The Clauss Group

Sustainable competitive advantage.
Strategic differentiation.

Executive Overview of Commercial Search

General Search and Models for Making Money

The major search companies (Overture, Yahoo, AOL, iWon and MSN) are failing in their current efforts to compete with Google's model, brand and extensions of its services. Google's search engine powers its own site and many of its competitors' sites as well as news and popular content-generating portals across the Internet. Google also allows users to integrate its toolbar directly into their browsers for consistent and varied uses. Google has become the Web's foremost search engine. By using Overture's original monetization model and several other models that appear to be lucrative, Google has been able to create critical mass towards its overall dominance in the consumer search space and may dominate enterprise search as well if the company sets that as one of its goals. According to Jupiter Research's 2003 analysis on Media Metrix information, "20% of links clicked through from Google's search results were paid listings." This is significant because that statistic taken in conjunction with the pricing models and volume give the best estimate of the perception, relevance and utility of the paid links.

Varied Value Propositions

Many of the search engine companies are exploring models for making money through a combination of core search and added value propositions. Each search engine's goal is to get customers to choose its site over others and to entice customers to return. Now that Yahoo and others are adopting Overture's monetization model and hiring its executives, paid advertising placement seems to be the method of choice for the near future. Ask Jeeves, a natural language search engine, is another search site that is abandoning banner advertising as well as interstitials and moving to the sponsored search model. Ask Jeeves also reports that sponsored search accounts for up to 25% of their click-through. Another aspect of these companies' revenue models is acquiring customers at a low cost (primarily through word of mouth and secondarily through co hosting on well-branded information portals) and keeping them through their loyalty (adding to the lifetime customer value) to the core search—a model that only Google has managed to maintain in the short term. In addition, value added to a search engine via unique features or specialized information can provide the substantive differentiator that segments of searchers want in a "search home" and those features or that information can bring back customers consistently. The iWon search engine is included in this prominent group because it is a prime example of the new wave of demographic niches with specific features attributable for gaining critical mass. The iWon search is powered by Google but has the added value of awarding cash prized to its returning customers through sweepstakes and online casino games. There are various front end/user interface value propositions that search engines will offer to attract smaller, more defined segments of searchers and these features will further divide the user base. IWon takes advantage of this niche strategy, as well as a pervasive trend making gaming more pervasive in the US. Google will continue to gain tremendous power by maintaining the relationships and engine behind the bulk of these services.

Shopping: a Valuable Subset of Search

This section looks at an overview of the successes and failures of the major retailers and search entities (MSN, AOL, Google, Yahoo, Amazon.com and eBay) in helping shoppers to find goods and services. The report considers several criteria: user interface, utility (the broad usefulness of the search engine to the shopper), aggregation (the ability to get to a partner's retail site or products), storefront options & features (the shopping home page) and overall effectiveness.

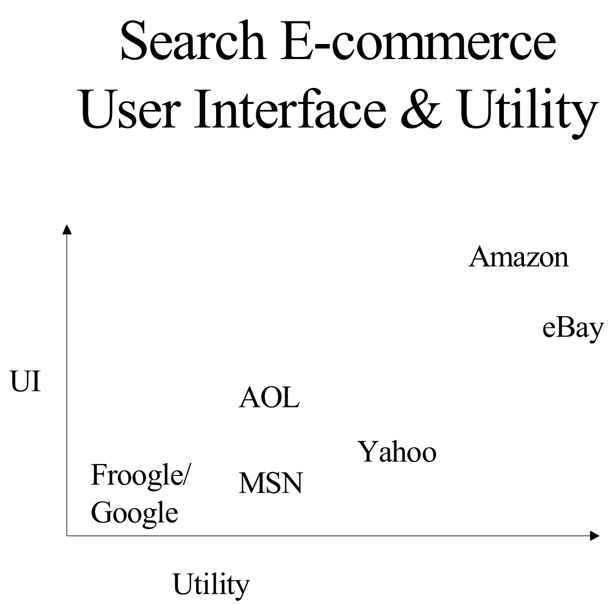
The goal of these search engines is to create a global business by leveraging core strengths and by providing more valuable solutions for customers and partners. First and foremost these search engines want to create a starting point for consumers to find data, services and products. Beyond that, the hope of many search companies (for example, Yahoo or MSN) is that when customers use their home pages to access daily functions such as email they will proceed to use other available services that are conveniently located close to the point of entry of the site, rather than switching to alternatively branded services. When the other available service is shopping this will lower the retailers' customer acquisition costs and add to the lifetime value of the customer by creating a standard of action for the consumer to find both the retailer and the product s/he is seeking. However, it is uncertain if search companies can be successful at creating a compelling aggregation starting point for shoppers and at extending their services beyond paid logo placements and paid search results.

Part of the skepticism about search companies' shopping success is based on research showing that the predominant number of shoppers who begin their shopping with a search engine don't know what they want. This does not apply, by the way, to Amazon.com, where many of the customers know what they are shopping for and therefore use the search function to get to the product more quickly and efficiently (known as spear fishing.) For these shoppers who don't know what they want, value added services besides aggregation can add utility. Some of the value added tools in place already include price comparisons, feature comparisons, shopping lists, gift suggestions for targeted recipients ("gadget dad" or "professional mom"). Sites that use these features have increased traffic, but these features still lack the level of personalization offered by Amazon.com or the savings offered by eBay—factors that drive most of the sales on these two sites. To become stronger in the future, search companies will have to exchange information with the retailers for better personalization and will have to develop schemas of specific types of shoppers in order to deliver more relevant information. Below, this report will elaborate on how search companies and retailers can leverage their positions and strengths to drive sales.

Search Utility

Exhibit 1.1 shows that for all search companies the UI and utility for product searches are fairly consistent. However, tests on the usability of each search engine's shopping aspects uncover strategic variances in how each company is striving to be the leader in the vertical shopping business. Some of the shopping products and services created and launched in 2001 and 2002 did not take advantage of the knowledge of how customers use search engines or why customers use a certain search engine for certain stages of shopping and research. Conversely, the search engines have shown growth in the shopping verticals. Google has changed the overall search world in terms of how searchers perceive what a well-defined search interface looks like and what's important. That minimalist interface doesn't necessarily correlate to a good shopping experience because in large part people don't search the same way they shop. Google's Froogle service is the most obvious example. Google has the momentum and best search results perception right now in the industry. However, the company has shown its immaturity in the product and shopping areas by launching a service that is a dichotomy of its effective core search offering. Froogle requires retailers to submit all individual product information and pricing either through large data feeds (a database of products and current pricing) or by having the retail site spidered (a technique by which Google catalogs every product on the retailer's site and stores that information in its database for access.) The former is an archaic method for data exchange and doesn't share any of the critical personalization or demographic group data that would add real substantive advantage in the shopping and aggregation market. While Google's core search offering delivers unparalleled relevance in its results, Froogle's product relevance is quite the opposite. The ineffective penetration of Froogle's product search results may hurt Google's brand by not holding up the high standards the company has created. The poor presentation of this first effort at catalog search continues to show Google's lack of knowledge about user interface differences between data and product search.

Exhibit 1.1



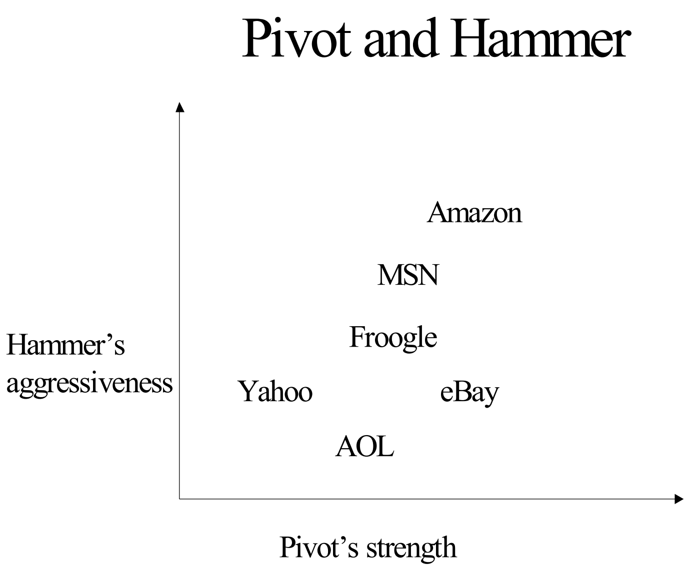
Search Companies' Commerce Efforts are Bogged Down in Aggregation

Aggregation delivers a customer to a destination from a point in time. Search companies have used the passive aggregation model to receive a portion of the sales and/or a delivery fee from the commerce activities on the site. The main reason for using this model is that it is time-consuming and expensive to create creative and usable alternatives. In addition, online retail merchants are unwilling to lose their brands by letting other companies sell their products and take away from potential direct sales. The power of this model is that it increases sales from customers who know what they are shopping for by including the most relevant storefronts in the search results and ensuring these storefronts are among the final choices when the customer decides to purchase. As was mentioned before, search companies and retailers are going to have to start to differentiate themselves through "smart" aggregation (an exchange of information to deliver more personalized and compelling advertisements and search results) to shoppers. This will be a progressive process and will have to work within the parameters of privacy policies, technologies, and aggressive deals among business development organizations. The overall utility and interface of aggregation has been static and stagnant for years, based around paid logo presentation, and combinative business development advertising agreements. Offering incentives to purchase has been largely ineffective for search companies in influencing primary and add-on sales. Incentives among retailers, manufacturers, and aggregators are problematic because of the number of entities involved and the tracking and logistics issues inherent in "online couponing" and discounting. Amazon.com and eBay, though, have done a good job of reverse or micro aggregation. This entails reversing what is aggregated from one merchant to a larger online merchant's site (Amazon.com) to present an extended reach for different product verticals and more choice. For instance, the retailers that Amazon.com has partnered with (such as Target) have been very successful in building their own brands by carrying strong manufacturer brands and collaborating on exclusive product lines to draw traffic to and generate excitement about the business.

Pivot and Hammer Strategies

While all of the search services have comparable storefront and product search capabilities as well as features that differentiate them by incremental measures, each has strengths and areas of opportunity to exploit. The pivot and hammer analogy analyses the sites' exploitable offensive and defensive components. These components may consist of products or services directly or indirectly related to each company's core business. For instance, one of the hammer or offensive features for MSN is its use of Hotmail and Passport to promote the MSN site and its ancillary features, such as shopping. One example of the pivot or defensible features is in AOL's use of its subscriber base to advertise and market AOL's expanding line of products. As Exhibit 1.2 shows, the search companies have less hammer (offensive) strengths than Amazon.com. The primary reason is that search companies are unable to significantly differentiate from one another. Search companies are largely unable to distinguish themselves by their pivot strengths because of the diverse assets and brands to leverage for strategic advantage.

Exhibit 1.2



Conclusion

There are many new companies trying to enter the shopping search space. Amazon.com is clearly winning the shopping search battle with its excellent search function and massive associate referral program (a reverse model with links *) and its search function integrated into over 300 million sites (driving traffic to deeper links within the site.) The majority of the Internet search business is about providing relevant the most relevant search results while monetizing the overall site along with the search results page. Google has a substantial lead in the data search field due to its successful paid search results model, its dominance in search relevance, its dominance in brand and its integration into the search box of other search engines and news sites. Other search engines, to be competitive, need to retool their current models and create new interfaces*, features and brands specific to demographic groups. This action will drive down customer acquisition costs and maintain customers for a longer average period of use.

While search companies do not necessarily need to create new technologies as a first priority, they will need to offer unique features that target certain groups and take advantage of trends. It would also behoove the search companies to utilize offensive and defensive strategizing around sustainable current assets and key offensive (hammer) strategies to leverage new markets, closer data exchange with partner retailers and customer-driven customization and feature sets for grass-roots user segments who use the search engine for the majority of their Internet experience.

*Detailed discussion in full report

The Clauss Group consults in analysis, delivery, and measurement of strategies, product and marketing plans. The company also analyzes and develops processes and risk management profiles with respect to strategies and planning.

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