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The Customer Funnel

A new framework for local marketing

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Commissioned by

Camilyo
Online in One

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A new framework for local marketing

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Introduction: A New Framework

The path to purchase has become much more complex in the past decade, with consumers using numerous media sources to make buying decisions. The advantages that local merchants enjoyed in the offline world, through personal service and customer relationships, have been eliminated online. Small businesses (SMBs) are now at a major disadvantage because of their relative lack of digital sophistication.

The current industry practice of selling small businesses into individual digital channels and marketing solutions doesn't work any longer. It creates complexity for both the sales rep and the small business owner. Evidence of this comes in the form of high churn rates that most marketing services providers and media sellers see with their digital products.

To simplify the process for SMBs and media sellers alike, a new framework and approach are needed. Ideally, that approach should address the "customer funnel" holistically, which would also help small businesses battle larger competitors. This is the premise behind this report, which was commissioned by Camilyo.

LSA conducted two parallel surveys to test these ideas: one of SMB marketing services providers and one of local business owners. The findings of the two surveys are generally consistent in terms of demand for services and online priorities. However, an area where they diverge is around the customer funnel.

Service providers say the customer funnel concept already influences product development and sales. However they don't believe SMBs understand the funnel. Local business owners, by contrast, not only appear to understand it, they express a desire to address it more comprehensively. They're also interested in an integrated solution offering some self-management capability via mobile app.

Marketing services providers are trying to find a better way to deliver best-of-breed digital solutions to their customers. However they haven't yet been able to bring everything together in a coherent way. Resource limitations and technical complexity are barriers to success.

THE CURRENT INDUSTRY PRACTICE OF SELLING SMALL BUSINESSES INTO INDIVIDUAL DIGITAL CHANNELS AND MARKETING SOLUTIONS DOESN'T WORK ANY LONGER.

The thesis and findings of this report are intended to stimulate discussion and debate about the way forward. And while you may dispute some of the inferences or conclusions, what is indisputable is that local marketing services providers cannot afford to remain where they are.

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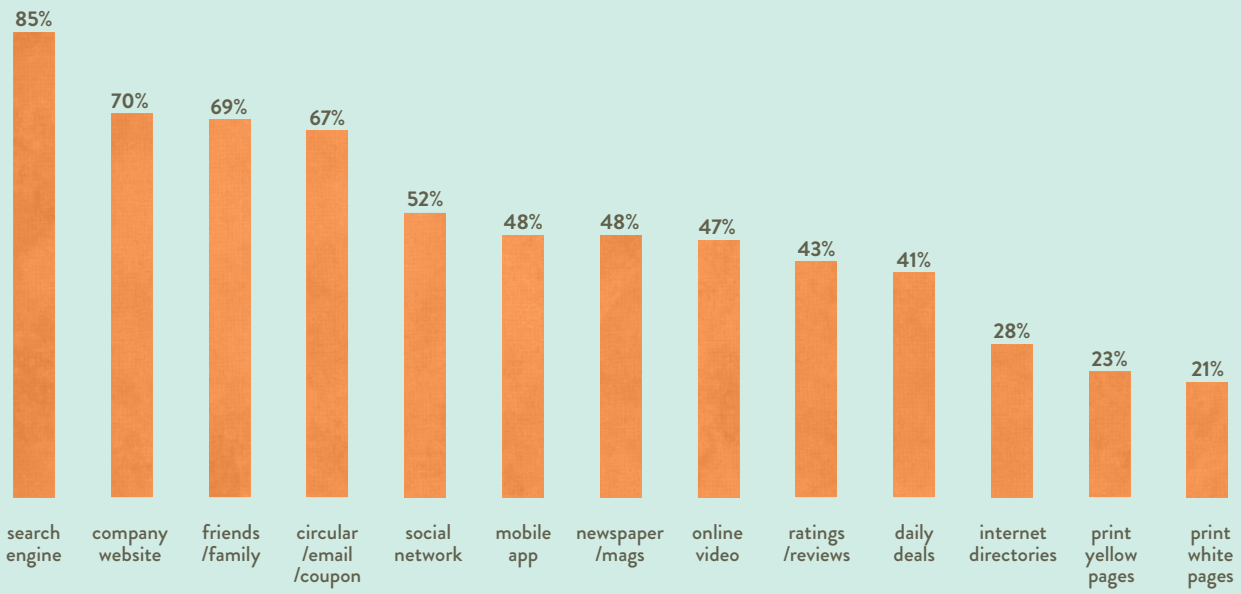
More Complex Customer Journey

Since broadband internet access reached critical mass over a decade ago, and especially since the iPhone's introduction, the consumer journey has become much more complex. It now involves multiple devices and media touch points. These may include search, email, online reviews, mobile apps, display ads, websites, video, social media and others. This is true whether someone is making an online purchase or ultimately buying in a store.

Five years ago, Google-sponsored research found that almost 90% of consumers consulted an "average of 10.4 sources" before making a buying decision[1]. More recent survey data from research firm Burke affirms this. It shows consumers are using an expanding list of media to decide what and where to buy. Figure 1 below reflects the numerous sources used by consumers "in the past month" to make local buying decisions.

As this data suggests, the consumer journey is not a linear migration from awareness to conversion. The actual path to purchase is more haphazard or erratic, like a "zigzag," according to one recent study[2]. This is partly a function of a fragmented market with so many resources. More information enables deeper or more extensive research; indeed, it creates a burden for consumers. When consumers had less information the path to purchase was more direct.

Figure 1 **Media Sources Used in the Past Month**



Source: LSA-Burke Local Media Tracking Study (n=8,000) 2015

1 https://www.thinkwithgoogle.com/research-studies/the-zero-moment-of-truth-macro-study.html
2 "Local Search Unleashing Opportunities for National Advertisers," n=750 US adults (ages 18 to 44), Q4 2015.

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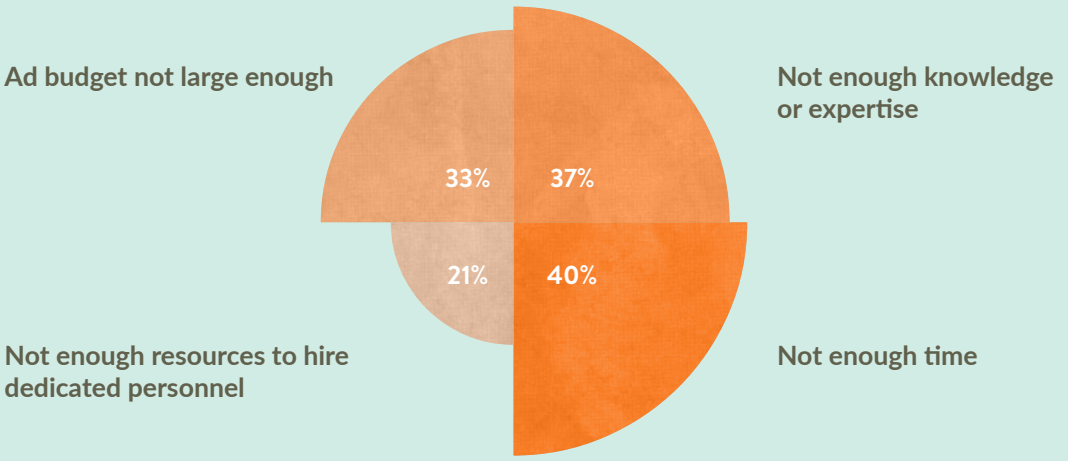
Too Many Channels, Point Solutions

Most small business owners intuitively or intellectually understand this complexity. In a mirror of consumer behavior, local businesses are using more and more media types to attempt to reach their customers and prospects.

According to Thrive Analytics, SMBs now use nearly 8 marketing channels[3], up from 6 in 2013. Despite this, most local businesses struggle to market themselves effectively. The majority don't have the budgets or expertise to compete with larger or more sophisticated enterprises.

A percentage of local businesses use marketing firms or agencies to manage their media, which can increase its effectiveness – emphasis on the word "can" because it doesn't always happen. The majority of SMBs, by contrast, attempt to manage their own digital marketing (Figure 3). The growing list of digital channels and tactics is especially daunting for these do-it-yourself local businesses.

Figure 2 **SMB Challenges with Digital Marketing**



Source: Thrive Analytics, "Local Pulse Survey" 2015

3 Thrive Analytics "Local Pulse Survey" 2016 (n=1,116 SMBs)

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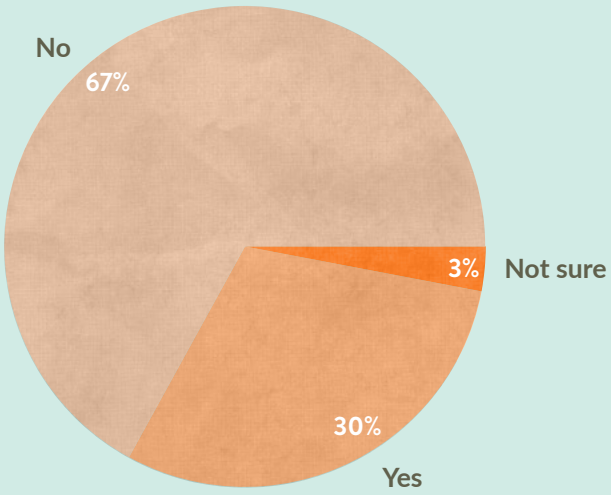
Most small businesses spend less than $10,000 per year (€8,900) on marketing and typically aren't able to optimize their media and campaigns at critical points along the serpentine consumer path to purchase. Few have a holistic marketing strategy or integrated approach to all these channels.

While various SMB survey findings differ, it's safe to say that at least two-thirds of local businesses in the US (with similar numbers in other developed countries) manage their own digital media and marketing. In a survey[4] conducted for this report, 66% of local business respondents said they were not working with any outside marketing services provider.

Small businesses may choose to self-manage digital marketing for multiple reasons. Many online tools and services are free and appear simple to use. Some businesses want to avoid agency or service fees. Others have difficulty finding the right partner. And some have worked with marketing firms or agencies and been frustrated with the results.

This final scenario is one of the key sources of advertiser non-renewal or "churn."[5] Small business advertiser churn has been a major industry challenge for those selling digital services to local businesses for years.

Figure 3 **SMBs Who Work with An Outside Marketing Provider**



Source: LSA local business survey (n=303) 2016

4 LSA online survey on behalf of Camilyo, July 2016 (n=303 US small businesses)
5 Churn (program non-renewal) can be defined differently depending on the provider or features of the program.

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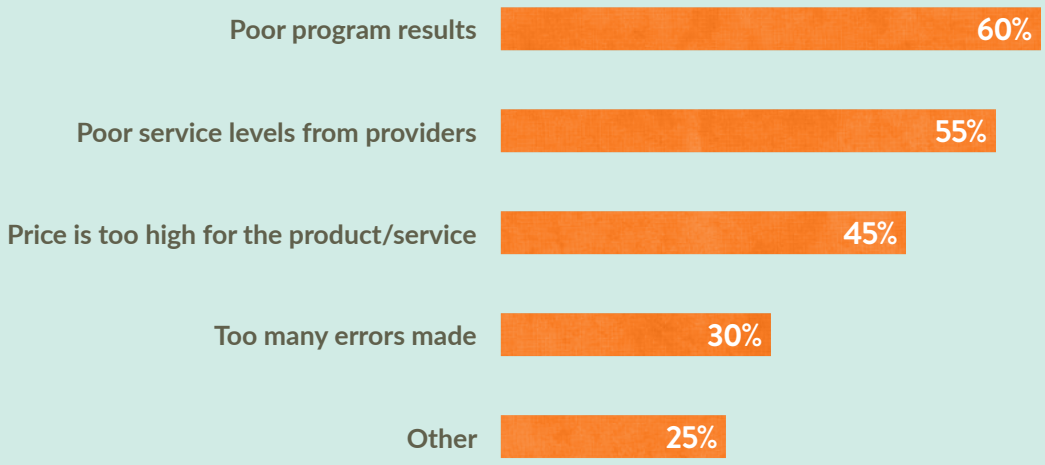
While churn rates for digital marketing products have improved in the past several years, advertiser retention remains a significant challenge for the industry. Multiple studies reveal fairly consistent reasons local businesses abandon digital marketing programs (Figure 4).

Disappointing or "poor program results" is frequently cited as the primary reason for non-renewal. However, poor customer service is often a close second. Cost or pricing is another a factor, which often goes back to program results. None of these are mutually exclusive.

WHILE CHURN RATES FOR DIGITAL MARKETING PRODUCTS HAVE IMPROVED IN THE PAST SEVERAL YEARS, ADVERTISER RETENTION REMAINS A SIGNIFICANT CHALLENGE FOR THE INDUSTRY.

A related issue is trust: do local businesses have confidence in their marketing providers? A 2015 survey[6] of local businesses in the UK found that only 18% trusted their marketing firms. The overwhelming majority (82%) did not. This is a telling, even startling finding.

Figure 4 **Sources of Local Business Churn**



Source: Thrive Analytics, "Local Pulse Survey" 2015

6 Latitude White-Bing UK local business survey 2015

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Limitations of Product-Based Selling

As the market has evolved, so has the list of digital "products" being sold to local businesses by a growing array of companies. It's now common to find third party media sellers offering a lengthy menu of offerings to local advertisers: presence management, SEO, paid search, social media, reputation management, mobile, video . . . and so on.

Sometimes these products sold à la carte and sometimes bundled in packages that line up with concepts like "beginner, intermediate, advanced" or "small, medium, large" (budget-based). Bundling can simplify the process for both media seller and small-business buyer. Yet, whether bundled or a la carte, these various channels and products tend to operate mostly independently; they generally aren't integrated into a broader strategy.

THE DYNAMIC NATURE OF THE MARKET IMPOSES A SIGNIFICANT BURDEN ON BOTH THE BUYER AND SELLER. THUS THE PRODUCT-CENTRIC APPROACH TO MARKETING SERVICES HAS BECOME UNWIELDY, IF NOT COMPLETELY BROKEN.

The more individual "products" offered, the more education required for both the seller and buyer. Each item adds complexity and potential confusion to the process. That's compounded by the challenges of getting business owner attention in a mostly undifferentiated selling environment.

Moreover, just as the sales rep has achieved competency selling one channel, another rises to prominence. For example, social media is still dominated by Facebook, however Instagram, Pinterest and Snapchat (not to mention messaging) are becoming more important.

The dynamic nature of the market imposes a significant burden on both the buyer and seller. Thus the product-centric approach to marketing services has become unwieldy, if not completely broken. A new approach must emerge; one that moves away from selling isolated channels or products and replaces it with a more integrated approach that mirrors the customer journey (or at a minimum advertiser objectives).

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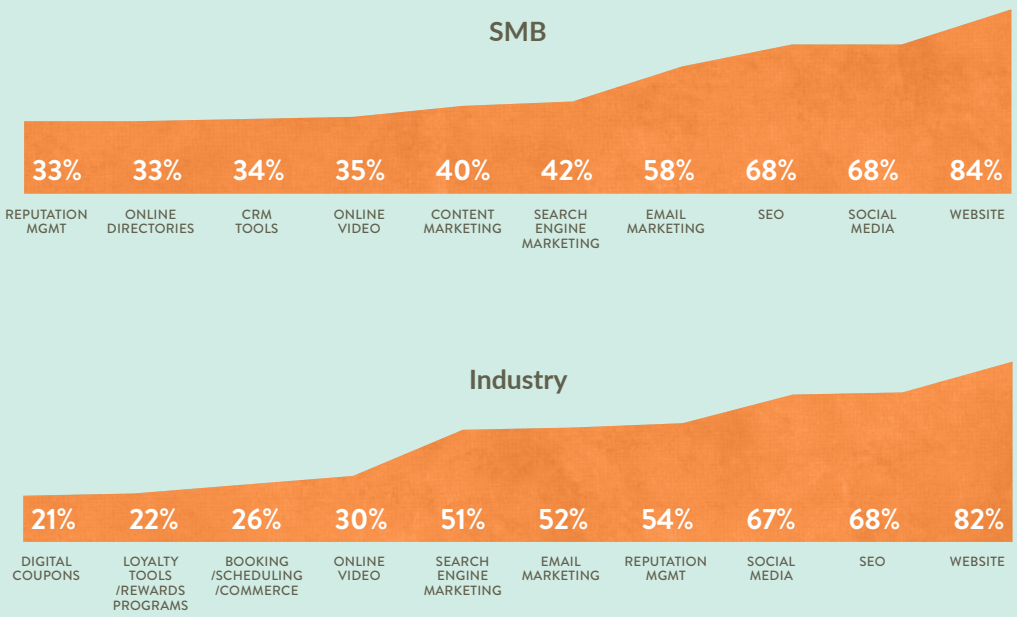
Figure 5 **Essential Marketing Methods**



Source: LSA surveys: Industry (n=110), SMBs (n=303) 2016

Parallel Surveys: Industry, SMBs

To test this concept, LSA separately surveyed a broad group of local media sellers and local business owners. Two surveys were fielded in the first half of 2016. The industry survey had 110 responses; the local business survey had 303. Among industry respondents, 83% sold products or services directly to local businesses. The local business respondents were from a range of industries, including financial services, insurance, legal, health & beauty, restaurants, retail and several others.

The two groups' responses aligned in some ways and diverged in others. For example, there was general agreement between the surveys about the most "essential marketing methods." Websites, social media and SEO ranked in the top three for both groups. Beyond that, the rankings differed.

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There was also agreement in the area of advertiser demand. Local businesses were asked, "If you had twice your current marketing budget where would you spend the money?" Industry respondents were asked to convey their perceptions of that demand: "Which [marketing methods] do you believe are most in demand among local businesses?

THERE WAS GENERAL AGREEMENT BETWEEN THE SURVEYS ABOUT THE MOST "ESSENTIAL MARKETING METHODS"

The top three responses in both surveys were essentially the same: SEO, websites and social media. This pattern was repeated throughout both surveys: local businesses were asked about an issue while the media sellers were asked to report their perceptions on that issue. We wanted to determine how well aligned sellers and buyers are.

Figure 6 **Demand for Marketing Services**

SMBs would spend 2x more if possible	Where industry sees SMBs demand
1. SEO	1. social media website
2. website	2. website
3. social media	3. SEO
4. CRM tools	4. search engine marketing
5. mobile marketing	5. email marketing
6. online video	6. reputation management
7. email marketing	7. booking/scheduling/commerce

Source: LSA surveys: Industry (n=110), SMBs (n=303) 2016

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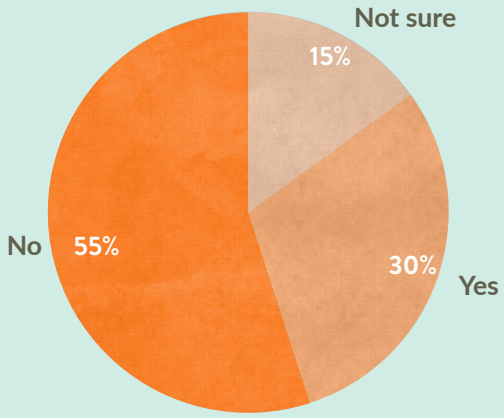
Addressing the Customer Funnel

This report argues that the local marketing ecosystem must shift toward a more integrated "customer journey" model for multiple reasons, including performance improvement and advertiser retention. Both surveys asked questions about the "customer funnel" or "sales funnel" accordingly. For purposes of the questionnaire, the customer funnel was simplified into three stages: "attract, convert, retain."

Figure 7 **Perception of SMB Funnel Awareness**

Do you believe SMBs have an understanding of the customer funnel (or equivalent concepts) in marketing to their customers?



Source: LSA Industry survey (n=110) 2016

What we found was a striking contrast between the industry's perceptions of SMB awareness and local advertisers' own attitudes toward the customer funnel.

A majority of local businesses said they knew about the customer or sales funnel concept. Industry respondents had a completely different perception. Roughly 56% of media sellers said local businesses didn't understand the idea of the customer funnel.

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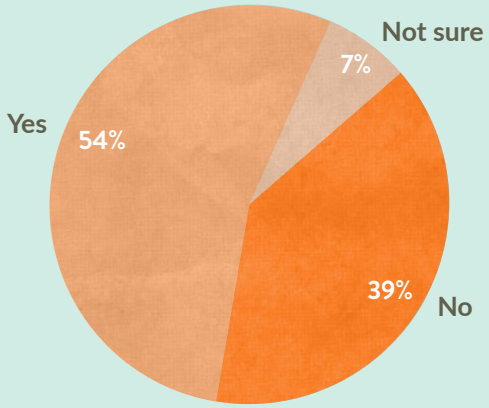
Figure 8 **SMB Funnel Awareness**

Have you ever heard the terms "customer funnel" or "sales funnel" before?



Source: LSA local business survey (n=303) 2016

This is curious because 68% of these media sellers said they actively "discuss the customer funnel or equivalent ideas" during the sales process. Nearly 83% said that an effective digital marketing strategy must account for the entire customer funnel. Nearly 82% said that the funnel impacted their product development and the way they sold to local businesses. Thus the customer funnel concept *appears* deeply embedded in industry thinking though, paradoxically, they don't believe local businesses actually understand it.

We can debate whether awareness equals understanding. However, a large percentage of these SMB respondents recognized the importance of addressing the funnel in its entirety. The single largest block of respondents (41%) said they believed all funnel stages were equally important. Nonetheless, the vast majority (72%) reported emphasizing new customer acquisition.

When asked why they weren't equally emphasizing all three stages of the customer funnel, only 18% of SMBs dismissed the idea as unnecessary. The top three explanations were: not enough time (44%), not enough money (43%) and don't have sufficient expertise (30%).

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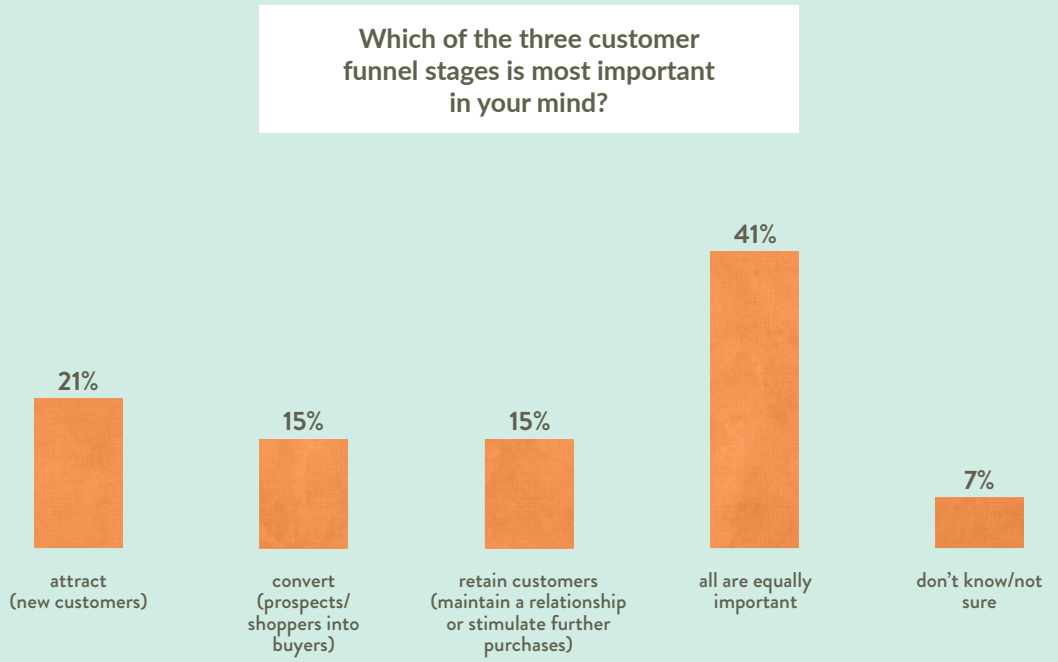
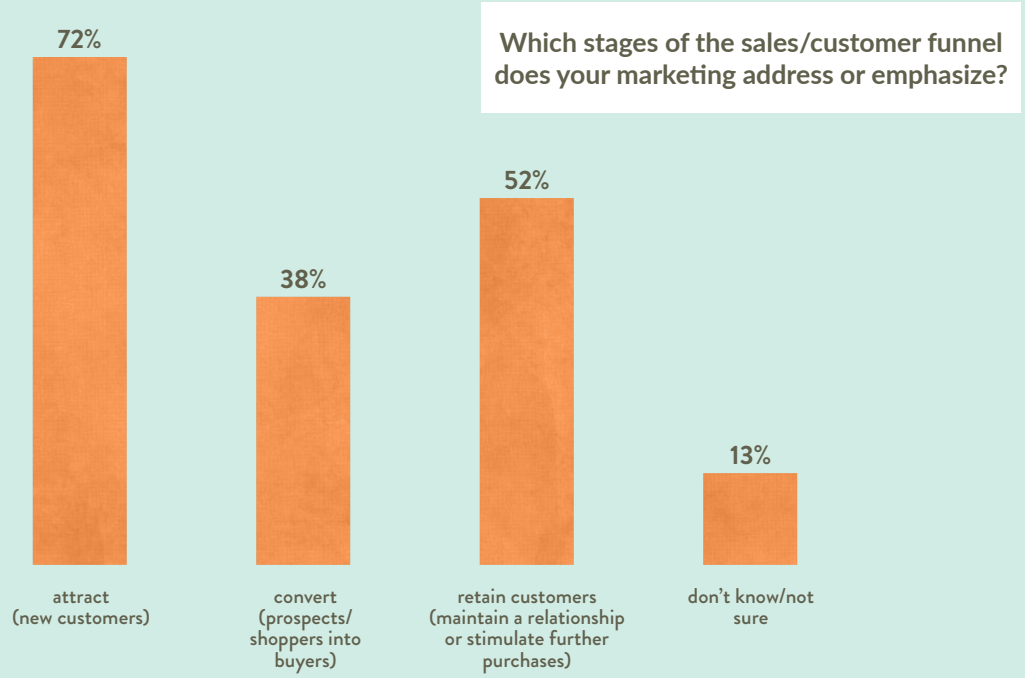
Figure 9 **SMB View of Funnel Stage Importance**



Source: LSA local business survey (n=303) 2016

Figure 10 **SMB Funnel Stage Emphasis**



Source: LSA local business survey (n=303) 2016

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Seeking Better Integration

Local businesses were also asked, "Do you believe that a single integrated marketing system would improve the efficiency or effectiveness of your online marketing?" Roughly 62% said "yes." Only 7% said "no." The rest were uncertain (Figure 12).

Such an integrated approach is a challenge in a world of constant product development, innovation and change. (PokemonGo can be seen as a metaphor for the unpredictable nature of the market.) And currently, there's no simple way for local businesses to get anything approaching integration without working with third party marketing services provider.

Figure 11 **SMB Perception of Need for Integrated Marketing**

Source: LSA local business survey (n=303) 2016

Among the minority of local businesses that said they were working with third party firms, 32% said that they currently have multiple providers. They identified a number of challenges in dealing with multiple companies: cost (39%), time involved in managing tools/systems (29%) and the complexity in learning different tools/systems (16%).

Media sellers face similar challenges in working with their own third-party ecosystem. As the market has evolved and accelerated, most media sellers have had to turn to third party technology companies to keep up. Almost 60% of the industry survey respondents selling directly to local businesses were working with at least three technology firms and a substantial number were working with five or more (33%).

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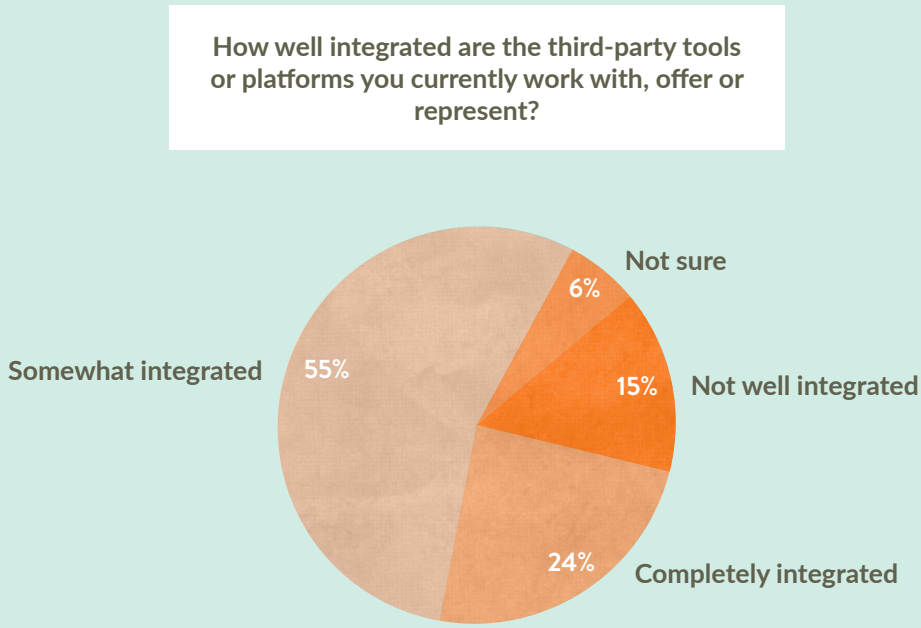
Figure 12 **Industry Product Integration**



Source: LSA Industry survey (n=110) 2016

The top challenges cited by media sellers working with multiple third-party vendors were the following:

1. Need to learn multiple tools/systems
2. Internal technology challenges
3. Limited reporting or analytics
4. Insufficient service or technical support
5. Time to market delays
6. Licensing fees for multiple vendors
7. Limited customer-facing integration

Despite these many challenges, a majority of the industry respondents said that their product suites were “somewhat” or “completely” integrated. In addition, the majority expressed satisfaction with the level of integration. Yet there would appear to be a disconnect between the stated multiple-vendor challenges and the purported integration and satisfaction mentioned.

The industry responses suggest media sellers are already offering an integrated product suite to local businesses. Yet still-high levels of advertiser dissatisfaction and churn suggest either: 1) this simply isn’t the case or 2) the claimed integration isn’t translating into performance gains. The local business desire for a “single, integrated marketing system” (Figure 11) also suggests that business owners aren’t being offered “an integrated platform or system.”

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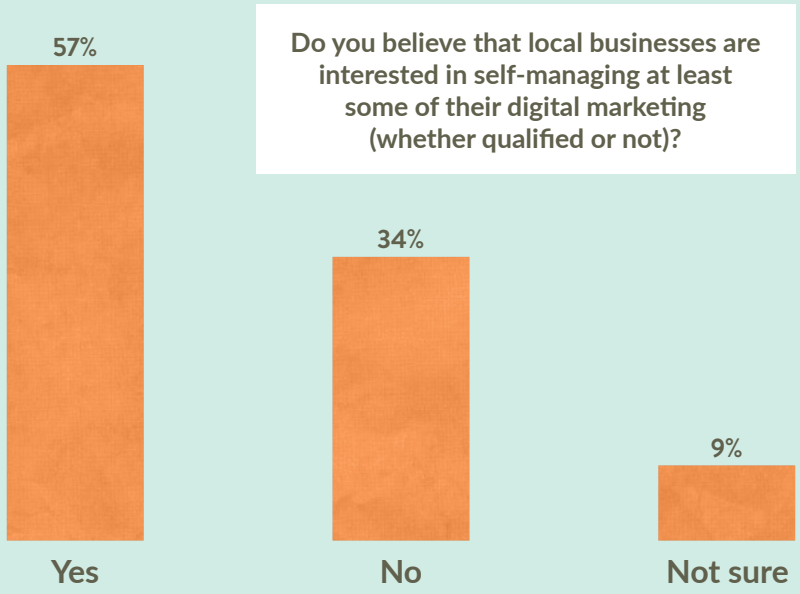
Demand for Self-Service

There was earlier discussion about reasons local businesses might not work with (or want to work with) marketing services firms. Among them were cost considerations, issues of trust and previous negative experiences. Yet many local businesses may also want to participate in the management of their own digital assets.

This is an additional factor that may partly explain why two-thirds of local businesses are trying to manage their own digital marketing today. The industry survey responses also acknowledged this desire for self-service.

Notwithstanding this desire, complexity and a lack of expertise are barriers to effective self-management of most digital media. Still, the demand is there: local businesses responded positively to the concept of a smartphone app that would allow them to monitor and (at least partly) manage their digital marketing (Figure 14).

Figure 13 **Perceived SMB Demand for Self Service**



Source: LSA Industry survey (n=110) 2016

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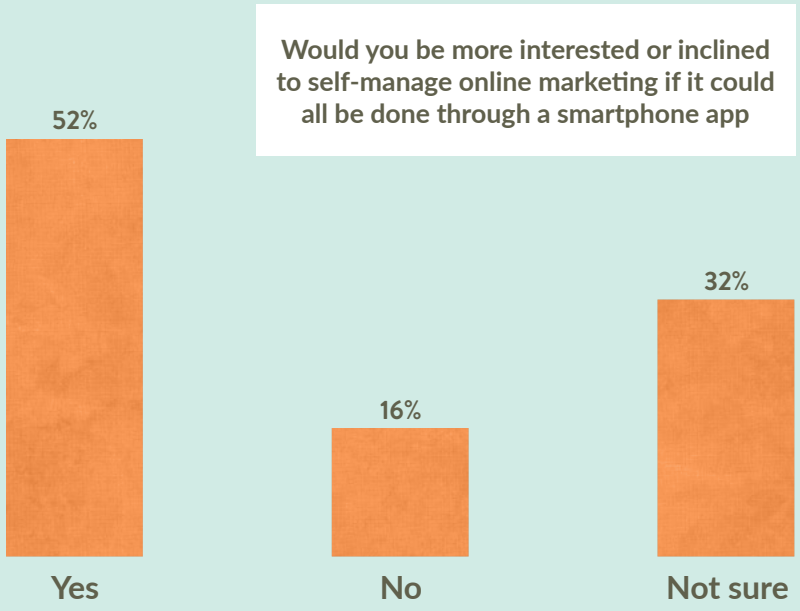
Figure 14 **Self-Management via Smartphone App**



Source: LSA local business survey (n=303) 2016

Being able to manage digital media and marketing through a smartphone app implies some level product simplification. Most mobile apps are relatively intuitive and business owners use smartphones with few exceptions. Thus the concept of a smartphone app probably seems simpler and more accessible to them.

Local businesses are also interested in greater "transparency" around their marketing spending. A mobile app they can access on demand suggests a higher level of transparency, as well as greater simplicity compared with the ubiquitous "analytics dashboard."

Conventional industry wisdom has long maintained that local businesses don't want to manage their own digital marketing. These survey responses, and the totality of evidence we have, contradict that assumption. What local businesses don't want is to deal with the complexity of a proliferating list of tools and channels. However, a hybrid model where they can at least monitor, if not play an active role in, the management of their own digital media and marketing is probably a good thing across the board.

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Conclusion: A Needed Shift

Despite industry claims that high levels of marketing-product integration already exist, local buyers don't seem to agree. Small businesses are not expressing great satisfaction with the marketing services they're receiving today. Large numbers continue to rebel against many of the current products and sales approaches, as evidenced by persistent advertiser churn and sales call avoidance.

As the survey responses in this report argue, local businesses want solutions that are both simpler and more integrated. They're also asking for better performance and service from media sellers. Without help, most local businesses simply don't have the resources or expertise to successfully engage customers at multiple points along the path to purchase. Yet they recognize this as an important objective.

On the one hand, a more comprehensive "customer funnel" strategy is a marketing and packaging issue. But more deeply, it is also a technology problem; media sellers need the actual platforms, tools and capabilities that integrate and fulfill promises inherent in a more holistic customer journey strategy.

ON THE ONE HAND, A MORE COMPREHENSIVE "CUSTOMER FUNNEL" STRATEGY IS A MARKETING AND PACKAGING ISSUE. BUT MORE DEEPLY, IT IS ALSO A TECHNOLOGY PROBLEM

The industry will not simply be able to keep adding shiny new objects to the list of marketing products being sold to local businesses, nor will local businesses want to buy yet one more item on the menu. The market needs to make a conceptual shift and to adopt or develop technologies that can support a more complete (yet simplified) strategy for publishers, sales reps and local businesses.

Camilyo
Online in One

Camilyo has been providing white-labeled, online presence and marketing solutions for local media and marketing service companies addressing the small businesses market, in North America, Latin America, Europe, Africa and Asia, since 2010. Camilyo's Online in One platform delivers integrated presence, marketing and retention tools for small businesses. It enables local marketing providers to dramatically reduce operating and licensing costs, increase sales with attractive packaged offers and boost end-customer loyalty with effective tools that help small businesses better manage their day to day operations.

LSA
LOCAL SEARCH ASSOCIATION

The Local Search Association (LSA) is a not-for-profit industry association of media companies, agencies and technology providers who help businesses market to local consumers. LSA has about 300 members in 20 countries and the Association helps these members realize the power of local marketing and commerce through conferences, consulting, insights, advocacy and more.

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