

Facebook and Instagram analysis of CPC and CTR analysis by region and industry

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Abstract: Knowing the CPCs across industries and regions can be used as a baseline to help brands calculate their advertising budgets. CTR will differ across industries, but it will also differ from region to region. This difference has to be a part of the risk assessment when brands build their advertising campaigns. We see a significant gap in advertising costs between objectives that aim to meet campaign goals at the Conversion level versus Brand Awareness stages. Instagram is growing in numbers and it is becoming increasingly more important among advertisers. Brands that advertise on Instagram tend to focus more on Link Click ads in comparison to Facebook. Presented data are relevant for this matter their main objective is to see how effectively have brands across industries and regions leveraged the platform's advertising features.

Keywords: facebook, instagram, cost per click, click through rate

JEL Classification: M30; M39

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1. Introduction

In the marketing world, pay-per-click, or PPC, is critical to success. PPC is a model of Internet marketing in which the advertiser pays a charge whenever their ad is clicked. PPC advertising offers a cost-effective way to boost an advertisement online while still netting a considerable profit. It also allows your organization's results to appear before competitors and the organic listings. When examining what makes PPC so important, we need to contextualize the marketing world around it. In the past advertising was done through commercials and magazines, but with every passing day, the Internet continues to grow. We now have Google, Bing, and Yahoo!, and advertising online has become one of the most profitable markets in the industry. in the industry.

Implementing PPC into your marketing strategy offers a slew of benefits that emphasize its importance such as: Google AdWords – The most popular PPC advertising system around the globe. It represents 78 percent of US desktop paid search clicks and 95 percent of US smartphone paid search clicks based on a recent report. Due to its influence and reach, Google AdWords is crucial to incorporate PPC into your marketing strategy. Keywords – Google uses keywords to display advertisements for AdWords advertisers that match the search queries of consumers. Utilizing the correct keywords is imperative to success because they allow your business to reach the highest quality audience if implemented correctly, and increase conversions. Cost-Effective – Pay-per-click advertising is a great option for any company who has their campaign managed well. The cost of the fee that a business pays when their ad is clicked is usually significantly cheaper than the amount made on a sale, which allows for low-risk advertising with a high return rate. Negative Keywords – To improve the quality of a PPC campaign, negative keywords are added, which increase the effectiveness of relevancy in searches. Negative keywords also offer the benefit of saving money by streamlining your campaign.

2. Literature review

Cost Per Click (CPC) refers to the actual price you pay for each click in your pay-per-click (PPC) marketing campaigns. A "click" on one of your PPC text ads represents a visit, or an interaction with your company's product or service offering. Every click in a PPC campaign represents attention from a person who is searching for something that you offer. This attention is what you're buying, as an advertiser, so it's important to note two factors (Farris et al 2010):

- What type of attention you're going after, and
- How much you're paying for it.

As an advertiser, your cost per click will always be less than or equal to your maximum bid, as it is an average of bids against a series of competitors over a period of time. Because of how Google's Adwords auction works, your actual cost per click is heavily influenced by both you and your closest competitor's ad rank, maximum bid, and Quality Score. The actual formula for cost per click in AdWords is:

$$\frac{\text{Competitor AdRank}}{\text{Your QualityScore}} + .01 = \text{Actual CPC}$$

Web site publishers can contract with Google to place ads on their site. The ads can contain a combination of text, images or videos. Google decides what type of ads to run on a given site, based on the amount of traffic that it receives, the type of content or subject matter, and the number of advertisers interested in the material. The publisher is paid based on the number of times viewers click the ad; the amount paid per click is that ad's CPC. Advertisers bid how much they are willing to pay for each click, and Google uses complex algorithms to match publishers and advertisers. Sites with the largest number of unique visitors and that incorporate the most valuable keywords receive the highest CPC. The auction for ads is dynamic and continuous, so CPC changes constantly. (Carter 2014)

Click-through rate (CTR) is the ratio of users who click on a specific link to the number of total users who view a page, email, or advertisement. It is commonly used to measure the success of an online advertising campaign for a particular website as well as the effectiveness of email campaigns. Click-through rates for ad campaigns vary

tremendously. The very first online display ad shown for AT&T on the website HotWired in 1994, had a 44% click-through rate. Over time the overall rate users click on webpage banner ads has decreased.

The purpose of click-through rates is to measure the ratio of clicks to impressions of an online ad or email marketing campaign. Generally the higher the CTR the more effective the marketing campaign has been at bringing people to a website.[4] Most commercial websites are designed to elicit some sort of action, whether it be to buy a book, read a news article, watch a music video, or search for a flight. People rarely visit websites with the intention of viewing advertisements, in the same way that few people watch television to view the commercials. (Wassemann 2015) While marketers want to know the reaction of the web visitor, with current technology it is nearly impossible to quantify the emotional reaction to the site and the effect of that site on the firm's brand. However, click-through rate is an easy piece of data to acquire. The click-through rate measures the proportion of visitors who initiated an advertisement that redirected them to another page where they might purchase an item or learn more about a product or service. Forms of interaction with advertisements other than clicking is possible, but rare; "click-through rate" is the most commonly used term to describe the efficacy of an advert. (Stern 2010)

The click-through rate is the number of times a click is made on the advertisement divided by the total impressions (the number of times an advertisement was served):

$$CTR = \frac{\text{Number of click-throughs}}{\text{Number of impressions}} \times 100(\%)$$

The click-through rate of an advertisement is defined as the number of clicks on an ad divided by the number of times the ad is shown (impressions), expressed as a percentage. For example, if a banner ad is delivered 100 times (100 impressions) and receives one click, then the click-through rate for the advertisement would be 1%. Click-through rates for banner ads have decreased over time. When banner ads first started to appear, it was not uncommon to have rates above five percent. They have fallen since then, currently averaging closer to 0.2 or 0.3 percent. In most cases, a 2% click-through rate would be considered very successful, though the exact number is hotly debated and would vary depending on the situation. The average click-through rate of 3% in the 1990s declined to 2.4%–0.4% by 2002. Since advertisers typically pay more for a high click-through rate, getting many click-throughs with few purchases is undesirable to advertisers. Similarly, by selecting an appropriate advertising site with high affinity (e.g., a movie magazine for a movie advertisement), the same banner can achieve a substantially higher CTR. Though personalized ads, unusual formats, and more obtrusive ads typically result in higher click-through rates than standard banner ads, overly intrusive ads are often avoided by viewers. (Carter 2014)

Modern online advertising has moved beyond just using banner ads. Popular search engines allow advertisers to display ads in with the search results triggered by a search user. These ads are usually in text format and may include additional links and information like phone numbers, addresses and specific product pages. This additional information moves away from the poor user experience that can be created from intrusive banner ads and provides useful information to the search user, resulting in higher Click-through rates for this format of pay-per-click Advertising. Having high click-through rate isn't the only goal for an online advertiser who will occasionally develop campaigns to raise awareness and sacrifice click-through rate for the overall gain of valuable traffic. (Suhányi 2015) Search engine advertising has become a significant element of the Web browsing experience. Choosing the right ads for the query and the order in which they are displayed greatly affects the probability that a user will see and click on each ad. This ranking has a strong impact on the revenue the search engine receives from the ads. Further, showing the user an ad that they prefer to click on improves user satisfaction. For these reasons, there is an increasing interest in accurately estimating the click-through rate of ads in a recommender system. (Stern 2010)

3. Data and Methodology

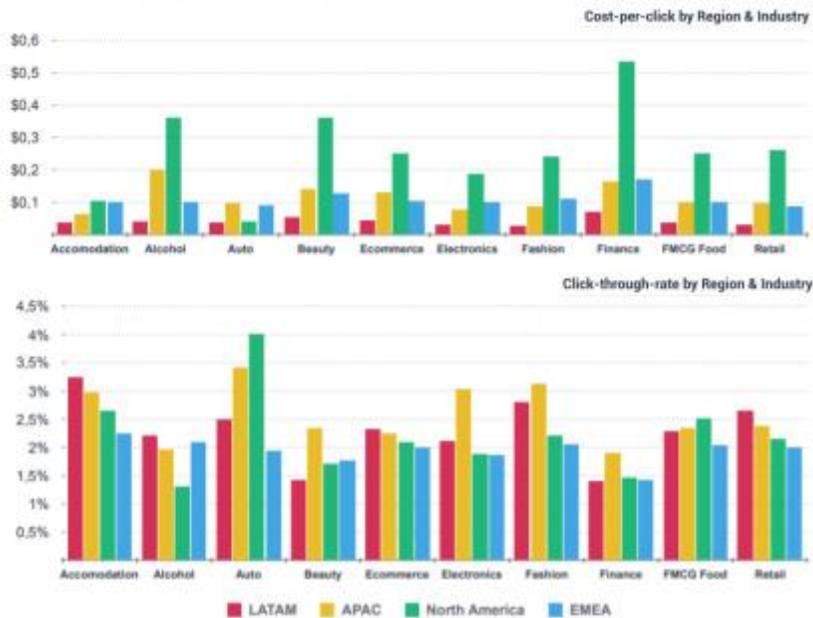
Following analysis presents latest data gathered via channels of social media analyzing company Socialbakers, one of the leaders in this field. Presented data are relevant for this matter their main objective is to see how effectively have brands across industries and regions leveraged the platform's advertising features. Analysis has been performed on 250,000 Facebook & Instagram Ads. We have focused on the Cost-per-click (CPC) metric that determines how

much advertisers can anticipate to spend on their paid social media. Knowing the CPCs across industries and regions can be used as a baseline to help brands calculate their advertising budgets. There are key differences between regions and brands need to take those differences into consideration before launching their campaigns to new audiences. We also focused on the factor of Click-through-rate also by region and industry. Date range of analysis is set from November 2016 till February 2017.

4. Results and discussion

Click-through-rate (CTR) is an indicator of advertising effectiveness. CTR will differ across industries, but it will also differ from region to region. This difference has to be a part of the risk assessment when brands build their advertising campaigns. Higher CTR is strongly correlated with reduced advertising costs, while lower CTR will yield higher costs and worse advertising results. The variable that determines the CTR on Facebook is the Relevance Score - the critical metric marketers have to monitor closely if advertising efficiency is their priority.

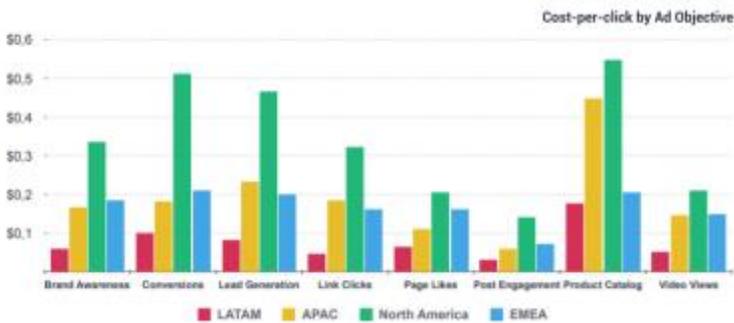
Chart 1. CPC and CTR by region and industry



Source: according to Socialbakers

When looking at Cost-per-click metrics across ad objectives, the difference between the advertising costs will vary from one region to the next and by objectives as well. We see a significant gap in advertising costs between objectives that aim to meet campaign goals at the Conversion level versus Brand Awareness stages. The cost of Post Engagement objective compared to Conversion ad objective in North American is nearly 5 times lower.

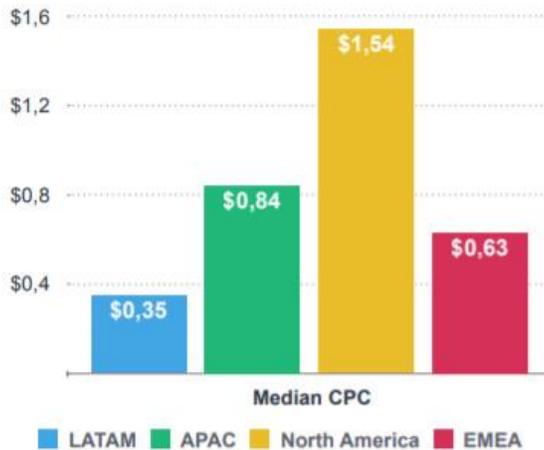
Chart 2. CPC by Ad Objective



Source: according to Socialbakers

Instagram is growing in numbers and it is becoming increasingly more important among advertisers. While Instagram is a part of Facebook, there are key differences between the platforms that marketers have to consider. Instagram is known to be rewarding in terms of engagement and reach organically, but brands should prepare to pay more for their paid social media efforts on the platform. Same applies to advertising costs between regions. The Instagram ads costs in LATAM region compared to North America are 5 times lower. This data can be critical to marketers in deciding which platforms they should advertise on and in what regions they can expect the highest cost efficiency.

Chart 3. CPC by Region on Instagram



Source: according to Socialbakers

5. Conclusions

When aggregated ad objective distribution data, we find that the vast majority of brands focus on the Post Engagement objective to amplify their posts. However, objectives that can generate far more concrete business outcomes such as Lead Generation and Conversions are not leveraged enough across all regions. Brands that advertise on Instagram tend to focus more on Link Click ads in comparison to Facebook. However, according to Socialbakers’ data, most

marketers still advertise primarily to maximize engagement on the platform, despite the high organic performance on Instagram.

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