ROI: Determining How Your Marketing Measures Up

By Les Altenberg

Illustration by Gilberto Sauceda

By temperament and by habit, attorneys tend to be a detailed, meticulous lot. Most understand that "proof," data, and substantiation are required not only when building a case for a client, but also for any business-related decision. Thus, the inability to measure the inexact science of marketing has traditionally been a source of frustration for law firms of all sizes.

With new mediums and new technologies, however, the ability to track the results of a firm's promotional efforts is now greater than ever. And with that capability comes a concept that previously has lived only on the back burner of marketing lexicon — "return on investment."

The goal of any marketing endeavor — be it direct mail, a branding effort, creation of sales materials, etc. — is to increase the overall revenue and/or profitability of the firm. Yet, when exploring the many promotional options available, it is surprising to see the overemphasized role "gut" has played for those making marketing decisions. And while certain mix selections may seem obvious in terms of their potential for business development, the level of investment required to achieve desired results has often seemed unclear. Typical of that dilemma is the question some law firms may be asking: "Do we invest in some type of advertising/public relations effort or do we add more attorneys and educate them on how to network, find prospects, and close deals?" The truth of the matter is that there is a definitive, quantifiable answer to this. It is an answer worth finding — it is one that puts marketing on the same playing field as finance and one that, if done correctly, can lead to a more profitable, growth-oriented organization. While the goal here is not to offer a lesson on marketing metrics, there are some "dos" certainly worth mentioning.

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First, any return on investment (ROI) analysis should be implemented in light

of the firm's short- and/or long-term objectives. Mail-order companies have long understood this concept, often sacrificing short-term profit for the opportunity to obtain a customer with long-term revenue potential. Hence, it is important to ascertain the lifetime "value" of a client — recognizing, of course, that the incremental value of that customer may diminish over time.

Second, it is critical to establish benchmarks for each area of a marketing program. For example, if a series of seminars yielded a 2-percent return, it is unwise to assume a set of similar seminars might yield 10 percent. It is imperative to maintain a historical perspective, not just on what worked and what didn't, but to what degree a program worked or did not. Even more important, the actual percent return on investment should be determined. Here is the formula in its simplest form: (Gross Margin - Marketing Investment) ÷ Marketing Investment = Return on Investment.

Whether a percentage of overhead/labor is part of the investment figure depends on what it is we are trying to discern. In order to more accurately project ROI of future endeavors, risk factors can be weighed. For example, if we know a promotional effort will yield between a 2-percent and a 2.5-percent response, the relative risk is minimal, compared with an image advertising campaign where the results are less certain. Hence, we may apply a percent discount onto the projected advertising ROI. We may also wish to establish hurdle rates before embarking on a particular course, setting for example, a projected ROI of 2 percent or 3 percent as a prerequisite to implementation.

The implications of all this are obvious when applied to those marketing tools that lend themselves easily to quantitative data (telemarketing, direct mail, Internet click rates, etc). More difficult are those efforts often seen as being long-term in their focus. Even public relations, advertising, and collateral materials have their place in the marketing mix. We all instinctively know that. Yet how can their impact be measured? In some cases, quite easily. An article placed in a newspaper that generates a lead that becomes a sale can be scrutinized for its ROI. The same can be said for an ad or commercial. But public relations and advertising go much further than that. Much has been said and written about these tools' abilities to create brand equity and an "environment" for greater revenue growth. To understand what that means quantitatively, one must put numbers to the sales process alone (without public relations and advertising programs) and then analyze what incremental revenue/profits are realized when these efforts are added to the mix. Such an analysis requires a) benchmarks, b) a recognized period of time over which the ROI is measured, and c) adjustments for variables such as inflation, new competitors, etc. These incremental profits are then matched against the incremental expense that was necessary to attain them.

The same is true for sales materials. It can be argued that collateral itself never won a client. But what might have been the effect of investing less in such material, or even not at all? Developing that initial brochure means establishing credibility. The value of that credibility can be measured in incremental sales obtained and/or length of sales cycle reduced. Moreover, that value must be scrutinized from an ROI standpoint versus other, more lead-generating, elements of the marketing mix.

While firms of all sizes must address these issues, they become even more crucial for smaller practices where every decision can have a "make or break" element to it. Hence, the risks of not understanding ROI are that much greater.

If all of this sounds especially complex, then this article will have failed in its mission. The point is that from this moment forward, it should be a mandate to track not only all prospecting and marketing investments, but their returns. By doing so, educated decisions can be made about future business development programs. The positive of this is that it should lead to more successful endeavors. Of course, with that comes what may be marketing's next key catchword: accountability.

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