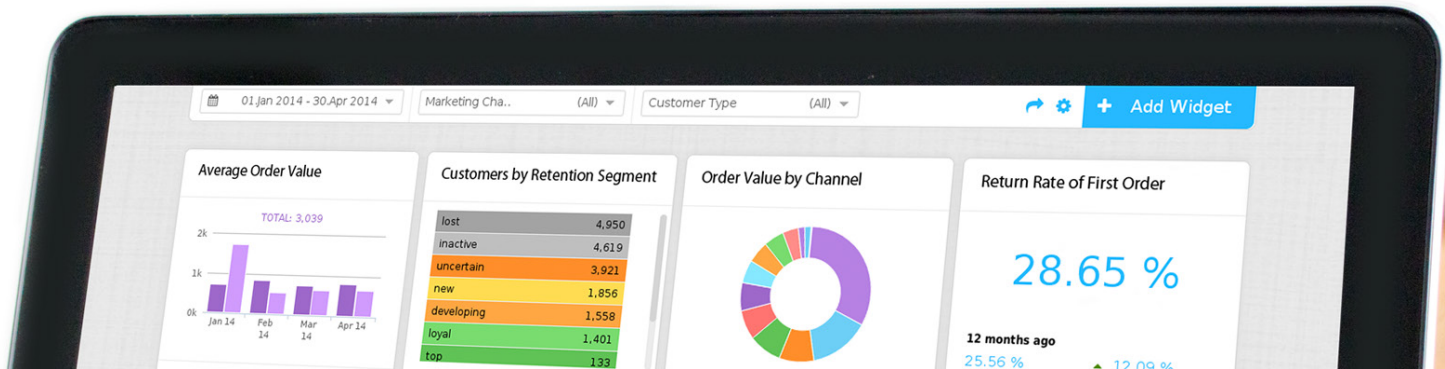


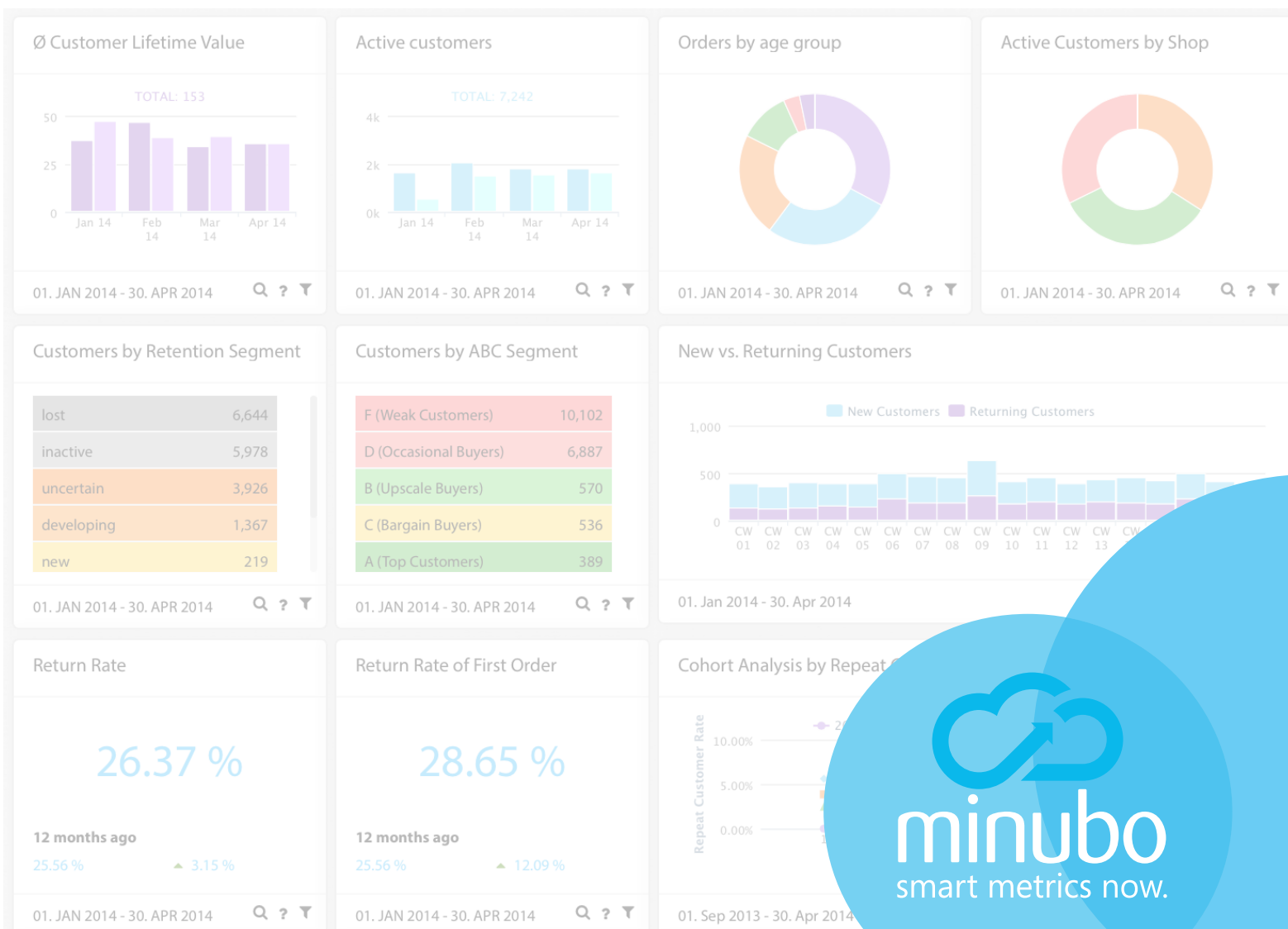
MAXIMUM PROFITABILITY IN ONLINE MARKETING: HOW TO OPTIMIZE GOOGLE ADWORDS BUDGET ALLOCATION



Customer Story: Maximum profitability in Online Marketing: How to optimize Google AdWords budget allocation

Companies often wonder how to **optimize Google AdWords budget allocation to reach maximum profitability**. The problem: lack of insight into keywords' contribution margins.

Based on a minubo customer story, this whitepaper explains how online retailers can determine each keyword's optimal budget – in this case with the result of 35% increase in AdWords profits and 21% more purchases in specific product segments.




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Customer Story

Maximum profitability in Online Marketing: How to optimize Google AdWords budget allocation

The problem: Lack of insight into Google AdWords contribution margins

The marketing manager of shoes-online.com* uses Google AdWords as his most important online marketing channel. To allocate his AdWords budget to his keyword portfolio, he usually takes a look at his keywords' revenues: high revenues = high keyword budget. But assumed that not all keywords with high revenues have high contribution margins as well? Maybe some well-selling keywords lead to extra high return rates or record disproportionate costs of sales? Where can further profit potentials be exploited and where can uneconomical investments be avoided?

Admittedly, the shoes-online marketing manager knows that budget allocation based on contribution margins per keyword would be the only reasonable way, but unfortunately, this data is not tracked in Google Analytics.

*name changed



The target: Determine each keyword's optimal budget – for maximum profitability! Using minubo, this vision becomes reality.

THE METRICS: WHAT HAS TO BE ANALYZED?

The shoes-online marketing manager defines the following eCommerce metrics as crucial to his interest:

Contribution margin 1 per keyword

= Gross revenue minus returns, cancellations and costs of sales.

Campaign costs per keyword

= Keyword costs in Google AdWords – not to be confused with costs per click (CPC), because otherwise, keyword clicks not directly leading to purchase would become hidden costs.

Contribution margin 2 per keyword

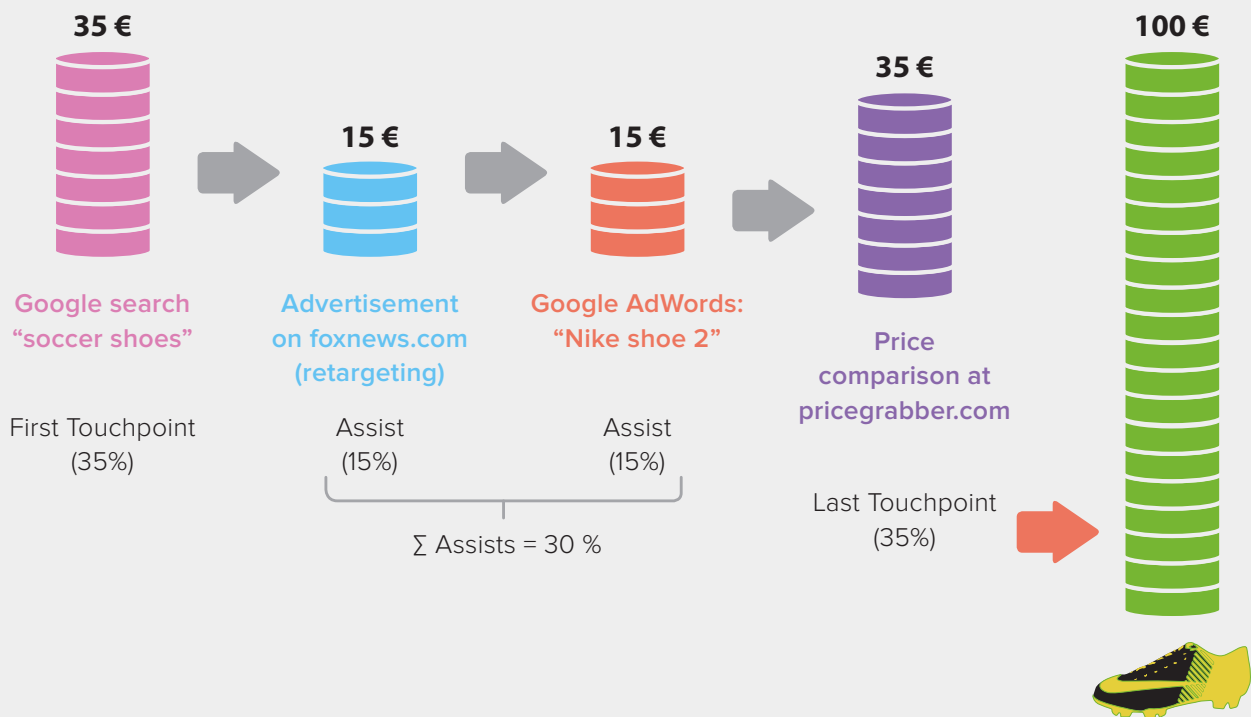
= Contribution margin 1 minus campaign costs

Report: figure out contribution margins

The marketing manager wants to create an individual Adwords report and therefore accesses his integrated raw-data via the minubo Excel frontend. This frontend offers more than 300 predefined eCommerce metrics that enable the manager to compose the requested report within two minutes – updating automatically from now on and thus being available at any time. To match his contribution margin 1 generated via Google Adwords to every keyword as exactly as possible, the marketing manager decides to use the “Bathtub” attribution model.

EXCURSUS: THE “BATHTUB” ATTRIBUTION MODEL

All touchpoints of a Customer Journey are weighted differently depending on their influence on the purchase. Concretely: The revenue generated by a purchase is assigned to a touchpoint with a specific percentage. For calculating those specific percentages, the “Bathtub” attribution model is chosen often:



“HAVING AN ATTRIBUTION MODEL MAY BE ONLY 70% CORRECT,
BUT IT IS FAR BETTER THAN NO ATTRIBUTION MODEL.”

Florian Heinemann, online marketing and BI expert

Using the “Bathtub” model to attribute the contribution margin 1 to each keyword, the AdWords report looks as follows:

THE ADWORDS REPORT: PROFITABILITY PER KEYWORD

2013 Aug 13 - Dec 13			
Row Labels	Attributed net sales margin (Bathtub)	Campaign costs	Campaign profitability
	Contribution margin 1		Contribution margin 2
affiliate	35.576,37		
cpc	99.427,51		
google			
adidas			
adidas shoe 1	1.217,34	36,53	1.180,81 ↑
adidas shoe 2	22,34	69,26	-46,92 ↓
adidas shoe 3	1.043,34	62,85	980,49 ↑
adidas shoe 4	44,68	11,40	33,28 ↑
adidas shoe 5	2.859,85	3.852,11	-992,26 ↓
adidas shoe 6	116,57	227,47	-110,90 ↓
adidas shoe 7	527,43	19,65	507,78 ↑
adidas shoe 8	178,44	34,89	143,55 ↑
adidas shoe 9	20.966,75	4.363,57	16.603,18 ↑
adidas shoe 10	1.528,69	655,39	873,30 ↑
Nike			
Nike shoe 1	261,68	414,59	-152,91 ↓
Nike shoe 2	700,00	800,00	-100,00 ↓
Nike shoe 3	13.648,92	9.235,79	4.413,13 ↑
Nike shoe 4	1.988,29	2.387,39	-399,10 ↓
Nike shoe 5	1.320,84	429,49	891,35 ↑
Nike shoe 6	705,92	856,07	-150,15 ↓
Nike shoe 7	224,53	34,22	190,31 ↑
Nike shoe 8	24,50	45,78	-21,28 ↓
Nike shoe 9	112,77	29,11	83,66 ↑
Nike shoe 10	5,79	4,52	1,27 →
Asics			
Asics shoe 1	4.239,74	1.292,41	2.947,33 ↑
Asics shoe 2	48,36	4,05	44,31 ↑
Asics shoe 3	2.153,63	701,61	1.452,02 ↑
Asics shoe 4	26,88	25,78	1,10 →
Asics shoe 5	641,53	124,43	517,10 ↑
Asics shoe 6	198,22	205,86	-7,64 ↓
Asics shoe 7	2.174,22	983,66	1.190,56 ↑
Asics shoe 8	52,71	2,91	49,80 ↑
Asics shoe 9	18,44	1,91	16,53 ↑
Asics shoe 10	0,00	0,00	0,00 →
Reebok			
Reebok shoe 1	249,72	0,99	248,73 ↑
Reebok shoe 2	1.260,51	399,27	861,24 ↑
Reebok shoe 3	277,38	63,29	214,09 ↑
Reebok shoe 4	201,94	21,55	180,39 ↑

Analyze and take action: Maximum profitability vs. increased outreach

In the contribution margin 2 column, red, green and yellow arrows indicate that too much budget is invested in several keywords, while in the meantime other keywords with positive contribution margins possibly hide lots of unexploited revenue potential.

Focusing on keyword “Nike shoe 2”, the marketing manager discovers that he currently invests 800€ in its advertisement, but only regains 700€ (after reversals, returns and costs of sales). The result: a negative margin. Trying to find the keyword’s optimal budget now, a concrete target has to be defined – being subject to two principles:



Negative contribution margin



Positive contribution margin



Contribution margin near 0

PRINCIPLES OF BUDGET OPTIMIZATION

Maximum profits

To achieve maximum profits (contribution margin 2) with one keyword, its revenue potential can be evaluated step by step. In the case of starting with a negative contribution margin 2, it can be recommendable to drastically slash the budget, before gradually increase the amount again to detect the investment required for maximum profits.

Short-term bottom price for increased outreach

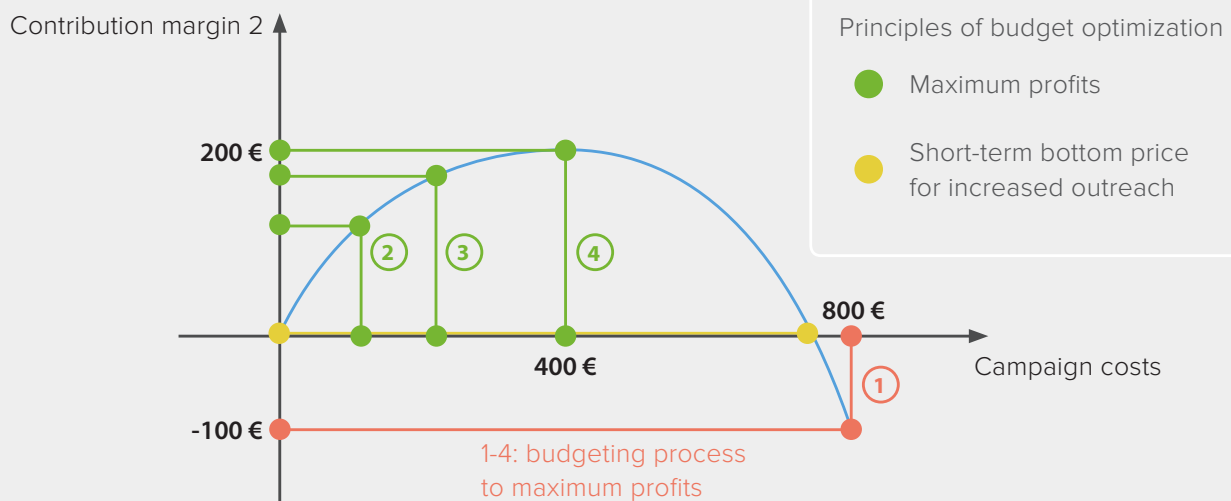
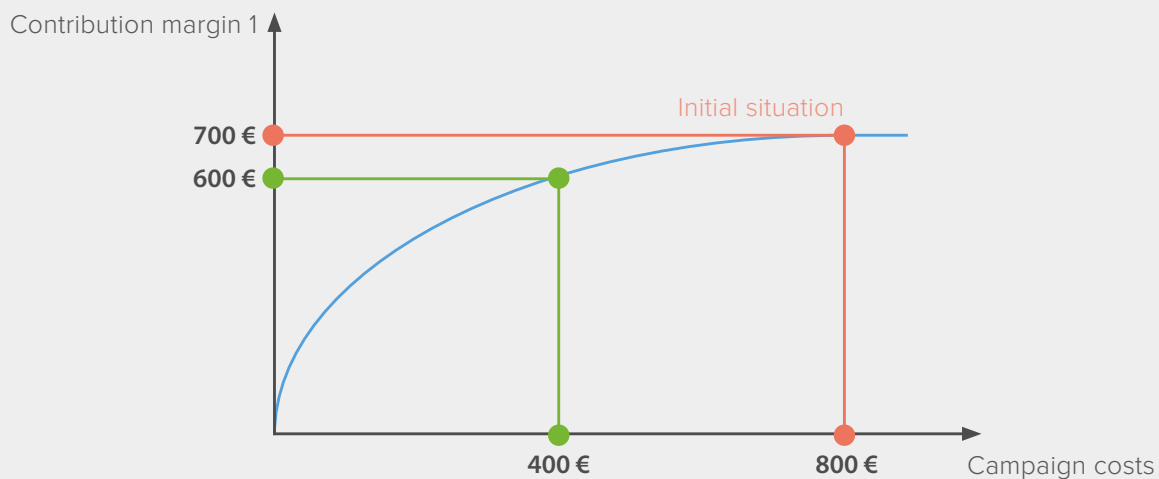
To put pressure onto the market with one keyword or a group of keywords, a contribution margin near 0 can be tolerated for a short time span – the credo: mass instead of margin! Not only the acquisition of new customers is intensified this way, but also the increase of the number of orders and with it the increasing of gross revenues. To put it in a nut shell: The increase of market share.

Already recording high market shares in the sport shoes segment, the marketing manager of shoes-online.com decides to optimize his budget allocation following the principle of maximum profits and thus slashes his budget on “Nike shoe 2”. To visualize his proceeding, he makes use of the theory of marginal benefit, applied to the marketing context. Graphically, the initial situation, the two possibilities of optimizing budgets and the chosen process of maximum profits are as follows:

MARGINAL BENEFIT IN MARKETING

Example: Keyword “Nike shoe 2”

Referring to Google AdWords, the marginal benefit in marketing describes the effect that the revenue curve of a keyword shows a stronger slope when having invested little budgets than it shows with higher ones (in relative terms). Since the marketing potential is exhausted with a certain budget and comes closer to a specific marginal benefit, growing budget means stagnating revenue from a particular point in time.



In the further proceeding of optimizing his keyword portfolio, the marketing manager continues to utilize this form of graphical visualization. Equal to the segment “sport shoes”, he deals with most of the other product categories, too – following the principle of maximum profits by gradually raising the budget assigned to every keyword to determine its maximum point of profit generation.

The only segment the manager chooses another approach for, is the segment “winter shoes”: As winter shoes are seasonal, the manager decides to dump their prices for a short time span to acquire new customers from the large market of current winter shoe purchasers: high Google presence through high financial investments – but without recording a negative contribution margin.

The result: higher profits, more new customers

Already four weeks later, the marketing manager of shoes-online.com has defined the optimal allocation of his AdWords budgets. Prospectively, the Adwords report updates automatically on a daily basis, so that the manager can always readjust the allocation of his budgets easily.

RESULT:

35%

increase of profits in
Google AdWords*

*based on anonymized customer data

RESULT:

21%

more purchases in
the "winter shoes"
segment (70% made
by new customers)*

*based on anonymized customer data

How minubo can help you with this:

minubo solves the problem of lacking insight into Google AdWords contribution margins: By connecting web analytics data with backend data, it helps retailers determine each keyword's optimal budget for maximum profitability.

Are you interested in learning more about our solution?

Let us know by sending an e-mail or call us.

We are looking forward to hearing from you!

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