Modeling ROI for Personalization

A Detailed Guide to Determining the Value of Personalization

— by Lyndon Hedderly, Director of Digital Strategy at Acquia

Table of Contents

About the Author:

Lyndon Hedderly is the Director of Digital Strategy at Acquia. Lyndon brings 20 years of digital business transformation (DBT) & IT Optimization experience to Acquia, helping organisations plan for and realize value from digital investments. His key areas of expertise include vision setting with a focus on personalization, omnichannel and ROI and TCO modeling. Prior to Acquia, Lydon was Head of Customer Success at Centrix Software Ltd. and a Strategy Consultant in Accenture.

Introduction

Many studies extol the benefits of personalization. Gartner states "by 2018 organizations that have fully invested in all types of personalization will outsell companies that have not by 20%". Forrester, in their Revenue Impact Of Customer Experience, 2015 , report found that there is "a clear link between customer experience improvements and loyalty-driven revenue potential, based on increases in retention, enrichment, and advocacy". While all this talk about personalization is exciting, where do you start with your own digital properties?

Implementing personalization requires a transformation and transformations live or die based on senior stakeholder commitment, governance and control. These three things are best achieved when there's a clear shared goal - and a great, clear goal is often increasing revenue.

Therefore, the best place to start a personalization initiative is to quantify a financial return on investment (ROI). Acquia's personalization ROI framework was created after discussion with many prospects and customers. Over time, we have created an Excel model to help our customers assess the value of personalization, which aligns with the framework.

Acquia's Personalization Value Assessment Framework

Step 1: Understand the Core Business and Digital Customer Experience

In my experience, the best place to start your personalization initiatives is to first understand how the digital properties support the core business. Here, I've assumed the digital property is a main corporate website. However, this approach could equally apply to any digital customer experience, such as digital signage, or even voice user interfaces.

Understanding the core business model and how the digital property supports this may sound simple, and in some cases, it is that simple. In many cases, however, actually quantifying the value can be a challenge. A single website may often support multiple different business models, such as aiming to:

- Sell something directly e.g. commerce, or subscription sites
- Sell something indirectly e.g. content for commerce, lead generation sites
- Raise awareness e.g. news or publishing sites. These mostly rely on advertising revenue and occasionally subscription revenue
- Save time and / or money e.g. process efficiency, help, support or FAQ sites.

Although many sites will merge these models, to keep things simple, I suggest focusing on just one aspect of the digital property when first assessing the value of the site.

Each type of site will have goals with site metrics. Where the site metrics are dollar (revenue) related, quantifying value can be straightforward. Examples of these types of metrics include those for commerce or subscription sites; total sales / revenue average revenue per user (ARPU), or average order value, together with total conversions, etc.

Where site metrics are not directly linked to dollar values, quantifying value can be a little more challenging. Examples include measuring engagement, using metrics such as page views, click tracking, or time on site. Here, we need to be a little more creative in understanding the link between a metric and a dollar value. Conversion metrics can play a part here; we can set goals or events and estimate a value for these. For example, a form fill may capture an email address, converting an unknown user to a known user. The email address itself may have an indirect dollar value.

Step 2: Detailed Proposed Personalization Use Cases

Once we understand the site business model and metrics, the next step is to model potential personalization use cases. Here, I talk about two common use cases; Data Collection and Content Targeting.

Content Targeting means showing specific and relevant content based on context-aware information. We can hypothesise that this may result in increased engagement, which may in turn lead to:

A: Increased purchases, or subscriptions, on a commerce or subscription site.
B: Increased brand awareness, resulting in conversions on a lead gen site.
C: Increased page-views, dwell time or click-through-rate (CTR) and social sharing on an awareness site, leading to increased ad-revenue.
D: Process efficiency, leading to reduced cost to serve, cost takeout elsewhere or simply increased customer satisfaction.

Data collection can also be valuable, when the data is used appropriately. For example, data can be used to better understand customer behavior and drive different actions. Many studies show that acting upon a better understanding of your customers can have significant business benefits.

Step 3: Estimate Investment

Once we've agreed on the potential benefits of specific personalization use cases and monetized these, it's time to look at the required investment costs of implementing personalization. This goes beyond project implementation costs to include total cost of ownership (TCO) over an agreed timeframe. TCO includes "people and process" costs, as well as technology costs. Complete personalization initiatives often result in a change to the target operating model (TOM) , so this should be modeled too.

Step 4: Calculate the Project's Net Economic Return

After estimating potential benefits and costs, the ROI is calculated: (benefits minus costs) to reach a quantified (dollar, or Euro, or GBP, or other) number. I typically model this per year, over three years. Any longer than a three-year ROI is a long time in digital. Also, most organizations want to see a return on personalization within the first six months to a year.

If required, we can apply standard ROI adjustments. For example, applying net present value (NPV) adjustments. This basically reduces future costs and benefits, based on a weighted average cost of capital (WACC), as future money is worth less than money today. In my experience, this adjustment is rarely required, given the broad-brush levels of accuracy we're dealing with.

Step 5: Detail Non-Financial Impact

Once we have a hard quantified ROI, we should also consider the softer impacts of implementing personalization. An example of a soft positive impact could be non-quantified customer loyalty and advocacy. This is clearly beneficial to the business but may be difficult to actually agree on a dollar value. An internal positive indirect impact could be attracting and retaining talent in your organisation as you use interesting technology. Or, it could be simply keeping up with the competition. Conversely, an example of a potential negative impact could be customer perception. Customers can feel personalized content is a little creepy if it's not done right. The point here is, a sound and complete business case always considers more than just the numbers and sometimes it is the softer considerations which will justify a personalization initiative, especially if the numbers alone are underwhelming.

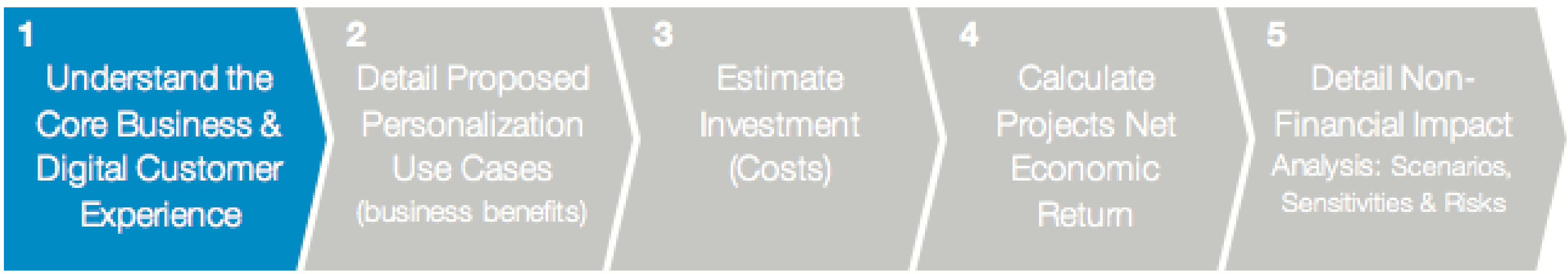
Finally, the ROI model should leave some scope for investigating various scenarios, sensitivities and risks. What will happen if the expected benefits aren't fully realized, or if the project costs over run? What is the risk of doing nothing? Many organizations model a flat revenue projection as a "do-nothing" baseline, whereas in reality, this may result in a natural decline as the competition implements personalization. We should not underestimate the FOMO (fear of missing out) factor. Many organizations may be driven by fear of a "do-nothing" approach, rather than an ROI opportunity itself.

Once the overall value is agreed, regularly referencing this value should maintain stakeholder buy-in, increasing the chance of project success. The ROI should also act as a baseline for future benefits realization and continuous service improvement (CSI). This is not simply a one-off exercise to approve a budget, it is key to focusing on the high-impact changes and realising business value on an ongoing basis.

The following sections dive into more detail, based on the Acquia value assessment framework.

Valuing Your Digital Properties

The first step is to understand your core business and digital customer experience as it relates to personalization. This step in the process is required as a baseline from which to demonstrate a financial uplift after implementing personalization. This is potentially the hardest step, so bear with me.



To measure success of implementing personalization, we need to be clear on what we're measuring, how we're measuring it and to ensure any changes we see are as a result of our actions.

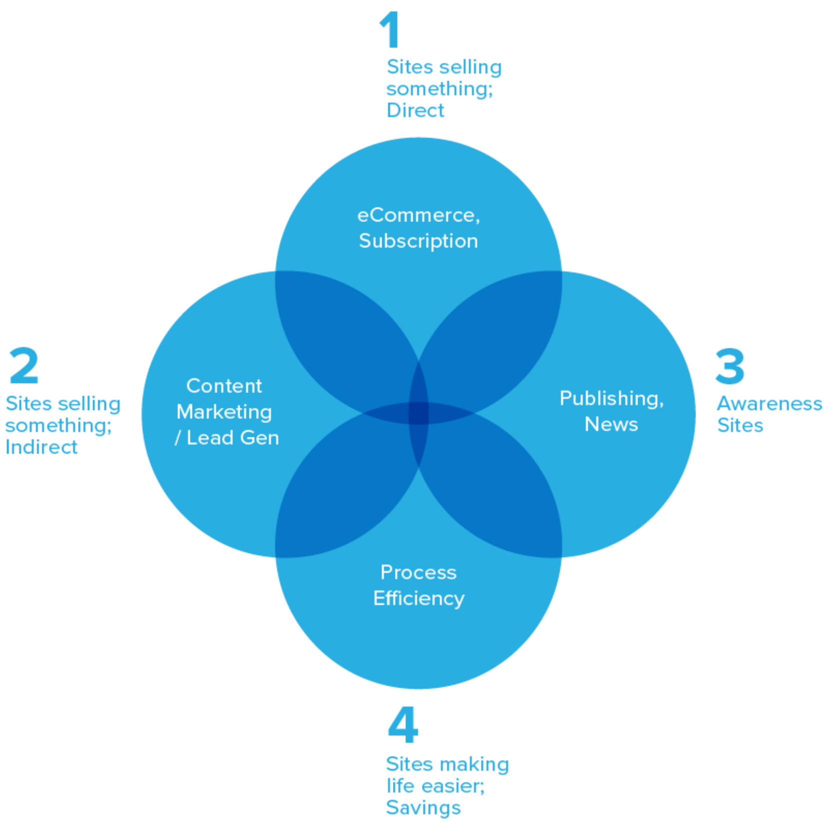
First ask; what is your digital property (website) worth? This doesn't mean how much would it cost to build, but rather, how much value is it generating? The answer to this question should be a prerequisite when considering any enhancements to your digital properties. That said, answering this question can be far from straightforward, especially for non-commerce sites.

For digital properties that aren't generating revenue directly, how do you articulate the operating value? Wikipedia lists [50 different types of websites] ranging from; awareness sites, blogs, to brand-building sites, galleries and Wikis, in addition to commerce. How do we measure the dollar value of all these?

The first critical step is to go back to the core business. Ask, “how do you make money?”, then ask, “how does the digital property support this core business?”. The following are the four most commonly encountered business models of a digital property:

1. Sites **selling** something (direct revenue), e.g. commerce, subscription sites
2. Sites **aiming to sell** something indirectly, e.g. content for commerce, lead generation sites
3. **Awareness** sites including news or publishing. These mostly rely on advertising revenue and occasionally subscription revenue
4. Sites for savings, e.g. **process efficiency**, help, support or FAQ sites.

Different business models often merge across a single site or group of sites. Sites can also satisfy both B2C or B2B and often also vary by geography, business unit, region, etc. This complicates things and is partly why the task of quantifying value can prove to be difficult. The Venn diagram below illustrates the potential complexity of this situation.



This diagram shows the most common business models spanning typical websites. Where does your site fit?

Given this potential complexity, my recommendation is to start by focusing on a single business model above. That is, just one non-overlap area of the Venn diagram.

Getting hard quantifiable value is easier for some business models than others. Some site goals will have a direct link to value, such as eCommerce or Subscription goals. Other site metrics will be harder to link to value. If you're wondering what metrics should matter the most, Katelyn Fogarty, Director of Digital Marketing at Acquia, has put together a quick guide on [which web metrics a digital marketer should care about] and why. These metrics all have their place, but for measuring ROI I've provided some examples here of useful metrics to measure, depending on the site type.

Site Type & Determining Value

Commerce & Subscription (Sites selling something directly)

The value of commerce and subscriptions sites -- sites selling something -- is linked directly to revenue. The link is so strong one can measure the value per minute, hour, or day. For example:

- When Amazon went down in 2013 for a reported 40 minutes, the outage was estimated to cost $4.72 million in lost sales, based on the company's average sales of $117,882 per minute.
- When the British supermarket - Sainsbury's - site went down in 2008 due to an internal glitch, the site was valued between £569k and £710k per day. This calculation was based on 8,000 to 10,000 shoppers a day, with an average basket size (average revenue per user, or ARPU) of £71.

Typically, a commerce site owner will report on additional, detailed metrics to provide general indicators of business health. These can also provide a baseline for measuring uplift from personalization and include:

- For projected revenue look at the total number of customers, conversion rates and lifetime value (LTV) of a customer. Calculating LTV can vary
- Average Revenue per User (ARPU), also referred to as Revenue per Visitor (RPV), or Average Order Value (AOV)
- Monthly Recurring Revenue (MRR) and Annual Recurring Revenue (ARR) for subscription sites
- Cost to acquire a Customer (CaC) and Churn.

In short, measuring value from commerce and subscription sites is a simple link to revenue and / or we can measure additional metrics impacting revenue and profit.

Lead Gen & Content for Commerce (Sites aiming to sell something indirectly or build brand awareness)

Content marketing sites create valuable content as a means to build awareness, but ultimately as a motive to increase customers and revenue. These sites are aimed at pushing people through the sales funnel but don't necessarily include a commerce engine, or capture the final stages of the funnel. Despite the lack of a direct commerce component, these sites still play a significant role in the sales process.

Modeling value, however, can be a little more challenging. This is where I have a lot of conversations around baseline value of a site prior to implementing personalization. Let's take an organization with a general lead generation site. A prospect may be aware of the brand via general marketing, TV advertising and / or word-of-mouth referrals. The prospect may receive a mailshot, an email, and go online to the website and eventually buy in-store. How is the website's influence quantified across the varying channels?

We are now in ambiguous territory. What role does the site play in awareness, education, driving conversions, preventing sales drop outs etc? Although the website isn't generating income directly, it is influencing sales and therefore has value.

For retailers, both online and traditional, Forbes claims that 30% of shoppers begin their searches on Google while 49% start on Amazon. The vast majority of shoppers in total begin a search online, when you include sites such as Etsy, eBay and Shopify. So, what effect does the site have, or not have, in this commerce journey even when the purchases are primarily offline?

If we can measure how leads convert into customers and we can calculate lifetime value (LTV) of a customer, we can estimate Revenue and value:

- Total leads x conversion x LTV

But this assumes we're accurately measuring leads and conversion rates. Sites help build brand awareness but the link from brand awareness to 'leads', or 'conversions' and therefore revenue isn't always clear.

Sure, we can look at engagement metrics, such as number of visitors, unique visitors, page views, time on site, bounce rates, exit rates, etc. However, these don't necessarily relate to revenue either.

One option is to baseline site goals, such as the percentage of visitors who clicked on a page (CTR), or filled in a form, or submitted a query, or even a customer satisfaction survey. We can then look at uplift in these quantifiable metrics after implementing personalization and make some assumptions on value from here.

As an example, we can hypothesise that 30% of buyers visit the site at some point in their decision journey, even if the final purchase is in store. We can also assess the customer decision journey as see 'drop-outs' at various stages. We may hypothesize that 25% site visitors would go elsewhere if they couldn't find the information they were looking for online. So, we can start to attribute a given percentage of revenue to the site, albeit assumptions based. We may attribute a range of say, 2% to 5% or whatever % of revenue to the site, as long as the underlying assumptions are reasonable and can perhaps be tested.

Crafting ROIs is often a bit of both art and science and this is definitely the more arty part.

Awareness (Sites incl. News, Publishing).

Publishing sites are often driven primarily by advertising revenue and are usually measured on engagement metrics, such as:

- Unique visitors, page views, time on site, 'impressions' (i.e. CPM) or clicks (i.e. CPC) or some combination thereof.

Showing improvements in engagement scores will often drive value in advertising revenue. This can often be quantified relatively easily. When Google's home page was offline for about five minutes August 2013, estimates suggested this cost Google about $545,000 in ad revenue.

Interestingly, some awareness sites are moving towards alternative revenue streams, based on monetising user data. Think Facebook and LinkedIn.

- Facebook, a market cap of $253 billion and the ninth-biggest company in the S&P 500. Clearly Facebook has a value based on user data which is far higher than its advertising revenue potential.
- LinkedIn recently sold to Microsoft for $26.2 billion. The value is in the data rather than revenue generated from recruitment consultants and users paying for services.

The key is to understand the model and how much the data is ultimately worth. If you know the value of your customers, or the value of your customer data, you can work out a monetary value attributable to users of your website.

Process Efficiency

Some websites can digitize processes in such a way to unlock significant value by compressing timelines and eliminating duplication or inefficiencies. A simple example many finance companies opt for includes converting customers to receive online documents rather than hard paper copies. This can reduce the cost of printing and posting, resulting in significant savings for both the business and customers - a win-win.

Many simple information-only / support websites can save costs. Common questions can be answered in on-line FAQs rather than from a call center. Reducing the number of enquiries made to a call center using an online support website can save significant costs. This is especially true in government and public sector services.

Example metrics we'd look to measure as a baseline here include:

- Support calls / online tickets resolved
- Engagement metrics; Time on site and CTR. Interestingly, these metrics are often reversed to show reduced, rather than increased, time on site and shorter click-through rates to show the site is channeling the user to the appropriate resolution quicker
- Customer satisfaction ratings.

Any of the models above often coexist on the same site and to complicate things, some sites include alternative revenue streams, or new innovative models which don't easily fit into the above categories. The key is to carefully consider the different ways that your website contributes to your business and aim to quantify that. It is only realistic to track improvements in something when that 'something' is quantified and regularly monitored.

As a final check point, you can cross-check the operating value of your site against the spend on your site. This is a way to "mark your own homework" when determining site value. Gartner suggests the average spend on marketing is around 10% of total enterprise revenue. If we assume 25% of the 10% (or 2.5%) of total revenue is spent on digital / online / maintenance of the corporate website, then this is the value you're assigning to your site. If the value you're calculating is less than the spend allocated above, you may not be calculating true value, or you're overspending on your site!

Another view is to think about the negative impact on your business if your website shutdown tomorrow. What would the cost be to your business? This is the true value of your site.

Determining Impact

Determining the value of your digital property (website) is a key baseline requirement before moving to the next step; quantifying the uplift of implementing personalization (or any other enhancement). But before we can implement anything, we need to define what personalization means

Let's look at two common personalization use cases:

1. Data Collection : Collecting data from the very first visit to create a unified visitor profile for each visitor (anonymous or known) based on their historical and real-time activity across sessions, devices, and other channels. This information may be used to better understand your customers which may inform your ways of working / products or services.

2. Content Targeting : Displaying unique content to users based on something we know about them such as context, behavior or explicit identification. This can be combined with A/B/+ testing.

Each of these use cases may have a different value, which may also vary depending on the type of site we're dealing with (commerce, subscription, awareness, lead generation or process efficiency). So, let's take each use-case in turn.

Data Collection

Capturing customer data and profiling customers will help you determine the lifetime value (LTV) of customers. Understanding your customers better includes; who they are, why they buy, how they buy, what they buy and how much they spend, what they think about you and your competition, if they are they satisfied, and will they return?

Knowing these things allows you to make smarter, data-driven decisions, such as targeting higher value customers. Studies have shown that businesses that understand their customers realise greater value from them. This data analysis provides the insight but without action the data is in itself useless. So, the exact personalization process and impact will depend on how the data is used.

Content Targeting

Showing more relevant content to visitors based on their profile should increase engagement metrics including time on site and pages per session, while decreasing things, such as bounce rate and exit rate. This effect should, in turn, increase sales funnel metrics like total leads, conversion rates against goals, MQLs, topline opportunities and total bookings / revenue.

Once we know the personalization use case we're implementing, we can start to model the value uplift and in some cases we can test this. If a specific content targeting scenario already exists, we can test the impact by A/B testing against a control. Measuring people's responses to content, with and without personalization, is the surest way to prove or disprove a hypothesis and draw conclusions around the benefits of personalization.

Many sites may have many different functions and I recommended focusing on just one "value-area" of the site, to start. Focusing on just one personalization use case will help simplify the process.

Acquia Value Assessment Framework - showing how to focus on ONE value area and ONE use case.

If we attempt to measure general personalization, across the whole site, we can see many iterations of potential value areas; probably too many to easily decipher and quantify. This is perhaps why valuing website personalisation has felt a little nebulous to date. If we break down the value areas and use cases, we can cut through the complexity.

So, if we focus on specific site goals and specific use cases, what kind of results might we see? This is the killer question and the one I get asked a lot. What industry standard figures exist for uplifts to conversion rates, for example. The short answer is, there is little published standard data available. Every site and personalization use-case tends to be a little different and sometimes unique. However, we are starting to get a feel for trends.

McKinsey states " Organizations able to understand and skillfully act on complete customer journeys can reap enormous rewards: increasing customer satisfaction by up to 20 percent and revenue growth by 10 to 15 percent, and lowering the cost to serve by 15 to 20 percent" but this is a general statistic aligned to improving customer journey's rather than specific to personalization.

Here's a few examples of specific uplift from personalization across different site types I've seen. Examples 1-3 can be scientifically proven with A/B testing against a non-personalized control and the value measured. The fourth example - process efficiency sites - can also be tested against a control but quantifying value is typically a little more speculative.

Site Type	Personalization Use Case	Impact	Value
Commerce	Data Collection & Customer Profiling	Analysis of buying patterns enabled organization to provide product recommendations	Customers reacting to product recommendations buy 10-15% more, increasing overall
Lead Gen	Content Targeting by Persona	Results in increased engagement, resulting in greater site goals; form fills to capture more MQLs	Increased MQLs from site by 20%. 10% of MQLs convert to sales, resulting in 2% uplift in overall sales
Publishing	Data Collection to Augment Customer Database	Customer data collected and segmented. Anonymous users converted to known users. Followed by targeted / personalized email campaigns, exploring alternative revenue streams from users	Email campaigns realize alternative revenue; cross sell and upsell to customer base, resulting in additional recurring revenue
Process Efficiency	Content Targeting by Persona	Reduced issue resolution time, reduced help-desk calls to centres, increased overall customer satisfaction and loyalty. Customer satisfaction & loyalty has direct impact on revenue, in a competitive market.	Whilst value not quantified it was speculated to reduce churn from 20% every 5 years to 10% (halving churn over 5 years is equivalent to 10% revenue / yr)

Once we've modelled business benefits, our focus should shift to understanding what it takes to implement the transformation required to realise these benefits. Next up, we'll take a closer look at the invest required for a successful personalization program.

Investment Costs and Overall ROI / Value

We have looked at understanding the core value of our digital property and modeled the benefits of personalization. Now let's look at investment costs associated with implementing personalization and calculating our overall ROI and value.

First, estimating investment costs: We need to look at implementation project costs and ongoing operational costs associated with personalization. The cost categories for implementing personalization are roughly the same as those for building and maintaining a traditional website. The chart below illustrates splitting build and maintain against creative and tech.

Build **(One-off, often Capex costs)**	**Maintain** **(including iterative development and on-going, often Opex costs)**
1. Creative: Strategy, design and content (often de-coupled from the tech build). *Think Personalization Strategy and Use Cases.*	**3. Ongoing Content Management:** Marketing (blogging, email marketing, social media), and potential campaigns. This element typically includes managing site metrics / analytics. *Think ongoing personalization use case evolution incl. Managing metrics and analytics.*
2. Tech: Design, dev, build & test of the website incl. integration. *Think tech implementation of personalization tool, with integration.*	**4. Maintaining the Website from a Technical Perspective** incl. integration and CMS platform / hosting management & maintenance, which also includes security & performance support. *Think, maintenance of the personalization tool / configuration updates. Integration, security and performance support.*

Just as with building a website, there are no hard-and-fast personalization figures for each cost category above. Some organizations may allocate costs 1 & 2 as one-off project costs (Capex), whereas others may smooth these costs, absorbing them into 'business as usual operational expenditure (Opex). But broadly speaking, these categories stand as a useful way to separate and estimate costs.

Once we've modeled the investment costs, we can simply move to Step 4 which involves subtracting the costs from the benefits, to arrive at an ROI. Again, this is typically measured over a three-year timeframe to calculate the total net benefits, or the project's net economic return. Finally, we can detailed the non-financial impact to provide an overall value case.

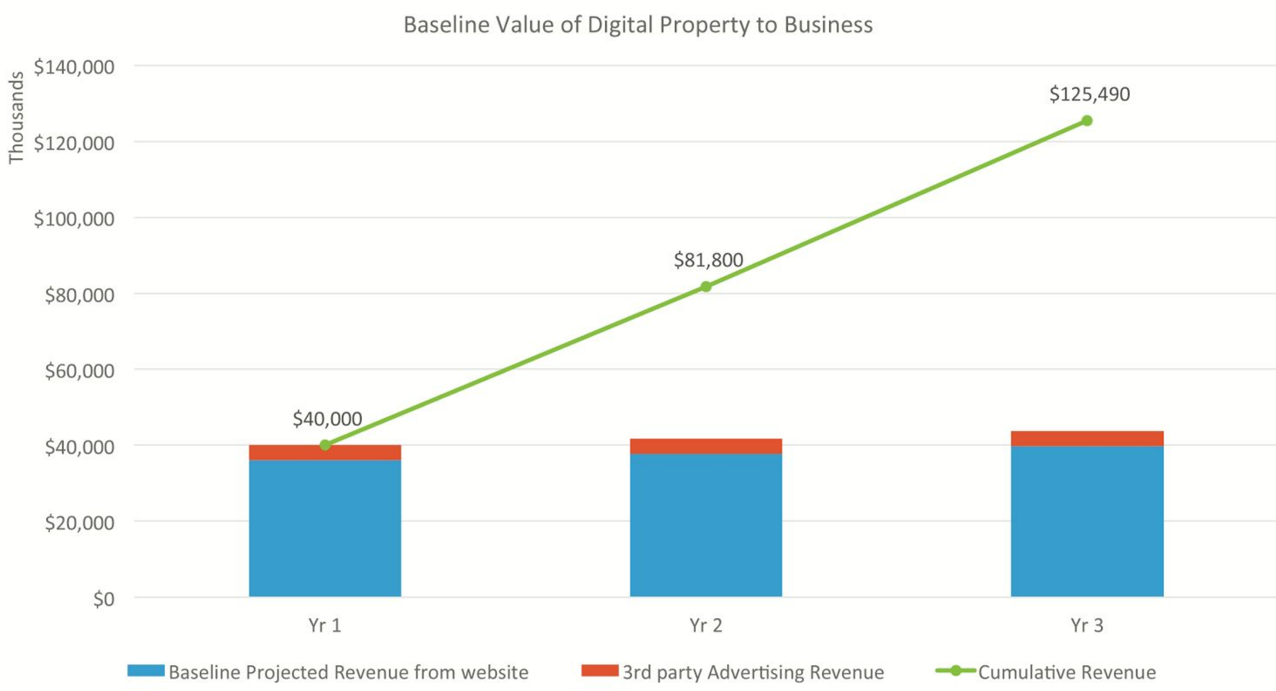
Example

Step 1: Let's take a midsize retailer with an annual revenue $300m / yr. Roughly 12% of revenue, or $36m, comes directly from the commerce website.

Let's assume this is the baseline value pre-personalization; $36m per year, or $3m per month.

- We can see the site has 2m visitors per month and 60,000 transactions per month. A conversion rate = 3%
- The average online revenue per user (ARPU) is $50, with 60,000 transactions per month, giving $3m revenue.
- Sales are seasonal so the exact number varies by month. What is interesting here is not necessarily the exact numbers but more the relative numbers before and after personalization. So, we need to ensure we're controlling for any seasonal, or other, differences when it comes to testing our hypotheses, that personalization will increase conversion rates and revenue.
- The site also advertises third party products and makes $4m / yr in revenue generation from ad revenue and referrals.
- In addition, the site has a lead gen / awareness / brand building element and also has some product support information, although we're not quantifying that value here.

Now, let's assume the retailer has grown 5% each year, so we'll fairly model a 5% growth each year regardless of whether we implement personalization. Ad revenue remains flat. We could model something like this:



Step 2: Now, let's assume we implement personalization in the form of content targeting: displaying unique content to users based on something we know about them such as context, behavior or explicit identification. Let's say, we aim to segment skiers and hikers and display content based on location, and sport preference. We might see the following results:

- No impact to number of unique visitors per month or acquisition channels (sources - mobile traffic, organic traffic, click events, referring URLs). This shouldn't be surprising as we haven't done anything to drive new traffic to the site or change SEO.

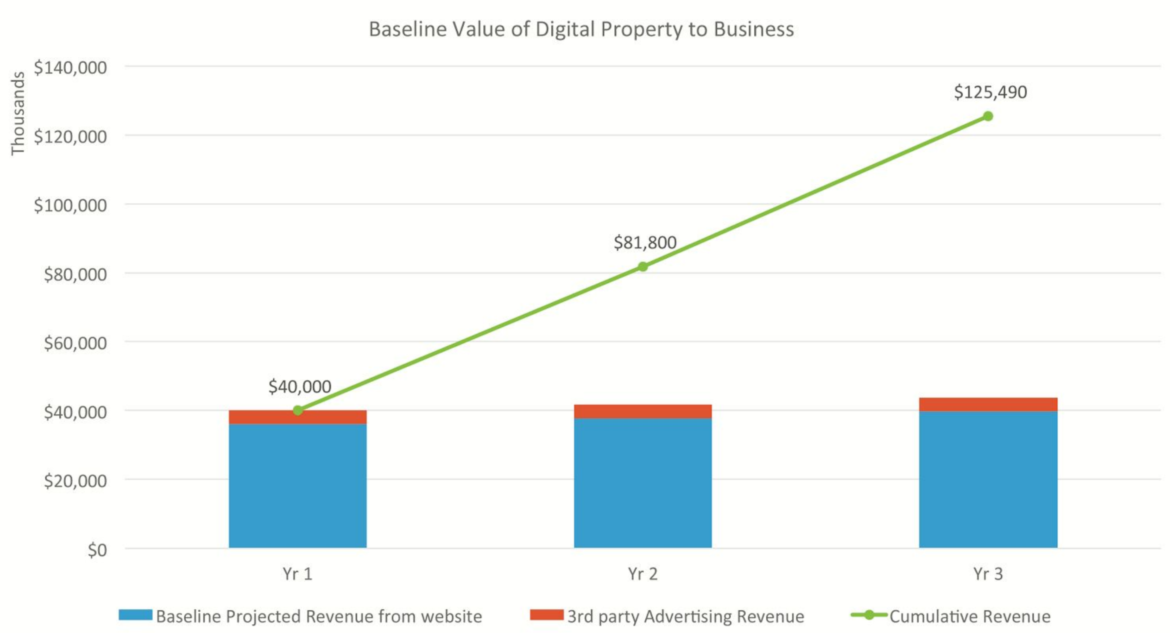
However, we see slight improvements on engagement metrics for the content targeted sample:

- Number of page views (pages per session) increases 5%
- Time on site increases by 10%
- Bounce rate decreases by 10%
- Exit rate decreased by 10%

Overall, we see revenue increase in two ways; The engagement metrics correlate to an increase in conversion rate (from 3% to 3.5%) and the ARPU increases by 10% (from $50 to $55).

So, overall with personalization, conversion on 2m visitors is now 70,000 transactions per month at $55 = $3.85m rather than $3m in Yr 1. Sales are seasonal, so we need to ensure we're measuring like for like, when looking at any uplift for personalization but we can also test against a control group which sees general, not personalized content.

Also, given the improved engagement metrics, we can show a 10% increase in ad revenue. So, when we forecast projected revenue with personalization, we get the following comparison chart - showing forecast revenue before and after personalization.



The total difference in revenue over 3 years = $33,355,500, which is obviously significant.

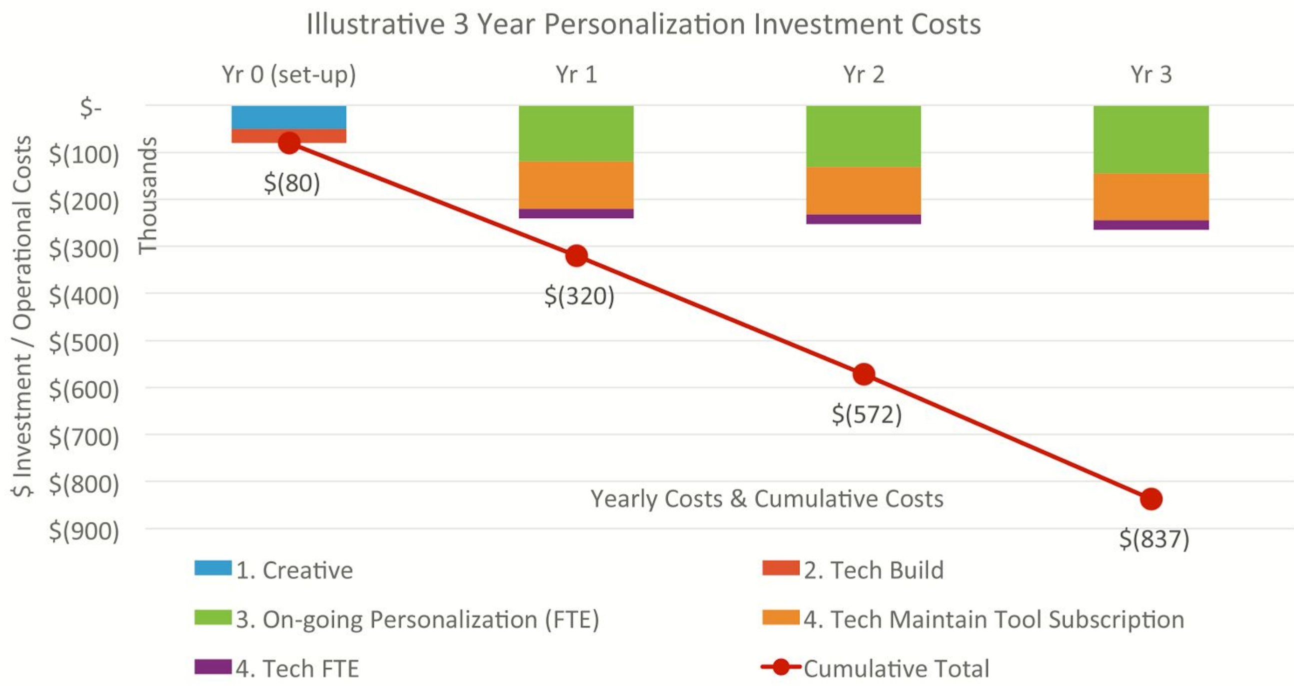
Step 3: Investment cost to implement personalization

In this example, the typical costs for illustrative purposes, are outlined here:

1. Creative - Personalization strategy & use cases. Executed through 1-2 workshops with the site owners and editorial team. A third party facilitated this, with one-off $15k consultancy cost, within a timeframe of 1-2 months. Internal costs up total costs to roughly $50k.
2. Tech build / design & configuration of the personalization tool (driven by functional requirements). This cost category can vary wildly; It can include the tool purchase, together with the tech cost to setup and configure the tool. Here the tool is Cloud and subscription based, so relatively simple to configure. The initial tech investment required was around $15k of external consultancy to advise / configure + internal costs, totaling $30k.
3. Ongoing personalization / including managing metrics / analytics. Typically a marketing team might have a site owner, content editorial, tech representatives, data, analytics.. Here, I'll roughly model 1 FTE equivalent at $120k / yr fully loaded cost - and assume a 10% increase year on year.
4. Technical maintaining of the tool with updates. Assuming a Cloud based subscription model for the tool itself, we can round to $100k annual subscription cost for the tool. A single tech FTE ($100k/yr loaded cost) may own this and other marketing tech. If we assume 20% of their time is dedicated to managing personalization we arrive at an annual $20k effort cost + $100k subscription cost = $120k annual opex.

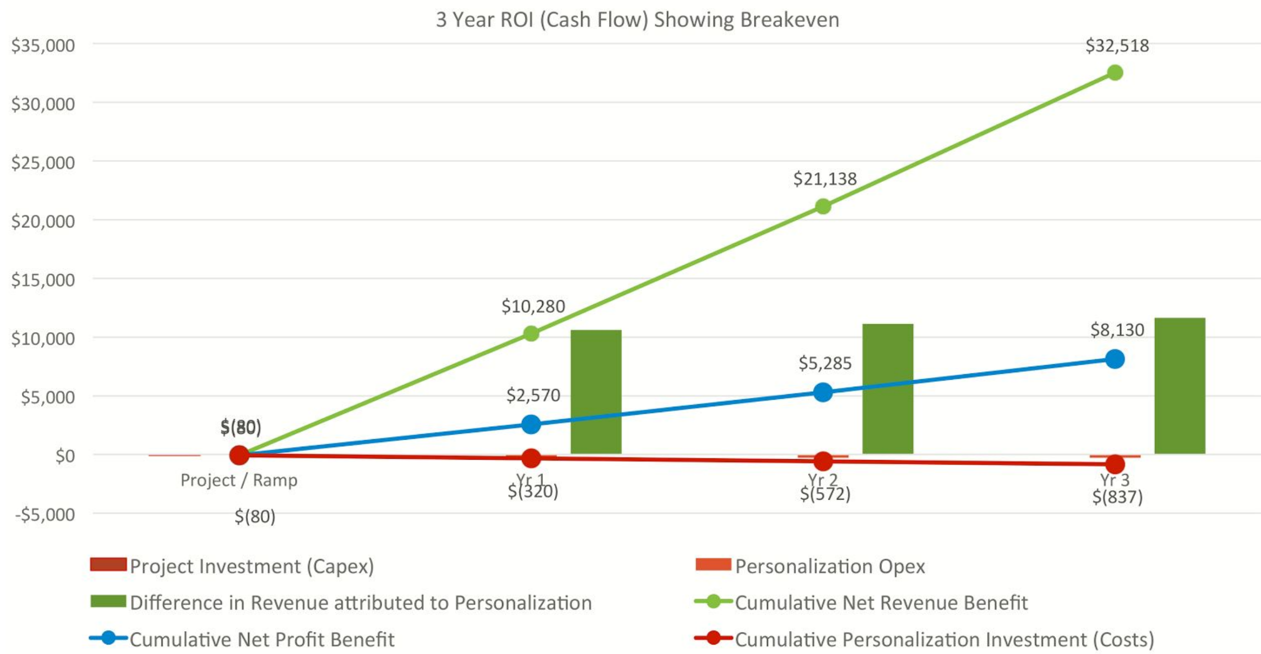
This gives us a table with a 3 year personalization TCO as follows:

Category	Yr 0 (setup)	Yr 1	Yr 2	Yr 3	Total 3yr
1. Creative	$50K				$50K
2. Tech Build	$30K				$30K
3. On-going personalization (FTE)		$120K	$132K	$145K	$397K
4. Tech maintain - tool subscription		$100K	$100K	$100K	$300K
Tech FTE		$20K	$20K	$20K	$60K
TOTAL	**$80K**	**$240K**	**$252K**	**$265K**	**$837K**



It is worth noting that I have seen personalization initiatives run as small projects for significantly less than this. I've also seen truly transformative omni-channel personalization initiatives for orders of magnitude greater than the sum shown here. This is for illustrative purposes only.

Step 4: In this example, is this investment worth it? This step is a case of simple maths, subtracting investment costs from benefits to get net benefits. When we chart the benefits minus costs, we get the following.



In other words, set-up will cost around $80k and TCO over 3 years = $837k.

This investment realises a three-year net revenue increase of $32.518m. So, the net revenue benefit is 38.8x the investment, a healthy ROI.

Now it is important to consider this is a revenue based model. Some organizations may want to model profit rather than revenue for their true ROI. Let's assume in retail, the profit margin on revenue is 25%, then the total net profit benefit = $8.13m. Now the ROI on pure profit = 9.71x the investment. This is still a healthy ROI, resulting in a no-brainer - personalization offers great value.

Step 5: The ROIs here are impressive. A sound and complete business case always considers more than just the numbers and sometimes it is the soft benefits which will justify a personalization initiative. Many smaller organizations have less respectable ROIs but the softer benefits can swing the case. Increases in customer retention, enrichment, and advocacy have not been modelled here but may make an initiative attractive, outside of ROI.

Finally, it is sometimes interesting to note what other organizations are doing. I've read a number of articles recently stating that personalization in 2016 is a must-have, not nice to have. A number of organizations are implementing personalization - not based on the numbers but FOMO (fear of missing out). What's the risk of doing nothing? Perhaps a simple break even on the numbers is enough to justify the investment, given the other intangible benefits.

Conclusion

In summary, I have spoken to a number of stakeholders from various organizations who ask, "what value will I get from Personalizing my digital property?". There is no single answer to this question. Instead, I have offered here a framework and approach for calculating the value. First, understand the existing business and how money is made and understand how the digital property supports this. Next, consider the various potential personalization use cases, such as data collection or content targeting. We typically need to explore scenarios, agree on assumptions and variables and develop hypotheses for how personalization will increase value. This can be art as much as science, but in some cases, we can test assumptions with small trials in order to harden and test our hypotheses as we go. We can then look at the investment costs required to realise these benefits and work out the ROI - simply subtracting the costs from the benefits. Finally, we should consider the non-financial elements to Personalization and how this might impact the business.

If you found this blog interesting and would like to complete a value assessment for implementing personalization on your digital properties, please get in touch.