

Prof. Dr. Tom Watson, Bournemouth University  
Prof. Dr. Ansgar Zerfass, University of Leipzig

# ROI of Communication: Empirical insights and conceptual directions

A critical assessment of concepts used by practitioners from the perspectives of communication and management sciences



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# Major debate

- ROI – top rated measurement issue at European Measurement Summit 2011
- PRSA has working party to define it
- German PRs don't support ROI (only 34.1% ) but others do (ECM)
- Little recognition in academic research

# Defining ROI

- “The ... definition of ROI is a ratio of how much profit or cost saving is realised from an activity against its actual cost ... often expressed as a percentage. In reality few PR programs can be measured in such a way ...” (IPR 2004)
- ROI is “a term commonly and non-specifically used by public relations practitioners when discussing the value to be created from communication activities” (Watson & Zerfass 2011, p.1)

# Contrary practice view

- "I dislike any attempt to hijack the term ROI. Accountants know what ROI means, and they can only view any softening or redirection or substitution of its meaning by marketers trying to validate their investment plans as smoke and mirrors."

Philip Sheldrake (2011). *The business of influence*. Chichester: Wiley, p.117

# The context

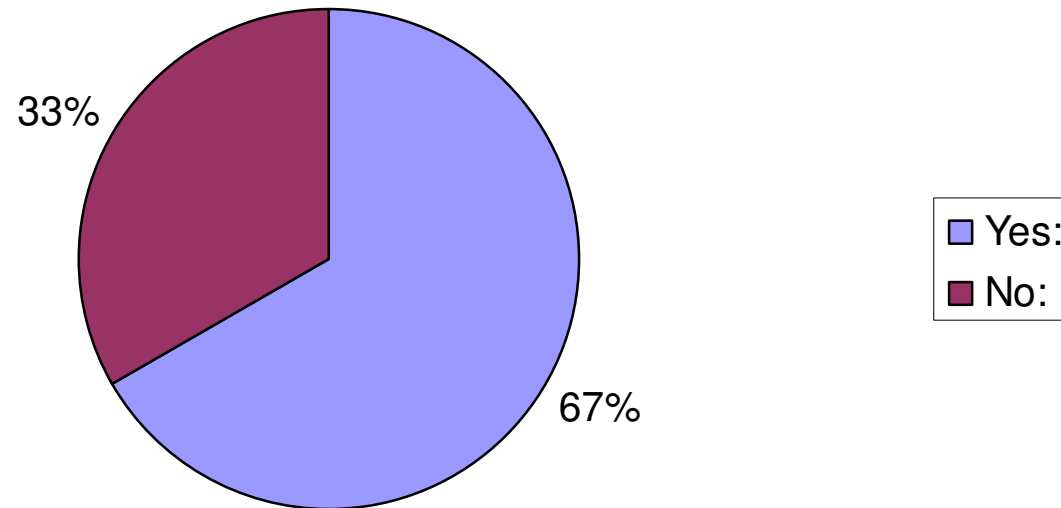
- PR has gradually adopted 'ROI' – but not without misgivings:
  - Black (1971): “Fashionable to measure ROI in ... business ...but in the field of public relations it has little significance.”
  - CIPR (2004) stated: “term PR ROI is often used very loosely. This is not only confusing but also misleading”
- Metrica 2005 research for CIPR:
  - 34% considered PR budgets in terms of ROI
  - 60% used ROI to measure PR in some way
- Watson (2005) found almost no use of ROI in academic papers

# UK survey

- Snapshot survey distributed online via researcher's email network and via PRMoment.com in November/December 2010
- 64 responses
- Gender: 55% female; 45% male
- Workplace: 44% in-house; 44% consultancy; 12% freelance or other
- Role: 42% director; 39% manager; 11% executive
- Sector: 39% corporate; 22% product; 19% services; 16% government; rest NfP or no answer.

# Use term ROI?

Regularly use ROI for PR activity?



# What does ROI mean to you?

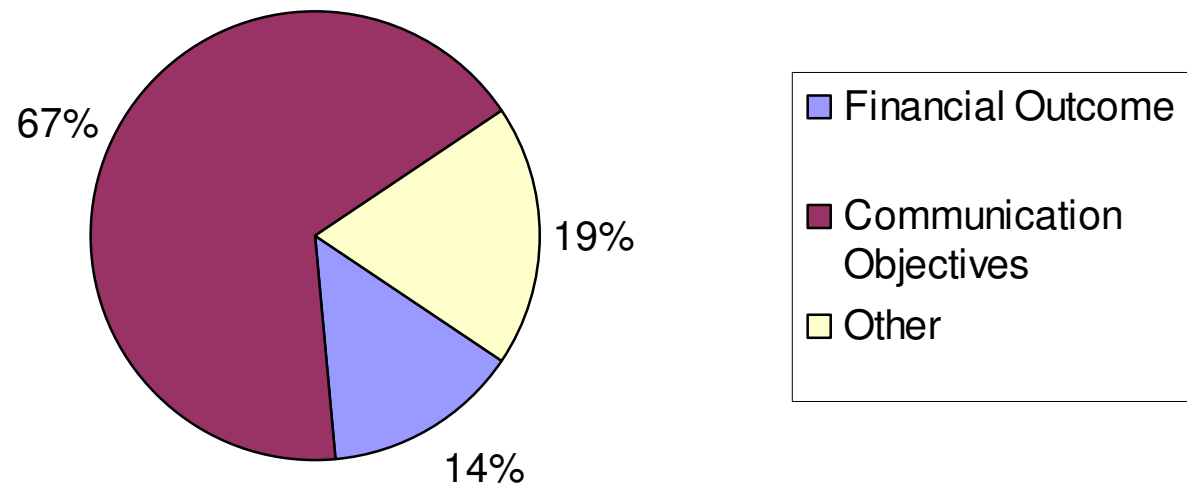
## – 58 comments

- Demonstrate outcomes; show value of PR – 11
- Return on expenditure/effort - 9
- Value of media coverage, divided by PR budget (AVE) - 6
- Contribution to organisation's success - 5
- Impossible to measure/ problematic – 5
- Sales generated; measurable financial gain – 4

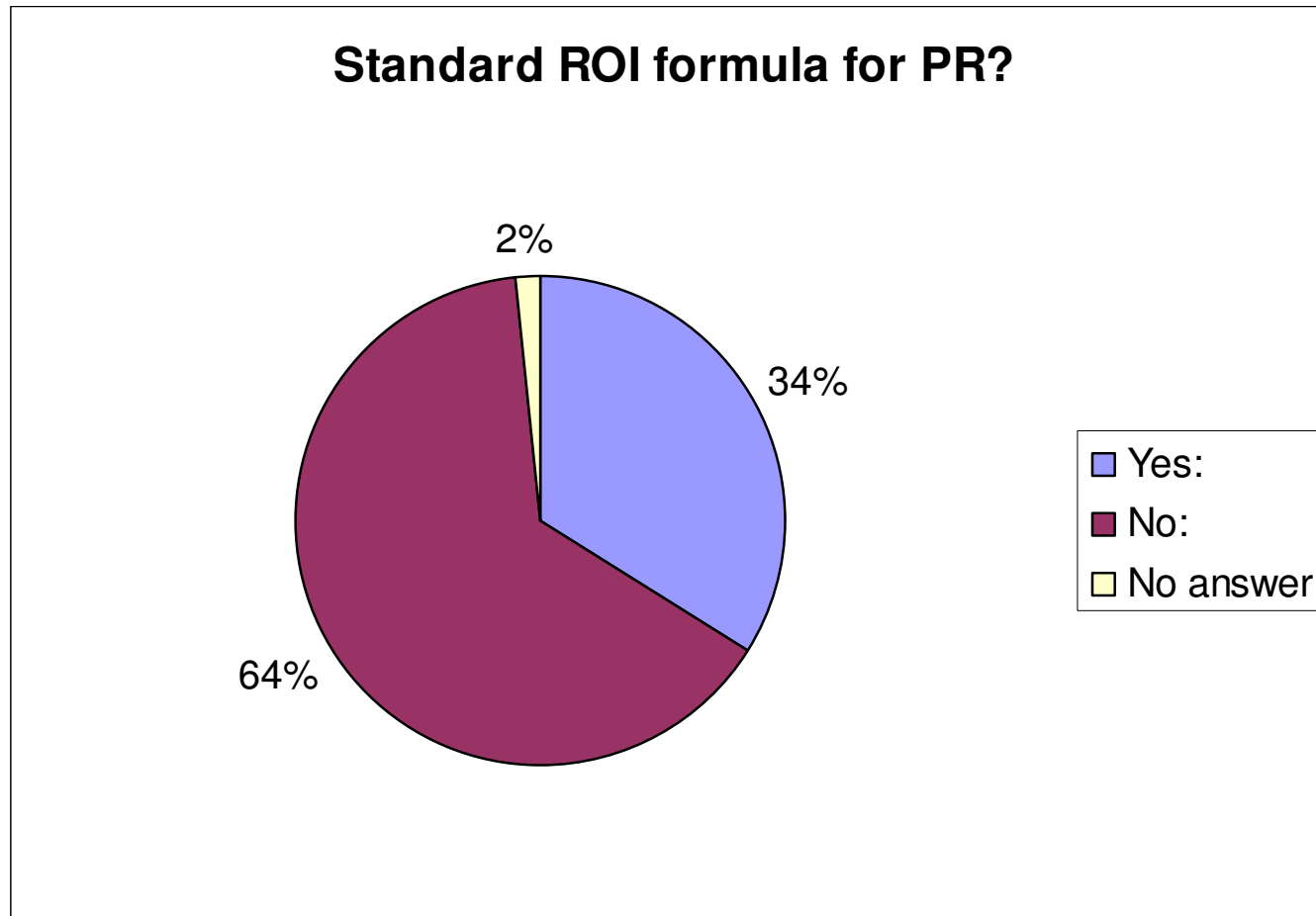


# ROI objectives

## ROI: Financial outcomes or Communication objectives



# Standard ROI formula



# What it means

- Very vague notions of ROI in UK
- Mostly publicity-oriented tactical thinking
- Although many say they use "ROI", few had a process or methodology
- Main emphasis is PR = media coverage and that ROI will be a calculation of coverage/hits; AVE is the single most popular ROI metric
- Some corporate and governmental responses focused on setting and achieving organisational objectives

# European study

- ROI questions within 2011 edition of the annual European Communication Monitor survey
- Distributed via email, etc to >30,000 PR people
- 2,209 completed responses from 43 countries

# Questions

Q1 Do you regularly use the term 'ROI' or 'Return on Investment' when planning and evaluating communication activities?

Q2 Would you agree or disagree with the following statements:

- ROI can be expressed in achievement of communication objectives
- ROI requires financial assessments of the resources used for communication
- ROI can demonstrate the non-financial value of communication
- ROI expresses communication's contribution to the formation of organisational strategy
- ROI needs a standardised financial valuation of results achieved by communication
- ROI is the ratio of financial profit resulting from a communication activity against its actual cost
- ROI has to be defined in monetary forms

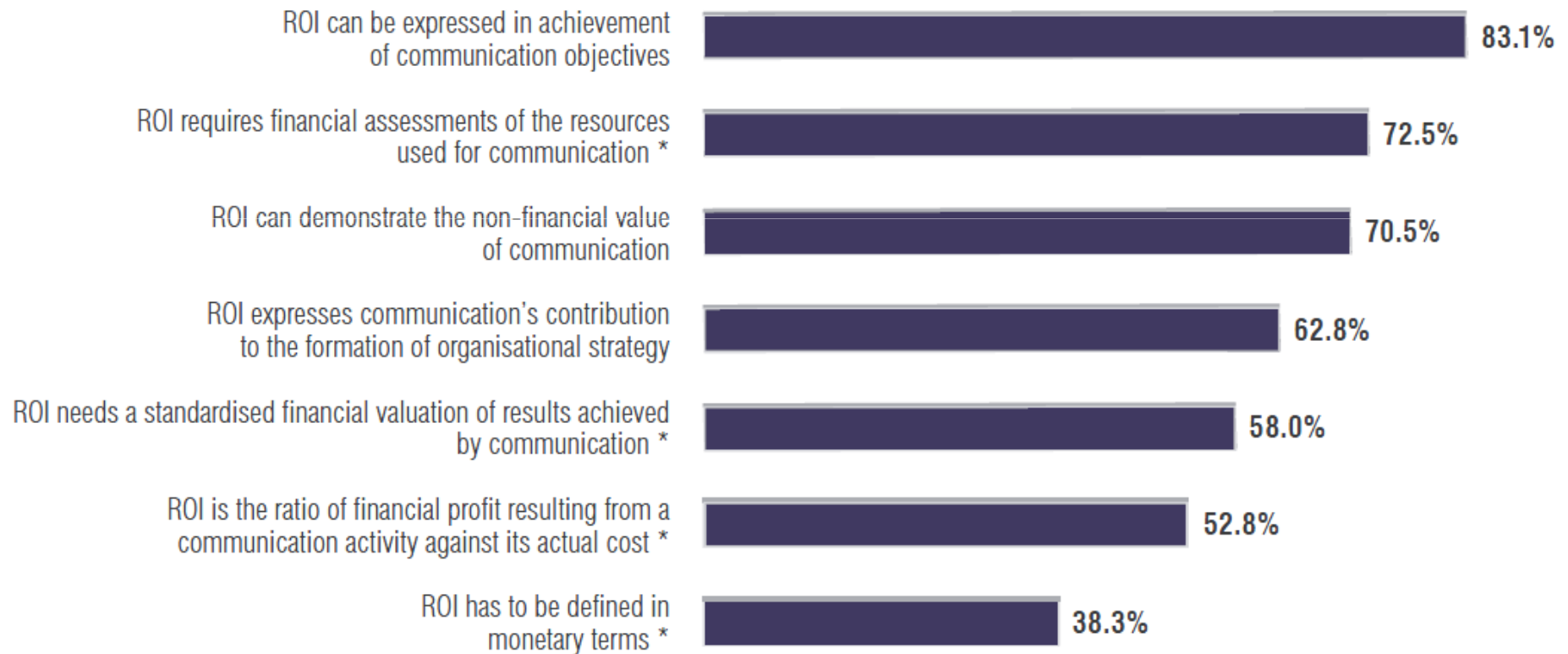
# Q1 - Use of 'ROI'

- Yes (47.6%)
- No (46.5%)
- 'Don't know the term' (5.9%)
  
- Analysed by the types of organisation, there was a wider indication of ROI usage according to workplace:
  - Consultancies and agencies (59.3%)
  - Joint stock companies (51.1%)
  - Private companies (47.5%)
  - Non-profit organisations (32.5%)
  - Governmental organisations least supportive (28.2%)

# Q1 – By region

- Closely clustered for both Yes and No with the Yes headed by Southern Europe at 50.4% and separated by only 4.4% from the lowest response in Western Europe (45.7%).
- Most popular in Spain (65.2%), UK (60.3%) and Sweden (58.0%)
- Least popular in Germany (34.1%), Slovenia (34.0%) and Norway (30.1%)
- Average of 47.0% across 14 countries.

# Q 2 – Practitioner views on ROI





# Q2 - Analysis 1

- 'Financial' category proposes ROI is shaped by financial assessment of resources and a standardised financial evaluation of results which results in a ratio of profit and costs arising from communication activity. These have a mean of 61.1%.
- 'Non-financial' are composed of ROI as an expression of achievement of objectives, the creation of non-financial value and contribution to formation of organisational strategy. These average 72.1%.
- May have some validity as the two groups indicate different conceptions of ROI.

## Q2 – Analysis 2

- The first significant difference is that agencies (59.3%) are much more likely by 16.5% to use 'ROI' than (in-house) communication departments (42.8%).
- Another significant variation is on 'ROI is the ratio of financial profit resulting from a communication activity against its actual cost'. This gains 56.3% support from agencies/consultancies, 5.0% higher than the 51.3% given by communication departments.

# Two ways of using ROIs in PR today

- “Classic”: likely to be programme- or company-specific, based on media analysis metrics and limited to short-term publicity/promotional activity. It will not focus on relationships or value creation.
- “Quasi-ROI”: focused on non-financial objectives and outcomes, using models of communication management, including communication scorecards and value link models.

# Final thoughts

- “... the complexity of communication processes and their role in business interactions means it is not possible to calculate Return on Investment in financial terms. Consequently, public relations practitioners should refrain from using the term in order to keep their vocabulary compatible with the overall management world.”

Watson & Zerfass (2011), p.11

- „I tend to use the term ROI because PR people want to hear it used. I will now cease and desist from using it.“

James E. Grunig (2011), personal correspondence

# Full paper

- Watson, T., & Zerfass, A. (2011). Return on Investment in Public Relations. A critique of concepts used by practitioners from communication and management sciences perspectives. *PRism – Australian and New Zealand Academic Journal of Public Relations*, Vol. 8, No 1.
- Available online at [www.prismjournal.org/homepage.html](http://www.prismjournal.org/homepage.html)

# Authors

- Prof. Tom Watson PhD  
Professor of Public Relations  
The Media School  
Bournemouth University  
Fern Barrow, Poole, Dorset, BH12 5BB, UK  
Email: [twatson@bournemouth.ac.uk](mailto:twatson@bournemouth.ac.uk)
- Prof. Dr. Ansgar Zerfass  
Professor of Communication Management  
Institute of Communication and Media Studies  
University of Leipzig  
Burgstrasse 21, 04109 Leipzig, Germany  
Email: [zerfass@uni-leipzig.de](mailto:zerfass@uni-leipzig.de)