A No-Nonsense Guide for Calculating Digital Marketing ROI

ARE YOU GETTING ENOUGH BANG FOR YOUR BUCK?

SEVENTH SCOUT

To know whether or not your digital marketing efforts are making an impact, you need to first understand digital marketing ROI and what it means for your business.

The content of this no-nonsense guide will explain digital marketing ROI, why it is essential, and how you can calculate it for your business.

HOW MUCH **“BANG”** YOU ARE GETTING FOR YOUR **“BUCK.”**

What is digital marketing ROI?

Digital marketing ROI is the calculation of the return on every dollar you invest in digital marketing. Simply put, it’s how much “bang” you are getting for your “buck.” When used correctly, Digital Marketing ROI can tell you the success of a specific marketing campaign as well as the success of your overall digital marketing plan.

The importance of calculating ROI

By calculating your digital marketing ROI regularly, you can begin to understand where your efforts (and your money!) are making a difference.

Here are a few examples of instances where digital marketing ROI calculations would be great to have on hand:

Justifying your marketing decisions to business stakeholders or investors

Proposing a **new marketing budget**

Proposing additional marketing spend deciding what marketing efforts to expand or eliminate

Explaining the **success** of a digital marketing campaign

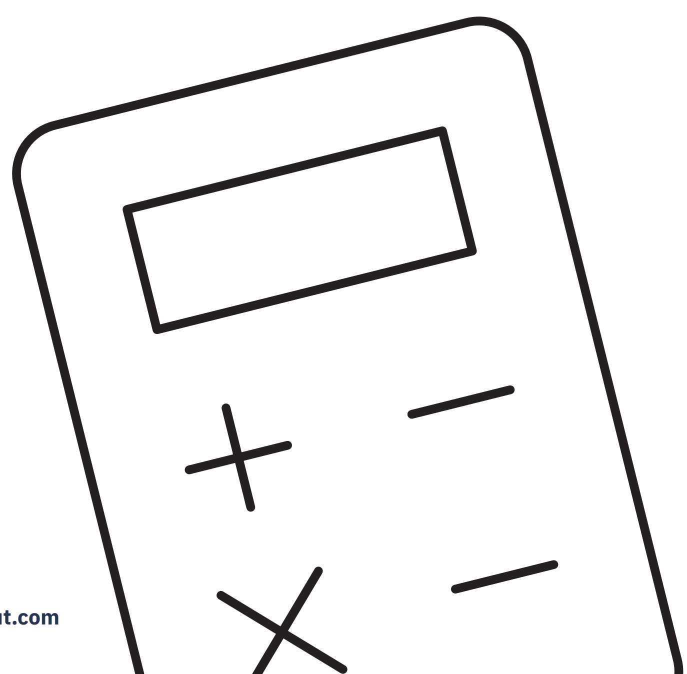
Tracking the outcome of your marketing efforts against your competitors

How to measure digital marketing ROI

Calculating the basic measurement of DIGITAL MARKETING ROI is not overly complicated.

Here's how you do it.

(VALUE OF MARKETING INVESTMENT-MARKETING COST) / **MARKETING COST = ROI**



Here's an example.

Over the course of the year, you invested $10,000 on digital marketing efforts (the initial cost) including social media, paid online ads, email marketing campaigns, and online offers. During the same year, your sales grew by $25,000 (the total value of the marketing investment.) You want to figure out your ROI. Your calculation would look like this...

STEP 1: $25,000-$10,000 = $15,000

STEP 2: $15,000/$10,000 = 15% ROI

In addition to this basic calculation, there are also many other calculations you can use to truly understand how your money is working for you. Those calculations are cost per lead, cost per conversion, customer lifetime value, and year over year comparisons.

Cost Per Lead (CPL)

The Cost Per Lead calculation is used for any campaign where the goal is to get leads into your sales funnel. Offering free e-books on your website, setting up an effort to collect emails, or producing an online survey are all examples of marketing efforts for which you would want to calculate your cost per lead.

Here's how you do it.

CPL = TOTAL CAMPAIGN COST / NUMBER OF LEADS

Here's an example.

You invested $1,000 to produce a free e-book offering for your website, and over the course of 12 months (how long you offered the e-book) 120 people downloaded it, your calculation would look like this...

$1000/120 leads= $8.30 per lead

Cost Per Conversion (CPC)

Cost Per Conversion is used when you need to know how much it costs you to acquire actual customers. AKA, are your marketing efforts creating leads and are those leads turning into actual customers?

Here's how you do it.

Take the total cost of your marketing effort and divide it by the number of actual customers you acquired as a result of that specific effort.

CPC = TOTAL COST OF MARKETING EFFORT / TOTAL CONVERSIONS

Here's an example.

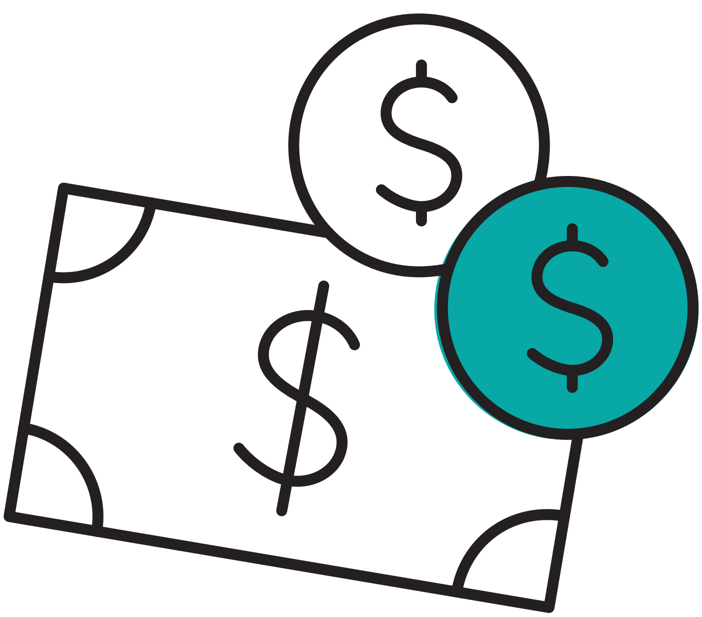
You invested $1,000 to produce an e-book that would generate leads for your business. Then, you spent another $500 in the email marketing campaign you would send out to those specific leads to convert them to customers. As a result of those efforts, you acquired 50 new customers. Your calculation would look like this...

$1500/50 = $30 per customer.

Customer Lifetime Value (CLV)

Customer Lifetime Value is a basic calculation used to understand the overall return value of a new customer. Customer Lifetime Value should be examined regularly to determine whether or not your marketing efforts as a whole are working as you intended and if your cost per customer can be justified.

(To be able to calculate customer lifetime value, you need to know the average purchase value, average purchase frequency rate, and the average lifespan of your customers.)



Here's how you do it.

Take the average purchase value of a customer and multiply it by the average purchase frequency rate. Then, multiply that total by the average customer lifespan.

CLV = (AVERAGE PURCHASE VALUE x AVERAGE PURCHASE FREQUENCY RATE) x AVERAGE CUSTOMER LIFESPAN

Here's an example.

Your customers typically have an average $50 purchase value. On average, they purchase items from you every three months (four times per year). And, they (usually) remain a customer for 3 years. Your calculation would look like this...

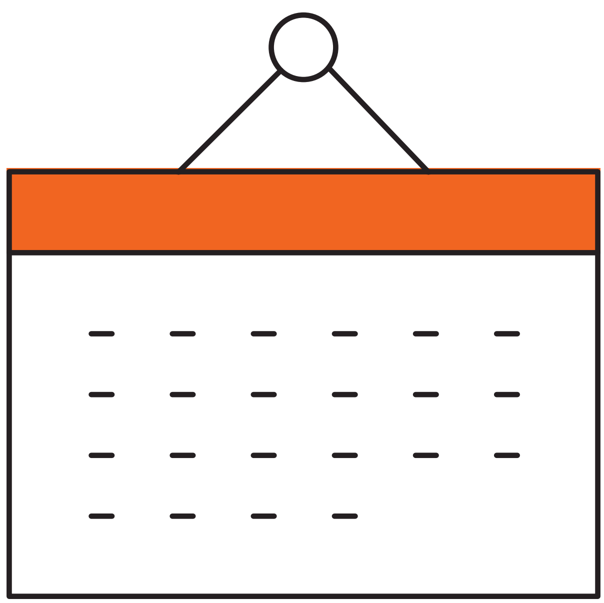
$50 x 4 = $200
$200 x 3 = $600 Customer Lifetime Value

Year-Over-Year Comparisons

A Year-Over-Year Comparisons calculation is used to for knowing the long-term growth of your business. Without realizing how your business performed this year compared to last year, you will not be able to see how your marketing efforts have truly impacted your bottom line.

You can examine your efforts year over year by looking at specific digital marketing outcomes such as cost per conversion or cost per lead and seeing how they improved (or didn't improve) from one year to the next. This can open your eyes to a bigger picture of your marketing efforts that you are unable to see when looking at a single timeframe, or too short of a timeframe.

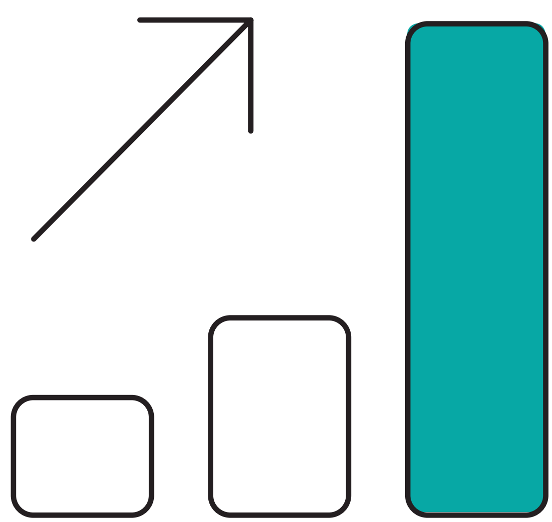
You don't have to take the time to go through every single ROI calculation to understand the impact of your marketing. In fact, calculating too many or the wrong ROI metrics can be very confusing for you and anyone who is invested in your business, and cause you to easily get overwhelmed or become discouraged. **To play it safe, we recommend beginning with the calculations outlined above and then expanding from there.**



How to know what to measure and when to measure

Digital marketing ROI requires continuous monitoring and regular examination. If you have digital marketing methods in place, ideally you should also have a schedule you follow to examine the success of those methods. What calculations and schedule you use, however, will depend on the nature of your business and the goals of your marketing efforts. If the goal of a specific marketing campaign is to acquire leads, then you should examine the cost per lead on that campaign. Likewise, if the purpose of a particular marketing campaign is to gain new sales, you should focus on **calculating the cost per conversion**.

Also, note the importance of giving digital marketing time to work before you jump to conclusions about your ROI outcomes. Remember, some efforts take longer to grow roots than others and, if you cut them too soon, you will never see the fruits of their labor. We do recommend, however, that if you do not see any return on your investment within a couple of months that you consider restructuring your efforts.



Other considerations

To truly understand the effectiveness of your marketing and what your ROI calculations mean, you should understand every piece of your digital marketing puzzle and how it fits into the bigger picture. Sales are, of course, the ultimate goal of every marketing plan, but what about those factors like investment in time and resources to fulfill your marketing initiatives For example, the amount of time your employees spend creating content, fixing issues, and monitoring outcomes are incredibly valuable as well. There may not be an actual calculation where the cost of a campaign is substituted by time spent working on the campaign, but it’s still important to think about those indirect investments along the way.

IF YOU NEED A JUMP START ON MEASURING YOUR ROI, **CONTACT US TODAY.**

Bringing it all together

Having the correct measurements and calculations for digital Marketing ROI in place will assist you in making your entire digital marketing plan more effective over time. And, as a result of an effective digital marketing plan, your business will grow, be able to scale, and achieve.

It is vital to the future of your business to have a firm understanding of your investment in digital marketing and how it is making a difference. At Seventh Scout, we recommend partnering with a professional if you are concerned or confused about how to measure digital marketing ROI. We work one-on-one with clients to ensure they feel comfortable with what ROI measurements are vital to them and the methods by which they should regularly monitor their outcomes. **If you need a jump start on measuring your ROI, contact us today.**

Let's make things happen

We welcome the opportunity to work with your business. Contact us to get started.

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