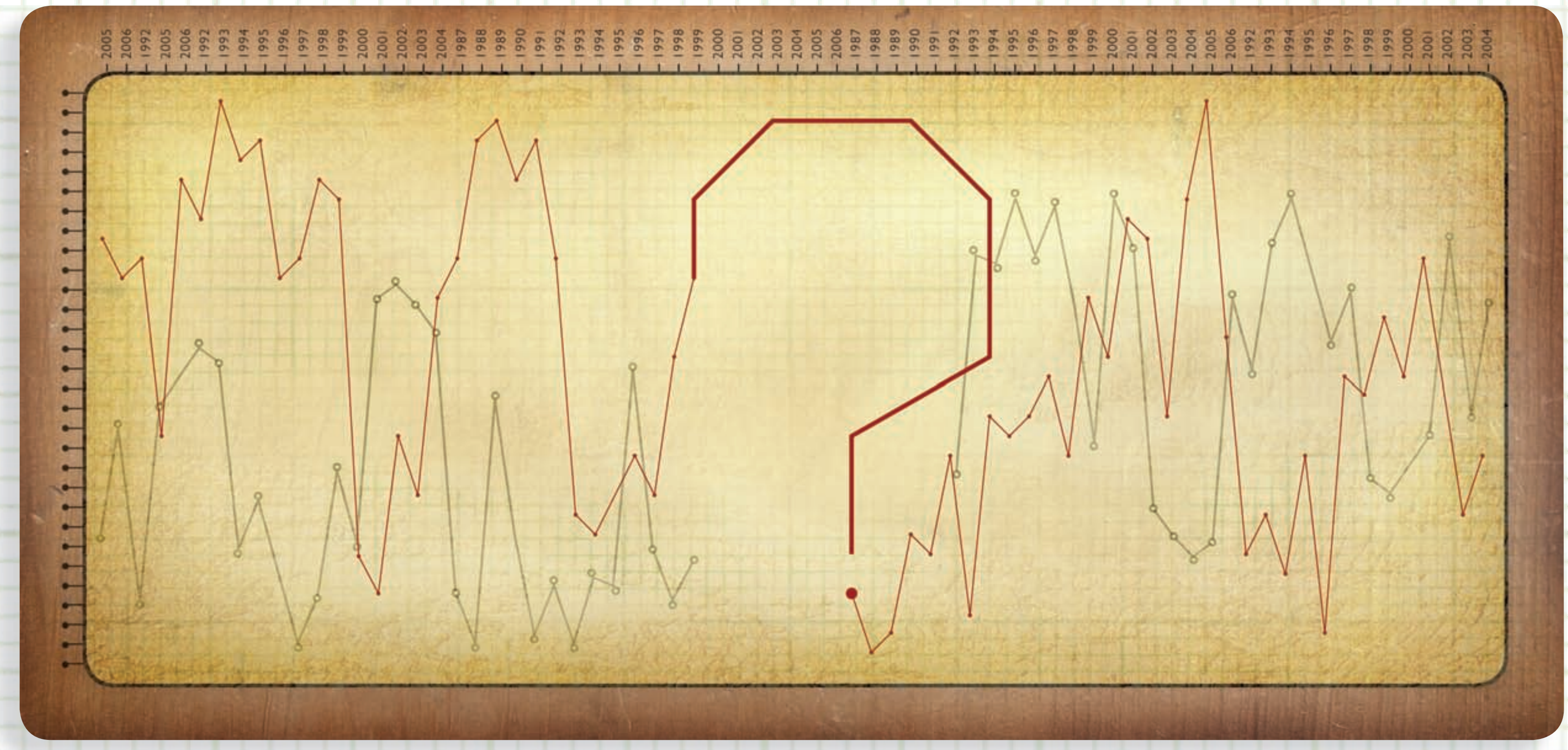

BY DON E. SCHULTZ

IS ROI STUFF AND NONSENSE?

ALL ANYONE IN marketing and communication can talk about these days is accountability (whatever that means) and ROI (again, whatever that means). Both are really "hot topics!"

In reflecting on this, I fear I may be partly to blame.

Since 1977 (my Ph.D. dissertation was on advertising response functions, a form of ROI), I have been beating the drum for marketing and communication measurement and accountability. Most especially financial accountability, such as what dollar returns were received from the marketing dollar spent. I've pontificated, verbalized, researched and written all over the world about ROI for so long it seems part of my DNA.

Yet, today, it may well be that ROI is, as the title of the column suggests, nothing more than stuff and nonsense.

My epiphany on ROI came this spring while attending the European Advertising Association annual meeting in Antwerp, Belgium. Antwerp is generally not known for epiphanies. At least it's not on the tourist map along with the Diamond Center but, nevertheless, that's where it happened.

I was listening to the presentation of two papers, one by Professor Katrien Berte of Ghent University, Belgium, and the other from Professor Douglas West of the Birmingham Business School in the United Kingdom, and incidentally, the editor of the *International Journal of Advertising*. Both were reporting on studies they had conducted with marketing organizations on how they set marketing and communication budgets and how those budgets were then allocated. Somewhat surprisingly, among the 22 companies Bertre personally interviewed in Belgium and the nine firms West met with in the United Kingdom, almost no formal methodologies were in place to determine how much firms should invest in marketing and communication. Even fewer had methodologies on how to allocate those resources among marketing and communication alternatives. Management simply provided a budget and the marketing and communication people spent it.

That's when it hit me, a blinding revelation of the obvious: If we don't know how to allocate resources, why do we think sophisticated statistical models can reveal the returns on those investments? Clearly, if you mis-allocate in the beginning, it doesn't matter how good your measurement system is, you're not going to have very useful ROI measures at the other end. As they commonly say in IT, "garbage in, garbage out."

As I thought about it, it became abundantly clear: If we allocate the incorrect level of resources to the wrong communication forms, no matter how much statistical magic we employ, the answers are going to be stuff and nonsense.

Measuring, or attempting to measure, the returns on the wrong things isn't going to lead to much. Maybe that's why the CFO puts so little stock in the measures marketing and communication people have developed. Witness the report in the July 15, 2008, issue of *Advertising Age* on the joint study conducted by Aegis MMA and *Financial Executive* magazine for the Association of National Advertisers titled "Survey Finds CFOs Skeptical of Their Own Firm's ROI Claims." Maybe the financial people know something about ROI they simply haven't shared with the marketing folk. Maybe they've already figured out that if you have the wrong input, your measurement system isn't going to be worth much at the other end.

As is my wont, I tried this revelation out on a few people. All came back with the same reply: "Don, you're chasing a rainbow. Allocation is simply the other side of a two-sided coin." But is it? We make the assumption that our allocation methodologies are right, but the two European studies show that there is no rhyme or reason as to how marketing and communication budgeting or allocation is or should be done.

Part of the reason, of course, is that most revered of all marketing maxims is, "We've always done it that way!" The problem is that marketplace changes make the fallacy of this ever more obvious today. When the marketplace was dominated by a few primary marketing and communication tools and techniques, such as advertising, sales promotion, direct marketing and perhaps public relations, we knew there were large, supposedly homogenous audiences all attending to the same promotional elements.

However, today, when we have dozens of communication alternatives and consumers exerting control over their use of them, our rather simplistic optimization models are rent asunder because of their own inadequate data and irrelevant assumptions. Yet we cling to the idea that even if the input is wrong, the measurement is being done right. Maybe, but so what?

So my blinding Antwerpian insight is simple: Marketers should spend their time trying to determine the level of investment to be made and then the communication forms to be used rather than trying to develop ever more esoteric methods of measuring outcomes or results. That takes us back to a familiar theme: measuring consumer consumption of marketing and communication activities, not the distribution of those activities.

My colleagues and I started this theme at the ESOMAR Worldwide Audience Measurement conference back in 2004. It was ignored then and maybe it will be ignored again. But the truth is there. If you have the wrong input, you'll get the wrong measures of output.

Unfortunately, however, marketers and their faithful vendors continue to search for the ever-elusive ROI, which is what I would today call stuff and nonsense.

If you agree with my premise and have developed some type of allocation model other than an optimization of expenditures, let me know about it. I'd like to hold you up so the epiphenomenal light can shine down on you. m

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