

# Why CPL and ROI are the Most Important Metrics and How to Calculate Them



# Contents

<b>Introduction</b>	<b>3</b>
<b>What is CPL (Cost Per Lead)?</b>	<b>4</b>
<b>What is ROI (Return on Investment)?</b>	<b>5</b>
<b>How to Calculate Cost Per Lead (CPL)</b>	<b>6</b>
<b>How to Calculate Return on Investment (ROI)</b>	<b>7</b>
<b>What Should You Do with These Numbers?</b>	<b>9</b>
<b>Calculating Customer Lifetime Value (CLV)</b>	<b>10</b>
<b>Calculating the Average Profit Per Customer</b>	<b>11</b>
<b>Determining How Much You Can Afford Per New Lead (Your Max)</b>	<b>12</b>
<b>How to Improve Your ROI and CPL</b>	<b>13</b>
<b>Improve Your CPL and ROI Using AI</b>	<b>14</b>

## You're trying to get buy-in from the C-suite to approve your marketing budget. But they're not going to budge on a proposal to increase marketing spend if they don't see the benefit.

In business, if you're not getting a positive return on investment (ROI) from a project, then it's simply seen as an expense, and therefore not a solid investment in the future of the business. And usually, the leadership responsible for approving marketing proposals won't understand the value of your proposal unless you're able to somehow show them.

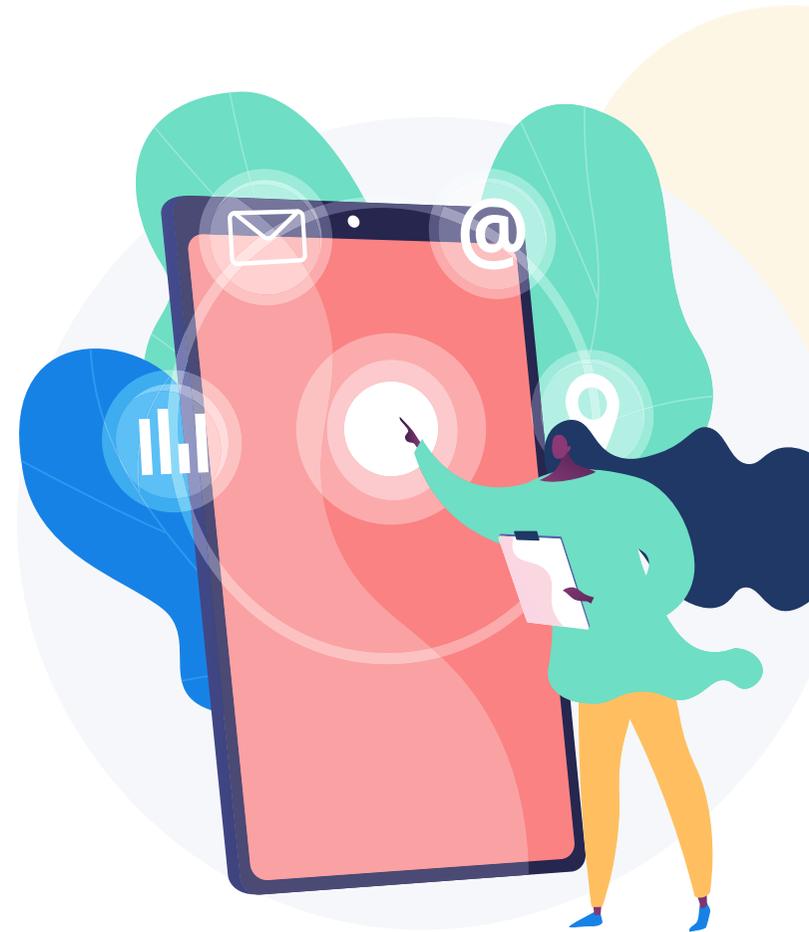
So what do you do?

You show them the metrics that matter: cost per lead (CPL) and return on investment (ROI).

Too often, marketers make the mistake of focusing on vanity metrics, such as traffic, engagement, and views. These mean nothing (especially to the C-suite) if they're not converting into dollars spent and dollars earned.

If you can prove your marketing campaigns are delivering a reasonable return, without spending too much per lead, you'll find it much easier to plead your case and get the marketing budget you need to move the business forward.

But why are CPL and ROI such valuable metrics? How do you accurately calculate CPL and ROI? And how do you effectively use (and improve) these metrics to help you get the most out of your marketing campaigns? Let's take a closer look.



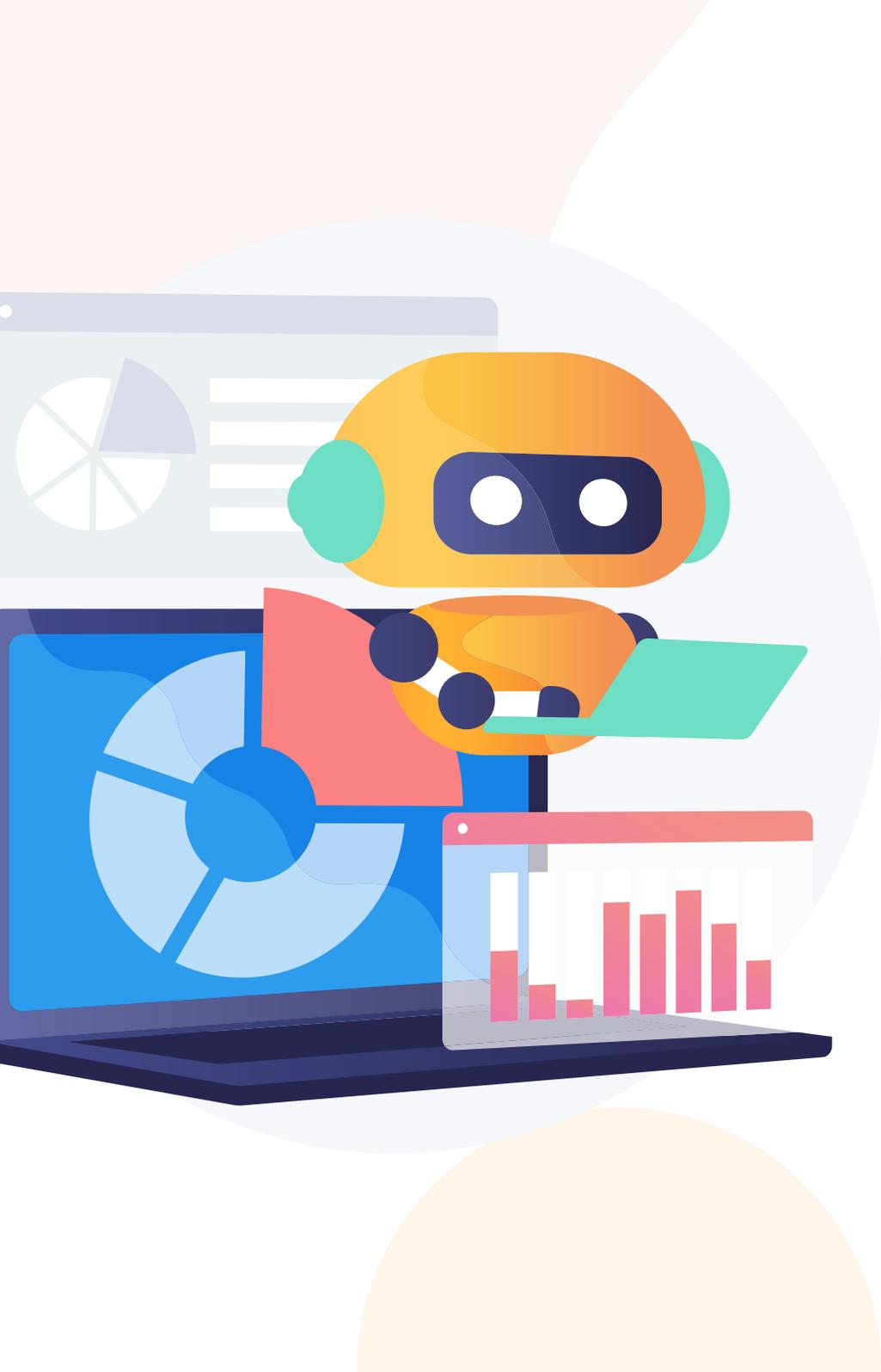
# What is CPL (Cost Per Lead)?

Your goal as a marketer is to attract new customers in a cost-efficient manner. If you're spending \$50 to acquire a lead that's only worth \$25, you're not getting a positive return on your marketing spend.

The cost per lead is the amount of money you spend to acquire each new prospect, and CPL is used to determine the effectiveness of your ad and content marketing campaigns.

By understanding your cost per lead, you are empowered to make better decisions to improve your marketing strategies. Maybe you'll discover the channels or methods you're using are over-priced and yield little to no results? With this data, you can find better places and ways to market to your target customers without burning through your budget for a small return.





# What is ROI (Return on Investment)?

Marketing campaigns aren't a success unless they're getting a positive return on investment (ROI). It's essentially a way of measuring performance, by evaluating the profit versus the cost of a project over time.

It's important to keep track of the ROI of every campaign you launch, and to make adjustments as necessary, to ensure your efforts are growing the company's bottom line.

For every project or campaign, you want to see a higher return than the investment made.

Now, let's take a closer look at how to approach calculating CPL and ROI.

# How to Calculate Cost Per Lead (CPL)

Calculating cost per lead will help accomplish two things:

- Determine whether or not you're overspending
- Identify your target CPL and then align it with your business goals

Once you know your average cost per lead, you can create goals that are realistic and attainable. A clear CPL target also enables you to determine what you're willing to spend to reach your business goals.

This will impact the way you approach your marketing efforts and where to spend your dollars. For instance, you'll use a different strategy for doubling your annual revenue than you would if you're just looking to maximize profits.

Some companies may use industry benchmarks to set their CPL budget.

Sure, this can give you perspective on CPL averages, which you can take into consideration when creating a marketing budget. However, it's vital to develop your target CPL around your specific business and its goals.

Here's a simple formula for calculating cost per lead (CPL) for a particular marketing campaign:

1. Add up the campaign's total marketing spend
2. Add up all of the new leads acquired
3. Divide the total marketing spend by the number of new leads

**(Total marketing spend / new leads = cost per lead)**

For example, let's say your total marketing spend per month is \$3,000, and each month your efforts generate about 70 new leads. This equates to roughly \$43 per lead.

From here, you can determine whether or not your CPL is reasonable or needs adjusting. We'll touch on that next. But first, let's review the calculation for ROI.

# How to Calculate Return on Investment (ROI)

Creating a budget for marketing is dependent upon the return on investment it generates. The better the ROI, the higher your budget can be.

If you want to prevent certain campaigns from being abandoned, then you need to keep a close eye on ROI. This way, you have a chance to improve the results so that it justifies your budget requests for marketing spend.

So how do you go about calculating your ROI?

It depends on the marketing strategy you're using. For instance, to calculate the ROI of your content marketing efforts, add up the total cost of planning, developing and promoting the content you create. Next, identify how many leads were generated from readers engaging with the content.

Or, if you're trying to determine the ROI of an ad campaign, look at the numbers. How much do you spend per click, and how many clicks do you get per month? Then how many leads from clicks convert into customers?

It's a lot easier to calculate the ROI of marketing campaigns by using tools like Google Analytics. Knowing where leads come from is critical when trying to calculate the ROI of your content marketing efforts.

Within Google Analytics, you can discover the pages where leads come from to validate your content's success.

Then when it comes time to crunch numbers, you'll need to:

1. Calculate the cost for content production (images, blogs, social, videos, outsourced work, etc.)
2. Calculate the cost to distribute content (paid promotions like PPC and software used for content creation)
3. Calculate sales that stem directly from your content (CTA clicks/signups that lead to a sale)

## Here's the formula:

The return minus your investment, divided by your investment, multiplied by 100, equals your content marketing ROI.

**(Sales growth - marketing cost / marketing cost x 100 = ROI)**

Let's say you spent \$1,000 on a piece of content that generated \$4,000 in leads. Here's how it would look:

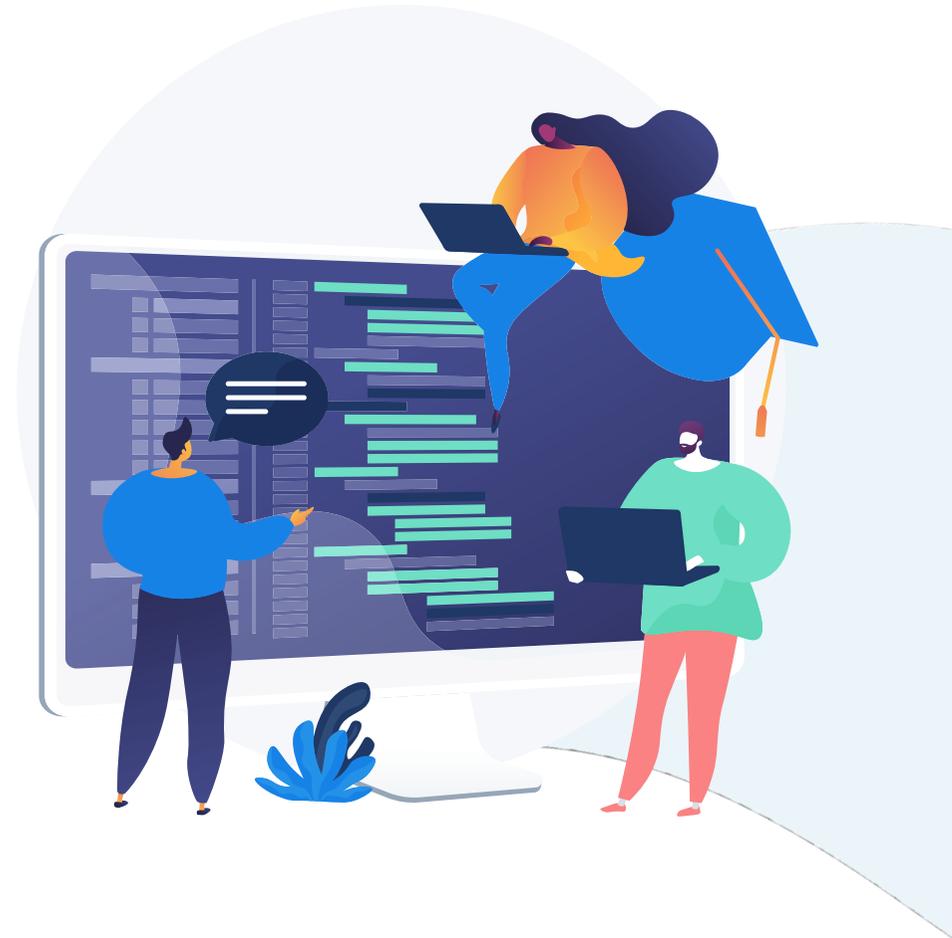
$\$4,000 - \$1,000 = \$3,000$

$\$3,000 / \$1,000 = 3$

$3 \times 100 = 300\%$  (ROI)

So your ROI is 300% — not bad at all.

If you're nowhere near seeing an ROI like this, don't worry. There are methods you can use to improve your ROI and CPL. But before we dive into that, let's take a look at what to do with all these metrics.



# What Should You Do with These Numbers?

Knowing your CPL and ROI metrics enables you to make better decisions for your marketing campaigns.

Start by comparing your content marketing ROI to the ROI of other marketing tactics. Are they higher or lower?

If you see your content plan is outperforming other methods, then you're on the right track. If not, find out why. It may be due to the topics, keywords or promotion strategy.

For example, you may find removing pay-per-click (PPC) ads and adding social media marketing helps lower your expenses and boosts your traffic. This can lead to a higher conversion rate (and ROI).

For CPL, the first step is to confirm whether the CPL you've calculated is within your budget. But how do you know what you can afford to spend on a new lead?

To figure this out, you need to calculate your customer lifetime value (CLV).

In e-commerce, this is typically a one-time deal — a customer purchases your product and they're gone. In this case, the CLV is easy to calculate, as it's simply the total price of their single purchase.

However, if you're offering a subscription-based product, then the CLV increases based on how long customers continue their relationship with you.

In these cases, it's necessary to determine the average profit per customer. To do this, you need to calculate how much it costs to take care of a customer for the duration they remain a customer with you. This helps you to determine your actual profit margin.

Knowing these two numbers (customer lifetime value and average profit per customer) gives you a clearer picture of how much you can **afford** to spend on a new lead. This number represents the maximum limit you can afford, but that doesn't mean you can't spend more than this number. Review your business goals to determine what you **want** to spend per lead, and then continue to calculate your ROI, monitor your progress and make adjustments to your campaigns as needed.

Let's break down the process.

# Calculating Customer Lifetime Value (CLV)

Here's the formula for calculating CLV:

Divide your average monthly revenue per customer by your churn rate, and the result is your customer lifetime value. Then multiply the result by 100 to get your percentage.

**(Average monthly revenue per customer / churn rate x 100 = CLV)**

To figure out your churn rate, you add up your number of customers for the month and subtract those who retained their subscriptions. Then you divide that by the number of total customers.

**(Number of customers for the month - retained subscriptions / number of customers for the month = churn rate)**

Let's say you're getting \$50,000 monthly from 1,000 customers (\$50 per month per customer) and have a retention rate of 950 customers. Your churn rate is:

$$1000 - 950 = 50$$

$$50 / 1000 = 0.05$$

Now, plug your churn rate into the CLV formula:

$$\$50 / 0.05 = \$1,000$$

Your CLV is \$1,000.



# Calculating the Average Profit Per Customer

Next, it's time to calculate the average profit per customer. To determine this, look at the cost of taking care of new customers until they churn.

Here's the formula:

**CLV - (average monthly costs per customers / churn rate) = average profit per customer**

Let's say you spend \$5/month per customer and another \$30/customer in overhead expenses for rent, utilities, and so on.

Now, if your CLV for new customers is \$1,000 and it costs \$35/month to take care of them, plus your overhead costs, then calculating profit per customer would look like this:

$$\$1,000 - (\$35 / 0.05) = \$300$$

Your average profit per customer is \$300.



# Determining How Much You Can Afford Per New Lead (Your Max)

Unfortunately, not every lead becomes a customer. So when you're identifying how much you can afford to spend per lead, you need to take this into account.

The good news is there's a formula to help you along:

**Average profit per customer x (monthly sales closed / monthly leads) = maximum cost per lead**

If you're getting 500 leads per month and close 50, then the max you can afford to spend is \$30 per lead.

$$\$300 \times (50 / 500) = \$30$$

Spend any more than this per lead and you're losing money.

As for determining your actual CPL rate, you need to go over your business goals. For example, if you're looking to grow your customers, then you may not mind a higher CPL (and thinner margin). However, if your focus is on revenue growth, then you want to get your CPL as low as possible.



# How to Improve Your ROI and CPL

Now, there are several ways you can improve your ROI and CPL numbers. And they all have to do with enhancing your content.

What separates marketing from sales is the tactics they use to drive results. Salespeople try to convince you of what you need, while marketers help guide your decision.

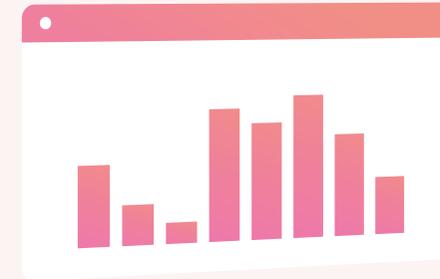
The key is to hone in on your target audience. Who are they? What are their pain points? What solutions do you offer that can help them?

By thoroughly understanding your audience, it's easier to convince leads they need to convert. And it's a lot simpler to pull off when you're speaking their language.

This is where artificial intelligence (AI) in content marketing becomes a valuable tool to explore.

AI tools like Atomic Reach help you to enhance your content so it resonates with your audience. It works by analyzing your text and suggesting the best words to use to connect with readers on an emotional level.

It does this for various segments and customer personas. Plus, it makes its recommendations based on the distribution channels you're using.



The software understands how language correlates with customer behavior. So by implementing certain words and phrases into your content, you're able to promote action that leads to conversions.

Combining the power of AI tools, like Atomic Reach, with relevant, helpful, high-quality content drives more traffic and conversions. On top of that, marketing using content that converts reduces your CPL, because, unlike with pay-per-click ads, you only pay for the creation of the content once, yet it continues to produce leads for as long as the content is live.

# Improve Your CPL and ROI Using AI

Marketing technology (MarTech) is taking over the marketing industry. Savvy business owners and marketers are already using AI to bolster their marketing efforts.

So why not do the same in your company?

If you're serious about taking your content marketing to the next level, you need the right tools to make that happen.

We can help you put a system in place to ensure your goals are met with Atomic Reach.

Reach out today to book a **free demo**.





**atomic reach**

**[www.atomicreach.com](http://www.atomicreach.com)**