Hidden Value of Google Search Ads

Paper: “Measuring the Lifetime Value of Customers Acquired from Google Search Advertising”
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Link to video on Olin Business School
As the number of online advertising and marketing channels has exploded, many business owners wonder if purchasing an Internet keyword search ad is worth the cost. Olin researchers Tat Chan, Chunhua Wu, and Ying Xie have an answer.

The researchers examined one company’s experience with purchasing key search terms from Google. The researchers used company data and computer addresses to connect sales to viewers who clicked on their ads, which appeared at the right of a viewer’s search results.

What they found is that Google keyword ad purchases actually produced more sales and higher margins than the browser industry realized.

The new research finds that multiple studies have overlooked two key factors that boost the return on investment in Google ad words:

1. The amount a customer spends over his or her lifetime
2. How purchases are actually made, known as cross-channel spillover

After studying three years of keyword purchases and product sales from biomedical and chemical supplier Gold Biotechnology Inc. in St. Louis, the authors discovered that customers who originated with Google ads bought items more often and spent more per transaction than those from other sources. The researchers calculate that the cost per click, or CPC, on each ad has a break-even value of just over $10.

Older methods of calculating CPC would have put the same break-even at 37 cents. What this means is that companies can spend more on keyword advertising than they realize and still get a strong ROI. However, firms should monitor their CPC because ad rates have increased fourfold just in the time (2004–2007) that the researchers studied transactions.

The study also calculated that the customer’s lifetime value was about $1,100 more than a non-Google keyword customer.

Another overlooked aspect of Google keyword calculations is that prospects who clicked on ads often didn’t make their first purchase with the company online. Instead, about two-thirds of prospects purchased in person, over the phone, or using another method, the researchers found.

And over time, they purchased an increasing amount of goods at a higher margin.

The researchers offer several explanations for this cross-channel spillover: larger corporate customers tended to purchase more initially online than smaller, regional ones, and keyword prospects who initially purchased off-line developed more trust in the company and eventually began spending more online.

Gold Biotechnology found the authors’ research intriguing and useful. “The research and analysis from Dr. Chan and his team provided us with valuable insights that led to a new way of thinking about our search engine marketing and our entire e-commerce system,” said marketing director Bart Saracino.

Google’s total advertising revenues:

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$439 million</td>
</tr>
<tr>
<td>2010</td>
<td>$28 billion</td>
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</tbody>
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Olin Award judges’ comments on the winning research paper:

“The research is fresh, the topic is of widespread interest and its usefulness profound in an age of small business startups. This is an excellent paper that addresses one of the most crucial aspects of retail business today. Small and large retailers alike would find the research fascinating and reassuring.”

“This research could be very impactful as online advertising is gaining a bigger share of marketing dollars. Very practical and answers an important question relating to value of advertising online.”

“This is a subject no business in sales can afford to ignore. This paper will give good guidance to businesses trying to decide how best to spend their advertising dollars.”