Marketing and ROI

The primary challenge for marketers has always been accountability. By nature a process of trial and error, marketers have tried to develop a "science" around what they do by adding a vast statistical component to their discipline, and then using the analysis of these data fields to justify their activities. Even with all this scientific and mathematical wizardry, marketing still boils down to how the market reacts to any specific move, and all the science can do, really, is minimize the error by trying to pinpoint the nature and content of the trial.

The difficulty upper management has with accounting for the dollars spent on marketing has caused a re-evaluation of its efficacy in the corporate hierarchy. In many companies marketing has been overshadowed by sales, or specific marketing tactics are being preferred (such as public relations or special promotions) because they seemingly offer a better chance of measuring results.

So is marketing an activity the results of which cannot be accurately measured? Is there a way for companies to know that the money they are spending on marketing is bringing in a return that makes it a worthwhile endeavor?

The answer is further complicated by the purpose of marketing and the intent of the marketing activity. Often the purpose of marketing is not to drive an immediate sale, but rather to create the environment within which a pro-active sales effort can flourish. The idea that marketing needs to be measured by the volume of sales is not entirely correct because the fault may lie not in the way awareness was raised and interest created (the marketing objectives) but rather in the way the sales were executed. Similarly, there are times when the very intent of marketing is not to drive a sale today, but rather instill an image or value perception so that the company can make sustained sales over a long period of time. This sort of activity, too, cannot necessarily be judged or validated through traditional ROI models.

A dirty little secret of marketing has always been this gray area where the results of our actions cannot be measured. While the effort to perform well is always sincere, the understanding that not every failure can be detected has allowed for some comfort. It has also enabled creativity and some degree of risk taking – both of which are crucial to good marketing and not something a company should seek to squash.

The recognition that not all marketing can be subject to the criteria of tradition ROI measurement needs to be reconciled with the need for company's to be able to understand (and measure) the effectiveness of the actions they take. So how is this done? There are some fundamentals. They are:

1. ROI is recognized and accepted by marketing professionals as a reasonable measure of their success while executives develop their accountability criteria based on the immediacy of the expect results. Profit is always the objective of marketing, the only question is when is the additional revenue from a specific marketing effort expected to kick in.

2. The long term (not incremental value) of marketing will be respected by management and they will judge marketing campaigns based on their broad value to the company and

its brands and the lifetime value of the customer and not by strict dollar-out versus dollar-in models.

3. Long term marketing projects will use the concept of lifetime value to help measure success. The idea of ROI is imposed to enforce some degree of accountability and instill the idea that marketing and profitability are inter-related. This is good for marketing and need not be resisted.

4. Technologies will be used to measure marketing efficacy, allowing for the immediate and progressive understanding of the impact and influence of marketing activities.

5. In order to reinforce the commitment to profit, the ROI will be calculated based on gross margin and not revenues. The calculation on revenues can be misleading and can cause a company to actual lose money. Moreover, by using gross margin as the measurement marketing departments will be forced to resist the temptation of increasing revenues artificially through limited time only offers that may actually lose money, but increase sales volume dramatically.

6. The marketing investment being measured will be only the direct costs of the marketing effort and not any sales or fulfillment costs associated with completing a sales effort.

7. ROI will become the key motivating objective in the development and execution of marketing initiatives, and not, as is sometimes the case, short term strategic imperatives. The nature of marketing requires consistency in message and image, which are invested in and developed cumulatively over time. This effort needs to be justified by the profits it will generate and not disrupted or interfered with to its detriment for the purpose of narrow short term gains or immediate needs. The marketing program developed needs to simultaneously meet the current revenue needs of the company while building a sustainable customer base – all the while accountable to the profitability of its actions.

ROI marketing is nothing to be afraid of. If anything, once we are able to prove that marketing is a key driver of company profits the marketing department will once again assume its rightful place as one of the most critical functions in a company.