Beyond revenue
How Value Based Bidding impacts the bottom line

By Mollie Birchall

precis.

Introduction

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The advances in AI have fundamentally shifted the marketing landscape over the last few years. Today, marketers have a wealth of AI tools and features which makes marketing more accessible, but at what cost? This, combined with privacy updates, has meant a move to more and more black box solutions – which makes it hard to understand what is driving performance. Rather than granular bid strategies for specific keywords and audiences, the modern marker is left with three key performance leavers: bids & budgets, creatives, and data.

Whilst AI helps to level the playing field, data activation makes sure you maintain a competitive edge. The ad platforms know who the customer is and what other websites they've visited but only you know the true value of a transaction. Enriching algorithmic signals is about leveraging both your data and the ad platform data to make smarter decisions.
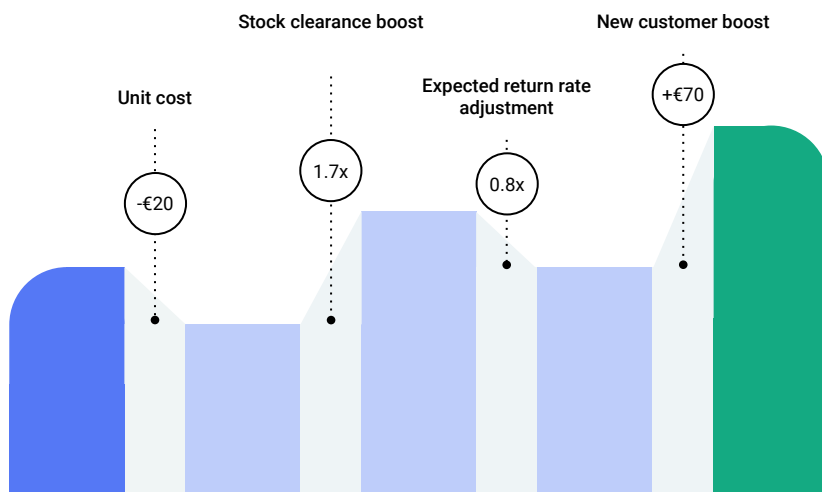
But of course, there are several ways to get started. Over the following pages we will detail 4 ways to leverage your 1st party data with Value Based Bidding courtesy of our extensive experience marketing ecommerce businesses.

Part I

From ROAS to POAS
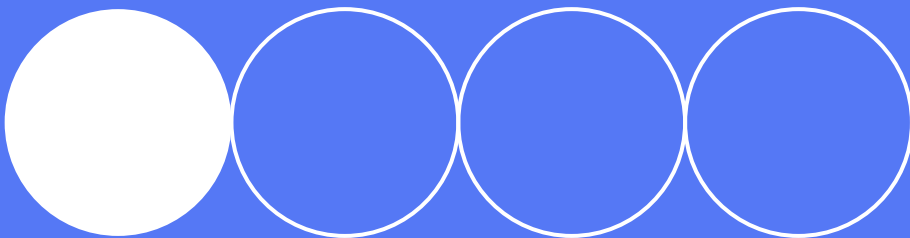
Not all products are created equal, so why should we treat them the same? By activating profit data in Value Based Bidding, the algorithm can make smarter choices about how much to bid; allowing more flexibility on high profit items and more limitations on low profit items. By leveraging Precis' profit bidding solution, home furnishing brand Royal Design decreased the cost of profit by -20% whilst delivering revenue growth of +92% – demonstrating that smarter bidding decisions can have a big impact on the bottom line.

You can read more about activating profit data in digital marketing here.

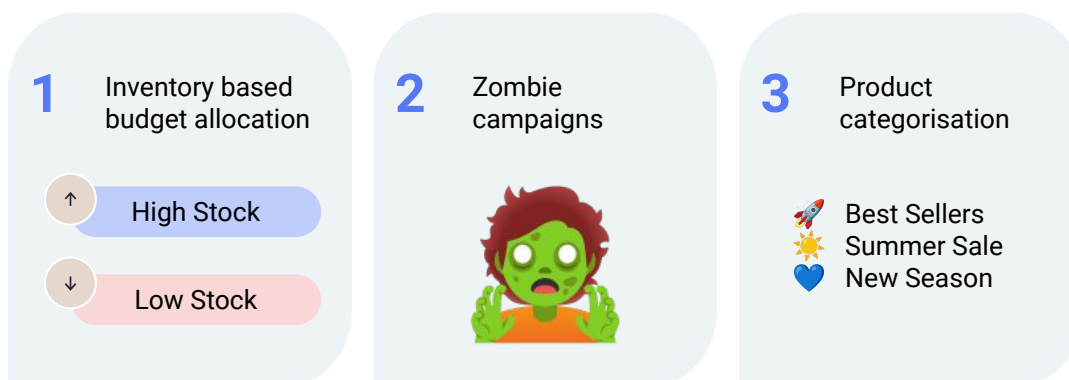|	PRODUCT A		PRODUCT B
REVENUE	€100	=	€100
UNIT COST	€20		€40
RETURN RATE	20%		35%
EXPECTED PROFIT	€64		€39
MARKETING ROI	220%		95%

Part II

Leveraging stock data
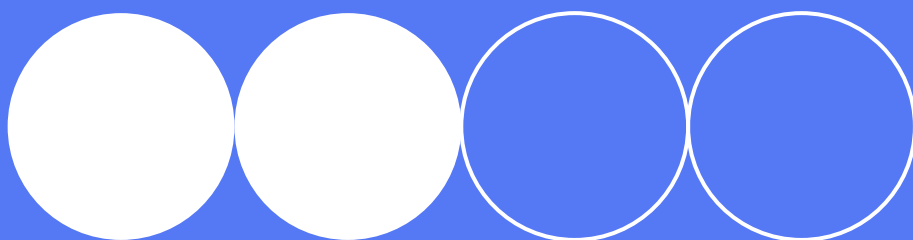
An often neglected piece of owned data is stock level data. This can be activated within a campaign structure or by altering the signals the bidding algorithm uses.
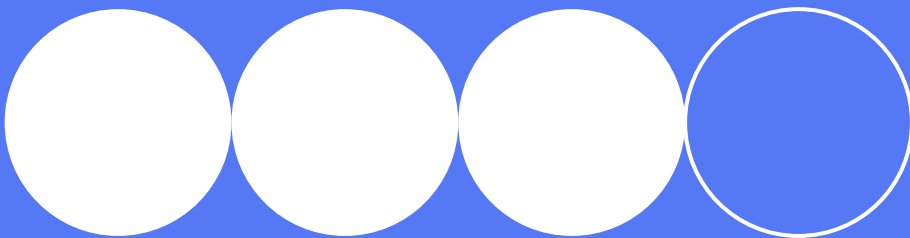
There are 3 common challenges I see retailers face:

1. There is a best seller that is running out in key sizes. Google & Meta continue to push this product as it gets good engagement but the low inventory is harming conversion rates. Overlaying a "low stock" multiplier devalues the product temporarily and reduces wasted spend. This works in reverse too, where a "high stock" multiplier can be added to help clear high stock items.

2. New products are launched but it's hard to compete with those that already have data. A good tactic here is the creation of a "zombie" campaign – a campaign that pushes products with low impressions to give the algorithm space to learn about the performance. Once they hit an impression threshold they automatically move into the BAU campaigns.

3. Often the simplest solution is the most effective. For retailers with a specific product strategy it's essential to have a more granular campaign structure. It could be moving the "greedy" products, the ones that take most of the spend, into their own campaign. Or having specific campaigns for specific products. This allows you to better control the bids and budgets for those product groups.

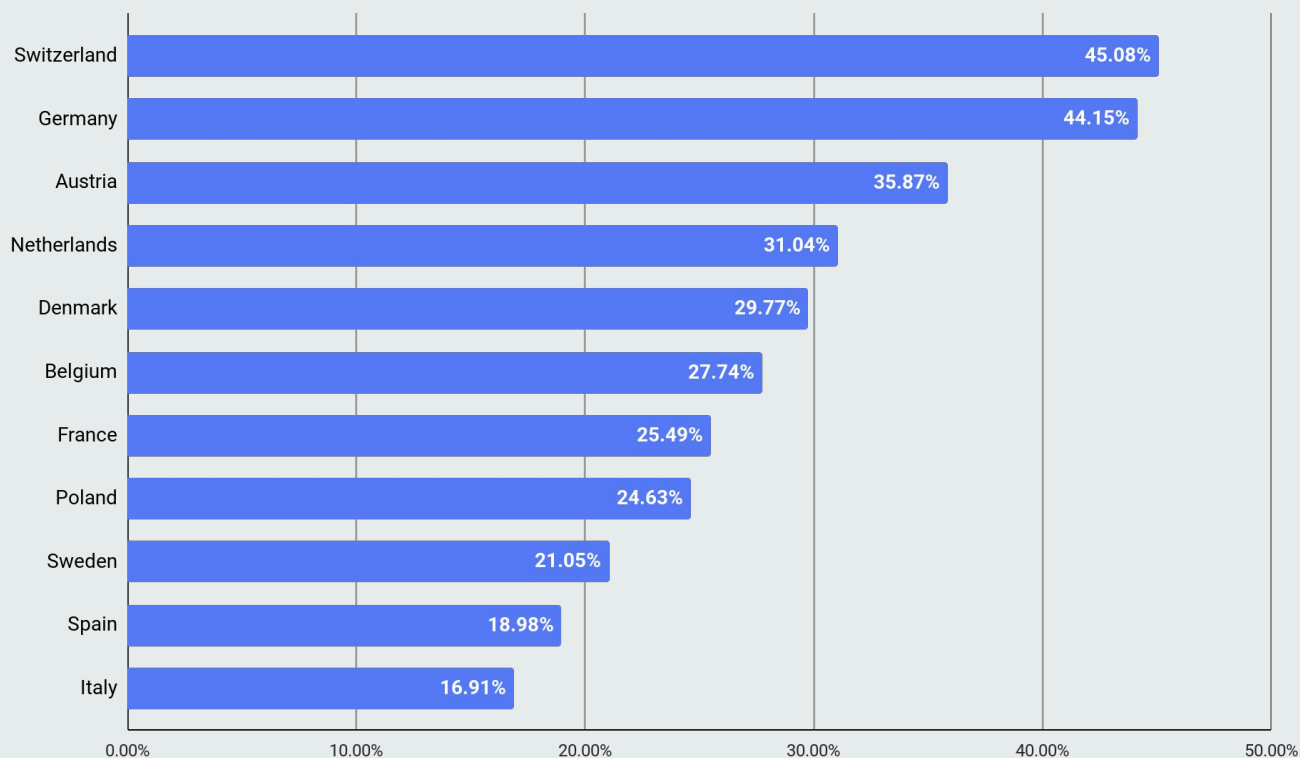| **1** Inventory based budget allocation	**2** Zombie campaigns	**3** Product categorisation
↑ High Stock ↓ Low Stock	🧟	🚀 Best Sellers 🌞 Summer Sale 💙 New Season

Part III

Minimising the waste from returns

Another approach is to enhance profit signals by factoring in return level data. My recommendation is to start granular and aggregate where you don't have enough data. The most granular would be on a product level, but a product group might be more efficient depending on the number of products you stock. It could also be done on a region or market level. For example, return rates in German speaking markets are often significantly higher than other European markets so, depending on the business strategy, factoring this in can help improve the bottom line.

A holistic measurement framework is needed in order to understand success. For example, on paper, a bridal campaign may look very effective as it drives a lot of engagement and purchases but in reality many of the dresses are returned. Relying solely on ad platform data or last click attribution won't tell the full story.

Share of online fashion purchases returned in Europe:

Country	Share
Switzerland	45.08%
Germany	44.15%
Austria	35.87%
Netherlands	31.04%
Denmark	29.77%
Belgium	27.74%
France	25.49%
Poland	24.63%
Sweden	21.05%
Spain	18.98%
Italy	16.91%

Part IIII

A customer centric approach
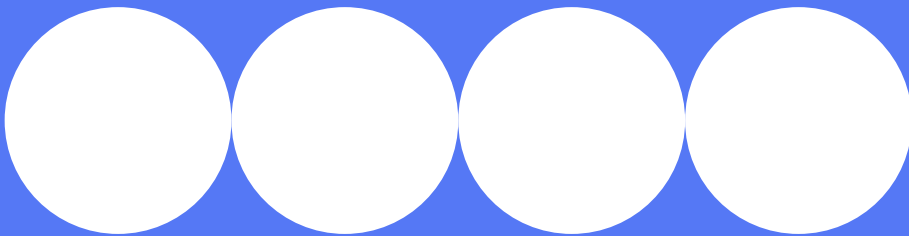
Perhaps your strategy is about new customer acquisition? Google and Meta have campaign settings that support this, but for a more robust solution I recommend feeding customer level data back into the platforms. This data trains the algorithm to find more new customers by letting it know that these customers are more valuable. Measuring success is relatively quick, as you will be able to track the % of new customers.

However, a longer term strategy looks to drive lifetime value. As well as seeking new customers, you can tailor the signals so customers who have bought only once before are also a little more valuable than repeat customers. Furthermore, leverage a predictive analysis of lifetime value and bid more for the signals that indicates the purchaser will become a loyal customer. Depending on the customer lifecycle, it could take several months before you can see the impact on customer segments.

In addition to this, whilst we are seeing match rates diminished, it's still recommended to upload 1st party audiences to platforms so when a user is matched, the algorithm has more data to learn with.

Customer value

Top segment: High value but small customer segment. **Action: Find similar audiences.**

Need attention: High potential, have not purchased in a while. **Action: Re-engage customers with marketing.**

New customers: Stands for a majority of the volume, mostly first-time buyers with low accumulated value. **Action: Engage customers with marketing.**

Bottom segment: Customers with negative profitability. **Action: Exclude from paid marketing.**

 # Customers

Summary

If this feels a bit daunting – you're not alone! However, your 1st party data is your biggest asset and by using it to train bidding algorithms, you can unlock profitable growth. Quick wins can have real business impact.

To learn more about how you can activate your business data, get in touch.

Thanks for reading!

Whats next?

LIFETIME VALUE
Bid on long-term value of conversions

EXPECTED PROFIT
Include return data and opportunity cost, e.g. stock levels or return rate

PROFIT
Adjusting conversion value using product/ transaction cost

REVENUE

Beyond Revenue – How Value Based Bidding impacts the bottom line