Lesson no. 12 – Tracking & Measuring ROI of Online Advertising

TRACKING AND MEASURING ROI OF ONLINE ADVERTISING

What is Online ROI?

The *investment* part of return on investment is a combination of all hard and soft costs for the campaign. A hard cost is the advertising expense because it is directly measurable and identifiable.

A soft cost is labor if it is done internally because it is more difficult to track the total labor of a project on the part of a person who has other projects and tasks. Soft costs such as labor are often left out of the calculation, but they are necessary to consider.

The *return* part of online ROI usually is measured in multiple ways depending on the business that makes the investment. The business acquires new customers when they take any number of measurable actions:

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a) Complete a transaction
b) For retailers, visit the store
c) Help grow site audience
d) View and click on site ads
e) Register for an event or email newsletter
f) Provide leads for new business

Three metrics help measure the return on investment. They are:

a) Cost per thousand ad impressions
b) Cost per click
c) Cost per acquisition

These three metrics are trackable and quantifiable online, so the results can be analyzed and the campaign adjusted if necessary.

The formula for return on investment is: ROI = (Gain from Investment – Cost of Investment) / Cost of Investment.

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ROI Using CPM, CPC and CPA

When a business launches an advertising campaign online, it buys a certain number of ad impressions that display the creative elements.

Impressions are often measured in blocks of 1,000. So, a campaign with 100,000 impressions that costs $1,000 has a CPM of $10. In other words, the cost is $1,000 divided by 100 blocks of 1,000 impressions apiece.

The second metric is cost per click. A campaign with 100,000 impressions costing $1,000 has 100 total clicks. The cost per click is $10. But another campaign costing $1,000 has 500 clicks. The cost per click is $2. Clearly, the second campaign has a better return on investment using the CPC metric.

The third and most important metric is the acquisition of a customer in one of the various forms described above. Variations on this concept include cost per transaction (they buy something) or cost per lead (they send an email or fill out a form). The following example clarifies how it works.

ROI Example

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As an example, let's say a publisher wants to promote a website. The site has multiple revenue streams — its own ads from clients or third-party sources and some transactional options such as an e-commerce application.

The site runs a campaign of contextual ads costing $1,000 on one or more of the major search engines.

At an average cost of 50 cents a click, the campaign generates 2,000 visits. Those visitors view ads, click on ads or complete a series of transactions.

If the campaign generates $1,200 in revenue on $1,000 in cost, the return on investment is 20 percent. The formula: ($1,200 – $1,000) / $1,000 = 20%.

If the campaign generates $1,000 in revenue, the ROI is 0%. It merely achieves the break-even point.

The more accurate way to track the return is by looking at the labor involved in setting up and managing the campaign.

The ROI looks only slightly worse if the total labor was one hour at $25 an hour, which might be achieved by focusing on only one or two high-volume keywords.

The ROI looks much worse is the total labor was 20 hours at $25 an hour. At that point, that campaign has clearly lost money.

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