Marketing ROI 2.0

Why Marketing ROI is so Important

By David Bartenwerfer

The proliferation of new channels — from social media sites like Facebook, YouTube, Twitter, and blogs to search and all the variety of keyword options — has changed the way consumers interact with brands. These new ways of engaging with prospects create both a challenge and an opportunity for Marketing organizations to re-consider how they allocate resources. Furthermore, marketers are frequently competing with other departments for scares funding.

When other departments invest, a relatively simple ROI analysis can be performed to justify the expense. Increased revenues demonstrate the effect of a new product; decreased costs prove the value of new machinery. But Marketing efforts are more complex and inter-dependent rendering such a simple analysis limited and incomplete. Most experts agree that it can take between seven and nine “touches” before a customer will actually make a purchase, requiring marketing programs to overlap and work together to increase the likelihood of an eventual sale.

Marketing in the Digital Age

Consider the purchase of a major appliance. Not long ago, a consumer would pare down the available choices to two or three that best meet their criteria using information garnered from magazines or manufacturer websites. Then they would go to the store and inspect the products, selecting the one that offered the best price while meeting their criteria, often heavily influenced by the salesperson. And, outside of a product warranty, the relationship with the manufacturer ended after purchase.

Today’s consumer has a wealth of options for product research, which, coupled with the commercial-skipping impact of the DVR or commercial-free viewing from Netflix, HBO and others, blunts the effect of advertising spend. Furthermore, many consumers have made their decisions before even entering the (on- or off-line) store, further blunting the effects of large point-of-sale Marketing expenditures. In fact, the evaluation phase of the purchase process is the one that frequently suffers under-investment, but now perhaps plays the greatest role in the consumer decision journey.

And the process doesn’t end with a purchase as consumers often comment on the positive and negative qualities of their purchases—influencing other potential customers. Social media are enabling consumers to advocate the brands that meet their expectations — and disparage those that do not. Marketers can try to get in front of this issue, but many of the avenues for advocacy (or the opposite) are beyond their control.

Measuring Marketing ROI is Important

Marketers spend a lot — global spending on media is expected to reach $2.1 trillion in 2019. And, as senior management applies increasing pressure to deliver evidence justifying marketing investments, marketers are also expected to objectively measure the ROI of their efforts. As a result, Marketing organizations today must adapt by optimizing their resources across the new spectrum of marketing objectives. However, even though marketing budgets are high, over 40% of businesses say their top marketing challenge is proving marketing ROI. And without an ROI, businesses cannot determine if their marketing dollars are well spent.

Measuring ROI can be accomplished most effectively through careful measurement and scrutiny of holistic ROI, employing both top-down and bottom-up approaches.

These dynamics have broad implications for the allocation of marketing resources. As advocated in these articles, it is important to measure the incremental impact of each element of the marketing process and each stage of the customer decision process. This enables Marketers to gain an insightful advantage and better allocate their resources vis-à-vis their competitors

THE VALUE OF MEASURING ROI HOLISTICALLY

Few avenues offer the potential for fast incremental gain with limited cost as optimizing marketing effectiveness, especially considering the changing nature of the marketing function. While the process of measuring the ROI of marketing campaigns is difficult both analytically and intuitively, with the right expertise the process can be completed quickly and effectively. The benefits to the Marketing organization, and the company as a whole, are numerous:

- **Justification.** For most companies, Marketing is a significant expense so it's natural for C-level execs to want to know what they're getting for it. Understanding the incremental cost and value-add of each marketing program at both a granular and holistic level proves and quantifies marketing's impact on profitability.
- **Decisions.** MROI calculated at a granular (i.e. program) level enables marketers to know which efforts have a higher return and therefore warrant additional investment. It also helps guide future spending and budget allocations across programs and media, as well as which messages are having the greatest impact.
- **Accountability.** Good marketing is about delivering customers and revenues in the most effective and efficient way possible. Analytical rigor shows how the marketing organization is using the company's money keeps everyone accountable for using those funds intelligently. MROI calculations also prompts individual marketers to think about and justify every dollar before they spend it.
- **Credibility**. By measuring and proving ROI, Marketing organizations can communicate the impact in a language that Finance, and C-Level executives understand and value – and relieve pressure from those executives by demonstrating that Marketing can deliver meaningful ROI.

Every marketing program has an objective. If Marketing creates the proper metrics to measure each objective and understands their inter-relationships, they can better quantify the impact of their marketing investments at both a granular and holistic level and drive value by acting on that insight.

Link to the next article in the sequence: *Marketing ROI 3.0: A Process-Centric Framework*

AUTHOR

David Bartenwerfer is the founder and principal of Quantum Consulting and Technology. QuantumCT helps product and marketing organizations get smarter and prove, predict and optimize impact and ROI with economic and financial modeling that employs customizable algorithms and technology leading to fast and lasting insight and action. Mr. Bartenwerfer has over twenty years' experience in the High Tech, Internet, Telecom, Media, Financial Services and Retail industries and holds a B.S. in Systems Engineering with minors in applied mathematics and economics from the University of Virginia and an M.B.A. from the Stanford Graduate School of Business. For further information, contact the author at davidbartenwerfer@quantumct.com.