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OLASIUK H.
PhD of economics, assistant professor, "KROK" University,
O.P. Jindal Global University

IDENTIFYING BETTER MARKETING EFFICIENCY METRICS

Performance management has received great recognition among managers as it found to be a convenient way to assess departmental achievements. Since marketing is a cost-generating center, the marketing departments incredibly often face budget allocation problems. Marketers are expected to prove their efficiency by delivering measurable results that may be easily interpreted by all company stakeholders.

The idea behind any efficiency indicator is to represent the ratio of logically arranged outputs to inputs. Marketers consider marketing costs as crucial inputs that leverage marketing efficiency in both upstream and downstream directions. According to the CMO Survey conducted by Deloitte, the marketing budget has a very industry-specific representation and varies from 8% in the energy sector to 24% in the consumer-packaged goods industry. The study also revealed important characteristics of marketing costs: firstly, there is a positive correlation between revenue and marketing costs and secondly, marketing costs contribute to revenue growth once they reach a certain level of 14.7% of sales (Moorman & Finch, 2016).

A broad spectrum of metrics can be tapped into absolute, relative and normative indicators, that aim to reflect main functions, processes, operations, and resources pertaining to particularly any type of organization (Goncharuk, 2014).

In a seminal paper of Bruce H. Clark (2001) mentioned that marketers give preferences to effectiveness indicators rather than efficiency ones. Notoriously, scholars tend to focus on subjective performance indicators and give more credits to financial metrics in their studies (Pont, 2003). In an attempt to short-list the most valuable performance indicators from a practical perspective (Grønholdt & Martensen, 2006) have suggested 38 absolute and relative parameters grouped in 4 blocks: attitudinal and behavioral consumer reactions, market and financial results.

Another methodological issue in many research papers is a focus on marketing inputs rather than outputs (Jagdish & Arun, 2001). However, a pool of research papers examines the effects of marketing output on financial results. Here market share, customer satisfaction, and retail productivity are taken as predictors of profitability (Zeithaml, 2000). Another study experimented with the effects of long-lasting customer relationships on financial returns (Moorman C. Z., 1992), (Grayson, 1999). Another set of possible nonfinancial metrics includes market share, perceived quality, customer loyalty/retention, customer/segment profitability, relative price and customer lifetime value (Barwise & Farley, 2004).

Various techniques have been designed to overcome the methodological problem of finding easy-to-measure marketing outputs. Sheth and Sharma in their paper put forward an idea to classify markets and respective types of marketing

activities/expenses that best fit the needs of the target audience and lead to better financial performance (Jagdish & Arun, 2001).

From the beginning of the 1970s productivity approach in marketing become a popular method to measure marketing performance. Till late 1990th accounting and financial goals had dominated over marketing function at the enterprise. Predominantly, marketing productivity was able to trace down only distribution expenditures. A measure of output (sales volume) to a unit of input (advertising expenditures or sales efforts) for various marketing programs within a firm to prioritize resource allocation was rooted more in accounting rather in marketing (Bonoma & Clark, 1988). Return on Marketing Investments is an index measuring the ratio of net profit or revenue to marketing expenses (Sridhar, 2004). ROMI is beneficial in terms of planning and communicating marketing activities, prioritizing projects, executing and measuring the results (Powell, 2002). Despite its dramatic popularity among scholars and practitioners due to its transparency and usability, critics emphasize that it boosts underspending, marketing staff remuneration is based on short-term results (Ambler, 2003) (Kumar & Petersen, 2004). Soaring marketing expenditures constantly plunge marketing productivity indicators thus compromise it as an adequate measure of marketing success. Thus, it can be used very carefully in limited circumstances and with a combination of other metrics.

Conversely, sales, general and administrative costs-to-sales ratio (Foster & Gupta, 1994) represent practically the same idea, although suggest swapping numerator and denominator though captures a broader category of costs. In this sense, they carry out different roles in productivity assessment. While ROMI is a proxy for separate products or projects, SGAC&S is applicable only for departmental effectiveness assessment. Another difference is that ROMI is well suited for B2B marketing activities, SGAC&S is suitable for any type of market and customers. From productivity perspective marketing expenses need to be treated as investments that are subject to depreciation, especially in case of distribution channels and brand equity development (Jagdish & Rajendra, 2002). Another application of SGAC was found as an accounting-based variable to measure a relation capital – investments in building relationships with company customers and all external stakeholders.

With the invention of Data envelopment analysis companies could balance productivity across various departments to achieve synergy and higher performance. A new avenue to quantify marketing performance here is based on “chain of effects”, that investigates the effects of marketing activities on customer’s psychographic attributes, like attitudes, behaviour, intention, and satisfaction. A formative paper in this realm written by Bruce Clark describes the evolution of approaches toward measuring marketing efficiency starting from productivity and chain effect (Clarck, 2007).

Opponents of the idea of linking marketing and financial indicators contest the ability to segregate marketing contribution to company value (Hanssens, Rust, & Srivastava, 2009).

Most of the marketing indicators are subjects to marketing research and the majority of data can only be obtained through questionnaire dissemination, some of them from corporate customer databases and CRM systems, and only a few – from

financial statements. It is of strategic importance to keep track of competitors' performance indicators in terms of their weak and strong inputs and outputs available. A lot of studies suggest benchmarking as a good tool to monitor marketing productivity and performance on industry level (Goncharuk, 2009), (Chen, 2005), (Donthu, Hershberger, & Osmonbekov, 2005).

Further improvements in marketing indicators are crucial for business success. To achieve this scholars and marketers need to work on customer relationship management indicators, technology recruitment in assessing and delivering results (Good & Schultz, 2004). Some other layers of insights for studies are understanding relationships that lie in the differences in performance indicators, the ability to predict the scope and effects of various parameters in the course of time or under the influence of adverse/positive factors (Rust et al., 2004).

Overall, the number of performance indicators to measure marketing efficiency might be overwhelming for any firm. Some recommendation can be given on how to set the proper amount of information: firstly, costs of acquiring and analysing information should be less than benefits; secondly, competition on a particular market or in a product group is decisive whether additional information will change the situation radically; thirdly, time required for gathering data and making a decision is reasonable and will not lead to lost opportunities. Since many firms in developing countries do not list their shares on a stock market openly, some indicators are not feasible to measure. Next point is that all indicators should be easily collected and examines for the purposes of benchmarking research. All these suggestions bring us the idea of scrutiny of the optimal number of parameters to identify.

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