

Financial Implications of the Yahoo and Microsoft Search Alliance

Study completed by GroupM Search Predictive Insights:

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In July 2009, Yahoo, the one-time King of Search, and Microsoft, the deep-pocketed afterthought of the search marketplace, announced an alliance designed to present a singular, legitimate threat to the dominance of Google. Dubbed the “Search Alliance,” this deal set forth to allow Yahoo to represent its inventory of advertisers across both search engines, while installing the Bing back-end systems, both paid and organic, as a single solution to all visitors.

In October 2010 this alliance will formally come to fruition. GroupM Search conducted this research to explore the implications of the Search Alliance and help advertisers prepare for and minimize the impact of unknown variables once the transition of Bing powering Yahoo’s search results begins. The study was completed by GroupM Search’s Predictive Insights group, a team comprised of econometric statisticians and mathematicians with expertise cultivated in the area of search marketing. The study reveals a sizeable increase in competition that the merger to one platform will bring. Further, it provides insight into a period of volatility advertisers can expect post-transition and cost implications the Search Alliance will have compared to current Bing cost-per-clicks (CPCs).

What is the Search Alliance?

Microsoft and Yahoo have entered into a business agreement for the search segment of their businesses, creating a shared search offering known as The Search Alliance. Organic and paid search results on both engines will be powered by Microsoft’s Bing engine, with all paid search running through Microsoft’s adCenter. While the results shown on both engines will be the same, Yahoo and Microsoft will own and innovate the delivery of search results on their respective engines and the site-side visitor experience. The companies will also maintain and service their own affiliate search partners, display advertising, and other properties that comprise their business.

Looking Back to Predict Tomorrow

In order to estimate how long it takes advertisers to return to equilibrium after a shock to the market, historically similar events of this nature were examined. GroupM Search examined the impact Yahoo's introduction of its new bid platform, Panama, in 2007 and Microsoft's transition in 2009 from MSN Live to Bing had on advertisers, along with current data across Bing and Yahoo's search networks. The sample set included 12 category-leading advertisers meeting the following criteria: a) have maintained a steady presence on both Yahoo and Microsoft's search engines dating back to 2007, b) have sufficient traffic volume in order for stable estimates to be determined, and c) are GroupM clients. This included advertisers from automotive, pharmaceutical, quick service restaurant, finance, travel, telecommunication, consumer electronics and other industries.

To empirically estimate how competition affects CPCs, data was gathered from a sample that included hundreds of branded and non-branded keywords. Competitive estimates were constructed by modeling CPCs as a function of maximum bid and number of competitors. For every keyword, the increase in competition in Bing was estimated by analyzing the competitive sets on the two search engines. Further, analysis was conducted of paid search advertisers unique to Yahoo, who will now have to advertise through Bing. Using historic and present data, a regression model was built to look at the current marketplace for these advertisers – and their competitors – on Bing. This model was estimated twice – once for branded keywords and once for unbranded keywords, to account for the difference in bidding behavior for branded and generic keywords. Then, using the average number of expected competitors, projections were made to predict the impact increased competition would have on CPCs.

One Platform Yields Increased Competition

In a pay-per-click auction system, such as paid search, the number of competitors matters greatly in the final price of the item because each competitor vies for its desired position. Competition creates implications from the top to the bottom of the auction, not just for the winner.

One of the most important insights from the study was the understanding of the number of advertisers with paid search campaigns unique to Yahoo that potentially will now be running on the Microsoft adCenter platform.

Currently, advertisers can be classified into four categories:

- (a) Those that run in Bing
- (b) Those that run in Yahoo
- (c) Those that run in both
- (d) Those that run in neither

When the Yahoo-Microsoft merger goes live, advertisers in categories (a) and (b) will be forced into (c) if they choose to stay in the auction. In all cases studied for this project, the data showed that there will be an unambiguous increase in the number of competitors than currently exist on Bing. This increase will put upward pressure on CPCs, as will the realities of a greater blend of sophisticated and unsophisticated advertisers figuring out the dynamics of the new marketplace until they can optimize against their key actions.

Within the search marketing campaigns analyzed, only 27 percent of the advertisers' competition for branded and unbranded keywords were running on both Yahoo and Bing. GroupM Search projects this could lead to a 74-percent increase above current competition levels in Bing. This competition increase will be the greatest factor for an amplification in paid search costs above current Bing CPCs once the Search Alliance is complete.

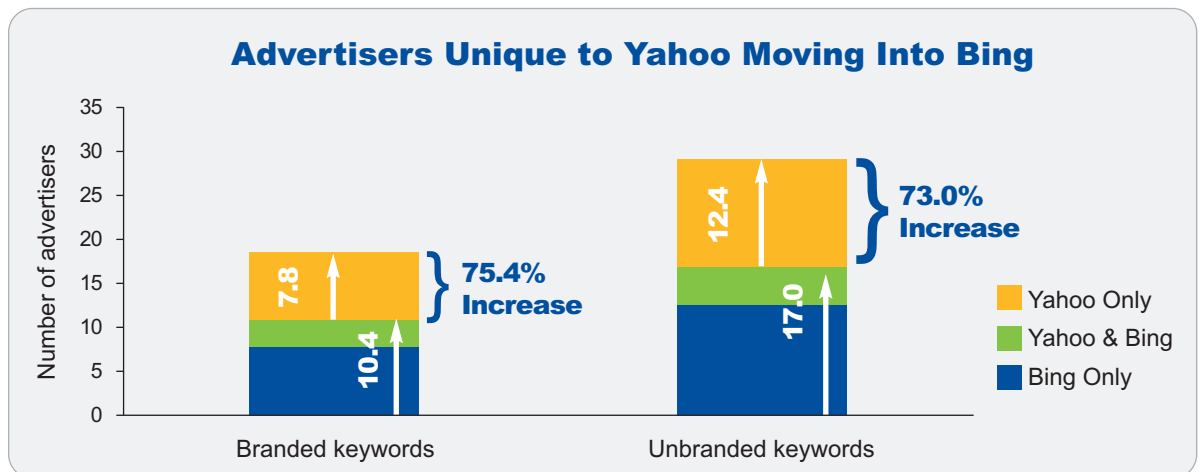


Chart reflects the average number of competitors by platform of 12 advertisers examined in the study.

Post-Transition Cost-Per-Click Volatility

On a day-to-day basis, advertisers are in equilibrium on any given keyword auction. Some competitors may enter or exit the auction; others could be testing a new bidding strategy or creative. But in general, the market is at equilibrium – advertisers are getting clicks at a cost they are comfortable with. When the Search Alliance goes live, the market will be thrown out of equilibrium as advertisers from Yahoo are transitioned into the Bing traffic stream. The transition of advertisers is slated to happen in a phased approach – which may have some minimizing impact on cost implications, but based on historical experience, the expectations provided seem consistent.

Additional Predictions²

Competitive increase caused by platform merger:

Branded Keywords On average, competition for branded terms on Bing will increase by **75 percent**

Unbranded Keywords On average, competition for unbranded terms on Bing will increase by **73 percent**

Percentage increase to CPC caused by each new competitor:

Branded Keywords: For each new competitor, CPC will increase by **6.8 percent on average**

Unbranded Keywords: For each new competitor, CPC will increase by **1.5 percent on average**

While neither the Yahoo Panama migration nor the MSN Live/Bing transition represents the exact situation of the upcoming platform merger, these milestones are solid indicators of how advertisers react when the search marketplace is forced out of equilibrium.

Based on the historical examples, GroupM Search predicts **advertisers can expect a period of CPC volatility lasting three weeks** when the Yahoo and Microsoft Search Alliance transition is complete. The volatility will likely be at its most extreme in the first week, calm somewhat in the second and third weeks, and advertisers will finally reach a new equilibrium in the fourth week.

At the campaign level, **advertisers can expect an average increase of 64 percent over current Bing CPCs for unbranded keywords and 78 percent for branded keywords** at the peak of this volatility.¹

It is likely that advertisers in very competitive categories, who are often bidding against dozens of competitors for their keywords, will have higher levels of volatility and equilibrium will take longer to reach. This will be further complicated owing to the immediate transition from the Search Alliance completion to the holiday season getting underway in earnest via search.

It is conceivable that, in some categories, a true natural level may not be seen until early 2011.

¹ Variability at the keyword level is expected to be more volatile and inconsistent, and was not estimated in this study.

² Predictions assume that each keyword's maximum bid is unchanged from Bing at present to the Search Alliance.

Competition Increase and Cost-Per-Clicks

On average, once the marketplace settles and the “new CPC” emerges, **advertisers can expect a 13 percent increase in CPCs for unbranded keywords and a 23 percent increase in CPCs for branded keywords** over current Bing CPCs³.

In evaluating the validity of this research outside the models created, a secondary review was conducted of CPCs at the predicted new level on Bing against current Google CPCs. The rationale being that if Bing suddenly was widely more expensive than the market leader, the likelihood of such economic increases would be far less likely. In an analysis of more than one-third of the keywords used in the study, it was determined that the general CPC levels would still be inside a viable variance from today and likely not self-correct further or hold status quo to current pricing.

Industry View:

Google’s CPCs Compared To Projected CPCs Post-Transition

	Branded			Unbranded		
	Pre-transition	Predicted post-transition	Increase	Pre-transition	Predicted post-transition	Increase
% of CPCs greater in Bing than Yahoo	31.6%	43.9%	12.3%	50.4%	60.5%	10.1%
% of CPCs greater in Bing than Google	46.2%	65.4%	19.2%	52.2%	53.6%	1.4%

For many keywords sampled, Bing’s current CPCs are higher than in Google. For unbranded terms, when the Search Alliance goes live, few keywords will go from less expensive in Bing than Google to more expensive, while a greater number of branded terms might cross that threshold.

³ Unbranded keywords have a higher number of competitors than branded, so the competition increase affects branded terms more than unbranded terms.

Conclusion

When the Search Alliance is complete, two streams of traffic will become one. The status quo of both Yahoo and Bing will be significantly altered for advertisers as many advertisers new to Bing join the auction marketplace. In the weeks following the transition, there will be a period of high volatility as advertisers adjust to the new landscape. Cost-per-click levels will then settle to a new baseline that is different from that of Bing and Yahoo currently.

On the heels of the Yahoo and Microsoft Search Alliance transition, however, comes the peak of the holiday season when paid search sees its greatest surge in advertisers and marketplace dynamics. With this unique timing, the marketplace could experience bidding variables it hasn't seen before, and it could be Q1 of 2011 before everything settles and the "new CPC" is realized.

Unique Situations

There are a few scenarios in which the projections from this study are not applicable. Such scenarios and expectations include:

- *No competition:* On a keyword where the client is the only bidder, the CPC will revert to the current Bing CPC.
- *No competition change:* On a keyword where the client has the same competitors in Bing and Yahoo (not only the same number of competitors, but the same exact competitors), the post-transition CPC will revert to the current Bing CPC.
- *Trademarked terms:* Bing and Yahoo currently have different rules about bidding on trademarked keywords. On Bing, an advertiser must have some relevance to the trademarked term in order to bid on it, while Yahoo is less restrictive in this sense. This leads to some keywords where there are two or three bidders in Bing and 15-25 in Yahoo. Since the Search Alliance will utilize Bing's bidding rules, the increase in competitors on trademarked terms should not exceed 200-300 percent, despite the large number of unique competitors currently bidding in Yahoo.

About GroupM Search

GroupM Search is the search marketing specialist division of GroupM, the media buying and planning arm of WPP responsible for more than 1/3 of the world's media buying. GroupM Search provides industry-leading search marketing strategies, technology development, research, staffing and training to GroupM communications planning agencies, including: Maxus, MediaCom, MEC and MindShare, as well as the direct-to-client search marketing agencies Outrider, Catalyst Online and Quisma. More than 700 search marketing strategists comprise GroupM Search's global network spanning 40 countries. In 2008, GroupM Search was named the 2008 Search Marketing Agency of the Year by *OMMA Magazine* and *MediaPost*.

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