
Highlights from *The State of Search Engine Marketing 2007*

***Survey of Advertisers and Agencies
Search Engine Marketing Professional Organization (SEMPO)
March 2008 – SES NYC***

Complete Results for SEMPO Members Only



Research Project Objectives

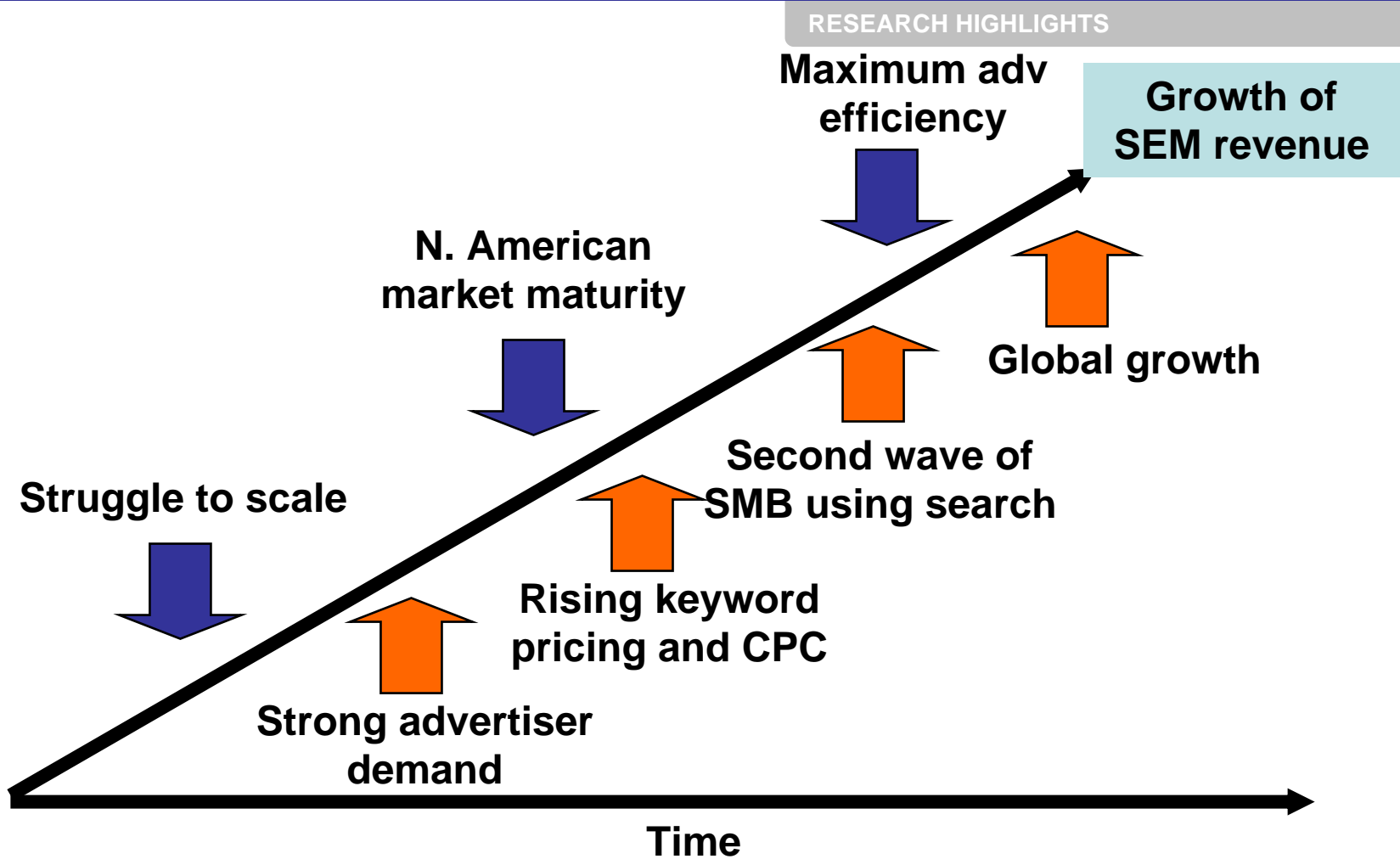
PROJECT OVERVIEW

Radar Research, 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**

Economy & Industry Growth

SEM growth will be driven by both its global reach and improved local services



Despite Economic Woes, Search Will Hold Steady

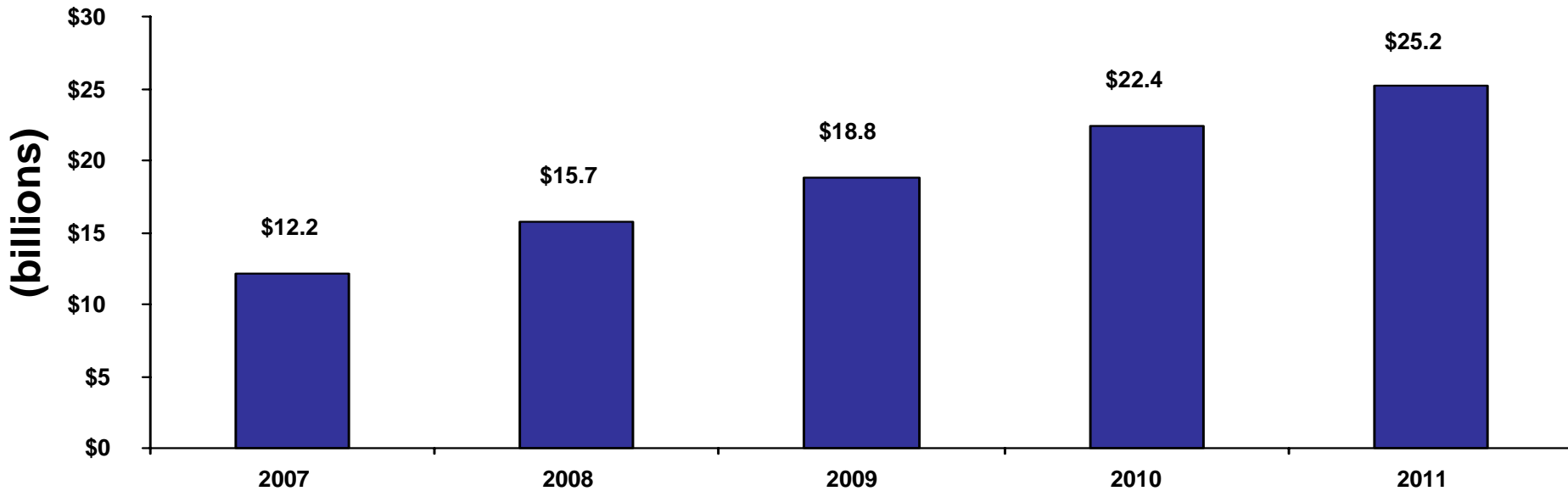
- We predicted 2007 would hit \$11.5B, but we actually hit nearly \$12.2 Billion!
- Here's the breakout:
 - Paid Placement: \$10.6 billion (87% percent of total)
 - SEO: \$1.3 billion (11%)
 - Paid Inclusion: \$85 million (<1%)
 - SEM Technologies: \$171 million (1.4%)
- Although we do project some overall flattening of total budgets and some inflexibility on click pricing, we do not foresee a significant drop in overall market . Search continues to hold its value in a marketing/media portfolio.
- **2008 Projection: \$15.7B**

North American SEM Expenditures to Reach \$25.2B in 2011

RESEARCH HIGHLIGHTS

- Growth will be driven by:
 - Advertiser demand
 - Rising keyword pricing and cost per click
 - Increase in small-to-midsize businesses using SEM
 - Greater consumer usage of search utilities
 - Better targeting and niche offerings

Search Engine Marketing Projections, North America 2007-2011



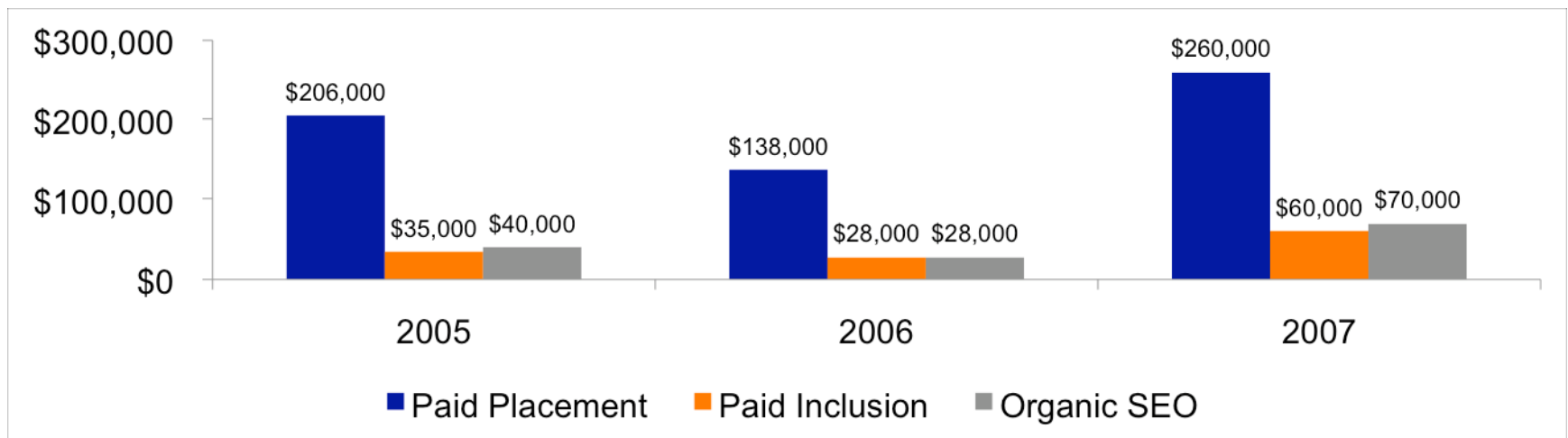
Agencies: Average Client Spending Is Increasing After a Slight Dip in 2006

AGENCIES > OVERVIEW

- Agency respondents say on average their average clients are spending approximately \$260,000 on Paid Placement, up from \$138,000 in 2006 and \$206,000 in 2005
- Paid Inclusion and Organic SEO also rose from 2006, with average client spend on PI now \$60,000 and Organic SEO now \$70,000

Gross Client Spend Estimates – 2005-2007

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

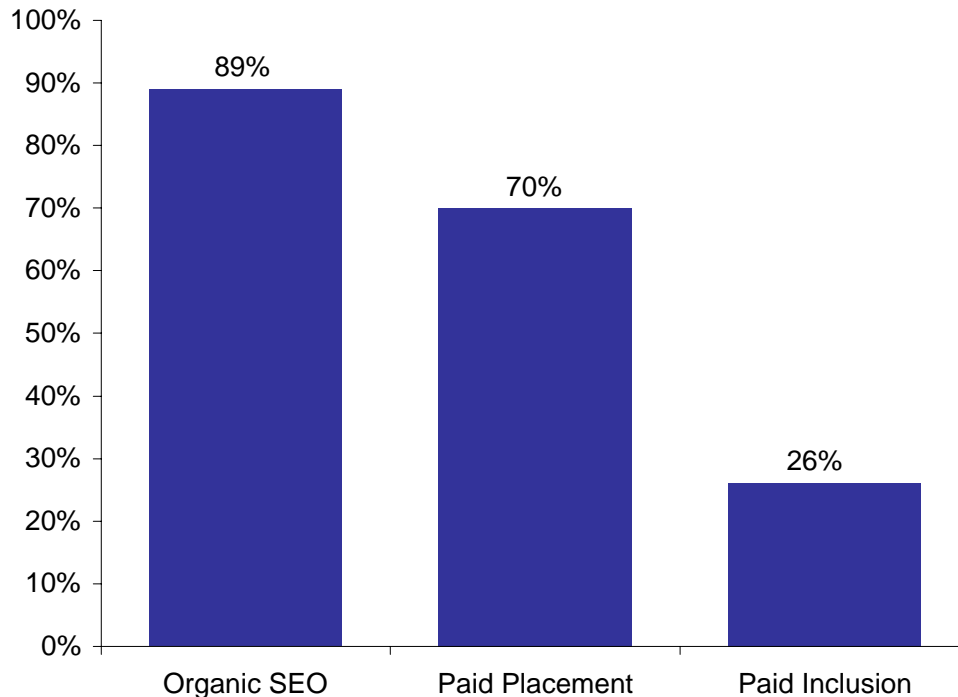


Organic SEO Most Popular of SEM Programs With Advertiser Respondents - and Growing

RESEARCH HIGHLIGHTS

Engagement in SEM Programs

"Do you currently engage in ...?"



- Nine out of ten advertiser respondents (89%) engage in organic search engine optimization - up drastically from 2006
- More than two-thirds (70%) engage in paid placement - on par with last year
- About a quarter (26%) of advertisers engage in paid inclusion, a slight increase from 2006

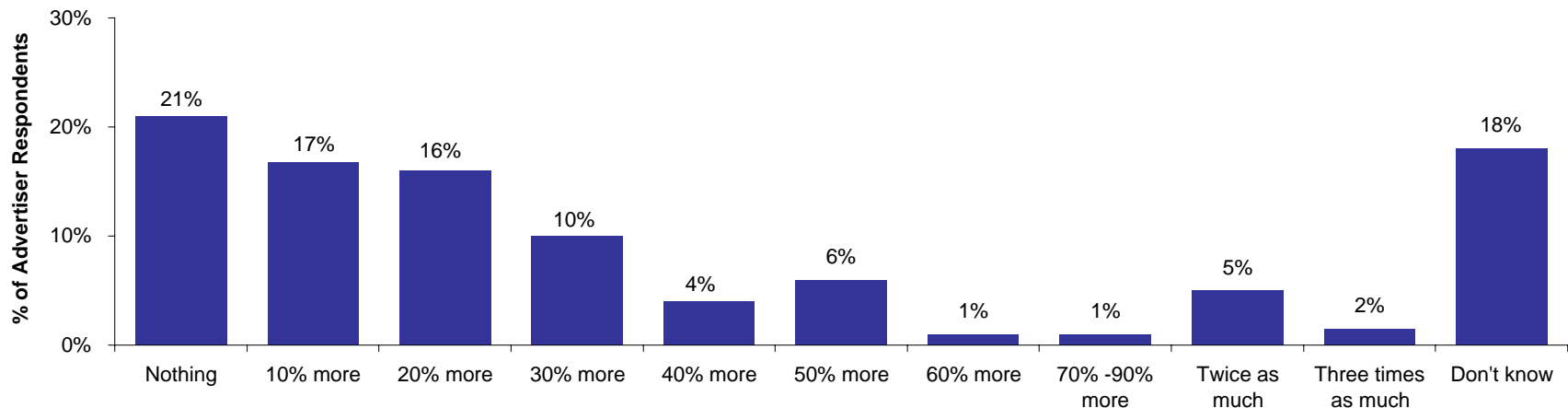
Most Advertiser Respondents Could Still Tolerate Further Price Rises, at Moderate Levels

RESEARCH HIGHLIGHTS

- Over three-quarters of respondents said they could tolerate further rises in paid placement prices
- 21% report they cannot afford to pay more for leads/conversions** because they are currently at maximum efficiency, a slight decrease from 2006, and on par with 2005
- Even among advertisers who report the capacity to increase ad expenditure, more than half can afford 30% or less
- Despite increasing ad spend and year-to-year growth in the value of search engine marketing, **we are likely nearing a pricing plateau as advertisers near their maximum efficacy.**

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?"

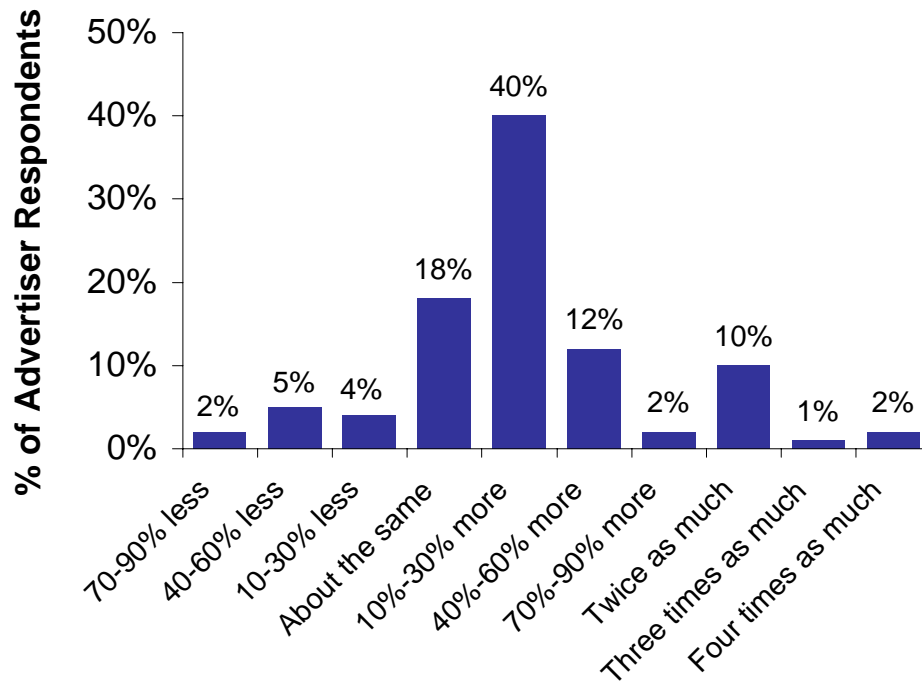


Advertisers Plan to Increase Their Spending on Paid Placement Moderately in 2008

ADVERTISERS > PAID PLACEMENT

Spending Expectations for 2008

"How much more or less do you expect to spend in 2008 compared to 2007 for 'Paid Placement' programs (including all forms of expenditures noted above)?"



- **Two-thirds of respondents planned to increase their spending on paid placement campaigns in 2008**
- One third of advertiser respondents expect to spend less or the same
- Only 13% plan to double their spending on paid placement in 2008
- These numbers are significantly more conservative than in last year's survey

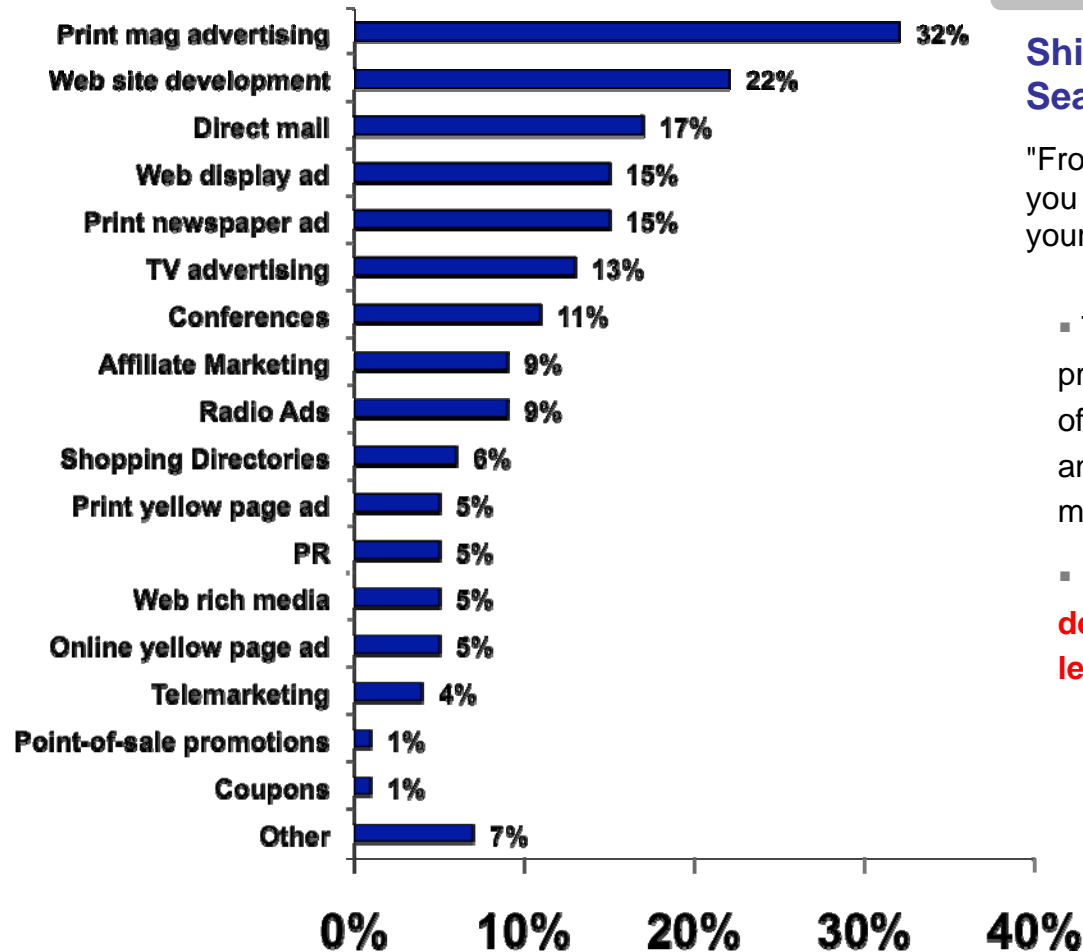
SEM Is Poaching Budget From Both Online and Off-line Marketing Programs

RESEARCH HIGHLIGHTS

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?"

- The biggest shares of budgets for SEM programs are being shifted away from offline marketing such as print, direct mail and TV advertising, as well as online marketing such as Web site development
- **Both print advertising and Web site development face significantly higher levels of cannibalization than in 2006**



Resources: Inhouse & Agency

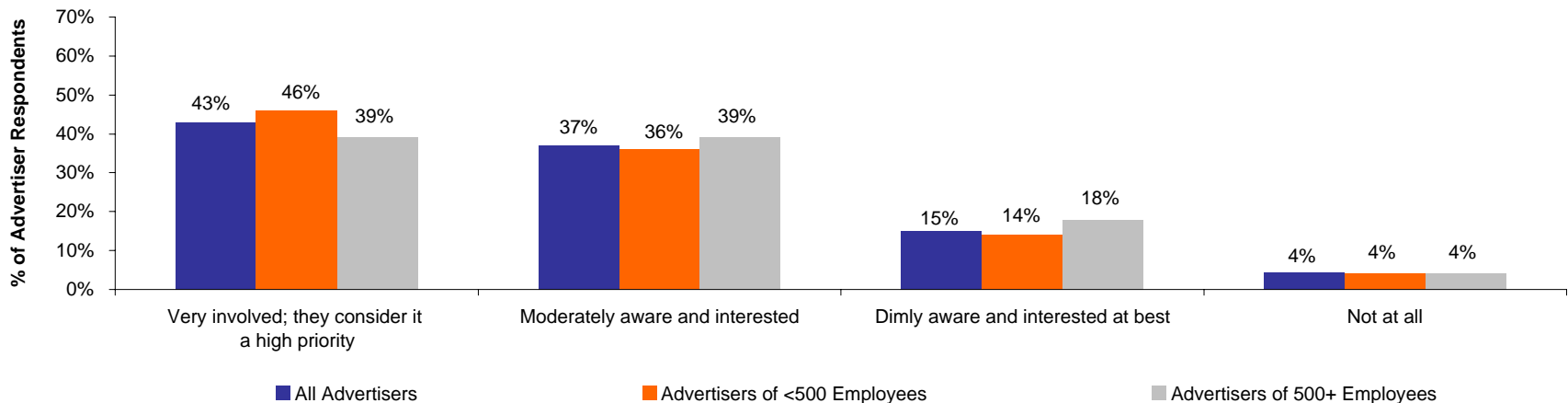
Senior Executives Appreciate the Value of SEM

RESEARCH HIGHLIGHTS

- Less than half of all advertiser respondents said that senior management at their companies were "very involved" in SEM programs and considered them "a high priority"
- **Although senior management involvement has shrunk drastically among smaller advertisers since 2006, it has grown among larger advertisers**
- Four in five companies report that senior management is involved at least to a moderate degree

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?"



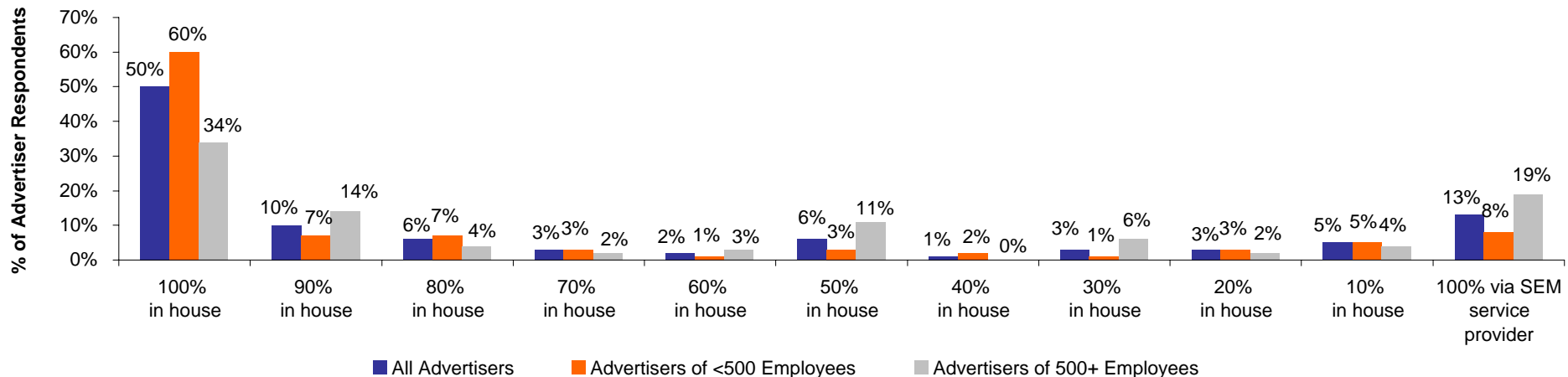
Half of 2008 Paid Placement Spending Will Be Managed In-House, Not Outsourced to Agencies

RESEARCH HIGHLIGHTS

- Half of advertiser respondents said they plan manage **all** of their 2008 paid placement spending in-house; larger firms were more likely to outsource more of their campaign budgets - **a slight drop from last year's survey**
- A quarter of advertisers plan to outsource more than half of their paid placement expenditures in 2008, similar to the number in last year's survey

Management of Planned 2008 Paid Placement Spending

"How much of your planned spending next year (2008) for Paid Placement programs are you likely to manage with in-house resources versus through an external search engine marketing service provider?"

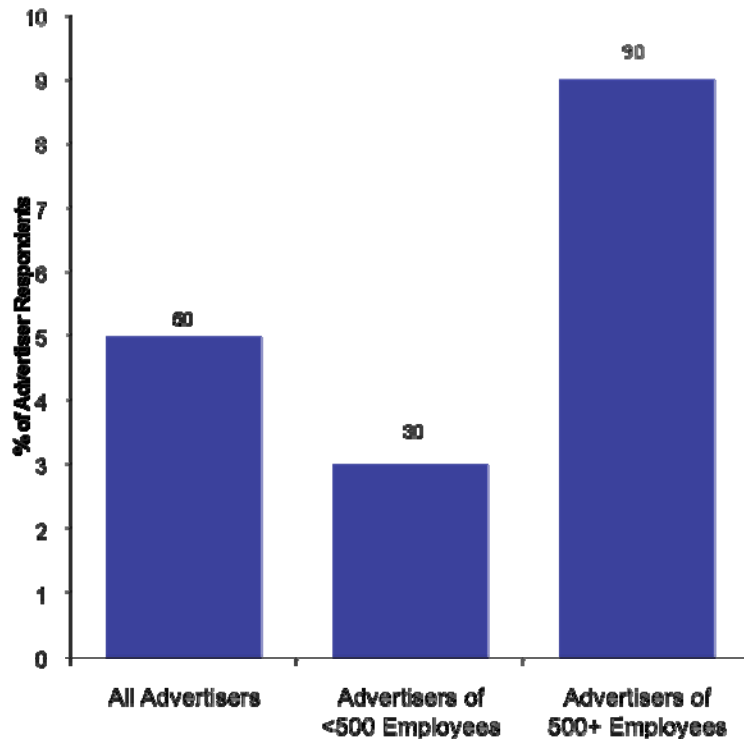


On Average, Advertiser Respondents Had Five Employees With ANY SEM Responsibility

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?”



- Advertisers are dedicating more staff to search, with five employees on average having any SEM responsibility, **up from four in 2006**.
- Large firms (500 or more employees) had nearly three times as many staff members with some SEM responsibility compared to smaller firms

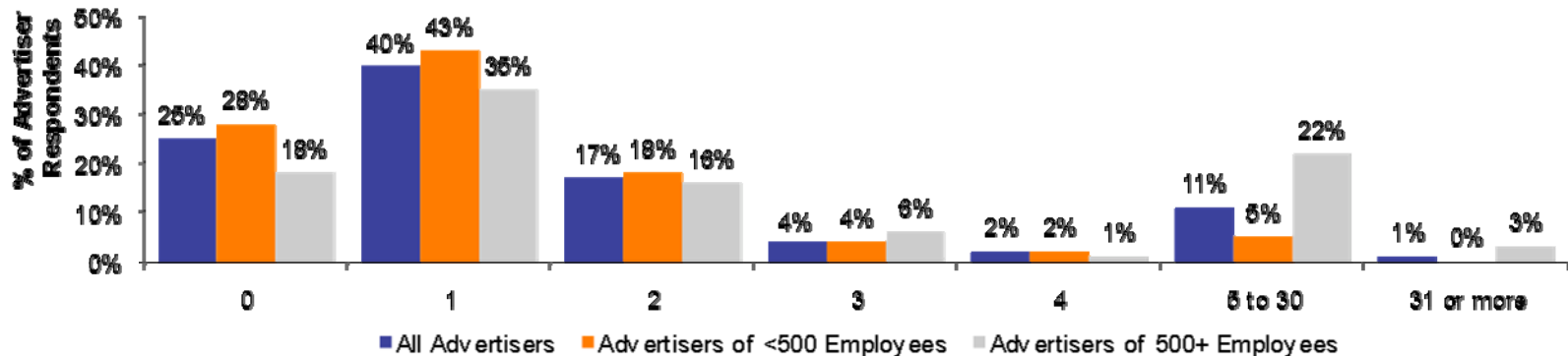
On Average, Advertisers Have 2 Full-Time Employees DEDICATED to SEM

ADVERTISERS > GENERAL

- On average, advertiser respondents had 2 employees devoted full-time to search engine marketing programs
- Larger firms are far more likely to have five or more full-time employees focused on SEM
- Just a quarter of firms did not have any employees devoted full time to SEM, considerably lower than last year's third of advertisers that did not have any full-time SEM-devoted employees.**

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?”



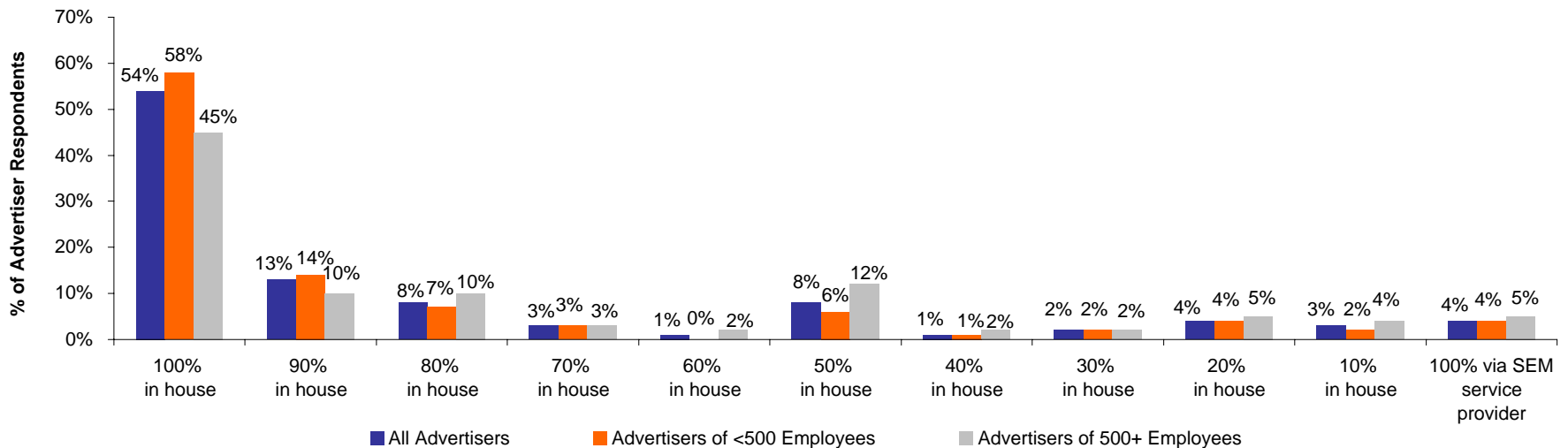
Majority of 2008 Organic SEO Spending Will Be Managed In-House, Not Outsourced to Agencies

RESEARCH HIGHLIGHTS

- Over half of advertiser respondents said they plan to manage **all** of their 2008 organic SEO spending in-house; larger firms were more likely to outsource more of their campaign budgets
- Only 14% of advertisers plan to outsource the majority of their organic SEO spending in 2008

Management of Planned 2008 Organic Search Engine Optimization Spending

"How much of your planned spending next year (2008) for Organic Search Engine Optimization programs are you likely to manage with in-house resources versus through an external search engine marketing service provider?"

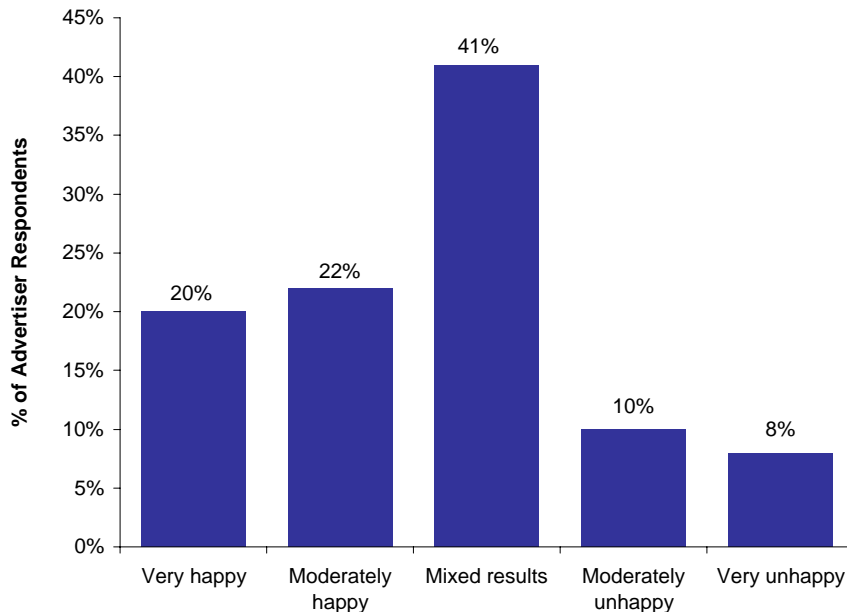


Advertisers report mixed results for their satisfaction level with their agencies

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?"



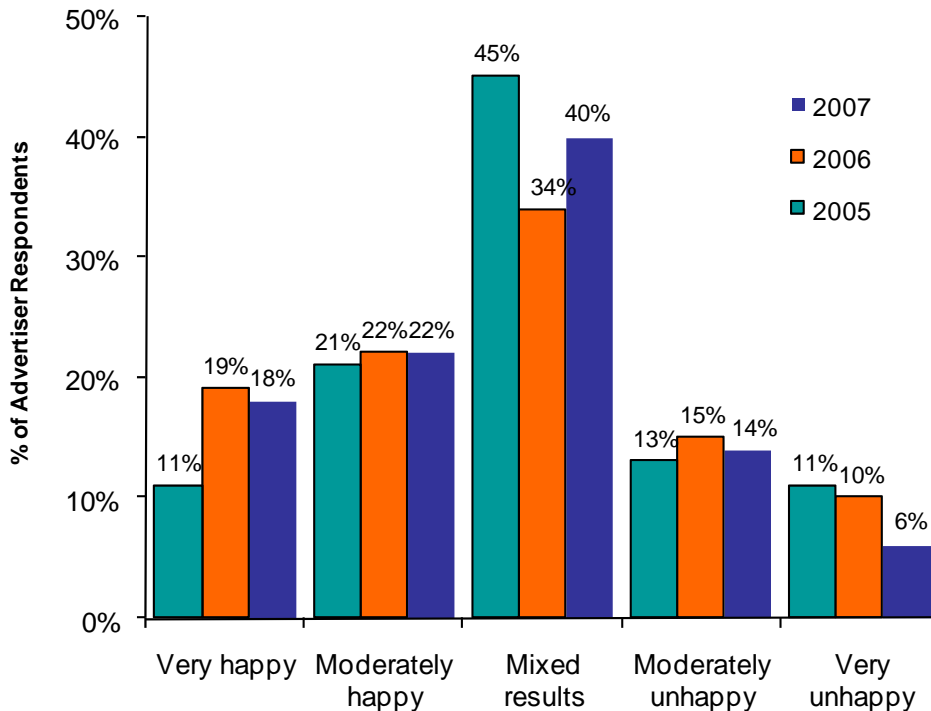
- **Two in five (42%) of respondents said they were happy ("moderately" or "very") with their SEM agencies for paid placement campaigns; this is a significant leap up from 2006**
- Fewer than one in five respondents are unhappy ("moderately" or "very") - a commensurate drop
- Two out of five of advertisers report "mixed results" when asked for their satisfaction level

4 in 10 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?”



- Satisfaction is on par with last year, **although dissatisfaction is significantly lower than in prior years.**
- A fifth of advertiser respondents still report they are moderately or very unhappy with their SEO agency.
- Four in ten respondents (40%) report mixed results
- Four in 10 respondents report they are moderately to very happy with their SEO agency, equivalent to last year, but still nowhere near 2004 levels, when two-thirds of advertiser respondents reported they were happy with their SEO firm

Organic SEO Holding Strong

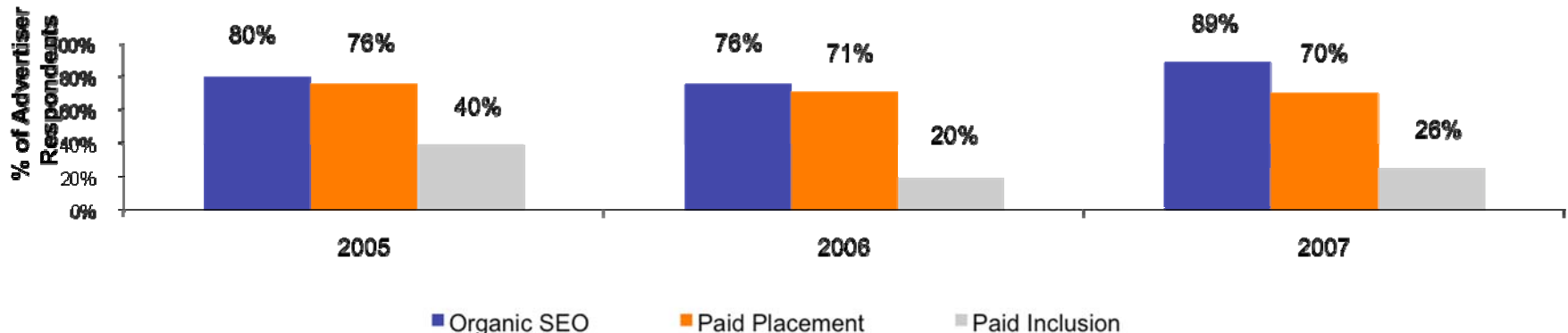
Year Over Year Trends in Tactical Engagement for Advertisers

RESEARCH HIGHLIGHTS

- **Organic SEO has always been the favored search marketing tactic among advertisers, but its popularity has risen significantly since 2006**
- Paid inclusion dropped dramatically in 2006, but saw a slight rise in 2007
- Paid placement's popularity has declined slightly year-to-year

Engagement in SEM Programs

"Do you currently engage in ...?"



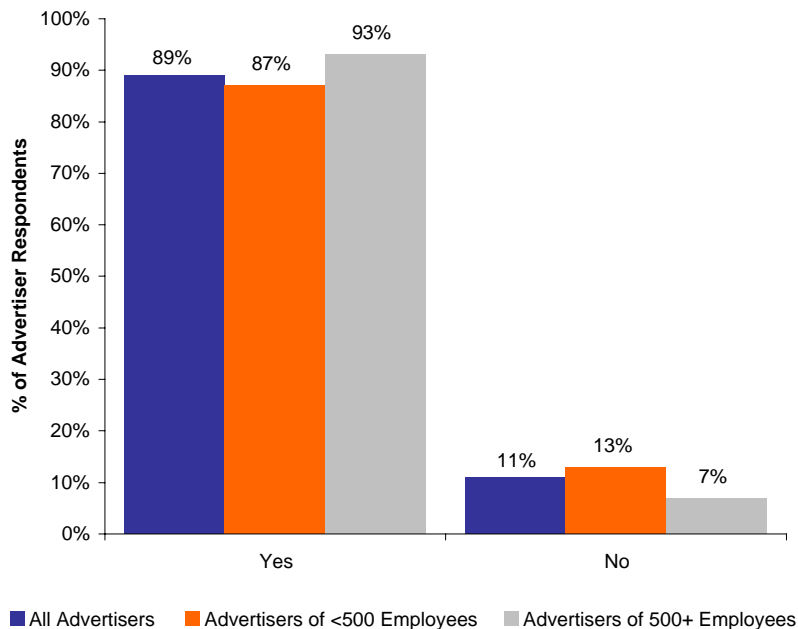
89 Percent of Advertisers Use Organic Search Engine Optimization

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 more popular with larger firms than with smaller ones – consistent with the 2006 survey



2007 North American SEM Industry Size Estimate, by Tactic

RESEARCH HIGHLIGHTS

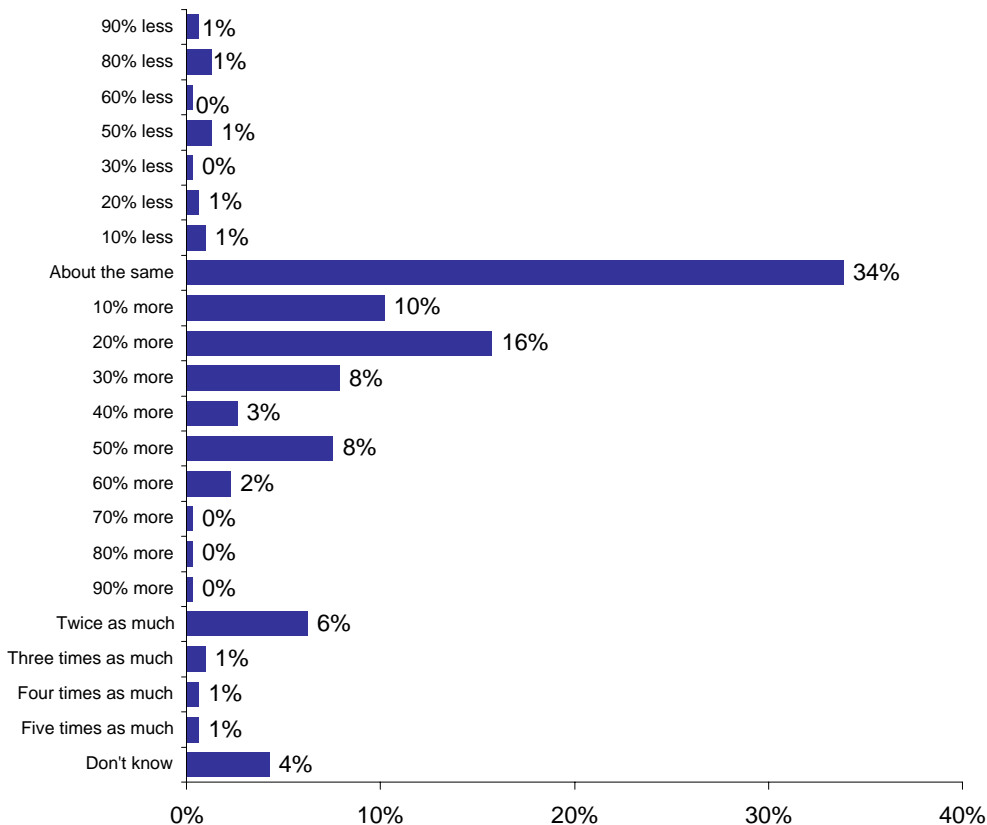
	2007 Advertiser SEM Spending	Share of Total	Share of Tactic
Paid Placement	\$10,648,350,000	87.4%	
Search Media Firms	\$9,597,200,000	78.8%	90.1%
SEM Agencies	\$308,640,000	2.5%	2.9%
In-House	\$742,510,000	6.1%	7.0%
Paid Inclusion	\$85,290,000	0.7%	
Search Media Firms	\$76,760,000	0.6%	90.0%
SEM Agencies	\$8,530,000	0.1%	10.0%
Organic SEO	\$1,279,210,000	10.5%	
SEM Agencies	\$263,510,000	2.2%	20.6%
In-House	\$1,015,700,000	8.3%	79.4%
SEM Tech	\$171,690,000	1.4%	
Leasing	\$12,470,000	0.1%	7.3%
SEM Agencies	\$61,540,000	0.5%	35.8%
In-House	\$97,680,000	0.8%	56.9%
Total	\$12,184,540,000		

Average Advertiser Respondent Plans to Spend Roughly a Third More on Organic SEO in 2008

ADVERTISERS > ORGANIC SEO

Spending Expectations for 2008

"How much more or less do you expect to spend in 2008 compared to 2007 for Organic Search Engine Optimization?"



- Nearly two-thirds of advertiser respondents said they expected to spend more on organic SEO in 2008 compared to 2007
- This is consistent with growth expectations from the previous year

Innovations and New Channels

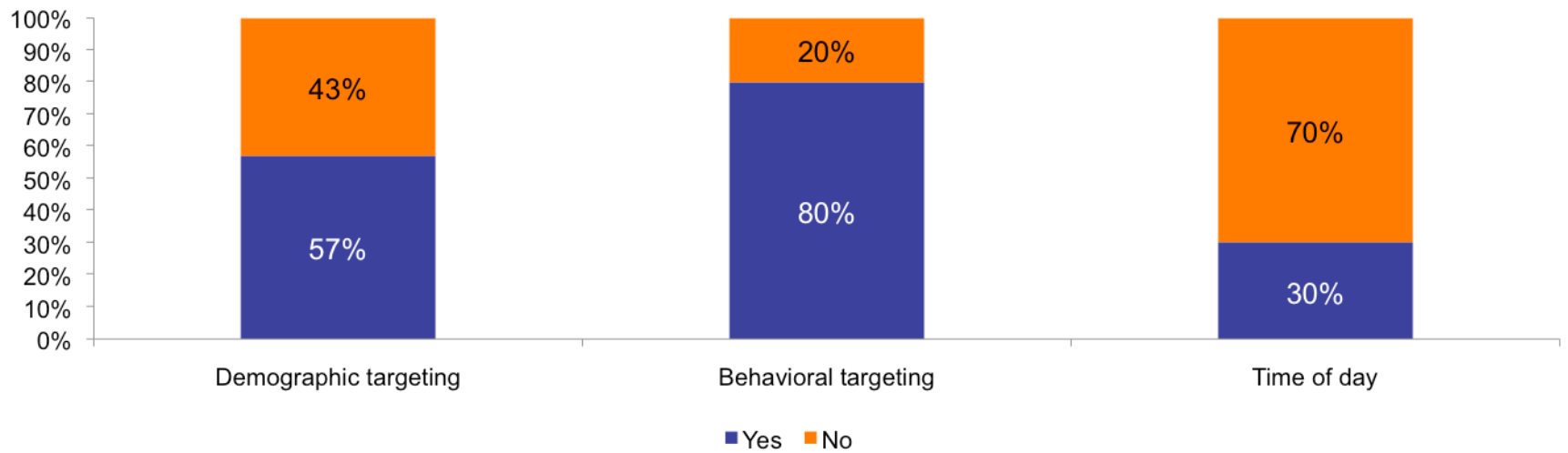
Advertisers Are Overwhelmingly Interested in Behavioral Targeting Opportunities

ADVERTISERS > TARGETING

- Four out of five advertisers indicated they were willing to pay more for behavioral targeting opportunities, particularly for in-market consumers
- There is also strong interest in demographic targeting that allows marketers to reach certain demographics such as age and gender, however advertisers are not particularly enthralled by the prospect of daypart targeting
- Advertisers on average would pay 11% more for both behavioral and demographic targeting, and 9% more for daypart

Willingness to Pay More for Certain Types of Targeting

"Are you willing to bid more for clicks based on the following types of targeting criteria"

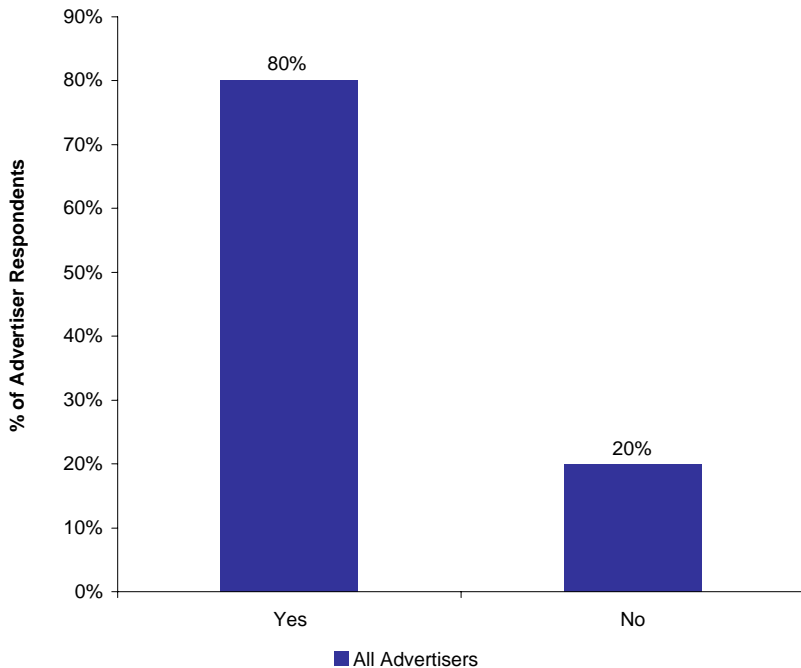


Advertiser Respondents Are Willing to Bid More in Order to Reach Consumers Based on Behavior

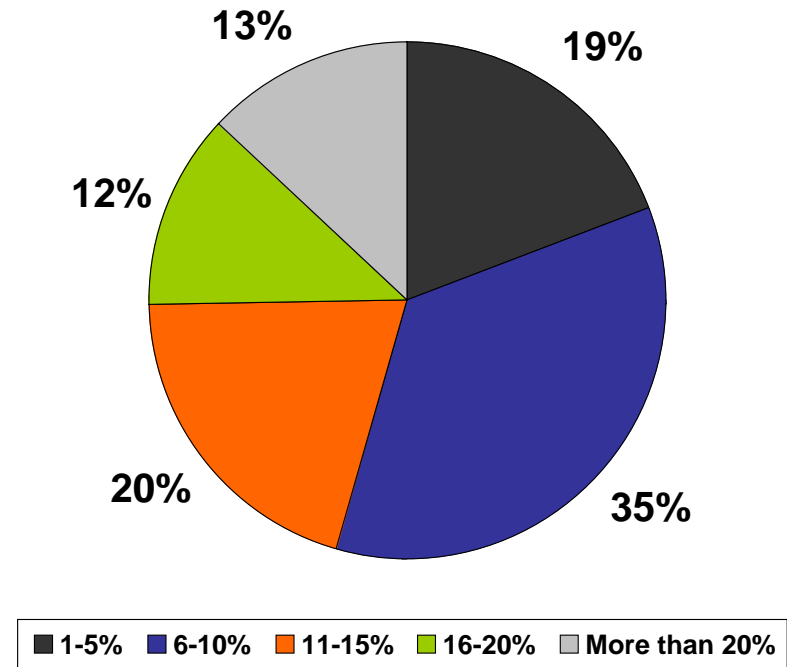
ADVERTISERS > TARGETING

Behavioral Targeting

■ Are you willing to bid more for clicks based on behavioral information such as in-market consumers (i.e. consumers currently shopping for a specific product)?



■ How much more would you pay for optimal behavioral projections on future purchases?



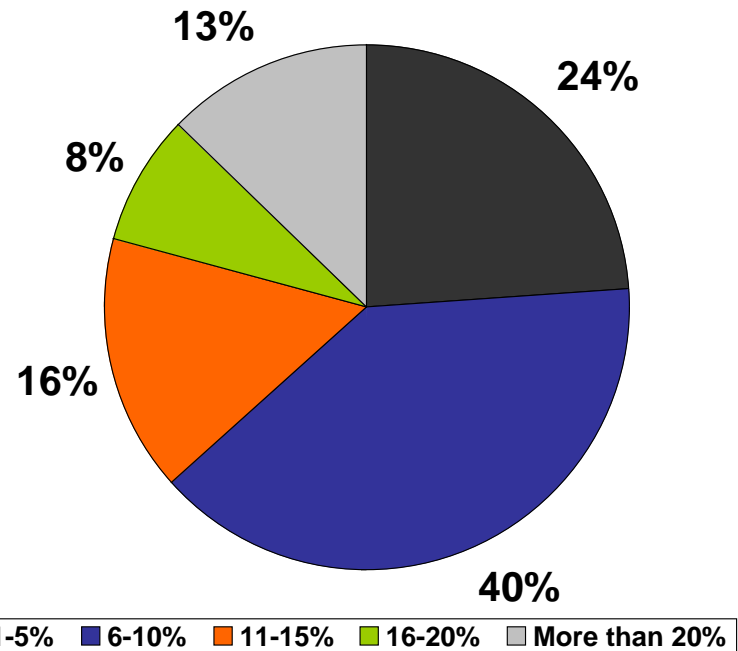
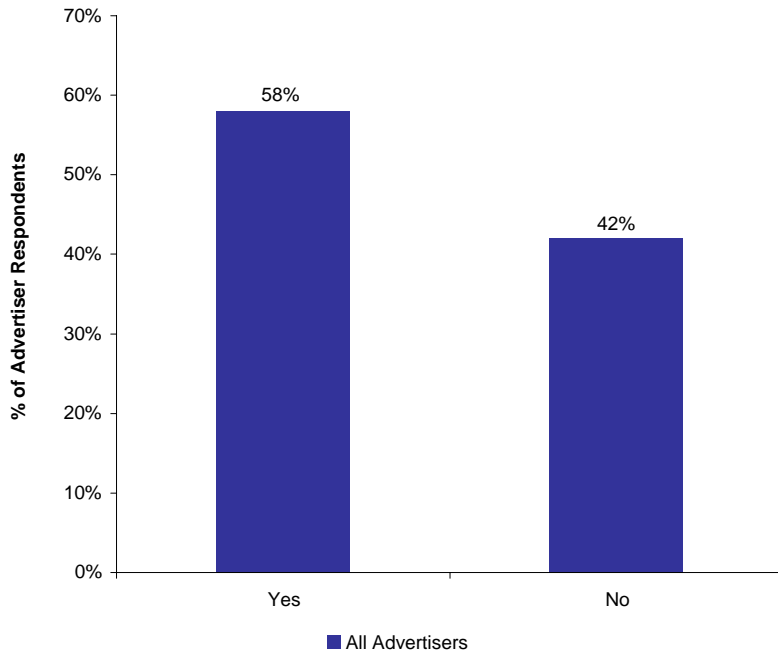
Most Advertiser Respondents Are Willing to Bid More in Order to Reach Particular Demographics

ADVERTISERS > TARGETING

Demographic Targeting

■ Are you willing to bid more for clicks that only reach certain demographics such as age and/or gender?

■ How much more would you pay for the optimal age/gender combination?

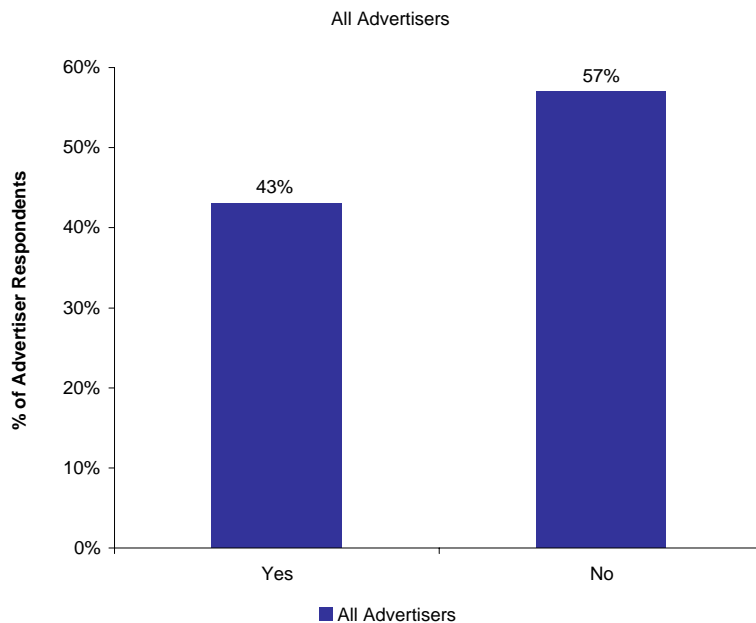


Advertisers Report a High Level of Interest in Video Advertising Tied to Video-Related Search

ADVERTISERS > NEW PLATFORMS

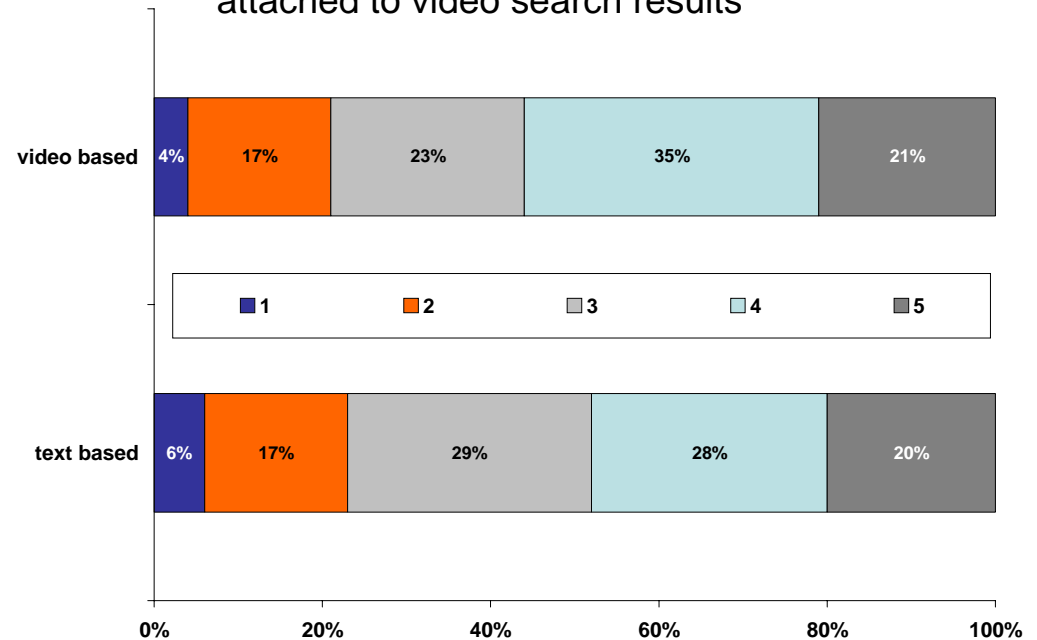
Video Search Targeting

Would you be interested in contextually targeted advertising attached to video search results?



If yes, how interested are you in the following? (Scale of 1-5, 1=lowest, 5=highest)

There is greater interest in video advertising attached to video search results

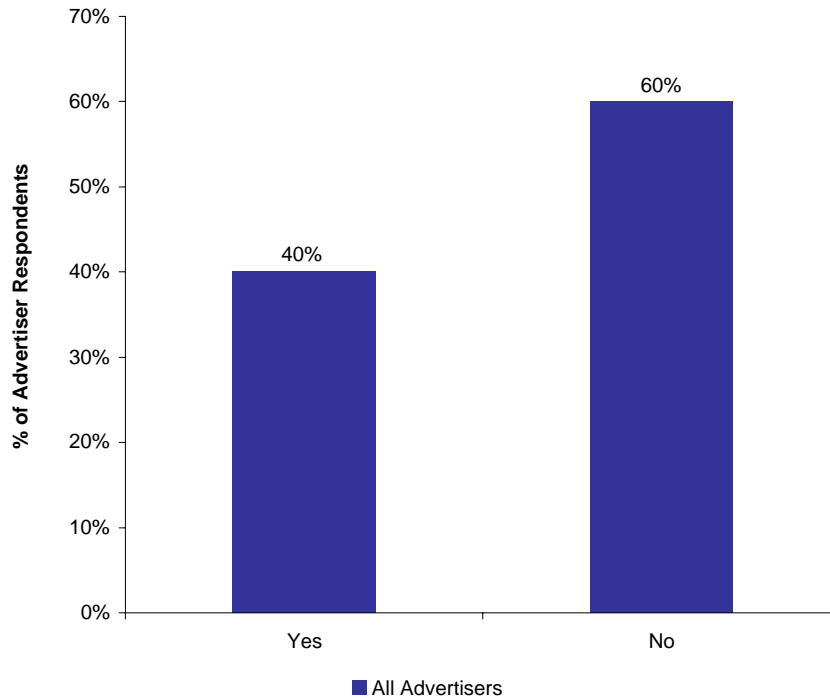


Growing Interest in Mobile Search, Though Level of Interest is Widely Distributed

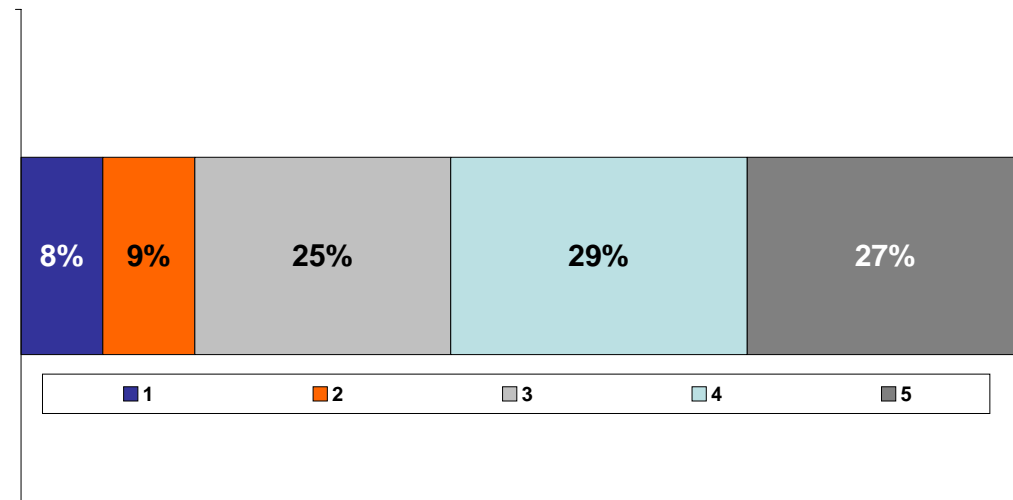
ADVERTISERS > NEW PLATFORMS

Mobile Search Targeting

- Would you be interested in contextually targeted advertising delivered to mobile search users?



- How interested are you in being able to serve geographically relevant advertising to mobile search users? (Scale of 1-5, 1=lowest, 5=highest)



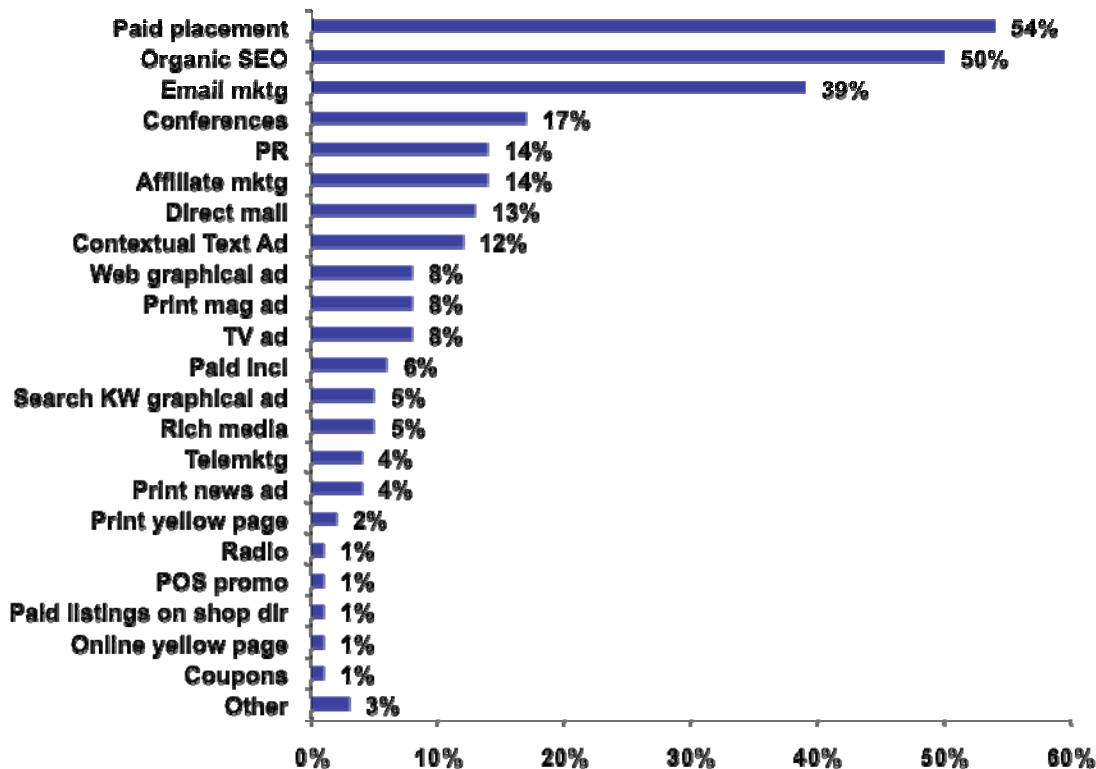
Summary: Still Rockin' the ROI

Paid Placement and Organic SEO Top the Chart for ROI Value

ADVERTISERS > GENERAL

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?" (ranked 1-3)



- Paid placement, organic SEO and email marketing provide the highest ROI for advertising respondents of any marketing vehicles in their marketing mix

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 Radar Research, LLC**

Radar Research is a Los Angeles-based research and consulting firm aimed at the nexus of media, technology, culture and commerce. It was founded by two former JupiterResearch analysts, Marissa Gluck and Aram Sinnreich. Radar conducts research on behalf of both corporate clients and non-profit organizations, such as Google, DoubleClick, Sony Pictures Entertainment, the Advertising Research Foundation, Nokia, Ipsos-ASI, the Electronic Frontier Foundation, and The Norman Lear Center, among others. For more information, please visit www.radarresearch.com

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SEMPO.org & SEMPOinstitute.com

Complete Results for SEMPO Members available April 1 or sooner at www.sempo.org (login required) or email info@sempo.org

SEMPO is a global non-profit organization serving the search engine marketing industry and marketing professionals engaged in it. Our purpose is to provide a foundation for industry growth through building stronger relationships, fostering awareness, providing education, promoting the industry, generating research, and creating a better understanding of search and its role in marketing.

