

## 11.6: Bidding and ranking for search ads

As you know, search adverts are charged on a per-click basis. The cost that you pay for every click is determined by a variety of factors, and is based on a bidding system.

The different advertising platforms offer advanced bidding options, all aimed at helping you to run your advertising campaign better. You can bid for placement on the SERP, or you can bid based on how much you are willing to pay per click. You are also able to tailor your approach to, for example, bidding for adverts during certain times of the day only.

Search advertising is usually run as a Vickrey auction model, so advertisers place bids to appear based on certain criteria. The advertising platform determines when adverts are eligible to appear and serves them as is appropriate. The advertiser then pays the advertising platform when their advert is clicked on.

Advertiser	Bid price	CPC
A2	\$3.00	\$2.51
A1	\$2.50	\$2.36
A3	\$2.35	\$2.06

Figure 11.6.1: Three advertisers bidding on the same key phrase *Adapted From Stokes, 2013*

With search advertising, the advertiser:

- Creates the copy for an advertisement.
- Determines the landing page for the advert.
- Selects the keywords or criteria for which that advertisement should appear.
- Chooses the maximum amount, the cost per click (CPC), that they are willing to pay for a click on the advert.

The advertising platform:

- Checks the advert for compliance with editorial guidelines.
- Displays the advert for relevant search queries or other criteria.
- Determines the rank of the advert based on the advertiser's maximum bid and the relevance of the advert (which includes factors such as clickthrough rate, ad copy, keyword and landing page relevance).

In Google AdWords, as well as deciding on your CPC bids for your keywords, you are able to set budgets for your campaign. You can set daily budgets, monthly budgets, or no budget. Once your total is reached, your adverts no longer run, so you can be sure that you never overspend. If you are concerned about overspending, you can set a daily budget. However, this can mean that your adverts do not run as often as you may like them to.

### Conversion and clickthrough rates

Search engines look at factors such as relevancy to try to ensure that it is not just advertisers with deep pockets that can land the top ad listing. Search engines need to ensure that users find the adverts relevant, otherwise they'll be less likely to click on them, and no click means no revenue for the search engine.

Studies repeatedly show that those adverts nearer the top of the page attract the highest clickthrough rates (CTRs) (Smart Insights, 2016). Competition for these top spots can be fierce and the cost per click can be very high.

Ads at the top of a page generally have the following qualities:

- They are very relevant to a user's search query.
- They consistently perform well, with high CTRs over time.
- The CPC bid is competitive and outbids other ads of the same quality. (Google AdWords, n.d.)

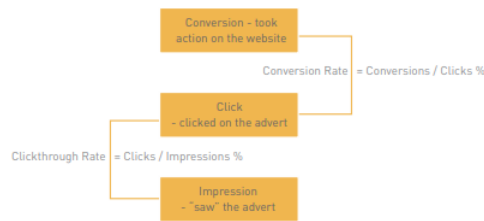


Figure 11.6.2: An image illustrating clickthrough and conversion rates *Adapted From Stokes, 2013*

## The bidding process

Advertisers need to determine the maximum they are willing to pay for a click on their advert, and they need to decide this for each keyword they enter for an advert.

This bid is the maximum cost per click (max CPC).

However, this will not necessarily be the CPC that the advertiser must pay for a click. Every time a search query is entered, the search engine runs an auction to determine the placement of the adverts where advertisers have bid on that search term. This auction is known as a generalised second price (GSP) auction, which is a variation on the Vickrey auction.

In the GSP auction, each advertiser will pay the bid of the advertiser below him, plus a standard increment (typically US \$0.01), for a click on their advert.

Say three advertisers, A1, A2 and A3, bid US \$2.50, US \$3.00 and US \$2.35 respectively on the same keyword. The search engine has set a minimum price of US \$2.05 on that same keyword. Here is how the adverts would be positioned, and what they would each pay for a click:

Advertiser	Bid price	CPC
A2	\$3.00	\$2.51
A1	\$2.50	\$2.36
A3	\$2.35	\$2.06

Figure 11.6.3: GSP payments per click *Adapted From Stokes, 2013*

## AdWords Quality Score

When it comes to ranking, of course, it's not quite as simple as that (it rarely is!).

As well as the bid an advertiser places on a keyword, the search engine will take a number of other factors into account. In the case of Google AdWords, this is known as Quality Score. Quality Score is applied on keyword, ad group and account level. It is important that your entire account has a good Quality Score, as it affects ranking and the cost per click.

The Quality Score is determined by, among other factors:

- The relevance of the keyword to the search term
- The relevance of the advert copy to the search term
- The relevance of the landing page to the search term
- The historic CTR of that advert.

Quality Score is ranked as follows:

**Great (8, 9, 10):** Keyword is very relevant and QS needs no improvement.

**OK (5, 6, 7):** Keyword is relevant, but can still benefit from a higher QS.

**Poor (1, 2, 3, 4):** This keyword isn't very relevant and QS needs improvement.

Another way to think of the Quality Score is as a discount that is applied to your campaign. For instance, an advert with a great Quality Score can achieve a top position at a lower bid than a competing ad with a poor Quality Score. For example, an advertiser with a Quality Score of 5 will have to pay twice as much for a certain position as an advertiser with a Quality Score of 10.

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