

DoubleClick

Performics 50 Search

Trend Report Q2 2006

Marketers Begin to Meet the Demands and Growth of Search

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In mid-2005, Performics introduced the Performics 50, a representative index of well-managed paid search campaigns designed to monitor the growth of paid search advertising by providing a stable basis for comparative benchmarking and analysis.

Executive Summary

Understanding second quarter trends and preparing for the holiday season:

- **Marketers are increasing their knowledge of search and becoming more sophisticated managers of their search programs.** Over the past quarter, there has been an increase in competition for higher priced and more popular keywords. This indicates that marketers have grown acutely aware of the necessity to achieve and maintain high visibility for specific keywords. They are willing to pay higher rates because of the positive return on investment. As they increase budgets to accommodate for the increase in competition, marketers are also mining the long tail in order to offset higher priced keywords with less expensive but relatively productive terms. This dual-pronged approach is more pronounced than it was a year ago and suggests the increased importance marketers place on search engine marketing as well as a growing sophistication with search engine marketing.
- **Average cost per keyword (CPK) remained steady.** After increasing throughout February and March, average CPK remained relatively stable throughout the second quarter of 2006, increasing only \$.14, or less than 0.5%, from first quarter averages. Maintaining a stable CPK reinforces the increased level of search marketing sophistication exhibited by properly managed campaigns.
- **Search marketing continues its remarkable year-over-year growth.** Year-over-year conversions, search spend, and impressions all showed growth near 50% over the same period last year, while active keywords grew by a robust 58% and total clicks by 32%. Quarter-to-quarter changes in the Performics 50 Index remained stable.
- **Expect sales to increase 53% over last year: nearly identical year-over-year trending helps marketers plan for holiday season '06.** Marketers should prepare budgets for an increase in clicks of as much as 40% over April levels. Further pressure on prices for high-demand keywords will also require marketers to secure budget now to ensure they will have visibility on mission critical keywords. This advanced preparation will allow marketers to capitalize on the vital search medium.

Results and Findings

Sophistication of marketers: active campaign management

The total number of keywords within these actively managed campaigns increased throughout the past quarter; up 4% from the end of the first quarter of this year and 58%

from the same period last year. More expensive keywords, those over \$1.00 per click, received proportionally more impressions; up to 20% in June of this year from 14% in March.

The increase in these expensive keywords has come from both an increase in existing keyword prices as well as the addition of newer, more popular keywords. In other words, well performing keywords that previously were “mid-tier” (between \$.21 and \$.99) have been bid up to “expensive” (\$1.00 or more) while additional, new terms have also been added in the expensive range. Concurrently, there is a proportional increase in the number of mid-tier keywords.

The interrelationship of the number of keywords, their costs and the number of impressions indicates that marketers are beginning to understand the value of being highly visible on search engines. They are offsetting these costs by “mining the tail” or finding lower priced keywords to ensure their marketing budgets stay on track.

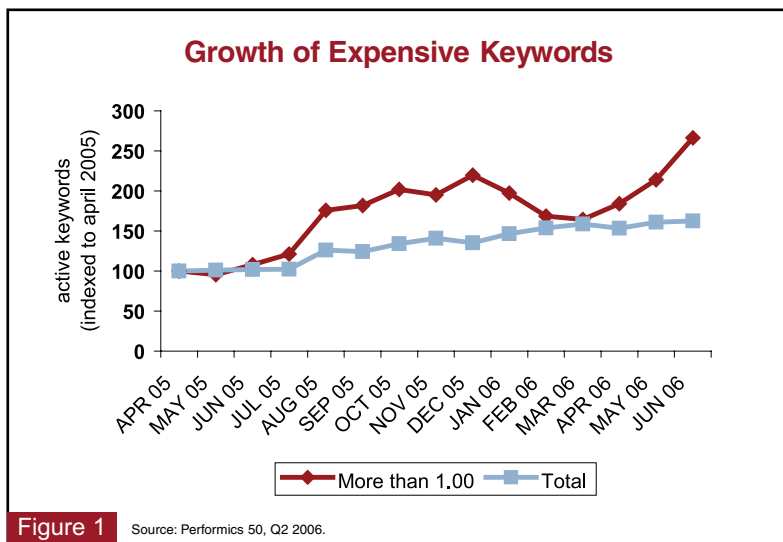


Figure 1 Source: Performics 50, Q2 2006.

Figure 1 shows the growth of expensive keywords relative to other keywords over the past 15 months.

The stability of the average cost per keyword (CPK) also supports this conclusion. As a blended metric, the cost per keyword helps marketers understand the total monthly cost of owning a specific keyword or portfolio of several keywords. Maintaining a steady average keyword cost, by bidding higher on some terms while adding lower priced yet strategically advantageous words, allows marketers or their agencies, to stay within budget parameters while meeting (and in many cases exceeding) ROI or other performance goals.

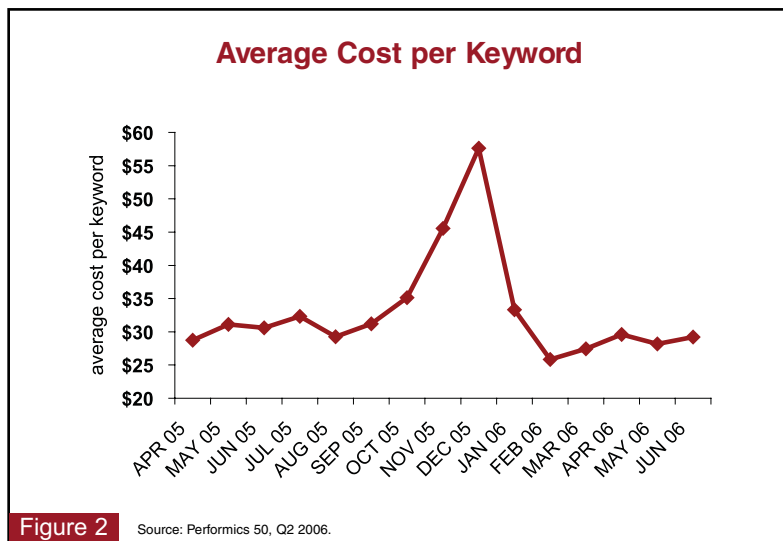


Figure 2 Source: Performics 50, Q2 2006.

Figure 2 shows the stability and seasonality of CPK. As would be expected, there is a tremendous spike in CPK during the winter holiday

season. Using CPK and other metrics to prepare for and forecast the holiday season is discussed below.

Search growth continues unabated

All major metrics exhibited marked growth over last year, ranging from 32% to 58%. Of particular note is the increase in sales, up 57% from the same period last year, with a complimentary increase in the number of keywords. In keeping with typical seasonal trends, no significant change appeared between the second and first quarters of 2006.

However the substantial increase from the same period last year is another indication that the search medium is critical to both consumers and marketers alike. These results are summarized in **Figure 3**.

Quarter-Over-Quarter and Year-Over-Year Growth

	QoQ	YoY
Keywords	+4%	+58%
Impressions	-5%	+49%
Clicks	-8%	+32%
Click Costs	+5%	+51%
Conversions	-4%	+49%
Sales (Dollars)	+6%	+57%

Figure 3 Source: Performics 50, Q2 2006.

Planning for the holiday season: sales will surpass last year's over 50%

Performics' forecast for the upcoming holiday season is based on data from the Performics 50. The information will allow marketers to plan and track performance over the next six months.

The forecast indicates that sales during the fourth quarter of this year may equal the combined sales of the first half of '06, surpassing last year's fourth quarter sales by 53%. Factors that may impact individual results include insufficient budget, hyper-competitive market or industry, and influences outside the control of the marketer or marketer's agency.

Figure 4 shows the trajectory of sales.

Based on the forecast, represented in **Figure 5** (see next page), marketers should

Sales Projected Through '06

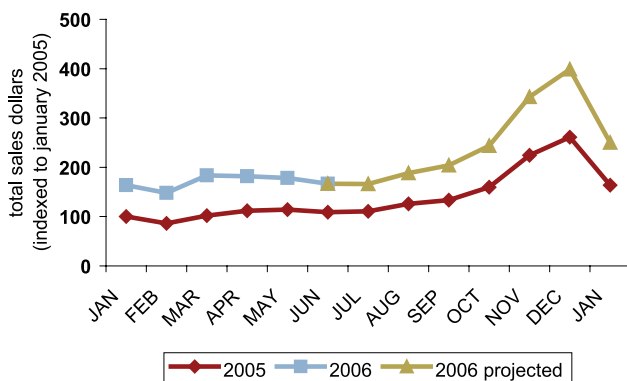
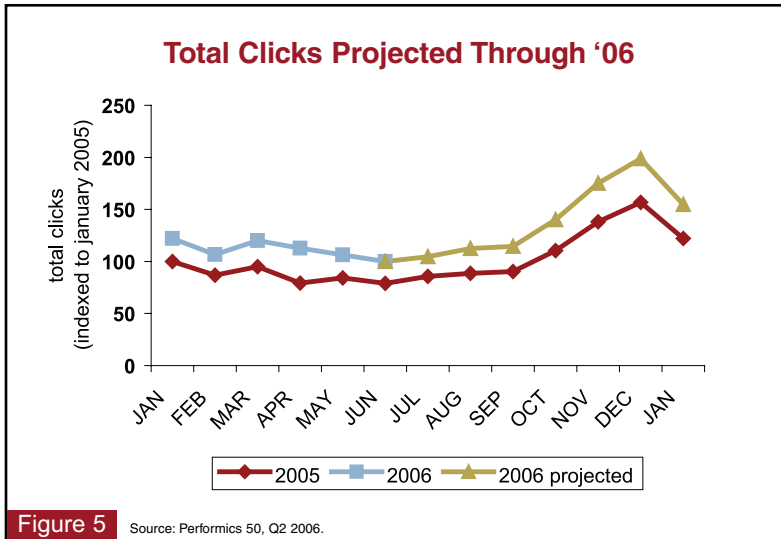
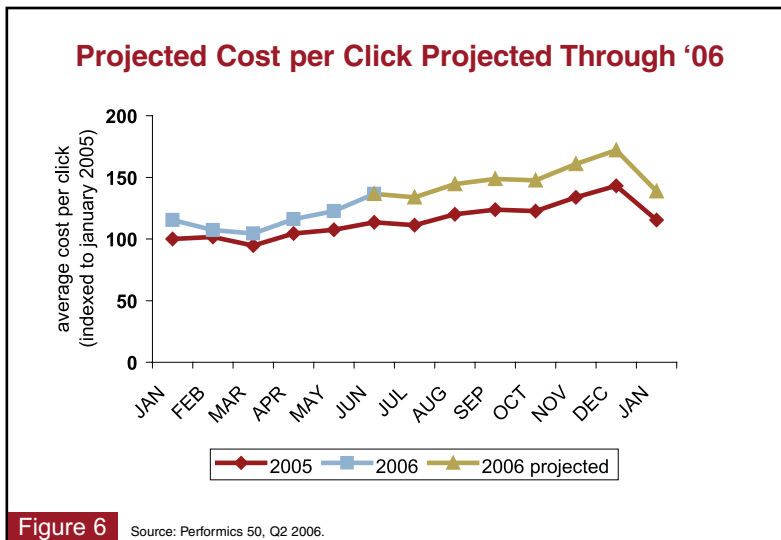


Figure 4 Source: Performics 50, Q2 2006.



expect clicks to increase significantly at the height of this holiday season in December. Total clicks for the fourth quarter will surpass Q4 '05 by 27%. By comparing individual campaigns to the forecasted growth, marketers can make adjustments earlier in the season if performance is not tracking well.

Cost per click will not rise as steeply (as total clicks), yet when combined with the projected increase in clicks, total costs for the fourth quarter will equal the combined first and second quarter spend, as shown in **Figure 6**.



Therefore budgetary allocations should be made or additional budget secured to accommodate this 53% increase over Q4 of last year. As discussed above, average cost per keyword can be managed across a portfolio of keywords by taking advantage of lower priced, yet productive keywords, and proactively managing campaigns.

Conclusions

Assess search engine marketing performance

Most well-managed campaigns should be experiencing strong growth over last year, when judged by increases in sales, impressions, clicks, and/or keywords. Those marketers with lagging programs should evaluate performance discrepancies in comparison to the Performics 50.

Analyses of the number of keywords that have been added over the past year, the visibility of competitive keywords (especially in the face of price increases), and how well “tail terms” are being used will identify areas marketers can improve the growth of their campaigns. Lack of campaign growth may be due to increased competition, lack of sufficient search engine

marketing budget, keyword selection or copy, or site design. Partnering with sophisticated search engine marketing agencies can mitigate and/or reverse some of these concerns.

Additionally, marketers can analyze primary performance indicators such as click-through rate, cost per keyword and conversion rate for individual keywords and groups of keywords in order to see if the slower growth and lower performance are indicative of tactical issues.

For instance, if a click-through rate has dropped or shown relatively poor growth over the last year, consider changing the copy, adding additional keywords or altering the type of keyword buy (broad match vs. exact match, etc.). If the average cost per keyword has increased, adding lower priced keywords can offset this average and ensure greater coverage across all aspects of consumers' buying behavior. Similarly, low conversion rates are often the result of poor landing pages (either lack of relevancy or page design).

Looking into Q4

Prepare for the holidays by securing budget early. Expect to spend as much in the fourth quarter as the first two quarters combined.

Portfolios should include a broad spectrum of keywords at all CPC levels, but should maintain visibility on mission critical words (even if it means sacrificing lower priced keywords temporarily).

The forecast provided above also allows marketers to track performance early. If campaigns are off track in October, early intervention will prevent lost sales in November and December.

Methodology

The Performics 50 represents 50 actual paid search campaigns managed by Performics' SEM experts using our proprietary DART Search platform. It was established in April of 2005 as a means of providing industry benchmarks among search engine marketing campaigns, based on the average number of clicks for the first three months of 2005. Each month after that, new campaigns are added only when campaigns previously in the index deviate significantly in traffic, again based on the average for the three months prior to that month.

Performics manages approximately 280 active campaigns across a wide range of industry categories. The Performics 50, while composed exclusively of Performics campaigns, is therefore intended to reflect the larger universe of marketers engaged in paid search engine advertising.

About Search Marketing with Performics

Performics' approach to managing search marketing encompasses strategy, planning and execution. We consult with clients to identify strategic opportunities in search, both as an ROI-driven channel and an opportunity to establish or extend brands.

With goals established, our expert account teams execute campaigns, relying on our proprietary search management platform and providing full-service support for all aspects of the campaign, including keyword build-outs, copywriting, bid strategy, reporting and analysis. Performics measures its effectiveness in managing search engine marketing programs by helping clients set smart goals and objectives in search and by measuring progress against those goals month-over-month and year-over-year.

About DoubleClick

DoubleClick provides technology and services that empower marketers, agencies and web publishers to work together successfully and profit from their digital marketing investments. Our focus on innovation, reliability and insight enables clients to improve productivity and results.

Since 1996, DoubleClick has empowered the original thinkers and leaders in the digital advertising industry to deliver on the promise of the rich possibilities of our medium. Today, the company's DART and Performics divisions power the online advertising marketplace. Tomorrow, we will continue to enable clients to profit from opportunities across all digital advertising channels as consumers worldwide embrace them.

DoubleClick has global headquarters in New York City and maintains 21 offices around the world to serve its more than 1500 clients.

For more information about Performics Search Marketing services and technologies please contact: sales_team@performics.com

For more information about DoubleClick's original research, please visit www.doubleclick.com/knowledge