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
- Sold everything and moved to Austria for love

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Agenda

1. The ROAS Pathology
2. The Messy Middle
3. Two Birds, One Stone
The ROAS Pathology
What is ROAS and why is it so popular?

ROAS = conv. val / cost

- Easily and universally calculable
- Works across all campaign entities
- Reportable from hourly up to yearly
- Google formula is open-ended

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
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.
Browsing and consumption are primal behaviors

- 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

Category heuristics
Power of Now
Social Proof
Scarcity Bias
Authority Bias
Power of Free
The Clicked vs. Bought Dilemma

Customer A
- Entry product: €699,-
- Order value: €99.00

Customer B
- Entry product: €699,-
- Order value: €1,090.00
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 e-commerce 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

<table>
<thead>
<tr>
<th>Click ID</th>
<th>Basket Margin</th>
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</thead>
<tbody>
<tr>
<td>1234</td>
<td>2.99</td>
</tr>
<tr>
<td>56789</td>
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<td>53.4</td>
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<tr>
<td>128319</td>
<td>99.47</td>
</tr>
</tbody>
</table>
Profitability per brand

COGS

Gross Profit

Brand 1

Brand 2

Brand 3

Brand 4

Brand 5
Profitability per item

- Item 1: COGS = 20,000 EUR, Gross Profit = 15,000 EUR
- Item 2: COGS = 10,000 EUR, Gross Profit = 5,000 EUR
- Item 3: COGS = 5,000 EUR, Gross Profit = 5,000 EUR
- Item 4: COGS = 0 EUR, Gross Profit = 0 EUR
- Item 5: COGS = 0 EUR, Gross Profit = 0 EUR
- Item 6: COGS = 0 EUR, Gross Profit = 0 EUR
- Item 7: COGS = 0 EUR, Gross Profit = 0 EUR
- Item 8: COGS = 0 EUR, Gross Profit = 0 EUR
- Item 9: COGS = 0 EUR, Gross Profit = 0 EUR
- Item 10: COGS = 0 EUR, Gross Profit = 0 EUR
Efficiency over time
ROAS vs POAS development

![Graph showing efficiency over time with ROAS and POAS development. The graph indicates a peak in revenue and profit expenditure. The revenue to adspend ratio is 5.9 and the profit to adspend ratio is 3.2.](image)
Efficiency over time

ROAS vs POAS development

REVENUE/ADSPEND 10.4

PROFIT/ADSPEND 3.6
Clicked vs bought items

Filter: transactions where exactly one item was clicked and exactly one item was bought
22% of this top category’s click-attributed revenue actually converts in a different category.
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
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

- Clicked only: 380 purchases
- Other(x) only: 337 purchases
- Clicked and other(x): 182 purchases

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?
Profitability

<table>
<thead>
<tr>
<th>Upsell</th>
<th>Up- AND Cross-sell</th>
<th>Cross-sell</th>
</tr>
</thead>
<tbody>
<tr>
<td>1x color or size variant</td>
<td>Clicked &amp; bought</td>
<td>Random substitution; break-even or on-target</td>
</tr>
<tr>
<td>Downsell</td>
<td>Multiple variants</td>
<td>Downsell into random category</td>
</tr>
</tbody>
</table>

Click/bought linearity
 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
Final Thoughts
Podcast
Growing Ecommerce
The Online Retail Growth Podcast

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