing, selling, and service costs and other processes improvements and innovations		$ +................
		TOTAL KNOWLEDGE BASE		$ +................
		TOTAL RETURNS	$ +................	$ +................

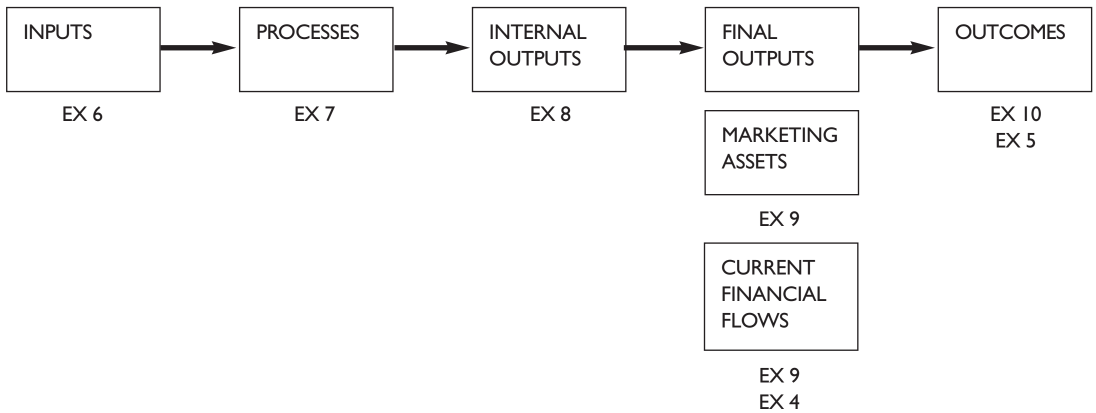
2 **Calculate the Monetary Value of IM Initiative Investment**

INTERNET MARKETING INVESTMENT:	*Cost of resources invested in Internet marketing initiative*			
One-time Expenses		Research, creative development, design and implementation of information and databases, channel preparation, training and production planning	$ –	$ – ....
Ongoing Expenses		Media and delivery expenses, information systems operation and maintenance expenses, payments to affiliates and trading partners, performance measurement	$ –	$ – ....
Allocations		Allocations from and to other cost centers such as campaigns, channels, customers, business units	$ +/–	$ +/–.............
		TOTAL IM INVESTMENT	$ –	$ – ....

3 **Calculate the IM Initiative ROI**

$$\frac{\textbf{(Marketing Assets + Current Financial Flows) – IM Investment}}{\textbf{IM Investment}} = \textbf{Return on Investment}$$

Summary of Metrics Exhibits



ROI is a versatile and robust measure. It can be used to calculate the returns from all IM investments during a period, or to estimate returns from an individual IM initiative such as a campaign, a customer relationship initiative, or a new strategy. Increasingly, IM is an integral aspect of marketing, corporate strategy, and performance. Developing a comprehensive ROI measurement enhances the company's ability to allocate resources, and to plan, monitor, and evaluate the effectiveness of its resource investments.

4. THE INTERNET MARKETING FINANCIAL PERFORMANCE PAYOFF MODEL IN DEPTH: COMPONENTS AND METRICS

Each component of the IM contribution model: inputs, processes, outputs, and outcomes, is made up of several subsidiary elements. Components of the IM payoff model are common across many organizations. Individual elements within the components and the metrics used to measure them can be customized by the organization to best represent the character and activities of its IM function. The components and their elements are described in detail below, and these descriptions are accompanied by examples of available metrics. These are summarized below, and the diagram identifies the exhibits that display metrics relating to each element of the model.

Inputs: Organizational, Marketing, and IT Functions, and the Organization's External Environment

The input component of the IM contribution model includes elements external to the IM function. The inputs contextualize, support, and constrain the IM strategies. Key inputs or drivers of IM performance include:

– organizational and business unit strategies, structures, systems, and resources
– marketing strategies, structures, and systems
– information technology strategies, structures, and systems
– features of the external environment.

Each element of the input component is described below, and sample metrics for the inputs are provided in Exhibit 6.

An organization's mission defines what products or services the organization will produce and which customers it will serve. The corporate strategy outlines how the company will compete – actions it will take to produce financial returns and other outcomes stakeholders desire. The overall organizational strategy should drive the strategies of all business units.

Organization strategies today are often defined by the core competencies of the organization. In turn, these strategies drive marketing and IT strategies. For example, BMWs emphasis on engineering quality requires a marketing strategy that targets high-end customers. FedEx, which has developed competency in logistics, requires an IT strategy that supports and enhances logistical excellence, for example through continual improvements in standard routing software.

Organizational strategies are made concrete and implemented through organizational structures and systems. Strategy determines the way business units are organized and how resources are allocated. Organizational processes are designed to execute the strategy. The Internet marketing function, like all other organizational functions, will be heavily influenced by these strategies, structures, and processes.

The company's marketing strategy links the organization's products or services and its customers. It defines how the organization will position its products or services and its value proposition. For example, the organization's marketing strategy defines the target market and how the product or service will be branded and positioned to appeal to that market; its structures and processes are then designed to carry out this strategy.

Internet marketing activities must complement general marketing strategies, structures, and systems. For example, during new product introduction, website content may be focused on generating interest and providing information. As the product reaches maturity, the website may be re-designed to drive in-store or online sales.

The information technology strategy, structure, and systems define how technology and related resources can promote the organizational mission and support the strategies of the business units and functions. It defines the role IT will play in generating shareholder value, and IT structures and processes will be aligned to enhance the ability of the organization to differentiate itself and compete effectively.

Internet marketing activities are heavily dependent on IT strategies, structures, and systems. For example, an IM initiative designed to drive traffic to the organization's website must integrate its efforts with those of IT to ensure site capacity to accommodate increased volume.

In addition to strategic influences, the Internet marketing function is affected by a broad range of other forces, both within and outside the organization. Resource availability and constraints that affect the organization's ability to support Internet marketing initiatives will certainly affect IM success. External forces include structural characteristics of the industry, such as changes in the number and strength of trading partners and organizations offering complementary products and services. Additional environmental forces such as political, economic, social, and technological changes also impact the organization's strategic options and direction.

Internet marketing managers should constantly scan the environment for risks and potential opportunities. Internet marketing provides mechanisms for monitoring changes in the interests and needs of customers and, increasingly, those of other stakeholders that interact with the company via websites and other Internet marketing channels. Due to the expanding role of Internet marketing in information gathering, stakeholder interaction, and monitoring changes in the external environment, IM can play an important role in contributing information and insights that inform corporate, marketing, IT, and other organizational strategies.

Processes: Internet Marketing Strategy, Structure, Systems, and Leadership

As the proportion of marketing activity conducted via the Internet continues to increase, many organizations' Internet marketing strategies are increasingly intertwined with general marketing strategies. The Internet marketing strategy, which represents an intersection between marketing and IT, is designed in concert with the organization's offline marketing strategy. The two must be complementary, and in many cases consistent, since the organization's customers may come into contact with both online and offline marketing campaigns.

Development of an online strategy follows an approach that parallels that of the general marketing strategy, but focuses on how the Internet can support and enhance the general strategy. In formulating the general marketing strategy, an organization commonly analyzes customers, company, and competition (commonly referred to as the 3 Cs). Its online strategy focuses specifically on (a) needs that can be best addressed through an online format, and (b) capabilities that can be expressed through this format. Online marketing strategies also consider STP – segmentation, targeting and positioning – and consider which among the organization's target segments can be best served or supported by an online format, and how online mechanisms can be used to help improve the products' positions over its competitors. Finally, the 4 Ps – product, price, place and promotion – are re-envisioned from an online perspective, allowing for opportunities such as dynamic pricing and geographically expanded promotion and distribution.

Structure is the way an organization organizes Internet marketing responsibilities and lines of authority. The structure of the Internet marketing function can vary greatly across organizations, depending on outputs to be produced by IM. The degree to which Internet sales are integrated with other channels, for example by allowing online support for in-store purchases, or in-store returns

Exhibit 6: Inputs

Inputs	Sample Performance Measures
Organizational and Business Unit Strategy, Structure, Systems, Resources	• Organization's competitive ranking within the industry • Market share and strength relative to customers • Planned and actual cash flow, profit • Economic value, share price • Stock and bond ratings • Resources allocated to Internet activities
Marketing Strategy, Structure, Systems	• Sales revenue or units as a percentage of target market sales or relative to key competitor • Cost, development time, delivery time, quantity, price, and channels of products offered relative to goals • Cost, development time, delivery time, quantity, price, and channels of products offered relative to the competitors
Information Technology Strategy, Structure, Systems	• IT budget and performance targets • IT expenses relative to competitors • Value of IT investments in architecture and software
External Environment	• Structural industry factors: number and strength of customers, suppliers, competitors, complementors • Risk factors: number and strength of political, economic, socio-cultural, and technological risks • Opportunities: number and strength of political, economic, socio-cultural, and technological risks • Market growth

for online purchases, will affect where it is functionally placed within the organization.

The structure of IM will be influenced by the organization's general structure as well as the structure of its marketing function. It will also be influenced by how the information technology function and the units responsible for e-commerce activities are organized. For example, the IM structure may be affected by the level of integration among the corporate brands, and will be more highly centralized when heavy brand integration is required.

Systems are the means through which strategies are executed, and include management control practices such as incentives, measures, and rewards. Systems should ideally be designed to provide incentives, guidance, and feedback that encourage IM to design and pursue activities that optimize its effectiveness. And, since senior management commitment is critical for the success of an Internet marketing program, leadership excellence in corporate, business unit, marketing, and information technology is necessary to support and direct Internet marketing activities. When strategy, structure, systems, and leadership are aligned and effective, IM activities will generate the intermediate and final outputs, and result in enhanced financial performance.

IM today operates in a dynamic environment: an increasing proportion of organizational marketing initiatives are pursued online, growth in online sales outpaces that of other channels, and technologies and practices available for IM develop rapidly. In response to these changes, the roles and objectives of the IM function will not remain static, but will continue to evolve. The strategies, structures, systems, and leadership associated with Internet marketing should remain capable of reconfiguration as warranted by ongoing organizational learning.

Processes: Websites, Search Marketing, Ads and Public Relations, Relationship Marketing, Mobile and Ubiquitous Marketing, and Marketing Research

As Internet and wireless web technologies undergo continuous change, lines between categories of Internet marketing activities become increasingly blurred. Currently, mainstream IM functions can be roughly divided into six categories:

- websites
- search marketing
- ads and public relations
- relationship marketing
- mobile and ubiquitous marketing
- marketing research

Each element of the process component is described below, and sample metrics for IM processes are provided in Exhibit 8.

Websites

Organizational websites are the most important and resource-intensive component of the IM offerings of many corporations. Websites serve many purposes, and can include a broad range of features. First, websites provide information for customers and other stakeholders. Websites accessible by the general public (Internet sites) and websites accessible by employees and other authorized parties (intranet sites) provide information about the organization and its products/services that can be targeted to and used by employees, media representatives, investors, analysts, value chain partners, and other interested stakeholders. For customers, they can provide information to support a variety of pre- and post-sales activity. They can provide information about the products and services, how they can be used, and where they can be obtained. They can provide information about pricing and features, comparing these with competitors' offerings. And they can provide customer support, maintenance and service information, as well as relevant contact information for additional support.

Online sales can be provided in many forms, and when products/services are digital such as .pdf files or programs to download, the website can be used for instant purchase and delivery. For other products/services, the site can be used to direct customers to purchase and delivery locations or to select other options. Services can be scheduled, or in some cases provided, via the website as well. Links to affiliates can be provided, to enable customers to easily access complementary products or services.

Search Marketing

Search marketing refers to activity designed to direct stakeholders to find the organization or its products, services or brands using search engines. While Google is the most widely used search engine, many others share the market, and each has a different approach to determining which sites are listed and how they are ranked. When a user types in a search term, a set of words that defines for the search engine what the user is looking for, the search engine uses a complicated algorithm to identify which websites containing those terms should appear on the screen, and in what order. In 2005, advertisers spent about 4.7 billion U.S. dollars on this type of Internet marketing (McKinsey Quarterly 6-27-06).

Because so much stakeholder interaction is conducted via the web, many organizations must improve search engine rankings. Ranking high in a search helps ensure that potential customers and other stakeholders will be directed toward the organization's site.

Organizations have two basic options for enhancing their search engine ratings. The first is organic or natural search marketing. Under this approach, websites are ranked based on a combination of items that include: where the search terms are located on the site, how many other sites link to the site, and how frequently the site is entered by users with similar search terms.

The second approach involves purchasing rights to market research based on search terms. When a user types in a search term, the results will appear on the screen. In addition, "sponsored links" are available on other areas of the page. Companies can "purchase" these search terms, so that when these terms are entered, a link to the company's page will appear on the sponsored section on the website. For example, Honda has purchased variants of the terms "funny video" and "funny commercials" on various search engines for its Element sport-utility vehicle, since these terms have demographic profiles that match likely Element buyers. These clicks, which are responsible for about 40 percent of the Element's website traffic, lead the user to a website that features commercials in which the vehicle "talks" to various sundry animals (Business Week 4-24-06).

The use of new search advertising software that determines the order in which advertisements are displayed has created new innovations at search engines such as Yahoo and Google. It has also impacted the charges for advertising. Since much of the banner advertising is sold on a pay-per-click basis, the search engines should place those ads most likely to be clicked in the most prominent spots. But, computerized auctions permitted less popular sites to buy premium ad locations by awarding the location to those who paid the most per click. New systems are now determining the advertisement display order that is most profitable for the search engine based on the likelihood they will be clicked.

Click fraud has been a recent concern and impacts the evaluation and cost of Internet marketing. Sometimes organizations click on a competitor's website to increase the competitor's costs. Some have estimated that the average fraud rate for search terms that cost advertisers more than two dollars a click may be around 20 percent (Fortune 9-18-06). Sometimes, there are automated systems of "click fraud" with bogus websites getting a portion of the search engines' revenue by artificially driving up the number of clicks. Some estimate that up to 30 percent of the clicks on the Internet may be fraudulent (Fortune 9-4-06).

Ads and Public Relations

Ads and public relations activities are used to create awareness of a corporation and its products, and to establish or maintain an image. Among the most widely used forms of Internet advertising are banner ads – the ads that often appear across the top of a web page. It is estimated that advertisers spend about 2 billion dollars on banner ads (McKinsey Quarterly 6-27-06).

Internet ads can take many forms. Banner ads can be still or moving, and they can respond when a user rolls the cursor over or clicks on them. Kraft Foods has constructed entire IM campaigns using banner advertising. When a cursor is moved across a banner, the user is exposed to different recipes featuring Kraft products (Business Week 3-27-06). Related ads can take a variety of shapes and sizes and can appear almost anywhere on the page.

Video and audio advertising are of increasing interest to Internet marketers as these formats are gaining prevalence on the Internet. Interstitial ads are small video ads that can precede a video viewed on the web. Online advertising formats are used for purposes similar to those of offline ads – to build awareness and interest in the organization, its brands, and its products/services, and to generate sales. In addition, in the online world, banner ads and other formats seek to drive traffic to the organization's websites, where the website then takes over the advertising functions.

Public relations documents, such as press releases posted or distributed online, serve a similar function to ads, in that they generate interest in the organization and can make potential customers aware of the organization's plans and actions. Press and media information can be provided at the organization's website, or can appear in online newspapers, electronic magazines (e-magazines) and other formats. And organizations can develop their own newsletters or information portals, or become sponsors of online content sites or events. Because of the proliferation of online outlets, and the related increase in opportunities to attract interest from these outlets, managing online PR efforts can add breadth and complexity to traditional PR roles.

Relationship Marketing

Relationship (or permission) marketing refers to actions that organizations pursue to develop relationships with current and potential customers. In the online environment, customers are often in charge of the interaction – they initiate interactions with the organization and pull the information they need.

Relationship marketing offerings are often interactive in nature and can be designed to be used primarily as advertising channels, or as sources of information and education for users. Because customers agree to receive this information, they represent a highly-targeted niche audience for which marketing efforts are likely to be effective.

Among the earlier forms of relationship marketing were company bulletin boards and news groups. Such mechanisms allow product users to communicate with each other (and sometimes with representatives of the organization) to discuss the organization, the product or service, and how to use the product or service effectively. Chat or instant messaging features, which allow customers to communicate in real time with each other or with organization representatives, provide a more interactive approach to customer communication. These tools have been joined by web logs or 'blogs'. An organization blog is maintained by the organization and posted at its website. It is used to supply informal, current information to readers, or to provide a site where customers can provide their own comments. Advertisers have also been known to pay independent 'bloggers' to mention their products in a positive light on their own websites to generate hype about the product or service.

Email has become an important medium for relationship marketing. Customers provide email addresses and other information to the organization and allow or invite the organization to send them news, promotional offers, and other content through email messages.

Email and other forms of relationship marketing are increasingly viewed as high-potential opportunities to direct campaigns to the specific segments most likely to respond to them. Information, promotions, and other offerings provided through relationship marketing are often customized to address the specific interests of individual users. For example, customers might receive discounts to frequently visited travel destinations or notification that a favored author has a new book in print. This approach is also viewed as an important mechanism for establishing and nurturing the customer relationship (and increasing sales).

Email can also be used for broadcast-type ads, for which permission is not obtained. These are gradually losing their effectiveness, and many are ignored by their recipients or filtered out by spam filters. And current and proposed legislation in the US and elsewhere places restrictions on the nature and content of unsolicited ads.

RSS (really simple syndication) feeds provide information in a news-like format that can be linked to other sites and to users' news readers. Users subscribe to these feeds, and information-based services can also be provided to customers that establish a relationship with a company. Webcasts can be used to distribute multimedia over the Internet, and 'webinars' can be used for seminar-like discussions. Podcasts often refer to multimedia information that users can download on demand via portable computing devices or laptops.

Viral marketing refers to campaigns in which users are encouraged or expected to pass information along to other potentially interested Internet users through a random process that resembles the spread of a contagious disease. Viral marketing has the potential to expand the set of customers that form online relationships with an organization.

Mobile and Ubiquitous Marketing

Mobile and ubiquitous marketing, sometimes referred to as m-marketing and u-marketing, are marketing activities directed toward users of mobile telephones, personal digital assistants, and other devices that can send or receive information when a user is away from a desktop computer Internet connection.

Mobile marketing encompasses all of the online marketing methods discussed above. Mobile customers can be targeted via websites, search engines, ads, and relationship marketing. Some mobile marketing takes place over the wireless Web through websites that are similar in function to standard Internet websites, but designed to accommodate small screen and graphics constraints associated with mobile devices.

Users access websites or search engines in many ways. For example, in the UK, when a mobile user dials directory assistance, the requested phone number can be delivered in the form of a text message with an ad attached; for example, a rental car ad could accompany the phone number for an airline. Mobile advertising has additional characteristics unavailable to traditional online marketing, such as targeting ads in real time to users based on their current location, which is available on phones with a global positioning system (GPS) feature. Users could, for example receive ads or promotions from restaurants close to their current location.

Ubiquitous marketing is marketing that is attuned to environments where the user is surrounded by a variety of computing devices attached to the Internet. In movies, such environments are represented by blackboards or billboards that flash information of interest to a specific person walking by. As devices containing microprocessors such as cars and microwave ovens are linked to the Internet, they can become marketing sites, for example when locations of gas stations or recipes are downloaded to the devices. Communication devices such as tiny radio frequency identification (RFID) chips can be embedded in clothing, key chains, or labels applied to products. By tracking the movement of these chips, marketers can receive information about the use of a product, or target campaigns to specific users in real time.

Marketing Research

Online marketing research focuses on using the Internet to gather information about customers and other stakeholders. Organizations can use this information to develop a deeper understanding of the needs and interests of their current customers. Many organizations today have customer relationship management or web analytics packages that allow them to track customer interactions in great detail. Understanding what customers are doing when they interact with the organization online is useful and important. It allows companies to track customers through all steps in the customer purchasing process, from pre-sales search support to post-sales service.

The many mechanisms for gathering such information include (a) monitoring what users type into search engines, (b) asking users to provide information through a registration process, and (c) monitoring patterns of access and time spent in different areas of the site.

In addition to passively gathering information, organizations can conduct experiments to see how visitors respond to online stimulus. These experiments can often be conducted rapidly and their impacts used almost immediately by marketers. Organizations can, for example, test customer responses to various price points or examine the influence of promotions such as coupons, immediate-purchase discounts, or free gifts. Experiments can even be used to test the effectiveness of the online marketing activities themselves, such as testing the relative impact of banner and other online ads by varying their color, size, placement, content, or tone. Almquist and Wyner (2001) describe how Crayola, which provides substantial content at various levels for children, parents, and teachers, used experimentation to evaluate the effectiveness of email messages. The company varied attributes of their messages, such as the subject line, promotional offer, and call to action that were intended to drive customers to the Crayola.com site to complete a survey. The results were striking – the response rates varied from 10% to 34% for parents, and from 20% to 35% for educators.

Experimentation can have secondary benefits as well – it can help build relationships with customers. Customers who feel that they have made an investment in an organization, for example by taking the time to complete a survey, have an increased interest in its success. And organizations can enhance the relationship by thanking the customer or providing them with coupons or other benefits in appreciation for their engagement.

Of course, market research can also be used as a source of valuable information about an organization's other stakeholders. Increasingly, the organization's website is a primary site for marketing an organization's plans and results. This information is regularly accessed by a variety of stakeholders, such as investors and financial analysts, current and prospective employees, reporters and other members of the media, and members of non-governmental organizations and advocacy groups. Many organizations include mini-sites or special regions within their websites that are designed to meet specific needs of these stakeholder groups.

Marketing research can also be conducted in these areas, for example, to understand what aspects of the organization are of greatest interest to various stakeholders, and to gather additional information from them. For example, if an organization notices increased traffic to the environmental reporting pages of its investor/member relations site, it can query visitors about who they are, what they are looking for and why, and whether they have found the desired information. And the market information so gained can ultimately be incorporated into the organization's market knowledge base, where it can be combined with information in other knowledge bases and used to support decision making by interested business units.

Intermediate Outputs: Awareness and Perceptions, Attitudes and Intentions, Value Provision, Channel Optimization, and Market Information

Intermediate outputs are the non-financial objectives pursued through IM initiatives and activities. From a financial perspective, achieving these outputs is not the end goal. Intermediate outputs, such as a favorable attitude toward a brand, are important because they are leading indicators or drivers of future financial performance. Intermediate outputs include:

- awareness and perceptions
- attitudes and intentions
- value provision
- channel optimization
- market information

These intermediate outputs are described below, and sample metrics for each output are provided in Exhibit 8.

Awareness and Perceptions

Generating awareness is the first step in a process that leads to customer purchases and other desirable stakeholder behavior. Organizations and industries engage in market conditioning activities designed to make customers aware of an existing need, or to generate a need that didn't previously exist. Market conditioning results in demand, as it spurs customers to acknowledge a problem or need, and to initiate search behavior that helps them clarify the need and identify options for addressing it.

Organizations can use IM to ensure that targeted customers become aware of the brand, and that the brand becomes significant in comparison with existing brands as the customers start to seek solutions and develop preferences among the available brands. Brand awareness is critical for new brands, but as the brand matures it may be less relevant as a driver of purchase behavior. However, awareness relative to competing brands continues to be a useful driver of purchasing intentions and behaviors.

Exhibit 7: Processes

Processes	Sample Performance Measures
IM Strategy, Structure, and Systems, and Leadership	• Number, cost, price and perception of products and services offered online relative to competitors • Offerings by customer lifestyle stage and segment • Ratio of value-creating program activities to total IM expense • Spending on initiatives and operation relating to website searches, ads and public relation searches, relationship searches and research • Quality of IM leadership
Websites	• Number of visitors, visits, repeat visits, and depth of repeat visits, purchase abandonment rate • Site quality based on ratings and awards; customer satisfaction with the site • Ease of navigation and speed; comprehensibility and physical attractiveness • Pages of information provided, hit rates, page views, and stickiness • Cost per click, cost per order, cost per customer acquired
Search Marketing	• Paid and organic search engine rankings • Visibility: search engine rankings and page locations relative to key competitors • Click-through rates and number of site visits from paid and organic search marketing • Number of conversions: qualified leads, initial purchases, etc.
Ads and Public Relations	• Number of impressions, frequency, net reach • Click-through rates for ads and affiliate links • Ad awareness; length of viewing time • Quantity, quality, and frequency of media mentions • Cost per thousand impressions (CPM)
Relationship Marketing	• Number of stakeholders and new stakeholders registered at site for emails, newsletters, RSS feeds, events • Number of stakeholders and new stakeholders participating in chats, user groups, blogs • Number of registrations, number of permissions granted
Mobile and Ubiquitous Marketing	• Number of ads sent to and received on mobile devices • Number of pages accessible from mobile devices • Number and quality of site visits from mobile devices • Number and quality of sites for ubiquitous marketing; number and quality of customers accessible/accessed through ubiquitous methods
Marketing Research	• Number of stakeholders and number of stakeholder interactions stored in searchable format • Number of experiments conducted • Number of IP addresses affected, number and percentage of voluntary participants or respondents • Percentage or experiments with conclusive results

Attitudes and Intentions

Marketing increasingly focuses on managing the lifetime value of the customer. Thus, development of favorable attitudes toward the brands, services and products, and generation of intentions to take a desired action, are increasingly important. It is well understood that attitudes don't always reliably translate into intentions to act, nor do intentions to act reliably translate into behavior. Nonetheless, these intermediate outcomes can help an organization predict outputs, and may be considered indicators of an asset (customer equity) that is developing within the organization.

In addition, in the online environment customers increasingly drive marketing action. The online environment makes it possible for customers to design their own products, set their own price points, solicit coupons or email ads, and create their own user support groups.

Value Provision

Including value provision as an intermediate goal of Internet marketing recognizes that information, support, and services make up an important part of the organization's value proposition. Whether the customer ultimately purchases a product or service online or through another channel, online marketing can significantly contribute to the value the customer receives. Other stakeholders seek value from the organization through its online offerings. For example, current and potential investors commonly visit corporate websites for financial data as well as current information about actions and plans. The Internet can be used as an information channel as well as a sales channel. The amount of rich information available to stakeholders is almost unlimited.

The value it provides can take a variety of forms. For example, it may be information that supports a sale, such as data that allows a customer to compare products, or mission and values information that help potential employees form an image of the company. Services can be offered online, such as the ability to complete a sales transaction, select a distribution method, or engage in a chat with a customer service representative. Opening communication between the stakeholder and the organization can provide an additional source of value, for example when customers are allowed to make suggestions, or community members are allowed to voice complaints.

Value-added IM content can also be valuable to customers and other stakeholders. Offerings providing highly detailed information, with links to related websites, current news updates, online games, chat rooms, and user support groups, increase the value online marketing can deliver.

Channel Optimization

Some organizations sell only through online channels .Other organizations must balance online sales and sales through other channels. Channel optimization encourages customers to purchase products or to obtain service or support through the most cost-effective channels. A website can provide online sales but encourage customer traffic in stores. Or a retailer, such as a pharmacy, might encourage in-store customers to make future purchases through a more lucrative online channel, and then use online information to encourage mail orders of those drugs that require written signatures.

Ideally, rather than simply cannibalizing sales from other channels, the Internet can be used as a tool for dynamic channel optimization. For example, online promotions can drive customers to overstocked stores, or use in-store displays to shift purchases of inventory with high carrying costs toward online channels. Similarly, products and services can be bundled, combining online and other channels. And organizations can use channel optimization to dynamically correct production and distribution errors.

However, cannibalization is also valuable. Organizations would certainly prefer their website steals business from their brick and mortar store locations rather than lose it to another website. Thus, it is critical that organizational structures, systems, and rewards be established to encourage this cannibalization and channel optimization.

In some cases, the business migrates from stores or catalogues to the Internet, and often in the reverse direction. The electronics retailer, Circuit City, found that over 60 percent of its online sales were being picked up in-store, prompting it to remove the barriers between the Internet and its brick-and-mortar locations (Fortune 8-21-06). Developing and coordinating systems to support these migrations is very important, as it impacts the effectiveness of the channels and the channel managers. Measurement is particularly difficult and impacts reward systems.

Benefits and costs will likely affect the various channels differently. Further, as discussed in this guideline, Internet marketing programs are likely to have multiple objectives. Thus, often consumers may go to Internet sites for information and then make their purchases in the stores. Since cross-channel collaboration is typically encouraged, and cannibalization is often required, measuring the impacts is both important and often challenging.

Market Information

Market information is the product of both market research, as discussed above, and normal customer and stakeholder activity. Information gathered actively through marketing research produces significant financial benefits to Internet marketing.

Information gathered passively, for example by monitoring the behavior of website visitors, can be scanned regularly to identify changes and trends. For example, search information can be used to identify needs not currently being met but could be, along with visitor demographics that can be tracked to identify new segments and targeting strategies. It can also be used to identify potential problems associated with the organization, its competitors, technologies, and other external forces.

Using the Internet, marketers can launch marketing campaigns and monitor their responses immediately. When designed to allow for responsiveness, web-based campaigns can be continually adjusted based on consumer responses (Aufreiter et al. 2001). Staples.com conducts real-time monitoring of its online activity and refines its marketing campaigns several times daily. This detailed information allows Staples.com to adjust its marketing budgets weekly.

Exhibit 8: Intermediate Outputs

Intermediate Outputs	Sample Performance Measures
Awareness and Perceptions	• Percentage of target customers with salient awareness of the brand (know why the brand is of value) • Percentage of target customers with a favorable impression of the brand relative to competing brands • Customer's perception of brand's ability to deliver on customer needs (derived from points 1 and 2 above) compared to competitors. To measure this, you could compare your brand's perceived ability to deliver to those of your competitor – e.g. our brand 4.5, top competitor 4.0. You could then calculate a ratio: 4.5/4.0 to get a feel for the magnitude of the difference • Rate of customer referrals
Attitudes and Intentions	• Brand penetration: purchasers as a percent of total population • Relative perceived price to value • Percentage of target customers willing to try the product; percentage intending to try product; churn rate • Likelihood of future purchases of related products and brand extensions • Number and frequency of visits
Value Provision	• Return visits to informational sites and pages • Number of query transactions and satisfaction with responses • Number of push messages opened, number of pull messages requested • Ratio of successful to unsuccessful site searches
Channel Optimization	• Percentage share of each channel's total gross margin (total for all participants within a channel is 100%) • Relative channel performance, such as selling costs, unit margins, and inventory turnover rates • Channel stock positions across channels and across participants within channels (and number of out-of-stock situations)
Market Information	• Number and percentage of experiments that initiated IM improvements • Frequency and scope of IM updates • Number and percentage of experiments that initiated changes to business processes or products • Number of customers, stakeholders, and interactions identified and categorized

Market information can also be gathered from standard sales behavior. The benefits of that information are amplified for organizations that allow customers to choose product or service components or delivery options online. Organizations that gather information regularly can use it for several purposes. In addition to initiating procurement and production, this information can be used to customize customer offerings, and provide current information to interested business units or functional units, such as R&D and Engineering.

Final Outputs: Customer Value, Brand Equity, Knowledge Base, and Financial Flows

Final outputs are the detailed financial objectives the organization seeks through its IM processes. As described above and shown in Exhibit 3, these outputs can be divided into financial flows
(a) realized during the current period, and
(b) expected to be realized in future periods as a result of current period IM investments. The current value of future flows are reflected in the values of the marketing assets from which they are derived.

Final outputs are:

- customer value,
- brand equity,
- knowledge base, and
- financial flows (increased sales, reduced costs, accelerated cash flows, lower working capital, lower fixed capital, reduced revenue volatility, and reduced risks).

Customer Value

Gaining margins from customer sales is generally assumed to be the ultimate long-term objective for all marketing activity. Many analytics packages use, as the final variable of interest, some measure of sales or related profitability: which product, customer, or campaign factors led a customer to purchase or not purchase an item, or how strongly these factors relate to total customer sales or profits (profit often refers to gross margins, calculated as sales revenue less product/service costs).

Traditionally, sales, market share, or growth in share were seen as key dependent variables. Today, marketing managers are also interested in the quality of a sale, its gross margin, and the net margin after deducting product/service, marketing, and selling costs. They are also interested in sequencing issues – a one-time sale is qualitatively very different from sales within a stream of customer purchases.

Customer value reflects both the revenues and the costs associated with individual customers or segments. The term 'customer value' is used here instead of customer lifetime value (CLV), because the latter term has been used to refer to many different types and combinations of marketing investments and returns, and often includes future investments.

Customer value here refers to future incremental benefits flowing from current period IM investments. It is the net present value of the stream of revenues and expenses the company expects, without additional future IM investments. (Additional incremental benefits are realized only after future investments are included in 'brand equity'). It is the value that would accrue without any further spending – the value already created through the IM initiative. Brand equity is the spillover effect – the value that has been generated but can only be realized through future IM or other investments. So, some stream of revenue occurs from a single IM investment where others only continue to produce a revenue stream with a continued expenditure. Thus in thinking about the payoff of these expenditures, a distinction of whether the returns are likely to continue to flow without additional expenditures or whether additional expenditures will be required is important.

These customer value benefit streams include the value of expected gross margins related to direct sales, along with (a) any cost reductions associated with these customers, and (b) gross margins from referrals these customers make. Pepsi has found that drinkers of its diet cola have very high customer value because of brand loyalty, impelling the company to direct a sizeable sum of its IM funds towards Diet Pepsi. Walmart.com, the online division of Wal-mart, calculates customer value by using its consumer tracking tools to gauge the value of its advertising. Instead of simply focusing on one-time purchases, Walmart.com includes all purchases made by particular customers to calculate the value of its advertising expenditures (Wharton 2006). Customer value can also include any other benefits or costs derived from the current investment, including impacts on brand equity and knowledge from the stream of future purchases incorporated in the customer value concept described above.

Brand Equity

The importance of product and organizational brands is well recognized by marketing managers. Traditional thinking about marketing focuses primarily on gaining sales and market share. Today, marketers are well aware of the importance of brand equity in their relationships with customers and channel partners. Here, we differentiate brand equity from customer value. Customer value refers primarily to the stream of gross margins attributable to an IM investment. Brand equity captures the latent value that can be realized through customer purchases in future periods. Brand equity also captures a host of other sources of expected future cash flows associated with the purchases customer make because of loyalty to the brand.

Brand equity refers to the asset value of brand – an intangible marketing asset. As with the other marketing assets in the IM payoff model, brand equity incorporated in ROI calculations is the incremental increase in brand value attributable to an IM investment. The value of brand equity can be conceptualized and measured in a variety of different ways. Brand equity encompasses (a) value related to sales, such as market share and price premiums attributable to the brand, and (b) value flowing from stakeholder relationships, trust, and loyalty.

Brand equity results in returns to the corporation in a variety of ways. Most well recognized is the value brand equity has in reducing promotion and selling costs, and increasing price premiums. Customers with a positive perception of the brand respond more favorably to marketing initiatives and are willing to pay a premium for the product. Therefore, strong brand equity leads to higher returns on spending for advertising and other marketing costs. But brand equity not only reduces marketing costs and increases related revenues, it can also impact profitability in many other ways. For example, it can accelerate cash flows to the corporation, as customers more rapidly test and purchase new products when brand equity is high (Srivastava, et al 1998.).

Impacts of IM investments extend also to other stakeholders, whose decisions and actions may be influenced by the organization's reputation. These other stakeholders may include present and future employees, suppliers, and others. Organization factors that contribute to brand equity extend beyond perceptions about products and services to include perceptions about the organization's vision and leadership, its workplace environment, and its financial, social, and environmental performance.

Knowledge Base

The value of the company's knowledge base is akin to the value of the organization's other intellectual property. Depending upon how this information was gathered, and the privacy rights granted to customers and other stakeholders, the knowledge base could be sold for a cash value. Amazon.com has recently provided its sales information to companies like Mpire.com, a website that allows customers to compare items on Ebay.com with the most recent sales prices of other online retailers such as Amazon (New York Times 8-14-06). If the information must remain private or only be used internally, the value of the knowledge base lies in the potential of the organization to use this asset to generate profits for the organization or wealth for the stakeholders.

Organizations must keep up with the constantly changing patterns of consumer needs, interests, and capabilities, as well as with changes in the organization's industry and changes in marketing processes and their effectiveness. Dynamic business environments demand rapid responses to changes, and marketing knowledge can support those responses. For example, in responding to a change in consumer demographics, an organization can conduct research on customer reactions much earlier in the product development life cycle.

Many organizations still presume that the product or service comes first, and marketing activities follow as a necessary consequence. But in the wake of Internet-driven trends such as product customization and relationship personalization, marketing increasingly becomes the driver of decisions on which markets to target and which products and services to provide – decisions that are both central to the mission and value proposition of the organization and influence actions in all its functional areas.

The knowledge base is an important driver and indicator of an organization's ability to innovate. Most simply, it has potential to improve the organization's marketing and sales capabilities. For example, knowledge gained from customers can be used to develop new product concepts and determine the optimal mix of channels for moving products to the consumer. Knowledge relating to the expected future purchasing patterns of each customer can help align marketing resources such as promotion and service within each channel with customer interests.

Beyond this, the knowledge base allows the organization to learn about and improve every aspect of the value chain – from research and development to post-sales service. And it can be used as a source of information for improving interaction and engagement with stakeholders outside the value chain. For example, data gathered through IM processes could be used for (a) capacity planning and optimization, (b) evaluating risks associated with inventory management and pricing decisions, (c) tracing product defects to suppliers and shippers, or (d) deciding what social concerns to report to investors.

Knowledge generated through IM activities, like other forms of business intelligence, is an asset of increasing importance in many corporations. Turning data into actionable knowledge can generate significant financial payoffs for the corporation.

Current Financial Flows

Current financial flows are closely related to marketing assets. They are the revenue and cost flows accruing during the current period (or period of analysis) that flow from the IM investment. Revenues include online sales as well as the incremental value of sales through other channels driven by IM. IM can also accelerate cash collections from revenues and other cash flows, and can enhance the value of current revenue through reducing revenue volatility and risk.

Revenues can also accrue from other IM-related sources. Affiliate marketing programs can provide revenue to organizations for linking to other organizations' websites, displaying their ads on corporate sites, through cross-branding opportunities, and through customer referrals. Organizations that provide high quality use-related content can generate revenue through membership, subscription, and fee-per-usage income. Organizations can sell information gathered via the Internet, such as entries to a website's search feature or customer profile information. Organizations can also sell market information and research findings.

Relevant current costs include reductions in the cost of sales and selling expenses. Numerous selling costs can be reduced through IM initiatives, such as the costs of distribution when products are shipped directly to the customer, or when the customer bears the cost of executing a sales transaction or customer support services. Cost savings can also accrue from reduced capital requirements. Working capital can be reduced as IM initiatives help organizations predict and manage inventory stocks. Receivables can be reduced through regularly scheduled online payments or reminders. Fixed asset requirements can also be reduced. For example, the need for administrative office space can be reduced as marketing responsibilities shift to customers, and warehouse space requirements can be reduced as inventory flows become more manageable and predictable. Organizations that execute sales transactions online can reduce the need for brick-and-mortar outlets. Costs relating to stakeholder risks can also be reduced as relationships with stakeholders are strengthened. For example, stronger relationships with employees, suppliers and other trading partners reduce transaction costs and the cost of replacing partners that end relationships. IM can also reduce engagement costs associated with not-for-profit organizations, and costs associated with poor media coverage and regulatory compliance.

Exhibit 9: Final Outputs

Final Outputs: Marketing Assets	Sample Performance Measures
Customer Value	• Customer lifetime value • Number of clients and potential clients at various stages in the sales cycle • Product usage volume • Frequency and quantity of online purchases; willingness of customers to pay premium or search
Brand Equity	• Incremental cash flow from brand, relative to estimated cash flow from unbranded products • Difference in market and book value attributable to brand, based on estimated market value without brand • Estimated value and increase in value of intellectual property rights such as domain names, logos, trade dress (online appearance, copyrights, web copy, advertising visuals etc.).
Knowledge Base	• Estimated exchange value of knowledge base • Estimated actionable value from scheduled queries to knowledge base • Estimated value of knowledge base resulting from innovations in corporate and functional strategies, structures, and processes • Estimated value of knowledge base resulting from innovations in business processes and products

Final Outputs: Current Financial Flows	Sample Performance Measures
Increased Revenue	• Sales revenues by channel • Sales growth • Affiliate advertising revenue
Accelerated Cash Flows	• Current period cash flow • Growth in cash flows
Reduced Revenue Volatility	• Stability of revenue stream • Percent revenue from repeat customers
Lower Costs	• Product costs and margins • Inventory carrying and distribution costs • Customer service cost • Marketing and sales costs
Lower Working Capital	• Inventory stocks needed to support sales through Internet and other channels • Inventory turnover • Cash requirements • Receivables balance and quality
Lower Fixed Capital	• Market value of physical sales outlets and equipment • Market value of warehouses, distribution centers, and equipment • Market value of selling and administrative offices and equipment • Sales to fixed asset ratio
Reduced Risk	• Stock and bond ratings • Cost of capital • Contingent liabilities • Quality of stakeholder relationships

Exhibit 10: Outcomes

Outcomes	Sample Performance Measures
Shareholder Value	• Long-term IM ROI: (increase in marketing assets + sales margins – IM investment) / IM investment • Change in market value attributable to IM initiatives • Economic Value Added (EVA)
Organizational Profitability	• Short-term IM ROI: (sales margins – IM investment) / IM investment • Current period cash flow; growth in cash flow • Current period earnings; growth in earnings

Outcomes: Shareholder Value and Organizational Profitability

For IM initiatives to be successful, their outputs must eventually result in improved financial performance. Viewed simply, the marketing assets generated through IM investments enhance the organization's market value and are incorporated into shareholder value. Likewise, the financial flows from IM investments enhance the organization's current profitability. Both the future value stored in the marketing assets and the financial flows already realized are incorporated into the ROI calculation, as shown in Exhibit 5. These financial returns are the ultimate outcome, and can be used to (a) evaluate IM investments already made, and (b) predict outcomes from future IM investments that can be used to guide resource allocation decisions.

Exhibit 11: Internet Marketing Performance Model Four-Step Process

1. Develop the IM payoff model
2. Identify the linkages
3. Define metrics
4. Calculate ROI

5. IMPLEMENTING THE FINANCIAL PERFORMANCE PAYOFF MODEL: A COMPREHENSIVE EXAMPLE

In this section, we provide a simple (yet comprehensive) example of how to implement the performance model. Implementation follows the four-step approach described earlier. This process is restated in Exhibit 11.

We apply this process to a company that will be called, "U-Gas". We then build a financial performance model for Internet marketing by implementing the four-step process presented in this Guideline. A brief description of U-Gas is as follows:

> *U-gas operates a chain of gas stations throughout Wyoming and Montana. The company operates a simple website with a feature that allows site visitors to search for gas station locations, and to obtain basic information about the company. Mobile phone coverage in this region has improved greatly in recent months, and U-Gas has recently launched a campaign to attract mobile phone customers who drive in the area. The campaign includes a website for mobile customers along with billboards and signage at gas stations, to drive users to the site. The billboards and signs display the message: "Press UGas # on your phone for nearby U-Gas locations." When a user makes the call and enters the site, a list of stations near the mobile phone base station or cell tower from which the call originated is displayed. The locations are accompanied by text that reads: "Click on a station for a map and free offer." When a user clicks on station, a map appears along with a message that reads: "Click here for a free text message with your map and a coupon." When the user clicks, a text message is sent to the mobile phone; it reads "Show this message to station attendant to receive a free 24-oz soda with your fill-up." The message also says "Reply to this message to register with U-Gas – receive coupons and station locations*

when you're driving away from home". The message contains a code, which the attendant records, that indicates whether the customer is a new, repeat, or registered user, and whether the user is away from home.

Step 1: Develop the IM Payoff Model

The payoff model for U-Gas is shown in Exhibit 12. The model is a simplified version of the complete payoff model (Exhibit 1) – it shows only items relating to the above mobile phone campaign.

Inputs: external factors that influence IM

Corporate strategy:

The company wants to target mobile phone users – a demographic that frequents large international oil companies and traditionally gives low patronage of U-Gas stations.

Marketing strategy:

The marketing strategy focuses on maintaining a brand image of a local company that cares about its customers.

External environment:

Mobile phone coverage in Wyoming and Montana is increasing, and mobile phone usage is increasing in this sparsely-populated region.

Processes: IM activities and investments

IM strategy, structure, and system

The IM strategy for U-Gas is focused on encouraging mobile users to become customers by providing valuable information about gas station locations. Distances between towns and gas stations in this region are often large, and drivers in the region carefully monitor their remaining gas as they drive.

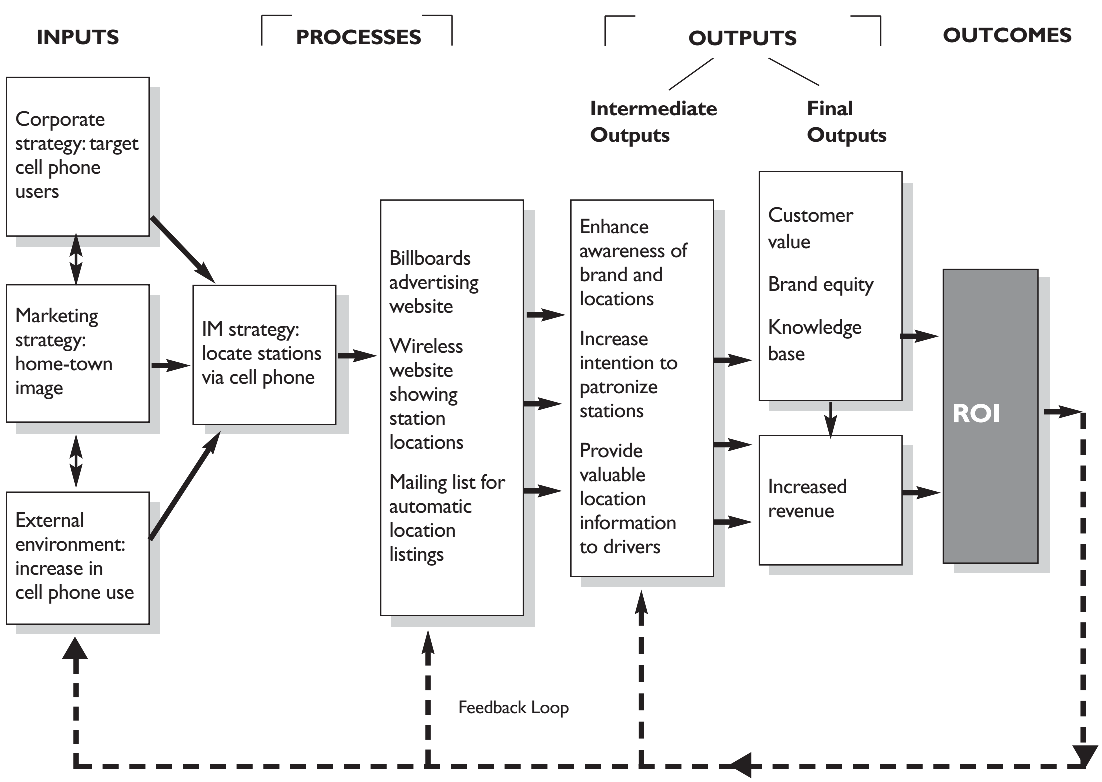
Billboards:

Billboards are used to support the IM strategy and drive users to the wireless website.

Website:

U-Gas has developed a site on the wireless web. The site uses mobile phone base stations or cell tower locations to provide users with a listing of the three nearest station locations. Upon request, these locations are sent via text message to the user's mobile phone.

Exhibit 12: U-Gas: Internet Marketing Payoff Model



Mailing list:

U-Gas allows users to register for an automatic mailing list, which sends nearby service station locations to customer mobile phones when they are distant from their home mobile phone base station or tower.

Intermediate Outcomes: Intermediate indicators of investment effectiveness

Awareness:

U-Gas seeks to make mobile phone users aware of the company, its station locations, and its wireless website offerings.

Intention:

U-Gas encourages customers to engage in pre-purchase research by finding nearby station locations

Value provided:

Locations of nearby stations are valuable to customers – locations help customers identify stations as well as other services such as restaurants, which are often co-located.

Market information:

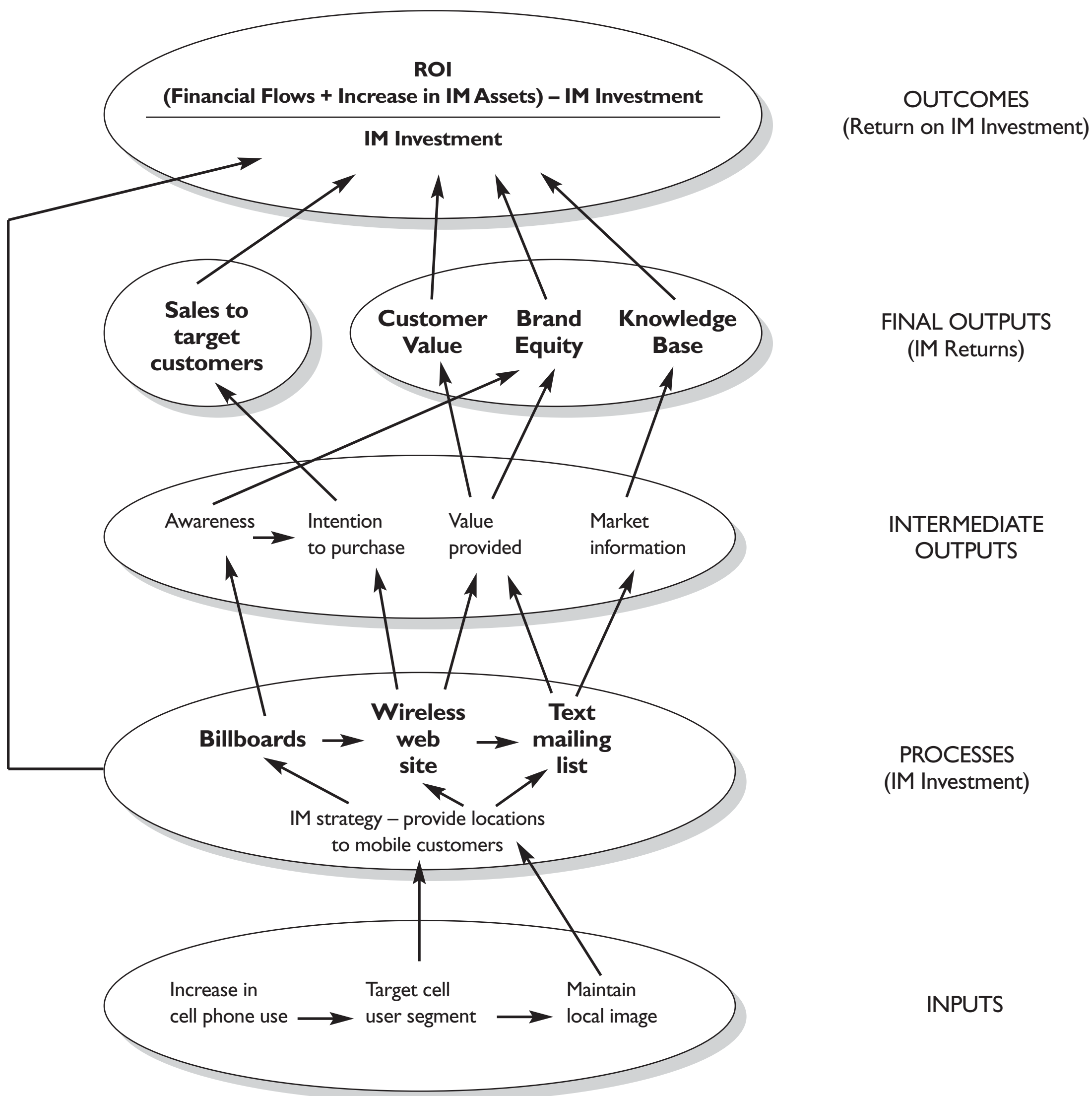
U-Gas monitors customer searches and records information about the locations of customers who need a station. The information can be useful in planning locations for future stations.

Final Outputs: Objectives pursued through IM

Increased revenue:

U-Gas seeks additional revenue from the mobile customer segment.

Exhibit 13: U-Gas: Causal Linkages



Customer value:

Customers who have located and purchased gas from a station are expected to return to the station for future fill-ups.

Brand equity:

U-Gas intends to strengthen its current image as a friendly and helpful local citizen, which should result in sales when gas stations are opened in previously unserved locations.

Knowledge base:

U-Gas records information about (a) all transactions through the site, (b) mailing list registrants, and (c) which customers fill up and become repeat customers.

Outcomes: Final objectives sought through the IM initiative

ROI:

U-Gas seeks to generate positive returns on its Internet marketing investments

Step 2: Explore Causal Linkages

Once U-Gas has identified those elements in the IM payoff model that are relevant to this IM campaign, the company can begin to explore the relationships between elements. To do this, U-Gas considers how each of the elements interacts with other elements to drive success for the IM initiative.

Exhibit 13 visually presents how the elements interact. Sometimes called a strategy map or a causal linkage map, this diagram traces the pathways through which corporate and IM strategies ultimately result in financial outcomes for the company. The diagram shows how strategies influence the processes pursued through IM investments, how these processes work to drive the intermediate and final outputs desired by the IM function, and finally, how these outputs result in financial performance and ROI for the corporation.

Exhibit 14: U-Gas: Metrics Dashboard

U-Gas IM Metrics Dashboard

	December Baseline	January Target	January Results	Variance	Evaluation
Inputs:					
% mobile users who are U-Gas customers	10%	10%	11%	10%	Excellent
% presence in small towns in region	38%	39%	39%	0%	Good
# of mobile phone users in the region	400,000	440,000	470,000	30,000	Excellent
Processes:					
% of stations served by billboards	50%	70%	63%	-10%	Poor
% site accesses served w/3 locations	78%	95%	96%	1%	Good
# of registered customers	6,894	10,000	12,315	2,315	Excellent
Intermediate Outputs					
# of drivers passing billboards	320,000	440,000	380,000	-60,000	Poor
# of wireless website visitors	6,297	20,000	24,322	4,322	Excellent
# messages to registered customers	14,227	60,000	95,484	35,484	Excellent
Final Outputs					
Customer value	$90,000	$200,000	$235,000	$35,000	Excellent
Brand equity	0	$25,000	$45,000	$20,000	Excellent
Knowledge base	0	$10,000	$40,000	$30,000	Excellent
Current financial flows	$40,000	$95,000	$100,000	$5,000	Good
	$130,000	$330,000	$420,000	$90,000	Excellent
Outcomes					
Return on Investment	-35%	10%	40%	300%	Excellent

Step 3: Develop Metrics

Using the causal linkage model, U-Gas determines which metrics can best represent each element contributing to financial performance. To keep the example simple, we assume that U-Gas selects exactly one measure for each element in the payoff model.

Even in this simplified model, a large number of metrics can be used to monitor IM actions and results. Although metrics are very helpful in planning and evaluating investments, they can also be confusing and cumbersome to use. Here, the metrics considered most important for managing IM performance are inserted into a one-page metrics dashboard, shown in Exhibit 14.

The metrics dashboard provides a simple way to present metrics that allow the company to monitor all aspects of its IM investment. By listing the metrics in the order represented in the IM payoff model (inputs, processes, outputs, outcomes) the dashboard usefully tracks progress and identifies potential problems in achieving the company's financial performance goals.

Exhibit 15: U-Gas: Return on Investment Calculations

1 **Calculate the Monetary Value of IM Initiative Returns**

	Item	Description	Financial Flows	Marketing Assets
CUSTOMER VALUE:	*Increase in customer value associated with this investment*		Flows realized in current period	Present value of expected flows
Revenue:	Revenue	Sales to mobile phone-using customers	$500,000	$1,250,000
Costs:	Cost of goods sold	Cost of gas	$400,000	$1,005,000
	Direct selling expense	Cost of soda	$4,000	$10,000
		Net Revenue	$96,000	$235,000
Other Inflows:	Other costs	Savings relating to station attendant hiring and training costs	$4,000	
	Savings from working capital		$ + ...0........	
	Savings from fixed capital		$ + ...0........	
		TOTAL CUSTOMER VALUE	$100,000	$235,000
BRAND EQUITY:	*Increase in brand value associated with this investment*			
Revenues:		Expected increase in net revenue at future locations as a result of the campaign		$40,000
Costs:		Expected savings relating to future hiring; reduction in re-contracting costs with soda and food distributors		$5,000
		TOTAL BRAND EQUITY		$45,000
KNOWLEDGE BASE:	*Increase in knowledge base associated with this investment*			
Revenues:		Increased revenue from food sales associated with future soda promotions		$15,000
Costs:		Reduced cost of future market research for determining location of new stations		$25,000
		TOTAL KNOWLEDGE BASE		$40,000
		TOTAL RETURNS	$100,000	$320,000

2 **Calculate the Monetary Value of IM Initiative Investment**

INTERNET MARKETING INVESTMENT:	*Cost of resources invested in Internet marketing initiative*			
One-time Expenses		Campaign development; IT architecture purchase and set-up, design and implementation of website, mailing list, customer database, and mobile tower location application, billboard design and set-up; development of station policies and procedures	$200,000	$ – ....0.........
Ongoing Expenses		Maintenance of software and hardware, Internet service provider costs, billboard rental, training for station personnel	$40,000	$60,000
Allocations			$ +/– ....0.......	$ +/– ....0.......
		TOTAL IM INVESTMENT	$240,000	$60,000

3 **Calculate the IM Initiative ROI**

$$\frac{\begin{array}{ccc}\text{(Marketing Assets + Current Financial Flows)} & - & \text{IM Investment} \\ (\$320{,}000 + \$100{,}000) & - & (\$240{,}000 + \$60{,}000)\end{array}}{\begin{array}{c}(\$240{,}000 + \$60{,}000) \\ \text{IM Investment}\end{array}} = \mathbf{40\%} \text{ Return on Investment}$$

Step 4: Calculate ROI

The final step in evaluating the financial payoffs from IM is calculating ROI, as shown in Exhibit 15. The calculation shows that the IM investment has contributed to financial performance in a variety of expected and unanticipated ways.

The customer value section shows how the mobile web campaign has resulted in sales margins or net revenue of $96,000 realized in the current period, and $235,000 expected through repeat purchases and referrals directly attributable to the U-Gas mobile web campaign. By attracting new customers, and adding to net sales, the campaign has drawn the attention of qualified potential employees who have sought employment at U-Gas stations, and has reduced the company's hiring and training expenses by a total of $4,000.

The campaign has also been effective in building brand equity, which is expected to result in sales margins (without further marketing expense) at planned station locations after new stations are opened. As has been realized in the current period, this brand equity is expected to result in cost savings related to future hiring. In addition, brand equity built with soda and food distributors as a result of this effective campaign is expected to reduce the costs associated with re-establishing contracts when they expire, and the costs of expanding contracts to cover new stations. The total value of incremental increases in brand equity resulting from the U-Gas campaign is estimated to be $45,000.

The final benefit accruing from the campaign results from an increase in the value of the company's knowledge base. The web management software records each time a customer (a) enters and searches the site, (b) receives store location information via text message, (c) registers for automatic emails when driving away from home, and (d) purchases gas and food. The information captured thus far will allow the company to analyze the food purchases of customers receiving free soda, which will be useful in planning effective food-related campaigns in the future. This information is valued at $15,000. In addition, the knowledge gained by tracking which station locations customers most frequently request can be used to place new stations in the future. This information can reduce the cost of market research by an estimated $25,000.

The costs associated with the U-Gas campaign investment include a variety of one-time and operating expenses that include: creative costs of developing the campaign, information technology expenses associated with hardware and software, and the costs of developing and implementing policies and procedures to execute the campaign. The investment already made in the campaign totals $240,000; future planned investments expenses are valued at $60,000.

The ROI is then calculated by dividing the excesses of benefits over costs by the IM investment. In this case, the investment is expected to become very profitable, generating an expected return of 40%.

6. CONCLUSION

As long as investments continue without the rigor of measurement that is normally a part of business decisions, they will continue to be made based on the actions of competitors and the persuasiveness of the marketing or information technology managers' arguments. This frustrates senior general managers, information technology managers, and financial managers. Marketing managers are also frustrated because they often believe that their marketing programs do create significant value, but often cannot prove that value in monetary terms. This Guideline provides the tools and techniques to provide a more rigorous and standardized analysis for evaluating Internet marketing expenditures, for both planning and control purposes. It provides a model to integrate Internet marketing payoffs (both costs and benefits) into an ROI calculation.

It responds to the increased interest in evaluating the payoffs of investments in advertising and marketing generally, and Internet marketing specifically. The recent improvements in tools and techniques for performance evaluation and the ability of information technology to process larger amounts of data for analysis, and the development of more reliable non-financial measures of performance, has enabled marketing professionals to focus more effort on measuring the ROI of investments in marketing. It is no longer acceptable to make these expenditures without the rigorous analysis necessary to prove success, and to ignore this analysis in formal ROI calculations. It is also unacceptable to continue to approve resource allocations without formally evaluating past successes and failures. This guideline provides the tools and techniques for improved planning, control, and evaluation of Internet marketing expenditures.

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