



Making a Bid For Profit

Profit-Driven Bidding Tactics in AdWords

Introduction

What digital marketer doesn't want to knock their CPA and ROI targets out of the park?

You're in a profession that celebrates efficiency, and that's a good thing. But with the relentless focus on cutting CPAs and raising ROIs, it's easy to overlook the most important number of all: total profits.

At the end of the day, higher profits are what running a successful business is all about. So how do you make sure your AdWords campaigns achieve what really matters to your business?

More and more advertisers are using a profit-based bidding strategy to attain success. They optimize for total profits instead of maximum CPAs or target ROIs. Only then can they find the sweet spot between volume and efficiency.

In this guide, we'll show you how to discover where your current bids are leaving potential profits on the table. What's more, you'll see how broad-scale testing can help you spot those opportunities before your competition does.

Let's shift your AdWords campaigns into high gear and start bidding for higher profits.

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Getting Started

Step 1 Define a formula that calculates total profits from AdWords.

Why: *You need a formula to measure and optimize for profit in AdWords.*

First things first: understand the full value you're bringing to the table. When you know how much value you create, you'll know the extent of your profitable bid opportunities — and frankly, you'll get more credit for your work.

Here's our recommended approach: First, understand the full value of each AdWords customer. Estimate her total lifetime purchases, for all conversion types (on and off the web) and including any word-of-mouth referrals she may make. Make reasonable assumptions about the value of each factor and total them to estimate revenue. Then factor out gross margins and subtract AdWords cost to get total profit.

The calculation looks something like this:

You own a shop that sells metal detectors, shovels and other treasure hunting supplies, and you want to understand the full long-term value of every new customer acquired through AdWords. You estimate profit per customer using things you already know or have a good guess for.



See [Leading a Conversation on Profits: A Practitioner's Guide](#) to learn more about how to define profit and convince your stakeholders that it's a better KPI.

Step 2 Run a Broad-scale Manual Bid Test.

Why: *Get an edge in the auction by finding profitable bid opportunities faster than others can.*

AdWords is flexible, so use that to your advantage. Run bid tests to see what happens to your profits. Start testing as broadly as possible at the account or campaign level. Uncover opportunities faster by casting a wide net.

Here's a recommended approach to testing:

Improve your chances of success by testing at the account level. As you measure account-wide changes, you're able to account for benefits more holistically. Capturing new impressions for generic keywords (like treasure hunting) might also create more conversions for your brand keywords (like Acme shovels).



Identify what to test. Pick something that's easy for you to manage and will give you enough conversion data to work with.

TIP:

Google Internal data suggests that a bid increase of at least 20–30% helps separate results from changes due to other auction activity, such as shifts in user queries or other advertisers' bids.

Test a bid increase of at least 20–30%. Changing a bid from \$1.25 to \$1.30 is unlikely to give you truly noticeable results. Make your changes big enough so that you can measure the effects. If you're using a bid automation platform, adjust your target CPA by the desired bid increase. For example, if your automation platform is targeting a \$25 CPA for your account, change its target to \$30 if you'd like to test a global bid increase of 20%.

TIP:

Test when you expect stable levels of traffic. You don't want seasonal or holiday fluctuations in traffic to disrupt your results.

Set the right time period. Some businesses need weeks to gather enough data; others may need months, especially if they have a longer sales cycle. Choose a period that fits your business.

TIP:

Track spending to make sure your test campaigns aren't limited by budget. You'll limit your volume potential when you lose impression share due to budget.

Monitor the results. Once you start your test, don't just "set it and forget it." It's important to keep tabs on progress. Try to minimize any "noise" that can cloud test results. Set rules with your teammates, agency and the vendors who have access to your account.

Step 3 Evaluate Results and Measure Your Profit.

Why: Identify areas for improvement as you analyze results.

This is it: the moment of truth. Look to see how overall profit has changed before and after your test.

Look at the big picture and then dive deeper to uncover opportunities for even more profits. For example, plug total conversions for your account into your profit equation and compare the test period against a previous time period of equal length. Then find out which campaigns or ad groups were responsible for the overall change, and which ones didn't help. If your business is highly seasonal, compare year-over-year results as well. Try to isolate the effects of the bid change as much as possible.

In this example, raising the account's CPA by \$10 led to a surge in overall profits. Inspecting results at the ad group level, however, showed that metal detectors outperformed shovels.

When results are more profitable, give yourself a pat on the back. You just made money! Now keep testing higher bids to see if even more profits can be made. For areas that didn't increase your profits, lower bids partially or completely back to the original amounts. But keep in mind: monitor account level performance when you're making these adjustments at a more granular level. You risk bidding down an ad group or keyword that could assist conversions with other parts of your account. Your goal should be to optimize for aggregate account profits, not individual ad group or keyword performance.

The key is to test, grow, and optimize.

Account Level	Avg Pos	Converted Clicks	CPA	Cost	Profit
Previous bid	3.9	80	\$25	\$2,000	\$16,000
Test bid	2.1	200	\$30	\$6,000	\$39,000
Last year		70	\$25	\$1,750	\$14,000

Ad Group Level	Avg Pos	Converted Clicks	CPA	Cost	Profit
Metal Detectors	2.0	40	\$30	\$1,200	\$7,800 Test higher bid
Shovels	1.5	10	\$275	\$2,750	\$500 Test lower bid

Step 4 Use Automation To Adjust Your Bids.

Why: *Free up your time so that you can focus on other strategic priorities.*

Face it: There's an opportunity cost to updating bids and measuring profit manually. You could be using that time to strategize and think of new ways to stay ahead of the competition. What's more, customer values and competitor's bids are always subject to change: a bid that earns you more today may need to be updated tomorrow.

So think about how to scale your bidding strategy so that it's easy to manage. You can use the [Target CPA flexible bid strategy](#) in AdWords to help you optimize toward a CPA that factors in total long-term profit. If you use a bid automation platform, update its goals to start optimizing for long-term profits. Automation tools can update bids across thousands of keywords daily, allowing you to focus on aggregate outcomes.

If you aren't ready to apply automated bidding to your account, focus your manual bidding efforts at the account or campaign level. Find the right balance between the time you need to update bids across your account and the time better spent on other opportunities.

After all, time is money — or should we say, profits. Optimize and make the most of both.

Concerns and Considerations

At the end of the day, all advertisers want to get to the same place: maximum profits. Since no two advertisers are exactly alike, there are bound to be different paths for everyone.

As you make a bid for higher profits, some questions and concerns may come up. In this part of our paper, we'll look at some common concerns and show you how to address them.

Organizing Your Account

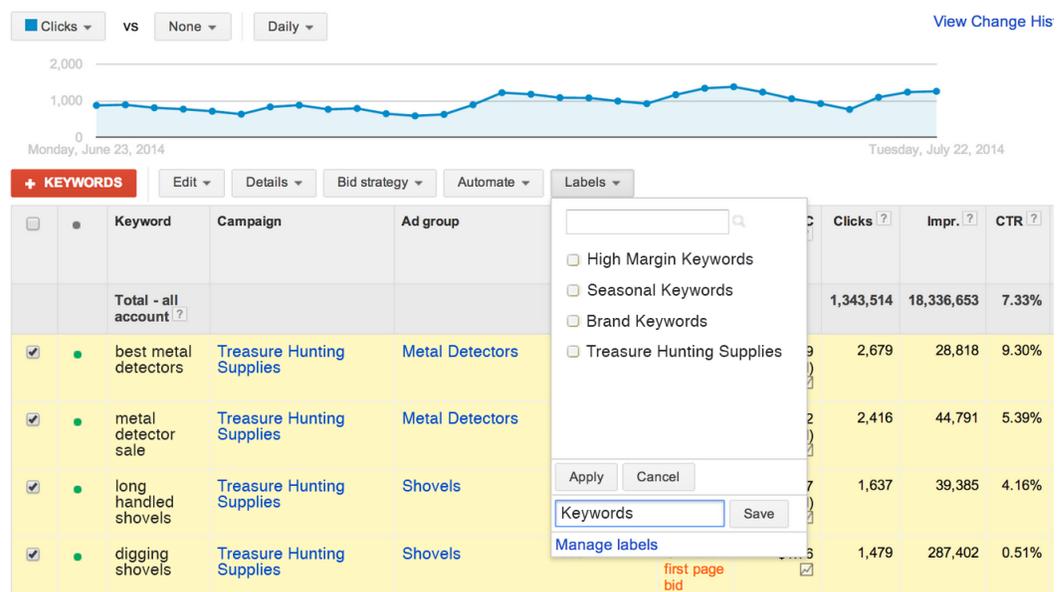
Concern: Some parts of my account earn much more profit than others — but they're scattered across various levels.

Strategy: Group similarly profitable parts of your account together into “portfolios.”

Cluster the parts that have similar profit values (like high lifetime revenue or gross margins) into “portfolios.” That makes it easy to access similar-performing pieces across your account. This can be done by product line, for example.

TIP:

Use AdWords [labels](#) to easily organize similar parts of a portfolio for reporting and bidding.



Concern: Exporting data from AdWords to calculate profit and bids is cumbersome while also risking manual error.

Strategy: Feed total profit values directly into AdWords.

Try tracking profits directly in AdWords instead. Assign values to your converted clicks through [Conversion Tracking](#), or include those values when [importing conversion data](#). Remember to factor in key assumptions such as lifetime value, value from all conversions (on and off the web), and word-of-mouth referral value.

TIP:

If testing at the keyword level, focus your efforts on high volume keywords with low [top of page rate](#). Remember to monitor the bids on other match types.

For example, while testing an exact match for the keyword metal detectors, don't raise your bids on its broad-match version; that could cannibalize traffic and interfere with test results.

Testing Bids

Concern: I don't feel comfortable testing at the account or campaign level. I'd rather test at a smaller scale first.

Strategy: Weigh the benefits of testing at a broader level against the costs of doing so too granularly.

You may gain control by testing individual keywords at a time, but you lose out on visibility and speed.

Remember, testing at the account level can give you a better sense of how bidding up in one part of your account can create benefits for another. It can also uncover profit opportunities that may be dispersed across your entire account.

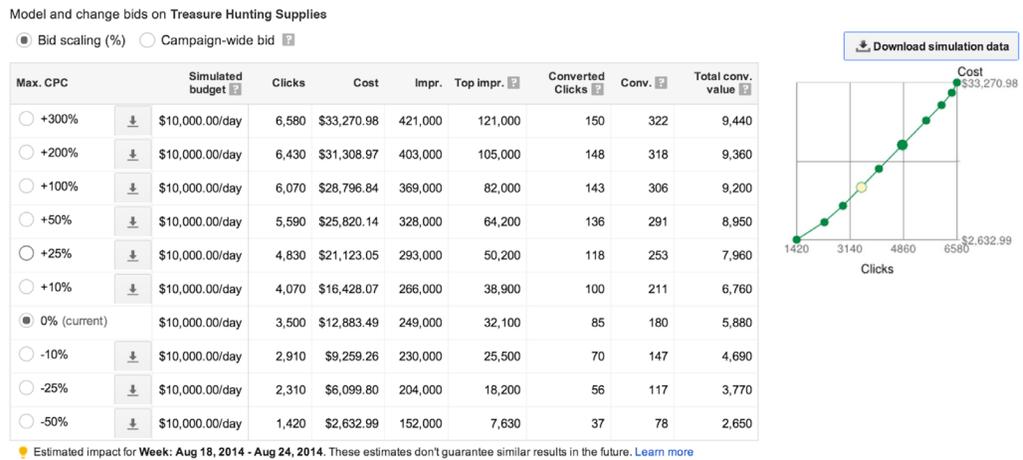
The Bid Simulator can also help you choose which high-volume keywords in your account to test and how much of a bid increase to try. To find the most promising keywords in your account, sort by the Est. Add. Clicks/Week (+50% bid) column. This forecasts the incremental volume of each keyword if you raised its bid by 50%. Keep in mind that the simulator doesn't account for potential effects across campaigns. For example, it doesn't estimate incremental impact on brand terms from increasing bids on generic terms — keywords that are typically located in separate campaigns.

Keywords	Cost / converted click [?]	Click conversion rate [?]	View-through conv. [?]	Labels [?]	Search Exact match IS [?]	↓ Est. add. clicks/wk (+50% bid) [?]
	\$4.87	10.15%	26,975		35.09%	
treasure map	\$69.21	7.65%	0	--	98.48%	367
digging shovel	\$88.74	5.22%	0	--	98.67%	168
eye patch	\$95.15	4.28%	0	--	96.76%	151
metal detector	\$0.00	0.00%	0	--	58.50%	148

Concern: A 20–30% bid increase may not be suitable for my account. How can I identify a more customized bid increase?

Strategy: Use the [Bid Simulator](#) to see how different bid changes can yield different conversion volumes.

Pick a bid increase that's expected to create noticeable effects in your traffic volume.



In this chart, increasing bids by +25% will increase your clicks much more noticeably (+38%) than increasing bids by only +10%.

Concern: My business is too seasonal for me to study the effects before and after a bid change.

Strategy: Use [AdWords Campaign Experiments](#) to control for seasonality by comparing how different bids perform in auctions over the same timeframe.

Set up an AdWords Campaign Experiment to test how the bid changes affect your performance. Don't forget to end the experiment once you've gathered enough data.

Managing Bids

Concern: My profit from AdWords sees different patterns by device, location, and time. How do I adjust my bids to account for these patterns?

Strategy: Segment your customers and use bid adjustments to take advantage of these differences — but first, test at a broader scale to confirm the opportunity.

Pull back for a wider look at your data before you zoom in on specifics. That can help you see where you might segment your customers into meaningfully different lifetime values and margins. Look at aggregate data for location, device and time to find patterns of high or low performance.

Segment your customers and adjust bids by location.

Step 1: Find the geographic level (state, DMA, etc.) where the biggest performance differences exist.

Step 2: Calculate your location bid adjustment.

Location bid adjustment = $100 * ((\text{profit per customer from location} / \text{average national profit per customer}) - 1)$

Location	National Profit per Customer	Profit per Customer	Bid Adjustment
California	\$175	\$250	43%
Illinois	\$175	\$200	14%

You can see that California customers bring this advertiser a profit (\$250) that is \$50 higher than Illinois customers. And both states return a better profit than the national average of \$175. So this advertiser now raises his bids for Illinois, and even more for California.

When you use the [flexible bid strategies](#) in AdWords, bids are automatically adjusted for details like location and time of day based on historical conversion values. Just remember to set a target CPA that accounts for the full profit value that's expected from a conversion.

CASE STUDY: [AdHarmonics](#)

"When we started bidding at the DMA level instead of nationally, we discovered that some customers were creating more value. We were able to increase our bids by up to 30% trying to reach more of these customers. As a result, we saw 60% more conversions and profit," says Seth Birnbaum, CEO of AdHarmonics

Conclusion

In your local supermarket, brands compete for premium shelf space. They want to be in the best spot possible to catch the eyes of ready-to-buy shoppers.

Today's online advertisers fight for the same premium spots on the "digital shelves" of search pages and wherever consumers gather online. And this market is open 24/7 to shoppers using every kind of device. You have to be there and be seen at the moment they need you.

In this paper we've seen how some advertisers succeed by staying on top. They:

- Measure all the things that help create profit
- Test on a broad scale to quickly find profitable opportunities
- Earn the most profit from those opportunities by managing their bids smartly

It's never just about bidding up. It's about winning the right customers who will bring your business the greatest value over the long-term.

"If there's real long-term value in your customers, then investing some of that value to grow can lead to a great deal of material profits. Bidding is your means of controlling how much of that to invest right now," says George Michie, Chief Marketing Scientist of Rimm Kaufman Group.

The hidden profits are there to be had in your campaigns. Consider this to be your trusty treasure map. It's now up to you to find the gold!

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To view other Google Best Practices, check out the full collection at g.co/GoogleBP.