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# SEARCHING FOR ADDITIONAL VALUE IN FASHION MARKETING



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## SEARCHING FOR ADDITIONAL VALUE IN FASHION MARKETING

Many hidden and often deceptive variables are entwined with the fashion industry. Calculating customer lifetime values, factoring returns, availability, the list goes on.

As retail continues to grow and evolve at record speeds, searching for additional value is becoming increasingly important. Global ecommerce saw more growth during April and May of 2020 than the previous decade, with the US witnessing digital sales jump from [16% to 27%](#), and from [18% to 30%](#) in the UK.

Retail's rapid evolution is pushing brands to keep up with the ever-changing landscape, with an increasing number of browsing methods, devices and lead opportunities being thrown into the mix. Gaining perspective over the true value of your costing and profits is essential for navigating informed and dependable decisions, evolving your strategy into a mature, sustainable paragon.



## MOVING INTO DIGITAL MATURITY

The pace of the past 18 months has compressed several years of digital evolution into several months. As consumers' expectations for more customised outreach continues to grow and the stream of third-party cookies declines, moving closer to your audience and building an agile framework has never been more important.

Developing an efficient digital marketing outreach with more product-specific touch points is key to unlocking and activating your audience. Using data to inform your business-led decisions becomes a catalyst for growth, whilst improving the customer experience.

Google's recent report revealed that more than 80% of the most digitally mature brands say that they have CEO sponsorship for data-driven marketing initiatives. The same report also revealed that companies with high digital maturity are more than twice as likely to grow market share.

Building a virtuous cycle around first-party data, developing true end-to-end measurement across channels and setting up an agile, test-and-learn approach are the core pillars to building trust and maturity into your brand.

Consumers are much more likely to share data with companies they trust. In an effective two-way exchange, you're able to deliver a better customer experience and more effective marketing, whilst the customer gains useful information, assistance and offers.

Nurturing an in-depth understanding of the entire customer journey enables the opportunity to focus engagement to best suit your goals and get ahead of competition. Harnessing an agile working culture focused on immediate actions is the key to reacting to rapid market changes, adapting goals and KPIs in real time.

### **Jonathon Towle – Marketing Director at Thomas Pink**

*“How to get the competitive edge is the biggest challenge. Innovating and creating content to get in front of your audience is key, but also knowing what the audience is interested in.”*



## EXPANDING DATA COLLECTION TO UNLOCK YOUR TRUE ROAS

Identifying the challenges of your industry is key to building a strong, data-driven strategy. Considering the most potent challenges in the likes of low margins, high return rates and customer lifetime value will begin to uncover the true picture of your profits. Elevating above surface level analysis and looking at individual metrics reveals ROI on real business benefits, as opposed to the traditional blended, and often misleading, channel metrics.

Margins, returns and customer lifetime value are three critical factors in the fashion industry. Implementing an item-by-item analysis allows you to better understand the varying profits and losses between products. Every item carries unique metrics which impact your data in ways that is difficult to spot using blended targets.

To demonstrate the issues with ROAS targets and the impact of individual analysis, we have created a table of data based on retail metrics ran at a target of 650% ROAS. In this demo, we have avoided factoring in delivery costs for simplicity, although this is another key factor we take into consideration when working with client data.



CATEGORY	SPEND	REVENUE	ROAS
DRESSES	£193,050	£1,254,825	650%
T-SHIRTS	£135,000	£877,500	650%
SANDALS	£75,000	£487,500	650%
HOODIES	£57,000	£370,500	650%

After gathering the spend, revenue and ROAS, next we establish the impact of taking product margin into account.

CATEGORY	SPEND	REVENUE	ROAS	MARGIN	PROFIT	ROI
DRESSES	£193,050	£1,254,825	650%	20%	£250,965	30%
T-SHIRTS	£135,000	£877,500	650%	26%	£228,150	69%
SANDALS	£75,000	£487,500	650%	29%	£141,375	89%
HOODIES	£57,000	£370,500	650%	31%	£114,855	102%



## MARGINS

Fashion margins are one of the most troublesome challenges out there. From the original cost of goods to what you eventually see in profit, there are many variables that impact the fluctuation of these figures.

It is common for clients to have margins ranging from 25-35% within the same blended ROAS target for several products. This is a 40% increase in profit for the same ROAS, giving an inaccurate representation of profits and encouraging unprofitable investments.

Viewing margins on an item-by-item basis enables you to see which items are bringing the most profit and where is best to invest. For example, one dress could be receiving lots of revenue, although its small margin and high return rate mean that it brings in less profit than an item selling significantly less volumes but with a higher margin.

Gaining this heightened view of your products and categories allows you to see which item is going to benefit from which channel, optimising your adverts and streamlining your strategy. Working with this blended target highlights the problems with ROAS goals and how individual margins can help you move closer to your insights.

Once you begin to look at individual metrics, smaller margins and higher return rates often reveal that the product is making a loss and investing in the lower revenue of T-shirts would be significantly more profitable.

Considering these extra elements that make up your true ROAS adds a level of depth to your insights, getting under the skin of the operation and filling the gaps to interpret the truth within your data.

**Julia Munder, Former International Marketing Director at Maxwell Scott**

*"Since budgets and margins can vary significantly from product to product, we include data for all paid media and even our marketplace strategy to see if it's worth onboarding a certain product range for a certain market. This also takes shipping rates into account."*





We know that returns are a huge factor in the fashion industry and frequently start to introduce negative ROI:

CATEGORY	SPEND	REVENUE	ROAS	RETURNS	PROFIT AFTER RETURNS	NET ROI
DRESSES	£193,050	£1,254,825	650%	£627,413	£125,483	-35%
T-SHIRTS	£135,000	£877,500	650%	£307,125	£148,298	10%
SANDALS	£75,000	£487,500	650%	£170,625	£91,894	23%
HOODIES	£57,000	£370,500	650%	£74,100	£91,884	61%



## RETURNS

UK fashion retailers saw more than twice the number of returns sent back to them in January of this year compared to January 2021. The impact of returns is without doubt one of the main challenges in the industry.

From the cost of processing returns, the environmental impact and the risk that they can't be resold all have significant influence on your business. Optoro estimate that just 50% of returns make it back into store inventory.

Tracking returns data is vital for gaining a true perspective on your figures, allowing you to streamline and optimise your approach as well as combat the enormous environmental and economic costs. As evidenced in the above table, products that appear the highest profiting are often actually operating on a negative ROI.

The average online return rate of 23% is staggering when compared to the in-store return rate of less than 1%. Online retail's rapid nature and customer expectations can easily become a logistical nightmare and your margins are cut frequently by elements out of your control.

Significant financial risks soon come into play without consideration of the power and potential of returns. With both products and customers differing vastly in return rates, data-driven insight is key to informing where and how much to invest into products.

A UK study of 2,000 shoppers found that 78% would buy more in the long run from retailers with free returns. Three quarters said returns are a key part of how they select a retailer and 86% say free returns will make them more loyal. It's evident that returns are important to customers and zooming into your returns data will nurture a better understanding of what strategy works best for your business.

The above tables have highlighted large differences between ROAS performance and ROI. Customer lifetime value (LTV) is the next key step which truly determines if we're running at a negative ROI, or if we can still grow with a longer-term view.

LTV is calculated for new customer sales only. ROI is then calculated based on profit from existing customer sales and estimated future profit from new customer sales. In the below example, it is calculated on a two-year basis, although we can match this to your wider goals with six months, 12 months, three years, etc.

Joining data from the client's CRM and Google Analytics (GA) enables us to track new vs returning customer sales within GA and optimise towards this data.

CATEGORY	SPEND	REVENUE	ROAS	RETURNS	PROFIT AFTER RETURNS	NET ROI	2 YEAR LTV ROI
DRESSES	£193,050	£1,254,825	650%	£627,413	£125,483	-35%	160%
T-SHIRTS	£135,000	£877,500	650%	£307,125	£148,298	10%	187%
SANDALS	£75,000	£487,500	650%	£170,625	£91,894	23%	153%
HOODIES	£57,000	£370,500	650%	£74,100	£91,884	61%	206%

## CUSTOMER LIFETIME VALUE

Customer lifetime value (LTV) allows you to segment your customers based on value. This allows you to get closer to your audience and better understand the different personas you are targeting. [A UK study](#) found that only 34% of the surveyed marketers were 'completely aware of the term and its connotations'.

### LTV:

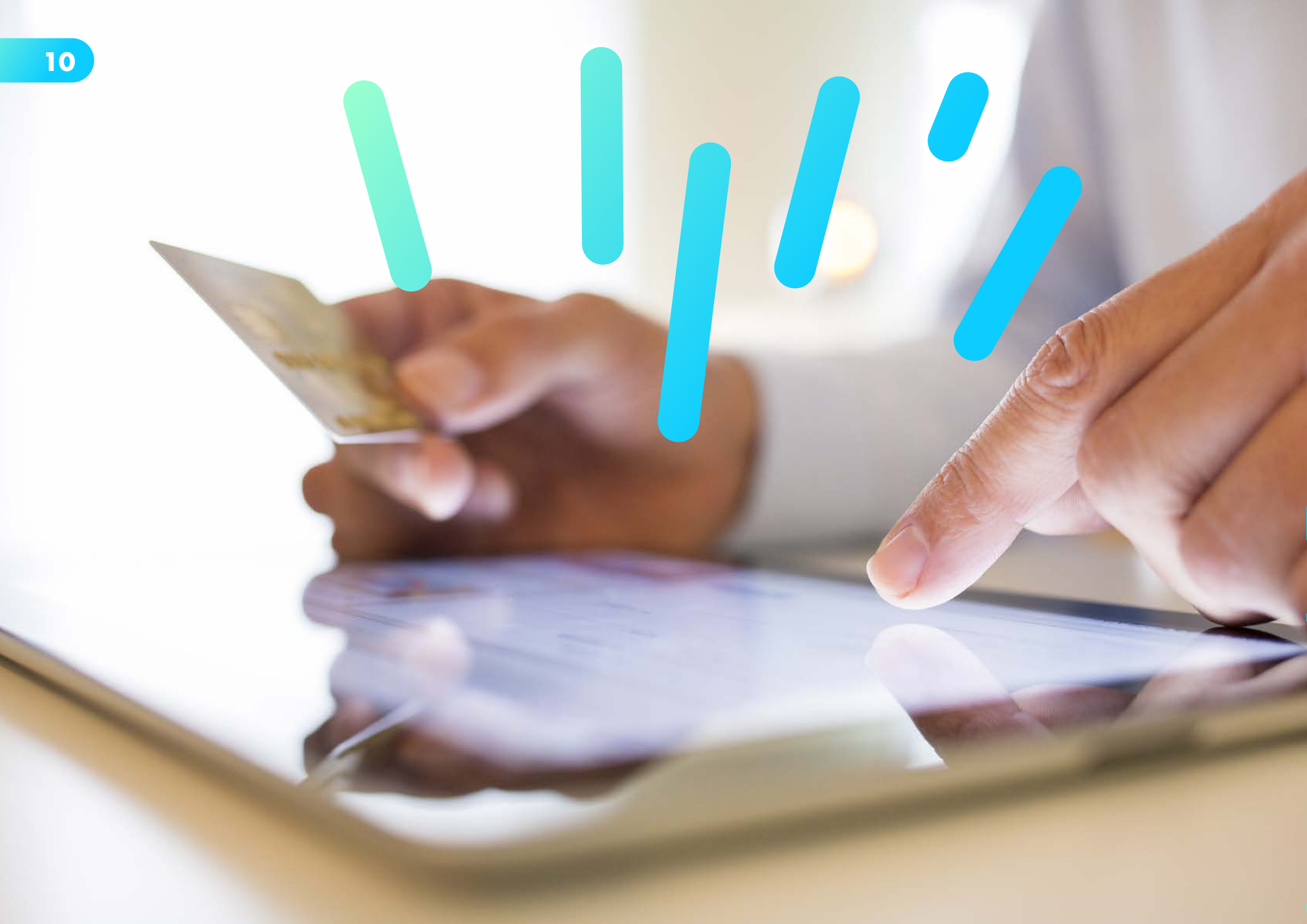
Gross earnings ÷ unique customers = **average monthly customer value**

Average monthly customer value x average lifespan of customers = **LTV**

Adding customer lifetime value to your analysis enables the opportunity to target future growth through profitable new customer acquisition.

Every customer carries different desires for their journey. Understanding the likelihood of future purchases via user behaviour nurtures strategic, data-driven decisions that adds sustainability to your brand, whilst providing perspective on what you should be investing in to stimulate growth.

By getting closer to your audience metrics, you're able to shape better and more seamless digital experiences. With the likes of tailored messaging and site navigation, user-first features begin to craft a bespoke customer journey.



This stretches through all channels, starting with your website or app and working through search, email, social media and any other touchpoints or interaction. The easier the experience, the better chance you will retain attention and gain repeat customers.

Using the data from your LTV, you can begin to make your campaigns and strategies more efficient. The insight into LTV reveals what is proving most effective, allowing you to add value to the customer experience and acquire new and returning customers without increasing your budget.

## CONSIDERING CUSTOMER ACQUISITION COSTS (CAC)

Once you have your LTV, it's important to factor in your business' outbound costs to bring in new customers to gain a true understanding of costs. This can be calculated with a similar formula using the same data.

### CAC equation:

Total monthly costs ÷ number of new customers = **average monthly acquisition cost**

Average lifespan x average monthly acquisition cost = **CAC**

LTV – CAC = **True Customer Acquisition Cost**

As the decade old statistic continues to retain its relevance, it costs seven times more to acquire a new customer than it does to retain one. Considering CAC allows you to gain a stronger perspective on the true picture of your costs and make informed, strategic decisions.

Through inquisitive questioning and analysis into each challenge, you're able to view real profits and know how fast you can grow. Significant insight can be calculated from a one-off extract into your data, highlighting the deceptive problems with blended targets that overlook the many hidden variables with fashion.

## HARNESSING MACHINE LEARNING AND ANALYTICS TO IDENTIFY AUDIENCES

Understanding the journey that leads to high value customers creates the opportunity to target and nurture profitable users and maintain customer retention. Using your CRM, web and app analytics data can help identify audiences and inform bespoke, targeted campaigns to attract customers with a high LTV.

As Raymond Yao, Selfridges' International Marketing Manager explained, "finding the balance between storytelling and a data-driven approach to marketing is the biggest challenge." Using additional data and machine learning to learn about your audience makes it possible to tailor the customer journey and create a unique and memorable experience.

Machines can analyse huge data sets and identify patterns much quicker than any human could. This means we can solve problems more efficiently and implement solutions quicker, for better results. By eliminating the need for data analysis to be conducted by marketers, our time is freed up to be spent on more strategic activity.

Implementing this additional data into your strategy opens the door to solving the pivotal problems within the fashion industry. Using the above example, comparing the new insights of net ROI and LTV ROI with the original blended ROAS illustrates the potential within deeper analysis and digital maturity.

### **Raymand Yao, Senior International Marketing Manager at Selfridges**

*"Understanding the younger customer is one of the biggest challenges. Older marketers seem to make assumptions and generalisations and think that by simply doing something relevant to Tik Tok or NFTs is enough.*

*They do not understand enough about this customer which is why something like Tik Tok and how it should be approached is appropriate. What are these younger customers looking for?"*

Using machine learning, it is possible to identify users that are most interested in a product and place them in specific audience pools for retargeting. Exporting data from GA360 into BigQuery allows you to score all users' sessions based on multiple touchpoints.

For example, to gain further insight for one of our clients, we designed and built a custom recurrent neural network and trained it using the dataset inputted into the two platforms. This trained a model to 'score' all sessions based on all behaviour events and pageviews for each user in the current and previous sessions, and the meta data for those events and pages. All sessions were scored even if they did not lead to a sale.

After a session is 'scored', we pushed the event back into Google Analytics along with custom dimensions and metrics describing the probability to submit a form in the future and the likely value if so. This is pushed back into GA within four hours of the session, to associate the event as part of the original session and can get a session scoped dimension against that session, as well as the place metrics in the session 'score'.

We are now able to create audiences for the different tiers of website users based on how likely they are to convert and users with a higher chance of buying can be targeted more aggressively. This is a more efficient and effective way of using the client's remarketing budget and means we can deliver a higher ROI.

#### **Jonathon Towle, Marketing Director at Thomas Pink**

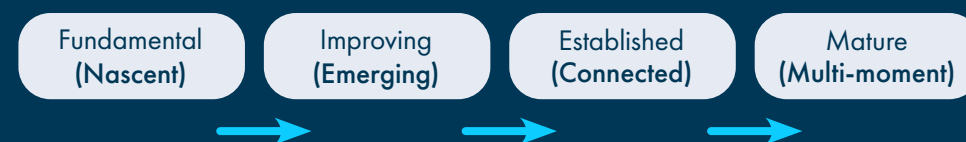
*"Creativity within the online side of fashion is lacking, quite generic. The challenge is how to innovate, create content and get to your audience, but also knowing what the audience are interested in."*

## USING DATA TO INFORM YOUR STRATEGY

Climbing the digital maturity curve yields results and momentum. Moving through the phases of nascent, emerging, connected and multi-moment marketing is the key to overcoming key challenges and evolving your strategy. As a result of the additional insights, you're able to use the data to inform strategic developments to personalisation, targeting, budgets and everything in-between.

For example, evolving from the nascent stage of simple last click value of conversion, through to emerging using calculated profit values of conversions (one-off calculation), onto connected profit values that recalculate through the joining of your CRM and GA360.

Eventually, this moves to the multi-moment phase, calculating an estimated value modelling of all touch points, providing full visibility of your user journey.



# SEARCHING FOR THE TRUTH IN DATA

**Strategic growth**

**Customer insights**

**Activate audiences**

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