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# Software review: Measuring the overall effectiveness of marketing (Part 2)

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**Abstract** This is the second part of a paper that explores how the uses of measurement systems have been evolving in marketing.

The first part looked at the impact of implementing corporate strategies on marketing and the development of marketing customer communication strategies.

The second part explores the types of metrics that are being used to monitor the effectiveness of these customer communication strategies. It also briefly looks at the issues associated with implementing these measurement systems and types of technology that are being used to surface the measures.

## INTRODUCTION

The author has spent the last two years travelling around the world, working in the USA, Europe and Asia Pacific on analytical customer relationship management (CRM) projects. One of the things that has struck him the most is the general lack of a coherent approach to the integration of marketing strategy with corporate goals and the measurement of marketing communication performance.

This paper attempts to illustrate an approach that represents a combination of 'best practices' that he has seen in companies around the world.

The paper covers the following areas:

— corporate strategy

- marketing customer communications strategy
- measuring marketing communication performance
- metrics used to monitor performance
- key performance indicators
- customer balance scorecard.

The second part of the paper looks at the:

- types of metrics that are being used to monitor the impact of marketing customer communication strategies
- issues associated with implementing these measurement systems and types of technology that are being used to underpin the surfacing of these measures.

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## MEASURING MARKETING COMMUNICATION PERFORMANCE

The following section of the paper illustrates the types of metrics that could be used to measure the various aspects of marketing customer communication performance. It is not meant to provide a definitive list, but to point the reader towards the key dimensions to measure.

The metrics are broken down into the following sections:

- overall performance
- customer performance
- product performance
- channel performance
- communications performance
- marketing team productivity.

Note: The measures are described by:

*Objective function (What the organisation is trying to achieve)*

*Metric (How performance is measured)*

### Overall performance

In most marketing organisations the primary measure of overall marketing customer communication effectiveness is return on marketing investment. The following types of metrics are typically used:

#### *Increase return on marketing spend*

- Rate of return on marketing spend in period (%)
- Total return on marketing spend in period (£)

The periods measured are typically month, year to date and, occasionally, rolling year.

In this case the metric only looks at marketing spend on the assumption that marketing is unable to influence spend in

other areas of the business. In the past many organisations only measured the outward costs of the communication, but it is more common to see both the outward bound and response management cost being taken into account.

Where a multichannel strategy has been adopted there has been a move to take into account the indirect costs of marketing. That is, those costs that are not directly controlled by marketing but are influenced by marketing activity, eg response management through different channels.

The resulting metrics have led some organisations to steer customers to respond down preferred channels and/or refine the response management process, eg reducing hand offs through a sale cycle in a retail branch network.

The following types of metrics are becoming more common:

#### *Increase return on corporate spend*

- Rate of return on corporate spend in period (%)
- Total return on corporate spend in period (£)

The periods measured are typically month, year to date and, occasionally, rolling year.

Budgets have been common in most marketing departments for a long time, but they have not been tightly controlled in many cases. This is changing as finance starts to tighten its grip on this area of spend.

The following types of metrics are common:

#### *Improve budget process performance*

- Total marketing spend in period (£)
- Total spend by communication channel in period (£)

Total spend by business initiative in period (£)  
 Total spend by business unit/product area in period (£)  
 Total spend by segment in period (£)  
 Total spend per customer in period (£) (average, max, min, mean)

The periods measured are typically week, month and year to date. Budgets are normally set and monitored for spend. In some cases a bid process drives allocation of budget on a campaign-by-campaign basis.

## CUSTOMER PERFORMANCE

Understanding the dynamic nature of the customer base is essential in any organisation. The following metrics are used:

### *Increase number of customers*

Total number of customers in base at start of period  
 Total number of customers in base at the end of the period  
 Net change in customer numbers in period  
 Rate of net change in customer number in period (%)  
 Number of new customers gained in period  
 Number of customers retained in period  
 Number of customers recovered in period  
 Number of customers lost in period  
 Number of customers at risk during period

The periods measured are typically week, month and year to date. These numbers would also be expressed as a percentage of the base at the start of the period.

Where customers are managed by business units, the customer metrics

above would be available by business unit. It is still surprising how many organisations are still unable to provide the metrics described above. Where a strategic segmentation system is in place the customer metrics above would be required by segment. Targets are sometimes set for acquisition, migration and retention of customers for segment managers. If this is the case then there would be measures against these targets.

### *Migrate customer to optimal segment*

Number of net new customers in segment in period  
 Number of customer acquisitions to segment in period  
 Number of net lost customers from segment in period  
 Number of lost customers in period from segment  
 Number of lost customers in period to other segments  
 Number of customers migrating between segments

The periods measured are typically month and year to date.

A key measure for most organisations is the value of the customer; a wide range of methods are used to determine value. These include:

- total sales
- total gross profit (contribution)
- total net profit
- net present value.

The choice of method would depend on the business.

In addition organisations may want to measure:

- historical value
- planned value (if customer keeps current product)

- potential value (if customer grows product/service portfolio).

The following types of metrics are typically used:

*Maximise value of customers*

Total value customers in period (£)  
Value of customer in period (£)

The periods measured are typically month and annual. These customer data may be aggregated by a number of dimensions including:

- segment
- business unit
- source channel.

A key driver of customer value is the number and value of product relationships. This leads to a set of metrics around this subject matter. The following types of metrics are used:

*Increase value customer product holdings*

Number of product involvements  
Number of products sold to existing customers  
Value of products sold to existing customers (£)  
Number of products sold to new customers  
Value of products sold to new customers (£)  
Number of products sold to recovered customers  
Value of products sold to recovered customers (£)  
Number of products at risk  
Value of products at risk (£)  
Period product held (max, min, average and mean)

The periods measured are typically week, month and year to date.

These metrics are normally available for the customer base, segments, customers and households if appropriate.

The issue with product holding is often the definition of product, but this is a business issue that has to be resolved if an effective measurement system can be put in place.

The value of a customer in many cases is driven by the period the product is held, so most organisations have some measure of product and customer tenure.

The following types of metrics are used:

*Maximise length of customer relationship*

Period as customer (max, min, average and mean)

The periods measured are typically week, month and year to date. These tenure data may be aggregated by a number of dimensions including:

- segment
- business unit
- source channel.

In many organisations the cost of customer acquisition is a major driver of customer value so a variety of metrics is used to monitor these costs.

*Reduce cost of acquisition*

Number of customers by acquisition channel in period  
Total cost of acquisition through channel in period (£)  
Cost of customer acquisition in period (ave, max, min, mean)  
Cost of sale by stage in sale cycle (£): enquiry; quotation; application; sale

The periods measured are typically week, month and year to date. These data may be aggregated by a number of dimensions including:

- business initiative
- segment
- business unit
- source channel.

Monitoring the effectiveness of the sales channel in converting an enquiry into a sale is usually measured, as part of the sales process but these data are often valuable if the marketing department is to understand how to optimise the use of a channel.

#### *Improve conversion rates*

Conversion rates for stages in the sale cycle: enquiry; quotation; application; sale

The periods measured are typically week, month and year to date. These data may be aggregated by a number of dimensions including:

- product
- business initiative
- segment
- business unit
- source channel.

### **Product performance**

In most organisations the metrics for measuring product performance are well catered for. It is the customer metrics, which are often difficult to get and integrate.

#### *Increase value of product holdings*

Total number of product involvements in base at start of period  
 Value of products in base at start of period (£)  
 Number of product involvements in base at end of period  
 Value of products in base at end of period (£)

Net number of products gained in period  
 Net number of losses in period  
 Number of new product involvements in period  
 Value of new product involvements in period (£)  
 Number of lost product involvements in period  
 Value of lost products in period  
 Number of products retained in period  
 Value of products retained in period (£)  
 Number of products recovered in period  
 Value of products recovered in period (£)  
 Number of products at risk at start and end of period  
 Value of products at risk at start and end of period (£)

The periods measured are typically week, month and year to date. These data may be aggregated by a number of dimensions including:

- product group
- business unit.

#### *Improve product acquisition by channel*

Number of products sold by channel  
 Value of products sold by channel (£)

The periods measured are typically week, month and year to date.

In many cases it is difficult to measure product upgrades but it is important that measurement systems are put in place as they can increase the value of a relationship and reduce customer churn. The metrics are similar to those of product.

#### *Increase product upgrades*

Number of upgrades sales by product combination

Value of upgrades sales by product combination

The periods measured are typically week, month and year to date. These data may be aggregated by a number of dimensions including:

- product group
- business unit.

### **CHANNEL PERFORMANCE**

The whole issue of channel management is becoming more important as organisations try to manage the complex mix of communication channels available today. Ensuring optimal resource allocation and utilisation is becoming essential if business and CRM objectives are to be met. The following metrics are typically used:

#### *Reduce cost per communication in channel*

Total number of communications by channel  
 Total cost of channel (£)  
 Cost of communications by channel (ave, max, min, mean)  
 Number of marketing communications by channel  
 Total cost of marketing communications through channel (£)  
 Costs of marketing communications by channel (ave, max, min, mean)  
 Marketing communication contact rate (success rate) (%)  
 Conversion rates by channel for stages in sale cycle (%)

The periods measured are typically week, month and year to date. These data may be aggregated by a number of dimensions including:

- channel
- business unit
- product.

Other metrics typically used include:

#### *Maximise sales per channel*

Number of sales by channel in period  
 Value of sale by channel in period (£)  
 Cost of sale by channel in period (£)  
 Number of new customers by channel in period  
 Value of new customers by channel in period (£)

The periods measured are typically week, month and year to date.

#### *Reduce cost per sale*

Cost per sale by channel in period

The periods measured are typically week, month and year to date.

#### *Improve channel ROI*

Rate of return on channel spend in period  
 Total return on channel spend in period

The periods measured are typically month and year to date.

In addition to standard metrics that allow cross-channel performance comparison, a number of metrics may need to be developed for specific channels, eg

- telephone: length of call, missed call rate
- e-mail: number of hard and soft bounce backs
- web: period on web page.

### **Communications performance**

At a more operational level, organisations will have to put in a series of metrics to measure the performance of marketing

communications. The following metrics are typical:

*Reduce cost per communication*

Number of marketing communications in period  
Cost per communication in period (£)

The periods measured are typically day, week, month and year to date. These data may be aggregated by a number of dimensions including:

- business unit
- campaign manager
- campaign
- channel
- product.

Perhaps the most commonly used measure for marketing performance response rates needs to be seen within the context of a range of metrics to improve effectiveness.

*Increase response rates*

Number of responses to communication by campaign in period  
Total value of responses to communication by campaign in period  
Response value by campaign in period (ave, max, min, mean)

*Reduce cost per sale*

Cost per response to communication by campaign in period (£)  
Conversion costs per stage in the sale cycle for campaign (£)

*Improve conversion ratios*

Conversion rate per stage in the sale cycle for campaign (%)

The periods measured above are typically

day, week, month and year to date. These data may be aggregated by a number of dimensions including:

- channel
- business unit
- product
- business initiative
- campaign
- communication.

In some markets campaigns are planned, partially executed then cancelled. This often results in wastage, which needs to be measured.

*Reduce cost of wastage in communications*

Cost of campaigns aborted in the period

The periods measured are typically week, month and year to date.

*Improve campaign ROI*

Rate of return on campaign spend in period at campaign and communication levels  
Total return on campaign spend in period at campaign and communication levels

The periods measured are typically week, month and year to date.

In this example a campaign may consist of one or more communications. The rate of return may be aggregated in a number of dimensions. These could include:

- business initiative
- product category
- segment
- business unit
- campaign manager.

The important thing about this approach

is that common sets of metrics are used to monitor campaign performance. This allows cross-campaign performance and therefore resource allocation to be more effectively managed.

Other metrics may be used to measure the impact of direct communications on brand and customer perceptions. These include:

*Improve brand awareness and consideration*

Brand awareness levels in period  
Brand consideration index in period

*Improve customer perception of marketing communications*

Marketing communication satisfaction index

### **MARKETING TEAM PRODUCTIVITY**

Organisations have started to monitor the effective utilisation of staff resource in marketing. This has not been popular, as it requires the keeping of time sheets and the allocation of time against specific campaigns. But those companies that have introduced these types of measure have found them very valuable, in many cases justifying an increase in staff resource. The following metrics are typical:

*Reduce time to market*

Period between key milestones in a campaign life cycle (days) (ave, max, min and mean)

These data may be aggregated by a number of dimensions including:

- business initiative
- type of campaign
- campaign manager.

These type of data have helped in

refining the campaign management and associated processes.

*Reduce staff resource required to execute a campaign*

Man days of resource required to execute campaign, broken down by campaign stage

These data may be aggregated by a number of dimensions including:

- business initiative
- type of campaign
- business unit.

The main driver for improvement in this area has been improvement in marketing processes and the introduction of campaign management technologies which have allowed more of the process to be automated.

*Increase the number of campaigns per full time equivalent (FTE)*

Number of communications per campaign (ave, max, min, mean)  
Number of campaigns per marketing FTE  
Number of communications per FTE  
Marketing spend per FTE (£)

The introduction of workflow and other planning technologies in marketing is facilitating these types of measurement.

There is a pool of evidence that shows that satisfied employees are more productive. The costs of losing skilled marketing staff have pushed some organisations into establishing more effective metrics for monitoring staff satisfaction. These include:

*Improve marketing staff satisfaction*

Staff satisfaction index

Number of days lost due to sickness  
 Number of employees in department  
 at start and end of period  
 Number of FTEs in department at  
 start and end of period  
 Number of employees resigned during  
 period by reason type  
 Number of employees recruited during  
 period  
 Cost of recruiting new employees (£)  
 Value of investment in employees

The periods measured above are typically  
 month and year to date.

### KEY PERFORMANCE INDICATORS

The previous section provides a list of  
 the type of metrics that are being used  
 to manage a marketing operation. There  
 are too many for a marketing manager to  
 use effectively. There will be a small  
 number (five to ten) that will provide  
 key indicators of the team's performance  
 (KPIs). These should be surfaced to  
 management on a regular basis in the  
 form of a flight deck, with exceptions  
 visually highlighted. It should then be  
 possible for management to drill down  
 into the supporting metrics when  
 appropriate to investigate  
 underperformance. This approach avoids  
 data overload of management team.

### TECHNOLOGY PLAYERS

There are a number of vendors that supply  
 reporting or business intelligence  
 technologies. The following are just a few:

- Business Objects
- Cognos
- Hyperion
- SAS.

The key issue for marketing is to  
 understand what is being measured and  
 how this integrates with the marketing

strategy, before going out and buying a  
 stack of reporting tools. It is important  
 to look for both business and technical  
 support from a supplier; many have  
 developed industry-specific templates  
 which will fast track the delivery process.  
 When buying technology it is not only  
 looks that count. It is substance. Things  
 to look for are:

- financial viability
- future vision
- industry domain knowledge
- richness of functionality
- data integration capability
- forecasting and predictive capability
- delivery capability
- references.

### CONCLUSIONS

There is need for marketing organisations  
 to align what they are doing with  
 corporate strategy. Ensuring that there is  
 a documented marketing strategy and  
 marketing plan is just the first step.  
 Putting in place the necessary  
 measurement systems is the next. Few  
 organisations that the author has worked  
 in would claim to have a comprehensive  
 set of metrics to monitor the  
 performance of marketing. Even fewer  
 have formulated these as a simple set of  
 key performance indicators that can be  
 used to manage the business on a  
 day-to-day basis. If the right measures  
 are not in place the business cannot be  
 managed effectively. What cannot be  
 measured, cannot be managed.

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