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# The economics of mobile retargeting

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*Stefan Benndorf is managing director and chief operating officer of AppLift*

By Stefan Benndorf



A well-defined organic and paid user-acquisition strategy is a crucial component in launching an application and growing a quality user base, but it is not the only component.

Maximizing the value of an existing customer base is increasingly important due to the growing penetration of global smartphones, the higher adoption and usage of mobile commerce, and the enhanced competition for global inventory.

Retargeting, historically one of the most effective and efficient marketing tactics, is now more valuable than ever before.

Retain that

Developed markets are seeing a limited increase in new smartphone adoption because nearly everyone has one, and the emerging world is catching up in its use of smartphones and the Internet, according to surveys by Pew Research Center. This means there are fewer new customers for app publishers to target.

When you combine this with the increasing number of available apps and the growing usage of apps for mobile commerce, more apps are reaching their natural market share. So, if an app has a 50 percent market share in the United States, it is going to find it hard to significantly increase that.

That means you need to find ways beyond new customer acquisition to drive revenue growth.

As Amy Gallo writes in an excellent summary of the value of customer retention for Harvard Business Review, "Acquiring a new customer is anywhere from five to 25 times more expensive than retaining an existing one."

Increasing retention rate can have a significant impact on profit.

App marketers need to think beyond growing their customer base and take a holistic end-to-end view of acquisition and management. Mobile retargeting plays a crucial role in enabling customer value maximization.

Understanding lifetime value

A well-defined retargeting strategy changes the economics of mobile performance marketing.

First, serving newly acquired users with highly targeted ads makes user acquisition efforts profitable for a longer period, despite diminishing returns for new users.

On top of that, total return on the entire user base increases due to retargeting's positive impact on the key performance indicators (KPIs) of monetization, retention and virality.

Lastly, at some point, the incremental investment in retargeting an existing user becomes less than the incremental investment required to acquire a new user.

The economics change in favor of retargeting. In this phase, retargeting not only improves the economics of user acquisition efforts, it also unlocks significant on-top potential.

Understanding and measuring lifetime value (LTV) is the first critical step in this process.

LTV is driven by three simple metrics:

1. Monetization: How much a user is spending in an app per month (ARPU)

2. Retention: How many users are continuously using the app

3. Virality: How actively the user shares content through the app, thereby driving additional organic traffic to the app, which again can be measured according to monetization and retention KPIs

The return or net LTV of a user is essentially the LTV minus the cost to acquire the user. This is often measured on a cost-per-install or cost-per-action basis.

Because of the increased effort required to acquire new users at the same-quality KPIs, advertisers, especially larger ones, face incrementally greater expense in acquiring new users.

This is only natural: due to the plateauing growth rate of smartphone adoption, the app reaches a fair market share and its new-install rates fall.

Consequently, the additional net LTV per additional user decreases with an increase in the base of users those who have already installed the app assuming everything else remains the same. In economics, this is referred to as the principle of diminishing returns.

How to increase return from existing users

To ensure steady or even increasing marginal return, advertisers need to focus on their existing customer base and unlocking customer value. These measures can address all the LTV dimensions as described above.

ARPU can be increased by offering the existing user base better deals, discounts and customized offers, to name just a few potential measures. By this, the marginal returns are still diminishing, but on a higher level.

On the retention side, app marketers can target users with email or push notifications to increase their activity and conversion rates.

Additionally, a proper retargeting strategy can add immediate value, even during the high-growth phase of the user base. This can lead to growing marginal returns with an increase in the addressable user base due to the abilities to better segment, create campaigns of a critical size and learning effects.

Key ingredients for successful retargeting are a good understanding of the current audience, including their past behavior in the app, and a strategy for approaching them with content that will bring them back into the app.

Someone who is very active for example, a user who creates shopping baskets but never makes a purchase will respond to a different sort of message than someone who used the app a couple of times and then stopped.

RETARGETING CAN be a powerful instrument for complementing any customer acquisition activity and for stabilizing, or even increasing, the return on investment with a growing user base.

In light of the decreasing marginal growth in new customer bases due to factors such as smartphone saturation, retargeting is more critical than ever before and can be a key channel for ensuring steadily high returns for performance marketing efforts.

*Stefan Benndorf is managing director and chief operating officer of AppLift, Berlin, Germany. Reach him at stefan@applift.com.*