

WHITEPAPER

How to Value SEO

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“Google already provides most of the information needed for this calculation within the keyword tool.”

“What’s the value of a first page search engine ranking, anyway?”

Executive Summary

One of the first important questions to ask yourself before investing in an SEO campaign is, “What’s the value of a first page search engine ranking anyway?” As strategic business decision makers, putting a dollar value on a first page ranking is crucial in deciding how much time, effort and money to invest into an SEO campaign. The How To Value SEO whitepaper outlines a detailed process of calculating the value of a first page ranking. This document also calculates the value of long-tail derivative rankings and examines the present value of organic rankings over the long term. This process is applicable to any keyword phrase in any industry. This white paper will use the example keyword phrase ‘Health Insurance’, and demonstrate how the annual value of a 1st page Google organic ranking for ‘Health Insurance’ is calculated to be \$7,471,194.

Estimating the value of a 1st page ranking on any search engine is a straightforward analysis that requires a few minor assumptions. Google already provides most of the information needed for this calculation within the keyword tool. Evaluating a ranking is done by calculating the ranking’s fair market value, or what would otherwise have to be paid to another comparable source in order to receive the same amount of similar targeted traffic to a website.

Valuing SEO as a Comp Analysis

A fair market value “comp analysis” is often used in purchasing a new home. When performing a home comp analysis, the average price of other homes recently sold in a house’s area of comparable square footage, age, location and features is taken. The theory is that if one can calculate what the market is willing to pay for a comparable home, than the fairness of a seller’s list price can be determined.

This same type of analysis can be performed before undertaking a search engine optimization campaign by analyzing what a company’s competitors are paying Google AdWords per click to rank for a given keyword phrase.

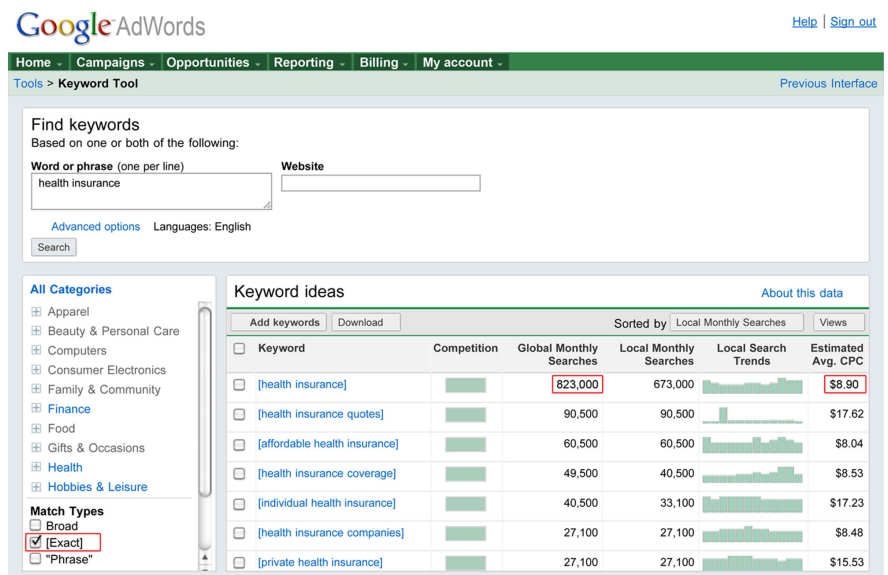
Similar to the home comp analysis described above, if an SEO campaign is going to cost more than paying a search engine directly for the traffic, SEO may not be the optimal solution. This is rarely the case; and the vast majority of SEO campaigns end up being five to fifteen times more cost-effective than pay-per-click campaigns. This is before considering that once top organic rankings are attained, they often persist into the future with less ongoing investment (think compounding ROI).

Politics aside, being conservative with assumptions when considering marketing investments will always beat the estimates. This can lead to good things, like raises, promotions, new cars, and the avoidance of divorce proceedings. With this in mind, the first SEO valuation described will be conservative because it will not consider organic rankings on search engines other than Google, long-tail derivative search engine rankings, and the perpetual nature of organic rankings. This analysis will determine the annual value of a first page position two through four organic rankings on Google for ‘Health Insurance’. To be conservative, a position one ranking was not considered in the following example because position one rankings can be extremely difficult to attain.

The first two figures needed to start the analysis are the Google AdWord’s average cost-per-click for ‘Health Insurance’ and the global average monthly exact search volume. These figures are outlined in red in the keyword tool screen shot below. Please note that Match Type was changed to Exact so that the valuation will not take into consideration long-tail derivative rankings. Technically, when optimizing a website for a specific keyword phrase, such as “health insurance,” top rankings for a number of long tail keyword phrases, like “affordable health insurance” and “individual health insurance” will also be attained. For the sake of being conservative, we will not consider these rankings in this valuation.

“Match Type was changed to Exact so that the valuation will not take into consideration long-tail derivative rankings.”

Over a six-week period, natural search listings on non-brand terms delivered about 14 times more value than they are currently credited with.



The screenshot shows the Google AdWords Keyword Tool interface. The search criteria are: Word or phrase: health insurance, Match Type: Exact. The results table is as follows:

Keyword	Competition	Global Monthly Searches	Local Monthly Searches	Local Search Trends	Estimated Avg. CPC
[health insurance]	High	823,000	673,000	High	\$8.90
[health insurance quotes]	Low	90,500	90,500	Low	\$17.62
[affordable health insurance]	Low	60,500	60,500	Low	\$8.04
[health insurance coverage]	Low	49,500	40,500	Low	\$8.53
[individual health insurance]	Low	40,500	33,100	Low	\$17.23
[health insurance companies]	Low	27,100	27,100	Low	\$8.48
[private health insurance]	Low	27,100	27,100	Low	\$15.53

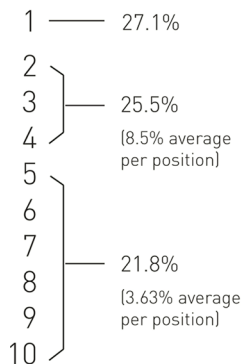
“52.6% of all search engine traffic clicks on a top four position organic ranking.”

As stated above, the average monthly search volume for “Health Insurance” is 823,000 and the average cost-per-click is \$8.90. The final figure needed is the average click through rate of a position two through four organic ranking on Google. The most reliable figure for this statistic is within the Enquiro/Marketing Sherpa 2007 Business to Business Survey. Within this extensive study it was found that 52.6% of all search engine traffic clicks on a top four position organic ranking. Further, it was determined that 27.1% of searchers click on the first organic listing. Because the first organic position was not considered in this analysis, 52.6% minus 27.1% divided by three provides an average position of two through four click-through-rate of 8.5%. Slingshot SEO’s client base’s average click through rate for those positions is 8.9%, only a few tenths off and therefore the data is reliable. Below is the simple math required to derive the annual value of a first page Google organic ranking for “Health Insurance.”

Annual Value of a First Page Google Ranking

Organic Traffic Per Position⁽¹⁾

As a percentage of total search traffic



(1) Figures taken from "Enquiro: Business to Business Survey"
<http://www.enquiro.com/whitepapers/>

STEP 1

823,000 Monthly Exact Search Volume for "Health Insurance"
x
8.5% Click-Through-Rate of a Position 2-4 Ranking
69,995 Visitors per month

STEP 2

69,995 Visitors per month
x
12 Months
839,460 Visitors per year

STEP 3

839,460 Visitors per year
x
\$8.90 Google AdWords Cost-Per-Click
\$7,471,194 Google Organic Position 2-4 Value

Below is the calculation of the value of organically ranking on all search engines. Please note that Google AdWord’s average cost-per-click is used as the cost-per-click for all search engines. The only extra figure needed to perform this analysis is Google’s search market share. comScore calculated Google’s search market share for June of 2009 to be 65%.

Annual Value of a First Page Ranking Across All Search Engines

“The valuation technique used above is a comp analysis, similar to how one would value a home, car or an engagement ring.”

(823,000 Monthly Exact Search Volume / 65% Google Search Market Share)

x

8.5% Click-Through-Rate of a Position 2-4 Ranking

x

\$8.90 Google Adwords Cost-Per-Click

x

12 Months

\$11,494,145 Total Traffic organiz Position 2-4 Value

It would not be beneficial to target an organic ranking that costs more to attain than the previously calculated conservative estimate also known as the annual base value. For instance, if the annual base value of a Google organic ranking for “Vintage Cash Registers” is \$978, but associated SEO costs are upwards of \$1,200, one should consider pay-per-click or get a new business model. In marketing, paying more than something is worth is a wasteful practice. Conversely, if the base value is more than the associated SEO costs, characteristics of SEO campaigns, such as the perpetual nature of organic rankings, will bring wheelbarrows of future ROI.

The valuation technique used above is a comp analysis, similar to how one would value a home, a car, or an engagement ring. In a comp analysis the asset (organic rankings) is valued based upon what individuals are willing to pay for a comparable asset (PPC rankings). In this case, the comparable asset to a 1st page Google organic ranking is a 1st page Google AdWords pay-per-click ranking, which happens to have a value clearly defined by Google. Different keywords have different costs-per-click and they range from pennies to over a hundred dollars a click. The reason traffic or clicks are so valuable is because clicks convert into sales, and sales convert into profits, lots of profits. The assumption of this comp analysis is that an organic ranking is worth no more than what would be paid to Google for the same website traffic using AdWords.

Generic SEO gets credited for 14 times less sales than it deserves on [a flat attribution model].

Another effective way to value organic rankings, with some slight adjustments, fits perfectly into the previously mentioned equations. A website’s sales conversion rate and average gross profit margin per sale for the keyword phrase being valued can be used in place of AdWord’s cost-per-click. The estimated visitors from search engine rankings should be multiplied by the conversion rate and then multiplied again by the average gross profit margin per conversion. For comparison purposes, in the “Health Insurance” example, when using an average conversion rate of 3% and an average gross profit margin per conversion of \$300, the estimates from both valuations are quite close.

Annual Value of Google Long-Tail Derivative Rankings

Below, the annual value of long-tail derivative rankings for "Health Insurance" was calculated to be worth an additional \$7,678,450. When combined this with the previously calculated annual base value for "Health Insurance" of \$7,471,194, a total value of \$15,149,644 is achieved. A long-tail keyword phrase is a keyword that has a root keyword within it (typically three or more words). To stick with the "Health Insurance" example, a long-tail of health insurance is "individual health insurance." A long-tail derivative ranking is, as the name implies, a long-tail ranking derived from an SEO campaign for a root keyword phrase.

The following page contains a screen shot from an SEO campaign that began in August of 2008 for "Furnace Filters." As the chart implies, this site was driven from page 13 to page one, position three on Google in approximately five months. Notice that over this timeframe, Google has sent 6,774 non-paid visitors for "Furnace Filters" (Approximately \$36,511 in PPC value @ \$5.39/click). The key detail in the screen shot below though is that over this same timeframe, Google has sent 11,567 organic visitors for keywords containing the phrase furnace filters. Approximately 32% of the organic visitors for "Furnace Filters" keywords are from long-tail derivative rankings. So an SEO campaign for "Furnace Filters" helped this website rank for 1,653 additional long-tail derivative phrases, like "Hepa Furnace Filters." The value of these long-tail rankings is easy to calculate in retrospect: 3,237 long-tail visitors x \$5.39/click = \$17,447, for a total value of \$53,958.

Branded paid search is 2.5 times less valuable than currently thought.

Search Engine: google

Aug 1, 2008 - Aug 31, 2009



google sent 10,011 non-paid visits via 1,653 keywords

Filtered for keywords containing "furnace filters"

Show: total | paid | non-paid

Site Usage						
Visits	Pages/Visit	Avg. Time on Site	% New Visits	Bounce Rate		
10,011	6.24	00:05:00	83.05%	21.44%		
% of Site Total: 0.91%	Site Avg: 4.74 (31.61%)	Site Avg: 00:04:10 (20.25%)	Site Avg: 80.14% (3.63%)	Site Avg: 40.79% (-47.44%)		
Keyword	Visits	Pages/Visit	Avg. Time on Site	% New Visits	Bounce Rate	
furnace filters	6,774	6.57	00:05:21	82.49%	17.36%	
furnace filters sizes	566	5.67	00:04:30	88.69%	16.96%	
merv 16 furnace filters	89	5.09	00:04:45	76.40%	37.08%	
honeywell furnace filters	84	8.96	00:05:11	76.19%	9.52%	
hepa furnace filters	82	5.93	00:04:24	86.59%	30.49%	
carrier furnace filters	76	9.26	00:07:41	73.68%	11.84%	
washable furnace filters	57	3.00	00:02:18	85.96%	47.37%	
aprilair furnace filters	54	8.72	00:06:34	59.26%	35.19%	
"furnace filters"	52	5.12	00:03:52	86.54%	23.08%	
trane furnace filters	40	7.15	00:04:18	77.50%	12.50%	

1 - 10 of 1,653

“Long-tail search volume is calculated by taking Google Keyword Tool phrase search volume for a root keyword minus the exact search volume.”

Looking back to the “Health Insurance” example, the first page organic Google ranking for “Health Insurance” was calculated to be worth \$7,471,194 a year. Using a statistically significant client sample set, 1.08% is the average percentage of all long-tail search volume that a 1st page ranking for a root keyword receives. Long-tail search volume is calculated by taking Google Keyword Tool phrase search volume for a root keyword minus the exact search volume. The standard deviation around this 1.08% average is quite large. I’ve calculated a standard deviation of .92%. For a college refresher, a standard deviation represents roughly 68% of the outcomes. Therefore, approximately 68% of clients receive between .16 and 2% of long-tail search volume for a target keyword. It’s probably worth mentioning that a client with a first page ranking for “Buell” generates 98% of their Buell traffic from long-tail derivative rankings. The amount of long-tail derivative traffic your website receives is influenced by many factors, but the most important one is how much unique keyword rich content is on your website. In many cases, when an effective SEO campaign for a root keyword is in place, ranking for a long-tail derivative keyword requires just one mention of the keyword within body content somewhere on your site. Outside of their millions of natural backlinks, this is one of the reasons Wikipedia seems to rank somewhere for almost any keyword searched for.

The practice used to determine the future value of long-tail derivative rankings is to calculate a range based upon the standard deviation of .92%. In the above example, Google’s keyword tool was used to find that the monthly exact search volume for “Health Insurance” is 823,000. Google’s keyword tool also shows monthly phrase search volume for “Health Insurance” of 7,480,000. Phrase search volume includes search volume for the root keyword and all long-tail derivative keywords. To calculate the long-tail search volume, take the phrase volume less the exact volume.

Google Long-Tail Traffic Calculation

STEP 1 (Calculation of Long-Tail Search Volume)

7,480,000 Monthly Phrase Search Volume for “Health Insurance”
-
<u>823,000 Monthly Exact Search Volume for “Health Insurance”</u>
6,657,000 Monthly Long-Tail Search Volume for “Health Insurance”

STEP 2 (Calculation of Average Annual Visitors from Long-Tail Derivative Rankings)

Now calculate how much of this 6 million plus monthly long-tail traffic will turn into website visitors:

6,657,000 Monthly Long-Tail Search Volume
x
1.08% Average Traffic from Long-Tail Derivative Rankings
x
<u>12 Months</u>
862,747 Annual Long-Tail Visitors

Generic paid search gets 1.6 times more credit than it should [for sales].

“...a client with a first page ranking for “Buell” generates 98% of their Buell traffic from long-tail derivative rankings.”

STEP 3 (Calculation of Average Annual Value of Long-Tail Derivative Rankings)

The range above can be used to calculate the lower and upper bounds on long-tail traffic. A .92% standard deviation means there is a range around the average of between .16% and 2%. Using these figures in the calculation above, there is a range of between 127,814 and 1,597,680 annual visitors from long-tail derivative rankings. Using the average Google AdWords cost-per-click for “Health Insurance” of \$8.90, the value of these visitors below is calculated below:

862,747 Average Annual Long-Tail Visitors
x
\$8.90 Google AdWords Average Cost-Per-Click
\$7,678,450 Average Annual Value of Long-Tail Derivative Rankings

Using the range calculated at the bottom of Step 2, the value of long-tail derivative rankings of “Health Insurance” will be likely fall between \$1,137,545 and \$14,219,352. Expect that the value will fall somewhere between the lower bound of \$1,137,545 and the average of \$7,678,450. Keep in mind though that with the right content solution and external SEO strategy the upper bound of \$14,219,352 is possible.

Adding the **\$7,471,194** annual base value of “Health Insurance” calculated in Part 1 to the average value of long-tail derivative rankings, an estimated annual value of **\$15,149,644** is attained.

Annual Value of Google Long-Tail Derivative Rankings

Many of the SEO campaigns have maintained 1st page organic rankings on Google for over five years. Google’s algorithm is constantly changing, and Google may not be the next Google, but an effective SEO campaign should be able to maintain organic rankings over the long haul. For the sake of this analysis, assume that the long haul is five years. Also assume that search engines that can be optimized for will exist for at least the next five years.

A first page Google organic ranking for “Health Insurance” will be valued as an annuity that will generate \$15,149,642 in value every year once it is attained. In this calculation, the net present value of the ranking will be derived; taking into consideration the associated SEO costs. Competitive organic rankings are never free and they cannot be attained by placing a meta keywords tag on a homepage. Earning a 1st page organic ranking on Google requires lots of time, effort, patience, and foresight.

A net present value calculation takes future earnings and investments and discounts them to account for the time value of money. For this calculation, the discount rate will be the cost-of-capital. The cost-of-capital is the rate of return required to meet the cost of financing a project. For the sake of example, General Electric’s cost-of-capital is 7.3%.

“It never costs as much to maintain a ranking as it does to obtain it...”

It never costs as much to maintain a ranking as it does to obtain it, and the most competitive rankings targeted at Slingshot SEO have been attained within 12 months. Assume that it costs approximately \$200,000 to obtain a first page ranking for “Health Insurance” and \$50,000 a year thereafter to maintain the ranking. This calculation will utilize the following set of assumptions:

- ▶ The annual value of a first page Google organic ranking for ‘Health Insurance’ is \$15,149,644
- ▶ The campaign will start at the beginning of 2010 and a page 1, position 4 ranking will be attained by the middle of the year. Therefore, the first year will accrue half of the \$15,149,644 annual value, or \$7,574,822.
- ▶ The estimated investment required to obtain a first page ranking is \$200,000 with \$50,000 a year invested thereafter to maintain the ranking
- ▶ The estimated cost-of-capital is 7.3%
- ▶ Traffic inflows and investments will occur evenly throughout the year. Therefore, mid-year convention has been used to assume that cash flows happen in the middle of each year.

Calculate the Net Present Value of a 1st Page Ranking

The formula for obtaining the net present value of a 1st page organic Google ranking for “Health Insurance” is as follows:

	Formula	2010	2011	2012	2013	2014
Value of Ranking	[A]	\$7,574,822	\$15,149,644	\$15,149,644	\$15,149,644	\$15,149,644
Cost of SEO Campaign	[B]	\$200,000	\$50,000	\$50,000	\$50,000	\$50,000
Return	[C] = [A]-[B]	\$7,374,822	\$15,099,644	\$15,099,644	\$15,099,644	\$15,099,644
Cost-of-Capital	[D]	7.30%	7.30%	7.30%	7.30%	7.30%
Years (Mid-Year Convention)	[E]	0.5	1.5	2.5	3.5	4.5
Present Value	[F] = [C]/((1+[D])^[E])	\$7,119,536	\$13,585,234	\$12,660,982	\$11,799,611	\$10,996,841
Net Present Value	Sum [F]	\$56,162,205				

The net present value of this 5-year Google SEO campaign for “Health Insurance” is \$56,162,205, equivalent to the cost of approximately 200 General Electric CAT Scan machines. Now take into consideration the fact that Google comprises only 65% of the search market share and that when optimizing for Google, optimization also occurs for Yahoo, Bing and other search algorithms. Further, consider the fact that a top four position pay-per-click ranking costs materially more than the average cost-per-click, due to its higher click-through-rate and implied conversion rate. In fact, if the maximum cost-per-click on the Google Keyword tool is recalculated for \$100, a cost-per-click for “Health Insurance” of \$10.06 results. Theoretically, as with a top pay-per-click position, a top organic position will also have a higher click-through-rate and implied conversion rate. Therefore, the maximum value of a visitor generated from a top 4 position organic ranking could theoretically be worth up to \$10.06 per click. On the next page is a recap of these less conservative metrics for traffic from all search engines that derives a five-year value for “Health Insurance” of \$97,927,645.

“...Google comprises only 65% of the search market share and that when optimizing for Google, optimization also occurs for Yahoo, Bing and other search algorithms.”

About Fifth Gear

Fifth Gear accelerates business growth for retailers and brand manufacturers across the nation who sell directly to consumers. Our flexible order fulfillment, contact center and marketing services let clients grow their ecommerce operations without the cost of adding new infrastructure or expertise.

Our partnership with Slingshot SEO allows Fifth Gear clients to reach new customers who are using Google and other popular search engines to find the products they offer. Search Engine Optimization is just one more way that we help retailers like you acquire happy, profitable customers for ecommerce growth.

Learn more about Slingshot SEO services provided by Fifth Gear at www.inFifthGear.com or call 800-383-4421.

About Slingshot SEO

Slingshot SEO helps deserving brands achieve exponential business success through search. Our success is driven by a tireless passion to understand and maximize the science of search.

Our research yields tight SEO plans that enable our clients to strike the market with confidence. We work with our clients to shape online conversations and increase their search engine visibility. To date, nearly every Slingshot SEO client has ended up with first page ranking on Google.

To learn more, visit www.SlingshotSEO.com and follow us on Twitter: @SlingshotSEO

Five-Year Present Value for 'Health Insurance'

Estimated Annual Value Position 2 through 4 organic Ranking for Exact Phrase (Best Value)

Google Monthly Exact Search Volume	[A]	823,000
Google Search Market Share	[B]	65%
Monthly Exact Search Volume (All Search Engines)	[C] = [A] / [B]	1,266,154
Click-Through-Rate of Position 2-4 Organic Rankings	[D]	8.5%
Estimated Monthly Website Visitors	[E] = [C] x [D]	107,623
Months in a Year	[F]	12
Estimated Annual Website Visitors	[G] = [E] x [F]	1,291,477
Google AdWords Average Cost-Per-Click (Exact)	[H]	\$10.06
Estimated Annual Value of Position 2-4 Organic Ranking	[I] = [G] x [H]	\$12,992,258

Estimated Annual Value of Long-Tail Derivative Ranking

Google Monthly Phrase Search Volume	[J]	7,480,000
Google Search Market Share	[B]	65%
Monthly Phrase Search Volume (All Search Engines)	[K] = [J] / [B]	823,000
Google Monthly Exact Search Volume	[A]	65%
Google Search Market Share	[B]	1,266,154
Monthly Exact Search Volume (All Search Engines)	[L] = [A] / [B]	1,266,154
Monthly Long-Tail Search Volume (All Search Engines)	[M] = [K] - [L]	10,241,538
Average Long-Tail Search Volume that Visits Site	[N]	1.08%
Estimated Monthly Long-Tail Website Visitors	[O] = [M] x [N]	110,609
Months in a Year	[F]	12
Estimated Annual Long-Tail Website Visitors	[P] = [O] x [F]	1,327,303
Google Adwords Average Cost-Per-Click (Phrase)	[Q]	\$10.06
Estimated Annual Value of Long-Tail Derivative Rankings	[R] = [P] x [Q]	\$13,352,672

Estimated Total Annual Value of Organic Rankings [S] = [I] + [R] **\$26,344,930**

Source

Social media and SEO massively undervalued: study

- <http://econsultancy.com/uk/blog/7229-social-media-and-seo-massively-undervalued-study>