

# Module 1 Part C

## Tactical Success

By Alexander Edsel



if a slide has this post  
it note-then it is not  
on the exam/quiz

# Mindset for tactical success in digital marketing

## Conversion focused

Regardless of whether it's SEO, PPC, Social Media or any other platform-- you must try to **quantify the initiatives contribution to sales and ROI**

01

02

## Key Metrics

There are many metrics in digital marketing especially when doing web analytics—however the overarching metric is make sure you know your **breakeven points, Cost to Acquire a Customer and Customer Lifetime Value**

## Split Testing

Many initiatives especially when doing website or app usability/conversion optimization or PPC **must**—in addition to best practices-- be decided after conducting split testing

03



# Comparison typical vs. a ROP campaign

Typical campaign	“Return on Promotion Campaign”
1. How much budget do we have?	1. Retention analysis
2. Usually it's about targeting a generic sector such as women 25-40 making over \$50K etc.	2. Make sure your target segment is actionable & profitable. Strong positioning
3. Campaign: create and place display ads on Facebook & Google Display Network and spending \$37K	3. Perform a Return on Promotion
4. Hope for the best-if it fails blame the economy, the competition or the manager	4. Design campaign: score leads
	5. Test before spending a large amount
	6. Analyze results: adjust & test, larger volume or cancel the campaign
Result: if you get a 0.2% response rate: you might be out approx. \$37,000 (however if a 10% net profit, you will need to sell \$370,000 just to recoup that loss)	Result: if you get a 0.2% response, you might be out \$700 because of limited placements

# Steps for a ROP campaign

1. Know your current customer defection rate and share of wallet –maximize and/or improve this first
2. Don't choose target segments based on "your instinct" –conduct market research and look at your data then select a highly responsive and profitable segment
3. Know both your Customer Acquisition Cost (CAC) and Customer Lifetime Value (CLTV) to determine how much you should be spending to acquire a new customer



A company often focuses on customer acquisition and may spend \$50-100K on a campaign; but what if they have a retention rate of 50% per year while the industry average is 85%?

**The Allowable and Return on Promotion determines what conversion rate you need to break even on that promotion.**

**Allowable somewhere between GP and NP**

**Formula is : Total selling price- Cost of order**

## Shop Electronics at Amazon | Low Prices & Huge Selection

(Ad) [www.amazon.com/electronics/accessories](http://www.amazon.com/electronics/accessories)

Find deals on **electronics**, accessories & more from top brands at Amazon.

Fast Shipping · Deals of the Day · Shop Best Sellers · Shop New Releases

### Amazon Prime Benefits

Free 2-day shipping, video, music, unlimited photo storage & more

### Meet the Fire TV Family

See our devices for streaming your favorite content and live TV.

People click on your ad at \$5 per click, assume 100 people clicked on it today, cost you \$500

**Note: \$5 is not your cost per acquisition (CPA)**



Of those 100 people who went to your website, let's assume 3 people bought something, your CPA is actually \$500/3 or \$167 per acquisition

amazon

[Kindle Store](#) | [Your Account](#) | [Amazon.com](#)

## Order Confirmation

Order #153-2700840-3894973

da by.com

Thank you for shopping with us. We'd like to let you know that Amazon has received your order, and is preparing it for shipment. Your estimated delivery date is below. If you would like to view the status of your order or make any changes to it, please visit [Your Orders](#) on Amazon.com.

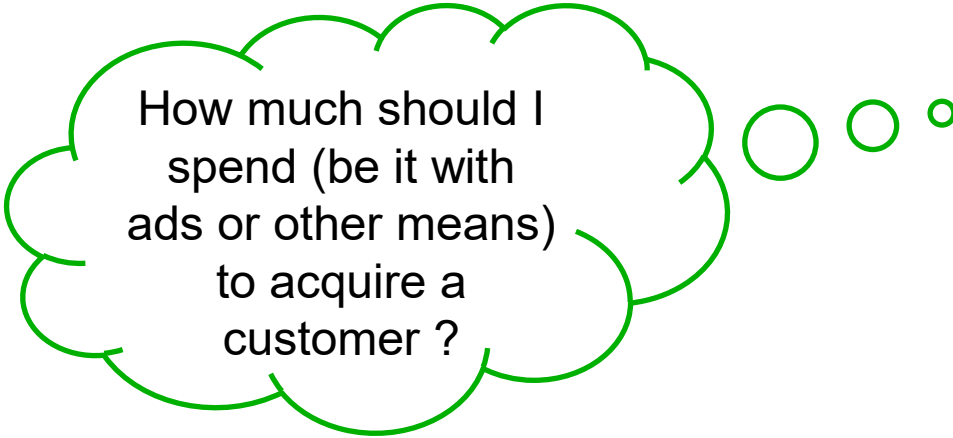
Your estimated delivery date is:

Your order was sent to:

# Many types of conversions

Main objective	Types of companies	Main conversion type
Ecommerce	e-retailers such as Amazon, Walmart, eBay, etc.	Purchases (can be physical or virtual products)
B2B-Lead generation	Sometimes they also do ecommerce but more often due to high dollar amount its to get leads- NEC Some use it to get leads then referred to their distributors like Lennox, Carrier	Form completion so they can be contacted
Informational	CNN, Wall Street Journal, Blogs (often they are free to users and sell advertising)  Some mainly Fortune 500 type companies are purely informational not even for leads such –as Exxon, GE, Caterpillar	Number of unique visitors, Time on page, number page views, clicks on ads  A few like WSJ have subscriptions to access certain content

# Cost of Customer Acquisition (CAC)



How much should I spend (be it with ads or other means) to acquire a customer ?

1<sup>st</sup> step is to calculate your  $CAC = MCC / CA$

- **CAC** = Cost of customer acquisition (same as CPA or Cost per acquisition used mainly for PPC while CAC is across platforms)
- **MCC** = Total marketing campaign costs related to acquisition (Not [retention](#))
- **CA** = Total customers acquired

Example: Spent \$10,000 to acquire 10 customers

$$\frac{\$10,000}{10} = \$1,000 \text{ CAC}$$



# CLTV

- Unfortunately, many different ways to calculate CLTV. Some models are poor in that they do not look at key variables. Stay away from simple formulas.
- At a minimum, make sure the CLTV model includes: average gross profit per customer (not revenue, could also use net profit), retention rate, present value over some long time period (3+ years)
- Snapshot customers who started Year 1 then follows them plus referrals
- Exclude delinquent or inactive customers

$$\text{CLV} = \text{Margin}(\$) \times (\text{Retention rate}(\%) / ([1 + \text{discount rate}(\%)] - \text{Retention rate}(\%)))$$

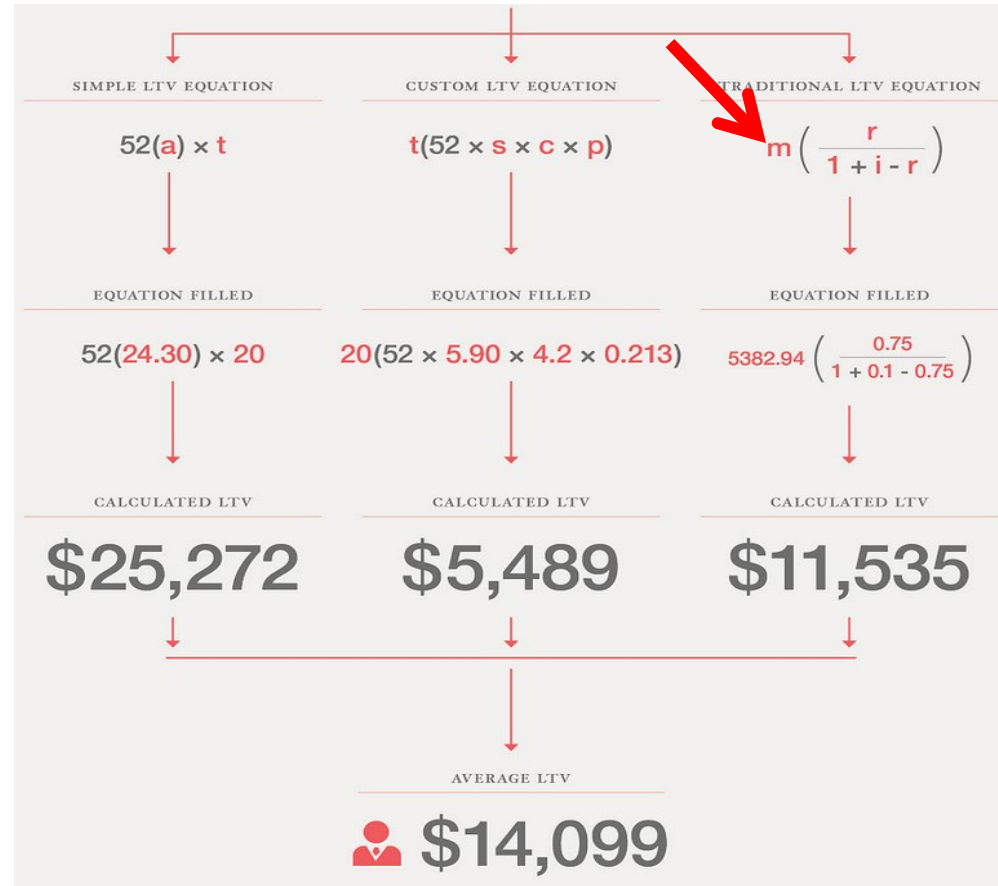


Image source: [blog.kissmetrics.com/how-to-calculate-lifetime-value/](http://blog.kissmetrics.com/how-to-calculate-lifetime-value/)

# End Game CLTV:CAC ratio

Ratio of CLTV to CAC	Likely scenario
<1:1	Losing money at an accelerated rate
1:1	Losing money maybe breakeven
2:1	Marginal returns
3:1	Optimal level
4:1	Could be underinvesting in promotions, might need to be more aggressive and be closer to 3:1 so your acquiring as many customers for healthy growth

# CLTV calculations- see excel provided in elearning file

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	A	B	C	D	E	F
1	Fields in yellow are inputs		Customer Acquisition Cost	\$65	LTVL COC ratio	
2			LTV 3 YR cumulative	\$52	0.80 :1	
3		Year 1	Year 2	Year 3	LTV to CAC ratio	Situation
4	Referral Rate	2.00%	4.00%	5.00%	<1:1	Major losses
5	Referred Customers	0	2000	2480	1:1	Loss
6	Retention Rate	60.00%	70.00%	80.00%	2:1	Marginal
7	Retained Customers	100,000	60,000	43,400	3:1	Optimal
8	Total Customers	100,000	62,000	45,880	4:1	Not aggressive enough
9	Orders/year	1.8	2.5	3		
10	Avg. Order Size	\$90	\$95	\$125		
11	Total Revenue	\$16,200,000	\$14,725,000	\$17,205,000		
12						
13	Direct Cost %	69.75%	65.00%	65.00%		
14	Direct Costs	\$11,299,500	\$9,571,250	\$11,183,250		
15	Acquisition Cost	\$6,500,000	\$0	\$0		
16	New Initiatives per customer		\$15	\$20		
17	New Initiatives cost all customers		\$1,500,000	\$1,240,000		
18	Referral Incentives : % of average order size		10%	15%		
19	Referral Incentives total costs		\$19,000	\$46,500		
20	Total Costs	\$17,799,500	\$11,090,250	\$12,469,750		
21						
22	Gross Profit	(\$1,599,500)	\$3,634,750	\$4,735,250		
23	Gross profit per Customer	(\$16.00)	\$58.63	\$103.21		
24	Discount Rate	1.1	1.16	1.35		
25	Net Present Value Profit	(\$1,454,090.91)	\$3,133,405.17	\$3,507,593		
26	Cumulative NPV Profit	(\$1,454,091)	\$1,679,314	\$5,186,907		
27	Cumulative Customer Lifetime Value per customer	(\$14.54)	\$16.79	\$52		

# Determine your bid using CLTV calculation:

<https://life-time-value.appspot.com>

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Advanced

Basic

PRODUCT CONVERSION

AdWords CPC \$ 0.5

Conversion rate 2%

PURCHASE PROFITABILITY

Customer lifetime (in years) 3

First purchase value \$ 100

Purchases per year 1

YEAR 1<sup>ST</sup> 2<sup>ND</sup> 3<sup>RD</sup>+

Purchase value (\$) 100 100 100

Purchases per year 1 1 1

Retention rate — 67% 44%

Referral rate 10%

Gross profit margin 15%

ONLINE-TO-STORE (O2S)

O2S category Clothing & Footwear

Destination country Czech Republic

Online-to-Store (O2S) factor 1.43

DISCOUNT RATE

Discount rate 10%

Advanced

Basic

PRODUCT CONVERSION

AdWords CPC \$ 4

Conversion rate .07%

PURCHASE PROFITABILITY

Customer lifetime (in years) 3

First purchase value \$ 500

Referral rate .05%

Gross profit margin 20%

DISCOUNT RATE

Discount rate 10%

# Scenario –plugging in numbers see what my bid should be given my

FYI  
For Your Information

Advanced

Basic

## PRODUCT CONVERSION

AdWords CPC \$ 5

Conversion rate 3%

## PURCHASE PROFITABILITY

Customer lifetime (in years) 3

First purchase value \$ 150

Referral rate 10%

Gross profit margin 15%

## ONLINE-TO-STORE (O2S)

O2S category Clothing & Footwear

Destination country Czech Republic

Online-to-Store (O2S) factor 1.43

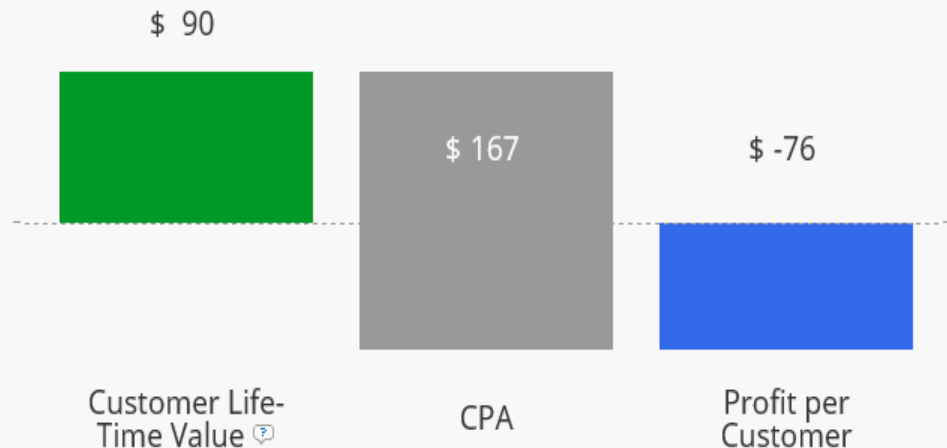
## DISCOUNT RATE

Discount rate 10%

## Life-Time Value Calculation

This calculation is currency independent. Feel free to to change the \$ symbol here.

Based on the life-time value of acquisition, your break-even CPC is \$ 2.71 .



With current CPC of \$ 5.00 the return-on-investment of your online campaign is -46% .

IMPORTANT



Search reports and help

HOME

CUSTOMIZATION

Reports

REAL-TIME

AUDIENCE

Overview

Active Users

Lifetime Value BETA

Cohort Analysis BETA

Audiences NEW

User Explorer

Demographics

Interests

Geo

Behavior

Technology

Mobile

Custom

DISCOVER

ADMIN

LTV metric ?

Compare metric

Revenue Per User (LTV) ▾

vs. Select one

Search

Goal Completions Per User (LTV) ?

Pageviews Per User (LTV) ?

✓ Revenue Per User (LTV) ?

Session Duration Per User (LTV) ?

Sessions Per User (LTV) ?

Transactions Per User (LTV) ?



Plot Rows

advanced

Acquisition Channel ▾	Users ?	Revenue Per User (LTV) ?	Revenue (LTV) ?
	808,059 % of Total: 100.00% (808,059)	\$5.72 % of Total: 100.00% (\$5.72)	\$4,624,462.37 % of Total: 100.00% (\$4,624,462.37)
1. Organic Search	390,350 (48.36%)	\$1.04 (18.20%)	\$407,059.93 (8.80%)
2. Direct	138,074 (17.10%)	\$7.95(138.70%)	\$1,097,117.51 (23.72%)
3. Social	129,679 (16.06%)	\$0.12 (2.03%)	\$15,081.00 (0.33%)
4. Referral	85,225 (10.56%)	\$35.56(620.82%)	\$3,031,022.26 (65.54%)
5. Display	30,777 (3.81%)	\$0.73 (12.77%)	\$22,514.55 (0.49%)
6. Paid Search	17,944 (2.22%)	\$2.85 (49.68%)	\$51,072.18 (1.10%)
	15,173 (1.88%)	\$0.04 (0.67%)	\$584.95 (0.01%)

Google Analytics has LTV feature so you can see which channels contribute more profitable customers

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# End of Module 1

## Part C

Module 1 Part D  
Tactical Success continued  
By Alexander Edsel



# Example of how many companies & marketers approach a campaign-assume that both campaigns sell the same product

Campaign A :  
Has 3X the # of clicks as Campaign B did

Campaign A 50%  
lower cost per click

PPC	Ad Impressions	CTR	Clicks to website (visitors)	Cost per click	Marketing Campaign Cost (MCC)
Campaign A	50,000	6%	3,000	\$4	\$12,000
Campaign B	50,000	2%	1,000	\$6	\$6,000

Many  
“marketers”  
would declare  
Campaign A  
the winner

PPC without web analytics conversion data=  
your not getting the best ROI & might be a waste of money

Campaign	Ad Impressions	CTR	Clicks to website- (visitors)	Cost per click	Marketing Campaign Cost (MCC)	Conversion rate	Orders	CAC- Cost to Acquire a Customer (MCC/Orders)
A	50,000	6%	3,000	\$4	\$12,000	0.70%	21	\$571
B	50,000	2%	1,000	\$6	\$6,000	3%	30	\$200

Campaign A not that good vs. Campaign B ...but still  
not done...Campaign B might also be a loser

Need to know CLTV to CAC

- ✓ What is the average order size? \$50 or \$500
- ✓ What is my repeat business rate over the years?
- ✓ What is my average profit? 10% or 40%

Can use with social media (organic) and SEO...can try to using web analytics see what contribution-attribution did social media make to sales

Social media and SEO efforts over 12 month period	Impres sions	CTR	Clicks to website- (visitors)	Marketing Campaign Cost (MCC)	Conversion rate, where social media had direct role	Orders	CAC- Cost to Acquire a Customer (MCC/Orders)
Facebook	50,000	3%	1,500	\$45,000	0.10%	1.5	\$30,000
Pinterest	50,000	2%	1,000	\$6,000	0.08%	0.8	\$7,500
Twitter	50,000	2%	1,000	8000	0.50%	5	\$1,600
SEO	Hard to know		15,000	\$35,000	2.00%	300	\$117

### Marketing campaign cost for social media

While not an ad and thus not paying for each click you can estimate cost (salaries of dedicated personnel, overhead, etc.) to create and post content, monitor and manage each channel? If SEO to optimize pages etc.

# Referral-Viral coefficient

- Viral coefficient is a referral metric on steroids-but difficult to achieve.
- Used by SaaS (software as service), gaming and mobile app marketers
- Coefficient must be greater than 1 for “viral” growth

## Pros:

- If little to no marketing budget and in one of these businesses--very important

## Cons:

- Not changed by promotional efforts; driven mainly by products/service and how satisfied customer are

100	Customers
10	Average # of invites/shares/referrals each customer sends out
1,000	Referrals (customers * average # of invites)
5%	% who become customers
50	New customers from referrals
0.5	Viral coefficient (# referred customers /original customers)



# Two-thirds of WOM's impact is from offline WOM, one-third from online

% WOM Impact on Business



## Offline WOM Data Provided by TalkTrack, Keller Fay Group

- Survey based, 100 respondents per day / 700 per week / 3000 per month
- Respondents report on their conversations within a day of when they occur – respondents are always new, can not participate more than once in a 4-month period
- Weekly mentions provided by tone: Negative, Positive, Neutral

## Online WOM Provided by Converseon

- Scrapes hundreds of millions of social sites (blogs, forums, boards, photo & video sharing, Facebook, Twitter, etc.) for online conversations
- Weekly Conversations provided: Sentiment, Emotion, Intensity (for most recent 1 - 1 ½ years)

## RETURN ON WORD OF MOUTH



PEPSICO

weightwatchers

intuit

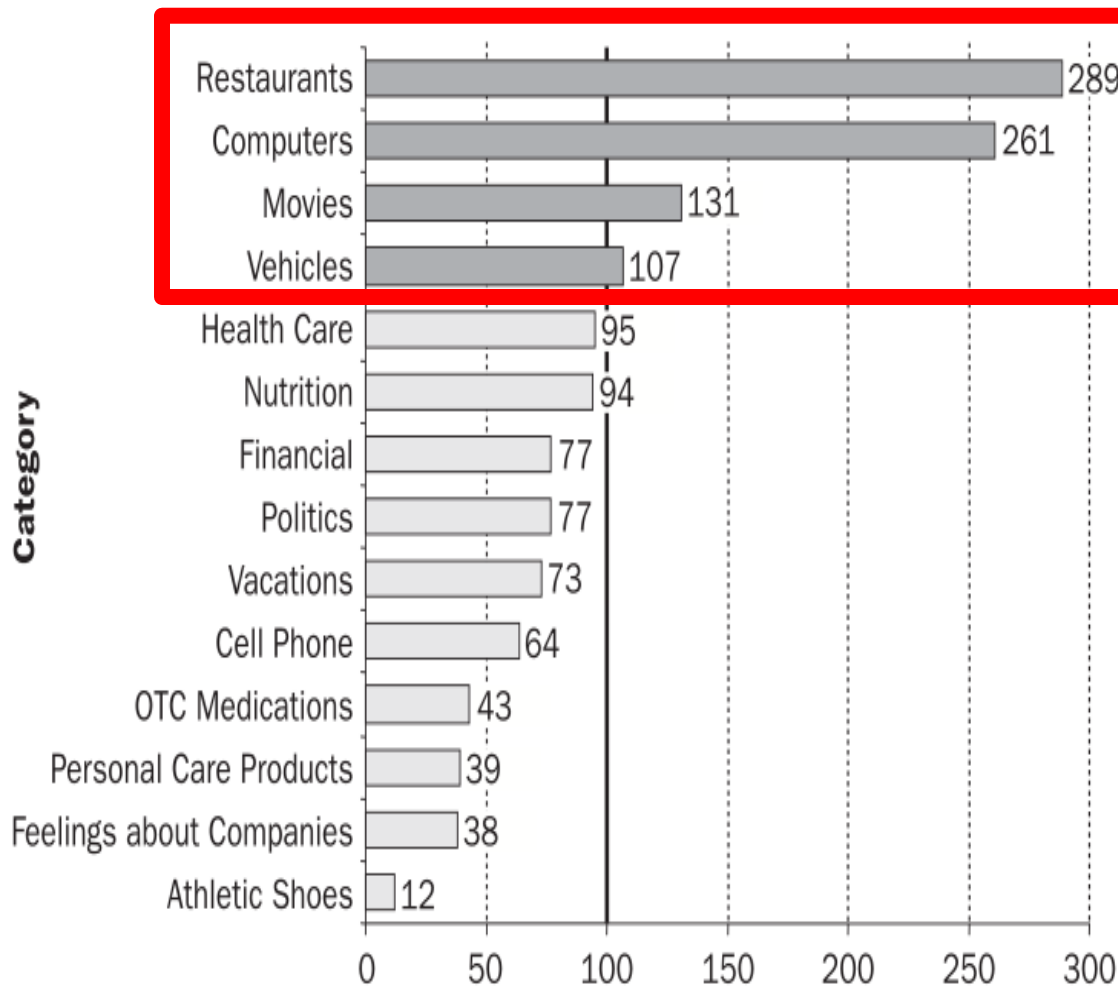
## KEY INSIGHTS | SUMMARY

- WOM drives 13% of sales (paid marketing in total drives 20-30% of sales)
- Offline WOM produces 2/3 of the impact; online 1/3
- WOM amplifies the effect of paid media by 15%
- WOM has a more immediate impact than traditional advertising – most is in the first two weeks
- One offline WOM impression drives sales at least 5 times more than one paid media impression, and much more (as much as 200 times more) for high-consideration categories

# Categories of Products matter in WOM

**TABLE 1**

One-fourth of Brand WOM References Ads



Industry	% of WOM Influenced by Advertising
Media/Entertainment	31
Telecommunications	29
Personal Care/Beauty	28
Technology	27
Automotive	27
The Home	27
Household Products	26
Retail/Apparel	25
<b>All Category Average</b>	<b>25</b>
Travel Services	25
Food/Dining	24
Children's Products	23
Beverages	22
Sports/Hobbies	21
Financial Services	19
Health/Healthcare	18

Source: Synthesis Harris, 2084 adults

*TalkTrack, a continuous research service of the Keller Fay Group. These surveys are among 36,000 consumers across the United States annually, and data are weighted to Census*

# Net Promoter Score-predictor of referral health

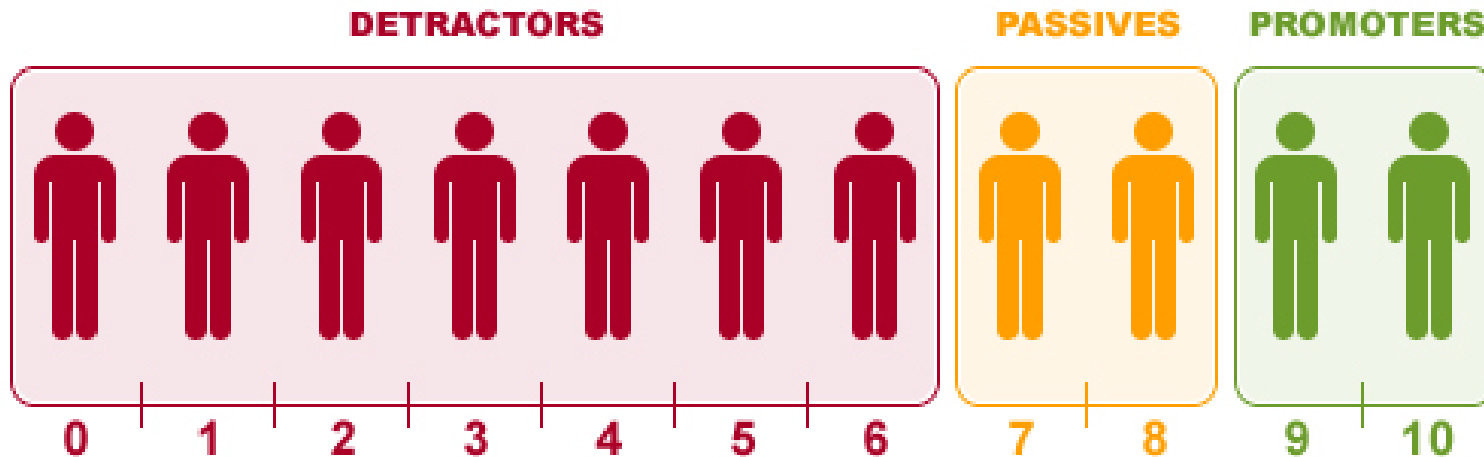


Image source: checkmarket.com

Net Promoter Score

=

% Promoters

—

% Detractors

NPS is represented as an absolute number not a %.  
E.g., if 25% promoters and 15% detractors score is +10

# Companies benchmark within their industry

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## Utilities

Commonwealth Edison, and 12 more



## Health plans

Aetna, Anthem, Humana, and 10 more



## Internet service

AOL, AT&T, Verizon, Cablevision, and 4 more



## TV service

Comcast, DirecTV, AT&T, and 7 more



Source: Temkin Group



# How to Design An Experiment-Split Test

Have a control and test  
A/B or Multi-variate (need  
a lot of traffic for this type of test)



Randomization

Statistically-valid  
sample size

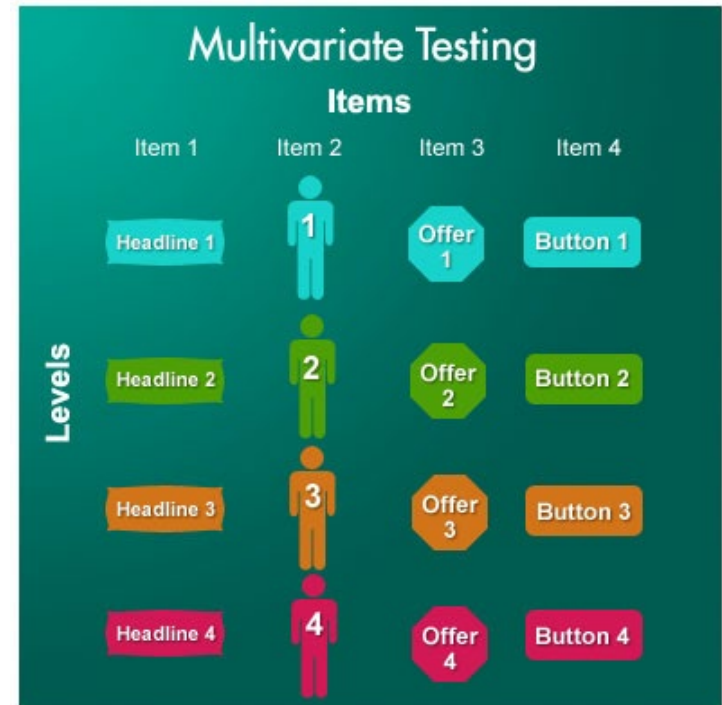
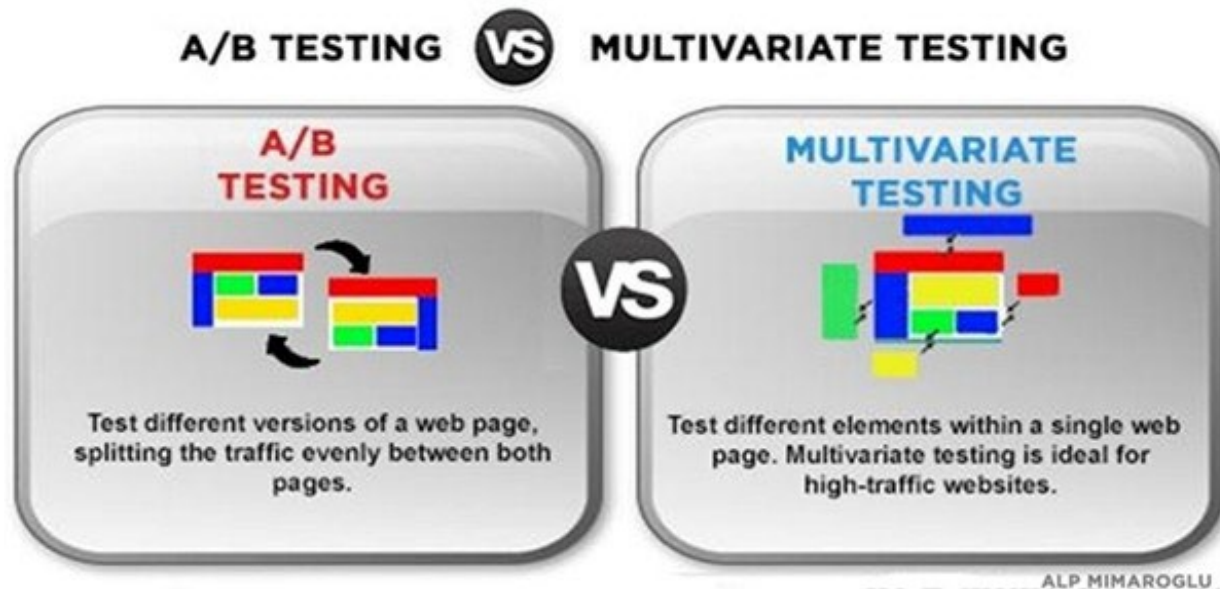


Image Source: [www.ionicmedia.com](http://www.ionicmedia.com)

# Tips when Testing the Offer



- Test only one feature at a time; if multivariable, the marketer needs to be experienced and also have a large volume of data/traffic when different types.
- Code your tests so you can measure results- e.g., urls, special toll free number; match codes; different coupon codes

## Determine Sample Size

Confidence Level: ☒ 95% ☐ 99%

Confidence Interval:

Population:

Calculate

Clear

Sample size needed:

		Ad	Status ?	% Served ?	Clicks ?	Impressions	CTR
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Buy Blue Widgets Your Ad Copy for Test "A" Goes Here Your Blue Widgets Ship Free! <a href="http://www.thewidgetshop.com/Blue">www.thewidgetshop.com/Blue</a>	Approved	59.11%	237	7,251	3.27%
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Buy Blue Widgets Your Ad Copy for Test "B" Goes Here Free Shipping On Blue Widgets! <a href="http://www.thewidgetshop.com/Blue">www.thewidgetshop.com/Blue</a>	Approved	40.89%	175	5,016	3.49%

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## AB Testguide

Is your test result significant? Does it have enough power?

Play with the controls and get a better feel for how a lower confidence level will boost the power or how an increase in test size can make a small CR-difference significant!

Pre-test calculation or post-test evaluation?

☐ Pre-test analysis

☒ Test evaluation

### Test data

Visitors A

Conversions A

Visitors B

Conversions B

Apply changes

### Settings

Hypothesis (?)

☒ One-sided

☐ Two-sided

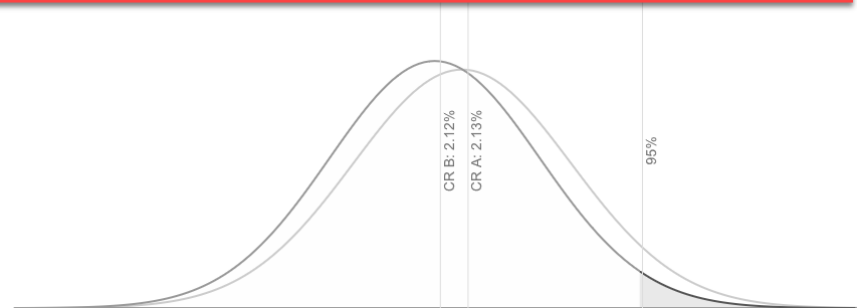
## Test result

The test result is *not* significant.

The observed difference in conversion rate (-0.62%) isn't big enough to declare a significant winner. There is no real difference in performance between A and B or you need to collect more data.



The expected distributions of variation A and B.



### Conversion Rate Control

Conversions A / Visitors A

### Conversion Rate B

Conversions B / Visitors B

### Relative uplift in Conversion Rate

$CR_B - CR_A / CR_A$

Observed Power

p value

Z-score

# What Do Digital Marketers Test?

1. Usability (webpage version A vs B)
2. Market segments (income levels)
3. Product A vs B (Adidas vs. Nike)
4. Form submissions
5. Call to actions- “Act now” vs “3 days left...”
6. Offer A (10% off) vs Offer B (buy one get one free)
7. Compare media vehicles (SEO vs PPC vs Twitter vs Facebook )
8. Timing-weekday vs weekend, morning vs evening
9. Seasonality (Summer vs Fall)
10. Look for insights in web analytics data-then test your hypothesis

## Which Radically Redesigned Form Increased B2B Leads By 368.5%?

**VERSION A** vs. **VERSION B**

**Get Data Center Pricing**  
With eight data centers, Expedient provides superior colocation, network and managed services to enterprises, commercial, education and government entities. We are committed to providing our clients with reliable, secure and redundant managed data center services. As a managed data services provider, we can offer your company high quality, cost effective solutions to meet your needs.  
Fill out the form below and get data center pricing today:

Company Name:   
Name:   
Phone: -- Ext:   
Contact Email:   
Services: ☐ Colocation (3) ☐ Cloud Computing (3) ☐ Virtual Colocation (3) ☐ Virtual On Demand (3) ☐ Virtual Instance (3) ☐ Managed Backup (3) ☐ Managed SAN (3) ☐ Managed Server (3) ☐ Managed Exchange (3) ☐ Internet Connectivity (3) ☐ Other  
Desired Data Center:   
Comments:   
Security Question: How many months are there in a year?  
Answer:

Expedient respects your right to privacy and we will never sell or share your information.  
If you have immediate questions, please call 877-675-7827, Monday through Friday 9am - 5pm EST.

**Cloud Computing Quote Request**  
Request service pricing on cloud computing through any of Expedient's 8 nationwide data centers.

Company Name:   
Name:   
Contact Type:    
Title:   
Comments:   
Contact Phone:   
Contact Email:   
Data Center Location:    
Total Required RAM in GB:   
Total Required Processor in GHz:   
Total Required Storage in GB:   
Internet Connectivity:   
Additional Managed Services  
Firewall: ☐  
Remote Backups: ☐  
SAN Storage: ☐  
Load Balancing: ☐  
Priority:    
Security Question: How many months are there in a year?  
Answer:

Source: unbounce.com

# Google Website Optimizer A/B Demo



# End of Module 1

## Part D