Making Your Way Along the Marketing Metrics Continuum

Today's business climate requires high accountability for anyone responsible for marketing. According to IDC, marketing typically invests/spends 3-8% of company revenue for its efforts. Marketers in every segment and company are being asked to account for how they invest the company's resources and demonstrate how they impact the business. The Chief Marketing Officer Council considers Marketing Performance Measurement (MPM) to be the greatest and most important consideration for their company in the next one to two years (based on the result of a recent CMO Council survey). This priority requires having a good understanding of the various ways to measure marketing. In actuality, the discipline of measuring marketing continues to evolve.

It wasn't long ago that marketing metrics was all about measuring activities. This type of measurement, what can be called Activity-Based Metrics, essentially involves counting. As the creative side of marketing gives way to the analytical data-driven side, measuring takes center stage. The first step for many marketers toward metrics is basically to look for various things to count and numbers to report. Tracking website visits, demo downloads, event attendees, numbers of leads, number of web site hits or analyst report coverage are all examples of Activity-Based Metrics. While these are all good forward steps toward measuring, they do not link marketing to business outcomes. Activity-Based Metrics doesn't satisfy the C-Suite's need to understand marketing's contribution to the company.

The next logical step along the marketing metrics continuum is commonly referred to as Operations Performance Metrics. In this stage, the marketing function is being managed like a business. Marketing titles such as the Marketing Operations Director and Marketing Finance Director emerge within the organization. Operational Performance Metrics are established to improve organizational efficiencies and ROI. Program-to-people ratios, awareness-to-demand ratios, the cost/lead, the cost/sale, and conversation rates symbolize marketing's increasing proficiency in numbers and alignment with the sales organization. The connection between a marketing program and a business output is more tightly linked. Operational Performance Metrics take marketing one more step forward in the right direction. There was just one small hiccup. Operational Performance Metrics primarily provide the organization with a way to rationalize marketing investments, and not necessarily with a way to relate marketing back to strategy and business performance.

Businesses are about securing revenue-producing customers, keeping these customers, and growing the profitable revenue derived from the customer franchise. Most Operational Performance Metrics frameworks do not account for these outcomes. A marketing metrics framework must demonstrate how marketing enables the organization to realize these outcomes. Therefore, we must make the transition to Outcome-Based Metrics or the discipline of marketing merely becomes a sales support, thereby losing its ability to influence organizational strategy.

Perhaps an example will best illustrate the difference. A well-established public applications software company with thousands of customers has a very creative and responsive Marketing organization. The management team at this company measures success through new sales in new markets, cross-sales and up-sales to existing customers, and referral rates. Every time a business unit brings a new product to market, they show up at the Marketing organization's door with a list of items and activities they want. Because Marketing is unable to link many of its activities to either motivating prospects to buy, customers buying more product or making more referrals, Marketing cannot provide strategic advice as to which activities and/or programs matter. Until this Marketing organization determines which efforts are directly linked to the business's view of success, it will continue to be bombarded by the business units and Sales with requests that cannot be declined.

Marketing must educate its colleagues with clear data on efforts that impact outcomes. Marketing must transition to Outcome-Based Metrics. For example, a business outcome of "obtain 15% market share in the healthcare industry within three years," will depend on the marketing strategy. The strategy might be to focus on a particular segment such as hospitals or on a specific channel such as system integrators. The outcome and strategy serve as the beacon for determining what performance indicators and corresponding metrics will matter most.

Once an organization masters Outcome-Based Metrics, it is only a step away from Leading-Indicator Metrics. Leading-Indicator Metrics facilitate business decisions regarding strategic direction. For example, if a primary business objective is to increase the number of products used by a customer, then tracking share of wallet and the degree to which it is improving lifetime value serves as leading indicators. This measures whether the company is achieving its objective and taking business from the competition. In another example, a primary business objective may be to increase market share, which is measured through the percentage increase of business with share determiners (those companies within a segment that exert the greatest influence on what other companies in the segment will buy, thereby impacting the share spent by that segment on certain products/services and with specific companies).

Leading-Indicator Metrics enable you to capture directional data. Once there is enough historical information, it's possible to create statistical models that will actually enable Marketing to predict, with some degree of certainty, the impact of specific initiatives on business performance. These statistical models become the basis for Predictive Metrics.

So how are the metrics different depending on your location along the continuum? Let's use revenue generation to illustrate the concept. Marketing in Activity-Based Metrics, using trade shows to generate leads, will count the number of booth attendees, maybe even the number of 'leads' resulting from the booth. Moving into Operational Performance Metrics, the cost/lead for any marketing program would be measured and reported. A metric associated with the Outcome- Based stage would focus on the additional share of market as a result of new deals. Monitoring the shift in market share serves as an example of a Leading-Indicator Metrics.

If you're unsure where you are along the metrics continuum, an audit can provide you with insight into your current position. While a self-assessment is certainly a good starting point, using a third party to conduct an audit will provide an objective perspective. Audits are not new to marketing organizations. However, most marketing audits are not focused on measuring marketing performance. An audit dedicated to examining and evaluating the organization's ability to measure marketing performance will assess whether you have the necessary infrastructure in place to truly measure marketing performance. It will establish a benchmark for how metrics-ready your organization is, including whether you have to make any cultural, systems or process changes, how well your marketing measurements are aligned with the rest of the organization and where you are along the metrics continuum.

By understanding where you are along the metrics continuum, you'll be able to take control over what is measured and how it is reported.