

Beyond E-Retailing: Combining Right and Left Brain Thinking

Mike Lackman, CEO at PetFlow



What You'll Learn From This Session



ROI

- Equalize standards of incrementality between investments in Technology and Ad Spend

Examples

- Practical case studies demonstrating how this plays out in a limited budget environment

Culture

- Create operating practices that naturally harmonize Technology and Marketing teams

Tech

- Proprietary e-commerce platform
- Modest tech headcount
- Heavy SaaS reliance

Thin Margins

- 3rd party commerce model (minimal private label)
- High shipping costs: Avg weight 30 lbs

Profit Mandate

- Business is self-funded
- Investment in additional marketing or Cap-Ex entirely funded by operating results

Digital Eyeballs

More Expensive Than Ever

Cost of Buying Impressions

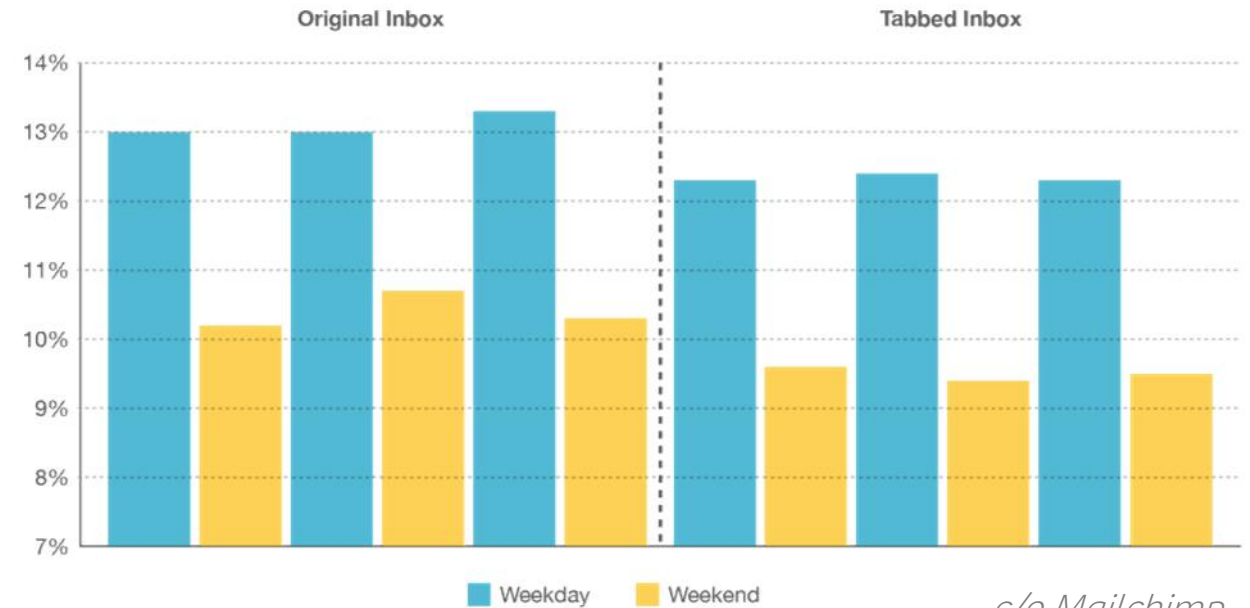
Metric	2013	2014	2015
CPC 	\$0.92	\$1.02	\$1.58
CPM 	\$4.70	\$8.81	\$12.07
CPO 	\$10.44	\$30.25	\$44.50
CR 	8.8%	4.7%	3.6%

- Hochman LLC, Nov 2015

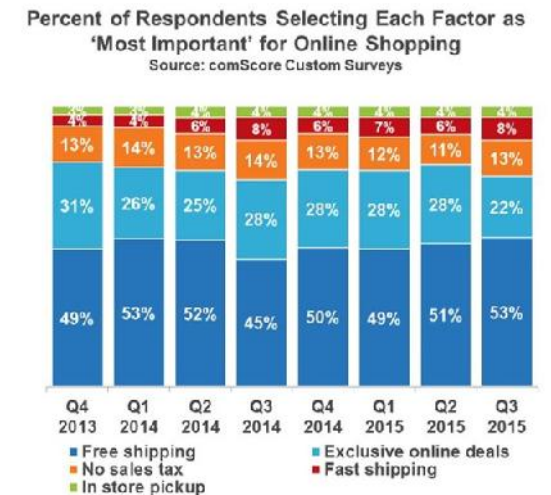
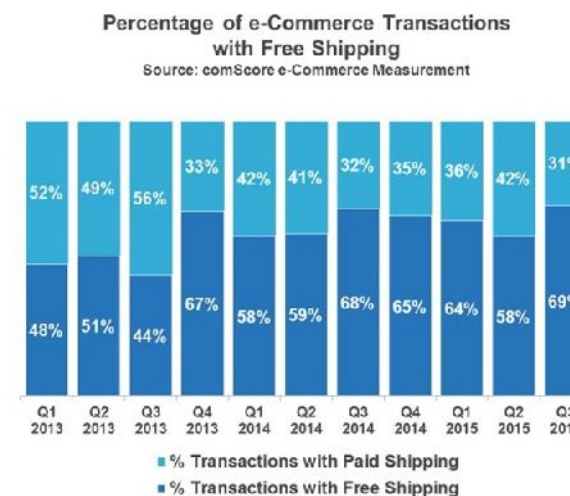
Variable Cost to Fulfill Converted Sales

- From 2013 to 2015:
 - Free shipping up 40%+ to 69% of sales
 - Importance of deals DOWN 6 points
 - Importance of speed UP 4 points

- Morgan Stanley, 05/2016



c/o Mailchimp



Why It Matters

Only 4 public chain retailers have generated meaningful margin expansion while driving eComm growth

🐾 Morgan Stanley Study, May 2016

🐾 Winners:

- Expansions in Omni-Channel penetration between 2012 and 2015 corresponded to equal or greater improvements to EBIT.
- Home Depot and Lowe's are winners here.

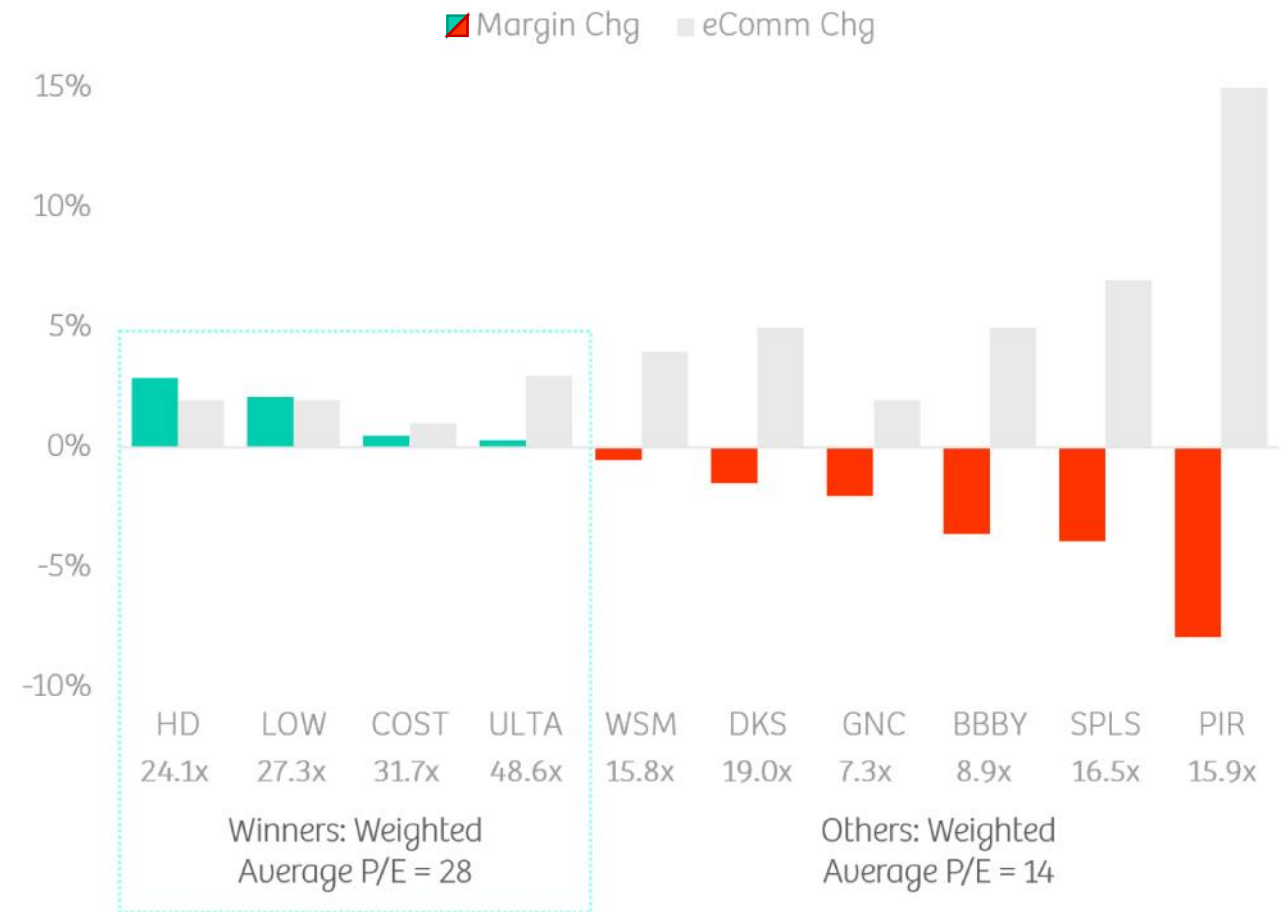
🐾 Others:

- Same change in Omni-Channel penetration drives commensurate LOSSES in EBIT.
- GNC, Bed Bath, Staples, Pier 1

🐾 The Difference

- Omni-Channel strategies that drive greater in-store traffic improve revenue per customer while sustaining fixed cost amortization schedules.
- Winners trade at 25-50X; others trade at 7-19X.

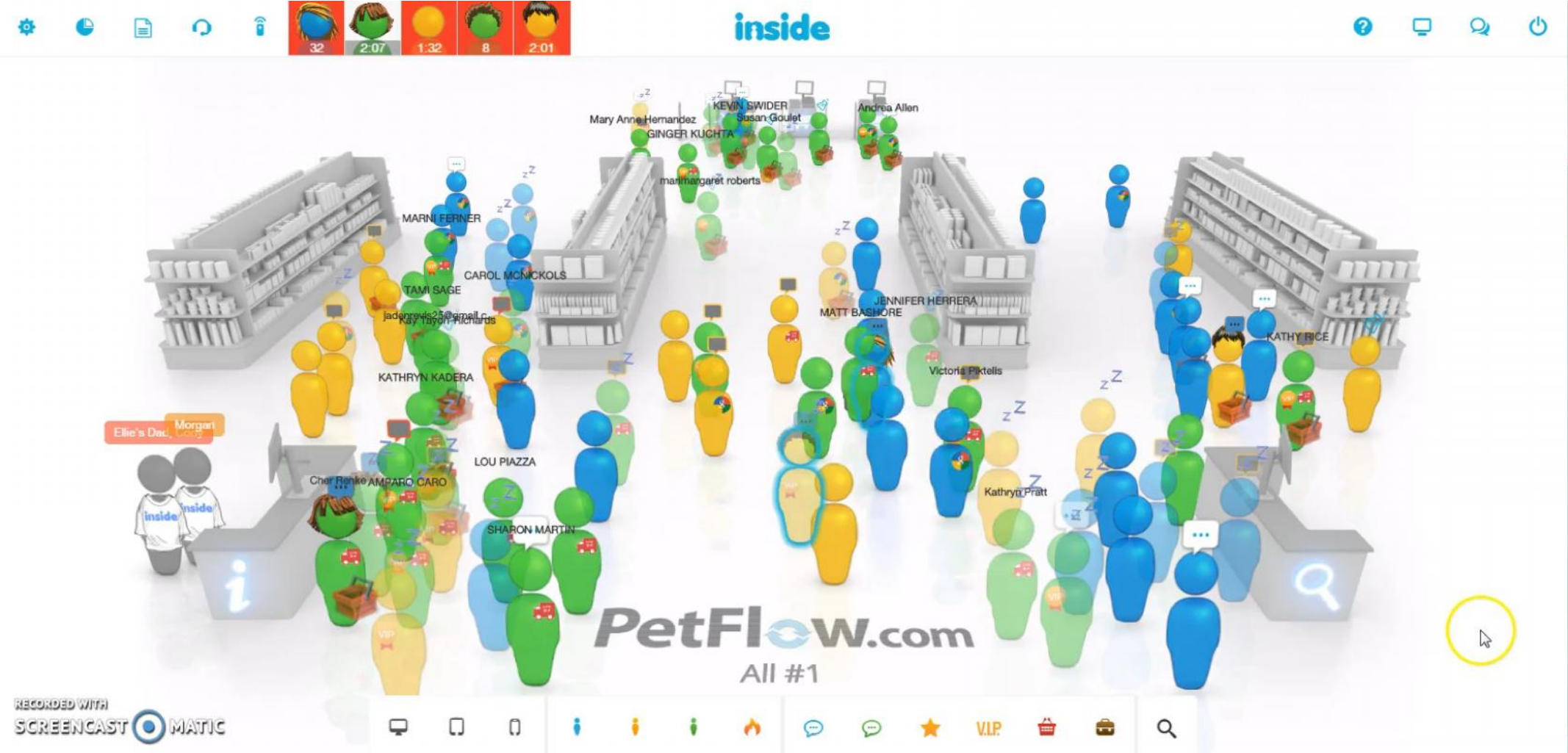
Margin Contraction vs eComm Expansion



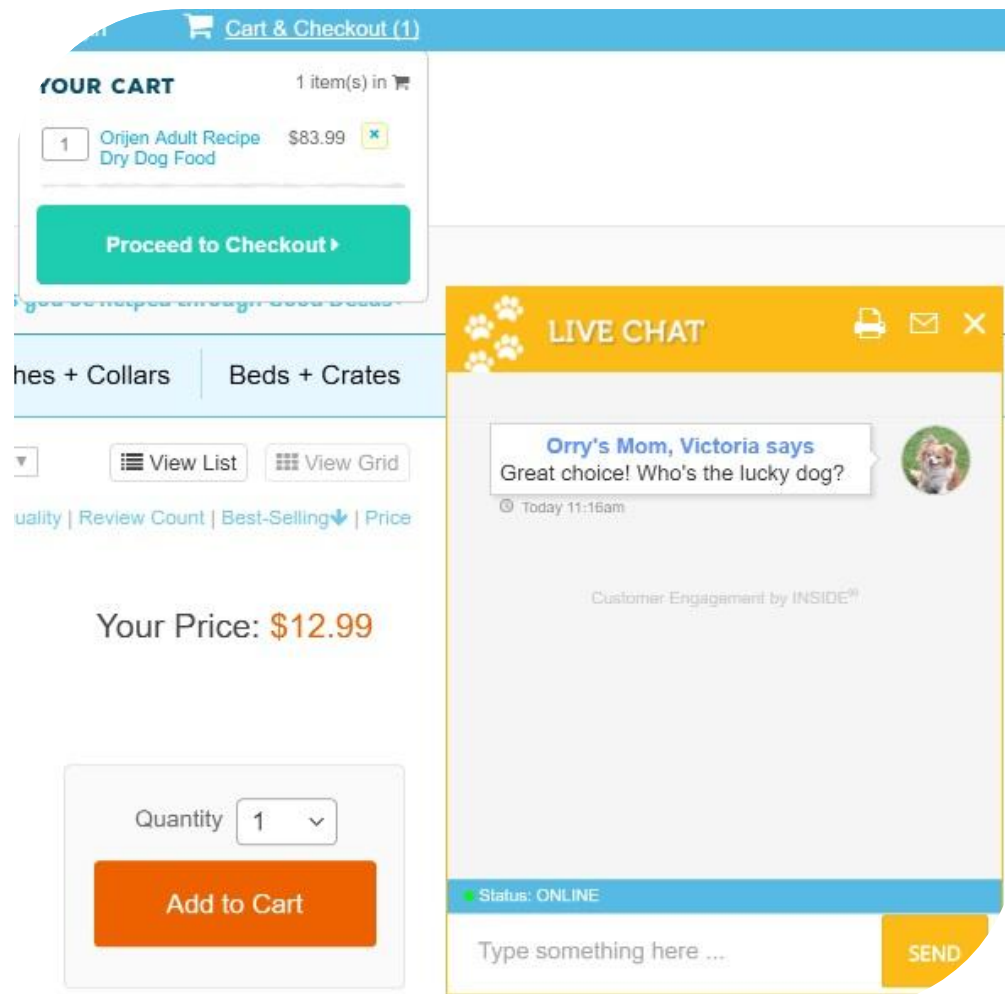
Turn the Tables

Where Is Marketing Spending Its Money?

Case Study: Live Chat



Measuring Chat Returns



What the customer sees....

Behavioral Triggering

• Spend On Payroll Before Additional Media

- Until fully loaded cost of serving chat is greater than cost of acquiring additional impressions

• Key Metrics

- 10-Day Return and Purchase Window:
 - Our best triggers improve the likelihood of organic repurchase by 50-250%
- Basket Variable Profit Net of Cost to Serve:
 - -5% to +15%
- Cost of Acquired New Customer:
 - $\text{Conversion Lift on New Cust. Orders} \div \text{Cost to Serve}$
 - \$0 to \$5

Measure Incrementality

Week of:	08/21/16	08/14/16	08/08/16	08/01/16
Chat Triggers				
California Natural Total	33.00%	0.00%	6.25%	11.11%
California Natural Engaged	20.00%	0.00%	25.00%	11.11%
EVO Total	18.18%	0.00%	7.69%	25.00%
EVO Engaged	18.18%	0.00%	50.00%	25.00%
Open Farm Total	-0.17%	-2.40%	-0.55%	0.50%
Open Farm Engaged	10.29%	11.30%	1.15%	0.00%
Royal Canin Total	-0.80%	-4.61%	3.58%	0.50%
Royal Canin Engaged	11.35%	2.28%	6.62%	15.22%
Merrick Total	0.04%	5.05%	-3.17%	-1.50%
Merrick Engaged	0.06%	9.49%	3.68%	14.80%
Kangaroo Total	0.00%	0.00%	0.00%	0.00%
Kangaroo Engaged	0.00%	0.00%	0.00%	0.00%
Puppy Total	7.28%	-2.23%	2.76%	9.21%
Puppy Engaged	16.02%	-2.08%	15.00%	3.02%
Explorer Page 2 Total	0.49%	-2.81%	-0.93%	-3.70%
Explorer Page 2 Engaged	7.48%	6.83%	12.00%	-9.70%
Add to Cart Total	-3.98%	-3.07%	12.00%	-0.65%
Add to Cart Engaged	10.18%	13.09%	8.93%	17.00%
Explorer Filters Total	-9.15%	-6.06%	10.13%	5.02%
Explorer Filters Engaged	-1.85%	0.58%	13.72%	1.00%
Coupon Failed Total	-0.69%	-9.40%	-22.36%	-33.73%
Coupon Failed Engaged	7.35%	8.57%	-13.62%	-19.65%
Login Total	1.40%	0.25%	2.60%	0.25%
Login Engaged	13.94%	-0.61%	-7.05%	6.32%
"Opportunities" Total	18.64%	16.43%	3.42%	43.93%
"Opportunities" Engaged	73.08%	21.43%	-21.15%	47.73%

Digital RSA's Measured by Conversation Type

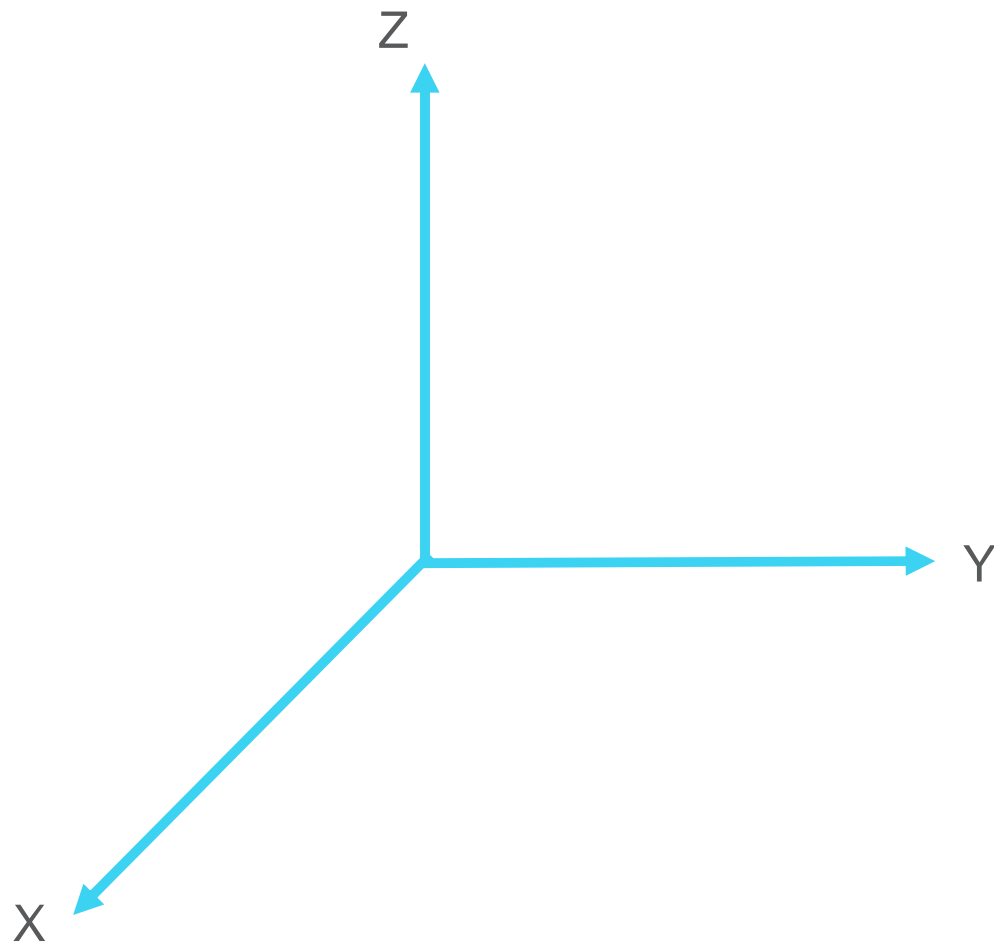
Opportunistic Innovation Triggered by Behavior

- Different behaviors compete for share of chat resources
- New chat behaviors compete with new media for share of marketing dollars

	Chat Cost	Profit Net of Chat 17%			
	\$0.12	\$0.10	\$0.15	\$0.25	\$0.12
Chat Active/Offered	(\$12)	\$182	\$177	\$167	\$180
Not Active or Offered	\$0	\$149	\$149	\$149	\$149
Delta (\$)	(\$12)	\$33	\$28	\$18	\$31
Delta (%)	100%	18%	16%	11%	17%
New Customer Order and CAC					
	Orders	New Customers	CPA	CPO	
	24	7	\$2.36	-\$1.31	

Lifetime Value Prediction

Understand Real Per-Customer Contribution According to 3 Distinct Dimensions of Variability



X: Basket Margin

- 10k+ Products
- Broad Margin Variation by Brand and Category

Y: Predicted Purchase Rate

- Subscription (Yes/No, Interval)
- Traffic Source, Site Experience
- Promotion Used, Geo Location

Z: Variable Fulfillment Cost

- Incremental Cost/Savings vs Company Average
- Independent of Loyalty

Core Logic

Repurchase Rate As Key Variable

Many Possible Explanatory Variables

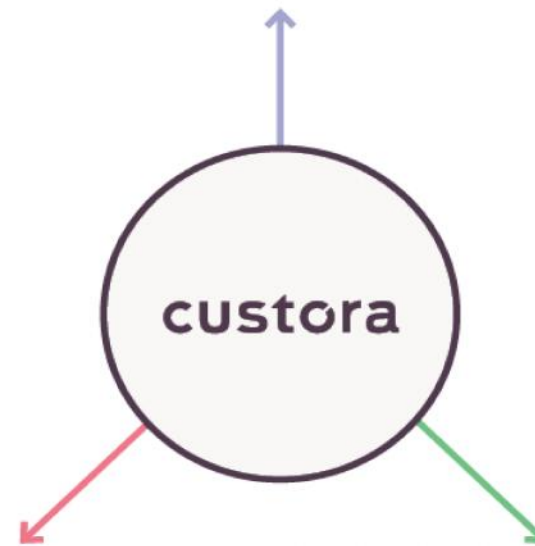
- Challenge is to QUICKLY determine which ones are actually driving repurchase behavior
- Greater speed in predictions means more rapid feedback and improvement to bidding tools

Rotating Playing Field

- Introduction of new influences on brand perception and experience require frequent calibration of predictive models. Major drivers include:
 - New media opportunities
 - Changing promotional strategy
 - Relative price competitiveness

Surfacing Data to Make It Useful

- Making granular data available to different parts of the org was a key accomplishment



Order frequency

Predictive analytics help characterize the distribution of typical purchase frequencies throughout the customer base

Customer lifetime

Algorithms identify when customers are beginning to veer off of their typical purchase cadence — showing signs of churn

Profit per order

Models help predict profit per order for individual customers

Covariates enhance individual customer predictions



Corporate Culture

Engagement & Ownership

Tech Is Just A (Crucial) Piece

- **Equity Ownership**
 - Investment Mentality
- **Transparent Accountability**
 - Bi-Weekly Stand Up Meetings
 - Individual Dev Feature Ownership
 - Financial Statement Granularity
- **Curiosity Pre-Requisite**
 - Built Into Our Screening Process
- **Creative Talent Management**
 - Motivational Impetus
 - Self-Driven Stakeholder Engagement
 - Demands Fewer Systematic Controls



Transparency MATTERS

Employees are always transparently kept in the loop on the company's plans and performance.

We each own a piece of the business. It's the company's job to empower us to be active and informed investors.



ALWAYS BE Goal Driven

Being busy can't get in the way of being successful. Make time to set goals!

We are all challenged to set goals that make the business succeed and help us grow.

It's the company's job to give us the tool to achieve our goals.

AGILE Marketing Workplace



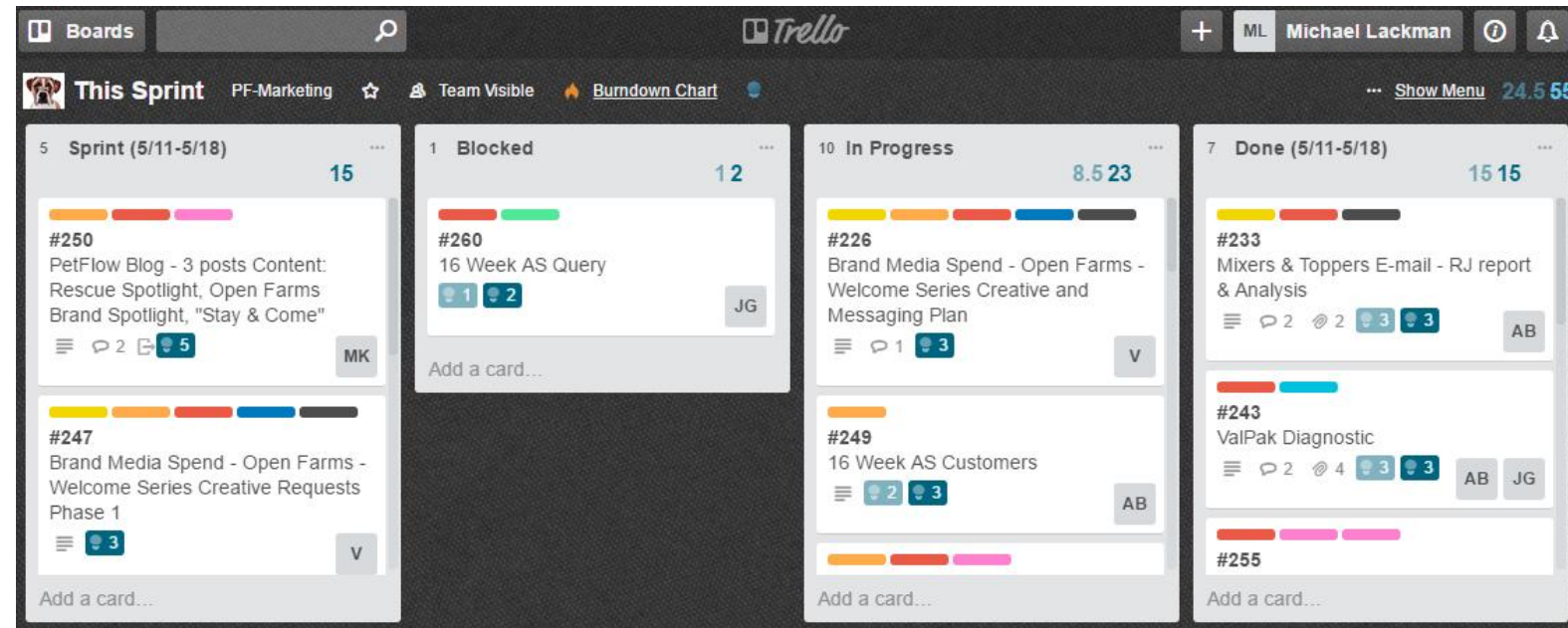
Speaking Tech's Language

What We've Left Behind

- Scope mismanagement
- Poor prioritization decisions
- Lost time in hand-offs
- Long meetings

What We've Gained

- Quantified productivity of team resources
- Lower context switching costs
- Increased engagement from Product



No Substitute for Process



🐾 Contribution Profit & CLTV

- Definition:
 - Profit net of all variable costs
- Accessibility:
 - Surfaced in every ROI evaluation
- Granularity:
 - Factors basket contents, delivery costs, predicted re-order frequency

🐾 Stakeholder Management S.O.P.

- RACI
 - Responsible, Accountable
 - Consulted, Informed
- Ownership is clear
- People aren't left out

Order Edit

Account Credit Balance: \$ 0.00

(Loss any orders that have not yet shipped or recently placed.)

Create Refund Create Promotional Credit

Order Number: 412
Program Number: 315
User: @aol.com
Full Name: BARBARA
Shipment ID(s): / 13
Order Invoice Number: 10452
Charge ID(s): 628
Lock Status: Unlocked
Process Date: 05-17-2016
Est. Ship Date: 05-17-2016
Load cost margins data

Subtotal: \$61.99
Flat-Rate Shipping: \$0.00
Sales Tax (NY/NJ/NV): \$0.00
Total: \$61.99

Shipping Billing Payment Data Margin

Order Total Pre-Tax Incl. Discounts: \$51.99
Contribution Profit: \$10.18

EMAIL SENDS

If order status changes while viewing this order, refresh to see new email options.

Send custom email

Send Email

Email Content

Weekly Email Campaign

Order's GA campaign	Revenue (placed, not of discounts)	Discounts	Profitability	Orders Created	AOV
pfem_2016.03.01_FleaTick_MAIN	\$6,303.79	\$-663.80	\$865.24	67	94.09
pfem_2016.03.02_Merrick_MAIN	\$7,178.00	\$-735.59	\$1,337.03	93	77.18
pfem_2016.03.02_Merrick_PFR	\$2,610.29	\$-432.77	\$562.63	44	59.32
pfem_2016.03.03_NaturesRecipe_MAIN	\$6,223.74	\$-798.04	\$1,155.52	75	82.98
pfem_2016.03.04_BullySticks_MAIN+OD	\$14,410.43	\$-1,013.06	\$2,581.35	174	82.82
pfem_2016.03.04_BullySticks_PFR+OD	\$8,985.21	\$-611.47	\$1,510.30	123	73.05
pfem_2016.03.05_Health&Wellness_MAIN	\$6,152.34	\$-638.79	\$1,227.35	74	83.14
pfem_2016.03.05_Health&Wellness_PFR	\$3,171.02	\$-341.00	\$604.85	41	84.66
pfem_2016.03.05_15perOFF60_PFR	\$14,328.50	\$-3,103.66	\$1,507.15	168	85.29
pfem_2016.03.05_AutoShip-Buyers_MAIN	\$7,540.26	\$-961.26	\$1,842.61	86	87.68
pfem_2016.03.05_AutoShip-Non-Buyers_MAIN	\$8,691.71	\$-1,186.85	\$2,072.54	95	91.49

What Do You (NOT) Have Time For?



Currency of Points

Estimates for Each Pipeline Feature Determined by Product and Tech

- Many approaches to estimation
- NOT strict hours tracking
- Requires post mortem re-calibration
- Most accurate over time

Financial Investment in Technology Measured Straight from GL

- Either CAP-EX or total spend depending on business priorities

Currency

- $\text{Dollars Invested} \div \text{Points Delivered} = \text{Cost per Point}$
- $\text{Points per Feature} * \text{Cost per Point} = \text{Delivered Cost}$

Testing

- Reliable testing around KPI's is critical

