Chapter Summaries

# Chapter 13 – Strategy and metrics

## Introduction

An essential component of control and implementation is to have the appropriate measures to be able to gauge the position properly. The reality is that many organizations have a lot of unstructured and untapped data that might be valuable in reshaping markets and the management of marketing activities. This chapter examines the overall nature of metrics and links to developing a competitive advantage and then the focus of the chapter shifts to the key kinds of metrics and then assess specific ways to apply them. After this, the nature of big data is reviewed.

## Metrics and competitive advantage

It has been found that the use of marketing metrics by managers is positively associated with marketing performance. Market metrics refers to performance measures related to the allocation of marketing resources such as awareness, satisfaction, and market share. Metrics underscore the ability to control marketing activities by setting specific measurement goals and helping organizations to understand their sources of competitive advantage by highlighting what is and what is not working amongst their marketing activities.

According to Day and Wensley (1988), there are only two sources of competitive advantage for a firm: it either has superior skills, or superior resources, and, hopefully, both. ‘Superior skills’ is an all-embracing phrase for greater resources to human talent, know-how, abilities, or competences. ‘Superior resources’ implies greater stocks of financial and other capital, better productive capacity, better location, access to supply, and the like. These sources of competitive advantage are used to achieve one of two positional advantages or ways of competing. Two generic competitive strategies can be identified: the position of low relative cost or superior customer value (Porter, 1985). Supposedly, the low-cost competitor can produce and deliver the product or service at the lowest cost, with the advantages of margin and pricing flexibility that this confers. For those competitors who are unable to achieve the low-cost position, the only other course of action is to offer superior customer value. Porter (1985) implied that the two strategies are mutually exclusive and that to attempt to be a low-cost differentiator is to court the disaster of being stuck in the middle—increased costs without real differentiation. While that might have been true before, developments in recent years—such as flexible manufacturing technologies—have made these choices less clear-cut.

## Metrics and financial measures

Performance will manifest itself in financial productivity, measured by return on investment (ROI)—or for that matter, several financial acronyms. Indeed, the development of a marketing strategy would not be complete without an overview of the business’s finances. It is important to note at the outset that the analysis is always sterile without comparative data (see, for example, Rosenzweig, 2007). Moreover, the financial analysis will prompt questions about the business rather than give answers. Wherever possible, comparisons should be made with other companies in the sector to gauge ‘best in class’, and, amongst other things, to ask:

• What do we need to do to improve our position?

• How can we maintain our current position in the face of strong competition?

## Metrics and customer equity

While the satisfaction/loyalty and market share/profitability set of outcomes in the Day and Wensley model have their own particular strengths, each set also has its limitations. The hard outcomes of market share and profitability are historical, whereas the outcomes of customer satisfaction and loyalty are future-orientated, but soft (a number that cannot be easily calculated, compared, and tracked or expressed financially). The ideal marketing control variable would be an outcome that is both hard and soft as well as arguably future- and customer-orientated. Customer lifetime value (CLV), which in turn leads to customer equity, is arguably that single appropriate outcome. Traditional accounting systems have viewed customers as sources of revenue. Increasingly, firms are beginning to use their accounting systems to view customers as assets, especially if they have access to Web analytics and are basing their decisions on customers much as they would base their decisions on investments.

Potentially, customer equity could be the ultimate marketing control measure: every marketing decision would be evaluated by whether it increased customer equity. For example, when thinking about customer acquisition and retention, the decision should be based on where the next marketing pound (or euro, dollar, or yen, or whatever) would be better spent, on getting new customers or keeping the existing ones. The answer: whichever one of the two strategies has the greatest effect on customer equity. Some companies have used customer equity analyses as the basis to decisions either to migrate their customers to a new provider, normally a partner, but who may also be a competitor, or to terminate the relationship with the customer altogether (Bolton, Lemon, and Verhoef, 2004; Mittal et al., 2008). This is normally because the company no longer views the customer as profitable (e.g., insuring a home in a flood zone).

Rather than merely allocate marketing and advertising budgets according to such variables as media selection and spend, or territories, or even customer markets, in the future managers may wish to consciously split the budget between customer acquisition and customer retention activities. Customer equity becomes the basis upon which this decision can be made. Firms may even wish to consider organizing themselves along the lines of acquisition and retention, and to evaluate the performance of these divisions on their ability to contribute towards customer equity (Blattberg and Deighton, 1996).

## Metrics and analytics

Marketing implementation and control relies heavily on data, and this means you must be clear about what you are trying to achieve and how you want to measure and track campaign performances. To do this, you must first understand your organization’s business and campaign objectives, your audience (customer segments and personas), and your organizational constraints (budgets, appetite for change, speed of decision making, etc...).

Marketing analytics is the umbrella term that refers to the collection, management, and analysis of data to obtain insights into marketing performance, maximize the effectiveness of instruments of marketing control, and optimize firms’ return on investment. Analytics supports marketing managers in achieving their objectives through data reporting and visualizations, trend analysis, predictive modelling, and the optimization of business processes (Delen and Demirkan, 2013). Marketing analytics can be grouped into four categories: descriptive, diagnostic, predictive, and prescriptive analytics (Wedel and Kannan, 2016). This categorization is based on the key questions the analytics addresses, the data processing, analysis, and reporting techniques used, and the expected outcomes (Khan, 2018). However, before getting into these in more detail, let’s start by considering customer personas.

## Customer personas

From a strategic perspective, the starting point in using analytics is customer personas. Customer personas are characters based upon target demographic and/or psychographic groups (see chapter 4 for more detail on demographic and psychographic groups). Personas are assigned the characteristics of members of the user group they represent to help identify each group. When developing personas for digital marketing campaigns, marketing managers must consider how the target audience that the person represents use digital and social media and what key touchpoints might lead to a successful customer journey.

## Analytics

***Descriptive analytics*** techniques answer the question “what is happening (or what happened)?” and aim to explore, summarize, and visualize data. For example, Facebook business users and advertisers can use the Facebook Insights dashboard to monitor audience interaction with Facebook pages and ads. ***Diagnostic analytics*** attempt to address the “why” question (“Why did something happen?”) and involve the use of inferential statistics, behavioural analytics, and retrospective analysis to identify cause-and-effect relationships behind a specific business issue. ***Predictive analytics*** are primarily concerned with the use of data to predict future events in a way the informs marketing decision-making. As such, predictive analytics attempt to answer questions such as “what will happen next?” and “why will it happen?”. ***Prescriptive analytics*** attempt to answer questions such as “what should one do?” and “why should one do it?” and to provide recommendations on how to handle different scenarios. For example, the on-demand platform Netflix collects data of viewing habits of its users to recommend TV series and movies that closely match viewers’ preferences.

## Touchpoints

A touchpoint describes the point of interaction between the organization and the customer’s route through to a purchase. One question on your mind might be, which one of the different touchpoints that a customer encounters during the purchasing journey is most important? Digital marketers develop what are known as “attribution models” to judge the contribution of various touchpoints (note that it is a judgement rather than a science). Attribution models take a hypothetical 100% and allocate it across touchpoints to identify the key stage or stages in the customer’s route to a purchase. For example, a “First Interaction” attribution model would give 100% to being exposed to the influencer post in the sequence of touchpoints outlined previously.

## Big data

As the number of touchpoints increases and purchasing journeys become more sophisticated, marketing managers need to identify and implement new strategies, policies, and tools to make sense of a wide range of “big data” that emerge from the numerous customer-touchpoint interactions (Sivarajah et al., 2017). The term big data refers to complex sets of structured (e.g., sales results) and unstructured (e.g., customer review comments) data that are generally too large to be analysed with traditional techniques (McAfee and Brynjolfsson, 2012). Big data possesses four key characteristics (Wedel and Kannan,2016), namely, volume, velocity, variety, and veracity.

To capture marketing performance data comprehensively, organizations need to invest in tools for **tagging and tracking**. Tools such as Google Tag Manager allow marketers to build up goal and event tracking more effectively across websites and using third-party tracking data. Tags are scraps of code that are added to a site to collect information and send it to third parties. You can use tags for all sorts of purposes, including to measure scroll depth of the page and they can be on any pages you like. Scroll tracking is like heat mapping (a graphical representation using colours of data generated) and shows how far down the page visitors are. It is also possible to track how many visitors arrive at your website, which pages they visit, and how close visitors get to a target conversion (e.g., purchasing a product).

# Conclusion

Marketing metrics are performance measures related to the allocation of marketing resources such as awareness, satisfaction, and market share. The two main sources of competitive advantage are superior skills and superior resources. These potential advantages can help organizations position or low relative cost or superior value, or sometimes a combination of both. To manage these positions, organizations need to measure performance outcomes in a reliable manner. The application of marketing metrics by organizations is vital to identify and understand strategy based upon competitive advantage. Financial measures can tell us about short-term and long-term profitability; they can tell us about cash flows and the value of the business. Whereas marketing metrics can provide us with evidence linking such hard evidence with data on consumer behaviour—and linking these metrics to choosing the right course for marketing strategy.