RESEARCH BRIEF (The Compounding Effect of Micro-Gains)
Date: 12/14/2005

**SYNOPSIS**

**Topic:** The Compounding Effect of Micro-Gains — How small performance increases in PPC, landing page conversions, completed sales, and more combine to deliver big improvements in revenue.

We recently released the audio recording of our clinic on this topic. You can listen to a recording of this clinic here:

http://www.marketingexperiments.com/see/1107#CompoundingEffect

Does a 5% increase in click-through from a PPC ad sound disappointing?

On its own, that 5% may not amount to much.

But what if you also achieved the same 5% improvement in landing page conversion rates, completed sales, increased lifetime value, and other improvements to your site and marketing efforts?

When you compound multiple "Micro-Gains" along the entire promotional and sales pathway, the final increase in revenues can be significant.

Our tests show us that to understand the true impact of broad optimization campaigns, it is best to judge your efforts based on the total, compounded increase – not on what may be small, individual increases at various steps along the way.

This may sound obvious, but all too often we rush to judge the performance of individual elements within the optimization process.

It may be that you sometimes feel disappointed and dismiss the benefits of a small increase in, say, offer page conversion rates, because you are looking at that figure in isolation.

In this brief we will look at the power of compounded increases along the entire pathway. We'll also show you how to identify those areas where apparently small improvements leverage surprising increases in revenue.
RECOMMENDATIONS

We've chosen a series of isolated micro-tests to illustrate the power of compounded gains. These are not our most effective test results, but they are good examples of the kinds of Micro-Gains all of us can achieve.

Test #1: PPC Ad Copy

In our first experiment, we tested the effectiveness of three pieces of pay-per-click (PPC) ad copy. We tested two new ad headlines against an already-proven headline that generated a 10.9% click-through rate (CTR).

<table>
<thead>
<tr>
<th>PPC Ad Copy Test</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ad</strong></td>
<td><strong>Click-Through Rate (CTR)</strong></td>
</tr>
<tr>
<td>Original Ad Copy</td>
<td>10.9%</td>
</tr>
<tr>
<td>Test Copy 1</td>
<td>3.3%</td>
</tr>
<tr>
<td>Test Copy 2</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

What You Need to UNDERSTAND: While Test Copy 1 failed to register an improvement, Test Copy 2 achieved a CTR increase of 6.42%.

On its own, a 6.42% increase in traffic may not sound like much. But taken together with the subsequent optimization efforts, it can prove to be quite substantial.

For more on PPC ad copy, see our previous report on that topic:

PPC Ad Copy Tested: http://www.marketingexperiments.com/see/1114

Test #2: Order Form

In our second test, we made a small improvement to the order form by including the ability to accept an additional payment form (online check). The gains from this minor improvement were small but noteworthy:

<table>
<thead>
<tr>
<th>Order Form Optimization Micro-Test</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Statistic</strong></td>
<td><strong>Original Order Form</strong></td>
</tr>
<tr>
<td>Order Pages Displayed</td>
<td>17,598</td>
</tr>
<tr>
<td>Orders</td>
<td>1,056</td>
</tr>
<tr>
<td>Conversion Rate</td>
<td>6.00%</td>
</tr>
</tbody>
</table>

What You Need to UNDERSTAND: By improving just one element on the order form, we were able to improve conversion from 6.00% to 6.51% (an increase of 8.50%).
**KEY POINT:** By making even the smallest improvements to your marketing efforts, you can realize important Micro-Gains, which when combined with other small improvements can lead to significant compounded improvements in traffic and conversion. As we will see below, these can translate into large profit gains.

The following reports will be helpful when optimizing your order forms:

Order Forms Tested:  
http://www.marketingexperiments.com/see/1052

Conversion Rate Optimization:  
http://www.marketingexperiments.com/see/1118

A/B Split Testing  
http://www.marketingexperiments.com/see/1119

The Power of Compounded Gains:

The two tests above, taken on their own, are not that impressive. They illustrate small improvements that you can make to your website and marketing campaigns. However, there is no need to stop with just these two improvements. Through testing, you should be able to realize Micro-Gains in most of the following areas:

1. Optimized CTR from PPC ad copy
2. Optimized CPC by adding keywords, using negative keywords, etc.
3. Optimized landing pages
4. Optimized order forms
5. Increased conversion rate from improved site copy
6. Increased revenue from up-selling or cross-selling
7. Increased revenue from offer price optimization
8. Increased revenue from recovering lost shopping carts
9. Increased conversion rate from credibility indicators (customer ratings, awards, etc.)

Using just these nine improvements, and using a conservative estimate of just a 5% increase in each area, we can see the true potential of compounded incremental gains.

The following table was generated for a business with the following parameters:

- $100,000 in initial monthly revenue.
- $85,000 in expenses, and therefore $15,000 in initial monthly profit.
• 50,000 PPC clicks per month at $0.20 starting cost per click.

• We then implemented each of the above nine improvements, one per month, over nine consecutive months. We used a conservative 5% gain in each area.

Here is the effect of those compounded gains:

<table>
<thead>
<tr>
<th>Compounded Incremental Gains</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Improvements (1 per month)</strong></td>
</tr>
<tr>
<td>(0. Initial State)</td>
</tr>
<tr>
<td>1. Improved PPC Ad Copy</td>
</tr>
<tr>
<td>2. Optimized CPC on Paid Search</td>
</tr>
<tr>
<td>3. Optimized Landing Pages</td>
</tr>
<tr>
<td>4. Optimized Order Form</td>
</tr>
<tr>
<td>5. Improved Site Copy</td>
</tr>
<tr>
<td>6. Up-Selling and/or Cross-Selling</td>
</tr>
<tr>
<td>7. Offer Price Optimization</td>
</tr>
<tr>
<td>8. Abandoned Cart Recovery</td>
</tr>
<tr>
<td>9. Credibility Indicators</td>
</tr>
</tbody>
</table>

What You Need to UNDERSTAND: These nine Micro-Gains produced an additional $48,312 in monthly profit.

Note: These numbers were generated with our spreadsheet tool, which you can download below.

KEY POINT: The "Change in Net Profit" column shows which of these "5% Micro-Gains" actually had the most impact on profit. Therefore, you may want to implement those changes first.

Leveraging vs. Compounding:

An important distinction in the table above is the monthly change in net profit measured against the total compounded improvement.

First, notice the impact on actual profit of just a 5% increase in each area. In all areas but two, the actual profit increased by much more than 5%. This illustrates the power of leverage, which is using the given marketing improvement in such a way that the positive outcome is magnified.
However, taking each of these improvements separately is the equivalent of making the improvements to nine identical, but separate websites. In practice, by applying these improvements in a sequential manner to the same site, the true increase in profit is even much more powerful:

<table>
<thead>
<tr>
<th>Leveraging vs. Leveraging AND Compounding</th>
<th>Increase in Monthly Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of Monthly Net Profit (9 Months)</td>
<td>163%</td>
</tr>
<tr>
<td>Compounded Profit</td>
<td>322%</td>
</tr>
</tbody>
</table>

What You Need to UNDERSTAND: By compounding the effects of these incremental, sequential marketing improvements, the total profit gain is effectively double that of what it would be taking the tests separately.

In other words, leveraging and compounding together has twice the power of leveraging alone. And this is just one example with conservative 5% gains in each area. Even in our micro-tests above, which were specifically chosen because they were rather modest improvements, a single testing effort improved some of these testing areas by 6.42% and 8.50%.

To illustrate the power of Micro-Gains, we chose tests with single-digit improvements over those that were tremendous successes in and of themselves. But imagine the power of compounding gains of 50% or more.

Or better yet: Rather than imagine the potential, download our spreadsheet tool, which was the same tool we used to generate the profit analysis above. It allows you to plug in your own numbers and analyze the total increase in profit.

http://meclabs.com/CompoundingEffectTool.xls

CONCLUSION

These nine improvements have been selected as examples of simple Micro-Gains that can be made to your site and marketing efforts, each of which can have a large impact on overall revenue when compounded.

Clearly, your optimization efforts shouldn't stop with these suggestions. Our library of previous experiments covers dozens of techniques that can improve your marketing.

Just keep in mind how sequential Micro-Gains can deliver astonishing increases in revenue through the power of leveraging and compounding.
RELATED MEC REPORTS:

- PPC Ad Copy Tested: [http://www.marketingexperiments.com/see/1114](http://www.marketingexperiments.com/see/1114)
- Avoiding Unprofitable PPC Campaigns: [http://www.marketingexperiments.com/see/1088](http://www.marketingexperiments.com/see/1088)
- 90-Day PPC Plan: [http://www.marketingexperiments.com/see/1121](http://www.marketingexperiments.com/see/1121)
- Landing Pages Tested: [http://www.marketingexperiments.com/see/1041](http://www.marketingexperiments.com/see/1041)
- Order Forms Tested: [http://www.marketingexperiments.com/see/1052](http://www.marketingexperiments.com/see/1052)
- Conversion Rate Optimization: [http://www.marketingexperiments.com/see/1118](http://www.marketingexperiments.com/see/1118)
- A/B Split Testing: [http://www.marketingexperiments.com/see/1119](http://www.marketingexperiments.com/see/1119)
- Price Testing: [http://www.marketingexperiments.com/see/1124](http://www.marketingexperiments.com/see/1124)
- Subscription Revenue Tested: [http://www.marketingexperiments.com/see/1091](http://www.marketingexperiments.com/see/1091)
- Offer Pricing Tested: [http://www.marketingexperiments.com/see/1049](http://www.marketingexperiments.com/see/1049)
- Abandoned Shopping Cart Recovery: [http://www.marketingexperiments.com/see/1054](http://www.marketingexperiments.com/see/1054)
- Shipping Charges Tested: [http://www.marketingexperiments.com/see/1060](http://www.marketingexperiments.com/see/1060)
- Customer Ratings [http://www.marketingexperiments.com/see/1092](http://www.marketingexperiments.com/see/1092)
- Website Copy [http://www.marketingexperiments.com/see/1085](http://www.marketingexperiments.com/see/1085)
ABOUT THIS BRIEF

Credits:

1. Editor — Flint McGlaughlin

2. Writers — Brian Alt
   Nick Usborne

3. Contributors — Jalali Hartman
   Aaron Rosenthal

4. HTML Designer — Cliff Rainer