Atlas® Institute | Digital Marketing Insights

The Atlas Rank Report—Part II: How Search Engine Rank Impacts Conversions

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Introduction

Search engine marketing has rapidly gained in popularity because of the targeted nature of the traffic it provides. Many advertisers see a high click-to-conversion rate for search traffic compared to other forms of online media, but advertisers have also seen an increase in the average cost per click for paid search ads. Most paid search ads are sold on a pay-for-position model by which you can adjust the rank of your ad by raising or lowering your bid. Lowering bids decrease advertising costs, but does it also decrease the effectiveness of your ads?

In the Digital Marketing Insight (DMI), "The Atlas Rank Report: How Search Engine Rank Impacts Traffic," we showed how the volume of traffic falls according to the rank of paid search listings. In this report, we combine what we learned from the traffic analysis with the impact of rank on click-to-conversion rate. Marketers who understand the dynamics of these two metrics can better control the cost of search marketing campaigns while maximizing targeted traffic and sales.

The Impact of Rank

Click-to-conversion rates for keywords generally fall according to rank. However, conversion rates for low volume keywords may actually increase at lower ranks.

How We Looked at Conversion Rate

Our analysis is based on conversions that advertisers designated as their "primary" conversion. Most of the data represents online sales. However, the data also includes and is relevant to conversions such as lead acquisitions, account sign ups, and requests for information. We analyzed July and August 2004 traffic representing 41,460,000 clicks and 408,000 keywords.

Conversion rate is the percentage of click-throughs that result in a conversion. Our method of calculating conversions counted a maximum of one conversion per visitor. That is to say that a visitor who bought more than once still counted as a single conversion. Visitor behaviour was tracked in most cases for 90 days following an initial click-through from a search ad.

What We Have Learned

The question we sought to answer in our investigation was: how does a change in the rank of a search ad affect conversion rate for that ad? To do so, we looked at the aggregate change in conversion rates for thousands of keyword ads as they moved among ranks. Due to the fact that conversion rates vary greatly across advertisers, we expressed the differences between the ranks relative to rank 1. By doing so, the following tables provide measures relevant to any industry category.

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Google AdWords			
Rank	Click Potential	Conversion Rate	Conversion Potential
1	100.0%	100.0%	100.0%
2	59.8%	91.1%	54.5%
3	47.5%	75.1%	35.7%
4	39.0%	72.4%	28.2%
5	34.8%	69.3%	24.1%
6	31.3%	71.9%	22.5%
7	24.0%	67.6%	16.2%
8	20.0%	64.9%	13.0%
9	15.3%	72.3%	11.1%
10	13.9%	87.7%	12.2%

Figure A: Google AdWords data

Overture			
Rank	Click Potential	Conversion Rate	Conversion Potential
1	100.0%	100.0%	100.0%
2	77.7%	93.9%	73.0%
3	58.8%	101.4%	59.6%
4	41.8%	96.2%	40.2%
5	30.2%	94.8%	28.6%
6	24.0%	92.4%	22.2%
7	18.0%	88.4%	15.9%
8	14.1%	93.1%	13.2%
9	9.0%	81.0%	7.3%
10	7.8%	76.2%	6.0%

Figure B: Overture Precision Match data

Click Potential

The expected percent change in click-throughs in relation to rank 1. This factor represents the combined impact of changes in impressions and click-through rate by rank[1].

For example:

Rank 6 in Google receives 31.3% of the traffic received vs. rank 1. If rank 1 drives an average of 1000 clicks per month, one can expect the rank 6 to deliver 313 click-throughs.

Relative Conversion Rate

The expected change in conversion rate in relation to rank 1.

For example:

If the conversion rate is 10% in Google's rank 1, one can expect a conversion rate of 9.1% (91.1% of 10%) in rank 2.

Conversion Potential

The expected percent change in conversions in relation to rank 1. This factor combines the effects of traffic volume and changes in conversion rates by rank.

For example:

Compared to rank 1 in Google, rank 2 receives 59.8% of the click volume and has a 8.9% lower conversion rate. Thus, if an advertiser fell from rank 1 to rank 2, the combined effect translates to 54.5% (59.8% x 91.1%) fewer conversions.

Although the conversion rates for both Google and Overture only fall about 20%-30% between the rank 1 and rank 10, the overall impact on conversion potential is a 90% decrease. The dramatic drop is mostly driven by the fall in click potential rather than big differences in conversion rates. Let's take a look at how these metrics can be used to forecast clicks, conversions and ROI metrics when planning changes to your search marketing strategy.

Forecasting the Impact of Rank

To calculate the expected change in conversions from rank A to rank B, take the historical value for conversions in rank A and multiply it by:

$$\frac{\text{Conversion Potential B}}{\text{Conversion Potential A}}$$

[1] "The Atlas Rank Report: How Search Engine Rank Impacts Traffic", www.atlasdmt.com/media/pdfs/insights/RankReport.pdf

For example, by moving from rank 2 to rank 4 in Google, you can expect the total number of conversions to fall by a factor of 51.7% (28.2%/54.5%). The same formula works to calculate the expected change in expected clicks.

Let's walk through an example of using the aggregate metrics to model performance of a real campaign scenario. Last month you averaged rank 2 for a keyphrase in Google which resulted in 10,000 clicks and 200 conversions. You would like to forecast the impact of moving from rank 2 to rank 3. The current bid prices for rank 2 and rank 3 are $1.00 and $0.90 respectively. Based on those numbers, you are currently paying $50 per conversion.

	Cost per Click	Click	Conversions	Cost per Conversion
Rank 2	$1.00	10,000	200	$50.00
Rank 3	$0.90	?	?	?

By making the change, you should see revised results along the following lines:

- **Rank 3 Clicks**: 7568 – 79.4% of 10,000 clicks. The factor of 79.4% is determined by taking the Click Potential for rank 3 (47.5%) and dividing it by the Click Potential for rank 2 (59.8%).
- **Conversions**: 131 – 65.5% of 200 conversions. The factor of 65.5% is determined by taking the Conversion Potential for rank 3 (35.7%) and dividing it by the Conversion Potential for rank 2 (54.5%).
- **Cost per conversion**: $51.99 – $6811.20 divided by 131 conversions. $6811.20 is derived by taking 7568 clicks multiplied by $0.90 per click.

By moving down a rank, you save money per click, but your cost per conversion actually goes up by almost $2 because of the associated change in conversion rate. A change in rank in this instance would not be recommended as you would be lowering your traffic and sales volume, while increasing your acquisition costs. There are numerous factors that should be taken into account to accurately forecast clicks, cost, and conversions, but this is a reasonable place to start.

Additional Insight: High Volume vs. Low Volume Search Ads

In analyzing the data, we also noticed an interesting trend: higher volume search ads tend to go down in conversion rate by rank while lower volume keyphrases tend to go up. In the overall analysis, we weighted mean conversion values by keyword volume, which is to say that we counted high volume keywords more heavily in our average. While this approach is more relevant to the effects you will see in aggregate, we were also interested to see how conversion rates behaved if we looked at high volume ads versus low volume ads. The results of our analysis are below.

We analyzed the same set of keyword ads as above, but put the 20% of keyword ads that generated the most volume in one group, and put the 80% of lower volume keyword ads in the other. What we found was quite interesting. Rank 8-10 for low volume keywords on Google had about 30% higher conversion rates than rank 1. We also found that although the conversion rates fall consistently for high volume keywords in Overture, low volume keywords showed sustained conversion rates across all 10 ranks.

Google AdWords		
	Relative Conversion Rate	
Rank	High Volume	Low Volume
1	100.00%	100.00%
2	85.93%	98.60%
3	71.51%	83.24%
4	68.96%	94.89%
5	71.50%	93.83%
6	70.40%	101.79%
7	64.40%	110.96%
8	65.91%	127.67%
9	67.31%	133.51%
10	90.89%	135.46%

Overture		
	Relative Conversion Rate	
Rank	High Volume	Low Volume
1	100.00%	100.00%
2	89.76%	105.22%
3	95.16%	104.78%
4	86.88%	110.72%
5	86.49%	104.91%
6	88.07%	108.91%
7	71.92%	105.29%
8	77.55%	96.17%
9	63.27%	97.74%
10	57.71%	101.19%

Figure C: Relative conversion rates for high volume versus low volume keyword ads

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What This Means for Marketers

- **Balance your efficiency and volume goals.** When setting target values for return-on-ad-spend (ROAS) or cost-per-acquisition (CPA), you should factor in the volume of conversions. You may attain the best ROAS at rank 10, but may be disappointed at the total number of conversions generated at that rank.
- **Pay a little extra for a higher rank.** Conversion rates for your highest volume keywords will drop by rank. If rank bids are close together, as often happens, it will likely make sense to pay the additional few cents to move up in rank. Analyze your own data to identify what bid increases are justified by rank based on the resulting increase in conversion rate.
- **Test lower ranks for low volume keywords.** Conversion rates for your low volume keywords may very well increase as rank falls. We observed this trend across both search engines. This insight presents an opportunity for marketers to lower their costs while sustaining conversion volumes for their low volume keywords.
- **Look at your own data.** Many factors contribute to the likelihood of a conversion; therefore, a study such as this is primarily useful for forecasting and comparing your results to industry benchmarks. What we have shown here may significantly differ from the trends revealed by your own data. Every marketer will find unique trends specific to their circumstances. Finding the sweet spot for conversions for your ads is about measurement and experimentation.

About the Atlas Institute

The Atlas Institute is the research and education arm of Atlas DMT, an advertising technology provider and creator of the Atlas Digital Marketing Suite. The Institute publishes Digital Marketing Insights, a series of reports by Atlas DMT's senior marketing analysts and digital marketing experts that help our clients improve their digital marketing effectiveness. Many of these findings are also made available to the digital marketing industry at large. Each Digital Marketing Insight report is designed to help marketers more successfully build value with their customers throughout the customer lifecycle: from awareness to acquisition and from retention to growth. The Atlas Institute also provides education in digital marketing to Atlas DMT customers and partners.

About Atlas OnePoint™

Atlas OnePoint is a leading global provider of paid search management and optimization tools and operates as part of Atlas DMT. Atlas OnePoint enables small and mid-tier online advertisers to manage thousands of keywords and marketing campaigns simultaneously across all major domestic and international search engines. It optimizes clients' bids and positions in leading Internet pay-per-click search engines, which saves clients time and money, improves ROI, and increases website traffic. For more information about Atlas OnePoint, visit www.AtlasOnePoint.com or call 303-721-2925.