Capital Idea #49

How smaller companies can beat their bigger rivals online
Lesser-known brands have the advantage when advertising on search engines

- Advertising on search engines makes more sense for companies with lower brand recognition than for well-established brands, according to research by Chicago Booth’s Chris Nosko, Booth PhD candidate Andrey Simonov, and Microsoft Research’s Justin M. Rao.

- Analyzing data from 87,000 brands called up on Microsoft’s Bing search engine, the researchers find, on average, paid links increased clicks to a brand’s site, but the effect was larger for lesser-known brands. The results build on previous research by Nosko, which finds that eBay benefitted little from buying search ads, because consumers simply clicked on nonpaid search results.

- Smaller competitors can drive traffic away from top brands by buying paid links that will appear when consumers search for those top brands. For example, clothing retailer Ann Taylor can steal clicks from Macy’s by bidding on keywords associated with Macy’s, potentially putting Ann Taylor at the top of search results. The researchers find that if a competitor bids on another brand’s keywords and that brand doesn’t advertise, the share of clicks to the brand’s site drops by about 17 percentage points, while the competitor gains a large share of clicks (see chart).

- Companies can mitigate this loss of traffic by buying paid links on their own brand’s keywords. But the shift in traffic from organic link to paid link would raise the companies’ costs, the researchers note.

Andrey Simonov, Chris Nosko, and Justin M. Rao,
“Competition and Crowd-Out for Brand Keywords in Sponsored Search,”

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