

Handout 5: Pay-per-click Advertising Basics

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If you're ready to make the leap into pay-per-click advertising, you've picked a good time to do it – web advertising has evolved from a fairly crude, shotgun pseudoscience to a refined art form. In fact, web advertising can actually perform more refined targeting of your audience than just about any other mass media (it's gotten so good that the television advertising industry has actually approached Google about working together on technology). If you know what you're doing, web advertising can be an affordable and reasonably reliable way to increase sales. Of course, if you don't know what you're doing, web advertising can be an extremely deep and dark black hole that swallows your money and time, so proceed with caution.

This handout assumes that you have a reason – like the reasons I mentioned above – for starting a serious online advertising campaign. I'm not going to help you evaluate whether you should advertise; that's entirely up to you, and the decision to advertise or not to advertise is something beyond the scope of a technology column. I'm also not going to cover the old-fashioned “buy a space” advertising that many industry-specific sites still sell – that's a straightforward model and doesn't really need much explanation, although some of what we cover here on the analytical side will help you gauge the effectiveness of that type of ad buy as well.

Let's start with preparation. These are the three things you absolutely must do before you embark on any pay-per-click or pay-per-impression program, whether you choose Google, Yahoo!, MSN or any other service. (Google has the largest content network, so I recommend you start there, but you may very well find that the other providers offer something better for you in time.) Let's get to the list:

1. Establish a budget: One of the amazing things about the new advertising model on the web is that it allows you to dip your toe in the water without the risk of getting all wet. You can set up “micro cam-

paigns” and spend just a few dollars per day targeting something very specific (or just intentionally limiting your spending). Nevertheless, you still need to think long and hard about how much money you want to spend.

You may design an elegant equation to determine your budget based on ROI (Return on Investment, see many previous columns) and acquisition cost. You may have a really simple budget based on how much available credit you have on your corporate card this month. Either way, you need to determine how much you want to spend before you begin, because all of the online advertising models are based on budgets.

Again, web advertising can be inexpensive and tempting enough to go at it without a lot of thought about what your outcome should be (we'll discuss that in a minute). You may just want to try it to see if it works, or to see if it raises awareness of your business in certain areas. None of that, however, precludes establishing a budget. Even if you want your budget to be a dollar a day, that's a start, and that's where you can begin when you set up your campaigns. So, whether you have measurable goals or not, figure out what you're willing to lay down on the table initially before you head over to Google or Yahoo! And don't worry, you can always change it later, as often as you want.

2. Figure out your goals: If you really want to be effective, you need both a budget and a goal; in fact, goals can go a long way to determining a budget. As I said above, you can dip your toes into the world of online advertising and just see what it's like without knowing exactly what you want out of it, but ultimately you will want something concrete and measurable to justify your expenditures. You may not always be able to track every result of a web ad (even if you ask everyone who calls you where they found you, they may not remember or want to tell you), so there is certainly a possibility that web advertising can increase your sales without you being able to point specifically to it. But the purpose of a business spending money is typically to make more money, so you'll want to figure out what that means for your advertising effort.

Your goals can be very specific, such as increas-

ing sales in a particular segment of products or in a narrow geographical location; or, they can be very general, such as increasing inquiry volume. I don't recommend setting a goal of simply increasing web traffic unless you really know what your traffic means and how it affects your sales; traffic numbers, as I've covered in many previous columns, can be meaningless or misleading if you don't know how to read them.

You may also establish goals tied to specific promotions or events, or goals to push very specific products or offers (on the web, the more specific the better, as we'll see below). Until you become an expert at web advertising and analysis, I recommend you combine specific goals with fuzzy ranges; that is, you may want to increase the number of inquiries you get for beach balls (specific), but you should probably refrain from specifying the amount of the increase and instead shoot for a substantial range of improvement (fuzzy).

3. Find your uniqueness: Once you start looking at per-click and per-impression pricing, you'll come face to face with perhaps the ugliest reality of web advertising: Common words and phrases are maniacally expensive. Because the advertisers themselves determine pricing in what is essentially a "reverse auction" pricing model, popular words and phrases garner top dollar. For example, the keyword "mesothelioma," a disease caused by asbestos exposure, fetches nearly \$55 per click on Google. Why? Because that's what the law firms are willing to pay for it. Want more? "Mortgage refinance" brings in almost \$40 per click. It goes on and on.

This means that generic terms like "shoes," while not nearly as expensive as diseases and mortgages, can still be impractical phrases for advertising. To advertise effectively in this model, you need to determine unique words and phrases that you believe your audience will use to find products and services. While you may only be able to afford a couple of clicks of "promotional products" per day, "promotional products boise" might be a lot more affordable and practical. If you can narrow down the type of product and service you'd like to push, even better.

Make a big list of what makes you unique, and think creatively about it; it'll save you a huge hassle when you start creating campaigns.

Definitions:

Because online ad buying is a relatively new type of business model, many of the terms may be unfamiliar even if you are intimately acquainted with the nuances of other forms of advertising. Pay-per-click diverges from nearly every other popular form of advertising in that the response to the ad is immediate and built in to the pricing model. Get no responses and you pay nothing; get a lot of responses and you'll pay quite a bit, depending on the value of the clicks. Anyway, let's start exploring the definitions:

Keywords: Keywords are the words or phrases you enter in a search engine when you want to find something. Looking for a good pizza in Chicago? You might enter "Chicago" and "pizza" into the Google (or Yahoo, MSN, Ask.com, etc.) search box. Keywords provide the foundation for pay-per-click advertising (although there are other modes of targeting specific audiences, such as site or content-specific campaigns, which we will discuss separately) because so many people use search engines to find things on the web. If you are a pizzeria in Chicago looking to advertise on the web, the keyword combination of "Chicago pizza" will likely be one of your primary keyword combinations, and a great deal of your budgeting will be based on the cost of that combination.

Pay-per-click: This is the primary and most popular model of internet advertising today. Pay-per-click means what it says: When a user clicks on your ad, you pay a fee. If they don't click on your ad, you pay nothing. The only twist to this model is that if you're not willing to pay enough for the click in the first place, your ad will never get seen.

Cost-per-click: Pay-per-click advertising sounds simple enough, right? Well, it's a little more complicated than that. The cost of a click is actually based on an auction-like formula and is controlled by everyone who wants to buy an ad for a specific keyword or phrase. In a big pizza town like Chicago where a lot of pizzerias may be competing for advertising space, a click on your ad will cost you around 50 cents. On the other hand, buying an ad for the keywords "Duluth" and "pizza" will only cost you half that. Why? Because pizzerias in Chicago are willing to pay twice as much for the ad as the pizzerias in Duluth. That

may be because there are more pizzerias in Chicago or it may be because pizzerias in Chicago or more aggressive advertisers; the root cause really doesn't matter. If you want to advertise your pizzeria in Chicago, you are going to pay more than your friend in Duluth.

Impressions: This term may be familiar to those with some advertising background; an impression is simply the display of an ad in any given context. An impression, then, means your ad was displayed to someone (whether they saw it, of course, is an entirely different matter). In keyword-based advertising, an impression costs you nothing unless someone clicks on the ad. However, if your budget is not high enough to pay for the click that would be generated if the user did decide to click on the ad, your ad will never be shown to anyone, and thus cannot generate any impressions at all.

Click-through Rate: The click-through rate is simply the number of impressions divided by the number of clicks, and is more or less the online equivalent of the traditional advertising response rate. This gives you a somewhat crude gauge of how effective your ad is; if many viewers are seeing your ad but very few are clicking on it, you'll have a very low click-through rate. However, given the number of ads served up every day – especially for competitive keywords and phrases – click-through rates will generally be fairly low as a total percentage, just as traditional response rates on most advertising are most often five percent or less.

Cost-per-impression: As I mentioned earlier, paying by the click when someone searches using keywords is not the only method of buying advertising online. An increasingly popular method of ad buying is targeting the advertising to specific topics, regions, or sites. For instance, instead of buying ads for your pizzeria based on search terms like "Chicago" and "pizza", you may want to buy ads on Chicago city guides, or on weblogs about Chicago food, or on a variety of travel guide sites. A few years ago, you would contact these sites and arrange for advertising buys in a manner similar to purchasing space in a newspaper or magazine. The new online advertis-

ing model pioneered by Google allows you to specify particular areas, types of content or even specific sites, but have Google (or another service) handle all the pricing and buying for you. Best of all, you can put this all together with your other campaigns and see which one works best. When you build a campaign that is site-targeted, your cost will be per thousand impressions (CPM).

Campaign: You can think of a campaign as a traditional advertising campaign, but is essentially a bucket in which you can hold a number of different ads (it's sometimes useful to forget the traditional advertising definition of a campaign, because that typically involves multiple types of media). By putting your ads in this bucket, you're able to control all of them at once; if you need to pause the all the ads, change the overall budget, or change the schedule, this gives the ability to do it all at once.

Ad Group: An ad group is the basic unit of online advertising; it may contain a series of keyword groups (e.g. "Chicago pizza," "Chicago restaurant," "Chicago pizza restaurant," all of which have their own cost-per-click) or a group of sites for a content-targeted advertisement. The ad group also contains the ad itself and all its variations – if you want to try different versions of your ad to see which one will be most effective, this is where you enter them. Google will even test your different variations for you and automatically choose the most effective one.