ROI Lecture

"There are way too many ROI measurement studies going on here. What we need is an ROI study that measures the ROI of those ROI studies!"

Measuring the ROI of a project is unfortunately fraught with issues, certainly way more than what's visible from 3000 feet above the ground. Take a look at RAPP and RAPP II if you are not convinced. Let me make two quick remarks. First, those difficulties are inherent to the problem and should by no means be construed to be challenges to your intellect, ego, or worse still both. Second, they are much less rattling once you have a good grip on their origin. I have listed below what I regard to be the 7 most prominent difficulties.

1. The return may not come on the heels of the investment. Some time may have to elapse before the benefits may be reaped. Think of planting a seed. Ignoring the time delay/lag may lead to pessimistic conclusions and premature uprooting of the project.

2. The return on investment may not be cash flows but a call/put option. For instance, a larger sales force than materially required may facilitate the inking of a co-promotion alliance that may not have been possible otherwise. The launch of a product may pave the way for other drugs in that therapeutic franchise. The value of the option cannot be ignored.

3. Some investments are not meant to generate returns, cash flows or options. They are meant to gather knowledge and reduce uncertainty. Case in point: test market studies. Detailing a physician, beyond taking a shot at boosting script writing, captures invaluable information on the responsiveness of the physician to detailing.

4. The return may ripple beyond the traditional confines of measurement. Detailing a product in the hospital may increase community sales since physicians sold on the therapy in the hospital will prescribe the same therapy in their practices (hospital-community spillover). A physician conditioned by managed care formularies will prescribe drugs on the formulary even when the patient is paying cash (plan-cash spillover). Spillover in general calls for a broadening of perspective when measuring impact/ROI.

5. The return is dormant, not absent. Indeed, some external conditions have to be met for the return to materialize. A physician sold on a therapy may not be prescribing the drug simply because none of her patients requires that therapy. As soon as a patient with the "right" profile walks in, the therapy will be dispensed. This is a bit like an option except it is nature that calls it, not you.

6. An initial investment may have the unintended impact of altering response to promotion, for the better or for the worse. Subsequent investments may generate returns that are out of line compared with prior investments of comparable sizes. Physicists call this hysteresis. Lay people call this memory.

7. The return may not correlate with the investment. This is the case when the investment fires up a diffusion process that takes life of its own. For instance, physicians sold on the product turn around and start promoting the therapy to their peers, regardless of the reps' activity. Some people call this viral marketing. Certainly, it has to do with diffusion.