The ROI of Digital Marketing

By Scott Haiges and Maura Lewis

ROIresearch
results • opportunities • insight

The Internet, in all its myriad forms, has been touted as the ultimate measurable medium. However, the digital landscape and indeed the entire consumer-to-advertiser relationship have changed so dramatically that it is difficult for marketers and their agencies to accurately measure return on investment (ROI). This white paper provides an overview of how marketers can ensure they accurately measure the ROI of their campaigns.

CHANGING LANDSCAPE

Justifiably, marketers are demanding more accountability with regard to their marketing budgets. However, budgets are increasingly being spread over multiple channels – TV, print, radio and online are not the only channels available. Increasingly, search is seen as a separate budget item and there is more and more interest in social media, widgets, DRTV, iTV, and gaming. While these may be seen as subsets of digital or TV, they are vastly different in terms of creation, production, and media purchase. Not only are their production costs different, but their intended target audiences also vary widely.

All too often marketers and their agencies calculate their ROI based on each channel or, worse, on which budget paid for the media. Some companies have different budgets for direct response and branding, or separate digital advertising from offline. For high level budgeting purposes, this is absolutely appropriate. However, calculating ROI on budget or channel misses at least two critical components: the specific role each channel plays and the interplay between the channels.

ROI must be calculated based on all marketing efforts, not on a channel-by-channel basis.

Smart media plans are created as a cohesive whole with each channel or sub-channel playing specific roles in achieving overall marketing objectives. Consider a typical marketer who wants to drive in-store and online sales for a product with fairly tough competition: they may use broad reach display media to increase or maintain their brand awareness in conjunction with more targeted advertising for direct response.

To get the most out of the ROI measurement process, each component should be measured using metrics appropriate for the effect it is trying to achieve. Therefore, the broad reach media buy should be measured with awareness metrics (e.g., increase in unaided awareness) while the targeted advertising should be measured with direct response metrics (such as sales).

Yet marketers should go one step further to understand the interplay between the two advertising efforts. In order to do this, media mix models are extremely helpful. While more robust models are desirable, simple tests can be performed by comparing a given performance metric when each media type is running individually to when they are running together. While this method is not bullet proof (time, for example, is one variable that is not held constant in this scenario), it can give the marketer some understanding of the interplay between different channels.

Yet another critical aspect of the changing landscape is the consumer. More and more, consumers are dictating the terms of advertiser interaction. Understanding how to (a) interact with consumers on their terms and (b) how to measure the new types of interactions are critical to marketers' success.

Avoid getting caught up in the 'measurement of the day'.

Although "engagement" is the performance metric du jour, it lacks wide-spread agreement on definition. Further, most definitions currently being used, such as 'time on site', are proxies for what is intuitively understood to be 'engagement'. Further, 'time on site' and similar measures are metrics in their own right and don't need to be renamed. Engagement is an appropriate marketing tactic however this does not necessarily mean it is an appropriate media measure.

DATA

Know what data you'll receive before buying any media.

As with everything else in marketing, data sources have become much more complex. In the digital space, every vendor has their own data, each with a different collection mechanism, different way of providing the marketer or their agency with the information, and sometimes different definitions. The mere job of organizing this data in a timely manner requires sophisticated data warehouse solutions and the human infrastructure to support it. While many companies still rely on Excel pivot tables, the ability to analyze the data in a timely manner and synthesize it down to understandable graphs and bullets still remains an elusive goal.

Marketers need to understand what data they will receive from their vendors, when, and in what format prior to buying any media. In addition, the data should relate to the campaign objectives. If branding is the campaign goal, demand brand-specific metrics; direct response information is nice to know, however if it does not relate to the campaign it does not provide valuable information in determining the ROI.

Often, marketers and their agencies will assume the data required for proper performance analysis is available and will be provided. Yet in many instances, acquiring the data in usable formats requires planning with vendors, tagging of websites, ensuring the data is usable (for example, making sure they provide actual counts rather than sample or percentages), or working with research vendors to implement appropriate studies. Unfortunately, if these considerations are not completed prior to campaign launch, the data may be gone forever. While this may seem a dire statement, consider the marketer who did not put tracking tags on their site: they were unable to determine how much traffic and subsequent sales were driven by their $1 million online advertising outlay.

Moreover, as alluded to above, the channel-by-channel evaluation of performance is helpful for channel-specific optimization yet is not sufficient for understanding the ROI of a complete marketing plan. It will only tell you part of the story (and even then, channel performance reports will under-report how well each channel is performing because of the interplay between different types of media).

In addition to concerns about data, there is the on-going demand by many mid- and senior-level managers for the “Aha findings”. In many cases, performance marketing data do not yield the same types of in-depth insights that more complex, long term research studies provide.

MEASUREMENT PLAN

Given the changing marketing environment, plethora of data sources, and myriad of media outlets (each of which may be utilized for different, complementary purposes), it is critical for marketers to plan their measurement carefully.

Creating a measurement plan prior to launch avoids pitfalls down the road.

Beginning with the strategy phase, bring discipline experts into the mix. These experts should be able to understand what information is needed for each phase of the marketing campaign. Furthermore, they will understand which data points or metrics are direct measurements and which metrics are proxies. And finally, they will know the types of broad level analyses needed to fully understand ROI. To properly create a measurement plan, the business objectives must first be defined. Explicit definition of what constitutes ‘success’ should be determined before marketing budgets are allocated across the various media channels.

Each media channel will have at least one objective which supports the business goals – but those objectives may not be the same for each channel. Let's use a generic marketing campaign as an example:

- TV is used to raise awareness of a new product
- In-store displays and billboards are used to complement the TV campaign
- All of these (TV, billboards, and in-store displays) mentions the website where consumers can purchase the product or be directed to their nearest retailer
- Digital marketing includes traditional (banner) display, paid search, natural search, social networks, and downloadable widgets

TV, in-store, and billboards (OOH or out-of-home) should be measured by how much they increase consumers' awareness of your product (aided or unaided product awareness). These metrics will likely come from surveys (either on- or offline).

In addition, there should be metric that measures how effectively these media drove people to the website. This is most easily accomplished by creating a vanity URL used exclusively by offline advertising (e.g., www.instore.marketer.com). The traffic received to this vanity URL can thereby be attributed to offline advertising efforts.

The digital pieces should be measured not only by how well they drive sales (conversion rates), and in what time frame, but also their impact on helping increase awareness of the product. Online sales, or conversion rates, can be obtained using either third party ad serving technologies or in-house web analytics packages. Online ad effectiveness studies will tell you how much awareness has changed as a result of the online portion of the campaign.

Obviously, these pieces are interrelated and interdependent. Further confounding the picture is the fact that many of these metrics are unique to each channel. Having a central repository, either with an internal data warehouse or external research/business intelligence vendor, allows the information to be synthesized much more easily and often provides greater insights than trying to pull together information from multiple sources via spreadsheets or other manual means.

Similarly, optimization metrics are usually unique to each channel but frequently do not capture the entire business measurement. The example cited above regarding the offline purchase behavior resulting from online searching is just one such instance where media planners will optimize based on the best information they have available at the time – namely immediate or near-immediate online conversions – but the determination of whether or not the campaign as a whole was successful should be made with a much more robust set of data.

CONCLUSION

Calculating the ROI of advertising is challenging in the best of times but becomes even more critical in periods of economic uncertainty. It is even more important than ever, therefore, that measurement plans be developed in conjunction with and at the same time as media strategies.

One of the additional benefits of planning the measurement strategy is the ability to understand the cross-channel implications of the media plan. Frequently, marketers are limited by evaluating each media effort in silos which do not take into account consumer behavior.

By bringing discipline experts into the beginning of the process, marketers can be assured they will be able to accurately measure the true ROI of their marketing efforts as well as glean a greater understanding of consumer behavior and the cross-channel effects of advertising.

Identifying your data needs before launching a campaign is critical to ensuring you have the necessary information to make intelligent decisions. Often it is necessary to go beyond the basic data provided by media vendors and create models or conduct research to truly understand your ROI.

Creating a measurement plan involves the following steps:

- Define business success metrics
- Identify channel metrics. There may be two types: those that roll up directly to the business objectives; and those that are for channel-specific optimization and performance
- Determine what data is needed to feed the metrics
- Identify data sources (e.g., third party ad servers, research vendors, media vendors, etc.)

ABOUT ROI RESEARCH INC.

Founded in 2002 by professionals trained in the fields of classic market research and statistical modeling, ROI Research believes as much if not more in the power of using data to drive real-world business decisions. Our open-infrastructure platform and ROI-focused analysis methodologies allow our clients to take the benefits of quantitative research and apply them to their business to make immediate data-driven decisions that improve the effectiveness of marketing strategies and initiatives.

Maura Lewis is an independent marketing strategist with ten years' experience in online advertising currently working with ROI Research.

For additional information,
please contact Scott Haiges at ROI Research at (717) 435-1852, or email info@roiresearch.com.