Week 10 Marketing Metrics

customer considerations: satisfaction, complaints, profitability, retention, and loyalty

- Satisfaction: it is an affective state or feeling reaction in which the consumer's expectations have been met or exceeded
  - Expectation: experience from previous purchases; other customers' experiences; firm strategies (price, ad, market share and reputation); media reports
- Complaints
- Profitability (customer profitability analysis; CLV)
- Retention (reduce defections [define and measure, determine causes, compare CLV to costs], manage customer base, retention dynamics)
- Loyalty (deeply held commitment to rebuy or re-patronise a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviour)

Well-defined metrics are critical to effective marketing.

Five best known marketing metrics

- Market share (based on dollars spent or units sold)
  - Two ways managers used market share
    - As an ultimate objective; or
      - Hard to justify: If the aim is to maximise the returns to shareholders, increased market share offers no benefit unless it eventually generates profits.
    - As an intermediate measure of success
      - A leading indicator of future success
      - Helping increase future profits

      Relationships between market share and profitability?
      - Markets with economies of scale – reducing their cost per unit by selling more, thus increasing overall profits.
      - Economies of scale don't automatically apply to all markets: consulting not get substantially cheaper per hour to provide at higher volumes.

      Relationship between market share and volume sold is not identical
      - When the overall market size shrinks, market share can remain stable or even rise as volume falls.
  - Market share can be a proxy for power
    - Having a bigger market share can encourage others to treat your company more favourably
  - Figuring out who your competitors are in a given market can be a judgment call
    - A company's market share in a given category depends on how the company defines the market: to increase market share, it can redefine the market to exclude a competitor.
  - Can drive companies to initiate unprofitable attacks on competitors (price-wars: having devastating effects on profits)
  - Un-muddling market share
    - Not using market share as either an ultimate objective or as a proxy for absolute size
    - Considering the perspective of other business (will they behave more favourably toward your company if your market share increases? For customers, if you cannot explain in simple terms how the consumer will benefit from industry consolidation, your product is not a network good, and increased market share won't matter to consumer)
    - Analysing whether market share drives profitability in your industry
      - *not necessarily mean that increasing market share will increase profits
- Net promoter score
  - Communications, banking, and car rental --- to monitor their customer service operations

- Simple question: how likely is it that you would recommend X to a friend or colleague? (on a scale from 0 to 10)
  - Customers who answer 9 or 10 are considered promoters;
  - 6 or less are rated as detractors
  - the score is the percentage of promoters minus the percentage of detractors
- simplicity (easy for managers and employees to understand the goal of having more promoters and fewer detractors)
- increase the net promoter score may destroy even top-line growth
  - in product categories where the demand is relatively inelastic, slashing prices will likely increase the net promoter score because customers will be happier and recommend the company. But REVENUE WILL DECLINE.
- Classification system: the boundaries between scores of 6 and 7, and 8 and 9 seem somewhat arbitrary and culturally specific.
- Un-muddling NPS
  - Fight the temptation to let it become just a score

- The value of a 'like'
  - Popular on social media
  - Calculated by determining the average value of customers who are fans on social media (in other words, the value of a customer who publicly endorses your company); then subtract the average value of customers who are not fans on social media (not publicly endorses your company)
  - Measuring the simple difference in value between two groups of customers: fans on social media vs non-fans
  - Problem: social media strategy shouldn't be seen as the driver of value difference between fans and nonfans is because customers who are social media fans will differ from nonfans for reasons unrelated to the company's social media strategy
    - The difficulty: **attributing causation** (social media spending not really causes the difference) → the difference in value b/w a customer who is a fan and a customer who isn't a fan shouldn't be used as a benchmark for marketing spending on social media campaigns
  - Problem: value must be clearly defined in order to calculate the value of a "like". It's wrong to use "average sale price" to measure value since revenue ignores costs → overstate customer value
  - Un-muddling the value of a 'like'
    - Manager shouldn't automatically assume that differences in value b/w two groups of customers were caused by social media mkt activity.
    - If there are differences, should investigate whether they existed prior to the social media mkt effort.
    - Running randomised experiments to understand the impact of the actions
- Customer lifetime value
  - PV of CF from a customer relationship
  - Helping managers make decisions regarding investments in customer relationships.
    - Using CLV to decide whether to spend mkt dollars to acquire new customers or to increase the retention rate of existing customers.
  - Difficult to calculate (relying on the ability to predict future customer retention rates)
  - Easy to understand if marketers don't subtract the acquisition cost from their calculation where acquisition costs are a major item in mkt budgets
    - Acquisition costs are sunk and should be ignored when making forward-looking decision
  - Un-muddling CLV
    - Not subtract customer acq'n cost when valuing customers for forward-looking decisions
    - When assessing whether certain potential customers are worth acquiring, estimate CLV and compare this to the estimated acq'n cost per customer (greater the positive

difference b/w the targeted customer's CLV and that customer's acq'n cost, the more attractive the acq'n campaign

- ROI
    - Allowing for the comparison of disparate investments.
    - A critical requirement: knowing the net profit generated by a specified investment decision.
        - Estimate the fraction of profits attributable to the investment
        - What the profit would be if the investment had not been made – it can be difficult to calculate the incremental profit.
    - Can be manipulated by cherry-picking the best projects
        - In order to maximise ROI, you would invest only in the project with the highest return, even though maximizing net profit would require doing multiple projects.
    - The biggest challenge with ROI isn't a technical deficiency but confusion over how it is used.
    - Un-muddling ROI
        - Facilitating communication with non-marketing colleagues.
        - Dividing incremental profits by the investment to calculate ROI

Connecting with customer

- Total customer satisfaction
    - Satisfaction is a person's feelings of pleasure or disappointment that result from comparing a product's perceived performance (or outcome) to expectations.
    - Dissatisfied --- Satisfied --- Delighted
    - Not the ultimate goal
        - Increasing customer satisfaction by lowering price or increasing services may result in lower profits.
        - Spending more to increase customer satisfaction might divert funds from increasing the satisfaction of other 'partners'
    - How do buyers form their expectations?
        - Past buying experience, friends' and associates' advice, and marketers' and competitors' information and promises.
- Monitor satisfaction
    - A highly satisfied customer generally stays loyal longer, buys more as the coy introduces new and upgraded products, talks favourably to others about the coy and its products, pays less attention to competing brands and is less sensitive to price, offers product or services ideas to the coy, and costs less to serve than new customers.
        - Greater customer satisfaction: higher returns and lower risk in the stock market
    - Measurement techniques
        - Periodic surveys
        - Monitor competitors' performance
            - customer loss rate (contact those to find out why)
            - Hire mystery shoppers to pose as potential buyers and report on strong and weak points experienced in buying the company's and competitors' products
    - Influence of customer satisfaction
        - High customer satisfaction ratings make sure their target market knows it.
    - Customer complaints
        - Problems: while customers are dissatisfied with their purchases about 25% of the time, only about 5% complain. Others just stop buying.
        - Ways to recover customer goodwill: 24/7 hotline; contact the complaining customer ASAP; accept responsibility for the customer's disappointment…
- Product and service quality
    - Satisfaction will also depend on product and service quality
    - Impact of quality
        - High level of quality → high levels of customer satisfaction → support higher price and lower costs (increase profitability)