

CTR: The Metric and the Myth

Smarter Ad Optimization Discovers New Revenue

As savvy marketers know, maximizing search revenue relies on effective campaign optimization. Yet a wide array of myths and faulty notions persist. Despite the best intentions, incomplete data analysis can lead to lost revenue. Among the most pervasive mistakes is relying solely on clicks as the exclusive basis for judging ad text performance and strategy. A closer examination reveals that truly effective optimization relies on evaluating Gross-Profit-per-Impression (GPI).

Leveraging GPI for a leading Internet retailer resulted in a 25% increase in revenue.

CTR: The magic metric

Since the very beginning, the gold standard of success has been CTR. Despite the many advances in SEM, it is frequently still the sole metric for judging ad text performance.

The logic is simple. The higher the CTR, the more traffic, the more revenue. But upon closer inspection, CTR reveals only part of the picture. In fact, analyzed alone, CTR can be virtually meaningless unless assessed alongside other frequently changing data points. What about Conversion Rate (CVR)? How about Cost-per-Click (CPC)? And then there's Cost-per-Acquisition (CPA).

Conflicting data proves costly

When we actually begin analyzing campaign data according to multiple metrics, the picture becomes more complex. Conflicting data begins to emerge. What was once a quick glance at the CTR column now becomes a potentially daunting exercise. The example above illustrates the point. One ad may have a much better CTR and a lower CPC while another ad shows better CVR and lower CPA.

The conflicting data leaves the marketer confused, unsure of which metric matters most. Unfortunately, the ambiguity often leads to misinterpretation and, ultimately, the wrong conclusions. In other cases, the uncertainty leads to inaction. In both scenarios the result is inefficiency, wasted ad dollars and lost revenue.

Clicks come close

Despite the potential limitations of focusing too closely on click-through rate, they undoubtedly has its place. While CTR and CPC alone don't tell us enough, they are fundamental components of the optimization process.

What is the Best Ad?

Silk Nightgowns - On Sale Free Shipping on Purchases Over \$70 Order Silk Nightgowns Today! LeadingInternetRetailer.com	CTR = 1.73% CPC = \$0.81	CVR = 3.4% CPA = \$23.64
Silk Nightgowns - On Sale Free Shipping Offer on Nightgowns, Silk Nightgowns 5-Star Reviews! LeadingInternetRetailer.com	CTR = 1.22% CPC = \$1.18	CVR = 5.7% CPA = \$20.88
Silk Nightgowns - On Sale Free Shipping Offer on Nightgowns, Order Silk Nightgowns Today! LeadingInternetRetailer.com	CTR = 1.45% CPC = \$1.01	CVR = 4.8% CPA = \$21.12

Indeed, they provide the critical basis for calculating Revenue-per-Click and, even more importantly, Gross Profit-per-Click. These metrics go far beyond CTR and CPC, offering key insight into how much revenue and profit each ad is actually generating.

Yet, even these data points are not the final basis for a decision. By focusing strictly on click-related performance we omit one last indispensable piece of the puzzle – impressions.

Profits make an impression

To ignore impression data is to ignore each ad's real revenue potential. Therefore, the final step in determining a winning ad is to calculate Gross Profit-per-Impression (GPI) – the difference between cost and revenue, divided by total ad impressions. The ad with the highest GPI is ultimately the ad that should remain active. The others should be paused.

Applying this analysis to a leading Internet retailer resulted in a 25% addition in revenue to an otherwise optimized account. By switching all traffic to the most productive ad text, the customer was able to maximize the revenue from the entire impression share of their campaigns.

When impression data becomes part of the equation, the drawbacks of strictly click-based optimization become readily apparent: incomplete analysis, faulty conclusions and lost revenue. Yet, many marketers hold fast to historical standards. As agencies and technology providers continue to proliferate, it's clear that genuine expertise and insight will be the real metrics for success.