**For VIDEO TRANSCRIPT**

**Calculating the Click Thru Rate, Conversion Rate and ROI for a Digital campaign**

Now we are in the full digital portion of the video lessons. We will be learning how to calculate the Click Thru Rate, Conversion Rate and ROI for a Digital campaign. The ROI applies to any campaign, online or offline, so understanding the concept and the formula should be able to assist you in applying this analysis to either one.

After you finish this video lesson, you will be able to:

* Recognize a Click Thru Rate, Conversion Rate in a digital campaign
* Understand media terminology associated with digital campaigns
* Understand the concept of working with Return of Investment or ROI
* Understand how to calculate a Click Thru Rate
* Understand how to calculate a Conversion Rate
* Understand how to calculate Return on Investment
* Assess the success or failure of a campaign to deliver on set Key Performance Indicators

Let’s start with basic terminology that you need to understand:

Digital or online marketing or campaign is marketing that uses technology platforms such as websites, email, mobile and social networks to advertise a product or service.

Click Thru Rate measures the effectiveness of a digital ad or campaign, regardless of the ad format. It is calculated dividing the Clicks/Impressions by total impressions and multiplied times 100.

Conversion Rate is a deeper metric to measure engagement calculated by simply taking the total outcomes such as sales/leads divided by the number of total visitors that can be tracked to this outcome during the same time period multiplied times 100.

Lead is defined as is the identification of a person or entity that has the interest to purchase a product or service and represents the first stage of a sales process.

Sales is the actual conversion of a lead interested in the product or service measured by conversion from interest into an outcome of actual purchase or sales.

Purchase funnel is a graphic representation that analyzes a consumer’s journey from exposure to the advertising message to ultimately becoming a loyal customer. The classic purchase funnel is typically broken down into five stages: awareness, interest, consideration, preference, and purchase. From a measurement point of view, this consumer journey is less linear and the exposure to the advertising message from several media repeated times (remember reach and frequency) may present a more complex picture that may not necessary follow the five stages in such a “clinical” way. It is seldom that a consumer sees the advertising and runs to the store to purchase it. Today’s informed consumer may take several exposures through a variety of platforms from lead to conversion. Nothing is that simple anymore.

Average order value is taking all the sales for a product, assuming they have different prices, and the average cost for all similar items sold.

Gross profit is the difference between the manufactured price and the sales price. The difference between these two numbers is the gross profit. Net profit is calculated subtracting all other costs such as marketing and advertising from the gross profit.

When measuring the success or limitations of digital or online campaigns (and offline for that matter), we have been studying the concept of KPIs or Key Performance Indicators. This has become a buzz words to mean specific goals to measure the effectiveness and success of a campaign. Like many phrases adopted by the online ad industry, it has a precedent. In every line of business there's some kind of metric that someone uses to gauge how they're performing and whether to judge success or failure. In the retail industry, for instance, same-store sales are a KPI. In the auto industry, it is car total sales or specific dealership sales. In online advertising, some KPIs include click-through rates, brand awareness and engagement. The typical online marketing campaign these days usually has about five KPIs, but it can more or less than five. One thing to keep in mind is to limit the KPIs to those that make the most sense in an effort to make an intelligent analysis. We are going to learn about click-through rate or CTR to understand the extent of an online ad's engagement. Now with the rise of social media, companies like Facebook have claimed that CTR may be a less important metric for branding campaigns. Again, with the argument we have followed throughout the course of potential exposure vs. actual exposure, it can be argued that the CTR does not guarantee interaction with the brand. In other words, you can see an ad and not click on it, or you can click on it and still be influenced by it. After all, that's the way most advertising has worked until now. Also, KPIs vary depending on what stage of the purchase funnel your target customer is at. For example, in the early stages of marketing a brand, the goal is to raise awareness, but further along the maturity of the brand, interaction may be more important. Did the customer watch the online video? Did she interact with your ad in some way? To measure an Online or Digital Campaign, it is important to define what success is in the form of a KPI. For example, is it customer acquisition, retention, offline sales, etc.

The KPIs we are about to learn are several, we will learn how to calculate a click through rate, a conversion rate and if the investment was worth it, in other words, did the campaign make money.

Ok, let’s get started. Remember to refer to the individual PPT lesson. We will take each calculation if steps.

STEP ONE: Understanding the numbers

A online retailer that sells Designer Handbags ran a digital campaign. In the past 30 days, they spent $15,000 on Google Adwords for advertising. During the campaign, 100,000 Impressions or people searched for the specific keywords they invested in and received 7,500 Clicks on their link. People searched for handbags, their company appeared in the search results, and 7,500 actually clicked on their link. From those visitors, 225 orders or sales happened. The Average Order value is $400 with a Gross Profit Margin of 30%.

To assess the success of this campaign and based on this results, we need to ask the following questions: numbers:

* Are they making money?
* What is the CTR of this campaign?
* What is the conversion rate of this campaign?
* Calculate ROI or profit of this campaign.

Let’s organize the data:

* Advertising Investment per month: $15,000 on Google Adwords
* How many people were reached: 100,000 Impressions
* Response of visitors per month: 7,500 Clicks
* Total sales per month: 225 orders
* Average Order value: $400
* Gross Profit Margin: 30% (how much is their profit after manufacturing costs)

STEP TWO: Calculating the Click Through Rate

Formula is Total Clicks divided by Gross Impressions multiplied times 100

7,500 divided by 100,000 = .075 x 100 = 7.5%

Click Through Rate = 7.5% or of all the impressions served, 7.5% clicked on the advertiser’s link

STEP THREE: Calculating the Conversion Rate

Formula: Orders or Sales divided by Total Clicks x 100

225 orders divided by 7,500 = .03 x 100 = 3% or out everyone that clicked on the advertiser’s link, 225 items were sold

Step Four: Calculating Gross Revenue

Formula: Total Orders x Average Order = Gross Revenue

 225 orders x $400 average order = $90,000 Gross Revenue or the amount of money made without taking any operational cost

Step Five: Calculating Return on Investment

We calculated Gross Investment of $90,000 and we now from the advertiser that they make 30% profit on every item sold. This 30% has to be supplied by the advertiser since they know the cost of manufacturing the item and how much they sell the item for. We also know that $15,000 were spent on Google Ad Words (advertising investment).

First: Calculate the Net Revenue or Profit

Formula: Gross Revenue multiplied times % Gross Profit Margin (divided by 100) = Net Revenue

$90,000 (gross revenue) x .30 (or 30% gross profit margin divided by 100) = $27,000

Second: Calculate ROI

Formula: Net Revenue minus Advertising Investment divided by Advertising Investment x 100

$27,000 - $15,000 = $12,000 divided by $15,000 = .80 x 100 = 80% ROI

Step Six: Reporting the Results

The Campaign Statistics and results are as follow:

* Marketing $$: $15,000 Google AdWords
* Traffic/mo.: 100,000 Impressions
* Response/mo.: 7,500 Clicks
* Sales/mo: 225 orders
* Average Order value is $400
* Gross Profit Margin is 30%

The Campaign Analytics are as follow:

* Click Thru Rate: 7.5% that saw the link, clicked on it
* Conversion Rate: 3% that clicked on the link, bought an item
* Gross Revenue: $90,000 gross sales revenue
* Net Revenue: $27,000 net sales revenue
* Return on Investment: 80% or for every dollar spent advertising, 80 cents were returned in profit

By running this campaign, did the advertiser make money? YES with an 80% ROI

Now practice in the individual lesson PPT and remember that you can find the answers in the Full lesson PPT.

See you soon.

 PART B: LEARNING HOW TO CALCULATE TOTAL RATINGS USING REACH AND FREQUENCY