

# How Much Should You Budget for Search Engine Marketing?

By Paul J. Bruemmer

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Many marketers are in the dark about marketing budgets and particularly about search engine marketing (SEM) allocations. In fact, CyberAtlas reported last Fall that 58 percent of the marketers surveyed allocated less than 1 percent of their annual marketing budgets to SEM, while 20 percent allocated 25 percent or more.

In this same study, 62 percent of marketers reported receiving 50 to 75 percent of their visitors from search engines. So we know traffic comes from search engines. We also know this is targeted traffic because user searches are purposeful and self-directed. So it's hard to understand why online marketers aren't budgeted to take advantage of this vital marketing strategy.

## Establishing a Marketing Budget

Research shows U. S. corporations allocate 6 percent of gross revenues to their marketing budgets (on average). The rule of thumb is 4 to 10 percent of gross revenues for an effective marketing budget. The amount ranges from 1 percent for industrial B2B firms to 10 percent or more for consumer packaged goods, which can be higher when introducing new products.

Small to medium businesses will sometimes make a rough estimate of sales revenue, cost-of-goods, overhead, estimated gross profit, etc., then allocate anything left over to marketing. A better strategy is to estimate what your competition is spending and try to match that.

Using the industry average of 6 percent, your marketing budget for every \$1M in gross revenues would be \$60K per year, and ideally \$15K (25 percent) of that will go to SEM.

## Justifying Expenses to Management

There are several compelling reasons for substantiating an SEM allocation in your marketing budget.

- Most Web site traffic comes from search engines.
- Search engine traffic is highly targeted.
- The number of Internet shoppers is on the rise.
- SEM is cost effective compared to other marketing strategies.
- Search engine text links provide branding and more conversions than banner ads.

The most compelling reason is that traffic comes from search engines.

- The 1998 Georgia Tech GVU User Survey reported 85 percent of respondents found Web pages from search engines. Since then, other studies have reported 50 to 80 percent of Web site traffic comes from search engines. Both Jupiter Media Metrix and Nielsen/Net Ratings have reported shoppers use search engines to find product information online.

Equally compelling is the fact that search engine traffic is highly targeted. That's because users initiate their searches for a reason – to find information, products and services.

- The 1998 Georgia Tech GVU User Survey reported 86 percent of respondents were searching with intent to buy.

Another good reason for justifying the expense is the fact that the Web continues to grow and the number of users with Internet access is climbing. This means more traffic on Web sites, and a good portion of these will be shoppers.

- April 2002: Nielsen//NetRatings reported 498 million people have Internet access worldwide. In the U.S., 66 percent of adults have Web access. Jupiter Media Metrix reported that corporate spending is on the rise. Ecommerce Times predicted over \$1 trillion will be spent online this year.

You need increased Web visibility to maintain market share, and SEM is one of the most cost-effective online marketing strategies you can buy compared to other advertising methods.

- Marketing Sherpa case studies have reported increased revenues of 24% to 500% for companies conducting SEM campaigns. One case study compared SEM to banner ads and direct mail, reporting that SEM resulted in higher conversions at a lower cost-per-click and lower cost-per-acquisition.

SEM text links provide branding while producing the leads needed for sales conversions.

- According to NPD Group, SEM performs better than banner ads for brand recall, as search engine text links proved more memorable than banner creative. Secondly, the number of online purchases made on sites found through search listings exceeded those made through banner ads by a large margin (55% vs. 9%).

### Making Your Site Visible

This should give you all the information you need to establish a marketing budget and to justify SEM in your marketing campaign. It's important to make your site visible, and the best way to start is with targeted, search engine traffic.

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