

An eMarketer White Paper

Top 10 Ways to Make Search Marketing Work for You



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eMarketer produces 50 reports a year on Internet marketing and e-business topics, including online advertising, broadband, e-commerce and many others. You can find even more information, including over 25,000 charts and thousands of articles, in eMarketer's eStat Database at <http://www.emarketer.com/products/database.php>

This white paper includes content largely adapted from eMarketer's "Search Engine Marketing: Trends, Prospects & Opportunities" report, available at http://www.emarketer.com/products/report.php?search_feb04

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Monetizing search is much more than merely the latest dazzling trend in online advertising. As the supercharged blend of yellow pages and direct mail, paid search rocketed to prominence over the past year. Along with the high profile of Google and its upcoming initial public offering, search continues to be a major player in the media mix. But paid search is only one (albeit crucial) element of search engine marketing (SEM). And SEM as a whole is only one (albeit crucial) element of Internet marketing in general—although the extravagant amount of attention currently paid to search sometimes clouds those aspects.

Last year's spectacular growth rate for paid search ad spending makes it possible to overlook three equally vital elements of the entire search marketing process (as detailed in this white paper). One, optimizing a Web site for organic search is just as important as paying for position—especially as the cost of keywords rises. Two, when paying for clicks, consider contextual search—but only when the value makes it competitive. Three, if your product or service lends itself to local search, look closely—the coming year is a great time to get on the still new bandwagon. Finally, while SEM may be a highly effective marketing tool, remember that it acts mainly as a direct response device—don't ignore the power of branding to establish a Web presence and entice customers.

“Search is the ultimate online marketing tool because the behavior of search is more of an indicator of purchase intent than any other online activity.”

—Fredrick Marckini, chief executive officer, iProspect

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1. Growing market can mean more opportunities

Online search's exceptional targeting capability is why the world saw advertising via paid search surpass \$2.5 billion last year in the US alone, and why eMarketer expects paid search spending to reach \$3.2 billion by the end 2004. At that point, 38% of the total online ad spend will go to search.

US Paid Search Advertising Spending, 2001-2004 (in millions)

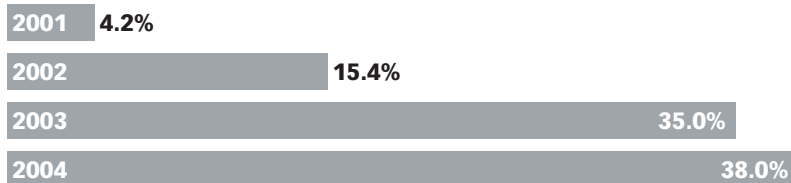


Source: eMarketer, May 2004

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US Paid Search Advertising Spending, 2001-2004 (as a % of total online advertising spending)



Source: eMarketer, May 2004

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For much more information, context and need-to-know stats, see eMarketer's "Search Engine Marketing" report at http://www.emarketer.com/products/report.php?search_feb04

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As viewed by eMarketer, both paid placement and paid inclusion should be (and are) included in its spending estimates for paid search. And it doesn't matter if the search takes place on a portal, a search engine, a content site or an e-commerce destination. Even with that broader definition of paid search, however, eMarketer expects that the three-figure spending growth rates of the last three years will not continue. However, even a projected jump of 25.5% in 2004 points to a continued strong market.

US Paid Search Advertising Spending, 2001-2004 (as a % increase vs. prior year)



Source: eMarketer, May 2004

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“Paid search is the new gold.”

—Gary Stein, analyst, Jupiter Research; San Jose Mercury News, 7 April 2003

When undertaking a search engine marketing campaign, using all the major search engines will help maximize the potential audience. In April 2004, iProspect found that while Google is the most popular search engine (used most often by two-thirds of respondents), Yahoo!, MSN and AOL are all used by roughly half of Internet users. Furthermore, 57% of respondents say they generally stick with one search engine.

Search Engine Usage Habits of US Internet Users, 2004 (as a % of respondents)

I usually use the same search engine or directory

56.7%

I have several favorite search engines and use them interchangeably

30.5%

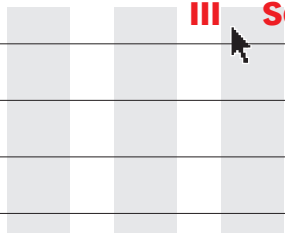
I use different search engines for different types of searches

12.8%

Source: iProspect, April 2004

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2. Know your three search marketing options

For many companies looking to make the most of the current search boom, the three aspects of search—paid search, paid inclusion and organic search—need to be addressed come budget-planning time. Here's how they work:

- 1) Paid search**—also called paid placement, sponsored search, keyword search, and the alphabet soup trio of pay-per-click (PPC) search, cost-per-click (CPC) search and pay-for-performance (PFP) search. With paid search, companies bid to appear high on the list of search results for particular keywords, and the highest bidder gets the top slot. These ads are typically labeled “sponsored links,” “sponsored results,” or some similar term.
- 2) Paid inclusion**—also called paid submission and keyword search. With paid inclusion, companies pay a search engine to visit their sites more frequently and dig deeper into their pages, enhancing the odds that their companies will get listed higher in the organic search results.
- 3) Organic search**—also called editorial search, natural search, free search and algorithmic search. With organic search, companies design, write and code their Web sites to boost the odds that its pages will appear high up on spider-based search engine results (such as from Google or Teoma) for selected keywords. This boosting is called search engine optimization (or SEO for short).

“Optimizing an SEM spend is a little bit like trying to stand up in a rough ocean. When the big waves form, the sand literally shifts under your feet and you have to change your position to remain upright.”

—Fredrick Marckini, chief executive officer, iProspect; Internet Advertising Report, 6 January 2004

In the process of finding an optimal mix of search marketing methods, companies need to consider various pros and cons, as detailed here by eMarketer.

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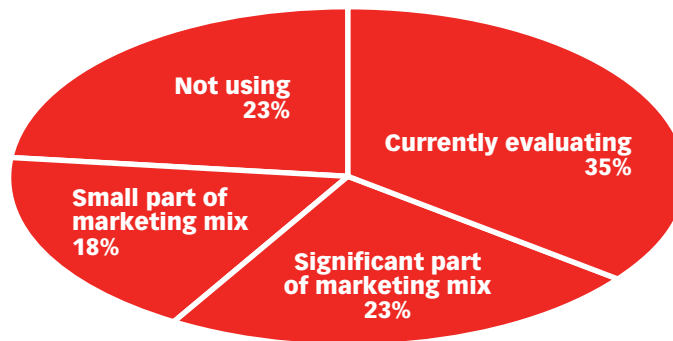
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A. Paid Search

Paid search listings are found not just on search engines but on e-commerce and content sites as well. Used this way, paid search becomes an effective and efficient contextual advertising tool.

Research by WebTrends for iProspect last June found that more than three-quarters of US marketers are either using or evaluating some aspect of paid search. Note, though, that such campaigns are significant for only 23% of the 800 respondents.

US Marketers Using Paid Search Campaigns, June 2003 (as a % of respondents)



Note: n=800 marketers; numbers may not add up to 100% due to rounding
Source: WebTrends and iProspect, June 2003

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How do most US marketers measure their SEM campaigns? According to the WebTrends study for iProspect, 41% track click-throughs and general Web site activity. However, only 16% measure specific site activity through to conversion, as in the comScore examples above. And a pitiful 31% don't even measure their search marketing endeavors.

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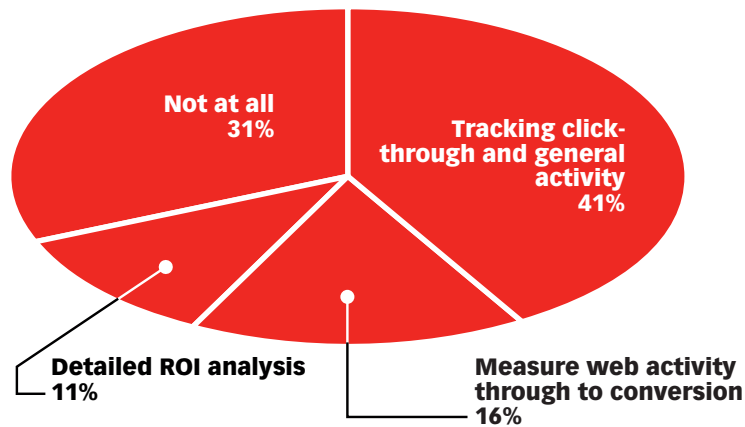
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3. Measuring search campaigns is a MUST

How US Marketers Are Measuring Their SEM* Campaigns, June 2003 (as a % of respondents)



Note: n=marketers actively running paid search campaigns; numbers may not add up to 100% due to rounding; *SEM stands for search engine marketing

Source: WebTrends and iProspect, June 2003

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“[Search] is direct marketing on steroids.”

—Cheryle Pingel, co-founder, Range Online Media (keyword advertising company); Dallas Morning News, 24 October 2003

What’s behind today’s boom in search engine marketing? In one word, “value.” Data from the March 2003 US Bancorp Piper Jaffray report, “The Golden Search,” illustrates that at \$0.29, the cost per lead when using online search is far less than for yellow pages, banner ads, direct mail and even e-mail.

More information on the relative cost advantages of paid search can be found in eMarketer’s “Search Engine Marketing” report at <http://www.emarketer.com>

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B. Organic Search

Before paid search made headlines, there was organic search—also known as editorial search, natural search, free search or algorithmic search.

Companies employ various methods to help boost a Web site's rankings within organic search results—the results not labeled “sponsored links.” Most of these methods typically fall under the heading of search engine optimization (SEO).

The essential elements for optimizing a Web site for search-engine visibility include:

- **Keyword text:** phrases that match up with terms the target audience might enter into search queries should be used throughout a Web site.
- **Crawler-friendly URL structure and site navigation:** how pages within a site link together has substantial effect on search engine rankings.
- **Link popularity:** both the number and quality of links pointing to a Web site influence search engine listings; links from sites with high traffic matter more than sheer link quantity.

“Marketing schools teach the four Ps of marketing — product, price, promotion, place — and some add a fifth — position. Search engine marketing is an integral part of marketing a product on the Internet (place) and promoting its value as well as positioning it against competition.

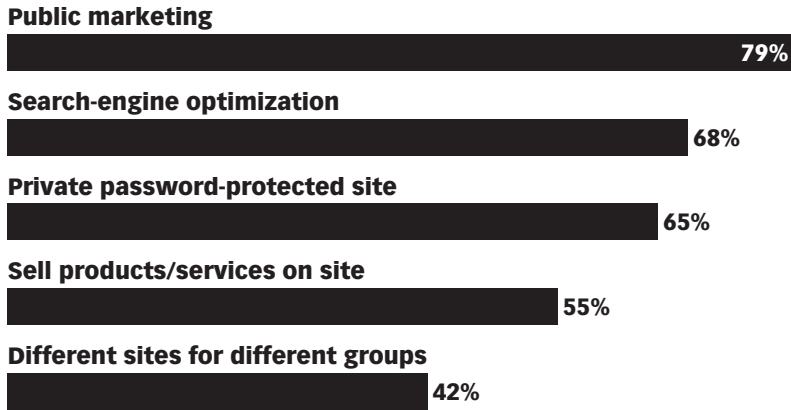
—Lisa Wehr, president, Oneupweb

Next to public marketing in general, US company Web sites gravitate to SEO, according to 68% of respondents to a recent London Business School and Havas survey.

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4. SEO is often good place to start

Interactive Marketing Activities Undertaken by US Company Web Sites, 2003 (as a % of respondents)



Note: n=246

Source: London Business School, Havas, December 2003

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Both organic search and paid search offer distinct benefits that make them a worthy pair for most companies engaged in SEM.

- Well-optimized Web sites typically maintain a high ranking for a long time; however, it also takes a long time to boost a site's natural search rankings and there's no guarantee how high a site will place.
- Paid search, however, can boost a site's rank for its most relevant keywords (albeit as a sponsored listing). But paid search rankings fluctuate, based on the competition's bidding for relevant keywords and the site's daily/weekly/monthly budget. In fact, when the budget for paid search gets used up, the site loses its position entirely.

“SEO can be the lowest cost form of traffic, while PPC is an excellent tool to round off natural SEO voids.”

—David Williams, chief strategist and co-founder, 360i;
SearchEngineWatch.com; 23 October 2003

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C. Paid Inclusion

Between paid search and organic search lives the stepchild of search engine marketing, paid inclusion. While paid inclusion is offered by several search engines—including Yahoo! (Inktomi), AltaVista, LookSmart and AllTheWeb—the services are shunned by industry leader Google. And in early March, Ask Jeeves discontinued its paid inclusion program, although, as reported by CNET News, “the company will still allow site operators to pay to submit their sites to its index, but that that payment would not guarantee inclusion in the database.”

In a December 2003 report from Jupiter Research, “Paid Inclusion Market Opportunity Assessment,” paid inclusion is defined as “a method in which a company pays for the right to be automatically and periodically included in a search engine index, either by regular harvest (pull) or submission (push),” as reported by Internet Advertising Report.

Despite the general upsurge in search engine marketing, the Jupiter report states that US paid inclusion spending will drop to \$110 million this year, a 52% decrease from 2003’s \$167 million figure. Forrester Research says US paid inclusion will actually trend the other way, rising from \$179 million in 2003 to \$269 million in 2004.

Even though it’s a fee-based service, paid inclusion puts the site’s listing among the organic (and supposedly independent) search results. While paid inclusion programs allegedly do not guarantee high placement, some fret that the “public might be misled about the independence of search listings,” as CNET News reported in October 2003. Any potential duplicity concerning the mix of paid inclusion with organic search listings—and the desire to protect its editorial integrity—is why Google does not offer the service. Similarly, when Ask Jeeves dropped paid search, Jim Lanzone, the search engine’s vice president of product management, echoed Google when he said, “We’re never going to mix church and state again.”

Get a fresh, stat-packed perspective on the future of AOL, MSN and Yahoo!, along with a sense of where Google is going, in eMarketer’s “Portal Plays” report at http://www.emarketer.com/products/report.php?portal_jan04

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D. Search Trends

Three emerging trends for monetizing search are contextual search, local search advertising and multimedia search. In all three cases, search engines see viable ways to expand their online reach.

Contextual Search

5. Consider contextual advertising

Not all paid search ad links appear on portals or search engines. The rapidly growing category of contextual search, or contextual advertising, takes those same paid search ads—still labeled “sponsored link” or “sponsored result”—and embeds them on content sites or shopping sites. As with other aspects of search, Google and Overture (a Yahoo! subsidiary) are the key providers of contextual advertising, through Google’s AdSense service and Overture’s Content Match.

The hope for these links, as they appear adjacent to content on Web sites, is relevancy. The term “hope” is used here because search engines serve up most contextual ads automatically, based on algorithmic relevancy factors, and those factors may fail to be completely on target. This is why, as ClickZ reported, Overture uses human editors to review a number of pages to make sure the keywords and ads are matching properly.

“Web search is the most challenging field in computer science.”

—Gary Flake, chief scientist, Overture; *Forbes*, 26 May 2003

See eMarketer’s recent “Online Ad Spending” report at http://www.emarketer.com/products/report.php?ad_spend_jan04 for examples of contextual search advertising.

The contextual usage of search advertising is bound to grow. Predictions from the Meta Group, an e-business consulting company, show the contextual ad market reaching \$5 billion by 2006 as more providers continue to jump on the bandwagon.

Contextual Advertising Revenues Worldwide, 2003 & 2006 (in billions)

2003	\$2.0
2006	\$5.0

Source: META Group, October 2003

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With less far-reaching expectations, Paul Volen, Overture's vice president of partner product marketing, told the E-Commerce Times in August 2003 that the overall market for contextual search advertising will generate \$2 billion in revenue by 2008.

Local Search

6. Tap into enormous potential growth for local search

If contextual advertising promises to open up sizeable new markets, local search may eventually deliver even greater returns. For now, The Kelsey Group (TKG) expects local paid-search ad spending in the US to grow from \$1 billion last year to \$2.5 billion by 2008. The research firm estimates 10% of all local searches "also have a commercial intent, in that they ultimately result in a buying decision." Conversely, 21% of commercial searches by online buyers have a local component. Furthermore, nearly 30% of the approximately 1.6 billion online searches conducted each week have a geographic or location-specific dimension, according to TKG.

This conjunction of Internet users, community and commerce is the major force behind the burgeoning interest in local search.

"All the national portals are saying they would like to attack local, but none of them really wants to do it as a high priority."

—Barry Diller, chief executive officer, InterActiveCorp (owner of Citysearch);
Internet Advertising Report, 12 November 2003

Another factor comes from the search engines themselves, as they reach out for fresh market growth. Google, Yahoo!'s Overture and Citysearch are just three of the players actively promoting new local search products and attempting to create greater functionality.

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Multimedia Search

7. Stay tuned for major improvements in searching for audio/video content

A third trend for monetizing search is the expansion into multimedia. As more and more Internet users download music and video files, they look for that content the same way they look for most things online—with a search engine. And the providers looking to sell that content see paid search as a prime tool for increasing their Web traffic. However, the ability to search for specific multimedia files on today's search engines is still in an early stage.

The potential size of this market is large, and getting larger. Since broadband users are more likely to download music and watch streaming video than dial-up users, according to the Yankee Group, and since the broadband user base is growing (reaching 87.2 million in the US by 2005, according to eMarketer), there is a greater need for efficient ways of finding and promoting online multimedia content. Search engines are clamoring to meet this need. Just this March, Yahoo! announced it is enhancing its search services by allowing searches of audio and video information such as National Public Radio recordings.

Find out the latest broadband penetration numbers for dozens of countries and global regions in eMarketer's "Broadband Worldwide 2004: Subscriber Update" report at http://www.emarketer.com/products/report.php?bband_apr04

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With all its current success and even greater potential over the next few years, there's a dark side to paid search, detailed below.

A. Imbalanced Spending

8. Use rich media and other formats to diversify online ad campaigns

It's hard to refute that paid search is effective. However, today's supersized spending gains for search could well be unsustainable. Few areas in any economy grow consistently at such elevated rates. More importantly, a sizeable share of the ad money put into paid search is eating into budgets potentially allocated to other effective forms of online advertising, such as rich media.

A closer look at the actual numbers sheds some new light on the spending situation. Based on the research from the IAB and PwC, total US online ad spending in 2003 grew by a strong 20.9% compared to 2002's figures. Paid search, on the other hand, appears off the charts, rising by nearly 175% during the same period.

But when you remove paid search from the spending equation, total US ad spending in 2003 actually dropped by 7.1% compared to 2002.

US Online Advertising Spending with and without Paid Search, 2002 vs. 2003 (in millions)

	2002	2003	% growth
Total spending (1)	\$6,010	\$7,267	20.9%
Paid search (2)	\$927	\$2,543	174.3%
Total w/out search (2)	\$5,083	\$4,724	-7.1%

Source: (1) Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), April 2004; (2) eMarketer, May 2004

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That's not good news. A 7.1% decrease does not describe a healthy market. And it's an indicator that too many advertisers and agencies are focusing on paid search, to the potential detriment of other forms of online advertising, such as rich media.

“Search engine marketing is a zero sum game—there are winners and losers.”—Kevin Lee, chief executive officer, Did-It; MediaPost, 6 November 2003

Coming soon: eMarketer's Advertising Spending Trends Update covering spending online and offline. Be the first to know when it's out by signing up for report notifications at <http://www.emarketer.com/products/reports/notify.php>

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B. High-Cost Clicks

9. Beware of ROI paradox

There are several other potential problems with paid search that, while not quite making it the emperor’s new clothes—because there really is something there—undercuts some of the hoopla surrounding it today. For example, as more and more advertisers vie for the highest search listings using the limited supply of relevant keywords, the low per-click prices that make search so enticing now will recede from memory. This is known as the ‘ROI paradox.’

Last summer, 57% of US marketers told Jupiter that desired keywords are too expensive to purchase. Additionally, 51% conveyed concern that they’re overpaying for some keywords.

Problems US Companies Experience with Search Engine Marketing Efforts, April 2003 (as a % of respondents)

Desired keywords are too expensive to purchase	57%
Concern that you are overpaying for some keywords	51%
Challenging to choose the correct keywords	40%

*Note: multiple responses allowed, top three responses shown
Source: Jupiter Media Metrix, Inc., June 2003*

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Consolidation among companies using search also forces the escalation of keyword pricing. According to a report released by Jupiter this past October, deep-pocket marketers increasingly bid on keywords, with “12% to 15% of paid listings revenues [coming] from marketers that control media budgets of \$1 million or more. These large marketers buy large numbers of keywords (24% buy more than 1,000 keywords).” And Jupiter predicts that the share of keywords bought by these large marketers “will continue to grow.”

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C. Consumer Annoyance

While some search site users seem not to realize that some of the links are paid placement, as more users see more sponsored links, there could be a backlash against the format. Let's not forget the bygone days when e-mail was "the answer" to online advertising and marketing, before spam's tidal wave created its own backlash.

As rosy as the state of search engine marketing looks, only 34% of US consumers trust search engine advertising. That's only slightly more than the 27% who trust product placement in movies, for example. This data from Cincinnati-based Intelliseek also shows, though, that consumers have far more faith in paid search than in banners or pop-ups, with only 12% and 6%, respectively, of respondents saying they trust those two other types of online ads either completely or somewhat.

However, among methods of online marketing, consumers trust brand Web sites the most, at 73%. This points to the continued importance of paid search for larger companies, as they seek to lure consumers to their sites for various types of brand marketing endeavors.

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US Consumers' Levels of Trust in Advertising, by Type, 2003 (as a % of respondents)

	Trust	Distrust
Recommendations from other consumers	87%	12%
Brand Web sites	73%	27%
E-mail signed up for	66%	34%
Consumer product testimonial online	61%	39%
Newspaper	56%	44%
Magazine	53%	48%
Radio	48%	53%
Television	47%	53%
Billboards/outdoor	41%	59%
Brand sponsorships (e.g. Tostitos Fiesta Bowl)	39%	61%
Search engine advertising	34%	66%
TV-style commercials before movies	28%	72%
Side-by-side product demos in TV ads	28%	73%
Product placement in movies or on TV	27%	73%
Infomercials	21%	79%
Online banner ads	12%	87%
Text-based ads on mobile phones	11%	89%
Door-to-door	7%	92%
Pop-up advertising	6%	94%
Telemarketing	5%	94%
E-mail not signed up for	4%	95%

Note: figures may not total 100% due to rounding; trust means answered "trust completely" or "trust somewhat"; distrust means answered "distrust completely" or "distrust somewhat"; n=310/312

Source: Intelliseek, December 2003

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D. Sidestepping Search

10. Remember that much of Web surfing doesn't involve searching

Search is primarily a direct response medium, and as such, needs to be complemented with branding efforts. An exclusive focus on paid search methods may also make companies miss out on prime prospects. First off, with the help of good branding, many users bypass search sites and simply type in the company or brand URL, guessing that "www.sony.com," for instance, will take them to that consumer electronics company. Already bookmarked sites are another form of search bypass, as are links from one Web site to another.

Data from WebSideStory indicates that as Internet users become more experienced, they increasingly use such direct navigation methods such as typing in URLs or using bookmarks. By tracking the usage patterns of millions of users worldwide to over 100,000 Web sites, the Web analytics firm found that while 50% of visitors used direct navigation to arrive at Web sites in March 2002, 65% arrived directly in March 2003. Note, however, that during the same time span, the usage of search engines to arrive at Web sites increased from 7% to 13%.

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For virtually all companies with an online presence, not to factor paid search advertising into their campaigns would be shortsighted. At the same time, executives must beware of letting media hype hurry them into search marketing without meticulous preparation and probably outside help—or else a month's online budget could easily evaporate in days.

The recipe for a successful search marketing program customarily includes a blend of paid search and Web site optimization, often complemented with a soupcon of paid inclusion. Behind all search marketing, however, is an effective Web site; get your house in order before inviting in a slew of new guests.

The greatest advances in search advertising will occur as its reach extends beyond national advertisers and search sites or portals to embrace the wider market of SMEs for local search and Web publishers for contextual search. However, since these line extensions are not yet as fully developed as standard pay-for-performance search, marketers should negotiate prices before committing a significant portion of their search marketing budgets.

To understand the numerous implications for your business, pick up eMarketer's "Search Engine Marketing" report at http://www.emarketer.com/products/report.php?search_feb04 where we provide recommendations for large enterprises, small and medium-sized enterprises, search engines, Web publishers and online retailers.

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Below are several search engine marketing companies that can help you get started with search or expand your existing programs.

Advertising.com

<http://www.advertising.com>

Did-it.com

<http://www.did-it.com>

Fathom Online

<http://www.fathomonline.com>

iCrossing

<http://www.icrossing.com>

Impaqt

<http://www.impaqt.com>

iProspect

<http://www.iprospect.com>

KnowledgeStorm

<http://www.knowledgestorm.com>

Oneupweb

<http://www.oneupweb.com>

TrafficLogic, Inc.

<http://www.trafficlogic.com>

WebMama

<http://www.webmama.com>

WebMasterWorld

<http://www.webmasterworld.com>



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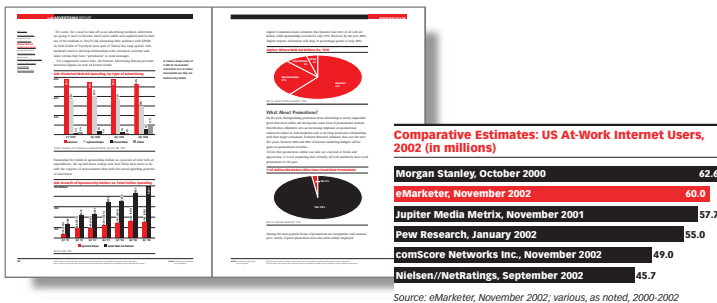
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