The Impact of Efficiency Ratios on Marketing Decisions

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Abstract

Marketers often use efficiency ratios as a diagnostic tool. Such ratios can be divided into two main types: revenue/cost ratios and cost/revenue ratios. Examples of the former include ROAS or LTV/CAC, examples of the latter include ACOS or CAC/LTV. This paper shifts the focus from a numerical interpretation of efficiency ratios to a psychological perspective, investigating how equivalent revenue/cost and cost/revenue ratios shape marketing judgments. Results from seven pre-registered studies (total n = 4,072), reveal that marketing programs receive more favorable evaluations when revenue/cost ratios are used. This positive perception arises because revenue/cost ratios suggest a causal direction from marketing expenses to marketing outcomes. Moreover, the use of cost/revenue ratios fosters a preference for exploratory marketing strategies over established, less risky approaches. These results hold true for expert audiences, different marketing metrics, and various presentation formats.

Subject Areas: *Advertising, Consumer Behaviour, Decision-Making*

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