Chapter 12
Search Engine Marketing in Small and Medium Companies:
Status Quo and Perspectives

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ABSTRACT

Search Engine Marketing (SEM) is one of the most effective online advertising channels which let companies efficiently acquire new and reactivate existing customers at low acquisition costs. In this chapter the authors briefly review the scientific literature on SEM with respect to managerial decision problems along the levers of SEM, mainly bid optimization, keyword selection, and adCopy creation. Based on a case study they discuss challenges of SEM campaigns operated by small and medium enterprises (SME). After briefly describing the technical requirements for effectively controlling SEM campaigns the authors focus on keyword selection and how to address the long tail issue in SEM. A/B-Tests are shown to be an appropriate measure for optimizing the combination of ad copies and landing pages. Finally they discuss bid optimization at a keyword level taking into account spill-over effects between keywords.

INTRODUCTION

It has always been a huge challenge for companies of all sizes to optimize the allocation of their marketing spendings. As search engine marketing is becoming an important part in the media mix of SMEs they face some serious questions: Does it make sense for SMEs to use sophisticated SEM tools or to engage a dedicated agency? Is there an efficiency gap in which human campaign management and optimization is too time consuming and automated software tools do not work due to a lack of data? How can firms handle this lack of

analyzable data that comes with restricted budgets? In this paper we will discuss these questions.

The Pay per Click (PPC) model has been very attractive for advertisers since its invention for a variety of reasons. The first reason is search itself: Like all search engines, Google does not disclose the details of its organic search ranking algorithms, the part of search that cannot be paid for. As a result, advertisers can never be sure that their site will be listed on a specific position, even if their offer is the most relevant. Moreover, there is a time lag between creating a page with a product offer and its inclusion in a search engine's index, let alone until a page ranks at the desired position, and this time lag can be between a few hours and months. Removing a result can be equally difficult, letting most marketers not feel comfortable with the technical complexity of optimizing a site for ranking in organic search results. This approach is called search engine optimization or SEO.

In contrast to this, the PPC model has been attracting marketers since the system is much more transparent, even although more sophisticated technical factors have been introduced. Nevertheless, basically, everyone can bid for a keyword, and ads will appear immediately on a position that the advertiser is more or less able to influence. Finally, marketers are enabled to determine the return on investment (ROI) for each campaign, given that effectiveness can be tracked precisely and instantly. This does not mean that search engine marketing is the only choice for marketers: Since organic results attract most of the clicks and these clicks are not charged, SEO still is of interest. However, search engine optimization is based on completely different approaches, and the ROI of SEO efforts can not be covered here.

More than ten years after its birth, the PPC industry is still growing. Although growth has slowed down, there are still new users coming online that search for products, enabling Google and other search engines to monetize the additional searches coming in. The number of advertisers per keyword determines how much Google will earn per click, given that each advertiser bids per each keyword separately, and each advertiser has to determine what bid is profitable; the more competition, the higher will be the bid to get a higher position on the SERP that usually translates to more traffic.

With ten or hundred thousands of keywords, optimization can be a full-time job for one or more employees, and even with tools, keyword and ad copy generation as well as analysis and reporting still require human work. While this is not rocket science, many companies decide not to build the necessary expertise internally, but outsource this part of their marketing to specialized agencies, or they use tools that allow them to optimize bidding more or less automatically.

The first crucial question for most SMEs is whether PPC advertising makes sense at all. In some niche markets, search volumes for relevant keywords are so low that setting up and managing a campaign may be more expensive than the expectable outcome. This can happen to SMEs as well as to the big brands. If the answer is "yes", though, the second question is how to determine whether an agency or the use of a commercial tool will provide a better ROI that would justify the expense. We review these challenges and give possible answers in this paper.

The answer to the first question depends on the goals of online marketing activities. For online shops, the cost per order will most probably be the most important key performance indicator (KPI): How much money has to be spent in order to generate a specific sale? This approach relies on a transaction base where customers are not very loyal and will most probably select a different shop the next time they search for a product the shop has to offer. In contrast to this, other online shops measure the customer lifetime value, since they expect a customer to return, and they are willing to pay more for a new customer ("cost per lead"). In other cases, especially when there is nothing to sell, users are expected to perform a specific action such as signing up for a newsletter ("cost

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