

Marketing analytics ups Fortune 1000 return on assets 8 percent, says operations research study

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Fortune 1000 companies that increase their use of marketing analytics improve their return on assets an average 8% and as much as 21%, with returns ranging from \$70 million to \$180 million in net income, according to a paper written by two key members of the Institute for Operations Research and the Management Sciences (INFORMS).

The research was conducted by Penn State University [Management Science](#) Professor Gary L. Lilien, former president of an INFORMS predecessor society; Arvind Rangaswamy of the Smeal College of Business at Penn State, former president of the INFORMS special interest group in ebusiness; and Frank Germann of the University of Notre Dame.

"Our study provides a strong rebuttal to executives who believe that information gathering and analysis result in excessive delays and 'analysis paralysis,'" says Dr. Lilien, cofounder and Research Director of the Institute for the Study of Business Markets at Penn State's Smeal College. "On the contrary: when analytics is deployed with strong support from key executives, organizations thrive in competitive industries and react well to today's customers, who frequently change their product preferences."

The authors conducted a survey of Fortune 1000 firms, contacting 968 executives at 500 companies and receiving responses from 212 senior

executives.

Marketing analytics is a technology-enabled and model-supported approach to harness customer and market data to enhance marketing decision making. It consists of two types of applications: those that involve their users in a decision support framework and those that involve automated marketing decisions.

The author's analysis shows that firms realize favorable and, likely sustainable, performance outcomes from greater use of marketing analytics, showing that more intense industry competition and more rapidly changing customer preferences increase the positive impact of marketing analytics deployment on [firm performance](#).

The study emphasizes the key role of management in the success of marketing analytics projects. A company's top management team must ensure that the firm, (1) employs people with requisite analytics skills, (2) deploys a sophisticated IT infrastructure and data, and (3) develops a culture that supports marketing analytics, so that the insights gained from marketing analytics can be deployed effectively within the firm.

The analysis also shows that support from the top management team, a supportive analytics culture, appropriate data, information technology support, and analytics skills are all needed for the effective deployment of marketing analytics.

The authors were troubled by reports showing that despite many case studies on the effectiveness of marketing analytics in marketing and business decisions, the relative number of companies using analytics is still low. For example, a 2009 McKinsey study of 587 C-level executives showed only 10% of firms surveyed used marketing analytics extensively.

The author's research, in contrast, shows strong benefits from applying marketing analytics. A one-unit increase (on a scale from 1 to 7) in marketing analytics deployment has major benefits. The authors considered one group of firms that have median (50th percentile) deployment of marketing analytics and operate in an industry with average competition and average changes in customer needs and wants. For a firm in this category, they found, a one-unit increase in the deployment of marketing analytics (which translates into moving the firm from the 50th to the 65th percentile of deployment) is associated with an 8% increase in Return on Assets (ROA).

A second type of firm was also examined, one with median (50th percentile) deployment of marketing analytics but operating in highly competitive industries with frequently changing customer needs and wants. For this category firm, a one-unit increase (moving it from the 50th to the 70th percentile of deployment), is associated with a 21% average increase in ROA.

The 8% increase in ROA implied an expected increase of about \$70 million in net income for firms surveyed by the authors; the 21% increase meant an increase of \$180 million in net income.

The paper, "Performance Implications of Deploying Marketing Analytics," is scheduled to be published in the *International Journal of Research in Marketing*.

More information: A podcast interview with Dr. Lilien is online at www.scienceofbetter.org/podcast/lilien.html

Provided by Institute for Operations Research and the Management Sciences

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