
The State of Search Engine Marketing 2004

*Survey of Advertisers and Agencies
Search Engine Marketing Professional Organization (SEMPO)
December, 2004*

REPORT SUMMARY



Research Project Objectives

PROJECT OVERVIEW

SEMPO contracted research firm Executive Summary Consulting, which oversaw this project, to address the following key research objectives:

- **Understand the size of the search marketing industry** in order to help promote its growth
- **Understand where marketer spending is going**, among different recipients (search engine media companies, SEM agencies, in-house) and towards what types of SEM programs (paid placement, paid inclusion, organic SEO, SEM technology)
- **Identify key industry trends**
- **Identify key industry issues SEMPO should address**

Research Methodology

PROJECT OVERVIEW

Executive Summary Consulting directed the following research initiatives as part of this project:

- Extensive analysis of secondary research, reporting and commentary
- Detailed interviews with 31 leading industry experts, including representatives from **180 Solutions, 24/7 Search, Advertising.com, Atlas OnePoint, Business.com, Did-it.com, eBay, iFrontier, Epiar, Fathom, iCrossing, iProspect, itraffic, Karcher Group, Kelsey Group, KeywordRanking, LinkShare, MarketLeap, Meandaur, MSN, NetRatings, Oneupweb, Performics, Quigo, Search.com, Search Engine Watch, SiteLab, Thomas B2B, ValueClick, Wahlstrom Interactive, WebMama**
- Detailed online survey completed by 288 search engine advertisers and SEM agencies, conducted via IntelliSurvey, Inc.

DEFINITIONS: Survey Respondents Were Given the Following Definitions at the Start of the Survey

PROJECT OVERVIEW

- **Search Engine Marketing (SEM):** the entire set of techniques and strategies used to direct more visitors from search engines to marketing web sites, including all of the tactics and strategies defined below.
- **Paid Placement:** Text ads targeted to keyword search results on search engines, through programs such as Google AdWords and Yahoo Overture "Precision Match," also sometimes referred to as "Paid Placement," "Pay-per-Click" (PPC) advertising and Cost-per-Click (CPC) advertising.
- **Contextually Targeted Text Ads:** Text ads targeted to the subject of writings on web pages, such as news articles and weblogs, using programs such as Google's "AdSense" and Overture's "Content Match" programs.
- **Paid Inclusion:** The practice of paying a fee (fee structures may vary) to search engines and similar types of sites (e.g., directories, shopping comparison sites) so that a given web site or web pages may be included in the service's directory, although not necessarily in exchange for a particular position in search listings, such as Overture's "Site Match" program, formerly known as Inktomi)
- **Organic Search Engine Optimization:** The practice of using a range of techniques, including augmenting HTML code, web page copy editing, site navigation, linking campaigns and more, in order to improve how well a site or page gets listed in search engines for particular search topics.
- **Search Engine Marketing (SEM) Service Provider:** Agencies or individuals who assist companies with the various search engine marketing practices described above.
- **Search Engine Marketing Technology Provider:** Makers of a software application specialized to assist in the execution of search engine marketing programs, with features such as "bid management," "campaign management," "portfolio management" and "dynamic optimization."
- **Web Analytics:** Using a reporting platform for measuring and analyzing the results of any/all of your online marketing campaigns, including search engine marketing.
- **Affiliate Marketing:** Coordinated programs to enable partners to market on behalf of your web site or products that track referrals in order to compensate affiliates typically in the form of a sales commission.

Research Highlights

2004 U.S. & Canadian SEM Industry Size Estimate, by Tactic

RESEARCH HIGHLIGHTS

	2004 Advertiser SEM Spending	Share of Total	Share of Tactic
Paid Placement	\$3,341,878,176	81.8%	
Search Media Firms	\$2,942,200,247	72.0%	88%
SEM Agencies	\$164,333,425	4.0%	5%
In-House	\$235,344,504	5.8%	7%
Paid Inclusion	\$181,725,673	4.4%	
Search Media Firms	\$116,668,615	2.9%	64%
SEM Agencies	\$16,652,843	0.4%	9%
In-House	\$48,404,215	1.2%	27%
Organic SEO	\$492,057,200	12.0%	
SEM Agencies	\$178,677,581	4.4%	36%
In-House	\$313,379,619	7.7%	64%
SEM Tech	\$71,558,325	1.8%	
Leasing	\$29,982,797	0.7%	42%
SEM Agencies	\$20,766,617	0.5%	29%
In-House	\$20,808,911	0.5%	29%
TOTAL	\$4,087,219,374		

Source: Search Engine Marketing Professional Organization survey of SEM agencies and advertisers, December 2004. Copyright © 2004



2004 U.S. & Canadian SEM Industry Size Estimate, by Beneficiary

RESEARCH HIGHLIGHTS

	2004 Advertiser SEM Spending	Share of Total	Share of Sector
Search Media Firms	\$3,058,868,862	74.8%	
Paid Placement	\$2,942,200,247	72.0%	96%
Paid Inclusion	\$116,668,615	2.9%	4%
SEM Agencies	\$380,430,466	9.3%	
Paid Placement	\$164,333,425	4.0%	43%
Paid Inclusion	\$16,652,843	0.4%	4%
Organic SEO	\$178,677,581	4.4%	47%
SEM Tech	\$20,766,617	0.5%	5%
In-House	\$617,937,249	15.1%	
Paid Placement	\$235,344,504	5.8%	38%
Paid Inclusion	\$48,404,215	1.2%	8%
Organic SEO	\$313,379,619	7.7%	51%
SEM Tech	\$20,808,911	0.5%	3%
Leasing	\$29,982,797	0.7%	
SEM Tech	\$29,982,797	0.7%	100%
TOTAL	\$4,087,219,374		

Key Research Highlights

RESEARCH HIGHLIGHTS

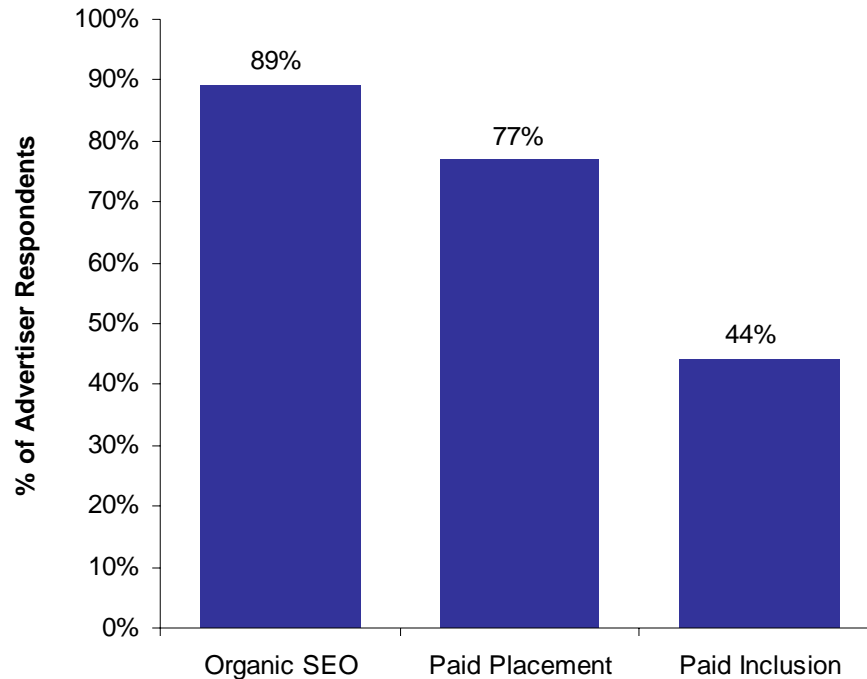
- **Brand awareness is advertisers' top objective** for SEM programs, particularly large firms
- **ROI is outpacing inflation:** Advertisers say they could afford to pay on average 33% more for price of keywords and remain profitable, while they say prices have gone up 26% on average in the last 12 months
- **SEM is poaching budget** from shopping directory listings, web advertising, email and print ads
- **Senior executives consider SEM a high business priority** at 50% of advertiser respondents
- **Advertisers plan to increase their SEM spending 41%** on average in 2005
- **Most advertisers plan to manage the majority of their SEM spending in-house** in 2005

Organic SEO Most Popular of SEM Programs With Advertiser Respondents

RESEARCH HIGHLIGHTS

Engagement in SEM Programs

"Do you currently engage in ...?"



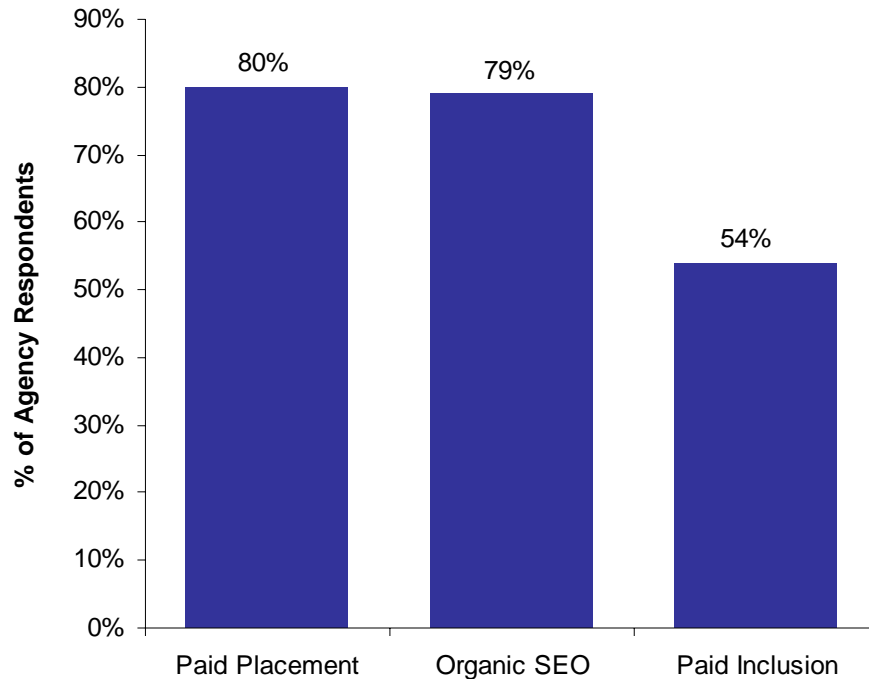
- Nine out of 10 advertiser respondents engage in organic search engine optimization
- Three quarters engage in paid placement
- Less than half engage in paid inclusion

Paid Placement and Organic SEO Equally Popular as Offerings for SEO Agency Respondents

RESEARCH HIGHLIGHTS

SEM Program Offerings

"Do you currently offer the following SEM services ...?"



- Most agency respondents offered all three major SEM programs
- Paid placement and Organic SEO were offered by the vast majority of agency respondents

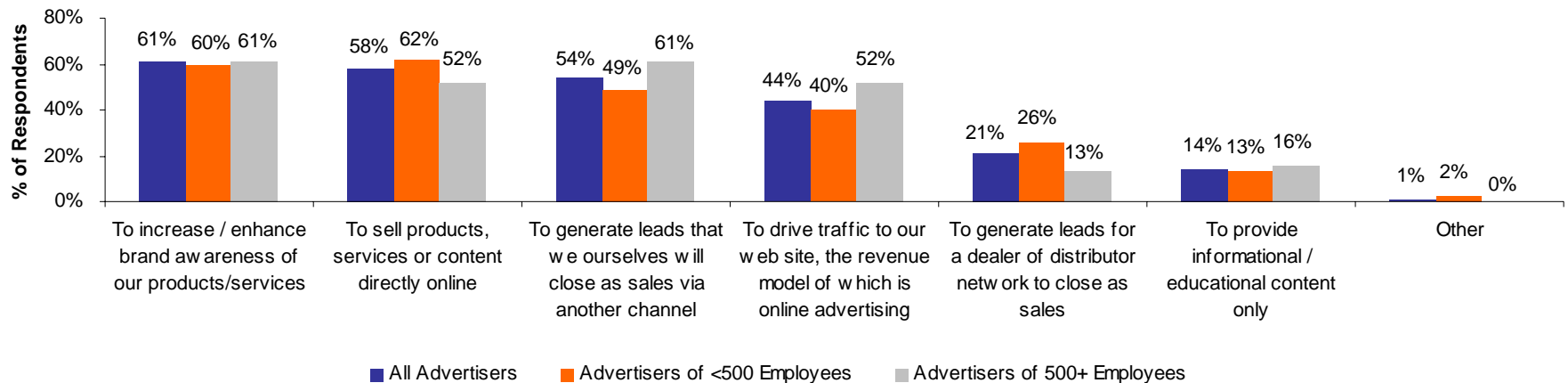
Brand, Sales, Leads and Traffic Are Top Objects of Paid Placement Programs Among Advertisers

RESEARCH HIGHLIGHTS

- Among advertisers, enhancing brand awareness is the top object of Paid Placement campaigns (albeit by a narrow margin)
- Selling products follows closely as an object for Paid Placement, especially among smaller firms
- Larger firms are more interested in driving leads and traffic via Paid Placement than are smaller firms

Purpose of Search Engine Marketing Use

"What is your company using search engine marketing to accomplish?"
 [Multiple responses applicable]

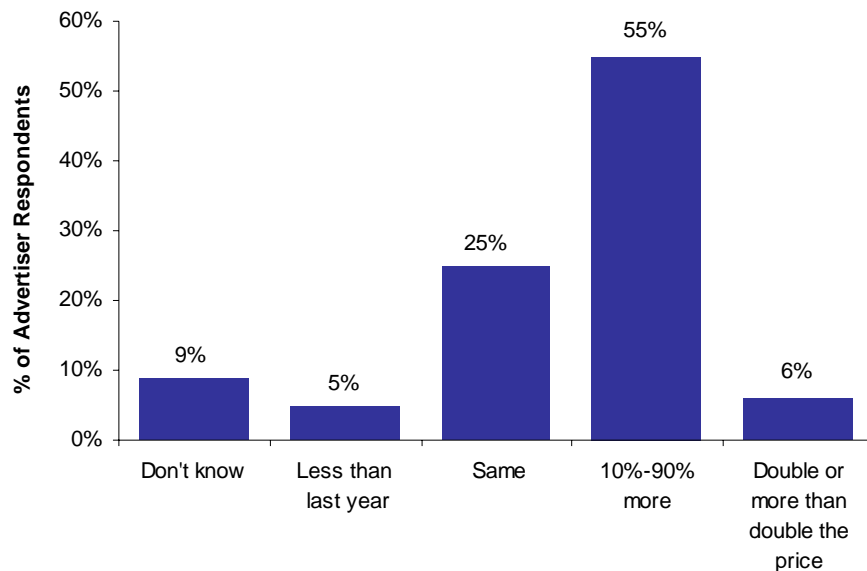


Paid Placement Ad Prices Rose on Average by a Quarter in Past 12 Months, Say Respondents

RESEARCH HIGHLIGHTS

Changes in Paid Placement Prices Compared to Last Year

"Have you observed prices for Paid Placement ads change in the last year for the keywords you routinely bid on?"



- 61% of advertiser respondents felt that prices for their common keywords rose in the past 12 months
- 14% believed that prices for their common keywords decreased
- On average, advertisers felt prices rose 26%

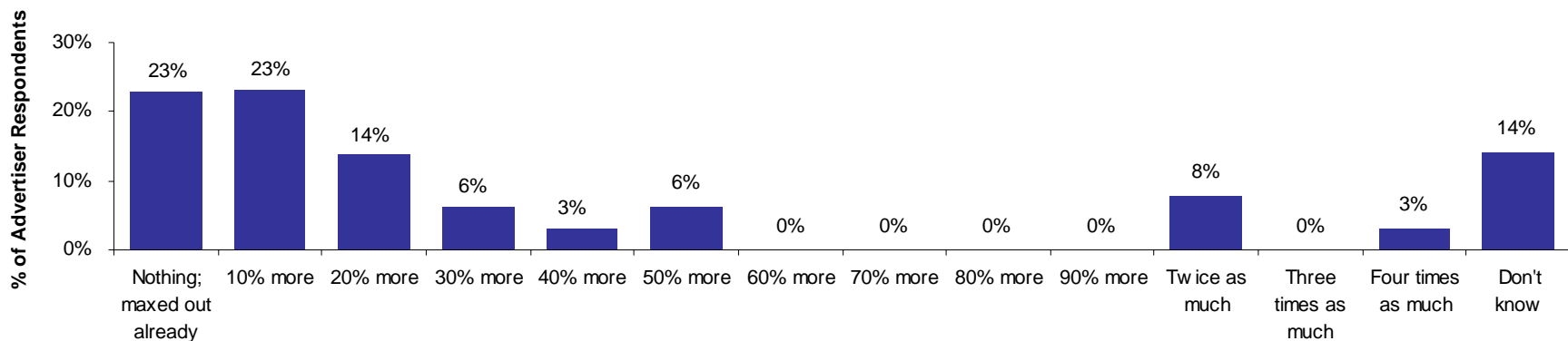
Respondents Could Still Tolerate Further Price Rises of Another Third

RESEARCH HIGHLIGHTS

- 63% of respondents said they could tolerate further rises in paid placement prices
- 23% said they could not afford any more rise in keyword prices
- 14% did not know what maximum price they could afford
- On average, advertisers said they could afford prices rises of 33%, which is more than they said on average prices for their common keywords rose in the previous 12 months

Ability to Afford Further Price Escalation in Paid Placement Ads

"Given the current efficiency you experience with Paid Placement programs, and the quality of the leads that this tactic generates, how much more could you afford to pay for the leads / conversions this channel provides before you could not justify the expense?"



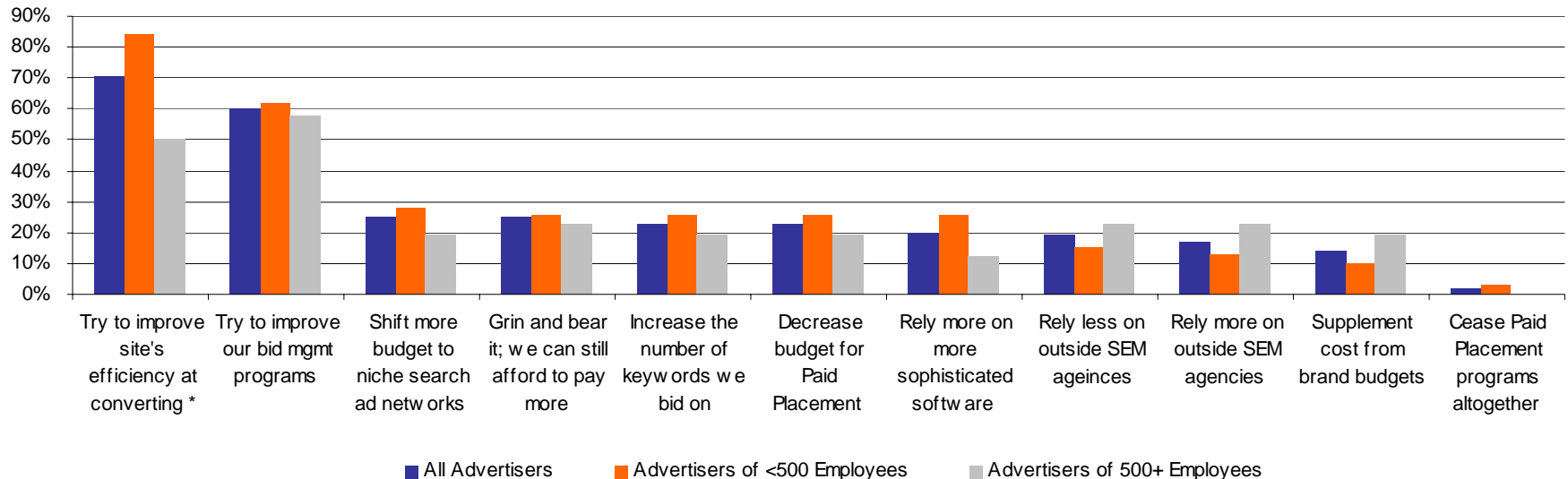
Faced With Escalating Keyword Prices, Advertisers Would Increase Program Efficiency

RESEARCH HIGHLIGHTS

- Paid placement advertisers would address price rises by improving the efficiency of their programs before cutting back on spending
- Improving site conversion efficiency and improving the overall efficiency of bidding programs would be first steps in maintaining paid placement programs intact

Reaction to 2-Year Steady Increase in Paid Placement Costs

"How would you likely react to hypothetical scenario where the cost of Paid Placement steadily increased for the next two years?"



Source: Search Engine Marketing Professional Organization survey of SEM agencies and advertisers, December 2004. Copyright © 2004



* NOTE: response options have been rephrased to fit in chart display

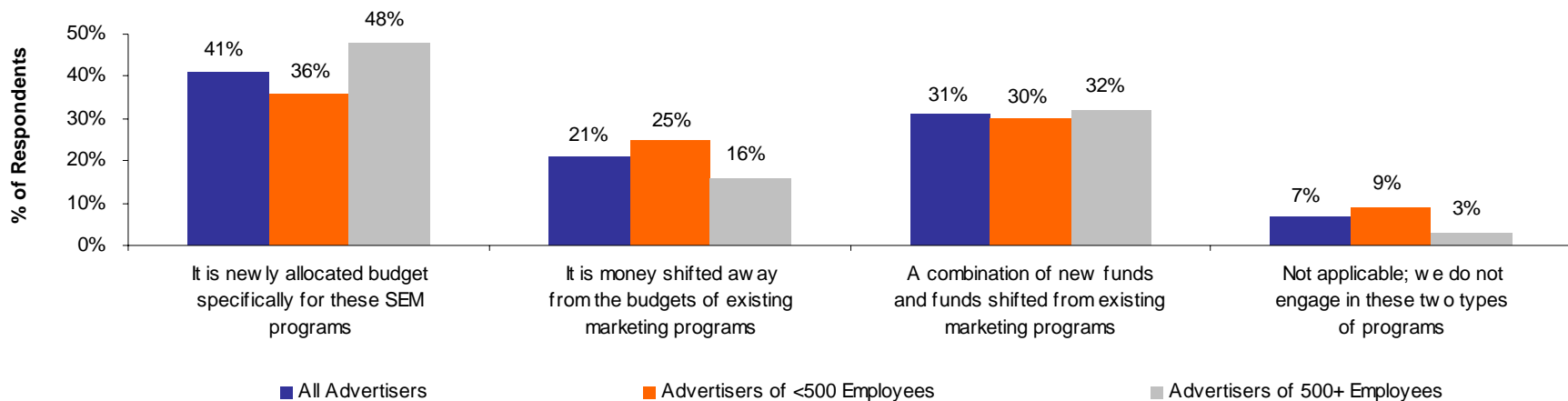
Majority of Respondents Shift Budget Away From Other Marketing Programs for Paid SEM Programs

RESEARCH HIGHLIGHTS

- Only 41% of respondents said their funding for paid placement and paid inclusion programs came from newly created budgets, although more of the larger companies said so
- Most respondents said they were shifting in whole or in part budgets from other marketing programs to fund these new initiatives

Source of Budget for Paid Placement and Paid Inclusion Programs

"Where is the budget coming from for your Paid Placement and Paid Inclusion programs?"



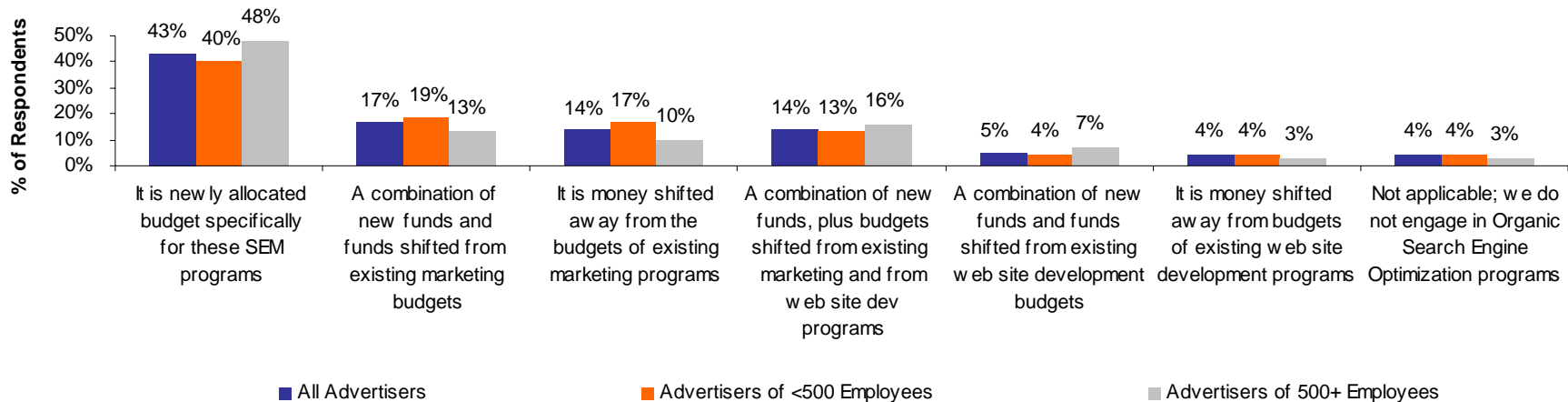
Majority of Respondents Shift Budget Away From Other Marketing Programs for Organic SEO

RESEARCH HIGHLIGHTS

- Only 43% of respondents said their funding for organic search engine optimization programs came from newly created budgets, although more of the larger companies said so
- Most respondents said they were shifting in whole or in part budgets from other marketing programs and/or web development budgets to fund these new initiatives

Source of Budget for Organic Search Optimization Programs

"Where is the budget coming from for your Organic Search Optimization programs?"



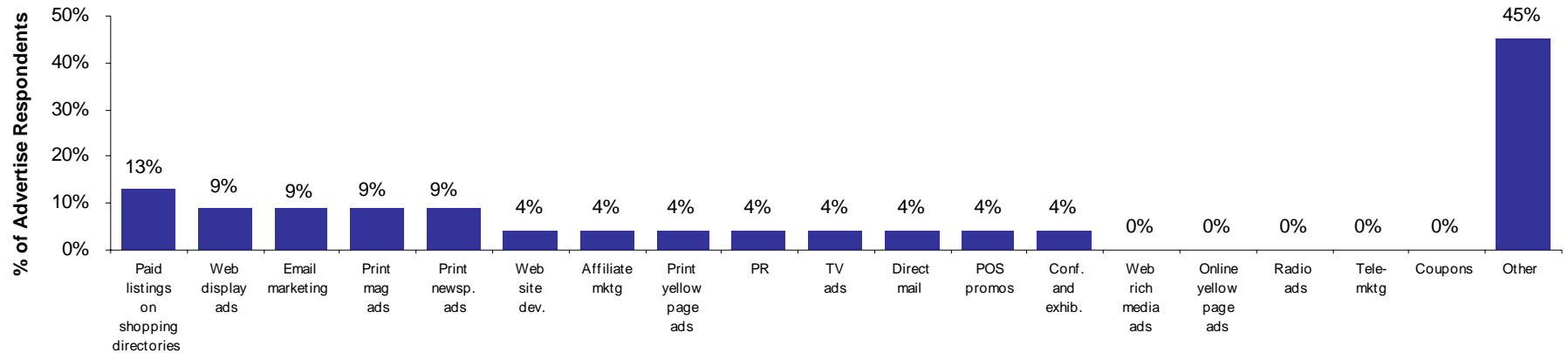
SEM Is Poaching Budget From Established Marketing Programs

RESEARCH HIGHLIGHTS

The biggest shares of budgets for SEM programs are being shifted away from paid listings on shopping directories, web display ads, email programs, and magazine and newspaper print ads

Shift of Marketing / IT Funds to Search Marketing Programs

"From which marketing/IT programs are you shifting budget away and moving it to your search marketing programs?"



Source: Search Engine Marketing Professional Organization survey of SEM agencies and advertisers, December 2004. Copyright © 2004



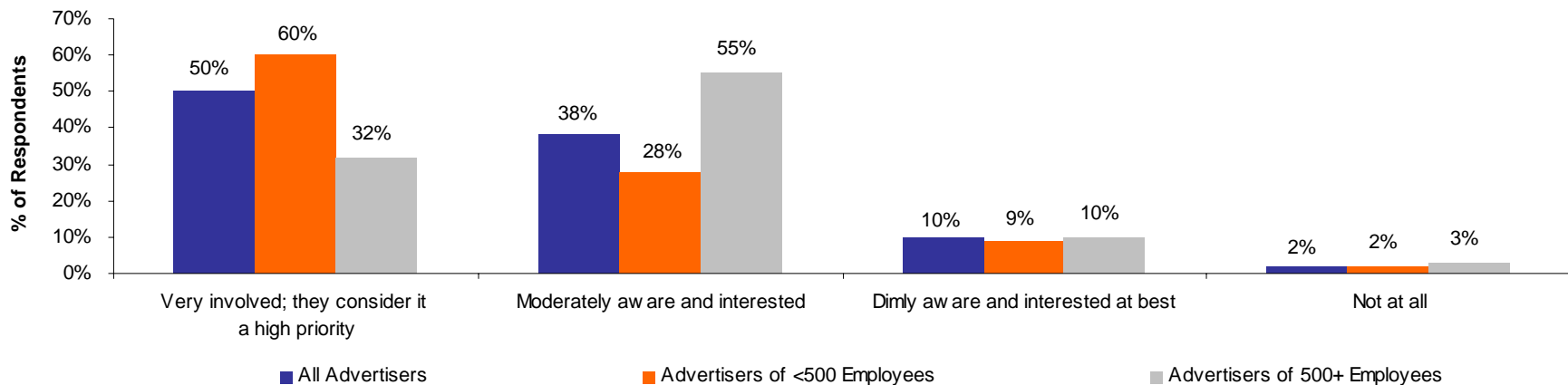
Senior Executives Are Clued Into Value of SEM

RESEARCH HIGHLIGHTS

- Half of all advertiser respondents said that senior management at their companies were "very involved" in SEM programs and considered them "a high priority," especially among companies with fewer than 500 employees
- Another 36% said senior execs were "moderately aware and interested" in SEM programs; more than half of larger firms agreed with this statement

Extent of Senior Management's Interest in SEM Practices

"To what extent is your senior management interested in and aware of Search Engine Marketing practices your company engages in?"



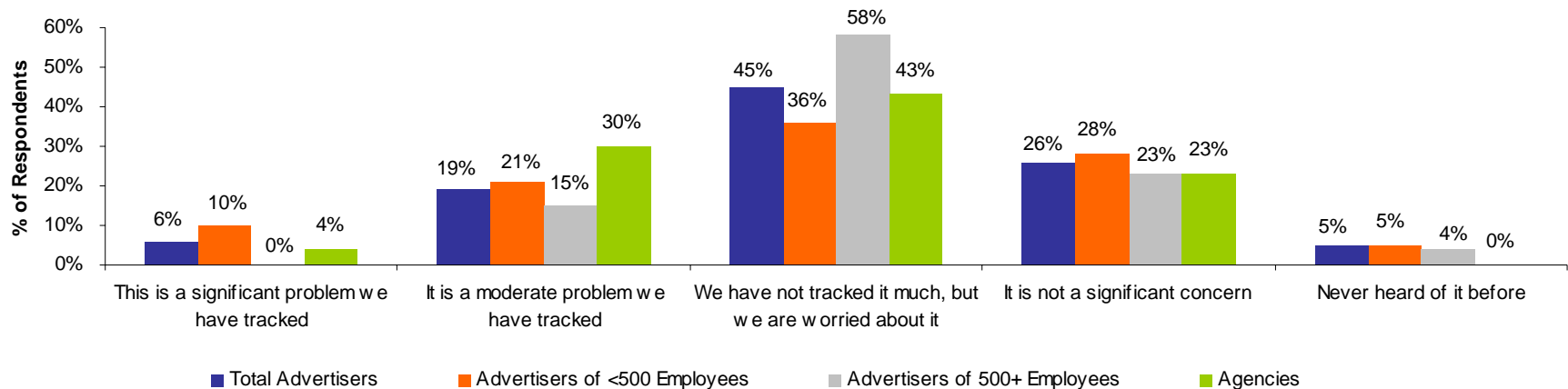
Advertiser Respondents Are Mixed on Seriousness of Click Fraud

RESEARCH HIGHLIGHTS

- A quarter of respondents have tracked fraud as a problem; 6% say it's serious
- Another quarter do not believe it's a problem
- Bulk of respondents (45%) are concerned but not tracking actual fraud

Click Fraud vs. Paid Placement

"In your experience, how much of a problem is "click fraud" with regard to Paid Placement?"

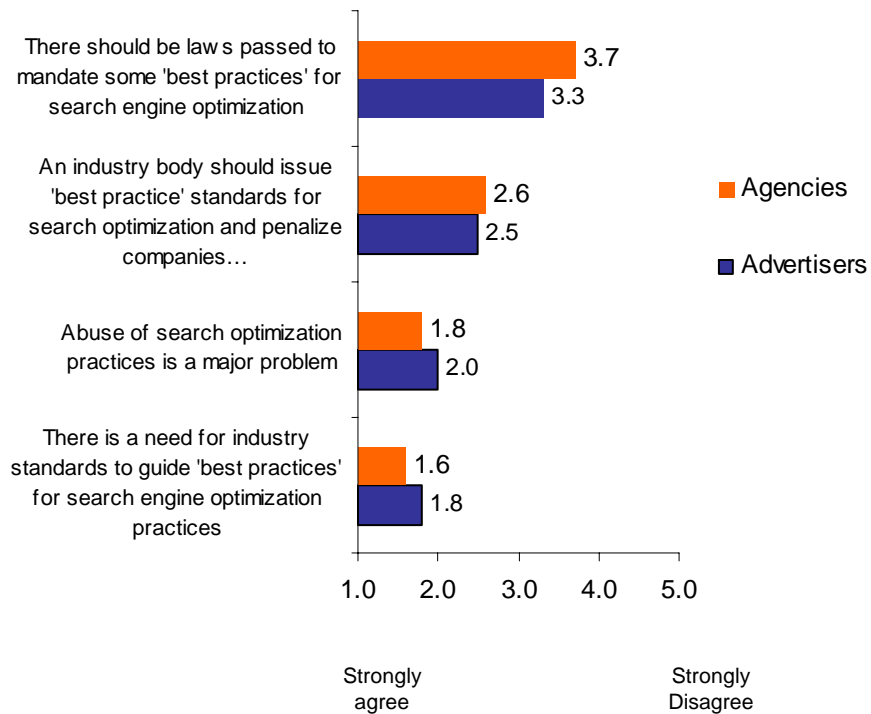


Most Respondents Agreed that Abuse of SEO Practices Was a Problem

RESEARCH HIGHLIGHTS

Statements Concerning Industry Standards for "Search Optimization" Best Practices

"Do you agree or disagree with the following statements concerning industry standards for 'search optimization' best practices?"

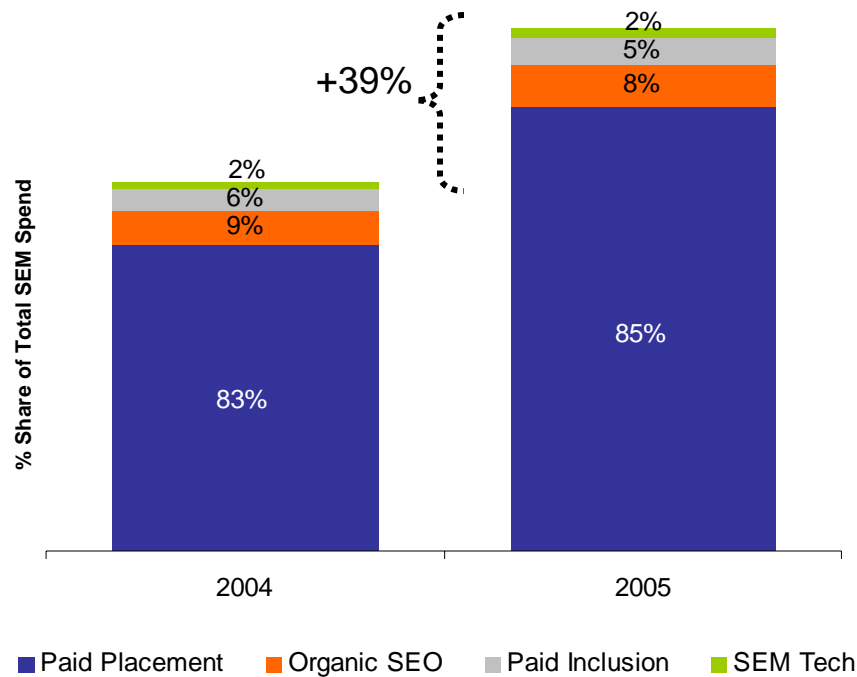


- There was strong agreement that abuse of search optimization was "a major problem" and that there was a need for industry standards on the question
- Most respondents did not believe, however, that legislation was the best solution to the problem
- Advertisers and Agencies in general agreement about the situation

Advertiser Respondents Expect to Increase SEM spending Overall by 41% in 2005 Over 2004

RESEARCH HIGHLIGHTS

SEM Programs by Share of Total SEM Spend by Advertisers



- Paid placement is lion's share of the average SEM advertiser's SEM spend
- Advertiser respondents project that next year they will increase spending overall by 39%
- Sectors of SEM increase at slightly different rates by end up more or less in same proportion in 2005

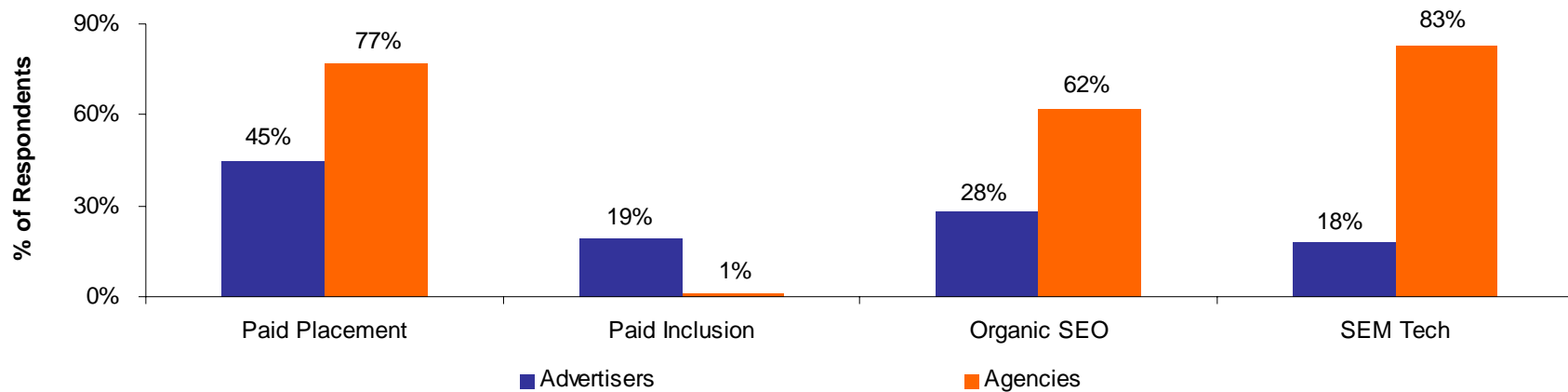
Advertisers See Increases in SEM Spending Across the Board; Agencies Question PI

RESEARCH HIGHLIGHTS

- Agency respondents anticipate 2005 revenue increasing faster than advertisers plan to increase spending
- Agencies expect less revenue increase from paid inclusion in 2005 than advertisers expect to increase their spending

Anticipated Increase in 2005 over 2004 for Specific SEM Programs

"How much more or less do you expect to spend in 2005 compared to 2004 for [each of the following SEM programs]?"



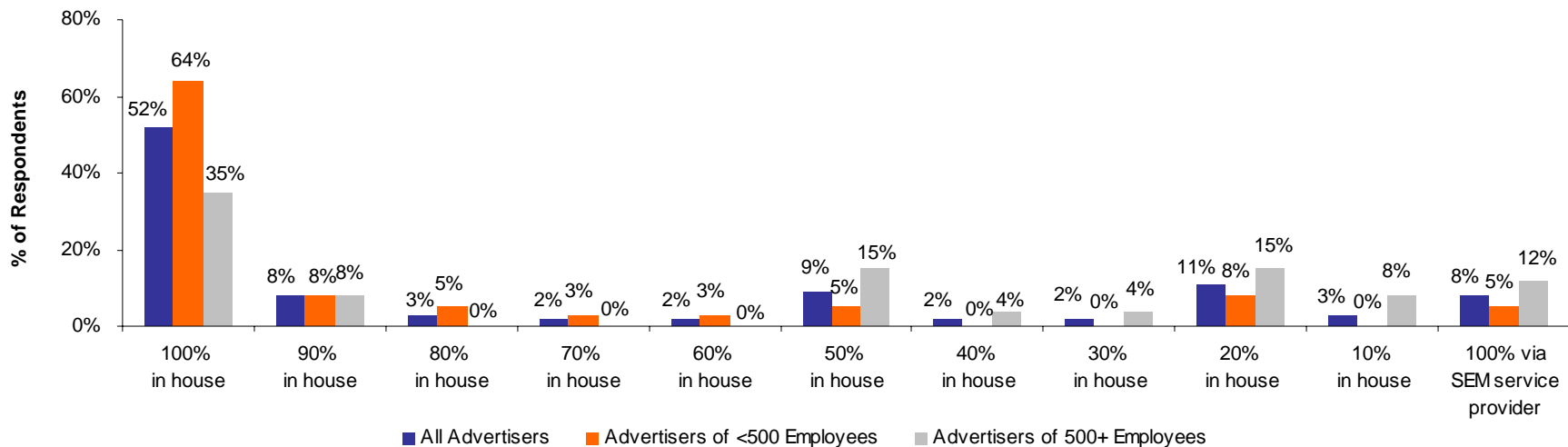
Majority of 2005 Paid Placement Spending Will Be Managed In-House, Not Outsourced to Agencies

RESEARCH HIGHLIGHTS

- 52% of advertiser respondents said they would manage **all** of their 2005 paid placement spending in-house; larger firms were more likely to outsource more of their campaign budgets
- On average, advertisers plan to outsource the management of only 28% of their paid placement budgets to SEM agencies; for small firms (staffs under 500), the figure was 17%, while larger firms (staffs of 500+) planned to outsource 45% of their spending through agencies, on average

Management of Planned 2005 Paid Placement Spending

"How much of your planned spending next year (2005) for Paid Placement programs are you likely to manage with in-house resources versus through an external search engine marketing service provider?"



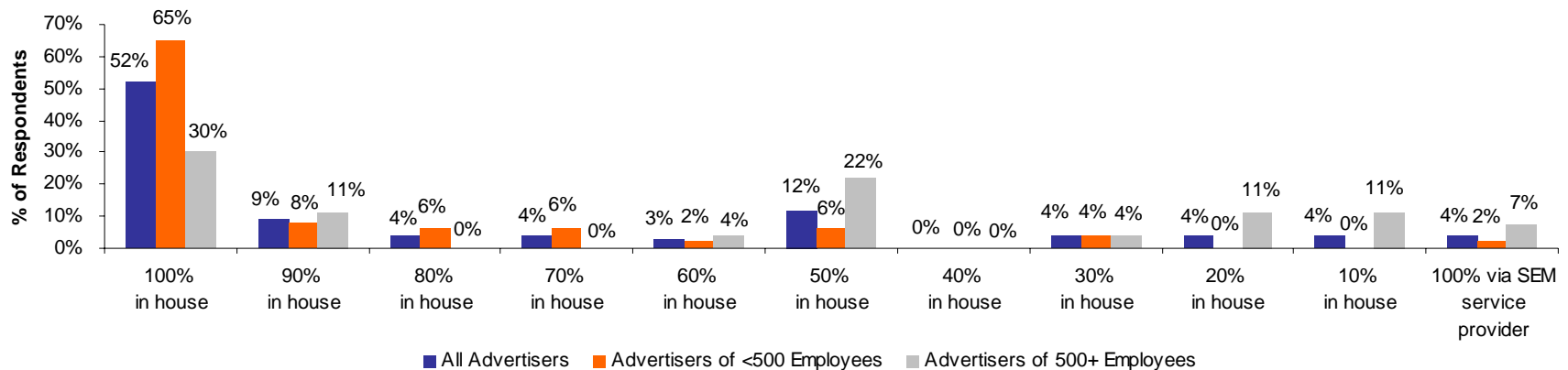
Majority of 2005 Organic SEO Spending Will Be Managed In-House, Not Outsourced to Agencies

RESEARCH HIGHLIGHTS

- Like paid placement, 52% of advertiser respondents said they would manage **all** of their 2005 paid placement spending in-house; larger firms were more likely to outsource more of their campaign budgets
- On average, advertisers plan to outsource the management of only 29% of their paid placement budgets to SEM agencies; for small firms (staffs under 500), the figure was 22%, while larger firms (staffs of 500+) planned to outsource 44% of their spending through agencies, on average

Management of Planned 2005 Organic Search Engine Optimization Spending

"How much of your planned spending next year (2005) for Organic Search Engine Optimization programs are you likely to manage with in-house resources versus through an external search engine marketing service provider?"



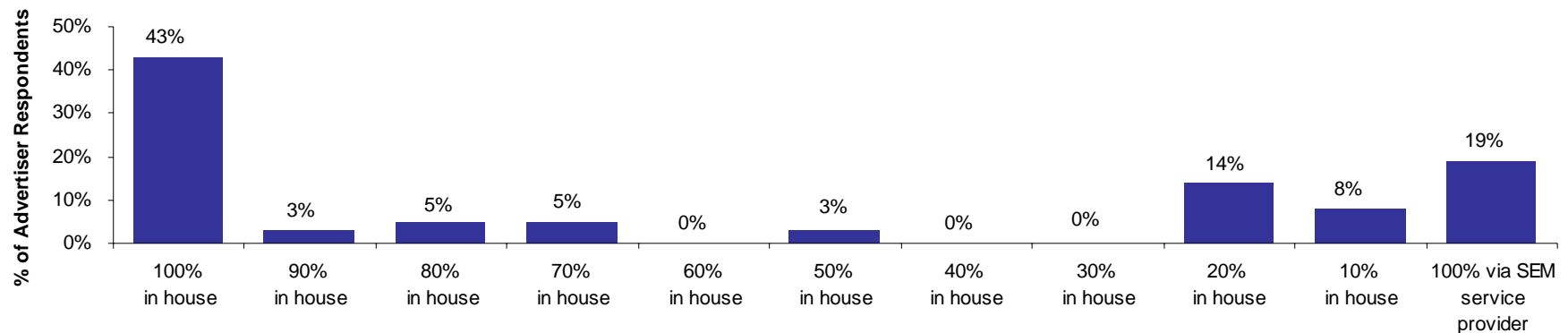
Majority of 2005 Paid Inclusion Spending Will Be Managed In-House, Not Outsourced to Agencies

RESEARCH HIGHLIGHTS

- 43% of advertiser respondents said they would manage **all** of their 2005 paid placement spending in-house; larger firms were more likely to outsource more of their campaign budgets
- On average, advertisers plan to outsource the management of only 31% of their paid placement budgets to SEM agencies

Management of Planned 2005 Paid Inclusion Spending

Q57 How much of your planned spending next year (2005) for Paid Inclusion programs are you likely to manage with in-house resources versus through an external search engine marketing service provider?



Key Research Conclusions

RESEARCH HIGHLIGHTS

- **Inventory of keywords is not yet a critical problem.** Most advertisers felt they still have price flexibility in their paid placement programs before they will reach diminishing returns. They also say they will get smarter about managing their paid placement programs before they cut back on spending
- **Most advertisers are relying on both paid and organic** search strategies. Although most of the money being spent goes to paid search media, strategically SEO is a high priority. To the extent that the search engines can support the legitimate efforts of marketers to get their sites found when relevant to searchers, there is both an opportunity to capture more revenue and better service those business customers.
- **SEO abuse seen as more of a problem than click fraud.** Most marketers have little evidence that abuse of paid search media campaigns is costing them money, but there is a high degree of concern by both advertisers and agencies that abuse of SEO practices is damaging the industry and the effectiveness of search marketing overall.

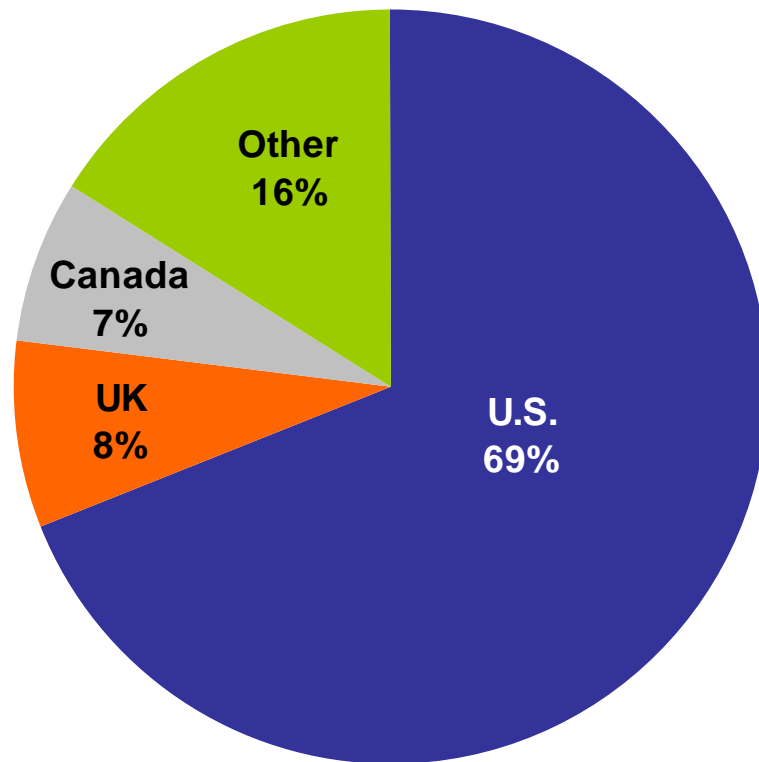
About Respondents

Most Respondents Are U.S. Companies

ABOUT RESPONDENTS

Location of Surveyed Companies

"What country is your company located in?"



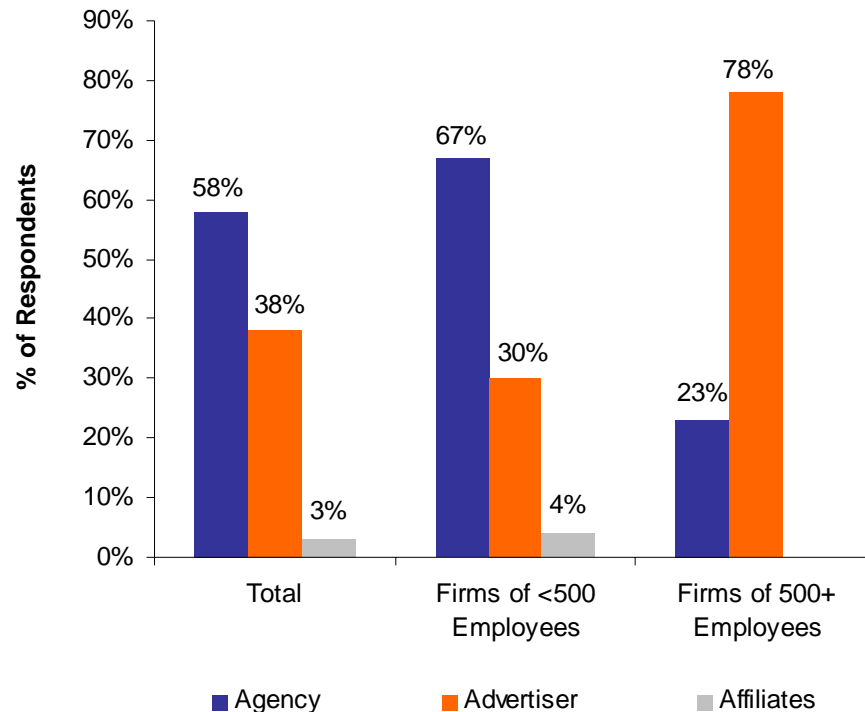
- In total 288 respondents completed the survey
- North American firms (U.S. and Canada) made up three-quarters of all respondents
- Respondents from other countries included Argentina, Australia, Brazil, Canada, China, Costa Rica, Cyprus, Czech Republic, Denmark, France, Germany, India, Italy, Japan, Liechtenstein, Malaysia, Mauritius, Netherlands, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, United Arab Emirates
- For this analysis, only the responses from the U.S. and Canadian firms are reported

Advertisers Make up a Third of Respondents

ABOUT RESPONDENTS

Business Descriptions

"Please choose whichever of these options best describes your business"



- 84 of the U.S. and Canadian respondents are advertisers as opposed to agencies
- 31 of the 84 advertisers are larger than 500 employees
- 102 of the North American respondents are agencies
- Only eight of the 102 agency respondents were from firms of 500-plus employees
- Nine respondents identified themselves as affiliate marketers
- Most respondents were directly responsible for SEM programs and had budget authority or significant influence

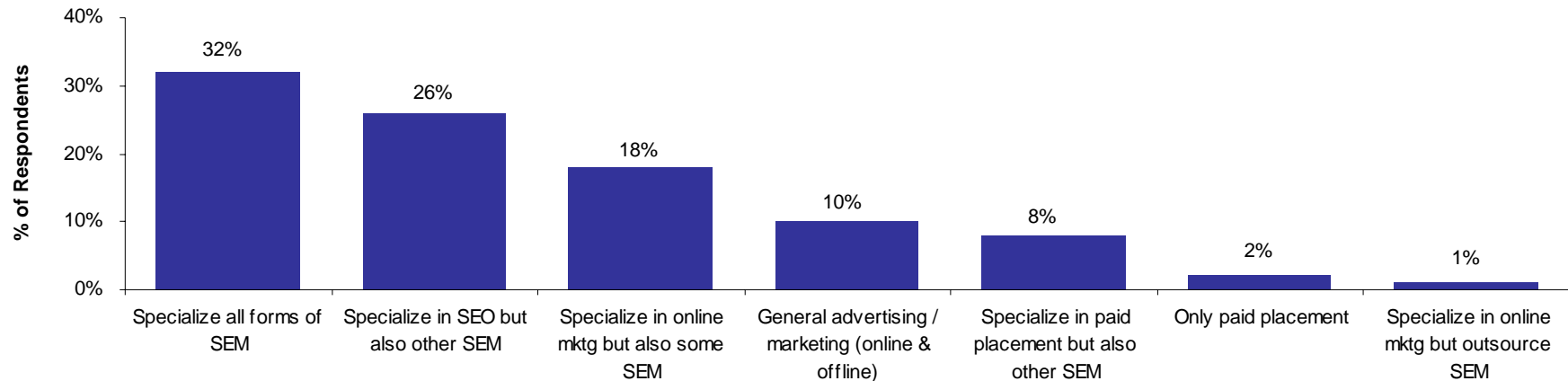
Most Agency Respondents Are All-around SEM or SEO Specialists

ABOUT RESPONDENTS

- A third of agency respondents are all-around SEM generalists
- A quarter of respondents were Organic SEO specialists who also did general SEM

Agency Description

"Which of the following best describes your agency?"



About the Research Partners

ABOUT RESEARCH

- **About the Search Engine Marketing Professional Organization (SEMPO)**

SEMPO is a non-profit professional association working to increase awareness and promote the value of search engine marketing worldwide. The organization represents the common interests of more than 315 companies and consultants worldwide and provides them with a voice in the marketplace. For more information, or to join the organization, please visit www.SEMPO.org

- **About Executive Summary Consulting, Inc.**

Executive Summary Consulting, run by long-time Internet industry analyst Rick E. Bruner, specializes in market research and strategic consulting focused on Internet marketing and advertising. For more information, please visit www.ExecutiveSummary.com

- **About IntelliSurvey, Inc.**

IntelliSurvey helps organizations, including leading research firms and in-house researchers, make better business decisions by gathering intelligence from their customers, members, and prospects. For more information, please visit www.IntelliSurvey.com