

## Learning Circle: Marketing ROI

### Session 1: ROI Basics

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## About me...



"I know nothing about the subject, but I'm happy to give you my expert opinion."

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## Could you tell us:

- Your name
- The organization you represent
- Your responsibilities in this organization
- Your experience, if any, in measuring marketing effectiveness
- Why you decided to attend this learning circle
- What you expect to learn



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## Our program

- 1st session: ROI basics
  - A: Introducing key concepts of marketing ROI
  - B: Panel - sharing best practices in the arts
- 2nd session: ROI metrics
  - A: Measuring and improving marketing ROI
  - B: Panel - sharing best practices in the arts
- 3rd session: ROI future
  - A: Customer modeling
  - B: Preparing a Marketing ROI measurement plan

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## Sounds familiar?...



...then this Learning Circle is for you!

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## Measuring effectiveness & efficiency

"Half the money I spend on advertising is wasted. The trouble is, I don't know which half."

*John Wanamaker, father of modern advertising*

*Moving from shotgun to rifle strategy*



- Effectiveness: The extent to which program outcomes are achieving program objectives
  - *Does it do what it is supposed to do?*
- Efficiency: The extent to which outputs are maximized for a given level of input
  - *How well does it do it?*

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### A certain conception of marketing

“The sole purpose of marketing is to get more people to buy more of your product, more often, for more money. That’s the only reason to spend a single nickel, pfennig, or peso. If your marketing is not delivering consumers to the cash register with their wallets in their hands to buy your product, *don’t do it.*”

*Sergio Zyman, former Chief Marketing Officer of Coca-Cola Co.*

*If it doesn’t sell, it doesn’t work*



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### A certain conception of advertising

“I do not regard advertising as entertainment or an art form, but as a medium of information. When I write advertisement, I don’t want you to tell me that you find it ‘creative’. I want you to find it so interesting that you *buy the product*”

*David Ogilvy, Founder, Ogilvy & Mather*



- *It’s not how you say it, it’s what you say*
- *There’s no direct correlation between how beautiful, funny or brilliant an ad is and any results [i.e., sales]*

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### Does it fit our nonprofit mission?

“We have to remember that every dollar we spend is a dollar that someone gives to us in the belief we’re going to do something good with it.” *Deborah Card, President, CSO*

“As a small organization with a limited budget and staff resources, it is imperative that we put our time and money in the right place!” *Ailene Cantelmi, Managing Director, Greasy Joan*



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### Prepare for a rough reality check

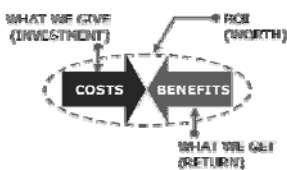


By measuring Marketing effectiveness, we often discover that we are not very efficient!

- *Disney: Renault Promo*
- *Christies: Catalogs*

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### Marketing ROI (ROMI)



- The net return from a marketing investment divided by the costs of the marketing investment

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### Key ratio

$$ROI (\%) = \frac{\text{Return}}{\text{Investment}} = \frac{\text{Gross Margin} - \text{Marketing Investment}}{\text{Marketing Investment}} \times 100$$

Problem for us: Gross Margin (Revenue – fixed and variable costs) is always negative. We will use *incremental sales* instead.



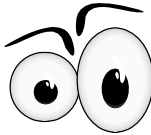
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### Exercise

New flyer costing \$ 150 generates additional sales of 50 tickets at \$15 each. What is the ROI of this Marketing Initiative?

$$\begin{array}{r} \text{Incremental sales: } 50 \times 15 \quad \$750 \\ \text{Minus Marketing investment} \quad - \$150 \\ \hline \quad \quad \quad \quad \quad = \$650 \\ \text{\% by Marketing Investment} \quad / \quad 150 \\ \hline \quad \quad \quad \quad \quad = 4 \\ \text{X 100} \quad \quad \quad \quad \quad = 400\% \end{array}$$

ROI = 400%



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### Key definitions

- *Incremental Customer Value*: income flow generated by a customer as a result of the specific marketing investment being measured
- *Customer Lifetime value or potential value*: gross margin that the company expect to realize from a customer over the course of its interaction with him/her.
- *Net present value (NPV)*: discounts future profits to a value the company would determine to be equitable if received today



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### Example

- Say your direct-mail campaign costs \$1000.
- The campaign drummed up four new clients, who each bought a subscription at \$100

$$\text{ROI (\%)} = \frac{(4 \times 100) - 1000}{1000} \times 100 = -60\%$$

- lifetime revenues of each new client are expected to be \$500

$$\text{ROI (\%)} = \frac{(4 \times 500) - 1000}{1000} \times 100 = 100\%$$



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### Associated products

Think total income, not just gate receipts

- A family of 4 attending a major league baseball game spends *as much* on food & merchandise as it does on tickets
  - If ticket holders don't attend events, these high-margin secondary sales are lost.
- **Captive Product**
  - Products that must be used with the main product (e.g., parking, food, accommodation).
- **Optional Product**
  - Optional or accessory products sold with the main product (e.g., merchandise).



### ROI advises

1. Have clear mission, vision & objectives
2. Understand your environment
3. Know your audience
4. Share view of the role of marketing
  - Frame marketing as a strategic investment *not* an expense
  - clearly articulating the role marketing will play in helping you achieve your business goals
  - Get buy-in at the top

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5. Define clear, quantifiable objectives for your marketing initiatives
  - Raising awareness is not enough. The wrong approach: "We need some business, so let's place an ad that gets our name out there and hope that people like it"

6. Focus on measuring the effectiveness of your marketing strategy - not just the level of activity
  - \*business outcomes\* vs. \*marketing outputs\*.
7. Avoid un-measurable initiatives
  - Favor direct marketing over advertising

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## ROI advises

### 8. Test, tweak, test, repeat

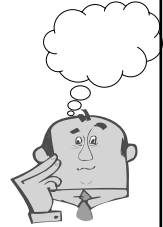
- *Test variations of your campaign by sending one version to half your list and another to the other half.*
- *Use separate telephone response numbers or identification codes, for example, to distinguish which version is more effective (and in what areas).*
- *Eliminate or tweak the less successful version.*
- *Minor changes - in offer, articulation, headline, picture, caption ... - might generate dramatic returns*
- *Remember, to boost your ROI, a successful version must result in increased sales, not just more leads or inquiries.*
- **Adopt a Culture of Continuous Learning**

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## ROI is not everything

### ➤ Other measures of success:

- *Mission fulfilment*
- *Customer satisfaction*
- *Market share in targeted segments*
- *Brand equity*
- ...

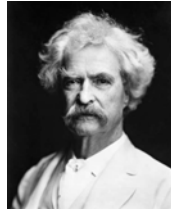


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## Can we learn from past mistakes or successes?

**“History doesn’t repeat itself,  
but it rhymes”** *Mark Twain*

- *If you can’t measure it, you can’t fix it*
- *Effectiveness Metrics show progress and allow for root-cause analysis*



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Let’s have a break!



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