Working with ROMI Calculations

Introduction

As you most likely know, Return on Marketing Investment (ROMI or MROI) is a metric used to measure the payback of marketing expenditures. It is the same as any return-on-investment (ROI) calculation, except that it is focused on marketing spend.

The formula for ROMI is:

- ROMI = (Generated Revenue from Marketing Efforts − Cost of Marketing Efforts) / Cost of Marketing Efforts X 100

The calculation provides a percentage that represents the return on every dollar spent on marketing. The ROMI % can be positive or negative.

A positive ROMI indicates that the marketing efforts generated more profit than their investment, making them profitable. Conversely, a negative ROMI highlights that the marketing activities cost more than the profit that they generated, which is usually not good.

ROMI is typically used as a short-term metric, and it is helpful for assessing the payback success of marketing campaigns. This information assists firms to optimize their marketing budgets, focus on high-performing activities, and revising or eliminating the ones that do not deliver positive returns.

Your Task

In this activity you will work through a series of ROMI calculations for a hotel chain and help them improve their marketing campaigns.

In each scenario you should calculate ROMI based on PROFIT contribution, not increase in revenue.

Campaign One

For this campaign, the hotel chain has used a Facebook ad campaign to promote a special weekend away deal. Here are the results:

- Cost of Facebook Ad Campaign: $2,000
- Number of Bookings Generated by the Campaign: 50
- Average Revenue per Booking: $150
- Profit Margin per Booking: 30% (This means 30% of the revenue from each booking is profit, accounting for costs like cleaning, utilities, etc.)

Campaign Two

In this campaign, the hotel chain has collaborated with a YouTube influencer to promote their hotels. Here are the results:

- Cost of Influencer Collaboration: $5,000
- Number of Bookings Generated by the Campaign: 80
- Average Revenue per Booking: $200
- Profit Margin per Booking: 30%

Campaign Three

This one is a little more challenging as there are two components to the campaign, as hotel chain has not only collaborated with a YouTube influencer but has also offered a 20% discount coupon code for bookings made through the influencer's channel.

The results were:

- Cost of Influencer Collaboration: $5,000
- Number of Bookings Generated by the Campaign: 120
- Average Revenue per Booking without Discount: $200
- Discount Offered: 20%
- Profit Margin per Booking before Discount: 30%
- Hint: Work out booking profit first, then deduct the discount amount.

Campaign Four

This time the hotel chain runs a contest on Instagram to promote its "Ultimate Relaxation Package." Participants are encouraged to share their best travel photo, follow the hotel's account, tag three friends, and use a specific hashtag. The prize is a 2-night stay at the hotel, including a spa package.

The results were:

- Cost of Social Media Contest: $3,000 (includes prize cost (free room), content creation, and supporting promotional activities)
- Number of Direct Bookings Generated by the Contest: 20
- Average Revenue per Booking: $300
- Profit Margin per Booking: 30%

Campaign Five

In this campaign, the hotel chain has used an integrated approach that includes billboard advertising, a discount offer, and Google search ads. The campaign results were:

- Cost of Billboard Advertising: $10,000
- Cost of Search Ads: $2,000
- Average Revenue per Booking without Discount: $200
- Discount Offered: 20%
- Profit Margin per Booking before Discount: 30%
- Hint: Work out booking profit first, then deduct the discount amount.

Student Discussion Questions

1. First calculate the ROMI on each of the campaigns. Then rank the campaigns in order of ROMI. And then also rank the campaigns in order of extra profit delivered. Are they in the same order?

2. Were there any negative ROMI campaigns? What would you suggest for these campaigns – repeat, revise, or stop? Why?

3. Should we consider the non-financial outcomes of marketing campaigns (e.g. brand awareness, customer loyalty) along with ROMI in evaluating campaign success?
