Measuring your return on marketing investment

In these financially precarious times businesses are constantly looking for ways to streamline operations and cut unnecessary expenditure while at the same time seeking to improve profitability, increase (or at least preserve) market share, and lay the foundations for future growth.

And marketing sits uneasily in the midst of these deliberations. On the one hand it is often the target for economies with the marketing budget frequently being the first to be cut; yet on the other there are persuasive voices arguing that the last thing you should do during financially stringent times is to cut back on marketing. This could result in reduced sales and declining brand awareness in the short term and run the risk of leaving the business weakened in the market place and vulnerable to predatory competitors once the financial outlook begins to improve.

And even if it is agreed, albeit reluctantly, that the marketing budget will need to be scaled back there are often no clear criteria by which to determine which campaigns should be curtailed or shelved and which should be maintained or perhaps even extended.

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MARKETING DOES NOT HAVE TO BE AN INEXACT SCIENCE

In our experience when helping clients with budgeting and financial planning the root of the problem appears to be that marketing is regarded as an inexact science with vague, often distant, objectives and very little supporting data by which to measure its effectiveness.

But while it might be difficult to attain the same degree of precision with marketing as can be achieved with other aspects of the business, it is possible, indeed highly desirable, for marketing to have clear, measurable objectives with reliable procedures for monitoring and assessing its effectiveness.

MARKETING AS AN INVESTMENT

In other words businesses should strive to measure their return on marketing investment (ROMI) and use this as a basis for making decisions about committing or withdrawing resources. Businesses that do this soon come to see marketing as an investment and not just a cost centre, and approach it as they would any other investment.

MEASURABLE GOALS

The key to measuring the effectiveness of marketing is to set clear, measurable goals for each campaign. Broadly speaking, most marketing activity is aimed at one or more of the following:

- Increased sales
- Improved brand awareness
- Increased market share
- Improved customer retention

When considering a new campaign it is important to be clear what the specific objective is and to determine ways in which progress towards that objective can be quantified and measured.

CALCULATING ROMI

Suppose, for example, a particular campaign is aimed at improving sales. If it is a business to customer (B2C) campaign you would expect to see an increase in sales revenue across the life of the campaign. When measuring this it is important to distinguish base revenue (what you would expect to earn over that period without the campaign) from incremental revenue that can be attributed to the campaign.

To calculate the gross profit contribution from a particular marketing campaign you can use the following formula:

(incremental revenue) - (cost of sales) - (cost of campaign) = gross profit contribution

Then to calculate the ROI for that campaign (ROMI) simply use this formula: gross profit contribution / cost of campaign * 100 = ROMI %

Whereas normally ROI would be calculated over a longer period, usually a year, ROMI can be calculated over much shorter periods, campaign by campaign, making it easier to gather and interpret the data.

CAPTURING DATA

It is advisable when planning campaigns to consider how you will capture data that will help you measure its effectiveness. You might for example use different telephone numbers, e-mail addresses, vouchers or codes for different campaigns. Whatever methods you use, it is important to use them consistently so that you can accurately compare the effectiveness of one campaign with another.

Once you start to measure the effectiveness of your campaigns in this way and begin to accumulate data you will be able to project the outcome of campaigns with greater accuracy and make increasingly more informed decisions about your marketing spend.

WIDER CONSIDERATIONS

The scenario above is based on a B2C campaign, which usually can be expected to generate a short term increase in sales revenue. It is unlikely that you will be able to identify the incremental revenue that can be attributed directly to a campaign with a high degree of precision but you will usually be able to make a fairly accurate estimate - sufficient to be able to evaluate the relative effectiveness of different campaigns.

Of course, it would be simplistic to assume there is a one-to-one correlation between marketing spend and sales revenue. Not all purchasing decisions are made on impulse, or even within the life of a specific campaign. As marketers know all too well such decisions are often a culmination of a 'drip drip' of awareness-raising activities. Moreover, it is important to consider the interplay between various elements of the marketing mix in precipitating a purchasing decision. Life is rarely so black and white that a sale can be attributed solely to one specific campaign.

And there are less tangible elements to consider such as brand awareness, brand consideration, and customer retention. These can also be marketing objectives and though they are less tangible than, for example, incremental sales revenue, they can be quantified and measured over time.

EVALUATING BUSINESS TO BUSINESS CAMPAIGNS

These considerations are particularly relevant to business to business (B2B) campaigns, where the purchasing decision is usually a much more protracted process that needs to be skilfully managed and guided by the marketing and sales teams.

In such cases the work of the marketing department is to capture the attention of prospects, increase their interest in the product or service, and help them through the early stages of the purchasing decision by anticipating questions and/or objections and providing relevant information.

In other words, their job is to deliver qualified sales leads; and if they are doing their job well not only will there be an increase in the number of leads but the prospects will be better informed making sales meetings shorter and more efficient and resulting in a higher number of conversions. The number of leads generated, the rate of conversion, and the duration of sales meetings are all elements that can be measured and used to assess the effectiveness of such marketing activities.

ONLINE MARKETING

These days more and more businesses are turning to online marketing to complement, and in some cases replace, more conventional offline forms of marketing. Most of what has been said above applies as much to online marketing as it does to offline marketing, with one noticeable difference.

Online marketing offers a remarkable array of tools for data capture, campaign tracking, conversion measurement, and much more, making it even easier to measure and assess the effectiveness of your marketing efforts. A detailed discussion of these is beyond the scope of this present guide, but we would be happy to advise if you want to contact us.

HOW WE CAN HELP

If you would like to know more about this subject or would like help in setting up mechanisms to measure and evaluate the effectiveness of your marketing activities, please do not hesitate to contact us.