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Demystifying Digital Marketing: Using Metrics to Assess Effectiveness

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These are fast-changing times for auto dealers, as various forms of digital technology fundamentally have transformed the way many customers shop for cars. As a result, dealers must transform the way they reach out to and attract those customers – and deal with a whole new array of marketing tools, terms, metrics, and strategies.

In the midst of all this change, relatively flat new-car sales trends and manufacturer price pressures are driving many dealers to undertake a major shift in emphasis toward greater reliance on pre-owned vehicle sales. This inevitably means a shift in their marketing strategies and advertising budgets as well.

This evolving marketing landscape makes it tempting to simply defer oversight of the digital marketing effort to the business development manager (BDM), internet manager, or marketing department. But successful dealers and CFOs will want to take a more active role in making sure their companies' resources are being deployed in a way that gets the most bang for the buck.

In spite of the unfamiliar jargon and confusing metrics that often are associated with search engine, social media, and online marketing programs, digital marketing technology offers some useful tools to help executives evaluate their effectiveness.

Making sense of the metrics

Unfamiliar terms such as "conversion rate" and "impression share" can generate a certain amount of confusion. Part of the problem is simply the newness of digital marketing and the speed with which it has grown. Even large dealerships have been actively using digital media for only a few years now, and as recently as 2016 the majority of dealers' advertising budgets still were devoted to traditional print and broadcast media.

All that has changed quickly, however. In 2017, the National Automobile Dealers Association reported for the first time that internet advertising accounted for more than 50% of dealers' advertising spend.[1] According to another recent study, 86% of car shoppers do at least some online research before visiting a dealership.[2]

Today a dealership's online presence is its virtual front door. How customers arrive at that front door – and how much it costs to bring them there – are fundamental metrics that today's management teams must understand.

Cost per conversion

Vendors of digital marketing services employ dozens of specialized metrics to track their effectiveness, but the most basic measurement most CFOs want to understand is cost per conversion (that is, cost per lead) or cost per opportunity. In other words, how much does it cost to attract an online viewer who is willing to take an active buying step, such as submitting an online information request or making a call to the dealership?

Beyond the overall cost per lead, it's important to understand the cost per lead by each online channel such as search engine, social media, display advertising, and online video. For example, one benchmark reported by Wordstream, a leading search engine marketing software company, found the average cost per action (comparable to the cost per lead) in the auto industry was $33.52 using Google Search Network advertising and $23.68 on the Google Display Network.[3]

Bear in mind that search advertising and display advertising perform somewhat different functions in the sales cycle, so direct cost comparisons tell only part of the story. Yet benchmark information such as this is useful in determining which channels are driving lead or conversion costs down and which are driving them up. It's also important to track these numbers at each individual franchise or location over time, so when the numbers start moving in the wrong direction the BDM or other executive can take appropriate action.

Volume of leads

The total volume of leads is another important figure dealers must consider to determine if they are getting viable scale. Volume of leads typically is determined by tracking the impression share – that is, the number of times an ad was in focus in viewers' web browsers for more than two seconds. A dealer launching a new digital campaign in a large urban or suburban market generally should expect to achieve total impressions in the six-figure range within a few days of launch. Reaching this benchmark could take longer in smaller markets.

Conversion rate

A third critical metric is the conversion rate – the percentage of site visitors who actually take an active buying step and become a bona fide lead. According to Wordstream, the average conversion rate across all industries is 3.75% for Google Search and 0.77% for Google Display. The good news is that the auto industry significantly outperforms other industries, with an average conversion rate of 6.03% for Search and 1.19% for Display.[4] Display campaigns generally are more effective at driving awareness rather than generating leads or conversions.

Tracking the basic metrics is useful, but the real value comes from evaluating the numbers and understanding what's driving them. For example, a lagging conversion rate could be a sign of pricing issues or a program and product offering that is not aligned with the target audience.

Conversely, if a digital campaign is generating both a high volume of leads and a strong conversion rate, it's important to dig deeper and learn how many of those viable leads are turned into actual sales. If the sales team is understaffed or unprepared for a boost in volume, it can become overwhelmed and start to cherry-pick which leads get worked. When that happens, sales revenues can stay flat, regardless of how effective the digital marketing effort has been.

Accessing timely, accurate data

Whoever works with the various digital media vendors – whether it's the BDM, internet director, marketing director, or someone else – should have a deep enough understanding of digital marketing to be able to look beyond the standard reports most vendors provide. Most dealerships should expect to receive customized reports from vendors on a timely basis. Weekly reporting is a good minimum standard; in many instances, even more frequent reporting is warranted.

It's especially important that dealerships perform their own offline conversion match or "matchback" to determine which online source was the "last touch" that actually led to a prospective customer's buying action. Dealers should be aware that third-party websites sometimes present competing claims for the same lead. But major digital vendors such as Google and Facebook offer tools that let dealers track this information and link it to their own customer data.

Marketing executives should be willing to push back and ask vendors challenging questions when appropriate. Furthermore, while owners, CEOs, and CFOs do not necessarily need to understand all the fine points of digital marketing, they should be able to ask their marketing executives insightful questions regarding issues such as conversions and expanding total impressions.

Industry benchmarks provide a good starting point for static analysis, but it's essential that a dealership be able to track changes in its own digital marketing performance over time. If such an effort is not yet underway it should be launched as soon as possible.

Why it matters more now

The need for accurately tracking digital marketing effectiveness is taking on additional urgency as the industry shifts toward greater emphasis on pre-owned vehicles. New-car sales always received the lion's share of advertising budgets, so most dealers will not have as much digital marketing data for used cars as they do for new cars. That makes it doubly important to start capturing that data now.

Over the years dealers generally relied on tier one manufacturers to do most of the work in creating brand awareness through national media buys and other large-scale campaigns. Dealers – and to some extent dealer groups – generally focused on the later stages of the buying cycle such as the consideration phase (where customers begin considering specific models, styles, and dealerships) and the conversion phase (where customers' interests are converted to leads – and eventually to actual sales).

With today's growing emphasis on used vehicles, dealers should be prepared to shift some of their resources back to the earlier phases of the sales cycle, generating awareness of their dealership brand. Social media generally has proved to be more effective at building awareness, so the changing dealership business model is likely to mean changes in digital marketing strategy as well.

Dealers also need to recognize that they now will be competing with a larger pool of rivals ranging from small, independent used car outlets to major national pre-owned dealership chains. Furthermore, because purchasers of pre-owned vehicles typically are willing to travel farther in pursuit of a specific vehicle, dealers also will need to re-evaluate the geographic focus of their marketing.

Similarly, it's likely that some savvy dealers could begin to shift marketing resources toward their repair and maintenance services. Even though they are a steady, reliable source of revenue, fixed operations usually receive only a small share of the advertising budget. Digital marketing – including social media community management with recommendations from satisfied customers – could help change that.

A solid understanding of digital marketing becomes even more important when all these various near-term trends are viewed in the context of the longer-term, generational shifts that are underway. The advent of the millennial generation, with its increased price sensitivity and much greater comfort with digital and mobile technology, means the impact of digital marketing will continue to grow over the years to come.

Learn more

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4 Ibid.

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