

MAKING FRIENDS WITH METRICS

NEIL BENDLE TAKES YOU ON A SPEED DATE WITH THE NUMBERS. ALTHOUGH HE DOESN'T TELL YOU EVERYTHING YOU NEED TO KNOW, HE DOES GET YOU OFF ON THE RIGHT FOOT TO UNDERSTANDING METRICS

MARKETERS OFTEN SEE METRICS AS a plot by accountants to stifle creativity or an obscure language known only to senior partners. But understanding these measures can greatly improve your value proposition as a marketer. You should see metrics as friends that can help you respond to customer needs and develop productive internal relationships.

Say why you love the metric

Marketers should be able to express in a couple of words what each metric does and how it helps the company. For instance, marketers intuitively know the value of their brand but some find they have to fight accountants to make necessary investments. They need to be introduced to 'price premium'.

Price premium represents brand strength – how much more people will pay for a branded, rather than a generic, product. What better way to convince accountants of the value of branding?

A prestigious agency might be able to charge 30% more per hour than a no-frills agency. The brand clearly has a real value in hard cash. Measures of brand strength help sell the importance of investments in the brand.

In broader terms the message is simple: people who can say why they

love their friends the metrics get most out of the relationship.

Using metrics doesn't necessitate 'maximisation'. A consultant might recommend that a client monitor unit market share instead of maximising it.

An agency could 'buy' unit market share by reducing billing rates. Is this a good idea? The answer depends on the corporate strategy, which the numbers cannot tell you. Indeed, rather than killing the conversation a good metric should be the icebreaker – a great first line leading to, "So why is our unit market share falling?"

No-one gets on well with everyone

Best Buy, a large US electronics retailer, recently declared that it was "firing" some of its customers.

After comparing the expected costs of maintaining the customer relationship against the expected future profits it decided that some of its customers were costing money.

'Customer lifetime value' may work for Best Buy but not for every company. In some instances customer lifetime value – the customer version of 'net present value' – may not capture the complexities of customer relationships. The calculation requires assumptions

about future spending patterns and the cost of money. Such assumptions might not work, especially when they are considerable uncertainties, but when this approach is right for you there are powerful benefits.

In professional services a manager might compare the stream of payments expected from a client against the costs of servicing the client to decide the customer's 'worth'.

Thus 'customer lifetime value' shows customers as assets, supplying marketers with an accountant's weapon in budgetary discussions: clients represent investments and not just expenses.

Put in relationship terms, not every metric works for all companies but the good news is that there is always a metric out there for you.

Metrics don't get jealous

People invite different friends to the pub than to a romantic weekend. Metrics in some ways are better than people – they don't get jealous. The best approach is to have a dashboard of metrics you can call on for different tasks.

For example, a luggage manufacturer whose year-on-year performance looked impressive had greatly increased its promotions, stimulating unit sales. However, the full dashboard revealed that the company was sacrificing its brand, its long-term asset, to sell more in the short term in order to make itself an attractive takeover target.

Unit sales alone were misleading. The potential company buyer needed to spend time with the full dashboard not just a single metric.

Beware of misunderstandings

Students assume that because market share seems simple everyone means the same thing when they use it. Sadly this is a fallacy. Subtly different definitions abound.

Marketers must never be afraid to ask people precisely how they calculate their metric – Is that unit market share or revenue market share? How do you define your market? Where do you get your data about total market sales? Are any competitors omitted? (For example, in some US market share data Wal-Mart, despite being the world's biggest retailer, is omitted).

You must check the definitions used at your company. Would the presentation's message change if you used unit market share instead of revenue market share?

The differences can be significant: a quality, high-price provider will have a much larger share of revenue market share (pounds billed), than unit market share (hours billed).

How would the metric change if you changed the market definition? The same fish may be big or small depending upon the pond chosen. Understanding the metric will help you appreciate how people use, and occasionally abuse, the numbers.

Make sure you listen carefully

Even with such a central metric as profit there are multiple definitions, (some economic, some accounting, some derived elsewhere). None are wrong per se but the variety can be confusing. Find out what your firm uses.

To have a successful relationship with the numbers you need to make the time to really listen. Remember what is not being said and always pay attention to the context – it really matters.

The start of a beautiful friendship

Metrics are friends to marketers – often friends that tell you not what you want to hear but what you need to hear. They can be very useful, if painful, but everyone needs such support.

Get to know the metrics used at your firm – perhaps even identify where a new one would improve the dashboard. Your skills as a marketer will benefit with the help of your friends. tm

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DISCOUNTS AND DASHBOARDS

Net Present Value (NPV): The discounted value of future cash flows minus the initial investment. Discounting reduces the value of future money because cash you receive today is more useful than cash you'll receive next year.

Customer Lifetime Value (CLV): Valuation of customers based on the projected discounted future cash flows from the customer relationship.

Dashboard: A collection of metrics designed to provide an overview of the important elements of the business; often presented graphically to enhance impact.

YOUR FIRST STEPS

(£) = monetary figure
(%) = percentage
(#) = count

Price premium (%) or relative price: The percentage by which a product's selling price exceeds, or falls short of, a benchmark price.
Price premium (%) = $[\text{brand A price (£)} - \text{benchmark price (£)}] / \text{benchmark price (£)} \times 100$

Market Share (%): The percentage of a market accounted for by a specific entity. Specify whether the share is in terms of revenue or units.

Unit Market Share (%): The units sold by a particular company as a percentage of total market sales measured in the same units, eg billable hours for consultants.
Unit market share (%) = $\text{unit sales (\#)} / \text{total market units sales (\#)} \times 100$

Revenue Market Share (%): Sales revenue as a percentage of total market sales revenue, ie the total sales of the consulting firm divided by all consulting firms sales.
Revenue market share (%) = $\text{sales revenue (£)} / \text{total market sales revenue (£)} \times 100$

➔ THERE ARE A NUMBER OF COURSES THAT FOCUS ON METRICS. FOR MORE DETAILS VISIT: WWW.CIMTRAINING.COM



MARKETERS SHOULD BE ABLE TO EXPRESS IN A COUPLE OF WORDS WHAT EACH METRIC DOES AND HOW IT HELPS

