

RETURN ON INVESTMENT

http://www.tutorialspoint.com/mobile_marketing/return_on_investment.htm

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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*

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

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

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

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

$$\text{Say, } 1000 \times 10 = 10,000$$

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

$$\text{Say, direct response budget} = \$200,000$$

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

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

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

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

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

$$\text{COCA} = \$100$$

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

$$\text{Hence, } \$200,000 \div 100 = 2,000$$

$$\text{Therefore, new customers} = 2,000$$

$$\text{Direct response of new customers} = 2,000$$

$$\text{Mobile marketing new customers} = 400$$

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

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