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The 6 Marketing Metrics Your CEO Actually Cares About [Cheat Sheet]

Posted by Mike Volpe
Tue, Jan 15, 2013 @ 08:00 AM

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ADVANCED

Gone are the days of the CMO who is not fluent in metrics, analytics and spreadsheets. The internet has made marketing far more measurable (and therefore more accountable to the CEO and CFO) than ever before. Yet I still frequently hear from my CMO peers that they are struggling to find the right metrics that will get them credibility with the CEO and CFO, and show the real contribution of marketing to the bottom line.

I think the best marketing metrics look at the total cost of marketing, including program spend, salaries of the team, and overhead, and relate that cost to the results you care about -- revenue and customer acquisition. Other metrics like cost per lead, cost per follower, or cost per page view can be useful to look at within a marketing team, because they can help you make decisions about where to focus and what parts of your marketing process are broken; but most CEOs really just care about the cost and the net results, not the interim steps. This list of metrics is meant to focus on the most critical measures of marketing that your CEO will likely want to discuss with you.

Here are some metrics I've found useful over the past 5 years at HubSpot while growing our company, working with our CEO and CFO, and talking with our board members. I don't have all the answers -- so please add your favorite metrics and thoughts on these metrics in the comments.

The 6 Marketing Metrics Your CEO Wants to See

1) Customer Acquisition Cost (CAC)

This is your total Sales and Marketing cost -- add up all the program or advertising spend, plus salaries, plus commissions and bonuses, plus overhead -- in a time period, divided by the number of new customers in that time period. That time period, by the way, could be a month, a quarter, or a year. For instance, if you spent $300,000 on Sales and Marketing in a month and added 30 customers that month, then your CAC is $10,000.

2) Marketing % of Customer Acquisition Cost (M%-CAC)

I like to compute the marketing portion of CAC and call it M-CAC, and then compute that as a % of overall CAC. The M%-CAC is interesting to watch over time, and any change signals that something has changed in either your strategy, or your effectiveness.

For instance, an increase either means that **1)** you are spending too much on marketing, **2)** that sales costs are lower because they missed quota, or **3)** that you are trying to raise sales productivity by spending more on marketing and providing more and higher quality leads to Sales.

For a company that does mostly outside sales with a long and complicated sales cycle, M%-CAC might be only **10-20%**. For companies that have an inside sales team and a less complicated sales process, M%-CAC might be more like **20-50%**. And for companies that have a low cost and simpler sales cycle where sales are somewhat humanless, the M%-CAC might be more like **60-90%**.

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

For companies that have a recurring revenue stream from their customers -- or even any way for customers to make a repeat purchase -- you need to estimate the current value of a customer and compare that to what you spent to acquire that new customer.

To compute the LTV, you need to take the revenue the customer pays you in a period, subtract out the gross margin, and then divide by the estimated churn % (cancellation rate) for that customer. So, for a type of customer who pays you $100,000 per year where your gross margin on the revenue is 70%, and that customer type is predicted to cancel at 16% per year, then the LTV is $437,500.

Now, once you have the LTV and the CAC, you compute the ratio of the two. If it cost you $100,000 to acquire this customer with an LTV of $437,500, then your LTV:CAC is 4.4 to 1. For growing SaaS companies, most investors and board members want this ratio to be greater than 3X; a higher ratio means your Sales and Marketing have a higher ROI. **Higher is not always better though**; when the ratio is too high, you might want to spend more on Sales and Marketing to grow faster, because you are restraining your growth by under-spending, and making life easy for your competition.

4) Time to Payback CAC

This is the number of months it takes you to earn back the CAC you spent to get a new customer. You take the CAC and divide by margin-adjusted revenue per month for the average new customer you just signed up, and the resulting number is the number of months to payback. In industries where customers pay one time upfront, this metric is less relevant because the upfront payment should be greater than the CAC, otherwise you are losing money on every customer. On the other hand, in industries where customers pay a monthly or annual fee, you usually want the Payback Time to be under 12 months, meaning that you become “profitable” on a new customer in under a year, and then after that you start making money.

5) Marketing Originated Customer %

This ratio shows what % of your new business is driven by Marketing. To compute it, take all of the new customers you signed up in a period, and look at what % of them started with a lead that Marketing generated. This is much, much easier to do when you have a closed-loop marketing analytics system, but you can do it manually -- just know it will be time consuming.

What I like about this metric is that it directly shows what portion of the overall customer acquisition originated in Marketing, and it is often higher than Sales would lead you to believe. In my experience, this % varies widely from company to company. For companies with an outside sales team supported by an inside sales team with cold callers, this percentage might be pretty small, perhaps **20-40%**; for a company with an inside sales team that is supported by a lot of lead generation from Marketing, it might be **40-80%**; and for a company with somewhat humanless sales, it might be **70-95%**.

Note: You can also compute this percentage using revenue, not customers, depending on how you prefer to look at your business.

6) Marketing Influenced Customer %

This is really similar to the Marketing Originated Customer %, but it adds in all the new customers where Marketing touched and nurtured the lead at any point during the sales process, not *only* by originating the lead. For instance, if a salesperson found a lead but then the lead attended a marketing event and then later closed, that new customer was influenced by Marketing. This % is obviously higher than the "Originated" percentage, and for most companies I think this should be between **50% and 99%**.

Your Marketing Metrics Cheat Sheet

The 6 Marketing Metrics to Bring Your CEO

Metric Name	How to Compute the Metric	What it Means if This Number Increases	Benchmarks
CAC (Customer Acquisition Cost)	All Sales and Marketing costs (advertising, salary, commission, bonus, overhead, other) in a period divided by the number of new customers in that period.	You are spending more for each new customer, and/or your Sales and/or Marketing might be less efficient. This might be okay if you are acquiring customers that have a higher LTV.	Very dependent on industry and price point.
M%-CAC (Marketing % of Customer Acquisition Cost)	Take all the Marketing costs, and divide by the total Sales and Marketing costs you used to compute CAC.	Unclear. It could mean (1) your Sales team underperformed and got lower commission or bonus, (2) your Marketing team overspent or spent ineffectively, or (3) you are moving to a model where Marketing does more of the work to add customers, and Sales will have higher quotas and do less work on each deal.	Outside Sales: 10-30% Inside Sales: 20-50% Near Humanless Sales: 60-90%
LTV:CAC (Ratio of Customer Lifetime Value to CAC)	To compute LTV, take the annual payments from a customer, adjust for your gross margin, and divide by the annual cancellation rate or churn. Then divide LTV by CAC for the ratio.	A higher LTV:CAC means you have a higher ROI on Sales and Marketing.	1:1 means you lose money the more you sell. 3:1 or better is a good target. 4:1 or higher indicates a great business model, but in a competitive market you might be under-investing in Sales and Marketing
Time to Payback CAC	Take the CAC and divide by how much your customers pay you on average each month.	A higher payback time means it takes you longer to earn back the CAC. Usually, this is bad.	Under 6 months might mean you are under-investing in Sales and Marketing. 9-18 months is reasonable. Over 18 months is a problem.
Marketing Originated Customer %	Take all of the new customers you signed up in a period, and look at what % of them started with a lead that Marketing generated.	Marketing is driving more new business, or Sales is less effective at their own prospecting.	Outside Sales: 20-40% Inside Sales: 40-80% Near Humanless Sales: 70-95%
Marketing Influenced Customer %	Take all of the new customers you signed up in a period, and look at what % of them had	Marketing is helping influence more of the new customer signups.	Over 70% for established Marketing teams performing well.

HubSpot

What metrics do you discuss with your executive board, CEO, and board of directors? Have I missed any key metrics? Do you have any comments on these metrics?

Image credit: Goynang

COMMENTS

We are a manufacturing company that sells through a dealer network. We are not focused on growth of new dealers, but growth of sales to existing dealers.

What is the best way to figure out when we gain a new customer? Should we just use the number of units shipped as the number for a new customer?

posted on Tuesday, January 15, 2013 at 8:21 AM by David

Mike's got it right. Marketing's responsibility is to drive new business. 1. Increase new customers. 2. Increase revenue from existing customers. That's it. Simple, but very challenging. Good CMOs will think like their CEOs and look for the most cost effective methods to drive increasing customer base and average revenue from customers.

Gaining and holding the attention of our prospects is the quintessential marketing challenge. Finding creative and effective ways to stand out from our competitors will never become static because as each marketing tactic proves successful, our competitors will adopt that tactic, rendering that marketing effort no longer unique in the competitive landscape. Reading blogs by marketing leaders like HubSpot and MRWconsult.wordpress.com help marketers stay on the cutting edge of emerging marketing trends.

posted on Tuesday, January 15, 2013 at 8:24 AM by Margo Winter

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Does Net Promoter Score (NPS) factor in? If not, shouldn't it? In fact, shouldnt your NPS drive your investment in marketing or sales spend? I think the question becomes one of what your company stands for. You can be profitable with a low NPS. But, your profit comes delivered with miserable customers and miserable employees.

posted on Tuesday, January 15, 2013 at 8:48 AM by vin

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