

The Hidden Cost of Pay-for-Performance Media

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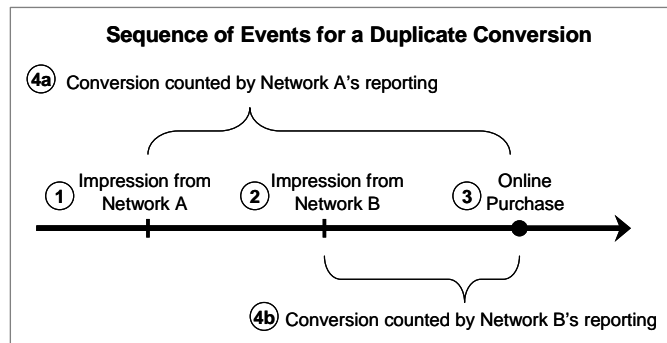
Pay-for-performance (P4P) media, also known as cost-per-action (CPA) media, is advertising bought and sold based on the number of conversions that result from the campaign. For example, a financial services advertiser may strike a deal in which \$20 is paid for every new account that results from a publisher's impressions. P4P buys have become one of the most popular and cost effective media channels for direct marketers. Many advertisers consider CPA inventory risk-free because they set the bounties themselves and know exactly what their cost-per-sale or cost-per-registration will be at the end of the campaign.

Today, P4P media is big business. A survey from the Direct Marketing Association estimated that pay-for-performance and affiliate deals made up 14.8% of advertiser budgets in 2005¹. Despite the popularity and growth of CPA deals, there is a little understood and often hidden risk. In short, some advertisers are paying multiple times for the same conversion, and in many cases, are paying for conversions that should have been attributed to other web or search campaigns. And though advertisers paying for view-through conversions are particularly vulnerable, click-based conversions are not immune to double counting. In this Digital Marketing Insight, we reveal the source and magnitude of conversion duplication. We also recommend strategies that advertisers should leverage to assure the integrity of their performance deals.

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The Problem: Conversion Duplication

Conversion duplication is rooted in the fact that users are being reached by ads from the same advertiser across multiple sites and media networks. Duplicate conversion problems arise when the conversion reporting of these buys occurs in different reporting systems.



Let's use an example of an online retailer to illustrate the problem. A user receives the retailer's ad delivered by Network A (1) and subsequently gets another ad delivered by Network B (2). The user doesn't click on either of the ads, but visits the retailer's website and purchases (3).

Standard online reporting practices would associate the view-through conversion to Network B as it was the last ad seen prior to the sale. However, if both buys were directly served and tracked by each individual ad network, a view-

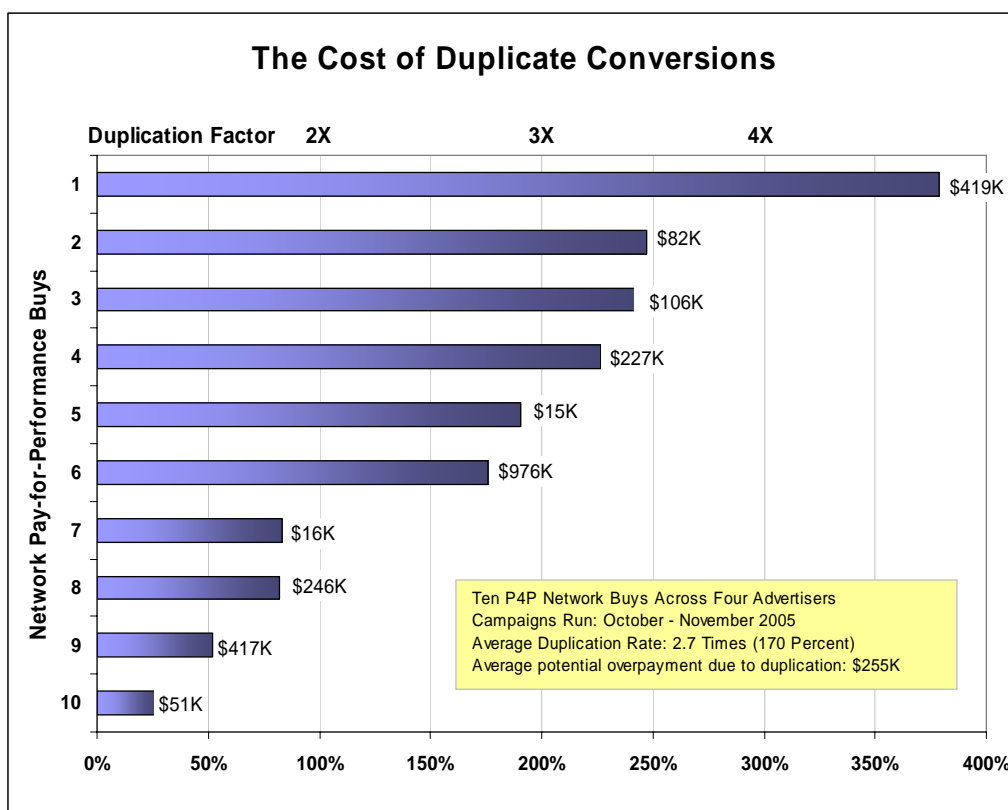
through conversion would have been counted by both reporting systems (4a/b). Or in other words, one sale occurred, but two conversions would have been counted.

¹ Direct Marketing Association, "The DMA 2005 Multichannel Marketing Report: The Integration of Catalog, Retail, and Online Media"

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How Big of a Problem is Conversion Duplication?

To quantify the magnitude of click and view-through conversion duplication, the Atlas Institute analyzed ten P4P network buys that were third party ad served. We calculated the number of conversions based solely on the impressions and clicks from each individual buy, disregarding all other media served by the advertiser. We compared those conversion counts to conversion counts that were de-duplicated across all of the other media each advertiser was concurrently ad serving (all display, search, rich media, etc.). All conversions were based on the delayed conversion windows set by each advertiser. The results are displayed in the chart below.



Advertisers paying CPA buys based on network reporting counts are often double or triple paying for duplicate conversions. The dollar figures in the chart represent the potential monetary cost of duplication, which for some advertisers, translates to hundreds of thousands of dollars in overpaid bounties.

The amount of duplication that occurred with these P4P buys varied greatly but in all cases was significant. Overall, duplicate conversion counts averaged 2.7 times higher (or 170%) than de-duplicated conversions. The lowest rate of duplication in the sample was 26% and the highest 379%. Conversion duplication translates into big dollars. By multiplying the duplicate conversions by the actual cost basis (i.e. CPA bounties) of each buy, we get an idea of the potential overpayment associated with duplicate conversions. The potential overpayment averaged \$255,000 and ranged from \$15,000 to almost one million dollars. These estimates assume the advertisers are paying for both view-



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through and click-based conversions equally. But even for advertisers that discount their bounties for view-through conversions, the duplication rates are large enough to represent significant dollars.

As expected, click-based conversions displayed lower levels of duplication, with a median duplication rate of 9.7%. However, one quarter of the buys we analyzed showed click-based conversion duplication rates of over 50%. Extreme cases of inflated click-conversion duplication rates of over 200% were also found. Thus, click-based performance deals are not immune from the network duplication effect, especially when search advertising is a major component of the advertiser's marketing mix.

Driving Factors of Conversion Duplication

Several compounding factors drive up conversion duplication rates.

- P4P impressions are mostly made up of remnant inventory from the same publishers where marketers buy CPM media. As a result, an advertiser will often reach the same individuals on a given site with impressions purchased directly from the site and through impressions the site has sold to a network.
- The duplication effect is further magnified because publishers typically sell their remnant inventory to multiple ad networks. Thus, two different network buys can both contain impressions from the same sites and placements. Therefore, the more ad networks an advertiser uses, the greater the chance of conversion duplication.
- Ad networks have learned that they can maximize the number of conversions for the minimum number of impressions by aggressively frequency capping².
- It's become common practice for ad networks to buy, sell and trade ads from each other to maximize their reach and reduce frequency. This swapping of impressions between networks greatly exacerbates the duplication problem. By doing so, ad networks reach many of the same users, and each one counts conversions in their respective reporting when any of those users convert for an advertiser.
- Conversion windows will also greatly impact the amount of duplication. Delayed conversions occur when conversions happen on a different day than the click or ad impressions. For example, a user clicks an ad on Monday but doesn't convert until Thursday. Longer delayed conversion windows increase the opportunity for users to be exposed to ads across multiple sites and networks.

It is important to note that P4P networks need conversion data from advertiser sites in order to optimize their delivery of impressions. How to best allocate impressions across advertisers and optimize creative to maximize CPA revenue is a core competency of every ad network. However, it is vital that marketers understand the duplication dynamics described here so that they can accurately measure the true performance of these media buys.

What this Means for Marketers

The fundamental problem of duplicate conversions exists because different reporting systems are tracking activity within their own respective silos. Bottom line, advertisers who pay CPA buys based on network counts *often pay multiple times for the same conversion*. Advertisers can take steps to protect themselves in the following ways:

1. **Third party adserve your CPA deals.** The ideal solution is to third party ad serve all of your buys and pay CPA deals based on those unduplicated conversion counts. Evaluating the performance of all your digital

² Atlas Institute. 2004. "Optimal Frequency: The Impact of User Frequency on Conversion Rates"

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media (search, display, rich media, etc.) in a single reporting system has always been a fundamental value proposition of third party aderving – and your CPA deals are no exception. Some advertisers forgo third party aderving their CPA buys fearing enormous and unpredictable aderving charges. But incremental aderving costs are typically miniscule compared to the amount advertisers are paying for inflated conversion counts. In fact, across all of the advertisers in this study, the cost to third party adserve the P4P buys averaged only 4.6% of the cost associated with duplicate conversions.

Third-party aderving your P4P buys also has the advantage of measuring delayed conversions consistently across all of your buys. It's critical that conversion windows are agreed upon when CPA deals are negotiated, as default delayed conversion windows counted by the network can be much longer than anticipated.

2. **Work with ad networks that are integrated with your third party adserver.** Unduplicated conversion counts without third party aderving are attainable with ad networks that are integrated with your third party adserver. Drive Performance Media and MSN Performance Plus are examples of networks that automatically de-duplicate conversions for any Atlas Universal Action Tag. Ask your ad network contact how they are dealing with the conversion duplication issue, and whether or not they are taking steps to solve the problem.

Our most important recommendation is to measure the extent of duplicate conversions on your campaigns. As we've seen from this study, results can vary dramatically across buys depending on a multitude of variables. We're not advising that marketers merely restrict CPA deals by disregarding view-based conversions, dramatically reducing bounties, or arbitrarily shortening delayed conversion windows. These strategies will just result in a huge reduction in impression and conversion volume. Getting performance deals to work and deliver great ROI is attainable simply by measuring all of your media channels across the same platform.

Finally, duplicate conversions associated with P4P deals are especially acute since there is a direct monetary impact due to the nature of the buys. However, it's worth stressing that the duplication issue isn't unique to P4P network buys. Duplication will occur with any channel measured in a silo including search, display, rich media, affiliate and email. The key to maintaining the integrity of all your marketing channels is a consistent and holistic view of every touch-point with your customers.

About the Atlas Institute

The Atlas Institute is the research and education arm of Atlas, a provider of accountable marketing tools and expertise for agencies, marketers, and publishers. The Institute publishes Digital Marketing Insights, a series of publications by Atlas senior marketing analysts and digital marketing experts that help our customers improve their digital marketing effectiveness. Many of these findings are also made available to the digital marketing industry at large. Each Digital Marketing Insight report is designed to help marketers more successfully build value with their customers, throughout the customer lifecycle: from awareness to acquisition and from retention to growth. The Atlas Institute also provides education in digital marketing to Atlas customers and partners. To view a full listing of the Atlas Institute's Digital Marketing Insights, please visit www.AtlasSolutions.com/insights.

