How to Calculate ROI

With Paul Weyland

Why is this calculation so important?

- It makes advertising look like less of a gamble and more of a good, calculated risk.
- It gives you ammunition for justifying higher rates.
- It rationalizes a much larger budget for your station.
- It's done in a language the client actually understands.
- It usually kills the client's objection, "Cancel my advertising. It's not working," by managing the client's possibly unreal expectations about advertising results.
- It gives you another great way to get an appointment with a decision maker.

What do I need to calculate ROI for my clients?

- The client’s average sale
- The client’s gross margin of profit (GMP)
- Your CUME number (NOT households).

Definitions

- What is “Average Sale?” To calculate average sale, the client simply adds up all of the revenue he/she takes in in the course of a normal sales day and then divides that number by the number of people who bought.

- What is Gross Margin of Profit?” Gross margin of profit is what’s left over after the client discounts either the cost of materials or labor. Not both. Whichever is higher. GMP does NOT include cost of utilities, rent, taxes, maintenance, etc. That would be NET profit.

Example of an ROI calculation-Situation

- Client is an expensive men’s clothier.
- Client calls in and says he’s tried broadcast before but he’s skeptical because last time he says “It didn’t work.”
- Client is willing to spend only $1,000 in one week.
- Station reaches 100,000 people per week.
- Station’s average rate is $150.

Example of ROI calculation-Objective

- To determine how client came up with his budget.
- To determine why last campaign “didn’t work.”
- To manage client’s expectations about results based on facts, not client’s opinion.
- To get client to increase budget.

Example of ROI calculation-Strategy

- Use real numbers to show client that instead of “gambling,” using your station is actually a good, calculated risk.
- To use a chart to manage the client’s expectations about results.
- To come up with a reasonable goal for your campaign.
- To get the client to spend more money based on reasonable expectations about results.

How to Make an ROI Chart

Client's Budget-$1,000 Your station's CUME 100,000

Client's average sale $800

Client's gross margin 50%

How many new customers spending $800 client believes it would take to break even on campaign-80 or 90 HUH? Where did that number come from? Based on our numbers the client would only need 2.5 new customers.

What if only 1 percent of our audience responded to a great spot run enough times to reach out to the people most likely to want to buy from client?

- 1%=1,000. Probably won’t happen. Client isn’t giving anything away in his commercial.
- ½ of 1 percent=500 people each spending a average of $800.
- ¼ of 1 percent =250
- 1/8 of 1 percent=125
- 1/16 of 1 percent=63
- 1/32 of 1%=32
- 1/64 of 1%=16
- 1/128 of 1%=8
- 1/256 of 1%=4
- 1/512 of 1%=2

What was our magic number? 3! That’s a long way from 80-90.

So if somewhere between 1/256th of 1 percent and 1/512th of 1 percent of our audience responds and spends an average of $800, the client breaks even.

Client’s expectations

- I asked client, “Instead of going after 3, let’s go after 12 customers.
- Client says he’ll go after 9, tripling his own budget.
- 15 people responded, spending an average of $800. Client is elated.

But…what would have happened if we hadn’t had this discussion?

Client would have been disappointed in results, saying the campaign “didn’t work .”

And based on what? An unsupported, artificial expectation of 80-90 instead of 3.

- Without ROI calculation you are blind. And you'll get blindsided, with no defensive strategy when a client cancels because it "didn't work."
- With ROI you manage client's expectations about results.
- With ROI you can justify a larger budget.
- With ROI you make advertising with you seem MUCH, MUCH LESS RISKY.
- With ROI calculation you separate yourself from all other media reps because you look like you know something the others don't.

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