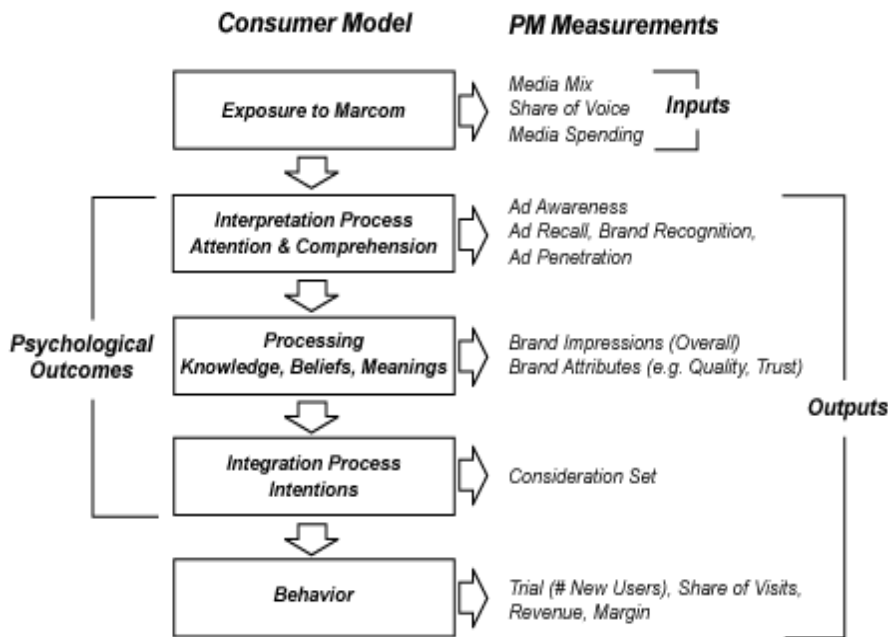


Know Your Marketing ROI

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This edition of the FPI Monitor briefly explores the challenges involved in translating consumer survey data into financial metrics like sales, revenues, and profits. Key is development of a marketing mix model tied to a measurement system that can be easily translated into financial metrics. With such a system, one can use market research to show in explicit financial terms the returns on a company's marketing and communication investment (ROI). This will better communicate the effectiveness and value of marketing and communications to others in the organization. Doing so helps build a rational and effective case for a share of scarce company resources.

Consumer Model and Measurement System
figure #1



HIGHLIGHTS

Be more competitive in getting scarce resources

Help corporate planners understand the value of marketing and communications by translating Marcom's effectiveness into dollars and cents that can be applied to the corporate balance sheet.

2

Overcome measurement obstacles in a Marketing ROI

Connect psychological outcomes, such as ad awareness and consideration, with behavioral outcomes and financial metrics.

3

Present ROI in financial terms

Use consumer-tracking surveys to calculate the returns on advertising and other marketing and communication investments.

4

Brief illustration of a Marketing ROI model

Examples include the financial effects of over-the-air media spending on ad awareness and new users.

5

**Measuring Marketing ROI:
The Problem**

Marketers typically understand the effects of advertising in terms of psychological outcomes, like whether advertising changes brand awareness and attitudes toward the brand. Yet, corporate decision-makers cannot rationally allocate psychological outcomes to a company's balance sheet. Instead of psychological outcomes, those responsible for allocating scarce company resources need to know how advertising affects sales, revenue, profits and other financial metrics. Without financial information such as this, corporate planners have difficulty determining the value of marketing and communications. This often leads to cuts in advertising budgets as scarce resources get allocated to corporate functions other than Marcom that can be more rationally managed.

If Marcom wants to be more competitive in getting their share of scarce resources (not even mentioning creating more effective advertising), the relationship between Marcom's financial expenditures and financial returns, described here as Marketing ROI, must be clearly defined and measured.

"Developing meaningful inputs in a Marketing ROI requires Marcom managers to reach consensus on the expenditures they control."

**Marketing ROI Model:
Inputs**

Marketing ROI is a measurement system showing relationships between investments or costs, and the financial outcomes or benefits of marketing and communications. Figure #1 on page 1, illustrates a basic consumer model and measurement system that we use at FPI to measure Marketing ROI.

Like all mathematical models, this one has a "conceptual" side and a "measurement" side. On the left side of the model are conceptual elements, and on the right side are tangible measurements. These can be further divided into inputs, or the spending side, and outputs, or effects of the expenditures.

At the top, inputs are advertising and other marketing activities controlled by Marcom managers. In every organization many departments and functions communicate with consumers and/or end-users. Marcom is responsible for only some of this communication. Developing meaningful inputs in a Marketing ROI model requires Marcom managers to reach consensus on the consumer exposures and expenditures they control.

Once consensus is reached on the activities under the control of Marcom, the next step is finding suitable measurements of Marcom actions and activities. For instance, marketing managers might control (and be responsible for) all over-the-air media activities in an organization. Over-the-air media can be measured in several ways including total spending, share of voice, advertising effectiveness, GRP's, TRPs, or spending on individual components of the media mix. Whatever measurement input is decided upon, it must be translated into dollars and cents in order to keep the ROI measurement system focused on financial metrics.

"Whatever measurement input is used - total spending, share of voice, GRP's, TRP's, ad effectiveness, or the media mix - it must be translated into dollars and cents."

**Marketing ROI Model:
Outputs**

Outputs are defined as the psychological and behavioral consequences produced by exposure to the marketing activities of the Marcom group. Psychological outcomes are the things that occur in the minds of consumers when they are exposed to advertising and marketing communications. Behavioral outcomes are the intentions and tangible acts that arise from exposure to advertising and marketing.

At the top of the model (after exposure to Marcom), are basic interpretation processes, known as attention and comprehension. *Consumers must first attend to and comprehend advertising before it can have an effect on any other psychological or behavioral outcomes.* The intensity of attention and comprehension will vary depending on factors in the communication (i.e. clarity of communication, repetition, effectiveness, etc.), environment, and the level of motivation of the consumer to attend to the communication. The clearer the brand communication, for example, and the more motivated the consumer, the greater the attention and comprehension of the advertised message.

"Organizations are typically more concerned with behavioral outcomes, such as sales, revenue and profits, then with psychological outcomes, like changes in ad and brand awareness, and brand image."

The more attention and comprehension, the greater influence the advertising and marketing will have on consumer psychology and decision-making.

The "interpretation" process is measured in terms of advertising and brand awareness. Specific measurements are ad recall, ad/brand recognition, and brand attribution, all together sometimes referred to as ad penetration.

Measurements of ad penetration are explicitly connected to a specific set of Marcom exposures and expenditures (the inputs). If Marcom was effectively communicated, consumers should be able to recall the advertising, and correctly attribute the advertising to the brand or product being advertised.

The next outcome is termed "processing" which describes the mental ways consumers create new and/or different consumer brand and product knowledge, beliefs and feelings. At this stage, *some (but not all)* consumers take what they have attended to and comprehended, and mentally compare it to what they already know. This psychological process may produce different ways of

thinking about a brand or product and new evaluations or attitudes.

The "processing" stage is measured in many different ways. Typically one measures what people know, how they feel, and their overall evaluations or attitudes toward brands and products, together sometimes called brand image. Knowledge elements include all consumers know about a brand or product, including such things as the tangible attributes and consumer benefits that are offered. Affective elements are subjective, intangible feelings consumers have about the attributes and benefits of a product or brand. What consumers know and how they feel about the attributes and benefits of a brand or product get summed into an overall evaluation called an attitude. These "image" components are measured in a myriad of ways, using a host of different scales and techniques.

The next outcome is called the "integration" process *where some (but not all)* consumers, take their new knowledge, feelings and attitudes, and form a new (or different) intention to act in a certain way. This is the final psychological outcome, often measured as consideration to purchase, or purchase intention. Some argue that the objective of advertising and communication is to get a brand or product into the consideration set of as many consumers as possible. As such, this stage would be the ultimate end goal of marketing and communications.

Finally, there are behavioral outcomes shown at the bottom of the model. Behavior may be measured as trial, number of new users, and share of the market, or in explicit financial terms such as sales, revenues, and profits. Organizations are more concerned with behavioral outcomes, such as how many new people tried the brand or product, or how many

more sales were made, or how much share did we steal from the competition, and so forth, rather than with psychological outcomes such as advertising recall and the consideration set. As such, it is critical to the success of a Marketing ROI that behavioral outcomes be measured and connected to the psychological outcomes so that the effects of Marcom can be fully understood by the organization in the financial language they best understand.

"Behavioral outcomes must be measured and connected to psychological outcomes so that the effects of marketing and communications can be fully understood by the organization in the financial language they know best."

Marketing ROI: Measurement Obstacles

Marcom spending affects different stages in the Marketing ROI model. Marcom's most pronounced influence is typically on psychological outcomes, with effects being filtered down to behaviors where Marcom's influence is less obvious. A well-developed sales proposition, highly-effective TV advertising, and a great media buy offered by Marcom may well produce positive psychological outcomes, such as an intention to buy, but it may not produce positive behavior if, for instance, the brand or product lacks sufficient distribution. In this case, and in a myriad of other examples, multiple departments or functions in an organization have contact with consumers, and their actions (or inaction) can facilitate or inhibit consumer behavior, even those with an intention to act in the way Marcom wants them to.

There is often a time lag between exposure to marketing and communications and a consumer's need or ability to purchase the advertised product. This "environmental factor" also affects the influence of Marcom's expenditures on psychological and behavioral outcomes. For instance, consumers may see a TV advertisement that might affect their opinion of a brand, but are not motivated enough to go shopping right at the moment. In this case, a psychological outcome - the brand's mental image - was affected by Marcom expenditures without behavioral outcomes occurring.

Finally, different kinds of marketing expenditures will have more pronounced effects on different psychological and behavioral outcomes. For instance, promotions will have greater effect on behavioral outcomes than psychological ones because promotions directly reward

consumers for doing certain things. As such, promotions work best as incentives to close the sale among consumers already psychologically predisposed to act. Typical TV brand advertising, on the other hand, will have less obvious effects on behavior than a good promotion, but may instead directly influence the psychology of non-customers causing some to want to use a brand or product.

"Different kinds of spending on marketing and communications have very different effects on psychological and behavioral outcomes."

As can be seen, Marcom spending has different effects on psychological and behavioral outcomes. Marcom managers need to build consensus around the goals and objectives of the campaign and build into a marketing and communications plan and Marketing ROI measurement system the desired outcome(s) they are seeking to affect. The psychological goals and behavior objectives of a marketing and communication plan, and Marketing ROI model, must also be translated into the financial metrics used by the organization.

Marketing ROI: Measurement Outcomes and Financial Metrics

The Marketing ROI model is a system for understanding the effects of marketing and communications on psychological

and behavioral outcomes in terms of the financial metrics commonly used by organizations to allocate scarce resources and to judge a firm's success and failure. Marcom's influence is typically greatest when measuring psychological outcomes. So, translating Marcom's influence on psychological outcomes into financial terms that can be used by an organization is a necessary objective of a Marketing ROI model.

Figure #2 below shows a very simple Marketing ROI model as an example of how psychological outcomes get translated and presented in financial terms. This is a pre/post model with only two time periods, represented by T1 (pre-advertising) and T2 (during advertising). The input in this model is total over-the-air ad spending, noted below as \$150,000, under T2. The next measurement is a psychological output produced by the Marcom spending. This is gathered in a consumer survey and measured as the percentage that saw the advertising and could correctly attribute what they saw to the brand doing the advertising. This example shows that at T2, 25% recalled the brand's advertising and correctly attributed it to the brand.

Marketing ROI Model (Ad Awareness)
figure #2

	<u>T1</u>	<u>T2</u>
<u>TOTAL COST</u>	\$0	\$150,000
Newspapers	-	\$15,000
TV	-	\$97,500
Radio	-	\$37,500
Outdoor	-	\$0
<u>EFFECTS</u>		
Ad Awareness	-	+25%
# Newly Aware	-	25,000
Cost Per Newly Aware	-	\$6.00

One can now calculate the financial effectiveness of the advertising. Suppose there were 100,000 adults in this community (or who shopped

in this category). This would mean that 25%, or 25,000 people saw the Ad and correctly attributed it to the brand. Thus, it cost \$6 in over-the-air expenditures to make one person aware of the firm's advertising. Here, the psychological outcome of 25% has been translated into a financial metric that P&L managers recognize. This financial outcome may be compared to past campaigns, a normative average, or to that of the competition so as to determine whether it is a good or bad number. This offers Marcom managers a way to *communicate in terms of dollars and cents*, how effective an advertising campaign was in generating a desired psychological outcome.

For instance, if the same analysis of a competitor produced a \$12 cost to make one person aware of advertising, than it can be said that the company's Marcom expenditures were 50% better, or produced a 50% better ROI than the competition in terms of this critical psychological outcome. This procedure connects Marcom expenditures to an important psychological outcome, advertising awareness, and presents the information in a financial metric. In this way, Marcom managers and P&L decision-makers are starting to talk the same financial language.

In some organizations, translating psychological outcomes into financial terms and comparing it to competitor numbers, normative averages, or past campaigns may be all that is necessary when communicating advertising effectiveness to the organization. However, others may want this information calculated as a ROI (or return on investment) assessment. This would require connecting the psychological outcome's financial metric to a behavioral outcome.

One way to do this involves looking at the potential ROI of making

consumers aware of a firm's advertising. Returning to the example, suppose in the same consumer survey it was found that 25% made newly aware of the firm's advertising spent on average \$10 every month on the product being advertised. This would mean that *total potential revenue* of those aware of the advertising was \$250,000 per month.

"The most effective way to communicate the effectiveness of marketing and communications internally is to commit to a Marketing ROI model."

Next, let's return to our hypothetical advertising expenditure of \$150,000, and say it was spent on one month of TV advertising. The total potential ROI of this expenditure was 66%, meaning it would cost \$150,000 to get a potential of \$250,000 in revenue (or \$100,000 in gross revenue when costs are subtracted from total potential revenue). Offering to financial managers and the organization the conclusion that Marcom expenditures have the potential of producing a 66% return, and in this case, \$100,000 in new revenues every month, helps P&L managers attach worth to the Marcom function (this may even cause some decision-makers to take more notice of the value provided by the marketing and communication function).

What has been presented so far is the *financial effect* and the *total potential ROI* of a firm's Marcom investment. To partially understand the effects of media spending on

generating new consideration and/or positive behaviors, the intention and/or behavioral outcomes of those aware of the firm's advertising must be analyzed. This is shown in figure #3 below.

The illustrative data show 5% of those aware of the advertising were new users during T2, representing 1,250 people. Each spends \$10 on average per month. As such, just in terms of new usage, there was a total of \$12,500 in new revenue at T2 attributed to those who saw or heard the firm's advertising. Dividing new revenue by costs produces a Marketing ROI of 8%. To get a Marketing ROI of 20% would have required advertising in T2 to produce more advertising awareness yielding up to 3,000 new users and new revenue of \$30,000. Using the same advertising and mix, this would require adding \$210,000 to the media buy.

This just briefly illustrates the basics of a Marketing ROI model and measurement system that connects psychological and behavioral outcomes, and translates this information into financial metrics.

Financial Metric
figure #3

	<u>T1</u>	<u>T2</u>
<u>TOTAL COST</u>	\$0	\$150,000
Newspapers	-	\$15,000
TV	-	\$97,500
Radio	-	\$37,500
Outdoor	-	\$0
<u>EFFECTS</u>		
Ad Awareness	-	+25%
# Newly Aware	-	25,000
Average \$ (month)	-	\$10.00
Total Potential \$ (mo.)	-	\$250,000
Consideration	-	+10%
# Newly Consider	-	10,000
Total Potential \$ (mo.)	-	\$100,000
New Users (Trial)	-	+5%
# New Users	-	1,250
Total New Revenue (mo.)	-	\$12,500

Marketing ROI models are relatively complex, conceptually and analytically. For instance, ROI models should eventually account for lag influences over time, wear in and out, and other "secondary" effects of advertising. Furthermore, behavioral outcomes from a consumer survey should eventually be directly connected to non-survey based (or actual) sales and revenue data so the entire ROI system is linked to a company's balance sheet. Marcom managers committed to a Marketing ROI model must think of it as a developmental process, starting with the basic model as presented here, and using consumer-tracking surveys and advanced modeling techniques to make gradual, incremental improvements to the ROI model over time.

In sum, the best way to understand and communicate Marcom results to organizational decision-makers is to commit to a Marketing ROI model and measurement system as described here. The model and system must explicitly measure and connect together psychological and behavioral outcomes. And, it must present this information in the financial metrics used by P&L managers, strategic planners, and other decision-makers that are unfamiliar with the marketing and communications function. In this way, Marcom managers will not only produce better advertising, but they will be able to more efficiently communicate results to the organization, and in turn, be more effective in getting a fair share of a firm's scarce resources.

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