Marketing essays - measurement and metrics

Measurement & Metrics

The aim of this chapter is to study the relevance of marketing measures and metrics. The chapter examines the relevant marketing theories and arguments from experts and gurus and looks at various different metrics and measures used under different organizational context. It also highlights examples from different sectors to justify the use of marketing measures.

The rise of marketing measurement

‘ What's not measured is not managed’, is a well-understood catchphrase, especially since the long-term health and stability of an organization are closely measured across multiple dimensions, from productivity to ROI to cash flow (Ambler et al., 2001). McMurray (2001) states that for years, corporate marketers have walked into budget meetings without justify how well they spent past handouts or what difference it all made. They just want more money for TV ads and other promotional activities without knowing the return of these investments. The intensity of competition and shrinking marketing budgets has meant that organizations can no longer afford to continue investing money without knowing the result. There is a renewed focus on cost cutting in every corner of the company, organizations now are resistant in funneling cash into promotional activities without knowing the return. The fact that profits are under attack means that marketing has to be more scientific, and intelligent in what it does.

Ahuja et al., (2001) draw an analogy to base ball and states that marketing like baseball is a game of complicated metrics. There are all kinds of metrics that guide the game. They help managers make better decisions. Some managers rely on gut intuition, but the best managers these days base their decision-making on a set of metrics. The days of spending millions on marketing without knowing the value of the investment are drawing to a close. Higher level management wants all their marketing spend to deliver value. They are no longer satisfied when a part of the marketing investment is wasted. Every pound has to be accountable in the cut-throat competitive environment. The whole idea of these key performance indicators is to help marketing executives manage their resources (Cohen et al., 2002).

The heady days of blind budget increases are fast being replaced with a new mantra of measurement and accountability (Iyer et al., 2006). This has been made possible by the increased availability of data and the technological advancements that have taken place over the past few years. Recently, organizations have seen a cut in their marketing spending that doesn’t support the defined goals. The motivation is to identify spending that isn’t tied to investment in the firm’s future, to free up that money, and to reallocate it more strategically (Lehmann, 2004). Firms look to spend their budget more objectively after analyzing how each expenditure supports firm strategy. Organizations need to measure the extent to which internet marketing campaigns are successful in changing their customer behaviors as planned.

Measurement changes

The difference between today's marketing capabilities and old-fashioned offline and online programs is that increasingly intelligent analytics make ongoing business-to-business and business-to-consumer dialogues actually possible (McGovern et al., 2004). Armed with reams of data, increasingly sophisticated tools, and growing evidence that the old tricks simply don't work, there's hardly a marketing executive today who isn't demanding a more scientific approach to marketing strategies (Donath, 2003). Marketers want to know the actual return on investment (ROI) of each pound they spend on their marketing campaigns. Marketing measures are not only limited to measure the marketing activities but also to forecast the results of future activities. Straw notes that marketing has gone from being a cost or expense to an investment. Eg. Consumer-products giants such as Procter & Gamble, Kraft Foods, and Gillette are further along this path, having long chased statistics to link different forms of marketingto sales and brand awareness.

Some researchers like Malter, & Ganesan (2005) believe that some aspects like advertising and communication which form an integral part of marketing are creative activities which cannot be measured. They argue that marketing and communications rely on attitudinal rather than financial measures which make it difficult to evaluate. David & Srivatava (2005) argue that modern metrics myopia tends to miss out on critical dimensions of consumer value. He takes the example of advertising and argues that effectiveness metrics measure all sorts of things: how many people saw the ad, how many people remembered it, whether their attitudes or preferences changed, whether there was a resulting uplift in sales. But every single one of these measures revolves around costs and benefits to the organization and does not take into account the costs or benefits to the consumer. Also, it is hard to measure non-monetary costs and benefits such as value of work done, return on attention, value for time, emotional pluses and minuses, and cost of acquiring necessary information and without them, it's impossible to understand real consumer value (Katherine et al., 2004).

Marketing Metrics

A 'metric' a measuring system that quantifies a trend (Farries et al., 2006). It is a performance measure that matters to the whole business. They are meant to be necessary, precise, consistent and sufficient (ie comprehensive) for review purposes. They may be financial (usually from the profit and loss account), from the marketplace, or from non-financial internal sources (innovation and employee). Paine (2004) described a metric as a performance measure that top management should review. Metrics may be financial (usually from the profit-and-loss account), from the marketplace, or from non-financial internal sources (innovation and employee). Metrics help the firm achieve its specific goals. This puts pressure on the board to explain what " success" will look like (Rogers, 2003). Firms need multiple measures and these measures need to be relevant to the company's situation. Every firm has to determine the relevant metric which are accurate indicators of their internal and external market health.

'Brand equity' and 'Brand valuation' are one of the important metrics that most organizations use to assess the strength of their brand. It is defined as the intangible asset in customers' minds built by good marketing (Mcmaster, 2002). Reading through various literature suggest that some of the most commonly used brand equity metrics are relative perceived quality, Loyalty/retention, Total number of customers, Consumer satisfaction, Relative price, Market share (by volume or value), Perceived quality/esteem, Complaints (level of dissatisfaction), Awareness and Distribution ability (Roger, 2007).

Researchers like Ambler et al. (2000) believe that marketing is how a typical firm secures its key objectives and sources its cash flow which is why marketing accountability is very important. Companies that measure marketing activities are found to be more customer focused and market-oriented and a stand a better chance of generating profit that the ones which are more concerned with production or the bottom line.

The importance of measurement activities

The measurement and analytical tools used by organizations to track marketing effectiveness give them vital information which they can convert into knowledge for future marketing campaigns. Eg. One of the door-step lenders in the sub-prime sector had been carrying out its promotion on television without measuring the results. With the credit crunch and fall in sub-prime lending the organization faced huge cuts in its marketing budget which meant it no longer had the luxury of promoting its brand without measuring it. Low cost short term tracking and measuring mechanisms were put in place and small bases of customers were targeted with the TV advertisement as a test and learn exercise. When the results were measured, it showed that more than 70% of customers responded between the hours of 12-1 pm. In fact, the contact centre didn’t have the resource to take in all the customer calls (enquiries / leads) and several calls had to be dropped. This exercise made vital information visible to the organization. It gave them the best possible time to advertise and also helped them forecast the number of calls that they would receive on the back of the campaigns. This also helped them decide on how to utilize resources in the contact centre (Data taken from meltwater. com subprime news).

Measuring tools are also capable of showing marketers which content customer segments are interested in by disclosing viewing patterns, which are then automatically turned into rich, detailed reports that clearly define customer trends and preferences. And, as Lukas et al., (2005) state that not only is this information gold, but it is gold at the price of nickel.

The value of ‘ measuring’

There is an emergent need for marketing leadership to be involved in analyzing the numbers and developing plans to reduce/divest unprofitable or shrinking practices, and seek new markets and clients that better support firm strategy. Goodwin (2004) argues that the board should pay attention to the marketing metrics, because marketing is how an organization secures its key sources of cash flow, and because the marketing discipline discourages too much focus on short-term results. At the same time, marketers should also be accountable for results, yet few companies today actually pay for marketing activities by results. Finally, metrics are critical for understanding what did and didn't work after the fact, which informs the planning process.

Roberts (2007) states that while there is much credible evidence that marketers are driven by the measurement imperative to prove the value that their actions add value to the organization, performance in many firms sadly lags both the need for marketing accountability and the availability of toots and techniques to provide it.

Shift in focus

Measurement marketing has also brought about a shift in promotional media. Companies are increasingly shifting their spend from TV and print ads to the internet and other direct activities. One of the reasons is because they can get an accurate measure of the impact of their efforts for a fraction of the cost of advertising in traditional media. Eg. DaimlerChrysler, relies less on 30-second TV ad in favor of events where names, profiles, and addresses of prospects can be collected and tracked. It's also pushing direct marketing and online advertising where response rates are easily measured.

The measures

For many, the goal is to identify and cultivate potential buyers and then track whether they respond to marketing efforts by ultimately making a purchase (Allyson, 2000). The Sales Lead generation and the associated attributes go through a three stage process, enquiry generation, lead generation and the fruition if the lead into a sale. Organizations measure the success of campaigns by assessing the cost of raising an enquiry, the cost of generating a lead and the cost of acquisition. The recent trends in the marketplace have also meant that innovation and creativity play a more important role than they did ever before. James (2007) notes that the crux is the quality of innovation, not the quantity. There is a general and increasing recognition of the importance of innovation within new and existing companies. But, putting in place proper mechanisms to monitor " innovativeness" has been a bit of a struggle for companies. Eg. Boots, the UK's major health and beauty care retailer, has appointed a director of innovation, but carries out little measurement beyond the number of product launches and the proportion of sales from recent launches (Aaker & Jacobson, 2001). 3M very successfully uses just a few simple metrics, such as the proportion of sales attributable to recent innovations.

Branding is also a key issue in the marketplace landscape and the dynamics of brand equity is increasingly being understood to lie at the heart of marketing. To understand the value of the brand, it is important to understand the way brand value is measured.

Price Premium

A basic indicator of loyalty is the amount a customer will pay for the brand in comparison with another brand (or set of comparison brands) offering similar benefits. This is called the " price premium" associated with the brand. The price premium measure is defined with respect to a competitor or set of competitors. Organizations usually prefer a set of competitors, because the brand equity of a single competitor can decline while the equity of other competitors remains stable. In such a case, using only the declining competitor as a point of comparison would give an erroneous perspective of a brands health. Researchers like Ahuja & Lampert (2001) have also suggested ‘ dollar / pound’ metric by simply asking consumers how much more they would be willing to pay for the brand. Most of the researches in the automobile industry make use of this metric to do a relative comparison with their competitors. " dollar metric." For instance, a Toyota consumer might be asked: " How much more would you pay to be able to buy a Toyota Camry instead of a Honda Accord?"

One of the other types of analysis used by marketers is " conjoint" or " trade-off" analysis. Marketers consider this a more sensitive and reliable measure of price premium (Bolton, 2004). Conjoint analysis presents consumers with a series of simple choices. All choices are then analyzed together in order to determine the importance of different dimensions. For example, consumers might be asked a series of questions such as " Would you prefer a Toyota Corolla at £7, 000, a Honda Civic at £6, 500, or a Chrysler Neon at £6, 500?" A relative price associated with a brand emerges from such a study.

The price premium may be the best single measure of brand equity available because, in most contexts, any driver of brand equity should affect the price premium (Cohen et al., 2002). The logic is that if a variable has no impact on price premium, it has little value as an indicator of brand equity. In addition, there is a natural desire to obtain an estimate of the financial value of a brand. Another convenient aspect of price premium is that it can be the basis for a crude estimate of brand value—the price premium associated with existing customers multiplied by unit sales (Donthu et al., 2005).

But, some researchers argue that price premium is not the accurate measure of brand value because the price premium may not affect the brands price in the marketplace because of distribution channel realities. Iyer et al., (2006) validate this by illustrating that whereas many customers might be willing to pay a 10% premium to obtain Coke, the price-sensitive segment and aggressive retailers may make the realization of a price premium in the supermarket impossible. Despite the arguments, most academics and researchers concur that a price-premium-based brand value estimate can be helpful.

Intel is one firm that tracks its price premium. Every week, interviewers are in computer stores asking people how much of a discount would be needed before a customer would feel comfortable buying a personal computer without " Intel Inside." As a result, Intel has a continuous measure of its price premium, which can be used to evaluate marketing programs and to monitor the overall health of the brand.

One of the other problems with price premium is that it is defined only with respect to a competitor or set of competitors. Thus, in a market with many competitors, several sets of price-premium measures will be needed, and, even then, an important emerging competitor might be missed. For example, Compaq used IBM as its primary reference brand when others, such as Dell and Gateway, were making large inroads at a much lower price point. Lehmann (2004) states that an interpretation problem will exist when a brand has different competitors in different markets. For example, Budweiser may face different competitors in different regions—in one region, a local brand may be strong that has little presence elsewhere. To compare Budweiser’s strength in different regions, a composite measure would need to be created in each, defined, for example, by the average of the price premium found with respect to the leading private label, the leading regional brand, and the leading national competitor. Further, there are markets in which price differences are not very relevant because legal restrictions (e. g., the Japanese government has long controlled the price of beer in Japan) or market forces make it difficult for price differences to emerge. In such contexts, the price premium concept becomes less meaningful. The key to these markets is the ability to gain customers at the prevailing price, and therefore some measure of buying intentions becomes more relevant. Get help with your essay from our expert essay writers...

Measuring Customer satisfaction

Enormous progress has also been made in the measurement of customer satisfaction. This work has resulted in the development of several dimensions of satisfaction, dimensions that in general differ between service and product contexts and by industry (Moorman & Dickinson, 2002). It has also led to the insight that dissatisfaction can be caused by inflated expectations as well as low levels of perceived performance. Satisfaction can be a indicator of loyalty for a product class such as bar soap or milk in which the purchase and use represents habitual behaviour (Lukas et al., 2005).

The " Satmetrix Market Stat" is a dynamic tool for customer satisfaction and loyalty measurement that uses the " customer loyalty index" as key metric in order to measure overall customer loyalty (Miller & Cioffi, 2004). It is used by many leading companies across a large variety of different industries, including retailers and consumer goods leaders, which are all using the following listed questions in order to measure customer loyalty (each question is rated on a 0-to-10 scale (Renis Likert's scale 1932), with 10 representing the highest score):

- How satisfied are you with this provider's overall performance ?

- How likely is it that you would recommend this provider to a friend or colleague?
- How likely is it that you will continue to purchase products/services from this provider?
- If you were selecting a similar provider for the first time, how likely is it that you would use this provider again?

The questions address both the perceptual components - which are based on customer attitudes, opinions, and emotions, such as satisfaction - by asking for the overall level of satisfaction, likelihood to recommend, and likelihood to choose again as if for the first time, as well as the transactional components of the loyalty construct - which are based on the customer's intended or actual purchase behaviour – by asking for the propensity of making repeat purchases, and therefore the " Satmetrix Customer Loyalty Index" (CLI) comes close to hybrid models of customer loyalty measurement that try to measure the attitudinal and behavioural dimensions of the customer loyalty construct(Oppenheim, 1992)

Although the " Satmetrix Customer Loyalty Index" does not take into account such constructs like commitment, trust, liking and identification as recommended by Diller (2001), it is a research tool does not take too much time and still has a reasonable level of validity (Zikmund, 2000).

Novo (2005) argues that an important limitation of satisfaction and loyalty measures is that they do not apply to non-customers and they do not measure the extent of brand equity beyond the customer base. Another complication is that satisfaction and loyalty aggregated over loyal customers, brand switchers, and those loyal to other brands becomes somewhat insensitive and ambiguous (Kotler & Keller, 2006). Thus, organizations need to develop a set of satisfaction and loyalty measures for each loyalty segment. It has also been suggested that the most relevant statistic is the size of the loyal segment or segments. There is always an intensely loyal segment willing to recommend the product or service and a loyal segment that is confident that they will re-buy (Morgan et al., 2002). Increasing the size of these segments would then become a goal of the brand-building program.

Barriers to successful metrics

Although a growing number of organizations have realized the importance of information and therefore started to collect large amounts of customer specific data, according to the Accenture Institute for Strategic Change (Harris et al, 2001) often less than 5 per cent of this data is ever analyzed. Paine (2004) points out that the fundamental problem for measuring marketing performance is defining and identifying both the best metrics and best practice. While measuring marketing seems like a reasonable way going forward, accurate measurement and forecasting of the mix of different variables is a very complex task.

Eg. When a customer responds to a marketing campaign by ringing the concerned company after looking at a TV advertisement, they are greeted by a customer service representative. The representative then passes on her details to the sales team who wither supply the customer with more information or visit the customer. The customer then either makes the decision in their first interaction with the sales guys or the telephone sales guys ring the customer again to try them to purchase the product they had shown interest in. Before a customer buys the product, they interact with a lot of people in their pre-purchase cycle. If an organization working on this model were to measure the cost of acquisition, they would have to factor in the marketing / promotion cost, a proportion of the agent's time (salary), the sales person's time (salary), the cost of printed material sent out to the customer (and other advertising messages and phone calls made) and the other variables costs. Apportioning all this into the cost of acquisition calculation is a complex task which makes organizations to make a lot of assumptions which may or may not be close to reality.

This is not the only complexity associated with campaign measurement. Campaigns have to be recognized by specific parameters. Organizations generally make the use of ' Source Codes' to identify marketing campaigns. The housekeeping of source codes itself can use much of IT time, since new source codes have to be added (for the new campaigns) and the older ones removed (after the maturity of campaigns). This also requires a great deal of communication between the marketing and the IT team. Similarly, the customer services representatives have to understand the definition of source codes to be able to choose a particular code among a list of source codes. Measuring marketing requires much more than effective systems.

Measuring the success of campaigns and its inherent complexity also depends on the nature, size and structure of the organization. The more the number of interactions with the customer during the pre-purchase cycle the more complex the calculation. Researchers like Rust et al., (2004) believe that while there is much credible evidence that marketers are driven by the measurement imperative to prove the value that their actions add to the organization, performance in many firms sadly lags both the need for marketing accountability and the availability of tools and techniques to provide it. It is even more complex to establish, demonstrate and verify the links between marketing metrics and financial outcomes (Roger, 2007).

Summary

This chapter dealt with the relevant theories and concepts that pertain to marketing measurements. It also highlighted the importance of leadership and commitment within the measurement framework. It gave us different perceptions on marketing measurements and what different experts feel. The study now moves ahead into the discussion and analysis part where the practical aspects of different theories studied in this chapter will be examined in great detail. The next chapter will cite evidences and illustrations from different organizations to validate the theories and arguments.