



Audience Extension: A Path to Low Cost SMB Customer Acquisition

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Executive Summary

Audience extension is a data-driven targeting technique that enables a publisher to extend the reach and frequency of impressions for advertisers by finding sources of traffic outside the publisher's direct domain. It also allows advertisers to reach new target audience sets and convert these prospects into customers at a much lower acquisition cost than if they purchased an audience of similar size directly. The strategy leverages existing data investments for maximum returns.

The audience extension model has particular relevance in the small and medium-sized business (SMB) space. Those selling products and services to SMBs struggle to attract them at a viable customer acquisition cost (CAC). Using sophisticated audience extension techniques, which can improve over time through refinement, business-to-business marketers can address the longer tail of SMBs at a lower CAC.

This report defines audience extension and frames it within the context of the challenges presented by the difficult task of targeting small businesses at scale. Breaking through to lower CAC, along with reducing the cost of goods sold, is key to reaching the very small business customer. Most media companies with large deployed sales channels have focused on SMBs in the middle to top range of the pyramid (based on spend or revenue) because the cost of sales is too high among very small businesses, which are more elusive.

Advances like cloud-based software and rapid development processes coupled with customer acquisition innovations such as audience extension are changing the content marketing game. It is now possible to acquire and serve small business customers at scale without prohibitive marketing expenses driving up retail price points.

However, audience extension does have pitfalls and limitations. Publishers such as Manta that use audience extension to acquire new SMB customers report that it works for most but not all advertisers. Audience extension failures can generally be attributed to poor setup or simple unwillingness to give programs enough time to percolate and generate results.



Manta offers its audience extension programs to advertisers across several industries, ranging from telecommunications and Internet connectivity to travel, finance and marketing. As larger brands (big names in insurance, hospitality and telecom among them) target SMBs, Manta's audience extension program has proved to reduce their CAC by up to 18 times previous benchmark levels.

Audience Extension Defined

Audience extension is a tool for brands to expand their reach and reduce customer acquisition cost (CAC). It is also relevant to companies in the local commerce ecosystem, including local search companies, traditional publishers, verticals and digital agencies, many of which have large deployed premise and/or telephone sales channels in support of major investments in product. Consequently, the cost of both sales and goods is too high, which makes it difficult to address the longer tail SMB market.

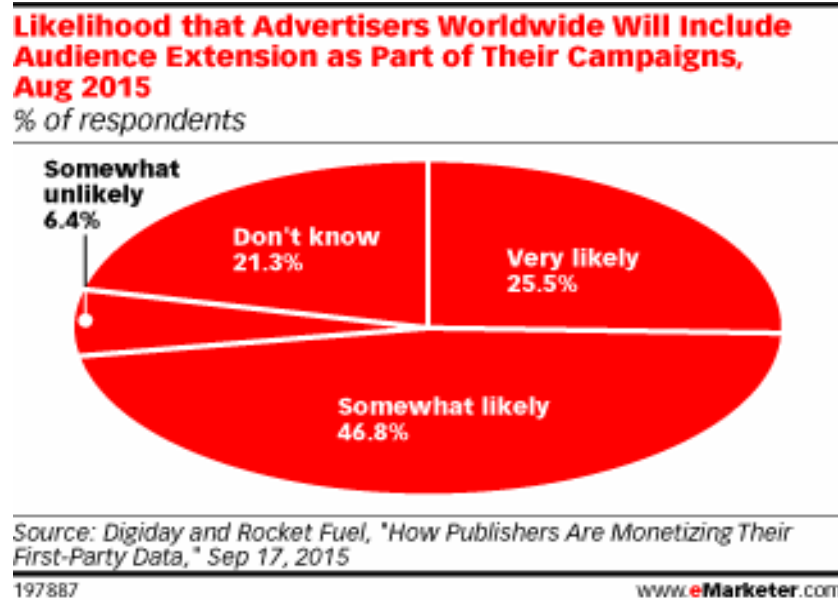
Audience extension combines first-party publisher original data with second-party data to create targeted prospects for advertisers that extend reach beyond the publisher's own users to include "look-a-like" audiences, which mirror the profile and behavior of the original target. Second-party data sources are identified by the publisher as having the greatest fit with the target audience so it can be significantly expanded without diluting content quality.

This approach helps reduce CAC because it extends relatively small and costly first-party data sets by seeking similarities in larger and less costly second-party data sets. Audience extension doesn't work 100 percent of the time. And the practice has its critics, who contend that modeled look-a-likes can never be as valuable as original data. While that criticism may be true, the lower cost of look-a-like audiences creates opportunities for higher margin engagement with secondary customer groups that pay the same price for the goods or services offered.

Audience extension has been growing in popularity in recent years. According to a 2015 survey from Rocket Fuel and Digiday published by eMarketer, more than 70 percent of advertisers worldwide intended to include audience extension in ad campaigns (Figure 1).



Figure 1 – Advertiser Use of Audience Extension



Source: eMarketer, 2015

Finding the Blue Ocean for SMBs

At the September 2015 BIA/Kelsey SMB Conference in Denver, Colorado, a session titled "Is There a Play for the Long Tail SMB" argued that technology and business process innovation have made it possible to affordably acquire long tail SMBs.

For our purposes, let's define the long tail as small businesses with revenue starting at about \$50,000 annually that have been unattractive to advertising and marketing services sellers, among others, because they are difficult to acquire at a profitable cost per customer. Instead, most companies focusing on the local space have crowded around the opportunity for larger SMBs, multi-location businesses with more than \$1 million in annual revenue. This has left a blue ocean¹ of smaller SMBs untapped. The audience extension strategy is the right business model to approach

¹ The phrase is borrowed from the book "Blue Ocean Strategy," which advocates identifying untapped opportunities (blue oceans) vs. the "red oceans" of saturated markets.



this untapped SMB market, according to Peter Hutto, the former Local.com executive who led the panel. Hutto summed it up this way:

“Ninety-five percent of people who have attended these conferences for a long time do not believe you can build product for the low end of the market. And they do not believe that you can acquire them cost effectively. And they do not believe that you can fulfill, support and monetize them effectively. **We’re here to tell you how you build product inexpensively and quickly acquire customers very inexpensively. And once you acquire them, you engage with them and follow them through their journey and add value and monetize them. It’s very real and it’s here today.**”

Hutto defined three key elements that have enabled this shift, making it possible to address the smaller SMB market profitably:



1. Massive audience platforms like Facebook, Google and others now provide **access to their data via application programming interfaces (APIs), as well as to their advertising management technology** for targeting SMB prospects.



2. **Low-cost technologies have emerged that make it possible to build products much faster.**



3. A change in consumer digital consumption behavior characterized by a shift to mobile and app usage means **higher expectations for product quality but lower expectations for service levels.**

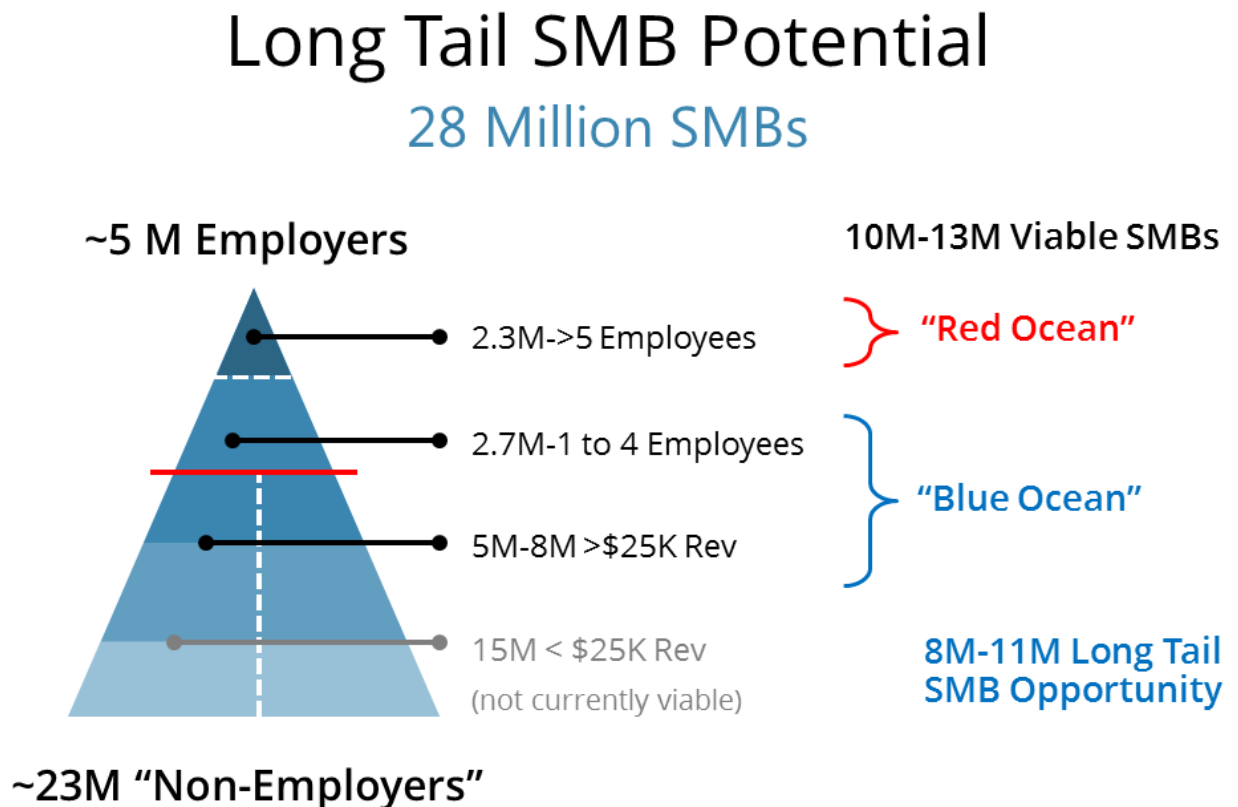
If advertisers could build product at 10 times lower cost and 10 times faster than today, what would that mean for the markets pursued and the products and services created, Hutto wondered. “What if you could acquire these customers at five, 10 or 15 times less than today and bypass your direct sales operations?” he asked.

Audience extension can open up opportunities for advertisers that have had difficulty acquiring smaller (blue ocean) SMBs and also struggle in the highly competitive (red ocean) larger SMB space.



Hutto studied U.S. Census data to estimate the very small business blue ocean opportunity in the U.S. at between 8 million and 11 million SMBs (Figure 2).

Figure 2 – The Long Tail SMB Opportunity



Source: Peter Hutto, based on U.S. Census Bureau data for 2013 & 2014

Case Study: Manta's Audience Extension Program

Manta is a small business online directory with 33 million SMB profiles in its directory and 2.7 million small business owners active on the platform. The company onboards approximately 30,000 new SMB profiles each month. Manta's stock in trade is helping its advertisers reach a B2B audience, specifically very small businesses.

"I decided to create a strategy around how we use our first-party data to model look-a-likes for customer acquisition for our B2B clients," says Joey Glowacki, Manta's Vice President of Sales and Business Development, who led the initiative to use audience extension to help advertisers acquire more small business customers. Manta's first

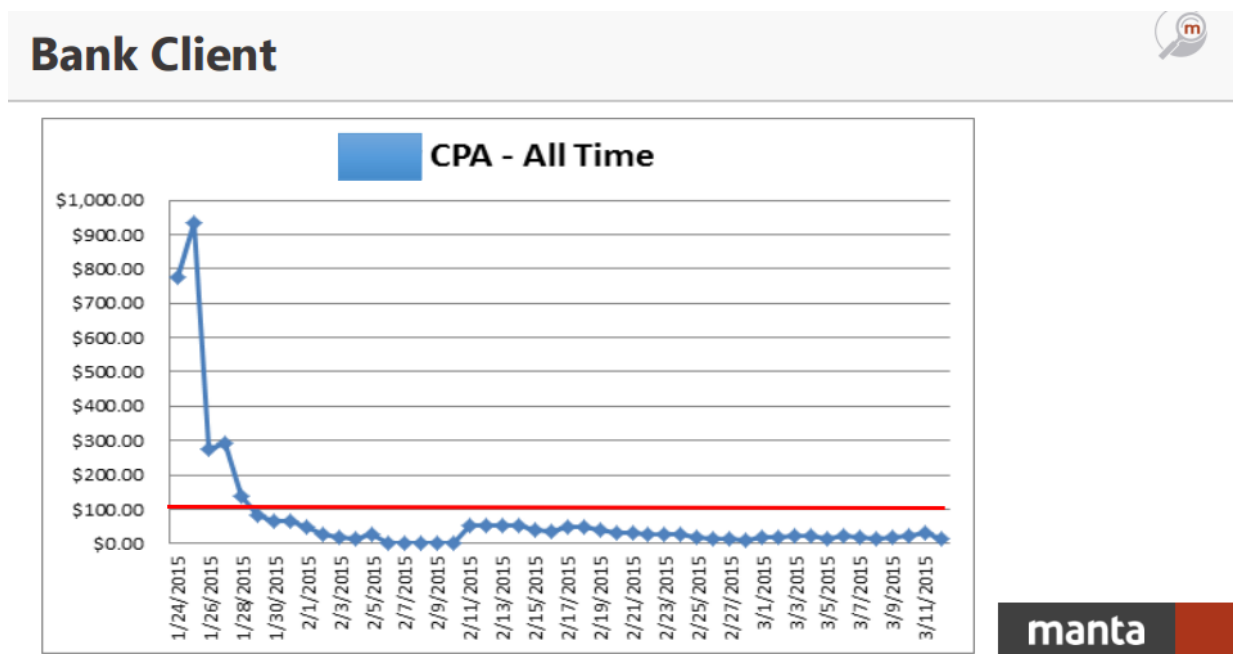


insight in formulating this strategy was that the list of fewer than 3 million active businesses on its platform is “not that big of a pool,” Glowacki says.

To significantly increase the data sets, Manta formed a partnership with another first-party data provider with 60 million business profiles – each listing includes 100 business attributes – to add both breadth and depth to its own data set. Now Manta had a data pool to analyze for unrecognized marketing opportunities. Since then, the number of businesses listed expanded to 88 million with more than 200 data points about each company in the directory.

“When you have a pool of 60 million people in a B2B database, you’ve got some scale. We were able to take what we’ve learned from the overall acquisition and do look-a-like modeling,” Glowacki says.

Figure 3 – Driving Down CAC With Audience Extension



Source: Manta, 2015

Glowacki nurtured the initiative by approaching several friendly clients that would be willing to give the audience extension approach a try. Manta initially focused on driving up the click through rate across the entire population but later shifted to measuring audience extension’s impact on customer acquisition on a customer-by-customer basis.



"[Manta] went to a bank [advertising client] and they said, 'We have a \$500 cost per acquisition model. But because this is so iffy, we need to go lower — to \$100,'" Glowacki says. "It took one week to refine the algorithms. Then the algorithms kicked in and the inflection went up and we saw the acquisition cost go way down, below the \$100 level. At the end of the campaign we were at \$23.94 [per acquired funded customer]."

Glowacki says the benefits of the strategy can go beyond cost per action or conversion metrics. "One client said, 'The CPA is fantastic. But what I am really excited about is how you were able to accelerate the number of conversions while driving down [CAC],' " he says.

Avoiding Common Pitfalls of Audience Extension

Audience extension has been effective for many advertisers in expanding audience and converting new customers efficiently, but for some it simply doesn't work. Based on his experience working with multiple clients, Glowacki attributes most failures to a few common causes:



Improper Setup. Audience extension can fail, or appear to fail, if the campaign's operational setup isn't handled properly. An example would be failing to establish appropriate tracking on the advertiser's conversion path and website. Misdirected targeting can also be a challenge, with advertisers at times aiming for one set of prospects only to find a different set actually convert.



Lack of Patience. Audience extension programs take time to develop and generate results, often up to two to four weeks. Many clients believe conversions should start happening immediately and declare the campaign a failure when nothing happens in the early stages.



Misaligned key performance indicators (KPIs). Another common issue is the misalignment of KPIs and campaign strategy. Clients will often change KPIs midstream or focus on a secondary KPI, trying to optimize the campaign differently and veering from the original plan. This kind of tinkering and moving of the goal posts can muddy campaign outcomes and lead to dissatisfaction with audience extension as a strategy.



Conclusions: Innovate and Iterate

The audience extension model is relevant in the SMB space, given the growing importance of reducing the cost of selling products and services to small business customers. By using sophisticated audience extension techniques and optimizing to improve performance over time, B2B marketers can address the longer tail of SMBs at significantly lower CAC than previously experienced.

But as noted, audience extension must be based on the right data (combining first- and second-party sources), and it requires skillful setup and the discipline to stick with the original campaign strategy even when initial results appear underwhelming.

Glowacki offers a few recommendations for publishers and marketers looking to experiment with audience extension as a tool for improving their customer acquisition model:



Have Patience. Audience extension campaigns take time to work. “This is not a light switch,” he says. “It’s a dimmer switch.” Clients must turn up the campaign over time, as its performance improves, to get the full impact at a low CAC.



Focus on the Data. Starting from the wrong data or insufficient quantities of data can kill a campaign before it begins. “You need a partner that has both broad and deep data sets,” Glowacki says. “Without those it will be hard to scale.”



Button Up Operations. “Every battle is won before it is fought,” he adds. Planning, coordination and execution based on clearly articulated reporting and metrics will make or break a campaign.



A/B Test and Iterate. The performance of audience extension improves over time through testing, measurement and refinement. “Put some things out there in the marketplace that you think may not work,” Glowacki says. “You will be surprised by what actually does work. Do not replicate that same failure going forward. Test and refine. Test and refine.”



Glossary of Terms

Audience Extension. This is a technique publishers can use to convert their own traffic into a larger audience by targeting their users, as well as similar “look-alike” users on other websites. The mechanics of audience extension bear many similarities to retargeting, and it is comparable to a content marketing campaign in practice.

Customer Acquisition Cost (CAC). This is a key performance indicator that measures the cost of attracting customers divided by the number of customers acquired. For example, if a company spends \$10 million on advertising to attract prospects and converts 100,000 new customers, the customer acquisition cost is \$100.

Long Tail SMBs. This is an informal term popularized by WIRED magazine editor Chris Anderson that describes the very small businesses in niche markets that represent a sizable opportunity in aggregate but are difficult to acquire because the average sale value is low.

Look-Alike Modeling. This is a process whereby a marketer uses another data source to find prospects that mirror those in the original data set using demographic, psychographic and other comparative features. It allows a marketer to reach a much larger audience and is the key component of audience extension.

First-Party Data. This is the original data on a publisher’s own user base. The problem with first-party data is usually not relevance but volume. There often isn’t enough to achieve the desired lead generation and conversion, which leads publishers to seek additional, generally third-party, data sources.

Second-Party Data. This is first-party data that the first-party data owner utilizes to create a larger data set with similar attributes to solve scale problems often presented by first-party data alone. Second-party data are based on partnerships and must be distinguished from third-party data, which are simply data licensed from a third party that aggregates data, often with little transparency on origin or quality. In general the quality hierarchy of data is first-party, followed by second-party and finally third-party data.



About BIA/Kelsey



BIA/Kelsey is a market research and analyst firm that focuses on all things local. Local media is an increasingly dynamic area of ad spending, and is quickly evolving with emerging digital platforms like mobile, social and search.

Over the past three decades, BIA/Kelsey has been an authority on these developing technologies as well as their forbearers in traditional media, which continue to transform as they likewise compete for local ad dollars and consumer affinity.

Through a growing suite of products that include research reports, articles, conferences and client consulting, BIA/Kelsey analyzes the business, financial, social and technology trends affecting local media.

Readers, event attendees, partners and clients are given the inside track on critical data, analysis and recommendations needed to grow and transform in a rapidly evolving media and advertising landscape.

About BIA/Kelsey Sponsored Research



BIA/Kelsey Sponsored Reports are commissioned by companies that wish to spotlight areas of coverage.

BIA/Kelsey maintains full editorial control and applies longstanding standards of editorial practice and objective market analysis. If you'd like to sponsor BIA/Kelsey's coverage of any topics or to profile sectors of local media innovation, please contact sales@biakelsey.com.



About Manta



Manta is one of the largest online resources dedicated to small business, delivering products, services and educational opportunities geared to help business owners become more competitive in their respective industries.

The Manta directory boasts millions of unique visitors every month who search its comprehensive database for individual businesses, industry segments and geographic-specific listings. Business owners can claim and customize their page to improve online visibility and marketability, gain key knowledge vital for success, and find products to help grow and manage their business.

Manta works with some of the leading small business industry researchers, with research findings consistently featured in national news outlets — fostering improved understanding of the impact of small business on the economy, politics, culture and much more. At a more grassroots level, the Manta Community helps members to ask questions and share experiences with other small business owners.

Visit Manta at www.manta.com to learn more.

