**Google – AdWords and AdSense**

Within a couple years of its 1998 incorporation, Google went from a burgeoning upstart company to verb status - almost a trademark. How did this happen?

In a word, AdWords. Google derives 96% of its revenues from ads. That's what separated an early-2000s Google, known primarily as a search engine, from its competitors. Google's founders realized that if people were going to visit the site and enter a term in the search box, they wouldn't be landing on the subsequent page by accident. Thus they'd be motivated to buy a product from any advertiser sharp enough to place an ad there.

**How Google Profits Off You**Say [you run a small company](http://www.investopedia.com/articles/pf/08/start-own-business.asp) - a bakery located in Topeka, Kansas, for instance. It's safe to say that people who would Google the words "Topeka" + "bakery" would likely patronize your business. Buy an ad on a page that'd be visited *only* by people who are looking for a Topeka bakery, and you're targeting about as accurately as it's possible to target a potential clientele.

From a Google customer's perspective, this is a proposition with little risk. AdWords typically operates on a [cost per click](http://www.investopedia.com/terms/c/cpc.asp) basis, meaning that an advertiser can place an ad with zero obligation. If no one clicks on the ad, the customer doesn't pay a dime.

**A Revolutionary Business Model**
The [traditional advertising media](http://www.investopedia.com/financial-edge/1211/where-are-advertisers-spending-their-money.aspx) - radio, television, newspapers et al. - were and are incapable of drawing a distinction between patrons looking to generate traffic, and those looking to make the public aware of their brand. A static general-purpose ad can't tell who's actively in the market for whatever product it's selling, and who's just passively sitting there. To accommodate the latter - people who aren't ready to buy, but who might otherwise keep your competitors top-of-mind - Google lets you pay per impression. That means that the moment a Google user accesses a page on which an ad appears, Google charges the company that placed the ad. Which also literally doesn't cost a dime, but that's a function of the small amounts involved. A typical such agreement allows several views of your ad for less than a penny.

This is all based via auction. Would-be buyers of AdWords bid for the right to use a particular ad, or phrase. Overpay, and Google enjoys a high markup. Underbid, and you risk losing the auction to a more motivated seller.

**But Wait, There's More**
But AdWords is only one prong of Google's dual revenue strategy. A related and similarly named but different service is AdSense.

Rather than having ads appear on search pages accessed upon visiting Google.com, AdSense allows owners of other websites to join Google's network and run Google-branded ads. Google's algorithms do all the work, too. Sign up for the network and your website devoted to Bikram yoga might end up running ads for mats, props, etc. Companies that pay Google to run those ads indirectly benefit site owners who use AdSense.

According to Google's [income statement](http://www.investopedia.com/terms/i/incomestatement.asp), about 70% of its advertising revenues come from AdWords, the rest from AdSense.

What makes Google's success so remarkable is that so much of this is accomplished without contracts. The company derives almost all of its revenue on at at-will basis. As Google's own annual report states, "Our advertisers can generally terminate their contracts with us at any time."

**The Bottom Line**
Every other service Google offers - from Maps to Earth to Gmail to Docs to Drive - exists to further the primary business. Those services were expensive to create and require great resources to maintain, but for the result - having [users spend more time on Google](http://www.investopedia.com/features/industryhandbook/internet.asp) and thus perpetuate reading and clicking on Google ads - it's money well spent.