Leading the Conversation on Profits

Win more customers and drive better business results by retooling for profits.

An Executive's Guide

think with Google

Introduction

There's a shift happening in digital advertising. Even if you and your search team haven't noticed it, there's a good chance your competition has. An increasing number of search marketers are boosting the profitability of their digital campaigns by rethinking basics such as KPIs, budgets and the customer journey. We refer to this trend as "profit-driven marketing," and we've been watching from the front row as it has developed into a big strategic advantage.

At the highest level, profit-driven marketing means moving digital marketing from a cost center to a profit center, extracting as much profit as possible out of your marketing spend. These marketers ignore traditional efficiency metrics such as ROAS and CPA and chase dollars to win more customers.

Sounds great, right? Who doesn't want more profit?

This new marketing mind-set requires a reassessment of industry best practices and a commitment from your search team to pursue profit-driven marketing tactics. It takes practice and innovation, but the result could be big returns that you probably didn't even know you were missing.

In this paper, we explain the three main pillars of profit-driven marketing—recognizing value, targeting outcomes and capturing demand—and how to approach marketing as a revenue generator rather than a cost center. Here's a spoiler:

1

Recognize Value

The best business outcomes require a precise understanding of the value of your media investment. Profit-driven marketers have a healthy obsession with measuring the full value of digital.

2

Target Outcomes

Profit-driven marketers evaluate the performance of digital investments directly against their business goals. They're willing to sacrifice efficiency if they can drive better overall outcomes.

3

Capture Demand

Today's customers reach out to brands when they're ready, on their own terms. The profit-driven marketer is there for every profitable customer and is not constrained by fixed budgets.

Profit as your "True North"

Profit-driven marketers believe that the best way to manage digital media performance is to tie marketing outcomes directly to business objectives. That's more disruptive than it sounds. The only metric that need be considered is the amount of profit made at the end of the day. This kind of thinking may mean you're ignoring return on ad spend, disregarding the bidding price of keywords and not sweating your placement on a search results page. In fact, in many cases, the savvy search marketers who are landing the coveted top slot of search results pages aren't doing it by targeting that position; they're simply bidding on the profit opportunity.

Right now, digital marketers are standing at the crossroads between opportunity and challenge. The C-suite wants more accountability for the marketing spend but that's tricky because the multi-channel purchase path is becoming increasingly complicated. Digital marketers are feeling the pressure to get clearer metrics and that pressure is likely to increase.

Profit-driven marketing can be the true north through the chaos. It helps you show profit, addressing the need for increased accountability, and guides you to make the best possible multi-channel investments with your marketing budget. By focusing on profit, you and your team will develop a deep understanding of the trade-off between volume and cost, you'll be able to measure how effectively you're meeting your customers' needs, and you'll get better at meeting shifting demand.

As we walk through the building blocks of profit-driven marketing, we'll refer to the basic profit formula shown below. It represents the strategy implemented by a hypothetical retail advertiser (Advertiser X) that's invested in AdWords.

Basic profit formula

16 new customers X $300 average order value X 50% gross margin – $1,280 AdWords investment = **$1,120 profit**

	CPC Bid	Total Sales	Value per Sale	Cost per Sale	Total Value	Total Investment	Total Profits
Baseline performance	$6	16	$150	$80	$2,400	$1,280	**$1,120**

1 Recognize Value

In the world of profit-driven marketing, success depends on a detailed understanding of the value of the media investment. If marketers overvalue their investment, they can waste money. If they undervalue their investment, they relinquish profit (and placement on the search results page) to competitors. Successful profit-driven marketers have a healthy obsession with measuring the *full* value of their digital investments, and those measurements lead to constant optimizations.

Keep up with your customers

Today's consumer is embracing new technology and adopting new behaviors faster than ever. As the consumer journey evolves in its complexity, measurement and attribution becomes increasingly difficult. To get the data they need, marketers may need to raise the bar when pursuing new forms of measurement and new technology.

The good news is that the industry is investing in new measurement capabilities and ad tech for marketers. Innovative companies will evolve alongside their customers, constantly searching for the best ways to measure customer activity across channels and devices, both online and offline.

More than most marketers in the industry, profit-driven marketers require a keen awareness of the available tools and the flexibility to adopt new tools and methods as they become available. So don't get married to your processes or your tools—expect them to be constantly changing and improving.

Track profits better

Today's consumer journey looks less like a funnel and more like a tree, with branches going every which way on the route to purchase. Every action—in person, at home, at work, on a laptop or on a smartphone—opens up new branches that blur the line between online and offline shopping.

Profit-driven marketers assign value to every action, across touchpoints, screens and channels, which means not all customers are valued in the same way. For instance, customers who purchase often are more valuable than those who don't, so you'd be wise to spend more to reach them.

Here are the three key areas profit-driven marketers should focus on to improve the value of digital media:

The path to purchase

A shopper checks camera reviews on a smartphone at lunch and buys one later on a tablet. A customer lands on a site by clicking on an ad for dresses and then buys one later from your brand site. The key to success is valuing each part of these digital journeys, across screens.

The value online and offline

How many total sales does each marketing dollar drive, not just on the brand's website but also through the call center and in stores? Measuring only online sales will significantly undervalue the profit contributions of performance marketing.

The customer's lifetime journey

How much is a new customer worth tomorrow, next month or over the next three years? Focusing on one purchase may mean missing the big picture—how valuable that customer will be in the future. Think big.

Shift in Mind-Set

The only way to make the most from a profit-driven strategy is with an aggressive shift from measuring in silos to analyzing the entire path to purchase and understanding the value of the different points along that path. Not being able to do so means your core advantage as a digital marketer—financial accountability—will suffer.

Recognize what's at stake

Most advertisers recognize that online marketing investments affect offline sales. Until recently, few have pursued a holistic understanding of that picture and adjusted their media investments accordingly.

In our basic profit formula example, Advertiser X wanted to improve measurement to boost overall profit. An incrementality study showed that every four sales with an online media investment drove an incremental offline sale of similar value. So although 16 sales are shown in the example, there were actually 20 combined online and offline sales. The subsequent profits were also higher than expected.

The benefits of better measurement go beyond counting profits. Sharper insights translate to smarter bidding, which in turn leads to smarter investments, more customers and more profits. In our example, Advertiser X was underbidding. A $6 CPC bid was driving sales below the $80 cost-per-sale target, which meant there was room to raise the bid and drive even more profitable sales. Continuing on with our example, we can see that if we include offline sales, an $8 CPC bid achieved the advertiser's cost-per-sale target of $80 while boosting total sales to 30–24 online and six offline. Even better, the total profits increased 88% to $2,100.

Adding offline value

30 new customers X $300 average order value X 1.25x offline multiplier X 50% gross margin – $2,400 AdWords investment = **$2,100 profit**

	CPC Bid	Total Sales	Value per Sale	Cost per Sale	Total Value	Total Investment	**Total Profits**
Baseline Performance	$6	16	$150	$80	$2,400	$1,280	**$1,120**
Recognize Value	$8	30	$150	$80	$4,500	$2,400	**$2,100**

*Advertiser X achieved an **88% boost in profits** by recognizing offline sales driven by search. The effect is more than just an increase in profits on paper. The improvement leads the search team to realize that its profit-maximizing bid is actually $8—driving more sales and improving the advertiser's position on the search engine results page.*

Sticking with outdated or incomplete measurement modes means risking the full potential of digital—and opportunities for profit. Why give away the edge when it could be yours? If your competitor is considering its offline multiplier and you're not, it'll probably outbid you—by a lot. Remember, if it's not your ad in the top position, it's somebody else's.

CASE STUDIES—Autobytel

Autobytel, an online marketplace for car shoppers and dealers, has developed a method of connecting with the right consumers at the right time, **boosting profits from AdWords by over 60%**. One trick: Being willing to pay more for the right kind of click.

*"Consumers are at all levels of the purchase funnel and in many cases their behavioral signals indicate they have a higher intent to purchase. **When we identify these signals, we look to increase our bids** and drive more ready-to-buy shoppers to our dealers."*

BILLY FERRIOLO
SVP of Consumer Acquisition | Autobytel

Take action

Convincing an entire organization to adopt profit-driven marketing can seem like a daunting task. Here are three steps to jumpstart the process:

Align your organization
To make profit-driven marketing a reality, align your organization's business objectives. Build a shared set of KPIs, and look for ways to assign value to customer interactions across all channels.

Build a metrics roadmap
When planning your strategy, first map out any measurement gaps such as offline attribution. Then, work with your team to build a plan that looks for new opportunities and value in those gaps.

Plan for the long haul
A holistic understanding of the customer helps marketers adjust media buys as needed. Measurement techniques will always be in flux, but be patient and give experiments time to work.

2 Target Outcomes

Profit-driven marketing isn't just about better measurements. Your bidding strategy is crucial to maximizing profits, and a successful transition toward profit-driven marketing means stepping away from a focus on efficiency, which is typical in search marketing.

For profit-driven marketers, a smart bidding strategy means optimizing your performance metrics for your targeted business goals—whether maximum profit, maximum breakeven growth or somewhere in between. In some cases, that will mean ignoring the bid price; in others, the placement. What matters is that your performance is optimized for your goals.

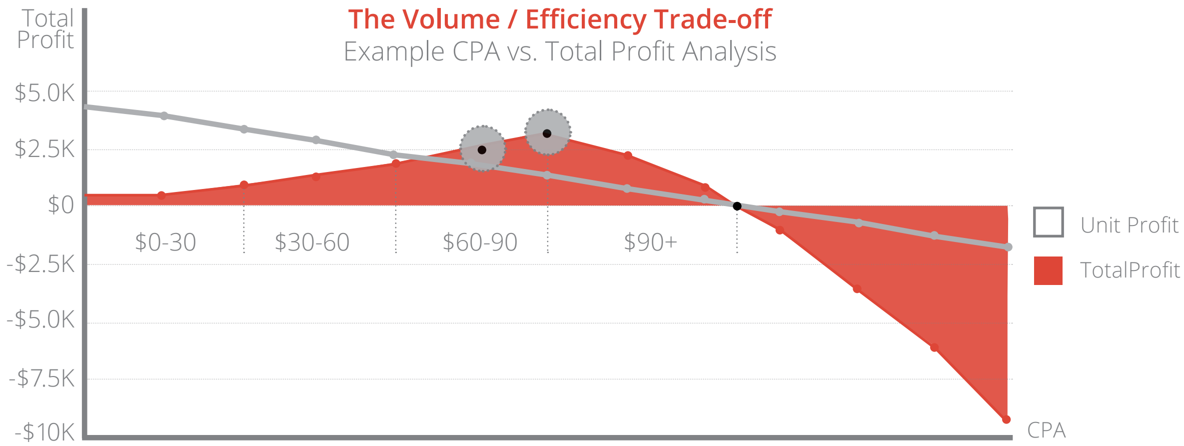
Shifting away from the traditional focus on efficiency metrics such as CPA and ROAS might not come naturally. After all, for many other media types, these metrics are used to determine the best media performance. With search, however, marketers should be more flexible in their metrics approach, or they risk diminishing its total value by missing out on potential volume, customers and profits.

What do the best marketers in the world do, then? They target business outcomes as their primary metric and empower their teams to sacrifice efficiency to drive the best possible profit outcomes.

Understanding the trade-off: volume vs. efficiency

With "push" advertising (magazine ads, for example), you get the same results whether you pay $20,000 or $24,000 for that ad on page 4. Search ads, on the other hand, offer a unique trade-off between volume and efficiency because of the way users tend to click on a search engine results page.

Specifically, the top spot on a search results page gets more paid clicks than other placements. So, does raising your CPA make sense? If going from $80 to $90 moves your ad from the fourth spot to the second position on the page, you may earn a large increase in volume and profits because top slots generate more customers. If the increase in total profits is large enough to offset the $10 decrease in unit profit, then the move would be good for business.



Of course, you might also find that bidding up from $80 to $90 doesn't yield much of a volume advantage to offset the hit in efficiency. Search teams need to be empowered to test and find these opportunities without being hamstrung by a rigid CPA or ROAS target. Using profit as your primary metric, you can find the ideal balance of efficiency and volume to maximize business results.

Shift in Mind-Set

To maximize your profits from search, you'll need to arm your digital marketing teams with the means to influence the best results for your business. Free them from simple efficiency metrics such as CPA, and instead, remember the goal: total profit. Your team will need that philosophy ingrained in its psyche because focusing on things like ROI and return on ad spend could be a costly distraction.

Recognize what's at stake

Let's see how this trade-off in volume versus efficiency plays out in our hypothetical example:

Last quarter, Advertiser X successfully pitched her mareting leaders on the merit of managing search to business outcomes instead of efficiency metrics. Armed with this flexibility, she sought out opportunities where small bid increases would result in big volume wins.

Bidding to Profit

55 new customers X $300 average order value X 1.25x offline multiplier X 50% gross margin – $4,900 AdWords investment = **$3,300 profit**

	CPC Bid	Total Sales	Value per Sale	Cost per Sale	Total Value	Total Investment	Total Profits
Recognize Value	$8	30	$150	$80	$4,500	$2,400	$2,100
Target Outcomes	$9	55	$150	$90	$8,250	$4,950	$3,300

Advertiser X saw a ***57% boost in profits*** *by finding opportunities where a small increase in bids led to a large increase in total sales and total profits. If the search team was incentivized to maintain a minimum CPA of $80, rather than to maximize total profits, Advertiser X would* ***miss out on $1,200*** *of profit.*

We can see that raising her bid from $8 to $9 resulted in a big boost in conversions—from 30 to 55 total sales. Though there's a loss of $1 on every unit, the additional volume more than makes up for it, and we can see that total profits increased 57% to $3,300.

CASE STUDIES—AdHarmonics

AdHarmonics increased profits by 170% with a profit-driven approach to search. Since day one, the car insurance comparison company has made search a core of its digital strategy to more than 10,000 clicks per day and growing. How? By putting its customers at the forefront.

*"**We'll sacrifice unit margin if we can make up for it with the profits from extra conversions.** For us, this means more happy drivers and better business results."*

SETH BIRNBAUM
CEO | AdHarmonics

Take action

Don't be afraid to think differently. Empower your digital teams with the means to drive the best business outcomes. Narrowly defined targets are a thing of the past, and good riddance because they stand in the way of results that make a business bustle. So refocus your entire search team on using profit as your primary metric. Here's what you should be doing to make that happen.

Searching for a strategy
Tap into your search team. Ask them to develop a strategy that complements your business objectives. Whether in-house or an agency, the right search team will have incentives that directly match your objectives.

Exploring the new profits
Show your stakeholders the benefits of the new strategy. Ask the search team to quantify the profit advantage of the new strategy, compared to legacy strategies that were created for traditional efficiency metrics.

Empowering your team
You won't be successful working in a silo. Secure buy-in to manage your digital team according to the new strategy. Empower teams to seek out and seize opportunities to drive the best business outcomes.

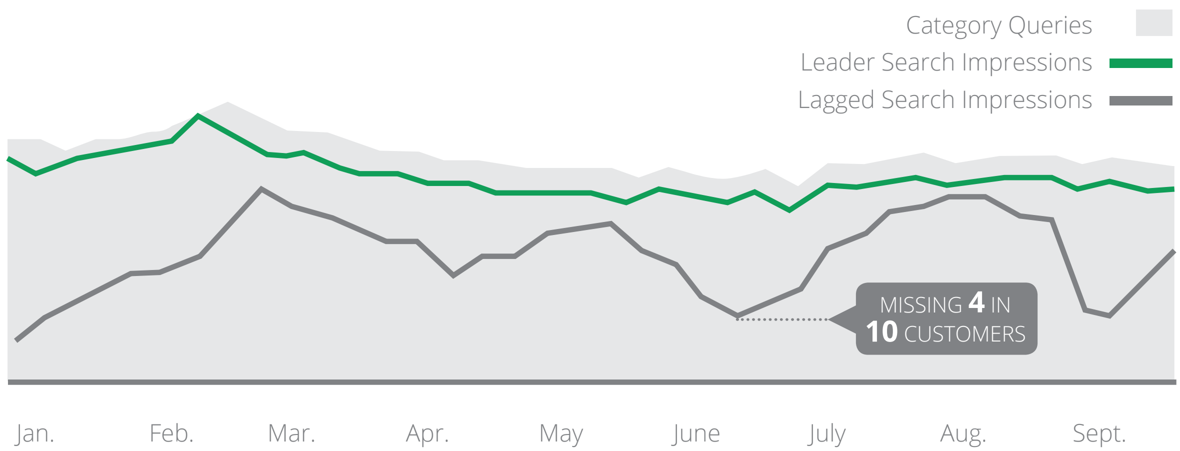
3 Capture Demand

There is no off-season for consumers. They expect you to be there, when and where they want to engage with your brand or product. Stores closing their doors for the night doesn't mark an end to shopping. From desktops to tablets to smartphones, all over town and all over the world, consumers continue to shop online. Profit-driven marketers put them in the driver's seat and manage search investments to answer the call of a profitable customer.

Managing always-there consumer demand: push vs. pull

Is there a right and wrong way to approach always-on consumer demand? Take a look at paid search impression share to see how profit-driven category leaders stack up to category laggards.

Push vs. Pull:
Example Paid Search Impression Share Analysis



The gray shading shows consumer demand over the course of a year, and the moments consumers are searching for what the companies sell.

The ad impressions of the category leader (green line) match the rise and fall of searches; the category leader is nearly always present when consumers look for its products—and when it's profitable for the business. The ad impressions of the laggard category (black line) are haphazard: at times the company is present but at others it's not, and usually the impressions are well below the actual demand.

What causes this difference? It's not creative skill, keyword choice or spending, although each has its own part to play in a search strategy. The real difference is how these two companies prepare to meet demand. The laggard category takes a traditional approach to budgeting search. At the start of each quarter, it decides when and how it'll push the message to consumers for the next three months. It's an approach that worked well when marketing was built around scheduled ad campaigns that reached viewers at specific times and places, such as the 30-second spot on a Wednesday night sitcom or the ad in a newspaper's sports section.

Today, the traditional approach to budgeting doesn't always work well because it doesn't reflect the new reality of digital—where the consumer is in control. Consumers don't wait for messages to be delivered by scheduled ads; they actively look for information whenever they want. They *pull* before you can *push*. You can continue to push your message when it suits you, or you can adjust by being on the other end of the rope when the user pulls.

Shift in Mind-Set

The key to committing to a profit-based digital strategy is having a flexible budget. That means convincing the powers-that-be that more budgetary freedom equals more potential for profit. Remember, your customers will surface at any time, and a flexible budget empowers you to respond to their search and shopping trends.

Recognize what's at stake

When you ignore consumer demand, you miss opportunities—maybe big ones. And that opens the door for the competition. You can also end up wasting the money you've spent on your *offline* brand marketing. Say you create a terrific TV ad that drives users online, ready to buy or learn more. If your search ad doesn't appear at the opportune moment when the consumer is searching, he may end up giving his attention—and business—to your competitor.

The profit-driven approach to budgeting puts the focus on driving business outcomes with measurable results. Instead of letting budgets determine profits, profits determine budget.

Checking back in on Advertiser X, we can see in the chart below that after unlocking the profit opportunity by recognizing value and targeting outcomes, the company hit its budget threshold at $4,950. It had more profitable demand to capture, but traditional fixed budgets got in the way. If the search team were to approach its marketing leaders with this opportunity and successfully make the case for flexibility in the quarterly budget, the business would profit by 31%.

Upcapping budgets

72 new customers × $300 average order value × 1.25x offline multiplier × 50% gross margin − $6,480 AdWords investment = **$4,320 profit**

	CPC Bid	Total Sales	Value per Sale	Cost per Sale	Total Value	Total Investment	Total Profits
Target Outcomes	$9	55	$150	$90	$8,250	$4,950	**$3,300**
Capture Demand	$9	72	$150	$90	$10,800	$6,480	**$4,320**

By adopting flexible budgets, Advertiser X ***boosted profits by 31%****. Top-performing search teams do their best to forecast total demand at the beginning of a quarter, but they're also empowered and encouraged to spend beyond their forecast if they find more profitable demand than expected.*

For marketers, having flexible budgets requires a new way of thinking. Most businesses think of marketing as a cost center, and cost means budget. And many marketers are familiar with that rush end-of-year spend—at the risk of losing those dollars the coming year. Profit-driven marketing can release marketers from these stringent budget use-it-or-lose-it scenarios by thinking of marketing as a profit center, not a cost center.

CASE STUDIES—Airbnb

Founded in August 2008 and based in San Francisco, California, **Airbnb** is a trusted community marketplace for people to list, discover and book unique accommodations around the world—online or from a mobile phone. Being tuned into its customers' needs means the company isn't stuck with rigid budgets but rather has a flexible marketing approach that **often values growth over volume and efficiency**.

"*We will spend as long as we can make a certain profit.* ***We're not constrained by budget. Our leadership is focused on the business impact of our search investments*** *and they empower us to find new ways to drive results.*"

MARIA HWANG
Online Marketing Manager | Airbnb

Take action

Part of keeping the proverbial door open to consumers—anywhere and at any time—is ensuring you have the required flexibility with the marketing budget. Capture the demand when it's there. Consumers won't wait for you, but they will guide you to make the most profitable spending decisions.

Plan for a flexible budget
Work with your search team to measure the profits that are missed due to fixed budgets. Agree on criteria that extend beyond forecasts, and determine how to source the budget when the time comes.

Sell the plan to stakeholders
Identify the marketing/finance stakeholders who will need to approve the plan. Craft the pitch in line with opportunity and financial accountability. Start with an incremental rollout.

Encourage experimentation
Search teams think differently when they're not constrained by budget. Encourage them to take advantage of their newfound power by experimenting to find new sources of profitable volume.

Conclusion

Profit-driven marketers see the full picture, and they work hard to rally and empower their entire organization to seize opportunities as they occur. Building a team that understands value and flexibility—one that has the means to move forward with opportunities—is key to meeting the demands of today's digital customers, online and offline.

The total profit opportunity isn't stuck in silos of measurement or simple click-throughs. Rather, it's a part of every stage of a consumer's journey to conversion. Pay attention and get there with the support of your digital teams and the organization at large.

After all, who doesn't want more profit?