

# Internet Marketing Metrics

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One of the advantages of internet marketing over many traditional forms of marketing is the measurability of the results.

Where a newspaper or TV campaign can leave the advertiser guessing how many sales were a result of the ads (and how many would have occurred "anyway"), many forms internet marketing allow us to measure how many people saw our ads, how many responded, how many made a purchase, how much we profited from that purchase and likely repeat purchases, and therefore, how much money we made in profits by spending money on advertising -- our **Return on Investment**.

Internet marketing types for which we can calculate measurable results include:

- "banner ads" (including other online display ads)
- paid search engine listings ("pay-per-click")
- email marketing

This same general mode of figuring our return can also be used for some other forms of marketing, such as:

- catalog mailings
- telemarketing (where we can figure costs, and the customer buys immediately)
- direct mail that uses a form of unique response (like a postage-paid reply card)
- a free sample given to induce a customer to purchase a product on the spot

**The main purpose of using a form of metrics in our advertising analysis is simply to determine if we are making money!** If we are not, we should find out what's broken, and fix it. If we are, we should consider increasing our advertising as long as we can still attain a good rate of return.

The following is a worksheet detailing how to measure online advertising results.

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## Cost Per Acquisition

The first figure in our Internet Marketing Metrics, Cost per Acquisition, tells us how much we are paying for each visitor to our website.

$$\text{Cost Per Acquisition} = \frac{\text{Cost of Advertising}}{\text{Number of Click-Throughs}}$$

Example: I am paying \$2,000 for 100,000 banner impressions (a rate of \$20 CPM, or \$20 per 1,000 impressions). I have a 1% click-through rate. Therefore:

$$\text{Cost Per Click-Through} = \frac{\$2000}{1000}$$

**My cost is \$2 per click-through.** (And while this does not figure into our metrics, we shouldn't forget that our ad budget is also buying us branding and name recognition value).

Interestingly, in the case of pay-per-click search engine campaigns, we do not need to calculate this figure -- the "cost per acquisition" is a fixed cost we agree upon when we buy the advertising.

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## Cost Per Conversion

The next figure in our metrics is Cost Per Conversion, the amount we are paying for each visitor to our website *who actually makes a purchase*.

$$\text{Cost Per Conversion} = \frac{\text{Cost of Advertising}}{\text{Number of Sales}}$$

Example: Out of the 1000 click-throughs above, 8% (80 visitors) made a purchase. Therefore:

$$\text{Cost Per Conversion} = \frac{\$2000}{80}$$

**My cost per conversion is \$25.**

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## Value Per Conversion

### *Is this good?*

It depends. What are you selling, and how often do people buy it? If you're selling cars or new homes, great! If you're offering Columbia House memberships, good! If you're selling the new, amazing \$4.95 eyebrow cleaner, you're going to go broke.

We need to do a little more math to figure out whether your (actual or proposed) advertising is worthwhile, but here's where the values become somewhat less defined.

Value Per Conversion  $\approx$  Profit Made on Average Customer Over Defined Period of Time

Your Value Per Conversion is what it would be logical to spend on acquiring a new customer -- not just a website visitor, but someone who actually makes one or more purchases.

To determine this, we need to determine the average profit per customer *over a defined period of time*. This period is essentially what constitutes an acceptable wait for the return on your advertising investment. If I'm having a going out of business sale where everything must go, this time will typically be very short. However, for Amazon.com, where the average user visits frequently, stores his "wish list" on the site, and makes many purchases, this time will be much longer.

For the example above, we will say that I wish to realize a return on my investment over a period of one year. My average customer makes three purchases per year. The average purchase costs \$50, on which I realize a profit of \$20. Therefore, the profit made on my average customer over one year is \$60, or:

Value Per Conversion  $\approx$  \$60

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## Return on Investment

### The Final Result?

**\$25 Cost Per Conversion < \$60 Value Per Conversion**

**Or, the value I get from my advertising is more than twice its cost.  
Our analysis reveals that I should continue or increase my campaign.**

We can also look at the same numbers in total, rather than per customer, which gives us:

**\$2000 in advertising costs yields \$4800 profit (80 customers x \$60ea.)**

Whether we look at this analysis per customer or in total, we will calculate the same return on investment (ROI).

$$\text{ROI} = \frac{\text{dollar value of return}}{\text{dollar value of investment}}$$

$$\text{ROI} = \frac{\$4800}{\$2000}$$

Therefore....

$$\text{ROI} = 2.4 \text{ or } 240\%$$

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### **Improving Return on Investment**

Now, I am benefitting from my advertising. But I'd like to benefit a lot more! What can I do to increase my rate of return?

- **Buy less expensive (but equally effective) advertising.**
- **Negotiate for a "bulk discount" on the same advertising.**
- **Improve my click-through rate** (for example, by designing better banner ads)
- **Improve my conversion rate.** This is a big one -- can the customers find the products? Does the front page of the website "match" the offer made in the ad? Is the purchase process too bothersome? Are your product photos unimpressive (or even nonexistent)?
- **Prompt my customers to make larger purchases** (by raising my prices, offering more inventory, encouraging add-ons during the checkout process, offering discounts when several items are ordered together, etc.)
- **Prompt my customers to make more purchases per year.** This is a great opportunity for retention emails, direct mail, etc.
- **Improve my profit margin on the goods I'm selling** (by raising prices, decreasing overhead, or finding a less expensive supplier).

As you can see, some of these changes are marketing-specific, and some have to do with your internal business processes. **It is important to note that the internet is not itself a business, but rather only a marketing channel.** Your internet marketing metrics cannot, and should not, be divorced from the finances of your business at large.

The above, however, should be a checklist for improving your internet marketing, improving your website, and, of course, improving your business.