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10-3b Advertising

Google's main source of revenue is advertising. The company earns approximately \$70 billion in advertising revenue. Google's signature advertising platform is Google AdWords, first introduced in 2000. Google AdWords differs from traditional advertising in that advertisers do not pay Google anything upfront, but only pay when customers take action —either by viewing the ad (pay-per-impression), clicking on the ad (pay-per-click), or performing a certain predefined action such as making an online purchase (pay-per-conversion). This model is attractive to advertisers because they only pay when their ad is effective, as determined by the metric of their choice. The twist, however, is that Google does not set ad prices but rather puts its limited advertising space up for auction; companies submit "bids" for how much they will pay per customer action, and higher bids generally get more ad time (other factors are also considered, such as how popular an ad has been so far). Google makes no money from even a very high bid if customers do not engage with the ad. Advertisers are therefore incentivized to bid high, which benefits Google's bottom line. Google promotes the model as a win-win; it makes a profit, and companies get more bang for their advertising buck.

Google leverages its various product offerings to provide a variety of attractive advertising options. Companies can choose to have their ads displayed as "sponsored links" alongside search results for certain keywords, or as banners on any of the more than two million websites that display Google ads in return for a cut of the profits (known as the Google Display Network). YouTube is another option, offering video ads before or during videos as well as traditional banner space on the site. Mobile is also becoming a critical advertising space, through both searches on mobile devices and apps that allow advertising. Improving the effectiveness of its AdWords service is a key driver of Google's collection of user information—the more it knows about its users, the more targeting options it can provide to advertisers and the more precisely it can serve targeted ads to desired consumer segments.



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