ACCOUNTABILITY GAINING MOMENTUM / It’s difficult for B2B marketers to demonstrate discipline in accountability without support from their CEOs, and that means CEOs need to understand which metrics are applicable in various circumstances. ROI is a favorite in the C-suite and a key indicator of performance. According to marketing ROI expert James Lenskold (2002), ROI “is actually the most critical measure of marketing programs for basing decisions that will help maximize company profits” (p. 32).

Some would argue that ROI is the single best metric to guide marketers in making the best possible investments. The better the investments, the better the marketing department’s performance. Unfortunately, many CEOs do not have a clear picture of their company’s marketing performance.

They’re in good company. Marketers are equally baffled, or at least they have been until recently. A study by the Association of National Advertisers (ANA) and Forrester Research revealed that 66.5 percent of marketers who responded to the survey believe ROI is important or very important, but 59.5 percent are dissatisfied with their company’s ability to measure marketing ROI. In other words, most of the people who thought ROI is important could not measure it.

Worse, the same study found that 57.4 percent of marketers said it is important or very important to gain agreement on a definition of “marketing ROI,” but 51.1 percent said they were dissatisfied with their company’s ability to do so. The startling truth about marketing ROI is that many marketers don’t know what it is (ANA, 2005).
Even those you’d think would know, don’t. According to the 2005 American Marketing Association/Aprimo Inc. marketing accountability white paper, marketers don’t have any common agreement on the definition of ROI, citing incremental sales revenue, ratio to cost revenue, cost per sale generated, changes of financial value of sales generated, cost of a new customer and cost of old customer retention as ROI measures. None of these definitions is correct.

A media sales representative once attempted to sell me space on the Internet. He told me his firm would automatically calculate my ROI online by counting the click-throughs to my web site. When I explained that click-throughs are not remotely an indication of ROI, he replied plaintively that that’s what they told him to say. Either “they” don’t know what ROI is, or “they” think communicators are ripe for scamming.

**BOTTOM-LINE BASICS /** What is ROI? Return on Investment is a financial term expressed as a percentage of the initial investment. Here’s the formula:

\[
ROI = \frac{\text{Gross Margin} - \text{Communication Investment}}{\text{Communication Investment}}
\]

The return is a financial gain, not an increase in awareness, market share, leads, click-throughs or even the revenue generated from marketing communications. It is the
profits generated over and above the initial investment and expressed as a percentage of the investment. Marketers must stop referring to their “return” in loose terms, as in, “Our return is an increase in market share.” Otherwise, they risk appearing financially illiterate.

The following is an example. If a marketer spent US$5,000 on a public relations campaign and got US$7,500 back after two years, the annual return on investment would be 25 percent. Here’s how to calculate:

\[
\text{US}\$7,500 \text{ current value} - \text{US}\$5,000 \text{ investment amount} = \text{US}\$2,500 \text{ profit ÷ US}\$5,000 \text{ investment amount} = 50\% \text{ percentage return ÷ 2 years} = 25\% \text{ annual percentage return}
\]

As you can see from this example, calculating ROI is not as simple as plugging numbers into a formula. This PR campaign took place over two years, during which time the value of money changed. That is just one of the many variables that needs to be taken into consideration. Marketers must be conversant with all the relevant financial terms. Here are a few of the most basic:

**Net present value (NPV)** is the time value of money. The ROI measure should include the full impact of the marketing investment, which may include profits generated in the future. But since the same amount of money in the future is worth less than it is today, future cash flow resulting from marketing efforts must be discounted according to the company’s standards. The NVP calculation discounts future profits to a value the company would determine to be equitable if it were received today. The gross margin within the ROI equation is based on the NPV of the profits and expenses that result from the marketing investment.

**Gross margin** is the financial contribution marketers make to the company resulting from their marketing investment. It is the sales revenue minus the cost of goods to produce the product or service sold, minus any other cost that is related to the sale. All of this occurs over time, so NPV must be taken into consideration. The basic formula is: Gross Margin = NPV (Revenue – Cost of Goods – Incremental Expenses).

**Discount rate** is the rate at which future profits and expenses are discounted to represent a comparable present value within the NPV calculation. This is a rate that varies by company, because it reflects the rate at which a company can borrow money and the risks associated with the company’s future performance. Established companies with a good credit rating will have a lower discount rate than a start-up. Marketers must ask the finance department for this number.
For the purposes of measuring ROI, **incremental customer value (ICV)** is defined as profits and expenses that a customer or customer segment generates for the company as a result of a finite marketing activity, without any additional investment. This is not to be confused with the popular **customer lifetime value (CLV)**, which represents all the marketing investments and returns generated over the course of that customer’s lifetime (Lenskold, 2003).

The **ROI threshold** or **hurdle rate** is the minimum ROI that must be achieved before a company will consider investing in a project. For example, if a marketer’s direct mail program is projected to achieve a 20 percent ROI, but the company’s hurdle rate is 25 percent, the project won’t be funded. Many companies have multiple thresholds depending on the level of anticipated risk. Marketing departments that consistently forecast the ROI of their programs accurately have a better chance of a lower hurdle rate than those whose track record is not as good.

In our previous example of a two-year PR campaign, we calculated a 25 percent ROI. If the company’s hurdle rate was 25 percent, then this campaign would have met the hurdle rate criterion. But what about NPV?

If you were to use this same example to predict the results of the same campaign over the next two years, you’d have to discount future profits according to your company’s discount rate. Future profits would then be less than US$2,500, and the ROI would be less than 25 percent. With a hurdle rate of 25 percent, your project would not be funded. The difference is in the details.

**GATHERING THE DATA REQUIRED TO CALCULATE ROI** / In order to measure ROI, marketers need to make a link between the investment and the return, that is, link the communication to the lead, then to the sale and back to the communication again.

To do that, marketers must create a way for the customer or prospect to respond to their communications. Here are the seven steps for establishing a system to collect the data needed to determine ROI.
1. **Build Response Mechanisms into Everything**

Every tactic in your marketing communication mix—ads, press releases, brochures, direct mail, newsletters, trade shows, e-mails, web sites—should have at least one mechanism by which customers and prospects can contact your company. Each communication should be coded. If you print a brochure with a unique 800 number, then you know that any calls to that number are a direct result of that brochure. If you want to drive prospects to your web site, then create a unique URL that’s prominent in your brochure.

2. **Make Capturing and Recording Systemic to Your Organization**

This is sometimes the most difficult part of determining ROI—creating a process within your organization to ensure that all leads are captured, recorded and reported. Marketers may need to include the cost of a call center in the communication budget, with personnel to answer the phones and record responses. They will need to work with the IT department to add a portal with a new URL to the web site to ensure that online responses are tracked. Or they may need to investigate some of the many services that track click-throughs and online inquiries.

But if the Internet is only part of your marketing communication strategy, as it is for most B2B companies, you’ll need to make sure you capture all the leads your communication generates—online and off. This requires thinking early in the planning stages about how you’re going to capture leads. Marketers should save room in the budget for training call center staff, even when that department does not fall under their purview. It may be that the call center is the most reliable way to track leads. Call center people must be trained to ask callers how they’ve heard about your company, and then record and deliver that information to the database.

3. **Plan Interactive Communication**

Naturally, the communication your marketers plan to create should support your objectives. But when your communication encourages customer and prospect interaction, so much the better. An e-newsletter, for example, containing links that invite the reader to get more information about a specific topic, will tell you a lot—like the level of interest in a particular product or service and what prospects your salespeople should contact.

Other ways to induce responses are the good old-fashioned offers that are hard to refuse, like free white papers, guarantees or coupons. Whatever tactic you use, it must benefit the prospect. White papers must provide valuable information that helps the prospect do his or her job faster, easier and better. Guarantees must offer the prospect some peace of mind when deciding to do business with your company. Coupons
must make the cost worth the risk of dealing with you. The idea, of course, is to
design communication that will generate leads and fill your database with as many
targeted prospective customers as possible.

4. Develop Information Request Forms
Whether it’s a business reply card or an online form, make sure your marketers get
the data they need from a prospect before fulfilling the prospect’s requests. There are
two schools of thought about screening inquiries to a company—brief and compre-
hensive. The brief theory holds that it’s critical to capture the essential information
only, such as name, title, company, phone and e-mail. Ask for any more, and the
prospect may slip away uncaptured.

The comprehensive theory holds that if a prospect is serious, you should qualify him
or her upfront and save some telemarketing later. These forms might ask the respon-
der to identify his or her area of responsibility, budget, plans to purchase within a
given time frame or whatever else you need to know. It’s helpful for marketers to dis-
cuss this with the salespeople, distributors or whoever will be the recipient of the leads
they generate.

5. Establish a Lead Qualification Program
If leads aren’t qualified through an information request form—and often only
Internet leads are qualified this way—then marketers should establish a formal
process. What happens once you capture the raw lead data? If you’ve already estab-
lished criteria for what constitutes a hot lead, you can begin sorting. A hot lead is
probably someone with buying authority or serious influence, an adequate budget,
and a need for your product or service yesterday. A warm lead might be the same, with
a need in the next month. Criteria will be different with every company.

The way you categorize leads will vary too, but usually you’ll have groups of immedi-
ate, future and nonprospects. Obviously, hot leads—and probably warm ones too—
go immediately to the appropriate salesperson or distributor. Future prospects should
be nurtured in a database, with multiple follow-ups to see if you can nudge them into
being immediate prospects.
6. Close the Loop Between Marketing and Sales
To determine ROI, marketers must know what sales result from their leads, and that usually means talking to salespeople to find out. When marketers do not track their leads all the way through to sales, they have a communication program that looks like this:

Communicators may generate leads and get reports about those leads, but they are left hanging without knowledge of sales.

It is to everyone’s advantage to cooperate. Salespeople and distributors are more likely to do so when they consistently receive leads that are well qualified, which is just one reason why lead qualification is so critical. It also makes the entire process more effective and efficient.

When communicators see which leads turn into sales, and even where the most profitable sales originate, they can adjust their programs to create better, more targeted communication. That, in turn, provides salespeople with better, more targeted leads. When that happens, the loop between marketing and sales is closed, and the communication process looks like this:
A database is the foundation of this closed-loop process. Developing a database is often a stumbling block for communicators who want to demonstrate ROI. But unless your program is really simple and can be tracked with a spreadsheet, a database is critical.

7. Develop a Relevant Database

Many of the enterprisewide systems that companies install, like CRM (customer relationship management) programs, include lead-tracking modules. But most are not designed with communicators in mind, and they do not tie the communication to the sale. They are no help, and sometimes even a hindrance, to marketers who want to show ROI. That’s because salespeople have already entered the sales data in one system and will not enter it into another.

Marketers must find a way to import that sales data into a database relevant to their needs—one that ties communication tactics to leads and sales. Such a database yields rich information that will help marketers compare their budgets to actual costs, provide them with a solid rationale for upcoming budgets, give them the data they need to show ROI for each component of the integrated marketing communication (IMC) program and, over time, help them increase the return on their marketing investment—ROMI.

THE POWER OF A DATABASE / That’s how powerful a database can be. But it takes time, commitment, a hefty budget and a good rapport with the IT department to develop a customer database that’s relevant to marketing’s needs. Alternately, there are some emerging companies that offer database technology to communicators.
Whether in-house or outsourced, when marketers control the information, they can invest their budget wisely, and the process will look like this:

This kind of planning based on hard data does more than justify marketing’s budget. It helps communicators find ways to get even larger returns and grow ROMI on an ongoing basis.

**ESTABLISHING MEASURABLE AND ACHIEVABLE OBJECTIVES** / Marketers must start with measurable objectives. It is not enough to say you want to increase market share or grow your customer base. It’s not even enough to say you want to increase leads by 20 percent if it’s at all possible to tie those leads to sales and revenue.

So how do you go about establishing measurable marketing objectives that you might have some ability to achieve?

1. First, marketers must align their goals with the company’s business objectives. That is why marketing exists—to further the organization’s agenda. That agenda is usually related in some way to profits, value or growth.

2. Identify business outcomes that marketers can impact and then work backwards to determine what would have to occur to achieve that outcome. If the goal is to increase the customer base, determine what percentage of increase is desired and reasonable. How many new customers does that percentage increase represent in the marketplace?

3. If you need 100 new customers, for example, look at your potential market and identify those most likely to become your customers. Using qualitative
research, determine what changes in behavior these people need to make to become customers, and what you can do to facilitate those changes.

4. Working backwards again, determine what tactics you need to initiate over a specific time period to get 100 new customers. How many proposals, direct mail pieces, special events or whatever combination of tactics will it take to make one sale? Then multiply by 100. This gives you some idea of the cost and feasibility of the goal.

If feasible, you now have a goal of increasing your customer base by 100 new customers (or X percent) over a specific time period in a particular market. This is much better than the goal of merely increasing the customer base because it’s something concrete. Of course, it’s much easier for marketers to predict a reasonable goal when they’ve been in the business of measuring and collecting data over time. They are bound to be more accurate in their estimation of an attainable goal, and finance departments revere nothing more than accuracy.

ARGUMENTS AGAINST ROI / In the past, marketers insisted that there were too many variables to measure ROI. Now that databases and technology make that excuse obsolete, there has, in recent years, been a spate of articles in publications like BtoB about marketing ROI. In fact, it seems you cannot pick up an issue without seeing a front page, above-the-fold ROI story. Yet the truth is, some marketers either still don’t believe they can measure ROI or think it’s much too difficult to be practical. But as the Chinese proverb says: The person who says it can’t be done shouldn’t interrupt the person doing it.

Still, nagging concerns remain. Some fear that if you measure ROI, creativity will suffer. The argument goes something like this: If the creative component of a campaign or tactic has to undergo the scrutiny of measurement, then it will most likely put constraints on the creative process. Being held accountable makes copywriters and art directors focus more on numbers and less on fresh ways to make memorable impressions. Presumably, being sequestered somewhere within the bowels of the agency allows creative folk to gestate the perfect idea, and during this delicate process, they cannot be hindered with other considerations.

But perhaps this argument doesn’t give creative people enough credit. The creative process, if it is to yield anything worthwhile, must have some discipline and parameters. Why not ask creative folks to think about concepts that will give clients the best bang for their buck? And how will creative people know what these concepts are if not through testing, market research, focus groups and examples of campaigns that
have worked before? There’s the rub: If you base future concepts on those that have worked before, then creativity might well suffer. This is where it is incumbent on the CMO or whoever leads the creative process to ensure that ROI numbers don’t impede the process. But fresh ideas must still meet objectives, or what good are they?

Another issue for the anti-ROI crowd is the “rearview mirror” syndrome. ROI and other metrics only show what’s happened in the past. If you’re too busy looking behind you, they argue, you’ll miss what’s important ahead. But understanding the past is the only way to predict the future, and how can you ask for budget without estimating some kind of payback? It is only through measuring what has happened in the past—repeatedly and often—that we can become proficient at predicting the future.

PITFALLS OF ROI AS A MARKETING METRIC / Yet another argument against measuring ROI is that it tends to concentrate on the short term. Some fear that this focus comes at the expense of the long-term view. ROI is, indeed, a measure for short-term programs that bring in leads and build business; it is not the best measure for long-term brand-building programs. Therefore, if marketers are forced to demonstrate ROI for all their marketing communication efforts, they’ll have a tendency to emphasize business-building over brand-building programs. Marketers must combat this by finding equally cogent measures for brand equity and balancing their efforts between short- and long-term marketing (see Chapter Five).

Why is using ROI to measure branding like trying to fit a square peg in a round hole? Since branding is an activity that takes place over time, it’s typically an ongoing activity, unlike a one-time campaign to, say, launch a new product. Tim Ambler, senior fellow at London Business School, encourages companies to look at brands as assets with equity that ebbs and flows over time. “Marketing is not a once-off capital sum, but a continuous stream of expenditures which the company makes every year,” he says.

CEOs look at ROI as a metric for a one-time investment for capital projects, not for an ongoing investment like branding. But even with short-term projects, ROI has its problems. From a finance department’s perspective, the ROI for an expense is supposed to exceed all other possible use of the money. Why not just take the marketing budget and put it in a certificate of deposit? Indeed, why not? Marketers must be prepared to answer that question.

Also, because of the fact that ROI is calculated by dividing the profit by the investment, you can get a higher ROI just by investing less. That is seldom the best rationale for achieving marketing success. In other words, ROI does not give you a complete picture.
So if marketers use ROI as a metric, they must use it judiciously, with all these pitfalls in mind. Further, they should not depend on this metric alone as the only measure that is critical to driving performance. However, ROI is a very useful measure when determining which short-term campaigns, tactics and media are pulling their weight. In fact, some would argue that ROI is a measure that should be used for every marketing activity or at least every short-term marketing activity. ROI metrics help marketers understand how strategies and tactics can be improved to increase profitability.

\[ \text{MAKING THE MOST OF TRADE SHOWS: USING ROI TO DETERMINE THE PROFITABILITY OF A TACTIC} \]

Smurfit-Stone, a leading packaging solutions company, always attended the big biannual industry trade show. Every time the show came up, the company would spend some serious money on a booth, to say nothing of the time, travel and expenses of the sales personnel manning the booth. The powers that be felt the show didn’t yield enough return—400 leads, with resulting sales untracked—to justify the US$200,000 investment in the booth itself. Pre-show promotion was negligible.

When Pat Harrington joined Smurfit-Stone as director of marketing, the company was considering not attending the show. Yet all research indicated that the show had tremendous potential and that, unlike some B2B shows, sales leads were generated right on the show floor. Harrington maximized the effectiveness of the show by investing US$300,000 in preshow promotions, including extensive PR, trade ads and online activities like webinars.

Instead of just counting the leads from the show, Harrington tracked them all the way through to the sale. Most likely because of the new pre-show promotions, the number of leads jumped from 400 at the previous show to 2,400—an increase of 500 percent. And those 2,400 leads resulted in US$38 million in new business. Total investment? US$200,000–US$500,000 for the booth and US$300,000 for pre-show promotions.

“Management never resisted giving me budget for this show again,” says Harrington.