

How Targeted CPM Outperforms PPC

Pay-per-click (PPC) advertising has become a popular option for many online advertisers. The promise of PPC advertising is as beautiful as it is simple: You only pay for the visitors that actually click on your ad. But does PPC live up to its promise? This report uncovers some surprising news.

The PPC Revolution

Overture.com (then named Goto.com) revolutionized PPC advertising in the late 90's when they began displaying search results based on bids for particular keywords. Soon, many more search engines, from Findwhat.com to Kanoodle.com, were mimicking this strategy. Google.com took this idea a step further by creating their Adwords program. This advertising program also required advertisers to bid for keywords, but placed those paid listings in a sidebar along side their standard search results. This program proved so popular that in 2003, Google launched a similar syndicated version, called AdSense, which placed the Adwords ads on many other affiliated sites.

With Google's advertising programs in place, PPC had hit the mainstream. Advertisers could now select and bid on specific keywords, get widespread distribution of their ads, and pay only for the actual click-thru's. Life was good. Or was it?

The Failures of PPC

The theory behind targeted PPC is that you get high relevancy and ease of use coupled with complete accountability. But that's not always the case...

1. Relevancy

The Claim: PPC ads are relevant to the content of the page on which they're displayed.

The Facts: Often the only portion of the ad that is relevant is the keyword that the advertiser has bid on. For example, suppose you sell peanuts and another advertiser, say General Motors, sells cars. If GM's executives decide that peanut eaters would make great car customers, they may decide to bid on the word "peanut". Since GM most likely has a bigger advertising budget than your company, and also stands to profit more from the sale of its product, it's probably willing to bid higher than you for that keyword. Pretty soon, Ford, Chrysler, and Toyota are also in the game, and the resulting bidding war has driven the price of "peanut" so high that you, the actual peanut seller, can no longer afford to play. While this example may be a little extreme, it's not far from reality. Competitive bidding from bigger advertisers is forcing the price of keywords higher, while simultaneously diluting the relevancy in many ad categories.

2. Ease of Use

The Claim: PPC advertisers can choose whichever keywords are best suited to their product.

The Facts: In PPC advertising, keyword selection is becoming a more and more difficult game. Because there is relatively little penalty for a failed ad (i.e. advertisers only pay for clicks), many larger advertisers are bidding on as many keywords as possible, both inside and outside their own market. This drives keyword prices upward, and makes it more difficult to find keywords that are both applicable to your product and affordable enough

to consider bidding on. To compound this problem, once you have successfully bid on a keyword, you have to continue to manage that keyword, adjusting your bid as its market price rises and falls with the current demand. Multiply this problem by the dozens (or even hundreds) of different keywords that some advertisers control, and you have a tedious and time consuming problem.

3. Accountability

The Claim: PPC advertisers pay only for visitors that click on their ad and go to their website.

The Facts: While all of the PPC services accurately count clicks, not every click represents a potential customer. The shocking fact is that many of the clicks are fraudulently generated. Some experts even estimate the number of fraudulent click-thru's on PPC ads to be as high as 50%! For more about this, please see these related news stories:

- [Scam tricks advertisers into paying for phantoms](#)
(International Herald Tribune, Oct 19, 2004)
- [Click fraud: state of the industry](#)
(PayPerClickAnalyst.com, Oct 19, 2004)
- [Click fraud rises with online ad spending](#)
(InternetWeek.com, Oct 01, 2004)
- [India's secret army of online ad 'clickers'](#)
(India Business, May 03, 2004)

A Surprising Thing That PPC Programs Have Taught Us

Despite the potential pitfalls of PPC advertising, there is a lot that has been learned from these programs. One surprising outcome is that response rates for text-based ads (which are the primary format of most PPC programs) are usually higher than that of image-based ads. A recent study by the Poynter Institute further supports this. In their words...

"Text ads were viewed most intently, of all the types we tested. On our test pages, text ads got an average eye duration time of nearly 7 seconds; the best display-type ad got only 1.6 seconds, on average."

Of course, the power of text is no big shock to any experienced ad executive. It just confirms what copywriters have been telling us all along: the headline is the most important part of the ad.

The Internet is an information resource, not an entertainment resource. The typical person uses search engines more (much more) than any other Internet application. We are constantly seeking information, and we consciously (or subconsciously) scan every headline on the page. Pretty images may momentarily distract us, but it's the headline of the ad that connects us to the product.

The PPC ads run by Google, Overture, and their various imitators take the idea of an advertisement to its simplest, purest form - the all-important headline plus one concise advertising message. This is the type of ad that Internet users will consistently respond to. It doesn't distract or offend them; it doesn't waste their time. It's easy for their eyes to scan, and its message is clear.

Revisiting CPM

Banner ads were some of the very first advertisements that appeared on the Internet. In that early time, before the advent of PPC advertising, all ads were charged a fixed cost per thousand impressions (CPM). This is similar to the way that print advertising has always been priced. However, there was at least one big difference between online and print advertising. Online content was much less "mature" than printed content. Because the cost to create a website was so low, anyone could become an online publisher, even if they had no original content at all! This new breed of pseudo-publisher saw banner ads as a potential gold mine, erroneously thinking that every square pixel of their website was valuable. Suddenly, there were thousands of "link farms" - sites filled with banner ads, but virtually devoid of content. This haphazard proliferation greatly diluted the power of the ads themselves.

Advertisers, desperate for better ad performance, also began building gaudier ads, hoping to somehow stand out from the crowd. Ads became brighter, flashier, and more animated, and finally jumped off the screen as separate popup windows. But in the process of trying to outdo each other, banners and popups became an irritating presence. People became infuriated with their distractive, nonproductive nature, and quickly learned to either physically block them (with special software) or mentally tune them out.

CPM's Greatest Strength

While it had a rocky start, CPM-based advertising programs are not without merit. While PPC encourages advertisers to indiscriminately place more and more ads, CPM does quite the opposite. Because the advertiser pays for every impression, he's encouraged to pay more attention to both the content of his ads and the places that they appear. This additional imposed advertiser responsibility has the side effect of continuously increasing ad quality, which benefits both the advertiser and the viewer.

A Better Approach: Targeted CPM

A new approach, called "Targeted CPM", combines the most desirable features of conventional CPM and PPC programs. Here are some of the most beneficial features of a properly designed Targeted CPM program:

- **Presentation**
Ads are presented in an attractive and consistent format that encourage viewing. Ads are only placed on the most visible and active portion of the page, and a limited number of ads are allowed to appear on any one page.
- **Relevancy.**
Ads consist of a headline and text message, which are both matched to the content of the displayed page. Advertiser-supplied keywords are also used to influence matching, but the relevancy of content is the primary controller of the ad's placement.
- **Responsibility.**
Fixed CPM pricing is used, which encourages the advertiser to give more

care to the content of each ad. This further improves the overall relevancy of ads in the program, and improves viewer interest.

- **Accountability.**

Every impression and click-thru is accurately tracked, so that the advertiser has complete feedback on each ad's performance. And due to the fixed CPM pricing, fraudulent clicks have no impact on the advertiser's cost.

- **Ease of Use.**

The text-based format of the ads makes it especially easy to create and modify the advertising message. And the fixed rate pricing and absence of keyword bidding eliminates the need for ongoing bid maintenance.

Comparing Rates: Targeted CPM vs. PPC

Regardless of the advertising method, the final question is still the same: What is your cost to acquire a customer? With PPC advertising, costs vary widely, depending on keyword. Costs may be as low as \$0.15 per click-thru for unpopular keywords or as high as several dollars per click-thru for popular ones. In Targeted CPM, your effective click-thru cost depends on the performance of your ad. You can easily compute the effective cost by dividing the total cost of all impressions by the total number of clicks. This allows you to directly compare Targeted CPM with the PPC programs that you may already participate in.

For example, at a cost of \$2.50 CPM, if your ad generates 5 clicks per 1000 impressions (a 0.5% click-thru rate), then your effective cost per click is $\$2.50/5 = \0.50 . If your ad generates 10 clicks (1.0% click-thru rate), your effective cost per click is just \$0.25.

With PPC advertising, your cost per click will likely increase as more and more advertisers are bidding for the same keywords. In fact, many experts expect average PPC rates to nearly double over the next few years. In contrast to this, CPM rates are generally more stable (for any given website), and improvements that you make to your ads could increase your click-thru rate and *lower* your incremental cost.

The bottom line is that, if your ads are well matched to a site's content, Targeted CPM may be a much less costly and vastly more productive way for you to advertise.