Building Scalable Online Marketing Strategies through ROAS

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Definitions and Channels

- SEO (Search Engine Optimization)
- PPC (Pay Per Click)
- Social Media
- Email Marketing
- Affiliate Marketing
- CPL (Cost Per Lead)
- CPA (Cost Per Action)
- CPM (Cost Per Mille)
- CPC (Cost Per Click)
- LTV (Lifetime Value)
- ROAS (Return on Ad Spend)

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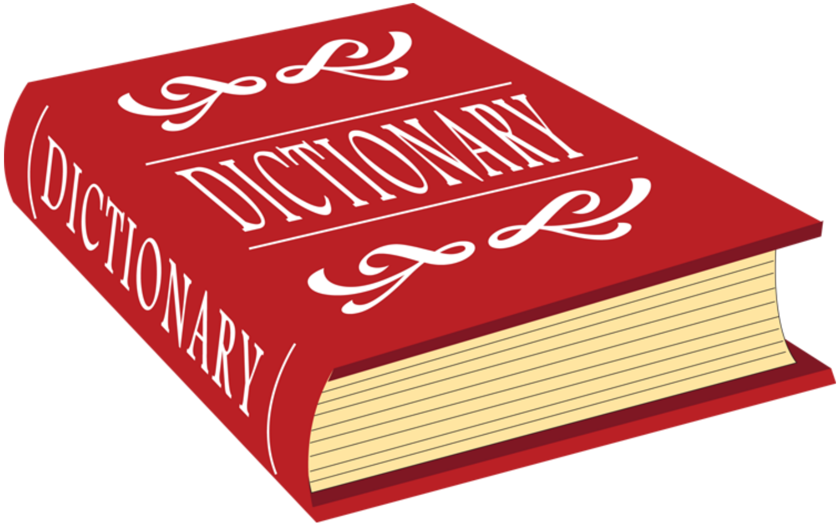
What is ROAS?
Calculating Return On Ad Spend

Definition: Return On Advertising Spend, (ROAS), is a marketing metric that measures the efficacy of a digital advertising campaign. ROAS helps businesses evaluate which methods are working and how they can improve future advertising efforts.



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Calculating ROAS

Gross Revenue from Ad campaign
ROAS = ___________________________

Cost of Ad Campaign
For example, a company spends $2,000 on an online advertising campaign in a single month. In this month, the campaign results in revenue of $10,000. Therefore, the ROAS is a ratio of 5 to 1 (or 500 percent) as $10,000 divided by $2,000 = $5.
Revenue: $10,000
______________________ ROAS = $5 OR 5:1

Cost: $2000

For every dollar that the company spends on its advertising campaign, it generates $5 worth of revenue.

Why Return On Ad Spend matters

ROAS is essential for evaluating the performance of ad campaigns and how they contribute to a business' bottom line. Combined with customer lifetime value, insights from ROAS across all campaigns inform future strategy, budgets, and overall marketing direction.

Don't forget these considerations when calculating ROAS

Advertising incurs more cost than just the listing fees. To calculate what it truly costs to run an advertising campaign, don't forget these factors:

Clicks and Impressions: The typical metrics such as average cost per click, the total number of clicks, the average cost per thousand impressions, and the number of impressions actually purchased.

Partner/Vendor costs: There are usually fees and commissions associated with partners and vendors that assist on the campaign or channel level. An accurate accounting of in-house advertising personnel expenses such as salary and other related costs must be considered. If these factors are not accurately quantified, ROAS will not be accurate and its usefulness as a metric will decline.

Affiliate Commission: The percent commission paid to affiliates, as well as network transaction fees.

What ROAS is considered good?

An acceptable ROAS is different for every business. It is influenced by profit margins, operating expenses, and the overall health of the business. While there's no "right" answer, a common ROAS benchmark is a 4:1 ratio — $4 revenue to $1 in ad spend. Cash-strapped start-ups may require higher margins, while online stores committed to growth can afford higher advertising costs.

Some businesses require an ROAS of 10:1 in order to stay profitable, and others can grow substantially at just 3:1. A business can only gauge its ROAS goal when it has a defined budget and firm handle on its profit margins. A large margin means that the business can survive a low ROAS; smaller margins are an indication the business must maintain low advertising costs.

ANY FINAL QUESTIONS?

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