CLICKS DON'T MATTER

The Need For A Better Measure of Digital Media Effectiveness

cardlytics®

MARKETING IN THE DIGITAL AGE

> "50% of my advertising is wasted – I just don't know which half." –John Wannamaker

It's a wonderful time for marketers. They have been searching to measure the success of advertising campaigns since the days of iconic retailer John Wannamaker. His observation that "50% of my advertising is wasted – I just don't know which half" is as quotable and relevant today as it was nearly a century ago. Measurement of the impact of marketing campaigns is an issue for everyone from a Marketing Coordinator to the C-Suite; agencies to ad-tech companies; creative all the way through media buyers.

There are many estimates for understanding which half of your advertising works. Circulation was the only measure for decades – how many times the ad was printed and distributed was the best approximation of how many times it was seen. This, in turn, allowed an approximation of reach. Reach allows a relative comparison of differing advertising channels, but not a comparison of ultimate advertising effectiveness.

In the last decade and a half, the rise of early digital media provided new, tantalizing options for measurement: the click and e-commerce sales. To the marketer, used to the limits of circulation, placements, and estimated audience, the click was an incredible improvement. A click is a completely measureable consumer action, tied directly to the placed ad - whether display, search, mobile, video, social. This perfectly quantifiable measurement allowed the creation of the deceptively precise measure of ROI, and CPC, cost-per-click, was born: the first real pay-for-performance metric. Unfortunately, a click is only a proxy for consumer intent to purchase, and not a particularly good one. Worse, optimizing on this not-perfect measure of effectiveness will create campaigns that focus on the wrong thing.

Likewise, measuring online sales provided the basis for ROAS: Return on Ad Spend. ROAS equals e-commerce sales divided by the cost of the associated online advertising. **Two flaws quickly emerged**.

First, as digital marketing both grew and proliferated, the thorny issue of attribution emerged. Marketers wrestle with multiple questions: Should an online sale be attributed to the last click? Should sales be divided among all clicks, or somehow divided among impressions and clicks? How to measure the performance of different creative – particularly with different exposure metrics? An entire industry of attribution companies now help marketers answer these questions, with the goal of making better marketing decisions going forward.

The second flaw has led to organizational silos for many advertisers—digital marketing vs. other marketing. Since digital marketing can be tied to online sales, organizations typically group them together—that is, digital marketers are evaluated on online sales. Effectively, for many retailers, there is no organizational way to evaluate the impact of digital advertising on in-store sales.

Even hurdling the issues mentioned above, digital marketing efforts are hampered by the inability to tie online advertising to in-store sales. How can the digital marketing influence the "other" 92% of consumer spend that takes place in "offline" in-store locations? Again, many companies exist solely to help advertisers try to estimate these impacts. For some lucky retailers, the ROI from online sales alone will justify digital marketing. For most retailers, however, in-store sales are still the lion's share of their business.

A New Way to Measure Marketing Effectiveness:

ONLINE TO OFFLINE MEASUREMENT

Retailers' marketing organizations function within silos for good reason: measurement. Digital marketing teams are held to the KPI of online sales because there is no better alternative measure of impact. In fact, for most companies, an organizational title of "digital" is synonymous with e-commerce—supporting the assumption that all things "digital" exist in isolation. It is a management truth that organization reflects assumption, and that we deliver what we are organized to deliver. To most effectively target in-store sales, this assumption needs to change.

Cardlytics works with clients to change this thinking. We see that campaigns optimized on clicks—as most programmatic buys are optimized—deliver plenty of cost-efficient clicks. However, the goal for most companies is not cost-efficient clicks, but rather revenue, usually driven by in-store sales. As such, a campaign optimized on cost-efficient clicks will not deliver as many actual purchases as that same advertising dollar could generate if properly targeted and measured. Cardlytics, on the other hand, links online behavior (e.g., exposure to an online advertising message) to offline, bricks & mortar spending behavior.

Based on this insight, Cardlytics has created a new measure of effectiveness for our advertisers: we measure the **sales revenue** generated by the consumers exposed to a specific marketing message. This is a significant improvement in measuring the impact of all digital advertising—display, video, social, mobile—connecting the digital ad spend directly to measurable sales, which include both online and in-store transactions.

At Cardlytics, we work with large retailer, restaurant, and services clients to create effective campaigns, based on our analysis of unique "whole-wallet" consumer spend data—credit cards, debit cards, and bill-pay transactions.

We uncovered some surprising facts about online behavior and intent to purchase with our recent work with clients in executing display marketing campaigns. While marketers have long known that clicks are a proxy, and thus not perfect, working with our clients, we go further: in fact, **clicks don't matter**. Said another way, Cardlytics' experience to date shows that clickers are not spenders.

We believe that clicks are worse than an imperfect proxy—they are actually misleading. Cardlytics can prove that there is little relationship between post-impression **clickers** and post-impression **spenders**.

Let's walk through a concrete example to better illustrate these ideas.

Case Study:
RESTAURANT GUESTS PURCHASE, BUT DON'T CLICK

One of our clients, an international fast casual restaurant, worked with Cardlytics to create a digital display campaign. We used actual consumer spend data to target category shoppers, as well as to accurately measure the results of the campaign.

Campaign Parameters

Cardlytics and the client created a campaign that targeted frequent guests of fast casual restaurants, who had not recently been guests of the client. To create the campaign, we developed audience segments based on past spend behavior: consumers who had high spend volume in the category (Fast Casual), but who had not dined with the client recently. To illustrate, below are two segments created for the client's campaign:

- **New Prospects** – Customers who **1)** made 4 or more purchases in the Fast Casual category in the past 12 months, but **2)** spent nothing at the client.
- **Lapsed Customers** – Customers who **1)** made purchases with the client in the past 3 to 12 months, but **2)** none in the past three months, and who **3)** spent more than $500 in the Fast Casual category in the past year.

The advertising creative emphasized the convenience, quality and fun atmosphere of the client's restaurants, and would be delivered only to customers living within 10 miles of one of those restaurants.

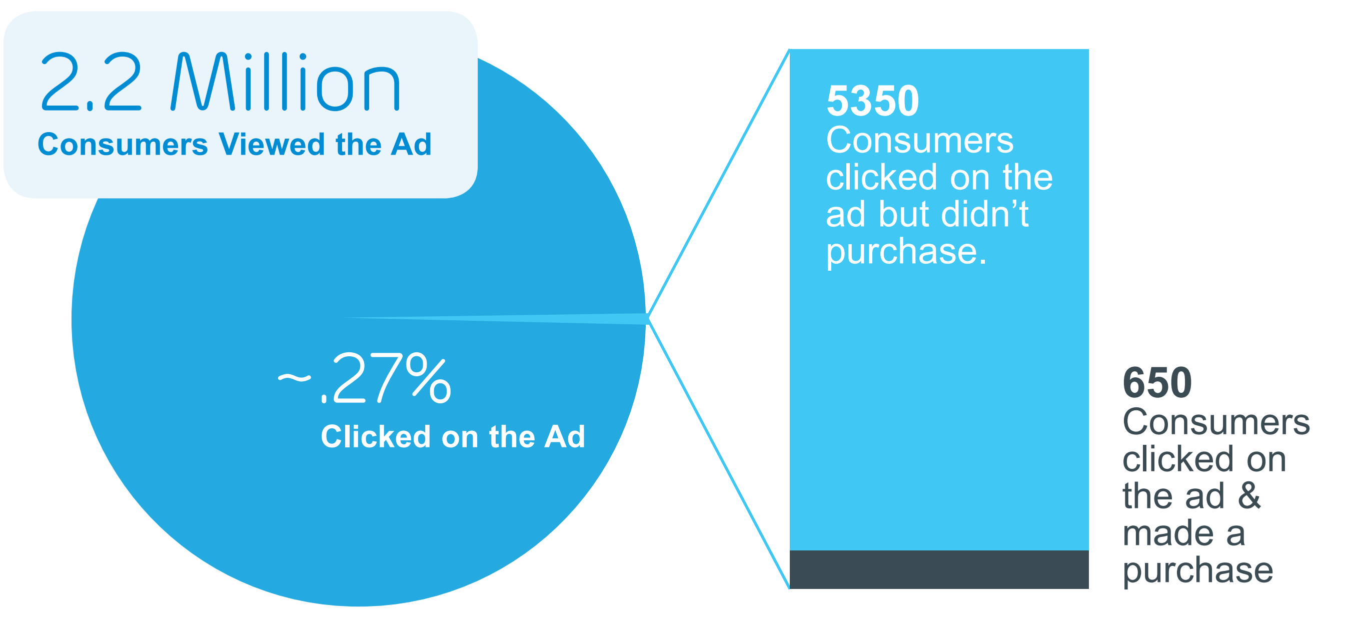
Categorizing the Opportunity

Cardlytics' unique value was evident from the very start of the campaign. Based on our first-party consumer transaction data, Cardlytics quantified the in-category spending of the targeted consumers in the month period before the campaign at $32 million. That is, the consumer market "up for grabs" exceeded a million dollars per calendar day. Our data allows us to provide detailed insight into the client's sales penetration into the target audience, based on real spend history.

The campaign reached just over 2.2 million consumers from the target segments, who viewed the campaign at least once during its 30-day run. The simplest measure of campaign success would be clicks—and in fact, about 6,000 consumers clicked, though very few of those "clickers" were actual buyers.

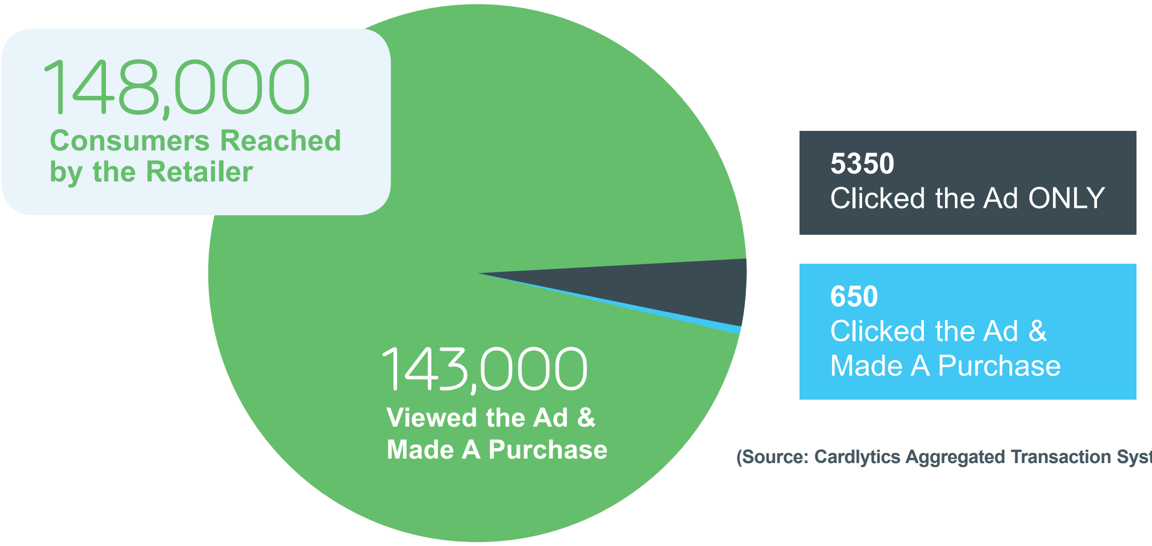
Few Clicked, Even Fewer Purchased

This click rate – 0.27% – might strike an advertiser as adequate. The industry average is much lower. Furthermore, knowing that only a small portion of those clickers actually made a purchase could be demoralizing. As a side note, only about 1 in 10 clickers actually spent with the client. However, it turns out that clicks don't matter.



(Source: Cardlytics Aggregated Transaction System)

Many Consumers Reached –Though Few Clicked



(Source: Cardlytics Aggregated Transaction System)

A clicks-only view would miss more than 99% of the spenders! A focus on clickers would count only about 650 of the 143,000 spenders.

For this campaign, for every consumer who clicked and spent, there were 219 who viewed and spent. It appears that clicking on a display ad is not an indication of intent to purchase—in fact, it would be an incredibly inaccurate measure of purchase intent, by a factor of 219 to 1. The most important measure of the success of the campaign is how many consumers—who saw the ad—actually made a purchase. Using that improved, cleaner lens, the campaign looks much different.

Viewed Purchase Rate

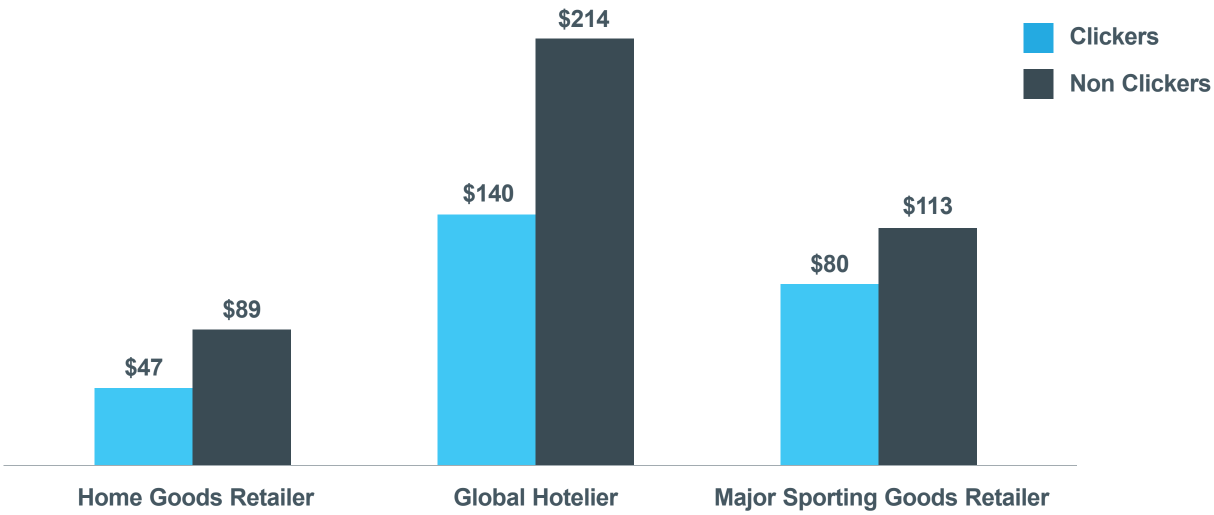
For our clients, we can use the better measure of "Viewed Purchase Rate" or VPR. Actual campaign results would indicate a VPR of 6.4%, which is a better, more accurate, measurement of success. For every 1,000 consumers who viewed an impression, 64 consumers made at least one purchase with the advertiser.

Clickers Spend Less Per Trip

Further, focusing on clickers would undercount revenue—because it turns out that even when clickers buy, they make smaller average purchases than buyers who don't click.

Cardlytics' experience in categories such as hotels, home goods retailing, and sporting equipment retailing, show that the differences in basket sizes can be significant. We've executed campaigns for retailers and seen 30%+ differences in the average purchase size in dollars between Non-Clickers and Clickers.

Smaller Average Baskets Sizes for Clickers



(Source: Cardlytics Aggregated Transaction System)

Unlocking bigger digital budgets

We can see that traditional digital measurement is limited, because such measurement ends with clicks and online purchases. Moreover, we can prove that there is little relationship between post-impression clickers and post-impression spenders. Finally, we have seen how optimizing a campaign on clicks will certainly direct dollars toward reaching an audience that is unlikely to spend: clickers. And unfortunately, clicks don't seem to matter.

We need a better picture of a marketing campaign's true ROAS. Cardlytics empowers advertisers to measure the full impact of their digital spend, by accurately measuring combined online and in-store sales.

We have uncovered a surprising and important truth about digital advertising: **our leading, most trusted, and most widely used metric—click-through rate – is broken.**

While clicks as an indicator of purchase intent was revolutionary when first created, it is flawed, and demands to be updated. Measuring *actual* spend, without relying on outdated proxies, can close the loop for advertisers in a way that clicks never can.

About Cardlytics

Cardlytics® uses purchase intelligence to make marketing more relevant and measurable. We partner with more than 1,500 financial institutions to run their banking rewards programs that promote customer loyalty and deepen banking relationships. In turn, we have a secure view into where and when consumers are spending their money. We use these insights to help marketers identify, reach and influence likely buyers at scale, as well as measure the true sales impact of marketing campaigns. Headquartered in Atlanta, Cardlytics has offices in London, New York, Chicago and San Francisco.

Contact Us at www.cardlytics.com for more information.