Media Mix Modeling

Seth Hirsch: Today, we're going to talk about media mix modeling. Media mix modeling is an exercise that allows us to help our clients understand the various spends that they made in different marketing channels and how those spends ultimately drive sales within their business. We use this model to help us optimize how much they spend in the future. If we can get an understanding of how much each channel is driving in sales, we can then use that to optimize where we should spend our money and where we shouldn't.

To do this model, we factor in data from every source that we can get. It's not just direct mail or email data. We're taking data from television and radio, newspaper, and bringing all of those spends in in order to forecast what we think the sales would be as we tweak someone's marketing spend across different channels.

One of the key aspects of media mix modeling is a concept of an S-curve. If we have a chart here and a line that looks like this, what we end up with is this gives an indication that for every incremental dollar I spend in a channel, how much incremental sales I would expect to get. So we have sales, incremental sales here and investment across the bottom. And what this means is, as I increase my spend, I'm going to expect to receive incremental sales on that spend.

So at first, what you can see is we have this flat period, where our sales ... every dollar I spend is not really driving significant incremental sales, so that investing at this point doesn't necessarily make sense. In the middle here, I have another period. Every dollar I spend here, I'm seeing a steeper line, and that means I'm getting more incremental sales for every dollar that I invest.

And on the far end, I have another period where it flattens out again. Basically, if I look at each channel this way, I can start to understand, with what I'm spending today, should I spend more or less based on how much incremental sales my next dollar is going to drive for me. So this concept, among other things, helps us understand how much of every dollar should go to different channels and how that could then help our clients optimize their marketing spend.