Quality Metrics Enable Marketing's Ability to Influence Strategic Direction

by Laura Patterson

Various studies for the past several years from the Association of National Advertisers, Frost & Sullivan, IDC, and the CMO Council, among others, have found that CEOs are demanding more accountability from marketing. While most marketers are measuring something, survey results indicate there is room for improvement regarding metrics and the quality of these metrics.

In fact, results from VisionEdge Marketing's 6th annual Marketing Performance Survey found that only 17% of the 136 executives and marketing professional indicated that their CEO would give marketing an A. In addition, this study and others continue to suggest that a gap remains between a company's business goals and the metrics marketing uses to measure their impact on these goals. Companies continue to struggle with the contradiction between priorities and action. The need and opportunity remains for marketing to improve the linkage between marketing expenditures and delivered results.

"Marketing must improve its value to justify its existence as a centralized function," according to Elana Anderson, a principal analyst at Forrester Research. If we don't make our case and develop and communicate quality metrics, we may find the days of marketing as a standalone department numbered and instead find ourselves absorbed into sales, finance, or some other function. It's not like this is a new phenomenon. The concept of measuring marketing has been around for a long time. The question is what should we measure and what metrics are best?

In 2001, James Gregory's article in the Journal of Brand Management shared a proprietary model that linked various financial factors and corporate images to stock prices, sales, and market share. Research at VisionEdge Marketing has found that most companies fail to measure such things as cost to acquire, order value, share of wallet, churn rate, brand equity, and other key business variables that marketing impacts. Rather, marketers have a tendency to measure such things as response rate, demo participation, event traffic, number of new contacts or leads, number of press hits, cost per lead, and lead aging.

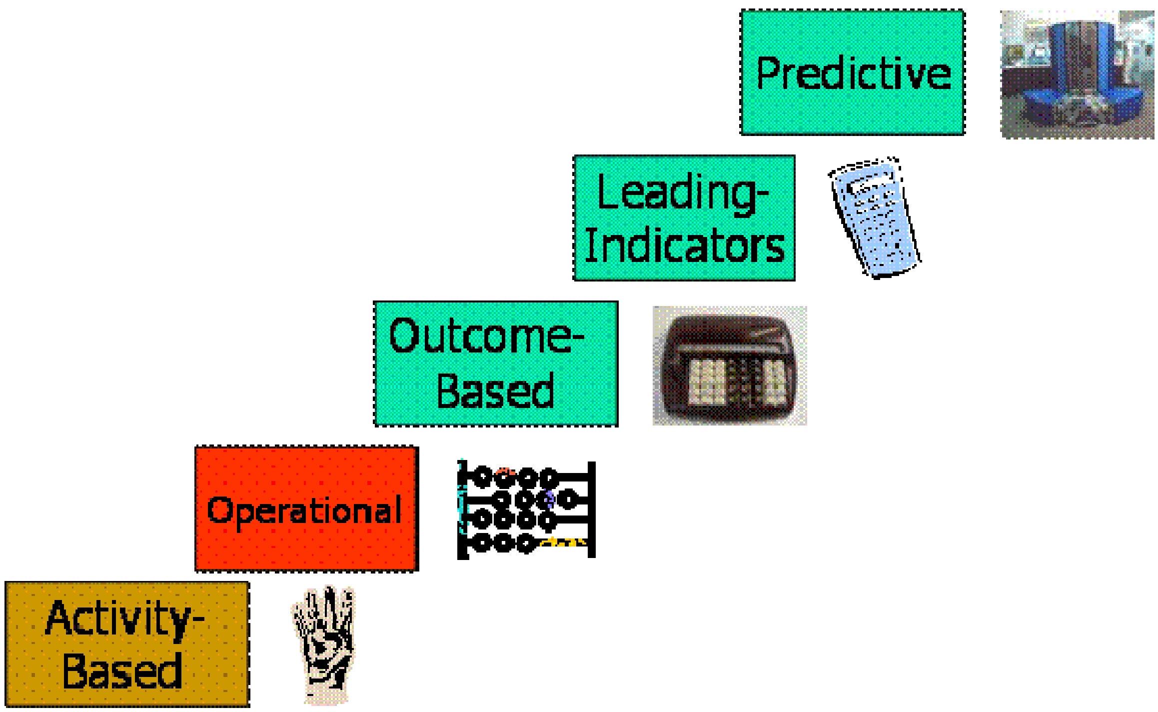
While these metrics offer some insight into the results of specific programs, they do not link marketing to the business objectives. In fact, our studies indicate that only about one in four marketers measure marketing's impact on the business and nearly two-thirds of marketing plans do not even include metrics.

A Five-Point Continuum

Forrester Research, Marketing Management Analytics, and the Association of National Advertisers conducted an online survey to find out how marketing professionals leverage marketing analytics. Some 50% of the respondents indicated that measurement remains the hardest part of marketing and 51% are dissatisfied with how they measure marketing ROI. Yet nearly all of the respondents realize that measuring marketing is important and influences senior management's confidence in Marketing personnel and programs.

To make progress on the marketing-measurement front, marketing professionals must shift from tactically based metrics to metrics that are more linked to business outcomes. The measures must include both financial and non-financial goals.

This figure illustrates the continuum of marketing metrics and how marketing metrics are evolving:



Starting at the bottom left and working up and to the right, we can use this illustration as a framework to explore how marketing metrics are evolving from tactical to strategic. Activity-based metrics refer to those things we can count. This was marketing's first foray into the world of measuring—looking for things we could count, such as press hits, click-through rates, CPMs (cost per thousand), and so on.

Most marketing plans today consist of activity lists, such as the number of ads to run, the number of tradeshows to attend, the number of new product brochures to produce, the number of research studies to conduct, and so on. Marketing then reports on the status of these activities—ads ran and responses per ad, Web site visits and downloads, contacts per tradeshow, etc. These are then turned into charts in an attempt to present the marketing dashboard. Yet with activity-based metrics all we have is a colorful status report and no information on the impact of these activities on the business. The company cannot make any key business decisions or determine whether strategies are working.

Operational metrics, the next level, is a step forward. These metrics focus on improving the efficiency of the organization. Typical metrics in this stage include cost per lead, lead aging, leads per sales rep, and campaign payback. The goal is to squeeze out any inefficiency. While this is a noble pursuit and an important one, marketing efficiency alone will not make a company successful. What really "moves the needle" in terms of business performance is how well its marketing identifies product opportunities, positions these products, builds market traction against the competition, and fosters customer loyalty. Performance outweighs efficiency.

Both activity-based and operational metrics are a good place to start, but neither serves as an accurate indicator of strategic effectiveness. Neither enables the organization to determine which efforts are having the greatest impact; neither provides a quality control process, focuses on marketing's contribution to the company's overall valuation, or serves as a good way to demonstrate marketing's accountability.

To address those issues, marketing executives and professionals need to evolve to outcome-based metrics to develop quality measures. Outcome-based metrics focus on three specific and common business outcomes: market share, customer lifetime value, and brand equity. Once we accomplish a systematic approach to outcome-based metrics, we will have the basis for advancing to leading indicator metrics—those that help us determine the likelihood of a particular outcome and eventually creative models to use metrics to predict outcomes. And once we've mastered leading indicator metrics, we're only a few financial models away from predictive models—those that allow us to predict a business outcome.

Creating Your Marketing Executive Dashboard

Marketing performance management and metrics tracking would be incomplete without a way to capture and report the metrics—that is, a dashboard. Ideally, metrics indicate the business health of your organization. A dashboard is the visual representation of a firm's health and provides a snapshot between actual performance and the goals. A good dashboard facilitates action. It not only reports on the metrics being monitored but also serves as a vehicle to help decide on what actions are required and their priorities. Yet, according to a 2005 study conducted by CMO Magazine, three-fourths of marketers have no formal scorecard.

Creating a dashboard is more than just producing a few charts and graphs. A good marketing dashboard serves as a visual and diagnostic vehicle that communicates marketing's effectiveness and impact on business goals. Every metric provides a specific perspective on the firm's business. Some metrics indicate whether there is a problem today, and others help alert marketing to a potential problem down the road. The status of the marketing organization on the metrics continuum will impact what kind of dashboard it can create. As the business goals change, it will be important to revisit the dashboard to make sure the dashboard metrics are still in alignment with the business needs and goals.

As companies progress along the metrics continuum from activity-based to outcome-based, the dashboard will also evolve. Outcome-based metrics involve a dashboard that hones in on the primary business outcomes: market share, customer value and shareholder value. Because these metrics tend to be more market centric, the dashboard begins to provide more strategic insight and direction.

The greatest challenge for the marketing organization is how to capture the metrics. Manual aggregation of data across multiple spreadsheets comes with potential issues, ranging from error-prone reporting to poor utilization of internal resources. Moving from a spreadsheet-based system to an automated system provides greater benefits to the organization as a whole.

A mapping process helps with defining the metrics and ultimately the dashboard. As a result, most companies select metrics and a dashboard that reflects the following six categories:

1. Market growth
2. Customer value and net advocacy
3. Profitable deal flow
4. Opportunity pipeline
5. Competitive health and market value index
6. Product innovation pipeline

Regardless of the metrics you ultimately choose or the categories represented on your dashboard, a good dashboard provides insight into performance, fosters decision-making, and aligns strategy with implementation.

Measure What Matters

We began this discussion about the need for marketing to be more accountable and to develop quality metrics. Hopefully, you have some new ideas on how to focus marketing metrics around business outcomes and how to develop quality metrics that will help you provide insight into how marketing is making a contribution to the company and how to demonstrate that contribution to senior management.

As you continue on your marketing performance journey we hope these ideas lead you to...

- Focus marketing metrics around business outcomes.
- Develop quality metrics that will help you provide insight into how marketing is making a contribution to the company.
- Demonstrate that contribution to senior management.

And we hope your journey will include the following three actions:

1. Start making active progress on improving marketing performance and accountability.
2. Even if you don't have all the data, start with what you have, define your data gaps, and develop a plan to close these gaps.
3. Stop reporting on activities and tactical data around campaigns and Web traffic, and focus on climbing up the metrics continuum. It may still be important to track campaign results for an internal functional dashboard. The more you can link marketing to business outcomes, the more you can influence your company's strategic direction.

If in doubt about what to measure, select those measures that help your company make decisions and take action. When used this way, marketing metrics enable a firm to seize a competitive advantage, and they position Marketing as a strategic member of the team.

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Abstract

Companies continue to struggle with the contradiction between priorities and action. The need and opportunity remains for marketing to improve the linkage between marketing expenditures and delivered results. This article presents the reader with a metrics continuum to show how metrics evolve from activity-based to operational-based activities. In addition, the article presents some new ideas on how to focus marketing metrics around business outcomes and how to develop quality metrics that will help provide insight into how marketing is making a contribution to the company and how to demonstrate that contribution to senior management.