

efficient frontier

U.S. Search Engine Performance Report Q1 2009

An Efficient Frontier Research Paper

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Introduction

In light of the current economic climate, advertisers, users and search engines are adjusting their behavior both online and offline. Search Engine Marketing (SEM) continues to act as a leading indicator of advertiser, consumer and broader economic trends.

Search engines have adapted quickly to the new economic environment in two ways. First, they have optimized their unused inventory by broader matching keywords and removing minimum bids. Second, they have offset the decline in cost-per-clicks (CPCs) by seeking out new monetization methods such as advertising via rich media ads as well as local and business ads. Impression volumes have increased on a year-over-year (YOY) basis as search engines have allowed advertisers new ways of targeting users.

Efficient Frontier, the market leader in SEM technology and services, analyzed data from its Customer Index, which represents a subset of Efficient Frontier clients who have spend data for six consecutive quarters or more, to shed light on trends in search engine spending and performance on a YOY and quarter-over-quarter (Q/Q) basis. The Efficient Frontier Customer Index consists of a fixed sample of large scale U.S. search engine advertisers across multiple verticals, including financial services, travel, retail and automotive.

Executive Summary

SEM Spend and ROI Trends Show Advertisers Shift Towards Efficiency Strategy

Advertisers have improved their ROI by 10% Between Q4 2008 and Q1 2009 while spending 3.3% less. This demonstrates a continued shift towards an efficiency model as advertisers reduce spend in order to maintain ROI.

Impression Volume Surged Across all Search Engines, Especially in the Financial, Retail and Travel Sectors

Impressions increased as more consumers used search to buy products and get information. In addition, advertisers took advantage of the new consumer targeting offerings of the search engines.

Consumer Search Trends Show Shift Towards Frugality and Comparison Shopping

Revenue-per-click (RPC) has declined in the financial sector; however the impression volume has increased, indicating that people are searching for financial information, though not necessarily converting. The travel sector is experiencing a shift in buying patterns as consumers are becoming less brand focused and more value conscious.

Google Continues to Dominate the Market by Spend, YOY Market Share Shows Minimal Change

Google Search showed a 1.2% Q/Q increase, while Yahoo Search and Microsoft Live Search showed a Q/Q decrease of 0.7% and 0.5% respectively. YOY, Yahoo Search and Google Content gained market share by 1% and 0.9% respectively, while Google Search and Microsoft Live Search were down by 0.9% and 1% respectively.

Google's Content Network Continues to Refine as Advertisers Allocate Increased Budgets

Google Content improved its user targeting through 2008 and Q1 2009 as CTRs improved by 250% YOY. Advertisers leveraged this trend by allocating increased advertising budgets.

U.S. Search Engine Spending

Search Engine Share

Yahoo Search gained 1% market share on a YOY basis. While Google Search declined 0.9% on a YOY basis, overall Google maintained its market share due to the strength of its Content Network which gained 1% market share YOY.

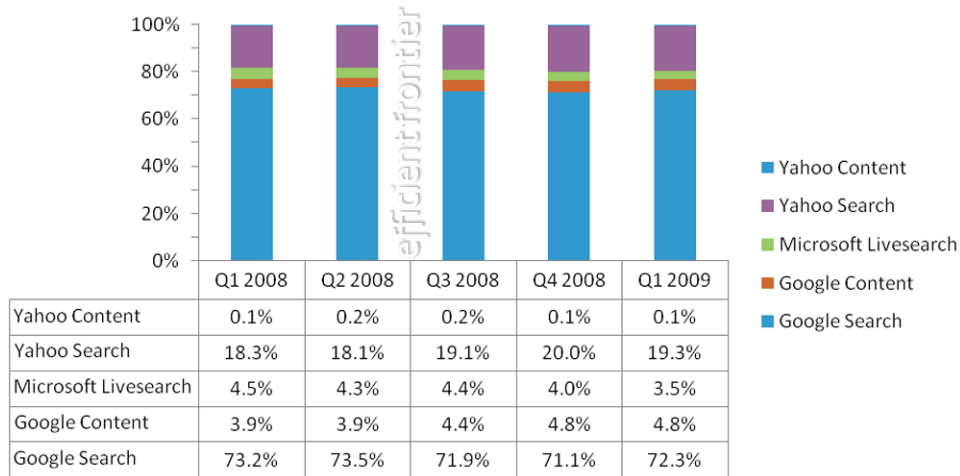


Figure 1: U.S. Search Engine Market Share

Search Engine Spending and ROI Trends

Search engine spending was down overall by 13% YOY and 3.3% Q/Q. The relationship between spending and ROI trends shows that advertisers continue to adjust their budgets to compensate for the economic downturn and to improve ROI. Monthly spend trends indicate that the additional decline in search engine spending in Q1 2009 was directly linked to the decline in ROI between November 2008 and January 2009. As ROI continued to decline, advertisers continued to cut their budgets in an effort to become more efficient. As ROI improved in February 2009 by 30% over January 2009, spending improved 6% in March 2009 over the previous month.

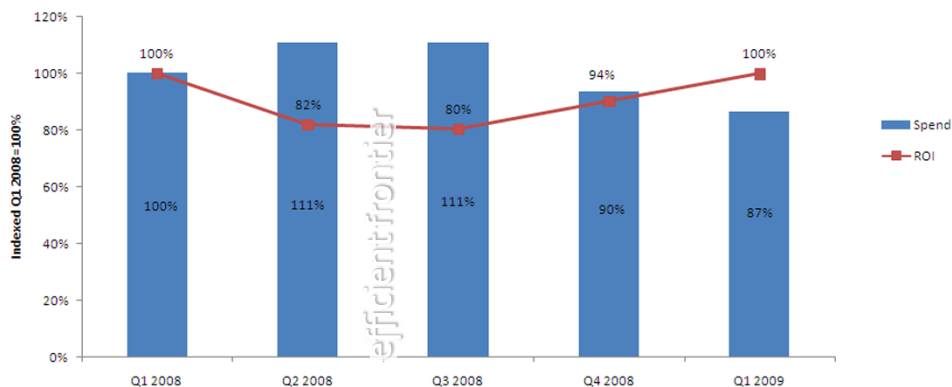


Figure 2: U.S. Quarterly Spend and Return on Investment Trends

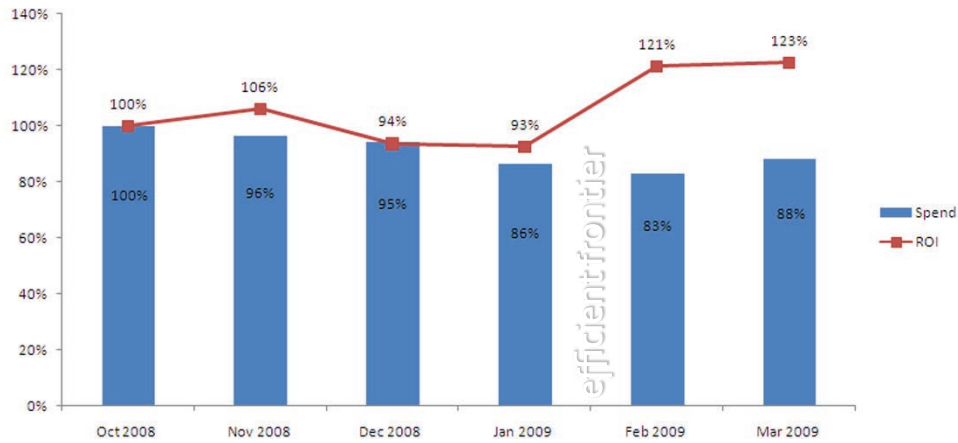


Figure 3: U.S. Monthly Spend and Return on Investment Trends

U.S. Key Metric Performance

Impressions

Impression trends are representative of user search patterns. In the context of SEM, the impression volume indicates the number of users interested in a product or a service.

In Q1 2009, overall impressions were up 11% despite the decline in spending. This trend indicates that more people are searching online and that search engines are optimizing unused inventory, by taking such actions as removing minimum bids. YOY, Google Search experienced 20% growth in impressions and Microsoft Live Search experienced 10% growth in impressions. In contrast, Google Content trended down in impressions, declining 57%. This decline in impressions was due to continual improvements in the content network that enabled advertisers to better target users.

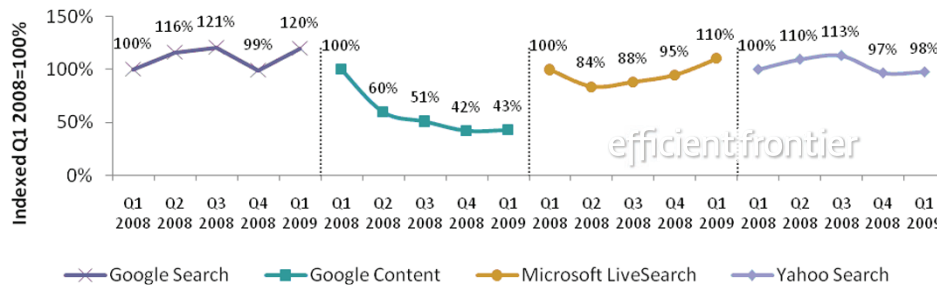


Figure 4: U.S. Impression Trends

Click-Through Rate

The click-through rate (CTR) is the ratio of clicks to displayed impressions. The CTR is an indicator of the ratio of clicks an impression is receiving related to its relevance to an ad, and the search engine's ability to target a keyword query to the appropriate paid search advertisement. A higher CTR suggests that on average more users will respond to an ad upon viewing it.

Google Content and Yahoo Search showed a steady improvement in CTR trends, with Google Content improving its CTRs by 250% between Q1 2008 and Q1 2009, and Yahoo Search improving by 21% during the same time period.

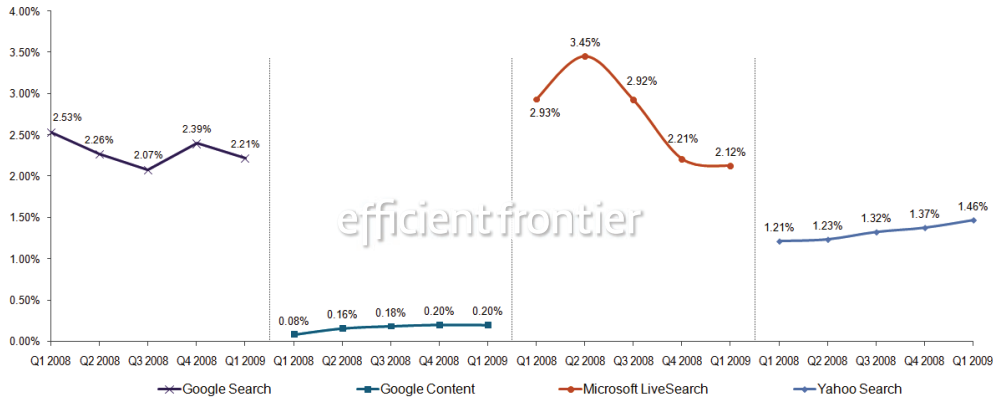


Figure 5: U.S. Click-Through Rate Trends

Cost-Per-Click

CPC refers to the amount of money an advertiser pays search engines and other Internet publishers for a single click on its advertisement that brings one visitor to its Web site.

CPCs are down across the board by 19% YOY and 13% Q/Q indicating that the entire marketplace is deflating as advertisers cut budgets and spend less. On a Q/Q basis, CPCs have declined by 14% on Google Search, 7% on Google Content, 28% on Microsoft Live Search, and 16% on Yahoo Search in Q1 2009 over Q4 2008.

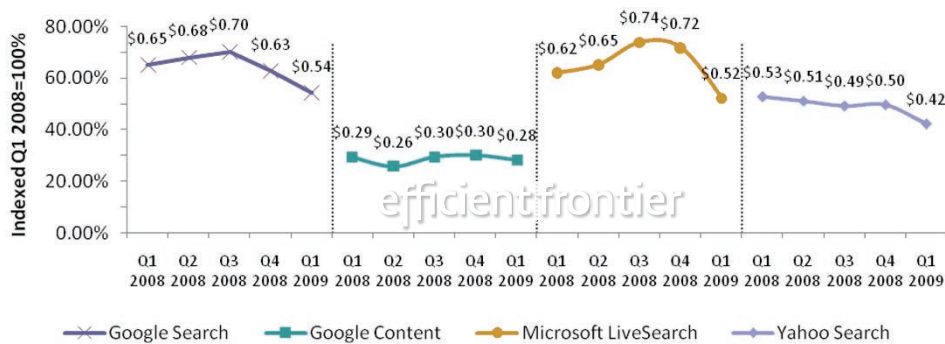


Figure 6: U.S. Cost-Per-Click Trends

Return on Investment

ROI is an indicator of a return that an advertiser is able to extract from buying paid search traffic. When controlled for spend, a higher ROI indicates that more revenue will be earned for the same advertising dollar. SEM is unique when compared to other advertising mediums as advertisers can measure the ROI and dynamically change elements of their campaign based on those returns.

Q/Q, ROI has improved across the board for all search engines. Google Search, Microsoft Live Search and Yahoo Search saw a 10%, 43% and 12% improvement in ROI respectively. This indicates, as previously mentioned, that advertisers are shifting more towards efficiency in their marketing campaigns.

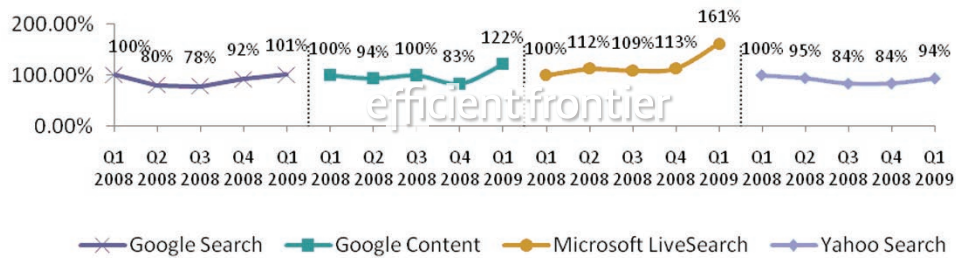


Figure 7: U.S. Return on Investment Trends

Focus on Vertical Trends

Finance

Advertisers in the finance sector saw a YOY increase in impression volume of 18%. However, spend and CPCs declined in the same period as advertisers found it increasingly difficult to monetize traffic. This was due to two reasons: (1) people were looking for information, but not necessarily buying a product and (2) consumers in the buying cycle were less qualified.

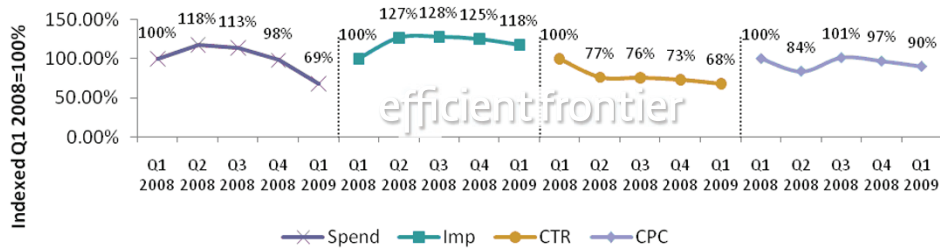


Figure 8: U.S. Finance Sector Trends

Retail Sector

Trends in the retail sector indicate that while more users are searching online, advertisers are working with a decline in budgets. Additionally, the drop in CTRs and the increase in impression volume indicates that more searches in the retail space are from comparison shoppers, not necessarily serious buyers.

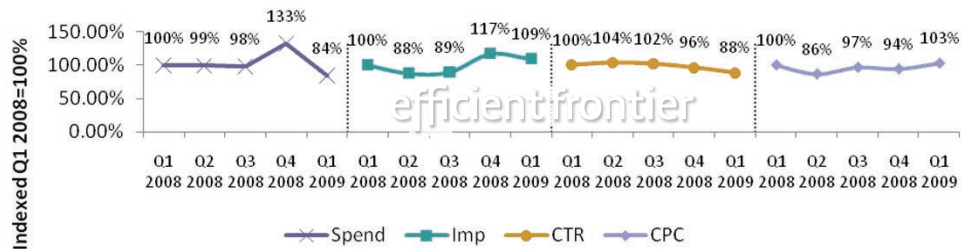


Figure 9: U.S. Retail Sector Trends

Automotive Sector

As the automotive sector saw a 7% YOY decline in spend, it also saw a sharper decline in traffic of 32% YOY. However, this traffic was very qualified as indicated by the 36% YOY improvement in CTRs.

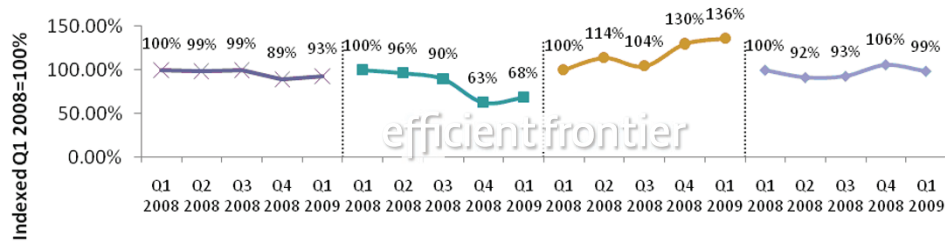


Figure 10: U.S. Automotive Sector Trends

Travel Sector

The travel sector saw a 42% Q/Q increase in spend, as well as a 52% Q/Q increase in impressions. YOY, however, impressions were the only metric to show an upward trend, increasing 32%. Spend was down 8% YOY and CTRs declined 17% for the same time period. These trends indicate that: (1) more users are searching online and (2) advertisers are leveraging new avenues for travel advertising such as Google’s local and business ads.

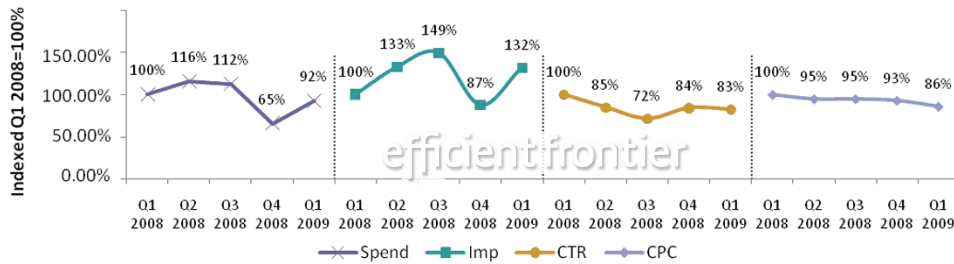


Figure 11: U.S. Travel Sector Trends

Consumer Trends

The economic downturn has affected consumer spending and thus consumer search trends. In the financial sector, RPC has declined while impression volumes have increased, indicating that people are searching for financial information, but not necessarily converting. This is a function of two phenomena: (1) more people are looking for information online and (b) the approval criteria for loans and mortgages have become more stringent. As a result, the monetization value of the traffic has come down with regards to revenue.

The travel sector is experiencing success on a click level as well as an impression level. This demonstrates that consumers are trending towards bargains and deals, and are comparison shopping, thus using search as a means to find the best rates and cheapest deals. It is important to note that while keywords containing cheap and discount have done well, both from a traffic and a monetization point of view, hotel and cruise related keywords have not fared well. At a more granular level, the “hotel” set includes several thousand combinations of hotel with location names, hotel brand names, etc. This indicates a shift in consumer thought patterns. People are less brand focused and more value conscious.

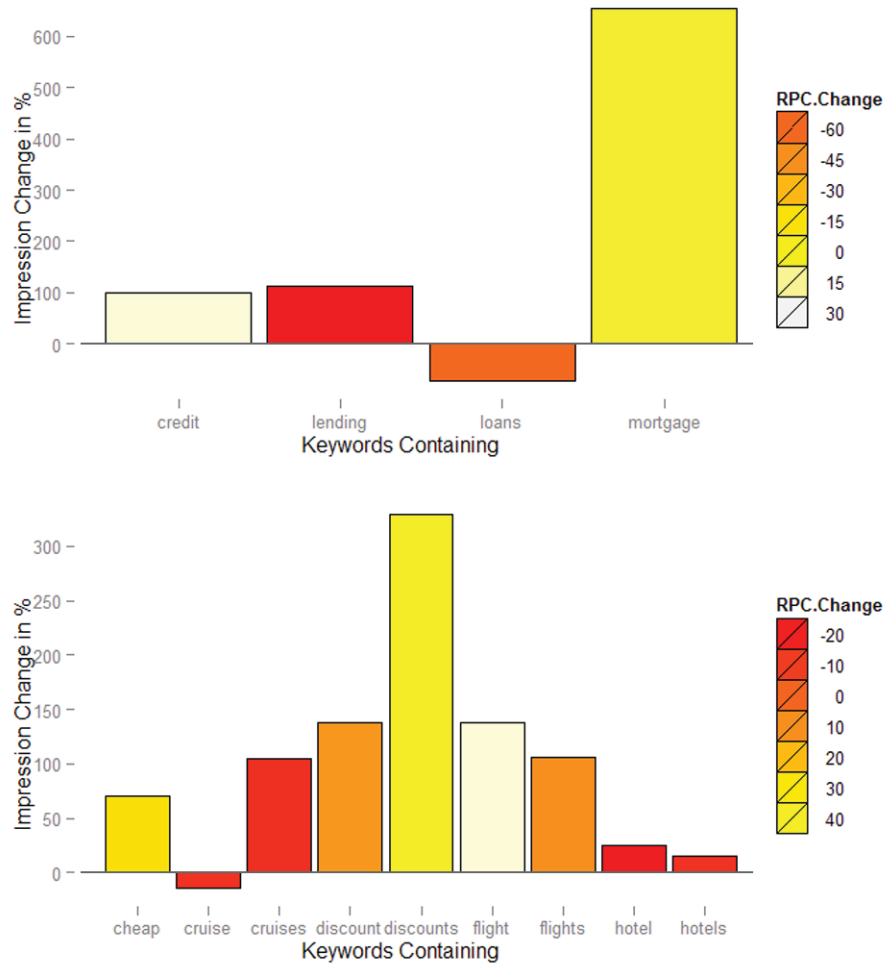


Figure 12: U.S. Consumer Keyword Search Trends for the Finance and Travel Sectors
 These charts show a sample of consumer keyword search trends for the Finance and the Travel Sectors. The sample includes keywords that contained a certain phrase within the search term; the data was then aggregated across the keyword set, and across all clients in the vertical. The colors represent revenue-per-click (RPC) change, which is the change in RPC in percentage form. The RPC is an indication of the monetization value; a higher RPC means a greater potential to generate revenue at the click level.

Outlook

In the current economic environment, ROI will continue to be a priority as advertisers trend towards the efficiency model in an effort to reach a higher ROI as a buffer against economic uncertainty. The drop in CPCs indicates a deflation in the marketplace. Thus we find ourselves at an interesting cross-road. On the one hand, advertisers are cutting budgets resulting in cheaper clicks, on the other hand more users are searching online. This situation presents the ideal opportunity for large advertisers with deeper pockets to expand in this market, consolidate their market share, and get more valuable traffic at a discounted price point

Our research indicates that an increased number of users are more price conscious and less brand conscious. As comparison shopping increases, this will benefit online retail as a whole as SEM naturally lends itself to this mode of shopping. Financial information Web sites will continue to see increased traffic as changes in fiscal policy are announced. The remaining question is in regards to monetization: while there has been an increase in traffic on mortgage and lending related keywords, the credit crunch has decreased lending opportunities. If there were to be a change in credit opportunities, and approval criteria for loans and mortgages were lowered, the traffic will become more valuable.

Methodology

This analysis was completed based on data from a fixed sample of Efficient Frontier's U.S. clients from Q1 2008 through Q1 2009, and covers 84 billion impressions and 785 million clicks on search and content ads on Google, Yahoo and Microsoft Live Search. It includes data from advertisers in the financial services, travel, retail and automotive sectors.

About Efficient Frontier

Efficient Frontier is the worldwide market and technology leader in providing search engine marketing (SEM) solutions for large advertisers and agencies. Founded in 2002, Efficient Frontier pioneered the application of modern portfolio theory to SEM and today combines its core predictive modeling algorithms and bidding technology with comprehensive strategic and tactical value-added services to manage more than \$750 million in annual search 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 search marketplaces. The company is headquartered in Sunnyvale, CA with offices in New York, the United Kingdom, France, Germany, and India, and technology licensing partnerships in Japan, Hong Kong and Australia. Efficient Frontier is a privately held company with funding from Redpoint Ventures and Cambrian Ventures. For more information, please visit www.efrontier.com and subscribe to the Efficient Frontier blog at blog.efrontier.com.