



BRAND LEARNING

ROMI—Return on Marketing Investment



Linda Miller, Marketing Capability Director at Brand Learning, shares Brand Learning's point of view and latest thinking on the highly topical issue of ROMI or Return on Marketing Investment.

A simple truth, but money is now in extremely scarce supply. And in a recession, the financial spotlight shifts in very sharp relief onto the effectiveness and efficiency of all business investments; and none more so than the traditionally extensive marketing budget.

ROMI (Return on Marketing Investment) refers to the incremental profit achieved over a short term period by measurable marketing activities such as sampling or advertising campaigns.

Whilst this is no doubt important, it is only one small part of the story, and we believe that thinking about effectiveness and efficiency of marketing investment needs to move far beyond the basic and tactical measure that is known as 'ROMI,' perhaps better described as 'return on money immediately!'

Concerns with ROMI

A measure of return on investment in marketing is undoubtedly essential, but the core issues that we have identified with ROMI as the main technique in the current marketplace is that a) it is too backward looking, when businesses need to look to jump-start future growth and b) it is too tactical, when businesses might survive better by thinking more strategically.

A key technical flaw with ROMI as a measure is that the simplest way to boost short term results is to cut marketing spend. Given that substantial evidence exists showing a clear correlation between Share of Voice (SOV) and Market Share, dropping investment relative to competitors is a disadvantage in the medium to long term. For this reason, authorities in this area such as Tim Ambler (London Business School) and the IPA recommend the use of discounted cash flow (DCF) calculation techniques, since these focus more on the value that marketing is creating for the business in the future.

The strategic role of marketing

The secret to business and brand survival post recession is to be able to generate profitable, demand-led growth by consistently providing superior customer value relative to competitors. As such, it is essential to recognise that the effectiveness and efficiency of marketing investment begins several layers deeper than the short term measurement of tactical promotional initiatives.

Effective customer-centric marketing drives customer value by choosing the right markets in which to compete, choosing the right portfolio of propositions (or brands) and then building these propositions by consistently delivering the right mix of support to enhance value relative to competitors. The role of marketing, then, goes well beyond 'promoting' existing products and services, essential as this obviously is.

Choosing the right markets, or segments, to target is critical to the effectiveness and efficiency of subsequent investment. And these need to take into account latent or ideally unmet consumer needs, rather than just current product or service offers, which may already be highly competitive.

Evidence shows that a far higher percentage of growth comes from spotting, then riding the crest of a growing segment, rather than battling it out for market share in already well defined markets. For example, Nintendo spotting the latent need amongst families and older people for games, leading to Nintendo Wii, as opposed to Sony PlayStation slugging it out with Microsoft Xbox for market share amongst 10-16 year old males.

Choosing the right portfolio

Many companies have allowed propositions or brands to proliferate, contributing to massive inefficiencies. A recent report showed that in one company, the number of brands had increased by 30% over 5 years, but the CAGR was only circa 1%. Imagine how much more growth the company could have driven if it had focussed its marketing investment onto fewer brands.

In the current market, it is critical to be unsentimental about 'problem' brands or line extensions with low volume and low profit. Let them go—focus valuable time and resource on areas of strength with a real future. If you don't, your channel partners might do it for you.

Delivering superior customer value

Beware of interpreting 'value' too narrowly. Customer-perceived value means more than price. It refers to the balance of all the benefits being offered for the price being charged, relative to that offered by competitors and in the context of affordability.

All the evidence shows that strong brands i.e. those that have built emotional as well as rational benefits, survive recession far better than weak brands. That's because customers do weigh benefits such as familiarity, trust, quality, consistency, reliability, etc. along with price. Customers are looking for better value—the mix of benefits offered for the price being charged—so beware of offering too many expensive benefits that are not perceived as being of value. But equally, remember that different customers will have different takes on the desirability of those benefits and of affordability and will make different choices, depending on what is important to them.

The implications for measurement

Taking these wider perspectives into account, the key lesson for marketers is to develop a portfolio of measures that covers the full strategic scope of their role. These should include relevant metrics around segment size and growth, the degree of focus in the brand and product portfolio and core brand equity performance indicators that reflect the extent to which value is being created for customers.

In this context, it is obviously important to assess the effectiveness and efficiency of promotional spend. But rather than relying on ROMI, it is far better to use forward looking DCF calculations to assess the potential impact that marketing can have in leading businesses through the recession by delivering demand-led profitable growth.

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For further information:

Please contact us on +44(0) 20 8614 8150

Brand Learning
Burgoine Quay
8 Lower Teddington Road
Kingston Upon Thames
Surrey KT1 4ER

team@brandlearning.com