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6 Real Marketing Metrics That Affect the Bottom Line

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Introduction

Marketing can get a bad rap – it's easy to get wrapped up in a laundry list of metrics that we work tirelessly to improve...

- Website visits
- Conversion rates
- Leads per channel
- Social media engagement
- Blog post shares
- Links generated
- Email click through rates
- Keyword rankings
- Downloads
- And on, and on

All of these things are important. They need to be tracked and measured, tested and improved. But ultimately, the bottom line is what we should care about. **According to research, 73% of executives don't believe that marketers are focused enough on results to truly influence the bottom line.**

Marketers will know that all those metrics above contribute to the six key numbers covered in this ebook. But having visibility of the key metrics will not only demonstrate the true impact of marketing, it will help focus the mind on what really matters.

These key metrics are important for business owners and directors, but they're also hugely relevant to marketing managers and their teams. The more visibility everyone has, the more targeted your business activities will be.

So, let's dig into those big numbers...

1. Customer Acquisition Cost

What is it? The Customer Acquisition Cost (CAC) is the total average cost your company spends to acquire a new customer.

How to Calculate It: Take your total sales and marketing spend for a specific time period and divide by the number of new customers for that time period.

Formula: Sales and Marketing cost ÷ Number of new customers

Let's say…
We spent £30,000 on sales &marketing this quarter
We acquired 60 new customers
£30,000 ÷ 15 = £2,000

Why it Matters: CAC illustrates how much your company is spending per new customer acquired. You want a low average CAC.

If you know it costs £2000 to acquire a customer, you can work out whether or not your sales and marketing activities are profitable, and by how much.

After all, if you sell services worth £200,000, that £2k CAC is a drop in the bucket. But if your purchase price is £1,500, you're losing money on every customer.

2. Customer Lifetime Value

What is it? Customer Lifetime Value (LTV) is the monetary value of a customer over the course of their engagement with your business. This isn't strictly a marketing metric, but it's important for working out the next metric, and it should be a number your business knows...

How to Calculate It: To calculate customer lifetime value you calculate average purchase value, and then multiply that number by the average purchase frequency rate to determine customer value. Then, once you calculate average customer lifespan, you can multiply that by customer value to determine customer lifetime value.

Let's say...
Your average purchase value is £200
The frequency rate is 12 transactions per year
Multiply to get...
Customer value: £2,400 p.a.

Your customers stay with you for 5 years
Multiply to get:
Lifetime customer value: £12,000

3. Ratio of Customer Lifetime Value to CAC (LTV:CAC)

What is it? The Ratio of Customer Lifetime Value to CAC is a way to estimate the total value that your company derives from each customer compared with what you spend to acquire that new customer.

How to Calculate It: To calculate the LTV:CAC you'll need to compute the Lifetime Value, the CAC and find the ratio of the two.

Formula: LTV:CAC

Let's say...
Our LTV is £12,000
Our CAC is £2,000
LTV:CAC = £12,000:£2,000 = 6:1

Why It Matters: The higher the LTV:CAC, the more ROI your sales and marketing team is delivering to your bottom line. However, you don't want this ratio to be too high, as you should always be investing in reaching new customers. Spending more on sales and marketing will reduce your LTV:CAC ratio, but could help speed up your total company growth.

4. Time to CAC Pay Back

What is it? The Time to Payback CAC shows you the number of months it takes for your company to earn back the CAC you spent acquiring new customers.

How to Calculate It: You calculate the Time to Payback CAC by taking your CAC and dividing by your margin-adjusted revenue per month for your average new customer. (margin adjusted revenue = How much your customers pay on average per month)

Formula: CAC ÷ Margin-Adjusted Revenue = Time to Payback CAC

Let's say...
Your CAC is £2,000
Your customers spend £200 per month
Time to Payback = £2,000 ÷ £200 = 10 months

Why It Matters: In industries where your customers pay a monthly or annual fee, you normally want your Payback Time to be under 12 months. The less time it takes to payback your CAC, the sooner you can start making money off of your new customers. Generally, most businesses aim to make each new customer profitable in less than a year.

5. Marketing Originated Customer %

What is it? The Marketing Originated Customer % is a ratio that shows which portion of your total customer acquisitions directly originated from marketing efforts.

How to Calculate It: Take all of the new customers from a period, and tease out what percentage of them started with a lead generated by your marketing team.

Formula: New customers started as a marketing lead ÷ New customers in a month = Marketing Originated Customer %

Let's say...
You had 20 new customers this month
10 of them started as a marketing lead
Marketing Originated % = 10 ÷ 20 = 50%

Why It Matters: This metric illustrates the impact that your marketing team's lead generation efforts have on acquiring new customers. The right ratio will depend on your business structure - a company with an outside sales team and inside sales support may be looking at 20-40% Marketing Originated Customer %, whereas a company with an inside sales team and lead focused marketing team might be at 40-80%.

6. Marketing Influenced Customer %

What is it? The Marketing Influenced Customer % takes into account all of the new customers that marketing interacted with while they were leads, anytime during the sales process.

How to Calculate It: To determine overall influence, take all of the new customers your company accrued in a given period, and find out what % of them had any interaction with marketing while they were a lead.

Formula: Total new customers that interacted with marketing ÷ Total new customers = Marketing Influenced Customer %

Let's say...
You had 500 new customers this month
400 of them interacted with marketing
Marketing Influenced % = 300 ÷ 500 = 80%

Why It Matters: This metric takes into account the impact marketing has on a lead during their entire buying lifecycle. It can indicate how effective marketing is at generating new leads, nurturing existing ones, and helping sales close the deal. It gives your CEO or CFO a big-picture look into the overall impact that marketing has on the entire sales process.

Putting it all Together

First, let's look at our dummy customer...

Customer Acquisition Cost: £2,000
Lifetime Customer Value: £12,000
Ratio of Customer LTV to CAC: 6:1
Time to CAC Payback: 10 months

From these figures, we can see that it costs us an average of £2,000 to get a new customer, and that it takes 10 months to make that money back. But, overall, as our customers stay for 5 years, the lifetime value is 6 times higher than the cost of acquiring that customer in the first place.

If we know that investing £2,000 in marketing brings us 6 times as much back, we're in an easy position to start investing more.

How do we know that investing in marketing, rather than other activities, will be the answer? Well, that's where our other statistics come in.

Marketing Originated Customer % = 50%
Marketing Influenced Customer % = 80%

We can see that Marketing directly delivered half our new customers, and was involved in some way with 80% of all new customers.

In conclusion

Marketers track so many different data points to better understand what's working and what's not, that it can become easy to lose sight of what's most important.

And while it's still crucial to track all of those smaller, fluffier, or less tangible metrics, when it comes to reporting on marketing effectiveness, it's imperative that the stats we use are ones the C-suite can get excited about.

Rather than talking about per-post Facebook engagement and other "softer" metrics, use the six metrics in this book to report on how your business' marketing program led to new customers, lower customer acquisition costs, or higher customer lifetime values.

When you can present marketing metrics that genuinely influence the finances of the business, you can start to make a case for increasing investment in the activities that contribute to the highest gains.

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