MARKETING EFFECTIVENESS BY WAY OF METRICS

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Abstract

Every company should be able to demonstrate own efficiency and effectiveness by used metrics or other processes and standards. Businesses may be missing a direct comparison with competitors in the industry, which is only possible using appropriately chosen instruments, whether financial or non-financial.

The main purpose of this study is to describe and compare the approaches of the individual authors. to find metric from reviewed studies which organization use to measuring own marketing activities with following separating into financial metrics and non-financial metrics. The paper presents advance in useable metrics, especially financial and non-financial metrics. Selected studies, focusing on different branches and different metrics, were analyzed by the authors. The results of the study is describing relevant metrics to prove efficiency in varied types of organizations in connection with marketing effectiveness. The studies also outline the potential methods for further research focusing on the application of metrics in a diverse environment. The study contributes to a clearer idea of how to measure performance and effectiveness.

Keywords: effectiveness, performance, financial metrics, non-financial metrics, benchmarking.

JEL Classification: M39.

Introduction

To be an effective in all actions, also in marketing activities, it is one of fundamental interests of each company. For business competitiveness and sustainability of its successful functioning of the market, it is important to have appropriate metrics for measuring effectiveness.

The issue of measuring the effectiveness of marketing activities between the professional and scientific community devoted considerable interest.

Every company should be able to demonstrate own efficiency and effectiveness by used metrics or other processes and standards. Businesses may be missing a direct comparison with competitors in the industry, which is only possible using appropriately chosen instruments, whether financial or non-financial.

In conclusion, this paper has focused on review of chosen articles which deal with kind of metrics, especially marketing metrics. It is remarkable that some authors aren’t considering the use of some metrics without possibility of their application in other areas of production. Therefore, it is important to do thorough research, in which there would be a definition of the metrics for measuring effectiveness of the company.

The aim of this study is to describe and compare the approaches of the individual authors. The study contributes to a clearer idea of how to measure performance and effectiveness. The paper deals with marketing effectiveness, points to its importance for company activities and shows the most necessary methods for measurement of marketing effectiveness and suggests benefits. In general metrics are set of disposals that help companies quantify, compare and at last interpret own performance. In view on marketing field we can speak about marketing metrics.

The metrics could be divided into two groups – financial metrics and non-financial metrics. Some companies use Marketing dashboard as the comprehensive set of important tools for internal and external synthesis and interpretation itself. For business competitiveness and sustainability of its successful functioning of the market, it is important to have appropriate metrics for measuring effectiveness. The issue of measuring the effectiveness of marketing activities between the professional and scientific community devoted considerable interest.

Therefore it is necessary to determine the effectiveness of own marketing activities, it is appropriate to examine how the level of efficiency can be obtained. It was necessary to choose an approach to achieve the following objectives:

1. Review of relevant literature with a focus on metrics.
2. Distribution of the metrics used in the individual groups.
3. Conclusions based on our survey.
Introduction to marketing metrics

In general metrics are set of disposals that help companies quantify, compare and at last interpret own performance. In view on marketing field we can speak about marketing metrics. The metrics could be devided into two groups – financial metrics and non-financial metrics (Kotler, Keller, 2007).

Some companies use Marketing dashboard as the comprehensive set of important tools for internal and external synthesis and interpretation itself (Kotler, Keller, 2007).

Financial metrics

Financial metrics should be defined as kind of metrics where is possible to formulate exact amount of money. Authors Gaiardelli, Saccani and Songini (2007) used process-oriented metrics with the ability to distinguish features of the supply chain performance measurement – the SCOR model (supply chain operations reference), profitability ratios (ROE, ROI, ROS), MSI index (measures proportion between count of customers and totally number of potential customers), index BM (reports on cost, revenues and margins).

<table>
<thead>
<tr>
<th>Financial indicators (ROE, ROI, ROS)</th>
<th>Gaiardelli, Saccani and Songini (2007)</th>
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<tr>
<td></td>
<td>Greenyer (2006)</td>
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<td></td>
<td>O’Sullivan, Abela and Hutchinson (2009)</td>
</tr>
<tr>
<td>DEA (data envelopment analysis)</td>
<td>Vardanyan and Tremblay (2006)</td>
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<tr>
<td>Model CFA (confirmatory factors analysis)</td>
<td>Washburn and Plank (2002)</td>
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<td>Model Yoo-Donth</td>
<td>Washburn and Plank (2002)</td>
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<td>Factor analysis</td>
<td>Washburn and Plank (2002)</td>
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<tr>
<td>GEI (general efficiency indicator)</td>
<td>Barretta (2008)</td>
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<td>EITDC (efficiency indicator for total direct costs)</td>
<td>Barretta (2008)</td>
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<td>EIPC (efficiency indicator for production costs)</td>
<td>Barretta (2008)</td>
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<td>EIIPS (efficiency indicator for intermediate products and services)</td>
<td>Barretta (2008)</td>
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<td>EIOIC (efficiency indicator for for other indirect costs)</td>
<td>Barretta (2008)</td>
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<tr>
<td>BM index</td>
<td>Gaiardelli, Saccani and Songini (2007)</td>
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</tbody>
</table>

Source: own work

Also Greenyer (2006) used ROI in his study. Furthermore, the independent variables are used (constructed 12 points, each representing a different marketing activities), the dependent variable (use of primary and secondary data – sales, profit, ROA). (O’Sullivan, Abela a Hutchinson, 2009).

Authors Vardnyan and Tremblay (2006) used as one of metrics DEA (data envelopment analysis) and of course standard deviations of variables.

Non-financial metrics

Non-financial metrics can’t be defined in amount of money. They illustrate a comprehensive view of business. Authors Greiling (2006) and Town (2000) used compare studies in own articles. According to Zahay and Griffin (2010) the customer scale are not too strict like financial metrics. This customer scales are e.g. customer lifetime value, share of wallet, customer retention. Washburn and Plank (2002) used in their study testing of model Yoo and Donth in six instances, factor analysis with oblique rotation and the CFA model.
Kotler and Pfoertsch (2007) defined one of the most used metric – brand. Their definition is below:

- The brand is a promise of quality.
- The brand is a collection of impressions, everything you see, feel, hear and read about the brand.
- The brand is maintained in the customer's feelings based on past experience and future expectations.
- The brand makes an impact on future purchasing decisions, the decisions is based on trust.

### Table 2. Non-financial metrics

<table>
<thead>
<tr>
<th>Comparative study</th>
<th>Greiling (2006)</th>
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<tr>
<td></td>
<td>Town (2000)</td>
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<td>Customer retention</td>
<td>Zahay and Griffin (2010)</td>
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<td>Bauer, Tanner and Neely (2004)</td>
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<td>Dattakumar and Jagadeesh (2003)</td>
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<td>Hadaya (2009)</td>
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<td>Kolfer and Salzberger (2009)</td>
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<td>Miguel and Andrietta (2009)</td>
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<td>Zahay a Griffin (2010)</td>
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<td>Model GBMR</td>
<td>Gonchamuk and Monat (2009)</td>
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<td>MSI index</td>
<td>Gaiardelli, Saccani and Songini (2007)</td>
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<td>SCOR model</td>
<td>Gaiardelli, Saccani and Songini (2007)</td>
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*Source: own work*

### Marketing metrics

Marketing metrics are tools which help companies quantify, compare and interpret own performance from marketing activities. Halachmi (2005) described in the study some principles which can be used in process of measuring:

- If you can not measure something, you can not understand it.
- If you do not understand something, you can not control it.
- If you can not control something, you can not improve.

For what reasons should be marketing metrics top priority? Marketing metrics should be between Marketing metrics should be among the top priorities of any company. The reason is dissatisfaction with traditional metrics (accounting), trends in corporate costs and rapid developments in information technology (Seggie, Cavusgil a Phelan, 2007).

Marketing metrics could be divided into six basic groups (Llonch, Eusebio, Ambler, 2002):

1. Financial indicators (turnover, profit margins, profitability ratios)
2. Measurement of market (market share, the share of advertising, promotional share)
3. Measurement of customer behavior (loyalty, penetration, number of newly acquired customers)
4. Measuring the movement of customers (customer satisfaction, ability to recognize the brand)
5. Measurement of direct customers (distribution level, profitability of provider, quality of service)
6. Measuring innovation (number of new products, the share of new product sales).

Alternative model of this categories is impact analyze on brand equity. Brand equity is one of the most important and most used term in marketing area. It is usually regarded as marketing asset and the most prized value for a large number of companies (Llonch, Eusebio, Ambler, 2002).
Comparison of used metrics

For comparison of these metrics can be used the concept of benchmarking. During the existence of this concept occurred by many authors in different large-scale analysis and innovation. In principle it is possible to share scholarly articles on the topic of benchmarking into four basic groups (Dattakumar and Jagadeesh, 2003):

1. General aspects and principles,
2. Specific applications and case studies,
3. Innovation, expansion and new approach,
4. The applicability of the education sector.

This method is act of copying of processes and their application into own surroundings. This procedure can help to innovation of company processes and also final products. Its use is real in different environments – business performance as a whole, its parts or business processes (Meybodi, 2009).

There are several kinds of benchmarking, which you can find and use. These kinds of benchmarking depend on environment of using. Choice of kind is in responsibility of subject who make benchmarking. These kinds are e.g. internal benchmarking, external benchmarking or compulsory benchmarking.

Compulsory benchmarking is required in production sectors like public sector or health care sector (Barreta, 2008). Internal benchmarking and external benchmarking are possible to use in all of kinds of organizations. If we could use benchmarking, we have to have defined benchmark for comparison. This benchmark could be any metric that is used in practice primarily in competitive businesses.

Regardless of the type of benchmarking is more than appropriate to use a suitable incentive program and to add the possibility of increased efficiency of its own workers (Goncharuk a Monat, 2009).

Bauer, Tanner and Neely (2004) proposed a possible framework for implementing measurement audit. This framework defines certain characteristics that the authors can be implemented in any organization. These characteristics are influenced by environment and relevant organizational stakeholders.

Possible limits and barriers

However, study framework of Gaiardelli, Saccani a Songini (2007) is focused in general; empiric applications have been limited by industry specifications and interfaces between two players. A future revision of this framework is needed, if applied to more sectors and across multiple levels of supply chains.

Greiling (2006) argues in his study the necessaries of next researches of factors which ensure that performance measurement will be effective tool in general services. Empirical base has to be lean in research of relations between results of measuring and performance. It is possible that stability and predictability of public services will be decreased by loading of performance measurement.

The results of study (Greenyer, 2006) need other deep research, especially in the best use of existing communication channels with customers. Nowadays the precondition which were got five years ago may not be necessarily considered as appropriate.

According to the authors’ conclusions O’Sullivan, Abela and Hutchinson (2009) should be greater attention paid to the activity measured before used metrics. This metrics get more attention in the literature.

Model Wasburn and Plank (2002) used didn’t design to detect differences in the extent of reliability and validity across different application conditions. Study (Zahay a Griffin, 2010) has different restrictions on the application in industry or services.

Discussion

Why do the authors want to use only financial or only non-financial metrics? This paper shows that financial metrics are used more often than nonfinancial metrics. Do the authors believe that financial metrics are more applicable in practice?

Marketing specialists verify the theoretical knowledge in practice and try to uncover the causes of success and failure of companies in the market.

One of the work, which contributes to the understanding of the issue is a study focused on the use of marketing metrics in Britain, where the marketing and financial managers were addressed. There were examined marketing activities, planning, benchmarking, satisfaction with marketing measurement and improving their corporate orientation. The pilot part confirmed the interest of the marketing metrics related
to loyalty, marketability, competition, customer satisfaction, but the main interest concerned the financial parameters and monitoring of competition (Ambler, Kokkinaki, and Puntoni, 2004).

Respondents were asked to rate each question in the questionnaire on a scale from 0 to 7 (not important - very important). Respondents most appreciated financial parameters (average 6.51) with significantly edge over direct customer evaluation (5.53). Other items reached very similar results: Competition - 5.42; customer intermediate - 5.42; customer behaviour - 5.38; Innovativeness - 5.04 (Ambler, Kokkinaki, and Puntoni, 2004).

Brand equity is one of the most widely used criterion for measurement of marketing assets, what is confirmed by this survey, where 32.5% of respondents who reported this term (next terms: reputation - 19.6%, brand strength - 8.8%, brand value - 8.2 %, brand health - 6.9%) (Ambler, Kokkinaki, and Puntoni, 2004).

24.9% of respondents regularly yearly or more evaluated the marketing assets with financial parameters, 41% of respondents used other tools for evaluation of marketing activities (e.g. customer satisfaction) and less than 15% used both methods of measurement (Ambler, Kokkinaki, and Puntoni, 2004).

Continuation of this study was focused on practical application of specific parameters. In the telephone survey there was involved 231 managers from british companies. The result of the survey is 15 the most widely used values. Profit and revenues were almost equally ranked in first place with more than 90% of respondents who routinely use these values in practice. Approximately 80% of respondents achieved gross margin and market share (Ambler, Kokkinaki, and Puntoni, 2004).

Conclusions

This paper has focused on review of chosen articles which deal with kind of metrics, especially marketing metrics. It is remarkable that some authors aren’t considering the use of some metrics without possibility of their application in other areas of production. It is important to do thorough research, in which there would be a definition of the metrics for measuring effectiveness of the company. But it is necessary to chose right field for good research.

Financial and non-financial metrics which are used for measurement marketing activities should bring many advantages for the company. The authors recommend many kinds of them with different influence on company income. Therefore the optimal metrics depend on corporate strategy. Main aim of the using right metrics should be creating good relationships with all stakeholders (Šimberová, 2008) which are connected with higher income.

Acknowledgement

This paper is supported by project FP-S-10-21, with title “Methods of measuring the effectiveness of marketing activities and their application” due to Faculty of Business and Management at Brno University of Technology.
References