Optimising for real business value

A Precis case study, July 2022

precis. | KIDS BRAND STORE

Letter of introduction

Kids Brand Store struggled with the things many brands do: connecting the dots between channels, understanding the full customer journey and optimising towards high margin items in their revenue generation. At the beginning of 2021, they had a pretty murky understanding of how their marketing strategy was driving real business value for the company – not unlike many marketers today.

Indeed, despite having access to more data points than marketers have ever had before, the general trend in the industry is toward less clarity on performance. The smoke and mirrors of walled gardens and the sheer number of sub-par solutions out there for data aggregation and analytics mean that the utopia of performance marketing connected to real business value remains largely out of reach for many.

But the case we want to present to you today is an attempt to show how brands can understand exactly how their own marketing performance can be linked to profit and business value through a few effective (but not effortless) strategies. But stick with us, and trust that we know what we're talking about.

For any business looking to truly evaluate its marketing activities, we hope you find this guide insightful and useful in your own pursuit of digital excellence.

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Kids Brand Store's revenue increased by 26% and drove a 15% profit increase, while return on ad spend (ROAS) increased by 10% the month immediately after implementing our strategy.

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Kids Brand Store
The facts

Founded in 2011, Kids Brand Store is an e-commerce clothing retailer that has chosen to focus exclusively on providing clothing for children and young people. They are dedicated to making sure their customers know exactly what to expect, with a wide selection of high-quality brands that parents can choose from to create a complete wardrobe for their child.

Kids Brand Store works with some of the leading brands in the fashion world: Calvin Klein, Polo Ralph Lauren, Nike and Gant just to name a few. And since its beginning, they have grown rapidly to become one of the leading sellers of children's clothing across the Nordics and Northern Europe.

KIDS
BRAND STORE

Kids Brand Store as we know it today was established in 2011.

To learn more about Kids Brand Store head to kidsbrandstore.se

26%
Revenue increase

10%
ROAS (profit) increase

16%
Conversions increase

15%
Profit increase

Part I
Profit optimisation

Kids Brand Store, like many e-commerce businesses, was using a revenue-based model. And although they had insights in-house into the low-margin, high-profit items, there was no way to connect this with their overview of marketing performance.

This was not unusual. The connection between profit and marketing performance is more often than not a tenuous one. This is to say, it is more common to measure KPIs based on generated revenue or even conversions further away from the bottom line.

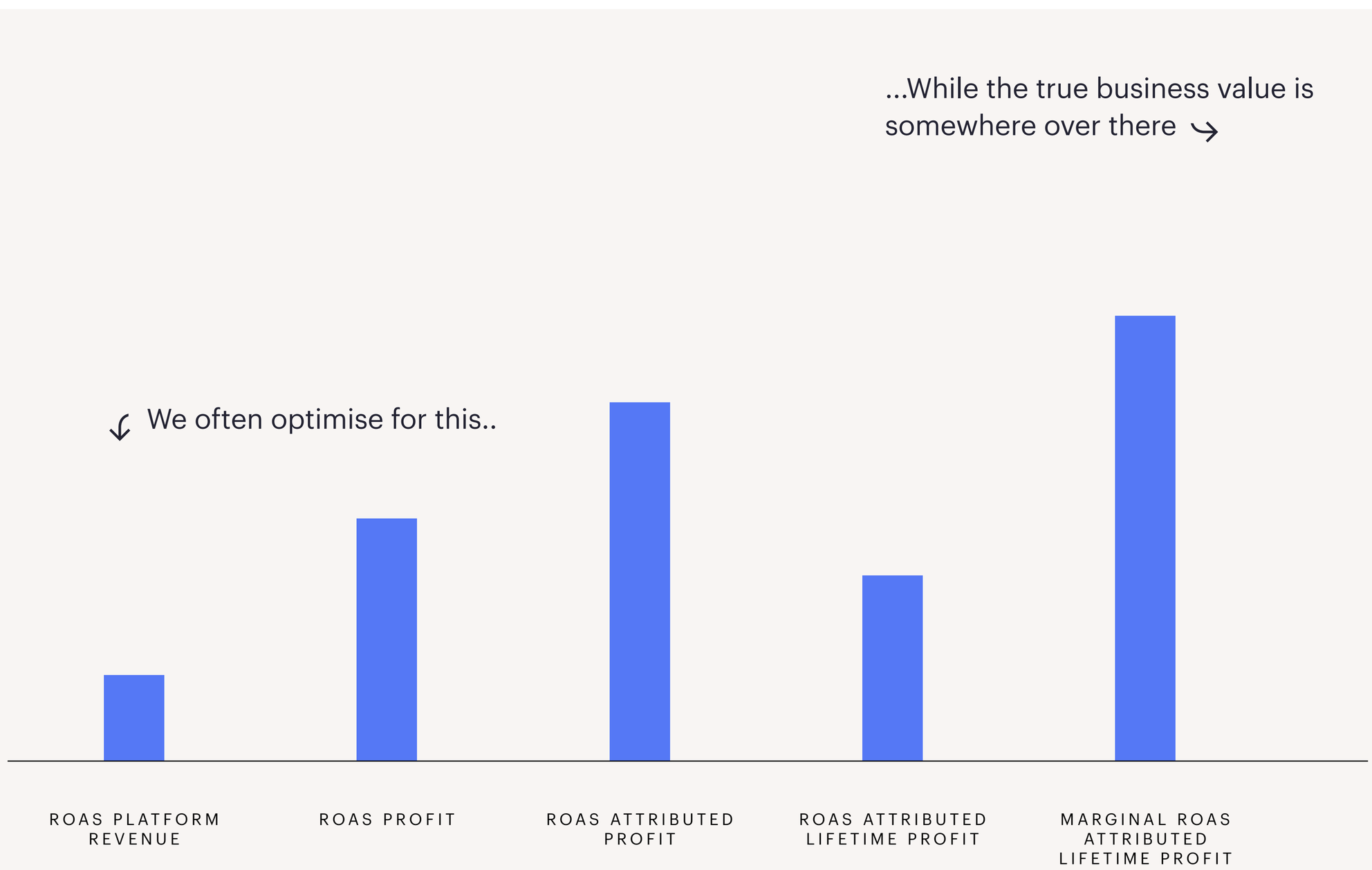
The problem with a revenue-based model

If two customers convert on your site and buy two completely different items at a similar cost of €100 – how do you know which is the higher value conversion without an additional manual calculation? Without an understanding of the associated cost of production and operations with each product, how do you know which purchase has the higher impact on your bottom line within your reporting?

These results don’t just impact your overview of performance but also how profitable your marketing activities are. In an era where bidding algorithms have more control over the placement, frequency and audiences of your campaigns it is crucial to provide these platforms with the most accurate data to get the best results.

For instance, you can optimise within Google search towards ROAS, but revenue and profit won't always correlate. So within the platform, without the insights into the profit margins relating to each product, the bidding algorithm would push higher value or popular items – without taking profit margins into account – ultimately resulting in some unfavourable profit outcomes.

Therefore, with Kids Brand Store, we were determined to provide real-time insights to allow them to see how each conversion connected to the bottom line as well as feed these insights back into marketing platforms to action them directly within our bid strategy.

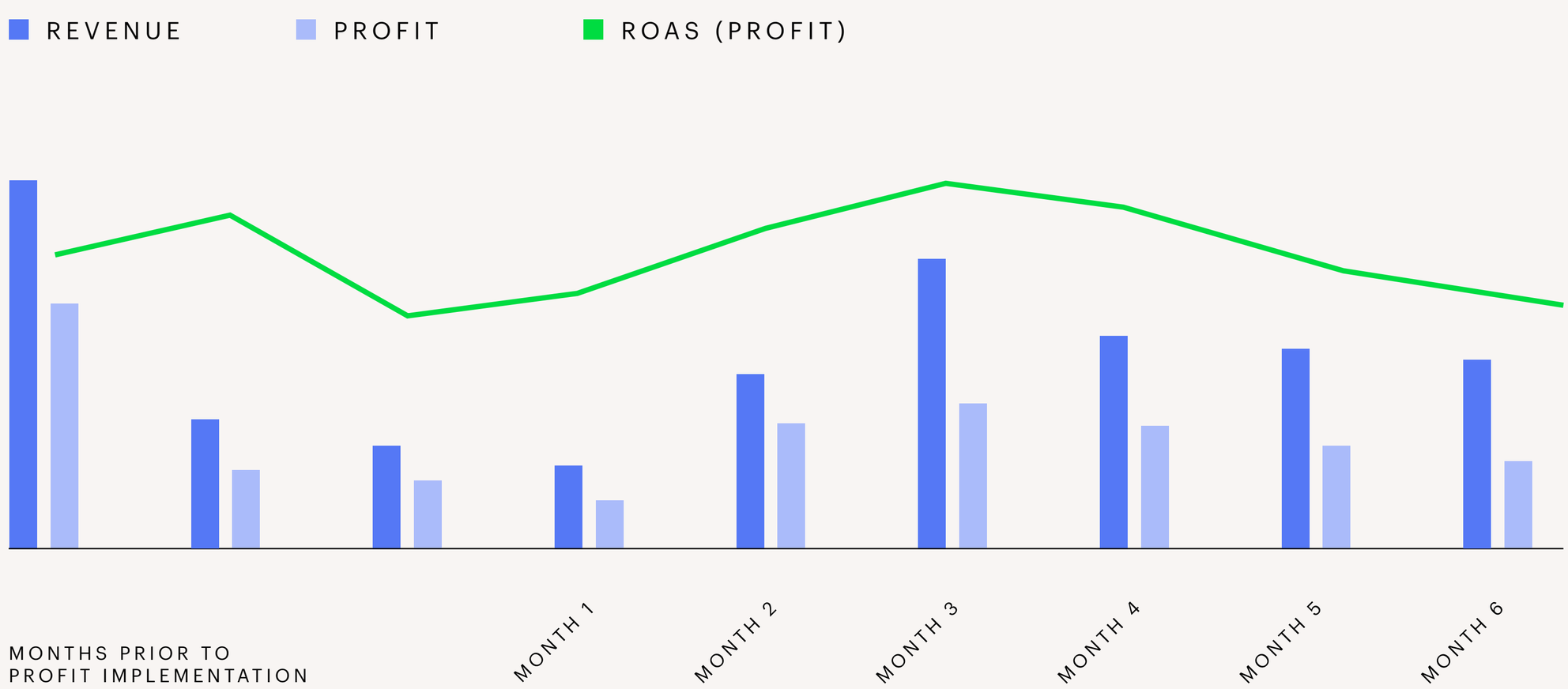


Implementing a profit-based ROAS model

So how do you go about implementing a profit-based ROAS to your marketing activities? We won't go into all the technical details (for both our writer's benefit and yours!) but essentially, it involves incorporating all the data points possible in one compact and digestible format.

Using custom-built API connectors, we could draw data from marketing platforms (i.e. Google, Meta) alongside affiliate channels, SMS marketing, influencers and internal data on profit margins into Google BigQuery. This data was then transformed into a granular profit-based model which feeds insights back into the platforms and our reporting dashboard.

When finished, we noticed that ROAS (sales) and ROAS (profit) moved in parallel after profit bidding was enabled – we weren't neglecting the profitable demand for revenue any longer.



Part II

Channel optimisation

After implementing a profit-based model, Kids Brand Store wanted to understand how they could work with the full channel mix to achieve even better profit outcomes.

Kids Brand Store is not unusual in that they have a cross-channel digital marketing strategy: combining Google search, Google shopping, Google display and Meta platforms to reach its target audience. But with a variety of channels, comes great confusion. How do you measure performance in a way that accurately reflects performance for all channels? There isn't an easy answer...

Implementing a data-driven attribution model

Read more about capturing, storing and activating the right data

Before our partnership, Kids Brand Store used the standard last-click attribution model within Google Analytics. For those who may be unfamiliar with this model, it is important to note that it has certain drawbacks.

Last-click attribution measures which touchpoint a customer last clicked on or engaged with before making a purchase, and gives it 100% of the credit for the sale or conversion.

Evaluating your marketing performance based on last-click attribution favours lower-funnel activities at the expense of more upper-funnel activity that may not lead to an immediate purchase, but is certainly critical in the conversion of a customer.

Therefore, for Kids Brand Store, lower-funnel activities on Google Search, Meta, and Google Shopping remained their highest performers, whilst more upper funnel campaigns lagged behind. Left untreated, a reliance on a last-click attribution can negatively impact budget distribution, forecasting and digital strategy – and potentially lead to lower performance in the long run when impactful nuances in the brand more upper funnel activities go undiscovered..

It's easy to forget, but effective attribution is one of the most critical parts of successful marketing. It has the potential to have an immediate impact across the whole marketing investment, with major cost savings and value increases as a result of successful implementation.

Data-driven attribution (DDA) models use an algorithmic approach to allocate credit to a user journey. It uses conversion-related data (such as conversion paths) to generate a custom model for assigning credits to different touchpoints/channels. This makes it the preferred option compared to the rule-based models, as it could be regarded as a more holistic approach to performance evaluation.

Rule-based models assign value based on predefined rules (based on a static assumption) while data-driven models assign value based on an algorithmic approach to your own data.

Here at Precis, our data-driven attribution model is based on cooperative game theory. What does this mean? Instead of working off last-click or other attribution models, we analyse each channels' contribution to driving conversions. Each channel receives credit for a conversion based on its cross-channel contribution. We think this is a more accurate and fair solution to reporting performance. On the next page you can read more about the data-driven attribution model and how we use is to confirm our various hypothesis and drive perfomance.

The data-driven attribution model

The Precis data driven model is based on the Shapley value

It is a concept of **cooperative game theory**

Solves the problem of fairly distributing a payoff of a game among players with unequal contribution

Each **marketing channel** can be seen as players in the game of **driving conversions**

They receive credit based on their **actual contribution**

Example:

B 5 conversions

B + A 7 conversions

Marginal contribution of A is 7-5 = 2

Once we had implemented DDA, we were able to confirm our hypothesis that Display and Facebook campaigns were undervalued in the conversion funnel.

Last-click vs DDA results

Channel	DDA/Last click (% Change)
Direct	-45%
Organic search	-41%
Email	48%
Paid search - Own brand	-42%
Paid shopping - Non brand	67%
SMS	73%
Paid search - Non brand	186%
Referral	41%
Affiliate	-8%
Social - prospecting	29%
Paid shopping - own brand	-44%
Social - remarketing	76%

73%

SMS

We noticed a 73% increase in SMS marketing to KidsBrandStore after applying DDA in this campaign.

-41%

Organic search

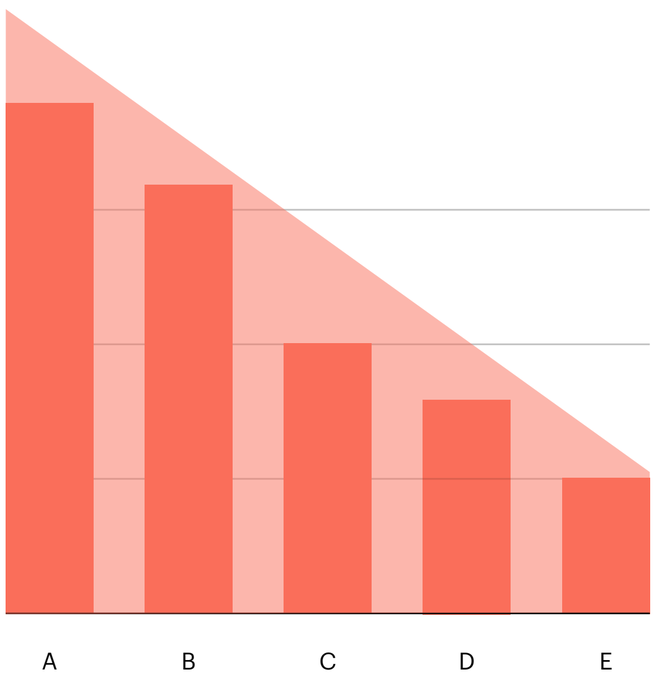
-41% change in organic search attribution after applying DDA

Part III

Customer journeys

At this stage, we had reached an exceptional level of marketing maturity together.Kids Brand Store were now able to confidently base their budget decisions and marketing tactics on profit outcomes in a cross-channel context.

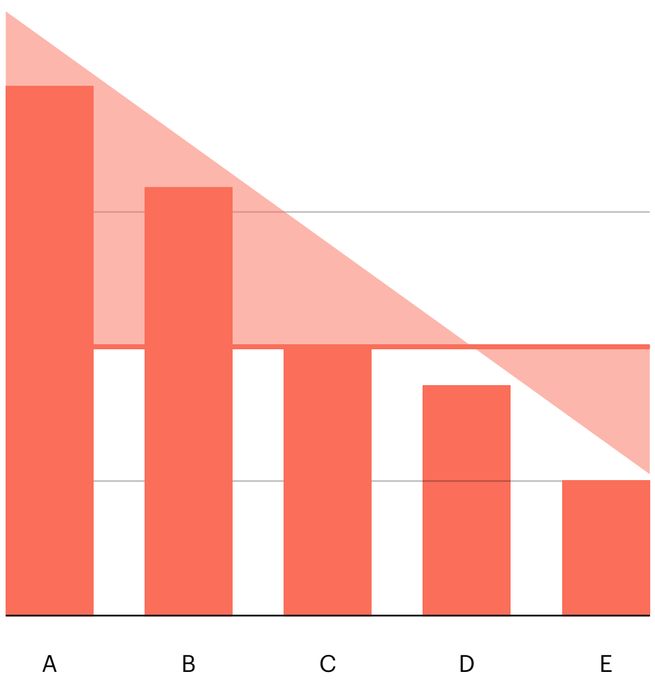
They were growing profitability at a high rate but their CRM was showing that this growth was coming from existing customers rather than new ones. Naturally, they asked the question, 'Is our current approach favouring existing customers only?'



Portfolio strategy separated per customer segment enabling marginal bids

In the case of Kids Brand Store, they had no way of viewing the split between new vs. returning customers within Google Analytics or their performance dashboard. The value that a certain customer brings is not simply determined by the cost of the item they purchase. For instance, it can be easy to attract new customers during sales cycles but comparatively harder to attract new customers who purchase items at full price time and time again.

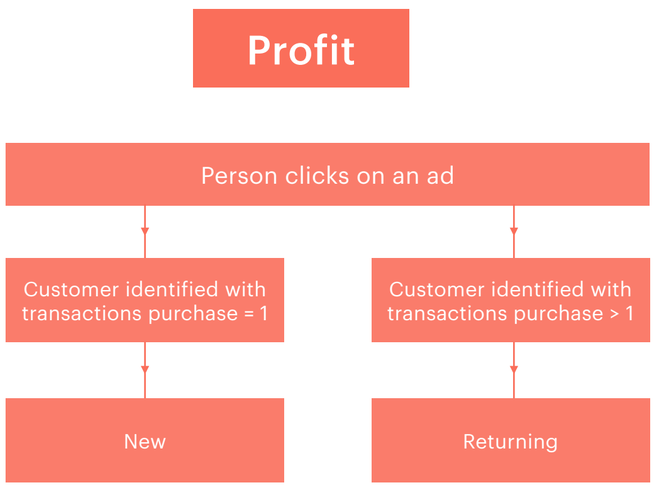
Understanding the difference between new vs. returning customers is an important nuance in a digital marketing strategy. For instance, with access to first-party data from your CRM, you can identify which customers drive the most value for your business. This information can then be fed back into marketing platforms and inform bidding strategies – targeting audiences with similar attributes and increasing your chances of driving long-term value.

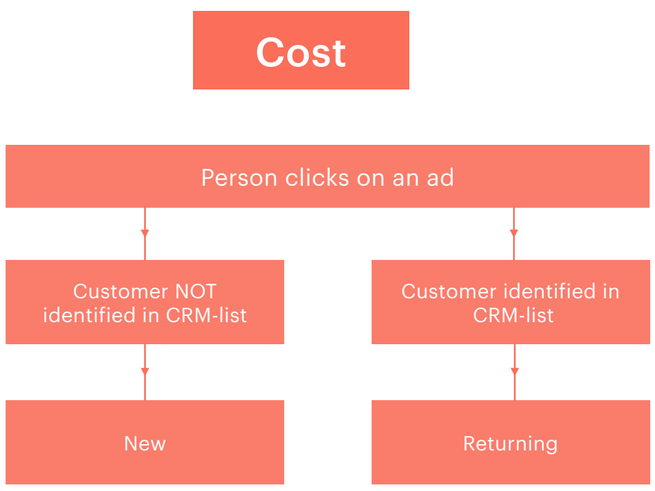


No disctiction in different customer segments, averaging out the bids

In the graph to the left you can see the difference between the two strategies: In graph A where marketing spend remains the same across all customer segments, marketers miss out on potential revenue. Instead graph B demonstrates a nuanced approach to marketing spend, where customer segment A has the highest long-term value – marketing spend is adjusted accordingly.

Determining new vs. returning customer insights





Together with our analytics team, we set out to understand this very question.

By utilising first-party data alongside implementing a new/returning structure, Kids Brand Store adjusted its investment for the two customer segments to reflect their respective lifetime value.

Within the new model, it became apparent that new customers were driving lower profit based on single purchases, but the lifetime value of getting a new customer was higher.

By looking at profit over the long-term, Kids Brand Store was able to determine the lifetime value of customers versus a previous strategy that looked at profit only at the time of conversion. Profit at the time of conversion is just a snapshot – lifetime profit is what really matters!

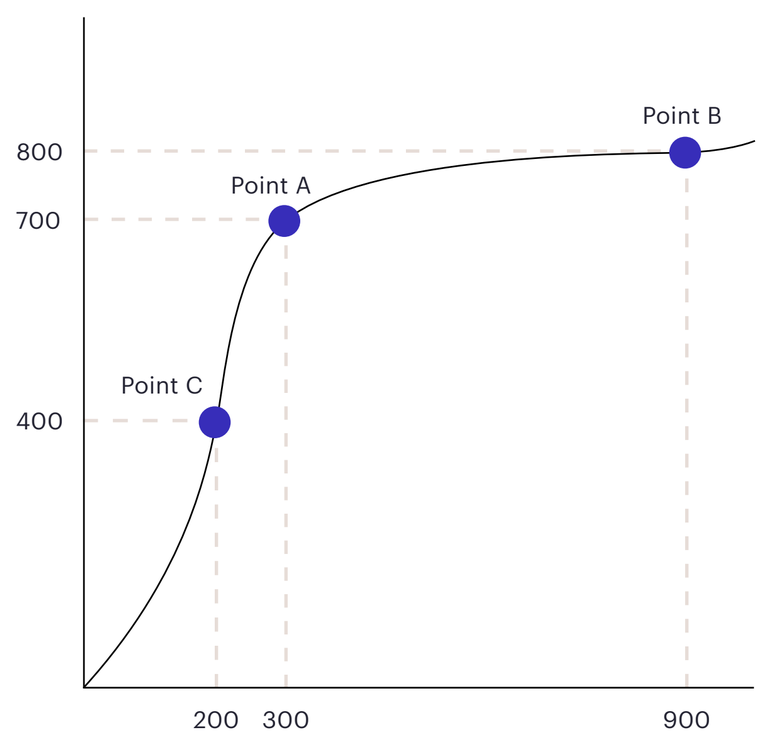
Part IIII

Introducing budget optimisation

Once we had generated the data-driven attribution model with Kids Brand Store, the question became, how can we take these insights and understand how best to redistribute spend?

Of course, you can run tests within channels and make small adjustments to spend, but making more drastic decisions on redistribution is difficult without a long-term understanding of what impact that will have on your bottom line.

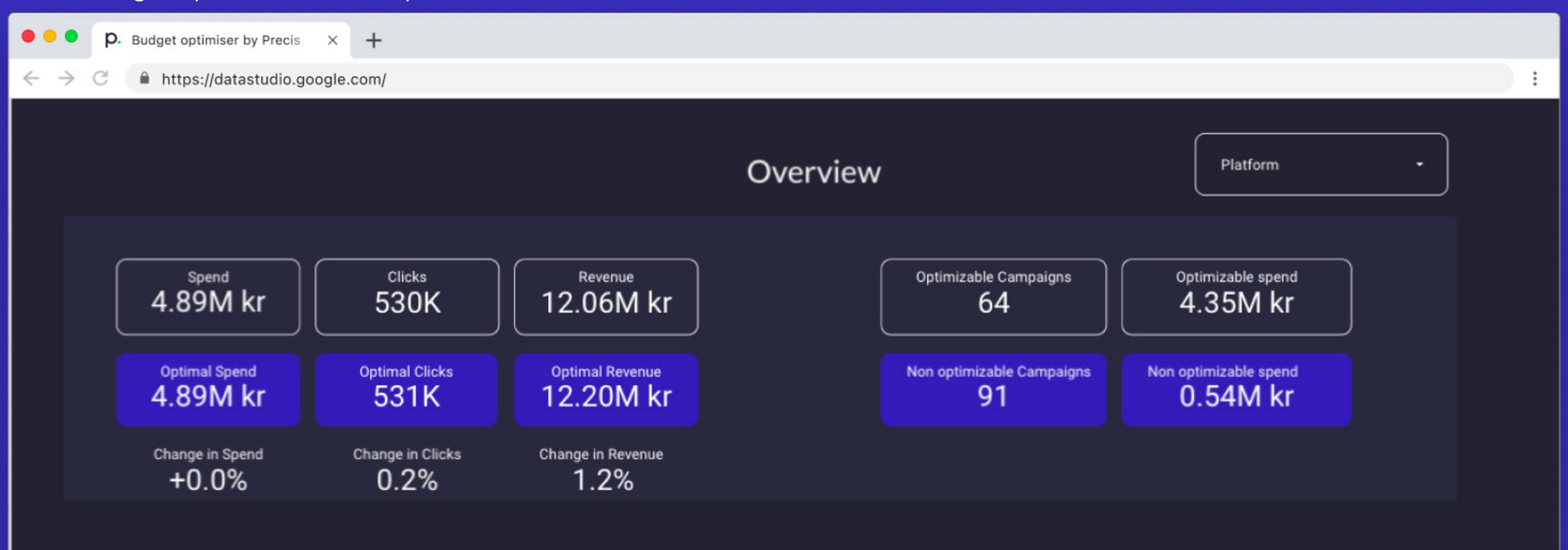
The marginal ROAS is the the additional profit we're getting by increasing investments at any budget level. Without knowing this we could spend 90% of the budget on 10% of the conversions in a campaign. This is an important insight, since attribution models in themselves don't answer this. They do not say anything about the relationship between spend and outcome, the so-called performance curves.



Using Precis proprietary technology, we can predict how shifts in budgets can drive additional profit – while keeping, or choosing to increase/decrease, your budget.

In the dashboard below, you can see examples of how depending on different parameters, the expected returns either decrease, increase or stay the same.

Precis budget optimiser with sample data



Conclusion

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In the landscape today it can be difficult to get a clear picture of what exactly is the value you are driving for your business with your marketing investments. Development within platforms, emerging privacy requirements and a lack of data literacy among marketers make marketing harder, not easier (despite how 'far' we've come since the mad men days).

Here at Precis, we have made marketing evaluation one of our cornerstones for how we work with our clients. By identifying the KPIs that drive real business value for our clients, we can then create a framework and a path to a true understanding of marketing investments.

Of course, it's still a work in progress, but the steps we have outlined today are a good basis for many businesses that are looking to have a balanced and fair picture of their marketing spend.

Get in touch with us or visit our website to learn more about our offering in this area.

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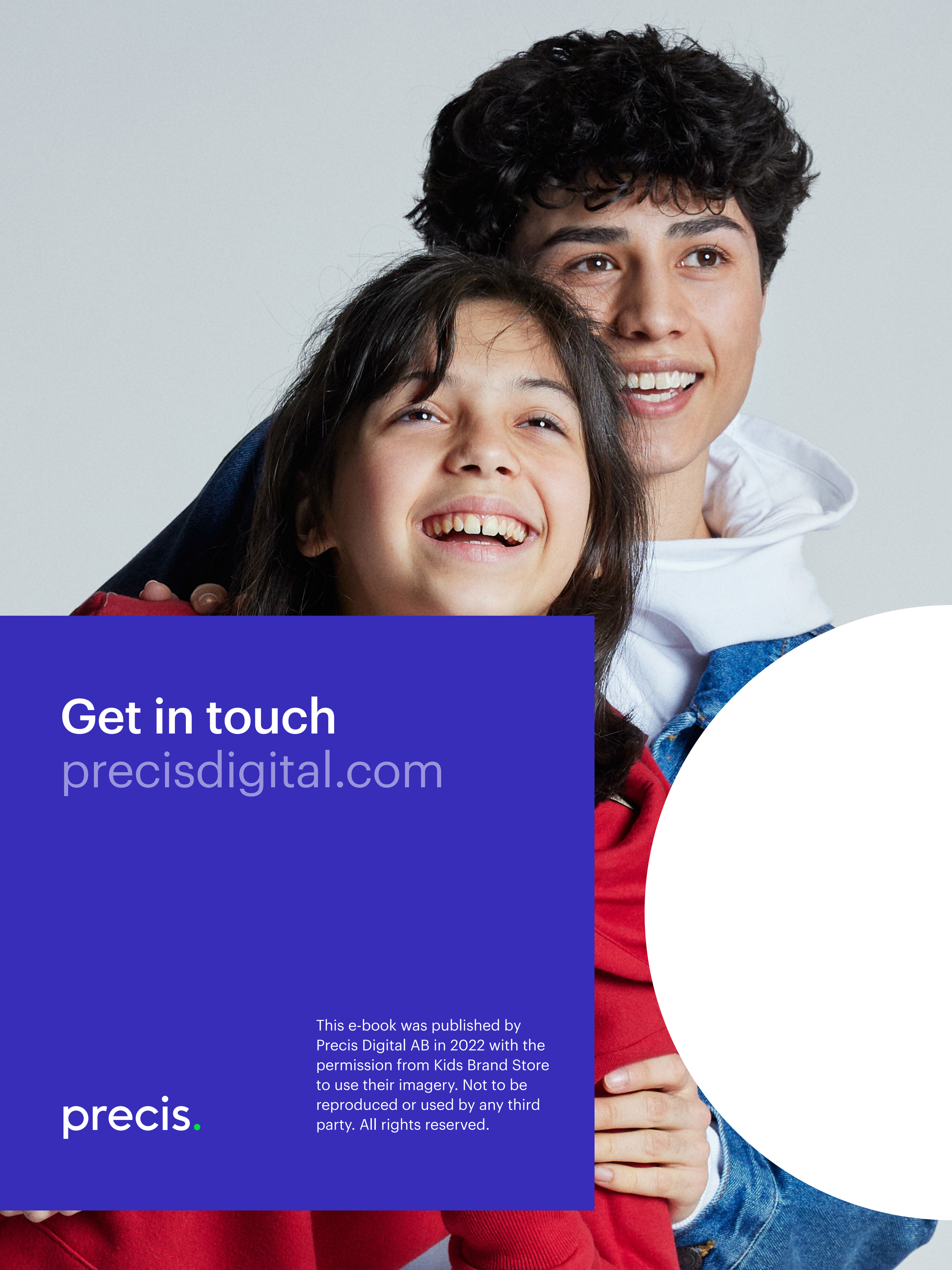

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