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SEARCH AND RESCUE

Internet search engine companies are finding it impossible to survive on banner ads. To save themselves, some are charging sites they index, while others are entering the enterprise market. David Green assesses their chances.

Search engine providers face real cash concerns. The fiscal pressure waves of the dotcom bubble burst have only been amplified by the recent stock market slump, and lack of profitability has caused several familiar names to disappear from the industry, including RealNames, WiseNut, WebTop, Go.com (formerly Infoseek) and Excite (although this has recently re-emerged in Europe via the internet service provider Tiscali).

Money troubles on the internet are not limited to search services, and more and more publishers are charging for what they once provided free (often labelling themselves as 'subscription services' or 'premium content providers' when they change). It is against this background that search services have been been attempting to make money out of searching.

Search engines and web directories have typically had three main revenue streams: advertising, providing search results at third party sites and, in some cases, adapting their technology for internal company networks, which is usually referred to as 'enterprise search'.

Paid placement delivers targeted advertising and relevant site traffic for marketers, but the innocuous integration of ads within the editorial search results has prompted US consumer watchdog Commercial Alert to file a complaint of 'deceptive advertising' against several major search engines with the US Federal Trade Commission.

Historically, online advertising was dominated by dotcom firms (accounting for 70 per cent of all online ad spend in 2000 according to www.emarketer.com). They typically used simplistic banner ads. However, the advertising base on the internet has widened, and, despite the sharp contraction in ad revenues experienced last year, new advertisers are turning to the web, attracted by its measurability. Three significant changes have occurred in this area:

- sites that deliver their content customised to a niche target audience are attracting greater advertising spend than generic portals, such as AOL and Yahoo
- many large, established corporates have integrated new media activities into their overall marketing mix and are driving advertising spend
- several new forms of advertising have been widely adopted. While most of these are quite intrusive for internet browsers (eg, pop-up windows, vertical skyscraper ads, floating animations ('shoskeles'), etc), it is the simple text-only ads that now appear within search engine results that have attracted the greatest criticism.

Over the past two years, search engines and web directories have increasingly begun charging companies before considering them for indexing. While paid inclusion merely guarantees that a site will be crawled or reviewed and then listed somewhere within the index or directory, paid placement prominently places some promotional text and a web link within any search results the site appears in. Integrated with the editorial content of the search results, these advertorial links are usually euphemistically disguised as 'featured' sites or links.

In the case of paid placement, (also known as pay-for-performance or P4P) marketers sponsor a keyword that's relevant to their company, product or brand. In the UK alone this market has grown from nothing to have a value in the region of £25m to £35m over the past two years.

There are currently only three providers of P4P – market pioneer Overture Services, E-Spotting and Google's AdWords Select. Marketers using Overture (US and UK) or E-Spotting (Spain, Italy, Germany, France, UK) pay per click for each visitor clicking on their site. Those using

Combined with growing user concerns over the editorial integrity of search results, long periods of losses, and a tougher legal environment, it is hardly surprising that the search engine industry is facing the greatest crisis in its seven year history. While the search market has matured to the point that there are now sufficiently high barriers to entry for new incumbents, expect further casualties amongst the remaining survivors – with Lycos possibly the next to fail.

Google pay for their ad to appear in the right hand margin of the search results page. The ad only appears within the search results if it matches the keyword the user is searching on.

While paid placement delivers targeted advertising and relevant site traffic for marketers, it is the innocuous integration of these ads within the editorial search results that prompted US consumer watchdog Commercial Alert to file a complaint of 'deceptive advertising' against several major search engines with the US Federal Trade Commission in July 2001.

A year later the FTC upheld the complaint and recommended that search services improve disclosure of paid content within their results; for example, they could change the presentation or placement of paid-for search results so that they become more clearly differentiated from editorial search results. Several search providers such as AltaVista and FAST subsequently implemented changes to the paid-for results they presented on behalf of P4P providers. Of the three P4P search providers, only Google was found to already sufficiently differentiate results.

This pay-for-performance philosophy has also extended to web directories. In May, BT Looksmart switched from charging a one-time review fee to be included in its commercial listings, to charging customers continually according to a cost-per-click programme.

Needless to say, this caused uproar with existing customers, and a proposed class action lawsuit claiming breach of contract and misleading advertising has been filed against LookSmart. In February, a US weight loss company launched a $400m claim against Overture and others, alleging that Overture had allowed competitor firms to bid for keywords associated with the company's Body Solutions brand name. This is reminiscent of earlier lawsuits concerning keywords incorporated within web-page meta-tags.

Having experienced spectacular growth over the past two years, in future the three main P4P providers are likely to face tougher legislation and legal challenges that will increase their operating costs. Additionally, such a lucrative market will undoubtedly attract new market entrants (possibly MSN), thus increasing competition and eroding profit margins. Increasingly, the old guard will have to fight hard to maintain their revenue streams and build new ones.

With far fewer dotcom companies available to licence search engine solutions, the market for providing search results at third party sites has also sharply contracted. Large portal sites, such as AOL and MSN, are now a mature market, with only slow future growth prospects in the areas of industry or subject-specific vertical portals.

However, the BBC has bucked this trend to launch a major Google-powered search service on its site that was free from paid-for listings.

In a recent interview in the *Financial Times*, David Peterschmidt, CEO of internet search company Inktomi admitted that most of his company's 60 to 75 small web site customers have disappeared in the past year. The company also lost out to Google in the bidding to provide search results at web directory Yahoo! It is hardly surprising then, that Inktomi has recently been focusing its efforts on enterprise search.

Enterprise search is the application of technology developed for web-wide searching to company intranets and systems. Not long after its acquisition by Divine, popular search engine Northern Light shut down public access to its search engine, and the company now focuses exclusively on the enterprise market.

Along with Inktomi, Divine is providing new competition to the established stalwarts such as Verity and Autonomy. However, at this stage, Verity and Autonomy enjoy a comfortable lead over their new rivals, both in established client base and product sophistication.

UK-based consultancy and research organisation Ovum, has forecast that the global market for enterprise search solutions will be $15bn this year. Certainly there has been a big uptake in enterprise search by various departments in the US Federal government since 11 September.

Meanwhile, Google has launched a paid-for research service, Google Answers, that will possibly make a nominal contribution to profits. Other internet search companies have tried similar services in the past without much success. LookSmart Live was launched in 1999 only to be gradually phased out, whilst Yahoo's 'Expert Site' has had little success.

Future growth will most likely be in providing search results via new channels – TV-based web access, wireless internet and particularly 3G mobile phones, with their anticipated geo-location services. Norwegian search provider FAST wants to be the market leader in mobile searching and has already developed services to be integrated into mobile portals operated by Nokia and SonyEricsson. Google has existing relationships with Palm, Vodafone and Japan's I-Mode.

Of the above three revenue streams, advertising is perhaps the most vulnerable if the semantic web takes off. (More on the semantic web in a future issue. But for now, let's just say that automating low-level information retrieval with intelligent agents and machine-to-machine interrogation, will severely threaten an advertising business model that depends on clicks.)

Today, users conduct a manual search for a particular term they have entered into a search engine. Tomorrow, they will be issuing high-level requests to agentware on their internet-connected device. Each request will be broken down into a set of discreet search instructions that will be conducted automatically by agents on the web in an information value chain that results in a compiled high-level answer rather than today's list of possible matching results.

In the semantic web, directories will be used extensively by agents, so its possible that paid inclusion at directories such as Yahoo and LookSmart would become more attractive to advertisers – after all humans would not need to actually visit search sites.

The recent stock market falls have accentuated the desperate need for surviving search companies to attain consistent profitability, after long periods of losses. Combined with growing user concerns over the editorial integrity of search results, and a tougher legal environment, it is hardly surprising that the search engine industry is facing the greatest crisis in its seven year history.

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Next month: search engines and marketing – optimising websites for indexing, building link programs and a critical look at pay-for options.

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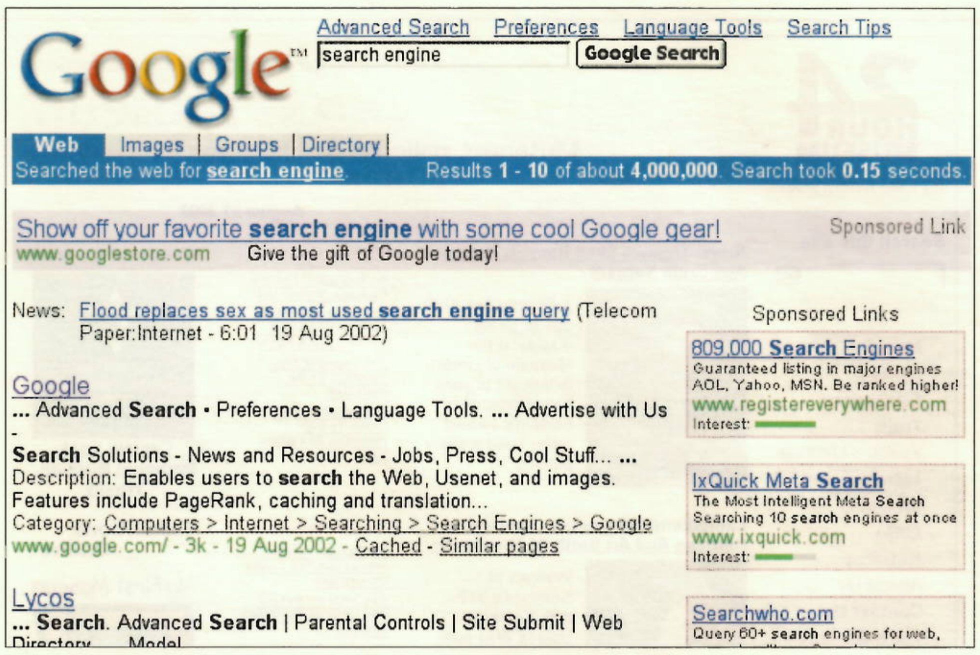

Google: launched a paid-for service, Google Answers, despite other companies failing with similar ventures.