Know Your Numbers

Setting Marketing Budgets and Measuring Your Return on Investment

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With Gary Weis

Common Questions:

- “How much should I spent on Google Ads?”
- “What should my Facebook Ads budget be?”
- “How do I know if my ads are working?”

The answer is different for every business, product and service.

Why?

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The Variables...

- Retail Price
- Cost
- Margin
- Quantity / Volume
- Repeat Purchases / Frequency
- Add Ons / Cross Sells / Up Sells
- Subscription / Continuity
- Life Time Value
- Complexity of Sale / Buying Cycle
- Conversion Rates
- Competition / Strength of Offer
- The list goes on and on and on...

So where do you start?

Start with the End in Mind…

- What are your goals for the campaign?
  - Awareness / Sales / Leads
  - Profit v Volume
  - What's Your Timing
  - Business Impact
    - Staff / Resources
    - Process / Stock / Warehousing

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Gather the Data…

- What have you done in the past? - Historical Data
- What were the results? – What did you measure?
- Apply the 80/20 principle – Product v Catalogue
- Seasonal considerations
- What's hot now / Google Trends
- Check out Google Analytics / Search Console

Know where you are right now. As with most advertising, you are likely to simply amplify your existing results.

Scenario 1

"Rob"

Emergency Plumber

What we know…

- Goal = 10 New Clients / week
- Timing = Next 12 weeks
- Price = $300 / inc call out
- Cost = $60 / hour
- Conversion Rate = 50% (Why?)
- Retention = 0 (Why?)

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Run the Numbers…

- Revenue = 10 Clients x $300 each = $3,000 wk
- Cost = 10 Clients x (10 hrs x $60) = $600 wk
- Margin = 80% or $2,400 wk
- Life Time Value = $300
- Client = 1 / 50% = 2 Leads
- Breakeven = 20 Leads = $2,400 or $120 / lead

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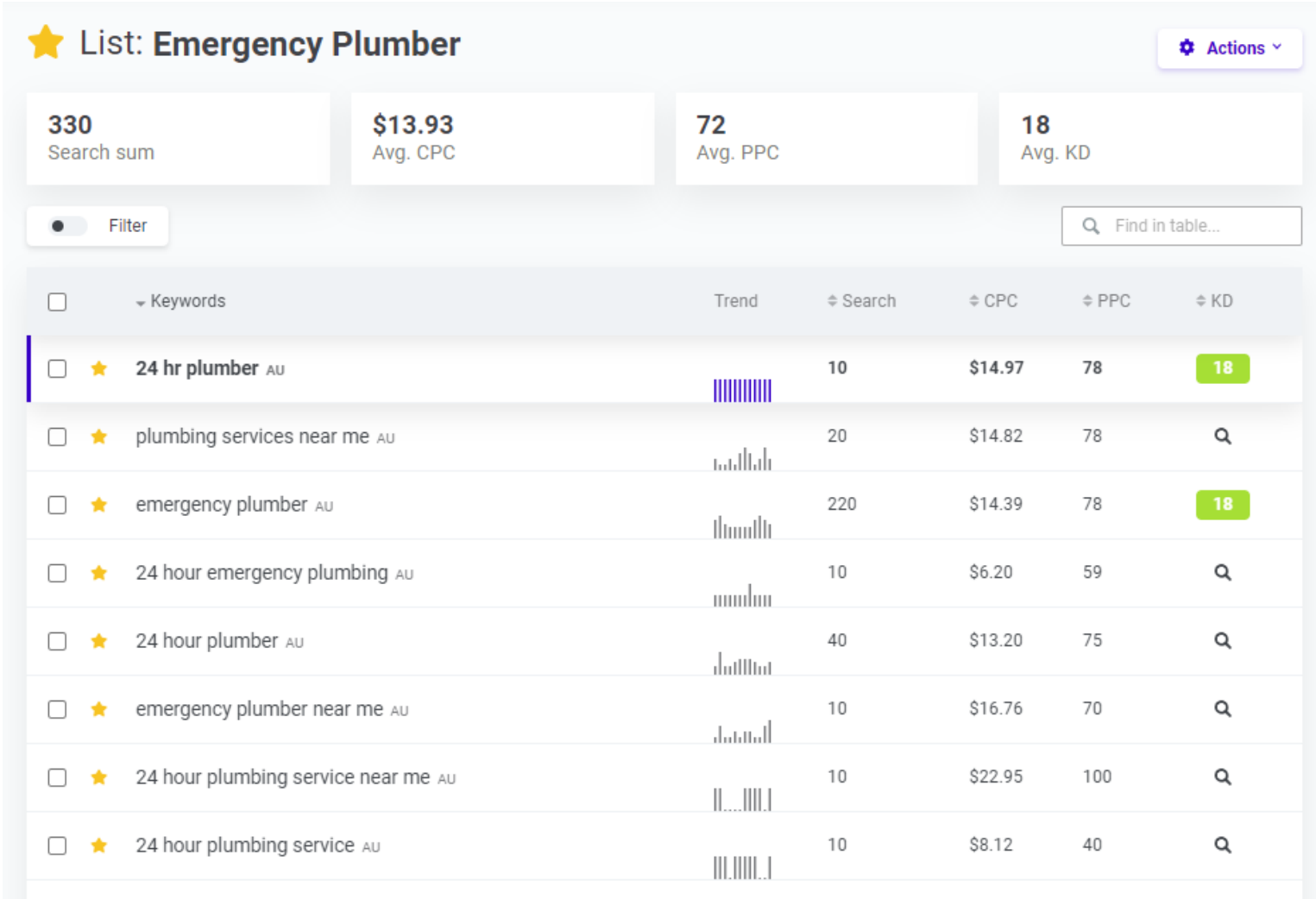
Run the Numbers...



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Run the Numbers...

- Breakeven
- Hi Return
- Mid Return
- Low Return

Run the Numbers…

Breakeven

- Average Cost Per Click = $13.93
- $120 lead / $13.93 = 8.61 clicks
- Website Conversion = 11.61%
- ROAS = Conversion Value / Ad cost
- ROAS = $3,000 / $2,400 = 1.25
- But WAIT????

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Run the Numbers...

Defining ROI

ROI = Profits - Costs x 100 / Costs

ROI measures the profit generated by ads relative to the cost of those ads. It's a business-centric metric that is most effective at measuring how ads contribute to an organisation's bottom line.

Run the Numbers...

Defining ROAS

ROAS = Revenue from Ads /
Cost of Ads

ROAS measures gross revenue generated for every dollar spent on advertising. It is an advertiser-centric metric that gauges the effectiveness of online advertising campaigns.

Run the Numbers…

ROAS Hybrid

ROI = Revenue from Ads /
Cost of Ads + COGS

ROAS figures can be widely deceptive if the costs of the goods aren't taken into consideration. Marketing a $10 product with a $1 cost will yield vastly different results than a product for $10 with a cost of $5

Run the Numbers…

Breakeven

- Average Cost Per Click = $13.93
- $120 lead / $13.93 = 8.61 clicks
- Website Conversion = 11.61%
- Hybrid ROAS = Conv Value / Ad cost + COGS
- Hybrid ROAS = $3,000 / $2,400 + $600 = **1**
- For Every $1 Ad spend the return is **$1**

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Run the Numbers…

Hi Return

- Average Cost Per Click = $13.93
- $40 lead / $13.93 = 2.87 clicks
- Website Conversion = 34.84%
- ROAS = $3,000 / $800 + $600 = 2.14
- For Every $1 Ad spend the return is $2.14

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Run the Numbers...

Mid Return

- Average Cost Per Click = $13.93
- $80 lead / $13.93 = 5.74 clicks
- Website Conversion = 17.42%
- ROAS = $3,000 / $1,600 + $600 = 1.36
- For Every $1 Ad spend the return is $1.36

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Run the Numbers…

Low Return

- Average Cost Per Click = $13.93
- $100 lead / $13.93 = 7.17 clicks
- Website Conversion = 13.94%
- ROAS = $3,000 / $2,000 + $600 = 1.15
- For Every $1 Ad spend the return is $1.15

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Considerations…

- Time Frame = 12 Weeks = Campaign Velocity
- Rob can take his time
- Quality of Leads – Qualified v Non Qualified
- Rob's ads stop, his revenue stops
- What are the key variables in Rob's control
- What other traffic sources < or = $13.93 / click

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Scenario 2

“Suzie”

Bookkeeper

What we know…

- Goal = 10 New Clients
- Timing = Next 4 weeks
- Price = $400 / month retainer
- Cost = $50 / hour - (1 hour per week)
- Conversion Rate = 25%
- Retention = 24 months Industry Average

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Run the Numbers…

- Revenue = 1 Client x $400 mth = $400 mth
- Cost = 1 Client x (4 hrs x $50) = $200 mth
- Margin = 50% or $200 mth
- LTV = 24 x $400 = $9,600 or $4,800 / yr
- Client = 1 / 25% = 4 Leads
- Breakeven = 4 Leads = $200 or $50 / lead

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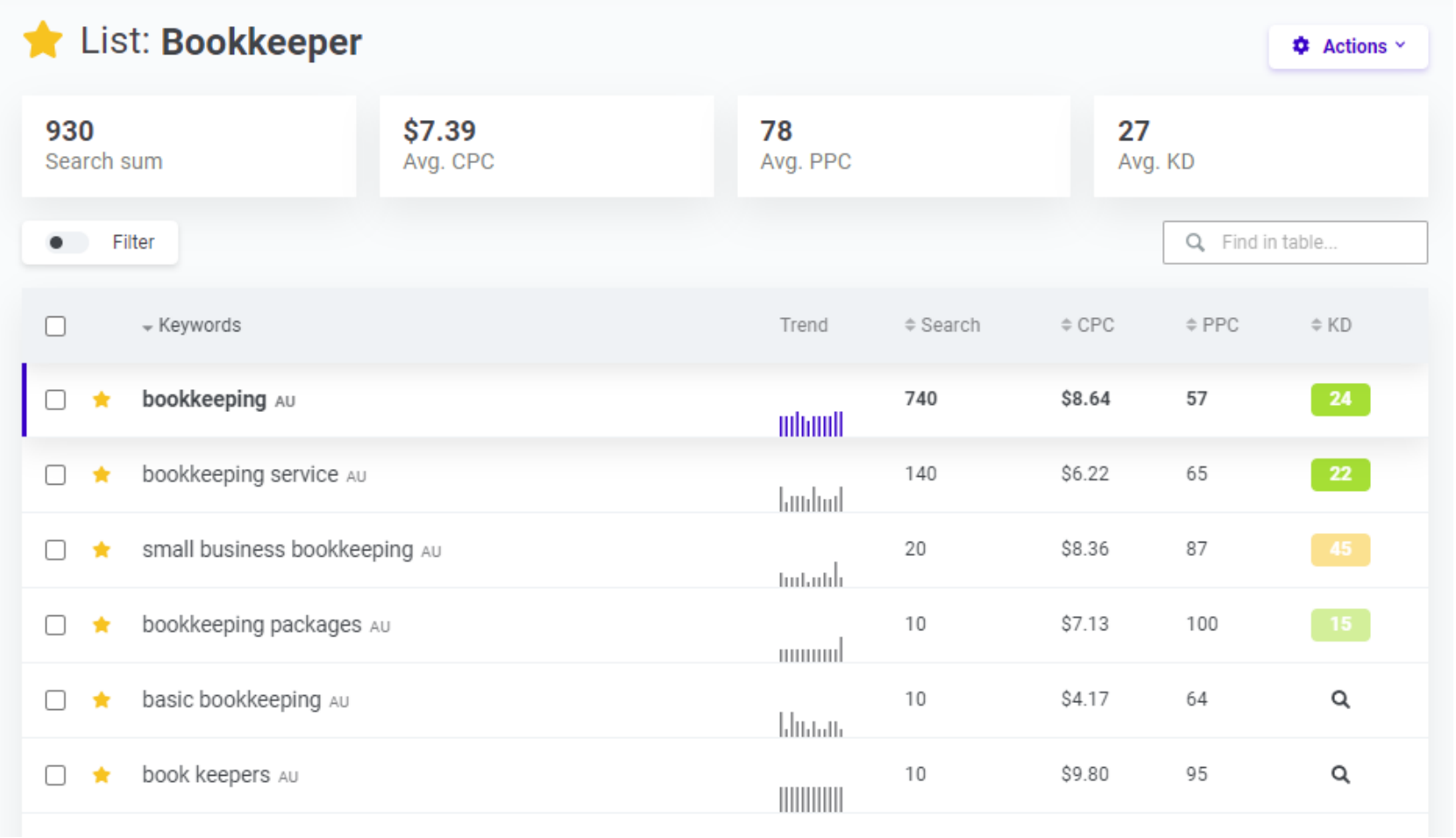
Run the Numbers...



Keywords	Trend	Search	CPC	PPC	KD
bookkeeping AU		**740**	**$8.64**	**57**	24
bookkeeping service AU		140	$6.22	65	22
small business bookkeeping AU		20	$8.36	87	45
bookkeeping packages AU		10	$7.13	100	15
basic bookkeeping AU		10	$4.17	64	
book keepers AU		10	$9.80	95	

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Run the Numbers…

Breakeven

- Average Cost Per Click = $7.39
- $50 lead / $7.39 = 6.76 clicks
- Website Conversion = 14.79%
- Hybrid ROAS = Conv Value / Ad cost + COGS
- Hybrid ROAS = $400 / $200 + $200 = **1**
- For Every $1 Ad spend the return is **$1**

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Run the Numbers…

Hi Return

- Average Cost Per Click = $7.39
- $20 lead / $7.39 = 2.70 clicks
- Website Conversion = 37.03%
- ROAS = $400 / $80 + $200 = 1.42
- For Every $1 Ad spend the return is $1.42

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Run the Numbers...

Mid Return

- Average Cost Per Click = $7.39
- $30 lead / $7.39 = 4.05 clicks
- Website Conversion = 24.69%
- ROAS = $400 / $120 + $200 = 1.25
- For Every $1 Ad spend the return is $1.25

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Run the Numbers…

Low Return

- Average Cost Per Click = $7.39
- $40 lead / $7.39 = 5.41 clicks
- Website Conversion = 18.48%
- ROAS = $400 / $160 + $200 = **1.11**
- For Every $1 Ad spend the return is **$1.11**

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Run the Numbers… LTV

- Revenue = 1 Client x $9,600= 24 mths
- Cost = $200 mth x 24 mths = $4,800
- Margin = 50% or $4,800
- Client = 1 / 25% = 4 Leads
- Breakeven = 4 Leads = $4,800 or $1,200 / lead

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Run the Numbers…

Breakeven LTV

- Average Cost Per Click = $7.39
- $1,200 lead / $7.39 = 162.38 clicks
- Website Conversion = 0.61%
- Hybrid ROAS = Conv Value / Ad cost + COGS
- Hybrid ROAS = $9,600 / $4,800 + $4,800 = **1**
- For Every $1 Ad spend the return is **$1**

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Run the Numbers…

Hi Return LTV

- Average Cost Per Click = $7.39
- $400 lead / $7.39 = 54.12 clicks
- Website Conversion = 1.84%
- Hybrid ROAS = $9,600 / $1,600 + $4,800 = 1.50
- For Every $1 Ad spend the return is $1.50

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Run the Numbers...

Mid Return LTV

- Average Cost Per Click = $7.39
- $600 lead / $7.39 = 81.19 clicks
- Website Conversion = 1.23%
- Hybrid ROAS = $9,600 / $2,400 + $4,800 = 1.33
- For Every $1 Ad spend the return is $1.33

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Run the Numbers...

Mid Return LTV

- Average Cost Per Click = $7.39
- $1,000 lead / $7.39 = 135.31 clicks
- Website Conversion = 0.73%
- Hybrid ROAS = $9,600 / $4,000 + $4,800 = 1.09
- For Every $1 Ad spend the return is $1.09

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Considerations…

- Life Time Value of the Client
- How long can Suzie “fund” the advertising?
- Quality of Leads – Qualified v Non Qualified
- How many months does Suzie need to work to break even on each client?
- Velocity of the campaign = 4 weeks
- What happens if Suzie stops advertising?
- How often does Suzie need to find a new customer?

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Scenario 3

“Sally”

Online Store – Fitness Clothes

Considerations...

- What extra considerations does Sally have?
- Product v Catalogue
- Various CPC for various products
- The latest survey and studies in 2020 show that the average conversion rate of e-commerce websites is 2.86%.
- Quantity / Volume
- Repeat Purchases / Frequency
- Add Ons / Cross Sells / Up Sells

To Wrap Up

- Start with the End in Mind
- Gather Historical Data
- Consider Hybrid ROAS over ROI
- First step is breakeven
- Doing better than that?

That's called a MIRACLE

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That's All Folks...

Questions ?