Why the Search Alliance is Paying Off for Paid Search

January 2011
Executive Summary

The introduction of the Search Alliance by Microsoft and Yahoo! in 2009 carried the potential to remake the paid search marketplace. By combining search and advertising on Yahoo! and Bing, brands should theoretically be able to realize greater economies of scale and benefit from a more efficient marketplace.

To assess the Search Alliance’s impact, Marin Software, the leading paid search marketing platform provider, and Razorfish, one of the largest interactive marketing and technology companies in the world, conducted a comprehensive study of paid-search performance before, during and after the transition (i.e. August 15th to December 15th 2010). From a quantitative perspective, we evaluated key metrics from the Marin Global Search Index which includes over 800 clients collectively managing more than $1.8 billion in annual paid search spend.

The study evaluated the performance of North American advertisers between August and December 2010. To factor out the effects of seasonality, key performance indicators were normalized against industry averages, using Google as the benchmark for the search industry. We also interviewed leading advertisers to gain qualitative, industry-specific insights.

Key findings include:

• Post transition, the Search Alliance is gaining ground on Google. Specifically, the Search Alliance increased its share of paid search impressions by 4% and its share of clicks by 2%, while Google’s share was reduced by the same percentage.

• The Search Alliance has resulted in improved traffic quality for advertisers, as evidenced by higher conversion rates. Excluding the impact of seasonality, conversion rates for the Search Alliance increased by 12% during the study period.

• Increased conversion rates and lower costs per click, delivered improved return on advertising spend (ROAS) following the transition. Costs-per-click (CPC) for the Search Alliance ended the year 20% below industry benchmarks, resulting in significantly lower cost per acquisition for advertisers.

In summary, our analysis suggests that the Search Alliance is an increasingly attractive option for enterprise search marketers. Given this channel’s performance characteristics and expanded reach, we strongly suggest advertisers revisit their investments in the Search Alliance during 2011.
Introduction

On July 29th, 2009, Microsoft and Yahoo! announced the Search Alliance, a groundbreaking partnership wherein Microsoft would power search results and sponsored ads for Yahoo! Search. While the transition to the Search Alliance is still underway globally, North American users and advertisers were transitioned during October 2010. Close as it was to the holiday season, advertisers were understandably worried about the impact such a major transition might have on their business. Specifically, they wondered how the Search Alliance would influence traffic quality, keyword prices, and overall conversion rates.

Evaluating data from the Marin Global Paid Search Index, which includes performance data from over 800 advertisers managing more than $1.8 billion in paid search spend annually, Marin Software undertook a comprehensive study into the impact of the Yahoo!-Bing Search Alliance. For the purposes of this study, our core sample consisted of our US clients, which include advertisers such as Macy’s, University of Phoenix, Kayak, Salesforce.com, Hawaiian Airlines, and other well-known brands and agencies.

To build out a data set, we examined key metrics over a four-month period from August 15th to December 15th 2010. By analyzing a broad set of advertisers over a relatively long period of time, we were able to identify cross-industry trends and put the transition period in its proper context. Lastly, in order to factor out the effects of seasonality, we normalized key performance indicators against Google to gain insights into the dynamics of the new search marketplace.

Study Objectives

To understand the impact of the Search Alliance, our first objective was to explore overall market share changes in terms of search volumes and advertiser reach. Our second objective was to assess performance changes on Google, Yahoo! and Bing by analyzing underlying search metrics and key performance indicators. Lastly, because quantitative measures don’t always tell the whole story, our third objective was to gather qualitative feedback directly from advertisers. Working with Razorfish, one of the largest interactive marketing and technology companies in the world, we performed client interviews with select advertisers and compiled data on their experience through the transition to the Search Alliance.
Findings

Our analysis indicates that the introduction of the Search Alliance will lead to changes in the paid-search marketplace. Some of these changes are still in flux while the new marketplace (i.e. the combined keyword auction space of Yahoo! and Bing) reaches a steady state, while other changes seem to have crystallized into emerging trends. With that caveat, our findings are outlined below:

While Users Flock to Bing, Advertisers Remain on the Sidelines: The numbers from comScore and advertisers tell two different stories. ComScore’s data on the relative market share of search engines indicate that Bing is gaining popularity with users, while Google’s search share has stayed relatively unchanged. The following chart was derived from ComScore’s monthly search engine rankings report and looked at US-based, explicit core searches (i.e. direct searches on the engines) between July and November 2010.

![Chart: Percentage Change in US Search Share (July - Nov 2010)](image)

As illustrated by Figure 1, the number of searches performed on Bing increased by 7.27% in comparison to Google’s 0.61%. While this data indicates that Bing is gaining traction with users, our data shows that this growth in searches has not translated into gains in paid search market share. To measure the change in paid search market share for Google versus the Search Alliance, we looked at several key metrics during the study period.
Figure 2: Google's Overall Percentage Share Change

Figure 2 was developed by looking at the sum of impressions, clicks and cost across our sample dataset, and then calculating Google's percentage share. Broadly speaking, it represents Google's “share of market” for various paid-search metrics during the study period. As illustrated by Figure 2, the percentage of paid search impressions served by Google decreased from 81% to 77%. Google’s overall share of paid clicks also declined from 81% to 79%, while Google’s share of advertiser spend actually increased from 81% to 82%.

Figure 3: Yahoo!-Bing (adjusted) Overall Percentage Share Change

In contrast, the above chart shows how Yahoo!-Bing’s combined “share of market” changed during the same period. Specifically, Yahoo!-Bing increased its share of impressions from 19% to 23% and clicks from 19% to 21%. Its share of spend, however, dropped 1% during this period.
Additionally, we found that during this period, the actual spend on Google increased by 60% whereas spend on a combined Yahoo! and Bing increased by 44%. Our findings suggest that not only did Google gain share of spend during this period, but also, it increased advertising revenues at a faster rate as the overall pie got larger. The most likely rationale for this dynamic is that some advertisers may have migrated ad spend from Yahoo! to Google in advance of the transition.

As the new Search Alliance marketplace stabilizes, it will be interesting to see whether the above mentioned “migrated” spend returns to Yahoo! and Bing. The following section addresses advertiser considerations around traffic and performance on this newly created marketplace.

The Search Alliance – An Initial Performance Evaluation: Our research indicates that the Yahoo!-Bing marketplace, while still early in its lifetime, has already started to deliver real value for advertisers. To evaluate the performance of the Search Alliance, we looked at two key paid search performance indicators: Click-Through-Rate (CTR) and Cost-Per-Click (CPC).

![Click Through Rates](image.png)

**Figure 4: Overall (Adjusted) Click-Through Rates**

To measure a CTR for the combined Bing and Yahoo!, we calculated an adjusted CTR, which took into account their combined clicks and impressions. As illustrated in Figure 4, CTR for both Google and Yahoo!-Bing mostly moved in tandem. It’s worth noting here that even though Yahoo!-Bing ended up with a slightly lower CTR, it had a higher CTR than Google for three of the five months we reviewed. And any variations we saw were well within the margin of error. For all practical purposes, both the Search Alliance and Google seemed equivalent with respect to paid search click-through rates.
But CTR is only one part of the story. Search Marketers also care about how much they pay per click. Here, we observed more concrete shifts. Pre-transition, Yahoo!-Bing’s CPC was more or less identical to Google. However after the transition, Google’s CPC trended significantly higher than Yahoo!-Bing. A valid question here might be around the affect of seasonality on CPC. The following graph summarizes the previous trends and shows how CPC and CTR on Yahoo!-Bing changed with respect to Google. By looking at the analysis in this way, we can more reliably factor out seasonality, and get a clearer picture of underlying changes.

As the above chart illustrates, the Yahoo!-Bing’s CTR initially hovered around that of Google, but ended the year 13% less than Google. Conversely, Yahoo!-Bing’s CPC consistently outperformed Google since the introduction of the alliance, and ended the year with a 20% advantage.
While CTR and CPC are important indicators, we also wanted to assess traffic quality and look at post-click conversions. The following chart shows how two performance indicators, Conversion Rate and Cost-Per-Action (CPA) trended relative to Google. Analyzing the trajectory of these metrics can deliver improved insights into the quality of traffic and the corresponding clicks.

![Yahoo!-Bing (adjusted) CPA & Conv Rate Change with respect to Google](chart.png)

**Figure 7: Search Alliance Conversion Rate % Change and CPA % Change relative to Google**

To gauge conversions, we indexed Yahoo!-Bing’s Conversion Rate and CPA at their August values. Then we measured how these indicators changed relative to Google over the next four months. As expected, Yahoo!-Bing conversion rates dipped during the transition period, but then picked up again and ended the year 13% higher than their starting point. Conversely, Yahoo!-Bing CPA’s rose during the transition period but then ended the year 17% below its August value.

While conversion rates and acquisition costs can and do vary across industries, our data strongly suggests that conversion rates on the Search Alliance have become more favorable following the transition. We attribute this to a confluence of factors, including higher quality traffic, better targeting options and a more efficient marketplace. Conversely, Search Alliance CPA’s are trending lower than Google mainly due to lower CPCs. Our findings indicate that the Search Alliance is clearly and unequivocally becoming a more attractive channel for paid-search marketers.
Impact on Advertisers and Agencies: Though our research brief is based on the aggregate experience of hundreds of clients, we fully expect that this transition may have impacted individual clients in different capacities.

To that end, we worked with Razorfish, to interview selected clients on their journey through the Search Alliance transition. While we weren’t able to uncover any industry-specific trends, we were able to validate many of our findings and encountered a general sentiment of optimism about the emergence of the Search Alliance.

The following excerpt from an interview with Reid Ichiki of Hawaiian Airlines was illustrative of what we heard from the broader market:

**[Razorfish]** What did you anticipate would happen when the Alliance was announced?

**[Hawaiian]** Increased competition but also increased performance efficiency through additional match types and negative keywords.

**[Razorfish]** How has the Alliance changed the performance of your search campaign?

**[Hawaiian]** We have found increased cost due to increased CPCs from competition. We also found that matching changed from Yahoo!’s advanced match, and geo targeting is stronger in Bing.

**[Razorfish]** What was the best thing to come out of the Bing/Yahoo! Alliance in your opinion?

**[Hawaiian]** The Alliance brought higher traffic levels which stabilized performance and allowed our team to concentrate on maximizing performance.

**[Razorfish]** How did you plan for and manage the transition?

**[Hawaiian]** Confirmed that all keywords were live in Bing, increased budgets & bids to ensure coverage, updated IOs, refreshed our negative keyword lists, monitored traffic levels throughout October.

“As Razorfish had predicted, the Alliance had minimal impact on our client’s search campaigns. We are now predicting that the Alliance will lead to more competition, driving innovation in search once again. In fact, December figures for Bing are already up 5%, and we foresee advertisers will benefit from these changes in the long term.”

- Joshua Palau
  Vice President of Search
  Razorfish
[Razorfish] How did you monitor performance in the first few months?
Monitored competition via our suite of tools, increased bids on terms below a valued position and lowered bids on terms that were ineffective.

[Hawaiian] How has the Alliance impacted budgets and plans for the coming quarter / year?
Our budgets weren’t impacted drastically, we moved budget from Yahoo! to Bing.

Counter to our cross-client observations, Hawaiian saw slightly higher CPCs from increased competition. On an overall basis, however, they didn’t see a dramatic impact on their business and are looking forward to the higher traffic levels from the Search Alliance.

**Conclusion**

While the Search Alliance is still in its early stages and the “unified marketplace” is in the process of finding a new equilibrium, early indicators are that its emergence will be positive for advertisers, and the market as a whole.

From a workflow and efficiency perspective, advertisers will benefit from reduced management overhead, and match type and geo-targeting options that more closely mirror that of the industry leader, Google.

From a marketplace efficiency perspective, having more volume on the Search Alliance will enable advertisers to better focus on campaign optimization versus campaign management. Additionally, the new Unified Marketplace has so far displayed strong performance characteristics, and advertisers would be justified in expecting a higher Return on Ad Spend (ROAS) than previously received from Yahoo! and Bing separately.

In summary, the Search Alliance clearly has some catching up to do in terms of volume, but a lower cost per click and higher average conversion rates make it an attractive channel for advertisers. In light of our findings, we strongly encourage our advertiser and agency partners to revisit their investments in the Search Alliance. Due to reduced competition, the Search Alliance can currently offer a lower than average cost per acquisition, resulting in higher return on advertising investment than other channels. Given the reduced management overhead, a larger search share and stronger performance characteristics, the Search Alliance represents both a viable channel and a compelling new opportunity for the enterprise search marketer.
About Marin Software

Marin Software is the leading provider of enterprise-class paid search management applications worldwide. The company’s flagship product, Marin Search Marketer® is designed to addresses the workflow, analysis, and optimization needs of large scale advertisers and agencies, saving time and improving financial performance. Marin Software has over 800 customers and its technology is used globally to manage more than $1.8 billion of annual search spend. Leading advertisers and agencies using Marin Software include Razorfish, Neo@Ogilvy, University of Phoenix, Macy’s, KAYAK, PriceGrabber, and Reply.

About Razorfish:

Razorfish creates experiences that build businesses. As one of the largest interactive marketing and technology companies in the world, Razorfish helps its clients build better brands by delivering business results through customer experiences. Razorfish combines the best thought leadership of the consulting world with the leading capabilities of the marketing services industry to support our clients’ business needs, such as launching new products, repositioning a brand or participating in the social world.

With a demonstrated commitment to innovation, Razorfish continues to cultivate our expertise in Social Influence Marketing, emerging media, creative design, analytics, technology and user experience. Razorfish has offices in markets across the United States, and in Australia, Brazil, China, France, Germany, Japan, Spain and the United Kingdom. Clients include Carnival Cruise Lines, MillerCoors, Levi Strauss & Co., McDonald’s and Starwood Hotels. Razorfish is part of the Publicis Groupe (Ticker Symbol: PUB) VivaKi organization. For more information, visit: www.razorfish.com