MASTERING MARKET ANALYTICS

Business Metrics – Practice and Application

EDITED BY

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# CONTENTS

ABOUT THE AUTHORS                                      ix

INTRODUCTION                                           xiii

1. WHY, HOW, WHAT?                                      1
   Robert Kozielski                                    1
   1.1. In the World of Chaos and Uncertainty          2
   1.2. Measurement — Trend or Necessity?              5
   1.3. Measurement Systems                            7
   1.4. Stages of Construction and Guidelines Regarding
        Implementation of Measurement Systems           15
   1.5. Measurement Index — Features and Selection Criteria 18

2. MEASURING MARKET STRATEGY RESULTS                    23
   Robert Kozielski, Michał Dziekoński, Jacek Pogorzelski and
   Grzegorz Urbanek                                    23
   2.1. Market Share                                    24
   2.2. Sales Growth                                    29
   2.3. Customer Satisfaction Index                     36
   2.4. Retention Rate                                  46
   2.5. Customer Loyalty Ratio                          51
   2.6. Churn                                           60
   2.7. RFM Index                                       66
   2.8. Customer Lifetime Value                         75
   2.9. Brand Value Index (BVI) — Measured with the DCF Method 84
   2.10. NPS                                           95
   2.11. Share of Wallet                                103

3. SALES AND DISTRIBUTION MANAGEMENT METRICS            113
   Robert Kozielski, Michał Dziekoński, Michał Medowski,
   Jacek Pogorzelski and Marcin Ostachowski             113
   3.1. Numeric Distribution                            114
   3.2. Weighted Distribution                           119
3.3. MAT Index 125
3.4. Share in Shops Handling 131
3.5. Share of Shelf Index 136
3.6. Product Turnover 141
3.7. Average Sales per Point of Sale 146
3.8. Price Index 151
3.9. Purchase Intention 156
3.10. Trial 160
3.11. Repurchase 165
3.12. Brand Usage 170
3.13. Penetration Rate 175
3.14. Market Coverage Index 182
3.15. Sales Force Efficiency Index 188
3.16. Cannibalisation Rate 194

4. MARKETING COMMUNICATION RATIOS
   Robert Kozielski, Michał Dziekoński and Jacek Pogorzelski 201
   4.1. Unaided (Spontaneous) Brand Awareness 202
   4.2. Top of Mind Brand Awareness 207
   4.3. Aided Brand Awareness 212
   4.4. Unaided (Spontaneous) Advertising Awareness 217
   4.5. Aided Advertising Awareness 222
   4.6. Reach 227
   4.7. Effective Reach 234
   4.8. Frequency 241
   4.9. Effective Frequency 247
   4.10. GRP 253
   4.11. OTS/OTH 259
   4.12. CPP 263
   4.13. CPT 269
   4.14. Response Rate 277
   4.15. CPS 282
   4.16. Conversion Rate 289
   4.17. Affinity Index 298
   4.18. Share of Voice 305

5. E-COMMERCE AND SOCIAL MEDIA INDICATORS
   Robert Kozielski, Grzegorz Mazurek, Anna Miotk and Artur Maciorowski 313
   5.1. Side Need Index 314
   5.2. Stickiness Formula 320
   5.3. Focus Index 325
   5.4. Freshness Factor 330
Contents

5.5. Customisation Index 335
5.6. First Purchase Momentum 340
5.7. CTR 345
5.8. CPA 349
5.9. CPM 357
5.10. CPC 364
5.11. CR 372
5.12. Exposure Index 380
5.13. Engagement Rate 383
5.14. Social Media Share of Voice 387
5.15. Brand Strength 391
5.16. Social Media ROI 395
5.17. Social Media NPS 399
5.18. Active Advocates 403

ACKNOWLEDGEMENTS 407

BIBLIOGRAPHY 409

INDEX 415
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INTRODUCTION

The Polish edition of this book was published in Poland in 2004. Back then, it was the first publication in the world to focus on marketing measurement, business analytics and marketing indices. The words of the main hero in the movie ‘The Beautiful Mind’ (i.e. John Nash) were quoted in the introduction to the first issue of the book. John Nash said that ‘…Conviction, it turns out, is a luxury of those who sit on the side-lines…’. This quotation is particularly significant nowadays in times when giants are falling before our eyes and creating an organisation worth tens of billions of dollars takes 2–3 years.¹ In such circumstances, humility as well as specific business impudence are becoming the key to success. A paradox which is just one of many in the modern world.

How else can we explain the fact that a company (Kodak), which not so long ago was one of the biggest corporations in the world, with an 85% share in the market of photographic equipment and a 90% share in the movie market, went bankrupt after 131 years of operations? It was ‘killed’ by the very product it created — a digital camera (in 1978).

Is the lack of humility the reason why a global company in the market of video and game rental services (Blockbuster), which at its peak hired 60,000 people and had 9,000 outlets, practically does not exist today?

Was market conservatism the reason why Nokia, until recently the leader in the mobile phone market with a market share of almost 40% (2008), lost out to Samsung and Apple?²

These examples are presented not only because they refer to well-known and popular brands. This is a much broader phenomenon. Babson’s Ilin Graduate School of Business proposed a hypothesis that 40 percent of the companies from the Fortune 500 Companies list will have ceased to exist by 2020.³ Companies which once held all the chief assets in their hands — financial resources, technologies, brands, access to customers — are vanishing from the market now. We are observing a paradox in which resources are not the only condition determining survival and development. The scale of resources always helps, that is obvious; but it is not the decisive factor as far as market success in the contemporary world is concerned. Thus, it is necessary to agree with the statement that, to a significant extent, we live in a world of short-term discontinuities caused by new radical technologies and ideas,⁴ and global economies and companies are hidden in the shadows; the former business realities and
solutions are still valid and effective, but innovative ideas and business models lead to creative destruction in many markets.\textsuperscript{5}

In today’s business world, change is no longer just a fascinating phenomenon and the subject of academic discussions. It has become a reality which can overwhelm, scare, paralyse or bring organisations to destruction. They may, however, provide business opportunities, be a driving force or a source of market success.

It is evident that the world has accelerated significantly. This is confirmed by the fact that, within the last decade or so, the period of creation of new products (the so-called time to market) has shortened by almost 50% globally — from 42 to 24 months on average. At the same time, the number of so-called genuine innovations has dropped by half while the percentage of so-called incremental innovations and improvements has increased almost two-fold\textsuperscript{6}.

What is the source of these fascinating changes and what challenges do these changes bring for organisations, marketing and marketers?

It is believed that the following four phenomena have brought about this radical change.\textsuperscript{7} First, digitalisation and computerisation which have brought new market opportunities. The leading companies of the 21st century are digital enterprises: Google, Apple, Facebook, Uber and Snapchat. In today’s real world, virtually every business must be digital to some extent, that is, it must exist in social media, have a sales platform and offer collaboration on the Internet, as well as use tools such as Google Docs, Dropbox or Asana.

Second, the break-up of continuity, referred to in English as the ‘dysfunction’, which is often difficult to translate into Polish. This refers to the radical change in the principles of market game which has taken place in recent years. Digital innovations create new industries quickly (Facebook) or completely transform existing brands (Apple).

Third, demonetisation — which means withdrawing from collecting fees from the end user of a product/service and concentrating on alternative models of financing (e.g. YouTube). The companies which do not charge final users are quickly gaining an advantage over those which stick to the traditional model.

Fourth, democratisation is connected with common access to modern technologies and community-related channels of communication. This is the element which, together with the possibility of communication between users, has brought an end of the era of experts. Customers jointly manage brands, ranges of products and marketing communication. Small start-ups successfully compete with large corporations by means of using social medial, free utility applications or phenomena such as crowdfunding and crowdsourcing.

Technology on one side and the problem of Big Data and artificial intelligence on the other are lurking in the background. Some details regarding the phenomenon of Big Data may be shocking. It is estimated that 90% of globally generated data have been created within the last 2 years, while just one properly computerised company creates 167 times more data in just 60 minutes than all the resources found in the US Library of Congress.\textsuperscript{8}
The Internet and innovative technologies have become the symbols of our times. They create challenges for countries, economies, organisations as well as for marketing specialists. As many as 80% of marketers are convinced that marketing must change substantially in the next 3–5 years. This is the result of studies published by The Economist. What is more, this change will be taking place much faster than in previous years. This refers to a substantial extent to the role of marketing in an organisation as well as to the tools applied and the skills of marketing specialists. The changes, as indicated, will refer to several key areas:

- Marketing will be a source of revenue, not costs, to a much greater extent than at present.
- Marketing will be responsible for building and managing customer experience.
- The role of marketing in customer experience management will result in, among others, an increase of the importance of actions aimed at building customer involvement understood as strengthening the relationships with a given brand or company.
- Digital technologies, strategy and planning and data analysis will be essential skills of marketers.
- The largest investments in the scope of marketing activities will be aimed at social media, mobile marketing, marketing analysis, email marketing, etc.

A deeper analysis of the quoted results of research studies and forecasts indicates the increasing role of the so-called marketing analytics. A contemporary manifestation of the increase in the significance of marketing analytics is the appearance of new professions, for example, Marketing Insight Manager or Data Scientist. As might be expected, other professions associated with phenomena such as sharing economy, open innovation, marketing automation or crowdsourcing will soon appear. All this leads to a situation where the book ‘Marketing Metrics’ published more than 10 years ago, is consistent with current market trends. The knowledge regarding measurements is becoming no longer just a privilege, but an obligation of the people specialising in marketing, the market and business.

The intention of the authors of this book was and still is to search for a new identity and role for marketing by providing the tools which enable companies to create a competitive advantage thanks to organisational market learning, improving the effectiveness of operations as well as measuring the value of generated intangible assets, including in particular the ones created through marketing activities. However, our objective has not been to work out a complete and universal set of marketing measures. To be honest, this is not possible owing to the various stages of development of organisations, the different conditions in which they compete, the different levels of potential development, the varied levels of managerial expertise etc. The aim of this publication is to stimulate readers to take a look at the application of measures, which are often known but not used or only used to a limited extent, from a fresher perspective and to inspire readers to create
their own sets of indices that will measure the results of their activities in the best possible way. We have chosen the indices which are broadly applied and provide a lot of information. When selecting them, we have used the opinions of people working for large corporations as well as those employed in small companies. We have tried to include the point of view of those who deal with sales and marketing every day on a regular basis.

This book comprises two separate parts. The first (Chapter 1) serves as a justification for the matters discussed herein and as a theoretical basis of the measures described in the second part; in particular, it presents different systems of measuring market operations. It also indicates the most frequent mistakes made by organisations and managers during the process of building measurement systems, as well as how to avoid them. Thanks to several important publications as well as the authors’ practical experience, this part of the book has been largely modified and supplemented as compared to previous issues.

The second part (Chapters 2—5) includes descriptions of 61 indices divided into four groups depending on the level of marketing management (strategic and operational level) and the area of application (sales, distribution, marketing communication, e-commerce and social media). Each index has been described based on the same pattern. We have tried to focus mainly on the application-related nature of the presented measurement tools. The descriptions have the following layout: definition and significance, conditions of application, stages of calculation and examples of the application of individual indices. Thanks to the test questions, case studies and tasks with solutions included in the book, the reader will have an opportunity to verify his/her skills related to index calculation and, what is more important, interpretation and drawing conclusions.

Robert Kozielski
Editor

NOTES

1. YouTube went from being a start-up to being purchased by Google for $1.4 billion in less than 18 months. Groupon leapt from conception to $6 billion in value in less than 2 years. Whereas traditional Fortune 500 companies took almost 20 years to reach capitalisation of 1 billion dollars, today’s companies have done it in 2—3 years. For example: Uber, Snapchat, etc. (Ismail, Malone, & van Geest, 2014).
2. The company was taken over by Microsoft in 2013.
3. Ismail et al. (2014).
7. Ismail et al. (2014).
CHAPTER 1

WHY, HOW, WHAT?

Robert Kozielski

ABSTRACT

Changes are inevitable and immanent elements of the contemporary world. The study in this subject matter was carried out in 30 cities all over the world. It has been discovered that the pace of life is 10% faster now than it was in the early 1990s. In addition, the ‘pace of life’ has a cultural value today. Speed means both progress and success. Deceleration means failure and loss. Organisation’s ability to adopt to changes as well as stay agile may be perceived as the source of relatively sustainable competitive advantage. Based on this ability, four kinds of organisations (adaptive, visionary, opportunistic and passive) as well as three levels of companies’ ability to compete were indicated. Companies of the highest level are ready to compete by its broader competences on market knowledge. Business metrics and market measurement systems are the key elements of building market knowledge and creating sustainable competitive advantage. Here the reader can find the presentations of marketing audit, benchmarking, activity-based costing, Balanced Scorecard, performance pyramid, EFQM excellence model, marketing ROI, performance prism along with the key tips and hints for selecting business metrics and building measurement systems. Development of business measurement systems is a sophisticated process, more chess then checkers. For every organisation which is ready to make informed decisions and increase its ability to compete with a long-term perspective, development of an efficient measurement system is a starting point.

Keywords: Business measurement system; competitive advantage; business metrics; agile organisations
1.1. IN THE WORLD OF CHAOS AND UNCERTAINTY

A paradigm shift is a symbol of the contemporary world and – to be more precise – the market or management. Modern technologies are constantly becoming part of our everyday life. Ideas, concepts and new solutions are spread with the speed of the Internet. Social media enable individuals, groups and entire communities to organise themselves in a completely unfamiliar manner. Striving to possess and consume is marked by economic uncertainty and market volatility. Tens of thousands of companies go bankrupt each year. They are replaced by new enterprises and businesses. Owners of the companies which failed look back and wonder where they went wrong and what mistakes they made. Or perhaps it was just a coincidental occurrence of unfavourable external business circumstances?

Changes are determined by macro trends as well as numerous micro factors which affect customers, organisations and markets. Bioengineering, artificial intelligence, nanotechnologies, and robotics on the one hand and the erosion of business models based on the economy of scale, the shortening of product life cycles, the disaggregation of market sectors, the free flow of information and self-organising customers on the other hand have led to a situation where new methods and ways of operating in the market are mentioned and discussed. Crowdsourcing, sharing economy, design thinking, business analytics and marketing automation and open innovation are just some of them.

A question about the general methods used by organisations to cope with such changes arises in these circumstances. From the perspective of an organisation’s reactions to the changes taking place as well as to the consequences these reactions bring to the organisation, we can identify four types of organisations or market behaviours:

1. Adaptive organisations – such an approach is unquestionably accepted as the main and most disseminated method of operation. Observing the changes taking place in the business environment leads to a situation where companies are trying to adapt to the identified changes. The emphasis on a healthy lifestyle results in the appearance of healthy food or fitness centres on a large scale. Longing for tradition and attachment to national values results in the launch of regional beer brands.

2. Visionary organisations – according to P. Drucker, the best way to predict the future is to create it. Such behaviour in an organisation is accompanied by a certain risk. It is not about adapting to changes, but rather foreseeing them and acting faster. Such an activity refers to what the companies and leaders usually called precursors. Their decisions are often the subject of laudatory paeans. Unfortunately, it often happens that before the proverbial ‘needle in a haystack’ is found, one needs to get burned many times. The emphasis on the aesthetics and ease of operation of Apple products 40 years ago, when a computer was designed for a narrow group of specialists, was
considered back then a sign of madness, or perhaps this was just an example of predicting the future?

3. Opportunistic organisations — such behaviour is linked with the conscious selection of a path different from the commonly accepted path. This is an alternative form of activity in relation to an adaptive organisation. Adaptive organisations observe changes and adjust their operations to the most visible and widely acceptable ones, while opportunistic organisations also search for trends, but to a much smaller extent, accepted or expressed by a much smaller group of customers. Usually, these are trends which are opposite to mass trends. For example, the common fascination with Facebook has led to the formation of a group of the so-called logged out.

4. Passive organisations — this type of behaviour inevitably leads to failure after a certain amount of time. The previously described types of behaviour have been associated with market observations, seeking an answer to the changes taking place and had a proactive character. In the case of the fourth type of behaviour, organisations do not observe changes in the business environment or do not react to the changes taking place. Sometimes it may be surprising as such an approach leads directly to bankruptcy. Nokia and Kodak are prime examples of operations being a result of the lack of knowledge and skills, which resulted from business ignorance, a conviction that if something worked well in the past it will be equally effective in the future, or simply organisational and strategic complacency.

The changes taking place in contemporary markets reinforce the need to initiate adaptation processes. According to Ph. Kotler and J. A. Caslione, never before have there been so many internal ties and interdependencies in the world than at present. Globalisation and technology are conducive to the formation of a ‘new normality’. Turbulence creates and will continue creating market chaos as well as increasing the risk and uncertainty of competing. This leads to the acceptance of one of three (adaptive, visionary, opportunistic organisation) methods of operation (adopting the model of passive organisation leads to failure), among which adaptability is the most common approach. Observing market changes and adjusting to them may involve changes in the tools and methods of action employed, strategies and system of organisational functioning, as well as the way of thinking and the philosophy of action.

Taking the above into consideration, an organisation’s adaptability, and therefore its sources of competitive advantage, may be classified at three levels (Figure 1).

Third-level competition is the easiest way to achieve market success. It involves the application of various methods and tools which enable a reduction in costs and an improvement in value for customers. The organisations employing this approach will search for new methods and tools which will not be an element of the overall operating system of the company, but will be disassembled and used in a piecemeal way. Organisations will rather concentrate on the tools and not on
the modification of the method of operation. This applies, for example, to the implementation of solutions regarding customer service standards: Total Quality Management, Customer Relationship Management or Enterprise Resource Planning, but without any changes in the functioning of the organisation itself. Such an approach may bring about positive effects in the short term; however, it does not allow for the keeping of the market advantage in the longer term as it is easily imitated and often has a vast number of substitutable solutions. As a consequence, the organisations which compete in this manner quickly lose their advantage and begin looking for more effective tools and methods.

Second-level competition is linked with a change in the formula and manner of functioning of an organisation. The approach to the market game is more complex and based on a system change within the organisation itself. Tools and methods will no longer suffice; creating a coherent system, usually unique for the entire organisation which puts the approach to the market game in order, is required. The method of competing, hence the stability of the market advantage, is not based on one resource or skill, but on the ability to create a short-term combination of methods and tools or resources and skills that is unique and hard to follow. A specific corporate strategy or concept of actions is created. Loss of advantage is not connected with the takeover by competitors of one tool or method, but the entire system. Naturally, it is possible, but requires a lot more time and resources. Such examples may include the KAIZEN system used by Japanese companies or the four-leaf clover model.11

First-level competition is the highest of the presented methods of playing the marketing game. It is associated with the philosophy and mindset of an organisation as well as its ability to adapt and change. It is not only a set of methods

Figure 1. Three Levels of Competition. Source: Kozielski, Mardosz, and Matuszewska (2017).
and tools or a unique system of company operations, but an ability to observe the market and understand changes, and a high level of responsiveness. Such an approach is compatible with the conviction that an organisation’s ability to learn the market may be the only permanent source of competitive advantage, hence market success.

The three levels of competition enable the evaluation of a given organisation’s ability to achieve success. The third level is the easiest to reach but also the simplest to copy. Reaching the first one is hardest, but at the same time it is characterised by the features of a permanent competitive advantage. Nowadays it is emphasised that these simple sources of third-level competitive advantage have been virtually exhausted.¹²

From the perspective of adaptability, each level requires market knowledge. A knowledge that is built based on measurement systems and market indices. What makes these approaches different from one another is the role and manner of their application. The least significant with simultaneous concentration on tactical aspects at the third level is essential at the first level with a holistic approach to measurements. Either way measurements have played and will play a significant role in the process of managing and building competitive advantage.

1.2. MEASUREMENT – TREND OR NECESSITY?

New forms of competition require new methods of measuring. Methods of measurement give credibility to new forms of competition and enable the elimination of mistakes made during marketing activities. Measurements of marketing activities make it possible to treat marketing as an investment with a specific rate of return within a given period.

Marketing measurement is significant not only from the perspective of an organisation’s ability to compete but also from the point of view of building effective platforms of communication between marketing and other divisions of a company and the management board or shareholders. It often happens that the things which seem important to marketers, such as brand awareness, customer loyalty or satisfaction, are not important to the management board, owners (profits, return on investment or dividend level etc.) or employees of other divisions (unit production costs, level of stocks, employee performance etc.). There is an urgent need to create a system of communication based on a language that is comprehensible to other partners within an organisation. This language should be based on measures such as brand value, customer value (management board, owners), sales increase dynamics, shortages of goods, Cost per Sale (for other divisions).

Measuring the results of marketing activities has been a key area of interest for many researchers and managers. It still remains an important area of
interest and analysis for many companies.\textsuperscript{13} This refers particularly to organisations which spend a lot of money on marketing activities.\textsuperscript{14} The history of marketing measurement is not new — it has been going on for more than 60 years. However, it has been claimed for a long time that measuring the effectiveness or productivity of marketing is extremely difficult if not impossible. In 1948, N. Houston from Harvard University claimed that the quantitative assessment of marketing effectiveness could not be performed.\textsuperscript{15} This unambiguous position was somewhat verified at a later stage, but it was still believed that measuring marketing productivity, which does not create anything tangible, was limited.\textsuperscript{16}

In the 1950s and 1960s, the efficiency of marketing became a subject of interest mainly for financiers and accountants. They observed the main source of marketing costs in distribution, and hence they concentrated their analyses on this particular area. It is estimated that more than 1000 articles were written at that time, which presented varied approaches to the analysis of marketing costs and techniques of measuring product profitability, distribution channels, geographical markets or order volumes.\textsuperscript{17} At the beginning, CH. Sevin and then Ph. Kotler together with W. Gregor and W. Rodgers made a significant contribution to the development of the concept and method of marketing evaluation.\textsuperscript{18} Thanks to their work, attempts aimed at distinguishing two trends in marketing measurements were made. The first trend concentrates on productivity measurement (efficiency-oriented approach). The second trend focuses on a broader aspect, that is, a marketing audit (effectiveness-oriented approach).\textsuperscript{19} However, the two trends often overlapped and it was difficult to separate one from the other. For the purposes of this book, we are going to describe marketing productivity with reference to both efficiency and effectiveness.

Initially, the traditional approach to marketing measurement limited the possibility of performing a complete assessment. It caused marketing measurement to be fragmentary and chaotic, and isolated tools or marketing activities were subject to assessment — without taking the full processes into account. Therefore, the work carried out was not complete. Although it provided opportunities to assess marketing activities, it was still highly limited. As a consequence, it was often criticised. This refers to projects such as MAX (which concentrates on the improvement in advertising financing processes), PIMS (examining the interrelation between market share and profitability) or entry and exit measures worked out by N. Borden (the issue of combining financial and marketing parameters, without considering the external factors which determine the effects of a company’s operations). Leaving out the fairly general model of marketing audit worked out by Ph. Kotler, W. Gregor, and W. Rodger in 1977, it should be emphasised that as late as in the second half of the 1990s attempts were made to create models that would provide a chance for a systematic and complete assessment of marketing activities. The following projects serve as examples: R. Shaw — MSAT (Measurement Systems Assessment Tool), Arthur Andersen — KMAT (Knowledge Management Assessment Tool),\textsuperscript{20} or
T. Ambler’s ‘Marketing Metrics’. Taking these more complex projects into account, the understanding of marketing productivity and its assessment begins to be much broader. Marketing productivity is defined as an ability that can be expressed in numerical values to create added value through marketing in relation to incurred expenditure. The ability to create added value results from the ability to acquire and keep customers. Consequently, a proper assessment of productivity must include the economic consequences of acquiring new and keeping existing customers. Such a defined measurement of marketing productivity confirms the need for combining financial and non-financial measures when conducting an assessment. An organisation’s ability to acquire and keep customers, which describes its ability to compete, depends, on the one hand, on the efficiency of the organisation’s functioning and, on the other hand, the specificity of the company and the sector in which it competes.

Therefore, a measurement of marketing results must, first of all, include both internal processes within an organisation and the dynamics of changes taking place outside it. Second, a full assessment must relate to the performance of the sector and the activities undertaken by competitors, or compared with the results achieved in other markets. Recognising the complexity of such an assessment and the danger of comparing measures achieved in completely different conditions, such relativisation provides an opportunity to identify the areas that require the quickest improvement. It should be noted that no universal set of tools or methods of assessment is available – just as there is not one concept for the achievement of market success. The ability is based on selecting a set of tools and methods which will show and assess the position of the company in the market to the fullest degree, as well as indicating potential improvements. This will enable creative learning in order to avoid mistakes in the future and will provide a chance to build the system of a ‘learning organisation’, based on productivity assessment measures.

Marketing measurement and assessment also provide a series of other benefits. Measuring marketing and other market activities makes it possible to better allocate the resources of an organisation, to better understand the interrelations between expenditure and the results achieved, to clearly distinguish between expenses and marketing investments, or increase the effectiveness of management and the shaping of a new organisational culture, and create an image of a public trust organisation. Such a measurement requires the ability to build a full measuring system and select appropriate measures.

1.3. MEASUREMENT SYSTEMS

From the outset, it should be noted that the systems discussed hereinafter are not the only ones that exist; what is more, they should not be considered universal models. They should be treated as a certain suggestion of an approach to
building measurement systems; as an intellectual construct enabling selection of the most appropriate form from the perspective of every organisation. Some of the most popular models have been presented below.

1.3.1. Marketing Audit

The marketing audit was introduced for the first time by A. Shuchman in 1959. He defined it as a systematic, critical and objective review and assessment of the marketing activities — objectives, policies and assumptions, which lie at the heart of the applied methods, procedures and activities of individuals and organisations engaged in the implementation of the policy aimed at achieving the set objectives. The area of interest in the audit was modified and expanded over the subsequent years. The generally accepted definition of an audit is the one which describes it as a universal, systematic, independent and regular review of the strategy, objectives, activities and environment of an organisation or strategic business units, aimed at detecting problems and opportunities, and recommending activities which would positively affect the results achieved by the company. In accordance with this definition, the principal areas of an audit were indicated — the audit of a company’s business environment, strategy, organisation of marketing activities, marketing systems, marketing productivity and functions. Such an approach to a marketing audit became, on the one hand, a forerunner of the development of market orientation and, on the other hand, led to paying attention to the competences and marketing assets, which could be used to build a market advantage.

Marketing auditing, despite its long history, still encounters many problems which mainly refer to the implementation stage. Specifically, they relate to the absence of independent auditors, a poor level of involvement among the company’s personnel in the process of assessment, the limited availability of information and poor internal communication. Moreover, these shortcomings lead to a situation where a marketing audit is not carried out systematically, is not associated with the comprehensive control system, does not provide solutions, but rather identifies problems. It should be added that the method of qualitative research dominates in some auditing techniques, which limits significantly the possibility of treating an audit as a measurement system. For this reason, the authors postulate a broader application of indices during an audit and include it in the control and assessment system operated in a given company.

1.3.2. Benchmarking

Benchmarking is one of the most popular management tools used, among others, in such areas as knowledge management and process improvement.
The concept of benchmarking is linked with Xerox, a company which at the beginning of 1980s introduced benchmarking as a response to falling market share values. At the end of the same decade, the company regained its share of the market, reduced costs, improved quality and avoided a financial catastrophe. Other companies, which equally effectively used this tool, included Ford, Kodak, General Motors, Motorola, AT&T and Du Pont. From a theoretical perspective, benchmarking is also associated with the development of the concept of Total Quality Management.

Benchmarking involves comparing the activities of a company with the best, identifying any differences and making changes on that basis. It is based on a comparison of specific parameters achieved by the company with those recorded by the best (in a given sector, in the market, within the company). Therefore, it focuses on the identification of those business areas that require improvement. This refers to the strategic level, operations as well as management processes. Benchmarking is also associated with the market-based process of learning, which leads to the building of competitive advantage.

Comparing the strategy and operations as well as individual processes allows the company to identify profitable areas of the market, forecast the changes taking place in a given sector, determine key success factors, find strengths and weaknesses in competitors, and also to control and reduce the costs of operating, increase the efficiency of processes, learn the market and undertake actions aimed at internal improvements. The idea of benchmarking is also broadly applied in selected methods of company auditing. The availability of information, on the one hand, and the selection of proper benchmarks, that is, control parameters and best practices, on the other hand, are the most important limitations of benchmarking. Nevertheless, benchmarking belongs to the most widely applied systems of measuring operations, and uses various measures, including market measures, to a significant extent.

1.3.3. Activity-Based Costing

In the second half of the 1980s, dissatisfaction with the traditional system of cost accounting led to the development of a novel approach, referred to as activity-based costing (ABC). The ABC system, despite being a system for measuring costs, was and still is perceived as a tool for the improvement of behaviour patterns and practices within an organisation. ABC concentrates not only on the relationships between costs and the activities which cause them (the so-called cost drivers), but also focuses on the evaluation as to whether these activities provide added value. This enables effective decision-making with reference to cost reduction. ABC makes it possible to track operations within an organisation, analyse and evaluate them from the perspective of the whole process, and generate values. Moreover, besides cost cutting, ABC
enables more effective decision-making, an improvement in management performance, and an increase in the company’s competitive advantage.\textsuperscript{46}

Having observed the values offered by ABC, many companies have implemented this accounting system.\textsuperscript{47} At the same time, however, next to successful implementations, there is also evidence of major problems with the introduction of the system in many companies.\textsuperscript{48} It is said that sometimes too much attention is paid to the architecture of the system and IT matters, and too little attention is paid to organisational factors.\textsuperscript{49} From time to time, this system is treated as a technical (not administrative) innovation, and little emphasis is placed on the behavioural changes and requirements towards staff which accompany it.\textsuperscript{50} This system is often criticised due to its excessive subjectivism with reference to cost allocation.\textsuperscript{51} Attempts are made to reduce those weaknesses\textsuperscript{52}; however, just like in the case of a marketing audit, the ABC system should become an element of the entire organisation if it is to fulfil the tasks and meet the expectations linked with market operations. It is worth noting that, although the ABC system is a system of cost accounting, it also includes non-financial parameters. Therefore, it is somehow connected with the process and a holistic approach to market and company operations.

\subsection*{1.3.4. Performance Pyramid}

The performance pyramid is a system worked out by K. Cross and R. Lynch at the turn of 1980s and 1990s. It is based on the need to use objectives and measures as connectors between the vision and strategy of a company and its everyday operations.\textsuperscript{53}

The performance pyramid is composed of four levels. The organisation vision, which defines the markets and the method of competition, can be found at the top. The second level is the level of business units and the criteria for their evaluation. According to the authors, the criteria for success most often include short-term financial goals (cash flow, profit) and long-term market objectives (market share). The third level of the pyramid is referred to as business operation systems and includes elements such as customer satisfaction, organisational flexibility and productivity. It forms the link between traditional management indices of the higher level and operational measures. This includes internal functions within an organisation, policy, procedures and support systems. At the bottom level of the pyramid, we will find the measures that can be monitored on a daily basis by the staff and managers, that is, quality, promptness of deliveries, order execution time and wastage. The first two affect customer satisfaction, the second and third define flexibility, while time and wastage determine productivity.\textsuperscript{54}

The main strength of this model is the attempt to perform integration between the company aims and the operational parameters of activities, and
translating strategic aspects into operational ones. The accusations refer to the limited possibility of identifying the key indicators and the application in the process of organisational improvement.\(^5^5\)

### 1.3.5. EFQM Excellence Model

As opposed to the system discussed above, the European Foundation for Quality Management (EFQM) model was worked out at the turn of 1980s and 1990s as a method of evaluating the company’s activities in the scope of quality management and improvement processes. The EFQM was established in 1988 and gave its first European Quality Award in 1992.\(^5^6\)

The EFQM model is based on nine criteria divided into two groups. The first one, referred to as ‘enablers’, is responsible for 50% of the total evaluation of company operations. It includes leadership, people management, policy and strategy, resources and processes. The second group (also responsible for 50% of the total score) includes the so-called results. They are employee satisfaction, customer satisfaction, impact on communities and business results.\(^5^7\) The assessment procedure is constructed on the basis of the company’s self-assessment. Even though the model was created as a criterion for giving awards, it is used by many companies as a system for the evaluation and improvement of performance.\(^5^8\)

The EFQM model enables the improvement in the effectiveness of undertaken decisions as well as an increase in leadership competences, as well as indicating the areas that need to be improved with the aim of increasing the satisfaction of shareholders.\(^5^9\) Nevertheless, EFQM does not provide any suggestions as regards the strategy or activities which should be implemented in order to improve performance. It only indicates the areas that should be analysed and evaluated.

### 1.3.6. The Balanced Scorecard

The Balanced Scorecard, which was created a dozen or so years ago, is probably the most popular system of company operations measurement and performance evaluation. The concept was born at the beginning of the 1990s when the Nolan Norton Institute, a research branch of KPMG, financed research studies entitled ‘Measuring Performance in the Organization of the Future’. After 1 year of research among 12 selected companies, D. Norton, head of the Nolan Norton Institute, and R. Kaplan, an academic consultant invited by Norton to collaborate, developed the Balanced Scorecard model in which an organisation’s strategic objectives and mission can be transformed into a set of measures.\(^6^0\)
The Balanced Scorecard combines financial and non-financial measures and gives managers a quick and comprehensive overview of their business. It includes financial parameters which provide information about the results of operations as well as non-financial parameters which are treated as the driving forces of financial results in the future. As a consequence, R. Kaplan and D. Norton propose taking a look at company operations from four perspectives, financial (shareholders), customer, internal processes and innovation and learning, which were quickly changed into the perspective of development – ‘learning and growth’.

There have been many reports describing successful Balanced Scorecard implementation. Since the moment of its introduction, the system has been improving. Generally, however, it can be said that the Balanced Scorecard model places an emphasis on four management processes: building harmony within an organisation around its vision and strategy, communicating the strategy within the organisation and involving individual people and organisational areas to implement it, business planning enabling the integration of financial and organisational plans and strategic learning of the organisation.

As a consequence, the Balanced Scorecard enables increased effectiveness and productivity by means of concentrating on the strategic areas and fields of operation of an organisation. It allows cost cutting through the application of comprehensible indices in internal communication. Moreover, thanks to the Balanced Scorecard, a company can increase profits, explore new opportunities and potential, as well as recording a higher return on investment in intellectual capital.

According to S. Tangen, with reference to other authors, the main weaknesses of the Balanced Scorecard model belong to two major areas. The first allegation refers to the fact that the Balanced Scorecard is designed with the aim of providing top management with a comprehensive overview of the company, its functioning and performance. This limits substantially the possibility of using the model at the operational level. Second, the Balanced Scorecard model indicates the areas where a measurement of activities should be conducted. It does not, however, provide information about how to choose proper measures, implement them and apply them in the process of business administration. Moreover, the Balanced Scorecard model does not take into account the perspective of competitors. Considering the objections presented above, it is appropriate to state that, among all measurements systems designed so far, the Balanced Scorecard is a system which treats an organisation most comprehensively and approaches its operations from the side of processes; additionally, it combines financial and non-financial parameters to the fullest extent. Besides, this system combines and translates a company’s vision and strategy into management systems and processes.
1.3.7. The Performance Prism

The performance prism concept was developed at the beginning of 2000 and is based on the assumption that the needs and expectations of all shareholders are the starting point for defining the measures of activities. This assumption opposes to a certain extent the common conviction that assessment parameters should result from a strategy. This measurement system includes five perspectives — the satisfaction of stakeholders (investors, customers, intermediaries, employees, governmental agencies, local communities, suppliers), strategies (corporate, business units, brands, products, services, activities), processes (designing products and services, generating demand, fulfilling demand, planning and company management), competences (personnel, practices, technology, infrastructure) and the contribution of shareholders.

The performance prism model as a measurement system provides a comprehensive overview of a given company’s operations. Moreover, this system goes beyond the traditional approach to measurement, and the measures are designed based on the strategy and all groups of interests. However, owing to an elevated level of generality, this model does not indicate solutions or methods of implementation. Therefore, it serves more as a concept of business measurement and management, rather than just a measurement system. Hence, its efficient implementation is effectively limited.

1.3.8. Marketing ROI

The roots of the concept of marketing ROI date back to the 1960s and 1970s when the dynamic development of advertising was possible thanks to the emergence of television. Dynamically growing expenses were not measured in any practical manner. Only simple advertising indices were applied. Today, the environment is aware of the need for changes. J. Stenegel from the American Association of Advertising Agencies has recently observed that the current marketing model does not fulfil its tasks; marketers have been using the traditional model up till now, which is no longer efficient in the new business circumstances. The concept of marketing ROI as a system of measuring market activities was developed at the beginning of 2000.

The idea of using marketing return on investment is based on several premises. First of all, marketing — as well as other activities — should be treated as an investment, not as a cost. Second, if a company’s objective is to ensure the maximisation of profits in the long term, then this goal should be identified and communicated to the marketing department. Third, technological solutions have not only enabled access to information but also limited the barriers associated with marketing measurement.
The hierarchy of marketing measurement worked out by J. Lenskold begins with the goal of an organisation, that is, profit. Achieving maximum profit is possible among others by means of maximising marketing ROI. Maximisation of marketing ROI is possible thanks to an increase in the number of customers, the CLV index and limitation of costs.

The marketing measurement system based on the return on investment is, on the one hand, a manifestation of the tendency towards measuring market activities and, on the other, combining financial and non-financial parameters. A transfer of principles from the financial market into marketing (determine objectives and the horizon of investments, find and use financial leverage, manage risks, monitor return) brings benefits to both. The system of marketing measurement based on ROI limits the possibility of improving operations as it is more focused on effects. Moreover, it shows the process approach to the implementation of market activities to a lesser extent.

The presented systems of measuring company operations are just part of all systems created in recent years. It may be justified to add to the list one of the most commonly applied systems, that is, the sales funnel. Despite making an effort to look at a given organisation as a whole and implementing a process approach, most of them were associated either with accounting systems or with production.

An analysis of the presented measurement systems and improvements in the company’s operations makes it possible to claim that there is no system that would be universally accepted and considered dominant. Even the Balanced Scorecard model faces some objections and is not a system commonly implemented in practice. Therefore, we need to agree with R. Kaplan and D. Norton who, at the initial stage of designing the ‘Balanced Scorecard’ model, acknowledged that it was not a template that could be used in any company, regardless of its specificity, sector and strategy. Different market situations, business conditions, accepted strategies of development and competition require different systems.

It is, however, possible to say that a measurement system which, on the one hand, would enable control and transfer of the concept of operations onto operational parameters and, on the other hand, would create opportunities for the improvement in activities and learning should clearly define a set of areas subject to an assessment and, at the same time, should indicate the associated measures which would reflect the company’s strategies and objectives. Moreover, such a system, according to A. Ghalayini and J. Noble, should place the emphasis on time as the strategic measure of activities and should enable the updating of assessment areas, measurement parameters and accepted standards. Such a system should prevent sub-optimisation and should serve as a practical tool for the improvement in operations. What is more, this system should be based on both financial and non-financial parameters, and should be a tool used by both top management and lower level personnel. Therefore, measurement indices are key elements of such a system. This system should
provide an opportunity to build knowledge within an organisation, support the process of learning the organisation and stronger market orientation. Thanks to such ties, it provides the chance to achieve a relatively strong competitive advantage.

1.4. STAGES OF CONSTRUCTION AND GUIDELINES REGARDING IMPLEMENTATION OF MEASUREMENT SYSTEMS

A system for the measuring the effects and marketing activities in an organisation can be a source of knowledge, an inspiration, development and learning, building effective strategies, and improving performance. It may also, however, be a source of frustration, wasted opportunities and internal conflicts. What it will be depends on the way it is constructed. Based on many years of experience, it is possible to formulate a proposal for the stages of the processes of building a measurement system as well as to identify some practical guidelines which will increase the chances of achieving positive effects from implementing such a system.

Figure 2 presents four fundamental stages of building a measurement system. The starting point is to describe, in the form of processes, customer behaviour patterns, market activities, the concept and business model, as well as the market strategy of the company. If the system is intended to be based on the company’s philosophy and strategy, then appropriate mapping of existing

<table>
<thead>
<tr>
<th>Concept and business model – objectives and market strategy</th>
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<tr>
<td>Specificity of customer behaviour</td>
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<td>Process mapping, corporate strategy, customer insights</td>
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<td>Identification of key business drivers and supporting measures</td>
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<td>Identification of cause and effect relationships</td>
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<td>Developing a measurement system and testing</td>
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<td>Recommendations regarding adjustment activities</td>
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<td>Measurement plan and schedule, reporting, resources</td>
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<td>Assessment of effects</td>
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<td>System correction and adjustment</td>
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<td>Organisational learning</td>
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Figure 2. Stages of Building a Measurement System. Source: Author’s own material.
processes showing specific types of behaviour of customers and methods of competition are of key importance for the success of the system and its contribution in the process to building a learning organisation.

Based on the company’s business concept and strategy, it is necessary to specify the factors that have a decisive impact on the sales and results of marketing activities, and on supporting indices. For example, in shops located in shopping centres such key business drivers include the number of entries to the shop, sales personnel’s effectiveness or value of receipt. For these key business drivers, we identify supporting measures, that is, brand awareness will be the factor supporting the number of visitors to the shop. It is assumed that the higher the brand awareness, the more inclined people will be to enter the shop. An essential element of this stage is to indicate the cause and effect relationship (e.g. in the form of a statistical analysis if possible) between key business drivers and market results, and between key business drivers and supporting factors.

The third and fourth stage are already operational phases during which a measurement plan and schedule are defined, including details regarding reporting as well as deciding on obligations and allocating resources. The last stage is associated with the dissemination and sharing of market knowledge within the organisation and, consequently, learning the market and predicting the directions of changes in the future.

It is possible to identify several helpful pieces of advice for such a process of measurement system preparation and implementation:

- Remember that the organisational culture is always the foundation. As a result, elements such as openness, innovativeness, willingness to learn and acceptance of change are essential for the overall success of an enterprise. This also refers to the role of leaders in this process — underlining the significance of system implementation and convincing people directly involved to engage. This is connected also with internal communication. It is indispensable in every situation where there is change.
- Begin with customers and corporate strategy — to build a measurement system successfully and select correct parameters, it is necessary to understand the specificity of customers and the corporate vision and strategy, and translate them into comprehensible parameters.
- Formulate the system’s basic assumptions based on an in-depth analysis of the cause and effect model — this is linked with several crucial elements. First, it is necessary to distinguish between key success factors and supporting indices as well as the indices which describe processes. Second, it is important to understand the individual elements of the process to ensure measurement indices are adjusted to them, that is, the people making use of them should have an impact on them, understand them; they should also be motivating and inclined to undertake actions. Third, it is important to find the cause and effect relationship between the success factors and the actions and individual stages of the process, and determine their strength.
• Understand the dependence and links between specific stages of the process of identifying, building and delivering value, and between the individual parameters describing this process.
• Present and consult the proposed system with all interested shareholders — shareholders, customers, employees, company executives.
• Remember to ensure that the measurement indices used in the system are selected properly. Moreover, remember that the number of main parameters should not be higher than just a few (a dozen or so at most). The remaining (many) should rather be descriptive and supporting indices.
• Make employees aware of the need for change, its significance, the benefits it can bring and build a coalition of leaders in favour of implementing changes. It is important that the change process includes developmental activities for employees and management staff — training, motivation system and so on.
• Ensure open communication and listen to all proposals for changes and modifications of the set of measures and the measurement system. It is important to remember that the measurement system is, on the one hand, translating the strategy into operational language but, at the same time, it is intended to provide the higher level management team with the possibility to verify and improve actions. Operational employees should also be provided with clear evaluation criteria.
• Make sure that the measurement system as well as the applied indices contribute to building knowledge within the organisation and lean towards making decisions and taking risks, and provide opportunities to improve performance. It is important to strive to ensure that the measurement system builds the organisation’s market sensitivity and reflects the process of solving a customer’s problems, looking for solutions and building and delivering value. Such a system should include input factors, visualise the process and measure the effects.
• Make sure that the measurement system prevents sub-optimisation. It is natural for the people responsible for specific activities to rationalise them. Make sure that the measurement system protects against optimisation of one activity at the expense of others. For example, reduction in costs of product storage results in limited availability of the products and, as a result, leads to a higher index of goods outages.
• Pay attention to the availability of data and the ability to compare parameters. Time is a key factor which allows all interested parties to make comparisons. It should be considered a strategic measure of performance and evaluation.
• Make sure to consolidate and reinforce the system — this does not mean that the accepted measures or procedures of measurement and reporting need to be unvarying elements. On the contrary — the system and indices should lean towards thinking and searching, to innovativeness and readiness to take risks and make changes, to build knowledge which changes attitudes and behaviour.
Besides the appropriate organisational culture and correctly designed measurement systems, the success of building a learning organisation depends also on selection of the correct measurement indices.

1.5. MEASUREMENT INDEX – FEATURES AND SELECTION CRITERIA

Market performance indices and their increased significance result from noticeable changes in the perception of marketing within an organisation, and appreciating its role in building intangible assets, as well as being an effect of the changes in the manner of implementation. A system for marketing measurement based on market measures enables building knowledge about the market, facilitates the creation of market value, represents an early warning system, determines the criteria of value hierarchy within an organisation, identifies control values and helps to monitor performance. It also contributes to the process of activity planning and the structuration of market processes (problem identification, value building, value delivery).

Taking the above into consideration, it is possible to indicate several principles which may help to choose the appropriate measurement indices (Table 1).

To summarise this part, which serves as an introduction to our book, it is possible to say that the organisations creating such an organisational climate, which encourages the accumulation, dissemination and sharing of market knowledge and, based on that, improving market activities, have the ability to build a relatively strong competitive advantage. The climate should encourage the acceptance of difficult challenges and the seeking of innovative solutions. The companies which build, in a conscious manner, measurement systems in compliance with corporate strategy and the business concept also have the ability to maintain their market advantage. The systems should be based on both financial and non-financial indices.

Besides an opportunity to learn faster than competitors and build a relatively strong competitive advantage, this approach also enables the strengthening of the competitive position of a given company in the long term, improves the effectiveness of management, encourages learning by employees and the organisation, as well as helping to understand the rules of conducting business, adjusting market objectives to company goals, increasing the effectiveness of using resources, limiting costs by eliminating non-effective operations, building an effective motivational system based on measurement systems, improving internal communications and using marketing to build the organisation’s success. We hope that the indices selected by us will help readers to better understand the knowledge they give and the abilities a system based on them provides. The selection process was based on the opinions of individuals who work for both large corporations (Unilever, Danone, PWC, Siemens etc.) and
small companies. We have tried to include the points of view of those who deal with sales and marketing on a regular basis. Our intention was to choose the indices which are broadly applied and provide a lot of information. Additionally, they facilitate drawing conclusions and help to make more rational decisions. We are hoping that thanks to our publication readers will expand the range of applied measurement tools and will look at their organisation, market and business from a different perspective. Just like the people we had an opportunity to meet or inspire to build measurement systems or help in their establishment. Today, their positive opinions are our best rewards.

<table>
<thead>
<tr>
<th>Table 1. Features of Measurement Indices.</th>
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<tbody>
<tr>
<td>They should reflect an organisation’s vision, objectives and strategy&lt;sup&gt;a&lt;/sup&gt;</td>
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<td>They should be simple and comprehensible&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>They should provide appropriate feedback on time&lt;sup&gt;c&lt;/sup&gt;</td>
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<td>They should create a balanced picture of activities and effects&lt;sup&gt;d&lt;/sup&gt;</td>
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<tr>
<td>They should be based on figures the user has an impact on, either independently or together with others&lt;sup&gt;e&lt;/sup&gt;</td>
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<td>They should reflect business processes — suppliers and customers should be engaged in defining them&lt;sup&gt;f&lt;/sup&gt;</td>
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<td>They should be SMART&lt;sup&gt;g&lt;/sup&gt;</td>
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<td>They should concentrate on and incline to improvement&lt;sup&gt;h&lt;/sup&gt;</td>
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<tr>
<td>They should be based on clear formulas and available source data&lt;sup&gt;i&lt;/sup&gt;</td>
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<tr>
<td>The should be built as formulas (proportions, relations) rather than absolute numbers&lt;sup&gt;j&lt;/sup&gt;</td>
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<td>They should provide information which improves knowledge&lt;sup&gt;k&lt;/sup&gt;</td>
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<tr>
<td>The set of measures should be limited&lt;sup&gt;l&lt;/sup&gt;</td>
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<tr>
<td>They should be objective — not based on opinions&lt;sup&gt;m&lt;/sup&gt;</td>
</tr>
<tr>
<td>They should prevent sub-optimisation and improper behaviour&lt;sup&gt;n&lt;/sup&gt;</td>
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<sup>b</sup> Goold (1991); Goold and Quinn (1990).  
<sup>c</sup> Dixon et al. (1990); Fortuin (1988); Globerson (1985).  
<sup>d</sup> Tangen (2004).  
<sup>e</sup> Fortuin (1988); Globerson (1985).  
<sup>f</sup> Fortuin (1988); Globerson (1985).  
<sup>g</sup> Beamish and Ashford (2003, p. 59).  
<sup>h</sup> Lea and Parker (1989).  
<sup>i</sup> Globerson (1985).  
<sup>j</sup> Globerson (1985).  
<sup>k</sup> Fortuin (1988).  
<sup>l</sup> Tangen (2004).  
<sup>m</sup> Fortuin (1988).  
<sup>n</sup> Tangen (2004).
NOTES

2. See Kaplan (2012).
5. See Brabham (2013).
7. See Mootee (2013).
10. See Kotler and Caslione (2009).
12. See Bush, Smart, and Nicholas (2002).
15. Houston (1948).
24. As above.
25. Morgan et al. (2002).
40. For example, an audit based on the ‘checklist’ method utilises the concept of benchmarking – Wilson (2002).
41. Based on research results, 77% of managers globally use benchmarking as a technique of management. It is ranked third (first in Europe) after strategic planning and company mission and vision definition – compare D. Rigby (2001).
44. Maiga and Jacobs (2003).
Why, How, What?

58. Wongrassamee et al. (2003), op. cit.
60. Wongrassamee et al. (2003), op. cit.
64. Lawrie and Cobbold (2004).
73. Tangen (2004), op. cit.
74. Court (2005).
75. Lenskold (2003).
76. Court (2005), op. cit.