

Figure 9-9: AOL Search displays Google AdWords in its own format. My ad claims top spot and enjoys a high CTR.



Placement: It's not just bidding

One crucial feature of the Google system that all advertisers must remember is the two-part formula that determines the placement of ads on Google pages. Bidding price gets most of the attention in this department, as competing advertisers slug it out with clickthrough dollars for premium placement atop the AdWords column. But clickthrough rate (CTR) is as important as the bid price.

The specific formula multiplies the two. If one advertiser bids 50 cents for a keyword and develops a CTR of 1.4 for that keyword, his or her ad would place second to an advertiser who bids 40 cents (10 cents less) and develops a CTR of 1.9. A third advertiser bidding only 35 cents would rise above both competitors if his or her CTR were 2.2. Here's how the ads would be ordered:

$$35 \text{ cents} \times 2.2 \text{ CTR} = 0.77 \text{ (1st place)}$$

$$40 \text{ cents} \times 1.9 \text{ CTR} = 0.76 \text{ (2d place)}$$

$$50 \text{ cents} \times 1.4 \text{ CTR} = 0.70 \text{ (3d place)}$$

This formula creates turbulence in the AdWords column: you never know for sure where your ads will land. The competitive situation is always changing. Don't attempt to game the formula. Google cares overwhelmingly about the clickthrough rate because it reflects relevance, and the company rewards advertisers with successful ads by placing them higher — sometimes much higher — than they might have earned by their bid rate alone. Success breeds success in AdWords. Smart advertisers concentrate less on bidding wars than on relevancy wars.