Chapter 11. Model Four: Media Site

Advertising pays for the Internet. It's so easy to insert advertising into online content that for many companies, ad-based monetization is a fallback revenue source, which subsidizes a cheaply priced game or helps pay for the cost of operating a freemium product. Many websites rely on advertising to pay the bills, but few do it well. Those that do are generally content-focused, trying to attract repeat visitors who will spend a decent amount of time on the site and view many pages.

If your business model most closely resembles a media site, then your primary focus is sharing advertisers' messages with viewers, and getting paid for impressions, click-throughs, or sales. Google's search engine, CNET's home page, and CNN's website are all media sites.

Ad revenue comes in a variety of formats. Some sites make money when they display banners or have sponsorship agreements. Sometimes revenue is tied to the number of clicks on ads or to a kickback from affiliates. Sometimes it's simply display advertising shown each time there's an engagement with a visitor.

Media sites care most of all about click-through or display rates, because those are actual revenue, but they also need to maximize the time visitors spend on the site, the number of pages they see, and the number of unique visitors (versus repeat visitors who keep coming back), because this represents inventory—chances to show ads to visitors—and a growing reach of new people in whom advertisers might be interested.

Imagine a sporting news site that makes money from all four revenue models (sponsorship, display advertising, click-based advertising, and affiliate). The site has 20,000 unique visitors who come to the site an average of 12 times a month, and each time they visit, they spend an average of 17 minutes on the site (see

Table 11-1).

Table 11-1. Calculating monthly page inventory

Traffic	Example	Notes
Unique visitors per month	20,000	
Sessions per month	12	
Pages per visit	11	
Time on site per visit (m)	17	
Monthly minutes on site	4,080,000	
Monthly page views (inventory)	2,640,000	

The site has a partnership with a local sports team, and a standing contract to display banners for it on every page in return for $4,000 a month (see Table 11-2).

Table 11-2. Calculating monthly sponsorship revenue

Sponsor revenue	Example	Notes
Monthly sponsorship rates	$4,000	From your signed contract
Number of sponsored banners	1	From your web layout
Total sponsorship contribution	$4,000	

The site also has a display-ad contract that nets it $2 for every thousand times someone sees a banner (see Table 11-3).

Table 11-3. Calculating display ad revenue

Display ad revenue	Example	Notes
Display ad rates (per thousand views)	$2	Whatever you negotiate
Banners per page	1	From your web layout

Total display ad contribution	$5,280	Page views × display rate / 1,000

So far, these are relatively simple revenue models. But the company also has pay-per-click revenue. A portion of its web layout is reserved for ads from a third-party advertising network, which inserts ads relevant to the visitor and the site content (see Table 11-4).

Table 11-4. Calculating click-through revenue

Click-through revenue	**Example**	**Notes**
Click-through ads per page	2	From your web layout
Total click-through ads shown	5,280,000	Page views × ads per page
Ad click percentage	0.80%	Depends on ad effectiveness
Total ad clicks	42,240	Ads shown × click-through rate
Average revenue per click	$0.37	From the auction rate for your ads
Total click-through contribution	$15,628.80	Ad clicks × revenue per click

The click-through revenue depends on what percentage of visitors click an ad and the amount paid for the click, which often depends on the value of a particular keyword. As a result, the site may write different kinds of content in order to attract more lucrative ad topics.

Finally, the site sells sports books through an affiliate relationship with an online bookstore. It features a "book of the week" on every page; it doesn't make money when someone clicks the link to that book, but it does make money when someone *buys* the book (see Table 11-5).[38]

Table 11-5. Calculating affiliate revenue

Affiliate revenue	**Example**	**Notes**
Affiliate ads per page	1	From your web layout
Affiliate ads shown	2,640,000	Ads per page × page views
Affiliate ad click percentage	1.20%	Depends on ad effectiveness

Total affiliate ad clicks	31,680	Ads shown × affiliate ad clicks
Affilate conversion rate	4.30%	Ability of the affiliate partner to sell stuff
Total affiliate conversions	1,362.24	Ad clicks × conversion rate
Average affiliate sale value	$43.50	Shopping cart size of the affiliate partner
Total affiliate sales	$59,257.44	Revenue the affiliate made
Affiliate percentage	10%	Percentage of affiliate revenue you get
Total affiliate contribution	$5,925.74	Affiliate sales × affiliate percentage

The affiliate model is complex (and often, site operators won't know what the visitor's purchases were—they'll just get a check). It relies on several funnels: the one that brought the visitor to the site, the one that convinced the visitor to click, and the one that ended in a purchase on a third-party site.

Our sports site is taking advantage of four distinct media monetization models. To do this, it's had to set aside a considerable amount of its screen real estate to accommodate a sponsor, a display banner, two click-through ads, and an affiliate ad for a book. Of course, this undermines the site's quality and leaves less room for valuable content that will keep visitors coming back. Striking a balance between commercial screen space and valuable content is tricky.

Pricing for sponsorships and display advertising is often negotiated directly, and depends on the reputation of the site, since it's a subtle form of endorsement and the advertiser is hoping for credibility. Ad networks set pricing for affiliate and pay-per-click advertising based on bidding by ad buyers.

Media sites involve a lot of math; sometimes they feel like they're being designed by spreadsheets rather than editors. Many of the vanity metrics we've warned you about earlier are actually relevant to media sites, since those sites make money from popularity.

Ultimately, then, media sites care about:

Audience and churn

How many people visit the site and how loyal they are.

Ad inventory

The number of impressions that can be monetized.

Ad rates

Sometimes measured in *cost per engagement*—essentially how much a site can make from those impressions based on the content it covers and the people who visit.

Click-through rates

How many of the impressions actually turn into money.

Content/advertising balance

The balance of ad inventory rates and content that maximizes overall performance.

Audience and Churn

The most obvious metric for a media site is audience size. If we assume that an ad will get industry-standard click-through rates, then the more people who visit your site, the more money you'll make.

Tracking the growth in audience size—usually measured as the number of unique visitors a month—is essential. But measuring unique visitors can lead us astray if we focus on it too much; as we've noted earlier, engagement is much more important than traffic, so knowing how many visitors you're losing, as well as adding, is critical.

You can calculate audience churn on a media site by looking at the change in unique visitors in a specific month and the number of new visitors that month (see Table 11-6).

Table 11-6. Calculating audience churn

	Jan	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**
Unique visitors	3,000	4,000	5,000	7,000	6,000	7,000	8,000

Change from last month	N/A	1,000	1,000	2,000	(1,000)	1,000	1,000
New (first-time) visitors	3,000	1,200	1,400	3,000	1,000	1,200	1,100
Churn	N/A	200	400	1,000	2,000	200	100

In this example, a website launches in January, and gets 3,000 unique visitors that month. Each month, it adds a certain number of unique first-time visitors to the site, but it also loses some visitors. You can calculate the churn by subtracting the number of unique first-time visitors from the change over the previous month—the new visitors are "making up" the last month's loss.

Note that sometimes an effective campaign can mask a churn problem. In this example, even though the site grew by 2,000 unique visitors in April, it managed to lose 1,000 visitors as well.

If you have the ability to test different layouts—one with fewer ads, for example—across visitor segments, you can determine the level of "churn tax" you're paying for having commercial content on the page. Then you can balance this against the revenue you're earning from advertising.

Inventory

Tracking unique visitors is a good start, but you need to measure ad inventory as well. This is the total number of unique page views in a given period of time, since each page view is a chance to show a visitor an ad. You can estimate inventory from visitors and pages per visit, but most analytics packages show the number automatically (see Table 11-7).

Table 11-7. Calculating page inventory

	Jan	Feb	Mar	Apr	May	June	July
Unique visitors	3,000	4,000	5,000	7,000	6,000	7,000	8,000
Pages per visit	11	14	16	10	8	11	13
Page inventory	33,000	56,000	80,000	0,000	48,000	77,000	104,000

The actual inventory depends on page layout and how many advertising elements are on each page.

Performance and the Sessions-to-Clicks Ratio

One other factor to consider is the sessions-to-clicks ratio. Every website loses a certain number of visitors before they ever come to the site. For every 100 web searches that link to you and get clicked, roughly 95 will actually land on your site. Basically, this says that five of those people hit the back button, or decide your site is taking too long to load, or change their mind about visiting.

The ratio of sessions (on your site) to clicks (from search links or referring links) is an indicator of web performance and reliability. Shopzilla's Jody Mulkey and Phillip Dixon did a detailed analysis of the impact of performance improvement on the sessions-to-clicks ratio when the company rebuilt its site to make it load quickly and reliably.[39] Ultimately, the makeover landed the site 3–4% more visitors. But within a short while, the site slowed down again as a result of ongoing changes, and the ratio worsened once more. Keeping a site fast is a constant battle.

Ad Rates

The rate advertising networks will pay you for an ad depends on your content and the going rate for a particular search term or keyword. For a straight-up media site, the ad rate is driven by the topic of your site and the content you publish. For a social network, the demographics of your audience drive ad rates. Visitor demographics will become increasingly important as social platforms like Facebook introduce third-party-placed advertising based on demographic segments—you'll get paid based on *who* your visitors are rather than *what* your site contains.

Content/Advertising Trade-off

The big decision any media site makes is how to pay the bills without selling out. This manifests itself in two ways. First, ad space: too many ads leads to lousy content and reduced visitor loyalty. Second, content: if your content is written to attract lucrative ad keywords, it'll feel forced and seem like a paid promotion.

Layout design and copywriting style are aesthetic issues, but those aesthetic decisions are grist for the analytical mill. If you're serious about content, you need to test different layouts for revenue-versus-churn, and different copy for content-versus-ad-value.

There are commercial tools to help with this. Parse.ly, for example, tries to analyze which content is getting the most traction. You might also segment key metrics like revenue or percentage of visitors who exit on a particular page by author, topic, or layout.

Visualizing the Media Business

Figure 11-1 represents a user's flow through a media business, along with the key metrics at each stage.

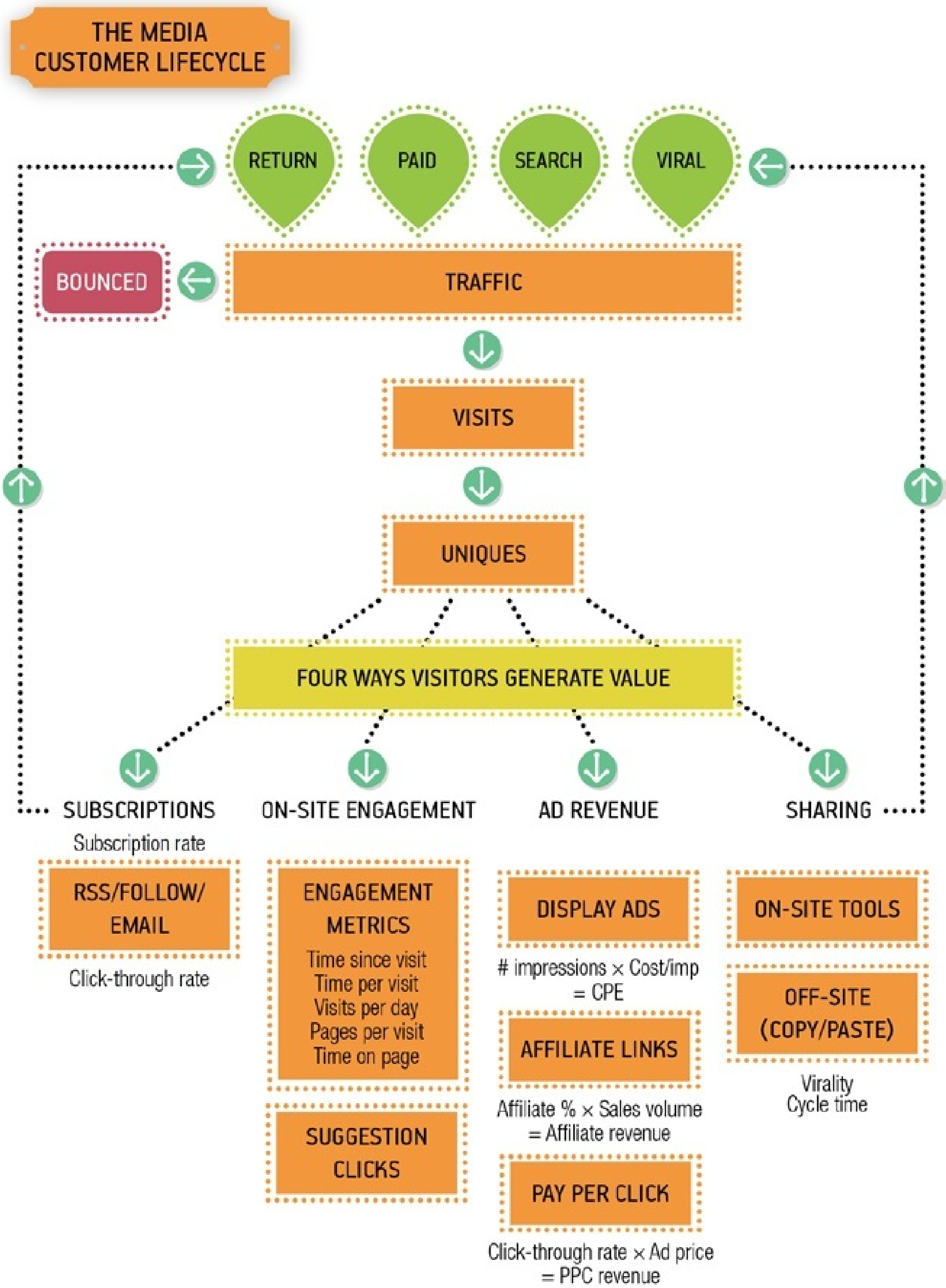

Figure 11-1. Calculating the value of media site customers is complicated

Wrinkles: Hidden Affiliates, Background Noise, Ad Blockers, and Paywalls

The variety of business relationships in online media can make finding the right key performance indicator (KPI) complex. Here are four examples of the kinds of complexity you need to watch out for.

Hidden affiliate models

Pinterest, an online pinboard of images, used to rewrite URLs for pictures of products its users had uploaded using a tool called Skimlinks. But as the site grew, its affiliate revenue quickly outstripped that of other big networks,[40] and it was called out for the practice.[41]

Pinterest was able to monetize traffic quickly with this strategy, and cared not only about how many people contributed content (a user-generated content, or UGC, metric), but also about the likelihood that someone would click on a picture and in turn make a purchase. Affiliate rewriting is a good way to monetize user-generated content without ads—effectively turning everything that's posted into an ad—but complicates business modeling, and can backfire.

Background noise

In one test, blank ads bearing no information had a click-through rate of roughly 0.08%—comparable to that of some paid campaigns.[42] The ads invited those who'd clicked to explain why they did so; respondents were evenly divided between simple curiosity and accidental clicking. If your ads are getting revenues that are hardly better than the background noise a blank ad would get, you need to find out why.

Ad blockers

Technical users sometimes install ad-blocking software in their browsers that blocks ads from known ad-serving companies. This reduces your inventory, and can mess with your analytics. Reddit actually runs some ads containing funny content, mini-games, or messages thanking visitors for not blocking ads.

Paywalls

Unsatisfied with the revenues from online advertising, some media sites run paywalls that charge users to access content. The paywall model runs the spectrum from voluntary donations (usually in the form of a pop up when the visitor first arrives) to fully paid sites where content is accessible only for a recurring fee.

Some media sites adopt a middle ground where visitors can access a quota of articles each month, as shown in Figure 11-2, but must pay to see more than this limit. Such sites are trying to strike a balance between “referred” content (e.g., an article mentioned on Twitter, which might generate ad revenue) and “subscribed” content (where the site is a user’s primary daily news source).

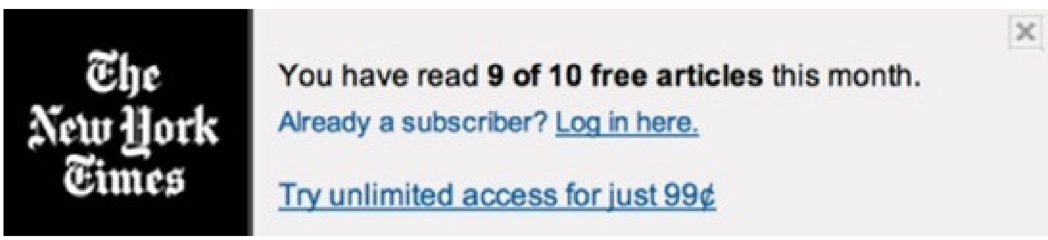

Figure 11-2. The inexorable rise of the paywall

The paywall model complicates analytics because there’s a trade-off between ad and subscription revenue, and because there’s a new e-commerce funnel to measure: trying to convert casual referred visitors into recurring-revenue subscribers.

Key Takeaways

- For media sites, ad revenue is everything—but advertising may include displays, pay-per-view, pay-per-click, and affiliate models, so tracking revenues is complex.
- Media sites need inventory (in the form of visitor eyeballs) and desirability, which comes from content that attracts a demographic advertisers want.
- It’s hard to strike a balance between having good content and enough ads to

pay the bills.

Media sites traditionally generate their own content, in the form of blogging, videos, and reported articles. But more and more of today’s online content is from users themselves. If you want to learn more about the user-generated content business model and the metrics it tracks, continue to Chapter 12. If, on the other hand, you want to get right to the stages of a startup and how they affect your media business, jump to Chapter 14.

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[38] Depending on the merchant, the affiliate may make money from the *entire* purchase, not just the item listed on the affiliate site. If you buy a book on Amazon, and also buy a computer, the affiliate that referred you via the book makes a percentage of the computer sale—which gives Amazon a strong advantage when competing for affiliate ad real estate.

[39] Phillip Dixon presented the results of Shopzilla’s makeover, as well as its initial baseline, at Velocity Santa Clara in 2009. The full video is available at *http://www.youtube.com/watch?v=nKsxy8QJtds*.

[40] *http://www.digitaltrends.com/social-media/pinterest-drives-more-traffic-to-sites-than-100-million-google-users/*

[41] *http://llsocial.com/2012/02/pinterest-modifying-user-submitted-pins/*

[42] A June 2012 study by the Advertising Research Foundation conducted across a half-million ad impressions showed these rates; the rate varied by type of site. See *http://adage.com/article/digital/incredible-click-rate/236233/*.