GETTING PERSONAL

Retailers’ digital marketing spending keeps rising. Internet Retailer’s second annual digital marketing survey examines where that money is flowing, and why.
It isn’t just Neiman Marcus that continues to find email an extremely effective marketing channel; 38.7% of online retailers in Internet Retailer’s second annual Digital Marketing Survey said email offered the best return on their investment among 10 marketing channels, making it the clear leader over the next most-cited channel, social media, which 16.1% of respondents named.

Few retailers send more marketing emails than Neiman Marcus Group LLC Ltd. The multichannel retailer sends 64 marketing emails per month, on average, according to Internet Retailer’s Top500Guide.com. That’s more than all but nine of the 500 largest online retailers in North America and 276% more than the 17 per month average across all 500 merchants.

There’s good reason for that volume: Email works, says Jeff Rosenfeld, the retailer’s vice president, customer insight and analytics. Over the past year, it has driven roughly 5.5% of NeimanMarcus.com’s desktop traffic, according to SimilarWeb Ltd. That traffic comes at a relatively low cost, given that it costs little to send email.

Which marketing channel gives you the best return on your investment?

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<thead>
<tr>
<th>Affiliate</th>
<th>Content marketing</th>
<th>Display</th>
<th>Email</th>
<th>Google/Bing Product Listing Ads</th>
<th>Mobile app download ads</th>
<th>Paid Search (desktop)</th>
<th>Paid Search (mobile)</th>
<th>Social media</th>
<th>Video</th>
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<td>2.4%</td>
<td>16.1%</td>
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<td>6.5%</td>
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Percentages don’t add up to 100% due to rounding.
Sending emails tailored to shoppers’ likes and interests is one of many ways that Neiman Marcus seeks to give consumers a sense that the retailer knows who they are, Rosenfeld says. “We’re trying as hard as we can to extend a high-touch experience to the digital world so that we can provide a personalized experience to shoppers, regardless of how they interact with us,” he says.

Neiman Marcus has been on a push to improve the technology behind its already robust email marketing program. For instance, the retailer recently invested in tools that help it analyze the data it collects about its customers, including what they’ve browsed and purchased, to better tailor its messages to customers. The multichannel retailer has plenty of company among retailers in boosting its email marketing budget; 33.9% of respondents to Internet Retailer’s survey said they plan to boost their spending on email marketing next year.

And while e-commerce as an industry is growing—in the second quarter e-commerce posted its highest growth rate since the third quarter of 2014—that growth is in large part due to Amazon.com Inc. steadily taking more market share. Amazon’s growth is putting the pressure on other retailers to figure out how to persuade shoppers to buy from them by leveraging the information they know about their customers to present them with the right message, at the right time.

“Amazon is all about the experience,” says Charlene Li, principal analyst at Altimeter Group, a consultancy. “People don’t look anywhere else. They don’t comparison shop. They want an easy experience so they pull open the app on their phones and buy in one touch, even though they’re probably not getting the cheapest price. That’s the power of the Amazon brand. Every retailer has to compete with that. They can compete on price or they can offer some unique brand, product or experience.” The challenge, she says, is increasingly for retailers to use marketing to communicate what distinguishes their brand from Amazon.

FOR NEIMAN MARCUS, THE DIFFERENTIATOR IS THE PERSONAL TOUCH IT OFFERS both in its stores and online. To bolster that edge, the retailer recently began working with personalization vendor Coherent Path Inc. to analyze the data it collects about customers, including what they’ve browsed and purchased, to craft messages tailored to each customer.

The retailer has a triggered email program that reminds customers when they’ve left an item in their carts, as well as when they haven’t made a purchase recently. Those messages also often include so-called outfit completion recommendations: If a shopper buys a dress, the Coherent Path system can recommend a pair of shoes to go with it.
The vendor also helps Neiman Marcus determine what content it should put in the emails that go to particular groups of shoppers. For example, if a new Gucci dress comes out at the same time as a new pair of ballet flats, Coherent Path’s system draws on a shopper’s previous behaviors, as well as the actions of shoppers who exhibit similar traits, to determine which product is most relevant to each individual. Those types of personalized messages are helping Neiman Marcus differentiate itself from its competitors, Rosenfeld says.

JUST AS NEIMAN MARCUS HAS FOUND EMAIL to be an effective customer-retention channel, online-only lingerie retailer Journelle has found social media—Facebook in particular—to be an indispensable customer-acquisition channel. Facebook’s robust targeting capabilities has enabled it to find prospective customers at a rate and price that’s far more effective than other channels, says Helen Schmid, the retailer’s former senior manager of e-commerce and digital marketing.

While Journelle is relatively new to social media advertising—it didn’t spend any money on Facebook advertising when Schmid arrived at the company in May 2015—the channel has proven so effective that 15 months after launching its first Facebook ads, roughly half of the retailer’s ad spending is allocated to Facebook. Journelle is an outlier in that respect; only 4.8% of respondents to the Internet Retailer survey said that social media ads accounted for more than 40% or more of their total budgets (and 60.2% said that social media ads accounted for 0-10% of their budgets).

But Schmid doesn’t mind the lack of balance because social media works for the retailer. Her approach is simple: She uses Journelle’s customer relationship management system to develop a list of customers with the highest lifetime value. She then uses Facebook’s Custom Audience tool to upload her customer lists to the social network, which matches those lists up with Facebook users. The retailer then uses Facebook’s Lookalike Audience tool to target ads at consumers who share similar traits, behaviors and interests to Journelle’s existing customers.

“Paid social is so much more efficient than other channels,” Schmid says.

She points to last holiday season when the retailer simultaneously ran Facebook and web display ads for prospecting and retargeting. The web display ads were roughly 50% more expensive and they didn’t offer the 100% in-view buying option that Facebook offers for its news feed ads that guarantee that a retailer only pays for an impression after a consumer actually sees the merchant’s ad. (Facebook enables advertisers to pay a premium so that they’re only charged for ads that appear in full on a person’s screen). “We know what we’re getting with Facebook,” she says. “With display ads, we aren’t so sure.”
Schmid’s skepticism about display ads either isn’t shared by many respondents to the Internet Retailer survey or at least isn’t causing them to decrease their use of the channel. 50.4% of respondents said they currently use display ads and 54.4% said they plan to use the channel next year.

Display ads are different than the vast majority of social media ads because banner ads, text billboards and videos stand out from the rest of the content on a website, whereas many social media ad units are native ads that blend in with other content on a website. For instance, the majority of ads Journelle runs on Facebook look like other posts that appear in users’ news feeds and they look much the same and even aim to tell a story—often with images and text—like most other posts. Because the ads are less disruptive than display ads, consumers are more likely to click on them—particularly when they feature captivating content, Schmid says.

For example, last holiday season the retailer worked with behavioral analytics vendor Qubit to develop “25 Days of Journelle,” which echoed the open-one-window-per-day idea of an advent calendar by rolling out one gift-friendly promotion every day from Dec. 2 to Dec. 25. It then highlighted the day’s offer in Facebook ads. “The idea was that a single day’s promotion would get customers’ attention,” she says. “Once they saw one deal, we sought to train them to come back every day.”

The Facebook ads helped the retailer produce significant gains from the “25 Days of Journelle” campaign. Shoppers who clicked to the calendar had an 8% conversion rate, which is more than three times higher than the site average. Moreover, the average order value from those shoppers was 37% higher than the site’s average.

**ANOTHER MAJOR AREA WHERE RETAILERS ARE BOOSTING** their ad spending is on search and Google Shopping ads. 39.7% of respondents said they plan to increase their spending on Google Shopping ads next year, 38.0% plan to spend more on mobile paid search ads and 16.5% plan to boost desktop paid search ad spending.

In part, that reflects Google’s push—particularly on mobile—to drive consumers to click on ads rather than organic search results. Over the past year, Google made several moves to make ads more prominent, including increasing the size of AdWords text ads to give marketers more room to convey their messages, adding Product Listing Ads (PLA) to its image search, adding the option to buy an item online and pick it up in a store to its local inventory ads (the ad format that lets a retailer make inventory in local stores accessible to online shoppers) and eliminating text ads from the right-hand side of desktop search results (which helped PLAs account for 48% of all
Google paid clicks in the third quarter, up from 34% in the fourth quarter of 2015, according to a recent Merkle Group Inc. report that’s based on client data. Not surprisingly, as consumers increasingly click on ads, organic search traffic is falling. For instance, Merkle clients saw their organic search visits fall 5% in the third quarter.

More than a quarter, 25.6%, of survey respondents said they increased their paid search spending more than 25% in the past year. A large share of that is tied to retailers boosting their spending on mobile paid search, which makes sense given that shoppers increasingly are searching for information and shopping on phones and tablets: 56% of searches at the largest U.S. websites stem from mobile devices, according to SimilarWeb Ltd. And mobile sales are growing quickly: The 383 U.S. retailers in the Mobile 500 are expected to grow their mobile sales 24% this year, according to the Internet Retailer 2017 Mobile 500.

As consumers grow increasingly willing to buy on their smartphones, retailers like online florist Teleflora are shifting more of their paid search dollars to target mobile consumers.

Teleflora receives about 45% of its site traffic from mobile devices—and that percentage rises around peak holidays such as Valentine’s Day, Mother’s Day and Christmas. “People are more prone to shop for flowers on their phones when they realize they have an urgent need,” says Beth Monda, the retailer’s vice president of e-commerce. “They may or may not be in the doghouse, but they will be if they don’t send a gift.”

Teleflora had long handled its marketing in-house, but last November began working with search engine marketing vendor NetElixir to bolster its paid search strategy, Monda says. NetElixir worked with the retailer to run a string of A/B tests to determine whether adding features to search ads such as a click-to-call button would cause orders to rise (they didn’t), or if optimizing campaigns for shoppers using “near me” in their searches boosted sales (it did). The vendor also tested which metropolitan areas, cities and ZIP codes produced the best returns at particular times (Teleflora reduced its average cost per order by roughly 40% by shifting its ad dollars from where the most consumers were buying flowers to the areas where recipients were receiving the orders). Almost immediately, the more aggressive approach to mobile search marketing paid off: Teleflora’s mobile conversion rate from shoppers clicking from mobile paid search ads rose 14%. Moreover, mobile orders overall grew 116% and orders from “near me” campaigns grew roughly 300%, albeit compared to a small base—even though the retailer doesn’t operate physical stores.
“‘Near me’ searches are all about being in front of the consumer when she’s ready to transact,” Monda says. “If we can provide what they need, when they need, they’re not concerned about stopping into a store.”

Those findings have led Teleflora to maintain an “aggressive approach on mobile”—even though only about 22% of Teleflora’s revenue stems from mobile devices, she says. That’s because even though it works with a multitouch attribution vendor, Monda figures that—at best—she can track 20% of customers. That’s in line with Internet Retailer’s survey, which found that 39.2% of respondents said they cannot track consumers across devices and 36.0% said they can track some consumers, some of the time.

“It’s hard,” Monda says. “I think the right approach is to know our limitations but to keep trying.”

THE ATTRIBUTION PUZZLE IS DIFFICULT because the average global consumer owns 3.64 internet-connected devices, according to GlobalWebIndex data. And many of those consumers shop across multiple devices. For instance, roughly nine in ten of those who had shopped on a mobile device had also used a PC to make an online purchase in the past month, a March GlobalWebIndex survey found. Add to that consumers sharing devices, which is something that more than half of tablet owners do, and it is extremely difficult to determine what marketing channels contributed to a purchase.

Some retailers are adjusting to that reality by running direct-response ad campaigns that seek to capture a consumer’s identity, which helps them understand the multiple ways a consumer navigates the web. Language-learning software retailer Rosetta Stone Ltd., for instance, regularly runs lead generation campaigns that span mobile, social and web campaigns and seek to convince shoppers to sign up for a free trial of its software, which requires a shopper to provide his email address.
Gathering information like an email address enables Rosetta Stone to be smart about how it targets consumers with ads. Over the last two years, it has shifted ad dollars from offline channels like TV to digital because digital ads are more trackable, says Caitlin Romig, the retailer’s senior manager, digital marketing-global consumer. Rosetta Stone’s language learning software is a considered purchase; its French, German and Spanish software, for example, cost $249. That means shoppers often poke around Rosetta-Stone.com several times before they buy. Recognizing that’s how consumers shop, the retailer takes a multipronged approach to gradually guide a shopper to buy. For instance, if a consumer clicks on a Rosetta Stone ad on Facebook (which was likely targeted because he shares traits with existing Rosetta Stone customers) but only visits the retailer’s home page, Rosetta Stone will retarget him on Facebook with a video ad to engage him to come back to the site where he can share his email address to try a free demo. Once he tries the demo in a specific language, like Spanish, Rosetta Stone can then retarget him with Spanish-focused content. If he further engages, the retailer might then send him an email that offers a discounted price.

“We want to slowly present the potential customer with a mix of content and special offers before we make a hard sell,” Romig says. That requires the retailer to identify shoppers across devices. And that’s where DoubleClick, the Google-owned ad-serving system comes in. DoubleClick offers tools that let marketers understand how an ad impacts a consumer’s buying decision even if, for example, he clicks on a Rosetta Stone ad on his smartphone but ends up purchasing the software on his laptop computer up to 30 days later.

WHILE DIGITAL AD COSTS ARE RISING, Rosetta Stone has managed to keep its costs manageable by using a programmatic ad-buying system. Programmatic advertising refers to an automated method of buying, selling or fulfilling advertising. Systems like the one Rosetta Stone uses access available ad inventory by taking into account what’s known about the website and the visitor to bid on the space, and the winning ad is loaded to the page, all in the milliseconds it takes the web page to load.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Facebook</td>
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Just looking at digital display ads, programmatic ad buying represents a major share—67.0%—of U.S. digital display ads this year, roughly $22.10 billion, according to eMarketer. That’s a 39.7% jump from a year earlier.

Even so, Rosetta Stone is among the minority of online retailers that buy ads programmatically. The Internet Retailer survey finds that only 20.8% of respondents buy ads that way. Perhaps that isn’t surprising given that a 2015 Forrester Research Inc. report found that 41% of marketers said that they were either unaware of, or didn’t have a clear understanding of, programmatic buying. Only 23% said they understand programmatic buying and use it to execute campaigns. The remaining 36% said they understand it, but either hadn’t used it, or needed to learn more to apply it to their campaigns.

There’s good reason so few advertisers are using programmatic ad buying, says Andrea Weiss, founding partner of the consultancy O Alliance LLC. “As much as marketers like to think that what they do is scientific, the fact of the matter is that they have biases and long-held beliefs,” she says. “It can be hard to take the emotion out of ad buying.” But those who have made the shift are seeing significant results. “It absolutely works.”

To make programmatic ad buying work, retailers have to know their customers well, Altimeter’s Li adds. “For real-time bidding to work, retailers have to know what customer needs what message at what time and place at the right cost,” she says. “Understanding that loop is really hard. But retailers have to understand how valuable a customer is to them before they can understand how much to bid.”

That’s the challenge all retailers face. Knowing who a shopper is and what she’s interested in is the best way to know what will convince her to buy, and how much to spend to close the sale.
Coherent Path’s platform delivers self-optimizing campaigns that drive revenue today and learn for tomorrow. Maximize revenue and generate automated data-driven marketing calendars to cross-sell existing customers, build engagement with new ones, and drive impact in the categories that matter most. Our deep learning technology uses the retailer’s data to guide each customer to the right offers, products, and content. In contrast to next step focused personalization tools, Coherent Path applies advanced geometry to build a map of the product and transactional space, and identifies the optimal path forward for each customer. With this foundation, retailers can deliver personalized multi-step offers and optimize promotional efforts around products that increase customer lifetime value. Fortune 500 retailers, such as Staples and Neiman Marcus, trust Coherent Path to deliver targeted campaigns that generate engagement and increase revenue.