

European Paid Search Forecast, 2005 to 2010

Wider Usage Will Warrant Wider Measurement

Internet usage continues to grow at pace throughout Europe, spurred by broadband adoption. With subsequent increases in Web consumption, search engines derive ever greater financial benefits from enabling consumers to access online content and marketers to access online consumers.

Key Questions

- How much did European marketers invest in paid search listings in 2004?
- How will paid search spending grow in Europe over the next five years?
- To what extent do marketers measure the return on their paid search investment?

Key Finding

Paid search advertising saw strong growth in Europe in 2004, reaching a total of €662 million, largely fuelled by the performance of the UK marketplace. As other countries follow the UK's lead, paid search spending will rise to €2.9 billion by 2010. As usage widens, broader performance measurement will become a strategic imperative.



Research Topics

- Paid Search
- Online Advertising Forecasts

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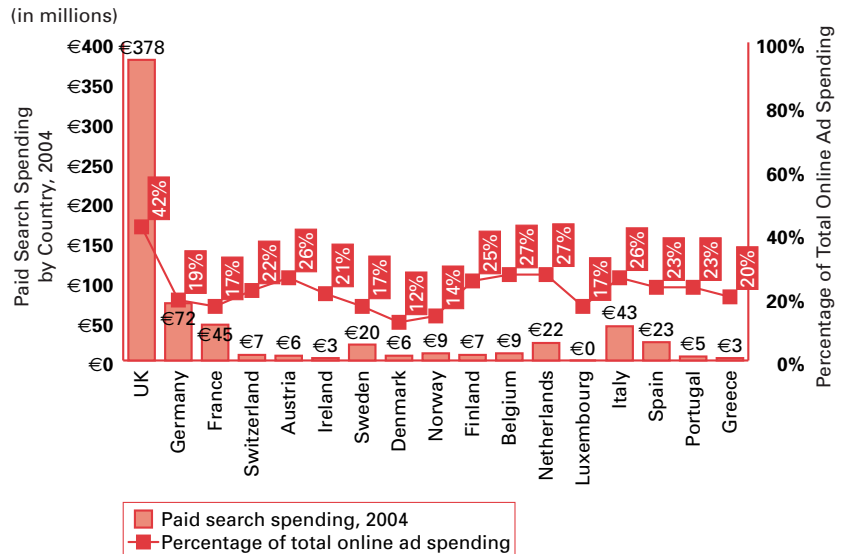
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European Paid Search Grew 56 Percent in 2004, Driven Largely by the UK

Fig. 1 Paid Search Spending, by European Country, 2004



Source: JupiterResearch Internet Advertising Model, 8/05 (Western Europe only)
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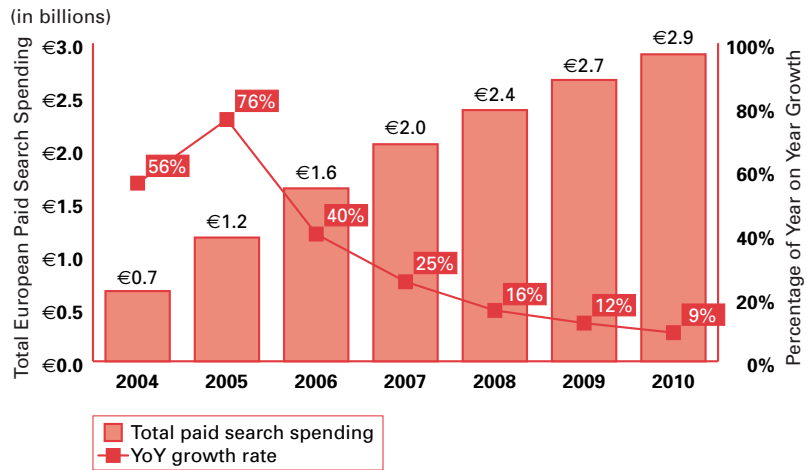
Investment in paid search, an online advertising practice that did not exist in Europe prior to late 2000, continued to see phenomenal growth in 2004 to the benefit of its handful of providers (led by Google and Yahoo! Overture). Total European spending rose 56 percent from €424 million in 2003 to €662 million by year-end as the number of consumer search requests multiplied with ever-growing Internet usage, and the number of marketers expanded with growing recognition of the advantages of prominent results page listings. Increasing investment in the activity was predominantly fuelled by online retailers and their affiliates looking to directly influence transactions by capturing and converting self-selecting, in-market consumers.

Fifty-nine percent of marketers surveyed by JupiterResearch used paid search to generate immediate online sales. A significant portion of paid search investment, however, came from marketers looking to achieve longer-term, non-transactional objectives. Forty-three percent of marketers sought to raise brand awareness through paid search, while 42 percent of marketers looked to maintain brand exposure alongside competitors. This behavior suggests that marketers now consider the activity for advertising purposes, as well as direct marketing.

Spending €378 million on paid search in 2004, representing 57 percent of total European investment, the UK was by far the most sizeable market, exceeding the other key markets of Germany, which spent €72 million on paid search, and France, which spent €45 million on paid search. The rapid adoption of the activity in the UK, over and above other markets, can be attributed to the ease of establishment of the practice in the marketplace due to the benefits of language for the US-based providers, the receptivity of the industry to new advertising opportunities, the buoyant advertising marketplace, and size of the market.

Paid Search Will Continue to See Most Dynamic Online Advertising Growth Through 2010

Fig. 2 Total Paid Search Spending Forecast



Source: JupiterResearch Internet Advertising Model, 8/05 (Western Europe only)
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Paid search advertising will continue to experience strong and steady growth in spending over the next five years as the popularity of the practice broadens among European marketers. Aided by the ongoing educational and promotional efforts of Google and Yahoo!, and the increasing competition for advertiser euros from new competitive platforms, as offered by the likes of MSN and Ask Jeeves, the marketplace will grow at a CAGR of 28 percent to reach €2.9 billion by 2010. At that point, paid search will represent 44 percent of all online advertising investment.

Growth will be fuelled not only by the increasing amount of available results page advertising inventory, generated from burgeoning consumer search, but also by the very popularity of the activity itself. An increase in the number of marketers competing for top rankings, the primary challenge encountered by 50 percent of search marketers surveyed, will not only drive up the cost of keyword inventory—already plateauing in certain categories—but will increasingly force marketers to broaden their keyword selection into the low-volume long tail.

Adding new keywords is seen as the primary strategy for increasing the volume of clicks from search engines. To improve campaign management efficiencies, and thus maintain positive ROI, marketers will increasingly turn to more sophisticated bid management and optimization tools, as well as search marketing agencies and consultants to help exploit the medium. Due to the pay-for-performance buying model, spending will escalate as performance improves. In addition, search providers themselves will look to augment their already healthy revenues through diversifying the consumer search experience, and therefore advertising opportunities, through local, shopping, and personalized search facilities.

These drivers will be particularly effective in the less developed European paid search markets. While the UK will only see 24 percent CAGR between 2004 and 2010, the southern European countries Italy, Portugal, and Greece, for example, will all see greater than 30 percent CAGR for the period.

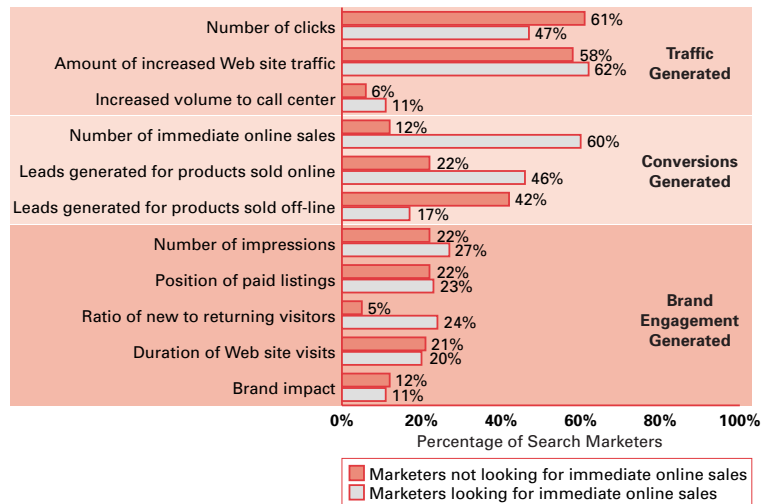
A Holistic Approach to Measurement Will Help Maximize Search Returns

Fig. 3 Metrics Used to Measure Effectiveness of Search Marketing

Question: Which of the following metrics does your company use to measure the effectiveness of search marketing? (Please select all that apply.)

Source: JupiterResearch Executive Survey (8/05), n = 162 (search marketers, Western Europe only)

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With the primary focus of paid search on maximizing direct response, most marketers currently limit their evaluation of campaign effectiveness solely to clicks and conversions. While those striving for an immediate online transaction can be excused for focusing on ROI metrics—such as increased Web site traffic (measured by 62 percent), number of immediate sales (measured by 60 percent), and leads generated (measured by 46 percent)—the ever-growing segment of marketers seeking some brand or off-line transaction objectives should look deeper into performance data. Furthermore, with 90 percent of marketers claiming to achieve an average clickthrough rate of less than eight percent, most miss the opportunity to gain deeper insight and intelligence from their total paid search activity. As campaigns expand, and the practice is increasingly integrated into the wider marketing mix, marketers should look to more fully exploit the abundance of real-time consumer search behavior data the activity generates.

Over time, marketers should consider closer inspection of brand engagement metrics, which provide a wider focus on non-converting searchers and a deeper focus on converting searchers, to gain more understanding of search marketing’s wider impact and value.

Only 27 percent of online sellers and 22 percent of non-sellers measure number of impressions—a metric that can give an estimation of reach and indicate number and variety of searches conducted before a click takes place. Only 23 percent of marketers measure positioning of placements, although 42 percent strive for brand exposure alongside competitors. Only five percent of non-selling marketers measure the ratio of new to returning Web site visitors, even though the metric would give a clear indication of brand awareness generated.

Furthermore insight gathered on real-time, online-consumer search behavior can give an indication of off-line marketing response, and should therefore be considered to inform off-line strategic direction.