

	A	B	C
1			
2			
3			

Marketing ROI

Introduction

Accountants and financial analysts have known about ROI for decades and more. ROI means return on investment: that is, how much profit did you make as a percentage of your investment in the company or project or, in the case of marketing, an advertising campaign, trade show or other marketing event?

This page explores the basic marketing ROI formula: it provides an example and then demonstrates how it works. The page then goes on to explore a wider variety of Marketing ROI formulas too: as marketing develops and it becomes more and more important to evaluate ROI, there will almost certainly be more Marketing ROI formulas to concern yourself with.

Basic Marketing ROI

The basic Marketing ROI is:

$$\text{Marketing ROI} = \frac{(\text{Profit} - \text{Investment})}{\text{Investment}} * 100$$

Taking a very simple example, if we make a profit of £1,000 on a project we have invested £10,000 of our capital in it, then our Marketing ROI is:

$$\text{Marketing ROI} = \frac{(1,000 - 10,000)}{10,000} * 100 = \frac{9,000}{10,000} * 100 = 90\%$$

Alternative Marketing ROI Formula

It's not helpful but it happens in the financial world too, to find that there are alternative Marketing ROI formulas. Take this example:

$$\text{Marketing ROI} = \frac{\text{Profit}}{\text{Investment}} * 100$$

In our example above, this means that the Marketing ROI is:

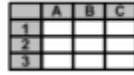
$$\text{Marketing ROI} = \frac{1,000}{10,000} * 100 = 10\%$$

90% versus 10% seems to be a massive difference even though they are given the same name. Just get used to the version you are using and appreciate that, in this case, they are really the same thing. That is, so to speak, 90% = 100% - 10% ... not ridiculous if you think about what we are trying to say!

More Complex Scenario

At the *Marketing Today* web site there is a *Direct Mail/email Marketing Campaign Marketing ROI Calculator*: http://www.marketingtoday.com/tools/roi_calculator.htm. This tool requires the following data inputs:

- Number of pieces you are mailing or e-mailing
- Total program costs
- Response Rate: % of responses expected
- Conversion Rate: % of responders expected to make purchases
- Average profit per sale



Once you have entered those variables in their model, it will tell you the following:

- Number of Responders
- Total profit from campaign
- Number of Buyers
- Cost per response
- Cost per buyer/new customer
- Cost per piece
- Marketing ROI

	A	B	C	D
1	Marketing ROI			
2	http://www.marketingtoday.com/tools/roi_calculator.htm			
3				
4	Inputs			
5	Number of pieces you are mailing or e-mailing:	1000	2000	3000
6	Total program costs:	5000	5000	5000
7	Response Rate: % of responses expected:	5%	0.05	0.05
8	Conversion Rate: % of responders expected to make purchases:	15%	0.15	0.15
9	Average profit per sale:	25	25	25

As you can see, we have set up a spreadsheet to mimic the Marketing Today calculator. One thing that Marketing Today didn't tell us was the Marketing ROI formula they have used. Here is the output range that might help us to see what the formula might be:

	L	M	N	O
10	Solutions			
11				
12	Number of Pieces	1000	2000	3000
13	Number of Responders	50	100	150
14	Total profit from campaign	187.5	375	562.5
15	Number of Buyers	7.50	15.00	22.50
16	Cost per response	100.00	50.00	33.33
17	Cost per buyer/new customer	666.67	333.33	222.22
18	Cost per piece	5.00	2.50	1.67
19	Marketing ROI	-96.0%	-92.5%	-88.5%

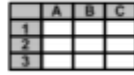
Since the spreadsheet on which these screenshots are based is **not given away here**, you should **satisfy yourself** that you understand and can programme the output section yourself (See note at end of this page). Here are just two clues!

	L	M	N	O
10	Solutions			
11				
12	Number of Pieces	=B5	=C5	=D5
13	Number of Responders	=B5*B7	=C5*C7	=D5*D7
14	Total profit from campaign	=B9*M15	=C9*N15	=D9*O15

The Formula used by Marketing Today

By the way, if you follow the link we have given and visit the Management Today Calculator page you will find they have made some mistakes with their programming: it doesn't affect all of their calculations and in some situations you would never spot the mistakes!

The file is, of course, included free of charge when you buy the book **Excel 2007 with Excel Master**



You should find out for yourself which of the two Marketing ROI formulas we have presented above Marketing Today have used. It is one of those two!

Additional Marketing ROI Formulas

You will be interested to know that there are more than the two Marketing ROI formulas than we have given above. Here are six more and each of them is presented as the Marketing ROI in its own right. Which is the most important formula is for you to decide. In true Balanced Scorecard style, though, you might find marketing and other managers using some or all of these six formulas together.

- Average Sale = Annual Sales/Number of Transactions
- Average Transactions per Customer = Total Transactions/Number of Customers
- Customer Equity per Period = Average Sales*Average Number of Transactions
- Lifetime Customer Equity = Customer Equity per Period*Number of Periods
- Lifetime Net Profit = Lifetime Customer Equity*Net Profit Contribution %
- Marketing Investment Break Even Point = Channel Marketing Investment per Year/Lifetime Net Profit per Customer

Source: <http://www.prominentplacement.com/pdf/Guide%20to%20ROI.pdf>

Again there are some mistakes in the PDF file to be found at the link just given: the formulas on pages two and three are fine but the template on page six contains various flaws. However, that should not stop you using that file together with the following screenshots to **set up a spreadsheet** to find the values to the above six Marketing ROI formulas.

	A	B
1	Applying the Six Marketing ROI Formulas	
2	http://www.prominentplacement.com/pdf/Guide%20to%20ROI.pdf	
3		
4	Inputs	
5	A Annual Revenue	4,000,000
6	B Total Transactions	2,000
7	D Number of Customers	500
8	G Number of Periods Customer is Active	2.30
9	I Net Profit Contribution	19.0%
10	K Marketing Investment	42,000

	C	D
12	Solutions	
13		
14	C Average Sale (A/B)	2,000.00
15	E Avg. Transactions per Customer (B/D)	4.00
16	F Customer Equity per Period (C x E)	8,000.00
17	H Lifetime Customer Equity (F x G)	18,400.00
18	J Lifetime Net Profit (H x I)	3,496.00
19	L # of Customers Needed to Break Even (K/J)	12.01

	A	B	C
1			
2			
3			

Conclusions

The Marketing ROI is a relatively new calculation and it has been made more popular as management has realised that just thinking that marketing is doing its job is no longer acceptable. Management wants to know that marketing *is* doing its job: hence, the development of a wide variety of Marketing ROI metrics.

There are arguments over which version of Marketing ROI we should use but that's not really the point. The point is, does the Marketing ROI[s] you use make sense, can you interpret it [them] and does it [do they] help you in the future?

We have only provided screenshots of the spreadsheet we have built here but the spreadsheet is available free of charge to everyone who buys the book, **Excel 2007 with Excel Master**.

What you get when you buy

When you buy the book **Excel 2007 with Excel Master** this is what you will receive

- the full and complete Excel 2007 version of the book
- an electronic copy of this page
- email based support to help you with any questions you might have on the book and spreadsheet files that accompany it

© **Duncan Williamson**
August 2009