Google Ads & Facebook Ads: The Metrics You Need to Scale

How to acquire customers online at a profit so that you can scale your business.

Presented by

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BrainStation®

So, why Paid Traffic?

Paid Traffic (PPC)

1. Drive demand quickly
2. Predictable
3. Very measureable
4. Investment in Ad Dollars
5. **Short term ROI**

vs.

Organic Traffic (SEO)

1. Drive demand slowly
2. Build trust & reciprocity
3. Also measurable
4. Investment in Time/Effort
5. **Long term ROI**

Paid Traffic (PPC)

vs.

Organic Traffic (SEO)

Predictable & Resilient Business

Paid Traffic (PPC)

Organic Traffic (SEO)

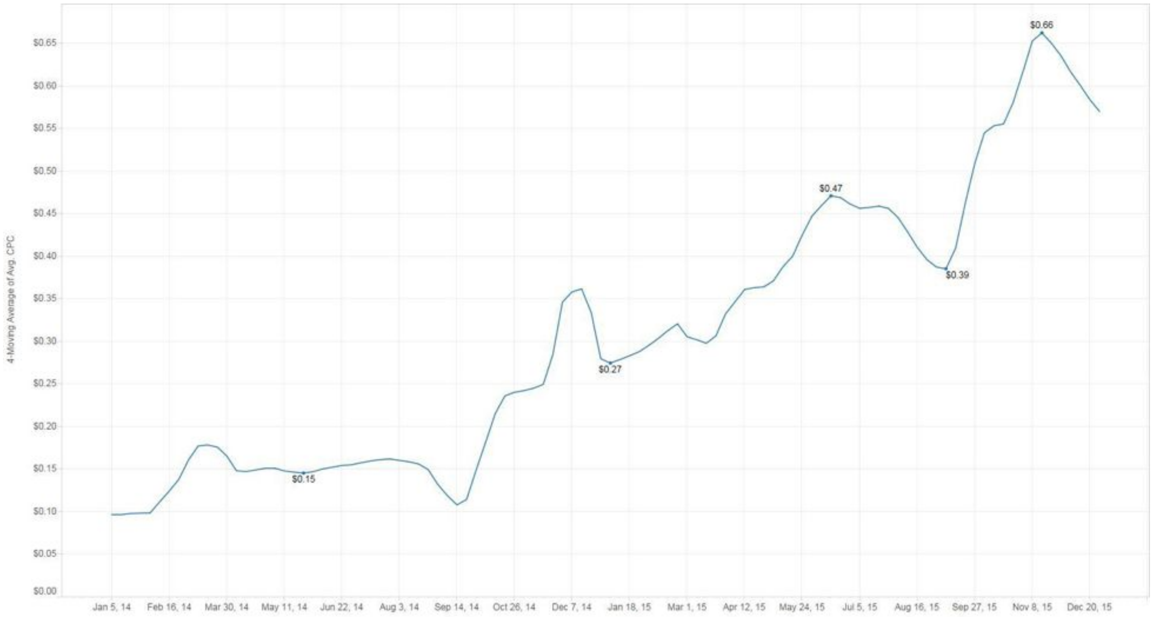
Cold Sales Outreach

Referral Marketing

+more

However...

Paid traffic (Pay-per-click) advertising gets more competitive and expensive each year



With rising costs and more competition

1. It’s more expensive than ever to acquire customers online
2. You <u>must</u> understand how your top-line affects your bottom-line
3. You need to know how much you can afford to pay to acquire customers
4. You need to hire someone that can demonstrate the ROI of campaigns
5. You can’t afford to make decisions based solely on “vanity metrics”

“Top line is <u>vanity</u>, bottom line is <u>sanity</u>, cash in bank is <u>reality</u>”

- **Vivek Chaand Sehgal**

So, what can you do about it?

Ways you can steady yourself

1. Make sure your data is accurate so that you trust it to make decisions
2. Analyze the right information at the right time (must be actionable)
    a. Long-term strategic vs. Short-term tactical
3. Never lose sight of the bottomline #'s
4. And figure out the following metrics so that you can scale confidently

The 3 Metrics You Need To Scale

Facebook Ads | Google Ads | + All Others

The 3 Metrics You Need to Scale

1. Avg Customer Lifetime Value (LTV)
2. Avg Customer Acquisition Cost (CAC)
3. Breakeven Return on Ad Spend (ROAS)
4. **+1 Bonus!**

Metric One

Avg Customer Lifetime Value

Calculating

Avg Customer Lifetime Value

Calculate within a 1 year window

E.g. Oct 1, 2021 - Sept 30, 2022

Avg Customer Lifetime Value = Avg Revenue Per Order x Avg 1 Year Frequency

Example 1 – Online Jewelry

E-Commerce

Avg Customer Lifetime Value	=	Avg Revenue Per Order	x	Avg 1 Year Frequency
$180		$120		1.5

Breaking things down

E-Commerce

Avg Revenue Per Order	=	Total Revenue	/	# of orders
Avg 1 Year Frequency	=	# of orders	/	# of customers

Why are these numbers so important?

There are only 3 ways to grow your business

1. Increase **new** sales
2. Increase sale **amount**
3. Increase sale **frequency**

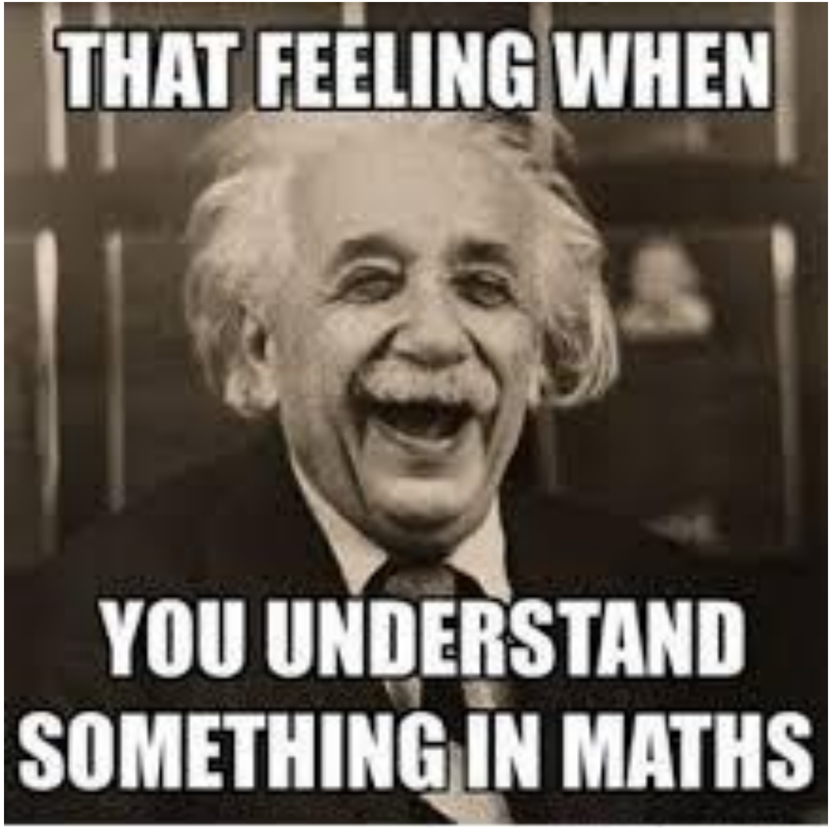
Now we know these!

And what they add up to

Example 2 – Consulting

Lead Gen

Avg Customer Lifetime Value	=	Avg Revenue Per Order	x	Avg 1 Year Frequency
$3000		$1000		3


THAT FEELING WHEN
YOU UNDERSTAND
SOMETHING IN MATHS

NOTE: If you're a startup, use a 90–Day LTV

- Cashflow is the lifeblood of a startup
- Startups often can't afford to wait 1+ years for an ROI
- Most strategic decisions are made in 90-day increments
  - (e.g. Quarterly Rocks)
- Recommended cash reserves for new businesses is >90 days vs. One year for more mature businesses

Metric Two

Avg Customer Acquisition Cost (CAC)

What is Avg CAC?

CAC can be calculated by simply dividing all the costs spent on acquiring more customers (total marketing expenses) by the number of customers acquired in the period the money was spent.

Calculating

2. Avg Customer Acquisition Cost (CAC)

Calculate within a 1 year window

E.g. Oct 1, 2021 - Sept 30, 2022

Avg Customer Acquisition Cost = Marketing & Sales Costs / # of customers

Example 1

Ecommerce

Avg Customer Acquisition Cost	=	Marketing & Sales Costs	/	# of new customers
$60		$18000		300

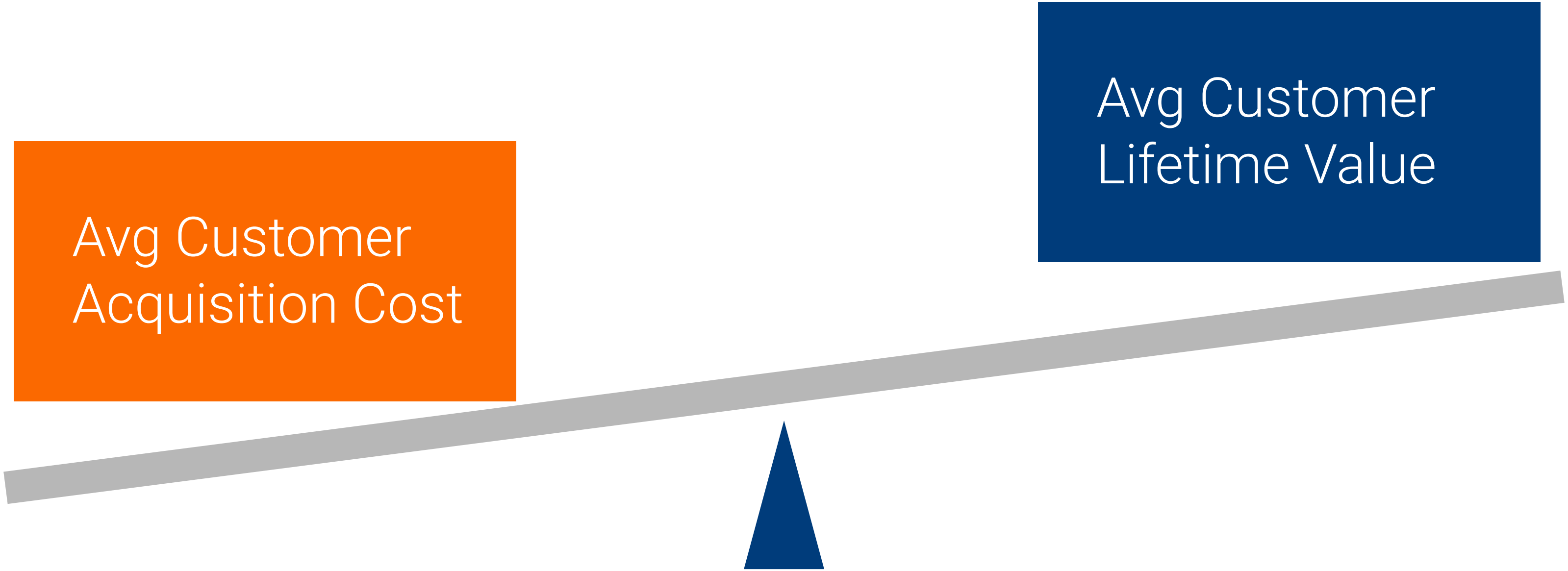
Example 2

Lead Gen

Avg Customer Acquisition Cost	=	Marketing & Sales Costs	/	# of new customers
$3000		$18000		6

Balancing LTV:CAC

What's a good ratio?



Balancing LTV:CAC

What's a good ratio?

"**An ideal LTV:CAC ratio should be 3:1.** The value of a customer should be three times more than the cost of acquiring them. If the ratio is close to 1:1, you are spending too much. If it's 5:1, you are spending too little. In fact, you are probably missing out on business."

- **Klipfolio (source)**

LTV : CAC Ratio

Example 1 - Ecommerce

Avg Customer Lifetime Value	:	Avg Customer Acquisition Cost
$180		$60

3:1 in one year

Good!

LTV : CAC Ratio

Example 2 - Lead Gen

Avg Customer Lifetime Value	:	Avg Customer Acquisition Cost
$3000		$3000

1:1 in one year

Not so good

“If your LTV is less than 3:1 of your CAC, you won’t be able to scale quickly without outside investment”

- **Warren Thompson**

LTV & CAC are essential, but they are longer-term strategic metrics…

Also known as “lagging indicators”

But how do you know what’s working in the short term? That’s where you need “leading indicators”

Metric Three

Breakeven Return on Ad Spend (ROAS)

What is Breakeven ROAS?

Your Breakeven ROAS is the percentage return that you need to achieve with your advertising in order to not lose money.

Calculating

3. Breakeven Return on Ad Spend (ROAS)

First, how to calculate ROAS

Return on Ad Spend (ROAS) = Revenue / Ad Spend

x100 to display as a %

Calculate Frequently

Daily, Weekly, Monthly, Quarterly, etc.

Return on Ad Spend (ROAS)		=	Revenue	/	Ad Spend
4.5	450%		$27000		$6000

x100 to display as a %

Now, what about “Breakeven” ROAS?

Breakeven ROAS = 1 / Net Margin

x100 to display as a %

Now, what about "Breakeven" ROAS?

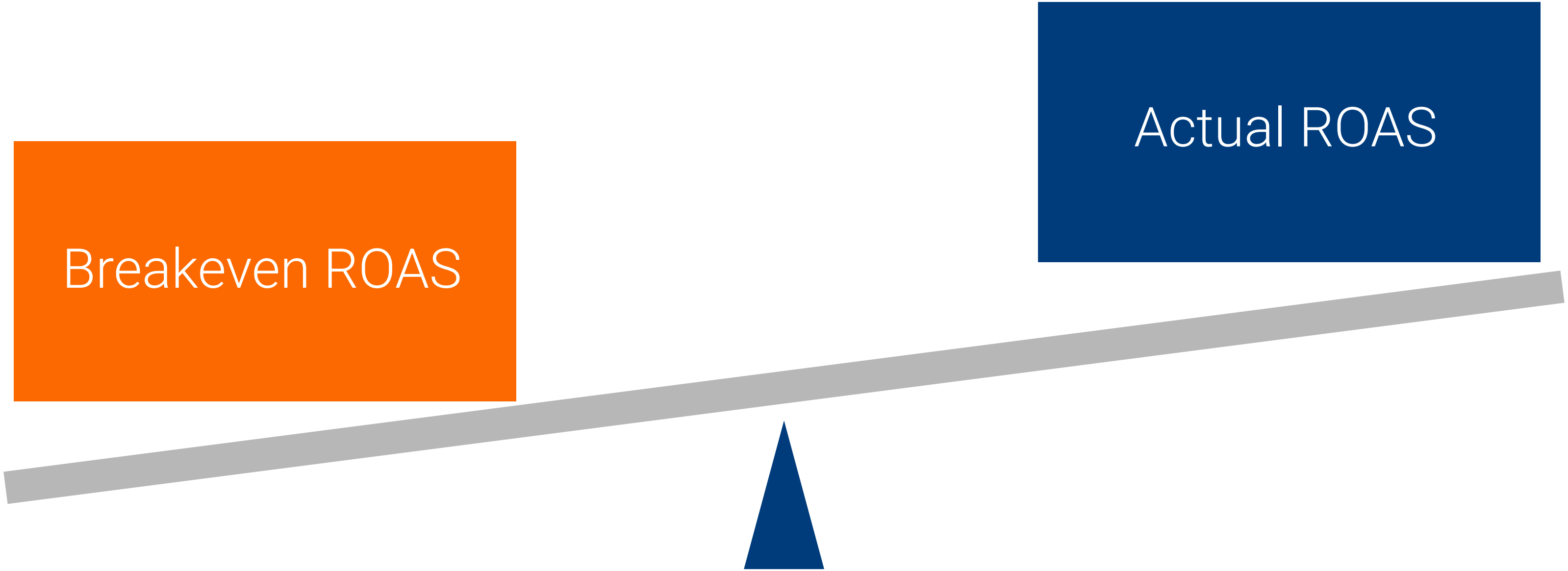
Example - Ecommerce

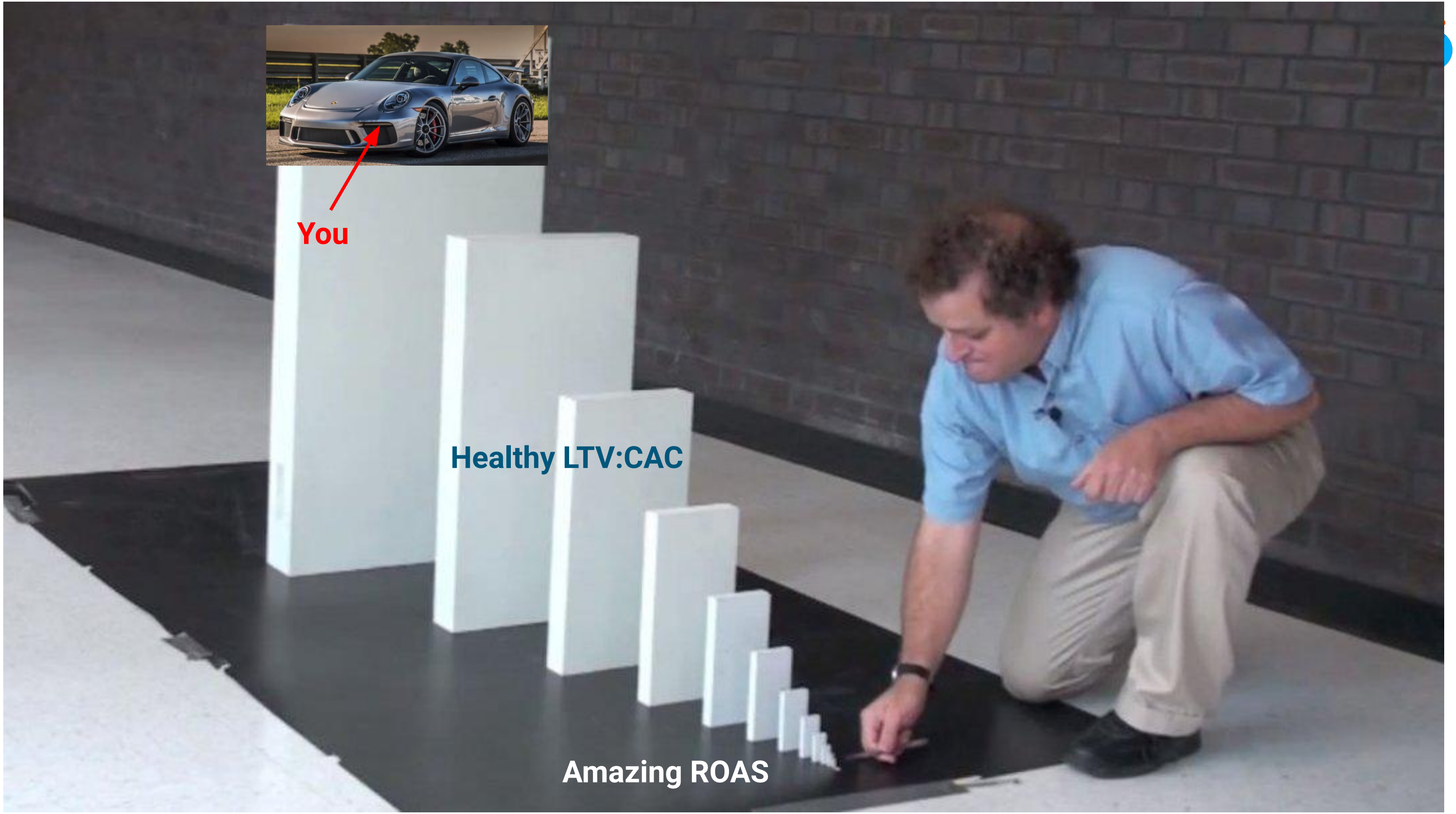
Breakeven ROAS	=	1	/	Net Margin
4 | 400%		Literally just "1"		.25 | 25%

x100 to display as a %

Balancing ROAS

Keep actual ROAS above breakeven
and the rest is gravy





You
Healthy LTV:CAC
Amazing ROAS

BONUS!

BONUS!

Target Cost-per-lead

Target Cost-per-lead (CPL)

If your business' primarily marketing function is lead generation, then you can still use ROAS as long as you assign values to your goal conversions. However, in many cases it's easier to choose a Target Cost-Per-Lead (CPL). To do that, you'll need to first know your **Average Value Per Lead (VPL)**

Calculating

Avg Value-Per-Lead (VPL)

Example

Lead Gen

Leads	>	Prospects	>	Customers
10		2		1
		20% Qual. Rate		50% Close Rate

Example

Lead Gen

Avg Customer Lifetime Value (Net Profit 33.3%)	x	Avg Close Rate %	x	Avg Qualification Rate %	=	Avg Value Per Lead (CPL)
$3000	x	50%	x	20%	=	$300
9000 x .33 = $3000		3000 x 0.5 = $1500		1500 x 0.2 = $300		

VPL : CPL Ratio

Lead Gen

Avg Value Per Lead	:	Avg Cost Per Lead
$300		~$150

VPL > CPL = 👍

Bringing it all together

Zooming in & out

Zooming in and out

By zooming out to look at your avg **LTV** and **CAC**, and then zooming in to see your **ROAS** and **Target CPL**, you will have a long and short-term view of the health of your business.

This level of understanding will help you make quick tactical decisions, as well as planning ahead for longer-term strategic initiatives.

Another way to zoom: Segmentation

Segmentation

Also, each of the metrics the we discuss today can be segmented by the following groupings to better understand and optimize your marketing:

- Marketing channel
- Audience attributes
- Purchase behaviour
- Campaigns, Ad Groups, Keywords, etc.

Bringing it all together

To Conclude

The Metrics You Need to Scale

1. Avg Customer Lifetime Value (LTV)
2. Avg Customer Acquisition Cost (CAC)
3. Breakeven Return on Ad Spend (ROAS)
4. **Bonus:** Target Cost-Per-Lead (CPL)

Pearls of Wisdom

- Always zoom in & out to see the big picture AND the details
- Every KPI has a BFF! View KPIs in pairs to understand context
    - (e.g. # of Unique Visitors <> Conversion Rate)
- Make sure that you measure correctly or you won't be able to trust your data to make important decisions when it counts.

Bonus Resources!

Facebook & Google Funnel Calculators

Google & Facebook Ads Calculators

Get access to the same **Lead Gen & Ecomm Funnel Calculators** that we use at Ollo Metrics so that you can know exactly how much to pay for each click to scale your campaigns profitably!

Lead Gen Funnel Calculator

1	Ads	Monthly Ad Spend	$15,000	Enter Monthly Advertising Budget
		Number of months	1	Enter # of Months the Campaign Will Run
		Total Ad Spend	$15,000	Monthly Ad Spend x # of Months
		Avg. Cost per Click (CPC)	$2.00	Enter Avg. CPC
		# of Clicks/Visits	7500	Ad Spend / Avg. CPC
	Website	Website Conversion Rate	4.00%	What % of Website Visitors Convert?
		# of Leads (Conversions)	300	Clicks x Website Conv. Rate
		Cost per Lead	$50.00	Ad Spend / # of Leads
	Sales Funnel	Qualification Rate	20%	What % of Leads are Qualified?
		# of Qualified Leads	60	# of Conversions x Qualification rate
		Close Rate	50%	What % of Qualified Leads do you Close?
		# of Customers	30	# of Qualified leads x Close rate
		Average customer $ Value	$5,000	Insert value
		Total Revenue	$150,000	Average Customer Value x # of Customers
	ROAS	Gross Margin %	20%	Retail Price / COGS
		Gross Profit	$30,000	Revenue * Gross Margin %
		Breakeven Return on Ad Spend	500%	1/Gross Margin

Ecomm Funnel Calculator

2	Ads	Monthly Ad Spend	$6,000	Enter Monthly Advertising Budget
		Number of months	1	Enter # of Months the Campaign Will Run
		Total Ad Spend	$6,000	Monthly Ad Spend x # of Months
		Avg. Cost per Click (CPC)	$1.50	Cost per click paid to Google
		# of Clicks/Visits	4,000	Ad Spend / Cost-per-click
	Website	Website Conversion Rate	2.5%	Website Conversion
		New Customer Transactions	100	Total Number of Orders Online
		Avg Order Value (AOV)	$225	Average $ Spend per Transaction
		Total Revenue	$22,500	# of customers x Avg. Sale Amount
	ROAS	Gross Margin %	40%	Retail Price / COGS
		Gross Profit	$9,000	Revenue x Gross Margin
		Breakeven Return on Ad Spend	250%	1/Gross Margin
		Return on Ad Spend	375%	% Return on Ad Spend (ROAS)
	Overhead	Monthly Agency or Mktg Team Cost	$3,500	Internal Marketing Team or Agency Fee per Month
		Total Advertising Cost	$9,500	Ad Spend + Total Management Fee
	ROI (Initial)	Total Profit Dollars	-$500	After Management Fees
		ROI (Initial Transaction)	-8%	Return on Investment

2x Free Resources!

https://bit.ly/funnel-calculators

Thank you!

Questions?

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