

YOUR GUIDE TO

Facebook Bid Strategy

December 2017



facebook



AcumenStudio.com

Contents

- 03 Introduction
- 04 Facebook Ad Delivery
- 08 Bid Strategy Overview
- 12 How to Set a Bid Strategy Amount
- 16 Bidding Best Practices
- 17 Things to Remember



AS



The Facebook family of apps and services is an effective way to reach valuable customers with ads that help grow your business.

There are currently more than 2 billion people who use Facebook every month. Combined with the popularity of our other platforms and the prevalence of the Audience Network publisher base, this gives you the opportunity to connect your ads with exactly the right audience. Our ad delivery system uses advanced machine learning to serve ads across our platforms, evaluating billions of ad-user pairings every day in order to show the right ad to the right person, at exactly the right time.

This guide gives you a helpful overview of how ads get shown across the Facebook family, as well as how your bid strategy affects delivery and cost.

While this guide is tailored toward Direct Response objectives, these principles can also apply to Brand marketing objectives. Though Reach and Frequency buying is not addressed in this guide, you may find more information about it by visiting the [Facebook Business help center](https://www.facebook.com/business/help/1168829329822087).¹

READ AHEAD TO LEARN HOW:

- Facebook finds the most relevant ad to serve a given person (“auction”) and spends your budget over time (“pacing”)
- Your bid strategy affects the delivery of your ads
- You can improve performance by implementing bidding best practices

¹ <https://www.facebook.com/business/help/1168829329822087>



Facebook Ad Delivery

Our system delivers your ads with two goals in mind: showing people ads they'll find relevant and maximizing value to drive your business objectives.

The Facebook ad delivery system is comprised of **three main components** that work together to deliver optimal results for your business:



Facebook Auction



Pacing System



Advertiser Controls

Facebook Auction

The Facebook ad auction is a system that determines which ads to show a person in order to maximize value for both audience and the advertiser.

When you create an ad, you indicate the results you care about with your selection of an optimization for ad delivery (e.g., website conversions or app installs.) When your ad enters the Facebook auction, it competes with ads from advertisers who target the same person who is eligible to see an ad. As with all content on our platforms, we try to make sure we're showing the right content to the right person at the right time. We also optimize user experience by limiting the number of ads people see in their News Feed, which means advertisers compete for a limited number of slots.

So how does the auction system determine who wins each slot?

We rank ads in the auction using a **total value** formula, where the ad with the highest total value is shown to the person in consideration. Total value is calculated based on three factors:

- 1 **Advertiser's Bid:** The advertiser's bid value for their desired result
- 2 **Estimated Action Rate:** The probability that showing an ad to the person will lead to the desired result
- 3 **User Value:** Determined by several components, including Ad Quality Panel, post-click experience, predicted and actual positive / negative ad engagement, and repetition of the ad



A **bid** represents what you're willing to pay to achieve your desired result from someone in your target audience. For detailed information about bidding, please visit the [Facebook Business help center](https://www.facebook.com/business/help/1619591734742116).²

² <https://www.facebook.com/business/help/1619591734742116>

Pacing System

While the auction decides which ad opportunity to show a given person, pacing determines how to spend an advertiser's budget across many ad opportunities.

We currently offer two options to control how pacing changes your budget over time: standard and accelerated delivery.

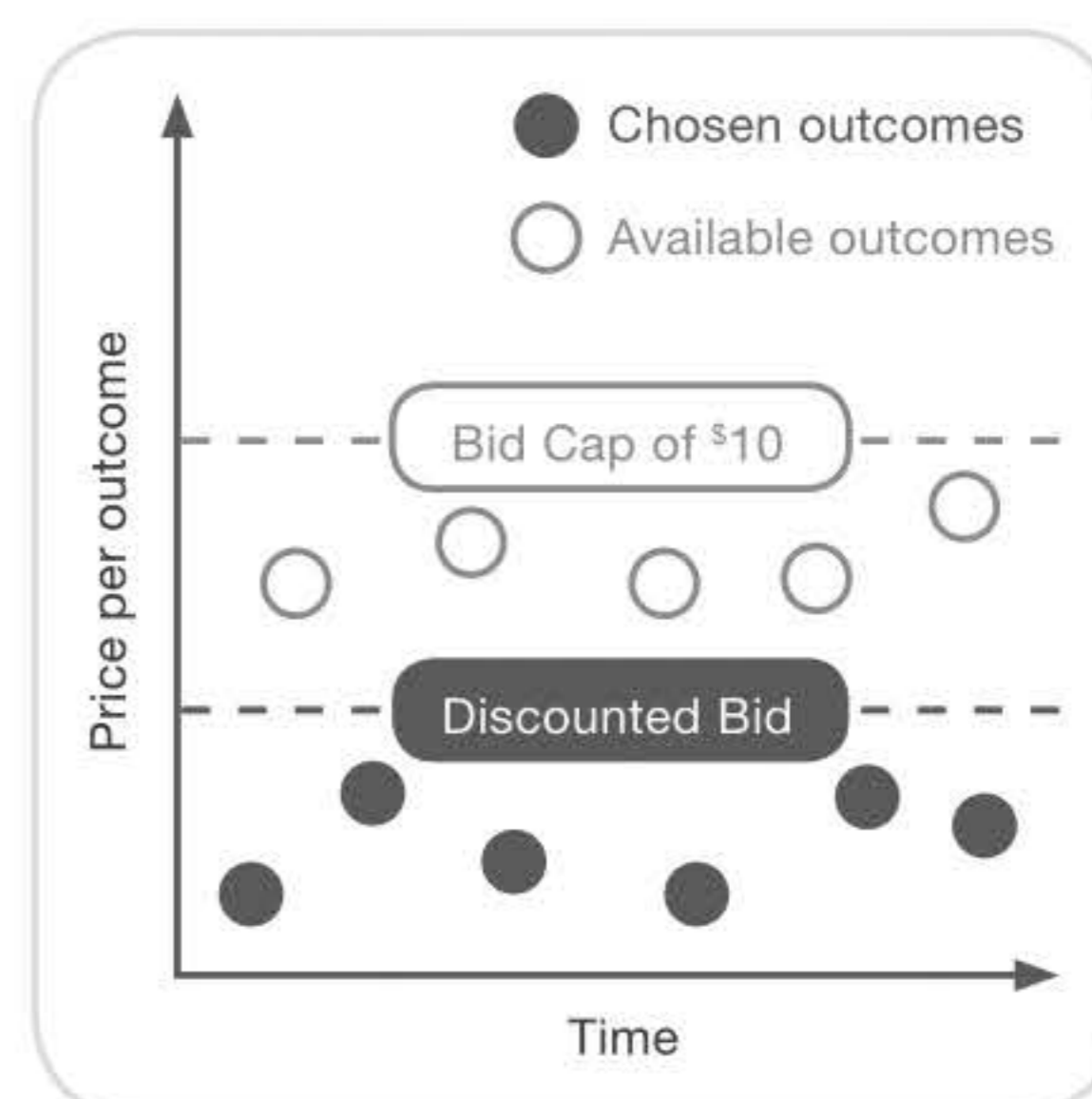
STANDARD DELIVERY

Standard delivery is designed to spend your budget evenly over the duration of the campaign using a method called "pacing". The pacing method in which your budget is spent depends on the bid strategy you choose:

Lowest cost bid strategy with standard delivery enabled

This uses "discount" pacing to spend budget on results with the lowest costs and aims to spend budget evenly over the course of your campaign. This option maximizes advertiser value by minimizing your cost per result.

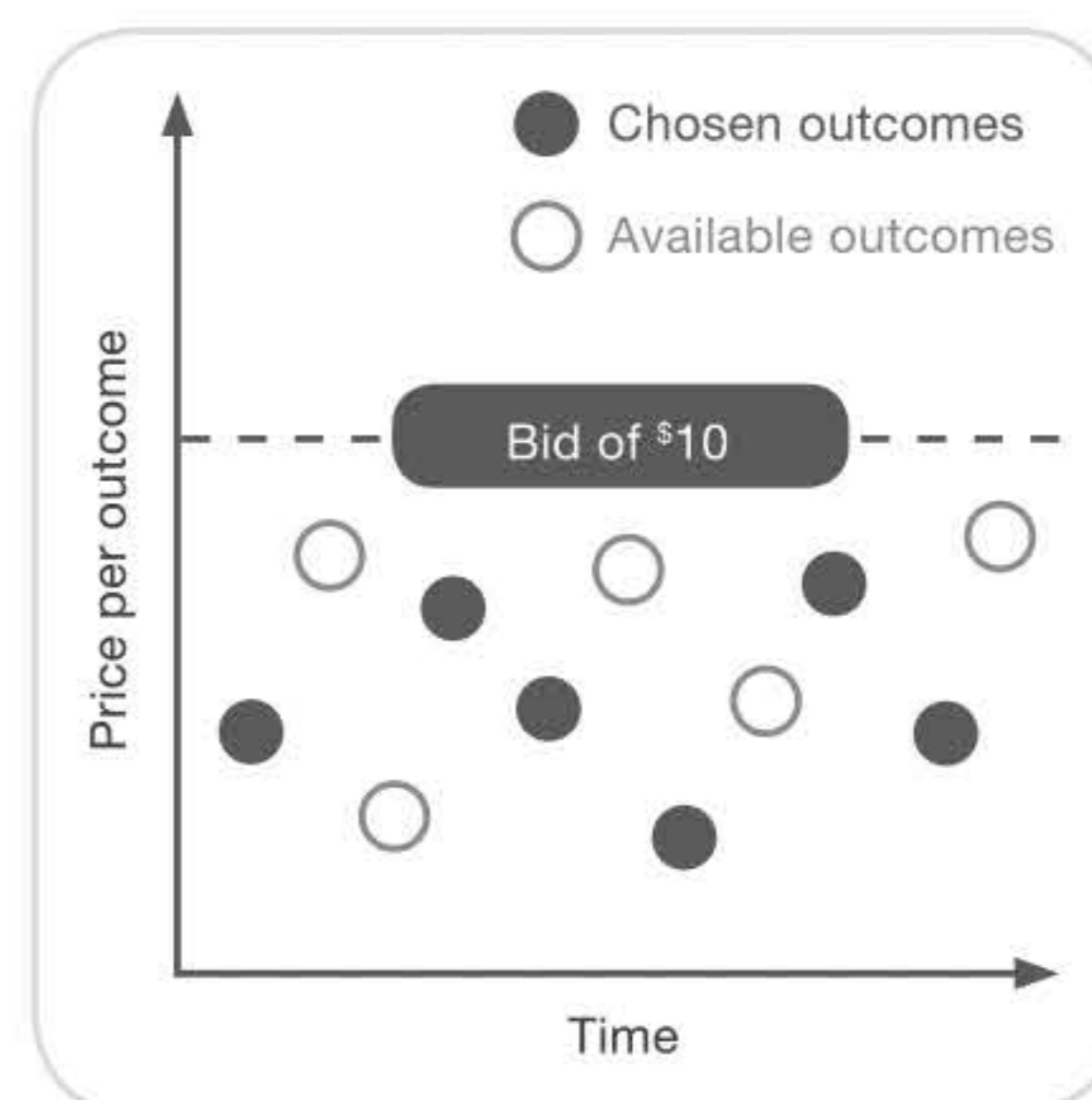
Example: Assume you set a bid cap of \$10. As your ad enters each auction, we may "discount" your bid to ensure we can spend your full budget over the duration of the ad set. The mechanism of lowering or "discounting" your bid means that you might not win every auction you could have, but you'll have a chance to capture more outcomes at more efficient costs over the course of your campaign, instead of using up your budget too quickly on more expensive results. Note that the discounted bid for a particular auction might be higher or lower based on how much budget has been spent and the time elapsed in the campaign.



Target cost bid strategy with standard delivery enabled

This uses "probabilistic" pacing to spend budget on stable cost-per-result opportunities and aims to maintain consistent cost per result over time, at the target cost you set. This option delivers opportunities at the target cost that you define and keeps your cost per result stable as you increase your budget.

Example: Assume an advertiser communicates that they want to achieve a target cost of \$10 for a purchase. Once they start their campaign, Facebook will bid to hit this \$10 target cost in a subset of auctions. While discount bidding adjusts your bid, probabilistic pacing adjusts the probability that the ad enters the auction. This helps you achieve even pacing throughout the course of your campaign.

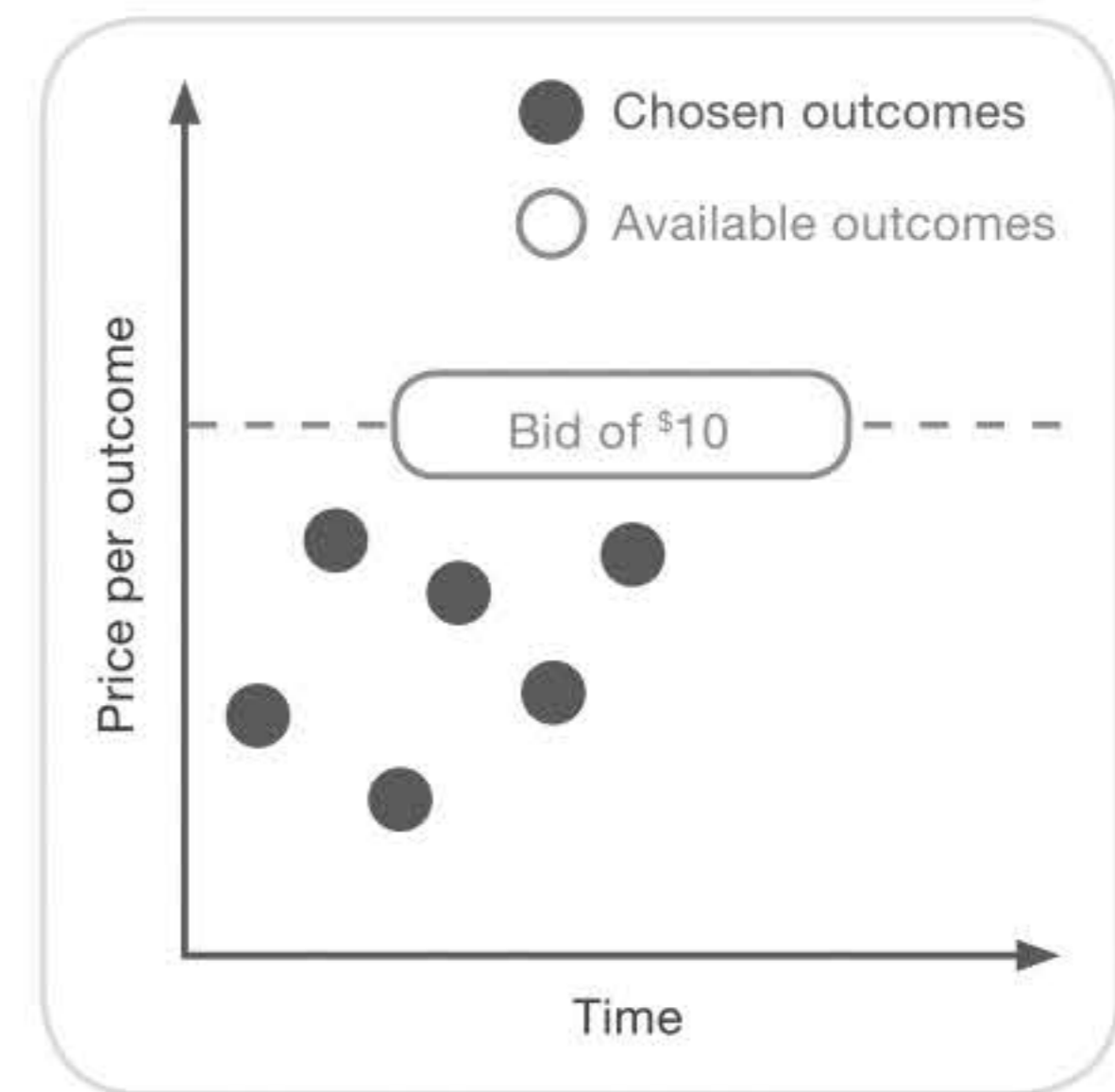


ACCELERATED DELIVERY

Accelerated delivery spends budget as quickly as possible by entering every opportunity under your bid cap into the auction. This favors quick spend over maintaining your cost per result. With accelerated delivery, it is possible to exhaust your budget before your scheduled campaign ends. Advertisers with bigger budgets who want to reach people quickly or with time-sensitive campaigns should consider using accelerated delivery. Accelerated delivery is only available for lower cost per result with a bid cap.

Example: Assume you set a \$10 bid cap. Once you start your campaign, you will enter every eligible auction under this \$10 bid to ensure you spend your budget as quickly as possible.

For more details on how our pacing system works, please visit the [Facebook Business help center](#).³



Advertiser Controls

The final components of Facebook ad delivery are the advertiser-set controls that guide our auction and pacing systems. These controls include options for Targeting, Budget, Bid, Placement, Schedule and Optimization for Delivery. For example, your bid is a factor in calculating the total value of an ad, as well as influencing how the Facebook auction ranks and delivers the ad. You should be thoughtful when selecting these controls. While narrowing targeting or setting lower bid caps can limit the options the delivery system has to explore, these controls can also get you the most value for your objectives.

This guide is focused on the importance of bidding in the delivery system. For more information on other advertiser controls, visit the [Facebook Business help center](#).⁴

³ https://www.facebook.com/business/help/1754368491258883?helpref=faq_content

⁴ <https://www.facebook.com/business/help/527780867299597>



Bid Strategy Overview

Your bid represents what you are willing to pay for a desired result.

Since Facebook optimizes its auction for total value (for both advertiser and people), the winner of the auction isn't necessarily the ad with the highest advertiser bid, but the one with the highest total value.

Bids are also a cost-control tool.

They help control your desired cost per result in the same way that budgets help control your overall spend on a given ad set. If you set a bid cap, your bid helps our machine learning systems understand what you're willing to pay and how you want to achieve your optimization goal.

Choose the right bid strategy for you

When you bid, you choose one of two bid strategies:
Lowest cost or **Target cost**.



LOWEST COST

You have the option to set a bid cap, which is like a manual maximum bid. This tells the delivery system not to bid more than that maximum amount for any individual result. Choosing “Lowest cost” without a bid cap is like using automatic bidding.

TARGET COST

The delivery system will try to maintain a stable average cost near your target as your spend increases. This strategy also predicts mid-campaign how much you might be able to spend near the target cost you set. Target cost per result is an enhancement to our former average cost bidding option.



Facebook offers several different bid strategies to suit your campaign strategy.

Determine which strategy is best for you by considering the use cases and considerations on the following table:

BID STRATEGY	WHO SETS THE BID?	WHEN TO USE	BENEFITS	CONSIDERATIONS
Lowest cost <i>(formerly automatic bidding)</i>	Facebook	When you're unsure of how much to bid, want to spend your full budget, and/or get the most results from your budget	<ul style="list-style-type: none"> – Spend less time maintaining cost – Minimize cost per result while spending your budget 	<ul style="list-style-type: none"> – Less control over your cost per result – Costs rise as you run out of the most cost-effective results or increase your budget
Target cost <i>(replaces average cost)</i>	Advertiser	When you want to maintain a stable cost at your target cost as your spend increases or when you want to learn how much you can spend while getting a CPA near your target cost	<ul style="list-style-type: none"> – Maintain stable cost at the target bid that you set as you scale – Project your spend after an initial learning phase 	<ul style="list-style-type: none"> – May not spend your entire budget – Will not minimize your cost per result
Lowest cost with a bid cap <i>(formerly maximum bidding)</i>	Advertiser	When you want to set a maximum bid to control your cost per result and want to get the lowest cost possible	<ul style="list-style-type: none"> – Achieve the most results generally under your specified bid cap – Minimize cost per result 	<ul style="list-style-type: none"> – Costs rise as you run out of the most cost effective results or increase your budget – May not spend your entire budget – May spend more time maintaining bid – Spend more time maintaining budget as you try to scale or keep cost within target cost range



How Facebook determines your cost

The total value formula determines who wins an auction, but not when or how much the winner is charged.

You get charged based on the option you selected during ad set creation under “When you get charged”. No matter what result you’ve chosen, we’ll only charge you as much as the value you displaced from other advertisers who lost to you in the auction. So even if you set a bid cap of \$1, you may pay significantly less if the other advertisers ranked below you in the auction bid less.

This means:

- You’ll frequently be charged less than your bid.
- There’s no advantage to underbidding in our system. In fact, doing so may lead to losing auctions you would’ve otherwise won at no additional cost.





How to set a Bid Strategy Amount

If you choose to set a bid cap or a target cost, use the following guidance and troubleshooting strategies.

NOTE: Before setting a target cost or bid cap, install the Facebook pixel or SDK to optimize delivery of your ads to the people most likely to take an action. Consider the following best practices:

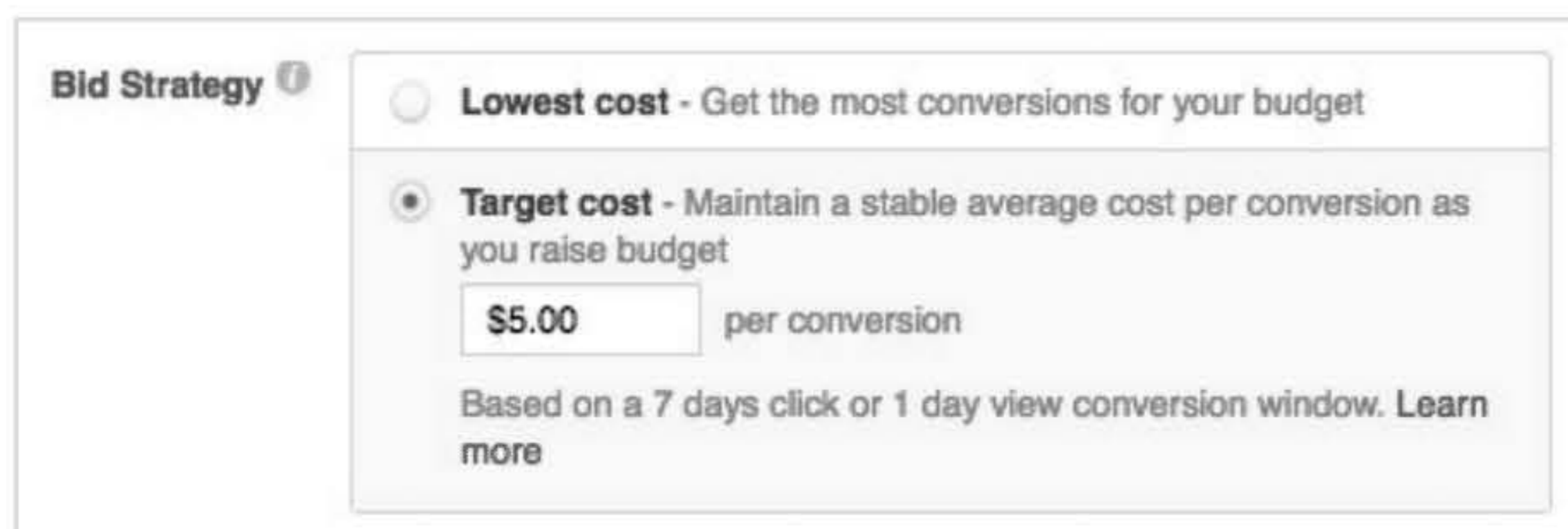
- Use the Facebook Pixel Page and Pixel Helper to verify that the pixel is functioning and the App Ads Helper to verify your app.
- Keep your objective in line with what you choose as ‘Optimization for ads delivery’ (e.g., select “conversions” if that is your ultimate goal).

For help getting started with the Facebook Pixel, please visit the [Facebook Business help center](https://www.facebook.com/business/help/952192354843755).⁵

⁵ <https://www.facebook.com/business/help/952192354843755>

How to set a target cost

If you want to achieve a stable cost per result on average throughout your campaign, you can set a target cost. This lets Facebook bid to hit that target on average, over the lifetime of your campaign.



The screenshot shows the 'Bid Strategy' section of a Facebook campaign interface. It features two radio button options: 'Lowest cost - Get the most conversions for your budget' (which is unselected) and 'Target cost - Maintain a stable average cost per conversion as you raise budget' (which is selected). Below the selected option, there is a text input field containing '\$5.00' followed by the text 'per conversion'. At the bottom of the section, it states 'Based on a 7 days click or 1 day view conversion window. Learn more'.

To determine your target cost, make sure you consider:

The average cost your business is willing to pay for a desired result from your target audience

- Determine what your desired result is worth to you, based on your profit or revenue goals.
- For example, assume you are optimizing for a website purchase and you have determined that the purchase is worth \$20 in revenue at a \$5 profit (excluding Facebook marketing costs of \$15). If your business objective is to achieve that \$5 profit, you might want to set a target cost of \$15.

If you want to achieve more results

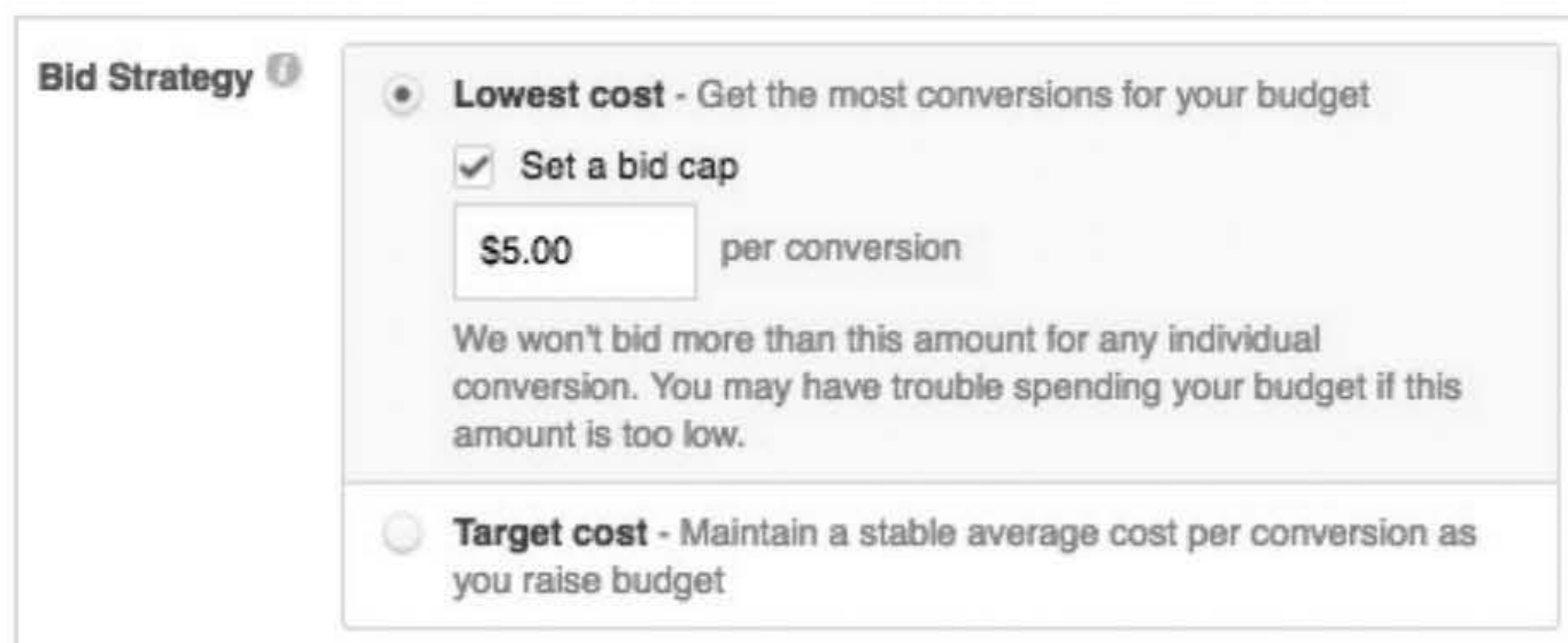
- Suppose you run a campaign with a target cost of \$50 per mobile-app install, and don't achieve the profitability you want. But you notice that when you try a \$60 target cost, the number of mobile app installs improves dramatically. A result like this should prompt you to consider whether you're willing to trade profitability for growth. If so, you should adjust your target cost accordingly. A "test-and-adjust" mindset like this is recommended for improving outcomes on Facebook if you are trying to scale your volume and are more flexible on ROI or CPA.

Lifetime value

Lifetime value for your business, as generated by future purchases new customers could make. Consider more than just the value of someone immediately purchasing one of your products, as long-term growth is what matters most.

How to set a bid cap

If you want to make sure that no individual result costs more than a certain amount, you can set a bid cap. Because of the way discount pacing works (as described above), setting a bid cap means that each result will cost less than the amount you set, starting with the lowest cost results and gradually rising toward your cap.



Bid Strategy ⓘ

- Lowest cost** - Get the most conversions for your budget
 - Set a bid cap**
\$5.00 per conversion
 - We won't bid more than this amount for any individual conversion. You may have trouble spending your budget if this amount is too low.
- Target cost** - Maintain a stable average cost per conversion as you raise budget

To set a bid cap, make sure you consider the following:

The maximum cost your business is willing to pay for a desired result from your target audience:

- Similar to the description above, determine the maximum amount that your desired result is worth to you, based on your profit or revenue goals.

The average cost you actually pay for a desired result

- When you set a bid cap, first ensure that your bid cap is reasonable, based how much you are currently paying for your desired results on Facebook. You will want your bid cap to exceed the average cost per result that you are currently paying. Use the 'How to interpret your costs' section for guidance on how to determine your average cost per result.

Lifetime value

- Lifetime value for your business, as generated by future purchases new customers could make. Consider more than just the value of someone immediately purchasing one of your products, as long-term growth is what matters most.

Although your bid is not equal to your final cost, capping your bid ensures that you generally do not pay more than your bid.

Troubleshooting your bid strategies

If you're unsatisfied with the results of your bid strategy, here are a few strategies to improve performance:



Confirm your bid strategy is in line with historical data.

- If you use past performance data to set a bid cap or target cost, make sure the data you use matches your optimization settings. For example, you may need to adjust your attribution window in reporting.



Switch to a higher-funnel conversion event.

- If you're optimizing for conversions, your ad set should achieve a certain number of conversion to have a chance of succeeding. The number of conversions depends on your bid strategy. When you set a bid cap with the lowest cost bid strategy, you should aim to achieve at least 50 of the conversions your ad set is optimized for per week. When you set a target cost, this number of conversions should also be 50.
- If you're not achieving this number, switch the conversion event to a more commonly-occurring, higher-funnel event.
 - *For example, if you've optimized for purchase events and you're seeing less than 50 conversions with a bid cap, try optimizing for an event like Add-to-Cart instead to get better delivery and performance.*



Refine your audiences.

Refine your targeting to reach people more likely to be interested in your ad. Your new strategy could incorporate:

- A Lookalike Audience based on your most valuable customers
- A Custom Audience from a pixel or customer data file
- Interest and/or behavior-based targeting



Refresh ad creative.

- Try testing different creatives, as you may have exhausted the effectiveness of your original design. Use Audience Saturation in Delivery Insights to determine whether you've saturated your audience



Switch bid strategy.

- If your ad set is under-delivering and you're not sure how to improve performance after trying the strategies listed above, switch to the lowest cost bid strategy without a bid cap. This can help you determine the actual cost per result you can expect for your budget.

For more details, [download our decision tree⁷](#) of best practices to resolve under-delivery of your ads.

⁷ https://www.facebook.com/gms_hub/share/ad-under-delivery-decision-tree-en_us.pdf



Bidding Best Practices

If you are not sure what to bid, start with the 'Lowest cost' option.

- If you're not sure what to set as your 'target cost' or your bid cap, use the 'lowest cost' option without a bid cap to learn how much it costs to achieve your desired results.

If you know the cost you are willing to pay for a result, select target cost or lowest cost with bid cap option.

- Use target cost bidding strategy if trying to scale to higher spend while keeping your cost per result stable or if trying to inform how much you can spend at your target cost.
- Use lowest cost with bid cap bidding strategy if trying to achieve the lowest cost possible at your initial budget or if you intend to scale to higher budgets and don't care as much about maintaining stable cost per result as you scale.

Avoid making multiple changes to your bid strategy in a short period of time.

- When you change an ad set's bid strategy amount, our system may need time to re-learn how to optimally deliver it. During this time, your ad set may go through a period of sub-optimal delivery as we re-learn who best to show your ads to, including new people being reached because of the new amount.

Consider adjusting your bid strategy for different audiences.

- Different people bring different levels of value to your business. If you have high-value customers that you particularly want to reach, consider increasing your target cost or bid cap for those customers. However, always segment your customers carefully, as setting too many constraints could limit your delivery.



Things to Remember

For every opportunity we have to show an ad to a person on Facebook, our ad auction system selects ads that maximize value for both advertisers and people.

You can help make our machine learning models work better for you by thoughtfully using the controls at your disposal, including the bid strategy that you choose, to get the best results possible. As you create campaigns on Facebook, remember the following concepts:

Your bid is an important factor, but not the only factor that determines how Facebook delivers your ads.

- Your ads are ranked based on “total value,” which maximizes advertiser value and optimizes consumer experience. Your bid is a key driver of “total value.”

Decide on a bid strategy by evaluating benefits and considerations.

- Depending on your business goals, you’ll want to evaluate different bid strategies by their benefits and considerations.

Consider your customer’s lifetime value to determine the amount to bid.

- Interpreting the correct cost per result is critical for determine your bid cap and evaluating costs on Facebook. Weigh more than just the value of someone immediately purchasing one of your products, as long-term growth is what matters most.



facebook



AcumenStudio.com

LEARN MORE

Facebook Help Center

<https://www.facebook.com/help/>

Blueprint instructional video

https://facebook.exceedlms.com/student/home/show_enrollment/42546038