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Vital information for hotel decision makers

Why ROI isn't the best metric for marketing

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ROI is nearly obsolete for marketing, rarely fully understood, and it doesn't actually provide a clear path of success in terms of driving top-line revenue or meeting the business goals of the hotel.

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Let's face it, in a business world dominated by instant news, social media, real-time analytics and the emergence of "big data," the hotel industry is relying heavily on data to drive or inform business decisions. This is particularly apparent in hotel marketing, where nearly every decision is based on the tried and true return-on-investment metric. It is now commonplace that every hotel operator, owner, investor or ground-level director of marketing wants to know the ROI on every campaign, marketing tactic or long-term partnership opportunity.

As we enter the new marketing plan cycle, everything from total spends, to daily marketing allocations, to strategic initiatives and media planning is rolled up to the sacred cow of ROI scrutiny. Unfortunately, this is probably the worst way to make marketing decisions.

I've sat through owner and asset manager meetings, where the marketing team boldly proclaims their 20:1, 30:1, or 40:1 ROI successes. The discussion of marketing strategy is nearly always based on ROI, and the executive team pats themselves on the backs or quickly moves to the next agenda item.

On one rare occasion, the asset manager boldly asked the marketing team: "If we're getting a 40:1 ROI, then why don't we spend another million bucks?"

This, of course, was met with complete dumbfounded silence, followed by the response: "It doesn't work like that."

The reason ROI "doesn't work like that" is because this metric is nearly obsolete, rarely fully understood, and it doesn't actually provide a clear path of success in terms of driving top-line revenue or meeting the business goals of the hotel. The reality is that the 40:1 ROI figure is a mirage: You see it, and it appears to be real, but it's more likely a mixture of truth and fiction.

I'm certainly not suggesting that the ROI metric be scuttled, but I am suggesting that making sweeping strategic marketing or budget decisions based solely on ROI is a huge mistake.

Let's take both social media and mobile as an example. Nearly every hotelier would agree that social media plays an important role in driving awareness, brand engagement and influencing bookings. However, when social media is put under the scrutiny of ROI analysis, then its success is generally inconclusive at best, or an abject failure at worse. The same is true of handheld mobile, but the ROI numbers, compared to tablet or desktop bookings, is disproportionally low or even negligible. The reality, for both social and mobile strategy, is that they play an important role in building the hotel brand, influencing relationships, and establishing a wider audience funnel for new business and customer outreach, but ROI is simply not the correct metric for its success.

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The solution

As a marketer, this is where things become murky and downright frustrating . If you can't rely solely on ROI and instead rely on broad metrics, such as engagement, traffic, brand awareness, etc., then how do you justify marketing allocations to owners or create a clear story of success?

The short answer is that you need to look at overall revenue growth for the entire marketing strategy by segment (customer types), lead capture (especially group and social) and market share growth versus your comp set. In other words, when you line up all of your marketing initiatives for the week/month/year, you need to show both the micro and macro view on how these collective efforts are affecting the underlying business dynamics.

For example, showing an owner or management company a 40:1 ROI is just as useless as showing 0:1 ROI. Therefore, it is critical to create a marketing success model with a visualization of each marketing tactic and how each element is contributing to overall revenue directly (bookings) or indirectly (leads, loyalty).

Understandably, creating a marketing success model is not as easy as dividing revenue by cost (ROI), but here are some tips to make this process easier:

1) **Define failure**: Marketers are brilliant at making everything seem like a success, especially if you take the ROI metric out of the picture. Defining failure is just as critical as defining success. Do not fool yourself into thinking that the full-page ad that cost $75,000 was successful "exposure." Failure factors would include no Web lift, call-traffic, search lift or any ancillary bounce in critical consumer touch

points.
2) **Revenue contribution visualization**: Develop a visual graphic outlining a clear path analysis on every marketing activity, such as search, direct email, local ads, social channels, etc. Understandably, many of these marketing activities will never have a traditional ROI metric, but clear contributing factors such as brand lift, traffic, comp share, reputation scores, link building and AB lift analysis will give you the droplets to build the revenue creation model.
3) **Cost to acquire—by channel, by tactic**: Every customer acquisition has a cost, especially channel distribution such as online-travel-agency business, wholesale, and consortia. Your marketing model should include a comparative cost to acquire per channel (including third party), along with the acquisition cost for each marketing tactic. Ultimately, your marketing spend should shift or expand to the best (not necessarily the lowest) CTA channels where you can build profitable volume and drive success from the top down.

By developing this strategic mindset, instead of looking purely at ROI, you will be able to make much more strategic decisions, and also convince ownership to spend more in the areas that will drive the right profitability to the hotel.

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