

DIGITAL MARKETING REPORT

Q1 2020

MERKLE

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executive summary

The impacts of the COVID-19 pandemic on economic activity in the United States increased dramatically in mid-March, as the confirmed case count began to rise by the hundreds per day, public schools were almost universally shuttered, and other limits on public gatherings and travel began rolling out more broadly. For the week ending March 21, initial US unemployment claims skyrocketed to over three million, nearly five times the previous all-time high. The following week, those numbers would only double.

As we consider digital marketing trends for Q1 2020, for most brands, this period in mid-March marked a clear boundary between pre and post-COVID-19 results, but exactly how different these periods looked varied considerably depending on the channel, the industry of the advertiser, and other key factors.

For Google search ads, spending grew 11% Y/Y for the full first quarter, a moderate deceleration from 16% growth in Q4 2019. In March, however, growth had fallen to just 4% Y/Y, with travel advertisers cutting their budgets by nearly 80% by the end of the month.

Retailers' ad spend has held up better for Google search and other digital channels, as ad conversion rates have improved from a larger share of commerce moving online. Retailers have also benefited from Amazon pulling back on, and ultimately shutting down its Google search ads entirely during the first quarter, as it faced challenges keeping up with demand for essential items.

YouTube ad spend growth managed to outpace search ad spend growth for Google in Q1, but many brands had paused their YouTube campaigns entirely before the end of March to focus on more pure direct response tactics, including search.

While retailers across product categories saw a major lift in demand in mid-April as stimulus checks started hitting bank accounts, those selling essential goods have generally seen more favorable results since mid-March. For the full first quarter, site visits produced by organic search fell 15% Y/Y across all brands, but essential retail saw organic visits grow 53% in mid-March. Other retailers saw a 31% decline during the same period, as struggling consumers have had to prioritize their purchases.

Investment in Amazon's ad platform entered the year on an upswing and spend growth for Amazon Sponsored Products and Sponsored Brands ads accelerated further in Q1, even though ad spend faltered over the last week of March when the typical brand spent half as much money per day on Amazon ads as they did in January.

The challenges Amazon ads faced were a bit different than those for other channels, though, and may be more easily solved. Some advertisers ran into issues with Amazon limiting fulfillment of non-essential products, while others ran low on product inventory or ad budgets after brisk sales earlier in the month. These issues should subside in Q2 and ad spend investment levels should rebound.

Spending growth for Facebook and Instagram ads also accelerated for the full first quarter, but advertisers did see CPMs trend lower in late March as impacts from the COVID-19 crisis escalated. More traditional display ad platforms saw weaker results for the full quarter, with spend growth falling to just 1% Y/Y, compared to 22% growth for paid social.

Stay safe, everyone!

paid search

- Google search ad spend grew 11% Y/Y in Q1 2020, down from 16% growth in Q4 2019, and the weakest growth Merkle has seen over the eight years we have produced this report. Clicks rose 9% in Q1, while cost per click (CPC) rose 2%.
- Spending on Microsoft search ads rose 18% Y/Y in Q1 2020. Clicks fell 11% Y/Y and CPCs rose sharply as Microsoft has seen a declining share of traffic produced by phones in the past year.
- Compared to early March, desktop share of Google search ad clicks is running about four points higher in mid-April, as consumers are spending a great deal more time at home on their laptops (and desktops).
- With the COVID-19 crisis triggering closures and stay-at-home orders and recommendations in late March, Google Local Inventory Ad (LIA) click share effectively dropped to zero by the end of Q1. LIAs generated 29% of Google Shopping clicks in Q4 2019, among participating brands.

organic search

- Visits to brand sites generated by organic search fell 15% Y/Y in Q1 2020, down from an 11% decline in Q4 2019. Phone organic search visits fell 10%, while desktop visits fell 12%.
- DuckDuckGo delivered a 38% increase in organic search visits in Q1 2020, but that rate of growth has cooled considerably over the past couple of quarters. In Q3 2019, DuckDuckGo visits were up 68% Y/Y.
- Phones produced 52% of organic search visits in Q1 2020, up from 49% a year earlier. Tablet share of organic search visits fell from 8% in Q1 2019 to a little over 4% in Q1 2020. Desktop share of organic search increased slightly in the past year.

amazon ads

- Sponsored Products spend rose 67% Y/Y in Q1 2020 as clicks grew 87% and CPCs fell 10%. With sales produced by Amazon Sponsored Products ads rising 70% Y/Y in Q1 2020, advertisers held ROI for the ad format roughly flat compared to a year ago.
- Sponsored Brands spend growth accelerated significantly to 118% Y/Y. Click growth improved to 43% Y/Y, while advertisers also saw a spike in CPC growth to 52% Y/Y.
- Conversion rates were about five times higher for Amazon Sponsored Products ads than for Google Shopping ads in Q1 2020. In Q4 2019, Sponsored Products conversion rates were about four times higher than Google Shopping conversion rates.

display & paid social

- Spending on Facebook ads, excluding Instagram, grew 19% Y/Y in Q1 2020, up from 15% growth in Q4 2019. Advertiser spending on Instagram grew 39% Y/Y in Q1 2020, up slightly from 38% growth in Q4 2019.
- For brands running both Instagram and Facebook ads in Q1 2020, Instagram accounted for 27% of total spending across the two platforms and 34% of impressions.
- In Q1 2020, Stories ads accounted for 22% of Instagram spend and 28% of impressions. Adoption of Stories ads is nearly universal on Instagram, but remains weaker on the core Facebook property.

paid search

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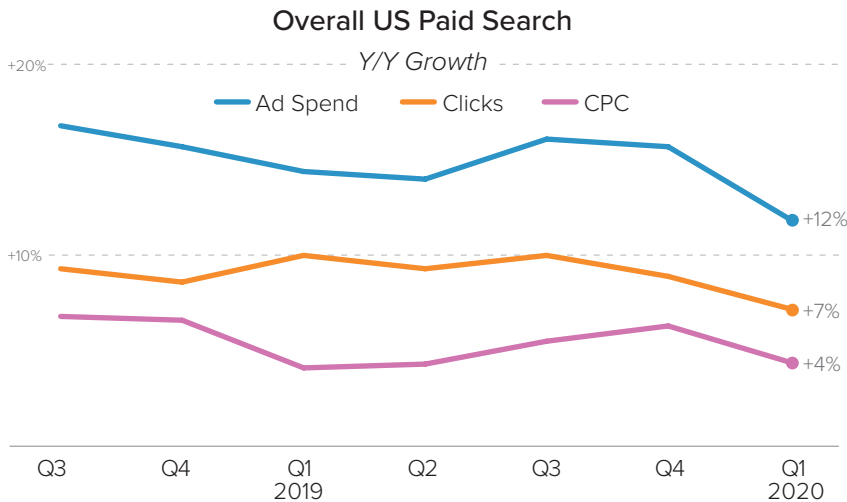
Spending on Microsoft search ads rose 18% Y/Y in Q1 2020. Clicks fell 11% Y/Y and CPCs rose sharply as Microsoft has seen a declining share of traffic produced by phones in the past year.

Compared to early March, desktop share of Google search ad clicks is running about four points higher in mid-April, as consumers are spending a great deal more time at home on their laptops (and desktops).

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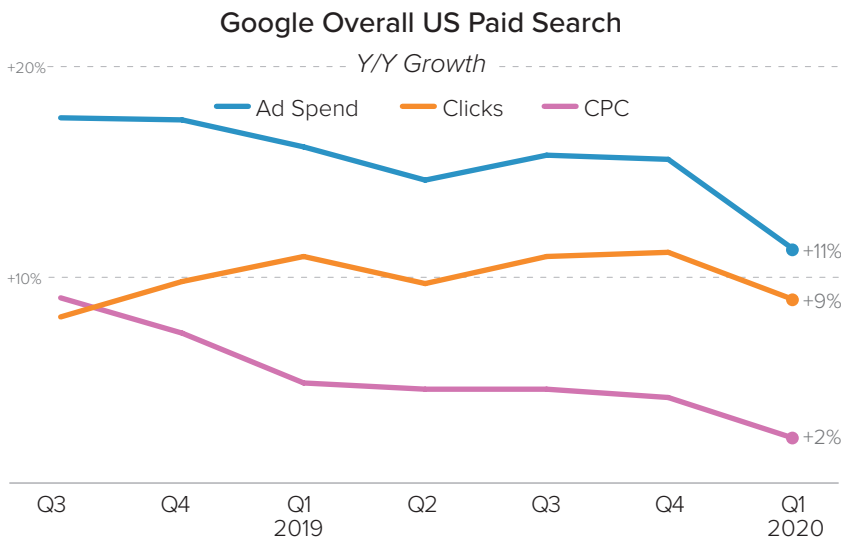


Solid Start to Quarter Keeps Search Spend Growth Positive in Q1



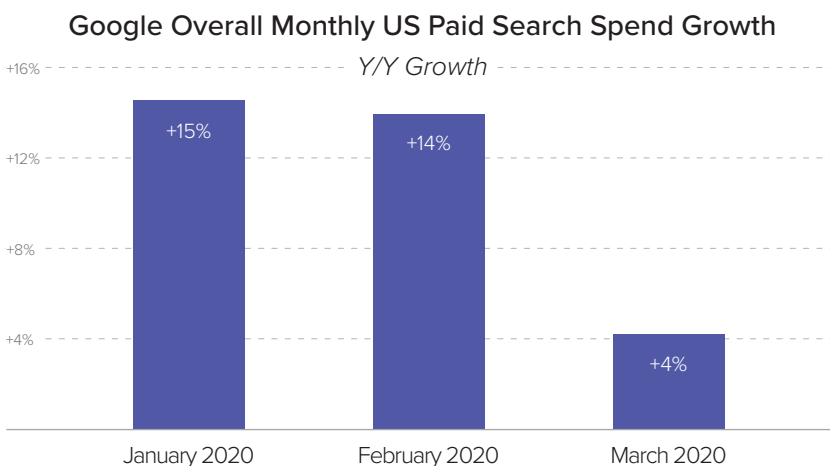
Total spending on paid search ads in the US grew 12% Y/Y in Q1 2020, down from 16% growth in Q4 2019. Click growth was down from 9% Y/Y in Q4 to 7% in Q1. Average CPC growth also decelerated between Q4 and Q1, coming in roughly two points lower at a little over 4% Y/Y. Spend and click growth decelerated sharply in the second half of March as the first major wave of coronavirus-related closures and restrictions began to roll out.

Google Search Spend Growth Slows Five Points to 11%



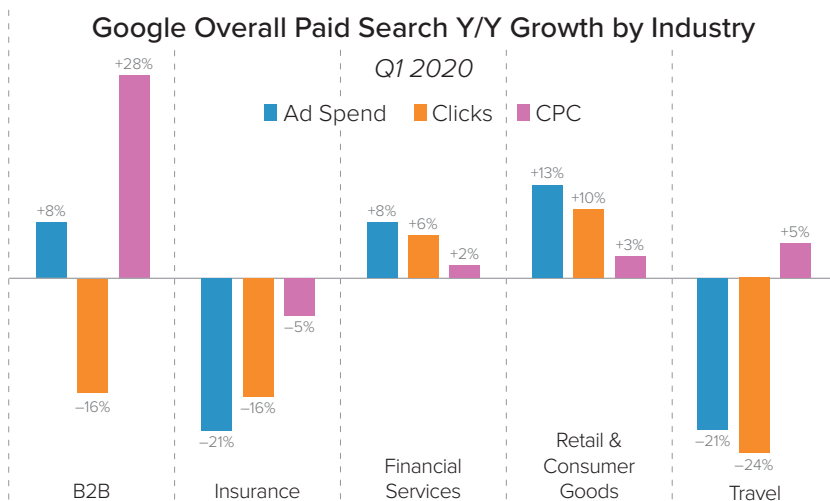
Google search ad spend grew 11% Y/Y in Q1 2020, down from 16% growth in Q4 2019, and the weakest growth Merkle has seen over the eight years we have produced this report. Clicks rose 9% in Q1, while CPCs rose 2%. By the end of the quarter, spending trends looked very different, depending on the advertiser. Travel programs reduced budgets by nearly 80% on average compared to January, while retailers saw steadier spend levels.

Google Spend Growth Drops 11 Points Between January and March



Illustrating the impact that the COVID-19 pandemic had on Google search ad spending growth at the monthly level, Merkle saw a 11-point deceleration in Google spend growth between January and March. Spending was up a little under 15% Y/Y in January, or about a point below the Q4 2019 growth rate. Year-over-year spend declines in late March pushed total growth for the month down to 4% Y/Y.

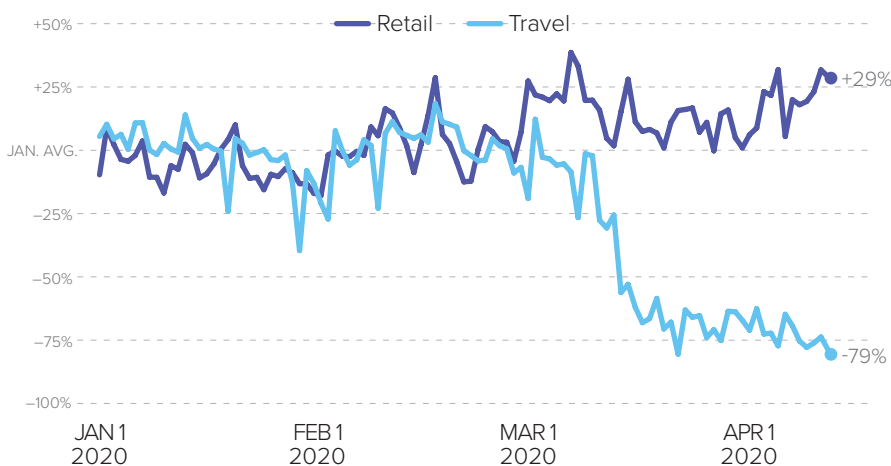
Google Travel Search Spend Down 21% Y/Y for Full Q1, Retail Up 13%



Google search ad spending by travel advertisers fell 21% Y/Y in Q1 2020, a 38-point drop from 17% growth in Q4 2019. With many consumers turning to online shopping for purchases they would normally make in store, retail Google search spend growth decelerated just two points to 13% for the full quarter. Google click volume for retailers also benefited throughout the quarter from Amazon's drawing down and eventual halting of its Google search spend.

COVID-19 Closures, Restrictions Quickly Drove Down Travel Ad Budgets

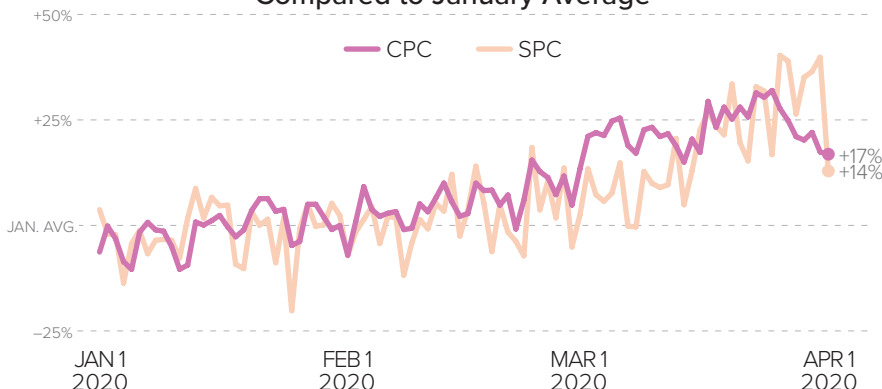
Daily Google Search Spend Compared to January Average



Looking at Google search spend at a daily level, it is clear how significant and immediate the impact of COVID-19 was to travel search budgets. Many of the most significant closures and restrictions that Americans are still living with today were announced the second week of March. By March 16th, travel spend was already down over 60% from January levels. Retail spend, however, has trended flat to higher since early March. Seasonality is a factor here, as well as consumers turning to online shopping, and Amazon dropping out of Google auctions.

Retail Search Ad Conversion Rates and SPC Up Sharply Since March

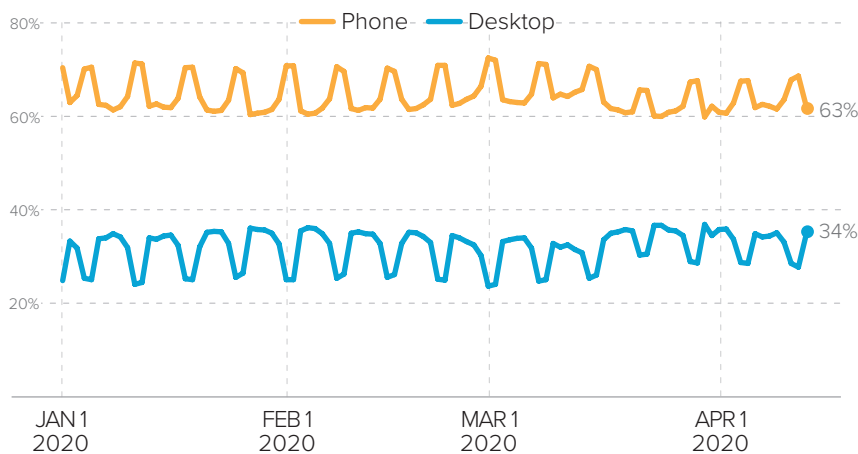
Daily Retail Google CPC and Sales Per Click Trends Compared to January Average



Google search ad volume trends within the retail segment have varied depending on product category since March, with less essential categories seeing volume declines, while others see growth closer to seasonal norms. More consistent has been a big increase in ad conversion rates and average sales per click, even for brands seeing volume declines. During a typical year, volume increases over Q1 into Q2 while conversion rates hold generally steady.

Google Traffic Shifts to Desktop, Phones See Less of a Spike on Weekends

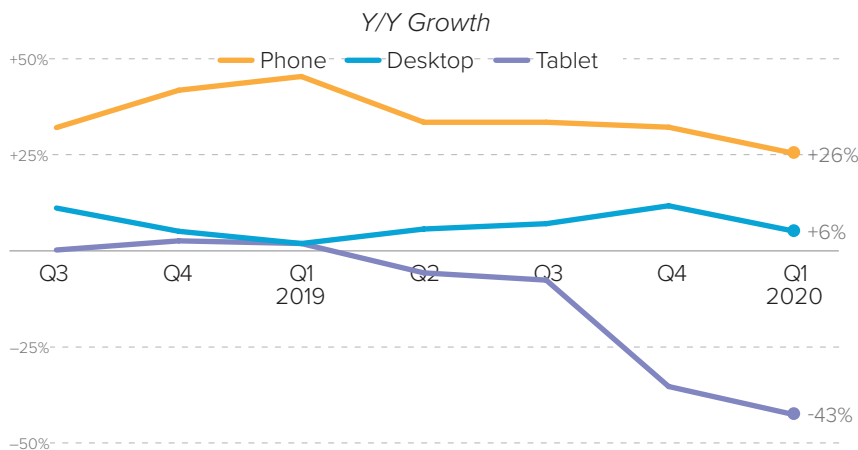
Google Search Ad Click Share by Device and Day



Compared to early March, desktop share of Google search ad clicks is now running about four points higher, as consumers are spending a great deal more time at home on their laptops (and desktops). Phone traffic share is still spiking over the weekends, but those spikes have gotten a bit smaller. Phone share is running about six points higher over the weekend now, compared to nine points higher prior to the COVID-19 crisis.

Google Search Spending Growth Weaker Across All Devices

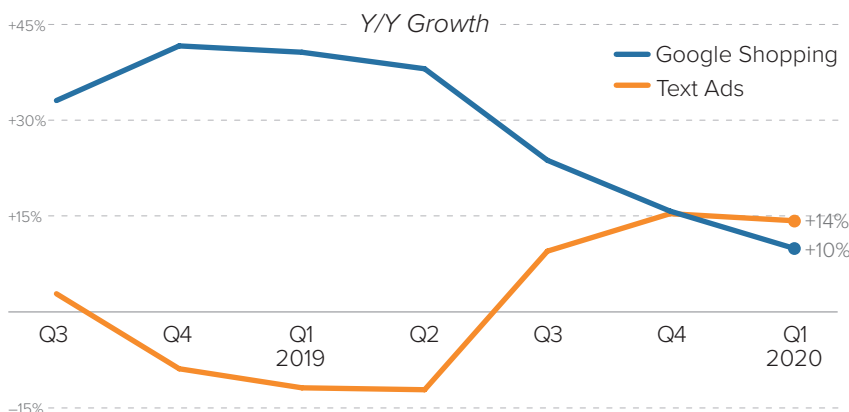
Google Search Spending Growth by Device Type



While desktop saw some traffic share gains toward the end of Q1 2020, spending growth for desktop Google search ads still slowed to a little under 6% Y/Y. Phones continued to drive most spending gains for Google search ads in Q1, with spending up 26% Y/Y. That was down from 33% growth in Q4 2019, however. Following a 35% drop in Q4, tablet spending continued to decline sharply in Q1 2020, falling nearly 43%.

Amazon Spend Reduction, Weak Comps Benefit Google Text Ad Spending

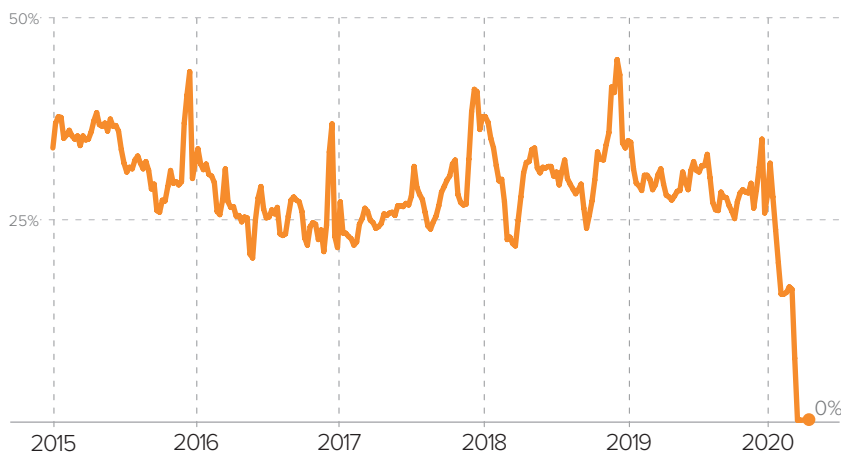
Google Spending Growth by Ad Format



It may seem odd that spending growth was stronger for Google text ads than Google Shopping ads during a quarter where retail saw stronger digital ad growth than most other verticals, but Amazon appeared to pull back on its Google text ad spending earlier and more severely than its Shopping ad spending. Text ad spend growth has also been on the rebound since it fell 12% Y/Y across verticals in the first half of 2019. At that time, Google Shopping spending was rising nearly 40%, leading to tougher comps in 2020.

Amazon's Share of Google Text Ad Impressions Hit All-Time Low in February

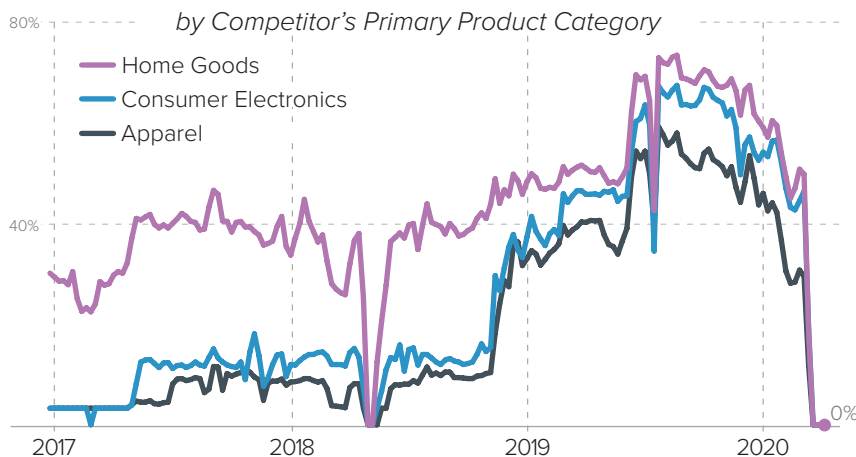
Amazon Google Text Ad Impression Share vs. Retailers



Going back to 2012, when Google first began providing advertisers with Auction Insights into specific competitors, Merkle had never seen Amazon turn off its Google text ads for a full week until March 2020. Interestingly, Amazon had started pulling back on its text ad spend the last week of January 2020 and its share of text ad impressions reached an all-time low as early as the first week of February.

Amazon Maintained Solid Google Shopping Presence Until Early March

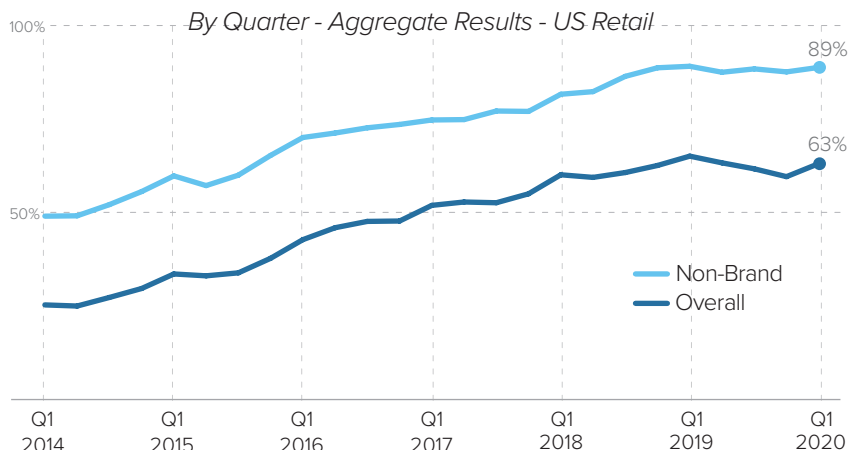
Amazon Google Shopping Impression Share



While Amazon ultimately shut down its Google Shopping program the same week as its Google text ad program, its presence in Shopping auctions remained more robust into early March. For the first week of March, Amazon's share of Shopping impressions was roughly in line with its share in early 2019, prior to a big jump ahead of Prime Day 2019. By the week of March 2nd, 2020, Amazon's share of text ad impressions had already been at all-time lows for a month.

Google Shopping Not Seeing Click Share Gains for Retailers

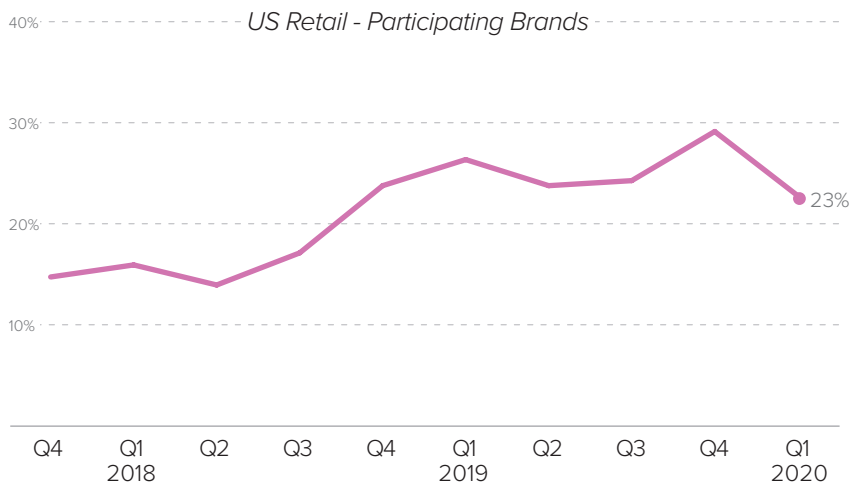
Google Shopping Share of Google Paid Search Clicks



After fairly steady share gains over the previous half-decade, Google Shopping click share has largely plateaued since 2019. Among retailers, Google Shopping ads generated 63% of Google search ad clicks in Q1 2020, up from Q4 2019 levels, but down from 65% share in Q1 2019. Looking at non-brand ad clicks only, Shopping produced 89% of total Google search ad clicks for retailers in Q1 2020, roughly even with a year earlier.

Google Ads Highlighting In-Store Product Availability See Click Share Drop

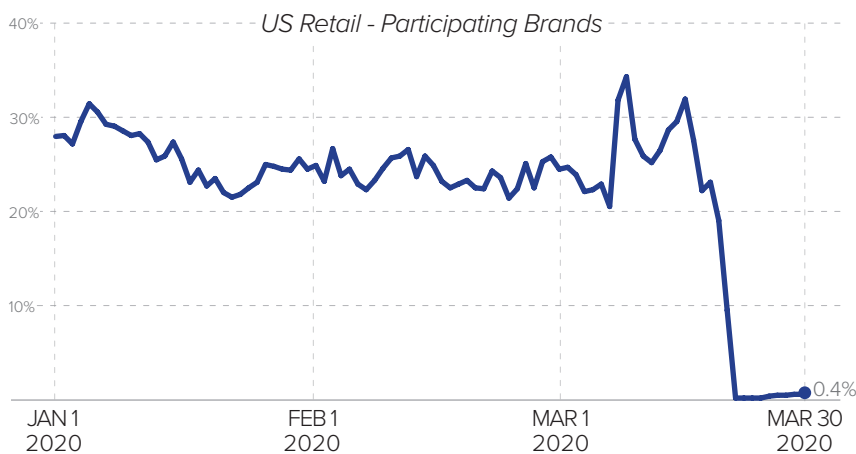
LIA Share of Google Shopping Clicks by Quarter



After generating 29% of Google Shopping ad clicks among participating brands in Q4 2019, Google Local Inventory Ads (LIAs) generated just 23% of Shopping clicks in Q1 2020. That is the lowest rate brick-and-mortar advertisers have seen for the format since Q3 2018. With the COVID-19 crisis triggering closures and stay-at-home orders and recommendations in late March, LIA click share effectively dropped to zero by the end of Q1.

Google Local Inventory Ad Click Share Spiked Before Dropping to Zero

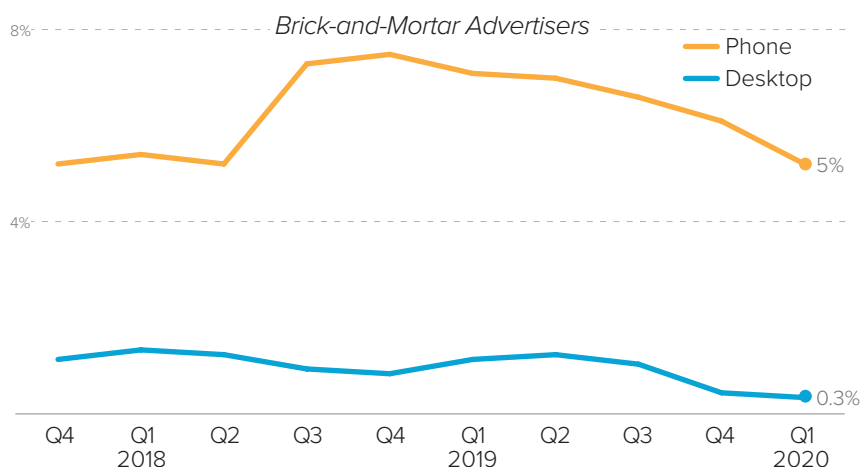
LIA Share of Google Shopping Clicks by Day



Looking at Google Local Inventory Ad share of Shopping clicks at the daily level during Q1 2020, LIA share spiked for a period of a little over a week starting on March 8th. In the US, most significant COVID-19 closures and restrictions began rolling out about a week later, so this activity may reflect one last in-store stocking up opportunity for those anticipating a long stay-at-home period to come. By March 22nd, LIA traffic effectively dropped to zero.

Google Maps Generates Smaller Share of Clicks as Consumers Stay Home

Get Location Details Share of Text Ad Traffic by Quarter



As with LIAs, brick-and-mortar advertisers also saw Google Maps generate a smaller share of Google search ad clicks as US consumers began staying at home en masse in late March. The Get Location Details click type generated by Maps accounted for 5% of phone text ad clicks in Q1 2020, down from 6% in Q4 2019. Maps click share had already been trending lower, but this was an acceleration from the share declines seen over the prior year.

Google Showcase Shopping Ad Click Share Back on the Rise

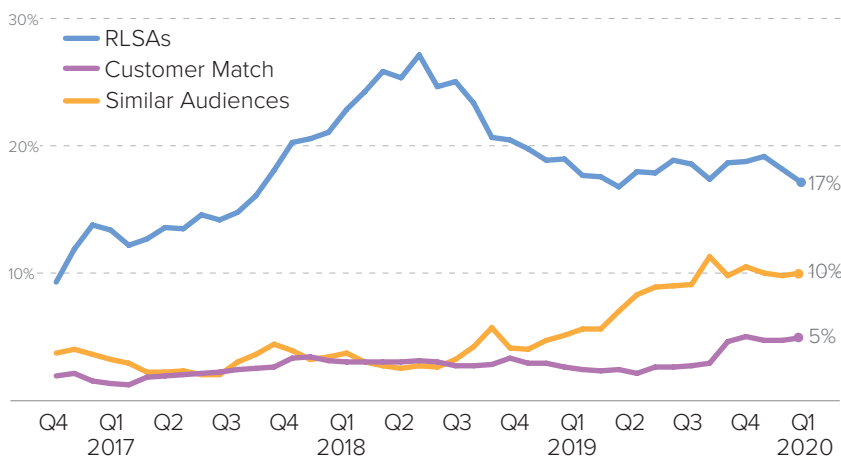
Showcase Shopping Ad Share of Google Shopping Clicks



Showcase Shopping ads generated just under 9% of all Google Shopping ad clicks in Q1 2020, among participating brands. The format had seen its share of clicks fall three points between Q3 and Q4 2019, largely due to the relative strength of Local Inventory Ads during the holiday shopping season. With LIA click share dropping to zero at the end of March 2020, Showcase Shopping ads should pick up additional volume for the foreseeable future.

Core Google Audience Targeting Tools See Steady Reach

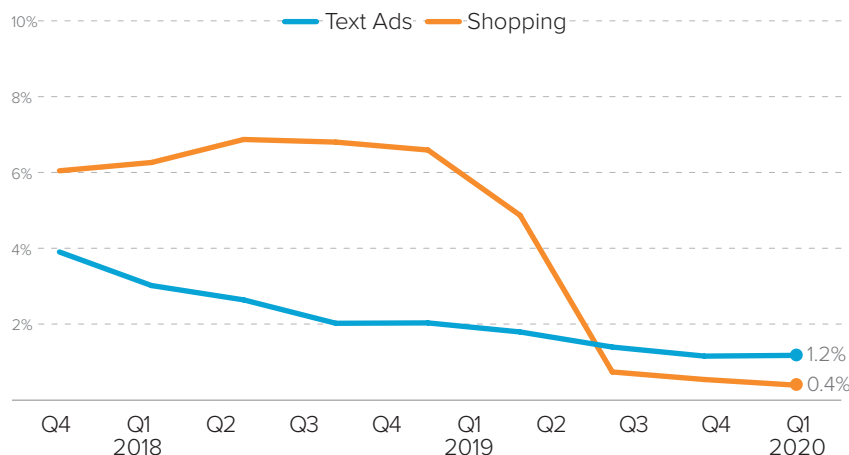
Share of Google Search Ad Clicks by Audience Type



The reach of Google's core audience targeting tools for Google search ads has held largely steady in recent months. Ads employing Customer Match accounted for 5% of Google search ad clicks in March 2020, right in line with December 2019, with little movement in between. The story is similar for Similar Audiences, which generated 10% of clicks in March. Remarketing Lists for Search Ads (RLSA) click share remains well below its 2018 peak, but it has been relatively steady over the past year.

Search Partner Share of Google Search Ad Clicks Low and Trending Lower

Search Partner Share of Google Search Ad Clicks

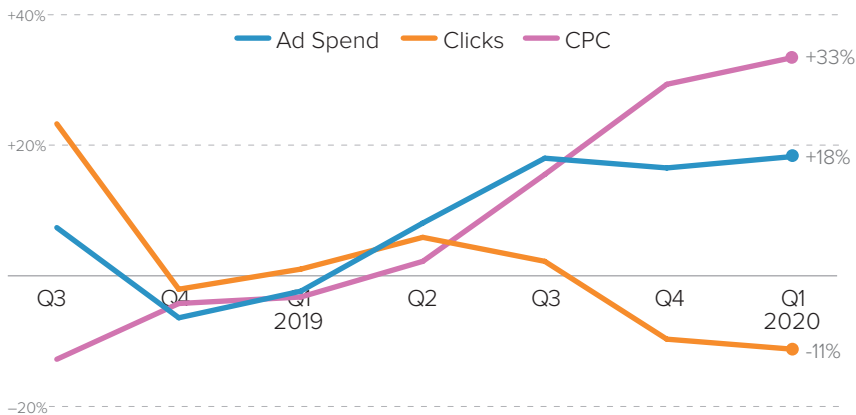


Partner sites that show Google search ads continued to generate a smaller share of total Google search ad clicks in Q1 2020. For text ads, partners generated 1.2% of Google clicks in Q1, while for Shopping ads, partners generated just 0.4% of clicks. Partners generated a significantly higher share of Shopping clicks a year earlier when Google was still reporting its image search property as a partner and Yahoo was still running Google's Shopping ads on its domain.

Shift Back to Desktop Drives Up Microsoft Search Ad CPCs

Microsoft Advertising Overall US Paid Search

Y/Y Growth

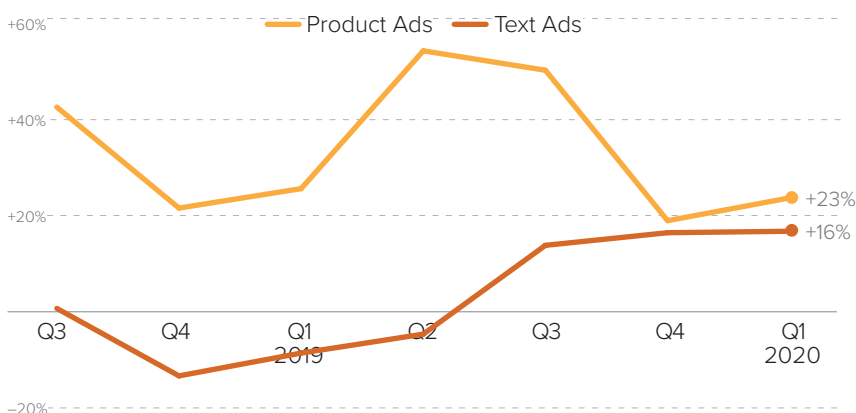


Spending on Microsoft search ads rose 18% Y/Y in Q1 2020, a slight increase in growth rate compared to Q4 2019. Clicks, however, fell 11% Y/Y, with CPCs rising sharply. Microsoft has seen a declining share of traffic produced by phones in the past year, helping to push CPCs higher, but hurting volume growth. Phone Product Ad traffic has now fallen three quarters in a row, while phone text ad traffic has grown.

Product Ad Spend Growth Outpaces Text Ads for Microsoft

Microsoft Advertising Spend by Ad Format

Y/Y Growth

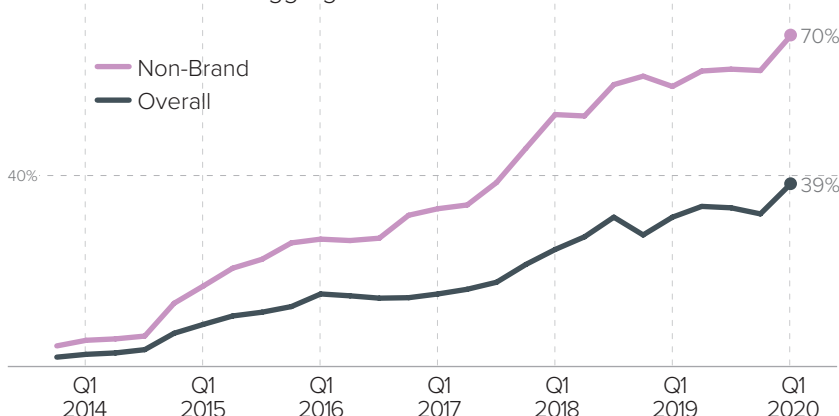


Even with phone Microsoft Product Ad clicks falling nearly 50% in Q1 2020, spending on the format grew 23% Y/Y across all devices, up from 19% growth in Q4 2019. CPCs have risen sharply for phone Product Ads, suggesting the quality of traffic from that segment has improved. Meanwhile, desktop continues to deliver solid click gains for Product Ads. Microsoft text ad spending grew 16% Y/Y in Q1 2020, in line with the previous quarter.

Product Ad Share of Microsoft Paid Search Clicks Rises to 39%

Microsoft Product Ad Share of Microsoft Advertising Paid Search Clicks

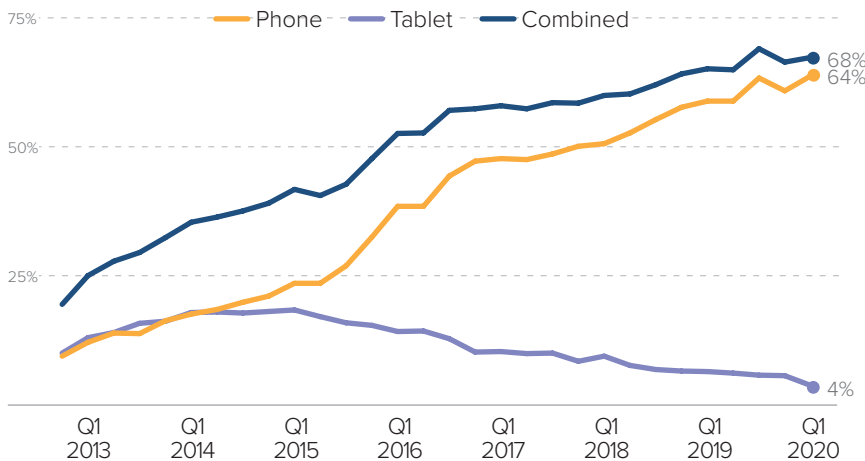
Aggregate Results - US Retail



Among retailers, Product Ads generated 39% of all Microsoft search ad clicks in Q1 2020, up from 32% a year earlier. For the non-brand segment, Product Ads generated 70% of Microsoft paid search clicks, up from 60% a year earlier and a new all-time high. Despite these share gains, Microsoft remains about four years behind Google in terms of the impact of image-based shopping ads.

Phone Search Ad Click Share Up in Q1, Despite March Rebound for Desktop

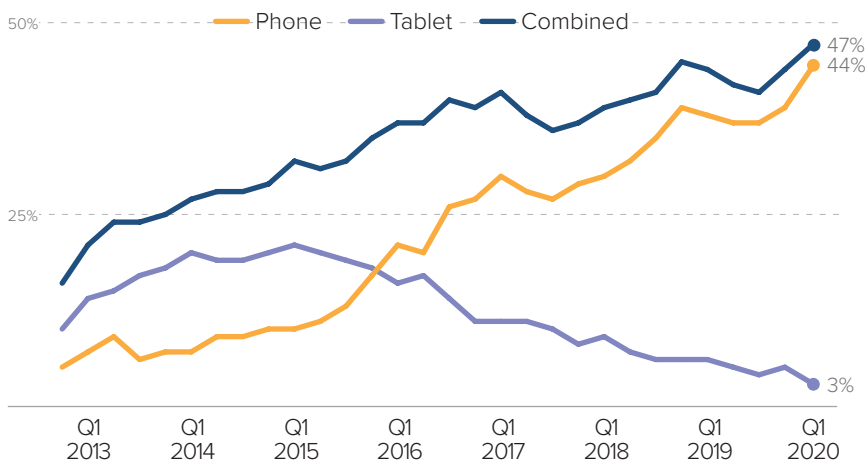
Phone & Tablet Share of Paid Search Clicks



Although desktop saw some click share gains in the back half of March, as many Americans began their stay-at-home period, for the full first quarter of 2020, desktop click share fell a point to 32%. Phone click share rose from 61% in Q4 2019 to 64% in Q1 2020, while tablet click share fell two points to 4%.

Phone Share of Search Ad Spending Up Six Points in Past Year

Phone & Tablet Share of Paid Search Ad Spend

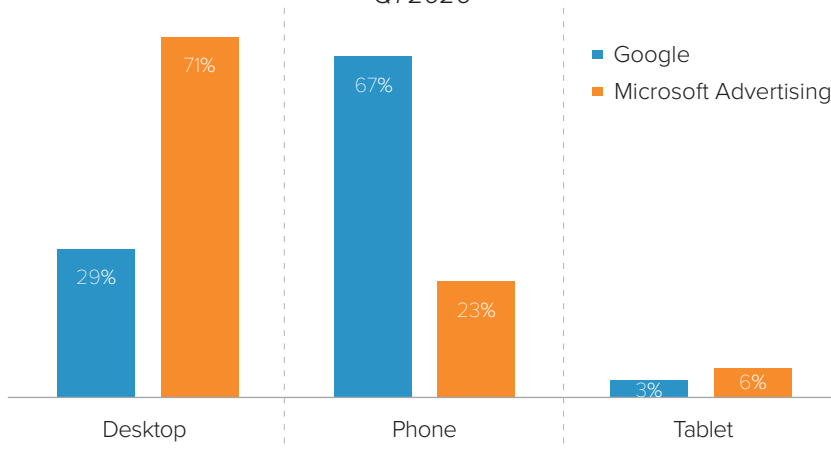


Phones generated 44% of total search ad spend in Q1 2020, up from 38% a year earlier. Tablets accounted for just 3% of search ad spending across platforms in Q1 2020, down from a little under 6% in Q1 2019. With so many people staying home due to the coronavirus to begin the second quarter, we're likely to see some shift in spend back to desktop in Q2, as search ad budgets follow users.

Google and Microsoft See Opposing Trends for Device Click Share

Device Share of Paid Search Clicks by Platform

Q1 2020



Phones produced 67% of Google search ad clicks for the full first quarter of 2020, up from 62% in Q1 2019. Desktop share of Google clicks slipped from just under 32% in Q1 2019 to 29% in Q1 2020. Trending for Microsoft was roughly the reverse, with desktop gaining nearly four points of share between Q1 2019 and Q1 2020. Importantly, Microsoft seeing rising desktop share predates any additional impacts from COVID-19 on user behavior.

organic search

Visits to brand sites generated by organic search fell 15% Y/Y in Q1 2020, down from an 11% decline in Q4 2019. Phone organic search visits fell 10%, while desktop visits fell 12%.

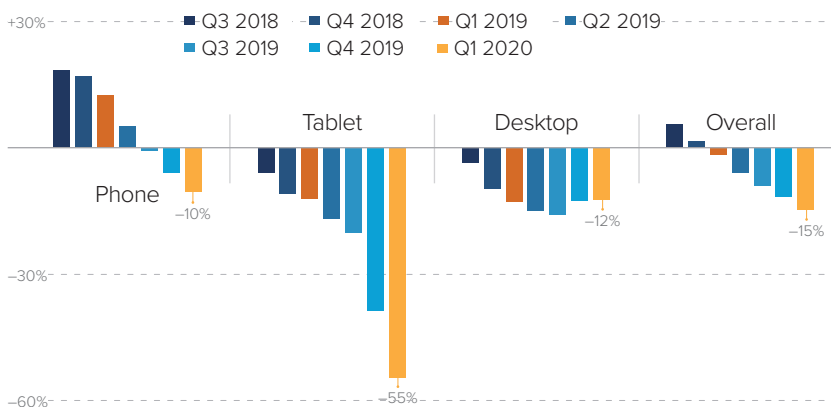
DuckDuckGo delivered a 38% increase in organic search visits in Q1 2020, but that rate of growth has cooled considerably over the past couple of quarters. In Q3 2019, DuckDuckGo visits were up 68% Y/Y.

Phones produced 52% of organic search visits in Q1 2020, up from 49% a year earlier. Tablet share of organic search visits fell from 8% in Q1 2019 to a little over 4% in Q1 2020. Desktop share of organic search increased slightly in the past year.



Organic Search Visits Fall For Fifth Straight Quarter

Y/Y Growth in US Organic Search Visits by Device

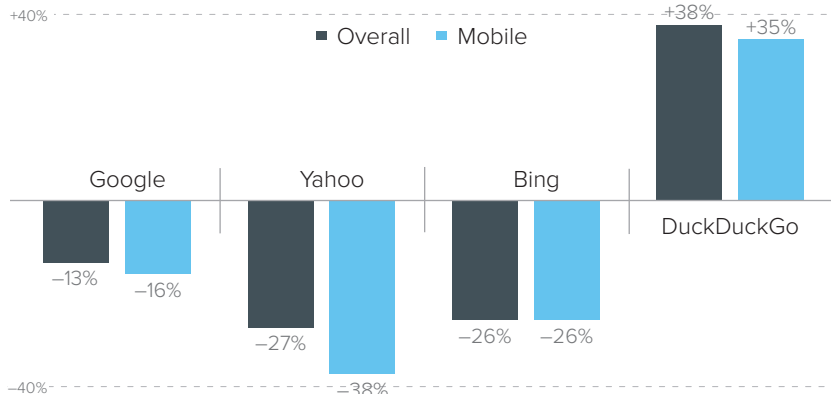


Visits to brand sites generated by organic search fell 15% Y/Y in Q1 2020, down from an 11% decline in Q4 2019. Toward the end of the quarter, impacts from COVID-19 were mixed, with essential retailers seeing more positive results than other brands. Over the longer term, organic search visits have been under fire from the increased monetization of search results pages and the rise of zero-click searches.

Google Organic Search Holding Up Better than Largest Competitors

Y/Y Growth in Organic Search Visits by Engine

Q1 2020

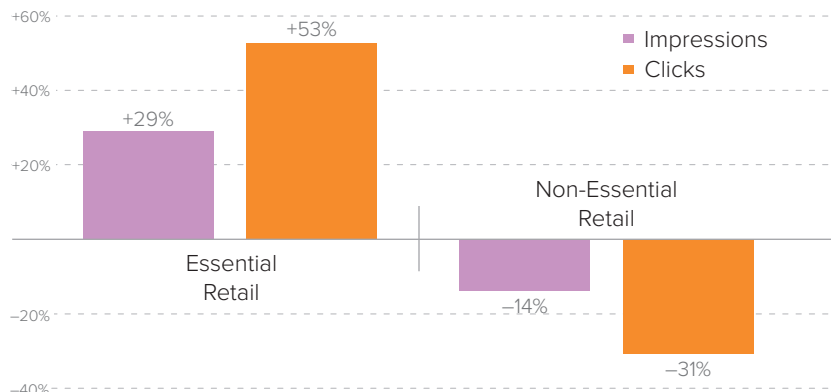


Organic search visits produced by Google fell 13% Y/Y overall in Q1 2020 and 16% Y/Y on mobile devices, including tablets. Both Bing and Yahoo continued to see larger declines with organic visits down 26% overall on Bing and 27% on Yahoo. The smaller DuckDuckGo delivered a 38% increase in organic search visits in Q1 2020, but that rate of growth has cooled considerably over the past couple of quarters. In Q3 2019, DuckDuckGo visits were up 68% Y/Y.

Essential Retailers Buck Trend of Organic Search Declines

Y/Y Growth in US Organic Search by Retail Category

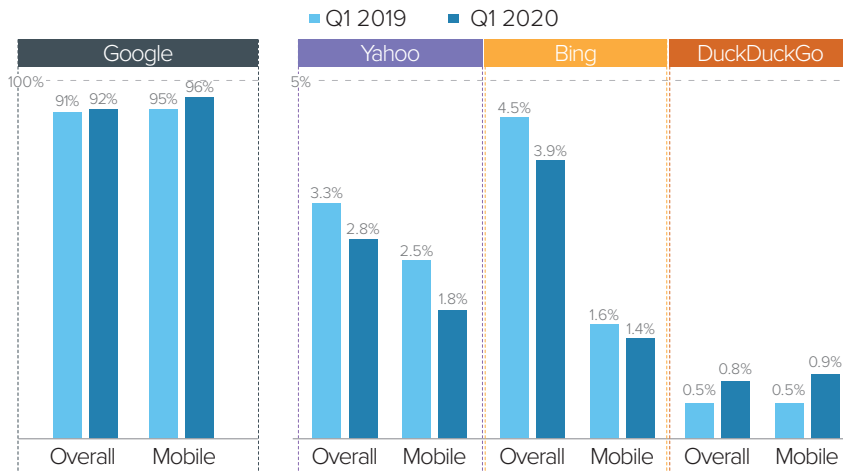
March 2020



In mid-March, as awareness of COVID-19 began rising sharply and related restrictions escalated, Merkle found very different organic search trends within the retail category, depending on the type of retailer. Essential retailers like grocers and drugstores saw organic search grow 53% Y/Y for the week ending March 15th. For the same period, non-essential retailers like apparel and specialty merchandisers saw organic clicks fall 31% Y/Y.

Google Picks Up Organic Search Share Even as Visits Fall

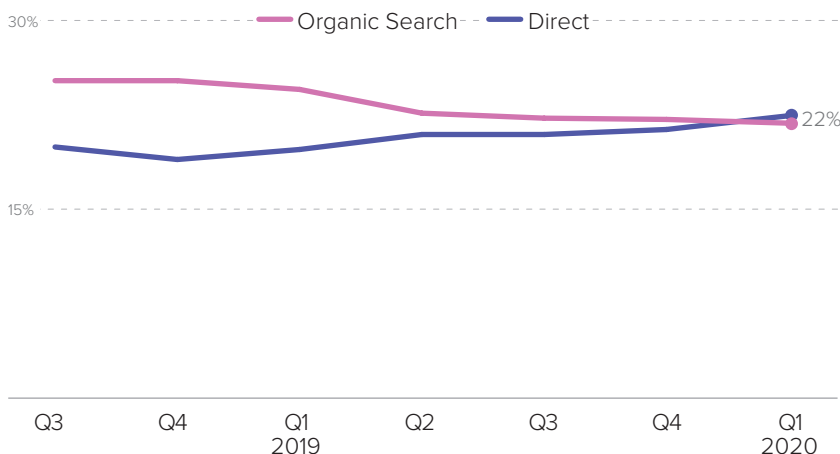
Organic Search Share of All US Site Visits



With Bing and Yahoo seeing larger declines in organic search visits than Google in Q1 2020, Google's share of all US organic search visits increased from 91% in Q1 2019 to 92% in Q1 2020. On mobile devices, Google generated 96% of organic search visits in Q1 2020. DuckDuckGo's share of organic search visits has nearly doubled in the past year, but off of a relatively small base.

Recent Rise in Direct Site Visits Mirrors Decline for Organic Search

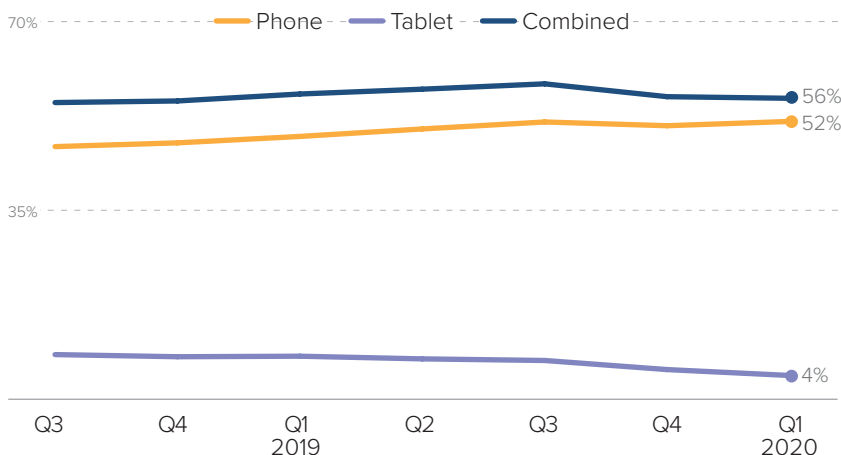
Organic Search and Direct Share of All US Site Visits



The share of site visits produced by organic search fell from 25% in Q1 2019 to 22% in Q1 2020. On mobile devices, organic search produced 21% of site visits in Q1 2020, down from 24% a year earlier. With organic search, there's always a question of the extent to which proper attribution of organic is lost to "direct" site visits, and over the past year and a half, direct site visit share has indeed trended higher in a manner that has closely mirrored organic declines.

Desktop Share of Organic Search Rises as Tablet Drop Continues

Mobile Share of US Organic Search Visits



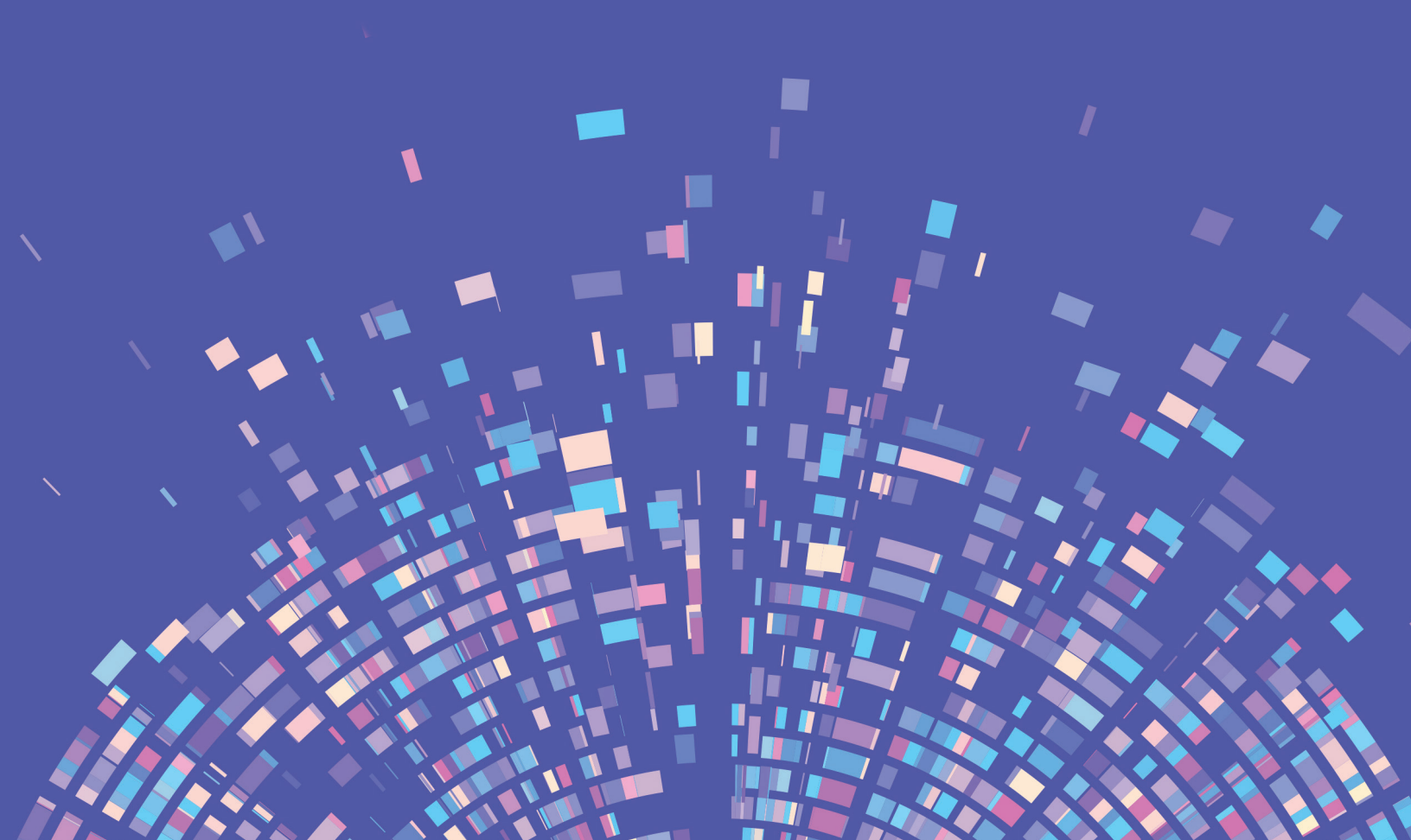
Phones produced 52% of organic search visits in Q1 2020, up from 49% a year earlier. Tablet share of organic search visits fell from 8% in Q1 2019 to a little over 4% in Q1 2020. Overall, desktop share of organic search increased slightly in the past year, rising to 44% in Q1 2020. For comparison, desktop accounted for only 32% of search ad clicks in Q1 2020. That 12-point differential in desktop share is the largest Merkle has seen.

amazon ads

Sponsored Products spend rose 67% Y/Y in Q1 2020 as clicks grew 87% and CPCs fell 10%. With sales produced by Amazon Sponsored Products ads rising 70% Y/Y in Q1 2020, advertisers held ROI for the ad format roughly flat compared to a year ago.

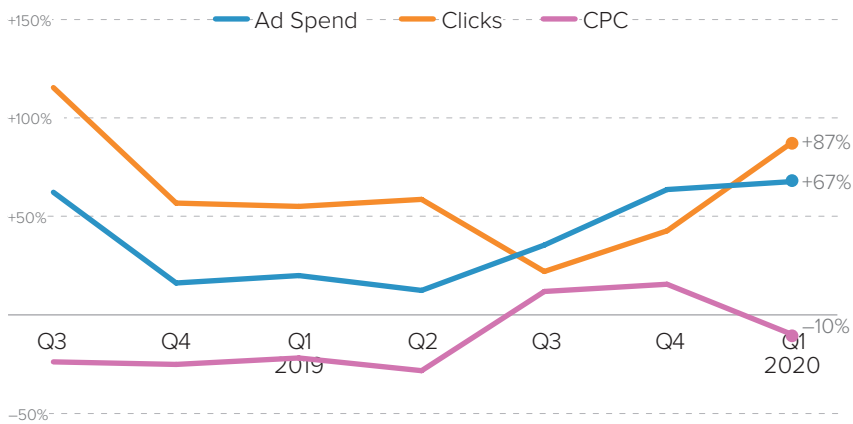
Sponsored Brands spend growth accelerated significantly to 118% Y/Y. Click growth improved to 43% Y/Y, while advertisers also saw a spike in CPC growth to 52% Y/Y.

Conversion rates were about five times higher for Amazon Sponsored Products ads than for Google Shopping ads in Q1 2020. In Q4 2019, Sponsored Products conversion rates were about four times higher than Google Shopping conversion rates.



Amazon Sponsored Product Spend Rises 67% Y/Y After Strong Q1 Start

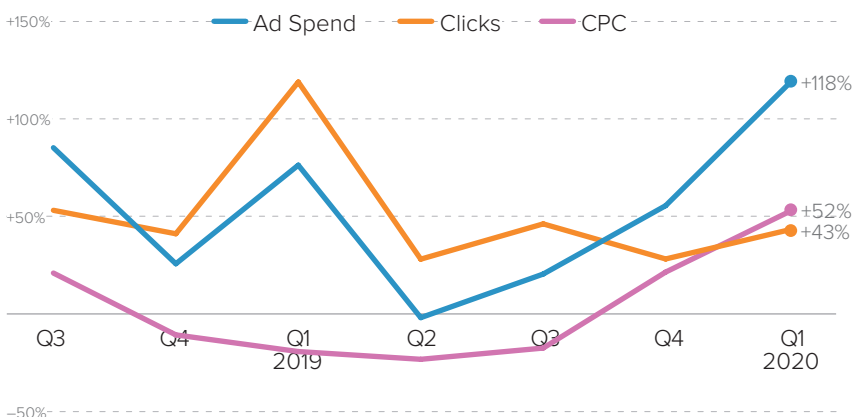
Amazon Sponsored Products Y/Y Growth



Although Amazon Sponsored Products spend levels faltered in late March, the format began the quarter on a strong trajectory and ultimately saw an acceleration in spending growth compared to Q4 2019. Sponsored Products spend rose 67% Y/Y in Q1 2020 as clicks grew 87% and CPCs fell 10%. Advertisers had pulled back on Sponsored Products spend to improve ROI in late 2018 and spend growth has been on the rebound since late 2019.

Amazon Sponsored Brands Spending Growth Accelerates

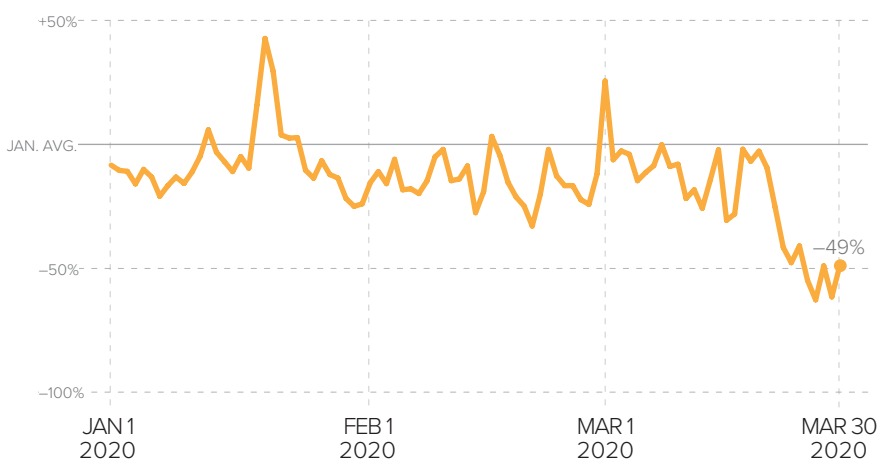
Amazon Sponsored Brands Y/Y Growth



With about a quarter of the investment of Sponsored Products, Amazon Sponsored Brands ads tend to see directionally similar long-term growth trends as Sponsored Products, but with wider swings. In Q1 2020, Sponsored Brands spend growth also accelerated, but more significantly, to 118% Y/Y. Click growth improved to 43% Y/Y, while advertisers also saw a spike in CPC growth to 52% Y/Y.

Amazon Ad Spend Levels Fall in Late March, But Should Rebound in Q2

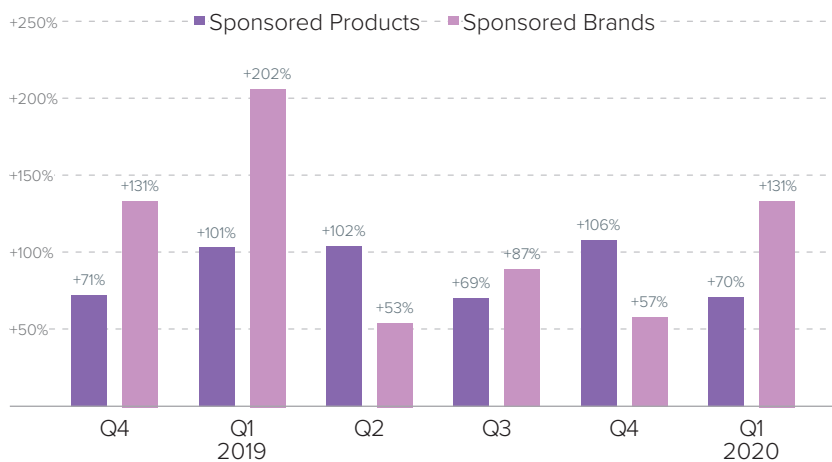
Daily Amazon Ad Spend Compared to January Average



Over the last week of March, the typical Amazon advertiser spent half as much money on Amazon ads per day as they did in January. However, the challenges COVID-19 created for Amazon ads were different than those for other channels and may be more easily solved. Some advertisers faced the issue of Amazon limiting fulfillment of non-essential products, while others ran low on product inventory or ad budgets after brisk sales earlier in the month. These issues should subside in Q2, and ad spend investment levels should rebound.

Amazon Ads Delivering Large Sales Gains at Steady ROI

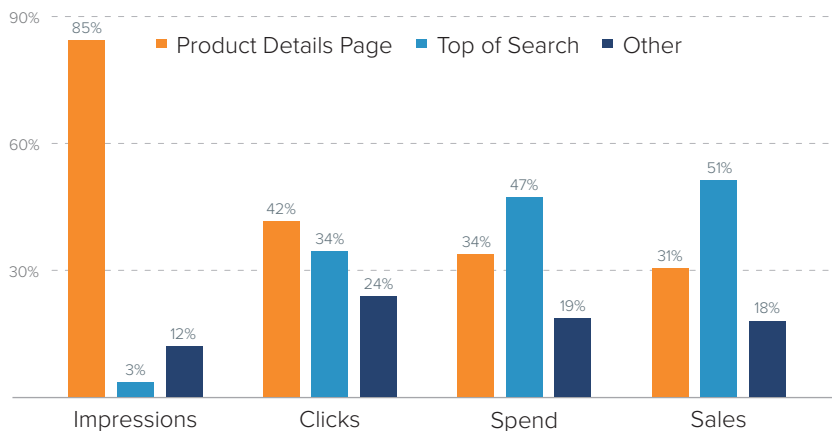
Amazon Y/Y Sales Growth by Ad Format



With sales produced by Amazon Sponsored Products ads rising 70% Y/Y in Q1 2020, advertisers held ROI for the ad format roughly flat compared to a year ago, as spend increased 67% Y/Y. Results were similar for Sponsored Brands ads, which saw sales growth of 131% Y/Y in Q1 2020 on a cost increase of 118% Y/Y.

Top of Search Generates Majority of Amazon Sponsored Products Sales

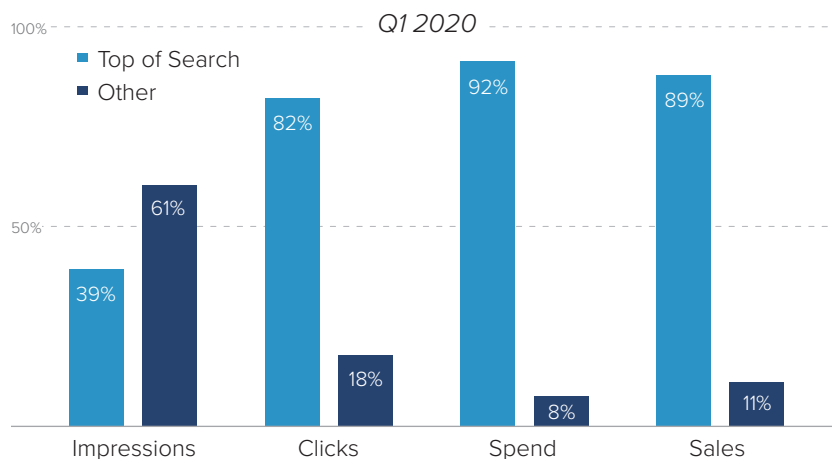
Amazon Sponsored Products Share by Placement
Q1 2020



While top-of-search placements only accounted for 3% of Sponsored Products ad impressions in Q1 2020, they generated 51% of sales for the format. Product details pages produced 85% of impressions for Sponsored Products, but generated just 31% of sales. Between Q4 2019 and Q1 2020, other placements saw a notable increase in sales share, generating 18% of sales in Q1, compared to 13% in Q4. Spend share for each placement has trended closely with sales share.

Sponsored Brands Ads Still See Top-of-Page Listings Generate 89% of Sales

Amazon Sponsored Brands Share by Placement

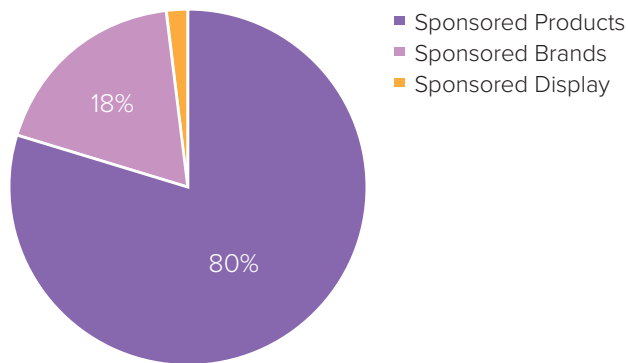


For the format formerly known as Headline Search Ads, top-of-search placements continue to drive a large majority of sales, even as impressions from other placements have been on the rise. Top of search generated 89% of Sponsored Brands sales in Q1 2020 and 39% of impressions for the format. Other placements now produce 61% of Sponsored Brands impressions, but just 11% of sales.

Amazon Sponsored Brands Spend Share Remains Elevated

Amazon Spend Share by Ad Format

Q1 2020

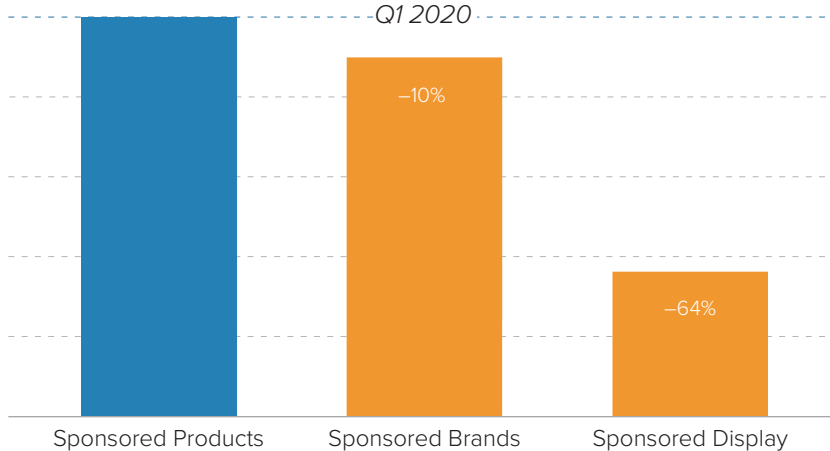


Sponsored Products accounted for 80% of Amazon Sponsored Ads spend in Q1 2020, up from 79% in Q4 2019. Sponsored Brands generated 18% of spend in Q1, sustaining its share from Q4. Just two quarters earlier, in Q3 2019, Sponsored Brands spend share was a little over 9%. The format has typically delivered relatively strong results in Q4. Finally, Amazon's Sponsored Display ads accounted for just 2% of spend in Q1 2020.

Sponsored Brands Sales Per Click Just 10% Lower than Sponsored Products

Amazon Relative Sales Per Click by Amazon Ad Format

Q1 2020

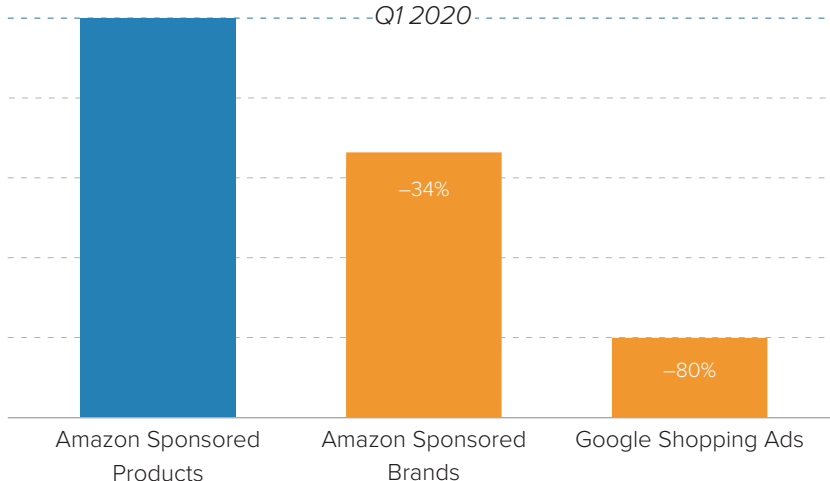


Helping to drive up absolute spend and spend share for the Sponsored Brands format has been an increase in the sales per click it generates relative to Amazon's other ad formats. Sponsored Brands sales per click was 10% lower than Sponsored Products sales per click in Q1 2020. Two quarters earlier, Sponsored Brands sales per click was 26% lower, while the gap shrunk to 19% in Q4 2019. Sponsored Display sales per click was 64% lower than Sponsored Products sales per click in Q1.

Gap Between Amazon and Google Ads Sales Per Click Widens

Google Shopping vs. Amazon Relative Conversion Rate

Q1 2020



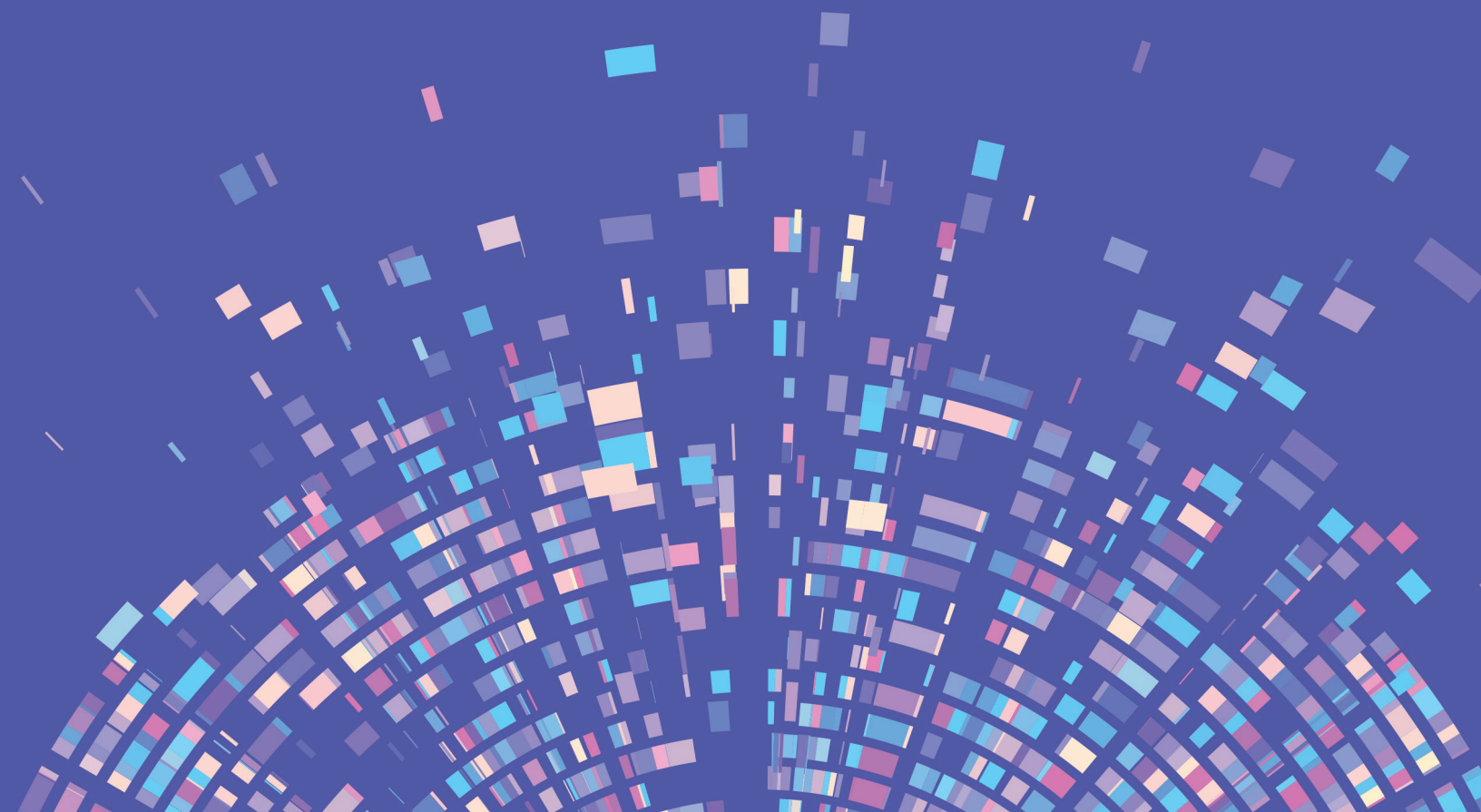
Average conversion rates for Amazon Sponsored Products were about five times higher than average conversion rates for Google Shopping ads in Q1 2020. In Q4 2019, Sponsored Products conversion rates were about four times higher than Google Shopping conversion rates. Conversion rates were 34% lower for Sponsored Brands than Sponsored Products ads, but Sponsored Brands still convert significantly better than Google Shopping ads.

display & paid social

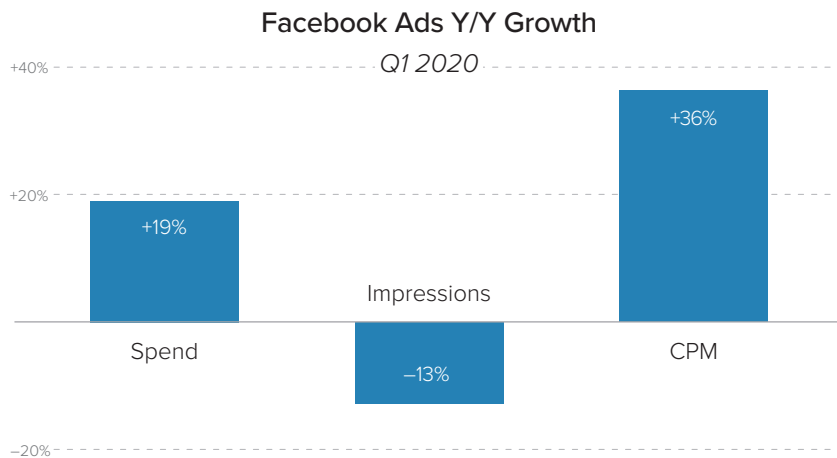
Spending on Facebook ads, excluding Instagram, grew 19% Y/Y in Q1 2020, up from 15% growth in Q4 2019. Advertiser spending on Instagram grew 39% Y/Y in Q1 2020, up slightly from 38% growth in Q4 2019.

For brands running both Instagram and Facebook ads in Q1 2020, Instagram accounted for 27% of total spending across the two platforms and 34% of impressions.

In Q1 2020, Stories ads accounted for 22% of Instagram spend and 28% of impressions. Adoption of Stories ads is nearly universal on Instagram, but remains weaker on the core Facebook property.

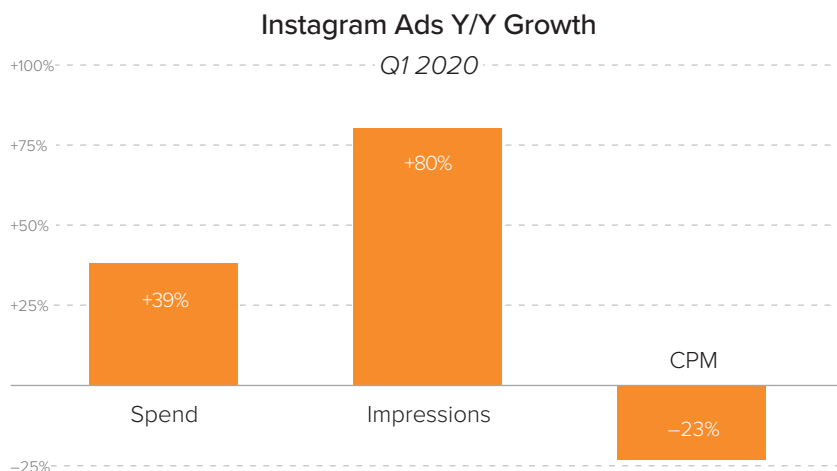


Advertiser Spending on Facebook Rises 19%, Excluding Instagram



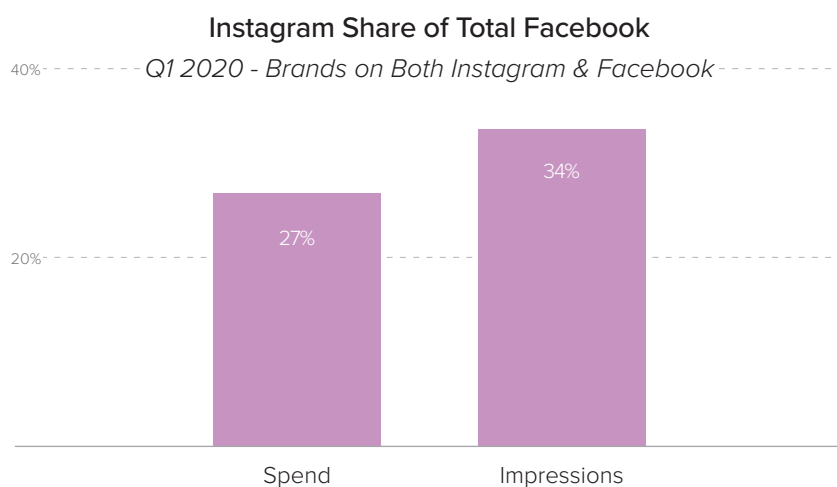
Spending on Facebook ads, excluding Instagram, grew 19% Y/Y in Q1 2020 up from 15% growth in Q4 2019. For the full quarter, impressions fell 13% Y/Y, compared to a 5% decline in Q4, while CPM increased by 36%. Advertisers did categorically see CPMs trend lower in late March as impacts from the COVID-19 pandemic escalated, but CPM comps from 2019 were relatively weak for the quarter.

Instagram Spending Growth Steady, but Impressions Jump



Advertiser spending on Instagram grew 39% Y/Y in Q1 2020, up slightly from 38% growth in Q4 2019. Instagram ad impressions rose 80% Y/Y, compared to a 29% increase a quarter earlier. Instagram CPMs fell 23% Y/Y in Q1, down from a 7% increase in Q4. As with other major platforms, the impact of COVID-19 on Instagram budgets varied depending on advertiser vertical, but most advertisers did shift their messaging in response to the crisis.

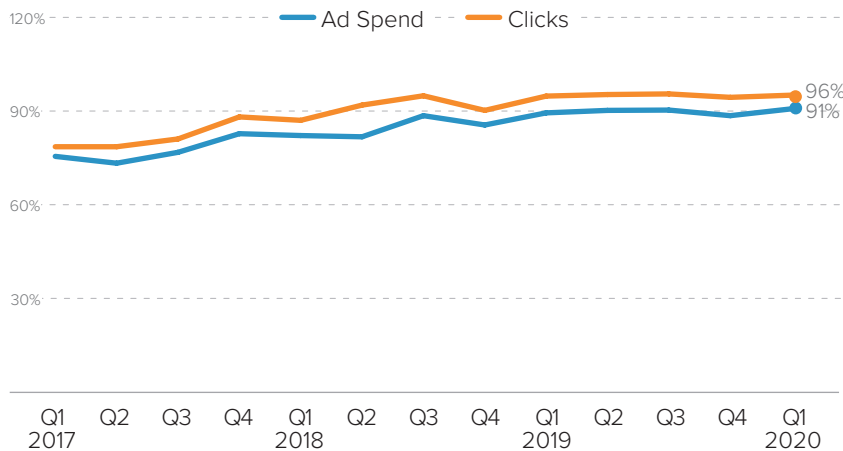
Instagram Share of Total Facebook Ad Impressions Rises to 34%



For brands running both Instagram and Facebook ads in Q1 2020, Instagram accounted for 27% of total spending across the two platforms and 34% of impressions. Instagram's spend share was unchanged from Q4 2019, but its share of impressions increased from 32% in Q4. Nearly all major brands that run Facebook ads now also run Instagram ads, as it has become a best practice to optimize marketing efforts across all of Facebook's platforms.

Mobile Continues to Drive Nearly All Facebook Click Volume

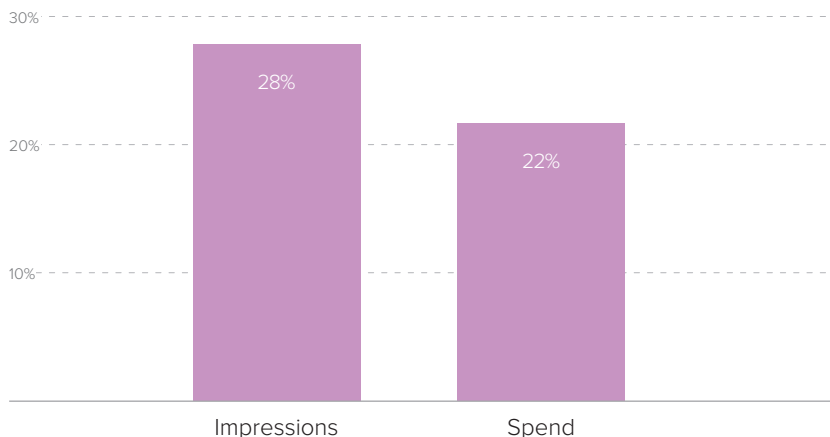
Facebook Ads Mobile Share



While some digital channels, including search, saw a small shift in traffic share back to desktop at the end of Q1, desktop has long been a much smaller traffic producer for Facebook than most ad platforms. In Q1 2020, mobile devices produced over 95% of Facebook ad clicks. Desktop does still command higher CPCs, though, as mobile devices accounted for 91% of Facebook spend in Q1 2020.

Stories Ads Produce 22% of Total Instagram Spend in Q1 2020

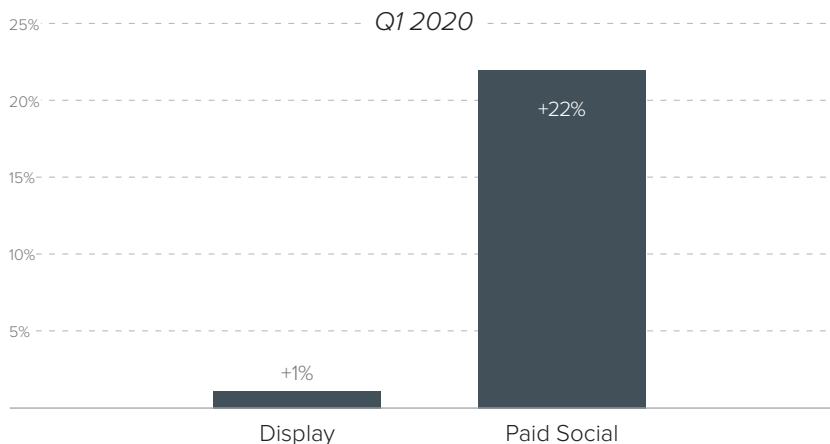
Instagram Stories Ads Share of Instagram
Q1 2020



Viewed by brands as an efficient way to drive engagement and new acquisition, Instagram Stories ads continue to increase in popularity among advertisers. In Q1 2020, Stories ads accounted for 22% of Instagram spend and 28% of impressions. Adoption of Stories ads is nearly universal on Instagram, but remains weaker on the core Facebook property.

Social Media Ad Spending Growth Up Slightly to 22%

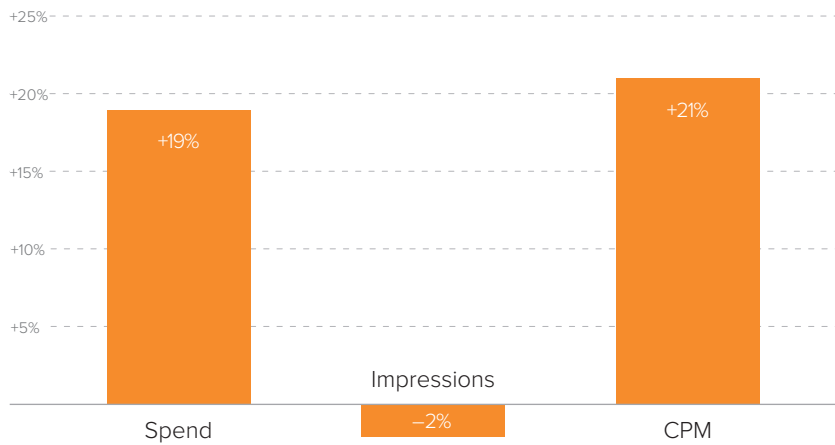
Display and Paid Social Y/Y Spend Growth



Spending on more traditional display ad platforms, including the Google Display Network and DV360, grew just 1% Y/Y in Q1 2020, down from 8% growth in Q4 2019. Spending across all social media platforms, including Facebook and Instagram, as well as Pinterest, Snapchat, and Twitter, grew 22% Y/Y. In Q4 2019, paid social ad spend increased 21%.

YouTube Spending Growth Slows as Some Brands Pause Campaigns

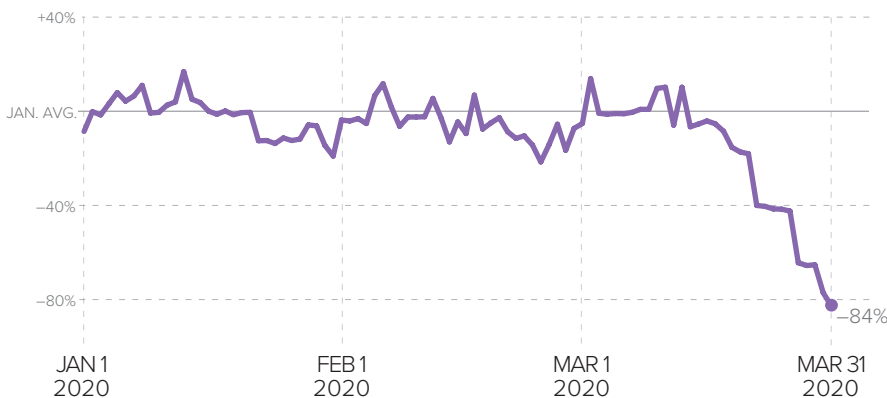
YouTube Ads Y/Y Growth



Spending on YouTube ads grew 19% Y/Y in Q1 2020, down from 43% growth in Q4 2019. YouTube ad impressions fell 2% for the quarter while average CPM rose 21%. As with other channels, YouTube trending looked very different at the end of the quarter, with many advertisers pulling back on spend or pausing campaigns entirely.

YouTube Spend Levels Fell Sharply Over Late March

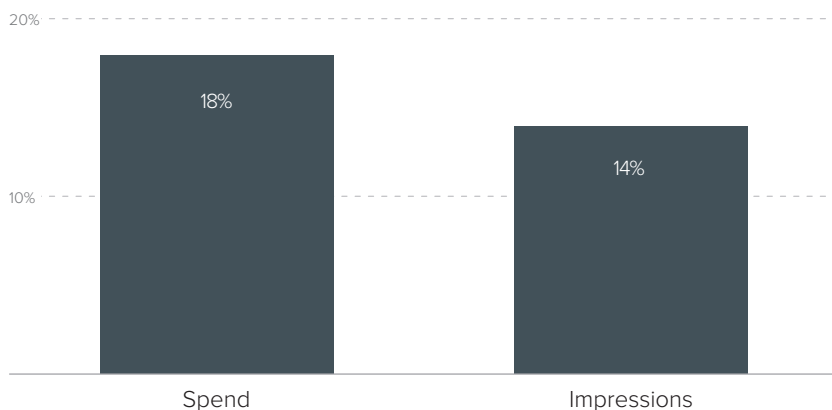
Daily YouTube Spend Compared to January Average



For brands that consistently advertised on YouTube throughout January and February 2020, spend levels began to fall for the typical advertiser in mid-March as the impacts of the coronavirus situation became more severe in the US. By the end of the quarter, YouTube spend levels were only about 20% of January's daily average, including results for brands that paused their YouTube programs in March.

YouTube Ad Spend Down Compared to Google Search

YouTube Ads Relative to Google Search Ads
Q1 2020



Advertisers who ran both YouTube and Google search ads in Q1 2020 spent 18% as much on YouTube as Google search. YouTube also generated 14% as many impressions as search. For comparison, in Q4 2019, YouTube accounted for 26% as much spend as Google search ads and generated 19% as many impressions. As COVID-19 hit, some brands shifted out of YouTube to focus on more pure direct response tactics, including search.

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 30 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. Its combined strengths in performance media, customer experience, customer relationship management, loyalty, and enterprise marketing technology drive improved marketing results and competitive advantage. With 9,600+ employees, Merkle is headquartered in Columbia, Maryland, with 50+ additional offices throughout the US, EMEA, and APAC. 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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report 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.