High Performer
AUTUMN
2022

FOSPHA
MARKETING

State of eCommerce advertising report

Q4 2022

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www.fospha.com

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Introduction

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The last 2 years in eCommerce have been turbulent beyond belief. From the intense highs of the pandemic-driven eCommerce boom of H1 2020, through the marketing chaos of Apple's iOS 14 update, the supply chain woes caused by the ongoing pandemic and war in Europe, and finally an incoming recession, it has been a rollercoaster.

In context of these sweeping changes, it has been more important than ever for brands to have a clear picture of their performance in order to make good decisions. Yet sadly the measurement landscape has actually gone backwards in this time, with more brands than ever reporting challenges understanding the relative effectiveness of their marketing channels.

The reasons for this are twofold. On the one hand, the continuing death of cookies is making it harder to track anything beyond the very bottom of the funnel using traditional measurement like GA or Meta Ads Manager. This means that the amount of revenue wrongly attributed to bottom of funnel channels like Direct and Brand PPC is rising, while attribution to Generic PPC and Paid Social falls, limiting marketers' abilities to invest in these essential channels. At the same time, the rise of TikTok and the continued growth of Pinterest, Reddit and others increases the complexity of most brands mixes, piling more challenges onto an already complex measurement problem.

Fospha are in a unique position to help. With a market-leading attribution model that accurately measures both click and impression-based channels, focusing on the full marketing funnel, Fospha gives clients clear insight on which channels are performing well for them and which need work.

In this report, we are opening the results of our model up to give the wider market insights on the best channels, platforms and strategies to win in eCommerce in 2023 and beyond.

Who are Fospha?

The marketing measurement platform for eCommerce.

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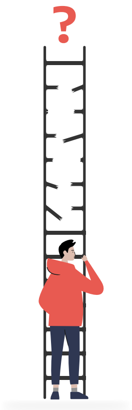

1. Increased competition is pushing up costs, squeezing margins and threatening growth targets.
2. Headwinds like iOS14, cookie deprecation and the privacy-first movement make it harder than ever to reliably see what's going on.
3. Cross channel reporting with a single source of truth becoming more difficult as the number of channels increases, each with their own attribution methodology.

Fospha is a new type of marketing measurement.

Using machine learning to combine multi-touch attribution and marketing mix modelling in one view, our platform gives clear, actionable insights on where to spend to maximise your growth.

Our cutting-edge approach shows you the impact of all clicks and impressions, restoring visibility you lost with iOS14 and future-proofing you against further privacy changes.

Fospha clients achieve on average:

+75% Spend growth

+33% Return on advertising spend

-9% Customer acquisition cost

Getting started with Fospha:

1. Fast, with a live platform in **under a week**
2. Easy, requiring just **10 minutes** setup
3. Affordable, with pricing from just **$300/month**

To get started, click here to apply for a free trial.

Huel

"If you're trying to scale a D2C brand – invest in Fospha!"

Ben Bokaie, Head of Performance

SPOKE

"The most sophisticsted attribution model I've ever worked with"

Jake Higgins, VP Growth

CUUP

"The reporting I've been looking for my whole career"

Karthik Paramasivam, VP Growth

Pinterest, Performance Max and TikTok the most interesting ‘alternative’ channels

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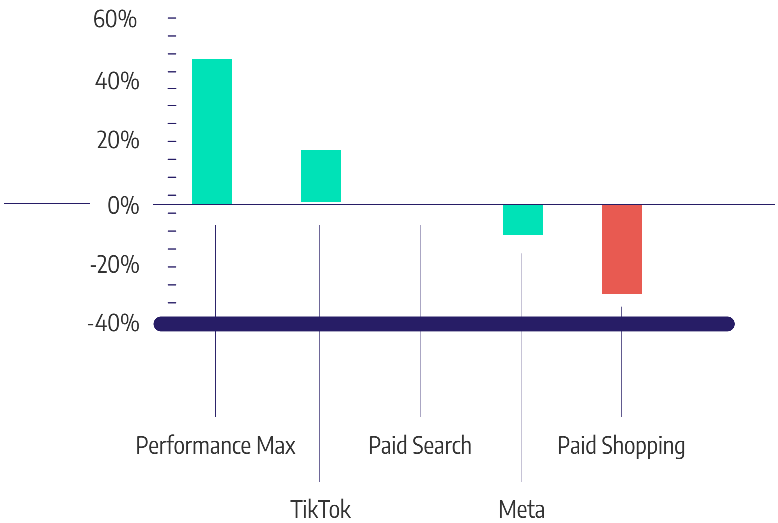
Relative ROAS - 5 highest spend **channels**

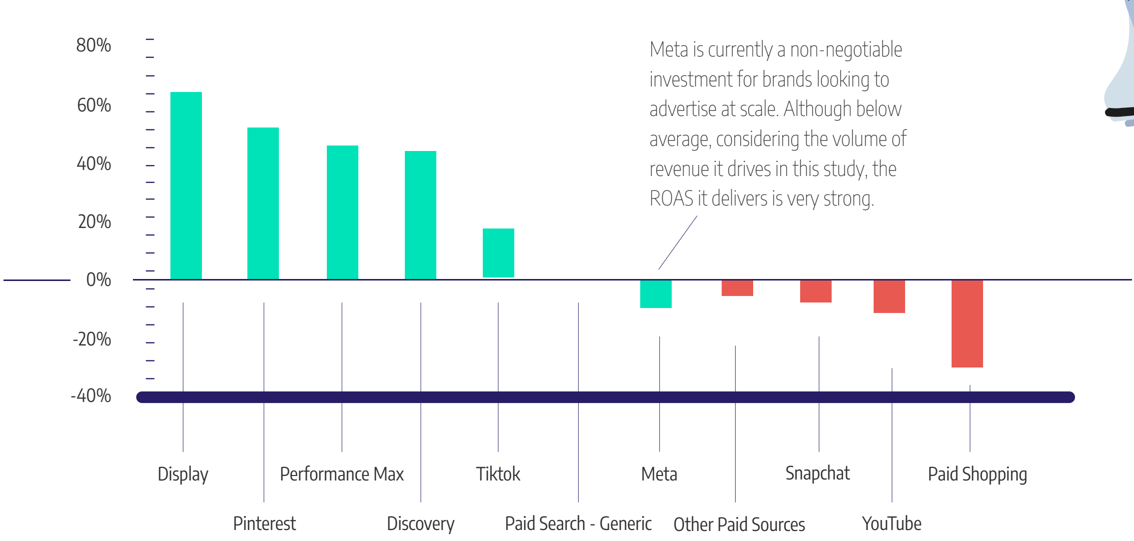


We’re using a metric here – and throughout this report – that we are terming ‘Relative ROAS’. Before we get into the data, let’s define what that means.

This dataset contains brands of different sizes, stages, and types, including those with both subscription and eCommerce business models. That makes ROAS a difficult metric to use to compare channel performance. For example, some channels like TikTok are broadly favoured by more aggressive brands with lower ROAS, whereas Paid Shopping is much more popular with eCommerce brands than subscription, who typically require a higher first-purchase ROAS to offset their lack of a lock-in period. These trends can skew the data and inflate or deflate channels’ performance.

Relative ROAS is designed to show us not just total performance, but performance relative to what “good” looks like for each brand. We have achieved that measuring whether a channels returns are higher or lower than each client’s blended ROAS. So a relative ROAS of 0% means that channel delivers a ROAS identical to brands’ total blended ROAS, -50% means it is half as effective as their blended ROAS, and 200% means it is 3X as effective. We’ve used that to rank the channels above.

Relative ROAS - all marketing channels

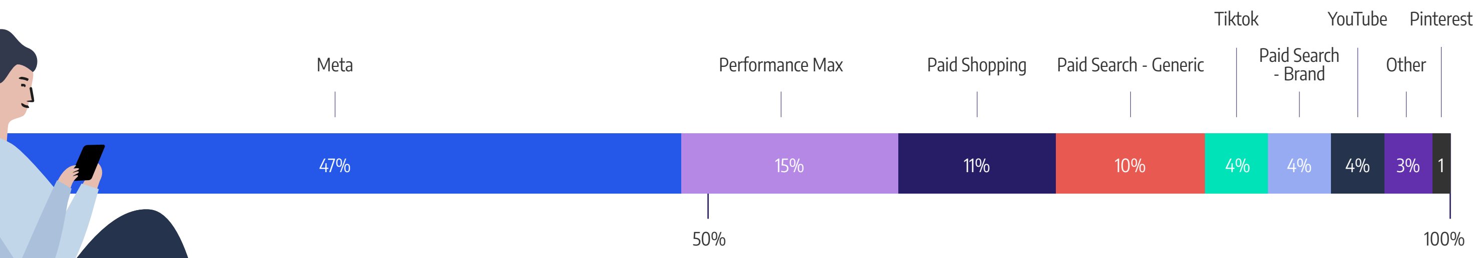


When looking at the ROAS Impact of all channels, Display and Pinterest once again lead the pack. There are two different stories at play here. Display is typically a very small part of the marketing mix and with a heavy focus on retargeting, so the high performance makes sense but is also not very scalable. Pinterest is more worth a look for brands looking to introduce a new player to their mix – it is a strong performer for eCommerce brands with the product and creative to thrive on the platform, and we have seen it scale effectively.

Two Google channels, Performance Max and Discovery, also perform well. Performance Max is a huge growth story, and is now second only to Meta in spend volume. The impressive performance is a strong reason to invest. At the other end of the spectrum, another Google channel, Paid Shopping, underperforms with a ROAS that is significantly below average. This is interesting as Shopping has been a strong performer in previous reports, however we have seen performance fall significantly since Smart Shopping campaigns have been replaced by Performance Max.

Meta delivers a ROAS marginally below the blended average for the brands we assessed here, however some very important context here is that it is also by far the largest channel in this study (47% of total spend). This is an enormously impressive result at this level of investment, and Meta remains the only channel where most brands can deliver true scale. We dive more into Meta's contribution on later pages.

Spend breakdown by channel / source



TikTok overperforms for aggressive brands, Snap underperforms for established players

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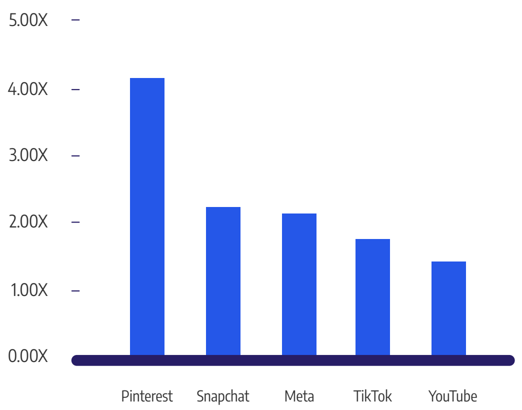
ROAS

Due to data limitations in this report, Reddit was not included for analysis.

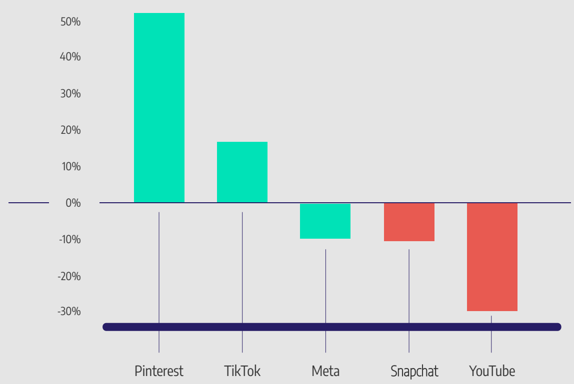


For Paid Social channels and YouTube in particular there are interesting insights in contrasting their absolute and Relative ROAS performance. Two channels in particular stand out here – Snapchat and TikTok. When measured using absolute ROAS both have solid performance, however fare very differently when adjusted for brands' individual circumstances.

When taking the more comprehensive view offered by Relative ROAS, Snapchat drops to look very poor indeed. By contrast, TikTok holds its performance and moves up the ranking to the second strongest Paid Social platform.

There is a clear inference here – Snapchat is predominantly used by high-performing brands, but plays a passenger role in their mix, driving low ROAS relative to their averages.

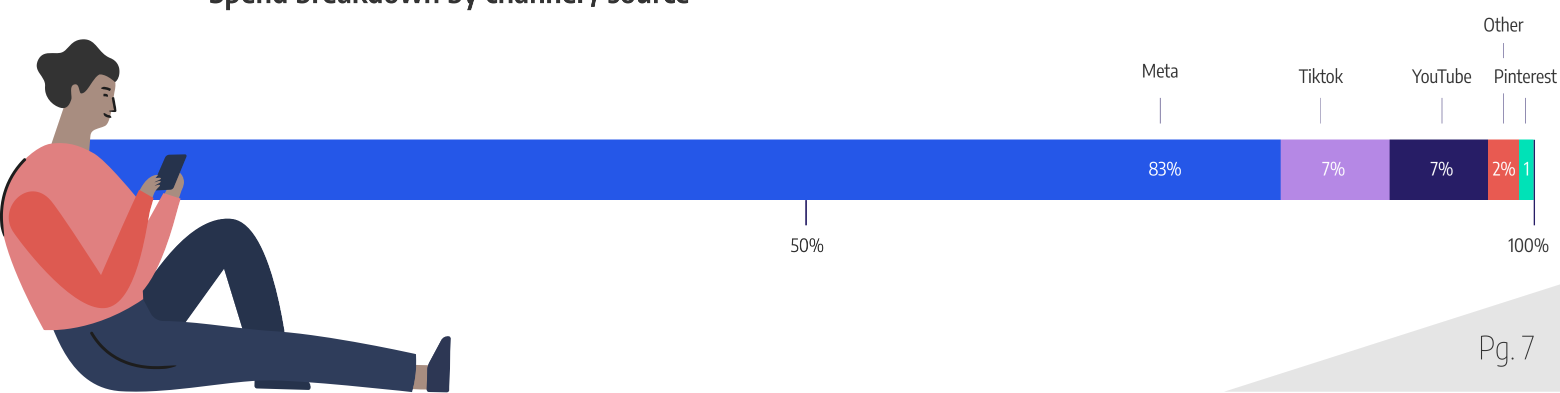
Adjusted for Relative ROAS



TikTok on the other hand is a strong player where it features, but typically is favoured by brands who accept a lower ROAS overall – likely to be disruptive brands prioritizing customer acquisition over profitability. An interesting question remains – what happens when established, high-ROAS brands adopt TikTok at scale?

Regardless of the lens used to view the data, Fospha continues to show strong YouTube performance is a rarity.

Spend breakdown by channel / source



Meta delivers strong top of funnel Relative ROAS

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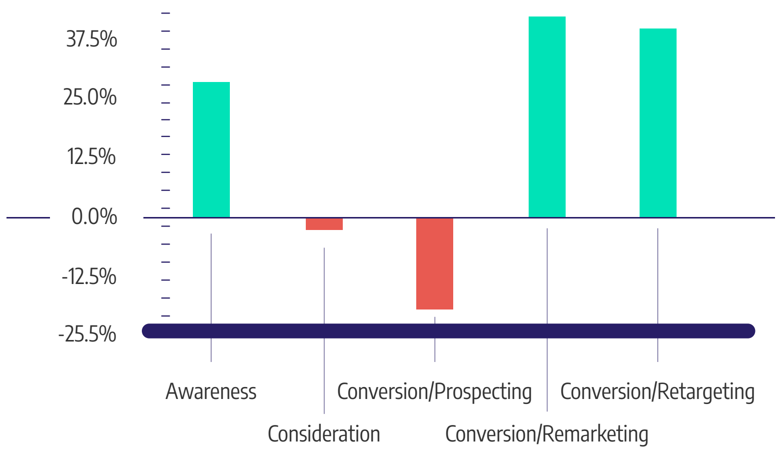
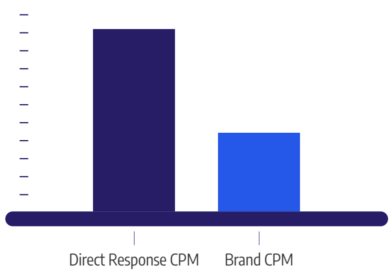
Relative ROAS by funnel stage - Meta



CPM in Direct Response vs Brand Activity



Data from Nest Commerce, click **here** for source

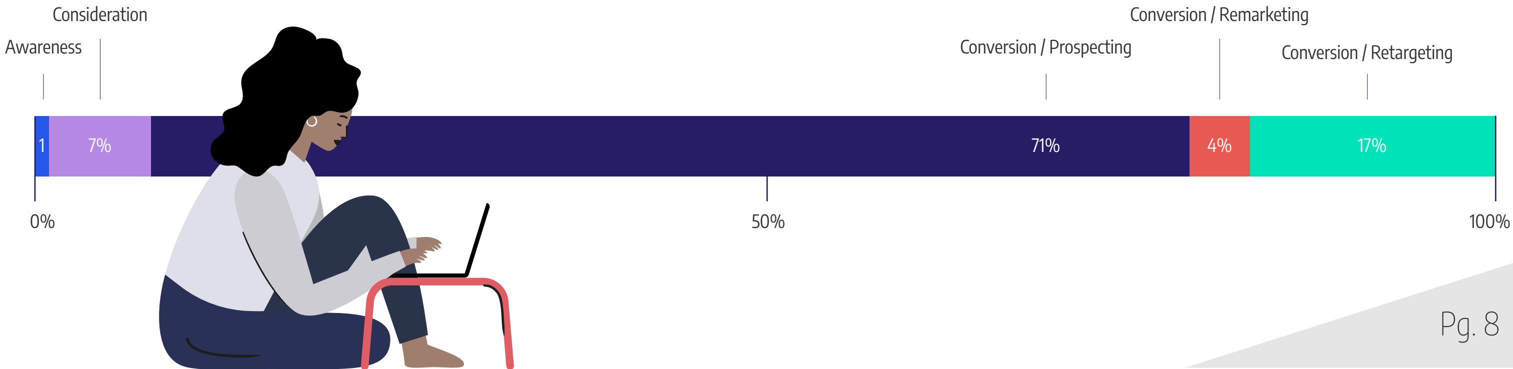
As discussed on page 6, Meta is worthy of focus as the only viable option in the current market for delivering cost-effective eCommerce performance at massive scale. Let's look a little deeper.

Breaking it out into the different funnel stages, you get a clearer picture of where it does its best work. It is a very strong contributor at the top of the funnel, with Awareness media driving high performance, albeit at a very low % of total spend. Data from Fospha partner Nest Commerce (top right) also shows that CPMs are substantially lower for Brand activity, further building the case for investment in this area.

Bottom of funnel and post-purchase activity are also big contributors, delivering ROAS significantly higher than average for every brand. As we pointed out regarding Display earlier, activity targeting warm leads and existing customers is always likely to deliver a higher ROAS than cold acquisition spend, but it's clear that these two strategies are an important investment area. Remarketing in particular is currently underinvested in considering the impact it has.

While Prospecting/Conversion campaigns underperform the average, they remain a very good investment. They make up a massive percentage of Meta spend, and few if any channels can match Meta's ability to reach new audiences at scale, so the case to keep spending is clear. The real lesson here is that brands who are only spending in Conversion-focused campaigns in Meta are missing a big trick at the top of the funnel, where low costs and high effectiveness can boost your overall mix.

Spend breakdown by funnel stage



Paid Social measurement still reeling from iOS 14

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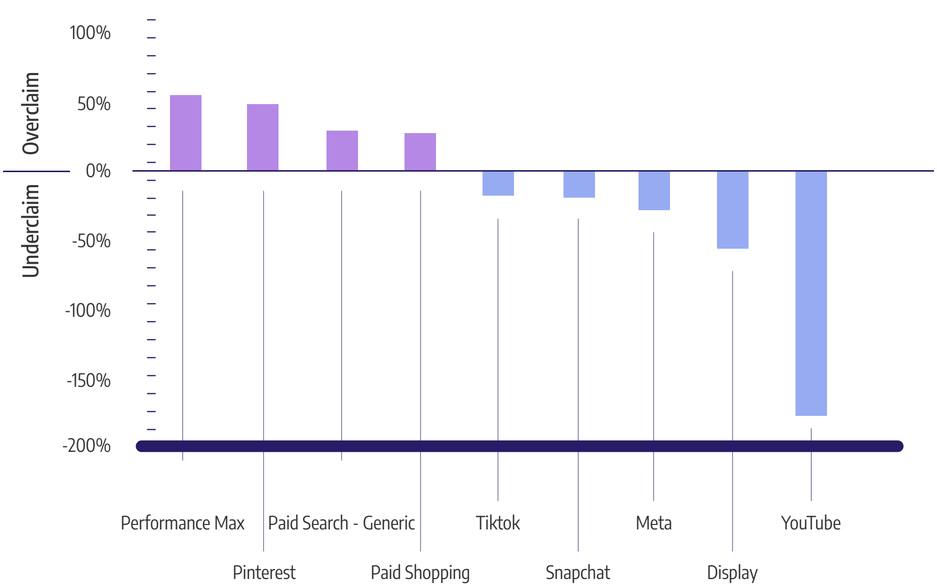
Working out who to believe when it comes to performance marketing reporting is one of the most common eCommerce headaches. The challenge is complex. Some channels offer value by driving clicks to your website, while others focus on serving ads to potential customers to build brand awareness. Some expect to deliver immediate conversions, while others do their best work in the days, weeks and months before someone hits the checkout. Of course, all of these channels report on their own performance, and do it with a spread of attribution models to make you weep.

An interesting use of Fospha's independent model is to audit their claims and see if we can identify themes on how accurately (or not) the platforms report their own performance. It should be noted that this isn't a view of whether a channel performs well, just an insight into how much you can trust the data they report.

Difference between ad platform claimed sales and Fospha



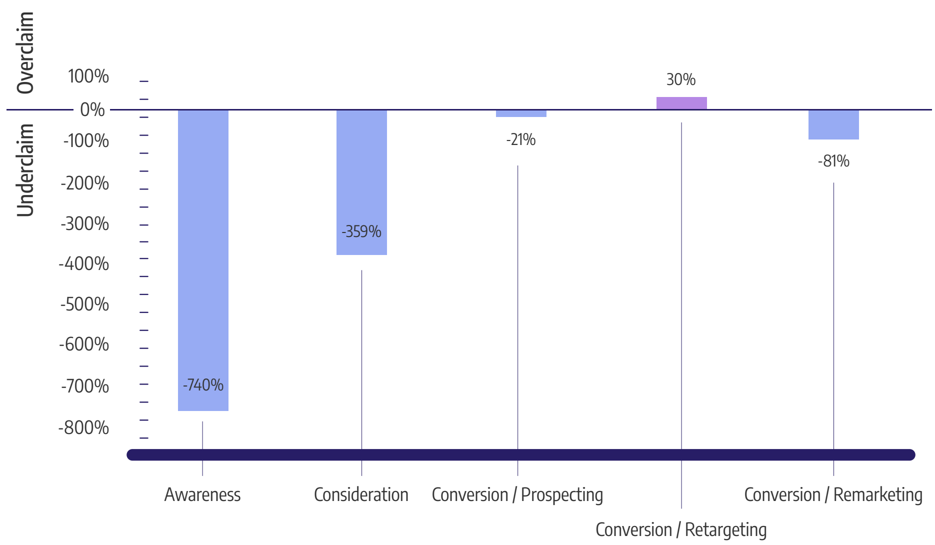
Interestingly, all the Paid Social channels bar Pinterest underestimate how effective they are in delivering sales. This is a big change from a few years ago, where the picture for most platforms looked more like Pinterest does today, with generous models typically claiming 50-200% more sales than Fospha could prove.

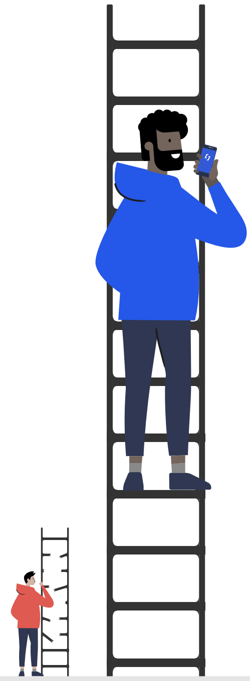
This change is very likely caused by the continuing impact of iOS 14, as the reporting implications of that update are known to be much more dramatic for platforms delivering impressions-led media.

The double whammy here is that while marketers are broadly familiar with the reporting challenges these platforms now face, CFOs and CEOs are often not and are still highly suspicious of Paid Social reporting. This is an irony of Meta and others' own making, but now makes pitching for Paid Social budgets doubly hard – platforms report an unrealistically low performance, however these lower numbers are still subject to suspicion from those who know the platforms' track record of gilding the lily.

Be that as it may, Paid Social budgets are vital for maintaining performance throughout the marketing mix. Going into a recession, the case for good quality independent measurement to help you pitch for and win the budgets required to hit your targets has never been clearer.

Difference between Meta Ads Manager and Fospha





Turning the focus to Meta, Ads Manager still underclaims revenue, although their model updates in the last 3 months have plugged some of the worst of the measurement challenges they were having earlier this year due to Apple's privacy updates. Meta's measurement gap is concentrated at the very top and very bottom of the funnel, where they drastically underclaim sales for Awareness, Consideration and Remarketing activity. Ads Manager is now slightly overclaiming credit for sales driven by Retargeting.

Returning to the first chart, we see that Google channels differ in their accuracy, with impressions-driven YouTube and Display particularly modest about their impact, and Performance Max, Search and Shopping all overclaiming.

Brands spending less, but more on TikTok, Performance Max and top of funnel ads

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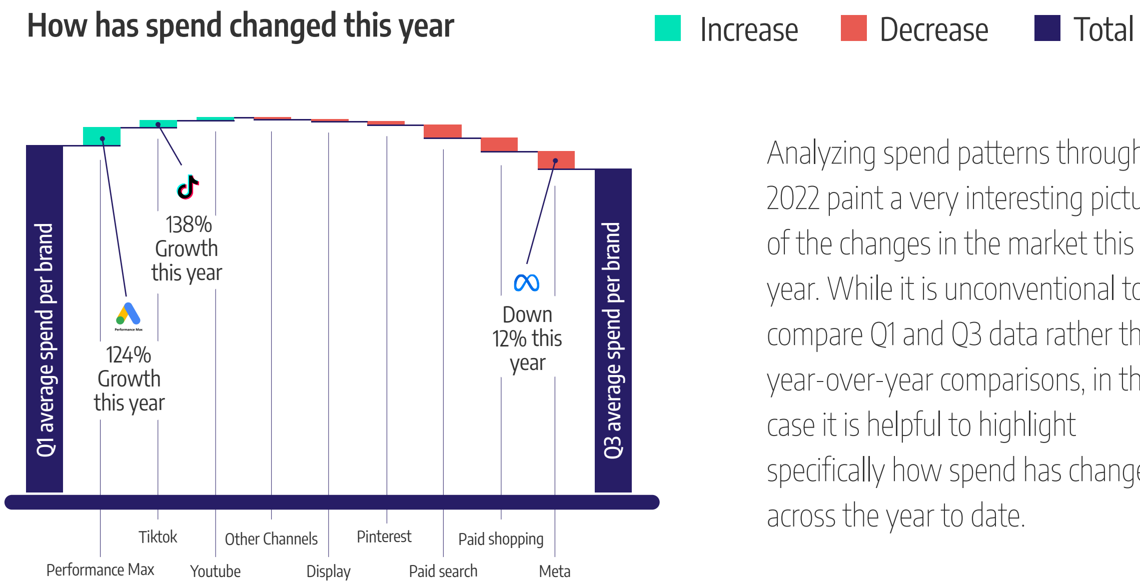
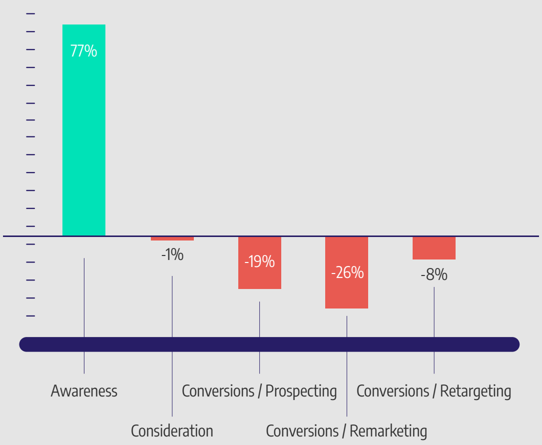
How has spend changed this year



Analyzing spend patterns through 2022 paint a very interesting picture of the changes in the market this year. While it is unconventional to compare Q1 and Q3 data rather than year-over-year comparisons, in this case it is helpful to highlight specifically how spend has changed across the year to date.

The first pattern is an overall slowing in the ad market, with total spend falling 7%. After 2 years of successive growth in ad spend this is the first time we have seen it fall in this way. This very likely reflects a tightening of belts across the industry, as the end of the COVID eCommerce boom finally catches up with brands. Very interestingly, average spend in Meta has shrunk by 12%, over the average, with proportionately more spend coming out of Meta than any other channel despite its performance. It's possible this partly reflects the easier time click-based Direct Response channels have in selling their own value.

Spend change by funnel stage



Counter to the general trend of shrinking budgets, fashionable channels Performance Max and TikTok have both seen large-scale growth. These two new channels are emerging as powerful competitors to Meta, and now comprise a healthy portion of many brands' mixes.

It's interesting too to look at spend changes throughout the marketing funnel. The chart above is just reviewing campaigns that have Strategy and/or Objectives set – channels that do not have this feature are excluded. The pattern is very clear. While spend is shrinking across the board, brands are starting to take advantage of the opportunity at the top of the marketing funnel, with Consideration media holding its investment level, therefore increasing as a % of budgets, while Awareness sees massive growth.

Summary of key conclusions

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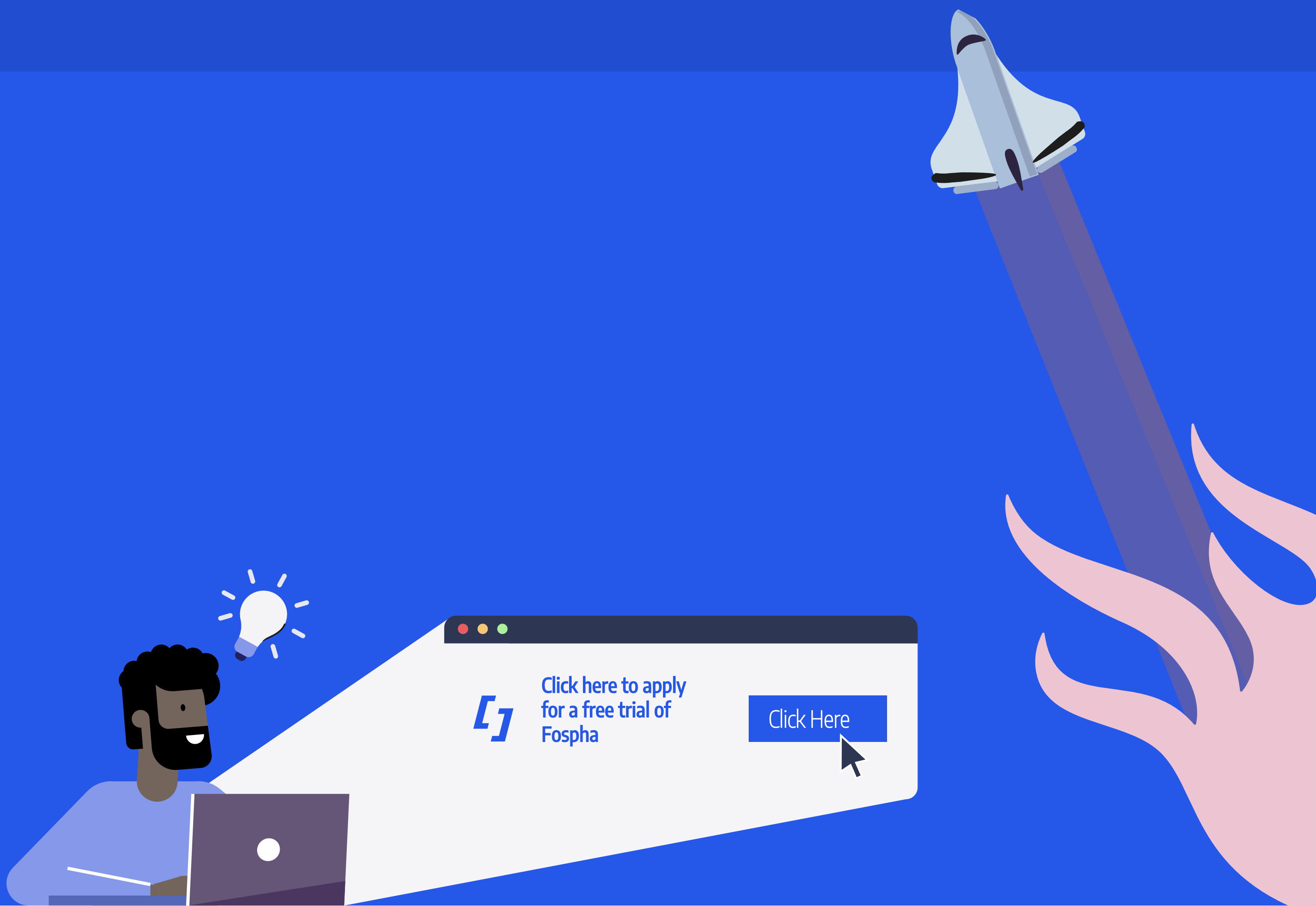
1. Pinterest leads the charge for performance, with Performance Max and TikTok looking like the most interesting investment opportunity for brands pursuing scale.
2. Meta has a huge role to play, contributing credible ROAS at a very high percentage of spend.
3. Top of funnel is an underinvested in opportunity – and so a key area for brands to differentiate in 2023.
4. TikTok is most used by aggressive, high-growth brands, who see great returns. Interesting to see what happens when more adopt it.
5. Ad platform's own reporting is wildly inconsistent, with Paid Social the worst culprit. Meta's model updates have helped them report more accurately, but there is still a long way to go.
6. Spend is up on top of funnel and TikTok since the start of the year, but overall spend is falling.



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