

ROAS: The Ultimate Guide to Advertising Efficiency





Introduction

It's not your imagination. Skyrocketing acquisition costs (**222% over the last eight years!**), shrinking ad budgets, and the fleeting attention span of potential customers have made it harder than ever to get your brand in front of its target audience online.

At the same time, the transition to a **cookieless world** represents a seismic shift in terms of how data can be collected and used, pushing many businesses back to the drawing board to rethink digital advertising strategies from the ground up.

But what is the solution to this problem? How do you ensure you're getting (at least) a dollar back for every dollar you spend on advertising?

To help you navigate these questions, we've compiled a comprehensive guide to optimizing advertising efficiency and return on ad spend (ROAS). Inside, you'll discover insights into the mechanics of ROAS as well as the strategic advantages of leveraging first-party data and predictive AI.

This guide is your key to unlocking a higher ROAS, ensuring that every dollar spent on advertising works harder and smarter for your business.

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Understanding ROAS

Return on ad spend (ROAS) is a ratio representing how much revenue you gain from each dollar you spend on advertising. It provides a clear understanding of whether a campaign is worth the money you put into it.

The formula for calculating ROAS is pretty straightforward: revenue driven by the campaign divided by the cost of running the campaign.

Say you spend \$1,000 on an online advertising campaign in one month. During that time, your campaign drove \$5,000 in revenue. In this case, your ROAS is 5:1 (or \$5); in other words, you gain five dollars in revenue for every dollar you spend on that campaign.

One important note is that ROAS is not return on investment (ROI), which takes into account profit margins and other expenses beyond the amount of money you plugged into the campaign.

ROAS measures the success of specific tactics, while ROI measures the success of the overall strategy.

$$\frac{\text{Revenue: } \$5,000}{\text{Cost: } \$1,000} = \text{ROAS: } \$5 \text{ (or 5:1)}$$



What is a good ROAS?

What makes for a good ROAS depends on a lot of factors, like your technology stack, profit margin, overall business health, and more.

That said, the general rule is that 4:1 (or \$4) is a good ROAS.

4:1 is where you start to turn a profit. 3:1 likely means you're breaking even. Bearing in mind a businesses' fixed and variable costs, 2:1 and 1:1 means you're likely losing money.

Much also depends on the life cycle of your business. If you're a cash-strapped startup, you probably want the most bang for your buck. If you're an established, healthy business, you may be willing to settle for a lower ROAS in exchange for increased brand awareness.

But regardless of what type of business you have, there are a few tried and tested strategies you can do to keep ROAS steady in the short term and help you reap the benefits in the long term.



Chapter 03

The **cookieless** **world** and its consequences



Third-party cookies have long been the backbone of digital advertising, allowing marketers to track user behavior across multiple websites, enabling them to create customer profiles and deliver targeted ads. However, growing concerns about data privacy have led tech giants to reevaluate their practices thus upsetting the status quo.

In fact, just four companies (Google, Facebook, Amazon, and The Trade Desk) **captured 69%** of global non-search digital advertising investments since 2020.

Generally speaking, most businesses use these walled gardens for behavioral advertising, which relies on targeting users based on identifiers including email addresses, third-party cookies, and the behaviors they have performed.

Recently, ecosystem changes such as **GDPR**, the **phasing out of third-party cookies**, and AI technologies have threatened the existence of digital advertising as we know it.



From what we've observed so far, these changes are affecting businesses in a few major ways:

- **Behavioral retargeting of anonymous prospects:** Businesses are only able to show ads to consumers collected by their own first-party data.
- **Measuring the impact of advertising:** Ad attribution is becoming **much more complex**. Businesses have no way to measure the full customer journey from ad to conversion as it's difficult to attribute a lead to its exact source.
- **Declining search volume:** Gartner predicts that traditional **search engine volume will decline by 25% due to AI chatbots**. This shift is poised to diminish the efficacy of display advertising further, presenting a critical challenge for marketers who have traditionally relied on search volume to gauge and capture consumer interest.

But wait! There is hope on the horizon.

While there is no one silver bullet to replace third-party cookies, based on our experience of working with thousands of Segment customers, we are seeing many businesses respond by establishing a first-party data pipeline for advertising (but more on that later).





Chapter 04

Using **Predictive AI** to optimize ROAS



Twilio Segment's **CustomerAI** is a game-changer for businesses using first-party data and predictive analytics to optimize advertising efficiency without reliance on third-party cookies.

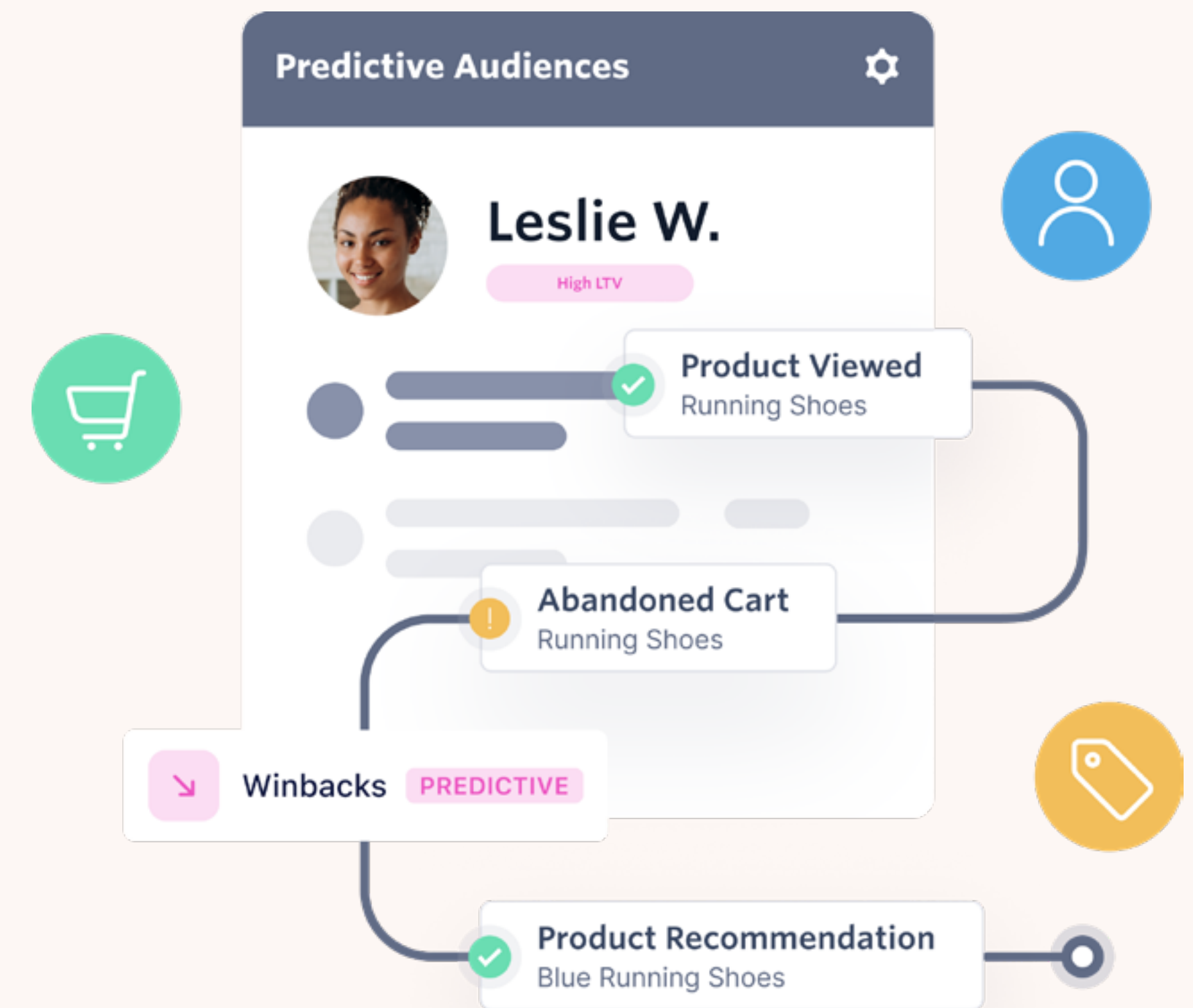
CustomerAI simplifies the complexity of AI, enabling marketers to deploy data-driven strategies without the extensive need for technical support. This means that campaigns can be more agile, responsive, and tailored to individual customer journeys, leading to a more effective allocation of advertising spend.

These predictive capabilities, based on your own first-party data, ensure that your efforts are not just reactive but proactively aligned with the evolving demands of your customers. This strategic foresight allows for the optimization of ad spend by focusing resources on high-potential customer segments that are most likely to yield returns.

For instance, with **CustomerAI Predictions** you can quickly identify individuals':

- **Predicted lifetime value (LTV):** Predicted customer spend over the next 90 days
- **Likelihood to purchase:** How likely users are to purchase in the next 30 days
- **Likelihood to churn:** How likely users are to discontinue their relationship with your business

Furthermore, CustomerAI democratizes advanced analytics – wherein even the smallest business can be more accurate in targeting, decrease waste reduction, and identify better opportunities for truly engaging customers with consented, first-party data.





Chapter 05

5 proven strategies to improve ROAS with a CDP





At this point, you may be wondering – *what does a CDP have to do with advertising?*

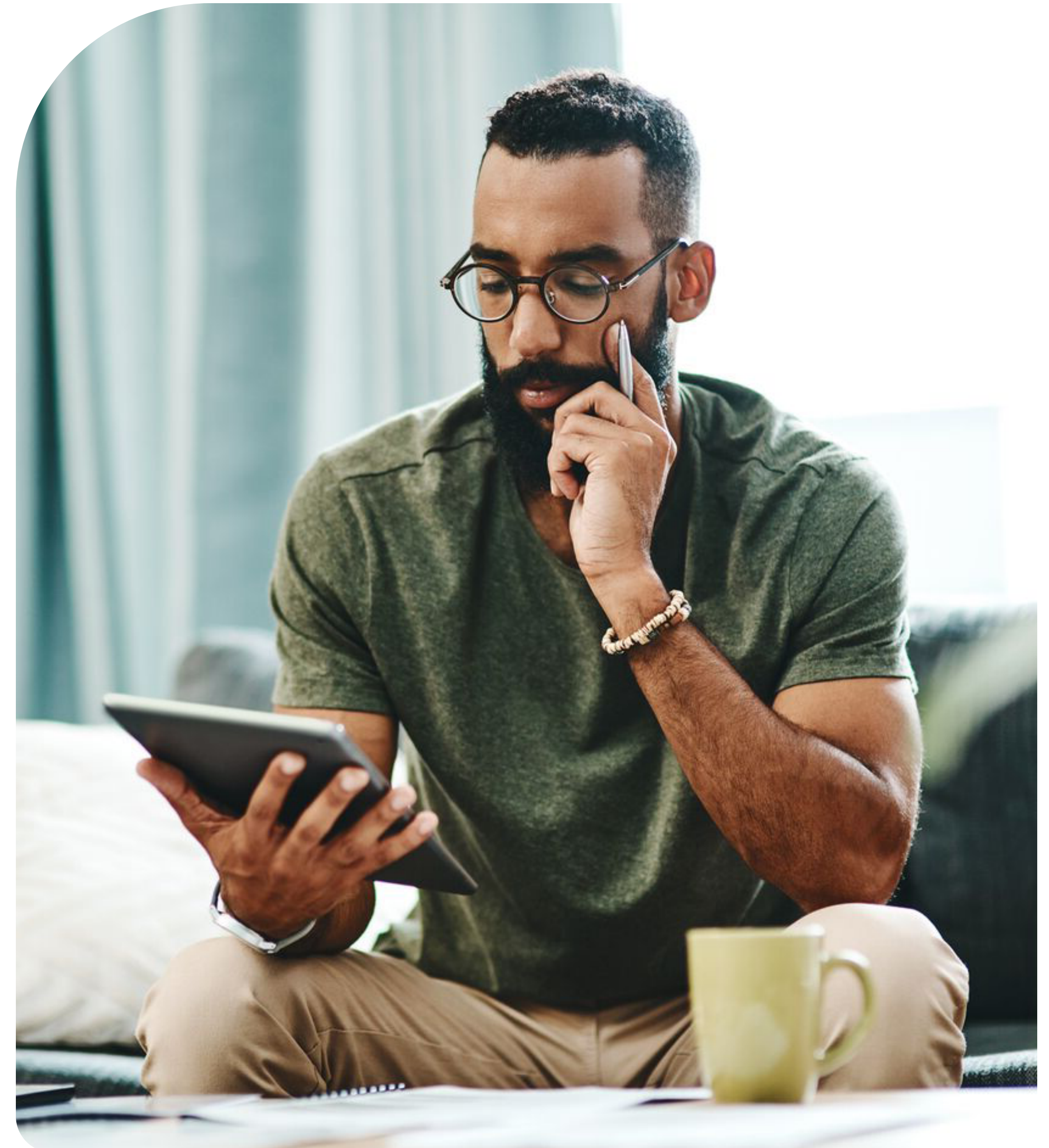
As a quick refresher, Twilio Segment is a customer data platform (CDP) that captures data from every interaction someone has with your business, consolidates that data into centralized user profiles and audiences, and connects that data (out-of-the-box) to over 450 different tools, including all of the advertising tools you know and love.

With Segment CDP you can track the actions of a user before they convert through an anonymous ID. Once the user data is revealed, it automatically bridges the anonymous ID interactions with those of the now-known user. You can then collect behavioral analytic data at the user level and supplement that with the transactional data you already have.

By segmenting users based on first-party data, you can create more accurate profiles than with third-party data because the information is specific to the behavior of customers as they interact with your business.

This highly-relevant data enables personalized campaigns with higher ROAS by increasing the customer's sense that you are aware of their needs and not just blasting them with irrelevant advertising.

Let's take a look at five examples of similar strategies you can deploy to optimize ROAS with a CDP.



1. Get a performance benchmark from each channel

To improve ROAS, you first need to get a baseline of which channels and ad campaigns are working, and which are not.

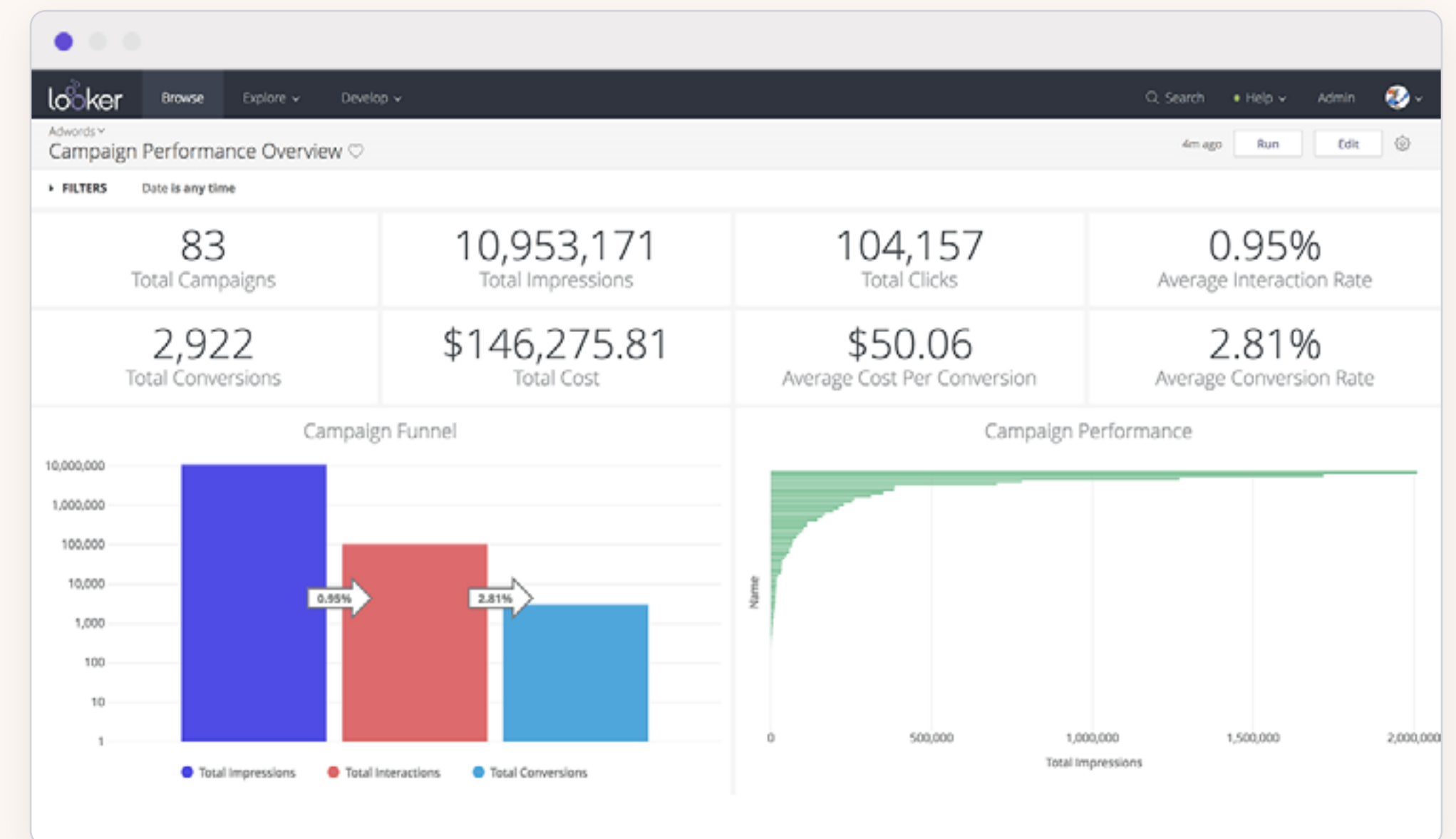
Most businesses find it frustratingly hard to answer these simple questions. To aggregate spend across Facebook and Google Ads, you'd have to export data from each network on a weekly or monthly interval, merge it into a single file, and work some pivot table magic. And that's just to understand the basics.

A simple solution is to use **Segment Sources** for Facebook Ads and Google Ads. It pulls data directly from these sources, and loads it into the data warehouse of your choice (e.g. Amazon Redshift or Postgres) with just a few clicks!

No writing code, no maintaining data pipelines, no pulling data from Excel.

From there, you or your analytics team can use reporting tools like Chartio or Looker to query and visualize that data in real-time reporting dashboards. You can then compare the performance of each campaign or platform side-by-side.

With this level of insight, you can not only surface opportunities and issues quickly, but also act on them right away, and quickly make the case for maintaining or increasing your advertising budget.





2. Anticipate customers’ readiness to buy with Predictive Traits

One of the easiest ways to improve return on ad spend is to simply target customers that are ready... to spend. But how do you find these individuals?

With AI-driven predictive traits it’s easy for anyone on the team, regardless of technical expertise, to discover the probability that a certain action will be taken by a customer.

For example, you can see how likely someone is to make a purchase in the next 30 days, predicted LTV (Lifetime Value), likelihood to churn, and even custom predictive goals.

Twilio Segment will then assign a score based on the likelihood of action for each customer. Then, you can sort those customers by score and target different sets with custom messaging. Since marketers can manage this tool themselves, it frees up the data science team to work on more high-level, complex projects.

By utilizing these insights, you can enhance your targeting efforts, engage with your customers at the right moment, and drive significantly improved ROAS.

New Computed Trait

✓ Select Type

2 Configure

3 Select Destinations

4 Review and Create

Configure and preview your trait

Likelihood to purchase

Docs

Make prediction for ⓘ

All users who

+ Add condition

What are you predicting?

Select the event that tracks a purchase

...performPurchased Special Product D

at least 1 time

anytime within 30 days

☒ Include Anonymous Users

13

3. Compare channels side-by-side and double down on the best ones

So you've got a handle on your spend, impressions, clicks from each platform – great job!

But before we get too carried away, remember that these metrics only tell one part of the story. You need to combine your top-of-funnel data with the rest of your down-funnel engagement data to understand true profitability.

Let's say you're advertising on both Google and Facebook.

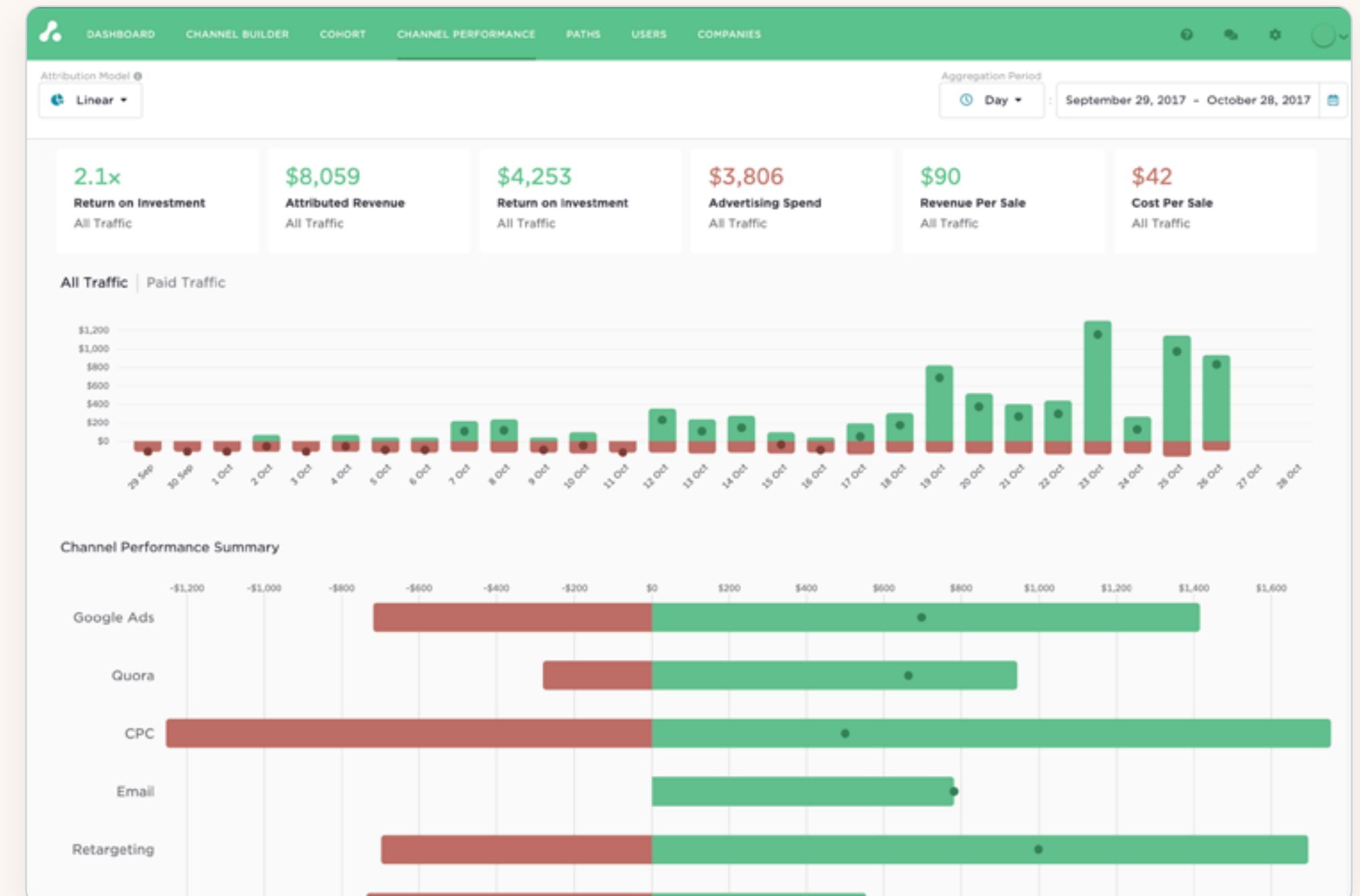
A potential customer clicks your ad on Facebook; this costs you \$5. Subsequently, the same potential customer clicks your ad on Google; this also costs you \$5.

The customer converts and buys something that generates \$8 in revenue. If you are using Google Analytics or Facebook Insights to optimize your campaigns, both will report that you have \$3 in profit.

The problem is that you actually spent \$10 (\$5 each on Facebook and Google) and that \$8 in revenue is actually a loss of \$2. There is no way that Google or Facebook could know this because they can't calculate cost and revenue independently.

To get around this, you can use a tool like **Attribution**, which gives you a more complete picture of your advertising spend. For example, you can view your break-even calculation by daily, weekly, or monthly cohorts.

This helps you understand how your advertising spend should be allocated to conversions and revenue based on the entire customer journey. And help you iterate on your advertising campaigns accordingly.



4. Target customers with a propensity to spend... and stop targeting those who don't

To improve your ROAS, we recommend focusing on advertising to customers that you know are a **good fit for your business**. This isn't a time for casting the net wide with speculative bets.

With Twilio Segment CDP, you can use data on your existing customers to let advertising platforms find prospects with similar characteristics – lookalike audiences.

And just as you should focus on customers who have a high propensity to convert, you should also look to reduce the amount you spend advertising to those that don't (e.g. the *likely to churn* bucket).

Both of these approaches help increase your advertising efficiency.

When implementing lookalike audiences and ad suppression for your campaigns, avoid these two common mistakes:

1. **Working with out-of-date customer data by manually uploading CSVs to your advertising platform.**
2. **Suppressing too many ads, for example, by excluding existing customers who might want to purchase a different product from you.**

Keep in mind: your ads are always based on real-time customer data when you connect Twilio Segment to your advertising platform.



5. Supercharge your audience creation with CustomerAI

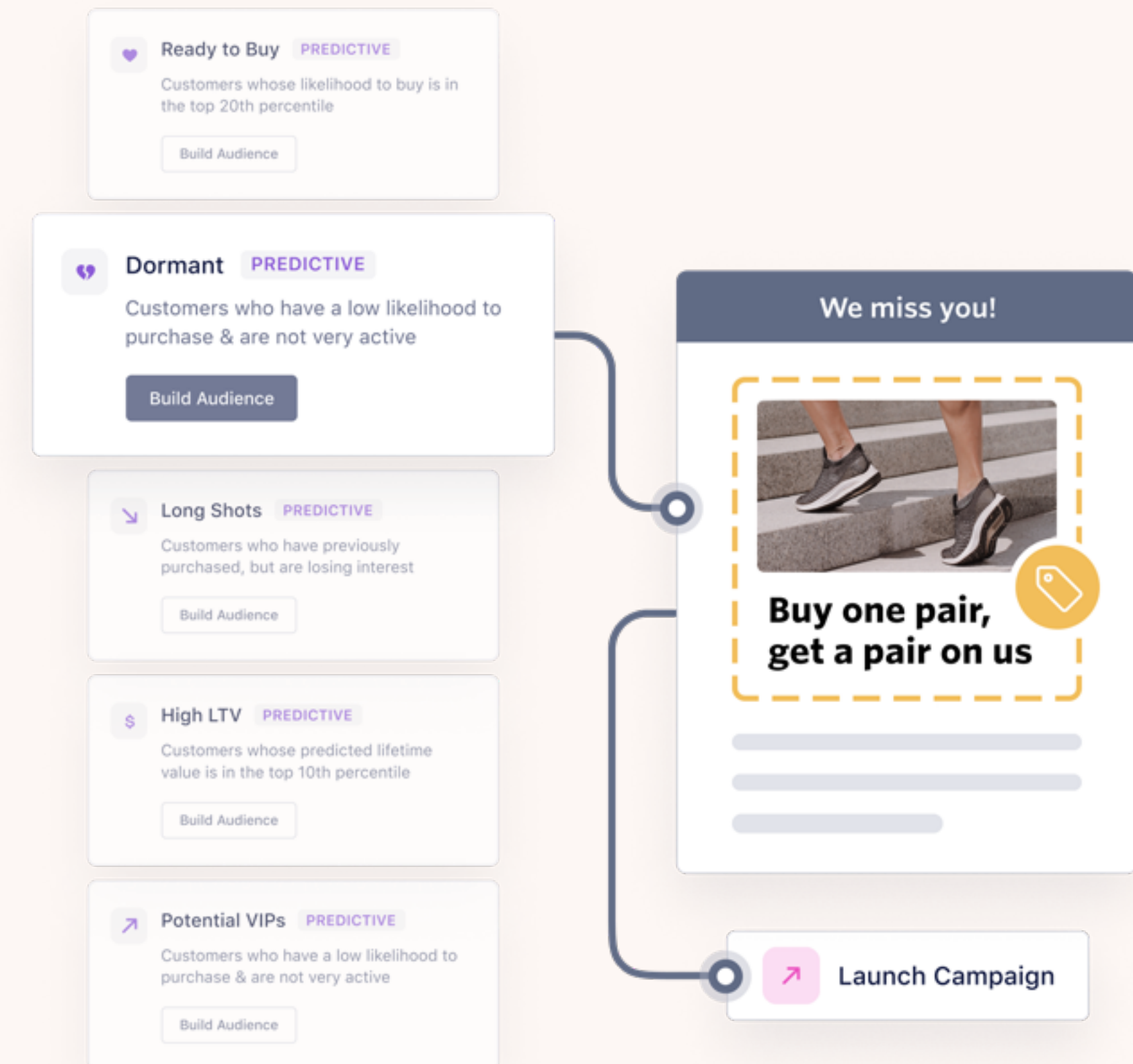
In contrast to lookalike audiences, CustomerAI provides you with tools for audience segmentation at a lightning-fast pace, which you can then keep up-to-date automatically, and activate everywhere such as native messaging channels or major ad platforms.

Built on out-of-the-box machine learning models, you can spark innovative campaign ideas and swiftly generate AI-powered audiences with just a few clicks.

These pre-built templates help you discover and activate the best audience for each campaign:

- **Ready to buy:** Includes customers who are most likely to purchase
- **Long Shots:** Customers who have previously interacted with your brand but aren't currently engaged
- **High LTV:** Includes customers with high predictive lifetime value
- **Potential VIPs:** Includes recently active customers with high predictive lifetime value as well as a high likelihood to purchase
- **Dormant:** Inactive customers who are unlikely to purchase.

With these predictive audiences, you easily uncover patterns in historical customer data, predict future behavior, and discover audiences primed for engagement – saving time, boosting campaign performance, and optimizing return on ad spend.



Chapter 06

Three Segment customers, **three best-in- class advertising strategies**





USE CASE	Data powered performance marketing Data powered digital customer experiences Customer insights and analytics Privacy and compliance Customer 360 Customer data infrastructure Data stack modernization
INDUSTRY	Retail
HEADQUARTERS	Wellington, New Zealand
REGION	APAC
PRODUCTS	CustomerAI Twilio Engage Connections Protocols

1. Improve campaign performance with AI

Trade Me, New Zealand’s premier online marketplace, needed a solution to improve campaign performance but rely less on data science resources. To address this objective, they partnered with Twilio Segment to implement CustomerAI.

This collaboration led to a notable improvement in campaign performance. By leveraging AI-powered predictions and advanced data analytics, Trade Me achieved a 20% increase in email campaign open rates and a 10% rise in click-through rates.

The use of CustomerAI also resulted in a significant increase in seller listings in specific categories, such as computers, with a 130% increase.

The team will continue using Segment’s out-of-the-box CustomerAI Predictions to scale their search engine marketing (SEM) efforts – aiming to better optimize their ad spend by focusing budget on users with high propensity to buy while minimizing budget or suppressing ads to users with a low propensity to purchase.

[Read the full case study here](#)



USE CASE	Data powered performance marketing
INDUSTRY	Consumer Goods and Services Retail
HEADQUARTERS	Mexico City
REGION	NAMER LATAM
PRODUCTS	Twilio Engage

2. Improve ROAS with a single customer view

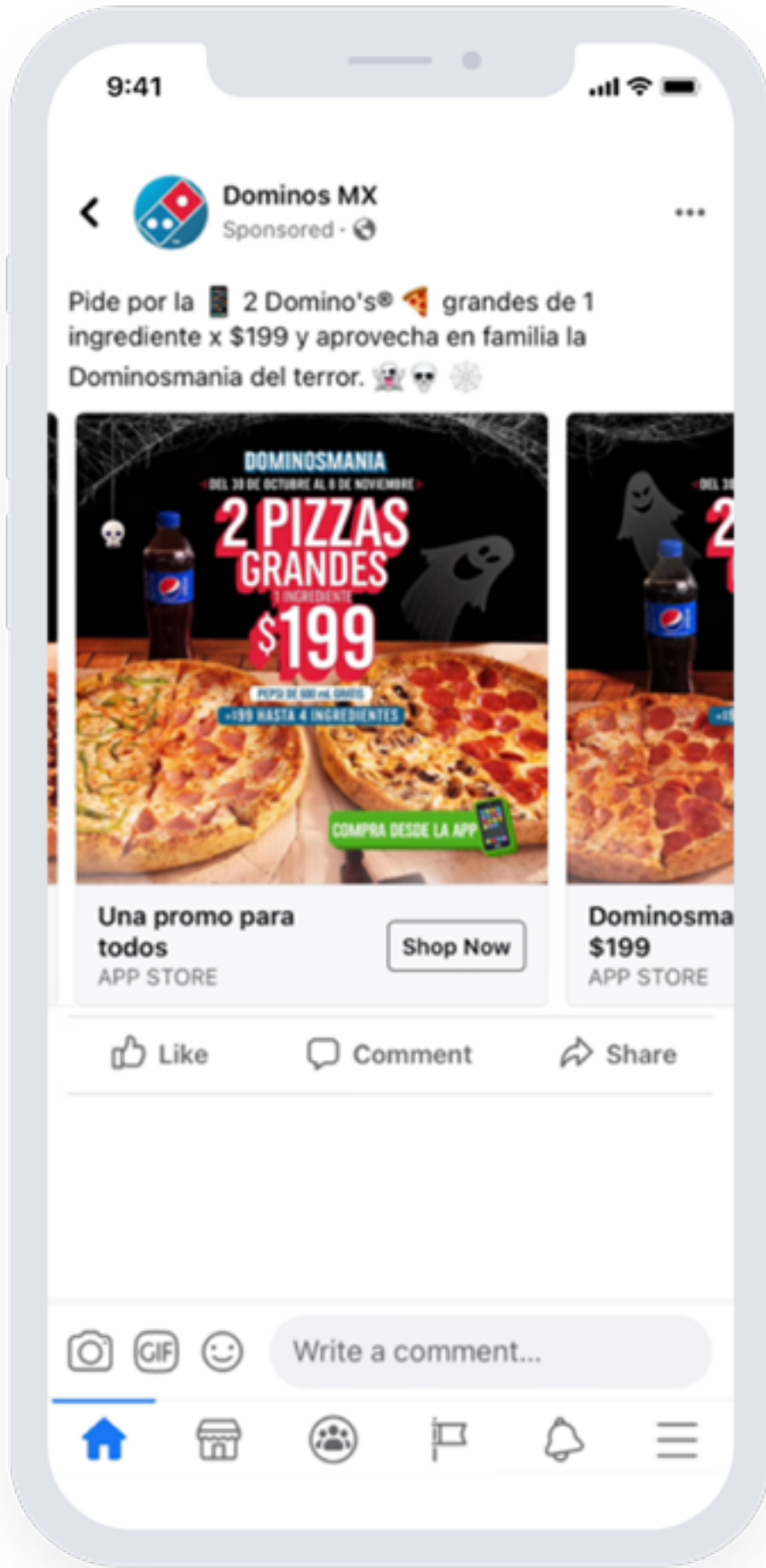
In order to keep up with an expanding digital footprint and an increasingly online customer, Domino's needed to turn its focus to online delivery and build more engagement across its digital platforms. But customer interactions span dozens of digital touch points across every aspect of Domino's business and instead of being accessible across every team, data was stuck in silos. As a result, the marketing team was unable to personalize campaigns based on customers' behavior, resulting in poor customer experiences that impacted lifetime value.

Domino's turned to Twilio Segment to create a universal view of the customer, better visibility of ad campaign effectiveness, and create hyper personalized audiences with Twilio Engage to increase ROAS, revenue and incremental orders across all paid and owned e-commerce channels.

Ultimately, Domino's new data infrastructure, powered by Segment, resulted in significantly improved campaigns:

- 23% incremental increase on Facebook conversions for customer acquisition
- 16% incremental increase on Facebook conversions for customer retention
- 700% increase in Return on Ad Spend for Google ad campaigns

[Read the full case study here](#)





3. Deliver more personalized experiences

Arduino is a global leader in DIY electronics, widely known for its open-source hardware and software. Facing the challenge of delivering privacy-first, personalized experiences for both B2B and B2C customers, Arduino sought a solution to integrate its fragmented data sources.

By partnering with Twilio Segment and CustomerAI, Arduino was able to unify its customer data, overcoming data silos and discrepancies. This integration enabled targeted customer engagement campaigns, optimized marketing strategies, and efficient customer support, paving the way for an enhanced customer journey.

Utilizing these tools, Arduino improved its engagement, predicting shopping intentions and optimizing advertising spends, leading to a more streamlined marketing approach.

With CustomerAI, the business transformed its customer engagement strategy leading to:

- Improved engineering implementation efficiency
- Higher email open rates due to targeted campaigns
- A 70% increase in the accuracy of audience segments

[Read the full case study here](#)

USE CASE	Data enabled sales and support teams Data powered performance marketing Data powered digital customer experiences Customer insights and analytics Privacy and compliance Customer 360
INDUSTRY	Consumer Goods and Services
HEADQUARTERS	Turin, Italy
REGION	EMEA
PRODUCTS	Twilio Engage Data Warehouses Journeys Connections CustomerAI

Conclusion

ROAS and the bottom line

Challenging economic conditions force businesses to cut spending, and cutting advertising costs unilaterally is often the first place they look.

Before you do the same, we recommend one thing – **look at the data.**

We guarantee you'll find cost-savings, but it's likely you'll also find some opportunities for growth. History teaches us that when a recession hits, a “soft market” emerges, where maintaining or increasing ad spend has an outsized effect on market share.

If you can spare the money, ad spend allows you to speak as others become quiet.

This brings us nicely back to ROAS.

A good ROAS will make pitching this fact to leadership much easier because it makes spending money on advertising less of a risky investment. And with that runway, you can justify maintaining or even increasing ad spend during periods of economic uncertainty, which can result in a permanent increase in market share once it's over.

Now that is a return worth pursuing.





About Twilio Segment

Twilio Segment is the world's leading Customer Data Platform (CDP). Our platform provides companies with the data foundation that they need to put their customers at the heart of every decision. Using Segment, companies can collect, unify and route their customer data into any system where it's needed to better understand their customers and create seamless, compelling experiences in real time.

Thousands of companies, including Intuit, FOX, Instacart, and Levi's use Segment to make real-time decisions, accelerate growth, and deliver personalization at scale.

Learn how to personalize the customer experience [Schedule a demo.](#)

Recommended Reading



The Ultimate Guide to Customer Retention

Cost savings are top of mind during economic downturns. This guide takes a deep dive into customer retention strategies, key metrics to track, and real-life examples of businesses that use Segment's CDP to drive increased engagement.

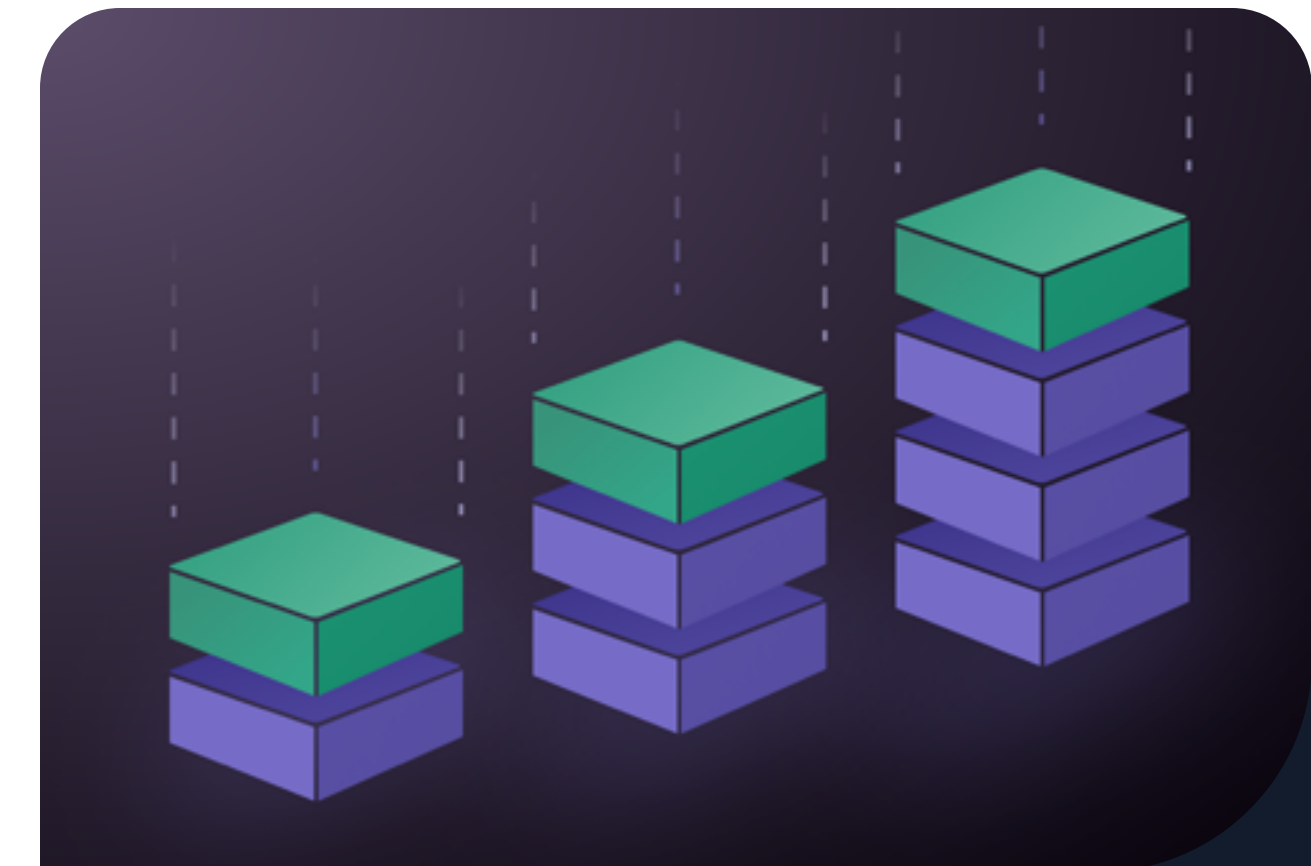
[Download guide>](#)



The Fundamentals of First-Party Data

First-party data is the future of marketing. Both because it's more accurate, and also because third-party cookies will go away by 2023. This ebook shares the difference between third- and first-party data and how to collect and activate first-party data.

[Download guide>](#)



The ROI of a Customer Data Platform

Companies are increasingly adopting CDPs because they provide more accurate, reliable ways to measure and make insights from data. This ebook shares the ROI that organizations reap upon implementing a CDP, complete with real customer examples.

[Download guide>](#)



Today's leading companies trust Twilio's Customer Engagement Platform (CEP) to build direct, personalized relationships with their customers everywhere in the world. Twilio enables companies to use their communications and data to add intelligence and security to every step of the customer journey, from sales to marketing to growth, customer service and many more engagement use cases in a flexible, programmatic way. Across 180 countries, millions of developers and hundreds of thousands of businesses use Twilio to create magical experiences for their customers.

For more information about Twilio (NYSE: TWLO), visit: www.twilio.com.

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