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Web Search Sites See Clicks Add Up to Big Ad Dollars

By JOHN MARKOFF and NAT IVES

When the year's largest television audience convenes for the Super Bowl on Sunday, advertisers will be spending an estimated \$2.4 million for each 30-second cinema-quality commercial. But just as important to many of those same advertisers is the \$1.50 or so a mouse click that they may spend on the [Google](#) Internet search site, at any hour on any day, for a few words of plain text that will link prospective customers to the advertisers' Web sites.

The fact that Eli Lilly, Napster, [Novartis](#) and [Staples](#) are among Super Bowl advertisers that are also regulars on Google is not the only evidence that Web advertising has come of age.

On Tuesday, Google, the most popular Internet search company, announced that it had passed a significant milestone by selling \$1 billion of advertising during the last three months of 2004.

Each day on Google, hundreds of thousands of times an hour, Web surfers who type in search terms like "printer paper" end up clicking on paid links to sites like [Staples.com](#) - from advertisers that have bid to have their names appear in innocuous, no-frills text lists at the side of the search results page. The advertiser pays only when the prospective customer actually clicks on the ad link.

"In the past, advertising has been hard to track and hard to make accountable," said Tim Armstrong, Google's vice president for advertising sales. Now, he said, advertising has become a dialogue with the consumer.

Google did not invent the concept of keyword search ads, which predates the company's founding in 1998. And Google is not alone in capitalizing on the paid-click trend. [Yahoo](#) is also reaping rich, if somewhat lesser rewards, and [Microsoft](#) is expanding its considerable presence in the field. Small companies like [Ask Jeeves](#) are also in the hunt.

But so far Google has been the most successful in blending computer science, consumer behavior and merchant motivation into what, for now at least, is a considerable money machine.

With an overall market of about \$3.8 billion last year, keyword search represented more than 40 percent of the total \$8.7 billion in Internet ad spending last year in the United States, according to [Merrill Lynch](#). And keyword search's share of the Internet ad market is growing.

No one expects Google-type ads to quickly render other forms of advertising obsolete in the United States, where marketers spent a total of \$264 billion last year in all media.

"Avenues like the Super Bowl offer a tremendous outlet to reach consumers," said Richard Castellini, the vice president for consumer marketing at [CareerBuilder.com](#), an online job listings company that has bought three 30-second spots on the Super Bowl broadcast.

A TV ad can put the company's name and brand before millions of viewers, Mr. Castellini said. But Google can direct prospective customers to his business by placing a [CareerBuilder.com](#) link on the screen of anyone using Google as part of a job hunt.

As for local advertising on radio and television and in newspapers, those media can still be effective ways to blanket large portions of the hometown audience with a uniform message. But individually focused Internet ads are already siphoning business away from locally oriented classified advertising and yellow pages directories - whether in their offline or online forms.

And as the Internet occupies an increasing part of the modern consumer's discretionary time, all the other forms of media advertising will probably have to adjust.

“You’re seeing advertising move into advertising that people can seek out, and moving away from mass advertising,” said Peter Sealey, a former Coca-Cola marketing executive who now teaches at the Haas School of Business at the University of California, Berkeley. “In the context of that shift, this little niche of Internet search will be a huge beneficiary.”

Under the Google model, the Internet is also an equal-opportunity medium for advertisers. Sellers of all stripes have the opportunity to bid from 5 cents to \$100 per mouse click to have their Web links appear alongside Google’s pages of search results. Anyone who bids at least the minimum will appear on the list, but unless the bid is competitive, the bidder’s name may appear so far down the list that the chances diminish that prospective shoppers will see it.

Unlike Yahoo, which ranks its lists of sponsored ads based on how much the advertiser has bid per click, Google continually adjusts the rankings on the basis of which ads are returning the most money. The merchant who bids \$1 a click and gets 100 clicks per thousand people who see the ad, in other words, will receive a higher ranking than the seller who bids \$10 but gets only five clicks per thousand. And to keep control of the cost, advertisers have the option of setting a spending cap - once reached, the ads stop running.

And so, keyword Internet ads - especially Google’s version - are one of the few forms of advertising that potentially appeal to anyone, anywhere, of any size with something for sale.

Barnard Ltd., a small Chicago company that sells decorations and stage props like artificial food, has used Google keyword searches like “fake food” and “Styrofoam balls” since 2002 - to great effect.

The company finds itself consistently outbid for more common terms, like “decorations,” by big retailers like Target and Amazon. Still, “in the first year it probably increased my sales by 70 percent,” said June D. Barnard, the company’s president. “It’s enabled me to sell internationally and throughout the United States in a way that I could never do before.”

The Internet ads have also allowed Barnard to halt its direct-mail catalog program, which attracted nearly no business, Ms. Barnard said.

Ms. Barnard’s story is the kind that can set off fears - or hopes - that catalogs and all direct mail will disappear. But their demise has been predicted before, said Louis Mastria, vice president for communications at the Direct Marketing Association.

Instead, Mr. Mastria said, the Web and direct mail work best together. When a company mails a catalog, for example, it can count on a spike in traffic to its Web site within a day or two, he said. “A lot of these channels are coming together.”

Google’s wildly popular public stock offering last summer underscored the success of its approach. But the company itself expressed surprise at its robust fourth-quarter results; the earnings news sent the stock up 7 percent on Wednesday and it rose an additional 2.3 percent yesterday, to close at \$210.86. That is up 148 percent since Google went public in August, raising worries by some that the stock may be overpriced even though its growth has been impressive.

The trend has also held some surprise for Bill Gross, the entrepreneur and software designer who was one of the pioneers of Internet advertising in the mid-1990’s and is widely credited with inventing a way to make money from Web searches.

“I thought that the Internet was fantastic, and I was sure that it would become the ultimate direct marketing tool,” he said yesterday. “But I had no idea that pay-per-click would ultimately be this big.”

Mr. Gross recalls how resistant users were in the early days of the Web to pop-up ads that interfered with, rather than supplemented a person’s search session. For him, the answer lay in making the advertising inconspicuous, but relevant to the Web user’s search terms.

And yet he also remembers initial resistance to his approach. When he introduced his keyword search system, [GoTo.com](#), at an industry conference in Monterey, Calif., in 1998, some people in the audience hissed. “They were upset that somebody would attempt to monetize search, which was widely believed to be a free good at the time,” he said.

He later changed his company’s name to [Overture Services](#), which Yahoo purchased for \$1.63 billion in 2003. Overture now sells ads for the search portion of Yahoo’s Web site, and it also sells ads for other sites, most notably Microsoft’s

MSN Search service.

Google, by developing a reputation for returning the most relevant search results, became the most popular search site. In December, Google's site attracted 67.1 million different American users, who each spent an average total of 30 minutes on the site, according to Nielsen/NetRatings. By contrast, Yahoo's search service drew 47.9 million American visitors, who spent an average 12 minutes in December.

Google's reign at the top is not guaranteed, of course.

"Google has a very, very strong position in the marketplace, but they're competing against some of the most powerful, best-run companies in the world," said Ken Cassar, the director for strategic analysis at Nielsen/NetRatings, referring to Yahoo and Microsoft's MSN online service. And some Internet executives point out that keyword searches, representing less than half of all Internet advertising dollars, are not the only art form. A bit less than half of Google's fourth-quarter revenue, for example, came from ads it placed on other companies' Web sites, based on the context of the surrounding material.

Online ad spending is also increasing for video and so-called rich media advertising - interactive ads that use animation, audio and video. Jay Amato, the chief executive at Viewpoint in New York, a company that produces online video and interactive ads, said that while paid search may be getting its day in the sun, the time will come for rich media and video.

"It's very good for us, because people are seeing real results from online advertising," Mr. Amato said. "It says the years of the doldrums are over."

For now, though, the keyword search is king.

Ask Ray Allen, a former ad agency executive who is now the president of American Meadows, a wildflower seed supplier in Williston, Vt. "I used to spend millions of dollars of other people's money on TV, radio and newspapers," Mr. Allen said. He now spends about \$300 a day to buy search terms like "wildflower seeds" and "hummingbird garden" from Google and Overture to advertise his own company, reaching a national audience of potential customers. "Never in the history of media," he said, "has a small business been able to have that much reach."

Saul Hansell contributed reporting for this article.