

Uncovering the Web Profitability Equation™ to Surge Your Website's Performance

Performance improvement is on every website marketers' agenda - but how do you achieve it? Whether it is performance related to building your brand, generating more sales or leads or increasing subscriptions, website marketers demand greater returns from their business initiatives.

Today more than ever, stakeholders ranging from Wall Street, to Boards, to private investors demand higher and quicker returns on their investments. The question though is how?

The "Web Profitability Equation" provides the structure to answer "how" for your website. The Web Profitability Equation is simply calculated as:

$$\text{Advertising Traffic}^{(\text{quality})} \times \text{Website}^{(\text{conversion rate})} = \text{Profitability}$$

All online marketing strategies flow through this equation. Unfortunately a majority of marketers spend their time on the left-side of the equation and pursue strategies to generate more and more advertising traffic to their websites.

Certainly this approach generates a level of results just as a business closing more sales generates greater revenue. However, just like a business, more sales don't equal more profits if the operational costs consume all of the sales proceeds. Likewise, more advertising traffic to your website may generate incremental sales but if your website doesn't "convert" the traffic, a greater number of your visitors abandon your website as an operational expense.

In his national bestseller, "Why We Buy - The Science of Shopping", author Paco Underhill pinpoints the essence of the Web Profitability Equation while discussing his findings in a traditional retail setting. He states,

Marketing, advertising, promotion and location can bring shoppers in, but then it's the job of merchandise, the employees and the store itself to turn them into buyers.

Your website or custom-developed "landing pages" is an essential strategic element to your website's success. It is as important as the type of advertising you perform and deserves an equal level of attention and commitment. Your website's ability to "turn" visitors into prospects and customers (a process called "conversion") enables you to achieve results. As Paco Underhill continues to explain,

Conversion rate measures what you make of what you have - it shows how well (or how poorly) the entire enterprise is functioning where it counts most: in the store.

By focusing your attention on converting greater numbers of visitors, your website becomes more "operationally efficient". And as with a traditional business, a \$1 gain in sales only delivers a percentage increase to your bottom line profits while a \$1 gain in operational efficiency delivers a full \$1 addition to your bottom line profits.

However, as the Web Profitability Equation shows, a balance has to exist between quality advertising traffic and website conversion. Too much attention especially advertising hinders the other. Ideally, by optimizing both sides of the equation, you reach the highest levels of profitability.

Let me demonstrate this further through examples. Let's assume that you have \$5,000 to spend on advertising. In Example A. you focus on your advertising strategies and reduce your costs to \$0.50 per visitor through shrewd management of your paid search campaigns. In example B. you spend the same amount on advertising but pay attention to only increasing your website's conversion rate. It achieves solid financial results but at a greater expense than Example C. where you focus on shrewd paid search management AND increasing your website's conversion rate.

Which one would you choose?

	<u>EXAMPLE A.</u> Focus on Advertising	<u>EXAMPLE B.</u> Focus on Conversion	<u>EXAMPLE C.</u> Focus on Both Sides
Advertising Cost	\$5,000.00	\$5,000.00	\$5,000.00
Cost per Visitor	\$0.50	\$1.00	\$0.50
Number of Visitors	10,000	5,000	10,000
Website Conversion	0.5%	3.0%	3.0%
Number of Sales	50	150	300
Average Sale Price	\$50	\$50	\$50
Revenue	\$2,500.00	\$7,500.00	\$15,000
Profit	<u>-\$2,500.00</u>	<u>\$2,500.00</u>	<u>\$10,000.00</u>
Cost per Sale	\$100.00	\$33.34	\$16.67

The combination of quality traffic and website conversion equals higher profits. This is a basic concept yet has powerful strategic value. For example, paid search using Yahoo! Search Marketing or Google Adwords provides superior advantages to marketers. However, most marketers focus on increasing their click-through rates and expanding their keyword lists versus re-designing their websites (or using landing pages) to convert greater numbers of paid search visitors.

By balancing your efforts you can also compete in a competitive search market and afford more expensive media placements. The Web Profitability Equation shows that by increasing the quality of your advertising traffic and increasing the conversion rate of your website's offer - you will generate more sales at a lower cost. Why? Because you are wringing out the waste from your online sales process - visitors not relevant to your offer.

The essence of the Web Profitability Equation is a continual process of thoroughly understanding your customer. As Paco Underhill states,

“Where shoppers go, what they see, and how they respond determine the very nature of their shopping experience. And all of these psychological and anatomical factors come into play simultaneously, forming a complex matrix of behaviors which must be understood of the retail environment is to adapt itself successfully to the animal that shops.”

By attracting your perfect customer through the right advertising and serving them your offer from the right angle on your website, you will increase your profitability. The better you understand your customer, the greater your business success. As “Why We Buy - The Science of Shopping” concludes,

The overarching lesson that we’ve learned from the science of shopping is this: Amenability and Profitability are totally and inextricably linked. Take care of the former, in all its guises, and the latter is assured. Build and operate a retail environment that fits that highly particular needs of shoppers and you’ve created a successful store.

Address both sides of the Web Profitability Equation to serve the demands of your customers. By doing so, you are guaranteed a surge in profits and the sustainability of your web business.

Paco Underhill, *Why We Buy: The Science of Shopping*. (Simon & Schuster, 1999): 36, 44.

Kevin Gold is CEO and co-founder [of Enhanced Concepts, Inc.](#), specializing [in turning website visitors into leads](#) or sales. If you want to increase your leads or sales, get “12 Surefire Ways to Increase Your Website Conversion” by visiting www.enhancedconcepts.com.