

## J. Michael Locke

### Musings

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#### #21: How Google Works April 12, 2020

Happy Easter! My guess is many of us will have our first exposure to “Telechurch” this morning.

I wanted to go tactical today. Almost every consumer decision starts with a Google search. It is now a verb. I would bet most of us “googled” to see if our respective church was streaming a service today. It is one of the most amazing developments in business over the last twenty years. As a leader, you have to understand how Google works.

Google has developed its dominant position (it has almost 90% of search engine market share) by providing superior results when the user searches. There are two types of results: organic and paid. The paid results are how Google makes money. These are ads that appear above the organic results. They are preceded by “Ad.” Advertisers have an account called Google Adwords where they can set how much they are willing to pay for their ad to come up when certain search terms are queried. Google also looks at how users behave and judges how relevant the ad is (i.e. you can’t just buy your way to the top of ads). It is basically a real time auction. Google constantly optimizes the placement of ads and the advertiser can constantly adjust bidding strategies. This is all done by computer algorithms. Important note, Google doesn’t get paid when the ad appears, it gets paid when the user clicks on the ad. This is why the channel is called “pay per click” or PPC.

There is an art form in writing the couple sentences in the ad to try and drive the user to click through. Most advertisers create a “landing page” where the searcher will go when they click through (i.e. don’t have the consumer go to the generic website and get lost, but to a relevant and actionable landing page.) One oddity of PPC is that most advertisers bid when the searcher queries that advertising company’s name (this is called branded PPC). The consumer knows the company and often just wants to get to the site but the company will still bid to get an ad in the search results as to not cede that ground to competitors. While some consider it a “black hat” (implying not good) practice, advertisers can bid on their competitors’ brand name queries. Think about it like putting a billboard across the street from your competitor.

Mobile queries exceed desktop searches now which has changed the PPC game. There is less “space” for Google to monetize – fewer ads. While the cost per click for mobile and desktop are similar, the mobile lead is less valuable as it is “higher up the funnel” and less ready to transact. So as an advertiser, you are paying a higher cost of acquisition.

Personally, I never click on a Google ad. I go past the ads to the organic results. Here is where the Google search algorithm brings back what it believes are the most relevant sites. This is the SEO game (search engine optimization). Companies have SEO teams and there is an entire industry of SEO consultants. It is a cat and mouse game. Google does not share its search algorithm (think KFC secret recipe). The SEO community tries to figure out how Google is evaluating worth. Every so often Google

updates its algorithm and the SEO world tries to figure how it has changed its methodology on judging the relevancy of a website. The objective of SEO is to be in the top three of organic results and absolutely on the first page. No one goes to the second page of results. The way to do this is to create highly relevant and valuable content for your target and optimize your site technically for SEO. You also want other websites to link to your site, which is a signal to Google that the content is high quality.

Google is hyper focused on having a “wall” between the search side of their operation and the ad side. They are like two different companies. Think about it like the Bernie Sanders progressive movement on the search side trying to give the consuming searcher what they want for free, and the Donald Trump capitalist side trying to sell ads to make money. When it went public in 2004, Google founders Larry Page and Sergey Brin did an unusual move and wrote a letter in its prospectus. This letter laid out their principles and vision and stated: *Sergey and I founded Google because we believed we could provide an important service to the world—instantly delivering relevant information on virtually any topic.....We aspire to make Google an institution that makes the world a better place.....With our products, Google connects people and information all around the world for free.* Not to be cynical but the business is worth \$830 billion and made \$47.6 billion in the last twelve months (buys a lot of Marxist t-shirts.)

When it first launched, the Google algorithm didn’t delineate the searcher or where s/he was. Everybody got the same results. Now, Google has a detailed profile of you (remember you usually are signed in) and knows where you are so it serves up hyper-targeted results. A fun game is for different people to do the same search and see the difference in results. (Another fun digital game is to do over/under on Uber ratings. Just click on the three lines on the top left in the app and your rating will be under your name next to your picture. In the ultimate grade inflation, you don’t want to be under 4.7). The Google algorithm also applies geographically as well, so advertisers can do “geo-fencing” where they only want their ads coming up for searches in a certain area.

Finally, Google is changing to become more of an “answer engine” vs a “search engine.” If you look at results, Google is pulling up more information and giving it right on the results page so you don’t click off their site but stay there. This will create opportunities for them to be more of a media property vs a gateway that just passes searchers off to other sites.

I think you will see Google broken up AT&T style in the next decade (I have not even addressed how they offer various software tools to help advertisers manage all of the above.) It will be a victim of its own success. Do you even consider another search engine? I have never heard my son challenge my dinner story with “I am going to BTS (Bing That Shi\_).” Many consider it too dominant and the politicians are circling already.

I also believe the trend to pass legislation to restrict the use of personal data will continue. It started in Europe with GDPR and then California with CCPA. Many economists are arguing that your personal web activity data is an individual property right and the user must be compensated for the company sell it (or leverage it for advertising sales). Google, Facebook, YouTube, Twitter, Instagram all provide their application or service for free. They “monetize” you and your usage by extensive tracking what you do and then selling the opportunity to advertise more precisely.

Be safe. Wear a mask.

Jml

*Second Thought*

Musing #18 Picking Your Partners discussed always having a banking relationship. A number of folks have just experienced one of the reasons why, with the chaotic PPP program rollout for small businesses. From the Dispatch (<https://thedispatch.com>, founded by fellow DePauw alum Steve Hayes), “Companies without existing banking relationships were left in limbo as banks granted preference to current customers.”