MEASURING RETURN ON MARKETING INVESTMENT

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ABSTRACT

In today's competitive world, businesses rely heavily on marketing functions. Much money is spent on the marketing of products and services. It becomes very obvious and important to evaluate the effectiveness of marketing spend and measure the return on marketing investment (ROMI). Though the concept might sound simple, it is, in fact, very difficult to find out the actual ROMI. The accurate calculation of ROMI depends on consideration of several factors dealt with in this descriptive paper. The measurement of ROMI has several benefits, especially in measuring the effectiveness of the marketing spend and planning additional spending.

Keywords: *Return on marketing investment (ROMI), revenue, marketing costs, contribution*

Introduction

Measuring marketing's business value has been an important, if not critical, activity within organizations for long time now. With the ascent of ROI measurement in the 1970s, businesses increasingly looked to quantify different functions in financial terms, once in a while essentially for cost-cutting, others for strategic and tactical purposes (implementing ERP-SAP, and so on). As businesses zeroed in on evaluating financial results, marketing held a unique position: the function's sole design is to create value for a market offering. Thus, the imperative to evaluate business value was obvious, both within the marketing function and senior leadership level. The utilization of ROMI or the return on marketing investment, is now widespread; however, little consensus exists in the actual approach.

Review of Literature

There is ample literature available on the measurement of ROMI. A few select abstracts are given below.

Seggie et al. (2007) have posited that there is developing recognition that firms in the contemporary business environment determine substantial and sustained competitive advantage from a lot of intangible assets such as knowledge, networks, and innovation capability. Evaluating the return on these intangible assets has currently become imperative for business managers. The current manuscript focuses on the evaluation of the return on marketing investments. We initially talk about the conditions which make such a task a high managerial priority. We then examine measurement efforts so far, both in marketing and general management. We then offer a conceptual structure that places evaluation efforts in a historical perspective. Our conclusion discusses where the eventual fate of marketing metrics lies.

Luo and Kumar (2018) have argued that marketing professionals face a lot of challenges in evaluating return on marketing investment or ROMI in business-to-business (B2B) markets for two reasons. In the first place, buyers often have irregular purchase patterns, as the authors see in the high-tech industry. Second, marketing efforts take considerable time to build a relationship with a customer. The authors attempt to accurately recuperate hidden purchaser vendor relationship states to capture the effect of marketing contacts in B2B markets. The researchers construct a comprehensive hierarchical Bayesian bivariate Tobit hidden Markov model to evaluate marketing return in B2B markets. The outcomes recommend that marketing contacts have a heterogeneous long-and transient impact on customers purchasing behavior through changes in the purchaser vender relationship states. This examination offers practical benefit to business marketers to measure the return on marketing investment in purchaser merchant relationships.

Farris et al. (2015) have opined that as the requirement for accountable marketing spending continues to grow, companies should create sound metrics and measures of marketing's contribution to firm profitability. The leading measurement has been return on marketing investment or ROMI, following the broad adoption of ROI metrics in other organizations. Notwithstanding, the ROI metric in marketing is typically deciphered and utilized in various ways, which results in ambiguity and subpar marketing decision making. This paper tries to eliminate the ambiguity around MROI to direct better measurements and analytics aligned to financial contribution.

Pauwels and Reibstein (2010) have posited that the Return on Marketing Investment (ROMI) is characterized as the incremental contribution generated by the marketing program less than that program's cost. Utilization of this measurement advances accountability for marketing spending, enables comparison across alternatives to settle on the best action, and furthers organizational learning and cross-functional teamwork. Unfortunately, managers are struggling to characterize and calculate ROMI, especially outside the price promotions domain. A study of more than 1000 C-level managers revealed that more than 90% of marketing chiefs saw marketing performance metrics as a significant priority, yet that more than 80% were not satisfied with the current ability to measure performance.

Gould and Nazarian (2018) have observed that plastic surgeons are rapidly focusing on integrating social media to their practices, and ongoing articles regarding the matter have exploded in the literature. Even though social media tools are being evaluated, few have had the option to quantify social media's impact on practice. In this investigation, we report practice demographics and one year of pay, separated by the referral source for each patient. The dollar amount returned was accounted for various social media tools and resources and other marketing tools based on the internet. Social media has comparatively high ROI, and to date, this is the primary investigation to transparently evaluate the value of social media tools in a plastic medical procedure.

According to Rust et al. (2004), marketers have not been considered accountable for showing how marketing spend adds to shareholder benefits for too long. With passage of time, this lack of accountability has damagedmarketing professional’s credibility, threatened the standing of the firm's marketing function, and even threatened the existence of marketing as a distinct capability within the organization. This article proposes a broad framework for assessing marketing productivity, cataloging what is already known, and recommending further research areas. The authors conclude that it is feasible to show how marketing expenditures add to shareholder value.

Smyth and Lecoeuvre (2015) have posited that assessing marketing value to a business remains a prickly issue in theory and practice. Decision-making at the finance marketing interface is under-researched, particularly for project businesses. Confronted by demands of accountability concerning allocating resources to meet competitive pressing factors, the paper examines the quality and degree of dialog in investment decision-making. The return on investment (ROI) and marketing-specific investment (ROMI) are crucial aspects at the marketing–finance interface. ROMI/ROI is evaluated from qualitative and quantitative perspectives. The empirical proof shows that short-term economic criteria dominate and are misaligned to project businesses and business units' long-term performance.

O'Sullivan et al. (2009) have argued that the research aims to test whether the ability to evaluate marketing performance affects firms' actual performance in the context of the European high-tech sector. It also aims to evaluate whether performance reporting frequency and size of financial marketing plan mediate the relationship between measurement ability and performance. Results show that marketing performance measurement ability decidedly affects organizational performance and moreover reporting frequency mediates the relationship.

Lal et al. (2019) have argued that social media facilitates communication among businesses and customers. Nowadays, although it is commonly perceived that companies execute social media into their marketing activities, it is also acknowledged that companies battle to calculate the return on investment (ROI) from social media marketing efforts as a large portion of the center only around certain tangible results such as the impact on sales and purchases. This chapter aims to analyze ROI in social media marketing, focusing on intangible results such as brand awareness, customer engagement/relationship, and eWOM.

Grønholdt and Martensen (2006) have opined that marketers are understandably engrossed with measuring marketing performance. Notwithstanding, among the many conceivable marketing performance measures available, which many ought to be picked? On the one hand, the key measures should be sufficiently basic to be usable, and on the other hand, they should be adequately comprehensive to assess the marketing performance. This paper presents an annotated literature review that gives the foundation to advance a list of the most important marketing performance measures.

Discussion and analysis

Typically, ROMI is the economic value generated by a marketing department's initiative or set of initiatives, addressed by a basic formula:

ROMI = (Value Generated by marketing – Cost of Marketing)/ (Cost of Marketing)

ROMI Calculation

Value Generated by Marketing: The value generated by marketing is calculated based on the following points:

Revenue: measuring marketing performance against gross revenue. At the point when the margins are unknown, this measurement can, in any case, be helpful if comparing two different marketing initiatives using revenue as the outcome value for both.

Profit: measuring marketing performance against gross or net profit. Ideally more remarkable than revenue comparisons as the business goal is likely to be more driven by profits rather than revenue.

Baseline lift: comparing the total value with what might have happened without the marketing initiative being evaluated. Establishing a sales baseline is valuable when sales are not straightforwardly attributable to explicit marketing initiatives.

Comparable cost: measuring cost savings or contrasts when a financial value is not straightforwardly measurable or measuring non-financial soft measurements.

Funnel conversions: measures projected sales based on historical conversion rates. Projected conversions are helpful when the sales return is unknown.

Customer equity: measures result impacting the value for the customer (relatively challenging to measure), and the economic value is not immediately ascertainable.

Marketing assets: measures the change in business or brand market value.

Marketing Costs: It includes the following elements:

Internal resource costs: the staff cost to create creative components, deploy marketing to channels, etc.

Technology costs: analytics platforms, video/graphic editing tools, and so on

Media and channel deployment cost: the cost of actual spend to place marketing messaging in different platforms and channels

Comprehensive costs contributing to marketing: different promotional costs (logo/packaging design, pre-campaign market research, all media spends, cooperative advertising incentives)

ROMI Applications

Annual marketing budgeting: Marketing costs are a clear, obvious, and immediate cost, brought higher by the actual expense of media spends (television, print, online advertising); therefore, validating impact legitimizes a function that leadership does not understand.

Selecting marketing initiatives: Deciding which marketing initiative to commence, continue, or stop serves a practical and economic reason. Comparisons can be done of marketing returns for various products, target segments, and media; at the campaign or campaign component level, such financial calculations can determine the best element to continue expenditures.

Competitive benchmarking: Evaluating marketing efforts against competition or research derived standard serves as guidance for efficiency of marketing and targeting; while competitors' ROMI may not be straightforwardly accessible, approximations can be done based on market research and deducing it using public information.

Historical projections: Calculating past returns for similar initiatives can offer predictive benefit informing future campaigns' spend levels.

Tactical business decisions: Using ROMI to evaluate different tactics which impact business results. Today, the ROMI can effectively be utilized strategically, defining which marketing tactics to utilize, where to utilize them, how to approach different target markets, and so forth.

Strategic business decisions: Evaluation of various marketing aspects in conjunction with other databases (Google Analytics, CRM, CDP) can lead to insights for targeting of customers, effectively evaluating strong and weak target markets; insights for product lines that contribute to decisions about new offering improvement; and ultimately result in new value propositions as market response changes because of saturation.

To accurately calculate ROMI, the sales attributed to the marketing campaign itself needs to be figured out. Several extraneous variables have an impact on the sales, which needs to be considered. Some of these factors are mentioned below: 1) Competitor Spend; 2) Distribution; 3) Economy; 4) Seasonality; 5) Pricing and 6) Weather.

Independent of whether you consider the extraneous factors or not, below are some of the media advertising evaluation techniques:

1. Linear data are reporting: This involves using response codes, phone number tracking, etc., to ask consumers how they found you.
2. Descriptive data reporting: Basic counting such as web traffic during a TV campaign
3. Uplift Analysis: Similar to the above techniques but looks at media spend within a sales funnel.
4. Correlation and regression: Looks at statistical relation between media spend and web traffic etc.

Conclusion

With businesses spending more and more on the marketing of their products and services, the measurement of ROMI becomes vital. However, the measurement of ROMI is a complex task. There is no one way of calculating the ROMI, but there are several approaches. The accurate measurement entails consideration of several factors which help decide the returns attributable to the marketing actions. Once the measurement is accomplished, there are several benefits such as preparing annual budgets, competitive benchmarking, forecasts, and tactical and strategic initiatives.

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