"Are you thinking like John Wanamaker?"

How do you measure marketing ROI?

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Everyone in marketing is familiar with retail legend John Wannamaker's cry of "I know that 50% of my advertising is wasted. I just don't know which 50%". His words have been thought provoking for most of the 20th century, but it is only more recently that there has been growing pressure for marketers to quantify the financial value of each marketing investment – to demonstrate Marketing Return On Investment. This is true in every industry. As global competition intensifies, the cost of selling products ratchets up. Manufacturers recognize that to successfully differentiate themselves they must become better marketers. This can mean substantial investments in sales forces, in advertising, PR, interactive, etc., and investments to insure that the company image – the Brand – is being leveraged fully.

In today's marketplace it is no longer acceptable to offer up vague justifications for marketing investments. Marketers must view themselves as business strategists, responsible for turning the marketing function into a performance-based revenue driver. Increasingly, marketing will compete internally for scarce resources. Marketing will get adequate funding only if it can demonstrate that every investment has a top line impact.

What is marketing ROI?

To what should marketing investments be accountable? Sales of course, right? Not necessarily. In looking only at sales results one sees only the outcome of many variables, but by themselves sales results give little insight into the sales drivers. And there are many: R/D, product development, brand equity, marketing communications, sales, customer service. Every prospect touch point is a sales driver. How does each of these variables contribute to the sale? How cost effective are investments in awareness building, promotions, discounting, direct sales? And what is the role of Brand goodwill and loyalty in the sale?

Marketing ROI (MROI)

MROI goes beyond sales figures as the sole variable for ROI measurements. Measuring MROI brings more than traditional awareness and image measures to the table. It demonstrates the impact on intermediate behaviors that are necessary precursors to sales. So to measure MROI, it is necessary to take a close look at the customers who drive revenue, not just the cost of reaching them.

Some of the questions that need to be answered to assess MROI include:

- Which customers drive the greatest revenue? Why?
- Which products and services drive the greatest revenue? Why?
- What marketing programs have driven the greatest revenue?
- What do customers think about thecompany?
- What do customers think about the competition?
- What do my competitor's customers think about my company?

Practical MROI

Not every marketing organization is able to employ an inclusive mechanism for measuring ROI right off the bat. But this won't be an excuse for not justifying marketing investments. Marketing will increasingly be under the corporate microscope; so taking every step possible to demonstrate ROI is imperative. Maximize the effectiveness of every investment through whatever means, and resources, available.

Understand the marketplace

Ongoing dialog is critical. This doesn't have to mean expensive research, either. A telephone conversation with one customer a week will yield valuable insights over the course of a year. What is the prospect's purchase decision process? Who's involved, and who makes the decision. Analyze your strongest and weakest competitors. Understanding how they are presenting themselves to the market can provide valuable "do's and don'ts".

Choose the right marketing communications tactics

Understand where prospects are in the sales cycle. What is the size of the market for a product or service? How many prospects are already customers? Avoid rounding up the usual suspects.
Align the choice of marketing tactics with objectives. A new product needs market awareness first. Supporting it with broad based channels like media advertising and PR for example will be more cost effective than direct mail.
Marketing communications is any channel that delivers a selling message to a prospect.
Understand the trade offs among the alternatives. When does direct marketing (mail or electronic) make better sense that using the Call Center? PR versus advertising? Social Media, sales support collateral versus media advertising? Integrated marketing is almost always more effective than an isolated tactic. The ultimate customer purchase decision is the result of many, many inputs.
Understand the customer's "appetite" for information and design marketing programs accordingly.

Establish metrics

Establish systems to measure the impact of marketing programs. Set up criteria for every tactic employed. Some tactics are easier to quantify than other. But they should all be measurable in some way. Track leads. Every ad, direct mail piece, email and banner should include a measurable call to action. A positive response to an ad will logically be for readers to seek more information.
In every case direct them to a microsite that has been designed to provide richer information choices. And track what information they read or download. This can provide clues to whether you are dealing with a tire kicker or a serious prospect.
Direct mail (print or electronic) can be an effective sale closer. Take pains to design the best list of the best prospects. Take even greater pains to select the best offer. Use the offer as the tipping point incentive to make the purchase decision. Design your DM – front end and back end – to be simple to respond to.

Use web advertising to advance the selling process. Design these programs to fit the online opportunities available. Choose sites or newsletters or other sponsorship opportunities based on content that is relevant to what you are selling. Always use a call to action and incorporate the means to allow prospects quick access to more information.

Establish best practices

Organize learnings. The alternative to sophisticated CRM doesn't have to be boxes of leads or spreadsheets of click throughs. Establish value criteria for marcom tactics.

- Set clear goals for marketing programs
- Publish results and findings on a regular basis
- Adjust program tactics based on what's working and what isn't.

Tracking the performance of marketing investments has come a long way since Wannamaker's first grumble. Tools are available to quite accurately provide insight into how your investment are performing against the goal of making the sale. Use them.

Lead management. Understand the value of leads and what to do with them.

- Know when to send leads along to the sales force or call center. The best timing is when the prospect is receptive to direct selling.
- Not every response qualifies as a lead, but every response requires qualification.

About Jim Casey

For more than 30 years in the marketing industry Jim has worked with a wide range of national and international clients in diverse industries, from genetic analyzers to athletic footwear. His enthusiasm stems from a keen interest in human behavior, and the challenges of a dynamic business. Jim brings his skills at developing the strategic foundations for companies and products to designing and implementing measurable communications programs for clients who are committed to being leaders in their industries.

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