



Taking the Mystery Out of Marketing Metrics

*Special Guest Presenter:
Roger Best*



Why Marketing Metrics Are Important!

<u>Measurements</u>	<u>Metrics</u>	<u>What It Tells Us That Is Important</u>
Thermometer	98.6	Normal body temperature
Blood Pressure	120/80	Normal diastolic/systolic blood pressure
Market Share	10%	Share of Served Market We Capture
Rel. Market Share	1.00	Market Share Relative to Market Leader
Customer Retention	67%	Losing 33% of Our Customers Each Year
Customer Life	3 Years	The Average Life of a Customer ($1/(1-\text{Cust. Ret.})$)
Lifetime Value	-\$50	This Customer Is Not Profitable After 3 Years
Marketing ROI	250%	\$2.50 Marketing Profit per \$1 Mktg. & Sales Exp.
Share Dev. Index	40%	Obtaining Only 40% of Our Share Potential

Marketing Metrics provide important insights into marketing performance.

Marketing Metrics Provide an External View

Internal – Backward Looking

FINANCIAL METRICS	Performance
Profit Metrics	
Gross Profit (%)	55.0%
Return on Sales	15.0%
Return on Assets	12.0%
Cost Metrics	
Standard Unit Cost (% unit cost)	50.0%
Marketing & Sales Exp (%)	20.0%
Overhead Expenses (%)	50.0%
Asset Management Metric	
Asset Turnover	0.80
Accounts Receivable (days)	60
Capacity Utilization	67.0%
Shareholder Metrics	
Return on Equity	20.0%
Return on Capital	15.0%
Earnings per Share	\$2.00

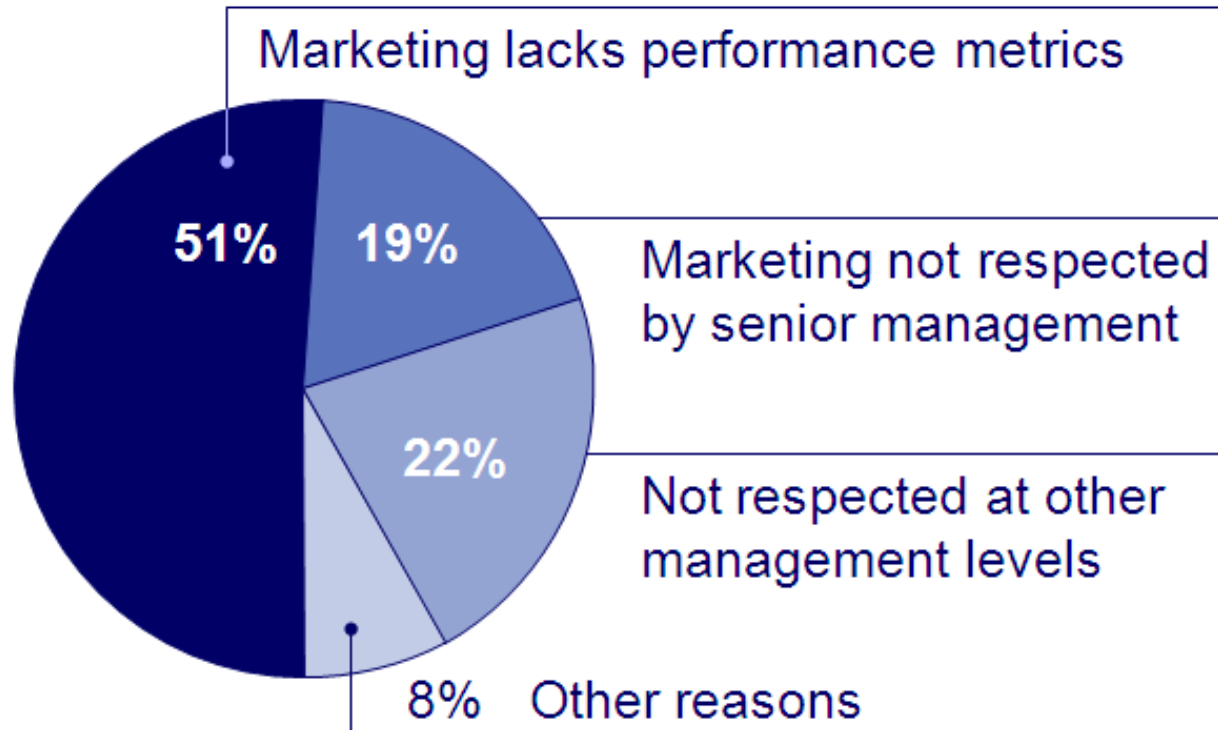
External – Forward Looking

MARKETING METRICS	Performance
Market Metrics	
Market Development Index	55
Market Share	25%
Share Development Index	60
Customer Metrics	
Customer Satisfaction	79.0
Customer Retention	75%
% Loyalty Customers	0.33
Competitiveness Metrics	
Product Advantage Index	140
Service Advantage Index	100
Customer Value	25
Marketing Profitability	
Marketing Return on Sales	34.3%
Marketing ROI	167.0%
Marketing Earnings per Share	\$4.70

Marketing Metrics are External Metrics many of which are Forward Looking.

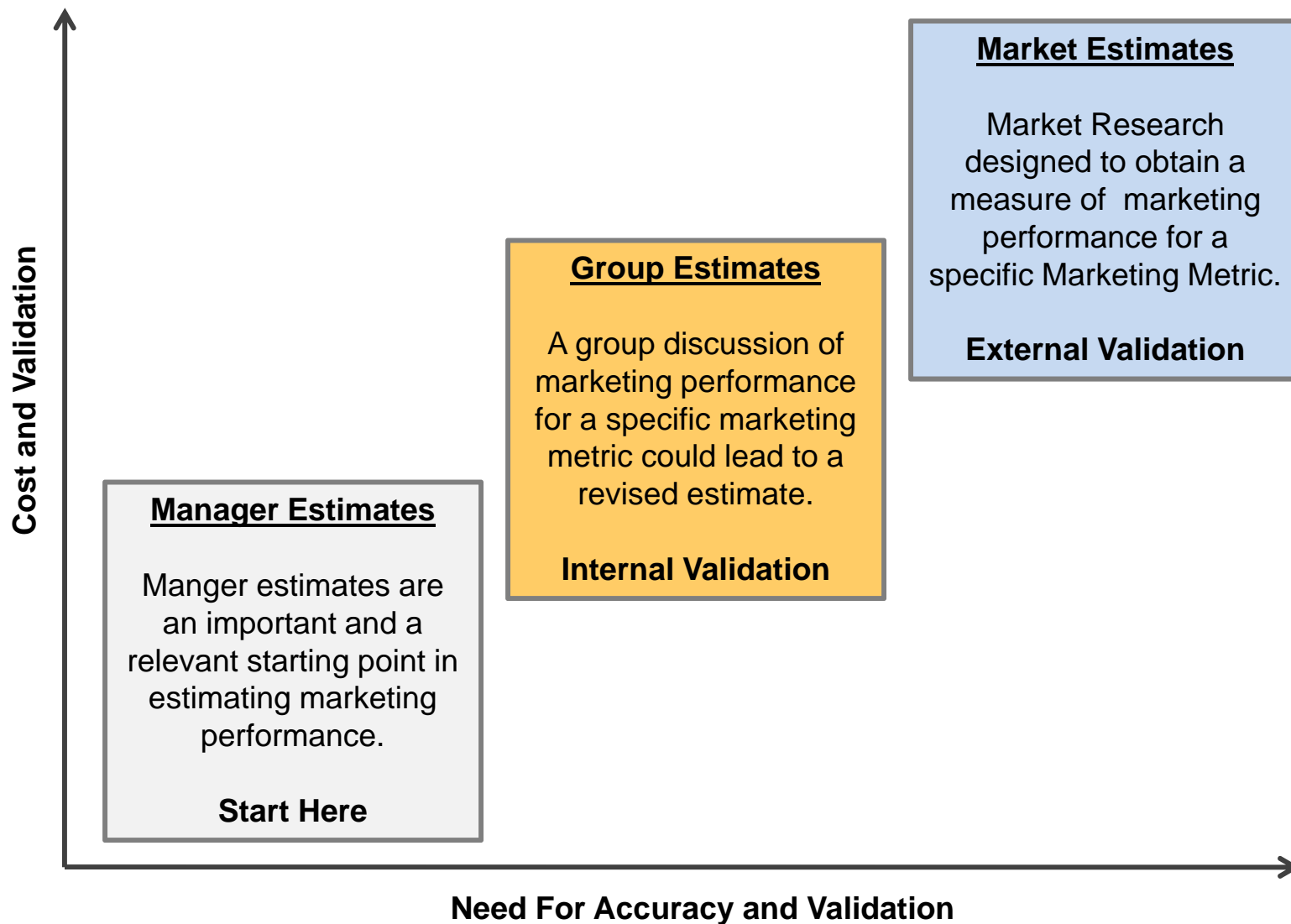
Marketing Metrics – The Need

CEOs... Want Marketing Performance Metrics!



“The reason for marketing’s low level of credibility is largely because marketing lacks **disciplined financial-return measures** to assess the value of its contribution to the enterprise.” — **Booz-Allen CEO Survey**

Overcoming Your Fear of Imperfect Information



Marketing Profitability Metrics You Can Use Today

- * Net Marketing Contribution**
- * Marketing ROI**
- * Marketing ROS**

Three basic profitability metrics to understand your marketing profits.

What Data Do I Need?

1. Sales
2. Percent Gross Margin
3. Marketing & Sales Expenses

Company	SGA (% Sales)	M&SE (% Sales)	M&SE (% SGA)
Adobe Systems	39.9%	31.1%	78%
Campbell's Soup	22.1%	14.5%	66%
Cisco Systems	27.3%	21.2%	78%
Microsoft	29.5%	22.5%	76%
Average	29.7%	22.3%	74%

Most companies do not report their Marketing & Sales Expenses separately. The four companies above do. If you do not know your marketing & sales expenses, use **75% of Sales, General, & Administration Expenses (SG&A)** as a starting estimate.

Apple - Marketing Profitability Metrics

APPLE 2009

PERFORMANCE	APPLE, INC.
Sales	\$36.54B
Percent Gross Profit	36.0%
Gross Profit	\$13.15B
Marketing & Sales Expenses (%)	8.6%
Marketing & Sales Expenses	\$3.12B
Net Marketing Contribution	\$10.03B
Gen. & Admin. Exp. (%)	2.8%
Other Expenses (% Sales)	3.6%
Operating Income	\$7.66B
Interest & Taxes (% Oper. Inc.)	25.6%
Net Profit After Tax	\$5.70B
Earnings Per Share	\$6.29

1. NET MARKETING CONTRIBUTION

$$\begin{aligned} &= \text{Sales} \times \% \text{ Gross Profit} - \text{Mktg. \& Sales Exp.} \\ &= \$36.5 \text{ billion} \times 36\% - \$3.1 \text{ billion} \\ &= \underline{\$10.03 \text{ billion}} \end{aligned}$$

2. MARKETING ROI

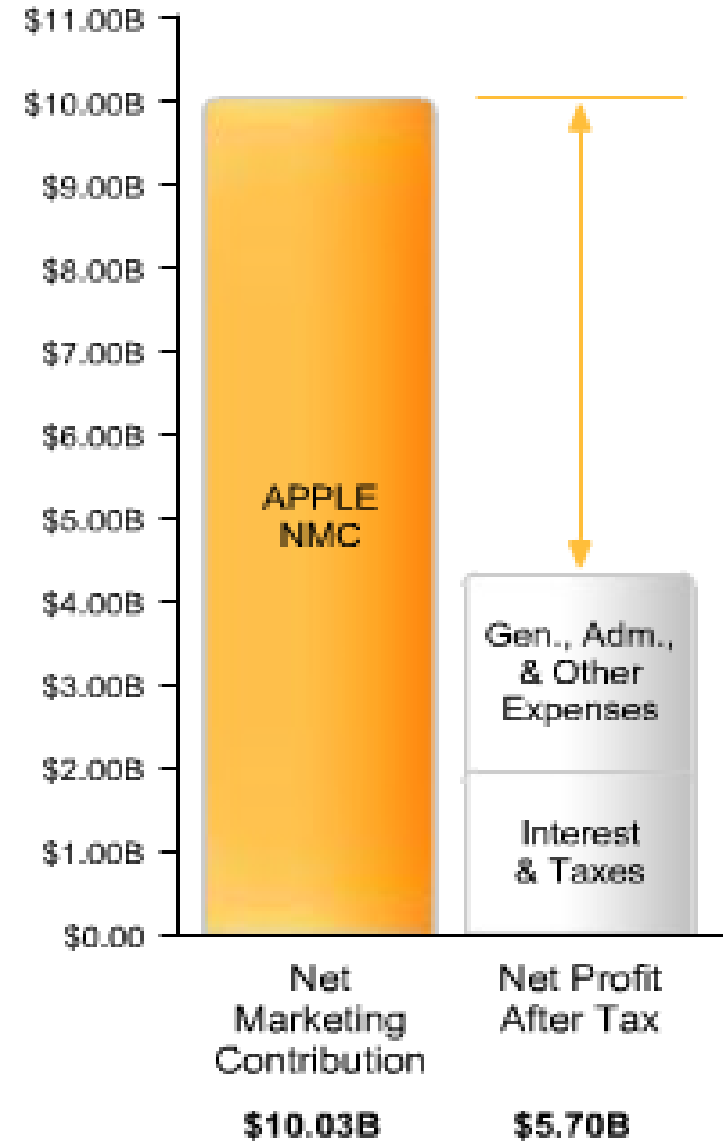
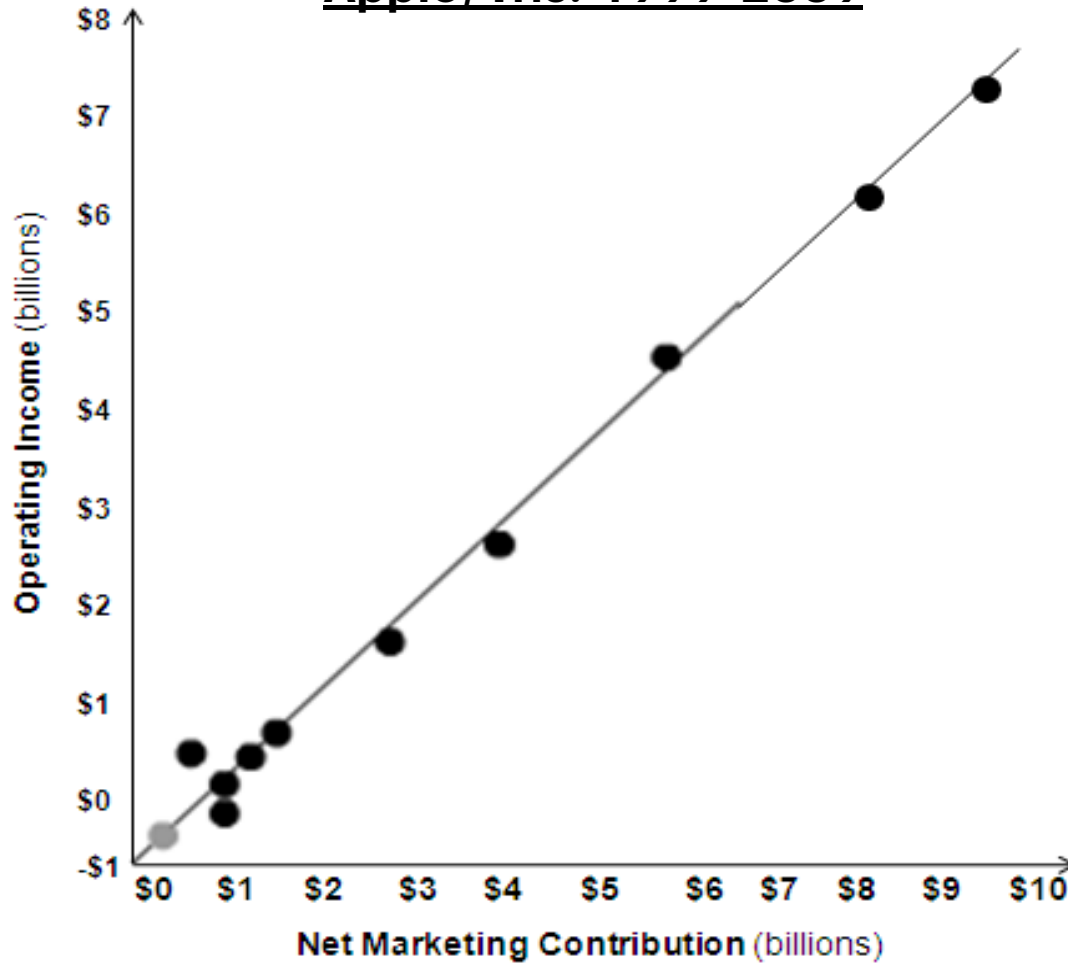
$$\begin{aligned} &= \text{Net Mktg. Cont.} / \text{Mktg. \& Sales Exp.} \\ &= \$10.03 \text{ billion} / \$3.12 \text{ billion} \\ &= \underline{325\%} \end{aligned}$$

3. MARKETING ROS

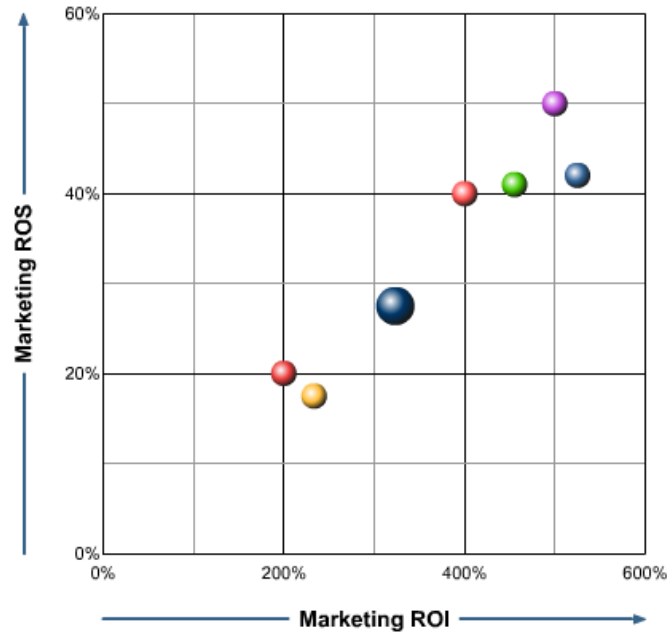
$$\begin{aligned} &= \text{Net Marketing Contribution} / \text{Sales} \\ &= \$10.03 \text{ billion} / \$36.54 \text{ billion} \\ &= \underline{27.5\%} \end{aligned}$$

How Apple Marketing Profits Impact Company Profits

Apple, Inc. 1999-2009



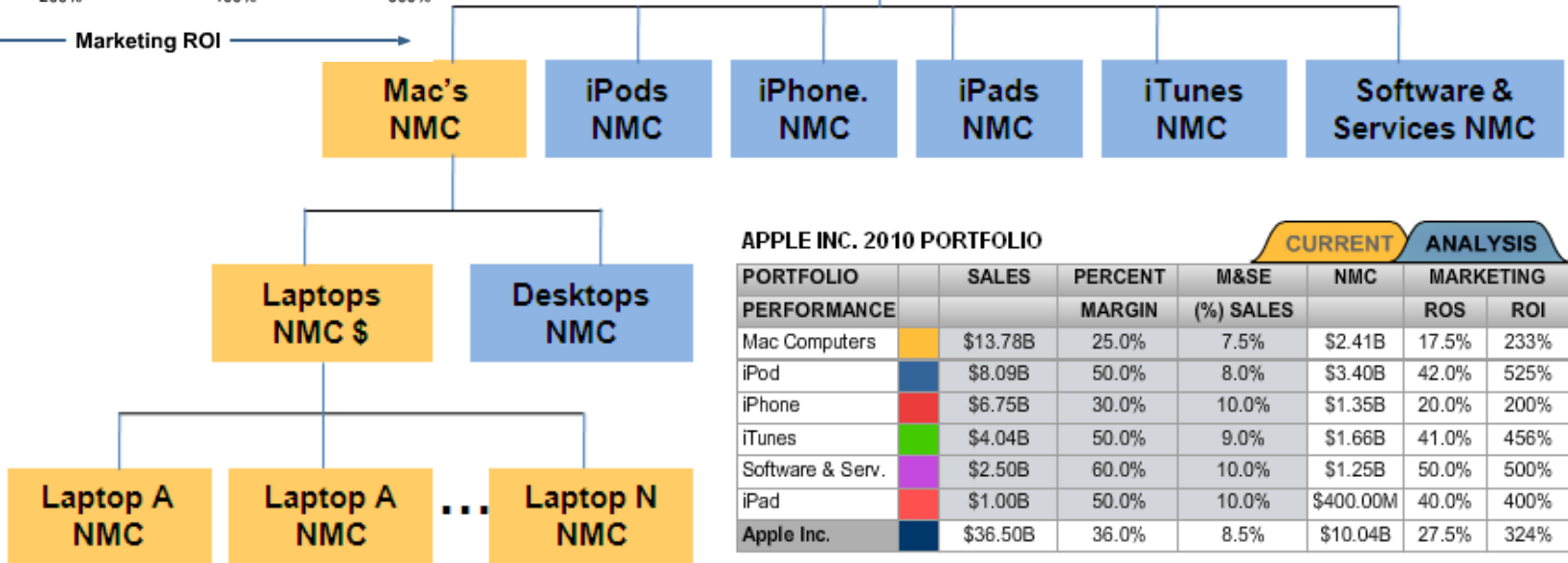
Measuring Marketing Profitability Across Your Organization



Apple, Inc.
PE 33 & Stock Price \$208

Apple, Inc - 2009
Net Profits 5.7billion
and EPS \$6.29

Apple, Inc. - 2009
NMC \$10 billion



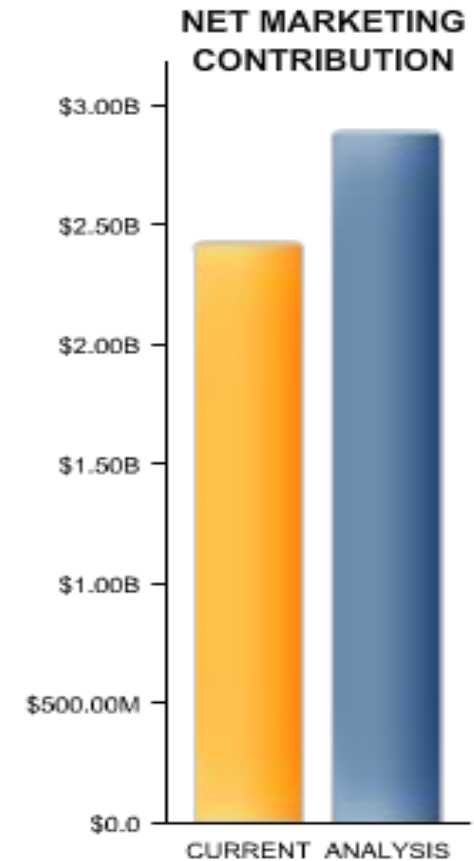
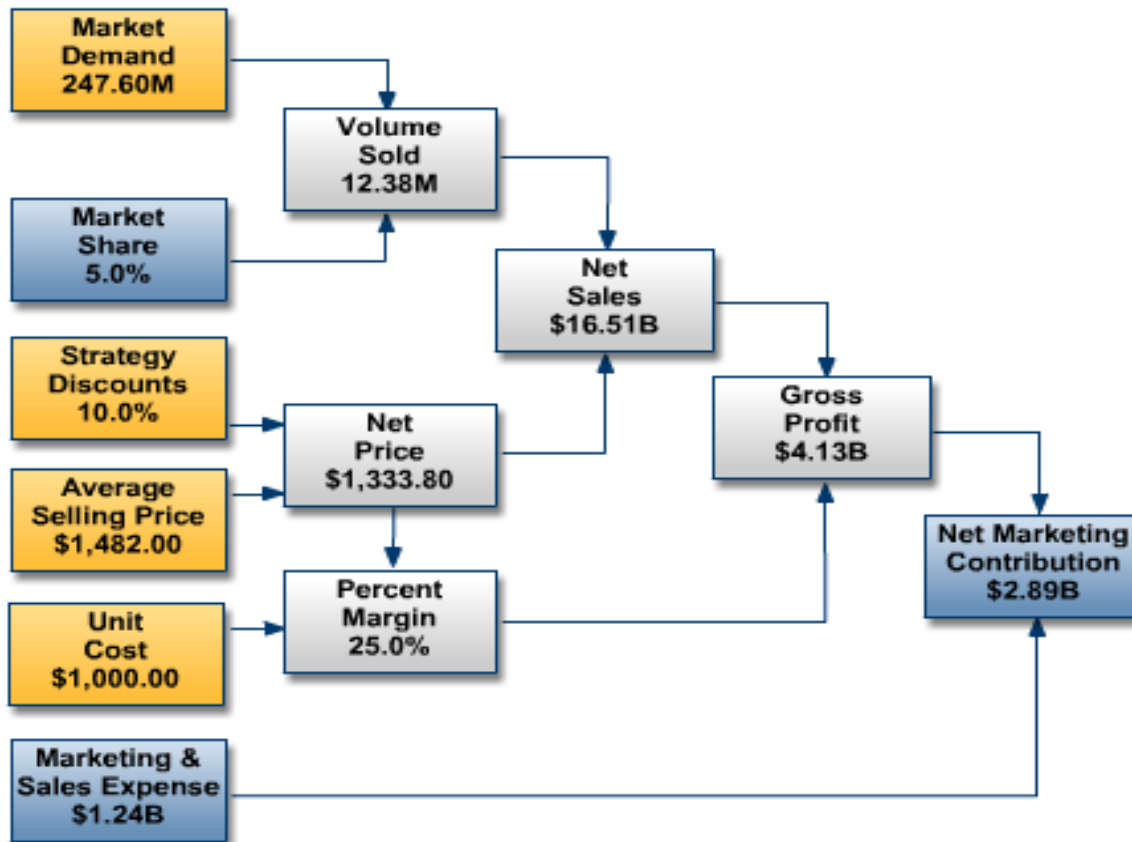
APPLE INC. 2010 PORTFOLIO

PORTFOLIO	SALES	PERCENT MARGIN	M&SE (%) SALES	CURRENT ANALYSIS	
				NMC	MARKETING (ROS, ROI)
Mac Computers	\$13.78B	25.0%	7.5%	\$2.41B	17.5% ROS, 233% ROI
iPod	\$8.09B	50.0%	8.0%	\$3.40B	42.0% ROS, 525% ROI
iPhone	\$6.75B	30.0%	10.0%	\$1.35B	20.0% ROS, 200% ROI
iTunes	\$4.04B	50.0%	9.0%	\$1.66B	41.0% ROS, 456% ROI
Software & Serv.	\$2.50B	60.0%	10.0%	\$1.25B	50.0% ROS, 500% ROI
iPad	\$1.00B	50.0%	10.0%	\$400.00M	40.0% ROS, 400% ROI
Apple Inc.	\$36.50B	36.0%	8.5%	\$10.04B	27.5% ROS, 324% ROI

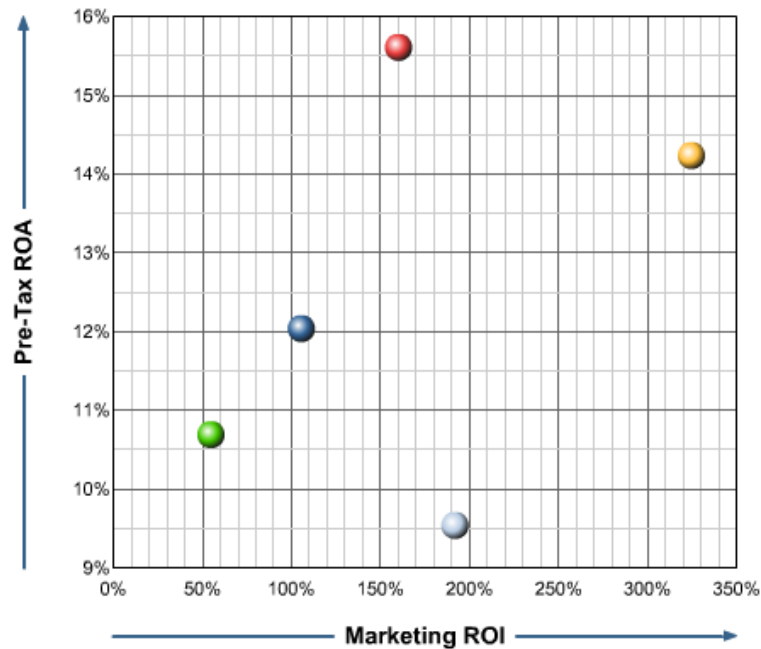
Managing Marketing Profitability

Apple Mac Strategy

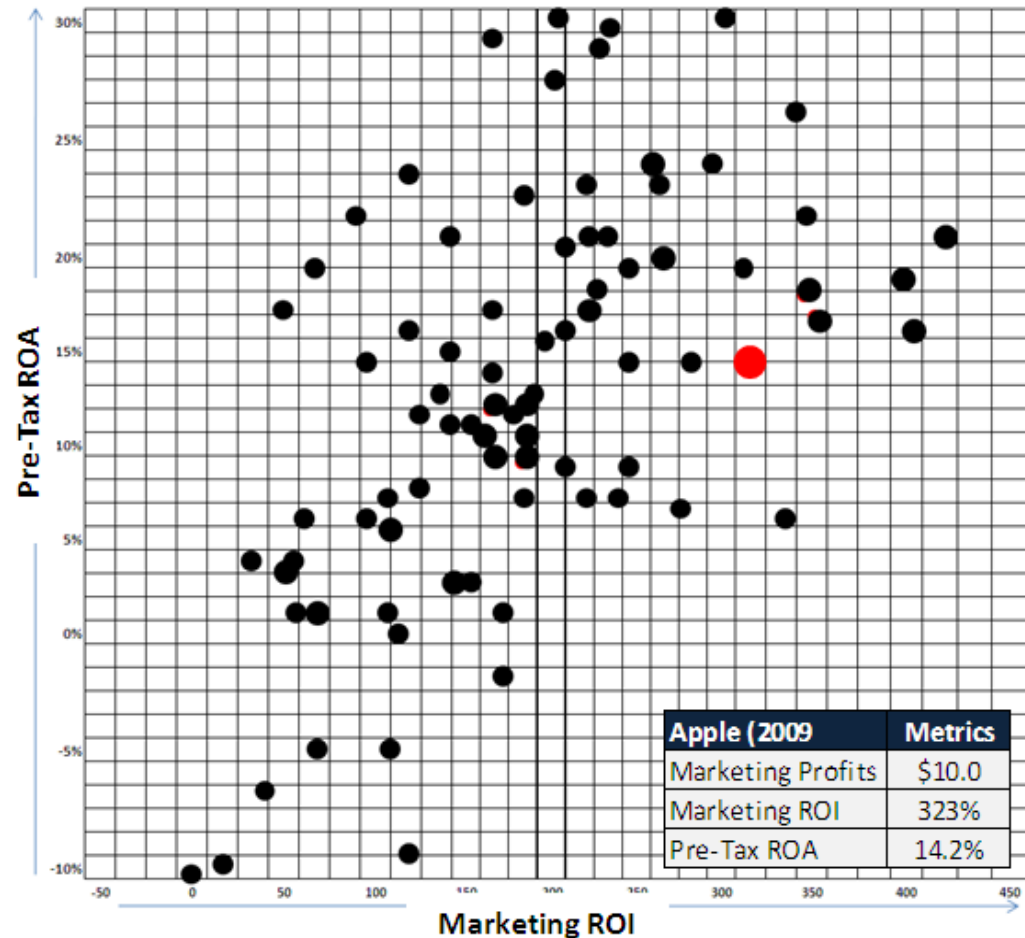
$$\begin{aligned}
 \text{NMC (Current)} &= \text{Market Demand} \times \text{Market Share} \times (\text{Average Selling Price} \times \text{Channel Discounts} - \text{Unit Cost}) - \text{Marketing \& Sales Expenses} \\
 &= 247.6 \text{ million} \times 4.2\% \times (\$1482 \times (1 - 10\%) - \$1000) - \$1.12 \text{ billion} \\
 &= \mathbf{\$2.89 \text{ billion}}
 \end{aligned}$$



What Is A Good Marketing ROI?



Sample of Fortune 500 Companies



PERFORMANCE	Apple	Dell	HP	IBM	Toshiba
Sales Revenue	\$36.50B	\$61.10B	\$118.36B	\$103.63B	\$65.90B
Gross Margin (%)	36.0%	17.9%	24.3%	44.1%	25.2%
Gross Profit	\$13.14B	\$10.94B	\$28.76B	\$45.70B	\$16.61B
Sales, Gen., & Admin. Exp. (%)	11.3%	11.6%	11.1%	22.6%	21.7%
Mktg. & Sales Exp. (% Sales)	8.5%	8.7%	8.3%	17.0%	16.3%
Net Marketing Contribution	\$10.05B	\$5.62B	\$18.91B	\$28.14B	\$5.88B
Marketing ROS	27.5%	9.2%	16.0%	27.1%	8.9%
Marketing ROI	325%	106%	192%	160%	55%
Other Expenses (%)	3.71%	1.08%	4.07%	5.01%	-5.42%
Operating Income	\$7.66B	\$3.19B	\$10.81B	\$17.09B	\$5.88B
Mktg. & Sales Expenses (% SG&A)	75.0%	75.0%	75.0%	75.0%	75.0%
Financial Metrics					
Pre-Tax ROS	21.0%	5.2%	9.1%	16.5%	8.9%
Sales-to-Assets Ratio	0.68	2.31	1.04	0.95	1.20
Pre-Tax ROA	14.2%	12.0%	9.5%	15.6%	10.7%

Market Share Metrics You Can Use Today

- * Market Share Index**
- * Share Potential Index**
- * Share Development Index**

Three basic share metrics to improve your market share.

What Data Do I Need?

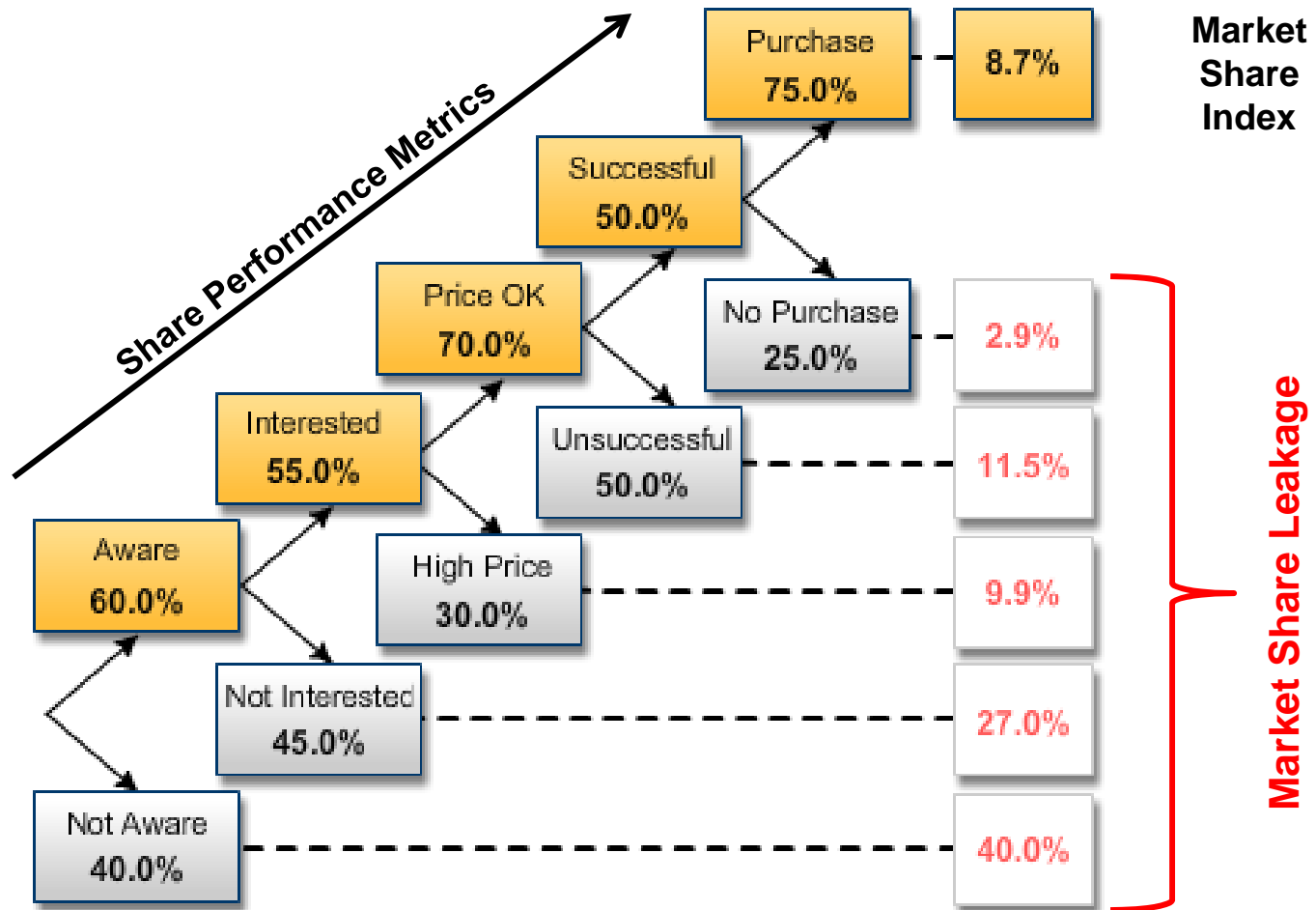
1. Marketing Logic – What 5 Events Need to Occur for a Customer to Buy?

- A. The customer has to know about our product
- B. The customer has to be interested in our product
- C. The price has to be acceptable
- D. The customer has to have a successful trial experience
- E. The customer buys our product

2. Estimates for Share Performance Metrics

- A. 60% percent of potential customers are aware of our product.
- B. Of those aware, 55% are interested in our product.
- C. Of those interested, 70% find our price acceptable
- D. Of those that find our price acceptable, 50% have a successful trial.
- E. Of those with a successful trail, 75% buy.

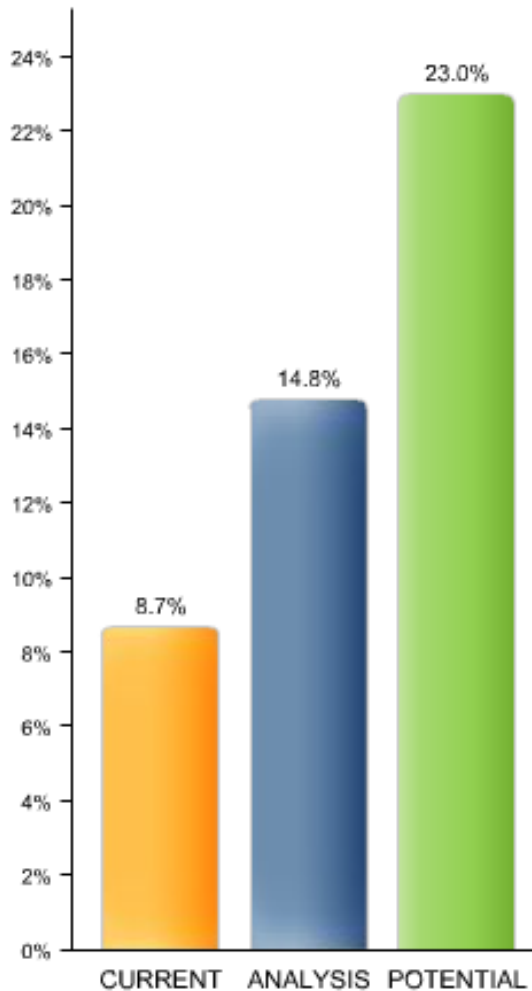
Market Share Tree



Market share is a function of a sequence of **market share performance metrics**.
 The **market share index** is an approximation of actual market share

Three Simple Share Performance Metrics

MARKET SHARE INDEX



1. **Market Share Index (8.7%)**
2. **Share Potential Index (23.0%)**
3. **Share Development Index (38)**

SHARE DEVELOPMENT INDEX



SHARE METRIC	CURRENT	ANALYSIS	POTENTIAL
Product Awareness	60.0%	70.0%	80.0%
Product Interest	55.0%	67.0%	67.0%
Price Acceptable	70.0%	70.0%	80.0%
Successful Trial	50.0%	60.0%	67.0%
Purchase Product	75.0%	75.0%	80.0%
Market Share Index	8.7%	14.8%	23.0%
Share Development Index	38	64	100

Your **Share Potential Index** is the share index if all share performance metrics achieved their best potential performance. The **Share Development Index** is a ratio of the **current** and **potential** market share indexes.

Market Demand Metrics You Can Use Today

- * Market Demand**
- * Market Potential**
- * Market Development Index**

Three basic market metrics to understand market growth.

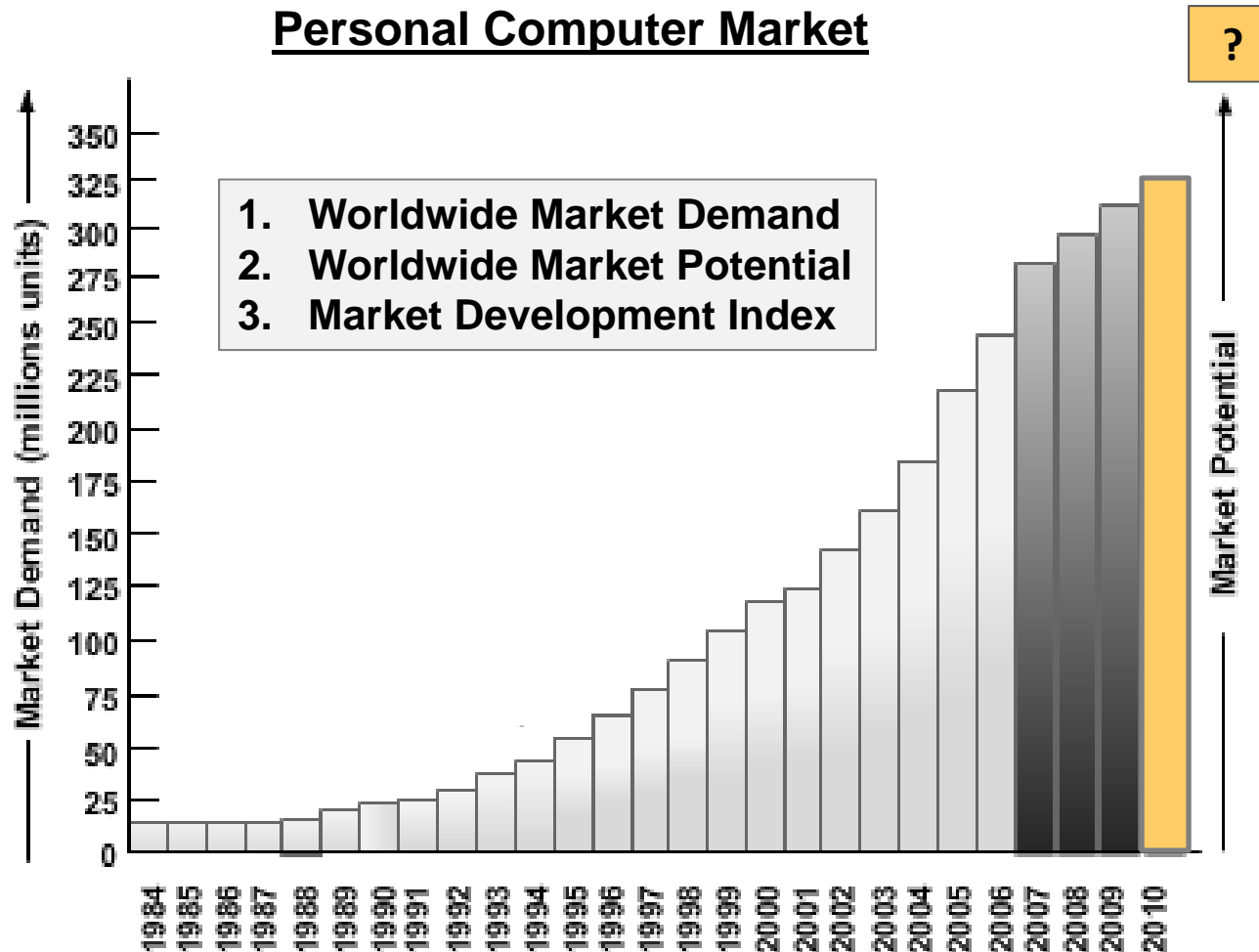
What Data Do I Need?

1. **How large is your Served Market Demand (units sold per year)?**

2. **What is your Served Market Potential?**
 - A. What is the maximum number of customers if all entered this market?
 - B. What is the lowest price that this product would sell for in the future?
 - C. At that price, what percent of max. customers would enter the market?

Three Simple Market Metrics

Personal Computer Market



Market Potential is very important market metric, especially as a market matures.

Market Potential & Market Development Index

MARKET POTENTIAL

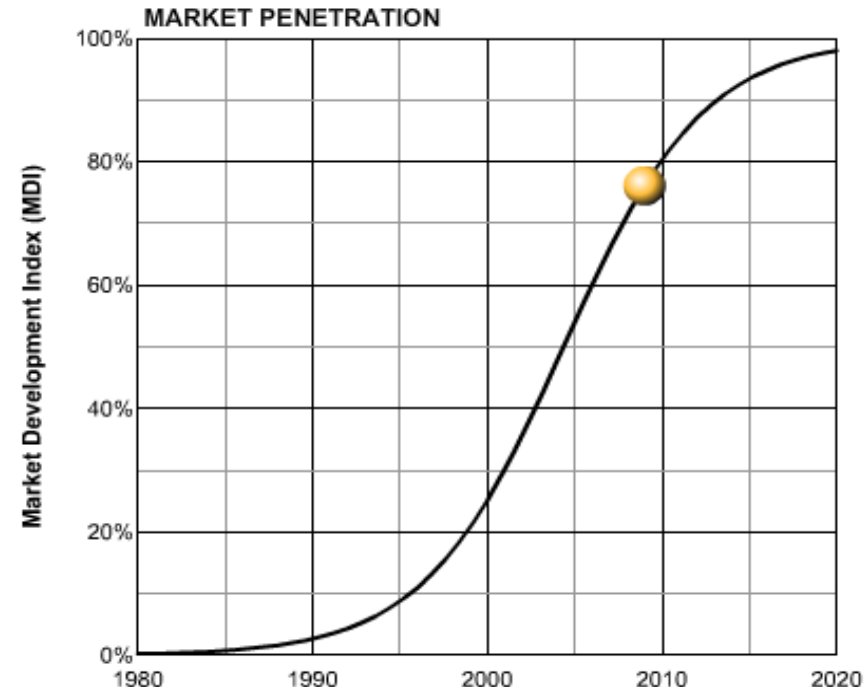
= Maximum No. X Percent That X Purchase Rate
 Buying Units Can Buy (\$750) Per Year
 = 3.0 billion X 67% X .20 (Every 5 Yrs.)
 = 402 million units per year

MARKET DEVELOPMENT INDEX

= Market / Market X 100%
 Demand Potential
 = 306 million / 402 million X 100%
 = 76.1%

Personal Computers

PERFORMANCE	2009
Geographic Scope	Worldwide
Consumption Unit	Individuals
Current Market Demand (units)	306.00M
Maximum Buying Units	3.00B
Percent Who Can Buy	67.0%
Purchase Rate Per Year	0.20
Market Potential	402.00M
Market Development Index (MDI)	76.1%
Market Emerges (year)	1980
Market Saturates (year)	2020
Average Selling Price	\$750.00
Market Potential	\$301.50B

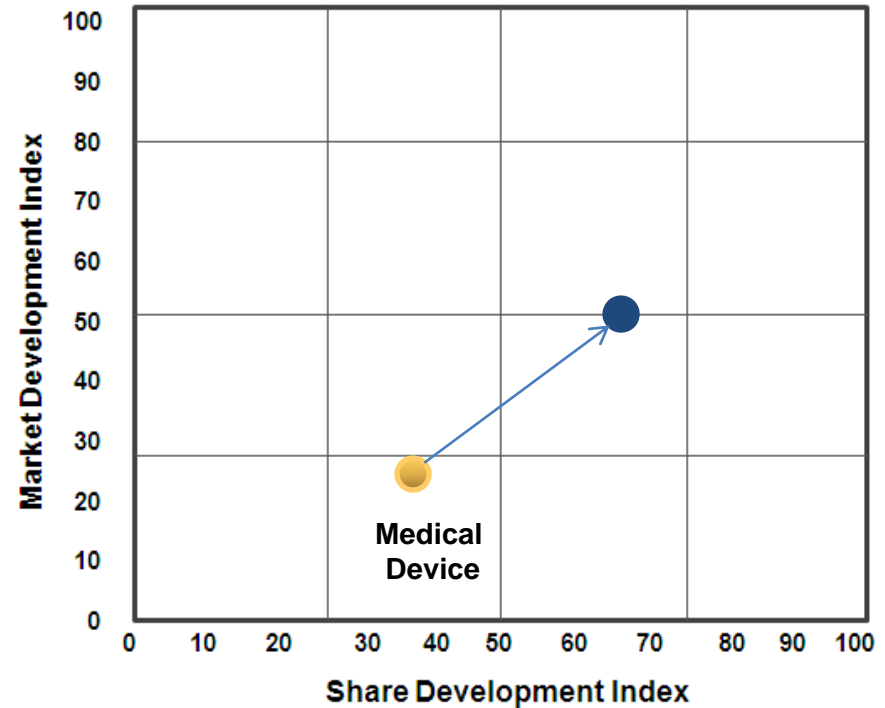
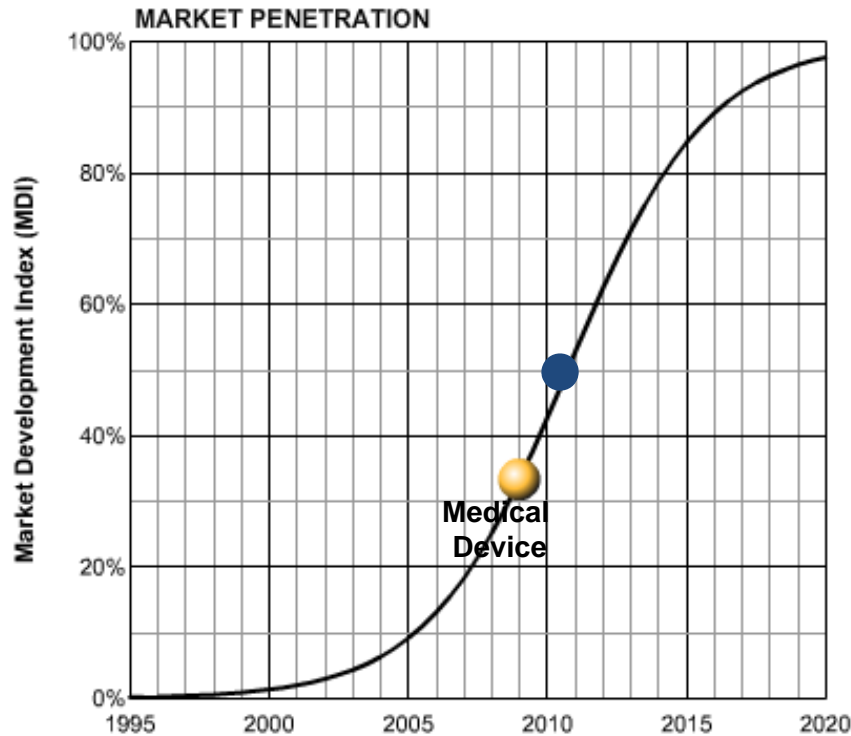


A measure of **Market Potential** enables us to create a **Market Development Index** which indicates what percentage of the potential market has been developed.

Using Marketing Metrics To Manage Profitable Growth

Implementing marketing metrics into a profit plan.

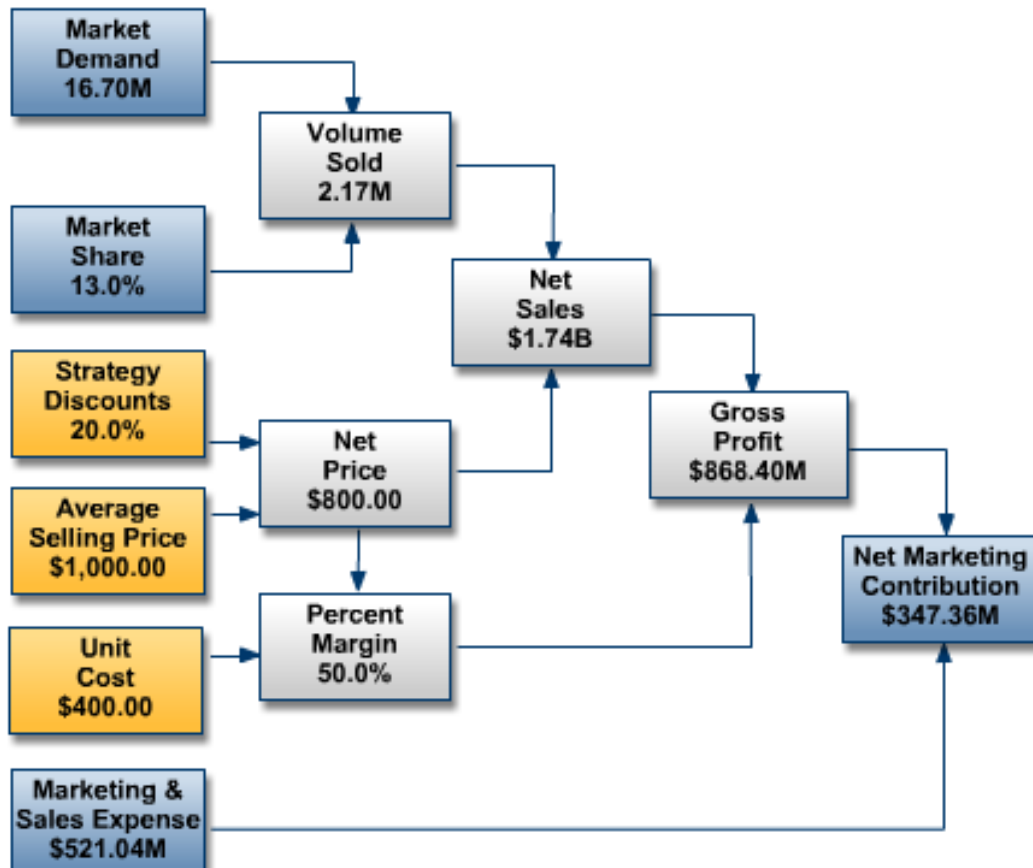
Using Marketing Metrics To Manage Profitable Growth



Using the **Market Development Index** and the **Share Development Index** we can create a **Growth Planning Matrix**.

SHARE METRIC	CURRENT	ANALYSIS	POTENTIAL
Product Awareness	60.0%	75.0%	80.0%
Product Interest	55.0%	60.0%	67.0%
Price Acceptable	70.0%	70.0%	80.0%
Intentions to Buy	50.0%	67.0%	67.0%
Buy Product	75.0%	75.0%	80.0%
Market Share Index	8.7%	15.8%	23.0%
Share Development Index	38	69	100

Using Marketing Metrics To Manage Profitable Growth



Medical Device

PERFORMANCE	CURRENT	ANALYSIS
Market Demand (units)	10.00M	16.70M
Market Share (%)	10.0%	13.0%
Volume	1.00M	2.17M
Price-Discount Strategy		
Average Selling Price	\$1,000.00	\$1,000.00
Strategy Discounts (% gross sales)	20.0%	20.0%
Net Price	\$800.00	\$800.00
Net Sales	\$800.00M	\$1.74B
Cost-Margin		
Percent Margin	50.0%	50.0%
Unit Cost	\$400.00	\$400.00
Gross Profit	\$400.00M	\$868.40M
Marketing & Sales Strategy		
Sales Expense (% sales)	20.0%	20.0%
Marketing Expense (% net sales)	10.0%	10.0%
Marketing & Sales Expenses	\$240.00M	\$521.04M
Net Marketing Contribution	\$160.00M	\$347.36M
Marketing ROS	20.0%	20.0%
Marketing ROI	67%	67%

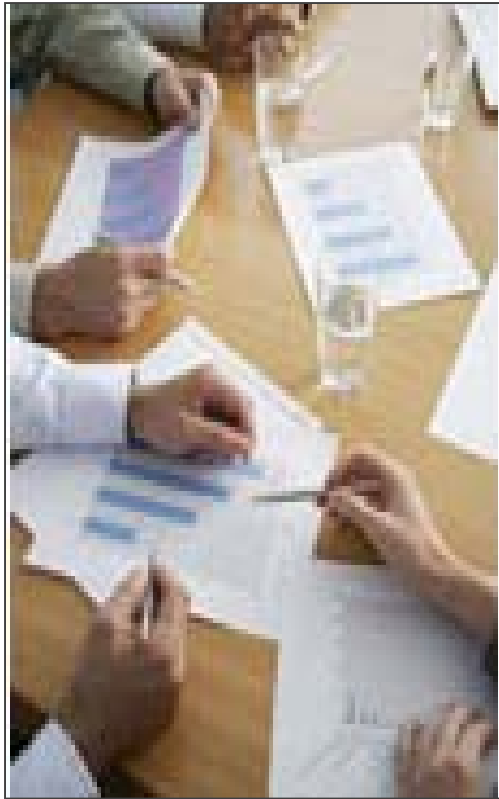
Using the Marketing Metrics presented we can make a credible estimate of future sales and marketing profits.

Team-Based Actionable Learning

Effective Implementation of Marketing Metrics

Team application to real business challenges.

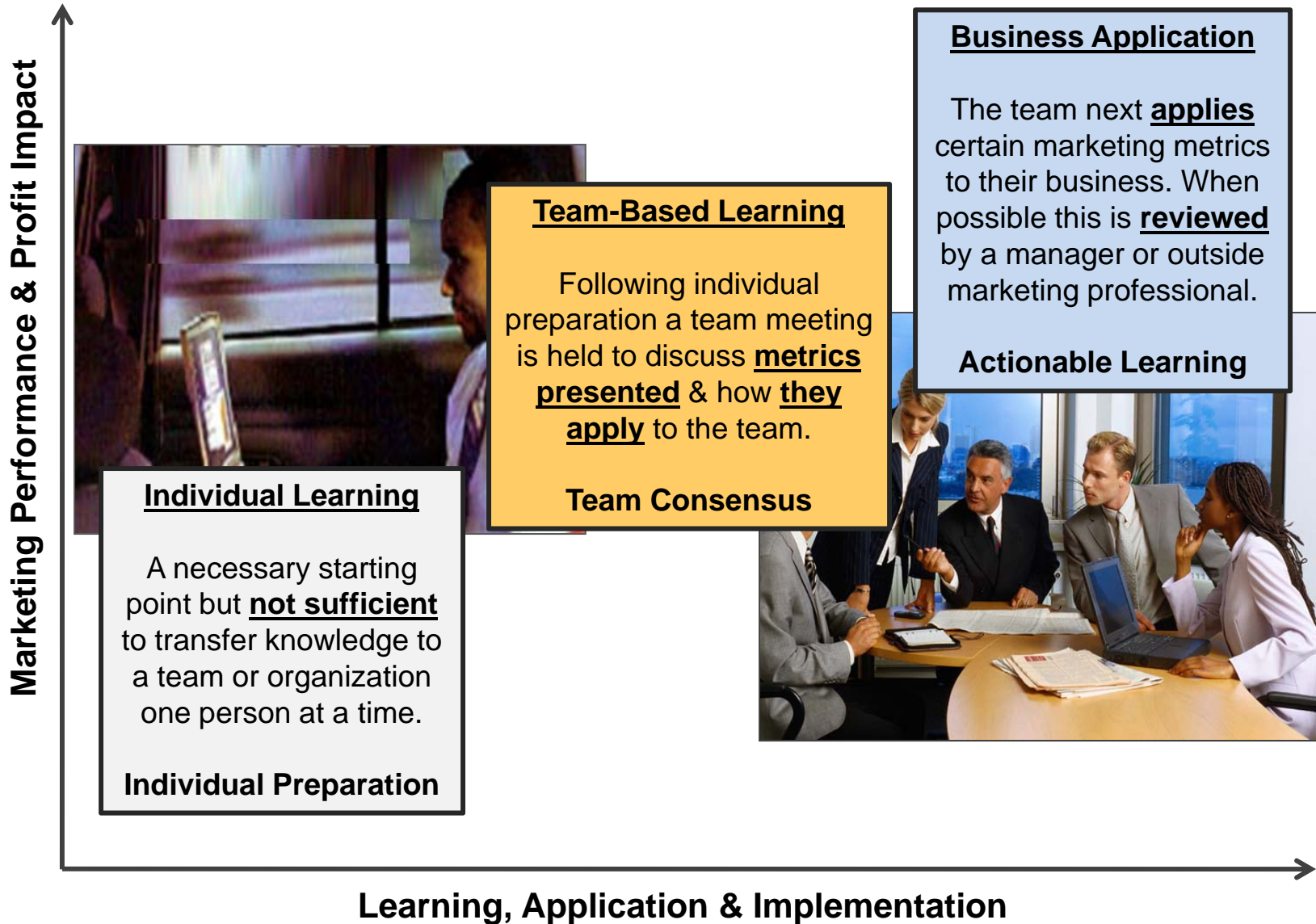
Recognizing Adult Learning Needs



1. Adults prefer **self-directed** and **applied learning** projects.
2. New knowledge must be **incorporated** into existing knowledge.
3. A straight forward '**how to**' presentation of content is the approach most favored by adults.
4. Adults respond well to a **balance** of new material, discussion, sharing of relevant experiences, and opportunities to practice.
5. **Practice** for retention and **transfer of learning** are necessary for new knowledge to be truly integrated.

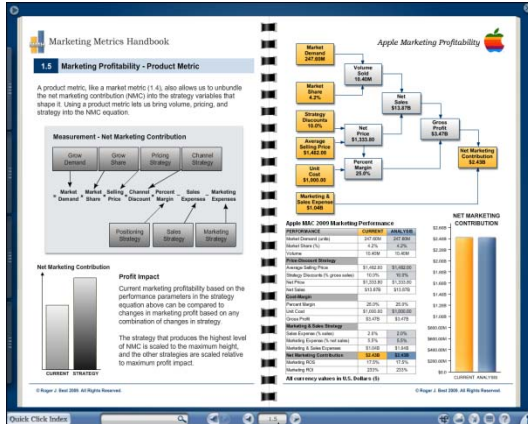
Source: The Adult Learner: A Neglected Species, 3rd Edition by Malcolm Knowles

Team-Based Actionable Learning



Process & Content

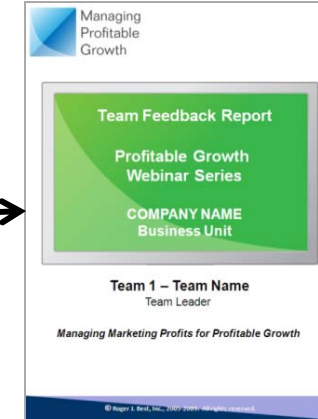
Individual Learning & Preparation



Team Meeting & Bus. Application



Team Feedback Report



Performance Impact



MARKETING METRIC SESSIONS

- Introduction, Process & Objectives
- Marketing Profitability & Marketing ROI
- Market & Share Growth Opportunities
- Customer & Competitive Performance
- Price-Volume & Margin Management
- Value Pricing & Customer Value
- Team Summary & Team Profit Potential

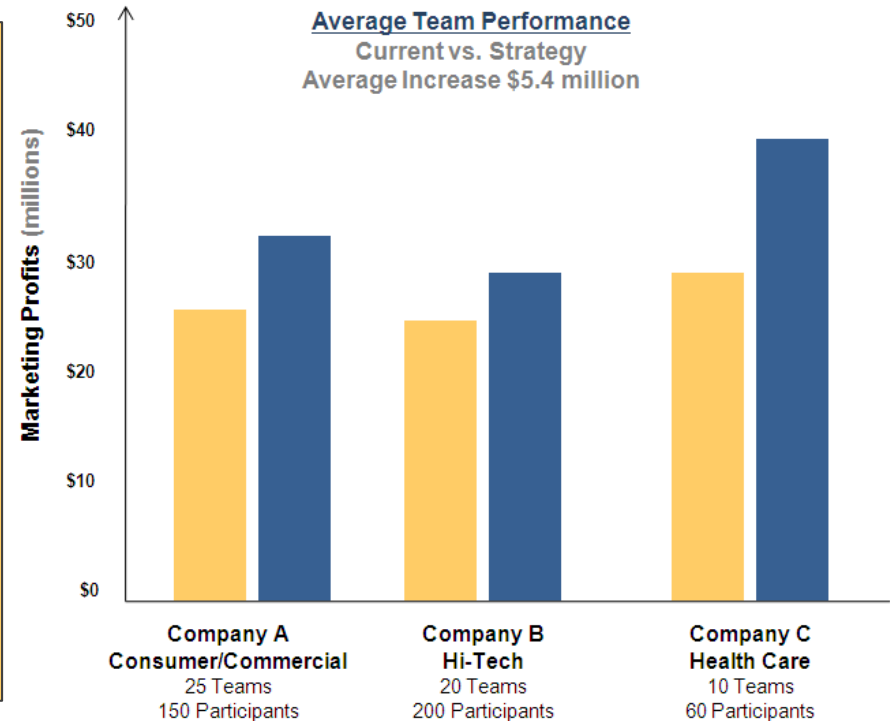
This program requires 2-3 hours per month (per team member) and 6 months to complete.

Program Benefits & Profit Impact

To date we have engaged over 50 teams across three companies and over 400 managers in the **Managing Profitable Growth Program**. The average potential for new profit opportunities has been over \$5 million per team.

PROGRAM BENEFITS

- Learning is both individual and team-based
- Team applications use company product-markets
- Team Feedback Report solidifies learning and application
- Software toolkit enables on-going team application
- No travel or time away from job lowers cost
- Embedding learning & application while on the job
- Assessment of potential for profit impact



“ Had we launched at a market-based price we could have increased our gross margin by \$1.4 million. This block of instruction has really highlighted the importance of doing a value-based price analysis.”

- Team Leader Comment

Back of the Envelope Marketing Metrics

**Greater Precision & Validation
Can Be Added As Needed**

Marketing Profitability – 10 Minute Video



- Home Managers
 - Benchmark Your Co.
 - Intro Video
 - Chapter 1 Tutorial**
 - Download Demo
 - MMH Blog
 - FAQ
 - Contact Us
- HOME BUY NOW!

Team-Based Actionable Learning



- Team-Based Actionable Learning Blog
- Managing Profitable Growth Program

View Chapter 1 Tutorial (10 minutes)



The Chapter 1 Tutorial is part of a 6-session team-based learning program entitled *Managing Profitable Growth*. To learn more about team-based actionable learning click on the [Blog](#) above. Click on [Managing Profitable Growth Program](#) to obtain more information on how this program achieves team learning with a measurable profit impact.

Marketing Metrics – 15 One Page Blogs



Home Managers

Benchmark Your Co.

Intro Video

Chapter 1 Tutorial

Download Demo

MMH Blog

FAQ

Contact Us

HOME

BUY NOW!

Marketing Metrics Handbook Blog

Measuring and Managing Marketing Profitability

Blog About Archives Contact Team-based Actionable Learning

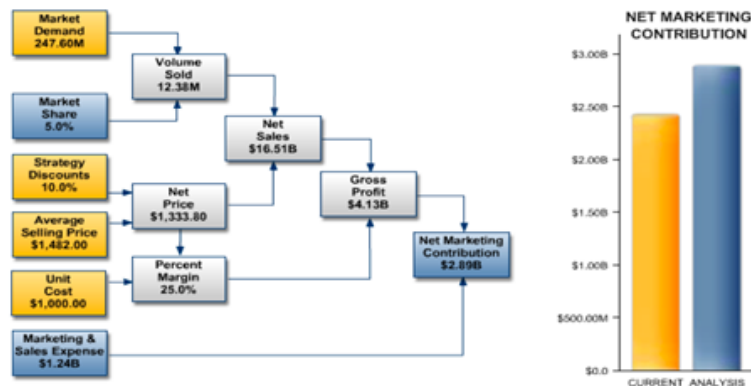
◀ Managing Market-level Marketing Profitability

Marketing Profitability Portfolio ▶

Managing Product-level Marketing Profitability

Published on February 15, 2010 by Roger Best in Marketing Profitability. 0 Comments

APPLE iPod (*) – MANAGING MARKETING PROFITABILITY



Podcast: Marketing Metrics Matter (click here)
An interview with Jim Berardone, CEO of the Product Strategy Network (length 15 minutes)

Click on Metric Category & Desired Blog

MARKETING METRICS HANDBOOK

COMPETITIVE METRICS

CUSTOMER PERFORMANCE METRICS

MARKET AND SHARE METRICS

MARKETING PROFITABILITY

- Managing Market-level Marketing Profitability
- Managing Product-level Marketing Profitability
- Marketing Profitability and Profit Impact
- Marketing Profitability Portfolio
- Marketing Return on Investment

PRICE-MARGIN METRICS

PRICING AND VALUE METRICS

Benchmark Your Company



Home Managers

Benchmark Your Co.

Intro Video

Chapter 1 Tutorial

Download Demo

MMH Blog

FAQ

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HOME

BUY NOW!

How Does Your Company Compare?

CONTACT US - [Benchmark Your Company](#)
(at no charge)

Indicate a benchmark Fortune 500 Industry Sector.

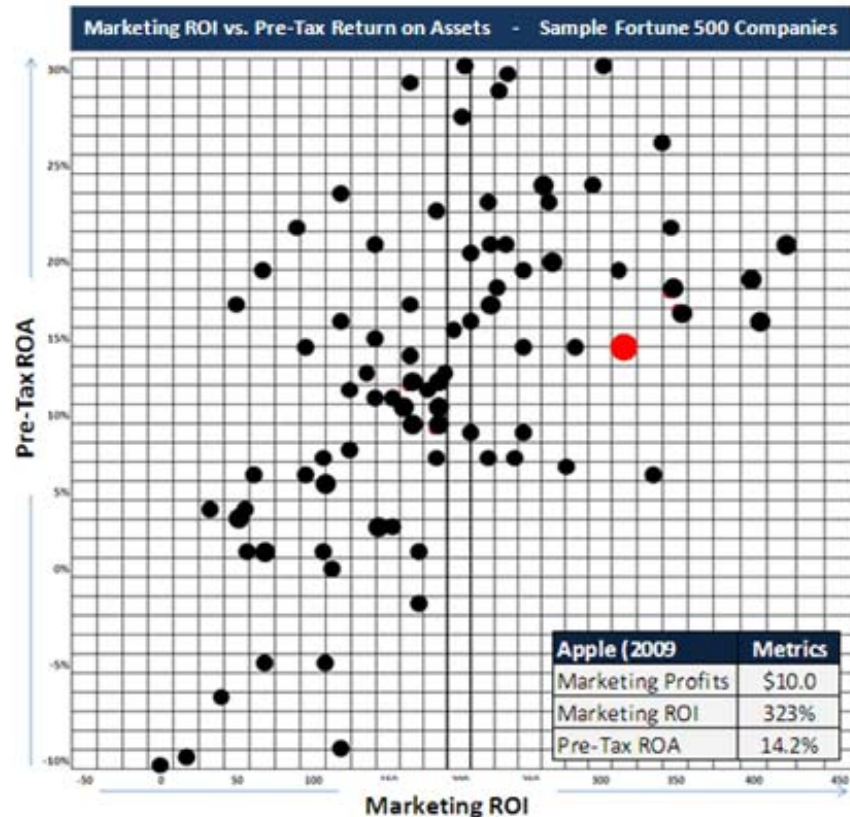
Fortune 500 Industry Sectors

1. Business to Business Companies
2. Business to Consumer Companies
3. Energy & Materials Companies
4. Hi-Tech & Aerospace Companies
5. Service and Retail Companies

We will provide a company graph for your industry sector along with sector companies for:

- Marketing ROI vs. Pre-Tax ROA
- Market ROS vs. Pre-Tax ROA
- Marketing ROI vs. Marketing ROS

As shown, the benchmark companies above companies with a higher Marketing ROI tend to have a much higher Pre-Tax Return on Assets.



Chapter 1 of the *Marketing Metrics Handbook* focuses on how to measure and manage your marketing profitability and marketing profitability metrics.

Roger Best



- **Education** - BSEE, M.B.A. and Ph.D. in Marketing
- **General Electric** – Engineering and Product-Market Management
- **GE Corporate Marketing** - Marketing Consulting & Executive Education
- **Lucas Industries**, Marketing VP, reporting to the CEO
- **Roger J. Best, Inc.**, President & Owner – Marketing Productivity Software.

Author

- ***Market-Based Management*** 5th ed. (2008)
- ***Consumer Behavior: Building Marketing Strategy***, 10th ed. (2007)
- ***Marketing Metrics Handbook***, (2009), (www.MarketingMetricsHandbook.com)
- More than 50 published marketing articles
- Article of the Year – ***Journal of the Academy of Marketing Science***

Professor

- Emeritus Professor of Marketing – University of Oregon
- Also taught marketing at the University of Arizona & INSEAD in Fontainebleau, France
- Awarded 15 teaching awards including **AMA Distinguished Teacher of the Year**.

Consultant

- 25 years in marketing education and consulting with 3M, Agilent Technologies, Airtouch, Covidien, General Electric, Hewlett-Packard, Dow Chemical, Dow Corning, DuPont, Kodak, James Hardie, Lucas Industries, MediaOne Group, Tektronix, Textron, US West, and others.

Products

Marketing Metrics Handbook (patent pending), **MarkPlan** (www.Mark-Plan.com), **Marketing Excellence Survey** (www.MESurvey.com), **Marketing Performance Tools** (www.RogerJBest.com), **MarkProf** (www.MarkProf.com), **BIDSTRAT**, and **Pop-Top Filter Holder** (US Patent).

Contact Information: Roger@MBM-Best.com (541) – 484-5209