



Marketing Analysis Consulting
Mathematics at the Service of Marketing

Subject No 1 – July 2007

MARKETING METRICS



It is essential to perform continuous monitoring of the Marketing actions



Continuous monitoring of goal achievement

Why is it necessary to measure?

It is striking to see how at the slightest sign of recession in the market, or under pressure from shareholders demanding “results”, the first impulse of all the Chief Executive Officers of a company is to question and cut back on the Marketing budget.

Therefore, it is becoming more and more important to develop models allowing for the evaluation of all the actions taking place in the Marketing area.

Marketers must be able to demonstrate, through a battery of indicators, that an investment made in marketing, explicitly contributes to generate revenue and to the company’s success.

Considering that the maturation period of the Marketing actions is long, (9-18 months or more), we must define and build indicators allowing for continuous performance monitoring of the Marketing activity, in order to avoid discovering too late that our efforts in this area have not achieved the expected results.

Evaluating Marketing Efforts

In order to be able to determine some indicators which would allow us to measure and evaluate the Marketing effort, the first thing we have to do is to prepare a Marketing Plan, where we will define clearly and in writing:

- 1.- The goals to be achieved
- 2.- The strategy to be followed to reach these goals
- 3.- And establishing and defining the indicators allowing us to measure the degree of achievement.

If the objectives and strategies are not clearly articulated and defined, it will not be possible to measure them. And if we can’t measure them, it will not be possible to adequately evaluate their degree of achievement.

This process has to be continuous in time because the environment changes, and both the objectives and the strategies and the returns, will need to be adjusted to those changes.

However, above all, we have to be aware that evaluating the Marketing effort means devoting time and money, resources always scarce.



We must be prepared to evaluate all the Marketing actions against each of the established objectives.



Establishing adequate indicators will allow us to know the influence of each Marketing action on the results, as well as the set of interactions and the global Marketing action.

Calculating the Return

It would be advisable to decide how far we want to go, because if the only thing that we want to quantify is the “global” return on the Marketing investment we will achieve this by performing a simple mathematical operation:

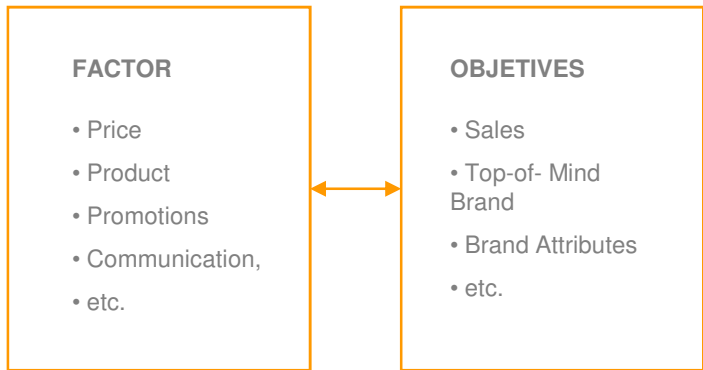
Total Revenue	5 000 000,--
- Total Marketing Costs	100 000,--
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= Total Return on the Investment	4 900 000,--

By dividing the total return by the Marketing investment we get a ROI of 4900%.

However, this indicator tells us very little about the influence, if any, that each of the Marketing actions (Promotions, Advertising,...) had in the attainment of results.

In order to value the global Marketing effort, it will be necessary to evaluate a broad variety of factors and to use multiple indicators.

Therefore, in the following table the different factors that can influence the achievement of objectives are presented in a simple manner. Factors whose relations would have to be checked in order to evaluate the global Marketing effort.





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EXAMPLE:

Architecture and evaluation of the Marketing ROI on Sales

Econometric models will allow us to measure the interrelationships which exist among the different Marketing actions and their specific and global impact on established sales goals:

Product: New product launches promote Sales.

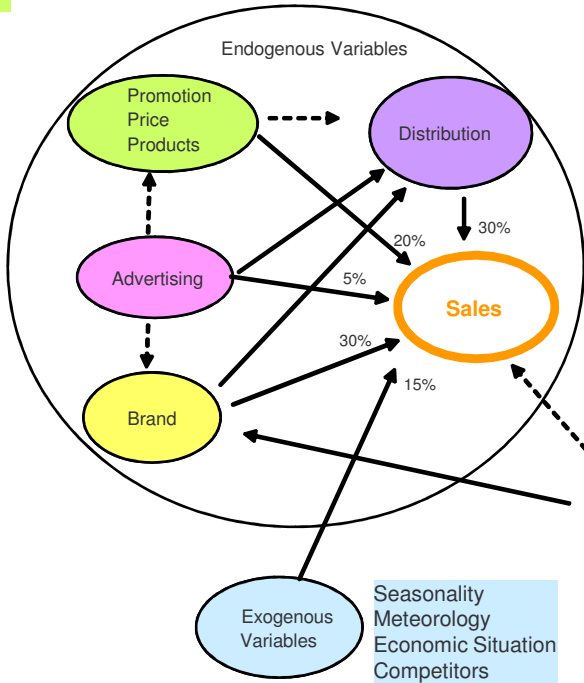
Price: Has an immediate impact on Sales and Benefits. Affects Consumer Attitude. Reflection of a product's Quality, Brand Image and Reputation.

Promotion: Positive impact on the short term. Negative impact on the long-term.

Advertising:
Mature Product: Little short-term impact on Sales.
New Product: It does have a short-term impact on sales.

Brand: Single or multiple brands. The "umbrella" brand has a greater impact on sales.

Making products available to the consumer at the time of purchase. At Selling Points near to the consumer.
Actions: Design and select the distribution channel. Sizing and locating Selling Points. Logistics of physical distribution. Internal relations management of the channel.



Loyalty Indicator
 CLV (customer lifetime value)
 Repeated Sales
 Word-of-mouth effect

---> Indirect relation
 —> Direct Relation

Although Advertising is the variable with the least direct effect on Sales (5%), it has an indirect effect on a greater number of other variables which in turn directly influence Sales.

In addition, Advertising results in decreased consumer price sensibility and contributes to creating and maintaining brand reputation.