



Improving Marketing Spend ROI through Purchase Point Optimisation

How to get the right balance between Lead generation, website optimisation and purchase point optimisation (PPO) to drive a better ROI

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The competitive world of online retailing

The world of online retailing has become a highly competitive environment with everyone fighting for a share of the pie. As a result, annualised marketing budgets are increasing significantly with industry competitors competing for share of voice and valuable website traffic.

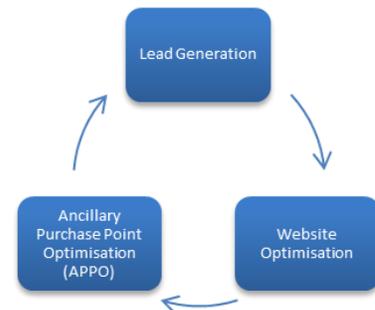
A recent report by eMarketer shows the US retail industry’s advertising spend on paid digital media will hit \$9.42billion in 2013 and rise to \$13.50billion by 2017, for a 10.5% compound annual growth rate.¹

When you consider the fact that due to price transparency and ease of shopping around consumers’ are becoming less brand loyal, the result is reduced conversions, lower margins, a higher cost per acquisition (CPA) and a reduced Return on Investment (ROI) on marketing spend.

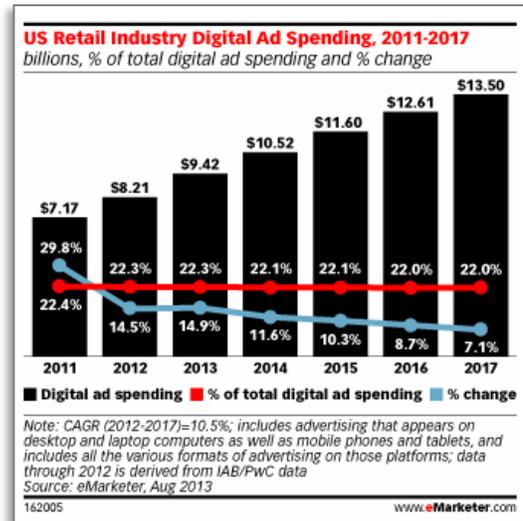
As such, in order for companies to continue to grow profitably in the world of online ecommerce they need to ensure they adopt the right strategies in order to drive marketing effectiveness and improved ROI. So what are these right strategies? Where should you focus your hard earned marketing budgets?

In reality there are numerous strategies that can be employed and these will differ from industry to industry and company to company. So there isn’t one size fits all answer. However, for the purpose of this white paper we propose that we focus on 3 key elements:

1. **Lead Generation** - Driving good quality traffic to your site through effective marketing
2. **Website Optimisation** - Optimise the customer journey to reduce drop offs and drive up conversions
3. **Purchase Point Optimisation** - Increase the basket value of each transaction through selling additional products and services



Doesn’t sound like rocket science does it and I’m sure your probably thinking to yourself “*tell me something I don’t know*”. Yet it’s surprising how many companies are getting it wrong! Some companies are great at doing some things and not others. However, what we believe is that if you get the balance of these three things right and working in harmony together then you will optimise your



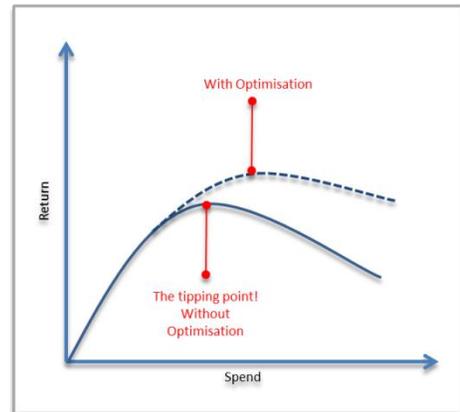
¹ . “The US Retail Industry 2013: Digital Ad Spending Forecast and Key Trends.”
<http://www.emarketer.com/Article/Retail-Industry-Remains-Largest-Spender-US-Digital-Advertising/1010187#8IB5oJ56zucK5WTI.99>

conversion rates, increase your average transaction values, reduce your CPA and increase your ROI and profitability.

So how do you achieve this? How do you get the balance right?

The Marketing Tipping Point

The fact is any major online retailer will have highly experienced teams of marketers and agencies working with them to maximise their marketing spend and efficiency. But the reality with this is that there is always a marketing 'tipping point', i.e. the point at which you start to see diminishing returns on your investment. So if you want to drive more sales, revenue and profit, simply throwing money at marketing and putting customers into the top of the funnel is not the answer. You see, the law of diminishing returns states that if you keep trying to put more in whilst keeping everything else constant then you will get to the point of lower returns.



As such, it's better to focus some of your marketing and ecommerce budget on the bottom of the funnel... i.e. on conversion and the purchase path. If you continually make improvements to your website and your customer journey then this will not only improve conversions, drive a lower cost per acquisition and better ROI but it will also extend the point at which you will reach the tipping point on your marketing spend. So it will enable you to drive more volume at a higher ROI... Win Win!

Website Optimisation - Conversion Rate Optimisation

What do we mean by website optimisation or conversion rate optimisation? No doubt many of you will already be familiar with these terms and may be working with specialist companies who offer optimisation services. In a nutshell, we are talking about presentation layer optimisation and A/B or multivariate testing. In other words, a process by which you continually test the layout, sequence, positioning, merchandising, look and feel of your website in order to reduce drop offs and increase conversion. It's all about enhancing the customer experience and delivering a better customer journey.

A recent report by Econsultancy highlighted a significant issue... most companies operate a 92:1 ratio. In other words this illustrates the fact that for every \$92 businesses spend driving traffic to their websites, they only spend \$1 converting it.²

This is an incredible statistic and demonstrates the fact that in many cases companies are too focused on the top of the funnel and not enough on the bottom. Of course, driving traffic and sales to your website is critical and a fundamental requirement. However, diverting some of the marketing funds to the bottom of the funnel can help drive increased sales, revenue and significantly improve your ROI on marketing investment. The following demonstrates how this can work:

² <http://econsultancy.com/us/blog/7657-92-1-marketings-dirty-little-statistic-5>

Marketing Budget	Optimisation Budget	Total Spend	Average CPC	Traffic	Conversion	Sales	ATV	Revenue	ROI
\$100,000	\$0	\$100,000	\$0.40	250,000	1.0%	2,500	\$50	\$125,000	25%
\$90,000	\$10,000	\$100,000	\$0.40	225,000	1.25%	2,813	\$50	\$140,625	41%
\$80,000	\$20,000	\$100,000	\$0.40	200,000	1.50%	3,000	\$50	\$150,000	50%
\$70,000	\$30,000	\$100,000	\$0.40	175,000	1.75%	3,063	\$50	\$153,125	53%
\$60,000	\$40,000	\$100,000	\$0.40	150,000	2.00%	3,000	\$50	\$150,000	50%

So getting the balance right between the lead generation and optimisation budget is crucial. Diverting funds to the bottom of the funnel to improve conversions will help drive more sales, revenue and improve the overall ROI of your marketing campaigns. But again, if you look at the above chart it demonstrates there also comes a tipping point with website and conversion optimisation. At what point does the investment made in optimisation outweigh the benefit. If you look at the above example it would seem the optimal figure is around the 70/30. If you look at the 60/40 example you will see that the ROI begins to decrease. So getting the balance between lead generation and optimisation is crucial.

The reason for this is simple... there comes a point where the optimisation curve has been reached. There are only a certain amount of things you can test on the presentation layer before you hit the point at which the cost outweighs the benefits. As such, you then need to look elsewhere for further improvements... i.e. Purchase Point Optimisation (PPO).

Purchase Point Optimisation - PPO

What do we mean by Purchase Point Optimisation (PPO)?

Well, if you think of your purchase funnel as a shopping mall... each individual product sold in your booking funnel represents an individual store. What you sell, what you promote and how you merchandise the product in each individual store will determine whether a customer comes inside to purchase or not. In the real world we are talking about the additional products you try to sell to customer before they check out, often these are referred to as 'ancillary' products. They could be products that are owned or outsourced to third parties. In reality, most companies focus on the overall customer journey (the 'Mall'), making sure customers are able to transact on their core products (enter the Mall and walk around) as quickly and easily as possible. They neither have the time, resource or expertise to then focus on each of the individual 'stores' within the mall. As such, conversion of these 'ancillary' products can often be very low.



Take airlines for example... airlines have understood the need to sell ancillary products for quite sometime and are often very good at it. Particularly, the Low Cost Carriers where ancillary revenue often accounts for a significant proportion of overall revenue and profit. If you look at non-flight related ancillary products such as travel insurance, cars, hotels, transfers, parking etc, you will see that combined they can contribute a significant proportion of overall profit, often as much as 15% to 20%. But this is what makes it even more amazing... the conversion rates for those ancillary products are



often very low, i.e. well below 5% and often in some cases only 1-2%. So effectively, you have 15%-20% of your profit being generated from ancillary products where the conversion rates are less than 1-2%.

It doesn't take a genius to work out where the opportunity lies! Just a 10% increase in conversion rates on those ancillary products can help to increase your overall transaction value, improve your ROI on marketing spend and have a significant impact on your bottom line.

You see, conversion rate optimisation can get you so far. You can design a nice looking store, you can make sure you line up the stores in the best order. The next step is to make sure that the products and the pricing of the items in those stores are the right ones for your customers. This is where PPO comes in! PPO is the process of optimisation at the individual 'store' level. Going beyond the presentation layer to all aspects of the product, price and merchandising. Put simply... we help look after the individual 'stores' and we optimise those stores to ensure we are always selling the right products to customers at the right price. The result is an increase in conversion rates and transaction values, which results in an increase in margin and profit.

Through PPO we are able to understand your customers and their purchase behaviors and identify what products, pricing and merchandising should be tailored to each individual segment of customer in order to increase the likelihood of a purchase. As a result we drive continuous improvements in both conversion and revenue per transaction.

So taking the same example as above for Website Optimisation, not only can you expect to get an increase in conversion but also in average transaction value:

Marketing Budget	Optimisation Budget	Total Spend	Average CPC	Traffic	Conversion	Sales	ATV	Revenue	ROI
\$100,000	\$0	\$100,000	\$0.40	250,000	1.0%	2,500	\$50	\$125,000	25%
\$90,000	\$10,000	\$100,000	\$0.40	225,000	1.25%	2,813	\$52	\$146,250	46%
\$80,000	\$20,000	\$100,000	\$0.40	200,000	1.50%	3,000	\$54	\$162,000	62%
\$70,000	\$30,000	\$100,000	\$0.40	175,000	1.75%	3,063	\$56	\$171,500	72%
\$60,000	\$40,000	\$100,000	\$0.40	150,000	2.00%	3,000	\$58	\$174,000	74%

So suddenly the picture becomes very different. As you can see the overall ROI has increased significantly. So taking the same 70/30 example as above you will see that ROI has jumped from 53% to 72%. Also, the point at which you reach diminishing returns is also extended as you see the 60/40 example delivers yet more ROI benefit.

Summary

So where should the focus be? Where should you invest your hard earned marketing budgets? The reality is they all work in harmony together and in order to drive the maximum amount of revenue and profit you need to do all 3 well. You need to invest your marketing budget wisely to drive good quality traffic to your site to drive the volume of visits required in order to hit your sales targets whilst ensuring a good ROI on your marketing spend. You then need to invest in tools and processes that will allow you to optimise your customer journey and purchase funnel to ensure that customer are able to navigate and transact quickly and easily, which in turn will help increase conversion. Finally, you need to



optimise each and every individual customer experience and tailor your additional product offers to increase the likelihood of a sale.

Who are Fusion?

We help companies sell the right products, more often, by combining a deep understanding of their customers with a real-time delivery platform that provides them with progressively better results. In other words, when data meets deep insights, that's Fusion.

We provide multi-variate testing at the individual product level to drive continuous improvements in conversion and revenue per transaction. We are not a traditional optimisation company. We go beyond the presentation layer to all aspects of the product, price and merchandising. We achieve on average a 15%-20% annualised growth for our clients and whatsmore, when we identify a winning test there is no further IT development work required on behalf of the client.

Give us a call to find out more and let us see if we can help you to drive revenue growth and improve profitability.