

LEMBAR
HASIL PENILAIAN SEJAWAT SEBIDANG ATAU PEER REVIEW
KARYA ILMIAH: PROSIDING

Judul Karya Ilmiah (paper) : **Measurement of Return on Marketing Investment (ROMI) in Manufacturing Companies**

Jumlah Penulis : 1 (satu) orang

Status Pengusul : **Khusnul Khotimah¹**

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g. Terindeks di (jika ada) : -

Kategori Publikasi Makalah (beri pada kategori yang tepat)

Prosiding Forum Ilmiah Internasional

Prosiding Forum Ilmiah Nasional

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g. Terindeks di (jika ada) : -

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(beri ✓ pada kategori yang tepat)

Prosiding Forum Ilmiah Nasional

Hasil Penilaian Peer Review :

Komponen Yang Dinilai	Nilai Maksimal <i>Prosiding</i> : 15 AK		Nilai Akhir Yang Diperoleh
	Internasional (Maks. 15)	Nasional	
a. Kelengkapan dan Kesesuaian unsur isi prosiding (10%)	1.5	-	1.5
b. Ruang lingkup dan kedalaman pembahasan (30%)	4.5	-	3.5
c. Kecukupan dan kemutahiran data/informasi dan metodologi (30%)	4.5	-	4.
d. Kelengkapan unsur dan kualitas terbitan/prosiding (30%)	4.5	-	4.5
Total = (100%)	15	-	13.5
Kontribusi Pengusul (Penulis Tunggal)			15 (100 %)
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Measurement of Return on Marketing

by Joshua Reonal

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1
**MEASUREMENT OF RETURN ON MARKETING INVESTMENT (ROMI)
IN MANUFACTURING COMPANIES**

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1
Abstract

Every company is commanded and managed based on the universal goal, to gain profits in continuous period of time. Such dynamic stimulates the academicians to develop researches on Return on Marketing Investment (ROMI) and its relation to marketing, particularly in producing values in manufacturing companies. This paper aims to analyze the theory or concept ROMI in marketing system of manufacturing companies. In addition, the theory seeks to give focus on sustainability in every suggested research program. The problem, any concept or theory ROMI which has great potential to provide useful information for research and marketing. Considering that there is probably a close relation between marketing and investment in ROMI calculation. Thus, the theory is believed to have the potential in valuable information for researches in marketing. The research is conducted in the method of literary reviews on scientific journals on the concept, case studies, and other research findings on ROMI introduced and developed by a number of experts from various sources (*journal*). It is expected that this research to have implications on the development of the marketing concept which may bring return for the company and values in investments. It is also hoped that there would be new more comprehensive paradigms on researches, concepts, and models on ROMI contributing greatly for academics and companies.

Key words: manufacturing companies, measurement, Return on Marketing Investment (ROMI)

I. INTRODUCTION

In the end of 1960s, managers, academicians, financial analysts, and accountants employed resources as inputs which enabled the company to run their business. Resources and internal abilities influence decisions on strategic resorts taken by the company in competing with its external business circle. It is important for marketing managers to evaluate performances in order to fore shadow the direction and to increase profits for the company in the future, for instance profits and surplus over the assets. There have been many opinions from managers that high number of MROI is the measurement for productivity and profit. They define MROI as the bigger return from the marketing cost or it can also be defined as the efficiency of high marketing activity (Mitchell dan Olsen, 2013:435). This is reinforced by Davis(2007: 242) affirms that high level of efficiency may be considered as a positive performance indicator. It is also supported by several experts where there is a positive relation between ROMI and company's return (Best, 2009: 50). ROMI as a concept was first made famous in the 1990s. Two important books on the issue were then released, *Return on Investment Marketing* by

Guy Powell (2002) and Marketing ROI by James Lenskold (2003) which discuss the possibility of marketing promotion is a profitable goal; one of which is by changing perception on certain brand (source: wikipedia.com). To measure return from the intangible assets has been a mandatory for the managers (Seggie, Cavusgil, and Phelan, 2007: 834). Most marketing activities involve financial (economic), social, and structural components showing a balanced relation between consumers and sellers, but it also varies in terms of the effectiveness of the use as adopted by Berry (1995) in relation among the financial, social, and structural components (Palmatier, Gopala krishna, and Houton, 2006: 478).

It is almost impossible for a corporation to secede from marketing, both in the form of direct interaction with the consumers or indirect one by having connection with other companies in running their marketing (B2B). The term ROI (Return on Investment) may sound familiar to those working and studying business and economy in terms of a company's establishment with various kinds of resources or input, initial investments, or expenses, including goodwill and value of the brands offered to the (Eliezer H

Hardjo PH.D.CM *Jum'at, 26 Agustus 2011 11:35 wib | Koran SI - Koran SI*). Return on Investment indicates the ability of invested capital of the entire assets to bring net profits (Bambang Ryanto, 2001: 336). Then, Fakhruddin and Hadianto (2001: 65) also affirm that Return on Investment shows a company's capability to benefit from the used assets. When Sofyan Syafri Harahap (2004: 305) states that Return on Investment is a ratio showing the number of net profits gained by a corporation measured by the owner's capital. These definitions or views on ROI may continue, and all leads to one opinion that anyone including the investors believe that the more secured the invested capital is, the faster the return will be. This has relation to marketing or also known as Marketing ROI. Questions then remain, what is ROMI and why is it necessary for a company?

II. LITERATURE REVIEW

According to Kotler and Keller (2009:5) say that the core of marketing is to identify and fulfil human's and social needs. One of the concise definitions of marketing is that it "fulfils the needs in profitable ways." American Marketing Association in Kotler and Keller (2009: 5) defines marketing as an organizational function and a series of processes to create, communicate, and add value to customers and to manage a relationship with them in a way that brings profits to the organization and stakeholders. While the definition of marketing according to Engel et. al. (1994: 4) view marketing as a process of planning and executing conception, price fixing, promotion, and distribution of goods and services in order to make a trade which fulfils the individual and organizational goals. From those definitions, we may conclude that marketing is the way to create a market in fulfilling customers' demands in any way possible. In its relation to marketing, market segment is defined as "a group of individuals or companies with the same or similar needs and wants that can be satisfied by the same or similar offer" (McDonald, 2004), which means a group of people, (people) or the company with the same needs and wants can be fulfilled quickly to suit his needs. It then automatically leads to segmented market based on the offer, for instance, a group of people who buys apples will be different from those who purchase insurance products (Woodburn, 2006: 56). The ultimate goal of marketing related to the market in ROMI context is how to increase gross margin from two factors: the number of sales unit (*quantity*) and the level of profit per unit from

sales (*quality*) (Eliezer H Hardjo PH.D.CM *Jum'at, 26 Agustus 2011 11:35 wib | Koran SI - Koran SI*). This indicates that marketing costs a lot of money and requires the right strategy, and involves many parties including the corporation as the one directly involved in the marketing and consumers who indirectly involved. The core point of this issue is investment with the basis that if the investment is secured, the return will be faster and the marketing activities are indicated as performed well. By viewing marketing as an excellent return achievement, it is believed that the decision making process will be carried out more wisely. However, it does not mean that confusion on starting, measuring, and increasing ROMI will not be present (Burn, 2006: 6).

From this point, Eliezer H. Rahardjo, who is a member of Board of Judges of ReBi & Institute of Certified Professional Managers (Koran SI) states that the applied formula in ROMI is *return* divided by *investment (I)* or *gross margin* is subtracted by *marketing investment* then is divided by *marketing investment (I)*. However, in practice, obstacles may occur because of the opinion that *marketing expenses* means investment, while the decrease in marketing does not always mean decline in investment (*marketing expense is cost*); thus, such view must change (Eliezer H Hardjo PH.D.CM *Jum'at, 26 Agustus 2011 11:35 wib | Koran SI - Koran SI*). Assuming that market keeps changing dynamically, marketing then must start and end at the numbers proven by ROMI calculation, positively correlated with the value of the investment and adjusted with the capital. It will result in the application of ROMI synchronised with the type of capital and corporation. ROMI is defined as a medium to assist the marketers in recognizing and understanding marketing activities, such as planning and managing the budget, communicating mission and goal of the marketing activities, selecting the priorities, conducting marketing the chosen marketing activities and supervising the management, measuring the activities and when the results show, it is expected that the return would be better, and finally evaluating the marketing activities (Powell, 2002: 7). Meanwhile, if the results turn out to be worse, such as expenses for other activities and joint project, it would be considered to be included in the next marketing activities.

In the era of tight marketing competition as today, manufacturing companies have been under the higher pressure as the competition becomes more various and sophisticated, giving

consumers and global competition more options (Dangayach and Deshmukh, 2003). The products released by the company are expected to be better, cheaper, and faster. Productivity and flexibility are the two keys that differ marketing performance of the manufacturing companies in making products suitable for the market that keeps changing (Mathur, Mittal, and Sharma, 2011:77). Competitive excellence factors may be defined as those that give the point of good differential supplier adding more value for the competition in the market segment they belong to. Therefore, to fulfil the customers' needs is the important priority (Woodburn, 2006: 57). Performance Measurement (PM) in a manufacturing company is necessary to increase productivity and also a prerequisite for analysis in problem solving and manufacturing system improvement. As stated by Bob Hall (*Quick Printing*/April 2014: 14), the initial phase in marketing planning must be carried out one by one and supported by accurate data, while for some people, managing and using data are not a easy task. Further, Hall says in the article, *"One-to-one marketing refers to marketing strategies applied directly to a specific consumer. According to Wikipedia, its goals are to identify, differentiate, interact, and customize. Accurate databases of customer interests and preferences are its heart and soul"*. Which means that the one-on-one marketing activities refer on marketing strategies that directly elates to the consumer. The goal is to be able to identify, differentiate, interact, and customize what the customer desires. Thus, one-to-one marketing plays its role as service provider for marketing (MSP) (Bob Hall, *Quick Printing*/April 2014:14). In conclusion, PM may be an important element in order to manage an organization for improvement in relation to its goal (Mathur, Mittal, and Sharma, 2011:78).

A study in the early 2001 conducted in 28 major companies shows that there are four companies (AT&T Consumer Services, Colgate-Palmolive, Kraft Foods North America et Minute Maid Co.) where initially using metric marketing mix, to see the elasticity of sales or market share of the expenses of marketing activities. Applying ROMI intensively as a medium to analyze the effectiveness of marketing and budgeting where they initially resorted to metric marketing mix to recognize the elasticity of the sales or the market to the marketing expenses. The study proves that the managers of those companies receive positive responses both from the market

service and the money invested for the business. It also shows that effective coordination from the top management is crucial for the organization (Merunka and Kazmierczak, 2005:13). In calculating ROMI it performs not only to analyze the post-campaign results, but also to evaluate the planning (elsey,2001:36). This opinion is supported by McGovern, et. al. saying that *Measuring marketing performance isn't like measuring factory output — a fact that many non-marketing executives don't grasp. In the controlled environment of a manufacturing plant, it's simple to account for what goes in one end and what comes out the other and then determine productivity. But the output of marketing can be measured only long after it has left the plant'*. What is meant here is in measuring marketing performance is not just measure the results of the products produced, these are not widely understood by the non-marketing executives. In a corporate environment will be very easy to see what the input and what will be the output and will be easy to determine productivity. However, the results of the performance marketing can actually be measured after the product is marketed (Mc Donald, 2005: 258). Moreover, it is even more important if the major marketing activity of a company is focused on measuring the profits over the marketing investment (ROMI). The reason behind this is that in conducting marketing activities, both in single performance or in a joint project with other parties, it would be profitable for the company if the results are considered objective. For instance, in an advertising company, it does not necessarily mean that they are incapable in selling products and measuring the prospect of the success, but with ROMI, a company possesses all the media in forecasting the consequences of the advertising marketing activities. It is true that not all marketing activities result in the real effect, but it is able to build intimacy and to add more value in the sale process (Josephson,2014:1-2).

For a broader view on this issue, we may see an example from ICC (Information Control Company) released by *PR Newswire, Ohio (2014:1&2)* as they commit to serve the clients, community, and country in developing the thoughts from US leaders who have worked hard in strengthening the country's economy. Today's executives must consider the value of the clients in making decision for their marketing activities referring to ROMI or profit from investment; this would require massive

database in recognizing their clients. This could be a challenge for them in receiving soft contribution in ROMI, such as changing in customers' behaviours before the demand is proposed. Mike Kalfus, the world's M2 President (Dick-Rath, 2009: 61) mentions that consistency is also a key factor for the best measurement. There are ten (10) steps to effective measurement as quoted from Dick-Rath (2009:61):

- (1) Set realistic objectives and goals.
- (2) Gain knowledge challenges in advance.
- (3) Obtain benchmarks and/or acceptable analogs.
- (4) Gain agreement on KPI's in advance.
- (5) Leverage supplier expertise to your advantage.
- (6) Create an integrated and aligned team.
- (7) Allow for bumps and glitches.
- (8) Validate and cross-validate data.
- (9) Resource measurement cost from the media/marketing budget.
- (10) Report, optimize and repeat.

According to Lee & Yoo (2012:1671) one of the crucial elements in calculating ROMI is to calculate Customer Lifetime Value (CLV) which main point is to acknowledge the number of customers valuable for the company. CLV is usually applied in analyzing customer relationship, but it is also important in evaluating ROMI as a whole. Pizza Hut Korea has once employed this system for their ROMI model where the data are then applied in the model to calculate all promotional cost in the time of customer acquisition, as well in increasing and predicting the frequency of the purchase (Lee & Yoo, 2012:1671).

Figure 1. Return on marketing investment (ROMI) formula:

1 Formula of ROMI

$$ROMI = \frac{\text{Net profit from existing users (i) + Lifetime profit - Marketing expenses (ii)}}{\text{Marketing expenses (ii) + Profit loss from additional discount (iii)}}$$

(i) Incremental profit – Profit loss from cannibalization
 (ii) All expenses spent for the marketing activities
 (iii) Profit loss on the amount discounted at effective rate

2 Assumptions & Definitions

- ✓ Newcomer : Existing customer = 20% : 80%
- ✓ Incremental : Cannibalization = 22% : 78% (Existing)
- ✓ Normal discount rate = 8%
- ✓ Effective discount rate = Offered discount rate – Normal discount rate

Source: Lee & Yoo (2012: 1674)

III. DISCUSSION

Return on Investment has been an inseparable part of contemporary marketing. Marketing activities cannot be separated from the discussion of the Return On Investment

(ROI). This has relation with its involvement in the non-traditional marketing strategy, such as excellent documentation of sponsorship in sport marketing, and ROI has become the indication of developing studies in business and economy (Jensen and Cobbs, 2014: 1). In addition, they also discuss ROI in a wider spectrum in terms of the argument of marketing resources (Rust, Lemon, and Zeithaml, 2004). Traditional strategies, such as advertisement and customer measurement facilitate an efficient ratio calculation and balance (Copperstein, 2010). Besides those traditional marketing strategies, event marketing, support, and sponsorship have strengthened the challenges in analyzing ROI making an effective comparison (Pruitt, Cornwell, and Clark, 2004; Wishart, Lee, and Cornwell, 2012). Still, those factors have not been widely considered though marketing and investors have switched their attention to ROI (Cobbs, Groza, and Pruitt, 2012; Cornwell, 2008). The same thing expressed by Howard (2012: 2) also expresses the same view imagining that the change in return in the market is triggered by the dynamic economy and market condition. A number of studies have been trying to draw a connection between economic change and expected purchasing level, but it cannot be said that it has been fruitful. One of those that significant result is the one focusing on dividend yield/payout (**dividend + stock repurchase - stock emission**) indicating positive values in the relationship between marketing payout and predicted profits. Return is focused on the managers who develop strategies in identifying and methods in applying those strategies. For instance, a manager palling strategy in achieving competitive sustainability is suggested to measure the quality of the team in the company's management and the marketing position in the present (Howard, 2012: 2).

A number of articles and books on this issue have been released, and ROMI is considered, as Brenda mentions, as the hottest topic in marketing. In addition, Brenda also says "*ROMI is probably the hottest marketing topic at this time and became topic*", further Brenda writes "*In defining what your return on marketing investment is, there are many variables that need to be considered when identifying marketing's true effectiveness*" (Brenda, 2004: 6). Of sentences disclosed above shows that in defining the marketing investment purse earnings, will meet a lot of variables to consider when it will identify the actual marketing activities. As also quoted in Mitchell and Olsen (2013: 435) "*A higher MROI*

indicates your advertising is working (Livingston, 2010).” For many managers ROI is a goal and a higher MROI is a measure of higher productivity and higher profits. “As with ROS, a high value is desirable (Kotler and Keller 2010, p. A22).” Which means a high MROI shows that promotion done a good effect (Livingston, 2010). And for some managers view MROI a company’s goals and if high MROI indicate the advantages and high level of profitability. It can be concluded that the high number of MROI determines the success of the productivity and marketing strategy of the company. Popular belief suggests that high MROI always show higher profitability. Yet the higher MROI does not always indicate the higher profit. Two possibilities are believed to be the causes of this inconsistent relationship between MROI and profit, *theory and empirics*. The well-known reason is that there is a fault in the measurement because of the number of variables in MROI that it is hard to measure. James Lenskold is one of those who supports MROI as profitable positive performance, yet he also bears eight reasons why higher MROI is not always equal to higher profitable level (Lenskold, 2003:64). As the concept is not clear enough, incorrect definition also leads to inaccurate measurement. James Lenskold defining MROI as:

$$MROI = \frac{\text{Gross Margin} - \text{Investment}}{\text{Investment}}$$

Gross Margin = net present value of revenue and expense income flows
 Investment = net present value of the sum of all at-risk marketing Expenses

This has become a challenge in understanding the theory on MROI. Farris et al. defining MROI of his book marketing (2007, p.320), as:

$$MROI = \frac{\text{revenue}(\text{contribution margin}) - (\text{marketing cost})}{(\text{marketing cost})}$$

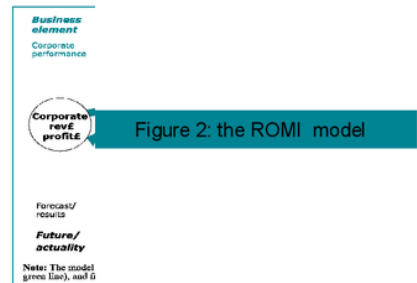
Revenue = Sales Revenue attributable to the marketing cost

Source: Mitchell dan Olsen (2013:436)

Stewart recently has started to introduce his findings in defining ROMI in the measurement and the suggested dimension for the *audit* in selecting standardised *metric* for marketing activities (Blair, 2006:6). Meanwhile, the measurement time period may be seen in what the company possesses including the following dimensions:

- **Metric** : what to measure, the scope and definition
- **Data** : how proofs and facts are collected

- **Target** : achievement for improvement in the future
 - **Result** : achievement recording in the past
- In every phase of measurement, a company must consider and determine all the selected dimensions, such as the measurement concept in the future (goals, etc.) and in the present and past; they must be conducted in a whole in framework element (Woodburn, 2006:52-53).



Source: Woodburn (2006:52).

This model is proposed in order to be implemented by the company interested in ROMI calculation. For more comprehensive view, it is important to start with recording from supervising marketing activities and the relationship built in those activities. It is always possible that ROMI would require a massive amount of data or variables to predict and gain better results that for the short period of time it probably would not affect greatly, but it influences the company if they aim to increase their competition with marketed products and their competitiveness in every marketing activity; this then becomes the final goal of return (Woodburn, 2006:52). Robert E. Brooker, a marketing professor of University of Southern California Marshall School of Business has conducted an observation to the simplicity of ROMI revolution as *"The way marketing becomes accountable is through the process of measuring, managing, and improving the return from specific things they do that cost money."* that means is that in looking a teach marketing activity in to something that is accountable through the process of measurement (measuring), management (managing), the increase in the value of the return of the activities carried out and the costs have been incurred (Blair, 2006: 6). ROMI Model has quickly become a new concept in marketing activities and in marketing researches, but still they believe in the principle that a change in a company is always an

important measurement in improving financial performance (Blair, 2006:8).

IV. CONCLUSION

After a long argument, the most plausible model to be developed according to Woodburn (2006, 51-52) in calculating ROMI (see Figure 2) where the company prioritizes the value of profit or the company has the orientation in the expected return, is the one focusing on sustainable competitive advantage.

The point is that manufacturing companies must be prepared in overcoming the challengers in dynamic market, and if we may trace the goal for the ROMI application in manufacturing companies is how to increase gross margin benefited from two reasons, *quality* (the level of profits) and *quantity* (the number of sales). And this is of course very closely related to customer and market share. This has definite correlation to customers and market where every marketing activity ends at the numbers in marketing ROI indicating that the higher the value, the better the investment, and also is adjusted with the type and category of the company as approaches and measurements may vary in ROMI. It is then suggested for the company to apply this concept (Eliezer H Hardjo PH.D.CM *Jum'at, 26 Agustus 2011 11:35 wib | Koran SI - Koran SI*). The centre issue of this paper is then that in the market competition as today, manufacturing companies must increase their ability in the competitiveness for adding colours in the consumers' choice and global competition (Dangayach and Deshmukh, 2003). However, many marketers still believe that massive amount of cost issued for long-term period's advantage is defined as "investment" (Hawkin et. al., 1987). It has not been taken into consideration that besides the products, expenses for promotion and product improvement are also assets, including brand equity and patent, but it is argued that expenses to create assets are not the end of the investment (Mitchell and Olsen, 2013:436).

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