



Whitepaper

Key Performance Indicators in Marketing

The right KPI framework as the basis for success measurement and performance optimization in marketing



Abstract

In today's challenging, competitive business landscape, attracting and retaining customers is not easy. In addition to offering the right products and services of high quality, targeted and efficient marketing is a driving factor for success. In this context, key performance indicators (KPIs) are an essential element for measuring performance to help companies and brands achieve their goals. More than ever, companies need a way to assess where they stand and whether or not they are performing in line with their strategy.

In the marketing environment, the potential of KPIs as useful decision-making tools that help improve performance is still largely untapped. Which is a shame, because used correctly, they can make an enormous difference to marketing success. The fact that many companies still work too little with targeted performance indicators is due not least to the perceived complexity. Whereas measurable key performance indicators used to be in short supply (in the non-digital age), today it is necessary to select from the flood of possible performance indicators those that are of greatest relevance to the company.

To remedy this, this paper provides clarity on what KPIs are and what their value proposition is for marketing success. It presents the approach for determining the appropriate KPI framework and highlights various ways companies should use performance indicators to sustainably improve their marketing performance.

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Improve marketing success with KPIs

Marketing is usually fighting on two fronts. On the one hand, its core task is to build and maintain relationships with potential and existing customers and to ensure a perfect customer experience. On the other hand, marketing has to fight internally again and again for the necessary budget and to justify the amount as well as the effort. Unfortunately, marketing budgets are often the first candidates to be cut when a company is looking to reduce costs.

A well thought-out marketing controlling shows the effects of marketing activities, causal chains and possibilities for improvement with the help of a suitable key performance indicator system. It answers the question of the contribution of marketing to the company's success, i.e. to what extent the company's goals are achieved through marketing (value) and whether the budget is invested correctly and the costs are appropriate (expense). It also provides information for strategic marketing planning. Properly implemented, marketing controlling thus has an important monitoring, information, planning and control function.

What exactly are KPIs?

Key performance indicators are simple and understandable performance indicators that can be used to measure progress or the degree to which important objectives have been met. As a rule, they are related to the resources used, such as costs, time and/or quality.

In the meantime, there are as many key performance indicators as there are sand by the sea. Not least due to digitalization, there are a multitude of analytics options. The trick is therefore to select the key figures that are relevant for the specific brand or company. And if a simple key figure is to become an indicator, the information obtained must be placed in the context of the measures on which it is based. In this way, well-designed KPIs are important navigation aids that provide a clear picture of the current level of performance and show whether the company is where it should be.

"Today's challenging, competitive business environment demands more than ever that executives make better-informed decisions ... Properly understood and effectively used, KPIs are a powerful tool for this. Without them, companies are simply flying blind."

BERNARD MARR, "WHAT IS A KPI?"

Not every performance indicator is a KPI

Unfortunately, KPIs have become a strong buzz word lately, and their designation is often misused. Calling all metrics represented by an analytics system, for example, KPIs is one of the most common thinking errors.

It's the "key" that makes the difference. In fact, a "key" indicator can only be one if it represents the key to success - and that, in turn, is only the case if it is targeted. Most of the metrics used may be PIs, "Performance Indicators", but they are not "Key Performance Indicators". If, for example, the key figure "page impressions" were to be defined as a KPI, then this would be wrong in 99 percent of cases, since page impressions are hardly ever a key factor in terms of target achievement. Only those who might run display ads based on page views and earn money with them can call page views their key performance indicator.

What are the benefits of Key Performance Indicators?

Well-set marketing KPIs enable better, fact-based decision-making in marketing. Dealing with a KPI framework and the associated questions of what is being measured and why automatically leads to greater scrutiny of the interrelationships between goals and measures, thus improving goal orientation. And learning from the success parameters revealed by monitoring the KPIs is the basis for goal-oriented adjustments in market development. All in all, working with KPIs should lead to better marketing overall and to the company holding its own against the competition.

A marketing KPI set fulfills a number of objectives

- KPIs reveal whether the goals set are being achieved and where countermeasures need to be taken.
- They create transparency about the strengths and weaknesses of brands.
- The right selection enables optimal use as late and early indicators.
- early indicators.
- They establish a cause-effect relationship between marketing actions and (desired) output.
- Standardized KPIs allow initiatives and activities to be compared and thus provide the basis for prioritizing individual measures.
- In marketing planning, performance indicators contribute to better resource allocation.

KPIs bring what is really important into focus

When selecting the relevant metrics and key performance indicators, care must be taken to ensure that the KPI framework takes into account strategic, tactical and performance indicators for measuring profitability.



Strategic KPIs are particularly suitable for monitoring and keeping an eye on long-term goals and reflect tomorrow's market strength and position.



Short-term activities, such as an ongoing campaign or website optimization, on the other hand, usually tend to pursue short- to medium-term interim goals. They are measured by tactical metrics - quantitative and/or qualitative - as they are required in the short term to accomplish a specific task.



In addition, it is imperative that a profitability analysis is also integrated into the KPI framework. Efficiency KPIs such as return on marketing investment (ROI) or customer acquisition cost (CAC) are always based on past performance, but focus on using the budget to maximum effect.

There are no universally valid KPIs

There are no universally valid KPIs and no KPIs that are typical for the industry, but only individual KPIs that are aligned with the company's own goals and measures. For example, the bounce rate may be a KPI for an online store, but for an FMCG brand, depending on the objective, it may only be a simple metric in the context of evaluating a promotional campaign. And for an automobile manufacturer, depending on the target group, as well as objectives and content of the website, it may not play any role at all.

Consequently, choosing the right KPIs is also a specific task that always starts with the concrete objective. The appropriate KPI framework results from the considerations of the driver model (see below) and the global goals, sub-goals, measures and metrics derived from it.

Performance marketing is not the same as marketing performance

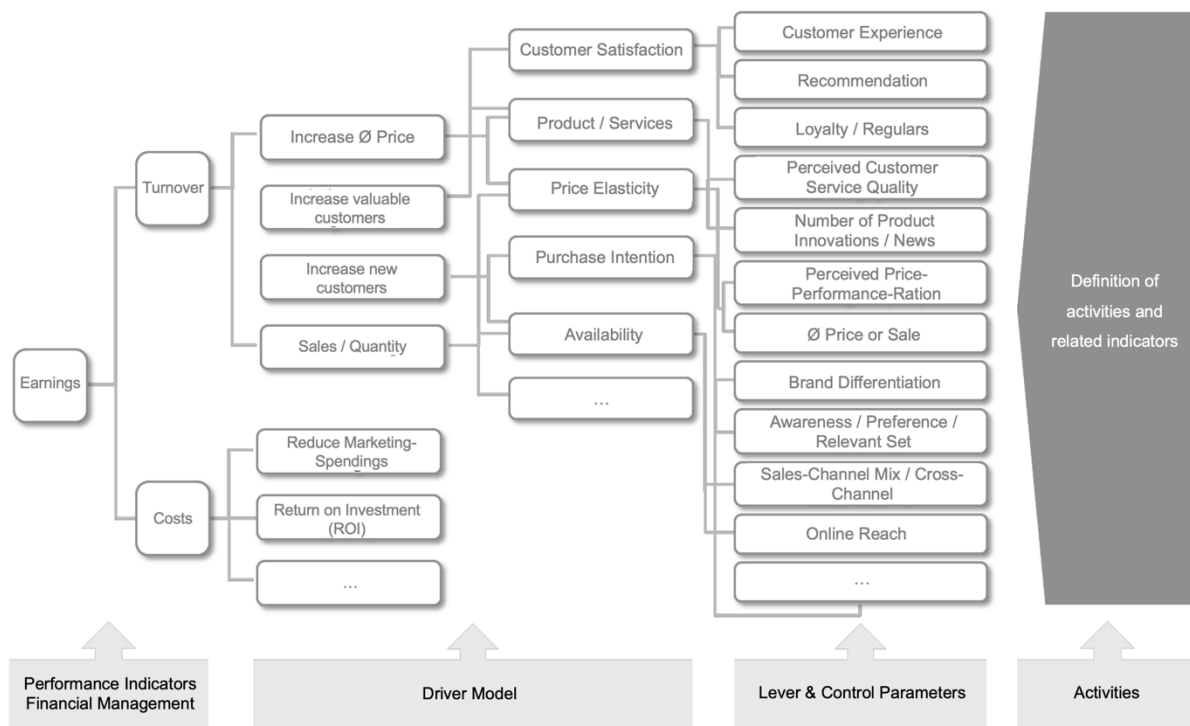
A big mistake in connection with KPIs is equating performance marketing and marketing performance. The former exclusively encompasses the use of online marketing tools with the goal of achieving a measurable response and/or transaction with the user. The focus is usually on the short-term perspective, and all the data points that are so abundantly available digitally, for example from Google Analytics, are used. In sum, however, it is a matter of looking at all the activities that a brand undertakes in order to anchor itself in the customer's mind and offer a perfect customer experience, and optimizing them in terms of their effectiveness and efficiency. This applies to all physical and virtual points of contact and interaction, regardless of the medium or channel. The goal is to increase the performance of the entire marketing and includes strategic, long-term effective measures as well as tactical activities.

The art of finding the right KPIs

The number of possible performance indicators offered for measuring success in specialist literature, by agencies or digitally oriented service providers and analytics tools is endless. In many companies, there is a plethora of key performance indicators that are prepared and presented in reports and that no manager can keep track of. In practice, however, those KPI systems have proven themselves that are limited to a few relevant KPIs.

Systematic derivation based on the driver model

To be able to estimate the contribution to success of individual measures, it has proven useful to use a so-called driver model to show the factors that influence the success of an organization. This is usually done over a number of stages. Based on the drivers and the factors that influence these drivers, the objectives and measures with the underlying key figures are then defined as part of the marketing planning. A driver model highlights all relevant success drivers for the respective company and illustrates in a striking way the connections between the goals and measures and what really needs to be measured. The greater the influence of the activities on the achievement of the objectives, the more important the performance indicator behind them.



From a process perspective, determining the right KPIs should be an integral part of marketing planning, answering the following questions:

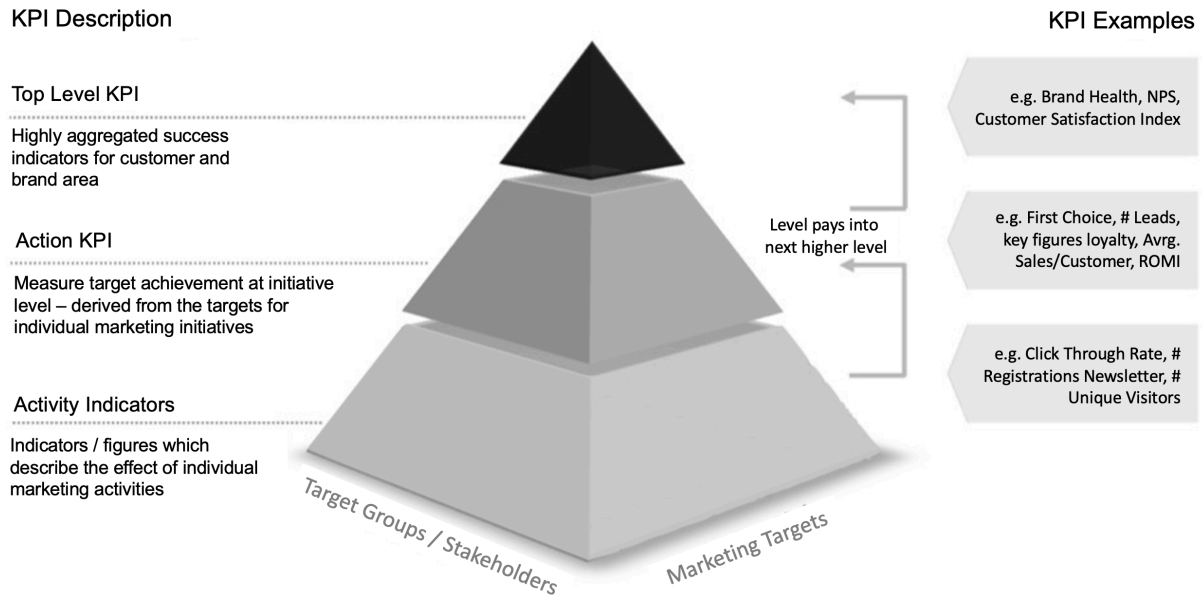
- What is the marketing objective of an overarching initiative or activity? What role does this outcome play in the company's success?
- What is the specific question that the KPI helps to answer?
- How can progress be measured or how can success be quantified?
- quantifiable? Can they be attributed to individual measures in isolation, if possible?
- How frequently should contributions to success be measured and, if necessary, appropriate readjustments made on this basis?

The KPI pyramid

KPIs generally develop from top to bottom: from the strategic marketing goals, derived from the corporate goals, to the operational goals of individual activities, which feed into the overall marketing goal achievement.

The key performance indicators must be defined for an aggregated top level as well as for overarching initiatives and individual activities. This results from the numerical distribution a pyramid structure - from a few top-level KPIs to a selection of operational KPIs / activity metrics for different marketing activities.

Top-level KPIs are often aggregated quantities or indices that can be composed of a number of weighted individual key figures.

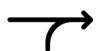


They give first- and second-level managers in particular a quick overview of status and progress. Examples include the Brand Health Index, the Net Promotor Score (NPS), or the Customer Satisfaction Index. In the case of these KPIs, which tend to have a long-term focus, it should be noted that changes can rarely be traced back to individual factors, but must merely be a point of reference for more detailed analyses.

Requirements for the KPI framework



Measuring what is really important: KPIs are always very specific, have a direct link to targets, goals and strategies, and match the critical success factors of the measures.



Value-oriented: It is clear what value the respective KPI has for marketing, and what statements and insights can be derived from it that can be used to optimize specific measures or strategy plans.



As few as possible, as many as necessary: A handful of KPIs to keep track of targets is much more efficient to manage than a large number of non-specific indicators.



Aligned: The top KPIs are coordinated across divisions and with the company management to ensure that everyone is "pulling in the same direction".



Comprehensible definition and measurement: They are simple, clear, and do not require cumbersome data collection that can be faulty or leave room for interpretation.



Consistency: The same KPIs are used internally as well as in cooperation with external service providers in order to be able to assess success in a uniform manner.

Improve marketing performance in four steps

1. Understand context and set goals

DRIVE MODEL: Get a clear picture of what factors are driving your organization's results. Involve marketing managers from different departments and, if necessary, countries, as they usually have a different understanding of these drivers. Create your individual driver model for this purpose.

OBJECTIVE SYSTEM: As part of the planning process, ensure that your marketing objectives are derived from the higher-level corporate objectives (revenue or customer objectives, business unit objectives, CSR, etc.). These specify what contribution marketing must make overall and makes it clear what should be defined as a top-level KPI. By systematically breaking this down with the help of the driver model, you define sub-goals and the corresponding measures. In doing so, you always take into account the SMART rule (Specific, Measurable, Acceptable, Realistic, Timed).

When planning your initiatives and activities, make sure that success contributions can be meaningfully measured by key figures, because only by reviewing the achievement of objectives can a targeted sharpening for the future take place.

2. Make the right choice

SELECTION & PRIORIZATION: Take stock of the marketing metrics used in your organization and scrutinize them against the background of the defined driver model and objectives. Include metrics used by external service providers in your assessment.

Prioritize the measures that urgently need to be mapped by KPIs. If necessary, reduce the number of eligible performance indicators to a shortlist based on predefined criteria. However, keep the longlist in mind. Even if it is a metric of secondary importance and thus not a true KPI, it may still be necessary for operational units to manage in their day-to-day business.

In addition, it can be useful to show the performance of individual areas at an abstraction level by forming an index. For this purpose, selected performance-oriented KPIs are weighted according to their significance, analogous to the stock index, and presented in an index at a higher level. Examples of this could be a digital performance index or customer satisfaction index.

3. Visualize and communicate

MARKETING DASHBOARD: Ensure that the key performance indicators are suitably presented so that the contribution to success of your measures is always visible and processes and activities can be controlled with them. In practice, different key performance indicators for different user groups are often bundled into dashboards that are supposed to convey the "big picture" within a few seconds.

The introduction of a software-supported marketing dashboard has many advantages, but since each KPI framework is individual, don't count on a ready-made out-of-the-box solution. From homemade Excel or spreadsheet solutions with possibly high manual update efforts to partially expensive high-end analytics systems with individual dashboard configuration options, everything is possible. The number of all-in-one software providers with interfaces to, for example, ERP, CRM, Customer Insight, Google Analytics or customer journey mapping tools is large.

“You can't manage what you can't measure.”

PETER DRUCKER

Regardless of the system you choose, when customizing a dashboard or KPI report, it makes sense to group KPIs and introduce an additional level of abstraction depending on the intended audience. In this way, the reports focus on the areas that are relevant for this recipient group in each case. For top management, the top-level KPIs are of particular interest, whereas a brand manager accesses a brand dashboard that clearly shows the most important key figures for the brand over a specified period of time.

FACT SHEET: Make sure there is clarity and agreement in your team about what the metrics say and mean. For a uniform understanding in your organization and to support the application, it makes sense to develop a fact sheet at least for the most important key figures. For example, it should state what the specific question is that is to be answered with this indicator, how the indicator is structured, and where it is used. In addition, clarity is to be provided on what it is used for, how and how often it is to be collected, as well as information on the data source. A central component is assistance in interpretation. What are benchmarks for comparison? What is "good" and what is "bad"?

4. Learning and implementing

OPTIMIZATION: Make sure that a KPI is not only measured and presented in the dashboard, but that the right conclusions are systematically drawn from the result - whether success or failure. Let the measurement be followed by action through content or channel-specific adjustments, deletion of measures, budget shifts, etc. This is the only way to ensure sustainable performance improvement in marketing.

CONTINUE DEVELOPMENT: Introduce a KPI iteration process and continuously refine the KPI framework. The environment, customer behavior, and potential data sources change at a rapid pace, which is why you should constantly put your KPI set to the test. In doing so, you should definitely consider multidimensionality of the customer journey and try and finetune different attribution models.

KPI CULTURE: Work to build a KPI-driven culture and promote data literacy across teams. Also lead your team in the role of a change manager, as it is important to bring your team along for the ride. Depending on the level of knowledge and international degree of centralization in marketing, a training concept, webinar or similar may also be an option.

Conclusion

Improving marketing performance is no magic trick! But in order to exploit the full potential, a systematic approach is required to define the appropriate KPI framework. As different as each company is in terms of industry specifics, business model and objectives, so too is the respective KPI system on which the optimization of marketing performance is based. The basis is always a stringent linking of goals - measures - KPIs and a well-dosed selection in order to move from the data graveyard to meaningful key figures and action-relevant consequences. It is very important in the definition that a balance is maintained between the strategic indicators, which reflect long-term, sustainable success, the tactical indicators, which primarily relate to current events, and the key figures, which say something about the profitability of marketing and its measures (return on marketing investment).

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About Black Dolphin

We are a communications consultancy for corporate communications and brand marketing, supporting companies in all issues of stakeholder-centric communications and accompany them in related transformation processes. Black Dolphin brings together strategic communications, marketing and brand experts with many years of practical experience, innovation mindsets, and practical solution expertise. We are helping companies mastering the new - finding the right answers to the demands of complex markets and making optimal use of our clients' potential for sustainable growth. Our approaches and tools stand for efficiency and effectiveness and bring immediate and lasting effect for measurable success.

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Do you need support in optimizing your marketing communications? Then give us a call or write to us. We will be happy to talk with you.

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