

efficient frontier

UK Search Engine
Performance Report
Q1 2009

An Efficient Frontier Research Paper

April 2009

Table of Contents

3	Introduction
4	Executive Summary
5	UK Search Engine Spending
5	Search Engine Share
6	Search Engine Spending Trends
7	UK Key Metric Performance
7	Impressions
8	Click-Through-Rate
9	Cost- Per-Click
10	Return on Investment
11	Outlook for 2009
11	Methodology
12	About Efficient Frontier

Introduction

The UK economy continued to deteriorate in Q1 2009, with the collapse of asset markets and notable companies. Economic and marketing indicators continued to trend downwards after most marketing mediums seemed to bottom out in Q4 2008 (IPA). Shoppers turned online for price comparison and convenience in Q4 2008 boosting online retail sales which the Efficient Frontier Q4 Search Engine Report conveyed. Nevertheless, post Christmas Internet advertising followed suit and suffered a record reduction in spend, according to the Q1 2009 IPA's Bellwether report, but at a far weaker rate than for total marketing spend.

The Efficient Frontier UK Customer Index followed the trend and similarly saw a 6% Y/Y decrease in spend. As the last marketing medium to suffer a cut in spend during this recession, it verified advertiser's reliance on the internet's ability to deliver ROI and measurable returns. The IAB and PricewaterhouseCoopers (2 April 2009) back up this premise reporting that Paid Search is the most employed online marketing channel owning 59.3% of all online adspend worth £1986.9 millions. Microsoft research supports this by predicting the internet will overtake broadcast TV as Europe's most consumed form of media for the first time in June 2010 if current growth trends continue.

Search Engines have adapted quickly to the new economic environment in two ways. First, they have optimised their unused inventory by matching search queries more broadly to ads and removing minimum bids. Second, they have offset the decline in cost-per-clicks (CPCs) by seeking out new monetisation 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, analysed data from its UK Customer Index. It represents a subset of Efficient Frontier clients who have spend data for six consecutive quarters or more, and sheds light on trends in Search Engine spending and performance on a year-on-year (Y/Y) and quarter-on-quarter (Q/Q) basis. The UK Efficient Frontier Customer Index consists of a fixed sample of large scale UK Search Engine advertisers across multiple verticals, including financial services, travel, retail and telecommunications.

Executive Summary

1. SEM Spend and ROI Trends Show Advertisers Shift towards Efficiency Strategy

Advertisers have improved their ROI by 25% between Q4 2008 and Q1 2009 while spending 10.5% less. This demonstrates a continued shift towards an efficiency model as advertisers reduce spend in order to maintain ROI.

2. Impression Volume Surged Across all Search Engines

Impression volume for Q1 2009 outstripped the usual seasonal increase 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.

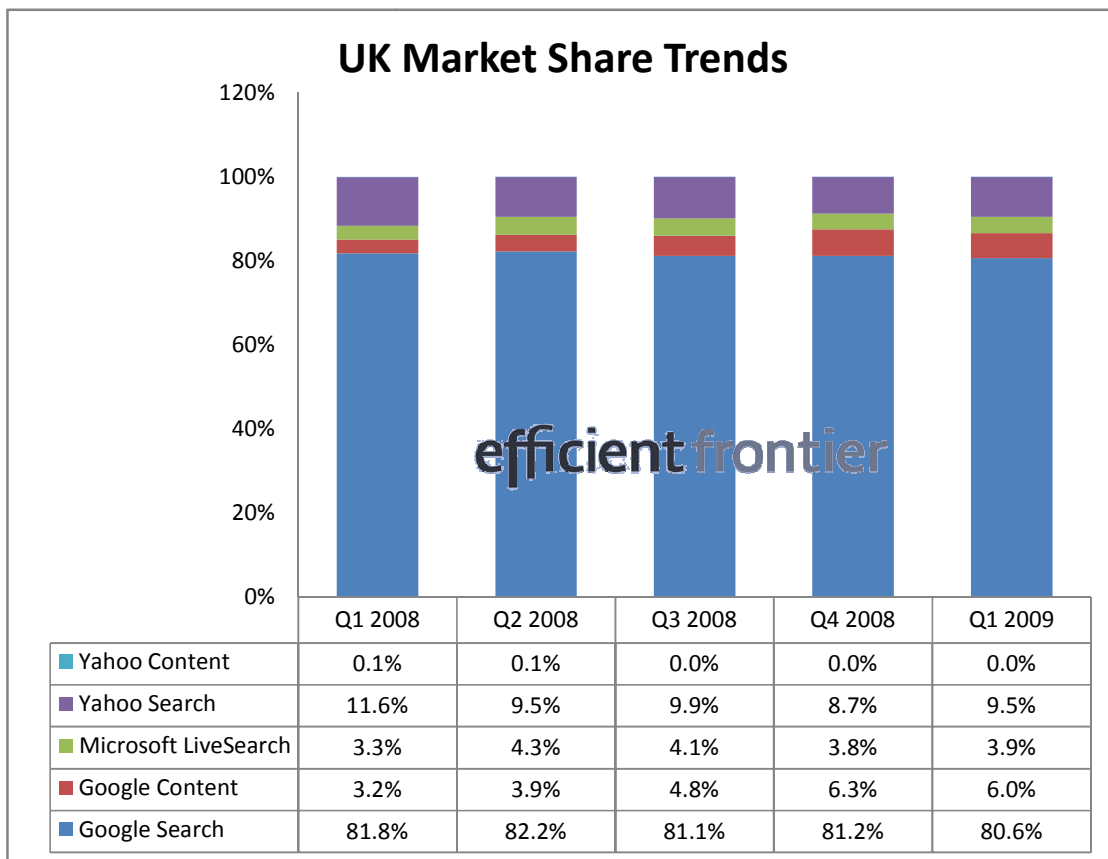
3. CPCs Decline as Advertisers Focus on Profit

As marketers lowered budgets to target profitability, Cost Per Clicks (CPCs) that are a result of real time bidding auctions on keywords came down. Advertisers were less prepared to buy high-traffic, high-cost keywords unless they were demonstrably profitable.

UK Search Engine Spending

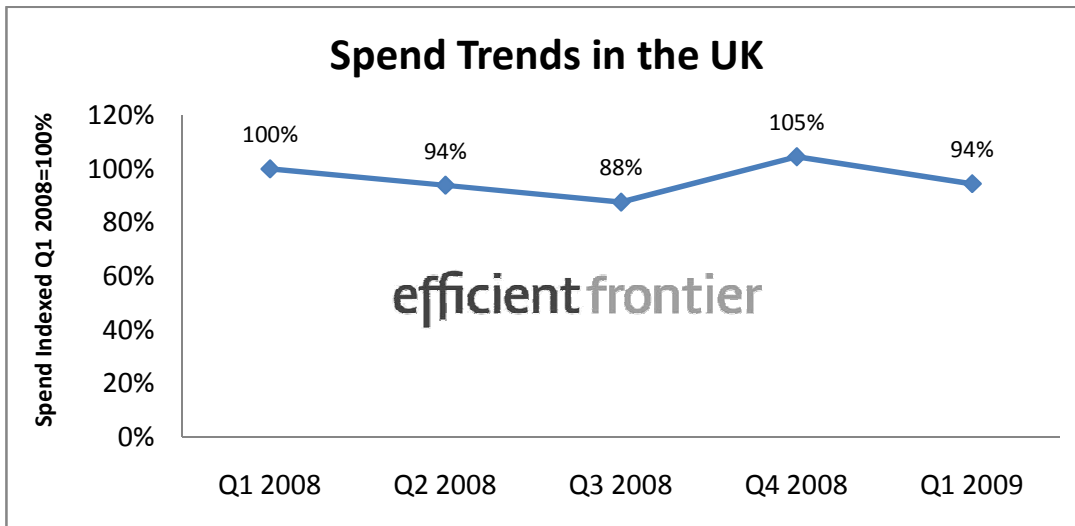
Search Engine Share

Google continues its Y/Y growth due to its Content Network. Google's Content network is interestingly still outperforming Microsoft Live Search in Q1 2009 by holding its market share at 6% compared to Microsoft Live Search's 3.9%. Google Search holds its dominant position at 80.6% market share in Q1 2009. Although down slightly from 81.2% market share in Q4 2008, there is no questioning Google Search is the overriding leader. The few percentage points of difference seem to be acquired by Yahoo Search as it shifted up a notch to 9.5% from 8.7% market share for the same period.

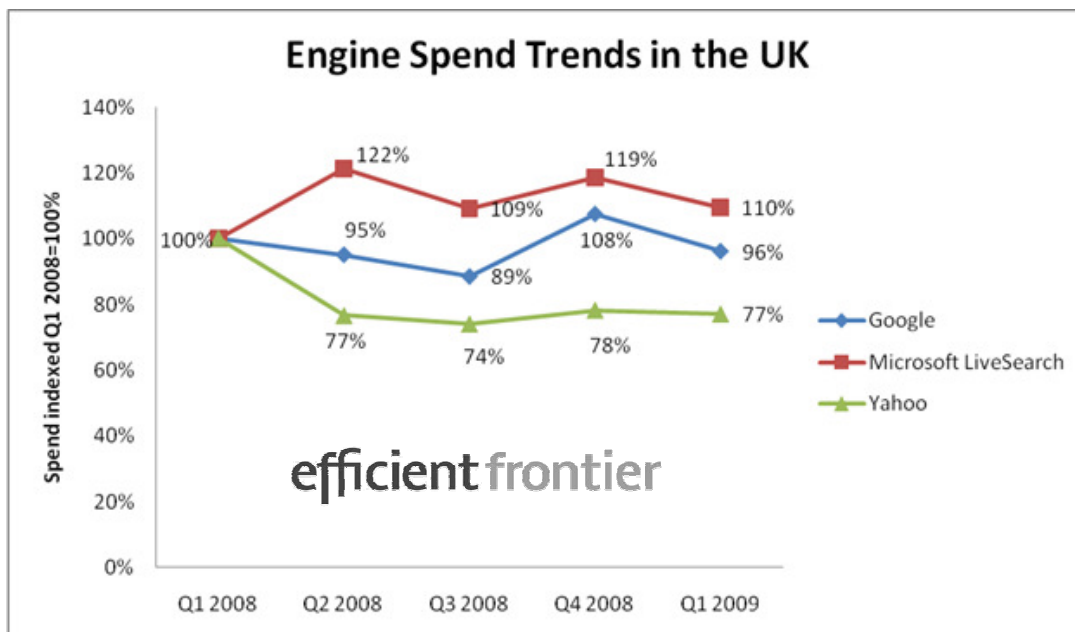


Search Engine Spending Trends

For the sample set of advertisers in the UK Efficient Frontier Customer Index, SEM spending decreased by 6% Y/Y. This follows the trend that advertisers are spending less due to economic pressures. Between Q4 2008 and Q1 2009, spending decreased by 10.5% which can be attributed in part to the seasonal rise in retail spending in Q4 which tapers off again after the Christmas period. It is important to note that although advertisers are spending less, ROI is improving as competition is reduced and CPCs decline.



Breaking down the trend by the individual Search Engines (search and content combined) shows all Search Engine's common decline in spend Q/Q and Y/Y.



UK Key Metric Performance

Impressions

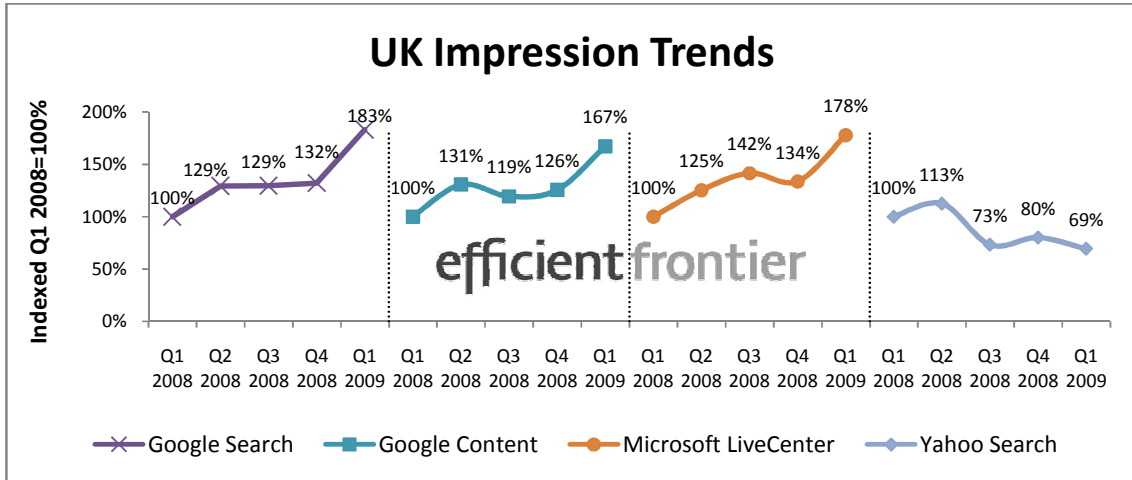
Impression trends are representative of user search patterns. In the context of SEM, the impression volume indicates the number of users interested in a product or service. Impression volume is historically high in Q1 due to the increase in travel searches as consumers start to plan their summer holidays. Q1 is also usually affected by adverse weather keeping Q1 consumers indoors surfing the web.

Impression volume for Q1 2009 however outstripped the usual seasonal increase and is significantly higher compared to last year on both Google and Microsoft Live Search.

This shows that users are searching more online. There are a number of factors contributing to this. The recession in most has caused the UK to be more cost conscious, thereby searching longer for a better deal online. It is also widely publicised that more consumers are staying at home and using less resources which in turn leads to more time consuming media in the home such as TV and the internet.

Another cause is Google and Microsoft Live Search has been able to optimise their unused inventory. By Google removing minimum bids, it brought a large number of previously inactive keywords rapidly into play. Combined with Efficient Frontier's ability to effectively mine the long tail of keywords, advertisers in the UK Efficient Frontier Customer Index have been able to capitalise on this and find significant volume and ROI.

Yahoo Search has seen a significant decrease in impressions Y/Y. This is a consistent trend as Yahoo Search makes changes to its partner network.

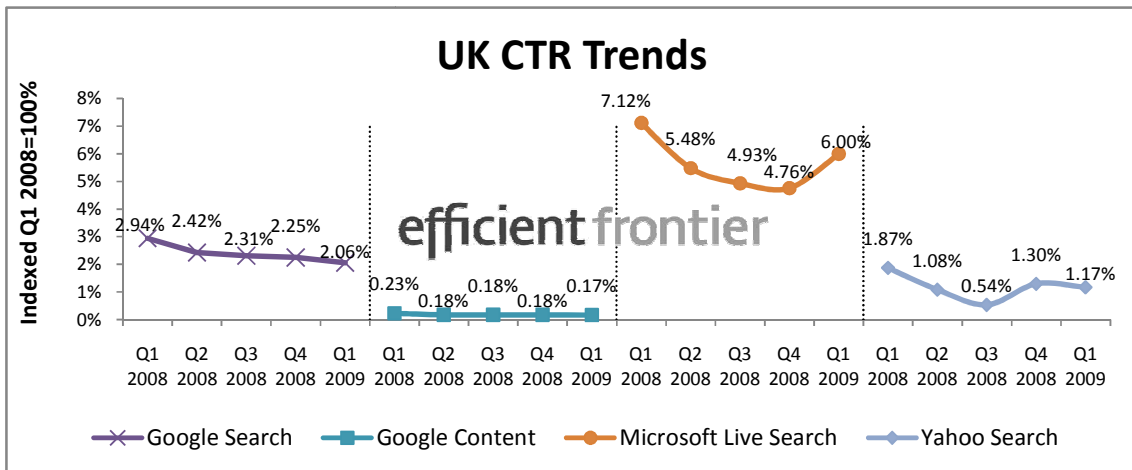


Click-Through-Rate

Click-Through-Rate (CTR), the ratio of clicks to displayed impressions, 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.

CTRs have seen a small gradual decline across Google Search and Content and Yahoo Search. It is usual for CTRs to decrease when impression volumes increase. As the Search Engines optimise their unused inventories, they target a bigger audience who are on average less qualified than a smaller but more targeted one.

Microsoft Live Search saw CTRs jump to 6% CTR from 4.76%. Coupled also with the decline in CPCs it suggests a great time for advertisers to invest in Microsoft.

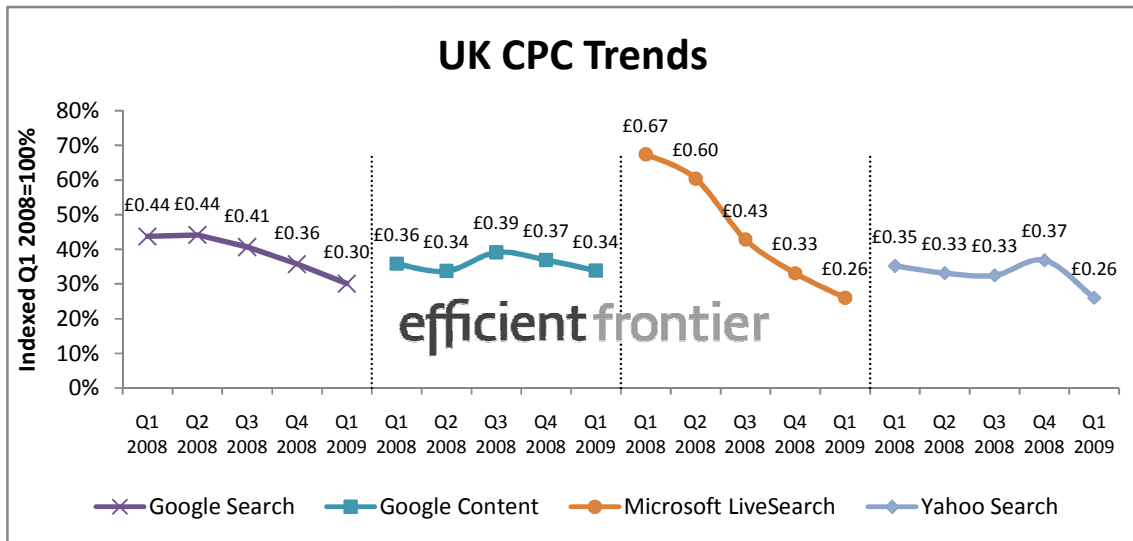


Cost-Per-Click

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.

The CPC trends below show CPCs have fallen steadily across all Search Engines indicating the entire marketplace is deflating as advertisers cut budgets.

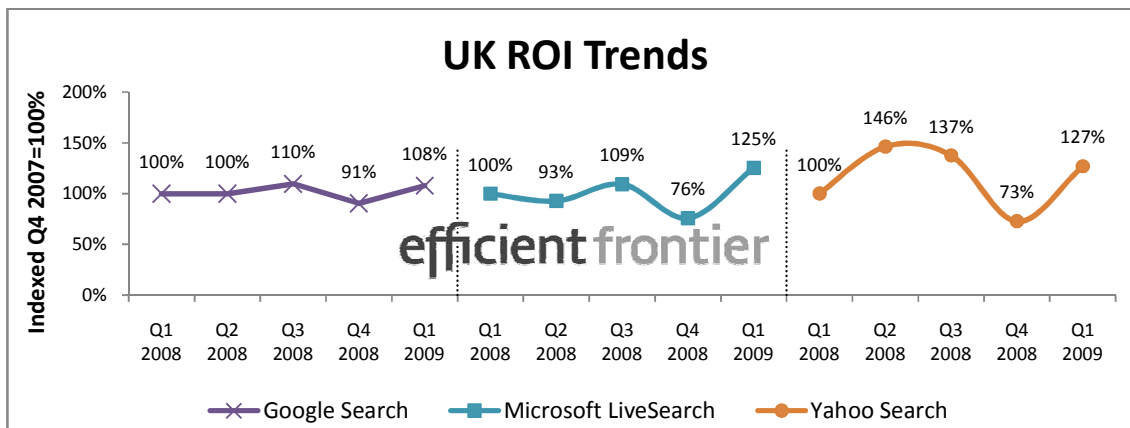
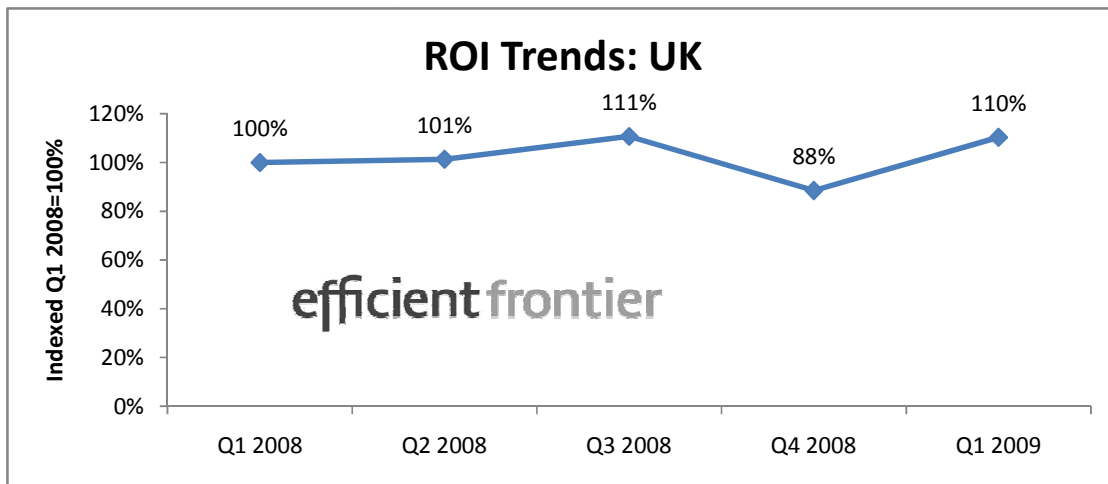
Microsoft Live Search CPCs have decreased dramatically, representing a good opportunity for advertisers to invest in the Search Engine as clicks become cheaper.



Return on Investment

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 pound. SEM is unique when compared to other advertising mediums as advertisers can measure the ROI and dynamically change elements of their campaigns based upon those returns.

Strong Y/Y and Q/Q performance in ROI is observed across the UK Efficient Frontier Customer Index. Engines in total saw uplift in ROI of 25% Q/Q and 10% Y/Y indicating that ROI is the advertiser's preferential objective for 2009 after Q4 saw many push advertising spend to meet sales volume goals at the expense of ROI



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.

As the market has become more efficient we expect advertisers to cautiously increase spending over the next few quarters. In the US, we have seen an increase in spend in the last 2 months as advertisers have seen an improvement in ROI. We expect these trends to follow in the UK.

Methodology

Analysis for the Efficient Frontier report was based on data from a fixed sample of the overall Efficient Frontier UK customer base from Q1 2008 through Q1 2009, and covers over 7 billion impressions and 114 million clicks across an index of Efficient Frontier UK customers. The report includes data from advertisers in the financial services, travel and entertainment, retail and telecommunications verticals.

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.