

2.5: Marketing Plan Progress Using Metrics

Learning Objectives

By the end of this section, you will be able to

- Define marketing metrics.
- Explain key performance indicators (KPIs).
- Provide examples of business objective KPIs.
- Characterize sales/revenue generation KPIs.
- Provide examples of market share KPIs.
- Classify and discuss customer support KPIs.

Marketing Metrics Explained

Running even a modest-sized organization can involve a lot of moving parts. It is often helpful to focus on key measurable (quantifiable) values or variables that marketers aim to achieve within a specified period—known as marketing metrics. In the same way that a doctor measures height, weight, temperature, blood pressure, and other vital signs to assess the health of a patient, a marketer uses marketing metrics to measure marketing performance.

Key Performance Indicators (KPIs) Explained

Have you ever pondered what life was like without the Internet? You can instantly type a term into a search engine, and within seconds, you'll have hundreds of thousands (or even millions) of results. It's estimated that, as of 2020, there were 40 zettabytes of data available on the Internet. (If you're curious, a zettabyte is approximately 1 trillion gigabytes) (HealthIT, 2024). That's both a blessing and a curse. There's so much information out there that sometimes it becomes difficult to focus on the information you really need.

The same is true with marketing metrics. On one hand, a marketer can examine virtually every aspect of the customer journey, gleaning a fully detailed picture of what is going on in every stage; on the other hand, the sheer amount of data the metrics can yield can be overwhelming. Metrics tell us what is happening at any point in time without context as to why it is happening. That's why savvy marketers should have a solid understanding of metrics to draw out the full story. The way the marketer gets to the marketing metrics that yield the information that's needed is by identifying and maintaining a focus on the data that counts—the business's key performance indicators (KPIs).

Although the terms *metrics* and *KPIs* are often used interchangeably, there is a subtle and very important difference. Metrics measure the performance of a particular process; KPIs are directly tied to business objectives and have targets and specific time frames for achieving those targets (Palmer, 2020). In a nutshell, think about KPIs as being a “scorecard” for company health.

Marketers typically establish goals and objectives related to KPIs because it's an easy way to track progress. If the metrics remain within the forecasted range, marketers can focus on other more troubling elements of the SBU. On the other hand, when the metrics fall outside of the desired range, it's time to examine closely where the trolley is coming off the tracks, perform a root cause analysis, and make adjustments to get back on track.

The trend in marketing is to use real-time marketing dashboards that provide instant visibility of the metrics you've selected to track. It's a quick and easy overview of where you stand and your progress toward your goals. It's also a huge time saver because instead of poring over spreadsheets and multi-page reports to assess progress, a marketer can simply refer to the dashboard to obtain the information needed (RudraSoft, LLC, 2017).

Link to Learning: KPIs

For more information about marketing KPIs, take a look at this brief video from SMA Marketing about why marketing KPIs are vital for a business. Here are additional resources you may find helpful to learn about KPIs:



- Toucan Toco: “[The Most Important KPIs to Track for Improved Marketing Efficiency](#)”
- Vital: “[The 16 Marketing KPIs You Should Be Measuring \(but Probably Aren’t\)](#)”
- HubSpot: “[15 Key Performance Indicators to Help Improve Your Marketing](#)”
- Marketo Engage blog from Adobe Experience Cloud Team: “[Prove Your Worth: 10 KPIs for Marketers](#)”

Examples of Business Objective KPIs

There are a multitude of KPIs that marketers can choose to manage business objectives. The actual KPIs they select depend on the nature of the process, the type of information available, and the team. The important concept is to identify the “key” indicators that drive success. Instead of developing information from a laundry list of 300 KPIs, it’s preferable to identify a handful of the most useful KPIs that allow for the effective management of information. In other words, sometimes less is more, and instead of sifting through mountains of statistics (remember all those zettabytes of information on the Internet), you can choose from a small subset of measurements to review regularly. Let’s look at a few that you may wish to consider, as shown in Figure 2.12.

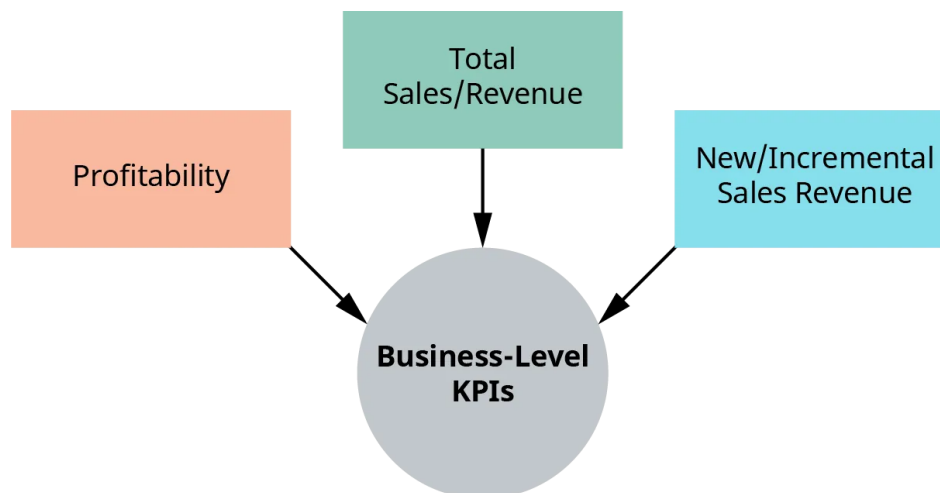


Figure 2.12 Business-Level KPIs (CC BY 4.0; Rice University & OpenStax)

Total Sales/Revenue

Sales and revenue growth is a KPI used to determine whether sales and revenue are increasing or decreasing over a specified period. It’s calculated by dividing revenue generated during one time period by revenue generated over a subsequent period, subtracting 1, and then multiplying by 100 to obtain a percentage (Porte Brown, 2022). Here is the formula:

$$\text{Sales versus Revenue} = \left(\frac{2022}{2021} \right)$$

$$\text{Revenue } 2021 \text{ Revenue} - 1 \times 100 = \text{xx\%}$$

$$\text{Sales versus Revenue} = \frac{2022 \text{ Revenue}}{2021 \text{ Revenue}} - 1 \times 100 = \text{xx\%}$$

For the sake of putting numbers to the formula so you can see how it actually works, let's assume that 2022 revenue was \$1.8 billion, compared to \$1.4 billion in 2021. If we populate the formula with these numbers, it looks like this:

$$\text{Sales versus Revenue} = \left(\frac{\$1.8\text{B}}{\$1.4\text{B}} \right) = 1.2857$$

$$1.2857 - 1 = 0.2857$$

$$0.2857 \times 100 = 28.57\% \text{ Revenue}$$

$$\text{Growth Sales versus Revenue} = \frac{\$1.8\text{B}}{\$1.4\text{B}} = 1.2857$$

$$1.2857 - 1 = 0.2857$$

$$0.2857 \times 100 = 28.57\% \text{ Revenue Growth}$$

As a general rule, the metric would be used to suggest revenue growth over the period of a year. However, for companies whose revenue is affected by seasonality (such as companies that produce snow blowers or bathing suits), it may make more sense to measure growth in revenue on a monthly or seasonal basis, compared with the previous season (Porte Brown, LLC, 2024).

New/Incremental Sales Revenue

Marketers are also keenly interested in understanding how many new versus repeat customers a business has. The bottom line is that it's typically more expensive to acquire initial sales than repeat sales, and repeat customers (referrals) can be a powerful source of new customers. Accordingly, if most sales are from return customers, that may point to a sign of weakness in a promotional program or other marketing activity.

Profitability

Gross margin as a percentage of sales is one of the most closely watched KPIs at most organizations. Gross margin is the percentage of sales revenue that the company can convert into gross profit, and it's generally a good measure of how efficiently the company generates gross profit from sales of products or services.

It stands to reason that if the gross margin of a product is negative, it will be difficult to make money at *any* level of sales. Thus, the higher the gross margin, all other elements being equal, the less sales are required to break even.

Examples of Sales/Revenue Generation KPIs

One of the most important metrics for any organization concerns sales/revenue. Let's look at some of the KPIs that can be helpful to marketers, as illustrated in Figure 2.13.

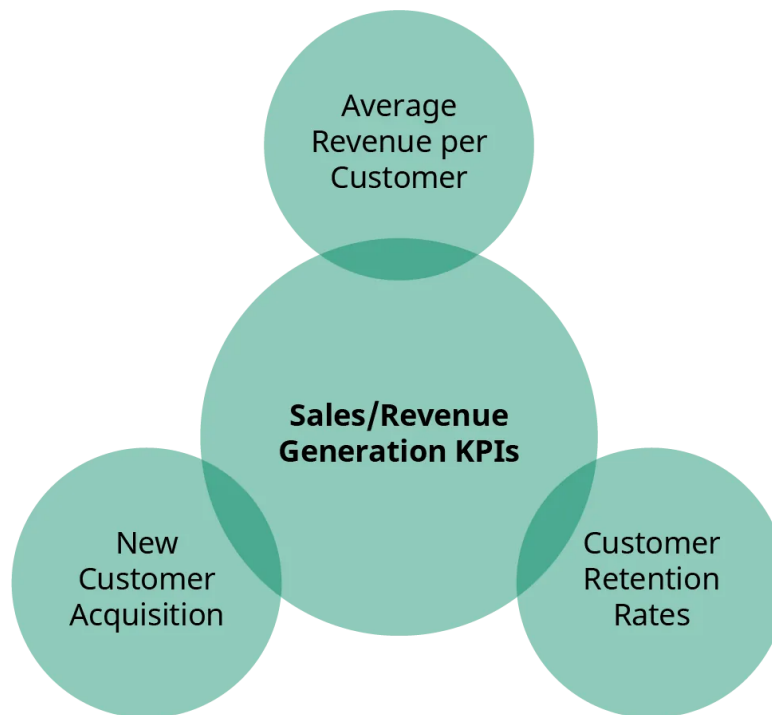


Figure 2.13 Sales/Revenue Generation KPIs (CC BY 4.0; Rice University & OpenStax)

Average Revenue per Customer (ARPC)

This KPI measures the amount of money a company expects to generate from an individual customer, and it's a relatively simple calculation: total revenue divided by the number of customers. This KPI comes in handy because it assists the marketer in identifying trends among different periods and segments of customers. A low ARPC score can point to several reasons: you're not targeting the right customer, or perhaps your product offering is priced too low. So, marketers must determine how to extract more revenue from the product—whether through different value add-on products or by targeting a more valuable customer base (Peel Insight, 2023).

New Customer Acquisition

As the term suggests, customer acquisition refers to bringing in new customers. It's the action of bringing customers down the "marketing funnel" from brand awareness to the purchase decision. Closely related to this KPI is customer acquisition cost (CAC)—in other words, the total cost of acquiring those customers, which is calculated by adding up the cost of sales and marketing efforts and then dividing by the number of new customers acquired during a specific period.

Customer Retention Rates

As we've pointed out above, it's cheaper to keep a customer than it is to find a new customer. The KPI for customer retention rates measures the percentage of customers in the current period who have purchased in the past. This KPI is particularly powerful when the product or service is subscription-based or requires a regular recurring purchase (e.g., cell phone monthly fee, electricity bill, etc.).

Examples of Market Share KPIs

Of course, it's important to track the sales/revenue KPIs mentioned above, but they don't tell the whole story. It's also important to track how the organization is faring in the marketplace compared with its competitors.

Let's consider a scenario to explain this further. Let's assume your organization is in a highly competitive, fast-growing industry. Your marketing dashboard shows that your organization's sales increased 10% over the last fiscal year. On the surface, that might be a positive—who doesn't want sales to increase by 10 percent? However, with the right KPIs on your marketing dashboard, you might begin to see that all isn't as good as you initially surmised because the market as a whole grew at 20% during that same period, and the sales of your major competitor grew 25 percent. That paints a different picture, doesn't it?

So, let's examine some market-share KPIs that can paint a broader picture for marketers.

Market Share in Category

A company's market share in category (sometimes known as category share) is its sales as a percentage of all products in a category that the company sells. It is calculated by dividing the company's sales by the total sales in a category (Mansueto Ventures, 2020). For most companies, market share is an important KPI because it easily translates into positive or negative performance. For example, increases in market share typically indicate that a company is doing more business, whereas declining market share suggests an undesirable outcome (Momentum Technologies, 2021).

Relative Market Share

Relative market share indexes a firm's or brand's market share against that of its leading competitor. It's more complicated than industry market share because it compares your organization with your rivals rather than with the industry as a whole (Sherman, 2020). How is it calculated? That's best explained using an example. Let's assume that you own an appliance store in town, one of a handful of stores in town that sell major appliances. Your sales bring in \$1 million per year for a 5% market share. Now imagine that the top appliance store in the area sells \$1.5 million worth of major appliances a year, a 13% market share. To determine your relative market share compared with this competitor, divide your share by the competitor's:

$$5\% \div 13\% = 38\% \text{ Relative Market}$$

$$\text{Share } 5\% \div 13\% = 38\% \text{ Relative Market Share}$$

To get an even more in-depth picture, you can do the same for the smaller competitors in the market. This process would give you a slightly different perspective on market share growth. For example, in some competitive markets, a 5% share might make you one of the major players; however, in the example shown with the appliance stores, it appears that you're a long way from achieving the market share of your leading competitor (Sherman, 2020).

Examples of Customer Support KPIs

In a perfect world, companies would have products with zero defects and the same number of customer issues with those products. However, we all know we don't live in a perfect world, and zero defects and zero customer issues simply aren't realistic expectations. There will be customer issues, and the key to retaining loyal clients is identifying and resolving those issues quickly. So, let's look at some customer support KPIs that matter to marketers, as illustrated in Figure 2.14.

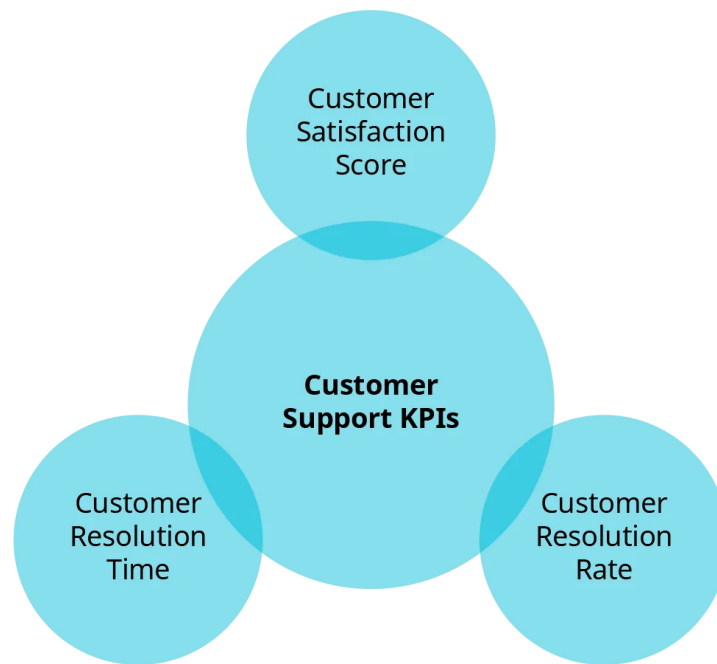


Figure 2.14 Customer Support KPIs (CC BY 4.0; Rice University & OpenStax)

Customer Satisfaction Score

Customer satisfaction score (CSAT) is the primary metric for customer satisfaction. One way to measure CSAT is by sending out a customer satisfaction survey asking customers to rate their satisfaction on a scale of 1 to 5, with 1 being very unsatisfied and 5 being very satisfied. The calculation from that point is simple: take the number of satisfied customers (i.e., those who rated their satisfaction as either 4 or 5), divide that by the total number of responses, and multiply that number by 100. That formula will yield the percentage of customers who consider themselves satisfied—your CSAT score (Clarke, 2022).

Let's put some numbers to this formula to illustrate the point. Imagine that you've emailed a customer satisfaction survey to 15,000 customers and received 1,500 responses. Of those responses, 308 customers rated their satisfaction as "very satisfied," 447 rated their satisfaction as "satisfied," and the remaining 745 customers rated their satisfaction as "neutral," "dissatisfied," or "very dissatisfied." The calculation of the CSAT score would look like this:

$$(308 + 447) \div 1,500 = 50.33\%$$

Customer Resolution Rate

As we pointed out above, no matter how carefully you've planned, and no matter how well you've trained your staff, things will inevitably go wrong with customers at some point. That's the harsh reality of dealing with customers. However, most (or at least many) customers will forgive a mistake if the organization acts quickly to resolve the problem to the best of its ability. Once again, the calculation for this KPI is relatively uncomplicated. To calculate the customer resolution rate, subtract the number of unresolved cases from the total number of cases and then divide the sum by the total number of cases. The fewer the unresolved cases, the higher your customer resolution rate (Paul, 2021).

Customer Resolution Time

Closely related to the customer resolution rate is customer resolution time because most customers expect immediate assistance. The longer it takes to resolve a customer issue, the less satisfied a customer will be. There are a couple of ways to calculate this. First, you could measure average resolution time by taking the sum of all case resolution durations and dividing by the total number of customer cases. Alternatively, you could measure the first response time. This is the average time it takes from the time a customer reaches out for assistance and the length of time it takes for a customer service representative to respond (Paul, 2021).

Marketing in Practice: Classic Cleaners and Automated Reporting



Figure 2.15 Classic Cleaners wanted real-time data that would help it better understand its target customers and how it could use marketing to earn more business from them. (credit: "DSC_2665.JPG" by Banzai Hiroaki/flickr, CC BY 2.0)

Classic Cleaners is a provider of dry cleaning and laundry services based in Indianapolis, Indiana (see Figure 2.15). The company has 18 locations (Classic Cleaners, 2024). Like many businesses, Classic Cleaners always struggled with the question, What does my customer *really* want? The company wanted an easy solution to using real-time marketing to track and measure results and obtain insights that would aid it in making data-driven decisions.

Enter TBH Creative, hired by Classic Cleaners to transform its marketing efforts through automating reporting. TBH Creative worked with the company to set up a marketing dashboard to monitor statistics and analytics, complete an audit to determine which marketing efforts were effective, improve its website, and more (TBH Creative, 2020).

As Classic Cleaners' General Manager Steve Arnold stated, "We . . . wanted to start tracking our customers more thoroughly so we could identify who our target customers are, what types of messaging resonates with them, and how we could use marketing to earn more business from these customers" (TBH Creative, 2020).

Marketing Dashboard: Customer Lifetime Value (CLV)

Customers are not all the same. Some customers spend more money than others, while others are customers for long periods. As marketers, we want to know how much value to expect from customer groups to determine their value to the organization and how much we should be spending to attract and retain customers. Customer lifetime value (CLV) estimates how much a single customer is worth to a company over their customer life span. Unlike other marketing metrics, customer lifetime value is a forward-looking metric. Therefore, it is an estimate, not a guarantee.

Customer lifetime value is closely related to customer acquisition cost, the amount an organization invests in attracting a new customer. We want our customer lifetime value to exceed the customer acquisition cost to ensure we are not spending more money to attract customers than they are worth. However, we also know that customers have additional costs, such as our cost of goods sold or the cost to serve. These costs must be calculated along with customer lifetime value to determine whether our customers are profitable. We also know that retaining current customers is important so we are not continually investing in customer acquisition. To invest in existing customers, companies may introduce loyalty programs, increase customer experience, design positive user experiences, and/or connect with customers on social media.

A simple formula for customer lifetime value is

$$\begin{aligned} \text{Customer Lifetime Value} &= (\text{Annual Profit per Customer} \\ &\times \text{Average Number of Years Retained}) \\ &- \text{Customer Acquisition Cost} \end{aligned}$$

The annual profit per customer considers the cost of goods sold and customer acquisition cost.

Give the customer lifetime value calculation a try for yourself. What is the customer lifetime value for each of the four segments in the example shown in Table 2.1?

Table of different generations and their profit as a customer

Person	Annual Profit Per Customer	Average Number of Years Retained	Customer Acquisition Cost
Millennial parents	\$10,000	12	\$750
Millennial singles	\$18,000	12	\$750
Working moms	\$22,000	8	\$1,200
Gen Z emerging professionals	\$34,000	2	\$1,600

Table 2.1

Answer

Solution

Millennial parents: \$119,250

Millennial singles: \$215,250

Working moms: \$174,800

Gen Z emerging professionals: \$66,400

Which segment would you choose if you were tasked with starting a new campaign that maximized CLV?

Answer

Millennial singles have the highest CLV.

Let's suppose the customer experience team could increase the average number of years that the Gen Z segment retains from two to eight. Which segment would then have the highest CLV?

Answer

Gen Z would have the highest CLV at \$270,400.

Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

What are key performance indicators (KPIs)?

- a. Industry economic forecasts gathered during external analysis
- b. A collection of all the detailed statistics we can find regarding firm performance
- c. A competitive analysis that allows a company to understand the strategic direction of competitors
- d. Specific variables that allow us to monitor the health/performance of the organization

2.

How frequently should we monitor KPIs?

- a. Continuously
- b. Monthly when the financial statements are produced
- c. Annually when the yearly financial statements are produced
- d. When things just don't "feel" quite right

3.

You've emailed a customer satisfaction survey to 20,000 customers and received 1,825 responses. Of those 1,825 responses, the ratings came back as follows:

- 500 very satisfied
- 300 satisfied
- 1,025 neutral or dissatisfied or very dissatisfied

What is the customer satisfaction score?

- a. 44%
- b. 27%
- c. 9%
- d. 11%

4.

The observation is made that a single data point in isolation is not very useful. What can we do with a KPI data point to make it useful?

- a. Compare the KPI data point with a related goal/objective (forecast).
- b. Compare the KPI data point with our historical performance.
- c. Compare the KPI data point with industry averages.
- d. These are all useful things to do with a KPI data point.

5.

Why is it important to track customer satisfaction?

- a. We don't need to; we already have their money.
- b. Customer referrals can be a powerful promotional tool.
- c. Customer acquisition can be expensive; repeat purchases can be much more profitable.
- d. Statements b and c are both correct.

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