

THE ECONOMICS OF DIGITAL ADVERTISING: HOW BUSINESS PROFITABILITY CHANGES WHEN ADVERTISING SCALES

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Abstract. *Purpose of the article.* The article considers key issues of digital advertising effectiveness, including the relationship between costs and profitability in the process of scaling advertising campaigns. The *research methodology* is comprised of a systematic method, comparative analysis, and theoretical methods (analytical-synthetic, classification, systematisation, and generalisation). *Results.* The article considers contemporary trends in the development of digital advertising in the context of scaling. The present study analyses the relationship between a decrease in ROAS (return on advertising costs), an increase in costs and an increase in net profit. It was determined that a decline in return on advertising spend (ROAS) when scaling advertising campaigns is a common occurrence. This is due to the fact that the efficacy of the campaign may be diminished due to market saturation and the necessity to expand the target audience. While attracting users who are less knowledgeable about the product or brand may be more costly, it is nevertheless essential in the context of scaling advertising campaigns. It has been demonstrated that an increase in advertising costs does not necessarily result in a proportional increase in profit from these advertising campaigns. The necessity for informed management decisions to optimise digital advertising is well-documented, and this process involves conducting campaign audits to identify new opportunities, personalising advertising communications and using A/B testing to determine the most effective combinations, and personalising advertising to find new target audience segments. *Practical implications.* The study demonstrates that scaling digital advertising is a pivotal stage for any business if costs are optimised to maintain a high level of profitability. *Value/Originality.* The article proposes an innovative approach to the effectiveness of advertising in terms of scaling, which takes into account the expansion of campaigns to new audience segments, the expansion of advertising channels and strategies, the modelling and forecasting of ROI (return on investment) and ROAS for each stage of scaling in order to predict a possible decrease in effectiveness and adjust the strategy over time. It also focuses on the value of the product for the client.

Keywords: ROAS (return on advertising costs), scaling, advertising costs, marketing strategies, profitability, digital advertising.

JEL Classification: M31, M37

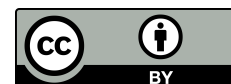
1. Introduction

Digital marketing is currently positioned as one of the main means of promoting goods and services in a globalised market, where the speed of presentation is often a decisive factor in expanding the consumer audience and economic growth. Concurrently, in view of contemporary trends in the evolution of digital advertising, elements that impact ROAS (return on advertising spend), scaling, and marketing strategies are becoming especially salient. These concepts are

closely related. In particular, ROAS measures the profitability of advertising, helping to optimise costs and evaluate the effectiveness of campaigns. Successful campaigns are scaled by determining the additional profit from specific marketing strategies. Scaling involves increasing advertising investment while maintaining or increasing ROAS, with the aim of achieving proportional profit growth.

Significant contributions to the state of research on this issue have been made by scientists R. Almestarihi et al. (2024), J. Greenwood et

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al. (2025), N. Gupta (2020), Y. Lau (2020), R. Moro Visconti (2023), and N. Petrukha et al. (2021). These scientists highlight the potential of digital marketing concepts, explore influencing factors, and key methods for determining advertising effectiveness. According to researchers E. Brynjolfsson and A. Collis (2019) and S. Das (2021), the economics of digital advertising involves developing advertising budgets, using measurable advertising and analysing campaign effectiveness by comparing costs and sales volumes.

Researchers H. Choi et al. (2020) and B. Gordon et al. (2021) have paid particular attention to developing a comprehensive methodological toolkit for evaluating the effectiveness of digital marketing strategies. K. Ramachandran (2023), N. Swetha et al. (2024), S. Ziakis and M. Vlachopoulou (2023) also define scaling functionality as the process of expanding marketing efforts to increase economic efficiency and reach a larger audience, while maintaining a positive return on investment (ROI). The researchers suggest that the desired effect can be achieved by increasing the budget and maximising the potential of information and communication systems.

Despite significant developments in the field, many aspects of the issue under study have only been examined in part. The digital transformation of marketing approaches encompasses organisational and economic contexts, requiring a comprehensive approach to implementation. Practical developments in this area are necessary. This study aims to provide an in-depth scientific and practical analysis of the key issues of digital advertising effectiveness and the relationship between costs and profitability when scaling advertising campaigns.

2. The Economics of Digital Advertising and Business Profitability

Current market trends demonstrate the increasing significance of digital marketing in facilitating effective interaction between companies and consumers, ensuring a robust online presence and optimising customer engagement processes. Digital advertising increases business profitability by enabling more precise targeting of the target audience and providing real-time tracking of results, while also reducing marketing costs compared to traditional advertising methods (Greenwood, Ma & Yorukoglu, 2025). This stimulates sales, increases audience trust in the brand and its recognition, and

enables quick adjustments to marketing strategies to achieve the desired result. The main advantage of digital advertising is that results can be measured in near real time by analysing statistics and adjusting campaigns to avoid unnecessary costs. Unlike traditional advertising, which is conducted blindly, digital advertising provides dynamic statistical data on effectiveness (Digital Advertising Industry, 2025).

The economics of digital advertising should be viewed as a key systemic indicator of an advertising campaign's effectiveness, showing how much revenue a business generates for every dollar spent on advertising. This indicator is based on sales promotion, cost reduction and sales growth through digital technologies. The effective use of the budget should aim to achieve both short-term goals, such as growth in sales volume and speed, and long-term goals, such as strengthening stable demand and audience loyalty (Aiolfi, Bellini & Pellegrini, 2021).

The economics of digital advertising comprises a set of economic processes and indicators reflecting the relationship between advertising costs and results. Several aspects are important to consider when scaling advertising campaigns on digital channels (e.g., Google Ads, Meta Ads and YouTube). First and foremost is ROAS, a key indicator of the process. It is calculated using the following formula: $ROAS = (\text{advertising revenue} / \text{advertising costs}) \times 100\%$. A decrease in ROAS when scaling up advertising campaigns is a common occurrence, as the effectiveness of a campaign can decline due to market saturation and the requirement to expand the target audience. Attracting users who are unfamiliar with the product or brand is more costly, but essential when scaling up advertising campaigns. Therefore, increasing advertising costs does not necessarily lead to a proportional increase in profit from these campaigns (Almestarihi et al., 2024; Boufim & Barka, 2021).

Concomitantly, it is imperative to acknowledge that effective management and optimisation of scaled advertising can potentially augment net profit despite a decline in ROAS. However, this necessitates an appreciation of the principles of economies of scale and the ability to make decisions based on a calculated business economic model that incorporates economic indicators such as LTV, product cost, delivery costs, fixed business costs, product margins, and others.

3. Current Trends in Digital Advertising in the Context of Artificial Intelligence Development

In pursuit of the overarching objective of optimising profits, companies endeavour to extend their reach into untapped markets, augment their sales volumes, secure advantageous positions within target markets, establish competitive advantages, and cultivate a favourable image. This, in turn, necessitates that companies possess a high level of awareness of market trends, consumer needs and demands, and that they are able to forecast future dynamics (Brynjolfsson & Collis, 2019).

In the contemporary digital economy, the Meta and Google ecosystems are exhibiting a systematic transition to maximum automation based on artificial intelligence models. These ecosystems account for approximately 80% of the entire online advertising market in the US (Digital Advertising Industry, 2025). The Meta Advantage + and Google Performance Max algorithms have been demonstrated to effectively reduce the role of manual configuration in managing advertising campaigns, thereby transferring the primary functions to platforms. The role of the advertiser is evolving, with a shift away from the management of technical settings towards the establishment of KPIs, the definition of the target audience for the business, budget management, and the configuration of general restriction parameters. This shift in roles is critical to understanding the new logic of digital advertising, where success is determined not by the micro-configuration of advertising settings, but by the quality of the data provided and strategic business decisions (Gawer, 2021).

Meta and Google platforms are already implementing unified AI-oriented campaigns. Furthermore, Google distributes budgets across various surfaces of the ecosystem independently, automating coverage through Search, YouTube, Display, Discover, and Maps. Concurrently, Meta is integrating Facebook and Instagram inventory into cohesive, AI-oriented campaigns. Such campaigns have been shown to provide a scaling effect that was not available in previous generations of advertising tools. However, it must be noted that these campaigns require much more attention to financial management and the quality of creatives. The significance of metrics such as CAC, LTV, and return on investment is on the rise. This is due to the fact that automated campaigns have the

potential to rapidly exhaust budgets and redirect priorities towards products or segments with lower profit margins (Krishen et al., 2021; Ziakis & Vlachopoulou, 2023).

In such conditions, creativity prevails over settings. Meta and Google algorithms have the capacity to evaluate numerous variations of visual and text elements, thereby ensuring that content is adapted to diverse audiences and formats. In such an environment, the primary factor determining competitiveness is not the ability to meticulously refine a campaign, but rather the existence of a scalable process for generating creative content. Creativity has been identified as a central element of competitiveness, with the quality, relevance, and personalisation of creative content for different audience segments being directly correlated with the effectiveness of campaigns. These transformations have significant management implications for companies. There is an increasing demand for creative departments and production teams that can reliably generate a multitude of content options tailored to meet the requirements of Meta and Google algorithms.

In summary, the development of digital advertising in the context of the spread of artificial intelligence is shaping a new model of interaction between businesses and advertising platforms. This new model is characterised by a reduction in operational barriers due to automation, and an increase in the importance of strategic decisions, data management, and creative components. For small and medium-sized enterprises, this engenders both novel opportunities for accelerated growth and concomitant risks associated with intensified competition and reliance on algorithmic systems.

4. Analysis of the Relationship Between Rising Advertising Costs and a Decline in ROAS

A decline in return on ad spend (ROAS) signifies a diminution in the efficacy of advertising campaigns, as the escalation in advertising expenditures is not commensurate with a proportional augmentation in revenue. In the process of reducing the budget allocated to advertising, a predictable phenomenon occurs: that of the exhaustion of the most valuable audience segments. In the nascent stages of a campaign, the algorithms of advertising platforms such as Meta and Google primarily target users

with the highest probability of conversion. However, as costs escalate, the system is compelled to broaden its targeting to encompass audiences with a diminished level of purchase readiness or diminished relevance. This phenomenon naturally gives rise to a decline in conversion activity, an augmentation in the cost per click and the cost of customer acquisition, which in turn engenders a diminution in ROAS (Ramachandran, 2023).

Also, as advertising costs increase, it becomes more challenging to ensure the effectiveness of advertising creatives. Without regular updates and reviews of ad segmentation, ad fatigue increases. This occurs when a user is exposed to excessive frequency of impressions, causing a decrease in their sensitivity to advertising messages. Consequently, the effectiveness of previously successful ads gradually declines, necessitating systematic updates to creative content and the adaptation of advertising strategies to ensure an acceptable level of performance is maintained (Gołąb-Andrzejak, 2025).

Increasing the number of advertising campaigns for a single business does not necessarily solve the problem, as internal competition between campaigns may arise, which can lead to a decrease in effectiveness and ROAS. To optimise digital

advertising in this situation, informed management decisions are required, such as auditing campaigns to identify new opportunities, personalising advertising communication and using A/B testing to determine the most effective combinations (Wielki, 2020). The greatest attention should be paid to personalising advertising in order to identify new segments of the target audience.

ROAS can be considered an indicator of the quality of the entire sales funnel. The factors that significantly influence ROAS are shown in Table 1.

5. Findings

To increase business profitability whilst expanding advertising activities, it is necessary to take into account a number of key factors, which are determined not only by the parameters of advertising campaigns but also by strategic business decisions, in particular:

1) Rather than increasing spending on one marketing channel, it is often advisable to redistribute the advertising budget to develop new channels that can attract new audiences to the business. It is important to pay close attention to developing organic channels, such as SEO and content marketing. Although these require investment at the outset, they reduce customer

Table 1

Factors, their impact on ROAS, and tools for improving the effectiveness of advertising campaigns

Factors affecting ROAS	Mechanism of action	ROAS optimization tools
Targeting through communication	Communication with too broad an audience – many impressions, few conversions; with too narrow an audience – lack of scalability.	Segmentation of target groups, personalisation of creatives for different segments, and testing of various communication messages for specific audience needs (“pain points”).
Quality of creative and ads	Attracts attention, arouses interest, and influences the click-through rate for advertising.	Testing creatives and their relevance to the target audience: headlines, visuals, formats.
Website conversion	The website should load quickly, respond to communications in ads, be adapted for mobile formats, and be user-friendly.	Improvements to the landing page: loading speed, clarity of CTA, simplicity and logic of UX, addition of reviews, guarantees, high-quality photos, and content from product users.
Prices and offers	Must correspond to the value of the product and the purchasing power of the audience.	Testing and adjusting prices and offers, comparing prices with competitors, testing.
Availability of statistical data for campaign optimisation	The more data advertising platforms receive, the better they can find their target audience.	Setting up analytics systems for all important events on landing pages, switching to Conversions API to transfer more data and optimise advertising more accurately.
Seasonality and demand	Products may experience increased or decreased demand depending on the season, events, or holidays.	Adding product groups to ads that correspond to seasonality, events, and holidays.

Source: created by the author based on (Almestarihi et al., 2024; Ramachandran, 2023; Romero Leguina, Cuevas Rumin & Cuevas Rumin, 2021)

acquisition costs over time, ensuring a return on investment within 6–12 months.

2) Modelling and forecasting: in order to anticipate possible declines in efficiency and adjust the strategy in a timely manner, it is necessary to forecast ROI and ROAS for each stage of scaling. Furthermore, a decline in ROAS can concomitantly engender an augmentation in business profits through the mechanism of economies of scale.

3) It is imperative to prioritise customer value in order to enhance profitability. This necessitates a constant focus on the value that customers derive from the product, thereby facilitating the maintenance of a high level of trust and loyalty.

4) The expansion of an audience through the utilisation of diverse communication channels is a pivotal aspect of contemporary marketing strategy. In particular, the provision of a singular product that is capable of addressing multiple consumer issues has emerged as a key strategy for enhancing reach and impact.

5) The expansion of the product line is a strategy that has been proven to engender increased market reach, by virtue of the greater variety of products on offer.

6) The concept of increasing LTV (lifetime value) refers to the amount of potential revenue derived from a customer over an extended period, primarily through repeat purchases and cross-sales (Aiolfi, Bellini & Pellegrini, 2021; Romero Leguina, Cuevas Rumin & Cuevas Rumin, 2021; Wielki, 2020).

Digital marketing enables businesses to develop functionality in the context of meeting the needs of a clearly defined target audience, respond quickly to new trends, and exploit potential opportunities. One of the fundamental qualities of effective advertising is its relevance, which signifies that the structural framework, content, and specific characteristics of the creative work correspond to the demands and needs of the potential target audience. Concurrently, the audience is not static, which necessitates flexibility and adaptability in marketing strategies. In order to ensure the optimal effectiveness of digital advertising, it is essential to employ a meticulous selection of platforms, taking into account the inherent limitations in terms of technical capabilities and formats, while adhering to the stipulated budgetary constraints.

In the analysis of business profitability dynamics in the context of scaling advertising, it is imperative

to consider the fundamental principles of supply and demand. The demand for ad impressions or clicks experiences an increase when a greater number of advertisers seek to promote their products or services on a particular platform. This increase may be attributed to seasonal fluctuations in demand or the introduction of new products. Simultaneously, supply denotes the number of available advertising resources, such as the number of individuals who view the ad or the number of queries entered into search engines, given the constrained supply. It is evident that as advertisers compete for access to this finite resource, the cost per click or impression tends to escalate.

At the same time, net profit can increase despite a decrease in ROAS if scalable campaigns are managed effectively. This can be achieved by optimising customer acquisition cost (CAC) through improved communication strategies, audience engagement, expanding the product range, and implementing new marketing strategies (e.g., launching new products or services). Increasing repeat purchases can be achieved through a developed loyalty system and email marketing.

6. Conclusions

Scaling digital advertising is a pivotal step in the evolution of any business, serving as a crucial instrument for attracting potential consumers and expanding the customer base. Concurrently, it is imperative to not only augment advertising expenditure, but also to optimise spending in a manner that ensures the maintenance of a high level of profitability.

In order to enhance the financial viability of business operations in the context of expanding advertising initiatives, it is imperative to consider a series of pivotal elements. These factors are not solely determined by the parameters of advertising campaigns, but also by strategic business decisions, including the reallocation of financial resources to alternative marketing channels (such as SEO and content marketing), the modelling and forecasting of ROI and ROAS at each stage of scaling, the prioritisation of customer value to maintain a high level of trust and loyalty, the expansion of the audience through diverse communication channels, the augmentation of the product line, and the maximisation of long-term revenue potential through repeat purchases and cross-sales.

Increasing the number of advertising campaigns for a single business does not necessarily solve the problem, as internal competition between campaigns may arise, which can lead to a decrease in effectiveness and ROAS. Informed management decisions are required to optimise digital advertising, such as

auditing campaigns to identify new opportunities, personalising advertising communications and using A/B testing to determine the most effective combinations. The greatest attention should be paid to personalising advertising in order to identify new segments of the target audience.

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