Introduction to ROMI Calculations

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In this activity you will look at return on marketing investment (ROMI or MROI) calculations. As you may know, ROMI is a key marketing metric that measures how much profit a company earns for every dollar spent on marketing, usually for a specific campaign.

Return on Marketing Investment (ROMI) is a key marketing metric because it links marketing activities directly to a company's profitability rather than simply measuring outputs like clicks, impressions, or even sales revenue.

By focusing on the profit generated for each dollar spent, ROMI provides a clear picture of whether marketing efforts are actually creating value for the business. This makes it a helpful metric for determining the most effective marketing spend and, of course, demonstrating marketing's contribution to overall financial performance.

As an analytical tool, ROMI enables marketers to evaluate the effectiveness of different channels, messages, and campaigns. Internally, it allows marketers to focus on the campaigns and other marketing activities that generate the biggest return on profitability. To some extent, it shifts the conversation from "How much did we sell?" to "How much did we earn?" As a result, ROMI helps develop a more disciplined, data-driven approach to marketing.

If you pursue a marketing career, it is highly likely that you will be required to justify or demonstrate the performance of marketing campaigns by providing a return on marketing investment calculation.

Therefore, ROMI typically serves two purposes – 1. to demonstrate that you are investing the company's funds effectively and for a profit return, and 2. to learn and understand the market dynamics and what works and why – typically by using variations of campaigns to test messaging, media choices, price points, product benefits highlighted, product bundling, and so on - making it a very important tool for marketers.

How to Calculate ROMI

Here is the basic way of calculating return on marketing investment. We will start with this formula and then add to it progressively throughout this activity to look at more complicated approaches – just as you will in real life marketing in your future career.

Return on Marketing Investment (ROMI) is calculated as a percentage, as follows:

- **ROMI (%) = [(Incremental Revenue × Profit Margin) – Marketing Spend] ÷ Marketing Spend × 100**

Where:

- **Incremental Revenue** = Additional sales generated by the marketing campaign
- **Profit Margin** = Profit as a percentage of revenue (e.g., 25% = 0.25)
- **Incremental Revenue × Profit Margin** = when calculated, is the profit derived from the increase in sales revenue
- **Marketing Spend** = Total cost of the campaign

Let's look at an example calculation for a promotional campaign, as follows:

- Incremental Revenue = $50,000
- Profit Margin = 30% (0.30)
- Marketing Spend = $10,000
- ROMI = [(50,000 × 0.30) – 10,000] ÷ 10,000 × 100
- ROMI = (15,000 – 10,000) ÷ 10,000 × 100
- ROMI = 5,000 ÷ 10,000 × 100 = 50%

As we can see in the above calculation, the campaign managed to increase revenue by $50,000. The profit margin on that revenue was $15,000. The company/marketer had invested $10,000 in the campaign, giving an additional net profit (after the campaign costs) of $5,000. Therefore, the marketer had turned the $10,000 investment into $15,000 – which is a 50% return – which is pretty good.

ROMI Calculations for You to Complete

Now it is your turn to work through various return on marketing investment calculations. Below you will find a series of calculations to complete, and as suggested above, as we progress through the calculations will become a little bit more complicated, but will still rely on the basic formula we have reviewed above.

ROMI Calculation 1

- Incremental Revenue = $50,000
- Profit Margin = 50% (0.50)
- Marketing Spend = $10,000
- ROMI = ???

ROMI Calculation 2

- Incremental Revenue = $55,000
- Profit Margin = 20% (0.20)
- Marketing Spend = $10,000
- ROMI = ???

ROMI Calculation 3

- Incremental Revenue = $100,000
- Profit Margin = 20% (0.20)
- Marketing Spend = $25,000
- ROMI = ???

ROMI Calculation 4

For the next calculations, you will not be given the profit margin, but you will need to work that out yourself.

- Incremental sales = 2,000 units sold
- Priced at $25 each
- Unit cost = $15
- Marketing Spend = $8,000
- ROMI = ???

ROMI Calculation 5

- Incremental sales = 3,500 units sold
- Priced at $40 each
- Unit cost = $30
- Marketing Spend = $20,000
- ROMI = ???

ROMI Calculation 6

For the next calculations, you will now need to also work out incremental sales. In this case you have been given what is known as "benchmark" sales. This is the sales volume (or revenue) that the company would normally achieve in the same time period.

For example, a pizza chain that normally sells 1,000 pizzas per day, is looking to increase this level of sales through a marketing campaign. Therefore, when we consider return on marketing investment, we are only considering the extra or incremental sales that are delivered – not overall sales as they include normal/expected sales volumes.

- Campaign sales = 5,000 units
- Benchmark sales = 3,000 units
- Price per unit = $20
- Unit cost = $12
- Marketing Spend = $15,000
- ROMI = ???

ROMI Calculation 7

- Campaign sales = 8,000 units
- Benchmark sales = 7,000 units
- Price per unit = $50
- Unit cost = $35
- Marketing Spend = $30,000
- ROMI = ???

ROMI Calculation 8

For the next series of calculations, we are going to consider sales cannibalization and its impact. Sales cannibalization is when a product or campaign for the company negatively impacts the sales of another product.

For example, if we continue our pizza example from above, they may have a marketing campaign built around a new flavor of pizza which does well, but it is likely to reduce the sales of other pizza variations that would normally sell.

To accurately reflect return on marketing investment, we need to consider the net profit impact of both the increase in the product being promoted, as well as the product that has been cannibalized and has reduced sales volume.

- Product A (Campaign Product)
- Campaign sales = 4,000 units
- Benchmark sales = 3,000 units
- Price per unit = $30
- Unit cost = $18
- Product B (cannibalized)
- Benchmark sales = 2,000 units
- Sales during the campaign = 1,800 units
- Price per unit = $25
- Unit cost = $15
- Marketing Spend = $12,000
- ROMI = ???

ROMI Calculation 9

- Product A (Campaign Product)
- Campaign sales = 6,000 units
- Benchmark sales = 4,500 units
- Price per unit = $40
- Unit cost = $24
- Product B (cannibalized)
- Benchmark sales = 3,500 units
- Sales during the campaign = 3,000 units
- Price per unit = $35
- Unit cost = $20
- Marketing Spend = $25,000
- ROMI = ???

ROMI Calculation 10

Now we will add the concept of earned media contributing to a marketing return on investment. As we know, earned media is "free advertising" or "free publicity" that is generated by having an interesting campaign or innovative new product.

Earned media is calculated by determining what would be the advertising cost of paid advertising that would be required to generate the same level of media coverage. Let's assume in this case that the company is looking to reduce its advertising spend because it has benefited from earned media.

As a result, we can build in this benefit into the return on marketing investment calculation, because the business has directly benefited from earned media and has impacted its bottom line.

- Product A (Campaign Product)
- Campaign sales = 5,000 units
- Benchmark sales = 4,000 units
- Price per unit = $25
- Unit cost = $15
- Product B (cannibalized)
- Benchmark sales = 2,000 units
- Sales during the campaign = 1,900 units
- Price per unit = $20
- Unit cost = $10
- Marketing Spend = $20,000
- Earned Media Value = $10,000
- ROMI = ???

ROMI Calculation 11

- Product A (Campaign Product)
- Campaign sales = 10,000 units
- Benchmark sales = 7,000 units
- Price per unit = $50
- Unit cost = $30
- Product B (cannibalized)
- Benchmark sales = 4,000 units
- Sales during the campaign = 3,500 units
- Price per unit = $45
- Unit cost = $25
- Marketing Spend = $100,000
- Earned Media Value = $50,000
- ROMI = ???

ROMI Calculation 12

Now we are going to consider the impact of using a discount in a marketing campaign and how that impacts marketing return on investment.

In the following calculations you will be given both a normal price that the product sells for, as well as the campaign discount price. Remember that you need to work out benchmark profits using the normal price, and then the campaign profits using the discount price.

- Product A (Campaign Product)
- Benchmark sales = 3,500 units
- Campaign sales = 8,000 units
- Normal price = $40
- Campaign price = $32
- Unit cost = $20
- Product B (cannibalized)
- Benchmark sales = 2,200 units
- Sales during the campaign = 2,000 units
- Price per unit = $30
- Unit cost = $18
- Marketing Spend = $30,000
- Earned Media Value = $15,000
- ROMI = ???

ROMI Calculation 13

- Product A (Campaign Product)
- Benchmark sales = 8,000 units
- Campaign sales = 11,000 units
- Normal price = $60
- Campaign price = $48
- Unit cost = $28
- Product B (cannibalized)
- Benchmark sales = 5,000 units
- Sales during the campaign = 4,600 units
- Price per unit = $50
- Unit cost = $30
- Marketing Spend = $120,000
- Earned Media Value = $200,000
- ROMI = ???

ROMI Calculation 14

Finally, we are going to look beyond this specific campaign. As you may have noted from the above calculations, we have only considered the immediate impact of the campaign and how sales were increased in that time period. But now we're going to build in a calculation for future and ongoing profitability.

We will do this by considering customer lifetime value that is generated from NEW customers acquired during the campaign. As we would expect, marketing campaigns will both motivate existing customers to buy/spend more, as well as enticing new customers to buy from the brand.

By using a customer lifetime value calculation, we can estimate the likely future profitability gain from these new customers, which will add to our benchmark sales over time.

The extra challenge below will be to determine the number of new customers based on the information provided. And note that new customers are only found in the incremental sales, not the benchmark sales.

- Product A (Campaign Product)
- Benchmark sales = 4,000 units
- Campaign sales = 6,000 units
- Normal price = $60
- Campaign price = $50
- Unit cost = $25
- Average units per buyer = 2

- Product B (cannibalized)
- Benchmark sales = 2,000 units
- Sales during the campaign = 1,900 units
- Price per unit = $30
- Unit cost = $18
- Marketing Spend = $25,000
- Earned Media Value = $10,000
- Percentage of incremental buyers who are new customers = 5%
- Average CLV per new customer = $300
- ROMI = ???

ROMI Calculation 15

- Product A (Campaign Product)
- Benchmark sales = 7,500 units
- Campaign sales = 9,600 units
- Normal price = $70
- Campaign price = $55
- Unit cost = $30
- Average units per buyer = 3
- Product B (cannibalized)
- Benchmark sales = 4,000 units
- Sales during the campaign = 3,000 units
- Price per unit = $40
- Unit cost = $25
- Marketing Spend = $25,000
- Earned Media Value = $30,000
- Percentage of incremental buyers who are new customers = 20%
- Average CLV per new customer = $500
- ROMI = ???