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Compensation Models for Interactive Advertising

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Abstract: Due to a shift in the marketing focus from mass to micro markets, the importance of one-to-one communication in advertising has increased. Interactive media provide possible answers to this shift. However, missing standards in payment models for interactive media are a hurdle in the further development. The paper reviews interactive advertising payment models. Furthermore, it adapts the popular FCB grid as a tool for both advertisers and publishers or broadcasters to examine effective interactive payment models.

Keywords: Interactive Advertising, Compensation Model, Classification
Categories: H.3.1, H.3.2, H.3.3, H.3.7, H.5.1, M.6

1 Introduction

The focus of marketing is shifting from mass to micro markets, due to changing demography and nuanced product preferences. Digital technology and hypercompetition accelerate this process. This shift has advertising implications as a heterogeneous marketplace requires more one-to-one communication rather than one-to-many communication [Kotler 02].

Interactive media, like the Internet, interactive TV or mobile media provide possible answers to this shift, with advantages over traditional media. They extend advertisers' ability to reach and engage users (potential customers) through interactive features, which increase customer involvement and could lead to this one-to-one relationship [Brodin 02]. Furthermore, the intensity of interaction may associate positively with satisfaction [File 93].

Internet advertising revenues increased strongly this century. From 7.2 billion US dollars in 2001, revenue rose to 16.9 billion in 2006 and increased 26% from the first quarter of 2006 to 2007 [Interactive 07]. Since the 1994 launch of simple static banners on websites, spectacular growth in web use has driven major changes in online campaigns and consumer responses. [Hollis 05] observed a boom-bust-revival pattern in online advertising, with a 1996 boom preceding a 2001-2002 decline and a revival in 2003. Driving the revival include an increased adoption of broadband access and sophisticated segmentation strategies [Hanson 07]. For example, 67% of Australian Internet users had broadband in 2007 [Australian 07] and advertising companies can target banner advertisements based on a user's domain – such as .com or .au – web

browser, operating platform, search topic and online profiles in communities [Hanson 07; Hollis 05; Stone 07].

Interactive TV, digital TV with a "return path" to enable communication between consumer and broadcaster [Brodin 02], has two broad forms. The major form today, DRTV, is limited in that users usually get just an on-screen overlay to exchange personal information for a special offer or other incentives [Mercier 04]. One reason for DRTV's popularity could be that it is simple to set up and run. The second form, DAL, offers a wide range of advertising possibilities by taking the viewer in a separate environment showing additional information, yet, permitting a direct-response function as in DRTV [Mercier 04]. Advertising figures emphasise the potential of this new medium. While most traditional media lose advertising customers [Hanson 07], interactive TV has increased revenues. Peter Birch, head of interactive sales at UK's largest broadcast network, ITV, predicts a 35% rise in interactive advertising revenue for his company in 2007 [Nicholson 06], after a revenue of £157m in 2006 [ITV 07]. The development of mobile TV, i.e. television on the mobile phone, takes the development of interactive TV to a further level. Customers are able to view TV programmes everywhere and at every time with the availability of a channel to interact with the advertiser or agency [Dickinger 07].

Traditional mass communication such as television often assumes customers are homogenous (one to many). Little interaction between customers and the advertising company occurs [Hoffman 97]. On "traditional" TV, for example, the advertiser usually buys advertising time on a certain programme on a particular TV station. Prices usually depend on the estimated audience, so prime time or spectacular events like January 2007 "Superbowl" in the USA cost up to US$ 2.6 million for a 30-second spot [Monica 07].

Interactive media enable consumers to reply to an advertiser's communication or initiate the communication, for example in visiting a particular website [Wu 07]. In contrast to mass-media, interactive communication can go in either direction (many to many) [Hoffman 96].

Even though interactive media have bright prospects, they also face problems generating advertising revenue: There is for example no standard regarding payments for Internet TV advertisements [Crampton 07] and regarding advertising on the web, "the complexity of the medium in general hinders the standardization process" [Novak 00].

[Swain 05] addresses the question of compensation models for interactive marketing predicting that agencies will gain in importance. The interviews with marketing professionals showed that agency compensation has not yet been related to interactive communication success as there is still *"thinking in terms of traditional marketing communication measures"* [Swain 05]. Thus, there is a call for research in the field of developing appropriate *"measurement-based methods for agency compensation"* [Swain 05].

This paper therefore reviews interactive advertising payment models as well as advertising models in traditional media. Furthermore, a taxonomy developed in this paper argues which payment model aligns with certain types of goods or services, as not every payment model suits every product. Moreover, it will take the aim of the advertising campaign into account, i.e. consider whether the aim is an increase in sales or an image campaign, also impacting the choice of compensation model. The

FCB grid, a two-dimensional grid differentiating purchasing situations developed by the Foote, Cone & Belding advertising agency, serves as a basis for our discussion [Vaughn 08]. The remainder of the article proceeds as follows. First, compensation models for advertising on TV and the Internet are presented. Then, our application of the FCB grid and compensation models for interactive TV is presented. The paper closes with a discussion of the results and future research avenues.

2 Compensation Models for Interactive Advertising

Academics have examined different forms of interactive advertising such as Internet advertising [Shen 2002; Spake 99]. [Spake 99] differentiate between behaviour-based compensation and outcome-based compensation. The latter involves some sort of measurement of the outcome such as sales increase, brand share etc. The measurement methods available (audience feedback, attitude change, brand equity, change of behaviour and/or attitude, image) are tied to the final compensation model chosen. Some measurements may require extended market research (e.g. image analysis) and are thus priced on a fee basis.

The most popular interactive advertising medium, the web, offers a large variety of advertising forms like pure text messages, picture or video elements. However, the the Internet mostly uses 'banner advertisements' and 'target communications'. Banner advertisements are graphic images and text that try to entice users to click on the banner to learn more. Target communications could range from a single, simple website to a series of linked pages [Novak 00]. Usually a click on a banner leads the viewer to a specific target communication.

Interactive TV offers some more possibilities which can be divided in two types, that are within the broadcast stream or alongside the broadcast stream [Cauberghe 06]. Within the stream offers DAL, impulse response, microsite and a contact me function in the commercial. In the content products can be placed and banners can be shown. Alongside the stream the possibilities include a walled garden (logos, banners, games and websites), logos and banners in the electronic program guide, direct mailing and video on demand. [Cauberghe 06] compare different forms of interactive advertising including the above mentioned in their paper.

Companies need to get further insights into how to compensate for interactive advertising. Therefore we draw on models developed for the Internet to adapt them for the interactive TV context:

- Flat-fee pricing charges the advertiser for their ads on a website in a certain period (e.g. per month). Flat-fee can be without or with traffic guarantees. If accurate traffic information is available, companies can use a pay-per-view model [Novak 00].
- Pay-per-view (PPV): Usually measured in CPM (price for 1000 impressions), the publisher gets a fee (dependent on the popularity of the page – usually a few dollars or more for the mentioned thousand views) for each ad shown on a publisher's website [Hanson 07]. Even without clicking on the banner, the mere exposure can increase ad and brand awareness [Briggs 97].

However, this payment model can motivate the publisher to attract mass audiences instead of focused audience segments [Novak 00].

- Pay-per-click (PPC): In contrast to pay-per-view, the publisher is paid only if the visitor clicks on the ad. Google, for example, charges $0.01 and up per click, depending on the popularity of the keywords [Google 07]. A disadvantage of PPC is ´hit or click fraud´ – the click-through rate is artificially inflated [Anupam 99].
- Pay-per-sale (PPS): The publisher receives a commission for purchases done on the target site. The payments are usually higher because they are more valuable for the target site. Amazon, for example, pays up to 15% depending on the product sold [Amazon 07].
- Pay-per-lead (PPL): This method requires that visitors take a specific action in response to an ad banner, e.g. registering for an account [Anupam 99]. ´Hit-shaving´ is the main threat of both the PPS and PPL payment models. The advertiser fails to report a lead or a sale to the publisher [Anupam 99].

Other forms of compensation include ´banner swapping´ or ´banner exchange´, where firms exchange ads between each others website without or with a fee [Turban 06]. These exchange models are inappropriate for this paper, as they require two advertising companies and no publisher. In addition, there are pricing models, which are hybrids of the above mentioned forms.

3 Choosing the Right Model

Often the negotiating power of the advertiser or the publisher seems crucial to the choice of a model [Hanson 07]. However, there is no best model and not every model goes with the advertising campaign of a certain product. For example, the PPV model seems appropriate for products with universal appeals such as telephone rates or travel services [Mangani 04]. For specialized products, PPV might be unsuitable. Advertisers and publishers negotiating payment models should consider three points:

- aim of the campaign / the ad
- the goal of the user [Hollis 05]
- the type of product

Planning the target communication starts with specifying the intent of the marketer, that is the aim of the campaign or the ad, and the goal of the user encountering the ad.

The Elaboration Likelihood Model (ELM) model of [Petty 83] suggests that the degree of involvement of the viewer of an ad is important to predict for these first two points, the campaign's aim and the user's goal. Customers actively seeking product information usually focus on an advertisement's message. These high involvement consumers follow a central route of processing information. For these consumers, the ad should tend towards being factual [Petty 83] and interactive, as people actively searching for information are more likely to click on an interactive ad [Hollis 05]. In contrast, for low involvement viewers, the focus of the ad should be more on the

peripheral cues, for example the ad design, as the consumer follows a peripheral route towards processing information [Petty 83]. Experience may play an additional role in this discussion, because high experience might lower the necessary involvement [Laczniak 89]. A study investigating the previsit intentions of different product websites, confirmed the ELM. For high-involvement products the previsit intentions had direct and indirect effects (via attitude towards the website) on brand attitude change. For low-involvement products the study revealed only the mentioned indirect effects [Wu 07]. Advertising should target towards consumers' information needs and predicted involvement [Hollis 05].

A basic decision for the advertiser should be to drive an immediate response, e.g. to sell a product, or to increase brand awareness [Hollis 05]. Payment models requiring an active response, such as PPC, may be inappropriate if the advertiser seeks no response or expects the user not to interact due to their low involvement. Including the type of product in this discussion, literature suggests two models that offer a basis for negotiating payment models between advertisers and publishers, the Rossiter-Percy grid and the FCB grid.

The Rossiter-Percy grid categorized products according to their underlying purchase motives as informational (negatively reinforcing) or transformational (positively reinforcing) [Rossiter 87]. Advertisers can satisfy informational motives by providing information with a corresponding emotional state, for example problem removal or problem avoidance. An advertisement for headache tablets would be in this category. Transformational motives promise to raise the sensory, mental or social state of the user. An example could be an ad for luxury cars [Wu 07].

The FCB grid serves for the further discussion as it builds on the commonly used utilitarian (thinking) – hedonic (feeling) differentiation. The model categorizes purchase decisions based on thinking or feeling, and high versus low involvement. Combining these two dimensions produces a strategy matrix that isolates product categories and suggests specific marketing considerations. The extended FCB grid in Table 1 shows product categories and serves as a guideline for applicable interactive advertising payment models.

In the first quadrant, high on involvement and thinking, the customers are in the Informative/Thinker stage. They search for information because the product might be complex or at the beginning of the product life-cycle. For the advertiser it is important to supply a potential customer with the information needed to reduce the perceived risk [Vaughn 08] involved with the purchase decision. This leads to clicks on advertisements to request this needed information which suggests a PPC compensation form. An example would be advertisements for a brand new personal computer (high involvement, beginning of the product life cycle) for which a potential buyer would still need a lot of information on the innovations regarding the PC, the programmes installed and the specifics regarding hardware. This information need leads to clicks on the interactive advertisement calling for a PPC compensation model.

The second quadrant, high on involvement and feeling, i.e. the Affective/Feeler, also requires high involvement, but the focus is on emotions and feeling not on information [Vaughn 08]. The goal of the ad for a product that requires high involvement and a high level of feeling is to create images, emotions, and arousal in connection with the product. In the long run this may lead to a purchase decision, suggesting a PPL model or flat fee. Car advertisements typically fall into the category of emotion

and image creation where the involvement with a product would be high and the focus is on feelings and emotions. The potential customer would not immediately buy the car but could request further information, calling for a PPL compensation. As some sort of image for the brand is created, for example through a video clip, a flat fee could be appropriate too.

In the third and fourth quadrants, the customer involvement is lower. In the third quadrant, Habit formation/Doer, thinking dominates for products like household items or food. The aim of marketers for these products usually is to increase brand awareness and therefore to form habits. Inducing a trial may even trigger subsequent purchase [Vaughn 08]. [Vaughn 86] indicates that exploratory buying may happen in this quadrant, thus, a PPS model appears appropriate depending on the product class. Food may not be bought this way, household goods or cosmetics, however, are possible to be shipped to the customer. Interactive advertisements may offer cosmetics like shampoo with a free bottle of conditioner to induce trial of the conditioner. This would work for spontaneous habit purchases as well as trial of new products. The customer has the chance to immediately reply to the advertising stimulus. Thus, a PPS and a PPV model (for perishables) seems sensible [Briggs 97].

In the last quadrant, Self-satisfaction/Reactor, feeling dominates over thinking for self-satisfying products such as cigarettes, liquor or candy. The advertising aim for these products is to increase sales or at least to increase brand awareness. Thus, it is important for those companies to present their products via interactive TV. As such liquor or candy can be promoted via this medium leading to product awareness and even sales. Depending on the possibility to buy products online, a PPV or PPS payment model seems appropriate.

		Thinking	**Feeling**
High involvement	Consumer description	Informative (Thinker)	Affective (Feeler)
	Product Examples	Car, house, furnishings New products	Jewellery, cosmetics, fashion apparel
	Implication for advertiser	Specific information Demonstration	Change of attitude
	Possible payment model	PPC, PPL	PPL, Flat fee
Low involvement	Consumer description	Habit formation (Doer)	Self-satisfaction (Reactor)
	Product examples	Food, household items	Cigarettes, liquor, candy
	Implication for advertiser	Reminder	Attention
	Possible payment model	PPV, (PPS)	PPV, PPS

Table 1: Classification of compensation models for interactive advertising

4 Conclusions

Although it makes sense to use interactive metrics and the derived payment models with interactive media, this paper argues that the appropriate payment model for an interactive advertising campaign could also be one that does not require interactivity (e.g. PPV). The paper adapted the popular FCB grid as a tool for both advertisers and publishers or broadcasters to examine effective interactive payment models.
However, to choose a payment model, advertisers and publishers also have to know the threats of each model and discuss how to avoid them.
It is suggested in the literature, that for example "multi-site" data (on every website involved in the campaign) is one requirement to solve the problems and to obtain further confidence in the interactive media [Novak 00].
Beyond this confidence discussion, future research should test the classification developed and presented in the grid through both qualitative and quantitative research methods.

Key challenges remain regarding the development of interactive TV and the further diffusion of digital video recorders. Marketing Management predicts that such technologies will destroy advertising effectiveness of traditional TV spots and leading companies will therefore invest in branded entertainment within TV programmes, TV program sponsorship, interactive advertising during TV programs, online video ads and product placement [Marketing 06]. These additional forms of TV advertising will require further detailed investigation.

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