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*An Occasional Paper*

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## Another Look at mROI

Building on a paper I wrote two years ago (<http://www.stamats.com/mroi>), this occasional paper will expand on the concept of marketing mROI and then present a handful of the most oft-used formulas for measuring the effectiveness of your integrated marketing communication efforts.

### WHAT EXACTLY IS mROI?

mROI is an acronym for *marketing return on investment*. More than simple tracking (how many responded), mROI is interested in determining the relationship between the cost of a marketing activity and the revenue generated by that marketing activity.

### WHY MEASUREMENT MATTERS

Like organizations everywhere, colleges are struggling with how to achieve as much value as possible for each marketing dollar. Accurately measuring effectiveness is central to this goal. While there are myriad other reasons for measurement, some of the most important include:

- Provides a baseline against which gains can be measured
- Helps you refine existing strategies
- Helps depoliticize marketing
- Helps justify additional expenditures
- Helps manage expectations

### THREE PHILOSOPHICAL UNDERSTANDINGS

As you think about ROI, it is important to keep three philosophical understandings firmly in mind. First, removing the link between the amount of money spent on a marketing activity and the revenue generated by that activity leads to an accounting mentality that marketing is a cost and not an investment. For example,

people often decry how much money the University of Phoenix spends on marketing. But suppose the University of Phoenix generates \$2.75 for each dollar spent on marketing. Knowing this dramatically changes the conversation. It is no longer cost, but investment.

Note: I am using this as an example; I have heard many different numbers for Phoenix's ROI so take this number with a grain of salt. The important thing is that they measure everything and know the metrics.

Second, mROI demands that we shift from measuring output (we sent out 200 hometown news releases last month) to outcomes (here's how the hometown news releases impacted our image or our ability to shape the class). It is not about being busy. Rather, it is about being effective.

Third, mROI requires great numerical fluency. Today's marketers must be comfortable using numbers, and not emotion, to guide marketing decisions. It is no longer an issue of "Did you like the campaign?" Increasingly, it is an issue of "Did the campaign work?"

### ARE YOU READY FOR MEASUREMENT?

Not every college or university is ready to undertake mROI. My colleague at Stamats, Eric Sickler, suggests that the schools that are best-equipped for mROI tend to have a number of important qualities, including:

- Strong marketing leadership
- Clear marketing objectives
- Centralized marketing function
- Clear understanding of what is being spent on marketing
- Quantitative orientation
- Willingness and ability to consistently invest a portion of the marketing budget into analytics
- Interest in continual improvement

## I BEFORE R

In our rush to calculate marketing return, we often overlook the need to first calculate the overall marketing investment. Because marketing is often decentralized, and because the right hand does not always know what the left is doing, this can sometimes be a challenge. Determining your full investment will likely require:

- Political support from your president
- The cooperation of your senior team
- A review by the CFO of all marketing expenditures regardless of where they originate
  - How much?
  - What purpose?
  - Brand or direct? (more on that later in this paper)

Most ROI calculations tend to focus on such “disposable” activities as:

- Photography
- Printing
- Postage
- Media buys
- Special events
- Outside consulting for design, copywriting, etc.

Historically, colleges and universities have not included such fixed costs as overhead and salaries and benefits in their ROI calculations. However, excluding these cost centers will skew the results. Over the past few years, we have seen more colleges include these fixed costs as they try to get a grip on their total investment.

One final thought: it is very important to use a consistent methodology and set of metrics for determining both costs and return. Including postage one year and not including postage the next will undermine the

quality and viability of your data. We suggest creating and adhering to a standard template for gathering your marketing investment data.

## THE BASIC MARKETING MODEL

Before we delve into how to measure effectiveness, we need to understand the three components of the basic model for integrated marketing communication because each component of the model is measured differently.<sup>1</sup> The three components are:

- Brand marketing
- Direct marketing
- Internal communication

As you likely know, brand marketing has one goal: the creation of awareness. Brand marketing is all about top-of-mind.

Direct marketing has a different goal: the generation of response. Direct marketing will equip and motivate the customer to apply, call, enroll, or donate.

Remember, direct marketing always works best when it is preceded by an effective brand strategy.

The third element of IMC, internal communication, is designed to keep internal audiences abreast of key issues.

Because brand marketing and direct marketing tend to consume a majority of the marketing budget, this paper will focus on these components.

## MEASURING BRAND EFFECTIVENESS

Measuring brand marketing involves asking two critical questions. First, did the brand strategy increase awareness? To answer this question you must repeat the original quantitative research you should have undertaken before you developed your brand strategy.

You likely recognize this as a classic pre- and post-scenario. The first research, pre-, is designed to establish an initial baseline of awareness. The second research, post-, is designed to measure the effectiveness of your campaign. Ideally you should use the same methodology directed at the sample.

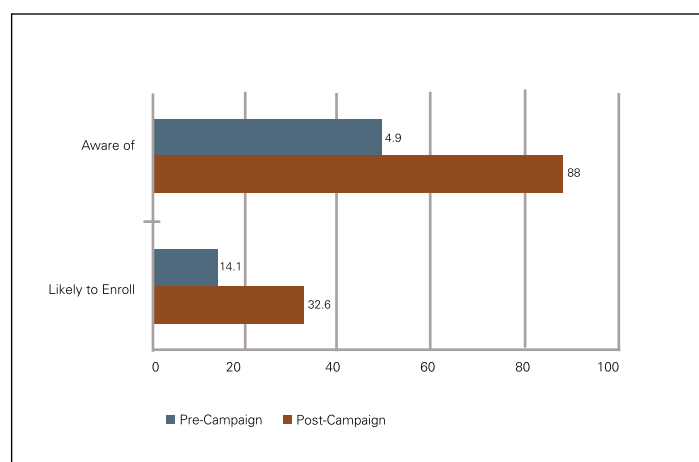
<sup>1</sup> For additional detail on the chief components of integrated marketing communication and how they relate to one another, please check out [www.stamats.com/whitepapers](http://www.stamats.com/whitepapers), [www.stamats.com/occasionalpapers](http://www.stamats.com/occasionalpapers).

Let's say, for example, that your pre-research determined that only 12 percent of your prospective students use the term "academic quality" to describe your institution. After the campaign, however, 21 percent of your prospects use the term "academic quality."

As you might sense, creating awareness is relatively easy. The second critical question, also answered via research, is much tougher. It is concerned with behavioral change. As part of your post-campaign research, you should ask these same prospective students, "Based on your new understanding of XXYYZZ, are you more or less likely to apply?" Of course, similar questions can be framed and posed to donors and others. Measuring how your brand strategy affected behavior is critical.

### EXAMPLE

In the chart below, we see data that details this pre- and post- approach. The first question addressed awareness. Before the campaign, 49 percent of prospects were aware of the institution. After the campaign, that percentage had increased to 88 percent. While this information gives some measure of the effectiveness of your brand strategy, it is the second dataset that is especially compelling. Before the campaign, only 14.1 percent of students were likely to enroll. After the campaign, that number had increased to 32.6 percent. The investment that the institution made in its brand strategy had a clear and demonstrable return.



While answering the "aware" and "likely" questions will give you a measure of the effectiveness of your brand strategy, there are other "tells" that you should monitor. These are general indicators of brand equity:

- Did the overall cost of recruiting a student go down?
- Are your students less cost sensitive?
- Are you more able to shape your class?
- Has your discount rate gone down?
- Did the overall cost of raising a dollar go down?
- Are more alumni contributing to the annual fund?
- Are alumni who have never given now giving?
- Are first-time donors becoming second-time donors?
- Do open positions on your campus receive a strong response from prospective employees?

One of the biggest challenges with measuring the effectiveness of your brand strategy is that while measurement is almost always aggregated, media are almost always disaggregated. In other words, while you can easily measure the effectiveness of the entire brand campaign, you can't always measure the effectiveness of individual components in that campaign.

### MEASURING DIRECT MARKETING EFFECTIVENESS

Measuring the return on your direct marketing is not only easier, but generally more precise because you are measuring response to individual marketing activities. For example, if you send out 100,000 annual fund solicitations and receive 1,000 donations, your response rate is 10 percent. Last year's response was eight percent so you have made progress.

Pretty simple, right? Well, sort of.

This initial measurement is actually just tracking response. Ultimately, the return on investment part involves calculating how much the annual fund solicitation cost to produce and how much money it generated.

Let's say that it cost \$15,000 to produce and mail the annual fund solicitation and it generated \$60,000 in revenue. This is a return of 400 percent. Good investment. Also, because you have longitudinal data, you know that last year's solicitation cost the same amount to produce, but generated only \$42,000 in revenue. Not only have you increased your response rate (from eight percent to 10 percent), but you have increased your overall return.

## FOCUS ON TOTAL RETURN

As you think about mROI it is very important to get beyond the idea of cost. Let me illustrate this point by walking you through some calculations about a fictitious search. Of course, similar calculations should be made for all your direct marketing. Note that these calculations require solid record keeping.

Suppose that you want to buy 150,000 four-panel search pieces. One vendor prices them at \$1.22 (including postage) for a total of \$183,000. Another vendor, using the same specs, prices them at \$.98, or \$147,000. You go with the second vendor because you believe you saved \$36,000.

Suppose a third vendor shows up and does a different kind of math. She determines that last year, your 150,000 search pieces generated a response rate of six percent with a cost per inquiry of \$16.30 (150,000 search pieces generated 9,000 responses; \$147,000 divided by 9,000 = \$16.30). However, only 160 of your inquiring students matriculated. Your cost per matriculant, for search, is \$918.

This third vendor (we should rightly call her a consultant because her domain is questions and ideas), now proposes a slightly different strategy. Using a basic prospect profiling analysis, she cuts your search list by 1/2 to 75,000. This 75,000 represents the students who—based on historical data—are most likely to persist in your funnel. She plans to send 15,000 of these students a highly customized brochure and letter that costs \$2.10 each to produce and mail. The balance of these students will receive a letter that costs \$1.02 each to produce and mail. Her total expenditures for search are \$92,700 (15,000 times \$2.10 and 60,000 times \$1.02).

The blended response rate is 14.5 percent or 8,700 students with a cost per inquiry of \$10.65. However, these students matriculate at a much higher rate. By September, you have 440 matriculants at a cost per matriculant, for search, of \$210. Of course, you will achieve other savings because you ordered fewer viewbooks and secondary publications, spent less time phoning students who will likely not matriculate, and generally focused your resources.

## MEASURING WEB EFFECTIVENESS

Most of my calculations involve fairly traditional media. Because the web is playing such an important role in marketing, I turned to another colleague at Stamats, CJ Cunniff, to outline some options for measuring the effectiveness of your web strategy. CJ is our director of interactive strategy.

Utilizing the web is one of the most effective ways possible to measure mROI. While this section will focus on Google Analytics, there are several very powerful paid options out there to consider as well. Some of the most common ways to utilize the web to measure mROI include:

- Implementing analytics software such as Google Analytics, Omniture, etc.
- Benchmarking
- Segmenting your audiences
- Measuring the effectiveness of offline campaigns such as brochures or advertisements that drive traffic to your website
- Developing targeted landing pages
- Utilizing goal values

Some of these elements sound complicated, but there are actually a number of simple tools and methods you can use to succeed in using your website to track mROI across your integrated marketing campaigns.

Implementing Google Analytics on a website is actually very straightforward. It involves copying a small snippet of code that Google will provide you onto each page of your site. More information regarding the necessary code can be found at:

[google.com/support/googleanalytics/bin/answer.py?answer=66983#0.1.1\\_step1](http://google.com/support/googleanalytics/bin/answer.py?answer=66983#0.1.1_step1)

Consistently adding value to your website will require the use of data rather than gut feelings. While you will likely never have to be the “I.T. guy or gal” who will actually put this code on your site, it is important that you understand that it should be done and it generally isn’t overly complicated to implement.

Once you have some form of analytics, you should begin benchmarking to determine if your site is providing value

that is above, below, or at the average. Benchmarking is a fairly new method that you can utilize to compare your site against other similar sites. This is especially useful if you don't have a significant amount of data yet, or you aren't sure what level of activity you should expect on your site. More information can be found related to benchmarking at:

[google.com/support/analytics/bin/answer.py?answer=89346](http://google.com/support/analytics/bin/answer.py?answer=89346)

Another value of web analytics is your ability to segment your audiences. Your website will be able to track all users on your site or it can let you break those audiences down to better represent different levels of activity. One example can be tracking only your external traffic. If you utilize the same website for your students, faculty, staff, etc., then tracking the most commonly visited pages across all users could be skewed. You can utilize your analytics tools to segment your audiences so that your internal traffic is ignored. By removing our internal groups, we can now see what is really happening with our targeted prospective students, alumni, community members, etc.

One of the most commonly overlooked ways to utilize your website to measure mROI is your ability to show the effectiveness of non-web-based marketing materials. When developing materials such as printed materials, T.V., or radio be sure to utilize custom web addresses. For example, when developing a printed piece regarding a campus visit, utilize a web address such as [www.yourschool.edu/visit](http://www.yourschool.edu/visit) rather than just [www.yourschool.edu](http://www.yourschool.edu). This will give you the ability to see how many users ended up on a specific page as the entry point to your site and can show you the effectiveness of the piece to drive your traffic to a desired action such as filling out a form.

You can further improve your analysis of your website tracking by developing landing pages. Landing pages are really nothing more than custom pages with very simple and direct language geared to driving your target audience to complete a specific task. For example, you might have a pay-per-click advertising campaign to motivate working adults who are nervous about returning to school to request more information about your program. The landing page would utilize graphics that would be calming and simple. The language on the site

should be written to ease those worries as well. Finally, there should be some action such as chatting live with a counselor or filling out a form to get more information, which can be tracked as well.

The final method for establishing a much more detailed level of mROI on your site involves the use of goals and establishing values for those goals. The difficulty in higher education tends to be that we are not hosting ecommerce sites, which causes us to struggle in defining values to actions on our sites. One method for doing this is to work backwards from the average values you do know with relative certainty. For example, if you know your average value to matriculated student you can use that to establish some other average values by working backwards. If you know that 60 percent of people who apply actually tend to matriculate, then one application is worth approximately 60 percent of the value of a matriculated student. If you know that 40 percent of prospective students who request information actually apply then you can take 40 percent of the value of an applicant to associate a value with that as well. While this is not going to give you exact values it does provide a better picture of the effectiveness of your site and all campaigns which are driving traffic to it in relation to each other, which will give you a much better idea of your true mROI.

With this information in hand you can see that there are a large number of ways to better utilize data from your website to better understand the mROI of your total integrated marketing campaign. While these methods in and of themselves are reasonably simple, overcoming the overwhelming amount of data you will find, determining the top key performance indicators, and making recommendations based on the analysis of your data should be done with great care. We strongly recommend the use of a web analytics professional. However, like all things in the marketing world, this should be viewed as an investment rather than a cost. If utilized properly, these additional investments will provide efficiencies and additional value that will be able to far overcome the cost inherent in those activities.

## **BASIC mROI FORMULAS**

I wanted to close by offering a handful of basic mROI formulas. Once you understand their fundamental components, it is easy to adapt them for other measures

and situations. As you look through these examples you will see how earlier calculations are designed to provide data for later calculations. The formulas we will review include:

- Cost per matriculating student
- Revenue per matriculant
- Return on recruiting investment
- Evaluating the return on an advertising campaign
- Tuition generated by 100 new students

We will base our calculations on the sample numbers presented below:

Number	Explanation
\$1,700,000	Total recruiting and recruiting-related marketing expenditures
350	Size of the incoming class
\$13,400	Average tuition paid (after institutional aid)

### COST PER MATRICULATING STUDENT

This formula will determine how much it cost to recruit a student.

1. Two big numbers:
  - a. Total recruiting and recruiting-related marketing expenditures
    - i. \$1,700,000
  - b. Number of students in the incoming class
    - i. 350
2. The formula:
  - a. Divide \$1,700,000 by 350
3. mROI:
  - a. Cost to recruit a student: \$4,857
4. Note:
  - a. This calculation typically does not include staff, overhead, or financial aid
  - b. It is important to track this measurement longitudinally

### REVENUE PER MATRICULANT

This formula will determine your revenue per matriculating student.

1. Two big numbers:
  - a. Average tuition paid (gross tuition minus institutional financial aid)
    - i. \$13,400
  - b. Number of students in the incoming class
    - i. 350
2. The formula:
  - a. Multiply \$13,400 by 350
3. mROI:
  - a. Total revenue: \$4,690,000
4. Note:
  - a. Because this is an average, many schools use this to calculate the return on different student cohorts

### RETURN ON RECRUITING INVESTMENT

This formula will determine your overall return on the recruiting dollars you spent.

1. Two big numbers:
  - a. Total net tuition revenue (after institutional financial aid)
    - i. \$4,690,000
  - b. Total recruiting and recruiting-related marketing expenditures
    - i. \$1,700,000 in total recruiting and marketing expenditures
2. The formula:
  - a. Subtract \$1,700,000 from \$4,690,000
3. mROI:
  - a. You “cleared” \$2,990,000 on your \$1,700,000 investment
  - b. Your overall “return” was 275 percent
4. Note:
  - a. Of course, this is not profit in the true sense. You must further calculate how much it costs to deliver the educational experience for which the students paid

## EVALUATING THE RETURN ON AN ADVERTISING CAMPAIGN

This formula will determine whether the dollars you spent on a recent advertising campaign were a good investment.

1. Three big numbers:
  - a. Cost of the campaign:
    - i. \$9,500
  - b. Total credit hours taken by enrolled students:
    - i. 56
  - c. Revenue per credit hour:
    - i. \$300
2. The formula:
  - a. Multiply total credit hours (56) times revenue per credit hour (\$300)
    - i. Total revenue: \$16,800
  - b. Subtract \$9,500 (the cost of the campaign) from the revenue generated by the campaign (\$16,800)
3. mROI:
  - a. This campaign netted \$7,300
  - b. The return on investment was 177 percent

## TUITION GENERATED BY 100 NEW STUDENTS

This formula will determine whether the revenue generated by 100 additional students is worth the marketing investment.

1. Two big numbers:
  - a. Total tuition revenue (100 students times \$13,400)
    - i. \$1,340,000
  - b. Cost to recruit 100 additional students
    - i. \$785,000
    - ii. Note: If this initiative involves hiring additional staff this cost should be added
2. The formula:
  - a. Subtract \$785,000 from \$1,340,000
3. mROI:
  - a. This initiative netted \$555,000 or \$1.70 for each dollar invested for year one
  - b. The return on investment was 171 percent
4. Note:
  - a. This formula is handy for looking at new geographic markets or targeted specific cohorts in existing markets

When looking at this calculation be sure to factor in the tuition revenue over time. For example, in addition to year one, the tuition revenue should be calculated for years two, three, and four.

To fine-tune this number, you would also factor in your year-to-year retention rates. This longer-term look would dramatically enhance and improve your ROI calculation. To see how this might roll out, take a look at the table below. I assumed a retention rate of 70 percent for each of the next three years. I also assumed a tuition increase of 6.5 percent each year.

	Year One	Year Two	Year Three	Year Four
<b>Gross revenue</b>	1,340,000	\$998,970	\$744,732	\$550,342
<b>Cost to recruit</b>	\$785,000	0	0	0
<b>Net revenue</b>	\$555,000	\$998,970	\$744,732	\$550,342

Your final ROI calculation over four years is \$2,849,044 in revenue after an investment of \$785,000. This is a rate of return of 363 percent.

## CONCLUSION

At the beginning of this paper I noted that there were at least six reasons to adopt an mROI philosophy. As I conclude, I want to return to one of those reasons: mROI helps justify additional marketing expenditures.

Many in higher education believe that too much emphasis has been put on cost cutting. As a result, all areas—even those that have the ability to generate revenue—have been trimmed. With an eye toward growing revenue, and not merely cutting costs, mROI tools can be used to pinpoint where additional investments should be made—investments that will actually increase the flow of resources to an institution.

One final note about my example from the University of Phoenix. It is critically important to understand that the marketing advantage enjoyed by the University of Phoenix is not the size of its budget, but the tools it has created that allow it to carefully measure the return it makes for each dollar it invests. It is not about cost, it is about return.