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## The impact of digital marketing on customer acquisition cost

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### ABSTRACT

*This paper evaluates the factors that have led to a rise in digital marketing and discusses its impact on various components of the sales funnel. It analyzes how the costs associated with it have dropped over the last few years. This phenomenon has been leveraged by several companies to reduce the cost of acquiring a new customer and accelerating business growth.*

**Keywords:** Digital Marketing, Sales, Customer Acquisition Cost (CAC), Lifetime Value (LTV)

### 1. INTRODUCTION

Internet penetration has democratized access. Personalization on the internet has made segmentation and targeting more efficient.

These two phenomena have made digital marketing a very effective tool for marketers in most companies and compelled them to take a hard look at their investments. All this in order to achieve the biggest bang for every marketing dollar. The question everyone is asking is: How does digital marketing compare to traditional forms of marketing and what is the ROI (return on investment).

The main thought construct behind evaluating spendings is ratio of Life time value of the customer (LTV) and customer acquisition cost (CAC). Every business strives to grow in a scalable and profitable way keeping the LTV / CAC ratio at a desirable level. The target LTV/CAC ratio may vary across industries.

This research paper is focused on measuring impact of digital marketing (as compared to traditional marketing media) on marketing expenditure, comparing different sub-branches of digital marketing for efficacy and efficiency to finally prove the hypothesis that digital marketing has significantly reduced CAC over the last decade.

What is CAC?

Every business has a finite budget and resources that are allocated to maximize profit and minimize total expenditure. It's unrealistic to capture the attention of the whole market, so it's

vital for a business to direct their marketing efforts to maximize customer base and cash efficiency. CAC refers to the cost of acquiring a single customer. Defining the CAC for a company is essential when it comes to meeting long-term goals and is a source of competitive advantage. LTV, in conjunction with CAC, helps a company discover whether it is operating efficiently and calculate its corresponding return on investment (ROI). If the LTV of a single customer is lower than the accumulative cost of acquiring the customer then it would be in the best interest of the business to rectify its budget plan to create a viable business in the long run. Companies aim to find the right balance between LTV and CAC to get the most out of their financial investments, and evaluate the future prospects of their company. Higher LTV/CAC ratio corresponds to higher potential to scale profitably.

How does Marketing (especially digital marketing) impact CAC? Effective Marketing campaigns form the foundation of any successful business. Every business entity must invest in certain marketing strategies to ensure consistent cash flow and above average net sales that is generated via increased brand awareness. According to a 2017 CMO survey, businesses spend over 11% of their total company revenue on marketing. Marketing to the right people at the right time via the right means has a considerable effect on the number of people a business can convert to life-long customers. There are a multitude of marketing strategies and channels a company can invest in but over the last 2 decades, with the progressive growth of digital media, the majority of businesses have turned to digital marketing. According to a recent survey, 28% of business owners have shifted their main focus of budget allocations from traditional market channels to digital online marketing channels and techniques. The digital marketing expense rates in 2020 itself were \$332.84 billion and according to the latest digital marketing statistics, expenditure on online marketing will make up to 46% of the total global digital ad spend as of 2021. Digital marketing forms an integral part of marketing when it comes to winning over a customer. Therefore, this forms a considerable part of CAC and can't be overlooked by any business, especially when striving to expand their consumer base with maximum efficiency.

Each digital marketing channel has a different set of strategies that are employed only when beneficial to the customer journey.

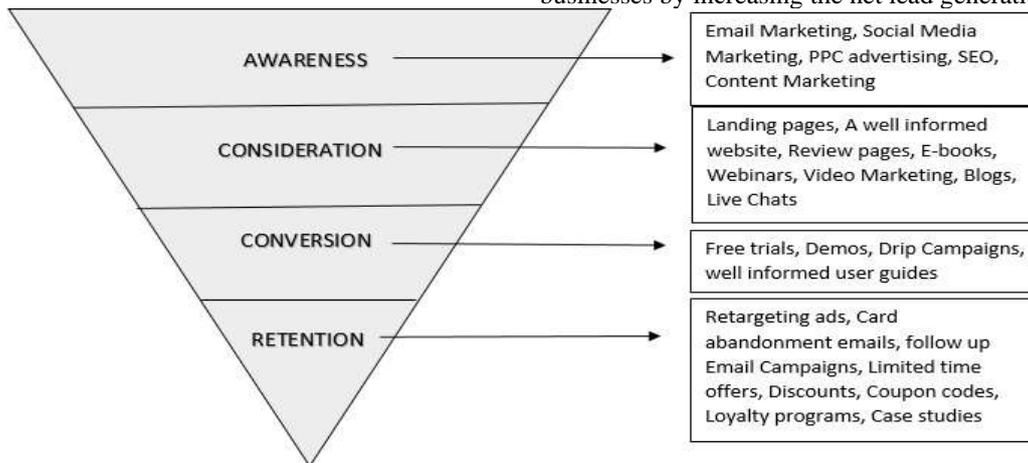
It is important to keep a business's sales route full and convert maximum leads into validated customers. A buyer's journey can be visualised as an inverted funnel where the wider end represents prospective people for a particular product or service and each time the prospect becomes closer to buying the product the consumer heads towards the mouth of the funnel.

**2. METHODOLOGY**

In this paper, we will be looking at previous studies and published articles to further understand the relevance and impact of digital marketing on customer acquisition cost.

- Digital marketing impacts all parts of the marketing funnel. Therefore, it impacts the cost of all types of marketing interventions

**2.1 Awareness**



**2.2 Consideration**

Businesses often put in time and money in marketing efforts that don't even target the right audience which leads to poor lead generation and lower overall sales. Digital marketing can bring the best out of a business's limited marketing strategies and target audiences via internet algorithms. This segmentation helps growing businesses spend their limited funds on potential customers and narrow their focus to enforce efficient targeting. After becoming aware of the brand's products, consumers take the initiative to look further into the business to decide whether the product adds some value to their lives. Another perk of digital marketing strategies is the pool of authentic brand information that the customers have access to from just about anywhere. This instant connection makes the consumer feel closer to the brand and start to feel more invested as they dive into the brand itself. Some digital channels include -

- **Landing pages, a well-informed website**
- **Review pages**
- **E-books**
- **Webinars**
- **Video marketing**
- **Blogs**
- **Live chats**

**2.3 Conversion**

Digital marketing has prompted instant global interaction between consumers and businesses. Through this interaction, businesses have apprised customers with essential information that pushes them to convert more easily than standard traditional media do. Additionally, brands have changed their customer service accordingly to benefit the new marketing scenario of the new generation. Consumers look to purchase products from brands they deem to

Businesses must market themselves and establish a minimum level of awareness in order for them to generate any sales. To start with, businesses invest in various exposure strategies to foster a sense of familiarity among prospects. Over the course of the last 2 decades, increased visibility on internet platforms has incentivised businesses to invest in digital marketing platforms, including:

- **Email marketing**
- **Social media marketing**
- **PPC Advertising**
- **Content marketing**
- **SEO**

Due to democratized access of the internet, people have been granted immediate access to these digital channels, resulting in increased online market visibility that works to the advantage of businesses by increasing the net lead generation.

be trustworthy, authentic, and easy to navigate. Some techniques that prompt conversion include -

- **Free trials**
- **Demos**
- **Drip campaigns**
- **Well informed user guides**

**2.4 Retention**

The money spent to acquire a customer is potentially wasted if there are no retention strategies in place. Digital marketing channels offer a multitude of ways to bring customers back to make another purchase and reactivate customers that have stopped engaging with the brand. A mere 2% increase in customer retention for a business has the same financial effect as a 10% decrease in costs. This makes businesses more inclined to strengthen their retention strategies by investing more in digital channels featuring personalized content, marketing automation, consumer data and analytics and strong web design and mobile applications. Some of these digital-media based strategies incorporate-

- **Retargeting ads**
- **Card abandonment emails**
- **Follow-up email campaigns**
- **Limited time offers, discounts, coupon codes**
- **Loyalty programs**
- **Case studies**

- Digital marketing reduces expenditure due to increasing internet usage and personalization

Since the advent of telecommunication networks in 2000, the number of internet users have skyrocketed, connecting almost 4.95 billion people worldwide.

This has changed the way consumers look for products and indirectly affected the way businesses approach consumers. 96% of consumers learn more about brands online than through traditional marketing; this change in consumer consumption has shifted the marketing focus of businesses from traditional to digital, media-based strategies. These strategies not only make use of the increased online market but also take advantage of the instantaneous connection that the internet has to offer.

Digital marketing has a broad range of channels. These channels are characterized by three main features – broad marketing reach, personalisation and instant engagement. The collective use of these three features has effectively reduced the overall marketing costs compared to traditional marketing media as elaborated below –

1) Email Marketing – It's an effective marketing strategy that facilitates much needed customer engagement with almost 4.3 billion active users as of 2022. Email marketing is affordable and earns the company an above average ROI by targeting new customers and re-engaging old customers to either complete or make a new purchase. On an average, a business spends anywhere from \$300-\$500 per month on email marketing with additional costs of customizing the email campaign whereas a week of advertising via newspapers would round off to anywhere between \$200-\$300,000 for a slot in a well-known magazine.

2) Social Media Marketing- Businesses have turned their attention from the limited exposure provided by traditional marketing to the 3.69 billion social media users in hopes of capturing a small portion of this online market. According to an early 2020 survey carried out among marketing leaders from 29 countries, 83% of respondents reported using social media as a main digital channel for their marketing strategy. This increased investment in social media marketing is due to the vast marketing reach and inexpensive nature of the channel. The marketing strategies that can be employed on the various social media platforms include blog posts, demographics, and videos to drive maximum customer interaction. On an average, a social media marketing strategy can bring costs to as low as \$800 to \$1200, depending on the number of networks the brand wants to associate itself with. In contrast, the average cost of billboards equals to \$300-\$30,000 for a four week period depending on the size, duration and type of billboard.

3) Content Marketing – Customer engagement and interaction forms the basis of content marketing. This drives almost 3 times as many leads and costs 62% less than outbound marketing. Good visual and quality content can roughly drive costs anywhere up to \$2000-\$10,000 every month. With backing of quality SEO services, it can provide audiences interest-specific content via different online channels that in turn boosts the online presence and authority of the brand. Content marketing supports consistent branding to the targeted audience while maintaining healthy website traffic with minimum costs. It incorporates infographics, videos, case studies and other visual components. Visuals, an important part of content marketing, have proven to be more engaging than publicizing content via traditional marketing alone. Investment in different types of content marketing pays off in the form of higher website traffic, which expands marketing reach of businesses while costing significantly less than the average cost of \$4,125 to \$6,320 of direct mail.

4) Pay per click- PPC advertising has become a great investment opportunity for businesses and has acted as a huge

business driver for 74% of brands (according to \_\_survey) by bringing in a lot of website traffic. PPC costs range anywhere between \$2825-\$5700 per month, every penny of which goes into targeting the right audience via segmentation, which is not possible through traditional marketing campaigns. One such example is billboards: it is not audience specific, can cost anywhere between \$3600-\$360,000 and provides no estimate of the ROI or the number of people that have actually seen the campaign. Another perk of PPC is that it's a very flexible medium of marketing: adjustments and spontaneous edits can be made unlike billboards, that have limited flexibility and can only be accessed during limited hours.

5) SEO- A good SEO strategy drives organic traffic to a business' website that consequently affects net online sales. This popular inbound marketing strategy makes use of intuitive design elements, seamless navigation, and valuable information to draw in the maximum percentage of internet traffic. According to the Forrester group, SEO marketing with its micro-conversions, clear CTA and optimized website pages can drive the conversion rate up to 200%. This higher conversion rate can also be an effect of SEO integrated with the PPC marketing channel. SEO optimises the overall costs by targeting the right people, averaging to about \$7200-\$60,000 a year. Direct mail, on the other hand, can cost up to \$49,000-\$151,680 depending on the postage, mailing lists, contracting designers etc.

6) Webinars – This is a cost effective alternative to hosting in-person events. Webinars are easily accessible and can be viewed by a lot more people compared to traditional marketing events. With the rise of digital media and related increased online communication and advertising reach, business owners have shifted their focus to webinars and online press releases due to its cost effectiveness: this mode of marketing costs an average of \$89-\$429, which is substantially lesser than the cost of a press release (ranging anywhere from \$50-\$2500 every month depending on the postage and length of the release)

### **3. SUMMARY AND INFERENCE**

In this research paper we tried to understand the impact of digital marketing in regard to customer acquisition costs by analysing and comparing the average costs associated with popular digital marketing channels to traditional marketing channels and their consequent effect on the overall customer acquisition costs (CAC). Digital marketing channels when incorporated in the businesses' marketing strategies can make marketing much more efficient and effective. It makes use of targeting via segmentation, personalised content and instantaneous connectivity to reach out and have a more effective impact on the consumer purchase decision. Digital marketing reduces the net CAC by optimizing cost of getting in touch with the consumer, employing effective marketing-retention strategies and interactive consumer to marketer sessions. By optimizing the conversion and retention rates, businesses generate higher revenues and maximize their profit. With the increased visibility supported by these digital forums, businesses have driven maximum traffic to their websites that have positively affected the brand awareness and has transcended the marketing reach of traditional media channels.

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