Search Engine Marketing

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Search engine marketing (SEM), which allows firms to target consumers by placing ads on search engines, has proven to be an effective audience acquisition strategy. Unlike traditional online advertising, advertisers pay only when users actually click on an ad. When successfully implemented, SEM can generate steady traffic levels and tremendous return on investment (ROI). As SEM becomes more common, the level of competition is driving bid prices through the roof. Many advertisers have found that they can no longer afford to bid on the most highly searched words. Instead, they are forced to expand their campaign to include multiple search engines and tens of thousands of keywords. Advertisers are also faced with the issue of lost clicks (the difference between what they pay for and what their Web site actually receives), which are often the result of click fraud. Despite these obstacles, SEM can provide better returns on investment than other marketing channels and should be a part of any sophisticated advertising campaign.

Most online advertising campaigns have two main objectives: brand development and direct response. Selecting an appropriate marketing channel ultimately depends on which strategies will provide the greatest ROI. Firms that offer products and services through the Web clearly stand to gain from Internet advertising because their prospective customers are already online. Non web-based companies may choose online marketing in order to increase exposure and promote brand. SEM allows companies to closely track their ROI from an audience acquisition standpoint. Whereas during the dotcom boom of the late 1990s, companies would spend millions of dollars on advertisements and have no clear idea of their effectiveness, executives can now do detailed cost-benefit analyses. This allows for realistic business models with visible rewards.

Strategies

Online businesses have a variety of audience acquisition tactics to choose from, including opt-in, viral, banner ad, search placement, and pay-per-click (keyword) marketing. Opt-in marketing gives users the option to subscribe to services, such as newsletters or e-mail groups. Viral marketing is using word of mouth to gain exposure to a product or service. Banner ads are either textual or media-based advertisements on a Web site that contain links to other Web pages. Search placement marketing, also called search engine optimization (SEO), is a method of creating or altering a Web page so that it will appear more relevant than other pages to the search engines. This research focuses on SEM, which is also referred to as keyword marketing or pay-per-click advertising (PPC). This technique allows advertisers to place bids on specific keywords or phrases and have their advertisements show up alongside the organic search engine results.

Advertisers that choose a SEM strategy as part of their marketing mix may do so for multiple reasons. First of all, an SEM account is very simple to set up and can generate traffic very quickly, depending on the level of competition in a given market. Ge'Lena Vavra, an entrepreneur specializing in Italian suits in Las Vegas, spent $60,000 in 2003 on Google ads, and claimed "Our business exploded from Google and Google alone" (as cited in Markoff & Zachary, 2003, p. 2). SEM delivers ads to users who are already searching for the products or services that an advertiser is offering, meaning that theoretically, they are only receiving *qualified traffic*. Unlike traditional banner ads, advertisers are charged based on the number of clicks they receive, not on the number of impressions (number of times an ad appears). Furthermore, many marketing campaigns place a great deal of importance on branding. PPC ads can be very effective in terms of driving home a brand name because they appear alongside search results for thousands of different search terms.

Today nearly 50% of all households in the United States have broadband connections, which increases the likelihood that "users will rely on the web for quick searches instead of using yellow pages, dictionaries and encyclopedias" (Tedeschi, 2004, p. 2). Indeed, "online users conducted 1.2 billion searches in May, a year-over-year increase of 30 percent" (Tedeschi, 2004, p. 2). With more people navigating the Web through the use of search engines, online advertising has undergone something of a revolution. Interactive marketing is becoming a larger percentage of total advertising expenditures.

Keyword marketing has proven to be an effective form of interactive marketing. When a user visits Google, Yahoo!, or a number of smaller search sites and enters a specific keyword or phrase, the results that they are provided with consist of *organic* listings and *sponsored* listings. The organic results are ranked according to complex algorithms that seek out the most relevant Web pages first. Google is very secretive about its formula, but it reportedly ranks Web sites based on meta tags (keywords related to a given Web page), outgoing links, and links in from other sites. The sponsored (or paid) listings consist of advertisements by individuals or firms that have placed bids on keywords or phrases.

The more an advertiser is willing to pay for a click, the higher up the list its ad will be placed, resulting in higher levels of traffic. Yahoo! ranks advertisers based solely on bid price, with minimum bids of $0.10. Google determines advertiser rank based on a combination of bid price and click-through rate (the number of users who see an ad divided by the number of users who click on that ad). This formula naturally moves the more relevant ads higher in the rankings and provides an incentive for advertisers to bid only on relevant keywords and to write targeted ads. Because Google's paid results and organic results are often equally relevant, and because ads are limited to simple text boxes, users have become more willing to click on the ads.

The quality of Google's search results has led to a $1.67 billion Initial Public Offering (IPO) and a brand that has become a household name (Barlas, 2004). In "February of 2004, Google enjoyed 44 percent of online searches, compared to Yahoo!'s 26 percent" (Smith, 2004, p. 24). Six months later, in August 2004, Google's share of the pie had dropped to 36.1%, Yahoo!'s to 30.6% and Microsoft MSN's to 14.4% (Guth & Delaney, 2004). Yahoo!, Microsoft MSN, and other leading search engines have taken an aggressive approach in their fight against Google, spending millions on research and development. For example, the beta version of Microsoft's search engine, which was launched in November 2004, took 20 months to develop and cost $100 million (Guth & Delaney, 2004). In a speech to shareholders regarding the company's competition in the search market, Microsoft CEO Steve Ballmer said, "We will catch up and we will surpass" (as cited in Guth & Delaney, 2004, p. A12). While MSN may eventually replace Yahoo! search technologies with its own, executives have said that "the advertising relationship will continue for the foreseeable future" (Guth & Delaney, 2004, p. A12).

The Interactive Advertising Bureau has found that "search engine marketing is the fastest growing sector in online marketing" (as cited in Brooks, 2004, p. 1). With more and more advertisers using keyword marketing as a means of reaching potential customers, it is becoming increasingly expensive to maintain top positions. "The explosive paid search market is likely to grow to $2.5 billion or about one third of current online spending in 2004" (Smith, 2004, p. 24). Thomas Weisel Partners have estimated that paid search will account for half of all online expenditures by 2008, which would require an annual growth rate of 21% (as cited in Francisco, 2004a). This is a substantial figure, considering the number of companies that are using online advertising as a means of reaching potential customers.

Competition

Increasing competition in search marketing is making it virtually impossible for advertisers with limited budgets to maintain top rankings. The Atlas Institute published a report in September that analyzed the impact of paid search engine ranking on traffic. The study found that traffic drops significantly with rank and dispelled the myth that as long as an ad was in the top three positions it would receive relatively equal traffic (Brooks, 2004). "While your sales may be costing you 10 percent less by maintaining third rank, you could be losing nearly half of the customer acquisitions" (Brooks, 2004, p. 3). This is why managing a PPC campaign becomes largely a financial decision. The top position for a given keyword may cost $5 a click, and the third position, $4.50. The advertiser in third position pays 10% less than the top advertiser, but may receive 50% less traffic. Marketers must look at their ROI and decide if the increase in traffic will be worth the increase in price.

A firm that is trying to break into this market for the first time is going to have a difficult time if it does not have a large enough advertising budget to compete for the most highly searched words. The mortgage company eLoan, for example, was willing to bid $6.26 a click for the phrase *mortgage lender,* second behind Centex Corporation's $9.31 bid (Tedeschi, 2004, p. 1). eLoan advertises for "well over 100,000 search terms, including 'morgage' and other misspellings" (Tedeschi, 2004, p. 1). The phrases *mesothelioma* and *car accident lawyer* will cost $100 and $50 respectively for the top positions (Francisco, 2004a, p. 2). The results for these search terms include law firms that obviously have a high enough ROI to justify such astronomical costs per click (CPCs). "Unless your marketing strategy calls for a bidding war—and provides the budget for it—it's a good idea to diversify and bid on the largest possible number of well-researched, lower cost keywords" (Eroshenko, 2004, p. 5). In the years to come, major search engines are going to have to address the problem of limited supply in order to maintain market share.

Large companies such as eLoan and Centex are not the only reason that search marketing has turned into a bidding war. A couple of years ago, an Internet marketer by the name of Chris Carpenter began something of a revolution with the invention of a traffic-brokering strategy dubbed *GoogleCash.* In this system, an advertiser signs up for an affiliate program, in which companies pay commissions to advertisers that generate leads or sales. The advertiser then signs up for a paid search account (Google, Yahoo!, etc.) and places ads, sending users directly to affiliates' Web pages through a URL, which includes the advertiser's account number. Each time a user signs up for something or purchases a product, the referring advertiser is paid a commission. The profit is the difference between the cost of the clicks and the commissions that were paid. This is quite literally one of the simplest businesses to start. It requires no Web site, minimal start up costs, and very little maintenance. Affiliate marketing is so common today that it is nearly impossible to do a Google search without seeing at least one or two paid ads with *affiliate* or *aff* in them, even for the most obscure terms. This, in conjunction with direct search advertising, has led to a bidding war for the most highly searched terms.

In 2002, there were over 100,000 advertisers using Google (Markoff & Zachary, 2003). That number rose to 280,000 in 2004, and Google expects to add 372,000 new accounts over the next four years (Kopytoff, 2004). Kenneth Cassar, an author for the Internet research firm Neilsen/NetRatings, has stated, "In the long term, we'll hit a wall where a lot of the search buys that make sense today won't make sense anymore because prices will have risen so high. So for the search engines to grow their revenues, they'll have to increase supply" (as cited in Tedeschi, 2004, p. 1). This is the major hurdle that Google and other search engines will have to overcome in order to maintain profitability in the long run. There are a finite number of possible keywords, and search engines will have to constantly innovate to solve the problem of limited supply.

In October 2004, Fathom Online, in conjunction with MediaPost, both well known marketing firms, released a tool intended to measure the price volatility of the search market (Fadner, 2004b). This tool, called the Keyword Price Index (KPI), "is intended to serve as a base for comparing the relative cost effectiveness of search engine marketing (SEM) campaigns. Going forward, it will track the fluctuations in cost per click (CPC) over time" (Fadner, 2004b, p. 1). So far, this effort has revealed that some industries have high enough payouts to justify CPCs of more than a dollar or two, while others simply do not (Fadner, 2004b). The finance/mortgage industry, for example, had a weighted average CPC of $3.17, which sounds more reasonable when one considers the potential earnings from the sale of a mortgage or an investment account (Fadner, 2004b). Retail, on the other hand, had a weighted average CPC of $0.32 because neither the potential gains nor the conversion rates are substantial enough to justify higher bid prices (Fadner, 2004b). Ultimately, this index will give advertisers a better understanding of bid price fluctuations in their industry over a period of time.

Challenges

Search marketing is so volatile now that even news is causing bidding wars in some categories. Friday, October 1, 2004, a day after Merck recalled the arthritis drug Vioxx, a search for that term on the top search engines yielded ads for three law firms offering to represent consumers who had been hurt by taking the drug (Francisco, 2004a). The going bid for the top position on Yahoo! was $2, and a week later it had risen to nearly $16 (Francisco, 2004b). One well established law firm began bidding on *Vioxx* and related terms for $2 on October 1, 2004, and eventually had to pause the campaign after spending $5,000 to evaluate potential clients (Francisco, 2004b). The campaign was so effective that the firm Web site received 25 times its normal daily traffic (Francisco, 2004b).

Competition such as this often causes advertisers to turn to smaller search engines, which tend to have lower CPCs than the leaders. The smaller engines pay their partner sites a share of the revenues every time an ad is clicked on. Often the advertisers do not even know what sites their ads are showing up on. Many of these marketers experience a difference between the number of bought clicks and the number of clicks the Web site actually recorded (lost traffic), which is frequently a result of click fraud. According to Clicklab (as cited in Fadner, 2004a), a Web analytics provider, there are two major types of click fraud: "competitor fraud, in which competitors run programs that repeatedly click on competing advertisers' sponsored links in order to deplete their daily ad budget, or affiliate fraud, in which affiliates utilize similar programs that repeatedly click on a link in order to increase their compensation" (p. 2).

This is not just a problem for those advertising on lesser known search engines, as it occurs on major engines as well. Google warned in its registration statement with the Securities Exchange Commission (as cited in Eroshenko, 2004), that

> We are exposed to the risk of fraudulent clicks on our ads. We have regularly paid refunds related to fraudulent clicks and expect to do so in the future. If we are unable to stop this fraudulent activity, these refunds may increase. (p. 2)

Click fraud is a huge problem because it is very difficult to detect. The most effective way to combat click fraud is for Web masters to closely monitor analytic software that determines where incoming clicks originated (Fadner, 2004a). Another strategy is to display a pop up after repeated clicks on an ad through the same IP address, warning the user that the Webmaster is monitoring recurring search engine visits (Eroshenko, 2004). There is no ideal way to prevent click fraud, but these steps can help to minimize overall traffic losses.

In the long run, search engines are going to reach a critical mass in which they cannot meet advertising demand. The industry leaders, in an effort to maintain profitability, will be forced to innovate and shape the future of SEM. Elkin (2004) notes, as CPCs currently continue to rise, the largest search engines remain locked in a battle for market share.

> Microsoft CEO Steve Ballmer earlier this year admitted that the company was behind on search technology development but vowed that it would catch up to take on Google and Yahoo! All three companies are working on customized, personal search tools for the desktop, as well as local search services. (p. 3)

Greater user personalization is being explored as a way to allow advertisers to connect with even more targeted customers than at present. For example, if a user types the phrase *new car* into a search engine today, he or she will typically see advertisements for large, national companies. Search engines would like to be able to serve advertisements relevant to the user's location, income level, family size, etc. This could potentially reduce competition among advertisers by categorizing them according to user preferences.

In closing, this research proves that search marketing has come of age. More Americans today are using search engines to navigate the Web than ever before, and paid search advertising now makes up one third of all online ad spending (Smith, 2004). Because there is so much competition for popular keyword phrases, many advertisers cannot afford top positions on the major search engines. Advertisers may be compelled to turn to second-tier search engines in search of better position and greater ROI. Smaller engines offer lower bid prices, but are often faced with the problem of click fraud, in which competitors or affiliates click on advertisements themselves, either running up a competitor's ad spending or increasing their own compensation. Click fraud is very difficult to detect, and the best solution is the implementation of advanced software systems that track the locations of incoming clicks. Despite these obstacles, an SEM campaign, when properly implemented, has proven that it should be a fundamental part of any well-developed interactive marketing strategy.

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Biography

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