CREALYTICS 3-MINUTE BRIEFS

Adapting Automated Bidding for Long-Term Profit

AUTOMATION'S PROBLEM

Today's marketers face a seismic shift in how they approach performance advertising. Automation has leveled the playing field. Standing out from the competition no longer depends on perfecting the nuts and bolts of a campaign. It requires a strategic shift.

Advanced bidding systems do a great job of hitting revenue-based KPIs, but this conflicts with long-term profit. All is not lost. You can adapt them to focus on a better alternative: Customer Lifetime Value.

Platforms like Google's Smart Bidding bristle with efficiency. Preconfigured to a diet of revenue figures, they do a great job of hunting down the cheapest available revenue sources. Therein lies the problem. These sources existing customers, high return rates and low margins - tend to clash with long-term goals.

Successful adaption means replacing this diet. Instead of revenue targets, your platform needs to ingest product margins (excluding any order-related costs). And marketers need to know the product's origin: did it come from a new or existing customer? Acquiring a new customer can be rewarded with a higher

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conversion value. After all, we expect this group to make repeat purchases. This value reflects a portion of those expected buys, or “lifetime value.”

You’ve now incentivized your bidding system to bid higher for customers – even if their first transaction falls below your average ROI target.

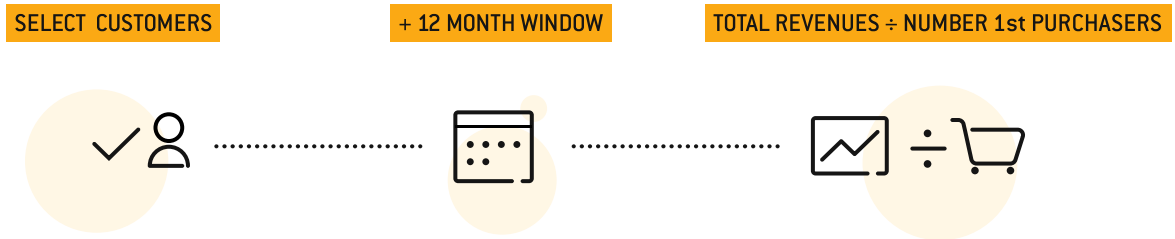
Customer Lifetime Value reveals how customer relationships pay off in the mid-term (6-12 months) and long-term (24 months+). It boils down to the repeat purchases that come as a result of lower marketing costs. In other words, you can use organic tactics once you’re brought them into the fold.

When you optimize for CLV ROI, you determine how much of a customer’s future value should be invested in terms of acquisition. CLV allows you scale short-term growth. The fact that it pays off in the mid- and long-term makes it sustainable.

DETERMINING YOUR AVERAGE NEW CUSTOMER WORTH

How do you go about determining what your average new customer is worth? Two words - cohort analysis:

1. Using your CRM, select all customers who made their first purchase in e.g. 2018.
2. Add a 12-month window to their first order.
3. Combine total revenues from first purchasers that occurred within that window and divide by number of first purchasers.

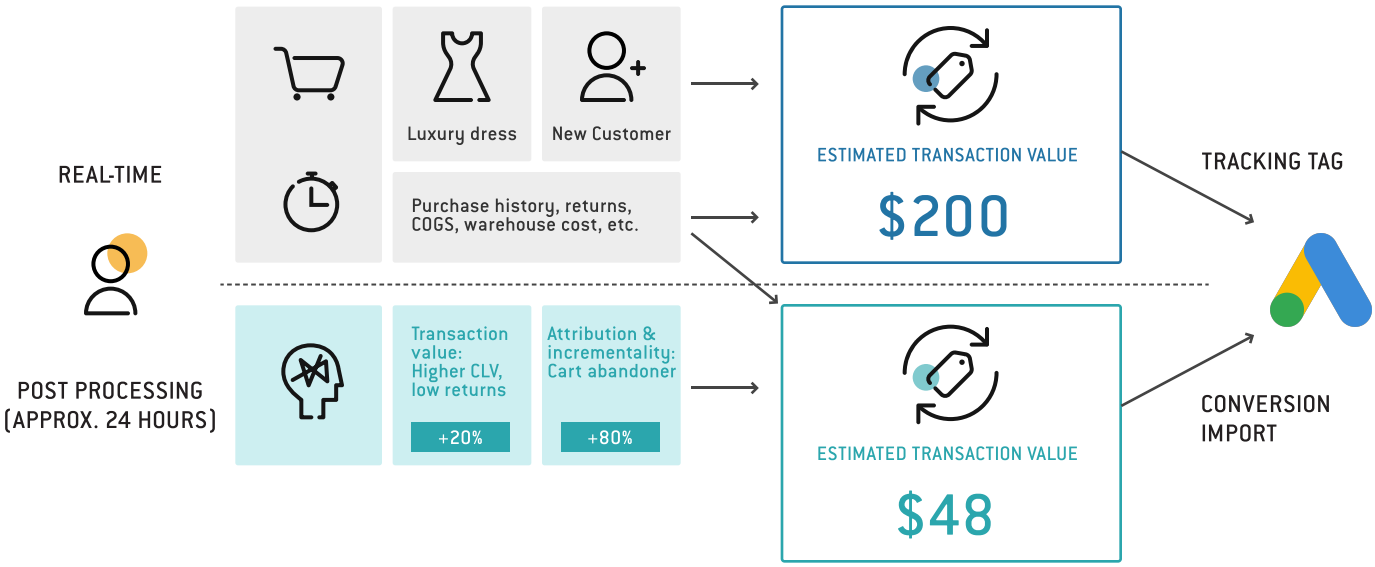


DATA ACTIVATION: INFORMING YOUR BIDS WITH THE MOST ACCURATE DATA POSSIBLE

Tracking a sale can feel like completing a jigsaw without all the pieces. We all want every detail beforehand (basket contents, new or existing customer etc.). In reality, you work with what you have.

Once you do have certainty of a transaction's value, you can start to input the right data.

Picture tracking refinement as a two-part process. The first stage is the real-time, estimated transaction value fed into your bidding platform. It represents the bottom-line product margin – your best possible guess of true value. You get there by adjusting the original number for variables likes new customer value, shipping costs and so on.



Stage two represents the post-processing data. These results arm you with the missing parts of the puzzle. You can now readjust the estimated transaction value with the information you didn't have before. Take incrementality as an example. You'd remove the bulk of credits attributed to a sale that came from low-funnel website retargeting before resubmitting the now-final value. The conversion input then overrides the initial tag.

OVERRIDING YOUR BIDDING SYSTEMS

Having ingested this new data, your bidding system can now correct its original targets. It will make new aggregations, start de-investing from areas with low value, and re-allocating your budgets to areas with more value.

TRACK YOUR RESULTS: USING CUSTOMER COHORTS

We mentioned that a customer's lifetime value might be 12 to 36 months, depending on the timeframe you decide to optimize for. Whichever you choose, you'll want to show which sales came from existing customers (while continuing to track their margins) in addition to the first purchases of newly acquired customers. There will also be repeat purchases from new customers which have already happened, and repeat orders that have yet to come in. A full timeframe allows you to predict what your marketing returns will be.

TRACK YOUR RESULTS: USING AGGREGATED DATA

Alternatively, you can run an aggregate analysis over one or several timeframes. This allows you to move away from quantifying your ROI on first purchase alone. It also simplifies conversations with your finance department, who may wish to see expected profits for a particular period.

About Crealytics

Crealytics specializes in retail advertising at all points of the product lifecycle.

We help retailers and brands to acquire more customers and monetize their site better.

In 2019, we generated over three billion in revenue for our partners, including Foot Locker, ASOS and Staples.

A worldwide team of retail experts supports our offices in New York, London and Berlin.

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