MEASURE ROI FROM MARKETING EFFORTS

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1. CONFIRM YOUR FINANCIAL FORMULAS

Understanding your company's accounting method is important for making accurate marketing ROI calculations.

You'll need to know the cost of goods for your product or service as a percentage of your unit sales price, as well as what types of overhead expenses you need to include when calculating your net profit.

Your finance team can help you understand your cost of goods, sales and marketing and G&A expenses, so you're more accurately projecting and calculating your marketing ROI.

CONFIRM FORMULAS WITH FINANCE

Use this section to discuss formulas and processes with your finance team.

Your conversations with finance could get complicated depending on the unique needs of your business. You may decide not to proceed with some of the areas in this section, or you may need to modify them. Financial calculations are only valuable if they're used consistently and accurately, so get agreement on these steps before moving forward.

Basic ROI Formulas

One basic formula uses the gross margin for units sold in the campaign and the marketing investment for the campaign:

Gross Profit - Marketing Investment
Marketing Investment

You can also use the Customer Lifetime Value (CLV) instead of Gross Profit. CLV is a measure of the profit generated by a single customer or set of customers over their lifetime with your company.

Customer Lifetime Value - Marketing Investment (per customer or segment, whichever you choose)
Marketing Investment (per customer or segment)

However, some companies deduct other expenses:

Gross Profit (or CLV) - Marketing Investment - *Overhead Allocation - *Incremental Expenses
Marketing Investment

These expenses are typically tracked as "Sales and General Expenses" in overhead, but some companies deduct them in ROI calculations to determine a more accurate estimate of the true profit their marketing campaigns are generating for the company.

Decision: Do you need to deduct any of the following expenses from your ROI calculation?

Expenses

- An allocation for company overhead
- Incremental operational expenses such as order fulfillment, sales commissions or customer service

Expenses to Deduct from ROI Calculations:

Cost of Goods

If you're using the formula that includes Gross Profit, you need to know the Cost of Goods for the units you're selling in the campaign.

What expenses should be included in COGS? Use 27.10.a and 27.10.b to help you calculate them.

Product/Service and Cost of Goods:

Marketing Investment

What will you include in your "marketing investment?" Typically, you should only include variable costs for the campaign, but there are items open for interpretation.

For example, if you have a graphic designer on staff and s/he spends a month designing materials for a campaign, should you include the cost of that staff member's time in your calculation of the cost of your campaign?

Be careful - if you're including an allocation for overhead in COGS, then you can't include overhead items in your marketing investment as well - you're double-counting.

Expenses to Include in Marketing Investment:

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Revenue Produced by the Campaign/Initiative

Is it possible to track the revenue produced by a single campaign or marketing initiative? If not, how does your finance team suggest you estimate revenue for an investment?

How will you track this data?

Data Tracking Method:

When is ROI Necessary or Important?

Can you track it for all marketing investments, or is it too difficult? Should you use the calculation on major campaigns only, or on your entire budget?

Where to Apply ROI Calculations:

2. TRACK REVENUE BACK TO A CAMPAIGN

To measure marketing ROI, you'll need to track revenue back to your original campaign. If your sales process is short and your campaigns typically produce a new customer after one touch, then that's an easy task. An example of this would be a B2C marketer promoting and tracking product orders from a website.

For most businesses, it's easier said than done. Complex sales require more "touches" with the market. The best way to track revenue is to, wherever possible, use campaign tracking codes in your CRM or ordering system, enabling you to create reports that identify the source campaigns for your leads and sales.

TIE REVENUE TO A SPECIFIC CAMPAIGN

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For most businesses, it's easier said than done. The more complex the sale, the more "touches" you have with the market. How can you attribute a new customer to a single campaign? In many cases, you can't.

However, calculating ROI is an incredibly valuable tool that can help you in many ways, enabling you to:

- Justify your investments
- Focus on the best investments
- Focus on the true purpose of the marketing function
- Gain support for your investments and their role in the company

If your sales process is relatively straightforward, here's a sample process for tracking revenue to your campaigns.

Step	Suggestions
1.	Make sure your CRM or prospect tracking system has a field for "source campaign."
2.	Assign each campaign a unique ID number in a tracking file or in your CRM. Your source campaign can be a code (such as MKTCPN100), or a word, or a number.
3.	Enter each respondent into your system along with the source campaign ID number.
4.	Make sure your CRM system tracks your prospect through the sales process. At any point, you should be able to pull up the record and know whether the prospect became a customer and what the customer bought. If this information is only stored in your accounting system, you'll need to add the campaign ID number in the accounting system as well, or you can make sure that the accounting and CRM records have a record ID number so that they match.
5.	To run your results, pull up a list of the prospects with the campaign ID number; see how many of them became customers and the revenue generated by each.

If you're B2C selling through a channel, you'll probably need to track coupon codes or retail sales data during your campaign. While you may not be able to track sales tied to your campaign with 100% accuracy, be creative in attempting to gain as much confidence as possible with your results.

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And remember that you don't need a 100% confidence level to achieve benefit from the calculation.

Campaign and Method to Track Revenue:

Commentary:

3. CALCULATE ROI FOR A MARKETING INVESTMENT

A simple way to calculate marketing ROI is to take your return (or gross profit), subtract your investment, and then divide the result by your investment. The formula is: (Return - Investment)/Investment x 100 = ROI Percentage

To calculate your return, you'll first need to subtract your cost of goods sold (COGS) from the total revenue generated by your campaign. This produces your gross profit. For example, if your cost of goods is typically 30% of your revenue, multiply your revenue by .30 to get your COGS.

Once you've subtracted your COGS, the next step is to subtract any incremental costs, such as a percentage of sales for overhead, and your marketing investment. This gives you your return. Once you have your return, you can input this into the final ROI formula.

CALCULATE MARKETING ROI FOR A CAMPAIGN

When you're ready to start calculating ROI, use 27.10.f to calculate it for a specific campaign. If you've confirmed your formulas with your finance department, you may decide to modify the sheets. Once you've done so, you'll have an excellent tool to guide you moving forward.

You can choose between three calculations. Here's the data you'll need:

Calculation Option	Data Needed	Value
(All)	Marketing investment (the money you spent on the campaign).	
	Overhead % (if using, per your finance department): A % of each revenue dollar allocated to overhead.	

	Incremental expenses per unit (if using, per your finance department): Additional expenses that aren't included in overhead or your marketing investment.
Basic calculation with COGS	Revenue (or units sold & cost per unit): The gross revenue the campaign produced.
	Cost of Goods (or COGS per unit): You'll need to know the cost of goods for all the units sold via the campaign.
Basic calculation with Gross Margin	Revenue (or units sold and cost per unit): The gross revenue that the campaign produced.
	Gross Profit %: The percentage in your ROI calculation.

If you have a lengthy sales process that makes it too difficult to calculate ROI on a single campaign using these measurements, use 27.10.g and 27.10.j instead to perform alternate marketing ROI calculations.

If you need to collect and document your exact cost of goods and gross profit data, here's a process to do so:

Step	Notes
Confirm Cost of Goods COGS calculation for each product/ service you offer	27.10.a & 27.10.b will help you get started, but you should talk with your finance team to understand how your company estimates that figure. If you're a startup company, gain agreement as to how you will calculate these figures moving forward.
Enter the COGS for each product / service into 27.10.c for future reference.	Also document the next date you'll review/recalculate the figure; COGS fluctuate based on various factors, such as labor prices and material prices.

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Now you can plug the data into the appropriate ROI calculator in the worksheet.

Sample: Basic ROI Calculation

Marketing investment	$10,000	A
Gross revenue	$17,475	B
Cost of goods for the items sold	$3,125	C
Gross profit (B-C)	$14,350	D
Overhead allocation	$1,398	E (if using)
Incremental expenses	$500	F (if using)
Profit for ROI calculation (D-E-F)	$12,452	G
ROI: (G-A)/A	25%	

Campaign and Method and ROI:

ROI Commentary:

Incremental ROI

When you've invested in a campaign and it's producing great results, you'll probably want to invest more money in the program.

However, as a rule of thumb, your ROI will decline as you widen your reach to a larger and less targeted audience. Therefore, when you evaluate whether to increase your budget on a particular campaign, don't assume that your current ROI will continue. Statistically, it will probably decline.

To measure your incremental ROI, determine the results of your ROI analysis for your current campaign. Enter these figures into 27.10.h:

Figure	Value
Marketing investment	
# of impressions	
Expected response rate	
% of responses that will become customers	
Customer lifetime value (CLV)	

Next, enter your projections for the additional investment. The sheet will tell you your incremental ROI. If your incremental ROI is greater than your hurdle rate, continue investing in the campaign.

Hypothetical Budget Increase:

Projected ROI:

Projected ROI Commentary:

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4. DETERMINE ALTERNATE METHODS FOR CALCULATING ROI

At times it may be too difficult to use ROI to measure the results of your campaign. For example, if you generate a group of leads from a campaign but your sales process is nine months long, you won't be able to measure the actual revenue generated until nine months later.

An alternative is to project marketing ROI based on other key figures, defined as cost per "x." X can be anything that you measure - number of customers you generate, number of proposals submitted, or number of inquiries.

To calculate, divide the number of "x" delivered by the campaign from the total marketing investment. For example, if you know that you can spend $100 to acquire a customer and meet your profitability goals, then a cost per "x" calculation will tell us how well you're performing.

USE ALTERNATE ROI CALCULATIONS - COST PER X AND PROJECTIONS

You can use Cost per X to compare campaigns against each other. First, define a success measurement - "X" - for your campaign. For example, you could measure:

- The number of new qualified leads you generate
- The number of meetings set up for your sales reps
- The number of demos requested
- The number of proposals submitted
- The number of new customers generated
- The number of inbound product requests

27.10.g will help you calculate Cost per X.

For example, for your direct mail campaign you may wish to measure the number of meetings generated from your invitation (the Success Measurement) and achieve 10 meetings on a $5,000 campaign (a $500 cost per meeting, or Campaign Success Measurement).

Campaign:

Campaign Success Measurement:

Now evaluate the results from your campaign to determine your actual Cost per X.

Total marketing investment in the campaign	A
Number of X delivered by the campaign	B
Cost per X* (A/B)	C

Cost per X:

You can project the ROI if you know what percentage of X will become customers and their probable average lifetime value.

Of the prospects who get to step X, what percentage of them will typically become customers?	D
Number of customers anticipated from the campaign (B*D)	E
Average lifetime value per customer	F
Total value delivered (E*F)	G
ROI based on average lifetime value (G-A)/A	

Cost per X ROI%:

You can also calculate this value based on the number of units sold and the COGS per unit.

Total units sold in the campaign	H
Revenue per unit	I

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Total revenue (H*I) (or just enter the total manually)	J
COGS per unit	K
Total COGS (H*K) (or just enter the total manually)	L
Gross profit (J-L)	M
ROI based on revenue and gross profit (M-A)/A	

Units Sold & COGs ROI%:

Commentary: