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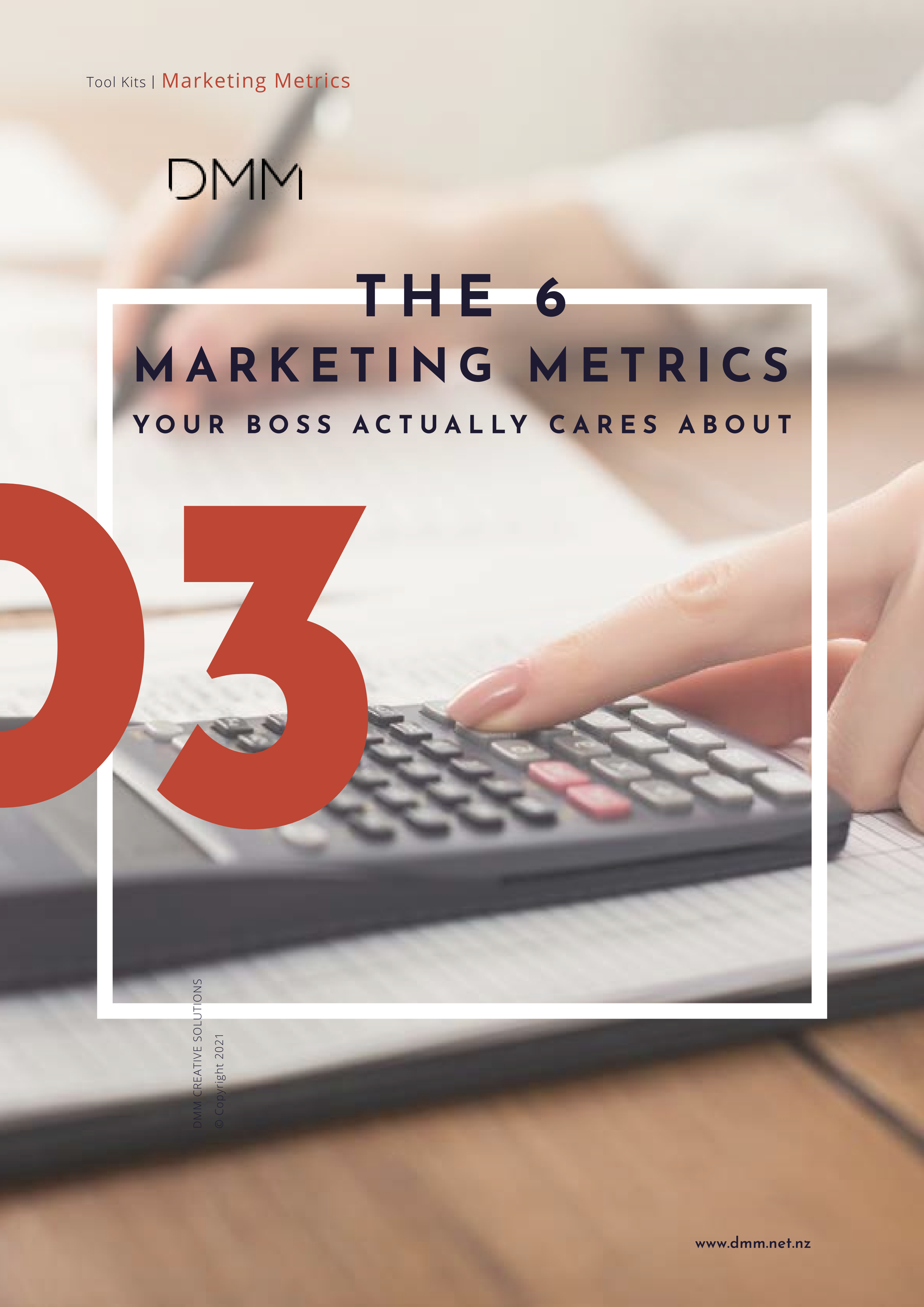

THE 6 MARKETING METRICS

YOUR BOSS ACTUALLY CARES ABOUT

03

Introduction

We look at website visits, conversion rates, generated leads per channel, engagement on social media platforms, blog post shares, email click-through rates... and the list goes on and on.

When the time comes to present the impact of your marketing efforts to your boss, you can't present him or her with everything you measure.

While many bosses theoretically understand that a solid marketing team can directly impact your company's bottom line, 73% of executives don't believe that marketers are focused enough on results that truly drive incremental customer demand.

When it comes to marketing metrics that matter to your execs, expect to report on data that deals with the total cost of marketing, salaries, overhead, revenue, and customer acquisitions.

This guide will walk you through the six critical marketing metrics your boss actually wants to know.

> "As marketers, we work tirelessly to move the needle on what often seems like a laundry list of metrics."

Customer Acquisition Cost (CAC)

What it is:
The Customer Acquisition Cost (CAC) is a metric used to determine the total average cost your company spends to acquire a new customer.

How to Calculate it:
Take your total sales and marketing spend for a specific time period and divide it by the number of new customers for that time period.

Sales and Marketing Cost
= Program and advertising spend + salaries + commissions and bonuses + overhead in a month, quarter or year

New Customers
= Number of new customers in a month, quarter, or year

Formula:
Sales and marketing cost ÷ new customers = CAC

Let's Look at an Example

Marketing Cost = $300,000

New customers in a month = 30

CAC = $300,000 ÷ 30 = $10,000 per customer

What This Means and Why it Matters:

CAC illustrates how much your company is spending per new customer acquired. You want 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 efficiency.

Marketing % of Customer Acquisitions Cost

What it is:
The Marketing % of Customer Acquisition Cost is the marketing portion of your total CAC, calculated as a percentage of the overall CAC.

How to Calculate it:
Take all of your marketing costs, and divide by the total sales and marketing costs you used to compute CAC.

Sales and Marketing Cost = Program and advertising spend + salaries + commissions and bonuses + overhead in a 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 = $150,000

Sales and Marketing Cost = $300,000

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M ÷ CAC = $150,000 ÷ $300,000 = 50%

What This Means and Why it Matters:

The M%-CAC can show you how your marketing teams performance and the spending impact of your overall Customer Acquisition cost. An increase in M%-CAC can mean a number of things:

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

Ratio of Customer Lifetime Value to CAC (LTV:CAC)

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

How to Calculate it:
To calculate the LTV:CAC you'll need to 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

Formula:
LTV:CAC

Let's Look at an Example

LTV = $437,000

CAC = $100,000

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LTV:CAC = $437,000:$100,000 = 4.4 to 1

What This Means and Why it Matters:

The higher the LTV:CAC, the more ROI your sales and marketing team is delivering 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.

Time to Payback CAC

What it is:
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.

How to Calculate it:
You calculate the time to payback CAC by taking your CAC and dividing by your Margin Adjusted Revenue per month for your average new customer.

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

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

Let's Look at an Example

Margin-Adjusted Revenue = $1,000

CAC = $10,000

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

What This Means and Why it Matters:

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 payback your CAC, the sooner you can start making money off of your new customers.
Generally, most businesses aim to make each new customer profitable in less than a year.

Marketing Originated Customer %

What it is:
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:
To calculate Marketing Originated Customer %, 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 in a month = 10,000

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

What This Means and Why it Matters:

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, 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%.

Marketing Influenced Customer %

What it is:
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

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

What This Means and Why it Matters:

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.

CONCLUSION

As marketers, we track so many different data points to better understand what's working and what's not that it can become easy to lose sight of what's most important.

Reporting on your business impact doesn't mean you should no longer pay attention to site traffic, social shares, and conversion rates. It simply means that when reporting your results to your executives, it's crucial to convey your performance in a way that your C-suite can get excited about.

Rather than talking about per-post Facebook engagement and other "softer" metrics, use the 6 metrics we detailed in this cheat sheet to report on how your marketing program led to new customers, lower customer acquisition costs, or higher customer lifetime values.

When you can present marketing metrics that resonate with your decision-makers, you'll be in a much better position to make the case for budgets and strategies that will benefit your marketing team now and in the future.

ABOUT DMM

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Dynamic Multi Media was born to create beautiful, practical and meaningful solutions that fit your business and unique identity.

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