

POV: Google's Change to its Premium Ad Placement Promotion Formula

insight

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Introduction

Google announced a change to its auction-based PPC (pay-per-click) model that will affect the placement of ads in "premium positions," i.e., listings that appear above organic results, rather than alongside them. Google explains the change as follows:

"In the current top ad placement formula, we consider your Quality Score and your actual CPC, which is determined in part by the bids of advertisers below you. Even if you have a high quality ad, if advertisers below you are not bidding very much, your actual CPC may not be high enough to qualify your ad to appear in a top position.

With this new formula, instead of considering your actual CPC, we'll consider your maximum CPC bid, which you control. This means that your ad's eligibility to be promoted is no longer dependent on the bids of advertisers below you. Therefore, if you have a high quality ad, you now have more control to achieve a top position by increasing your maximum CPC.

Your actual CPC will continue to be determined by the auction, but subject to a minimum price for top spots. The minimum price is based on the quality of your ad and is the minimum amount required for your ad to achieve top placement above Google search results. As always, the higher your ad's quality, the less you will pay. And you will never be charged more than your maximum CPC bid."

Razorfish's View of the Formula Change

By making competition an eligibility requirement, the old promotion formula limited Google's ability to monetize its inventory. Without this requirement, advertisers who bid on many keywords other advertisers don't bother with (such as eBay), will probably see more promotion and more clicks. The simultaneous introduction of a "minimum price" for promotion is meant to signal that Google has no intention of sacrificing quality for clicks. Since price, in Google, is always a function of relative quality, the new threshold ensures that where there is not strong competition, there is still a bar to clear on the way to promotion. Google will determine if each ad is valuable enough to merit promotion – as it always has. Minimum pricing just means Google no longer needs a tight landscape to make this determination.

Potential Impacts on Advertisers

The CPC pricing change from actual- to maximum-CPC effectively allows advertisers to bid into positions that were previously unavailable to them, if they are willing to pay higher CPCs for increased click volume.

This change is likely to impact advertisers who are buying keywords matching to queries where competitive presence is either limited or non-existent, since a non-competitive marketplace is likely to be the only area where CPCs are not high enough to promote advertisers into the premium positions. Thus, the brunt of the change's impact is likely to be felt by smaller, niche advertisers, as well as advertisers focused heavily on brand advertising; however, Razorfish clients could potentially see effects

on two areas of their campaigns: 1. Ads served against brand queries, and 2. Ads served against non-branded queries with reduced competitive presence (i.e., tail queries).

1. Ads placed against brand queries

If an advertiser is the only (or one of few) bidders on its keywords, Google may not promote its first position ad to premium placement. This may happen if an advertiser's paid listing cannot compete with its organic search listing, which often has a quality advantage through features like quick links and longer copy. Google's auction change will allow advertisers to buy premium paid listing placement on brand queries if they could not achieve promotion through increasing the quality of its ads. This would result in higher brand CPCs and also more brand volume through paid search. Advertisers who do not want to be promoted above their organic search result can monitor and manage maximum bids to ensure they do not surpass the new minimum bid to be served to top positions. If an advertiser chooses not to bid to a promoted placement, and an affiliate does so . . .

2. Ads Placed against non-brand tail queries

Ads matched to high-volume queries for advertisers with large search marketing campaigns tend to have highly competitive bidding environments, and thus are not likely to be affected by this change. However, there may be areas, depending on the keyword list and use of match types for an advertiser and its competitive set, where only a few competitors are present on unbranded queries. The effect and approach will be similar to that for branded terms—advertisers can increase maximum CPC bids to capture premium positions, for a tradeoff of higher CPCs at more volume.

Recommendations

Razorfish sees this change as an opportunity, rather than a threat, for search engine marketers. Razorfish, like Google, stands by the best practice of improving ad quality (and thereby, user experience) as the primary avenue through which clients should seek ad placement promotion, premium or otherwise. Based on a client's stated objectives, bidding into premium positions to capture extra volume may be an advantageous strategy.

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About Razorfish™

Razorfish is one of the largest interactive marketing and technology companies in the world, and also one of the largest buyers of digital advertising space. With a demonstrated commitment to innovation, Razorfish counsels its clients on how to leverage digital channels such as the Web, mobile devices, in-store technologies and other emerging media to engage people, build brand loyalty and provide excellent customer service. The company is increasingly advising marketers on Social Influence Marketing™, its approach for employing social media and social influencers to achieve the marketing and business needs of an organization. Its award-winning client teams provide solutions through their strategic counsel, digital advertising and content creation, media buying, analytics, technology and user experience. Razorfish has offices in markets across the United States, and in Australia, China, France, Germany, Japan and the United Kingdom. Clients--many of them served in multiple markets--include Carnival Cruise Lines, Coors Brewing Company, Levi's, McDonald's and Starwood Hotels. Visit <http://www.razorfish.com> for more information.

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