

Multichannel Thoughts: Acquisition & Retention Economics

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DMA Annual 2007

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About RKG

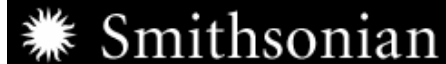
Our search team helps online retailers win at pay-per-click search and the comparison shopping engines.

Our consulting team helps clients make their web sites convert more visitors.



ZALES

THE SHARPER IMAGE



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Topics

Everything has changed.

Brand vs. Non-brand in PPC.

A/S is a proxy for profit.

$CPC = SPC * A/S$

Square Root Rule

Conversion Is The Secret Weapon

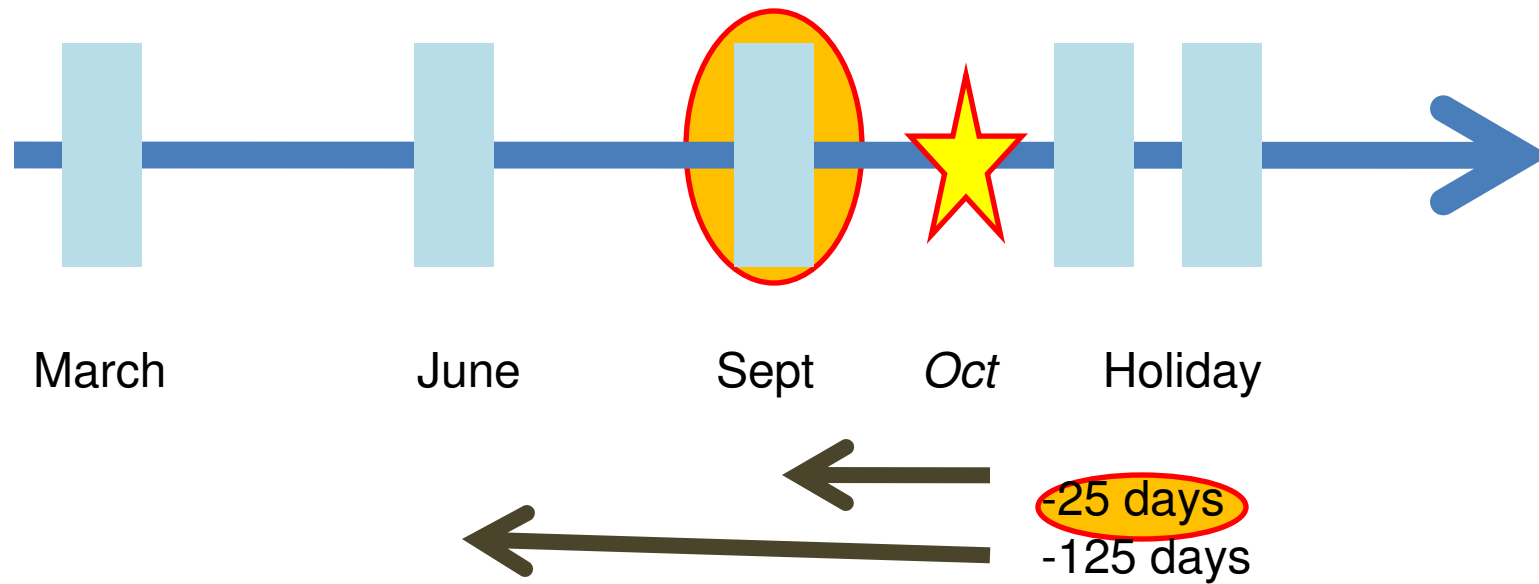


Back In The Good Old Days...

- Marketers had control.
- Marketing contacts infrequent.
- Valid:
 - “Last Touch”
 - “My Buyers”
 - “Buyers vs. Prospects”
 - “12 month avg LTV”



Last Touch



“My Buyers”



Exchanges

Co-ops

Excludes

Buyers vs. Prospects

- Prospects

- Acquisition
- 0.5% RR
- Investment



- Buyers

- Retention
- 3.5% RR
- Profit



12 Month LTV

12 Month LTV Calculation	
% repeat (@ 4 pcs)	10%
Purchases	1.5
AOV	\$ 150.00
Sales	\$ 225.00
COGS @ 50%	\$ (112.50)
Other Variable Expense (@ 10%)	\$ (22.50)
Marketing Expense, Cohort (@ \$1/pc x 4pc x 1/10%)	\$ (40.00)
	<u>\$ 50.00</u>



Prospects to 12 month
break-even.

Generate profit from
buyers.





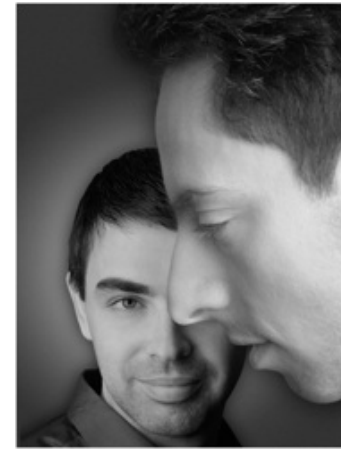
1989



1993



1994



1998

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Change

Then

- Marketers had control.
- Marketing contacts infrequent.
- “Last Touch”
- “My Buyers”
- “Buyers vs. Prospects”
- “12 month avg LTV”

Now

- Consumers have control.
- Marketing contacts too frequent.
- Brand vs. Non-Brand
- Micro-analysis of repeat purchase rates

Non-Brand Vs. Brand

Men's oxford



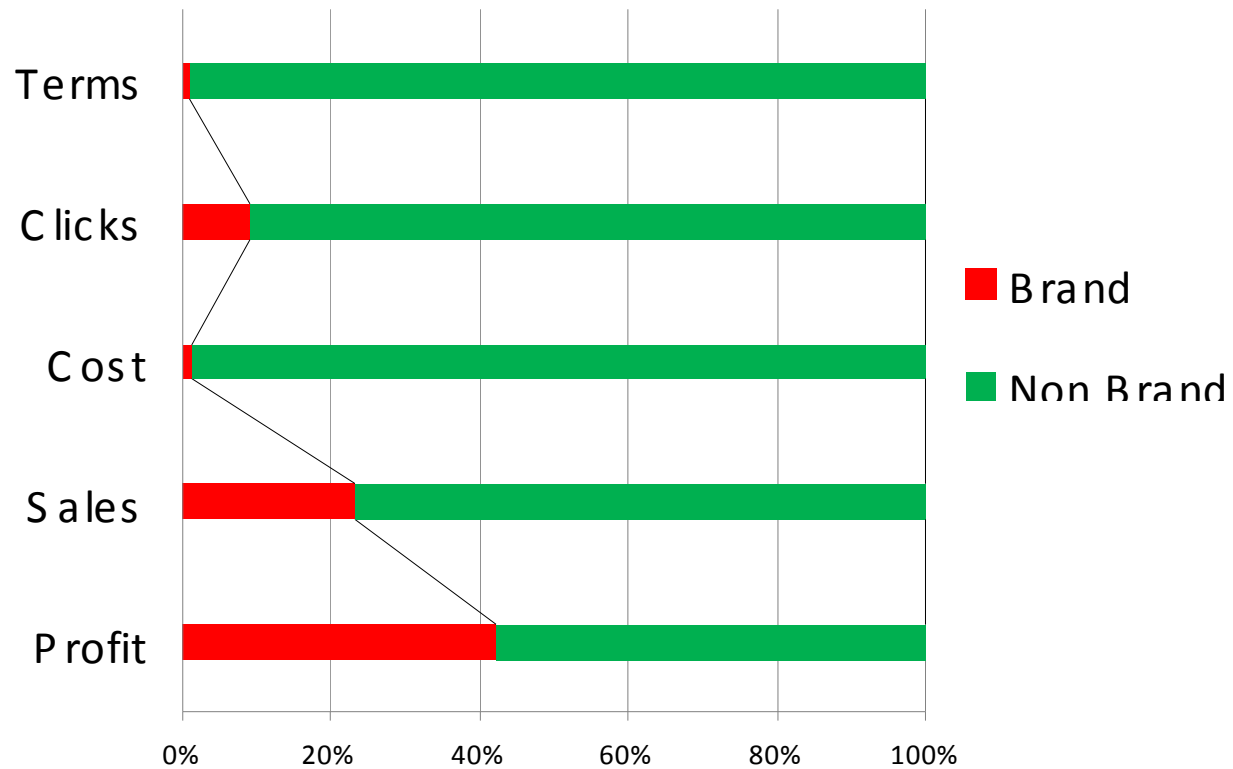
Lands End Oxford



<p>2000-2001 Commercial</p> <p>1447711 1447712 1447713 1447714 1447715 1447716 1447717 1447718 1447719 1447720 1447721 1447722 1447723 1447724 1447725 1447726 1447727 1447728 1447729 1447730 1447731 1447732 1447733 1447734 1447735 1447736 1447737 1447738 1447739 1447740 1447741 1447742 1447743 1447744 1447745 1447746 1447747 1447748 1447749 1447750 1447751 1447752 1447753 1447754 1447755 1447756 1447757 1447758 1447759 1447760 1447761 1447762 1447763 1447764 1447765 1447766 1447767 1447768 1447769 1447770 1447771 1447772 1447773 1447774 1447775 1447776 1447777 1447778 1447779 1447780 1447781 1447782 1447783 1447784 1447785 1447786 1447787 1447788 1447789 1447790 1447791 1447792 1447793 1447794 1447795 1447796 1447797 1447798 1447799 1447800</p>	<p>Pumps rearers</p> <p>1447711 1447712 1447713 1447714 1447715 1447716 1447717 1447718 1447719 1447720 1447721 1447722 1447723 1447724 1447725 1447726 1447727 1447728 1447729 1447730 1447731 1447732 1447733 1447734 1447735 1447736 1447737 1447738 1447739 1447740 1447741 1447742 1447743 1447744 1447745 1447746 1447747 1447748 1447749 1447750 1447751 1447752 1447753 1447754 1447755 1447756 1447757 1447758 1447759 1447760 1447761 1447762 1447763 1447764 1447765 1447766 1447767 1447768 1447769 1447770 1447771 1447772 1447773 1447774 1447775 1447776 1447777 1447778 1447779 1447780 1447781 1447782 1447783 1447784 1447785 1447786 1447787 1447788 1447789 1447790 1447791 1447792 1447793 1447794 1447795 1447796 1447797 1447798 1447799 1447800</p>	<p>fax: 01462-482422 CO&M Way, Leckwith, Herts SG5 5JX</p> <p>Tying the knot?</p> <p>Wedding Guide see Wedding Services</p> <p>Dennis Roberts Ltd all Quince, 100, Commercial Road, Leckwith</p>
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MANHATTAN-RESIDENCE		HAWKINS-HAYMAN 307	
1447711	1447712	1447711	1447712
1447713	1447714	1447713	1447714
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1447795	1447796	1447795	1447796
1447797	1447798	1447797	1447798
1447799	1447800	1447799	1447800

Non-Brand vs. Brand



Task Your PPC Team

Don't focus on housefile vs. new
Focus on incrementality of order,
share-of-wallet

For PPC:

Grow sales from *non-brand* portfolio
aggressively and cost effectively



Economics

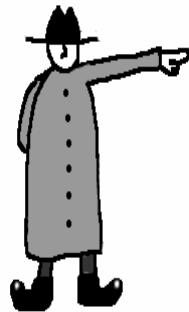


Marketing

	millions	
Gross Sales	11.3	113%
Returns & Cancels	1.3	13%
	10.0	100%
Cost of Goods	4.0	40%
Gross Margin	6.0	60%
Marketing Expense	2.9	29%
Other Variable Expense	0.6	6%
Marketing Contribution	2.5	25%
Fixed Costs	2.0	20%
EBITA	0.5	5%

DM Economics

Merchandising



	millions	
Gross Sales	11.3	113%
Returns & Cancels	1.3	13%
	10.0	100%

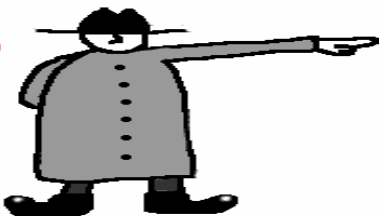
Cost of Goods	4.0	40%
Gross Margin	6.0	60%

Marketing



Marketing Expense	2.9	29%
Other Variable Expense	0.6	6%
Marketing Contribution	2.5	25%

CEO



Fixed Costs	2.0	20%
EBITA	0.5	5%

CFO



A/S proxy for profit

If margins relatively constant,

Maximize sales subject to A/S constraint.

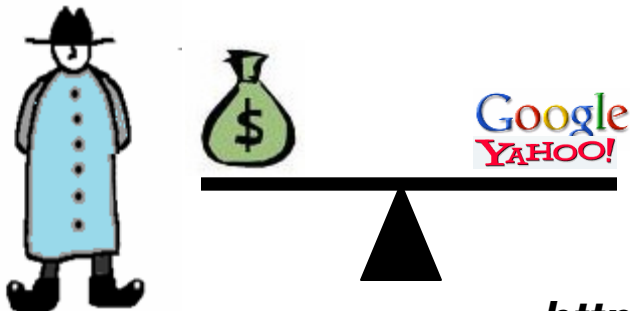


Half & Half Rule

To maximize profit dollars,
invest half your effective
margin in marketing,
reserving half for marketing
contribution.

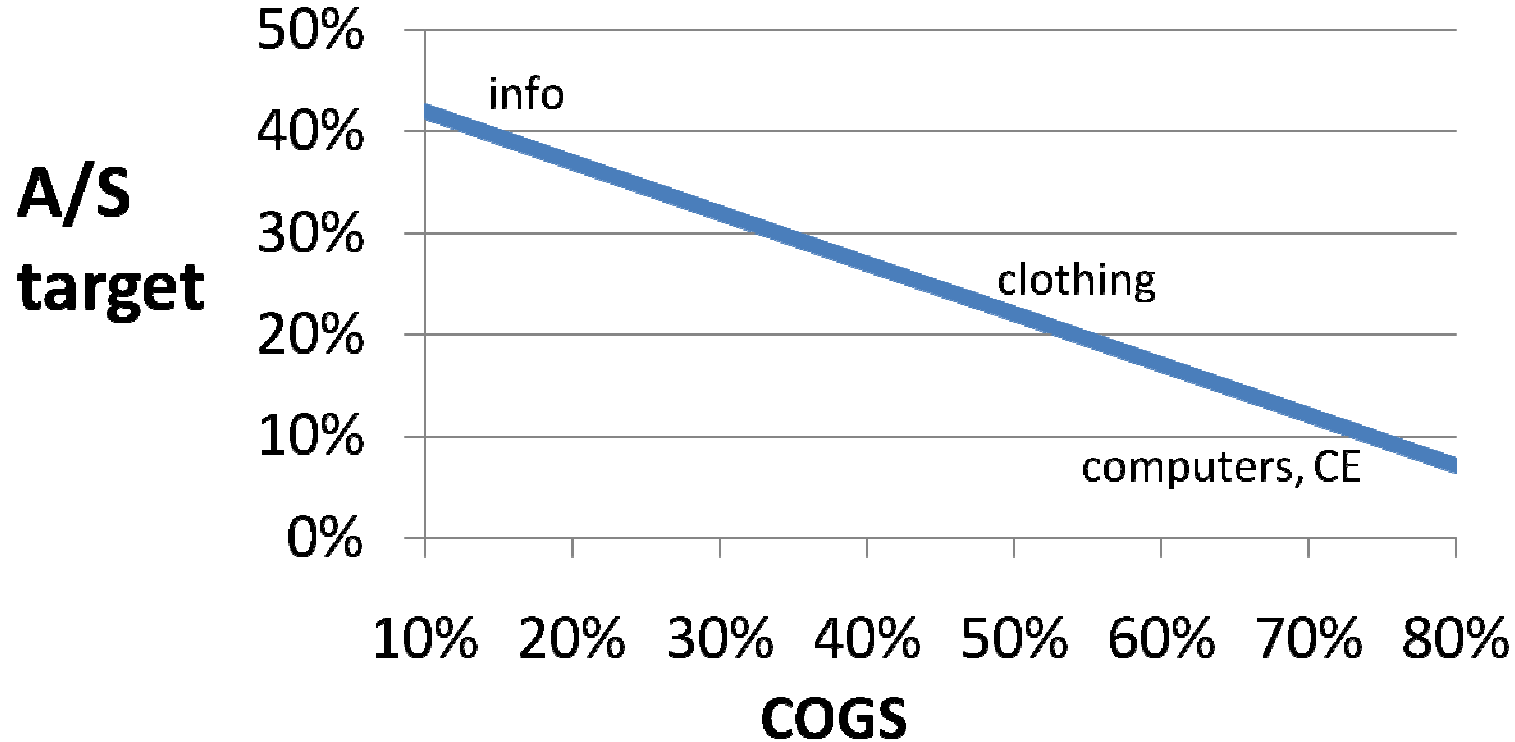
$$\text{A/S target} = (1 - \text{cogs} - \text{var}) / 2$$

COGS	40%
Other Variable	6%
Loaded Cost	46%
Effective Margin	54%
Target A/S	27%



<http://www.shortenurl.com/how-much-to-advert>

Margin Drives Ad Spend



<http://www.shortenurl.com/how-much-to-advert>

	A	B	C	D	E	F	G	H	I
1	Square-Root Optimal Advertising Model								
2									
3	Advertising Budget		\$ 2,000,000						
4	Resulting Net Sales		\$ 10,000,000						
5	Cost-of-Goods-Sold, %		60%						
6	Other Variable Expense, %		13%						
7									
8	Base Scenario								
9	Sales		\$ 10,000,000	100%					
10	Gross Margin @ 60%		\$ 4,000,000	40%					
11	Marketing Cost		\$ (2,000,000)	20%					
12	Other Variable Expense @ 13%		\$ (1,300,000)	13%					
13	Variable Operating Profit		\$ 700,000	7%					
14									
15	Alternate Scenarios								
16	Change in Advertising (vs. base)		-30%	-20%	-10%	Base Case 0%	10%	20%	30%
17	Sales		\$ 8,366,600	\$ 8,944,272	\$ 9,486,833	\$ 10,000,000	\$ 10,488,088	\$ 10,954,451	\$ 11,401,754
18	Gross Margin @ 60%		\$ 3,346,640	\$ 3,577,709	\$ 3,794,733	\$ 4,000,000	\$ 4,195,235	\$ 4,381,780	\$ 4,560,702
19	Marketing Cost		\$ (1,400,000)	\$ (1,600,000)	\$ (1,800,000)	\$ (2,000,000)	\$ (2,200,000)	\$ (2,400,000)	\$ (2,600,000)
20	Other Variable Expense @ 13%		\$ (1,087,658)	\$ (1,162,755)	\$ (1,233,288)	\$ (1,300,000)	\$ (1,363,452)	\$ (1,424,079)	\$ (1,482,228)
21	Variable Operating Profit		\$ 858,982	\$ 814,953	\$ 761,445	\$ 700,000	\$ 631,784	\$ 557,702	\$ 478,474
22	\$ Change in Operating Profit		\$ 158,982	\$ 114,953	\$ 61,445	\$ -	\$ (68,216)	\$ (142,298)	\$ (221,526)
23	% Change in Operating Profit		23%	16%	9%	0%	-10%	-20%	-32%
24									
25	Optimal Scenario								
26	Change in Advertising (vs. base)		-54%						
27	Sales		\$ 6,750,000	100%					
28	Gross Margin @ 60%		\$ 2,700,000	40%					
29	Marketing Cost		\$ (911,250)	14%	Optimal Advertising Spend	\$ 911,250			
30	Other Variable Expense @ 13%		\$ (877,500)	13%	Optimal A/S ratio	13.5%			
31	Variable Operating Profit		\$ 911,250	14%					
32	\$ Change in Operating Profit		\$ 211,250						
33	% Change in Operating Profit		30%						

PPC Bidding

conversion = orders / visits

AOV = dollars / order

SPC = conversion * AOV

A/S = SPC / CPC, so **CPC = SPC * A/S**

SPC!
SPC!
SPC!



Marketing

Conversion		1%
AOV	\$	150
SPC	\$	1.50
Required A/S		29%
Effective Avg Target CPC	\$	0.44

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Averages Can Deceive



The Secret Weapon: Site Conversion

Scenario One

1% conversion

\$150 AOV

40% COGS

6% var exp

27% A/S target

\$1.50 SPC

\$0.41 CPC

500k clicks

\$547k contribution

Scenario Two

1.5% conversion

\$150 AOV

40% COGS

6% var exp

27% A/S target

\$2.25 SPC

\$0.61 CPC

2000k clicks

\$3.3mil contribution

**50% increase
in site conversion
yields
600% increase
in profit dollars**

Thanks!

call:

Rimm-Kaufman Group @ (434) 970-1010



contact:

alan@rimmkaufman.com

read:

rkgblog.com, searchengineland.com, catalogsuccess.com,
marketmotive.com

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