Advertising SOP: How Advertising Bidding Strategies Work

08/27/2024 11:28 am CDT

How Advertising Bidding Strategies Work

> **Who is this for?**
> Individuals who need to have an idea of how advertising bidding strategies work.

> **Objective:**
> This SOP (standard operating procedure) will help you to understand how bidding strategies like up and down, down-only, or fixed bids work.

How It Works:

Fixed Bids

In Fixed bids, Amazon takes your set bids as a default bid and does not adjust your bid based on conversions. It doesn't mean that your CPC will be the same as your bid, It works as you guide the Algorithm to show the ad on a broader level without considering the likelihood of conversion.

For example:

Buyer A searches for keyword 1 → **High Chances for Conversion**

Buyer A searches for keyword 2 → **Medium Chances for Conversion**

Buyer B searches for keyword 1 → **Low Chances for Conversion**

Buyer B searches for keyword 3 → **Low Chances for Conversion**

Now with dynamic bidding, Algorithm chooses the auction to show your add It shows to add to the green highlighted customer and may show to the yellow ones considering the conversion but it will not show the add to red ones as the algorithm sense that there will be fewer chances for conversion but In Contrast, fixed bids expands the auction and shows the adds to all customers green, yellow and red without considering the likelihood of conversion.

Benefits:

The fixed bidding strategy is great if the goal is to gain impressions and not necessarily conversions or sales as the algorithm doesn't consider the likelihood of a sale.

When to use:

- Fixed bids are more appropriate when your brand or product is new on Amazon and you want to gain impressions and gather search data with a strict budget.

- If your keywords are performing well and want to get more sales as we trust our conversion rate (not necessarily mean that it will convert well)

Considerations:

A fixed bid is more likely to overpay for a click since it cannot change in response to live auctions. In this regard, this strategy must be constantly managed, it is not meant for gaining conversions and sales. If you choose to use a fixed bidding strategy campaign, revisit the campaigns after a couple of days, analyze and gain insights and then switch to a dynamic bidding strategy if it doesn't work better than down*only.

When not to use:

- To control ACOS or for overspending bids.

- When you have a strict budget

Dynamic Bids – Down Only

Amazon will decrease your bid amount if they determine that your ad serves a customer search query less likely to convert to a page view or a sale. Amazon will not increase your bid.

Benefits:

This is the bidding strategy helpful when goals are to control or preserve ad spend, increase efficiency on ad spend, and focus on ad profitability.

When to use:

- For general use

- For controlling campaigns where ACOS is high

- When you have a strict budget

Considerations:

Down-only bidding works with Amazon's Algorithm which decides whether to show your ad on an auction or not sometimes it doesn't show your ad against a search term or product as it considers your ad may be less likely to convert to a sale so then you should change your bidding strategy to fixed bids so that you can guide the algorithm to show your add on targeted keyword or product and after a week or two track and analyze your data and changed the strategy to down only again.

When not to use:

- When seeking to boost traffic to a product

- Where data is not accumulating quickly enough

Dynamic Bids – Up and Down

Using the dynamic bids – up and down strategy enables Amazon to increase or decrease your bids when the Algorithm determines the ad is more or less likely to convert to a sale.

For example, Amazon can adjust your bid of $1.00 up to $2.00 for opportunities on top of the first page of search results, and up to $1.50 for opportunities on all other placements.

Benefits:

The up-and-down dynamic bidding strategy is effective when your goal is to grow sales. The more sales you get on Amazon, the more your product listing will appear organically in searches.

When to use:

- When the campaign is matured and well-optimized(good sales history with controlled ACOS) and on products with good conversion rates, the goal is to increase total sales to kick Amazon's flywheel into action.

- To get initial traction on your auto campaigns for the products that you are launching. We want to make sure we are bidding enough with up-down and seeing what the CPCs would be. Then after we understand the market and the data, we can switch to down-only or fixed and adjust the bids accordingly to CPC values.

Considerations:

Switch your bidding strategy to down only if, after at least two weeks, when the ad is not hitting the sales or efficiency goals you wanted.

Note: Usually we don't utilize this match type, and rather than this, we boost the bids regularly to get traction on the keywords.

When not to use:

While running a new campaign It's also important to analyze how volatile your bids have been, historically, for your category when choosing if this method is right for you.

Rule-Based Bidding

This bidding option takes the guesswork out of adjusting bids to achieve a marketing strategy. With this bidding strategy, you apply a rule with a guardrail and provide an average bid for the campaign. Amazon will then adjust your base bids up and down with each impression trying to achieve the performance guardrail that has been set by you.

Rule-based bidding is the newest strategy available in Amazon Ads. Since there are specific requirements for using rule-based bidding on a campaign, this is not a feature for new ads. Rule-based bidding can only be used on campaigns that have run for at least 30 days, with a minimum of 30 conversions during that time and at least a $10 daily budget. Amazon may then adjust your base bids up and down to increase conversions while maintaining your guardrails

Benefits:

This strategy is useful when you have a specific return on advertising (RoAS) goal for a brand and certain products. When a campaign is eligible, either follows recommended RoAS guardrail, which will populate in the input field, or set your own:

When to use:

- When the Campaign is mature enough and has a good history

- When the goal is to meet certain ROAS Goals for the Client

When not to use:

- When Campaigns are not mature enough and the ROAS history isn't stable

- When the Budget is strict

Considerations:

If you set your target or guardrail, choose a guardrail above your average 45-day RoAS but not more than 10-20% at a time. This allows you to monitor spending and test gradual performance. You can change this guardrail at any time. Adding a RoAS goal higher than 10-20% of the 40-day average may result in erratic spending.

If the Campaign does not hit the set guardrail over 21 days (not including special days like Black Friday/Cyber Monday or Prime Day), Amazon will disable the rule and will revert the ad to your previous bidding strategy. It is therefore important to note when you enabled rule-based bidding so you can check back in 21 days to see if it is still active and if you want to make changes to the campaign.

Summary Table

Bidding Strategy

Bidding Structure Type	When to Use	When not to Use
Fixed Bids	When you are lacking impressions, or for new product launches with strict budget controls New campaigns - switch to down and up after 20 orders.	To control ACOS or for overspending bids. To rank KW on product launch.
Dynamic Down Only	For controlling campaigns where ACOS climbs too high, or for new campaigns with strict ACOS or budget goals when	When seeking to gain additional traffic (impressions, sessions, etc), for campaigns where data is not accumulating quickly enough
Dynamic Up and Down	When a new campaign is set up with less stringent budget control (emphasis on data acquisition)	When the account is overspending when budgets are running fast/inefficiently
Rule-Based Targeting	To meet certain ACOS Goals	On new campaigns without much data