

Guide to Calculating Your Marketing ROI



Dear Fellow Marketing Professional,

For all marketers, accountability ranks as job number 1. For some time now, the trend within marketing and promotion has been one of channel fragmentation – a trend that will continue as new avenues and platforms are established and adopted. Assessing current and potential opportunities means properly evaluating the impact to a company’s bottom line. In short, calculating the return on investment (ROI) for every marketing expenditure to ensure that you’re making informed decisions.

Prominent Placement’s goal with this guide is to help organizations objectively assess their marketing opportunities and expenditures so they can effectively align activities with results. The basic premise lies in properly calculating acquisition costs and ROI so that different channels can be directly compared in terms of efficiency and effectiveness.

Prominent Placement has created a hypothetical scenario to illustrate how this guide can be used in assessing an organization’s marketing expenditures. We have also provided blank worksheets at the end for your convenience.

We hope you find this guide both useful and valuable – we’re interested in your feedback, so let us know your thoughts!

Best wishes,

The Prominent Placement Team

6 Steps to Calculating Your Marketing ROI

Please note: for the sake of simplicity, figures within the hypothetical scenario below are rounded throughout.

Scenario: XYZ Company markets and sells a syndicated industry report to a business audience. The company's annual revenue is \$4,000,000. XYZ Company markets itself through various channels, currently spending an equal \$42,000 amount within each channel. The company is exploring search marketing as a new channel opportunity and wishes to assess the feasibility of employing this tactic.

To begin this process, the company needs first to determine individual customer equity to calculate the potential worth of new customers. Once this figure is known, an evaluation of channel effectiveness can be initiated. This figure can be obtained with the following 6-step methodology:

Step 1: Average Sale Calculation

Divide total revenue during a year (or particular period) by the number of transactions during that period.

Example:	Annual Revenue:	\$4,000,000
	Total Transactions:	<u>÷ 2,000</u>
	Average Sale:	\$2,000

Step 2: Average Transactions per Customer Calculation

Divide total transactions during a period by the number of customers during that period.

Example:	Total Transactions:	2,000
	# of Customers:	<u>÷ 500</u>
	Avg. Transactions per Customer:	4

Step 3: Customer Equity per Period Calculation

Multiply the average sale amount by the average number of customer transactions during a period.

Example:	Average Sale Amount:	\$2,000
	Average # of Transactions:	<u>X 4</u>
	Customer Equity per Period:	\$8,000

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Step 4: Lifetime Customer Equity Calculation

Multiply the customer equity per period by the number of periods a customer remains an active purchaser (example uses an arbitrary 2.3 years for demonstration purposes).

Example:	Customer Equity per Period:	\$8,000
	# of Periods:	X 2.3
	Lifetime Customer Equity:	<u>\$18,400</u>

Step 5: Lifetime Net Profit Calculation

Multiply the lifetime customer equity figure by the contribution percentage to the organization's net profits (example uses an arbitrary net 19% contribution figure).

Example:	Lifetime Customer Equity:	\$18,400
	Net Profit Contribution:	X 0.19
	Lifetime Net Profit:	<u>\$3,500</u>

Step 6: Marketing Investment Break-Even Point Calculation

Divide the total marketing investment amount per period by the lifetime net profit figure.

Example:

Channel Marketing Investment per Year:	\$42,000
Lifetime Net Profit per Customer:	<u>÷ \$3,500</u>
# of Customers Needed to Break Even:	12

Evaluation: Since XYZ Company spends an equal \$42,000 within each of its current marketing channels, each channel needs to produce 12 new customers for the channel's expenditure to break even. Producing less than 12 customers means a negative marketing ROI; producing more means a positive marketing ROI and profits.

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Scenario Continued: XYZ Company's current marketing channels consist of tradeshows, trade publication advertising, direct mail and outbound telemarketing. As mentioned previously, the company spends an equal \$42,000 amount per channel. Below are hypothetical results for each of their current channels:

	Tradeshow	Trade Ads	Direct Mail	Telemarketing
Marketing Investment	\$42,000	\$42,000	\$42,000	\$42,000
Leads Generated	250	50	800	333
Cost Per Lead	\$168	\$840	\$53	\$126
Closed Sales	22	8	12	15
Conversion Percentage	9%	16%	2%	5%
Cost Per Conversion	\$1,909	\$5,250	\$3,500	\$2,800
Lifetime Net Revenue	\$77,000	\$28,000	\$42,000	\$52,500
Marketing ROI	+83%	-33%	0%	+25%

Evaluation:

1. **Tradeshow** participation is a highly profitable channel; XYZ Company should devote additional resources to this channel.
2. **Trade Ads** are highly unprofitable; XYZ Company needs to reevaluate continuing within this channel.
3. **Direct Mail** efforts are breaking even; XYZ Company should reevaluate continuing within this channel and/or revamping its current execution.
4. **Telemarketing** is a profitable channel; XYZ Company should consider devoting more resources to this channel.
5. Please note, however, one channel can impact the success of another channel and any assessments should try and understand the relationship(s) between channels.

3 Steps to Calculating Your Monthly Search Marketing Goal



Scenario Continued: Being aware of the ROI for each of its marketing channels, and knowing that if it invests \$42,000 of its marketing dollars to search marketing, XYZ understands it must produce 12 new clients (or one per month) from search to break even for the year. The XYZ Company's website currently averages 1,000 visitors per month from search. Of those search-generated visitors, 20 become a new customer, representing a 2% monthly conversion rate. The goal of generating 1 new customer per month from search can be attained with the following calculations:

Step 1: Total Monthly Search Marketing Sales Needed to Break Even Calculation

Add the number of new sales needed to break even during a period to the current number of sales averaged during a period.

Example:	# of New Monthly Sales Needed to Break Even:	1
	Current Monthly Average # of New Sales:	+ 20
	Total # of Monthly Sales Needed to Break Even:	<u>21</u>

Step 2: Total Search Engine Traffic Needed per Month to Break Even Calculation

Divide total sales needed to break even during a period by the current conversion rate.

Example:	Total # of Monthly Sales Needed to Break Even:	21
	Current Conversion Rate:	<u>÷ .02</u>
	Total Monthly Search Engine Traffic Needed to Break Even:	1,050

Step 3: New Search Engine-Generated Traffic Needed per Month to Break Even Calculation

Subtract the current total monthly search engine traffic number from the monthly search engine traffic needed to break even number.

Example:	Total Monthly Search Engine Traffic Needed to Break Even:	1,050
	Current Monthly Search Engine Traffic:	<u>- 1,000</u>
	Total New Search Engine Traffic per Month Needed to Break Even:	50

Evaluation: If XYZ Company initiates a search marketing campaign, the program will need to generate 50 new search-generated visitors per month for the effort to pay for itself (based on the website's historical 2% conversion rate). The 50 new search-generated visitors per month would represent a 5% increase in the number of visitors finding their site through search.

Calculating Your Marketing ROI Worksheet

Fill-in-the-Blank Marketing ROI Calculation:

		<u>Formula</u>	<u>Result</u>
A	Annual Revenue	*	_____
B	Total Transactions	*	_____
C	Average Sale	(A ÷ B)	_____
D	# of Customers	*	_____
E	Avg. Transactions per Customer	(B ÷ D)	_____
F	Customer Equity per Period	(C x E)	_____
G	# of Periods Customer is Active	*	_____
H	Lifetime Customer Equity	(F x G)	_____
I	Net Profit Contribution	*	_____
J	Lifetime Net Profit	(H x I)	_____
K	Marketing Investment	*	_____
L	# of Customers Needed to Break Even	(K ÷ J)	_____

* *Need to supply for calculation*

Calculating Your Monthly Search Marketing Worksheet



Fill-in-the-Blank Monthly Search Marketing Calculation:

	<u>Formula</u>	<u>Result</u>
A # of New Sales From Search Needed to Break Even	*	_____
B Currently Monthly Average # of New Sales	*	_____
C Total # of New Monthly Sales Needed to Break Even	(A + B)	_____
D Current Conversion Rate	*	_____
E Total Monthly Search Engine Traffic Needed to Break Even	(C ÷ D)	_____
F Current Monthly Search Engine Traffic	*	_____
G Total New Search Engine Traffic Needed to Break Even	(E - F)	_____
H Percent Increase Needed to Break Even	(E ÷ F)	_____

* *Need to supply for calculation*