Insights

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CPM, CPC, CPL, CPA: Which Online Ad Models are Best?

IN MANAGING AD SALES /

As a publisher, you may either be:

- Transitioning from print advertising sales to digital ad sales or
- Looking for ways to improve revenue from your existing online publications.

In either case, it's important to understand how different online ad models—CPM, CPC, CPL, and CPA—can impact what you offer to advertisers, the revenue you can expect to generate, and the risk you take on.

Cost per Thousand (CPM)

What it is

This is also known as "cost per mille." As a publisher, you charge a flat rate for one thousand displays, or impressions, of an advertisement to your audience. About 33% of internet ad revenues in 2013 were priced using CPM (up from 32% the previous year.)

Different ad sales management systems can help publishers track when an ad has reached one thousand impressions. A variation to this approach is setting a **flat rate** for an advertisement to appear for a specified time period on a website page or section.

Advantages to publishers

- CPM revenue can be more predictable since publishers likely know their average page views in a given month.
- CPM—more than CPC, CPA, and CPL—lets advertisers reach a large number of people. Advertisers interested in brand awareness over the immediate sale may prefer publications that offer this model.
- CPM puts lower requirements on your publication. As long as you display advertisements to your audience, you are completing your part of the relationship.

Disadvantages to publishers

- Publishers may need to offer rich media advertisements, such as interactive games, videos, and pop-outs, to help advertisers get value from impressions.
- Publishers need to demonstrate that their website traffic offers value since there may not be a direct connection between the advertisement and the return on investment.

Should you use it?

If your publication offers a highly-engaged audience with high-volume traffic and if your advertisers are more interested in brand exposure than making the immediate sale, CPM may be right for your publication.

Cost per Click (CPC)

What it is

CPC is one of several performance-based online ad models. Someone on your website clicks an advertisement, and you, as the publisher, are compensated for that action. Ad sales software can help control for accidental clicks and abuse.

Advantages to publishers

- You may be able to draw more advertisers with CPC than CPM because the return on investment is more measurable (for more details, see our recent post, "5 Possible Reasons You're Not Selling Ads.")
- Publishers can collect more data with CPC to use in selling ads. For example, you can track average click-through rates (the number of times ads are clicked divided by the total impressions) to set your advertiser's expectations.

Disadvantages to publishers

- CPC revenue is less predictable than CPM because you can't be certain how many people will actually click.
- Clicking advertisements may take visitors away from your website. This is particularly a concern on mobile devices, where changing sites may be more distracting to visitors.

Should you use it?

If you are trying to attract advertisers that want an immediate response, such as an online retailer, CPC may be the way to go. Well-designed layouts and advertising programs can limit the risk in moving from CPM to CPC.

Cost per Lead (CPL) and Cost per Acquisition (CPA)

What it is

You can think of CPM, CPC, and CPL / CPA as a range, increasing the requirements for what a publisher must deliver to earn revenue.

With **cost per lead**, advertisers compensate you when someone views an ad on your site, clicks that ad, and then takes a further action to become a qualified lead for a sale. This might mean signing up for an e-newsletter, reward programs, or free website membership.

Cost per acquisition is similar but has an even higher bar. Publishers only receive payment for completed sales (i.e. the e-newsletter subscriber goes on to purchase services from the advertiser.)

Advantages to publishers

- The very-limited risk that advertisers face can make CPL and CPA easier for publishers to sell than CPM and CPC.
- Creating an effective CPL or CPA program requires an investment of time and resources from both advertisers and publishers. This can keep advertisers tied to an ad sales program longer.

Disadvantages to publishers

- Revenue is much less predictable than in CPC and CPM unless you establish contractual thresholds that ad sales must meet.
- Publishers may need to give significantly more time and expertise towards making the advertising program successful. You might even be responsible for the daily management of when, where, and how ads run for advertisers.

Should you use it?

If your publication has a niche audience, your world of potential advertisers may be limited. A cost per lead or cost per acquisition relationship could mean that you work with fewer advertisers at a more involved level for higher compensation.

It's the Model (Not the Method)

With the above information, we focused on the transaction: an advertiser reaches a member of a publisher's audience **in some way** and **pays** for that opportunity.

However, publishers use these advertising models in a variety of forms. A couple of examples:

- Cost per click may become "cost per view" by charging for every time a visitor views a video advertisement on your website.
- You might charge advertisers based on "cost per engagement" instead of impressions: does the user float his mouse over an ad or interact with it in some other way?

As media and the hardware people use to access it change, the revenue options available to publishers continue to grow. Solid advertising sales strategy can align your business with the right online ad model.

Contact AdBoom to see how we can help.

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