Leading the Conversation on Profits

How to become a profit-driven marketer

A Practitioner's Guide

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Introduction

Recently, a number of marketers have started a new trend known as profit-driven marketing. Profit-driven marketers take uncommon approaches in the face of traditional challenges. For instance, they understand that to make more money, they have to invest more of it—strategically.

Take marketing firm AdHarmonics, for example, which saw a 170% growth in profits from AdWords by adopting a profit-driven strategy.

> “*This strategy can sometimes have us spending more, but we make up for it with the profits from the extra conversions.”*
>
> **SETH BIRNBAUM**
> CEO of AdHarmonics

Then there's automotive website Autobytel, which grew profits by more than 60% from AdWords through this new way of thinking.

> “*We look to increase our bids and drive even more ready-to-buy shoppers to our partner dealers.”*
>
> **BILLY FERRIOLO**
> SVP of Customer Acquisition of Autobytel

Thinking like a profit-driven marketer means leaving behind traditional marketing practices and metrics—and convincing your stakeholders to do so, too. The net result is that your digital campaigns start to achieve new frontiers of success, defined in terms of total profits.

In this guide, we'll show you how these sophisticated marketers have reached new levels of profit by strategically bidding up their CPAs and flexing their ROI limits. Read on to find out how they did it.

Here's a preview of the three steps outlined below that will help you discover the full value you bring to the table as a digital marketer:

1
Define your profits
Recognize value

2
Make profits your KPI
Target outcomes

3
Get your resources
Capture demand

1 Define Your Profits

Performance marketers live and breathe reports. Traditionally, KPIs set the bar for success, and your reporting shows how you're doing against that bar. The metrics used for this reporting, however, are often tied to outdated marketing practices. It's up to you to find a way to measure your full contribution. Get credit where credit is due. The more long-term value you can measure, the more profitable opportunities you create for yourself and your organization.

Yes, getting to that point will to take a good dose of determination. But this is your chance to step up and propose a new way of looking at things. You're going to start some new relationships, have interesting conversations and do insightful research as preparation for a career in profit-driven marketing. The extra hours you put in will be worth it when the total (and more accurate) profit figure of your marketing efforts finally emerges—and your full value is recognized.

To gain the full value of your digital efforts, there are three components you need to consider:

- Lifetime value of your customers
- Full journey of the customer, on and off the web
- Word-of-mouth referral and brand value

Factor in customer lifetime value

A customer who has a positive experience with your brand that results in a purchase can be expected to make several repeat purchases over the long term. This could be someone who hasn't purchased from your brand for a while or someone who is completely new to you.

Being able to estimate the total profit of a long-term customer relationship will prove valuable in the long run. The marketer who figures out the lifetime value of a new customer also profits from a lifetime of conversions. Think of the advantage you'll create for yourself when you can bid or invest up to a new customer's entire lifetime value. Bidding to this value allows you to find, attract and keep the customers who are loyal (and most valuable) to your brand. The most sophisticated digital advertisers are already doing this; why not join them?

Success Factor To get to where it is today, [Airbnb] had to understand its customers better. It modeled out customer lifetime value based on a wide range of factors: customer location, travel distance, search keyword and much more. That lifetime value figure determines Airbnb's cost per acquisition.

It's time to take a first pass at estimating a new customer's lifetime value:

1. **Define customer lifetime.** How long does an average customer stay loyal to your brand? This can be as long as three to five years, or as little as six months, depending on available data or customer habits. Work with your customer and analytics teams to see what makes sense for you.

2. **Estimate lifetime value.** On average, how many repeat purchases happen over that lifetime, and what's their collective value? Work with the finance team to access customer records. Find out how much was ordered over the lifetime you defined above. Dividing this figure by the number of customers yields an average lifetime value.

3. **Then segment your customers.** Not all customers are created equal. Some customers spend more than others and over a longer period of time. Collect some data and then find meaningful differences in value for various customer segments (by product line, location or even season are some examples).

You'll also want to track which conversions represent new customers to avoid overpaying for repeat customers. A new customer could be someone who has never made a purchase or simply hasn't purchased for quite a while (a lapsed customer). To track new customers, you can use AdWords Conversion Tracking.

Success Factor Track down the data you'll need to determine a customer's lifetime value. Start small: Look beyond your team and make cross-departmental friends. Ask them questions and collect data. You may not have years' worth of historical data at your disposal, so use what you have (even if it's data over a few months) and build from there. Your research will pay off in dividends, quite literally. As a result, your marketing spend will be dispersed appropriately, and you'll be able to identify the customers who will maximize your long-term profit.

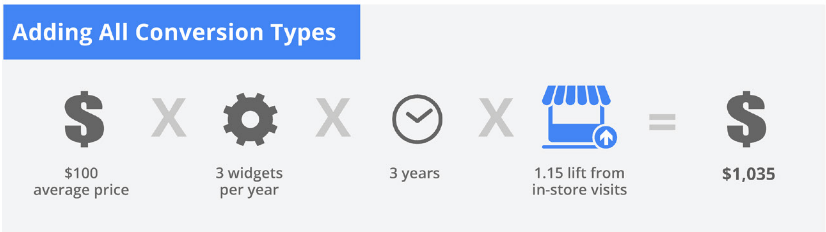
Understand the full journey of your customers

In the past, a simple website conversion was all you needed to track. Now it's important to look at the entire purchase path. Today's consumers are inundated with choices throughout their journey—from what to buy to how to buy it and where. An intent to purchase can start with a potential shopper searching online and completing a purchase across a variety of devices and browsers, whether in-store, by phone or via app.

It's time to start adapting the way you measure to how your customers behave:

1. **Know all your conversion types.** Identify which conversion types are not included in your reporting, and make a case for resources to track them. In addition to the basic website conversion, there can be in-store visits, phone calls, app downloads and cross-device conversions. Use the Estimated Total Conversions column in AdWords as a good starting point for some of these categories, such as cross-device conversions.

2. **Update your reporting.** Fill in any conversion reporting gaps with additional tracking, or if technology isn't available, create a model that gets you one step closer.



Success Factor

If you don't have access to the technology to track different conversion types, you have the option of building and presenting a model using various data points. Adidas, for example, wanted to create a model to show the effect of mobile search ads on in-store purchases. To do this, it used conversion data from its stores combined with knowledge about its consumers' habits. The model showed that for every dollar invested in a mobile search ad, Adidas got a return of $1.81, after accounting for estimated in-store conversions.

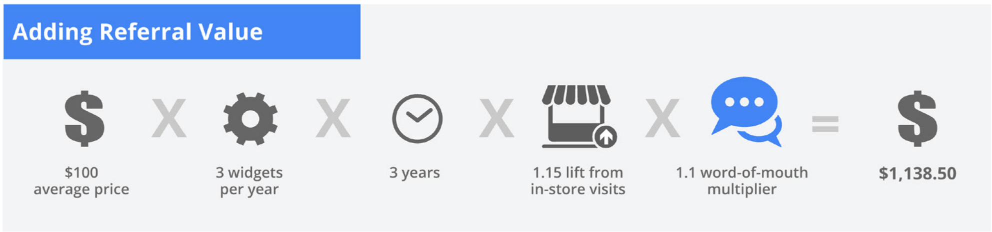
Consider word-of-mouth and brand value

No campaign is an island. As an example, brand keywords used in a paid search campaign don't convert sales on their own. Generic keywords and other channels help to create brand awareness, potentially leading to more searches on your brand. Additional value can even come from satisfied customers who refer new customers by word-of-mouth. When it comes to determining the value of your campaigns, these benefits should also be factored into your profit-driven marketing results.

It's time to start accounting for the full value of your marketing activities:

1. **Infer word-of-mouth value.** Some businesses track word-of-mouth referrals from customers. If you can access that information, include it as part of the value. For example, if your customer insights team tells you that for every ten customers, one new customer is referred to your brand, apply a 10% multiplier to your profit definition.

2. **Consider brand value.** Businesses can may also track brand awareness. Referring back to the example of a paid search campaign, studies have shown that search ads can drive brand awareness. Consider this an additional benefit to your profit-marketing efforts.



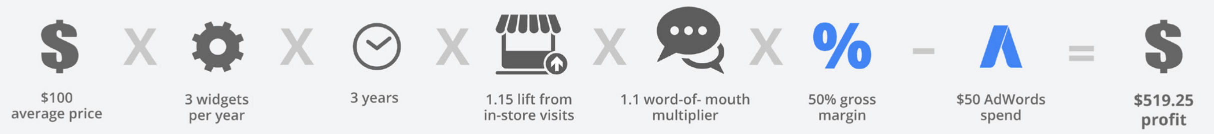
Consider the costs of a conversion

The other side of any profit equation is the costs associated with the sale. Make sure you recognize the full cost of creating a sale, including the marketing dollars spent to acquire a customer.

1. **Figure out the cost of goods sold (COGS).** All the assumptions you used to account for revenue need to be applied to cost, too. In this context, let's consider cost the number of lifetime orders multiplied by the cost to create the product or service (cost of goods sold). **Or use gross margin.** Alternatively, if it's easier to track down gross margin percent, you can multiply this against your total value estimate to arrive at a profit figure. Essentially, this is the percent of revenue you keep after the COGS is subtracted.

2. **Then subtract your AdWords spend.** Finally, account for the marketing dollars invested to acquire the customer to obtain your total profit figure.

Factoring in Costs



After subtracting cost from the value you measured in Step 1, you've arrived at a good estimate of profit. You now have a launchpad to start thoughtful conversations with your stakeholders about a profit-driven approach to marketing. While you're working to influence their mind-set, communicate that your formula is indeed a work in progress—albeit a good one. Your stakeholders will have a role to play in perfecting the data you include for inputs, and you'll need their permission to optimize for its output, too. At the end of the day, it's on you to rally folks around profit-driven marketing.

2 Make Profit Your KPI

For performance marketers, optimization is second nature. "Low-CPA" and "High-ROI" merit badges are worn with a certain pride. Profit-driven marketing requires a broader scope. If we only focus only these old success markers, we run the risk of overlooking whether performance goals are aligned with our business objectives in the first place.

To fix this tunnel vision, you need to take the time to find out what's important to the business as a whole. If the goal is to maximize profit, great. If it's not, talk with your stakeholders to understand why. If the goal is to maximize market share, a more aggressive acquisition strategy is needed than the one recommended here. If investors are demanding ROI efficiency, start by asking why they want to prioritize efficiency over total profit volume.

CASE STUDIES—AdHarmonics

"A lot of people are worried about gross margin percentage targets, but we have always focused on increasing our gross margin dollars."

SETH BIRNBAUM
CEO | AdHarmonics

The next step is to ensure that your KPIs are actually aligned to achieve the desired business outcomes. Here, we look at how the most sophisticated digital marketers have aligned their KPIs, with the ultimate goal of maximizing profit.

Run a test to make your case

Let's walk through a bid test you can run to make your case for change. The objective is to observe what happens to your profit calculations when some of your inputs change.

Here's an example of a test for paid search:

1. **Find a test subject.** Pick a keyword, ad group, or campaign—something that's easy to monitor and has enough traffic—matching the following criteria: It's capped at your target CPA and isn't showing ads at the top of the page. Increase bids to a higher CPA so that you observe a significant difference in conversion volume. You can use AdWords Campaign Experiments to help you A/B test this bid change

2. **Track profit increases.** Calculate the total profit between the two bid levels. Although you lost efficiency with a higher CPA in the test case, your total profit could go up from more sales. For reference, see points A and B in the diagram below. The idea is to get comfortable with more CPA flexibility. Give yourself room to bid up until your sales volume growth no longer outweighs your ROI efficiency loss.

The Volume/Efficiency Trade-off
CPA vs. Total Profit Analysis

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You may not have the budget to spare or permission to run such a test. Use the [bid simulator] in AdWords to make your case for test budget. Plug the simulator's conversion and spend projections into your profit formula and see what changes. Then present this analysis to get budget approved for a verification test.

3. **Make your case for profit.** Once you've run a successful test, present your results to stakeholders. Include the finance team or financial experts, if possible. Use your test data to forecast the entire profit opportunity for your account. Show what will happen if you don't use a profit-driven strategy—what's at stake and how much you're set to lose in profits by emphasizing strict CPA or ROI targets. Then discuss how the organization can make more money by focusing on maximum profits instead.

3 Gather Your Resources

Now that we've covered the building blocks of maximizing profit, let's look at the resources you'll need to make it all happen.

All digital marketers would love the freedom of having flexible budgets and dedicated engineering support at their disposal. This paves the way for you to seize every profitable opportunity as it surfaces in real time, with the added benefit of having the technology you need to track results.

To most, that's digital marketing nirvana. Traditional planning processes and disjointed reporting practices are often daily roadblocks for the most aspirational digital marketer. It's time to play a bigger part in resource planning.

Exactly what are all the profit-driven marketers doing to secure the resources they need to make the best of their digital efforts? Here are a few simple steps to get you there.

Start conversations about resources

1. **Earn access to the data.** Once you've aligned with stakeholders on the right profit formula, track down the data you need to refine your assumptions. Most likely, the customer and financial data is peppered throughout various divisions of your business. A simple place to start is to schedule a casual meet-and-greet with your customer relationship management (CRM), finance, analytics and IT teams.

2. **Make a case for more analytics.** Often, the data you need may not be completely tracked. You'll need access to the right technology. If that technology isn't available yet, propose using a model to analyze results and make decisions. Getting started with a decent model is better than waiting for the perfect data. Take a conservative guess about values to use for the model if you have to, and describe your assumptions as you present your case to stakeholders. Your goal is not to prove everything down to the finest detail; it's to get everyone thinking about how accounting for value can help you optimize for better business outcomes.

3. **Earn a say in budgeting.** Schedule a standing meeting with your stakeholders to discuss goals and budgets. Bring an opportunity analysis or promising test results to talk over. Show that you're interested in being a part of budget planning to take advantage of profitable opportunities. You can stand out by using digital's accountability and by quantifying the opportunity at hand.

As the person closest to the data, you're really the most qualified to propose budget and ask for the appropriate tools. Earning a say with stakeholders will take time and effort, but you'll be rewarded with the resources to do more.

That's true ownership of your channel.

Conclusion

Being able to rethink some of the tried-and-true strategies for optimizing your digital campaigns is a good start to becoming a profit-driven marketer. To take your programs to a new level, the same core challenges of yesterday require an altogether different approach from you today.

This guide has given you a basic roadmap that will help you get there.

Throughout this mindshift, it's easy to get bogged down in reports, CPCs and what may seem like endless meetings. When you get too lost in the details, all you need to remember the following:

1. **Define profit**. It's time to think of your marketing spend as a long-term investment, with returns in the form of loyal customers—and more profits.
2. **Make profit your KPI**. Align your KPIs with desired business outcomes to fuel more profits.
3. **Get the resources**. Seek out all the resources and permissions you need to realize the full potential of your digital efforts. The end result is, of course, more profits.

And keep in mind that a profit-driven approach to marketing means enabling yourself to connect real people with what they need at the moment they need it. Making more profit is simply a positive side effect of that.