Marketing and finance perceptions of return on marketing investment in South Africa

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ABSTRACT

This research report investigates the finance and marketing perceptions of return on marketing investment (ROMI) in South Africa. Traditionally, at many organisations, marketing budgets have been determined using arbitrary measures. In addition, the effectiveness of the marketing department is often gauged on ‘soft’ metrics such as customer loyalty and satisfaction without any financial evidence to prove its value to the business. Due to these reasons in the current economic turmoil many marketing budgets have been cut significantly by CEOs and CFOs of organisations. This has led to calls throughout the business environment for greater marketing accountability with ROMI being touted as one possibly method of increasing this accountability and measuring marketing’s contribution to shareholder value.

This research report investigates the current practice of measuring the effectiveness of the marketing department; and identifying the challenges and potential benefits of using return on marketing investment (ROMI) as a metric to measure this effectiveness, based on the various different perceptions of marketing and finance executives.

Interviews comprising open-ended questions of a structured and semi-structured format were used to obtain the insights and perceptions of marketing and finance executives. Ten respondents from each population were interviewed at length regarding their perceptions of this contentious topic.

From the research conducted it became apparent that companies in South Africa do not measure ROMI as defined but use a mixture of short-term quantitative metrics and longer term qualitative metrics to measure the effectiveness of the marketing department. In addition most of the respondents did not use any one method consistently. There appears to be significant

confusion regarding measuring marketing’s effectiveness in general and ROMI specifically. Whilst there are numerous benefits associated with measuring marketing via ROMI the obstacles surrounding its wide-spread adoption are significant.

The results of the research discovered some interesting findings particularly regarding the differences and similarities in the perceptions of marketing and finance executives. In many instances both parties actually have similar views, however it is clear that better financial education of marketing executives and improved inter-department communication are key to successfully align these two (often warring) departments.

It is clear that ROMI in South Africa is not the ‘silver metric’ some academics refer to it as, but something that can be rather used in combination with other metrics provided the process and method of calculation is simplified considerably.

DECLARATION

I, Kevin Sean Backhouse, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Kevin Sean Backhouse

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2012

DEDICATION

This research report is dedicated to the memory of the grandfather Laurie Backhouse who would have been immensely proud of my achievements and who always supported me whole-heartedly in everything I ever did. He will forever remain my source of inspiration and ethical compass during challenging times.

ACKNOWLEDGEMENTS

- Geoff Bick for invaluable advice, time and effort throughout this research report. His encouragement was sometimes the difference between packing it all in and soldiering through. I am truly grateful for his significant contribution.
- My amazing friends and family whose patience, support and humour throughout my MBA and in general gives me the strength to fight for what I believe in and persist throughout the most difficult times
- Most importantly the respondents who gave up their time to be interviewed about a topic that scares the living daylights out of both finance and marketing executives. Without your assistance this research report would not exist. Your insights were both eye-opening and provided me with access to some of the brightest and knowledgeable business minds.

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1 INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to determine the current practice of measuring the effectiveness of the marketing department; and to identify the challenges and potential benefits of using return on marketing investment (ROMI) as a metric to measure this effectiveness, based on the various different perceptions of marketing and finance executives.

1.2 Context of the study

Whilst many businesses understand the importance of marketing, many members of senior management, and definitely the Chief Financial Officers (CFO), question the precise impact marketing has on turnover and the value of the company (Patterson, 2007). Marketing budgets are often calculated by crude methods such as percentage of turnover without being able to provide justification for this basis. To make matters worse often no upfront quantitative objectives are set which makes it impossible to test the effectiveness of each campaign.

This has resulted in a call throughout the business community for greater accountability of the marketing function and the need for this vital part of the business to be able to be able to link their campaigns and contributions to the success of the business as measured by return on investment (Ambler & Roberts, 2006; Ashill, 2007; Greenyer, 2006; Patterson, 2007; Pauwels et al., 2009; R. Rust, Lemon, & Zeithaml, 2004; Seggie, Cavusgil, & Phelan, 2007)

During the current recession, discretionary expenses were cut-back to a bare minimum, which, in many cases, resulted in many marketing budgets being slashed and gutted (Stewart, 2009). There have been many studies on calculating return on marketing investment (Ambler & Roberts, 2006, 2008; Ashill, 2007; Gupta & Lehmann, 2006; Lenskold, 2002, 2003, 2004, 2010; Peppers & Rogers, 2006; Seggie et al., 2007; Srinivasan & Hanssens, 2009) yet no consensus has ever been reached between the financial and marketing worlds. The difficulty is that these calculations are often based on assumptions that are incredibly difficult, if not impossible, to justify with hard facts.

And here is where the problem lies: how can you calculate the effect of marketing when the subject itself is a mixture of art and science (Seggie et al., 2007). Until this business problem is answered marketing will always be vulnerable to the wrath of the CFO when it comes to cutting expenses in tough times, even though it may be one of the most important intangible value creating 'assets' of any business.

This research investigates the various methods used to calculate return on marketing investment and determines whether these are actually utilised in today's corporate environment.

1.3 Problem statement

1.3.1 *Main problem*

Identify the current perceptions of measuring the return on marketing investment/effectiveness of the marketing department and determine the practical difficulties and potential benefits of calculating the return on marketing investment (ROMI).

1.3.2 *Sub-problem 1*

The first sub-problem is to investigate the current practices of measuring ROMI/the effectiveness of the marketing department.

1.3.3 *Sub-problem 2*

The second sub problem is to evaluate the perceived challenges experienced in practice in implementing ROMI as a measurement tool.

1.3.4 *Sub-problem 2*

The final sub problem is to determine the potential benefits of implementing ROMI as a measurement tool.

1.4 Significance of the study

The study fills a gap in that whilst there has been much literature on this subject, to date there has been no universally agreed upon method to measure the financial performance of marketing campaigns, whether short term or long term in nature (Gronholdt & Martensen, 2006; Peppers & Rogers, 2006; R. Rust et al., 2004; Srinivasan & Hanssens, 2009).

This study provides practical guidance on evaluating the performance of marketing's contribution from a financial perspective using return on marketing investment. Marketing function heads, CFOs, CEOs and financial analysts alike should be able to take cognisance of these methods and applying them to effectively measure the relative success or failure of any marketing campaign or function which results in increased return on marketing investment which again results in an increase in shareholder value.

Many of the previous literature on the subject discusses the importance of being able to measure return on marketing investment as it brings more accountability on what for many companies is a substantial expense line item in their income statements (Greenyer, 2006; R. Rust et al., 2004; Stewart, 2009). However there is a gap in existing literature from a practical perspective which has resulted in many companies being unable to accurately measure the return on their marketing spends. The marketing function has historically had the weakest system of tracking performance yet is frequently given the largest budget (Stewart, 2008). Current literature also focuses on the theory of ROMI without understanding the practical difficulties of calculating ROMI and does not specifically look into reasons why ROMI has not been adopted as a widespread marketing metric. This research attempts to close this gap.

1.5 Delimitations of the study

This study investigates the most common measures of return on marketing investment and does not consider any financial modelling theory that underpins the various calculations of ROMI.

1.6 Definition of terms

Brand equity (BE) – the added value provided to products and services over and above the inherent value of the products and services (Kotler & Keller, 2003)

Brand value (BV) – the present value of the future net cash flows associated with a brand (Abratt & Bick, 2003)

CEO - Chief Executive Officer

CFO – Chief Financial Officer

Customer lifetime value (CLTV) – the present value of the future net cash flows over the lifetime of the customer (Berger & Nasr, 1998)

Discount rate – the appropriate rate at which the future cash flows are discounted at. This rate reflects the associated risk and reward expected, and is usually represented by the weighted average cost of capital of the organisation (Correira, Flynn, Uliana, & Wormald, 2000)

Marketing accountability – "The responsibility for the systematic managements of marketing resources and processes to achieve measurable gains in return on marketing investment and increased Marketing efficiency, while maintaining quality and increasing the value of the corporation" (American Marketing Association, 2005)

Net present value (NPV) – discounting estimated future cash flows at an appropriate discount rate and subtracting the cost of any upfront investment required (Correira et al., 2000)

Return on Customer (ROC) – the rate at which an organisation can create value from any customer (Peppers & Rogers, 2006)

Return on marketing investment (ROMI) – net present value of future cash flows associated with the marketing investment divided by the initial investment in marketing (Ashill, 2007)

Weighted average cost of capital (WACC) - A calculation of an organisation's cost of capital in which each category of capital is proportionately weighted. All capital sources - shares, preference shares, long term loans, bonds and any other long-term debt - are included in a WACC calculation (Correira et al., 2000; Investopedia, 2011). C*eteris paribus*, the WACC of an organisation increases as the beta (which reflects risk) and rate of return on equity increases. The WACC equation is the sum of cost of each capital type multiplied by its proportional weight:

$$WACC = \frac{E}{V} * Re + \frac{D}{V} * Rd * (1 - Tc)$$

Where:

R_e = cost of equity

R_d = cost of debt

E = market value of the firm's equity

D = market value of the firm's debt

V = E + D

E/V = percentage of financing that is equity

D/V = percentage of financing that is debt

T_c = corporate tax rate (Correira et al., 2000; Investopedia, 2011)

1.7 Assumptions

The following assumptions have been made regarding the study:

- The respondents selected have sufficient knowledge of marketing measurement to be able to articulate the answers to the questions posed. If this is not the case the reliability of the data from the sample would be questionable and other inferences made would therefore also be tainted

- It is indeed possible to objectively and practically determine the return on marketing investment from a practical perspective. Based on the widespread financial models to calculate the return on investment of listed companies (which is a similar calculation to return on marketing investment) it is reasonable this assumption holds true. This is currently where the literature is lacking and is therefore crucial for the positive outcome of this research. If this assumption does not hold true this research does not have the ability to provide any new knowledge from a business perspective other than that it is impossible to objectively and practically determine the return on marketing investment.

- It is possible for marketers to determine the objectives for each and every campaign from a financial perspective. If this is not the case then evaluating the performance after the fact is meaningless. Marketers need to measure the outcomes against a pre-determined desired outcome in order to reach any sort of meaningful conclusion.

2 LITERATURE REVIEW

2.1 Introduction

The first part of this literature review identifies and examines the most common methods of calculating ROMI in academia - Return on Customer utilising the return on the customer lifetime value of an organisation (Gupta & Lehmann, 2006; Peppers & Rogers, 2006), Return on Brand Equity which uses Brand Equity to determine ROMI (Abratt & Bick, 2003) and a broad calculation of Return on Marketing Investment of Expenditure (Ashill, 2007; Seggie et al., 2007). This will also include an analysis on the drivers behind each of these methods.

The second section of the literature review moves onto the various criticisms of each method in order to present a complete view of the most popular measures of ROMI.

The literature review concludes with an overview of the various methods, and the research questions derived from the prior research and literature.

2.2 Background discussion

Throughout the business community there has been increasing frustration and criticism on the lack of marketing's accountability from a financial perspective (Greenyer, 2006; Gronholdt & Martensen, 2006; Gupta & Lehmann, 2006; Patterson, 2007; Stewart, 2009). This has, in turn, lead to significant literature written about the various different methods of calculating ROMI in order to measure the performance and effectiveness of marketing as well as to guide the business regarding decision on marketing mix and campaign choice (Gronholdt & Martensen, 2006).

Whilst this measurement is relatively universally accepted there are of course limitations and problems in calculating the ROMI which will be reviewed. As the various methods of calculating ROMI are intrinsically financial calculations it is important to be able to identify the drivers of ROMI which, in some instances, are not even under the influence of the marketing function (Ambler & Roberts, 2006). This literature review will also cover this problem.

However at the same time there has also been criticism of using ROMI as the only measure of marketing's effectiveness. One of the leading critiques on this is Ambler who describes this phenomenon as "the silver metric" (Ambler & Roberts, 2006, 2008) and encourages using this in combination with other financial and non-financial metrics in order to provide a holistic view of the marketing function. There are also practical difficulties in calculating these ROMIs which will be examined in detail.

Another criticism extends to the relative long term nature of the ROMI whilst in practise it is important for all organisations to balance the trade-off of short term performance and survival with the long term returns required by shareholders (Ambler & Roberts, 2006).

All of these aspects will be discussed in the literature review below.

2.3 Definition of ROMI

It is important to define ROMI explicitly as it has become a catch phrase in marketing circles in recent times (Ambler & Roberts, 2008). The problem is that whilst there is a positive move towards greater marketing accountability there is a general lack of common understanding within the industry. In fact in 2005 the United States of America Marketing Association identified six return on investment metrics that were commonly used (American Marketing Association, 2005):

1. Change in sales revenue
2. Ratio of cost to revenue
3. Cost per sales generated
4. Incremental financial value of sales generated
5. Cost of acquiring new customers
6. Cost of retaining an existing customer

The problem with each of these metrics is that none of them actually is ROMI. This further complicates the playing field and provides impetus for the constant challenge of accountability from the CEO and CFO of organisations on the marketing function. Without having a common standard of ROMI it is impossible for this so called ‘silver metric’ to ever obtain any notion of respectability as a global measure (or even as one of the measures) of marketing performance (Patterson, 2007; R. Rust et al., 2004; Smith & Dikolli, 1995; Stewart, 2008, 2009).

ROMI in general is defined as the incremental change in the Net Present Value (NPV) of the future cash flows associated with the initial marketing investment divided by either the initial marketing investment or NPV of the future cash flows from the previous period (American Marketing Association, 2005; Greenyer, 2006;

R. Rust et al., 2004; Srinivasan & Hanssens, 2009). It is therefore a financial metric that is driven by various non-financial marketing measures as well as a limited number of financial measures. ROMI therefore encounters significant accessibility problems as it is inherently a technical financial measure (Ambler & Roberts, 2006).

2.3.1 *Why ROMI is required as a metric*

In the modern era everything gets reported on in a financial sense – shareholders review share prices which are influenced by the inherent value of the organisation which in turn is influenced by the relative performance of the organisation and its industry (Correira et al., 2000; Stewart, 2008). It therefore becomes important for marketing to become accountable on its performance from a financial perspective. ROMI also mirrors commonly used financial analysis tools used by the financial community – Return on Investment and Return on Equity.

It is also vital to use a standard the financial community and shareholders are familiar with. ROMI is useful therefore as it takes into account risk (by virtue of using a discount rate (which is usually the WACC), return and the time value of money (by present valuing the estimated future cash flows).

ROMI can also be a useful decision making tool advising the marketing function which campaigns and marketing mix worked and did not work. Although backward looking, this can improve decision making and ROMI on each subsequent campaign (Ambler & Roberts, 2008; Ashill, 2007; Blattberg & Deighton, 1996; Corstjens & Merrihue, 2003; Dias, Pihlens, & Ricci, 2002).

2.4 Identification and examination of most popular methods of calculating ROMI

There have been many articles written about ROMI however the most common methods are as follows:

- Generalised Return on Marketing investment or expenditure which can be used to measure the return on specific projects (Ashill, 2007; Seggie et al., 2007).

- Return on Customer Lifetime Value (CLTV) (Berger & Nasr, 1998; Gupta & Lehmann, 2006; R. Rust et al., 2004)

- Return on Customer (ROC) utilising the return on the customer lifetime value of an organisation (Gupta & Lehmann, 2006; Peppers & Rogers, 2006)

- Return on Brand Equity which uses Brand Equity to determine ROMI (Abratt & Bick, 2003)

These methods are discussed in detail with specific focus on how marketers (and other users) can manipulate the outcome.

2.4.1 *Generalised Return on Marketing Investment*

Each of the subsequent methods is a derivation of this generalised return on marketing investment and therefore shares many similarities with this simplest form of calculating ROMI (Lenskold, 2002, 2003, 2004).

This central method of calculating the return on marketing investment is calculated as follows:

$$ROMI = \frac{\sum PV\ future\ net\ cash\ flows}{Marketing\ investment\ and\ expense}$$

(Lenskold, 2002)

If the ROMI is greater than an agreed hurdle rate (usually the WACC) then the campaign or investment is financially viable.

One problem with this apparently simple calculation relates to the NPV section of the calculation.

NPV has already been defined as the present value of the future cash flows. The first step is to therefore estimate the cash flows associated with the marketing spend. This process would use existing data in order to assist in the determination of what cash flows would be expected to flow from the marketing investment. Assuming the organisation has such historical information available would assist with these assumptions however this process is as best described as looking into a crystal ball as it is relatively impossible to determine the cash flows that will flow into the organisation in say two months' time (Ambler & Roberts, 2006).

The next requirement would be to present value these cash flows back to the time of the initial investment. For short campaigns this process is relatively easy, however for campaigns lasting years this process becomes more difficult. This process is done in order to take into account the time value of money and ensure all cash flows are equivalent (Correira et al., 2000). An appropriate discount rate is used in order to present value these estimated future cash flows.

This rate is required to take into account the inherent riskiness of the marketing spend. C*eteris paribus* the greater the risk, the greater the return required and therefore the greater the discount rate used (Correira et al., 2000; Gupta & Lehmann, 2006). The most widely used discount rate used for this purpose is the WACC as already defined.

Marketers can increase this ROMI by increasing the estimated future cash flows, decreasing the marketing investment or reducing the WACC. Marketers would utilise drivers such as improving customer satisfaction, improving retention and acquisition rates, reducing acquisition costs, altering the marketing mix to obtain better margins and improved sales in order to increase the estimated future cash flows (Berger & Nasr, 1998; Gupta & Lehmann, 2006; Lenskold, 2004).

This element of the NPV calculation can be relatively easily influenced by the marketers but altering the WACC is something that is not directly under the marketers control (Lenskold, 2003; Seggie et al., 2007). Reducing the WACC is primarily a function of the CFO of an organisation and by doing so CFO's can effectively make certain projects/campaigns financially viable (Correira et al., 2000). Using financial theory it is possible to optimise the WACC by leveraging the company to its optimal level (Modigliani & Miller, 1958). This therefore re-emphasises how important it is for the marketing and finance departments to work together in order to make as many projects financially viable. The finance department will also provide valuable financial acumen in order to assist the marketing department in formulating these calculations and optimising the WACC (Stewart, 2008, 2009).

The advantage of this method is that it is a simple method to understand and can assist in measuring both long term and short term marketing investments. Obviously its simplicity is also its downfall in that it cannot account for all the variables that affect the organisation's ability to generate a return on marketing investment (Lenskold, 2002).

One aspect that is important to note with all methods of ROMI is that access to reliable and accurate data is paramount. The need to invest in appropriate business intelligence software or data repositories therefore are crucial in the practical application of ROMI (Ambler & Roberts, 2006, 2008).

All the remaining methods are essentially derivations of this basic concept of ROMI.

2.4.2 *Return on CLTV*

Customer lifetime value is a relatively common method of valuing the intangible asset called customer equity. There are numerous models of calculating the CLTV (Gupta & Lehmann, 2006; R. Rust et al., 2004) however this review will focus only on what is arguably the simplified CLTV calculation devised by Gupta and Lehman (2006). It is a method that views customers and prospects as a finite resource, even more scarce that the availability of capital and therefore the most important metric marketers should focus on (Peppers & Rogers, 2006).

This simplified model essentially present values the estimated future cash flows of an organisation's cash flows using the following drivers:

- Average margin per customer
- Cross selling potential
- Average customer retention rate
- Discount rate
- Acquisition cost of new customers (Gupta & Lehmann, 2006)

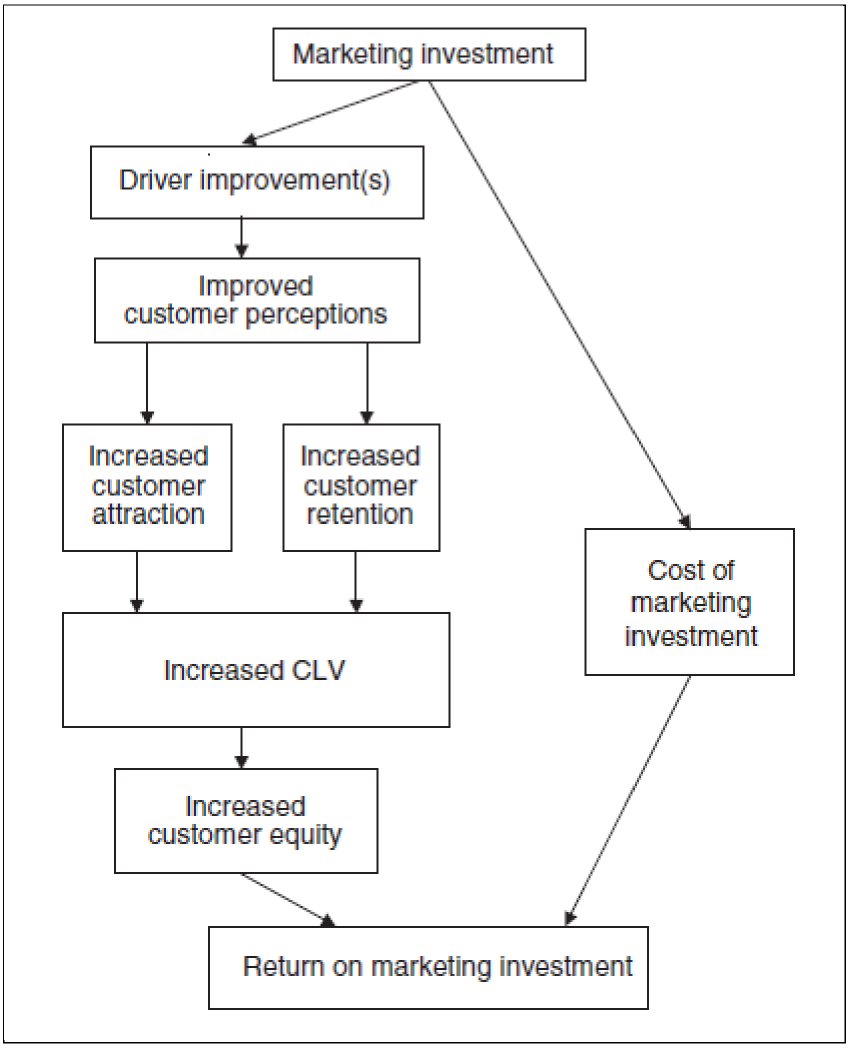

Figure 1: Explanation of how CLTV works (R. Rust et al., 2004)

The diagram above shows how CLTV works in practice. Initially there is some form of marketing investment that is aimed at improving the drivers of marketing. In this instance the driver that is being improved is that of customers' perceptions. By improving the customers' perceptions this in turn leads to increased customer attraction and retention. This improvement in customers' perceptions results in an improved CLTV, increased customer equity and therefore an increase in the ROMI (R. Rust et al., 2004).

Once again marketers can improve the CLTV by reducing the discount rate, improving the margin of the customer and cross selling potential, reducing the acquisition cost of new customers and improving the retention rate.

However this method merely calculates the value of the intangible asset and not the ROMI. The way in which to modify this is to measure the extent of which the CLTV has changed from one year to the next:

$$Return\ on\ CLTV\ (relative\ to\ the\ invesment) = \frac{\Delta\ in\ CLTV\ over\ the\ period}{CLTV\ at\ the\ beginning\ of\ the\ period}$$

This will then provide the ability of marketers to assess how their various projects and campaigns have impacted on the value of the underlying customer intangible asset.

This most certainly is a long term measure and whilst it can assist in guiding the marketing function as to whether they are doing a good job or not, it does not provide them with the ability to analyse exactly which campaigns worked and which did not.

2.4.3 *Return on customer*

ROC is a version of ROMI that was devised by Peppers and Rogers (2006). It also is derived from the concept of CLTV. It includes the profit generated by customers in a specific period as well as the change in CLTV. ROC measures the rate at which organisations are able to create value from any given customer in a defined period (Peppers & Rogers, 2006).

$$ROC = \frac{Net\ cash\ flow\ from\ customer\ in\ current\ period + \Delta CLTV\ during\ the\ period}{CLTV\ at\ the\ beginning\ of\ the\ period}$$

The advantage with this method (as with return on CLTV) is that the calculation uses capital and customer as the drivers which Peppers and Rogers argue are the two scarce resources that need to be balanced and satisfied in order to create value for the shareholder (Peppers & Rogers, 2006). This calculation also considers both long term and short term returns as it uses current period cash flows and the change in CLTV in order to calculate the returns. This method therefore manages to provide the method to optimise both short term and long term returns (Peppers & Rogers, 2006). The authors argue that marketers should never undertake any campaign etc. that provides ROC less than the WACC.

The advantage with this method is that the marketing function is forced to balance both short term returns and long term returns. This means that they have to work both on current period survival and sales growth as well as long terms shareholder returns – forcing increased marketing accountability.

In a similar way as with return on CLTV marketers can improve ROC by reducing the discount rate, improving the margin of the customer and cross selling potential, reducing the acquisition cost of new customers and improving the retention rate. In addition they can improve ROC by improving the cash flow from customers in the short term through effective advertising and current period promotions and changes to the short term marketing mix.

2.4.4 *Return on Brand Equity*

Brand equity is a similar concept to CLTV and it is also another method of calculating the intangible value of the organisation’s brand (Abratt & Bick, 2003; Berry, 2000; Bick, 2009; Simon & Sullivan, 1993). Research has indicated that strong brands not only provide greater shareholder returns relative to relative benchmark portfolios but do so with lower risk – something any rational shareholder appreciated (Madden, Fehle, & Fournier, 2006).

There is significant literature surrounding the valuation of brands, each having a variety of options to calculate BE (Abratt & Bick, 2003; Berry, 2000; Madden et al., 2006; Simon & Sullivan, 1993). However two of the most technically sound methods are to NPV of future estimated cash flows flowing into the organisation as a result of the brand and the use of real options (Abratt & Bick, 2003).

Given the current inaccessibility of the use of real options and the assumptions inherent in this method that make practical application next to impossible (Abratt & Bick, 2003), this method will not be explored.

The Return on BE is calculated in a similar method to that of the return on CLTV:

$$Return\ on\ BE = \frac{\Delta\ in\ BE\ over\ the\ period}{BE\ at\ the\ beginning\ of\ the\ period}$$

$$Return\ on\ BE = \frac{Net\ cash\ flow\ from\ brand\ in\ current\ period +\ \Delta BE\ during\ the\ period}{BE\ at\ the\ beginning\ of\ the\ period}$$

Similarly to return on CLTV and ROC return on BE can be calculated on just the change in BE over a period or net cash flow from the brand in the period plus the change in BE over the period divided by the BE at the beginning of the period.

2.5 Criticisms of ROMI

Despite the nearly universal acceptance that marketing requires greater accountability from a financial perspective (American Marketing Association, 2005; Ashill, 2007; Bick, 2009; Greenyer, 2006; Gronholdt & Martensen, 2006; Lenskold, 2003; Patterson, 2007; Pauwels et al., 2009; Peppers & Rogers, 2006; R. Rust et al., 2004; R. T. Rust, Ambler, Carpenter, Kumar, & Srivastava, 2004; Smith & Dikolli, 1995; Stewart, 2008; Woodburn, 2004), there are many camps that dispute the fact that ROMI is the one metric that takes into account all the drivers and satisfies both the marketing and financial fraternity.

Two of the leading minds on ROMI, Ambler and Roberts (2006) believe that ROMI is a useful measure but cautions its use as the only metric to measure marketing's effectiveness. Others argue its use from a technical perspective. The following section will look into the various criticisms of ROMI.

2.5.1 *Inability to measure marketing performance effectively*

Ambler and Roberts (2006; 2008) argue that the problem with all the ROMI discussed above is their inability to service both short term and long term measurements of marketing performance. The argument is that marketing (along with other functions within an organisation) needs to balance both short term survival and performance with long term growth and shareholder returns. It is therefore important that the metrics used are able to take into account these important trade-offs.

Marketing performance has also become multi-dimensional and requires numerous objectives and the involvement of all the functions of the business in order to achieve the ultimate goal of any organisation – to achieve or better shareholders' required return on investment (Ambler & Roberts, 2006, 2008). This means that measuring the performance of the marketing department requires numerous metrics both financial and non-financial in nature. Using multiple metrics will obviously positively affect the ROMI both in the short term and long term, however this allows the marketing team to measure the performance in line with numerous objectives and manage performance against more achievable objectives.

Another criticism with ROMI is that the one way to improve one's ROMI is to decrease the investment in marketing (Ambler & Roberts, 2006). This appears counter-intuitive and leads to significant arguments between the fields of finance and marketing.

The authors' argument is therefore not against the use of ROMI as a marketing metric, but rather against it sole use as a metric. This concept holds true for all the common methods used to calculate ROMI as discussed above – the generalised ROMI usually only focuses on the short term, whilst ROC, Return on CLTV and Return on BE focuses only on the longer term (Ambler & Roberts, 2006).

2.5.2 *Lack of standardisation and understanding in marketing community*

As discussed in section 2.3 above one of the current problems with ROMI is that there is no acceptable standard amongst the marketing and financial community against which to measure ROMI. The secondary problem which compounds the lack of standardisation is that, due to its innate technical nature, there is a lack of understanding amongst the marketing community of what ROMI is, how it is calculated, and how to be able to affect the drivers of the ROMI to improve the performance of the marketing function (Ambler & Roberts, 2006, 2008; Ashill, 2007). Once again this is not a criticism in favour of not using ROMI, but rather a reason for using ROMI in conjunction with other marketing metrics – both financial and non-financial in nature.

2.5.3 *Technical criticism of various ROMI methods*

Generalised ROMI or Return on marketing expenditure

When an organisation calculates its Return on Investment (ROI) they usually take the NPV of future estimated net cash flows and divide this by the initial investment which is capital and long term in nature. However with ROMI the calculation takes the NPV of future estimated net cash flows and divides this by the marketing investment which is usually an expense for the organisation. This therefore is not quite comparable with the ROI in financial language which means that achieving a ROMI greater than the WACC will not necessarily result in increased shareholder value (Ambler & Roberts, 2006).

Return on CLTV, ROC and Return on BE

The problem with both these measures comes from the mathematical consequences of its calculation. CLTV is calculated by NPVing the estimated future net cash flows. It is essentially utilises a forecast of future cash flows, something that no one can estimate with perfect science. However if the prior period estimated cash flow was correct and the two estimates of CLTV constant, ROC will be nil – something that Peppers and Rogers most certainly did not foresee (Ambler & Roberts, 2006). The result is that there will be instances where marketers cannot distinguish between great performance and poor forecasting. This is the one key failing of ROC as it essentially measures the accuracy of the prior period's forecasts together with the consistency of the last two years forecasts (Ambler & Roberts, 2006).

General criticism

Using financial theory the organisation should deploy the various forms of marketing campaigns that generate the highest ROMI. The problem therefore can exist when one campaign generates a ROMI of 25% (above the desired WACC of

15%) and generates a NPV of R 1 million. Another campaign generates a ROMI of 20% and generates a NPV of R 25 million. However both projects are not mutually exclusive. Using financial theory the marketer would select the project with the higher ROMI. However in this particular instance this would be incorrect option due to the large amount of NPV. This is one of the fundamental limitations of ROI (Correira et al., 2000).

2.6 Research questions

The literature review gives rise to the following research questions:

2.6.1 *Research Question 1*

What is the understanding of ROMI in practice and how do organisations measure the effectiveness of marketing currently?

2.6.2 *Research Question 2*

What are the perceived hindrances to ROMIs adoption or what were the challenges experienced in practice in implementing ROMI?

2.6.3 *Research Question 3*

What are the perceived benefits in implementing ROMI as a measurement tool for marketing?

2.7 Conclusion of Literature Review

There are four primary methods of calculating ROMI – generalised ROMI which is used mainly for calculating the Return on short term initiatives; Return on CLTV; ROC and Return on BE. All methods are similar in nature and have various advantages and disadvantages. One vital requirement in order to effectively use ROMI as one of the tools to measure marketing's effectiveness is access to the data.

ROMI is becoming an increasingly important measure of marketing performance as the entire industry demands more accountability from a financial perspective. ROMI delivers a link between marketing and finance, yet its use is not widespread due its technical nature and lack of standardisation.

This has resulted in much confusion regarding what constitutes ROMI and many marketers in practice incorrectly use metrics they believe constitute ROMI. Much work is required from an academic and practical perspective in order to assist with the standardisation of methods and education of marketers and finance teams. However as discussed by Ambler and Roberts (2006; 2008) ROMI is no silver metric that can be used exclusively as a measure of marketing's performance and effectiveness.

ROMI is best used in conjunction with existing financial and non-financial metrics such as retention rates; cost of acquisition; customer satisfaction, loyalty and trust; and ability to generate prospects into leads to name a few. Marketing can therefore break down its objectives into distinctive areas and focus on the drivers that ultimately will result in improved ROMI. The improved communication of finance and marketing teams will also further improve the mutual understanding of both functions.

Whilst there are still many unanswered questions regarding the utilisation of ROMI it is clear that it is necessary to embrace ROMI as a means of improving marketing effectiveness and linking the finance and marketing functions together.

2.7.1 *Research Question 1*

What is the understanding of ROMI in practice and how do organisations measure the effectiveness of marketing currently?

2.7.2 *Research Question 2*

What are the perceived hindrances to ROMIs adoption or what were the challenges experienced in practice in implementing ROMI?

2.7.3 *Research Question 3*

What are the perceived benefits in implementing ROMI as a measurement tool for marketing?

3 RESEARCH METHODOLOGY

This section provides rationale and describes the research method that was utilised to answer the research questions proposed in the previous section. The research design, population, sample and research instrument will then be described in detail. The final section discusses the methods of collecting the data, how the data was interpreted and provides an analysis to ensure the reliability and validity of the research.

3.1 Research methodology / paradigm

According to Creswell (2009) it is important to consider three criteria in choosing the research approach – matching the problem and the approach, personal experiences of the researcher and the audience. The problem in question relates to the different opinions between finance execs and marketing execs in relation to their perceptions of ROMI. The literature suggests that these two groups of individuals have different perceptions and insights into ROMI which will be useful to analyse from a qualitative perspective.

The research used a qualitative method to obtain further insights into the minds of finance and marketing executives and decision makers. Data was collected via qualitative interviews. The questions were open-ended in order to gain valuable insight into the differing views of marketing and finance executives towards ROMI. A mixture of structured and semi-structured open-ended questions were asked in order to obtain the maximum amount of information from the respondents (Denzin & Lincoln, 1994; Elo & Kyngas, 2008; Hsieh & Shannon, 2005; Miles & Huberman, 1994). The data collected during this phase was then analysed using content analysis to identify specific themes (Denzin & Lincoln, 1994; Miles & Huberman, 1994; Neuendorf, 2002; Patton, 2002).

3.2 Research Design

The methodological approach that was used was that of in depth interviews. In depth interviews were appropriate in this exploratory research in order to maximise the richness of both discussion and data collection as well as providing the ability to interpret the data in the detail necessary for this kind of research (Creswell, 2009).

Due to the qualitative nature of the research there was a risk of the respondents' answers being altered due to the presence of the researcher. It is therefore crucial this was considered in determining both reliability and validity of the research methodology (Leedy & Ormrod, 2005).

3.3 Population and sample

3.3.1 *Population*

The population for this research was all South African finance and marketing executives in positions of decision making power. It was important the population did not include lower level staff who do not make decisions regarding marketing spend.

3.3.2 *Sample and sampling method*

The sample needed to be made up of finance and marketing executives who are in decision making roles regarding marketing and/or the measurement of marketing's performance. The open-ended interviews were performed on ten finance and marketing executives using a convenient sampling methodology. The sample was small which is common with qualitative studies (Schmitt, Klimoski, Ferris, & Rowland, 1991) as it is easier to obtain greater insights from analysing and interpreting a smaller sample in depth that superficially analysing and interpreting a larger sample.

3.4 The research instrument

The research instrument as found in appendix A took the form of an open ended question and answer session (Creswell, 2009; Denzin & Lincoln, 1994; Elo & Kyngas, 2008; Miles & Huberman, 1994).

3.5 Procedure for data collection

The open ended qualitative section of the research was in the form of a one on once interview where structured and semi-structured open ended questions were asked in order to obtain an understanding on the perceptions of ROMI from a finance and marketing executive perspective.

3.6 Data analysis and interpretation

Based on the responses during the interviews common themes were identified by colour coding the various extracts of the transcripts that had similar themes. This is a common method of identifying themes in content analysis (Creswell, 2009; Elo & Kyngas, 2008; Graneheim & Lundman, 2004; Hsieh & Shannon, 2005).

Based on these themes the perceptions of finance and marketing executives were discussed in length and compared in order to identify the difference and similarities between these two sample sets.

3.7 Limitations of the study

Open-ended interviews can be directly influenced by the interviewer. Whilst there is only one interviewer (limiting interviewer bias) there is still a risk that the interviewer can manipulate the tone and direction of the questions to achieve to achieve the pre-conceived results of the research (Denzin & Lincoln, 1994; Miles & Huberman, 1994; Neuendorf, 2002).

3.8 Validity and reliability

Validity is important in any research as it ensures all aspects of the research – the evidence, the details of the research and conclusions drawn from the research is congruent (Kalof, Dan, & Dietz, 2008). Reliability ensures consistency within the respondents' answers to the survey (Kalof et al., 2008). This is also important to ensure the respondents' have understood the questions and answered them correctly.

3.8.1 *External validity*

External validity relates to problems when inferences are made onto a larger population based on the results of the survey (Kalof et al., 2008). As this is a convenience sample it was particularly difficult to make any inferences on the larger population. The samples selected were from a wide variety of industries which assisted in ensuring the external validity assumption remains valid. In addition the respondents interviewed had extensive business experience and considerable networks which assisted in ensuring the external validity assumption remains valid.

3.8.2 *Internal validity*

Internal validity occurs when any study draws inappropriate conclusions from the data on hand (Kalof et al., 2008). This can occur when the variables of the study do not measure what they intend to measure. This risk was be mitigated by using open-ended questions that were structured and semi-structured. In addition all interviews were recorded and actual comments and statements from the respondents were used. Follow up questions were also asked by the interviewer to ensure appropriate understanding of the respondents comments. Active listening and ensuring the interviewer understood each respondent was key to ensuring internal validity with this research.

3.8.3 *Reliability*

As already discussed, reliability deals with the consistency of respondents' answers - the research instrument was therefore been designed to ask numerous similar questions that will assist in ensuring the consistency of respondents.

4 PRESENTATION OF RESULTS

4.1 Introduction

This chapter summarises the key findings from the in depth interviews as set out in the previous chapter. The responses from the sample selected for both marketing and finance executives and decision makers are shown in tabular form grouped by the various key themes identified after the interviews have been analysed according to the content analysis research methodology method.

4.2 Demographic profile of respondents

The initial plan was to obtain a sample of 10 finance and marketing executives from a variety of different industries to obtain a wide spread understanding across all sectors of South African business environment with the aim being to interview finance and marketing executives from the same company in order to obtain a comparable perspective. However due to the senior nature of the respondents this was not always possible. In order to obtain as much of a comparable sample between finance and marketing executives it was necessary to select at a minimum finance and marketing executive respondents from the same or similar industry.

The results of the interviews of marketing and finance executives are presented one after each other in order to make the comparison of perceptions easier to identify. A list of respondents can be found in Appendix B.

4.3 Results pertaining to Research Question 1

There were two questions used to elicit responses from the respondents to answer research question 1:

1) Please provide your detailed understanding as to what return on marketing investment means to you
2) Please provide the current methods used to evaluate the marketing function and success thereof

As both of these questions had overlapping responses the themes identified are discussed together in the two tables below.

Table 1: Finance executives responses from the questions relating to Research Question 1

Theme identified	Responses and comments associated with the theme
Qualitative versus Quantitative methods	• One respondent noted that the majority of their methods were qualitative in nature however they do attempt to quantify return in respect to their larger investments • Another respondent noted their methods were 'loosely based' and most as a result of 'word of mouth' comments from their sales staff • One of the respondents from the banking industry commented that their focus is based on the acquisition of new customers which is quantitative in nature • Another company measures its marketing success mostly in terms of qualitative type surveys combined with an analysis of quantitative statistics such as 'delivery on time and in full' and sales per region

	• One of the retail companies take a more quantitative approach focusing on actual numbers based on their own definition of ROMI • Another banking company focuses on qualitative feedback from their customers as well as quantitative information such as increases in deposits, quality of their wealth clients acquired and value of the assets under their management • One respondent noted that they focus on mostly quantitative data, although in most instances this was impossible to calculate • One company utilises a combination of both qualitative and quantitative date • All finance executives noted that they were not satisfied with the level of measurability and extent of accountability of the marketing function
Period of evaluation	• Across the spectrum of finance executives nearly all of the respondents focused all the quantitative measures more on the short term of one year and less. The only exceptions were from the two niche banks who only focus on long term returns (albeit through qualitative metrics) • Many of the qualitative surveys and informal feedback sessions looked at more long term measures such as customer loyalty and building long term relationships which could not be measured in any way
No agreed upon current method to calculate ROMI	• There were numerous measures used across the finance spectrum however there was no one common measure that could be elicited from the interviews: o One organisation looks at how much additional revenue/new business was generated from their marketing spend in industry magazines and new business teams o Another company uses Google analytics to evaluate the

	effectiveness of their online banners, and looks purely at the number of new accounts and active accounts on a monthly basis to see whether this is growing ○ One of the respondents used to look at cash sales and compared this against prior and comparable periods to determine the effectiveness of marketing (in the organisation where he previously worked) ○ A leading retail company uses the following method for calculating the return on direct mailings: ▪ "A: Total cost of campaign including full production of mailing postage ▪ B: Measured response rate over a 90 day period ▪ C: Direct profitability of an account customer for one year. Here we take the typical spend of a new account customer for the first year multiplied by the average merchandise margin to get to a merchandise gross profitability. We will add additional profit for club and insurance products to determine a typical profitability per customer. So in essence we take a Group view as to the value of a customer. ▪ D: ROMI = (No of customers targeted x B x C)/ A %" ○ This organisation however does not have a longer term method of calculating ROMI ○ As discussed previously one of the bank's respondents noted that they do have quantitative measures however these are based on funding growth and value of assets under management ○ Another respondent stated that with the more direct campaigns that have voucher attached that can be tracked it is possible for them to work out the return on marketing. It is however unclear whether this is done on each campaign. Apart from these direct campaigns the respondent stated it is impossible to quantify return o-n marketing spend ○ In another respondent's view none of their customers

	even calculate return on their marketing spend with them, or if they did, this information was never shared o One organisation use Google analytics to measure return, but cannot do so on any of their other marketing activities

From the results of the interviews from the finance respondents above it is clear that most of the respondents did measure their marketing department's effectiveness in terms of both quantitative and qualitative measures. These measures are however not consistent. The quantitative measures used are of a more short-term nature, whilst qualitative measures are used for longer-term measures. Many of the quantitative metrics used by finance executives are interestingly those identified by the United States of America Marketing Association (American Marketing Association, 2005).

Table 2: Marketing executives responses from the questions relating to Research Question 1

Theme identified	Responses and comments associated with the theme
Qualitative versus Quantitative methods	• One of the business banks focus more on the qualitative methods as for them the 'relationship with the customer is the most important aspect to their business' • One of the retail company's marketing executive looks at both incremental Gross Margin ROI as well as performing post-campaign reviews which are qualitative in nature • A respondent from a retail bank focused on a combination of quantitative (measuring customer loyalty and advocacy) and qualitative methods • At an advertising agency they look purely on performance metrics which are not strictly measures of marketing

	effectiveness • One respondent noted that they do not have any formal quantitative measures but do look at customer satisfaction on an ad hoc basis • A respondent from the cellular industry uses both 'financial and non-financial statistics' to measure their marketing effectiveness – therefore touching on both quantitative and qualitative methods • One of the respondents from a business bank stated that they focus purely on qualitative measurement based on 'anecdotal evidence' from their sales staff • Another respondent admits to never actually measuring marketing effectiveness formally, however they did use to occasionally look at correlation between marketing spend and sales as well as customer satisfaction • A respondent from a retail company noted that their focus is mostly on qualitative data such as brand perception and value for money • Another respondent looks both at quantitative and qualitative measures using a global toolkit
Period of evaluation	• None of the marketing executives focussed purely on short term metrics preferring to either focus solely on the long term and in most instances looking at both short and long term: o The business banks' respondents noted that they only look at the long term as they believe the relationships they develop over time are the most critical aspect of their business o A leading retail chain measures both short term gains on promotions as well as periodically testing the long term health of the brand through their own 'brand health checker system' o A retail bank looks at profitability per campaign that is track-able as well as measuring customer loyalty and advocacy over a period of time

	o The respondents from one of the industrial organisation focus on brand awareness an innately long term measure using mostly qualitative/gut feel measures o Another organisation has just started measuring what they term ‘customer lifetime value’ as well as short term measures. This CLTV is however not as previously defined but is there internal view of CLTV (specifically excluding the time value of money) o Another respondent focused on both short and long term measures o Another respondent measures incremental sales over a short period of time together with qualitatively measuring long term brand equity
No agreed upon current method to calculate ROMI	• The calculations used across the board were not consistent: o A leading retail chain in South Africa uses incremental gross profit return on investment o One of the retail banks views each campaign in terms of additional profit generated (although they agreed this is not always possible to determine) o Five respondents commented that they do not actively measure ROMI quantitatively – looking rather at additional sales without a formal calculation o The cellular respondent looks at their version of customer lifetime value that does not use a discount rate and is admittedly ‘only in its infancy’ o Another retail chain does not actively measure anything quantitatively although they do occasionally measure the relative success of direct mailing campaigns via additional sales and margin brought in o One organisation merely looks at sales above base line less marketing costs

From the responses above it appears that marketing executives use quantitative measures to measure short term metrics and more qualitative ones to measure the long term. However no one of these metrics is commonly used between the various respondents. Whilst there is significant talk of concepts such as brand equity, brand awareness and CLTV there does not appear to be any actual methods to measure this quantitatively.

4.4 Results pertaining to Research Question 2

The second research question relates to the difficulties or challenges either experienced in calculating the previously defined ROMI (where respondents did actually measure their return on marketing using one of the various different methods) or the difficulties they experience that prevent them from calculating ROMI.

The answers to this research question were elicited from questions such as the following:

- Given the definition of ROMI as per the literature what challenges or difficulties do you find in calculating this in your business?
- What obstacles do you have in calculating a more long term ROMI as evidenced from the literature?
- Why do you not calculate ROMI as defined?

These questions needed to be adapted depending on the outcome of each interview. The results are found below summarised by major theme found during the content analysis phase of the research.

Table 3: Finance executives responses from the questions relating to Research Question 2

Theme identified	Responses and comments associated with the theme
Access to data/information related issues	• At a leading retail chain they have an entire Business Intelligence unit that is focussed on data extraction and analysis (part of which is used to measure their version of ROMI). This represents a significant investment in skills and IT infrastructure. Data would be key to be able to calculate ROMI as defined • One of the respondents from a business bank feels there would need to be a database with a business intelligence tool built-in in order to obtain the data require to perform the analysis required • One organisation is lucky that they have invested heavily in IT and database management which would allow them to calculate this however the investment required is substantial • One respondent believes accurate, timely information is key and good database management crucial – which, he added, is poor at most companies he has seen • Interpretation of the data is also important as per some of the respondents
Difficult to attribute marketing activity to any return	• A respondent feels that there is ‘no direct correlation between advertising spend and acquiring new customer’ which is their primary driver for growth of value in their business • Another respondent felt that it is difficult to pinpoint which marketing spend actually worked which would be the primary reason for her organisation to work out ROMI • A respondent commented that the relationship between campaign spend or spend on brand awareness and additional revenue (and therefore profit and value) is tenuous at best • The respondent in the cellular industry felt that it was difficult to

	attribute marketing campaign spend to financial returns • Another respondent similarly felt that it is difficult to know whether ROMI would be due to marketing spend at all • A general comment made by all respondents related to the difficulty to attribute any financial return specifically to the marketing activities only. This was due to the various internal factors that could influence a company's performance such as operations, sales, human resources and supply chain functions
Level of difficulty/complexity/skills required to run successfully	• One respondent felt that even the ROMI as defined was 'iffy', without any expert opinion on the subject in South Africa (including advertising agencies and research companies) • Another complained that it is too complex and would not become popular due to this fact • One of the respondents believes that something simple that could provide a reasonable estimate of return would suffice • Another finds that measuring response rates is even complicated and doubts that measuring ROMI as defined will be any easier • 'There is a lack of internal skills to understand any technical complicated calculation' was one respondent's response. He also said there is no standard way of measuring the appropriate discount rate on long term ROMI • Based on one respondent's experience none of their clients have the necessary skills to calculate the ROMI on their marketing spend (of which advertising is usually the largest contributing factor to marketing) • Another respondent similarly stated that there is no standard way to determine the effectiveness of marketing, and there is also no simple and easily understandable method to do so

From the responses above it is clear finance executives believe that a significant investment in IT is required to implement ROMI successfully. In addition, obtaining the skills necessary to manage the database and analyse and interpret the data accurately and timely is crucial. According to the finance respondents circumventing these two challenges would be costly and require patience in order to successfully implement ROMI. It is also apparently difficult to attribute return to one single campaign which the respondents felt would be important to obtain the potential benefit of improved decision making. A final comment is that calculating ROMI is complex and there are no skills in South Africa that allow this challenge to be overcome successfully.

Table 4: Marketing executives responses from the questions relating to Research Question 2

Theme identified	Responses and comments associated with the theme
Access to data/information related issues	• Four of the ten respondents noted that the access to information as well other data related issues prevents them from using or makes it particularly difficult for them to use any one of the most popular ROMI methods to measuring marketing: o A respondent from a retail chain noted that 'without access to the data it would be impossible to scientifically calculate ROMI'. He continued, saying that data integrity is of crucial importance and the information needs to be available in a timely manner o The cellular industry respondent agreed with the previous comment adding that data is important in order to measure CLTV o Another retail industry respondent says it would be important to have a mineable database in order not only to calculate ROMI but also to get the information necessary to specifically target customers based on their preferences thus, in turn, increasing ROMI

	○ Another respondent complained that they do not obtain access to their client's data which makes it impossible to work out ROMI as defined
Difficult to attribute marketing activity to any return	• Half of the respondents found that it was difficult to attribute (or correlate) any specific marketing spend to any return. They found this made many instances of the ROMI calculation to be meaningless: ○ A retail banking respondent stated that it is so difficult to attribute any return specifically to any marketing activity due to the large number of variables affecting the business. ○ Another respondent agreed saying that 'it is difficult to apportion marketing spend to one basket of product which makes ROMI difficult to interpret correctly' ○ One respondent wanted to know 'how to write down the success of a company down to just marketing given the ever changing economic conditions, weather pattern changes and public holiday falling on different days' ○ Whilst a respondent in the FMCG industry believes that calculating ROMI will give one false hope due to the fact that there are just too many variables affecting any one company
Level of difficulty/complexity/skills required to run successfully	• The leading retail chain store respondent noted that in order for them to run their version of ROMI they require specific skills working the data and interpreting it • At a retail bank they are only just implementing CLTV but are struggling to obtain the staff with the necessary skills • From the extensive experience in the advertising industry one respondent believes that a significant hindrance to the acceptance of ROMI is that 'people do not have the skills to measure ROMI' • Another respondent with years of experience in fashion retail

	believes that there is no simple, agreed upon calculation and questions whether people actually know how to calculate ROMI as defined • Another respondent believes it is an incredibly tedious task, and doubts that you can use numbers to quantify brand equity. She further complains that there is no set quantifiable measure
Measuring emotion?	• One respondent from the retail industry had a significant concern in that no ROMI calculation as defined will ever be sophisticated to measure the emotional connection customers have towards a brand • The respondent from the cellular industry commented that for their organisation it is just as important to track customers' attitude towards the brand as it was to measure the return on marketing • As discussed above one respondent does not believe that a quantifiable number can measure brand equity and the mind-set of consumers toward the brand

From the marketing executives' responses above it is clear that data related issues represent one of the major hindrances to the adoption of ROMI as a metric. It is clear that the respondents in general believe that access to data is crucial. The respondents also believe it is difficult to attribute any one marketing activity to any overall financial return – indicating this is necessary in order to obtain learnings from each marketing campaign/activity. There is also a concern regarding the complexity of the calculation and the lack of skills to accurately measure and interpret ROMI. It is also clear that marketing executives express their doubts that ROMI can ever measure an emotional attachment to a brand/organisation.

4.5 Results pertaining to Research Question 3

The final research question relates to the benefits that can accrue to companies that adopt ROMI as defined in practise. Again the results are presented firstly in terms of the themes identified during the interviews with finance executives and then those identified from interviews with the marketing executives.

Answers were obtained through the following set of standard questions together with follow up queries based around the respondents' replies:

- If your company could measure ROMI through the various sets of definitions what kind of benefits would you be able to be derived?
- Explain why and how these benefits could be derived?

Table 5: Finance executives responses from the questions relating to Research Question 3

Theme identified	Responses and comments associated with the theme
Improved decision making/planning	• 'This would improve the ability to obtain the correct staff mix, correct cost base in terms of planning due to the fact the business is all top line driven' • A retail bank's finance head believes it would assist in guiding the types of marketing spend as well as changing the approach based on the learnings gleaned from the effect on ROMI • 'If used correctly it would assist in improving decision regarding the amount and type of marketing spend' • With this information the finance executive at one of the leading retail chains believes they would be able to adjust their distribution channels to increase ROMI and reduce the effective cost to acquire customers • One respondent feels that this would assist in deciding what

	part of the marketing budget to cut in an recessionary environment • Another respondent believes if it would be possible to apply ROMI successfully it would revolutionise decision making in terms of the media choices • Yet another respondent stated it would allow marketing departments know where to allocate more of their limited budget to
Greater comfort in terms of marketing spend	• Would provide clarity to assist in the medium to long term planning of the organisation in terms of marketing spend • One respondent believes it would justify the marketing budget and spend which in the past is guided mostly by 'soft metrics' • Three respondents believe that working out the effectiveness of marketing would assist top management • At another organisation they would be able to see the effectiveness of marketing department in terms of quantitative measures

The majority of the respondents believe that if ROMI was implemented it would allow their organisations to be able to greatly improve their decision making in terms of marketing campaigns and improve budgeting in terms of the types, timing and methods of marketing campaigns. This in turn appears to provide greater comfort at board level.

Table 6: Marketing executives responses from the questions relating to Research Question 3

Theme identified	Responses and comments associated with the theme
Improved decision making	• A leading retail chain would be able to implement learnings a lot more scientifically going forward as well as being able to track and actively satisfy customer's preferences. Timing, types of promotions and media choice decisions could also be better informed in terms of ROMI • Based around the learnings gauged from the ROMI calculations a retail bank would be able to make better decisions, thus using resources more efficiently. They could also find out which channels work best for certain promotions • A marketing director from the cellular industry states that better decisions regarding retaining customers could be achieved • 'One would be able to drill down into the details by customer, geographic region etc. and take out learnings directly from this that could affect the company in the future'
Easier buy in from top management	• 'Using objective, quantifiable metrics would be beneficial for management' • At a business bank ROMI could be used to gain more confidence with the board regarding what activities work and then repeat these learnings going forward • One respondent feels that had this been implemented in his time at one of the smaller retail chains the finance minded people on the board would have had more confidence in the marketing department • Another agrees based on her experience that finance and board members would have had better understanding and would be 'on the same page' • 'The organisation would see greater value in marketing and

	become more marketing oriented’

The marketing executives felt that the implementation of ROMI would assist in improved decision making regarding timing of activities, types of promotions and distribution channel. This would improve the effectiveness of the marketing spend and result in more quantifiable decisions being made. Another benefit would be that of easier buy-in of top management due to the ability to quantify their effectiveness.

5 DISCUSSION OF THE RESULTS

5.1 Introduction

This chapter contains detailed discussion and explanation relating to the previous chapter where the results were presented in terms of the research questions. There is a specific focus on analysing not only the finance and marketing executives' responses individually but also comparing the differences and similarities (where applicable). All of this analysis occurs with specific reference with the literature to determine whether the results of the respondents back up the literature or whether they offer new insight into the heavily controversial and highly debated topic of ROMI.

There is also an analysis to see whether any industry specific insights can be analysed and interpreted which could provide some impetus to further academic research which is discussed in the concluding chapter.

This chapter closes with a conclusion relating to the responses analysed and interpreted.

5.2 Demographic profile of respondents

It is important to firstly state that the logical assumption based on the research is that the responses from finance and marketing executives in South Africa would be expected to be different (Ambler & Roberts, 2006, 2008; American Marketing Association, 2005; Ashill, 2007; Patterson, 2007). After all it was on this basis the sample was selected and segmented. This should be remembered when analysing and interpreting any of the results.

5.3 Discussion pertaining to Research Question 1

5.3.1 *Finance executive responses*

There was considerable commonality around most the finance executives perceptions of ROMI in terms of their understanding and practical application of measuring marketing.

Most of the respondents did measure their marketing department's effectiveness in terms of both quantitative and qualitative measures. However the methods used varied considerably which is in line with certain authors on this subject (Ambler & Roberts, 2006, 2008). It appears, based on the responses from finance executives' interview, that as a general rule of thumb quantitative measures are used to measure the more short term effects of marketing, whilst qualitative measures are used to measure the longer term metrics such as customer loyalty and advocacy.

Many of the methods used were 'loosely based' (as evidenced from interview with Reichmans and Sasfin in particular). This appears contrary to the literature which calls for greater accountability and measurability (American Marketing Association, 2005; Ashill, 2007; Bick, 2009). This could be due to the complex nature of the more long term ROMI calculations as discussed in the literature as well as the fact that the perception amongst finance executives is that there is no one commonly used and understood method of calculating long-term return on marketing (see analysis on the responses from research question 2 below for more details regarding this).

The one retail company appeared to have the closest understanding of ROMI and method of calculating when comparing their method to that of the literature. This could possibly be due to the ability for them to track performance through their extensive databases which is discussed in the next sub-section.

Another interesting insight is that most of the quantitative metrics used were either identified by the finance executives as being ROMI when they were in fact the measures discussed in the 2005 White Paper by the United States of America Marketing Association on marketing accountability (American Marketing Association, 2005). As previously discussed in the literature this lack of one single metric of ROMI makes it incredibly difficult for ROMI to become popular or obtain any notion of respectability as the universal metric to measure marketing's performance (Patterson, 2007; R. T. Rust et al., 2004; Smith & Dikolli, 1995; Stewart, 2008, 2009). In addition to this not one of the executives interviewed made any reference to present valuing future cash flows at an appropriate discount rate or even how to determine the appropriate discount rate.

Most of the quantitative measures identified were short term in nature – incremental sales (occasionally incremental gross profit) less marketing costs divided by marketing spend on a particular campaign measured over a short period of time between one month and six months.

The two business focussed banks looked primarily at qualitative type metrics that are sometimes completely un-measurable and subjective – the perfect example being to somehow measure the relationship between their key accounts managers and their customers. This is rather ironic that the stereotypical bankers appear to adopt this rather laissez-faire approach to marketing metrics.

There appears however to be some consensus that it is easier to measure some element of return on marketing (albeit not congruent to the definitions of ROMI identified in the literature) on short term promotions specifically where there is some way to track its success:

- One respondent stated that it would be possible to determine the incremental profits over the actual marketing spend for a campaign that involved the use of loyalty cards or vouchers where the use of these cards/vouchers could be tracked
- A leading retail chain through their IT system can similarly monitor performance over a period of time
- Two of the respondents noted the use of Google analytics although these statistics do not measure return but rather provide information regarding the number of hits on the website amongst other pure statistical information

One particularly worrying comment came from a respondent from one of the leading advertising agencies in South Africa. Based on his extensive experience in his industry he noted that none of their customers actually calculate ROMI, or if they did, do not share this. This either points to the level of confusion, lack of clarity or a complete lack of transparency in South Africa regarding ROMI – all of which would be required for the successful implementation of a ROMI plan (Ambler & Roberts, 2008; American Marketing Association, 2005; Blattberg & Deighton, 1996; Slater & Narver, 1994; Stewart, 2009)

It is however clear there is more confusion than clarity regarding this topic when one interprets the generally vastly different methods used and understanding around this topic.

5.3.2 *Marketing executive responses*

Marketing execs appear to be split evenly between using purely qualitative metrics and a combination of both when measuring their ‘return on marketing investment’.

As with the finance executives there appeared to be a trend where quantitative methods where used for measuring the impact marketing had in the short term and qualitative measures used for longer term measurement. The one positive here is that there most certainly appears to be an acknowledgement amongst the marketing executives in South Africa that there needs to be a greater need for accountability out of their function areas – in line with the literature (American Marketing Association, 2005; Stewart, 2009).

The executives from the two largest companies interviewed appeared to be a lot more versed in the concept of 'return on marketing investment' even if their definitions and understanding is not completely in line with the various definitions of ROMI identified in the literature.

Amongst most of the respondents there was also a lot of talk about brand equity, customer lifetime value and brand awareness; however when questioned further none of them could come up with any way they measure this other than through brand-health trackers and similar qualitative measures. Based on discussions with the executives it appeared as though they preferred to measure the various drivers of ROMI (such as customer loyalty, advocacy, churn and response/take up rates) rather the actual result of the calculation. It did appear that even though all the drivers of ROMI were not necessarily measured there was a general understanding amongst the respondents that by improving all the drivers there will be a positive outcome with respect to the theoretical ROMI.

As with the finance executives there was no one commonly used short term quantitative metric used. Vodacom, the largest cellular provider in South Africa, has also only recently adopted their version of CLTV (which looks only at estimated revenue by customer, apportioned costs and no discount rate) – it is 'in its infancy'. This provides an indication regarding the propensity for South African companies to lead the world in terms of marketing metrics.

5.3.3 *Comparison of responses*

Table 7: Comparison of finance and marketing executive responses to Research Question 1

Finance executive responses	Marketing executive responses

• Qualitative versus Quantitative methods
  ○ Both methods used
	• Qualitative versus Quantitative methods
	  ○ Both methods used

• Period of evaluation
  ○ Quantitative methods – more short-term in nature
  ○ Quantitative methods – more long-term in nature (e.g. customer loyalty)
	• Period of evaluation
	  ○ Quantitative methods – more short-term in nature
	  ○ Quantitative methods – more long-term in nature (e.g. customer loyalty)

• No agreed upon current method to calculate ROMI
  ○ 'Loosely based'
  ○ Methods used are commonly misunderstood ROMI metrics (American Marketing Association, 2005)
  ○ No present valuing of future cash flows or use of discount rate
  ○ Consensus that it is easier to
	• No agreed upon current method to calculate ROM
	  ○ Talk of brand equity, brand awareness but no metrics to measure this
	  ○ No commonly used metric with marketing executives

measure short term quantitative metrics ○ Significant confusion regarding the understanding of ROMI in practice	

Given the literature suggesting significant differences in opinion regarding ROMI between finance and marketing executives (Stewart, 2009) it is surprising that based on the respondents interviewed there are so many common threads. This could however be due to the seemingly poor uptake of ROMI as defined in the literature.

Both sample respondents measured in terms of qualitative and quantitative measures and there was a general common understanding between finance and marketing executives of the same companies (which indicates these companies are at least on the same page in terms of how they measure ROMI, even if the methods are not best practice).

Both set of executives measured their versions of ROMI as follows:

- Short term measures – using quantitative metrics
- Longer term measures – using more qualitative type metrics

Overall due to what appears to be significant confusion regarding this topic both sample sets have similar understanding of their understanding of what ROMI means and how it is calculated at their respective companies.

5.3.4 *Other comments and observations*

It appears that the bigger the company, the better an understanding there is with regards to what ROMI is and how it is calculated. This is specifically evidenced by two of the largest companies interviewed, both of which would logically have the economics of scale to invest strongly in their marketing departments. This could also relate to the fact their businesses are relatively simple (at least on the consumer front) and that the relationships they have with their customers much less personal than that of say a business bank has with its customers.

This is something that will be monitored throughout this chapter to identify any more indications of this possible factor influencing ROMI and its application in South Africa.

5.3.5 *Conclusion to research question 1*

Finance and marketing executives have very similar understanding of what the understanding ROMI to be in their businesses. Their understanding and calculation of ROMI however does not correspond to that of the literature other than the commonly held (but incorrect) beliefs of what ROMI is (American Marketing Association, 2005).

It is clear that most executives favour short-term financial metrics to measure the relative success of their campaigns and as a general rule look to qualitative metrics to measure the longer term effectiveness of marketing. None of the executives interviewed perform any present value exercise on any of their metrics and in so doing ignore the time value of money (providing more evidence supporting the more short-term view approach to marketing).

There appears to be a strong indication that the larger the organisation the greater the propensity to measure marketing on a more scientific basis however even in these organisations the use of ROMI in incongruent with that of the literature.

Based on these responses from research question 1 there appears to be significant confusion surrounding measuring of marketing effectiveness in general as well as what exactly constitutes ROMI.

5.4 Discussion pertaining to Research Question 2

5.4.1 *Finance executive responses*

The following themes were identified as the major difficulties or hindrances in calculating /adopting ROMI as defined - access to the relevant data/information, combined with the investment required in IT; the difficulty in attributing a specific marketing activity to any return and the level of difficulty/complexity/skills required running any ROMI program successfully.

It is clear that in order to accurately calculate ROMI it is necessary:

- for a significant investment in IT in order to house the data in a manner that allows extraction/interpretation to be easy, quick and timely
- to obtain the necessary skills to manage the data so as to ensure integrity around this as well as having the necessary staff with the requisite skills to slice and data the data into meaningful information and finally (and possibly more importantly) have the necessary skills to interpret that information correctly and infer the correct learnings from this information.

Certain respondents stated that the quality of existing databases in South Africa is poor (based on his experience and what he has seen). The problem with this is that significant work would need to get done in order to fix up these databases – indicating greater costs and time.

Given these significant challenges it appears that only the largest organisational are capable of funding such an investment. This is evidenced by the large business intelligence units that is employed by a leading retail chain as well as the large IT spend required to set-up and maintain this division in order to get the information they currently require. It could actually be argued that since the retail chain in questions does not strictly calculate ROMI as defined they may actually need to improve their skills and knowledge in this area before successfully implementing this.

Another concern is that due to the apparent poor take-up on ROMI as defined in the South African market (based on the interviews from the respondents) the cost of skilled ROMI consultants and operators could very well be prohibitive. Vodacom similarly have also invested heavily in IT. This investment could actually provide some of the reason why these two organisations appear to be the so called 'trend-setter' in this field in South Africa which may start answering the comment made in 5.3.4 above.

Another problem the finance executive respondents had with ROMI is that it is next to impossible to identify which activity resulted in an improvement in ROMI. One of the biggest benefits companies see in ROMI is that of improved decision making. Without the ability to actually measure the effectiveness of each campaign it makes it difficult to pinpoint where exactly the gain in ROMI is coming from, which in turn makes this calculation relatively meaningless in its application. This is the problem with a long term ROMI calculation without it being complimented with more short term marketing metrics/return type calculations. This actually leads to another problem where marketing executives may be incentives to increase short term ROMI in favour of long term ROMI (such as brand building) as they may be incentivised accordingly.

The finance respondents were also not convinced that it was correct to attribute the long term financial return on marketing spend specifically to one marketing campaign. They noted there were lots of other internal factors/functions that affect the company's performance and putting it down to marketing could be misleading and dangerous to interpret it as such. Whilst ROMI would be used as a metric to measure marketing's performance, it is not 100% in the hands of the marketing department – if the operations department of a retail organisation was not working well it would obviously have a significant effect on a number of the drivers affecting ROMI. In this way ROMI would actually need to be viewed as a holistic view of the business and not merely that of a marketing metric.

However the largest hindrances to the implementation of ROMI as defined is the innate complexity and lack of one common measure to calculate ROMI according to finance executives. Not one of them even mentioned how to calculate the discount rate necessary for most ROMI calculations – the complexity arose before even considering this. The complexity appears to be off-putting to even hard-nosed finance executives who are used to metrics such as ROI (see literature). This is contradictory to thee literature. The complexity is signalled as the single biggest reason for not implementing ROMI to measure marketing's effectiveness.

A simple measure is suggested with a common calculation which would allow its widespread use as well as obtain all the benefits discussed in the next sub-section.

Due to the complexity the finance executives interviewed also stated that they do not have the necessary skills in order to calculate this. The problem is that it is a financial calculation that requires input from a variety of sources as well as marketing's input. This cross functional nature of the calculation makes it necessary to employ people with skills in both marketing and finance fields which are a rarity in this specialised age. One of the respondents who works at one of the leading advertising agency in South Africa felt so negative about the ability of any organisation to obtain these skills that he stuck his neck out to say this will never happen if the status quo regarding ROMI continues. Whilst the sample if not large enough to use his claims from an academic perspective it never-the-less emphasises the skills shortage South Africa has regarding this.

5.4.2 *Marketing executive responses*

The themes identified during the content analysis phase of the research relating to interviews with marketing executives were precisely the same as that of the finance executives, with the exception of the theme of the ability of ROMI to measure the emotional connection consumers have with the brand/product/organisation.

Four of the respondents made comments alluding to the fact that data related issues represent one of the major hindrances to the widespread use of ROMI as defined. The marketing executive from a leading retail chain made the comment that 'without access to the data it would be impossible to scientifically calculate ROMI'. The reason why one cellular company is in the position they are in to start calculating their version of CLTV is due to the investment they have made in IT, especially around the database and business intelligence aspects of their systems.

A respondent in the retail industry made the interesting comment that having a mineable database not only would allow the organisation to calculate ROMI but also be able to keep track of customer's preferences better and possibly target specific segments with specific campaigns that would suit them. Whilst this is not strictly a ROMI issue it does indicate the possible future of retail marketing – greater customisation towards the consumer identifying the issues that could increase customer satisfaction and add the perception of the human touch. Whilst this does not directly have anything to do with ROMI it makes logical sense that with greater personal attention (or at least the perception of personal attention) would increase the ROMI by increasing customer satisfaction, customer loyalty and therefore the equity of the brand.

Another respondent also made the statement that based on her experience none of their clients provided any information that would allow them to calculate ROMI. This could indicate a lack of IT sophistication on the part of the organisation in questions – again pointing to the high cost of IT investment required to track the information required to calculate ROMI.

Similar to the finance executives the marketing respondents also had a theme of it being difficult to attribute any one marketing activity to any overall financial return. A respondent in the retail banking industry even made the comment that there would be no purpose in calculating ROMI if there was no connection or correlation between a marketing activity and that financial return. This talk to the fact that many of the marketing executives also believe that if ROMI worked it would assist in the allocation of the scarce marketing budget to activities that would generate the greatest long-term financial gain per rand spent. With proof of this correlation relating to specific campaigns (which are often only short-term in nature) that benefit would all but have been whittled away thus making ROMI useless to these marketing executives.

However the overwhelming reason for not implementing ROMI as defined or the difficulty to actually calculate for the marketing executives interviewed related to the difficulty experienced in calculating it, the complexity of calculating it as well as the level of skills required to calculate it correctly.

The leading retail chain required specialised skills to run their version of ROMI as well as having the analytical capabilities to interpret it correctly. Another company is struggling to obtain the necessary skills to run their newly founded ROMI metric. The respondent from a leading below the line advertising company believes that in South Africa specifically there are not sufficient skills available to run a successful ROMI program. Another respondent is his almost 20 years in fashion retail has never come across a simple, easily understood and agreed upon calculation to measure the long term effect of marketing. A respondent who has extensive FMCG experience notes that calculating ROMI as defined is ‘tedious’ and doubts that any financial metric will ever be able to accurately measure brand equity. It should be noted that this respondent has had exposure to the literature on ROMI in her MBA classes which again points to a pervasive negativity in the marketing sphere relating to ROMI and the calculation thereof.

The one theme that was not necessarily prevalent amongst the marketing respondents but was never-the-less insightful was that of the inability of a financial metric to ever be able to measure emotion. Three respondents noted that no financial metric can accurately pick up on the emotional attachment consumers have regarding the brand. The nuances around customer’s attitudes towards brand would be incredibly difficult to interpret based purely on ROMI. This is why these respondents believe a much better way to measure this intangible connection customers have with the brand is to use more qualitative metrics.

From the interviews (and reading into the choice of words) it is clear these difficulties pose a significant threat to the acceptance of ROMI as the only metric. Indeed the cost associated with it, combined with the skills required to manage it and massive change management that would be required to change the mind-set of marketing executives would pose a significant stumbling block to its adoption within the business community.

5.4.3 *Comparison of responses*

Table 8: Comparison of finance and marketing executive responses to Research Question 2

Finance executive responses	Marketing executive responses
• Access to data/information related issues ○ Significant investment in IT required (very expensive) ○ Require IT skills to ensure database integrity (very expensive and limited in supply)	• Access to data/information related issues ○ Access to data important ○ Lack of IT sophistication currently ○ High costs of IT investment
• Difficult to attribute marketing activity to any return ○ Cannot attribute long term ROMI to specific marketing activities/campaigns ○ Without this ability it is difficult to obtain potential benefit of ROMI (improved decision making)	• Difficult to attribute marketing activity to any return ○ No purpose of calculating ROMI if you cannot attribute the return from specific marketing campaigns/activities ○ Without this ability it is difficult to obtain potential benefit of ROMI (improved decision

	making)
• Level of difficulty/complexity/skills required to run successfully ○ Incredibly difficult to calculate ○ No use of discount rate ○ Need analysis and interpretation skills to use data (very expensive) ○ Need for simplified calculation	• Level of difficulty/complexity/skills required to run successfully ○ Lack of skills regarding understanding, interpreting and calculation of ROMI ○ Too complex
	• Measuring emotion? ○ ROMI will not ever be able to measure the consumers' emotional response to a brand/product/organisation ○ ROMI does not measure intangible connections

It is ironic that yet again given the perception created by the literature that marketing and finance/business teams are seemingly at war over the lack of accountability of marketing (Ambler & Roberts, 2006; American Marketing Association, 2005; Ashill, 2007; Stewart, 2009) both areas actually much some in sync that one would imagine.

As most finance executives, in general, have greater exposure to the IT side of the business it makes sense that their responses regarding the data/information hindrances are slightly more detailed, and they are aware of the actual costs associated with any IT investment that requires an extensive database with the skills associated thereof. However half of the marketing respondents made comments that could be associated with this theme – indicating their awareness of the data requirement.

Both sets of respondents were also on the same page regarding the ability to attribute financial returns to single campaigns. This appears to be due to the potential benefit of improved decision making regarding the method of marketing spend and the agreement by both parties that knowing about the financial returns of each campaign, whilst rather short-term in nature, will benefit marketing decisions in the future (more of which will be discussed in the next section).

Finance and marketing executives also agreed that ROMI as defined is far too complex, requiring significantly improved skills in order to use effectively. Nearly all respondents wanted a simple, easily understood and agreed upon metric that measures long term returns relating to marketing investment. It therefore makes it clear that all respondents have accepted the need for greater marketing accountability (Ambler & Roberts, 2006, 2008; Ashill, 2007; Corstjens & Merrihue, 2003; Lenskold, 2003; Patterson, 2007; Srinivasan & Hanssens, 2009; Stewart, 2009), however the question they pose is now to somehow simplify the existing models of ROMI in something that is simple, easily understood and commonly used.

The only theme that was not consistent across the two groups was that of it being difficult to measure an emotional connection to a brand. Logically it makes sense that the finance group being more right-brained and the marketing group being more creatively inclined and left-brained would think differently when it comes to these types of 'loosely based' metrics. However this does raise an important point – can numbers ever really ever provide a proxy for the way consumers feel?

Obviously the more positively inclined a customer feels towards a brand or company the higher the ROMI will be on a long term basis but this relationship develops over time. It was interesting that both finance and marketing executives at one of the business banks are satisfied with more anecdotal type qualitative marketing metrics for a similar reason. This fact backs up Amber and Robert's theory that using ROMI as the only 'silver metric' for measuring the performance of marketing has to be multi-dimensional and consider a number of metrics, not only the financial ROMI (Ambler & Roberts, 2006, 2008)

5.4.4 *Other comments and observations*

As discussed in 5.3.4 above there definitely seems to be a trend that the larger the company is the easier it is for them to use ROMI. This is further backed up from the comments from this section.

A leading retail chain has already made the significant investment in IT and skills required measuring ROMI in comparison to any of the other respondent's industries. This could however be an indication of the need for a retailer to invest heavily in IT to obtain this information due to the large number of customers and the lack of personal touch/relationship associated with having a large number of customers. This is further backed up by another respondent's comments that their retail organisation might use their card base to eventually start targeting customers' needs and preferences directly therefore created the perception of more personal attention and hence improve on the relationship with the customers.

An organisation in the cellular industry, which is a heavyweight in South Africa's corporate landscape also has invested heavily in IT and is about to launch a version of CLTV – again the ability to spend large amounts of money on IT and skills appears to put it ahead of the other companies where the respondent work.

It appears that having the economies of scale and large pockets could result in more scientific methods of measuring marketing.

5.4.5 *Conclusion to research question 2*

There appears to be a common understanding between finance and marketing executives regarding the challenge and hindrances to the extensive use of ROMI by their organisations. High on the agenda relates to the ability to obtain the data and analyse it into a useful form in order to utilise it in the ROMI calculations. The challenges identified were at such a basic ROMI level that the responses between the four ROMI models identified (generalised ROMI, return on CLTV, return on customer and return on brand equity) were exactly the same. This means that none of the models identified in the literature are being used currently by any of the resonant.

The level of skills both from an IT and analysis perspective were also identified as a stumbling block to the adoption of ROMI as a marketing metric in their organisations.

ROMI was also too complex without a standard measure and use in the industry which prevented its extensive use. The complexity of it was mentioned as the single biggest challenge in the South African environment.

It is clear from the responses to research question 2 that the universal acceptance of ROMI even as one of the performance metrics (let alone the main metric) is some way off.

5.5 Discussion pertaining to Research Question 3

The third research question related to the potential benefits that the respondents believed could be obtained by measuring the effectiveness of marketing with ROMI in their organisations.

5.5.1 *Finance executive responses*

Although in the previous section there was much discussion around whether one could attribute financial returns based on ROMI to individual campaigns it appears that the majority of the finance executive respondents believe that by measuring ROMI it would greatly assist decision making from the marketing perspective, especially relating to a more scientific approach to allocating the marketing budget to the various avenues that would generate the highest return on marketing investment per rand spent. This confirms the theory that ROMI improves decision making (Ambler & Roberts, 2008; Ashill, 2007; Blattberg & Deighton, 1996; Corstjens & Merrihue, 2003; Dias et al., 2002).

This is actually something many finance executives have struggled with (along with economists) over the years – how to allocate scarce resources in the most optimal way. It therefore makes logical sense that this benefit appeals to finance executives. Many of them previously mentioned sayings such as ‘more bang for our buck’ and the finance executive from a leading retail chain made the comment that they had stopped advertising in their magazine as they could not prove whether there was any correlation between this spend and increased return on marketing.

However the major concern here relates to the fact that as most of the ROMI metrics discussed in the literature relate to longer term metrics which means that the potential benefit of obtaining learnings about correct marketing mix and style of promotion would not be obtained from measuring ROMI. All that could be gleaned from this would be that the marketing mix is either increasing or decreasing return. This leads one to believe that possibly a more short term approach of ROMI would be required in tandem with the standard ROMI calculations to actually obtain the benefits described above.

Another benefit that has a longer term in nature is that of obtaining a greater comfort in terms of the marketing spend at board level. Most of the respondents felt that the marketing spend was based on ‘prior year plus an inflationary adjustment or increased in the same ratio as prior year sales’ (one of the respondents) which was perceived by the finance executives to be a thumb suck approach. In fact – half of the respondents noted that marketing was the first cost line that was attacked in the recessionary environment which backs up the theory in Stewart’s literature on marketing accountability (Stewart, 2009). With ROMI now the marketing department could justify marketing spend based on quantifiable long term returns which offer the following benefits:

- Use of terminology that reflects the current business environment (Correira et al., 2000; Stewart, 2008)
- Greater accountability for marketing’s performance (Greenyer, 2006; Gronholdt & Martensen, 2006; Stewart, 2008, 2009; Woodburn, 2004)

The practical benefits discussed by the respondents therefore matches those expected from the literature.

5.5.2 *Marketing executive responses*

The marketing executives also believed that the implementation of measuring marketing in terms of ROMI would assist in decision making; specifically relating to the following areas:

- Timing of various activities

- Types of promotions that work for specific objectives
- Media choice/distribution channel choice
- Ability to retain and attract customers more scientifically in terms of CLTV
- Greater ability to analyse customer behaviour by region and segment choice

This would assist marketing executives to really measure the effectiveness of their spend, and be a little more scientific with their choices. However yet again a similar problem comes about as with the finance executives – to obtain this benefit one would need to somehow track short-term ROMI which could inform decision making and would have an impact on the longer term ROMI. Without this ability it would be impossible to isolate which promotions or advertising for example generated the highest returns and allocate resources accordingly.

Therefore whilst this is a potential benefit it also points to one of the difficulties with ROMI previously identified – the ability to specifically attribute which type of marketing activity to the actual overall return. This does provide further impetus to Ambler and Roberts claims that measuring marketing requires a multi-dimensional approach, using a number of qualitative and quantitative, short-term and long term metrics together with ROMI to determine the effectiveness of marketing (Ambler & Roberts, 2008).

Marketing executives also believed one of the biggest benefits to measuring ROMI would be easier buy-in from top management. This would make their lives easier when it came to budget time as they could show quantitatively and objectively the effectiveness of their previous year's marketing efforts based on the incremental changes to ROMI over the period. This would take a lot of the guess work and 'gut-feel' that is currently pervasive throughout the marketing community. They also believe finance executives would 'be on the same page' as them which would mean that when costs needed to be cut they would be done on a more scientific basis rather than looking to marketing to cut up front (Stewart, 2009).

There would also be a softer benefit whereabouts marketing's contribution to the company could be financial measured and the top management could see the contribution quantitatively which is the method they evaluate most of the other divisions within the organisation.

5.5.3 *Comparison of responses*

Table 9: Comparison of finance and marketing executive responses to Research Question 3

Finance executive responses	Marketing executive responses

• Improved decision making/planning
  ○ Will result in more scientific approach of allocating the marketing budget
  ○ Results in greater ROMI per rand spent
	• Improved decision making
	  ○ Better decision making in terms of timing of various activities, types of promotions that work for specific objectives, media choice/distribution channel choice, ability to retain and attract customers more scientifically in terms of CLTV and greater ability to analyse customer behaviour by region and segment choice

• Greater comfort in terms of	• Easier buy in from top management ○ With quantifiable measures it

marketing spend ○ With quantifiable, long term metrics board will have greater comfort at level of spend as the organisation can track performance per campaign/activity	becomes easier to convince top management to spend money on marketing ○ Become more scientific and allow finance executives to be on same page as marketing counterparts

Yet again marketing and finance executives appear to be on a similar page when it comes to the potential benefits of implementing ROMI to measure marketing. They both agree that decision making would be significantly improved and the choice of marketing mix would become more scientific compared to the current ‘gut feel’ choice that is often used.

One small difference is the slightly different wording of the last benefit – Greater comfort in terms of marketing spend (from a finance executive perspective) versus easier buy-in from top management (from a marketing perspective). This makes logical sense as finance is generally one of the department that signs off and approves the marketing budget whilst marketing always have to justify it. It is therefore two sides of the same coin and that both set of executives agree on the potential benefits of using ROMI.

5.5.4 *Other comments and observations*

Regarding the benefits nearly all respondents had the same benefits when interviewed. It appears that all industries where the sample was selected from have the same idea when it comes to the benefits of ROMI.

5.5.5 *Conclusion to research question 3*

All respondents had similar responses regarding the benefits that could be achieved through implementing ROMI. However many of these befits would only be achieved if ROMI was supplemented with some kind of shorter term calculation of return. However if this could be done it is clear that the decisions regarding marketing would become much more scientific which in turn would provide top management with greater comfort in the marketing spend.

5.6 Conclusion

From the interviews of the finance and marketing executive samples it is clear that ROMI is currently not used in the South African business environment. Whilst all respondents viewed ROMI favourably in terms of the potential benefits it could add to their respective organisations the challenges with implementing ROMI far outweigh these benefits at this stage.

None of the four ROMI calculations described were understood by either sample and it appears their use is some way away. However some of the larger organisations are in the process of implementing semi-versions of ROMI.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter deals concludes the research bringing together both the literature and research chapters as well as making recommendations to the various stakeholders affected by ROMI as well as suggesting further areas for research based on the findings presented in this research report.

6.2 Conclusions of the study

Research question 1

What is the understanding of ROMI in practice and how do organisations measure the effectiveness of marketing currently?

Table 10: Themes identified from finance and marketing executive responses to Research Question 1

Finance executive themes	Marketing executive themes
• Qualitative versus Quantitative methods	• Qualitative versus Quantitative methods
• Period of evaluation	• Period of evaluation
• No agreed upon current method to calculate ROMI	• No agreed upon current method to calculate ROMI

Based on the discussion and interpretation chapter of this research based on the interviews conducted is it clear that in South Africa the use of ROMI as a method of measuring the performance of marketing is virtually non-existent. In fact, even though many of the respondents used the terminology of ROMI, none of them actually use ROMI as defined as a marketing metric.

Most of the quantitative metrics used for measuring ‘ROMI’ as exactly as defined by the American Marketing Association as commonly used methods incorrectly described as ROMI (American Marketing Association, 2005). Many respondents utilise a combination of both qualitative and quantitative metrics however even these metrics are not consistent between respondents. The focus is substantially on short term easily quantifiable metrics combined with longer term qualitative metrics.

However both finance and marketing executives interviewed agreed that there needs to be greater accountability from a financial return perspective for marketing and indeed believed that if it was easier to measure ROMI would assist in making marketing executives’ jobs easier in terms of decision making and buy-in of top management.

In addition whilst many of the executives interviewed talked about brand awareness, customer loyalty, brand equity and CLTV none of them knew of any quantitative ways to measure this. This points to a lack of understanding of any of these terms from a technical standpoint regarding the quantification of these metrics.

Research question 2

What are the perceived hindrances to ROMIs adoption or what were the challenges experienced in practice in implementing ROMI?

Table 11: Themes identified from finance and marketing executive responses to Research Question 2

Finance executive themes	Marketing executive themes
• Access to data/information related issues	• Access to data/information related issues
• Difficult to attribute marketing activity to any return	• Difficult to attribute marketing activity to any return
• Level of difficulty/complexity/skills required to run successfully	• Level of difficulty/complexity/skills required to run successfully
	• Measuring emotion?

In order for either sample to use ROMI actively there are significant obstacles that need to be overcome – simplifying the existing models, finding one model that can be commonly used, investment in data and business intelligence tools to mine this data correctly and /or an increase in the level of skills in terms of both understanding ROMI and interpreting the data correctly. These obstacles appear to be the reason why there is a prevalent lack of understanding and application of ROMI in South Africa based on the sample of the respondents. Without practical solutions to these obstacles it is highly unlikely ROMI will ever become a popular metric for measuring even a portion of the effectiveness of marketing.

Research question 3

What are the perceived benefits in implementing ROMI as a measurement tool for marketing?

Table 12: Themes identified from finance and marketing executive responses to Research Question 3

Finance executive themes	Marketing executive themes
• Improved decision making/planning	• Improved decision making
• Greater comfort in terms of marketing spend	• Easier buy in from top management

According to the respondents there are significant benefits that could be derived from the implementation of ROMI (provided the challenges and difficulties are overcome. Decision making regarding marketing mix and campaign choice would be much more scientific and focussed which would further increase the ROMI and ensure the marketing department maximised the ROMI with their limited budget.

In addition top management would appreciate the greater quantitative focus and accountability of the marketing department resulting in great comfort with the marketing spend as well as proving to finance the long term effect on the business.

Summary

In summary given these significant challenges it appears that South Africa is not yet sophisticated enough to measure marketing in terms of ROMI just yet. Some of the larger organisations may have the money, time and skills to implement ROMI however given the lack of understanding in the current marketing community this seems unlikely in the short term. This research has, if anything, proven Ambler and Robert's belief that measuring marketing needs to be done in a multi-dimensional way including short-term and long term metrics and qualitative and quantitative metrics (Ambler & Roberts, 2006, 2008).

6.3 Recommendations

Due to the substantial difficulties experienced by the respondents regarding the implementation of ROMI as a metric and the lack of common understanding as to what ROMI actually is it is difficult to obtain many recommendations for the various stakeholders (mostly finance and marketing executives) from the specific perspective of ROMI implementation.

However the first recommendation would be to educate both parties regarding exactly what ROMI is and how it is measured. Even if the actual calculation is impossible to perform currently it would be useful for the finance and marketing heads to understand what drives ROMI and to possibly put in place metrics that are easier to track and measure – whether qualitative or quantitative – and measure these often enough to at least start understanding what areas need additional focus or what elements of the marketing mix may need to be tweaked or changed. This would at least give an indication as to the state of the organisation's marketing. By measuring the drivers that influence ROMI organisations can also start proving their effectiveness to the boards and gain much more top management buy-in.

Organisations could also put in place marketing metrics that can measure short-term and long-term returns (whether ROMI or not) as well as qualitative and quantitative metrics to provide the holistic, multi-dimension approach that appears to be easier to implement and will provide the organisation with the tools to balance both short-term and long-term financial returns (Ambler & Roberts, 2006, 2008).

One key theme that was picked up throughout the interviews with the finance executives was the frustration regarding the lack of ability to measure marketing's performance. This could get improved with marketing executives (and possibly marketing managers) going on finance for non-financial manager courses. This would improve their financial acumen and allow them to talk the same business language that finance executives (and other board members) speak. This will also allow the marketing executives to potentially understand their effectiveness in terms of more quantifiable measures. It could also assist in the marketing executives coming up with ways to measure at a minimum the various drivers that ultimately effect the ROMI (whether it be return on brand equity, return on customer, return on CLTV or generalised ROMI). This would lead to greater alignment between finance and marketing departments which would lead to greater board buy-in and improved understanding of the effectiveness in terms of quantifiable metrics.

Similarly it is also evident that finance executives do not always understand the marketing department's objectives. This could also be improved through greater finance and marketing alignment and communication, as well as setting upfront objectives (whether it be qualitative or quantitative or both) for the various campaigns. Communication is actually that would also assist in eliminating the frustration that exists between finance and marketing departments. By improving communication it will again allow the finance executive to 'back up' the marketing executive at board level thus obtaining greater board level approval in terms of marketing spend.

With regards to specific industries, based on the interviews conducted it appears that the retail environment is the perfect industry where an investment in IT systems and ROMI skills can greatly improve not only ROMI but also shareholders' return on investment. Obviously investing blindly in IT would not necessarily guarantee the return, however if retail companies with a large enough presence that could create economies of scale invest cleverly in IT, and then utilise the data to garner insights into their customer's preferences, these companies can gain significant ROMI on this investment.

6.4 Suggestions for further research

Whilst this research has not managed to obtained clarity on the contentious topic of ROMI; however it has raised a number of interesting questions that could be answered with subsequent research. Examples of further research are as follows:

- Determining the quantitative marketing metrics used by large retailers in South Africa
- Undertaking a case study of one of the large retailers in South Africa to determine their methods of measuring their marketing effectiveness
- Attempting to devise a simpler method of calculating ROMI that would reduce the necessity for specialised skills and significant IT investment (this could actually be a great business opportunity for IT development companies also)
- Researching the best method to measure marketing from a multi-dimensional perspective as discussed by Ambler and Roberts, including short-term and long-term measures and qualitative and quantitative

measures. This could be done quite well with a case study of one of South Africa's large companies as the primary focus

- Utilising the measurement of the drivers of ROMI to determine marketing's effectiveness

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APPENDIX A

Section A – Perceptions on Return on marketing investment: open-ended questions in the form of an interview

1. Please provide your detailed understanding as to what return on marketing investment means to you?
2. Please provide the current methods used to evaluate the marketing function and success thereof?
3. Given the definition of ROMI as per the literature what challenges or difficulties do you find in calculating this in your business?
4. What obstacles do you have in calculating a more long term ROMI as evidenced from the literature?
5. Why do you not calculate ROMI as defined?
6. If your company could measure ROMI through the various sets of definitions what kind of benefits would you be able to be derived?
7. Explain why and how these benefits could be derived?

Thank you for taking the time to complete this survey.

APPENDIX B – LIST OF RESPONDENTS

Finance executive respondents:

Name	Company	Industry	Position
Andrew Wilson (AW)	Wings Corporate Travel	Service	Financial Director
Patrick Black (PB)	Reichmans Capital	Business banking	Financial Director
Carin Meyer (CM)	FNB	Retail banking	Finance head
Dennis Seaton (DS)	RTT	Transportation	Financial director
Edgar Evans (EE)	Edcon	Retail	Finance & marketing executive
Tyron Soondarjee (TS)	Sasfin Bank	Business banking	Financial Director
Muazzam Rahim(MR)	Vodacom	Cellular	Financial manager
Robert Amoils (RA)	Vestacor	Retail	Chief Financial Officer
Shane Fenthum (SF)	DDB SA	Advertising	Financial Director
Wendy Kirstan (WK)	AdvTech Resourcing	Service	Financial Manager

Marketing executive respondents:

Name	Company	Industry	Position
Arthur Ainsley (AA) & John Wilks (JW)	Reichmans Capital	Business banking	Managing Director, Director
Cameron Burt (CB)	Edcon	Retail	Marketing executive
Claire Davis (CD)	FNB	Retail banking	Marketing head
Craig Muller (CM)	Barrows	Advertising/Service	Operations Director
David James (DJ) & Caroline Coughlan (CC)	Antalis	Industrial products	Marketing director & manager
Enzo Scarcella (EZ)	Vodacom	Cellular	Marketing director
Jonathan Neufield (JN)	Sasfin Bank	Business banking	Marketing director
Marco Cicoria (MC)	Retail Brand Capital	Retail	Managing director
Stacey Frankel (SF)	Stuttafords	Retail	Marketing Manager
Velash (VV)	Pepsi SA	Sales	Marketing manager

APPENDIX C - CONSISTENCY MATRIX

Research problem stated here					
Sub-problem	**Literature Review**	**Hypotheses or Propositions or Research questions**	**Source of data**	**Type of data**	**Analysis**
The first sub-problem is to investigate the current practices of measuring ROMI/the effectiveness of the marketing department. The second sub problem is to evaluate the perceived challenges experienced in practice in implementing ROMI as a measurement tool. The final sub problem is to determine the potential benefits of implementing ROMI as a measurement tool.	(Gupta & Lehmann, 2006; Peppers & Rogers, 2006); (Abratt & Bick, 2003); Ashill, 2007; Seggie et al., 2007(Greenyer, 2006; Gronholdt & Martensen, 2006; Gupta & Lehmann, 2006; Patterson, 2007; Stewart, 2009); (Ambler & Roberts, 2006); Ambler and Roberts, 2008(American Marketing Association, 2005); (Patterson, 2007; R. Rust et al., 2004; Smith & Dikolli, 1995; Stewart, 2008, 2009); Srinivasan and Hanssens, 2009 Berger and Nasr, 1998(Ambler & Roberts, 2006; Ashill, 2007; Greenyer, 2006; Patterson, 2007; Pauwels et al., 2009; R. Rust et al., 2004; Seggie et al., 2007)	What is the understanding of ROMI in practice and how do organisations measure the effectiveness of marketing currently? What are the perceived hindrances to ROMIs adoption or what were the challenges experienced in practice in implementing ROMI? What are the perceived benefits in implementing ROMI as a measurement tool for marketing?	Questionnaire per appendix A	Qualitative	Content Analysis (Creswell, 2009; Elo & Kyngas, 2008; Graneheim & Lundman, 2004; Neuendorf, 2002)