Developing and Implementing Effective Internet Marketing Strategies

Calculating eMarketing's ROI

Today there are huge opportunities for eMarketing (using a Marketing Automation application) to make significant contributions to business results. At the same time, the costs associated with eMarketing must be able to prove their worth. The terms we hear most often in this context are *Return On Investment* and its acronym *ROI*.

Investopedia.com defines *return on investment* (*ROI)* as *profit or loss resulting from an investment transaction usually expressed as an annual percentage return*. Formal ROI calculations include the following elements:

- Initial Investment – total cost of the investment being analyzed.
- Ongoing Expense – cost to operate and maintain the investment.
- Benefit – tangible cash benefit resulting from the investment decision, the combination of increased revenues and decreased costs.
- Discount Rate – the factor representing the time value of money.

While calculating ROI can be a complicated process, in general terms positive ROI is generated by increasing revenues and/or decreasing costs. In fact, marketers usually invoke the term without including its complicated calculations. In this regard, *to the extent that eMarketing programs deliver tangible benefits that can be assigned monetary values, they are said to generate ROI*.

This document has been developed to provide JPD Associates customers and partners with a framework for measuring the value being generated by eMarketing programs.

Where eMarketing delivers value

Marketers are using eMarketing applications to *acquire* and *retain* customers. eMarketing acquisition and retention campaigns are designed to deliver responses from and develop relationships with their target audiences. These responses and relationships have value. Since positive ROI is driven by increasing revenues and/or decreasing costs, if measurable revenue generation or cost savings can be associated with a campaign's response then ROI can be demonstrated.

The business of marketing is demand generation. Results such as increased lead generation or sales to new and existing customers are key metrics describing demand generation. Translating these metrics into a *revenue stream* provides the top-line component of ROI.

Since communications in eMarketing campaigns are in digital format, the *cost savings* from substituting bits for atoms are tangible. Savings from replacement of human or paper-based interactions can be calculated and used to validate eMarketing ROI. Thus, a framework to calculate ROI for an eMarketing campaign or program is to determine:

- Cost savings ($\triangle c$) at the same level of demand generation for a given program
- New revenue generated ($\triangle r$) via net new demand

Because of the closed loop capabilities of eMarketing applications, the responses to eMarketing programs can be measured and ROI calculations can be built into each program and campaign report. Thus, certain responses can be used as drivers in ROI calculations.

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ROI drivers for Acquisition campaigns

New customer acquisition will always be a major component of a marketing department's charter. Some of the key ROI drivers for eMarketing customer acquisition campaigns are:

- Lead Generation – $\triangle$r calculated from the expected revenue per qualified-lead-producing response, based on known sales conversion rates and average order size statistics
- Sales Conversion – $\triangle$r calculated from the revenues from order-generating responses based on actual sales.
- Reduced Sales Contacts – $\triangle$c calculated from the number of contacts by the sales force during the sales cycle that a personalized lead generation and qualification campaign replaces, reducing the cost per sale.
- Reduced Fulfillment Costs – $\triangle$c calculates the reduced cost of automated digital fulfillment of program-specific offers and marketing collateral.
- Reduced Direct Mail Costs – $\triangle$c includes printing, postage and handling, materials and any difference in list costs.
- Reduced Call Center Costs – $\triangle$c calculated from telephone sales and customer service rep for response registration and offer fulfillment.
- Reduced Sales Cycles – $\triangle$r recognizes the time value of money and competitive advantage generated from faster deployment of sales campaigns.

ROI Drivers for Retention Campaigns

Marketing managers know that sales to existing customers generate higher margins than sales to new customers because they don't carry the burden of acquisition costs. If fact, most companies find that the major portion of their profits is driven by sales to existing customers. To the extent that eMarketing can deliver increased sales to existing customers, it will be justifying its investment.

The basic objective of retention campaigns is to increase the lifetime value (LTV) of existing customers. Calculation of the lifetime value of a customer is a difficult process and few companies have LTV calculations that they use with a great deal of confidence. However, the basic elements of LTV are the amount a customer spends, and the period of time that the customer is actively purchasing. Increases to either spending or longevity by eMarketing are significant contributions. Some of the key ROI drivers for customer Retention campaigns are:

- Increased Sales/Customer – $\triangle$r calculates the result of increased transaction levels
- Higher Margins/Sale – $\triangle$r calculated from cross-sales of higher margin products through better targeting of offers
- Increased House Email Files – $\triangle$c calculates savings from migrating relationship programs to the Internet, e.g. by acquiring email addresses and receiving permission to send email
- Loyalty/ Rewards Program Redemptions - $\triangle$r calculates revenue generated to qualify for awards
- "Win Back" Campaign Responses - $\triangle$r calculates revenue generated from responses to "Win Back" campaign offers.

Developing eMarketing ROI Reports

In order to develop a ROI report for an eMarketing campaign, it is necessary to measure the economic value of campaign responses. The ROI drivers described above should be selected, as appropriate, as variables for resulting calculations. Taking a lead-generation oriented program as a typical example, additional statistical information may be required, if it is not available directly from the company's sales and financial databases:

- <u>Sales Conversion Rates</u> – how many leads scored as "A" that enter the sales funnel result in a sale.
- <u>Sales Cycle Data</u> – length of time an "A" lead spends in the sales funnel and the number of sales contacts needed to convert.

- Average Order Size – for the product or service that is the focus of the campaign.
- Customer Acquisition Cost – the current budgeted cost of acquiring a new customer

In cases where the ROI is being calculated based on $\triangle$c savings, the attached chart of standard Contact Costs can be used if no other cost data is available.

Calculating & Reporting eMarketing ROI

The following is an example that can be used as a guide for developing ROI reports that *monetize the value of a response* from eMarketing campaigns. This example identifies responses that directly contribute to sales transactions and assigns appropriate values to them. The situation, based on actual MarketFirst customer results, is as follows:

> A software company develops a new product, complimentary to its existing suite. The company decides to use an eMarketing campaign to launch the new product to current customers.
>
> The eMarketing program consists of an email announcement with offers for a download and 60 day free trial or to buy the product. The email contains two hyperlinks (one for just the download and the other for more information and the download) for the trial, which is the primary objective of the campaign. There is also a link to buy the product, of course. All call-to-action hyperlinks are fulfilled through a Web response form and then from the company's ftp (download) site.
>
> The company wants a report that projects the revenues generated from the eMarketing program. The ROI report accesses the eMarketing server log files for relevant response data. Supplementary information supplied by the marketing department for the report :
>
> - Selling price of the new software - $1000
> - Typical sales conversion rate for trial downloads – 50%

Example ROI Report:

Software Company New Product Launch
eMarketing Campaign ROI Report

Outbound Email	**Total**	**Percent**	**Comments**
Attempted	28,000	100.00	
less:			
Failed	100	0.36	
Bounced	250	0.89	
Completed	27,650	98.75	indicates a good list
memo:			
Unsubscribed	100	0.36	low opt-out rate
Email Responses			
Download (Link 1)	2,520	9.11	
Download & Info (Link2)	3,650	12.84	
Buy (Link3)	750	2.71	
Total Responses	6,820	24.67	25% overall response
Web Forms Submitted			
Download	4240	68.72	some problems
Buy	560	74.67	with form completion
Projected Revenues			
Sales to Date	$560,000.00		(560 * $1,000)

Trials to Date	$2,120,000.00	(4,240*50% * $1,000)
Total to Date	$2,680,000.00	ROI result, △ r

Memo: days since Program Launch 30

Improving ROI: Test Cells, Control Groups and Analysis

Marketers can take advantage of the quick responses and closed loop capabilities of eMarketing applications to improve the results on their acquisition and retention programs by pre-launch testing and post-launch assessment and review.

Almost all aspects of a campaign can be tested using well-proven test cell and control group methods. Lists, offers, content and process flows can all be tested prior to the main launch, or continuously in a parallel testing mode. Best results can be identified and the program optimized accordingly to improve results. Improved results mean improved ROI.

Once a campaign or program has run its course and the results are in, it is a best practices imperative that those results are assessed to find out what worked well and what needs improvement. Remember, eMarketing is not one email or one program. It is part of a strategy to find and retain the best customers over a long time period. Lessons learned from each campaign can be applied to make the next one even better. Here is where classic analysis of results, patterns, correlations, clusters and trends generates real pay-offs.

Conclusion

Automated electronic marketing provides a wide variety of ways to lower costs, increase sales and improve the measurability of marketing campaigns. As the ROI imperative increases the focus on quantifiable results and continuous improvement in the marketing field, these techniques will be essential to the professional marketer.

Note to JPD Associates Customers:

JPD Associates Consultants have the whole toolkit to help customers enhance the effectiveness and measurability of their eMarketing campaigns including:

- *Pre-Launch Strategy Development – Review the process flow and all program content. Make sure that proven best practices for metrics, reporting, campaign effectiveness and testing are incorporated in all aspects of your campaigns and programs.*
- *Post-Launch Assessment & Review – Assess what worked best so that results will be improved in ensuing campaigns*
- *Integrated eMarketing Campaign Services – Let our Consultants provide our deep industry expertise and eMarketing experience by working with you throughout your campaign planning and execution.*
- *Hosted eMarketing Application – Don’t have an eMarketing Application? We can provide you with your own. Contact us for information about how you can build your own eMarketing programs using one of the most powerful and most cost-effective applications available. Email us at info@jpdassoc.com.*

Attachment 1:

Order of Magnitude Marketing Contact Costs for Calculating ROI

Contact	Cost per Contact
Seminar	$250
Sales Contact	$120
Trade Show	$100
Telesales	$15 - $40
Personal Recognition	$25
Business Letter	$20
Overnight Delivery	$15
Closing Literature	$15
Business Catalog	$7
Telemarketing	$2 - $5
Value Newsletter	$4
Direct Mail	$1 - $2
Products Catalog	60¢
Print Advertising	20¢
Broadcast	10¢
Fax	5¢
Email	1 - 5¢
WWW	? ¢

Courtesy of Tracy Emerick