



# China Paid Search Advertisers Survey Report 1Q2007 Brief

**Peter Bowang Lu**

Managing Partner

**北京正望諮詢有限公司**

China IntelliConsulting Corporation

[peter@iaskchina.com](mailto:peter@iaskchina.com)

March 2007



# China IntelliConsulting Corporation

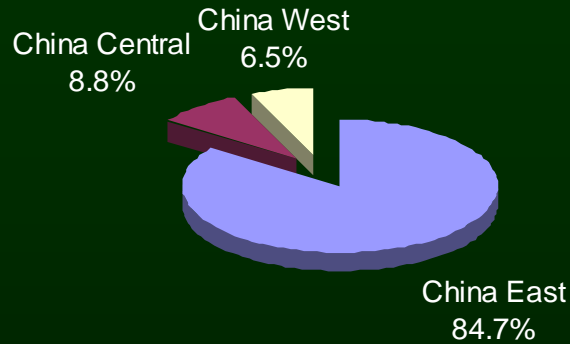


China IntelliConsulting Corporation (CIC), founded in 2006, is a research firm providing market survey and industry research reports on China Internet development to Western investors.

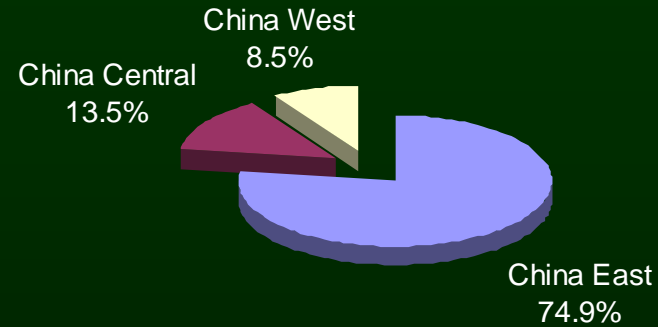
# First-of-Its-Kind Survey in China

- Sampling pool: 4684 Active advertisers, *representing 4% of total number of search engine advertisers in China, according to our estimate*
- Respondents: 555
  - 140 via email (first batch of voluntary respondents)
  - 415 by telephone (second batch of passive respondents)
- All active advertisers (their sponsored links were being displayed at the time the survey was conducted)
- No sales agencies/distributors
- National coverage
- Overwhelmingly SMB (55.6% with 50 employees or less) (eBay and eBay-like advertisers were deliberately dismissed from the sampling pool)
- Quarterly ad spent on average four times that of an average Baidu advertiser

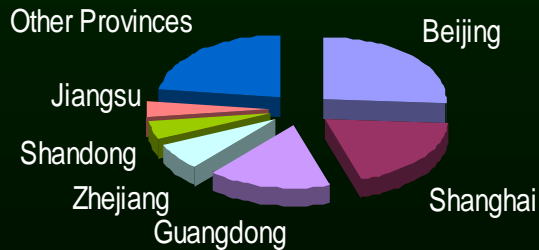
# Geographic Coverage



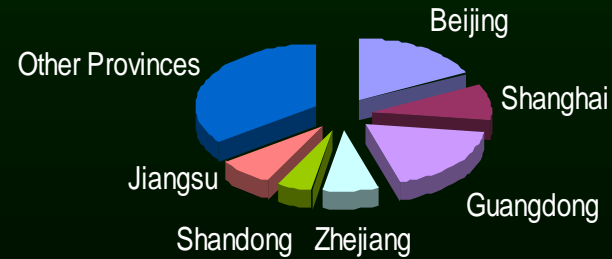
Advertiser Survey Respondents



Regional Distribution of Websites



Advertiser Survey Respondents



Provincial Distribution of Websites

# Classified Sector Coverage

Classified Sectors of Keywords	Survey Respondents	Sampling Pool
Consumer products	14.0%	14.9%
Training/recreations/community services	21.7%	19.3%
Health/Medicine	5.0%	8.3%
Industrial products/office equipment	21.4%	35.8%
Business services	27.1%	13.7%
Internet/IT/telecom services	13.0%	8.0%
Others	2.0%	—
Don't know how to classify	2.0%	—
Total responses	106.4%	—
Total cases	100.0%	100.0%

# What Our Survey Does Not Cover

- ❑ **Inactive advertisers:** Advertisers not listed in any of Baidu/Google/Yahoo's ad systems at the time sampling was conducted during January 2007, which also means:
- ❑ **Advertisers not advertising on any of Baidu/Google/Yahoo:** For example, advertisers who placed paid search ads only on Sogou were not be able to get entry in our sampling pool
- ❑ **Advertisers bidding for non-generic, uncommon, and low priced keywords:** they were systemically either not covered nor represented by this survey



# AD SPENT

# Advertisers Breakdown

*% of respondents who advertise on:*

Baidu (B)	Google (G)	Yahoo (Y)
86.3%	62.2%	42.3%

B+G+Y	B+G	B-G	G-B	BO	Others
26.1%	51.5%	34.8%	10.8%	19.0%	3.4%

*BO – Advertisers who advertise on Baidu only*



# Years of Adoption of SE Ads

	Baidu Advertisers	Google Advertisers	Yahoo Advertisers	Total
2002 or earlier	10.2%	12.0%	9.4%	10.0%
2003	9.9%	12.7%	15.2%	9.5%
2004	12.4%	15.1%	13.5%	12.4%
2005	25.1%	25.1%	28.1%	24.5%
<b>2006</b>	<b>42.4%</b>	<b>35.1%</b>	<b>33.9%</b>	<b>43.7%</b>
Sum	100.0%	100.0%	100.0%	100.0%

# New Advertisers

*New advertisers – Initial adopters of search engine marketing during the 2nd half of 2006, accounting for 37.8% of total advertisers in our survey.*

	Baidu	Google	Yahoo
Increase in client base driven by new advertisers	35.1%	23.9%	23.9%

	Baidu	Google	Yahoo
% new advertisers who advertise on	81.4%	44.2%	29.2%
% older advertisers who advertise on	87.6%	69.9%	46.2%



# Ad Spent

## in the 2nd Half of 2006

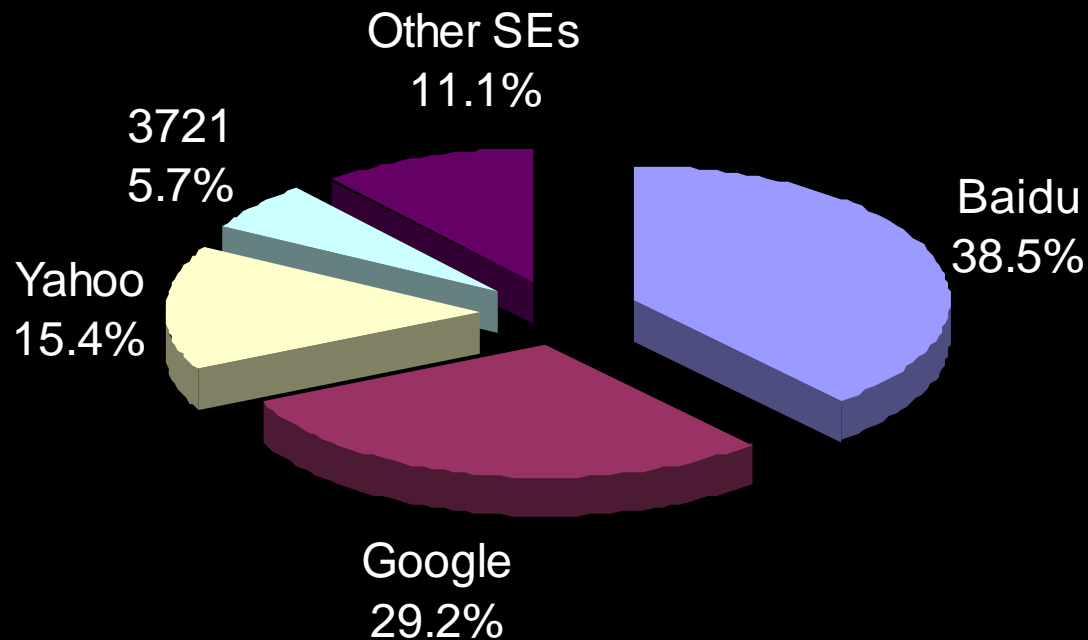
	% of Respondents	Average Ad spent	
		(yuan)	(US\$)
On Baidu	86.3%	16,920	2,170
On Google	62.2%	17,800	2,280
On Yahoo	42.3%	13,760	1,760
On 3721	14.9%	14,570	1,870
On Other SEs	33.3%	12,650	1,620
Average Ad Spent per Advertiser Across All SEs		37,880	4,860



# Ad Spent

## in the 2nd Half of 2006

### Ad Spent Across Platforms



*Please do NOT interpret the percentage illustrated as market share*



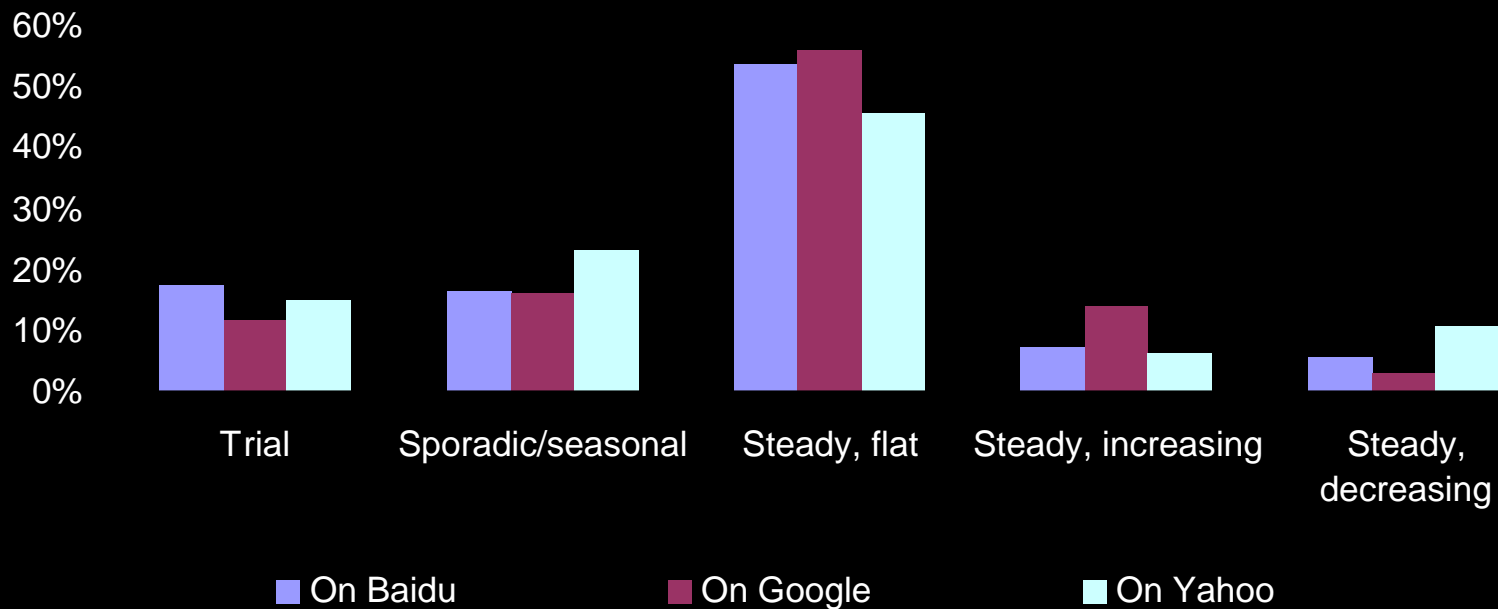


## Why It Can't Be Read as Market Share

- Our survey does NOT cover those advertisers who advertise on search engines other than Baidu/Google/Yahoo. If otherwise covered, the percentage of total ad spent Baidu/Google/Yahoo each account for will likely move downward
- Our survey does NOT cover, or tend to under-represent, inactive or temporarily/seasonally inactive advertisers at the time the survey was conducted. If otherwise covered, Baidu's market share will likely move upward
- Our survey tend to over-represent those advertisers who purchase popular/expensive generic keywords.
- Our survey respondents may not be truly representative of total SE advertisers in China in terms of proportions across all the 6 sectors of industrial classification

# Ad Spending Patterns

*Ad Spending Patterns over the Last 6 Months*





# INVALID CLICKS

# Attitudes Toward Invalid Clicks

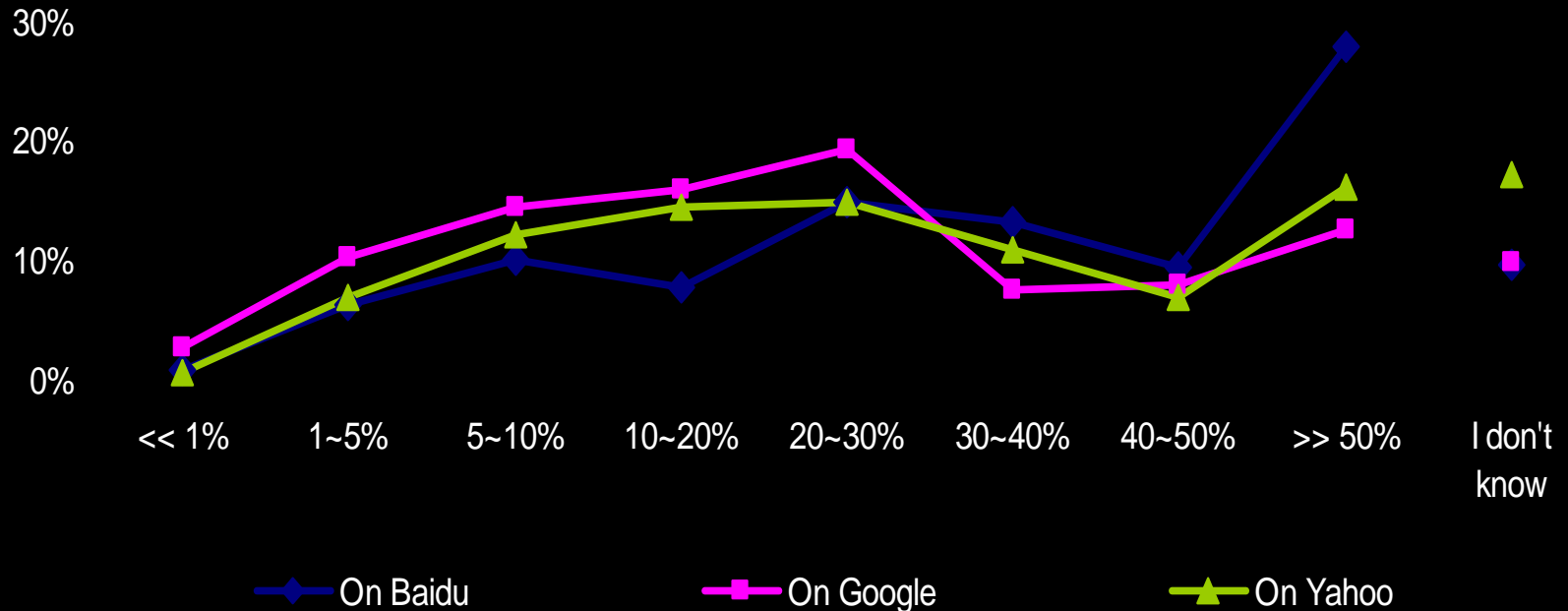
	% of Respondents
Invalid click issue is not a significant concern	3.4%
Invalid click rate is within acceptable limit	28.1%
It's OK if ROI is OK	23.3%
Invalid click rate is too high and discouraging	39.4%
I am not aware of invalid clicks	5.7%
Sum	100.0%



# Invalid Click Rate Estimates

*Estimated Invalid Click Rate by Corresponding Advertisers*

*(% of Corresponding Respondents)*

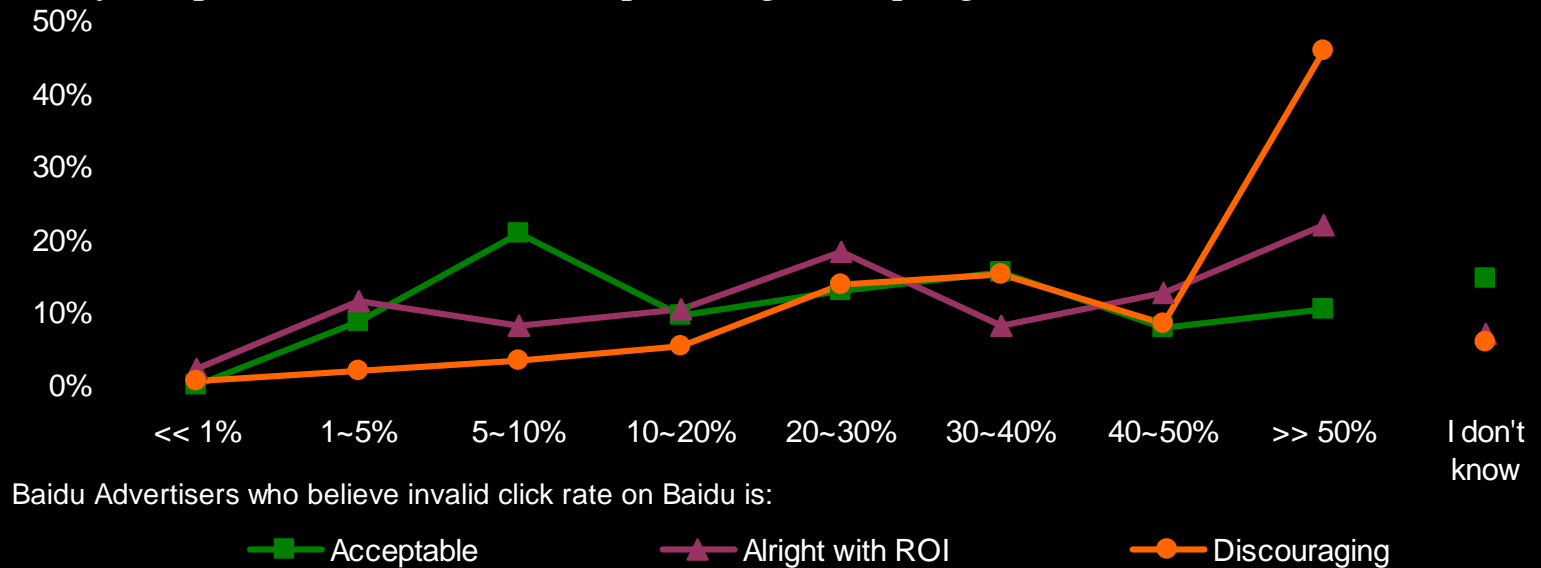


*In general, 29.0% of total Baidu advertisers believe invalid click rate on Baidu exceeds 50%.*



# Invalid Click Rate Estimates - Baidu

*Estimated Invalid Click Rate by Baidu Advertisers  
(% of Respondents in the corresponding Grouping)*



*45.8% of discouraged Baidu advertisers believe invalid click rate on Baidu exceeds 50%.*

*Discouraged Baidu advertisers account for 40.8% of Total Baidu Advertisers.*



# Invalid Click Rate Estimates (Average)

Baidu	Google	Yahoo
34.0%	24.1%	27.8%

	Baidu	Google	Yahoo
It's within acceptable limit	24.7%	17.2%	22.4%
It's alright if ROI is OK	30.1%	25.0%	27.5%
Invalid click rate is high enough to discourage us	42.5%	28.7%	30.3%

*It seems that China SE advertisers are much more tolerant towards invalid clicks relevant to the SE advertisers in the U.S. An invalid click rate as high as 24.7% on average is acceptable to at least 27.9% of Baidu advertisers.*



# *Why Invalid Click Rate Estimates Are Much Higher in China?*

- Click Fraud is probably more rampant in China
- Search engine companies are less pressured on the click fraud issue and are thus more lenient on click fraud practices
- Sales agencies/distributors may have monetary incentives to inflate the click-through rates
- Corrupt affiliates of ad networks cheat for easy/quick money
- Baidu Mixes up paid search links with organic search results, resulting in unwitting users' unintended clicks
- Search engine advertisers in China in general lack effective methods of invalid click monitoring, tracking, detection and protection. On blinded guesses, invalid click rate is likely to be exaggerated



# Baidu's Search Result Display Page

The screenshot shows a Baidu search result page for '数码相机'. The search bar contains '数码相机' and the search button is '百度搜索'. The results are as follows:

- Result 1:** 欢迎莅临索尼数码相机摄影全国巡展讲座. 想听讲座得大奖吗? 想要看专业摄影作品吗? 来索尼alpha 100数码相机巡展全国讲座吧! 32个城市, 7位摄影大师等您莅临, 欢迎广大摄影爱好者踊跃报名. [afacasting.allyes.com/main/adfclick?db=af...](#) 1K 2007-03 **推广**
- Result 2:** 数码相机最新报价, 尽在it168.com. 数码相机产品描述、图片、用户评论, 每日更新的最新报价, 经销商的联系电话, 尽在it168.com报价中心. [product.it168.com/files/0305search.shtml](#) 1K 2007-03 **推广**
- Result 3:** 柯达数码相机 记录瞬间精彩. 柯达数码相机, 满足不同人群需求, 记录点滴生活瞬间, 呈现精彩人生, 留住美丽时刻. [kshow.firemax.cn/product.jsp](#) 1K 2007-03 **推广**
- Result 4:** 索尼DSC T10各类促销优惠火爆抢购中. 想了解数码相机最新信息, 马上登陆SonyStyle, 720万有效像素, 2.5英寸超大液晶屏, 送512m记忆棒, 还有四重厚礼哦, SonyStyle全国地区免费送货上门! [www.sonystyle.com.cn/smartkeyword\\_redirec...](#) 1K 2007-03 **推广**
- Result 5:** 卓越网正品数码相机特价促销, 全国联保!. 卓越网数码频道: 数码相机等行货数码产品促销, 全国联保! 亚马逊中国站, 全球最大的中文网上购物商城! 全国主要城市送货上门, 收货后付款, 15天可退换货, 24小时卓越的客户服, 保证正品! [www.joyo.com/channel/camera\\_photo.asp?sou...](#) 1K 2007-03 **推广**
- Result 6:** 数码相机拍摄项目--北京. 北京艺海盛视广告摄影有限公司, 采用独特的构思和创意为您创造出... [www.bjyhss.com.cn](#)
- Result 7:** 北京麟悦科技售后服务. 公司提供: 索尼, 佳能, 等数码相机\摄像机\专业维修, 以及硬盘, 记忆... [www.kmmg.net](#)
- Result 8:** 数码相机维修服务--广州. 我公司专业提供: 索尼, 佳能, 富士, 卡西欧, 尼康, 宾得, 美能达, 柯达, ... [www.gzyk.com.cn](#)
- Result 9:** 租数码相机--北京信通. (010-8282, 2077) 北京信通电脑租赁是一家立足长远发展的电脑及相... [www.51jsj.com](#)
- Result 10:** 飞冲公司尼康数码相机. 飞冲公司尼康数码相机专卖店, 我公司是尼康系列商品北京地区授权...

Search users' responses about their awareness of Baidu's search results attached with the ad-tag word:

*(Preliminary results from one of our undertaking surveys covering Beijing search users)*

I've never noticed	59.8%
I don't know the difference	24.4%
They are no different	4.9%
<b>They are ads (paid search links)</b>	<b>5.6%</b>
Others	5.3%
Sum	100.0%

# Types of Invalid Clicks

Types of Invalid Clicks	% of Respondents (Multiple Selection)
Fraudulent Clicks for Monetary Compensations	65.5%
Fraudulent Clicks by Rival Competitors	65.5%
<b>Unwitting Users' Unintended Clicks</b>	<b>44.8%</b>
Others	31.0%





# ADVERTISERS RATINGS

# Advertisers' Ratings

*(Scores on a 5-Point Scale)*

	Baidu	Google	Yahoo
Ratings in Terms of ROI	2.81	2.99	2.52
Ratings in Terms of Anti-Invalid Click Policy	2.33	2.99	2.67
Overall Ratings (Satisfaction)	2.93	3.33	2.88



# ROI vs. Invalid Clicks

*Relevancy between Ratings for Invalid Click and for ROI*





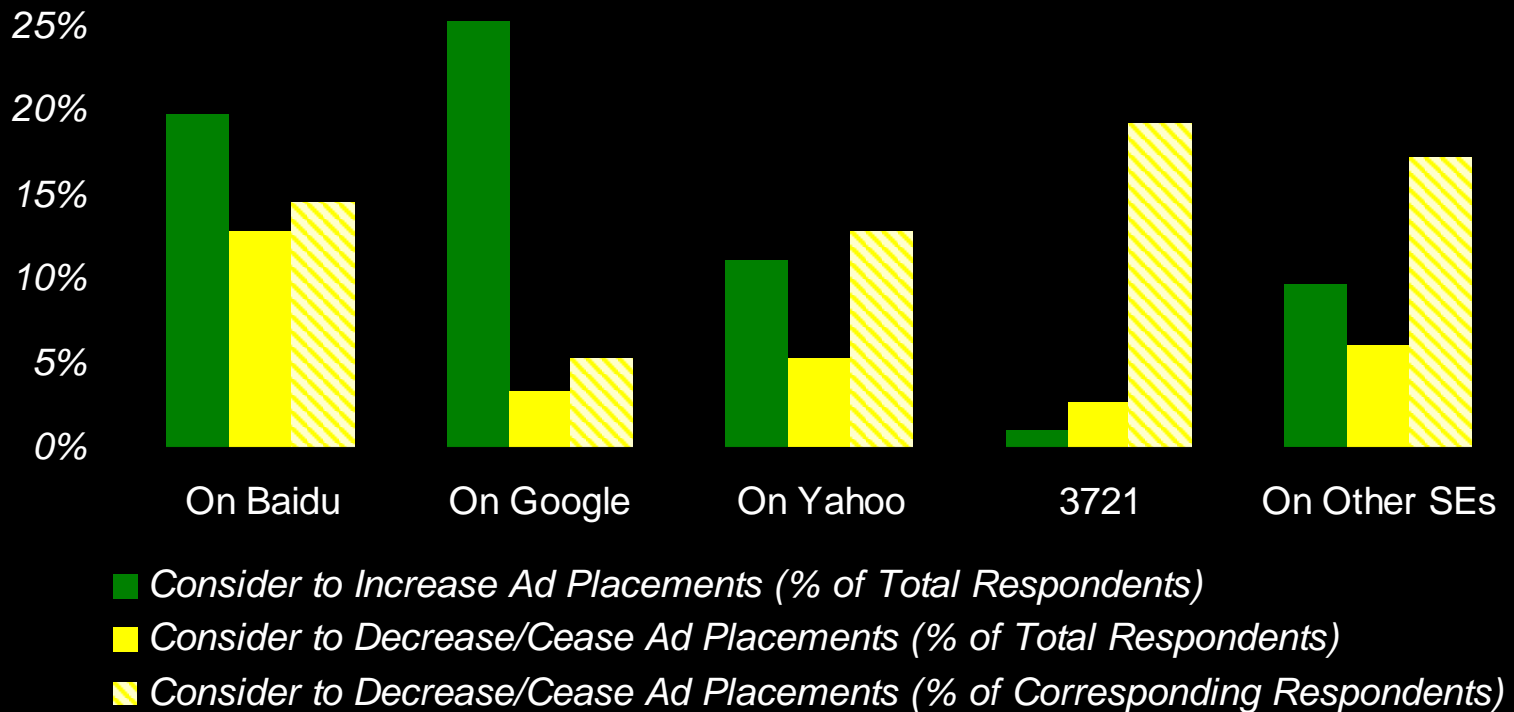
# **6-MONTH FUTURE PLANS**

## 6-Month Future Placement Plans

	% of Respondents
Seasonal placements	7.4%
No budgeting, placements on demand	22.4%
Will increase placements	19.8%
Will remain the same	38.9%
Will decrease the placements	3.9%
Will consider to cease the placements	1.4%
Not decided yet	6.2%
Total	100.0%



# Planning for Changes to Budget Allocations

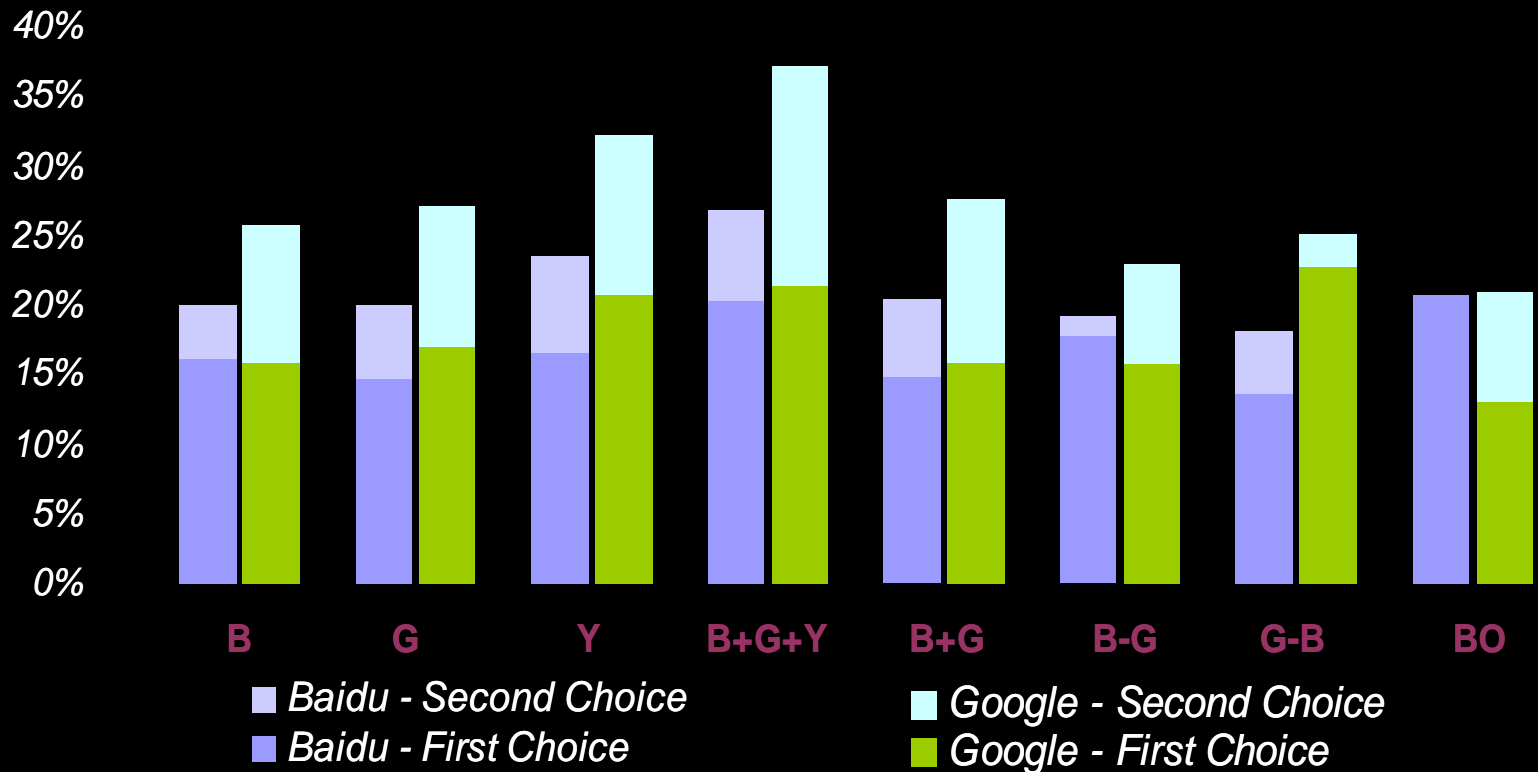


†Corresponding respondents – respondents who were placing ads on the corresponding search engine at the time this survey were conducted



# Consider to Increase Ad Placements

(% of Respondents in the Corresponding Group)



# Advertisers' Concerns

Advertisers' Concerns	% of Respondents
<b>Ad Systems:</b>	
Keywords too expensive	65.2%
Too many advertisers per keyword	28.3%
Ad systems/keywords purchasing too complicated	21.7%
<b>ROI:</b>	
Invalid click rate too high	58.7%
Ad effectiveness hard to evaluate	21.0%
<b>Sales/Sales Distributors:</b>	
Cheating or misleading practices	26.1%
Lack of local support and assistance	23.9%
Services received not up to professional standards	16.7%
<b>Users' Search Behavior:</b>	
Don't know much about users' search behavior	29.7%



# Conclusions

- ❑ **Baidu's core competitiveness lies with its huge traffic:** Baidu took 61.9% of market share in terms of primary search users, according to our Sept 2006 survey.
- ❑ **Baidu's ad revenue will continue to shoot up:** mainly driven by new adopters of search engine marketing by SMBs
- ❑ **But revenue growth is curbed:** by a great number of frustrated, experienced, big-budgeted advertisers, for the reasons of high invalid click rates, higher keyword bidding prices, lowering ROI, and not-smart-enough ad system
- ❑ **Long-term risk if client dissatisfaction issue not taken into serious consideration:** particularly if Google starts to take back user shares

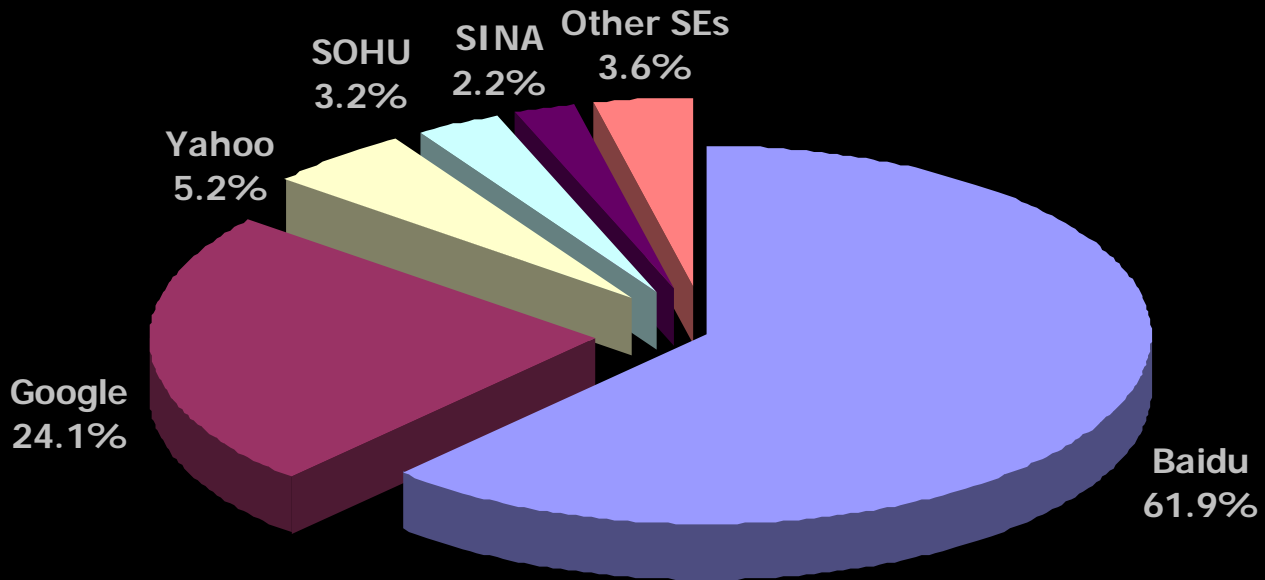


# **LANDSCAPE IN SEARCH MARKET AT USERS' SIDE**



# User Market Share

Market share data from our Sept 2006 User Survey Results, covering search users residing in Beijing, Shanghai and Guangzhou:



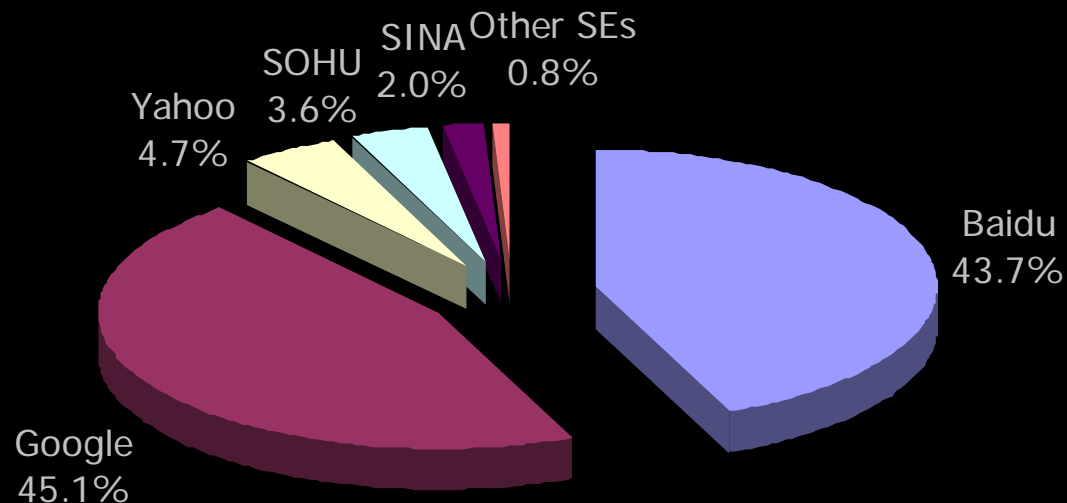
**UPDATE:** *Baidu has maintained the upward trend by taking over users from Yahoo and other distant smaller search engines since our Sept 2006 Survey*



# High-End Users

from our Sept 2006 User Survey Results:

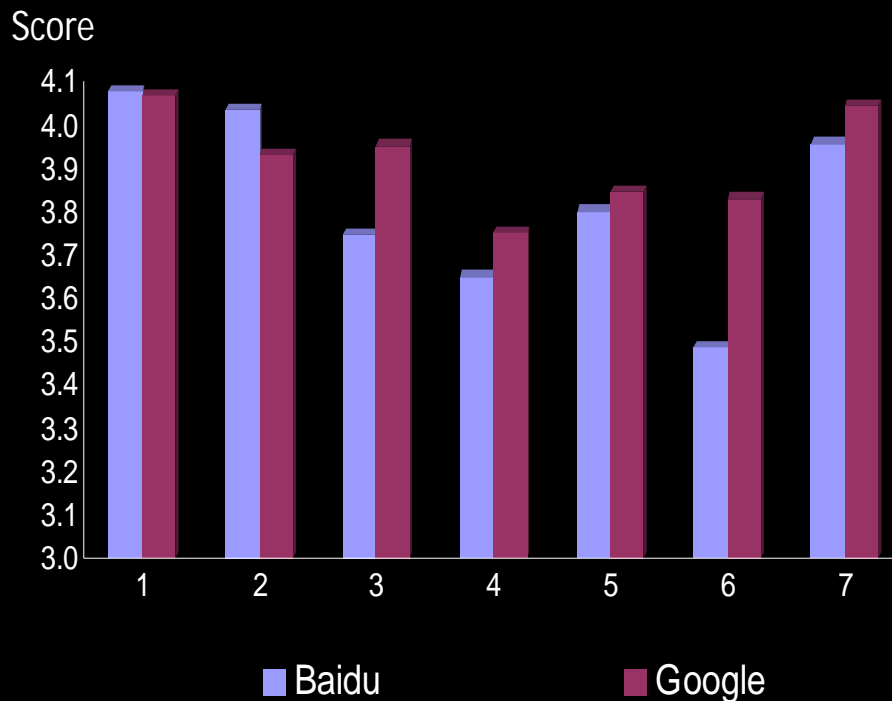
## High-End User Segment



*High-end search users accounted for 17.8% of total search users in Beijing, Shanghai and Guangzhou*

# User Satisfaction

from our Sept 2006 User Survey Results:



- 1 - Search results delivery speed
- 2 - **Website functional stability**
- 3 - Search results relevancy
- 4 - Search results objectivity
- 5 - Corporate image
- 6 - Technological innovation
- 7 - Overall satisfaction

# Chinese Searchers Not Well-Informed

## Preliminary results from our undertaking survey:

*Google's search results will be blocked if some political-sensitive words are involved. When this occurs, the browser says "can not display the Webpage", and users will experience time-outs if they try to use Google again.*

*Just like the case that very few users know Baidu has its organic search results mixed up with ads, when asked for reasons for Google Website's inaccessibility or failure to deliver search results in this regard, only 3.9% of respondents who have used Google over the last 6 months give out the right answer. On contrary, 20.1% believe it's the faults of Google Website's functional abnormality or the U.S.-China Internet connection's instability. 30.5% don't know why, and another 35.1% attribute this to some irrelevant or remotely related causes.*



# Chinese Searchers Non-Tech-Savvy

Preliminary results from our undertaking survey:

**Mainstream Chinese Internet users are unsophisticated, non-tech-savvy searchers**, even for many of whom we called “high-end users”. Deceitful and bullying malware/adware/spyware add-ons add to users’ difficulty and confusion in coping with the Internet and Internet search.

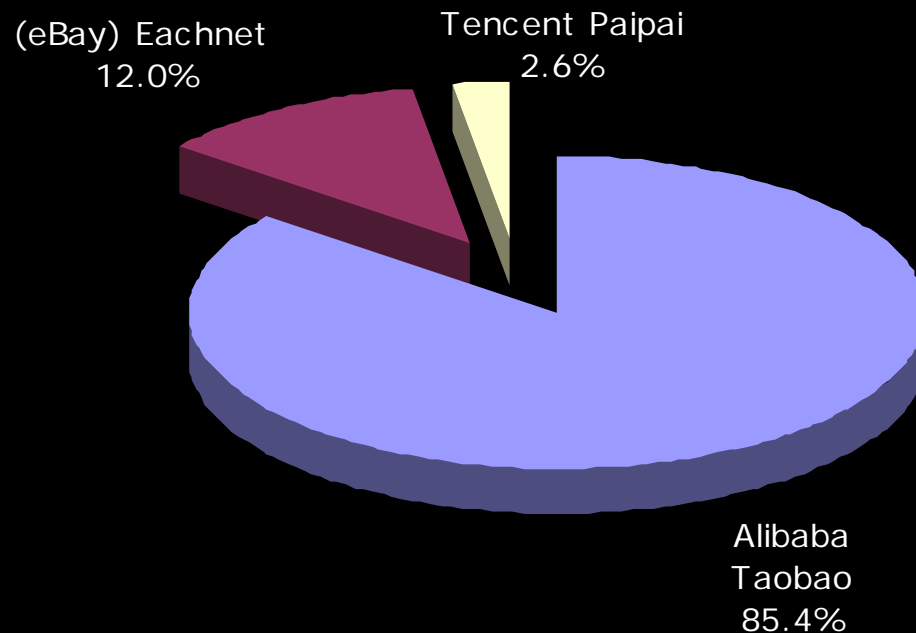
47.4% of Beijing search users don’t know what a toolbar is, 25.0% claimed they have not installed any toolbar, and 9.7% don’t know what or whether toolbars are installed in their computers.

**Google has to carry out a top-down policy to win over Chinese mainstream search users.**



# Research Brief on C2C Shopping

Preliminary results from our C2C 2007 survey; market shares according to annual GMVs in 2006 generated by sellers residing in Beijing, Shanghai and Guangzhou





**For further inquiry on**  
*CIC survey results and reports*

Please contact:

Peter Bowang Lu  
Managing Partner

**北京正望咨询有限公司**

China IntelliConsulting Corporation

[peter@iaskchina.com](mailto:peter@iaskchina.com)

Roaming Mobile: +86-139-1079-8999