

TEST BANK



SIXTH EDITION

MARKET-BASED MANAGEMENT



Strategies
for Growing
Customer
Value and
Profitability

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Market-Based Management, 6e (Best)

Chapter 2 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

Page Ref: 40

Difficulty: Easy

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

Page Ref: 41

Difficulty: Medium

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

Answer: FALSE

Page Ref: 41

Difficulty: Easy

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

Page Ref: 44

Difficulty: Medium

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

Answer: TRUE

Page Ref: 44

Difficulty: Medium

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

Answer: FALSE

Page Ref: 45

Difficulty: Easy

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

Answer: TRUE

Page Ref: 45

Difficulty: Easy

- 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
Page Ref: 47
Difficulty: Easy
- 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
Page Ref: 48
Difficulty: Medium
- 10) Dividing the NMC by the investment in marketing and sales produces the marketing return on investment.
Answer: TRUE
Page Ref: 53
Difficulty: Medium
- 11) A business's operating expenses is its revenues minus its cost of goods sold and its expenses.
Answer: TRUE
Page Ref: 54
Difficulty: Medium
- 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
Page Ref: 60
Difficulty: Medium
- 13) One way to grow net profit is to increase the variable cost per unit.
Answer: FALSE
Page Ref: 64
Difficulty: Medium
- 14) The net marketing contribution metric enables a company to measure the profit impact of a marketing strategy.
Answer: TRUE
Page Ref: 66
Difficulty: Easy
- 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
Page Ref: 67
Difficulty: Easy

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

Page Ref: 40

Difficulty: Medium

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

Page Ref: 44

Difficulty: Medium

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

Page Ref: 45

Difficulty: Easy

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

Page Ref: 45

Difficulty: Easy

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

Page Ref: 45

Difficulty: Easy

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

Page Ref: 45

Difficulty: Easy

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

Page Ref: 45

Difficulty: Easy

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

Page Ref: 47

Difficulty: Easy

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

Page Ref: 47

Difficulty: Easy

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

Page Ref: 47

Difficulty: Medium

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

Page Ref: 47

Difficulty: Easy

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

Page Ref: 47

Difficulty: Easy

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

Page Ref: 47

Difficulty: Easy

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

Page Ref: 47

Difficulty: Medium

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

Page Ref: 47

Difficulty: Medium

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

Page Ref: 48

Difficulty: Easy

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

Page Ref: 47

Difficulty: Medium

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

Page Ref: 49

Difficulty: Easy

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

Page Ref: 47

Difficulty: Easy

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

Page Ref: 49

Difficulty: Easy

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

Answer: B

Page Ref: 50

Difficulty: Medium

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

Page Ref: 50

AACSB: Analytic Skills

Difficulty: Medium

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

Page Ref: 50

AACSB: Analytic Skills

Difficulty: Medium

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

Page Ref: 50

Difficulty: Easy

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

Page Ref: 50

Difficulty: Medium

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

Page Ref: 50

AACSB: Analytic Skills

Difficulty: Hard

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

Page Ref: 50

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 51

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 51

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 51

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 51

AACSB: Analytic Skills

Difficulty: Medium

47) Marketing return on sales equals _____.

- A) $\text{profits/sales revenues} \times 100\%$
- B) $\text{gross margin/sales revenues} \times 100\%$
- C) $\text{net marketing contribution/sales} \times 100\%$
- D) $\text{net marketing contribution/marketing sales \& expenses} \times 100\%$
- E) $\text{sales revenues} \times \% \text{ gross margin}$

Answer: C

Page Ref: 53

Difficulty: Easy

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

Page Ref: 53

AACSB: Analytic Skills

Difficulty: Easy

- 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

Page Ref: 53

Difficulty: Easy

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

Page Ref: 53

AACSB: Analytic Skills

Difficulty: Medium

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

Page Ref: 53

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 53

AACSB: Analytic Skills

Difficulty: Medium

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

Page Ref: 56

Difficulty: Medium

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

Page Ref: 56

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 60

AACSB: Analytic Skills

Difficulty: Medium

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.

Page Ref: 45

Difficulty: Easy

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.

Page Ref: 52-54

Difficulty: Easy

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

Page Ref: 51

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 51

AACSB: Analytic Skills

Difficulty: Easy

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

Page Ref: 53

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Difficulty: Easy