



KEYWORD SEARCH ADVERTISING

**Implications for Q2 09
Based on
Findings from Q1 09**

**A NetElixir
Research Report**
April 2009

Introduction

Search advertising trends are great indicators of online sales. Often, by tracking search queries, one can get a fairly good idea of “what’s hot and what’s not.”

This year the role of search as an online sales predictor has assumed a new level of importance because of the ongoing economic downturn.

As the search advertising agency for more than forty leading US retailers, we are currently in the unique position to see the action “from the trenches.”

In this research we grouped some of our retailer clients into five distinct online retail categories – pet supplies, consumer electronics, flowers & gifts, housewares, food & drug. We selected four key search advertising performance indicators – clicks, click through rate, cost per click, and “click to sale conversion rate” – and analyzed the performance of each category on a week by week basis in Q1 09. We then compared the data with that for the same period the previous year, Q1 08.

There were three questions to which we tried to find answers through our research:

1. Is search advertising still holding strong in this economy?
2. How did the first quarter numbers this year compare with those in 2008?
3. Can we forecast Q2 09 category level performance for the four key performance indicators?

This is indicative research that was conducted to gain deeper understanding of the impact of search advertising on online retail during recessionary times. The findings may or may not be applicable to individual retailer campaigns.

I must thank my team members, Ameer and Anil, for the research material.

Do feel free to write to me at udayan@netelixir.com to let me know if you find this research paper interesting.

Best Regards,

Udayan Bose
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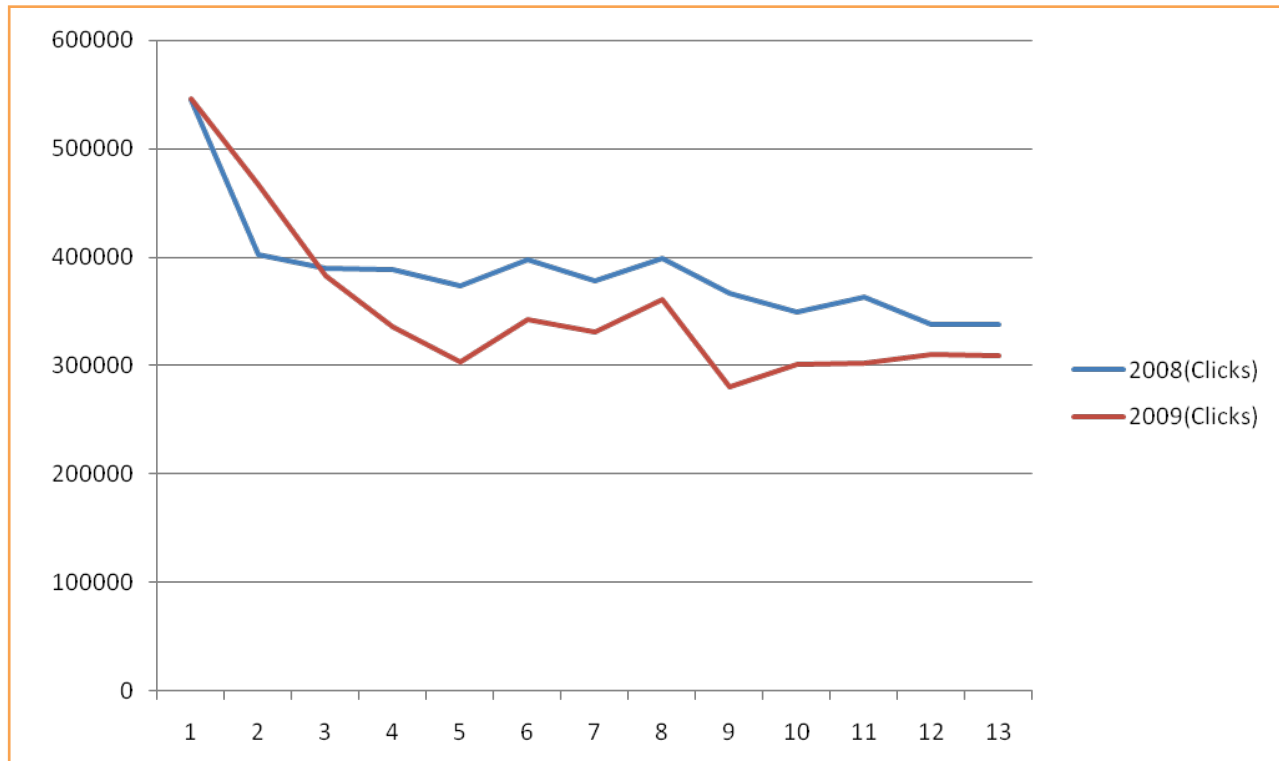
Key Paid Search Advertising Performance Indicators

Q1 09 versus Q1 08

Across the 5 retail categories that we tracked the common trends were:

- Average volume of paid search clicks was **DOWN** by 9% YoY
- Average click through rate was **UP** by 7 - 8% YoY
- Average CPC was **DOWN** by 6 - 8% YoY
- Average “click to sales” conversion rate was **UP** by 4 - 6% YoY

Average volume of paid search clicks was **DOWN** by 9% YoY



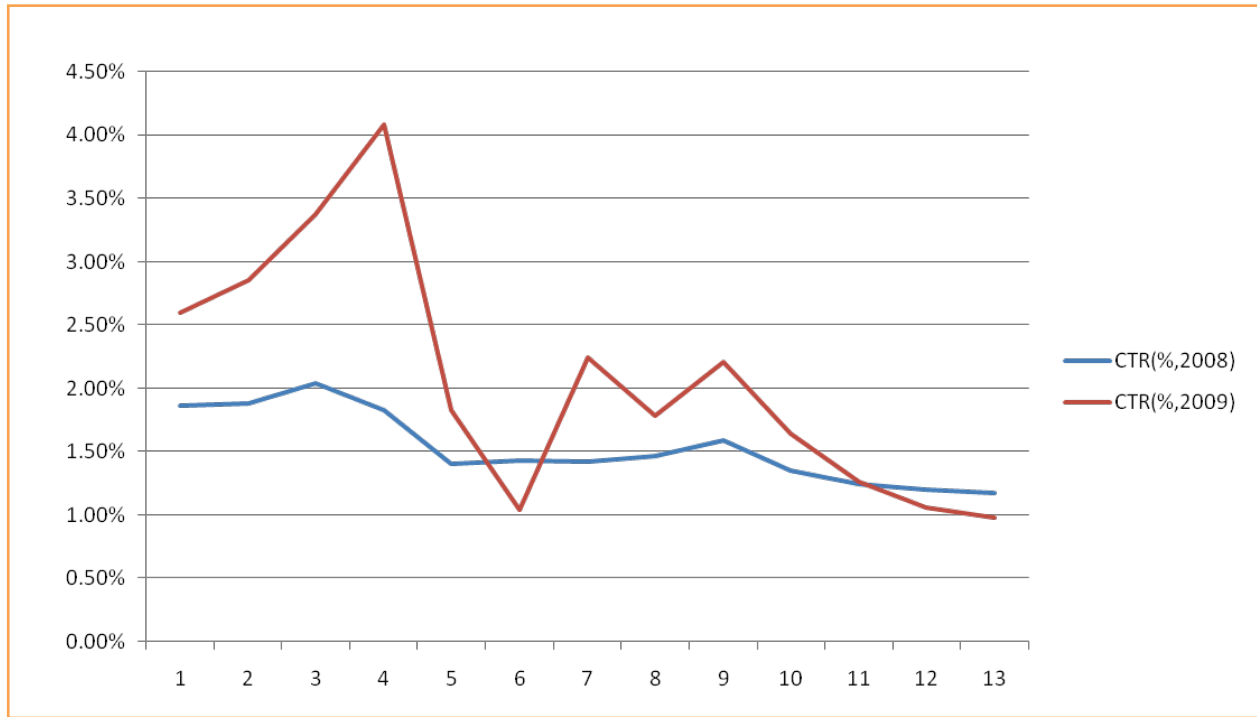
Comments:

- Since the 3rd week of this year click volumes have been consistently lower compared to last year.
- However, the click trends in the two years follow a similar pattern.



SEM Tip: Map your SEM click trend for Q2 08. Group keywords in performance buckets.

Average click through rate was **UP** by 7 - 8% YoY



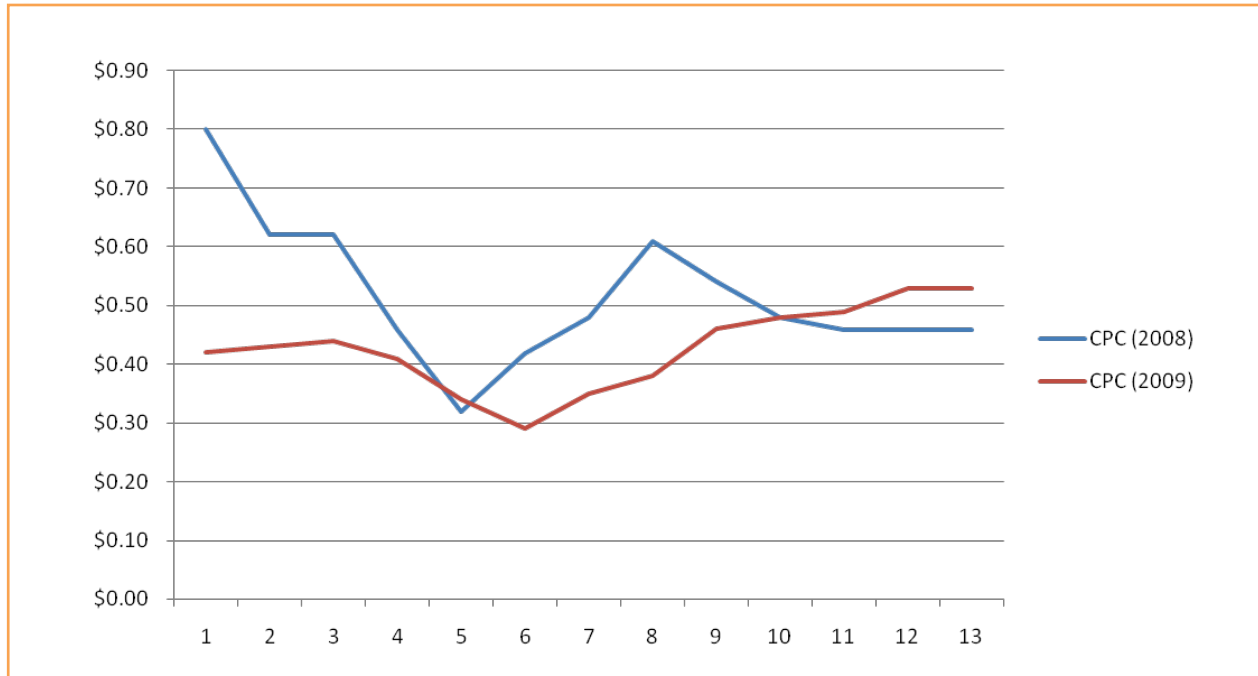
Comments:

- Though the click volume was lower this year, searchers were clicking on ads “more”– probably, comparing advertiser sites more rigorously.



SEM Tip: We highly recommend customized, targeted ad copy

Average CPC was **DOWN** by 6 - 8% YoY



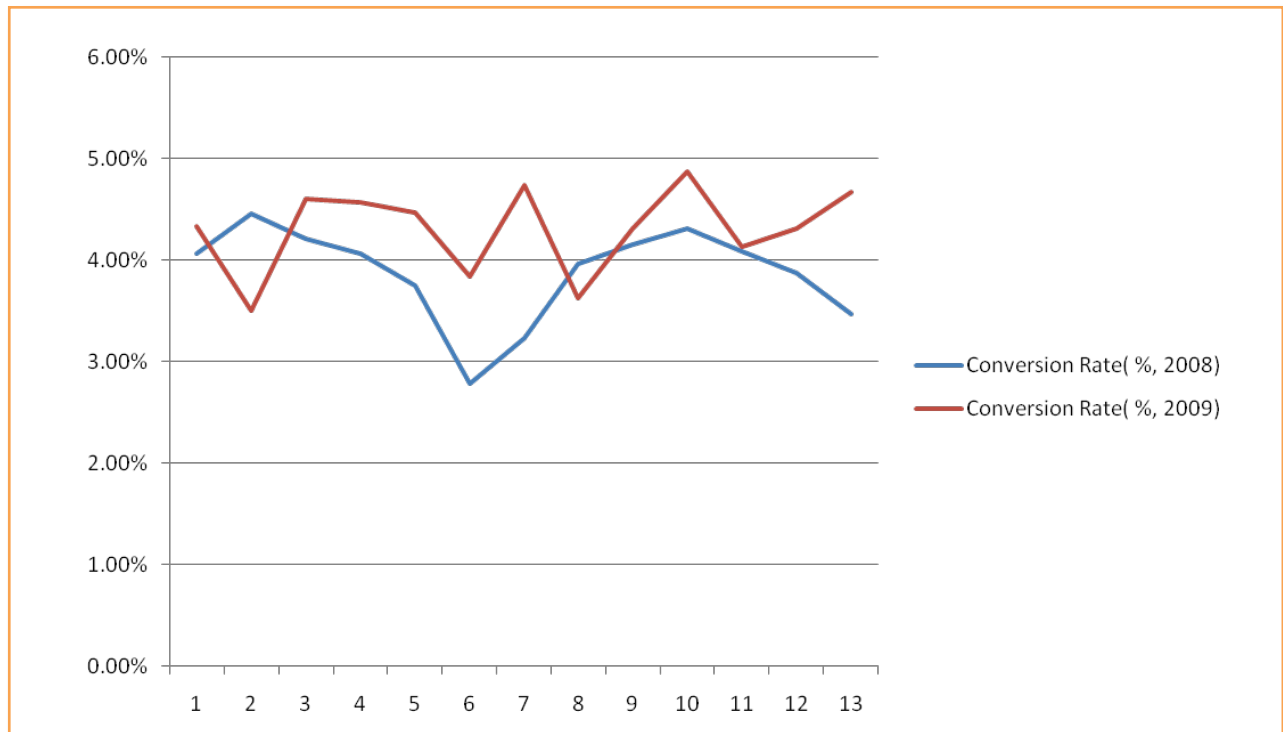
Comments:

- Cost per click was lower for 4 out of the 5 categories we researched.
- We believe the reduction in CPC is due to fewer advertisers per keyword as well as advertisers getting more “efficiency focused.”



SEM Tip: This is the time for you to extend your SEM reach and beat your competition. Be aggressive in your keyword strategy. Don't be afraid of experimenting.

Average “click to sales” Conversion Rate was **UP** by 4 - 6% YoY



Comments:

- Paid Search advertising continues to deliver qualified traffic.
- Though the absolute visitors through search advertising has declined, the number of conversions has been fairly steady.



SEM Tip: Test different sets of keywords, ad copy and landing pages. Know what combination works best.

Interesting Observation - 1

*Of the 5 categories in our research, the **pet supplies category** emerged as the sole “**steady performer.**”*

Recession-proof? Pet Supplies Category: Y/Y Comparison

| | Clicks | CTR(%) | CPC(\$) | Conversion Rate(%) |
|----------|---------|--------|---------|--------------------|
| Q1 08 | 239,356 | 1.08 | 0.29 | 2.50 |
| Q1 09 | 261,243 | 1.21 | 0.36 | 2.57 |
| % Change | 9% | 12% | 24% | 3% |

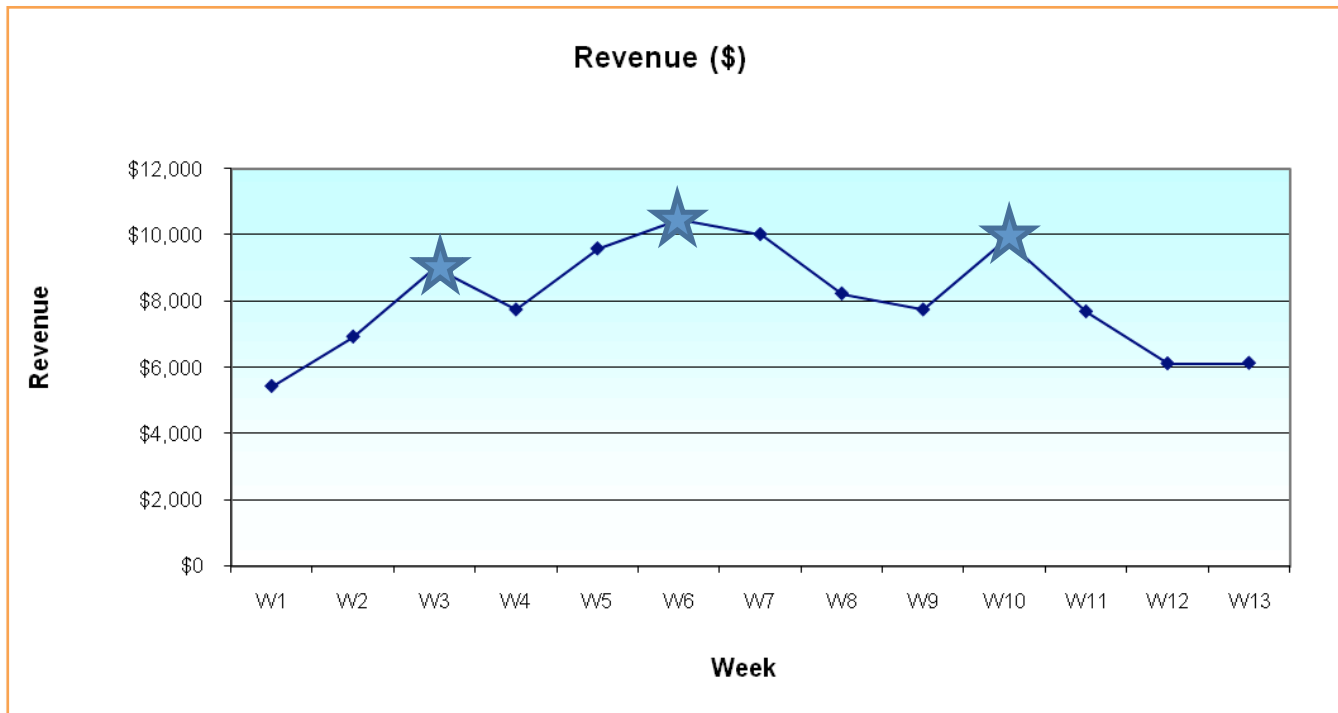
Comments:

- Unlike the other categories we researched, the pet supplies category displayed a steady growth. The “sales spikes” that we observed in other categories were absent here. We feel that in terms of pure online buyer acceptance, pet supplies as a category may be ahead of some other retail categories.
- This was the only category where a higher CPC was recorded this year over last year.

Interesting Observation - 2

The first quarter was characterized by three prominent “online sales spikes” (cumulative days: 20). Around 30% of the quarterly retail purchases happened during these spikes.

The Concept of Sales Spikes



Note: These “retail spikes” happened at different time periods for different categories. However, the phenomenon of the three spikes was noticed for all retailer campaigns. The spikes may have been influenced by multiple factors both within (e.g., sales promotions) and outside of (e.g., special events, paydays, stock market index) a retailer’s control.

What to Expect in Q2

- We think Q2 will be slower than Q1 for search advertising. The continuing pessimism about the economy is the main culprit. Also, historically, Q2 tends to be slower than Q1 (for our research set of retailers, number of paid search clicks in Q2 08 was 12% lower than that in Q1 08).
- Q2 will also likely have its share of “retail spikes,” as detected in Q1. (Prominent spikes have become somewhat of a “recessionary SEM characteristic.”)
- We anticipate the click to conversion ratio to be lower than that in Q1 09.
- The CPC may decline further for some categories (although we tend to think of this decline more as an “efficiency correction” for these categories where the CPC inflation was abnormally high in 2008).

Our Category Level Forecasts for Q2 09 (trend compared to Q2 08)

| | Clicks | CPC(\$) | CTR(%) | Conversion Rate(%) |
|----------------------|--------|---------|--------|--------------------|
| Pet Supplies | ↑ | ↑ | → | → |
| Consumer Electronics | ↓ | ↓ | ↑ | ↓ |
| Flowers & Gifts | ↓ | → | ↓ | ↓ |
| Housewares | → | ↑ | ↑ | ↑ |
| Food and Drugs | ↓ | → | → | → |

Comments:

Our forecast matrix is based on:

- Category level search trends for 2007 and 2008
- Last 6 months (Q1 09 and Q4 08) search advertising trends
- Assumptions based on our category level search advertising management experience

Smart Search Advertising Tips for Q2

- **Anticipate:** You can anticipate the spikes! Analyze your keyword search advertising data for the second quarters of 2008, 2007, and 2006. The spikes we observed in Q1 09 followed similar trends as in past years; they were just more pronounced.
- **Test:** Tactical sales promotions are playing an ever increasing role in today's economy. Have multiple sets of ad copies and relevant landing pages ready – in sync with the promotions.
“Test – measure – analyze – learn – test.”
- **Keep a close tab on your competitors:** Ignore your competitors at your own peril! Gone are the days when you could silently “snicker” at your competitors who would pay *anything* to get their ads listed in the top position. These days, anyone and everyone who does search advertising needs to justify each dollar they spend.

2 Bonus SEM Tips

- **Set short term goals:** You need to have tighter control over your campaign. Short term goals help you do precisely that. Set measurable goals for each promotion you run and each elemental change that you effect in your advertising campaign (e.g., landing page changes, messaging, copy style). Small victories have become even more important.
- **Know when to fold:** Seems obvious, but our experience shows that for many advertisers this is among the most difficult things to do. You see that 10 out of your 30 campaigns are money guzzlers – they have not delivered a single conversion for the past 3 months – still you persist, hoping that things will change... It is advisable to set clear “cut off points” for critical campaigns.

About NetElixir

NetElixir, Inc., is an online advertising management firm headquartered in Princeton, NJ, with global offices in Hyderabad, India; Freiburg, Germany; and Copenhagen, Denmark. Using its proprietary technology, the LXR core platform, the company helps companies worldwide achieve online advertising management efficiency and performance maximization. NetElixir's suite of services and products includes both an end-to-end campaign management service as well as optimization technology and service solutions for online retailers like OmahaSteaks, K-Swiss and Oneida.

For additional information, please visit www.netelixir.com or call us at 609.356.5112.

