Episode 64, November 2024

What will switched-on finance teams be doing this peak season?

Organising the governance, data availability and standards of evidence behind making near-real time investment decisions

Preparing the dynamic benchmarks for return on ad spend, and being ready to take on variable results...investing early and reconciling to higher unit marketing costs

Investing through the full marketing funnel, leaning on consistent and complete attribution and mix criteria...looking for 'headroom' where incremental spend will do well...being more effective by staying outside the big tech 'walled gardens'

Getting operationally ready with up to date and fit for purpose data, compute resource, product feeds and online checkouts

In this episode of **Aggregators** *I pass on some of the best practice and innovations in online retail that I've learnt about from engaging with commercial finance teams and marketeers over the last few months.*

The peak season from Black Friday and Cyber Monday (BFCM) through to Christmas is the time when the need for finance and marketing to collaborate is at its height, particularly in online sales, where the 'instant' returns on performance marketing can either make or break the profitability of the whole year. In a recent episode of **Aggregators** I made some predictions as to what this peak season's winners and losers would look like in respect of timing, discounts and customer experience. In this episode I'm focusing on the role that finance will play in successful peak season profits.

I'll examine five roles: (i) decision governance; (ii) setting spend levels; (iii) fine-tuning the spend mix over time and between channels; and (iv) operational preparedness.

Decision governance

The use of data to inform near-real time marketing spend decisions is greater than ever, and finance needs to play its part in the governance and resourcing of this.

For many, this will be the first year when Artificial Intelligence tools will be used. I'm taking Artificial Intelligence, in this context, to mean multivariate and real-time analysis of diverse data, using massive compute power and leading to predictions on which automatic decisions will be made, with optional human intervention. Finance will assume the role of resourcing not only the required compute power and data sourcing, but also the training of marketing teams to be able to prompt and respond to Artificial Intelligence tools in order to generate incremental sales. The AI pitches that I have seen are relatively silent on how to source the data that they act upon. The data wrangling experts like *Kleene* and *Adverity* provide data connectors but by and large they don't create the data sources. So finance will need to be alive to any extra spend on establishing data feeds.

Between now and the end of the year, finance teams will be shown a lot of analysis making the case for investing in channels and tools. It can't all be right. Some of the analysis will be bogus or worse - one classic malign case being conversion rate A/B test results based on pre-manipulated traffic. Other channel business cases, whilst internally coherent, will have methodological differences that make them hard to compare between channels - *Google* compared with *Facebook* being the most notable case. Finance will increasingly play the role of arbiter of fairness and consistency between channels, including setting the level of performance uplift that will trigger the leap from business case or test to actual investment.

How much marketing spend will be needed?

So far this year, online consumers in the US, UK and Europe have, by and large, spent more than forecast, albeit generating only modest annual sales growth (and some declines) in key verticals like fashion, homewares, restaurants and grocery. BFCM spend globally is forecast, on consensus, to be between 7% and 10% higher than in 2023. But, in the UK for example, cumulative inflation has raised the price of a typical basket of goods 21% over three years (reports the *Office of National Statistics*). So even more promotional pricing will be needed. In the UK, the Q3 Marketing Bellwether Report from the *Institute of Practitioners in Advertising* heralds further rises in price-promotions, but accompanied by a reduction in online marketing budgets for the first time in four years. This would imply that advertisers are betting consumers will find their Black Friday offers without extra prompting.

If 2022 was a year of squeezed supply and 2023 was a year of squeezed customers, then 2024 has been a year of squeezed marketers. Each year there are more marketplaces and more direct online offerings, which means more shopping around, which means higher customer acquisition costs. *Fospha* quantify these as being 13% higher so far in 2024 than in 2023. This suggests that, taking marketing and promo together, UK advertisers could be spending less in real terms this year. To normalise for inflation and competition for advertising units, one way of setting spend levels is to aim for last year's daily conversion rates in each channel.

Finance should be prepared to invest early. 60% of BFCM offers launched early last year, and further creep is expected this year. Watching competitor offers will be critical, and finance will need to make sure this is appropriately resourced, whether in-house, or through new tools like Pulse from *Deliverect*, which analyses real time offers and availability from competing restaurants in defined catchment areas. Investing early applies to the full funnel, not just conversions to sales. Retailers will be using October and early November for awareness and consideration, and BFCM for conversion (including some delayed conversions through to Christmas. So finance should hold its nerve when seeing low daily Return on Ad Spend numbers (down to, say, 150%) before BFCM, and keep investing so as to harvest much higher numbers (say, 400% and over) in the BFCM period. The period between BFCM and final Christmas delivery dates is one of the shortest there has been, so heavy daily spend in mid-December should be tolerated.

Fine-tuning the marketing spend mix

There are more scaled-up marketplaces than last year, and at the same time, big brands like *Nike* are going more direct. So consumers will do more research and shopping around (63% are visiting multiple websites before buying, says marketing agency *Push*), and also physical touchpoints are making a comeback, impacting 50% of online sales according to *Push*. Attribution of sales to channels has made strides (e.g. solving the identifier differences between *Google* and *Facebook*). But with more touchpoints and with new independent customer identifiers like 'UID2' (developed by *The Trade Desk* and others)

for the first time enabling scaled customer targeting outside Big Tech's 'walled gardens', attribution has to be on its game this peak season to direct advertisers to successful investments.

Many finance teams will be looking for the first time at campaigns outside of the aforementioned 'walled gardens'. Since 61% of online time is now in the 'open' internet, versus 39% in walled gardens - and with *Meta* and *Google* last year attracting less than half of digital ad spend for the first time since 2019 - this is a worthwhile investment, even if this year's set up and learning costs blunt the Return on Ad Spend results.

As the season progresses, marketers will be looking for 'headroom' in newly scaling channels where diminishing returns from incremental spend is as yet not significant. Figures from *Fospha* point to *Snapchat*, *TikTok* and *Pinterest* as strong candidates for in-season top up spend at the conversion end of the funnel. Daily spending plans should make room for discovering such upsides by raising spend significantly during short sections of key trading days.

Operational readiness
BFCM arrangements are by now mostly complete. However, there are some spend patterns that finance and procurement will be looking out for as indications that all is in place.

Stock and product feed data should be linked to ensure promoted products are in stock. Checkout pages should be double-checked in case of BFCM offers creating unexpected conversion rate snags (for example, are promo codes carried seamlessly through to checkout pages without having to be re-entered?)

A/B tests should be concluded before BFCM so that they do not compromise performance. However, BFCM adverts should be deployed early to give enough time for algorithmic learning before they have to start yielding conversions.

Finance is often the bearer of bad news on spending levels, but in this peak season, full investment will be needed in order to get good returns, and finance should play its part in ensuring no corners are cut and no guesses are relied upon.