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# Use of Marketing Metrics: A Different Point of View

## **Abstract**

There is a more important problem than developing new marketing metrics. Most packaged-goods manufacturers and other marketers are not getting anywhere near full value from the metrics currently available. In this article, I summarize some data on the underutilization of metrics, hypothesize some reasons for this, and describe some steps to be taken to improve firms' performance by using metrics more effectively.

## **Disciplines**

Business | Marketing

# Use of Marketing Metrics: A Different Point of View

*Leonard M. Lodish, University of Pennsylvania*

There is a more important problem than developing new marketing metrics. Most packaged-goods manufacturers and other marketers are not getting anywhere near full value from the metrics currently available. In this article, I summarize some data on the underutilization of metrics, hypothesize some reasons for this, and describe some steps to be taken to improve firms' performance by using metrics more effectively.

## **Firms Don't Use Available Metrics Enough**

The dot-coms that squandered hundreds of millions of dollars in 1999 and 2000 to "brand" their products and services didn't apply any available measurement devices to improve their performance. If they did use test markets, matched markets, split-cable markets, marketing-mix modeling, etc., it was not evident in their decision making. They squandered literally billions of dollars of venture capital funds on ill-conceived advertising campaigns that did not contribute to their shareholder value. But it is not just dot-coms that are at fault; even packaged-goods marketers, reputed to be the most sophisticated users of marketing data, don't seem to use available metrics as well as possible, though it looks like they may be improving.

There have been numerous metrics available to evaluate new products before they are introduced nationally. Traditional test markets, simulated test markets, and split-cable markets have all been shown to be very effective at reducing the failure rate of new products. The available data shows that packaged-goods marketers are improving in reducing the failure rate of new products, but still have a way to go.

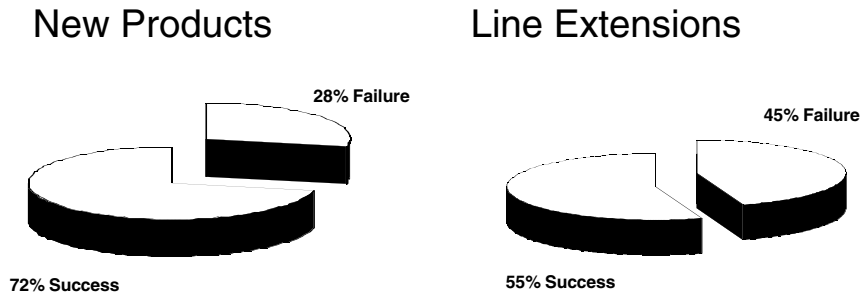
## **1992 and 2000 Data on New-Product Successes and Failures**

Information Resources Inc. periodically summarizes the success and failure rates of new products in the United States. The data come from their scanner data of food, drug, and mass-merchandise outlets. Failure is defined as a product that either fails to obtain more than one-sixth of the available distribution in food, drug, and mass-merchandise outlets during its first year or a product that loses more than 30 percent of its year one distribution in year two. Figure 1 shows the data for 1992.

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**Figure 1. New-Product Success and Failure Rates, 1992**

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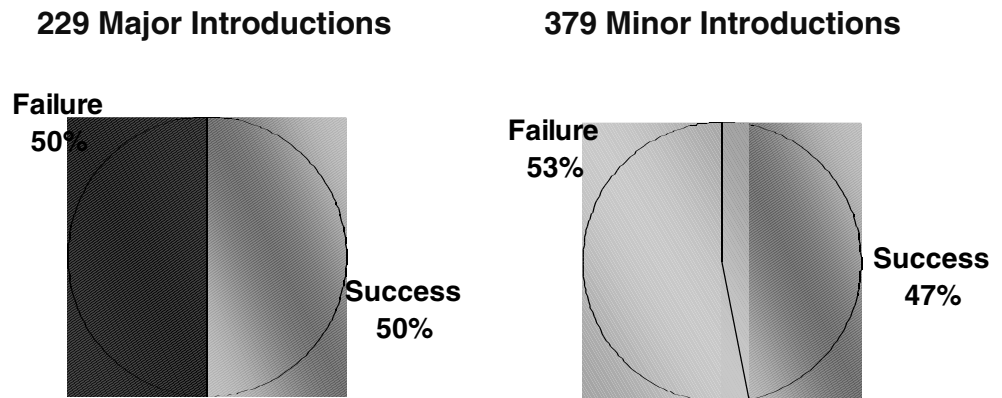


For the years 1997-1998 the data were summarized slightly differently into major and minor introductions. Figure 2 shows this data.

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**Figure 2. Successes and Failures of Major and Minor Introductions, 1997-1998**

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**Source: IRI New Product Trends 2000.** Analysis of food/drug/mass distribution and dollar sales for new major and minor introductions launched between October 1996 and October 1998 (looking at two years postintroduction) in 20 categories. Major: new brand or extension into a new segment. Minor: form/flavor extension (not sizes).

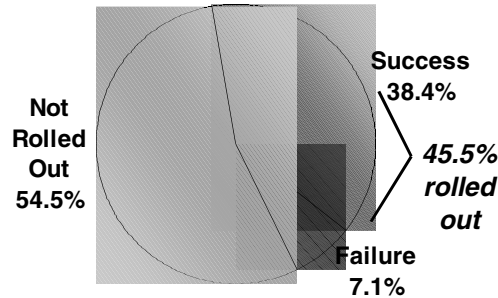
There has been an improvement in new-product success in the past seven years. That's the good news. The bad news is that there is still much room for further improvement. Data from the BehaviorScan test-market service shows that improvement is possible, as Figure 3 makes clear.

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**Figure 3. In-market Testing Significantly Reduces the Risk of Failure**

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**Of new products tested in BehaviorScan and introduced nationally, over 80% succeed.**



SOURCE: IRI *New Product Trends 2000*.

It is easy to show that the benefits outweigh the costs of using in-market testing. The rest of this article discusses why there are barriers to more profitability using existing metrics and makes some suggestions for improvement.

### **The Process of Using Metrics: Costs, Value of Information, and Rational Decision Making**

The general rational decision-making process is one that MBAs are exposed to more than once in their MBA program. The process is first to establish criteria, pick the best alternative, and then set up feedback mechanisms to continually evaluate the performance of the alternative. The real problem managers continually face is the uncertainty of how the evaluation will go. Most efforts go into trying to minimize the probability of making a decision that turns out not to have been the best option.

Market tests, market research, and experiments can significantly reduce the probability of making a wrong decision. Deciding which market tests, research, and experiments to run (in other words, which metrics to use) involves balancing the costs and the value of the information. If a market test can eliminate a 30 percent probability of losing 10 million dollars, then it has a value close to .3 times 10 million, or 3 million dollars.

Just as decision alternatives need to be rationally considered, so do research, testing, and experiment alternatives. Evaluation of the costs versus the expected value of uncertainty reduction should be carried out for all of them. Once the research, tests, or experiments are executed, their results must be interpreted without bias to best evaluate the decision options that were the subjects of the research.

In order to gain the most advantage from the above process, the decision makers must challenge existing rules of thumb and other mental models to make sure that they are consistent with incoming data and information from the marketplace.

### **Prerequisites for Using Metrics for More Profitable Learning**

The following steps and concepts are not exclusive and may overlap in some instances.

#### *Temper Your Overconfidence*

Behavioral researchers have shown over and over that people are generally optimistic. They overrate the chance of good events happening to them and underrate the chances of bad events. They are also overconfident about their relative skills or prospects. For example, Colin Camerer presented data in 1996 that indicated that 90 percent of American drivers in one study thought they ranked in the top half of their demographic group in driving skills.

The way people work in many firms may reinforce these biases toward optimism. It is human nature when making a presentation to management to emphasize the information supporting a new product or advertising campaign and to deemphasize contradictory information. To counter this tendency, some managers will assign staff to be devil's advocates who will effectively present contrary positions.

Management compensation and motivation at many firms also reinforce the optimistic biases. If new-product managers are judged on whether a new product is successful, and if they risk being fired or discharged if the product is withdrawn, they will do almost anything to keep the new product alive as long as possible. If one's career depends solely on the sales performance of a new product, one is not likely to be very rational in viewing information that indicates that the product will not do as well as might be hoped. If, conversely, a new-product team were judged on the overall performance of all the firm's new products, the team would be much more likely to eliminate the losers to concentrate resources on the likely winners.

The bias towards optimism causes managers to miscalculate the value of market tests by overstating their odds of making the right decision about a new product or advertising campaign. If managers are estimating the probability of making a wrong decision (which is rarely done explicitly at most firms) as a way of getting at the potential value of research, optimism will bias those calculations. For example, even though typical large packaged-goods marketers see more than 50 percent of their new products fail, most managers who are responsible for new products at those firms would estimate that the probability of failure for their new products is much lower than 50 percent—just as most drivers think they are better than average. If a senior manager would make one person or group responsible for evaluating the specific costs and value of all testing alternatives, and have that person or group evaluate the new-product development group on how well the decisions impacted profitability, it is less likely that the evaluations would be biased.

### *Challenge the Old Wives' Tales That Are Used as Mental Models*

Perhaps the same group that is evaluating the costs and value of testing and research projects should also be in charge of the mental models in use. First, they would ferret out those models, rules, and paradigms. This is a big job, because it takes analysis and probing of decisions to uncover exactly what rules, models, and paradigms hold sway. The group would evaluate the evidence supporting the rules, scrutinize and continuously challenge them, and keep a public record of what was learned. That record would be widely circulated and then become a part of the firm's paradigms.

### *Don't Overreact to Competition*

Many of the old wives' tales perhaps came about because managers have a tendency to overreact to competitive actions in spite of what the market may be telling them. A 1996 article by J. Scott Armstrong and Fred Collopy clearly showed this tendency. In a laboratory study in a simulated environment, when information about competitors' profits were provided, "over 40% of the subjects were willing to sacrifice part of their company's profits to beat or harm their competitor" (p. 188). They also found in a field study of large firms over a half a century that "firms with competitor-oriented (market share) objectives were less profitable and less likely to survive than those whose objectives were directly oriented to profits" (p. 188).

The prevalent use of benchmarking has to be interpreted in light of the above bias. Just because a successful competitor uses so much advertising, or gets a certain television advertising reach or frequency does not necessarily mean that the advertising is responsible for the competitor's success. A better benchmark would be to find the competitor who uses information and market tests the most profitably to get clues about improving your firm's use of tests and experiments.

### *Keep Time and Competitive Pressure in the Proper Perspective*

All too often, time pressures are used as an excuse to avoid doing in-market tests or performing research. George Day quotes one disgruntled manager in a packaged-goods firm: "Concept tests are viewed as obstacles by our product managers. They are rewarded for keeping their products moving ahead" (Day 1994, p. 13). Sometimes when the competitive value of keeping a new product or campaign secret is really large, time and competitive pressures may be legitimate reasons for forgoing tests or experiments. However, the data above show large costs in profitability for forgoing most in-market new-product testing. Again, as above, someone without a stake in the process should be evaluating the tradeoffs using all available objective data and making recommendations to management on what will most likely be most profitable.

A more subtle reason that time pressures get inappropriate emphasis is that many firms promote or move their managers so often that the managers' time horizon precludes the test from helping during "their watch" on the product. If a test will have value for the next three years, and a manager's time horizon left on the brand is nine months, then he or she will be more concerned with how the brand looks

after nine months than three years. One way to improve this process is to evaluate managers not just on current revenues and profits, but also on the expected value of tests and experiments under way that will help the brand perform more profitably in the future.

### **Conclusion**

The above suggestions should help firms to improve marketing metrics' contribution to shareholder value, whether the metrics be new or old reliable ones such as in-market testing. I think that sometimes we turn to new technology to help us when we could be even more productive if we used existing technology better.

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