

DMR

Q2 2017

DIGITAL MARKETING REPORT

*Quarterly Benchmarks for Your
Digital Marketing Program*

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EXECUTIVE SUMMARY

NEW & NOTABLE FOR Q2 2017

Q2 2017 saw continued strength for the two major digital marketing platforms as Google search spending growth accelerated to 23% year-over-year (Y/Y) and Facebook budgets continued to grow much more rapidly than the online ad industry as a whole.

The news hasn't been all good for Google, as it faced a massive €2.42 billion fine levied by the European Commission in June after a years-long investigation found that Google breached EU antitrust rules for its practices around Google Shopping, which has been a key growth driver for Google in recent years.

Google Shopping and the Product Listing Ad (PLA) format accounted for 51% of Google UK search ad clicks among retailers in Q2 2017, up from 40% a year earlier. In the US, PLAs produced 53% of retailers' Google search ad clicks, with PLA spend growing 31% Y/Y, compared to 16% for text search ads.

The strength of PLAs has helped retail and consumer goods advertisers outpace those in most other major industries in increasing their investment in Google search ads, despite an environment where brick-and-mortar store closures appear to be on a record-setting pace. Retail and consumer goods advertiser search spending rose 25% Y/Y in Q2 2017.

Interestingly, a mid-quarter change that Google made to its Ad Rank calculation appears to have depressed its cost-per-click (CPC) growth, specifically for keywords containing an advertiser's own brand name. Brand keyword CPCs, which shot up 30-40% two years ago following a similar change that had a very different outcome, fell 8% Y/Y for the full quarter, with 14% declines in June.

While mobile continues to be the main engine of spending growth across digital ad platforms, desktop has been pulling more weight for Google in recent quarters. This resurgence began soon after Google began allowing search advertisers to bid separately for tablet traffic and the better performing desktop segment in Q3 2016. Desktop spending growth, which was just 6% Y/Y that quarter, shot up in Q4, rose further in Q1 2017, and then again in Q2, where it stood at 22% Y/Y.

For Facebook, there were no signs of similar renewed strength for desktop traffic, but it didn't hurt, as overall Facebook spending still grew 56% Y/Y. Mobile accounted for 82% of advertiser investment on Facebook in Q2 2017, up from 76% just a quarter earlier. Facebook acknowledged the mobile-heavy nature of its usage last year with the sunset of its desktop-specific ad platform, FBX, to focus on newer ad formats and mobile devices. Some ad formats, such as Messenger Ads, only target mobile devices.

Though hit hard in recent years by increased ad loads, organic search visit growth continued to rebound in Q2 2017, growing 1% Y/Y, up from a 4% decline a quarter earlier. Google produced 93% of US mobile organic search site visits in Q2 2017 and 89% of all organic search visits. At the same time, Google continues to outpace its rivals in monetizing search, as it generates 97% of mobile paid search clicks in the US.

Amazon's Sponsored Products ad format continues to generate more interest over time, but adoption remains relatively limited compared to Google PLAs. Among those participating in Sponsored Products, though, ad spend rose 43% from Q1 to Q2 2017.

Amazon itself appears to be increasing its spend on Google PLAs, but maintaining a narrow category focus. Amazon's impression share for Google PLAs within the home goods product category jumped roughly 15 points between late April and mid-May. In other product categories, however, Amazon still appears to be sitting on the sidelines entirely or, at most, making a much smaller foray into the PLA auction.

EXECUTIVE SUMMARY

PAID SEARCH

- Total search spending rose 20% Y/Y in Q2 2017, up from 15% growth in Q1. CPCs rose 1% in Q2, similar to Q1 growth, but click growth accelerated to 18% Y/Y from 14% in Q1.
- Google search ad spending rose 23% Y/Y in Q2 2017, up from 21% growth in Q1. Click growth accelerated to just under 23%, while CPC growth was steady at less than 1%.
- Bing Ads and Yahoo Gemini combined search ad spending fell 3% Y/Y in Q2 2017, an improvement from a 14% decline in Q1. Bing Product Ad spend growth improved to 11% Y/Y.
- The AdWords Get Location Details click type, which is produced by the Google Maps property, accounted for nearly 7% of brand keyword ad clicks on phones in June 2017, up from 5% a quarter earlier.

ORGANIC SEARCH & SOCIAL

- Organic search visits grew 1% Y/Y overall in Q2 2017, up from a 4% decline a quarter earlier. Phone organic search visits grew slightly faster in Q2, at a rate of 15% Y/Y, but most gains came from smaller declines for tablet and desktop.
- Mobile share of organic search visits held steady at 51%, remaining below the share of paid search clicks produced by mobile, which stood at 58% in Q2 2017.
- The share of all site visits produced by social media was 3% in Q2 2017, up from a share of 2.6% a year earlier. On mobile, social continues to have a larger impact on site visits, accounting for 3.7% of traffic from phones and tablets.

DISPLAY & PAID SOCIAL

- Facebook ad spend increased 56% Y/Y in Q2 2017, in line with Q1 growth. Facebook CPC fell 3% Y/Y, while CPMs jumped 57%.
- Phones and tablets combined to account for the vast majority of Facebook ad spend in Q2, and mobile spend share increased from 76% in Q1 2017 to 82% in Q2.
- Phones produced 43% of all Google Display Network spend in Q2, while 12% came from tablets, as desktop computers slipped below a majority of GDN spend for the first time.

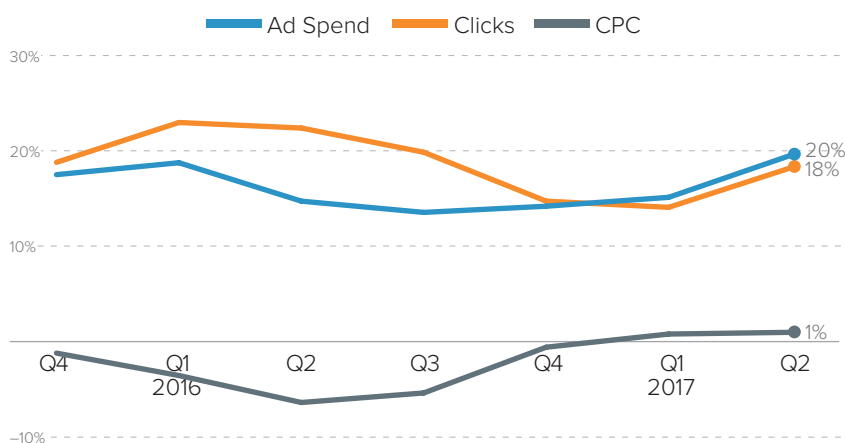
COMPARISON SHOPPING ENGINES & FEEDS

- The eBay Commerce Network's share of all CSE spend fell from 68% in Q1 to 63% in Q2, as eBay stopped showing its product ads on ebay.com in May.
- Phones and tablets accounted for just 6% of all CSE traffic in Q2, a decline from 9% in Q1.
- Advertisers spent 43% more on Amazon Sponsored Products in Q2 2017 than in Q1, compared to 24% Q/Q growth for Google Shopping spend.

PAID SEARCH

Search Spending Growing at Faster Rate on Stronger Click Volume

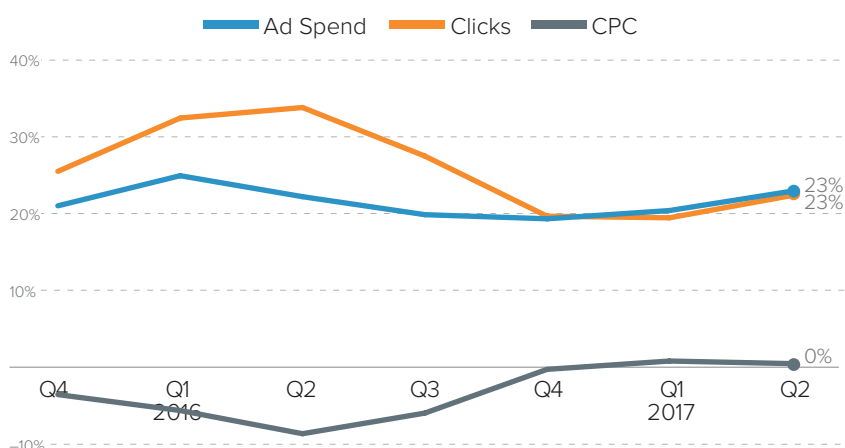
Overall US Paid Search Y/Y Growth



Search spending across the Google AdWords, Bing Ads, and Yahoo Gemini ad platforms rose 20% Y/Y in Q2 2017, up from 15% growth in Q1. CPCs rose 1% in Q2, similar to Q1 growth, but click growth accelerated to 18% Y/Y from 14% in Q1. Spending growth accelerated on Google, while Bing and Yahoo proved to be less of a drag on total growth than they had in other recent quarters.

Google Search Ad Spending Growth Accelerates to 23%

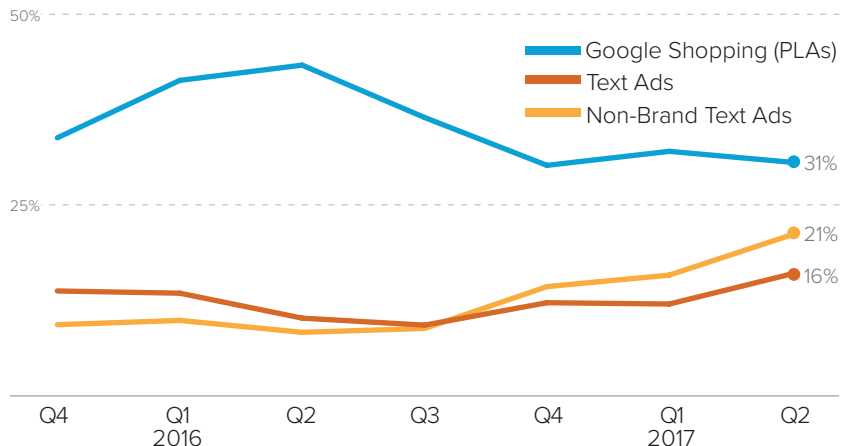
Google Overall US Paid Search Y/Y Growth



While mobile and Google PLAs continue to outpace overall Google search ad spending growth by healthy margins, renewed strength for the desktop and text ad segments helped drive an acceleration in total AdWords spending growth from Q1 to Q2 2017. Google search spending rose 23% in Q2, up from 21% in the prior quarter. CPC growth was steady, while click growth improved to 23%.

Google Non-Brand Text Ad Spending Growth Has Risen Sharply in Past Year

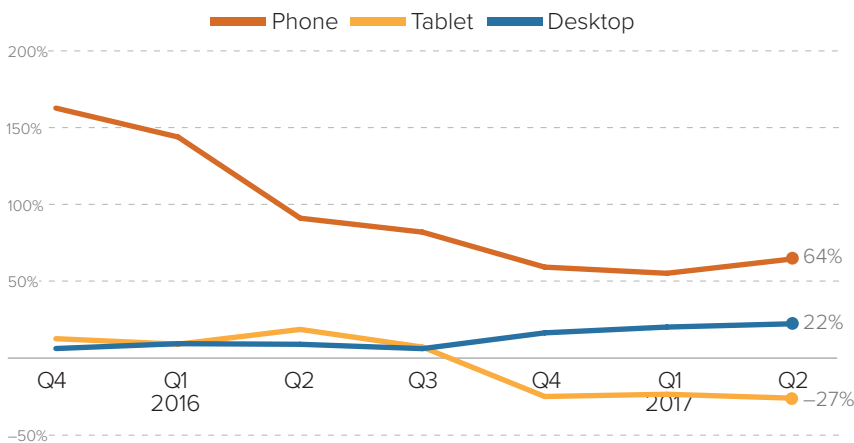
Google Spending Y/Y Growth by Ad Format



Spending on Google non-brand text ads (those for keywords that do not include the advertiser's own brand name) rose 21% Y/Y in Q2, which was up sharply from just 8% growth a year earlier. Both click and CPC growth rates have risen over that period because of several factors, including: Google allowing advertisers to segment desktop and tablet bids in late 2016, increased ad loads, and improving value driven by non-brand ads.

Google Desktop Search Spending Growth Improves to 22%

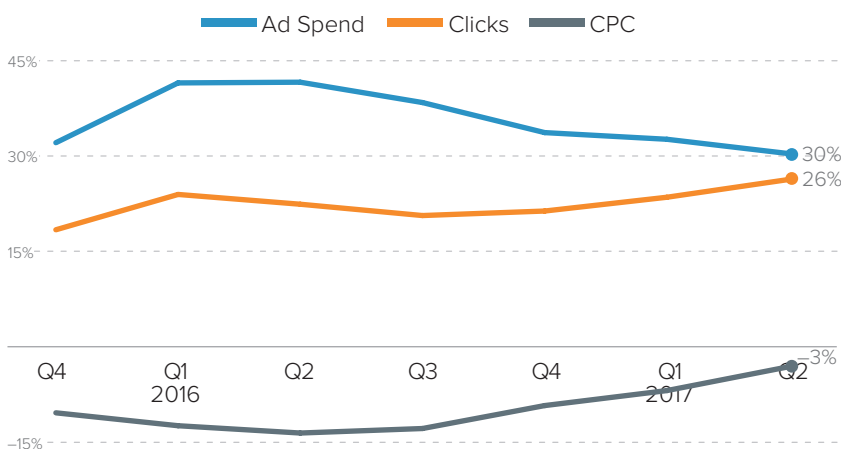
Google Search Spending Growth by Device Type



Spending on desktop Google search ads rose 22% Y/Y in Q2 2017, up from 20% in Q1 and 9% growth in Q2 2016. Advertisers pushed desktop spend and pulled back on lower value tablet traffic in late 2016 after Google reinstated the ability to segment desktop and tablet bids. Phone spending growth far outpaced desktop at 64% in Q2, but because of the gap in desktop and phone CPCs, desktop still commands a majority of ad spend and remains a large factor in overall spend trends.

Non-Brand Search Ads Driving Overall Google Strength

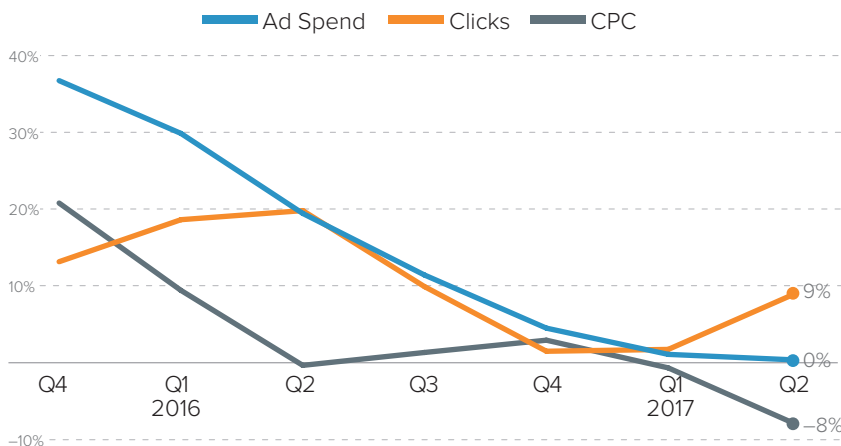
Google Non-Brand US Paid Search Y/Y Growth



Spending on non-brand Google text ads and PLAs grew 26% Y/Y in Q2 2017, up from 24% in Q1. PLA spending growth slowed slightly to 31%, while text ad growth accelerated to 21%. Overall, non-brand CPC growth remains a bit depressed by the shift to mobile, where CPCs run lower, but Y/Y CPC declines have lessened significantly in recent quarters, in part due to improving conversion rates and sales per click across device types, and for text ads in particular.

Google Brand Keyword CPCs Fall Sharply after Ad Rank Change

Google Brand US Paid Search Y/Y Growth



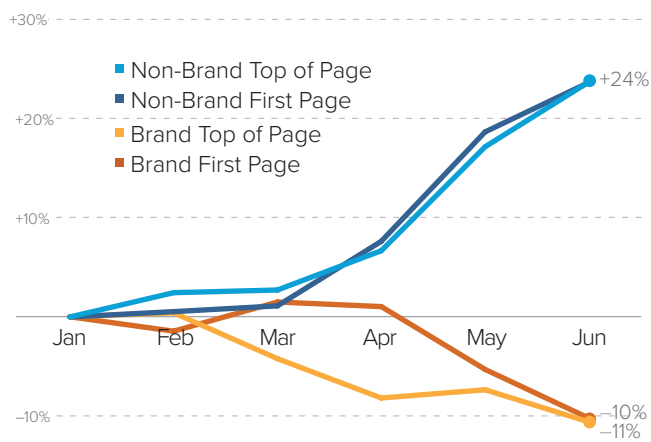
A May 2017 change by Google to its Ad Rank calculation appears to have led to a sharp decline in CPCs for keywords containing an advertiser's own brand name. Brand CPCs fell 8% Y/Y for the full quarter, while clicks rose 9% and spend was flat. A similar change two years earlier had the opposite effect, resulting in a sharp spike in brand CPCs, one that continued to reverberate in Y/Y growth comparisons until mid-2016. The impact of the 2017 change on non-brand keywords was less clear, but may have put some upward pressure on CPCs.

Google Change to Ad Rank Calculation Appears to Drive Down Brand Keyword CPCs

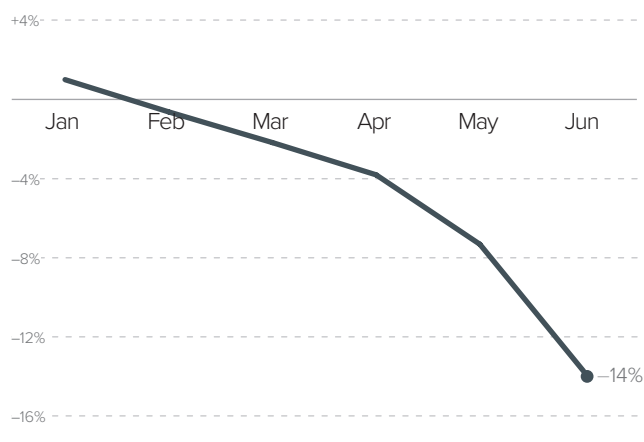
In the middle of the second quarter, word surfaced that Google was making changes to the way it calculates Ad Rank by incorporating query meaning into its calculations for both top-of-page and first-page minimum Ad Ranks, as well as for individual advertiser Ad Rank in the auction. No details were given on what types of queries would be affected, but we have seen a notable distinction between brand and non-brand keyword trends.

As the updates rolled out, Google estimates for the bids required to appear at the top of the search page and on the first page of the search results jumped for non-brand keywords. At the same time, those estimates fell for brand keywords – those keywords that continue the advertiser’s own brand name, as opposed to a manufacturer brand. These minimums can directly impact the price paid for clicks, and indeed, brand CPC declines accelerated following the update.

Google Text Ad Minimum Bid Estimates
Change Relative to January 2017



Google AdWords Brand Keyword CPC Growth Y/Y



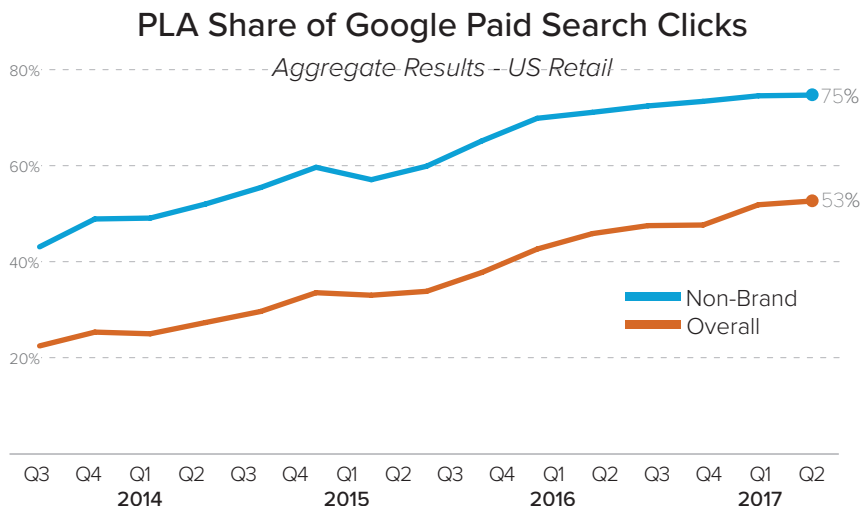
However, non-brand CPC growth trends did not meaningfully shift following the updates. This may be because non-brand keywords are less impacted by changes to first-page and top-of-page minimum Ad Ranks, since CPC for these keywords is already much more likely to be determined by the competition, rather than Google’s minimums themselves.

Brand keyword CPCs, on the other hand, are often determined by the top-of-page minimum Ad Rank and the corresponding bid associated with it.

Further, advertisers are more likely to hold the non-brand segment to a strict return on investment (ROI) goal, rather than a certain visibility goal like appearing in position one. This means that an increase in cost for non-brand clicks without a corresponding increase in the value driven for advertisers would require spend to be reduced in some area(s) to maintain the same ROI.

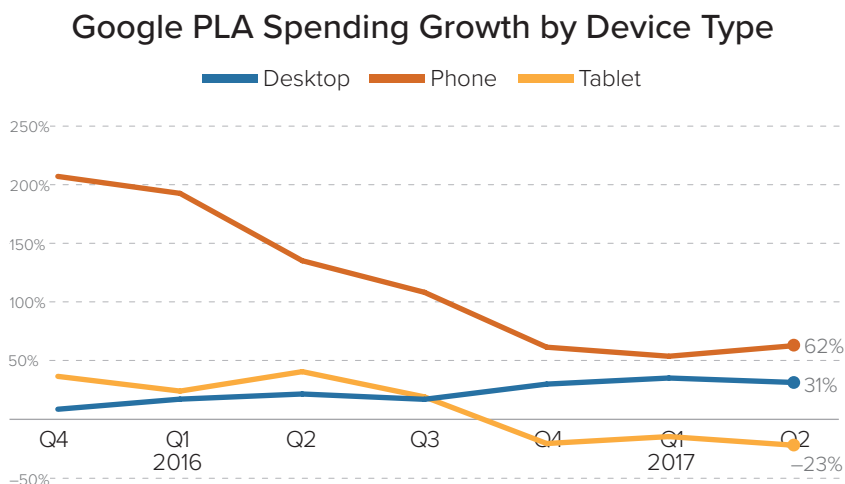
All in all, the updates appear to be positive for brands, which are now paying less for brand clicks than prior to the changes. How long this can last before Google makes another Ad Rank tweak is something advertisers will have to keep an eye on.

PLA Share of Retailers' Google Search Ad Clicks Rises to 53%



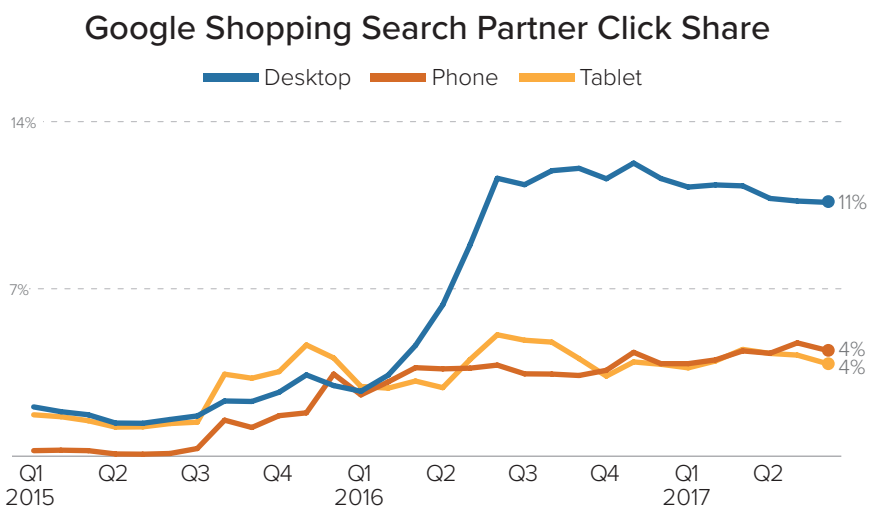
PLAs produced 53% of retailers' Google search ad clicks in Q2 2017, up a point from Q1 2017 and seven points from Q2 2016. With non-brand text ad traffic growing faster than brand, PLA share of retailers' non-brand clicks held steady at 75%. Larger Google search programs continue to see a higher share of Google clicks from PLAs than the average program, but that gap has narrowed.

As Mobile Growth Cools, Desktop Keeps PLA Growth Elevated



Although phone PLA spending grew a robust 62% in Q2 2017, that was down from over 200% growth in late 2015, a period of significant expansion of mobile PLA inventory. As mobile growth has decelerated, stronger desktop growth has kept overall growth fairly steady in recent quarters. Desktop PLA growth disproportionately benefited from Google fully launching PLAs on image search in May 2016, while more recently, desktop has benefited from the decoupling of desktop and tablet bids.

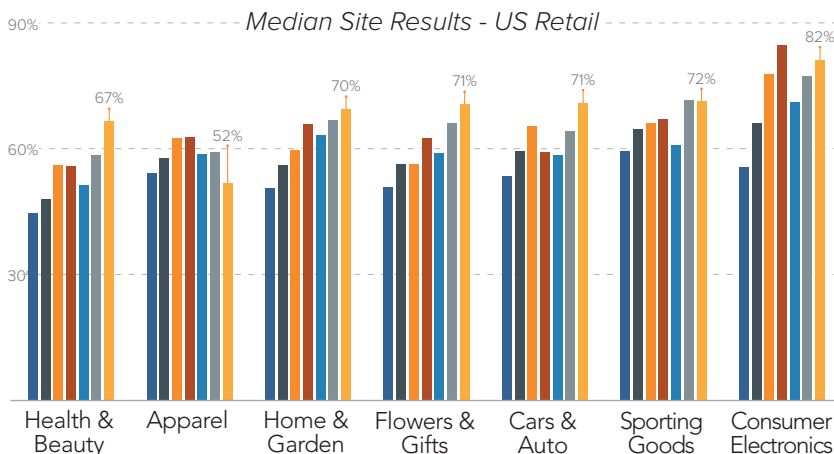
Google Search Partners Set to Be a Drag on PLA Growth Going Forward



Google search partners, primarily Google's own image search property, added roughly five points to total Y/Y PLA click growth in Q1 2017. In Q2, partners added just a point to Y/Y PLA click growth, a result of passing the anniversary of the full launch of PLAs on image search without a significant new source of partner volume coming along. With their share now on the decline again, partners are set to be a net drag on PLA growth, as they have been for text ads.

Apparel Only Product Category to See Decline in PLA Click Share

PLA Share of Non-Brand Google Paid Search Clicks



PLA share of Google search ad clicks rose between Q1 and Q2 2017 across six of seven major product categories surveyed. Apparel was the only product category to see a decline in PLA click share from Q1 to Q2 2017, as well as the only category to see a decline from year to year. The health and beauty category saw the largest gains in PLA click share over the past quarter.

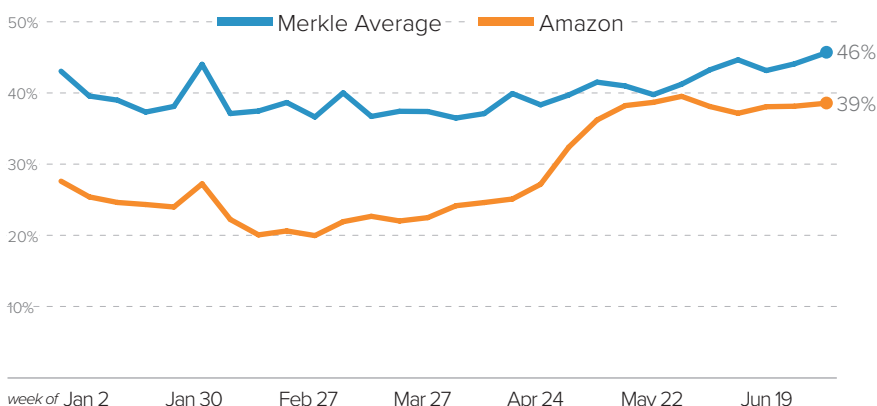
Metrics:

- Q4-2015
- Q1-2016
- Q2-2016
- Q3-2016
- Q4-2016
- Q1-2017
- Q2-2017

Amazon Makes Larger Push into PLAs, but Maintains Narrow Category Focus

Google Shopping Impression Share

Home Goods Category

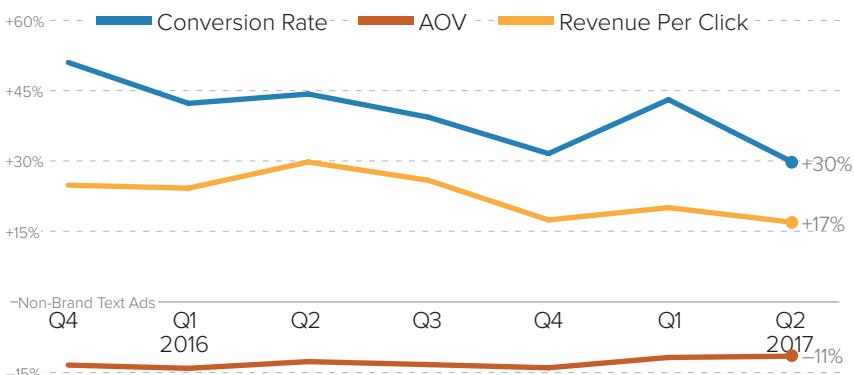


Amazon's impression share for Google PLAs within the home goods product category jumped roughly 15 points between late April and mid-May, according to AdWords Auction Insights data, suggesting the ecommerce giant has made a bigger push into PLAs. In other product categories, however, Amazon still appears to be sitting on the sidelines entirely or, at most, making a much smaller foray into the PLA auction.

PLAs Produce 30% Higher Conversion Rates Than Comparable Text Ads

Google PLAs vs. Non-Brand Text Ads

Desktop

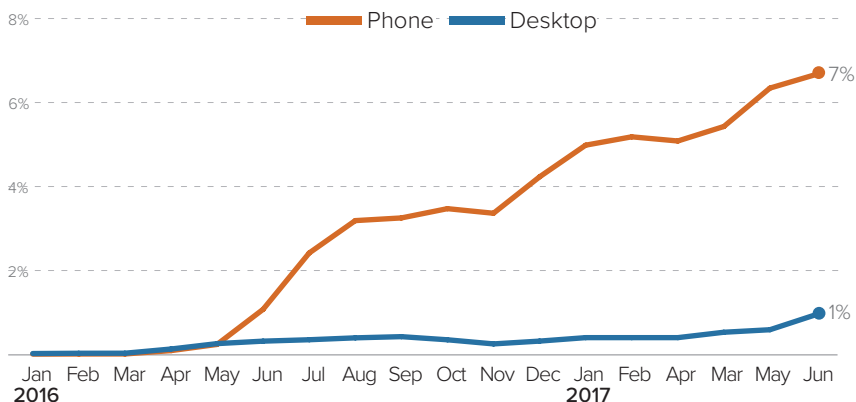


On desktop, PLAs produced 30% higher conversion rates than non-brand text ads in Q2 2017. On mobile, PLAs outperformed desktop by the same measure by 21%. PLAs have consistently produced lower average order value (AOV) than text ads, though, but still generated a 17% higher revenue per click than non-brand text ads in Q2 2017.

Google Maps Ad Units Continue to Drive Steady Traffic Gains

Get Location Details Share of Brand Text Ad Traffic

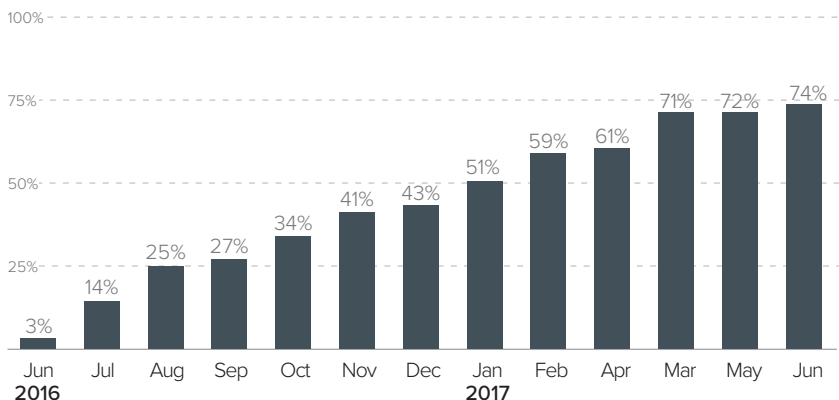
Brick-and-Mortar Advertisers



The AdWords Get Location Details click type, which is primarily, if not exclusively, produced by the Google Maps property, accounted for nearly 7% of brand keyword ad clicks on phones in June 2017, up from 5% a quarter earlier. On desktop, these rates are lower, but also rising. AdWords does not provide direct reporting on Google Maps clicks, but these figures indicate that Google continues to steadily ramp up the monetization of this property.

Expanded Text Ads Continue to Garner Higher Share of Google Impressions

Share of Google Text Ad Impressions from Expanded Text Ads

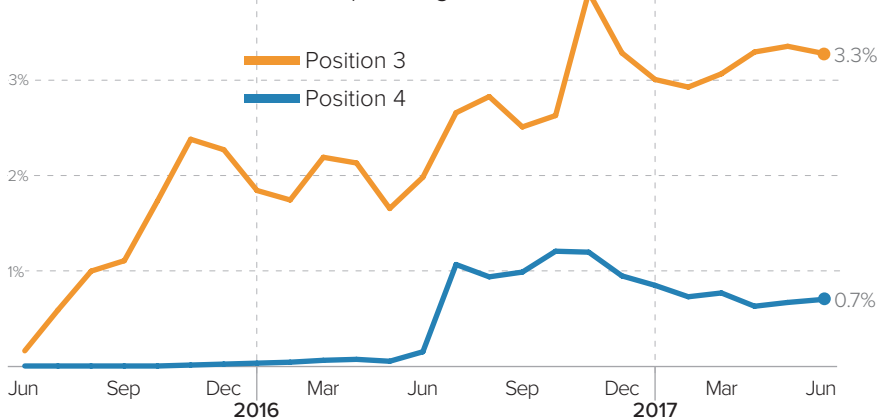


The share of Google text ad impressions received by the Expanded Text Ad (ETA) format has increased from 51% to 74% in the five months since advertisers lost the ability to create or edit ads in the legacy format. Merkle analyses have found that ETAs have failed to produce consistently higher click-through rates than legacy text ads, once accounting for critical factors like device type, keyword, and ad position.

Mixed Trends for Additional Mobile Text Ad Units, But Total Share Up Y/Y

Share of Google Phone Text Ad Clicks

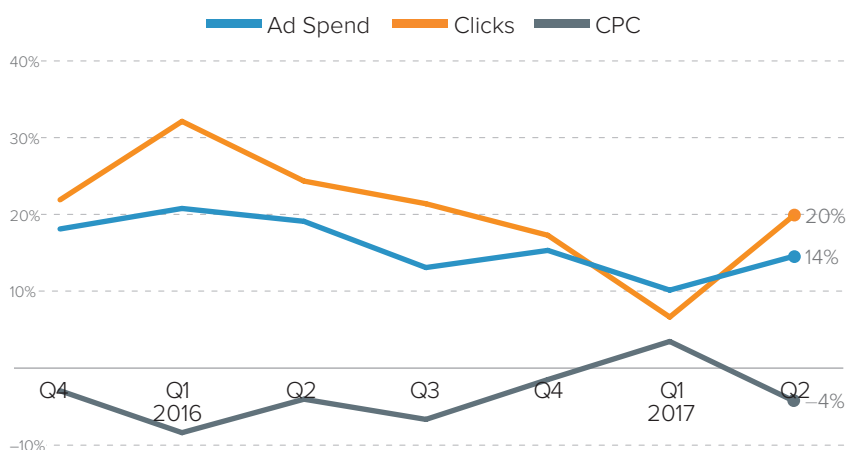
Top-of-Page Ads



While the share of phone search ad clicks produced by the fourth top-of-page ad unit that Google introduced in mid-2016 has dipped in recent months, share for position three top-of-page ads has generally been on the rise. These two ad positions, neither of which generated meaningful volume before July 2015, accounted for 4% of phone text ad clicks in June 2017, up from 2% a year earlier. Year-ago comps will strengthen in July, however.

Google UK Search Spend Growth Accelerates to 14%

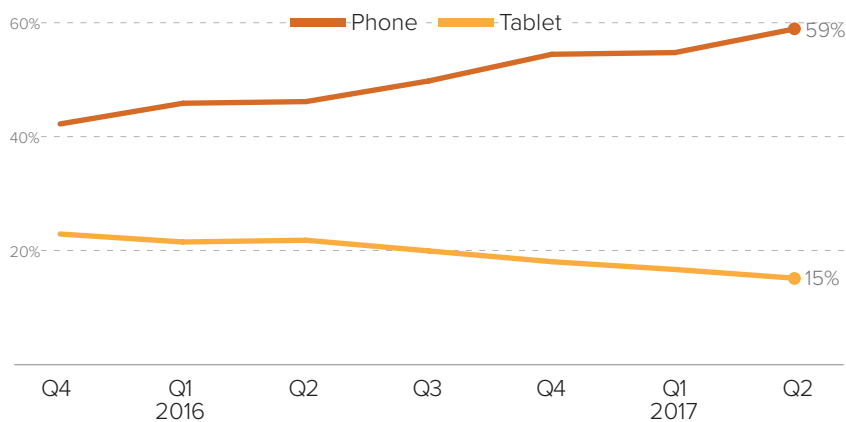
UK Google Overall Paid Search Y/Y Growth



Behind much stronger Y/Y click growth in Q2 2017 vs. Q1, Google UK search spend growth accelerated to 14% Y/Y, up from 10%. Click growth improved from just 7% Y/Y in Q1 to nearly 20% in Q2. These click gains were partially offset by a substantial decline in CPC growth from a 3% increase in Q1 2017 to a 4% decline in Q2.

Phones and Tablets Combine for 74% of Google UK Search Ad Clicks

UK Phone and Tablet Share of Google Paid Search

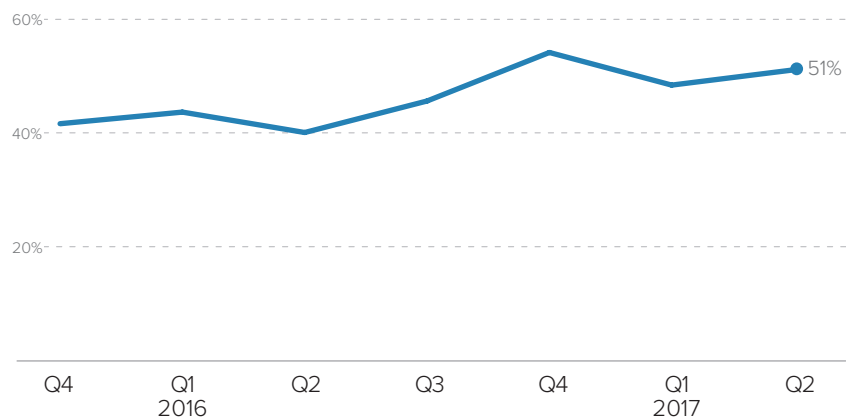


Total mobile share of Google search ad clicks ran 12 points higher in the UK than the US in Q2 2017. Both phones and tablets produced a larger share of UK traffic than US traffic. Phones accounted for 59% of Google UK search ad clicks, and while tablet traffic share has fallen in recent years, tablets still produced 15% of clicks in Q2 2017.

PLAs Generate 51% of Google UK Search Ad Clicks Among Retailers

UK PLA Share of Google Paid Search Clicks

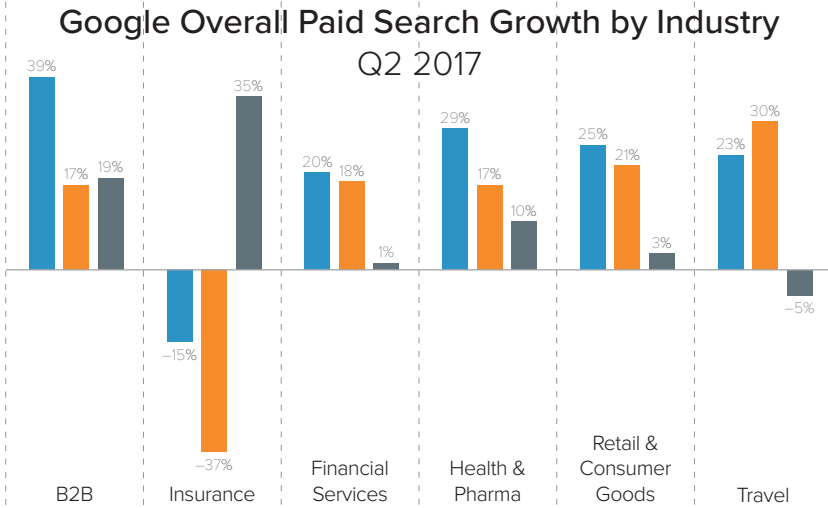
Aggregate Results



In a quarter that saw the European Commission fine Google an astounding €2.42 billion for antitrust breaches related to Google Shopping, PLAs accounted for 51% of retailers' Google search ad clicks in the UK. That rate is similar to the 53% share for PLAs in the US in Q2 2017, and both rates have continued to trend higher over time.

Retail Search Spending Strong Amid Backdrop of Industry Store Closures

Google Overall Paid Search Growth by Industry Q2 2017

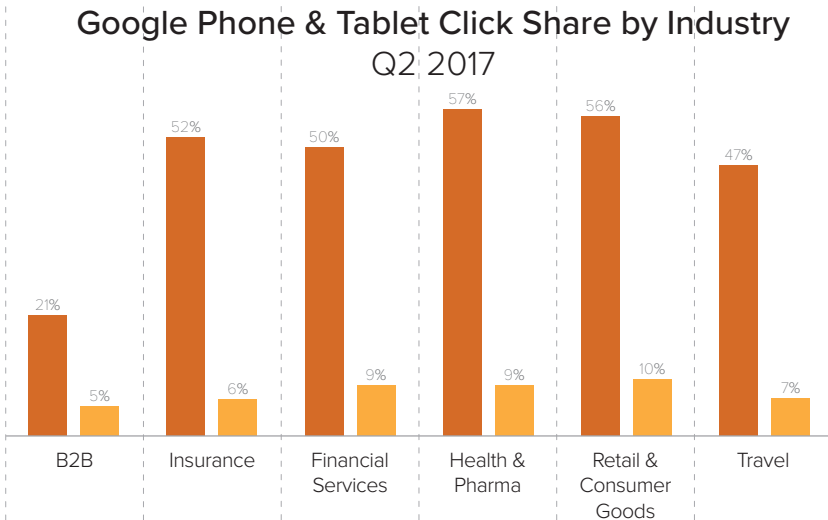


In a year that could see record brick-and-mortar store closures, retail and consumer goods spending growth has remained robust in the digital search ad space, outpacing overall Google spending growth in both Q1 and Q2 2017. Retail saw the second fastest growth in Google search spend in Q2 2017, following only health and pharma, among six major industries.

Metrics: Ad Spend Clicks CPC

Retail Sees Biggest Pickup in Phone Share of Search Ad Clicks

Google Phone & Tablet Click Share by Industry Q2 2017

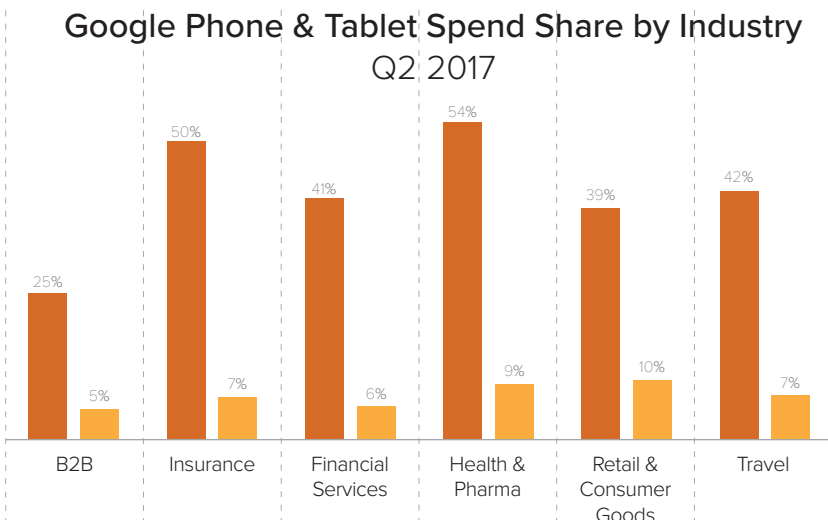


Between Q1 and Q2 2017, phone share of Google search ad clicks rose the fastest for the retail and consumer goods industry, increasing two points to just under 56%. Health and pharma saw the highest share of clicks produced by phones and tablets combined in Q2 2017 at 66%, which was just ahead of retail. B2B continued to see a relatively low share of clicks outside of the desktop segment.

Metrics: Phone Tablet

Health and Pharma Devoting Largest Share of Search Budgets to Phone Traffic

Google Phone & Tablet Spend Share by Industry Q2 2017

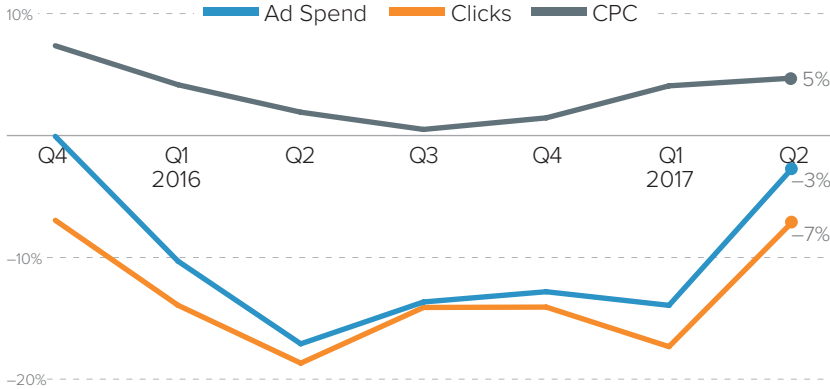


Health and pharma advertisers invested 54% of their Google search ad budgets on phone traffic in Q2 2017, the highest rate among six major industries. Retail and consumer goods saw the largest gap between phone spend and click share, as phones accounted for 39% of spend and 56% of clicks. B2B saw the largest gain in total mobile share of spend between Q1 and Q2 2017.

Metrics: Phone Tablet

Spending Declines on Bing and Yahoo Search Platforms Improve

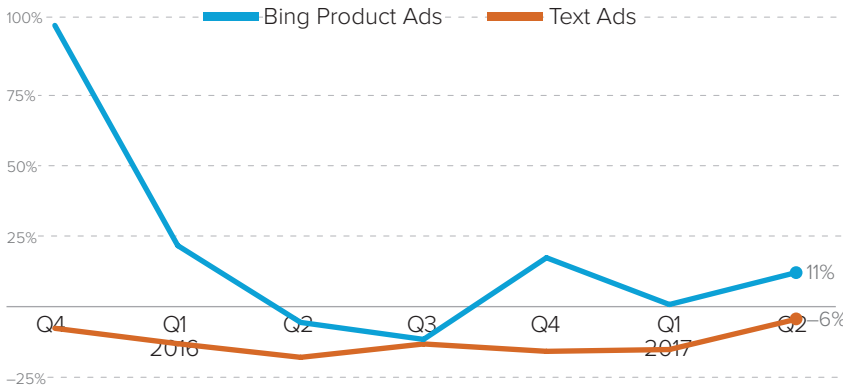
Bing Ads & Yahoo Gemini Overall US Paid Search Y/Y Growth



Advertiser search ad spending across the Bing Ads and Yahoo Gemini platforms fell 3% Y/Y in Q2 2017, an improvement from a 14% decline in Q1. A year earlier was a particularly weak quarter for the two platforms as it marked the first full quarter after Yahoo made a significant move away from serving Bing Product Ads, in favor of serving Google's PLAs. Both Bing and Yahoo face an uphill battle as traffic moves to mobile where Google holds a larger share of the search market.

Bing Product Ad Spending Growing Again, Rises 11%

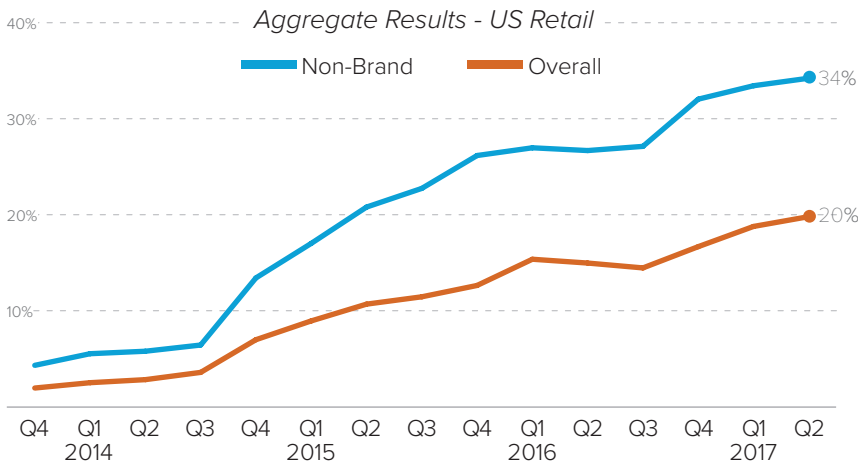
Bing Ads & Yahoo Gemini Spending Growth by Ad Format



After falling into negative territory in Q2 2016, Y/Y Bing Product Ad spending growth was relatively strong during the Q4 2016 holiday season before falling back to zero in Q1 2017. In Q2 2017, growth rebounded back to 11%. Text ad spending growth across Bing and Yahoo improved by a similar margin between Q1 and Q2 2017, coming in at a 6% decline following a 16% drop a quarter earlier.

Bing Product Ad Click Share Up Slightly from a Quarter Earlier

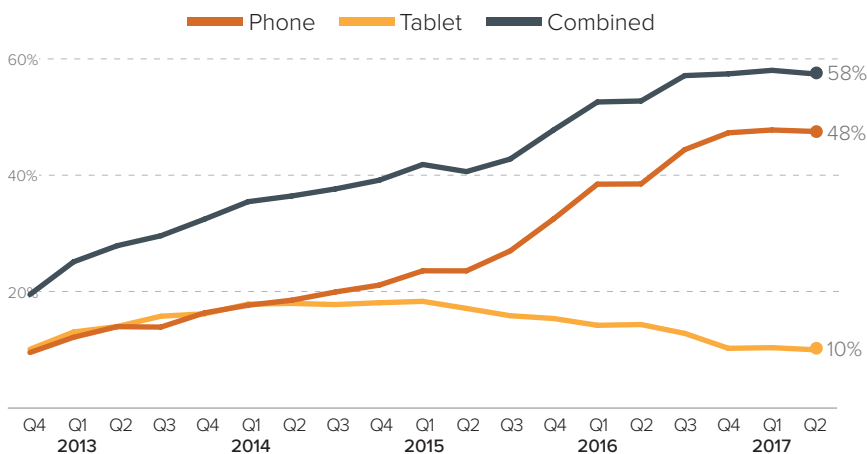
Bing Product Ad Share of Bing Ads Paid Search Clicks



Bing Product Ads accounted for 20% of retailers' search clicks on the Bing Ads platform in Q2 2017, up a point from the previous quarter. Google saw a similar share for its PLAs about four years ago and saw a similar gain in PLA click share from Q1 to Q2 this year. Bing Product Ads produced 34.5% of non-brand Bing search ad clicks for retailers in Q2 2017.

Desktop Strength Keeps Mobile Search Click Share Flat

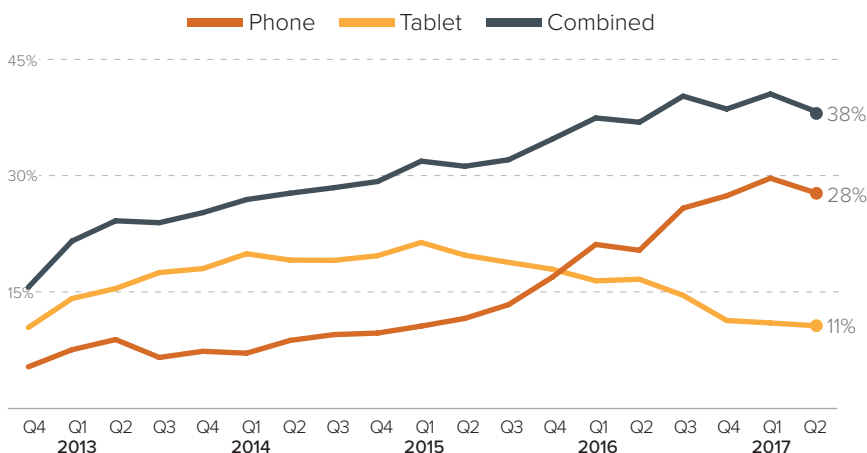
Phone and Tablet Share of Paid Search Clicks



Across all ad platforms, phones produced 48% of paid search clicks in Q2 2017, roughly even with Q1 results. Tablet share of paid search clicks dipped to just below 10% in Q2, the lowest it has been since mid-2012. The renewed strength of desktop click growth, along with pullbacks on tablet traffic, have kept combined mobile click share roughly flat for three straight quarters.

Phone and Tablet Search Spend Share Slips from Quarter to Quarter

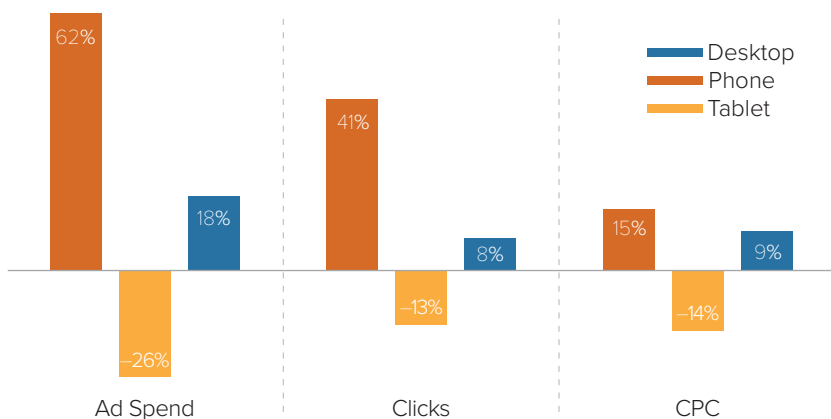
Phone and Tablet Share of Paid Search Ad Spend



Phone share of paid search spend was slightly lower in Q2 2017 than in Q1 at 28%, but it remains up by nearly eight points compared to a year earlier. Tablet share of search spend fell a half point from Q1 to Q2, hitting just under 11%. Because of the gap between mobile and desktop CPCs, mobile devices account for a lower share of search spend than clicks.

Average Search CPCs Show Strong Growth on Phone, Desktop

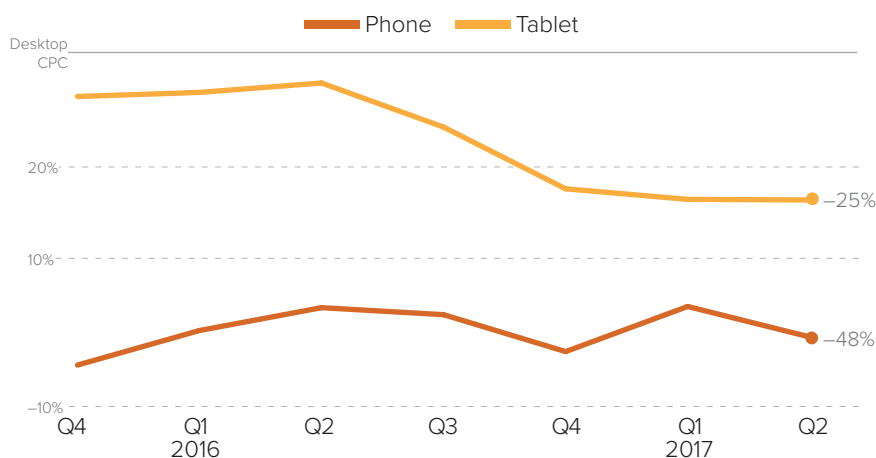
Year-Over-Year Growth by Device Class



While overall paid search CPCs rose just 1% Y/Y in Q2 2017, phone CPCs rose 15% and desktop CPCs rose 9%. Tablet CPCs were down 14% Y/Y, as advertisers pulled back on the segment, but the 10-point click share gain for phones in the past year has been the larger factor in suppressing overall CPC growth. Non-brand text ads showed particularly strong acceleration from Q1 to Q2 across all devices.

CPCs for Phone Search Ads Drop Compared to Desktop

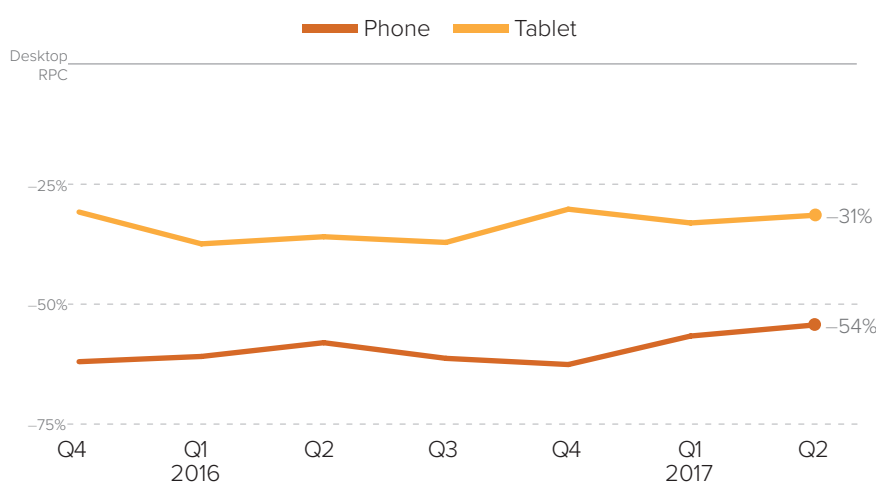
Non-Brand Mobile CPC vs. Desktop



In late 2015, a flood of new mobile search ad inventory depressed phone CPCs compared to desktop, with CPCs coming in 53% lower on phones in Q4 2015. That gap closed to 43% a couple quarters later, but it has widened since Google decoupled desktop and tablet bidding in Q3 2016. In Q2 2017, phone CPCs were 48% lower than desktop for comparable ads. Tablet CPCs were 25% lower than desktop in Q2 2017.

Mobile Search Revenue Per Click Gap Remains Larger Than That for CPC

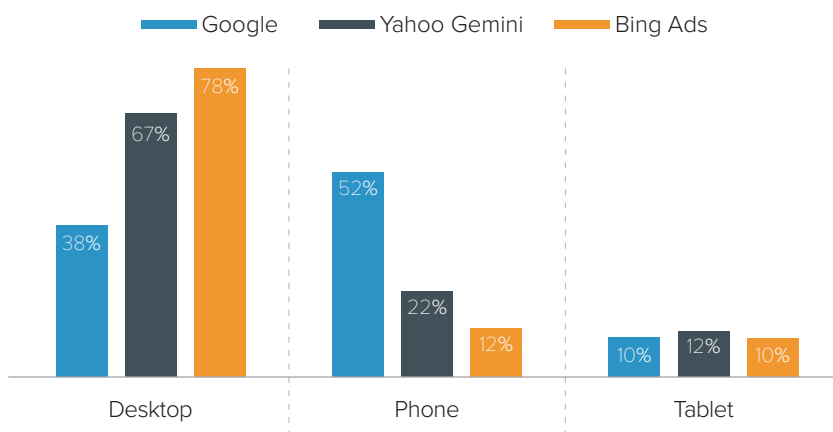
Non-Brand Revenue Per Click vs. Desktop



Average paid search revenue per click on phones was 54% lower than that on desktops in Q2 2017, a slight improvement over Q1. Tablets produced a 31% lower average revenue per click than desktop in Q2 2017. These gaps in conversion performance help explain the gaps in CPCs between devices, although the CPC gaps are smaller as advertisers account for other behaviors like cross-device and offline conversions.

52% of Google Search Ad Clicks from Phones

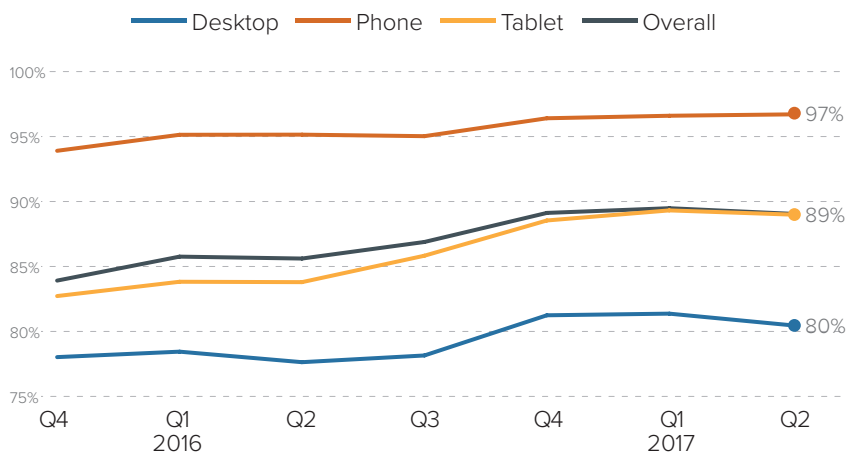
Device Click Share by Search Ad Platform



Phones produced 52% of Google search ad clicks in Q2 2017, a rate well above the 12% of Bing search ad clicks produced by phones in the same quarter. Bing relied on desktop for 78% of its clicks, up a point from a quarter earlier, while desktop produced just 38% of Google search ad clicks in Q2. Yahoo Gemini, which launched in 2014 as a mobile-first platform, continues to see desktop produce the vast majority of its clicks.

Google Search Share Up Across All Devices

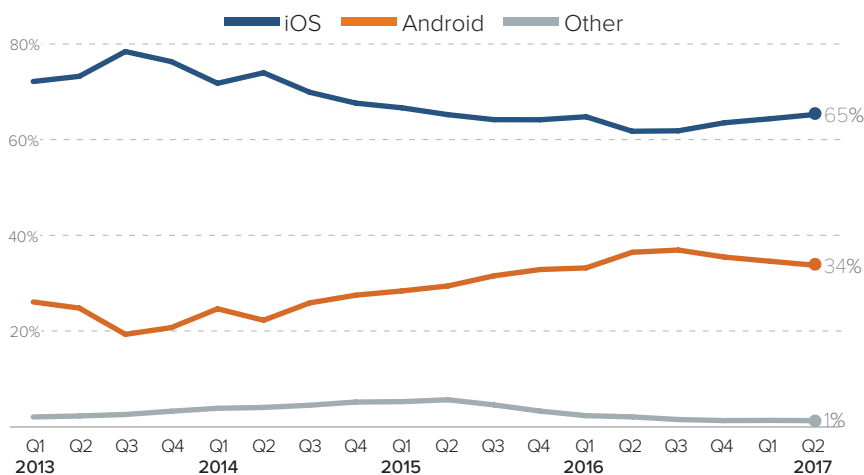
Google Share of US Paid Search Clicks by Device



While its share of search ad clicks remained steady from quarter to quarter, Google's share has risen across all devices in the past year. On desktop, Google's click share rose 3% from Q2 2016 to Q2 2017. On phones, Google's share rose by a smaller amount of 2%, but Google has less room to grow on phones, as its share currently stands at an incredible 97%.

iOS Share of Mobile Search Ad Clicks Hits Two-Year High

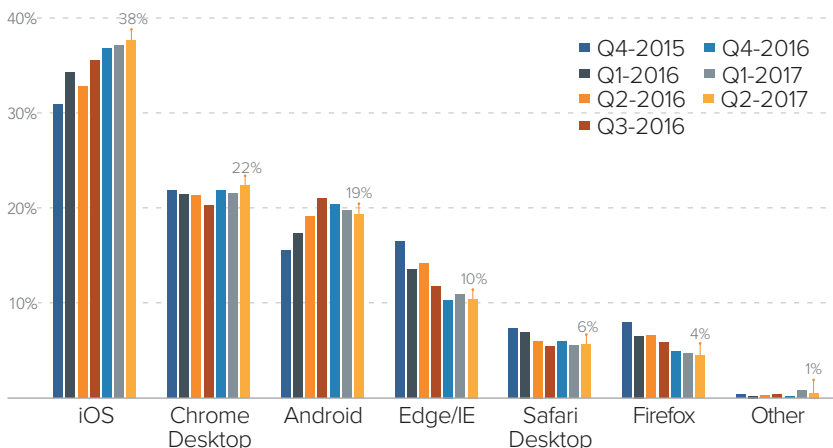
Share of Phone and Tablet Paid Search Clicks by OS



The share of phone and tablet search ad clicks produced by iOS devices rose for the fourth straight quarter, hitting a two-year high of 65%. Android, as the only other major mobile operating system, has seen its share of clicks slip from a high of 37% in Q3 2016 to just under 34% in Q2 2017. The iPhone accounted for 64% of phone search ad clicks in Q2 2017, a nearly three-year high.

iOS Devices and Desktop Safari Account for 43% of Search Ad Clicks

US Paid Search Click Share by Browser/OS

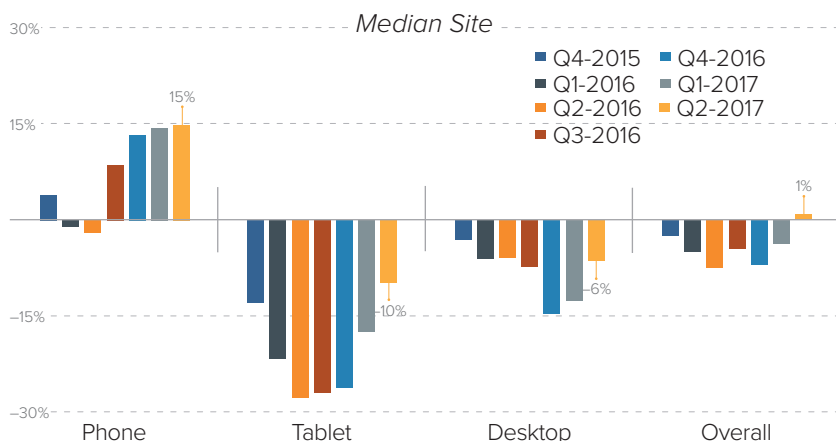


At the top of the list of companies who might be able to shake up the search ad industry should be Apple, whose iOS devices and desktop Safari browser produced 43% of paid search clicks in Q2 2017, a new all-time high. Google reportedly pays a hefty sum to be the default search provider for Safari, and although most users would likely switch back to Google if it were not the default, Google may never be eager to test that scenario.

ORGANIC SEARCH & SOCIAL

Organic Search Visits Return to Growth After Six Quarters of Y/Y Declines

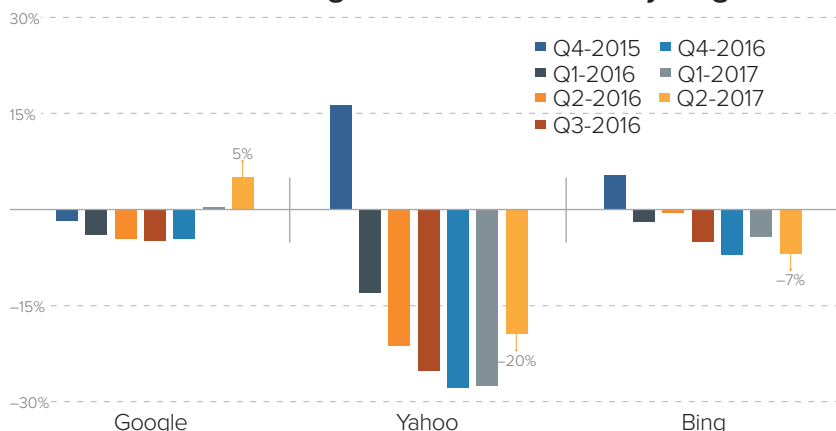
Y/Y Growth in Organic Search Visits by Device



Though hit hard in recent years by increased ad loads, organic search visit growth continued to rebound, growing 1% Y/Y in Q2 2017, up from a 4% decline a quarter earlier. Phone organic search visits grew slightly faster in Q2, at a rate of 15% Y/Y, but most gains came from smaller declines for tablet and desktop. Tablet organic search visits fell 10% in Q2, compared to 18% in Q1, while desktop visit declines improved from 13% to 6%.

Google Organic Search Visits Up 5%, Bing and Yahoo Remain Down

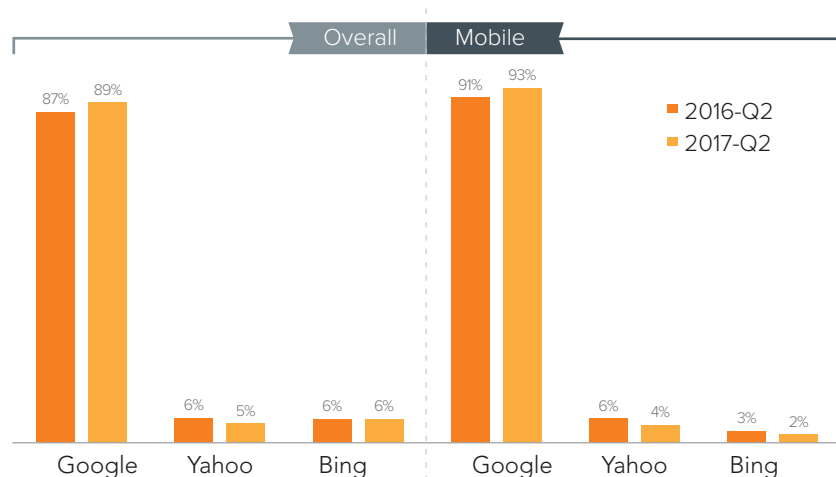
Y/Y Growth in Organic Search Visits by Engine



Visits produced by Google organic search rose 5% in Q2 2017, the first Y/Y increase since Q3 2015. In late 2015, Google significantly ramped up PLAs and began serving a third top-of-page text ad unit on mobile, leading to Y/Y declines in organic search volume. Yahoo organic search visits fell 20% in Q2 2017, an improvement from a 28% decline a quarter earlier on weaker year ago comps. Bing visits fell 7% in Q2, similar to recent quarters.

Google Extends Advantage in Mobile Search

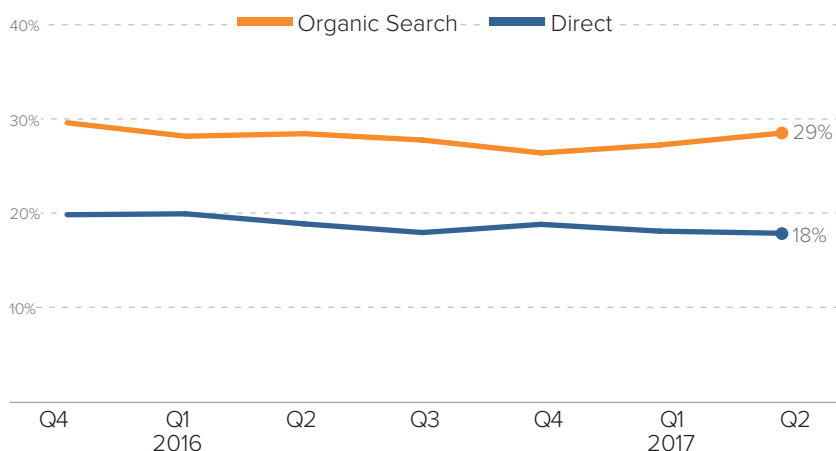
US Organic Search Visit Share by Engine



Google's share of visits produced by mobile organic search rose to 93% in Q2 2017, up from 91% a year earlier. Overall, Google produced 89% of organic search visits, up from 87% a year earlier. Google continues to outpace its rivals in monetizing search, as it generates 97% of mobile paid search clicks. Most of Google's gains in organic have come at the expense of Yahoo, whose share of mobile organic search has fallen two points in the past year.

Organic Search Share of Site Visits Rises for Second Straight Quarter

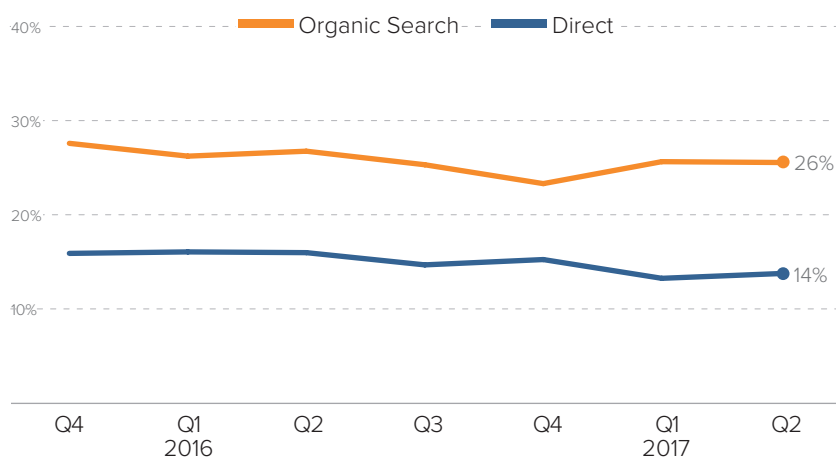
Organic Search Share of All US Site Visits



For the average brand, organic search produced 29% of all site visits in Q2 2017, an improvement from a quarter earlier, but roughly in line with levels from Q2 2016. Although “dark search” – clicks misattributed as direct site visits, is a real concern, the share of all site visits attributed as direct has remained steady, or fallen slightly in the last several quarters.

Organic Search Produces Smaller Share of Mobile Visits Than Overall

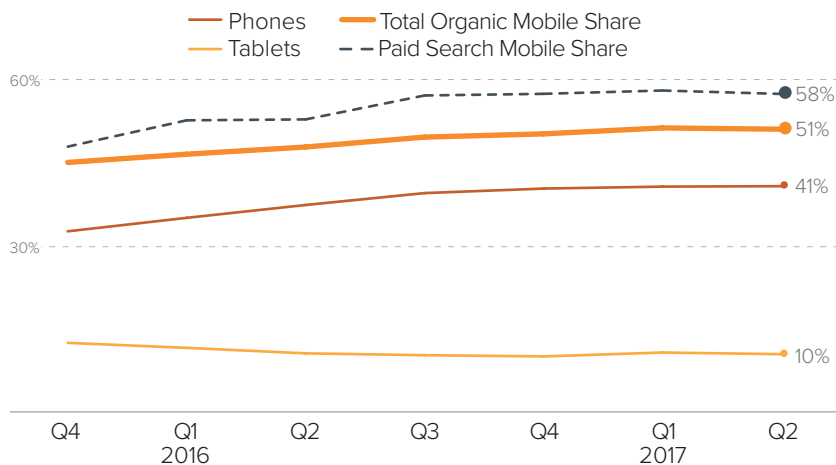
Organic Search Share of Mobile US Site Visits



Two years ago the reverse was true; but after Google significantly ramped up mobile search ad loads beginning in 2015, organic search has produced a smaller share of mobile site visits than overall site visits. In Q2 2017, organic search produced 26% of mobile site visits, in line with the previous quarter. Direct site visit share has also run lower since late 2015.

Mobile Share of Organic Search Visits Remains at 51%

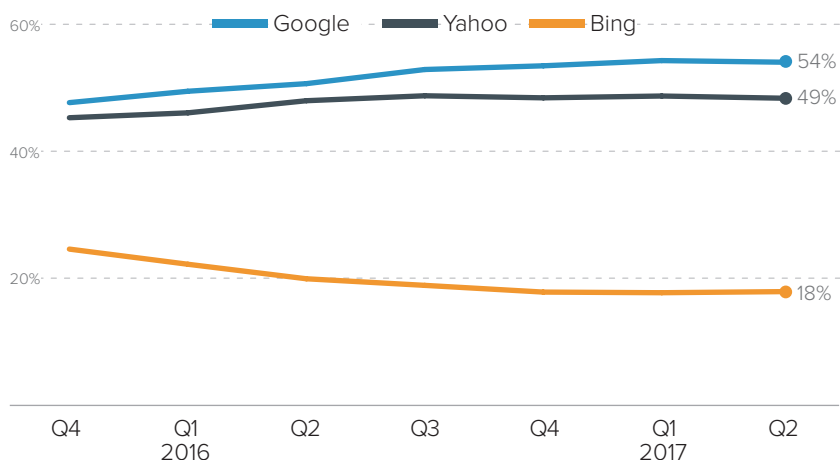
Mobile Share of US Organic Search Visits



Many advertisers are pulling back on tablet paid search, following a late 2016 change to AdWords that allowed segmenting desktop and tablet bids. As a result, tablet share of organic search visits has rebounded a bit in the last two quarters, especially compared to paid trends. Tablets produced 10% of organic search visits in Q2 2017, while phones produced 41% for a combined share of 51%.

Google Leads in Mobile Share of Organic, But Organic Trails Its Paid Side

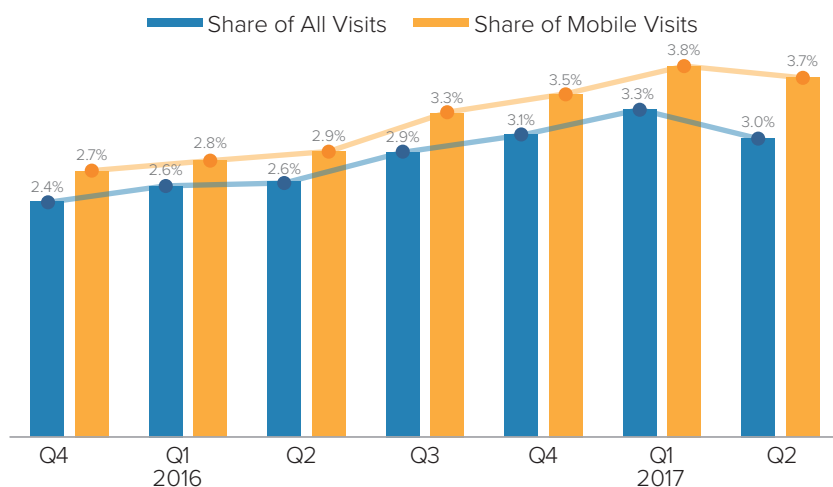
Share of Each Engine's Traffic from Mobile



For Google, 54% of organic search visits were produced by phones and tablets in Q2 2017, compared to 62% of paid search clicks. Mobile accounted for 49% of Yahoo organic search visits in Q2 and just 18% of Bing organic search visits. All three major search engines saw mobile produce a similar share of organic search visits in the previous quarter.

Social Media Visit Share Dips, But Still Up Y/Y

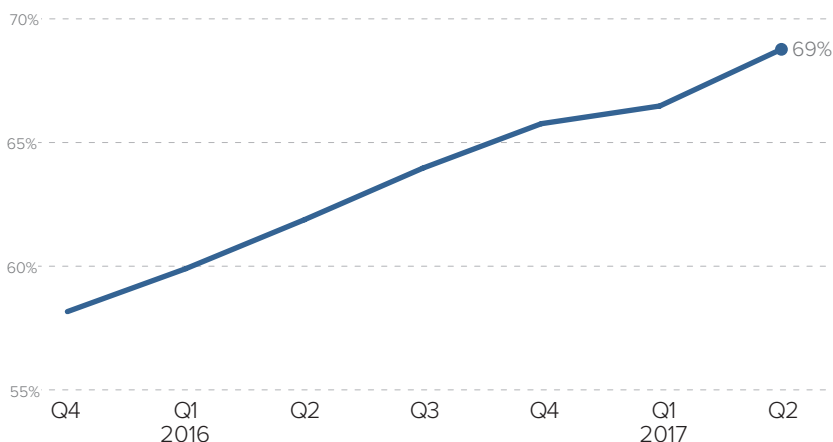
Social Media Share of Site Visits



The share of all site visits produced by social media dipped from 3.3% in Q1 2017 to 3% in Q2 2017, but that was still up from a share of 2.6% a year earlier. On mobile, social continues to have a larger impact on site visits, accounting for 3.7% of traffic from phones and tablets in Q2 2017. Like organic search, social is known to suffer from its own attribution issues in analytics, so its true impact is likely higher.

Mobile Produces 69% of Site Visits from Social Media

Mobile Share of Social Media Site Visits



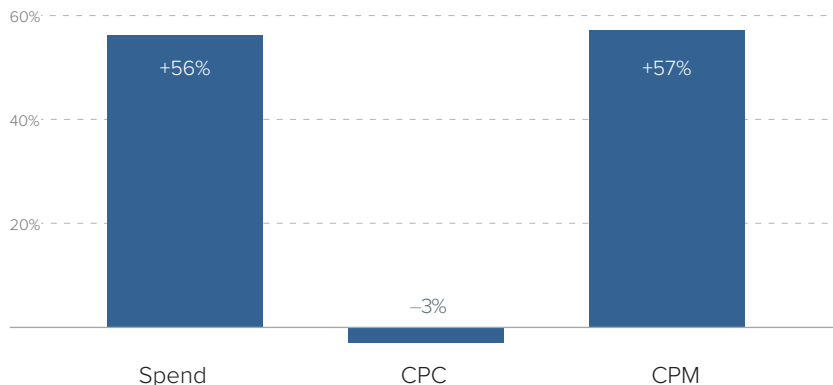
Mobile devices, including both phones and tablets, produced 69% of site visits from social media in Q2 2017, up from 67% in Q1. Mobile's share of visits for social media is up nearly seven points in the last year and runs much higher than that for other major channels. Facebook, in particular, has capitalized on these trends, as 82% of Facebook budgets went to mobile in Q2.

DISPLAY & PAID SOCIAL

Facebook Y/Y Spend Growth Remains Strong in Q2

Facebook Performance Y/Y Q2 2017

Median Advertiser

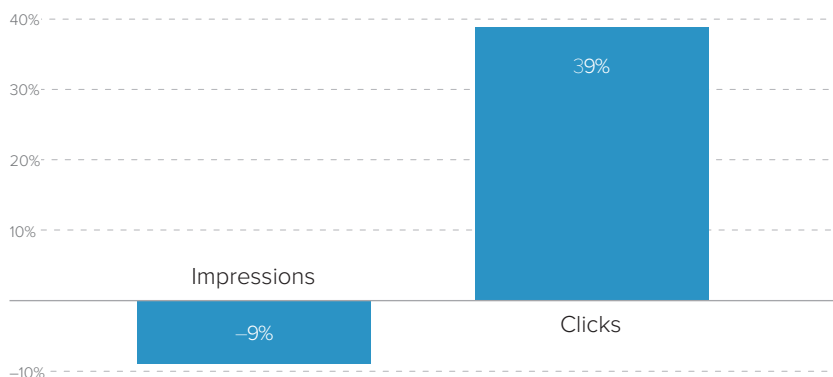


The median brand advertising on Facebook since Q2 2016 increased investment by 56% Y/Y, roughly the same Y/Y growth rate observed last quarter by the same measure. While slight declines in CPC and larger increases in CPM have been consistent trends over the last several quarters, the 57% leap in CPM in Q2 is by far the largest such increase in either of these metrics over the last couple of years.

Facebook Impressions Down Modestly as Clicks Grow

Facebook Performance Y/Y Q2 2017

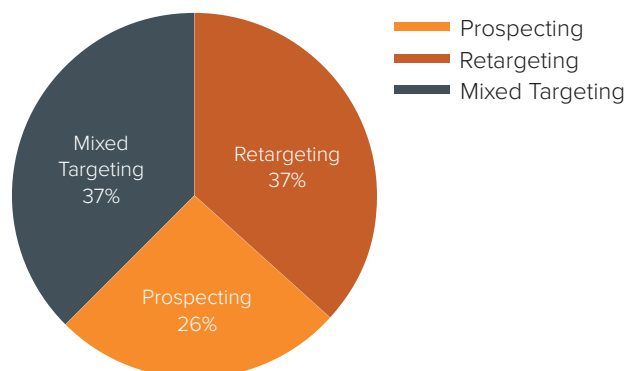
Median Advertiser



The typical Facebook advertiser saw impressions decline 9% Y/Y in Q2 while click traffic increased 39%. Facebook recently stated that, while past growth has been driven by increased ad inventory, ad load will not continue to grow at the same pace in the future, as the social media giant seeks to enhance its user experience. Thus, impression and click growth may decelerate moving forward.

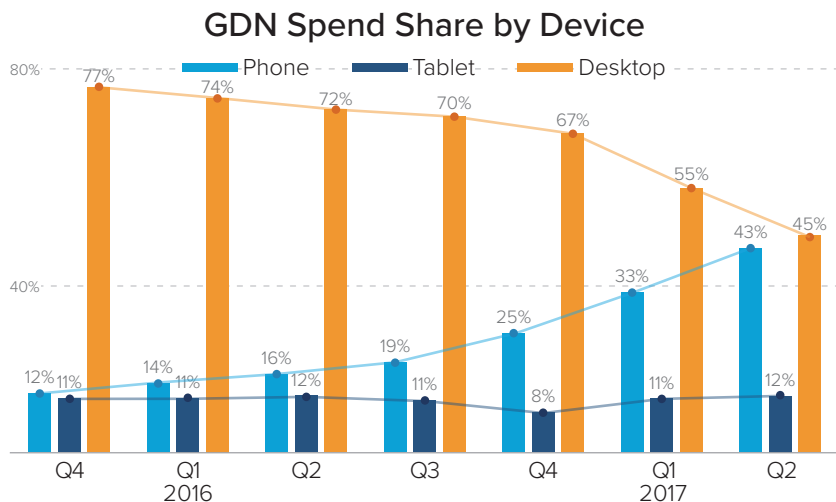
Remarketing Accounts for 37% of Display Spend as CRM Grows

Display, Paid Social, and Video Spend Share by Strategy Q2 2017



Campaigns targeting remarketing lists accounted for 37% of all spend in Q2, while those targeting prospects accounted for 26%, with the remainder of spend attributed to mixed strategy campaigns. CRM targeting using PII is steadily growing as a share of remarketing spend, as platforms continue to add capabilities that allow brands to target individuals using information like email addresses.

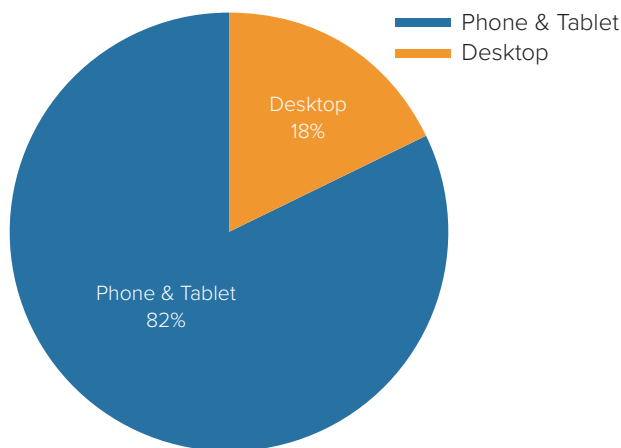
Mobile Devices Now Account for 55% of GDN Spend



43% of all Google Display Network spend came from phones in Q2, while 12% came from tablets, as desktop computers slipped below a majority of GDN spend for the first time in this report. Interestingly, tablet share climbed back to what was observed last Q2, after the later quarters of 2016 saw these devices dip to just 8% of spend.

Desktop Accounts for Just 18% of Facebook Spend

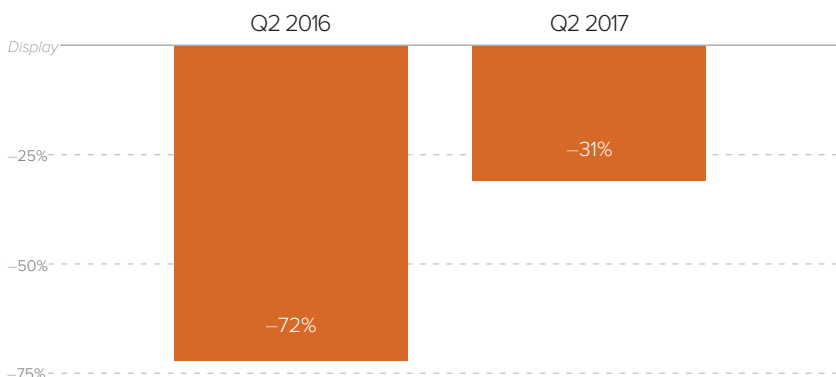
Facebook Spend Share by Device Q2 2017



Phones and tablets combined to account for the vast majority of Facebook ad spend in Q2, and mobile spend share increased from 76% in Q1 to 82% in Q2. Facebook acknowledged the mobile-heavy nature of its usage last year with the sunset of FBX, its desktop-specific ad platform, to focus on newer ad formats and mobile devices. Some ad formats, such as Messenger Ads, only target mobile devices.

Paid Social Investment Draws Closer to Traditional Display

Paid Social Spend Relative to Display Advertising

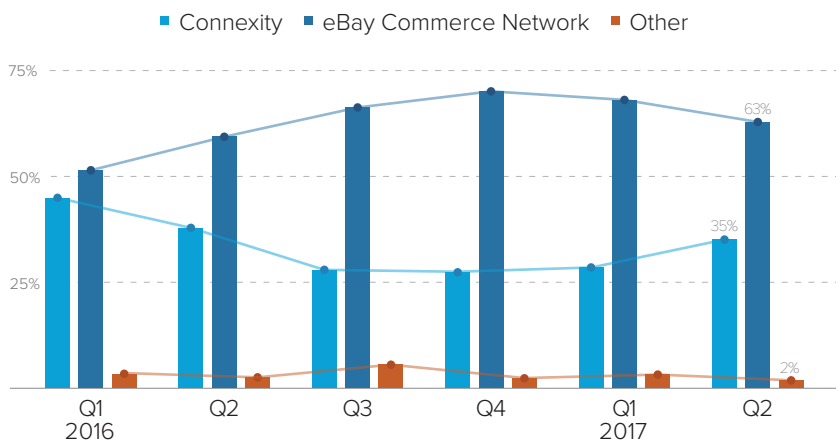


Traditional display advertising budgets still outpace paid social investments for most brands, but the gap has gotten steadily closer over the past year. While paid social spend was 72% lower than that of traditional display in Q2 2016, that figure was just 31% lower in Q2 2017. New ad formats and enhanced targeting capabilities are helping advertisers to find more value in paid social.

COMPARISON SHOPPING ENGINES & FEEDS

Connexity CSE Spend Share Highest Since Q2 2016

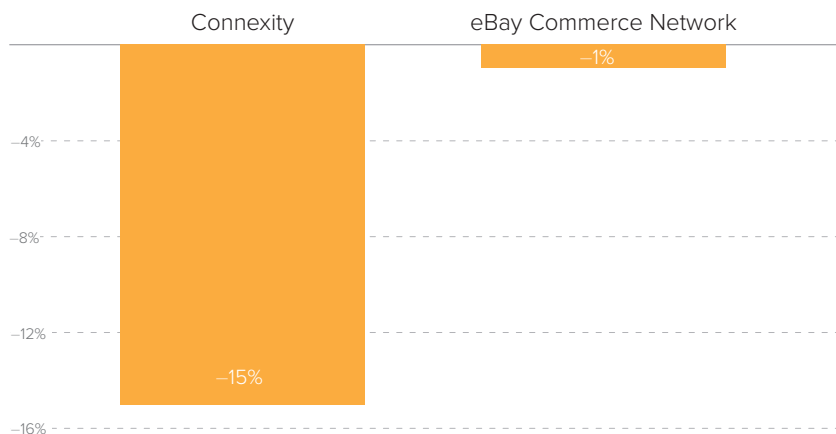
CSE Spend Share by Engine



The eBay Commerce Network remains the dominant CSE in terms of spend share, but Connexity's share increased from 29% in Q1 2017 to 35% in Q2. One major reason for this shift is eBay's move in May to stop showing product ads on ebay.com, thus reducing advertiser traffic on the network. Still, Connexity's spend share was lower than it was a year ago, though its Managed Bidding option has recently helped advertisers.

eBay Drives Similar Revenue Y/Y Despite Ad Reduction

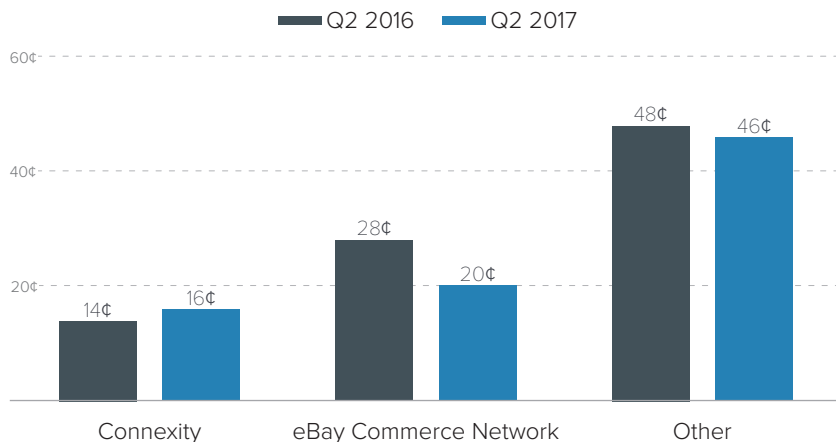
CSE Revenue Growth Y/Y



Advertisers drove nearly the same amount of revenue out of the eBay Commerce Network Y/Y, despite the sunset of ebay.com ads in May. However, advertisers will likely see larger revenue declines in Q3 when no ebay.com ads will be shown for the entire quarter. Sales driven by Connexity declined for the fourth straight quarter, though the 15% decline in Q2 was less steep than the 29% decline observed in Q1.

Connexity CPC Up for First Time in Two Years

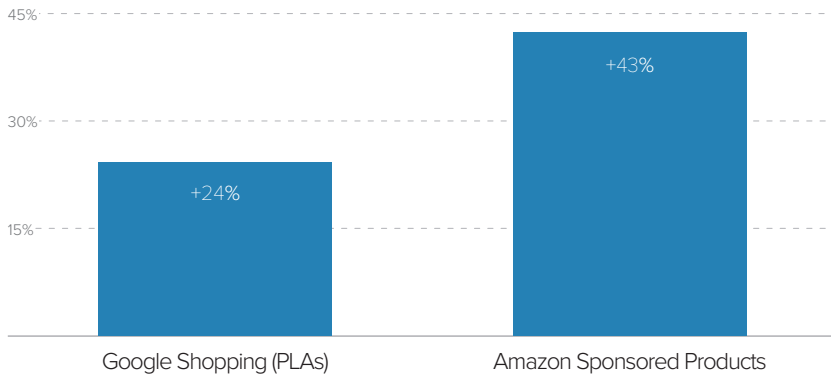
CSE CPC by Engine



CPC was flat or down Y/Y on both major CSEs for every quarter between Q2 2015 and Q1 2017, but Connexity broke the trend with a 12% Y/Y increase in CPC as sales per click improved Y/Y. The Q2 Y/Y CPC decline for the eBay Commerce Network was roughly the same as what was observed in Q1, indicating that the sunset of ebay.com ads has not materially impacted CPC just yet.

Amazon Sponsored Products Spend Growth Outpaces Google Shopping

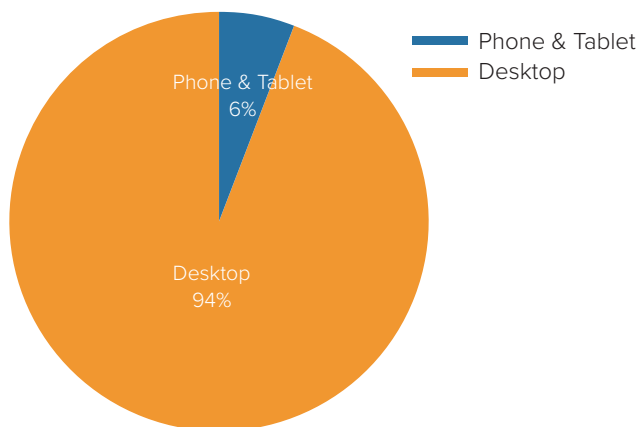
Google Shopping vs. Amazon Sponsored Products
Q/Q Spend Growth



Advertisers spent 43% more on Amazon Sponsored Products in Q2 2017 than in Q1, compared to 24% Q/Q growth for Google Shopping spend. Google Shopping is a much more mature channel than Amazon Sponsored Products, and relatively strong Amazon growth is thus unsurprising. However, Q/Q spend change for the two platforms was very similar from Q4 2016 to Q1 2017.

CSE Mobile Traffic Share Continues to Shrink

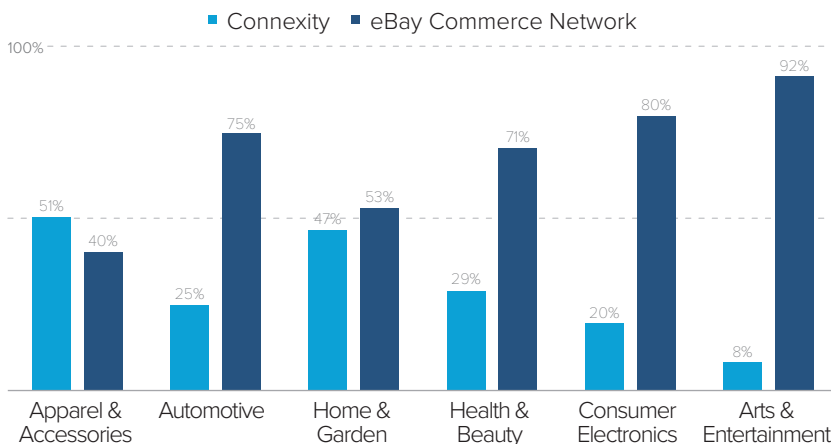
CSE Traffic Share by Device Type



Phones and tablets accounted for just 6% of all CSE traffic in Q2, a decline from 9% in Q1. Lack of a strong mobile presence is one reason traditional CSEs have struggled to grow at the same rates as channels like paid search and social media over the past few years. The European Commission's recent decision against Google may help CSEs by demanding more competitive CSE placement in the Google results.

Connexity Spend Share Strongest in Apparel & Accessories

CSE Spend Share by Product Category



While the eBay Commerce Network continues to dominate overall spend share, Connexity accounts for significant amounts of spend in some high-level product categories like apparel and home and garden. Advertisers will likely see Connexity spend share grow in Q3 as eBay's move to eliminate product ads on ebay.com was implemented in mid-Q2.



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 creative and media, Merkle creates customer experiences that drive improved marketing results and shareholder value. M1, Merkle's end-to-end, people-based insights, planning and activation platform, enables clients to target known individuals and reach them across media and channels, throughout the customer life cycle. With more than 4,100 employees, Merkle is headquartered in Columbia, Maryland with 16 additional offices in the US and 8 offices in Europe and Asia. 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 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.