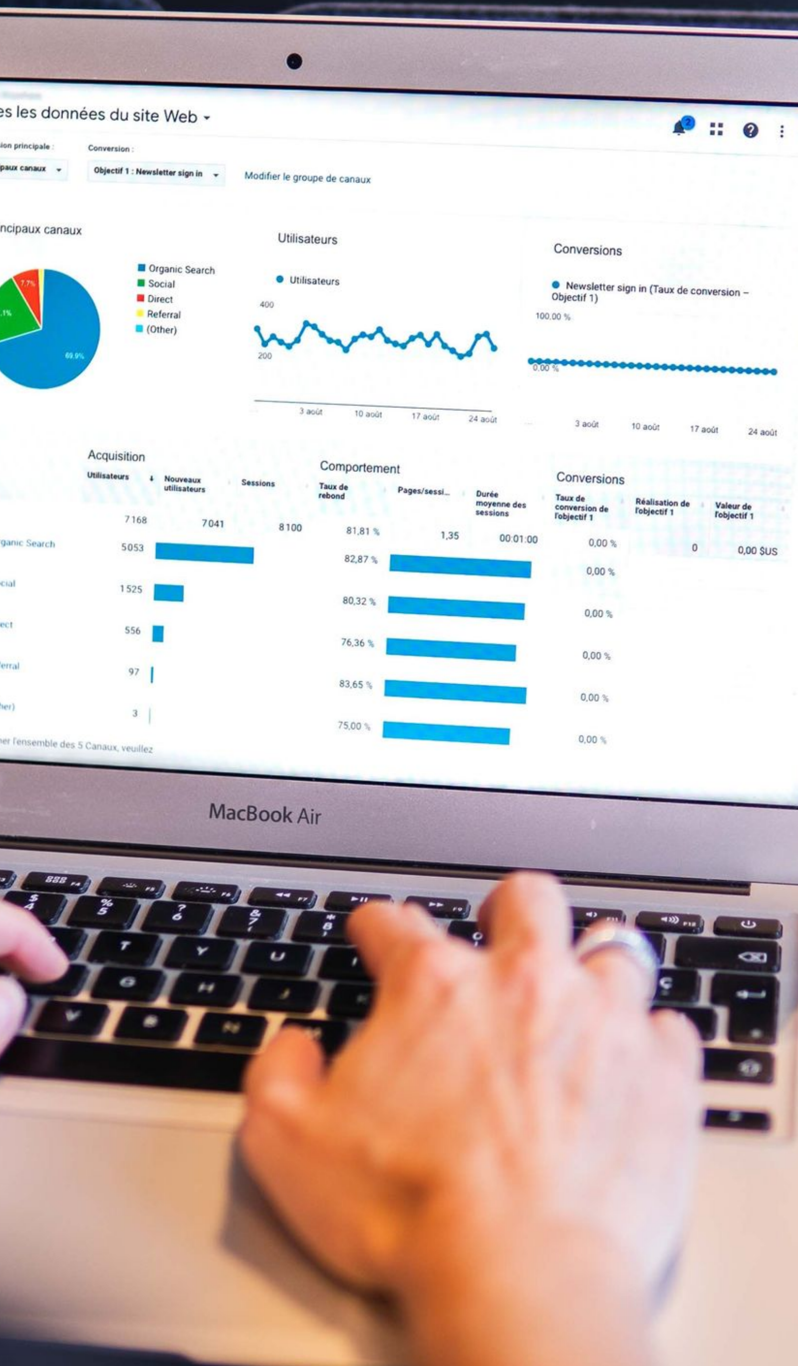


# Why ROAS Doesn't work

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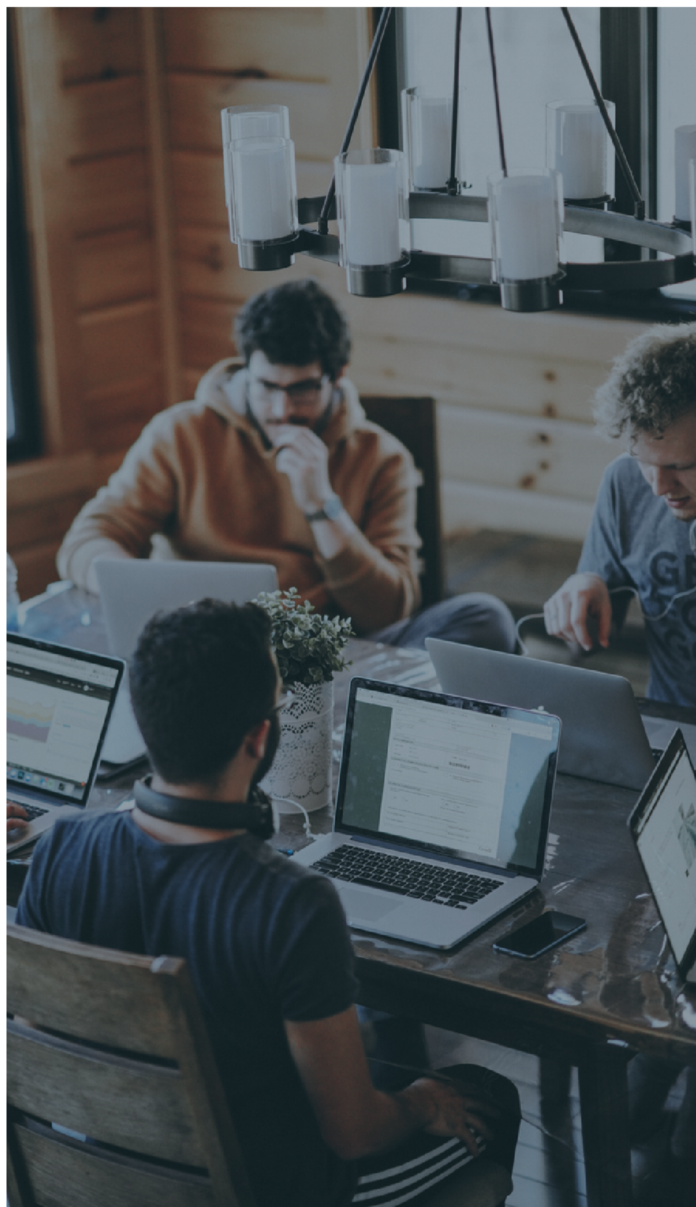
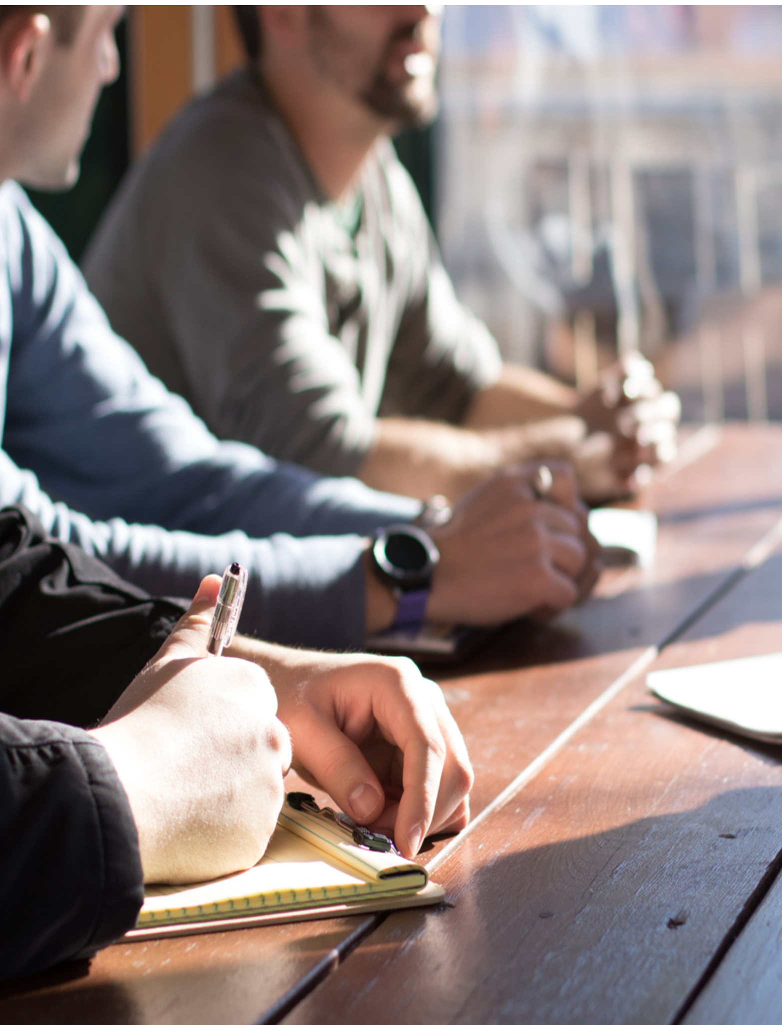


Return on Ad spend (ROAS) is often cited as the gold standard of marketing analytics world. It is simply the revenue generated from a certain channel divided by how much was spent on that channel. A ROAS of three implies that for every pound spent three pounds are gained through this media activity.

Notice the word implied here. Many marketers will fall into the trap of running a social media campaign and calculating ROAS by dividing the revenue generated from online conversions by the amount spent on that campaign. Blindly assuming that the online conversions can be attributable to the online campaign, they end up with ROAS figures with a massive upward bias. The reality is they were bound to gain revenue organically from online customers even in the absence of any marketing at all.

Another key problem with ROAS is the old chestnut of last click. Online ROAS figures are often based solely on last click. This can be tantamount to giving full credit to a striker for tapping a ball into the net from 5 yards despite the goal coming from the brilliance of a run from midfield. The customer have convert through a digital advert, however the decision to purchase has been influenced by different media channels prior to this.

A good safeguard against misattribution of success is to first establish two groups, a larger treatment groups and a smaller fallow group. The treatment group will receive marketing communication from the channel you wish to measure. The fallow group will be siloed and, if possible, receive no marketing at all. After the termination of the campaign the revenue generated from the two groups is compared. If the test is done fairly, the difference will represent the uplift from the channel. It is important that the treatment and fallow fit the same socio-demographic profile. This will avoid any bias which would occur if the treatment group matched the target demographic more closely than fallow. In this case it is pre-ordained that the treatment will outperform the fallow.



This is not only good practice in marketing but also important because of the tendency for channels with high ROAS and low cost per acquisition (CPA) to performpoorly in terms of uplift. This may seem counter intuitive to many, since every marketing handbook will tell you that channels with a high ROAS and low CPA are gifts from heaven that ought to be invested in. But invoking logic can easilyturn this accepted fact on its head. High ROAS and low CPA means that you get a larger amount of revenue for a low cost. This indicates that those that were influenced by the marketing are, on average, easily swayed. In other words, the low cost and high margin implies these prospects would have converted in the absence of any marketing. This is an unfortunate reality for many online programmatic platforms. To increase the probability of conversion, vendors wills serve ads to low hanging fruit, meaning those people that have visited your website or left an item in the basket but not purchased. This is done to boost the numbers instead of doing the more difficult work involving converting prospects that fit the target audience who have had no interaction with the brand before

# To Summarise

The ingrained perception that ROAS is everything needs to be challenged. Doing marketing analytics properly always requires exploring the counterfactual question: what if we did nothing? The reality is channels that rely heavily on other factors will be shown up when detailed econometric attribution modelling estimates the channel's impact on sales with all other things held constant. Utilising the randomised control trial is the most effective short-term way to avoid making this mistake.