culturehive

Guide

Guide to measuring return on investment (ROI)

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1. Who is this guide for?

- Time-poor marketers who need a simple guide to measuring return on investment across multiple parts of the marketing mix
- Marketers who want to refresh their knowledge of the basics with handy links to additional resources where you can find out more
- New marketing managers who want to put effective systems in place to measure the effectiveness of your campaigns and overall strategy
- Marketers whose budgets are under threat but feel ill-equipped to make a case for investment
- Marketers who need to show return on investment and engagement from social and digital marketing campaigns
- Marketers who think measuring ROI is important but aren't sure how to do it
- Marketers who need to turn data into actionable insight

2. What is ROI

Return on investment (ROI) is the primary measurement of marketing effectiveness.

As our marketing efforts are under increased scrutiny and our marketing budgets are under threat more than ever before we need to be able to make the case for what we do – both in terms of financial return and engagement. Measuring ROI is the best tool to help us. It can and should be applied to the marketing choices we make as we plan but we need to understand what it is, how to use it to our advantage, its limitations and what it can do for us.

Measuring marketing ROI is about more than justifying budgets. It allows your organisation to move forward, develop your audiences and deliver both more income and deeper engagement with greater efficiency.

How can metrics help? Here are four simple reasons:

- Metrics reduce arguments based on opinion
- Metrics give you answers about what really works
- Metrics show you where you're strong (and weak)
- Metrics allow you to test anything you want

3. The challenges of measuring ROI

So what's the problem? If we all know the needs and the benefits of measuring ROI why aren't we all doing it?

One of the key findings in a study from Columbia Business School, Marketing ROI in the Era of Big Data[1], was that marketers recognise the need to measure ROI but are unsure of what it actually means and how best to put systems in place for its implementation and to get more meaningful insight.

Add to this the rapid growth of big data and new digital marketing tools that have brought with them both opportunities and challenges. There is now a wealth of free and low-cost analytics tools and sophisticated CRM systems but the flip side is that there can be so much data, in so many different places that we just don't know where to begin.

There seem to be four main challenges:

- Knowing when to measure
- Multiple touches
- Marketing tools influence individuals differently
- External factors create additional variables

3.1 Knowing when to measure

We need to know when to measure the effectiveness of our activities so that it can provide immediate insight and help us to decide where to invest our marketing time and money next. This is a particular issue when your marketing action might not deliver results in the short term but needs a sustained approach over time before results are seen. For example, media interest can yield immediate success or it can strengthen our reputation and yield actual results months or even years later.

3.2 Multiple touches

In commercial marketing there's an old adage that says there needs to be at least seven touches in order to turn a 'cold lead' into a sale. In cultural marketing we also use multiple tools and multiple touches to achieve our targets. This makes it difficult to gauge what part each tool and each touch played in getting our desired results.

3.3 Multiple influencers

The decision to buy a ticket, participate or attend is rarely made by one person. Our potential audiences talk to each other, debate and confer before a decision is made. Each individual responds in different ways to the different parts of our marketing activity and this presents us with the additional challenge of knowing which action has the most impact.

3.4 External factors

Everything from the weather and economic trends to a clash with a major sporting event can make it difficult to assess the true ROI of our marketing efforts. For instance an unexpected spell of beautiful weather for our outdoor event shouldn't mean that we can claim our campaign delivered better ROI. In the same way, a transport disruption shouldn't mean that our campaign didn't work. Identifying the challenges in advance helps us develop more robust, realistic and actionable ROI models.

There are no simple answers to effectively measuring ROI. We need to be agile and keep learning to deliver innovative marketing and effective measurement that gets results.

So that's the bad news. Let's look at ways we can address the challenges, implement ways to account for discrepancies and get on with the vital job of measuring ROI.

4. The basic formula

ROI measures the profitability of an investment, decision or action. It's a simple formula that takes the benefit (the return) of an investment and divides it by the cost of the investment. Your resulting ROI is expressed as a percentage or a ration.

$$\text{ROI} = \frac{\text{(Income from investment - cost of investment)}}{\text{Cost of investment}}$$

The resulting figure is multiplied by 100 to express ROI as a percentage.

Some simple things to remember:

- If an investment has an ROI percentage greater than zero, it means your investment return was more than its cost - it was profitable
- The higher the percentage the more profitable it is compared to its cost
- If an investment has a low ROI or a negative ROI it means it had a low return compared to its cost

And why this is helpful:

- Measuring the ROI of a marketing campaign allows you to assess clearly whether the investment was worth your time and money
- This gives you the ability to assess what worked well and what didn't and adjust your future plans to take account of this

The basic ROI calculation is a good starting point, keeps things reasonably simple and is a solid way for getting a quick 'temperature check' on campaign performance. It works well for basic comparisons including 'Campaign 1 is doing better than Campaign 2' or 'we improved this month over last month'.

4.1 Example of calculating ROI on email marketing using the basic formula

You are promoting the premiere of a theatre event and you have an e-list of 100. You want to test the effectiveness of your email marketing so you send out an email to the 100 people on your list with a unique link that gives each recipient the opportunity to buy a £10 ticket AND an opportunity to meet the artistic director and cast after the show.

You set yourself an objective to achieve an 80% positive response. You can measure your ROI by counting the number of clicks that convert directly to each transaction. This is your conversion rate, defined as the % of recipients who clicked on a link within a particular email and completed a preferred action.

What you need to do:

- Calculate your marketing costs (in this case mainly time spent). For this example, let's say your total investment cost was £150
- Let's say out of the 100 on your e-list 28 purchase a £10 ticket, totaling £280 in ticket sales.
  So the cost of investment = £150
  Income from investment = £280
- Then calculate your ROI
  $$\frac{280-150}{150} \times 100 = 87\%$$

This is a very simple example but it has told you that, although your 80% target seemed high, email marketing was an effective way to reach your audience. It also suggests that your audience respond to opportunities to engage in person with the artistic team. You could check this using simple A/B testing where group A are offered £10 tickets and group B are offered £10 tickets and a chance to meet the team. More conversions from group B would confirm that engagement opportunities improve success.

How to take it further:

Of course you don't need to do this manually. Most email management software will do this for you and many have plugins that integrate with Google Analytics, combining data from both. This means you can see ROI for your campaign alongside conversion rates, revenue generated, page views and goals completed.

4.2 ROI and multi-channel funnels

In most campaigns we use a complex mix of tools and channels to reach our goals and we need to assess how each of these touchpoints contribute to our outcomes - which ones are successful, which aren't.

Conversion tracking allows us to see what's working and here the last ad, search or referral clicked on directly gets the credit. In reality the ways your customers interact with each of your channels are all part of the marketing funnel leading to conversion. Often your customer will engage more with these channels than they do with the one responsible for the final click that's getting all the credit.

One way to look beyond the last click is to use multi-channel funnels in Google Analytics. This allows you to identify each channel and the full customer journey from beginning to end e.g. social media, email marketing, organic search, banner ad etc. This still doesn't factor in your print or other offline activity or give you a full understanding of the value of each step but it's a good place to start.

Multi-channel funnels in Google Analytics automatically show you how customers interact with your digital channels for up to a month or more before the conversion happens.

Google Support provides simple instructions to help you set up Multi Channel Funnels.

How to take it further:

Attribution modeling takes this one step further and allows us to understand the value of each step by adding in weighting mechanisms that look at a variety of factors e.g. how recent was the interaction and how long was it?

You can find out more about attribution modeling from Google Support.

5. Pitfalls to avoid

There are two key pitfalls to avoid when you get started but avoid them and you'll be well on your way to successfully measuring your return on investment.

5.1 Values for costs and return

Remember, the basic ROI calculation yields different results depending on what values you include for both the costs and the returns.

- You want to maximise the return on the money you spend but it's just as important to factor in the time you spend. Investing your time wisely leads to more effective marketing decisions and can be a major cost, particularly in digital and social marketing, which needs to be added into the equation.

- Similarly, return isn't just about income you may need to include qualitative measures that look at involvement, engagement and brand value or appreciation.

5.2 Avoid vanity metrics

It's easy to be seduced by vanity metrics - numbers that make us look and feel good but don't help make decisions. Forget about visits, likes and numbers of followers and instead concentrate on:

- Activation - people enjoyed the experience

- Retention - enough to come back

- Referral - and recommended the experience to others

6. A five-step plan to improve marketing ROI

6.1 Step 1: Define success

The first thing you need to do is decide what 'success looks like' and define your key performance indicators (KPIs) or critical success factors (CSFs). For straightforward information to help you at this key stage, refer to KPIs for Audiences: A Practical Guide, Audience Finder[2] (a shortened version is outlined below) and Thinking Big! A guide to strategic marketing planning for arts organisations[3] (Stephen Cashman) pp. 83.85.

Ask yourself:

- What success will look like or how will we know when we get there?
- What is the best indicator for that success?
- What level of detail will be the most useful?

Performance indicators that focus on what you DO, not the results themselves can be more effective - e.g. box office calls answered, rather than number of bookings made.

Think about:

- How long will it take you to achieve goals and what are the indicators along the way? Audience KPIs will look very different from long-term organisational goals, by season, or one-off project aims.
- Decide what period you are monitoring and how often data will be collected.

Note: Frequently monitored KPIs (daily, weekly, monthly) are the most effective.

- How to add real meaning by comparing results with other measures - your own performance (trends over time), with benchmarks, with general insight about audiences or the population.

You'll find a table grouping potential audience KPIs into four main groups: audience behaviours, audience attitudes, audience profile and audience management in Appendix 1 below. It outlines many examples of things you might need to measure from the number of new bookers, to social media reach, customer satisfaction and access facilities.

Success can be defined in many ways but in order to evaluate ROI you must agree on a starting point and identify what metrics are most important.

6.2 Step 2: Define smart objectives

Setting SMART objectives is your next step - you can't measure ROI unless you have a clear understanding of what you're trying to achieve. Don't forget to understand how each objective feeds your mission and connects your audience with your organisation

Think about your goals that could include:

- Reaching specific target markets (new or existing)
- Building loyalty/frequency from existing audiences
- Reinforcing a brand or repositioning change

It will help to cluster your objectives by type:

- financial (e.g. increase in income, decrease in costs, secondary sales) - also think about customer service cost and cost to innovate
- engagement (e.g. quality and sentiment of commentary)
- brand (e.g. awareness, word of mouth, loyalty)
- digital (e.g. conversion, search, networks)
- audience development (e.g. segments, cross-over, risk-taking)
- market penetration (e.g. extend geography, reach, frequency)

Here's a quick recap on keeping your objectives SMART:

Specific: they describe a specific outcome linked to a rate, number, percentage or frequency. Is the objective specific? Ask these questions:
- What exactly are we going to do, with or for whom?
- Is it clear who is involved?
- Is the outcome clear?

Measurable: include a rate, number, percentage or frequency. Is the objective measurable? Ask these questions:
- How will you know the intended change has occurred?
- Can these measurements be obtained?

Actionable and agreed: is it possible to achieve given existing resources? Does everyone share this objective?

Realistic: are you being over-ambitious? Ask these questions:
- Is this possible?
- Do we have the necessary skills, knowledge, authority?

Time-based: they include a defined finish and/or start date

Here's an example of how to turn a not-so-SMART objective into something that enables you to measure your ROI.

Not-so-SMART objective	Increase the number of young people attending our project
Key questions	Objective
Specific - what is the specific task?	Double the number of 14-18 year olds attending our project to 1,000 (from 500)
Measurable - how will you tell when you've arrived at your target?	Collect attendance data. Different price band for this group to ease collection of data. Monitor monthly. Exit research for non-ticketed events.
Achievable - is it possible to complete your target given your resources? Does everyone agree?	Dedicate 10% of marketing budget to this objective. Agree with team. Plan time to monitor and develop exit research.
Realistic - are you sure that you're not being over-ambitious?	Have identified potential for growth is high. Need to collaborate with schools and venues.
Time-based - what are the start and end dates?	One year between January and December 2016.
SMART objective	To double the number of 14-18 year olds attending our events in 2016 to 1,000 (compared to 500 in 2015).

6.3 Step 3: Gather data

The lack of a single, integrated database across your organisation can be a big hurdle to jump but don't let this put you off. Put in place a plan to bring your data together in a single 'database of truth'. This will take time so you need to be realistic about what you can achieve and how quickly. Part of this process is careful consideration of the resources you have available - the resources you allocate need to be proportionate to the gain you anticipate. However keeping the collection and bringing together of data at the top of your agenda will pay dividends.

Working in collaboration with other organisations can also help. Initiatives like Audience Finder[4] can help you gather the data you need from audience surveys, box office data and online analytics.

Set aside some time to read Counting What Counts[5] by Anthony Lilley, a comprehensive report that helps us understand the importance and urgency of the need to think differently about the potential of big data. A transcript of Anthony's session at AMA conference 2013 which explains how we need to be user-centred and data-led and what steps we need to take to achieve it is available to download from CultureHive.[6]

6.4 Step 4: Test and monitor objectives

Build your KPIs into our marketing plan and check to see if they pass this test:

- Clear: is it clear what you are measuring and why?
- Crucial: are your KPIs of organisational importance and likely to affect crucial decisions and actions?
- Collectable: can you actually get the data you need for measurement with a reasonable level of resource?
- Consistent: will you be able to track this KPI over time consistently to assess and progress?
- Contextualised: will you be able to compare results, with other relevant organisations, with the population? Can you access this information?
- Communicable: are they easy to represent and understand - both metrics and their implications? Will your KPIs motivate or irritate relevant colleagues?
- Channelled: who will be responsible for taking action to address?

Key to your success will be monitoring your KPIs regularly. There is a lot of evidence to show that this needs to be done on at least a weekly basis - leaving it to the end of the month can be too late to get your campaign back on track if things go wrong or to take full advantage of opportunities quickly and to maximum benefit.

Ask yourself:

- Which measurements can be expected to provide the clearest insights - and will have the greatest impact on decisions regarding the next steps you take e.g. if you know the number of sales or visits that have resulted from an email campaign (as opposed to the number of visits to your website that haven't resulted in a sale or visit) you can determine how successful that tool is in helping you meet your objectives. You can then use this knowledge and data to determine the value of other channels and tools you have used such as direct mail.
- Have you identified the cost of each marketing activity and tracked each touchpoint on the customer journey?

Think about:

- Once you've got to grips with ROI measurements, consider evaluating metrics such as Customer Lifetime Value (CLV)

- Building in adequate resources for better measurement and analytics at the early stages of your planning process

- Testing different approaches and channels. Measuring ROI gives you the freedom to experiment by finding out what works and why

6.5 Step 5: Apply the results

The final step is to use your data to make informed decisions and give you the resources you need to make the maximum return.

7. Some useful free tools to help you measure

7.1 Google Analytics

Google Analytics shows you the full customer picture across ads and videos, websites and social tools, tablets and smartphones. It gives you insights you can turn into results – from choosing the right benchmarks and content to testing channels and campaign performance.

7.2 Facebook Insights

Facebook Insights gives you a dashboard of all the analytics data for your Facebook page from page likes to post reach and engagement.

7.3 Twitter Analytics

Twitter now has its own analytics dashboard that allows you to track timeline activity, including tweets that were favourited, retweeted and replied to. The tool also tracks the number of mentions, new followers and newly followed. For more information take a look at Twitter Analytics: A Beginner's Guide.[7]

7.4 HootSuite

Hootsuite is a good all round tool to use for management and metrics tracking. You can schedule posts from multiple social media channels as well as create individual reports.

7.5 Social Mention

Social Mention is an aggregate tool similar to Google Alerts, but for social media only. This will give you insight into not only what is being said, but who is saying it and what the general sentiment is. You can set an RSS feed, email alerts, or even add a real-time widget to your website. You can also download a CSV/Excel file for further evaluation.

7.6 Klout

Monitoring influence isn't an exact science, but having a tool that helps you begin to gauge someone's online presence can be useful. Klout measures influence on Twitter, Facebook, LinkedIn, Google+ and several other channels.

7.7 Custom Social Media Reports

Google Analytics tracks the number of visitors to your site from different social channels but these custom reports give you additional insights as to how the traffic is being driven to your website.

7.8 Bitly

This link shortener allows you to track everything you share. This is a great way to see what your audience is interacting with and decide if the content you share is valuable.

Bitly also integrates into many third-party software packages, making it a great umbrella tool, as you can track within multiple platforms. For example, you may use Social Sprout, a paid management platform and Buffer both with Bitly then review data in individual platforms or as a whole through Bitly.

8. QuickTips

- If you're new to measuring ROI it's easy to be put off by the size of the task. Don't try to measure the ROI of all your marketing actions at once. Start with one element of a campaign and when you feel confident add in more. Don't try to measure everything.

- Make sure that you don't jump straight in – remember to define what success will look like and set your SMART objectives.

- Define your objectives and chosen metrics carefully for digital and social media ROI – define the best ones for you and how your audience engages with your organisation. If metrics aren't actionable, they aren't worth using.

- Get ready for a reality check. Measuring ROI can make you realise that your approach has not been as effective as you thought – don't get discouraged but be prepared to move quickly, adapt your plans and quickly move to making more effective decisions.

Appendix 1: KPIs for audiences: a practical guide (Audience Finder), The Audience Agency

What is a KPI or Key Performance Indicator?

Simply enough, it's an acronym for a measurement of progress of particular importance to one's success. You could happily substitute metric, target, measure, impact to broadly similar effect.

Why do it?

Setting KPIs helps define success and monitoring them enables an organisation to adapt its actions and behaviours on the way to that success. Despite some bad press, if used effectively, KPIs are a vital and welcome tool, enabling organisations to make their aspirations and rhetoric a reality, not just once, but reliably into the future.

You can read more about KPIs and their wider use in the world of business, but here we are concerned with the practicalities of getting them into place and working well for cultural organisations.

Audience KPIs

KPIs are usually plotted against the whole business, using a performance management system like the balanced scorecard. So, for example, setting indicators for financial, HR and operational performance alongside those for visitors and participants. Getting the right information about audiences is perhaps the most challenging area of all, because there are so many ways of measuring success, and the information you need is not all held within your organisation.

This is what we tackle next:
It's not (all) about the money: the triple bottom line

Performance management was developed by commercial business with the simple, ultimate goal of generating financial profit. Cultural organisations are trying to balance a more complex set of aims. However, like many other processes, we can usefully adapt it to meet our needs. Think then about a balance sheet for your organisation with 3 different areas of accountability:

- Financial: sustainability, margins which enable development
- Social: serving specified communities (location or interest)
- Cultural: achievements in creating particular kinds of quality experiences

How would you describe the triple bottom line of your organisation? Your KPIs should reflect the right balance.

Potential audience indicators

We can group potential audience/visitor KPIs into 4 main groups: audience behaviours, audience attitudes, audience profile, audience management. The example table below is far from exhaustive, and remember, most organisations only need a small selection of these KPIs or others like them, and not all of them need to be reported to everyone in the organisation.

Type	Indicator There are numerous variations on each	Collection Method				Frequency
		Box Office	Quantative Survey	Audience Finder Analysis	Other	
Behaviours	Sales/ Tickets	X	X	X		
	Yield	X	X	X		
	Secondary spend		X		X	
	Donation	X	X		X	
	Membership	X	X		X	
	Attenders/ visitors	X	X	X		
	Visits	X		X	X	
	Bookers	X	X	X		
	New bookers	X	X	X		
	Lapsed after 2 years	X		X		
	Frequency	X	X	X		
	Recency / churn	X		X		
	Party size	X	X	X		
	Sales Channel	X	X	X		
	Where else they go		X	X		
	Travel (time/distance)					
Online Behaviour	Unique Browsers					
	Visits					
	Page impressions					
	Visit duration					
	Referrals (to and from)					
	Specific click-throughs					
	Conversions (sales etc.)					
	(Proportion) devices used					
	Social media reach					
	Social media diversity					
	Social media velocity					

Attitudes	Customer satisfaction		X		X	
	Brand awareness		X		X	
	Motivations		X	X	X	
	Likelihood to recommend					
	Quality of creative exper.					
	Feedback on comms					
	Feedback on website					
	Feedback on facilities					
Management	Resources (all/ any)		X		X	
	Marketing/ Development, staff and performance		X		X	
	FOH staff and performance		X	X	X	
	Training and CPD					
	Access facilities					
	CRM systems					
	Customer-centric					

Notes

[1]Marketing ROI in the Era of Big Data, Columbia Business School, 2012
http://www8.gsb.columbia.edu/rtfiles/global%20brands/2012-BRITE-NYAMA-Marketing-ROI-Study.pdf

[2]KPIs for audiences: a practical guide, Audience Finder
https://www.theaudienceagency.org/insight/kpis-for-audiences-a-practical-guide

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[4]Audience Finder
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[5]Counting What Counts, Anthony Lilley
http://www.nesta.org.uk/publications/counting-what-counts-what-big-data-can-do-cultural-sector

[6]Big Data, Anthony Lilley
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[7]http://searchenginewatch.com/article/2299712/Twitter-Analytics-A-Beginners-Guide