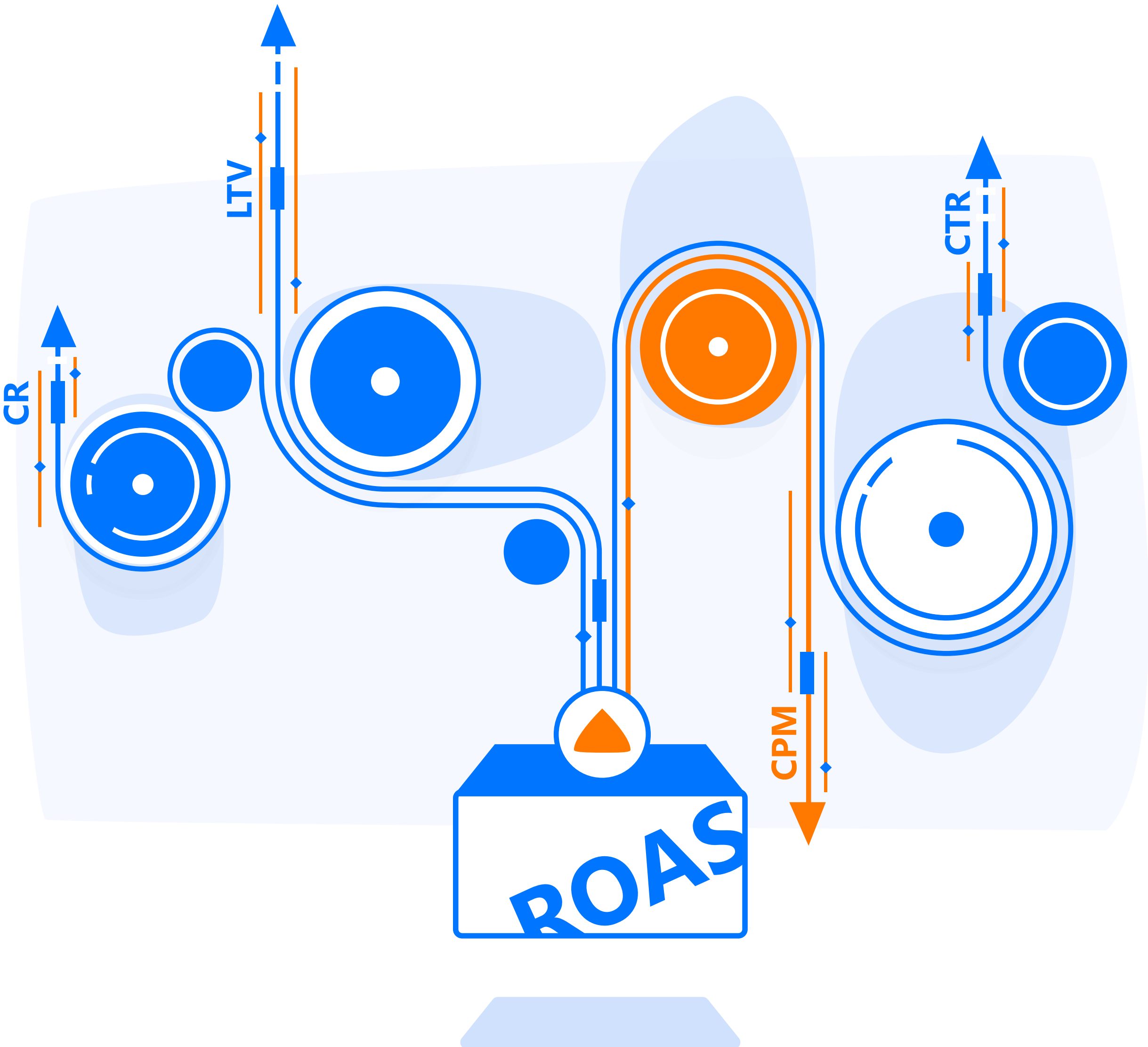
Tomi.ai

The Conversion Equation:

7 Ways To Improve Your ROAS



Contents

The conversion equation:

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Introduction

There's a lot of advice out there on how to improve your return on advertising spend, but most of advice ignores who you are as the advertiser.

Targeting cheaper clicks, for example, may not work in an industry with an extremely narrow customer base.

Improving the profitability of your digital advertising starts with an understanding of all the factors that impact return on advertising spend, but also requires an understanding of which factors you can control in your particular industry.

If you're looking to get more out of your advertising budget, this article will cover the conversion equation—the four factors that impact your return on advertising spend—as well as seven different tactics to improve your advertising dividends.

We'll also answer which tactics are most relevant for which industries, helping you decide where to put your attention first.

The ROAS Formula

$$ROAS = \frac{CTR \cdot CR \cdot LTV}{CPM}$$

$$= AOV \cdot \text{Orders per customer}$$

The ROAS formula is a four-term equation that divides your revenue by your costs. In the numerator you have your **revenue-driving factors**. In the denominator you have your **cost factors**.

As a marketer working on ad targeting and optimization, your goal is to impact one or more factors in this equation with the aim of improving your ROAS.

Before we get into how you can impact this equation, let's explore each factor.

Return on Advertising Spend *(ROAS) is how much value you get from your ads compared to your investment.*

Revenue factors

Click-through rate (CTR)

Click-through rate is the number of clicks your ad receives divided by the number of impressions it gets. If your ad is seen 100 times and receives 3 clicks, you have a click-through rate of 0.03 or 3%.

The first three factors improve your ROAS. When you increase these values, you're winning.

Conversion rate (CR)

Conversion rate is the number of customers your ads generate divided by the number of clicks.

You can technically split conversion rate into several steps — for example, from click to lead (CR_1) and then from lead to customer (CR_2). CR_1 is usually carefully monitored and optimized while CR_2 is not, hence it has the bigger potential for improvement. For the purpose of this article, we'll be treating conversion rate as the percentage of clicks that turn into customers.

Lifetime Value (LTV)

LTV is an estimate of the average revenue a customer delivers across their entire time buying from the business

$$LTV = AOV \cdot \text{Orders per customer}$$

Average order value (AOV) — how much money (revenue) you make from a single order from a customer
Orders per customer — the number of separate orders a customer makes, on average, over a lifetime or a specific time horizon

LTV is usually thought of as a product metric, something a product manager will focus on. But you, as a marketer, can drive it by bringing more high-intent and best value customers.

CTR · CR · LTV

CPM

Cost per impression

The amount you're charged by the ad network per impression. Cost per impression is normally expressed as cost per 1,000 impressions (CPM), as the cost for a single impression is quite low

The final factor harms your ROAS. When your costs rise, your ROAS drops.

To make the equation work in the case of pay-per-click (PPC) ads, you can swap out impressions and cost per impression for a single factor: cost per click—the amount the ad platform charges you for a click.

Tactics for improving your ROAS

Given that there are four factors in the conversion equation, marketers have many levers to pull in order to drive ROAS.

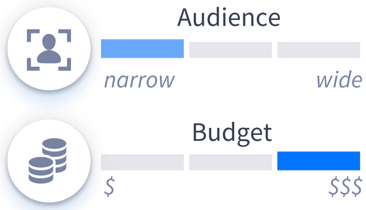
In theory, you should employ tactics that increase the numbers in the numerator of the equation (revenue-driving factors) and decrease the numbers in the denominator of the equation (cost factors).

However, reality is much messier. Most tactics will impact multiple factors, both positively and negatively. A tactic that works in one industry may not work in another.

Here are seven tactics you can use to impact your ROAS, including an analysis of which tactics are best for which industries

1. Optimize your targeting for business outcomes

You can optimize your ad targeting using (A) predictive targeting and (B) predictive bidding optimization



Best for:

Niche industries with narrow target audiences, large purchases, and long buying cycles—where more impressions don't lead to more buyers.

1A. Predictive audience targeting

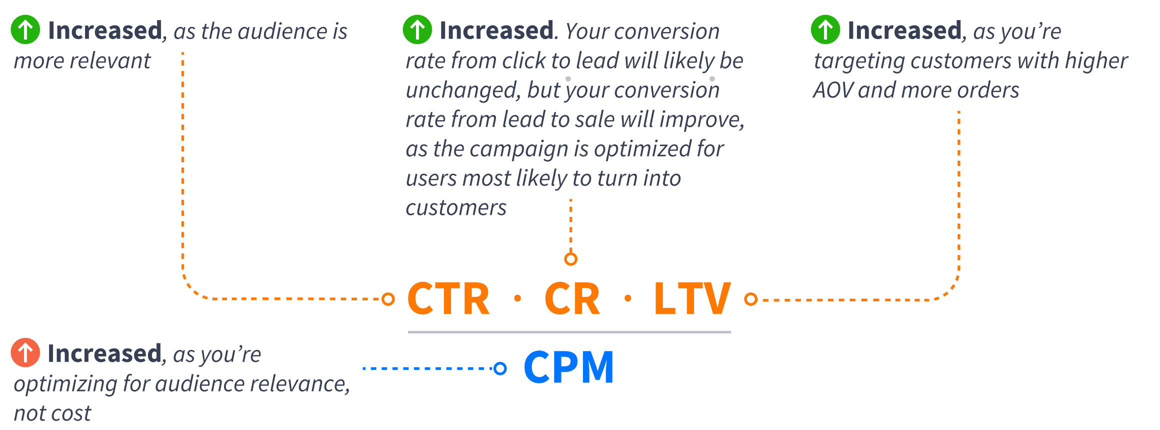
Predictive targeting is a new methodology we've developed at Tomi.ai that predicts who will become a customer based on potential customers behavior on your website and your past sales data.

Predictive targeting is ideal for industries where the valuable purchase event happens off site. For example, in B2B, the main purpose of your website is, most often, to generate leads (not the actual sales). The sale usually happens weeks or months later and sits in your CRM, and is not fed back into the ad platform. Contrast this with e-commerce where you have immediate data on click, add to cart, or purchase.

So how does predictive targeting work?

We add a pixel to your site that collects information about your website visitors. We then connect to your CRM feed to monitor your offline sales. Combining your website and sales data, we then build a behavioral model of your ideal customer, score each new visitor and feed that audience information into the ad platforms to target your ideal audience.

By bidding for more relevant impressions, here's how we impact the conversion equation



With this approach, you will pay more for a click, but get far better conversions to sales. For industries with large sales, this will have a major impact, when the increase in quality of traffic (conversion rate) is much higher than the increase of its cost (cost of click = 1000 * CTR / CPM).

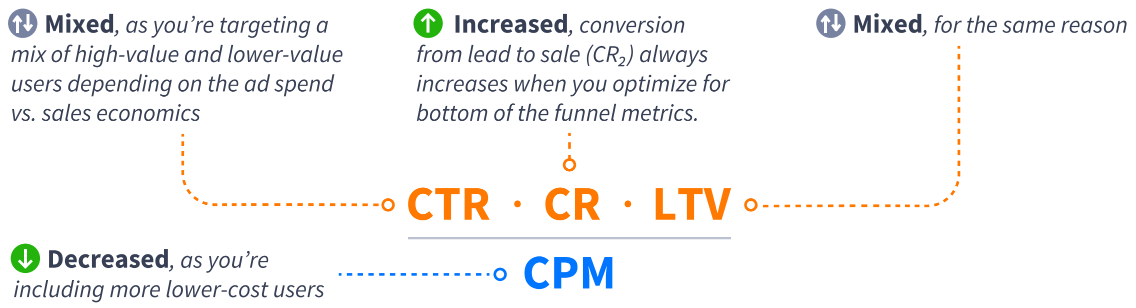
1B. Predictive bidding optimization

That said, over-targeting your audience to only the highest-likelihood converters can cause you to miss out on sales. If you only advertise to your top converters, you may be missing out on less expensive clicks from other users who are less likely to convert, but may still convert with a positive ROAS.

To illustrate with a hypothetical example: let's say your data says Amy is 20% likely to become your customer if you show her an ad, but it costs $1. If Bob is 15% likely to become your customer if you show him an ad, but it only costs $0.50, it's better to advertise to Bob. If you target your ads too narrowly, you'll never advertise to Bob and you'll lose out on a better ROAS.

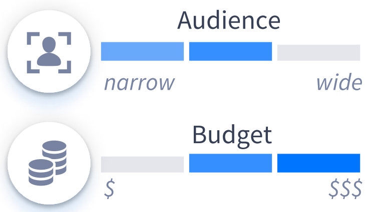
Ideally, your bidding strategy shouldn't ignore those users altogether. It should just optimize its bids per user, based on how likely they are to become a customer.

To do this, Tomi.ai tells the ad platform which types of users are worth bidding more or less for based on your customer sales data—optimizing your bidding strategy relative to the conversion likelihood.



By optimizing your bids for a wider audience in that way, you gain a cost-per-impression improvement without damaging your conversion rate — therefore improving your cost per lead and ROAS.

2. Invest in channels that drive incremental revenue



Investing in channels that drive incremental growth is trickier than it seems as the attribution does not usually do justice to the channels in the middle of the customer journey.

Facebook is often the culprit of the situation. Businesses with long sales cycles usually underinvest in it because they use either first-click or last-click attribution models and don't attribute enough value to the visits from Facebook. It's one of the reasons why B2B marketers consider this channel ineffective.

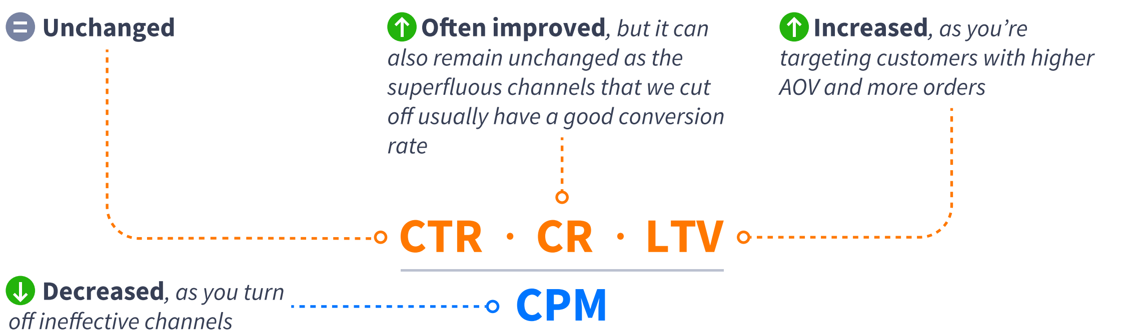
On the other hand, Facebook loses no chance to show ads to customers at the very end of their journey to make sure the sale is attributed to them. What's the problem with that? If the buying intent has already been formed and the user was going to buy the product anyway, why pay for that visit?

The channel that usually gets more budget than its fair share is branded paid search. It often happens at the end of the customer journey and has the value attributed to it with the last-click attribution, while this visit adds very little value in reality and dents the marketing budget.

Having an unbiased look into the true value of each touch point will most likely lead to the redistribution of the budgets and switching off some channels.

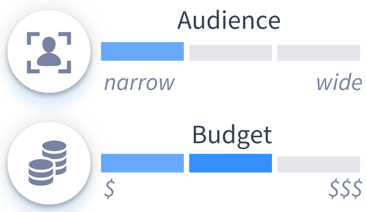
Best for:

Businesses with complex customer journeys consisting of multiple touchpoints.



With unchanged CTR and better or unchanged CR, decreasing Costs has a big boost to ROAS. It happens due to stopping paying for customers who would have bought anyway and reallocating the budget into new growth channels.

3. Microsegmentation: refine your campaign targeting



Getting your ads in front of the right people, other factors being equal, will certainly boost your ROAS. This is especially true if you have a product that appeals only to a narrow audience or a single demographic.

One way to do this is to narrow your ad targeting with the goal of advertising only to the most relevant users to your business. How you narrow your audience will depend on the ad platform.

On the Google Display Network, Facebook, or YouTube, you can use stricter rules for selecting interests or demographics—assuming you have a large enough audience size. On the Google Search Network, you could choose to turn off broad-match keyword targeting or stop targeting broader keywords. For example, you could avoid general terms like “buy a car” in favor of more purchase-ready terms like “buy Tesla model 3 in Chicago”.

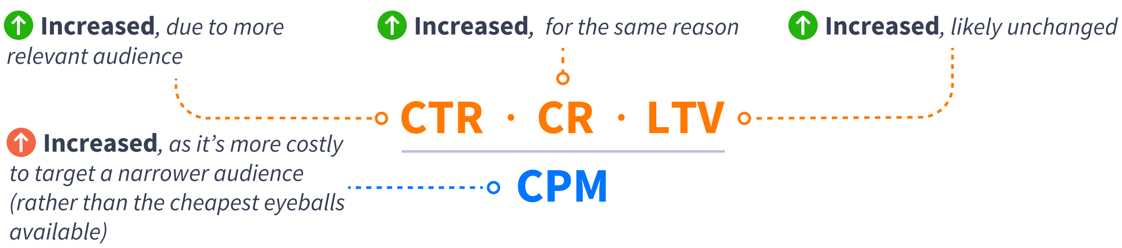
Whether microsegmentation will work for your business or not depends on your advertising spend and your market share. [Microsegmentation](#) usually improves ROAS but cuts the advertising spend dramatically, you end up with the best customers but you run the business at half its capacity because you miss out on “ok customers” and you underspend your media budget.

At Tomi.ai, we factor out targeting based on interests/ demographics applying a totally different approach. We score each website visitor for a conversion probability and use this score as the optimization target.

This approach helps marketers be on target with the budget and fine-tune ad platform’s delivery by serving more ad impressions to high-intent buyers and fewer impressions to lower-intent buyers (but not missing out on them completely). It leads to a significant increase in CTR.

Best for:

Niche products or services that appeal to a narrow audience.



As pretty much every part of the equation goes up, it can go either way. If you truly understand your audience and you’re targeting the right people, the added sales will outweigh the added costs and improve your ROAS. But if you’re wrong with your audience hypothesis, you’ll see increased ad costs without the benefits.

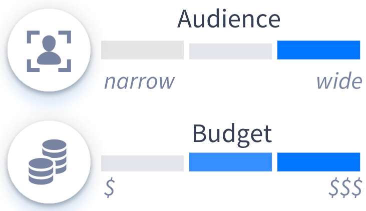
4. Get more clicks cheaper

You can also take the exact opposite approach: going for as wide and as cheap of an audience as possible by optimizing for as high a click volume as possible.

This approach tells the ad platforms to be agnostic as to who the user is, as long as the click or impression isn't expensive. Your bidding strategy will therefore seek out inexpensive user clicks as opposed to targeting highly desirable users that may cost more.

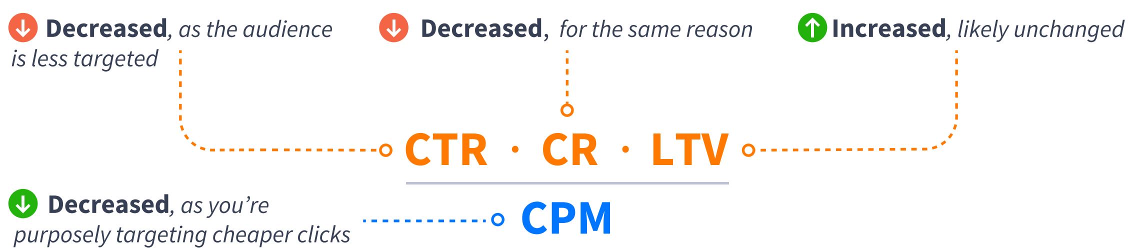
This strategy is ideal for mass-market products that should appeal to just about anyone. For example, Amazon's Black Friday deals could theoretically appeal to anyone in a country where Amazon delivers—independent of their demographic.

Contrast this with a high-end luxury brand like Gucci who only wants to target high-income earners. In Gucci's case, they should likely favor the narrow-targeting approach



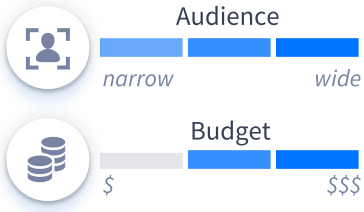
Best for:

Inexpensive mass-market products with broad appeal.



You can either win or lose with this strategy. The decreased cost of impressions should outweigh the lowered click-through rate, netting you more clicks for the same budget. However, the cheaper cost is balanced by the decreased conversion rate. This strategy typically only improves ROAS if your product has an extremely broad appeal

5. Invest in higher-quality ad creative



The most straightforward way to improve your ROAS is to make a better ad creative. Whether it's by improving your graphic design, using an attractive video instead of a static picture, or writing a more compelling ad copy that better explains your value proposition, improving your ad creative will definitely earn you more clicks.

The trick is that there's no one-size-fits-all approach to making a great creative. You have to test various creatives to see what drives conversions for your business. For example, you should test to see whether video is a better ad format for driving conversions (spoiler: it usually is!).

And here's something else to consider: a better ad creative comes with a hidden cost that's not factored into the ROAS equation. A better ad creative is more expensive to produce. This of course impacts your overall ROI.

Therefore, it's not recommended to invest heavily in creative production unless you know how to measure its effectiveness. Using Tomi.ai, for example, you can test different ad creatives with 30 times the speed compared to regular A/B tests on the ad platforms. We do that by calculating the probability of a purchase for each website visitor and feeding it to ad platforms as a synthetic conversion. It gives them 100 times more optimization signals, that are both accurate and prompt, to shift the advertising budget towards the best ad creative faster.

This will give you the confidence whether you're making the right decision to hire an expensive creative agency or not.

Best for:

Advertisers with wide appeal and larger budgets. Great creative comes with a high price tag, but can drive your audience to make purchases if your product has a low barrier to entry.

With better CTR and CR, improving your ad creative has a big boost to ROAS.

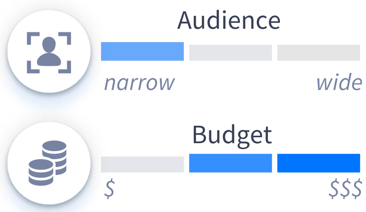
6. Personalize and tailor your creatives for specific customer segments

Another way to improve your creative other than making it nicer is to make it more relevant to the user.

To increase relevance, create the right ads for the right people. For instance, you can split your audience by demographics (e.g. age) or behaviors (e.g. recently married) and then tailor your ads to each group.

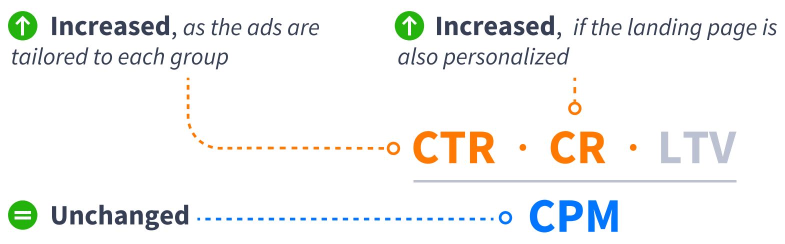
Ads can be personalized by the messaging, visuals, products, and even the offer.

For example, if you were a financial services provider, you may want to split your messaging by age. Young people may care more about convenience, privacy, and apps, whereas older people may care more about reliability, stability, and customer service. Young people may like flashier graphic design, whereas older people may like simple, clear visuals.



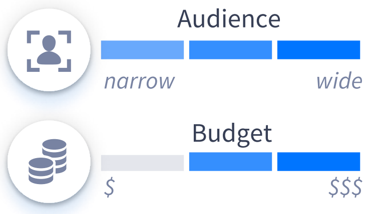
Best for:

Advertisers with segmented audience personas and larger advertising budgets, as creating multiple ads is time-consuming and costly.



Higher click-through and conversion rates mean higher ROAS. However, always mind the fact that the more segments you use the larger budgets you need to have to collect enough statistics for optimization in each segment.

7. Optimize your landing pages



To improve conversion rates, you can also optimize the experience after the user has clicked your ad. This is known as conversion rate optimization (CRO) — the process of designing a landing page that convinces your users to take action.

You can optimize your landing page by:

- Using a compelling heading
- Clearly stating your value proposition
- Personalizing the creative (as you did with your ads)
- Matching the creative to the ads
- Using high-quality images
- Using scannable text
- Featuring prominent calls-to-action

Best for:

Products with broad appeal, and for advertisers with enough budget and time to create multiple high-quality landing pages.

Improved, *because of changes to the post-click experience*

Improved, *for the same reason*

CTR · CR · LTV

CPM

Unchanged, *as your pre-click factors are all unaffected by the landing page*

Because your pre-click factors are unchanged, you receive more conversions for the same cost—other than the costs of creating multiple landing page variations. Overall, you're likely to see a net positive impact.

To sum it all up:

Tactics	*Best for*
1. Optimize your targeting for business outcomes	The best you can get in online marketing. For e-comm and e-comm like businesses it turbocharges smart bidding. For long sales cycle businesses it works as a vehicle for strengthening an optimization signal.
2. Invest in channels that drive incremental revenue	Understanding incremental value of each channel is paramount for long sales cycle businesses. The longer your sales cycle (7+ touchpoints or 2+ weeks) is the more important the attribution.
3. Microsegmentation: refine your campaign targeting	Microsegmentation can always improve ROAS with the drawback of underspending the budget and decreasing the overall business result.
4. Get more clicks cheaper	“Cheaper clicks” strategy always works for mass market products.
5. Invest in higher-quality ad creative	High quality ad creative always works.
6. Personalize and tailor your creatives for specific customer segments	Ad creatives personalization works but has its limitations on the scale of the improvement and require substantial amounts of data. Predictive scores can help long sales cycle businesses to get a more frequent and strong signal and unlock ad creatives personalization tools.
7. Optimize your landing pages	Landing page optimization always works. It will yield some CR and LTV increase and but it may not be enough to outweigh fixed implementation costs. The more traffic you have, the higher your chances are this investment will pay back.

Should I Invest In Better Ad Creative Or Marketing Technology?

All of these tactics come with costs. To improve your creative, you have to hire an agency. To optimize your bidding, targeting, or retargeting, you have to invest in a marketing technology solution.
Unless you have an infinite ad budget, you'll have to be strategic with where best to spend your budget to get the best possible ROI.
Here are some tips for deciding.

Who should invest in better creatives?

Better ad creatives work best for **industries where there's a wide target audience** for a product everyone needs. For these products, your main sales driver will be your branding and your ad content.

Take running shoes as an example. Almost everyone needs running shoes, so whether I buy Nike, Adidas, or New Balance comes down to branding.

For these products, the best strategy is to get your audience's attention and clicks with a stellar ad creative (such as celebrity or influencer endorsements) and then close the sale with retargeting

Wide target audience industries

- *Electronics*
- *E-commerce*
- *FMCG*

And who shouldn't?

In industries with repeated purchases where you have to hook your audience with a strong offer the product and price offerings are far stronger drivers than ad creatives.

For example, meal kit ads often advertise a certain number of free meals with your first order. For these advertisers, it's worth it to provide a discount on the product because of how much the offer improves the click-through and conversion rates. The ROAS is ultimately greater than the cost of discounting the product.

Who should invest in marketing technology?

Industries with long sales cycles

Saas

Real Estate

Automotive

Using marketing technology to optimize your ad targeting is ideal for **industries where identifying the right audience is most important**, such as industries with a small window of opportunity. In these cases, it's about advertising to potential customers even before they're ready to buy.

The best example is **real estate**. In the United States, when someone decides they're going to sell their house, they normally sign an exclusivity contract with a real estate agent within two weeks—promising from 2% to 3% of their home's selling price to the agent. However, if you wait to advertise to that person until the two weeks they're looking for an agent, it may be too late.

For these industries, it's best to use predictive targeting. Selling your home is normally driven by changes in your life, such as retirement, getting a better job, losing your job, or your kids going off to college. These behavioral changes can be inferred by Facebook or Google, and then used to improve targeting. This requires the right technology to show the right ads to the right people at the right time.

Marketing technology is also ideal for **industries with long sales cycles and large purchases**. For these industries, sales are so few and far between that it's difficult for ad platforms to build a clear picture of your audience, making it difficult to optimize ads for business transactions.

For these industries, you can use marketing technology like **Tomi.ai** to build a picture of your ideal client using first-party behavioral and sales data. You can then use this first-party customer data to better target and optimize your ads.

How would my decision differ depending on the budget?

A smaller budget requires better targeting optimization.

With a small budget, you have to narrow your audience, cherry-pick the right impressions, and then retarget to people who click your ads.

If you have a higher budget, you can invest in a great creative, which has a high upfront cost, but can have long-term gains, as it's a fixed cost. However, there's an upper limit on how well an ad creative can work, because ad creatives burn-out with time. At some point, you have to go back to optimization to rotate your creatives and to get the most from your ad spend.

You will surely need all the elements of the conversion mix in place, you can't tune any of them to zero. Just like in a computer strategy game you need stones, wood and clay to erect a building. But their proportions will differ for the businesses of different types.

Improve your ROAS with Tomi.ai

Tomi.ai is a predictive marketing platform that helps you leverage Facebook and Google data to perform smarter ad targeting to drive more paying customers and find new audiences automatically.

Predictive targeting and bidding optimization based on first-party behavioral and sales data show the most significant uplift in long sales cycle businesses like real estate, SaaS, financial services, and EdTech companies.

To see how Tomi.ai can improve your ROAS, sign up for your free demo.

SIGN UP FOR A DEMO

Tomi.ai