



UK Search Engine Performance Report Q1 2008

An Efficient Frontier Research Paper

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Executive Summary

In 2007, advertisers spent £1,691.1 billion on UK search engine advertising, an increase of 45% from 2006. Search advertising, as the most measurable form of online advertising, received 58% of UK online ad spending in 2007.¹ Examination of how advertisers are managing their paid search placements can offer insights into search engine performance and inform advertising budget allocation decisions.

Efficient Frontier's Q1 2008 UK Search Engine Performance Report analyzes data from a fixed sample of UK search engine advertisers, across multiple verticals, including retail, finance, travel and telecommunications. The factors considered were: search engine spend, click-through rates (CTRs), cost per click (CPC), and return on investment (ROI). Following are key findings from the report.

Google Dominates UK Search Advertising

Google captured 84.5% of UK search advertising spending in Q1 2008. While its share of search advertising spending remained relatively unchanged from Q4 2007, its ROI improved by 14% in that period. Google showed the least change among the three engines in CTR and CPCs from Q4 2007 to Q1 2008: CTR was down 3.5% and CPCs fell by 1.4%. The 14% ROI improvement in Q1 2008 versus the previous quarter could indicate that the quality measures implemented by Google in late 2007 and early 2008 improved effectiveness for advertisers by reducing unnecessary clicks.

Yahoo! CTR Drops

Yahoo! accounted for 11.7% of search advertising spending in Q1 2008, a slight decline of 0.5% from Q4 2007. Its CTRs dropped by 37.9% in Q1 2008, although average CPCs were unchanged. The decline in CTR and subsequent decline in ROI may be attributed to the expansion of its partner syndication network.

MSN gains share, drives highest ROI

MSN gained 0.4 percentage points of share in Q1 2008, to capture 3.5% of total search spending. Its ROI was the highest among the three engines, despite its CPC increase of 16.3%. MSN continues to drive high quality traffic, but its low volume prevents advertisers from spending more.

Global Outlook for Search

Google captures the vast majority of search engine advertising spending in the major global markets in which Efficient Frontier operates, with the exception of Japan. Europe is the most Google-centric, capturing nearly 96% share of search advertising spending in Q1 2008. In the United States, Google accounted for 77% of search spending, while 93.5% of spending went to Google in Australia. Despite Yahoo's dominance in Japan, Google gained 6.2 percentage points of search spending in Japan from Q4 2007 to Q1 2008. Given reported trends in the United States, it can be expected that Google will continue to dominate the global search landscape into the future.

¹ IAB 2007 UK Online Ad Spend Study, available at <http://www.iabuk.net>

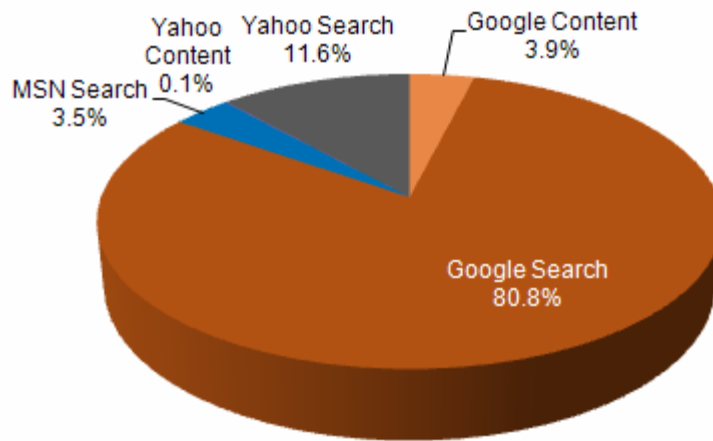
UK Research Findings

Share of Search Engine Spend

Google Dominates UK Search Advertising

Google is the clear winner in for search advertisers in the UK, capturing 84.7% of total search engine advertising spend in Q1 2008. The search giant gained 0.1 percentage point of search engine share between Q4 2007 and Q1 2008. Yahoo captured 11.7% of total UK search engine spending in Q1 2008, but lost 0.5 percentage points in share from Q4 2007. MSN gained 0.5 percentage points of share in Q1 2008, to capture 3.5% of UK search spending.

Figure 1: Share of UK Search Engine Spend, Q1 2008



Key Metric Performance

Figure 2: UK Key Metrics by Search Engine, Q1 2008

	Google Search	Yahoo! Search	MSN Search
CTR	3.70%	1.34%	7.41%
<i>Change, Q1 08 vs. Q4 07</i>	-3.5%	-37.9%	-14.3%
CPC	£0.44	£0.44	£0.45
<i>Change, Q1 08 vs. Q4 07</i>	-1.4%	-0.1%	+16.3%
ROI	1.13	0.98	1.36
<i>Change, Q1 08 vs. Q4 07</i>	+14.1%	-6.0%	-10.2%

CTR varies widely by engine, drops in Q1

The average CTR on MSN, at 7.4%, was double that of Google's CTR in Q1 2008. This can be attributed to the lower volume of traffic on MSN, which means that high-volume branded keywords, which typically have high CTRs, comprise a larger percentage of click volume on MSN than on the other engines. In addition, there are fewer advertisers on MSN because of its low volume, which results in less competition for paid clicks.

Yahoo!'s CTR dropped by 37.9% from Q4 2007 to 1.34% in Q1 2008, which could be due to expansion of Yahoo!'s syndication network in recent months.

CTR on Google remained the most stable between Q4 2007 and Q1 2008, dropping by 3.5% to 3.7% in Q1.

CPCs stable on Google and Yahoo!, MSN up

Average CPCs were nearly equal on all three engines in Q1 2008. Google and Yahoo! CPCs changed little from Q4 2007, while MSN CPCs increased by 16.3%. In Q1 2008, some advertisers increased the size of keyword portfolios on MSN to include generic terms, accounting for the 0.4 percentage points gain in search share mentioned above, and a resulting increase in CPCs.

ROI improves on Google

Google's ROI improved 14% from Q4 2007, while ROI on Yahoo and MSN dropped by 6% and 10% respectively. Google's continuing efforts to improve quality for users by reducing unnecessary clicks appear to have driven value for advertisers in Q1.

ROI on MSN was 17% higher than Google in Q1 2008. As mentioned above, its low traffic volume and high share of branded keywords leads to its higher CTRs and ROI, but prevents advertisers from spending more with the engine. The 10% drop in ROI on MSN may be due to the spend increase due to keyword portfolio expansions mentioned above.

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Global Share of Search Engine Spending

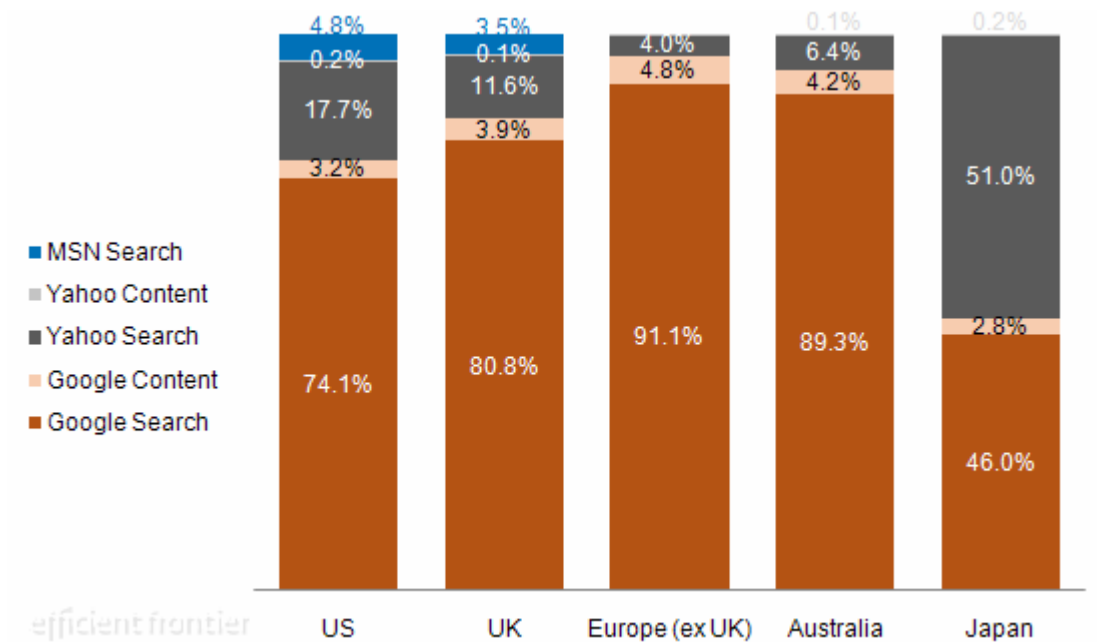
Search Spending Around the Globe

Europe is all about Google

In Q1 2008, Google held nearly 96% of search advertising spending in the European countries represented, which include France, Spain, Italy, the Netherlands, and Germany. Yahoo! captured 4.2% of total search spending in Europe (excluding UK), while MSN captured less than 1%, as MSN adCenter is currently only available in France.

With the exception of Japan, where Yahoo! dominates, Google is the dominant search engine in the major markets in which Efficient Frontier operates. It continues to gain or maintain share in each market, including Japan, where it gained 6.2 percentage points of search advertising spending in Q1 2008 versus Q4 2007.

Figure 3: Share of European Search Engine Spend, Q1 2008



Methodology

Sample

The UK analysis was completed based on data from a fixed sample of Efficient Frontier's UK clients from Q1 2007 through Q1 2008, and covers nearly 1.4 billion impressions and more than 43 million clicks on Google, Yahoo! and MSN. Global analysis was taken from Efficient Frontier's client base in the United States, Europe, Australia and Japan.

Relative ROI Index

In order to aggregate and evaluate client ROI data on a common basis, UK client search engine revenue was normalized to Q4 2007. The baseline for performance across all engines in Q1 2008 is 1.0. Measures above 1.0 indicate good performance, and below 1.0 indicates poor performance, thus providing a directional indicator of return on advertising spend by search engine.

About Efficient Frontier

Efficient Frontier is the market and technology leader in providing Search Engine Marketing (SEM) solutions for leading global advertisers and agencies. Founded in 2002, Efficient Frontier pioneered the application of modern portfolio theory to SEM and today combines its core algorithms and bidding technology with comprehensive strategic and tactical services to manage more than £250MM in global search spend. The largest and most sophisticated advertisers and agencies partner with Efficient Frontier to achieve and sustain optimal return on investment and ongoing campaign growth and efficiencies in highly competitive and volatile search marketplaces. The company has 200 employees and is headquartered in Mountain View, CA with offices in New York, the United Kingdom, France, Germany, Hong Kong and India, and 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 <http://blog.efrontier.com/>.