

E-LESSON #15: How to Calculate ROI

GENERAL AGENDA



ROI AND MANAGING THE CLIENT'S EXPECTATIONS

By Paul Weyland

Do you, **with every single local direct client in every single case**, ask what his average sale and gross profit margin are? If you don't, then you're blind. And you face the risk of being "blindsided."

This section may change the way you sell forever. Remember that knowledge is power in this business. Armed with certain pieces of client information, you could make huge strides toward completely managing your client's expectations about results. This is important, because except for horrible creative, the other typical reason that a client says, "I tried it once and it didn't work," is because you and the client were never on the same page regarding how many of your listeners or viewers should respond to the client's message.

If you're sick of surprise cancellations, if you're sick of having to give away bonus spots, if you're sick of missing sales because you're not Number One or "I don't like your music or programming on your station", you'll *love* this series on Return on Investment. If you'd like to double or triple what your client thinks he should be spending with you and if you'd like more long-term contracts from clients then you'll want to pay very careful attention to this series on how to calculate and explain ROI.

In this E-Lesson, we continue working on ways to determine how much money your client should **REALLY** be spending with you, not how much the client "thinks" he should be "gambling" on your station. Why would we leave something that important up to chance?

How do I Determine How Much My Client should be Spending?

Unfortunately, it's true that most local direct budgets for radio and television stations come out of "thin air." When you ask salespeople how they determined the budget they suggest to a client, most say, "Well, that's just what I thought the client could afford to spend." You **THOUGHT** that's what the client wanted to spend? You didn't work through an ROI calculation with the client, did you? So essentially you're saying that you just pulled that number out of your rear end?

The other answer to the budget question was usually, “That’s what the client says their budget is.” Of course my next question would be, “Where did the **client** come up with that budget? Again, is it possible that the client is also pulling the budget out of “thin air?” Or, is the budget actually based on some type of ROI calculation?

Example

When I approach a new client and work out an ROI calculation, I generally start with what it would cost to own some significant “real estate” on my station. That is, to OWN one or more days...or to OWN several spots per week in a day-part...or to OWN more than one spot in a particular program.

Let’s say we’re talking to a furniture store. Assume in this case that I work for a radio station with a weekly CUME audience of 100,000. My average rate is \$100. I have no idea what the client’s budget is, but I’d like to see this client running at least thirty spots a week on my station. That way, the client could really OWN two or three days on my station. For example, I could cluster those spots over a two-day period with fifteen spots per day. Or, I might really dominate a specific daypart over a week’s time. The point is to start with a big number of spots per week, not a small number.

I’m speaking to the decision maker. “Mr. Client, they say we reach about 100,000 consumers a week. Now, I’m not saying we could reach everybody on our station with your advertising. That would be impossible. To do that, we’d have to run the same spot every minute of every hour of every day. Then, of course, nobody would listen to our station any more. But the point is, we don’t have to reach EVERYBODY. We’re just trying to reach a percentage of our listeners who are ON for a furniture purchase this week. Since our demographic is the same as the one you’re trying to reach, then it’s logical and statistical that we have listeners that WILL BUY furniture from you or one of your competitors THIS WEEK. We need to reach those people and also begin BRANDING those people who aren’t ON for new furniture this week, but might be ON in the future.

Let’s just say for example, that you were spending \$3,000 per week on our station. What is your average sale here in the store?”

- **Average Sale** - The dollar total of all of the sales from an average day, divided by the number of sales written or rung up.

The client responds that his average sale is about \$800. And, what is the gross profit margin in the furniture business?

- **Gross profit margin** - The percentage of profit AFTER the business has paid for materials (retail outlet) or labor (service-oriented)

business) **only**. **Gross profit** does **not** include rent, utilities, salaries, taxes or any other expenses. Including those factors would give you NET profit. And if I asked a client what his NET profit was, he'd probably tell me that was NONE OF MY BUSINESS. But Gross profit is a fair question, because it's virtually the same for every business in your client's particular product or service category. For example, many retail establishments operate on what we call "keystone", or a fifty percent gross profit margin. Clothiers and jewelers would buy an item from a manufacturer and then mark it up one hundred percent to sell in their store. So when you subtract the cost of goods, you get a fifty percent GROSS PROFIT MARGIN. Gross profit margin in the furniture business is forty percent. GPM for an appliance dealer is about thirty five percent. GPM for a restaurant could run as high as forty to seventy percent, depending on food cost. GPM at a nightclub is about seventy percent. For a manufactured homes dealer, GPM is forty percent. Don't confuse gross profit margin with NET PROFIT.

The furniture client says his gross profit margin is about forty percent. That would mean that the client is making about \$320 gross profit on an average sale of \$800. At this point I can do the math and determine that in order to get close to break-even for this \$3,000 campaign, the spots on my station would need to stimulate roughly ten sales for the client. Is that possible?

With a good spot that breaks through the "Craposphere" of all of the other bad furniture store commercials, and with a good, solid schedule, it seems like a good calculated risk that I could catch ten fish out of my lake of 100,000 listeners per week. In fact, those ten fish would only represent POINT ZERO ONE PERCENT of my total weekly audience.

Ask for More

At this point, I might suggest to my client that we might "cast the bait" a few more times on this lake and perhaps go for twenty furniture customers. Heck, twenty customers still seem like a good calculated risk on our station. That would only represent POINT ZERO TWO PERCENT of our weekly audience. And I'll bet that with sixty "casts" with that good "bait," we just might be able to catch at least twenty new furniture customers.

Know Your Station's CUME number

Your CUME number is the biggest ratings number you've got. It's not households, it's people. CUME is the total number of different people that tune in to your station in a typical week. If you don't know your CUME number, ask your sales manager.

Not in a Rated Market?

Then try to come up with a number that you and the client both agree is fair. Take the entire population of your signal coverage area. Tell the client that obviously you market your station and that a percentage of that population tunes in.

Stop “Winging it” with budgets and client expectations

Stop recommending schedule amounts to clients without working out an ROI calculation first. You can't blame anybody but yourself when a client's expectations about results are not logical or you're not getting as much budget as you should be getting from your client.

What you **can** do is **educate and manage expectations** and **increase your budget** by knowing what the client's **average sale** and **gross profit margin** are. Use those numbers against your station's CUME and show the client that using **your station looks like a good calculated risk**. It's easy and it's logical.

There is an on-line companion video provided with this lesson.

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