

Market Share Trends within the Engines, and Their Impact on Brand Marketers

A report by SearchIgnite and RBC Capital Markets

July 17, 2007

For Google, Yahoo, and Microsoft, one of the most overlooked ways to determine their market power and effectiveness is to measure how well they monetize their users' searches. This past quarter the revenue per search (RPS) has changed dramatically, with Google moving ahead of Microsoft for the first time in a year, while Yahoo struggled to maintain its early 2007 gains from Panama's launch. While it's hardly surprising to see Google rank first in any search measure, it sheds light on the jockeying of the engines as they try to capitalize on every query.

Report Findings Overview:

- Search engine market share, defined as the percentage of media spend, has stabilized in 2007, as Google, Yahoo, and Microsoft have not been able to make significant gains.
- Google continues to garner a much larger percentage of media spend than its percentage of searches. In June 2007, Google received 76% of media spend while it received only 60% of searches across its network. In contrast, Yahoo earned 18.3% of media spend although it received 34% of searches across its network over the same time period.
- Google's revenue per search continues to increase due to its continual tweaking of quality score algorithms and minimum bid requirements. Google made a significant change in June regarding landing page relevancy to reduce spam in its listings. This benefited large brand marketers while having a detrimental effect on smaller advertisers.
- Large brand marketers continue to benefit from Yahoo's Panama platform, although their gains have stabilized.

This report is a follow up report to "Yahoo Panama: Early Returns" and "Yahoo Panama and the Broader Search Landscape: A Q1 2007 Competitive Review," studies produced by SearchIgnite and RBC Capital Markets which can be found at <http://www.searchignite.com>. This study will be presented every quarter, with the next report coming in October 2007. To access these reports, sign up at http://www.searchignite.com/register_to_download.aspx?wp=5.

About SearchIgnite

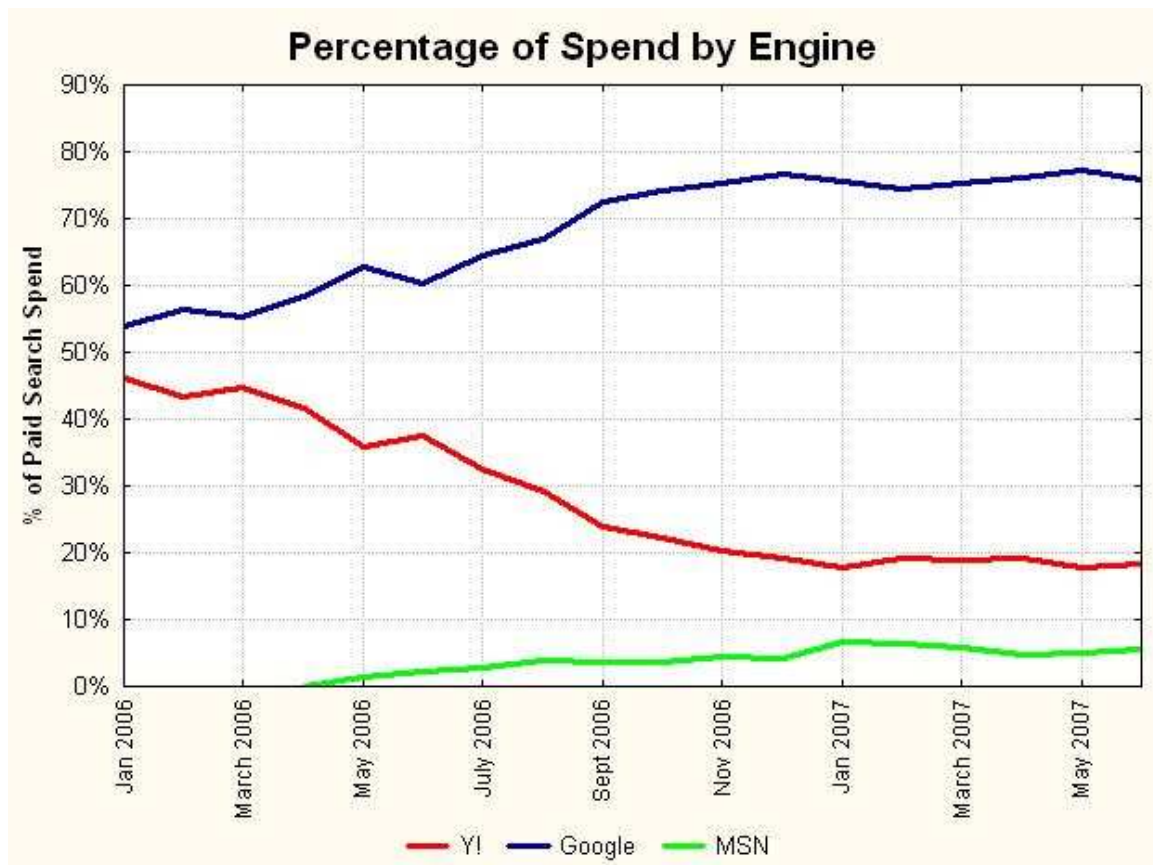
SearchIgnite is a leading search bid management and portfolio optimization technology that uses complex algorithms to help marketers and advertising agencies achieve their ROI metrics across all the major engines. With comprehensive proprietary campaign measurement and optimization tools, SearchIgnite delivers a single dashboard to manage multiple simultaneous campaigns in real time. Clients include advertising

agencies, online marketing firms and sophisticated marketers. SearchIgnite is a unit of Innovation Interactive, a leading, diversified online marketing company offering advertisers a full suite of performance-based marketing solutions.

Key Findings

1) Google continues to dominate spending with over 75% market share. Panama stabilized Yahoo's market share slide but has not reversed it.

Yahoo's 18.3% share of paid search marketing spending is up from May's 17.8%, but June's percentage of spending is the third-lowest since January 2006. Still, Panama seems to have successfully halted Yahoo's continual slide it experienced over the course of 2006. Google continues to maintain its dominance among the major three search engines with its 76% share of spending, marking one of its best months on record and slightly down from its all-time high of 77.2% in May. Microsoft has shown some fluctuation recently, though June's 5.7% share is down from its highs reached in January and March.



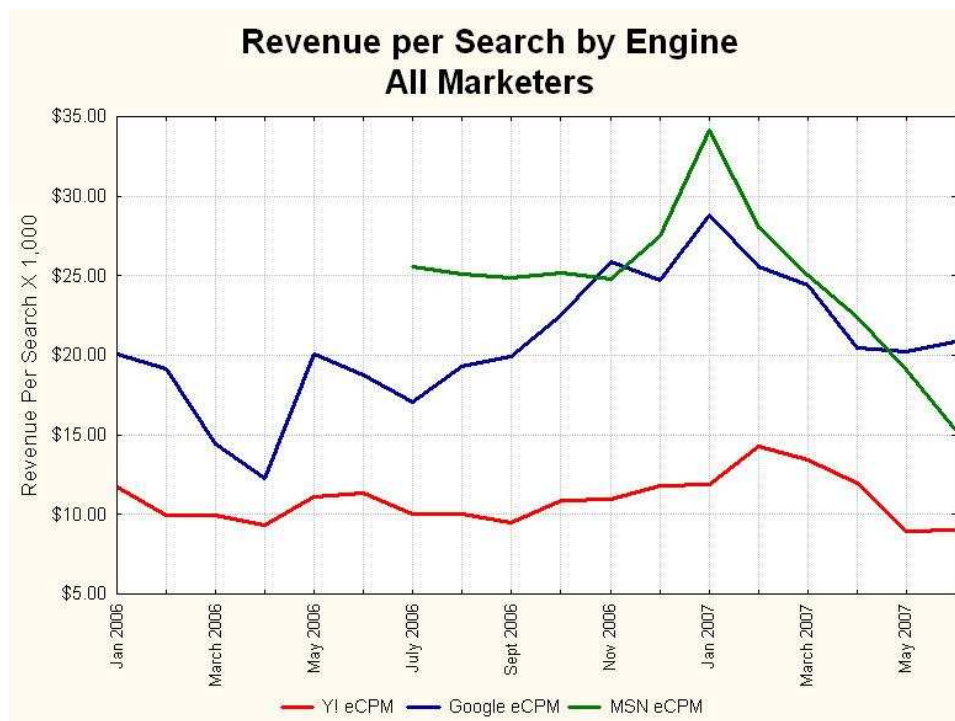
2) Google posted its highest revenue per search in Q2 as Microsoft trended down throughout the quarter.

Revenue per search (RPS) takes into account how well engines generate revenue from search ad impressions – specifically, factoring in search ads’ cost-per-click (CPC) and click-through-rate (CTR) to measure the revenue per every 1,000 ad impressions served.

All Marketers

When looking at revenue per search for all marketers on the SearchIgnite platform, Microsoft is seen losing its edge that it had held almost continually since July 2006. Yahoo has been less volatile than the other engines, but in May and June 2007, it posted its lowest RPS (\$8.92 and \$9.05, respectively) for the period starting January 2006. Yahoo’s dip is due mainly to declining click-through rates, coupled with gradually declining cost-per-click prices over that period.

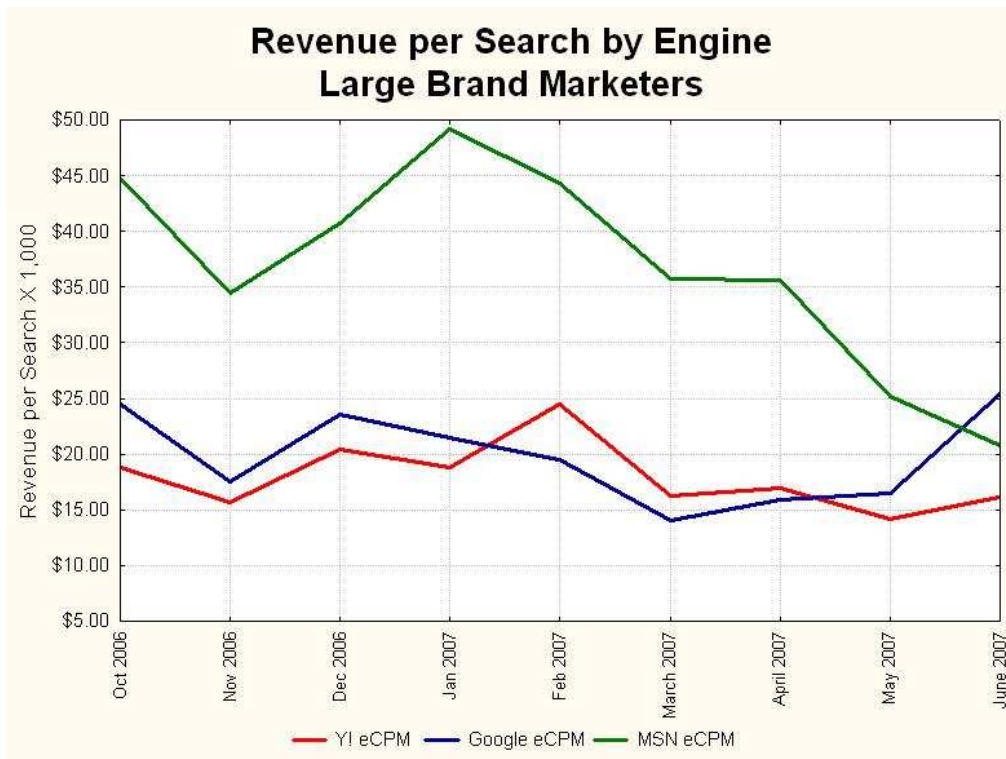
While Google’s revenue per search is significantly down from its January 2007 peak of \$28.79, its June RPS of \$20.86 is \$5.57 higher than Microsoft for the month, and it has stabilized at a level higher than any time during the first three quarters of 2006 just as the other engines bottomed out.



Large Brand Marketer Impact

Since October 2006, there has been a reshuffling of engine rankings in terms of Revenue per Search for large brand marketers. Microsoft flirted with a high of a \$50 RPS for enterprise clients in January, but this fell steadily throughout the first half of 2007 to end on a low of \$20.81 in June. The beginning of the year push by large brand marketers to more effectively use MSN has subsided.

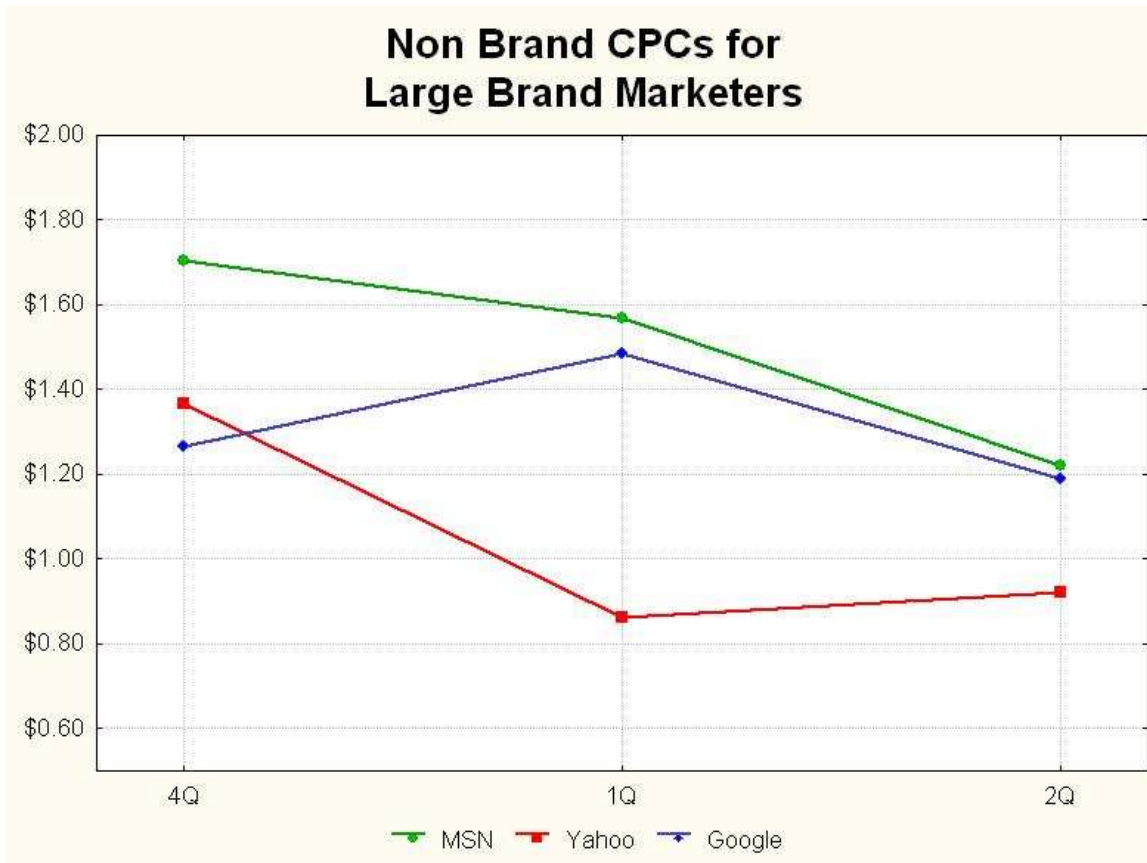
Yahoo has held steady in recent months with an enterprise RPS of \$16.19 in March and \$16.12 in June. Google, meanwhile, saw its enterprise RPS rise by 53.9% from May to June, topping Microsoft by \$4.54 and Yahoo by \$9.35. This is the greatest advantage Google has ever held over Yahoo since Q4 2006. This jump from Google is attributable to changes to Google's algorithms in May and June that increased the relevancy of landing pages in its quality score and minimum bid calculations. This was presumably done to reduce spam from its listings and penalize questionable sites, but it has shown a great benefit to large brand marketers. For these large brands, click-through rates on Google jumped from 2.4% in Q1 to 2.9% in Q2, which was more than enough to off-set the drop in cost-per-click prices during that period. Also note that click-through rates for all marketers fell on Google from Q1 to Q2, so the large marketers' gains were at the expense of smaller advertisers.



3) Yahoo’s Panama Quality Index continues to benefit large brand marketers, but those improvements have stabilized.

Yahoo’s introduction of the Quality Index with its Panama platform rewards higher performing ads with higher ad positions for lower costs. The clearest way to determine these benefits is by seeing how well name-brand marketers rank for generic terms (e.g., how well a Saks ad ranks for “designer handbag” rather than for terms related to Saks specifically).

After Panama’s debut in Q1, brand marketers on Yahoo ranked much higher than previously while paying significantly less for their non-brand keywords. In Q2, Panama’s advantage for large brands remained strong when compared to Q4 and the first part of Q1 before Panama was released, but these gains have leveled off. Large marketers ranked at an average position of 3.8 in Q2 for non-brand keywords at a \$0.92 cost per click, compared to position 3.9 at \$0.86 CPC post-Panama in Q1, and position 6.2 for \$1.37 during Q4 2006. Meanwhile, marketers continue to pay significantly more for non-brand keywords on the other engines. Large brands ranked on Google at an average position of 3.6 in Q2 at a \$1.19 CPC, and on Microsoft at 4.2 for \$1.22.



Conclusion

Yahoo's market share has continued to stabilize, a positive sign of Panama's impact this year but Google remains dominant in terms of revenue per search and search market share spending. Yahoo must focus on monetizing its share of searches by increasing its ads' performance and generating more competition to support higher cost-per-click pricing. Microsoft, meanwhile, must prove that it can sustain advertiser interest over the course of the year. In October's report, we'll see how these engines fare going into the holiday season.

Report Methodology

This report reviews data from four periods:

- 2006: This is the baseline before Yahoo's release of Panama, its updated advertising platform.
- January 2007: Starting January 1, Yahoo allowed campaigns to transition to Panama. During this time, for any campaigns that migrated over, US marketers' ads no longer appeared for international English-language searches. Such a feature was previously unavailable.
- February-March 2007: As of February 5, all Yahoo Search Marketing campaigns migrated to the new advertising platform. While Panama offered many improvements for advertisers, the biggest change was the implementation of the Quality Index, which measures the expected relevance of an ad based on factors such as its historical click-through rate (CTR). Before Panama, ads were just ranked based on the highest bid. Since Panama's launch, both the bid price and the Quality Index factor into how a marketer's ads rank.
- April through June: This is the first full quarter of data for Panama. This begins to show how effective Panama has been for Yahoo, especially when comparing Yahoo to Google and Microsoft.

This study tracked more than 14 billion impressions and 185 million clicks on Yahoo, Google, and MSN from January 1, 2006 through June 30, 2007 across more than 500 marketers, all of whom are clients of SearchIgnite directly or via its sister company 360i. During the Transition Period, the study covers more than 400 million impressions and 19 million clicks. During the Post-Panama period, the study covers more than 2 billion impressions and 66 million clicks.