

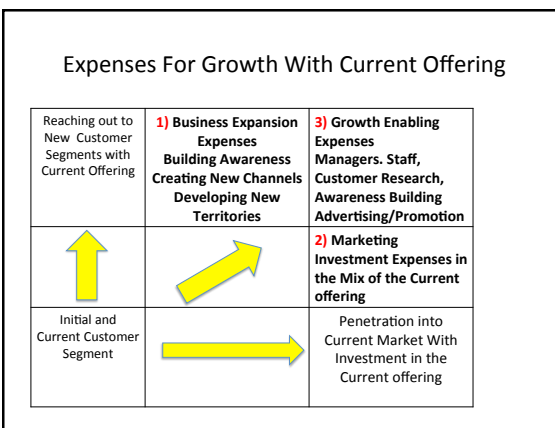
Examples of the Three Types of Marketing Expenses and The Nature of ROMI

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Learning Objective

- Being able to consider a marketing expense and classify it as either
 - A marketing investment expense in a penetration strategy
 - A market growth enabling expense on the fixed overheads of providing logistics, management, and customer awareness
 - A new market growth expense to enter new markets with the current product/core offering
- Understanding the confusion over ROMI, MROI

- ### The **Three** Types of Marketing expenses For Growth Using Current Offering
- **1) An Investment In Customer Value in Current Offering to penetrate the current set of potential customers (current market)**
 - **2) A Customer/Market Expansion Expense to move into new geographical area with new logistics, franchising, etc**
 - **3) A Growth Enabling Expenses on the current overheads of the operation, managers, awareness building (new market)**



- ### **Remember:** In the Theory of Marketing Management
- A market is not a collection of things being sold (cars, stocks, houses, etc)
 - A market is a set of customers which has homogeneous needs and wants that can be satisfied with a specific offering

- ### Examples Of Marketing Expenditures
- That are **NOT** considered marketing **investments**
 - 1) The salary of the VP of Marketing
 - 2) The size of the commissions paid to the sales person selling the product
 - 3) The expense of a consumer research study that explores why customers like products
 - 4) The insurance and brokerage costs of shipping the product
 - 5) Cost of packing the product for shipment

A Marketing Expense

- May be **absolutely necessary** to initiate and facilitate a sale to the customer and **NOT** be considered a marketing investment
- Marketing expenses can be necessary BUT have **NO** direct impact on the value the customer sees in the offering.
- To be considered an marketing investment, a change in the sizes of the expense **must have a direct impact** on the amount of value a customer sees in the offering.

Examples of Necessary Marketing Expenses

- Expenses that Provide No Additional Value to the Total Value a Customer Sees in an Offering

Example #1

- An advertising expense that is solely directed to creating and/or maintaining customer awareness is necessary, but it **is NOT** an investment in the amount of value the customer sees in the offering
- Customer Awareness is a necessary requirement for a sale to occur, but it does NOT create customer value in the offering
- An advertising expense that is directed towards creating a desirable image of the product and its user **does create** customer value in the offering and **is** a marketing investment

Example #2

- Retail space is necessary to sell products, but the different costs of renting or buying a space **is NOT** an investment in the amount of value the customer sees in the offering
- There is a minimum amount of retail space and cost necessary and to make the seller's offering viable and this expense is not considered an investment in the customer value of the offering
- When the amount and/or quality of the retail space has an impact on the value the customer sees in the shopping experience, then cost of the space is an investment
- Furnishing the store and creating the shopping experience is an expense that **does create** customer value in the offering and **is** a marketing investment

Example #3

- Crude oil is a necessary cost in the creation of gasoline, but it **is NOT** an investment in the amount of value the customer sees in the offering at the fuel pumps
- The expense of providing several octane levels and additives in the gasoline **does create** customer value in the offering and **is** a marketing investment

Example #4

- Current efforts on product research and development are necessary expenses and they may have long term impacts on future sales and customer satisfaction but the expense is not an investment in the immediate offering of the seller
- Product R&D may be considered a long term investment in a 'new' business defined around a future offering

It is common to find dual roles

- Marketing Expenditures that have some features of being an investment as well as an expense
- Example: An advertising expense may be primarily devoted to building customer awareness but is also conveying status by touting that the products are used by a rising movie star or a sports figure.
- How much of the expense for the advertising campaign should be considered marketing investment?
- Overstate the size of the investment and you may understate the investment's rate of return

Any Questions on

- The types of marketing expenses?
- Which marketing expenses are treated as being investments in the customer value the seller builds into his offering?
- How each of the various marketing expenditures on each of the different ingredients (product, place, promotion) is a separate investment with its own rate of Return?

Confusion about the terms ROMI and MROI

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Current Debate and Confusion

- About the terms
- Return on Marketing Investment, ROMI
- Marketing Return on Investment, MROI

The terms are so vague

- and so poorly defined they are almost useless and worse, misleading
- They are used by various authors to mean
- single point performance ratios, average rates of return and marginal rates of return
- The things being return can be quantities sold, revenues or various levels of profits
- The marketing investment can be any type of marketing expense

Why do we call Marketing Profit

- A Return on Marketing Investment
- Rather than a Return on Marketing Expense?
- Expense sounds like a short term thing to be minimized as a necessary evil or avoided completely
- Marketers want the profit being returned on marketing expense to have the same legitimacy and desirability as the return on a financial investment

Some Marketers have tried

- To have the marketing expense interpreted to mean the creation of loyal customers and stable market shares
- It is difficult to frame the firm's list of customers or its market share as assets that the firm has purchased to be put on a balance sheet
- It is easier to visualize the firm investing in the things that create customer value, satisfaction, loyalty, and return sales

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- Understanding the confusion over ROMI, MROI given the confusion about the term investment

Why is the marketing budget

- Thought of as an investment in working capital
- Rather than as a capital investment?

What is Capitalism?

- Allowing individuals or organizations to own the means of production

What is a publicly owned and traded corporation?

- A social invention that allows people with money to enjoy the profits and benefits from owning the means of production without any of the responsibilities or obligations of that ownership.

What is a state owned corporation?

- A social invention that allows a government to own all or part of a corporation and to assume the responsibilities and obligations of owning the corporation's means of production
- A post office charges for stamps
- A public school charges tuition