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IS THERE LIFE AFTER CPMs?

FRIDAY SUPPLEMENT

By BILL HARVEY

DECEMBER 8, 2000 – Although there is nearly universal agreement that CPM (cost per thousand) is an outmoded measure of value for use in planning and buying media, no one has come up with a viable replacement. The Advertising Research Foundation (ARF) New Media Model Committee, co-chaired by consultant Erwin Ephron and myself, is charged with establishing a new standard.

Advertisers are now saying their research cannot establish what a click through is really worth.

The ARF new media model, like the original model it is replacing, posits a hierarchy of levels at which media can be compared. The traditional CPM measure is the cost/value metric at one of the lowest levels on this ARF hierarchy, known as the "vehicle exposure" level, which counts the number of exposures generated by the media vehicle where advertising is placed.

The current Internet measure of value is the "click through," although the same advertisers who championed it a few years ago are now saying research cannot establish what a click through is really worth. Research to establish the value of a click through might look like this: Matched samples are drawn of people exposed to a particular online ad campaign – Sample A are those who clicked through as a result of such exposure and Sample B are those who did not. Follow-up research determines purchase of the advertised product and ideally not a single purchase but multiple purchases. Calculating the Consumer Lifetime Value (CLV) of Sample A versus Sample B is then possible. CLV is the number of probable purchases of that brand over the consumer's lifetime times margin per unit.

If Sample A (those who clicked through) had an average CLV of $50 and Sample B (those who did not click through) had an average CLV of $20, the media buying value in that case is just short of $30. The media buyer would seek to pay as little as possible so that the advertiser received the largest possible part of the incremental $30 value.

Next Century Media is conducting research on the effects of sponsorships that suggest that, when used effectively, can increase willingness to consider the sponsor's brand. Follow-up research studies such as the design just proposed for click throughs could also be used. What is promising is we have found willingness to consider increases of 6%, 11%, and 24% in three sponsorship studies with different brands and media in each case.

One of these three brands is a car, where the margin per unit leads to high CLV changes whenever there is change in willingness to consider. Consider the following hypothetical numbers: Margin per car to manufacturer: $1000. Number of probable times this make of car will be bought over the consumer's lifetime among those seeing the sponsorship but not increasing willingness to consider: 0.6 for those not willing to consider the make in the "pre-" research and 2.6 for those willing to consider the make in the "pre-" research. Number of probable times this make of car will be bought over the consumer's lifetime among those seeing the sponsorship and increasing willingness to consider: 2.6.

The numbers imply $2000 in incremental CLV is caused by the sponsorship among those who increase their willingness to consider the car as a result of exposure. This was a case in which willingness to consider increased among 24% of the vehicle audience. That means each exposure was worth nearly $500!

This research reveals opportunities such as sponsorship where the return on marketing investments (ROMI) can be significant and suggests there may be other marketing tactics besides sponsorships where extreme ROMI can be gained.

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