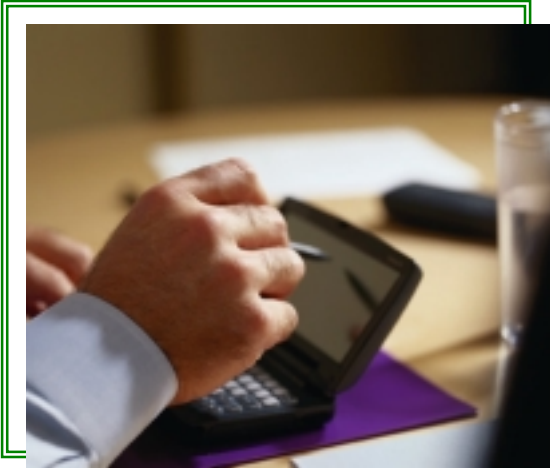


Test Your Marketing ROI Skills

Marketing ROI Quiz – Part I



This Marketing ROI Quiz - Part 1 features five questions which cover some basic principles of marketing ROI processes for managing campaign profitability and customer profitability.

1. Complete the 5-question quiz presented here.
2. Register at www.lenskold.com for an ID and password.
3. Get the Answer Guide complete with explanations at www.lenskold.com/leadership/quiz.

Question 1

You have a marketing program that has a total cost of \$500,000. The program generates \$1 million in incremental revenue for the company (which is received immediately by the company). The fully loaded cost of goods is 75% and the ROI threshold is 25%. What is the return on investment (ROI)?

- A. 200%
- B. 100%
- C. 50%
- D. -50%

Question 2

A market test is completed comparing the results of two possible marketing campaigns intended to reach a specific target audience. The ROI threshold is 25%. Campaign A is a direct mail program that includes a premium within the package to motivate high open rate and response (let's assume it is a pen that cost an incremental \$2 per prospect). Campaign B is an identical direct mail program that offers a high value premium for customers making the purchase (let's assume it is a \$20 gift certificate that will cost an additional \$5 to fulfill).

The company can only implement one of the two marketing campaigns on a full scale and will decide this based on the market test. Which campaign offers the bests ROI based on the following information and results from the market test?

	<u>Campaign A</u>	<u>Campaign B</u>
Fully loaded expense for the direct mail marketing program	\$400,000	\$400,000
Incremental cost of pen offer (\$2 * 50,000 prospects)	\$100,000	
# of Sales	4,000	4,000
Incremental cost of gift certificate (\$25 per sale * 4,000 closed sales)		\$100,000
Total Revenue (\$500 per sale, all paid immediately)	\$2,000,000	\$2,000,000
Cost of Goods (65%)	\$1,300,000	\$1,300,000

- A. Campaign A
- B. Campaign B
- C. Either campaign, no difference
- D. Neither campaign, ROI threshold not met

Question 3

A direct mail campaign is tested with and without additional print advertising directed to the same target audience. The print advertising has a measurable improvement on sales. The company has set an ROI threshold of 25%. The following projections are made based on the test results.

	DM Campaign <u>Only</u>	DM Campaign with Print <u>Advertising</u>
Cost of DM Campaign	\$435,000	\$435,000
Cost of Print Advertising		\$277,500
Total Investment	\$435,000	\$712,500
Number of Prospects	750,000	750,000
Sales Rate	1.0%	1.6%
Number of Sales	7,500	12,000
Average Cost Per Sale	\$58.00	\$59.38
Average Gross Margin per Sale	\$75	\$75
Total Gross Margin	\$562,500	\$900,000
Return = Gross Margin – Marketing Investment	\$127,500	\$187,500
ROI = Return / Investment	29.3%	26.3%

What investment should the company make?

- A. Invest in the DM Campaign without the additional print advertising
- B. Invest in the DM Campaign with the additional print advertising
- C. Invest in neither
- D. Invest in the DM Campaign and a portion of the print advertising

Question 4

The acquisition marketing team in a large marketing organization completes a market test using a benefit-oriented offer against a price-discount offer. The results show that even though the customer value decreases with the price discount offer, the response rate increases enough to generate a significantly higher ROI. Using the market test results, the following projections are calculated for a rollout to 1 million prospects.

	Benefits Oriented Offer	Price Discount Offer
Target	1,000,000	1,000,000
Response	2%	3%
Closed Sales	20,000	30,000
Customer Value	\$ 27	\$ 20
Gross Margin	\$ 540,000	\$ 600,000
Cost	\$ 425,000	\$ 425,000
ROI	27.1%	41.2%

Another marketing team responsible for a cross-selling campaign shortly after new customer acquisition analyzes their effectiveness to the customer segments brought in from the acquisition group's market test. They have little success cross-selling to customers brought in through the price-discount offer, believing these may not be the right profile of customers. They also prepare rollout projections to assess their decisions.

	Campaign to Benefits Responders	Campaign to Price Discount Responders
Target	20,000	30,000
Response	11%	4.50%
Closed Sales	2,200	1,350
Customer Value	\$ 350	\$ 350
Gross Margin	\$ 770,000	\$ 472,500
Cost	\$ 450,000	\$ 450,000
ROI	71.1%	5.0%

The ROI threshold for this company is 30%. What campaigns should be funded?

- A. Price discount offer only
- B. Price discount offer with the cross-sell campaign
- C. Benefits oriented offer with the cross-sell campaign
- D. None, ROI threshold cannot be met

Question 5

Using information similar to that in question four, we are looking at a specific customer segment and determining the ideal stream of communications. The marketing group has already established an acquisition campaign and a cross-sell campaign (Cross-Sell Campaign X) that when combined, meet the ROI threshold. The projections for the two campaigns integrated are as follows:

	Acquisition Campaign	Cross-Sell Campaign X	Aggregated ROI
Target	1,000,000	20,000	
Response	2%	11%	
Closed Sales	20,000	2,200	
Customer Value	27	350	
Gross Margin	540,000	770,000	1,310,000
Investment	425,000	450,000	875,000
ROI	27.1%	71.1%	49.7%

The marketing group has tested two new cross-sell campaigns that can be targeted to this customer segment immediately following the customer acquisition and preceding Cross-Sell Campaign X. The options exist to execute either one or both campaigns.

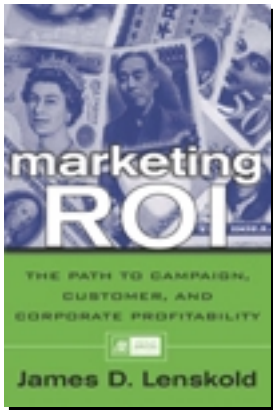
These campaigns are market tested and the ROI analysis at the customer level shows that Campaign B has an adverse impact on sales in Campaign X, dropping the sales rate by 10%. The results are shown for each possible scenario (see Table on the following page).

So which series of campaigns offer the best profit potential?

- A. Base Scenario with no new cross-sell campaigns
- B. Base + Campaign B only
- C. Base + Campaign C only
- D. Base + Campaign B and Campaign C

Table 1: ROI analysis for each campaign scenario.

	Acquisition Campaign	Cross-Sell Campaign B	Cross-Sell Campaign C	Cross-Sell Campaign X	Aggregated ROI
Base Scenario					
Target	1,000,000			20,000	
Response	2%			11%	
Closed Sales	20,000			2,200	
Customer Value	27			350	
Gross Margin	540,000			770,000	1,310,000
Investment	425,000			450,000	875,000
ROI	27.1%			71.1%	49.7%
Base + Campaign B only					
Target	1,000,000	20,000		20,000	
Response	2%	3.0%		10%	
Closed Sales	20,000	600		1,980	
Customer Value	27	500		350	
Gross Margin	540,000	300,000		693,000	1,533,000
Investment	425,000	200,000		450,000	1,075,000
ROI	27.1%	50.0%		54.0%	42.6%
Base + Campaign C only					
Target	1,000,000		20,000	20,000	
Response	2%		2.7%	11.0%	
Closed Sales	20,000		540	2,200	
Customer Value	27		500	350	
Gross Margin	540,000		270,000	770,000	1,580,000
Investment	425,000		200,000	450,000	1,075,000
ROI	27.1%		35.0%	71.1%	47.0%
Base + Campaign B and Campaign C					
Target	1,000,000	20,000	20,000	20,000	
Response	2%	3.0%	2.7%	10%	
Closed Sales	20,000	600	540	1,980	
Customer Value	27	500	500	350	
Gross Margin	540,000	300,000	270,000	693,000	1,803,000
Investment	425,000	200,000	200,000	450,000	1,275,000
ROI	27.1%	50.0%	35.0%	54.0%	41.4%



Marketing ROI

The Path to Campaign, Customer, and Corporate Profitability

By James D. Lenskold

Marketing ROI presents an idea whose time has come. The idea? That marketing is an integral part of driving an organization's profitability by generating sales growth from high value customers and trimming costs from ineffective channels. It is reasonable--in fact, beneficial--for executives to expect a measurable return on investment, just as they expect returns on capital, technology and other essential expenditures.

Built around a straightforward formula that can be adapted and implemented to match each organization's own operational and financial requirements, *Marketing ROI* presents tools, techniques and methodologies for strategically maximizing profits at the campaign, customer and corporate level.

Return on investment (ROI) is today's key business tool for measuring how effectively a company uses its assets--yet few marketing organizations have the capabilities and knowledge to effectively manage their budgets with financial intelligence. *Marketing ROI* changes that, showing marketing practitioners and corporate executives how to employ marketing ROI processes and tools to quantify their organizations' strategic marketing decisions and maximum the incremental profits generated by each dollar invested in their marketing programs.

Traditional marketing budgeting and measurements are not keeping pace with the science, technology and expectations of today's corporations. *Marketing ROI* removes the veil of mystery around the financial dynamics of marketing and maps out the path to profitability.



AMERICAN **MARKETING** ASSOCIATION

"Lenskold 's approach to Marketing ROI takes out all the mystery, hocus-pocus and smoke and mirrors that so often surrounds this critical subject. His blend of financial acumen and marketing knowledge, combined with a clear, clean writing style can clarify and lead any manager to the oft-sought, but seldom achieved land of understanding just how marketing works and what returns can and are being generated for the firm."

Don E. Schultz

Author, consultant, and professor of Integrated Marketing Communications at Northwestern University

About the Lenskold Group

The Lenskold Group has surpassed traditional mind-sets and methods to develop the most comprehensive and innovative process to plan, measure, and optimize marketing strategies toward maximum profitability. The Lenskold Group has delivered high-quality consulting and marketing services to generate profitable growth for a broad range of client companies since 1997. Our team of accomplished professionals and our strong network of partners provide cohesive and comprehensive solutions.

Our combined marketing ROI and strategic consulting services guide marketing investments toward maximum profitability.

Call now for more information.



Learn more about our strategic consulting, marketing management, and marketing ROI services by visiting www.lenskold.com or calling 732-223-8886.

No portion of this quiz or material can be used without expressed written permission from the Lenskold Group. Please contact us at 732-223-8886 for reprint information, workshops and consulting services.