Overlooked Opportunities in Digital Advertising

Insights based on 100m€ in ad spend

genero

Why read this e-book?

Digital marketing is constantly getting more competitive. Advertising costs are going up, demand is volatile and capturing data is more difficult. If you want to thrive in this new reality, your digital ad strategy and execution need to be on point.

After managing over 100 million euros in digital ad spend over the years, we've observed a few recurring patterns. There are often ways to improve performance right inside the ad accounts if you know where to look.

In this short e-book, we'll cover 3 of the biggest opportunities for maximizing your marketing return. Implementing these can lead to significant and sustainable improvements in performance.

Rasmus Östman
Co-Founder and CEO of Genero

Enjoy!

1. Segment your audience

What is the ROI on your digital ads?

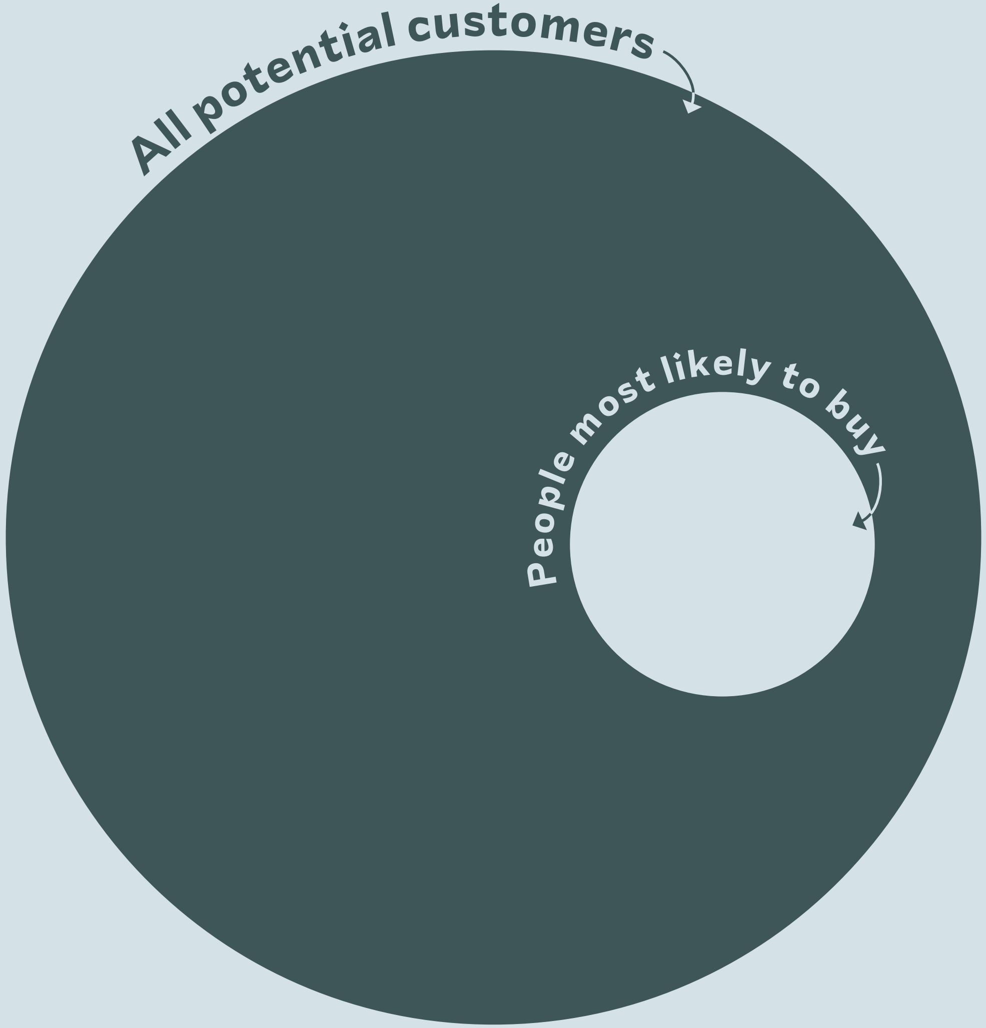
Unfortunately, the real number is probably not as high as you think. Platforms like Google and Meta are great at attribution, i.e. tracking when someone sees an ad and then completes a desired action (e.g. sign-up or purchase). But they're not as good at figuring out if the ads actually caused the conversions. To understand why we need to understand audience segmentation.

By audience segmentation we mean creating different campaigns and/or ad groups for new customers (prospecting) and existing customers (remarketing). If you don't do this at all, you're likely wasting part of your ad budget and hurting your customer acquisition.

This claim flies in the face of modern conventional wisdom. Artificial intelligence is becoming more intelligent and as a result media buying is becoming more automated. Advertisers are told to not rely on their own flawed judgment and instead trust the algorithms. While this is often true, audience segmentation is an important exception.

Let's say that you publish a Facebook ad with the object of generating sales for your online store. Facebook's algorithms will then try to deliver the most purchases at the lowest cost. Their first step is to identify the people who are most likely to convert. Naturally, this is going to be the people who have already bought from your store or shown interest by e.g. visiting your website. Unless you restrict the algorithms, these people will be served a disproportionately large number of ads.

The problem is that many of these people would have bought from your store regardless of whether they saw an ad or not. It would be better if your advertising budget was spent on trying to reach completely new customers. But Facebook only cares about attributed short-term results: as far as they're concerned, anything that happens outside of a 7-day conversion window doesn't exist. Therefore the algorithms will almost always prioritize demand capture over demand generation. Good for Facebook, bad for your business.



Attribution window	7d click	1d view	7d click + 1d view
Reported conversion value	4.3 m€	3.2 m€	7.5 m€

Let's look at an example from one of our clients. Before working with us, they were not really segmenting their audiences. Facebook's reported sales were over 7M€. But when we analyzed the numbers we saw that 42%* of all purchases came from 1-day view attribution. In other words, people who didn't click on an ad but purchased within one day of seeing the ad. These people were almost certainly already going to buy, but Facebook was clever enough to show them an ad before they were able to buy.

This meant that Facebook was overstating the actual sales it generated by as much as 73%! And so the client was showing ads to the wrong people, potentially wasting as much as 10,000€ in ad spend each month.

This may strike you as common sense. But in our experience, it's not common practice. We see some level of improper audience exclusions in well over 50% of the accounts that we audit or take over.

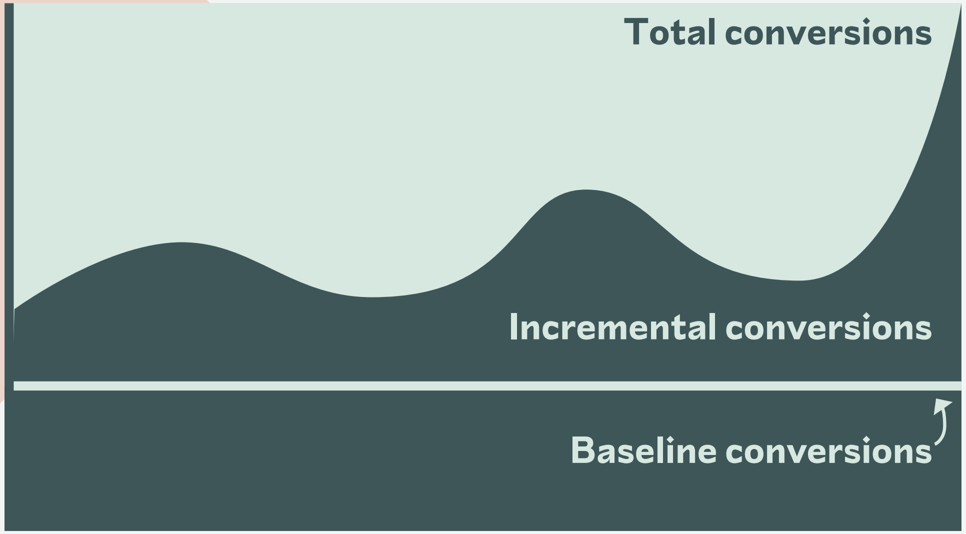
A final word of caution: by segmenting your audience and moving your budgets towards top-of-funnel prospecting, you can expect the reported CPA (cost per action) to increase (which is one reason why so many marketers don't do this). But the metric that matters most is your blended CPA (i.e. the total CPA), and it should decrease as a result.

* In our experience, this number should be 2-5%

2. Focus on incremental conversions

What would happen if you eliminated the entire marketing budget?

The amount of new business (leads, sales etc.) would probably not drop to zero, at least not immediately. That's because all established companies have some baseline level of conversions, i.e. conversions that would happen regardless of how, or if, you market.



If our marketing is at least somewhat effective, the business will generate more conversions than the baseline number. The difference between the total number and the baseline is called incremental conversions. In an ideal scenario we would spend 100% of our time and money on generating incremental conversions.

Not knowing the difference between the two types can be very expensive.
Here are a few famous examples:

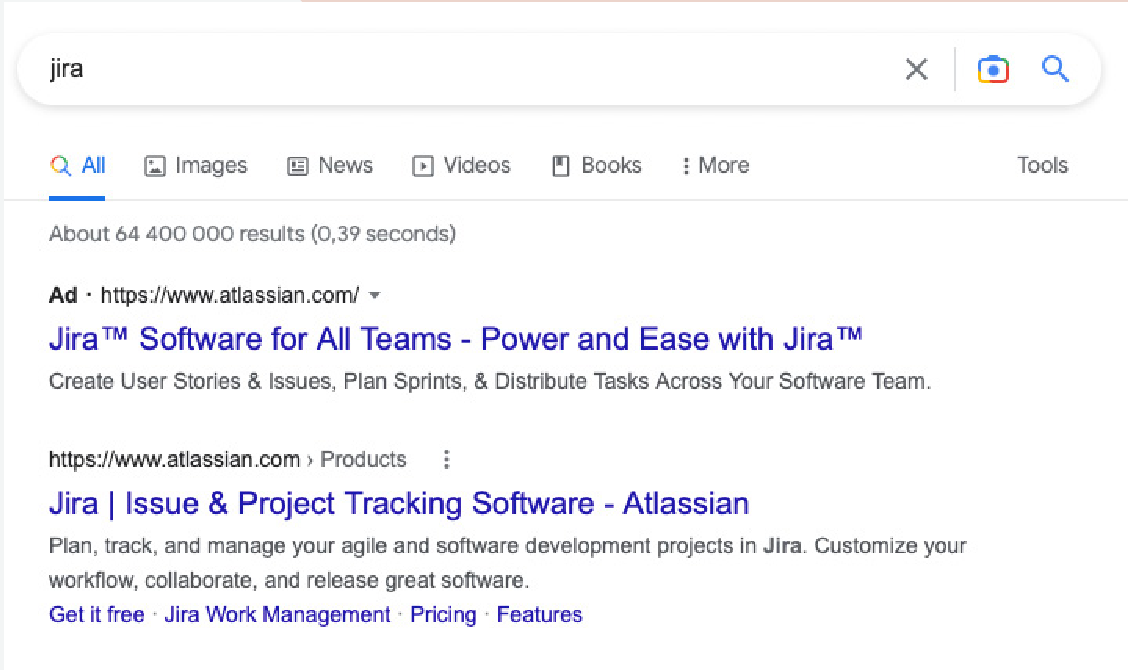
- **eBay** turned off paid search ads in ⅓ of the US and saw no impact on sales.
- **Airbnb** cut all digital ad spend ($800 million) at the start of the pandemic. Web traffic remained at 95% of the level in the previous year.
- **P&G** turned off $200 million in ad spend - no change.
- **Chase** turned off 99% of the websites in their digital advertising - no change.
- **Uber** cut $120 million in paid app-install campaigns - no change.
- **Simple Modern** (the #1 drinkware supplier on Amazon") turned off its Amazon ads after spending $10 million on the platform. Sales of their drinkware continued.

These companies discovered that they were paying for conversions that were attributed to marketing, but not actually produced by it.
As a result, they were able to save hundreds of millions per year.

Let's look at one of the most common offenders: Google branded search ads. These are ads shown to people who search your brand name on Google. Many companies advertise heavily on branded search for the simple reason that it produces cheap conversions which makes the advertising performance seem better than it is.

Branded search ads can absolutely make sense, e.g. if competitors are bidding on your brand keywords. But oftentimes, you can reduce or eliminate the budget without any negative impact on performance.

Measuring incremental conversions is difficult and there is no one-size-fits-all solution. You just have to test and see what works. In our experience, over 90% of companies are either unaware of this issue or don't do anything about it. Simply doing a few experiments puts you ahead of the competition.



3. Run proper A/B tests

We often hear about the importance of being data-driven and testing instead of guessing. It's true that A/B testing is a powerful tool for improving ad performance. It's also true that few companies know how to run A/B tests.

There are two problems. The first (and biggest) problem is a lack of testing. It's common to see campaigns that have barely been touched for months. The second problem is improper testing. When the tests are not correctly structured, the results become unreliable and the tests don't produce clear insights and next steps.

Here are a few things to keep when running A/B tests!

Focus on what matters

Imagine that you're testing two ads against each other, both with an average cost per click of 1€. Ad A has a conversion rate of 2% and ad B has a conversion rate of 3%. If you want to get statistically significant results (with a 95% confidence interval), you'd need to generate 1,300 clicks per ad. The total advertising cost of running the A/B test is then 2,600€!

You may of course be satisfied with a lower confidence level, but the point still remains. If you want to do proper A/B tests, you're going to need to spend proper money.

This of course means that we need to be highly selective with what we test. There's a time and place for testing audiences, demographics, placements, etc. But the ad creatives are by far the most important variable.

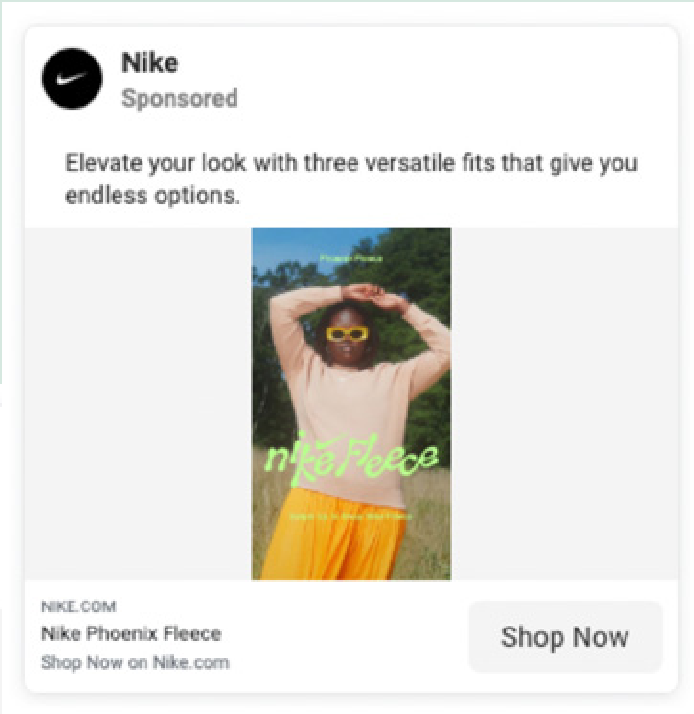
We routinely see great ads outperform mediocre ads by multiples (e.g. 100-500%). Most companies should focus only on testing high-quality ad creatives against each other and leave the rest to the algorithms.

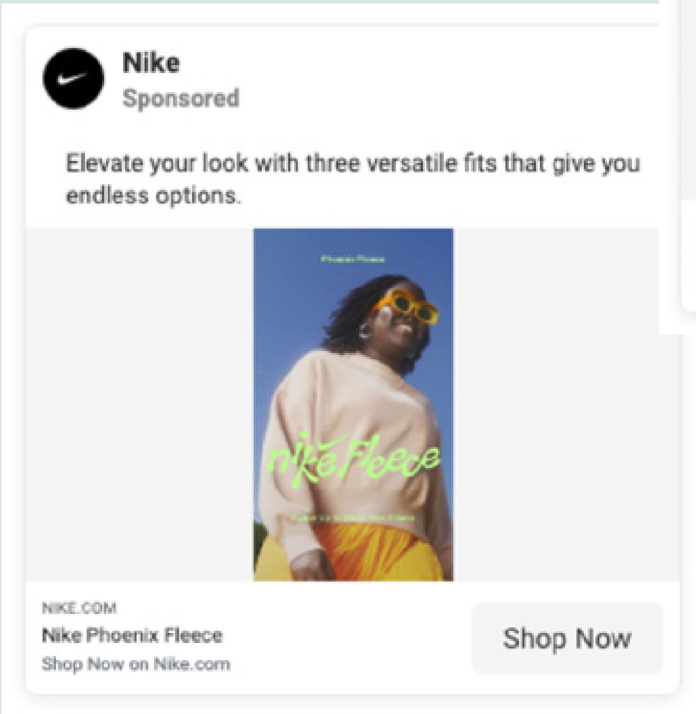
Go big

A/B testing often means creating 10 ad images with small variations, putting them all in a dynamic campaign, and hoping that the algorithm picks the winner. But trying to compensate for a lack of quality with quantity almost never works.

Digital advertising is a dynamic system. The performance will fluctuate by 10% or more from day to day. So if you test ads that may improve performance by say 5%, how will you ever know? Small tests lead to small changes in results. This makes it impossible or too expensive to separate the signal from the noise.

Take a look at these two very similar ads. Nike would probably have to spend over 10,000€ to figure out which ad really performs better.
That money could've been better spent elsewhere.





Luckily there's a simple solution: run fewer but better tests. Quality over quantity. And of course, quality doesn't mean that it has to be expensive (often the opposite is true!).

Instead of testing slight variations against each other, go big in many different directions. E.g. testing a 30-second UGC video against an image ad of just text.

Know what you're looking for

Another common mistake is to optimize for the wrong objective. A typical example is running ads with the objective of generating clicks and evaluating performance on a cost-per-click basis. This approach will make sure you don't get any reliable results from the A/B test.

The different touchpoints in the customer journey are inversely correlated with each other. This means that the ad that gets the most clicks is probably not the ad that gets the most leads.
A low cost per click (CPC) does not equal
a low cost per acquisition (CPA).

So what should we use as the goal and metric when running A/B tests? We want to be as close to the actual end goal as possible.

In e-commerce, only optimize for actual purchases as opposed to "upstream" events like add-to-carts. Even better if you can optimize for LTV (lifetime value), though this is often too difficult.

In lead gen, we don't want to optimize for just leads and certainly not clicks! It's better to qualify the leads and optimize for SQLs. Reliably measuring and optimizing for actual sales and marketing-driven revenue is ideal.

Of course, we also have to be practical. If marketing is generating two sales per month, we don't have enough data to optimize for that event. And not all data is easily available in the timeframe that we need to make optimization decisions.

About Genero

Genero is a leading digital growth marketing agency in the Nordics. We help B2B and B2C companies accelerate growth, improve marketing ROI, and launch new brands and products.

With 125 marketing experts, we're a full-service growth partner. Through hundreds of cases, we're proud that our average client relationship lasts 3.5 years.

Are you interested in learning more about us and our services? Visit our website »

genero