

E-LESSON #16: ROI #2

GENERAL AGENDA



HOW TO EXPLAIN ROI TO A LOCAL DIRECT CLIENT

By Paul Weyland

Let's say you're working with a jewelry store. The client's average sale for an engagement ring is \$1,500. His gross profit margin is keystone, or fifty percent. How many rings would you have to sell for this jeweler to break even on your little bitty \$3,000 weekly schedule?

The client owns a funeral home. Average sale is \$8,000. Gross profit margin for funeral homes is a whopping sixty five percent. How many funerals would you have to sell for the client in order to justify your little MEASLY \$10,000 weekly schedule?

The client is a homebuilder. His average sale is \$160,000. His gross profit margin is twenty three percent. How many new homes must the builder sell in order to justify your little puny, piddly little \$15,000 weekly schedule?

ROI knowledge means POWER FOR YOU in negotiating with local direct clients. Think about it. If you're not using this concept every time you call on a local direct client YOU'RE NUTS and you're going to get nasty "surprises" from clients who think that your station "isn't working".

Most broadcast companies have never fully understood and used an ROI close with clients and SHAME ON US. Because of our industry's lack of understanding of this very important part of the sales process, radio and television stations have had to sacrifice BILLIONS of dollars in lost sales, wasted time and sales department turnover. That doesn't include the BILLIONS MORE we have wasted in needless "bonus spots" just to keep dissatisfied clients on the air, all because we were never on the same page as the client about measurable results from campaigns on our stations.

This E-Lesson further illustrates the urgency of managing client expectations with an ROI calculation. It also covers where rate resistance comes from and how to deal with it.

An Interesting Situation

The owner of a mobile home dealership decided he was ready to "give a radio station a try." He said he was even prepared to spend two thousand dollars on a schedule (the average rate on the station was around one hundred dollars) and that this was his first experience with a radio station in several years. He

said the last time he tried using radio it “didn’t work,” so “it had better work this time.”

The account manager asked what the retailer’s average sale was. The client replied, “\$60,000.00.” “What’s your GROSS PROFIT MARGIN?” asked the account executive. The client told him it was about thirty percent. The account exec then asked how many \$60,000 sales he would have to make to justify the \$2,000 he was going to spend on the station. The client responded, “Oh, maybe a dozen.”

“Twelve?” the A.E. asked incredulously. “I mean, how many individual \$60,000 sales must you make in order to actually pay for our \$2,000 weekly radio schedule?”

“Well, I guess fewer than a dozen,” said the client.

After a little more discussion, the manager and the client agreed that they would have to attract a minimum of one new buying customer in order wind up with over a thousand percent return on advertising investment. Wouldn’t you agree that one new customer is quite a different number than a dozen?

The sales manager went on to explain that the station had about 150,000 listeners per week. He reminded the client that we weren’t trying to reach EVERYBODY...we don’t have to do that.

But what if, with a good commercial and a logical schedule, just ONE PERCENT of the station’s audience responded to the client’s message? How many people would that be?

1% of weekly CUME = 1500 customers.

The manager said, “It’s not likely that that’s going to happen. But what if just one half of ONE PERCENT of the audience responded to a good spot and a logical schedule, how many people would that be?

½ of 1-percent of weekly CUME = 750 customers.

“Probably not going to happen,” said the sales manager. But, what if just ONE-FOURTH OF ONE PERCENT of our audience responded?

1/4th of 1-percent of weekly CUME = 375 customers

You see where this is going now. Let’s take it further.

1/8th of 1-percent of weekly CUME =187 customers
1/16th of 1% = 94

1/32nd of 1% = 47
1/64th of 1% = 23
1/128th of 1% = 12
1/256th of 1% = 6
1/512th of 1% = 3
1/1024th of 1% = 1.5

What was the magic number that the account manager and the client agreed upon? **JUST ONE!**

In order to break even on the advertising campaign, the client would only need to effectively reach 1/1024th of ONE PERCENT of our audience. The station's format matched the client's demographic. The dealership had no perceptible marketing problems. So, the odds looked GOOD. To the client, the advertising campaign now appeared to be a GOOD CALCULATED RISK.

Manage the client's expectations

At this point, the account executive suggested that with those numbers it would seem like a pretty good calculated risk to INCREASE the budget and go for three average sales. The mobile home dealer wound up agreeing to DOUBLE the budget to go for TWO new customers.

The schedule ran. This was the only advertising the client did for this particular sale. He tallied a total of four customers responding to the advertising and spending a minimum of \$60,000 each. The client was ecstatic.

But what if the client and the account executive had never had that conversation? What if the campaign had run and only attracted four people spending a minimum of \$60,000? The client would have said that the campaign was a FAILURE. And his perception would have been based on nothing more than a preconceived notion about how many people (A DOZEN?) *he thought* should respond to the advertising campaign.

The client's perception is everything

Where did the client get the idea that for a \$2,000 advertising investment, he should get a minimum of a dozen people spending \$60,000 on his lot? Is it possible that the client's original expectation came OUT OF HIS REAR END? Yes. That's exactly where that number came from.

Well, it doesn't matter whether the client's thinking is logical or illogical. The thing that matters is that is what the client believes. And in the long run, ***the client's perception is everything***. So you see how important it is to listen to the client, find out what his perceptions...or misperceptions are, and then educate him about how to more reasonably calculate return on advertising

expenditures. In other words, YOU MUST MANAGE THE CLIENT'S EXPECTATIONS ABOUT RESULTS ON YOUR STATION.

By knowing what his average sale and profit margin are, we can:

- Help our client calculate return on investment and manage his expectations about advertising results on our station.
- Less rate resistance
- Less added value
- Double or triple the amount of money the client is thinking about spending with us.
- Make more local direct sales regardless of your format or programming.
- More easily convince a client to purchase a long-term contract.

Why Ignorance and Mismanaged expectations cause Rate Resistance

Over and over I hear the same thing from sellers and managers. "How do I overcome rate resistance? I have been calling on this client for six months now and all they say is that I am too expensive. I don't know what to do with this client."

Let us start with why rate resistance ever comes up to begin with.

Rate resistance is a consequence of a client's lack of perceived value in you or your station. When someone is uneducated about a particular product or service, the first objective is always the price or rate. Think about it. When someone is trying to sell you something you do not completely understand, the RATE or COST will always be your first line of defense. It is the first "card" you will use in your "hand" of resistance. I have got a personal example for you.

While remodeling the exterior of my house recently, my wife pointed out that both the pool and the spa needed attention badly. She had taken several bids on refurbishing a thirty year old swimming pool. I thought the cost was astronomical, but after comparing bids, I became okay with a general price range for the work we needed done. But I PUT MY FOOT DOWN on the spa. "Thirty-five hundred MAX is what we will pay for that spa," I told her. And, she agreed. By the way, we knew NOTHING about spas. We had never shopped for a new one.

So, we went spa shopping. We visited five or six reputable places. They listened to me as I told them what I wanted and they all nodded when I "laid down THE LAW" on the price I was willing to pay. "Well Paul," they said. "Sure, you can get a spa for \$3500. But it won't be the same spa you're looking at here on the showroom floor. It will be one of these over here." I wasn't impressed with what they showed me, but I was sticking to the price.

"Sure, it's a working spa," they told me. "But the motors aren't really that powerful. In fact, when you turn them on, it might feel like somebody is PEEING on you...that's about what it will feel like when you turn on the jets. And, if the thing breaks, who's going to fix it? The warranty's not very good."

By the time I had heard the same story five or six times, I had NO PROBLEM revising my estimate for the spa. I wound up paying more than \$5,000. And, I am very happy now with my purchase. When one of the motors went out, the company came by within two days and installed a brand new motor. So the question becomes, where did I come up with the number 3500?

Truthfully? I pulled it out of my rear end. I did. And, I am sure you've done the same thing with some other product or service.

During the budgeting process, where do you think a lot of companies come up with the figure they'll use for advertising? Is it possible that they too, will pull a number out of their rear-ends? Remember that for most companies, the side of the business triangle that says ADVERTISING is always the WEAKEST LINK. It is the hardest side to qualify and to quantify. It is always the most MYSTERIOUS side of the business triangle.

So if their perception were that advertising is a crapshoot to begin with, why would they RISK much on that budget item? They know far more about the PRODUCT/SERVICE side of their triangle. They know far more about the SALES FORCE side. And, they know the LEAST about the mysterious ADVERTISING side. So, which side will get the shortest end of the stick?

EDUCATED CLIENTS BUY MORE THAN UNEDUCATED CLIENTS. That is why I take every local direct client through ALL TEN of these red PRESENTATION ICONS. I know that if my client is on the "same page" I am on regarding the importance of advertising to the overall success of their business, they are much more likely to spend more with me.

If I can show a client the huge hole in their competitor's advertising and marketing strategy and explain the rules for the difference between a good and a bad spot...if I can show them how to calculate RETURN ON INVESTMENT for any advertising they do, I might DOUBLE OR TRIPLE the amount the client thinks he can "RISK" on my station. Rate resistance goes away. No "added value" even comes into the discussion. It does not make any difference whether I am number one or number twenty. And, what's wrong with that?

It really feels good to stop beating your head against the wall.

Sometimes, we get ourselves into a TRAP in dealing with local direct clients, who are consumed with nothing but rate. Typically, these are clients who have become SPOILED over time, because every Chiquita from every station in town is "educating" them with nothing more than RATES and RATINGS.

Many of these clients are now completely consumed with RATE THINKING and it will be very, very difficult to focus them on anything else. What to do?

Sometimes, the best thing about BEATING YOUR HEAD AGAINST THE WALL is that it feels so good when you STOP. Sometimes, it is time to QUIT WASTING YOUR VALUABLE TIME and MOVE ON. While you are busy beating your brains out with this one client, there are THOUSANDS MORE out there that are uneducated about marketing, advertising and especially you and your station, and the value you could bring to their businesses.

Occasionally, it is just a good idea to GIVE UP on the contentious rate-oriented client. FIRE HIM. And then, call on and properly educate every single one of his competitors. Tell them that “So-in-So” isn’t branding our listeners or viewers. That means that you have an opportunity to educate them now, with less competition for mind share.

When you finally make a sale, be sure to ASK FOR AND GET A LONG-TERM CONTRACT. This will give you time to build a good relationship with your new client, and the annual contract your client signed will keep the wolves and Chiquitas from the other stations at bay--FOR A WHILE. But, after you have proven yourself to be a real resource and a good friend to your client, your rate will become secondary to your value as a consultant.

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

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