Return on Investment Worksheet

The purpose of calculating marketing ROI is to justify in advance that promotional initiatives will be more than offset by sufficient revenue to justify their expense. It tells you how much profit you can expect to make on a proposed marketing campaign.

Calculating ROI virtually eliminates the need for budgeting. Why? If you know you can make a positive return on a marketing investment, it makes no sense to restrict yourself with a general marketing budget. If your goal is to increase profit, and you know you can do so each time you invest in marketing, why would you ever not continue to invest? Other reasons, such as your ability to absorb growth and maintain quality customer service, are more relevant and important considerations than establishing a budget—provided you become adept at this process.

To calculate ROI, you will need some information in advance. Where you don't know the precise information, take your best guess and then track the actual results as you go along. Your ability to calculate ROI will continue to improve as you move forward. Key parts of the calculation include:

- **Estimated # of Responses**- Remember, this is a function of good strategy, targeting and following the marketing equation. Take your best guess up front, then track actual results.
- **Conversion Ratio**- The number of customer relationships you create divided by the total number of leads you generate.
- **Average Sale Amount**- Divide your annual sales volume by the number of sales you make. IMPORTANT: Sometimes a better number to use here is to average customer sales volume over the first year. It is often profitable even when the acquisition campaign isn't.
- **Cost of Sales**- Calculate this by subtracting from Average Sale Amount any VARIABLE expenses that relate directly to each sale, such as wholesale product cost and salesperson's commission. DO NOT allocate fixed expenses, such as rent, phone, staffing, etc. that don't change directly in proportion to each individual sale you make.
- **Gross Profit**- Average Sale Amount less Cost of Sales.
- **Cost of Promotion**- Includes all variable costs of each campaign, including design, copywriting, printing, media or mail cost, postage, offers, etc.
- **Net Profit**- This is net for the promotion—not necessarily your business's net profit.
- **Return On Investment**- Expresses as a percentage. You break even with a 100% ROI (because your original investment is returned). Anything over 100% is a positive gain.

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1. Estimated # Responses	_______	7. Projected Gross Profit	= _______
2. Conversion Ratio	X _______%	8. Cost of Promotion	- $ _______
3. # Sales Expected	= _______	9. Projected Net Profit	= $ _______
4. Average Sale Amount	X $ _______	10. Cost of Promotion	÷ $ _______
5. Projected Total Sales	= $ _______	11. Return on Investment	= _______ %
6. Cost of Sales	- $ _______	*(Remember: move your decimal 2 places to the right)*	