

DITCH ROAS:

Alternatives for more accurate
ppc results

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I am

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- Deep background in retail operations
 - Leadership roles in product & innovation
 - Passionate about storytelling with data
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Agenda

1. The ROAS Pathology
2. The Messy Middle
3. Two Birds, One Stone

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OF SEARCH**



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The ROAS Pathology

What is ROAS and why is it so popular?

$$\text{ROAS} = \text{conv. val} / \text{cost}$$

Easily and universally calculable

Works across all campaign entities

Reportable from hourly up to yearly

Google formula is open-ended

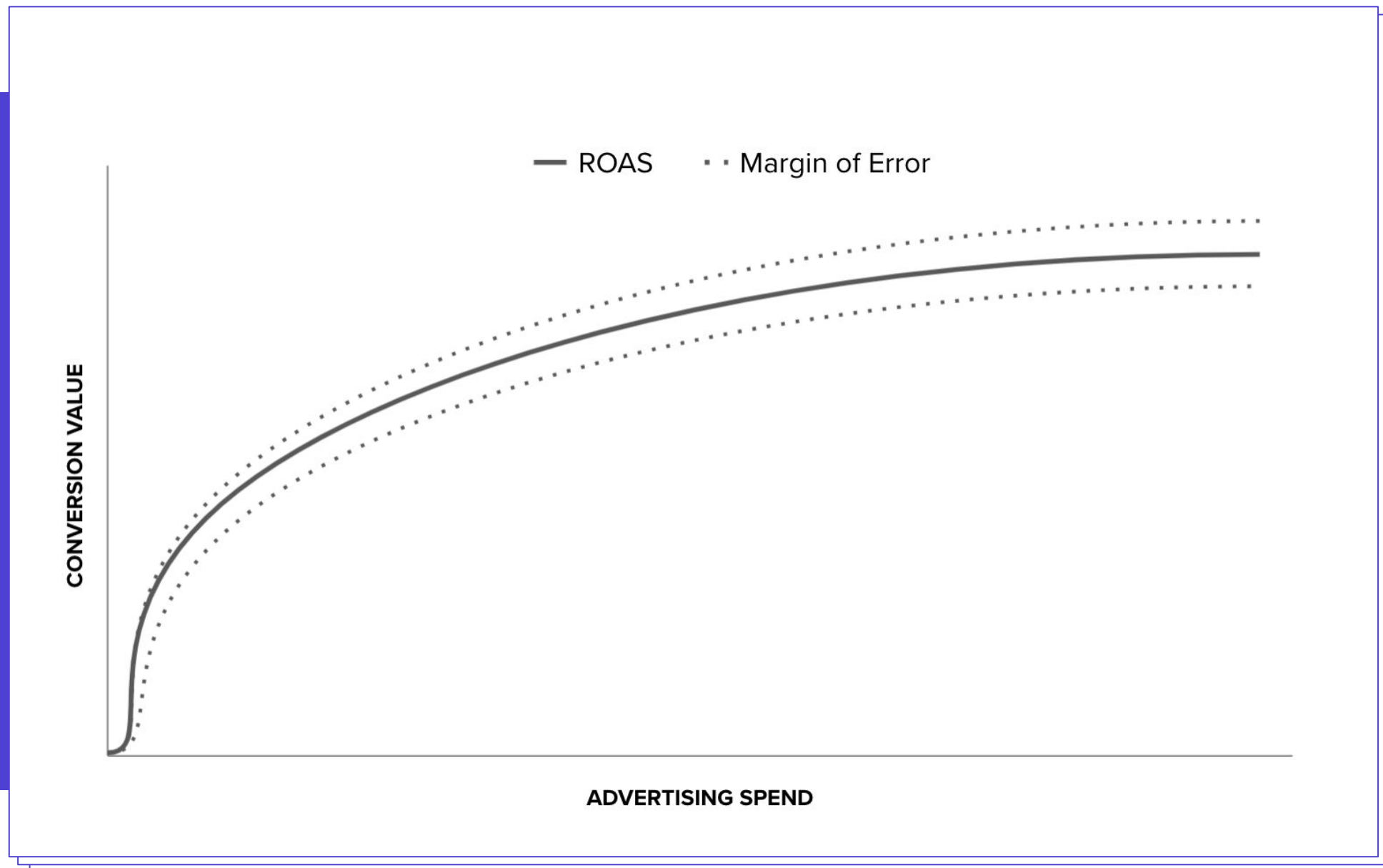
ROAS

A broadly-applicable proxy for profit

Proxy Metrics

A proxy metric is an **indirect measurement of a desired outcome**, typically used when the desired outcome cannot be directly measured or observed. The proxy has value because of its correlation to the goal – and the higher the correlation, the higher the value or effectiveness of the proxy will be.

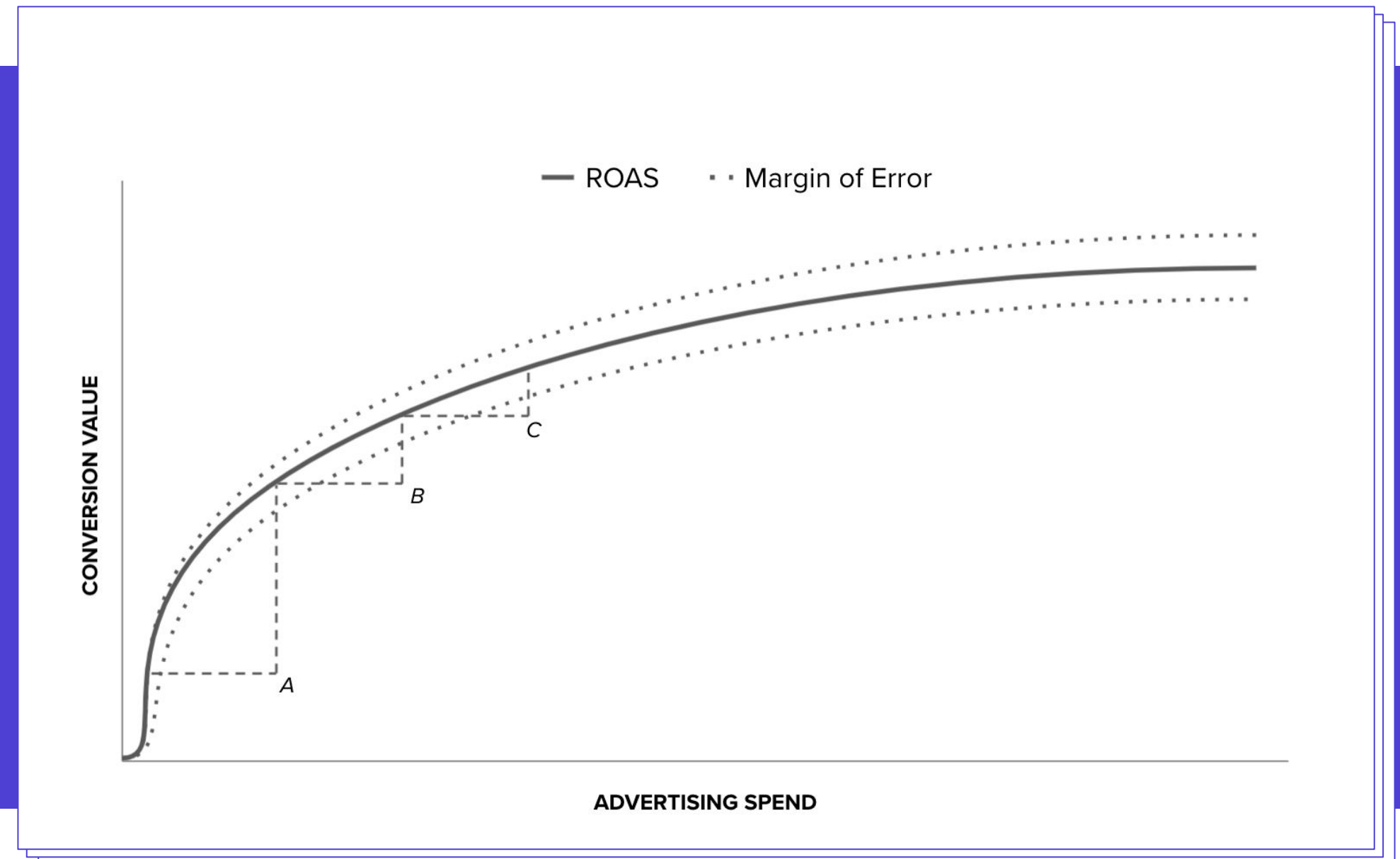
ROAS is a channel-siloed metric

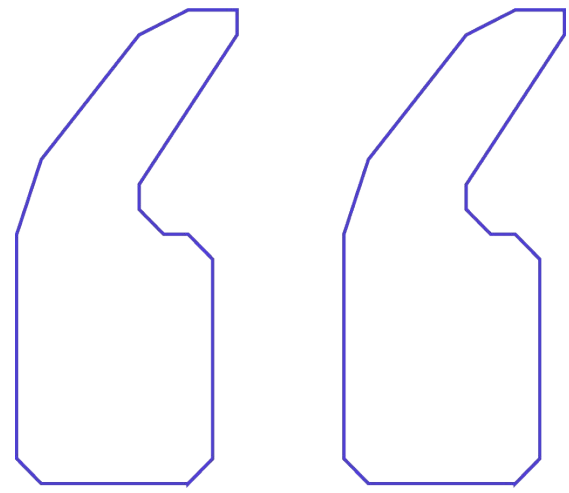


- How accurately is ROAS modelled to profit?
- What steps can we take to improve that modelling?

Measurement pains increase as incremental returns flatten

- How accurately is ROAS modelled to profit?
- What steps can we take to improve that modelling?
- What steps can/should we take to replace ROAS?



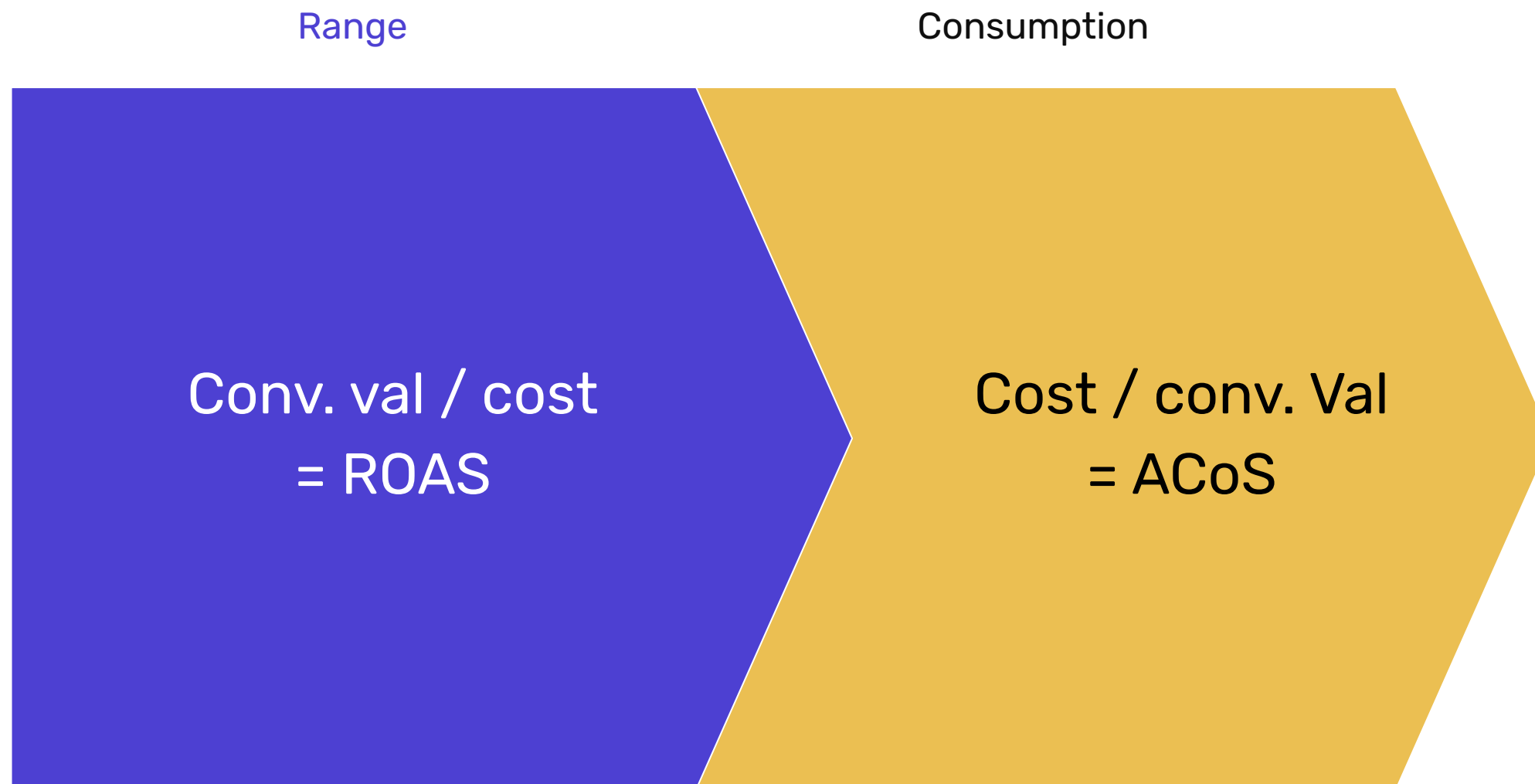


What's in a name?

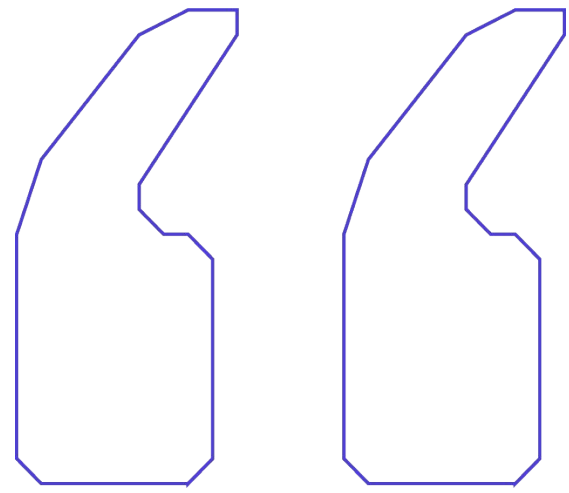
A ROAS by any other
name would smell as
sweet

Look to ACoS for more rational conversations

Advertising Cost of Sale



- Calculated with the same elements as ROAS: cost and conversion value
- Name clearly describes what it is – a campaign efficiency metric
- Harder to confuse with profitability



Here's the kicker:

It's not even necessary
to use a proxy metric
for profit

Conclusions so far

- ROAS is insufficiently correlated to profit
- The use of ROAS is overextended
- The whole situation is avoidable

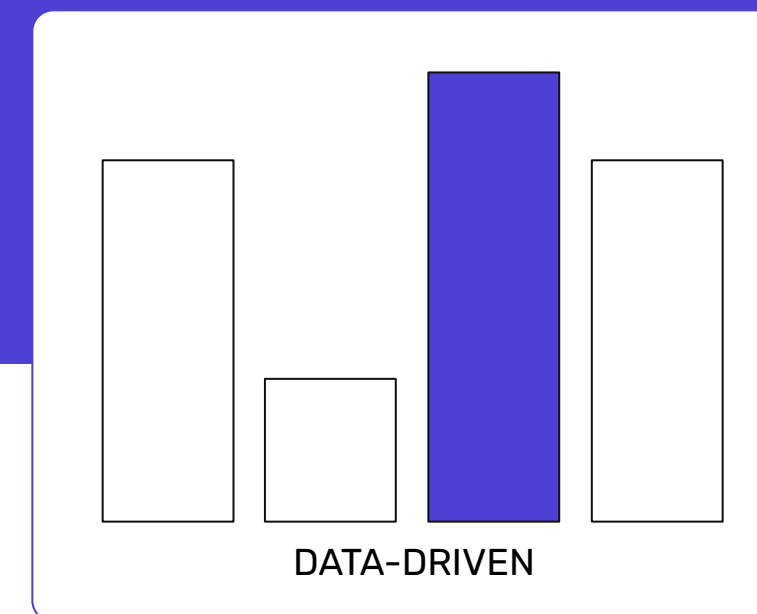
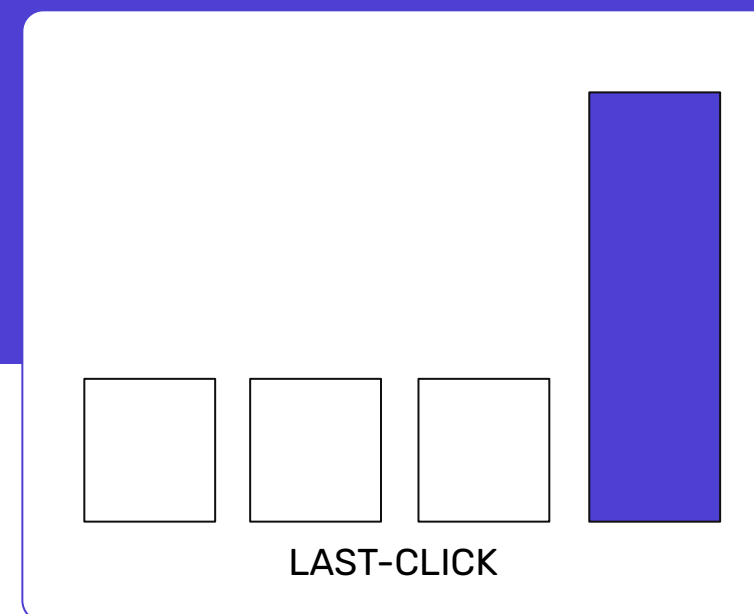
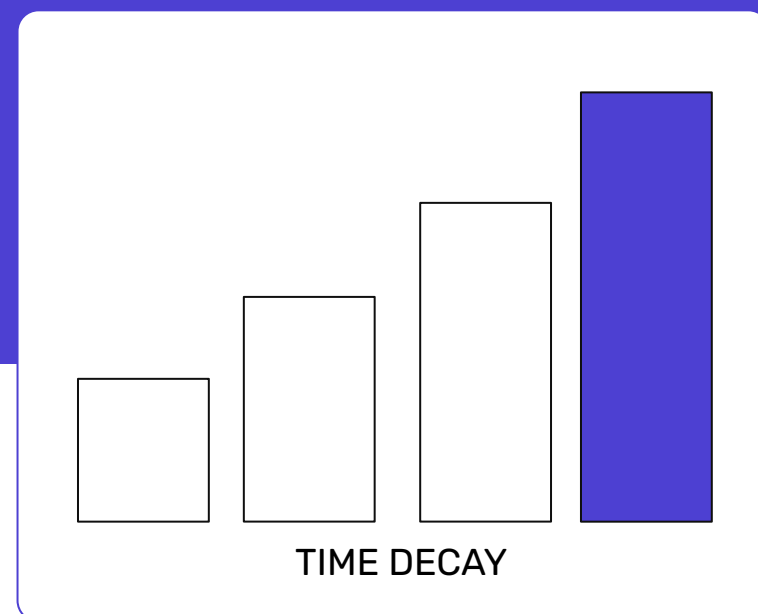
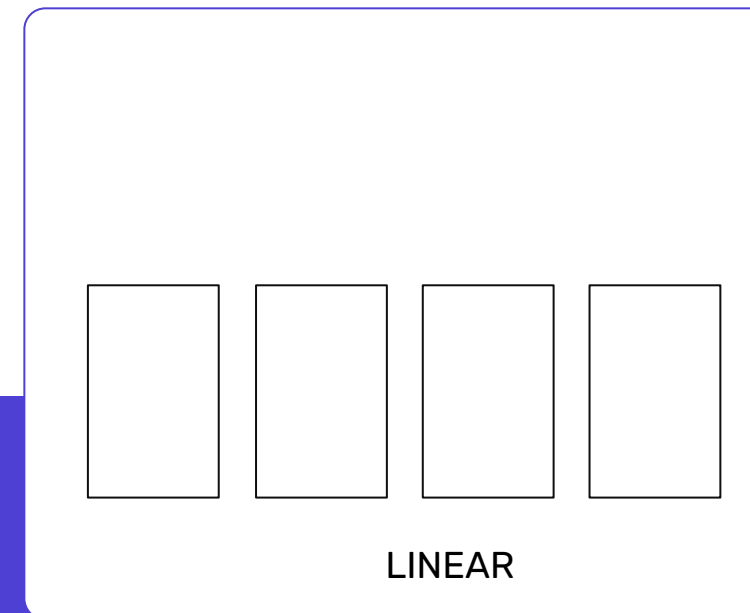
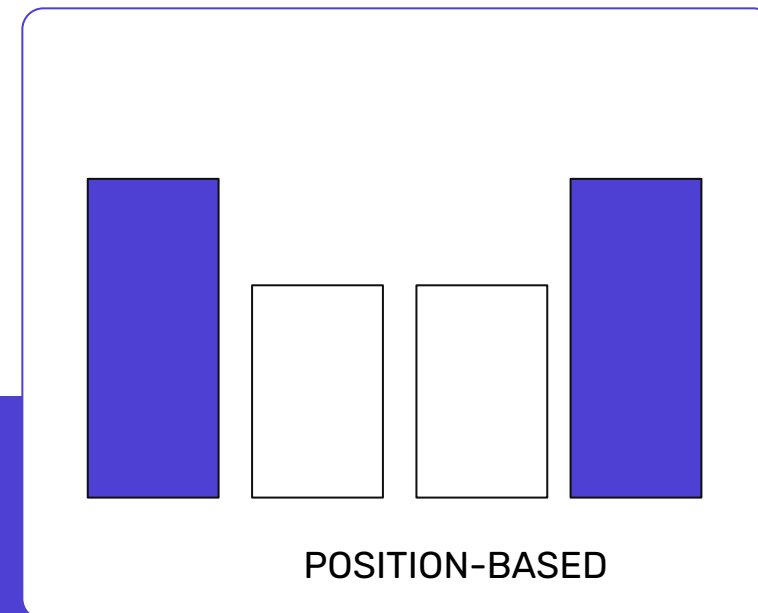
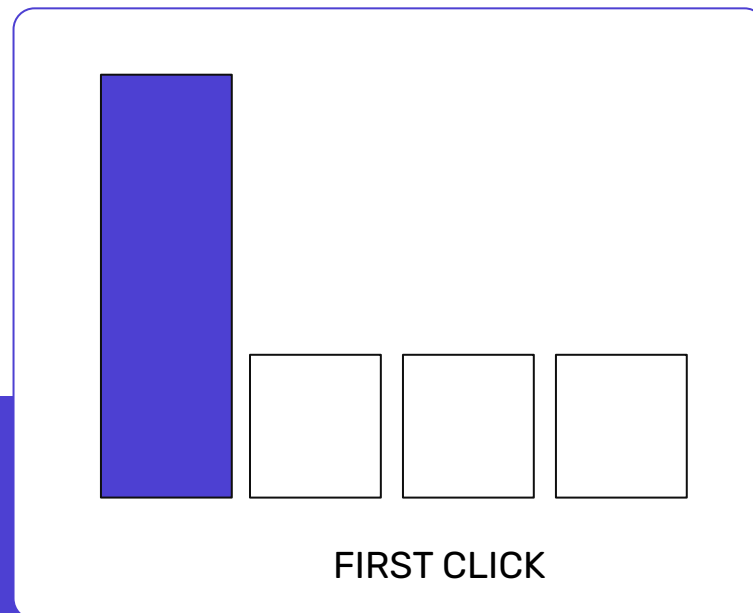
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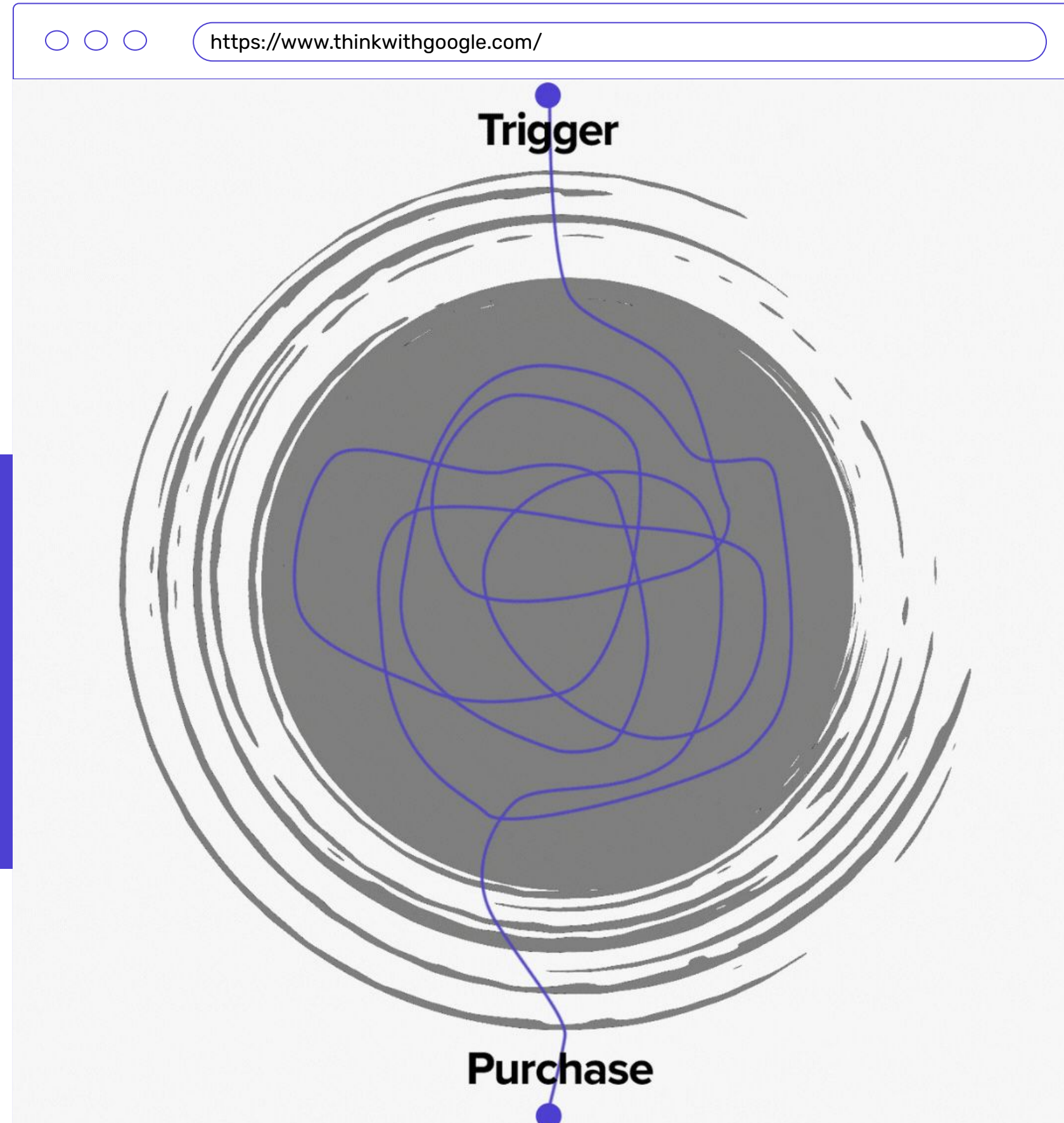
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The Messy Middle

Your attribution model is wrong



Decoding decisions

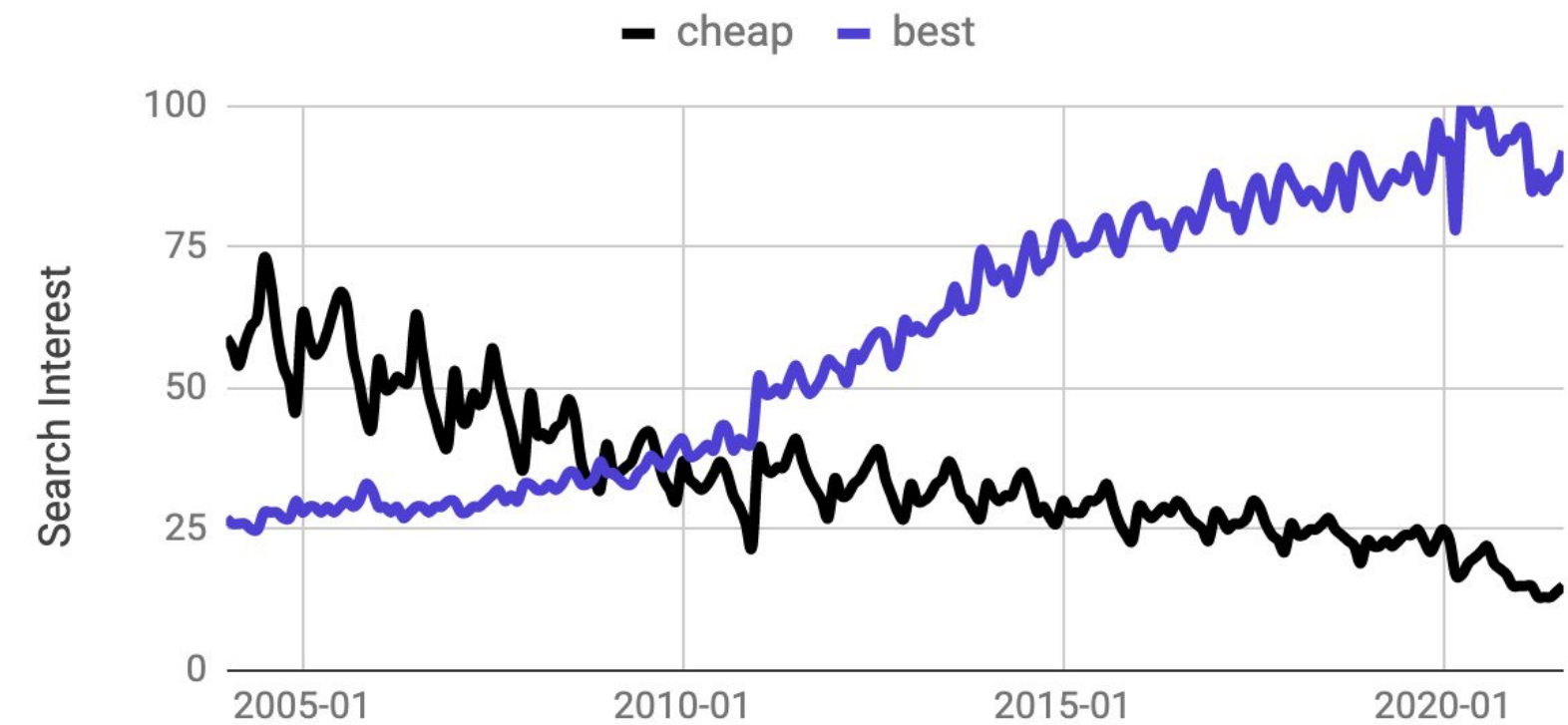


From quantitative and narrow, to broad and subjective

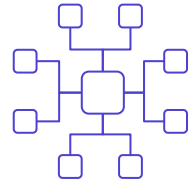
The 'messy middle' [is] a space of abundant information and unlimited choice that shoppers have learned to manage using a range of cognitive shortcuts.

cheap vs. best, monthly Google search interest

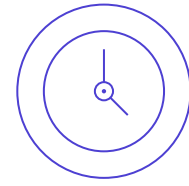
United Kingdom, 2004 to present, all search properties



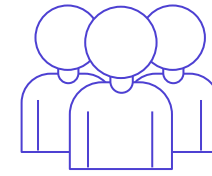
Browsing and consumption are primal behaviors



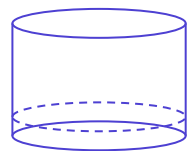
Category heuristics



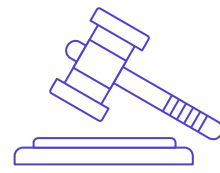
Power of Now



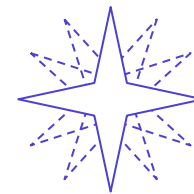
Social Proof



Scarcity Bias



Authority Bias



Power of Free

- Consumers cycle through exploration and evaluation phases – repeatedly gathering and reducing options
- For merchants, there are opportunities arising from deep-seated biases manifested while shopping

The Clicked vs. Bought Dilemma



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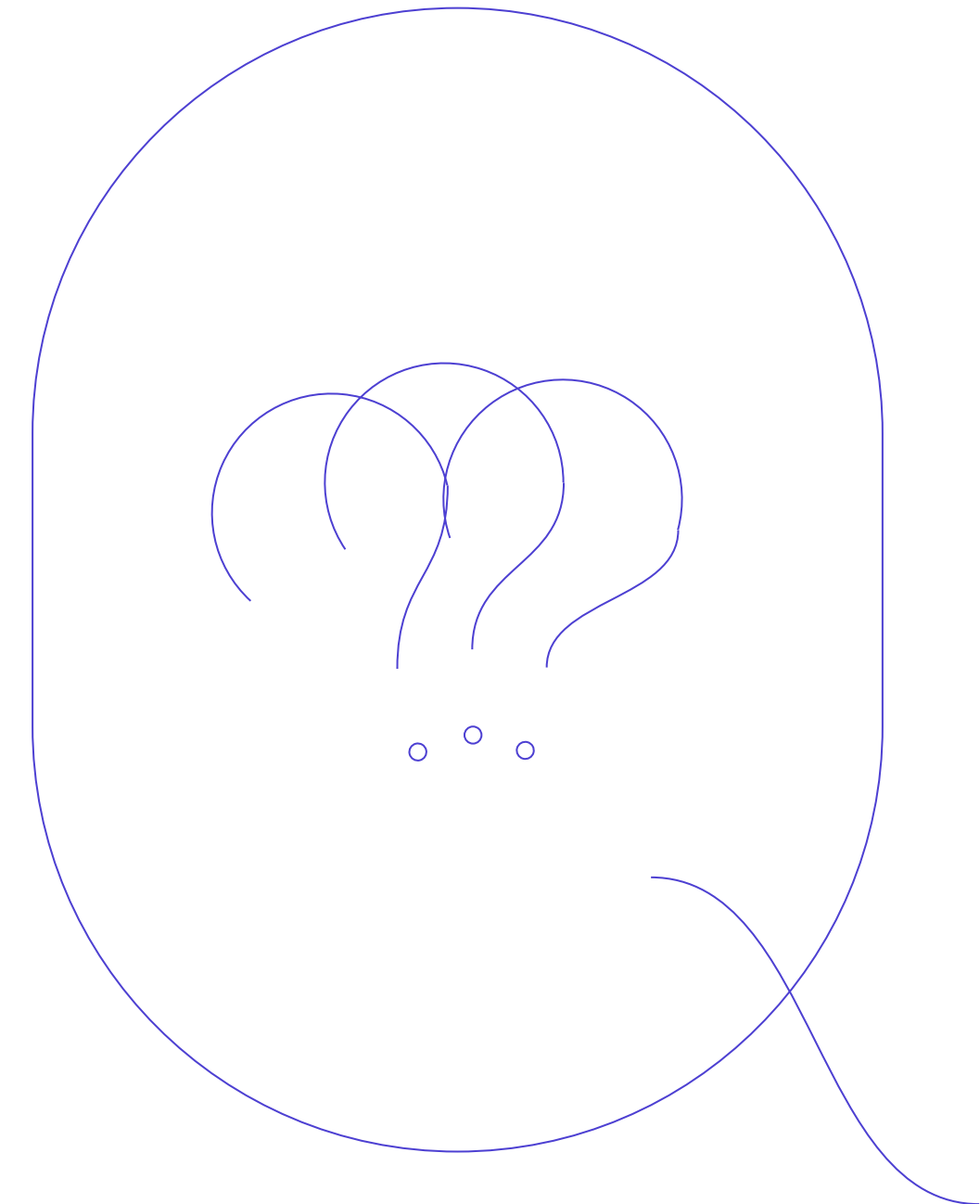


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Two Birds,
One Stone

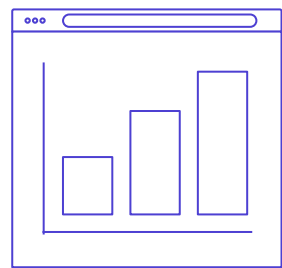
A few questions along the way

- What is the real profitability of my product ads?
- In which quantity are products sold and at which price?
- Which products drive revenue, which products drive order profit?
- Which items often act as replacement products?
- Which products are often bought together?



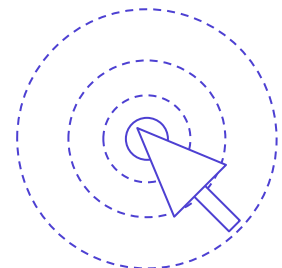
What is necessary?

Understand the true value of your ecommerce campaigns



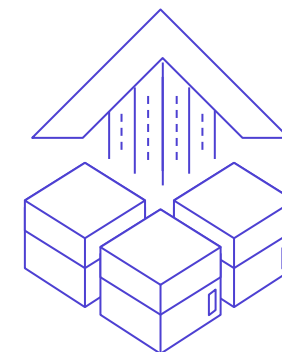
Web Analytics

Information about the transaction and its components



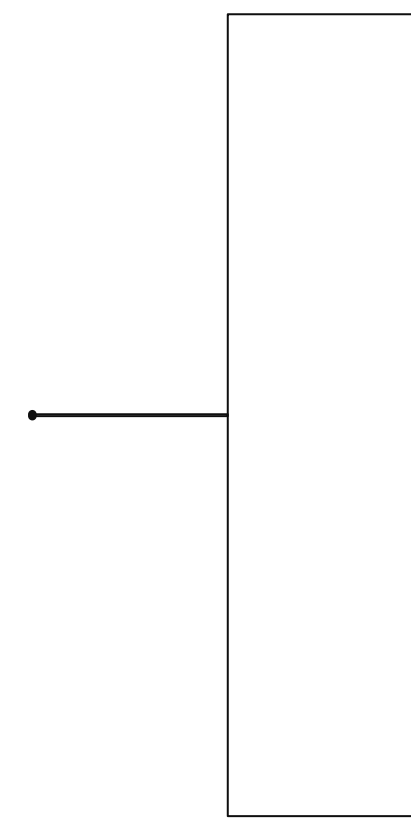
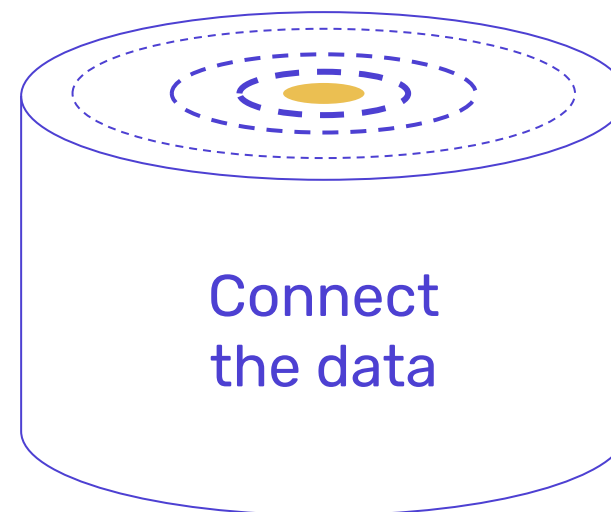
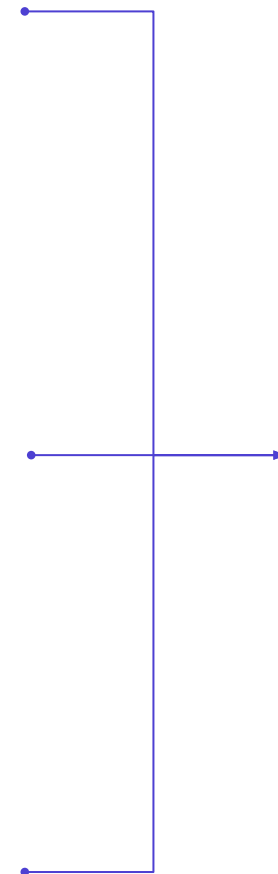
Click ID report

Connecting an ad click to a transaction

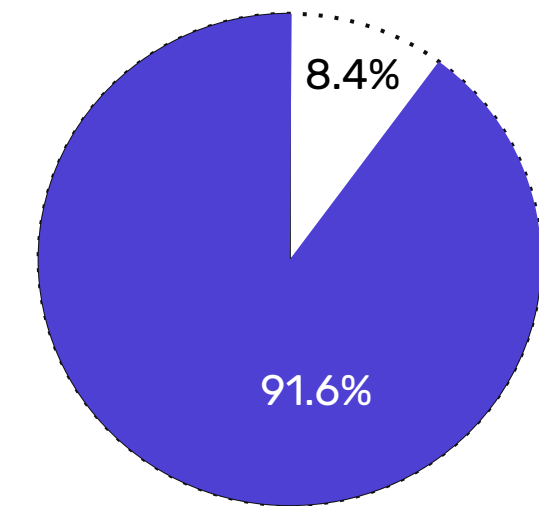


Product data

Product information to be connected to the transaction



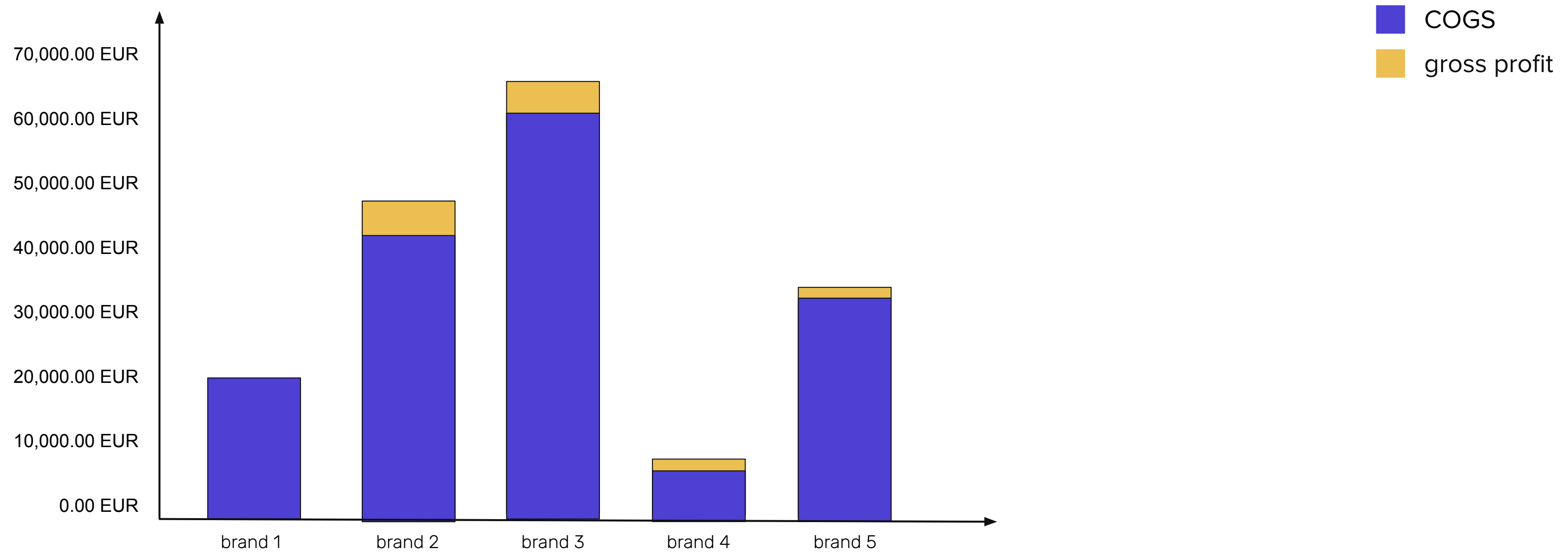
Visualizations



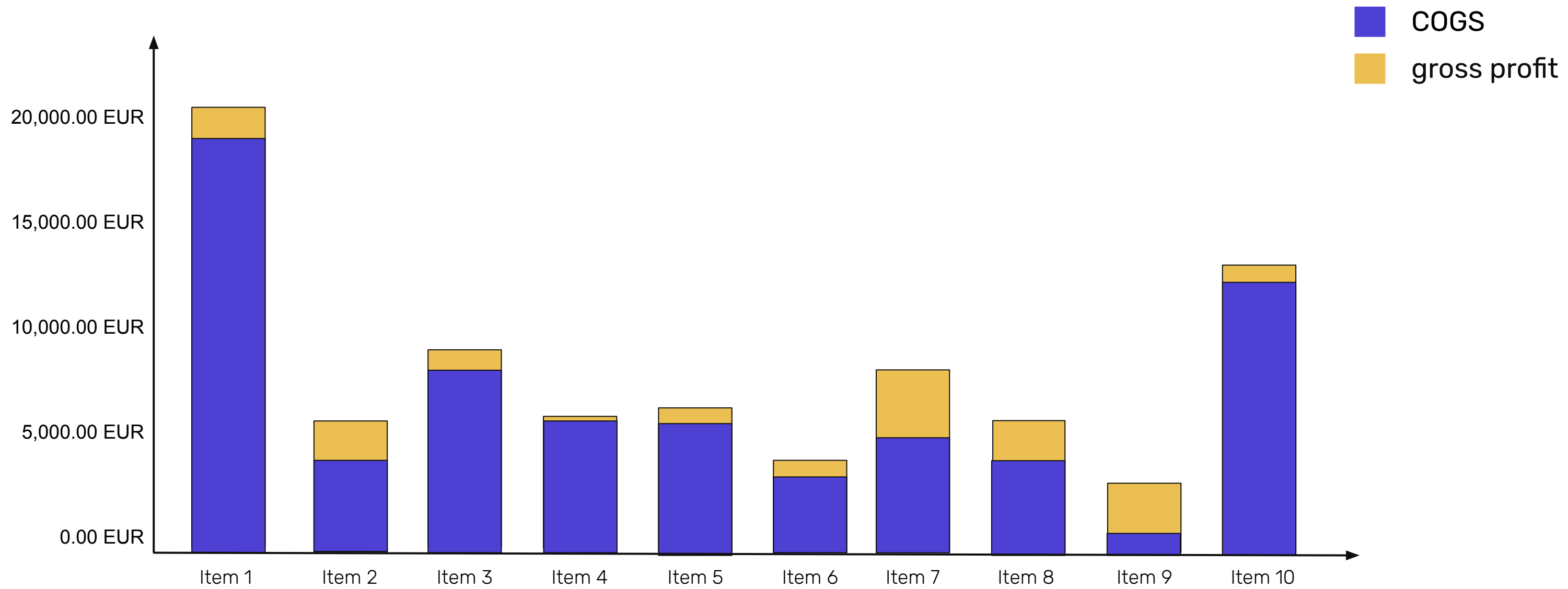
Basket Margins

ClickID	Basket Margin
1234	2.99
56789	10.98
87612	105.83
89786	53.4
128319	99.47

Profitability per brand

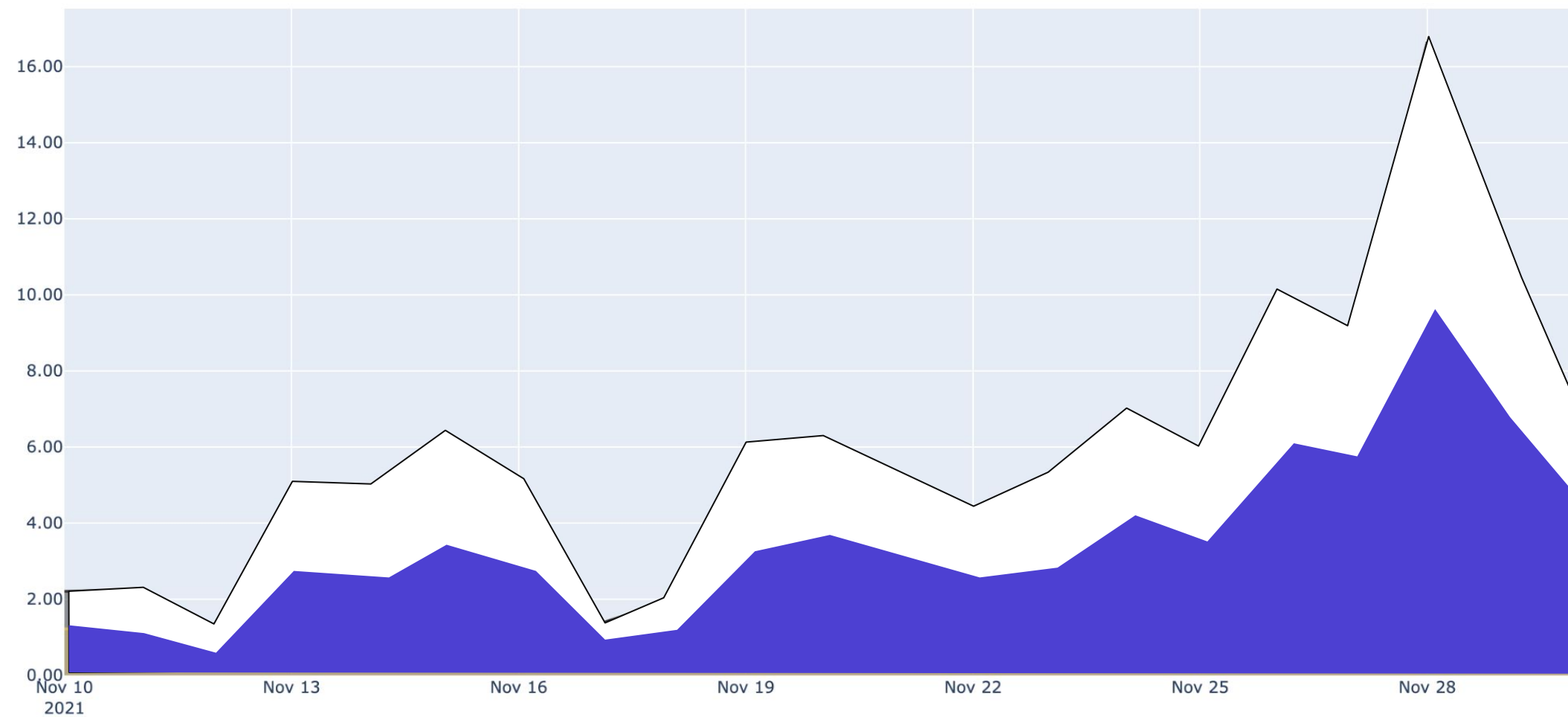


Profitability per item



Efficiency over time

ROAS vs POAS development



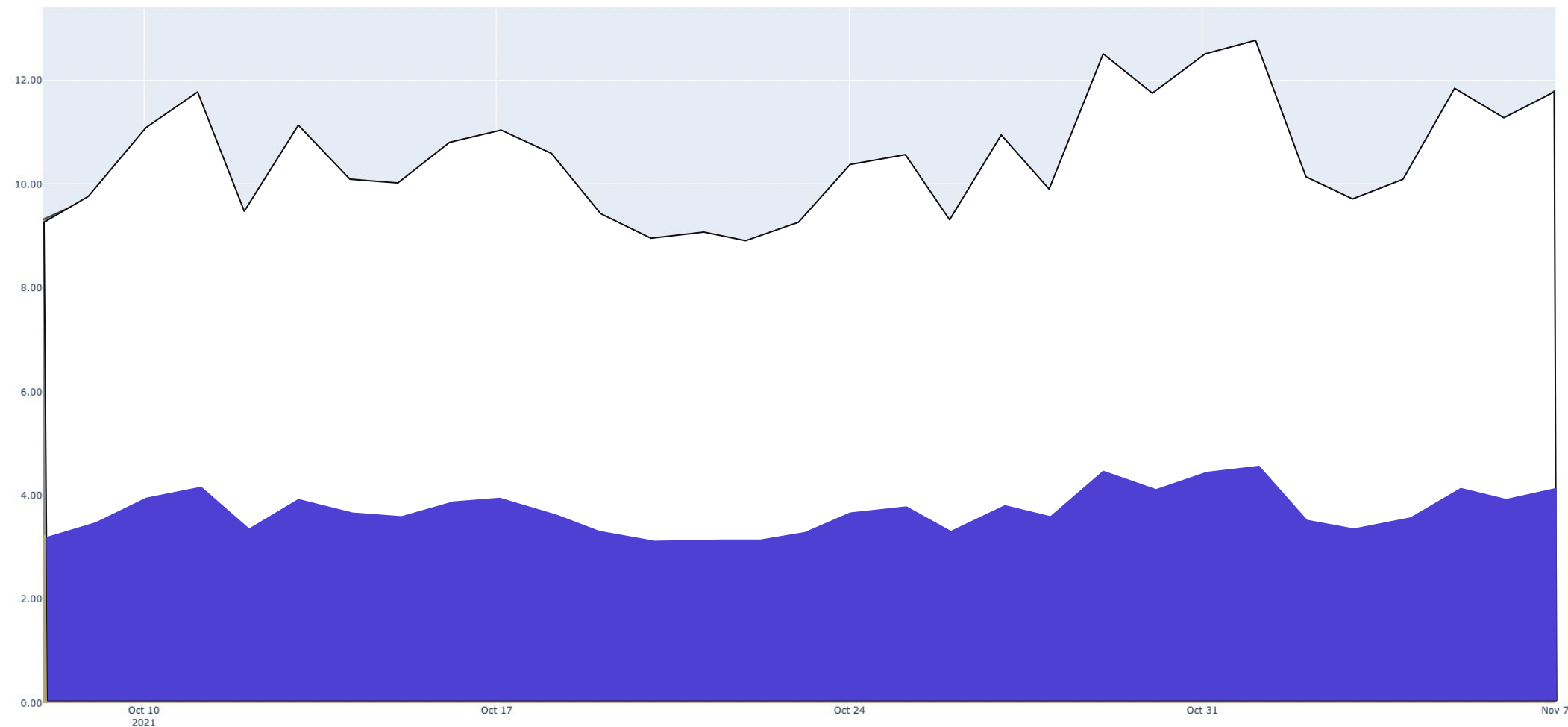
REVENUE/ADSPEND
5.9

PROFIT/ADSPEND
3.2

□ REVENUE/ADSPEND ■ PROFIT/ADSPEND

Efficiency over time

ROAS vs POAS development

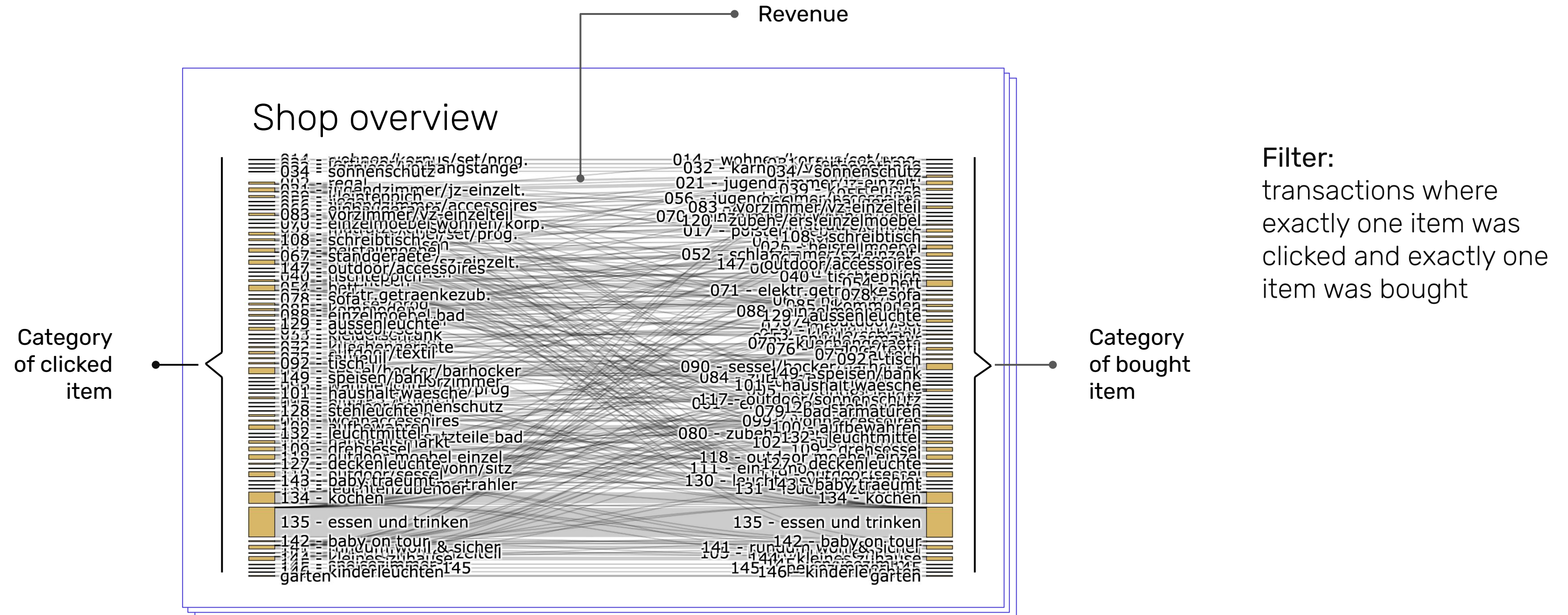


REVENUE/ADSPEND
10.4

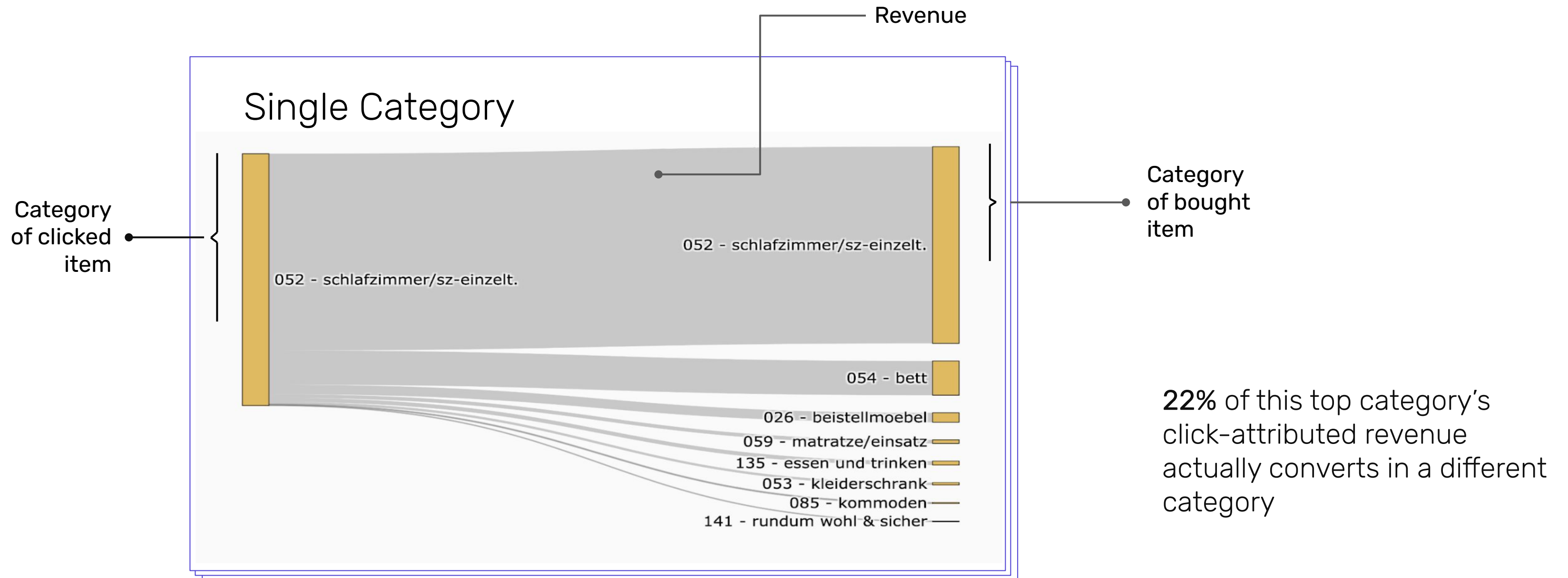
PROFIT/ADSPEND
3.6

□ REVENUE/ADSPEND ■ PROFIT/ADSPEND

Clicked vs bought items



Clicked vs bought items



Is the clicked item actually bought?

Beauty retailer, United Kingdom

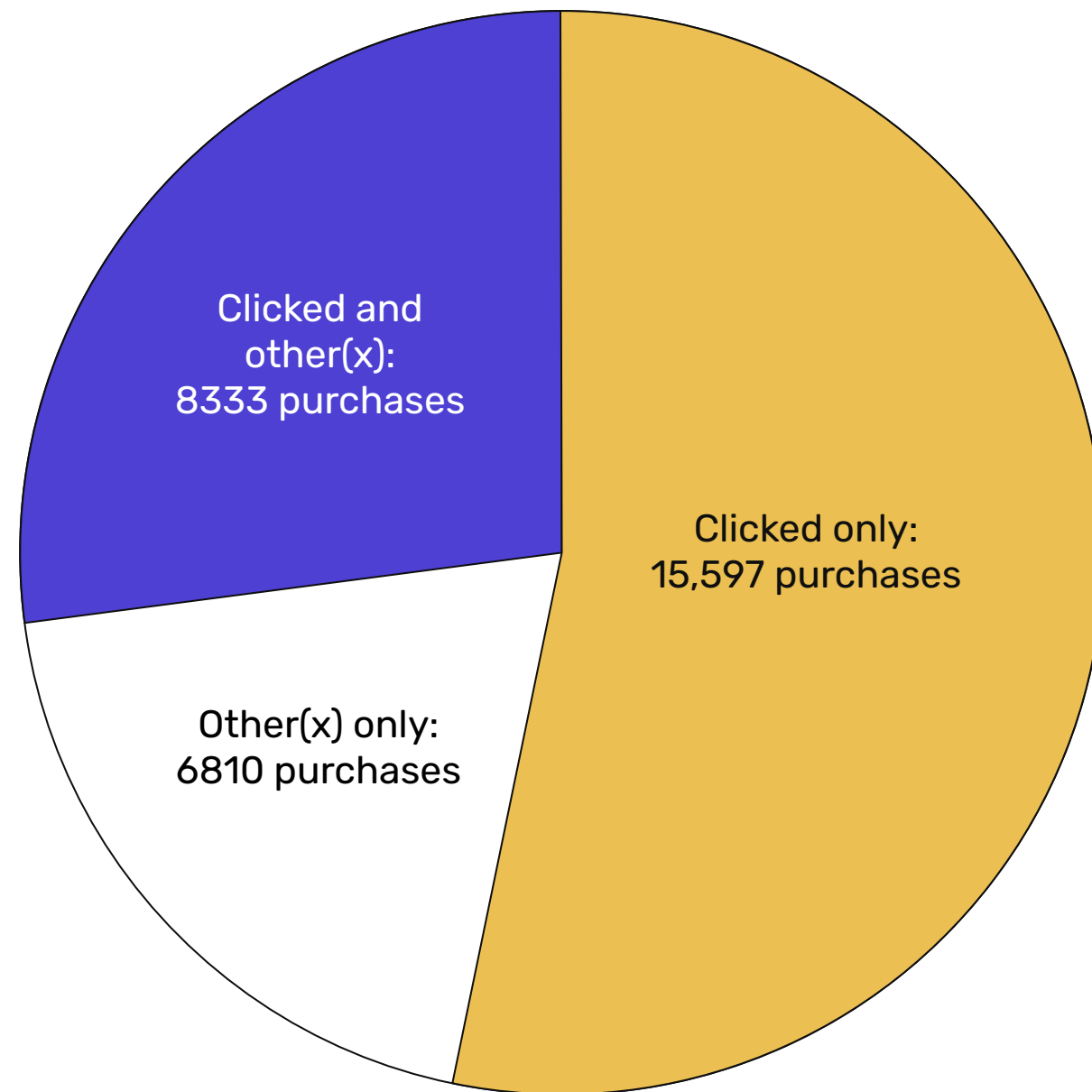


Chart description

This chart describes the ratio between clicked and actually purchased items.

Main finding(s)

- In nearly 50% of the cases the clicked item was the only bought item
- ~27% the clicked item was bought alongside others
- ~23% the clicked item was replaced

Is the clicked item actually bought?

Outdoor retailer, Europe

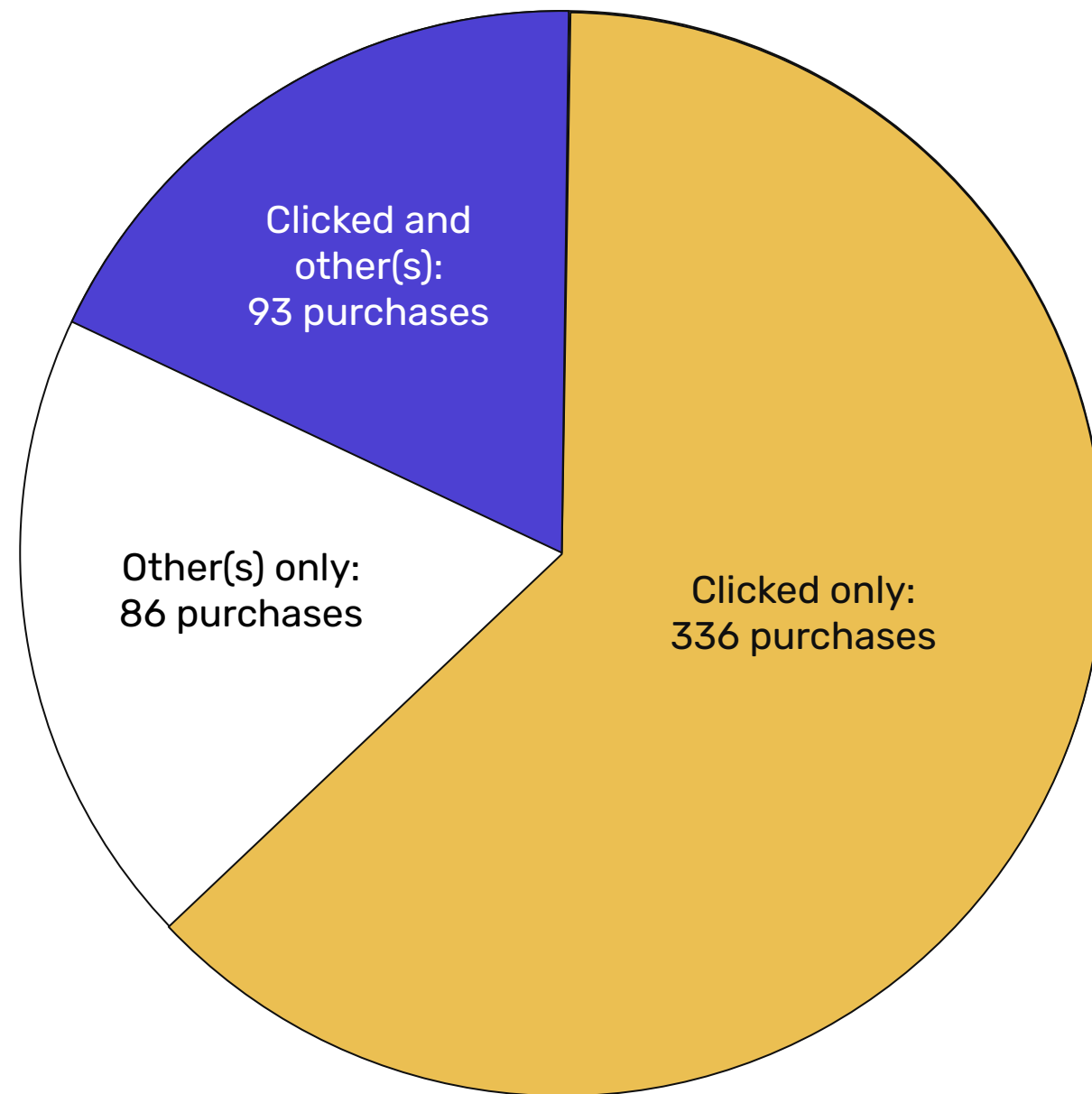


Chart description

This chart describes the ratio between clicked and actually purchased items.

Main finding(s)

- In nearly 65% of the cases the clicked item was the only bought item
- ~18% the clicked item was bought alongside others
- ~17% the clicked item was replaced

→ Product lines are not yet considered

Is the clicked item actually bought?

Sports brand, United States



Chart description

This chart describes the ratio between clicked and actually purchased items.

Main finding(s)

- In nearly 16% of the cases the clicked item was the only bought item
- ~6% the clicked item was bought alongside others
- ~78% the clicked item was replaced

→ We can eliminate product lines if item group ID is in available

Is the clicked item actually bought?

Electronics retailer, United Kingdom

Number of occurrences

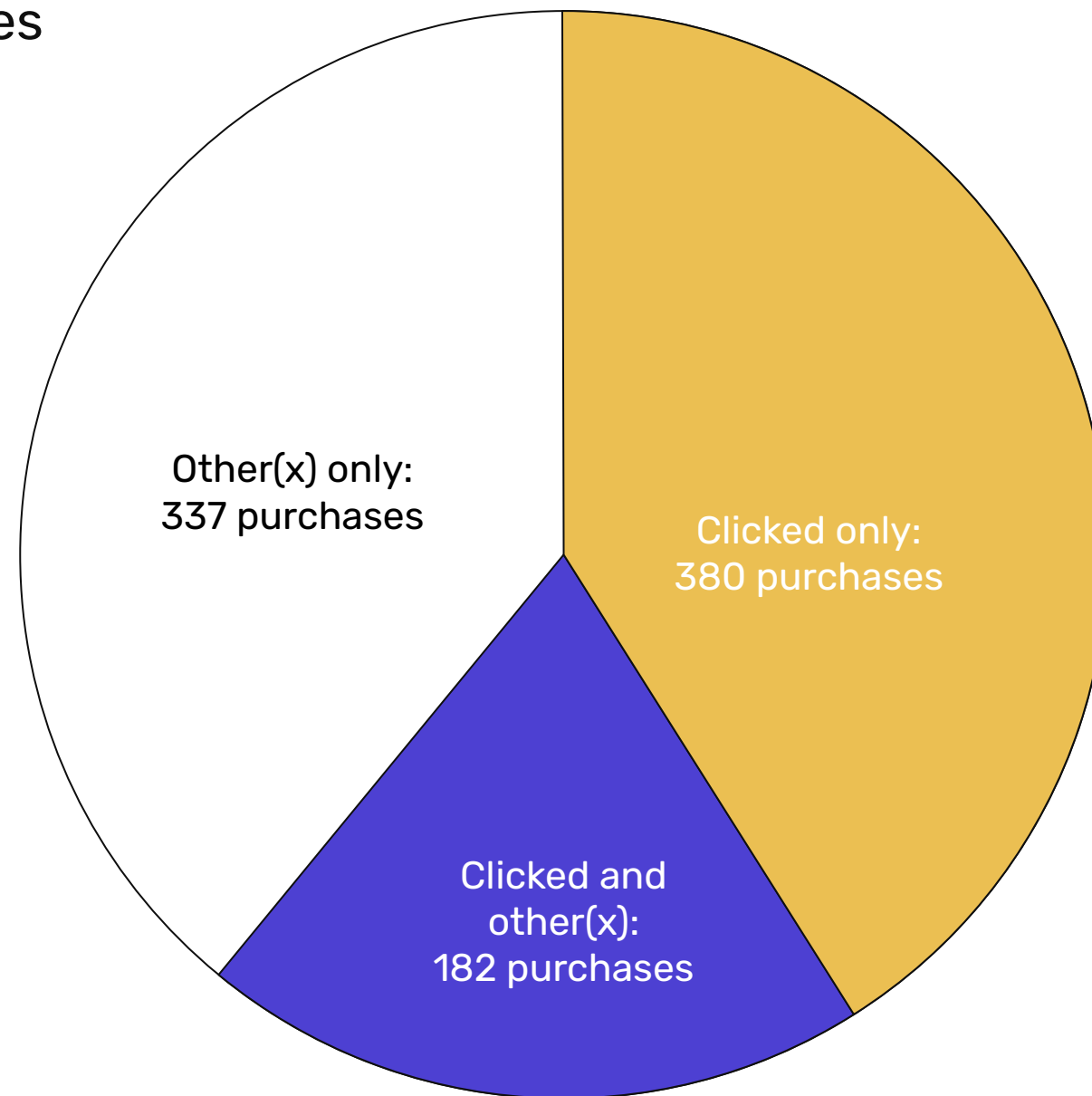
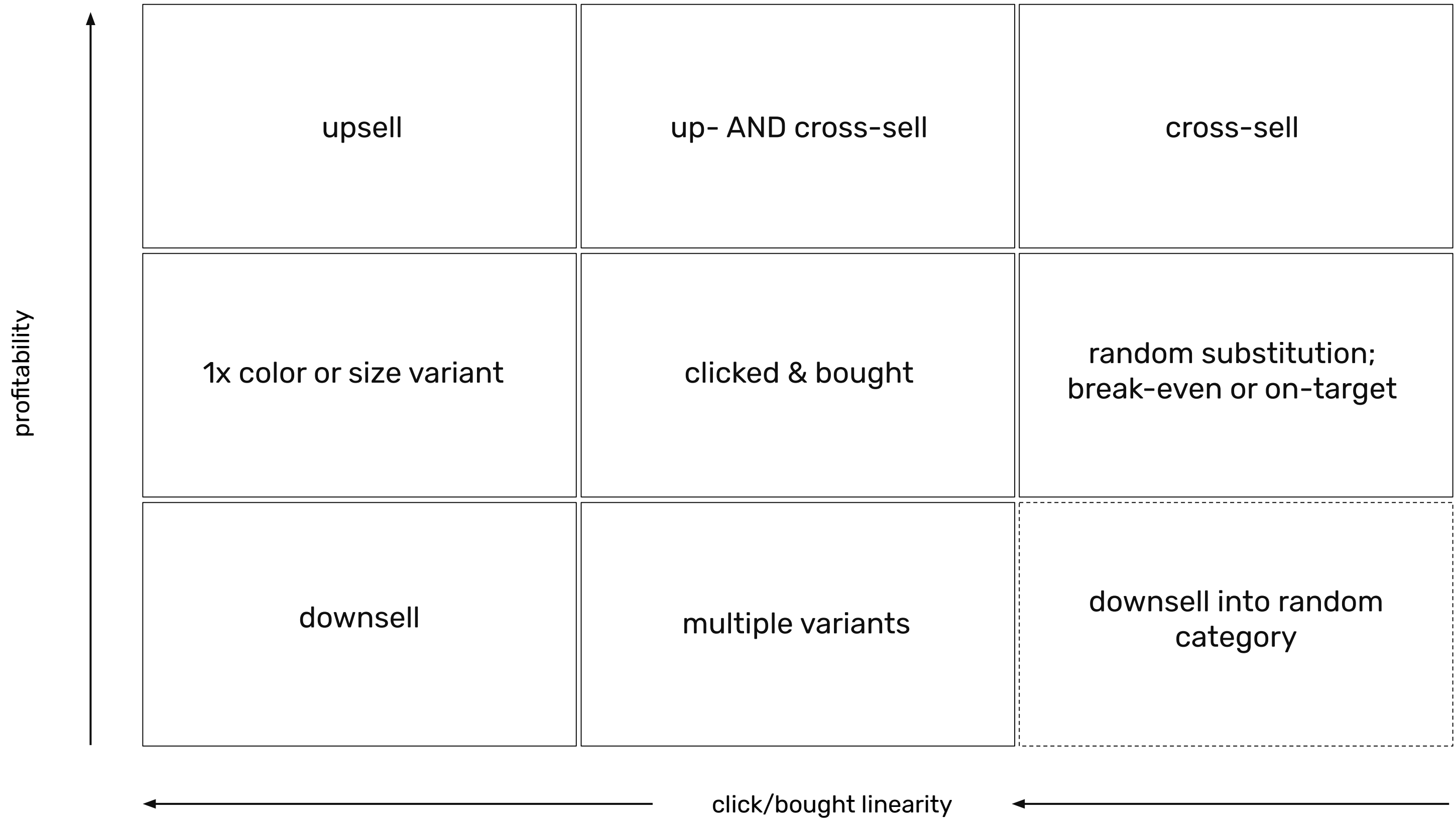


Chart description

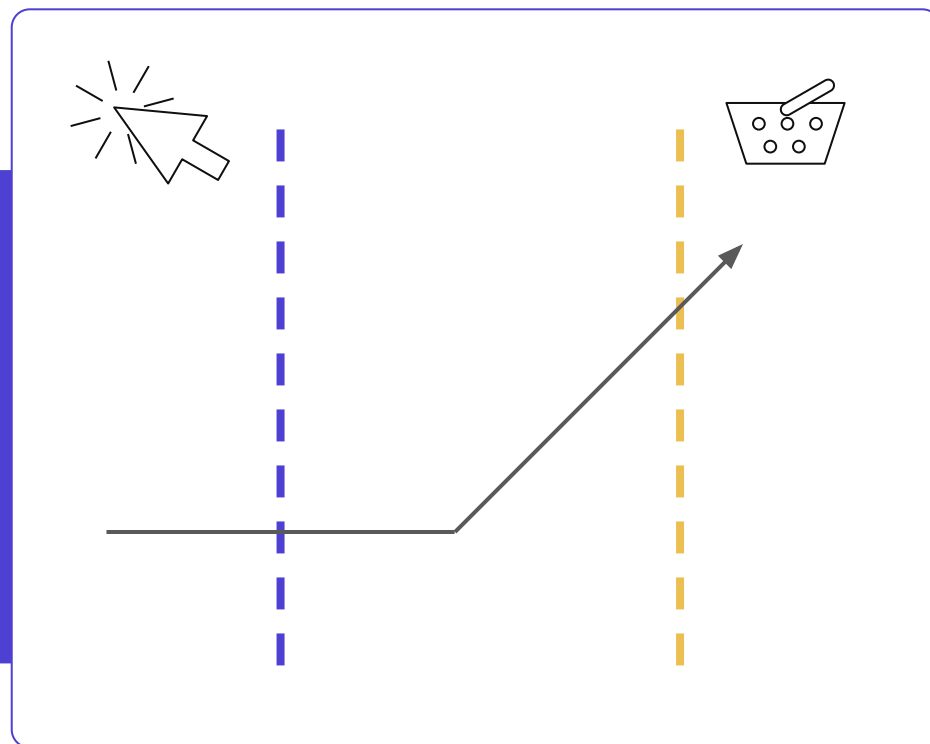
This chart describes the ratio between clicked and actually purchased items.

Main finding(s)

- In 42.3% of the cases the clicked item was the only bought item → users know what they want and search for
- 20.2% the clicked item was bought alongside others → opportunity for bundling
- **~37.5% the clicked item was replaced** → user found better alternatives through browsing?

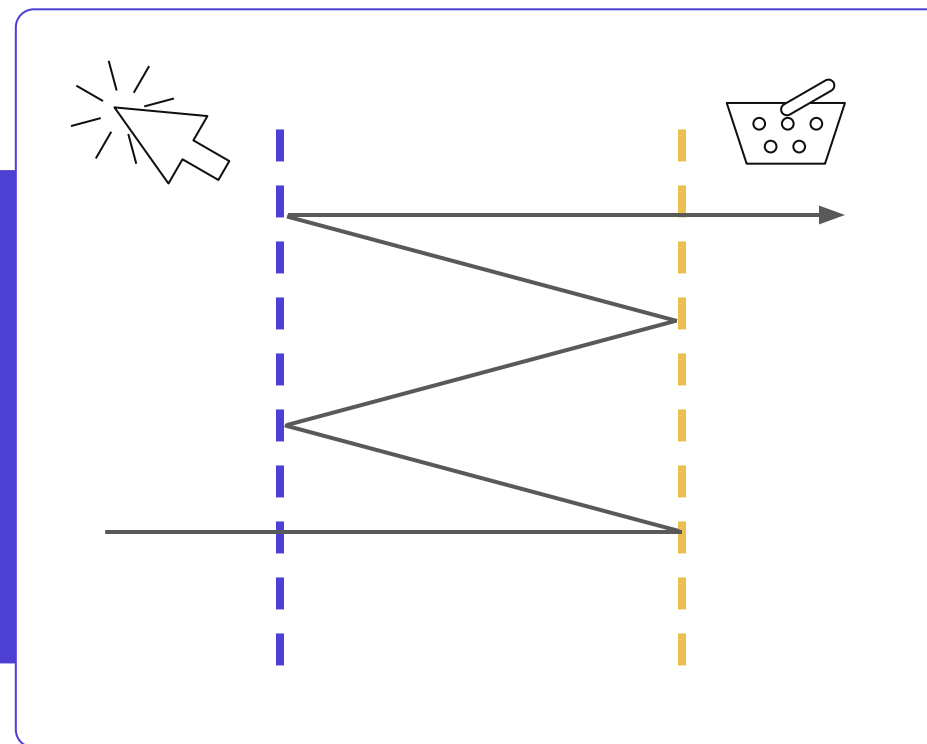


Proposed categorization of clicked vs. bought phenomena



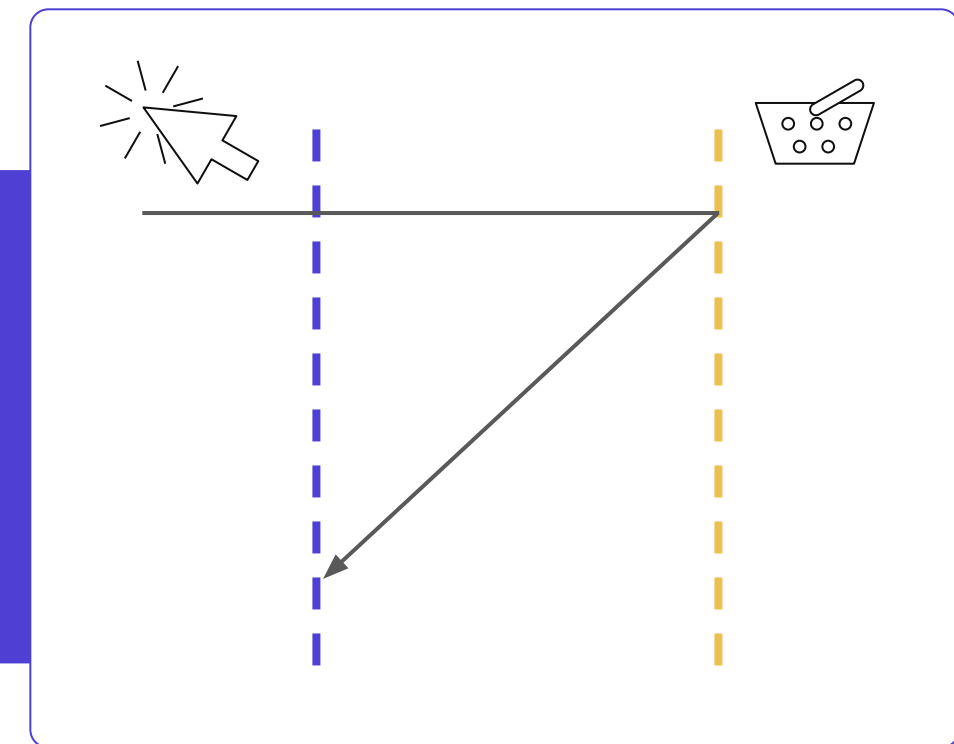
Inflection Products

- products tendentially yielding upsells, cross-sells, or profitable cart expansion
- associated with highly profitable orders



Reflection Products

- products tendentially yielding variant multiples (e.g. same product in different sizes or colors)
- superficially profitable; high return & refund rates



Deflection Products

- products tendentially yielding downsells or abandoned carts

Unlock order profit for optimization

Gross Profit Calculation

Calculate the order profit regularly for every transaction

Gross profit = Revenue - COGS
(- Transactional costs, optionally)

Connect the conversion with an adclick (Click-ID)

Offline Conversion Import

Regular upload of offline conversion feed to Google Ads

The feed features: Click-ID, conversion time, conversion value, currency

Goal Adjustment

Rethink and adjust your goal setting, your current ROAS goal won't fit

Ensure that all stakeholders are on board, optimization based on profit ≠ optimization based on revenue

Challenges while planning and performing this task

- Large data volumes
- Data availability, timeliness, and fallbacks
- Intra-day price changes
- Conversion lag
- Returns and refunds

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Final Thoughts



Listen & Subscribe!





Thank You

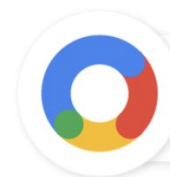
Reach out any time



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