

DEFINING PERFORMANCE MARKETING IN TODAY'S DIGITAL LANDSCAPE

SUMMARY

Advertisers are increasingly demanding measurement and verifiable consumer actions as part of their digital advertising budgets. Because of this, virtually every digital advertising campaign, in some way, is beginning to define itself as “performance marketing.” The purpose of this document is to define performance marketing in the context of today’s changing digital advertising landscape.

WHAT IS PERFORMANCE MARKETING?

Historically, defining performance marketing was easy. Its objective was to drive a specific action, and advertisers only paid when that action, such as an acquisition or sale, was completed. Performance marketing included search advertising, pay per acquisition, email marketing and more. This was in contrast to brand advertising where the objective was to build awareness and payment was typically based on impressions (CPMs) or sponsorship.

Recently many different types of campaigns and programs are being called “performance.” This is in large part due to the development of programmatic buying and other technological platforms that allow for more opportunities in real-time measurement and optimization. As many have pointed out... in the future *all* digital marketing will be classified as “performance.”

As a result, a new vision is emerging of what performance marketing is. While Pay-For-Performance business models clearly remain performance marketing, they are not the only payment model currently associated with performance marketing.

Requirements for a Performance Marketing Campaign

- The intention of the campaign is to **drive consumer action**, as opposed to raise awareness
- The cause and effect between the advertising and consumer action **can be clearly measured**
- The buyer can **optimize** their buy in real or near real-time based on the measurement
- In many cases **payment is made based on consumer action** (this is not necessarily required if the other three criteria are met)

Therefore, the first prerequisite for defining performance marketing is the **ability to measure** the performance action resulting from the advertising campaign, rather than only measuring whether the impression was delivered or viewed. While that is important, it is not enough.

Once the performance action is measured there are two broad types of performance marketing that emerge:

1. Performance Optimization

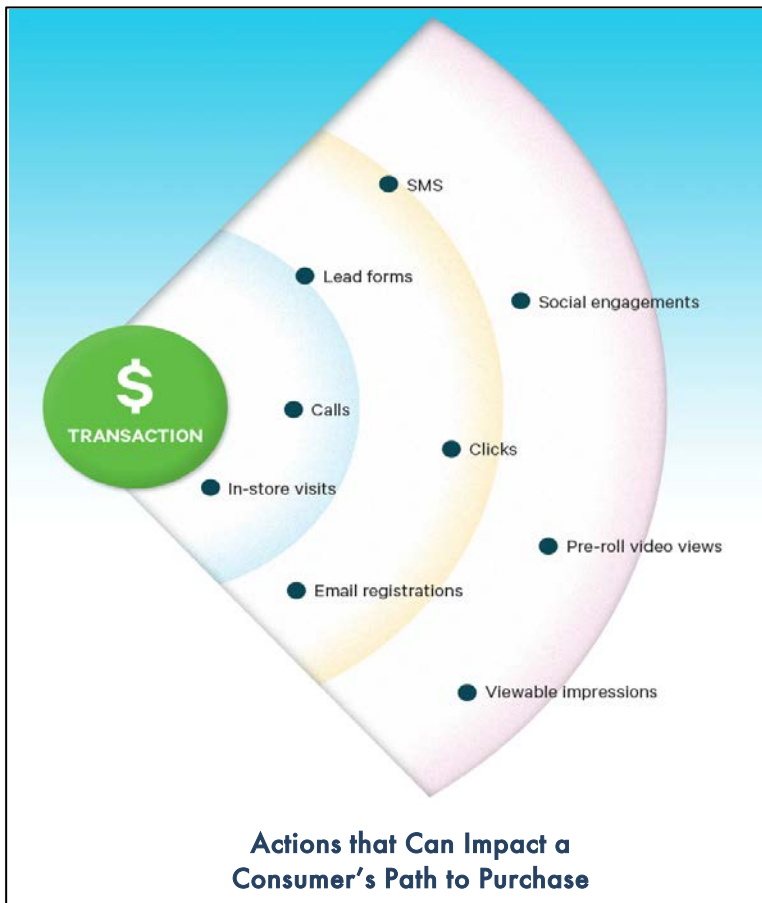
Technology and data platforms (such as real-time bidding) allow the advertiser or agency to optimize their campaign buy in near real-time, gathering data on the program’s effectiveness of driving a consumer action. The campaign owner can then alter the campaign buy to enhance its performance. In many cases these campaigns are purchased on a CPM/impression basis. It is the ability to adjust the buy in real-time, based on the effectiveness of the campaign in driving consumer action that makes it a performance campaign.

2. Pay-For-Performance

Not only does the advertiser have the ability to measure the connection between the advertising and the intended action, as well as have ability to optimize the campaign on that basis, but they have the option to pay only when that performance action occurs. This includes traditional search marketing as well as email marketing, lead-gen, etc. Pay-For-Performance can reduce advertiser’s risk as it more closely aligns their desired outcome with the payment trigger.

DEFINING THE PERFORMANCE ACTION

Not all performance actions are considered equal. The closer the performance action is to a transaction, the more accountable the outcome. However, actions across the full continuum of the customer experience are crucial in driving consumers into the sales funnel.



The illustration on the left provides a framework for thinking about how various channels relate to a transaction. How close a performance action is to a transaction will vary from company to company and in some cases may not even be a performance action.

For example, one company may consider pre-roll video views as a pure branding tool, while another may link pre-roll views to transactions, using an attribution model that creates an effective performance link.

The key element to defining a performance action and buy is... *the action must be measurable and the campaign buy can be optimized on that basis.*

KEY BENEFITS OF PERFORMANCE MARKETING

Transparency

Performance marketing programs provide measurable, verifiable results for the outcome a program and/or campaign. Even further, a performance marketing program may provide measurable results by channel, tactic, click or impression.

Collaboration

Performance marketing aligns the incentives of advertiser and publisher. An advertiser is inclined to invest in programs with positive returns. Publishers make more money when consumers complete the desired objective of the campaign.

Full Value of Actions

Technology has rapidly expanded so the market has even greater access to the reporting of outcomes that aren't necessarily direct conversions. As such, performance marketing is able to drive even more outcomes through cross-device measurement.

Real-Time or Near Real-Time Optimization

Real-time bidding (RTB) has been a part of search engine marketing for a decade, and is growing quickly in display advertising. It has become a central component in today's digital marketplace, growing to more than \$3 billion (estimated) in 2013 and is expected to more than double again in the next few years.

Along with real-time bidding, has come real-time or near real-time optimization, where advertising platforms use performance data post-impression or post-click to improve a campaign's return. In this way, RTB has evolved from not just an efficient way for buyers and sellers to agree on the price of an impression, but also a way use data and insights from those campaigns' results to enable a feedback loop of continuous performance improvement. It is expected that real-time performance optimization will move in lockstep with RTB over the next few years.

Accountable Teams

Performance marketing has a high degree of complexity. As such, it needs to have the right performance-minded marketers who understand and cherish measurement, and optimization, as well as have the knowledge to work with key technology platforms. Selecting the right people to carry out programs/campaigns is key to continued success.

Advanced KPI Agreements

Performance marketing carries with it a degree of risk to the advertiser, publisher, and agency. Performance marketing relies on the ability to accurately define and measure the outcomes of a campaign and measure performance. This brings accountability for performance against a set of KPIs. Additionally, this can create tunnel vision of being so focused on a specific outcome that the other benefits of an advertising campaign are unnecessarily disregarded.

Tracking Issues

The potential risk of an advertising program based on a pay-per-performance model is that both the advertiser and agency become susceptible to tracking problems and issues around differing analytics and measurement. At the onset of a performance marketing campaign, both advertisers and agencies/publishers must agree to a common measurement platform and ensure that the site's tracking code has been fully implemented and is stable before venturing into a pay-per-performance model.

Fraud

Along with tracking, weeding out fraudulent clicks, calls, and data is a key step in the process. Thousands of low-quality networks and bots exist for fraud, and initial speculation say that it could be costing the industry more than [\\$400 million a year](#).

Handling of 1st Party Data

Many industry professionals will find advertising that uses first party data (retargeting) will have significantly different performance than advertising that does not. It is also up to the advertiser to understand what rights, if any, publishers and other partners have regarding how any first party can be used.

RISKS IN PERFORMANCE MARKETING

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