



Performance-Based Marketing A NEW PARADIGM IN 2009

By David M. Hughes
CEO of The Search Agency

2008 will be remembered as a year of near-record economic declines and corporate upheaval. In a recent survey by McKinsey & Company¹, 69 percent of executives say their companies' profits have decreased over the past six months as a result of economic turmoil. 50 percent expect their profits to shrink in 2009. Amidst such economic uncertainty, marketers worldwide are facing reduced budgets, declining demand, and increased executive scrutiny. As a result, delivering and demonstrating a quantifiable return on each incremental dollar spent has never been more challenging, yet essential.

"Performance-based marketing," defined as evaluating the effectiveness of individual tactics and programs based on quantifiable measures, has long been a corporate buzzword and management expectation. Despite the increasing focus on hard metrics and key performance indicators, marketers have traditionally sought a balance between highly quantifiable (performance-based) tactics and less measurable awareness-building tactics. While performance-based marketing may have always been the expectation, the economic climate of 2009 has made it the imperative.

While performance-based marketing may have always been the expectation, the economic climate of 2009 has made it the imperative.

Online advertising is one of the most well recognized performance-based marketing strategies. Every dollar spent can be tracked in real time, and there is a more direct connection between the expenditure and customer response. As companies shift a greater percentage of their marketing budget to online media, enhancing the reporting and analytics of these marketing programs can go a long way to improving their effectiveness and meeting return on investment (ROI) targets in these challenging economic times.

Search engine marketing and display media

Search engine marketing, or pay-per-click advertising, has evolved from the days of cost-per-click bidding on a limited number of brand and category-specific keywords, to a highly measurable direct response channel. While some advertisers continue to pay for clicks to drive traffic to their site, new web tracking technology enables the performance-based marketer to connect revenue or conversions to every dollar spent on a paid search advertisement. With a more precise data tracking system in place, marketers can test advanced campaign management techniques such as geo-targeting, day-parting, week-parting, and running ads on the search engine's content networks, to re-allocate their search marketing investment and push higher ROI targets. Recent advancements in targeting and network pricing models have also increased the effectiveness of display media. Re-targeting allows advertisers to re-engage their sites' non-converting traffic via display advertisements.

The introduction of the advertising exchange auction pricing model enables advertisers to purchase high quality targeted media at reduced prices, similar to the search CPC model. Though not guaranteed delivery, advertisers can target narrow pricing ranges to meet their ROI goals. In addition, many ad networks now operate on a cost per acquisition (or cost per action) basis, aligning incentives between the publisher and the advertiser, and making it far easier to demonstrate a strong ROI on display media.

Data-driven strategic planning

With such a wide range of online advertising strategies and tactics, marketers now face the question of how best to allocate their limited resources. Rather than relying on experience or intuition, performance-based marketers use methodical, iterative testing to yield the highest ROI on specific campaigns. In real time and on an ongoing basis, advertisers can test and adjust all aspects of their campaigns – from keywords, to creative, to bidding strategy, to landing pages and conversion paths – to improve performance and control budgets.

Arriving at this point requires a new age of data integration. In the past, measuring the effectiveness of a campaign required a connection between the search marketing or display media expenditures and the corresponding conversion metrics (sales, leads, etc.). For many online businesses, optimizing campaigns to a single metric is not an accurate measure of campaign performance. For example, an online subscription news service would be willing to pay a higher cost per click to obtain a 12-month subscription than a

PERFORMANCE-BASED MARKETING. A NEW PARADIGM IN 2009.

1 month trial. Similarly, a lead-generation business would be willing to increase their CPA if they could predict which leads ultimately converted to high-value sales. For most online businesses, optimizing a campaign based on total conversions will never be as efficient as optimizing based on the actual value of those conversions as measured in gross revenue, net margin, or lifetime customer value.

New tracking technology allows performance-based marketers to capture these more robust conversion metrics. By incorporating cost of goods sold data from their accounting systems, optimizing based on net margin has resulted in marked improvements for a number of e-retailers.

Through the use of tracking pixels or cookies, firms can now account for most latent conversions and optimize based on the expected lifetime value of a customer. Including these more robust and relevant conversion metrics in the bid optimization methodology enables the advertiser to allocate incremental spend to those keywords and advertisements that yield the highest ROI, no matter the time it takes to get there.

Robust reporting and analytics

In order to achieve true cross-channel optimization, campaign effectiveness must be measured holistically, through a single

reporting platform. With multiple campaigns running across multiple search engines and multiple channels such as paid search, content networks, and display, cross-channel attribution analysis becomes an imperative. Depending on the campaign goals, search and display cannot be evaluated using the same criteria. Measuring these campaigns and campaign goals under a single reporting platform enables the performance-based marketer to establish campaign-specific metrics and allocate budget to the highest performing channels. Only then can marketers determine how the next investment should be spent most efficiently, and accurately measure the ROI on that incremental spend. ■

DAVID M. HUGHES

David Hughes joined The Search Agency in early 2004 as Chief Executive Officer with hands on management for its product, technology, operations, sales and account management functions. Prior to The Search Agency, David served as Senior Vice-President, Corporate Development for United Online, Inc. He was responsible for developing and running all user acquisition programs, new products and services to be offered to NetZero/Juno customers, broadband services, developing and implementing search services and large strategic relationships. Prior to United Online, he was a Management Consultant with the Boston Consulting Group and an Associate with Mercer Management Consulting. David is a graduate of Harvard University's Graduate School of Business Administration, where he was awarded the Dean's Award for leadership, and the University of Western Ontario where he earned a Bachelor of Arts with Honors. He is also a past President of the Harvard Business School Association Club of Southern California and currently serves on its Board.