

# RETURN ON INVESTMENT

**Return on Investment** or simply **ROI** is the calculation of the profit earned on investment. The formula to calculate **ROI** is as follows –

$$\text{ROI} = \frac{\text{Return} - \text{Investment}}{\text{Investment}}$$

To understand the **ROI** from Mobile Marketing, let's assume –

- **Customer Lifetime Value CLV**

$\text{CLV} = \text{Avg. Revenue per customer} \times \text{Avg. No. of visits}$

Say,  $100 \text{ per customer} \times 10 \text{ visits} = 1,000$

- Calculate allowable **Cost of Customer Acquisition COCA** as –

$\text{COCA} = \text{CLV} \times$

Say,  $1000 \times 10 = 10,000$

Now, reallocate your mobile marketing budget by dividing them into 'Branding' and 'Direct Response'. For example, allocate 20% of your budget to direct response –

Say, direct response budget = \$200,000

$20\% \text{ of } 200,000 = 40,000$

Hence, mobile marketing budget is **\$40,000**.

Now, calculate the number of estimated customers from new mobile marketing campaign.

$\text{CLV} = \$1,000$

$\text{Budget} = \$200,000$

$\text{COCA} = \$100$

$\text{Customers acquisition} = \text{budget} \div \text{COCA}$

Hence,  $\$200,000 \div 100 = 2,000$

Therefore, new customers = 2,000

Direct response of new customers = 2,000

Mobile marketing new customers = 400

**Conclusion – On 20% investment, you will gain 20% new customers.**

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