

# Marketeering with Curves

## A case for the Marketing Learning Curve

Jamie MacAlister

***This article draws from my experience with a client in the Travel sector who needed to improve marketing efficiency. Curves helped us get to some of the answers.***

We know secretly that not all our marketing money is well spent., We sense that we need to be prepared to sacrifice the bad with the good, as long as overall the impact is a more positive sales picture. As the famous quote goes: “I know half my advertising is wasted, I just don’t know which half” <sup>1</sup>.

But today, we can and should do better than that! Particularly now with the growth of direct response marketing. But the problem is not just about what we do and don’ know, it also has something to do with the psychology of marketeers.

Marketeers can be like musketeers. As we see in the movies, effective musketeering involves knowing the terrain (where the stools are to stand on and throw at your opponent), anticipating the opponent, speed and accuracy with the sword, the size of the sword, its shine, elegant clothing and feathered hat. Some of these features are clearly more for show. Having a large shiny sword and elegant clothing may be a way to display prowess – but being faster and more accurate gets results, and this may mean a lighter sword and more functional clothing.

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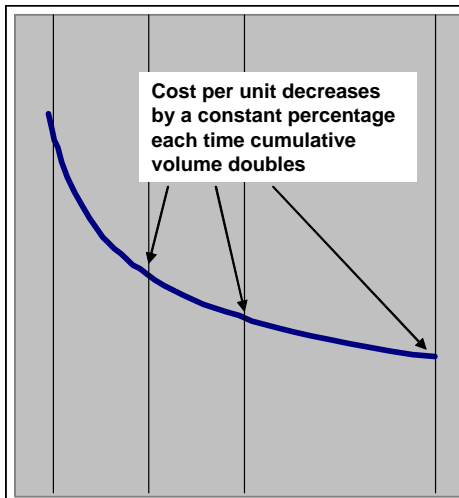
So it can be with marketeers. The size of the marketing budget and the elegance of the advertising are displays of marketing prowess. But a more accurate marketing programme should lead to better results with a smaller budget.

Enter the Marketing Learning Curve challenge. The Learning Curve, now a well used phrase normally linked to education, has its origin in management science applied to manufacturing efficiency. The basic principle: the more you do something, the more efficiently you are able to do it.

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<sup>1</sup> Quote sometimes attributed to Lord Leverhulme (founder of what is today Unilever), and sometimes to department store magnate John Wannamaker

**EXHIBIT 1 : The Learning Curve**



In 1925 at the Wright-Patterson Air Force Base in America, management scientists discovered that every time aircraft production doubled, the required labour time decreased by 10% to 15%. Further studies from other industries showed this value to vary between a couple of percent and 30%, but in most cases it is a constant percentage independent of scale of operation (see Exhibit 1).

The Boston Consulting Group in the 1970s extended this study to cover other aspects of business, including marketing, plotting what they called an experience curve, and noted reduction effects ranging from 10% to 25%.

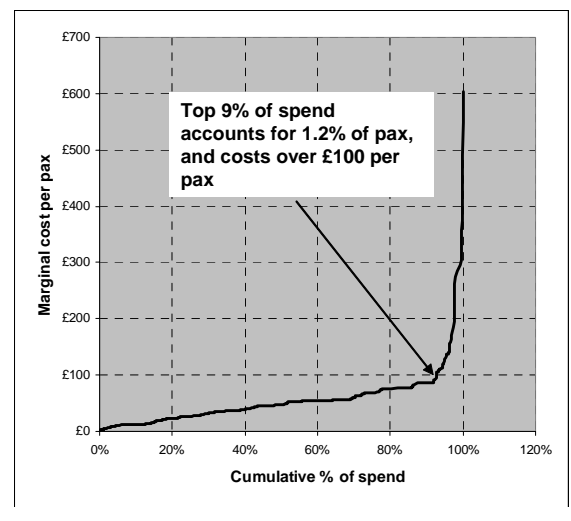
This concept has since been widely applied to improve business competitiveness. However, while it has been important in production and operations, it has never really taken off in marketing in my view. As a rule, the marketing budget seems to expand to absorb more of the available cash generated as a product grows.

This is particularly true in high fixed cost industries where the incentive to maximise sales by spending more on marketing is particularly strong. An example of this is a travel company in which I have worked recently. Here, I saw the usefulness of the Learning Curve and other related curves.

Much of the marketing activity is direct response, which means we could break it into discrete chunks and measure how effective each chunk was. We then ranked each of those chunks in order of effectiveness to produce a curve of diminishing returns (as per 80/20 rule), illustrated in Exhibit 2. In this analysis of one part of the business, we noted that 9% of the cost was associated with marketing activity which was costing more than £100 per passenger to acquire a passenger, which made the activity unprofitable.

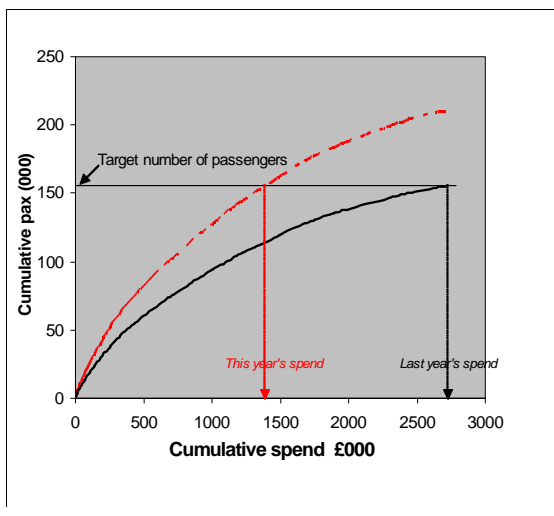
We identified those activities in this unprofitable zone and stopped them. We then sought to replace them with other activities similar to those at the other end of the curve. The net effect is another similarly shaped curve, but at a lower level overall. In other words we have learned from our experience and can now produce the same results for less.

**EXHIBIT 2 : Marketing costs per passenger**



In Exhibit 3, we see an alternative view of this curve applied to another part of the business. This shows the cumulative amount spent to attract different cumulative numbers of passengers. We discovered that we could improve the rate at which we converted enquiries generated by the advertising into bookings by a factor of 2%. This had the effect of lifting the curve as shown by the red dotted line. Because of the shape of the curve, this had a disproportionate effect on the level of spend needed to achieve the same result – a reduction of 44% from £2.7 million to £1.5 million.

**EXHIBIT 3 : Marketing costs per passenger**



The interesting thing that having discovered these opportunities to improve the efficiency of spend, the marketing executives involved were reluctant to realise them, even though in one case, there was no business reason for planning to attract more than the targeted number of passengers.

Why? I think it's part of the musketeering mystique of marketing! It's still seen as more of an art than a science, where efficiency savings need to be treated with care, and a reduced budget is a sign of failure. So, in marketing as opposed to production, there is no established science for planning a reduced spend per unit.

Time for a change! The revolution is here and the king is dead! Based on the BCG "experience curve" research, improvements of up to 25% for each doubling in volume should be achievable. And sometimes, as shown in the example above, substantially more is possible. The Marketing Learning Curve, and its fellow curves, offer business managers a tool for targeting their marketing departments with improvements in efficiency.

***Jamie MacAlister** is a management consultant, and founding director of Blonay Limited. Blonay's mission is to help business leaders put financial discipline into marketing and creative impetus into business planning. Copyright © Blonay Limited 2004. All rights reserved.*