

A GUIDE TO
PERFORMANCE MARKETING

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Introduction

'Performance marketing' is a term increasing in significance in the corridors of some of the world's biggest advertisers. Marketing disciplines are no longer seen as isolated divisions, operating in silos with independent budgets. Marketing channels, traditionally seen as independent from each other, are starting to integrate; as brand marketers seek to understand the impact that one channel has on the performance of another, and the combined impact on consumer behaviour.

Nowhere is this more evident than in what the market is beginning to recognise as 'performance marketing'. Complementary online disciplines - pay-per-click (PPC) search, display advertising and social media advertising (in particular, Facebook) - can now be used effectively to reach highly targeted audiences segmented by in-depth criteria, detailed interests and specific demographic profiles (rather than the broad demographic profiling offers with a traditional 'affiliate' approach that buys advertising by inventory type). Integrating these campaigns to create multiple points of exposure to a brand's message, for example by combining a search programme with Facebook and display advertising, significantly increases the likelihood of consumer action that creates business success: sales, registrations, subscriptions, sign ups and so on.

This ability to increase the impact of a marketing campaign through cross-channel integration gives performance marketing far more strategic importance in achieving a brand's marketing or sales objectives than any single channel could have alone. Research has found that when exposed to both paid search and display ads, consumers are nearly twice as likely to make an online purchase on a retailer's site (Comscore, September 2009). These campaigns now also cross platforms: static platforms (desktop computers); mobile internet - such as the iPhone; mobile broadband (netbooks); and, of course, the iPad.

What is driving the growth in performance marketing?

It is no surprise that in a tough economic environment, advertisers shift their budgets to online channels that have proved more measurable against sales objectives than the traditional 'brand channels' such as TV or print advertising. Even against the current economic backdrop, search spend is increasing (10 per cent in the UK over the last 12 months; and a massive 24 per cent in the US).

The critical element of performance marketing is that performance criteria can be set by the advertiser, against hard objectives such as sales, conversions, registrations or sign-ups, rather than by 'eyeballs' or opportunities to see.

Technology - ad exchanges, demand side platforms, predictive modelling and automated bidding technology - plays an important role in the ability to deliver effective performance marketing campaigns. Ad exchanges signal a fundamental shift for advertisers in buying audiences rather than space, based on the value of each individual impression served. Demand-side platforms allow advertisers to manage multiple ad exchanges, and it simply wouldn't be possible to manage the volume of data manually, without automated bidding technologies. It is only by using technology that performance campaigns can be scaled up or down. In the time it takes a consumer to request a web page or type a search term, their request is analysed, bid for at the appropriate level based on that analysis, and a relevant ad served. The ability to automate this process marks a fundamental shift in advertising: ads are served based on specific user data, rather than broad demographics, and paid for by their performance.

But probably the most significant technology innovation is that of predictive modelling, developed by Efficient Frontier, that allows advertisers to predict, to within an accuracy level of just a few percent, what the most effective campaign components will be (such as the highest-performing keywords or ads); the outcome of a campaign; and return on investment, which lets advertisers choose their optimal return versus spend levels. Budgets and desired ROI can be pre-set, with no unpleasant surprises in store.

There are new innovations driving performance marketing, too. New technologies such as location-based searches or contextual advertising are driving very specific targeting. A consumer who searches on a mobile phone for their nearby Italian restaurant is an ideal marketing target for a restaurant fitting that description. Advertising technology now allows that business to advertise both in the mobile search results, and - for example - serve a display ad against a street map, complete with directions of how to get there, and a voucher code for a free bottle of wine with the meal.

Social media is a key driver in performance marketing. Facebook, properly used, offers huge possibilities for advertisers, at a relatively low cost. There are a few other media where consumers offer up such detailed personal information to advertisers, allowing brands to serve very highly targeted, relevant ads to individuals who have effectively told them what ads they want to see. This kind of precision targeting improves the performance of the campaign exponentially.

The size of the market

According to Research Company Think Equity, the 'non-premium' display market - that offers better targeting and higher-returns than 'traditional' premium inventory - is the fastest growth segment in the advertising sector, set to reach \$11.4 billion value by 2013. A massive 99 percent of advertisers believe there is a greater opportunity to integrate search with other marketing disciplines such as display advertising; and yet only 28.7 percent of advertisers think that search is currently fully integrated with the rest of the marketing mix, according to the IAB's National Search Marketing Barometer 2010. Search budgets are set to increase in 2010: at Efficient Frontier we are cautiously predicting a 10 per cent overall increase in search spend in 2010.

Facebook is undoubtedly the one to watch. The social network now accounts for 20 per cent of all online display ads in the U.K. (12.5 billion) reaching an audience of more than 30 million unique visitors, according to comScore's December 2009 report. The potential for growth is clear.

The future for performance marketing

Integration of search and display: In the next 12 months, we will see increased integration of search, display and social media, particularly Facebook. As brands understand more about consumer attribution, and the journey they make across different channels before arriving at the final brand destination, different strands of a marketing campaign will be judged not just for their impact on the final sale, but on the different parts of a customer journey that results in a sale.

Increasing strategic importance of Facebook: The biggest impact on performance marketing will come from Facebook. Developments such as the formal introduction of Facebook Credits currency (which mean that Facebook is now a viable sales or consumer reward channel for brands) and new services such as Facebook Places, mean Facebook is increasing in strategic importance to brands as a sales channel, not just a marketing or brand awareness vehicle.

Cross-platform campaigns and location-based targeting: The impact of the iPhone and now the iPad can't be underestimated on performance marketing. With one in three mobile searches showing local intent, according to Google, geo-location services will surge in importance over the next two years. Geographic audience targeting mean ad campaigns will have to be incredibly responsive and intuitive to the intent of the consumer, with more sophisticated semantic technology applied to ascertain meaning.

From banner to performance ad: It is becoming apparent to advertisers that the value of traditional banner ads is limited, and that banners will soon become the realm of performance marketing. Efficient Frontier's Justin Merickel talks about this in more detail on our blog, [here](#).

Attribution analysis: The more we understand about consumer attribution and the journey a consumer takes from first search to sale, the better marketing campaigns will perform. We are already starting to see clients investing significant resources in understanding attribution and tracking consumer journeys.

Better performing landing sites: Of course, the performance of a campaign designed to get a consumer to reach a landing site ultimately relies on that landing site to serve the information that the consumer seeks. In order for performance marketing to reach its full potential, the brand site much perform at its optimum level.

Increased transparency: From February 2011, Google will insist that advertising partners reveal the cost of campaigns to their clients. This will lead to much more transparency within the performance marketing industry, which is to be welcomed.

It is this shift away from traditional advertising models to a much more targeted, data-based ad model that is driving the move towards performance marketing. It is also this shift that has seen Efficient Frontier build an open digital marketing platform to put clients and agencies in direct control of their search, display and social campaigns; integrating optimisation of those campaigns across different digital channels.

The future of digital marketing really is performance-based.

For more information on performance marketing, visit www.efrontier.com.

About Efficient Frontier

Efficient Frontier is a leading digital performance marketing company managing search, display and Facebook optimization for large-scale marketers around the globe. Founded in 2002, Efficient Frontier pioneered the application of modern portfolio theory to first Search Engine Marketing and then to display and Social media. Today, it combines its core predictive modeling algorithms and bidding technology with comprehensive value-added services to manage more than \$1 billion in annual digital spend globally. The largest and most sophisticated advertisers and agencies partner with Efficient Frontier to achieve and sustain optimal campaign performance and growth in highly complex and competitive marketplaces. The company is headquartered in Sunnyvale, California, with offices in New York, the United Kingdom, France, Germany, and India, and technology licensing partnerships in Japan and Australia. Efficient Frontier is a privately held company with funding from Redpoint Ventures and Cambrian Ventures. For more information, please visit efrontier.com and subscribe to the Efficient Frontier blog at blog.efrontier.com. You can also follow us on twitter.com/efrontier and facebook.com/efrontier.