Keen®
Model Your Brand Winning

ROI AND MROI: HOW TO KNOW WHAT'S REALLY DRIVING YOUR BUSINESS' GROWTH

Decision Point: Do Your Marketing Metrics Indicate Business Growth?

When marketers hear it's time to increase focus on financial metrics, thoughts quickly turn to ROI. And while ROI definitely has its place, that place is not at the center of marketing measurement.

Why Traditional ROI is Not a Strong Marketing Metric

When marketers throw out the term ROI, it usually refers to a historic, short-term ROI, one that takes spending on a program and divides it by total sales revenue generated, with success equal to an improvement over the previous, baseline ROI.

While it is more quantitative than awareness, and it is measured in dollars, as typically calculated, ROI measures the one thing we know for sure you can't change: the past.

Further, ROIs project financial impact only over 12-16 weeks, which shortchanges most equity-building programs.

How Marginal ROI Points to the Future

Marketers responsible for making multi million-dollar decisions need a more reliable predictor of future opportunity. And that metric is known as marginal ROI (mROI).

Marginal ROI is firmly future-focused. And the future, after all, is what you're looking to impact. mROI calculates response curves for each week into the future to predict a marketing channel's expected return. These response curves account for interactivity among marketing channels, as well as the impact of such external factors as competition and seasonal effects.

As a result, mROI allows you to optimize spending in a given channel on a week-by-week basis to maximize profit.

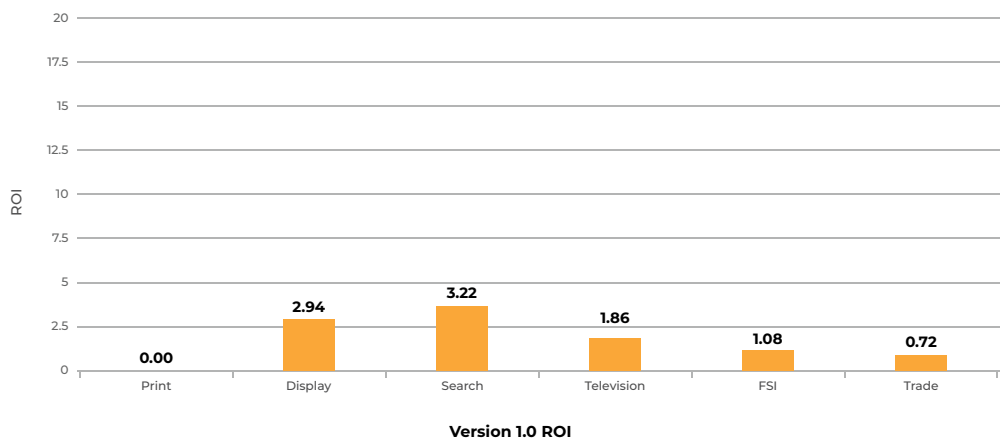
For example, mROI can highlight the rapid-response decay you should expect in a transactional channel like FSIs, contrasted with the longer life of traditional broadcast advertising.

But it also can be much more specific: Run the numbers and you can see how much to spend (or not) on a given channel in your specific marketing mix.

mROI's Implications for the Here and Now

What does this look like in practice? Here's an example.

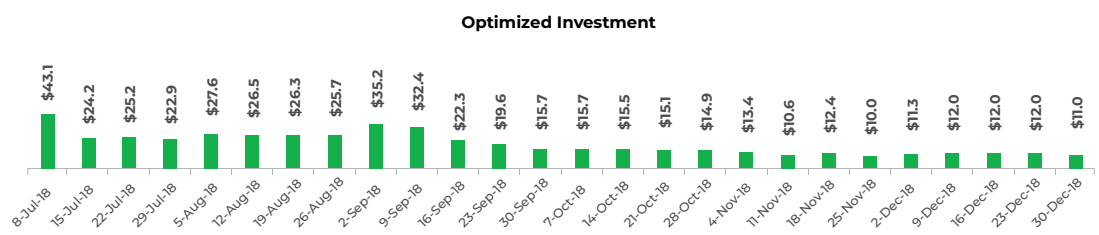
Take a typical CPG brand; we'll call them CookoutCommander. The orange bars in the graph below show traditional ROI, which shows that over the past year, CookoutCommander delivered a positive ROI across all tactics except trade, with no investment in print.



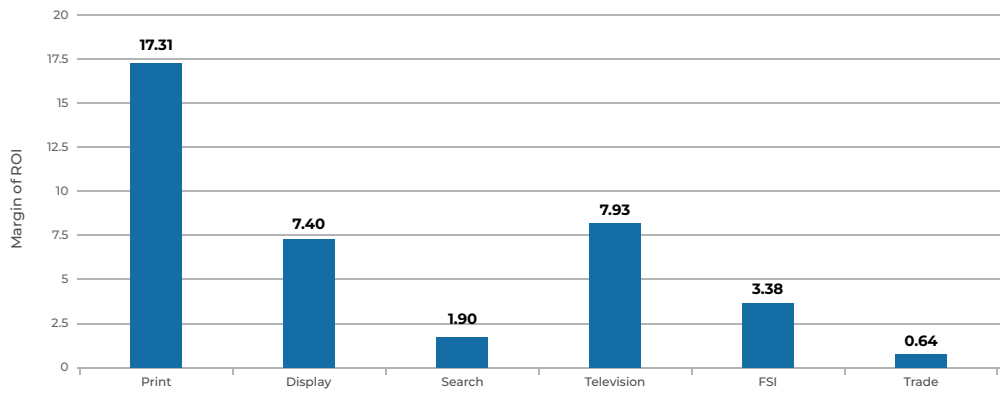
If CookoutCommander made decisions based on this historical analysis, they'd probably decide to bump up their investment in paid search, since it shows the strongest ROI.

The Response Curve: Long and Short Tails.

mROI solves for the optimal spend based on a given financial objective. That could include maximizing the impact of a fixed budget, hitting a specific revenue target, increasing long-term profit—whatever data point CookoutCommander's CMO decides is most important.



The "optimized investment" graph shows CookoutCommander's response curves, using the latest data and taking into account both internal and external factors. As you'd expect from a brand called CookoutCommander, there are big seasonal swings.



Version 1.0 Marginal ROI

As the mROI (blue bars) make clear, paid search doesn't hold the future potential that past performance seems to suggest. In fact, it's destined to fall toward the bottom of the pack.

The more profitable play for CookoutCommander is to reintroduce print into it marketing mix, then boost TV advertising—at the right time of the year.

Without examining mROI it's tough to make informed decisions about the future with confidence.

The chart below summarizes the comparison between traditional and marginal ROIs.

ROI	mROI
Backward-looking: Focuses on what you've done	Forward-looking: Focuses on what you can do
No predictive capability	Accounts for long-term impact of marketing on financial performance
Gives undue weight to short-term tactics	Balances short and long-term plays in marketing mix
Encourages "if it ain't broke, don't fix it" mentality that stymies vigorous growth	Promotes opportunity-driven growth strategy

ABOUT KEEN

Keen's unified marketing measurement and optimization platform helps B2C marketers make the data-driven decisions that build winning brands. Keen offers the only software-as-a-service solution that unifies all marketing channels (digital, traditional media and in-store); calculates the full financial contribution for each channel, rather than a short-term ROI; and builds scenarios that specify the optimal investment level by channel by week.

Connect with Keen at KeenDS.com; info@KeenDS.com,
on LinkedIn and Twitter at @keen_decisions.