



Return on Investment

A tool to support any of these chapters:

Marketing Campaigns

Marketing Plan & Budget

Telemarketing

Trade Shows & Events

Email Marketing

Search Marketing

Online Advertising

Publicity

Direct Mail

Traditional Media

Customer Lifetime Value

Return on Investment

Marketing campaigns are investments. And like any smart investment, they need to be measured, monitored and compared to other investments to ensure you're spending your money wisely.

Return on investment (ROI) is a measure of the profit earned from each investment. Like the “return” you earn on your portfolio or bank account, it's calculated as a percentage. In simple terms, the calculation is

$$\frac{(\text{Profit} - \text{Investment})}{\text{Investment}}$$

ROI calculations for marketing campaigns can be complex -- you may have many variables on both the profit side and the investment (cost) side. But understanding the formula is essential if you need to produce the best possible results with your marketing investments.

With solid ROI calculations, you can focus on campaigns that deliver the greatest return. For example, if one campaign generates a 15% ROI and the other 50%, where will you invest your marketing budget next time? And if your entire marketing budget only returns 6% and the stock market returns 12%, your company can earn more profit by investing in the stock market.

ROI helps you improve your ongoing campaigns. When you tweak your offer or launch a campaign to a different list, you can compare ROI and focus on the version with the best performance.

Finally, ROI helps you justify marketing investments. In tough times, companies often slash their marketing budgets – a dangerous move since marketing is an investment to produce revenue. By focusing on ROI, you can help your company move away from the idea that marketing is a fluffy expense that can be cut when times get tough.

BEST CASE	NEUTRAL CASE	WORST CASE
<p>You measure and track the ROI of all of your marketing investments. Your campaigns deliver the highest possible return and you're able to improve them over time.</p> <p>Your organization understands and agrees with the choices you make because there's solid data to support your investments.</p>	<p>You calculate ROI on some investments, but because it can get complex, you don't attempt to measure it at all times.</p> <p>You have a general idea of how your investments perform relative to each other, but you can't pinpoint the exact return you're generating. And in tough times, your budget is cut.</p>	<p>You don't measure the performance of any of your investments.</p> <p>In fact, marketing is viewed as a cost, not an investment at all.</p> <p>Your company isn't sure what works and what doesn't, and it's a struggle to meet goals.</p>

Key concepts & steps

Before you begin

It's a good idea to measure ROI on all of your marketing investments – after all, you're in business to earn a profit. If your sales process is long and complex, you may choose to modify or simplify your ROI calculations, but a simple calculation is more useful than none at all.

Confirm your formulas

There are several figures you'll need for your ROI calculations:

- ▶ Cost of goods sold (COGS): The cost to physically produce a product or service.
- ▶ Marketing investment: Typically you'd include just the cost of the media, not production costs or time invested by certain employees; however, in certain cases it may be better to include all of those figures.
- ▶ Revenue: It can be tricky to tie revenue to a particular campaign, especially when you run a variety of campaigns and have a long sales process. Your finance team may have some suggestions for estimating this figure.

Companies calculate these figures differently, so confirm the formulas your company uses -- your finance team or accountant can guide you.

Establish an ROI threshold

Set an ROI goal for your entire budget and individual campaigns; set a floor as well. By doing so, you gain more power over your budget. If you project that a campaign won't hit the threshold, don't run it; if you can't get an ongoing campaign over the threshold, cut it and put your money elsewhere.



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Set your marketing budget

When you have an ROI goal and annual revenue/profit goals, you can calculate the amount of money you should spend on marketing – just solve the ROI formula for the “investment” figure. You’ll be more confident that you’re spending the right amount of money to meet your goals.

Calculate ROI on campaigns; track and improve your results

Tracking ROI can get difficult with complex marketing campaigns, but with a commitment and good reporting processes, you can build solid measurements, even if you have to use some estimates in the process.

Use your ROI calculations to continually improve your campaigns; test new ways to raise your ROI and spend your money on the campaigns that produce the greatest return for your company.

What’s next?

The more you understand ROI, the more power you have over your investments. Continue to learn, improve your reporting capabilities and use ROI to improve your campaigns and generate more profit for your company.



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