

THE NEW

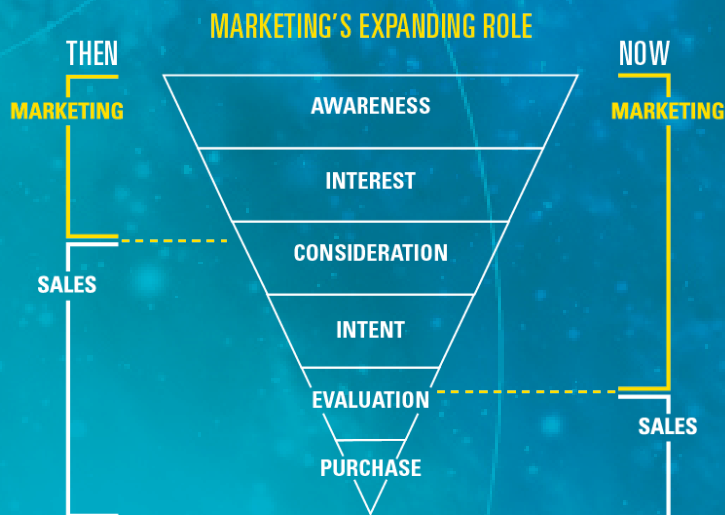
MARKETING METRICS:

MACRO MEASUREMENTS
THAT REALLY MATTER

J | CONNELLY

FORGET WHAT YOU KNOW ABOUT MARKETING.

Today's marketers are tasked not only with generating broad brand awareness but also attracting, engaging and persuading buyers throughout the sales cycle—and turning prospects into loyal, repeat clients. Gone are the days when the sales team would take over as soon as a consumer expressed any interest in a product or service.



What drives this shift? For one, buyers—whether they're selecting a product for themselves or a professional service for their employer—are firmly in control of how they make purchasing decisions. Forget the trope of the pushy used car salesman. It simply doesn't work when consumers are persuaded by the preferences of their social circle, online reviews, brand comparisons and product specs.

Despite decades of designing marketing programs around the idea of a funnel, buyers don't always behave in such an orderly fashion. There are dozens of touch points and buying factors—available to every consumer with just a few keystrokes—that necessitate a more-sophisticated approach.

TERMINOLOGY

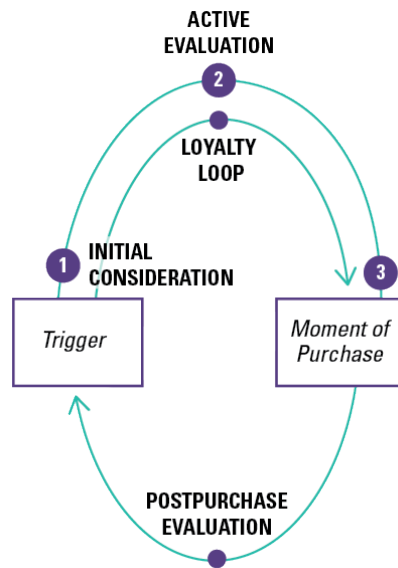
I AVERAGE DEAL SIZE:

The typical amount a customer pays to your business for your product or service, whether it's a one-time fee or multi-year contract. You can remove very high- and very low-cost clients from the equation to get a more-representative number.

I **MARGIN:** The percentage your business earns on each piece of business, as calculated by the difference between the sales price of your product or service and the cost of delivering it to your customer. When calculating the margin, you don't factor in overhead costs or selling costs—just the hard costs of production or serving a contract.

I **CHURN:** The percentage of customers who discontinue their subscription to your business. Churn typically only applies to businesses that rely on repeat purchases or subscriptions as their primary sales method. Sometimes referred to as "attrition rate."

In 2009, McKinsey & Company created [the new consumer decision journey](#), which shows the circular path buyers take to making a purchase (and buying something again).



This graphic clearly shows how marketers still need to focus on general awareness—through signage, sponsorships, press mentions and social presence—but also need to provide specific information once the consumer starts evaluating products and services against competitive offerings. Reviews, demos, word-of-mouth recommendations and brand-driven content are all in the marketer's toolkit to move buyers closer to selecting their product.

Once a purchase happens, marketing is tasked with evangelizing customers and winning their active loyalty. That means finding new ways to continue engaging individuals with information and persuading them to share their positive experiences with the product or service.

And that's where the other driver of this change in marketing comes in—technology. A host of systems from website analytics to client-relationship management programs have "digitized" the entire sales relationship. Marketers can now track, test and fine tune their approach at every stage of a campaign.

So why aren't more marketers touting their influence on business growth and customer loyalty?

NEW MANDATES REQUIRE NEW KPIS

New technology gives marketers a lot of data—but that doesn't always translate to insight.

While the marketing department cares deeply about website visits, conversion rates, share of voice, engagement, followers, likes, click-throughs and stickiness, it can be difficult for the C-suite to understand how these [key performance indicators](#) equate to business success.

In fact, according to a recent Hubspot report, 73% of executives don't think marketers are focused enough on results. If executives think marketing lacks credibility, how can the department be held accountable for driving customer demand?

Marketers need to translate their work into data that highlights [impact](#), comparing the total cost of marketing, salaries and tools with revenue and customer acquisition. **In short—they need to prove their ROI.**

We've compiled the following macro measurements to help marketers better assess their effectiveness and report their efforts throughout the organization.

FAIR WARNING: there is a considerable amount of math ahead and some terminology you might be encountering for the first time. Few marketers will have all of this information at their fingertips. But this guide can help you approach your accounting or operations team to get the right information—from specific dollar amounts to outliers that can skew your calculations.

THE NEW MARKETING METRICS: MONETARY

Client Lifetime Value (CLV)

WHAT IT IS: A single dollar amount that shows how much an average client will pay to your organization over the course of their engagement.

There are simple and custom formulas for determining **CLV**, sometimes referred to as lifetime value or LTV. It's one of the more complex formulas in this guide, but also one of the most useful, so it's important to get it right.

HOW TO MEASURE IT:

*(Average deal size * (1.00 - Margin)
X Average # of times a customer will
buy from you. * (1.00 - Churn).*

CLV includes a couple different factors that provide an increasingly comprehensive look at how valuable each client is to your business.

A very basic CLV formula is average deal size * average # of times a customer will buy from you. If your annual contract is \$100,000, and clients stick around for 4 years, your most basic calculation of CLV is \$400,000.

Many CLV formulas also factor in **margin**, which removes the percentage of hard costs (salaries, materials, etc.) that are necessary to deliver a product or service to your customers.

Let's say your margin is 20%. If we add in just that factor to the example above, your CLV would drop to \$320,000.

$\$100,000 * (1 - .20) * 4$

There is one last factor you need if your business relies on subscriptions or repeat purchasing of your goods or services.

Churn is the percentage of customers who cut ties with your company during a given period, typically annually.

If your churn rate is 15% in the example defined above, your CLV would further fall to \$272,000.

$\$100,000 * (1 - .20) * 4 * (1 - .15)$

WHY IT MATTERS: It tells you exactly how valuable each client is to your bottom line.

Even a basic calculation of CLV can open up new information for your team, like if you're attracting enough high-value clients. It also serves as the basis for many other macro marketing metrics, as seen below.

Customer Acquisition Cost (CAC)

WHAT IT IS: A dollar amount that shows how much your company spends over a given time period to acquire a single new customer.

HOW TO MEASURE IT:

*Total sales and marketing spend ÷
Number of new client acquisitions*

Total sales and marketing spend covers a lot of ground—from salaries and benefits of employees to marketing tools like a CRM and the cost of outside vendors and partners.

Let's say your total marketing and sales spend (as defined by your operations team) for the year is \$500,000. If in the same time period you acquire 42 customers, your CAC would be \$11,905.

It's important that this metric compares the same time frame. Annual calculations are enough for most businesses, but you may want to consider quarterly or monthly calculations if your sales are high volume.

WHY IT MATTERS: It tells you how much it costs to close each new client.

On its own, CAC provides a benchmark to gauge marketing performance. If the cost continues to rise, it may be a sign that your marketing and sales efforts aren't as efficient or effective as they could be. CAC can also be further broken down to gauge the cost for new clients across channels and touchpoints.

Like CLV, CAC also forms the basis of other marketing metrics that can help you pinpoint what's working well and what needs improvement.

Marketing Share of Customer Acquisition Cost

WHAT IT IS: The percentage of the total CAC that is attributable to marketing efforts

HOW TO MEASURE IT:

Total marketing spend ÷ (Total sales and marketing spend)

Just as you did in calculating the CAC, you'll want to add up the salaries, technology systems and external vendors—but this time just for your marketing efforts. This new number will let you see the breakdown of CAC between sales and marketing.

If you use the CAC estimate above and determine that marketing accounts for \$275,950 of the total marketing and sales spend, marketing's share of CAC would be 55%.

WHY IT MATTERS: It tells you how much of the cost to close a new client is attributable to marketing.

Knowing how sales and marketing share the cost burden of acquiring customers can help align teams (and keep everyone motivated to work together). If your marketing share of CAC keeps going up, it can mean a few different things:

I The marketing team is spending too much on ineffective initiatives

or simply has too many expenses, such as redundant technology systems.

I The sales team underperformed

(and therefore didn't earn their bonus and commission).

I You're in a growth or investment period.

If you're attempting to secure more high-quality leads and improve sales productivity, the marketing share of CAC may be higher than normal to account for the difference in activity.

CLV:CAC Ratio

WHAT IT IS: A simple ratio that shows the real value of each new client compared to how much it cost to acquire them.

HOW TO MEASURE IT:

CLV ÷ CAC: CAC ÷ CAC

If you're working with mostly round numbers, you can divide the CLV by the CAC and use that number to compare the rounded figure to 1 to get a rough ratio. You can also use Excel or a ratio calculator to get a more exact figure.

If you're using the most exact CLV estimate above and the example CAC, the rounded ratio would be 22.8:1.

WHY IT MATTERS: It lets you know if what you spend acquiring clients is worthwhile over the long term.

The higher your ratio, the more ROI your sales and marketing team deliver to the bottom line. Spending more on sales and marketing, however, will initially reduce your ratio but could be essential to supporting your company growth. Having a consistently high ratio may mean that you're not investing enough in reaching new customers, which could ultimately damage your business in the long term.

THE NEW MARKETING METRICS: EFFICACY

Marketing-Originated Client Percentage

WHAT IT IS: The percentage of new business prospects that are driven or owned by marketing in any time period.

HOW TO MEASURE IT:
Number of new clients started as a marketing lead ÷ Total number of new clients

Put your CRM to work! Identifying how each individual lead comes to you can help you see what efforts are effective and where you should focus your time. You may have dozens of lead generation programs going on simultaneously but for our purposes, you only really need to know if those programs are owned by marketing or sales.

What is a marketing-owned lead? Each business will define that differently, but here are some guidelines for distinguishing between marketing and sales-generated leads, as shown at left.

If you won 95 new clients last year and 35 of them came in through a marketing effort, your marketing-originated client percentage would be 36%.

WHY IT MATTERS: *It tells you exactly how many new clients come to your organization through marketing efforts.*

The ideal percentage will differ with each business but this percentage will let you know if you're putting the right resources behind effective campaigns. If the marketing team makes up the bulk of your new business effort, their percentage will have to be higher to justify the cost of the department. But if your sales team is robust, marketing may spend most of its time supporting their initiatives and prospects, rather than identifying leads on their own.

Marketing-Influenced Customers

WHAT IT IS: The percentage of all new customers that marketing interacts with throughout the sales process.

HOW TO MEASURE IT:
Total new customers who interact with marketing in any capacity ÷ Total number of new clients

WHY IT MATTERS: *It provides a clear view of marketing's role in closing all sales.*

Marketing is still tasked with "setting the table" and generating brand awareness. Not all of their efforts will result in originating a lead, but that doesn't mean marketing doesn't continue to provide value throughout the sales cycle.

A salesperson might meet a potential client at a conference. But if the prospect isn't ready to make a buying decision at that moment, marketing steps in to help nurture the relationship through email campaigns and other content. Sales may have originated the contact and closed the deal but marketing played an important role. Capturing this effort is important to gauging marketing's efficacy overall.

If 83 of the 95 clients you closed last year had some interaction with a marketing program, even if they originated with sales or another channel, your marketing influenced percentage would be 87%.

CONCLUSION

While marketing's role has changed, it has only grown in importance. The metrics marketing relies on to show their value need to step up too.

By focusing on the macro measurements here, marketers can provide the C-suite with a big-picture guide to their work and why it matters. That, in turn, will earn marketing "a seat at the table," with the influence, credibility and higher budgets that come along with it.

MARKETING ORIGINATED	SALES ORIGINATED
Search, including organic and AdWords	Conferences and events
Web referrals	Tele-prospecting
Social referrals across sites	Direct email outreach
Advertising	Network referrals
Sponsored content	

NOW THAT YOU KNOW WHAT TO MEASURE...

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