

Retail Marketing

Benchmarking to Drive Effective Search Engine Marketing

Search engine marketing (SEM) continues to be the cornerstone of online retailers' marketing efforts. However, general benchmarking statistics are hard to find.

Key Questions

- How much do retailers spend on SEM?
- What are retailers' goals for their SEM campaigns?
- What are the key tactics retailers use to increase clicks from SEM?

Key Finding

Online retail marketers spend an average of 22 percent more than overall online marketers do (\$148,900 vs. \$122,200, respectively) on SEM. Ninety percent of retailers that deploy SEM do so with the primary goal of generating immediate sales on their Web site. Fifty-eight percent of retailers find that adding keywords is the best way to increase clicks from search.



Research Topics

- Retail Marketing
- Measurement & Analysis

April 12, 2006

Lead Analyst

Patti Freeman Evans

Contributing Analyst

Zori Bayriamova

Research Director

David Daniels

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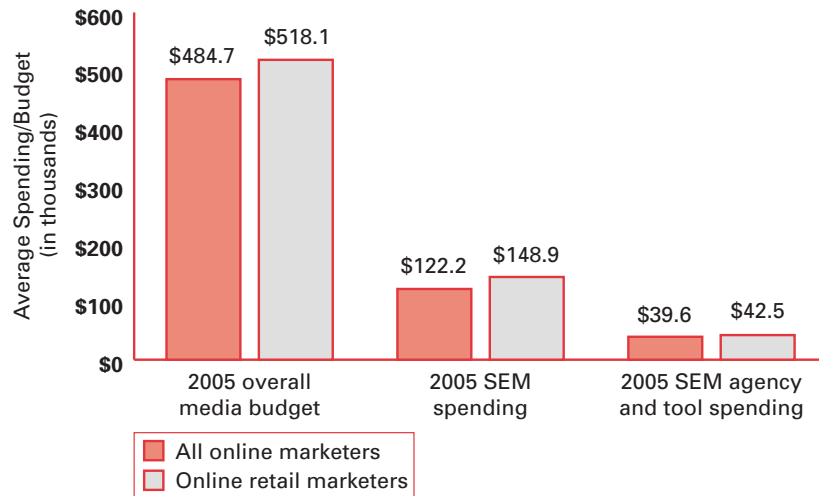
Retailers' SEM Spending Outpaces Average for All Marketers

Fig. 1 Average Search Engine Spending by Online Marketers and Online Retail Marketers

Questions: Approximately how much was your company's overall media budget (amount of money spent on online and off-line advertising placement) in the last 12 months? (Please select one.) What percentage of your overall media budget was allocated to search marketing in the last 12 months? (Please include per-click fees, paid inclusion, agency fees, and tool fees.) (Please select one.) What percentage of your search-marketing budget goes toward agency fees and tools? (Please select one.)

Source: JupiterResearch Executive Survey (8/05), n = 636 (overall search marketers, US only), n = 88 (retail marketers, US only)

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Retailers have embraced SEM as a significant part of their media budgets. In fact, though online retail marketers have media budgets that are an average of only seven percent higher than those of overall online marketers, they spend an average of 22 percent more on SEM (\$148,900 vs. \$122,200, respectively). All marketers, retailers included, plan to boost spending on SEM over the next 12 months, for an overall growth of eight percent. Overwhelmingly, online retail marketers (82 percent) cite generating increased traffic to the Web site as the primary reason for growth in their budget for SEM. Only 14 percent of retailers plan to use the budget increase to invest in bid management tools.

More than one-half of online marketers do not use an agency to manage or execute their SEM efforts. Instead they opt to use the free tools offered by search engines. However, online retail marketers with media budgets of \$1 million or more are much more likely to use an agency for search engine optimization strategy, paid search, implementation, and tracking. Online retailers buy significantly more keywords than overall online marketers do (8,754 vs. 5,355, on average), and retailers with budgets of \$1 million or more buy an average of 27,222 key words. Since budgets—and, consequently, the number of purchased keywords—will grow over the next 12 months, retailers that are not yet using an agency for SEM may begin to look at this option as the scale of their program increases.

Click-Through Rates Remain Constant Across Scale and Market



Across the board, online search marketers report a consistent click-through rate of three percent. Although, in total, online retailers buy 63 percent more keywords than overall online marketers do, the two segments tend to experience the same click-through rate. Similarly, retailers with higher media budgets experience the same click-through rate as retailers with lower budgets do. Retailers' overall click-through rate does not decrease with the additional keywords they buy, indicating that they are optimizing their search efforts well enough to protect the all-important click-through traffic. Further, this signifies that the addition of agency expertise when purchasing a higher volume of keywords may be important in maintaining click-through rates.

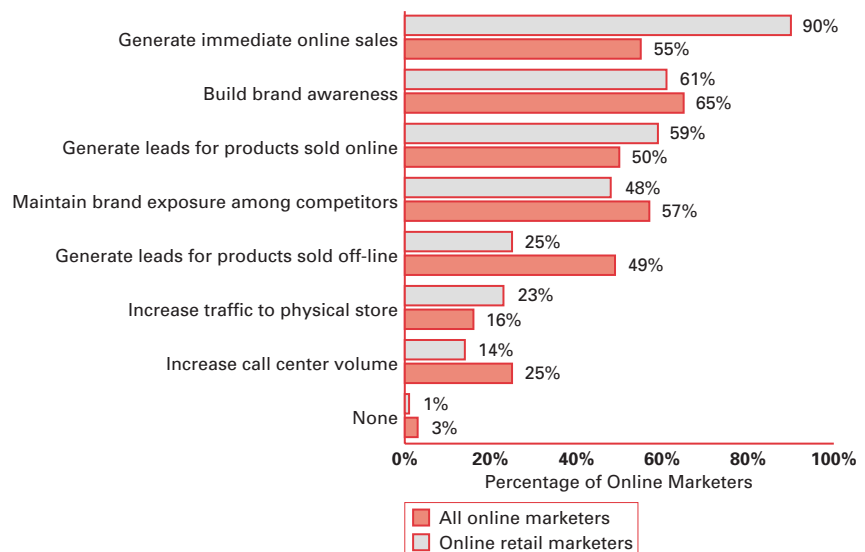
Retailers' SEM Focuses on Current Sales

Fig. 2 Online Marketers' and Online Retail Marketers' Search Engine Marketing Campaign Goals

Question: For which of the following reasons do you currently use search marketing? (Please select all that apply.)

Source: JupiterResearch Executive Survey (8/05), n = 636 (overall search marketers, US only), n = 88 (retail marketers, US only)

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Online retail marketers have a keen focus on generating immediate sales from their search marketing efforts. Also, nearly two-thirds of retailers see the long-term value search can provide in terms of brand awareness, lead generation, and protective positioning. These long-term goals are even more important to retailers with larger media budgets. However, such aims are focused on the immediate online experience rather than a multichannel approach. Only one-quarter of retailers look at the off-line impact of online searches as a reason to pursue search marketing. This seems to be a big future opportunity for any retailer that operates in multiple channels because, by 2010, 45 percent of all off-line sales will be influenced by customers' online research. Although tracking across channels is still difficult,

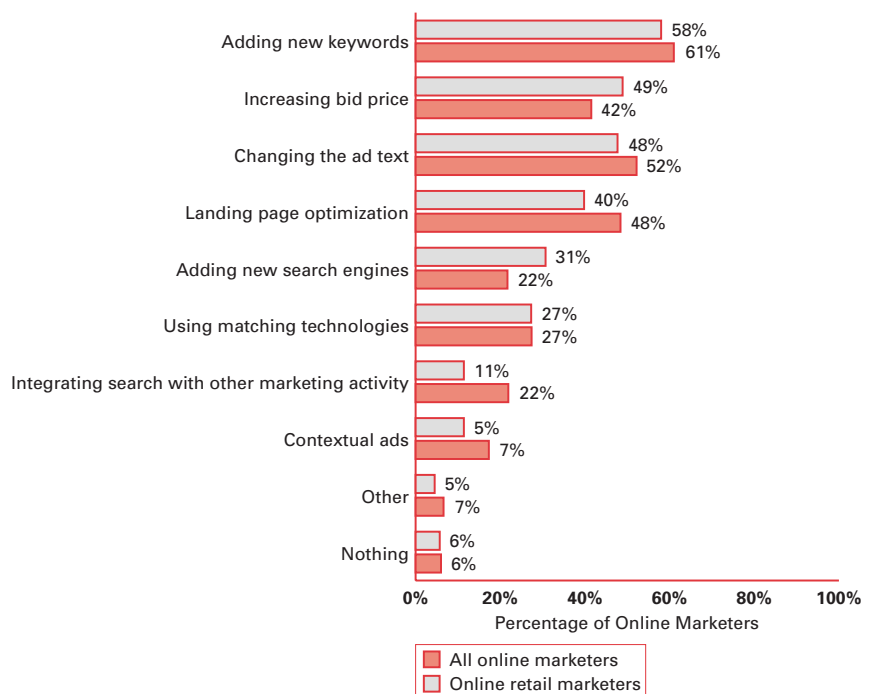


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retailers should recognize that consumers do use online search to help them decide what items to buy and where to buy them off-line. The lack of accurate tracking across channels likely contributes to an undervaluation of online search marketing efforts. In the coming year, retailers should begin testing language that highlights store locators, events, and inventory and setting up a set of tracking assumptions to evaluate the program. (For more on tracking customers across channels, see *Cross-Channel Retail Strategy: Assessing Opportunities and Risks Presented by Same-Store Multichannel Buyers*, Retail, December 6, 2005.)

Retailers Take "More Is Better" Approach to Increase Clicks

Fig. 3 Tactics Used to Increase Click Volume



Retailers evaluate their performance using an approach that is based on return on investment (ROI), and they are far more likely to use past ROI performance to determine acceptable cost-per-click (CPC) for keywords and rankings. However, retailers are worried about increased competition for top rankings and the rising cost of CPCs. It is more than likely that the competitive search landscape will continue to heat up and more traffic will come to retail sites from this source. Retailers must protect their ROI and conversion rates. However, currently, retailers are focusing on adding to their arsenal of keywords or upping the ante on bid prices rather than optimizing landing pages. Retailers should



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continue to apply their accumulated knowledge of search marketing through the remainder of the shopping experience to both fully optimize and evaluate their efforts. AB testing and assessment on landing pages to ensure that visitors get information relevant the task related to their keyword will be the norm as the CPCs rise. (For more on increased costs associated with search marketing, see *US Online Retail Forecast, 2005 to 2010*, Retail, January 19, 2006.)