Motivating Internet Advertising Partners

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In 2005, spending on Internet advertising has exceeded the peak levels achieved during the dot-com boom, and continuing rapid growth is expected.

Targeting continues to improve to the point where the ability to pinpoint audiences is not limited by technology, as much as it is hindered by the ethical dilemma of encroaching on user privacy. Even so, as a result of rising demand, highly targeted available on-line advertising space is scarce, often selling out months in advance.

Internet advertising, which originated as a cost per thousand impressions (CPM)–based media, is again achieving strong footing as an impression-based pricing model.

On the surface, this may appear to be bad news for advertisers. It is not. This article explains why the move away from cost per click (CPC) and cost per action (CPA) advertising toward a more traditional CPM pricing model is good for all parties—including advertisers.

After the collapse of the dot-com bubble, the "guaranteed performance metrics" of CPC and CPA allowed for extensive low-risk, high-value trial and experimentation. Experimentation and renewed cooperation between on-line publishers and agencies ultimately resulted in the realization of on-line media's long-promised targeting and accountability. However, CPA- and CPC-based media are fraught with hidden costs.

To fairly compare pricing models, one must compare the total cost of media. When purchasing CPM-based advertising, the advertiser pays on a per impression basis, usually for highly targeted placements. In comparison, performance-based CPC and CPA advertising do not commit to targeting, but guarantee a certain quantifiable metric. On the surface, the guaranteed performance is often favorable to the yield of a CPM campaign.

The fallacy with this logic is that these metrics fail to consider quality. To develop an accurate return on investment (ROI) model, we must also consider the qualitative difference in the results and the hidden costs associated with the disparity in quality.

Performance-based advertising, using a broad shotgun approach, focuses less on quality of the audience, and more on quantity, which may have unintended consequences.

Many major CPC advertising–supported search engines admit to facing serious "click fraud" challenges. Current estimates indicate that as much as 20% of all CPC clicks may be fraudulent, according to Jessie Stricchiola, President of Alchemist Media, Los Angeles. A fraudulent click is either manually or in an automated fashion generated by the Web publisher in an attempt to earn money or by a competitor of the advertiser trying to deplete advertising budgets. Google Chief Financial Officer George Reyes, said in a statement about click fraud for CNN Money that "something has to be done about this quickly, because it threatens our business model."

Similar unintended consequences arise with CPA. Publishers may incent non-qualified audiences to register through the use of lotteries and prizes, or alternatively, find an inappropriate niche audience who may take the required action, but will not ultimately convert to high-value customers. Suddenly, the consumer relationship management (CRM) database is full of registrations with bogus E-mail addresses, with names like "Elmer J. Fudd," and addresses such as "123 Main Street, Anytown, USA."

A highly targeted CPM campaign will often yield a better ROI on a per-qualified respondent basis. All clicks are simply not the same and all registrations cannot be valued equally.

In addition to click fraud and bogus registrations, hidden cost factors inherent in low quality media include: direct mail costs to unqualified prospects, resources required to store and cleanse useless leads from the CRM database, risk of customer perception as a spammer, and deterioration due to loss of control over brand image.

To achieve high-quality results, both the ROI analysis and the partner incentive structure must acknowledge and reward quality. A "garbage-in" approach to CRM recruitment produces "garbage-out" low-quality returns. Ignoring quality during the media planning process is more costly than it might appear, and is detrimental to the long-term ROI of CRM efforts.

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