

Measuring Marketing Payback

A best practice guide



“This is a timely publication as the marketing landscape develops across new media channels and technologies. With this our ability to measure the effectiveness of the capital employed in marketing and how it can add value has improved significantly. It is a practical guide for understanding the most appropriate basis for valuing brand contribution to profits and for appreciating the difference between the metrics of ROMI, ROI and straight Payback.”

CHRIS SAHOTA

**Member of the IPA Finance Policy Group and
COO Northern, Central, Eastern Europe and Africa, McCann Erickson**

“Advertisers are constantly searching for the holy-grail formula which will help quantify the impact marketing communications investment has had on their bottom line – what’s the real payback?! Consequently when the IPA approached ISBA’s Remuneration and ROI sub-group with the concept of this document we were delighted to endorse the approach. This guide is packed with useful, intelligent guidance for any marketer or procurement professional who would like to explore the concept of marketing payback in greater depth – it’s a great starting point.”

DEBBIE MORRISON

Director of Consultancy & Best Practice

“This publication offers finance, marketing and advertising executives, very useful and practical guidance to measure the effectiveness of marketing and, as importantly, should also assist in promoting and enabling a common understanding between functions.”

RICHARD MALLETT

Technical Director, CIMA

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Foreword

I remember when I judged the IPA Effectiveness Awards competition being preoccupied with the importance of knowing each case's hard financial performance measures. "Where's the demonstrable commercial return on the investment", I'd ask.

At Volkswagen we believe in the importance of measuring payback. We've also been a regular entrant, and winner, at the IPA Effectiveness Awards since 1998. So I am delighted to endorse this latest best practice guide.

It is becoming increasingly important that all members of Boardroom plc, not just the chief executive officers, financial and marketing directors, have an understanding of the success, or not, of their marketing strategy. It is in this ideal scenario that a Board can successfully mine its measurement statistics to forecast future performance trends and make any necessary changes to strategy to grow their business.

This guide tells you the how; what to focus on and what to avoid. It also goes into some detail about a number of key performance indicators such as the loosely used ROI or ROMI.

I commend it to you, and your colleagues.

ROBIN WOOLCOCK
Managing Director, VW Group UK

Introduction

Increasingly, marketing personnel are being asked to measure the effects of marketing and to demonstrate how it adds value. A wide variety of metrics are used, from media exposure measures like ratings or clicks, through attitudinal data like awareness or image, to behavioural measures like response rates and actual sales.

But for commercial firms, the ultimate measure of marketing effectiveness is financial payback. Profit-making businesses do not indulge in marketing in order to increase awareness, or even to generate sales these are just means to an end. Businesses spend money on marketing because they think it will increase shareholder value at some point, even if the payback comes some time afterwards.

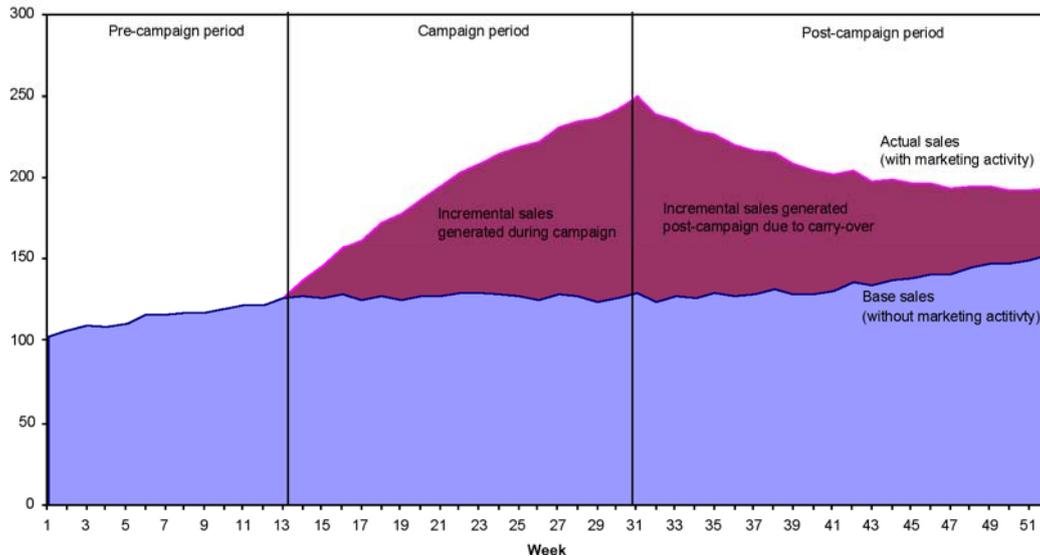
Yet despite the fact that profit is the ultimate motive beyond all marketing, research commissioned by the IPA suggests that less than 20% of marketing activity is evaluated in terms of financial payback. Worse still, data from the IPA dataBANK suggests that when payback is assessed, the calculations are often flawed.

This brief guide will try to remedy this situation. It's aimed at anyone who wants to measure marketing payback in financial terms. It offers some simple, practical tips on how to measure the effects of your activity, and how to calculate the contribution to shareholder value. It won't solve all your problems, this is a complicated area and there are no simple answers. But it should help you to avoid some of the obvious pitfalls.

Step one: measure the sales effect

The first step towards calculating financial payback is to estimate the **incremental sales** generated by your activity. To do this, you need to compare actual sales with 'base sales'; how much you would have sold if you hadn't run the marketing activity in question. Incremental sales can be calculated by subtracting base sales from actual sales (the shaded area in Fig1).

Fig 1. The concept of incremental sales

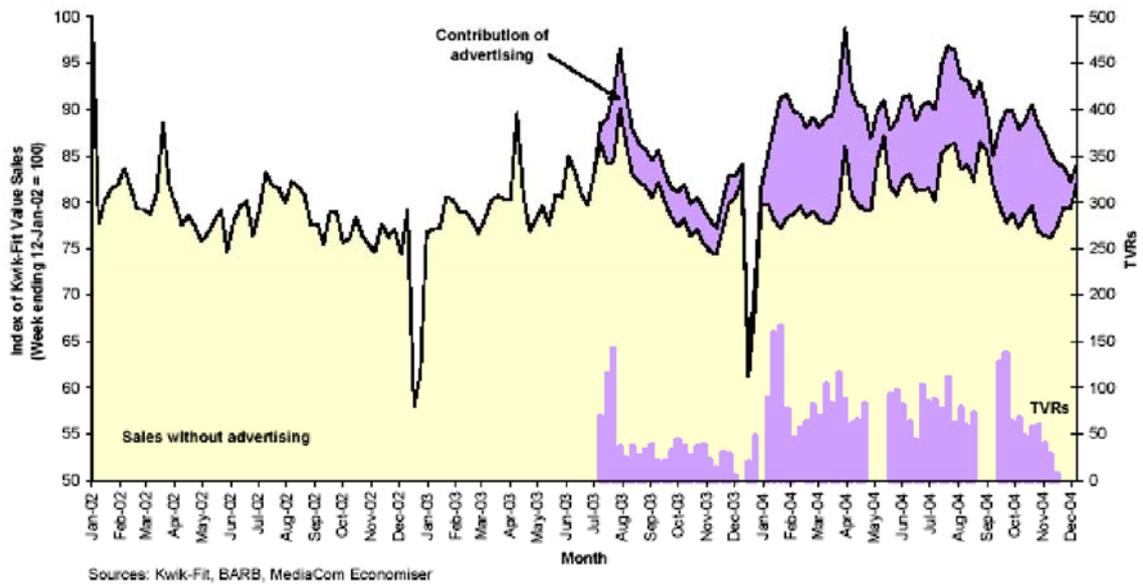


Estimating incremental sales is by no means easy, but various common methods include:

Econometric modelling

Econometric modelling is a mathematical technique that allows you to identify the various different factors that drive your sales, and to separate out their effects. For example, the Kwik-Fit IPA paper from 2006 IPA Effectiveness Awards used econometrics to measure the contribution of advertising to overall sales:

Fig 2.

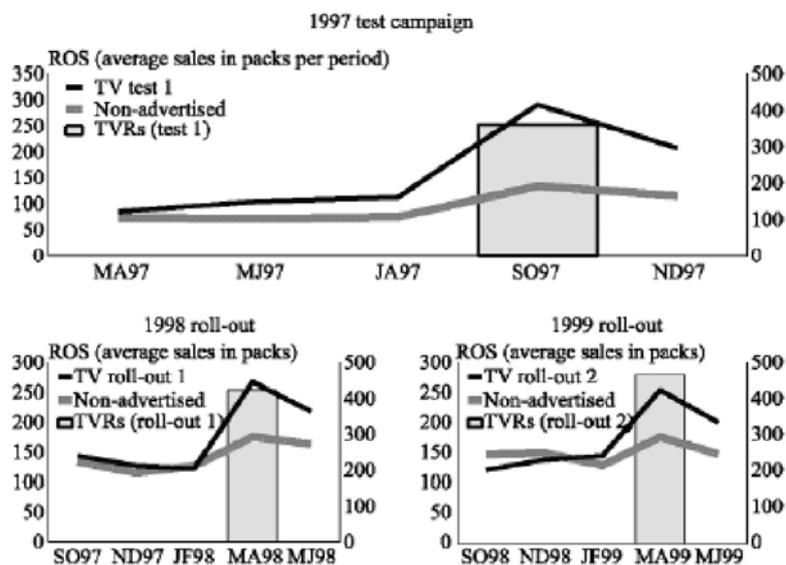


For further information on econometric modelling, see *Econometrics Explained*, available from the IPA.

Test and control

Another way of measuring the incremental sales effect is to look for some kind of control; for example a group of people or products that has not been exposed to the activity in question. The classic approach is the regional test. For example, the No More Nails IPA Effectiveness Awards paper from 2000 presented the results of three regional TV tests. Each time the TV advertising ran, rate of sale in the test region increased compared to the control region:

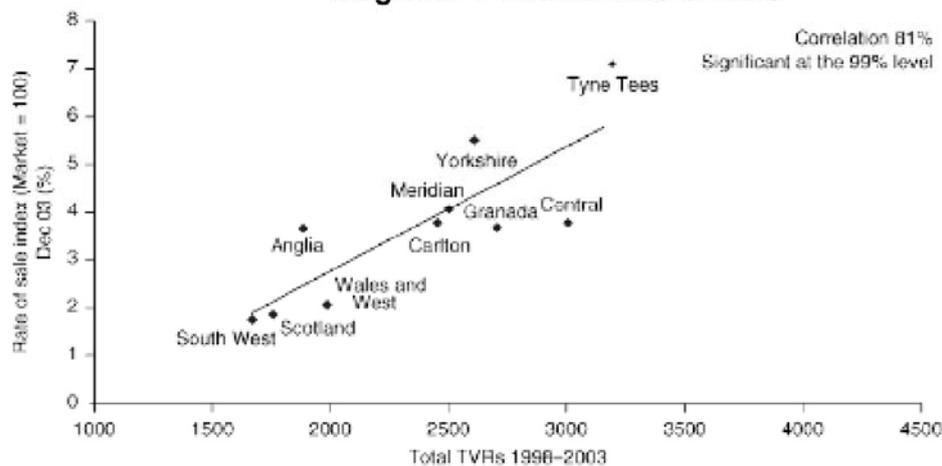
Fig 3. Rate of Sale in TV vs Control Regions



However, regional testing is not the only approach. For example, one might compare sales of advertised with non-advertised products. Or one might compare sales amongst individuals who were exposed to communications with sales amongst those who weren't exposed.

The most sophisticated analyses use fine variations in levels of support to measure the effects. For example, the 2004 IPA Effectiveness Awards paper for Cravendale milk showed that there is a clear correlation between the number of TV ratings a region received and the sales performance in that region:

Fig 4. Regions with higher ROS regions with the most TV support gained the highest Rate of Sale
Regional TVRS vs Rate of Sale

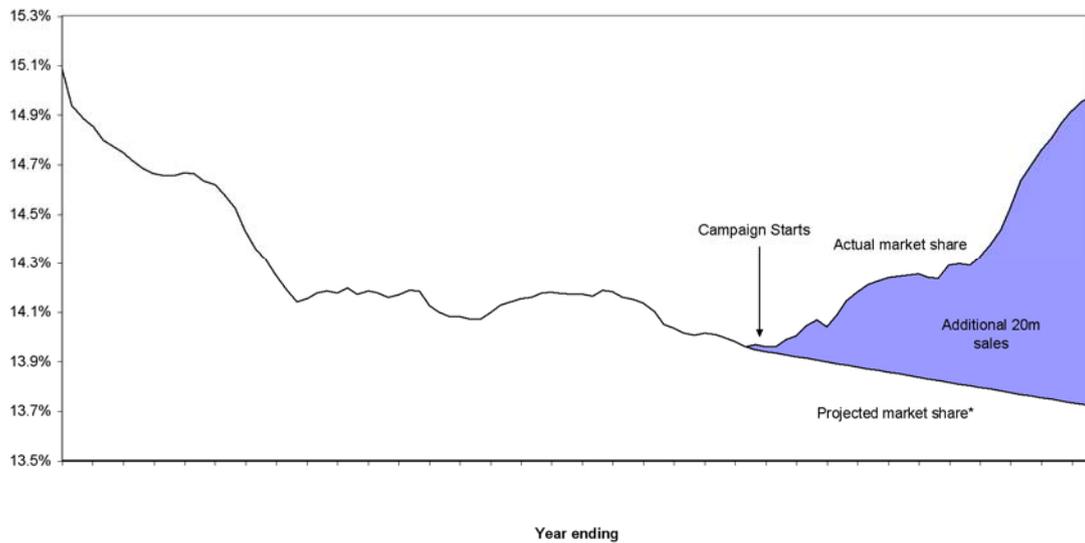


Source: AC Nielsen BARB

Extrapolating from a trend

In some cases, you may be able to plausibly argue that, without the marketing activity in question, sales would have remained static or continued along a certain trend. In that case, it may be valid to estimate the incremental effect by extrapolating from the trend. For example, the 2004 IPA Effectiveness Awards paper for *The Guardian* argued that, without the 'Fresh' campaign, the newspaper would have continued to lose market share.

Fig 5. Guardian market share projection



Source: ABC

* Forecast based on average monthly share decline for 2 years prior to start of campaign

However, be sure to consider the other factors that were affecting your brand at the time. In order to use this method, you must be sure that other factors were not responsible for the deviation from the trend.

Measuring the sales effect: top tips

1. Monitoring sales growth is not enough

Measuring incremental sales is not the same as measuring sales growth. Lack of growth is not necessarily a sign of ineffective marketing – it may be that sales would have been even worse without marketing support.

You need to estimate what would have happened without marketing support, and to do that, you need to take some view of what effect the many other factors affecting sales would have had. Econometrics is the most sophisticated way of doing this, but the test-and-control method is another simpler option. And if you can show that market conditions were similar to the period before the activity ran, then extrapolating from the trend during that period may give a reasonable estimate of the underlying sales trend.

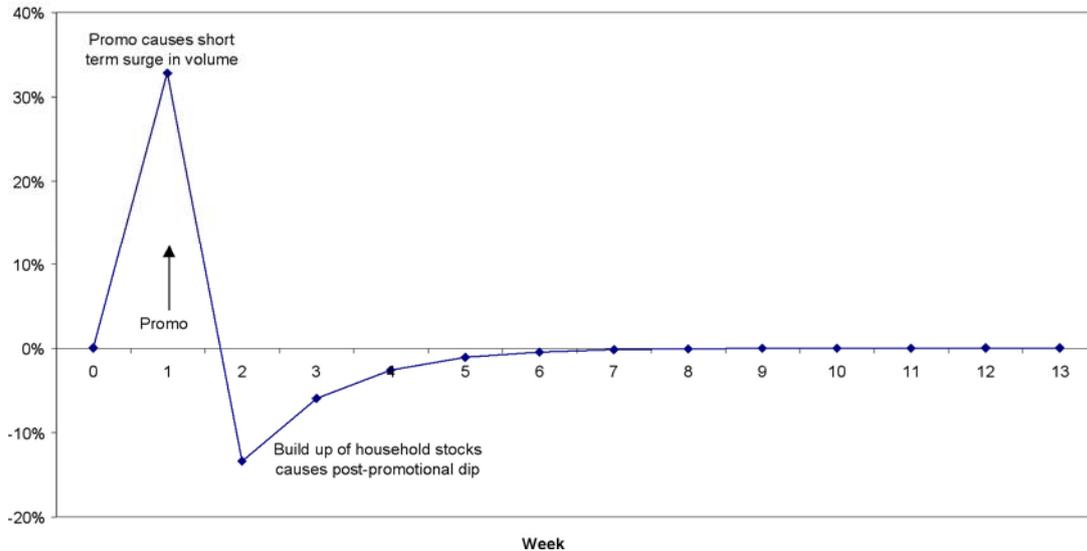
2. Look out for carry-over effects

The effects of your marketing may persist some time after the activity itself has stopped. This is particularly true of brand-building activities such as advertising. Econometric analysis shows that advertising may continue to generate incremental sales months or even years after it appears.

So don't forget to take account of these carry-over effects when estimating the incremental sales generated (see Figure 1). This may require you to forecast sales some way ahead into the future.

Note that carry-over effects are not always positive. Sometimes marketing brings sales forward, so that sales slump once the activity ends. There is evidence that this is particularly true of price promotions (see Figure 6). These 'post-promotional dips' need to be taken into account, otherwise the payback from promotions will be over-estimated.

Fig 6. Beware of post-promotional dips



3. Think about revenue as well as volume

Too many marketing personnel focus on sales volume and neglect revenue. Ideally you should measure both revenue and volume, but of the two, revenue is the more important.

When estimating the incremental sales revenue generated, bear in mind that your marketing may affect the prices and margins as well as volume. For instance, a price promotion might cut average prices paid and increase the percentage of that price that goes to the retailer, depending on how it is funded. On the other hand, brand-building activity might improve quality perceptions, allowing you to charge a higher price for the same volume. Such price effects need to be factored into your incremental revenue calculations.

4. Keep the big picture in mind

Remember your aim is to measure the overall effect of your marketing on total sales, not just the effect on the specific product that your marketing is focussing on.

Marketing for one product may also boost sales of other products in your portfolio. Such 'halo effects' are the main way brand-building contributes to shareholder value, so don't forget to take them into account.

On the other hand, marketing may promote one product in your portfolio at the expense of others. When this kind of 'cannibalisation' occurs, focussing on sales of the featured product will exaggerate the apparent payback from your marketing.

For both these reasons, it is advisable to look at sales of the brand overall when calculating payback, rather than just looking at sales of individual variants.

5. Direct response data does not give you all the answers

For direct response activity, it may actually be possible to link people who responded to the communication with actual sales data in some way. However, this is still not the same as measuring incremental sales.

Firstly, direct response activity may have other effects besides generating direct responses. Some people may respond to your activity long after the event, via a completely different channel. Wherever possible, these indirect effects should be taken into account when measuring payback. This is particularly important for 'brand response' channels like DRTV. It is not uncommon to find that 90% of all responses to DRTV are indirect. For this reason, evaluating DRTV in terms of direct responses alone may well underestimate the payback by a factor of 10!

Secondly, not all direct sales are incremental sales. Those sales might have been achieved anyway, even if the direct activity hadn't run. Once again, you need to find a way of measuring the base level of sales, even for direct marketing.

All of the above applies to online marketing just as much as it does to more traditional channels. Online activity may have a halo effect on offline sales – Google estimate that around 60% of all sales that result from online searches occur offline in ordinary shops – or it may cannibalise on them. In order to measure the payback from online marketing properly, you must take account of offline sales if there are any.

Step two: calculate payback

Payback is closely related to the concept of return on investment (ROI.) We will discuss ROI in more detail below but, at the outset, the two key metrics to have in mind are the *incremental profit contribution* (the financial return) from the activity versus its *incremental cost* (the investment). While measuring the cost of the activity is straightforward, measuring the incremental profit contribution requires a couple of steps.

The first step is to calculate the revenue generated for the client, remembering to take into account any effects on price. Most agencies work with data sources such as Nielsen and IRI which measure sales at their retail price. However, what your client actually gets are the value of wholesale sales, which are retail sales less the retailer's (or other channel intermediary's) mark-up. So the first step is to take account of the intermediary's cut. The equation is therefore:

$$\text{Incremental revenue} = \text{Incremental retail sales value} - \text{Intermediary cash margin}$$

Table 1 shows a worked example. Suppose that a marketing campaign for Brand X generated 1,850,000 extra sales. If the average retail price paid for each unit was £1.49, then the incremental retail sales were worth a total of £2,756,500:

Table 1

A	Incremental sales volume (units)	£1,850,000
B	Average price paid per unit	£1.49
C = A x B	Value of incremental retail sales	£2,756,500
D	Retailer gross margin (%)	12.5%
E = D x C	Retailer cash margin (£)	£344,563
F = C - E	Incremental sales revenue to manufacturer	£2,411,938

However, the retailer takes a 12.5% gross margin, which amounts to £344,563 in cash terms. Subtracting the retailer's cut leaves £2,411,938 of incremental revenue for the manufacturer of Brand X.

As it's often difficult to get exact data on intermediary margins, here are some rules of thumb based on experience:

Table 2

Product & channel	Retailer's gross margin on retail sales	So, for every £100 of retail sales, the client sells:	..and the intermediary's cash margin is
Foods in a supermarket	25%	£75	£25
Computers in a high street retailer	10%	£90	£10
New cars in a dealership	5%	£95	£5

Having calculated the value of the incremental sales to the client, the next step is to calculate the contribution that those sales make to profit. To do this, one needs to take account of the incremental costs incurred. As sales go up, clients need to buy more raw materials and pay more wages. These variable costs need to be deducted in order to work out the payback:

$$\text{Incremental costs} = \text{Variable cost per unit} \times \text{Incremental units}$$

For instance, suppose that for Brand X the variable cost per unit was 57p. Then Table 3 below shows that the 1,850,000 of extra sales that we generated would mean £1,054,500 of extra costs:

Table 3

A	Incremental sales volume (units)	£1,850,000
F = C - E	Incremental sales revenue to manufacturer	£2,411,938
G	Variable cost per unit	£0.57
H = G x A	Incremental variable costs	£1,054,500
I = F - H	Marginal contribution from incremental sales	£1,357,438
J = I ÷ F	Contribution margin (%)	56%

Subtracting these costs from the incremental sales revenue gives the marginal contribution to profit:

$$\text{Marginal contribution} = \text{Incremental revenue} - \text{Incremental costs}$$

So, for Brand X in Table 3, subtracting £1,054,500 of incremental costs from £2,411,938 of incremental revenue gives a marginal contribution of £1,357,438.

Alternatively, rather than using unit costs, one can do exactly the same calculation using the *contribution margin*, if this is known. The calculation then becomes:

$$\text{Marginal contribution} = \text{Incremental sales revenue} \times \text{contribution margin \%}$$

For instance, for Brand X in Table 3, the contribution margin is 56%. So the marginal contribution to profit will be 56% of the incremental sales revenue (56% of £2,411,938), which is £1,357,438. This is exactly the same result as before.

Having calculated the marginal contribution, the final step is to subtract the cost of the campaign to calculate the net profit it generates:

$$\text{Net profit generated} = \text{Marginal contribution} - \text{Cost of campaign}$$

For Brand X, the marginal contribution of the campaign was £1,357,438. But suppose the campaign cost £1,150,000? Subtracting the cost of the campaign off, we find that the net profit generated by the campaign was £207,438:

Table 4

A	Incremental sales volume (units)	£1,850,000
F = C - E	Incremental sales revenue to manufacturer	£2,411,938
I = F - H	Marginal contribution from incremental sales	£1,357,438
K	Cost of campaign	£1,150,000
L = I - K	Net profit generated by campaign	£207,438

The net profit generated is the ultimate measure of effectiveness, the measure of how much money the campaign made for the brand's owners.

Calculating payback: top tips

1. Revenue is not the same as profit

Marketing effectiveness is often assessed in terms of incremental **revenue** generated, rather than profit, usually because profit data is unavailable. This is perfectly valid, of course, but such measures should never be referred to as measures of payback or ROI.

If a campaign costs £1m, and generates £10m worth of sales, then it is **not** true that it pays for itself 10 times over. Once the retailer has taken his cut, and the extra manufacturing costs are taken into account, it is quite possible that the campaign made a loss. True payback calculations can only be based on incremental profit.

2. Don't subtract fixed costs

The kind of sales uplifts produced by successful marketing can usually be accommodated within existing production capacity, at least in the short term. So the only additional costs incurred are the variable costs associated with production (raw materials, packaging, etc.) and the cost of the campaign itself. These are the only costs that should be subtracted when calculating payback. Do **not** subtract fixed costs, otherwise you will underestimate the payback from your campaign.

(This guide is mainly focussed on short-run decision making. However, be aware that more major long-run marketing investment decisions need to be thought about differently. For example, if a client wants to double his long-run rate of advertising spend and to open a new factory to cope with the additional anticipated demand, then the fixed costs of the new factory become relevant incremental costs in any payback assessment.)

Labour costs are something of a moot point. The workforce is usually fairly fixed in the short term, and sales uplifts can usually be met within normal levels of manning. However, most firms include labour costs within their variable cost data. You should follow the client's convention here, but be aware that treating labour costs as variable costs may cause marketing payback to be somewhat underestimated, at least in the short term.

3. Make sure you use the correct profit margin

It's very important to base the payback calculation on the contribution margin, rather than the net profit margin that appears in the client's accounts or other management data. The net profit margin takes account of fixed costs, whereas the contribution margin only accounts for variable costs (see previous section).

As the table below shows, contribution margins are often much higher than net profit margins. Indeed, in service businesses like airlines and telecoms, the marginal cost of an additional airline seat or phone call is close to zero, and so the rate of marginal contribution is almost 100%. So basing payback on net profit margins will lead to a serious underestimate in payback.

Table 5

Industry	What are typical marginal costs?	What are typical fixed costs?	Typical contribution margin ¹	Typical average profit margin
Foods	Raw materials & packaging	Factory overheads, head office etc.	50%	10%
Personal care & household products	Ditto	Ditto	70%	20%
Retailer	Cost of goods sold	Stores, logistics, head office etc.	20% (but varies a lot by category)	5%
Airline seat	None (fuel isn't a true marginal cost if the plane is going to fly anyway)	Aircraft, ground staff, head office etc.	100%	5%
Telephone minute	None	Network infrastructure, head office etc.	100%	10%

4. Calculating longer-term payback

So far, we have assumed that payback is calculated over a fairly short period, say six months to a year. But much brand-building activity does not pay back over such a short period. Yes it can still be sensible to invest heavily now behind the promise of growth (or the avoidance of decline) in the future.

This takes us into the realm of estimating long-term payback. The methods used are basically the same as before, but the complication that you need to take account of is what financiers call the time value of money – the idea that profits in the future are worth less than profits now. A campaign that generates £1m of extra profit immediately is better than a campaign that takes five years to generate the same profit.

¹ These are typical levels of revenue less standard cost, which is the unit cost the marketing department are usually required to assume. While true marginal contribution rates are probably higher than this, this is the most credible and pragmatic number to use.

Managers and financiers deal with this by using discounted cash-flow analysis (DCF). DCF allows you to convert any stream of future payments to its Net Present Value (NPV) – the value of that income stream as a lump sum here and now.

The method for calculating payback in the DCF framework is basically exactly the same as before, except that one must now consider all incremental revenues and costs as cash-flows over time, and one must calculate and compare their NPVs. So, rather than net profit, the ultimate measure of payback becomes the NPV of the incremental cash-flow generated by the campaign, which is:

$$NPV (\text{Incremental revenue}) - NPV (\text{Incremental costs})$$

As before, incremental costs will include both marketing costs and costs associated with incremental sales. However, as we noted before, you may need to take account of some additional costs when calculating long-term payback – for instance, a long-term increase in demand might require an increase in production capacity.

The mathematical details of DCF are outside the scope of this publication, so your CFO should be able to help you here. You should always use DCF for assessing the payback from longer-term marketing investments.

Return on marketing investment (ROMI)

Net profit generated is the ultimate measure of marketing **effectiveness**. However, if you want to measure financial **efficiency** as well, then you need to do a return on investment (ROI) calculation.

The ROI from any kind of investment is simply the ratio of the net profit generated to the amount invested:

$$ROI = (Net\ profit / Investment) \times 100\%$$

For example, when calculating the return on capital investment, the appropriate ROI measure is the Return on Capital Employed (ROCE):

$$ROCE = (Net\ profit / Capital\ investment) \times 100\%$$

Similarly, for marketing investments, the appropriate ROI measure is the ROMI:

$$ROMI = (Net\ profit / Cost\ of\ campaign) \times 100\%$$

We recommend that the term ROMI is always used when calculating the return from marketing, in order to avoid confusion with other ROI measures like ROCE.

In our previous worked example, an investment of £1,150,000 in marketing for Brand X yielded a net profit of £207,438, which equates to a ROMI of 18%:

Table 6

A	Incremental sales volume (units)	£1,850,000
F = C - E	Incremental sales revenue to manufacturer	£2,411,938
I = F - H	Marginal contribution from incremental sales	£1,357,438
K	Cost of campaign	£1,150,000
L = I - K	Net profit generated by campaign	£207,438
M = L ÷ K	Return on marketing investment (ROMI)	18%

(Once again, for long-term payback, the calculation of ROMI is slightly different. Discounted cash-flow analysis allows you to convert the stream of extra revenues and costs from your campaign into an equivalent annual rate of return (called the internal rate or return or IRR by accountants.) This can then be compared with the ROI from other long-term investments.)

ROMI is a useful measure, because it allows you to compare the efficiency of different campaigns with different budgets. It also allows you to compare the return from your campaign with the returns from other alternative investments. For instance, you might compare the return from advertising with the return you might earn from investing in a new factory, or from NPD, or from simply keeping the money in the bank and earning interest. This allows you to assess the *opportunity cost* of spending money on marketing.

Return on marketing investment: top tips

1. Don't call non-financial measures ROMI

ROI is a financial term, and ROI measures, such as ROMI and ROCE, are financial ratios. Yet it is commonplace to hear marketing people using the term ROI to describe response measures which have nothing to do with finance. This is nonsense.

Your campaign may have increased awareness, generated responses, gained press coverage, and even increased sales revenue, but none of these are ROI measures. Only ever use the terms ROI and ROMI to describe the **profitability** of your marketing.

2. Don't confuse ROMI with profit

Some marketers use terms like return on investment loosely to describe financial payback. But ROI has a precise financial meaning. Only ever use terms like ROI or ROMI to describe the **ratio** of profit generated to amount invested.

3. Aim for profit, not ROMI

We all know that shareholders are constantly looking to maximise the return on their investments. Surely the whole point of the shareholder value approach to management is to maximise ROI, isn't it?

Well, yes and no. Shareholders try to maximise ROCE, not ROMI. And the way marketing can help maximise ROCE is by maximising the net profit it generates, not by maximising ROMI.

Too see how this works, look at our worked example once again. We saw that a budget of £1,150,000 generated a net profit of £207,438, implying a ROMI of 18% (rows A – C in Table 3 below).

Table 3

		Budget 1	Budget 2
A	Cost of campaign	£1,150,000	£575,000
B	Net profit generated by campaign	£207,438	£114,091
C = B ÷ A	Return on marketing investment (ROMI)	18%	20%
D	Base level of profits without marketing	£500,000	£500,000
E = B + D	Total profit	£707,438	£614,091
F	Capital invested by shareholders	£5,000,000	£5,000,000
G = E ÷ F	Return on capital employed (ROCE)	14%	12%

In addition to the profit generated by marketing, there will also be a base level of profits that would be achieved anyway, with or without marketing. Suppose that this base level of profit amounts to £500,000, taking the total profit to £707,438 (rows D and E).

If the shareholders have £5,000,000 invested in the company, then that implies a Return on Capital Employed (ROCE) of 14% (rows F and G).

Now suppose that lower budgets turn out to be slightly more efficient at generating sales. If we cut the budget in half, from £1,150,000 to £575,000, ROMI rises from 18% to 20%. And increased efficiency is a good thing, isn't it?

No. Look what happens to the other numbers. The net profit generated falls, from £207,438 to £114,091. As a result, total profits fall, from £707,438 to £614,091. And that in turn reduces the ROCE, from 14% to 12%. Cutting the budget has increased ROMI, but has also cut profits and destroyed shareholder value.

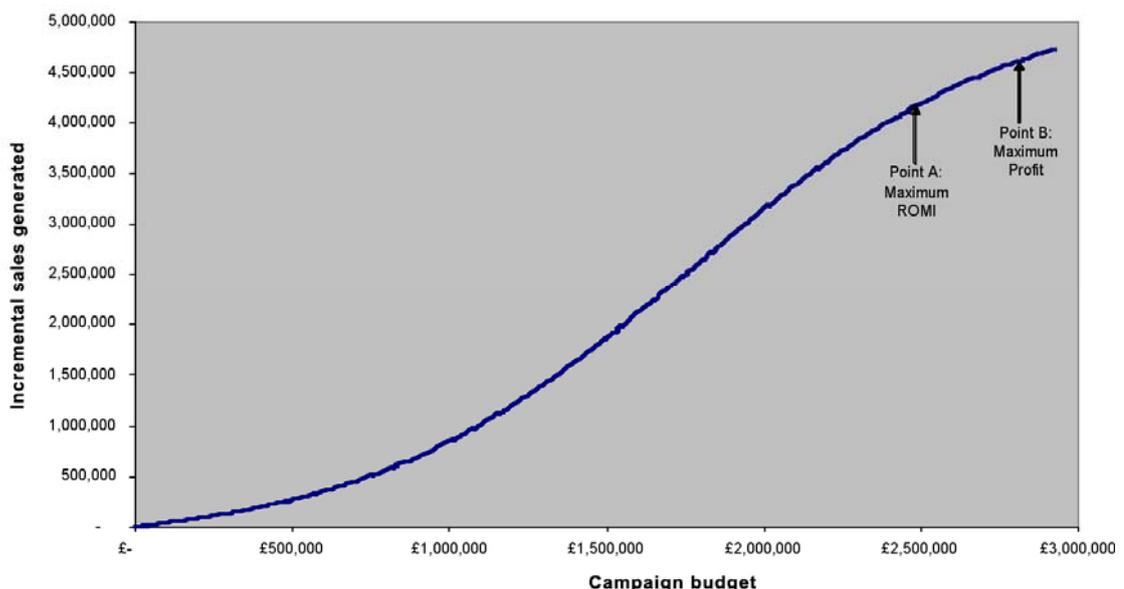
Looking at the numbers in Table 3, it's clear that the aim should be to maximise net profit, not ROMI. Net profit generated is a measure of marketing *effectiveness*, and is the ultimate KPI for marketing personnel. ROMI is a measure of marketing *efficiency*, and should only ever be of secondary importance.

To make an analogy, if net profit is like the distance a car travels, then ROMI is like the number of miles per gallon. If your aim is to travel from London to Edinburgh, what matters most is whether you make the distance. How many miles per gallon you do is a secondary consideration.

4. Don't use ROMI to set budgets

Focussing too much on ROMI and too little on profit is a recipe for financial disaster, particularly when it comes to budget setting. To understand why, look at Figure 7.

Fig 7. The effect of diminishing returns on payback



This chart shows sales respond to different budget levels. As with most such curves, there are diminishing returns. At low budget levels, the curve

is steep, so every £1 generates lots of extra sales. But at high budget levels, the curve gets flatter and extra spend delivers fewer extra sales.

So where is the optimum budget level? If we use ROMI as a guide, then we will set the budget at Point A, because that's where ROMI is at a maximum. But the optimum budget level is actually at Point B, the point of maximum profit.

This illustrates why ROMI can be a dangerous KPI, especially when it comes to budget setting. If your aim is to maximise ROMI, then the easiest way to do it is usually to cut your marketing budgets, even if this means lower sales, lower profits, lost jobs and the destruction of shareholder value.

5. Be careful when using ROMI to allocate budgets

ROMI can be a dangerous metric for setting budgets, but it can be useful for allocating them. Given a fixed pot of money, a good way to decide how to spend it is to look at the ROMI for each channel and medium. Nevertheless, there are still pitfalls.

Firstly, the ROMI for a given channel may partly reflect how much money is spent in that channel. Consider the example below. TV, which accounts for the bulk of the budget, is highly effective, delivering 24 times more profit than local radio. But radio is highly efficient, delivering a much higher ROMI. But that doesn't mean one should spend the entire £4.1m on local radio, because at that level of spend it's highly likely that diminishing returns would set in, making radio even less efficient than TV. The sensible thing to do would be to shift *some* of the money from TV to radio, and then measure ROMI again.

Table 4

Medium	TV	Radio	DM
Expenditure	£4,000,000	£100,000	£50,000
Net profit generated	£600,000	£25,000	£15,000
ROMI	15%	25%	30%

Secondly, the ROMI for one channel may depend on how much money is spent in another channel. For instance, in the example above, DM has an even higher ROMI than TV or radio. But what if the ads are driving people to respond to the direct marketing (DM)? Switching the entire budget into DM would cause ROMI to collapse. Again, the sensible thing to do is to proceed by steps, adjusting the budget allocation gradually, and re-measuring ROMI as you go.

Longer and broader effects

The basic calculation outlined above is fine for the simple marketing effects, but there are various 'longer and broader' effects that you may wish to consider.

Supporting higher prices

Rather than increasing volume, your advertising may be allowing the campaign to sell the same volume at a higher price. Measuring such effects is tricky, and may well require econometrics to measure price elasticity. However, the payback calculation is basically the same as before, except that the increase in sales value comes from higher prices.

Reducing costs

In principle, marketing might be used to reduce costs rather than increase revenue. For example, better marketing might help a manufacturer to negotiate better deals with suppliers, or to reduce the costs associated with staff recruitment and retention. Measuring such effects is hard, but the payback calculations do not change significantly, except that the incremental costs now become incremental cost savings.

Creating options

As well as increasing profits from existing products and markets, marketing may create options to launch new products or enter new markets. Little has been written on this aspect of marketing, although Dias and Ryals (2002) outline one possible approach.

Changing market expectations

Marketing affects investors as well as consumers. By improving market expectations of a product or company's future performance, marketing may increase its financial value.

Increases in the financial value of brands or in a company's share price can generate real financial returns for the owners. Measuring such effects presents an interesting challenge to the marketing community.

Reducing the cost of capital

If your campaign causes the City to re-assess your client's company, then one effect may be to reduce the cost of capital. Little research has been done on this effect, but the potential benefits for highly geared firms might be large. Measuring such an effect would be an interesting challenge for the marketing community.

References and further reading

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