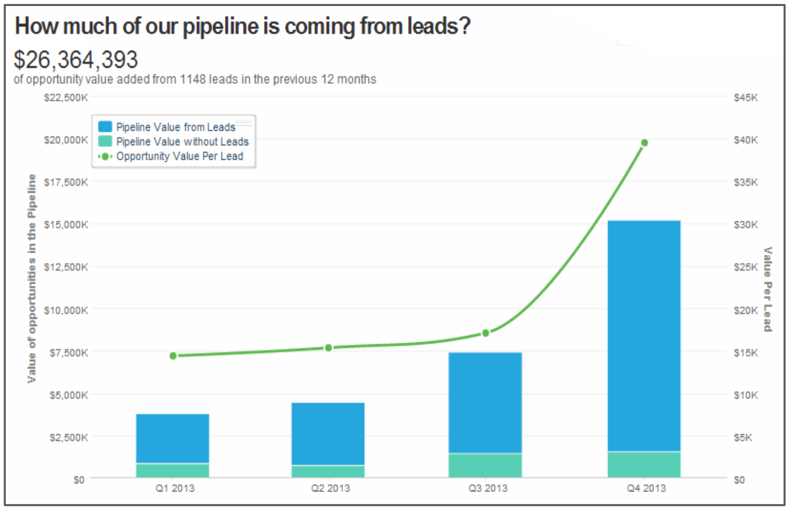
The 3 Marketing Metrics VCs Should Care About

As a VC, you can't be overly involved in the day-to-day tactics of your portfolio company's marketing operation, but you still need to know these 3 essential metrics to measure marketing success.

1 // Marketing's Impact on the Sales Pipeline

Many Marketing departments report the number of leads they generated during a given period, which is a good start, but not enough. Instead, you should tell your CEO to report how much of the Pipeline was created by marketing-sourced leads.



But how do you know how much pipeline contribution is enough? The amount of marketing-generated pipeline deemed sufficient depends on your portfolio company and its industry, but thought leaders like Marketo believe that high-performance companies source around half of their pipelines from Marketing.

2 // Customer Acquisition Cost

Once you know how many deals were generated (or influenced) by Marketing, you need to know how much it cost the Marketing department to create these deals. This figure, Customer Acquisition Cost (CAC), is integral for measuring the ROI of your portfolio company's Marketing department.

To determine the marketing CAC, add up all of your portfolio company's expenses – salaries, overhead, program spend, etc. – over a given time period and divide by the total number of new customers generated by Marketing.

3 // LTV : CAC

If your portfolio company has a recurring revenue stream, you can't stop at CAC – you must compare that cost to the total amount of money the company expects to earn over the average customer's lifespan. This figure is called the LTV : CAC ratio and it helps CEOs ensure that they are making enough money from new customers to offset the costs of acquiring them.

To calculate lifetime value, take the gross margin earned from customers over a certain time period and divide that by the estimated cancellation rate (or churn %) for that customer. For growing companies, this number should be at least 3x the cost of acquiring the customer.

This ratio is also important because it helps you understand how long it will take the company to become profitable after adding a new customer, which is called the Payback Period. To determine your portfolio company's Payback Period, take your CAC and divide by margin-adjusted revenue per month for your average new customer. This figure is the time (in months) it takes you to earn back the cost of acquiring a new customer, and is essential for CEOs who want to better understand their liquidity and profitability.