

COST OF SALES and RETURN ON MARKETING INVESTMENT

Why do I need to know how to calculate 'cost of sales' or 'return on marketing investment'?

Comparing how much it costs you for each form of marketing promotion, and how much revenue you earn, can save you money and result in more sales with fewer dollars spent on marketing.

Once you know the most effective methods in terms of revenue earned, and in terms of cost per sale, you can allocate your marketing expenditure accordingly, to maximize revenue and minimize wasted marketing dollars.

What is 'cost of sales'?

'Cost of Sales' is one way to measure the effectiveness of your marketing activities.

'Cost of sales' refers to marketing cost per unit sold. For example, if you spend \$500 on a newspaper advertisement and sell 50 tickets as a result of that advertisement, the 'cost of sales' for each ticket would be \$10 ($\$500/50 = \10). If you spend \$2000 on a TV ad and sell 200 tickets, the cost of sales per ticket would be the same, \$10 ($\$2000/200 = \10). So by these calculations, in terms of cost of sales, both these methods are equally effective. If on the other hand you spend \$50 on some email software to help you merge and personalise emails to your database, and you sell 100 tickets as a result of that campaign, the cost of sales per ticket would be 50 cents ($\$50/100 = .50$). So according to 'cost of sales', email is definitely the most cost effective method in these examples.

Sometimes it's useful to be able to compare effectiveness across different marketing activities, measured in revenue raised, by using percentages rather than dollars. This allows you to measure relative effectiveness across different ticket prices and marketing methods. This is where Return on Marketing Investment (ROMI) is useful.

What is 'Return on Marketing Investment'? ROMI refers to the return earned in revenue for each dollar spent on marketing, usually expressed in terms of percentage. Using the above examples and assuming a ticket

price of \$20, the newspaper advertisement that cost \$500 and sold 50 tickets would have earned \$1000 in revenue ($\$20 \times 50 = \1000). To calculate ROMI, take the Revenue (return) of \$1000, subtract Marketing (investment) of \$500 ($=\500), then divide by Marketing (investment) ($\$500/\$500 = 1$). Multiply by 100 to express in a percentage. So the ROMI for the newspaper example would be 100%.

See the companion spreadsheet to this resource that contains more extensive examples, including subscription campaign examples. It can be downloaded and used to plug in your own figures.

For other ways of measuring **marketing effectiveness**, see