



the **EXECUTIVE'S GUIDE** to **MARKETING ROI**

Six formulas to calculate
your marketing metrics

A Publication of



INTRODUCTION

As a business executive, you work tirelessly to generate more leads, investing time and money in what often seems like a laundry list of tactics. When the time comes to measure results, it can be a challenge to clearly tell what's working and what's not.



You can look at website visits, conversion rates, generated leads per channel, engagement on social media... and the list goes on and on. The problem is you can't determine the impact of your marketing efforts looking at every possible metric you can track.

While many executives theoretically understand that a solid marketing strategy can directly impact the bottom line, **they often aren't able to prove exactly how much of an impact their efforts are making.** It simply doesn't make sense to analyze every metric that doesn't directly indicate **bottom-line impact.**

When it comes to marketing metrics that truly matter, you need to focus on data that deals with the total cost of marketing, salaries, overhead, revenue, and customer acquisitions. This guide will walk you through the six critical marketing metrics you will actually want to know when determining success.

Let's get started.

What It Is: The Customer Acquisition Cost (CAC) is a metric used to determine 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.



Sales and Marketing Cost = Program and advertising spend + salaries + commissions and bonuses + overhead in a month, quarter or year



New Customers = Number of new customers in a month, quarter, or year

FORMULA: sales and marketing cost ÷ new customers = CAC

Let's Look at an Example:

 Sales and Marketing Cost = \$300,000
 New customers in a month = 30
 ÷  CAC = \$300,000 ÷ 30 = \$10,000 per customer

What This Means and Why It Matters: CAC illustrates how much your company is spending per new customer acquired. You want a low average CAC. An increase in CAC means that you are spending comparatively more for each new customer, which can imply there's a problem with your sales or marketing efficiency.

2 | MARKETING % OF CUSTOMER ACQUISITIONS COST

What It Is: The Marketing % of Customer Acquisition Cost is the marketing portion of your total CAC, calculated as a percentage of the overall CAC.

How to Calculate It: Take all of your marketing costs, and divide by the total sales and marketing costs you used to compute CAC.



Marketing Costs = Expenses + salaries + commissions and bonuses + overhead for the marketing department only



Sales and Marketing Cost = Program and advertising spend + salaries + commissions and bonuses + overhead in a month, quarter or year

FORMULA: $\text{Marketing Cost} \div \text{Sales and Marketing Costs} = \text{M\%-CAC}$

Let's Look at an Example:

 **Marketing Cost** = \$150,000

 **Sales and Marketing Cost** = \$300,000

 \div  **M% - CAC** = \$150,000 \div \$300,000 = 50%

What This Means and Why It Matters: The M%-CAC can show you how your marketing teams performance and spending impact your overall Customer Acquisition cost. An increase in M%-CAC can mean a number of things:

1. Your sales team could have under performed (and consequently received lower commissions and/or bonuses).
2. Your marketing team is spending too much or has too much overhead.
3. You are in an investment phase, spending more on marketing to provide more high quality leads and improve your sales productivity.

3 | RATIO OF CUSTOMER LIFETIME VALUE TO CAC (LTV:CAC)

What It Is: The Ratio of Customer Lifetime Value to CAC is a way for companies 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.



Lifetime Value (LTV) = (Revenue the customer pays in a period - gross margin) ÷ Estimated churn percentage for that customer

FORMULA: LTV:CAC

Let's Look at an Example:

$$\begin{aligned} & \text{⚡ LTV} = \$437,500 \\ & \text{💰 👤 CAC} = \$100,000 \\ & \text{⚡ 💰 👤 LTV:CAC} = \$437,500 : \$100,000 = 4.4 \text{ to } 1 \end{aligned}$$

What This Means and 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 PAYBACK CAC

What It Is: The Time to Payback CAC shows you the number of months it takes for your company to earn back the CAC it 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: $CAC \div \text{Margin-Adjusted Revenue} = \text{Time to Payback CAC}$

Let's Look at an Example:

 **Margin-Adjusted Revenue = \$1,000**

 **CAC = \$10,000**

  **Time to Payback CAC = \$10,000 ÷ \$1,000 = 10 Months**

What This Means and 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 It Is: The Marketing Originated Customer % is a ratio that shows what new business is driven by marketing, by determining which portion of your total customer acquisitions directly originated from marketing efforts.

How to Calculate It: To calculate Marketing Originated Customer %, 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: $\text{New customers started as a marketing lead} / \text{New customers in a month} = \text{Marketing Originated Customer \%}$

Let's Look at an Example:

-  Total new customers in a month = 10,000
-  Total new customers started as a marketing lead = 5,000
-   Marketing Originated Customer % = $5,000 / 10,000 = 50\%$ Months

What This Means and Why It Matters: This metric illustrates the impact that your marketing team's lead generation efforts have on acquiring new customers. This percentage is based on your sales and marketing relationship and structure, so your ideal ratio will vary depending on your business model. 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 It Is: 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: $\text{Total new customers that interacted with marketing} / \text{Total new customers} = \text{Marketing Influenced Customer \%}$

Let's Look at an Example:

 Total new customers = 10,000

 Total new customers that interacted with marketing = 7,000

 ÷  Marketing Originated Customer % = $7,000 / 10,000 = 70\%$ Months

What This Means and Why It Matters: This metric takes into account the impact marketing has on a lead during their entire buying life cycle. 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.

CONCLUSION

In marketing, we 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. Reporting on your business impact doesn't mean you should no longer pay attention to site traffic, social shares, and conversion rates. It simply means that when calculating your results, it's crucial to convey your performance in a way that is crystal clear about the bottom line.

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

And if you need a guide, we're here to help. To learn more about inbound marketing and how it can help you convert more visitors to leads and more leads to customers, **sign up for a FREE Inbound Marketing Strategy Consultation at headsupsresults.com.**



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