

Mindtraps:

Three Attitudes That Stop You From Measuring Your Marketing ROI

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<http://www.marketing-metrics-made-simple.com/index.html>

October 18, 2009

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Introduction

This special report is a companion piece to the eBook [*Marketing Metrics and ROI: How to Set Up a Measurement System That Can Double Your Profitability \(Small Business Edition\)*](#).

In this special report, I warn you about three attitudes that can weaken or even wreck your ability to measure the return on investment (ROI) of your marketing program.

I call these attitudes “mindtraps” because they can trap you in counterproductive thinking.

(I thank Roland Barach, Ph.D., for the term “mindtrap” and the concept behind it. Dr. Barach is the author of [*Mindtraps: Unlocking the Key to Investment Success*](#).)

In my consulting work, I’ve observed three major mindtraps. For the sake of discussion, I call them *defeatism*, *perfectionism* and *traditionalism*.

In the following pages, I describe these three mindtraps, how they can hurt you, and how to avoid them.

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Defeatism: “There’s No Way to Measure This.”

The first mindtrap is *defeatism*. This trap tends to snap shut when you start looking for ways to measure your program. Let me illustrate with a story.

Years ago, I began offering free one-hour telephone consultations on profitability measurement. Generally speaking, the people who called me fell into three groups:

People in the *first group* were already running well-developed measurement systems; they called me to see if I could add anything. Beyond suggesting a refinement or two, I could add little value to what they had already achieved.

All the companies in this group were large and well-known. (Sorry, no names: these companies emphatically *do not* want any publicity on this topic. They don't want to let their competitors know about their “secret weapons,” and I am under contract not to tell.)

People in the *second group* wanted to try out a measurement system but didn't know where to start. Some of these people became clients.

People in the *third group* were marketers who told me that their programs *absolutely could not be measured*. I wondered why they bothered to call me, but I listened patiently to their stories anyway.

As I listened, I realized that they had overlooked incredibly obvious measurement opportunities.

It Doesn't Get Much More Obvious Than This

For example, one man in my third group was a vice president at a large food company. He described a new public relations program that his company was running.

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First the company develops recipes that include the company's product as an ingredient. Then the PR department "places" the recipes in the food columns of newspapers. Often, the placed recipes include a notice that the reader can order a free copy of the company's recipe book.

After describing his company's use of this PR program, the vice president said, "There's no way to measure this."

I asked him what the goal of the program was. He said it was to stimulate additional sales of the product. I asked him if he still had the names of the people who ordered the recipe book. He said yes, the company had about 1,000 names on file so far.

I suggested that he take every tenth name (about 100 names) and telephone those people to see if they have tried any recipes and how much product they bought in order to prepare the dishes. Then multiply these results by 10 to generate a rough measurement of the amount of product sold (so far) because of the recipe program.

Continuing, I explained that this quick-and-dirty measurement technique would *understate* the total sales generated by the program, because:

- People who *didn't* order the book may have bought product in order to prepare the single dish they read about in the newspaper, and may continue to do so because they liked the dish.
- People who *did* order the book may buy much more product in the future (after the telephone survey).

The technique would also *overstate* the results because, when the respondents realized that a big, famous food company was telephoning them individually, some of them would be so flattered and flustered that they would tend to overstate their purchases, just to please the interviewer.

When I had finished my suggestion, the vice president said, "You mean, just *call* them?" The tone of wonder in his voice told me that he was not kidding me; he really had not thought of such an obvious move.

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I'm sad to say that this marketer was not unusual. Many marketers overlook obvious measurement opportunities because, early in their careers, they convinced themselves that measurement opportunities do not exist.

We all tend to see what we expect to see, and to overlook what we don't expect to see. As you probably know, psychologists call this phenomenon "cognitive dissonance."

- EXAMPLE: A man buys a new sports car. For several weeks or months, he tends to notice more people driving the same model as his.
- EXAMPLE: A youth with a long "rap sheet" of violent crimes is convicted of murder. His mother tearfully tells reporters that he was always a good boy.

How to Avoid Defeatism

An easy way to avoid the mindtrap of defeatism is to look at your company from the viewpoint of an outsider. Imagine that you do not run your marketing program – that you're an outside consultant. Playing the role of the consultant, analyze your marketing program and draw "hypothetical chains of causation" (see page 14 in the [primer](#)). At each link in each chain, ask yourself one or two questions:

First ask, "What data accumulates *automatically* at this link?" (In the above example, the data included the names of those who ordered the recipe book.)

If no data accumulates automatically, ask, "How can we *cause* it to accumulate at this link?"

You will probably see many opportunities that you formerly overlooked. Someone once defined an expert as a person who sees opportunities that others overlook. You can become your own expert, and you won't even have to pay a consulting fee.

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Perfectionism: “Hey, This Isn’t Scientific!”

The second mindtrap is *perfectionism*. This trap tends to snap shut when a marketer, for the first time, is considering some specific profitability-measurement techniques. Here’s how it typically works:

The marketer thinks about techniques one at a time. He imagines implementing a technique and the information it will gather for him. Then, at some point, he says to himself, “Hey, this isn’t scientific!” By “scientific,” he means precise: typically, three or four [significant digits](#). He rejects that technique and considers the next technique. He rejects each technique in turn until there are none left. He gives up on ROI measurement.

His criticism is partly valid and partly invalid. True, some profitability-measurement techniques are quick-and-dirty comparisons, to one or two significant digits. These quick-and-dirty techniques are useful just to get started and to get some indicative results.

By “indicative,” I mean “generally reliable enough to base business decisions on.”

From my travels, I have learned that Perfectionists typically do no ROI measurement at all. They may be using several measurement techniques, but not the kind that measure profitability.

For example, many advertising people use techniques such as gross rating points and unaided recall. [Gross rating points](#) can tell you what percentage of all targeted televisions are tuned a show that contains your commercial. [Unaided recall](#) can tell you how many people noticed your ad in a magazine.

Similarly, many PR people use techniques such a clip counting and media impressions. [Clip counting](#) can tell you how widely your company or product was covered in the press. [Media impressions](#) can tell you how many people might have read, heard or viewed the press coverage.

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But none of these four techniques can tell you the one thing that most CEOs would like to know: How many people *bought* something? Unfortunately, the majority of advertising and PR measurement techniques used today don't answer this question. Not surprisingly, many CEOs are pushing their marketing, advertising and PR people to move beyond those techniques.

In my [metrics primer](#) and on my [Web site](#), I discuss several techniques that produce indicative profitability-measurement numbers.

For example, if you track a reasonable sample of results from Tactic A and Tactic B, and you find that Tactic A generates three times as many gross-profit dollars as Tactic B, you don't need to know whether it's 2.999 times or 3.001 times. Use common sense: if your results numbers are reasonably stable, and you see an approximately three-to-one difference, that should be enough input for a decision to transfer some funds from Tactic B to Tactic A.

How to Avoid Perfectionism

If you currently aren't using *any* results-measurement techniques, it's illogical and ridiculous to reject a technique just because it can't calculate to four significant digits. Perfectionism can become an excuse for doing nothing.

So, if you catch yourself thinking, "This isn't scientific," ask yourself, "Compared to what?"

In other words, ask yourself if the technique tells you more than you know already. By asking this, *you are in fact applying the scientific method*. You are moving methodically toward greater knowledge.

Just get started with any reasonable technique, and then keep evaluating and adjusting it from year to year. In this way, you will almost certainly increase the precision and accuracy of the technique. Patience pays.

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You will also discover ways to expand your program by creating measurement data at more links in your chains of causation. Therefore, your overall measurement system will tend to become more comprehensive and more precise every year. Once again, this is the scientific method in action.

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Traditionalism: “We Just Allocate a Percentage.”

The third and last mindtrap is *traditionalism*. It tends to snap shut when your measurement numbers indicate that you should move some funds from one program to another. Many marketers resist making such changes because they feel more comfortable with an old habit: allocating marketing dollars according to flat percentages of sales, regardless of effectiveness.

In other words, these marketers think like accountants. To an accountant, everything in the marketing budget is an expense. In a company’s income statement, marketing is included under [Selling, General and Administrative expenses](#).

Because accountants view a marketing dollar as an *expense* dollar, they don’t normally think about the gross-profit dollars it generates. That mindset is OK for accountants, because calculating the profitability of marketing dollars isn’t part of their primary job.

But why do *marketers* think this way? Why do they see every marketing dollar as an expense and as a flat percentage of sales, rather than as an investment that can pay for itself many times over? It happens for two reasons.

First Reason: Emulation

The first reason is emulation, our natural tendency to emulate other companies that we perceive as successful. One of my clients calls this tendency “Plus or Minus 15 Percent.” Most companies act like their competitors, plus or minus 15 percent. Maybe 15 percent better. Maybe 15 percent worse. Maybe 15 percent different. But mostly the same.

Emulation is one reason for the popularity of “Dilbert,” the comic strip. Millions of readers recognize their own companies in the satire. Many real-life managers do exactly what Dilbert’s boss does – they follow management fads and make trendy mistakes.

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Emulation influences many business decisions, including company names, product names, corporate strategies and corporate mission statements (go on the Web and read a randomly selected dozen mission statements and you'll see near-total uniformity).

Unfortunately, one of the behaviors that many companies emulate is the allocation of marketing budgets as a flat percentage of sales. Many marketers become fixated on their competitors' percentages. So, if Company A appears to be spending 2 percent of sales on advertising and 0.2 percent on public relations, marketers in Company B want to do the same, in order to "keep up with the competition."

However, it's easier to estimate a competitor's spending than it is to determine if the spending is profitable. Emulators often emulate *unprofitable* spending without realizing it. (How's that for a trap?)

When clients ask me what percentage of sales they should allocate to their advertising or public relations programs, my answer usually surprises them:

"Don't think in terms of allocation percentages. Think in terms of ROI percentages. Start with a modest program and measure the results. If the program generates profit well in excess of its cost, keep increasing your marketing investment until you've generated so much business that your company is running at capacity. Then increase capacity. Then keep increasing your marketing investment. And so on, until you can't, or don't want to, increase capacity any further."

This is how marketers *should* think about marketing budgets, but most don't. To put it bluntly, they can't *manage* profitability because they don't *measure* profitability.

And in the absence of profitability measurement, guess what happens? The accountants push back. The typical accounting argument is: Do your part to help control expenses; spend only what you absolutely must spend.

To an accountant, the perfect percentage for marketing is zero. To a marketer, the perfect percentage is whatever he can get away with.

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The two sides often reach a compromise by asking sheepishly, “What do our competitors spend?”

So, the first reason why so many marketers fall into the trap of thinking like accountants is that they emulate the behavior of other marketers, who in turn are emulating accountants.

Second Reason: Habit

The second reason is habit. Once a marketer gets used to the idea that his overall marketing budget is simply an expense that must be controlled at some fixed percentage of sales, he tends to *keep* thinking this way.

As a result, he eventually thinks of each marketing program as an expense line with a “normal” percentage. The accounting mindset takes control.

This is why you often see striking similarities in budgets from company to company. Most marketers make no secret of it. I often ask marketers how they develop their line-by-line budgets. The typical answer is, “We just allocate a percentage to each program.”

When I ask them how they determine the percentages, they say, “Oh, they’re pretty standard for our industry.”

Pressing further, I ask what they would do if they found that a certain tactic or program was unusually profitable. Usually I get a blank stare, which indicates that the allocation habit has become almost an instinct.

And once the allocation habit has become almost an instinct, it appears to be the *only possible way* to set up a marketing budget.

This is an exquisite mindtrap. In reality, traditional allocation is not the only possible way. And it is one of the worst ways. The other worst ways are ego, inertia, politics and pure guesswork.

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The danger of the allocation habit is that it can prevent you from noticing the big winners in your marketing program. If you don't notice the big winners, you might fail to give them the resources they deserve, while you continue to allocate funds to ineffective tactics that should be reduced or even eliminated.

In other words, you can miss opportunities to gain tremendous marketing leverage and competitive advantage.

How to Avoid Traditionalism

To avoid traditionalism, follow “the DATA process” (Defining, Assessing, Tracking, and Adjusting) as I described it the [primer](#).

The place to start is... wherever you are right now.

If your marketing budgets are already set up in terms of percentages of sales, that's OK. Just start using “the DATA process” as I've described, and when you get to Adjusting Your Program (Page 38 in the primer), keep an open mind. Ignore the “instinct” that tells you there's a “normal” percentage for each program and each tactic.

Your first program adjustment can be very cautious, especially if your corporate culture is risk-averse. You don't have to take a bold step right away. Just take one small step. Shift some resources from a weak tactic to a strong one.

Then, when you get your next round of measurement numbers, watch for the difference! More than anything I can say here, the excitement of seeing an actual increase in ROI will encourage you to keep optimizing.

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Conclusion

I hate to use clichés like “self-fulfilling prophecy” and “the only thing we have to fear is fear itself.” But they really do apply here. Attitude can make or break a marketing measurement system – and so often does.

It really is not very difficult to set up a measurement system that will:

- Measure your marketing ROI,
- Prove that your marketing group is profitable, and
- Enable you to increase your ROI from year to year.

The concepts are simple and the math is simple. Measurement *shouldn't* be a big challenge, but it often is. And whenever it *is* a challenge, the cause is almost always a bad attitude: we are approaching measurement in the wrong way and in the wrong frame of mind.

If you avoid emotionalism and think clearly about the goals of your marketing program, *you will* find ways to measure ROI. Give it a try; sooner is better than [later](#).

My [Web site](#) and especially [my primer](#) have much more detail that can help you.

Also, I am at your disposal. If you are still not sure where or how to start, call me for a free evaluation. I am always pleased to spend an hour or two at no charge. It's just a cost of doing business. So don't hesitate. Telephone me, toll-free, at 800-521-0490.

In any event, I wish you the best of success.

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