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MARKETING ROI: A BIRD'S EYE VIEW

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INTRODUCTION

A strategist and Innovator at heart can never survive a pure “number” job. What is intrigued me about marketing Return on investment (ROI) was the incredible Intelligence that could be captured and applied to the strategy to improve future performance. I the marketing manager shall have a passion for driving profits. The way we measure the performance of a weekly campaign targeted to relocating households and then developed a sophisticated model for capturing the true ROI for Customer-Retention Programs. You will find marketing tools and measurement techniques that will facilitate the development of better strategies, especially CRM strategies which are typically intended to improve profitability. Marketing ROI is essentially a simple formula that can be adapted and used in many ways—when applied correctly.

The tools and techniques presented here apply to even the broadest definitions of marketing. In fact, the proper use of marketing ROI measurements is capable of comparing investment options as diverse as a direct marketing campaign, a dedicated sales force, a Retail Distribution Channel, and an Internet Marketing Campaign. Marketing ROI analysis can scale from the incremental value of a tag line on an envelope to the implementation of a multimillion-dollar enterprise CRM marketing initiative. It can be used to compare the ROI of a price reduction to a marketing initiative that includes a free offer.

The presentation of the marketing ROI concepts is intended to apply across a broad range of industries and applications. There are differences in the way marketing is measured and also differences in terminology. The underlying principles should be valid regardless of industry. One should also be note that there are limitations to the effectiveness of marketing ROI practices. One of the foundations for guiding better marketing investments is that measurements and analysis will be effective at predicting the returns on future investments. Companies that have low-quantity, high-value customers are subject to less predictability. The same applies to marketing initiatives that generate low sales volume. Measuring the value of a single speaking engagement at a conference of assigning a large team to pitch a single client over the course of a year may not be possible. The intention is to improve the measurement of the financial value of marketing investments wherever possible the Financial value recognize that other decisions will still need to be subjective or rely on nonfinancial value.

Another key assumption underlying the principles of marketing ROI is that companies will be able to obtain the data necessary to complete the ROI analyses presented. Companies do not have perfect knowledge of the financial activity surrounding marketing initiatives, but by understanding the benefits that are possible with marketing ROI techniques, it may be easier to justify the actions necessary to improve knowledge in this area. Some ROI concepts will not be effective for certain companies based on their lack of access to the right information. The goal is to identify what can be implemented in your current environment and how you can make improvements to support further implementation of the marketing ROI process.

Objectives of the Paper:

The present paper is an exploratory and descriptive one in nature. The paper is guided by the following objectives:

- I) To introduce the concept of marketing ROI and present its principles and challenges, and
- II) To measure and present the overall profitability of selected important Companies with higher Marketing ROI during 2010 to 2024.

PROFIT IS THE GOAL-- ROI IS THE MEASURE:

Shareholders expect the company to maximize profits so they can achieve the highest possible returns from their investments. The company maximizes profits by maximizing sales revenues, minimizing overhead expenses, maximizing gross margins, and managing its own investments to an appropriate level of risk and expected returns.

Let's face it, the ultimate purpose of marketing is to generate profitable sales, and it is to the benefit of shareholders, executives, and marketers to manage the budget as an investment. Consider that return on investment (ROI) is calculated for large capital expenditures and technology implementations where the profits from productivity and incremental sales are much more difficult to estimate and measure.

Companies must maximize profits over the long term and marketing investments must do the same. Goals are set by the company to provide common vision and purpose. Measurements are then aligned with the goals to track actual performance relative to the goals and to provide feedback that can help guide future decisions. While profits are necessary to stay in business and to satisfy shareholder expectations, executives must have a vision and purpose that goes beyond just profits to maintain the Company's success. Ultimately, their broad goals for quality customer satisfaction, new product development, and employee satisfaction shall all lead back to sustaining and growing long-term profits.

With profits as the goal and the marketing budget managed as an investment, ROI must emerge as the primary marketing measurement. The advanced concepts around marketing ROI can provide significant financial control to corporate executives while also empowering marketing managers. The marketing ROI process can be used to provide a subjective view of long-debated issues such as the prioritisation of retention versus acquisition marketing. Modelling criteria can be refined to drive more profitable analysis. Customer Relationship Management (CRM) strategies can be refined to improve profitability and companies that are not ready to adopt CRM can use Customer Pathing Concepts (CPC's) to manage customer profitability. The budgeting process can be streamlined and modified to truly deliver profit optimization. There will never be a better way to tap into missed profit opportunities than to move farther down the path of marketing ROI measurements.

Are We Ready for Marketing ROI?

The tide is shifting toward greater accountability and stronger measurements in the I & E of marketing. However, this trend is not being driven by marketing, where resistance still persists, or from the CEOs. Financial managers are looking more closely at how marketing budgets are being allocated. Chief Information Officers (CIOs) and Information Technology Managers, drawn into the marketing process by sales force automation, CRM technologies, and Electronic Marketing Channels (EMC's) are also increasing their involvement in marketing measurements. Overall, the typical champions for increased attention on marketing ROI tend to be senior managers who are analytical by nature, regardless of their job titles.

In 1990, Frederick Reichheld and Earl Sasser Jr. demonstrated the financial value of customer loyalty in their Harvard Business Review article that presented the frequently cite quote, "Companies can boost profits by almost 100% by retaining just 5% more of their customers." The economics of customer loyalty were subsequently detailed in Reichheld's book The Loyalty Effect. This potential to increase profits through better customer loyalty sparked the growth of CRM—a practice that is still making inroads into corporate business

models today. The insight demonstrated through Reichheld's retention model is exactly what better measures of marketing ROI offer as a guide to more profitable decision making.

Recent research shows that marketing ROI is both a priority and a challenge for most companies. In Accenture's survey of marketing executives in the United Kingdom, 68 percent reported difficulty measuring the ROI of their marketing campaigns. This was determined to be the most severe challenge faced by marketers. Lacking information on customer profitability was also listed as a top challenge." James McQuivey of Forrester Research cites a combination of company culture and access to data as a key barrier to marketing ROI measures. Consumer – product companies have significant data – availability issues based on their distance from the consumer. One of the key needs is to apply more sophisticated segmentation practices that guide channel decisions toward improvements in customer value.

The Best-Practices Report Maximizing Marketing ROI prepared by the American Productivity and Quality Centre (APQC) in conjunction with the Advertising Research Foundation (ARF) presented the following findings:

- I) The pressure is on marketing to demonstrate a quantifiable return and on CEOs to deliver value to their stockholders and business alliance partners.
- II) ROI – based marketing is sought by, more marketers.
- III) ROI process works best with ongoing programs and interdisciplinary teams.
- IV) ROI-based models encourage decision makers to challenge and revise the budgeting process.
- V) Leveraging suppliers adds competitive advantage.

Increasing the use of marketing ROI is only going to result in increased profits if the calculations are done properly. The term marketing ROI has been used to represent much more than profit generation, leading to a certain level of confusion. Yes the word return could be construed to mean every benefit the company gains from the investment, including soft measures such as awareness and customer satisfaction, but ROI is a financial term in the business world where "return" represents a financial gain. The worst abusers of the ROI term are those who present return on investment based on revenue in place of profits. A number of E-mail marketing companies offer prospective customers ROI calculators that are based on revenue, which then show positive ROI for investments that would clearly be losing money. It could be an honest mistake that resulted from confusion in the marketplace since the mistake has been repeated by reputable marketing organizations. For those companies using ROI to sell their solution, intentionally using this inaccurate ROI calculation borders on scamming the customer.

Principles of Marketing ROI:

❖ **ROI is the ultimate measure for guiding marketing investments.**

Many other measures provide tremendous insight and intelligence and are critical for making strategic and tactical marketing decisions. Decisions such as improving customer relationships and loyalty, maximizing customer lifetime value, increasing customer satisfaction, or decreasing acquisition costs cannot effectively guide each marketing investment and maximize profits without incorporating the ROI measure.

❖ **Marketing ROI is unique.** The standard ROI measure could not be simpler. It comes down to how much more money you end up with (your return) compared to what you invested. Unlike typical large capital investments, marketing investments are made up of many small investment decisions. This means that decisions are not just for selecting marketing programs but also for determining how each incremental dollar should be invested.

❖ **Marketing ROI must be a primary measure used by companies and organizations to remain competitive.** Applying these techniques to guide marketing investments and marketing strategies will benefit every organization. Each organization has a finite marketing budget and should apply these principles to generate the greatest return on its investment. Those organizations that have a greater purpose than maximizing

profits, including non-profit companies and select for-profit companies, must still pay close attention to ROI to best guide investments that will ensure financial survival.

❖ **Marketing ROI is most beneficial with executive level involvement.** The benefits of ROI analysis and planning extend to all levels of a company; however, the major impact on profits can only come with a corporate level commitment. Company executives can improve profits by using ROI in the budget allocation process. They also can set expectations, define standards, and empower their marketing team to drive the right decisions on how marketing investments are made.

Understanding the Key Challenges:-

Measuring ROI does have its challenges as confirmed by the high percentage of marketing executives reporting difficulties in the Accenture survey. The major challenges that face companies working toward more accurate and useful ROI marketing measurements are:

- ❖ **Generating reliable future value projections.** Customer behaviour is not always predictable in the fast-changing markets of today, and marketers need to make quick decisions that do not allow time for tracking actual purchase behaviours. Some companies capture only immediate purchase value for their ROI analysis. More and more companies are developing some form of CLV but that may not always align with the measure necessary for an ROI analysis of a specific marketing investment.
- ❖ **Getting access to data.** The total value generated from a marketing investment could include immediate purchases, future purchases, future customer service expenses, retention rates, and referrals. Marketing organizations do not always have access to this information, leaving gaps in the analysis
- ❖ **Standardizing measurements, values, and practices.** Corporate standards for ROI calculations, values, and practices allow for greater accuracy and consistency between marketing groups across the organization. Without corporate standards in place, each marketing group is likely to create its own version of an ROI formula that best suits its needs and success criteria, without regard for maximizing corporate profits.
- ❖ **Establishing valid control groups.** Measuring the impact of marketing campaigns on behaviours and transactions requires a control group to serve as a comparison against the pattern of behaviours without the marketing campaign. Many marketing efforts such as those broadcast in mass media make it impossible to establish valid control groups.
- ❖ **Matching results back to the appropriate marketing initiative in multichannel marketing environments.** Marketers rely on multiple contracts to generate sales, and customers rely on multiple channels for information, service and transactions. Measuring the ROI on a specific marketing investment within multichannel campaigns can be quite complex.
- ❖ **Allocating expenses.** Marketing expenses such as creative or development costs need to be captured but must not deter investment into development of new marketing programs and innovations.
- ❖ **Understanding residual value.** Those marketing investments that have an impact on the results of future marketing activities do not fit in the standard ROI measurement process. This value must be identified and understood to drive the best investment decisions.
- ❖ **Organizational barriers such as compensation structures.** The existing processes and internal culture include many barriers to the effective use of ROI measurements.
- ❖ **Total sum approach.** When calculating results, marketers tend to identify and assume profits that show up in other marketing programs or sales channels, without ensuring that those same results are not double – counted. The sum of individual campaign returns and investments should net fairly close to the total profits and budget when marketing ROI measurements are managed properly.

Organizational Barriers:-

The key organizational barriers around adopting ROI as the primary marketing measure include:

- ❖ **Rewards and recognition.** Compensation, recognition, and career advancement tend to motivate short-term gains over long-term gains and individually driven gains over collective corporate gains.
- ❖ **Lack of financial skills.** Marketing managers may be limited in their financial analysis capabilities and ROI is more sophisticated than most other marketing measures.
- ❖ **Truth in results.** Marketing manager's risk losing credit for sales that actually result from previous marketing investments.
- ❖ **Risk of hard measures.** The performance of some individuals is based more on creativity or concepts than hard measurable numbers. This is not only a threat to the company's assessment of the individual, but also a threat to the individual's flexibility to maintain creativity as his or her primary objective.
- ❖ **Budget allocation power.** Executives and senior marketing managers will rely less on nonfinancial considerations in the budget – allocation process when the majority of marketing investments are associated with a projection for ROI. The shift in budgets tends to be associated with a shift in power.
- ❖ **Fear of change.** Some of the resistance will simply be associated with the fear of the unknown.

Return on Investment (ROI) is a financial measurement. ROI analysis is used to assess and guide many different forms of corporate and personal investments. However, as mentioned in the previous chapter, ROI is frequently used incorrectly and inaccurately. Before getting into the specific ways ROI is customized for use in marketing, let's first establish a foundation of understanding around the ROI formula by starting with the very basics.

This is the ROI formula in its most basic format:

$$\text{ROI} = \frac{\text{Return} - \text{Investment}}{\text{Marketing Investment}} = \frac{\text{Gross Margin} - \text{Marketing Investment}}{\text{Marketing Investment}}$$

ROI is presented in the form of a percent so that a positive number indicates a financial gain from the investment and a negative number indicates a financial loss. When the gross margin is equal to the marketing investment, the ROI is 0 percent and the investment is considered to be breakeven.

The marketing investment includes all of the expenses that are put at risk to market the product, service, or company. The return is all of the financial gain beyond the initial investment that is attributed to that investment. It basically represents the present value of the inflow of revenues and outflow of expenses that result directly from the investment made.

Marketing ROI: The future Wave for CRM

ROI contributes to the advancement of CRM initiatives in the following ways:

- Spending limits can be established at the customer level based on projected value.
- The value of retaining incremental customers through customer-loyalty programs can be assessed and aligned with the appropriate level of investment.
- The ROI measure provides the necessary insight to balance retention and acquisition spending.
- Aggregated ROI analysis can be used to support greater integration between marketing programs using the Customer Pathing strategies.

CRM initiatives can support ROI measurements in the following ways

- Customer –based marketing strategies can be optimized by maximizing customer profitability.

- Modelling efforts to project CLV for targeting can also be used for ROI measurements.
- Marketing campaign history may be a valuable source for analysis that establishes benchmark values for select forms of marketing activities and customer behaviour.

Table No-1

INDIAN COMPANIES WITH HIGH PROFITABILITY AND HIGH MARKETING. ROI

Year	Total Income	YoY Chg(%)	PAT (₹lakh cr)	YoY Chg(%)	India GDP (₹lakh cr)	Total Income as % GDP	PAT as % of GDP
2010	38.16		3.31		63.66	59.94	5.20
2011	45.80	20.01	4.11	24.33	76.34	59.99	5.38
2012	56.82	24.06	3.92	-4.61	87.36	65.04	4.49
2013	63.36	11.52	4.15	5.85	99.44	63.72	4.17
2014	69.36	9.47	4.33	4.25	112.34	61.75	3.85
2015	71.27	2.75	4.08	-5.71	124.68	57.17	3.27
2016	69.90	-1.93	3.76	-7.94	137.72	50.76	2.73
2017	75.02	7.33	4.53	20.60	153.92	48.74	2.94
2018	83.81	11.71	4.07	-10.15	170.90	49.04	2.38
2019	91.79	9.53	4.55	11.80	189.00	48.57	2.41
2020	90.49	-1.42	3.56	-21.81	201.04	45.01	1.77
2021	88.32	-2.40	6.22	74.87	198.54	44.48	3.13
2022	118.91	34.64	9.97	60.19	235.97	50.39	4.23
2023	145.72	22.55	10.94	9.71	269.50	54.07	4.06
2024	156.99	7.73	13.95	27.50	295.36	53.15	7.72

Source: FORTUNE INDIA RESEARCH, CAPITALINE, NITI AAYOG

THE ELITE CLUB

Despite a near 46% depreciation in the rupee since 2010, this year's Fortune 500 India listing has the highest number of billion-dollar companies both in terms of total income, profits and High Marketing ROI.

Table No- 2

The Elite club of Companies Profitability from 2010-2024

Year	Total Income (Billionaire Count)	\$bn	Profit/loss (Billionaire Count)	\$bn	USD/INR
2010	159	694	14	30	44.90
2011	192	867	24	44	44.60
2012	198	959	19	37	50.85
2013	200	1009	18	37	54.27
2014	191	997	21	40	59.95
2015	191	983	17	34	62.49
2016	193	900	18	34	66.26
2017	195	996	20	39	64.86
2018	211	1127	23	46	65.18
2019	215	1172	21	45	69.14

2020	189	1044	17	37	75.60
2021	194	1047	24	54	73.12
2022	233	1410	31	83	75.75
2023	262	1614	35	84	82.21
2024	283	1734	37	107	83.39

Note: Rupee value as on the last working day of March for the respective financial year

Table No-3

TOP 20 FOREIGN EXCHANGE EARNERS WITH HIGH PROFITABILITY & MARKETING ROI:

Company	Sector	FY 24	FY 14	CAGR %
		Earnings in forex (₹Crore)		
Reliance industries	Refineries	2,88,572	2,61,366	1
Tata consultancy Services	IT- Software	1,93,252	62,261	11.99
Infosys	IT- Software	1,25,794	43,157	11.29
Wipro	IT- Software	63,181	32,434	6.90
Vedanta	Mining & Mineral Product	45,539	12,695	13.63
HCL Technologies	IT- Software	44,927	11,381	14.72
Indian Oil corporation	Refineries	40,512	21,608	6.49
Tech Mahindra	IT- Software	39,360	15,556	9.73
LTIMindtree	IT- Software	32,540	4,416	22.11
Mangalore Refinery And Petrochemical	Refineries	32,519	33,952	-0.43
Maruti Suzuki India	Automobile	18,475	4,142	16.13
Hindalco Industries	Non Ferrous Metals	18,018	8,496	7.81
JSW Steel	Steel	15,184	8,496	6.25
Dr Reddy's Laboratories	Pharmaceuticals	14,670	7,601	6.80
Sun Pharmaceutical Industries	Pharmaceuticals	14,268	2,317	19.94
Bajaj Auto	Automobile	14,253	7,964	5.99
GAIL (India)	Gas distribution	14,017	210	52.21
Bharat Petroleum Corporation	Refineries	13,012	19,122	-3.78
Interglobe Aviation	Air Transport Service	10,349	946	27.03
Aurobindo Pharma	Pharmaceuticals	9,829	5,342	6.29

Source: Capitaline

CONCLUSIONS:

The best Valuation Need Not Be the Highest:

1. Consultant Companies keep doing deals and according to me, when there is a slowdown in capital, it is actually a better time to invest. Slowdowns are good. It's a part of the business cycle. And start-up investing is done with a 10-12 year time horizon. When you invest in a start-up, you don't look at what the current environment is. You look at what the prospects of the company are, how good the founders are.
2. Betting on the founder means how committed they are, how capable they are, can they stay the course? When the company grows from 10 to 5,000 people, can they handle large teams? Can they attract enough talent? As a start-up typically has multiple founders, do they bring complementary skillsets to the table? Same is the case with profits and Marketing ROI.

People have seen enough ups and downs in the recent past. I think at least for the next few years, people will be more prudent and cautious. It will take some time for the momentum to build up to the point where it was in 2021. I don't think that it will come back immediately. It happens commonly in Marketing ROI.

A little bit of extra cash in the bank never hurts in uncertain times. We must also realize that the best valuation is not necessarily the highest valuation. When you raise money at a very high valuation. The investor comes with rights and has expectations.

3. I'd love to say India should build large language models. The truth is that the kind of computer power that you need to build foundational AI technologies is very large. That becomes a challenge. But India is rich in data. So, the question is what can we do with our data? Info Edge has been investing in AI start-ups. The Marketing ROI shall also increase.
4. The basic purpose of a business is to earn a profit. It's just that investors would earlier say, it's okay to make profit after five years or seven years. Now, the question is can you make profit in three years? So, the timeline has been unit economics. I think it will remain so for the next few years at least. This needs to be applied in the measurement of ROI. In companies, while measuring the ROI, each situation is unique. I can speak of the companies that we have invested in – Zomato and Policybazaar – which went public. Yes, there was an ESOP (Employee Stock Ownership Plan) award to the founders and we supported it. We would not support a dilution of our own shareholding unless we believe it is for the good of the company.
5. In a competitive environment, founders had raised a lot of money and so their shareholding had been diluted to a point where we felt it was going to be a risk for all shareholders if the founders didn't have more skin in the game. As a result, the overall ROI of the Company will decline thereby affecting the marketing ROI.

SUGGESTION:

With this back drop, it is suggested that the Companies shall not only aim for overall profitability, Cost Control and Cost Reduction but also aim for the possibly higher marketing ROI in each and every financial year.

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