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Metrics can Add Value to Marketing Planning and Performance Assessment

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Abstract

This article selects communication metrics, sale metrics and distribution metrics to measure and critically review their suitability and fit with the marketing field. Also consider how each metric can add value to marketing planning and performance assessment.

Keywords

Metrics; Communication; Sale; Distribution.

1. The Importantce of Metrics

According to Farris et al (2006), "A metric is a measuring system that quantifies a trend, dynamic or characteristic" (p.1). This essay focuses on six marketing metric measures fitted with areas of communication, sales and distribution (two measures for each of three areas). The importance of marketing metrics for marketers are obvious today. Farris et al (2006) pointed out that the ability toward quantitative planning and evaluation is an indispensable skill for marketers. This essay is divided into five parts. An introduction is shown firstly. Secondly, two measures—impression and Clickthrough rate that are fitting the area of communication are discussed. Thirdly, two measures—target volume in unit and category development index (CDI) that are suitable for evaluation of sales are described. Fourthly, two measures—numeric distribution and inventory turnover that fit the field of distribution are stated. Finally, conclusion is drawn in the last part.

2. Metrics of Communication

The role of communication in marketing area is crucial because communication is to engage audiences with a view and persuade customers to consume (Fill, 2009). Communication can be measured in several cognitive ways one of metrics is impression although it is frequently used in advertising metrics. Advertising is a quiet important tool in marketing communications. Fill (2009) said that the main function of advertising is to communicate with specific audiences. Therefore, impression can be considered as one measure for marketing planning and performance assessment in the area of communication. The theory of impression is that "the number of times a specific advertisement is delivered to a potential customer" (Farris et al, 2006, p.270). Every company might want to know how many people are actually exposed to their advertisement which refer to reach and they care about how often an individual see their advertisement known as frequency. Impression consider reach and frequency. For example, impression = reach x average frequency (Farris et al, 2006, p.270). The higher the impression is, the more effective of communication with audience is. Let us assume an advertisement is run on channel A reach 50million people and average frequency of 3 per individual, and the advertisement on another channel, channel B reach 60 million people and average frequency of 4 per individual, so which channel is more effective for communication? The answer is channel A = 50 x 3= 150 million, and channel B = 60 x 4 = 240 million. Obviously, through the calculation of impression, channel B is a better platform to display this advertisement because

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channel B has higher opportunity to communicate with audiences. The result of comparing two channel in impression way is a good indicator for a company to choose a best platform to communicate with audience next time. Another measure for communication is one of web metrics—Clickthrough rate. Today, Internet is a new and pervasive tool for communication. Web technology provides a platform for organizations to communicate with customers. With the development of Web 2.0 technologies, brand community occurs and through website of specific brand, customers are offered much more opportunities to share their opinions and communicate with organizations (Cova, 2010). Therefore, web metrics can be considered as effective measures for communication. If marketers can capture the emotion or reaction of customer with the views to a product or an advertisement, it will be an effective communication. According to Farris et al (2006), through the technology of web it is hard to quantify completely the emotional reaction to the site. However, Farris et al (2006) also suggested that "the clickthrough rate measures the proportion of visitors who initiated action with respect to an advertisement" (p.292). Here, clickthrough rate is discussed. Clickthrough rate mentions clickthroughs and impressions. Clickthrough rate = clickthroughs / impressions (Farris et al 2006, p.292). For example, suppose in a website, there are 300,000 clicks and reach 6,000,000 impressions. The clickthrough rate is 300,000 / 6,000,000 = 5%. The higher the clickthrough rate, the better for communication of brands. Clickthrough rate is easy way that may be just through calculation by technological computer monitors to measure communication. However, clickthrough rate is not suitable for every orgainsation, simply because clickthrough rate is more effective for company which spends much more money on online advertisement while some organizations prefer make advertisement in magazine or newspaper.

3. Metrics of Sale

Sale is a crucial part in marketing. Sale metrics help sales managers set the size of their sales forces, evaluate salesperson performance and make plan for sales promotion (Davis, 2013). This part consists of two measures which are target volume in units and category development index (CDI). Firstly, companies do not want to just break even on costs, they want to earn profits. Target volume is about the volume that salesperson need to sale in a company's plan (Farris, 2006). Thus, using target volume in units, we can calculate how many units must be sold in order to generate a particular level of profit. Target volume in units refers to four elements which are fixed costs, profit objective, sales prices and variable costs. The formula of target volume in unit is target volume in units = (fixed costs + profit) / (sales prices – variable costs) (Farris et al, 2006). For example, let us assume a company wants to know how many pens they must sell to reach a monthly profit objective of £100,000. Each pen is £2.5 and variable cost is £0.5, and the fixed costs for pen industry monthly is £80,000, how many pens they must to sell for gaining £100,000 per month? Target volume= (80,000+100,000) / (2.5-0.5) = 90,000 pens per month. After calculation, in order to earn £100,000 per month, this company must sell 90,000 pens a month. Target volume in units help to sales team to set a clear goal and help sales managers to set the size of their sales forces effectively. Now let us move to another sales metric—category development index (CDI) which is an index about the performances of a category sales within a specific market segment compare to the category in entire market (Farris et al, 2010). Therefore, CDI is a metric for quantifying the sales performances of a particular category in a target market. According to Farris et al (2006), CDI help marketers to understand their sales teams' performance of a category within the specific market. CDI considers four factors: category sales to group, households in group, total category sales and total household. The formula of CDI is CDI = (category sales to Group / households in group) / (total category sales / total household) (Farris et al, 2006, p.25). For example, if a company sales 100,000 calculators in city A with 200,000 population. In the general population, calculators

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were sold 0.8 calculator per capital in the UK as a whole, so what is the CDI of calculators in city A? CDI = (100,000 / 200,000) / 0.8 = 0.625. Based on this analysis and compared with 0.8 in the UK as a whole, we might find the sales person in city A perform slightly less well than in the market as whole. Through CDI, marketer also could hypothesize and compare different performances of salesforce of a certain category in different region and compare current performances of salesforce with previous performances based on previous CDI. It is easily to read that salesforce made progress or fell behind. This is a good indicator for managers to reward the sales teams and encourage them to work better.

4. Metrics of Distribution

Distribution is the process of making a product or service available for consumption by consumers through using different means with intermediaries (Kotler et al, 2009). In addition, distribution is viewed as a tool by the marketers for determining how and where customers will purchase and products (Davis, 2013). The distribution measures help marketers to manage stores by their operations (Davis, 2013). Moreover, distribution metrics are to "monitor the effectiveness of an organization in managing the distribution" (Farris et al, 2006, p. 185). In this part, numeric distribution and inventory turnover are described. Numeric distribution is one of the popular measures of distribution (Farris et al, 2006). Numeric distribution helps marketer understand how many physical locations stock a product or brand and it is about the percentage of store that stock a specific brand or product (Farris et al, 2006). Numeric distribution considers number of outlets carrying product and total number of outlets in the market. The formula of numeric distribution is numeric distribution = number of outlets carrying product / total number of outlets in the market (Farris et al, 2006, p. 180). Let us assume that company A sells sofas to furniture stores. There are 30 furniture stores in its areas. Company A want to reach at least 70% distribution coverage, how many furniture stores will it need to negotiate with for inventory? We can rearrange the formula, number of outlets carrying product = numeric distribution x total number of outlets in the market = 70% x 30 = 21 stores. Therefore, in order to generate at least 70% distribution coverage goal, the manager of company A has to negotiate successfully with at least 21 stores for stocking the sofas in its area. The measure of numeric distribution helps marketers handle with stock issues in the process of distribution. A good management of stock is beneficial for distribution operation and decrease the cost. Now let us move to another distribution measure—inventory turnover. "Inventory turnover can be calculated in any level of in the distribution chain" (Farris et al, 2006, p187). "Turnover measures how quickly total inventory is sold and refilled" (Davis, 2013, p.241). Inventory turnover considers annual product revenues and average inventory. The formula of inventory turnover is inventory turnover = annual product revenues / average inventory (Farris et al, 2006, p187). For example, suppose a retailer has £400,000 worth books in inventory January 1, and £600,000 the following December 31. Its sales were £3 million during the year. What is the inventory turns of this retailer? Firstly, the average inventory should be calculated by (£400,000 + £600,000) /2 = £500,000. And then inventory turns = £3,000,000 / £500,000 = 6. Retailer is playing a key role in process of distribution. The higher the inventory turnover, the better for retailers because inventory represents money sitting in a warehouse (Davis, 2013). Therefore, a high inventory turnover is a good sign for distribution. High inventory turnover illustrates more spaces for products to distribute, it is helpful for marketers to manage products in every distribution chain.

5. Conclusion

To conclude, this essay described six metric measures: impression and Clickthrough rate for communication, target volume in unit and category development index (CDI) for sales and

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numeric distribution and inventory turnover for distribution. From the above discussion with the evidences, these six marketing metric measures are helpful to add value to marketing planning and performance assessment in different areas. Through the marketing metric measures, marketers can be easier to find strengths and weaknesses of their performances, and at the same time, metric measures are often can be a good indicator to help marketers to make marketing plans. However, not every measure is perfect. There are some weaknesses in metrics the author pointed out in the essay because there is no one-size-fits-all. Therefore, the metrics should be considered carefully on a 'case by case'.

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