

The State of Search Engine Marketing 1.0

New Strategies for Successful Cataloging



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by:

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and

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INTRODUCTION

The dynamics for direct mail cataloging are changing. Rising production and distribution costs, combined with steady or declining response rates have produced declining sales and circulation cuts for many catalogers, shrinking profits in an already tight economy, and increasing concerns about customer growth and prospecting strategies.

Insiders see the Internet's role as merely a more cost-effective extension of traditional cataloging. But there is a deeper transformation occurring. By democratizing the ability to publish information, the Internet has led to an unimaginable repository of data from which it is increasingly difficult to locate the "right" information in a timely manner. The role of search engines has evolved as a critical filter to help consumers survey the expanding web and intelligently present that information which has the greatest contextual relevance.

E-commerce websites that are "friendly" to search engines and the web community at large become a platform for unlimited dissemination of product information for a low fixed cost – with virtually no barriers to entry and no economies of scale required. As such, the search friendly e-commerce model is quite antithetical to traditional catalog economics; one better suited to meet today's marketing-weary consumer on his own terms, and one which is quietly draining catalogers of sales and profits by diffusing previously loyal customers to the larger, more convenient and competitive marketplace.

Fortunately, catalogers are well armed with the ammunition required to win the battle. Unfortunately, the architecture of most catalog e-commerce sites, as well as the prevailing focus on operational efficiencies alone, reveal that few are even aware of the opportunity, much less positioned to leverage search engines as a competitive weapon for profitable growth.

In order to understand the collective perceptions and experiences with the new Search Engine Marketing discipline, Internet Concepts interviewed 33 e-commerce executives and Internet marketing managers from Catalog Age 100 catalogers during Q3 and Q4 of 2002.

(Catalog Age is the leading monthly publication covering the print and online catalog industry. The Catalog Age 100 is Catalog Age's exclusive annual ranking of the 100 largest catalog companies in the United States, property of Primedia Business Magazines and Media.)

The interviews covered an array of industries, including Computers, Electronics, Home Goods, Music, Apparel, Tools, Jewelry, and Specialty Gift B-to-C catalogers, as well as Educational, Automotive, Office Furniture, and Hotel Supplies, Identification Products, and other B-to-B catalogers.

We concurrently analyzed the top 100 catalog websites, as ranked by Catalog Age magazine, against 35 best practices of "search engine friendly" website design. We also evaluated the number of pages each of these 100 catalogers have indexed in the leading search engines.

In this **State of Search Engine Marketing 1.0**, we reveal our discoveries, and attempt to provide direction for catalog executives charged with devising winning strategies in this era of hyper-competition, price transparency, marketing resistance, and consumer control.

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Since 1995, Internet Concepts has been designing websites that are customer-friendly, community-focused, E-commerce enabled, and search-engine-friendly. Internet Concepts has helped large and small corporations around the globe in a variety of industries implement holistic E-business strategies that connect with their customers, and create sustainable competitive advantage.

Acknowledgements

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The findings and ideas in this report represent ongoing learning based on Internet Concepts' research and development. We welcome your questions and feedback. For inquiries about this report or Internet Concepts' E-commerce practice, please contact:

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THE SEARCH IS ON...

The Catalog Age may not be over, but the Information Age is now leading the dance. The beneficiary driving this shift is the consumer, empowered by the Internet with immediate access to information needed to make decisions. As the Internet continues to expand in size – and into our cell phones, automobiles, refrigerators, and general daily lives, the challenge of locating the right information in the least amount of time possible is growing exponentially.

Here, at the crux of the Internet's value chain lie search engines. By providing structure to the ubiquitous information chaos, consumers have come to rely on the recommendations of search engines like Google or MSN for everything from show times, to recipes, and directions – placing as much trust in these mechanistic suggestions as one would a librarian, movie critic, or editor. But search engines are empowering consumers beyond recipe retrieval and movie times, with information that powers purchase decisions.

For catalogers, the competitive implications are significant: Before the Internet, customers had greater incentive to order from catalogs due to the inconveniences involved with comparing prices and value with other local retailers. The Internet's value superceded this convenience by offering consumers the ability to buy from their favorite retailer with the same ease of catalog shopping. But if the Internet is responsible for bringing competition "a click away" from the customer, search engines are now making the introductions.

- In September 2002, a Jupiter Research survey confirmed that Search is one of the top two uses of the Internet for 79% of respondents – second only to email at 93% – while searching for product information was third most popular for nearly two-thirds (63%) of users.
- A recent Georgia Tech study found search engines are used by 85% of Internet users to locate products and services.
- A 2001 Jupiter Research study found that 28% of people looking for products online actually type a product name into a search engine – three times more frequently than by brand name (9%), and six times more frequently than by company name (5%).
- According to shopping engine BizRate, 94% of online consumers compare products and prices across an average of four websites before purchasing.
- NPD Group recently found that natural search listings outperformed banners and other forms of online advertising by three to one when it comes to unaided brand recall, favorable opinion ratings, and inspiring purchases – with 55% of online purchases being made on sites found through search engines.

Savvy consumers have discovered the tremendous convenience that search engines offer: Not only can you save time by querying a global database of retailer inventories to find products that satisfy your needs, you can simultaneously compare prices and features before purchasing. By delivering such value, consumers have a vested interest in incorporating search engines into their buying behavior. But by filling in the informational gaps that a cataloger once profited from, this new-found convenience naturally encourages a sense of brand indifference.

Still, many catalogers are eager to migrate shoppers into the online channel to improve cost efficiencies, using direct mail as the means to stimulate traffic. Yet if Forrester is correct that online sales will surpass catalog sales by 2005, the more search is integrated into consumer

buying behavior, the greater the risk of leakage – of stimulating demand that is quietly fulfilled by competitors discovered through search. Likewise, as retail and catalog competitors stimulate demand through various channels, search engines are creating a free-for-all opportunity for catalogers to attract and win seducible prospects.

How different is this “search engine marketing” from traditional direct marketing? Profoundly. Rather than being segmented and solicited, today’s consumer is in full control. Empowered with an array of supercharged search engines, he is effortlessly segmenting and soliciting the world’s database of vendors based on his own keyword “demographics.” It seems for catalogers, the tables have turned.

Search Engine Marketing: Defined

Forrester reports that 82% of web buyers still look through catalogs they receive, though consumers are decreasing the amount of time and money they spend through catalogs. Considering the rising production and mailing costs and email marketing options, they suggest catalogers rethink their plans. Meanwhile the prospecting effectiveness remains a top concern to catalogers. As search engines accumulate a critical mass of users, a new marketing framework is emerging with the potential to transform the catalog model.

While many use the terms loosely and interchangeably, we follow search engine guru Danny Sullivan’s lead in choosing to use the term “Search Engine Marketing” in this report, implying a practice that touches all aspects of building an online business.

What makes this new discipline significant is that it is driven by the consumer’s demand for information. By saving consumers vast amounts of time and effort in their quest, search engines represent an information gateway to commerce. Through a currency of keywords, search engines enable micro-marketplaces to spontaneously organize, and new economies to develop around dominant engines. This presents a marketing opportunity for any business, to be sure. But what is the value to catalogers?

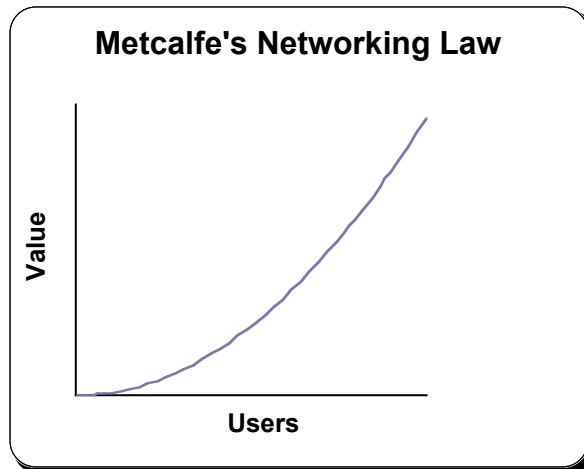
Critical Mass

Metcalf’s Law on networking can help illustrate the marketing value of search engines for catalogers. This law states that the utility or value of a network rises exponentially with the number people using it. Just as a telephone or fax machine grows more useful with each new user, similarly, it could be said that the value of search engines increases exponentially with each new “page” of information published on the Internet. Understood another way, as the web continues to grow in size, search engines play an increasingly important role of structuring that available data into contextually relevant information for users.

80% of time spent – 38 million hours, was powered by one engine: Google.

But not all engines are created equal for this task. For users, the value of any engine also increases or decreases with the perceived accuracy of the results delivered. While there is no monetary cost to use a search engine, there is an incurred cost of time spent. The less relevant the results, the higher the perceived cost of time associated with using that engine, resulting in fewer queries conducted. Despite the availability of thousands of free engines to choose from, consumers very naturally conduct the cost-benefit analysis and reward with their loyal patronage

the engine(s) that most maximizes their time value through result-relevance, producing a “winner takes all” effect.



This element can be quantified as time spent per engine. According to October 2002 data, Nielsen NetRatings found that the 129 million U.S. home and work Internet users spend roughly 50 million hours a month searching the Web for information. Nearly 80% of the time spent – 38 million hours, was powered by one engine: Google. By comparison, MSN powers only 5 million hours – 10% of all search time, while Alta Vista, Lycos and other engines collectively power the remaining 10% of search time.

Thus it is difficult to assess the search engine marketing opportunity without understanding the impact of the Google search engine. Google's natural aggregation of such market-

share – a perfect illustration of Pareto's “80/20” power-law distribution – represents an impressive application of these networking laws, and offers an important principle for cataloger websites: The marketing value of a given search engine increases exponentially with each new page of catalog information made accessible to the engines that consumers spend the most time using.

Stated differently, the “winning” engine introduces the greatest multiplier effect, or amplification of the indexation achieved. For example, a 10,000 page site fully indexed by Google may be only half as large as a 20,000 page site fully indexed by MSN. Yet because Google has eight times the reach, the smaller site would have four times the effective visibility if fully indexed by Google.

Information Economies

Because catalogers maintain a large supply of the commodity consumers are seeking – unique product information, exposing the product database to searchers can therefore lead to a multitude of frictionless selling opportunities through a process that could be thought of as distributed, on-demand marketing.

This introduces a profound economic difference between cataloging and search engine marketing: Where Industrial economies of scale are about reproducing more catalog “units” to lower the cost per unit (supply-side cost leverage), Information economies of scale are about syndicating more findable content to increase selling opportunities per page (demand-side reach leverage).

The dominant search networks represent a new channel for catalogers to leverage informational economies of scale.

Further, where the catalog distribution model is about broadcasting a just-in-case catalog of information to a mass audience of largely unqualified suspects, search engine marketing narrowcasts just-in-time information to micro-markets of largely self-qualified prospects. And where the catalog intent is to stimulate demand in a small percentage of recipients, search engine marketing captures the demand of pre-motivated prospects.

Thus, where content is the chief commodity of the information economy, the dominant search engines represent a new channel by which consumers discover the desired information to include in their value chain. This channel offers catalogers, in particular, a marketing opportunity to leverage information economies of scale that are based not on production costs but on the distributed availability of information.

Visibility Dynamics

The same discrimination that marketers apply towards their mailing list, consumers apply when searching for information. Lacking the time to sift through thousands, or even dozens of listings, the majority do not click past the first results page. So while indexation in the dominant engines can expand reach, visibility in the top 10 to 20 results is essential to becoming part of the consumer's consideration set.

Keywords are the currency around which these micro-markets of consumers and information suppliers coalesce. Whether by design or by accident, every website is already targeting keywords by virtue of the page copy, site layout, and overall architecture choices. The risk to catalogers is that merchandise labeling and descriptions that have not been pre-screened for semantic popularity, can render the catalog's content completely invisible to the desired target audience. As an illustration, one shopping search engine lists twice as many product listings for "winter jackets" as "winter coats," while "winter coats" is searched for three times more frequently than "winter jackets" – resulting in a higher concentration of merchants inadvertently competing for a minor market.

Yet in a digital medium, keywords are easy targets for competitors to replicate or steal. Though keywords ultimately power the search exchange, hyperlinks – or "link popularity" to be precise – form the new basis upon which engines value the keyword supply prior to displaying the results to trusting users. The greater number of links an e-commerce site can attract from other reputable websites, the greater the visibility its product content can achieve in dominant engines, such as Google. In a world where consumer trust is continually eroding, reputation, and even the words used in the endorsing hyperlink, mean everything.

Micro-Competition

The new economies of scale and rules of visibility present both an opportunity for catalogers, as well as a larger threat. Wendy Brewer, E-business Manager at Seton Identification Products, a pioneer in search engine marketing, explains, "As the Web offers ever-more quick and easy tools to search, customers who have our catalog on their desk may turn to their most trusted search engine to find products faster than thumbing through several vendor catalogs or websites. If the products are not listed in the search results, we may lose the opportunity for a sale and potentially a customer."

This new battlefield is granular: Each product page must be programmed to compete and sell on its own merit.

Indeed, by enabling consumers to instantly short-cut across brands, websites, and merchant inventories directly to products that match their keyword vocabulary, search engines expand the notion of commercial competition to a granular level where each matching product competes against "similar" products as defined by the engine.

By so streamlining the path to purchase through search engines, even the concept of an e-commerce site changes: It can no longer be thought of as merely a hierarchy of 10,000 product

pages through which a consumer linearly navigates, but a network of 10,000 websites – each a potential entry point that can be discovered without ever touching the home page. Each directory level – category, sub-category, and product page – becomes its own home page that can “instinctively” reach its corresponding keyword markets at the expressed moment of need, then influence that prospect through the decision-making buying process.

As an illustration, Lands’ End may view the Brylane entity as a competitor. Yet if Lands’ End had 100,000 product pages indexed in any engine, then each indexed product page becomes a member of a competition set of at least 900,000 *per engine* (assuming nine surrounding results per page). While these listings may be “informational competitors” rather than competing products, the total competition set can be unlimited, given each listing’s position within the total number of search matches. This new battlefield is highly granular: Each product page must be strategically programmed to compete and sell to that micro-market on its own merit.

The Business Model

Combined, these principles form a new basis of competition for catalogers. Because catalogers have inherent informational, marketing, and distribution efficiencies that can be leveraged in this battle, a new elegant and complementary business model is emerging.

Suppose a catalog mailing to one million prospects costs \$600,000 – a spread cost of \$0.60 apiece. A 2% response rate would pull 20,000 orders acquired for \$30 apiece. Yet if the e-commerce site has 20,000 SKUs and costs as much as \$200,000 per year to optimize or design for dominant engines, the resulting spread cost is \$10 per page. During the course of 12 months, if 50 prospects discover each given product page through a search query, the cost “per mailing”

to those one million self-qualified prospects is just \$0.20 apiece. If 10% of these prospects convert (a reasonable expectation), 100,000 new customers have been acquired at a cost of \$2 each – a fraction of the \$30 catalog method. If hundreds or thousands of prospects were to do likewise over that timeframe, the cost

Free search engine listings are driving up to 35% of online sales for leading catalogers that apply these principles.

decreases toward \$0 per mailing and per acquisition.

As an indication of the payoff, free search engine listings (mostly Google) are already driving up to 35% of online orders for leading catalogers that have applied these new principles. However, this ultra-efficient and low-cost prospecting process dramatically lowers the retailing barriers to entry, fracturing the competitive advantage catalogers have long enjoyed with geometrically expanding levels of hyper micro-competition.

It is widely accepted that retaining loyal customers is far less expensive than acquiring them. Yet by cutting the cost of acquisition so dramatically and increasing the competitive landscape, search may paradoxically lead to an increase in both the cost of retention, and the costs of not focusing on retention. To succeed in this new era, the cataloger must evolve new strategies and paradigms that more aggressively leverage the Internet in ways that can win a new generation of skeptical and empowered consumers.

Currently, few appear equipped to succeed.

Comparison of Search Engine Indexation

A comparison of how many pages each of the Catalog Age 100 websites have indexed by the primary engines of Google, Alta Vista, Inktomi, WiseNut, and FAST (as of December 5th, 2002). Also listed is our evaluation score for each website against best and worst practices for search engine visibility (See the section “Winning and Losing Tactics” for methodology and analysis).

The Catalog Age 100, ranked according to website evaluation score:

#1 – #34 Website URL	Audit Score	Pages Indexed Per Engine				
		Google	AltaVista	Inktomi	WiseNut	FAST
www.crutchfield.com	80%	34,800	11,082	4,200	12	6,661
www.dell.com	77%	62,900	16,447	27,700	38	34,543
www.drsofostersmith.com	77%	16,000	67	100	79	613
www.cabelas.com	73%	647	67	100	2	2,694
www.pcconnection.com	70%	17,300	57,903	300	0	1,074
www.staples.com	67%	685	648	4	8	63
www.macys.com	67%	13,600	0	1	4	18
www.jandr.com	67%	47,000	14	4,800	10	79,093
www.ibm.com	63%	333,000	22,900	26,500	61	12,951
www.landsend.com	63%	63,500	230	200	15	887
www.eastbay.com	63%	1,130	18	70	4	809
www.northerntool.com	63%	148	10,645	12	16	14,004
www.officedepot.com	60%	10,100	20,213	0	8	949
www.orvis.com	60%	1,260	2,749	2,800	16	165
www.henryschein.com	60%	541	234	100	3	110
www.andrew.com	60%	1,150	685	0	2	1,516
www.vwrsp.com	60%	12	0	1	11	0
www.llbean.com	57%	4,070	5,657	6,100	53	6,347
www.mooremedical.com	57%	27,800	20,314	21,700	55	23,762
www.newport.com	57%	11,200	1,962	2,000	2	1,171
www.harryanddavid.com	57%	194	38	37	3	249
www.digi-key.com	57%	11	0	0	143	73
www.basspro-shops.com	53%	3,000	9,974	4	2	717
www.lillianvernon.com	53%	1,250	68	80	0	1,295
www.nebs.com	53%	222	95	0	4	9,580
www.knightsltd.com	53%	272	0	1	6	0
www.drleonards.com	53%	127	3	2	10	23
www.blackbox.com	53%	1,750	1,447	0	2	782
www.domestications.com	53%	168	160	96	52	185
b2b.airgas.com	53%	59	0	0	13	0
www.nordstrom.com	50%	8	2	3	8	1
www.cdw.com	50%	1,270	284	0	34	433
www.oriental.com	50%	295	222	54	23	338
www.grainger.com	50%	3,470	49	86	2	5,862

#35 – #68 Website URL	Audit Score	Pages Indexed Per Engine				
		Google	AltaVista	Inktomi	WiseNut	FAST
www.mcmaster.com	50%	1,230	12	13	52	20
www.micronpc.com	50%	870	284	500	116	871
www.harrietcarter.com	50%	26	22	11	7	0
www.mscdirect.com	50%	73,200	8	1	20	2,117
www.broderbros.com	50%	290	10	18	12	709
www.officefurniture.com	50%	46	0	18	31	1,591
www.victoriassecret.com	50%	163	22	76	8	29
www.globalcomputer.com	50%	79,600	38	29	25	25
www.nascofa.com	50%	42	2	0	45	38
www.chadwicks.com	50%	71	16	13	20	40
www.spiegel.com	47%	4,270	3,349	500	120	285
www.gettyimages.com	47%	9	2	2	19	8
www.neimanmarcus.com	47%	3,630	35	83	10	52
www.jcwhitney.com	47%	702	2,122	2,600	5	594
www.americangirlstore.com	47%	70	39	0	92	128
www.paperdirect.com	47%	4,680	27	38	16	90
www.reliable.com	47%	20	45	20	2	168
www.tessco.com	47%	433	523	1	203	474
www.hubert.com	47%	1,600	28	96	2	181
www.sears.com	43%	866	663	16,900	4	178
www.coldwatercreek.com	43%	46	30	25	26	208
www.alloy.com	43%	525	833	400	7	2,043
www.jjill.com	43%	21	807	600	31	31
www.tiffany.com	43%	171	3	84	2	100
www.pcmall.com	43%	180	0	2	2	15
www.saralee.com	43%	84	75	81	5	118
www.mileskimball.com	43%	196	44	5	105	549
www.americanhotel.com	43%	21	14	31	11	13
www.medicalartspress.com	43%	29	9	0	10	16
www.frontgate.com	43%	37	2	1	9	40
disney.store.go.com	43%	49	0	0	5	2
www.electrocomponents.com	43%	389	187	100	52	177
www.wescodist.com	43%	131	133	92	60	126
www.corporateexpress.com	43%	498	13	0	29	206

#69 – #100 Website URL	Audit Score	Pages Indexed Per Engine				
		Google	AltaVista	Inktomi	WiseNut	FAST
www.acusport.com	43%	40	21	2	5	263
www.homedepot.com	40%	200	0	4	8	16
www.abcdistributing.com	40%	208	4	26	3	306
www.sharperimage.com	40%	2,570	901	0	5	460
www.blair.com	40%	98	1,910	80	3	429
www.warehouse.com	40%	71	63	58	4	8
www.ross-simons.com	40%	268	11	34	45	7
www.sportsmansguide.com	40%	6,100	8,807	12,700	5	10,499
www.omahasteaks.com	40%	219	120	100	2	4,567
www.zones.com	40%	260	53,488	59	3	288
www.guitarcenter.com	40%	3,720	24,801	0	2	414
www.normthompson.com	40%	19	0	1	9	3
www.cintas.com	40%	164	0	0	17	180
www.swisscolony.com	40%	119	0	1	94	3
www.classroomdirect.com	40%	24	98	0	6	3,241
www.jcpenney.com	37%	56	0	3	11	0
www.jcrew.com	37%	345	0	2	0	20
www.talbots.com	37%	134	33	33	57	352
www.bosch.com	37%	304	295	1	46	204
www.aramark.com	37%	56	23	89	28	107
www.nbty.com	37%	0	0	0	2	1
www.newark.com	37%	925	199	0	3	380
www.bostonproper.com	33%	2	0	3	15	4
www.keithley.com	33%	972	13	29	9	22
www.bradycorp.com	33%	223	104	0	32	228
www.kennametal.com	33%	8	0	8	8	4
www.darbyspencermead.com	33%	21	22	12	29	21
www.fisherscientific.com	30%	149	116	56	61	189
www.williams-sonoma.com	27%	176	6	0	16	139
www.wilmar.com	27%	12	11	57	2	48
www.bostonproper.com	30%	2	0	3	15	4
www.fisherscientific.com	27%	149	116	56	61	189
www.williams-sonoma.com	27%	176	6	0	16	139
www.wilmar.com	0%	12	11	57	2	48
Starcrest of California	0%	-	-	-	-	-