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It's Time To Bury The Marketing Funnel

by Steven Noble
for CMO & Marketing Leadership Professionals



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Marketers Must Embrace The Customer Life Cycle

by **Steven Noble**

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EXECUTIVE SUMMARY

More than a century after its first use, marketing leaders still turn to the “marketing funnel” to describe three key aspects of their work: consumer psychology, marketing mix measurement, and the business value of marketing. However, as marketing has grown more complicated over the past decade, the funnel has struggled to continue to reflect reality. Forrester believes the funnel’s value as a framework is finished, and a new model — the customer life cycle — provides a better fit with modern marketing, as it puts the customer at the center of the effort, involves the entire brand experience, and describes an ongoing relationship with the customer. Just as the funnel infused every aspect of marketing historically, the customer life cycle will transform how marketers talk and think about their discipline in the digital world.

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Forrester interviewed nine vendor and user companies, including Avis Budget, Betfair, Commonwealth Bank Of Australia, Hill Holliday, JDA Software, JDW (The Charlotte Agency), JWT, Philips, and Virgin America.

Related Research Documents

[“Mapping The Customer Journey”](#)
February 5, 2010

[“Marketing Mandate: Connect The Dots”](#)
December 14, 2009

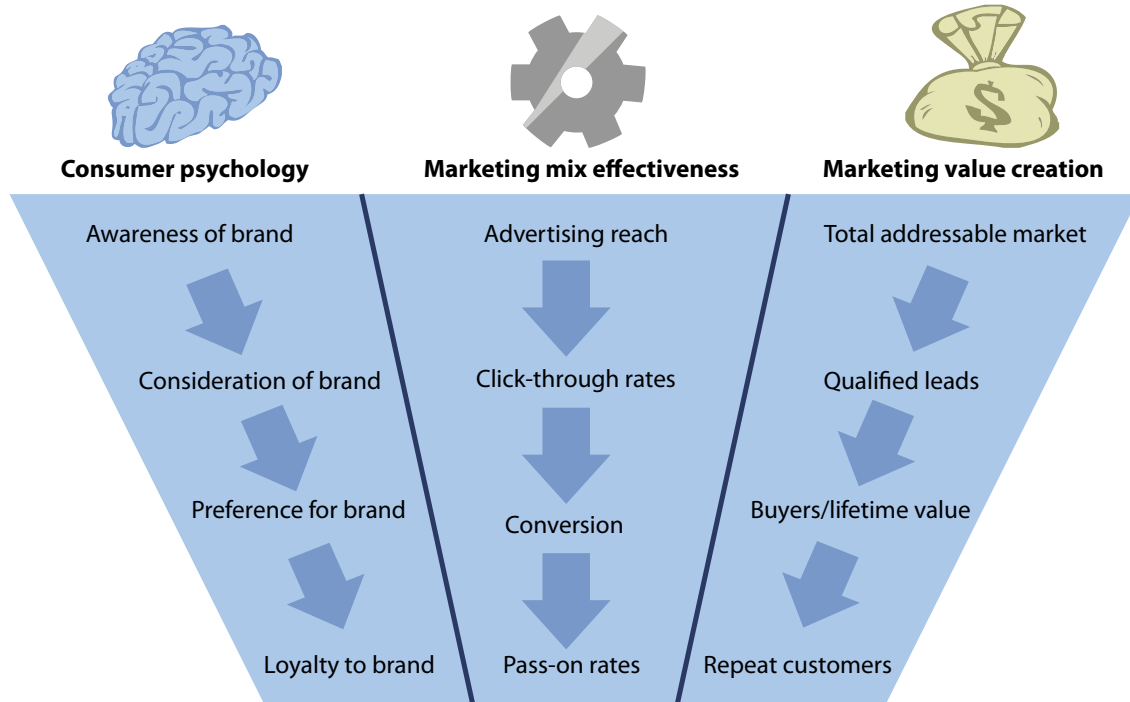
[“Executive Q&A: Customer Lifetime Value”](#)
March 11, 2009

THE CENTURY-OLD FUNNEL'S INFLUENCE IS STARTING TO FRAY

More than a century after Elias St. Elmo Lewis created the attention, interest, desire, and action (AIDA) model of customer persuasion, the marketing funnel still influences today's marketing leaders. Why? It simplifies the language marketing leaders can use to describe three key aspects of their work: consumer psychology, marketing mix measurement, and the business value of marketing (see Figure 1). However, marketing has grown more complicated over the past decade, media choices have exploded, and consumers have asserted themselves more visibly than ever before. The funnel struggles to account for many of these new realities. In particular:

- **Consumer behavior is less funnel-like than previously thought.** Fifty-three percent of US online consumers now say that they research products online that they subsequently buy offline.¹ By researching products online, consumers expose themselves to brands they might not have previously considered, enlarging their consideration set at exactly the point where, according to the traditional funnel, it should narrow. Likewise, consumers don't reach the end of a simple linear funnel after a purchase. If they are repeat customers, they will loop back into the purchase journey without the marketer having to rebuild awareness.²
- **Loyalty and word of mouth are not represented in the funnel.** The funnel encourages the marketer to focus on the purchase. It only supports loyalty as the final step in the funnel — after purchase — rather than asserting that a business must earn and retain loyalty across every customer interaction. Likewise, the funnel does not accommodate activities like word of mouth (WOM) effectively. At best, a marketer might note WOM as a factor that creates awareness or preferences. However, the funnel does not call out the connection between repeatedly delighting customers who then advocate for the brand with positive WOM.³ It encourages marketers to bias their mix toward the next sale, not the brand experience.
- **The funnel neglects customer lifetime value and profit.** The goal of business is profit, and smart marketers support this goal by increasing sales within the customer segments with the greatest lifetime value. However, the traditional marketing funnel is a pure volume-based activity model that represents a customer as a customer and a sale as a sale. To understand marketing's true role in creating business value, it needs a model focused on customer lifetime value, not on sales volume as the funnel portrays.

Figure 1 The Funnel Simplifies Thinking About Three Important Aspects Of Marketing



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Source: Forrester Research, Inc.

THE CUSTOMER LIFE CYCLE BETTER REPRESENTS TODAY'S MARKETING PROCESS

Despite its problems, the funnel has remained a pillar of mainstream marketing thought. However, Forrester believes the funnel's value as a framework is over, and a new model — the customer life cycle — provides a better fit with modern marketing (see Figure 2).

Forrester defines the customer life cycle as:

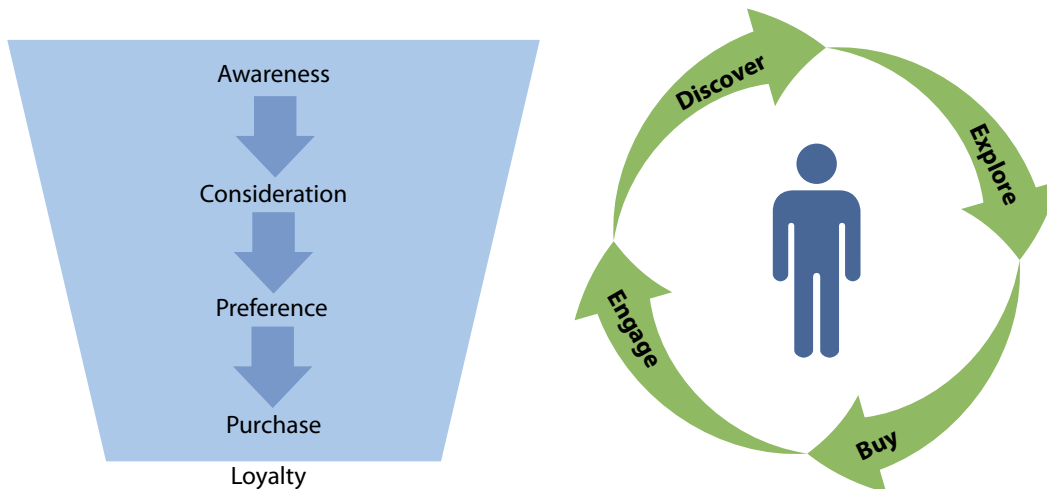
Customers' relationship with a brand as they continue to discover new options, explore their needs, make purchases, and engage with the product experience and their peers.

The customer life-cycle model is a better fit for how leading marketers conceive, execute, and measure in the 21st century because it:

- **Puts the customer at the center of marketing.** At the heart of the customer life cycle is the customer, the target for all of the dollars spent and programs created. Modern marketers focus on customers continuously, obsessing about their experiences and their lifetime value. Virgin America took this to heart when it designed the cabin and the marketing around customers' expressed interests and markets these with trivia contests that remind fliers of what they wished for.

- **Involves the entire brand experience.** Everything the company does — in the store, on a Web site, or at the call center — affects the customer's perception of the brand. Avis Budget considers every impression of the logo online or offline as both a brand impression and a direct response opportunity. A range of other influences — from customer reviews to media coverage and competitor actions — also colors that picture. By expressing the full scope of modern marketing, the customer life cycle encourages marketers to focus on the total brand experience, not just traditional activities.
- **Describes an ongoing relationship.** Smart marketers realize a successful sale doesn't automatically generate loyalty — it's something they must earn and work to retain. JDA Software recognizes this and, even in a business-to-business (B2B) context, uses social media and other channels to identify satisfied and dissatisfied customers. When marketers do this well, they can inspire satisfied customers to share their experiences with their peers — further strengthening the brand. The customer life cycle shows a world in which marketers must earn and retain this goodwill by investing in customer relationships.

Figure 2 The Customer Life Cycle Is A Better Fit With Modern Marketing



The Customer Life Cycle Recognizes That Marketing Is Continuous

The customer life cycle surrounds the customer with the total brand experience across four relationship phases, simultaneously addressing key issues in customer psychology and experience, marketing mix performance, and business value creation (see Figure 3):

- **Discover.** Every customer must discover a brand, product category, or personal need — the initial trigger that leads to a new or repeat purchase. These events — which can range from running out of soap, which creates the need to restock, to seeing an iPad commercial, which creates the desire for a tablet computer — drive the discover phase. Customers are quicker to discover brands through positive WOM as well as good distribution and media.
- **Explore.** In this phase, customers explore your brand — and their other options. When they visit the online store and read product information, compare ingredients or performance metrics, or handle products in a well-crafted shop environment, they are immersing themselves in the explore phase. When buying a magazine, this phase might involve the moment it takes to scan the newsstand. When buying a car, it might involve long conversations with salespeople and friends, multiple Web searches, test drives, and many other thoughtful events — all critical aspects of the total brand experience.
- **Buy.** Customer experiences during this phase include product availability, inventory lookup, and satisfaction with the checkout process. It also includes the actual price paid, the perceived value, and the experience with the sales channel if there is a problem. Whether the sale is via an online store like Amazon.com or direct from the manufacturer's site, the marketer must stay close to the brand experience in these channels, including in-store customer service and the call center. Even vending machines, like Redbox Automated Retail (redbox.com) for movie rentals, are part of the brand experience.⁴
- **Engage.** After buying a product or service, customers engage with brands in many ways. To inspire loyalty and WOM, companies must engage the customer regardless of the touchpoints the customer uses. Owners of a Wii, for example, may engage Nintendo by playing Wii Fitness against friends, discovering that the latest version of Halo is only available on a rival platform at GameStop, getting a replacement paddle under warranty, or calling Nintendo for customer support when they have trouble connecting the console to the Internet.

Figure 3 The Customer Life Cycle Links All Phases And Considerations In Marketing









	 Typical program elements	 Psychological and experiential considerations	 Marketing mix efficiency considerations	 Business value creation considerations
Discover	<ul style="list-style-type: none"> • Word of mouth • Advertising • Media relations • Coupons • Physical retail distribution 	<p>Principle: Focus on how your customers typically discover brands and their attitudes and experiences at this stage.</p> <p>Example: Use ethnographic research to uncover the role of medical professionals in influencing baby product purchases.</p>	<p>Principle: Measure how many customers you reach and how effectively you transition them from discovery to exploration.</p> <p>Example: Test how many of your email recipients click through to your Web site from direct versus partner emails.</p>	<p>Principle: Focus investment on the customer groups with the greatest potential lifetime value.</p> <p>Example: Shift funds from print advertising to premium sports sponsorships based on customer research.</p>
Explore	<ul style="list-style-type: none"> • Web site design • Store placement • Sales training • Test-drive programs • Influencer relations • Free-trial programs • Presales telephone support • Package labels 	<p>Principle: Focus on how your customers typically explore their options and their attitudes and experiences at this stage.</p> <p>Example: Use analytics to discover that visitors often search for safety information when they visit your Web site.</p>	<p>Principle: Measure how effectively you support and retain customers during the explore phase, and measure how effectively you transition them from exploration to purchase.</p> <p>Example: Monitor how many inquiries to your call center lead to a sale.</p>	<p>Principle: Focus investment on the customer groups with the greatest potential lifetime value.</p> <p>Example: Reduce the cost of providing information using online distribution.</p>
Buy	<ul style="list-style-type: none"> • Web site design • Store design • Sales training • Pricing and promotions • In-pack information • Delivery 	<p>Principle: Focus on how your customers typically buy and their attitudes and experiences at this stage.</p> <p>Example: Use secret shopper studies to check that sales clerks are friendly and helpful.</p>	<p>Principle: Measure how effectively you convert customers during the buy phase and transition them from purchase.</p> <p>Example: Measure the efficiency of different placements in the store and impact of varying the size of the "Buy" button.</p>	<p>Principle: Focus incentives on the customer groups with the greatest potential lifetime value.</p> <p>Example: Visit customers in their homes when selling high-margin products.</p>

Figure 3 The Customer Life Cycle Links All Phases And Considerations In Marketing (Cont.)

	 Typical program elements	 Psychological and experiential considerations	 Marketing mix efficiency considerations	 Business value creation considerations
Engage	<ul style="list-style-type: none"> • Technical support • Customer communities • Loyalty programs • Advocacy programs • Supporting the ecosystem around a product, such as the games ecosystem around the Wii • Remarketing to existing customers 	<p>Principle: Focus on how your customers typically engage with each other and your products and brands.</p> <p>Example: Use surveys and listening platforms to find out if your most loyal customers share positive experiences with their friends.</p>	<p>Principle: Measure how effectively you support, inspire, and engage your customers.</p> <p>Example: Track how many customers become advocates for your brand using Net Promoter Scores.</p>	<p>Principle: Focus investment on the customer groups with the greatest potential lifetime value.</p> <p>Example: Provide 24-hour personal technical support to your top 5% of customers by lifetime value.</p>

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Source: Forrester Research, Inc.

The Customer Life Cycle Helps Companies Map Marketing's Core Challenges

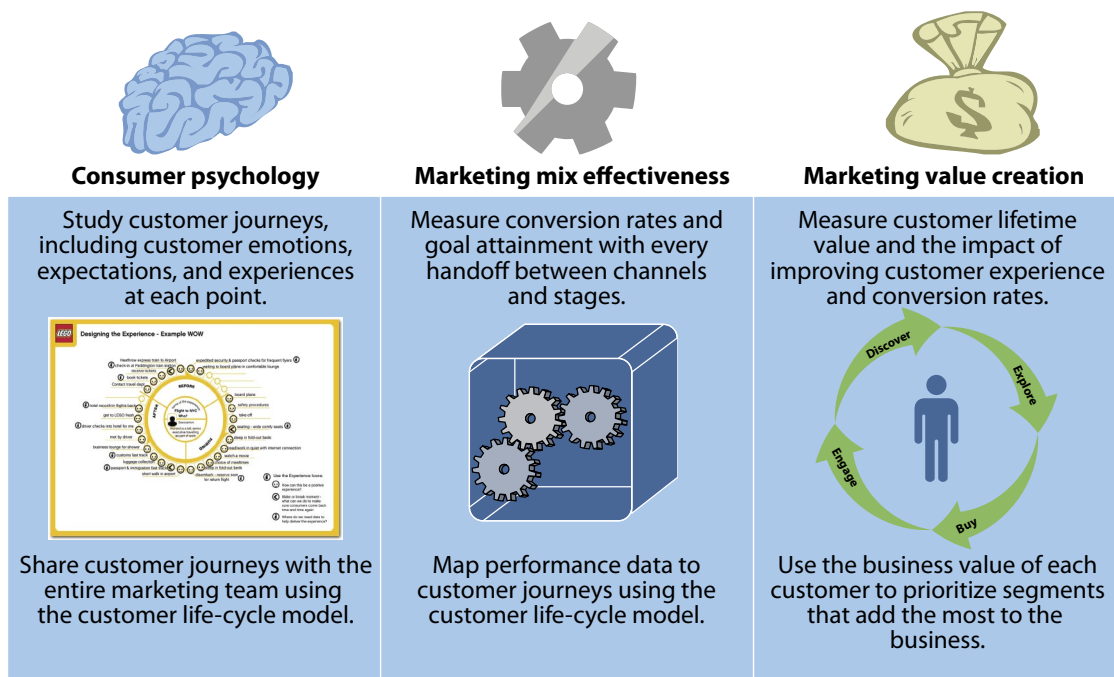
As we said earlier, the funnel simplifies three key issues in marketing: consumer psychology, marketing mix measurement, and the business value of marketing. Marketers can tie the customer life cycle to these three key issues to map their approach to marketing in today's world. However, each of these areas is inherently complex. Marketers must embrace this complexity and use the customer life cycle to show links between the overall strategy and specialized thought in each of these areas (see Figure 4). This includes:

- **Customer journey mapping to truly understand triggers of customer interest.** Customer experience professionals create multichannel personas and support them with customer journey maps that visually illustrate customers' processes, needs, and perceptions throughout their relationship with a company.⁵ These maps are based on ethnographic research rather than untested models of customer psychology based on the funnel.⁶ In the auto business, for example, the test drive is a critical moment in the customer journey. Auto industry chief marketing officers (CMOs) need to remap this marketing activity from the consideration phase in the funnel — sorting out options — to the explore phase of the life cycle and measure the impact that improving the test drive has on overall sales and satisfaction.
- **Metrics-based marketing — to optimize the total brand experience.** Most companies measure conversion rates within discrete channels like Web sales or in-store. Forty-nine percent believe in offering seamless handoffs between channels, and 22% say that they can effectively implement

this.⁷ Marketing must rectify poor cross-channel experiences in order to maximize conversion rates across channels.⁸ Commonwealth Bank of Australia, for example, now focuses on measuring as many handoffs as possible, such as the handoff between viewing a TV commercial and visiting the Web site. To embed metrics-based marketing into the marketing organization as a whole, the CMO should use the customer life cycle to call out the conversion events that are critical to the customer journey. For example, during the explore phase, this could be the bounce rate — the proportion of visitors to a Web page who leave without visiting other pages.

- **Customer lifetime value management — to guide the overall direction.** One of the keys to deriving more value from marketing is to focus on the customers who offer the greatest lifetime value.⁹ When CMOs start using the customer life cycle to understand each of these customer groups, the natural next step is to focus on the life cycles that show the greatest opportunity to increase lifetime value. For example, a high-end fashion label could find that the most profitable customer group includes those who discover new lines through WOM, while other customer groups respond to pricey ads, well-lit stores, or exclusive events. CMOs need to assess who their most important consumer groups are and target them based on an understanding of their process of discovery and exploration.

Figure 4 Use The Cycle To Show Links Between Marketing Strategy And Specialization



Source: LEGO

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Source: Forrester Research, Inc.

WHAT IT MEANS

THE RISE OF THE CUSTOMER LIFE CYCLE WILL CAST MARKETING IN A NEW LIGHT

Just as the funnel infused every aspect of marketing historically, the rise of the customer life cycle will transform how marketers talk and think about their discipline, including:

- **Communication between specialists.** No one professional will be able to master all of the elements of the customer life cycle. The CMO will compose a diverse team of customer experience, channel management, and customer intelligence professionals to explore these questions in detail. In order to facilitate these conversations, CMOs will insist that the marketing team use the customer life cycle to explain each discipline's unique view of the customer. For example, customer experience professionals will highlight the importance of the Web site during the explore phase for shoppers. Channel management professionals will measure the site's effectiveness during the buy phase, and customer intelligence professionals will ensure activities in all of the phases are geared toward the company's most profitable customers.
- **Customer-centric marketing teams.** The traditional silos within marketing organizations — such as geography, product, and channel — are too narrowly focused to create a shared understanding of the customer life cycle. CMOs will need to organize marketing into larger groups focused on a particular customer segment's entire life cycle to align the team's thinking around each group. Roles like the director of acquisition in the automotive industry will be superseded by roles like the director of car-enthusiast marketing, whose team will be made up of functional specialists focused on the consumer group composed of hobbyists and rabid brand loyalists.
- **Agency lingo.** Already, some CMOs attach personas as cover sheets to every agency brief, to ensure all work is customer-focused. As the customer life cycle takes the place of the funnel, smart CMOs will use this model to further enhance agency communication. They will include both the persona and the customer life cycle with every brief and expect every agency to respond to their brief in the terms of the customer life cycle. For example, they will expect their public relations (PR) agencies to show how they will influence customers across the discover, explore, buy, and engage phases and will view media coverage as just a means to this end. Agencies will use these terms to define their programs and develop metrics to define success in each phase.
- **The case for marketing to lead in decision-making.** The funnel portrays marketing as a conveyer belt that does little more than funnel a good supply of customers to the business. But the role of modern marketing is to orchestrate the complete brand experience in order to maximize customer lifetime value. To succeed in this complex, challenging task, marketing will increasingly influence many other parts of the business to orient them around the customer. CMOs will use the customer life cycle to explain their strategy to their peers in their C-suite and the chief executive officer (CEO). By showing that the total brand experience involves more than just traditional marketing communication, they will demonstrate their need for companywide influence.

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Avis Budget	JDW (The Charlotte Agency)
Betfair	JWT
Commonwealth Bank Of Australia	Philips
Hill Holliday	Virgin America
JDA Software	

ENDNOTES

- ¹ Source: North American Technographics® Retail Online Survey, Q1 2009 (US).
- ² McKinsey has proposed an alternative to the funnel in which consumers potentially loop through research, purchase, and product experience indefinitely. Source: D. Court, D. Elzinga, S. Mulder, and O.J. Vetvik, “The Consumer Decision Journey,” *McKinsey Quarterly*, June 2009.
- ³ Consumers rely on each other, often more than on marketing messages, when making their purchase decisions. Although there is no magical group of consumers driving everyone else’s decisions, some consumers are potentially more “socially valuable” than others. Firms can add a kick to their marketing play by getting those social consumers involved. See the February 27, 2008, “[Redefining High-Value Customers](#)” report.
- ⁴ Innovative marketers are reinventing how consumers engage with their products by transforming yesterday’s transactional vending machines into today’s powerful brand experience machines. Some companies, like Redbox Automated Retail and MooBella, have even created new business models using advanced vending technology. The lesson for marketing leaders is not just to add vending machines to the marketing mix, but rather to tap into innovative technologies to create brand experiences that are personally relevant, locally dynamic, and unexpectedly rewarding. Forrester recommends using the four consumer P’s of Adaptive Marketing to help shape these new brand experiences. See the September 16, 2010, “[The Pop-Up Brand Experience](#)” report.
- ⁵ Left to their own devices, companies often neglect customers. But they don’t need to. We recommend that organizations use customer journey maps to examine interactions from their customers’ points of view. Mapping the customer journey requires five steps: 1) Collect internal insights; 2) develop initial hypotheses; 3) research customer processes, needs, and perceptions; 4) analyze customer research; and 5) map the customer journey. To get the most value from these journey maps, companies need to widely share findings, take action on insights, and sustain the learnings over time. See the February 5, 2010, “[Mapping The Customer Journey](#)” report.
- ⁶ Consumer psychology is a fully-fledged discipline with the science of psychology. However, a review of “hierarchy of effects” models, as the funnel-based psychological models are called in the literature, found that they were largely untested, in part because they were so vague that they were hard to test, but also

perhaps because the scientific community has seen little value in testing them because of the self-apparent lack of rigor. Source: T.E. Barry and D.J. Howard, "A Review And Critique Of The Hierarchy Of Effects In Advertising," *International Journal of Advertising*, 1990.

- ⁷ Operating in a multichannel environment isn't new, but it's becoming increasingly complex. Customers spend more time online and increasingly use digital channels to do more than just buy goods — they now routinely use digital channels to gather information, transact, and obtain help. In response, organizations must incorporate more digital channels into their multichannel strategies and tactics, including mobile and social media. Succeeding won't be easy: Few companies are committed to supporting effective multichannel experiences. Companies that don't address this effectively put the relevancy of their digital channels, and perhaps even their brand image, at risk. To create and sustain breakthrough multichannel relationships across digital channels, eBusiness executives must deploy the right tools, like channel-appropriate communications, and rethink organizational structures to ensure that they are focused on the customer, not the channel. See the February 5, 2010, "[Using Digital Channels To Create Breakthrough Multichannel Relationships](#)" report.
- ⁸ Forrester's Cross-Channel Review is a methodology that combines reviews of a firm's Web site, IVR, phone agents, and email service as well as the experience users have when moving across those channels. Of the 53 reviews we've completed over the past three years, none of the companies received "Very good" scores, and only three resulted in "Good" scores. The majority were either "Poor" or "Very poor." See the January 21, 2009, "[Cross-Channel Design, One Channel Pair At A Time](#)" report.
- ⁹ Customer lifetime value is a powerful metric that rewards marketers for understanding their relationships with their customers. But while it is one of the more valuable measurements for marketers, many companies either do not collect the data or do not properly act on the data. This document answers many of the common questions associated with customer lifetime value and incorporating it into your customer analytics framework. See the March 11, 2009, "[Executive Q&A: Customer Lifetime Value](#)" report.

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