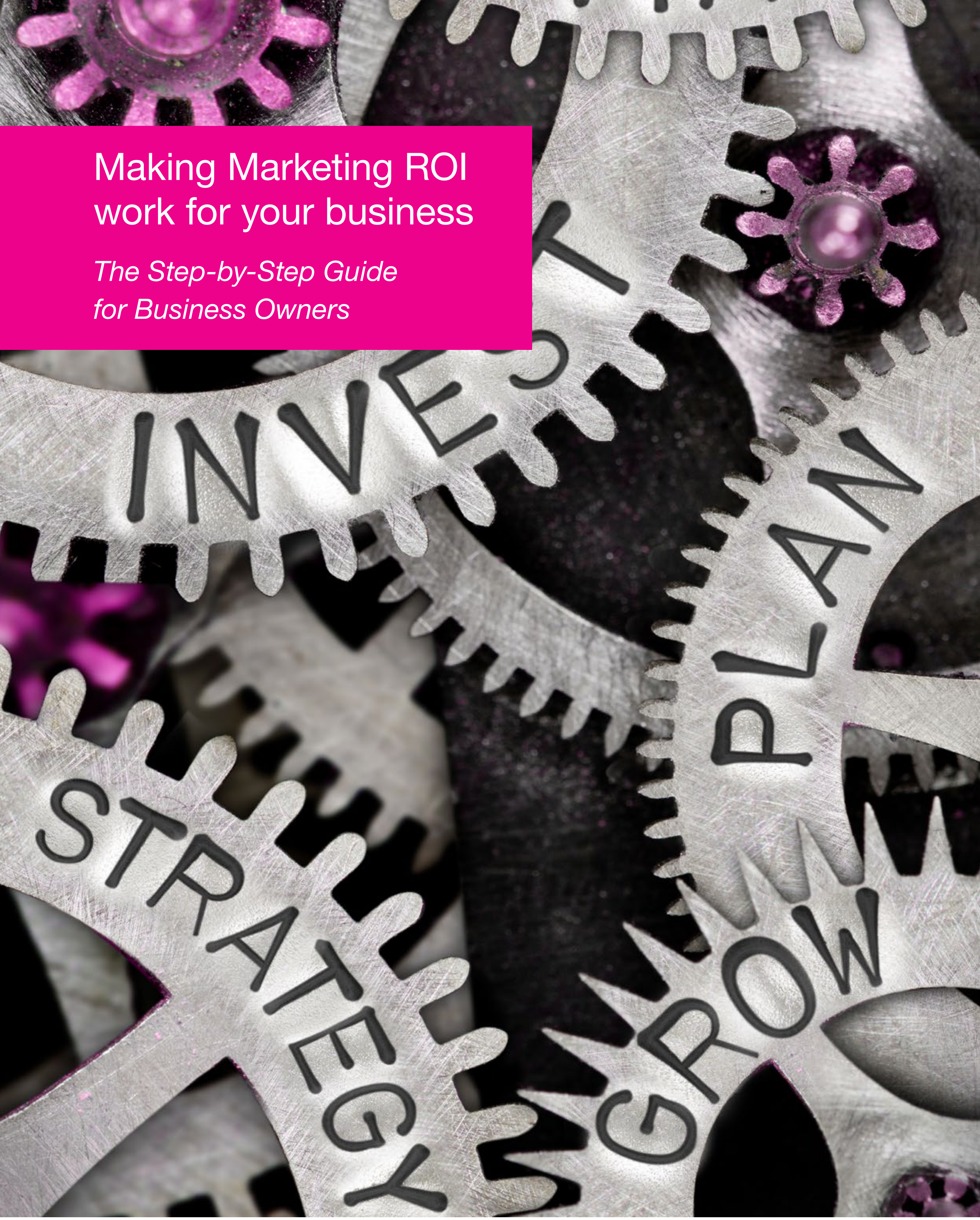
Making Marketing ROI work for your business

The Step-by-Step Guide for Business Owners



the marketing centre

part-time proven marketing directors

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40%
of marketing professionals say that proving ROI is their top marketing challenge

(Hubspot, 2017)

1 Introduction: What is ROI, and why does it matter?

No profit? No business.

ROI – Return on Investment – forms the backbone for successful business leadership. Marketing ROI, on the other hand, remains a problem for many business owners.

It's not hard to see why. When you're focused on marketing activity, it can be difficult to track the relationship between spend and results. Conversely, it's easy to be overwhelmed by too much marketing data.

These issues can be exacerbated by those that should know better. Marketing consultants and agencies often lean on 'vanity stats' to justify their work, like Facebook views or being followed by X number of influential individuals on social media. These complex numbers sound impressive, but they fail to tell the 'whole' story about customers' journey with your business and are often used as a substitute for tracking hard-to-measure goals like raising brand awareness.[1]

For business owners, there's also a much bigger issue at play, to do with their expectations about marketing data. Simply put: the results indicated by most marketing metrics are not the end goal of marketing.

With these metrics, you can construct a marketing dashboard that tracks your marketing spend and what you're getting back from it. These insights can be used to directly improve your marketing ROI, and therefore your business performance.

Let's get started.

1 https://blog.themarketingcentre.com/data-blindness-why-digital-metrics-are-not-the-be-all-and-end-all-in-marketing

2 Defining and using marketing ROI

Marketing means more than posters, adverts, social media campaigns and email newsletters. These are tactics and strategies designed to help achieve one aim common to all businesses: an improved bottom line. Measuring marketing ROI is the key to tracking this goal.

Our definition of marketing ROI is simple.[2] Businesses **invest** in marketing activity designed to convert interested prospects into paying customers – their **return**.

In this way, ROI offers two-fold value. First as a guide for setting marketing plans; and second as a way of measuring marketing success.

Setting plans

Understanding the **lifetime value of a customer** makes it possible for businesses to work backward and determine not only how much marketing investment is required to win future sales, but how much is appropriate, too.

Winning a five-year contract with a single client worth R200k per year equals a total customer lifetime value of R1m. With these numbers, spending R100k in the first year to win the business would be deemed an appropriate investment thanks to its hefty return. Spending the same on a one-year, R200k contract, however, would make almost no sense.

For **customer lifetime value** to be a useful indicator of ROI, it's also important to understand how conversion occurs in the business – as this will indicate where marketing investments should be made.

For example: a customer worth R200k per year will rarely be created from a single interaction with the prospective customer. Calculating how much to invest in marketing to win this customer requires a step-by-step journey back up the sales funnel.

As a minimum, you'll need to know how many leads it takes to generate one sale; how many contacts it takes to generate one lead; which of your marketing activities are generating how many contacts, and how much all of that costs.

The answers to these questions will determine the most efficient route to building your business, and where the accompanying marketing budget will be best spent. We'll explain how to use marketing ROI data to inform marketing plans in Chapter 5.

Measuring success

Marketing campaigns involve many moving parts. Tracking marketing ROI on an ongoing basis is therefore useful and necessary to ensure the success of any campaign. A **marketing dashboard** is key to keeping tabs on the different components involved.

Your dashboard should be used to inform marketing plans on an ongoing basis. It's common for marketing departments to draw up a twelve-month plan at the start of the year, report against that for 12 months, then come up with another plan the following year. Rinse and repeat. This is all wrong. A rolling 12-month plan, revised each quarter, ensures your marketing is focused on what's working now, rather than last year. Your dashboard is the key tool in this process.

Crucially, the dashboard should be accessible and understandable to staff beyond the marketing team. In this way, everyone gets an insight into the performance of the business, how their activity has contributed to results, and how they could better support activity in the future.

We'll outline which metrics your dashboard should include in the next chapters.

72%
of businesses that measure their marketing ROI believe their marketing strategy is effective, as a result.
(Hubspot, 2016)

Common challenges around marketing ROI

Estimating your full investment. Your marketing spend includes the salaries of all the personnel involved,
as well as any out-of-house expertise you've brought in, and the cost of the actual materials and operations.

Knowing what 'good' marketing looks like. Marketing dashboards can generate massive amounts of data, not all of which is relevant. Impressions mean nothing if people who see your campaign aren't buying. Printing volumes of brochures and leaflets is meaningless if they're being thrown away or languishing in storage. Customers, staff or consultants liking a campaign says nothing about its actual effectiveness. What matters
is the impact of the marketing investment on the development of a new customer relationship.

An effective Marketing Director will have a keen understanding of this process. They should embed all their decisions into an overall marketing strategy: one that works from the baseline of your business' current positioning, includes goals, and directions for getting from one to the other. This will take time to put together.

First touch or last touch? There are two points of view on what really makes conversions happen.

First touch attribution says it's the first contact that matters most, since it's what starts customers and clients on their journey to converting: but it doesn't register the prospect's existing awareness of your brand before they make contact with your current campaign.

Last touch attribution says it's the last channel a lead goes through that matters most, because it's what pushed the prospect over the proverbial edge: but it's seldom clear exactly what was going through the prospect's head before they took that action, and how much of that decision was down to you.

Thinking you can measure everything. Importantly (and within reason), your ROI figures must include the total sales and marketing expense required to acquire this new customer – right down to the salaries of the sales and marketing staff involved.

This said, marketing is a cumulative activity. So much of its effectiveness relies on the interplay between elements of your campaign in the minds of prospects. That's difficult at best to measure directly – even a qualitative survey can only collect what customers think they're thinking – and it won't be apparent from raw cost-per-acquisition figures, or similar data.

2 https://blog.themarketingcentre.co.za/business-insights/marketing-theory-for-non-marketers-roi/-0-1

3 Measuring marketing ROI

Marketing is a matter of calculation: it's about knowing how much marketing activities cost, as far as is possible, and weighing these against predictable returns. It's about linking input with output; investment with return.

Among the endless array of metrics available to inform these calculations, five are especially important for establishing marketing ROI and must be included in your marketing dashboard. Other possible metrics will be outlined in the next chapter.

Combined, the measures below offer a full, nuanced view of your marketing ROI, where it's falling short and where action is needed.

Marketing as a percentage of sales

Take your total sales income and divide it by the amount you're spending on marketing. Remember to consider the full costs. If you're exhibiting at a trade show, count the cost of the stand, but also the labour hours spent building and staffing it.

This metric indicates how much of your income you're reinvesting into marketing and whether it's too much. The sweet spot for B2B marketing is between 4% and 8%. Anything less and you either have a monopoly or you're missing opportunities. Too much more and you're probably spending inefficiently, driving up your cost per acquisition with activities that don't deliver direct results.

For B2C marketing, you may need to spend something more like 15% to launch a new product or service, or 20-25% if you're starting up a new brand that needs to build recognition. The challenge with such activities, of course, is not knowing the sales figures in advance; estimations based on the previous year can only tell you so much.

Cost per acquisition (CPA)

Take your total marketing budget for a given period. Divide it by the number of new customers or clients acquired during the same period. The result is your cost per acquisition: how much you're spending to secure each prospect's business. As we said at the start, this is a crucial metric: if it costs R2000 to win a R1,500 client, something's gone wrong.

It's possible and recommended to do this for each channel, based on last touch attributions, so you can compare the discrete components of your marketing machine that combine to develop your business.

How often you measure this will vary, depending on the activities involved. A paid Google Adwords campaign may demand daily monitoring; a longer-term awareness-building campaign to improve visibility of a core product may be best reviewed quarterly.

However often you measure, you'll need to respond to your findings. Being a combined measure of the performance of all your marketing activities, optimising individual channels will help drive up your CPA. Investing in SEO (Search Engine Optimisation) and PPC (Pay Per Click), for example, can be used to help boost the visibility of your website.

In some cases the margin can be extremely tight: one of the businesses we work with was persuaded to stop advertising in the Sunday Times over a R20 difference in CPA. It was the right choice to make since their products started in the R400 range, and that extra R20 per conversion soon added up.

With a higher price point, B2B service-providers can afford to target a higher CPA: a CPA of R200k or more can be worthwhile for clients who shell out six figures for an ongoing contract.

The point is less about cutting cost per acquisition; more about knowing and managing it.

Customer lifetime value (CLV)

This is the revenue you can realistically expect to achieve from a customer, divided by the time you can realistically expect them to be with you. It's a metric of return – more accurate than looking at individual transactions, because it indicates how much a customer is worth over the long-term, as a result of the whole multi-channel marketing process.

photo Patricia Serna

21%

The number of businesses that believe they measure their mobile marketing ROI effectively

(Enterprise Apps, 2015)

It's possible to draw even more value from this metric by assessing what customers bought during their time with you: one product, or a cross-section of the range?

If you know what customers have spent, why they stopped paying, and whether they wanted something you didn't offer at the time, you can build up customer profiles to improve your marketing. This includes identifying opportunities to add new products or services, or to cross-sell to existing customers – your most valuable source for new leads.

Churn rate

Churn is another way of expressing 'customer retention', focused on the rate at which new customers replace former ones. The basic formula to determine churn rate looks like this:

Churn Rate Calculator	Month
Customers at the start of month	1000
Existing customers who left by the end of the month	50 (50/1000 = 5%)
New customers	500
New customers who left	12
Total leavers in the month	50+12 = 62
Basic churn rate	62 / 1000 = 6.2%

A zero churn rate is a pipe dream, but yours should stay as close to zero as possible, indicating long-term loyalty from your customer and therefore long-term ROI.

Marketing efforts need to address your existing customers, to keep them on board and extend their CLV. You've spent money to get them; spending a little more can help keep them. As a rule of thumb, we recommended B2B businesses aim to spend 30% of their marketing budget on engaging existing customers. After all; the chance of making an additional sale to a current contact is 60–70%; this figure drops to between 5 and 20% for new leads.[3]

Customer retention cost (CRC)

This is the partner metric to churn. Take the amount you spend on retaining customers and divide by the number of customers retained.

Business leaders often think about marketing in terms of attracting new customers and converting them to sales, overlooking the after-sales activities that form a crucial part of the marketing matrix. Retention saves money - the trick is in balancing your spend on retention with the income from returning customers.

Our proven part-time Marketing Directors find that it costs three times as much to acquire a customer as it does to keep one. Combined with the virtual inevitability of losing customers over time, this means the bulk of your spend should still be targeting new customers, but we advise allocating around a third of your marketing spend to customer retention activities. After-sales service, follow-up contacts and repeat custom incentives aren't especially expensive activities, and they extend CLV significantly, which ultimately benefits the bottom line.

3 https://blog.themarketingcentre.co.za/business-insights/every-business-should-market-more-to-their-existing-clients-three-metrics-to-prove-it/

4 Your marketing dashboard

A marketing dashboard can be basic – a monthly team email – or complex – we've seen dashboards that replicate the dials of an Aston Martin DB9 to illustrate performance. What's important is that yours provides live data to show whether or not your marketing is on track.

Your goal should be to track your marketing efforts in measurable terms, enabling you to react when things aren't working as well as they could be.

Your basic marketing dashboard needs to show **marketing spend, client wins and client retention.** These figures are your fuel gauge and your speedometer: they tell you how well you're doing, and how much you're putting into doing it. Read these figures against each other and you'll have an idea of how much further you can go. In other words, how sustainable your business is.

Other key metrics – the other dials on the dashboard – will vary depending on what you're trying to achieve.

If your current campaign is all about lead generation, your dashboard needs to show **cost per lead, cost per acquisition** and **conversion rates**, as a minimum – showing how much it costs to create a new customer. (Remember, lead generation is still about making sales in the long run: you need to know how well you're capitalising on the leads once they're generated.)

If you're trying to build your brand, the dashboard needs to include **awareness metrics**: social media likes and reblogs, web content views and press mentions.

Dashboards for long-term marketing efforts generally prioritise **cost per lead, cost per acquisition, client retention** and **average client value.** These are the top-level benchmarks for a marketing strategy across discrete campaign efforts.

Below these high-level measure are **activity metrics** – those indicating customer or client behaviours that reflect how the majority of your business is done. If most of your sales take place over the phone, for instance, you'll be tracking the number of calls made, how many decision-makers were contacted, and how many of those converted.

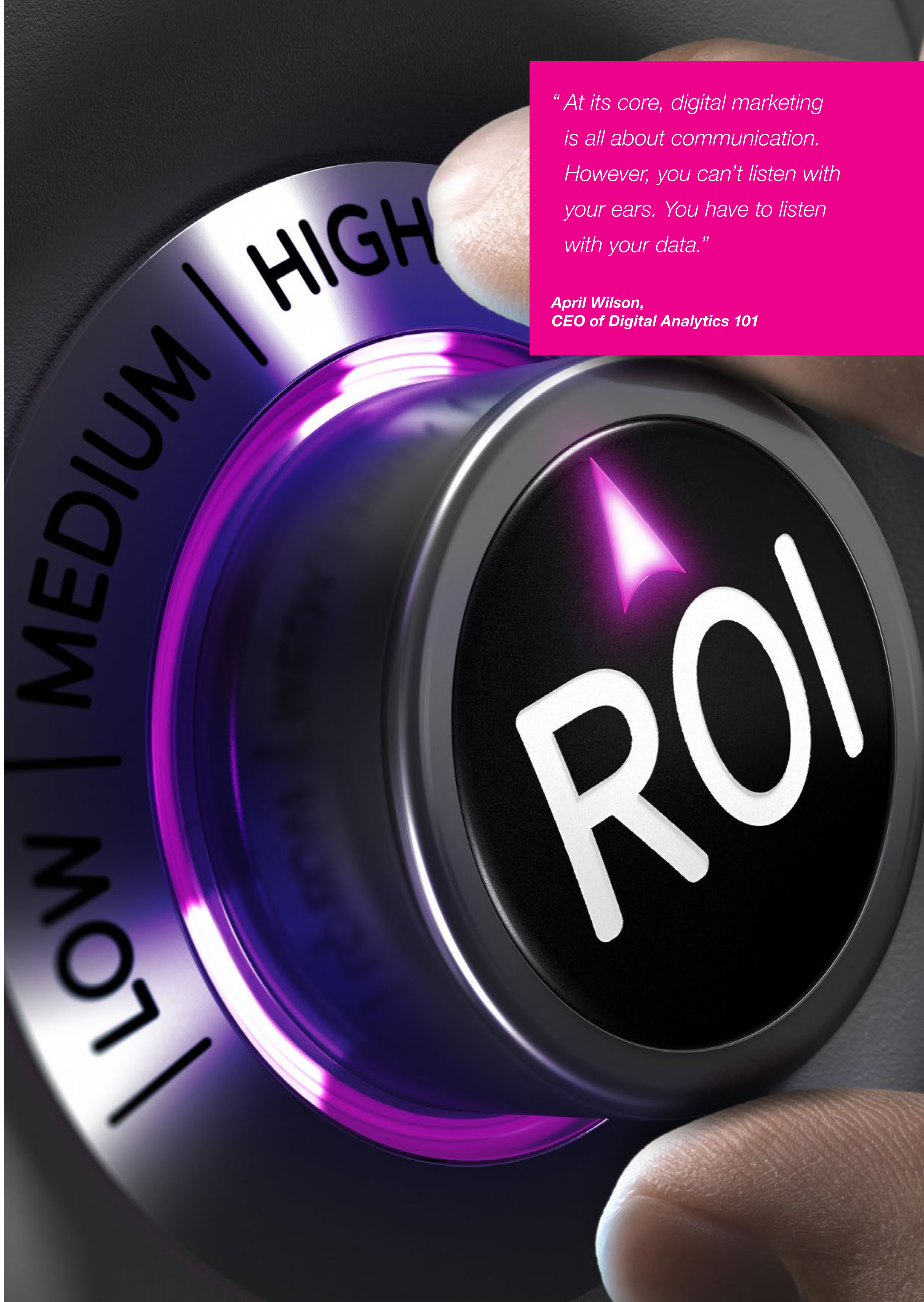
Finally, dashboards can include **pipeline metrics** – how many people you have at each stage of your planned customer journey and how long they've been there. This is especially useful in a sales-driven environment, where repeated direct marketing is used to secure conversions.

Getting the most from your dashboard

Marketing dashboards report on your marketing efforts in terms of cost and results. Your team should be telling you what they're doing – posting this many articles online, attending these trade fairs, calling these target businesses – but the dashboard tells you how well they're doing.

This allows you to check up on your all-important ROI, and also informs your marketing strategy for the future. If your dashboard is updated every month, every quarter will see you harvesting enough data to review and revise your marketing, which will keep your strategy agile and responsive to changes in customer or client behaviour.

These regular reviews also give you more granular data that builds up a sense of your business' cycles, which will help with forecasting customer demand and planning your production, sales or service operations accordingly.



" At its core, digital marketing is all about communication. However, you can't listen with your ears. You have to listen with your data."

April Wilson,
CEO of Digital Analytics 101

5 Using marketing ROI

Once you're aware of marketing ROI – what it is, how to measure it, and how it fits into your overall marketing strategy – the final stage is to implement that awareness into decision-making.

There are two main points of impact for marketing ROI on strategic decisions, and one key factor to bear in mind.

A/B testing

Once you've decided a particular marketing channel is underperforming, you need to identify a new approach that will perform better. A/B testing, sometimes called split testing, is a structured method of perfecting the way you use a particular marketing channel or marketing message.

A/B testing presents a randomised 50% of your prospects with an altered version of a web page, email message or scripted phone call, and the other half of your prospects with the original version. Compare the marketing dashboard's results for the variant against the original 'control' version, and you'll know if the changes improve or reduce ROI.

Repeated A/B tests over the short or medium-term allow you to optimise particular marketing channels during a campaign, and provide insights into what your customers like to hear and see from you. Those insights then feed directly into the medium-term planning of the next marketing push: you'll be more likely to achieve your best possible ROI next time.

Marketing budgets

A clear grasp of your marketing ROI also helps you set your marketing spend for the next month, quarter or year.

The main thing to remember here is that some channels take longer to show returns than others.

PPC and media advertising pick up fast – if they're going to pay off, you'll see them doing so within days of the campaign starting.

Inbound marketing channels, such as white papers and company blogs, won't look like they're paying off at first. Content takes time to be indexed by search engines and shared by readers. As a result, it can take up to six months – or longer – for inbound marketing activity to be truly effective. Many businesses choose not to wait this long, killing their campaign before it can achieve success. The adage is true: one advert is seen; the next is noticed; the third generates interest. Only the fourth or fifth generates action by the customer.

So, how do you know a channel's working for you? When you know your customers have seen the material you're putting out in that channel (that's what viewing/readership metrics are good for) and been influenced by it (that's the role of first and last touch metrics). That'll help you allocate marketing spend, along the lines we've outlined already:

- 4-8% of revenue for most B2B purposes
- 10-25% for B2C, depending on the business' established reputation and whether you're currently launching a new product
- Around a third of that amount on retaining existing customers

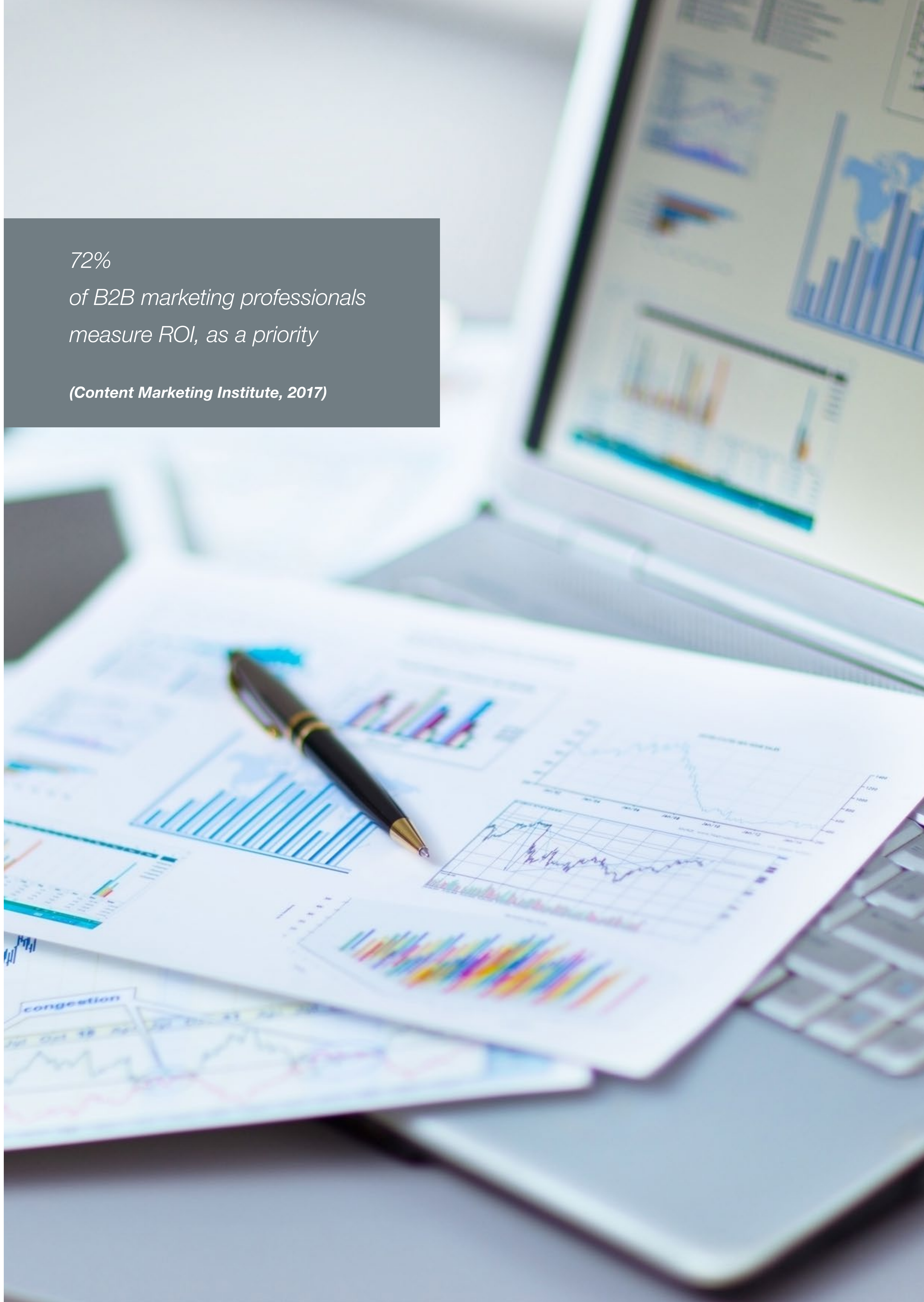
Remember: data isn't everything

Digital marketers often get lost in the details of data, overlooking the factors that quantitative metrics can't track.

We can measure how many prospects are engaged by each of our channels, and how far along the customer journey each potential conversion is, but we can't track what causes them to convert. Brand awareness – particularly the influence of thought-leadership, endorsements and reviews from third parties – is mostly invisible to your marketing dashboard.

A properly integrated marketing strategy accounts for this data blindness, recognising that not every factor in a decision to purchase can be measured in terms of what the seller has done. It doesn't overload itself with irrelevant metrics, and it doesn't fool itself into thinking metrics can tell its creators everything.

Often, a decision to buy will be the result of a customer engaging with several different brand touchpoints. It's therefore up to businesses to invest in multiple channels, and not rely on any single activity or approach to generate results – regardless of how scientifically it can be measured.



72%
of B2B marketing professionals measure ROI, as a priority

(Content Marketing Institute, 2017)

6 Conclusion: The bottom line

To make money, you have to spend money. To sell a product or service, you have to market it.

Put those truths together and the importance of marketing ROI becomes clear; it proves, in short, that your business is getting its money's worth from your marketing spend.

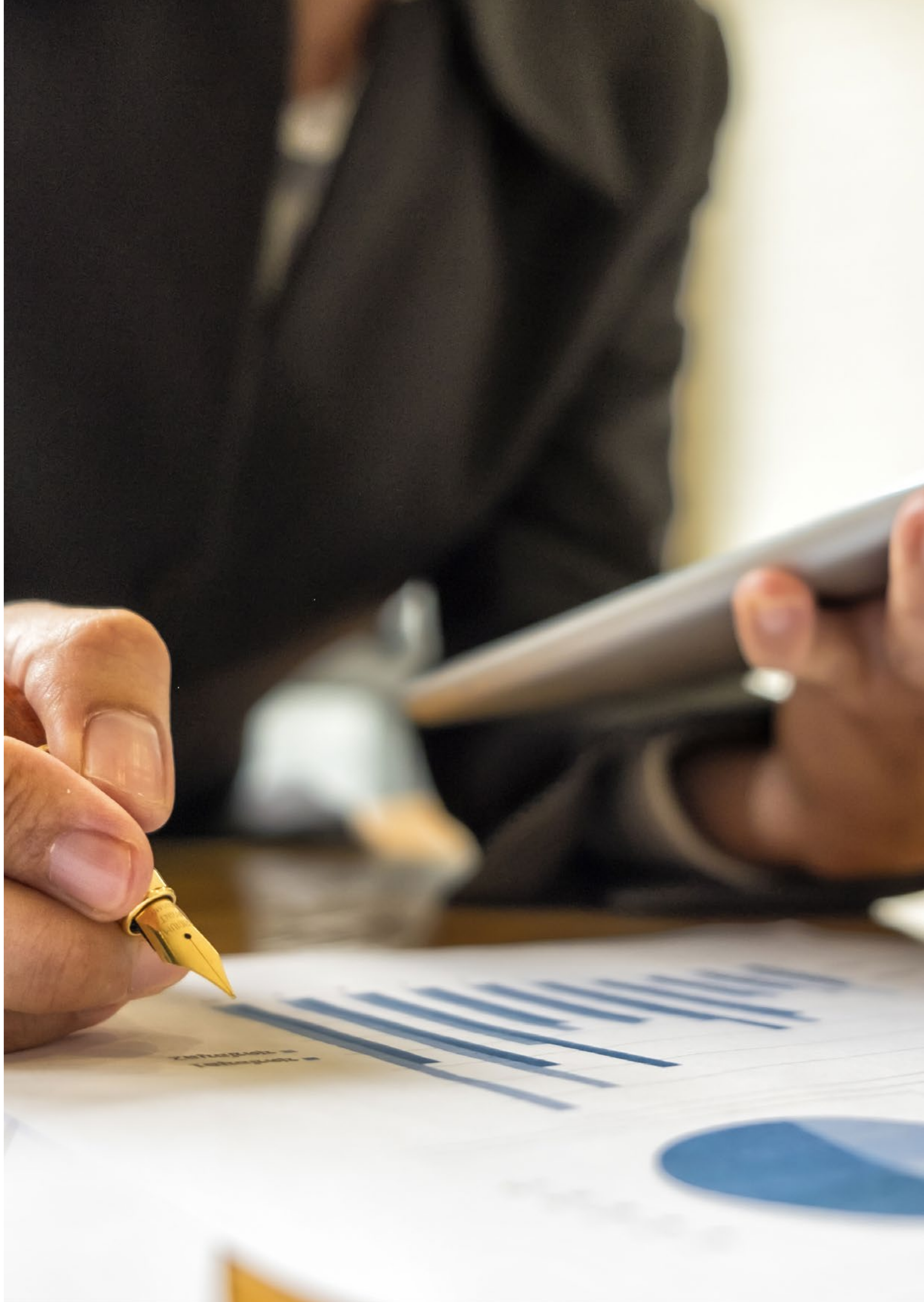
Optimising your marketing ROI takes three steps, covered in this guide:

First, **choose your metrics for success**. Marketing as a percentage of sales, cost per acquisition, customer lifetime value, churn rate and customer retention cost are fundamental measures for all teams. Others should be selected according to the goal of the marketing campaign in question.

Use these measures to **build your marketing dashboard;** a living, breathing document that provides full transparency around your marketing activity, focusing your business on the task at hand.

Track and tweak your marketing plan based on the insights offered. Don't wait for year-end to rewrite your strategy. Instead, record your performance on a weekly basis and review your plan every quarter.

In this way, teams can cut wasted spend before it becomes a problem and keep their eyes on the marketing prize, safe in the knowledge that their current activity is helping them achieve the results that matter.



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