Cracking the Search Engine Code

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Date : June 4, 2016

Bottom Line: *E-tailers create sponsored ads in a bid to attract online consumers, but lower-cost improvements to search placement can be more profitable.*

It's probably hard to remember the first time you searched for something on the Internet, perhaps through a Netscape browser, and watched as **Google** miraculously (and instantaneously) provided a list of relevant content. It wasn't long before **Google** saw a way to make money from this: Sell ads that appear in response to the consumer's search terms. If you type *bikini*, the first results will likely be accompanied by ads for bathing suits from Victoria's Secret and Target.

Yet, despite **Google**'s successful business model, it's not well known that the vast majority of Internet traffic flows to retailers' websites through unsponsored, organic clicks. Which, of course, means that although ads have some value, e-commerce companies are missing a pivotal opportunity if they don't put resources into tweaking the content and language on their sites so that they will appear high on the list when people search for products they sell or for topics related to items they carry. This strategy, known as search engine optimization (SEO), has become a cottage industry in its own right. Just type*SEO* into **Google** and see the ads that appear.

Until now, most of the nascent research on search engines has focused on the value of paid ads because companies can exert direct control over them. However, a new study empirically explores the factors that drive organic Internet traffic to retail sites and provides marketers with practical advice on how to improve their SEO techniques.

The authors constructed a large and unique data set from more than 12,000 search phrases and analyzed click-through data from about 2 million U.S. consumers. They examined all the links that showed up in August 2012 on the first pages of results for each of the search terms on the most popular search engines (**Google**, Bing, **Yahoo**, AOL, and Ask). Using annual Internet sales of North American retailers, the authors made a list of the 759 largest sites and analyzed the number of organic clicks (that is, not clicks on ads) these e-commerce websites generated from these searches.

The data is particularly rich, the authors note, because it encompasses both Web-only retailers and traditional merchants that also operate brick-and-mortar stores, and includes 15 categories, including apparel, electronics, and sporting goods. Furthermore, the database contains background information on the firms — for instance, whether they have a **social** media presence, the length of time they've been selling online — as well as the demographics of Internet searchers' age, income, and location.

The authors also considered online retailers' **brand** equity in the eyes of consumers. To do so, they used a newly developed metric for websites that takes into account such factors as a retailer's current and previous investments in **advertising**, its return policies, the variety of its product offerings, and its ability to offer secure payments or single-click purchase platforms.

The researchers also measured equity by the number of navigational searches each **brand** received. Navigational searches include the retailer's name or URL in a query, for example, “cameras at **Amazon**.” These indicate a consumer is narrowing in on a particular product or company. Presumably, these focused shoppers associate their desired e-tailer with breadth and depth of merchandise, appealing prices, and an acceptable level of service quality, or they are motivated by recommendations from friends or online reviews.

Unsurprisingly, the authors found that a retailer's rank among non-**advertising** search results strongly influences the number of organic clicks it gets. For example, retailers not appearing on the first five pages of a search list got 90 percent fewer organic clicks than websites that were displayed higher. Moreover, each 1 percent bump in rank led to a 1.3 percent increase in organic traffic. For better placement, the study recommends that e-tailers consider effective SEO strategies such as accurately tagging keywords on its Web pages, setting up hyperlinks that entice consumers, and using unique page titles to differentiate original and specialized content to which shoppers might be drawn.

Although prominent placement in search results is advantageous, when marketers attempt to improve their rank through superficial means — offering “clickbait” to bored Internet surfers, such as irrelevant cat videos linked to unrelated products; using hidden keywords to “trick” algorithms to divert traffic their way; or overloading a site with terms **design**ed to snare the casual shopper — they can expect only temporary and fleeting visitor and search engine visibility gains. When it comes to getting a high placement, **brand** equity plays a far more crucial role, the authors found. Delivering a high-quality online experience to consumers attracts sustained online traffic and is favored by the algorithms that determine search results. Interestingly, this outcome also held when the authors eliminated from the equation the largest mass merchants — **Amazon**, **Walmart**, Target, and the like. That suggests that **brand** equity isn't simply a function of how big or well-recognized a retailer is, but is a genuine result of a website's quality and user-friendliness.

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Online **advertising** certainly has its place in an e-tailer's **marketing** campaign, both as a limited aspect of **brand** equity and as a way to reach out to some consumers, but in many cases it is overemphasized. In fact, the researchers identified a subset of consumers who are decidedly more attracted to organic links and pay less attention to ads. This category broadly includes people who are older and wealthier, who browse the Web from work, who enter fewer keywords, and who include **brand** names in their searches. E-tailers with a large number of shoppers fitting these categories should consider minimizing **advertising** expenditures.

But as a general set of guidelines, to enhance a site's SEO, firms should consider a holistic **marketing** effort. This might include **advertising**, high-quality content, intelligent tagging of keywords and original material, relevant and compelling descriptions for products, easy-to-navigate Web pages, and the kinds of bells and whistles (one-click purchases, generous return policies, and secure payment systems) that customers increasingly expect.

Source: "Search Engine Optimization: What Drives Organic Traffic to Retail Sites?" by Michael R. Baye (Indiana University), Babur De los Santos (Clemson University), and Matthijs R. Wildenbeest (Indiana University), *Journal of Economics & Management Strategy*, Spring 2016, vol. 25, no. 1