Return on Marketing Investment (ROMI)

In a downswing, you should know how to calculate ROMI.

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Can't measure it; can't manage it.

Understanding ROMI

As marketing objectives can vary so radically, and some will only pay dividends years after the current period, calculating ROMI is extremely difficult at the best of times. I've made a point of studying Integrated Marketing Communication (IMC) during recessionary times, and, because you will probably have less fat in your IMC budget, the main difference is you just need to be even *more* critical with your ROMI calculations.

One of the most challenging aspects is to find a base-line to measure your IMC campaign/s against -- this is also difficult as your baseline may be unstable and thus the "result" of your campaign (i.e. advert, sponsorship or tradeshow) may not be that easy to ascertain. Was the ROMI (net increment in sales/ad-spend) really attributable to your IMC or was it due to your competitors folding?

Of course calculating ROMI also requires fairly costly research before, during and after a campaign. ROMI is NEVER a simple linear ROI calculation -- it's extremely complex! That's why an extremely popular vehicles is direct marketing -- because it's the easiest advertising vehicles to calculate ROMI fairly accurately. Unfortunately, because ROMI is often so difficult to impossible to calculate, marketers may often avoid using very profitable, but difficult to quantify, media vehicles in their IMC artillery. So using ROMI across your entire IMC budget is questionable when determining your total budget. Your gut-feel may at the end of the day be your best judge.

ROMI

How do we calculate whether our marketing communication has worked?

Remember too that marketing is an art and a science, yet the art aspect should not dissuade the marketer from attempting to calculate whether their communication was successful or not. There are dozens of popular marketing metrics that can quantify whether marketing was successful. However, the biggest debate is over what financial period do we look at the return-on-objective (ROO) and/or return-on-marketing-investment (ROMI). Do we focus on ROO during the current financial year, or should it be calculated over the next ten years?

ROO could be a vast array of metrics: trial (sampling), re-trial, volume sales, market share, frequency of usage, customer-life-time-value (CLTV), positioning or re-positioning, customer retention, profitability, channel profitability, and trust, to mention a few.
ROMI (%) is specific: *Sales* (attributable to marketing) x *GP%,* minus *the cost of the marketing initiative*, divided by *the cost of the marketing initiative* (see example below).

ROMI Calculation Case: Car Dealer

A secondhand car dealer sells one car from an Autotrader advert, what is the return on investment?

1. The car sold for R100,000, at a GP% of 8% (which is about correct in South Africa). Cost of the advert was R500
2. Calculate the ROMI of the R500 advert?

$$\text{ROMI} = \frac{\text{Net Profit (due to marketing)}}{\text{Marketing Spend (Rands “invested” or “risked”)}}$$

$$\text{ROMI} = \frac{(\text{R}100{,}000 \times 0.08) - \text{R}500}{\text{R}500}$$

$$1500\% = \frac{\text{R}7{,}500}{\text{R}500} \times 100$$

Hot ROMI Tip: When doing direct marketing and advertsing, set up unique phone numbers and/or e-mail response address, so when you receive an order on that number or address, **you will know that the advertising is working.** Then enter those sales (due to advertising) into the ROMI formula above.