

ROI-Based Campaign Management: Optimization Beyond Bidding

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Executive Summary

The major search engines get paid only when an ad is clicked. Their revenue is the product of the number of clicks times the value of each click. As a result, each has developed sophisticated mechanisms to promote the ads with higher click-through rates and demote the ads with lower click-through rates – even with equal bids from advertisers. Google and Bing call this adjustment the “Quality Score;” on Yahoo! is called “Quality Index.” Whatever the name, the higher score an advertiser has, the higher they will be shown for a given bid in the search results.

As commercial online activity increases from both businesses and consumers, and more marketers realize the value of a robust search engine presence, search marketing competition and keyword prices will grow. In total, spending on paid placements increased from \$10.6B in 2007 to \$11.9B in 2008 and it is expected to more than double over the next 5 yearsⁱ.

To stand out amongst the competition, marketers need to consider techniques beyond bid management

As more competitive advertisers enter the paid search marketplace and search engines increasingly focus on “quality” to promote highly targeted and highly clicked ads, advertisers need to adjust their strategy. To stand out amongst the competition, marketers need to consider techniques beyond bid management to gain a competitive advantage and drive ROI. A holistic approach to campaign management focused on keyword relevance and ad quality is required to increase Quality Scores and maximize search marketing revenue and profit.

The best practices of this new approach to campaign management include:

1. Intelligently building and refining a highly relevant and targeted keyword set
2. Restructuring campaigns and ad groups to improve ad targeting and relevance
3. Accurate measurement of ad copy performance and continuous ad tuning and testing

Advertisers that follow these best practices to create highly relevant search programs will be handsomely rewarded with increased traffic, lower average cost-per-click, and a higher total return on investment.

ⁱ The Search Engine Marketing Professional Organization, State of Search Engine Marketing 2007, 2008

Challenges and Opportunities

Increased search engine focus on ad *relevance* promotes Quality Score to a First Class Citizen.

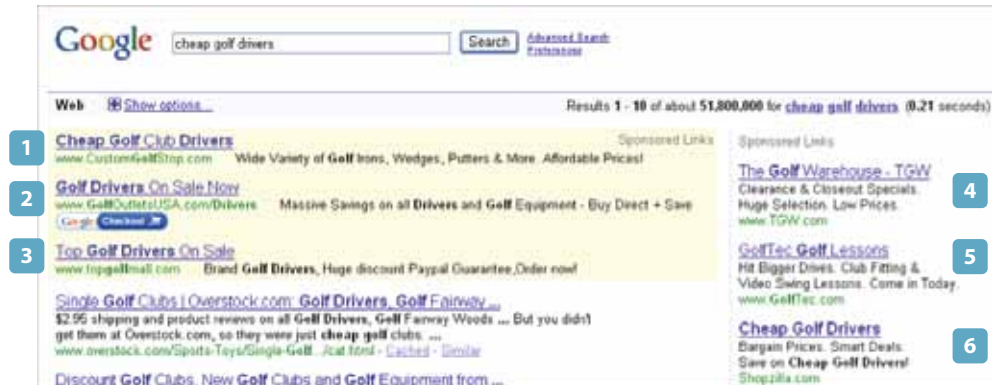
Search engines are in the business of serving the *most* highly relevant and high quality listings to search users. Why? Not only does this maximize the user experience and keep searchers coming back for more, it also increases the likelihood that *ads* are clicked on, which is how search engines make money. Ahead of observing actual click-through rates over time, engines can anticipate click-through rates through correlating the user's query, the advertiser keyword, and the ad copy. Quality Score is a measure of this relevance. Each search engine calculates Quality Score differently, but the main factors include:

- Relevance of the advertiser keyword to the search query
- Relevance of the advertiser keyword to the ad copy
- Relevance of the query and keyword to the copy on the landing page
- Historical click-through rate of the keyword and matched ad
- Overall and recent click performance of the advertiser account

For example, ads where keywords are closely related to the ad copy, or in the copy itself, will be seen as relevant, high quality placements. Ads that deliver visitors to a page specific to the query, rather than a generic home page, for example, are also a sign of quality. Of course, a major measure of quality is whether searchers actually click the ad when it is presented. These are all elements of the quality evaluation that advertisers have a measure of control over.

Quality Score is important because high quality keywords and ads are given preferential treatment in search auctions. Gone are the days where the advertiser bid was the primary determinant of ad position. Today, engines calculate bid and Quality Score together to determine the final ad positions and each advertiser's cost-per-click. In fact, these calculations are now done in real time, in the fraction of a second it takes to deliver the search results.

Search Results Example



Ad Position	Match Query to Advertiser KW	Advertiser Bid	Quality Score	Calculated Rank	Actual CPC
1	Cheap golf drivers	4.25	8	34	\$4.13
2	Golf drivers	6.60	5	33	\$6.30
3	Golf	4.50	7	31.5	\$3.57
4	Golf	5.00	5	25	\$4.80
5	Cheap golf drivers	4.00	6	24	\$3.67
6	Cheap golf	5.50	4	22	\$5.25

Example: With a Quality Score of 8 and a bid of \$4.25, Golf.biz has achieved the highest calculated rank and thus the top ad position for the term “cheap golf drivers”. PowPow Sports has secured the 2nd ad position. However, with a Quality Score of only 5, PowPow Sports has bought its way into the 2nd ad position with a bid of \$6.60. Should PowPow Sports want additional traffic, they could either raise their bid to over \$6.80 to gain the top ad position – almost **\$3 per click more** than its competitors – or they can improve their Quality Score for this keyword.

An improvement to a Quality Score of 6 would take over the top ad position while actually **decreasing** PowPow’s cost per click to \$5.67. Earning a 7 would drop the cost per click to \$4.86. Many advertisers can gain more click volume, with significantly better ROI, by focusing on improving *Quality*.

$$\text{Actual CPC}_A = (\text{Bid}_B * \text{QS}_B) / \text{QS}_A$$

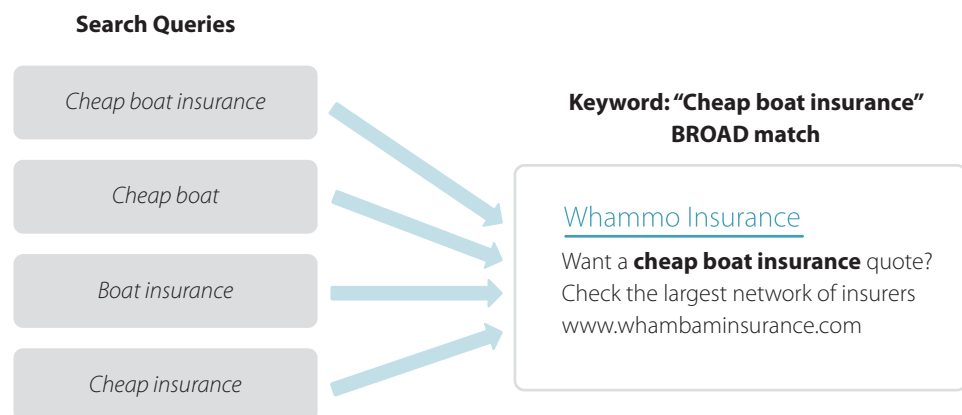
Increasing your Quality Score by 20% has the same impact as increasing your bid 20%.

Ads need to be better targeted to improve quality and reduce unwanted clicks

As engines continue to reward highly relevant ads and advertisers, ROI-centric search marketers need to learn campaign management best practices to target search queries with relevant ads and reduce untargeted clicks to dial up Quality Scores.

This framework illustrates how user queries, advertiser keywords, and ads are connected – and the levers marketers can use to *tighten these connections*.

1. Marketers target the queries their ads appear on by choosing keywords, match types, negative keywords, and other targeting parameters such as geography.
2. Keywords are correlated to ads through the advertiser's ad group structure – the keyword groupings the advertiser deems relevant to the ads in that ad group. Dynamic Keyword Insertion is a search engine tool which can increase the alignment between advertiser keywords and ads.
3. Ads are connected to queries through the ad portfolio – ad revenue performance should be tracked closely and ads continually fine tuned and new ads tested.



Example: Whammo Insurance is a lead generation company matching insurance seekers to brokers. Whammo currently shows up on the term "cheap boat insurance" and uses broad match to catch similar terms. However, advertising on "cheap boat insurance" with broad match will result in the same ad showing on a range of poorly targeted queries such as "cheap boat", "boat insurance", and "cheap insurance". Though broad terms and broad match types are easy ways to gain click volume, these are not necessarily profitable clicks, since untargeted clicks do not convert well, eat up budget that could be better deployed

elsewhere, and bring down ROI. Broad keywords and broad match types also harm Quality Scores, since appearing on a large set of phrases with generic ad copy usually results in lower click-through rates than terms managed separately. The resulting lower Quality Score can impact both *this* term and the entire account.

Creating highly targeted, more granular search campaigns and ad groups to increase Quality Score allows marketers to drive higher returns without increasing spend. Reducing unwanted clicks not only directly saves you money by improving the click-through rate and conversion rate of existing keywords it also improves your Quality Scores, ad rankings and CPCs, at the campaign *and* account levels.

Getting the Right Data to Maximize ROI

Taking the actions necessary to take to improve Quality Score requires marketers to have all of the *right data*, integrated together in one place where actions can be taken on it. Search engines are the first stop for campaign data, however the insight these engines can provide you to improve Quality Scores is not complete. Some of what is missing includes:

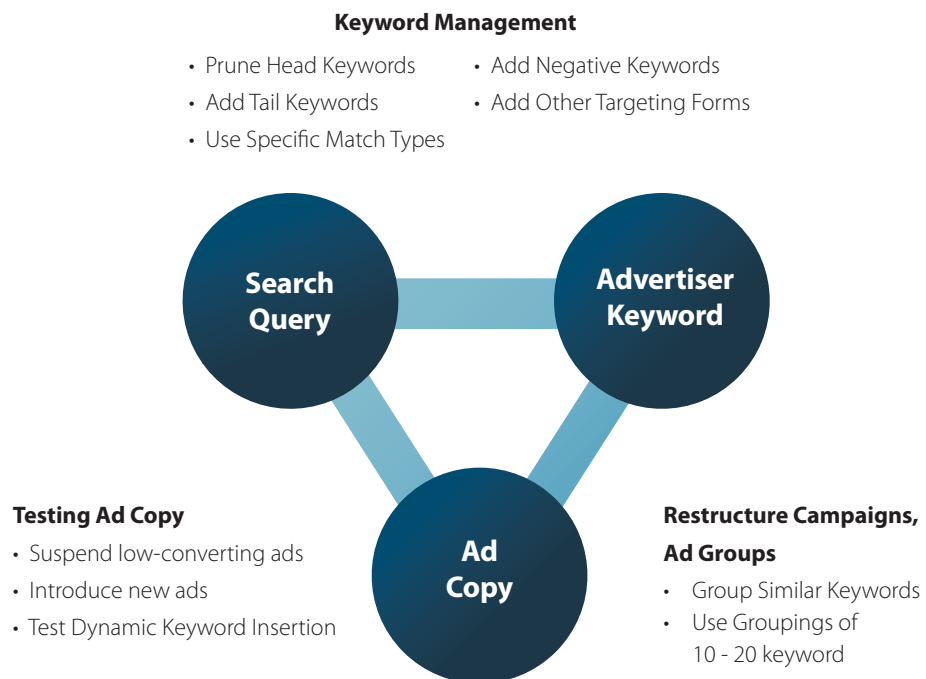
- Keyword and match type level conversion rates and profit.
- Ad level conversion rates: so that ads that *are converting, not just getting clicked*, are shown.
- Keyword-Ad combinations and quality ratings, to put a finger on whether keywords or ads should be suspended, changed or moved to other ad groups.
- New keywords which should be added to campaigns, ideally “intelligent” keyword suggestions that factor in your existing keyword set and negative keyword list.

Quality Score Management Best Practices

Given the importance of Quality Score, how does a marketer improve it? We recommend you incorporate these three disciplines into your regular processes to make substantial gains in Quality Scores and ROI.

- **Keyword Management** – Increase keyword targeting by shifting traffic from broad keywords to more specific keywords and by mining the tail of user queries for relevant new phrases.
- **Ad Group Structure** – Improve ad relevance and Quality Scores by grouping similar keywords into ad groups with highly relevant ads, and moving low performing keywords to new ad groups.
- **Creative Testing and Tuning** – Don't rely on search engine A/B testing to optimize ads based on their click-through rate; track ad conversion rate and profit performance, and 'push' incumbent ads by continually introducing new ads to the ad rotation.

The remainder of this paper describes these campaign best practices in more detail.



Use Keyword Management to Create a Virtuous ROI Cycle

Thousands of dollars per month can be saved and re-allocated to better uses by following a few best practices around keyword targeting. Maximizing a budget in a Quality Score world requires search marketers to be more selective and targeted with the search phrases in their keyword portfolio. This includes tracking keyword performance, pruning mis-targeted keywords with more specific match types and negative keywords, and finding new raw search queries to ensure your ads show on every possible search that provides a good ROI, but none that don't.

Focus on high spend keywords first. Is the traffic they are generating relevant? Are the clicks converting? For keywords set to Broad Match or Phrase Match, determine the queries your keywords are being matched to by viewing your raw search query reports. By shifting from Broad Match types to Exact

Match and adding relevant raw queries, you gain control over the types of queries your keywords are being matched to and can manage conversion rates with more precision. In fact, the more specific the query, the more targeted your ad and bid can become.

Making your keyword portfolio more precise allows you to better target specific audiences with specific messages, landing pages and bid strategies. In addition to using more precise match types, review your raw search query report for new negative keywords to remove your ads from irrelevant searches. High volume keywords can also be copied to different geographic regions to manage these keywords' ads and bids separately.

case study

One retail marketer had severely negative margins on a small handful of generic head terms. This small set of keywords was costing the marketer \$15k/month. With the help of Marin, the marketer discovered that exact-matched keywords had click-through rates 5 times better than broad-matched keywords, and conversion rates 3-4 times higher. By introducing new exact match keywords and new negatives keywords to reduce wasted clicks, the marketer expects to save \$100k/year.

Example: Before

Raw Search Query	Advertiser KW	Match Type	Bid
Steel Guitar	Steel Guitar	Broad	\$2.00
Used Steel Guitar			
Steel Guitar Strings			
Steel Guitar Songs			
Steel Guitar Repair			
Steel Guitar Lessons			

PowPow Music has the term “Steel Guitar” set to Broad Match as a catch-all term for all searches related to steel guitars. This means that the same ad and the same bid apply whether the searcher is interested in a high margin guitar, a low margin pack of guitar strings, or services PowPow doesn’t even provide (songs, repairs, and lessons).

As such, all of the most important Key Performance Indicators, such as CTR, conversion rate, and Avg Position, are averaged across a wide range of queries, making the information much less useful for optimizing the account. In addition, the ad must remain very generic to serve such a wide range of needs, making ads less compelling than competitor ads, which harms not only PowPow’s CTR and lead volume, but their Quality Score, ad positions and ROI.

What this advertiser *should* do is:

- Make the match types for particularly high volume keywords more precise.
- Add relevant user queries as new individual keywords to new or existing ad groups.
- Make ads and landing pages highly specific to the keywords.
- Add Negative Keywords to the campaign, such as “Songs”, “Repair”, and “Lessons”.
- Change bids to reflect the new ROI of each keyword.

Example: After

User Query	Advertiser KW	Match Type	Bid
Steel Guitar	Steel Guitar	Exact	\$1.00
Steel Guitar Used Steel Guitars for Sale Used Steel Guitar Accessories	Used Steel Guitar	Phrase	\$10.00
Steel Guitar Strings Steel Guitar Strings Tuning Blue Steel Guitar Strings	Steel Guitar Strings	Phrase	\$.50

User Query	Negative KW
Steel Guitar Songs	Songs
Steel Guitar Repair	Repair
Steel Guitar Lessons	Lessons
Steel Guitar Strings Tuning	Tuning

Raw search queries tell you what you're matching against, but what about queries you're not matching against? This is the traffic you're NOT getting today and is potentially a missed opportunity for additional traffic. The world is always changing and so are the many ways internet users navigate the Internet. As of 2006, the average Google search already included 3 or more terms in the query. These tail terms can provide great value for search marketers because they represent highly targeted, highly relevant queries with few competitors and low prices.

You can identify long tail user queries which should be added to your campaign by searching your raw search query reports, product catalogue, website pages, SEO reports, internal site search queries, or by using 3rd party keyword expansion tools.

Note: Most third party tools will make un-"intelligent" keyword suggestions that do not check whether these keywords are already in your campaign, or worse, your negative keyword list. Create a process or use a tool that de-dupes suggestions against existing keywords and negatives. This will save time and prevent counter-productive keyword suggestions.

Structure Campaigns to Increase Ad Relevance to Keywords

Having the right terms in your account is only part of the Quality Score equation. It is just as important to group like keywords together in small groupings so that your ads are very relevant to each keyword. There is no one right number, but a good rule of thumb is fewer than 10 keywords per ad group, where possible, and no more than 50 per ad group. Having too many keywords in an ad group increases the likelihood of poor relevancy, and can bring down the Quality Score for keywords, the entire ad group, and your entire account.

Move keywords with low Quality Score into their own ad group and create new ads more relevant to those keywords. A good rule of thumb is to check if the keywords or parts of the keywords are contained IN the ad itself. More targeted ads not only improve CTR (and Quality Score), but also an ad's conversion rate, because searchers are already aware of the advertiser's specific value proposition and offer before they decide whether to click the ad or not.

Before

User Query	Advertiser Keyword	Match Type	Ad	CTR	Quality Score	Bid	Avg Position	Conv Rate	\$ Rev / Click
Steel Guitar Used Steel Guitar Steel Guitar Strings Steel Guitar Songs Steel Guitar Repair Steel Guitar Lessons	Steel Guitar	Broad	Steel Guitar Great selection of steel guitars and accessories, at the lowest prices www.powpowmusic.com	1%	4	\$2.00	6	1%	\$2.10

After

User Query	Advertiser Keyword	Match Type	Ad	CTR	Quality Score	Bid	Avg Position	Conv Rate	\$ Rev / Click
Ad Group 1									
Steel Guitar Steel Guitar Accessories Guitar Accessories	Steel Guitar	Exact	Steel Guitar Great selection of steel guitars and accessories, at the lowest prices www.powpowmusic.com/steelguitars	2%	6	\$10.00	4	2%	\$20.00
Ad Group 2									
Used Steel Guitar Used Steel Guitars for Sale Used Steel Guitar Accessories Good Used Steel Guitars Great Guitars	Used Steel Guitar	Phrase	New and Used Steel Guitars Great selection of affordable steel guitars and accessories. For Sale Now! www.powpowmusic.com/steelguitars	2.5%	7	\$14.00	3	2%	\$24.00
Ad Group 3									
Steel Guitar Strings Guitar Strings Steel Guitar Strings Tuning Blue Steel Guitar Strings	Steel Guitar Strings	Phrase	New and Used Steel Guitars Great selection of affordable steel guitars and accessories. For Sale Now! www.powpowmusic.com/steelguitars	3%	8	\$.50	3	3%	\$2.00

Tracking keyword Quality Scores, re-grouping keywords, and creating new ad group ads can be done in Excel, however the process can get unwieldy, especially when you layer in creating new tracking URLs to ensure proper revenue attribution. There are tools that can help with bulk campaign edits, URLs, and even give you increased insight into keyword-creative relevance scores, making it easy to identify whether the problem lies with a keyword's relevance to the ad(s), or whether the ads are not performing for any of the keywords, so that you can then move or delete keywords and edit or delete ads.

Always be Ad Testing – to Maximize Conversions Not Clicks

Once you have created an optimal campaign structure with a good set of small keyword groupings, you are set up to create relevant, differentiated and compelling ads. Remember, the ad is your face for the business to the customer. These tips highlight what you can do to get them clicking.

With small groups of like keywords, it is easy to place high volume keywords into the ad itself. Using search engines' Dynamic Keyword Insertion feature (DKI), which inserts the bid keyword into the ad title and/or description with bolded text, marketers will often realize gains in CTR. When done right, DKI can improve CTR and Quality Scores relative to comparable static ads because the dynamically created ad is more specific to the query, and the bolding brings attention to this relevance.

It is good practice to ensure you have multiple ads in every keyword group and that you let ad performance, not intuition, determine which ads remain in the ad rotation, and which are suspended or edited. While search engines help track the

performance of your ads, it is important to note that search engine A/B testing is not optimal. Search engines optimize ads for click-through rate, maximizing the number of clicks (and spend!), not conversions or profit per impression, which is better tied to advertiser ROI. Therefore, search engines may be giving ad impressions to highly clicked ads that aren't converting!

case study

One advertiser realized that its non-brand DKI ads had a CTR 2-3 times that of static ads, even with average positions 1.5 positions lower than static ads. All things being equal, ads with **lower** position have lower CTRs, so this was a major finding. Applying DKI across a bigger set of non-brand terms, the advertiser forecasted \$500k/year in additional revenue.

Test different combinations of these variants:

- Different calls to action.
- Different competitive value propositions.
- Different offers, such as a Discount %, \$ Off, Free shipping, Free gift, or 0% interest.
- Create a set of headlines and a set of creatives and test how different combinations work together.

Track the profit performance of ads by evaluating the ad conversion rate and revenue per impression, which keywords converted for the ad or even what products or actions were taken for those keywords/ads. Delete or edit ads that show less revenue or profit per impression than others in the group, or move these ads to an ad group containing keywords or products that tend to convert well for the ad.

Ad Group

User Query	Advertiser Keyword	Match Type	Ad	CTR	Conv Rate	\$ Rev / Imp
Used Steel Guitar Used Steel Guitars for Sale Used Steel Guitar Accessories Good Used Steel Guitars Great Guitars	Used Steel Guitar	Phrase	New and Used Steel Guitars Great selection of affordable steel guitars and accessories. Fall Sale on Now! www.powpowmusic.com/sales	2.5%	0%	\$ 0.00
			Always Low Steel Guitar Prices Great selection of steel guitars and parts. Sign up for our Exclusive Deals Emails! www.powpowmusic.com/steelguitars	1%	3%	\$ 0.24
			Always Low {KEYWORD} Prices Great selection of {KEYWORD}, at always low prices. www.powpowmusic.com/{KEYWORD}	3%	1%	\$ 0.15

Ad 1

[New and Used Steel Guitars](#)
Great selection of affordable steel guitars and accessories. Fall Sale on Now!
www.powpowmusic.com/sale

Ad 2

[Always Low Steel Guitar Prices](#)
Great selection of steel guitars and parts. Sign up for Exclusive Deals Emails!
www.powpowmusic.com/steelguitars

Ad 3

[Always Low {KEYWORD} Prices](#)
Great selection of {KEYWORD}, at always low prices.
www.powpowmusic.com/{KEYWORD}

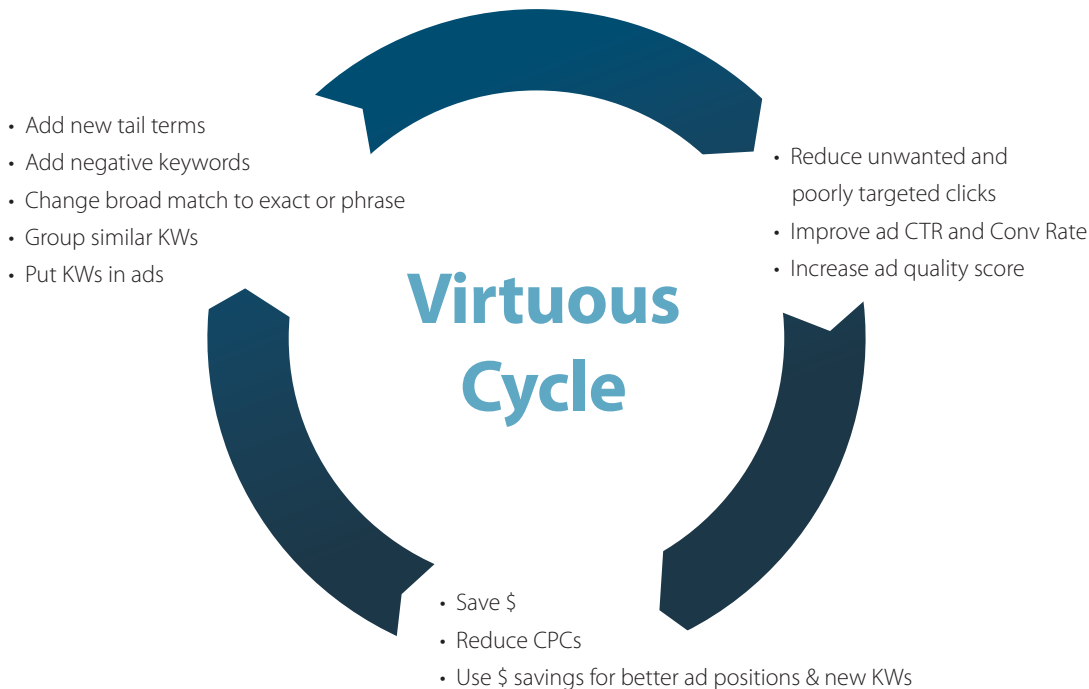
In this example, search engine A/B testing will identify Ad 1 and Ad 3 as the best performing ads because of their click-through rate, and will display these ads more frequently than the others, even though Ad 1 doesn't convert at all and Ad 3 converts at 1%. Meanwhile, Ad 2 has a relatively low CTR but converts well and at a high revenue per impression. Ad 1 and 3 may be very compelling but the landing page or actual website offer may not match searcher expectations. Ad 2 might be more targeted so that fewer people find this offer compelling, but those that do convert very well.

Since Ad 1 is not converting, the advertiser should suspending it or edit it to try new offers or value propositions. Ad 2 may perform very well for select keywords or other targeting parameters, and if so, this ad should get its own ad group or elements of this ad re-used in another form. If nothing is done, it will lose impressions despite its top Revenue/Impression performance. The marketer might consider adding other DKI ads to see if other formats of ads perform as well or better than Ad 3.

Continuous and regular tracking and management of ad Quality Scores and profit performance without a tool can be unwieldy and many organizations simply avoid this level of optimization – at their own expense. The engines want to show the ads that will get clicked the most; you want to show the ads that create the most profit. Incorporating a process or tool to track and manage ad profitability can inform marketers which ads are destroying the competition, which are wasting ad opportunities, and narrow down the actions you can take to improve ad relevance, click-through rate and conversions.

Conclusion

As search engines increase their focus on driving paid clicks and revenues, the trend toward measuring and rewarding advertisers on the basis of ad quality will continue to accelerate. Smart marketers can profit from this trend, and gain both a sizeable and lasting advantage over competition in the auction for keywords.



By focusing on creating tightly integrated and relevant keywords, ad groupings, and copy, marketers can drive higher click through rates. Higher click through rates result in higher Quality Scores, which in turn allows the marketer to pay less than competitors for similar or better ad positions. It is a Virtuous Cycle because high quality marketers can gain an ROI advantage that allows them to shift spending to generate even higher ROI.

- Reduce unwanted clicks by eliminating queries you do not want your ads matched against.
- Reduce CPCs and improve ad positions by improving the relevancy, CTR and Quality Score of the queries that your ads are matched against.
- Money saved from removing bad clicks and improving ROI can be poured into keywords in lower positions and into new terms, which should yield yet more quality clicks and sales.

The first step in improving ROI and Quality is intelligently pruning traffic from high volume keywords using match types and negative keywords. The second is mining search queries and keyword generation resources for new highly relevant and low cost keywords. Keywords should be grouped in small groups with a consistent theme. This ensures the ad copy for these keywords are highly relevant and any keywords that don't perform are moved out or deleted. Finally, ad copy should be regularly evaluated at the revenue/profit/conversion rate level to remove creative with low ROI, and continually improve upon high performing creative.

The most powerful aspect of ROI-driven campaign management is that dramatic results can be achieved without increasing spend on search engine marketing. Rather, investments in time are required to maximize the relevance of keywords and creative to the user experience. Marketers looking to optimize for Quality Score should consider leveraging tools that automate or accelerate keyword research, ad group optimization, and ad copy testing. These tools should be integrated with revenue capture and analytics systems to ensure proper measurement of results. By taking a comprehensive, data driven approach to campaign management, marketers can increase ROI and outpace the competition in the market for search advertising.

About Marin Software

Marin Software provides an enterprise-class paid search management application for advertisers and agencies. Marin Search Marketer®, designed for those spending at least \$100,000 monthly on paid search, addresses the workflow, analysis, and optimization needs of large-scale advertisers and agencies, saving time and improving financial performance. Over 150 companies, including many of the world's largest interactive agencies and advertisers, use Marin Search Marketer to manage more than \$600 million of annual paid search spend.

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