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What is ROI and How Do You Measure it?

By Allison C. Shields, Esq.

Any discussion of marketing inevitably turns to return on investment. Before embarking on a new marketing initiative or trying a new marketing tool, lawyers want to know what their return will be: What success have other lawyers had with similar plans? How has this tool worked for other lawyers? How much business should they expect to get as a result of implementing a marketing strategy or a particular marketing tool?

But are these the right questions to ask?

The first problem with these questions is that too many lawyers fail to keep track of their marketing efforts. That makes determining return on investment difficult. Even if you start measuring now, if you haven't measured in the past it's hard to provide concrete numbers or a basis for comparison.

It's also difficult to measure return on investment in concrete terms because it takes as many as seven to nine 'touches' for a lead to turn into a paying client. That means that your marketing strategy may be working brilliantly in moving leads or prospects through the pipeline, but you may kill the program before you complete all of the touches and turn those prospects into clients.

Not only that, but depending upon your practice area and your clients, the 'turnaround' time may be quite long. Some clients make decisions much more quickly than others. Just because your marketing doesn't yield immediate results doesn't mean it's not working. It takes time – and that leads to another problem with measuring return on investment: if a particular marketing effort yields one client, you may be tempted to measure the return based on how much that client's initial engagement was worth to your firm. But what if that client returns later, or continues to do business with you? What if that client refers others? How does that affect your return?

What is return on investment?

Return on investment is about much more than dollars and numbers of clients. Whether your investment was worthwhile must be measured based upon your purpose in engaging in a particular activity or campaign or employing a new marketing tool. Not everyone engaging in a particular activity has the same defined purpose (which is yet another reason not to rely on someone else's results).

You must also consider how this particular activity or tool will fit in with your overall marketing plan and the other efforts in which you are already engaging. How will this new effort complement what you are already doing? How does it reinforce your message or help you to create a stronger relationship with your target audience? (To learn more about determining the purpose of your marketing materials, see these blog posts on the Legal Ease Blog: Why Are You Doing That? Know The Purpose of Your Marketing; Social Media for Lawyers – What's Your Purpose?; Effective Websites Have a Purpose. Does Yours?; and As a Lawyer-Blogger, What's the Purpose of Your Blog?)

How should return on investment be measured?

Keep in mind when measuring return on investment that “covering your costs” does not necessarily equal success, and should not be the determining factor when deciding whether to continue with a particular marketing initiative. What does “covering your costs” actually mean? Let’s take an example.

Let’s assume that you take out a yearly advertisement for $2000. Many lawyers would say that if the ad resulted in one paying client whose engagement brought the firm $2000, the cost of the ad would be “covered,” and it would be worth it to continue paying for an ad in the same publication the following year. But is that really the case?

In actuality, what you did was work for that client just to pay for the ad which didn’t bring you any *additional* business. In effect, it was a wash. In order to make it worthwhile using this criteria, you would have to make *more* than the ad cost in order to be ahead as a result of the ad. Otherwise, you could have allocated the time you spent on that client’s matter on another client.

Another flaw in the ‘covered my costs’ argument is that most lawyers look at the revenue generated by the ad as the measure, rather than looking at the profit generated by the ad. Using a profit analysis, rather than a revenue analysis, the ad was a loss, because there were additional costs associated with representing that client that could have been allocated elsewhere.

This leads us to another mistake lawyers make when evaluating their marketing and return on investment: failing to test sufficiently before rejecting a particular tool or task. While your ad might not have resulted in the profit you were anticipating, perhaps the fault was not with the tool you chose, but in the format or message of the ad itself.

As you can see, measuring your return is not as easy as it might seem. The first step to measuring return on investment is to determine the criteria that will establish whether this activity was a success – and that doesn't always mean new clients.

Larry Bodine, a legal marketing consultant, conducted a study of law firm marketing initiatives in February 2006. The study revealed that firms who indicated that their marketing was not effective used criteria for measuring their marketing that was not specifically focused on clients. The study determined that the three most important ways to measure return on investment of your marketing are:

- Did you increase revenues with that particular client or not? (this could mean that you were able to get more work from the client in your current area, or that you were able to cross-sell them another service)
- Did you move the client through the sales pipeline – from lead to prospect, from prospect to client?
- Did you learn more about your client's needs?

I would suggest that additional criteria might include:

- Did this initiative help you to build your influence or establish your expertise?
- Have you expanded your reach or widened your network of contacts and access to your target audience?
- Did it help you to increase your engagement with a particular audience or target market, increase client loyalty, cement client relationships or improve the client experience?
- Did it allow you to get in front of more of your 'ideal clients' or ideal referral sources – those who fall within your 'sweet spot?'

Measuring return on investment must be related to your initial purpose in engaging in the marketing activity, and should not rely on obvious numbers alone. It should focus on strategically important clients, on actually moving potential clients through the sales pipeline, and on the long-term effect of your efforts – not just on short-term numbers.

About the Author

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