HotDogMarketing

5 Essential Marketing Measurements

Every Operator Should Know

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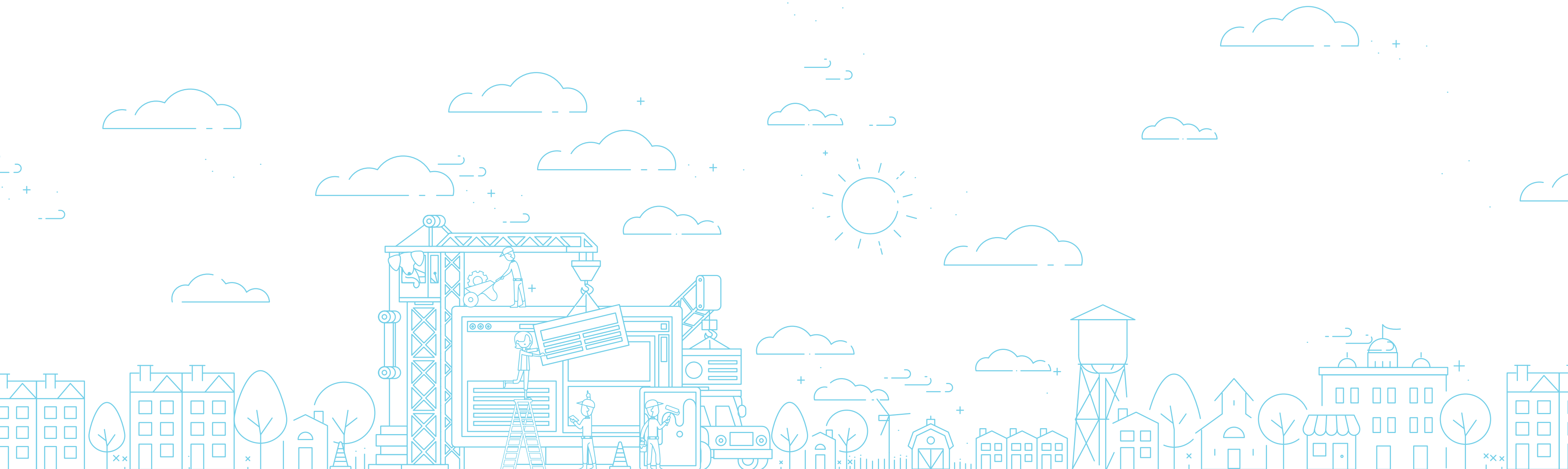
5 ESSENTIAL MARKETING MEASUREMENTS EVERY OPERATOR SHOULD KNOW

Introduction

CEO or COO — whoever you may be in your small-to-medium (SMB) size organization, you've been charged with taking the lead on company growth. With that charge comes a complex puzzle of operations, marketing and sales challenges that all have to come together in order to reach your goal.

Businesses that have reached some level of success but want to push their company into the next phase of growth often struggle with marketing more than any other component. SMBs do not usually employ a large team of marketing experts to run everything from branding campaigns to events to search engine optimization. Even if you do have a small team of marketers, it's difficult as an operator to understand what the expectations for marketing should be along with all the jargon that gets thrown around.

This short e-book is a guide for operations-minded individuals who need to understand how to set clear expectations for marketing teams or agencies while using the right terminology. By understanding these terms and how to they work together, you'll better understand how marketing contributes to the sales and operations pieces of your growth puzzle.



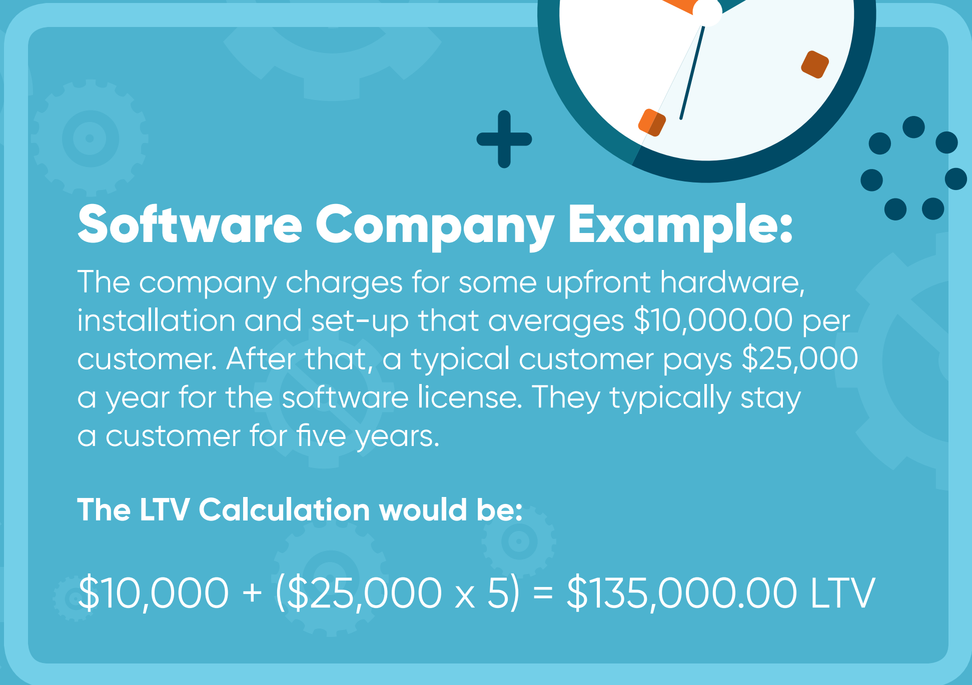
LIFETIME VALUE (LTV)

What is LTV?

The LTV of a customer is how much you expect your average customer to spend in an entire lifetime with your company. One mistake that businesses often make is valuing a customer by the initial purchase revenue amount. In most businesses, customers purchase more than once from the business.

To determine the LTV of a typical customer, review your sales data to find the following metrics:

- Average transaction amount OR
- Initial transaction amount + average recurring transaction amount
- How often they purchase
- How long they stay a customer



Software Company Example:

The company charges for some upfront hardware, installation and set-up that averages $10,000.00 per customer. After that, a typical customer pays $25,000 a year for the software license. They typically stay a customer for five years.

The LTV Calculation would be:

$10,000 + ($25,000 x 5) = $135,000.00 LTV

WHY DO MARKETERS CAREABOUT THIS METRIC?

Marketing has to be treated like investing, which requires long-term thinking. Realistic marketing budgets and decisions made around acquiring new customers should be made with a clear understanding of the average LTV of their customers. This should lead to an understanding of what adding new customers at that average LTV means to the company's potential growth over the next three to five years.

WHY SHOULD OPERATORS CARE ABOUT LTV?

One common business goal is increasing the LTV of the average customer in order to afford scalable marketing and sales for the company. If your customer LTV is too low to see value in investing in marketing, then step one is to look at ways to increase your customer LTV. This can be done by looking at pricing and opportunities for recurring sales, improvement to inbound communication and customer management, and making your company's overall experience better for the customer through service, brand experience and relationship nurturing. Strategy around LTV may also include adding new products and services to your client offering.

CUSTOMER ACQUISITION COST (CAC)

What is CAC?

Companies can measure CAC or Cost of Acquisition with a fairly simple formula: Total Sales and Marketing Budget divided by New Customers. If your sales and marketing budget is $100 each month and you get 50 new customers each month, then your CAC is $2.00.

Within your sales budget, consider all the expenses related to sales: salaries, commissions, CRM licenses, meals and entertainment, and other people related expenses. Within the marketing budget, consider the salaries, agency fees, event marketing, website costs and advertising budget along with the cost of any marketing software subscriptions. Don't measure your CAC monthly if it takes three months for your customer to go from first touchpoint to buying. Review it quarterly or annually if that makes more sense.

As a final step to understanding your CAC, make sure you have a clear understanding of the ratio of sales-to-marketing expenses. Most companies scaling will spend at least twice as much on sales than their marketing. If your CAC is less than 25% marketing, then there's probably a lot of opportunity to explore and strategies you're not taking advantage of.

A major benefit to increasing your marketing within your CAC calculation is, again, the long-term gains. Sales budgets typically need to increase year-over-year if your company is solely reliant on sales teams for growth. If you increase your marketing budget and sustain that budget over time, the cost of acquisition gets lower each year because you gain more customers with the same budget as your brand awareness increases.

WHY DO MARKETERS CARE ABOUT THIS METRIC?

CAC is a tangible way to figure out a realistic sales and marketing budget. Let's take the earlier example of the $2.00 CAC for 50 customers per month. Let's say the company's goal is to get to 100 customers per month. Simply put, the company should spend $200 on sales and marketing. If that company spends less than 25% of that budget on marketing currently, then there's an opportunity to use some of the increased budget towards new marketing programs instead of growing the sales team.

WHY SHOULD OPERATORS CARE ABOUT CAC?

CAC is a metric that investors care about. As an operator, your goal should be to lower CAC over time and increase its predictability. During the first year or two of a new phase of growth, your CAC will likely increase as you create or grow sales teams and begin to invest regularly into marketing. Start tracking your CAC right away so you can watch the number decrease as your sales grow.

Investing in a consistent marketing strategy is important to lowering CAC over a period of time. Brand awareness and brand equity are built slowly but greatly decrease CAC the longer the marketing campaigns run. If you're looking for funding or want to build the value of your business, having a low, repeatable and predictable CAC is very enticing.

MARKETING RETURN ON INVESTMENT (ROI)

Marketing ROI should be measured annually using this formula:
[(LTV of Your Customer/CAC) x New Customers]
x Percentage of Marketing in the CAC = Marketing ROI.

Why LTV instead of initial sales amount? Simply put, your customers are worth a lot more to your business than just their first purchase. To understand Marketing ROI and see its true value to the company, you have to measure it with LTV. If you don't, then you won't be able to create a scalable sales and marketing program for your business. SMBs often suffer from short-term focus because of cash flow constraints, but that should be the reason you decide to formulate your ROI calculations differently than companies at scale. Marketing ROI, in most cases, is best calculated year-over-year.

AN EXAMPLE OF AN ROI CALCULATION MAYBE SOMETHING LIKE THIS:

Software Company Example:
The company charges for some upfront hardware, installation and set-up that averages $10,000.00 per customer. After that, a typical customer pays $25,000 a year for the software license. They typically stay a customer for five years.

The LTV Calculation would be:
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The software company's CAC is $500. 50% of that CAC is the marketing budget. And they received 10 new customers this year from their sales and marketing programs.

The Marketing ROI is calculated like this:
[($135,000/$500) x 10] x 50% = $270.

That means for every dollar spent on marketing, the company earned $270 that will be paid out of the course of the next first years.

Understanding how to calculate Marketing ROI and track it can help you keep your marketing team and agency partners accountable. Innovating with how you market and taking advantage of the latest digital marketing opportunities can help you increase your Marketing ROI without increasing your marketing budget. If your company has relied on expensive events and traditional advertising, shifting that budget to online marketing and automation, for example, may yield better results for the same amount of money. Innovating your marketing program should be a goal for your marketing team and for you.

BRAND EQUITY

What is brand equity? It's best explained through a simple exercise. What are the brands that come to mind when you see this list of needs?

- I need to blow my nose . . .
- I need to make a paper copy . . .
- I need to overnight this package . . .
- I need to catch a ride . . .

When you have a job to do or a problem to fix, our minds only have a few seconds to think of ideas. If your company has brand equity, it'll be a solution that comes top of mind when the job
or problem presents itself to your potential customer.

Did you think of these brands when you read the above list?

- I need to blow my nose . . . **Kleenex**
- I need to make a paper copy . . . **Xerox**
- I need to overnight this package . . . **FedEx**
- I need to catch a ride . . . **Uber**

Brand equity is one of the goals of any marketing strategy. It doesn't happen overnight, but it is one of the primary long-term high-value returns you get from investing in marketing consistently over many years.

Brand equity concerning a single problem or job is extremely valuable. It applies to smaller, more local companies as well. You probably have your go-to-brands locally for different service needs, the best taco, or grocery store.

BRAND EQUITY

Achieving Brand Equity

Achieving brand equity for your unique offering requires a deep understanding of your customer's journey. From the moment they start researching solutions to when they make their purchasing decision, you have an opportunity to market and put your brand in front of them, so when decision time comes, your brand is the only one that comes to mind.

REACH YOUR CUSTOMER WITH CONSUMER-CENTRIC MESSAGING

Remember that growing your brand equity is more about your customer and what they want to hear more than what you want to say about yourself. In many cases, the approach to content, brand messaging, and campaigns are focused incorrectly on what the company thinks they need to say about themselves. Instead, think about what your customer needs to hear at different stages of their journey and adjust your message to address those thoughts.

HIGHLY TARGETED CAMPAIGNS INSTEAD OF MASS MARKETING

Having a very clear idea of the persona you're speaking to with your marketing can help you avoid high-budget ad buys. Larger brands can always outspend you, but you can be smarter about where and how you place your branding and brand message. When developing your persona, think about their lifestyle, their demographic, they're social and emotional needs along with the specific dimension affecting their buyer's journey. This will help you come up with creative targeting and messaging to help get your brand in front of them at the right moment.

COST PER ACQUISITION (CPA)

Not to be confused with CAC, CPA is a term that refers specifically to marketing programs – typically online marketing programs that are driving a calculable goal like: downloads of a digital product, form completions, or site visits from an ad.

CPA costs can be an indicator of your CAC but it is a separate metric specific to campaigns. For example, if you spend $100 in online ads to get people to download your free product, the downloads of the free item are the variable in calculated CPA equation. When customers start purchasing from you, then you use the sales to calculate CAC.

Your CPA formula is this: Dollars Spent on a Specific Campaign/Number of Conversions Completed = CPA

Common Conversions to Consider Measuring and Tracking:

- Email List Sign-Ups
- Forms Completed Requesting an Appointment
- Chats Instigated on Your Website
- Downloads of a Free Product

COST PER ACQUISITION (CPA)

Why do marketers care about this metric?

Marketers should be looking to optimize campaigns to lower the CPA over time. Some ways marketers work to lower the CPA of a campaign include:

- running A/B campaigns to compare outcomes of two different ideas
- optimizing content on landing pages and in ads
- creating better ancillary content to support the customer's journey to purchase
- shifting budget away from low performing ads or platforms
- narrowing the audience profile as they learn more about who's more likely to convert

In order to provide operators the information they need to make decisions about budget, marketers should run a few campaigns at different levels of the content marketing funnel to see which ones yielded the best CPA.

For example, Top of the Funnel or (TOFU) marketing which includes content downloads and blog promotion should include a few different ideas during the measurement period to compare CPAs. For example, the marketing team could test promoting e-books versus advertising blog content to see which one leads to more email collection at the lowest cost.

Why should operators care about CPA?

Marketing teams and operators should work together with sales teams and customer service teams, if necessary, to calculate the CPA of their campaigns throughout the year. Diversity in your marketing strategy is important the first few years of online marketing. Running different campaigns with different intended outcomes allows you to see which campaigns had the most success. A successful campaign has conversions at a comfortable and sustainable CPA.

If you understand what your CAC should be, and you goal is to lower your CAC over time, ensuring the marketing team is working to decrease CPA of your campaigns through content generation and optimization is important. Also, understanding the CPA of your company's campaigns can give you the confidence you need to spend more on campaigns that are working and shut down the ideas that don't yield results.

CONCLUSION

CREATING A MARKETING PROGRAM DOESN'T HAPPEN OVERNIGHT.

Most often, the first step is understanding what your SMB can afford to get started with a consistent and scalable marketing program. For many businesses, that number falls between 7-15% of their annual revenue. Once a program is in place, you can begin to measure these key metrics so you can operate the business with confidence knowing it will grow with wise investments.