Demystifying Digital Marketing ROI

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With the pervasiveness of digital content and media in our everyday lives, it's critical for businesses to expand their marketing efforts to the digital spaces where their target audiences increasingly spend their time. While many businesses invest in digital marketing campaigns, few accurately track the metrics necessary to determine the true return on investment (ROI) of their campaigns. This white paper provides insight into how companies should calculate the return on investment (ROI) of digital marketing campaigns.

As digital marketing campaigns have increasingly become effective tools for businesses, it's also become possible to precisely measure and quantify the success of these campaigns. Today's businesses can easily track, analyze, and therefore incrementally improve, the success of a campaign by focusing on its most successful components. Despite this availability of this data, businesses often evaluate the results of their campaigns based on a single metric: the amount of traffic to their website. This emphasis on a single metric combined with a lack of analysis results in an unreliable and often inaccurate picture of their ROI.

The Google Analytics Problem

The most widely used website statistics service, Google Analytics is one of the easiest and more effective ways for businesses to track the traffic to their website. This free service provides detailed statistics about visitors to their website, including how they got there, how long they stayed and what pages they viewed. While Google Analytics provides invaluable data, it cannot explain the significance of the data it collects as it relates to specific business goals and the cost of a digital marketing campaign.

Many businesses make the mistake of using the overall traffic to their site as the only metric by which to gauge the success of their digital marketing campaigns. While site traffic is simple to find and easy for businesses to understand, focusing on this metric alone ignores the significance of the other, more complex and useful metrics that can provide broader insight into the success of a campaign. The amount of traffic generated by a campaign is an important metric to track, but on its own, it is not an accurate or reliable indicator of the campaign's ROI.

Identifying Your Metrics

In order to accurately calculate a campaign's ROI, businesses must first identify points of conversion that signal success both in terms of campaign and overall business goals. When identifying these metrics, businesses should ensure that each is measurable and trackable. For businesses that want to increase their leads or the number of transactions that originate online, conversions might include the number of users who make online reservations, purchases, business inquiries, or requests for additional information. For businesses focused on expanding their email marketing list or their social media reach, conversions might include the number of users who join a newsletter list, or "Like" the business on Facebook.

Establishing Benchmarks

To provide context, it's important to establish the number of users a website converts prior to the launch of the campaign to serve as a performance benchmark. These benchmarks allow businesses to see exactly how many additional conversions a campaign produces beyond the conversions that would have occurred naturally without the campaign. Businesses can calculate the number conversions generated by the campaign by subtracting the benchmark conversions from the total number of conversions.

Calculating True ROI

Within the context of digital marketing campaigns, the most important metric for determining ROI is the campaign's cost per conversion. Cost per conversion is the amount a business spends to convert one

user according to metrics the business has identified as goals for the campaign. The lower the cost per conversion, the more successful the campaign. Businesses can lower their cost per conversion by incorporating sophisticated optimization techniques into their campaign to increase conversions and thereby generate more leads, transactions etc. without increasing spending.

Using benchmarks to establish the number of conversions generated by the campaign, businesses can calculate the cost per conversion by dividing these campaign conversions by the total cost of the campaign. This approach provides businesses with a much more accurate understanding of their digital marketing efforts and their campaign's true ROI.

CONCLUSION

In order to track the success of a digital marketing campaign, businesses have to do more than look at their site traffic. Businesses must first identify points of conversion that signal success for the campaign. With these metrics in place, business must then establish benchmarks that will allow them to identify the number of conversions that directly result from the campaign. The ROI of a digital campaign is determined by the cost per conversion–the lower the cost per conversion, the greater the success of the campaign. To calculate the cost per conversion, businesses must divide conversions resulting from the campaign by the total cost of the campaign. This formula allows businesses to analyze and evaluate each element of a digital marketing campaign and incrementally improve the results to decrease cost per conversion and, in turn, increase ROI.

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