Market Metrics: The Strategy Feedback Loop

CHAPTER

17

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Introduction

In Chapter 1, we introduced the importance of tracking the impact of the tactical implementation of marketing strategy in a feedback loop that informs further diagnosis, strategy and tactics. In this chapter, we explore this feedback in the form of market metrics. These metrics are used by organisations to measure consumer behaviour and the effectiveness of the marketing strategy. It is imperative for market research teams to be able to measure and track performance in order to improve strategic decision-making.

Metrics are generally quantitative ways of assessing and tracking performance or production in an organisation or department. With numerous market metrics tools available, market research teams must be able to select the metrics that reflect the most accurate results of the team's marketing efforts.[1] For instance, the metrics used when launching a new product are different from those used to track the performance of existing products. In this chapter, we will explore the role of market metrics and the different types of market metrics available to track and measure marketing efforts. Note that the metrics discussed in this chapter are not exhaustive. Metrics are often unique to the needs of a business or the objectives of an organisation; it is up to the marketing teams within organisations to choose metrics that best measure the performance of their marketing activities.

The role of market metrics

The design and implementation of marketing plans can contribute significantly to the success of an organisation. However, in order to determine whether marketing plans have been executed appropriately, the marketing performance of an organisation has to be reviewed. The process of reviewing marketing performance involves evaluation and control.[2] Control is the ongoing measurement of the output of marketing campaigns and evaluation involves periodic measurement of the campaigns. Corrective action is usually taken after the control process to enable the accomplishment of marketing objectives.

The four types of marketing controls that are implemented are:[3]

- **Profitability control:** This type of control is used to evaluate an organisation's performance in terms of generating returns by assessing the profitability of consumers, products, and other related elements.

- **Annual-plan control:** This is used to make sure that an organisation attains the goals set out in its annual plan. Management uses the annual plan as a point of reference throughout the financial period to track the organisation's performance and make necessary adjustments where there are deviations from the plan.

- **Efficiency control:** This is for assessing, and improving where necessary, the spending efficiency and impact of advertising campaigns and other marketing expenses.

- **Strategic control:** This control is for evaluating whether an organisation is exploring the best or most profitable opportunities regarding products, markets, and channels.

It is important to note that the measurement of performance of marketing programmes is one of the key activities of evaluation and control. Therefore, organisations need to develop a set of vital metrics in order to monitor the performance of their marketing activities more frequently, thereby making the control function more effective. For this reason, metric development is crucial for guiding an organisation on its planned marketing activities path.

Types of metrics

Market metrics can be grouped into many categories, including the following:[4]

- **Primary metrics:** These metrics are popularly used and usually easy to calculate. Examples include calculating the profitability of an organisation's day-to-day operations.

- **Advanced metrics:** Advanced metrics are the type of metrics that require the collection of large amounts of data and the use of analytical tools, such as a brand development index.

- **Internal metrics:** Internal metrics analyse or assess an organisation's internal data, such as consumers churn rate (how many consumers are leaving).

- **External metrics:** These metrics assess the effectiveness of marketing campaigns on the target market. Measuring brand awareness is one example.

- **Short-term metrics:** Short-term metrics measure the output of tactical marketing campaigns, such as leads generated from an exhibition.

- **Long-term metrics:** Long-term metrics are used to measure the future benefits from current investments, such as brand equity.

- **Consumer metrics:** These metrics measure consumer behaviour and attitudes, such as consumer satisfaction.

- **Financial metrics:** These metrics use financial information to measure reporting measures, such as sales growth and gross margins.

Often, however, the metrics are grouped according to what they measure, and thus what you can use them for sales, marketing effectiveness, market share, consumer value, consumer perception, and consumer retention. Note that the grouping of metrics is not prescriptive; it is just a way to help you decide on a metric for any particular problem.

The following subsections explore some of the key market metrics used in organisations in these categories.

Sales

These metrics relate to the revenue produced by a product or service and the value derived from activities relating to sales. They are useful when you need to understand how a product or service's income has been affected by any changes or initiatives, and how effective these activities are.

- **Actual sales:** This sales metric compares actual and target sales to measure if expectations have been met. For example, an organisation planned to sell 20 cars in a given year but actually sold 30. In this case, expectations have been exceeded.

- **Sales revenue growth:** This metric compares the sales revenue over different periods, usually months or years. For example, a car dealer may have sold vehicles worth R20 million in the past year and R17 million in the current year. Sales revenue has, therefore, declined.

- **Sales mix:** This metric apportions revenue contributions of different products in an organisation. For example, a home furniture company plans to sell 100 000 units in the current year. The planned sales mix is 20 000 units of low-profit models, 50 000 units of medium-profit models, and 30 000 units of high-profit models. The planned sales mix is thus 20%, 50%, and 30%.

- **Salesforce productivity:** This metric is often used to measure how well the sales team is selling in terms of the number of calls to potential consumers. One measure could be to track the number of calls that can be converted into an order. Other measures include measuring actual performance against a target, such as actual revenue achieved compared to target revenue for the period.

- **Return on loyalty programmes:** This metric is used to measure the return on loyalty programmes set up for consumers by tracking repeat purchases, repurchase intent, and willingness to recommend. For example, if consumers in the loyalty programme were given R20 000 in discounts, but the same consumers generated R120 000 in profit, there was a positive return on investment.

Marketing effectiveness

These metrics focus on measuring how effective the brand's marketing efforts are. They are therefore useful in determining how valuable it is to pursue new or existing marketing campaigns.

- **Return on marketing investment:** The return on marketing investment metric measures the ability of marketing campaigns to generate income and any other form of investment in a product or brand. For example, if revenue less the cost of sales increases by R5 for every R1 spent on marketing, the return on marketing investment is 500%.

- **Marketing budget:** The marketing budget measures how marketing spending drives sales and profit growth. This can be through expressing marketing costs as a percentage of sales turnover. For example, if an organisation's marketing costs dropped from 6% to 4% of over a period while sales increased, it would indicate greater productivity of sales efforts in terms of controlling marketing costs.

- **Advertising effectiveness:** This metric is used to measure the effectiveness of advertising campaigns in an organisation. For example, a business might measure the number of views (impressions) by the target market relative to the audience on the platform used for advertising (for example, television or a website). One of the advantages of digital platforms as communications channels is their measurability. In recent years, however, marketers have needed to balance measurability with effectiveness. Some campaigns are more measurable (e.g., views on an online video), but that does not automatically make them more effective than an outdoor billboard campaign (that has a hard to measure impact).

- **Awareness:** This metric measures the percentage of potential consumers who recognise or are familiar with a particular brand. This could be top-of-mind awareness (remembering a product easily without being prompted), ad awareness (showing awareness of a brand's advert) and prompted awareness (prompts awareness through providing a list of brands in a product category). For example, Adidas might have an 80% top-of-mind awareness among sports footwear consumers.

- **Response rate:** This metric measures the percentage of responses to a particular campaign (e.g., a mass email with a promotion). The response rate is worked out based on the number of responses divided by the total number of emails sent. Many campaigns suffer from low response rates, but this can be increased by offering an incentive to participate. Different promotions can be activated and compared to determine which campaign yields the best response rate.

- **Brand development index:** This metric is used to aid management in understanding the comparative performance of a product within particular consumer groups. This is most useful for new products or brands being launched. The brand sales in a specific segment are compared with the brand sales in the whole market. For example, a cereal brand may underperform in households without children compared to the whole market.

Market share

The metrics in this group relate to determining the share of the market that the brand or product currently has. These can be used when trying to understand a brand's position and growth in the market compared to its competitors, or the performance of a particular product in a particular market segment.

- **Relative market share:** This metric is used to assess comparative market strength by benchmarking a product or brand's market share position against its largest competitor in the market. This is most useful for organisations in big industries such as car manufacturing. For example, a car dealer that is in a market consisting of three players can determine its relative market share by comparing its revenue or unit sales to that of the largest competitor.

- **Revenue market share:** This measures competitiveness by expressing an organisation's revenue or sales as a percentage of the total sales in that market. For example, if the market size is R1 000 000 000 and a brand within the market has a revenue share (i.e., sales) of R200 000 000, this brand has a 20% market share.

- **Brand/market penetration:** This metric is meant to measure how much a specific target population has adopted a brand after launch. The purchasers of a brand are expressed as a percentage of the total population. For example, a new toothpaste brand is launched in the market. To determine penetration, compare the new brand's sales with the total number of toothpaste consumers.

- **Brand equity:** Brand equity measures the value premium that an organisation produces from a product brand when compared to equivalent brands. For example, Hugo Boss has such a strong brand equity that the premium price is both accepted and expected by consumers. In other words, some products have a premium that is paid for them based on the brand, over and above the value of the product itself.

- **Share of voice:** This metric evaluates the comparative level of advertising committed to the product or category relative to other competitors in the industry. A smaller brand might need to have an increase in share of voice in an attempt to grow their market share.[5]

- **Share of search.** An emerging metric that measures the number of online searches for a particular brand as a percentage of searches for all brands in a category. This may be a good predictor of brand health.[6]

Consumer value

These metrics relate to the monetary value that consumers represent to the business.

- **Consumer lifetime value:** This metric measures the predicted present and future value that a given consumer is expected to generate over their lifetime. The more loyal a consumer is to an organisation, the greater their lifetime value. For example, a consumer might have bought one car and is expected to buy two more cars in their lifetime. The total value of these three cars would represent their lifetime value.

- **Consumer equity:** Consumer equity is the present value of all the lifetime values of all the consumers within an organisation. Companies such as McDonald's, Apple, and Facebook have very high consumer equity (as they have many consumers and considerable consumer loyalty), and thus have a sound and sustainable competitive advantage over their competitors.

Consumer perception

These metrics relate to how consumers perceive a brand or particular attributes of a brand.

- **Consumer satisfaction:** This metric measures the experience of consumers with the organisation's products or services, and thus the likelihood of repurchase. There are various ways to measure this, including an index such as the Net Promoter Score (NPS), which measures the willingness of consumers to recommend an organisation's products or services to others. Consumers take a short survey that prompts them to rate how likely they are to recommend the specific product after using it. However, it can also be less structured. For example, a hotel can monitor how satisfied visitors are with its facilities by emailing recent visitors and asking them to rate their experience using a five-point scale.

- **Net Sentiment:** Net Sentiment is an aggregated customer satisfaction metric that seeks to measure an authentic and complete voice-of-customer. Net Sentiment is a real-time alternative to lag metrics like Net Promoter Score and is measured by collecting unstructured text from publicly available online conversations. Companies like BrandsEye use a combination of artificial intelligence and crowd sourced human collaborators to improve accuracy in measuring net sentiment.[7]

- **Quality of service:** This metric measures perception of service based on consumers expectations. This can be done by closely monitoring the number of complaints per given period. For example, mobile network providers, such as Vodacom, can use data from their call centres and emails related to complaints to track and measure their quality of service.

- **Beliefs:** Beliefs measure the perception of a brand. Consumers' opinions of a product or service are captured via survey responses, as ratings on a scale. For example, perceptions of a car's safety can be tracked over time. This can be used as an attribute if safety is an important feature of the car and if the brand wanted to capitalise on this as a benefit or USP (unique selling point).

- **Brand tracking:** Organisations often see the need to monitor the strength of their brand on an ongoing basis. Some of these brand tracking measures include awareness, relevance, knowledge, associations, image, loyalty, or brand health. There are a number of organisations that provide brand tracking measures.[8]

Consumer retention

These metrics relate to whether consumers are continuing to support the brand. This is helpful for determining whether retention strategies are working, or for measuring consumer loyalty.

- **Survival rate:** The survival rate measures the number of consumers maintained from the launch of a product or initiative up to any point in time afterwards. For example, the number of consumers who bought a car when it launched, versus how many of those same consumers bought a new model of the same car later on.

- **Churn rate:** This metric is used to measure the rate at which existing consumers stop purchasing a product or service. This is usually determined on an annual basis. For example, a shop that started the year with 100 consumers and lost 5 over the course of the year would have a churn rate of 5%.

- **Consumer loyalty:** This metric is used to identify the base of future income streams. It measures the share of consumers' requirements, willingness to pay a premium, and willingness to search. For example, a business could measure willingness of an existing consumer to buy the same brand in the future if they had to replace their car.

Conclusion

In this chapter, we discussed some of the market metrics available to businesses, including market share, return on marketing investment, and consumer satisfaction, among others. Each of these metrics serves a unique purpose and is calculated using a specific formula or method. It is vital that market research teams fully understand market metrics and how to apply them in order to effectively solve different business problems and diagnose further strategy. A good balance between long and short term measurement is crucial as long term profitability takes both long term brand building and short term promotional activity. Both will need different measures and should have different timeframes.[9]

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