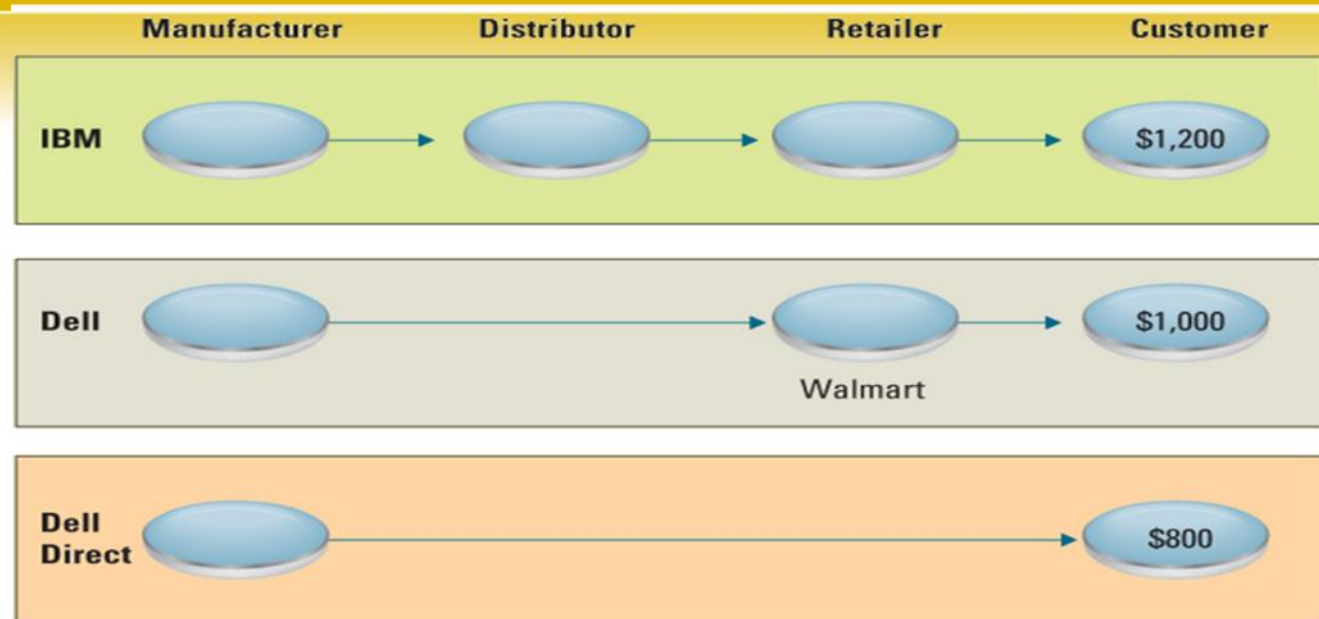


DISINTERMEDIATION

Business Value of Disintermediation



The more intermediaries that are cut from the distribution chain, the lower the product price. Dell “reintermediated” when it decided to sell its PCs through Walmart having led the way years before in direct-to-consumer sales. What advantage do you think Dell achieved by reintermediation?

LEADERSHIP MOMENT

Anyone can hold the helm when the sea is calm.

—Publilius Syrus



Objectives & Reminders

Objectives for today

1. *On-Line Ads Revenue Models*
2. *Mednet Case Discussion*

Reminders:

- ⦿ Form groups –
- ⦿ SCRATCH (3) – group submission
- ⦿ Market basket – individual submission
- ⦿ Kickstarter (5) – group submission
- ⦿ Purchase Mednet Case for Discussion on Jan 27
- ⦿ Lab Jan 16
- ⦿ Lab Jan 23
- ⦿ SCRATCH due by Jan 23 @ 23:55
- ⦿ Lab Feb 6
- ⦿ Lab Feb 13
- ⦿ Market Basket due by Feb 14th @ 23:55
- ⦿ Midterm – Feb 27th @ 6:30
- ⦿ Lab Mar 6
- ⦿ Lab Mar 13
- ⦿ Quiz Mar 31
- ⦿ FINAL project Update due by Mar 6th @ 23:55
- ⦿ FINAL Project due by Apr 7 @ 23:55
- ⦿ Final Presentations Apr 7 & 9
- ⦿ FINAL exam - TBD

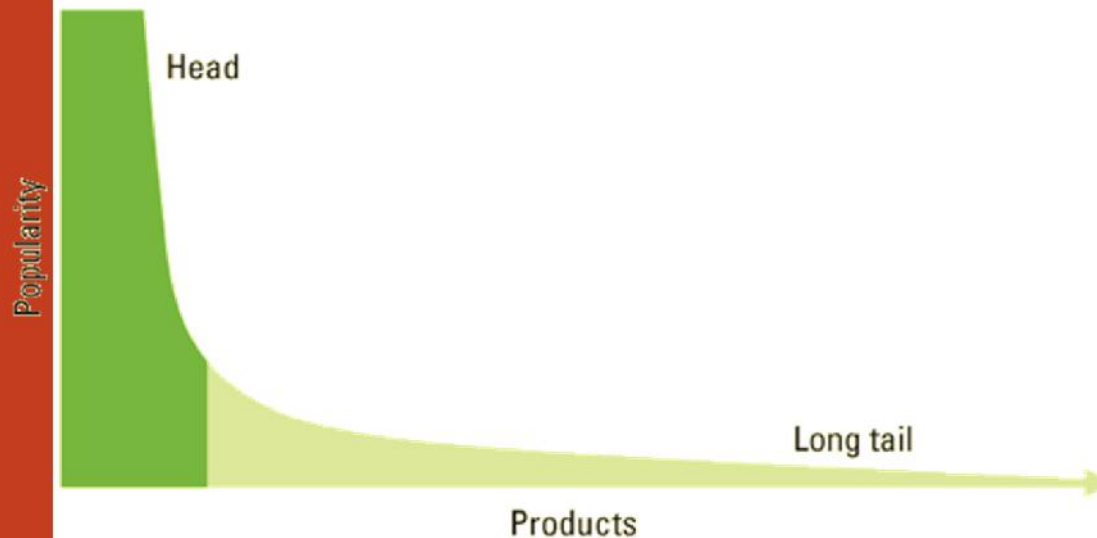
ONLINE ADVERTISEMENTS

You Task:

To understand online search advertising and the application of payment schemes for online advertising

QUICK REVIEW

■ **The Long Tail** – Refers to the tail of a typically sales curve



What products would be in the deep green band?
What products would be in the light green band?

List of products they would include in the head of the sales curve

- Top 40 music
- Top 40 videos
- Brand name apparel
- Top selling books
- Regular sized shoes and clothes

List of products they would include in the long tail of the sales curve

- Indie bands
- Irregular sized shoes and clothes
- Books on specific topics

CREATING WEB SITE STRATEGY

What's the business strategy?

What's the e-business strategy?

What's the web site strategy?

- Objectives
- Audience
- Competitive assessment
- Traffic sources
- Model
- Performance metrics

Getting to Strategy

Who's the web
site for?

Why are
visitors coming
to our site?

What do
visitors expect
to find?

How can we
make our site
easier for
visitors to use?


GOOGLE: KEYWORD MARKETING


Web Images Maps News Video Gmail more ▾ [Sign in](#)

Google™ bed linens Search [Advanced Search](#) [Preferred Links](#)

Web Shopping Results 1 - 10 of about 1,480,000 for **bed linens**. (0.18 seconds)

Sponsored Links


[Neiman Marcus Home](#)  Find 1 **linens** bedding at NeimanMarcus.com

[Lands' End Bed Linens](#)  Official Site. Classic to nouveau. Find great Bedding at Lands' End.



Paid Links



Related searches: [bed bath and beyond](#) [pottery barn](#) [comforter sets](#)



7 results stored on your computer - [Hide](#) - [About](#)

 [Vancouver Bed and Breakfast](#)







Organic Links

Linensource – **Bed linens**, luxury **bed** sheets, bedspreads, quilts ...  
 Linensource offers a rich selection of bedroom and bath furnishings from today's top designers to renew, brighten and refresh your home.
[www.linensource.com/](#) - 127k - [Cached](#) - [Similar pages](#)


Designer Linens Outlet - the online shopping source for discount ...  
 Designer **Linens** Outlet - the online shopping source for discount brand-name decor! Offering a wide selection in quilts, comforters, duvet covers ...
[www.designerlinensoutlet.com/](#) - 83k - [Cached](#) - [Similar pages](#)


Bedding.com - Sheets, Comforters, Duvets, Teen Bedding, Baby ...  
 On Line Shopping from our secure, easy to navigate home furnishings store. Find comforters, duvets, bedding, sheets, pillows, rugs, candles and much more.
[www.bedding.com/](#) - 176k - [Cached](#) - [Similar pages](#)


Shopping results for **bed linens**


Southern Textiles Capri Bedding  	\$320.00	Homelomont.com
Palmer Bed Shams - Ocean Euro Sham from ...  	\$159.00	Ballard Designs
Closeout Charisma 360TC Supima Cotton Bedding ...  	\$129.99	SmartBargains.com


Sponsored Links


Bedroom Coordinates 
 Shop Sears From a Wide Variety of Bedroom Coordinates. Buy Now! [Sears.ca](#)


JCPenney™ Official Site 
 Find Valuable Savings On Everything You Need To Decorate Your Bedroom [JCPenney.com](#)

Duvet Covers 
 Affordable and colorful designs. Modern floral asian sold and more [www.americanbedlinens.com](#)

Fine Linens - Buy Now 
 Free Shipping On All Orders. Complimentary Swatch Samples [www.finelinenandbath.com](#)

The Giving Tree Winter 
 White Sale. Luxury **bed**, bath, table **linens**. Free shipping. [www.givingtreeonline.com](#)

80% Off Egyptian Sheets 
 Single ply-High Quality -300-1500TC. Free shipping on all orders [www.egyptiancottonwarehouse.com](#)

Bedding 
 Best deal Fine Bedding up to 50% off. [www.finelinenandbath.com](#)

MANAGEMENT INFORMATION SYSTEMS

ONLINE SEARCH ADVERTISING

Traditional channels (TV, Radio, newspapers, etc)

- ⦿ pay for ad spot regardless of audience – **push** advertising
- ⦿ major downside – **hard to measure performance of the ad campaign**

Online advertising models

- ⦿ performance of ad campaign can be measured across various dimensions
 - ⦿ number of **impressions** – the number of times an ad is shown on the website
 - ⦿ number of **clicks** – how often did users click on the ad once they were shown the ad (what is the click-through rate?)
 - ⦿ **actions** of the users once they follow the link to the advertised website (do users end up purchasing once they click on the ad and are sent to the **landing page** - i.e., the webpage displayed when a user clicks on the ad?)
- ⦿ Online search advertising – **pull** advertising - show relevant ads to consumers who are actively searching relevant terms - a more efficient **matching** between consumers and advertisers

ONLINE SEARCH ADVERTISING

Google – majority of revenue comes from ads – most of it served on its own sites (predominantly through the search engine)

Sponsored links/ads – paid ads that are displayed to the right (and sometimes top) of the organic search results

- ⦿ **keyword advertising** – targeted based on the words in the query
- ⦿ for the majority of simple ad campaigns advertisers pay only when an ad is clicked on - **pay-per-click (PPC) model**
- ⦿ advertisers **bid** on the keywords they would like to use to trigger the display of the ad – they choose the maximum **cost per click (CPC)** they are willing to pay
- ⦿ advertisers start ad campaigns via their **Google AdWords** account - ([video](#))

ONLINE SEARCH ADVERTISING

$$\text{Ad Rank Score} = \text{Maximum CPC the advertiser is willing to pay (the bid)} \times \text{Quality Score of the advertisement}$$

- ⦿ Top performing ads (highest ad rank score) are being displayed
- ⦿ It is not enough for an advertiser to be the highest bidder
- ⦿ Quality score of the advertisement is impacted by:
 - ⦿ **click-through rate (CTR)** – the number of times users clicked on the ad divided by the number of times the ad was shown
 - ⦿ **history of click performance for the keywords** linked to the ad
 - ⦿ **relevance** of ad text to user query
 - ⦿ Google's automated **assessment of the user experience on the landing page**

ONLINE SEARCH ADVERTISING

HOW MUCH DOES A CLICK COST?

Nov 2012 ([Fetch123.com Blog](#))

\$142.67	mesothelioma settlement
...	
\$92.36	structured annuity settlement
\$84.51	auto donation
\$79.59	virtual data rooms
...	
\$73.12	auto accident attorney
...	
\$70.80	RAID data recovery
...	
\$60.08	insurance quotes auto
...	
\$51.51	business VOIP solutions
...	

AD NETWORK

GOOGLE ADSENSE

Google AdSense

- ⦿ “Ads by Google”
- ⦿ Websites participating in AdSense **ad network** run ads for Google in exchange for part of the advertising revenue (**revenue sharing**)
- ⦿ To participate, content providers just need to sign up online, add a few Google-supplied HTML codes in their pages
- ⦿ Google delivers ads based on keywords automatically detected inside the content of the webpage
- ⦿ AdSense accounts for over 30% of Google’s advertising revenue



OTHER PAYMENT SCHEMES FOR ONLINE ADVERTISING

- **Pay per (thousand) impressions. (PPM)**
 - ❑ Pay based on the number of times an ad is shown on the website
 - ❑ Examples: traditional display banner adds
 - ❑ Rates quoted in terms of cost per 1K impressions - **CPM**
- **Pay per action/conversion (PPA)**
 - ❑ Pay based on user action
 - ❑ Example - affiliate programs
 - ❑ Rates quoted in terms of cost per action - **CPA**

WHAT ARE METRICS THAT MATTER?

Metrics that Matter

- ⦿ Revenue
- ⦿ Transactions
- ⦿ Conversion rate
- ⦿ Most visited pages
- ⦿ User testing results
- ⦿ Satisfaction survey trends

Metrics that Don't Matter (as much)

- ⦿ Traffic
- ⦿ Time on site / average page views
- ⦿ Hits
- ⦿ Surveys
- ⦿ Focus groups
- ⦿ Industry average conversion rates

HOW ARE INVESTMENT DECISIONS MADE?

- ⊙ Based on ROI (RETURN ON INVESTMENT)
- ⊙ Highest ROI is the rational choice
- ⊙ What is ROI
 - ⊙ $\$3\text{M return} - \$1\text{M investment} = \$2\text{M net gain}$
 - ⊙ $\$2\text{M net gain} / \$1\text{ M investment} = 2 \text{ or } 200\% \text{ ROI}$
- ⊙ $\text{ROI} = (\text{REVENUE} - \text{COST}) / \text{COST}$

SUCCESS METRICS - USED TO ASSESS THE COST EFFECTIVENESS AND PROFITABILITY OF ONLINE ADVERTISING

- ⦿ CPC: Cost per Click: the number of times a visitor clicks on a banner (<http://www.miniwebtool.com/cpc-calculator/>)
- ⦿ CPM: Cost per thousand impressions. An **impression** is the display of an ad to a user while viewing a web page (<http://www.clickz.com/cpm-calculator>)
- ⦿ CPA: Click Per Action **Cost Per Action** or **CPA** (sometimes known as **Pay Per Action** or **PPA**) is an online advertising pricing model where the advertiser pays for each specified action (a purchase, a form submission, and so on) linked to the advertisement. (<http://www.clickz.com/cpa-calculator>)
- ⦿ Click Through: count of the number of people who visit one site and use an ad to get to another
- ⦿ CTR: Click Through Rate: $\text{Click-through rate (\%)} = \frac{\text{Click-throughs (\#)}}{\text{Impressions (\#)}}$
- ⦿ Conversion Rate: percentage of potential customers who actually buy something

COST PER IMPRESSION(CPM)

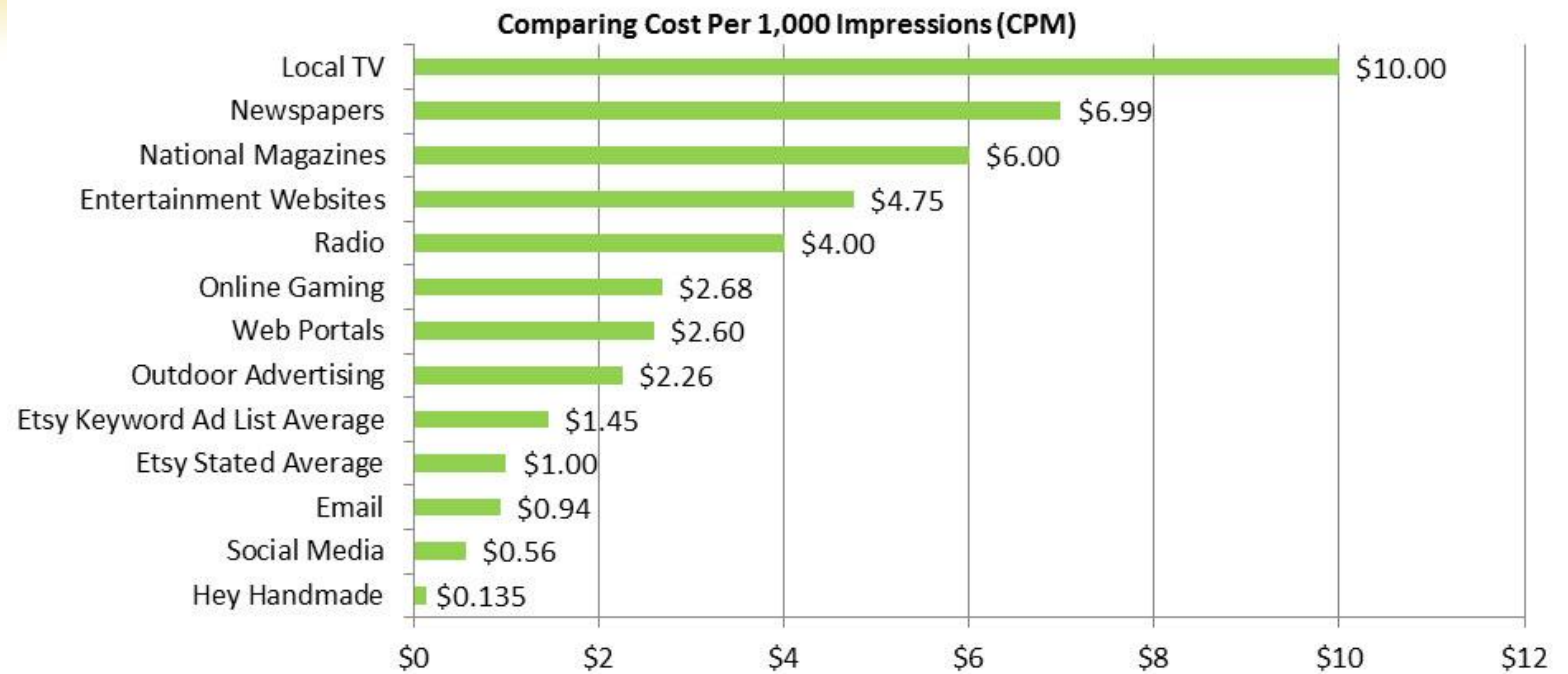
**YOUR TEXT AND
BANNER ADS ON
RELEVANT CONTENT
WEBSITES.**

**... TARGETED ONLY
TO CUSTOMERS IN
YOUR DEFINED
GEOGRAPHIC MARKET**



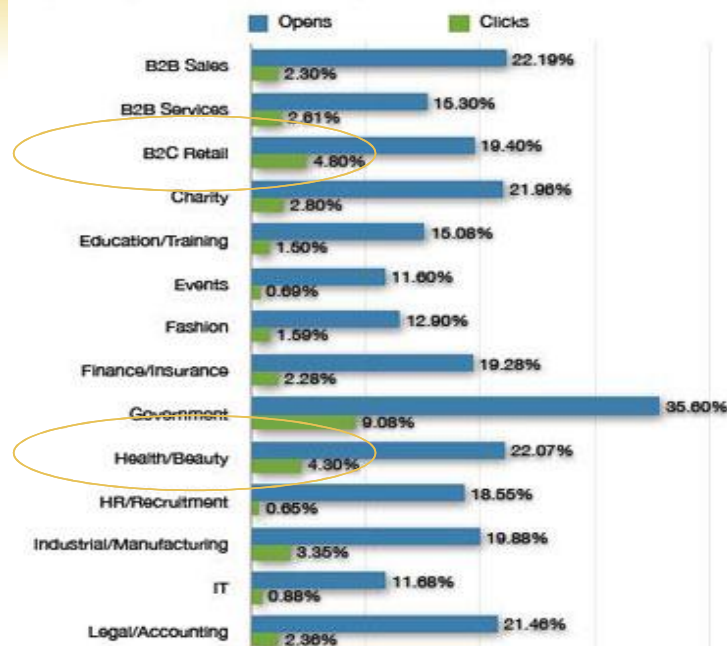
It refers to the cost of internet marketing or email advertising campaigns where advertisers pay for every time an ad is displayed. Specifically, it is the cost to offer potential customers one opportunity to see the advertisement

GENERAL COST PER IMPRESSIONS



CLICK THROUGH RATES

How do open and click-through rates compare across sectors?



$$CTR = \frac{Clicks}{Impressions} \times 100\%$$

CTR- a way of measuring the success of an online ad campaign for a particular website as well as the effectiveness of an email campaign by the number of users that clicked on a specific link

What is known as the count of the number of people who visit one site and use an ad to get to another

Click Through

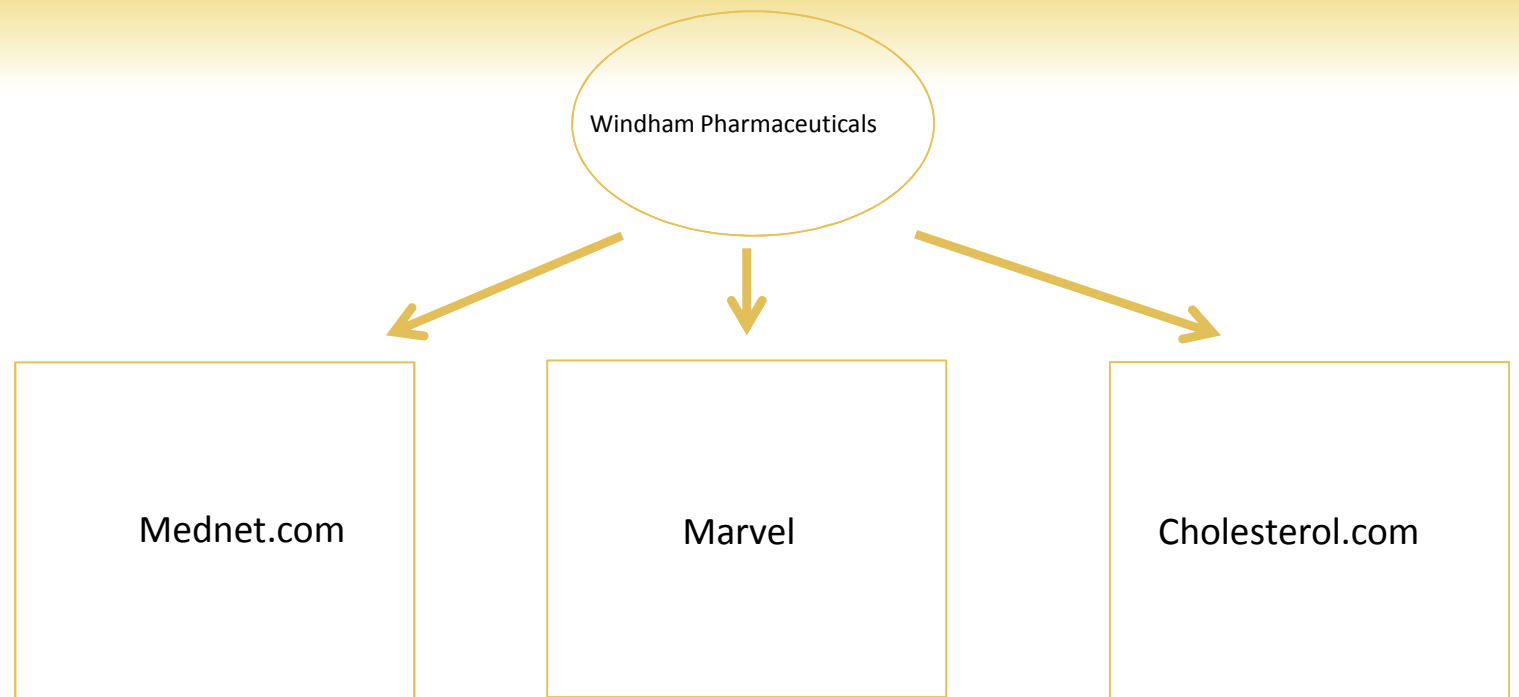


HBR CASE :
MEDNET.COM

MGIS 317

THE MEDNET.COM CASE STORYBOARD...

- ◎ Situation
- ◎ Complication
- ◎ Problem Statement
- ◎ Alternatives and Decision
- ◎ Recommendation
- ◎ Support



MEDNET.COM QUESTION 1...

What does Windham want from its online advertising?

Sales; revenue

What constitutes Sales Leads: click throughs or calls to a call centre

Brand awareness: impressions or sightings of the product

Channel Influencing: opinion leaders who then tell their friends to buy the product

Transaction efficient

Verification of results

MEDNET.COM QUESTION 2...

How is Windham's online advertising success measured?

Web analysis – ROI, links clicked
CRT and telephone calls made to a call centre
Impressions or sightings of a product name/logo
Visitors to niche sites

MEDNET.COM QUESTION 3...

What is Windham's ROI for each of its advertising campaigns?

ROI (Return on Investment)

$$ROI = \frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

ROI calculation: [Excel Spreadsheet](#)

Sales profit per advertising campaign = # of impressions received *
click-through rate * percent who buy rate * average sale's profit margin
(contribution) – advertising costs

MEDNET.COM QUESTION 4...

What is the best argument that Heather Yates can make to justify charging Windham Pharmaceuticals the CPM price, compared to CPC price that Windham is paying to Marvel?

MEDNET.COM QUESTION 5...

What value does a visitor get at Marvel that they do not get at MedNet?

- A general interest site allows a consumer to conduct a broad search
- A general website may provide reputable solutions and information for a visitor
- efficient for advertisers.

MEDNET.COM QUESTION 6...

What steps can MedNet take to address emerging competitive threats from Marvel?

EXECUTIVE SUMMARY

- ⦿ MedNet is an award-winning site that provides trusted, evidence-based, consumer information.
- ⦿ It is currently facing new competition from several sites that offer an array of information on therapeutic treatments, alternative medicine, and specific ailments such as cholesterol. MedNet is using a cost-per-thousand-impressions advertising model, which is the best model to use in their case.
- ⦿ In order to get more impressions and offer its advertisers more value, MedNet needs to increase traffic to its site. The site can do this by utilizing traditional media (e.g., print newspaper ads, print phone directory ads, print magazine ads) to drive traffic to the site. Using social media and other web tools (e.g., wikis, discussion boards, customizable profiles) MedNet can keep those visitors engaged and encouraged to return.

MEDNET CASE ANALYSIS

Problem Definition

- MedNet.com could possibly lose Windham Pharmaceuticals, their biggest advertiser, to Cholesterol.com, which is a condition specific site.

- MedNet.com must decide whether to charge for advertising based only on click-through, keep its current pricing structure, or change its strategy all together.

- MedNet.com must decide how it will continue to generate revenue while addressing competitive challenges.

- MedNet.com may lose revenue because of Marvel's new pricing structure.

Summary of Information

- MedNet.com's biggest advertiser was asking to change the rules of advertising on MedNet.com, or risk losing all of their advertising to websites like Marvel.

- MedNet is facing competition for both visitors and advertisers from both for profit and not-for-profit websites. New competitors have flattened MedNet's audience growth.

- In 2006 MedNet had met all of their goals generating \$1 million in profits with 4.3 million monthly visitors, but in the last quarter they began to see their number flatten out as more competitors began to emerge.

- Marvel created a challenge for MedNet by charging for advertising based on a pay-per-click model (CTR).
- MedNet decided to generate revenue from advertisers by charging on a cost-per-thousand (CPM) basis, while Marvel decided to provide impressions for free and only charge advertisers for click-through.
- Bill Bishop and Heather Yates were able to convince Mahria Baker that Marvel could not bring Windham the same amount of sales as MedNet, but inadvertently made a case for websites like Cholesterol.com.
- MedNet.com was considering expanding their website to offer more services like treating site visitors more like patients, introducing alternative health, and developing employer websites in order to charge customers to make up any revenue because of advertisers.
- MedNet is at a crossroads!

KEY PROBLEMS AND ISSUES

- ⊙ Windham Pharmaceuticals is asking to change the rules by which it has always done business with MedNet
- ⊙ Windham is seriously considering shifting its ad dollars to MedNet's competition
- ⊙ MedNet needs to convince Windham that its current advertising strategy is worth their ad dollars
- ⊙ MedNet needs to be strategically positioned in regards to future competitive positioning

- ⊙ MedNet is considering
 - ⊙ how to convince Windham to keep their advertising dollars with the company,
 - ⊙ how MedNet is currently positioned within the online competitive landscape, and
 - ⊙ how MedNet can mitigate risks by redirecting its business operations towards creating a broader business scope/audience.

MEDNET.COM..

- ◎ Founded in 2002
- ◎ Delivers scientific-based health information **free of charge**; generates revenue through advertising
- ◎ Competition
 - ◎ with Marvel (search engine)
 - ◎ with Cholesterol.com (micro-market competitor)
 - ◎ ClinicalTrials.com
 - ◎ Alternativehealth.com

FUTURE POSITIONING

- ◎ Differing options available to MedNet:
 - ◎ using a prescriptive approach (giving paying patrons medical information)
 - ◎ adding (conservative and scientifically proven) alternative medicine information,
 - ◎ becoming a business expert by providing medical information to paying businesses.
 - ◎ Finally, MedNet should further diversify by engaging (on a limited basis) with businesses by providing exclusive medical information.

RECOMMENDATIONS

- ◎ **Recommendations:**
Demonstrate the value proposition (ROI) of using MedNet as an advertising outlet and show the problems/risks associated with Cholesterol.com
- ◎ Develop a hybrid business model encompassing (conservative) alternative medicine information, a fee-based membership with MedNet for users wishing for a more personalized web experience, and a separate business unit to address corporations in need of medical expertise.

EXERCISE: PART 1

Example: $REV = Impressions: 1,000,000 * CTR (1\%) * Conversion\ rate (5\%) * contribution\ per\ sale (\$100) = 75000$
 $ROI = Impressions: Revenue \$75000 - Cost(1,000,000 * CPM(\$5)) / COST$

	Impressions	CTR	Click Through	Conversion Rate	Contribution	Revenue		
MedNet								
Marvel								
Newspaper								
	Impressions	Clicks	Purchasers	CPM	CPC	CPA	Cost	ROI
MedNet								
Marvel								
Newspaper								

Clickthroughs = Impressions X CTR

$ROI = REVENUE - COST / COST$

CTR: Click Through Rate (expressed in percentage)

CPM: Cost per thousand impressions

CPC: Cost per Click Through

Conversion: Expressed in Percentage

Contribution: Estimated Contribution per sale

Revenue = Impressions x CTR x Conversionrate x contribution

Online Advertising

Exercise 1

- ◎ **Q.** You are selling advertising space on your website to Amazon.com. The average number of visitors to your website is 1,000,000 per month, and from past experience, you know that your click through rate (CTR) is 1% of which 10% result in actual sales (10% of 1% = 0.1%). Amazon.com has two affiliate programs. In the first affiliate program you get a Cost Per Click (CPC) of €5 and in the second affiliate program you get a Cost Per Action (CPA) of €25. Which affiliate program will you choose and why? Which affiliate program is more profitable from Amazon.com's point of view?
- ◎ **Q:** Would Amazon.com offer you a Cost per 1000 Impressions (CPM) of \$1? Why or why not? Would you prefer this option? Why or why not?

EXAMPLE 2

- ◎ Suppose you want to advertise and sell “summary note” for the final exam on Haskayne website. An average of 1,000 students visit the website every month. You expect click through rate (CTR) to be 2% of which 10% result in actual sales and average contribution rate is \$20. Haskayne IT offers one of the following two options:
 - i) Cost per click (CPC) of \$1
 - ii) Cost per action (CPA) of \$5

Which one should you choose?

EXAMPLE ..

- Let's say you now can choose to advertise and sell either on Haskayne or U of C website. The following is what you expect from each website:

	Haskayne	U of C
Visitors	1,000	5,000
CTR	2%	1%
Conversion rate	10%	2%
Contribution rate	\$20	\$30
Expense	\$1 CPC	\$4 CPM

Which one should you choose?

