PGS MONTHLY

Understanding Marketing ROI

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About PGS

PGS is a sole proprietorship consultancy for entrepreneurs and investment firms focused on the premium end of retail food and beverage.

- I help clients plan exponential growth.
- I help clients implement, evaluate and revise those plans.

Take my Founder's Quiz online right now and see if YOU are ready to Ride the Ramp!

Introduction

The typical finance person who shows up at Expo West every year has been trained in extreme cash management for underfunded startups that never went anywhere OR has been installed by private equity firms to squeeze every 10 basis points of margin in Phases 3 and 4 prior to exit.

Neither kind of finance person understands anything about consumer marketing. I guarantee you that they never worked for a vitaminwater or Kind bar. Ever. To these folks, out-of-store marketing/PR is a complete waste of money and salary hours. They do believe in trade spending because they can connect the dots to revenue outcomes in clean data sets. They absolutely love Instacart ads and have sucked whatever was left in the consumer marketing pot to this new dumping ground.

Why Trade Spend Eventually Maxes Out

Here's the problem.

Trade spending runs out of power and financial efficiency very quickly once you get into the eight figures. Or once you have mostly penetrated a smaller retailer's local shopping population by the mere passage of time (e.g., Whole Foods, Trader Joe's, etc./). And trade spend does not guarantee long-term growth in human awareness of your brand in the population. The latter is true because throwing something on deal again and again could easily attract random, 'so what' purchases in a very large proportion. It might seem like trial, but these folks may never return to you. They aren't interested in your brand, only something with one or two attributes in your category at a cheap price. These despite-thebrand purchases are one of the biggest dangers of over-promoting your early-stage brand.

While awareness may grow slowly for something reasonably interesting without aggressive marketing campaigns, it will take forever to get to 20-30% of U.S. households this way. And you need this level of awareness to maximize returns on national distribution (i.e., with above average unit velocities). Notice I said 'maximize.' Maximizing velocity for reasonable marketing investment is massively profitable, when done correctly.

Dr. Squatch Soap spent $1.5M on digital ad buys to spin up the flywheel behind its now famous 3-minute anchor video on YouTube, which cost $50K to produce in a friend's backyard with professional videographers. This catapulted brand awareness from 5%-25% in about a year. ROI was varied from 5-10X. And it generated more than $100 million in incremental online sales in that same year…and it didn't stop there.

If you are OK with scaling at 20% YoY without much same-store velocity growth, then you can stop reading this and get back to your business. Seriously. You do NOT need to invest in consumer marketing.

Understanding the Variables of Marketing ROI

So, it's now time to get constructive about measuring consumer marketing ROI (return on investment). This means we need to lay out the key variables by which to measure a) positive marketing impact and b) the profitability of that impact.

Two forces add new households to a consumer products business: opening distribution (including an attractive e-commerce website) and making local consumers aware of your offering (and why it should matter to them).

Marketing's goal is persuasive awareness that generates trial efficiently. The financial efficiency is the result of proper targeting and memorable, persuasive creative.

When done brilliantly, conversion to trial is high, whether it is a sampling table or a paid viral video. Once trial starts, the brand has new households to retain. Marketers refer to this as **household penetration gains.**

Measuring these **gains** represents the ultimate data input for the calculation of marketing ROI.

You can do it.

- by using **survey techniques**, initially in major metros and then nationally.
- **by measuring growth in buyers** directly through loyalty card panels from Kroger and other retailers.
- measuring **lift** in local store **unit velocities** (U/S/W) if all other trade promotions were turned off during the same period. This is best when the marketing tactic was narration-driven sampling/field marketing.

The key question your CFO will want to know is what is a new household worth? And how quickly does that new income pay for the marketing that brought the household in? This is a retail CPG version of Silicon Valley's Customer Acquisition Cost (CAC).

If done well, retail CAC is vastly cheaper than its equivalent a D2C website. It always has been. That's the benefit of tapping into existing mass shopping behaviour, trusted retail locations and modern trucking logistics.

One Step-By-Step Formula to Edit/Use

Take a deep breath, if you don't like math, folks. Math is a key skill to pleasing your CFO and to financially efficient growth. Here Goes!

1. **TTL Campaign cost - $25,000**
    - sampling event costs (# samples * fraction of unit sampled) + event fees.

- Or paid ad campaign(s) fees (include campaign fees AND all creative production costs including salary hours of your staff)

2. **Estimated repeat purchase rate for your brand – 60%**

3. **# Consumers added during/after campaign – 12,000**

   - make sure you measure the baseline growth here to really know what happened.
   - for sampling = those who converted at the table + (those who took a sample *known repeat purchase rate)
   - for paid ads = look for lift in loyalty card buyer count in a chain retailer. Do this by establishing the baseline growth rate in buyer for the preceding months and looking for a change in the rate of increase of baseline buyer growth.

4. **# customers who bought just once** = ((1-repeat purchase %) * # consumers added) – 4,000

5. **# customers who will buy at least twice** = repeat purchase % * # of consumers added

   8,000

6. **Time to repeat = Purchase Cycle = 3-4 weeks**

   - average weekly consumption rate (in units or fractions of units) requires survey data input from your fans.
   - **Time to repeat:** Typical purchase volume (4pack, singles, etc.)/weekly consumption rate (in smallest packaged unit) o e.g., 3-4 weeks for 4-pack base business consumed at 1.19 units/week.
   - Note: When ratio is high, repeat cycle is longer…

7. **Time to Break-Even** = in purchase cycles = 0.8 cycles

   - Campaign costs/unit COGS = **# units required to sell from new consumers**
     - $25K/$1.67 = 14,970 units
   - = SUM (one-time units, (repeat purchasers *typical purchase volume in units))/#units required to sell

8. **ROI 12 months after Break-Even** = ((repeat purchasers *(52/time to repeat) *typical purchase volume)* wholesale unit price)/campaign costs **17X!!! Take that Mr. CFO….**

This math is an example of how incredibly efficient live sampling can be if you can move 100-150 samples per event. It's the highest ROI you'll probably see, which is why I wrote about field marketing and sampling in my book. You're unlikely to see the payoff for paid ads this good, but the ads do pay for themselves as long as your repeat rate doesn't tank as you scale. There is ROI of 5-7X even at large fees, IF the creative caused the right people to try it, the people most likely to display the normative repeat purchase rate. It just takes 6-9 months to break-even on the expense.

None of this is a reason NOT to do paid out-of-store marketing. Both timelines are feasible. Both are justifiable, IF a) you are not spending core operational cash on your marketing(!) and b) you anchor your evaluation of the marketing way down the line past the break-even timeline.

It's important to remember that there is always a time lag between PR/advertising and trial. Always. It may be weeks. It may be months, if your distribution is not particularly 'omni.' This is why you need to set the right expectations on the generation of repeat purchase revenue that, if it appears reliably, absolutely will pay off the advertising and more.

Get scrappy, folks. And remember, field marketing (for weekly and impulse purchased categories) remains the fastest way to build offline awareness and penetration. Not ads. Not in the 2020s. Not for Phase 1 and Phase 2 brands. Boom!

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