

# \$10 Per Click - Do they know something we don't?

By Neal Lebar

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I have utilized pay-per-click (PPC) advertising since its inception about two years ago. With PPC, the advertiser is only charged when a person actually clicks on their link. The amount you actually pay for each click is referred to as the cost-per-click (CPC). I've got to admit, I was pretty leery at first. But since then I've watched the price of certain search engine keywords skyrocket in excess of \$10 per click! The big question isn't how much it costs per click but how many clicks does it take to get an acquisition. I've often asked myself, why would so many companies pay that much money for one single, measly, push of the index finger? The answer is simple – it just works!

## HOW TO JUSTIFY \$10 PER CLICK

The advent of PPC advertising has changed Internet marketing forever. It represents a free market in much the same way as eBay — controlled by a natural supply and demand relationship. For a keyword phrase such as “debt consolidation,” the top five advertisers are willing to pay cost-per-click charges of \$10.01, \$10.00, \$9.99, \$7.00, and \$6.97. My first reaction was, something has to be wrong with this picture – it just can't be! So I looked at the “life insurance” phrase, where the top five range from \$7.00 to \$3.50. Then there are drugs like “Xenical” that range from \$6.76 to \$6.74. There are many more examples where the cost-per-click exceeds \$6.00, \$7.00, or \$10.00, but you get the point.

The fact of the matter is that while PPC advertising can work quite well – it can also be a flat out failure. When companies are willing to pay more than \$5.00 per click, you can be pretty certain that they have figured out how to make it work – otherwise they wouldn't pay those prices.

## THE SELECT FEW

I have seen many situations where PPC will work for one company but not for another in the same industry, using the same keywords. Large and small companies will venture in, bid for a week or two, and then drop out — never to be heard from again. Some will come in, drive the prices way up then drop back out to obscurity. The select few who are successful have found the secret — a combination of patience, determination, creativity, keyword selection, management and analysis. They do the math, every day – they manage the bids, every day – they look for new keywords, every day – they analyze the results, every day. It takes a great deal of work to figure out how to make PPC advertising deliver results, and the ones who have are now benefiting – every day.

## WHAT IS THE COST OF AN ACQUISITION?

In order to determine if your PPC advertising is justified, the first thing you need to understand is your current acquisition cost – what does it now cost to acquire a new customer or order? It's amazing how few companies know what their cost of acquisition is. To keep it simple, take your total advertising expenditures and divide it by the number of new acquisitions (orders or customers), that should give you a rough estimate of your cost per acquisition. Similarly, after running a PPC campaign for a month, you take the total advertising expenditures divided by the number of acquisitions. Of course, these raw numbers are not burdened by administrative costs, but they still provide an apples-versus-apples comparison.

I have managed PPC campaigns where the average cost-per-click was \$0.40 and others where it was \$5.00. The key question remains: how many clicks does it take to get an acquisition? If the cost for each click is \$0.40 and it takes 200 clicks for an acquisition, then the acquisition cost is \$80.00. If the cost for each click is \$5.00 and it takes 10 clicks, the cost of the acquisition is \$50.00.

## FINDING THE GAPS

Two key points are crucial: (1) how much does it cost to get an Internet acquisition compared to traditional methods? and (2) what is the value of a new customer? In some businesses a new customer is worth \$1,000, while in others, only \$10. Typically, the cost-per-click reflects this value, but since the market is still very small, there are significant gaps. Remember the “debt consolidation” keyword phrase above? The difference between the first and last cost-per-click was about 30%. On the other hand, there is literally no difference between cost-per-click rates for the keyword “Xenical”. From this you may conclude that there is a lot more competition for “Xenical” than there is for “debt consolidation”. The opportunity is between the gaps in the 30% differential example.

The bidding market for keywords is still so new and untapped that it's rare to have more than three competitors fighting over a specific phrase. The gaps in keyword cost-per-click charges such as “debt consolidation” are the norm and represent tremendous opportunities still available in this media. Right now they are plentiful, and for those few people who take the time to understand this important marketing tool, the time to act is NOW!

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