Why Amazon Advertisers Pay Top Dollar for Clicks

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Amazon's ad business is booming, and more advertisers are spending —and spending more—on the platform. That means both prices and competition for ad slots are high.

Amazon advertising automation service Pacvue reported that Sponsored Product costs per click (CPCs) for its clients rose by 13% year over year in Q3 2019, while prices for Sponsored Brand ads were down 8% over the same period.

Performance ad agency Merkle reported CPCs for Sponsored Product ads were up 11% in Q3 compared with a year earlier, vs. an 18% drop in CPCs for Sponsored Brand ads. And Tinuiti, formerly known as Elite SEM, similarly reported a 10% year-over-year increase in Sponsored Product CPCs among its clients in Q3, but it saw 3% growth in Sponsored Brand CPCs.

To learn more about how advertisers are approaching Amazon's CPC ad offerings—and whether there's any limit to how high prices will go—eMarketer principal analyst Nicole Perrin spoke with Casey Gauss, CEO of Amazon seller tools provider Viral Launch.

Are there any big differences in how you and your clients are working with Amazon now compared with a year or two ago?

The first trend is that advertising became more competitive than we anticipated—or at least at a rate faster than we expected this year. It really started around February and March, as Amazon started rolling out some of its new features. With an increasing focus on advertising, prices have skyrocketed. It's much more difficult to be profitable, and people are starting to really look at CPC as a tool to drive the rest of the business. Advertising is becoming more competitive and more expensive, but also more important.

The second trend is how Amazon is ranking products now. You used to be able to leverage advertising to drive keyword ranking, but there was a major algorithm shift. Now CPC doesn't have that much of an effect on driving new rankings. It's more of a lever to maintain rankings once you use some other tactics to drive that SEO.

You mentioned prices going up. CPCs on Amazon are already high—is there a limit to how much prices can increase?

There's a particular margin that a seller expects to make in a pretty static market. If the average CPC has not reached that prohibitive threshold, there's room for increases.

Our general premise has been that you need to look at CPC as a lever to drive the overall business. Driving more CPC sales does help to maintain keyword ranking, which is important. Driving CPC sales does help drive additional reviews, so sellers who are focused on the whole of their business are able to justify a little higher spending than those who aren't.

We've also heard that, in some cases, sellers are willing to spend more than their margin on advertising because they expect a higher customer lifetime value and repeat purchases. Are you seeing that among your clients?

We have some customers on the consumables side who have a 40% reorder rate. They just want to get people into that funnel. They'll pay well above that margin threshold in order to get them into that funnel. That's one scenario.

A second scenario would be: Each sale you give up to a competitor is less ranking that you're driving—and when that competitor gets more ranking, they get more reviews. So people will pay outside their margin threshold as a defense mechanism to make sure their competitors are not driving that sale.

And with people spending above that margin threshold, it's impossible for others to spend within their own margin threshold for those same keywords.