

Should cost per click be the way to get paid in search marketing?



LEVIN: Favors a "risk-sharing" compensation model.

One firm has ditched agency fee altogether, but others say the compensation debate is far from over

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A SMALL FIRM IS reigniting the debate about how search-engine marketers should charge their customers by unveiling a fee structure called metrics-aligned pricing.

Send Traffic, a division of Traffix Inc. that works with mostly direct-marketing clients, says it has eliminated the agency fee and is charging clients on a strictly cost-per-click basis -- a strategy they say is saving clients money and pushing better performance.

"We are not front-loading any costs," said Send Traffic CEO Steve Jacoby. "The only way we can become profitable is becoming more efficient with the overall client spend."

Changing compensation models have been one of the hotter topics in the broader marketing world as well, where there's a movement toward paying based on results -- moving the sales needle or growing market share, for example. Conventional wisdom has assumed those kinds of return-on-investment metrics have been easier to track in the online world than in the offline one -- but when it comes to search it's not always as cut and dried as it seems. And that's one of the reasons figuring out the best way to charge a client is still a question among search marketers.

David Levin, president of search-engine-marketing firm i33,

laid out some fee structures at AdTech last year: media commission, fixed fee, payment based on time and materials, a combination of fees and commission, and his firm's choice: risk-sharing or incentive-based.

"There is no automatic norm. There are a variety of different ways to price and there is no industry average," said Greg Jarboe, spokesman for the Search Engine Marketing Professional Organization. "We may still be early enough in the industry's evolution that it hasn't boiled down to one or two common formulas."

For direct marketers, charging on a cost-per-click basis may make sense since it supplies a hard metric to measure success. But some say it's a risky fee structure.

"It's really complicated to structure. The marketplace is really volatile and the price of click has been moving around so dramatically that it's very hard to get two sides to agree," said Bryan Wiener, CEO of 360i, a search-centric digital agency.

Critics of charging on a cost-per-click basis also say it's not a true measure of success, especially for brand marketers who would likely think of cost per lead or cost per sale as more meaningful metrics.

"It's really about the quality of that click. You should really set up a results-based compensation model that incentivizes [the agency] to improve

quality of the clicks and not incent the number of clicks," Mr. Levin said.

Mr. Levin favors what he calls a risk-sharing model, in which marketers reduce downside risks but pay more if the agency achieves agreed-upon goals, and agencies increase potential to make money but receive less compensation if they are not successful.

In the risk-sharing model, clients and agencies first talk about goals -- Mr. Levin suggests leads and sales, customer retention, website usage, brand metrics and industry rankings and awards as possible goals to use. But he said it's also important to have a frank conversation about what the plan will look like with success and failure.

"Everybody's money is on the line and it's about balancing those two fairly," he said.

Another emerging fee structure in the search-marketing space is based on a retainer, Mr. Wiener said.

A retainer guarantees staff, regardless of spending, and decreases some of the undesirable volatility of some of the other fee structures, he said.

But most in the industry agree it really comes down to a client's goals when choosing a fee structure.

"It doesn't matter to me how you get paid. It matters how you understand the clients and their objective," said Jeff Pruitt, president of Sempo and exec VP, iCrossing.