

efficient frontier

UK SEARCH ENGINE PERFORMANCE REPORT

Q3
2009

An Efficient Frontier Research Paper

Table of Contents

Introduction	3
Market Share – Clicks and Spend	4
U.S. INSIGHT – Bing Click Share	5
UK Spend and ROI	5
Google Content Performance	6
Key Metrics	7
Clicks and Click-Through-Rate	7
Impressions	7
Cost per click	8
ROI	8
U.S. Insight – Vertical Results	9
International Outlook	9
Outlook	10
Methodology	10
About Efficient Frontier	10

Introduction

The IAB/PwC report released on Wednesday 30th September saw Online Advertising bypass TV to become the UK's single biggest advertising medium. Online advertising's rise to prominence is an enormous symbol of confidence in the sector at a time when marketers seek accountability and ROI. We analysed the UK data in the Efficient Frontier Customer Index, a sample of Efficient Frontier's advertiser base, to see how advertisers are behaving towards search engine marketing.

The UK Efficient Frontier Customer Index showed that large advertisers spending over £50K per month on search have finally started to increase their spending on search engine marketing after two quarters of steady decline. Search Engine Marketing spend for the sample increased by 10% year-on-year (YoY) and increased 11% when compared to Q2 2009. We predicted a glimmer of hope for recovery in the Q2 report by noting that the biggest drop in spend came in the month of April. We can confirm that advertisers in the UK Efficient Frontier Customer Index steadily increased spend through to September, besides a small seasonal August dip.

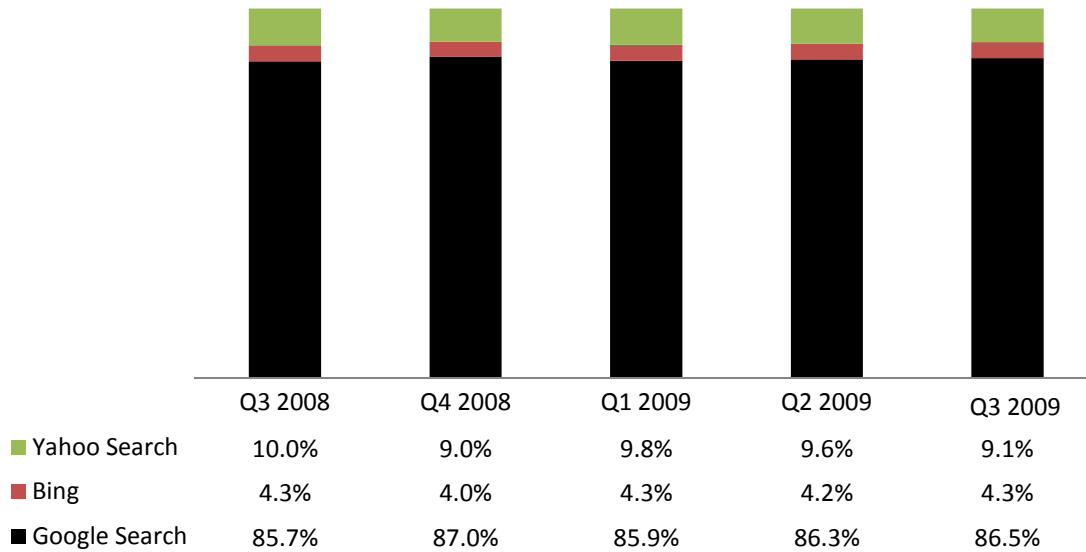
The search opportunity continues to boom. Search demand, ie consumers searching, is up strongly for Google and Yahoo! and CPCs are stabilising QoQ. CPCs on Google and Bing are particularly stable with Yahoo! still showing a decline QoQ of 6.8%.

All engines are operating more efficiently for advertisers in Q3 when compared to both the same period last year and also Q2 2009. This is a good sign for retailers ready to capture Christmas shoppers profitably.

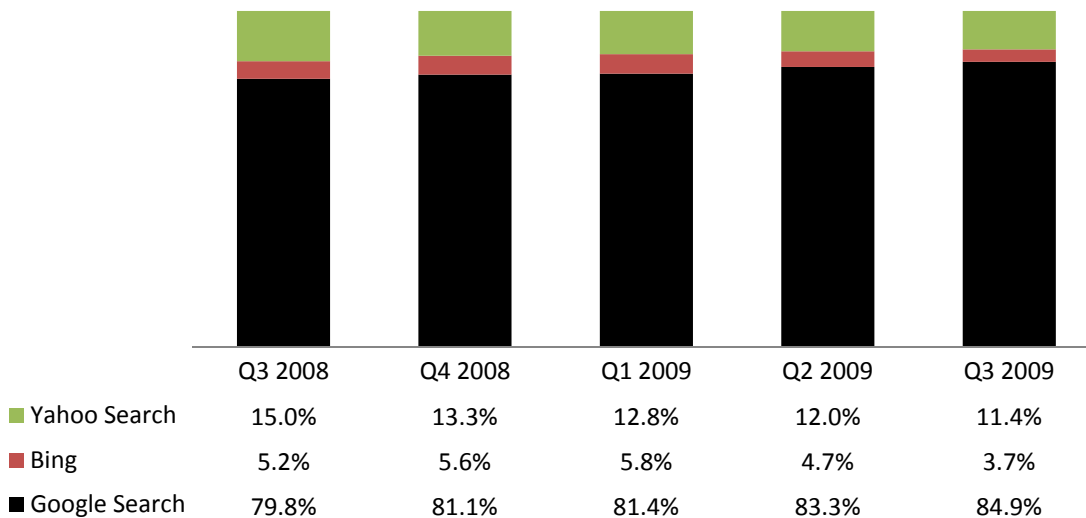
In a continued U.S. trend from Q2, the launch of Microsoft's Bing in the U.S. has maintained its state of steady growth posting a full percentage point gain in spend share in the US. and a slight increase in click spend. Bing's spend and click gains look to be coming from Google rather than Yahoo!. A closer look at the Bing numbers shows category growth across Travel, Finance, Autos and Retail with the most significant gains in Travel and Finance. To some degree, U.S. advertiser sentiment favors Microsoft on spend. Marketers don't want to rely on Google and may consciously over-index Microsoft to support a viable competitor. This U.S. analysis of Bing's success provides an interesting preview for its launch in the UK.

Market Share – Clicks and Spend

Spend Share



Click Share



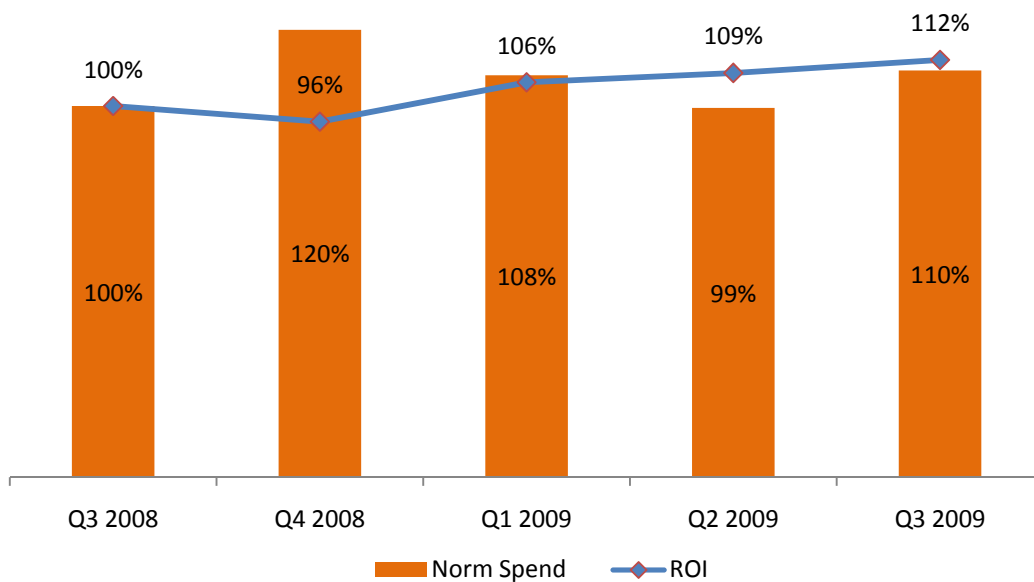
The market share data above shows that Google continues to gain a small share in both spend and clicks at the expense of both Yahoo! and Microsoft (Bing). This is the same when comparing YoY and QoQ data.

U.S. INSIGHT - Bing Inches Up

Microsoft's Bing continued its state of steady growth posting a full percentage point gain in spend share in the U.S. and a slight increase in click spend. Bing's spend and click gains look to be coming from Google rather than Yahoo!. A closer look at the Bing numbers shows category growth across Travel, Finance, Autos and Retail with the most significant gains in Travel and Finance.

We expect Bing to gain click share although at a slower rate. We see no reason to doubt that Microsoft will continue to push Bing given the initial success and between distribution deals and marketing should drive share higher. The efficiency gap which favors Google should shift spend toward AdWords. However, that change didn't materialize in the previous quarter either. To some degree, advertiser sentiment favors Microsoft on spend. Marketers don't want to rely on Google and may over-index Microsoft to support a viable competitor.

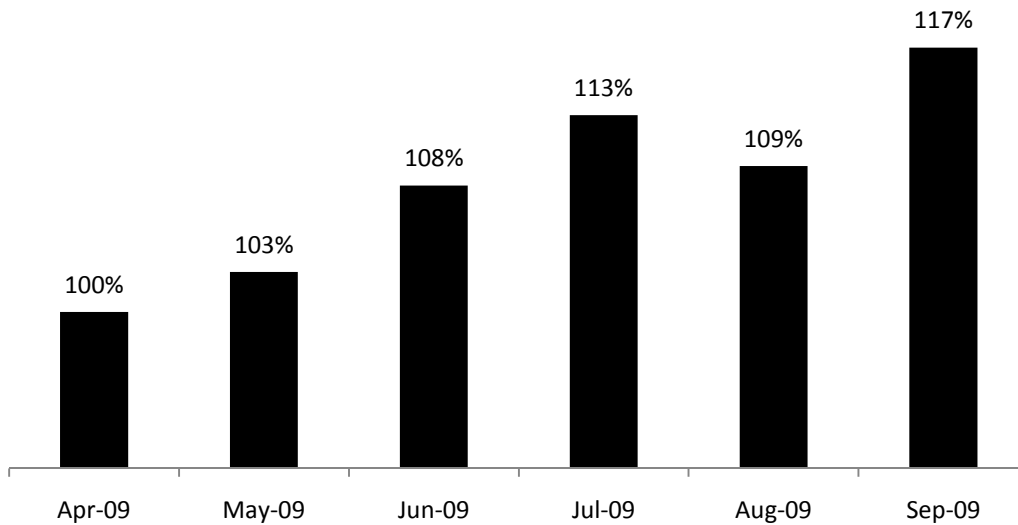
UK Spend and ROI



Indexed Q3 2008 = 100%

For the sample set of advertisers in the UK Efficient Frontier Customer Index, SEM spending increased by 11% QoQ and increased 10% YoY. This represents the first increase in advertiser confidence in three quarters as advertisers start to spend more. ROI remained flat QoQ with a small 2.8% increase as advertisers continue to ensure every last search marketing pound is accountable during the recession. ROI increased 12% YoY.

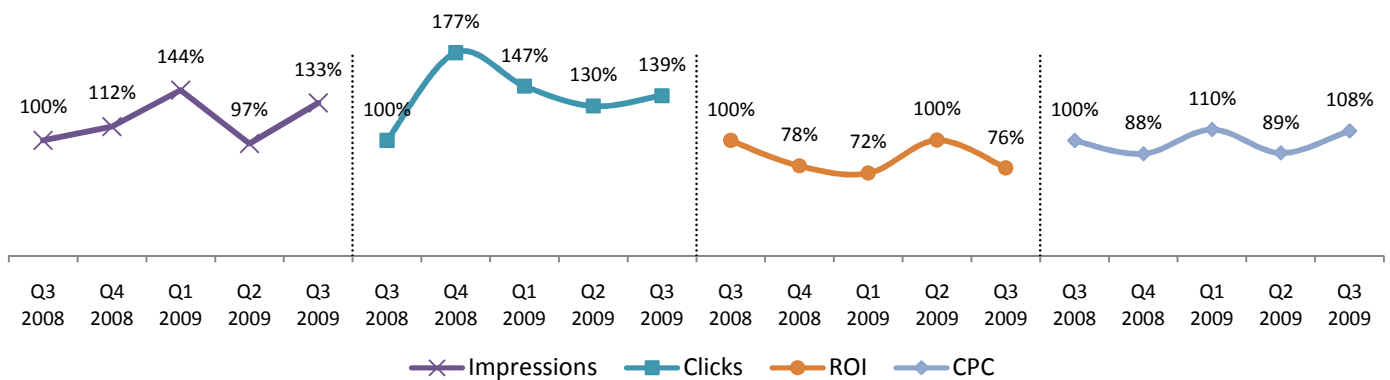
Monthly



Indexed Apr 09 = 100%

When analysing this trend month-by-month we can see that after a drop in April, monthly spend started to increase gradually again for the remainder of Q2 and Q3 apart from a small unsurprising seasonal drop in August.

Google Content Performance

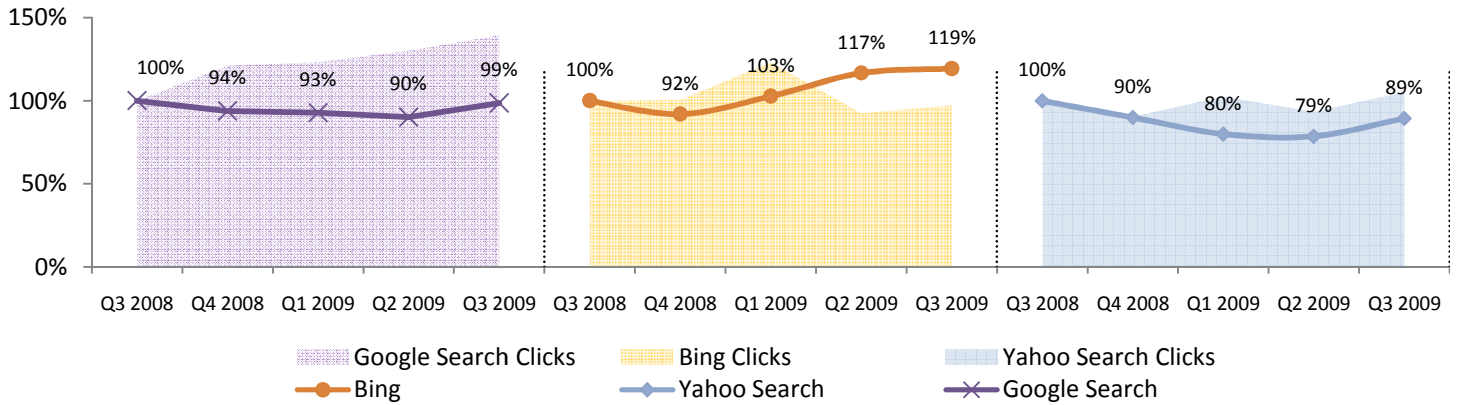


Indexed Q3 2008 = 100%

By analysing the trend in previous reports, Google's contextual ad product, Google Content, hasn't really found a consistent footing. It is the dynamic nature of advertising against change content that means figures can be volatile. Google Content's click volume is up 39% YoY and has now stabilised QoQ but ROI on the other hand has dropped 24% YoY. Impressions increased 37% of volume QoQ after dropping in Q2. CPCs have increased 21.3% since Q2, indicating that demand has rebounded for Google Content in Q3. Spend on Google Content increased by 17% QoQ, and by 25% YoY.

Key Metrics

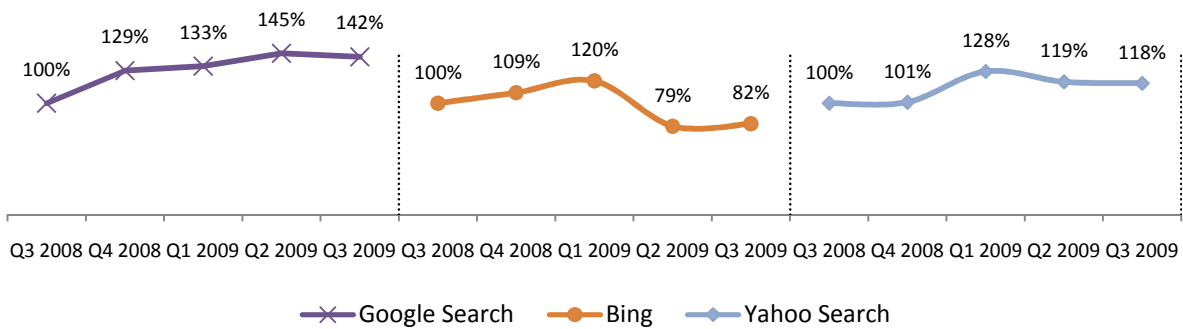
Clicks and Click-Through-Rate



Indexed Q3 2008 = 100%

The click-through rate (CTR) is the ratio of clicks to displayed impressions. This metric is an indicator of the ratio of clicks that 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 ad. A higher CTR suggests that, on average, more users will respond to an ad upon viewing it. Google and Yahoo! are showing a greater YoY increase in clicks than actual click through rates which is evidence that the cost conscious user is utilising the price comparison attributes of the internet and searching longer for a better deal online. The opposite is true for Bing which might indicate consumer engagement with the advertising looks improved.

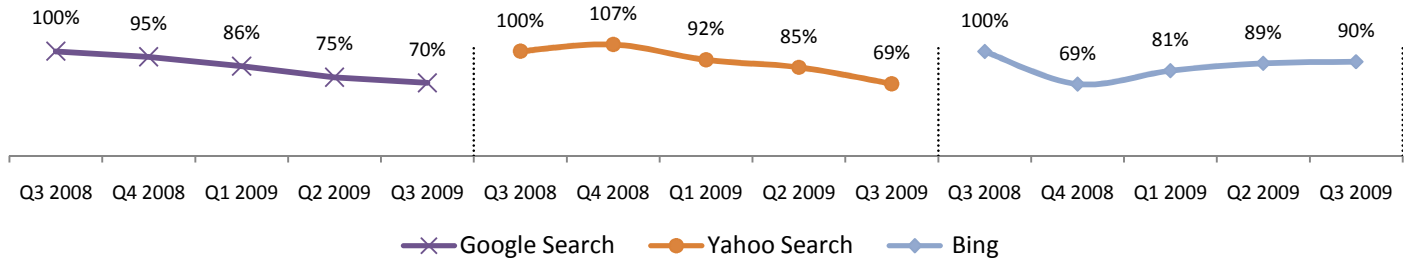
Impressions



Indexed Q3 2008 = 100%

Impressions are the number of views of an ad by a consumer on a particular search engine. Impressions indicate consumer interest in a product. The more consumers search the higher the impression volume, the less consumers search the lower the impression volume. Interestingly the charts above show increased consumer activity on Google and Yahoo but a prominent decrease in consumer activity on Microsoft (Bing). This is in contrast to Bing’s performance in the U.S. after the release of their decision engine and huge brand awareness push.

Cost Per Click

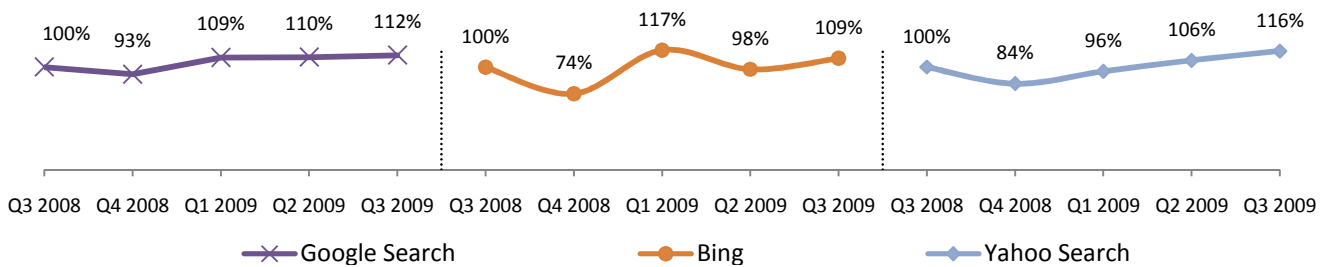


Indexed Q3 2008 = 100%

CPC refers to the amount of money that 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 determined by an auctioning process and are a good indicator of market conditions. Increases in CPCs indicate advertisers are willing to spend more on advertising and a decrease in CPCs indicates that advertisers are willing to spend less.

As we have seen throughout the year, CPCs across all search engines declined YoY which is indicative of the broad economic impact. Search is operating with lower demand Q3 2009 vs. Q3 2008. The interesting point here is that CPCs are starting to stabilise QoQ which could indicate to a bottoming out of Search cost drops. Google and Bing are particularly stable with Yahoo still showing a decline QoQ of 6.8%.

ROI



Indexed Q3 2008 = 100%

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.

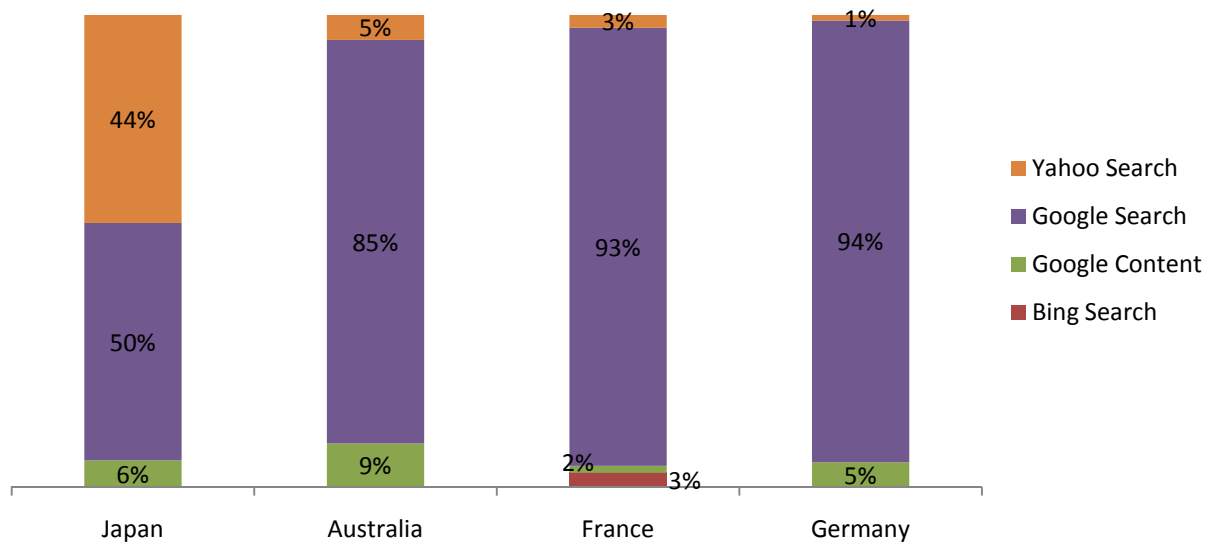
All engines are operating more efficiently for advertisers in Q3 when compared to the same period last year and also compared to last quarter. This is a good sign for retailers ready to capture Christmas shoppers profitably.

U.S. INSIGHT – Vertical Results

A view by industry tells a variety of stories, which is reflective of the overall economy. The travel category in the U.S. continues to be weak as spend levels have not recovered from the overall economic slowdown. This is in contrast to the UK travel category which has not seen the same decline. The Finance category has stabilized as the Autos category rode the wave of the Cash for Clunkers program spend. The Retail category showed signs of life as spend was up YoY while CPC and ROI was down. Consumer volume is up as there seems to be additional interest in retail. However, conversion rates remain off.

- **Retail:** Up 2% YOY as volume rises quickly but CPC declines in parallel
- **Travel:** Down 39% as volume and CPC falters
- **Finance:** Spend up 7% YOY on volume gains
- **Auto:** Spend up 6% YOY with heavy contribution from Cash for Clunkers

International Outlook



International marketshare split between the engines shows Google's dominance in all countries where Efficient Frontier operates. In Q3 2009, Google held 93% of search advertising spending in France (95% including Google Content) and in Germany it held 94% share (99% including Google Content). Microsoft's Ad Center does not operate in Germany, Australia or Japan. Yahoo!, which once dominated Japan's search spend, now falls second to Google which holds 50% of search spend (56% including Google Content).

Outlook

The markets view of search engine marketing data will start to look much sunnier as year on year comparisons begin to index against the post-financial meltdown world of Q4 2008. In concert with favorable comparative data, marketer's cautious approach to SEM has begun to soften as the economic outlook improves. EF clients are slowly shifting toward a more aggressive approach in the 4th quarter. While we don't expect an immediate return to "the frenzied competition of years past", the efficiency gains that resulted from lower competition and prices have left experienced search marketers in a mood to capitalise on an opportunity for cost-effective sales in the critical holiday season. The net result is that we see the potential for double-digit QoQ and YoY growth in Q4 2009.

Retail is obviously the key to the 4th quarter and we expect search to outperform the general Christmas season. Efficient Frontier is seeing rising impressions as consumers actively pursue deals and, as a result, retail marketers have increased spend on a YoY basis. Although UK Christmas postal strikes will not affect advertisers in the Efficient Frontier Customer Index, it may impact indirectly due to a lack of consumer confidence in delivery times. Looking out into the 4th quarter, we expect strong consumer activity and aggressive advertiser competition and spend with a minor offset in lower CPCs tied to smaller average purchase amounts.

It will be interesting to see if Bing's decision engine implementation into the UK will replicate its U.S. success and have an effect on its UK marketshare.

Methodology

This analysis was completed based on data from Efficient Frontier's 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 year-on-year (YoY) and quarter-on-quarter (QoQ) basis. The Efficient Frontier Customer Index consists of a fixed sample of large scale UK search engine advertisers across multiple sectors, including financial services, travel and entertainment, retail and telecommunications verticals. It covers over 5.1 billion impressions and 63 million clicks across an index of Efficient Frontier UK customers.

About Efficient Frontier

Efficient Frontier is a leading digital performance marketing company managing search and display optimisation for large-scale marketers around the globe. Founded in 2002, Efficient Frontier pioneered the application of modern portfolio theory to Search Engine Marketing and today combines its core predictive modeling algorithms and bidding technology with comprehensive value-added services to manage more than \$750 million 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, 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.