Search Engine Marketing:
Five Best Practices that Drive ROI

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Executive Summary

Search has become the entryway to the broader Internet for millions, as more and more people learn that it's easier to get to a site with search than to type a long URL into the browser. Search allows people to type in a word or two and be presented with a list of relevant sites, enabling them to quickly find what they are looking for. Search not only cuts out awkward keystrokes, it also corrects for spelling errors, so you get to your destination faster and with less frustration. The growing number of people using portals and search sites confirms the growing importance of search. Portals such as Yahoo! and MSN have more than 130 million unique visitors a month and search sites such as Google have more than 110 million.

The search engine results pages on these sites represent access to millions of eyeballs. Savvy ecommerce organizations are recognizing the value of paid advertisements and sponsored links on these pages and are relying on them as a strategic source of traffic, revenue, and customer acquisition. Search has become a compelling advertising channel because search terms provide context which enables more precise targeting. Someone searching for *auto dealers*, for example, is probably looking to buy a car.

But search marketers face a tough challenge today. Intense competition is driving up prices for popular search terms, making it more expensive for marketers to buy the keywords they want and get adequate return on investment (ROI). A number of search marketers, however, are achieving success by implementing search engine marketing (SEM) best practices to:

- Balance spending on search against spending on other channels
- Manage keyword inventories more effectively
- Leverage high-value, low-cost search terms to increase conversion while reducing costs
- Strengthen messaging to bring in more qualified traffic
- Develop a sound keyword bidding strategy to achieve maximum ROI

This paper briefly describes the challenges and opportunities related to today's SEM environment and identifies the best practices successful online brands are using to enhance their SEM efforts.
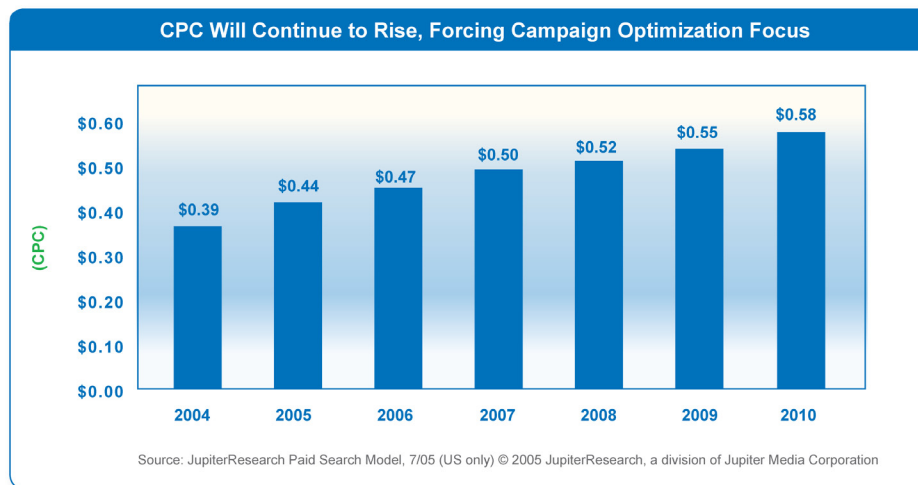
SEM Challenges and Opportunities

SEM advertising costs are skyrocketing as a growing number of advertisers attempt to capitalize on the search opportunity. According to independent research firm Forrester Research Inc., advertisers spent $7 billion on SEM in 2006 and will spend $11 billion a year by 2010.[1]

Desirable keywords that were once relatively cheap are being bid up as more and more advertisers compete for them. JupiterResearch, another leading independent research firm, reports that the average cost per click, which was $0.39 in 2004, has risen to an estimated $0.47 in 2006.[2] Costs will continue to rise as new brands exploit the search opportunity and current marketers increase SEM budgets. Figure 1 shows Jupiter projections for cost-per-click increases through 2010.

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[1] *US Online Marketing Forecast: 2005 To 2010*, Charlene Li and Shar VanBoskirk, Forrester Research, Inc., 2005.

[2] *Paid Search Forecast, 2005 to 2010*, Online Search, Volume 3, 2005, JupiterResearch, a division of Jupitermedia Corporation.

Figure 1. Rising Cost per Click (CPC): CPC Forecast 2004-2010.

CPC Will Continue to Rise, Forcing Campaign Optimization Focus

Source: JupiterResearch Paid Search Model, 7/05 (US only) © 2005 JupiterResearch, a division of Jupiter Media Corporation

As cost per click increases, the importance of maximizing the value of every single click increases with it. Companies that are unable to convert visitors who click through on a sponsored link at a profitable rate will quickly be priced out of the search race. This is especially true for generic terms such as *travel, loan*, or *laptop* that easily apply to many brands.

A Lack of Comprehensive, Integrated Data

Getting the most from your investment in SEM is difficult unless you have comprehensive data that lets you measure actual performance. Keyword impressions, average position, keyword click-through rate, and other metrics from search engines such as Google and Yahoo! provide valuable insight into success. However, they provide only one piece of the equation. To accurately measure performance, you need to understand how people respond after they search, gaining insight into:

- The number of visits an ad drove
- How many visitors clicked through
- How many visitors converted
- Which items those visitors viewed and purchased
- The number of times those visitors returned
- The lifetime value of each visitor
- Landing page *bounce rates*, or how many visitors left the web site after viewing just the landing page

Analyzing post-click behavior provides a more complete picture of the true value of your search marketing campaigns and allows more informed decisions about bidding strategies, creative, keyword selection, and landing pages. But customer behavior is highly complex. A visitor may reach your site as a result of clicking on a banner ad, browse, and then leave the site. Natural search might bring that visitor back to make a purchase. An email campaign or other marketing activity might draw the user back for additional purchases.

This tendency for multiple visits and interaction with multiple media makes it difficult to identify how search influenced the customer experience in different ways over time. Through its experience with major online brands, Coremetrics has learned that the solution to this problem lies in building detailed profiles of individual customer behavior.

With this approach, when a visitor clicks through on a marketing link and arrives at a web site for the first time, a profile is created. Once the profile is created, every marketing link clicked on, every page viewed, and every product bought, is captured in the profile where it can be analyzed and understood. This information allows you to fully understand the search terms that acquire visitors, those that people click on just prior to purchase, and even the interplay of email, banner ads, natural search, and other marketing links that influence the conversion process.

Analysis of customer behavior helps you identify the interests of various customers and customer groups and allows you to test response to different types of SEM campaigns. It also lets you track the paths people take as they navigate your site, the items they transact, and the actions they take.

Integration of this behavioral data with search engine data allows you to derive important metrics such as cost per lead, cost of sales, and return on advertising spend (ROAS), enhancing your ability to measure and improve the effectiveness of specific campaigns. The result is comprehensive, integrated data that allows you to measure the value of paid search in terms of the customer response and conversion that it drives. Profiles provide visibility into the behaviors of searchers on your site so you can move them past visiting to actually browsing product pages and ultimately converting.

Additional Obstacles to SEM Success

The lack of comprehensive, integrated data is only one obstacle that has kept online brands from enhancing their SEM efforts. Others include:

- *Managing search in a silo*. Marketers today struggle to track search in the context of all of the site marketing efforts that are in place. Without the right kind of data, they are forced to manage search in a silo separate from other marketing efforts.

- *Complexity of keyword management*. As ecommerce sites try to capitalize on search marketing opportunities, they are expanding the number of keywords they purchase. Many have tens or hundreds of thousands of words in their inventory. Some have millions. Managing so many keywords is time consuming and expensive.

- *Rising costs*. As cost per click rises for popular keywords, so do campaign costs. To overcome this obstacle, you need to identify keyword opportunities that cost less and deliver a higher ROI.

- *Poor targeting*. Generic keywords often bring in unqualified visitors, increasing campaign costs without increasing conversion.

- *Undifferentiated messaging*. Messaging in sponsored links doesn't always clearly position the advertiser to ensure that people who click through will stay and convert.

- *Immature bidding strategies*. Simple strategies that rely on obtaining the top position on search results pages can adversely impact profitability. Consequently, marketers need to leverage strategies that appropriately value keywords to avoid paying premium prices for top position — unless other factors come into play to justify the investment.

Proven Best Practices

A number of search marketers have made dramatic improvements in their SEM performance. Their efforts fall into five best-practice process areas:

- Optimizing spend across channels
- Structuring search accounts for efficient management
- Minimizing costs with targeted placements
- Increasing clickthrough and conversion with differentiated messaging
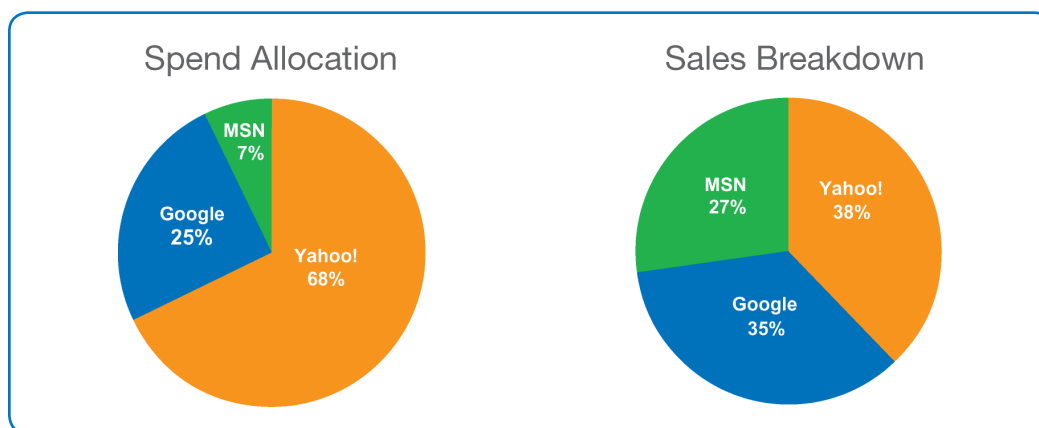- Developing a bidding strategy

By incorporating these best practices into your SEM strategy, you can leverage your investment to increase bottom-line results. The remainder of this paper describes these practices.

Optimize Spend Across Channels

If you have customer profiles that provide a complete view of customer behavior, you're positioned to move beyond measuring search or search engines in a silo and, instead, measure search in the context of all channels. As a result, you can balance your SEM investment against investments in affiliates, banners, email, and other channels. Moreover, you can balance your investments across search engines based on comparative value.

Spend Optimization Success: Leading Retail Site

A leading restaurant supply retailer launched an initiative to track and analyze the ROI of all its online marketing campaigns. Analysis showed that:

- 50 percent of paid keywords were driving traffic to the site but not resulting in sales

- A paid inclusion marketing program wasn't delivering sufficient ROI to justify its budget

- Only 0.32 percent of visitors from text banner advertising were converting

The company reduced overall marketing spend by 25 percent and increased marketing ROI by terminating keywords that did not generate sales, reducing paid inclusion spend by 75 percent, and eliminating banner advertising altogether.

Figure 2 compares spend allocation with actual revenue breakdown across leading search engines. The pie chart on the left shows that MSN represents a very low proportion of spend for this marketer. The pie chart on the right, however, clearly shows that MSN drives a disproportionate amount of revenue and conversion relative to the amount that is spent on the engine. Smart marketers use this kind of information to redistribute their spend across search engines — in this case, increasing spend on MSN and decreasing spend on Yahoo! until spend is better aligned with revenue.

Figure 2. Balancing SEM Investments.

You can easily repeat this type of process across channels, setting budget levels appropriately for search relative to banner or comparison sites. The key here is to implement and leverage a uniform methodology for tracking revenues across channels so you are comparing apples to apples.

This is especially true when you evaluate the interplay of natural and paid search. If you are going to leverage a paid search listing for keywords that customers already use to find your site through organic results, be sure to take cannibalization into account when you calculate the amount to spend on that term. Spending on the top spot for branded terms, for example, may not be justified if many of the clicks that your paid listing received would have occurred anyway as a result of natural search.

Structure Accounts for Efficient Management

Today's search marketers manage tens and hundreds of thousands of keywords as a part of their campaigns. With such huge inventories, management at the keyword level is impossible. You must create logical keyword groupings so you can measure high-level performance and drill down or, depending on your business, turn campaigns on and off wholesale as business conditions change.

For example, if your organization is a travel or hospitality company, your offerings may correspond to holidays or seasons — for example, promoting *Memorial Day getaways* or *winter vacations in the Caribbean*. You need to turn on advertisements for these offerings in advance of the holiday or season, analyze the ads separately, and turn them off when the holiday or season is past.

Similarly, you may want to test how various offers work from a creative standpoint. Your standard offers may focus on having the widest selection or highest-quality merchandise, whereas promotional offers may entice people with free shipping for a limited time period.

By categorizing these offers, you can monitor and switch among them based on season, current promotions, inventory availability, and other factors. By grouping ads and keywords to align with the most dynamic aspects of your business, you simplify management. As a result, you maximize the time you spend optimizing search campaigns and minimize the time you spend entering changes.

You may also want to consider managing high-value terms separately. Brand terms, for example, are among the highest-converting terms. They are also among the most costly from an overall budget standpoint. A small number of important keywords such as these need closer attention. By separating them out, you can manage them more closely to ensure that they are generating maximum ROI.

Finally, once you have set up categories within your search accounts, you need to establish and regularly review the budgets for each group. This helps keep your listings up a majority of the time, ensuring that they don't expire due to budget overruns. Many customers today rely on paid search to navigate to your brand. It isn't enough to be there the first time they find you. You need to be there every time they return to truly capitalize on their interest and drive them to convert.

Minimize Costs with Targeted Placements

Blockbuster terms make up the bulk of most search marketing budgets. These are the frequently used, generic terms such as:

- *Loan* — sought by mortgage lenders, banks, automotive financing, and credit card companies
- *Travel* — sought by airlines and hospitality companies
- *Clothing* — sought by clothing retailers

Advertisers compete fiercely for these terms, bidding up the price and making them a costly way to bring in traffic. When you qualify these terms — *home equity loan, airline travel,* or *cashmere sweater* — the price drops and targeting becomes more precise.

You can achieve even better results, however, by using tools and analysis that help you leverage the *long tail* of search. The long tail refers to the concept that everyone bids on and gets lots of clicks on a few very popular words such as *travel, credit card,* or *clothing*. There is a larger universe of terms that are less frequently bid and clicked on — for example, *Jamaica getaway, Michigan state university alumni card,* or *blue cashmere sweater*. Because these terms are less sought after, they cost less per click than generic terms. Moreover, because they are so specific to what customers are looking for, they often convert at a higher rate than generic terms.

To leverage the long tail, you have to experiment with different permutations of words that customers use to find products on your site. Finding them requires knowledge of your offering and insight into customer behavior. A good place to start is your product catalog. You can then buy terms that relate to specific brands and products (particularly high-margin products).

> ### Long-tail Search Success: Lead-generation Site
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> Analysts for this site found that generic keywords that had seemed like strong choices had very low conversion rates. Eliminating these terms and choosing very specific terms that tied in closely to the company's brand brought in far more qualified visitors. After replacing the previous SEM vendor with Coremetrics, the company has achieved a 310 percent increase in revenue and 665 percent ROI for SEM campaigns. Overall SEM costs are down 38 percent and cost per click has been reduced to about one-third of previous levels.

Next, you look at your visitor profiles for behavior that identifies important terms. Your goal is to discover which natural search entries lead people to your site and which terms visitors enter into your onsite search tool. You then expand your keyword buys to include some of these terms. You should also examine conversion rates and sales for natural search terms to understand how important these terms are likely to be for you, and use this information to gain insight into how you should bid for new terms.

As you monitor these terms over time, you can determine which ones offer a great conversion rate at a low cost. Moreover, you can exploit the opportunity you have to the fullest by looking for misspellings, plurals, and other variants. As you expand your inventory of long-tail search terms, you can begin to pare back spending on generic terms.

Increase Clickthrough and Conversion through Differentiation

While keyword selection is probably the most important aspect of SEM success, creative is a close second. Generic text that doesn't concisely and accurately describe what you offer attracts unwanted and expensive traffic. These visitors click through and depart immediately, increasing your costs without

providing a return. Ad text that doesn't provide a compelling offer fails to attract the high-value visitors that you hope to draw to your site. A compelling offer provides a *value statement* that positions your products and services and includes a *call to action* that entices qualified visitors to click through.

To hone your ad text, do some homework on how your competitors position their offers. If all of them offer free shipping or zero percent interest, your voice may be lost in the crowd if you do the same. Instead consider messaging based on the unique value your brand brings to the Internet surfer. This will help ensure that the people who click are informed and interested in what you have to offer.

Testing different offers gives you visibility into which creative provides maximum lift, and which delivers the highest-value customers. Testing takes some time and effort, but with behavioral analytics in place and the ability to manage keywords by offer, you can handle this activity fairly easily. Try two sets of copy — one with a value-based message related to speed of delivery and another related to the quality of the product. Measure the results to see which one delivers the most clickthroughs and conversions. Refine your creative and test again to continue to drive improvements.

While a high bounce rate for key landing pages is a warning sign that you have a problem with your ad text, it may also indicate a problem with your landing page. It is important to choose the right landing page for the offer. If the search term entered is broad in nature, you can take the visitor to a category page. For more specific search terms, you should consider directing the visitor to a particular product page. If the term is related to your offering but you don't have a category that matches it, you should consider building a tailored landing page.

Developing a Bidding Strategy

Bidding for keywords is becoming increasingly complex because of the fierce competition for many popular terms. Consequently, a well-thought-out bidding strategy is crucial. Yet, according to Forrester Research, bidding tactics remain unsophisticated for many marketers. The firm reports that 19 percent of marketers bid for the top three listings and 23 percent have no bidding strategies in place at all.[3]
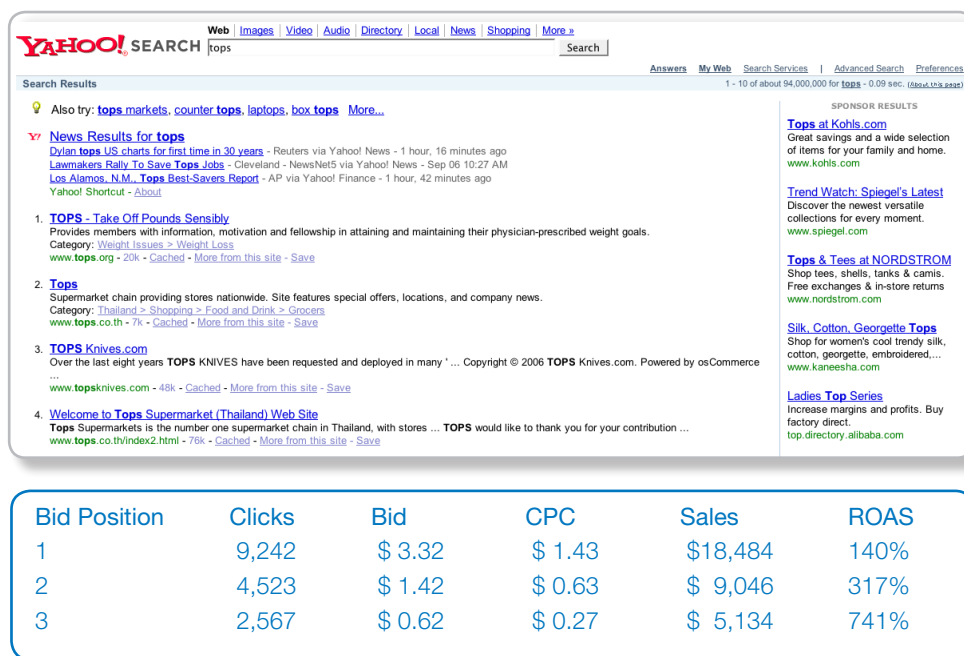
A good place to start in developing your strategy is to adjust how you bid for highly competitive terms. This can help you achieve goals for clickthrough and conversion while enhancing ROI and return on ad spend. As Figure 3 shows, bidding for the top paid-search position on a search results page may not deliver the best return. The analysis shows the performance of the top three positions for the search term tops. Given the high cost of clicks and low conversion rates, the ROAS for the number one position in the sponsored results is less than the ROAS for the second and third positions. The third position is the most effective from an ROAS standpoint.

> **Bidding Strategy Success: Financial Services**
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> This firm's bidding strategy had been to maintain the number one position for selected keywords, including brand-related terms. Competitors, however, pushed up bid levels, which translated into poor ROI. The firm changed its strategy to base bids on ROAS and monitored bid levels on key terms daily. Additionally, the firm took steps to prevent trademark infringement by registering specific brand terms with search engine vendors to prevent competitors from using those terms in their listings. This new approach reduced average cost per click by 48 percent in just six weeks. Conversions rose and ROI increased 174 percent.

[3] *US Online Marketing Forecast*: 2005 To 2010, Charlene Li and Shar VanBoskirk, Forrester Research, Inc., 2005.

Figure 3. Analyzing ROAS to Enhance Your Bidding Strategy.

Bid Position	Clicks	Bid	CPC	Sales	ROAS
1	9,242	$ 3.32	$ 1.43	$18,484	140%
2	4,523	$ 1.42	$ 0.63	$ 9,046	317%
3	2,567	$ 0.62	$ 0.27	$ 5,134	741%

To refine your bidding strategy and base bid determination on actual keyword performance, you need to establish benchmarks for keyword performance and monitor that performance on an ongoing basis. By creating a metric to determine return as a percentage of spend, you can more effectively benchmark and adjust your own bidding efforts to find the most profitable bid position.

Finally, given that analyzing keyword performance and determining bid levels can be time consuming, focus your efforts on the most competitive terms. Because these terms are typically the most expensive, they provide the greatest opportunity for bid optimization and profit. The initial success that you have with these terms will help you understand how much effort you should invest in this type of optimization.

Conclusion

Competition for popular search terms will remain fierce as the use of search for navigating the Web increases. This trend is already driving up SEM costs and making it harder for advertisers to achieve an acceptable ROI. A successful SEM strategy in such an environment includes channel optimization, effective management of keyword inventories, the use of long-tail search terms that drive conversion and cut costs, differentiated messaging that attracts highly qualified traffic, and intelligent bidding strategies that increase ROAS and ROI. Online brands that implement the best practices described in this paper position themselves to create just such a strategy and, consequently, to leverage the power of search to increase customer acquisition while containing costs.

Additional Resources

- Coremetrics case studies at http://www.coremetrics.com/clients/success_stories.html.
- *US Online Marketing Forecast: 2005 To 2010*, Charlene Li and Shar VanBoskirk, Forrester Research, Inc., 2005.
- *Paid Search Forecast, 2005 to 2010*, Online Search, Volume 3, 2005, JupiterResearch, a division of Jupitermedia Corporation.

About Coremetrics

Coremetrics is the leader in marketing optimization. Its products help businesses relentlessly optimize their marketing programs to make the best offer, every time, anywhere, automatically. More than 2,100 online brands globally use Coremetrics' Software as a Service (SaaS) to optimize their online marketing. Coremetrics' integrated marketing optimization solutions include real-time personalized recommendations, email targeting, display ad targeting across leading ad networks, and search engine bid management. The company's solutions are delivered on the only online analytics platform designed to anticipate the needs of every customer, automate marketing decisions in real time, and syndicate information across all customer channels. The company is privately held with funding from Accel Partners, FTV Capital, Highland Capital Partners, and W Capital Partners, and is headquartered in San Mateo, California.

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Coremetrics has strongly supported online privacy since its inception. To learn more, visit www.coremetrics.com/privacy.

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