

## Lesson no. 6: Google Adwords- PPC Advertising

### UNDERSTANDING ADWORDS ALGORITHM

#### I. HOW DOES ADWORDS RANK ADS

AdRank determines the order in which competing ads should be ranked on a SERP, which (obviously) has a **huge** impact on the visibility of your ads to potential customers. Here's the basic concept:



AdRank in AdWords has historically been calculated based on your Max CPC and Quality Score.

The preceding figure illustrates how competing ads on Google are ranked in descending order of Ad Rank. The advertiser that has the highest product of maximum CPC bid and Quality Score wins the coveted top ad spot.

#### II. UNDERSTANDING ADWORDS ALGORITHM (ADRANK) IN DETAIL WITH EXAMPLES

The key to how Google AdWords works is the Quality Score. Quality Score is generally how well an ad group, keywords, ad, and landing page relate to what a person is searching for, and how likely someone is to click on the ad. Here is Google's page for "**Check and understand Quality Score.**"

Now every time someone does a search on Google, an AdWords auction is created. Every advertiser who has a keyword match to the search query competes in the auction. How well

each advertiser competes is based on their Ad Rank. Again, using a slightly simplified version:

$$\text{Ad Rank} = \text{Quality Score} * \text{Bid}$$

Ads are placed in order based on Ad Rank. The highest Ad Rank gets the top spot and so on down to either the last ad qualifying for the auction or the last position on the page.

What an advertiser actually pays is the lowest amount necessary to beat the Ad Rank of the competitor below them. This is called the discounter, and there are a few questions on every certification exam related to understanding this. In a lot of ways, understanding this information is the key to really unlocking AdWords. Every time I've presented this in a training class or seminar, a majority of the people about fall out of their chairs.

$$\text{\$\$} = \text{Ad Rank to beat} / \text{Quality Score} + \$0.01.$$

Let's put this into action using real examples and I'll show what I mean about the importance of Quality Score (QS).

$$\text{+virginia +beach+house +for +sale has a QS} = 8$$

Let's say we want to show up in the 1st position on the page no matter what. We can't guarantee this, but we can certainly be pretty certain by over bidding the keyword to say \$100/click.

$$\text{Ad Rank} = 800 = (\text{QS } 8 * \$100 \text{ Bid})$$

To beat us, a competitor would have to get an ad rank > 800. This means even if they had a QS10 keyword, they would have to bid \$80.01/click to get the top spot. Assuming they have a more realistic bid of \$10/click, the amount we would pay in the auction is calculated as follows.

$$\text{Ad Rank to beat} = 100 = (\text{QS } 10 * \$10 \text{ Bid})$$

$$\text{\$12.51} = 100 / 8 + \$0.01 = (\text{100 Ad Rank to beat} / \text{our QS } 8 + \$0.01)$$

**So even though we bid \$100, we only pay \$12.51.**

If our Quality Score on that keyword in that auction was 10, then the amount we would pay is:

$$\text{\$10.00} = 100 / 10 + \$0.01 = (\text{100 Ad Rank to beat} / \text{our QS } 10 + \$0.01)$$

Here's where it really gets interesting; the person in the top spot could actually pay LESS than the people in the spots below them.

Crazy, right? Here's why that happens. Assume the same crazy \$100 bid for the top spot, but now let's say the next competitor only has a Quality Score 5 keyword on a \$10 bid, the position 3 person has a QS 7 keyword on a \$7 bid and the position 4 person has a QS 5 keyword on a \$9 bid.

## Position 1:

Ad Rank to beat = 50 = (QS 5 \* \$10 Bid)

\$6.26 = 50 / 8 + \$0.01 (50 Ad Rank to beat / our QS 8 + \$0.01)

## Position 2:

Ad Rank to beat = 49 = (QS 7 \* \$7 Bid)

\$9.81 = 49 / 5 + \$0.01 (49 Ad Rank to beat / #2 QS 5 + \$0.01)

## Position 3:

Ad Rank to beat = 45 = (QS 5 \* \$9 Bid)

\$6.44 = 45 / 7 + \$0.01 (45 Ad Rank to beat / #3 QS 7 + \$0.01)

In this example, our QS 8 keyword in position 1 actually pays less than positions 2 and position 3. This same calculation holds true no matter what position you show up in, so the person in position 3 could pay less than position 4 and so on.

## III. WHAT IS QUALITY SCORE

Quality Score is **Google's rating of the quality and relevance of both your keywords and PPC ads**. It is used to determine your **cost per click (CPC)** and multiplied by your maximum bid to determine your ad rank in the ad auction process. Your Quality Score depends on multiple factors, including:

- a) Your click-through rate (CTR).
- b) The relevance of each keyword to its ad group.
- c) Landing page quality and relevance.
- d) The relevance of your ad text.
- e) Your historical AdWords account performance.

No one outside of Google knows exactly how much each factor “weighs” in the Quality Score algorithm, but we do know that click-through rate is the most important component. When more people who see your ad click it, that’s a strong indication to Google that your ads are relevant and helpful to users.

Accordingly, Google rewards you with:

- a) *Higher* ad rankings
- b) *Lower* costs

## **IV. WHY QUALITY SCORE IS IMPORTANT**

Here are three reasons having a high Quality Score matters:

### **a) It Encourages a Great Consumer Experience**

Google encourages AdWords advertisers to provide the best experience possible to consumers, and Quality Score essentially rewards advertisers who do just that. Because Quality Score is based on factors advertisers can largely control, like ad relevance and a good landing page, Google rewards those who are delivering a positive user experience for searchers.

### **b) It Affects Your Ad's Rank on the Search Results**

Quality Score is an important component of Ad Rank, which is the value Google uses to determine where your ad will appear on the search engine results page (SERP) for a given query. If you have a poor Quality Score, your ad will likely not place well, or may not show at all for the term searched. A better Quality Score typically means a better placement for your ad for a related search term, which is important to getting quality clicks on your ad that can **turn into leads**.

### **c) It Can Minimize Your Cost Per Click**

Your Quality Score can not only help your ad rank well on SERPs, but it can also help you achieve a lower cost per click – or the amount you pay for a click on your ad. This is another way Google rewards campaigns that have highly relevant ads, keywords, and landing pages, enabling you to get even more clicks on your ad for your budget. This, in turn, results in better return on investment for your **search engine advertising campaign**.