CREALYTICS 3-MINUTE BRIEFS

How to Master Incrementality Testing

Incrementality perplexes some marketers. The route to accurate testing can confuse even more. But this buzzword deserves your full attention. Knowing your ads' incremental value bulletproofs your budgets. You waste fewer dollars, allocate better and encourage long-term, cross-channel success.

crealytics

DEFINING INCREMENTALITY

Incremental revenue differs from attributed revenue. The former is a direct result of the ad spend invested in a marketing channel or audience. The latter represents revenue from shoppers who would have converted anyway.

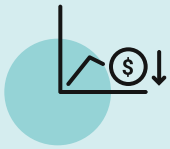
You can express it as a ratio: Incrementality = Revenue Caused by Channel / Revenue Attributed to Channel. Imagine a store hired you to promote them using 100 discount vouchers. For every voucher that gets used, you get a commission. You could take one of three strategies:

1

Go out around town, telling people about the store and handing out the vouchers to raise awareness, with the hope that some people would eventually go to the store and buy something using your voucher.

This approach is similar to upper funnel prospecting, which has a high incrementality, but a low likelihood of conversion.

Low conversion



2

Stand in the street outside the store, pointing people over to the shop and handing them a voucher.

This approach is similar to standard lower funnel paid advertising, with medium incrementality and a medium likelihood of conversion.

Medium conversion

3

Stand next to the checkout as people join the queue, hand them a voucher to use for their shopping basket.

This approach is similar to retargeting, which has a very low incrementality but a likelihood of conversion (because the people would have converted anyway).

High conversion

TAKEAWAY //

Incrementality is usually inversely proportional to conversion likelihood.

INCREMENTALITY VS ROAS

Ad budgets often flow to channels and audiences with the highest Return on Ad Spend (ROAS). But incrementality's inverse relationship with conversions spoil this logic.

When you know the incrementality of a channel or audience, you can adjust its ROAS attribution accordingly. In other words, **Incremental ROAS = Attributed ROAS X Incrementality.**

MEASURING INCREMENTALITY

In an ideal world, marketers would use random controlled experiments to assess incrementality. Unlike treatment groups, control groups would see no ads. You could then compare all channel revenue between the two groups:

The resulting incremental value is then applied to the channel's attributed ROAS.

Such tests prove harder in practice, however. Some ad platforms restrict the chance to selectively market to two random user groups. Also, the ability to follow these users (and their transactions) through other channels can be limited - for example due to inconsistent tagging.

Incremental Revenue Per User = Treatment group revenue across all channels per user - Control group revenue across all channels per user

INFLUENCING BIDS BY CHANNEL

Looking to influence channels like branded or non branded search queries? If smart bidding manages our campaigns, you need to encourage it to change its bids according to the channel's incrementality value. For example, if paying for brand search queries is only 10% incremental, you multiply your tracked values by 0.1 to encourage Google's algorithm to reduce bids and avoid overspending on existing customers.

INFLUENCING BIDS BY AUDIENCE

Say you know your ad spend on basket abandoners is only 25% incremental. You want to let you your bidding platform know so that it lowers bids for these users. For text ad campaigns, marketers would create a new set of campaigns targeting only basket abandoners. The ROAS goal can then be applied – in this instance, by multiplying the current target by 4 for that campaign.

Smart Bidding ignores audience modifiers. So too audience campaign splits.

So what is the solution?

Overwrite the conversion value fed into the bidding system. To illustrate, for every conversion made by a basket abandoner, you ensure the system would attributes 25% of the previously attributed revenue. It now evaluates audiences from this group as less valuable, and adjusts its bids to reflect this.

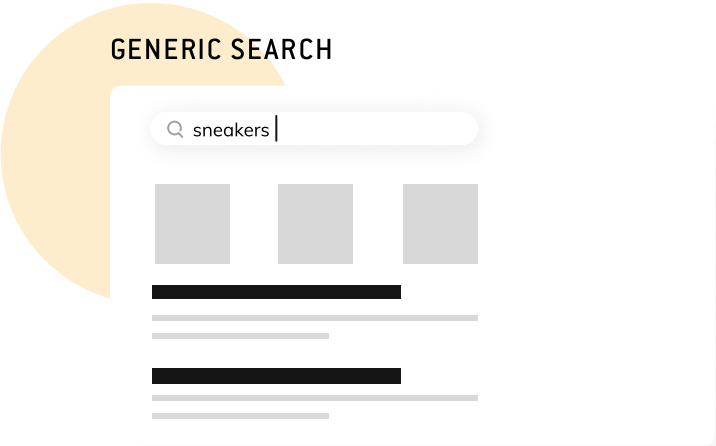
PUTTING INCREMENTALITY TO THE TEST: GENERICS > BRANDED SEARCH

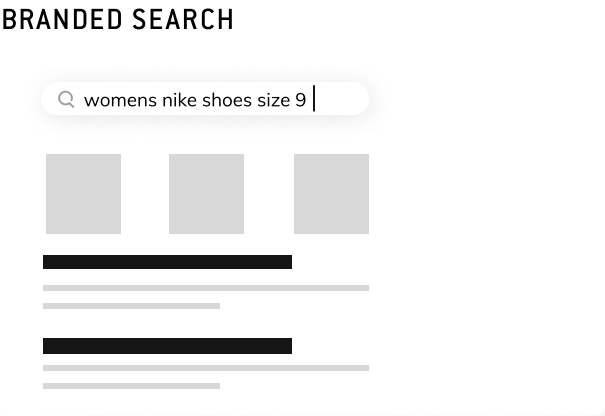
Just how incremental is generic search and Shopping Spend vs. Branded Terms?

Our BI team sought to find out by targeting specific test locations in the UK. Over four weeks, these areas received a six-fold increase in incremental spend by boosting location bid modifiers. Control locations received non-varied bid modifiers.

Initial results saw incremental ROAS jump for Generic and PLA revenue—across all online channels.

A similar test for Branded search terms, did not produce similar results. In fact, brand keywords remained non-incremental despite the extra budget.





RETURN ON AD SPEND: A SURE ROUTE TO LOSING MONEY

When it comes to ROAS, even if your reporting shows encouraging numbers, your business will still struggle to meet its financial goals.

Why is that? ROAS performs best in areas with low incremental value - things like brand or retargeting campaigns. These second-class revenue sources ignore the things that matter: high-margin products and new customers. Incrementality tests reveal some hard truths.

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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