
The State of Search Engine Marketing 2004

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

Complete Results for SEMPO Member



Research Project Objectives

PROJECT OVERVIEW

Executive Summary Consulting, Inc., oversaw the following research initiatives as part of this project:

- **Understand the size of the 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**

DEFINITIONS: 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 Methodology

PROJECT OVERVIEW

Executive Summary Consulting oversaw 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.

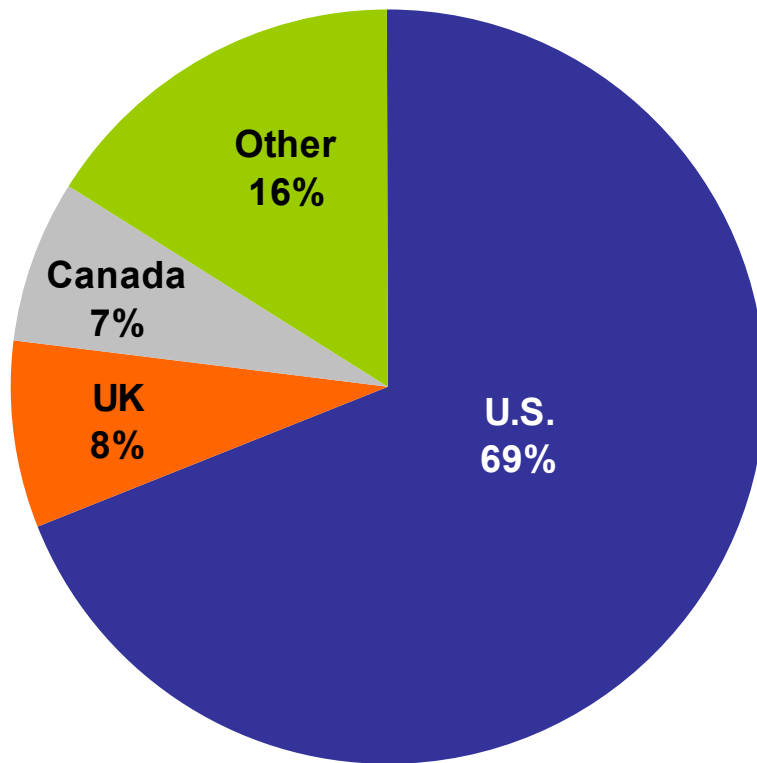
About Respondents

Most Respondents Are U.S. Companies

ABOUT RESPONDENTS

Location of Surveyed Companies

"What country is your company located in?"



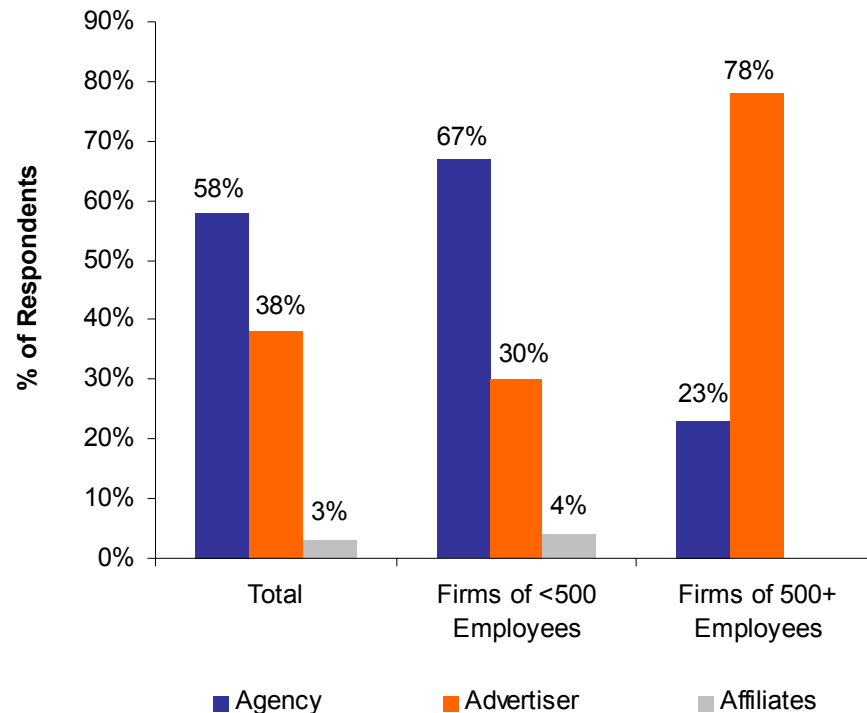
- In total 288 respondents completed the survey
- North American firms (U.S. and Canada) made up three-quarters of all respondents
- Respondents from other countries included Argentina, Australia, Brazil, Canada, China, Costa Rica, Cyprus, Czech Republic, Denmark, France, Germany, India, Italy, Japan, 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

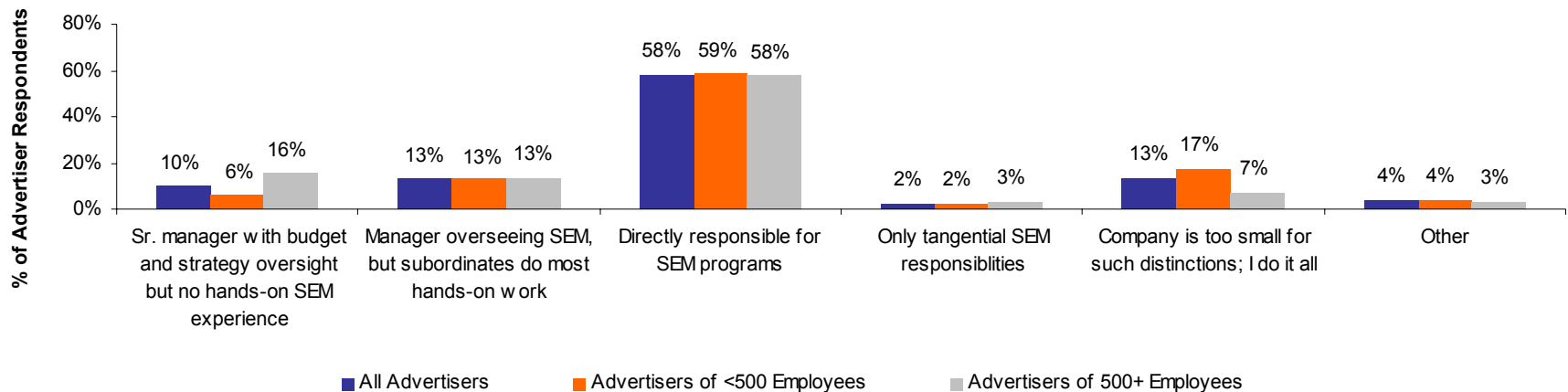
Most Advertiser Respondents Have Hands-on SEM Roles

ABOUT RESPONDENTS

- Most advertiser respondents are directly responsible for SEM programs
- 11% of advertiser respondents are senior managers with little or not hands-on SEM experience but familiarity with and oversight of the programs

Personal Role At Company Regarding Search Engine Marketing Programs

"What is your personal role within your company as regards search engine marketing programs?"



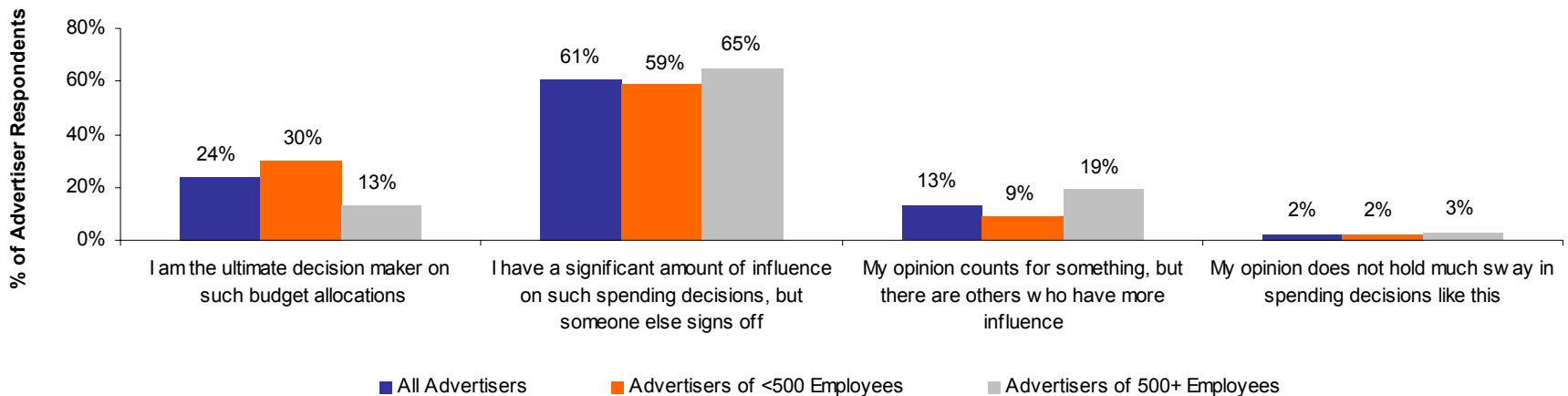
Vast Majority of Advertiser Respondents Influence Budget Decisions on SEM Programs

ABOUT RESPONDENTS

- Nearly a third of advertiser respondents have ultimate budget authority for SEM programs, especially at agencies
- Well more than half significantly influence budget decisions on SEM, even if someone else has final sign-off responsibility

Level of Involvement on Budget Decisions

"What is your level of involvement on budget decisions as pertains to spending on search engine marketing programs?"



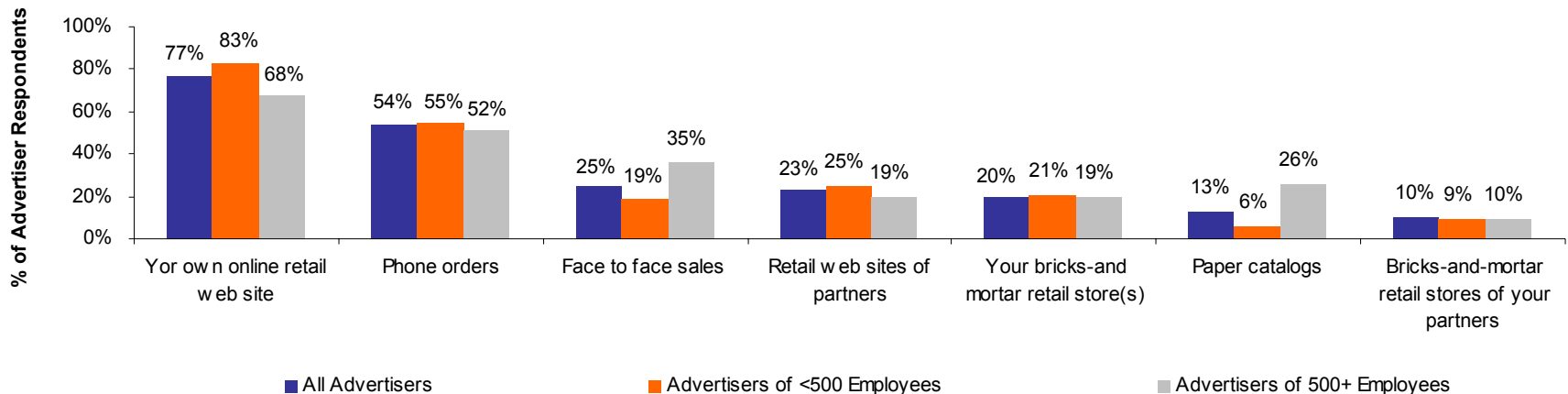
Online Is Top Sales Channel for SEM Advertisers

ABOUT RESPONDENTS

- More than three quarters of advertiser respondents using SEM cite their web site as among their top three sales channels; smaller firms by an even wider margin
- More than half of respondents also sell via the phone as a top channel

Top Three Sales Channels

"What are your top three sales channels?"



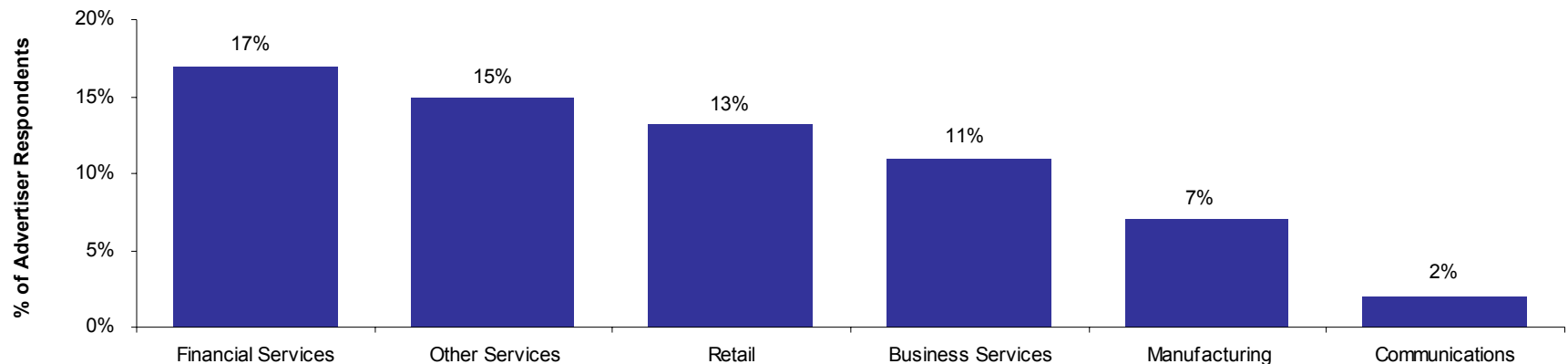
Advertiser Respondents Spanned Several Service Sectors

ADVERTISERS > GENERAL

- Financial services, miscellaneous services, retail and business services were the most common sectors advertiser respondents identified themselves as

Survey Participants' Industry Sectors

“What best defines your industry sector?”



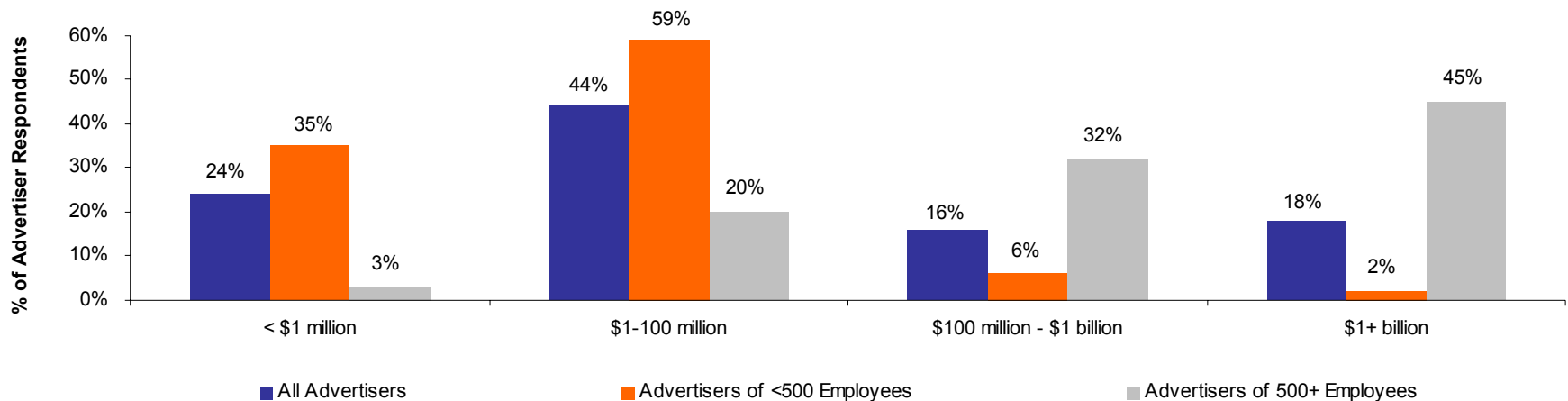
Large Revenue Firms Well Represented Among Advertiser Respondents

ADVERTISERS > GENERAL

- A third of all advertiser respondents (34%) expected their firms to book more than \$100 million in revenue in 2004
- The average revenue for all advertiser respondents was roughly \$300 million
- For smaller firms (fewer than 500 employees), the average revenue was close to \$50 million
- For larger firms, it was approximately \$700 million; nearly half (45%) of large advertiser respondents anticipated revenues of more than \$1 billion

Revenue Expected for 2004

“How much revenue do you expect your business to book in 2004?”



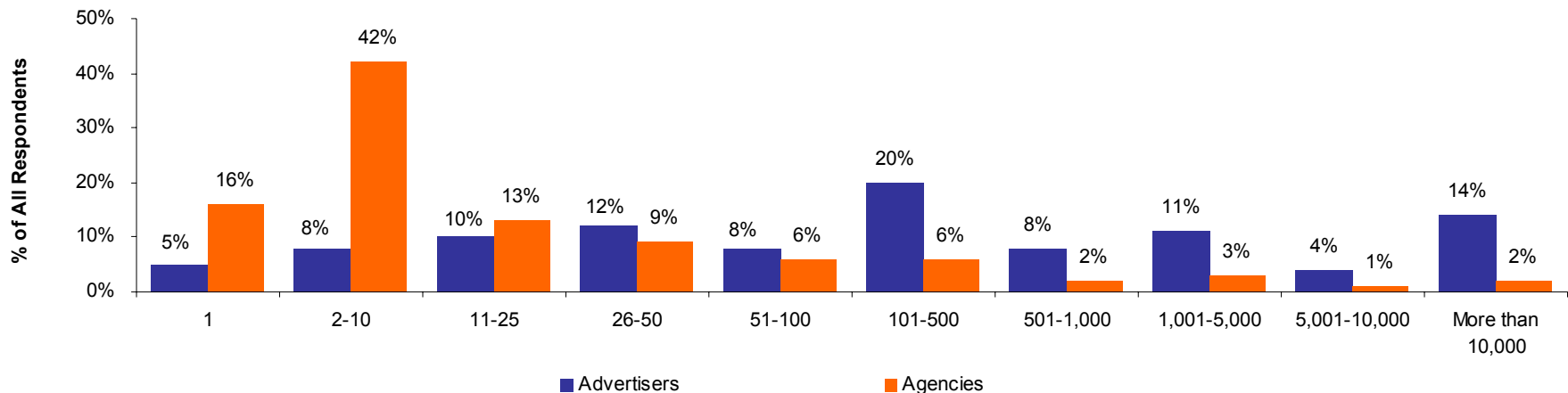
Average Size of Advertiser Respondents 3,000 Employees; Agencies, 450

ALL RESPONDENTS > GENERAL

- The majority of agency respondents (58%) had 10 or fewer employees; the average size of agency respondents (due to some obviously very large outliers, presumably large traditional marketing firm conglomerates) was 450
- More than a third of advertiser respondents (37%) were larger than 500 employees; the average size of advertiser respondents was approximately 3,000 employees

Number of Employees

"How many employees does your company have?"



Research Highlights

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 39%** on average in 2005
- **Most advertisers plan to manage the majority of their SEM spending in-house** in 2005

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.

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		

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

RESEARCH HIGHLIGHTS

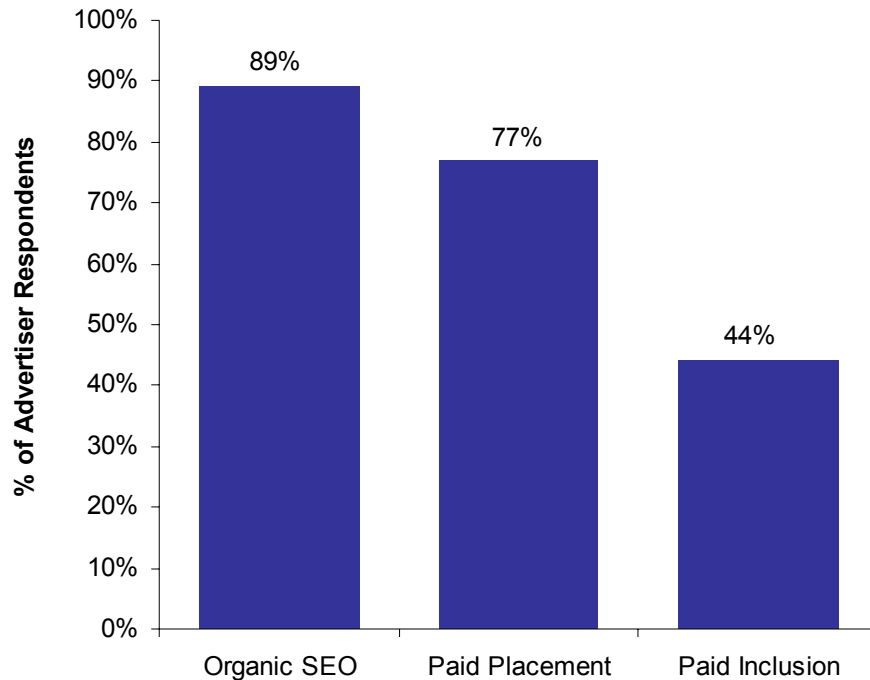
	2004 Advertiser SEM Spending	Share of Total	Share of Sector
Search Media Firms	\$3,058,868,862	74.8%	
Paid Placement	\$2,942,200,247	72.0%	96%
Paid Inclusion	\$116,668,615	2.9%	4%
SEM Agencies	\$380,430,466	9.3%	
Paid Placement	\$164,333,425	4.0%	43%
Paid Inclusion	\$16,652,843	0.4%	4%
Organic SEO	\$178,677,581	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		

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

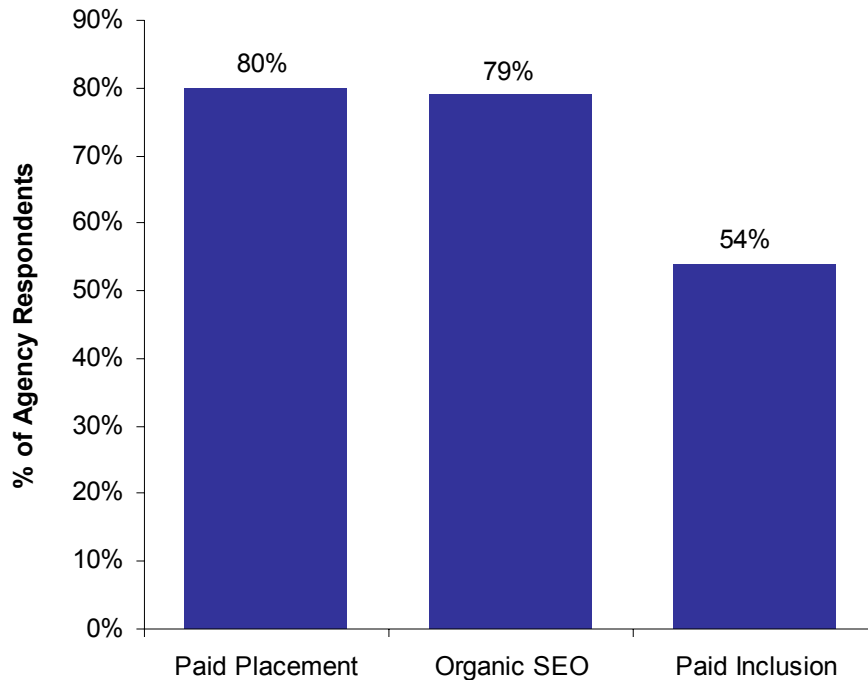
Paid Placement and Organic SEO Equally Popular as Offerings for SEO Agency Respondents

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

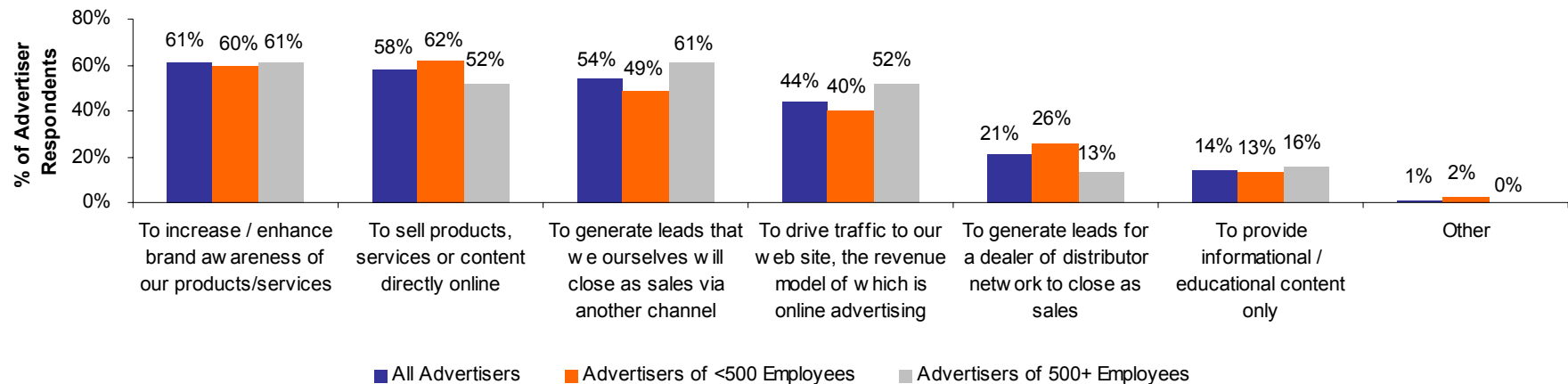
RESEARCH HIGHLIGHTS

- 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]

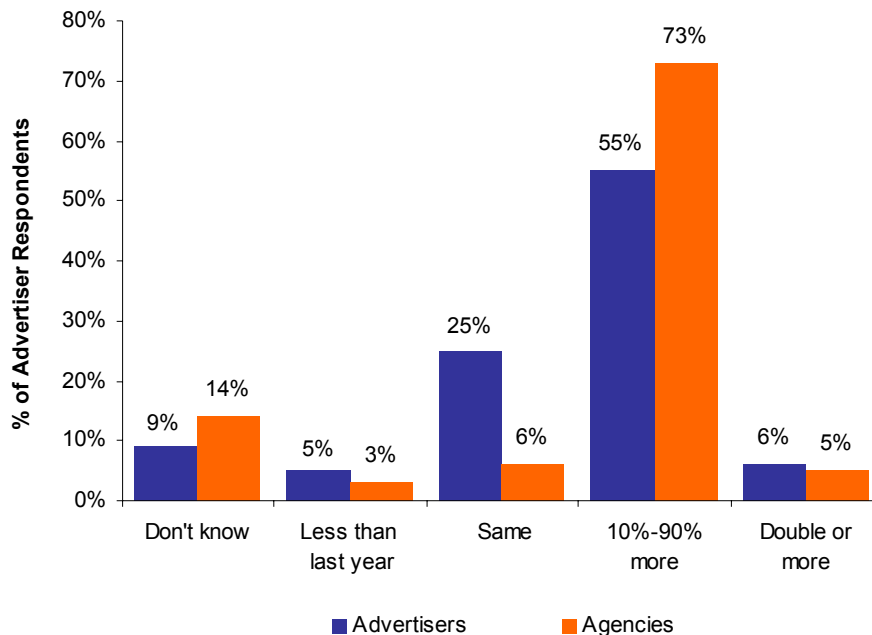


Keyword Ad Prices Rose on Average by More Than a Third in Past 12 Months, Say Respondents

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; 78% of agencies thought prices went up
- Only 5% of advertisers and 3% of agencies believed that prices for their common keywords decreased
- On average, advertisers felt prices rose 26%; agencies felt prices rose on average 42%
- The combined average all respondents believed prices rose in the past 12 months was 36%

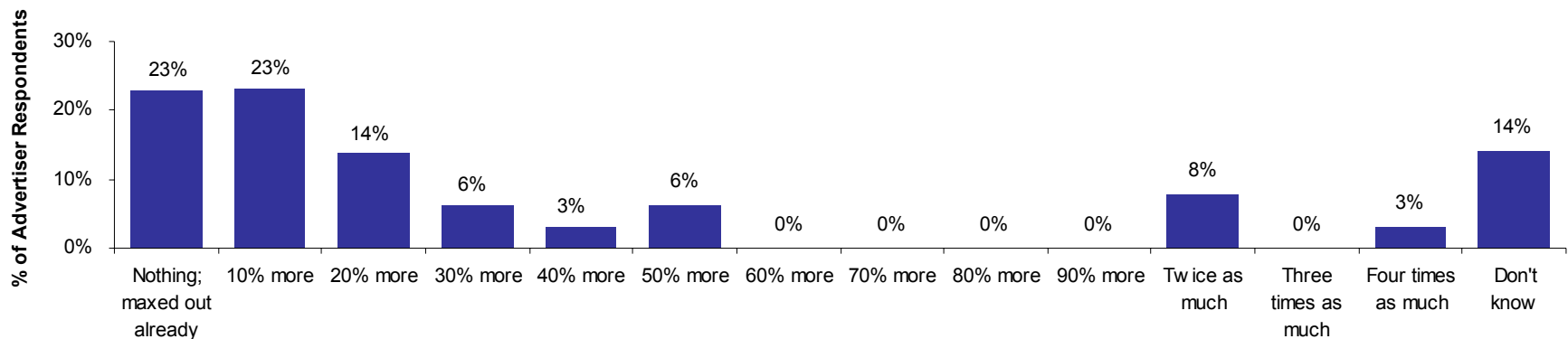
Advertiser Respondents Could Still Tolerate Further Price Rises of Another Third

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?"



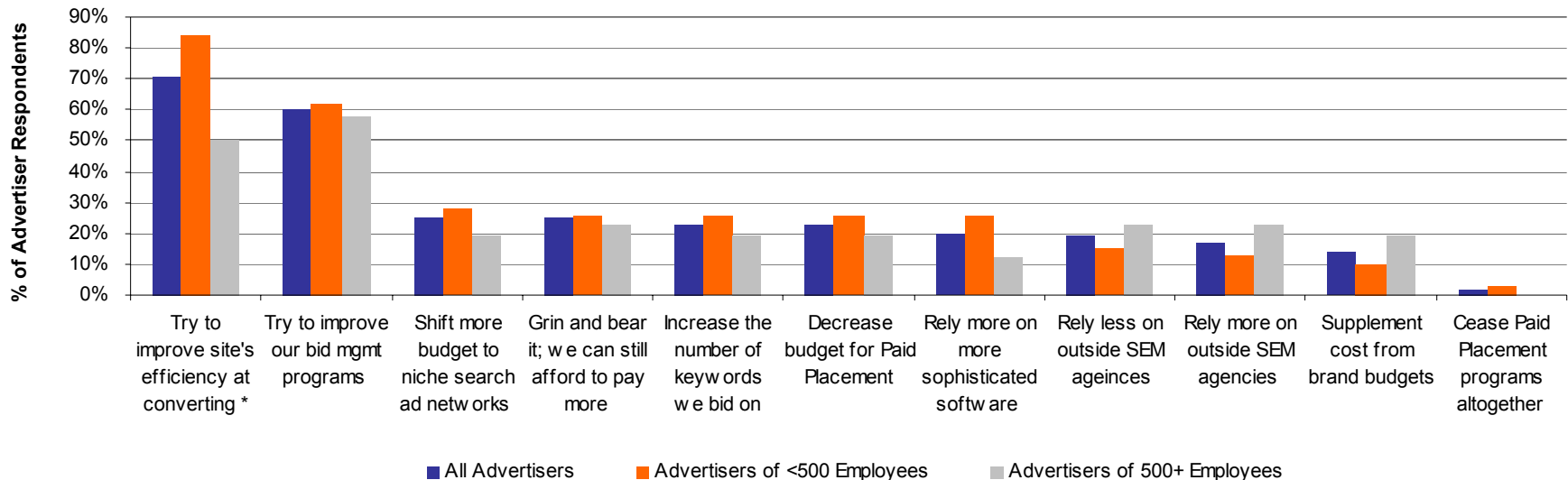
Faced With Escalating Keyword Prices, Advertisers Would Increase Program Efficiency

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?"



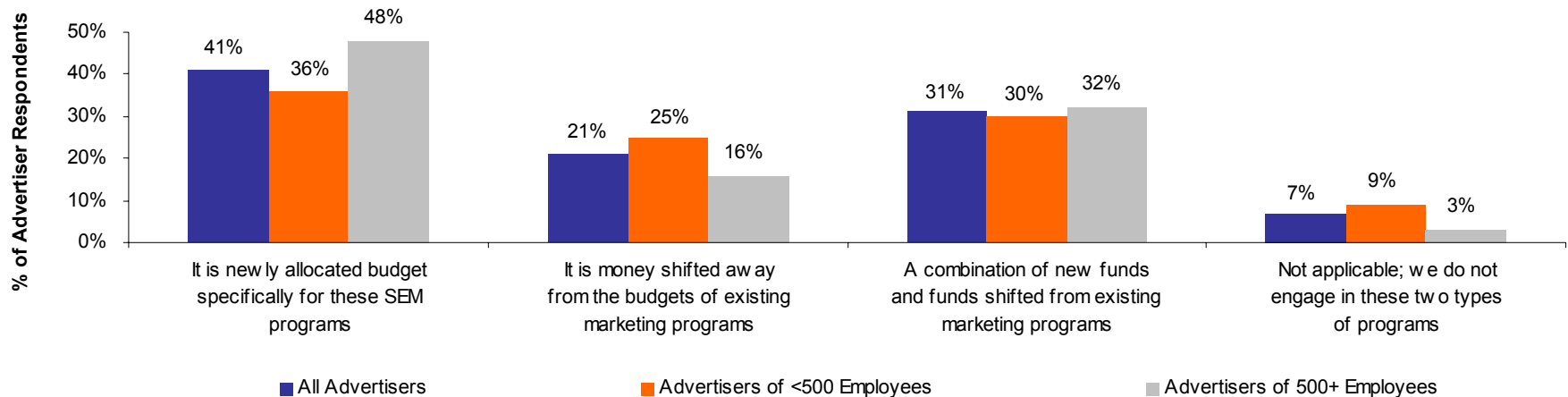
Majority of Respondents Shift Budget Away From Other Marketing Programs for Paid SEM Programs

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?"



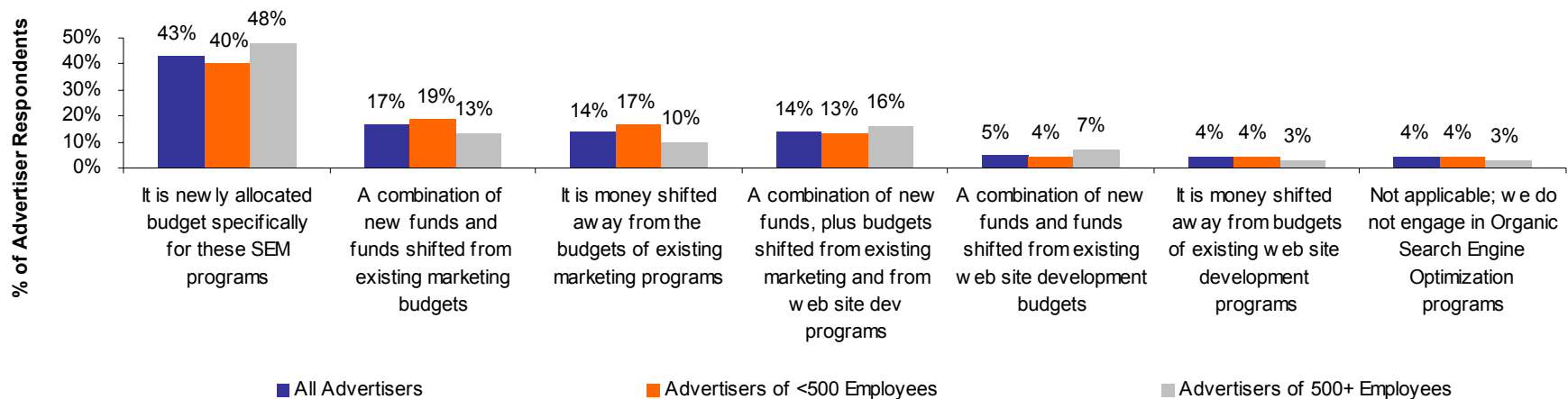
Majority of Respondents Shift Budget Away From Other Marketing Programs for Organic SEO

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?"



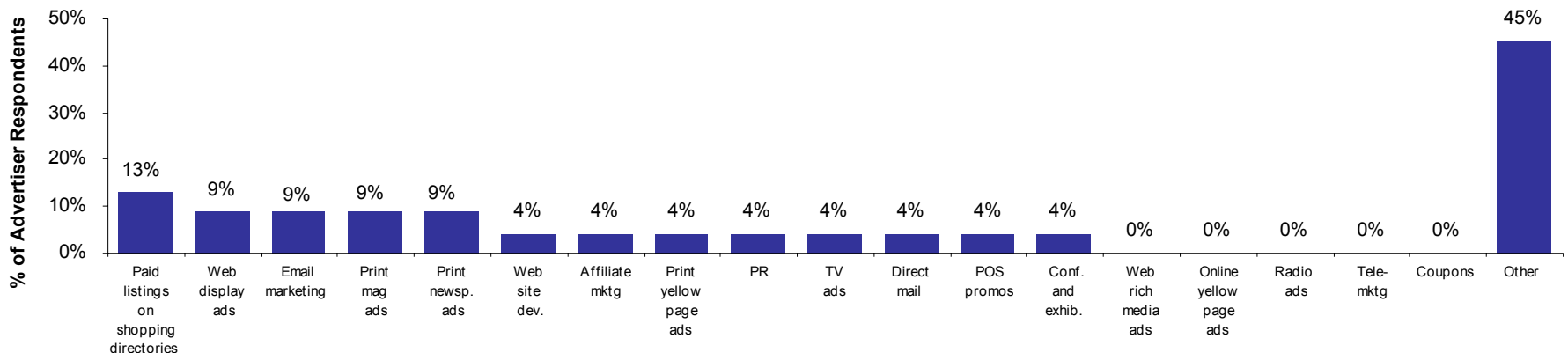
SEM Is Poaching Budget From Established Marketing Programs

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?"



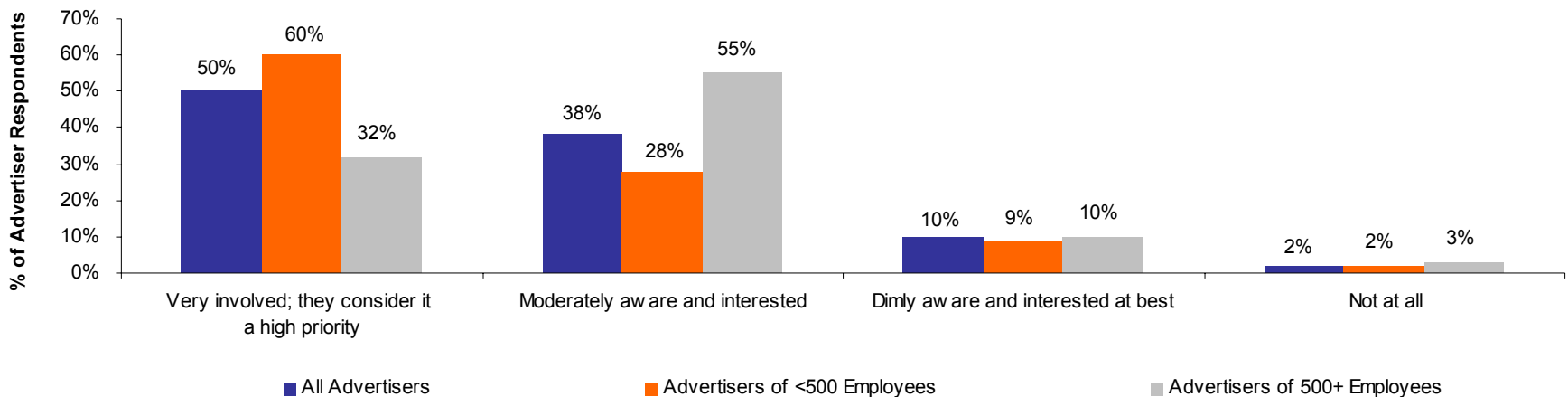
Senior Executives Appreciate the Value of SEM

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?"



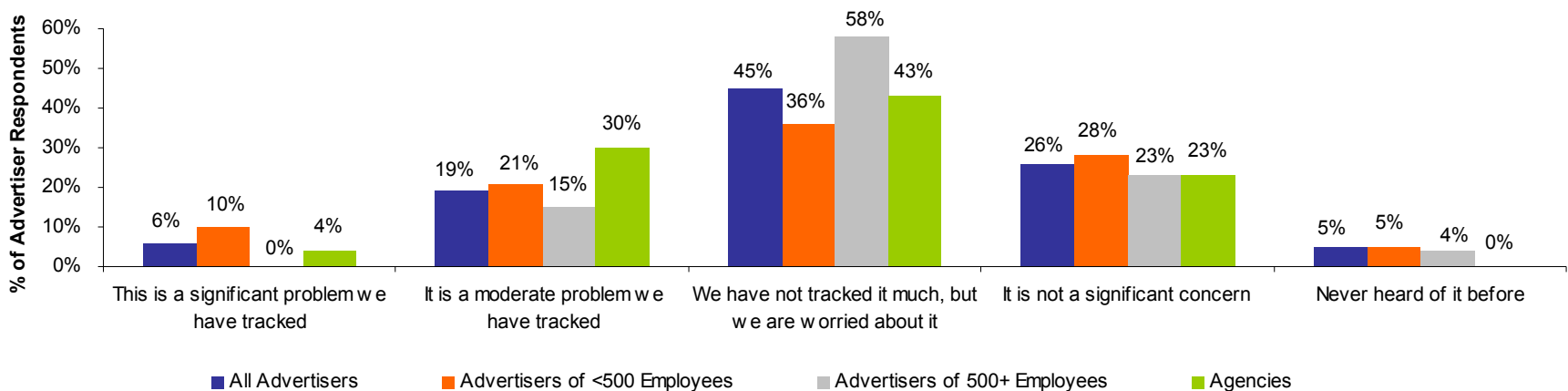
Advertiser Respondents Are Mixed on Seriousness of Click Fraud

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?"

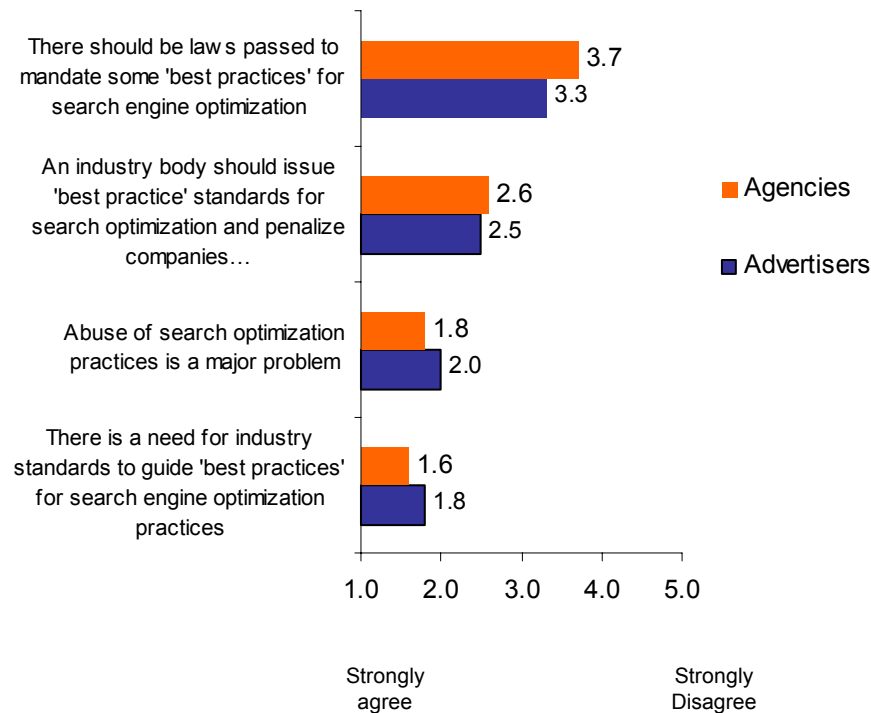


Most Respondents Agreed that Abuse of SEO Practices Was a Problem

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?"

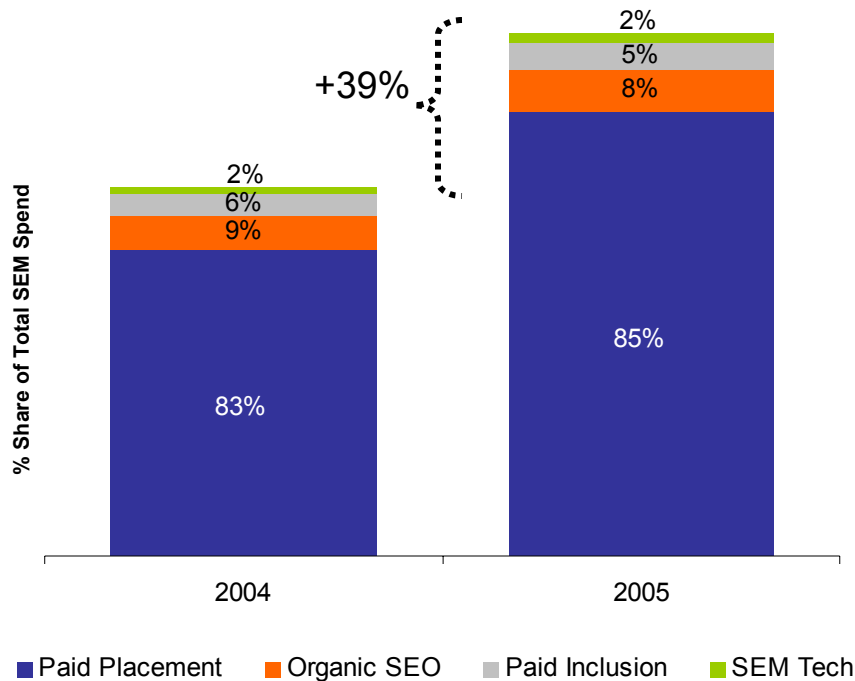


- There was strong agreement that abuse of search optimization was "a major problem" and that there was a need for industry standards on the question
- Most respondents did not believe, however, that legislation was the best solution to the problem
- Advertisers and Agencies in general agreement about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

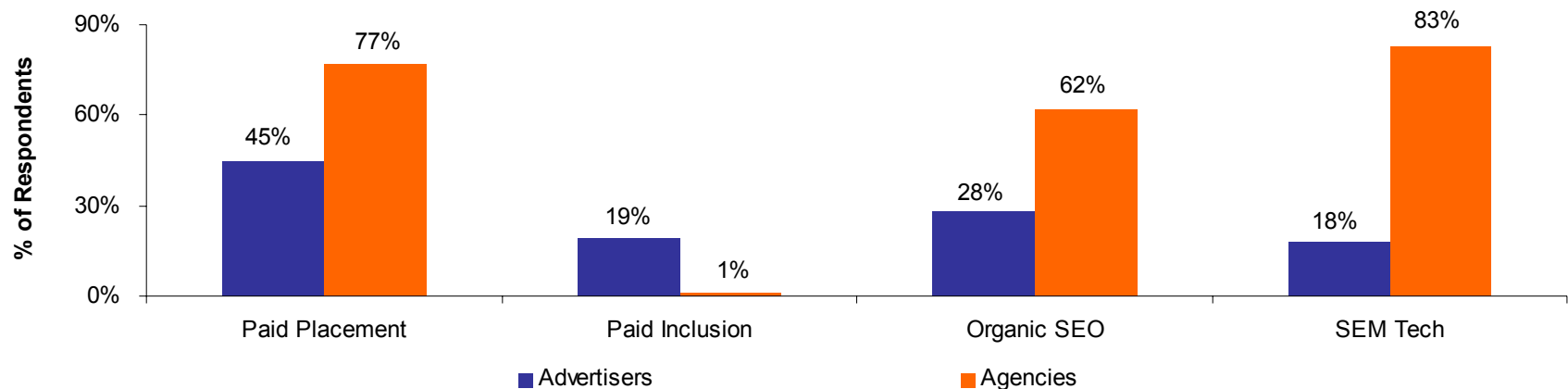
Advertisers See Increases in SEM Spending Across the Board; Agencies Question PI

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]?"



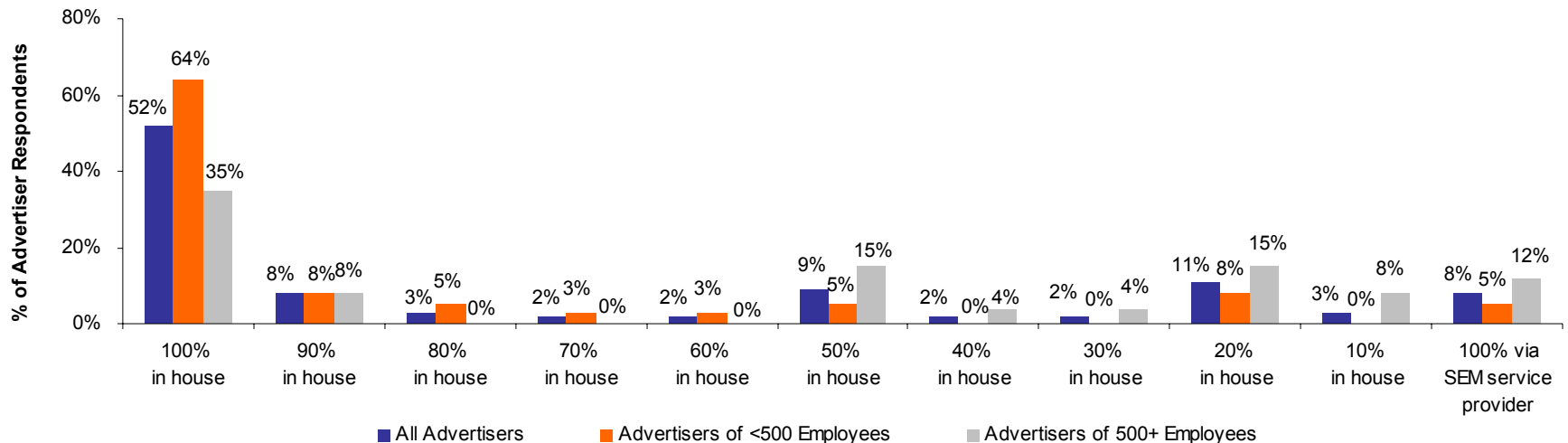
Majority of 2005 Paid Placement Spending Will Be Managed In-House, Not Outsourced to Agencies

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?"



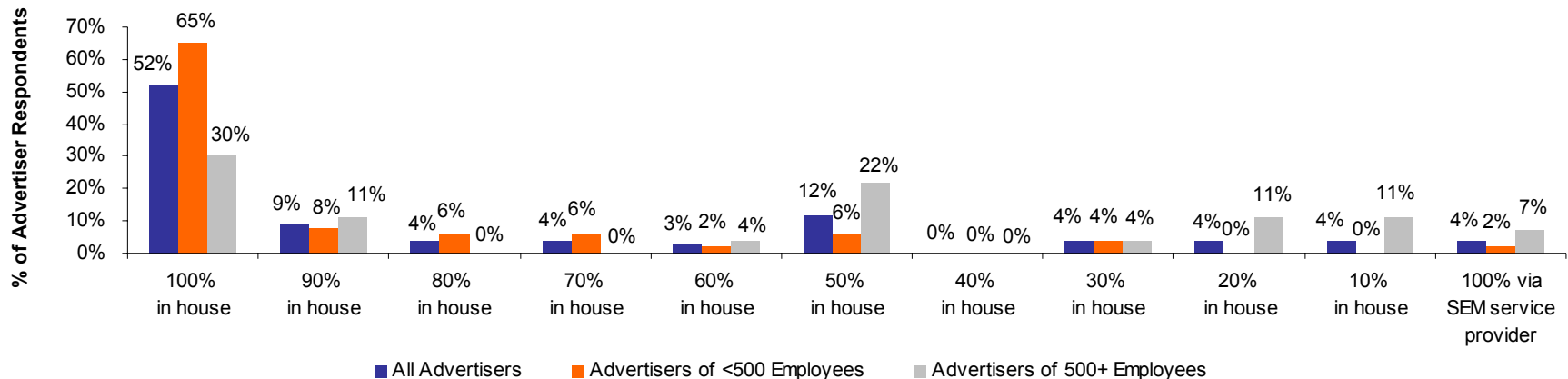
Majority of 2005 Organic SEO Spending Will Be Managed In-House, Not Outsourced to Agencies

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?"



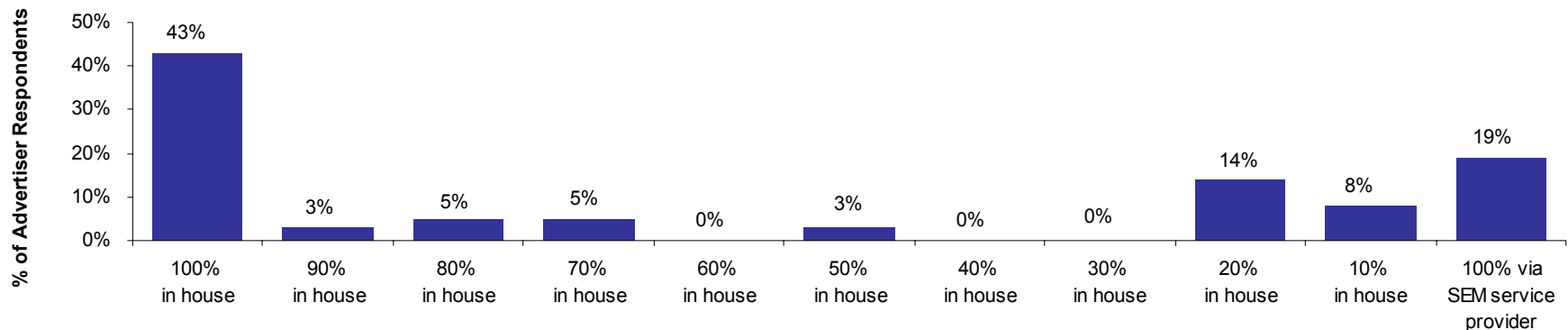
Majority of 2005 Paid Inclusion Spending Will Be Managed In-House, Not Outsourced to Agencies

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

“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?”



Advertisers > Paid Placement

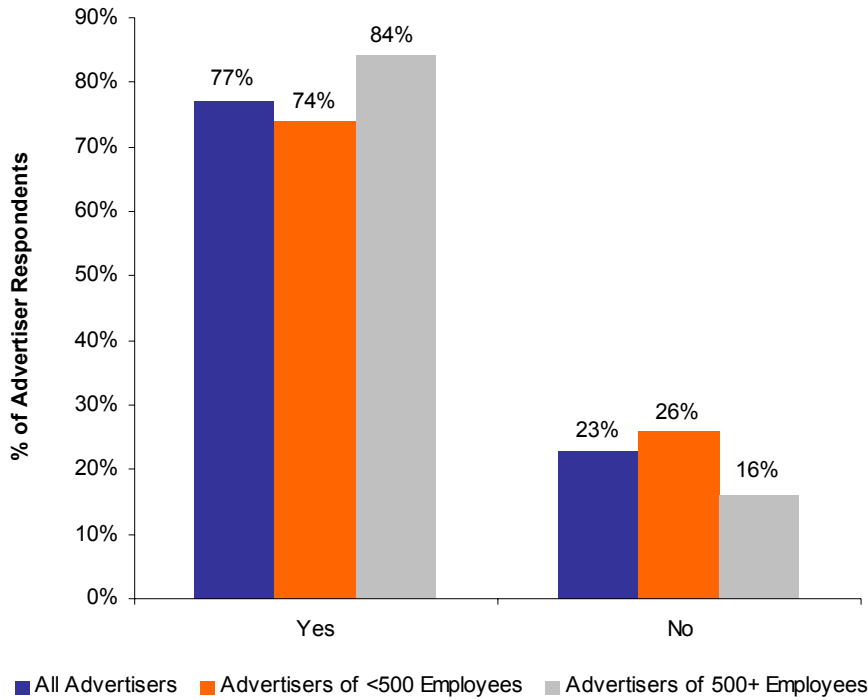
The Vast Majority of Advertiser Respondents Buy Paid Placement Ads on Search Engines

ADVERTISERS > PAID PLACEMENT

Engagement in “Paid Placement” Programs

"Do you currently engage in “Paid Placement” programs?"

- More than three quarters of all advertiser respondents participate in paid placement programs
- Large advertisers are more likely to buy paid placement ads than smaller firms



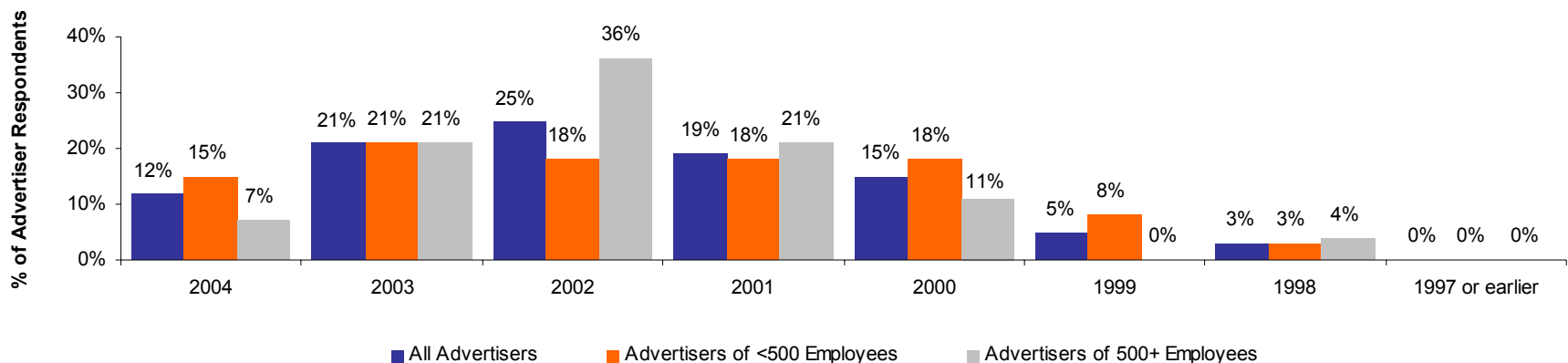
Most Respondents Have Been Advertising With Paid Placement for at Least Three Years

ADVERTISERS > PAID PLACEMENT

- On average, respondents reported beginning their experience with paid placement campaigns between 2001 and 2002

Year of First “Paid Placement” Program Engagement

“What year did you first engage in such “Paid Placement” programs?”

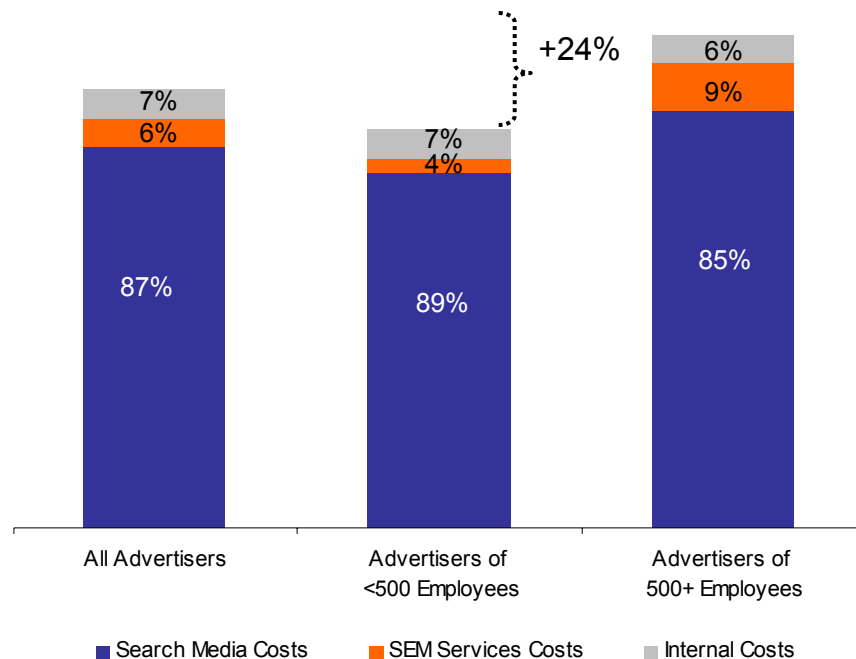


Respondents Report Heavy Spending on Paid Placement

ADVERTISERS > PAID PLACEMENT

2004 Annual Spending on Paid Placement by Cost Category

"Approximately what is the amount you expect your company will spend in 2004 on Paid Placement programs in each of the following three areas: Media costs; SEM service providers; internal costs?"



- Respondents spent far more on paid placement (the vast majority of which went to the search engines in media cost) than they did on any other SEM tactic
- On average, 6% of total spending went to SEM agencies, 7% to internal expenses
- 24% of respondents reported planning to spend over \$1 million on paid placement in 2004; 19% would spend that much in media costs alone
- Larger marketers (with staffs of 500 or more) were spending on average 24% more than marketers with staffs of fewer than 500

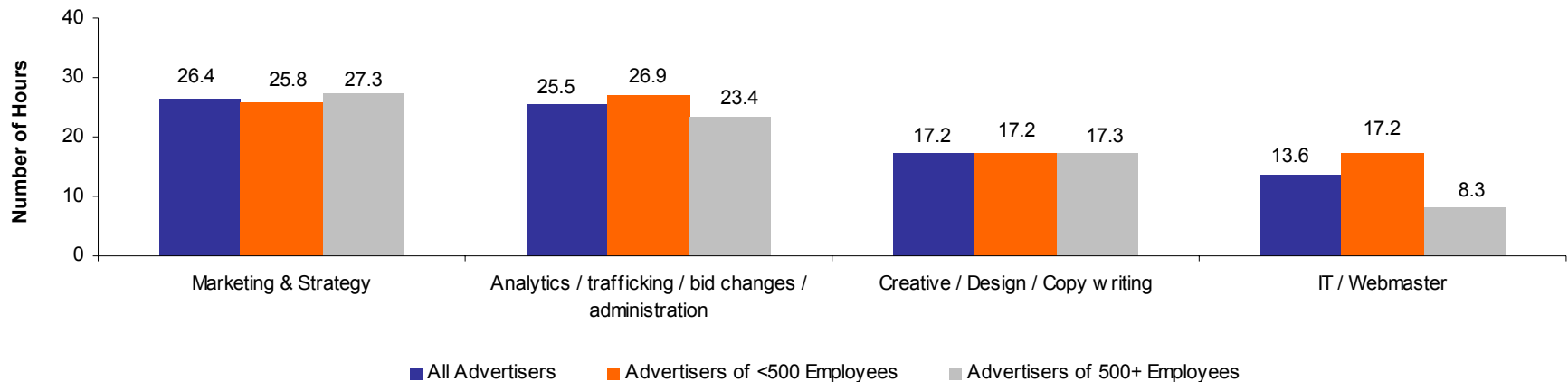
Most Internal Time on Paid Placement is Spent on Strategy and Analytics

ADVERTISERS > PAID PLACEMENT

- On average, respondents said they dedicated a total of 82 hours a month to internal management of paid placement programs
- Most of the time marketers allocated internally to paid placement was on marketing strategy and measurement and analytics

Hours Spent Monthly on Paid Placement Internally by Function

"Please estimate the monthly hours allocated towards Paid Placement by internal staff in the following roles"



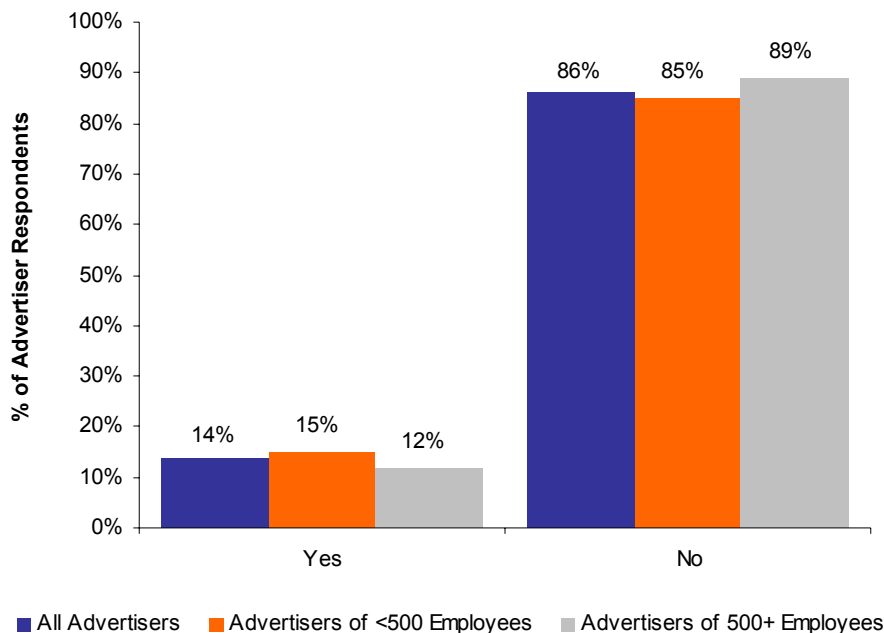
Few Marketers Account for Internal Costs in their Paid Placement Budgets

ADVERTISERS > PAID PLACEMENT

HR Costs of Internal Paid Placement Staff vs. SEM Budget

"Do you account for the HR costs of internal staff engaged in Paid Placement towards your SEM budget(s)?"

- Fewer than 1 in 6 respondents explicitly separated staff costs in their paid placement budget allocations



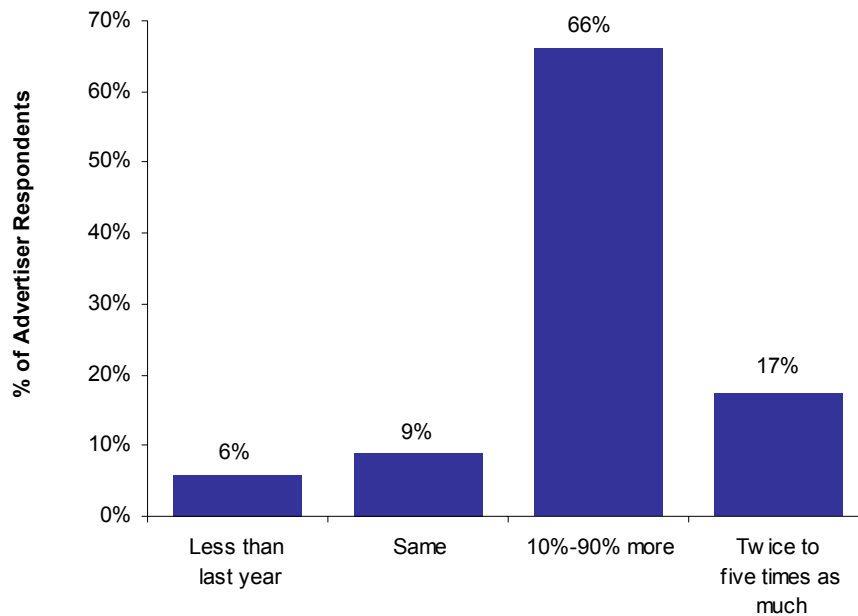
Advertisers Overwhelmingly Plan to Increase Their Spending on Paid Placement in 2005

ADVERTISERS > PAID PLACEMENT

Spending Expectations for 2005

"How much more or less do you expect to spend in 2005 compared to 2004 for 'Paid Placement' programs (including all forms of expenditures noted above)?"

- 83% of respondents planned to increase their spending on paid placement campaigns in 2005
- On average, respondents expected to spend 45% more in 2005 on paid placement
- Large firms expected to raise spending by 51% on average next year vs. 35% for smaller companies



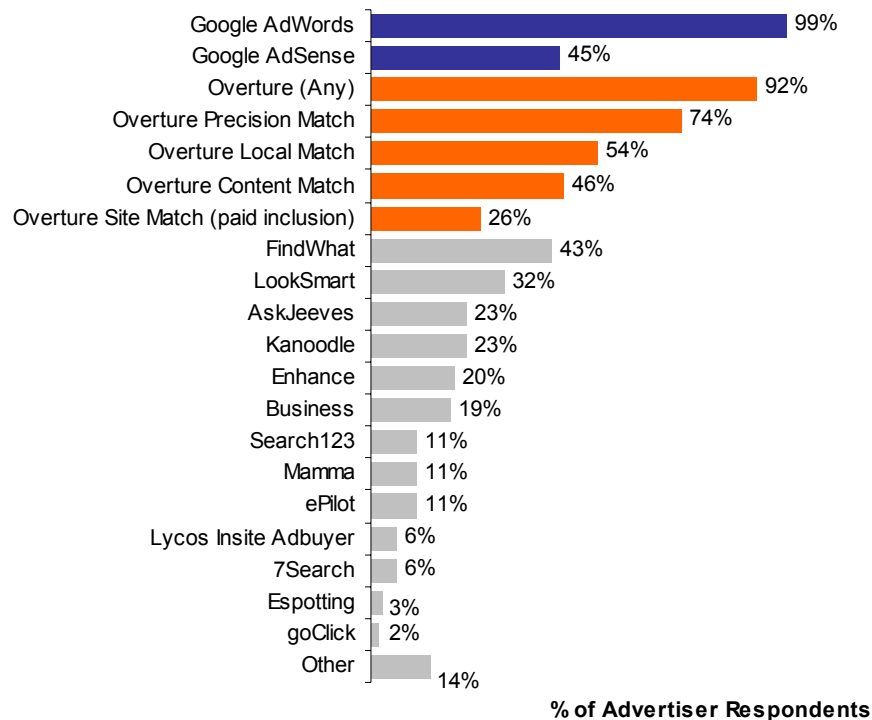
Google, Overture Most Popular Search Media Companies

ADVERTISERS > PAID PLACEMENT

Most Popular Paid Placement Search Engine Networks Among Advertisers

"Which of the following Paid Placement search engine networks do you run campaigns on?"

[Multiple responses applicable]



- Google AdWords is the most popular search advertising program, used by 99% of respondents
- 92% of respondents used one of Overture's various ad products; 74% reported using Overture's general "Precision Match" paid placement program
- 45-46% of respondents said they used each leader's contextual advertising programs (Google AdSense and Overture Content Match)
- FindWhat was the next most-popular search ad program, followed by LookSmart, AskJeeves, Kanoodle, Enhance and Kanoondle

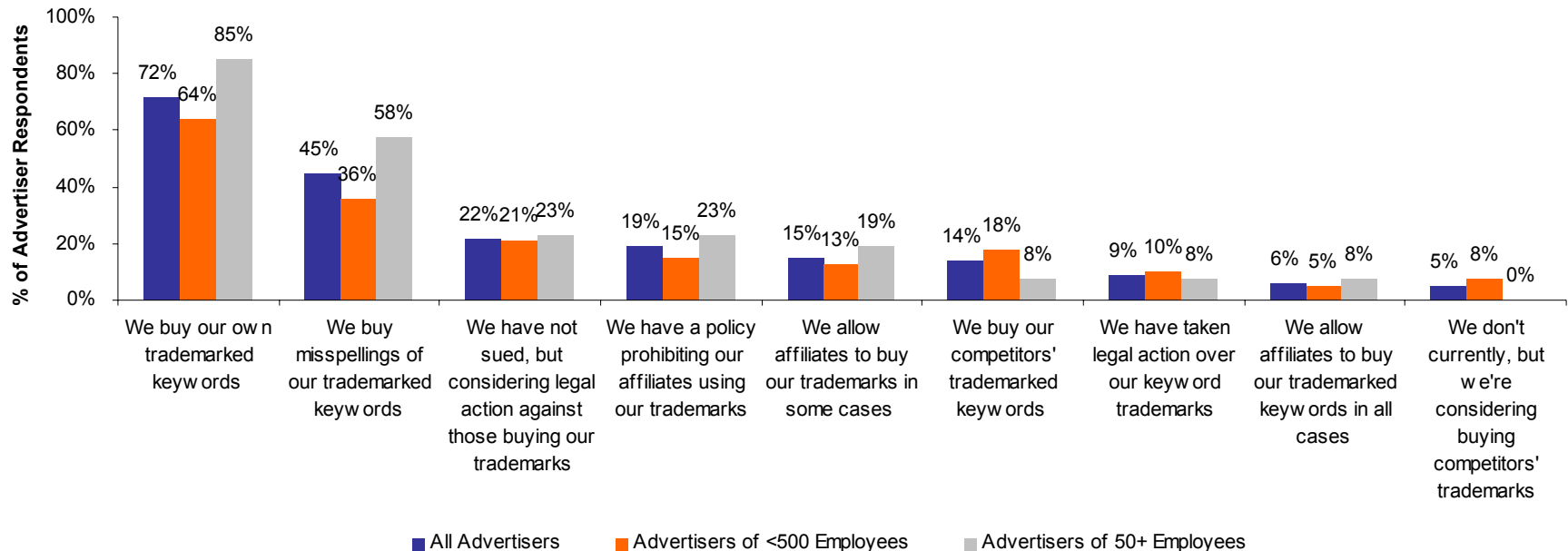
Most Firms Bid on Their Own Trademarks, But Policies for Competitors and Affiliates Vary

ADVERTISERS > PAID PLACEMENT

- The majority (but not all) advertisers bid on their own trademarks as keywords; misspellings, not so much; larger firms more focused on trademarks
- Policies about trademarks get fuzzier with regard to affiliate partners and competitors

Trademarks vs. Paid Placement Programs

"How do your trademarks factor into your Paid Placement programs?"



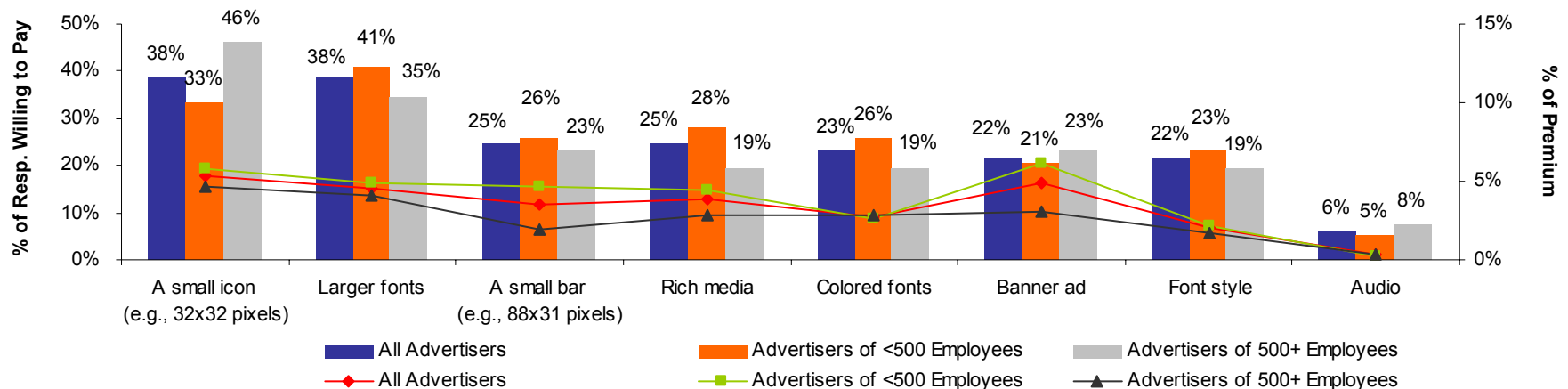
Over a Third of Respondents Would Pay More for Keywords With Small Icons and Larger Fonts

ADVERTISERS > PAID PLACEMENT

- A small icon and larger fonts were the most popular ideas for premium features that would make advertisers pay more for paid placement keywords
- No type of keyword enhancement would motivate advertisers to pay more than single-digit percentage increases on keyword placements

Premiums for Paid Placement Enhancements

“How much more would you pay for Paid Placement if they included the following type of enhancement?”



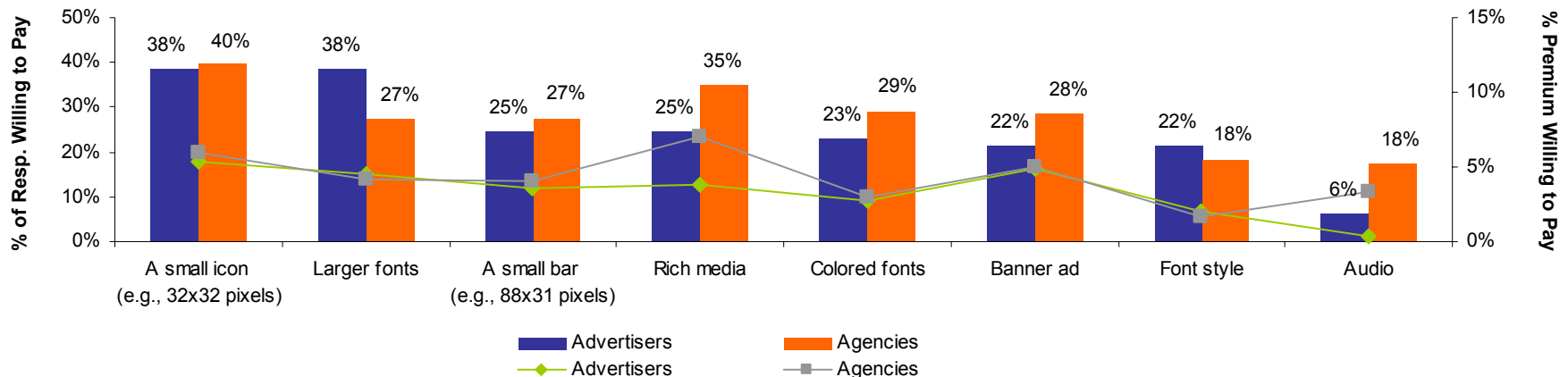
Agencies Would Set Different Priorities for Keyword Enhancements Compared to Advertisers

ADVERTISERS > PAID PLACEMENT

- Rich media and audio caught the fancy of agencies as keyword enhancements more than advertisers

Premiums for Paid Placement Enhancements

"How much more would you pay for Paid Placement if they included the following type of enhancement?"



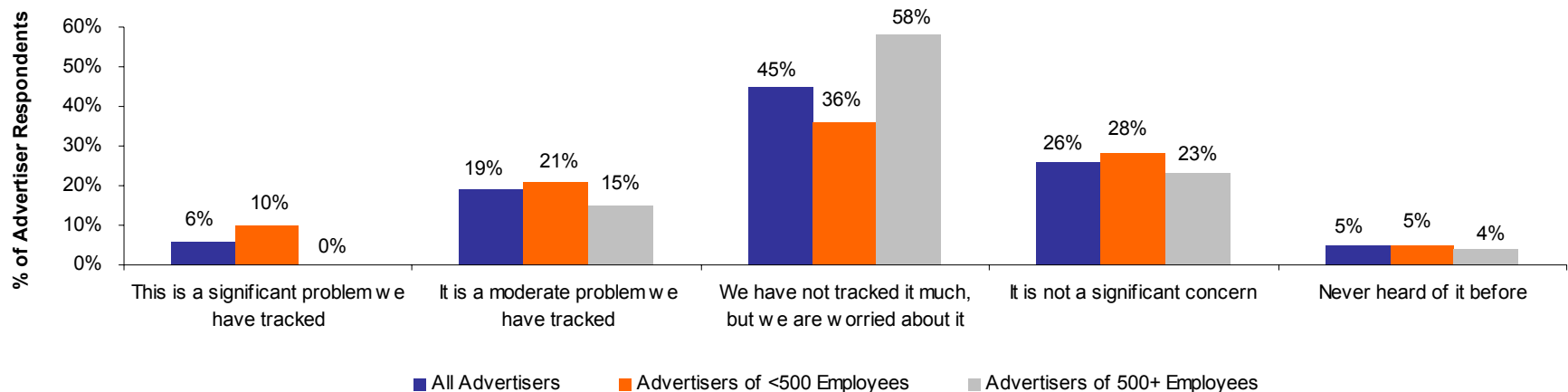
Advertiser Respondents Are Mixed on Seriousness of Click Fraud

ADVERTISERS > PAID PLACEMENT

- A quarter of advertisers 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?"



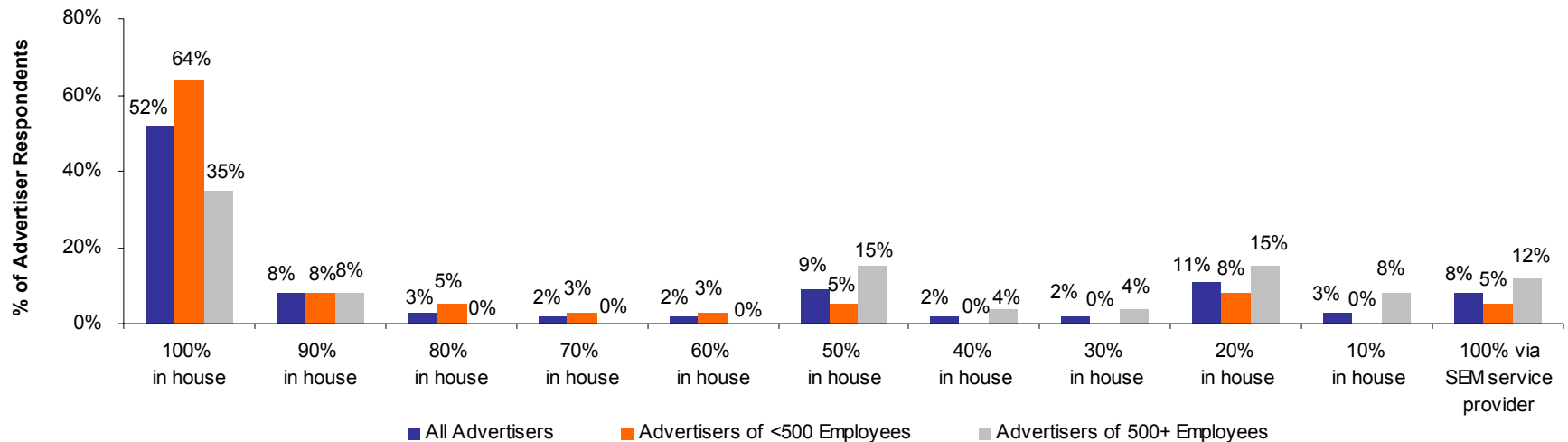
Majority of 2005 Paid Placement Spending Will Be Managed In-House, Not Outsourced to Agencies

ADVERTISERS > 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 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?"



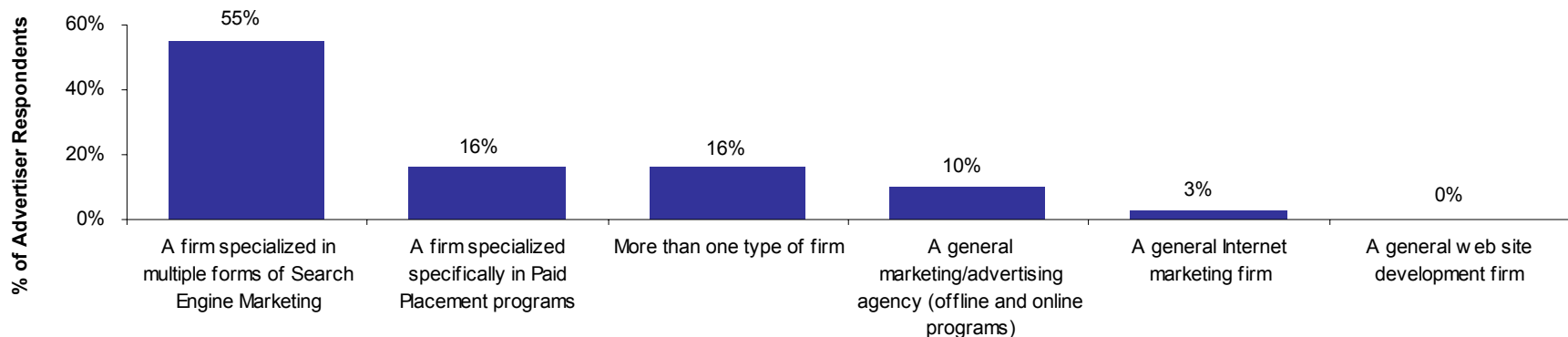
SEM Generalist Agency Most Popular Type of Service Provider for Paid Placement Advertisers

ADVERTISERS > PAID PLACEMENT

- More than half of advertiser respondents (55%) used a firm specialized in a variety of types of search engine marketing practices for their paid placement programs
- Less than 20% used a firm specialized specifically in paid placement
- Very few respondents used a general marketing agency, and none used a web development shop for paid placement programs

Type of SEM Providers for Paid Placement Programs

"What type of SEM service providers do you rely on for Paid Placement programs?"



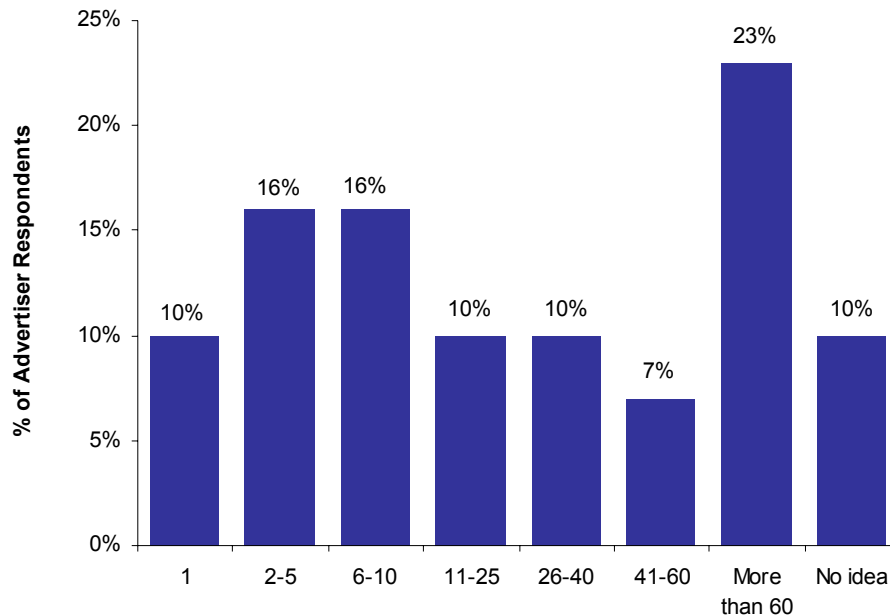
Advertiser Respondents Estimate Their Paid Placement Agency Employs 30 People, on Average

ADVERTISERS > PAID PLACEMENT

Number of SEM Provider Employees

"According to your best estimate, how many employees does the primary SEM service provider you engage for Paid Placement programs employ?"

- More than half of respondents (52%) estimate that their paid placement agency employs 25 or fewer people
- The average estimate is 30 employees



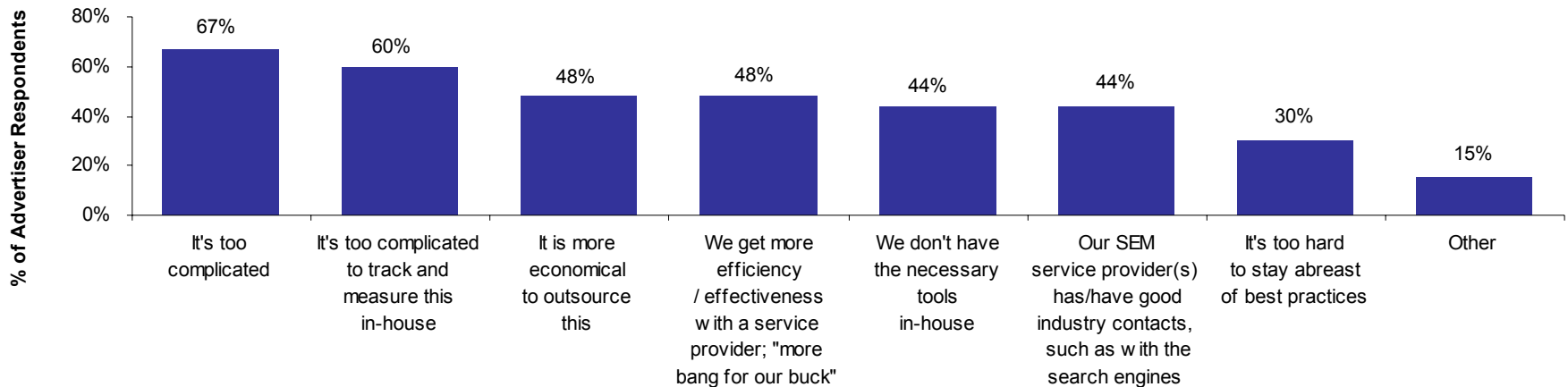
Complication of Executing and Tracking Paid Placement Programs Is Best Case for Agencies

ADVERTISERS > PAID PLACEMENT

- Almost two thirds of respondents cited the complication of conducting and measuring paid placement campaigns as the top reasons for hiring an SEM agency to help
- Believing that using an agency was more economical and provided "more bang for our buck" were the next most popular reasons, cited by roughly half of respondents

Reasons For Using Outside SEM Providers for Paid Placement Programs

"What are your reasons for using an outside SEM service provider for Paid Placement programs?"
[Multiple responses allowed]



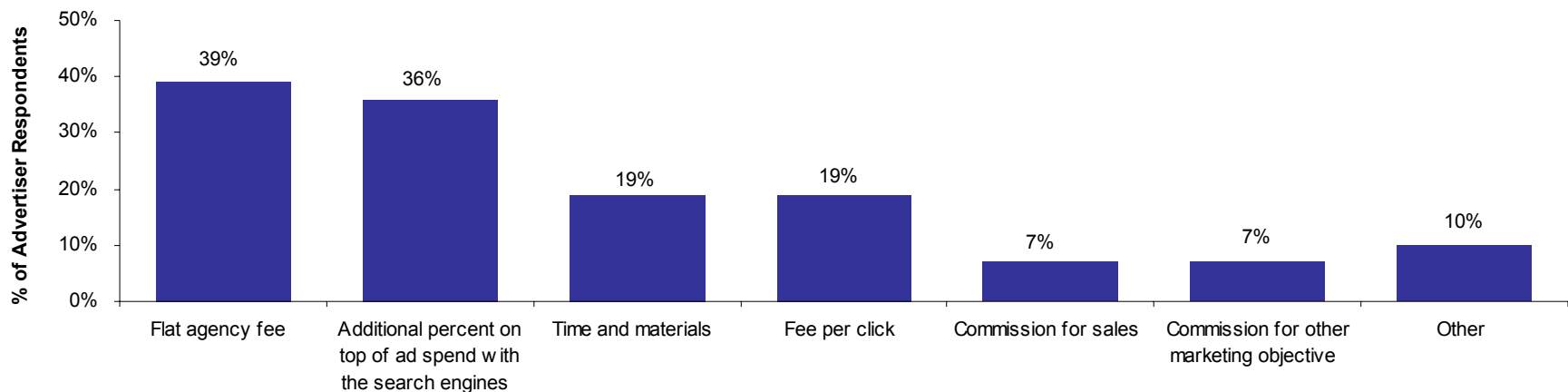
Revenue Models That Advertisers Paid SEM Agencies Vary Widely

ADVERTISERS > PAID PLACEMENT

- Flat agency fees and an additional percent on top of media spend to search engines are the most common pricing models that advertisers pay to SEM agencies
- 37% of respondents used multiple forms of pricing models with their agencies

Typical Fee Structure Paid to SEM Providers

"What is the typical fee structure you pay to the SEM service provider that you engage for Paid Placement programs?"
[Multiple responses applicable]



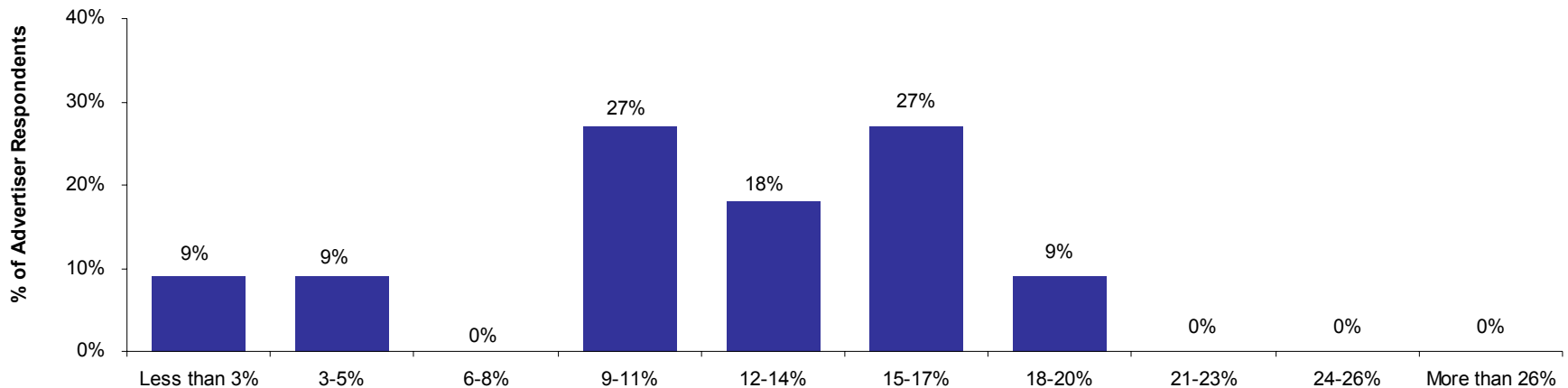
Two Thirds of Respondents That Pay Agencies a Spiff on Keyword Ad Spend Pay Less Than 15%

ADVERTISERS > PAID PLACEMENT

- Of advertiser respondents who pay their SEM agencies a percent on top of their ad spend for paid placement campaigns say the cut is not more than 11%; 63% say it is 14% or less
- On average, respondents who pay agencies such a fee on top of keyword ad spend say it is 9%

Typical Percent Paid to SEM Service Providers

“What is the typical percent you pay to SEM service providers for Paid Placement programs on top of the ad spend with search engines?”

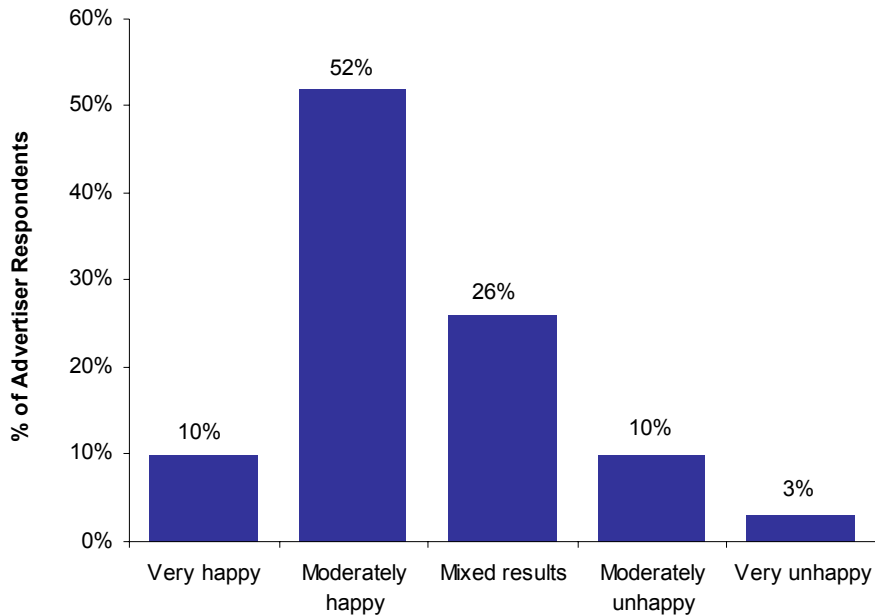


The Majority of Respondents Are Happy With Their Agencies

ADVERTISERS > PAID PLACEMENT

Opinion on SEM Service Providers

"How happy have you been in the past year with the services delivered by the primary SEM service provider you engage for Paid Placement programs?"



- Nearly two thirds (62%) of respondents said they were happy ("moderately" or "very") with their SEM agencies for paid placement campaigns
- Only 13% were unhappy with their agencies

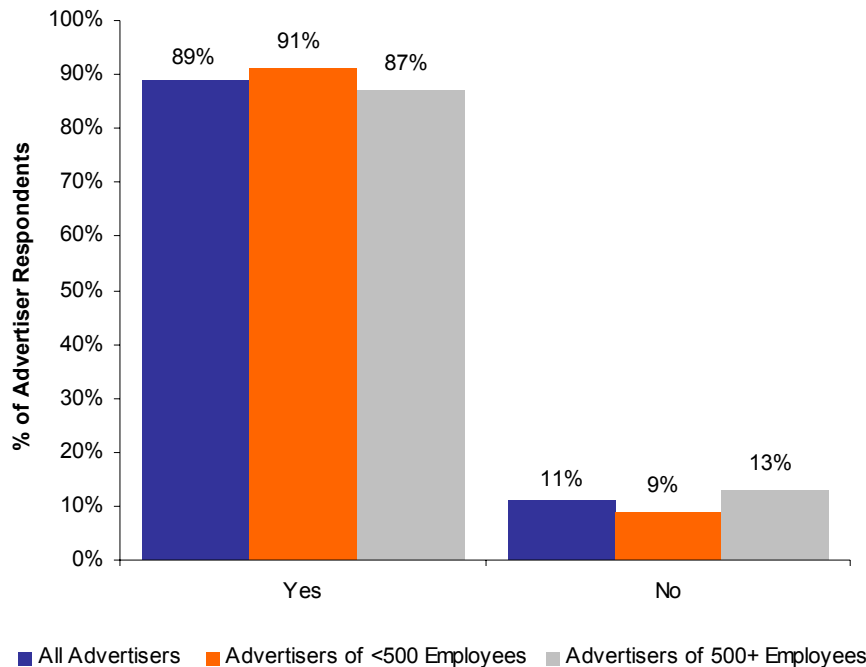
**Advertisers > Organic
Search Engine Optimization (SEO)**

9 out of 10 Respondents Engage in Organic Search Engine Optimization

ADVERTISERS > ORGANIC SEO

Engagement in Organic Search Engine Optimization

"Do you currently engage in Organic Search Engine Optimization?"



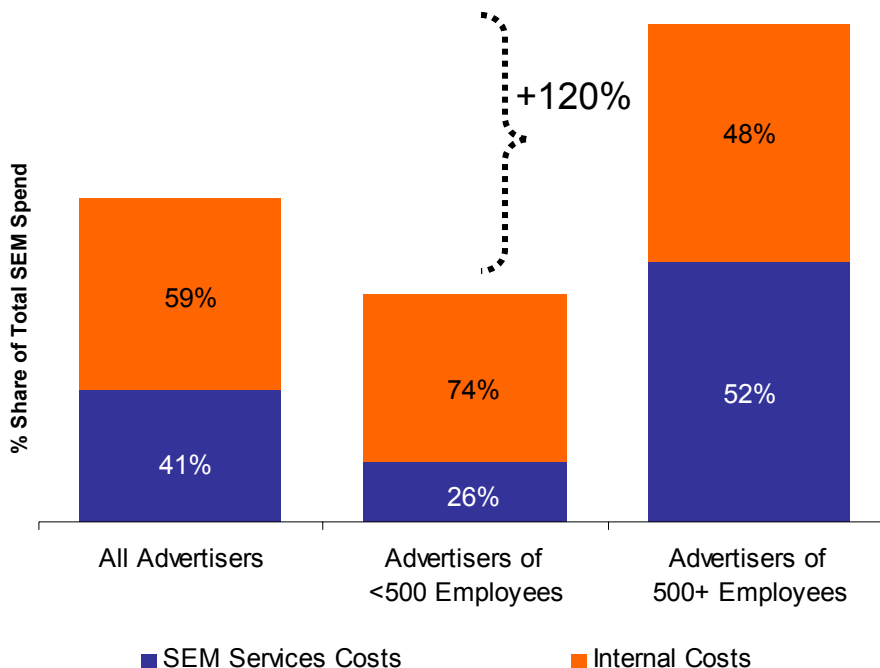
- Organic SEO was the most popular form of SEM with advertisers in the survey
- SEO is almost as popular with larger firms as smaller one

Most Companies Expect to Spend More than Half of Organic SEO Expenses on Internal Resources

ADVERTISERS > ORGANIC SEO

2004 Annual Spending on Organic Search Optimization by Cost Category

"Approximately what is the amount you expect your company will spend in 2004 on Organic Search Engine Optimization programs on Search Engine Marketing service providers and internal costs?"



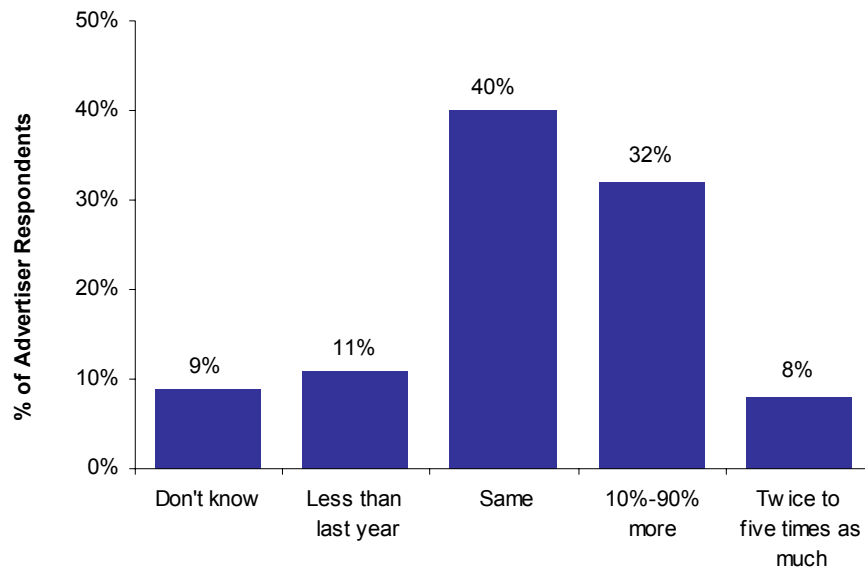
- On average, the majority of companies expect to spend the bulk of their SEO spending on internal resources as opposed to search engine marketing service providers
- Larger companies are more likely to spend on SEM service providers for SEO compare to smaller companies
- Larger companies (500 or more employees) are more than twice as likely to spend on organic SEO programs compared to smaller companies

Average Advertiser Respondent Plans to Spend a Quarter More on Organic SEO in 2005

ADVERTISERS > ORGANIC SEO

Spending Expectations for 2005

"How much more or less do you expect to spend in 2005 compared to 2004 for "Search Engine Optimization" programs?"



- Only 40% of advertiser respondents said they expected to spend more on organic SEO in 2005 compared to 2004
- On average, advertiser respondents planned to spend 28% more on organic SEO in 2005
- Large firms (500+ employees) were likely to increase spending on SEO by a smaller percentage (16%) than smaller companies (36%)

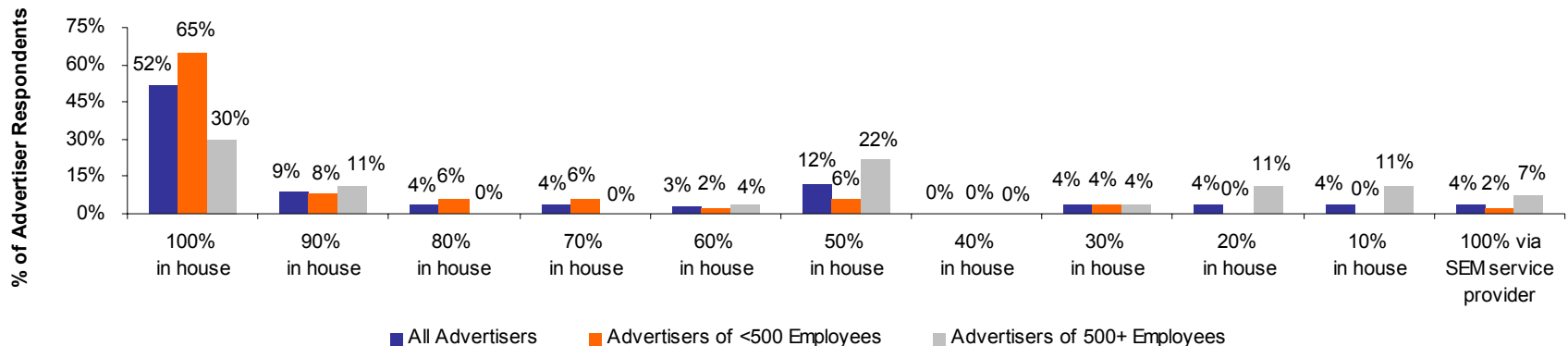
Majority of 2005 Organic SEO Spending Will Be Managed In-House, Not Outsourced to Agencies

ADVERTISERS > ORGANIC SEO

- 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?"



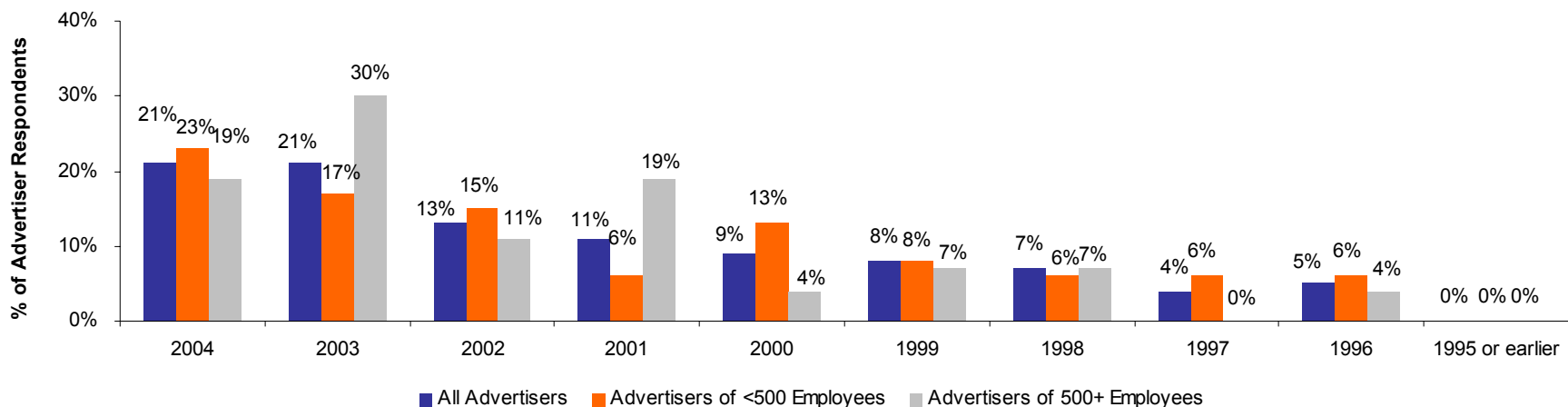
On Average Advertisers Respondents Have Conducted Organic SEO Since 2001

ADVERTISERS > ORGANIC SEO

- The majority (55%) have been conducting Organic SEO programs for only the past three years
- The average respondent had been conducting SEO campaigns programs since mid-2001

Year of First Organic Search Engine Optimization Engagement

"What year did you first engage in such Organic Search Engine Optimization programs?"



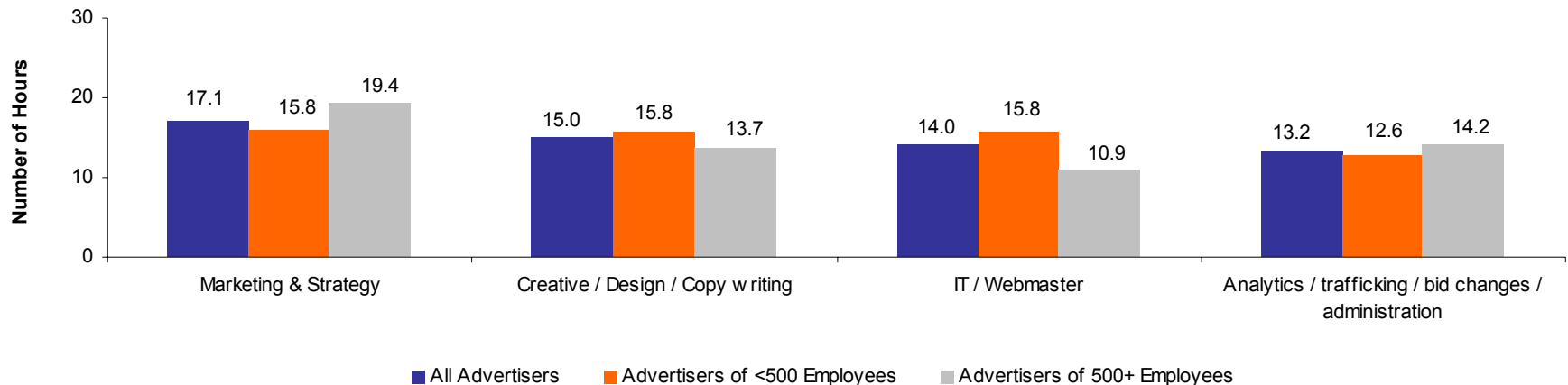
Advertisers Estimate Spending 59 Hours of Internal Resources on Organic SEO Monthly

ADVERTISERS > ORGANIC SEO

- Companies expect to internal staff to spend on average 59 hours a month on organic SEO initiatives; by comparison, advertisers expected to spend 82 hours of internal resources a month managing paid placement programs
- Large and small companies will spend similar amounts of hourly resources on SEO
- Internal time resources are balanced across marketing and IT and analytics functions

Hours Spent Monthly on Paid Placement by Function

"Please estimate the monthly hours allocated towards Organic Search Engine Optimization by internal staff in the following roles"



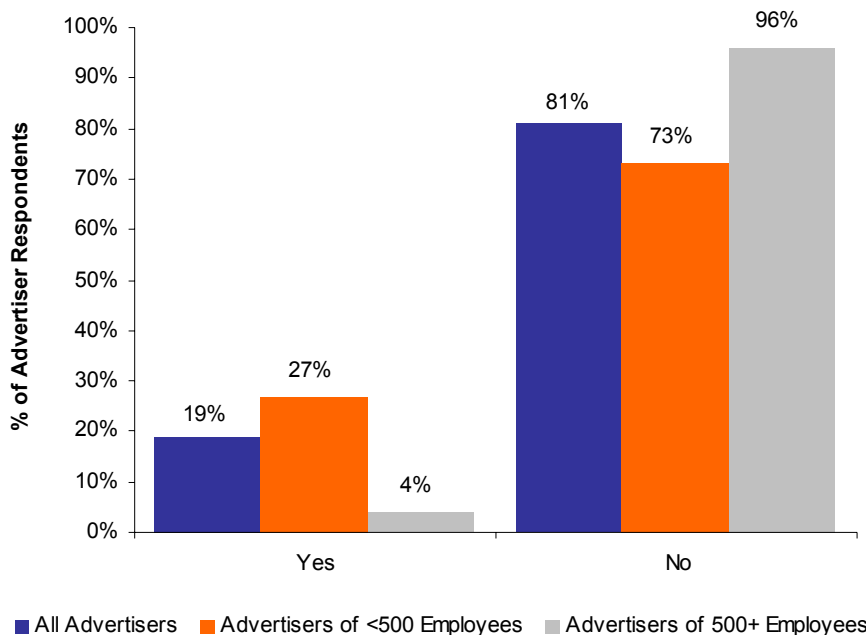
Minority of Advertiser Respondents Account for Staff Time Allocated to Internal SEO Programs

ADVERTISERS > ORGANIC SEO

HR Costs of Internal Organic Search Engine Optimization Staff vs. SEM Budget

"Do you account for the HR costs of internal staff engaged in Organic Search Engine Optimization towards your SEM budget(s)?"

- Only one in five respondents tracks staff time allocated to internal organic SEO resources
- A tiny percentage (4%) of larger firms track internal staff resources for organic SEO, compared to 12% who did so for paid placement programs

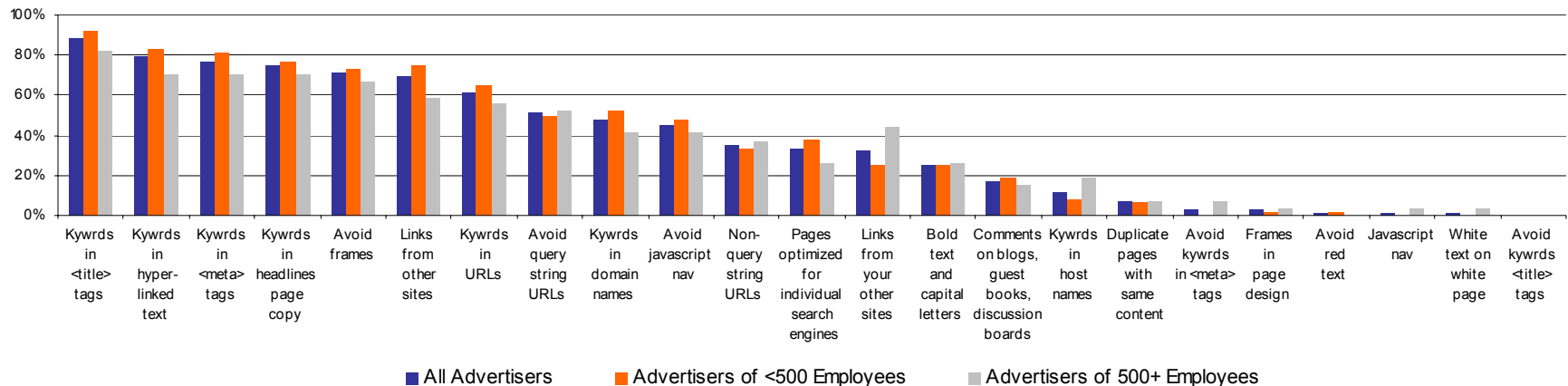


Organic SEO Advertisers Have a Good Sense of Best Practices

- By and large, advertiser respondents had a reasonably good sense of which SEO tactics were best practices (e.g., keywords in title tags and headlines, avoiding frames and query URLs) while not being misled by red herrings in our list (e.g., avoiding keywords in meta tags, avoiding red text)
- All in all, smaller sites seemed to have a better sense than larger sites about actual best practices

Best Practices to Improve Volume of Visitors

"Which of the following techniques would you say is a "best practice" when it comes to increasing the volume of interested visitors to your site through organic search engine optimization?"

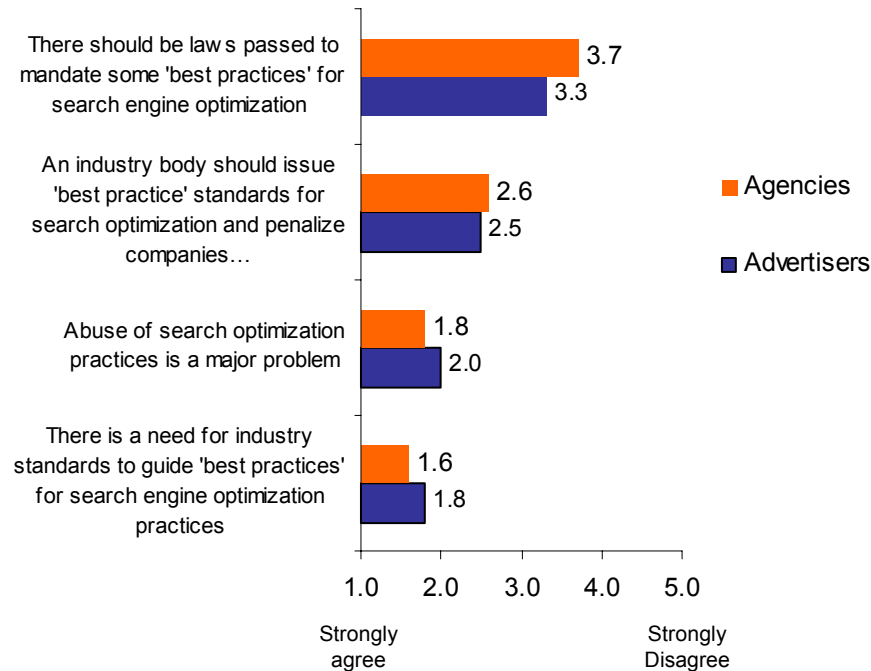


Most Respondents Agreed that Abuse of SEO Practices Was a Problem

ADVERTISERS > ORGANIC SEO

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

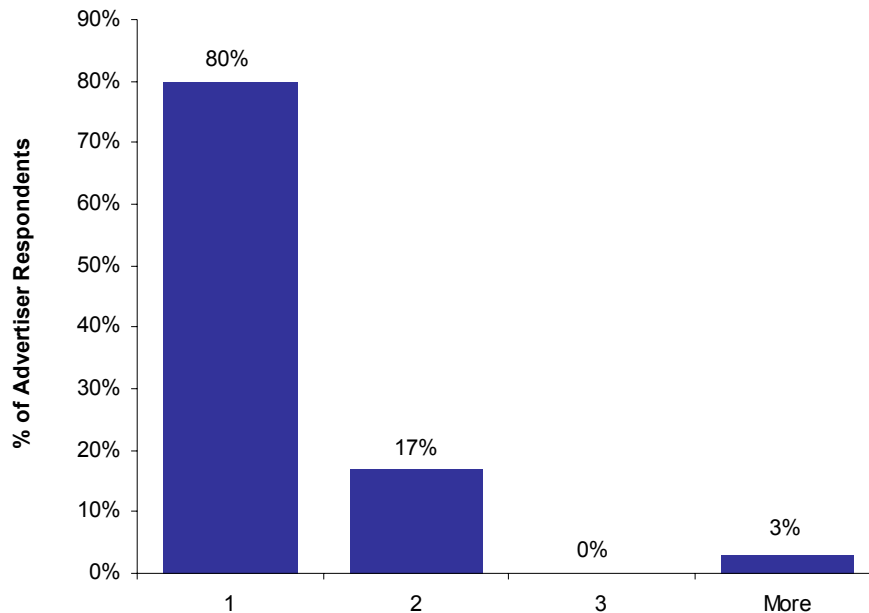
Vast Majority of Advertiser Respondents Use Only One Organic SEO Agency

ADVERTISERS > ORGANIC SEO

Number of SEM Providers Currently Used

"How many SEM service providers do you use currently to help you with your Organic Search Engine Optimization programs?"

- Only 20% of respondents use more than one SEO agency

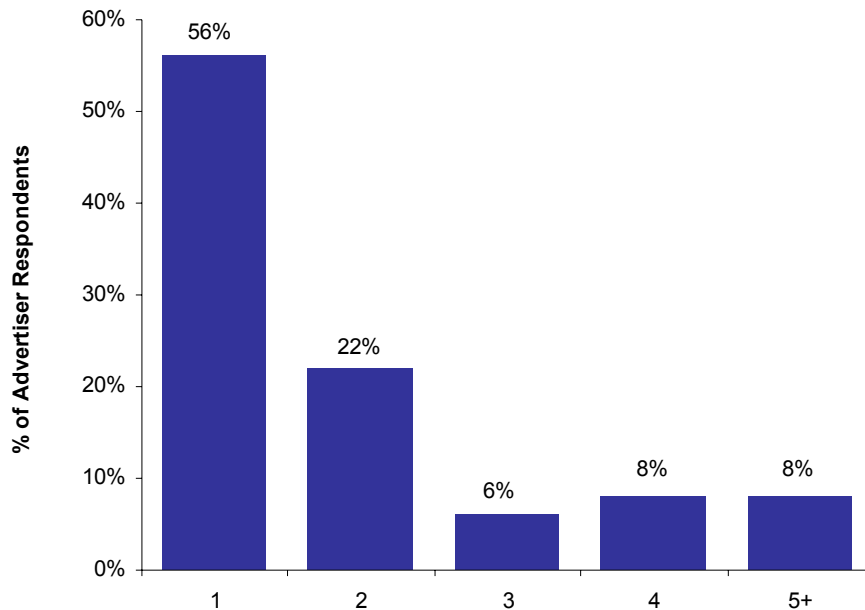


Majority of Advertiser Respondents Have Worked With Only One SEO Agency Ever

ADVERTISERS > ORGANIC SEO

Number of SEM Providers Since First Organic Search Engine Optimization Program

"How many different SEM service providers have you used in total to help you with your Organic Search Engine Optimization programs since you first started with these programs?"



- The majority (56%) of respondents have ever worked with only one SEO agency
- Less than a quarter of respondents (22%) have worked with more than two SEO agencies

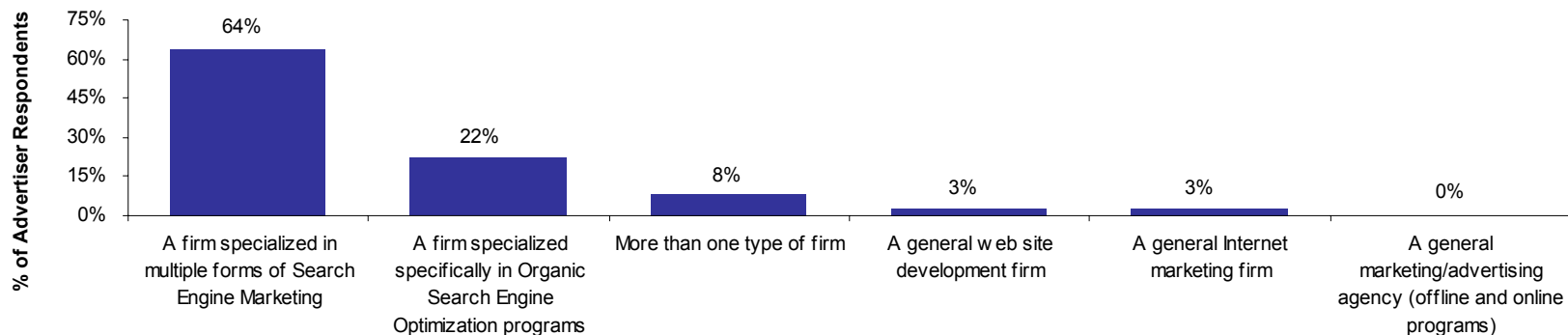
Roughly Two Thirds of Advertiser Respondents Use a Generalist SEM Firm for Their SEO Agency

ADVERTISERS > ORGANIC SEO

- Nearly two thirds of respondents use a generalist SEM agency for help with their organic SEM
- Only 3% of respondents use a generalist Internet marketing firm for SEO, and no respondents used a traditional (online/offline) marketing firm

Type of SEM Providers for Organic Search Engine Optimization Programs

"What type of SEM service providers do you rely on for Organic Search Engine Optimization programs?"

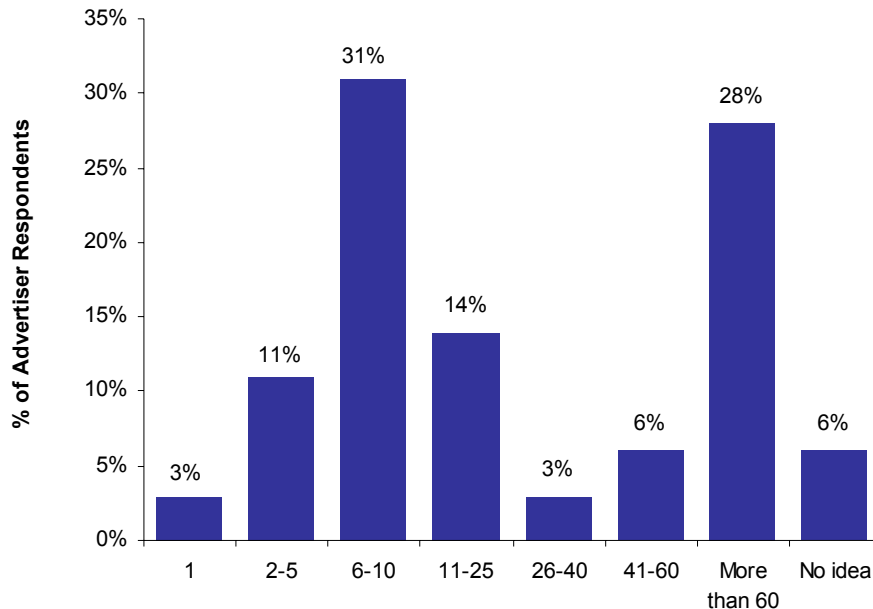


More Than Half of Advertiser Respondents Estimate Their SEO Agencies Employ 25 or Less

ADVERTISERS > ORGANIC SEO

Number of SEM Provider Employees

"According to your best estimate, how many employees does the primary SEM service provider you engage for Organic Search Engine Optimization programs employ?"



- 59% of advertiser respondents estimate that their organic SEO agencies employ not more than 25 staff members
- 45% believe their SEO agencies have 10 or fewer employees
- The average estimate for the staff size of the SEO agencies was 32

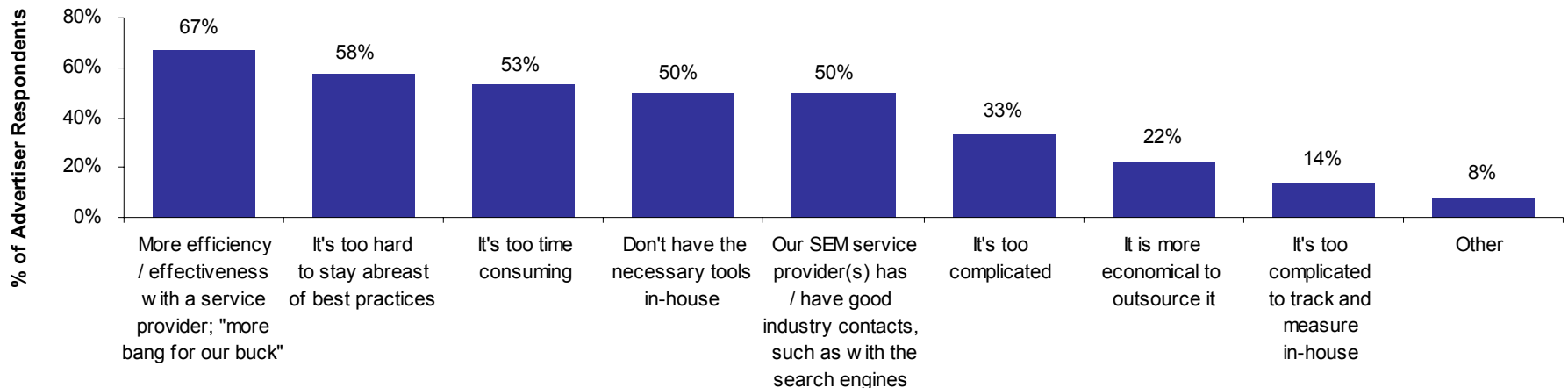
Outsourcing Organic SEO Seen by Advertisers as More Efficient Than Doing It Internally

ADVERTISERS > ORGANIC SEO

- Two thirds of advertiser respondents said that outsourcing organic SEO was more efficient, gave “more bang for the buck” compared to only 48% who said this for paid placement
- Only a third thought it was “too complicated,” compared to two thirds who cited that issue when it came to outsourcing paid placement
- This suggests that advertiser do not perceive the same level of value in SEO consulting as for paid placement, which is seen as too difficult to conduct in-house, not merely inconvenient, as with SEO

Reasons For Using Outside SEM Providers for Organic Search Engine Optimization Programs

“What are your reasons for using an outside SEM service provider for Organic Search Engine Optimization programs?”
[Multiple responses allowed]



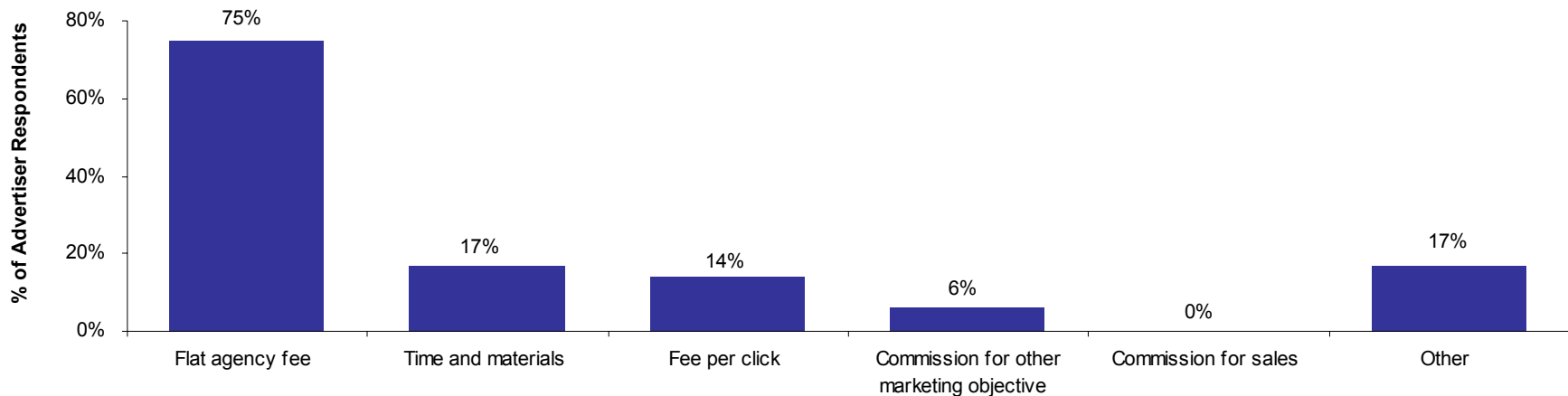
Flat Fees Are by Far the Most Common Pricing Structure Advertisers Pay Organic SEO Agencies

ADVERTISERS > ORGANIC SEO

- Three quarters of advertiser respondents cited flat fees as the pricing model by which they paid their agency for organic SEO services
- Only 20% cited performance objectives (namely price per click and commission for marketing objectives other than sales)

Typical Fee Structure Paid to SEM Providers

“What is the typical fee structure you pay to the SEM service provider that you engage for Organic Search Engine Optimization programs?” [Multiple responses allowed]



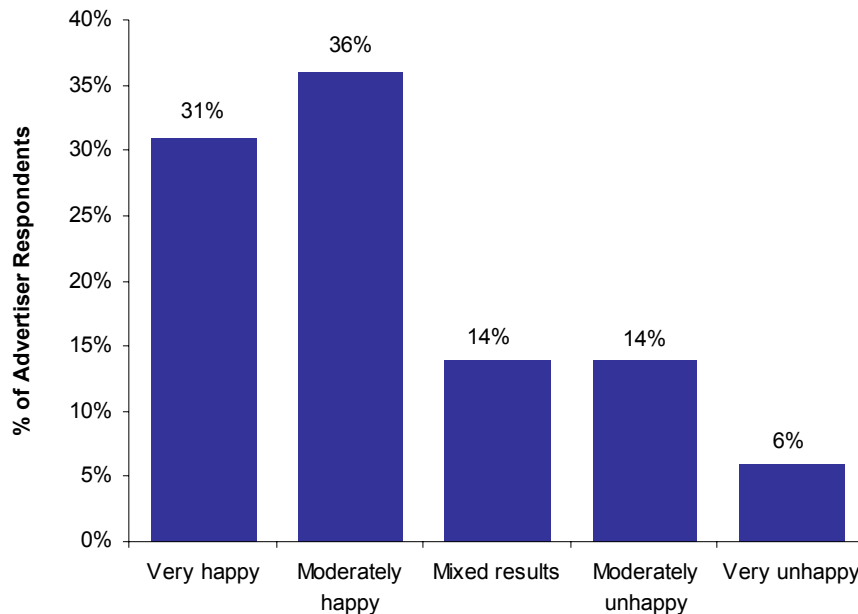
Two Thirds of Advertiser Respondents Are happy With Their SEO Marketing Firm

ADVERTISERS > ORGANIC SEO

Opinion on SEM Service Providers

“How happy have you been in the past year with the services delivered by the primary SEM service provider you engage for Organic Search Engine Optimization programs?”

- Only 20% of advertiser respondents said they were moderately or very unhappy with their SEO agency



Advertisers > Paid Inclusion

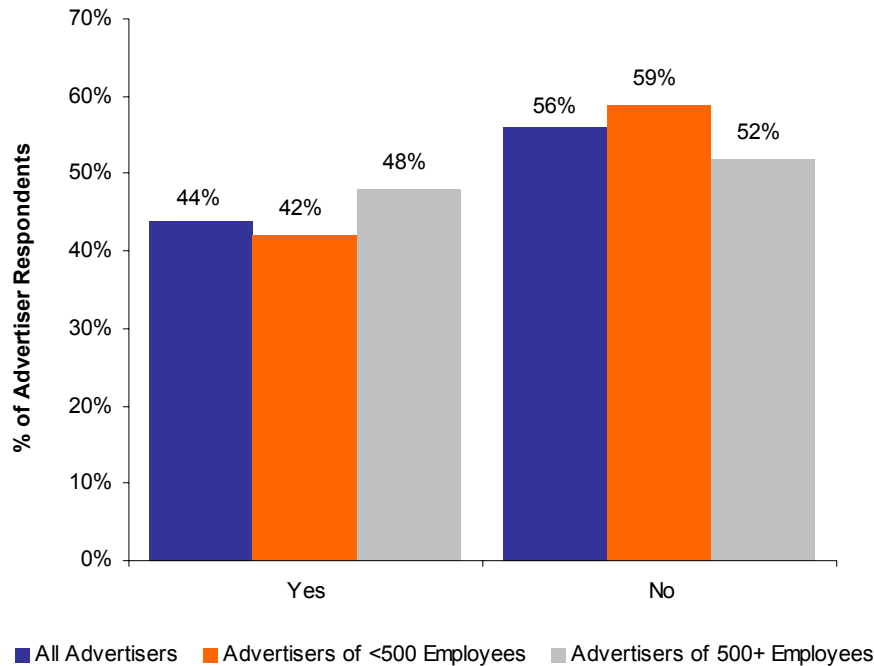
Less Than Half of Advertiser Respondents Engaged in Paid Inclusion Programs

ADVERTISERS > PAID INCLUSION

Engagement in Paid Inclusion Programs

"Do you currently engage in Paid Inclusion?"

- Larger firms were more likely to engage in paid inclusion than smaller ones



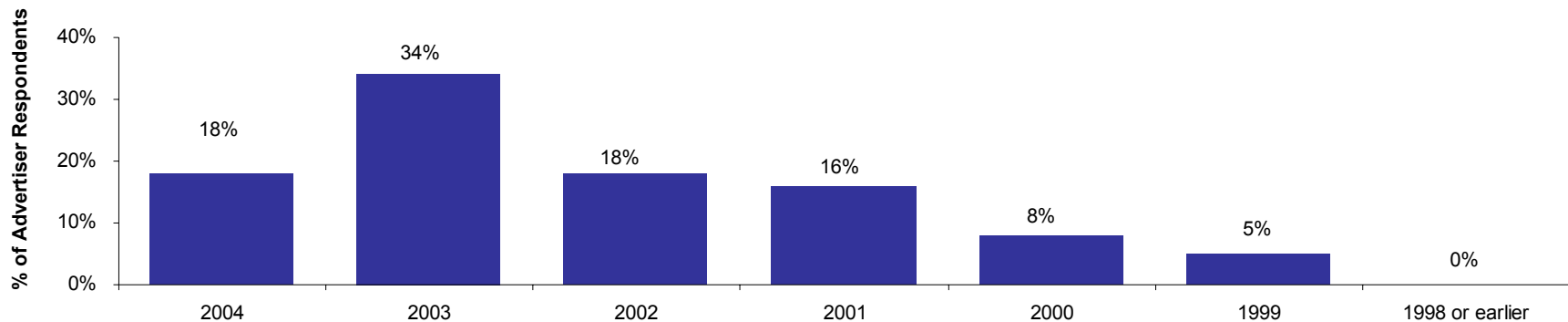
Most Advertiser Respondents Doing Paid Inclusion Have Done So for Only Two Years

ADVERTISERS > PAID INCLUSION

- 52% of respondents that have been conducting paid inclusion programs began in 2004 or 2003
- The average respondent began their paid inclusion program in mid-2002

Year of First Paid Inclusion Engagement

“What year did you first engage in such Paid Inclusion programs?”

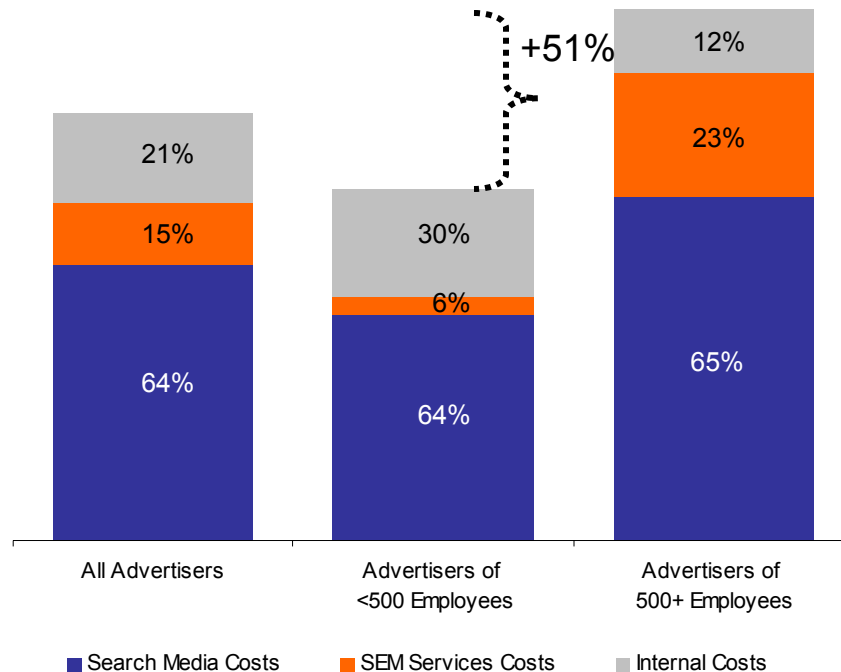


Large Advertisers Pay a Larger Share of Their Paid Inclusion Fees to Agencies Than Small Firms

ADVERTISERS > PAID INCLUSION

2004 Annual Spending on Paid Inclusion by Cost Category

"Approximately what is the amount you expect your company will spend in 2004 on Paid Placement programs in each of the following three areas: Media costs; SEM service providers; internal costs?"



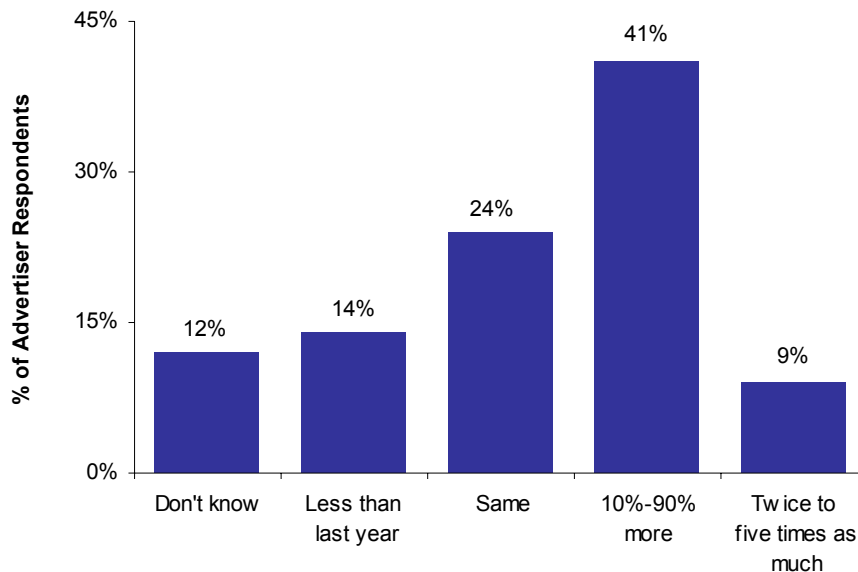
- Overall, marketers engaging in paid inclusion programs are paying nearly two thirds of their total expenditures to the search media companies directly, and most of the rest on internal costs
- Larger firms (500+ employees) are spending a significantly larger share of paid inclusion costs to agencies as opposed to internal resources
- Firms of staffs larger than 500 are spending roughly 50% more on paid inclusion than smaller advertisers

Half of Those Engaged in Paid Inclusion Expect to Increase Spending on Program in 2005

ADVERTISERS > PAID INCLUSION

Spending Expectations for 2005

“How much more or less do you expect to spend in 2005 compared to 2004 for ‘Paid Inclusion’ programs?”



- 50% of those participating in paid inclusion programs said they will spend more in 2005 on such programs compared to 2004
- Only 14% expected to spend less on paid inclusion programs
- The average amount by which advertisers expected to increase paid inclusion programs was 19%

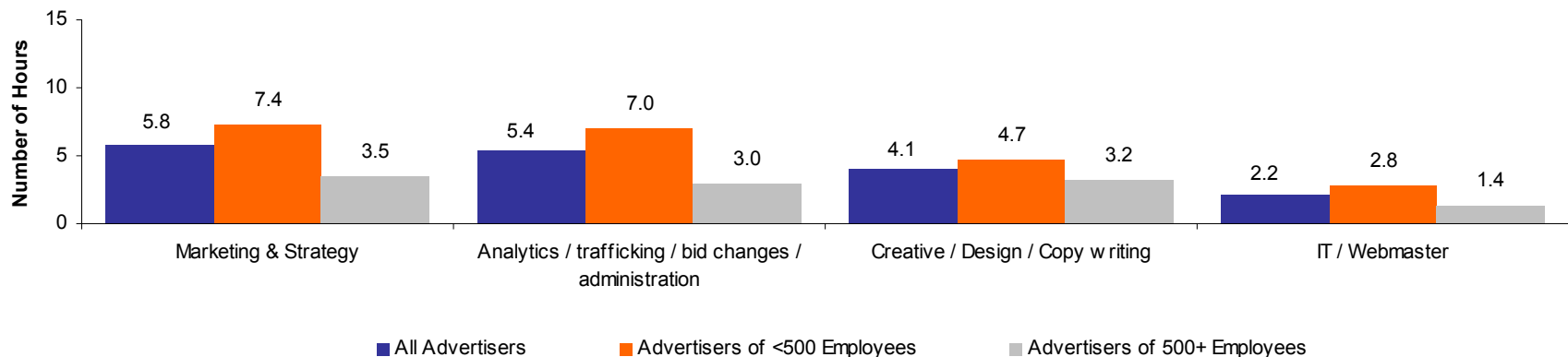
Advertisers Commit Relatively Few Internal Hours Monthly to Paid Inclusion Programs

ADVERTISERS > PAID INCLUSION

- On average, those who engaged in paid inclusion programs estimate they spend 17 hours on internal resources dedicated to such programs, mostly on strategy and analytics
- This compares to 82 hours for paid placement and 59 hours for organic SEO

Hours Spent Monthly on Paid Placement by Function

“Please estimate the monthly hours allocated towards Paid Inclusion by internal staff in the following roles”



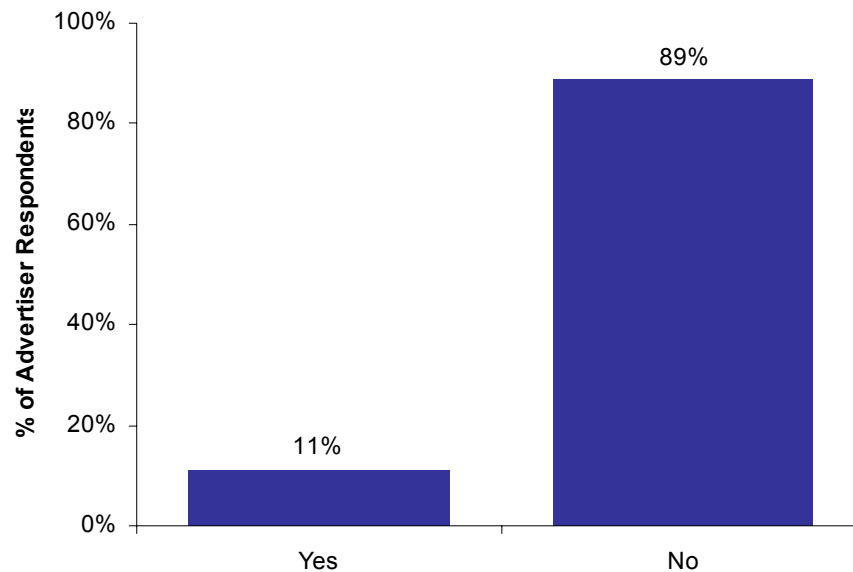
Vast Majority of Respondents Engaged in Paid Inclusion Do Not Account for Internal HR Costs

ADVERTISERS > PAID INCLUSION

HR Costs of Internal Paid Inclusion Staff vs. SEM Budget

“Do you account for the HR costs of internal staff engaged in Paid Inclusion towards your SEM budget(s)?”

- Only 1 in 10 advertiser respondent engaged in paid inclusion bothers to track internal HR costs dedicated to these programs



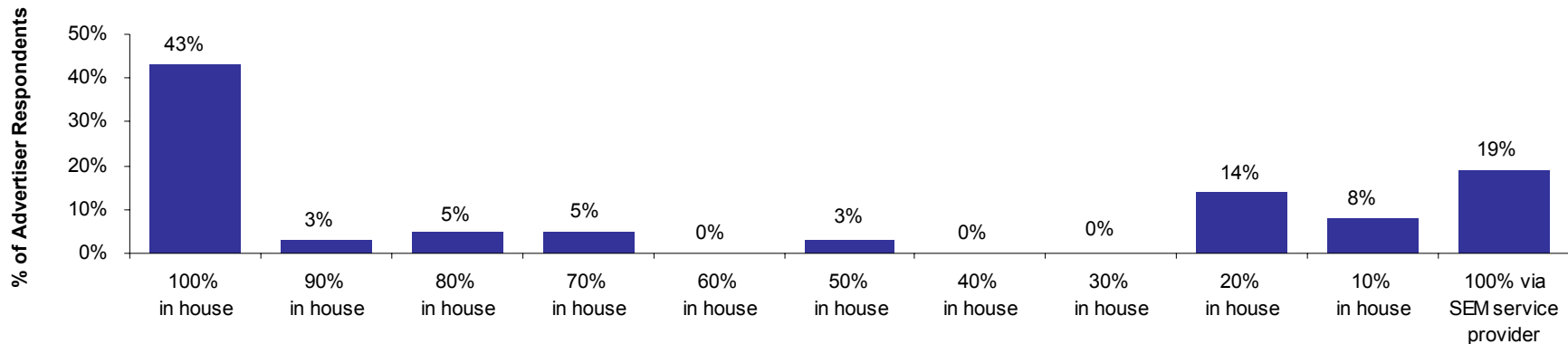
Less Than a Third of Paid Inclusion Spending Planned to Be Managed Through an SEM Agency

ADVERTISERS > PAID INCLUSION

- Four out of 10 advertiser respondents that engaged in paid inclusion planned to control 100% of their paid inclusion spending in 2005 internally
- On average, advertisers said they expect to manage 31% of their total budget for paid inclusion programs through an SEM agency

Management of Planned 2005 Paid Inclusion Spending

“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?”



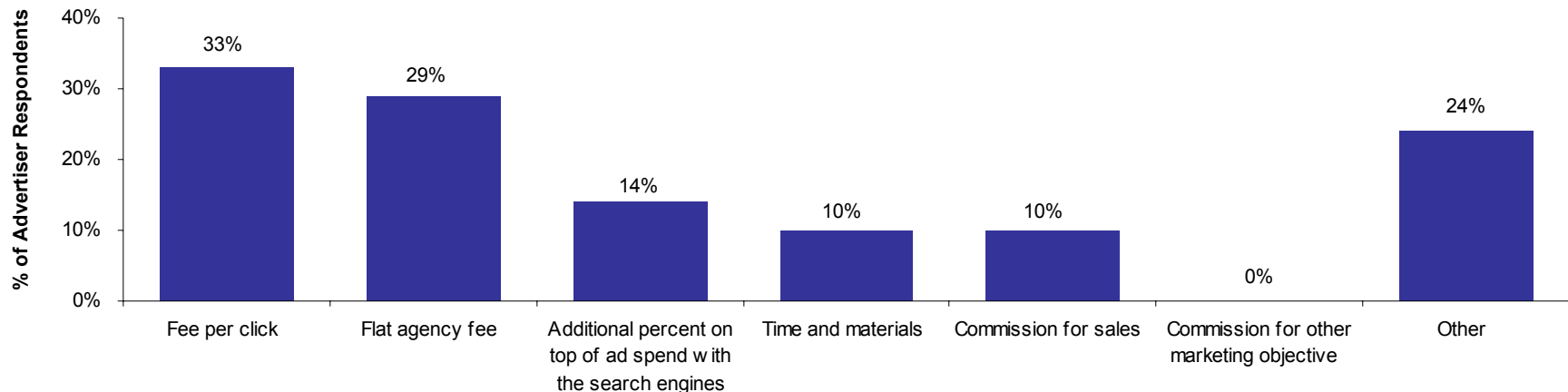
Price per Click Is the Most Common Payment Model for SEM Agencies With Paid Inclusion

ADVERTISERS > PAID INCLUSION

- Price-per-click is the most popular pricing model for paying SEM agencies for paid inclusion programs
- 20% of respondents said they were paying their agencies with more than one pricing model for paid inclusion programs

Typical Fee Structure Paid to SEM Providers

"What is the typical fee structure you pay to the SEM service provider that you engage for Paid Inclusion programs?"
[Multiple responses applicable]

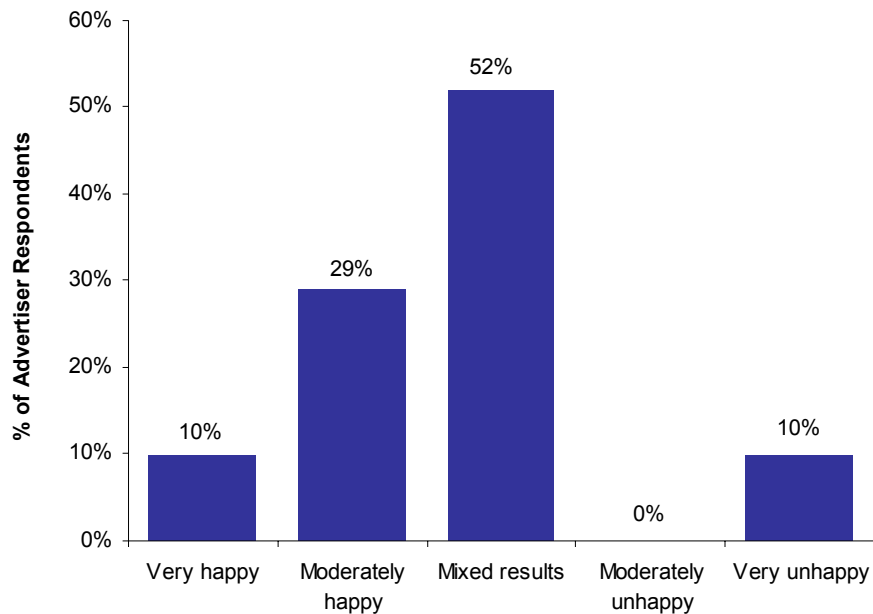


Satisfaction With SEM Agencies Mixed for Paid Inclusion Programs

ADVERTISERS > PAID INCLUSION

Opinion on SEM Service Providers

"How happy have you been in the past year with the services delivered by the primary SEM service provider you engage for Paid Inclusion programs?"



- The majority of respondents are neutral on their satisfaction with their SEM agencies as regards paid inclusion programs
- 39% were "moderately happy" or "very happy"
- 10% were "very unhappy" with their SEM agency, the highest negative attitude for any of the SEM programs

Advertisers > Affiliate Marketing

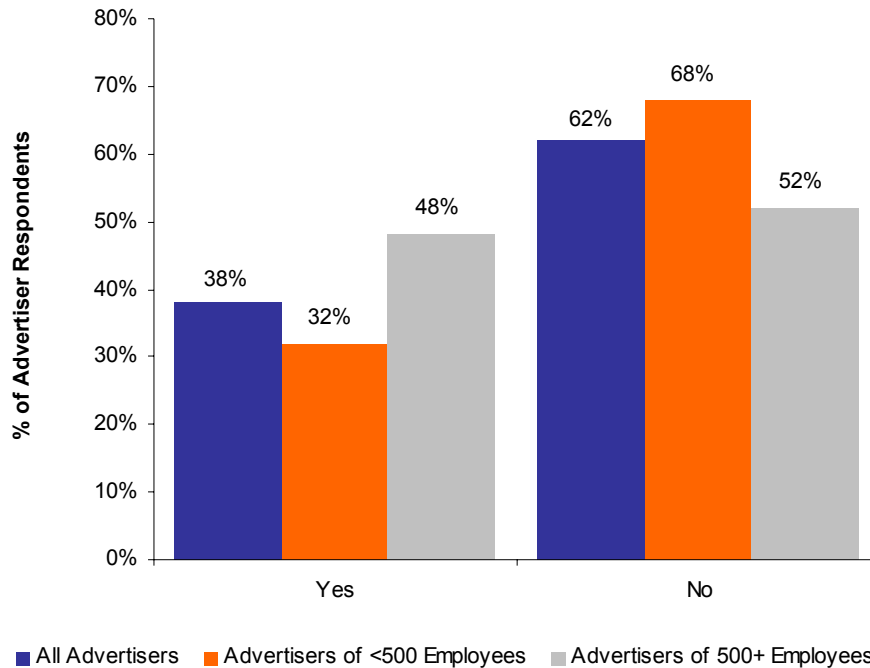
Just More Than a Third of Advertiser Respondents Run Affiliate Programs

ADVERTISERS > AFFILIATE MARKETING

Engagement in Affiliate Marketing Programs

“Do you currently engage in Affiliate Marketing programs?”

- Only a third of companies with staff sizes of fewer than 500 employees engage in affiliate marketing programs while nearly half (48%) of larger companies do so



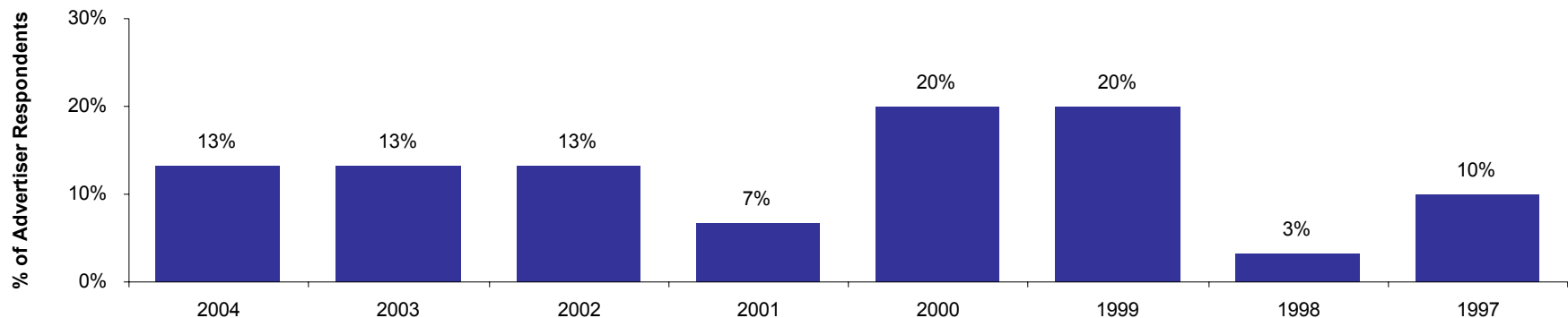
Most Respondents Engaged in Affiliate Marketing Programs Have Done So for Four-Plus Years

ADVERTISERS > AFFILIATE MARKETING

- A majority (53%) of advertiser respondents who do conduct affiliate marketing programs began them in 2000 or earlier
- The average year when merchants respondents began their affiliate programs was mid-2000

Year of First Affiliate Marketing Engagement

“What year did you first engage in such Affiliate Marketing programs?”

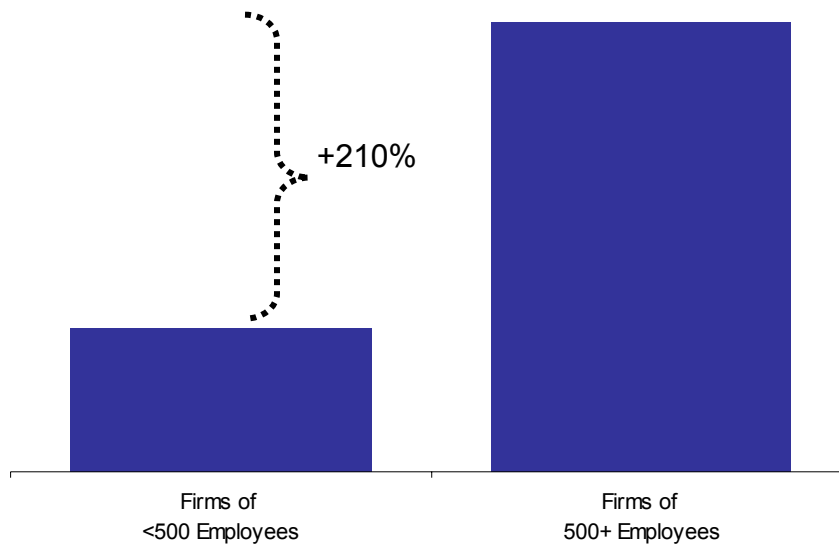


Larger Advertising Respondents Spend More Than Three Times More on Affiliates Than Smaller Firms

ADVERTISERS > AFFILIATE MARKETING

2004 Annual Spending on Affiliate Marketing Programs

- Of the firms that do engage in affiliate marketing programs, those with 500 or more employees spend more than three times as much as smaller firms

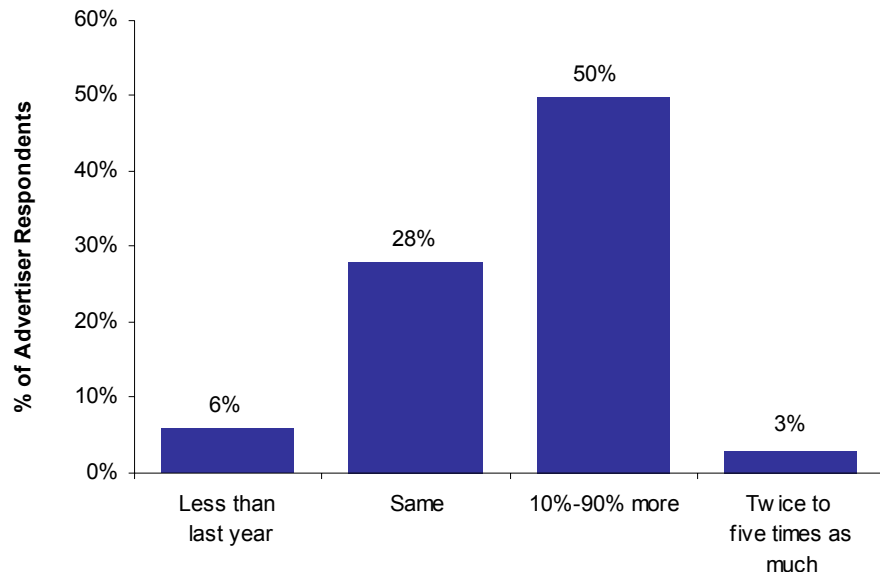


Majority of Advertiser Respondents Engaged in Affiliate Programs Plan to Increase That Spending

ADVERTISERS > AFFILIATE MARKETING

Spending Expectations for 2005

“How much more or less do you expect to spend in 2005 compared to 2004 for ‘Affiliate Marketing’ programs?”



- 53% of advertiser respondents that do engage in affiliate marketing programs expect to spend more in 2005 on such programs than they did in 2004
- The average amount by which merchants expected to increase their 2005 spending on affiliate programs was 19%

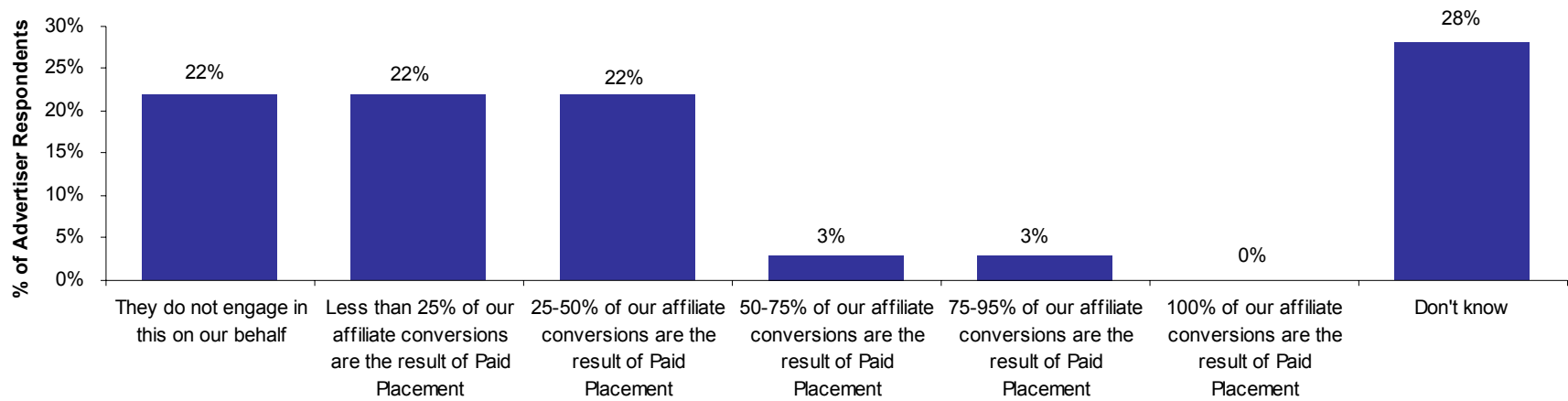
Half of Affiliate Merchant Respondents Believe Their Affiliates Use Paid Placement on Their Behalf

ADVERTISERS > AFFILIATE MARKETING

- 50% of those advertiser respondents with affiliate marketing programs believed that their affiliates used paid placement campaigns on their behalf
- More than a quarter didn't know whether affiliates did so or not
- Those respondents who believed their affiliates did use paid placement programs estimated that this tactic drove 25% of their affiliate sales, on average

Extent to Which Affiliate Partners Use Paid Placement Search Marketing

“To what extent do you believe your affiliate marketers engage in Paid Placement programs on your behalf?”



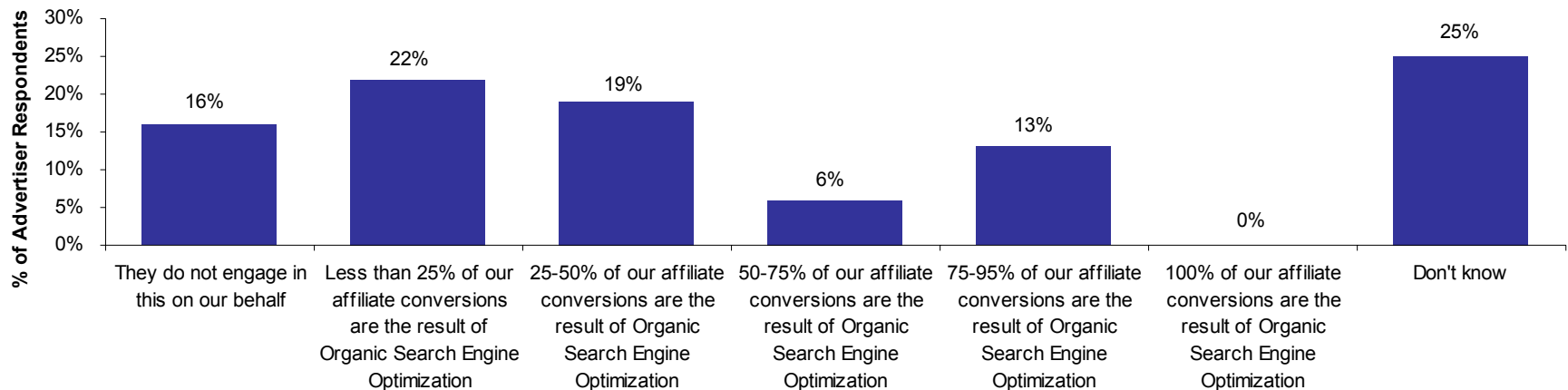
Majority of Affiliate Merchant Respondents Believe Their Affiliates Use Organic SEO on Their Behalf

ADVERTISERS > AFFILIATE MARKETING

- Nearly two thirds (63%) of those advertiser respondents with affiliate marketing programs believed that their affiliates used organic SEO programs on their behalf
- Those respondents who believed their affiliates did use SEO programs estimated that this tactic drove 34% of their affiliate sales, on average
- Together with those whose affiliates use paid placement campaigns, their combined estimate suggests SEM programs (paid placement plus SEO) drive 59% of all affiliate sales

Extent to Which Affiliate Partners Use Organic SEO

“To what extent do you believe your affiliate marketers engage in Organic Search Engine Optimization programs on your behalf?”



Advertisers > General

Email, Direct Mail and Web Ads Are Next Most Popular Forms of Marketing for SEM Advertisers

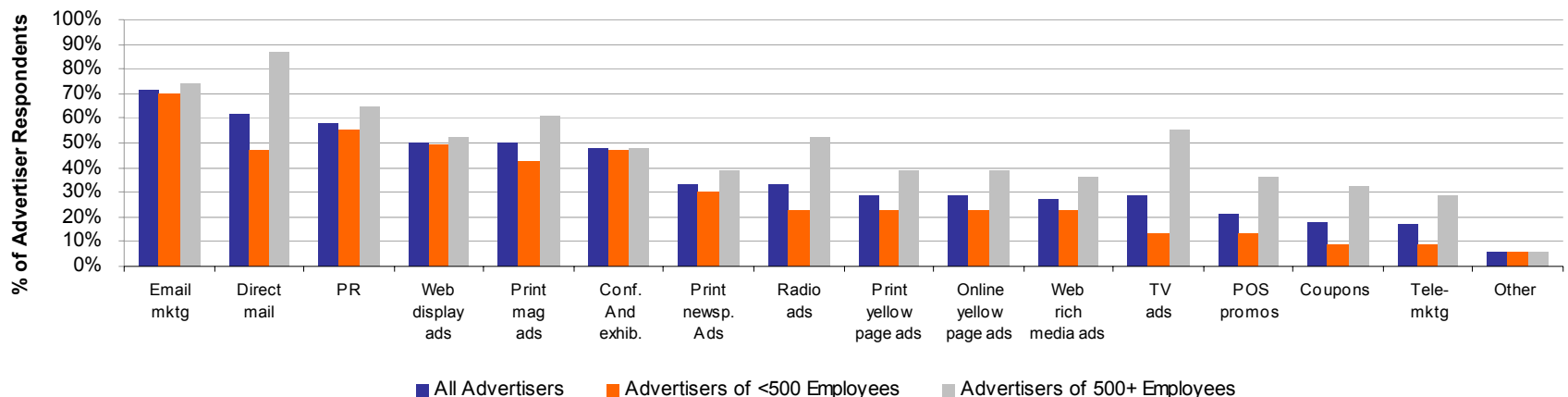
ADVERTISERS > GENERAL

- Email marketing was the most common form of marketing respondents cited as another marketing vehicle their company used, in addition to SEM
- Email, direct mail, public relations, web advertising, print ads and conferences were all cited by a majority of respondents as other forms of marketing they also engaged in

Other Forms of Marketing and Advertising Used

"What other forms of marketing and advertising does your company engage in?"

[Multiple responses allowed]



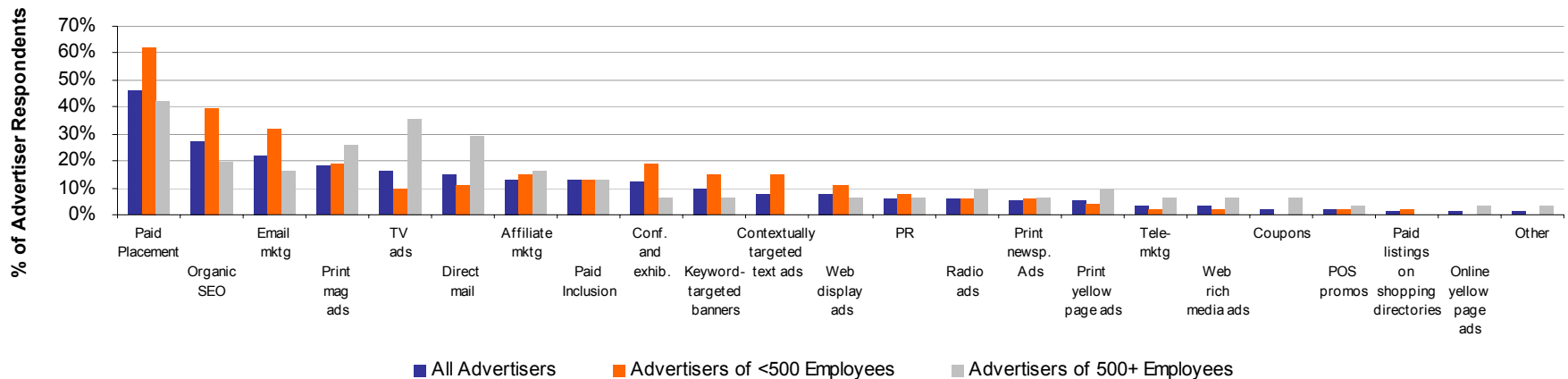
Paid Placement, SEO, Email and Magazine Ads Top the List by Spending Among Respondents

ADVERTISERS > GENERAL

- Paid placement is the only form of marketing used by more than 50% of even one segment of advertisers: those with fewer than 500 employees
- Paid placement, organic SEO, email marketing, print magazine ads and TV are the most popular forms of marketing among respondents by amount of spending

Marketing Respondents Cited as Among Their Top Three by Spending

"What are the top-three forms of advertising or marketing you spend the most money on annually?"



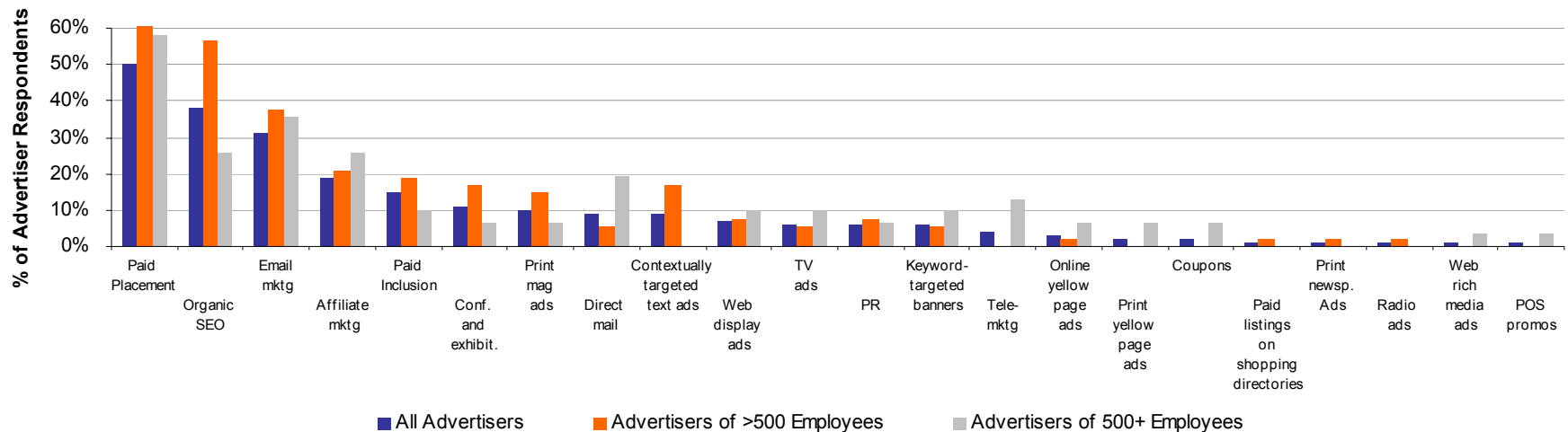
Paid Placement and SEO Top the Chart for ROI Value

ADVERTISERS > GENERAL

- Paid placement and organic SEO provide the highest ROI for advertising respondents of any marketing vehicles in their marketing mix
- SEO is valued much more by smaller companies than by larger ones

Marketing Vehicles Respondents Cited as Among Their Top Three by ROI

"What are the top-three most-efficient forms of advertising or marketing you spend money on in terms of the return on investment (ROI) or return on ad spend (ROAS) that they yield?"

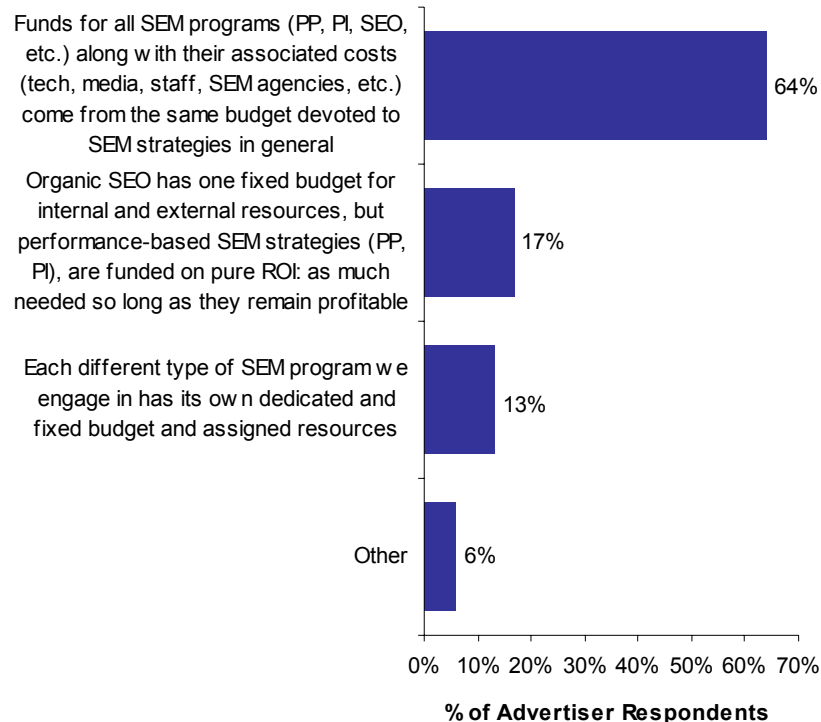


Most Companies Have Just One Budget for All Forms of SEM

ADVERTISERS > GENERAL

Budget Segmentation for Various SEM Programs

"How do you segment budgets for various types of SEM programs?"



- Two thirds of respondents have one source of budget for all types of SEM programs
- Close to 1 in 5 firms keeps a separate budget for performance-based programs, giving them as much budget as they require so long as they generate a positive ROI

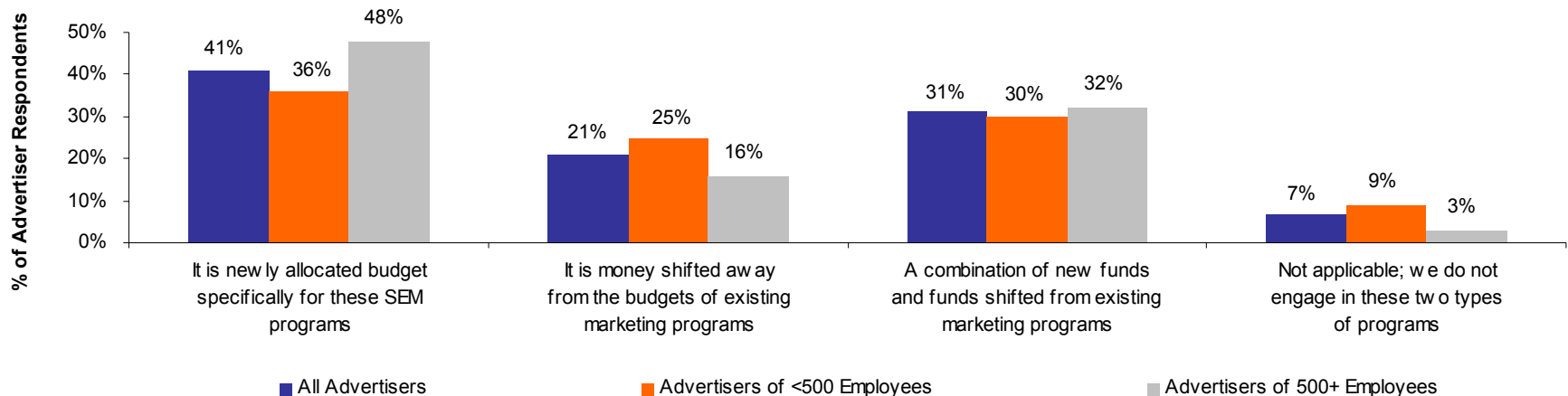
Majority of Respondents Shift Budget Away From Other Marketing Programs for Paid SEM Programs

ADVERTISERS > GENERAL

- 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?"



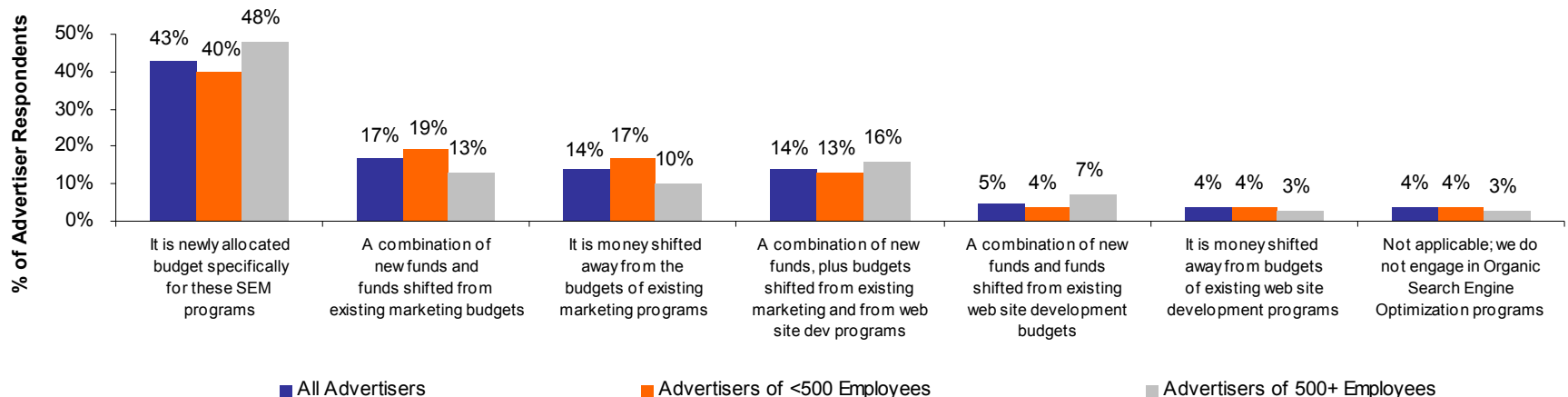
Majority of Respondents Shift Budget Away From Other Marketing Programs for Organic SEO

ADVERTISERS > GENERAL

- 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?"



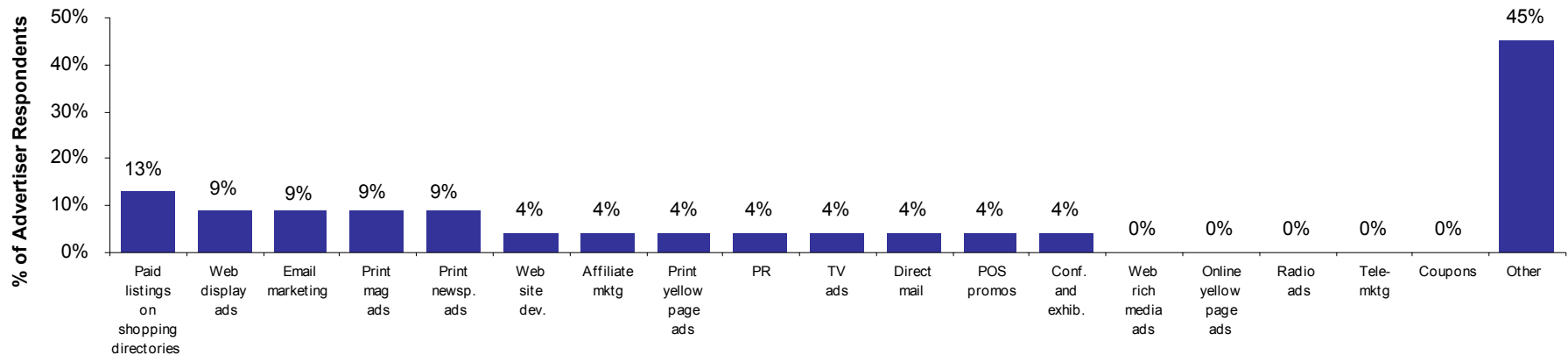
SEM Is Poaching Budget From Established Marketing Programs

ADVERTISERS > GENERAL

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?"



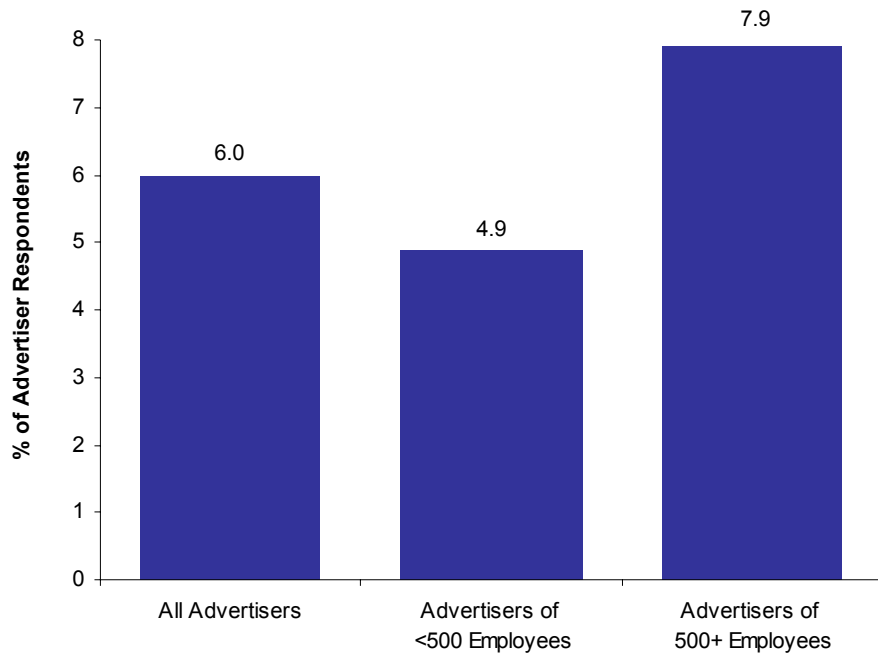
On Average, Advertiser Respondents Had Six Employees With Any SEM Responsibility

ADVERTISERS > GENERAL

Average Number of People With Some Responsibility for SEM Initiatives

“How many people inside your organization have any responsibility for search engine marketing initiatives?”

- Large firms (500 or more employees) had nearly twice as many staff members with some SEM responsibility compared to smaller firms: eight vs. five



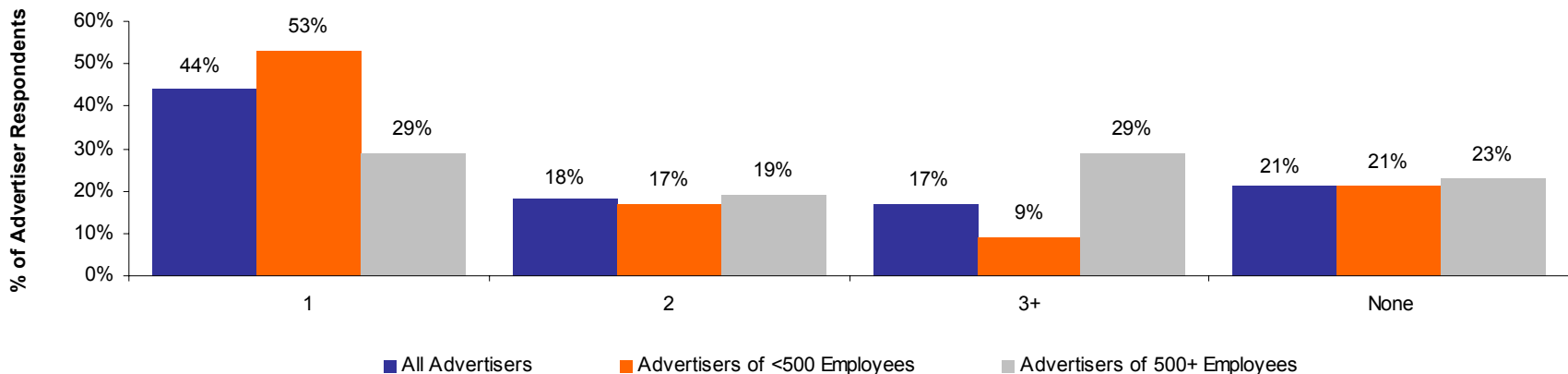
Most Advertiser Respondents Have Fewer Than Two Employees Focused on SEM Full Time

ADVERTISERS > GENERAL

- On average, advertiser respondents had 1.5 employees devoted full-time to search engine marketing programs
- 48% of larger firms (500+ employees) employed two or more people full-time for SEM compared to only 26% of smaller firms that did
- One in five firms did not have any employees devoted full time to SEM

Number of People With Full-Time Responsibility for SEM Initiatives

“How many people inside your organization have full-time responsibility for search engine marketing initiatives?”



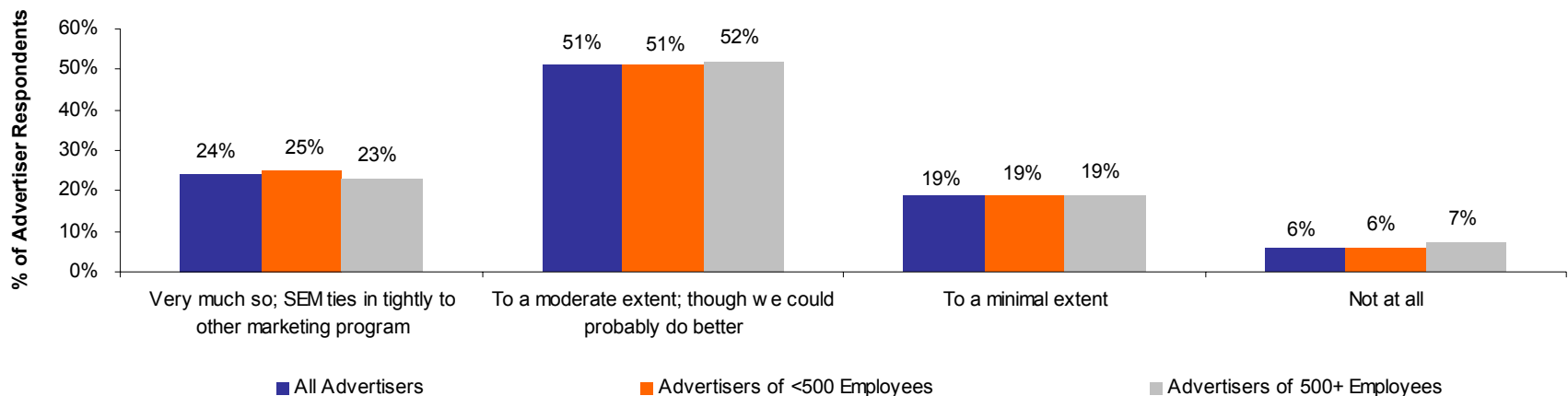
Three Quarters of Advertiser Respondents Are Coordinating SEM With Other Marketing

ADVERTISERS > GENERAL

- Three quarters of advertiser respondents said they were coordinating their SEM initiatives to a moderate or great extent with other types of marketing programs
- Only 6% were not doing so at all; 19% were doing so minimally

Extent of Coordination Between SEM Campaigns and Other Marketing Programs

“To what extent do you coordinate your Search Engine Marketing campaigns with other types of marketing programs (brand advertising initiatives, public relations, promotions, other web marketing initiatives, etc.)?”



Agencies > Overview

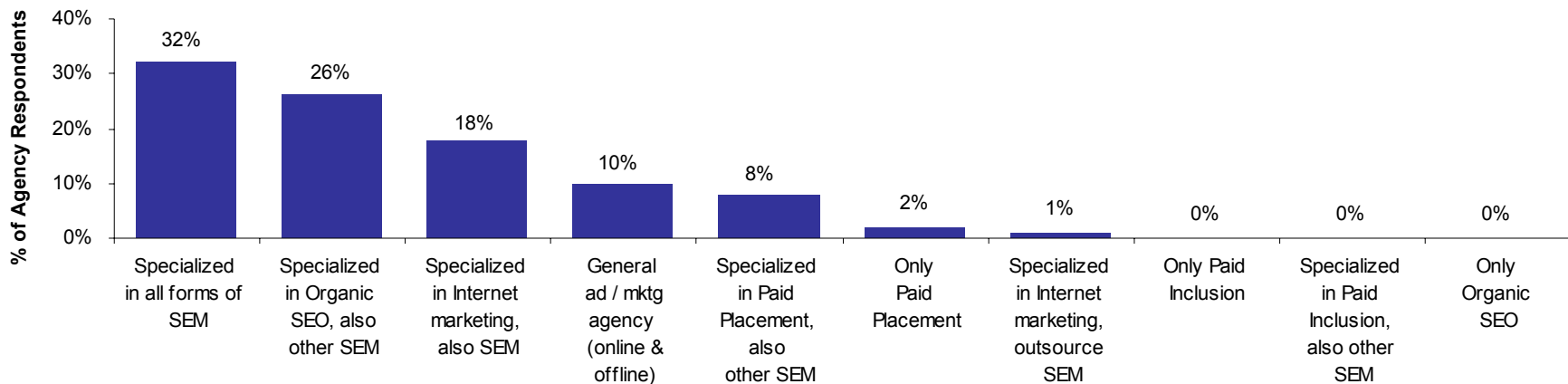
Most Agency Respondents Are All-around SEM or SEO Specialists

AGENCIES > OVERVIEW

- A third of agency respondents are all-around SEM generalists
- A quarter of respondents were Organic SEO specialists who also did general SEM
- No agency respondents specialized specifically in Paid Inclusion

Agency Description

“Which of the following best describes your agency?”



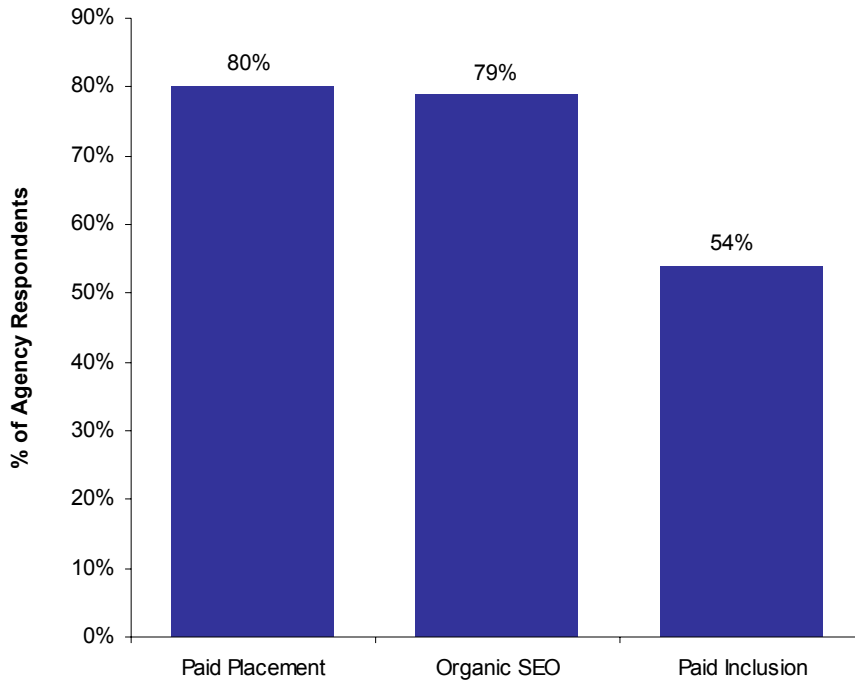
Paid Placement and Organic SEO Equally Popular as Offerings for SEO Agency Respondents

AGENCIES > OVERVIEW

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



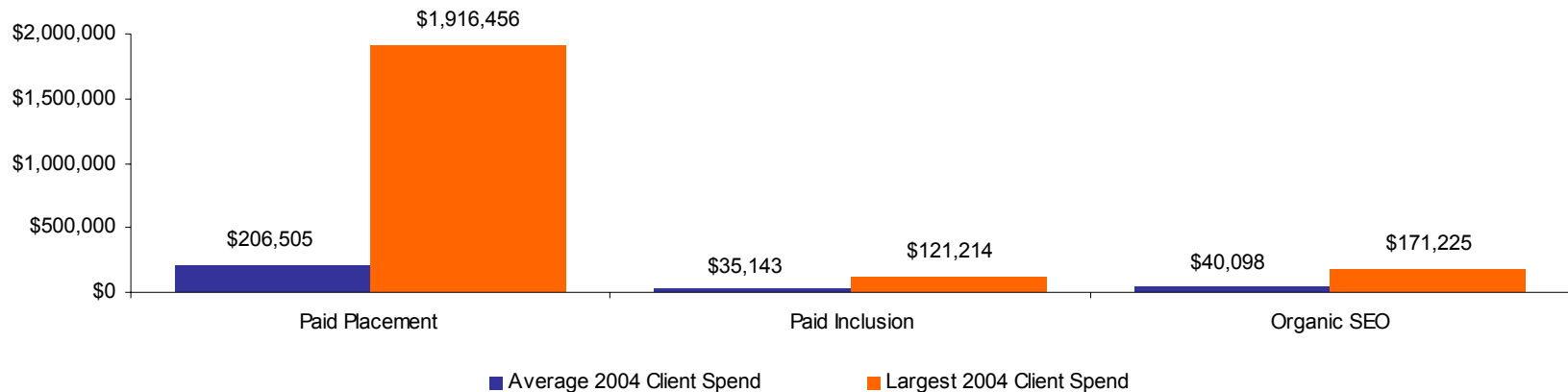
Average Clients Spending Five Times More on Paid Placement Than on PI or SEO

AGENCIES > PAID PLACEMENT

- Agency respondents say on average their biggest clients are spending nearly \$2 million (gross) on Paid Placement programs, and \$200,000 for the average client
- By comparison, they say average clients are spending at least five-times less on average for SEO and Paid Inclusion and the biggest spenders are putting only a tenth or less as much into those programs compared to Paid Placement

Gross Client Spend Estimates

“Approximately how much will your average / largest client spend with you gross on the following SEM programs in 2004?”



Agencies > Paid Placement

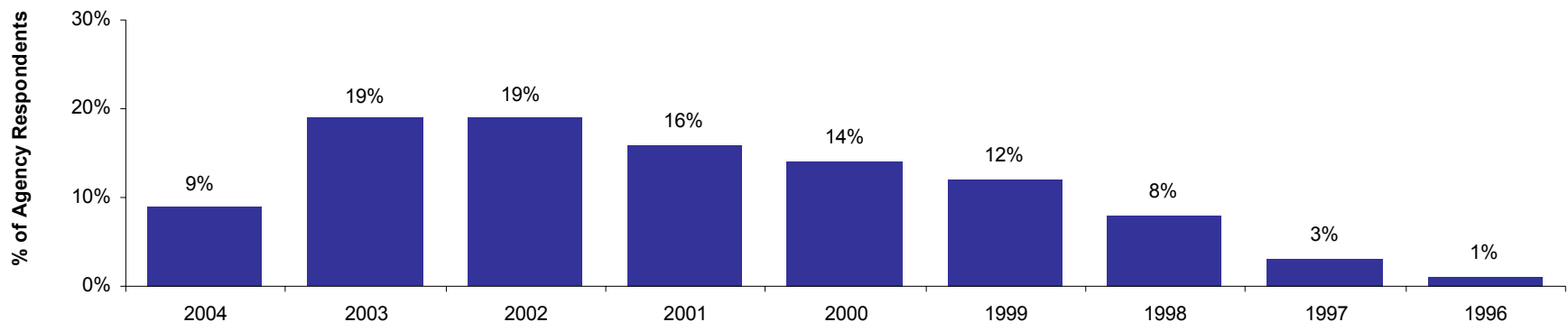
2001 Is the Average Year When SEM Agencies First Engaged in Paid Placement Programs

AGENCIES > PAID PLACEMENT

- More than a quarter (28%) of respondents first engaged in Paid Placement programs only in 2003 or 2004
- More than a third (38%) say they started in 2000 or earlier
- 2001 is the average year SEM agency respondents say they first engaged in Paid Placement programs

Year First Engaged in “Paid Placement” Programs

“What year did you first engage in such ‘Paid Placement’ programs?”



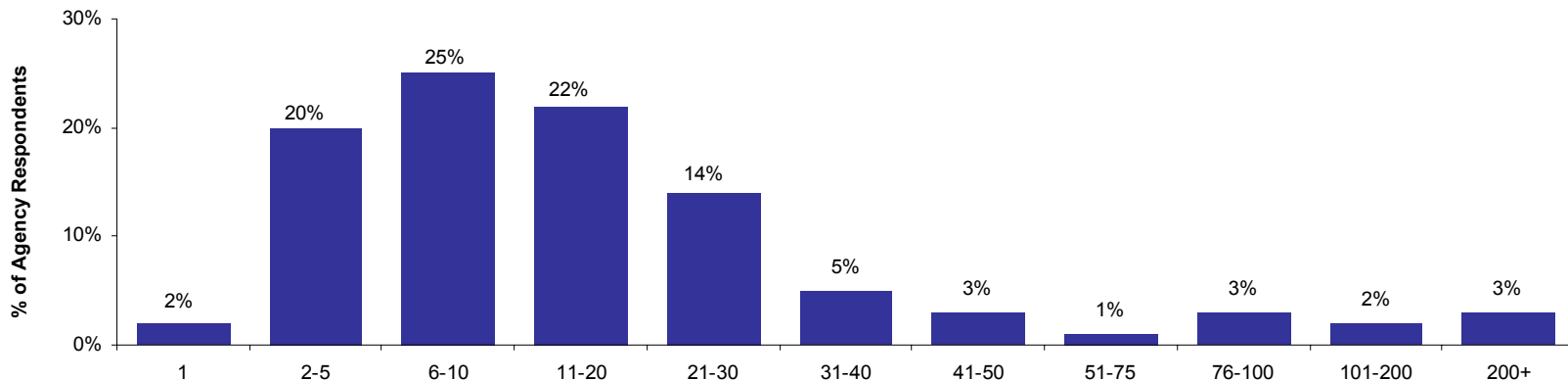
Two Thirds of Agency Respondents Expect Not More Than 20 Clients in 2004 for Paid Placement

AGENCIES > PAID PLACEMENT

- 47% of agency respondents expect 10 or fewer Paid Placement clients in 2004; 69% of respondents expect 20 or fewer
- Due to a few outlying larger firms, the overall average number of clients that agency respondents expected in 2004 for Paid Placement programs was 25

Number of Clients Paying for Paid Placement Programs in 2004

“How many clients do you expect your firm will receive payments from in 2004 for Paid Placement programs?”



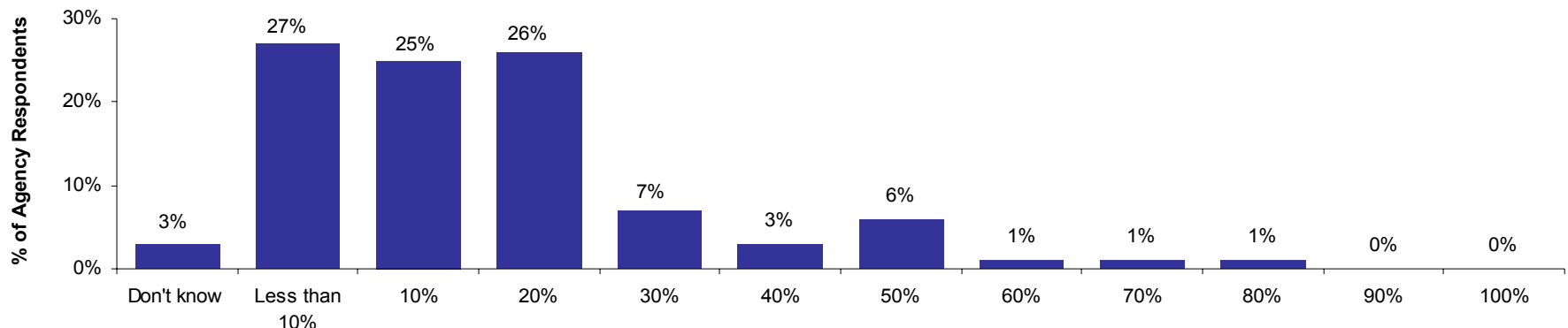
Most Agencies Include Some Contextual Ads in Paid Placement Programs, But Not a Lot

AGENCIES > PAID PLACEMENT

- 71% of agency respondents include contextually targeted text ads in their Paid Placement campaigns, at least in some cases (concluded from a separate question from the one shown in the chart here)
- 78% do not include typically more than 20% of the overall Paid Placement campaign budget on contextual ads; the average budget share they reported for contextual ads in Paid Placement campaigns was 28%

Percentage of Overall Spending on Paid Placement Programs Spent on Contextually Targeted Ads

“Approximately what percentage of your overall spending for an average Paid Placement program is spent in the form of Contextually Targeted Text Ads?”

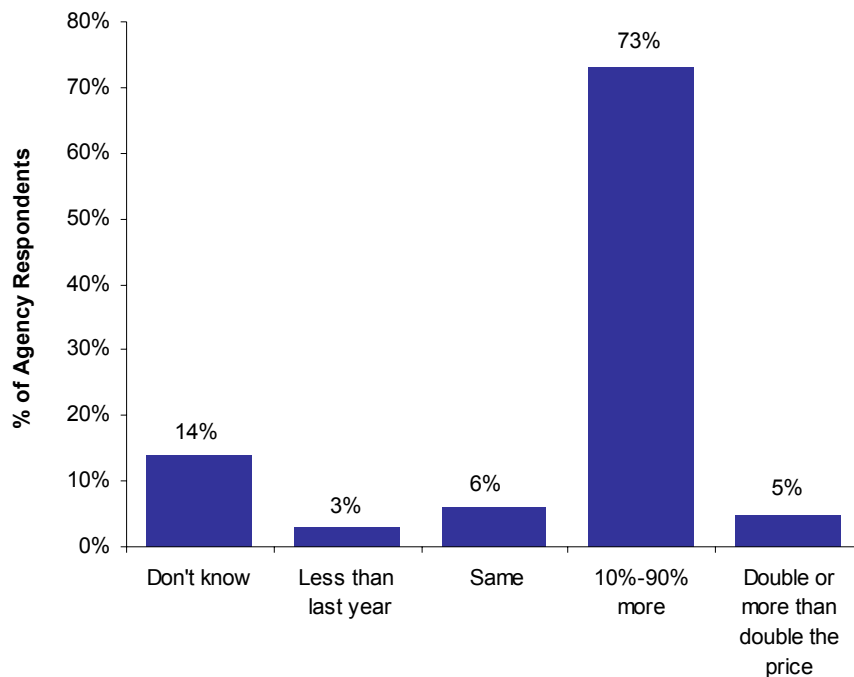


Agencies See a Bigger Rise in in Paid Placement Prices Than Advertisers

AGENCIES > PAID PLACEMENT

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?"



- Agencies are more aware of price rises on paid placement keywords than advertisers
- On average, agencies felt keywords they commonly bid on had risen 42% in the past 12 months

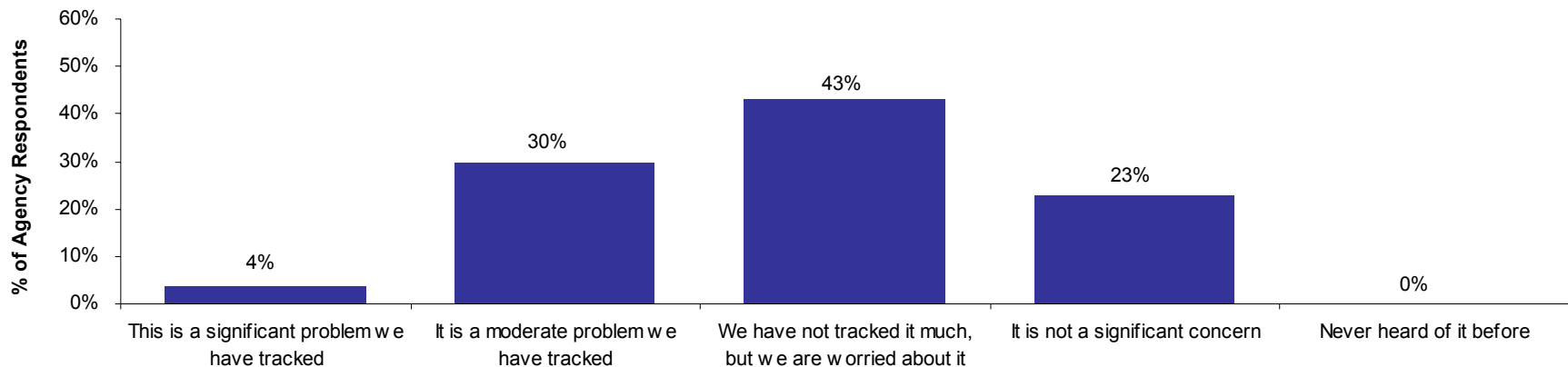
Agencies Not Tracking Much Click Fraud, But They Are Concerned About It

AGENCIES > PAID PLACEMENT

- Surprisingly few agencies are tracking click fraud
- Many of those who do track it are not concerned with it
- The largest share of respondents do not track click fraud but worry about it

Click Fraud vs. Paid Placement

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



Agencies > Organic SEO

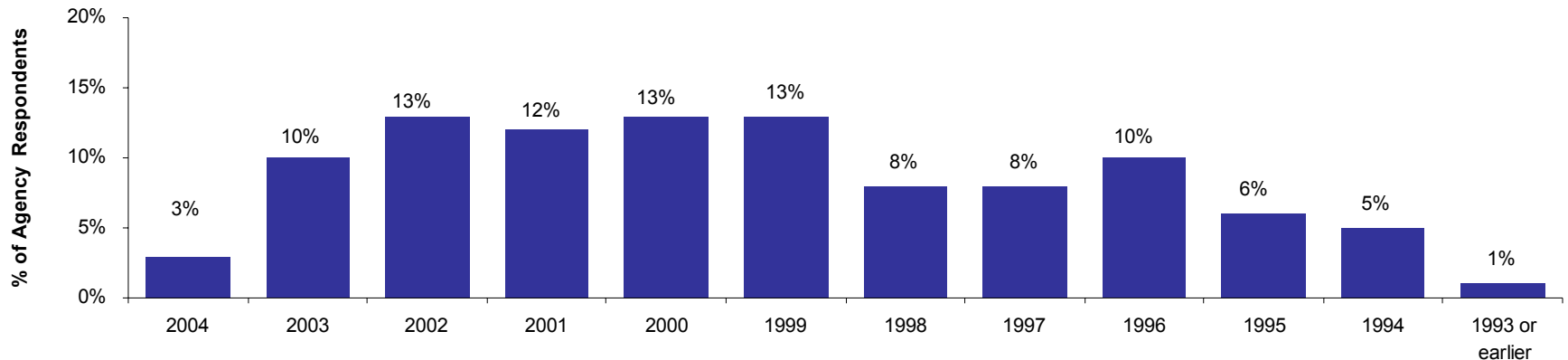
On Average Agency Respondents First Began Organic SEO Programs in 1999

AGENCIES > ORGANIC SEO

- More than a third of agency respondents (38%) say they first began Organic SEO campaigns in 1998 or earlier
- Only a quarter (26%) have been doing so for two years or less
- On average, agency respondents first began Organic SEO programs in early 1999

Year of First Organic Search Engine Optimization Engagement

"What year did you first engage in such Organic Search Engine Optimization programs?"



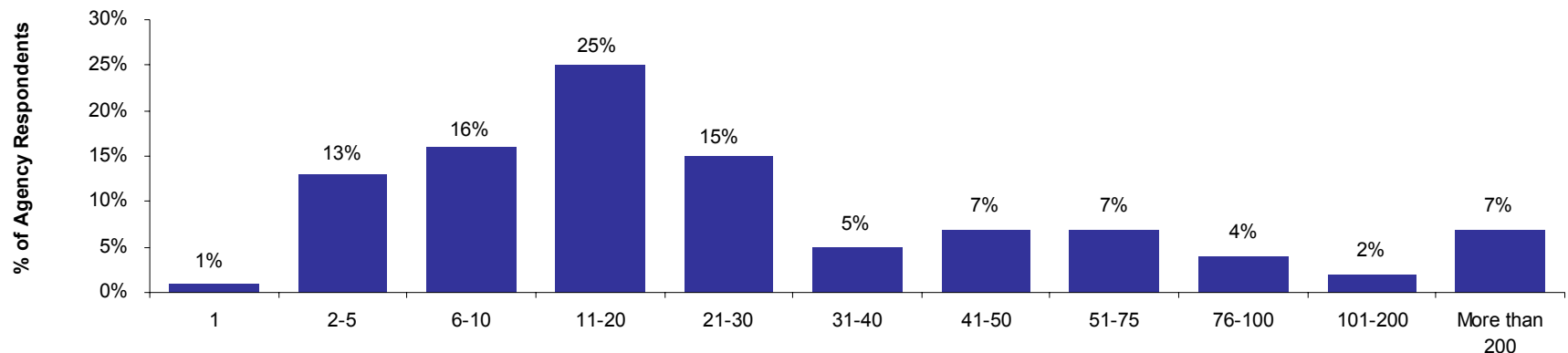
Agencies Have More Clients on Average for Organic SEO Than for Paid Placement

AGENCIES > ORGANIC SEO

- Nearly half (47%) of agency respondents expect more than 20 clients to pay for Organic SEO services in 2004
- The average number of SEO clients that agencies expect for the year (due to some high-volume outliers) was 42, compared to 25 for Paid Programs

Number of Clients Paying for Organic Search Engine Optimization Programs in 2004

"How many clients do you expect your firm will receive payments from in 2004 for Organic Search Engine Optimization programs?"



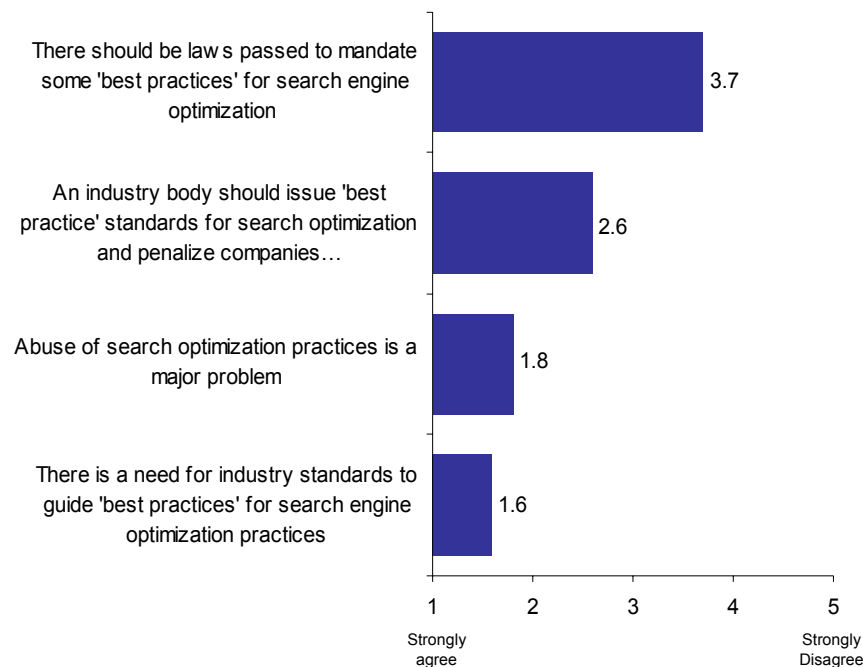
Like Advertisers, Agencies Also Believe SEO Abuse Is a Significant Problem

AGENCIES > ORGANIC SEO

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?"

- Agencies fairly well agree with advertisers that SEO abuse is a problem but one best left to industry standards, not legislation



All Respondents > General

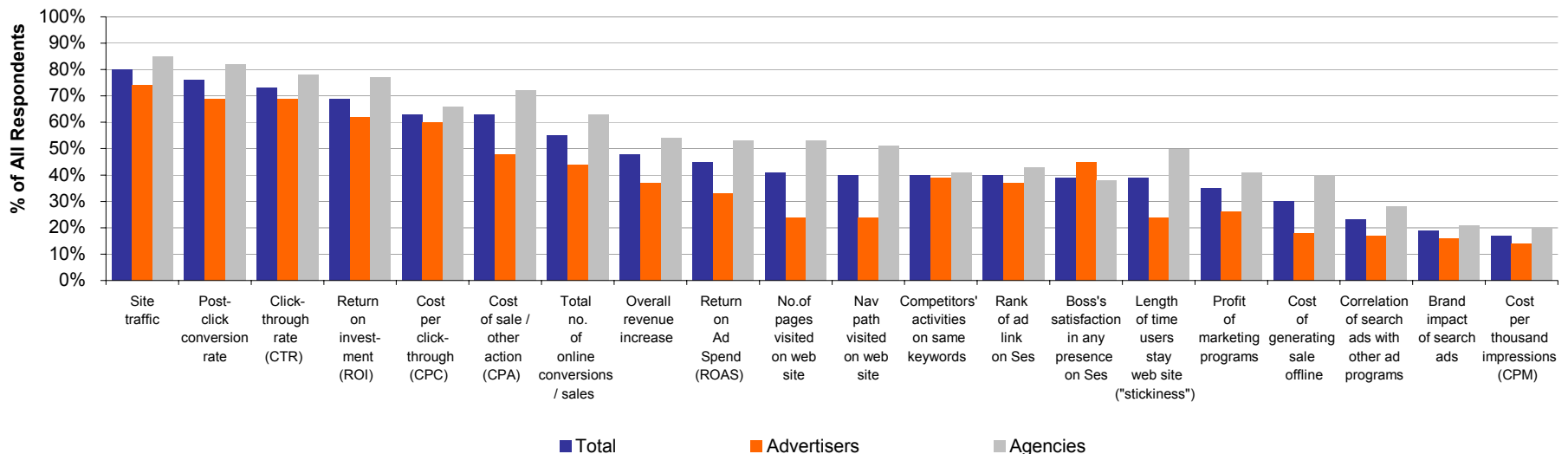
Site Traffic, Conversion Rate, Click-Thru and ROI are Top Performance Metrics for SEM Programs

ALL RESPONDENTS > GENERAL

- More than 50% of respondents tracked the following success metrics for the SEM campaigns: site traffic, post-click conversion, click-thru rate, ROI, cost-per-click, cost-per-action (e.g., sale), and total number of conversions
- Agencies were more likely to track all metrics by about a margin of 10% in the case of all metrics

Metrics Tracked To Gauge the Success of SEM Programs

"What metrics do you track / measure / generally pay attention to gauge the success of Search Engine Marketing programs?"



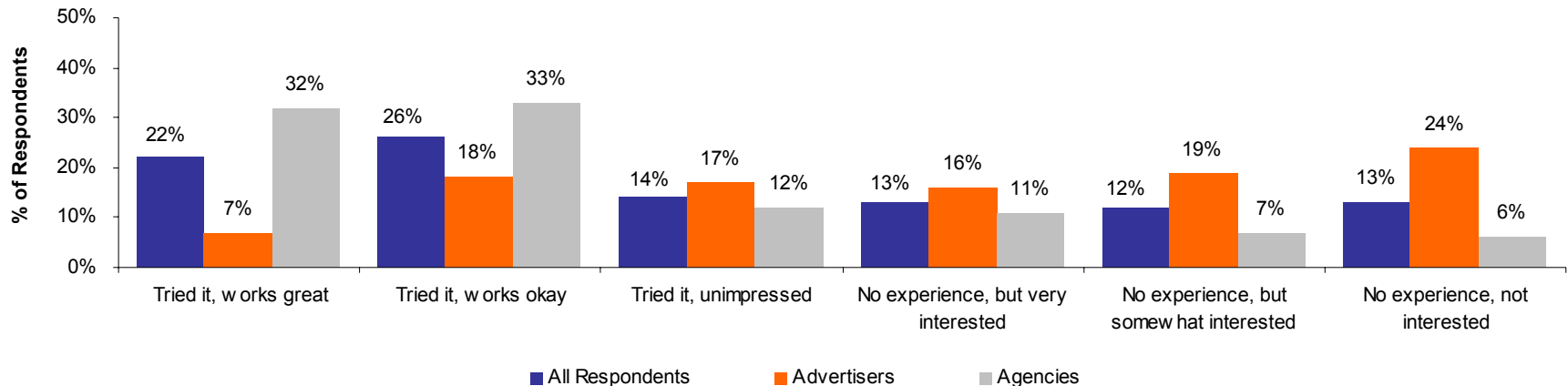
High Interest in Locally Targeted Search

ALL RESPONDENTS > GENERAL

- Nearly a quarter of respondents (mostly agencies) have tried locally targeted search ads and think "it works great"
- Another quarter had tried them and thought "it works okay"
- Only 14% had tried them and were "not impressed"
- More respondents had tested local search than not, particularly agencies

Level of Experience or Interest in Locally Targeted Search Keyword Text Ads

"What is your level of experience or interest in the following search marketing tactics: Locally Targeted Search Keyword Text Ads"



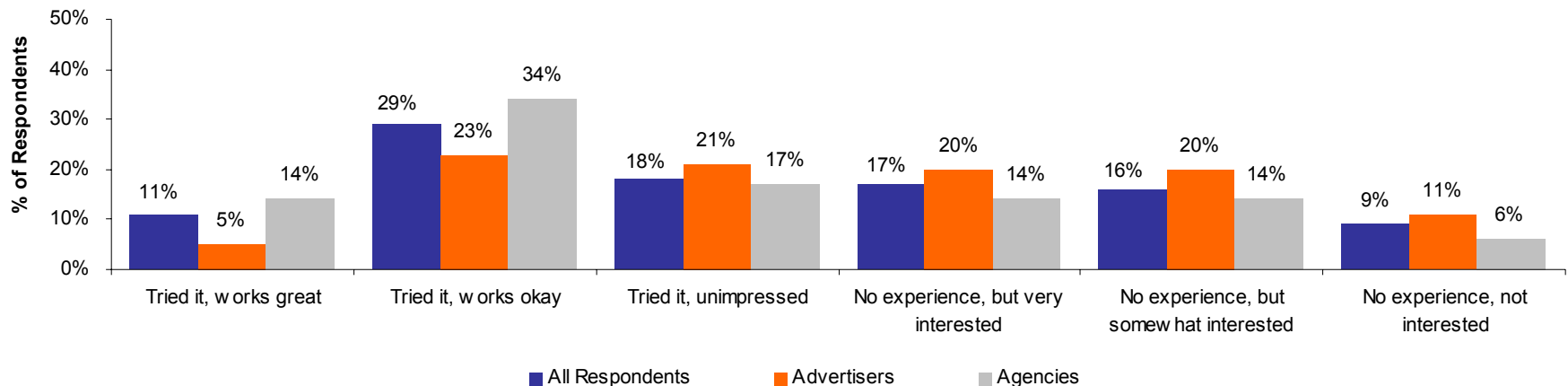
Niche Search Also Seems Promising

ALL RESPONDENTS > GENERAL

- Niche search engines (e.g., Business.com or SideStep.com) were comparatively popular with those who had tried them, especially agencies

Level of Experience or Interest in Keyword Targeted Text Ads on “Niche Sector” Search Engines

"What is your level of experience or interest in the following search marketing tactics: Keyword-targeted Text Ads on 'Niche Sector' Search Engines (e.g., Business.com, SideStep.com)"



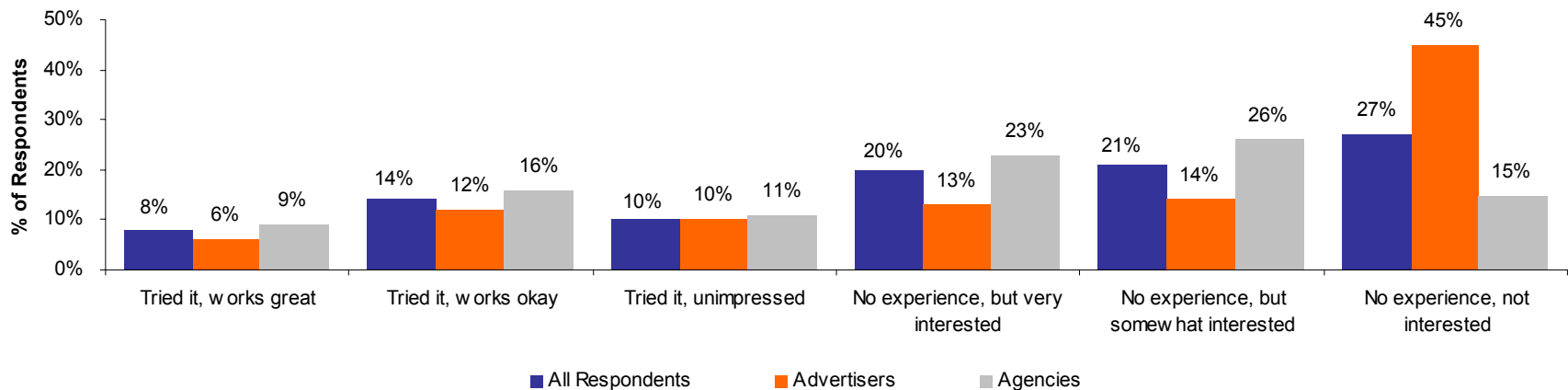
Experience Limited With Targeted Ads on Shopping Portals

ALL RESPONDENTS > GENERAL

- Most respondents, both agencies and advertisers, had little experience with targeted text ads on shopping portals
- Advertisers in particular express little interest in this approach

Level of Experience or Interest in Keyword Targeted Text Ads on Shopping Portals

"What is your level of experience or interest in the following search marketing tactics: Keyword-targeted Text Ads on Shopping Portals (such as MySimon, BottomDollar, BizRate)"



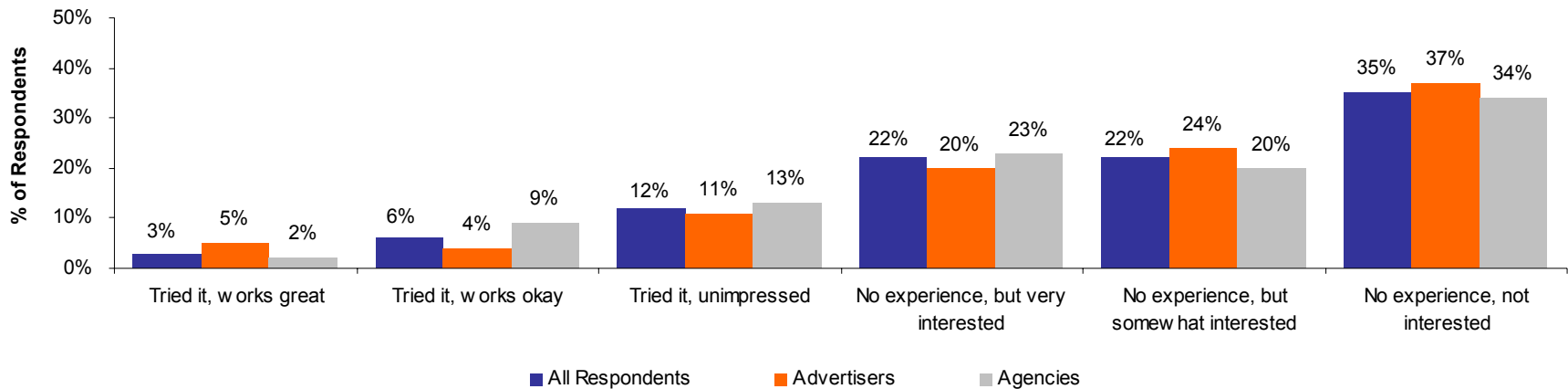
Rich Media Text Ads Still Unfamiliar to Most

ALL RESPONDENTS > GENERAL

- Only 21% of respondents said they had any experience with rich media components to search ads
- Interest in this technique is muted

Level of Experience or Interest in Keyword Targeted Text Ads with “Rich Media”

"What is your level of experience or interest in the following search marketing tactics: Keyword-targeted Text Ads with a 'Rich-media' component (e.g., pictures and phrases jumping up from search results on mouse-over)"



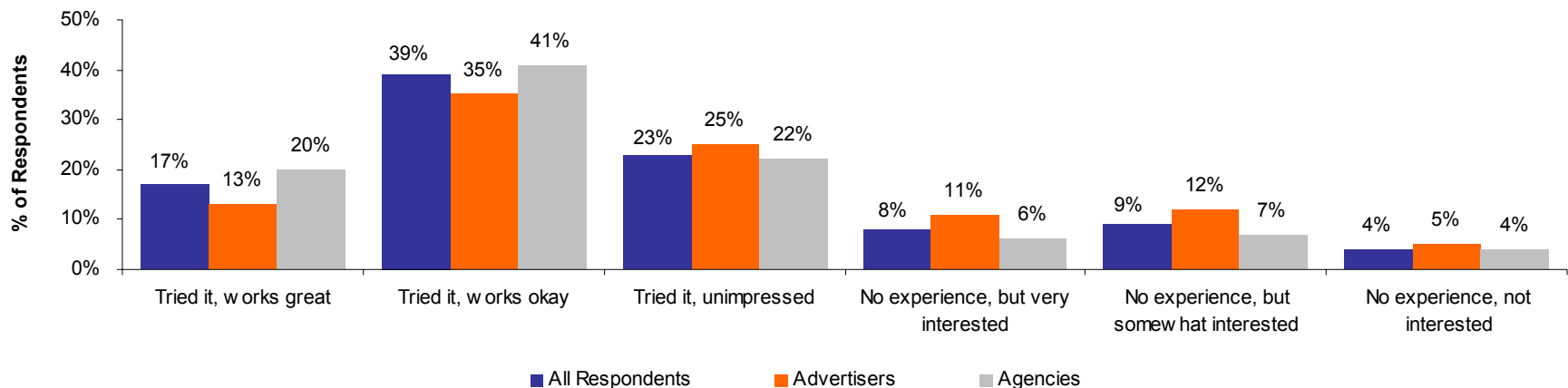
Contextually Targeted Ads Familiar to Most, But No Big Shakes

ALL RESPONDENTS > GENERAL

- The vast majority of respondents (79%) were familiar with contextually targeted text ads
- More of those who had tried the technique were "not impressed" than those who said "it works great"

Level of Experience or Interest in Contextually Targeted Text Ads

"What is your level of experience or interest in the following search marketing tactics: Contextually Targeted Text Ads (using programs such as Google's 'AdSense' and Overture's 'Content Match')"



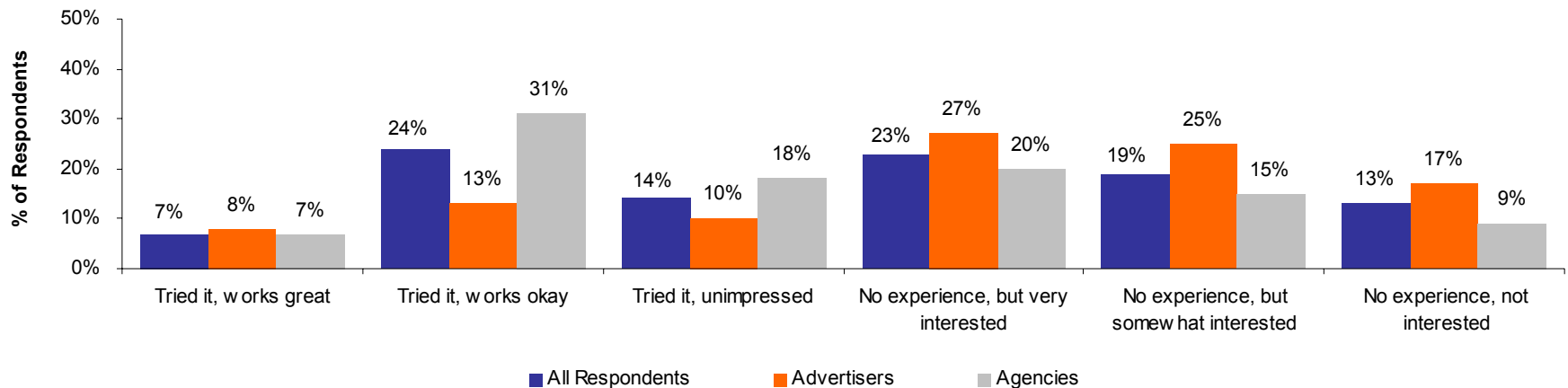
Few Yet Experienced With Graphically Enhanced Paid Placement Ads, But Interest Exists

ALL RESPONDENTS > GENERAL

- Most respondents had not yet experienced paid placement ads with graphical enhancement (particularly advertisers), but interest is moderate

Level of Experience or Interest in Paid Placement Ads with Graphics

"What is your level of experience or interest in the following search marketing tactics: Paid Placement ads enhanced with graphical elements (like small logos affixed to the text ads)"



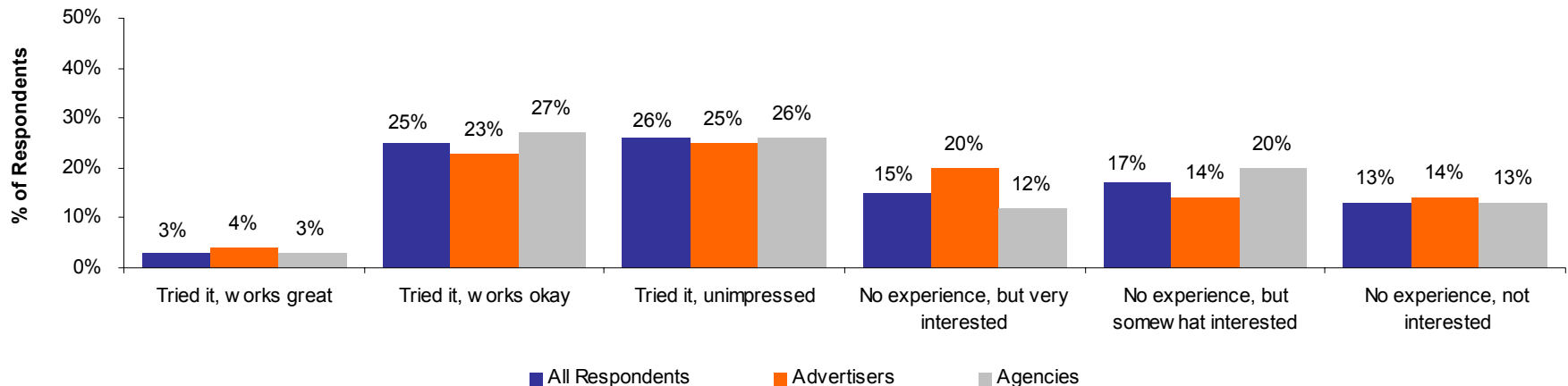
Keyword Targeted Banners Familiar to Most But Not a High Priority

ALL RESPONDENTS > GENERAL

- More than half of all respondents (both advertisers and agencies) had experience with banner ads targeted to keywords
- Of those, the majority were not terribly excited by the results

Level of Experience or Interest in Banners and Other Display Ads

"What is your level of experience or interest in the following search marketing tactics: Banners and other Web Display Ads targeted to search query terms"



About the Research Partners

- **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