

## Event Review

Software Development Forum

BUSINESS INTELLIGENCE SIG

MARKETING SIG

# What Marketing Metrics Matter?

*Not ROI. Not cost per lead, time to close a sale, time to resolution of a service issue or the percentage of “perfect” orders. None of these metrics measure the progress in improving relationships with customers. None of these tell you how likely you are to make money with a strategy or how you could do it again.*

Instead, the marketing metrics that matter are ***profit metrics*** that lead to real-time management and repeatable processes, according to Linda Sharp, CEO of Religence ([www.Religence.com](http://www.Religence.com)), in her presentation to the Business Intelligence Special Interest Group of the SDForum on January 18, 2005.

In an encore presentation at the Marketing Special Interest Group on April 11, 2005, Sharp and her team added a practical demonstration of a profitability model to illustrate how a software company used marketing metrics that matter. The profitability model is one of several key models in the Religence Framework. Screen shots are at the end of this review.

To measure marketing, the Religence Framework measures customer relationship development—what happens to build status, potential and value—relationship cause and effect. And delivers on the unfulfilled promise of CRM. Sharp believes this will fundamentally change how customer-facing teams in marketing and operations are measured and managed. Until now the data to achieve profit metrics have been missing, and no amount of data mining or predictive modeling can cover for data not being collected in the first place.

Built on existing systems, using proprietary architecture for business rules, the Religence Framework breaks marketing down to the smallest units--customer profitability segments within channel/product group combinations. It builds profitability models, then measures

strategy execution, in terms of how it develops the customer relationship, by building intelligence into process, measuring interaction by interaction and response by response to create a data stream that feeds the profitability models and pattern analysis.

## **Marketing Metrics Context**

*Marketing NPV Journal* has proposed a five-stage evolution of marketing metrics. Sharp put these stages in the Religence Framework context and added a new sixth stage. The framework's common language of profit connects executives to middle managers--and marketing to operations—to get them all on the same page and provides a consistent framework for managing operations as well as planning strategy. Religence draws what is relevant for profit metrics from current practices and provides missing pieces. The stages are:

1. **Sales Tracking; Test Markets; Tracking Research**  
*A good source of segmentation options for Religence to correlate to.*
2. **Program, Campaign ROI**  
*Questionable metrics that are dangerously incomplete. The only agreement on these metrics is that people can't agree on what they are or mean.*
3. **Resource Optimization; Predictive Modeling**  
*The movement towards modeling a marketing mix—which Religence does—is much better than measuring Program, Campaign ROI.*
4. **Linking Customer Attitudes/Perceptions to Assets**  
*Some link brand strength and/or media presence to stock price—an external measure. Customer Lifetime Value--which Religence uses--is an internal measure for profit potential. The problem is linking it to attitudes/perceptions. What people SAY isn't always what they DO. See #6.*
5. **Process Integration in Planning**  
*Balanced Scorecard, EVA or Economic Value Added and Marketing Dashboards are approaches used to integrate measurement into planning. The first two aren't about tracking execution at all. Another approach, Six Sigma, is used for both planning and execution. But applying a tool designed to achieve zero defects to marketing--which needs fluidity to differentiate—hasn't worked out very well. Religence is both fluid and operational.*
6. **Intelligence Built into Process (NEW)**  
*The Religence Framework measures marketing by measuring customer relationship development. It values and measures what people DO. So instead of attitudes/perceptions, Religence can correlate what people DO as relationships develop, with profit. It transforms marketing metrics from static to dynamic, from snapshots to video, from historical to real-time.*

## A Consistent Framework and Metrics for Both Planning and Execution

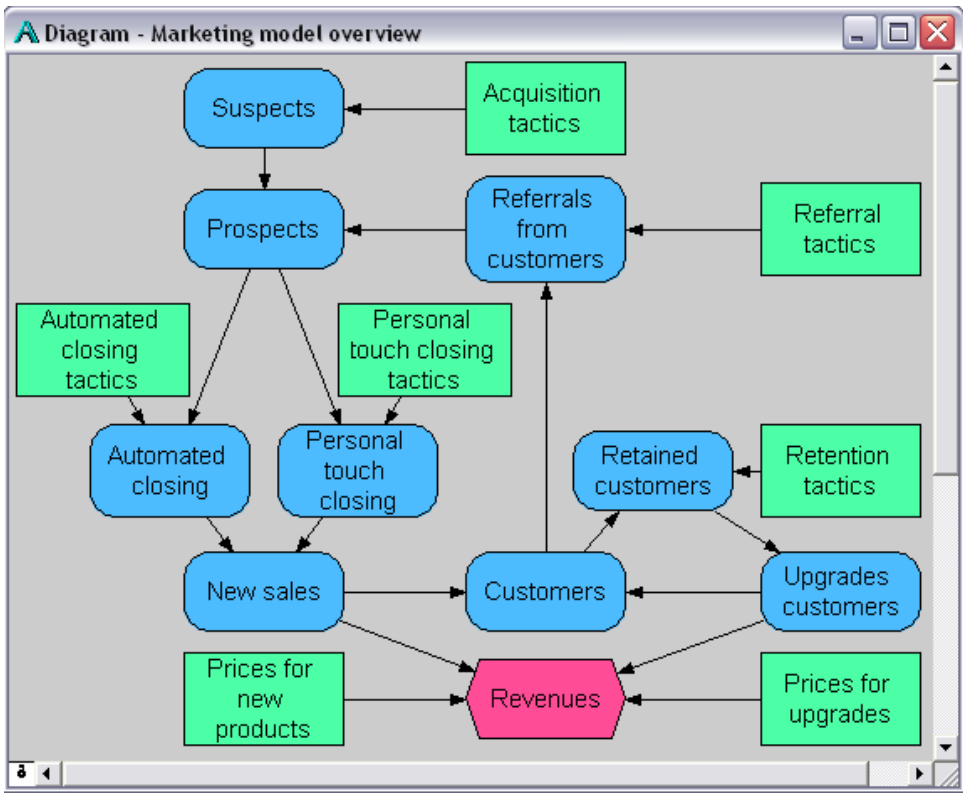
Sharp used a major manufacturer, a process component supplier and a maintenance service provider as well the software company to illustrate how the Religence Framework uses profit metrics to drive accelerated profit growth. Critical metrics are:

- **Profit Metrics for Planning**
  - **Correlated Customer/Product Profit** (*Finds sweet spots to focus on, duds to cull, gems to grow.*)
  - **Readiness Test** (*Focuses efforts to strengthen market position and create a more positive selling and retaining environment.*)
  - **Incremental Costs per Contact** (*Estimates the average variable cost to implement strategy for each prospect/customer.*)
  - **Conversion Rates** (*Measures movement of contacts at Acquisition, Closing and Retention Stage Levels within the customer lifecycle.*)
  - **Customer Retention Rate** (*Highlights a metric critical to profit.*)
  - **Referral Rate** (*Highlights a metric critical to lowering Acquisition costs.*)
  - **Adjusted CLV (Customer Lifetime Value)** (*A proven metric made better.*)
  
- **Profit Metrics for Execution**
  - **Interaction Value** (*Places a relative value on every interaction and response—what people DO-- in terms of how it improves the relationship with the customer. **The metric needed to calculate relationship value--missing until now.***)
  - **Interaction Costs (Incremental)** (*Places a dollar value on every interaction and response—what people DO. Data missing when only fixed costs are used to quantify marketing.*)
  - **Correlated Profit Patterns for Behavior, Delivery** (*Correlates relationship value to profitable customer segments and to events that affect profit like referrals, increased purchases or unhappy customers.*)
  - **Conversion Rates** (*Measures dynamic movement of contacts through 14 levels within the customer lifecycle.*)
  - **Retention Rates** (*Measures how many contacts stayed put.*)
  - **Promises Kept Index** (*Tracks what value is built for the customer.*)
  - **Relationship Value** (*Tracks how value is built for the company. **The KEY Performance Indicator.***)

## Using Marketing Metrics That Matter

Sharp set the stage for the alternative strategies and action plans the software company wanted to pre-test before rolling out. George Fruehan of Religence and Max Henrion of Lumina showed how using the profitability model the software company could forecast which strategy was more likely to make the most money, given a limited budget.

The software company has grown organically with close to half its prospects from customer referrals. The other half come from the Web and traditional marketing efforts. Prospects are converted to new sales either by an automated closing on the Web or by personal touch. Upgrades keep customers repurchasing. The profitability model is tailored to mirror the marketing process flow of the software company (below).



The software marketing planner interface is divided into several sections:

- Marketing Profitability Model:** Includes the Religence logo.
- Strategy cost and effectiveness inputs:**
  - Tactics costs: [Edit Table](#)
  - Acquisition volume (Suspects/year): [Edit Table](#)
  - Conversion rate to prospects (%): [Edit Table](#)
  - Referrals per customer(Prospects/user/yr): [Edit Table](#)
  - Personal touch % (%): [Edit Table](#)
  - Closing rate (%): [Edit Table](#)
  - Retention rate (%): [Edit Table](#)
- Current business inputs:**
  - Av product price: \$3000
  - Av upgrade price: \$500
  - Current business inputs: [Edit Table](#)
- Results:**
  - Costs by type and stage: [Result](#) mid
  - Key metrics %: [Calc](#) mid
  - Key metrics nnn: [Calc](#) mid
  - Dollar metrics: [Calc](#) mid
  - Net revenues: [Result](#) μ
  - Discount rate: 7%
  - NPV Profit: [Result](#) ↙
  - Summary of Bottom Line: [Result](#) mid
- Model details:** [Model details](#) button
- Powered by:** Lumina DECISION SYSTEMS logo

The Religence Framework profitability model is executed in Lumina’s tool, Analytica, which makes the complex marketing process simple enough for the software company planners to easily estimate costs, volumes and rates.

**Edit Table - Conversion rate to prospects**

Edit Table of Conversion rate to prospects (%)

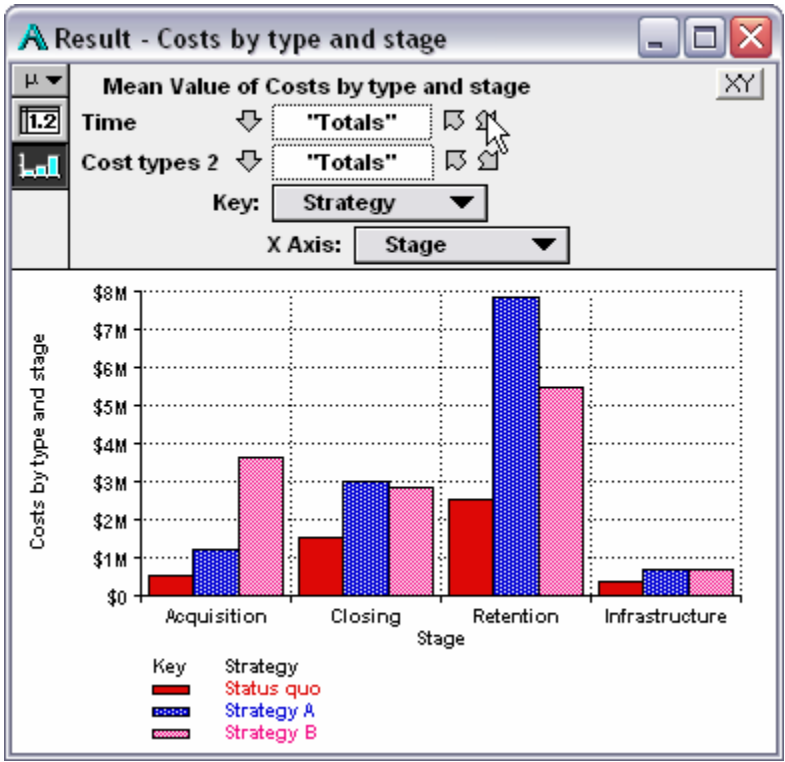
Strategy: Strategy A

Acquisition sources

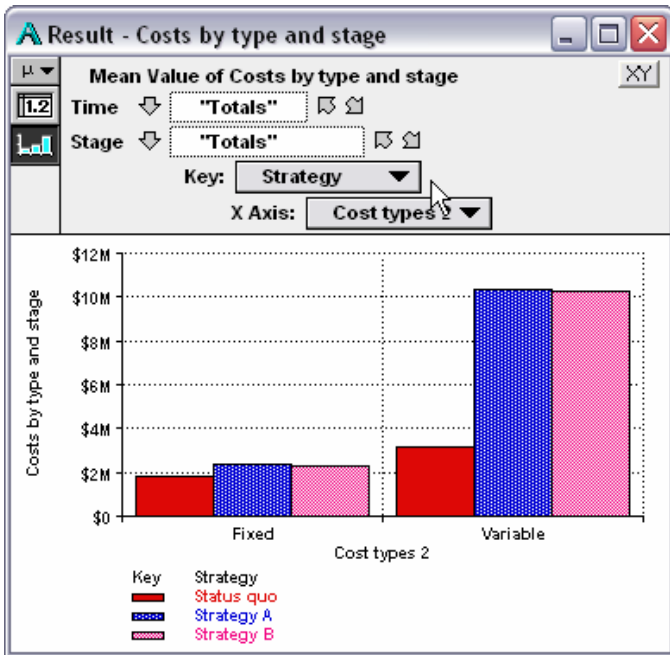
Percentiles

	10%	50%	90%
Web ad	10	15	25
Web traffic	15	25	30
Other nonreferral	20	30	35

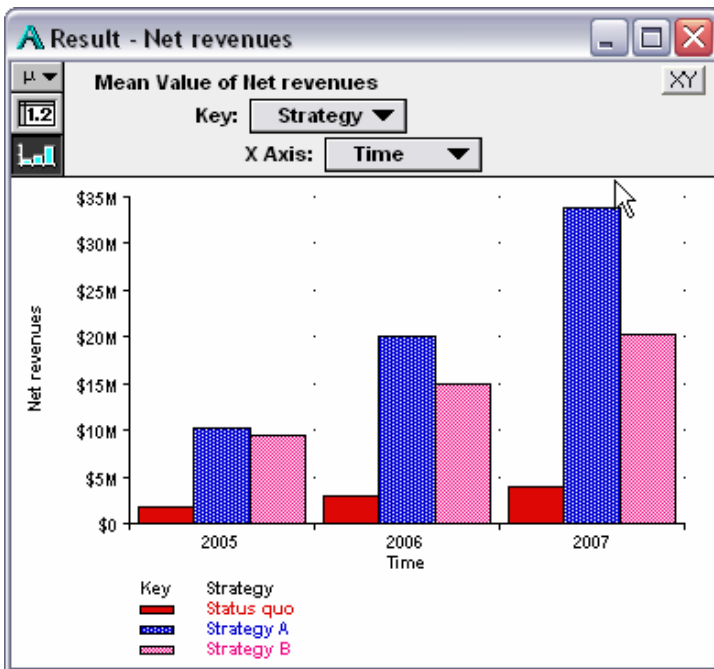
For example, the software company planners estimate conversion rates of suspects--coming in from Web ads, Web traffic and other non-referral sources--to prospects for each strategy. The 50% percentile is similar to point estimates commonly done, but adding in estimates at the 10% and 90% percentiles allow them to express their level of uncertainty in their estimate-- in other words, how low or how high might it be.



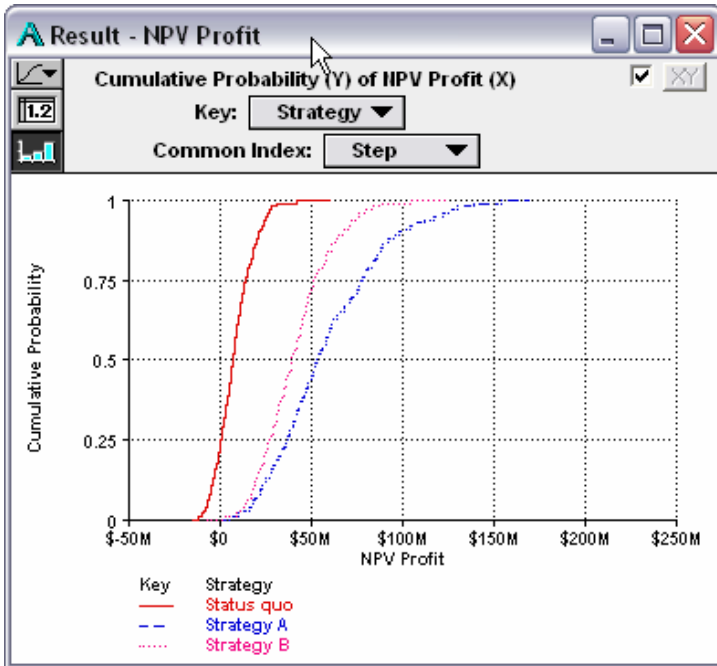
The software company's goal is to increase revenue to be a more attractive candidate for acquisition. They have a limited budget, so they developed two alternative strategies: Strategy A, the middle bar, involved doing more retention to leverage customers for more referrals, and Strategy B, the far right bar, involved spending more on acquisition with traditional direct marketing. They then used the profitability model to find out which strategy is more likely to make money.



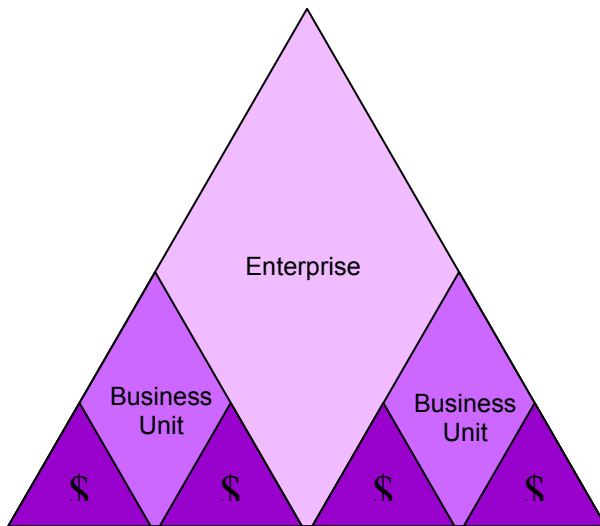
Fixed and variable costs are pretty much the same between Strategy A and Strategy B, by design to give a fair test to the two strategies in the model. But it is the variable cost that could hurt them in execution, given the large share of the budget it represents. They'll know if their forecast is right when data begins to flow from the profitability tracking system upon execution. You can be sure they'll be paying attention and making real-time adjustments as needed. They are expecting to be somewhat surprised. They haven't been able to track variable cost before.



Strategy A, the middle bar, is the clear choice for increasing revenue.



Strategy A is also the clear choice in terms of NPV (net present value) profit and the probability that the profit will be achieved. Analytica's Monte Carlo analysis capability gives a cumulative probability distribution. Strategy A on the far right beats out Status Quo on the far left and Strategy B in the middle at the mid point and at the 100 Percentile.



The same kind of model used for the software company is used by Religence for channel/product group combinations in larger companies for more realistic forecasting and budgeting. In execution the profitability model is fed variable cost data from a profitability tracking system for real-time management. The forecasts and budgets are rolled up into business units and then into the Enterprise to provide a consistent framework for planning. In execution, the results are rolled up in the same way for consistent management of marketing, sales and customer care.

## Religence Answers Critical Profit Questions

*Where is it easiest and most profitable to grow?*

*What is the best way to realize that profit?*

*What's working—measured real-time, over time?*

The first two questions get alignment on where to focus and how to execute strategy, using the profit metrics for planning. The third gets everyone working together, generating the profit metrics for execution. **Results:** Religence clients know where they stand with customers and how value is built—relationship cause and effect. Religence clients are able to execute their plans, manage in real-time and repeat success. Religence clients treat their customers better and they make more money.

### About the presenters:

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*Linda Sharp* CMC is CEO of Religence, a customer-focusing performance management consulting firm. A 30-year marketing veteran who has observed success in marketing with a mathematician's eye, she is the principal developer of the Religence Framework. A marketing innovator and integrator, her firms have been a laboratory for developing a quantitative approach to marketing while building a solid track record with major companies in high tech, IT, manufacturing, transportation, energy, environmental, financial services and professional services. Reach her at [Linda.Sharp@Religence.com](mailto:Linda.Sharp@Religence.com).

With **George Fruehan**, CFO of Religence, numbers talk. Fruehan has spent his 25-year career introducing and extending the use of accounting and operations information from board-level and senior managers to line employees in order to change behavior and increase performance. He pioneered valuing intangibles in decision making in financial and professional services, developing a precursor to activity-based analysis. Reach him at [George.Fruehan@Religence.com](mailto:George.Fruehan@Religence.com).

An expert in handling uncertainty in decision analysis, **Max Henrion**, PhD is Founder and CEO of Lumina Decision Systems. The Religence profitability model is executed in Lumina's tool Analytica, a sophisticated modeling tool with probabilistic simulation integral to its design. "A powerful forecasting and business-model package that does what spreadsheets never could," says Inc. Technology of Analytica. Analytica is used worldwide by major companies to easily build, revise and present business models. Henrion presented Analytica at the Business Intelligence SIG late last year. Reach him at [Henrion@Lumina.com](mailto:Henrion@Lumina.com).

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