

ASSIGNMENT – 3

Measuring ROI on Sponsored Search Ads

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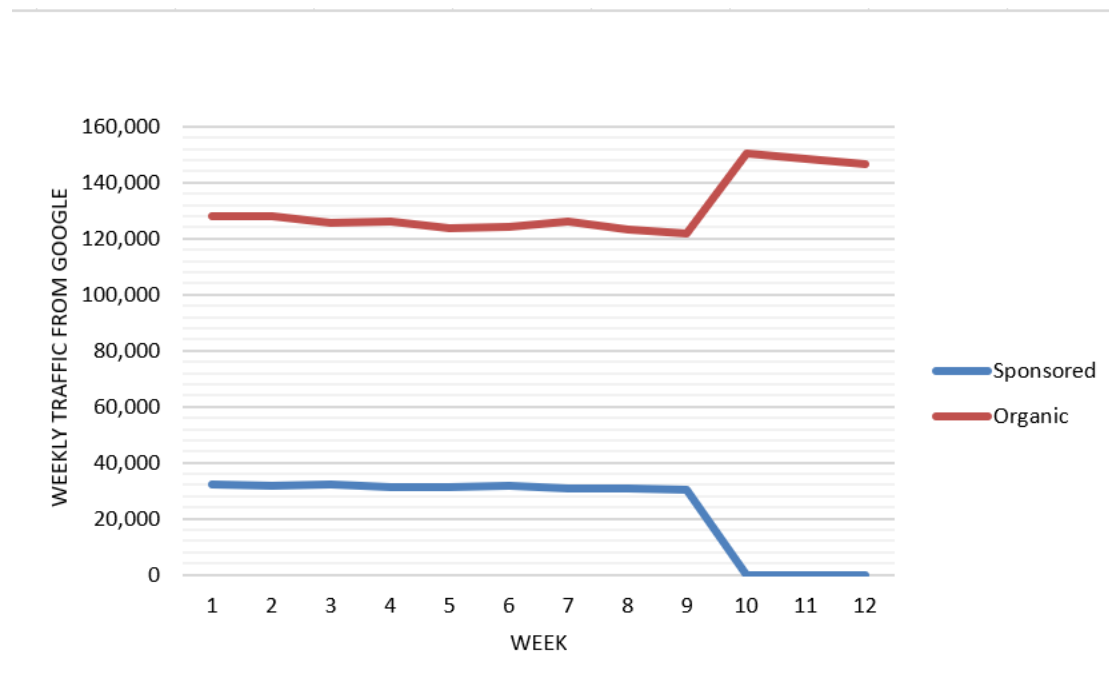
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Bazaar.com is a leading online retailer in the United States. It releases both sponsored and organic ads. They use google and Bing as platforms to run their ads. The marketing analytics team had a discussion regarding recent advertising reports related to paid search efforts.

They decided to run sponsored ads for 12 weeks, but there was some technical glitch due to which the google campaign got suspended from week 10. However, Bing is not affected by glitches.

In the below graph, it can be observed that there's a glitch due to which the sponsored ads graph declined to 0 from week 10. Whereas the organic ads appear to be constant in 1-9 weeks and increased from week 10 which indicates the good performance of organic ads. This also indicates there is no requirement for sponsored ads for the brand bazaar. Since consumers are intending to search with the keyword bazaar. It is a good sign.



So, bob's ROI analysis would be wrong because he ignored the customer's intent. Bob calculates ROI which seems to be very high. The average cost per click for a sponsored click is \$0.60. The probability of making a purchase from the website is 12% and the average margin per conversion is \$21.

Average revenue per click = $0.12 \times \$21 = \2.52

ROI = $(\$2.52 - \$0.60) / \$0.60 = 320.0\%$

The ROI is very high which is practically impossible.

The consumers search for a keyword with the brand name. i.e., bazaar shoes, bazaar guitar, etc. Myra believes that there is no need for sponsored ads as the consumers are searching for a keyword with their brand name which shows their interest and would directly click on the organic page without landing on another page.

Since the interruption was caused independently, it can be considered a natural experiment. The data from week 10-12 and 1-9 could be split into two data set and can be compared to know what the impact of stopping sponsored search advertising for these keywords would be.

In the given data, 20% of traffic for the branded keywords is through the sponsored ads that we show on google. It means sponsored ads generate average revenue. So, it can't be ignored.

Return on investment or return on costs is a ratio between net income and investment. A high ROI means the investment's gains compare favorably to its cost. As a performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiencies of several different investments.

A positive ROI means that net returns are positive because total returns are greater than any associated costs. A negative ROI indicates that the total costs are greater than the returns.

From the data provided in the excel sheet,

Weekly average traffic attributable to ads = 2544.120

The weekly average for sponsored ads for weeks 1-9 = 31,390

Average cost per click = \$0.60

ROI can be calculated as

$$\begin{aligned} \text{ROI} &= (\text{Revenue} - \text{cost}) / \text{cost} \\ &= (2544 \times 2.52 - 31390 \times 0.6) / 31390 \times 0.6 \\ &= -66\% \end{aligned}$$

In the analysis performed, ROI is negative that is -66% which indicates the total costs are greater than returns.

To improve ROI, sales should be grown and generate more revenue. Also, how much ad spending is contributing to the revenue should be taken care of.

Invest in the development of the website. Look for ways to make the website more interesting and can land many customers.

Look for ways to increase the organization's profit margins. If the margin per conversion is more, ROI is improved.

Get more mileage from the content. Creating content is a big investment. So, maximize the returns by making content do more work.

Using better tools can also improve ROI.

Track the right metrics to improve ROI.

They can try to improve their quality score for the google ad-words so that they can win the auction by bidding less amount of money and getting more profits from the websites.