Through The Looking Glass:
The Rise Of Hypothesis-Based Marketing
Introduction

While modern marketers now have access to a seemingly endless supply of data, for many, the issue still stands – how do you use it? In this white paper, smrtr’s Paul Argus and Boris Guennewig, PhD discuss how hypothesis-based predictive marketing and the ability to test certain theories can provide a sense of direction for marketers that find themselves drowning in data.

As an Australian Data-as-a-Service (DaaS) company, smrtr provides its partners with access to data products specifically built for each industry, custom solutions and services such as first-party data enrichment. With a data library that is made of more than 50 billion data points and a multidisciplinary team of data scientists, smrtr works with businesses to build these hypotheses and navigate the complexities of data-driven relationship marketing.
Any marketer would be familiar with the concept of the marketing funnel. Essentially, it relates to the customer’s journey from first learning about a business all the way to the final purchase. The commonly referred to phases of the funnel are ‘awareness’, ‘interest’, ‘consideration’, ‘intent’, ‘evaluation’ and ‘purchase’.

Traditionally, the marketing funnel has been about putting as many people as possible into the top of the funnel and gradually finding interested customers within the crowd as they move through the funnel. But, as marketing has continued to evolve, some have started to suggest that the marketing funnel is ‘dead’, as digital has changed the way in which customers engage with a business. Former Commonwealth Bank CMO Andy Lark has previously said there are “very few” funnels working and suggested the model is now obsolete.

Rather than changing the marketing funnel itself, digital – specifically data and analytics – has simply changed the way in which marketers can move audiences down it. In many ways, the funnel was never linear, nor is it specific to one channel. However, the key principles of the funnel, such as awareness, consideration and evaluation, are all still present in the customer journey, users are just not completing these stages in a linear way.

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With data, marketers now have the ability to make more informed decisions around who they target and put more relevant audiences into the top of the funnel. Although the funnel might look different, adding more people to the top of the funnel still adds scale to marketing operations. This has been demonstrated time and time again by third-party cookies. As we know, cookies are used to track a user as they navigate the web, providing marketers with hints about what their interests are and what products or services they might be interested in, and therefore giving the ability to serve targeted ads.

Although this technique is by no means perfect (the key issue being cookies already target users down the funnel), it gave marketers the ability to target like never before and has ultimately resulted in the emergence of a $US389 billion ($502 billion) digital marketing industry, according to Statista.

But with cookies came problems around user privacy and consent. As privacy has continued to come into focus in recent years, the tide has been gradually turning against cookies. This reached a crescendo last year, when Google revealed it would no longer be enabling third-party cookies on Chrome.

As the industry prepares for life after cookies, marketers are demonstrating that they can serve relevant ads without the use of this invasive technology.
Contextual advertising has emerged as one potential replacement for cookies. Contextual advertising serves ads based on the contents of a certain website. For example, a fitness website serving ads for a meal prep service or a fashion site displaying ads for beauty products. This is opposed to targeting users based on behaviour (websites visited, links clicked etc), as cookies do. Reportlinker.com has tipped the global contextual advertising industry to swell to $US166.2 billion ($215 billion) by the year 2025, driven by 18.5 percent compound annual growth.

The logic behind contextual advertising is relatively straightforward and actually precedes cookies and behavioural targeting. It involves taking keywords and content from a website and serving ads that are relevant to these themes, rather than based on the behaviour of individual users. In many ways, it can be considered to be a digital version of a print ad. This might result in a cosmetics brand serving a display ad on an article about makeup or a bank showing ads for home loans on a property listings page. A closer focus on the actual content (rather than audience) also allows brands to ensure their ads are not appearing next to problematic content and, as a result, promotes brand safety. This was common practice long before data-driven digital marketing was even a common term and is now back in vogue as a result of the shifting privacy expectations and changes to third-party cookies.

And while the contextual advertising of today may hold similarities to the contextual techniques of yesteryear, there is one big difference – the abundance of data that is currently available. Techniques such as natural language processing (NLP) and artificial intelligence (AI) are also changing the game. The text on a website can now be scanned to find the most relevant possible page to advertise against, while images and audio can be analysed and understood to help place in-video ads and CTV. These technological advancements can help advertisers serve more nuanced ads, such as on a travel story that is under international news or a health story that has been filed in the business section of a newspaper.

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Contextual targeting – and the idea of advertising against certain content based on the perceived audience – broadly falls under the concept of hypothesis-based marketing, as it makes an assumption that the service being advertised is more likely to be attractive to the website’s audience.

While targeting has, in recent times, been all about using a user’s past behaviour to serve relevant ads, hypothesis-based marketing is all about looking forward and making predictions about future behaviour. At a recent event hosted by smrtr and B&T, then MediaCom Australia CEO Willie Pang said marketers with a “very clear hypothesis” will be more likely to bring together the right dataset with the right purpose.

Much like how scientists will include a hypothesis as an ‘educated guess’ about the outcome of an experiment, marketers can use hypotheses to prove and disprove how certain variables impact outcomes. As you might have learned in your high school science class, a hypothesis will usually include an explanation of why the guess may be correct and it must be something that can either be supported or refuted by the experiment.

Hypothesis-based marketing should always be about finding out new things about users and their motivations. In recent years, tools like Google Optimise, Optimizely and VWO have allowed marketers to test out a new CTA or feature on a website. There is now a greatly improved ability for marketers to combine seemingly unrelated datasets and test how certain factors are related to campaign response.

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Willie Pang,
Former CEO, MediaCom Australia
A car manufacturer might have an inkling that one of their models is particularly popular in a specific geographical location. Here, the company can put this theory to action and test how ads for the vehicle perform when served in the area. This can also be extended across different industries. This same car manufacturer might have a hypothesis that people who have recently purchased a new automobile are more likely to book a holiday in the next six months. Here, data available from the tourism industry could be put to use to test out this theory and potentially better target customers.

Not only can this type of hypothesis-based marketing bring results, it also means that differing datasets can be combined in an informed manner, rather than simply guessing. While hypothesis-based marketing is all about looking forward, historical data can be used to identify potential correlations before the hypothesis is put to the test. To use the example of real estate and travel, previous datasets from both industries can be analysed to confirm there is some legitimacy to the hypothesis. From here, the hypothesis can be put into action and measured using the control cell. Alternatively, data relevant to the hypothesis can be added to existing campaigns to identify the attributes campaign responders have in common. The data that highly correlates can then be added to the campaign to improve results. For marketers that are struggling to navigate excessive amounts of data, this means they can avoid ‘boiling the ocean’ when it comes to data-driven marketing.

Importantly, hypothesis-based marketing is all about communicating with customers before they even realise they want a particular service or product. The way in which cookies use past web browsing history as the basis for targeting means that often, customers are quite far down the marketing funnel by the time they are actually served an ad. Often, a customer would have already actually made the purchase. By focusing on people who are only ready to purchase at that very instance, cookies restrict the ability to influence that decision and have failed to identify the number of users in a cohort who are ready to buy a product or service but just haven’t thought about it yet.

If an airline serves someone an ad for a cheap flight to Melbourne based on past web browsing, it is more than likely they have already purchased their ticket before they see the ad. With data, the airline can identify a customer that might be likely to want to go to Melbourne soon – whether that be for their birthday or because they have travelled there that...
same time of year previously – and target them with this deal before they even Google it. This not only gives the airline the ability to nurture a relationship with the customer through the entire funnel (ahead of competitors), but it also means a better experience for the customer.

Through using analytics and taking a more forward-looking approach, marketers can reach the right customers at the very top of the funnel and help guide them through the customer journey, applying relevant levels of messaging and media investment at each stage. Taking a longer-term, funnel-based approach to communications also means the marketing is more relationship based and enables media spend on larger purchases with longer sales cycles to be more easily measured (e.g. media targeting for a luxury car, family holiday or an investment property might happen over months or even years).

Alternatively, this same approach can be used when a business identifies a subgroup of customers who are more likely to churn. Here, a model can be created based on the customer attributes that have previously been associated with churn. By taking these attributes and applying this data to the existing customer base, the business can form a ‘hypothesis’ in regards to which customers might churn in the future (and why) and target these high-risk customers with targeted marketing or product adjustments.

Predictive analytics models such as unsupervised clustering, predictive models, propensity scoring and feature importance filtering can be used to help marketers understand which campaigns are working and what will be more likely to yield results in the future.
Hypothesis-based marketing provides marketers with the ability to potentially reduce media wastage and target customers before they even realise they are in the market for a certain product or service. However, having this data clean and readily accessible is sometimes easier said than done. This is particularly challenging as the industry moves away from its heavy reliance on online data and starts looking at how offline data can inform marketing strategies.

Data onboarding is essentially the process of bringing offline data online. With third-party cookies seemingly on the way out, data onboarding is becoming increasingly important for marketers looking to connect offline data. But for offline data to be effectively integrated, it is important marketers know that this data is from a real person, as it can therefore be linked back to other characteristics.

The digital world has largely existed in parallel to the real world in recent years, with very little emphasis on whether or not users are actually logged in and authenticated. This has been because cookies could follow users as they navigated the web without the need for authentication. But, with the forthcoming changes to cookies, authentication is now a must in marketing.

As well as deprecating third-party cookies, Google recently revealed it would no longer be tracking users around the web in any shape or form. The tech giant believes proposed tracking methods, such as hashed email addresses, will not be able to keep up with privacy expectations. Instead, Google is encouraging its advertising partners to turn to first-party data (or a combination of linked first, second and third-party data) and leverage these relationships that a brand builds with its customers over time.
For the likes of Google and Facebook, which are used by billions of people every single day, finding first-party data is not an issue. But for smaller players, this first-party data isn’t always so readily available. To address this, marketers should be thinking about how they can incentivise users to share their information and provide access to this authenticated data.

To go alongside first-party data, Google is also introducing ‘FLoCs’ to Chrome – interest-based cohorts that identifies and connects users with similar browsing behaviours. For advertisers, this means targeting people within cohorts, as opposed to directly. This means that Google will no longer be tracking individuals and will instead be taking an aggregation-led approach (similar to smrtr) when it comes to targeting. If anything, this shows the higher-scale shift towards hypothesis-based marketing the industry is currently undertaking.

At the backdrop of Google’s stance against hashed email addresses is the Unified ID 2.0. Initially spearheaded by The Trade Desk (although now being run by Prebid.org), the Unified ID 2.0 is an open-source, sign-on solution that tracks users with hashed and encrypted email addresses, as opposed to cookies. Not only does this initiative aim to give users more control over their data through transparency and privacy controls, it will also allow advertisers to target ‘real’ users through the creation of the world’s first universal identifier.

Although the difference of opinion in regards to hashed emails remains a divisive issue between the Unified ID 2.0 and Google’s new cookieless solutions, both initiatives are reflective of the marketing industry’s increased efforts to bring data and consumers closer together in a privacy-compliant way.

Google’s recent changes are the latest – and arguably most significant – changes in the evolving web browser ecosystem. Apple has been gradually improving anti-tracking technologies on Safari for years, while Mozilla Firefox has blocked third-party cookies since 2013. These changes mean that marketers are essentially left with a choice – either work with Google to leverage existing advertising solutions or start to build these first-party relationships in house.

Alternatively, marketers can look at other data sources and onboarding methods as a way to build effective marketing campaigns that meet existing privacy expectations.
As the search for ‘cookieless’ marketing solutions continues, at smrtr, we believe hypothesis-based marketing and associated data-driven techniques provide advertisers with the opportunity to actually improve their overall ability to find new customers. While cookies have primarily focused on devices, data (in particular, the data we use) is all about real-world behaviour. Our data universe covers information about 16 million Australians and includes around 50 billion transactions and data points in relation to location, purchasing behaviour, financial transactions, property insights and automotive buying behaviour.

While most of our data is ‘offline’, we have developed ways of connecting this with online data. For example, we can make a connection between someone visiting a website when they are logged in using email as a key, while when they are not logged in, we can identify characteristics based on location data. In this sense, we use data to connect the online and offline worlds. Importantly, we can link our data to a client’s first-party data using our Identity Graph to greatly enhance it, and the client can seamlessly take this enhanced data into their ongoing first-party data strategies.
In terms of hypothesis-based marketing, we offer ‘off the shelf’ data segments and ‘build your own’ options that can be used to inform and enrich our partner’s existing datasets. One of the main ways in which we enable hypothesis-based marketing is through lookalike modelling. By taking a ‘seed audience’, which might be offline data that has been onboarded, this information can be overlaid with online data to build out a more detailed segment. This is particularly useful as businesses look to use logged-in data to inform marketing strategies.

If 20 per cent of web traffic is logged in, for example, we can use lookalike modelling to not only show what the remaining 80 per cent might look like, but also how this ‘seed audience’ might appear in a wider context. With this, businesses can target new audiences that might have previously gone untapped. This means that when it comes to formulating a potential ‘hypothesis’ about finding new customers, this hypothesis can be backed by relevant data and be better informed.

You can learn more about how smrtr can assist your marketing objectives at smrtr.com.au.