

## Strategic Business Analysis

### ***ROI Opportunity Appraisal***

The ROI Opportunity Appraisal seeks to define the business case for CRM strategies. It does so through an in-depth examination of a business or a brand's unique consumer dynamics, as viewed through sales, target audience, penetration, or other measures. Using measures of return on investment as the criteria for success, this appraisal seeks to provide clients with an understanding of the relationship between consumer dynamics and brand financials, and how that relationship impacts the viability of CRM-oriented marketing as a strategy for growing the business.

### **Methodology**

The ROI analysis is a relatively simple process which assesses the net margin value of an individual consumer and then evaluates their potential to the business based on purchase behavior. This potential is defined by the brand's opportunity within the category, or simply:

$$[Category Volume] - [Brand Volume] = Opportunity.$$

Once the opportunities for each market have been identified, the net margin value is then applied to produce an equalized (dollar) amount for a market's potential.

$$\begin{aligned} (Category net margin value) - (Brand net margin value) &= Opportunity net margin value \\ Category net margin value &= [Category equiv. units x net margin] \\ Brand net margin value &= [Brand equiv. units x net margin] \end{aligned}$$

Once we have identified the opportunity net margin value per customer, we consider how CRM strategies can best be leveraged to increase the brand's bottom-line performance. In other words, how much of the identified opportunity is attainable? In reality there are three components to this:

$$[Marketing Universe] x [\mathbf{Consumer Dynamics}] x [Gross Margin] = Margin (\$)$$

It is important to note that we attempt to affect consumer dynamics. The "marketing universe" and "gross margin" can only be affected by the brand manager and internal factors (i.e., manipulating the COGS or wholesale selling price of a product).

Three key components make up the tactics of consumer dynamics:

- **Penetration** - influencing non-users to purchase/consume your product (e.g., new product/brand extension)
- **Buying Rate** - increase use quantity/frequency among current users (e.g., new usage occasions)
- **Share-of-Requirements** - increase the number of times product is purchased within the category

The analysis will reveal which component part of consumer dynamics will yield the highest ROI, and thus be the strategic leverage point for database marketing.

