When a click doesn't pay

By Herman Manson: @marklives

25 Oct 2010

South African publishers are facing increasing pressure from advertisers to adopt a pricing model based on the clickthrough rate on banner ads, rather than the more traditional CPM (cost per mille or cost per thousand), pricing model, which is based on a fixed price for every 1000 impressions served.

CPC, or cost per click, is a performance-based pricing model, in which the advertiser is charged only for the number of clicks an ad delivers. The model was popularised by search engines such as Google.

Recent research

A recent Research Note by Eyeblaster* cited a survey by Econsultancy and the Rubicom Project, noting that 63% of publishers still price display advertising using CPM, but that CPC has been gaining steady ground over the past five years, with as much as 30% of publishers having already made the switch.

The report, interestingly, suggests that the CPC pricing model could well undermine the viability of online content providers that in turn could affect the pricing of online advertising, which should go up as quality inventory declines.

The Eyeblaster* Research Note argues that the CPC pricing model doesn't translate effectively beyond search engines. It's fine to implement a CPC system when you have volumes on the scale Google does (it generates several billion searches a day), but few sites enjoy such volume and, in any case, content sites rely on display advertising (eg banner ads) to monetise their audience. Advertisers link the success of display advertising to clickthroughs, which in turn is reliant on a number of factors outside the control of the media owner, including advertising creative and call to action, which needs to convince users to click on an ad.

"Compensation at the mercy of others"

"When publishers are paid by the click, their compensation is at the mercy of others in the advertising chain who make decisions that affect the success of the campaign," says the research note authors. "Another concern is whether clicks are the proper metric for discerning the success of a campaign. In many verticals, the actual purchase is made in off-line stores, and therefore the value of the ad is in its retention rather than the click."

"On the face of it, CPC sounds like a far better scheme for advertisers- publishers only 'eat what they kill', and therefore share the risk with the advertiser and marketer," the Eyeblaster* report continues.

"This research argues that CPC payment schemes are not only impaired because of inequitable allocation of incentive and risk, but also that the spread of CPC may curtail the growth of the display advertising industry. In addition, by linking publishers' pay with success that they have only partial influence on, CPC may drive some publishers out of business, causing an increase in media prices and as a result driving some advertisers out of the market as well."

Under increased pressure

Mike Luscombe, CEO of The SpaceStation which sells ad space for Naspers-owned content properties such as MWeb, News24 and SuperSport, says that his organisation has come under increased pressure from advertisers to engage them on a CPC basis.

"The reality is that with the current size of the local Internet market and the associated traffic numbers, local publishers cannot survive on a trading model that totally discounts brand value and attributes campaign success to the click," says Luscombe.

"This mindset is also reflected in the current levels of apathy towards online creative, particularly from the big name traditional agencies. [You] just need to look at the Loeries and the Bookmark Awards to get an idea of how inactive the online advertising categories are and how conspicuous the big name agencies are in their absence."

Not always less risk, better returns

Andrea Mitchell, founder of digital marketing firm digiVOX, says the CPC model doesn't always mean less risk and better returns for marketers. "A well-negotiated CPM buy can sometimes result in a lower resultant CPC than if they'd purchased on a CPC basis," says Mitchell.

"Can you imagine paying for results only on TV or radio?" she asks. "Advertisers would never dream of it, so why with online?" And publishers, she argues, would quickly do the math to ensure that the CPCs charged do not reduce their advertising revenues, and in fact, might make sure revenues increase.

"Bottom line, regardless of which pricing model is utilised, the most crucial measure of success is about value and return, not clicks," says Mitchell.

Maybe publishers sold the whole 'track your clicks and measure direct results' a little too well in the early days of online advertising when it was imperative to establish the measurability as a key differentiator of online as an advertising platform. Since then digital has became a real mass medium - but also one where online brand advertising became ignored.

Publishers themselves to blame?

Publishers might well have themselves to blame for the decline in the popularity of CPM. Shelby Bonnie, who co-founded CNET and chaired the IAB between 2001 to 2003, wrote an opinion piece for Techcrunch in 2009 in which he argued that "CPM has done more to stunt innovation and drag down quality products than any single thing on the Internet."

"The collective focus on CPMs and counting eyeballs by marketers, agencies, and publishers has led to a whole mess of unintended consequences that have produced a series of 'solutions' that work for none of those parties," argues Bonnie. "No matter how great the idea, it will always filter down "to the media buyer and the dreaded spreadsheet, where the two most important columns are impressions and cost."

A report by Bain & Company titled 'In search of a premium alternative: an action plan for online brand advertising' also argues that display advertising is increasingly commoditised due to excess inventory and clutter but the report does hold out some solutions to publishers.

Failed to embrace brand advertising

The authors of the report, John Frelinghuysen and Aditya Joshi, say publishers and advertisers have failed to embrace brand advertising in the digital environment. "Much of the projected growth [in online ad spend] will come from direct-response advertising-in particular, search. This suits advertisers seeking an immediate, measurable return on investment (ROI), usually in the form of website traffic and sales transactions. However, response advertising is not geared to building long-term brand affinity for marketers and does not fully value the content and 'premium environment' of specific sites on which ads are placed." Brand marketers still rely on traditional media even as response marketers are moving online in increasing numbers.

Ad formats and creative execution have failed to evolve in line with the medium, the report finds, and advertisers face a glut of undifferentiated, low-cost inventory, which has dragged down rates. Effective measurement remains an issue, as it does for all media, but the expectation of online is set quite high, targeting remains unreliable especially across ad networks, and lack of buy-in from agency and media partners remains problematic.

For CPM to retain relevance, Bain suggests publishers gear toward meeting a number of marketer needs, including strengthening direct-response offerings, recommitting to delivering a 'premium' offer (including investing in ad-format innovation) and building direct and long-term relationships with clients and helping to drive cross-platform campaign integration.

One local site

Of course, the one local site that does jump to mind for its commitment to a premium offer, as well as for its innovative ad format solution, is The Daily Maverick (DM).

"Chasing hits is disrespectful," it states on its website. "It is cheap and easy to publish endless reams of wire copy or nonsensical blog posts, and inevitably some poor soul will click on a link and add to your counter so we can bill you for that click. We get money, but both you and the reader are unhappy. And the only thing we like less than an unhappy advertiser is an unhappy reader." Indeed.

DM offers a single ad per page which takes up around a quarter of the screen space. The advertiser gets to own the page rather than having to compete with half a dozen banners and buttons.

It seems that once again the Internet is clashing with established business practice from advertising and media agencies, not to mention established media owners, which still haven't figured out how to adapt their own revenue models to the online environment.

What seems certain is that change will need to be driven by innovative publishing entrepreneurs and clients directly. Whether they will get past the firewall set in spreadsheets remain an open question.

*Please note that Eyeblaster rebranded to MediaMind earlier this year.

For more:

- The Daily Maverick: Advertise - *a maverick take on advertising online*
- Bizcommunity: 'Mr Advertiser, can you reach me?'
- Bizcommunity: An advertiser's nightmare

ABOUT HERMAN MANSON: @MARKLIVES

The inaugural Vodacom Social Media Journalist of the Year in 2011, Herman Manson (@marklives) is a business journalist and media commentator who edits industry news site www.marklives.com. His writing has appeared in newspapers and magazines locally and abroad, including Bizcommunity.com. He also co-founded *Brand* magazine.
- AwardsCandy - SA app start-up signing global award shows - 11 May 2012
- Ninety9cents lands Capitec, sees 43% growth y/y - 9 May 2012
- Press freedom, the commission and you - 26 Apr 2012

- Cell C drops King James, FoxP2 - retains Ogilvy - 25 Apr 2012
- Zando rockets into SA ecommerce space - 24 Apr 2012

View my profile and articles...

For more, visit: https://www.bizcommunity.com