Chapter 6
Internet Advertising Pricing Methods: How to Calculate Advertising Costs?

ABSTRACT
The Internet is rapidly turning into an advertising channel. According to available statistics, online advertising expenses in 2006 increased by 19 percent. However, offline advertising witnessed a two percent growth in the same period (Weisman, 2006). Just in the United States, Internet advertising revenues hit $7.3 billion for the first quarter of 2011, representing a 23 percent increase over the same period in 2010 (iab.net, 2011). Surprisingly, the trend showed that Internet advertising expenditure reached 49,994 million dollars at the end of 2008 (Zenithoptimedi, 2009), much earlier than expected. Beneficiaries of this investment and growth are search engines such as Google, Yahoo, and MSN, to which most of this chapter is dedicated.

Establishing and administrating a website requires visitors. Users visit the websites if they know them and find that their content fulfills their needs and wants. Administrators or owners of a website, commercial sites in particular, do not have the knowledge to introduce or advertise the website to potential users. Advertising a website and the products or services provided by it requires knowledge of the requirements and applications of advertising. One of the most important requirements involves advertisement pricing. In this chapter, the authors will discuss one of the effective issues of any E-business: payment and its methods. New methods, their application procedures and the advantages and disadvantages of major websites will be examined in this chapter.

COST-PER-THOUSAND AND FLAT-FEE EXPOSURE MODEL
Flat Fee means paying a fixed amount for displaying an ad in a certain time period; this is the oldest method of online advertising pricing. The flat-fee method is often applied regardless of traffic guarantees in which the advertiser guarantees to show the ad during website prime time; this gives the advantage to the publisher. In this method, a flat fee is paid on a monthly basis; whether the ad is published during low or high traffic times.

Since information on high-traffic times of the website is available to the publishers, it is possible to change the flat-fee method to CPM. CPM or
Cost per Mille is a different way to advertisers for per-thousand exposure. If the information on traffic and the users of the website is available, the CPM and flat-fee methods can be interchangeable. CPM also can be promoted with guarantees of exposure time in a certain time period, thereby being more appropriate for the customers.

The greatest challenge of marketers is to recognize the business models that can be applied successfully in the online environment. Some advertisers support CPM and believe that this method includes an appropriate unit of measurement in which pricing is based on exposure and each publisher broadcasts the ad separately. The customers also believe that this is a rational way to advertise their products or services.

However, flat fee and CPM are in their infancy, because the Internet is different from traditional media. While traditional media enjoys a one-to-many communication model, the Internet and the Web, in particular, are based on a many–to-many communication model (Hoffman & Novak, 1995). These methods are derived from the most important advantage of advertising. Web interaction should not be ignored because CPM emphasizes banners rather than target communication. Target communication is a method in which a HTML-structured website is upgraded through technologies like Hyperlinks or JavaScripts, and creates online selling processes. In fact, target communication is the real marketing that advertisers try to gain from their users. When a customer places an advertising order and the ad is published by CPM, more visitors rush on to the website, and this is a considerable success because it is a one-to-many communication model which looks for the audience to read its message. Note that this is an interactive medium, and interaction among the members is one of the key factors for success. In fact, a long-term presence on a website results in increased learning and draws the user’s attention to other factors; consequently, there will be a positive impression of the website in the user’s mind. Applying CPM, however, endangers the website. Some of the dangers emerge when the administrators decide to develop their own website. Their biggest problem would be a lack of users having homogeneous tastes and interests, for the website’s business model attracts non-homogeneous users; besides, this presence is temporary. In addition, in CPM, measuring and recognition of the interaction and pricing based on the value of interactive visits by the user is difficult; hence, this process is not favorable for the customer. In fact, the CPM model does not determine anything more than the number of users who have been exposed to the banner ads on certain websites. Since customer behavior on the host website is dependent upon the type of website and the customers’ motive to visit the site which is readily measurable, merely recording the number of visits is not enough information to sum up the value relative to the advertising cost. In other words, direct comparison of the website according to the number of users exposed to the ad, regardless of other factors, is meaningless.

CLICK-THROUGH RATE MODELS

Advertising pricing based on a click-through rate is an attempt to develop a more responsible method for paying for online advertising. In this method, paying for ad exposure is based on the number of times the user has actually clicked on an advertisement. The price paid for one click on the ad is one to four percent of a dollar (Hoffman & Novak, 2000). However, note that few visits result in clicking on the advertisement. According to a study conducted by Double Click in 1996, only four percent of users who visit publishers’ websites click on the advertisements when they observe them. In a study that was undertaken on network publishing of a banner advertisement, it was found that, on average, 25 percent of the advertising publishers had an eight percent click rate on the advertisement. This number, of course, relates to the first broadcast; in the second and third
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