



## PPC Bid Inflation: Rational and Irrational Competition

At the top of sponsored PPC search results sit two kinds of marketers: brilliant ones and total lunatics. Which do you want to be?

Looking at Yahoo!'s bid landscapes, for example, doesn't tell you whether you're bidding against a brilliant marketer or a total lunatic, even when you look at the bid prices. If every time you raise your bids in an attempt to get a higher position for additional scale while maintaining return on investment (ROI), your competition raises its bids, too. They could be acting irrationally or have a reserve price significantly above yours.

To learn which is the case, you'd need to know a number of things, such as its actual billed CPC, conversion rate from click to lead/sale, the quality of the customer the keyword generates, the profit margin on the kinds of goods or services it sells, and whether it's factoring in offline conversion. Your competitor may have done a buy-flow analysis to determine how searchers typing in that keyword are influenced to move down the conversion path (increased awareness, purchase intent, or lagged conversion analysis). Another bid behavior influencer is the size of your competition's keyword lists. Smaller lists offer fewer alternatives to bid.

In Google, and soon in MSN, you'd also need to know the competition's CTR and whether they set a daily budget cap below the max inventory available for that keyword per day. Plus, it would help to know if the keyword was purchased on a broad, phrase, or exact match basis. That way, you may be able to at least estimate the price they pay to be one position above or below you. Combine that information with all the other information you guessed to predict bid price rationality.

The brilliant marketer knows how much to bid on every keyword and why he's bidding for that price/position combination. The search marketplace is filled with choices. When an additional dollar is available to spend, you should know ahead of time where that dollar should be put for maximum return. Some campaign management solutions can predict the relative return of moving bids around, but it's not an easy calculation because of the rational/irrational bidder mix.

The lunatic almost always makes bid decisions based purely on position, even in hybrid auctions such as AdWords where bid is only one factor influencing position. (Predicted CTR, what Google calls a quality score, also drives position.)

What drives irrational bidders to bid for position, and are they really irrational? That's an interesting question to ponder.

Reasons a company might bid to extreme prices on certain keywords:

- The CEO/president/marketing VP says they have to be number one (or two or three) for this important power keyword. Usually, this decision is made without factual backup, so it qualifies as a lunatic or irrational bid choice.

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- The marketer has a large marketing budget; going all out on all his keywords is just a rounding error on his TV budget. A million here, a million there, no big deal. This may seem irrational, but TV ad effectiveness is shrinking. It may well be the engagement level the marketer receives after the searcher clicks through plus all the branding he receives (at no cost) for the listing being at the top actually make even obscene bids a relatively good deal.
- The marketer has a very small list of keywords that really target the right audience. Given a small list, a marketer may feel he has no choice but to bid very aggressively on those keywords.
- The ad agency is managing the campaign, and the media team knows very little about search but understands how either to tell the engine reps to manage to a position or to use simple bid management technology to maintain position. Agencies often don't have the workforce allocated to truly understand the nuances of a real-time auction marketplace for clicks, where all clicks are not created equal.
- A marketer or agency is running the campaign as a portfolio. So long as there are high-yield keywords in the campaign, it's willing to act very irrationally on others simply to maintain scale, even if some keywords' marginal profit is negative. The negative profit will be hidden in the averages reported to the executives and therefore hidden from view.

A truly brilliant marketer with a direct ROI and profit-maximizing campaign strategy may look like a lunatic, based on his bidding behaviors. If he has great conversion, profit, and lifetime customer value and built a media model that understands the buying cycle, he may be willing to dramatically escalate bids.

Whether the competition's an empowered brilliant marketer or a total lunatic, you have the same problem. If you want additional scale on a keyword but a bid increase to gain position always results in a bid war, consider your options:

- Investigate keywords that won't stimulate bid wars.
- Seek opportunities in other engines. With MSN on the horizon and Ask Jeeves coming out with a new PPC platform, you have more options.
- Get better CTR from your ad creative. Sometimes getting a better CTR is more powerful than raising a bid, particularly in Google or other hybrid auctions that use a predicted CTR to calculate position.

With hundreds of thousands of marketers in search already and more joining every day it's increasingly important to control campaigns in a way that combines wisdom (strategic insight) and intelligence (the ability to see trends and learn quickly as data becomes available). More engines are moving to hybrid bidding. It's ever more important to understand how buying clicks in an auction is unlike other media.

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**About Hotel Traffic Builders (HTB):**

We are a full-service digital marketing agency dedicated to the boutique hotel & residential resort industry.

Our mission is very simple: *"To maximize sales success by providing our clients with exceptional internet marketing results".*

Our clients consistently enjoy industry leading success because of our dedicated focus and experience. Our use of state-of-the art tools, best in class technology and wealth of industry experience enable us to provide full solution applications. We recognize that our clients are experts at running their hotels, and our role is to develop and maintain online marketing leadership for our client hotels.

We differentiate ourselves through:

**Industry Expertise**

We have a singular specialized focus on boutique hotel, resort and vacation home e-Marketing. Our sole goal is to be the best at what we do by ensuring maximum success for all of your e-marketing activities. Our 52 person design and development technology team delivers unparalleled quality and results. Our sole focus is resort marketing.

**Individual Customized Creative Approach & Solutions**

Every client has unique needs, opportunities and priorities, our e-Marketing plans are always custom built and based on in-depth research of your specific hotel.

**Cutting Edge Technology**

We use proprietary state of the art tools and applications that enable project efficiency, measurability and success of your e-marketing. We not only promise success, we document it in a 24/7 real-time secured private reporting platform that we create for every hotel client. Our clients never wonder about how hard their marketing dollars are working because they always know!

**Return On Investment**

The true measurement of our success is our proven ability to deliver reservation bookings. We grow booking results year over year, and we grow advance bookings, which result in higher occupancy levels and ADRs.

**Contact us at:** [www.HotelTrafficBuilders.com](http://www.HotelTrafficBuilders.com) or call us **954- 421-6399**

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