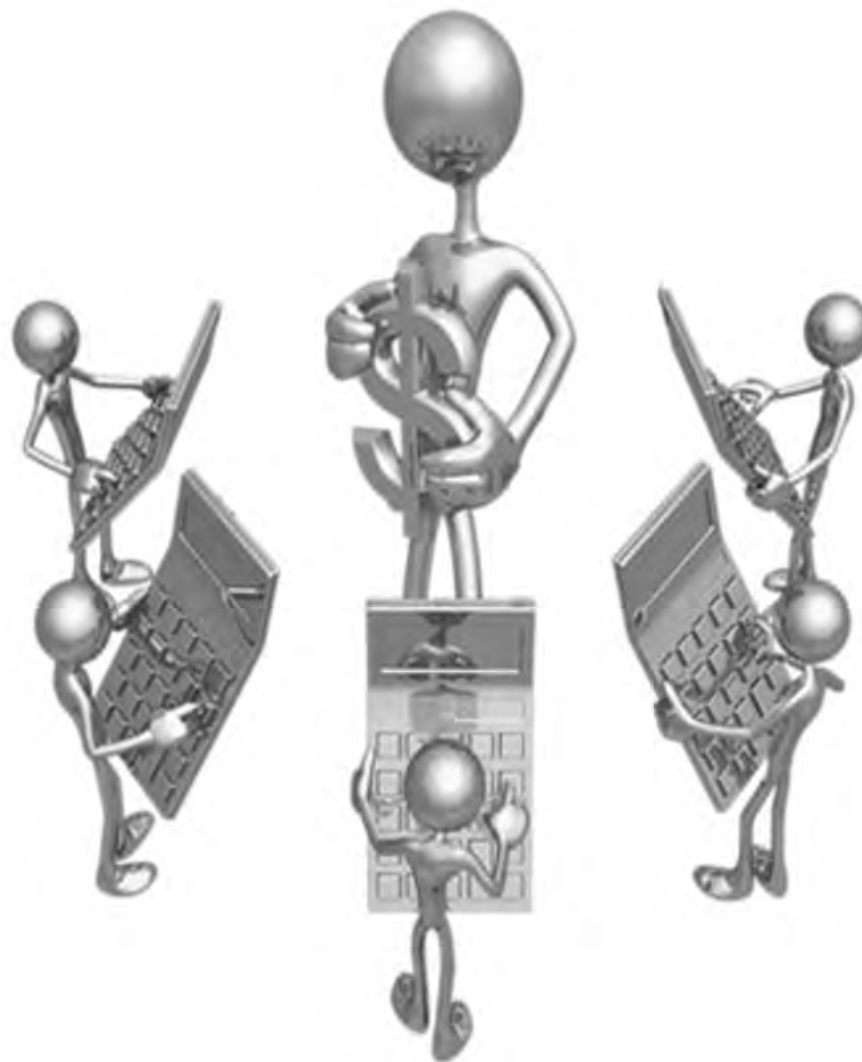




PPC pricing models you should know



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Introduction

Looking to outsource your pay per click campaign to a professional or an agency? How do you decide when each agency has a different pricing model? Some have minimum ad spend requirements whereas others have “lock in” agreements. Welcome to a world of utter confusion!

To be honest, Pay Per Click (PPC) management companies do not follow a standard pricing model. Many agencies charge a percentage of your Ad budget, some charge based on the number of sales or leads they generate while others charge a fixed hourly rate.

This white paper will help you understand the most important aspects of a pay per click campaign. Once you understand these aspects, you will be able to make an informed decision on a pricing model or features that you need. This will also help you select an SEO Partner which fits your needs.

A Brief History of PPC Engines: Before we discuss pricing models, let’s look at a brief history of Pay Per Click engines. GoTo.com was the first company to launch a Pay Per Click marketing model. Later in 2001, GoTo was renamed as Overture. In 2003, Yahoo buys Overture and later renames it as Yahoo! Search Marketing.

Google launched its pay per click program, *Google AdWords Select* in 2002. Microsoft launched its pay per click advertising program in 2006 and named it as **Microsoft adCenter**. These three search engines combined have over 80% of search market share. They form the “Big Three”, “primary” or “first tier” search engines.

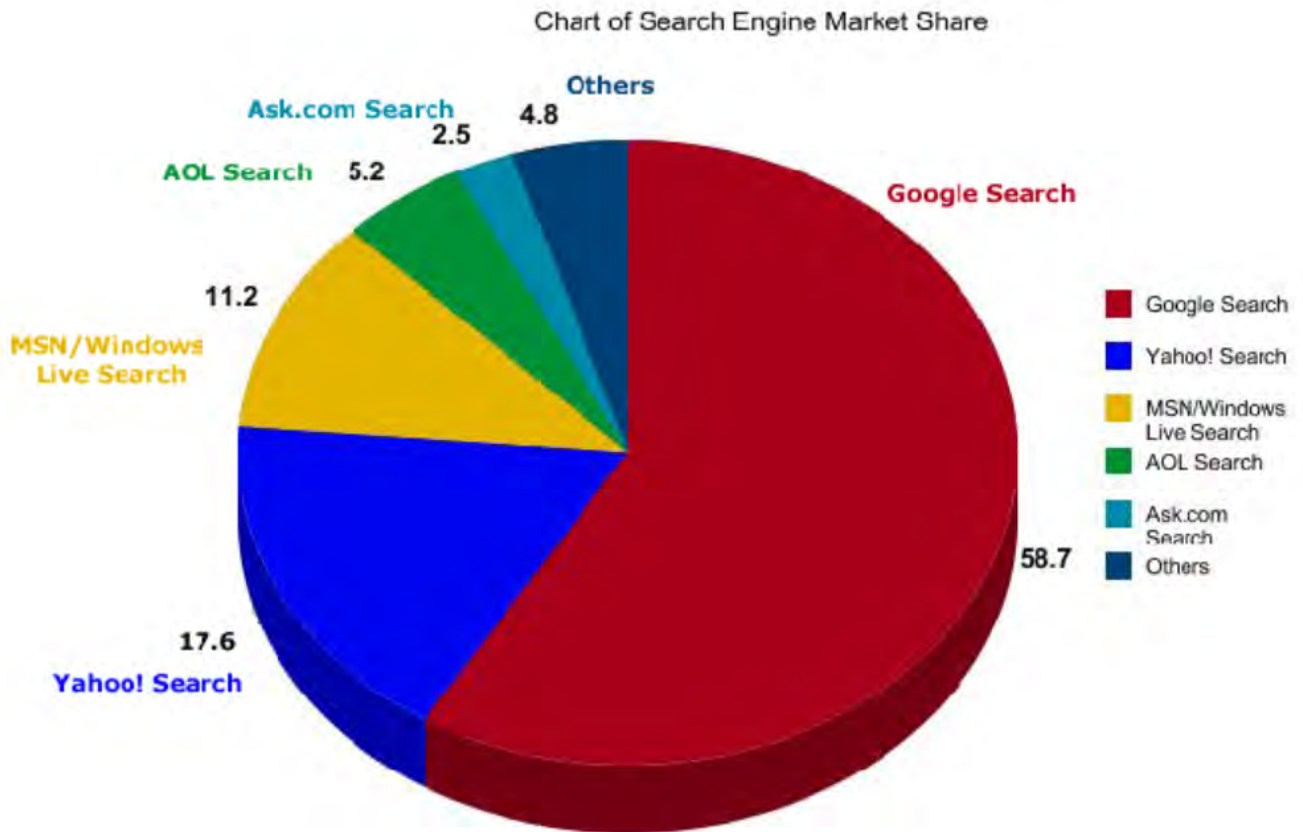
There are a few other search engines like Ask.com, 7search, Miva, Enhance, Mamma, Kanoodle, Business.com etc... These search engines form the “second tier” search engines. They typically deliver low amounts of traffic in comparison with the “Big Three”.

Some small search engines also specialize in few niche industries. For example there are few shopping engines like Shopping.com, Nexttag, Bizrate, PriceGrabber. Others like Superpages, Local.com specialize in Local Search. So depending on your Location or industry you can select niche search engines which fit your needs.

Note: Some people consider Ask.com as first tier search engine, but we don’t. We feel that Google, Yahoo and Live Search (MSN) are the major search engines and the remaining are second tier search engines.

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Chart of Search Engine Market Share



Source: Nielsen/NetRatings February U.S. Search Share Rankings 2008

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Finalizing your Budget:

Once you decide which search engines to target the next step is to assign a budget. Different companies will quote you different budgets and really '*Sky is the Limit*'. However you have to settle on a budget which you are comfortable spending. If possible start slow with small budget to test waters. After seeing some results you can then increase your ad spend. This way you won't go overboard in the early '*experimental*' stage.



SEO Solutions Recommendation: Start first with Google AdWords and allocate anywhere from **\$1000 to \$1500** as minimum monthly Ad spend.

Different Pricing models:

- 1) **Percentage of Ad Spend:** Perhaps the oldest and most popular advertising model in the Pay Per Click industry. This model is based on the traditional advertising agency model. You need to qualify for a minimum ad budget of an agency. This can range from \$5000 to \$40,000 per month based on the agency. Once you qualify for the minimum ad budget, you then pay a percentage of the total ad budget to your PPC agency. Let's say you select an advertising agency and they charge 10% of your advertising budget. So if you are spending \$50K on search engines then the agency will earn \$5000. The typical percentage varies from 10% to 15%. However if the ad budget is on a high scale, agencies usually bring down their percentage close to 5 %.



There is no industry standard and the percentage may vary depending on the agency. Some agencies also charge a setup fee along with management fees. If your ad budget is low then these agencies will simply say "No" to your project.

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Pros:

- Some agencies agree to certain minimum performance metrics. The performance metric usually is a certain minimum number of sales or leads. This arrangement motivates agencies to build a robust keyword list and get value out of keywords.
- Typically works better with large ad spend. With large ad spend the company will devote more time on your project.

Cons:

- Because of minimum ad budget, you cannot try and decrease your ad spend. You can only improve on your number of leads/ sales.
- Some unscrupulous agencies can drive up the cost of the campaign to increase their earnings.
- There is no incentive to improve conversion rates or cost per conversion.

This model works only if you trust an agency or work with an agency which is well reputed and has an excellent track record. However, a periodical review of the number of leads or sales will keep the performance of the agency in check.

2) Pay for Performance:

Many clients are comfortable with the “*Pay for Performance*” model. The basic idea is that the agency will select “goals” for your website. This can be a lead or sale. The next step is to calculate a “value” for that “goal”. Hence a lead can be worth anywhere from \$5 to \$100 based on your industry. The agency only earns based on the number of leads/sales they generate. How does the agency profit from such an arrangement? Let’s assume they get lead for \$10. They can sell this lead to you anywhere from \$12 to \$20. The markup varies depending on agency. Generally it’s anywhere between 25% to 100 %.



This is an ideal model for companies which are new to the online medium and spend a lot of money on expensive offline advertising. Some agencies ask to host the landing page on their web server. Some even charge Setup fees.

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Pros:

- It's pay for performance, so you only pay commission to the agency if they perform.
- Focus is on Goals (sales or leads) rather than advertising budget.
- The agency has a vested interest in increasing the number of sales or leads. This works as an advantage for you.
- The onus is on the agency to perform.

Cons:

- Some agencies do not share critical data about performing keywords. They act as gatekeepers to Google, Yahoo or other engines and do not provide you their login details. They just generate leads or sales for you.
- The agency may use most obvious terms like your trademark terms, site names and other brand names which will accrue high number of clicks and sales. This is an easy way out to get quick and cheap leads instead of getting leads from competitive keywords.
- Trust may be an issue here. You will be sharing critical data with agency. The agency knows your competitor. They can work with a competitor who is willing to buy leads or sales at higher value.
- Some agencies may host the landing page on their web server. This way they spend your money to drive traffic on their servers. If you part ways with the agency then the traffic generated from your money is free for them and they can always sell those leads to your competitor.
- There is no guarantee of good leads. Be prepared to get certain % of bad leads.
- Many of these agencies also charge a "Set-up" fee.
- Your account can be neglected if it is not generating sufficient revenue.

Again "trust" is a key here. It would be good idea to iron out all the cons listed above before you select an agency.

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3) Hourly Consultation Fee:

To put in simple words, you can choose the amount of hours you want to buy and select what work needs to be done on your account. It's like *A La Carte* service. The agency will carry out work within a specified time frame. The hourly rate varies from company to company. There are companies and individuals who charge \$250 to \$1000 per hour. Typically these agencies are very expensive.



On other hand there are agencies which have hourly rate in the range of \$150 to \$250 per hour. These agencies need certain minimum man hours commitment.

And then there are companies which outsource some or all of the work to low cost labor destinations. These companies typically charge anywhere from \$25 to \$50 per hour. They also need minimum man hour commitment.

Pros:

- You pay on an hourly basis. No long term commitments.
- Even a few small tweaks introduced by professional PPC managers can improve your cost per conversion and help you cut down your advertising cost. Some PPC companies also help you install various conversion tracking codes by search engines. This helps you benchmark your campaign.

Cons:

- All experts can be busy with a number of projects. If a new project arrives then there are chances that your project gets low priority or gets assigned to a *newbie*.
- If your budget is very low then the management fees will be more expensive in comparison to your monthly ad spend. In such cases it can be expensive deal.

These are the 3 main pricing models in this industry. However there are agencies which follow hybrid model or some unique model of their own. We will briefly describe what some of these alternate models offer, both pro and con.

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Combination of Hourly rates and Percentage ad Spend:

The agency charges hourly fees to setup the campaign and later they charge a percentage of monthly ads spent for day to day management.

Pricing based on number of keywords or number of bid changes:

As the name suggests, the agency will manage the pay per click campaigns based on the number of keywords. The pricing also depends on the number of times you change bids for a particular keyword. The pricing is generally based on volumes. Very high volumes get discounted pricing.

This model is highly prevalent in the hosted “*Software as a Service*” model. These are automated systems which use search engine APIs to login into their system and do bid changes.



If your marketing budget is high, there are some systems out there which also charge you a percentage of your ad budget.



Clicks/Volume/Traffic Based:

In this model the agency will deliver a certain amount of clicks or traffic to your website. This model faces wide criticism because the agency can bid on cheap non relevant search terms. This will deliver junk traffic to your website.

On-Site Training:

Companies with big advertising budget or companies who are “control freaks” would ideally want their search marketing campaign managed in-house. Here an agency will send in an expert to train in-house staff. Later the in-house staff will manage campaigns on their own. The pricing for such an arrangement is usually high. And therefore this model makes sense for big companies or companies who do not want to share their marketing data with a third party.



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Custom Based:

Not all client needs are the same. Sometime the agency has to come up with a proposal which is tailor-made for you. This again can be expensive as it needs more time and effort by the agency. Whichever agency or model you select, make sure you ask these 8 questions of your agency:

Keyword Research:

Ask questions like, how many keywords will be managed and what tools you use for keyword research.



A/B

A/B means multiple copies are find a Popular Ad copy (which more people click on). Ask your agency how many ad copies do they test?

[\\$0 Set up Merchant Account](#) [Need a Merchant Account?](#)

Accept Credit Cards, Cash Payments Accept All Major Credit Cards Today

Free Set up. Same Day Approval No Setup Fee. Up to \$1000

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A-B Testing

testing: testing that 2 or Ad tested to



Bid Management

Bid management: Most pay per click engine algorithms includes “Keyword auction” as one of the factors. Hence the agency needs to keep updating bids on keywords. Ask your agency if bid management is included. And how often are the bids changed?

Tracking: It is important for you to track how many visitors buy something from your website or fill out a lead form. This involves installing an Analytics service. Most people prefer Google Analytics as it’s free. Ask your agency what tool they use for Analytics and conversion tracking and who will setup the code? Also how often and closely do they monitor your website conversion rates?





Landing Page: A *landing page* is a page on your website where you send paid traffic. However, unlike a home page which has lots of generic information, a *landing page* should have very specific information which should match keywords you are bidding on. Many agencies charge a fee to create landing pages or provide consultation on landing pages. Ask the agency will they create landing pages? If yes, how many? Or will they just give you consultation on landing pages?

Click Fraud: Click Fraud is a menace in which either your competitors or an automated script keeps clicking on your ads. Since these clicks are charged by search engines, it affects your business. How does your agency combat click fraud? Do they have any experience in handling click fraud problem before?



Reports: How often reports are sent? If possible ask for some sample report formats.

Communication: How will your project managers communicate with you? Will it be by email, chat or phone? What are their working hours? These questions should give you a fair idea about the agencies you short list.

24 Hours Email, Chat
and Telephone Support



Conclusion:

There are many pricing models and one cannot benchmark any pricing model as a perfect one. All pricing models have its pros and cons. The key here is to select a vendor who can deliver results. After all it is your company and your advertising budget. So make sure that you spend it wisely and get most out of your advertising budget.

Don't be afraid to negotiate with the agency. Before selecting an agency do some of your own research and ask them about their PPC management process. Compare their answers for the 8 questions we have provided. If necessary ask them to explain some of their features. Don't forget to ask for some testimonials and case studies. If you are satisfied, then ask for a proposal. The quality of proposals can give you a hint about the professionalism of the agency. If you want, even ask for a few references and talk with them.

To summarize, invest in a company which is transparent and can be trusted with the job. We hope you find this white paper useful. Do not hesitate to give your feedback by emailing us at sales@SEOSolutions.com.

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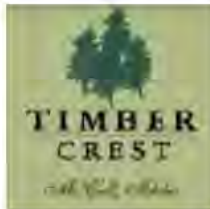
About SEO Solutions Inc

SEO Solutions Inc is a Chicago, IL based Search Marketing Agency which specializes in Search Engine Marketing, Search Engine Optimization and Social Media Optimization. SEO Solutions has over 4 years experience in Search Engine Optimization, Pay Per Click and Affiliate Marketing Services. SEO Solutions has executed more than 100 successful Search Marketing projects, and has clients in the US and Canada. Our teams for Clients of all sizes: from small, innovative startups to public companies.

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What Our Clients Say



" SEO Solutions has allowed us to get to the next level in terms of customer sales and client reach. We have experienced tremendous results with search engine optimization. We have seen a 90% increase in internet traffic. For our business capturing and keeping potential customers is a must. I would highly Doug Dvorak and SEO Solutions to help your company grow through an increased search engine presence. Timbercrest Resort is now getting new customers weekly and has 13 first page rankings on Google, Yahoo and MSN. We highly recommend Doug Dvorak and SEO Solutions. "

- Chad Olsen, Resort Director of Timbercrest

"We highly recommend the Search Engine Optimization (SEO) and Internet Marketing services of Doug Dvorak and SEO Solutions. They have great technical expertise, impeccable project management, and ability to understand our business.

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They have exceeded our wildest expectations. They have helped our company brand our name by penetrating hundreds of marketable avenues, reaching out to a broader customer base, and heavily increasing traffic to our site. We already have 4 first page rankings on Google, Yahoo and MSN”

- Andre C. Janus , President of Cristaux International



”We have had exceptional success using SEO Solutions for SEO. They have helped us achieve FIRST PAGE FIRST POSITION rankings on Google, Yahoo and MSN. We are now able to reach a larger audience and drive additional traffic to our site and revenue to our business. We have received, to date, a 219% return in five months on our initial investment.”

- John Goemans, Managing Director of The Mountain Mortgage Centers



On behalf of Sayre & Jones Auctioneers, I highly recommend the search engine optimization and internet marketing services of Doug Dvorak and SEO Solutions. Their research of our company and the evaluation of what our wants and needs are have helped us achieve top position rankings on Google, Yahoo and MSN. Their technical expertise and project management are excellent.

- Keith Jones, President of Sayre & Jones Auctioneers



”We engaged the services of SEO Solutions in February of 2007. SEO Solutions revamped our web site and made it more dynamic. We are now able to reach more potential customers and achieved first page rankings on Google the first week after roll out of the updated site.”

- Lindy Westerfeld, Marketing Manager of Rooney Landscape

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"Doug Dvorak and SEO Solutions has provided us with superior Search Engine Optimization (SEO) and Strategic Internet Marketing services and results for our firm. They possess a keen and deep understanding of the latest techniques and strategies to get more traffic to our site. The net results are more customers and more sales. We currently control 8 FIRST PAGE FIRST SLOT RANKINGS ON GOOGLE and 15 FIRST PAGE RANKINGS ON YAHOO & MSN. We would suggest using his services"

- Brent Kahmann, Owner and Senior Designer of Southfork Design



"We hired Doug Dvorak and SEO Solutions to provide Search Engine Optimization (SEO) and Strategic Internet Marketing services for our company. Doug and his team were able to quickly understand our key business drivers and issues and translate that in to a workable and affordable Internet Strategy. We currently have 6 FIRST PAGE RANKINGS ON GOOGLE, YAHOO & MSN. We also have increased our web site traffic by over a 112%. Good work Doug!"

- Wes Hardin, CFO of Everest Custom Builders



"I hired SEO Solutions to help me better promote my web site and help establish my brand on the Internet and with the search engines. Doug and his staff work very hard to get me 9 FIRST PAGE RANKINGS ON GOOGLE, YAHOO & MSN. My web site traffic has increased by over 63% and the analytical tools and reports I receive help me to make better informed marketing and sales decisions."

- Cheryl Haas, owner of Haas Communications

"SEO Solutions has helped us grow our on-line traffic by 123%. We are receiving more and better qualified leads as the result of the customized Search Engine Optimization (SEO) and Strategic Internet Marketing Programs being delivered by Doug and his creative team. We highly recommend SEO Solutions to anyone who is interested in a cost-effective way to market their business."

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- Stephanie Witkiewicz, Marketing Director of Celebration Authority

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