ONE SHEET

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. Although understanding the concept of ROI is crucial for driving business growth, it is not at the center of marketing measurement. It is a performance measure that is commonly used to evaluate the efficacy of a certain investment or to compare several different investments. In essence, ROI attempts to directly measure the amount of return on a particular investment, relative to the cost of the investment.

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

While ROI provides an overview of the effectiveness of an investment, marginal ROI helps gauge the incremental value obtained from each additional unit of investment. Which is why marketers responsible for making multi million-dollar decisions rely on mROI since it is a more reliable predictor of future opportunity. In essence, ROI measures the total return, and mROI examines the additional return.

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.

Marketers can use ROI and mROI to assess the success of different revenue-generating activities. By comparing the ROI and mROI of various projects, strategies, or investments, marketers can:

- Identify the most and least efficient strategies
- Make informed decisions about where to allocate resources in the future
- Determine how to best scale their efforts for growth

Benefits of ROI and mROI Analysis

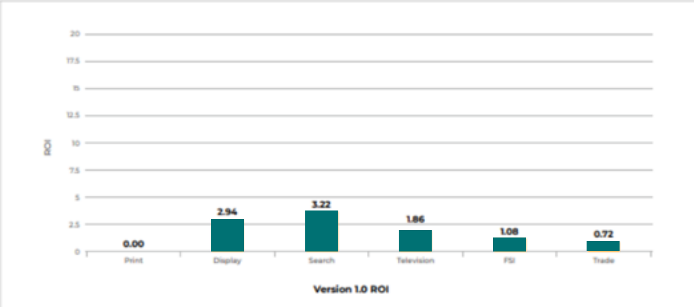
Analyzing ROI and mROI meticulously provides several benefits. It offers clear insights into the profit-generating efficiency of investments, helps track financial performance, and lays the groundwork for informed strategic decisions. This analysis can:

- Highlight profitable and non-profitable investments
- Support decision-making in resource allocation
- Minimize the risk associated with future investments
- Aid in achieving long-term business growth

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

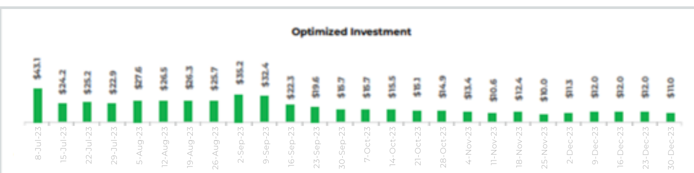
CookoutCommander. The blue bars in the graph below show traditional ROI, which shows that over the past year, CookoutCommander delivered a positive ROI across all tactics except trade, with no investment in print.



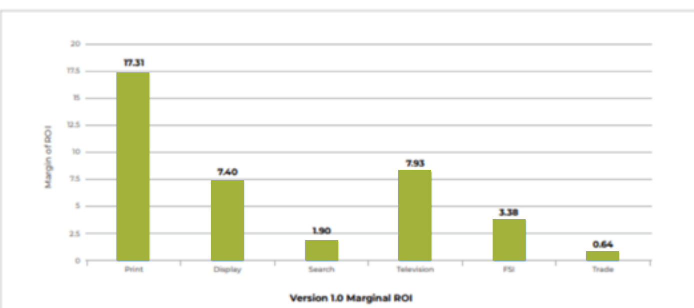
If CookoutCommander made decisions based on this historical analysis, they'd probably decide to bump up their investment in paid search since it shows the strongest ROI of 3.22.

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 during the summer months with the largest marketing investments being made from July through September.



As the mROI (green 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 with a 1.90 mROI followed only by trade with a .64 mROI.

The more profitable play for CookoutCommander is to reintroduce print (17.31 mROI) into the ***marketing mix***, then boost TV advertising (7.93 mROI)—at the right time of the year.

As seen in this example, 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

By understanding and applying ***ROI*** and ***mROI*** analysis, marketers can make sound, informed decisions. The goal should always be to maximize ROI and mROI where feasible, leading to maximized business growth. Therefore, businesses should utilize these financial metrics to align their strategies with their financial performance, highlighting the importance of these ratios in steering businesses towards success and sustainability.

About Keen Decision Systems

Keen Decision Systems is a high-growth SaaS company that helps FORTUNE 500 and other marketing leaders make data-driven decisions, tie them to financial impact, and create long-term value across the board, including for shareholders. Keen's software lets marketers run scenarios to achieve their growth goals, driving a 41% improvement for clients over the past 52 weeks. Based out of North Carolina's Research Triangle Park, Keen manages $2 billion in marketing for major brands under Church & Dwight, Bush Brothers, Suja, Athletic Brewing and Bumblebee Foods, among others.