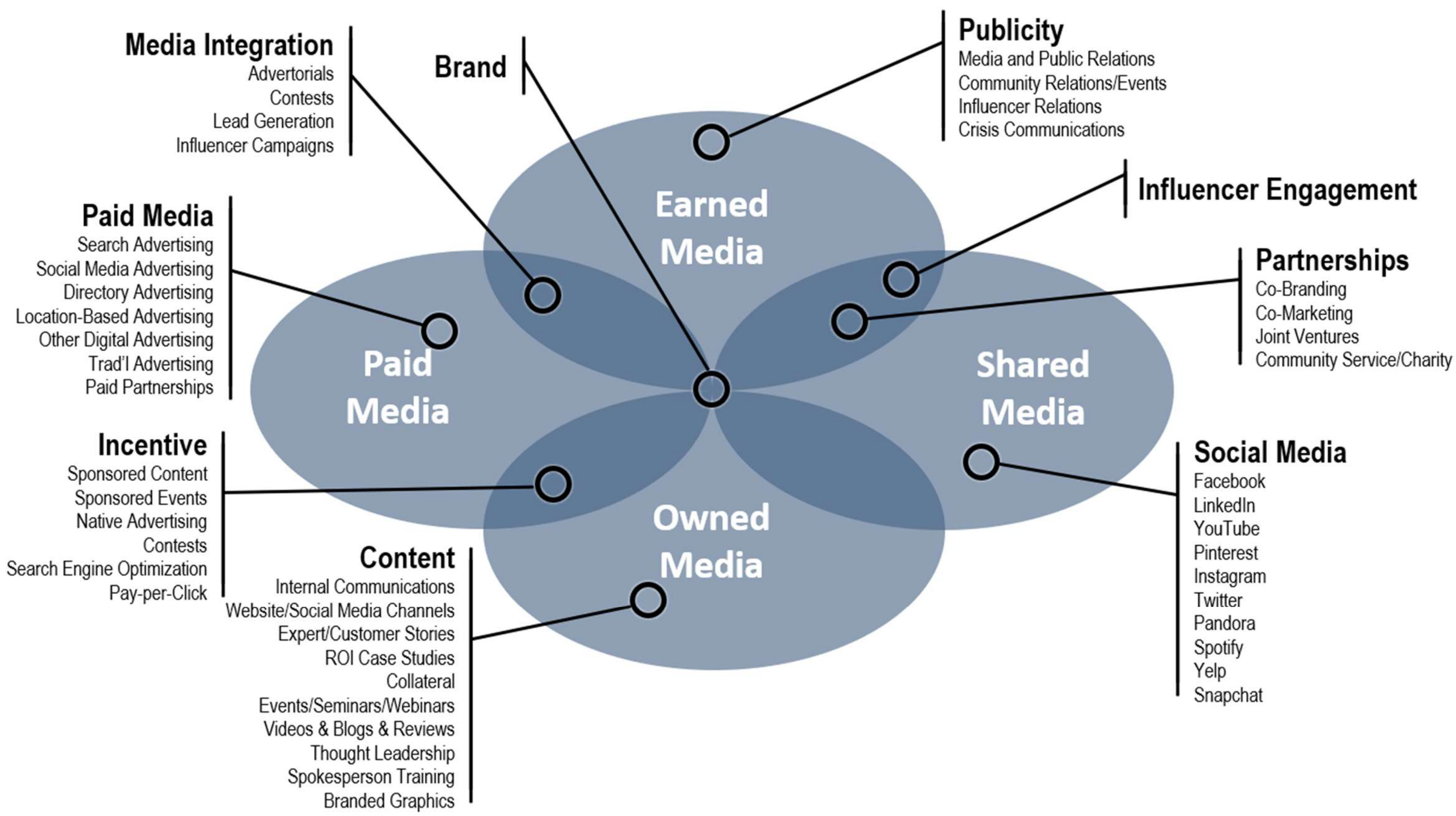
Marketing ROI 4.0
Delivering Results

By David Bartenwerfer

The previous three articles presented a conceptual framework for measuring the ROI of marketing programs. The first order of business is to consider the entire set of possibilities for how a company can market to their audience. The options for marketers start with the media options that are available to them, whether that media is earned, shared, paid or owned. Exhibit 1 presents one way to categorize many of the options and some possibilities for within each category. Each industry and business may have more or fewer options, but the important first step is to brainstorm with the entire marketing team to determine all the possibilities.

Exhibit 1 **There are many options for engaging with prospects**



One simple but impactful way to think about this is to consider marketing programs like a football team trying to move the ball down field. As presented previously, there are now many options for different marketing channels, many where the cost and the impact are both easily quantified.

Exhibit 2 presents a framework for considering marketing investments like moving a football down field. Marketers who can take a prospect with a defined need but who are not yet aware of their company's products and make them aware of that product may not have sold a product (yet) but they have created value. Similarly, if the marketing team is able to take a prospect who is aware of their products and create a favorable impression within the consciousness of that prospect to the point that the prospect is now preferring that product in their consideration set, that act has also created value.

Exhibit 2 **Marketing programs work together like in order to advance a prospect downfield**

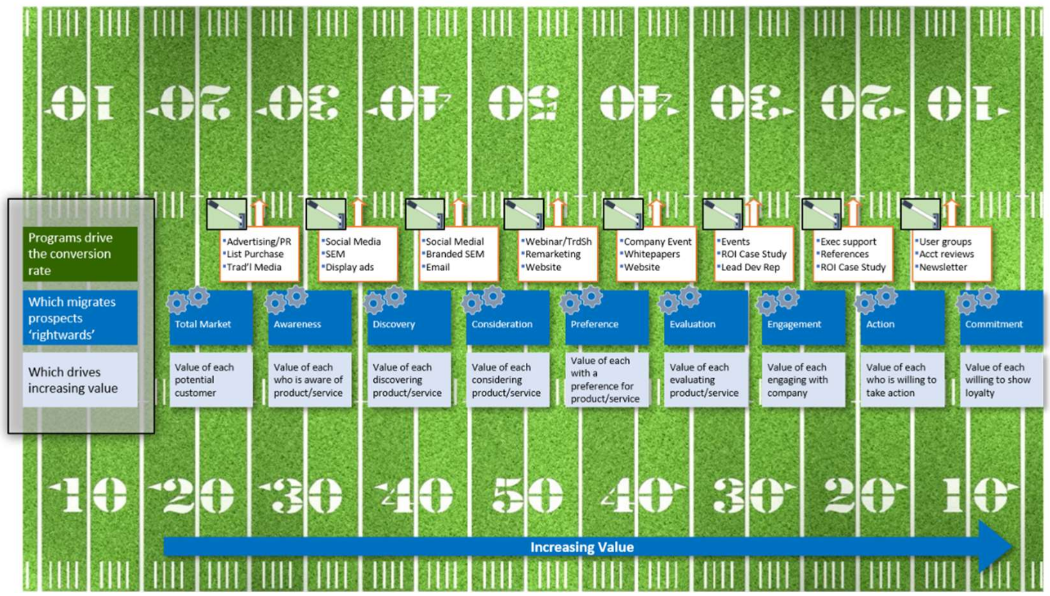
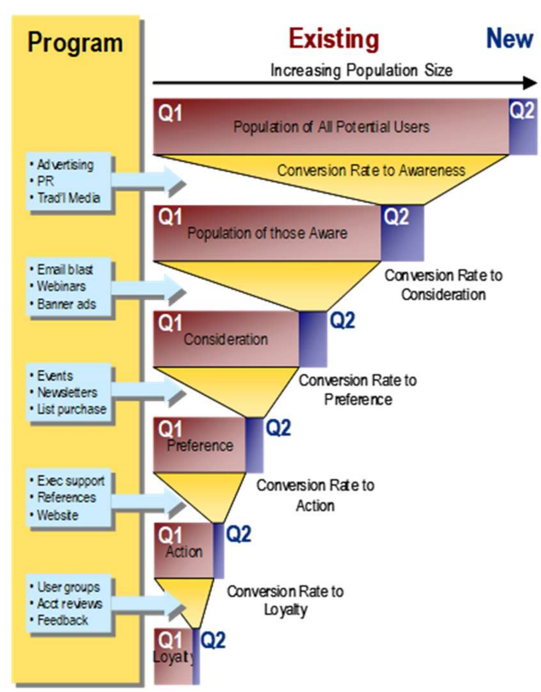


Exhibit 3 presents one way to graphically represent the holistic analysis of customer populations where population sizes increase from left to right and value increases as one moves from top to bottom. The burgundy bars illustrate the current population sizes as measured at the beginning of Q1 while the dark blue represent the increases to those populations at the beginning of Q2. Typical marketing programs are labeled on the left, and in each quarter, the objective of these marketing programs is to convert prospects from one population to a higher value one below, as represented by the yellow polygons.

Exhibit 3 **Mapping programs to populations**



Top-Down Analysis to Gain a Holistic View

Top-down analysis is a problem-solving methodology whereby a given problem is divided into smaller and more manageable sub-problems that can be easily solved (by computer). In marketing analytics, a top-down approach is an effective means to conceptually comprehend and quantify the drivers of the overall impact of marketing investments. Each marketing campaign should have a primary objective that can be expressed in this framework, for example, to generate leads (increase the **Conversion to Consideration**) or increase awareness (increase the **Conversion to Awareness** metric). Calculating the holistic ROI gives one a measure of the ROI of each conversion rate, or each program objective.

The goal of calculating a holistic ROI is three-fold: to obtain a meaningful measurement of the overall impact of marketing investments, to understand the drivers of marketing ROI, and to look for opportunities to increase marketing ROI. The analysis should identify opportunities to improve revenues by reallocating budgets to optimize overall the impact of conversion rates.

Bringing it all together and providing an example requires some simplification (by necessity the analysis has quite a few moving parts). Exhibit 4 demonstrates an example of the process with sanitized numbers from a medium sized technology company. Step ① of Exhibit 3 gives the results from developing the baseline scenario by identifying the relevant population groups and measuring their size in the first and second quarter. In this case, members of each population group were potential users for a technology product. The 83.6M potential users in the **All Potential Customers** population group account for the total population of knowledge workers in the United States. The blue diagonal arrows show the conversion rates as members of each population group positively advance to higher value groups. So, reading the table, the firm had contracts with 100,000 users at the end of Q1 (in the **Action** group) and that number increased to 116,000 users during Q2. In this case, the **Loyalty** group repents users from companies that have purchased multiple installations.

EXHIBIT 4

The Impact of Allocation Changes Drives ROI

1 Population Groups and Conversion			2 Valuation by Group		3 Marketing Spend & ROI		4 Impact from Improved Allocations		
Name	Q1	Q2	Each	Total ($K)*	Spend ($K)	Implied ROI	Change ($K)	New ROI	Value ($K)
All customers	83.6M	84.0M	$0.30	$125	$0	N/A	$0	N/A	$125
Awareness	3.7M	4.2M	$2.30	$1,240	$1,280	-3%	-$400	22%	$1,067
Consideration	250K	287K	$25	$1,060	$612	74%	-$50	83%	$1,027
Preference	125K	130K	$75	$1,580	$678	132%	$300	119%	$2,137
Action	100K	116K	$400	$9,400**	$4,440	112%	$150	111%	$9,664**
Loyalty	25K	32K	$400	$3,000**	$1,500	100%	$0	100%	$3,000**
Total*				$16,400**	$8,500**				$17,021**
						71%***	$2.5M in annualized value-add	88%***	

* The incremental value of all the new entries in that population group

** Includes costs of Direct Sales

*** Sales costs removed to evaluate out Marketing ROI only

Step ② measures the value created by converting prospects to higher value groups. Different industries and even companies may require a different way to calculate the value of each member of each group. In this case an estimate was based on the incremental contribution margin of each sale (per user). Then the value of each population group was determined by working backward with each quarterly conversion rate adjusted by the length of time that a stagnant prospect stays in a given population group. Multiplying the new members of the population group by that per-user value gives the value created for each conversion rate (and all marketing programs that drive that conversion rate). In this case, the highest value conversion rate was **CONVERSION TO ACTION** (at $9.4M). This is not surprising since this group typically includes the impact of the entire sales force.

After evaluating the marketing funnel, including the population groups and conversion rates, Marketers should next break out the entire marketing budget (including employee costs) by program and allocate each program to a specific conversion rate. The cost of each conversion rate is then the summation of the program costs associated with that particular rate. So, the left column of step ③ layers on the quarterly Marketing budget (and portions of the Sales budget for the conversion rates that involve revenue generation). Dividing this number into the value created for each result in the implied ROI for each stage. In this example, the differences in ROI were striking. While the company's branding efforts were bearing fruit, there didn't appear to be enough Sales and Marketing infrastructure in place downstream to fully take advantage of the branding programs.

Step ④ gives one possible scenario for reallocating the marketing budget, and the potential impact on ROI. In this case, the lower performing branding programs were cut, and that money reallocated to programs driving preference and action. Note that adding additional programs to any specific conversion rate is likely to reduce the ROI of that conversion rate by a small margin because the current staff is fully utilized, and the best performing programs are likely to be already in place.

Even still, when the marketing budget was reallocated, the overall Marketing ROI increased from 71% to 88% – an increase of over 25 percent with no additional spending! This example illustrates the untapped potential of holistically measuring the marketing budget. For this mid-sized company with a quarterly marketing budget of $3.5 million, the potential existed for unlocking almost $2.5 million in untapped annualized value. And note that these benefits accrue from simple budget re-allocation and do not include the potential value from measuring the ROI of specific programs.

LAYERING IN BOTTOM UP ANALYSIS

Once the top down analysis helps clarify the value of each stage of the marketing process, companies can begin to analyze the impact of their individual programs by employing bottom up (and more granular) analysis. The following give examples of the required analysis.

Example #1: Webinar. 40 prospects attend a webinar, of which 10% request an immediate sales call ('hot' leads). If the average sale results in an incremental operating margin of $10K and the sales close rate (i.e. **CONVERSION TO ACTION**) is 50% per quarter, each of the four 'hot leads' is worth $5K ($10K x 50%). Thus, the value of this webinar is $20K, which can be compared to the total fully burdened cost of producing and executing that webinar.

Example #2: Targeted Marketing. Marketing hires a new associate to directly support regional Sales with collateral and other services, which increases the sales close rate to 55% (from 50%) for the quarter. As above, the increase in operating margin for each sale is $10,000. If there are 140 'hot' prospects in the sales pipeline for that region making a decision that quarter, the incremental 5% on the close rate is worth $70,000 (5% x 140 hot prospects x $10,000 OM). This $70,000 can then be compared to the fully burdened quarterly costs of the new associate.

By necessity, many of these analyses can get quite creative. The goal is to perform these types of analyses for each marketing program and compare the resulting ROI with each other programs with a similar objective (i.e. all the programs driving a given conversion rate). The result provides a pattern of best practices that the organization can learn from.

IDENTIFYING PROCESS IMPROVEMENTS

Sensitivity analysis is an analysis of how projected outputs (such as profits or revenues) vary with changes to key inputs. In marketing, sensitivity analyses can be performed to find which conversion rates have the greatest impact on growth. By observing both the sensitivity to change and the potential for improvement for each conversion rate, a company can determine which process improvement efforts will have the greatest impact.

For example, many companies have dramatically improved their **CONVERSION TO PREFERENCE** metric, such as moving a 'lukewarm' lead to 'hot' over time, by better managing their sales leads through simple changes to technology, analytics and process. (See *Drive New Revenue Growth with Predictive Analytics at www.QuantumCT.com*).

AUTHOR

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