Digital Marketing Report

Q3 2016

Quarterly Benchmarks for Your Digital Marketing Program

MERKLE

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EXECUTIVE SUMMARY

NEW AND NOTABLE FOR Q3 2016

Advertisers continued to increase their investment in Google AdWords search ads at a strong year-over-year (Y/Y) growth rate of 20% in Q3 2016. As expected, though, that rate was down slightly from Q2 growth levels as search programs are facing stronger year-ago performance comparisons.

In the second half of 2015, Google drove a sharp turnaround in its growth rate primarily through the improved monetization of its mobile search results. As advertisers begin the final quarter of 2016, we again see Google turning to new initiatives in order to avoid a sharper deceleration in advertising spending growth.

At the tail end of Q2 2016, Google began showing four text ads at the top of many phone search results pages. This move echoed Google's introduction of a third top-of-page phone ad in late 2015, and although it is not having as large an impact, the fourth phone text ad is driving meaningful click volume.

Google is also seeing a small but appreciable lift in volume from its expansion of local search ads, specifically ads appearing on Google Maps. Merkle data shows that these ads are producing roughly 3% of phone clicks on brand searches for advertisers with a brick-and-mortar presence. These ads are also carrying a higher-than-average cost per click (CPC).

Earlier in 2016, Google was able to drive a more substantial volume lift by ramping up the display of Product Listing Ads (PLAs) on its image search results and from Yahoo adopting Google PLAs on its own results. These moves are still paying dividends, as PLA clicks grew nearly six times faster than text ad clicks in Q3.

Google's Expanded Text Ad (ETA) format officially launched in July, having been tested earlier in the year. Merkle analysis of post-launch data suggests that benefits from the format have been minor. Originally slated to become mandatory in October, Google has delayed the transition to ETAs until early 2017.

Paid search trends across Bing Ads and Yahoo Gemini combined have not been as strong as those for Google, but Q3 may mark a turning point for the two platforms, as Y/Y spending declines improved after five quarters of weakening growth.

Organic search volume also exhibited a positive reversal in recent trends, as site visits from phones grew for the first time in 2016. Phone organic search visit growth has been depressed by the increased monetization of mobile search results and other layout changes, particularly on Google.

While the share of organic search visits produced by mobile is making a recovery, it is unlikely to match the share of paid search clicks that take place on mobile devices anytime soon. As recently as Q3 2015, mobile devices produced a larger share of organic search visits than paid search clicks. Now paid search leads in this comparison by nine points.

Finally, display spending growth, across both traditional display and paid social platforms, once again outpaced other major channels in Q3 2016, with Facebook being the key driver. Facebook growth continued to run near historical highs even with the looming sunset of Facebook Exchange (FBX), prompting some advertisers to shift their investments. The bulk of those dollars are being moved to other Facebook ad targeting methods.

EXECUTIVE SUMMARY

PAID SEARCH

- Google search ad spending grew 20% Y/Y in Q3 2016, down from 22% growth a quarter earlier. Click volume grew 28%, while CPCs fell 6%.
- Google Shopping (PLA) spending grew 36% Y/Y on a 59% increase in clicks. Google text ad spending rose 9% on 11% higher clicks.
- Bing Ads and Yahoo Gemini combined search ad spending fell 14% Y/Y in Q3 2016, compared to a 17% decline in Q2. Bing Product Ad spending declined 12%, while Gemini's share of click volume across both platforms remained flat at 17%.
- Total paid search phone spending increased 134% Y/Y, while both tablet and desktop spending fell 4%. Phones and tablets combined to generate 62% of Google search ad clicks, a five percentage point increase from Q2.

ORGANIC SEARCH & SOCIAL

- Total organic search visits fell 5% Y/Y in Q3 2016, an improvement from a 7% decline in Q2. Phone organic search visits increased 9% Y/Y, the first quarterly increase in 2016, while desktop visits fell 7%.
- Google organic search visits fell 1% Y/Y as the search engine's efforts to increase the monetization of its mobile search results continues to depress organic volume. Yahoo organic visits fell 21% Y/Y, while Bing visits fell 2%.
- Mobile devices produced 48% of organic search visits, up from 46% in Q2, but well below the 57% of paid search clicks that took place on mobile devices.
- Facebook produced 61% of all site visits generated on social media sites in Q3 2016, which combined to produce 4% of mobile site visits.

DISPLAY ADVERTISING

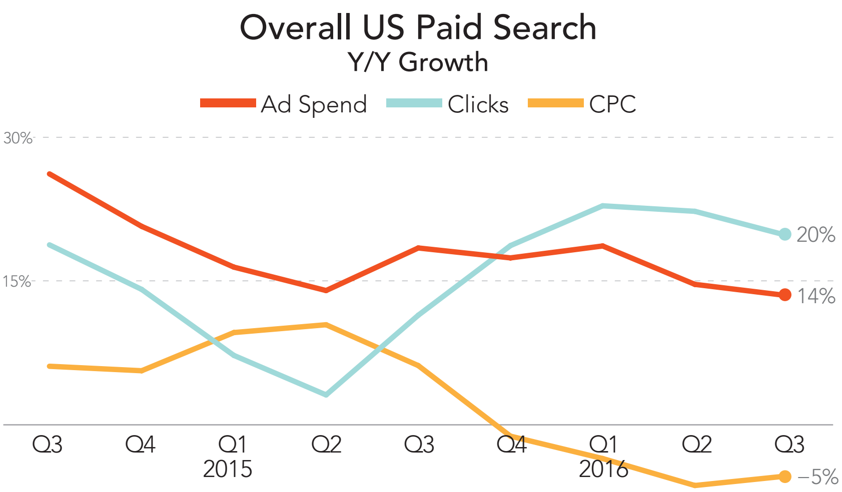
- Total display and paid social advertising spending rose 46% Y/Y in Q3 2016, with Facebook leading the way with a 63% Y/Y increase. Facebook CPCs continued to decline Y/Y, however, average CPM rose 38%.
- The Google Display Network (GDN) accounted for 8% of advertisers' total Google advertising investment, a small decline from a year earlier.

COMPARISON SHOPPING ENGINES

- The eBay Commerce Network's share of total comparison shopping engine (CSE) spending continued to climb, reaching 65% in Q3 2016. Niche CSEs account for 6% of spending, while eBay's main rival in this space, Connexity, has seen its share fall to 29%.
- Mobile devices produced just 16% of CSE clicks in Q3 2016, similar to the rate observed in Q2, but well below the over 60% rate for Google Shopping.

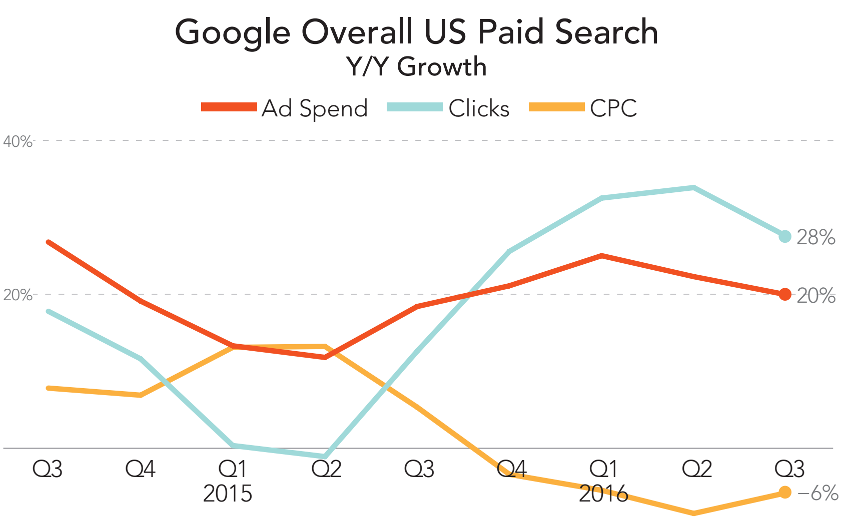
PAID SEARCH

Total Paid Search Spending Growth Dips to 14% Y/Y



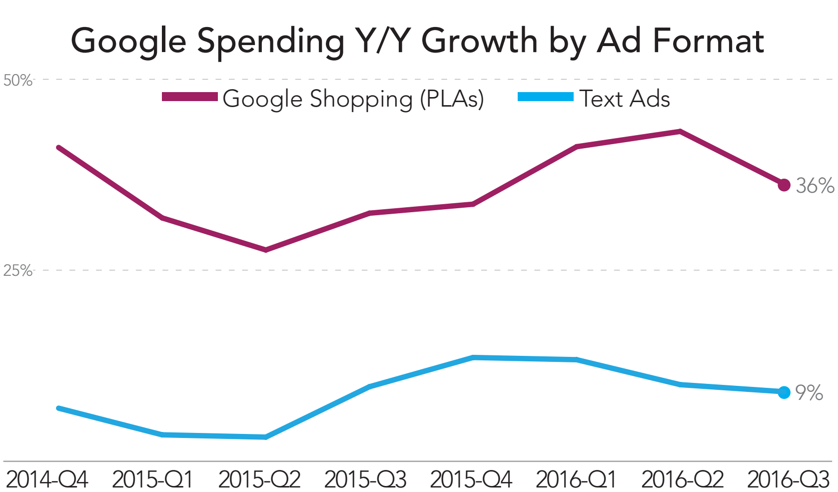
Advertisers increased their spending on paid search by 14% Y/Y in Q3, but that was down from 15% growth in previous quarter. Click growth slowed to 20% Y/Y as advertisers faced much stronger year-ago comps on Google, which significantly ramped up mobile ad volume in Q3 2015. Average CPC fell 5% Y/Y in Q3 2016, up from a 6% decline a quarter earlier.

Google Fights to Avoid Slower Growth with AdWords Enhancements



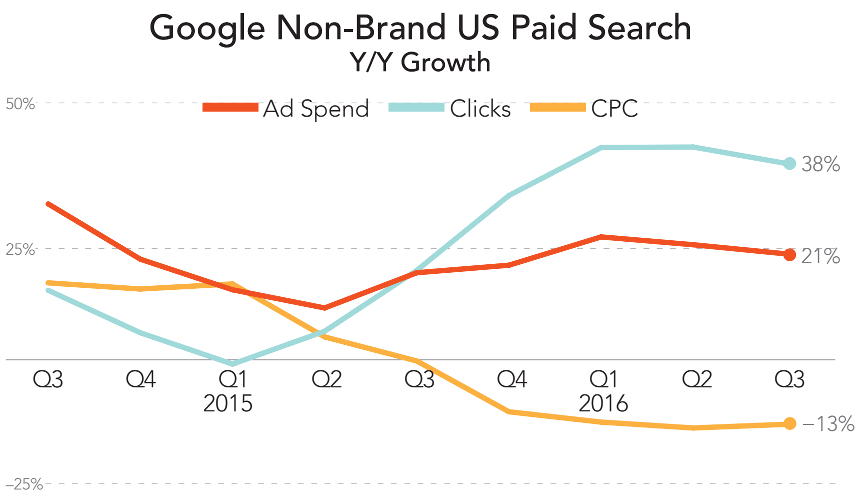
Spending on Google paid search was up 20% Y/Y in Q3, down from a 22% increase in Q2. Running up against stronger 2015 performance, Google's growth would have likely decelerated more sharply if not for the gains it achieved through the expansion of local search ads and mobile text ad inventory at the tail end of Q2. While results from Expanded Text Ads have been more mixed, Google is also benefiting from a substantial early 2016 ramp up in PLA traffic from its search partners.

Google Shopping Spend Up 36%, Text Ads See Just 9% Growth



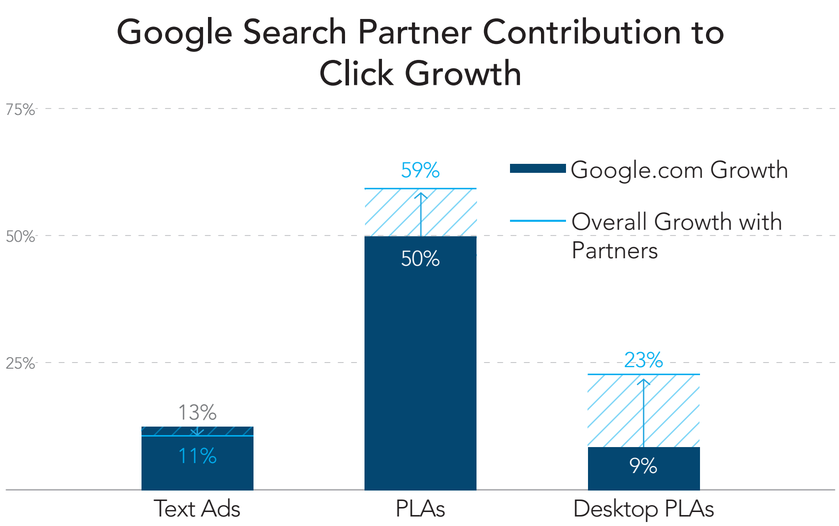
Google Shopping and the PLA format continued to set the pace for overall AdWords spending, despite a moderate slowdown from 43% Y/Y growth in Q2 to 36% growth in Q3. Text ad spending growth slipped from 10% Y/Y to 9% Y/Y over the same period. Both formats are facing Y/Y growth headwinds from a sharp acceleration in mobile volume beginning in the latter half of 2015.

Google Non-Brand CPCs Continue to Fall Due to Mobile, Partners



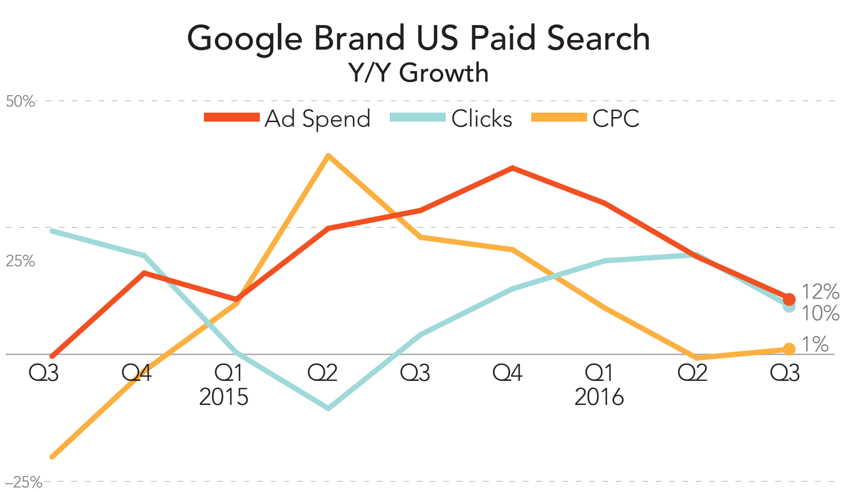
The average CPC advertisers paid for non-brand Google keywords and PLAs fell 13% in Q3, the fourth straight quarter of double-digit declines. Ad spend rose 21% Y/Y on 38% higher clicks. Non-brand CPCs fell 4% on desktop, largely due to an early 2016 influx of PLA volume from Google's search partners, which command lower CPCs. Phone CPCs for non-brand text ad traffic jumped 9% Y/Y, but the mix shift to mobile continues to pull down overall CPCs due to the pricing gap between mobile and desktop.

Google Partners Add 14 Points of Growth to Desktop PLAs



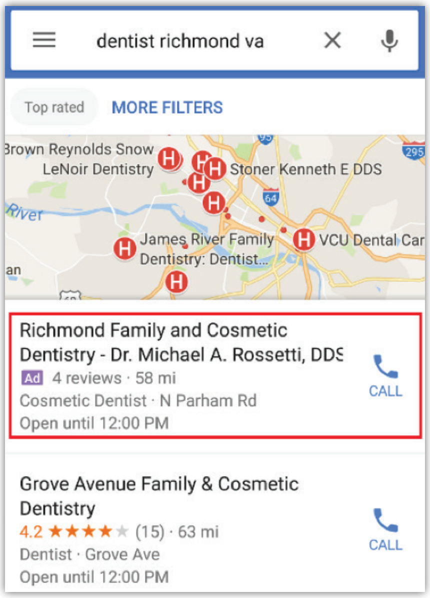
Desktop PLA volume grew 9% Y/Y on Google.com in Q3, but 23% overall thanks to the contribution of Google partners like Yahoo and Google's own image search property. For text ads, partners continue to drag down total growth as clicks were up 13% on Google.com, but just 11% overall. Importantly, because partner traffic carries lower CPCs, it has a smaller impact to spending growth than click growth.

Google Brand Keyword Trends Normalize after Volatile Year



Advertiser spending on own-brand keywords was up 12% Y/Y on Google in Q3 2016, down from as high as a 37% increase in Q4 2015. Brand CPCs had spiked nearly 40% in early 2015, and though they remain higher than they were previously, CPCs are now running flat in Y/Y terms. Despite new volume from local search ads, brand click growth slowed to 10% Y/Y as the early 2015 CPC inflation had depressed click growth at that time, leading to weaker comps in early 2016.

Google Sees a Lift from Expansion of Maps Ads



Seeking to better monetize the ever-increasing number of local searches taking place on Google Maps, Google officially announced local search ads for Google Maps in May 2016, although ads have been tested on this property since at least 2013.

In order to show local search ads on Google Maps or google.com, advertisers need only have the addresses of their brick-and-mortar locations active as location extensions in AdWords, which is done by linking a Google My Business account to AdWords. Ads are then triggered based on the relevance of keywords in the account to users' Maps queries.

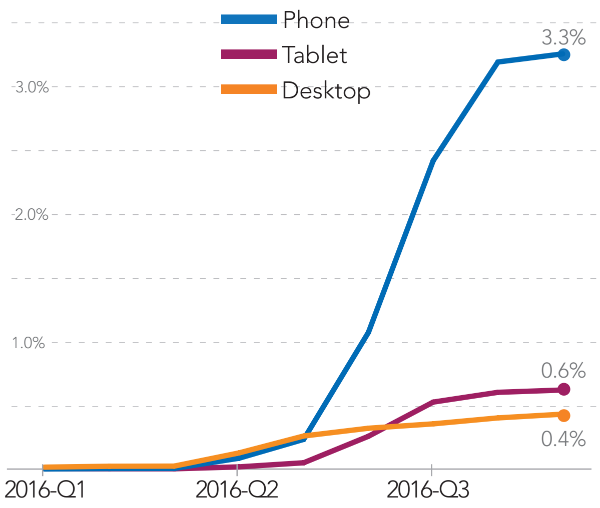
While there's no clean way to segment AdWords reporting to view how local search ads are performing compared to other ads, advertisers can download their AdWords performance by click type from the AdWords interface. This gives decent visibility into the impact of local search ads, as Google has confirmed that very nearly all 'Get location details' clicks come from ads on Google Maps.

Taking a look at advertiser performance since the announcement, it's clear that Google's efforts have resulted in increased ad traffic as a result of these units, as we find that brand keywords are now getting about 3% of phone traffic from the 'Get location details' click type for advertisers with a brick-and-mortar presence.

Users can also click to call a business through local search ads, but there hasn't been a clear rise in calls to coincide with the increase in 'Get location details' traffic. This is likely because most users searching on Google Maps are more interested in directions than the ability to call a business.

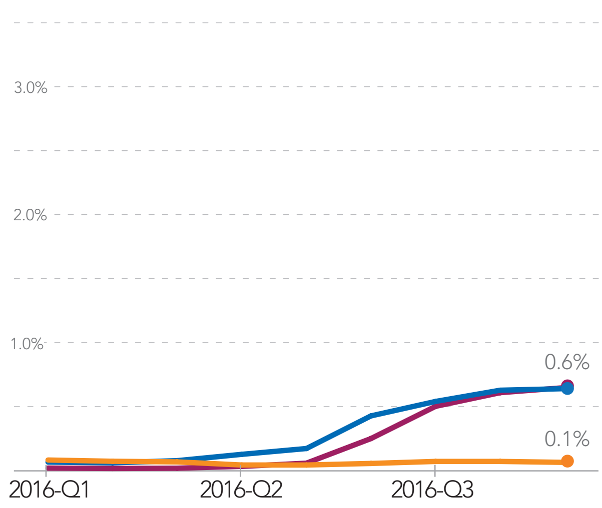
Brand 'Get Location Details' Google Search Click Share by Device

Brick-and-Mortar Advertisers



Non-Brand 'Get Location Details' Google Search Click Share by Device

Brick-and-Mortar Advertisers



The click share of 'Get location details' is much lower for non-brand keywords, but has still risen rapidly on mobile devices since the announcement.

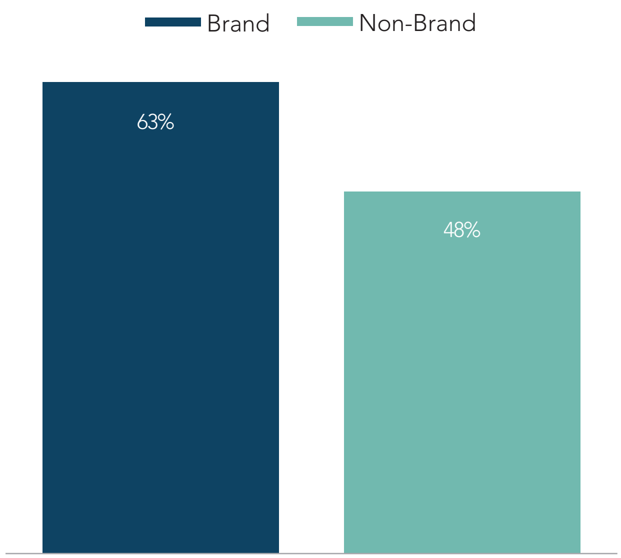
Interestingly, all 'Get location details' traffic is classified as coming from google.com, rather than falling under the search partner network. This is different from how Google handles the similar situation of Product Listing Ads featured on Google image searches. Image search impressions are deemed part of the search partner network and excludable under campaign settings that allow the exclusion of the search partner network.

The fact that Google Maps ads are all attributed to google.com prevents advertisers from being able to exclude their ads from Google Maps, if they have location extensions launched, because all search campaigns must target google.com.

Looking at how brand CPC compares on phones, we find that 'Get location details' CPC is 63% higher than clicks on an ad's headline, the most common click type. Non-brand phone clicks for 'Get location details' are 48% more expensive than headline clicks.

Difference in CPC for 'Get Location Details' vs. Headline Clicks

Median Brick-and-Mortar Advertiser



These comparisons are likely affected by the query mix driving headline clicks versus location details clicks, but are nonetheless relevant in discussing how advertisers view the rise of ads on Maps.

Thus, it's a little concerning that advertisers have no ability to restrict ads from showing for Maps searches other than to remove location extensions from campaigns, which would hurt the appearance and CTR of standard text ads which might feature location extensions.

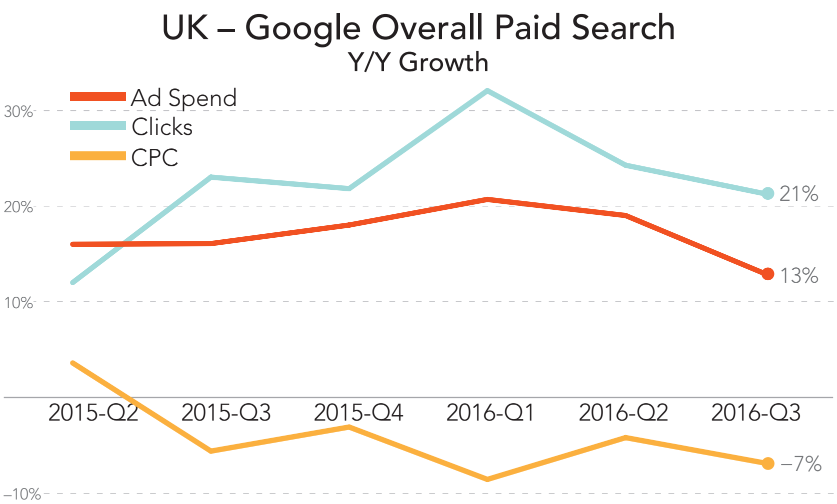
Further, Google has announced plans to feature ad units within its local pack, using location extensions to trigger these new ads as well. Google has also been spotted testing ad packs at the top of the page which mimic the appearance of the local pack, but are composed entirely of location extension driven ads.

Thus, having location extensions active is becoming more important in terms of showing ads for local searches on google.com itself, even if doing so means automatically showing ads on Google Maps as well.

Particularly for brand searches in Google Maps, it seems pretty likely that users would end up finding the nearest location of the brand searched for without an ad present, and the introduction of ads doesn't seem to add much to the user experience or end result for brands. That said, advertisers for which these ads become real click drivers might want to implement in-store visit tracking if they haven't already to try and measure the incremental value.

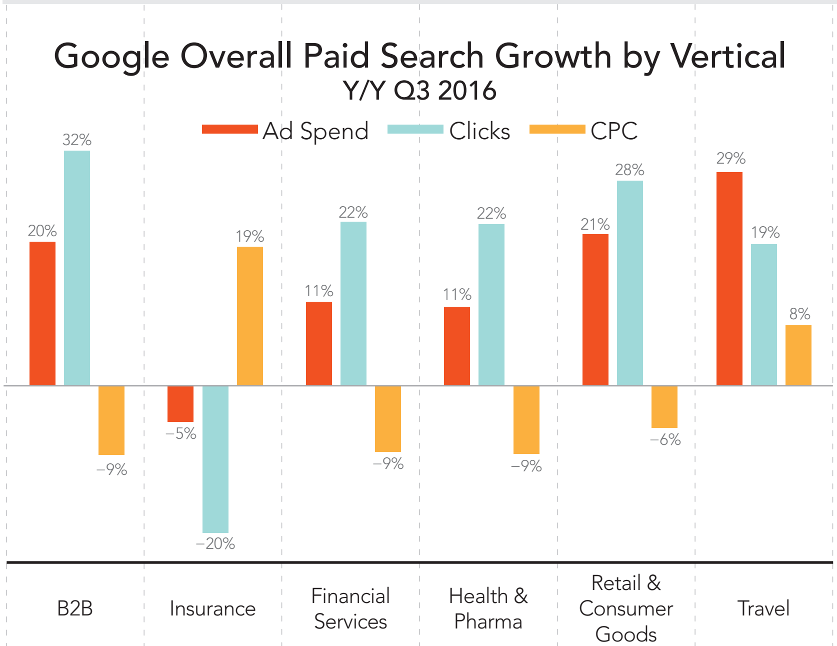
The traffic share growth of 'Get location details' appeared to level off at the end of the quarter, but given how recent these updates have been, there's certainly the possibility that Google will move to ramp up the presence of ads on Google Maps heading into the busy holiday season.

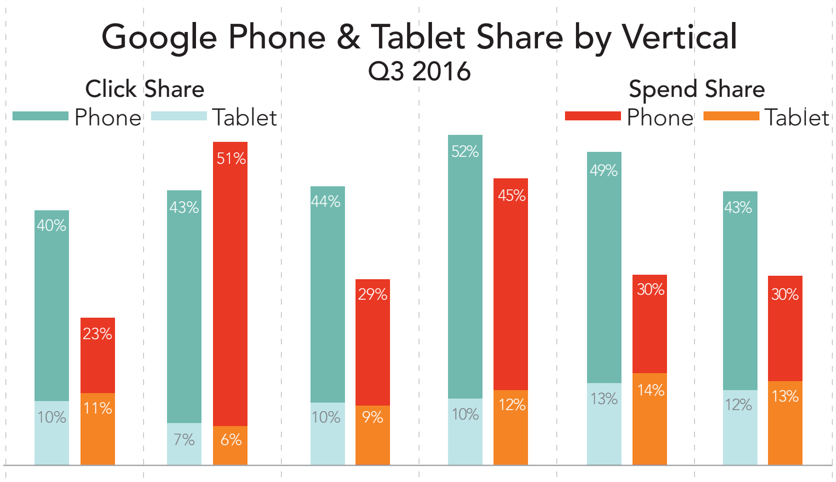
UK Market Sees Bigger Slowdown in Google Spending



While Google search trends in the UK have largely echoed those in the US over the past two years, they have also generally exhibited less volatility from one quarter to the next. In Q3 2016, though, Google UK spending growth slowed by nearly six points compared to Q2 growth rates, or roughly triple the slowdown in the US market. UK spend was up 13% in Q3, as clicks rose 21% and CPCs fell 7%.

Google Paid Search Growth, Mobile Click and Spend Share by Vertical





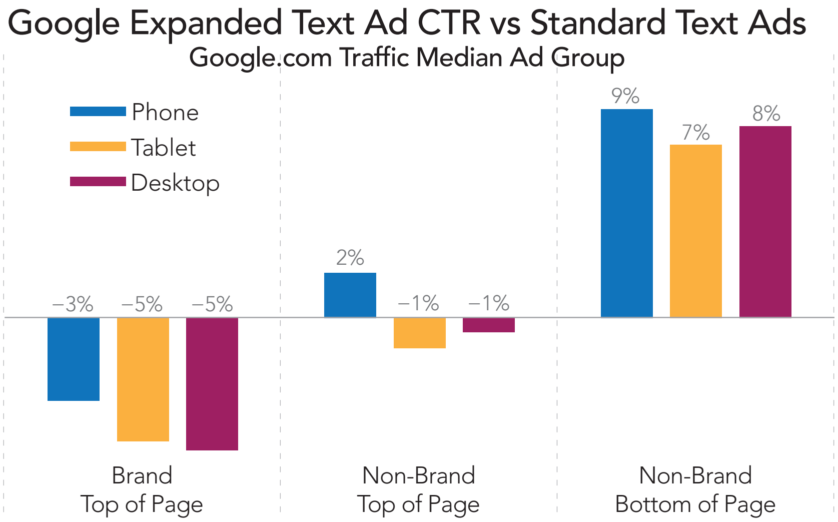
Retail and Travel Verticals Increase Google Search Investment Most

Across six major verticals, retail and travel advertisers increased their investment in Google search ads the most in Q3, with ad spend up 21% and 29% Y/Y in those verticals respectively. Travel was the only vertical to see higher spending growth in Q3 than Q2, and, along with the insurance industry, one of only two verticals to see a Y/Y increase in average CPC in Q3.

Mobile Share of Google Search Spend Up Significantly Across All Major Industries

After running roughly flat between Q1 and Q2 2016, mobile's share of Google search ad spending picked up markedly across all major verticals in Q3. Seasonality is a factor in this trending, but Google beginning to show four text ads above its mobile organic results in late Q2 has also boosted mobile ad spend share, particularly for verticals where Google Shopping is a non-factor.

Google Expanded Text Ads Show Little Benefit to CTR

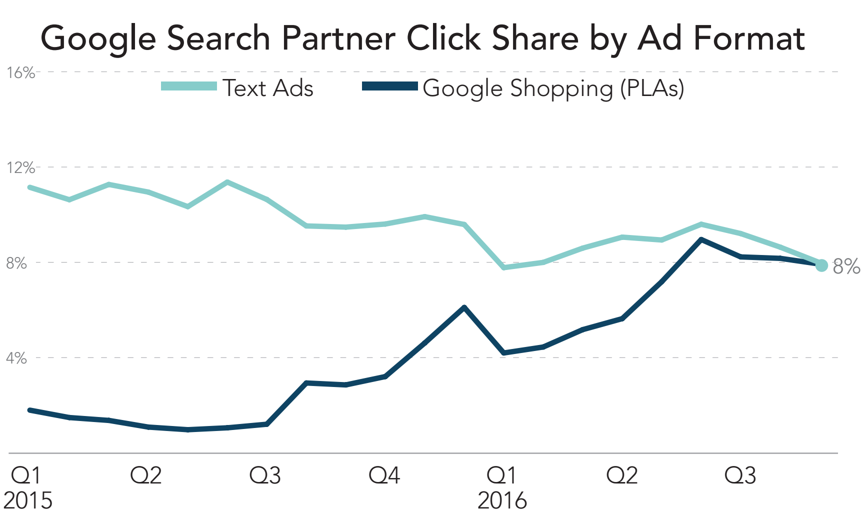


After accounting for user device, the type of query that triggers an ad, and the location on the page where it appears, Google's Expanded Text Ad format is showing little benefit to CTR for the typical ad group. Since the official launch of ETAs in July, the format has produced a lower than average CTR for brand keywords, mixed results for non-brand ads at the top of page, and a modest benefit to non-brand ads at the top of the page, a category that generates a small percentage of overall clicks.

Google Partner Share of PLAs Stabilizes after Big Jump

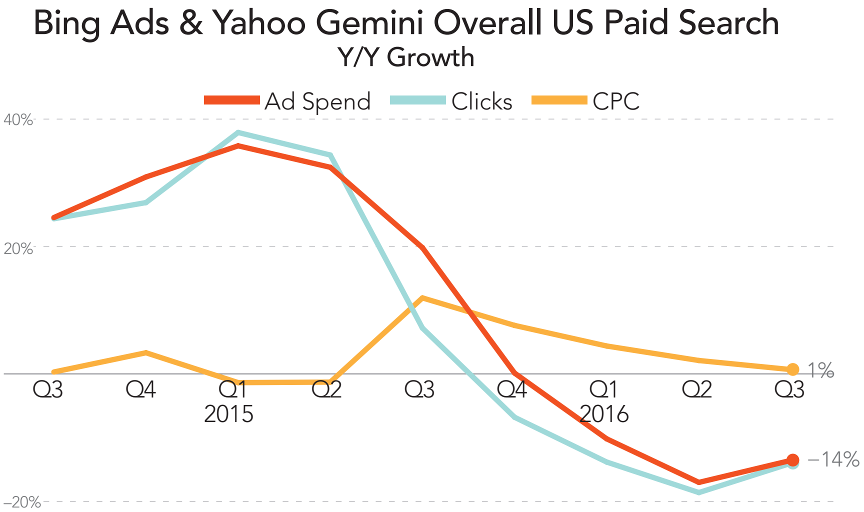
Google search partners produced a little over 13% of total PLA clicks on desktop throughout Q3 2016. That was in line with results at the end of Q2 2016, but over five times the share of PLA traffic that partners produced a year earlier. While it appears that Yahoo began showing Google PLAs around mid-March this year, partner share rose more rapidly in May when Google ramped up the display of PLAs on image search, which Google reports as a partner.

Google Partner Share of PLAs Catches Text Ads



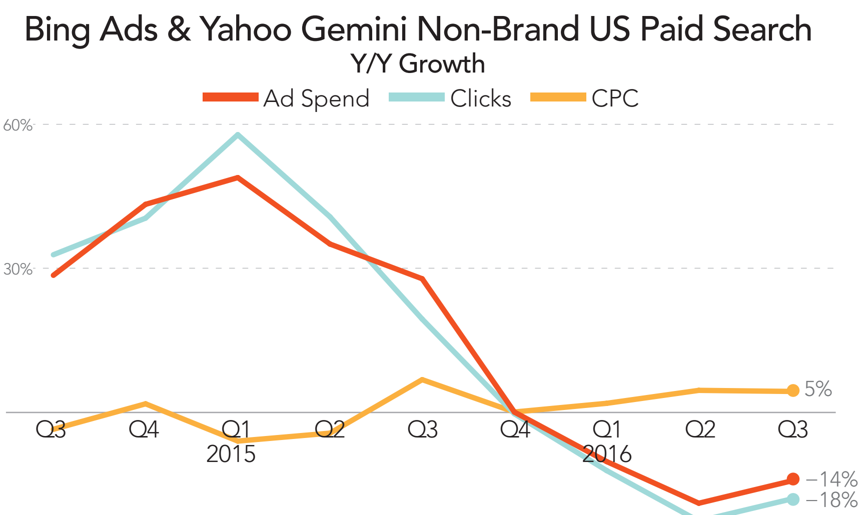
Through the first half of 2015, Google search partners generated 1-2% of PLA clicks and about 11% of text ad clicks. Partner share of PLAs picked up in Q3 2015 as a number of major retail sites began showing PLAs on their search results pages. PLAs got another boost in partner traffic in December 2015, when Google began running them on image search. With additional image search volume and traffic from Yahoo in 2016, partners now make up the same share of PLA clicks as text ad clicks.

Combined Bing and Yahoo Performance Trending Begins to Improve



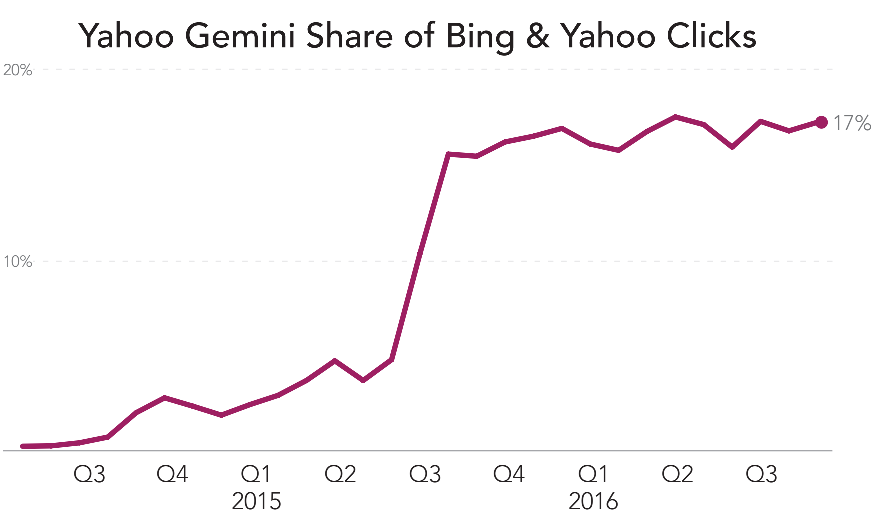
Although search spending was down 13% Y/Y in Q3 across Bing Ads and Yahoo Gemini combined, it was the first improvement in spending growth rate for the two platforms in the past six quarters. While CPC growth has been positive and relatively stable over that time, click growth has suffered as the benefits of Yahoo becoming the default search provider for Firefox and Bing's initial ramp up of Product Ads in late 2014 have faded from Y/Y comparisons.

Bing and Yahoo Non-Brand CPCs Continue Rise, Clicks See Smaller Decline



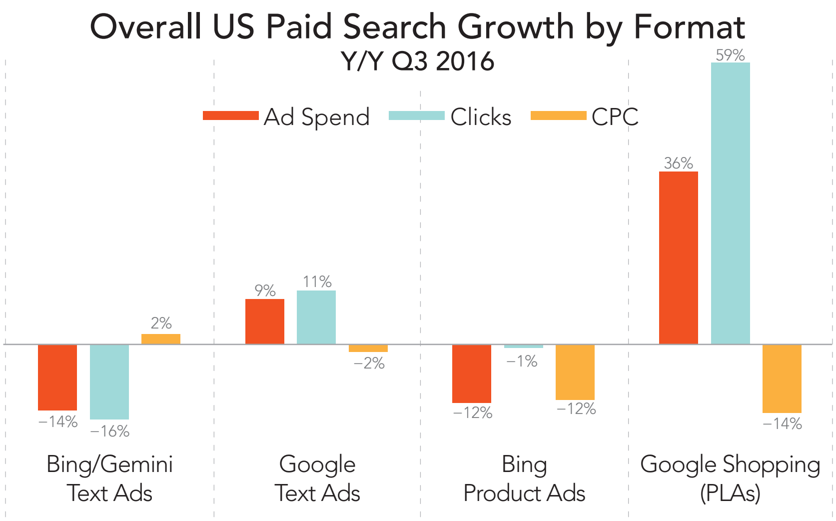
While Google search ad CPCs have fallen, due in part to a mix shift to mobile devices, Bing and Yahoo non-brand CPCs rose 5% Y/Y in Q3 as the two platforms have not seen the same gains in the mobile space. Non-brand click declines bottomed out at a 22% Y/Y drop in Q2 after it appeared that Yahoo made a significant move from Bing Product Ads to Google PLAs, but improved to an 18% Y/Y decline in Q3 as year ago comps became more favorable.

Yahoo Gemini Traffic Share Continues to Show Little Movement



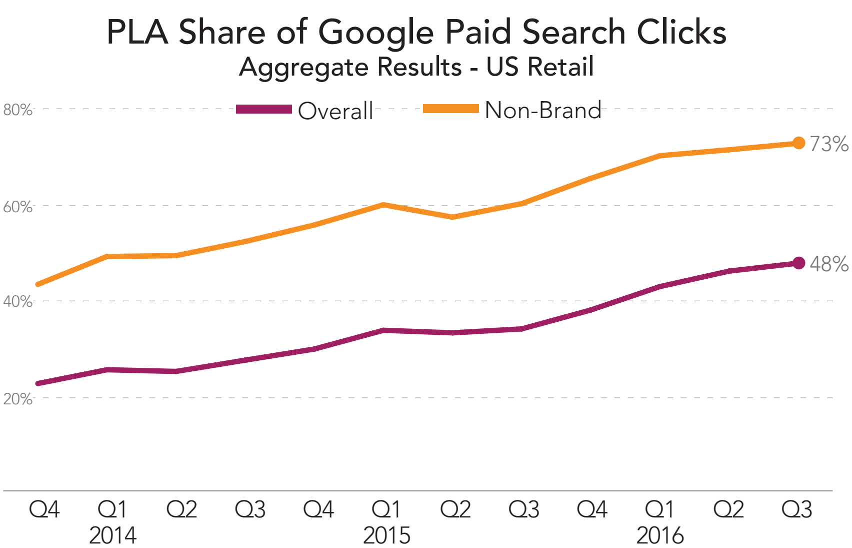
Yahoo Gemini's share of the combined search click volume across the Gemini and Bing Ads platforms ended Q3 at just over 17%. That is only one percentage point above where its click share stood in October 2015, suggesting that there has been little movement in the past year to further ramp up volume from the Gemini platform for established participants.

Bing Product Ad Spend Decline Deepens, Google PLA Growth Remains Robust



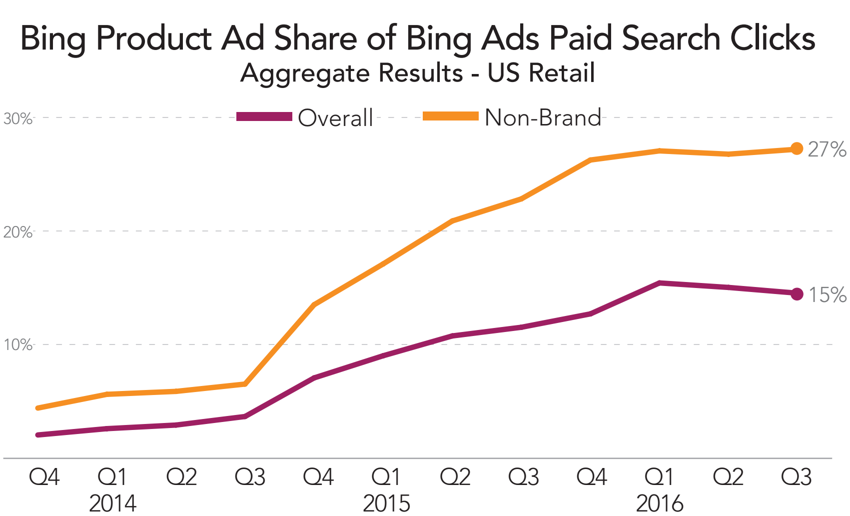
Spending on Bing Product Ads fell 12% Y/Y in Q3, down from a 6% decline in Q2. As recently as Q4 2015, Bing Product Ad spending was up 98% Y/Y, but growth began to slow quickly in early 2016 as it appeared that Yahoo began to serve Google PLAs instead of Bing Product Ads for many of its search results. Google PLA spending was up 36% Y/Y in Q3, down a bit from 43% growth in Q2, primarily due to stronger 2015 mobile comps.

PLAs Reach 48% of Google Search Ad Clicks Among Retailers



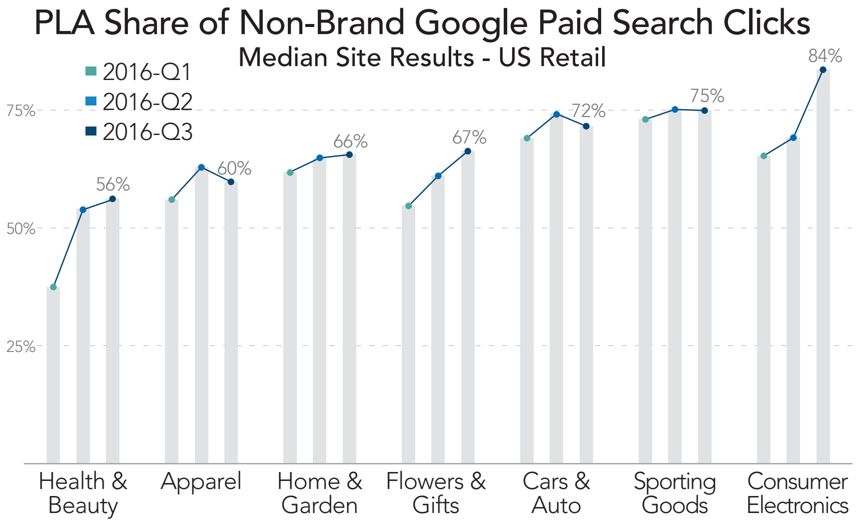
With one quarter left in the year, Google PLAs are approaching half of all Google paid search clicks among retailers. PLAs have seen their click share increase from 34% in Q4 2015 to 48% in Q3 2016. Google's ramping up of mobile PLA serving and expanding the reach of PLAs on partner sites have been the key drivers of recent growth. However, on a longer time horizon, the trajectory of PLA growth has been remarkably steady.

Bing Product Ad Click Share Dips for Second Straight Quarter



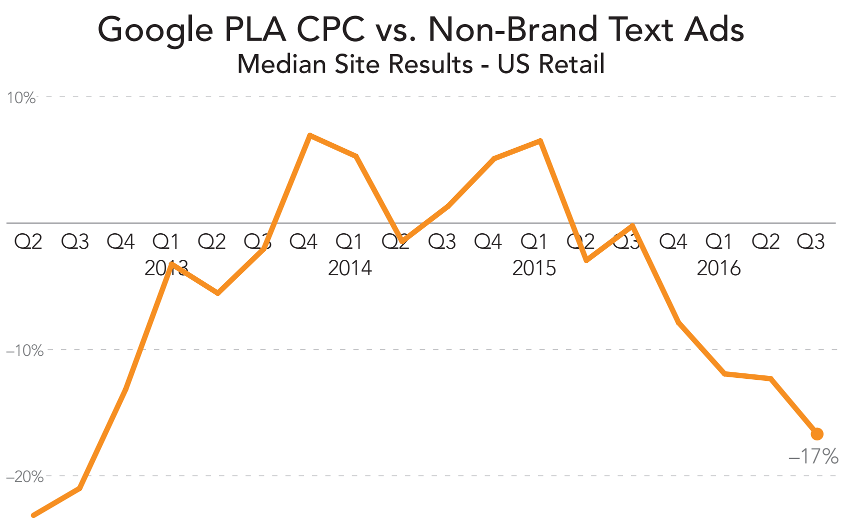
Product Ad share of Bing Ads clicks slipped to just under 15%, the second straight quarterly decline following a peak of 16% in Q1 2016. Once rising at an impressive rate, Product Ad click share took a hit in late Q1, when it became apparent that Yahoo was beginning to favor Google's PLAs for the ads served on its search results.

PLA Share of Google Clicks Higher Across All Retail Categories



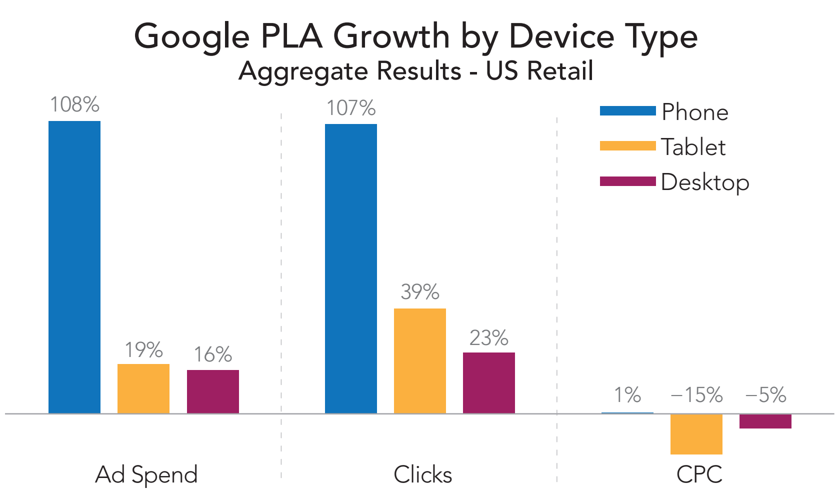
Since Q1 2016, the share of Google non-brand paid search clicks produced by PLAs has risen across all major retail categories that Merkle has analyzed. Consumer electronics retailers saw the highest share of non-brand Google clicks from PLAs at 84%, while health and beauty retailers have seen the largest year-to-date PLA click share gains.

Google PLA CPCs Fall vs. Text Ads as Mobile & Partner Traffic Have Jumped



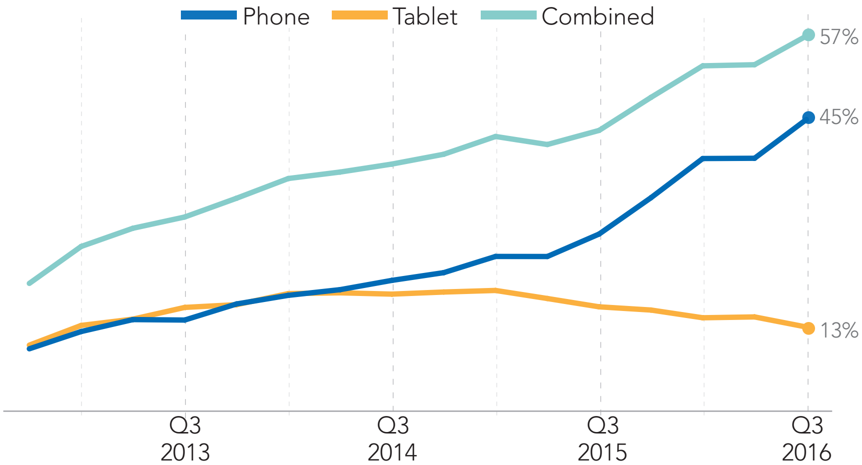
Google PLA CPCs ran 17% lower than non-brand text ad CPCs in Q3 2016. Just a year earlier, PLA CPCs were at parity with text ad CPCs. This relative decline can be attributed to the rapid rise in PLA volume from mobile devices and Google search partners, both of which command lower than average CPCs. Mobile now produces a larger share of PLAs than text ads, while Google partners produce 8% of PLA clicks, up from 3% a year earlier.

PLA Click Volume Rises across All Devices, CPCs Fall on Desktop, Tablet



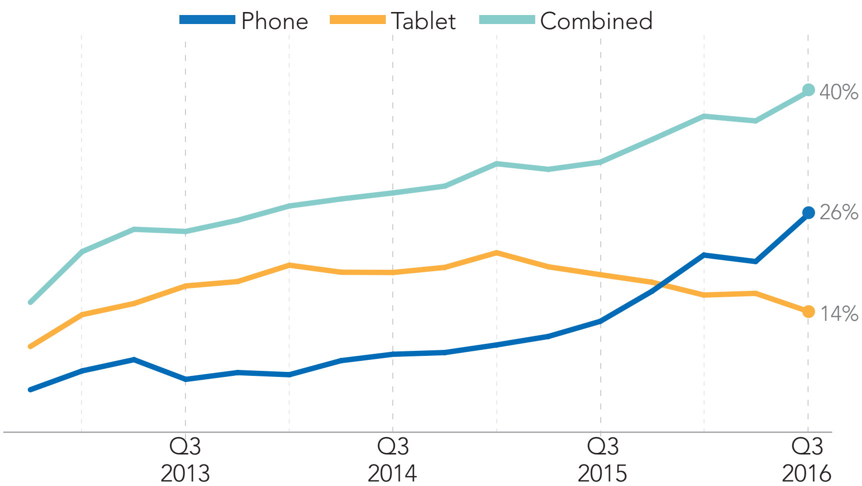
While desktop text ad click volume fell 7% Y/Y in Q3, desktop PLA clicks grew 23%. Without the benefit of its partner network, including Google image search, Google desktop PLA click volume would have risen just 9%. This recent influx of largely desktop-based partner volume drove PLA CPCs down 5% Y/Y on desktop, while phone PLA CPCs rose slightly Y/Y.

Combined Phone and Tablet Paid Search Click Share Hits 57%



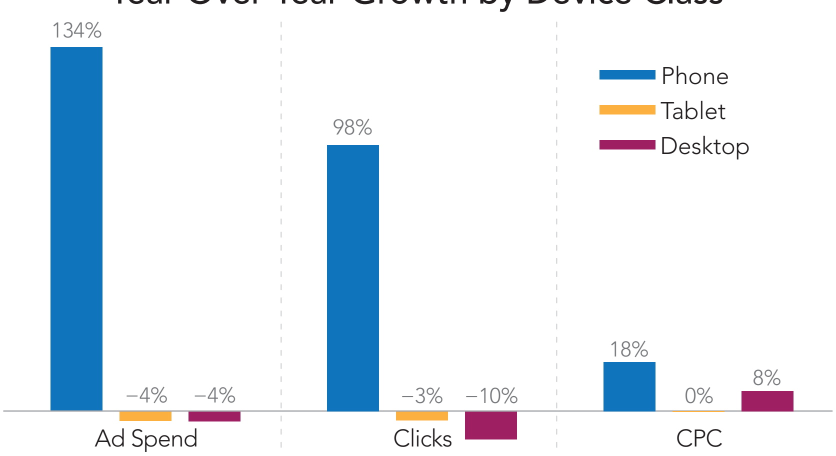
After running flat from Q1 to Q2, mobile share of paid search clicks jumped over four points to reach 57% in Q3. Phone click share rose from 39% in Q2 to 45% in Q3, while tablet click share continued to slide, hitting 13% in Q3. Seasonality and natural growth are factors in the increased phone click share, but phone volume has also benefited from Google beginning to show a fourth top-of-page ad on mobile results, and from Google expanding local search ads on Google Maps in late Q2.

Phone Share of Paid Search Spend Nearly Doubles in Past Year



In Q3 2016, phones accounted for 26% of paid search spending, up nearly six points from Q2 2016 and nearly double Q3 2015 levels. Tablet spending share fell to 15% in Q3 2016, down from 19% a year earlier. Not only has phone click growth continued to far outpace that of other devices, phone CPCs have been slowly gaining on desktop CPCs throughout 2016.

Phone CPCs Rise 18% Y/Y, Outpacing Other Devices



When Google began showing a third text ad above organic results in late 2015, the additional inventory drove up total mobile volume, but from ads carrying lower CPCs. With the anniversary of that launch passing, Y/Y growth for phone CPCs looks much stronger at 18%, up from a 3% decline in Q2. Desktop CPCs rose 8% Y/Y in Q3 2016, while tablet CPCs were flat.

And Then There Were Four

More Top-of-Page Ads Boost Google Mobile Volume

At the tail end of June 2016, advertisers began seeing appreciable click volume from Google text ads appearing in fourth position at the top of phone search results pages. This development came almost exactly a year after Google began showing three ads at the top of phone results, which was a key contributor to Google's late 2015 turnaround in click and spending growth.

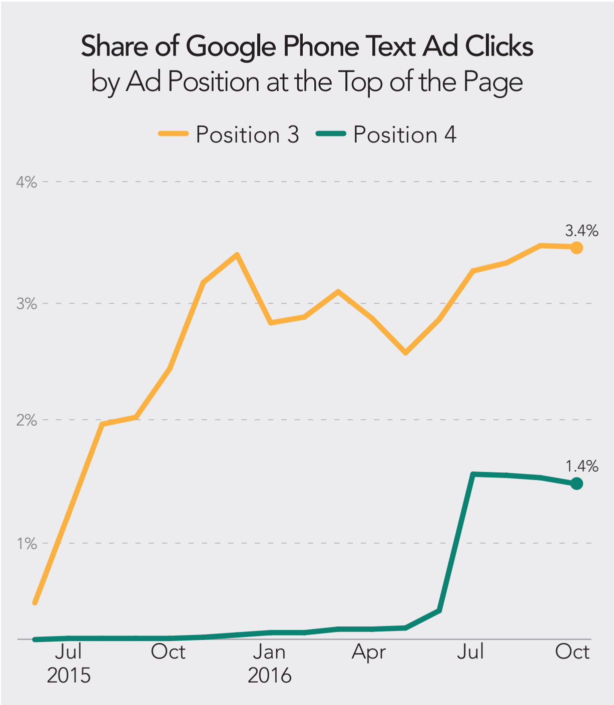
As we would expect, Google is seeing diminishing returns from each additional ad unit it serves for mobile results, but the new fourth top-of-page ad has helped mitigate the impact of strengthening 2015 performance comparisons on current year-over-year growth rates.

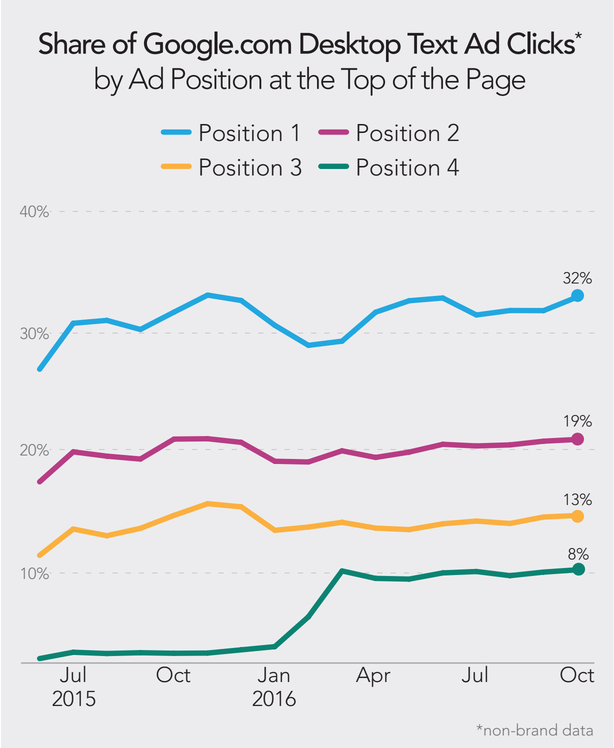
Throughout Q3 2016, fourth position ads at the top of the page produced 1.4% of phone text ad clicks for the average Google paid search program. Ads in third position produced roughly 2.5 times as many clicks as fourth position ads, and, interestingly, traffic share for third position ads trended higher in Q3, even with the launch of the fourth position ads.

The impact of both third and fourth position ads is greater across the non-brand keyword segment, where there is typically greater competition and more ads served. Fourth position ads produced 4.4% of non-brand phone text ad clicks on Google.com in Q3, compared to nearly 10% for third position ads.

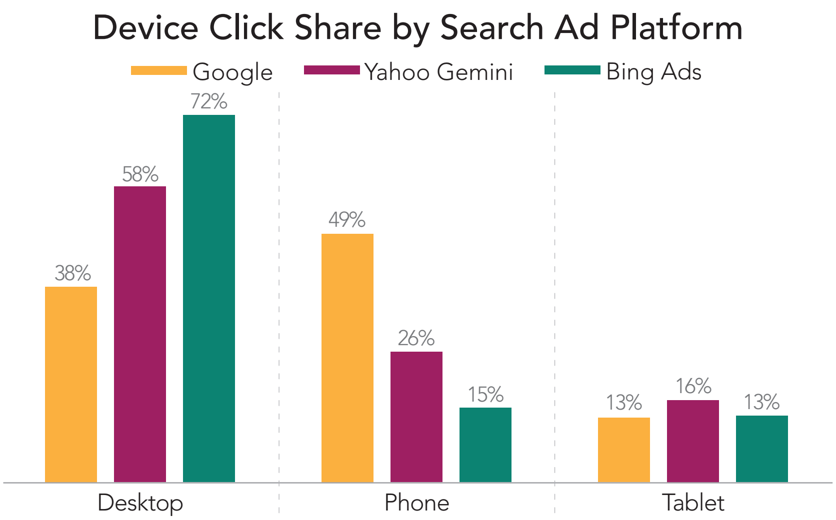
In the desktop world, Google's removal of right hand rail ads and addition of a fourth top-of-page text ad in Q1 2016 garnered a great deal of attention, but ultimately had a negligible impact on total click volume, as the two changes offset one another.

Looking at updated results, it does not appear that this situation has changed much since the initial ramp up of the fourth text ad at the top of desktop results in February. These ads are producing about 8% of non-brand desktop text ad clicks, the same rate as in March.



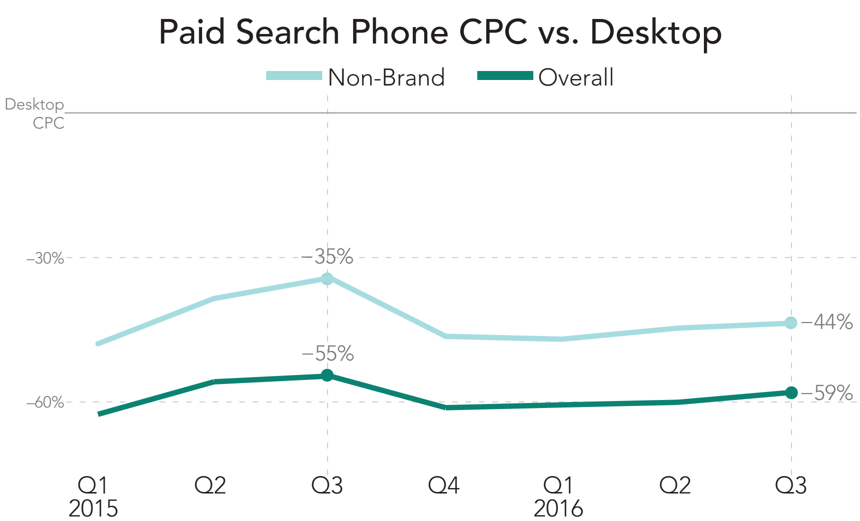


Mobile Share of Google Search Ad Clicks Now over 60%



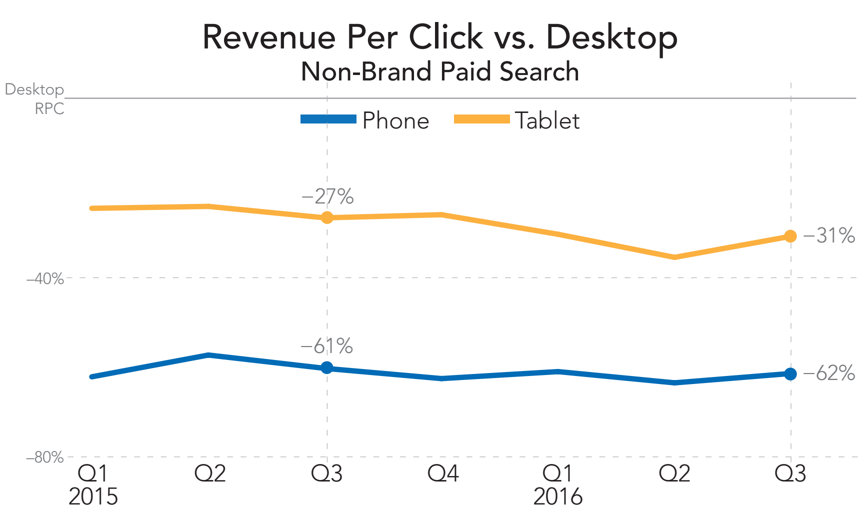
In Q2 2016, phone click share surpassed desktop click share for the first time on Google search ads. In Q3, phones produced nearly half of Google ad clicks, with tablets contributing another 13% for a combined mobile share of 62%. Elsewhere, Bing saw phone click share increase by four points from Q2 to Q3, but phones are still only producing 15% of Bing Ads clicks.

Phone CPCs Improve to 56% of Desktop Levels for Comparable Search Ads



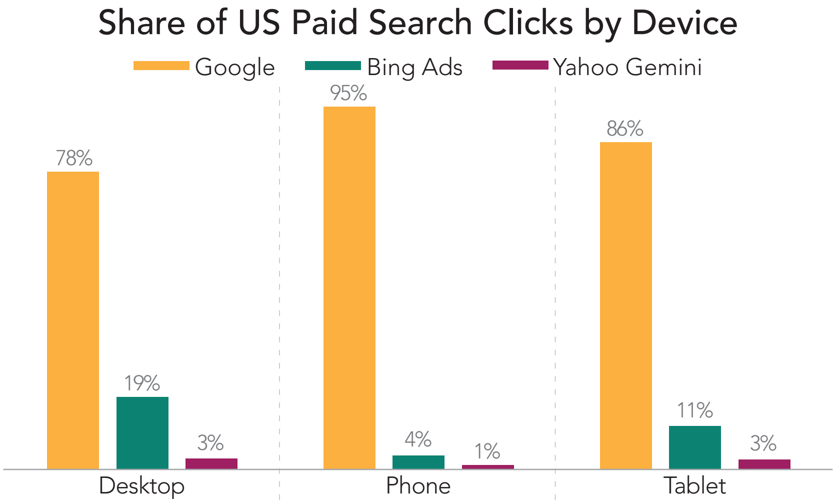
After losing ground to desktop CPCs in late 2015 after Google launched additional top-of-page ad inventory on phones, CPCs for phones have since gained back ground, coming in at 56% of desktop levels in Q3 for non-brand text ads. Across all keyword types, phone CPCs fare less favorably, coming in at 41% of desktop levels due to phones generating a higher share of traffic from brand keywords, which carry lower CPCs.

Advertisers Accounting for Offline and Cross-Device Revenue in Phone Bids



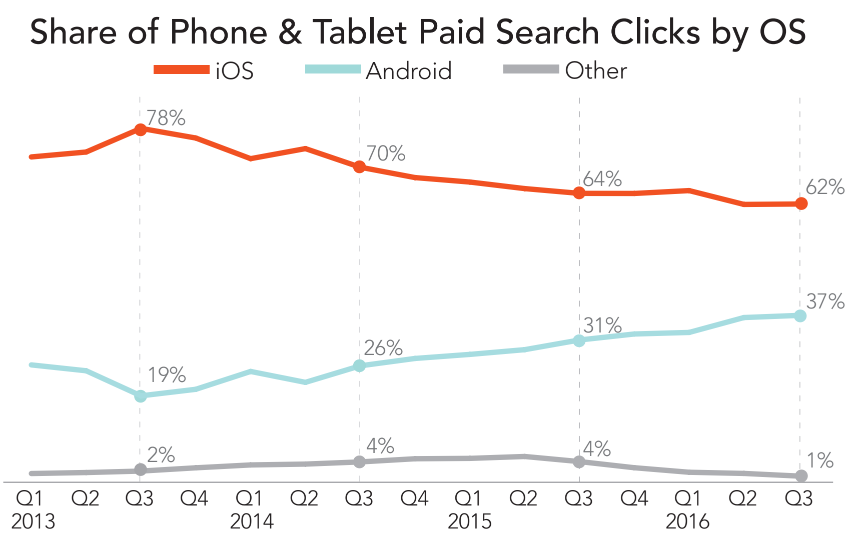
Considering only online and same-device purchases, phones produced a 62% lower average revenue per click than desktops in Q3 2016, a small improvement over the previous quarter. With the phone to desktop CPC gap running 18 points smaller than the revenue-per-click gap for the same non-brand traffic segment, many advertisers are accounting for the additional value that mobile ads produce both offline and through cross-device behavior.

Google Share of Phone Search Ad Clicks Holds at 95%



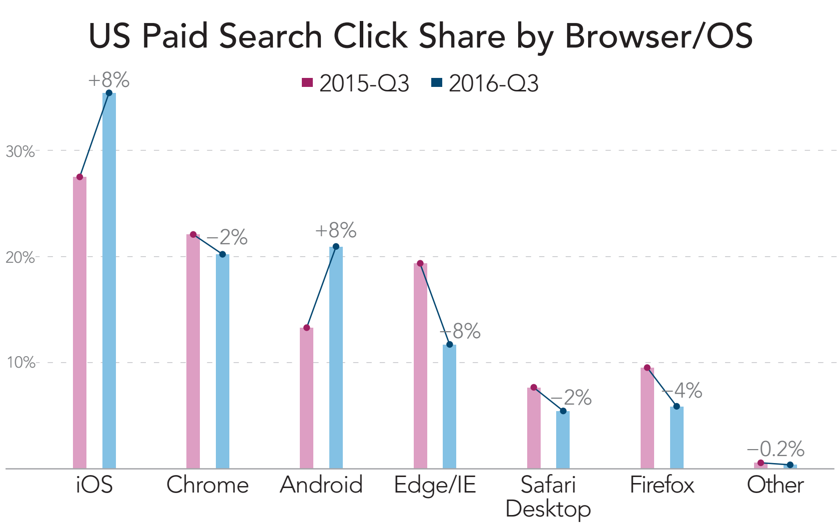
Google produced 95% of the US search ad clicks that took place on phones in Q3 2016, which is in line with its share from a quarter earlier. While Google saw its share of clicks from phones increase from Q2 to Q3, Bing Ads did as well, keeping the market share figures steady. On desktops, Google produced 78% of clicks, compared to 19% for Bing and 3% for the Yahoo Gemini platform.

iOS Share of Paid Search Clicks Drops Three Points



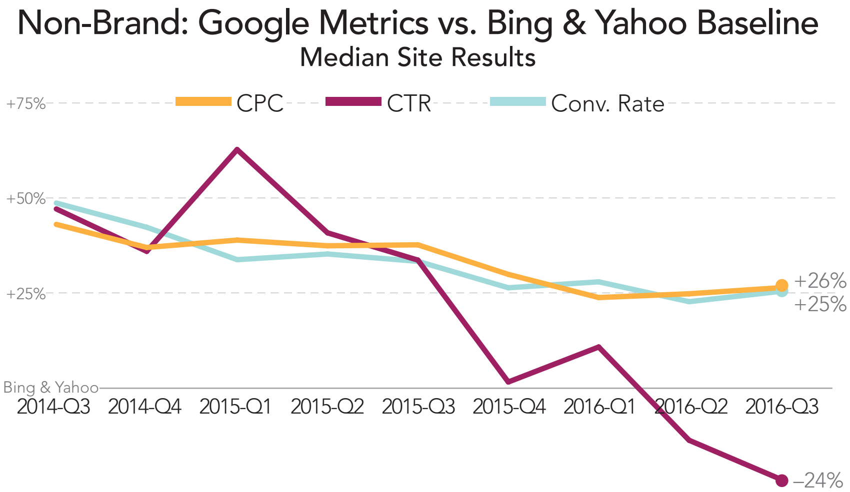
When third-party ad blocking came to Safari on iOS devices in September 2015, many feared it would cause significant harm to mobile ad traffic. That did not appear to be the case for paid search ads, as iOS maintained its share of mobile clicks through the end of 2015 and early 2016. In Q2 though, iOS click share dropped three points from Q1 levels, with Android devices picking up the share. This may just be a return to the longer historical trend, but it is worth keeping an eye on.

All Major Desktop Browsers See Paid Search Click Share Declines



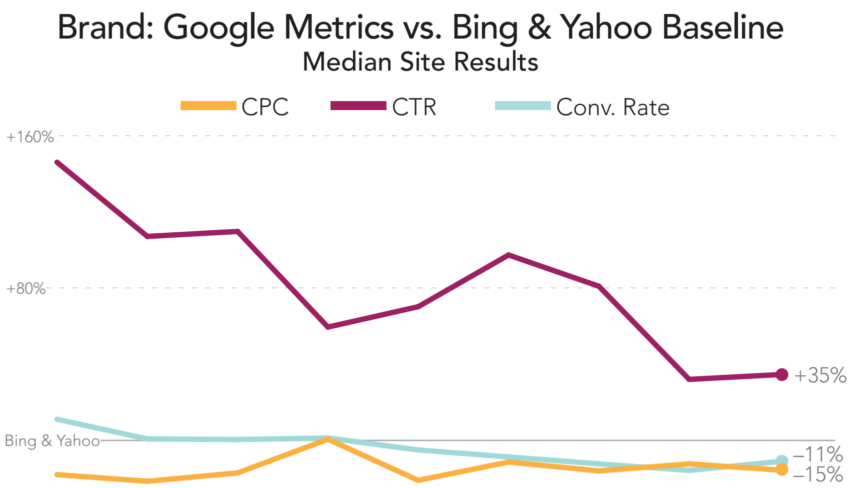
While iOS devices are producing a slightly smaller share of mobile paid search clicks than they did a year ago, mobile's growing share of all traffic has helped drive up the total share of paid search clicks produced by iOS by over seven points in the past year. Meanwhile, all major desktop browsers have seen click share declines.

Google Maintains Large Advantage on Search Ad Conversion Rates



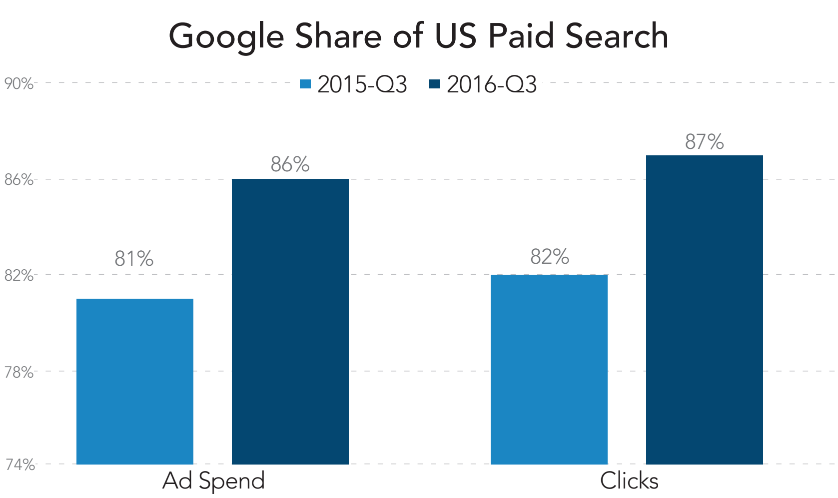
Google non-brand search ads converted 25% more often than ads on Bing Ads and Yahoo Gemini in Q3. That advantage has held fairly steady for the past year, despite Google producing a larger share of PLA clicks from search partners. Google partner impressions have driven down total CTR compared to the competition, though, but they have also generated a meaningful amount of incremental click volume.

Google Brand CPCs Remain in Familiar Territory Compared to Bing, Yahoo



Advertiser CPCs for brand keywords on Google were 15% lower than they were across Bing Ads and Yahoo Gemini in Q3 — the fifth straight quarter with a double-digit gap after Google brand CPCs briefly spiked above the competition in Q2 2015. Brand keyword conversion rates have also run lower than those on Bing and Yahoo, driven by Google's larger share of traffic from mobile devices.

Google Share of Paid Search Market Increases Five Points

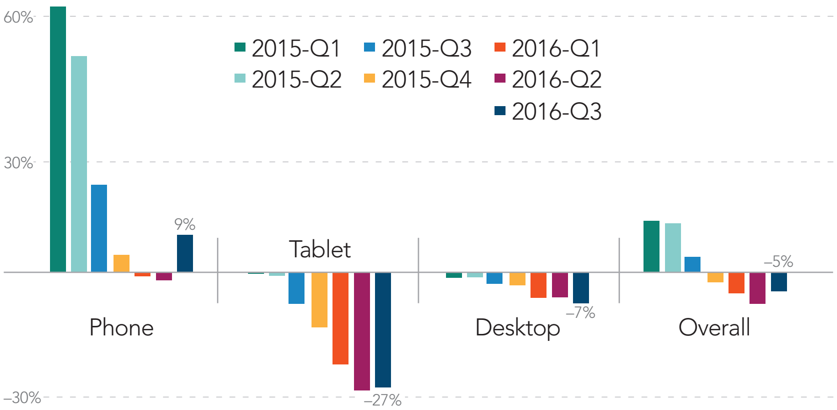


Google's share of paid search clicks was 87% in Q3 2016, up from 82% a year earlier. For ad spend, Google's share rose from 81% in Q3 2015 to just under 86% in Q3 2016. Google is benefiting from users shifting to mobile devices and has helped its own cause by continuing to improve the monetization of its properties.

ORGANIC SEARCH & SOCIAL

Phone Organic Search Visits Grow Y/Y for First Time in 2016

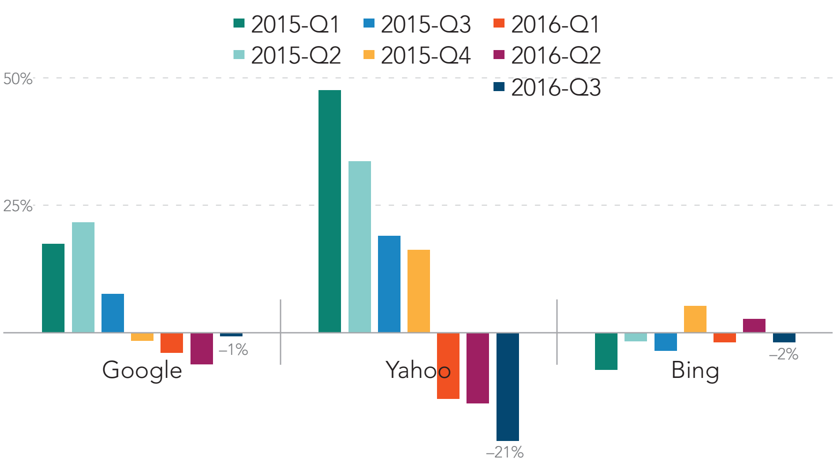
Y/Y Growth in Organic Search Visits by Device
Median Site



Organic search visits from phones were up 9% in Q3 2016 — the first quarter this year with positive growth. Year-ago comps for organic search have become much weaker now that we have passed the anniversaries of Google adding a third top-of-page ad unit on phone results and Google making local pack listings more prominent. Total organic search visits were still down 5% Y/Y though, as desktop visits fell 7% and tablet visits fell 27%.

Yahoo Organic Search Declines Continue to Worsen

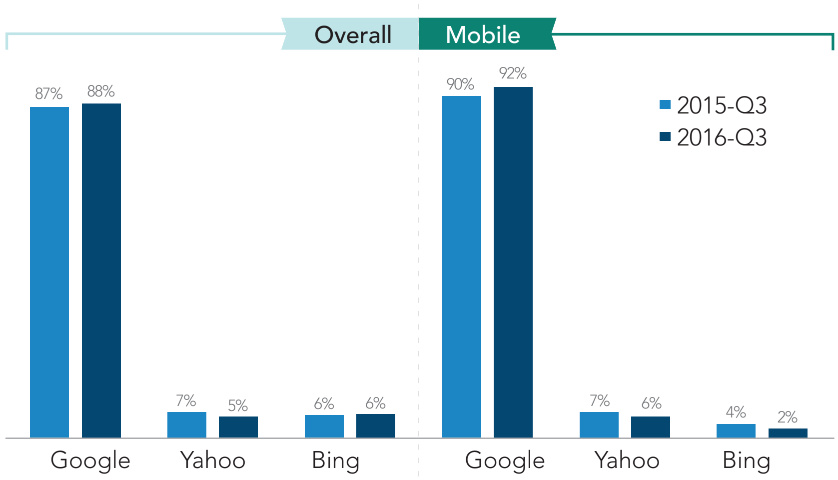
Y/Y Growth in Organic Search Visits by Engine



While Google organic search visit growth recovered to a little less than a 1% Y/Y decline in Q3 2016, Yahoo organic search trends continued to worsen with visits down 21%. Yahoo's 2015 growth rates had benefited significantly from Yahoo's deal to become the default search provider on Firefox in December 2014, but those gains are no longer providing a boost to Y/Y comparisons. Bing's organic growth has been steadier than its competition, but it has also hovered close to zero for the past two years.

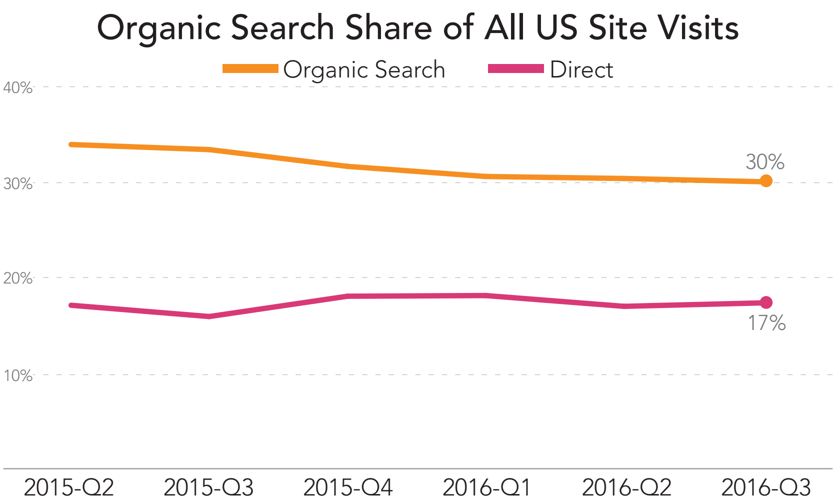
Google's Share of US Mobile Organic Search Visits Rises to 92%

US Organic Search Visit Share by Engine



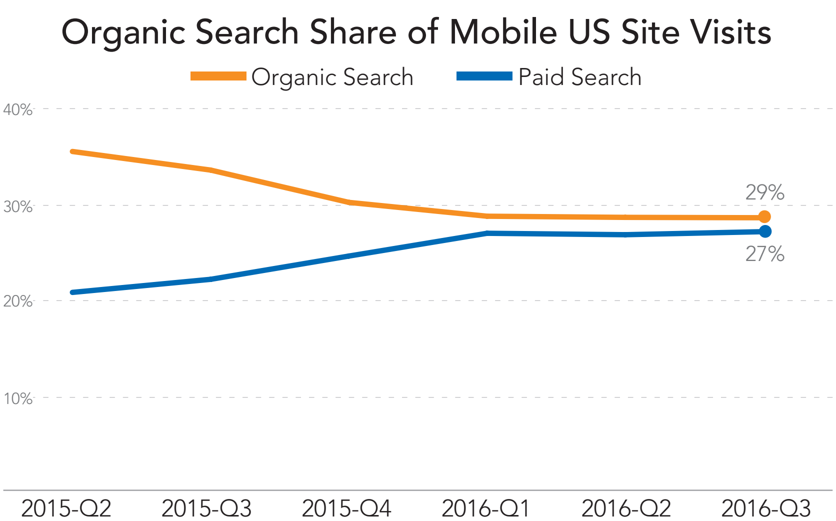
Weak Yahoo trending and searchers' natural shift to mobile devices have both helped Google gain organic search visit share in the last year. Google produced 88% of all US organic search visits in Q3 2016, up from 87% a year earlier. On mobile devices, Google generated 92% of brands' organic search visits, up over two points from a year earlier. Both Yahoo and Bing have seen their share of mobile organic search visits fall in the past year, but Bing's share of overall visits has risen slightly.

Organic Search Share of Site Visits Stable from Quarter to Quarter



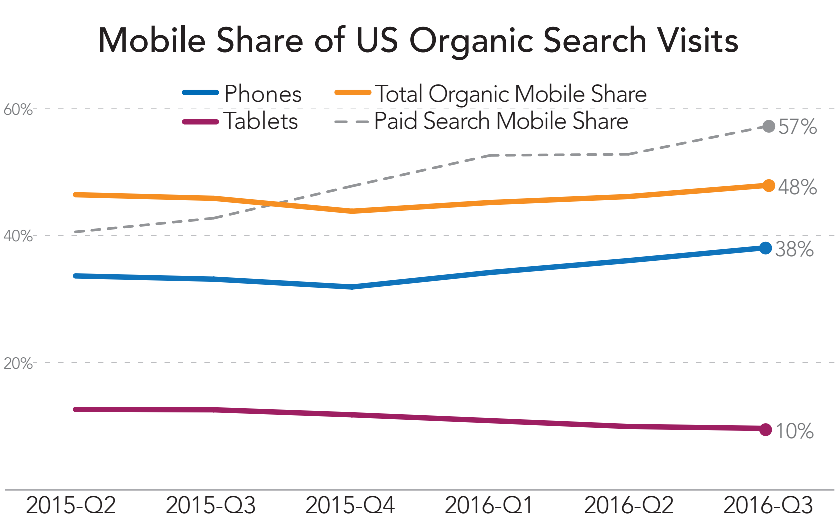
After falling over three points from Q2 2015 and Q1 2016, the share of US site visits produced by organic search has stabilized at just over 30%. Changes to search results pages, including increased monetization, remain the biggest culprits in the late 2015 organic declines. Meanwhile direct traffic share remains stable, suggesting that, although a very real concern, the issue of misattributed or "dark" search visits has not worsened significantly.

Organic Search Produces Smaller Share of Total Visits on Mobile than Desktop



Organic search contributed a little under 29% of all mobile US site visits in Q3, about a point and a half less than the share of all site visits produced by organic search. Organic search lost five points of mobile site visit share in the past year, as paid search picked up a nearly identical amount. In early 2015, organic search generated a larger share of mobile site visits than desktop visits.

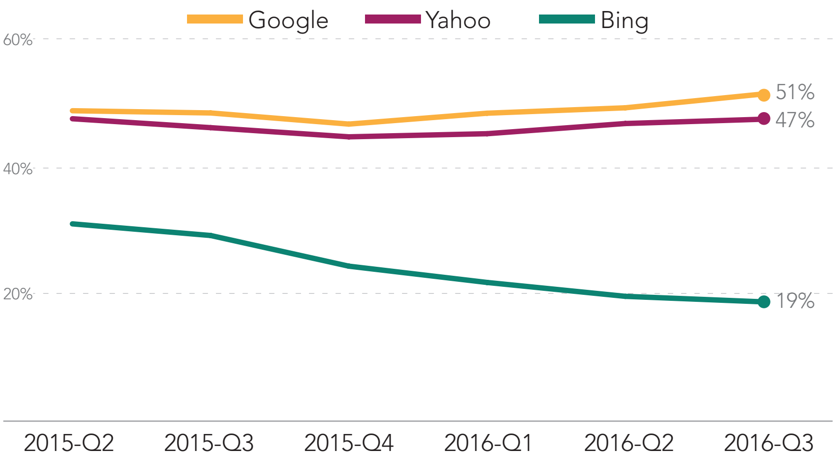
Mobile Share of Organic Search Reaches New High, Trails Paid



As recently as Q3 2015, mobile devices produced a larger share of organic search visits than paid search visits. Since then, paid search has seen its share of clicks from mobile rise by 14 points to reach 57%, while organic's share from mobile has risen just two points to 48%. Still, that is good enough for a new all-time high, after mobile share of organic search had dipped over the second half of 2015.

Mobile Share of Visits Driven by Google Organic Hits 51%

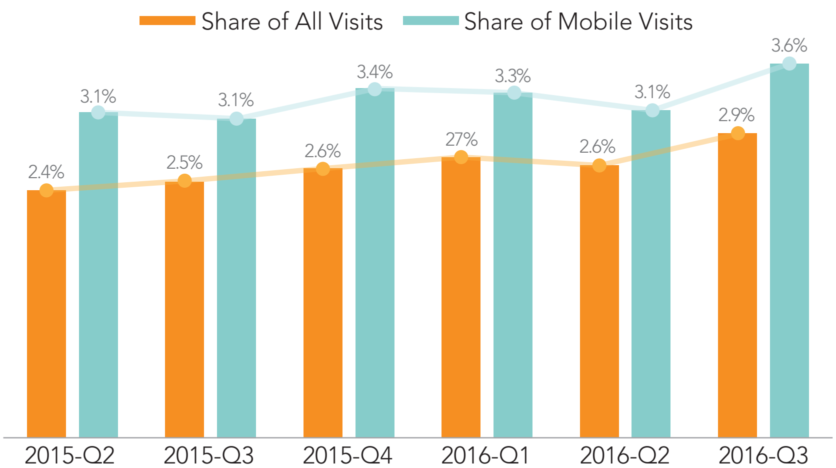
Share of Each Engine's Traffic from Mobile



Phones and tablets combined to produce 51% of the organic search visits that Google drove in Q3, up from 49% in Q2. For paid search, though, mobile devices drove 62% of Google's click volume in Q3. Similarly, only 19% of Bing organic search visits were driven by mobile in Q3, compared to 28% for the Bing Ads platform. Mobile share of Yahoo organic search visits was 47% in Q3, while the Yahoo Gemini platform only produced 42% of its search ad clicks from mobile.

Social Media Approaching 4% of Mobile Site Visits

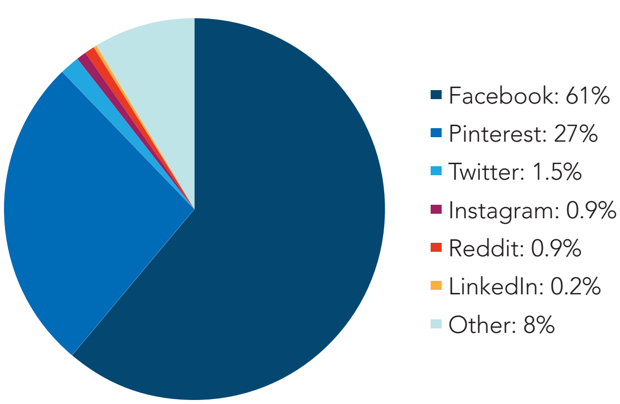
Social Media Share of All Site Visits



Social media platforms produced 3% of all site visits in Q3, a slight increase from Q2. On mobile, social media is producing a larger share of site visits, at a rate approaching 4%. As we have noted in past reports, social media analytics are particularly subject to the misattributed traffic, but direct site-visit share has not shown much movement recently.

Facebook is Consistent Traffic Leader, Other Sites Now Show Niche Strength

Share of Social Media Visits Produced by Platform

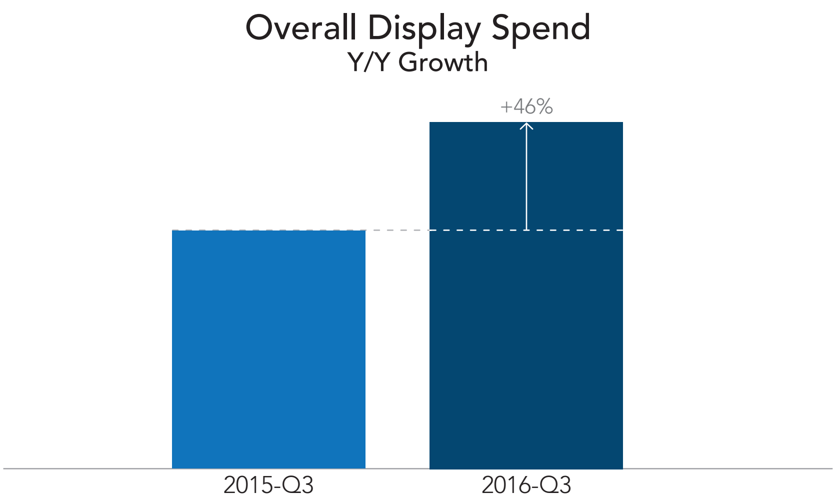


Facebook drove 61% of site visits driven by social media in Q3, a similar rate to what we have seen in the past year. Facebook's share is also more consistent from one brand to the next, while platforms like Pinterest, Instagram, and Twitter exhibit more variability. For instance, Pinterest has shown strength in driving volume to home furnishings and women's fashion retailers, while Twitter remains a key driver of volume to media sites.

GO TO FACEBOOK AD TRENDS

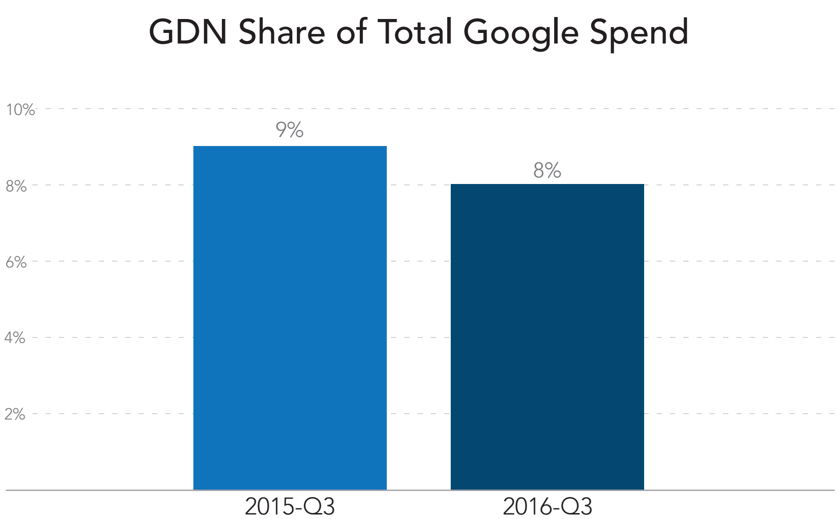
DISPLAY ADVERTISING

Overall Display Spend Increases 46% Y/Y



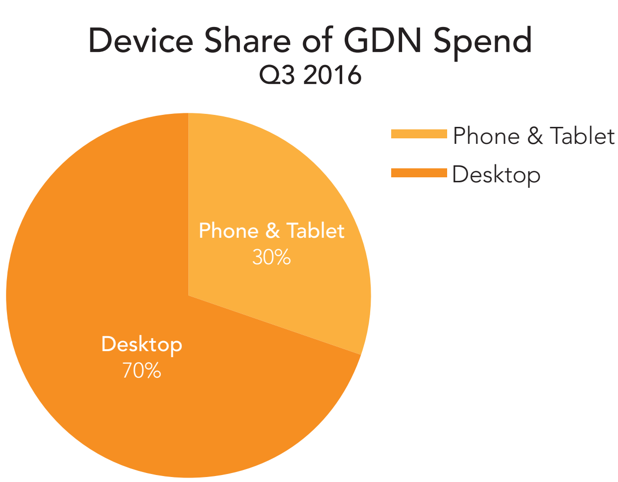
Total advertising investment across both traditional display and paid social platforms increased 46% Y/Y in Q3 for advertisers investing in display for at least the past 15 months. By comparison, paid search spend across all major US search engines grew 14% Y/Y for the quarter, as many projections have display advertising growth outpacing that of search in the years to come.

Share of Google Spend Attributed to GDN Declines Slightly



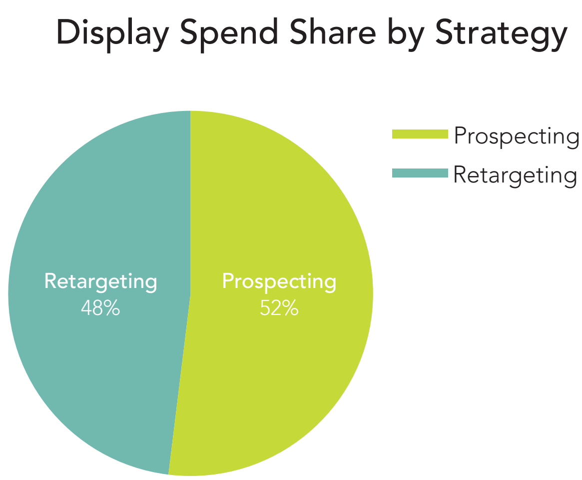
The share of advertiser's total investment in Google advertising targeted to the Google Display Network declined slightly in Q3 compared to a year earlier from 9% to 8% among brands actively bidding on the Google Display Network. Despite the decline in the overall metric, roughly half of the advertisers examined increased GDN spend share from last Q3.

Mobile Devices Account for 30% of All GDN Spend



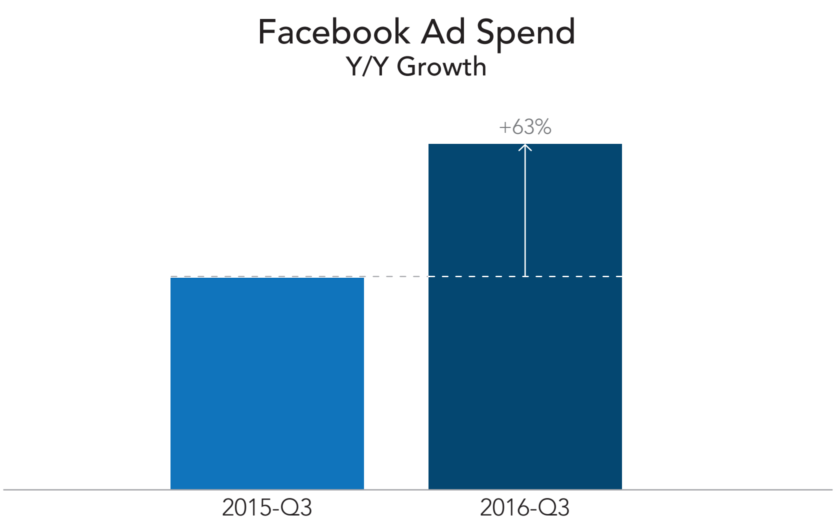
Phones and tablets combined to account for 30% of all Google Display Network spend in Q3 2016, up from 24% in Q3 of 2015. Mirroring paid search, this rise can be attributed to phones, whose share rose from 8% of all GDN spending in Q3 2015 to 19% in Q3 2016. In contrast, tablet share of GDN spend declined from 17% to 11%, a larger decline than that observed for paid search.

Display Investment Evenly Split between Remarketing and Prospecting



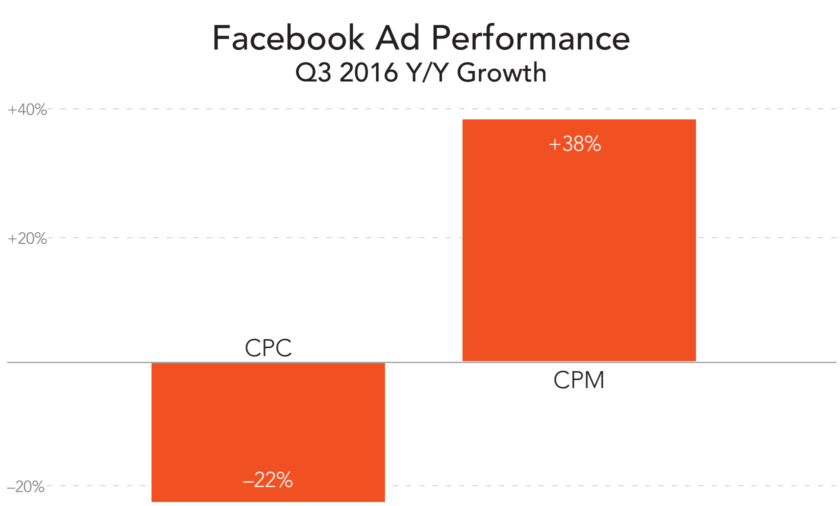
In Q3 2016, advertisers spent roughly the same on display campaigns targeting past site visitors and customers as they did on prospecting campaigns targeting new customers. While remarketing efforts typically produce much higher click conversion rates than prospecting campaigns, due to proven brand affinity, prospecting efforts are valued for their ability to reach potential new customers and expand market share.

Facebook Advertising Spend Up 63% Y/Y in Q3



Brands advertising on Facebook increased investment 63% Y/Y for the quarter, one of the highest rates of growth we've observed in recent years. Ahead of Facebook's planned sunset of its desktop retargeting tool, FBX, in November, advertisers have begun to shift FBX spend to other Facebook ad targeting, as opposed to away from the social media giant. It is expected that Facebook spend will continue to grow significantly in Q4 even with the elimination of FBX.

Facebook CPCs Down 22%, but CPMs Up Y/Y

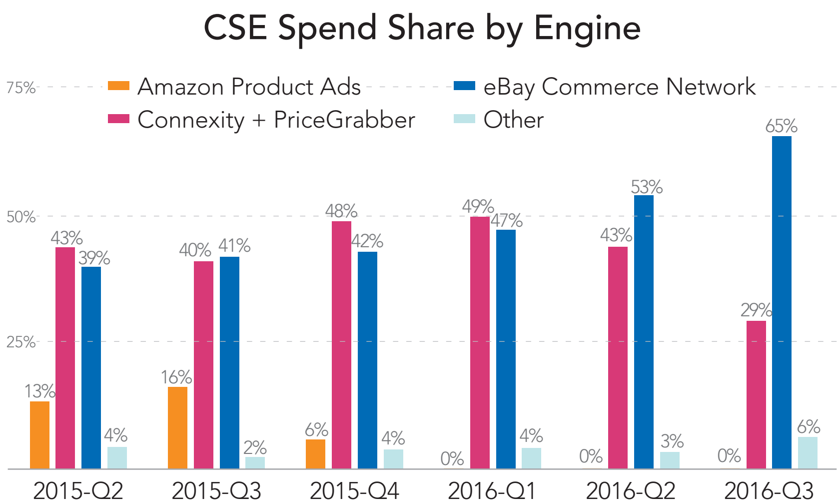


Mirroring trends from last quarter, average Facebook CPCs continued to decline Y/Y with a 22% decrease in Q3 2016. At the same time, average CPM increased 38%. Despite the overall decline in CPC, Facebook investment continues to increase rapidly for advertisers, as traffic has grown substantially over the past year.

GO TO SOCIAL TRAFFIC TRENDS

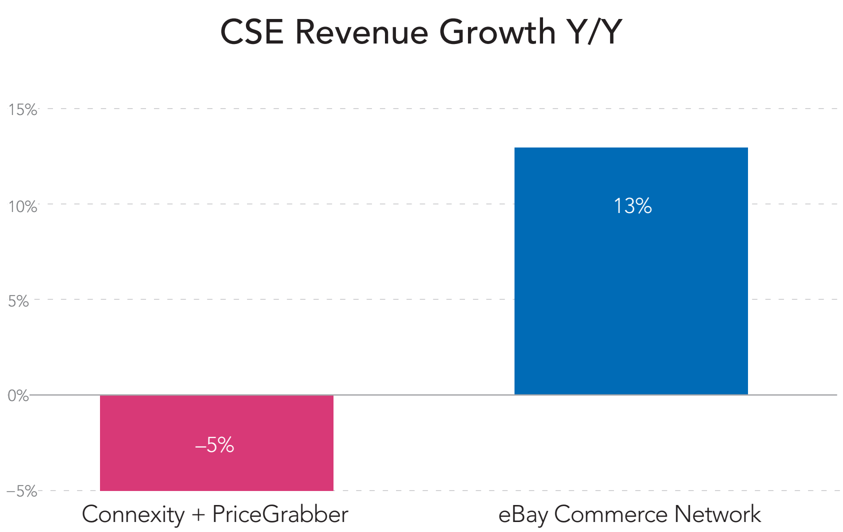
COMPARISON SHOPPING ENGINES

eBay Share of Comparison Shopping Spend Continues to Climb



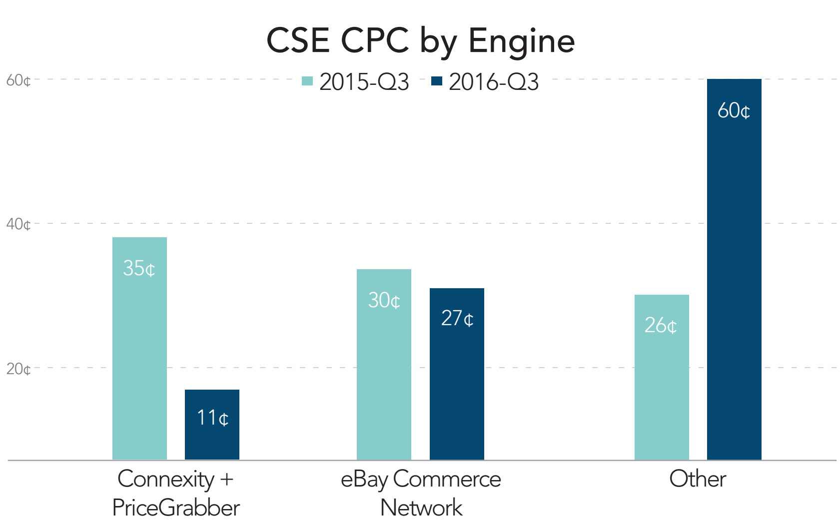
The eBay Commerce Network now accounts for 65% of all comparison shopping engine spend, up from a 41% share in Q3 of 2015. Key to this increase was Amazon's Q4 2015 elimination of its Product Ads format, which accounted for 16% of all CSE spend in Q3 last year. Connexity's share of CSE spend declined to just 29% in Q3, a twenty point decline from Q1, as poor performance has forced advertisers to extensively trim which products they advertise.

Advertiser Revenue From Connexity Declines Y/Y



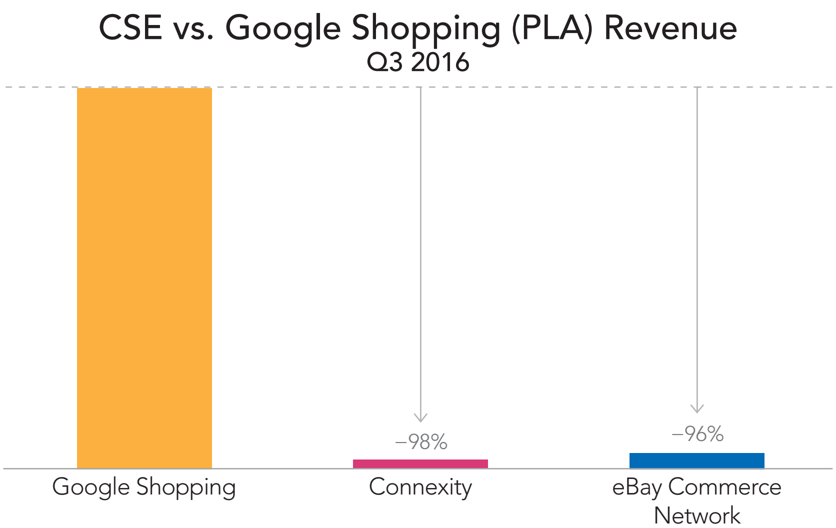
After growing 23% in Q2, advertiser revenue from Connexity declined 5% Y/Y in Q3 as many advertisers experienced much worse conversion rates, which may be attributed to a rise in poor-performing Connexity partners. eBay Commerce Network revenue growth has also decelerated over the course of 2016, down from 33% Y/Y in Q2 to just 13% growth in Q3. By comparison, Google Shopping revenue increased 46% Y/Y for advertisers in Q3.

CPCs Continue to Run Highest on Smaller CSEs



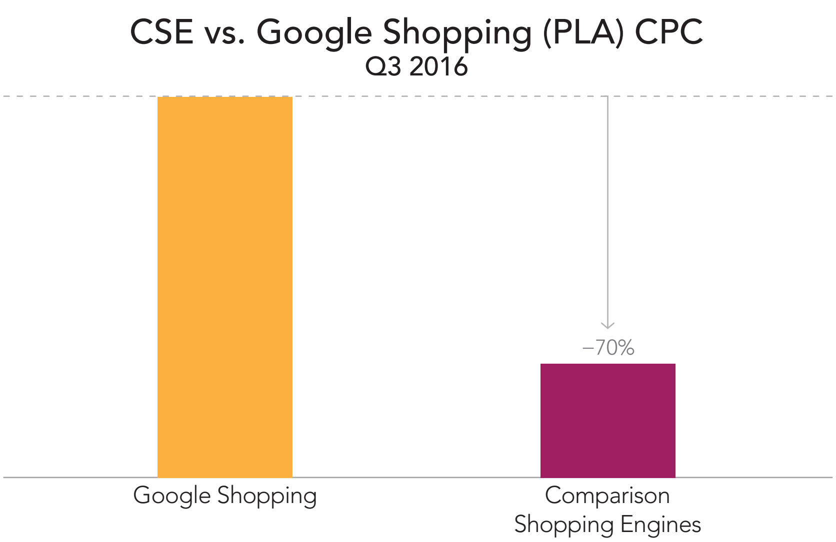
The cost of traffic on smaller CSEs continues to far outpace that of the two larger networks, Connexity and the eBay Commerce Network. Smaller CSEs such as Houzz tend to reach niche audiences, which can be more valuable to advertisers. For both major CSEs, this marks the sixth straight quarter of Y/Y declines in CPC, though eBay's declines are becoming slighter over time.

Connexity Revenue Relative to Google Shopping Tumbles



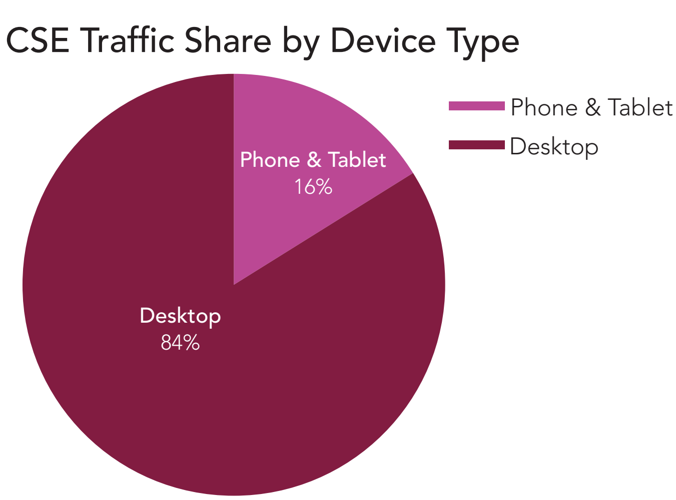
After accounting for 5% as much revenue as Google Product Listing Ads in Q2, Connexity sales revenue fell to just 2% that of PLAs in Q3, as advertisers continued to see significant growth out of Google Shopping while Connexity revenue fell Y/Y. The eBay Commerce Network accounted for the same amount of revenue relative to PLAs as in Q2 at 4%.

Google Shopping CPC Remains More than 3x Higher than CSE CPC



Combining clicks and costs across traditional comparison shopping engines, CPC was just 30% that of Google Shopping in Q3, the same exact figure observed in Q2. Google PLA CPC growth has been depressed over the past year, with the addition of search partner traffic and growing mobile click share, which both come at a lower cost to advertisers.

Mobile Devices Continue to Drive Small Share of CSE Traffic



The share of comparison shopping engine traffic coming from phones and tablets was 16% in Q3, similar to the 17% share observed in Q2. As users increasingly turn to mobile devices for product browsing, Google appears to be benefiting far more than traditional CSEs, with more than 60% of all Google Shopping traffic attributed to mobile devices.

ABOUT MERKLE

Merkle is a leading data-driven, technology-enabled, global performance marketing agency that specializes in the delivery of unique, personalized customer experiences across platforms and devices. For more than 25 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. The agency's heritage in data, technology, and analytics forms the foundation for its unmatched skills in understanding consumer insights that drive people-based marketing strategies. When combined with its strength in performance media, Merkle creates customer experiences that drive improved marketing results and shareholder value. With more than 3,400 employees, Merkle is headquartered in Columbia, Maryland with 15 additional offices in the US and offices in Barcelona, London, Shanghai, and Nanjing. In 2016, the agency joined the Dentsu Aegis Network. For more information, contact Merkle at 1-877-9-Merkle or visit www.merkleinc.com

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DMR METHODOLOGY

Figures are derived from samples of Merkle clients who have worked with Merkle for each respective marketing channel. Where applicable, these samples are restricted to those clients who 1) have maintained active programs with Merkle for at least 19 months, 2) have not significantly changed their strategic objectives or product offerings, and 3) meet a minimum ad-spend threshold. All trended figures presented in this report represent same-site changes over the given time period. Unless otherwise specified, the data points in this report are derived from the North American market region.