



From Message To Money

Measuring the effectiveness of public relation communications (and ROI) in achieving short-term marketing and business outcomes.

Lisa Vallee-Smith, APR

Janet Tyler, APR

Deborah Lewis, APR

Airfoil Public Relations

White Paper

Summary Abstract

For the marketing executive, determining the true impact of public relations efforts (and subsequent ROI) has always been a difficult undertaking. Long-term corporate objectives, such as enhancement of reputation and increases in customer preference, are largely intangible, difficult to quantify, and their direct link to revenues is weak. Older derivative methods of measuring and evaluating PR, such as advertising equivalency, are limiting and not altogether relevant.

In this white paper, the authors explain their development of a simplified model for evaluating the effectiveness of PR strategies and tactics, and suggest how their model may be implemented within companies which lack sophisticated tracking mechanisms.

A case history is presented which documents their methodology and the results of their initial research.

Contact Us: <http://www.airfoilpr.com> • 1.866.air.foil

Now more than ever, senior managers are demanding accountability from every element of their marketing and business development programs. Accurate measurement of ROI has become an imperative throughout the organization, and communications programs, with their relative lack of reporting metrics, must find new ways to demonstrate their value.

For many years, PR practitioners have used advertising space equivalencies to put numbers behind their efforts. While an investment in public relations can yield dense 'unpaid' editorial coverage in ad-supported media, the analogy is intrinsically flawed because it defines the value of PR on the back of another marketing tactic that is of intangible benefit itself.

Business decisions are driven by tangible results. Incremental new revenues, strong margins, stock price deltas, relief from regulatory pressure, shortened sales cycles, and reduced attrition of customers are just a few of the outcomes sought by business stakeholders. Achieving and sustaining a solid reputation is an undeniable objective of these companies, but a coveted reputation is the sum of intangibles, of belief systems, which are ephemeral, qualitative, and almost impossible to nail down.

Writing in *The Economist*, the author James Wilkinson states that "the value of a business increasingly lurks not in physical and financial assets that are on the balance sheet, but in intangibles." The significance of brands, and of the trust placed in the company by customers, employees and other stakeholders is echoed by America's most successful bean-counter, Warren Buffett. Says Buffett, "If you lose dollars for the firm by bad decisions, I will be understanding. If you lose reputation for the firm, I will be ruthless."

Can P.R. Ever Stand For 'Producing Revenues'?

Public and media relations firms (and their institutional advocates) have long sought a measuring system that considers both tangible and intangible contributions of their work. One method has been the development of the 'weighted net effect', which gives high priority to the quality or relative impact of a message, multiplied times its overall reach. In this case, 'quality' is defined as increases in awareness, familiarity, preference and intended purchase of the company's products and/or services. A more academic treatise cites the six essential elements of relationship measurement ('control mutuality, trust, satisfaction, commitment, exchange relationship, communal relationship'), but again, this will inevitably be construed by many as just more marketing alchemy. Many similar behavioral studies are based upon responses to questionnaires, a context far removed from that of any real-world buying decision.

Looking at the situation more pragmatically, practitioners have defined the effectiveness of PR as a calculation with the numerator being the monetary value of realized PR outcomes, and the denominator represented by the all-in cost of the public or media relations campaign. PR outcomes are typically considered to be the equivalent cost of media coverage (whose faults have already been mentioned), the number of inbound customer inquiries that can be traced to the exposure (via telephone or web), the number of event attendees, etc. In this regard, a strong PR firm is one that can consistently deliver these kinds of outcomes more cost-effectively.

ROI, on the other hand, is usually derived from knowledge of what the actual business return of the investment really is. Business returns, also described earlier, are apt to be line items on the company's income statement and balance sheet: revenues, margins, positive changes in share valuation. So how does one reconcile the outcomes of PR programs, with the returns so desired by executives and business owners?

It is the authors' experience and belief—one that is supported by others such as the Institute for Public Relations Commission On PR Measurement And Evaluation—that only a successful conversion of tangible marketing outcomes into tangible business outcomes can give us the answer. For example, based upon our knowledge of what it costs to develop a new customer (and our knowledge of the average customer's annual revenue contribution to the company) what is a qualified prospect's name worth? How much would we be willing to pay an outsider for such a referral? What would otherwise be the cost of cultivating such a customer in sales commissions? To arrive at such a projection of ROI, marketing executives must dare to make (and revise) their cost basis assumptions...and put a price on results! Of course, it's a moving target, and no two situations will ever be precisely the same.

Commitment to measurement is a pre-requisite

There is little precedent for early-stage or even middle-market businesses for spending the 10% to 15% of a PR program's total cost on measurement. Large companies are naturally far more likely to possess the mechanisms to justify their marketing communications expenses. Even then, PR is often considered to be a sunk cost that is necessary, but surrounded by some mystery. There is a definite correlation between levels of PR spending and the corporate reputation rankings issued by Fortune, and such reputations also relate closely to financial performance. But in fact, these relationships may be coincidental rather than causal. We respect companies that know how to make money...they don't make money simply because of the respect we imbue upon them.

But does the tracking of marketing responses matter to others? Only if they want to arrive at a reasonable estimate of ROI. But one of the keys to successful low-cost measurement is the understanding that the information doesn't have to come from dedicated or specialized sources. No expensive surveys or tracking studies are required. The methodology discussed in the case below makes use of existing data 'borrowed' from throughout the client organization. The case illustrates both the tremendous potential for ROI calculation, as well as the need to track simple outcomes on a more regular basis.

Case Study: SupplySolution (www.supplysolution.com)

SupplySolution was founded in 1998, and as is typical for many technology startups, the company was soon proceeding simultaneously along three tracks: the need to refine its service offering; to expand its base of early-adopting customers; and to secure additional development funding. The company's first product was named i-Supply™, and because it promised to give manufacturers superior and collaborative network-based control over supply chain management, i-Supply was initially targeted at an industry with big supply chain issues the automotive business. However, building awareness and credibility is always a major hurdle for such ambitious new technologies, and in March 2000 the company embarked upon a strategic public relations program with Airfoil PR as its communications partner. The two key stakeholder audiences that the SupplySolution/Airfoil team focused their attention upon were IT analysts; general business, technology and trade media.

IT Analysts. *SupplySolution sought to attract the attention of information technology analysts and subsequently, those who subscribe to their analysis. The company undertook two series of multi-city 'road shows' which provided in-person executive briefings and presentations. Relationships were further developed through ongoing e-news alerts and regularly scheduled briefing updates.*

Technology, Trade & General Business Media. *A centerpiece of Airfoil's targeted media relations efforts was a study sponsored by SupplySolution and conducted by an outside research organization. The study worked to confirm SupplySolution's business strategy, and positioned the company as a thought-leader in its field. Information gleaned from the study was also introduced at a series of seminars, briefings and conferences where SupplySolution executives were featured speakers.*

While garnering industry awards and speaking engagements were also considered important communications tactics, the ultimate objective of the public relations program was to maximize the number of impressions made on prospective customers, and to direct them to make further inquiry via the company's web site and/or inbound telephone. The defined business objectives were then to convert these qualified inquiries into customer relationships.

Measurement methodology

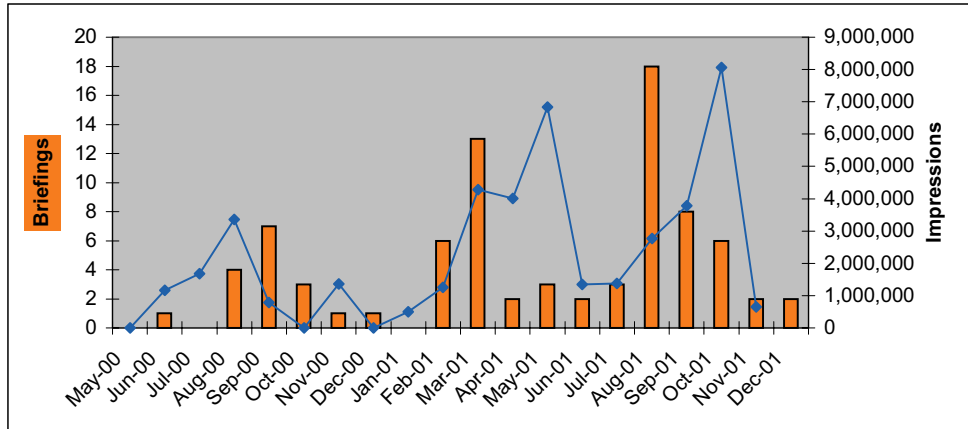
As previously discussed, our evaluation of ROI was undertaken without the need for highly specialized analytics or research studies. The return on the company's PR efforts was based on information collected from May, 2000 through December, 2001, and consisted of a tabulation of both PR 'inputs' and business 'outcomes' over a 12-month timeline.

For simplification of analysis, all data were placed into an Excel spreadsheet, and two unique parameters were simultaneously graphed to reveal the direct relationships between inputs and outcomes. While the impact of the company's PR efforts is clear in quite a few of these 'causal pairs,' shortcomings in the collection and measurement of certain data sets also points to the opportunity for increasingly accurate ROI measurement in the future.

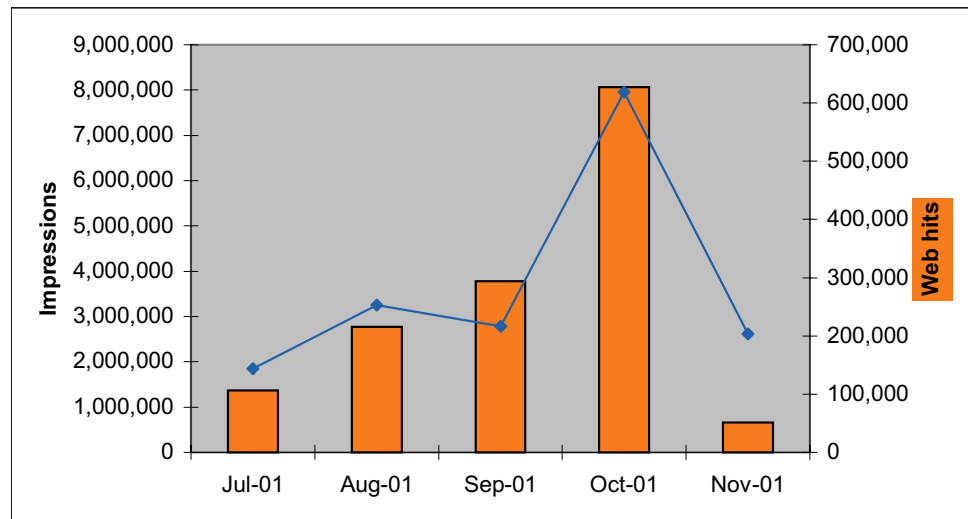
Note: The immediate downturn experienced by all U.S. businesses in the aftermath of September 11th also affected SupplySolution. Though the company quickly rebounded, the outcome numbers for the fourth quarter of 2001 were negatively influenced by this terrible national event. Future updates to this white paper will be able to ascertain the recovery (abetted through persistent investment in PR) with greater accuracy than is currently presented here.

Findings

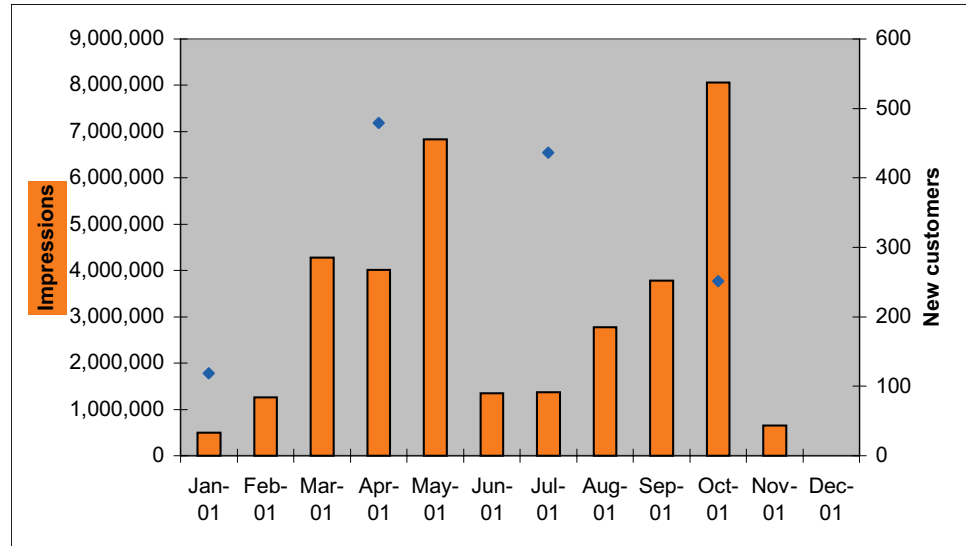
Pair A: Briefings to impressions. In plotting the number of briefings delivered to media sources (orange bars) versus total monthly impressions created (blue points), a clear causal relationship is established, with a lag of one to two months between briefing and ‘media hit’ due to delays inherent in the news and publishing cycles. The natural question which then arises is what is the impact of these impressions upon the business itself?



Pair B: Impressions to Internet visits. Because SupplySolution is a technology business—and its stakeholders are unusually adept in their use of the Internet—interest in the company is frequently manifested in the number of visits to the company’s website. In Pair B, the parallels between media impressions (blue points) and web ‘hits’ (orange bars) are especially strong in the 5-month period for which both sets of data are available.



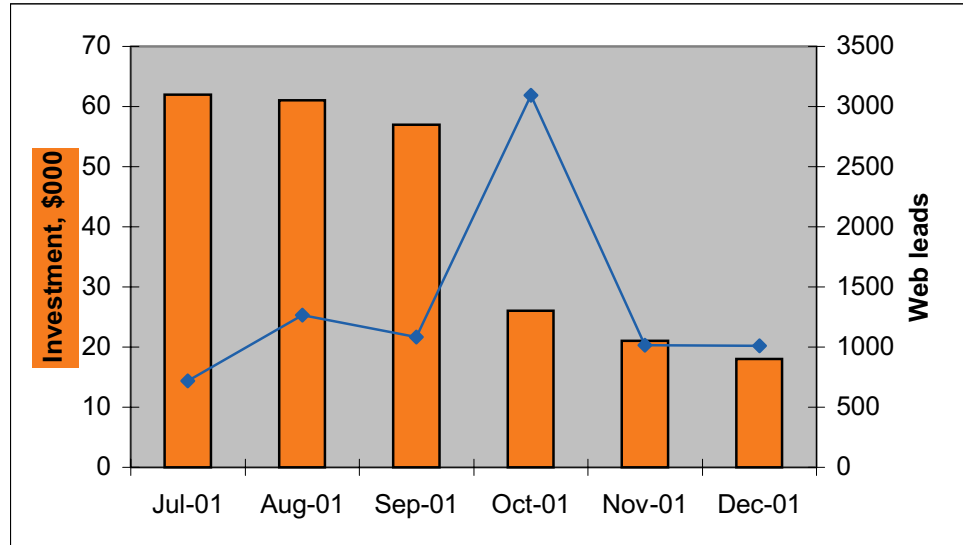
Pair C: Impressions to new customers. The next logical ‘causal pair’ would then be comparisons of impressions generated (orange bars) to incremental new customers added (blue points). The following plot shows a less dramatic correlation between impressions and customers, but extrapolating the available data reveals that a drop in impressions is soon accompanied by a reduction in new customers. Moreover it points to a shortcoming in the company’s reporting structures: impressions are monitored monthly, but new customers only quarterly. Of course, while there are many variables influencing the decision to sign on with SupplySolution, validation of the technology through positive impressions continues to be a large component of the company’s success in attracting new buyers.



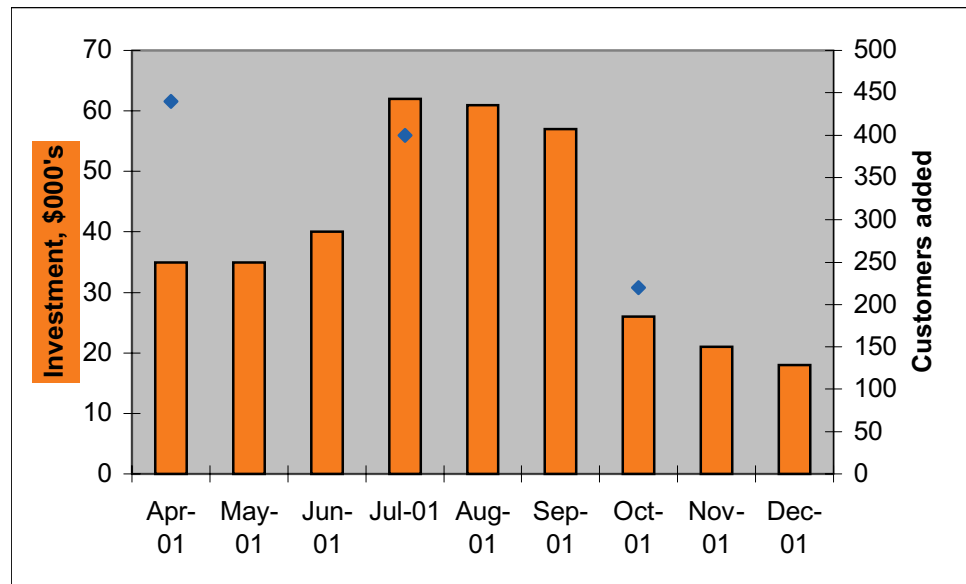
Pairs D&E: PR investment versus available business outcomes.

The fourth and final causal pairs are those that compare the investment in public relations itself with substantial elements of business return: web site visits, web leads and new customers added. Regarding Pair D, we can see a clear (but again delayed) relationship between PR investment (orange bars) and web visits generated (blue points). Since the cost of generating visits to web sites through various channels—i.e. advertising, preferred search listings—is well documented, with a cost per web hit of between \$0.50 and \$3 for comparable industries, we can also use this data to estimate the cost of SupplySolution’s PR-initiated visits at \$.43.

While we acknowledge that the Internet is only one component of the marketing mix—and if we modestly assume that .05% (half of one-percent) of all inbound web inquiries result in customer leads, then the cost of a lead delivered by our PR efforts is revealed to be approximately \$86. The ROI for public relations is therefore extremely favorable when compared to other lead generation tactics such as trade shows (\$350 average cost per lead) and direct marketing.



When scrutinizing Pair E (and despite the relative lack of new customer data points), we also note the trend that the number of customers added (blue points) diminishes with reduced PR spending (orange bars). Making a similar calculation as before, we can then calculate the cost of SupplySolution's PR efforts at approximately \$550 for each new customer.



Discussion of findings

The initial results of this ongoing research study depict some of the direct positive relationships between investment in public relations inputs and subsequent business outcomes. It is also clear that for ROI to be calculated with accuracy, a commitment to ongoing measurement must be made, not just for the sake of the communications effort, but also for evaluating the health of the company as a whole. This is especially true in an economic down cycle, where it is vitally important that expenses be evaluated most judiciously, and the knee-jerk reaction to cutting marketing communications costs may actually be an inappropriate one. Wherever possible, these measurements must be aligned along the same time scale, and taken with the same diligence one would give to other important business indicators like cost of goods.

The authors suggest that the task of measurement can be approached in modest increments. One of the requisites of PR counsel should be to prompt clients to reveal previously ignored or hidden sources of information: What is the source-motivation of inbound telephone inquiries? With what frequency are sales representatives contacting prospective customers?

The authors further suggest that this technique for evaluating the effectiveness of PR is industry agnostic: what works for SupplySolution will work for other business categories, albeit with consideration given to industry-specific marketing tactics, such as acceptance of the Internet or a greater reliance on events such as trade shows, customer conferences, etc.

ROI follow-up

In a little over a year, the SupplySolution story was covered in a host of media publications, resulting in nearly 32 million media impressions, including an feature article in the *Wall Street Journal*. A recent survey finds that materials and purchasing managers have a better awareness of SupplySolution than they do of any of the company's primary key competitors such as SeeCommerce, QAD and i2.

The heightened attention and sustained media coverage given to SupplySolution was and is a driving factor in SupplySolution's success. Today, i-Supply is one of the most widely used real-time, direct-material fulfillment applications in the automotive industry, and i-Supply is in operation at more than 2,000 manufacturing organizations. In addition, the company secured its third round of funding, led by Enterprise Partners, The Sprout Group and Sigma Partners, totaling \$28.5 million.

The development and publication of this white paper have encouraged the company to give greater attention to more precise measurement, the results of which will we document in a future report.