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Metrics That Matter For B2B Marketers

Revenue Impact Should Top The CMO's Management Dashboard

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EXECUTIVE SUMMARY

Chief marketing officers (CMOs) frequently ask Forrester what they should have on their management dashboards. Business-to-business (B2B) CMOs need to do more than measure activities like click-through rates and event attendees; they need to be more accountable for the pot of money that they spend. This means that they must have dashboards that measure and provide insight on the things that matter most to their chief executive officer (CEO) and chief financial officer (CFO), which are typically revenue growth and profitability. While there is a wide range of metrics that marketers need to capture, this report focuses on marketing's contribution to pipeline and revenue, as CMOs who fail to quantify this will continue to struggle to gain credibility and retain budgets.

CMOS STRUGGLE TO MEASURE MARKETING'S IMPACT

B2B marketing budgets were slashed when the Great Recession hit.[1] Why? Because most CMOs are not able to quantify what their company gets in exchange for the budget dollars spent on media, trade shows, and sales support. When there's no evidence that marketing drives revenue, CFOs look at marketing as a cost center and one of the first places to cut when the economy goes south. Several factors make the measurement of marketing's impact a constant struggle.

- **Marketing teams lack analytical skills.** Analytics is not a historical skill set of marketing departments. So many CMOs don't come with analytics backgrounds, especially those who rose through the ranks of marketing communications and branding. When asked to name the five biggest weaknesses of their marketing department, 49% of marketing leaders cited "use of analytics to guide marketing decisions," second only to "mastery of social media tools" (see Figure 1).

- **Marketers face a deluge of data.** The number of channels that B2B marketers use to reach and collect information about customers has grown rapidly in recent years. Due to mergers, acquisitions, and technology investments, the systems to collect and analyze the resulting data are a hodgepodge of disconnected tools. This makes it a challenge to collect, aggregate, and house data, while raising questions and concerns about the reliability and validity of that data.

- **The role of marketing is ambiguous.** "Every organization has a vision for how marketing should help the firm achieve its goals, but it is not often articulated very clearly," says Pat LaPointe, managing editor of MarketingNPV and executive vice president at MarketShare. "So too much subjectivity comes into play." Without clarity around the role of marketing, you can't break it down into component pieces that you can measure and connect those measures to the right business outcomes.

Figure 1 Analytics Is A Major Weakness Of B2B Marketing Teams

Source: Q4 2010 North American And European B2B Marketing Organizations And Investments Online Survey

60331 Source: Forrester Research, Inc.

Marketers Don't Measure The Right Things

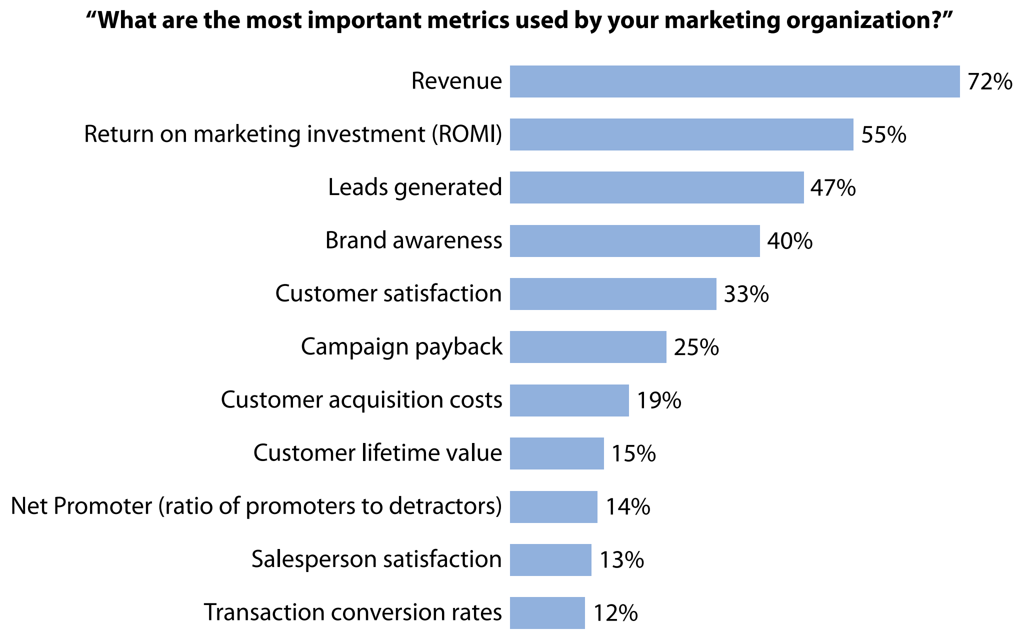
Marketers measure a lot of things. In fact, many marketers measure too many things. But the challenges described above constrain marketers from measuring the things that really matter to the company. Instead, they:

- **Measure what's easy.** Marketers gravitate to measuring the things that they know they can get their hands on. They rely on the individual metrics generated by each tool they use, such as web analytics to measure visitors and page views and email systems to measure email open rates and click-throughs on offers. For example, 47% measure leads generated, but only 19% measure customer acquisition costs and only 25% calculate campaign payback (see Figure 2).

- **Track quantity over quality.** Quantity measures such as the number of social media followers, names added to the database, attendees at events, and leads created are benchmarks that quantify the results of marketing activities. While these metrics can make marketing look good on the surface, lead quality measures help prioritize programs that will result in strong sales opportunities.

- **Don't measure what leads to improved performance.** Laura Patterson of VisionEdge Marketing says that too many marketers "manage to metrics rather than performance." Analytically challenged marketing leaders lack metrics that show they are moving the business needles that support company goals.

Figure 2 Marketers Are Not Measuring The Things That Matter Most



Base: 563 North American and European marketing executives at B2B companies with 100 or more employees (up to five responses accepted)

Source: Q4 2010 North American And European B2B Marketing Organizations And Investments Online Survey

60331 Source: Forrester Research, Inc.

SHIFT MEASUREMENT TO THE METRICS THAT MATTER

Marketing plays a broad set of roles in B2B firms, from defining product strategy to creating brand awareness and orchestrating the customer experience. But to gain respect, keep from being viewed as a cost center and justify budgets; marketing must be a driving force in what tops the agendas of boards of directors, CEOs, and CFOs: sustainable profitable revenue growth. CMOs must be able to answer the questions these executives have about marketing's impact on revenue and profits (see Figure 3):

Figure 3 The CEO And CFO Need Answers On Marketing's Impact

What matters to the CEO/CFO	CEO/CFO questions about marketing's impact
Revenue growth	• How are we performing at each stage of the lead-to-revenue cycle? • How is marketing contributing to pipeline and revenue? • How much revenue can we confidently forecast for current and future quarters?
Profitability	• What's the return on the money we are investing in marketing? • What would happen if we increase (or decrease) marketing spend by [x] percent? • Is marketing continuously improving to optimize spending?

60331 Source: Forrester Research, Inc.

MEASURE MARKETING'S IMPACT ON PROFITABLE REVENUE GROWTH

The most important metrics for CMOs to have on their management dashboards are the ones that quantify the outcome of marketing's work across the entire lead-to-revenue cycle and provide insights on how performance can be improved. It's more important than ever to do this now because:

- **Marketing now owns most of the buying cycle.** In the age of the customer, social technology empowers customers with extensive information about your company and products.[2] Buyers now put off talking with salespeople until they are ready for price quotes, which means marketing now owns a much bigger piece of the lead-to-revenue cycle.[3] Marketers must nurture prospects for months or years before they turn into sales opportunities, so it is critical to know how you are performing at each interim stage a buyer goes through.

- **Concerns about the economy heighten demands for accountability.** It used to be that as long as your company was hitting its revenue goals, there would not be much scrutiny of spending. The current economic uncertainty has changed that. B2B organizations spend as much as 40% of revenue on marketing and sales, and marketing leaders are being held more accountable not only for their own budget but also for contributing to improvements in sales productivity.[4]

- **Automation tools make it possible.** Until recently, measuring revenue cycle performance required you to have a data warehouse that collects clickstream data from your web analytics tool, contact and lead information from your campaign management system, sales opportunity and closed-deal data from your sales force automation (SFA) system, and use of complicated analytics tools to generate meaningful metrics. Marketing automation platform providers like Eloqua and Marketo are taking much of this pain away with recently added capabilities to model the stages of the revenue cycle, combine data from each stage, and summarize key metrics in graphical dashboards that allow you to drill into details.

Measure Performance Across the Revenue Cycle

When you measure the company's performance across the stages of the revenue cycle, it becomes clear which areas need the most attention. As a prerequisite for this, marketing and sales leaders must agree on what the complete revenue cycle looks like for their company. This requires you to define clear stage names that align with the customer life cycle, qualifications for someone being in a stage, and rules for movement from one stage to the next (see Figure 4). With this in place, marketers can measure and analyze (see Figure 5):

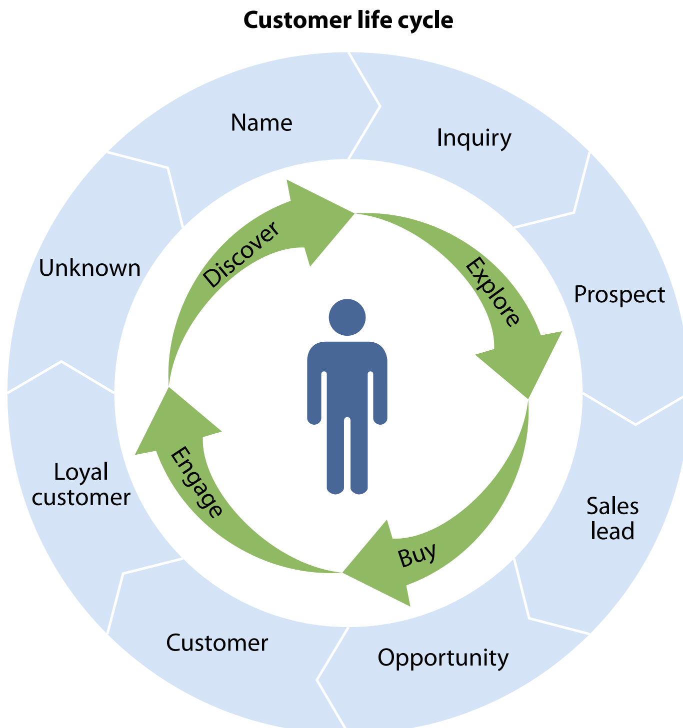
- **Volume.** Marketers need to know how many people are in each stage, how fast they are growing over time, and how many are being added each period. By analyzing this data, they can gain visibility into what activities are contributing the most new people to stages. Sourcefire used volume data to learn that half of the people who buy its cyber-security products participated in at least one online product demonstration earlier in the process and now steers prospects to see a demo.

- **Conversion.** Measuring conversion rates from stage to stage and their trends over time allows marketing and sales leaders to analyze where the leaks are in the pipeline and what each team can do to reduce the leaks. It also helps you optimize the stage movement criteria and identify which types of leads convert at the highest rates. Elsevier analyzes the conversion rates from marketing lead to sales-accepted lead to refine the criteria for what is considered sales-ready, which ensures sales is working on the leads with the highest likelihood to turn into revenue.

- **Velocity.** Velocity measures the average time it takes for a sale to close, how fast people move through the stages, and how time in the stage is trending over time. Marketers need this information to find the chokepoints in the process and determine how to better serve the needs of buyers to reduce those chokepoints. Measuring velocity data helped a marketing leader at a commercial bank realize it had a 130-day cycle time between first touch and a win, which caused the bank to analyze how velocity varied by industry and geography so that it could find ways to shorten it.

- **Value.** Marketers need to know the total value of their revenue pipeline, the value at each stage, and how much it increases or decreases each period. By analyzing this data, marketers can ensure they are targeting the highest-value segments and positioning the value of their products and solutions across the buying cycle. Using metrics on the value of the pipeline, Psion analyzes how the average deal size changes across stages. It has found that at early stages, the value can be quite big but shrinks over time, so it is addressing ways to help the sales reps maintain deal value.

Figure 4 Marketing And Sales Leaders Need Shared Revenue Cycles



Stage name	Definition
Unknown	People consume your ideas online and at events; anonymous site visitors. Though not in the database, many marketers estimate their total reach.
Name	Names enter your database.
Inquiry	People interact with your company: attend events, download content, and click through on emails.
Prospect	They fit your target market: the right role, type of company, and industry.
Sales lead	They show buying signs and are ready for sales.
Opportunity	Sales has qualified, has agreed to work it, and has added to forecast.
Customer	New customer deal has closed.
Loyal customer	New customer has been onboarded, is successfully working with your firm, and is likely to start a new cycle by renewing or expanding.

60331 Source: Forrester Research, Inc.

Figure 5 Measure Marketing's Impact At Each Stage Of The Revenue Cycle

Measurement	Insights to gain	Metrics that matter
Volume	• How many people are in each stage, and how many are we adding each period? • Are my stage balances trending up or down? • How many active prospects do I have?	• Size of prospect database • Number of inquiries, prospects, qualified leads, sales-ready leads, opportunities • New qualified leads added • New sales-ready leads generated • New opportunities created
Conversion	• What is the conversion rate from each stage to the next? • Where are the leaks in the funnel, and how do we plug them? • What types and sources of leads convert the best? • Are my conversion rates trending up or down?	• Inquiry-to-prospect rate • Prospect into marketing qualified lead • Qualified-lead-to-sales-ready-lead rate • Sales-ready-lead-to-sales-opportunity rate • Opportunity-to-win rate
Velocity	• What is the average length of sales cycle? • What is the average time spent in each stage? • Where are sales cycles stalling? • Which sources move through the pipeline fastest?	• Sales cycle time • Time in qualified lead • Time in sales-ready lead • Time in opportunity
Value	• What's the value of my pipeline? • What's the value by stage? • How is it increasing or decreasing over time?	• Value of sales-ready leads created • Value of opportunities in pipeline • Value of opportunities created this period

60331 Source: Forrester Research, Inc.

Measure Marketing's Contribution to Pipeline And Revenue

Having stage-based performance measures gives marketers the data they need to quantify the contribution that marketing makes to building the pipeline and generating revenue. Metrics that matter are (see Figure 6):

- **Impact measures: What has marketing sourced/influenced?** One of the most important areas for marketing to quantify and communicate is the percentage and value of the pipeline and revenue that were generated by marketing. These can be calculated by giving marketing credit for deals in which they sourced the lead or in which the prospect engaged in any marketing activity. Energy and metals information provider Platts reports on the number of sales opportunities and the percent of closed/won business sourced by marketing.

- **Efficiency measures: How cost-effective are our processes?** To drive profitable revenue growth, CMOs need to keep a close eye on the cost of customer acquisition. Good measures of the efficiency of marketing at generating demand are the average marketing investment required to generate a qualified lead, an opportunity, and a closed deal. SAP's marketing leaders want to know how efficient they are at what they do, so they have measurement systems in place to help marketers track program returns and costs and use this data to make continuous process improvements.

- **ROI measures: Which programs and channels perform best?** CEOs and CFOs are not usually interested in the return on investment (ROI) of specific campaigns or programs, but they want to know that marketers have a mindset of continuous improvement and are focused on optimizing the money spent on marketing. Marketing needs to measure the sales opportunities generated by each campaign and channel and use this data to calculate ROI for each campaign or channel. This data helps leaders determine which programs and channels to invest more in and which should be analyzed more closely to determine whether they can be improved.

Figure 6 Measure Marketing's Contribution To Pipeline And Revenue

Measurement category	**Metrics that matter**
Impact	• Percent of sales-ready leads sourced by marketing • Percent of pipeline contributed by marketing • Value of pipeline contributed by marketing • Value of revenue sourced by marketing • Value of revenue touched/influenced by marketing
Efficiency	• Marketing investment per qualified lead • Marketing investment per closed deal
ROI	• ROI of specific campaign • ROI of specific channel

60331 Source: Forrester Research, Inc.

WHAT IT MEANS

MARKETING MEASUREMENT NIRVANA IS PREDICTIVE

The ultimate way marketing can demonstrate its value is by being able to predict the amount of revenue it can generate in future periods. Revenue cycle analytics will enable marketers to start doing this, because you know how many people you have in each stage, how many you have historically added and converted from stage to stage, as well as in which time frames. You'll be able to use this data to forecast how many new leads, opportunities, and closed deals you can create and how much revenue will result from this pipeline activity. As marketers gain this ability:

- **Revenue forecasting shifts from sales to marketing.** Most sales leaders will tell you that one of their biggest struggles is generating accurate sales forecasts, because forecasts depend on individual salespeople predicting what specific customers and prospects will do at some point in the future. Marketers who use revenue cycle analytics will be able to generate a clearer picture of what revenue should be in future quarters and will be called on as the source of more reliable sales forecasts.
- **Marketers will be able to ramp up demand generation activities or dial them down.** By being better able to forecast future revenue, marketing teams will shift from the more-is-better approach to one where they move the lever of demand generation up or down based on how well they are positioned to meet revenue targets in future periods.
- **Marketers will optimize sequences.** Revenue cycle analytics will allow marketers to not only understand which campaigns have the greatest influence on revenue but also understand the optimum sequence of those campaigns in leading someone to buy. Armed with that knowledge, you can predict future revenue from each source.

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Acxiom

Adobe Systems

B2B Fusion Group

Eloqua

Elsevier

Experian Marketing Services

HubSpot

Lenskold Group

Marketo

MarketShare

Navicure

Psion

Raab Associates

Saepio

SAP

VisionEdge Marketing

Visual IQ

ENDNOTES

[1] In most B2B companies, the marketing function is the first to face cuts during a recession and the last to see budgets come back as the economy shows signs of life. This was evident in 2010. More marketing leaders saw economic recovery in their industry last year than not, but more than 60% still had to work with flat or reduced marketing budgets. See the March 22, 2011, "Bigger B2B Marketing Budgets Come With Great Expectations" report.

[2] Empowered customers are disrupting every industry. Consumers embrace the power of social technology — US consumers make 500 billion impressions on one another about products and services every year. See the June 6, 2011, "Competitive Strategy In The Age Of The Customer" report.

[3] B2B marketing leaders are under tremendous pressure to increase their marketing team's contribution to generating revenue. For companies serving buyers that make high-consideration purchases, from medical equipment to advertising services, marketers need to communicate with potential buyers at every stage of their problem-solving cycle, providing them with information that is targeted to their needs, role, intent, and interest level. See the April 26, 2011, "B2B Marketers Must Better Prepare For Marketing Automation" report.

[4] After several years of making cuts, B2B marketing leaders have larger budgets in 2011, but they come with a catch: more scrutiny and greater expectations for results. Budgeting is no longer an annual event; it is an ongoing opportunity for marketing leaders to shift investment to the highest-performing activities. See the March 22, 2011, "Bigger B2B Marketing Budgets Come With Great Expectations" report.