AT INTERNET
Online Intelligence Solutions

ROI IN ONLINE MARKETING AND WEB ANALYTICS

By Jacques Warren

WHITE PAPER

ABOUT JACQUES WARREN

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*"Web Analytics: Measuring the success and maximizing the profits of your website"

SUMMARY

INTRODUCTION

We are starting to reap the rewards of the maturity of the commercial web. It is no longer the case that companies are still thinking of using the Web in their business. What's more is that we demand more and more of the web to show how it contributes in a positive, measured and calculated manner to the correct development of a company. In the same way, Web Analytics has evolved a lot and very few managers would today say that web analytics measurements are not very useful.

In addition to the considerable contribution that web measurements have on the efforts to optimise online content, the sophistication of data collection and data processing provide managers with an extraordinary opportunity to invest effectively on digital platforms.

Web analytics can and must play a leading role in calculating profit. In this white paper we will be discussing how web analytics plays this leading role on 4 different levels: campaigns, customers, profitability and Web analytics itself.

WEB ANALYTICS IS ESSENTIAL TO THE ROI IN ONLINE MARKETING

Web Analytics is used to support efforts in determining the performance of investments allocated to digital platforms.

The ability to use any analytics feature in a company is certainly a prerequisite for any ROI question related to online marketing. Getting the most abundant and accurate data is essential to correctly calculating ROI. However, we know all too well that quite often managers will have to settle for incomplete, sometimes even missing data; we can only but strongly recommend that companies find a solution to this problem.

WHAT DO WE MEAN BY ROI?

There are several different definitions of ROI, and calculation methods available. For the purposes of this white paper we will consider the simplest method to calculate ROI:

$$\frac{\text{Revenue (margin) - Costs}}{\text{Costs}^{1}}$$

Web Analytics is used to support efforts in determining the performance of investments allocated to digital platforms, in terms of campaigns, customers and a company's profitability.

ROI is calculated either afterwards, or before with the aim of forecasting possible ROI whenever decisions related to investments are to be made.

1 The term revenue is used in the widest sense to include sales, profits, gross margin etc.

THE SENSITIVE ISSUE OF CAMPAIGNS

First of all, we should be clear from the beginning with what we mean by the term campaign. For the purposes of this white paper and not to complicate things too much, the term campaign is used to refer to campaigns which are carried out online. We are aware that several promotional activities on the web also take part in larger scale initiatives, combined with other offline investments. The situation has become increasingly complicated on the Internet only, with the rapid increase of channels and platforms ![1]

Calculating ROI can greatly assist managers in helping them plan and allocate their budget.

Campaigns, or any other form of promotional investments on the Web[2], are present at the heart of all ROI considerations. The following key questions need to be answered: has this investment generated a significant amount of revenue, once all of the costs have been covered? Does the return expected from activity X or Y justify the investment made? As mentioned in the introduction, calculating ROI can greatly assist managers in helping them plan and allocate their budget.

It is certainly much easier to conceptualise (and calculate) a campaign's ROI if we limit ourselves to only one campaign activity (banner, e-mail, PPC, affiliation etc.). Multichannel, which is becoming increasingly known for conversions, also makes things more complicated because of the inter-influences which exist between promotional activities; any savvy marketer who finds themselves in this situation will be able to factor this additional level of difficulty into their calculations.
Let's take the example of a banner campaign, the aim of which is to generate visits to its site[3] and on which a conversion is expected from the first visit. This leaves no doubt as far as the attribution of the generated revenue is concerned. We can easily determine the ROI of the said campaign afterwards, by using the classic formula:

$$\frac{\text{Revenue} - \text{Costs (production+investment)}}{\text{Costs}} = \text{Percentage return}$$

This percentage must, in theory, be the same as, or preferably greater than the minimum rate accepted by the company to determine whether or not their capital investment has been profitable.

1 Read our white paper on Attribution in Online Marketing, published by AT Internet.
2 « Campagnes » ici ne signifient pas nécessairement une activité avec un début et une fin ; des investissements tels que les PPC (Pay-Per-Click), qui peuvent être faits de façon continue, entre dans la catégorie générale de campagnes.
3 Here the term "Campaigns" does not necessarily refer to an activity which has a start and an end; investments such as PPC (Pay-Per-Click), which can sometimes be made on a continual basis, are part of the general category of campaigns..

However, we feel that it is not as simple as this. We think that the ROI of any promotional activity should not only exceed the acceptable investment threshold, but should do so in such a fashion that it is by far the best option as compared to doing nothing. What this means is that the revenue generated from our equation should only include revenue generated by the 'lift' of a campaign, in other words profits made by the campaign when compared to the results obtained if nothing had been done. The profit is determined by comparing the result to a control group which will not have been exposed to the campaign.

On more than one occasion we have seen the ROI of a campaign fall dramatically when it has been subjected to the real 'lift'. The revised formula is as follows:

$$\frac{\text{Revenue from the lift (lift margin)} - \text{Costs (production+investment)}}{\text{Costs}} = \text{Percentage return}$$

Some readers may find this approach somewhat harsh, but let's think about it. If a campaign is not doing anything in terms of performance, then why should we allocate revenue to this campaign in our calculations? The 'lift' contains the actual profit generated by the online activity and as a result the calculation of the ROI should only consider this profit gain. This is only valid, however, for calculating ROI afterwards. Should you wish to forecast ROI, you can only rely on the performance of previous campaigns on your control groups.

PROFITABLE CUSTOMERS

Analysing the profitability of online customers is also an important objective of web analytics. Too many analytics efforts are aimed at optimising anonymous visits on specific conversion points; conversion rates are used too often to judge the effectiveness of a campaign. The question of acquisition ROI and maintaining online customers arises as a result of their value on a customer's life cycle. The obsession with optimising conversions may be an important factor in the decline of the performance of customer capital in the long term. What is the point of optimising conversion rates if it is only to acquire customers who are not very profitable?

In this case we talk about LTV (Life Time Value), given the context of the investments which are directly granted or distributed to each customer. Once again the question of customer quality, measured quantitatively, is raised. To measure customer quality you need to use other types of data than the data produced by web interfaces, and in particular the customer database which contains the history of all campaign responses.

CONTRIBUTING TO PROFITABILITY

Online measurements should allow companies to update how and to what extent online investments form part of the company's overall development.

Considering all of the questions on ROI which have just been discussed, web analytics plays an important role in measuring the contribution that web investments make to a company's overall profits. We believe that this is one of the fundamental objectives of web analytics. Online measurements should allow companies to update how and to what extent online investments form part of the company's overall development[1].

Without Web Analytics, how can we determine how much revenue has been generated by the web? How can we determine the web's strong points such as the increases in sales turnover that it creates, savings in expenditure and increases in customer satisfaction (a predictive value in itself)?

The ROIs considered above also have fundamental technical correlations and require excellent applications. Not only is there a need to collect the maximum amount of data possible in the most rigorous and reliable fashion, but there is also a need to carry out sophisticated conversion and, if possible, attribution analyses. There is also a need to integrate data generated by different sources or at least to make web data available for these operations. Quite naturally, this makes us think of the AT Internet range of products. AT Internet made the decision a long time ago to base its evolution on a wide strategic vision which includes the entire field of online marketing, focusing more and more on Customer Analytics than Web Analytics.

1 We believe that public administration websites do not escape from this logic, although in this case we also need to mention service provision as well as profitability.

ROI IN WEB ANALYTICS

The more Web Analytics plays an essential role in establishing any ROI evaluation of a company's online marketing, the more we can evaluate web analytics with its own ROI. Few functions within a company can clearly expose the impact that analytics has on a company's results. With the analytics tool, essentially a measurement tool, it is easy to link a company's results and recommendations with the profits gained.

We support the idea that the clarity of web analytics ROI should be established as one of the measurements of success of an online analytics tool. If we think about it more, carrying out as much analytics as this should definitely increase revenue, reduce costs and increase customer satisfaction. What is the point of web analytics if it is to contribute, albeit unclearly, to these three dynamics which are fundamental to a company's development?

This difficult, sometimes impossible requirement in many different departments of a company is imposed on analytics by its ability to clearly attribute contributions to its results. For example, this is possible in web design, although indirectly, often thanks to the efforts of web analytics. Even though no-one disproves the need for sustained esthetics of interfaces, (why create something which is not aesthetically pleasing when you can create something which is?) the link between esthetics and results is upheld[1]. Let's not forget about branding campaigns where direct links with sales turnover are sometimes select.

1 We are not referring to the usability of interfaces or to the impacts of usability on results which certain people may rightly associate with design. By Web design we mean the continuation of aesthetic quality.

Web analytics [...] must generate added value through the losses that it identifies and the opportunities that it creates.

There is no equation, but naturally of course, Web analytics should completely cover the costs associated with the applications used and the workforce involved. This is a strict minimum as we should not forget that analytics is not an internal service such as Accounts, or Human Resources. Analytics must generate added value through the losses that it identifies and the opportunities that it creates. We must admit, however, that the final value of analytics activities can sometimes be difficult to establish, for example due to the complicated nature of all of the different activities involved in the day to day running of a large company. In an ideal world in which all information can be accessed, at the end of each year web analysts should count the total added value they have been able to generate.

This obligation would also be an excellent opportunity to clarify and optimise processes which are essential to collecting the right measurements; you will quickly notice that without a rigorous organisation of the web analytics tool in place, it will become difficult to expose its added value.

Any ROI related question therefore falls into the general framework of organisational efficiency and online business related questions are no longer exempt from this.

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AT INTERNET – AGILE BUSINESS DECISIONS

AT Internet, European leader in the field of Web Analytics since 1995, helps companies drive their online performance and optimise their presence on all online marketing channels such as web and mobile sites, applications, e-CRM, social media etc. The company's Online Intelligence solutions provide reliable, valid, complete decision-making data. AT Internet has placed agility at the heart of its innovation process to provide its clients with an evolutionary and 100% modular solution that responds to the challenges faced by companies today. The strength of AT Internet's technology and the quality of its customer relations are recognised worldwide. AT Internet has more than 3,500 clients all over the world from all sectors. The company, which has more than 150 employees, is present in 20 different countries through its subsidiaries and partners.

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