

HIGH-STAKES ▶

# search

Paid search is a complex game of keywords, click-throughs and conversion rates. Top ranking doesn't always mean you've hit the jackpot. Here's how to increase your odds of winning.

By Beth Stackpole



ILLUSTRATIONS BY FERRUCCIO SARDELLA

**I**t's hugely addictive, encourages you to outbid and outfox your competition, and has the potential for significant winnings. Texas Hold 'Em? Not quite. The game is search marketing, and the stakes are incredibly high.

The ability to zero in on target customers at such a potentially crucial point—as they gather information in advance of a purchase—has led marketers to ante up billions of dollars for tools and services that they hope will improve their odds of winning. Search is gobbling up a far bigger piece of companies'

online advertising budgets—accounting for 40 percent of the \$2.37 billion spent on online advertising in the second quarter of 2004, up from 29 percent during the same quarter in 2003—according to a recent report by the Interactive Advertising Bureau (IAB) and PricewaterhouseCoopers. JupiterResearch predicts spending on paid search alone will pass the \$3 billion mark next year (see “Paid in the Shade,” this page).

“Search raises the bar on all other marketing,” says Frederick Marckini, CEO of iProspect, which specializes in helping companies develop and refine marketing tactics for both paid and natural search.

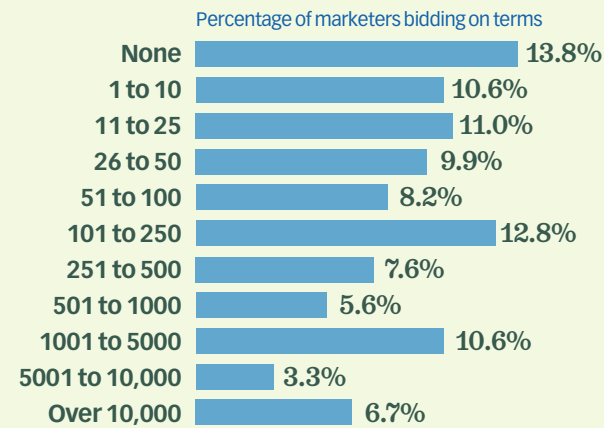
“It’s the ultimate form of permission marketing and the ultimate qualified customer.” As such, some senior marketers are starting to pay considerably more attention to paid search as an integral part of their overall marketing campaigns.

At the heart of this phenomenon is the humble keyword. Paid-search initiatives, in which companies bid to sponsor the results of specific search phrases or keywords and pay the search engine provider for each click-through, have become the bulwark of search marketing. Companies that began paid-search campaigns a year ago with only a handful of keywords are now juggling tens of thousands of words and phrases daily.

The movement began innocently enough in 1998, when a search engine company called GoTo.com (now called Overture Services and since purchased by Yahoo) figured out that advertisers might pay for prime placement on its results page in front of a growing legion of search engine users. The premise was simple: Boost awareness of your product or service by making relevant information available to would-be buyers at the very moment they’re working a search engine to book a vacation or comparison shop for new computing gear. The more a company bid for a keyword, the higher its placement in the list of sponsored links. The advertiser paid the search engine provider the cost of the keyword for each click-through that

How many keywords does your company currently bid for?

## LET THE BIDDING WARS BEGIN ▶

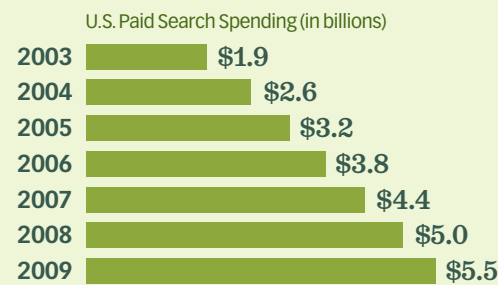


Note: Numbers surpass 100% due to rounding.

SOURCE: JUPITERRESEARCH INC. SURVEY

Steeper pay-per-click fees drive growth in paid search

## PAID IN THE SHADE ▶



SOURCE: JUPITERRESEARCH INTERNET ADVERTISING MODEL, JULY 2004

brought a consumer to its website.

By 2000, most of the major search engines, including Google, offered some form of paid listings. As bids increased, so did the cost of the most popular terms. Today, the keyword lies at the nexus of a multibillion-dollar industry in which anyone can play. Opening bids on Google start at a nickel, while the most expensive search engine keyword (“mesothelioma,” a form of asbestos-related cancer) fetches as much as \$100 per click-through.

In the breathless quest for top ranking, however, many organizations have lost sight of the ultimate goal: finding new customers. Web teams can get so caught up in achieving a top-line ranking that they fail to evaluate performance of individual keywords regularly to ensure the keywords are getting the biggest bang for their bids. Many remain mired in rating the

success of campaigns on the most common (but far from telling) indicator, click-throughs, instead of more robust metrics such as pay-per-sale or conversion rates (see “Search Metrics: A Glossary,” Page 47). A survey by Jupiter Research shows that only one in four search marketers bids for keywords and measures their effectiveness intelligently.

“Marketers have been going at [search] without measuring to get a full sense of the value it’s creating,” says Gary Stein, a senior analyst with Jupitermedia. “They’ve been focused mainly on two things: the challenge of achieving the top spot and counting clicks. The result is they’ve been focused on winning search as opposed to using search to drive business.”

Paying top dollar for a number-one ranking doesn’t make sense for all marketers, all of the time, on all search engines, says Young-Bean Song, director of analytics for Atlas DMT. Top ranking, in fact, matters more on Google than on Overture’s search engine: The number-one ranked site on a Google search can expect to garner 40 percent more traffic than the number-two ranking, Song says, while the spread in traffic volume between the top two positions on Overture is 22 percent.

For some businesses, a lower ranking can actually translate into a better strategy for qualifying would-be customers. “As people go down the rank listings, it qualifies them as to how motivated they are and how intensely they do research,” Song says. “By the time they clicked on the tenth rank, they’ve clicked on

several listings, so they have a higher propensity to be a buyer.”

Some marketers are catching onto these trends and adjusting their metrics accordingly. In many cases, they’re getting far more granular in how they measure each campaign, looking, for example, at daily performance reports for individual keywords, how well a campaign fares across different search engines, or how well (or poorly) customers respond to a particular set of ad copy.

“A lot of companies throw money into search as an overall strategy, but they don’t measure the effectiveness of each keyword and each engine,” says Alexandra Shin, senior vice president of marketing at Homeloancenter.com. The online lender employs two key measurements to evaluate success: customer acquisition costs and revenue generated per keyword.

By measuring on such a detailed basis, Homeloancenter.com can continuously optimize the campaign by changing ad copy, or replacing or adding keywords quickly.

“We measure every campaign, every keyword, every day,” Shin says. “If something doesn’t generate a return, if a keyword doesn’t convert, it’s off the next day.”

HPshopping.com, the online retail arm of Hewlett-Packard, also measures the profitability of each keyword, a tactic that so far has proved a success. In the months since the retailer put more rigorous metrics in place, profitability of its search campaigns has jumped by 12 percent, while costs remain static. Over the past year, search revenue has increased sixfold. The search initiative that began in 2001 with only a handful of brand-name search terms—such as “HP” or “Hewlett-Packard”—now encompasses more

than 20,000 keywords, ranging from specific product names to product categories and related terms, across 22 search engines.

“Search,” says Amanda Gooding, HPshopping.com’s consumer marketing manager, “is one of the top advertising vehicles we have right now.”

## MORE THAN words

With so many companies bidding for keywords, it’s becoming increasingly difficult to gain an edge. The real advantage in keyword selection, experts contend, lies in an old marketing bugaboo: knowing your customer.

“Oftentimes, marketers have a difficult time thinking like consumers...and they’re presumptuous when it comes to positioning their products and services,” says Peter Hershberg, managing partner at Reprise Media, a search engine marketing firm. “You need to think about what consumer search behavior looks like, and you need to find keywords that may not be the most obvious, but that may be less expensive and far more effective.”

Some companies have adopted a portfolio approach to their keyword selection, balancing expensive but critical keywords with less obvious but more cost-conscious options, says David Karnstedt, senior vice president and general manager of direct business for Overture Services, which Yahoo purchased in 2003. Karnstedt also suggests keyword and phrasing selection

## KEYWORD: LITIGATION

In the keyword bidding wars, companies often end up buying trademarked names, a practice that’s opening the door to litigation.

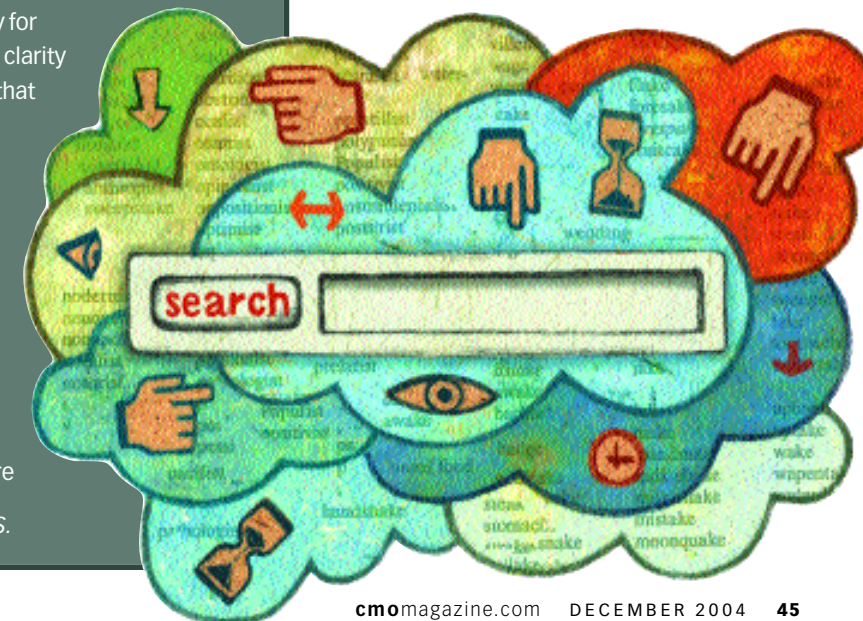
Search engine companies allow advertisers to buy third-party trademarks as keywords. Under this practice, which New York law firm Brown Raysman Millstein Felder & Steiner dubs “mark matching,” a department store might, for example, buy the keywords “Donna Karan” or “Nicole Miller” in addition to the phrase “designer evening wear.”

Many trademark holders are fed up with the practice and are fighting back. More than a half-dozen cases have popped up in the United States in which a trademark holder has filed suit against a search engine company for selling the rights to its trademark. The courts have yet to provide clarity on the issue, although a U.S. District Court judge ruled in August that a trademark infringement suit brought by Geico against Google and Overture could proceed. The other cases are pending.

The real danger to search engine marketers, however, is the logical next step: trademark holders suing the companies that are bidding on their trademarked terms. Monica Richman, head of the trademark department at Brown Raysman, recommends that companies proceed with caution when mark matching, especially if they have no relationship or affiliation with the company that holds the trademarked term.

“If you purchase a trademark owned by another entity,” says Richman, “you need to use it in such a way so that consumers are not likely to be confused.”

—B.S.



that goes from broad to narrow in an effort to capture users at every stage of the purchase funnel. For a travel company, for example, that might mean buying general phrases such as "airline ticket" and "Chicago vacations" along with a specific term such as "buy airline ticket to Chicago for jazz festival."

As with any innovation, dozens of specialists and technology vendors have sprung up with tools and services to help marketers measure the return on this critical aspect of their campaigns. Even the search-engine providers themselves are getting into the act. Overture offers Search Optimizer, a tool designed to help marketers optimize campaigns based on business objectives such as cost per action (CPA) and return on ad spend (ROAS), as well as to automate and manage the keyword selection and bidding process. Google offers a free conversion tracking product and promotes its Maximizer consulting group as a means to help advertisers optimize their accounts by helping with keyword selection and ad text.

The impact of keywords extends well beyond

the search engines themselves. Marketers also must ensure that if customers do click on a sponsored link that the website delivers a message consistent with the customer's expectations. If marketers create ad content that is irrelevant to a particular search phrase, or the linked page doesn't provide the information customers are expecting to find, they are very likely to continue their search elsewhere.

"You need to make sure the landing page you have set up is incredibly relevant," explains Pete Krainik, CMO at DoubleClick, a provider of technology for automating online marketing programs, including search. "You need to think of this as a marketing vehicle so the copy needs to communicate whatever it is you're pinning your marketing strategy on."

## PLACING YOUR BETS

The best way to approach a paid-search campaign, experts say, is to begin with a smaller

initiative using a small set of initial keywords. By rigorously and continuously measuring the success of each keyword, you can gradually add more to the mix while discarding the least effective ones.

"To do search correctly, you have to have an offensive strategy, which is test and scale, test and scale," says Tim Armstrong, vice president of advertising sales at Google. "If you continue to measure your results over the course of time, campaigns are much more effective."

Google's strength is that it lets users define the success—and placement—of a sponsored link. Instead of automatically giving top rank to the highest bidder, Google factors in click-through rates as part of its formula for determining rank. In other words, if a company is the high-bidder for "bagels," but no one clicks on its link, it will move down in the rankings.

Overture's paid-search system gives top rank to the highest bidder regardless. Yet it differentiates in other ways. For example, Overture offers a fee-based service called paid inclusion, in which it indexes a marketer's site to ensure that hard-to-get content gets submitted and shows up in the regular online listings.

While Google and Overture are the staples of any campaign, experts believe marketers should consider a balanced search program that includes some of the dozens of other second-tier engines or vertical platforms. Engines such as LookSmart.com or Kanoodle.com are good prospects, since their paid listings also appear on content sites such as MSNBC.com and USA Today.com. Vertical search engines such as Business.com, which caters to visitors looking for finance-related services or products, are a potentially good venue for banks or other financial service companies.

Newer players promise to raise the stakes for paid search even further. Microsoft has been working on its own technologies for both Web-based and local search capabilities. Google recently released technology that searches local files (anything from e-mail attachments to Web histories) in much the same way that the Google Web engine sniffs out information across the Internet. Startups such as Blinkx and Copernic are also rolling out similar desktop search applications that create new opportunities for marketers—and also raise new questions about privacy.

## SEARCH METRICS: A GLOSSARY ▶

**COST PER ORDER (CPO)** Payment based on the number of orders received from a link. CPO should be tracked not just for an entire campaign, but also by individual products or keywords.

**COST PER ACTION (CPA)** Payment based on an action that correlates to a future sale. (For example, registering for a newsletter, downloading a white paper or requesting additional information.) Used primarily for services or products that have complex sales processes.

**PAY-PER-LEAD (PPL)** Payment based solely on qualifying leads.

**PAY-PER-SALE (PPS)** Payment based solely on qualifying sales.

**CONVERSION RATE** The percentage of visitors who complete a desired action.

**RETURN ON ADVERTISING SPEND (ROAS)** The amount of revenue generated for each dollar spent on a particular advertising method.

**CUSTOMER LIFETIME VALUE (CLV)** The profitability of a customer during the lifetime of the relationship; this metric is richer than measuring profitability on a single transaction.

## ALL SEARCH IS LOCAL

Overture Services and Google have both rolled out geographic search listings designed to help local businesses zero in on prospects in their backyards.

Overture's Local Match lets advertisers target customers in a specific area, presenting them with business information as well as customized offers. Advertisers have the ability to pinpoint a geographic area surrounding their business (between 0.5 miles to 100 miles), in which they prefer their search listing to be shown.

Google AdWords provides similar capabilities, including a "polygon radius" targeting feature that lets a business (a local car dealership, for example) build out a radius of counties to deliver ads only to customers in those specific areas, explains Tim Armstrong, vice president of advertising sales for Google.

Local search marketing is already looking like big business, experts say. According to a forecast by Jupiter-media, local search marketing will generate \$502 million in 2004, or 19 percent of the total search marketing spend.

—B.S.

With these developments at hand, the challenge for CMOs is getting their arms around managing and measuring what's still a relatively new advertising vehicle. "People selling products are pretty good at figuring out the metrics that determine success in well-established mediums," says Overture's Karnstedt. "We're not quite there with search."

## word ASSOCIATION

As search morphs into a more strategic element of the marketer's arsenal, the challenge for many organizations is deciding who should manage it. In many cases, strategic direction and tactical planning around search still resides with new media groups, not corporate marketing. Because much of the early work in search was driven by Web developers and e-commerce managers, they became the default owners of the discipline. And because of the arcane and complex nature of search technol-

ogy, many senior marketers have been content to let search-related decision making remain within these groups.

Many experts, however, believe that omitting search from the rest of the marketing mix is a mistake. Search marketing has become such an important part of customer acquisition that marketers who ignore the discipline when creating a new campaign risk a major disconnect with customers.

Consider Coca-Cola's introduction of the low-carb C2 soda this past spring. The launch was supported by a major marketing campaign through traditional channels including print, TV and Internet advertising. But the marketing team neglected to factor in paid search as part of the overall branding effort. Although Web surfers saw plenty of C2 roadblock ads, a search on "C2" in the days after the announcement did not return Coca-Cola as a sponsored link (and didn't at press time), nor did Coke rank high in the organic rankings. The company has since addressed the natural search oversight, but the opportunity to capitalize on the launch via search was lost.

To avoid a similar fate, many marketers are beginning to view their search efforts through a more strategic lens. Homeloancenter.com's Shin took search under her wing primarily out of a need to closely monitor all marketing-related spending at the two-year-old startup. Shin still meets weekly with the online team to discuss the effectiveness of their search efforts.

Ditto for HPshopping.com, whose marketing team regularly coordinates search marketing campaigns with its other advertising vehicles, including newspaper ads, direct mail and other e-mail marketing efforts. For example, if the retailer is running a promotion touting a \$100 rebate on a printer or laptop in local newspapers or on television, it will tweak its search campaign for those relevant keywords to reflect the offer.

"We're constantly integrating all of our campaigns to make sure we're speaking in one consistent, clear voice to the customer," says Gooding.

A consistent, clear voice is the jackpot for marketers betting big on paid search. Without this consistency, the odds of a winning hand are steep—no matter how good the bluff. ●

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## AU NATUREL

Although paid search garners much of the attention of online advertisers, a balanced search marketing campaign should also encompass an emerging discipline known as search engine optimization (SEO). SEO involves tweaking your company's website to improve the chances of search engine "spiders" finding the site during relevant searches. The more relevant the website appears to the spiders, the higher it is listed on the "natural" (nonsponsored) section of a search site.

AT&T Wireless has been doing paid-search campaigns for more than a year and a half, but began an initiative to optimize its website for search engines just six months ago. "We realized to have a long-term play, we had to have an SEO campaign," explains Les Kruger, the company's senior online marketing manager. "When conducting paid-search campaigns, you're paying for each click. With natural search, you're getting clicks for free. So if over time you can get people to find the site with SEO, there's a lower cost per acquisition. I'm a strong believer in a proper mix between the two."

Because of the complexity of SEO, AT&T Wireless enlisted a third-party search marketing company, iProspect, to help manage and track the results of its SEO efforts. (It uses a different partner, Did-it.com, to oversee the paid-search portion.) While the company initially handled search marketing in-house, it soon became clear that outside experts were necessary to keep up with such a complex and continuing process.

"To do world-class search," says Kruger, "you need world-class partners with deep expertise."

—B.S.