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The Best SEM Agency Fee Structure is **Capped Percentage Of Ad-Spend**

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Does Fee Structure Matter?

Yes.



When we review data from a competitor for a prospect, we can typically detect the other agency's fee structure from the term list and performance data.

Comp structures drive how agencies approach search.

SEM Fee Models

- % of revenue
- % of ad expense
- *Hourly*
- *Flat Monthly*

Pros And Cons

Model	Pros	Cons
Rev share	<ul style="list-style-type: none">• Pay-for-performance	<ul style="list-style-type: none">• Skimming• Order over-counting
Ad markup	<ul style="list-style-type: none">• Brand vs. non-brand	<ul style="list-style-type: none">• Work incentive• Overspend• Min & Max

An Example

Google AdWords, 2006-10-16 though 2006-11-26											
	Num Phrase	Imps	Clicks	Ad Cost	CPC	Orders	Items	Sales	CTR	Conversion	Total A/S
Grand Total	17,847	11,075,383	506,110	\$ 277,641	\$0.55	17,039	33,416	\$2,466,049	5%	3%	11%

- \$2,466k in sales
- \$277k in cost
- 18k distinct phrases received clicks

Digging Into The Details

Google AdWords, 2006-10-16 though 2006-11-26											
Phrase	Num Phrase	Imps	Clicks	Ad Cost	CPC	Orders	Items	Sales	CTR	Conversion	Total A/S
BRAND NAME	1	279,619	141,418	\$ 5,734	\$0.04	7,919	15,887	\$ 1,072,780	50.58%	6%	1%
BRANDNAME	1	16,417	6,698	\$ 826	\$0.12	538	1,138	\$ 68,545	40.80%	8%	1%
BRAND	1	52,462	2,562	\$ 2,458	\$0.96	110	237	\$ 12,552	4.88%	4%	20%
BRAND NAME COUPON	1	5,121	491	\$ 1,568	\$3.19	89	193	\$ 12,286	9.59%	18%	13%
BRAND NAME HERO PRODUCT	1	8,789	924	\$ 740	\$0.80	35	58	\$ 7,527	10.51%	4%	10%
Total	5	362,408	152,093	\$ 11,326	\$0.07	8,691	17,513	\$ 1,173,691	42%	6%	1%
OTHER	17842	10,712,975	354,017	\$ 266,315	\$0.75	8,348	15,903	\$ 1,292,359	3%	2%	21%
Grand Total	17,847	11,075,383	506,110	\$ 277,641	\$0.55	17,039	33,416	\$ 2,466,049	5%	3%	11%

Terms



0.03%

Ad Cost



4%

Sales



48%

Bashing Rev-Share

- Skimming the low-hanging fruit
- Order allocation disputes

We could get 48% of the pay for 0.03% of the work, then move on to next client!



Rev-share SEM

But 15% of "your" orders also show up in our system as email, affiliate, & SEO orders – we're paying on orders doubly and trebly counted!



Rev-share Client

Program Audits

- Cost audit
 - Do costs in SEM reports tie to search engine invoices?
- Sales audit
 - Do sales in SEM reports tie out to order #s?
 - Are orders being counted more than once?
- Check efficiency
 - Top terms by cost
 - Top categories by cost
 - Brand vs. Non-brand
- Check marketing
 - Term list completeness
 - Copy relevance
 - Destination URLs
 - What tests? What learnings?

Order Audit

All times are EST

Order_Date	Order_Number	Sales	Items	Ad_Phrase	Last_Click_through	Platform
5/1/06 2:33 AM	31943	\$ 449.95	1 a		5/1/06 2:20 AM	Google Paid Search
5/1/06 3:08 AM	15213	\$ 9.95	1 ic		5/1/06 2:14 AM	Yahoo Paid Search
5/1/06 3:10 AM	17353	\$ 84.95	1 s		3/20/06 2:05 AM	Google Paid Search
5/1/06 3:17 AM	24023	\$ 49.95	1 s		5/1/06 2:45 AM	Google Paid Search
5/1/06 4:53 AM	10253	\$ 49.93	2 h		4/13/06 5:18 AM	Google Paid Search
5/1/06 1:04 AM	76273	\$ 37.00	1 s		4/30/06 7:02 PM	Google Paid Search
5/1/06 1:06 AM	39383	\$ 69.95	1 tl		4/29/06 2:05 AM	Google Paid Search
5/1/06 3:01 AM	08583	\$ 59.90	2 a		4/30/06 10:22 PM	Google Paid Search
5/1/06 1:25 AM	09053	\$ 1,049.85	6 a		4/30/06 11:04 PM	Google Paid Search
5/1/06 2:38 AM	36383	\$ 229.85	3 s		5/1/06 2:01 AM	Yahoo Paid Search
5/1/06 2:57 AM	05243	\$ 37.45	2 s		3/20/06 2:05 AM	Google Paid Search
5/1/06 3:02 AM	09543	\$ 39.90	2 s		5/1/06 2:54 AM	Yahoo Paid Search
5/1/06 3:54 AM	10013	\$ 69.95	1 p		4/25/06 1:36 AM	Google Paid Search
5/1/06 5:19 AM	44233	\$ 59.98	1 s		4/20/06 5:22 AM	Yahoo Paid Search
5/1/06 5:20 AM	45233	\$ 40.85	3 d		4/23/06 9:42 PM	Google Paid Search
5/1/06 7:22 AM	25663	\$ 299.95	2 a		5/1/06 7:08 AM	Yahoo Paid Search
5/1/06 7:38 AM	42483	\$ 139.90	2 s		4/29/06 8:51 AM	Yahoo Paid Search
5/1/06 7:55 AM	54963	\$ 55.97	1 s		4/30/06 6:29 PM	Google Paid Search
5/1/06 8:06 AM	72203	\$ 89.90	2 s		5/1/06 8:02 AM	Google Paid Search
5/1/06 8:06 AM	73023	\$ 76.85	3 s		5/1/06 7:41 AM	Google Paid Search
5/1/06 8:26 AM	07273	\$ 524.93	2 s		5/1/06 8:21 AM	Google Paid Search
5/1/06 8:38 AM	23833	\$ 149.95	1 b		5/1/06 8:16 AM	Google Paid Search
5/1/06 8:39 AM	35413	\$ 98.01	1 s		5/1/06 1:44 AM	Google Paid Search
5/1/06 8:50 AM	38703	\$ 74.93	2 s		3/7/06 1:49 PM	Google Paid Search
5/1/06 9:12 AM	35223	\$ 129.95	1 s		5/1/06 8:53 AM	Google Paid Search
5/1/06 10:02 AM	34353	\$ 59.90	2 n		5/1/06 9:57 AM	Google Paid Search
5/1/06 10:13 AM	49043	\$ 524.93	2 s		5/1/06 10:03 AM	Google Paid Search
5/1/06 10:28 AM	70833	\$ 139.93	2 s		5/1/06 10:15 AM	Google Paid Search
5/1/06 10:43 AM	33003	\$ 15.45	1 ic		4/28/06 2:05 PM	Google Paid Search
5/1/06 10:47 AM	76663	\$ 29.95	1 ic		4/28/06 2:05 PM	Google Paid Search
5/1/06 11:04 AM	21693	\$ 349.90	2 ir		5/1/06 10:58 AM	Google Paid Search
5/1/06 11:06 AM	23993	\$ 49.93	2 s		5/1/06 10:57 AM	Google Paid Search

Order Over-Counting

Case Study: Major *Gifts Retailer* (Catalog Top50), Jan-July 2006

- 37% of Paid Search Sales also attributed to other channels
 - 10.6 % : In-House Email
 - 9.2 % : Direct Mail
 - 4.9 % : Other US Internet Advertising
 - 3.1 % : Portal Advertising
 - 3.1 % : eBay Auction
 - 3.0 % : Affiliates
 - 1.7 % : Existing Website Promotion
 - 1.1 % : Corporate Sales Programs (Loyalty Sites)
 - 0.7 % : Shopping Comparison Sites
 - 0.2 % : Infomercial
- **Much higher prevalence of over-counting on brand terms**

Pros And Cons

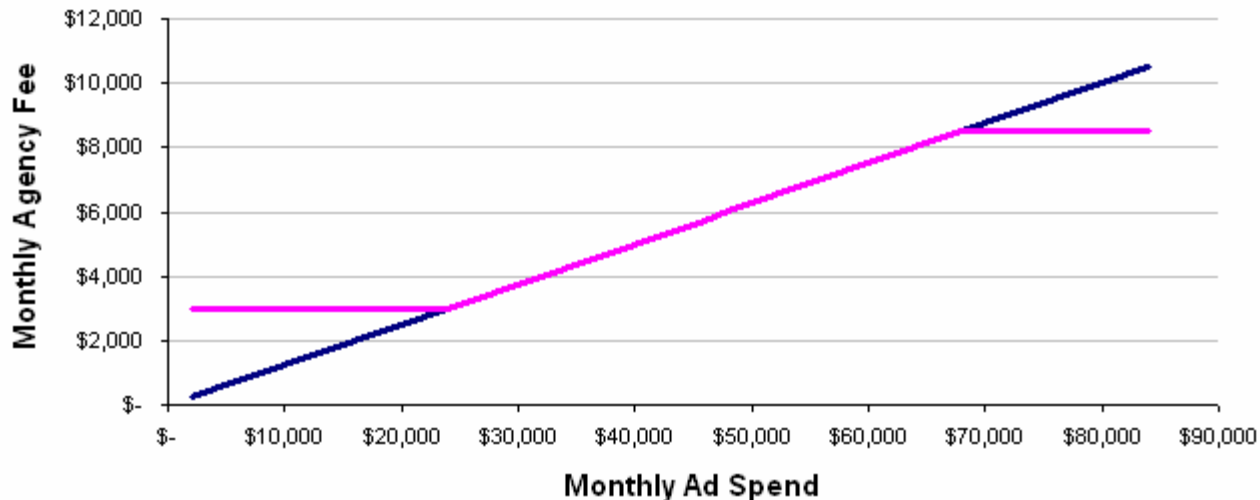
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Not Being Fired: The Ultimate Incentive

- Mutual fast no-cause outs
 - Client can terminate contract with 15 days notice, without cause.
 - Agency can, too.
- 15 isn't a magic number:
7, 15, 30 is fine, but not 60, 90, 120...

Caps

- % of 0 is 0: too small for agency
- % of \$\$\$ is \$\$: too big for client
- Thus, min & max monthly fee caps



More Details

- Caps protect agency at bottom
- Caps protect client at top
- Caps dissuade clients which are too small
- VLCs: max cap based on complexity & work
- Multiple site discounts... sometimes
- Ala carte add-on services:
feeds, consulting, custom programming

Recap

- Client pays Agency management fee based on **% of ad spend**, with a monthly **minimum** and **maximum** cap
- Contract offers both Client and Agency **fast, no-cause out**

Thank You!



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