

EXERCISE: PART 1

The formula for calculating CPM based on CTR and CPC is:
 $CPM = 1000 \times CTR \times CPC$

The formula for calculating CPC based on CTR and CPM is:
 $CPC = CPM / (1000 \times CTR)$

The formula for calculating CTR based on CPM and CPC is:
 $CTR = CPM / (1000 \times CPC)$

Clickthrough=impressions x CTR
 ROI= Revenue - cost/cost

CTR-Click through rate
 CPM – Cost per thousand impressions
 CPC – Cost per click through

Conversion: Expressed in Percentage
 Contribution: Estimated Contribution per sale

Revenue=Impressions x CTR x Conversion rate x Contribution

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									

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?

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?