Marketing ROI

How to Increase Your Profit Return by Five

Content

TL;DR

Steering your marketing activities and budget most effectively towards your targets is one of the biggest challenges eCommerce businesses face. Many people still underestimate channel impact and customer lifetime value. Therefore, it is essential to adopt a complex multi-attribution model considering customer profitability and allocate marketing budgets accordingly. Discover how we manage to **get a fivefold profit return on our marketing spends.**

Introduction

Are your newly acquired customers also the most profitable? Chances are pretty high that's not the case. While innovations and increased customer expectations are constantly changing the rules for eCommerce, it's become nearly impossible to turn new customers profitable on their first transaction in highly competitive markets with regard to marketing costs. A fundamental shift turns all that we've learned so far about profit-cost calculations and classic return-on-investment (ROI) models upside down.

Today, businesses pursuing massive online growth focus on a digital ROI defined by customer lifetime value (CLV) and customer acquisition cost (CAC). Big players like Zalando started steering customer acquisition with CLV models. Other emerging companies followed, continuously questioning and fine-tuning evolving standards. Hence, they are now able to take greater risks in spending marketing budgets as future profits become more and more predictable.

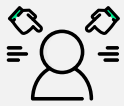
Consequently, if businesses in highly competitive markets don't want to fall behind their competitors and lose market shares, they will need to seriously consider implementing a CLV-based marketing model. Otherwise, marginal revenue will gradually become more expensive. For instance, despite a revenue increase of 30%, costs might rise by 50%.

So how can you not only reliably grow by winning new customers but also drive them towards profitability within a given time? With all the uncertainty in today's digital business do yourself and your investors a favor: Invest in online marketing intelligence that keeps you competitive and minimizes uncertainty.

Are you curious how we at ABOUT YOU tackle this challenge? As we also offer our marketing services as a part of exclusive Business Services to SCAYLE customers, we continuously optimize our models for different use cases and countries. Now, let us share some of our experiences and give you an idea of how this could work for you.

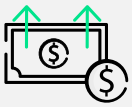
A. Four Questions We Continually Ask Ourselves

Implementing a modern CLV-driven approach to profitably steer all digital marketing activities first requires answering some simple questions.



What is the revenue contribution of each marketing touchpoint to any given order?

How much profit do we get from an order?



How much investment does a specific channel need to nurture growth and break-even goals?

What is the CLV of a potential customer and marketing investment threshold concerning break-even targets?

Unfortunately, these questions are not so simple to answer universally. So let's dive into how we approach each of these questions.

Marketing Attribution

A. Calculate Importance per Touchpoint for Each Order

Most customer journeys consist of various touchpoints until they lead to an order. Therefore, it is essential to find out which marketing channel contributes how much to which order. That's the aim of attribution modeling. It assigns a percentage distribution of each order to all involved channels of the order's marketing touchpoints.

At ABOUT YOU, we use Google's Big Query data warehouse (DWH) for our big data analytics. We consolidate and harmonize tons of transactional order data: customers' basic information and behavior, costs-related profitability data with regard to order fulfillment, and all behavioral data from onsite web tracking as well as from different marketing channels.

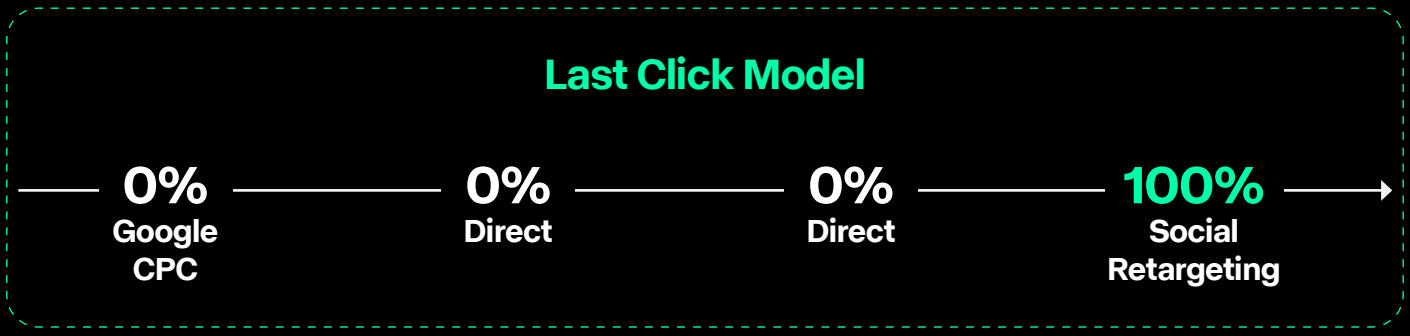
When setting up ABOUT YOU's marketing expertise as a business service for our SCAYLE customers, we create a customer-specific data warehouse and ensure this data is collected from SCAYLE interfaces as well as external sources. This way, we provide our customers with a harmonized foundation of order, profitability, and tracking data.

B. The Problem With Simple Rule-Based Attribution Models

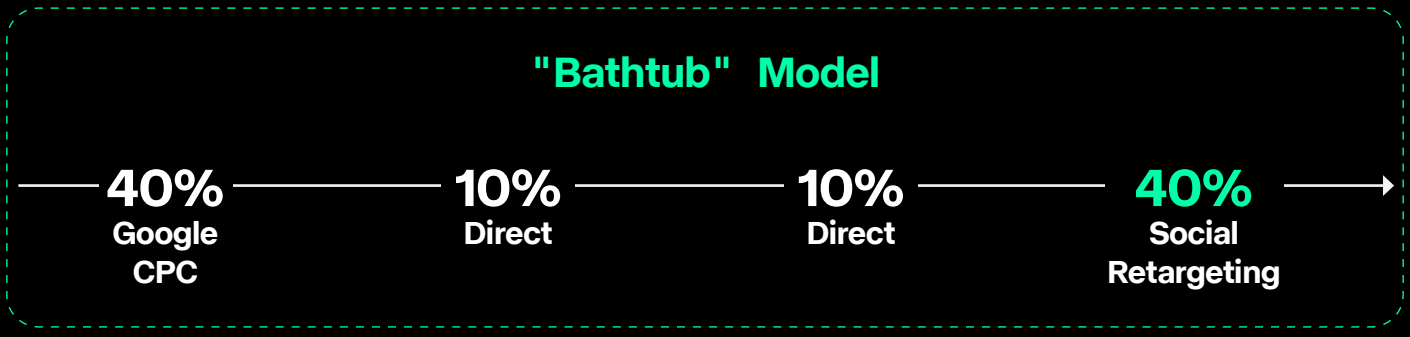
We noticed that a lot of companies still evaluate channel-specific results in marketing **based on the last click.** This means, the last touchpoint is attributed 100% to an order. Any other customer touchpoints prior to the last channel are not taken into account. Seems pretty easy. Too easy. Unfortunately, it does not reflect the whole truth and leaves way too many questions

unanswered. It is simply not reliable enough to make correct assumptions for actively and profitably steering growth.

Usually, the conversion funnel consists of several steps: awareness, interest, desire, and action. Each of these steps is connected to a touchpoint. And each of these touchpoints drives your conversion process: organic and paid search, referrals, or even social media influencer activities. How much? You'll never know if you rely on the last click model. Yet, channels you never considered in your equation might actually be your biggest revenue drivers.



Thus, many eCommerce companies already switched from a first- or last-click approach to a multi-attribution model – most prominently a position-based model, also known as **the u-shaped or bathtub model.** In this model, the first and last touchpoints are credited with a higher attribution percentage than the remaining touchpoints in between, which are equally distributed to the rest of the attribution percentage. An example would be: first and last click get 40%, all channels in between 20% together. At first, this seems to be a more legit model. And it is. Particularly, if you're just starting with multiple attribution models. However, you will see that this approach still lacks in reliability and needs improvement, as it highly depends on subjectively assigning credits.



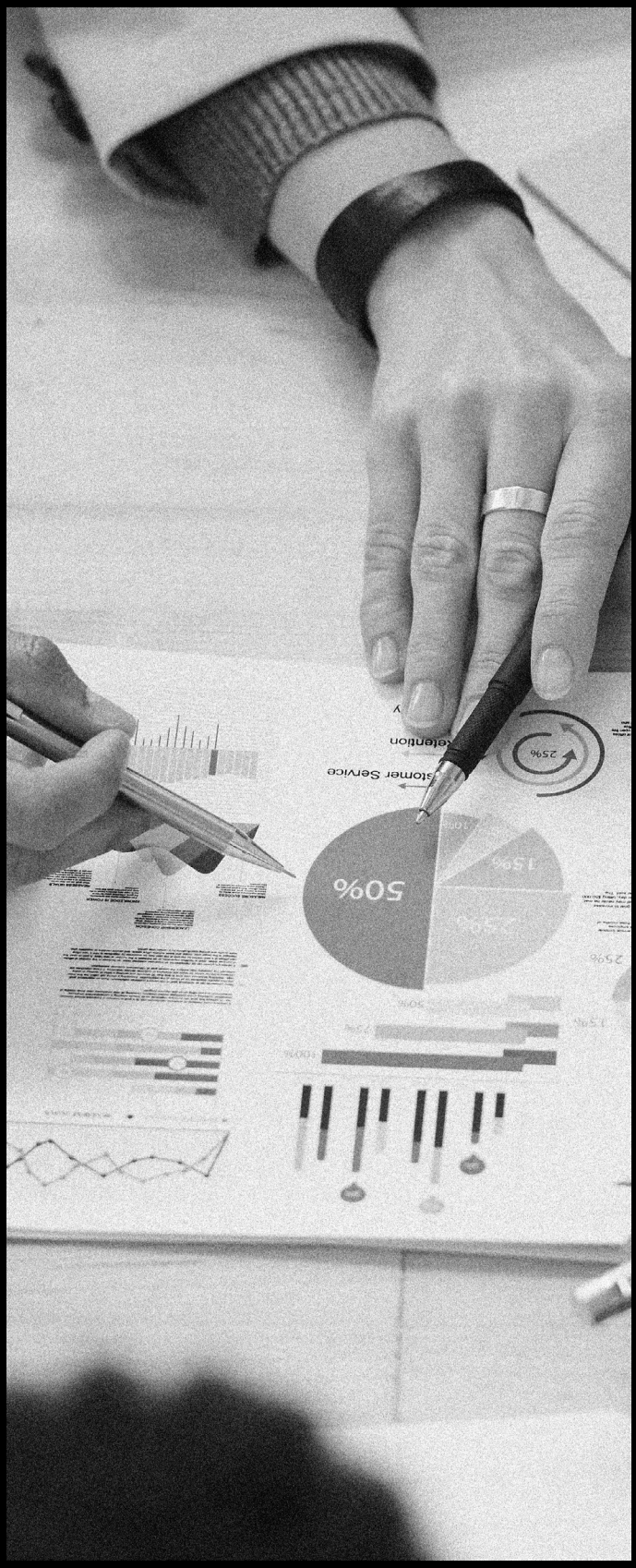
C. Telling the Whole Story With a Complex Data-Driven Model

At ABOUT YOU, we don't evaluate touchpoint importance by statistically assigning credit based on channel or customer journey position. We construct a rule-based algorithm reflecting key drivers for generating online orders. How much time did a customer actually spend evaluating an item? Was the item added to a wishlist? Currently, our attribution model takes into account up to a double-digit criteria number.

- ☑ "Add to basket" sessions
- ☑ Newsletter signup session
- ☑ Conversion session
- ☑ Account registration
- ☑ Time on site
- ☑ Days until conversion
- ☑ Bouncer session
- ☑ Double-opt-in sessions
- ☑ "Add to wish list" sessions

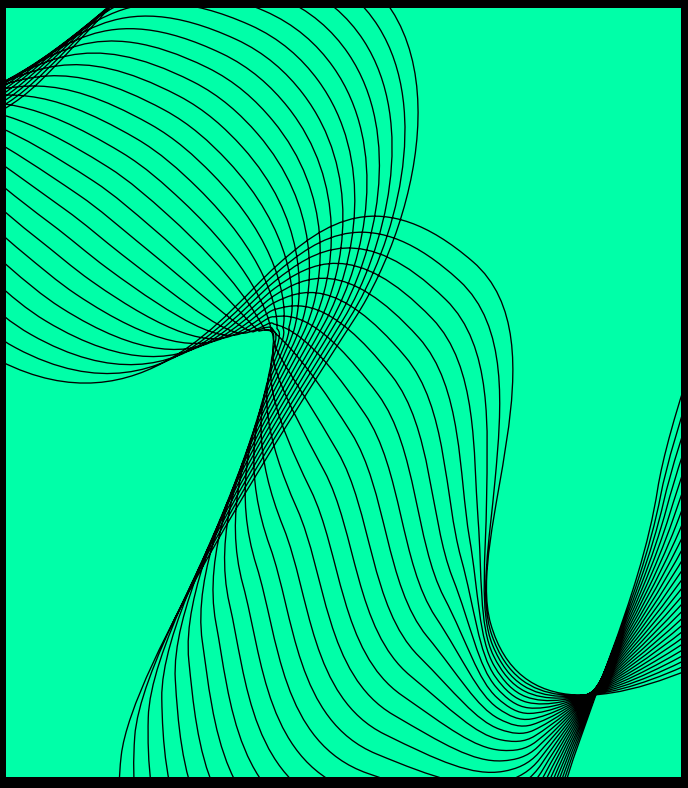
Our Marketing Growth Services apply the same criteria we use for our own marketing steering. However, as our customers might differ in target group, channels, and overall strategy, we always reevaluate the emphasis on each criterion based on customer-specific data. For instance, the percentage attribution for the “add to basket” criteria will differ for customers like DEPOT, The Founded, Tom Tailor, or Deichmann.

However, we change our attribution modeling systematically to continuously improve it. We regularly challenge the results of the rule-based attribution model with statistical attribution modeling methods, such as Markov Chain modeling. In case of large deviations between models, we evaluate if changes to the ruleset are required. But our approach doesn’t stop here. As our marketing mix expands with each new creative idea to add more customer touch-points, we’re working on including non-digital touchpoints like TV, radio, or even events.



Rule-Based Model

38%	0%	31%	31%
Google CPC	direct	direct	social retargeting
400 SEC	<= 24HRS	700 SEC	400 SEC
add to wish list first touchpoint new customer	after prior touchpoint	add to basket	conversion add to basket



Running our attribution calculation at least once per day on every single order placed at ABOUT YOU or at the shops of our Business Services customers, has proven to provide a solid data foundation. For every order, we run a dedicated process to determine the importance share per channel. This way, marketing managers get realistic and up-to-date information of how important which channel really is for which order. While others might simply apply attribution percentage values to the revenue generated by order, we take our calculations a bit further. It would simply be a pity not to take advantage of all the commitment to calculate attribution shares.

Profit Contribution

A. Punish Channels for Acquiring Less Profitable Customers

After determining which channels have the largest impact on acquiring sales, we need to take a closer look at customer value. Depending on order frequency, average order value, return rate, and many more factors, some customers will turn out to be more important profitability drivers than others. Some might refer to this as **customer lifetime value (CLV).**

$$ROI = \frac{CLV}{CAC} = \frac{\sum_{1\text{-}N\ Orders}^{for\ T\ Years} \left(Net\ Order\ Value_N \times Contribution\ Margin_N \right)}{\left(\frac{Marketing\ Costs\ over\ T\ Years}{Amount\ of\ Customers\ over\ T\ Years} \right)}$$

For this stage of profit contribution, though, we prefer taking on a more pragmatic approach. We break down behavioral contexts into slices, based on factors such as country, gender, device, product group, payment method used, return rate, discounts, and more. Of course, you can always adapt your evaluation with complex CLV calculations based on data science and machine learning models.

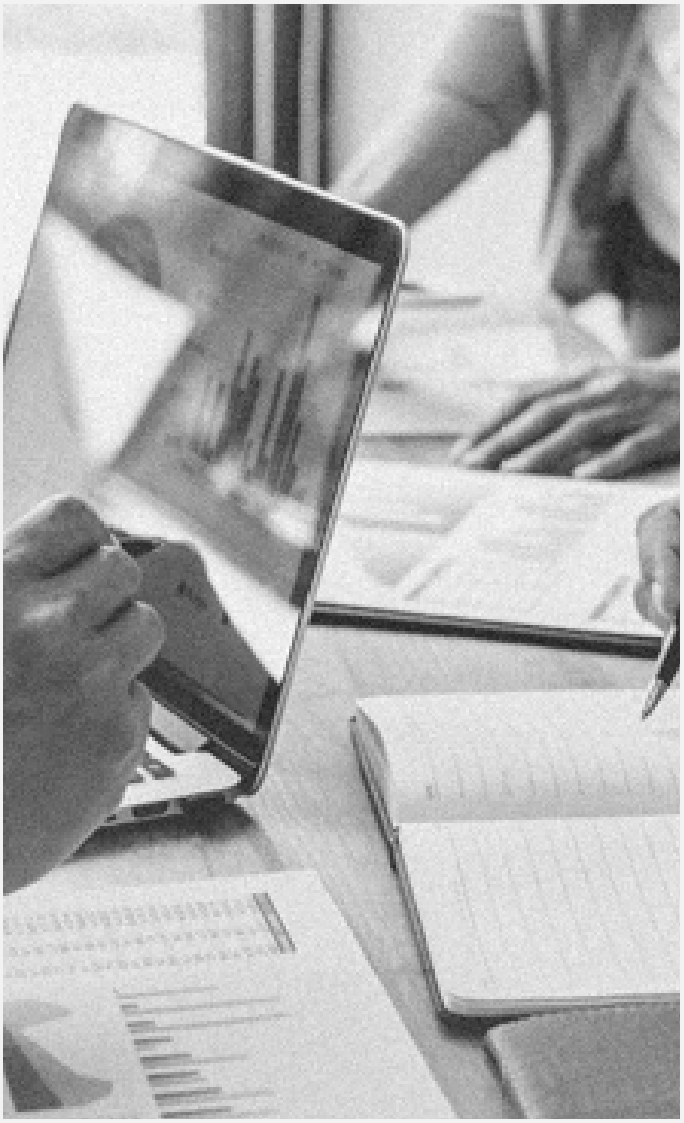
Country	Gender	Device	Product Group	Adjusted Revenue Factor
Germany	female	mobile	dress	0.82
Germany	female	web	jeans	1.54

All possible combinations of slices are evaluated

At ABOUT YOU, we combine different slices of context and evaluate more than 10,000 scenarios based on the data of the past 30 days. Each slice is set up to answer the question: How profitable will the customer become within the next 180 days? Given this evaluation, we adjust the gross revenue of each order. This adjusted revenue is allocated to the marketing channels based on the attribution share per order.

The adjusted revenue is the revenue we provide to all marketing managers for steering their channels. As we know that simply allocating the gross revenue would be too shortsighted, we empower them to integrate long-term profitability value into their processes. This way, we complement our attribution model by rewarding channels for bringing us more future profitable revenue. And we punish those channels accounting for less profitable revenue.

Gross Revenue x Adjusted Revenue Factor = Adjusted Revenue



"It's strange at first when your data models outperform your gut feelings. We often hear that PLA (Product Listing Ads) revenue is less valuable because this channel attracts very price-sensitive customers. However, these customers usually know exactly what they are looking for. This is reflected in a lower return rate and often compensates for price sensitivity in the long run."

Katharina Scharnetzky
Director Product Marketing
Intelligence & Technology
at ABOUT YOU

Budget Allocation & CLV Steering

A. Correctly Allocate Marketing Budget Based on Your Targets

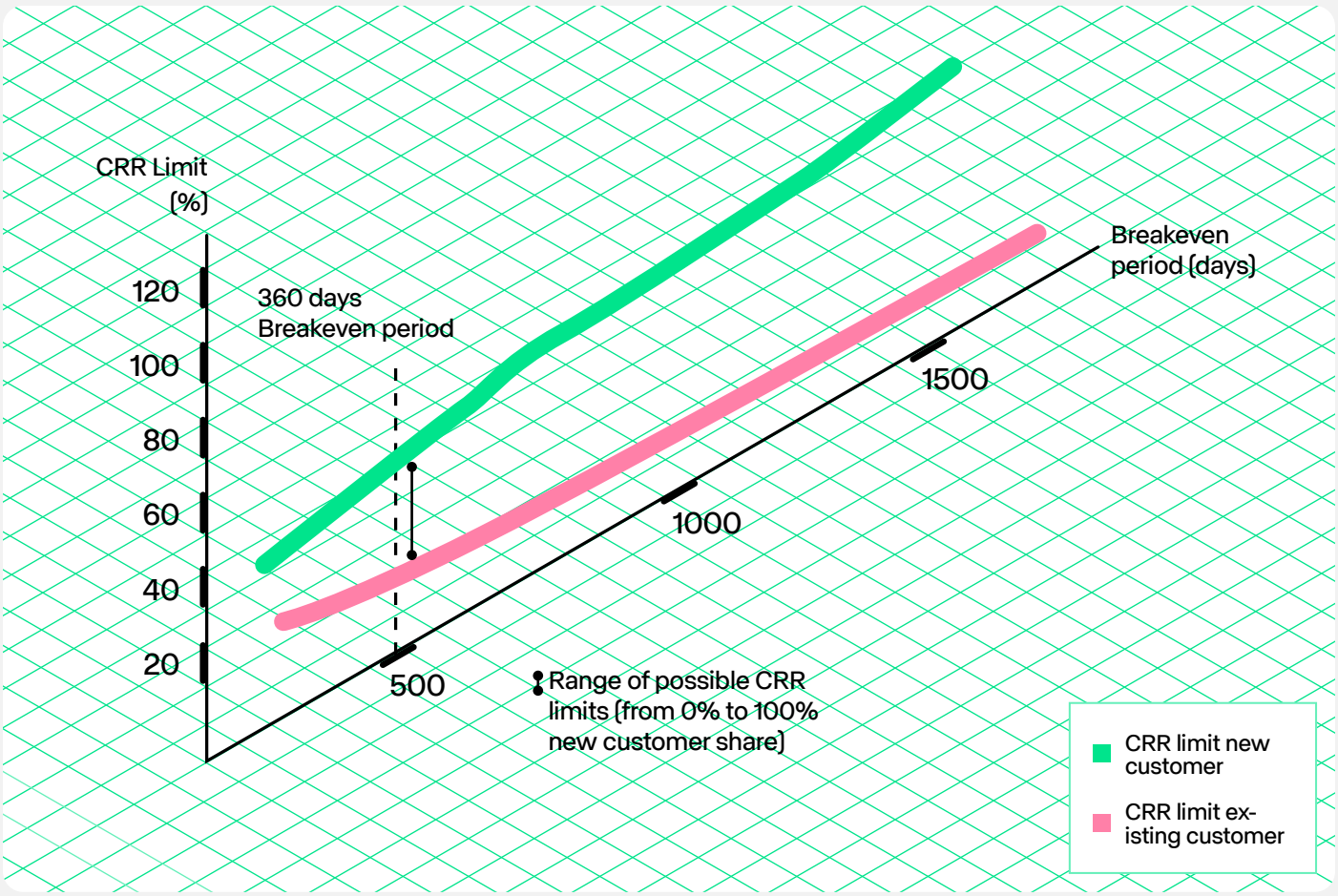
When allocating budgets to marketing channels, we need to consider short-term tasks like daily channel operations or monthly attribution optimization as well as long-term strategic business decisions. Therefore, we define a break-even target for each country or brand shop. Ultimately, we'll need to answer the question: When will today's customers break even in a country? In other words: For every euro, I spend in a marketing channel today, I need to generate one euro profit contribution – at the latest – by the break-even period in X months.

Thus, not only day-to-day tasks but also long-term business decisions must be taken into account, e.g., price structures, the split between one's own stock and marketplace partners, as well as warehouse logistics. A new warehouse in Slovakia will, for example, most likely decrease logistic costs per order for a certain region.

On a more operational level of marketing steering, we are using calculated cost-revenue-ratio limits for each marketing channel in a country. Based on data analysis of past and projected CLVs, we run models to calculate the maximum cost revenue ratio (CRR). Consequently, our marketing managers should achieve this CRR for each channel with the following two scenarios:

- ✓ **100%** of revenue generated by new customers (first time orders)
- ✓ **100%** of revenue generated by existing customer (follow-up orders)

This approach can be applied to each break-even period, resulting in a CRR limit curve for new and existing customers. Usually, though, each channel generates revenue from new as well as from existing customers. While some channels tend to have a higher new customer ratio initially, these shares change over time when entering into new markets or when introducing new strategic marketing initiatives. Therefore, we evaluate the share of new and existing customer revenue for each channel based on the past 30 days. This share is applied to the CRR limit curves. Thus, we know the maximum spend for each channel to steer realistically towards your break-even targets.



So how do our channel managers work with this marketing intelligence on a daily basis to ensure that the operational level is executing the pursued long-term strategy? Having an exact daily report that compares the channel's CRR with its current CRR limit and its current new customer share is the foundation for managing each marketing channel on an operational basis. If the current CRR is lower than the CRR limit, our marketing managers know that they can manage their activities more aggressively – either with higher bids, extended campaigns, or attempting to increase their new customer share.

Channel	Total Spend	Adjusted Revenue	Actual CRR	CRR Limit	New Customers
Social Retargeting	€79,527.10	€193,200	12%	25%	16.29%
Google CPC Non-Brand	€79,527.10	€56,226	23%	15%	31.76%
Channel 3	€79,527.10	€49,084	27.42%	18%	27.42%
Channel 4	€79,527.10	€22,933	41.93%	42.80%	41.93%
Channel 5	€79,527.10	€5,777	65.80%	55.60%	65.80%

Conclusion

Even though steering your marketing activities on target takes some effort, it's worthwhile to re-examine your current marketing strategy and start investing in the right tools. As you've seen, adopting a multi-attribution model does not only help you define crucial touchpoints but also ensures you'll be able to allocate your adjusted revenue accurately to profitable channels. Furthermore, defining CRR channel limits will allow you to define your maximum marketing spend for each channel with regard to your long-term profitability goals.

What's next

Optimizing your current marketing steering is of course not the only lever when it comes to growing your online business. We also encourage you to explore new channels and marketing formats like influencer hauls on emerging channels like TikTok. Systematically scale your customer acquisition. Increase order frequencies. And raise your order profitability.

Contact

SCAYLE is a flexible B2C SaaS enterprise shop system built on a headless and API-first architecture. An extensive feature set, including PIM, Shop Management, Checkout, and OMS, is combined with an intuitive UI. Brands and retailers use SCAYLE to stay on track with fast-changing market developments and to drive differentiation in commerce.

SCAYLE GmbH is a member of the ABOUT YOU Group and unites modern technology with a unique retail DNA. Leading brands like Deichmann, s.Oliver, Fielmann, FC Bayern, Marc O'Polo, and DEPOT choose SCAYLE's Commerce Engine. Managing directors are Christopher Metz, René Dalock, Sergio Sola, and Tobias Ring.

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