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Pricing models for native ad inventory

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We have been spending a lot of time with publishers talking about native ads and the one question I am getting asked about over and over again is how to price native ad inventory. When I am referring to "native ads," I am talking broadly about content-based ads versus traditional display ads.

What I have observed is that there is no standard pricing model today, which is expected given how new this ad format is.

Native ads = Creation + distribution
A simple way to break down native ads is to think of them as creation + distribution.

Many publishers are responsible for the creation of native ad content in addition to the distribution of that content on their sites.

For publishers who are involved in the creation of native ad content, they are either charging a separate production cost or baking it into the media spend (i.e. distribution).

Scalable pricing models
The most common model is to charge the advertiser a CPM based on the promotional impressions served not viewed, at least not yet to drive traffic to the native ad content.

The next most common model is to charge a premium CPM for the display inventory that accompanies the native ad content (aka companion display ads).

And, finally, some publishers are charging a CPE (cost per engagement) measured as page views to the native ad content. This one is tricky because page views depend heavily on the quality of the headline and/or thumbnail that appears in the promotional units used to drive traffic to the native ad content.

There are outliers to these models that charge based on time-based sponsorships by the day, week or month. However, I believe these sponsorship models are going to be difficult to scale over time.

Are native ads overpriced?
Yes. Why? Because many publishers are charging based on a time-based sponsorship model and have limited inventory, which leads to an incredibly high effective CPM.

As native ads start to appear as part of the marketing mix alongside display, social, search and video, and appear in RFPs regularly, marketers will demand that pricing moves away from sponsorships to scalable volume-based models.

Additionally, as publishers start to display native ad units on mobile arguably the best shot they have to monetize the incredible amount of mobile inventory more inventory will also become available.

Careful not to over deliver

We are meeting new publishers regularly that are over-delivering promotional units for native ad content and, as a result, de-valuing their inventory in the eyes of marketers.

For example, say a marketer commits a $50,000 budget and the publisher commits 2 million impressions, the marketer is working under the assumption that the value of that inventory is a $25 CPM.

Now, because most publishers are delivering native ads using their CMS and have fixed placements, they do not have control over how many impressions actually get delivered.

Let us say it is a busy news day and the publisher has a story that generates an immense amount of referral traffic and ends up serving 5 million impressions of the promotional unit.

The marketer will see this when they ask for the analytics and realize the effective CPM for the inventory is not $25, but rather $10. The next time the marketer comes to the table, it may only be ready to pay a $10 CPM.

Final advice

In closing, my advice to publishers is to think about scale when developing their pricing model.

Play the story ahead a few chapters, assume there will be a decent amount of inventory and even stronger demand from marketers to use content-based ad formats as part of the overall marketing mix. The new revenue opportunity is exciting.

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