DigiChat with Andrea: Pricing Models

 By Andrea Mitchell

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In the first of what promises to be a series of exciting discussions and ensuing debates, we tackle what has been a contentious issue in digital media for some time, and that is **pricing models**. Andrea chatted to various agencies, brands and publishers...

CPM (cost per mille - one thousand impressions) has long been the standard pricing model for online advertising space, particularly with premium publishers. What are your thoughts on this?

Kelvin Storie, Media Director (JHB), Vizeum

CPM is probably the easiest and most advantageous towards the media owner and the model of choice for a branding campaign due to the frequency that can be achieved. The concern however, is publishers' ability to deliver on booked impressions timeously. In addition, that it becomes difficult (if not impossible) to move impressions between publishers if one particular site is not generating the desired results.

Digital Marketer, Large Retailer (due to confidentiality and corporate policy names cannot be disclosed)

If you are doing a product launch or rebranding and you want to reach lots of eyeballs then this would work; but it has very little benefit when it comes to a direct response or sales metric. From a brand perspective, the lower down the funnel you can get a price the better it is. It costs more but your risk is lower. CPM buys work very well for publishers and networks. Not so much so for brands. I try and avoid these types of buys unless the CPM rate is such that I can still make the CPA numbers at the end. (CPA = R10 for a newsletter subscription.)

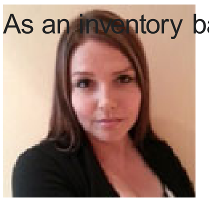
Gustav Goosen, CEO, SpaceStation

CPM pricing affords media companies the opportunity to trade online audiences on similar principles to traditional media audiences, i.e. access to audiences. The promise of online or digital has always been about the mediums ability to go beyond what traditional media afforded, i.e. immediacy and measurability. These two characteristics afford marketers the ability to identify media efficacy much quicker than with traditional media and the ability to adapt campaigns much more readily to drive the efficacy, whatever the campaign objectives or metrics of efficacy might be.

Chanel Mackay, Digital Media Director, Acceleration Media

CPM rates are used to enable marketers to make cost comparisons across different media. This pricing model is beneficial for branding exercises (sponsorships) but not practical for strict ROI goals. The way I see it, CPM rates are designed to create sustainability and investment growth in the online advertising market in South Africa, where the current growth does not compare against the global industry at large. We are still at the stage where we have to fight hard to obtain decent digital spend from advertisers and as a result, CPM becomes the preferred model for publishers in order to generate income.

Lizl van Zyl, Interactive Marketing Manager, BMW South Africa



As an inventory based product, offering publishers a guaranteed revenue stream, CPM is still a very popular pricing model. From a brand perspective it certainly has merit if brand awareness is the main objective. When it comes to measuring ROI however (which is vital to measuring the success of our marketing efforts), CPM won't necessarily elicit a response, which is essentially what we hope to achieve in order to measure performance. We cannot discard CPM as a pricing model though; it still offers access to the exact audience you are hoping to target, on a premium platform.

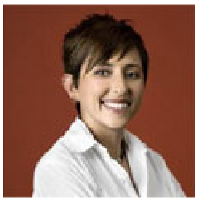
Wendy Lucas, Digital Business Manager, CAR and Leisure Wheels

I believe it should still form a large portion of a publisher's pricing model, especially specialist or niche content sites; although publishers need to be aware of new developments and opportunities in the digital space. If other pricing models fit in with their business model, they need to adopt it.

Warren Moss, CEO, Demographica

This pricing model is now ineffective and anti-competitive and in fact covers up poorly performing advertising mediums. Advertisers are far more skilled and the knowledge around what works and what doesn't is much more available and therefore advertisers are fighting to pay for performance. Payment models have moved quickly to a 'pay for performance' model and the key difference is actually in what is defined as 'performance'. The definition will change from advertising medium to advertising medium and from advertiser to advertiser.

André Britz, COO, Atmosphere Orange



It depends on the objectives and budget of the brand. CPM seems to make people rather nervous these days, but the fact is that with certain platforms, CPM based campaigns can actually render a better CPC for clients. It is important to plan around this in order to establish the most efficient budgeting structures. In short, CPM is simply a tool we use. It is the actual CPM value (especially with premium media) that is becoming problematic. Advertisers should understand fair market value and not pay more than the advertising space is worth to them. It is interesting to note that the majority of digital media is still traded on a CPM model globally, and with this in mind it would be considered prudent to analyse the true value of inventory and ensure that the CPM pricing structures are in line with these valuations.

Futhi Dali, SEM Specialist, Flight Centre

This is one product offering from Google that offers you so much for less.

Think of it this way, if you have R5,000 to spare, with the CPM model you could achieve 500,000 impressions. I find this model best for experimenting if your funds are limited - and if you haven't quite figured out what your target market responds to best. This is an excellent pricing model for brand awareness.

CPC (cost per click) models are becoming more and more popular with the likes of Google Adwords Display Network, RTB and other networks. Do you feel this is preferable to the CPM model?

Kelvin Storie:
CPC is preferable, but not in an absolute way. There is a space for a combination model of CPM and CPC. Through the eyes of the advertiser they are paying for visitors to their site from the publishers site; an audience, that to them, is defined and actually wanting to interact with their brand. CPC is a great way for smaller advertisers to enter into the world of online advertising with limited but measurable budgets, which in the long term could help them justify larger investments into online advertising.

Digital Marketer:
CPC model works well in Search and for Direct Response campaigns. As per my comment re CPM however, we are now one step further down the conversion funnel. Your potential customer has actually shown an interest in your product or service and has clicked through. Of all the pricing models, this is the median point for both publishers and agencies/brands. Both parties now share the risk - publisher gets revenue and agency/brand get a lead for a potential "action" (a sale, a newsletter subscription, registration), Unfortunately, CPC campaigns come with their share of issues - click fraud being one of them. Make sure you are using an independent tracking tool or monitor your prospects post click. If they are abandoning your site in their droves, those are not qualified clicks.

Gustav Goosen:
Somewhere along the line these characteristics became the premise for pricing models. No longer was the media purchase based on paying fair price for access to the audience, the price was being linked to the characteristics, immediacy and measurability. Some technology companies leaped at the opportunity to disrupt and capitalize, marketers were all too keen to shift the parameters in their favour and media owners were (still are) left to figure out how it went that way... The media owner has no control over messaging, imagery, offer, click through destination, engagement experience, client side back office processes (where and how clicks are measured client side), etc. Imagine only paying for your TV ad if people respond immediately as the commercial flights. Really?

Chanel Mackay:
CPC models are highly sought after as opposed to CPM because advertisers only pay for qualified traffic (clicks) and the engagement and conversion metrics increase to ensure that ROI goals are met. CPM doesn't guarantee that users will interact with your ad, whilst CPC rates give you the branding opportunity without paying for the 'wasted' impressions (where potential customers did not engage with the advertiser's brand.)

Lizl van Zyl:
I prefer CPC to CPM, as it offers guaranteed traffic to our site and a greater opportunity for generating leads, which could potentially be converted to sales. I have found that GDN (Google Display Network) often delivers the same amount of clicks (and impressions) than our CPM campaigns, but at a significantly lower cost. The publishers would differ though, as you don't have the same inventory available that you would on CPM, so I include both CPC and CPM on every campaign.

The CPC options available to us have increased significantly and I believe that we will be seeing very interesting developments in this area. Programmatic media buying and real-time bidding have been around for a while, but it's really still in its infancy in South Africa. The number of premium publishers making their inventory available to programmatic buying is on the increase, which should alleviate concerns regarding the quality of inventory available.

Wendy Lucas:
I think they all have a time and place for the advertiser and for the publisher as well. There may be sections of the publisher's website that may have a RTB (Real Time Bidding) model alongside other sections that have a CPM model. The content, the desire for that content, and the audience volumes play a role in determining which model is more effective, both for the publisher and the advertiser.

Warren Moss:
CPC is popular but in truth I think it is a model that is also short lived. In my opinion, CPC is only 1 level up from CPM and advertisers see that and know that. The ultimate pricing model is cost per 'lead'. I reiterate CPL (Cost per Lead) and not 'cost per sale' because I don't believe that the advertising medium can take on the risk of the advertiser not being able to sell because there are too many variables that are not in the control of the advertising medium. So if CPL is the ideal model then the key difference lies in the definition of what a 'lead' is as well as in the quality of the 'lead'. Some 'leads' are more valuable than others are and the pricing for more valuable leads should be higher.

André Britz:
Very much the same argument as the first question: which model would suit the objectives of the advertiser best and make the media stretch to its maximum whilst yielding good results? A bit of common sense mixed with statistical projections

should indicate what model to use (also in line with platform performance).

Futhi Dali:
Like every marketer you want to trial various artwork, ad copy etc - CPC gives you the flexibility to either increase your CTR rapidly or the direct opposite - fact is, it's easier to tell if a campaign is working or not immediately (this is not an absolute statement - lots of factors to consider). For a business that is highly dependent on visits to its website - this pricing model works best. This pricing model is also great because you only pay once a potential customer decides you're a worthy option and clicks on your advert.

CPA (cost per acquisition/action) is becoming more important to brands. Online advertising allows this to be measured far easier than any other media channel. How important is it to you?

Kelvin Storie:
Acquisition for any brand is becoming more and more important as budgets become tighter and more results orientated. It does however require a more precise method of targeting and making certain that the segmentation model is correct for good results to be achieved.

Digital Marketer:
The CPA model is the best for brands as there is now very little risk on their side other than doing too well. The CPA method is the least offered pricing method as there are so many elements through the conversion funnel that are outside of the publishers control - everything from creative, to the landing page. A publisher could run 1m ad impressions and get zero revenue from his inventory. At least the agency/brand would get some great brand exposure! The actual agreed CPA is one that should come from the agency/brand. Unfortunately many still do not have a KPI, and thus do not know the value of getting a newsletter subscription, a new Facebook follower etc. But the good agency/brand knows each and every point because they measure their campaigns. Unfortunately for publishers the CPA model cripples their revenue stream. Look to build up a good relationship with publishers that offer this model. Give them guaranteed spend over a longer period of time. Agreements may be as simple as 1,000 newsletter subscriptions per month @R10 per subscription for 12 months. Remember the publisher carries the risk here. Don't stop measuring and improving the numbers. Who is to say you cannot optimise to get your CPA down to R8-00 per subscription if you increase your spend to R150K per year. Of course the trick for the agency/brand, is what do you do with the customer information that you have just paid for?

Gustav Goosen:
Imagine for a second; you board a flight from JHB to DBN to go play a round of golf at Zimbali. You tell the airline you'll only pay for the flight if you get to Zimbali on time, or you'll only pay for the flight if you break a hundred at Zimbali. Really? CPA goes even further than CPC to shift the risk and accountability squarely onto the media owner, never mind technical issues that can pop-up, i.e. user connection time-outs, server errors, routing errors, etc. all of which are way beyond the digital media owner's control, yet the media owner only sees reward if everything within and beyond their control plays out perfectly. Imagine only paying for your bread ad on TV if the bread was delivered to the store and once bought. Really?

Chanel Mackay:
Every pricing model has a role to play, and in this instance where advertisers are specifically ROI focussed, the primary objective will be to negotiate CPA type media to ensure that goals are easily met. This model isn't as popular in South Africa as it is globally and negotiating is slightly more challenging with traditional publishers who sell advertising space predominately on a CPM basis. This type of buy is easily negotiated with RTB partners / Performance based Networks / Affiliates, etc. as they have an abundance of inventory that they are able to monetize using various buying models that suit every type of strategy.

Lizl van Zyl:
In the Automotive Industry our main goal is ultimately to sell cars. Acquisitions and the costs thereof, are thus very important. I have yet to use a purely CPA based model, but every campaign is measured and then quantified through effective CPA, resulting from a CPM or CPC campaign.

Warren Moss:
This is incredibly important and I would argue that CPA is actually CPL because based on my point above, the advertising medium cannot take on the risk of the sale. In my opinion, 'acquisition' in digital pricing should be defined as 'the acquisition of the opted in contact details of a prospect that requests the brand to sell to them' - a lead.

Wendy Lucas:
The CPA model will be more attractive to marketers of particular products/services, so for them it would be very important. The insurance industry is a good example ideally suited to the CPA model. Insurance is an extremely competitive business, especially online, and therefore it makes sense that this model will suit them. I think that the higher priced the product or service is that you're marketing, the more diverse the mix of options need to be used. Perhaps the reason for this is because consumers spend more time researching the purchase of an expensive product that they would a grudge purchase, like insurance for example.

André Britz:
Extremely important, the CPA should be derived from the clients business and campaign objectives. Key is to define what exactly it is advertisers want to achieve, what the end goal is, how it is tracked, and what a reasonable value for that CPA is. Acquisitions can after all mean competition entries, newsletter sign-ups, request for calls, request for emails, online orders and brick and mortar sales.

Futhi Dali:
In my industry (travel) this is very important. We know which products work and which don't based on the number of conversions (and the cost of those conversions), and we know what is in demand what isn't based on conversions.

What are the key factors brands and their agencies should consider when deciding on a pricing model?

Kelvin Storie:
I definitely don't feel that one has to sacrifice one pricing model for the other. As with any medium, there is a mixture of implementation that one should take on. It is also important for advertisers to be in a situation that they can effectively track sales or have sufficient stock available when dealing with a CPC or CPA model. The first step is to take note of what the actual client brief and objectives are. Second step is to look at the environment - what sites are you looking at and the audience? We are still at the early stages of research to properly segment the market for tighter planning. If we look at the publisher sites available to us - there is a small selection of 'massive' sites in contrast to the more niche sites. I would adopt a differing costing model approach based on the size and offering of these respective publisher sites. What we do with other mediums when looking at the media square, we have to do the same when it comes to the online pricing model available to us. A combination of each can ensure you address the differing objectives applicable. Get the broad base of the market via CPM, and use CPC for the niche/genre specific environments that have been highlighted from your consumer insights data.

Digital Marketer:
Agencies and brands need to have a very clear value in mind when embarking on media campaigns. What are the objectives of the campaign, and at what prices are you prepared to achieve these objectives? Once you have established your KPIs - see which model works for you. You may find some abstract CPM deal on a UK website delivers qualified newsletter subscriptions at R5 CPA. A Google CPC deal may bring you in around R8 CPA - then just move your budget around to ensure the best, most qualified leads are coming in. Don't be afraid to test new environments, new sites, new tactics. As long as you are measuring you can continue to learn and improve your figures.

Gustav Goosen:
Am I paying fair value for the opportunity to access this audience and will the access I'm buying afford me adequate opportunity to engage the correct audience, so that I can achieve my campaign objective(s), be that brand consideration, recruitment or retention. Publishers should run price modelling to ensure they understand the potential risk and reward.

Chanel Mackay:
In addition to CPM, cost per click (CPC), cost per lead (CPL), cost per action / active / acquisition (CPA), and hybrid pricing models are all part of online pricing negotiations these days. Advertisers and publishers need to know when and how to use each of these as well as what their pros and cons are. Ideally, advertisers and publishers should split risk and benefit as evenly as possible. As a rule of thumb, CPM works best for visual, branding-oriented campaigns, while CPC is worthwhile for contextual, responsive campaigns. Making the right choice could spell the difference between the success or failure of a campaign.

Lizl van Zyl:
Know what you're trying to accomplish. If you don't have clearly defined goals, you have no way of achieving them. Whether the objective is creating brand awareness or to generate leads (or both), it will play a major role in deciding which pricing model to use. Know the audience you're targeting. There is no point in investing in a purely CPC model, if the publishers catering for your target market only offers CPM. Align yourself with a media partner who is willing to try new technologies and methodologies, and who knows the latest online marketing trends.

Warren Moss:
Both parties need to agree on the definitions. What is a lead? What are the different types of leads? What exposures to the brand would a Level 1 lead have gone through vs a Level 5 lead? Once this is all agreed on, the pricing per lead can be negotiated.

Wendy Lucas:
They need to have a clear view of their objectives for the campaign at the outset, before any schedule or creative can be considered. Once they've determined the objectives, the budget obviously needs to play a role and from there an effective mix of premium, RTB, CPC, CPA, native and whatever other opportunity is available to them. Each need to filter in together to achieve the overall objective, whether its brand building or staying top of mind with a particular audience in one environment using CPM or acquisition in another environment using CPA. It shouldn't always be an either/or situation necessarily.

André Britz:
The basics are important: target market, objectives, targeting, platforms, budget... I can go on. It is essential to establish realistic KPIs upfront, and look at what pricing model would best suit the advertiser's business and advertising goals. Due to the fact that pricing models play a large role in affecting the success of a campaign it is important to ensure one has the correct resources and skills on hand, without which the advertiser's chance of success is reduced dramatically.

Futhi Dali:
What's most important for the brands I work on is how measurable the pricing model is. A conversion is much more valuable than a single click.

Conclusion:

Whilst opinions may be divided on what pricing model achieves the best results, it's evident that a clear understanding of objectives and KPIs is required before making an informed decision on which (or a combination of which) to apply. Whichever it is, continual monitoring and optimisation is crucial not only in order to assess whether you're achieving the desired results, but to attempt to continually improve them. The question is whether our market is mature enough as yet and thus has sufficient inventory, to cater for the varying pricing models. Will premium publishers give way to the introduction of more "risky" pricing models such as CPC and CPA? Can CPM buys result in a lower CPC or CPA than in environments that offer CPC and/or CPA pricing models? And more importantly, is CPA being monitored closely enough in order to assess which channel, placement and pricing model actually generates the best return on investment? Let us know what you think!

ABOUT ANDREA MITCHELL

Digital Marketing "veteran" specialising in training, mentoring, coaching, digital strategy and PPC

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