

ROI method of ad budgeting

$$\text{ROI} = \frac{\text{Return-Investment}}{\text{Investment}}$$

This method of budgeting considers advertising spend as an investment and not an expenditure. ROI is the amount of profit an investment generates. Advertising and promotions are considered investments, like plant and equipment and hence lead to certain returns. Advertising and promotions are expected to earn a certain returns. Advertising is a capital investment rather a more current expenditure as it increases future sales and builds up future goodwill.

The idea behind ROI is that for every \$ spend on advertising, \$ plus something is the return obtained. The challenge with ROI is that it is difficult to interpret and analyse the contribution of a specific ad.