Facebook ads: CPC vs CPM

By Gil Sperling

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If your company is considering buying advertising space on Facebook, you will be confronted with the choice of cost per click (CPC) or cost per thousand impressions (CPM). Without properly understanding Facebook's advertising model and what each of these options gets you, you might find this a confusing or difficult choice to make.

But a little consideration of the following key points will help you to make the choice that's right for your business. First of all, it's important to understand how advertising on Facebook works.

Facebook ads can be targeted to users based on various criteria, including age demographic; gender; key words and workplaces. Facebook operates using the 'Search' model of selling advertising space, which relies on the bidding system. Therefore the greater the value you attribute to your ad the better your chances of outbidding another ad vying for the same placement. CPM and CPC form part of this search model.

Understanding CPM

CPM pricing is defined as a cost attributed to every 1000 impressions your ad will have (or times your ad will appear) on a website. The CPM model is used by most content web portals, where you buy a certain number of impressions for a certain amount of rand over a certain period of time. You do not have to bid for preferential placement thereby guaranteeing the exact number of impressions over the period.

The Search CPM that is used by Facebook and other web portals is used in conjunction with a bidding system. No guarantees are made about the number of impressions served as it is the value you attribute to your ad as well as its popularity that will determine this, and this is at the discretion of the web portal.

With CPM bidding, you're effectively gambling with your Facebook advertising budget. You might get a fantastic result, with tons of super-cheap clicks. But you also run the risk of spending your entire budget and not getting any clicks at all.

Publishers risk nothing on ad performance with a CPM system and get paid for every impression. As a result of the one-sided nature of both the search CPM and content web portals CPM models, clients are seeking an alternative that can offer them some sort of guarantee of performance and a better return on investment (ROI).

Understanding CPC

CPC, sometimes called Pay-Per-Click (PPC), is a performance-based metric. It involves risk from the publishers' side in that they are only getting paid for every click on the ad. This forces them to ensure that the ad is relevant to what is being offered so that it has a good chance of turning into an action - a 'click'.

At the same time, the advertiser takes on the responsibility of displaying the ad in appropriate places and multiple times so that it will receive clicks. No clicks, no revenue. It's a very simple formula for both sides.

Search CPC is the same thing; however, you will have to bid to attribute a value to your click. In this case the media owner needs to also take into account the quality of such placements ensuring that ads are actually relevant and have a high chance of a click.

Ultimately, you only pay when someone clicks on your ad. You're paying for a deliberate click by someone who wants to see what you have to offer on your landing page.

Low risk

CPC is a very low risk way to buy media because marketers only have to pay for performance, so they have some level of confidence in their return on investment.

If you're interested in having people click through to your website or Facebook page, then CPC is most likely going to work out best for you.
This sharing of risk and the simplicity in measuring performance is why CPC has become so popular. It has been so wildly successful that Google generates most of its billions in revenue by playing the middleman between advertisers and media owners.
It is a well-known fact that online ads do not get immediate responses the first time a user sees it, much like one does not react to a TV advert immediately. Users have to see an advert multiple times in order to get them to action (click) the ad.

A CPM model used to create multiple impressions would require very deep pockets to pay for a significant number of impressions to justify a reasonable ROI. Hundred percent of the risk would be with you, the advertiser. However, on a CPC basis, you only pay for the click, so you are guaranteed the multiple impressions in order to get the clicks, and on Facebook this amounts to millions of impressions.

How revenues affect business models and offerings

The CPM model is the only model most content web portals offer as it would not be financially viable for them to offer CPC. The simple reason for this is that these small web portals don't have the critical mass traffic required for them to rely on CPC alone from a revenue perspective.

Facebook do offer a CPM model as this is a good business offering from its revenue perspective, however with over one billion users around the world, it does not need to rely on the CPM model for revenues, and therefore offer the CPC model too as this is more attractive to the client.

As Facebook has critical mass traffic it's able to serve as many ads as possible to your desired target audience, in order to convert the clicks into revenue.

Utilising the CPC model on Facebook ensures millions of impressions in a short space of time which guarantees ROI and ensures that Facebook works for its money.

ABOUT GIL SPERLING

Gil Sperling is cofounder and co-CEO of Flow, a proptech company that goes straight to the source of the largest social platforms in the world - to match people with property.

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