Measuring Internet Marketing

How to Verify ROI

By Ian Lurie

A QUICK REALITY CHECK

Advertising exists to help you make money. That's it. There are no moral victories in marketing.

Chances are, you already know this, and you are pretty careful about any print or other traditional advertising you purchase - if you don't see a clear upside from this or that advertising asset, it's gone.

But do you do the same with your Internet marketing? Internet advertising is growing fast - companies that do no other advertising are using outlets such as Google Adwords, banner ads or search engine optimization to try to build sales. You're probably using some form of internet advertising - at a minimum, you have a web site.

You need to track the return on investment of Internet advertising every bit as carefully as other media. Most companies don't - that's the bad news. The good news is that it's far, far easier to measure the effectiveness of individual Internet assets.

A quick clarification: As we continue, you'll see me use 'marketing' and 'advertising' a lot. To me, 'marketing' is the strategic work that drives your overall advertising strategy. 'Advertising' is the act of purchasing individual assets to enable your marketing strategy.

WHAT'S ROI?

Going back to our reality check for a moment, you get a return on a piece of advertising when it helps you make money. You can define return on investment as:

Any time someone does what you want them to do, because of advertising designed to get them there.

It's a little more difficult to measure than to define, of course. That's what I'll talk about for the rest of this article.

MEASURING ROI: THE FOUR QUESTIONS

You can measure internet advertising effectiveness if you can answer four questions:

1. What's the goal of your web site?
2. What's that goal worth? What's the value each time you accomplish that goal?
3. How many times did you achieve that goal?
4. What did it cost to achieve it?

QUESTION 1: WHAT'S THE GOAL OF YOUR SITE?

Why did you build your web site? Please don't answer 'Because everyone has one' - even if you THINK that's why you built it, there has to be another reason.

Can't figure it out? Try asking this, instead: How does your organization generate value? Does it sell stuff directly? Through a sales force? Get donations? Inform the public?

Your web site is there to grow your organization. Its goal is likely in line with larger organizational goals, which may include:

- Sell more stuff, right then and there.
- Generate leads, so salespeople can close the deal.
- In a more general sense, generate interest in a product or service.
- Get donations.
- Inform/persuade the public.
- Get votes.

Next, you need to define how that goal plays out on your web site. What does a visitor do when they complete the goal? Examples include:

- They view the 'thank you' page at the end of an online store checkout process.
- They view the 'thank you' page after someone completes an information request form.
- They view the 'thank you' page after someone subscribes to your e-mail list.
- They read a specific page of your site.
- They watch a specific video on your web site.

Goals run the gamut, as you can see, from making money to less tangible stuff. Regardless, there's value generated. You can, and MUST, assess your Internet advertising's ability to generate that value. Which brings us to the next question.

QUESTION 2: WHAT'S THAT GOAL WORTH?

Now the hard part - what's it worth to your organization each time you achieve that goal?

If you're selling stuff online, it's easy: Find out your profit per sale, on a sale-by-sale basis.

If you have a salesforce, it's still pretty easy: Figure out how many Internet leads convert to customers, and the average value of those customers. Then multiply the two:

> If 25% of all Internet leads convert, and
> on average, each conversion is worth $1000
> Value of a lead is: .25 X $1000 = $250

If your only online goal is to get people to see a specific page - say, an article about Internet ROI - it's a little more difficult. I play the pessimist, and do it like this: I know that over time 1% of everyone who reads my articles online will become a client. Let's say that my average client pays me $1000 per year (just an example - my kids would be wearing barrels if that was true):

> 1% convert and average value is $1000
> Value is: .01 X $1000 = $10/person reading article

Got a newsletter? Start tracking how often newsletter subscribers become customers:

> 10% of all subscribers become customers, and
> average customer is worth $1000
> Value of one signup is: .1 X $1000 = $100

Even organizations who sell nothing can measure effectiveness. One of my clients is a political organization - most of their work focuses on getting the word out, persuading the public, etc.. For them, I created a points system:

> 1 person reading a specific article = 5 points
> 1 person viewing a specific video = 5 points
> 1 person signing up for a newsletter = 10 points
> 1 person joining the organization = 100 points

This is pretty arbitrary, but it works as a comparative measure:

> Campaign one got 30 people to watch a video:
> 30 X 5 = 150 points
>
> Campaign two got 500 people to watch that video:
> 500 X 5 = 2500 points

We may not know, literally, the value of each campaign. But we know their relative effectiveness.

The point here is you should always consider what your web site's goal is worth.

Accuracy is important, but consistency is crucial - as long as you can measure relative effectiveness, you can evaluate advertising effectiveness.

QUESTION 3: HOW MANY TIMES DID YOU ACHIEVE THAT GOAL?

You know what your conversion goal is, from question 1. Now you need to know how often you achieve that goal. To do that, you need four basic metrics:

1. **Landings on a specific page or file.** You can measure the number of times a specific page or file is viewed using any basic web site traffic analysis software - think of WebTrends, Urchin or Webalizer.
2. **Where your site visitors come from, or referrers.** Again, any basic web site traffic analysis software can provide this.
3. **Conversions.** Some ad networks, like Google Adwords, provide built-in conversion tracking, so you can tell which ads generate value and which don't.
4. **Source of each conversion.** And, if you're really on the ball, you're using software such as Urchin(TM) to measure conversions generated by every advertising asset: Ads, search engine keywords, e-mail newsletters, and so on.

If you're selling stuff directly, online, you'd use the four conversion metrics like this:

Shopping cart ‘order confirmed’ page viewed 400 times, so we had 400 orders.
30 of those orders came from Google Adwords Ad #3.
Those 30 orders totaled $4000, with a profit of $3000.
So Adwords Ad #3 generated $4000 in income, with a net value of $3000.

Or, if you’re looking at leads:

Information request ‘thank you’ page viewed 400 times, so we got 400 leads.
30 of those leads came from Google Adwords Ad #3.
Those 30 leads have an average value of $250 each.
So Adwords Ad #3 generated $7500 in value.

Or, if you’re measuring less tangible value:

Article A viewed 400 times, meaning we got 400 people to see our message.
30 of those views came from Google Adwords Ad #3.
That’s worth a total of 150 points.
So Adwords Ad #3 generated 150 points. But we see that, say, the e-mail newsletter generated 5000 points. We know that the newsletter generated more value.

By the way: If you’re working with a marketing consultant who knows this is a priority, and you don’t at least have three out of four metrics available, fire them and find someone else. No exceptions - how can a consultant help you deliver effective marketing if they don’t even know whether it’s effective?

QUESTION 4: WHAT DID IT COST TO ACHIEVE YOUR GOAL?

Now you bring it all together. What did you spend to achieve your goal?

If you’re collecting all three conversion metrics, you’re set: Look at the value of each individual conversion in light of the cost of the advertising asset that generated that conversion:

Sale 1 generated $1000.
It came from Adwords Ad #3.
I spent $50 on clicks from that ad before I got this sale.
So I spent $50 to get $1000 in business.

Then average it out:

Sales from Adwords Ad #3 were worth $12000.
I spent $1000 on that ad.
I did pretty well, probably.

If you only know landings, referrers and conversions, you can still figure out general performance:

This month I received 400 visits from Adwords Ad #3.
Those vists cost me $50.
I didn’t get those last month.
This month I generated an additional $2000 in sales.
Those additional sales came from the products promoted in Adwords Ad #3.
I didn’t do anything else.
Chances are, Adwords Ad#3 generated most of those sales.

This isn’t perfect, obviously. But you can at least determine which internet advertising assets are a total flop:

> This month I received 400 visits from Adwords Ad #3.
> Those visits cost me $50.
> I didn’t generate any additional sales this month.
> Adwords Ad #3 isn’t working.

It’s better to know for sure, on a conversion-by-conversion basis, what’s generating value. But even if you don’t know that much, you can at least do a gut check and know which ads are ineffective. Armed with that knowledge, you can make changes and see whether those changes improve results.

CAMPAIGN, KNOW THYSELF

There are many, many payoffs for basic ROI measurement.

First and foremost: You can measure which ads and campaigns generate value, and which don’t.

The other benefits are almost as important, though. By gathering this kind of data over time, you can measure more than the effectiveness of individual assets - you can measure the effectiveness of whole marketing campaigns, and of different messages.

That kind of business intelligence is invaluable, and means that measured Internet advertising delivers value far beyond individual sales. Answer the four questions and you’ll help your organization in the short term, with more effective Internet marketing. You’ll also help in the long term, with strategic data you can use to refine all of your marketing efforts.

ABOUT IAN LURIE

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