5 Ways to Optimize Advertising Efficiency

TWILIO segment

How to advertise more efficiently with a CDP

As wallets tighten and the threat of inflation looms, stability and efficiency have become the new north stars for marketing teams.

In times of economic uncertainty, businesses tend to pull back on what can be considered discretionary spending – often marketing and advertising budgets. In fact, a recent study showed that 30.7% of marketers surveyed were pessimistic about their companies advertising budgets in 2022.

To understand how businesses are preparing to adapt, we can look to ROAS (return on ad spend) as the metric of choice.

Despite its importance to a businesses' balance sheet, comparatively little has been written about ROAS compared to other metrics like CAC (Customer Acquisition Costs) and LTV (Lifetime Value).

So we thought this would be the perfect opportunity to share how Segment's customers are using a CDP to understand and optimize advertising efficiency.

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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.

$$\frac{\underset{\text{REVENUE}}{\$5{,}000}}{\underset{\text{COST}}{\$1{,}000}} = \underset{\text{ROAS}}{\$5 \text{ (or 5:1)}}$$

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.

Why is ROAS important today?

ROAS is a critical factor in determining the overall health of your business, and one that's held under a magnifying glass by VCs.

For every dollar that you spend on advertising, are you getting at least a dollar (or more) back?

This focus on capital efficiency is a welcome antidote to the growth at all costs mentality from a few years back and is best illustrated by two recent darlings of Wall St – Datadog and Snowflake.

How Startups Balance Growth and Profitability | Volition Capital

Using the Rule of 40, a high-level gauge of company efficiency, these two SaaS unicorns are ahead of the curve when it comes to profitability and revenue growth

With low CAC, short payback periods, and long LTV, companies like Datadog and Snowflake are amongst the most efficient on the public market today, with rocketship valuations as a result.

The success of these highly efficient companies has had a second-order effect on marketing budgets, whereby marketers are coming under increasing pressure to account for advertising spend.

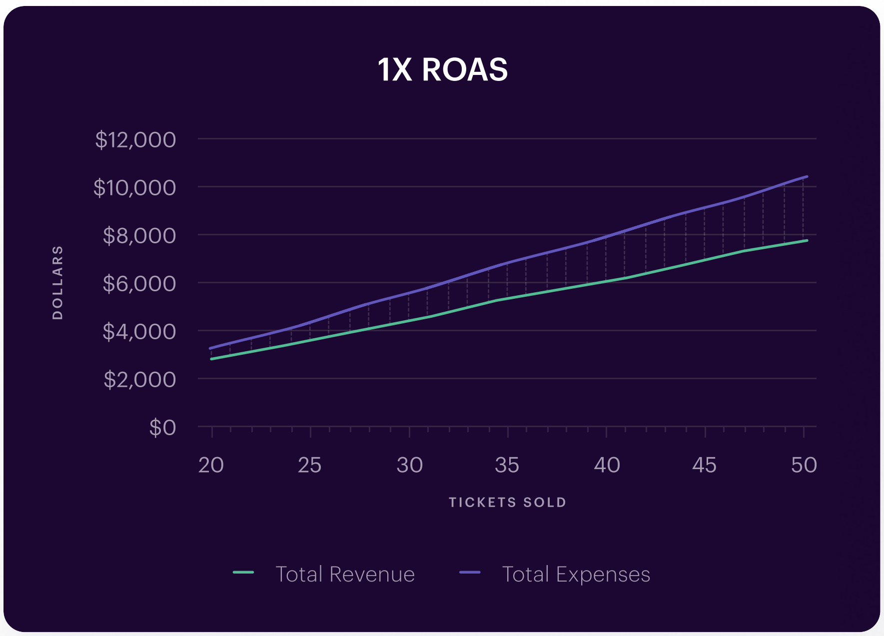
ROAS is the metric that can help you justify maintaining or even increasing ad spend during challenging economic circumstances.

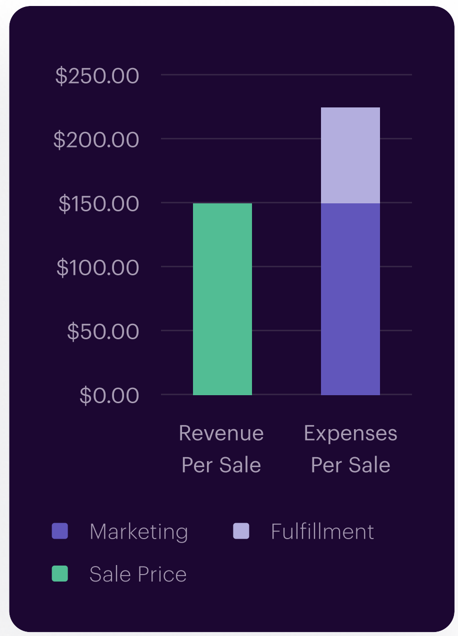
What is a good ROAS?

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.





With a ROAS of 1:1, you'll lose money on every conversion. [Image source]

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.

Five 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, 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 to over 300 different tools, including all of the advertising tools you know and love.

1 Get a performance benchmark from each channel

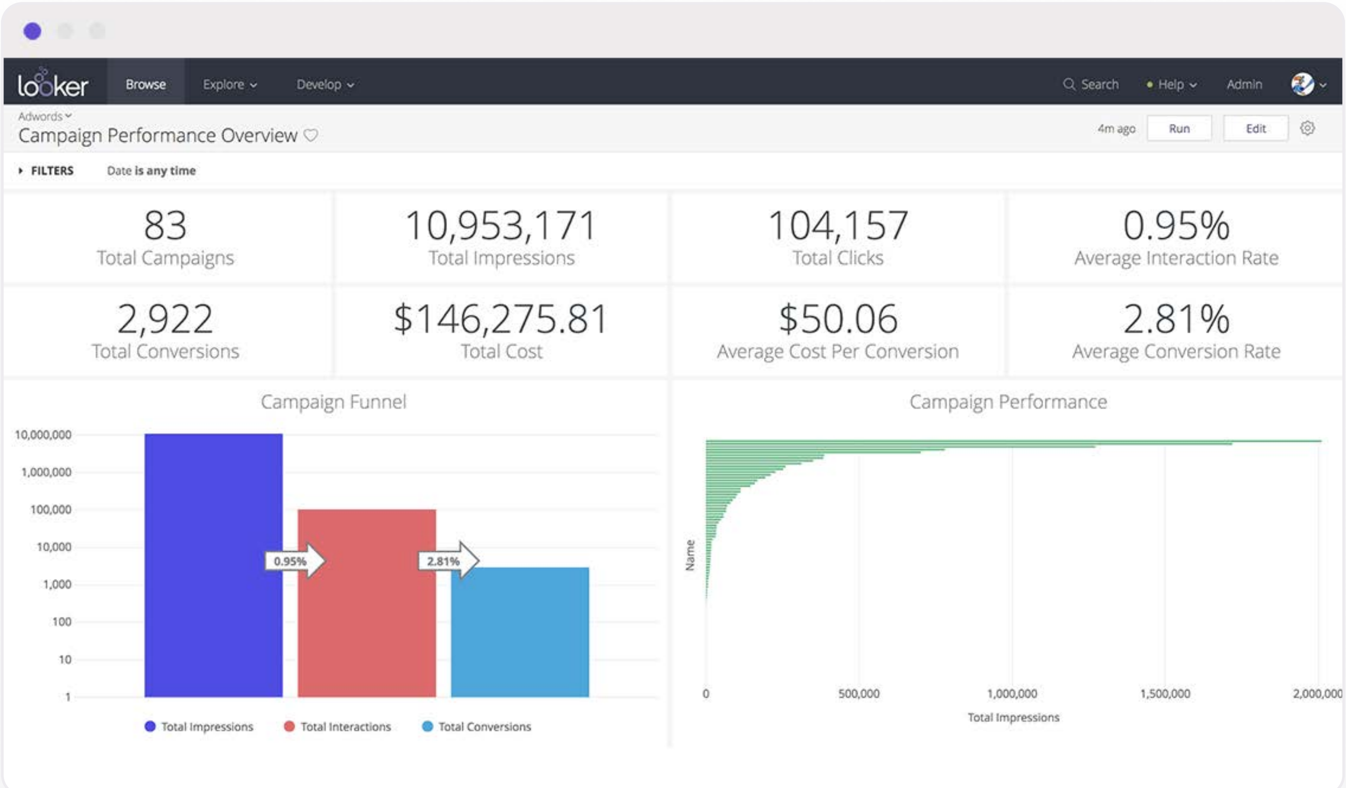
To improve ROAS, you first need to get a baseline of which channels and ad campaigns are working, and which are not.

Most marketers 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 Improve ROAS with funnel-based retargeting

To take your campaigns to the next level, you can use personalized retargeting to move users through your funnel based on behavior, such as product categories, brands, and other properties viewed.

The first step here is to map your purchase funnel to various activities a user can take to identify their purchase stage.

However, you'll want to optimize your retargeting for intent and reach. In other words, you don't want to make your segment so granular that it's not worth your time, but you also want to aim for a high conversion rate to purchase.

By analyzing purchaser activity, you can identify segments for which more personalized ad campaigns and spend are warranted. For example, you may uncover that a first-time purchaser typically visits the site three times before making a purchase, and that your jackets category is the highest converting category from ads. In this case, you'll want to create a dedicated segment to retarget non-purchasers that have visited the site twice and viewed a product in the jacket category.

Using your analytics tool of choice, you can start by answering the following questions:

- **How many times does the average user visit the site before making a first purchase?**
- **How many products does a user view before making a first purchase?**
- **What products are converting the highest? Category? Brand?**

Once you've identified these high-intent traits, you can create funnel-based audiences using a CDP and optimize your ad spend based on likelihood of conversion.

3 Establish a first-party data pipeline

Four companies (Google, Facebook, Amazon, and The Trade Desk) captured 69% of global non-search digital advertising investments in 2021

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.

However, recent ecosystem changes such as GDPR and the phasing out of third-party cookies, have threatened the existence of behavioral advertising as we know it.

From what we've observed so far, these changes are affecting businesses in two 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.

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.

With Segment you can track the actions of a user before they convert through an anonymous ID. Once the user data is revealed, Segment 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.

4 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.

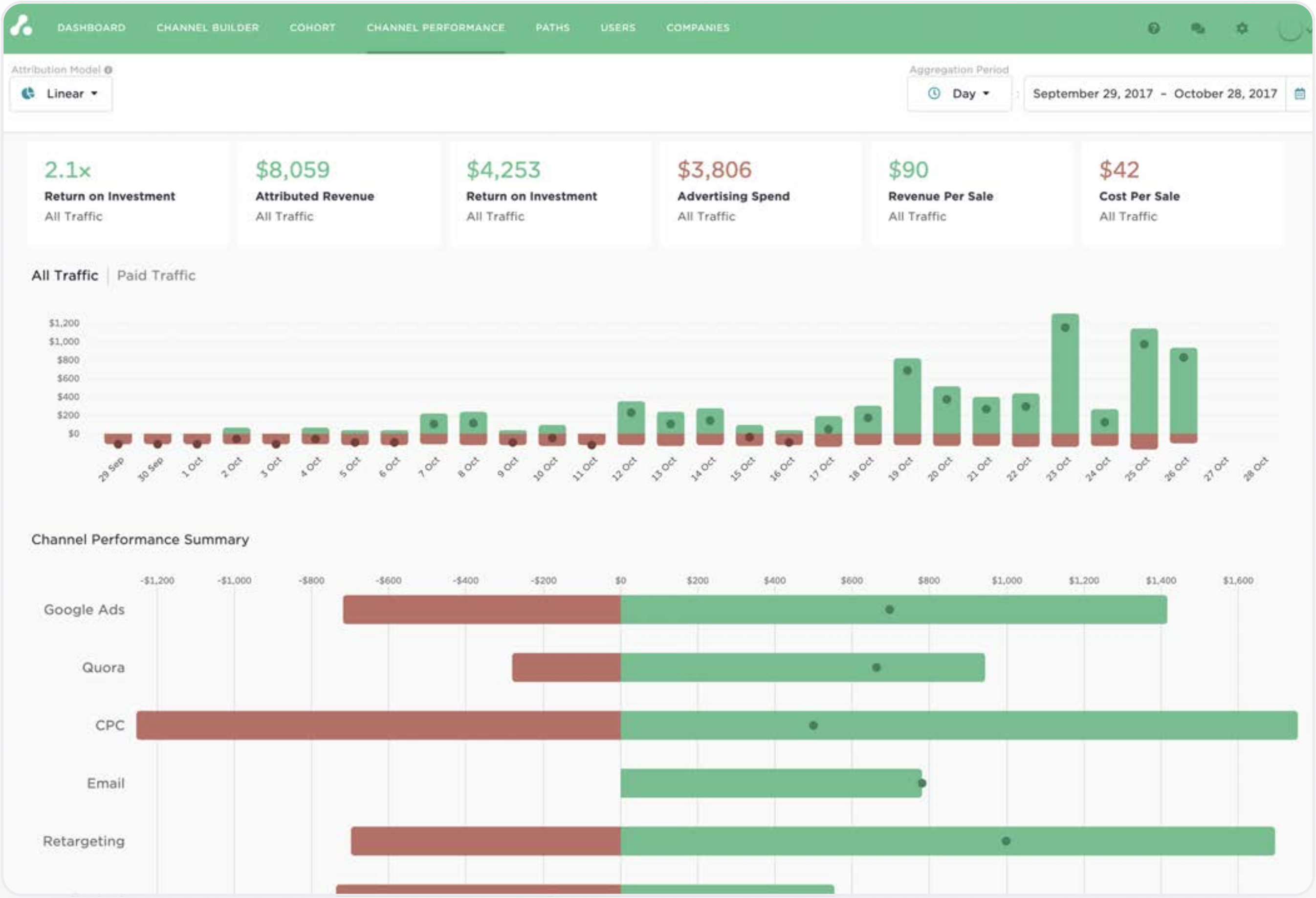
Let's say you're advertising on both Google and Facebook.

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

5 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 Segment's 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.

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 Segment to your advertising platform.

Segment customers that advertise more efficiently with a CDP

1 How Motley Fool uses Segment to optimize ROAS

The data platform The Motley Fool had been using wasn't able to accurately distinguish between prospects and existing paying customers at scale. As a result, a number of existing premium subscribers were being included in customer acquisition campaigns, which was making ad spend less efficient.

To address this challenge, The Motley Fool's business intelligence team would have to manually pull a list of existing members from their data warehouse, deliver that to the paid media team, and then manually upload those lists to a variety of ad platforms. But this data still reflected a static point in time, and ran the risk of being outdated.

The Motley Fool needed a new data solution that had out-of-the-box integrations with Facebook and Google Ads, and featured the ability to send their data to downstream tools in real-time.

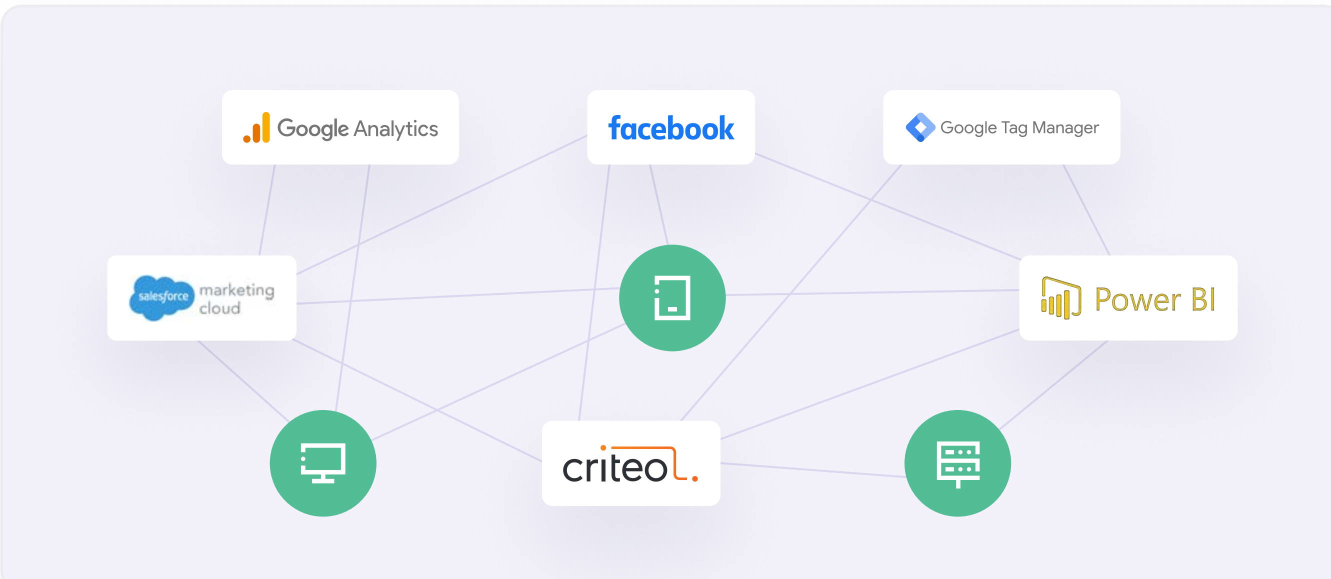
With Segment's CDP their marketing team could easily suppress active customers from their campaigns, which increased the efficiency of both operations and ad spend.

Read the full customer story here >

2 How Stylepit increased ROAS by 70% without the cookie

In light of growing consumer privacy initiatives, including GDPR and the death of the third-party cookie, Stylepit needed to move from its barebones marketing stack to a robust customer engagement strategy to better track first-party data across channels.

With Twilio Segment, Stylepit propelled its growth blueprint and shifted to an exclusively first-party, no-cookie customer data strategy to fuel better performance for its Facebook and Google ad campaigns.



After adjusting their advertising strategy to optimize for efficiency with first-party data, their marketing team witnessed these results in less than a year:

- 70% increase in ROAS.
- 14% decrease in total ad spend.
- Maintained compliance and even optimized email spend with real-time exclusion lists.

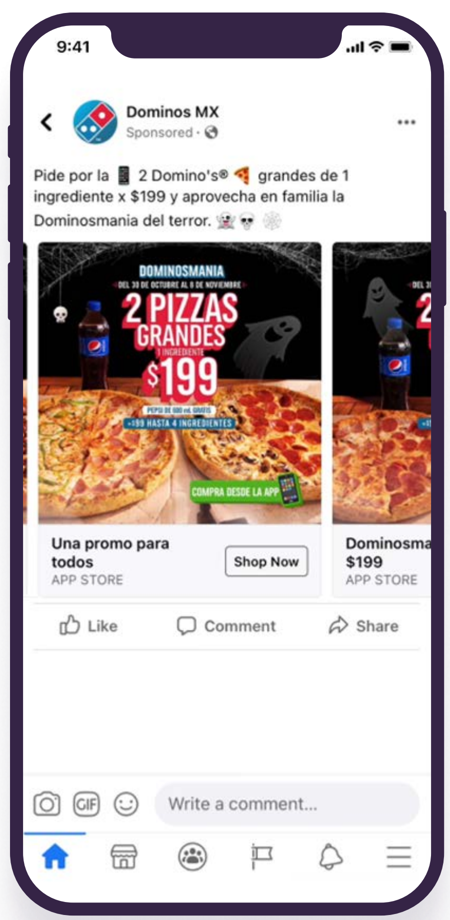
Read the full customer story here >

3 How Domino’s built hyper-personalized audiences with a single customer view

Domino’s created a single view of their customers by partnering with Segment, and simplified their data collection process across all digital properties with a single API.

Domino’s used this setup to launch more relevant cross- and upsell campaigns via personalized offers enabled by Segment’s CDP. Domino's used Segment to identify eight customer cohorts and created personalized journeys for each based on their behavior.

That setup allowed them to tailor their ad campaigns, which decreased their cost per acquisition (CPA) by 65% and increased their return on ad spend (ROAS) by 700%.



Read the full customer story here >

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 the recession, which can result in a permanent increase in market share once it's over.

Now that is a return worth pursuing.

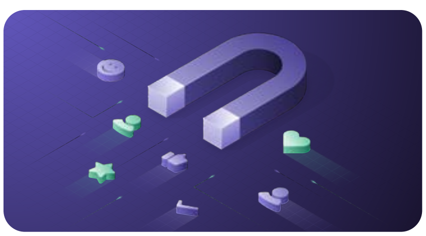
About Twilio Segment

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 the ebook >

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 the ebook >

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 the ebook >