

An executive report from Internet Retailer

internetRETAILER[®]

SEPTEMBER 2016

portal to e-commerce intelligence

Getting PERSONAL

Retailers' digital marketing spending keeps rising. Internet Retailer's second annual digital marketing survey examines where that money is flowing, and why.

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Breaking through the Noise

Covering e-commerce, an industry that grows roughly 15% every year, it's easy to take rapid growth and change for granted. But lately, I can't help but marvel at just how quickly the ways in which retailers can drive consumers to buy is changing.

Take Pinterest Inc., which rolled out its first ads on Jan. 1, 2015. Less than two years later, just about every week it seems the social network introduces some new ad format and tool that uses the lessons it learned from the ads offered by Google, Facebook, and others, to put its own spin on proven ad formats like video ads. When a user clicks on a Pinterest video ad, for example, it opens up the social network's native video player and, underneath the video, are the advertiser's promoted pins featuring products shown in the video. That's a clever trick that plenty of retailers could use to build brand awareness and, perhaps, drive a sale.

Pinterest is far from alone in presenting retailers with new tools to add to their arsenals. Facebook, Instagram, Google and the like are all in a sprint to roll out new ad formats and new tools to help marketers drive consumers to buy (and, to a lesser extent, help marketers build buzz about their brands). And there's a common thread across nearly every digital marketing development: The ads seek to draw shoppers in by appealing to whatever it is that a shopper is interested in. Personalization, of course, is not new. But the better retailers understand who their customers are and what messages will resonate with them, the better online advertising is for everyone (or, I should say, for the majority of consumers who don't use ad blockers). After all, regardless of whether they'd admit it, most shoppers would prefer to see an ad from a retailer that they've bought from—or may be inclined to buy from—than from one that sells products that are totally irrelevant to them.

In Internet Retailer's second annual digital marketing survey, the results of which are included in this special report, we examine how online retailers are adapting to the rapidly evolving digital marketing landscape. In particular, we report on how retailers' budgets are changing, as well as where and how they're spending those dollars. And while it is easy to get caught up in the "next big thing," it's worth noting that for all the attention paid to flashy channels and techniques like social media and programmatic ad buying, retailers report that no channel produces a better return on their investment than email.

Zak Stambor
Editor, Online marketing

Changes ahead

Retailers' digital marketing budgets are soaring. Here's where that money is going.

By Zak Stambor

Few retailers send more marketing emails than Neiman Marcus Group LLC Ltd. The multi-channel 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 desktop traffic to NeimanMarcus.com, according to SimilarWeb Ltd. And that traffic comes at a relatively low cost, given that it costs little to send email.

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 was named by 16.1% of respondents. That's not surprising given that email is cheap and effective; on average, every dollar a marketer invests in email marketing generates an average return of \$38, according to marketing automation platform GetResponse's "2016 State of Email."

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.

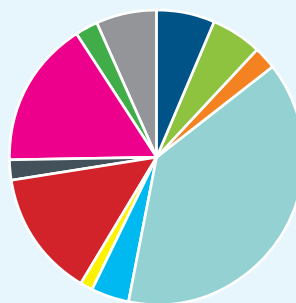
"We're known for our high-touch sales associates who help ensure that our customers have a good experience," he says. "We're trying as hard as we can to extend that high-touch experience to the digital world so that we can provide a personalized experience to shoppers, regardless of how they interact with us."

Neiman Marcus has been on a significant 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.

Of course, it isn't just email where retailers are spending more; 63.5% of respondents increased their overall budgets this year—including 27.9% of all respondents who boosted their spending more than 20%. That growth is in line with a broader trend: U.S. retailers' digital ad spending jumped

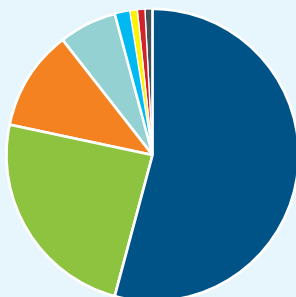
Which marketing channel gives you the best return on your investment?



| | |
|-----------------------------------|-------|
| ● Affiliate | 6.5% |
| ● Content marketing | 5.6% |
| ● Display | 2.4% |
| ● Email | 38.7% |
| ● Google/Bing Product Listing Ads | 4.0% |
| ● Mobile app download ads | 1.6% |
| ● Paid search (desktop) | 13.7% |
| ● Paid search (mobile) | 2.4% |
| ● Social media | 16.1% |
| ● Video | 2.4% |
| ● Other (please specify) | 6.5% |

Percentages do not total 100% due to rounding.
Source: Internet Retailer, 2016

What percentage of your overall marketing budget is dedicated to email marketing?



| | |
|--------------|-------|
| ● 0-10% | 54.4% |
| ● 10.01-20% | 24.0% |
| ● 20.01-30% | 11.2% |
| ● 30.01-40% | 6.4% |
| ○ 40.01-50% | 0.0% |
| ● 50.01-60% | 1.6% |
| ● 60.01-70% | 0.8% |
| ● 70.01-80% | 0.8% |
| ○ 80.01-90% | 0.0% |
| ● 90.01-100% | 0.8% |

Source: Internet Retailer, 2016

14.9% last year—to \$15.09 billion from \$13.13 billion in 2015—according to eMarketer Inc. The research firm expects spending to rise another 12.3% this year to \$16.95 billion.

That growth will likely continue; eMarketer expects spending to shoot up another 14.9% in 2017 and to reach \$23.04 billion by 2020. Some of that growth is from retailers like Ulta Beauty, Kirklands Inc. and Williams-Sonoma Inc. shifting more of their ad spending from print to digital. EMarketer, for example, predicts that digital advertising will account for 38.4% of North American advertisers' ad budgets next year, up from 35.9% this year. And there's plenty of room for growth. After all, 34.4% of Internet Retailer survey respondents said digital advertising accounted for 20% or less of their overall marketing budget.

Internet Retailer bases its findings on the anonymous responses of 127 participants who completed an online survey in late August. These e-retail marketers are spreading those dollars across a variety of digital channels, including email, paid

search, social media and content marketing to try to boost brand awareness and drive sales. Figuring out the right marketing mix is challenging but crucial because costs across many marketing channels are steadily rising.

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 sold \$112.8 billion on its U.S. site last year, including sales on its marketplace—that's roughly 33.0% of all U.S. online retail good sales. And it's a 3.8 percentage point gain from a year earlier, which was on top of a 2.6 percentage point gain between 2013 and 2014. 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, 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 that 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 its customers, including what they've browsed and purchased, to craft messages better 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.

Standing out is important because the amount of email consumers receive keeps rising. In the second quarter, for example, retailers sent 14.6% more emails than they did during the same period a year earlier, according to the Experian Marketing Services "Quarterly Benchmark Report Q2 2016."

Retailers should be concerned about that growth, says Andrea Weiss, founding partner of the consultancy O Alliance LLC. "Email is the golden goose," she says. "But retailers have to be careful because if they rely too heavily on it, opt-out rates will grow." While unsubscribe rates actually fell in the second quarter—to 0.08% from 0.11%, according to Experian—the threat is real, she says.

Merchants can lessen the risk by improving their email targeting to only send shoppers messages that they're likely to be interested in. Even relatively simple steps, like personalizing an email's subject line can produce significant results; for example, a personalized subject line boosts retailers' open rates by 23.5%, the Experian report finds. Similarly, triggered shopping cart reminder emails provide a "very high" return, Rosenfeld says, declining to offer details.

"When we look at what emails produce the best returns, the shopping cart reminder emails perform best," he says. "Obviously they're more targeted than other emails, but even controlling for that, they're very high performing."

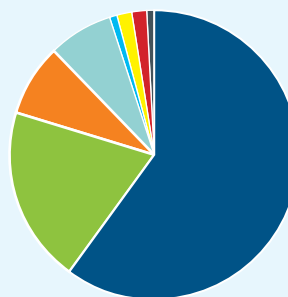
Just as Neiman Marcus has found email to be an effective customer-retention channel, online-only lingerie retailer Journelle has found social media—and Facebook in particular—to be an indispensable customer-acquisition channel. Facebook's robust targeting capabilities has enabled it to find prospective customers at a rate and price that's far more

effective than other channels, says Helen Schmid, the retailer's senior manager of e-commerce.

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% of respondents to the Internet Retailer survey said that social media ads accounted for 50% 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 has worked 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,

What percentage of your overall marketing budget is dedicated to paid social media marketing?



| | |
|--------------|-------|
| ● 0-10% | 60.2% |
| ● 10.01-20% | 19.5% |
| ● 20.01-30% | 8.1% |
| ● 30.01-40% | 7.3% |
| ● 40.01-50% | 0.8% |
| ● 50.01-60% | 1.6% |
| ○ 60.01-70% | 0.0% |
| ● 70.01-80% | 1.6% |
| ● 80.01-90% | 0.8% |
| ○ 90.01-100% | 0.0% |

Percentages do not total 100% due to rounding.
Source: Internet Retailer, 2016

which then 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.

“Facebook has allowed us to find people who are interested in lingerie and high spenders who we otherwise would have missed,” Schmid says. “Paid social is so much more efficient than other channels.”

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

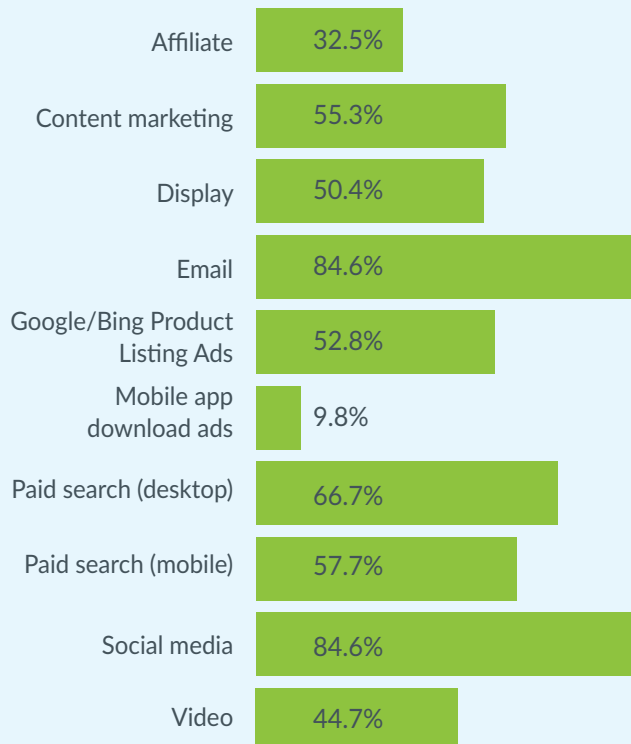
survey or at least isn’t causing them to decrease their use of the channel. 50.4% of respondents said they currently use display ads and 54.4% said they plan to use the channel next year.

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 the ads that 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.

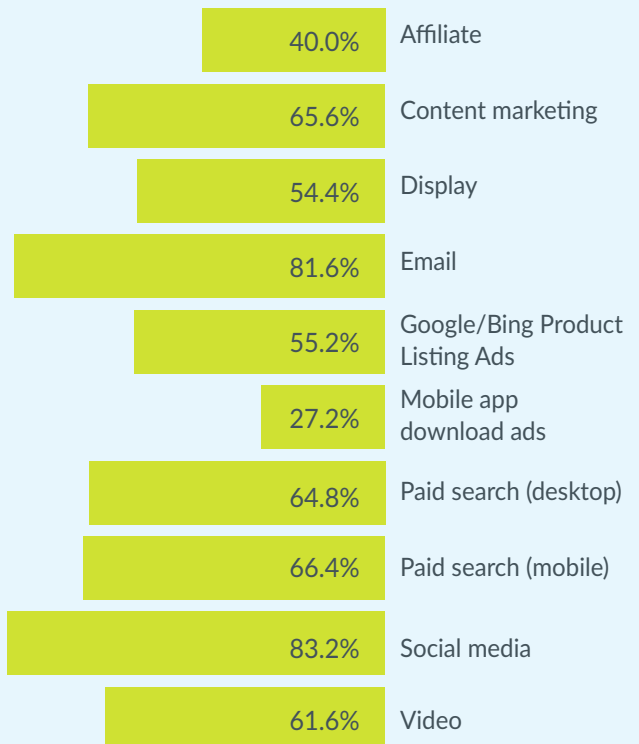
For example, last holiday season the retailer worked with behavioral analytics vendor Qubit to develop “25 Days of Journelle,” which echoed the open-one-window-per-day idea from an advent calendar by rolling out one gift-friendly promotion every day from Dec. 2 to Dec. 25. It then highlighted the day’s offer in Facebook ads.

“The idea was that a single day’s promotion

Which digital marketing channels are you currently using?



Which digital marketing channels do you plan to use next year?



Source: Internet Retailer, 2016

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 "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.

Relatively speaking, driving sales via social media is the easy part. Building long-term relationships via social media is much harder, Altimeter's Li says. "It's one thing to put a promotion out there and drive people to click," she says. "But the brands that really get social media understand that they need to find a way to build bonds with shoppers, to glean who they are. Once it knows what its customers are interested in, it can tailor its messages to them. The game here is for brands to demonstrate to its customers that they know who they are. People often mistakenly call this one-to-one marketing but it isn't. It's about identifying different segments and then tailoring their messaging to those particular groups."

And that's something that virtually all the social networks are seeking to help retailers do. Facebook, for example, regularly adds targeting tools. In September alone, it rolled out the ability for retailers to target ads at consumers who have interacted with a brand's Canvas posts. (Canvas is an HTML5 format that lets marketers break free of the tight text, image or video-centric post constraints that limit what their posts look like and how consumers can interact with them. Within a single Canvas post, for example, a retailer can mix video, still images, text and call-to-action buttons.) Facebook also enabled merchants to target ads at users in new countries who share similar characteristics to users in the countries they are already targeting and launched dynamic ads for retail that let multichannel retailers use their stores' inventory data to present consumers with ads that show items a nearby store has in stock.

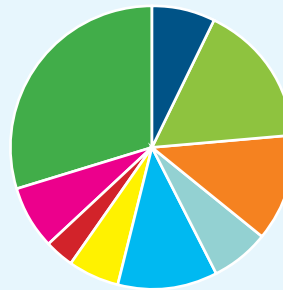
Pinterest, too, has been rolling out new targeting options designed to make its ad options more appealing to retailers. In August, for example, it began allowing retailers to target consumers who have interacted with the merchant's pins, as well as letting merchants target shoppers who have taken

specific actions on their websites. For instance, the social network's new engagement retargeting allows retailers to target ads at consumers who have saved, clicked, or tapped on the merchant's pins within the past 540 days. Merchants can retarget shoppers based on whether a shopper engaged with a promoted pin, which is a native ad unit on the platform, or a pin that a merchant didn't promote.

"When retailers are able to combine the data that social networks gather about their users with the information that they know about their users, it can create an incredibly powerful tool," Li says. The numbers bear that out; a report from social media advertising firm Nanigans that examined 20 of the highest-spending e-commerce and game advertisers that used its platform over the past year, says the average return on its clients' Facebook ad spend grew 75% in the second quarter. In turn, those strong gains led Nanigans' advertisers to increase their Facebook ad spend 200% in the second quarter.

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

How much did your digital marketing budget change?



| | |
|------------------------|-------|
| 1-5% | 7.4% |
| 5.01-10% | 16.4% |
| 10.01-15% | 12.3% |
| 15.01-20% | 6.6% |
| 20.01-25% | 11.5% |
| 25.01-50% | 5.7% |
| 50.01-75% | 3.3% |
| More than 75% | 7.4% |
| Budget didn't increase | 29.5% |

Percentages do not total 100% due to rounding.
Source: Internet Retailer, 2016

Getting your advocates talking with referrals

People are more likely to trust a friend than to trust someone who's trying to sell them something. So when a consumer recommends a product to his friends and family, it carries more weight than when a retailer tries to make the same pitch.

"The trusted voice of a consumer is powerful," says Chris Duskin, vice president of marketing for Extole, a customer advocate platform. "It cuts through the noise, it is associated with the trust you have in the relationship, and there's a social dimension to it."

Getting those kinds of endorsements starts with having a marketing platform that enables brands to identify the consumers who have the biggest social reach and influence, and the people who are also driving the most revenues through recommendations.

Retailers are challenged to break through with prospective customers for several reasons. It might be because of ad blockers, or because previously effective marketing emails are now getting lost in shoppers' crowded Gmail "promotions" tab. Or, it might just be that the modern customer is distracted.

"It's increasingly difficult to have your message received," Duskin says. "At the same time, we see that the world is increasingly social."

One aspect of living in a more social, digital world—which crosses from desktops to mobile devices in consumers' pockets—is that it presents big opportunities for brands to market to customers who grant them access to their own social conversations.

Duskin says retailers should persuade existing customers to not only write a review on their site, but also recommend the brand to their friends. "When that behavior is encouraged, it becomes part of the way that consumers experience your brand, and it becomes scalable and effective," he says.

One such example is Ulta Beauty, which uses the Extole platform to run its referral program. Customers who join Ulta's loyalty program through a referral have 50% higher order values than loyalty program members acquired through other channels.

Another payoff from referrals is that not only are consumers more likely to take a friend's advice about which products to try out, but the shoppers who do click

and buy tend to be better customers. "They tend to spend more. They tend to buy more frequently. They tend to be more loyal. And they tend to make recommendations to their friends at a rate that is much higher than the rate of recommendation from other channels," Duskin says.

Referral programs through large brands such as Amazon.com Inc. and Uber Technologies Inc. are gaining prominence. And now that more consumers are recommending products to their friends, these consumers have come to expect brands to give them the capability to share, and they expect to be rewarded when they do something good for the brand.

"It's no longer a question of whether your customers will make these recommendations to their friends, but it's a question of whether you'll let them," Duskin says.

The Extole platform helps lift the barriers to sharing, making it easier for consumers to make recommendations via email, Facebook or by sharing a referral code. It also enables retailers to market across different devices and channels. "That capability is critically important to making sure that we reach every customer when there's an opportunity for them to share," Duskin says.

Moreover, the Extole platform makes it possible to make IT-free changes to copy, creative and messaging as the brand experience evolves throughout the year.

While the world of growth through paid traffic acquisition continues to progress, retailers are learning that they can use these changes to their advantage.

"The retailers that we're working with see that there's a huge opportunity to engage with their customers—not just in the day-to-day of serving their needs, but also in their marketing efforts," Duskin says. "I think that's where the focus is for retail, and that's certainly why our business is expanding so rapidly."

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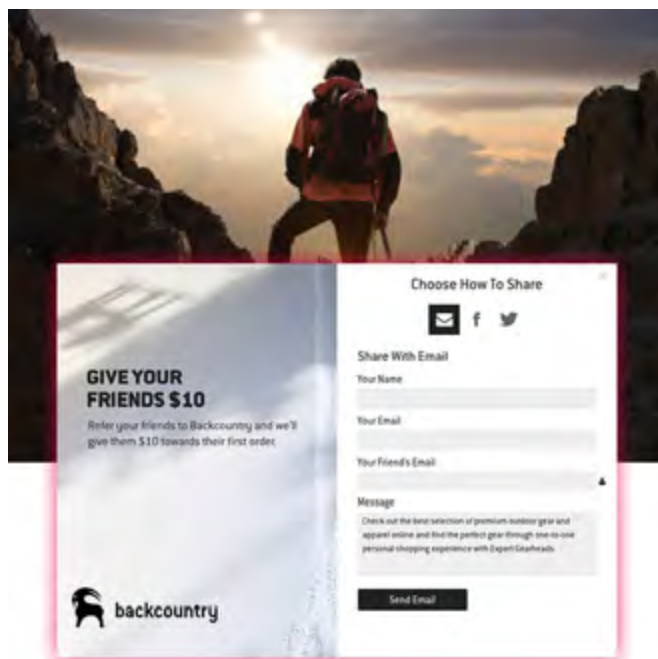


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their spending on Google Shopping ads next year, 38.0% plan to spend more on mobile paid search ads and 16.5% plan to boost desktop paid search ad spending.

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 boost PLA click volume 73% year over year in the second quarter, 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 7% in the second 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 their phones and tablets: 56% of searches at the largest U.S. websites stem from mobile devices, according to SimilarWeb. 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.

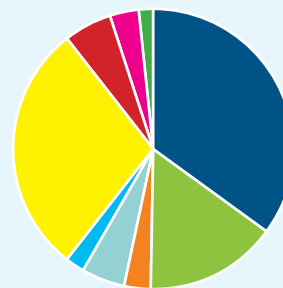
Teleflora receives about 45% of its site traffic from mobile devices—and that percentage rises around peak holidays such as Valentine's Day, Mother's Day and Christmas. "People are more prone to shop for flowers on their phones when they realize they have an urgent need," says Beth Monda, the retailer's 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%.

How has your paid search spending changed over the past year?



| | |
|----------------------------|-------|
| ● Increased 0-25% | 35.2% |
| ● Increased 25.01-50% | 15.2% |
| ● Increased 50.01-75% | 3.2% |
| ● Increased 75.01-100% | 4.8% |
| ● Increased more than 100% | 2.4% |
| ● Stayed same | 28.8% |
| ● Decreased 0-25% | 5.6% |
| ● Decreased 25.01-50% | 3.2% |
| ○ Decreased 50.01-75% | 0.0% |
| ○ Decreased 75.01-100% | 0.0% |
| ● Decreased more than 100% | 1.6% |

Source: Internet Retailer, 2016

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 (it brokers orders to local florists for delivery).

“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, Monde 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.

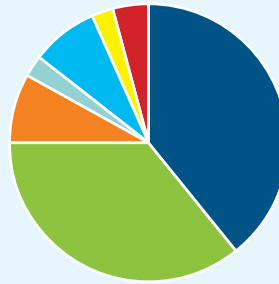
“It’s hard,” Monda says. “I think the right approach is to know our limitations but to keep trying.”

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 multipronged lead generation campaigns that span mobile, social and web campaigns that seek to convince shoppers to sign up for a free trial of its software, which requires a shoppers to provide his email address.

Gathering information like an email address enables Rosetta Stone to be “smart” about how it targets consumers with ads, says Caitlin Romig, the

Which statement best describes your confidence in your ability to track consumers as they move between devices?



| | |
|--|-------|
| ● We cannot track consumers across devices. | 39.2% |
| ● We can track some consumers, some of the time. | 36.0% |
| ● We can track some consumers, most of the time. | 8.0% |
| ● We can track most consumers, some of the time. | 2.4% |
| ● We can track most consumers, most of the time. | 8.0% |
| ● We can track all consumers, some of the time. | 2.4% |
| ● We can track all consumers, all of the time. | 4.0% |

Source: Internet Retailer, 2016

retailer’s senior manager, digital marketing-global consumer. Over the last two years it has shifted ad dollars from offline channels like TV to digital because digital ads are more trackable.

Rosetta Stone’s language learning software is an expensive, considered purchase; its French, German and Spanish software, for example, cost \$249. That means that shoppers often poke around RosettaStone.com several times before they click and 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

What percentage of your overall revenue do you dedicate to digital marketing?



| | |
|--------------|-------|
| 0-1% | 17.6% |
| 1.01-3% | 26.4% |
| 3.01-5% | 20.8% |
| 5.01-7% | 10.4% |
| 7.01-9% | 4.8% |
| 9.01% and up | 20.0% |

Source: Internet Retailer, 2016

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.

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 research firm eMarketer Inc. That’s a 39.7% jump from a year earlier.

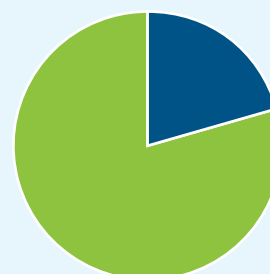
Even so, Rosetta Stone is among the minority of online retailers that buy ads programmatically. The Internet Retailer survey finds that only 20.8% of respondents buy ads that way. Perhaps that isn’t surprising given that a 2015 Forrester Research Inc. report found that 41% of marketers said that they were either unaware of, or didn’t have a clear understanding of, programmatic buying. Only 23% said that 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 the O Alliance’s Weiss. “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, they’re getting results.”

Of course, to make programmatic ad buying work, retailers have to know their customers’ well, Altimeter’s Li adds. “In order 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.

Do you use programmatic buying?



| | |
|-----|-------|
| Yes | 20.8% |
| No | 79.2% |

Source: Internet Retailer, 2016