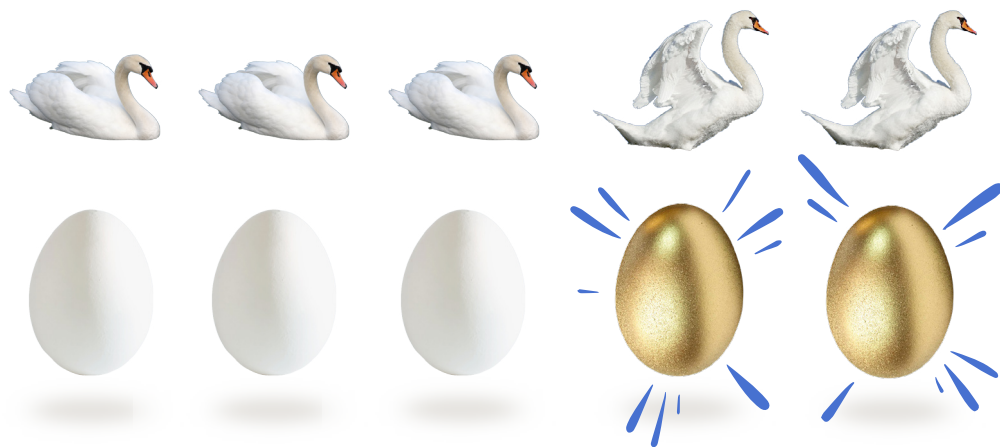# HIGH-VALUE

CUSTOMER
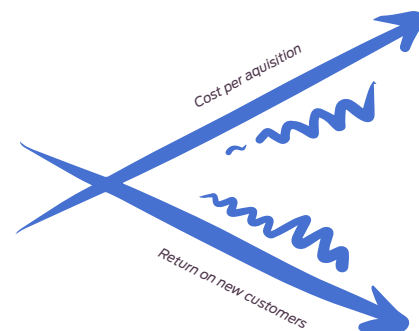
ACQUISITION

ON FACEBOOK

A Step-by-Step Guide

ustomer acquisition has long been an engine of growth for e-commerce retail, especially with the expansion of low-cost digital marketing channels like affiliates and product listing ads.

In the early days of e-commerce, it was a land grab—acquire as many customers as possible, for as cheap as possible. But we've reached a tipping point as e-commerce approaches maturity. Many brands have seen their cost per acquisition (CPA) going up as retailers saturate digital channels to reach new audiences.

At the same time, the return on every new customer acquired is going down—as customers, more price-sensitive than ever, are lured away to low-cost competitors. The way for brands to break the cycle and drive sustainable long-term growth is to focus on acquiring higher-value customers.

E-commerce Shark Graph

Cost per aquisition

Return on new customers

ACQUISITION MARKETING
TODAY

The world of acquisition marketing today is one of highly fragmented channels and tools. Different channels rely on different types of technology and point solutions to optimize around their own metrics—which often differ depending on the role that the channel plays in the path in the conversion. Adding to the

CONFUSION,

channels frequently don't communicate with one another— making it difficult to assemble a "complete view" of the customer.
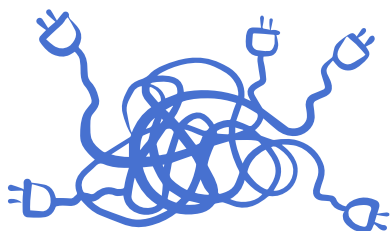
Acquiring higher-value customers is a noble goal—but a goal can be difficult to operationalize when each channel is run by a different channel manager who is measured against different success metrics, and when no single system of record links together user behavior across these different channels to identify high-value customers.

To understand this challenge, take a look at a few major channels — along with sample platforms, optimization technologies, and frequently used success-metrics for each channel.

Channel	Sample Execution Platform	Sample Optimization Technology	Typical Success Metrics
SEM (Search Engine Marketing)	Google Adwords, Bing	Kenshoo, Marin	CPC (Cost per Click), ROAS (Return on Ad Spend)
Paid social	Facebook	Nanigans	CPM (Cost per Thousand Impressions), Cost per Like, Cost per Conversion, ROAS
Affiliate	Commission Junction (CJ)	Commission Junction	Traffic (site visitors), Cost per Conversion, ROAS

However, over the past few years, a solution has emerged: a number of acquisition marketing platforms—most notably Facebook, Google, and Twitter—have realized the tremendous potential locked away in CRM data. These data include insights about which users are most valuable, are interested in different products or price points, and more. And these ad platforms now make it possible for retailers to reach specific users in a 1-to-1 way, much like email has always enabled.

INTRO
TO LOOKALIKE MODELING

What is "Lookalike" Modeling?

As defined in Advertising Age, lookalike models are used to build larger audiences from smaller segments to create greater reach for advertisers. The larger audience reflects the benchmark characteristics of the original audience. More specifically, from a social network perspective, a lookalike audience is an algorithmically-assembled group of social network members who resemble, in some way, another group of members. Lookalike models enable marketers to target a larger audience of prospects that share important characteristics with specific customer segments—segments such as high lifetime value customers, or customers with an affinity for a certain product or promotion.

Customer Emails

Original Audience

Lookalike Audience
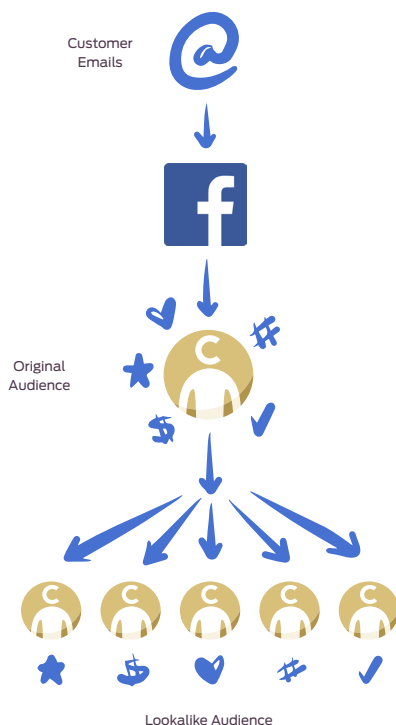
Introducing Custom and Lookalike Audiences on Facebook

Retailers can upload their list of customers, subscribers, or users to Facebook. Facebook cross-references the emails provided with its database and creates a Custom Audience made up of the people on the list who also used that same e-mail to sign up to a Facebook account. The marketer can then target advertisements to just this group. This customer data is pre-hashed prior to upload, and is therefore never visible to Facebook. It only enables the marketer to target the audience.

Even better, marketers can generate something called a Lookalike Audience from a Custom Audience. Facebook will look at all the profile data of the people in the custom audience and create a new list of Facebook users that share similar interests and demographics.

Things to Note When Building a Lookalike Audience Campaign

1 The original 'seed' group is a user list provided by the retailer. This is not interest or behavior targeting.

2 The seed group is identified by email address, phone number, website cookie, or device ID.

3 Marketers don't need to provide any other information about the seed group—just their identifier.

4 The social network runs the algorithm and decides who of their members 'looks like' the seed group using what they know about the seed group members.

5 The marketer does not know why the lookalike group matches the original group. The algorithm is proprietary and secret.

6 Marketers are not given access to the names on the list, but they can deliver ads to them as a group.

WHY SHOULD YOU
USE LOOKALIKE MODELING?

Lookalike modeling is proven to significantly improve online advertising results. A study by Exelate found that:

Lookalike modeling "results in double or even triple the results of standard targeting, according to the 30 percent of advertisers and more than half of agencies who reported using the tactic." — Exelate Study

CROCS
CASE STUDY

The Challenge

Crocs is one of the fastest footwear retailers to reach one billion dollars in sales, hitting the one billion mark in less than ten years. Crocs has always been a data-driven brand, taking care to implement a strong identity solution in order to deliver relevant marketing messages at every touchpoint.

The casual footwear industry, however, is both a crowded and shrinking market. There are over 1000 brands in Crocs' competitive set, and according to NPD, casual shoes sales declined by 9% in 2016. In this challenging environment, Crocs determined that the best strategy for continued growth was to take market share from other players in the casual footwear market.

Ben Hemphill, VP of Global Digital Marketing, Analytics, and CRM, knew that their performance marketing status quo would not be good enough. His world class marketing team had hit a plateau and needed to find new opportunities for revenue and profit growth.

The Solution

Custora's customer analytics platform provided the solution. Custora uses Crocs customer data to build a map of each individual's behavior, then looks across millions of data points for hidden relationships and opportunities—common "stories" or attributes locked within these complex patterns
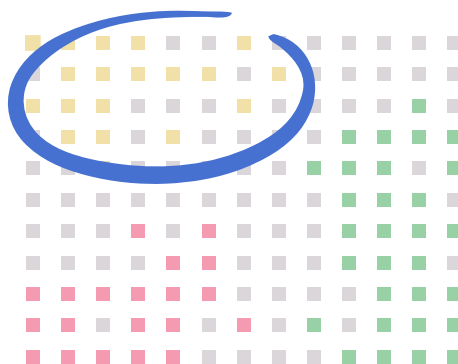
It was exactly the type of advanced, customer-centric approach that Ben had been looking for.

Using Custora, the team was able to utilize predictive models to dramatically improve the results of their performance marketing efforts.

The performance marketing team used Custora to identify their highest predicted lifetime value customers (CLV). These insights enabled Crocs to create a "high value customer segment" and use that segment to target lookalike audiences on Facebook and display advertising (DSP).

Crocs leveraged cookie syncing between their data management platform (DMP) and targeted that audience through their demand side platform (DSP) to deliver ads only to prospects that shared the attributes of their highest value customers. And they utilized Facebook's lookalike audience capability to target a broad group of shoppers that matched the key attributes of their high CLV customers.

The Results

The business impact has been phenomenal. Return on ad spend improved by orders of magnitude over past performance.

HIGH-VALUE CUSTOMER AQUISITION

WITH LOOKALIKE TARGETING

In our experience, one of the best segments for Facebook Lookalike Audience targeting is customers with the highest predicted lifetime value. In order to use Facebook to acquire more high value customers, you need to do five things:

1 CALCULATE
CLV to identify high value customers

2 CREATE
a "High CLV Custom Audience"

3 BUILD
a lookalike audience in Facebook

4 LAUNCH
compelling advertising campaigns

5 MEASURE
results

1

CALCULATING
CUSTOMER LIFETIME VALUE

CLV (Customer Lifetime Value) is a prediction of all the value a business will derive from their entire relationship with a customer. Because we don't know how long each relationship will be, we make a good estimate and state CLV as a periodic value—that is, we usually say "this customer's 12-month (or 24-month, etc) CLV is $x".

Many brands use historical sales performance to measure CLV, but CLV is a future-looking metric. It is the estimated future cash flows that you can expect from each customer. Historical CLV, since it is backward-looking, can produce misleading results when the company, the market, or both have changed. In addition, historical CLV is limited when trying to measure the CLV of customers using new channels or tactics. Luckily, there are several methods that can be used to predict CLV, including extrapolation, supervised learning algorithms, and probabilistic modeling.

If your company is lucky enough to have a data science team, that team has likely built CLV models that you will need to access for lookalike targeting. If not, you will want to invest in a solution like Custora which will accurately predict CLV for each customer based on advanced statistical methods like Bayesian Inference and Pareto/NBD.

If you would like to learn more about predictive models for calculating CLV, please check out the very comprehensive overview in Custora U.

2

CREATING A
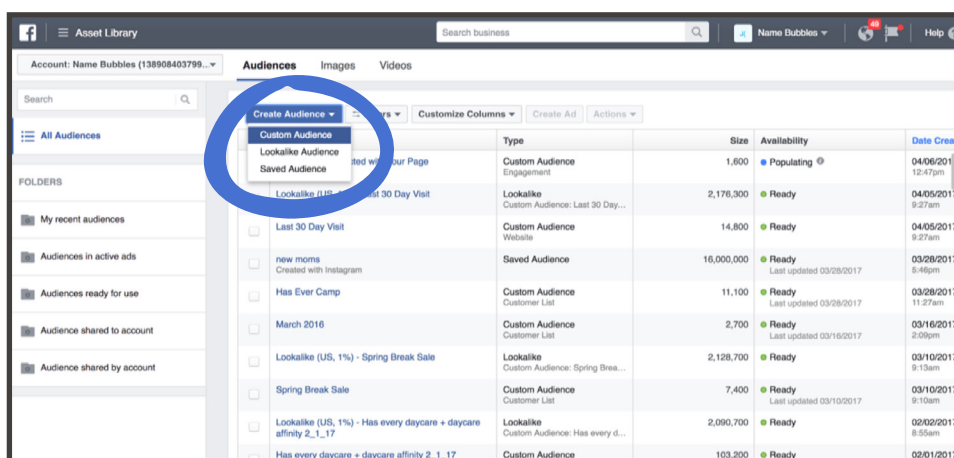# "HIGH CLV CUSTOM AUDIENCE"
IN FACEBOOK

Once you have created your "high CLV" customer segment, you will need to create a .csv file of all of the high CLV customers.

Within Custora, you would set up a One-Time Campaign (or Recurring Campaign) focusing on Future High-Value Customers: Platinum, Gold, and Silver (i.e., the top 10%), with "send options" set to Extract. Because this is an acquisition campaign where results measurement is not incremental based on a holdout control group, there is no need to use a control group.

1. The next step involves going into the Facebook Business Manager. Using the hamburger menu in the upper left hand corner, simply go to "Audiences" in the dropdown.
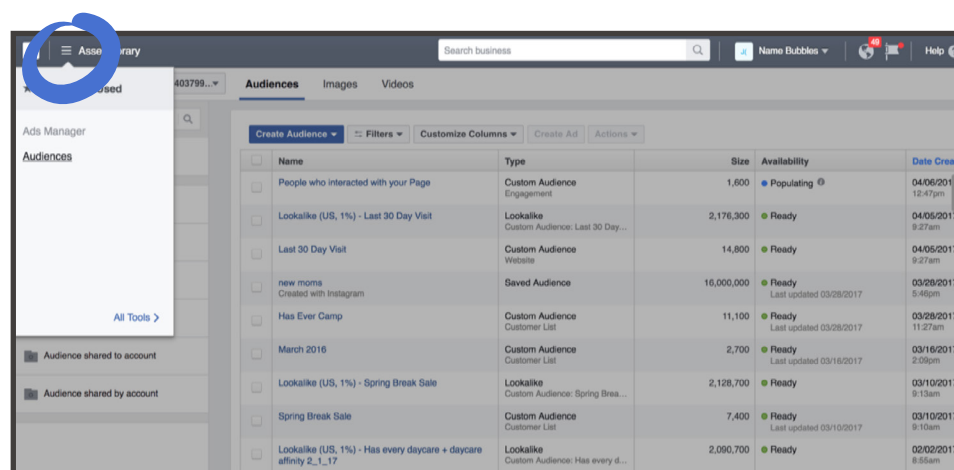
2. Once in "Audiences," select "Custom Audience" from the Create Audience dropdown:

3. You will be guided through a flow that will ultimately prompt you to upload a customer file with identifying information including, at a minimum, email address:
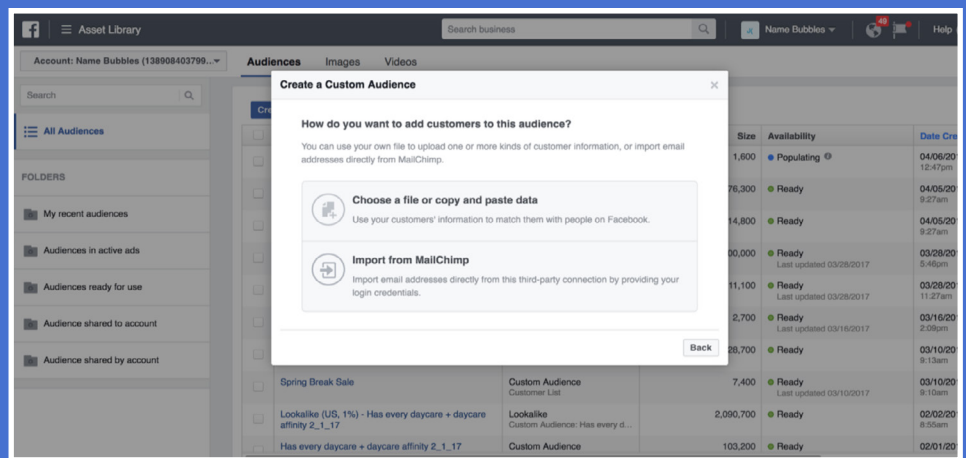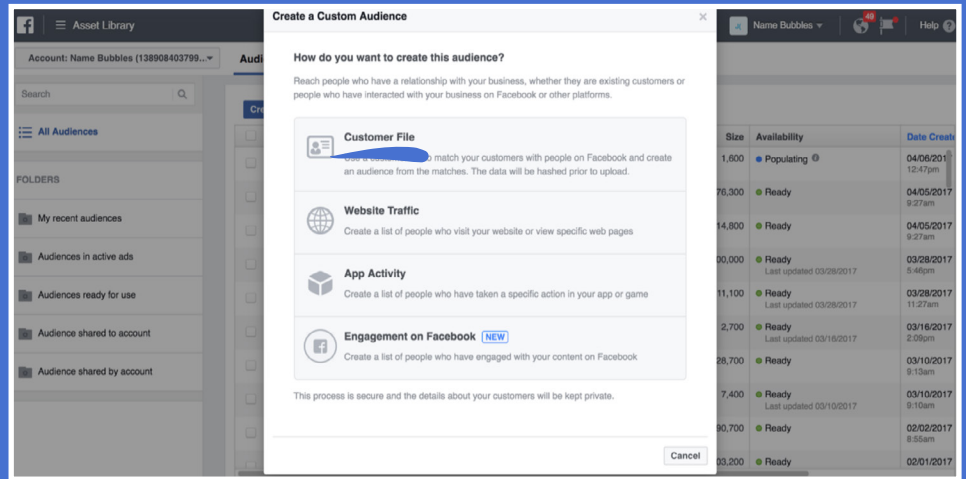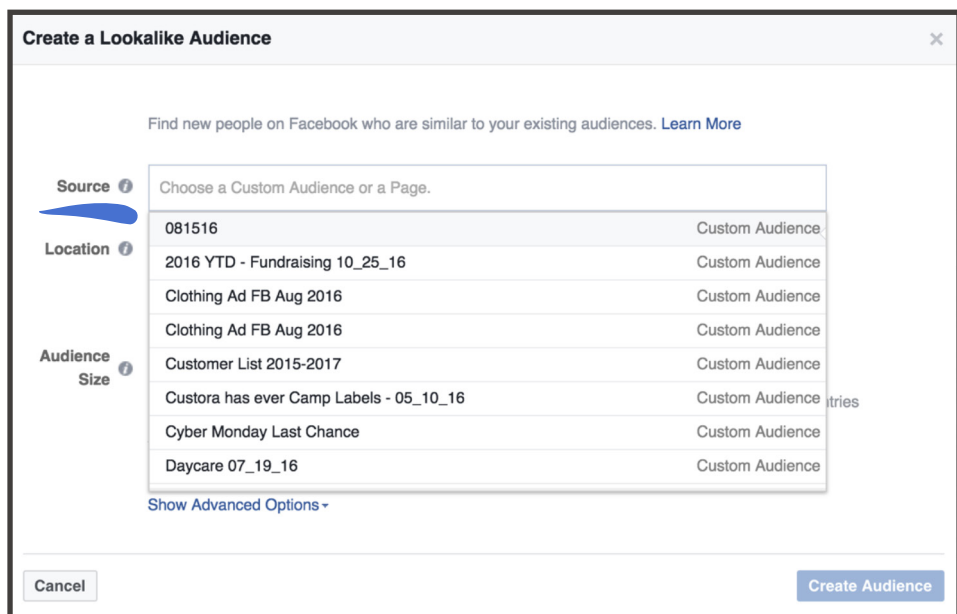
CREATING A
LOOKALIKE AUDIENCE

3

Once you have named the audience and uploaded your file, Facebook will begin processing the data to match recognized users on the platform. (This may take a few hours).
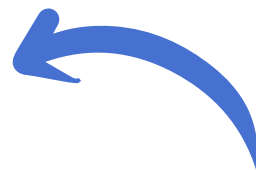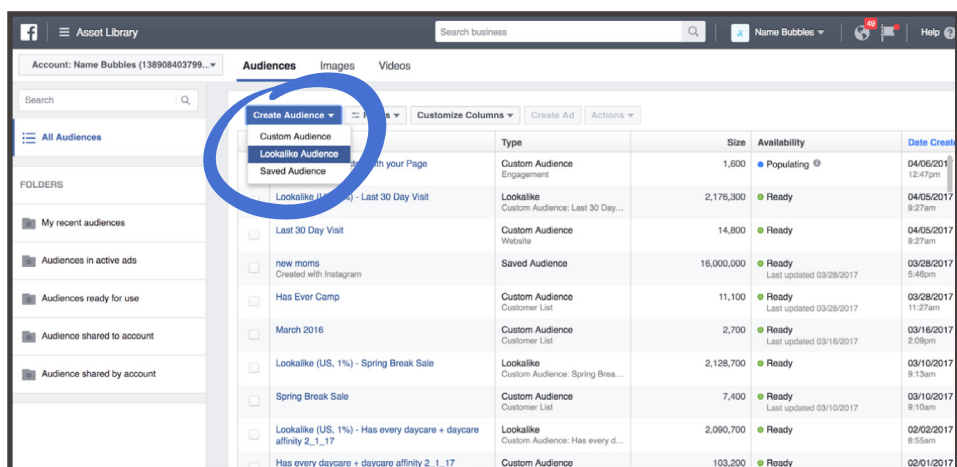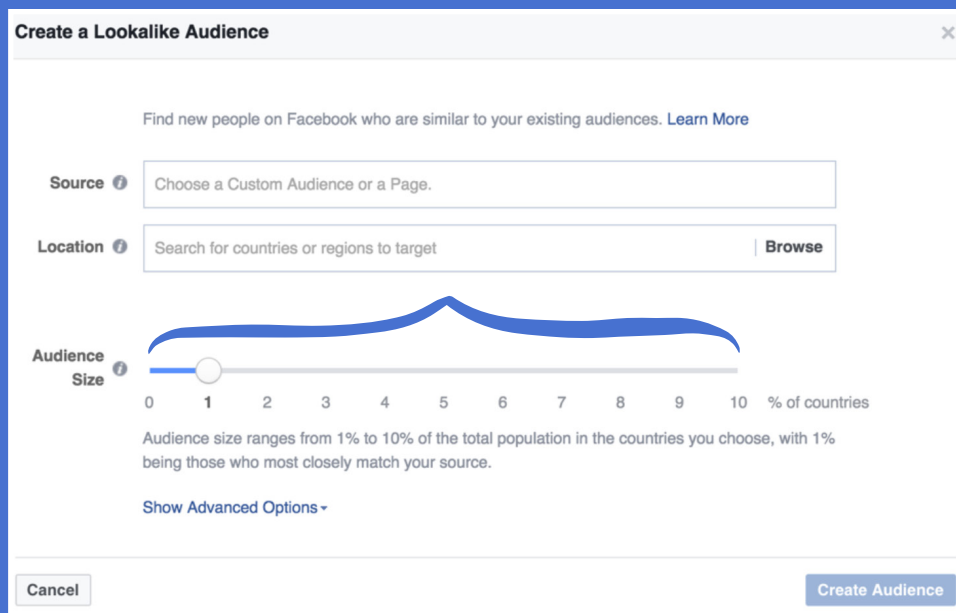

1. When the availability on the audience landing page toggles from "populating" to "ready," you will want to select Lookalike Audience from the Create Audience dropdown:

2. You'll then be prompted to select a source for the Lookalike list. Simply select from the dropdown the Custom Audience that you just uploaded:

After selecting a source, you'll finally be prompted to indicate how "narrow" v. "wide" you want to make the acquisition targeting. Narrower targeting may mean more a relevant audience (i.e., Facebook will be seeking out customers who have a lot in common with the uploaded Custom Audience), but at the cost of a higher CPM or CPC. A wider audience will mean potentially less well-qualified traffic, but at a more reasonable cost.

3. Ultimately, the choice of how restrictive to make the lookalike targeting will depend on the retailer's budget and goals. Many retailers start with multiple lookalike groups, some narrower and some wider, to learn which will deliver the best results.

4

CREATING A
COMPELLING MARKETING CAMPAIGN

Deep customer insights are the secret to creating compelling advertising creative. In this case, these insights might include information on high-value customers' demographic attributes, product preferences, or other facets of their behavior (price sensitivity, return behavior, etc.). The goal is to discover who your high-value customers are and what makes them unique—with an eye to building ad creative that will appeal to them. For example, if a retailer knew that their highest-value customers are fashionistas from Los Angeles, they would design an experience that would appeal to these shoppers.

Custora customers can use "Segment Insights" within the platform to glean actionable intel on their highest CLV customers to inspire campaign ideas. They can learn, for example, that their highest value customers are disproportionately likely to be married women in their 40's and 50's, clustered in southern cities like Austin and Houston. And they gravitate towards denim pants—inspiring your team to create a "southern belle" themed campaign.

Finally, it is time for the retailer to launch a Facebook advertisement focused on this lookalike audience. The protocol for launching Facebook campaigns should be familiar to the retailer or the agency liaison—the process involves specifying ad formats, ad networks (e.g., Facebook only, Facebook + Instagram), devices, and setting a budget for the duration of the campaign. Once all of these specifics have been attended to, it's time go ahead and launch the campaign.

YEEHAW!

MEASURING
THE RESULTS

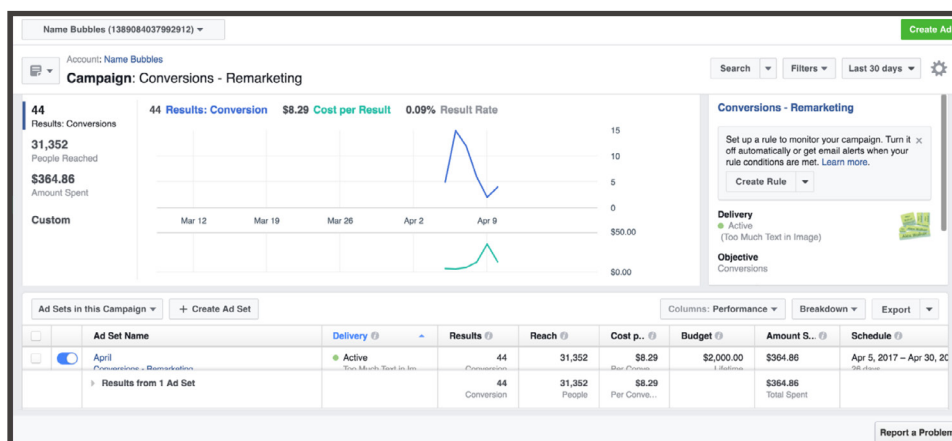Once the campaign has been launched, you should be able to view results within Facebook's Ads Manager.
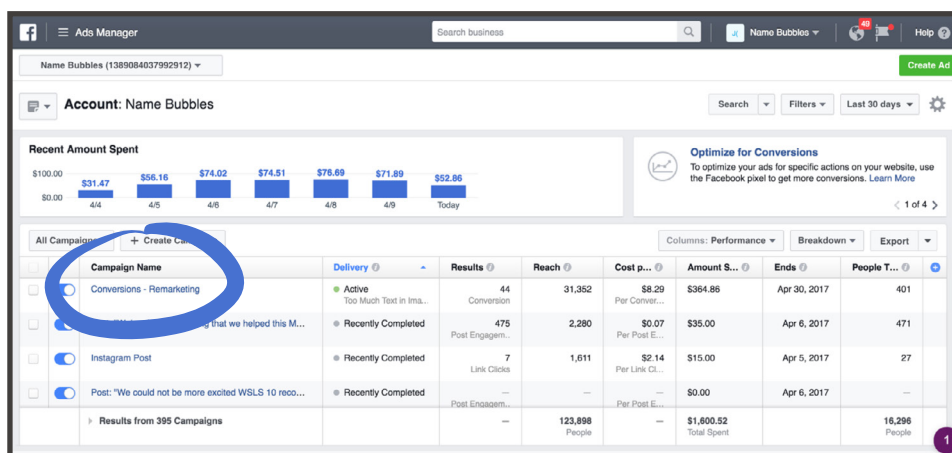
Click on any ad campaign to see detailed results.

By default, you should be able to see campaign metrics like total reach and budget spent to date; if the retailer has the Facebook conversion pixel installed, they should be able to see performance metrics like cost per conversion and, ultimately, ROAS.

Measuring the Results (continued)

Success for the High-Value Customer Acquisition campaign is based on the ROAS reporting tools within Facebook. You will typically evaluate the performance of lookalike segments against the performance of similar segments in past campaigns.

ROAS Before Lookalike (based on demographic targeting in Facebook)	ROAS With Lookalike (based on predictive high-value customers
0.75x	3.90x

ROAS is defined based on the revenue spent by customers who either viewed the advertisement, or clicked on the advertisement—and the attribution window may vary. For example, one retailer may choose to give Facebook credit for the purchases of any users who saw an advertisement and then went on to purchase within the next week. Another retailer may choose to only give credit for customers who actually clicked on the ad, but may have a more lenient 28-day click-through attribution window.

These are matters of preference for individual retailers. The most important thing is that the retailer is comparing the ROAS from lookalike-powered campaigns with that of their next-best high-value customer acquisition alternative in an "apples-to-apples" way.

The execution lead on the retailer side should continue to monitor these results weekly within Facebook Business Manager to ensure strong performance. A recommendation from leading performance marketers is to focus the campaign creative and call to action on key events onsite—e.g., strong promotions, new arrivals, etc. The retailer should also refresh the Facebook list regularly with the most up-to-date high CLV customers.

On a quarterly cadence, the entire team should reconvene to

REVIEW

results, refresh insights on high-value customers, and plan out budgeting for the coming quarter.

For Custora customers, the success of High-Value Customer Acquisition is measured differently from the test-and-control approach for other Custora solutions (e.g., churn prevention). The difference stems from the fact that most Custora campaigns are focused on communicating with existing customers, where it's easy to carve out a control group from a given segment to benchmark how that segment would have responded in the absence of a marketing message. In contrast, an acquisition campaign is focused on reaching customers who aren't currently part of the customer base—meaning there's not a ready way to measure the incremental impact above a controlled benchmark of known customers.

CALENDARS.COM
CASE STUDY

The Challenge

Calendars.com, the leading global retailer of calendars, uses Custora to optimize around the unique dynamics of their business. Faced with steep seasonality and an assortment of niche merchandise including toys and games, Senior Director of Digital Marketing, Marcia Oakes, knew that she needed an advanced analytics partner to help her drive digital growth.

"We needed to find ways to make our business more stable and evergreen by increasing sales of non-calendar products," says Oakes. "But when we tried to promote those categories, we found that we were fatiguing our email list and not seeing a compelling return in paid marketing channels.

The Solution

Using Custora, Calendars.com was able to uncover hidden patterns in their customer data. Harnessing the power of machine learning to identify predictive affinity segments Calendars.com was able to identify customers most likely to be interested in niche product categories - even if they had never made a category purchase before.
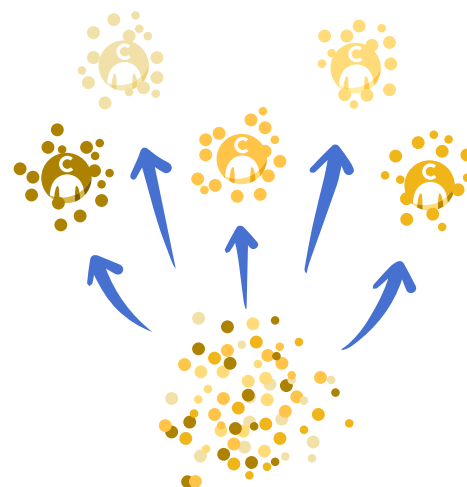
They then uploaded the affinity group file into Facebook Custom Audiences so they could advertise their new products to the people most likely to be interested.

Even better, they generated a Lookalike Audience from this Custom Audience. Facebook Lookalike Audiences used algorithms to examine the profile data of the people in the Calendars.com affinity segment and created a new, larger list of Facebook users that share similar interests and demographics.

The Results

The business impact has been phenomenal. ROAS improved by 10x over past Facebook paid advertising performance, and Calendars.com was able to maximize demand from the customer file without exhausting customers.

"Custora helped us reach exactly the right customers with a message that was perfectly tailored to their interests and needs," said Marcia Oakes. "With the help of Custora's advanced customer segmentation platform we've been able to uplevel our entire marketing program."

TAKING A
SYSTEMATIC
APPROACH TO HIGH VALUE LOOKALIKE TARGETING

Facebook is not the only social network that enables lookalike targeting. Google and Twitter also allow you to use your own customer data to create audiences and target across channels to acquire customers that look like your most valuable customers. And leading Data Management Platforms (DMPs) enable cookie matching and lookalike targeting with a CRM audience segment. Given the superior performance of lookalike targeting and the fast growing capabilities across digital channels, it makes sense to invest in a system that automates the identification and sharing of high value audiences. If you'd like to see how this is done in Custora, please reach out.

We love to show off our platform.
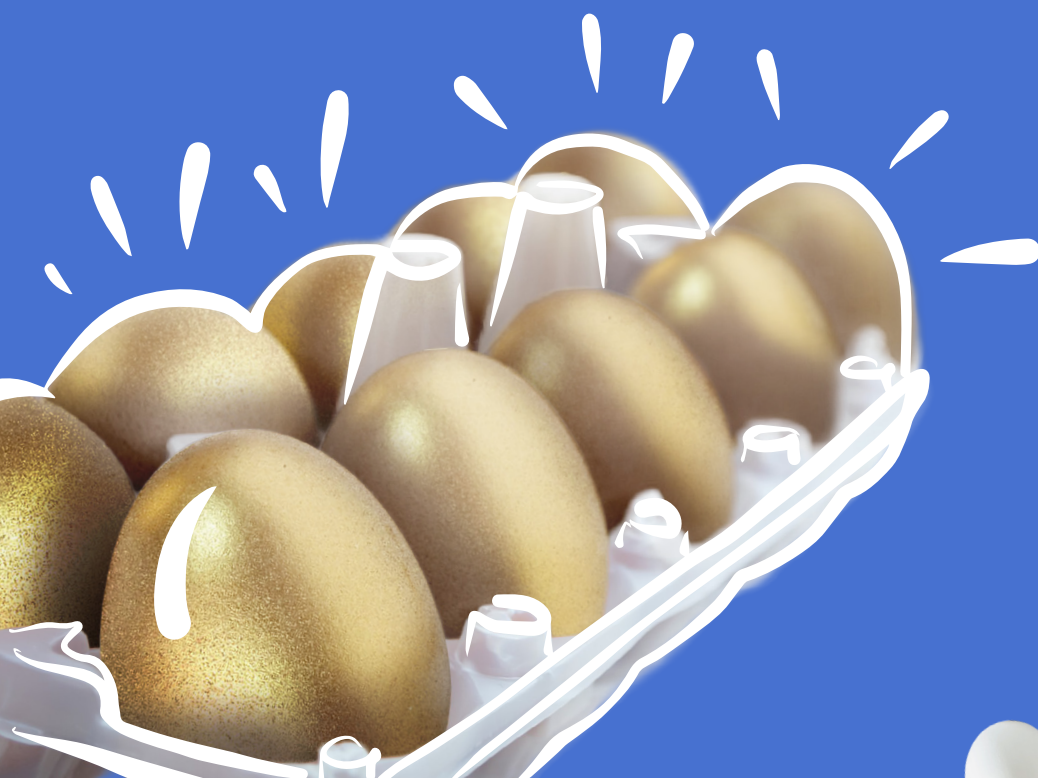
ABOUT

CUSTORA

Custora is an advanced customer segmentation platform powered by predictive analytics. Purpose-built for retail, Custora helps marketers improve the ROI for their email, display, direct mail, and Facebook campaigns.

Custora surfaces powerful customer segments (like predicted spend and product affinities), integrates directly with other marketing platforms for executing more effective acquisition and retention campaigns, and measures how every campaign improves customer lifetime value.

Over 100 brands including Ann Inc., Lucky Brand, Tiffany & Co., Crocs, and Teleflora use Custora to improve new customer conversions, grow revenue from existing customers, and improve team efficiency. Six of the top 20 largest North American retailers use Custora's Advanced Segmentation Platform.

CLICK THE GOLD EGG TO SCHEDULE A DEMO