Return on Promotional Investment (ROMI)

The need to justify a firm's promotional investment, using some form of return on investment assessment, is now a common marketing practice.

For each of the following decisions, determine whether the promotional expenditure generates a positive return on investment (also known as marketing return on investment = ROMI). The first calculation has been completed as an example for you.

And please note: Just do simple calculations and do not calculate net present values.

Brand A	Calculations
• Cost of extra advertising = $200,000	Extra sales = $1m
• Sales will increase from $1m to $2m for one year only	Profit on extra sales = $100,000 (That is, 10% margin on extra sales)
• Our gross margin is 10% of sales	Profit/loss after advertising = $100,000 loss
	Therefore, should not undertake the advertising

Brand B	Calculations
• Cost of extra advertising = $500,000	
• Sales to increase from $10m to $20m for one year only	
• Our gross margin is 10% of sales	

Brand C	Calculations
• Cost of extra advertising = $5,000,000	
• Sales to increase from $100m to $200m,	
• This increased sale level should be maintained for at least two years	
• Our gross margin is 5% of sales	

Student Discussion Questions

1. Start by completing the above two examples.
2. How difficult will it be to estimate the likely increase in sales prior to undertaking the promotional campaign? Therefore, how reliable are the estimates of return on investment that you have calculated?
3. How would firms typically find/determine the assumptions/information they need to do these calculations?
4. Are there any situations where a firm would undertake a promotional campaign that did not appear to be financially justified?