



How does **digital** advertising work?

What is digital advertising and how does it produce advertising ROI?

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What is the role of a DSP (Demand Side Platform) in advertising:

- Real-Time Bidding mechanism
- Helps advertisers to buy media for the lowest price
- DSP allows making a bid per user with an individual price and choosing the most relevant ad content for him
- Examples include DoubleClick and The Trade Desk

Don't forget about Pixels

Understanding the question “What is digital advertising?” is synonymous with understanding what an advertising pixel is.

Pixels are snippets of code that allow advertisers to gather valuable information about website visitors and what actions they took, so they can send those visitors ads that are most relevant to them and their recent behavior. Pixels are vital to measuring campaign performance, tracking conversions, and automatically building audiences based on behavior.

Advertisers place these code snippets on their landing pages or website pages where they are directing their digital advertising traffic.

DMPs, DSPs and Pixels represent the scaffolding of how digital advertising works.



Advertising requires precision in matching messaging, platform & budget to your ideal customer. In order to understand how this process works we have to start from a conceptual level:

How does digital advertising work?

Advertisers bid, much like a live auction, on opportunities to win attention online from pre-qualified audiences on various platforms including Facebook, Google, Youtube, LinkedIn, Hulu and more. Advertisers use DMP's (Data management providers) and DSP's (Demand side platforms) to identify correct market segments and purchase inventory at the most affordable prices.

What is the role of a DMP (Data Management Platform) in advertising:

- Platform where the data is being collected, analyzed, managed and activated.
- DMP stores 1st-, 2nd, and 3rd party data
- Allows segmenting the gathered data into target groups, such as heavy buyers or jazz music lovers
- Examples include Snowflake, Nielsen





What Digital Advertising Channels should you use?

Before selecting channels it is important to understand that digital advertising only works when you are purchasing advertising inventory that is less expensive than what a customer will pay you during their lifetime as your client. Digital advertising only works if you call to action qualified people that want to pay for your solution. The following questions will help you answer the question, "How does digital advertising work to connect me to the right prospective customers":

- Where does my customer spend time online?
- How many of these possible customers are spending time there?
- How much are you willing to spend to get one of those people to buy your product?



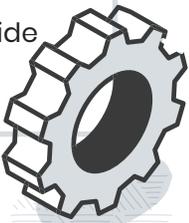
"Advertising requires precision in **matching messaging, platform & budget** to your ideal customer."

Once you understand who your target audience is and where they reside digitally, it is time to identify the advertising channels that are most applicable. The following platforms provide opportunities for advertisers to bid on inventory and gain the attention of their target audience:

1. Google
2. Facebook
3. Youtube
4. Instagram
5. LinkedIn
6. Twitter
7. Snapchat
8. Bing
9. Quora
10. OTT (advanced TV, Hulu, Roku)
11. DSP's offering display, video & native ads via banner inventory (The Trade Desk, Choozle)

How to create a digital advertising strategy that works

Budget and strategy play a critical role in deciding what channels are best for deciding how digital advertising works. In order to confidently select the right channel, look at the difference between prospecting and retargeting ad strategy to help lay out an accurate view on how much it truly costs to acquire a customer and which channels will provide the desired outcome most effectively.



In order to truly understand how digital advertising works, ensure that you are defining the buying stage a prospect is at any given stage of the sales process. Start by familiarizing yourself with the most common types of advertising metrics and how those translate to lead statuses. Pairing metrics to where your prospects are at the buying stage allows for a more tangible understanding of the effectiveness of your campaigns.

CPM (Cost per 1,000 impressions): Related to how much it costs per 1,000 qualified eyeballs seeing your advertisement. Based on your targeting preferences inside of a DSP you will be able to segment advertising placements to show up to specific audiences. The general rule of thumb is as follows: The lower the CPM the higher the return on advertising spend (ROAS).

CPC (Cost per click): CPC is the amount of budget it takes to coax a prospective buyer to seek out more information by clicking. As an advertiser you are able to remember who clicked on your ad using your marketing pixel. From there, you can follow up across channels with additional advertising now that you know that target audience member has shown interest. Although marketers use CPC data to benchmark success to an extent, be mindful that clickers are not yet considered actual leads or customers.



“DMPs, DSPs and Pixels represent the scaffolding of **how digital advertising works.**”

Honorable Mention: CTR (Click through rate): This metric can be calculated by dividing the number of clicks by the number of impressions served. This metric serves to help advertisers to quantify the ratio of total people served ads to total people clicking on the ad and being added to retargeting audiences through pixels.

CPL (Cost per lead): This translates to the cost per audience member in a target audience taking action on a free offer. These offers vary from E-book download to free trial/consultation, but represent that a buyer is qualified and interested in your offering. This segment of your advertising audience is also considered “opted in” to your marketing across email and other various forms of follow up outside of additional advertising via pixel.

CAAC (Cost to acquire a customer): This metric is tied to revenue. CPA is the amount of budget that it takes to convince a customer to purchase. Depending on the business model CAAC can include expenses outside of ad spend such as salesperson salaries, however, for purposes of understanding cost of paid acquisition through advertising specifically this number can be filtered to advertising-specific expenses.





Prospecting vs Retargeting:

Understanding the costs associated with advertising or how digital advertising works requires a knowledge of the concept of prospecting vs retargeting.

Prospecting advertising is meant to function as an introduction to the product. The main goal of the prospecting phase of advertising is to convince members of the defined target audience (within DSP) to click (so you can place pixel for following up with retargeting ads) and possibly to become a lead by taking advantage of a free offer (pixel for retargeting & store personal information such as name, email, phone number, etc.). The concept of following up with people who have shown interest to an ad is known as retargeting. Advertising pixels make it possible to track these audience members based on their IP address. If you are wondering “How does digital advertising work?” and feel you are being followed by a certain advertisement, it is most likely because you are being retargeted.

In certain B2C cases the prospecting ad can lead to instant acquisition (customer purchases product), however, for most product offerings (especially products valued at over \$100) it takes an average of 9 follow ups via advertising, email, phone call, etc to convince a customer to take advantage of a paid offering.

This is where retargeting can make an impact. Once you have introduced your product to your target market and gotten a portion of your prospecting target audience to click your ad or take advantage of a free call to action, you can begin to follow up to a high concentration of audience members that have qualified themselves for your offer via action that they have taken.

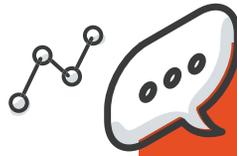
Oftentimes advertisers will use the retargeting ads to tell a story of the product benefits and points of differentiation over the course of the acquisition process. These retargeting ads are bid on in the same manner as prospecting ads utilizing programmatic DSP's like Facebook Ad Platform, The Trade Desk or others.

Based on the CPM and desired target audience per channel, advertisers can choose to be more aggressive on acquisition on lower costing CPM channels to build bigger retargeting audiences or can opt into smaller, more granular and qualified prospecting on higher CPM channels. Advertisers are not restricted to prospecting or retargeting on just one channel, however, keep in mind that each DSP has its own pixel so make sure that your pixel is applied to the traffic source in question in order to have accurate reporting data.

Using CPM's to guide your decision making on prospecting and retargeting channels is a wise move. Below is a breakdown of average CPM as well as average CPC (cost per click) and average CTR (click through rate) across the aforementioned channels. These averages can vary greatly depending on the nature of the advertisement and the audience you are targeting, however, this scale can function as a barometer to understand which channels are most and least expensive per 1,000 sets of eyeballs.



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Inventory Type	Platform	CPC	CPM	CTR
Newsfeed	Facebook	0.81	8.87	1.14
Right hand column	Facebook	1.59	2.49	0.15
Marketplace	Facebook	0.54	4.66	0.86
Audience Network	Facebook	0.79	5.61	0.72
Messenger	Facebook	1.94	4.57	0.28
Newsfeed	Instagram	1.53	6.81	0.44
Stories	Instagram	1.84	7.99	0.41
Newsfeed	Linkedin	4.08	9.05	0.22
Newsfeed	Twitter	0.28	7.31	2.36
Search	Google	1.18	28.8	2.5
Display	Google	0.4	2.81	0.69
Display	Youtube	2.96	9.61	0.31
Search	Bing	2.52	75.3	2.93
Newsfeed	Quora	1.24	7.63	0.59
Newsfeed	Pinterest	1.28	6.85	0.59
Story	Snapchat		3-8	

Inventory Type	Platform	CPC	CPM	CTR
Display	Hulu	-	25-30	-
Contextual Display/Mobile	Banner (various DSPs)	-	1-4	-
Contextual Video	Banner (various DSPs)	-	11-15	-
Contextual Native	Banner (various DSPs)	-	4-9	-
Broad Data Targeting Display/Mobile	Banner (various DSPs)	-	2-4	-
Broad Data Targeting Video	Banner (various DSPs)	-	13-15	-
Broad Data Targeting Native	Banner (various DSPs)	-	4-9	-
Nich Data Targeting Display/Mobile	Banner (various DSPs)	-	3-6	-
Niche Data Targeting Video	Banner (various DSPs)	-	14-17	-
Niche Data Targeting Native	Banner (various DSPs)	-	6-10	-
Retargeting Display/Mobile	Banner (various DSPs)	-	3-6	-
Retargeting Video	Banner (various DSPs)	-	14-17	-
Retargeting Native	Banner (various DSPs)	-	6-10	-
Contextual Keyword Display/Video	Banner (various DSPs)	-	3-6	-
Contextual Keyword Video	Banner (various DSPs)	-	12-16	-
Contextual Keyword Native	Banner (various DSPs)	-	5-9	-

Although a part of advertising success can be attributed to creativity and instincts, understanding the best prospecting and retargeting audiences and channels requires experimentation and budget allocation. Using the aforementioned metrics such as CPM, CPC and CPL will allow advertisers to calculate the CAAC (cost to acquire a customer) and ensure profitability of advertising sets prior to allocating more budget or adjusting targeting.



How does digital advertising work for my business?

Although there is no “magic formula” for applying an understanding of how digital advertising works to find success, there are some key elements applicable to any digital advertising strategy that will translate into a more successful campaign. These elements are as follows:

Hook: This is the first 2 seconds of your advertising creative. Whether it is a video or photo with text, advertisers have approximately 2 seconds to answer the questions: What is the product and why is it important to me?

Headline and copy: If a prospect has been successfully “hooked” by the first 2 seconds of your advertisement the headline and subtext under the creative must further qualify or speak to the pain of your prospect to keep them interested.

Call to Action (CTA): The CTA is the touchpad to take a lead to your website or landing page. Remember, this also qualifies them for retargeting as they have now clicked on your advertisement. This CTA must incentivize the prospect enough to opt to leave the social media channel or website they saw your ad on to learn more about your offering.



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Landing page: Whether you are sending advertising traffic to a website page or landing page, it is important to include all relevant pixels on the page so that you can retarget everyone who lands on the page. This landing page must also further coax a prospect into spending time reviewing product(s) or information and taking advantage of the offer.

Integration to CRM: Once a prospect has taken advantage of an offer and made the transition from “clicker” to a “lead” it is important to reflect that in your CRM. By keeping records of engagement and personal information for qualified leads, sales and marketing can work together to further condition a lead into being “acquired” as a customer.

Follow up & reporting: Not all “Clickers” will become “Leads.” Not all “Leads” will become acquired customers. The key is to monitor the dropoff at each level and allocate budget to the proper channels at the proper stages of the buying journey. Insight into which decisions should be made at which stages of the buying journey requires experimentation and quality reporting.

At EIC we believe that Every Impression Counts. By being intentional about who sees certain ads on certain channels we can ensure that advertising budgets stay lean and drive true, forecastable ROI (return on investment) month over month.

Our approach to advertising requires cooperation across departments as CRM, Content production and SEO all play a role in the advertising decisions that are made for each campaign.

