

Online Retailer Integrates Product Margin Data to Optimize Paid Search Campaigns

Background

A longtime client of The Search Agency (TSA), this online electronics retailer has been selling high quality laptop parts and PDA accessories on the internet since 1996. From MP3 batteries to laptop adaptors to HDTV cables, the site has over 1,000 diverse accessories and products across a wide range of entertainment and mobile computing categories.

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– Jason H., Director of Marketing

Challenge

Early on, the marketing team managed its paid search campaign in-house across a limited number of product keywords. “PPC has always been a very important component of our marketing mix,” says Jason H., Director of Marketing. “We can test new promotions and products with the flip of a switch and it also bolsters our traffic by giving us ad placements on all areas of the search engine’s results.” As the campaigns proved effective, Jason and his team increased the number of keywords and invested in a third-party bid management platform. The technology enabled the team to expand the campaigns even further, but could only track conversions and optimize bids based on cost per acquisition (CPA). With such a diverse project catalog, however, conversions and CPA were not as important as the gross margin earned on each sale.

Soon after, the marketing team looked for a professional SEM agency that could optimize bids based on gross margin and ROI and help take their paid search campaigns to the next level. “One of the biggest challenges was finding a partner that was willing to work with us to provide ‘real’ personal customer service,” explains Jason. “We have a myriad of products and SKU’s and only a campaign team that was completely dedicated to us would be able to handle the job.”

Solution

The retailer partnered with TSA to manage its SEM program and improve results on its key metrics. “I had worked with another agency in the past and did not get enough attention to my account for the type of money we were paying,” says Jason. “We chose TSA because of the dedication and determination they showed in our initial meetings. They have experts in every aspect of paid search that are willing to do whatever it takes to make our campaign a success.”

TSA began by developing a customized data integration system to capture clickthrough traffic, conversion data, product revenue, and cost of goods sold (COGS). On a nightly basis, the retailer fed this data to the TSA technology center so their account management team could have granular visibility into every online conversion. This integration of PPC and product sales data enabled TSA to optimize the paid search investment based on gross margin and ROI rather than conversions and CPA.

In addition, TSA recommended the marketing team create unique toll free numbers on each landing page to identify phone sales that originated from a paid search campaign. These offline sales were then included in a daily client report, giving the account team a more complete overview of each campaign’s effectiveness.

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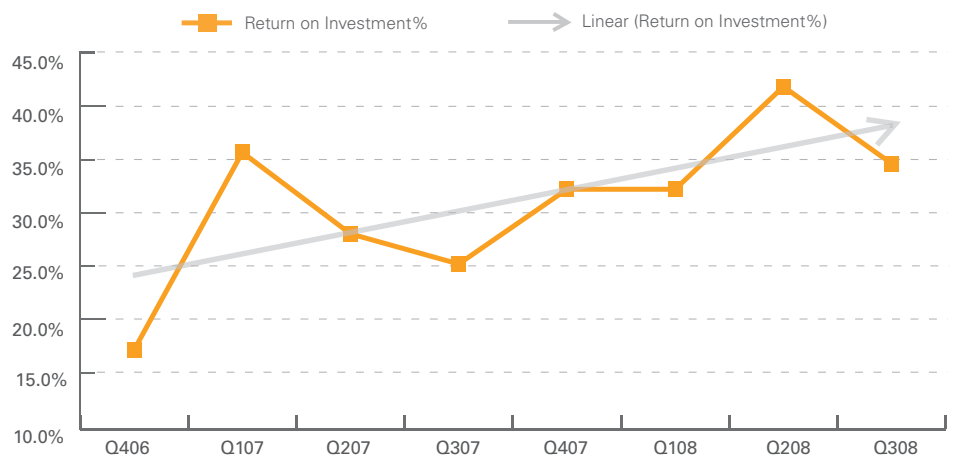
– Jason H., Director of Marketing

Optimizing the Bid Strategy – With a more robust data tracking system in place, the TSA account team began reorganizing the campaigns and ad groups and optimizing the bids based on product margin and ROI:

- ▶ **Separating the branded and category-level keywords into specific ad groups.** The team organized all the campaigns by category (e.g. laptop battery) and then created separate, narrower campaigns by category and brand name (Dell laptop battery). For high-volume keywords, the team also created even more specific campaigns by product model number and individual SKUs.
- ▶ **Setting bid strategy based on product margin.** With enough historical ROI and margin data in place, the team began increasing the maximum bids on high-performing keywords to drive additional traffic and net margin.
- ▶ **Adjusting bid strategy based on day-of-week performance.** TSA found that across most product categories, gross margin and ROI% tended to be higher on certain days of the week. TSA's AdMax™ bid optimization platform can incorporate not just historical conversion data into its algorithm, but historical conversion data by day of week (e.g. campaign performance on Saturdays). After determining that the conversion rate varied on different days of the week to a statistically significant degree, the account team enabled AdMax's special algorithm for “weekparting” to drive a significant ROI improvement.
- ▶ **Developing new creative tied to special promotions.** The marketing team often advertised special offers on their site (e.g. free shipping, no sales tax, coupon codes). Editors would incorporate these time-sensitive promotions into the messaging and measure the impact on ROI and quality score at the keyword level, and roll out the most effective messaging to related adgroups. This strategy required diligence from the account team to connect the right offer to the right keyword, but was critical to distinguishing the retailer from its competitor's ads and increasing total revenue and gross margin.
- ▶ **Expanding ad campaigns during peak shopping seasons.** TSA developed special seasonal campaigns and creative tied to back-to-school and holiday shopping. Each of these campaigns leveraged special promotions running on the site and connected visitors to pages reiterating their seasonal product lines and discounts.
- ▶ **Expanding keywords.** Once the team had identified a core group of high-performing product keywords, they added multiple match types, synonyms, misspellings, and modifiers to drive traffic and grow net margin.

Results

In October 2006, the data integration was complete and TSA began optimizing their paid search campaign based on product margin and ROI. This was a dramatic improvement over their old method of optimizing bids based on raw conversions and CPA. The new strategy paid immediate dividends as gross margin increased 86% within the first 6 months. As shown below, ROI¹ more than doubled from Q4 2006 to Q1 2007 and increased 85% year-over-year.



¹ROI % is calculated as gross margin divided by (ad spend + fulfillment costs)

“TSA has gone way beyond our expectations; their service is second to none,” says Jason. “Their experts have helped us to build a state of the art paid search campaign that allows us to have total control from our keywords, to promotions, to being able to see exactly what is going to the bottom line. Because of the success we have had with the TSA paid search team, we have partnered with them in many other areas such as SEO, CPO, and comparison shopping management that have helped us build our business into what it is today.”