REV X

6 MARKETING METRICS YOUR BOSS ACTUALLY CARES ABOUT.

Prove the ROI of your marketing efforts by presenting these 6 impactful KPIs.

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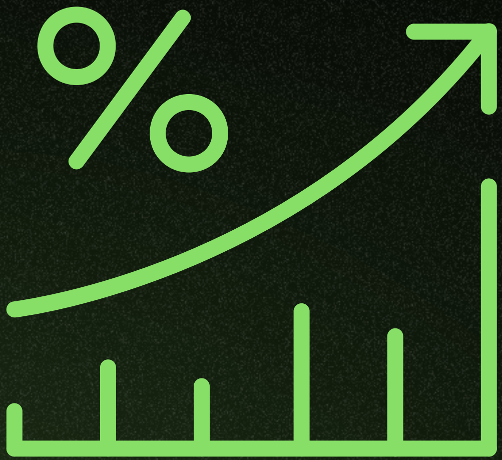
01. INTRODUCTION

Let’s begin by recognizing the significance of using the right numbers on your marketing report to captivate key stakeholders. As a marketer, you have abundant analytics at your disposal. From tracking the best-performing channels, to leads generated from various sources, your reports are filled with metrics that can perhaps answer every who, what, and where question.

But when it comes to presenting these statistics to your seniors, it can get challenging. Even though bosses understand that marketing impacts profitability, 73% of executives do not believe that marketing is effective enough in truly driving customer demand.

With a plethora of metrics available, there's a higher possibility to report the "wrong" ones to your boss, which may not fully reveal marketing's true impact on the business strategy. However, securing their approval can lead to increased budget capacity for more impactful marketing initiatives.

02. CHALLENGES IN SHOWING MARKETING ROI TO YOUR BOSS



According to a Gartner CMO Spend Survey, marketing budgets accounted for approximately 11% of overall company revenue, but only 61% of marketing leaders could prove the effectiveness of those budgets quantitatively.

Do C-level executives actually undervalue the significant impact marketing can have on businesses?

They just might and here's why:

- Difficulty in measuring tangible ROI.
- Complex marketing metrics.
- Lack of understanding of digital marketing.
- Historical biases towards marketing as an art.
- Misalignment with business objectives.
- Past negative experiences with marketing campaigns.
- Short-term focus on results.

To make a compelling case, utilize data-driven insights and a combination of quantitative and qualitative marketing metrics to demonstrate their impact on driving business growth. This guide will delve into six crucial marketing metrics that are highly valued by every boss. It will include a formula and an illustrative example for each metric, explaining their significance and how to interpret the results effectively.

03. THE 6 MARKETING METRICS

You can choose to present any number of graphs and data to senior executives. But when you walk into that boardroom, do you know which numbers will grab their attention? Which ones will get them talking? Which will prompt them to think and perhaps, even influence their decisions.

Here are 6 marketing metrics that every C-suite executive wants you to talk about:

- Customer Acquisition Cost (CAC)
- Marketing % of Customer Acquisition Cost
- Ratio of Customer Lifetime Value to CAC
- Time to Payback CAC
- Marketing Originated Customer %
- Marketing Influenced Customer %

04. CUSTOMER ACQUISITION COST (CAC)

The Customer Acquisition Cost (CAC) is a metric used to determine the total average cost your company spends to acquire a new customer. In other words, it is the cost incurred in convincing a customer to buy a product/service.

- **How to calculate it:** Take your total sales and marketing spend for a specific time period and divide by the number of new customers for that time period.
- **Sales & Marketing Cost =** Program and advertising spend + salaries + commissions and bonuses + overhead in a specified time period (month, quarter or year)
- **New Customers =** Number of new customers acquired in the same time period (in a month, quarter, or year)
- **Formula:** sales and marketing cost ÷ new customers = CAC

Let's look at an Example:

Sales and Marketing Cost = INR 100,000
New customers in a month = 20

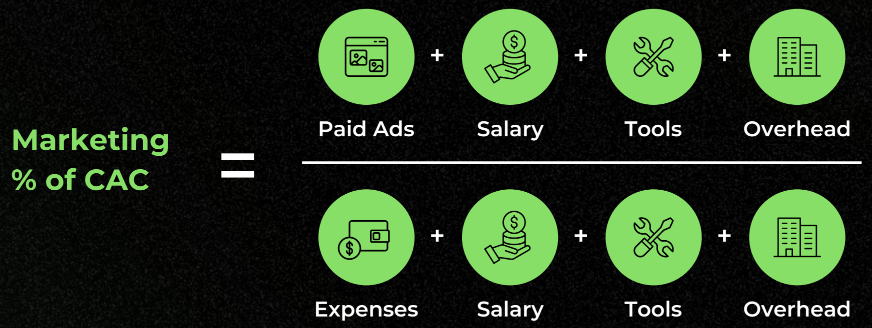
CAC = INR 100,000 ÷ 20 = INR 5,000 per customer

Interpretation: CAC illustrates how much your company is spending per new customer acquired. The golden rule is to have a low average CAC. An increase in CAC means that you are spending comparatively more for each new customer, which can imply there's a problem with your sales or marketing strategy.

05. MARKETING % OF CAC

The Marketing % of Customer Acquisition Cost is the marketing portion of your total CAC, calculated as a percentage of the overall CAC. In other words, it shows how much you are spending on marketing related to what you spend on acquiring new customers.

- **How to calculate it:** Marketing costs / total sales and marketing costs you used to compute CAC.
- **Sales & Marketing Cost =** Program and advertising spend + salaries + commissions and bonuses + overhead in a time period (month, quarter or year)
- **Marketing Costs =** Expenses + salaries + commissions and bonuses + overhead for the marketing department only



Let's look at an example:

Marketing Cost = INR 150,000
Sales and Marketing Cost = INR 300,000

MCAC = INR 150,000 / INR 300,000 = 50%

Interpretation: The M%-CAC can show you how your marketing team's performance and spending impact your overall CAC. A lower M%-CAC is considered to be better.

An increase in M%-CAC can mean a number of things:

- Your sales team could have underperformed (and consequently received) lower commissions and/or bonuses.
- Your marketing team is spending too much or has too much overhead.
- You are in an investment phase, spending more on marketing to provide more high-quality leads and improve your sales productivity.

06. RATIO OF CUSTOMER LIFETIME VALUE TO CAC

$$\text{LTV:CAC} = \frac{\text{Lifetime Value (LTV)}}{\text{Customer Acquisition Cost (CAC)}}$$

The Ratio of Customer Lifetime Value to CAC is a way for companies to estimate the total value their company derives from each customer compared with what they spend to acquire that new customer.

- **How to calculate it:** Compute the Lifetime Value, the CAC and find the ratio of the two.
- **Lifetime Value (LTV) =** (Revenue the customer pays in a period - gross margin) ÷ Estimated churn percentage for that customer

Let's look at an example:

LTV = INR 400,000
CAC = INR 100,000

LTV:CAC = INR 400,000:INR 100,000 = 4:1

Interpretation: The higher the LTV: CAC, the more ROI your sales and marketing team delivers to your bottom line. However, you don't want this ratio to be too high, as you should always be investing in reaching new customers.

Spending more on sales and marketing will reduce your LTV: CAC ratio, but could help speed up your total company growth. An ideal LTV: CAC ratio is considered to be 3:1. If this ratio is closer to 1:1, it implies that you are spending too much on acquiring a customer in return for the value he generates for your business.

07. TIME TO PAYBACK CAC

The Time to Payback CAC shows you the number of months it takes for your company to earn back the CAC it spent acquiring new customers. It is also referred to as the CAC payback period. In other words, it shows your break-even point.

Formula: CAC ÷ Margin-Adjusted Revenue = Time to Payback CAC

Margin-Adjusted Revenue = How much your customers pay on average per month

Let's look at an Example:

Margin-Adjusted Revenue = INR 1,000
CAC = INR 10,000

Time to Payback CAC = INR 10,000 ÷ INR 1,000 = 10 Months

Interpretation: In industries where your customers pay a monthly or annual fee, you normally want your Payback Time to be under 12 months. The less time it takes to pay back your CAC, the sooner you can start generating profits from your new customers. Generally, most businesses aim to make each new customer profitable in less than a year.

$$\text{Time to Payback CAC} = \frac{\text{Customer Acquisition Cost (CAC)}}{\text{Margin-Adjusted Revenue}}$$

08. MARKETING ORIGINATED CUSTOMER %

Marketing Originated Customer = Total new customers from marketing lead / Total new customers in a month

The Marketing Originated Customer % is a ratio that shows what new business is driven by marketing, by determining which portion of your total customer acquisitions directly originated from marketing efforts.

- **How to calculate it:** Take all of the new customers from a period, and tease out what percentage of them started with a lead generated by your marketing team.
- **Formula:** New customers started as a marketing lead / New customers in a month = Marketing Originated Customer %

Let's look at an Example:

Total new customers in a month = 10,000
Total new customers started as a marketing lead = 5,000

Marketing Originated Customer % = 5,000 / 10,000 = 50% Months

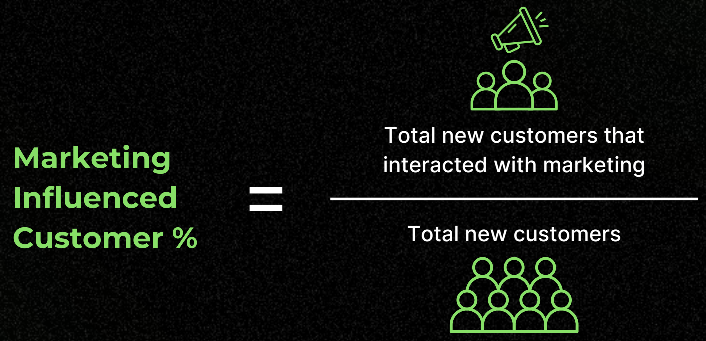
Interpretation: This metric illustrates the impact that your marketing team's lead generation efforts have on acquiring new customers. This percentage is based on your sales and marketing relationship and structure, so your ideal ratio will vary depending on your business model.

A company with an outside sales team and inside sales support may be looking at 20-40% Margin Originated Customer %, whereas a company with an inside sales team and lead-focused marketing team might be at 40-80%.

09. MARKETING INFLUENCED CUSTOMER %

The Marketing Influenced Customer % takes into account all of the new customers that marketing interacted with while they were leads, anytime during the sales process.

- **How to Calculate It:** To determine overall influence, take all of the new customers your company accrued in a given period, and find out what % of them had any interaction with marketing while they were a lead.
- **Formula:** Total new customers that interacted with marketing / Total new customers = Marketing Influenced Customer %



Let's look at an Example:

Total new customers = 10,000
Total new customers that interacted with marketing = 7,000

Marketing Originated Customers % = 7,000 / 10,000 = 70% Months

Interpretation: This metric takes into account the impact marketing has on a lead during their entire buying lifecycle. It can indicate how effective marketing is at generating new leads, nurturing existing ones, and helping sales close the deal. It gives your CEO or CFO a big-picture look into the overall impact that marketing has on the entire sales process.

10. CONCLUSION

To be an effective marketer, reporting on metrics that directly exhibit what impact your marketing strategy and tactics have had on revenue and profitability is critical. You still need to be paying attention to all the other metrics, but when it comes to the C-suite, get them excited with these 6 metrics.

Use these metrics to let your senior know how your marketing team has acquired more customers, lowered acquisition costs, and generated higher customer lifetime values. These numbers resonate with senior decision-makers giving you a greater voice in designing more focused marketing plans and securing more budget.

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