Advertising through PPC: Make cost-per-click and conversion rates work for you

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{pp}Businesses in all sectors are feeling the pinch of the current recession, and very often the first thing to the get chop is the marketing budget. Many companies are wising up to the opportunities available online – and this has been reflected by a marked increase in online ad spend year on year.

According to statistics released by the Online Publishers Association (OPA) on 1 June, online readership grew with more than 25% from 2008 to 2009, increasing from 4.8 million to over 6 million users. While the online and search marketing industry is not recession proof, it does appear to be recession resistant. It is well-known that online media offer more benefits than traditional media, including cost-effectiveness and measurability. According to the OPA there is another reason: brands are finally catching on to changing consumer behaviour where consumers are increasingly utilising online media, and brands are starting to follow their consumers there.

Clearly traditional advertising’s loss is online’s gain. Spending in search marketing is growing and savvy businesses and marketers need to become far smarter about the way they implement their marketing mix. Search engine optimisation clearly remains a staple, while Search Pay per Click (PPC) strategies need to be refreshed, revised and optimised for maximum ROI.

In competitive industries where PPC advertising is becoming increasingly costly, it becomes all the more important to increase your conversions as the cost per click (CPC) rises. Specifically within certain verticals (such as competitive industries like travel and insurance), the current CPC may not support current conversion rates.

To put this into context, let’s use a simple example to illustrate. A retailer sells cellphone covers at R100.00 each. Assuming his profit margin is 25%, he is making R25.00 off each sale. Let’s assume he has an average conversion rate of 2% (which is not untypical, albeit low) – this means that for every 100 people visiting his site two people purchase this product. So for every 100 visitors the retailer is earning an average of R50.00 in profit.

Now, dividing the profit by the number of visitors we can calculate that the bid to break even will be R0.50 per click. Therefore the average CPC of this retailer should be under R0.50. We can also invert this and consider the cost per acquisition (CPA) which is calculated by multiplying the CPC by the number of visitors (R0.50 by 100 = R50), and then dividing the cost of the campaign by the number of actual sales (2). So in this case the CPA is R25.00. Logically, this CPA would lower if the conversion rate was to increase. He’s just breaking even with this CPC and conversion rate. Now if the conversion rate were to double to 4% - this retailer would be making a profit. At a conversion rate of 8% the retailer would be far more profitable, and therefore better able to remain competitive.

Of course there are other considerations – for example what the current maximum CPC is to gain a top position in the results. You may well find that at only R0.50 per click on a very broad keyword like “cellphone covers”, this advertiser doesn’t stand a chance of ranking among the top positioned ads. Naturally, one should try to select more niche, less contested terms.

A question that gets asked commonly is what are good click-through rates (CTR) and what are good conversion rates? It is very hard to say as the answer to this question hinges largely on the industry and product being advertised. David Szetela on Search Engine Watch says that it’s safe to make the following two generalisations:

1. CTR will always be higher for products and services for which there is already a strong demand. Conversely CTRs will be lower for products that are more obscure or less well-known.
2. Conversion rates will always be higher for “soft” offers than “hard” offers. So for example an ad offering free MP3 downloads will convert more frequently than an advert for high-priced goods or services.

Szetela give a couple of projections about conversion rates saying, “A good conversion rate for a hard offer would be a minimum of 2%. For B2C eCommerce sales, it shouldn't be difficult to achieve above 5%. And for softer offers -- low-priced products, free trial software downloads, etc. – 10 to 20 % conversion rates, and even higher, are definitely achievable.”

How do you actually increase conversion rates? By optimising your campaign. Fine tuning and tweaking ad copy, keywords and keyword bids and of course your landing page. All of these factors are essential in ensuring a successful campaign that will give you the most bang for your buck. Testing should never be ignored. The beauty of online advertising is that everything is completely measurable, giving you tangible ROI and costing data with which to work.

Recently Google announced their new Adwords ruling and have removed trademark protection for campaigns. Competitors are now allowed to bid on rival trademark terms and brand names. This ruling was only valid in the UK, Ireland, USA and Canada till recently but as of 1 June 2009 has been extended to 190 other countries, including South

Africa. Previously advertisers have not been permitted to make use of trademarked terms (i.e. Nike, Adidas, Oakley) in their keyword bidding, therefore distributors and resellers of well-known brands could not promote these products via PPC advertisements and drive traffic to their own website.

This ruling can cause serious abuse of brand names and reputation since any other advertiser can bid on a brand name and essentially appear above the brand in the sponsored search engine result page listings. This makes it even more important to make use of effective landing pages and persuasive and relevant ad copy. Furthermore, it will be imperative that PPC campaigns are supported with a solid SEO campaign to promote increased organic presence on search engine result pages regardless of competitor bidding.

PPC advertising is also a widely used methodology for a number of other platforms including social websites such as Facebook. Although vastly more cost effective on a per click basis, converting from these platforms is very challenging as algorithms are not yet as refined as search algorithms for the most part, and advertisers need to ensure that a comprehensive strategy is in place to drive conversions from these platforms. On the other hand, with search PPC campaigns they could be managed as a standalone solution.

If you would like to know how PPC, SEO and other social activities can add to your current online marketing strategy, feel free to contact us. The AlterSage team work closely with each client taking in consideration the client’s current marketing campaign, goals and audience when designing an online marketing campaign to ensure clients achieve targeted brand exposure and the best possible ROI from their website.

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