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Calculating Marketing Investment Performance

Cost Per Lead* = (Total Ad Costs) / (# Leads Generated)

Total Ad Costs = Direct Ad Costs + Indirect Ad Costs
Direct Ad Costs = All Ad Fees + Design Costs + Tracking Costs + Agency Fees
Indirect Ad Costs = Administrative Overhead = ($/hr) x (# hrs)

Notes: You could leave out Indirect costs to make the math simpler, but more complex campaigns will cost you more. Over time you should definitely try to account for these costs so you can accurately compare simple and complex ad types.

* Do not confuse the 'cost per lead' amount that you may be paying to a vendor, or deriving from other direct marketing with your true (loaded) cost per lead, which includes your internal costs and therefore must be added to direct acquisition cost.

Cost Per Enrollment = (Total Ad Costs + Admissions Costs) / (# Enrollments)

Admissions Costs = (Admissions Costs Per Lead) x (# Leads)
Admissions Costs Per Lead = Print Costs + Postage + Email + Administrative Overhead

Notes: It is essential that you attempt to account for admissions costs so that you can quantify the difference between good leads and bad leads. Good quality leads require less time, effort and expense and tend to convert into enrollments at a higher rate than poor quality leads.

Cost Per Start = (Total Ad Costs + Admissions Costs) / (# Starts)

Notes: If you are realizing success in generating enrollments, but there is a drop-off to actual starts, then cost per start may be a more appropriate value to use than Cost per Enrollment

Marketing ROI = (Revenue – Marketing Cost) / Marketing Cost

Revenue Per Enrollment = Average revenue generated from all starts

Notes : This number can be very difficult to calculate as you need to account for your average retention rate and the associated revenue. You might want to classify enrollments into various categories (1 course, 2yr, 4yr, etc.) to get a more accurate sense of revenue potential.

Comparing Metrics:

- ROI is the most comprehensive of these metrics because it includes both revenue and costs, but can be difficult to calculate
- Cost Per Enrollment or Cost Per Start is a good way to compare multiple advertising options and to optimize around options that generate the lowest CPE.
- Cost Per Lead is easier to understand at the surface, but because it does not consider lead quality, it is less useful than Cost Per Enrollment.

Some Examples:

- In order to illustrate these three metrics we have created some examples using rough numbers.
- The numbers in these examples were chosen to show potential differences between the metrics, but not necessarily differences between the ad types.

Assumptions:

- Admissions/overhead costs for our fictional college average $50.00 per lead. This includes print, mailing, follow-up phone calls, etc.
- Enrollments generate an average of $20,000 in revenue each, after accounting for retention rate

Example 1 = Purchase 1,000 clicks @ 4.00 CPC on 20 terms on a paid search engine such as Google.

- It took 25 hours for a staff member to setup and monitor the campaign at a rough cost of $30 per hour ($750 setup)
- 20 new landing pages (built by marketing) and a form (built by admissions) were used to efficiently capture and convert the traffic
- The landing pages took 100 hours of time to build, including contractors, for an estimated cost of $7,500 (but since the plan is to generate 1,000 leads this year we will amortize that cost out, and attribute $750 to this campaign)
- The ad campaign generated 1,000 clicks, which converted into 100 leads and ultimately 3 enrollments (3.0% conversion)

Total Ad Costs = $750 setup + $750 landing pages + $4,000 ad costs = $5,500

Cost Per Lead- = $5,500 / 100 leads = $55.00/lead

Admissions Costs = $50 x 100 = $5,000

Cost Per Enrollment = ($5,500 + $5,000) / 3 = $3,500.00

Marketing ROI = ($20,000-$10,500) / $10,500 = 90%

Example 2 = Purchase 100 leads @ $40.00 CPL from a performance-based directory

Data:

- It took 8 hours for a staff member to setup and monitor the campaign at a rough cost of $30 per hour
- Campaign generated 3 enrollments (3.0% conversion)

Total Ad Costs = $240 setup + $4,000 lead costs = $4,250

Cost Per Lead = $4,250 / 100 leads = $42.50/lead

Admissions Costs = $50 x 100 = $5,000

Cost Per Enrollment = ($4,250 + $5,000) / 3 = $3,083.33

Marketing ROI = ($20,000-$9,250) / $9,250 = 116%

Reviewing These Examples:

- If you did not calculate hidden and indirect costs of each add type you might have come up with very different results. While these costs are often considered indirect, they are very 'real' and must be considered.
- Generating more leads is not necessarily better. Lower quality leads require more overhead and indirect costs, leading to higher overall costs per enrollment and lower ROI, even if the unit cost per lead was low.
- Lead conversion percent is not as valuable as cost per enrollment because it does not account for costs. In this example, both seem like comparable metrics, but cost per enrollment gives more insight into what is financially viable.
- For long-term planning, you need to be mindful of calculating marketing ROI and neglecting other institutional costs (which can be significant). You can either find a target marketing ROI that you need to EXCEED for a campaign to be feasible, or you can add other costs to find a true institutional ROI. This fictional college for example, may require a marketing ROI of at least 200% to cover other institutional costs. Other schools may only require a 'break-even' scenario due to other strategic factors.