How to Calculate your Return on Marketing Investment (ROMI)

By Jeff Josephson

When it comes to calculating your Return on Marketing Investment (ROMI), there are many factors involved. Capital items, such as a Customer Relationship Management (CRM) system, are treated differently than expense items, such as direct mail programs. But if we start from the premise, one that holds in B2B at least, that the fundamental purpose of Marketing is to make Sales more efficient, then we can develop a simple approach for calculating ROMI that works across the board.

To be clear, a number of marketing initiatives, such as market research, can be difficult to translate directly into an impact on sales. This is because its effect is second order. That is, let's say you're doing market research to find out if there is a market for a new product concept. If it turns out that there's no demand, it's pretty hard to allocate the cost of the market research against future revenues. By the same token, if your model is truly comprehensive and includes Opportunity Cost, or trades off each opportunity against all others, then it's not a big problem.

But if we agree that the purpose of marketing is to make sales more efficient, then we should not only be able to follow the impact of every marketing expense through to its revenue consequences, but we also ought to be able to properly allocate costs so we can develop a true ROMI.

For many companies though, particularly those who invest heavily in indirect marketing methods such as social media marketing, inbound and the like, there is a significant disconnect between the output of the marketing program and the sales impact. And it is this disconnect that leads many companies to throw their hands up at the problem of calculating their ROMI. But it can be done, and this article will show you how.

The chief issue comes down to the definition of a sales lead. Specifically, many marketing initiatives have outputs, arguably referred to as "leads," that are pretty far removed – insofar as the sell cycle is concerned – from anything to do with revenue. The following table illustrates the point:

Program Type	Lead Type
List research	Email addresses
Email	Opens
Networking	Business cards
White Papers	Downloads
Web site	Page views
SEO	Page ranking
Blogging	Traffic
Trade show	Booth visits
Direct mail	Bingo cards
Telemarketing	Appointments

Different Marketing Programs Generate Different Types of Leads

As you can see from the table above, some programs seem to be more driven by creating awareness, educating the market or branding, while others are more focused on uncovering needs and connecting with decision makers. But that doesn't mean the former aren't important or useful. Nor does it mean you can't calculate their ROMI. You just need another step in the process to calculate it.

Specifically, when you calculate your Return on Marketing Investment, you need to standardize the definition of a sales lead in such a way that every marketing initiative produces the same quality output – a *qualified* sales lead.

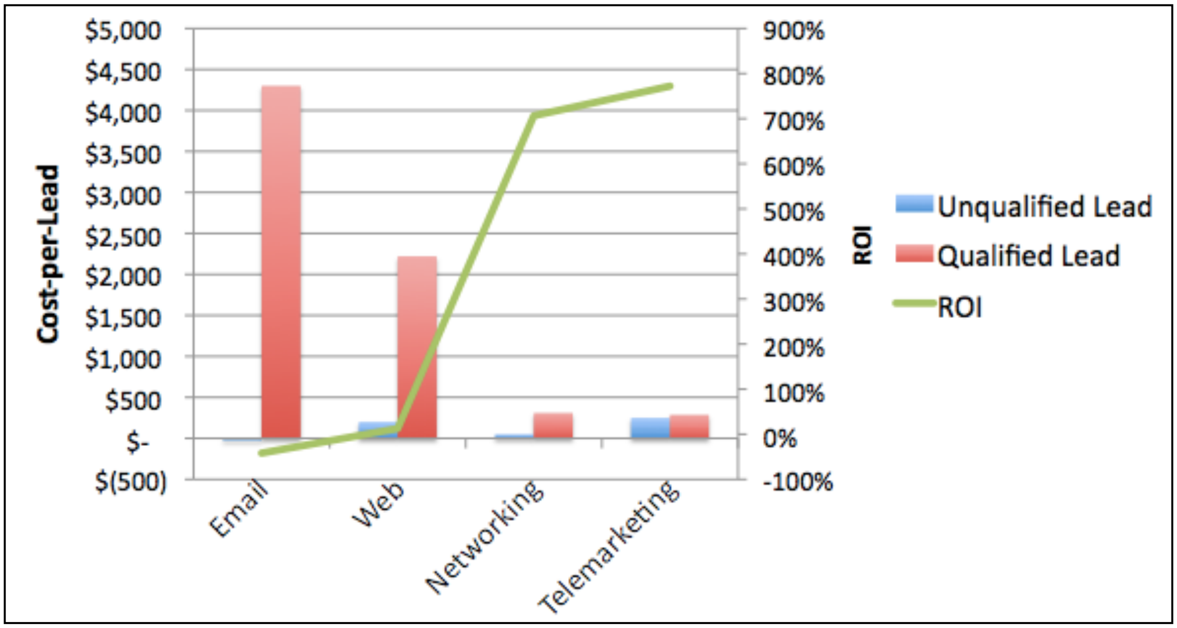
The difference between an ordinary "sales lead" and a "qualified sales lead" is often significant, particularly as the former can be somewhat fluid. So let's start with the definition of a qualified sales lead, and show how you can model the conversion of any sales lead, no matter how it's defined, into a qualified sales lead so you can calculate your ROMI.

The definition we use for a qualified sales lead in this process is, "An initial appointment with a decision maker who has a need for your company's products or services, and who wants to talk with you about how you can help."

Converting a sales lead – that is, an unqualified sales lead (such as a click or an exposure) – into a qualified sales lead requires, simply, a qualification process. That is, you need to identify the person (ideally as a decision maker), you need to be in communication with them, you need to uncover (or tap into) a need for one of your company's products, and you need to stimulate their interest in talking to a salesperson.

While this is sometimes a challenge, particularly if all you have is an IP address, it's not impossible. It may require some research and digging. And you may have to use telemarketing in order to uncover a need, introduce your solution, and get the appointment. But this qualification process is precisely what's needed to derive value from the marketing program. And, more important for current purposes, it is a cost that must be borne by the marketing department who decided to use that lead generation method in the first place.

The impact of being measured by the production of qualified sales leads can be significant, as shown in the chart below.



Impact of Qualification on CPL and ROI

As you can see above, an email might cost $1.00 if you allocate the cost of the list, the content and the send. But when you factor in the response rate, and count the number of people on the list who have a need and who want to talk with a salesperson about it, the cost-per-*qualified*-lead is likely to jump by several orders of magnitude.

The same holds for Web sites, SEO, inbound marketing, social media, content and many other indirect techniques.

On the other hand, many traditional, direct marketing techniques often have a higher initial cost. But the cost of qualification is often negligible. As a result, the cost-per-*qualified*-lead is often a small fraction of their indirect alternatives. And, as a result, the ROI of these traditional techniques is often far higher than that of the newer, digital marketing approaches.

One of the reasons for this, our research shows, appears to be an inappropriate application of consumer marketing techniques to B2B by many companies. Regardless, it is – we believe – financially imprudent, and not necessary, to neglect the impact of lead qualification when calculating your Return on Marketing Investment.

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