

efficient frontier

U.S. SEARCH ENGINE PERFORMANCE REPORT

Q4
2009

An Efficient Frontier Research Paper

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Q4 2009 Executive Summary

Solid Sequential and Year on Year Growth in Q409

In 2009, the search marketing sector slowly climbed out of the malaise established in the final months of 2008 culminating in a fourth quarter 2009 that posted solid sequential and year on year growth. Both sequential Quarter on Quarter (QoQ) and Year on Year (YoY) growth were up 6%. Consumers query volumes continue to expand, resulting in higher available click volumes for marketers. As a result of the still growing click opportunity, many search marketers, especially in the retail sector, shifted from cautious optimism to guarded enthusiasm and took a more aggressive position in search. However, overall Cost per Click (CPC) remains well below year ago levels, indicating that overall market competition remains suppressed.

The Strong Tide of Retail Lifts Search

The key barometer for Q4 is always retail, and in the fourth quarter of 2009, retailers spent aggressively in search. Spend in the retail sector grew 17% Year on Year (YoY) and 46% Quarter on Quarter (QoQ), an impressive showing given the unsure footing of the overall economy. Search ad impression volumes that result from retail queries spiked 90% YoY and built on four quarters of positive sequential growth.

CPC posted strong sequential gains in retail but remains down 7% from year ago levels, holding back spend growth slightly. Consumers are clearly leveraging search for shopping but the additional queries appear to be weighted in comparative shopping via the search engine results page (SERP). The ratio of orders per impression fell 30% YOY in Q4 even though conversions-per-click was flat. Google and the other engines are adding more features to provide comparative shopping data within the SERP, a move that is likely contributing to a retail CTR drop-off of over 40% YOY.

Consumers' average transaction size was down about 5% YOY but posted a normal seasonal lift of about 5% sequentially QoQ, indicating more cautious spending due to the economy. While clicks originating from search engine marketing converted at the same rate, less revenue resulted from those clicks. The net impact on ROI was very positive though as CPC was down 7% YoY in retail.

SEM Sectors Outside of Retail Reflect a Cautious Consumer

The positive trend in Retail was not upheld in other sectors. Travel continues to its downward spiral as spend dropped 20% YoY and 25% QoQ, above the typical seasonal impact. The Q3 bump in the Autos category received from the Cash for Clunkers program dissipated quickly as consumer interest fell back to the levels of Q2. Advertiser demand in the Autos sector rose as CPCs drifted up 7% sequentially resulting in a slight 2% spend increase. Finance spend continues to be stable as weaker advertiser demand is offset by rising consumer interest and available clicks.

- **Retail:** Spend was up 17% YOY on large volume gains, and seasonal sequential strengthening of CPC and conversion rate
- **Travel:** Spend was down 20% YOY driven by weak CPC
- **Finance:** Spend was up 2% YOY on volume gains
- **Auto:** Spend was up 2% YOY on volume gains

The Season of Spending Goes to Google

Google's particular strength in Retail helped them post strong gains in both spend and clicks in the quarter. Google's share of clicks rose to 74.4% and reversed a downward trend in share since the launch of Bing. Yahoo! was the biggest loser in paid click share giving up a full 3.4% since Q3, moving from 24.4% to 21%. Bing held steady at 4.6% in Q4 vs. 4.7% in Q3.

Google's share of spend also rose but at a slightly slower rate, moving up from 73.9% in Q3 to 74.5% in Q4. While Yahoo! gave up significant share in clicks they lost only 0.5% in spend as a strengthening CPC at Yahoo! offset some of the click loss. Bing remained relatively stable in moving from 5.3% in Q3 to 5.1% in Q4.

Google continues to be most dominant in Retail garnering 82.7% of that sector's spend. In contrast, Google's spend share in Finance is 60.1% with Yahoo! at 35.2%, clearly illustrating the strong overlap with search in Yahoo!'s market leading Finance property. Bing over-indexes in Travel at 6.8% share of spend and Autos at 6.5% share of spend.

Outlook for 2010

Growing Volume, Strong ROI, and Advertiser Optimism Will Drive Growth

Results were decidedly positive for search marketing in the fourth quarter of 2009. SEM spend grew commensurate to the volume and returns that search delivered during the traditionally strong holiday season. As a result of the positive trends during the 2nd half of 2009, the majority of Efficient Frontier's client base has a positive view on growth for 2010.

Cost per click was weak across the majority of engines and almost all categories throughout 2009. Market competition has not rebounded to 2008 levels even though consumer query and click volumes are up substantially. In Q4, growth was achieved despite continued weakness in Cost Per Click (CPC). A moderate amount of CPC growth will accelerate growth in Q1 and throughout 2010. Efficient Frontier anticipates 2010 spend growth will exceed earlier estimates of 10-15%.

The Coming Seasonal Strength in Finance and Travel

Retail drove the 4th quarter and all signs point to continued strength in 2010. The larger looming question is what happens to Finance and Travel as we enter their traditionally favorable seasonal periods. It is hard to see a light at the end of the tunnel for Travel in that CPCs have been dropping for an extended period and consumer search volume (interest) is up only modestly. Conversely, consumer search volume is up considerably in Finance (+66% YoY in Q409). Growing consumer interest should drive growth if economic factors improve helping conversion rates for finance products, particularly loans. We expect modest strength in Finance and continued weakness in Travel.

Bing Returns to Growth

Bing's momentum dissipated in Q409 as Google's strength in Retail gave them the upper hand. We believe that this alteration in the trend line for search engine share should be temporary with Bing's comparative strength in Travel, Finance, and Autos providing a boost for share gains in the first half of 2010. Our expectations are for a 30% gain would put Bing in the 6-7% range for share of paid clicks by the end of 2010 with accelerators available in distribution deals.

Potential Impact of the Microsoft-Yahoo! Deal

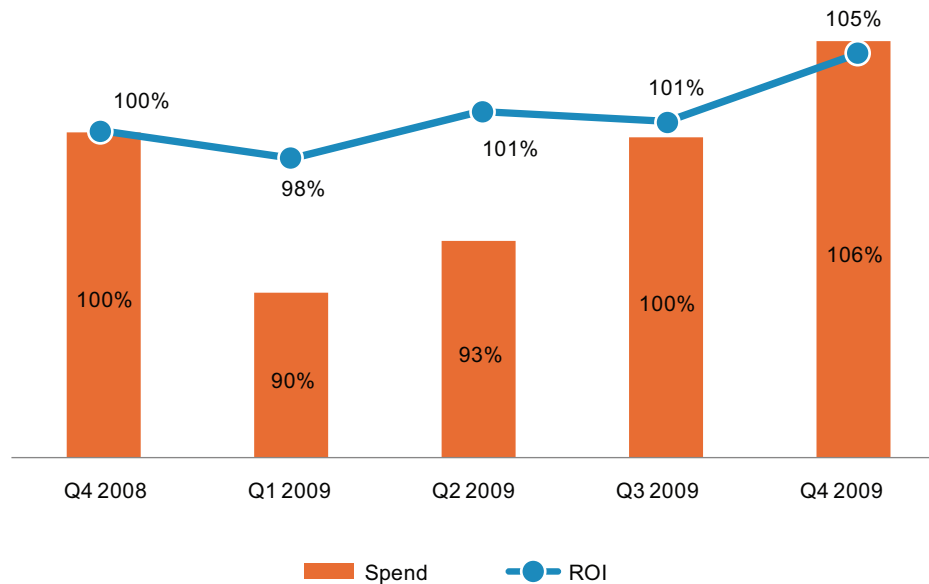
The Microsoft-Yahoo! deal may have a unique impact beyond the sum of Yahoo! and Microsoft's collective share. Competition in Microsoft's AdCenter will grow as the Yahoo! demand and advertiser base is absorbed driving up CPCs. A deeper understanding of any impact or changes to distribution partners may change the outlook for CPC and volume. Importantly, Yahoo!'s crumbling paid click share hit 21% in Q409 from 24.8% in Q408, a drag that could offset Bing gains.

Overall Sector Growth Predictions

After a strong Q4 and continued recovery in the overall economy, we expect 15-20% range in SEM spend growth for the full year of 2010. Market competition in SEM should continue to recover adding CPC growth on top of volume expansion. New search management technology, such as Efficient Frontier's Retail Platform, leverage client data to add coverage depth and ad relevancy benefiting the engines in yield and spend.

The developments in the ad exchanges controlled by the engines (Right Media, AdX, and AdECN) will increasingly align display with search. As platforms like Efficient Frontier enable marketers to manage across search and display, a more comprehensive understanding of the full value of marketing will emerge. The most likely outcome is that the engines with strong display offerings, will deepen their control of online ad spend.

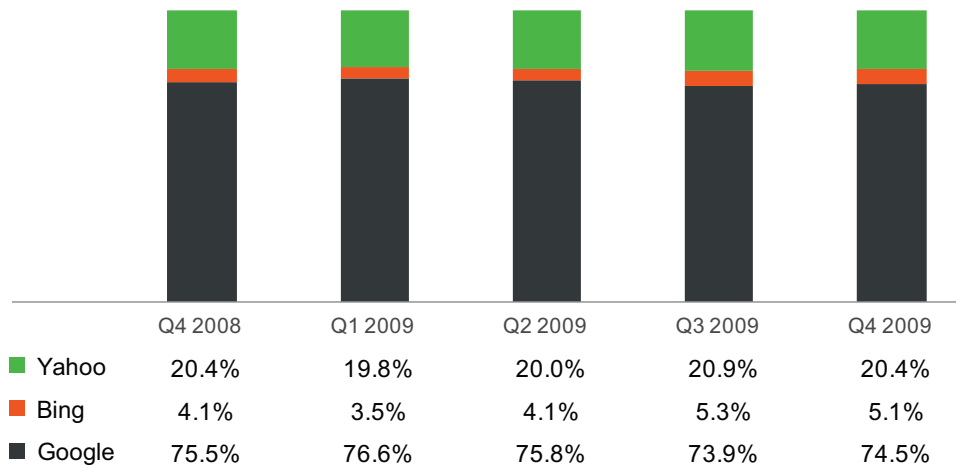
Spend and ROI Trends



- YoY and QoQ IAB weighted spend is up 6%
- ROI is also up 4% QoQ and 5% YoY

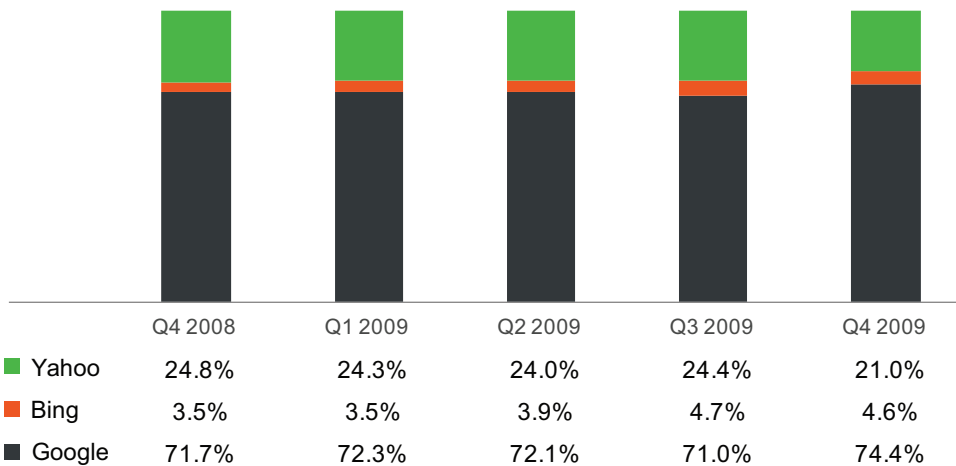
Marketshare

Spend



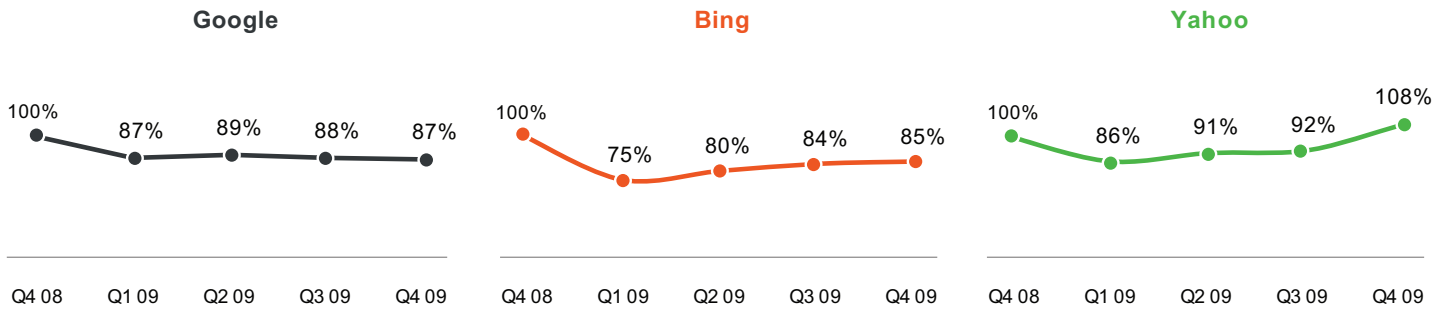
- The momentum of Bing decreased due to Google's strength in Retail
- Bing still up 25% compared to Q4 2008

Clicks



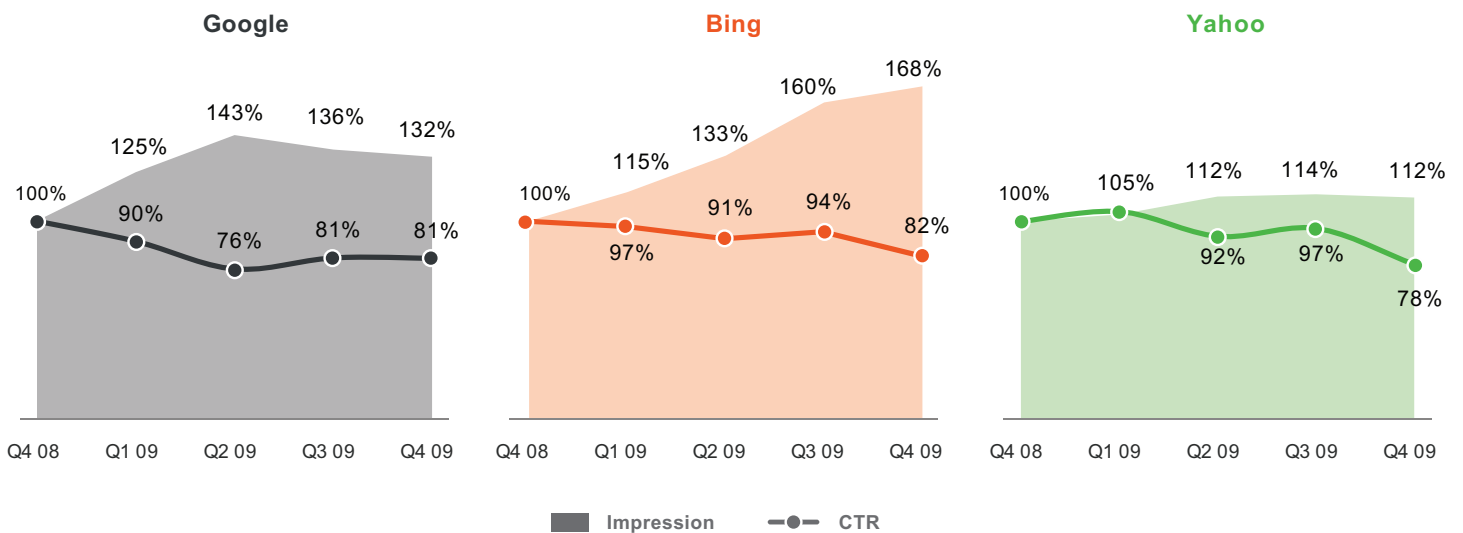
- Yahoo!'s click share has dropped this quarter while Bing is up 31% YoY
- Yahoo!'s spend share has been flat both QoQ and YoY indicating that in the last quarter Yahoo!'s CPCs have gone up.

CPC



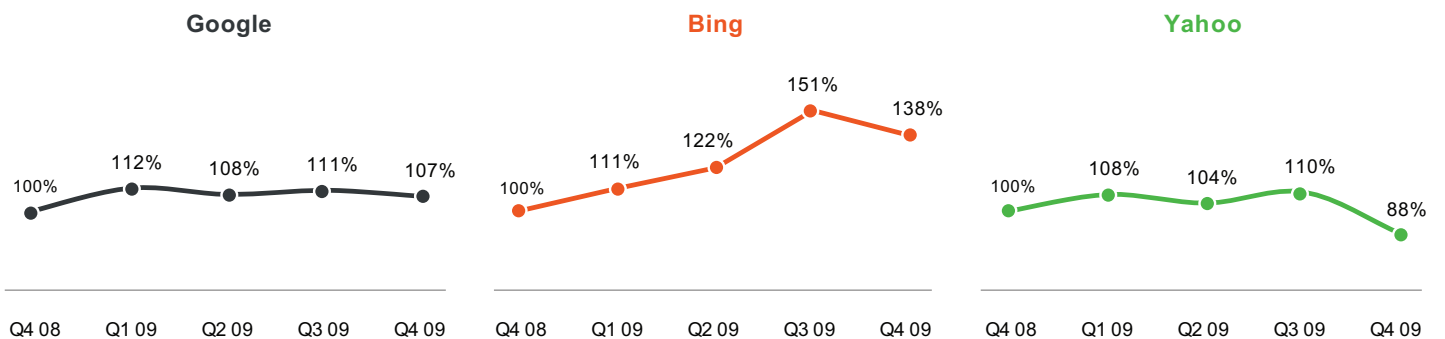
- CPCs for Google and Bing are lower than they were a year ago but Yahoo!'s have gone up in the last quarter. We surmise this is because of the network quality score based CPC that Yahoo! recently adopted.

Impressions and CTR

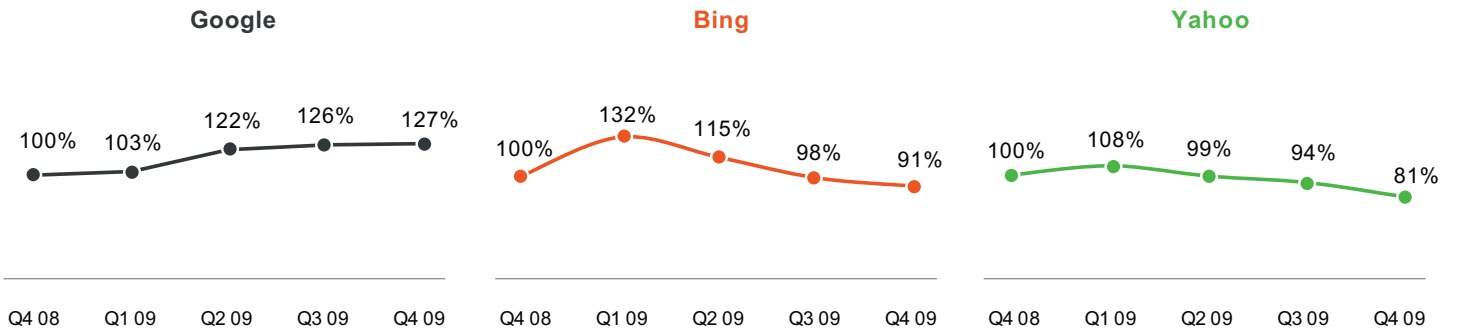


- While impression volumes on all search engines have increased, the CTRs have dropped. We think this is due to an increase in comparison shopping and longer buying cycles.
- Further, when we look at the click volumes, Bing and Google grew by 38% and 7% respectively while Yahoo!'s click volume dropped. When viewed in context with the drop in CPC seen in all search engines, it is readily apparent that the growth in spend is driven by increased consumer demand and not increased CPCs.

Clicks Trends



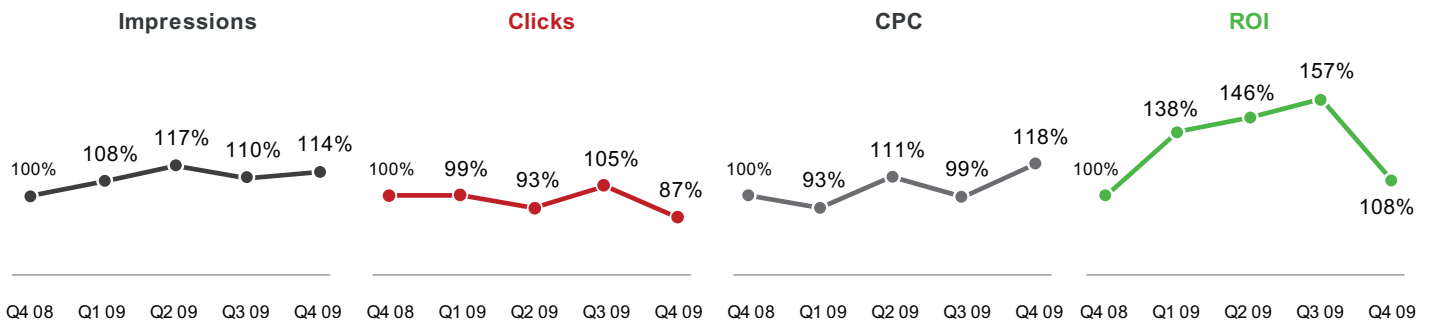
ROI



- Google still has the highest ROI of all SEs at the current spend breakouts. The ROI of Yahoo! has dropped and continues to drop
- The CPC inflation in the last quarter contributes to Yahoo!'s falling ROI

US Content

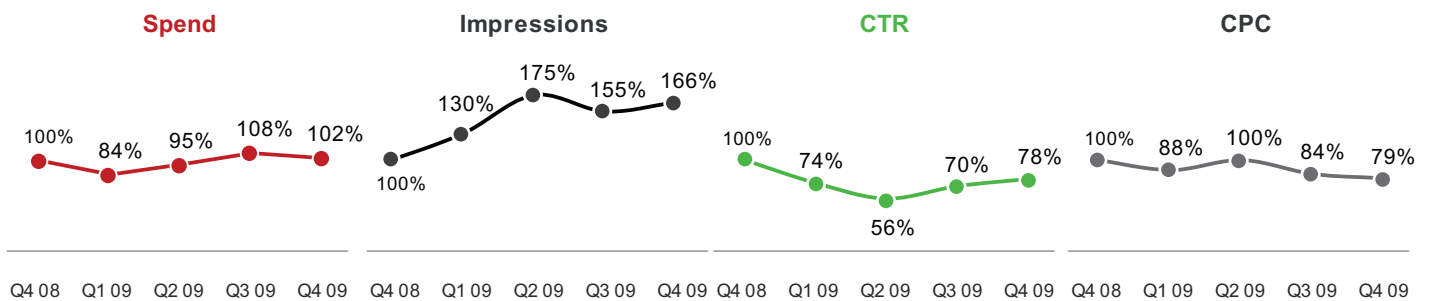
Google Content



- The growth of Google's content network slowed in 2009. While impressions grew 18%, the overall click volume dropped 13% YoY
- Most clients in the Efficient Frontier index saw a drop in ROI between Q3 and Q4 2009 on the Google Content network. This is reflected in the chart which shows a sharp drop in ROI in the same time period

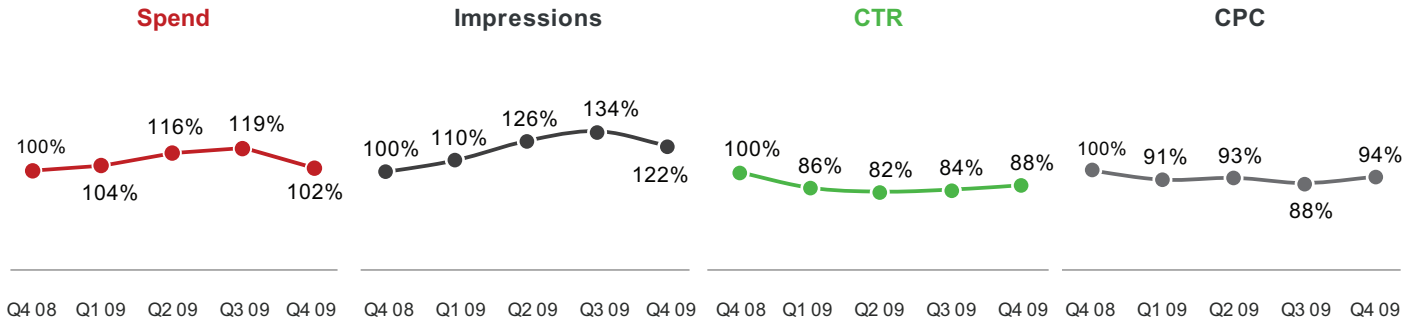
Sector Breakout

Finance



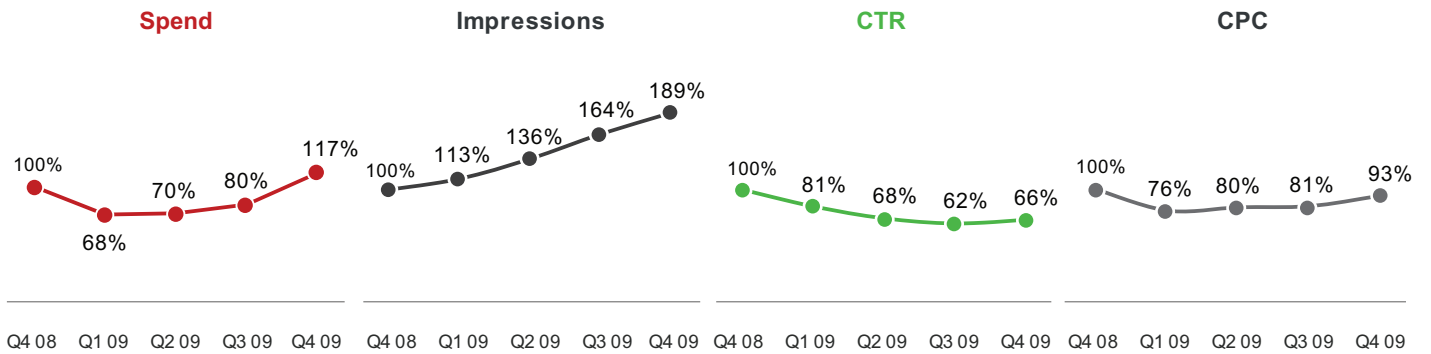
- YoY spend is flat. Financial market spending is aligned to the stock markets
- Impression volumes are up due to consumer interest
- CPCs remain lower indicating less competition and seasonally lower conversion rates

Automotive



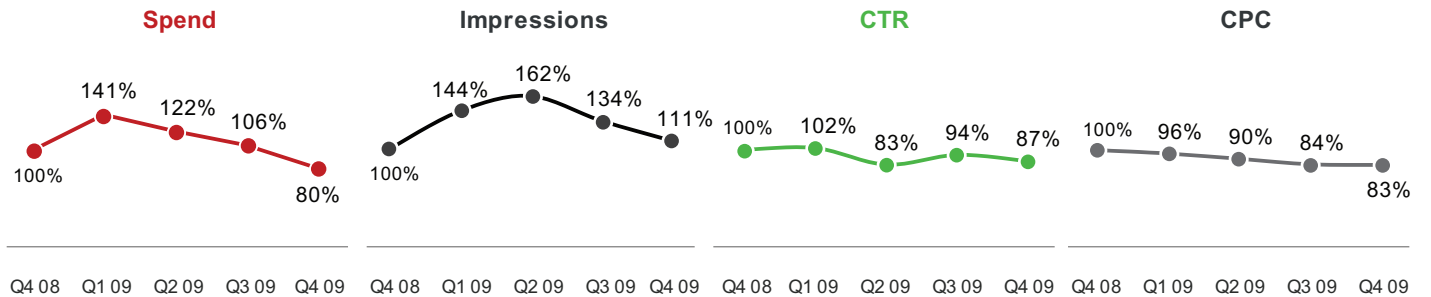
- The Cash for Clunkers spending blip is clearly visible but in Q4 spend is down to Q4 08 levels

Retail



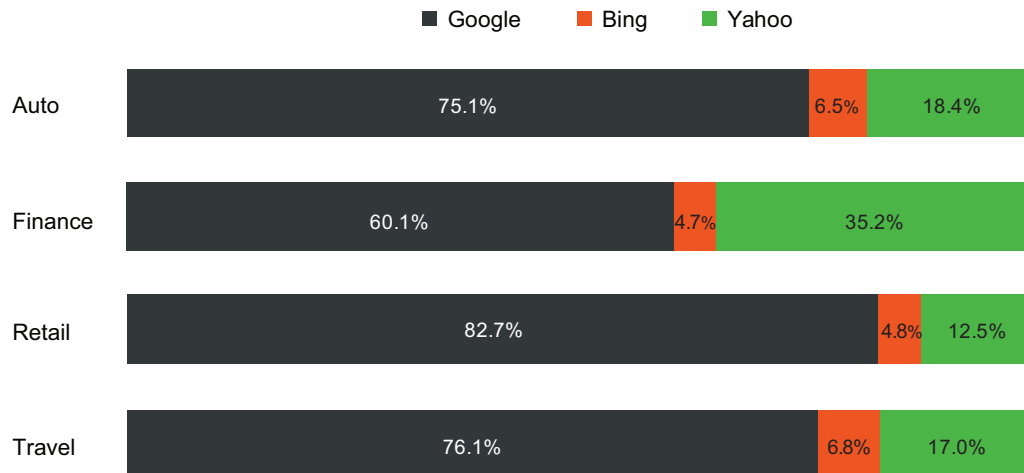
- Retail posted strong Q4 spend growth is up 17% YoY
- Impressions volumes have doubled due to comparison shopping and search engines “optimizing” their available ad space

Travel



- The Travel sector is still reeling from the recession. YoY spend is down 20%. The decline in CPCs reflects the weakness in the market

Marketshare by Engine by Sector (Spend)



	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Auto					
Google	72.1%	73.2%	75.5%	75.7%	75.1%
Bing	5.1%	5.0%	5.0%	5.8%	6.5%
Yahoo	22.8%	21.8%	19.5%	18.5%	18.4%
Finance					
Google	69.4%	71.8%	67.4%	61.8%	60.1%
Bing	4.6%	3.3%	5.1%	6.5%	4.7%
Yahoo	26.0%	24.9%	27.6%	31.8%	35.2%
Retail					
Google	83.6%	82.4%	83.4%	82.9%	82.7%
Bing	3.7%	3.8%	3.6%	4.5%	4.8%
Yahoo	12.7%	13.8%	13.0%	12.6%	12.5%
Travel					
Google	80.5%	81.6%	78.8%	75.7%	76.1%
Bing	3.8%	3.5%	4.5%	6.4%	6.8%
Yahoo	15.7%	15.0%	16.8%	17.9%	17.0%

- Bing has made big gains in marketshare in the Travel sector going from 3.8% in Q4 2008 to 6.8% in Q4 2009, an 80% increase
- The continued success of Bing will depend on its ability to gain marketshare in the Retail space where Google dominates with 83% of all advertising spend

Definitions

Click Share – Amount of share received by a particular engine of all paid clicks as calculated by the formula: paid clicks on a particular search engine/total paid clicks across all engines.

Cost Per Click (CPC) – Amount paid by a marketer per user click on a paid search ad(s). CPCs are determined by an auctioning process and are a good indicator market conditions. Increases in CPCs indicate advertisers are willing to spend more on advertising and a decrease in CPCs indicate that advertisers are willing to spend less.

Impressions – 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.

Return on Investment (ROI) – A measure of profitability based on how much a marketer received in terms of results compared to how much was invested. Also known as a measure of efficiency.

Spend Share – Amount of share that marketers spend buying paid search on a particular search engine as calculated by the formula: particular search engine spend/total search engine marketing spend.

Methodology

This analysis was completed based on data from Efficient Frontier search engine marketing customers and the resulting Efficient Frontier's Customer Index. The Efficient Frontier Customer Index represents a subset of Efficient Frontier clients who have spend data for six consecutive quarters or more whose resulting SEM metrics are then normalized to average industry category contributions established by multiple third party data providers. The Efficient Frontier Customer Index consists of a fixed sample of large scale U.S. search engine advertisers across multiple sectors, including finance, travel, retail and automotive. The Efficient Frontier Customer Index sheds light on trends in search engine spending and performance on a year-over-year (YoY) and quarter-over-quarter (QoQ) basis.

About Efficient Frontier

Efficient Frontier is a leading digital performance marketing company managing search and display optimization 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 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. You can also follow us on twitter.com/efrontier and facebook.com/efrontier.

This report was created by the collaboration of:

Jennifer Acree, PR

Tianfang Feng, Business Analyst

Tom Horyn, Creative Services

Sameera Inapakutika, Business Analyst

Preethy PK, Software Engineer

Justin Merickel, VP Marketing and New Product Development

Dr. Siddharth Shah, Director of Business Analytics