***Market-Based Management***

**Marketing Metrics and Marketing Profitability**

1) Sales revenues, net profits, return on sales, assets as a percentage of sales, and return on assets are measures of internal financial performance that provide a market-based view of performance.

Answer: FALSE

2) To complement a business's internal financial performance metrics, a business needs a parallel set of external marketing metrics to track its market-based performance.

Answer: TRUE

3) A decline in relative product and service quality means that actual product or service quality has declined.

Answer: FALSE

4) A marketing return on investment of 150 percent means that for every dollar invested in marketing and sales expenses, the company is realizing $1.50 in marketing profits.

Answer: TRUE

5) A share development index of 40 means that the business or product has only obtained 40 percent of its share potential.

Answer: TRUE

6) Marketing performance metrics include competitiveness metrics and customer metrics, while financial metrics include service quality, customer value, and product performance.

Answer: FALSE

7) Customer performance metrics include measures of customer satisfaction, customer retention, and customer lifetime value.

Answer: TRUE

8) Pre-tax net profit and market share are examples of forward-looking metrics that are applied during a company's reporting period.

Answer: FALSE

9) Changes in marketing metrics such as product awareness, customer satisfaction, and customer perceptions of relative product quality and customer value generally precede actual changes in customer purchasing behavior.

Answer: TRUE

10) Dividing the NMC by the investment in marketing and sales produces the marketing return on investment.

Answer: TRUE

11) A business's operating expenses is its revenues minus its cost of goods sold and its expenses.

Answer: TRUE

12) The NMC of any proposed strategy must be lower than the current NMC in order to increase a business's net profit.

Answer: FALSE

13) One way to grow net profit is to increase the variable cost per unit.

Answer: FALSE

14) The net marketing contribution metric enables a company to measure the profit impact of a marketing strategy.

Answer: TRUE

15) Marketing return on sales (ROS) and marketing return on investment (ROI) are marketing profitability ratios that allow a business to evaluate its marketing efficiency.

Answer: TRUE

16) Which of the following is considered an external performance benchmark for a product's performance in the market?

A) sales revenues

B) net profits

C) return on sales

D) relative product quality

E) assets as a percentage of sales

Answer: D

17) Which of the following is true of the financial metrics used to gauge a product's performance in the market?

A) They report important ratios for profits, costs, and assets.

B) They provide insight into how the business or product is performing in the market.

C) They include measures of marketing performance, such as customer satisfaction, retention, and loyalty.

D) They allow a company to estimate its market share and customer value.

E) They are mainly external metrics of a product's performance in a particular market.

Answer: A

18) Which of the following is considered to be a marketing performance metric rather than a financial performance metric for a company?

A) gross profit

B) customer retention

C) sales-to-assets ratio

D) accounts receivable

E) earnings per share

Answer: B

19) Which of the following would be considered a competitiveness metric for a company?

A) marketing return on investment

B) relative service quality

C) marketing return on sales

D) capacity utilization

E) gross profit

Answer: B

20) \_\_\_\_\_\_\_\_ index a business or product against another similar business or product with respect to product performance, service quality, and brand image.

A) Competitiveness metrics

B) Finance-based performance metrics

C) Market share metrics

D) Internal performance metrics

E) Customer metrics

Answer: A

21) Chloe is examining her company's marketing performance metrics. Which of the following would be on the list?

A) capacity utilization

B) operating expenses

C) earnings per share

D) customer value

E) return on assets

Answer: D

22) Jack is examining his company's financial performance measures. Which of the following would be on the list?

A) net marketing contribution

B) market ROI

C) relative service quality

D) customer satisfaction

E) return on sales

Answer: E

23) Which of the following is an external metric for a company?

A) inventory turnover

B) net profit before tax

C) accounts receivable

D) revenue per customer

E) return on assets

Answer: D

24) Which of the following metrics does a company apply during an operating period rather than at the end of the operating period?

A) sales revenues

B) market share

C) inventory turnover

D) customer retention

E) return on assets

Answer: C

25) Which of the following is an internal financial metric?

A) customer awareness

B) market share

C) revenue per customer

D) product defects

E) customer satisfaction

Answer: D

26) Which of the following metrics would a company most likely evaluate at the end of an operating period?

A) inventory turnover

B) product defects

C) market share

D) customer satisfaction

E) late deliveries

Answer: C

27) Which of the following is an internal forward-looking metric for a company?

A) sales revenues

B) late payments

C) percent gross profit

D) return on assets

E) net profit before tax

Answer: B

28) Which of the following is an external backward-looking metric for a company?

A) intent to repurchase

B) customer awareness

C) perceived performance

D) customer satisfaction

E) customer retention

Answer: E

29) Which of the following is true of backward-looking metrics?

A) They tell a company where it stands with respect to current performance.

B) They provide insights on future performance.

C) They are applied at regular intervals during an operating period.

D) They include company metrics such as late deliveries and late payments.

E) They include marketing metrics such as customer awareness and customer satisfaction.

Answer: A

30) When considering marketing metrics for a company, market share is most likely to be \_\_\_\_\_\_\_\_.

A) an internal forward-looking metric

B) an external backward-looking metric

C) an internal metric that is used after the reporting period

D) an external metric that is used during the reporting period

E) an internal metric that can be used either during or after the reporting period

Answer: B

31) Which of the following marketing metrics is an internal forward-looking metric for a firm?

A) market share

B) customer retention

C) revenue per customer

D) inventory turnover

E) customer satisfaction

Answer: D

32) The primary purpose of company metrics is \_\_\_\_\_\_\_\_.

A) to achieve maximum customer satisfaction

B) to make optimal use of the organization's resources

C) to maintain an ongoing measure of marketing performance

D) to maximize the organization's return on assets

E) to minimize the defects in the organization's products

Answer: C

33) Expenses that change on a per-unit basis when production volume increases or decreases are known as \_\_\_\_\_\_\_\_.

A) variable costs

B) manufacturing overhead costs

C) marketing and sales expenses

D) indirect costs

E) operating costs

Answer: A

34) Which of the following types of costs is an allocated cost based on the use of the plant, equipment, and other fixed expenses needed to run the production operation?

A) variable costs

B) manufacturing overhead costs

C) corporate overhead costs

D) research and development expenses

E) marketing sales and expenses

Answer: B

35) Which of the following expenses would be included under the manufacturing overhead of a firm?

A) advertising expenses

B) fixed expenses for a building's facilities

C) cost of office supplies

D) income taxes

E) cost of materials for production

Answer: B

36) The formula used to calculate the operating income is \_\_\_\_\_\_\_\_.

A) operating income = sales revenues + cost of goods

B) operating income = sales revenues - cost of goods - SGA expenses - other operating expenses

C) operating income = cost of goods + SGA expenses + other operating expenses

D) operating income = sales revenues - SGA expanses

E) operating income = sales revenues + cost of goods + SGA expenses + other operating expenses

Answer: B

37) The cost of goods sold and the SGA expenses of an organization are $60 million and $25 million, respectively. Its other operating expenses amount to $15 million. Determine the total operating income of the organization if it generates sales revenues of $150 million.

A) $100 million

B) $90 million

C) $75 million

D) $60 million

E) $50 million

Answer: E

38) The operating income for TRX Inc. is $100 million. If the cost of goods is $30 million, SGA expenses are $15 million, and other operating expenses are $5 million, find the sales revenues for TRX.

A) $200 million

B) $100 million

C) $50 million

D) $150 million

E) $25 million

Answer: D

39) The net marketing contribution for a firm is the firm's \_\_\_\_\_\_\_\_.

A) profits

B) profits - (other operating expenses)

C) gross profit - (marketing and sales expenses)

D) (all revenues) - (all expenses)

E) (sales revenues) - (cost of goods sold)

Answer: C

40) Which of the following is true of the net marketing contribution of a firm?

A) It sets a benchmark to gauge improving or deteriorating marketing profitability.

B) General and administrative expenses are included to assess the net marketing contribution.

C) It is an internal in-process financial metric.

D) It is equal to the revenues of the firm.

E) It includes all operating expenses.

Answer: A

41) If TRX Inc's sales total $150 million, and the cost of goods sold is $50 million, calculate the percent gross profit for TRX.

A) 33.3%

B) 25%

C) 66.6%

D) 15%

E) 75%

Answer: C

42) Calculate the percent gross profit for a company if the sales revenue generated is $200 million, and the firm sells 60 products that cost $2 million each to produce.

A) 20%

B) 40%

C) 50%

D) 60%

E) 80%

Answer: B

43) Mason Enterprises' net marketing contribution of $50 million is derived from sales of $200 million. If its marketing and sales expenses amount to $20 million, what is its percentage of gross profit margin?

A) 40%

B) 35%

C) 20%

D) 25%

E) 30%

Answer: B

44) What is the total sales revenue generated by an organization that has a net marketing contribution of $25 million at a gross profit margin of 5%, and its marketing and sales expenses amount to $10 million?

A) $500 million

B) $600 million

C) $700 million

D) $800 million

E) $900 million

Answer: C

45) Palmer Enterprises has a net marketing contribution of $60 million. Its general and administrative expenses and other operating expenses are $20 million and $15 million, respectively. Calculate its operating income.

A) $95 million

B) $75 million

C) $45 million

D) $40 million

E) $25 million

Answer: E

46) The operating income of a company is $10 million, the net marketing contribution is $30 million and general and administrative expenses are $5 million. Calculate the other operating expenses.

A) $10 million

B) $5 million

C) $15 million

D) $20 million

E) $25 million

Answer: C

47) Marketing return on sales equals \_\_\_\_\_\_\_\_.

A) profits/sales revenues x 100%

B) gross margin/sales revenues x 100%

C) net marketing contribution/sales x 100%

D) net marketing contribution/marketing sales & expenses x 100%

E) sales revenues x % gross margin

Answer: C

48) What is the marketing return on sales (marketing ROS) for a product line that generates $20 million in sales revenues with a net marketing contribution of $5 million?

A) 20%

B) 25%

C) 34%

D) 35%

E) 40%

Answer: B

49) Marketing return on investment equals \_\_\_\_\_\_\_\_.

A) profits/marketing & sales expenses x 100%

B) net marketing contribution/marketing & sales expenses x 100%

C) gross margin/total expenses x 100%

D) net marketing contribution/operating expenses x 100%

E) sales revenues/marketing & sales expenses x 100%

Answer: B

50) The net marketing contribution for TRX Inc. is $25 million, and sales revenues equal $150 million. Calculate the marketing ROS for TRX.

A) 15%

B) 26.3%

C) 25%

D) 306%

E) 16.6%

Answer: E

51) What is the marketing return on sales (marketing ROS) for a product line that generates $40 million in sales revenues with a net marketing contribution of $32 million ?

A) 75%

B) 80%

C) 100%

D) 125%

E) 150%

Answer: B

52) The net marketing contribution for TRX Inc. is $20 million. The marketing and sales expenses come up to $4 million. Calculate the marketing return on investment for the company.

A) 66.6%

B) 300%

C) 500%

D) 100%

E) 50%

Answer: C

53) The product of market demand, market share, average selling price, and channel discounts is the \_\_\_\_\_\_\_\_.

A) marketing and sales expenses

B) net marketing contribution

C) net sales

D) operating income

E) marketing return on investment

Answer: C

54) Each unit of a product is sold at $5. The cost per unit is $2. What is the percent margin for the product?

A) 60%

B) 40%

C) 66.6%

D) 16.3%

E) 33.3%

Answer: A

55) In order to increase the net profit of a business, the NMC of any proposed strategy must \_\_\_\_\_\_\_\_.

A) be equal to the current NMC

B) be equal to the difference of the current NMC and the marketing and sales expenses

C) be equal to the total operating income

D) be lower than the current NMC

E) exceed the current NMC

Answer: E

56) Explain the advantage of using marketing performance metrics, and name and describe the four classes of marketing performance metrics. Give two examples of metrics used in each type of marketing performance metric.

Answer: Marketing performance metrics allow marketing managers to understand, track, and manage the market-based performance of a marketing strategy and provide a powerful complement to conventional measures of financial performance. The three classes of marketing performance metrics are:

(1) Market Metrics: These metrics gauge external market conditions and the attractiveness of markets. Market performance metrics include market growth rate, market share, market attractiveness, industry attractiveness and market demand to potential.

(2) Competitiveness Metrics: These external metrics track the competitiveness of a business' products. Competitive performance metrics include a business' performance relative to competition with respect to price, product quality, service quality, brand and cost.

(3) Customer Metrics: These external metrics track customer performance. Customer performance metrics include measures of customer satisfaction, customer retention, customer loyalty, customer awareness and customer value.

(4) Marketing Profitability Metrics: It measures the profit impact of an investment in marketing and sales expenses. They include net marketing contribution and marketing return on sales.

57) Name and describe the two marketing profitability metrics that allow a business insight into the relative marketing efficiencies of various net marketing contributions.

Answer: The two marketing profitability metrics are marketing return on sales (marketing ROS) and marketing return on investment (marketing ROI). These metrics allow a business to evaluate the profitability of a business and its marketing strategies and help a business better understand how marketing profitability impacts overall financial performance of a business.

(1) Marketing ROS — by dividing the net marketing contribution (NMC) by sales, we can control for the size of sales revenues. The higher the marketing ROS, the higher the financial performance as measured by overall return on sales, return on equity and return on invested capital.

(2) Marketing ROI — assesses the marketing productivity of an investment in marketing. Recognizing NMC as the measure of marketing profitability, we can standardize this marketing profitability metric by dividing the NMC by the investment in marketing, which is the marketing and sales expense. This creates a measure of marketing return on investment (ROI) that allows the manager to evaluate the efficiency of the marketing expenses used to produce a given level of marketing profitability. Marketing ROI also allows us to compare the marketing efficiency of different strategies, or compare one company to another. As with marketing ROS, companies with higher levels of marketing productivity produce higher levels of return on sales, return on equity, and return on invested capital.

MINI-CASE

The operating income of Carbon Footwear is $10 million. Its net marketing contribution is derived from sales of $80 million and the marketing and sales expenses amount to $15 million. The general and administrative expenses and other operating expenses amount to $20 million.

58) Mini-Case Question. What is the total amount of Carbon Footwear's net marketing contribution?

A) $10 million

B) $20 million

C) $30 million

D) $40 million

E) $50 million

Answer: C

59) Mini-Case Question. Calculate the percent gross profit generated by Carbon Footwear.

A) 52.50%

B) 54%

C) 55.75%

D) 56.25%

E) 60%

Answer: D

60) Mini-Case Question. If the total sales revenue generated was $100 million, the marketing ROS would be equal to the \_\_\_\_\_\_\_\_.

A) marketing and sales expenses

B) marketing ROI

C) operating income

D) net marketing contribution

E) general and administrative expenses

Answer: D