



2nd ANNUAL PAY-PER-CLICK E-TAILER STRESS STUDY

EXECUTIVE SUMMARY

NOVEMBER 2007

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The NetElixir / e-tailing group 2nd Annual Pay-Per-Click E-tailer Stress Study

This presentation contains highlights of findings from the e-tailing group's 2nd Annual E-tailer Pay-Per-Click Stress Study conducted in the 3rd Quarter of 2007 in conjunction with NetElixir, Inc.

As always, we thank those who took time to share their company's findings. We value their input and learn from their experiences.

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I. SURVEY GOALS & METHODOLOGY

The goal of this study was to benchmark the e-commerce community's knowledge about pay-per-click (PPC) marketing including its current state, outsourcing vs. in-house strategies, performance results, priorities, and their implications for online marketers.

In October 2007, 137 e-commerce executives representing both Internet Retailer 500 and smaller merchants completed an online survey consisting of 15 questions.

Where applicable, throughout this report, year-to-year comparisons are shown versus the 1st Annual Study conducted in November 2006.

II. SURVEY SUMMARY

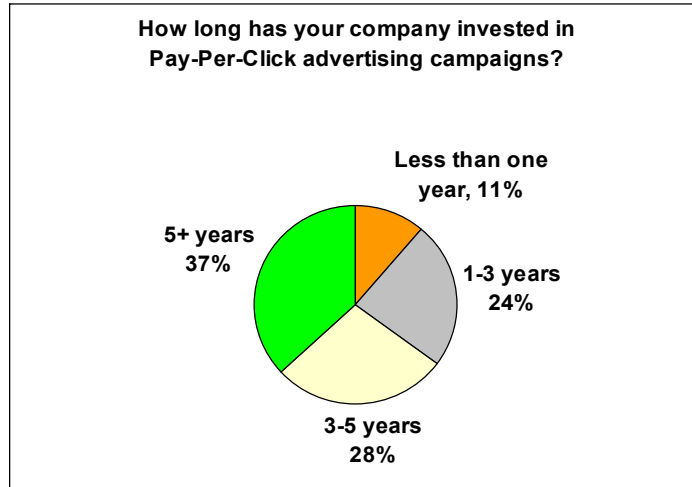
As achieving growth online gets more stressful, merchants are more bullish on PPC; looking to improve performance, optimize current initiatives and extend into new areas.

- Merchants have invested in PPC long enough for it to be considered an **accepted and established marketing tool**; the number of **orders** coming to sites as a result of PPC efforts are **increasing**
- A greater percent of **advertising budgets** are therefore being invested in PPC marketing
- The number of **keywords** being managed continues to rise; in part due to longer keyword phrases, being tested because the increase in click costs has forced marketers to try and find keywords with less competitive intensity
- PPC strategies are **very tactical** with a focus on **ROI** and **cost containment** relative to how campaigns are being measured as well as 2008 strategic PPC priorities
- The majority of those surveyed continue to handle PCC campaigns **in-house** with **minimal staffing** though some merchants are looking to gain efficiencies and minimize stress through outsourcing
- The average **cost per click** has remained **constant or increased slightly** as a result of expenses associated with efforts to control costs, manage better and get more ROI
- **Management** is more receptive to and **satisfied with results from outsourcing** but some hesitancy to partake remains based on cost and control issues
- Although merchants are getting more **seasoned and innovative**, knowledge levels and sophistication required to maintain and grow this valuable area can be **stressful**

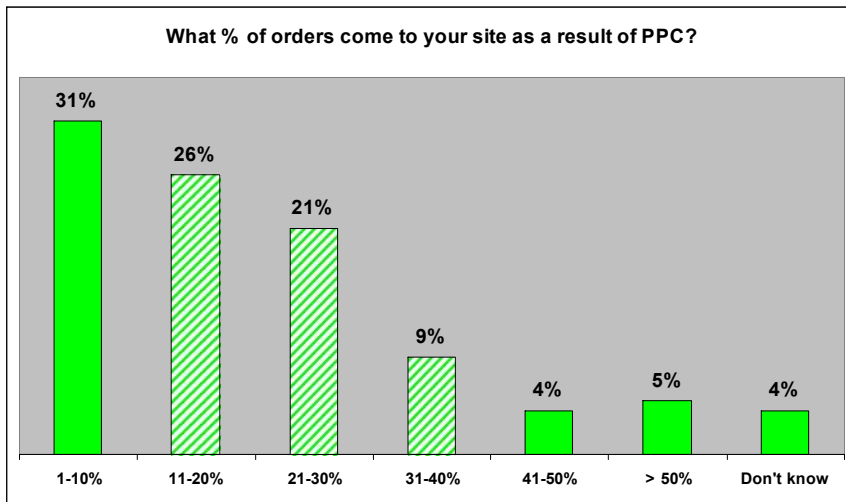
III. SURVEY DETAILS

PPC marketing has come of age

Merchants have invested in PPC long enough for it to be considered an accepted and established marketing tool; of those surveyed 65 percent have invested in PPC for 3 years or more; 37 percent over 5 years.

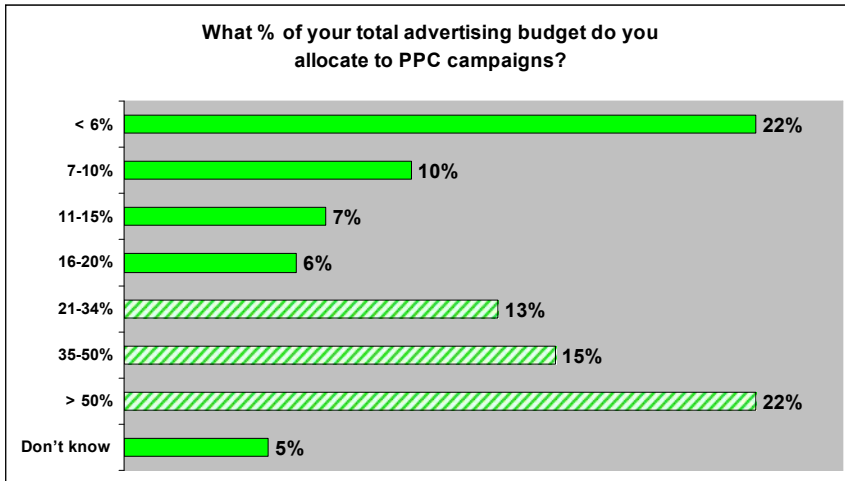


While almost one-third of respondents (31%) report that 1-10 percent of orders now come to their sites as a result of PPC initiatives, over one-half (56%) are seeing between 11-40 percent of orders as a result of these efforts.

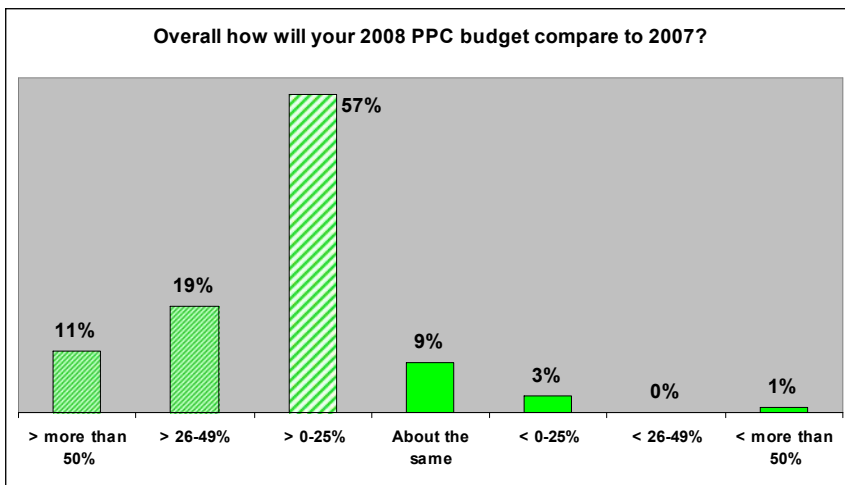


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More commitment

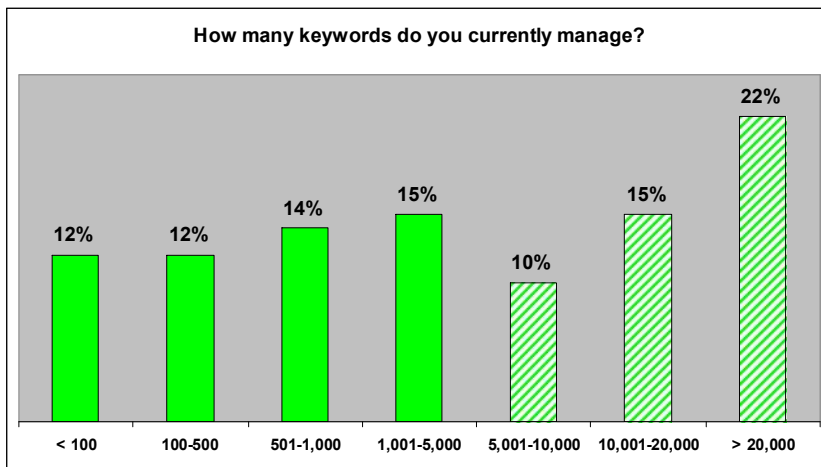


Commensurately, budgets to **advertise and manage** PPC are increasing with 50 percent of those surveyed, versus 44 percent last year, allocating over 20 percent of their total advertising budget to PPC campaigns.



For 87 percent of the survey group **overall PPC budgets** are planned to increase in 2008 with almost one-third (30%) planning increases of 26 percent or more.

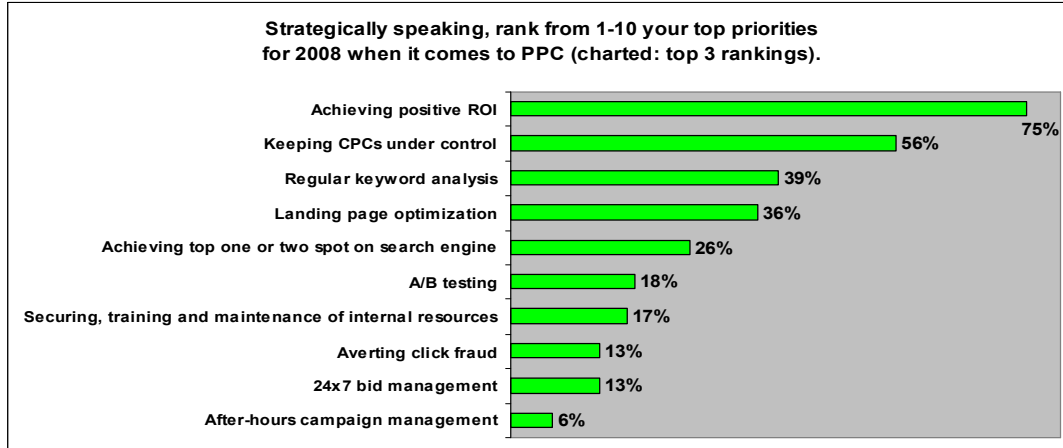
The number of **keywords** being managed also continues to rise with 47 percent currently managing over 5,000 keywords and 22 percent over 20,000. In part this is a result of testing longer keyword phrases to reduce costs by getting incremental value from the "long tail."



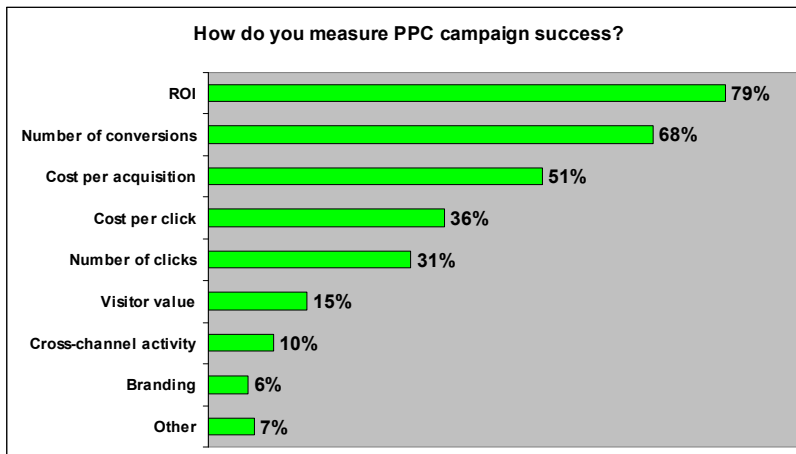
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A tactical approach

Asked to rank top **strategic PPC priorities** for 2008 from 1-10, tactical factors ranked the highest based on a "top 3" analysis, lead by **ROI** (75%) and **cost containment** (56%).



Tactical, bottom-line, direct marketing measurements were also the most prevalent relative to how merchants calculate PPC **campaign success**. **ROI** maintained its position as the primary measurement for 79 percent of respondents. Of note was the increased focus on the number of **conversions** up to 68 percent this year versus 53 percent last year.

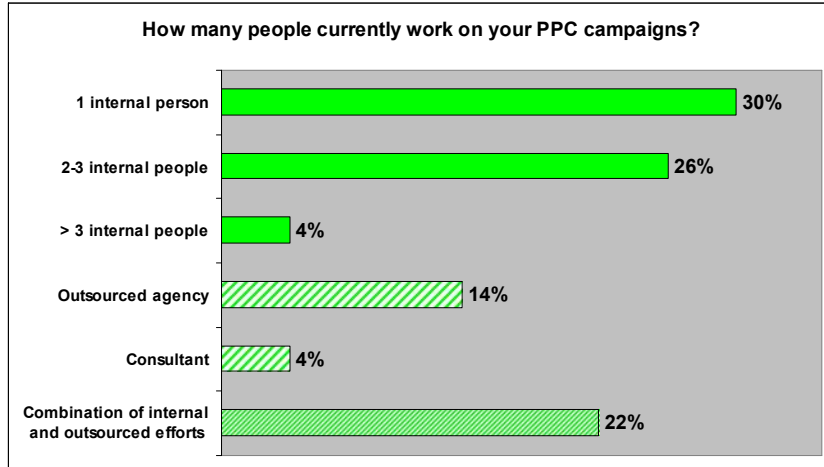


Although still in the early stages, merchants are beginning to extend PPC measurements for **targeting** (visitor value 15%), **cross-channel** (10%) and **branding** (6%) purposes.

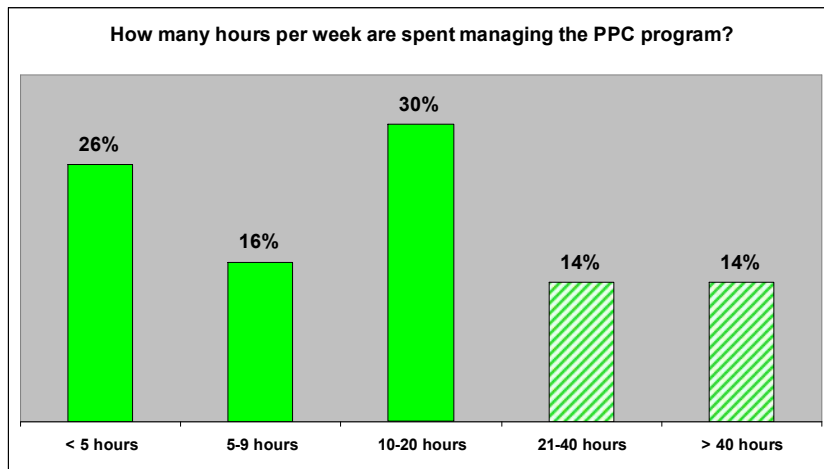
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Resource challenges remain

Unfortunately, **staffing** for PPC is still an issue. Sixty percent of those surveyed handle their PPC campaigns in-house and the overwhelming majority (96%) do so with 3 people or fewer. Where appropriate the other 40 percent are outsourcing to ease the burden.



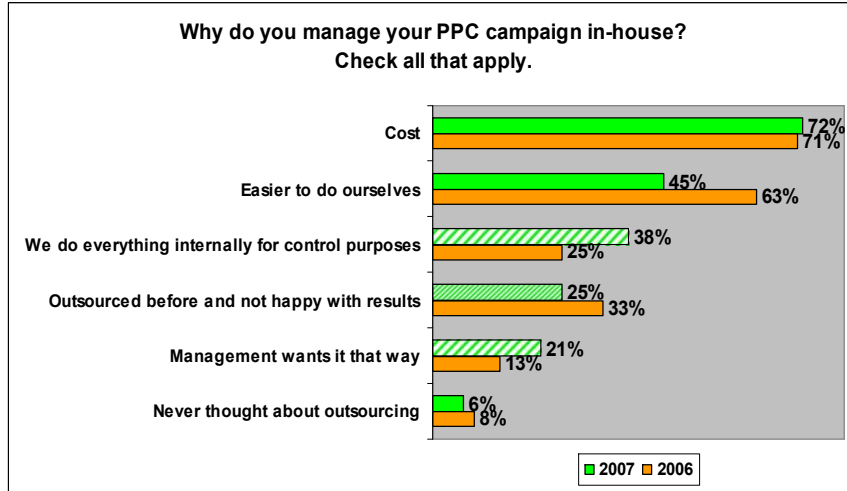
Time spent on PPC programs is impacted by the amount being handled in-house versus outsourced which is evident in the finding that those spending 21 hours or more on the task has dropped to 28 percent from 33 percent last year.



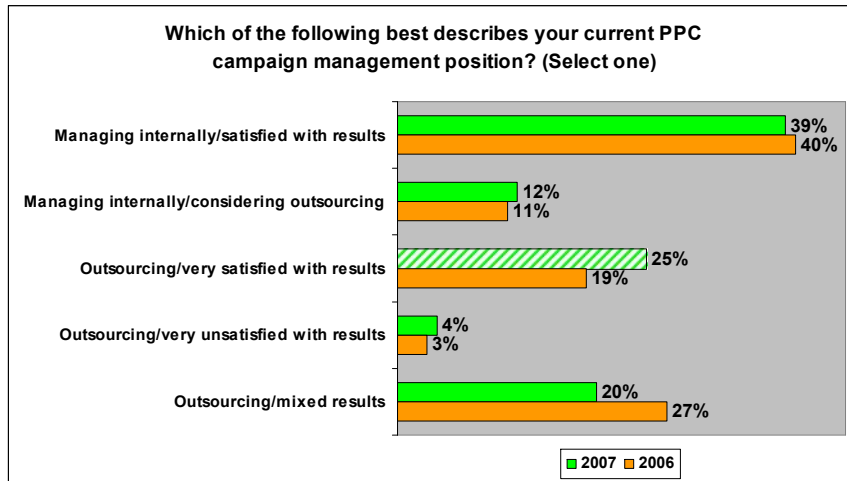
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Outsourcing gains favor

Merchants are **positively inclined toward outsourcing**, although cost, control issues and management directives continue to influence keeping PPC in-house. The latter two of these factors accounted for 59 percent of their rationale versus 38 percent last year. Conversely “easier to do ourselves” was only reported by 45 percent, down from 63 percent. Dissatisfaction levels dropped as well to 25 percent from 33 percent in 2006.

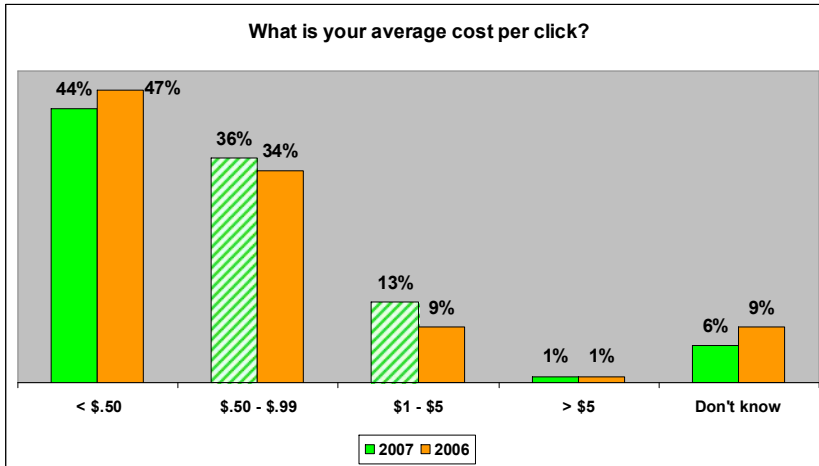


This chart shows further evidence of outsourcing becoming more accepted. PPC **management satisfaction** in-house is constant while sanctioning of outsourcing has grown, with 25 percent currently very satisfied, up from 19 percent in 2006.

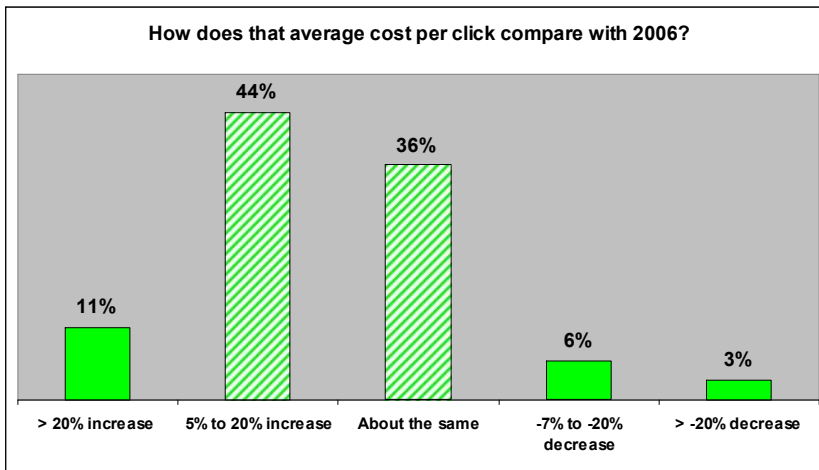


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Little boost in the cost of PPC



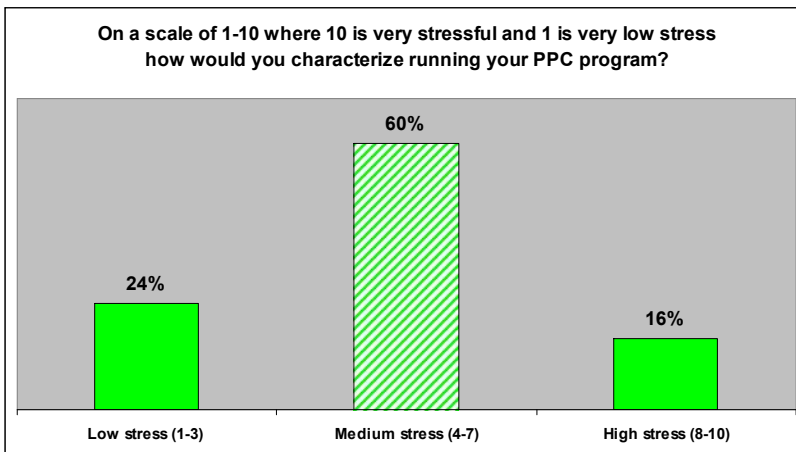
The average **cost per click** is still under 50¢ for 44 percent of respondents but cost controls have boosted the CPC slightly for others; reporting average CPC within the 50¢ - \$5 range at 49 percent vs. 43 percent last year.



Compared to '06 the average cost per click has modestly increased or is about the same. with 80% of those surveyed reporting that their '07 average CPC is in in this range

Stress levels stabilize

Stress levels associated with PPC are "**middle of the road**" as running programs and resource allocations improve 60 percent characterize their current stress level as medium; 24 percent low.



III. NETELIXIR AND E-TAILING GROUP'S GUIDELINES FOR PPC MANAGEMENT & OPTIMIZATION

1. Clearly define your goals with finite, measurable objectives.
2. Develop an operational plan that links those objectives with dedicated resources, processes, and relevant technology.
3. Establish Key Performance Indicators (KPIs) then set up a method for KPI-based performance analysis and optimization of your campaigns.
4. Develop a customer acquisition model that helps meet your objectives through continuous testing of variables, strategies, and management tactics.
5. In real-time, test and analyze interrelated and constantly changing variables.
 - Keyword selection
 - Keyword matching
 - Ad grouping
 - Ad placement
 - Ad copy tailoring
 - Landing page design testing
 - Bidding techniques assessment
6. Devote resources to keep up-to-date on the dynamic nature of search engines as well as your competitors.
 - Ranking algorithms
 - Search engine policies and offerings
 - PPC category "share of voice"
 - Competitor strategies & promotional offerings
7. While automated tools help to efficiently manage this complex process, nothing can replace human judgment, resourcefulness, and insight – rely on a mix of both.

V. COMPANY BACKGROUNDS

The e-tailing group, inc. serves as the multi-channel merchant's eye, bringing a merchant's sensibility to evolving the multi-channel shopping experience and actionable merchandising solutions to merchants selling online as well as to enabling technology firms.

For more background about this research study or additional information on the e-tailing group, inc. please contact Lauren Freedman at lf@e-tailing.com or visit the e-tailing group website www.e-tailing.com.

NetElixir (www.netelixir.com) offers full-service 24x7 management of pay-per-click search marketing campaigns, providing customers with optimal and predictable returns on their search marketing dollars.

For information regarding NetElixir's search engine marketing solutions contact Udayan Bose by phone at 609-261-3493 or via email to udayan@netelixir.com.