



RKG Digital Marketing Report Q2.2012

RKG

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Executive Summary

- > Paid search spending grew at a 29% year over year rate in Q2 2012 for RKG clients that have worked with us for at least the past six quarters. That was down slightly from a 32% growth rate among the same sample for Q1.
- > Google paid search spending grew 32% Y/Y in Q2, down from 36% in Q1. Google click growth was on par with Q1 at 46%, but CPCs fell by a larger amount. CPCs were 10% lower Y/Y in Q2, but up 4% Q/Q.
- > Paid search spending on Bing and Yahoo combined grew 16% Y/Y in Q2, up from 10% growth in Q1. Click growth was weak at 3% Y/Y, while CPCs increased 12%.
- > Google's Product Listing Ads format, which will soon power Google Shopping, accounted for 15% of Google non-brand clicks and over 9% of total paid clicks across all engines in Q2. At the same time, Google Shopping accounted for 50% of all comparison shopping engine clicks.
- > Google improved its share of organic search traffic, which rose from 76% in Q1 to 77% in Q2. Bing and Yahoo each held a share of 10%. In paid search, Google AdWords generated 84% of clicks.
- > Facebook increased its share of referral traffic to just under 6%. Pinterest accounted for a little over 1% of referrals on average, although that figure was highly variable from client to client. Along with Twitter, these top social sites accounted for a little over 1% of all site visits.
- > Mobile accounted for over 15% of organic search visits in Q2, up from 13% in Q1. Mobile share of paid search was lower than organic at 13% as advertisers limited their spending on poorly converting smartphone traffic.
- > Tablets accounted for 57% of mobile paid search clicks, at a CPC 9% lower than desktop. Smartphone CPCs were 53% lower than desktop.
- > The Kindle Fire was the iPad's single biggest competitor in Q2, taking 4% of tablet traffic in paid search. As Google preps the release of their own Nexus 7 tablet, the iPad held an 86% share.
- > NexTag and Shopzilla/Bizrate have seen their shares of CSE clicks erode since Q4, while Amazon Product Ads' share has improved from 10% to 12%.
- > RKG attribution data shows that only 25% of Q2 orders involved touches from multiple channels, but also that moving from a last touch model to a first touch model can shift revenue credit for individual channels by nearly 40%.

Paid Search Marketing

The biggest paid search development in Q2 won't actually fully manifest itself until later this year when Google will have completed a transition that will power its previously free Shopping listings with AdWords Product Listing Ads (PLAs). Retailers with separate teams or agencies managing paid search and comparison shopping engines will have to decide between now and then who is best suited to manage PLAs, as the change will blur the distinction between the two disciplines.

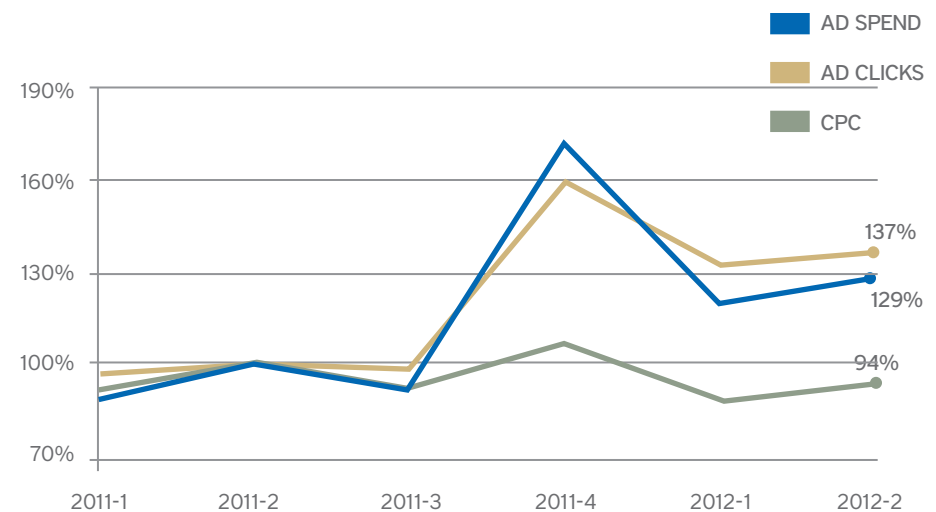
This isn't a trivial issue as RKG found that 15% of our clients' non-brand Google paid clicks were generated by PLAs in Q2 at a 13% higher than average ROAS. That figure has risen sharply since late 2010 and, for individual retailers, it often runs much higher. Currently, Google Shopping traffic volume is roughly one third to one half that of PLAs on average. In the end, Google will stand to generate hundreds of millions, if not over a billion dollars in new annual revenue from this change.

More generally in Q2, the trends in key paid search metrics did not depart significantly from the results we have seen over the last few quarters. Google spending growth slowed slightly, but it continued to be driven by click volume gains as cost-per-click once again edged lower. These results have been heavily influenced by the aforementioned PLAs. Meanwhile, spending on Bing and Yahoo via adCenter continued to show a modest turnaround even as their click growth remained tepid.

Over the following pages, we've once again chosen to drill down from high level overall performance metrics to the results for the brand and non-brand segments for each engine. This distinction not only helps to show better the incremental gains advertisers are achieving, but also offers insight into the algorithmic changes the engines are making behind the scenes. In this respect, the means by which AdWords and adCenter are driving volume growth could hardly be more at odds.

We've also spotlighted the latest trends in mobile and included a number of other data points you're unlikely to find anywhere else - at least not so conveniently in one report.

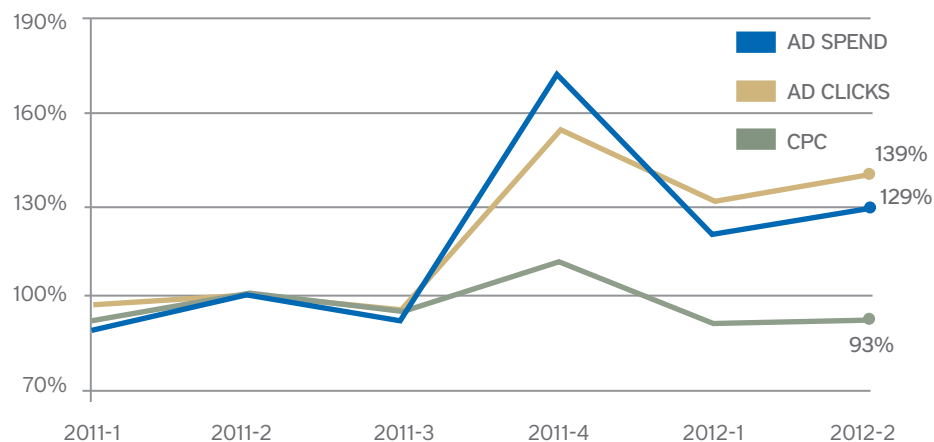
➤ Paid Search - Overall Trends



Year over year ad spend growth remained robust at 29% across all engines, although it was down slightly from a 32% Y/Y rate in Q1. Click volume increases continued to drive spend growth as cost-per-click fell 6%. From Q1 to Q2, ad spend rose 8% and CPC rose 5%.

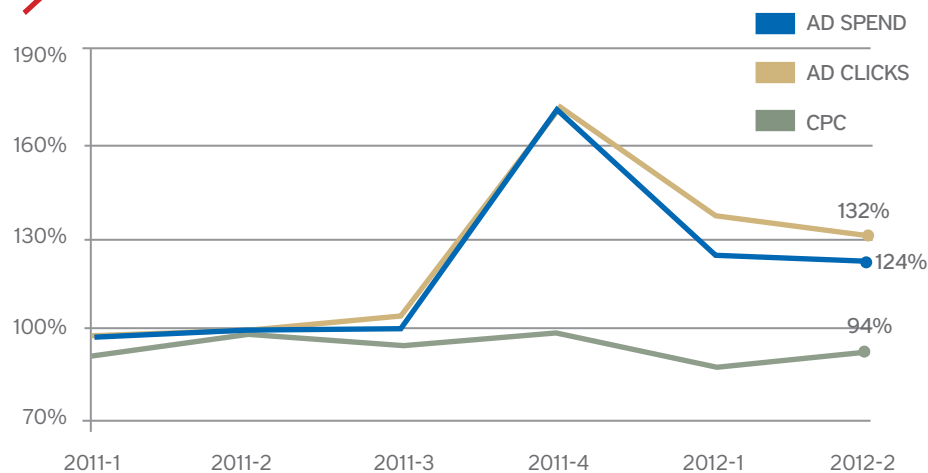
Note: These figures and most others throughout this report are normalized such that Q2 2011 equals 100%.

> Paid Search - Non-Brand Trends



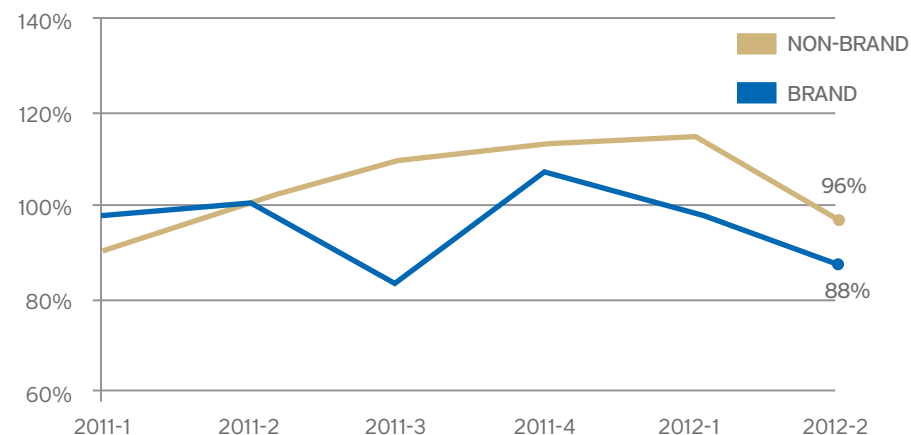
Focusing on the performance of non-brand keywords, ad spend was also up 29% Y/Y. Ad click growth was stronger than the overall average at 39%, while the CPC decline was larger at 7%.

> Paid Search - Brand Trends



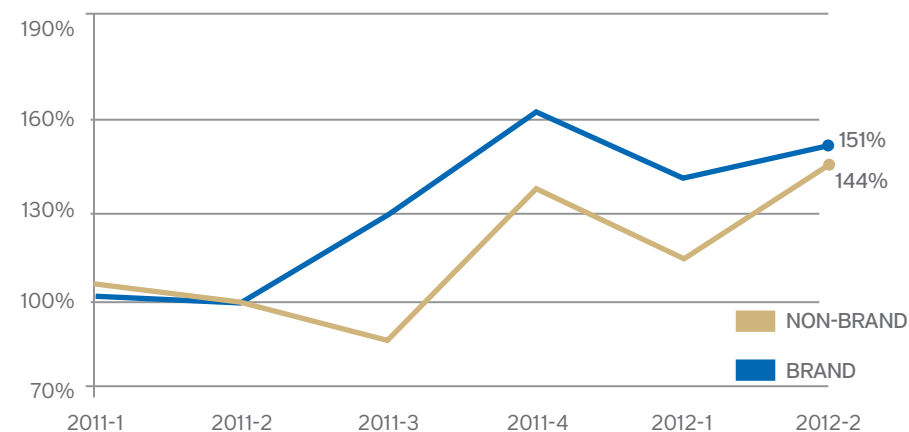
Conversely, spending on brand terms grew 24% in Q2, down from a 26% Y/Y rate in Q1 and below the overall average. Brand CPCs fell 6%, compared to a 9% Q1 decline. As we will see in subsequent graphs, the brand performance trends from AdWords and adCenter have been highly divergent from one another in recent quarters.

> Paid Search - Click-Through Rate



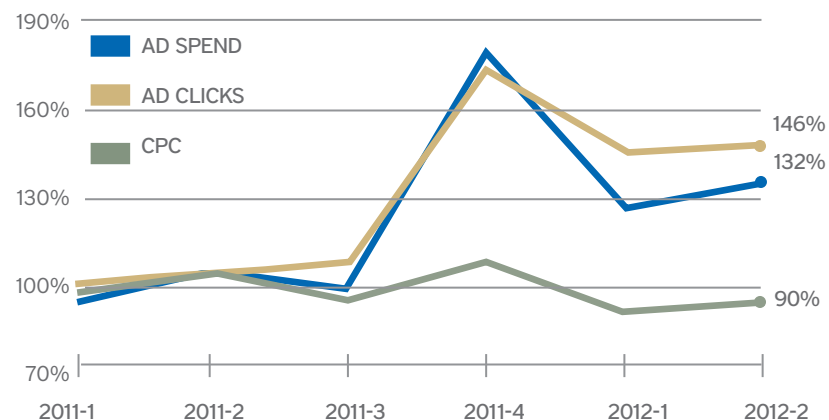
We have pointed to improving click-through rates as a pivotal factor in the rapid growth of paid search traffic over the past year. The CTR trend came to end in Q2, but not click growth as the decline in CTR was precipitated by a surge in marginal impressions, not a decreased user propensity to click existing inventory.

> Paid Search - Ad Impressions



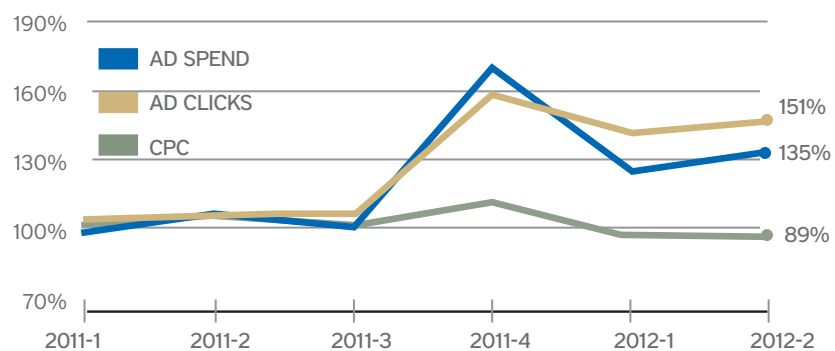
Non-brand impression growth of 44% Y/Y was driven by Google, while brand impression growth of 51% was driven by Bing and Yahoo. As we saw above, much of this impression growth was on marginal inventory that generated low levels of additional clicks, leading to a CTR decline.

Google Paid Search - Overall Trends



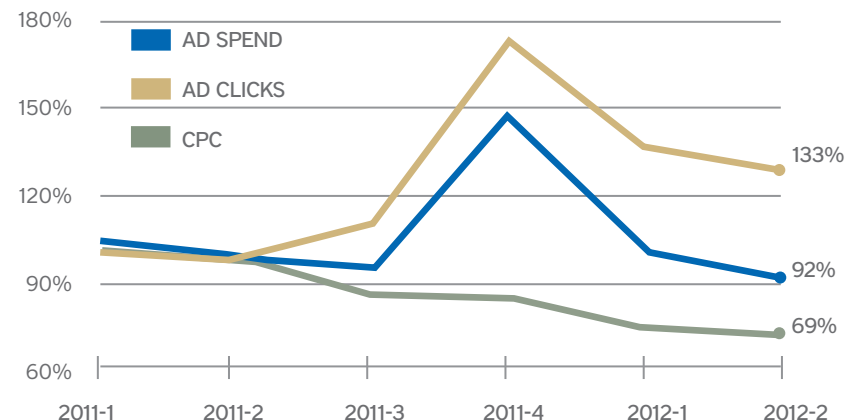
Spending on Google paid search rose 32% Y/Y in Q2, down from a 36% growth rate in Q1. Ad click growth remained very impressive at 46%, similar to Q1 levels. CPCs fell 10% Y/Y, down from a 7% decline in Q1, but CPCs did improve 4% from quarter to quarter.

Google Paid Search - Non-Brand Trends



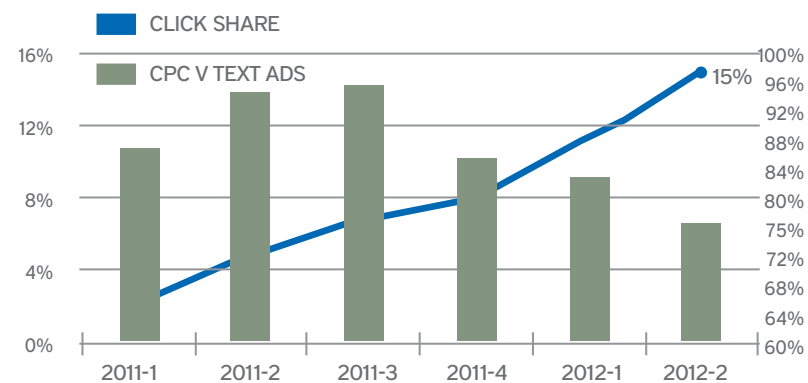
Heavily influenced by the Product Listing Ads format, Google non-brand clicks rose 52% in Q2. Ad spend growth was tempered by an 11% CPC decline, coming in at 35%. Excluding PLAs, non-brand spending rose 24%, clicks increased 35% and CPC fell 8%.

Google Paid Search - Brand Trends



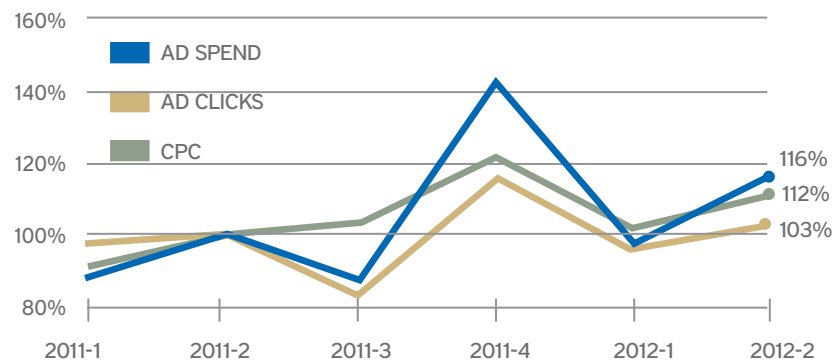
Cost-per-click on brand terms continued a sharply downward trend, coming in 31% lower than last year. Brand click growth was 33% Y/Y, down from nearly 40% in Q1, while spending on brand terms declined 8%.

Google Product Listing Ads



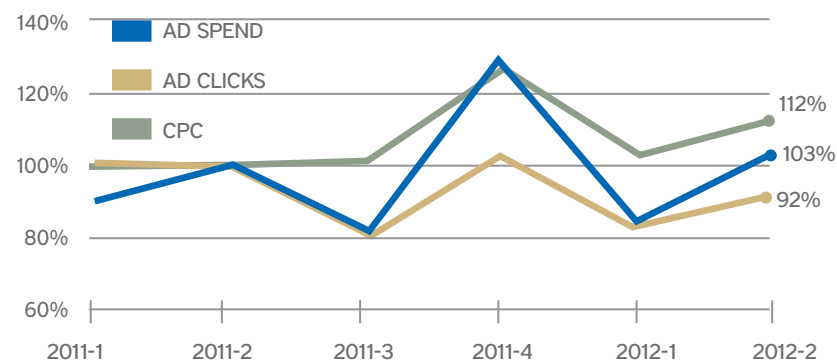
Product Listing Ads were the biggest story in search marketing in Q2 after Google announced they would soon power the new Google Shopping. RKG has seen wide adoption of the format dating back to 2010, and our high levels of PLA growth are a significant factor in our above average Google growth rates. In Q2, PLAs contributed 15% of non-brand AdWords clicks at a 23% lower CPC than standard text ads.

> Bing & Yahoo Paid Search - Overall Trends



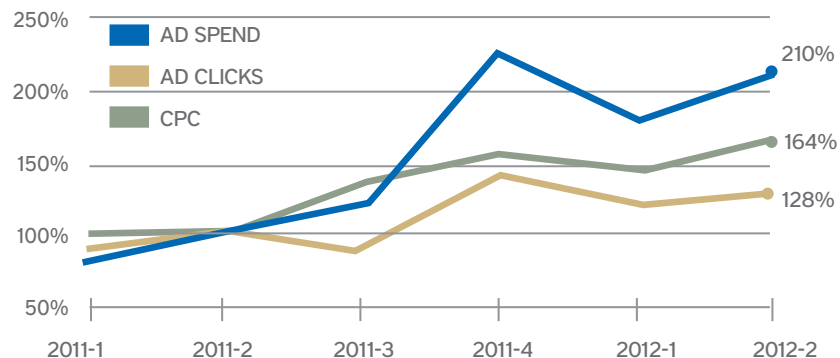
Combined, Bing and Yahoo saw 16% higher spend in Q2 from adCenter-powered paid search ads. Ad clicks rose only 3% Y/Y though, while CPCs rose nearly 12%.

> Bing & Yahoo Paid Search - Non-Brand Trends



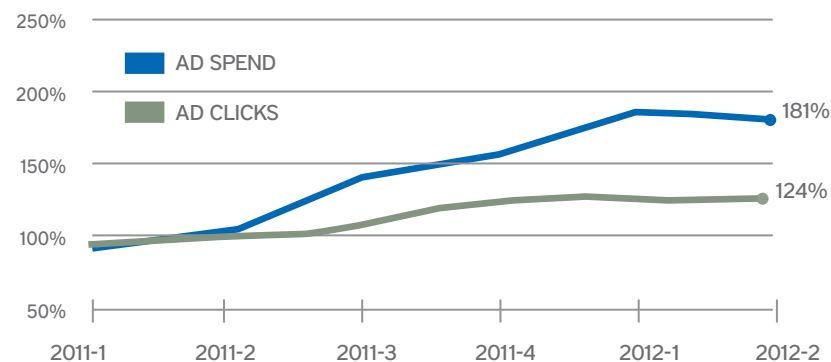
Despite indications that adCenter is increasingly employing broad match for non-brand queries, non-brand click volume remained weak in Q2, as it fell over 8%. Ad spend did rise 3%, however, as CPC was 12% higher.

> Bing & Yahoo Paid Search - Brand Trends



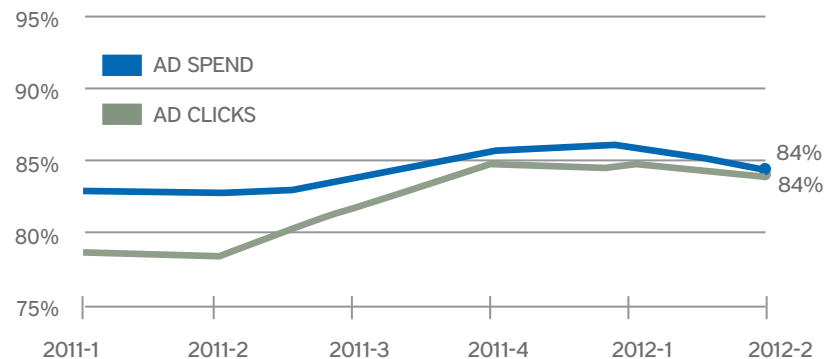
Brand performance trends on Bing and Yahoo are almost completely counter to the ones we see on Google. The significant escalation of broad matching for brand queries on adCenter has driven CPCs up 64% Y/Y. Brand ad clicks have risen 28%, even as non-brand clicks have fallen, and brand spend has more than doubled Y/Y.

> Bing & Yahoo - Brand Share



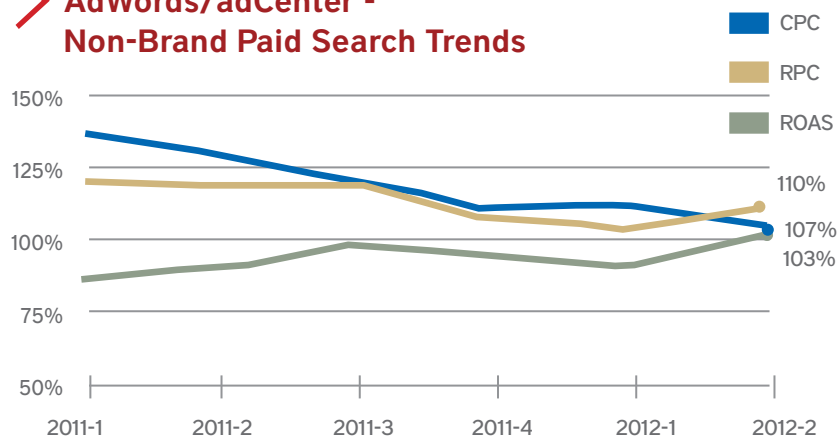
Viewed another way, we can see that the share of adCenter clicks generated by brand terms has increased 24% Y/Y, while the share of spend on brand has increased 81%.

> Google AdWords Share of Paid Search



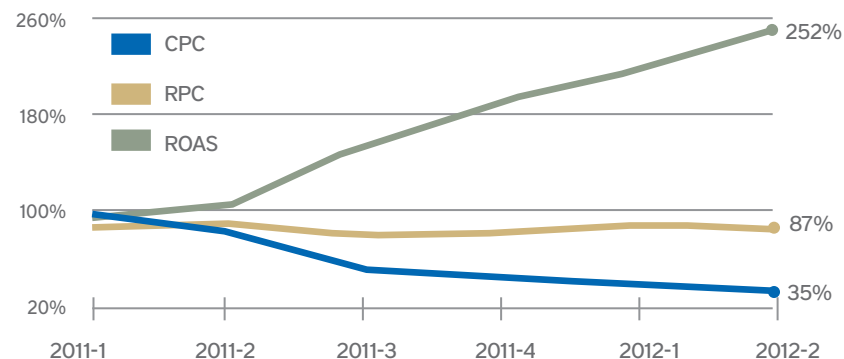
While Google's shares of paid search spend and clicks have risen from year ago levels, Bing and Yahoo's larger Q/Q growth has driven Google share down from Q1 to Q2. Still, Google holds a commanding 84% share of both.

> AdWords/adCenter - Non-Brand Paid Search Trends



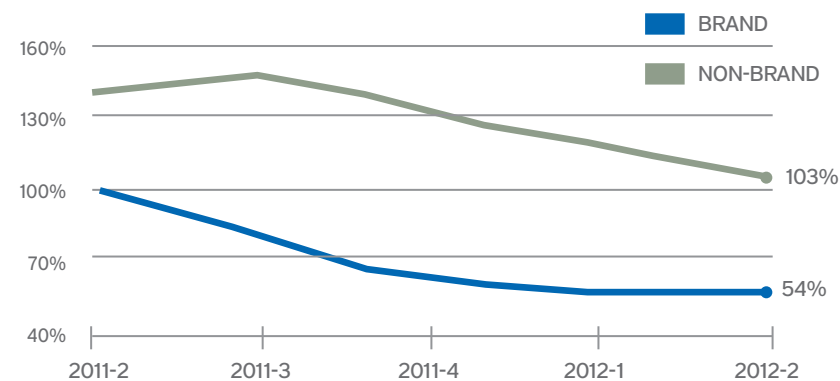
Comparing AdWords to adCenter, we are seeing increasing parity in the three key metrics of cost-per-click, revenue-per-click and return on ad spend for non-brand terms. Google's CPC advantage of 37% in Q1 2011 has fallen to just 7% in Q2 2012 and Google now generates a slightly higher ROAS than Bing and Yahoo.

> AdWords/adCenter - Brand Paid Search Trends



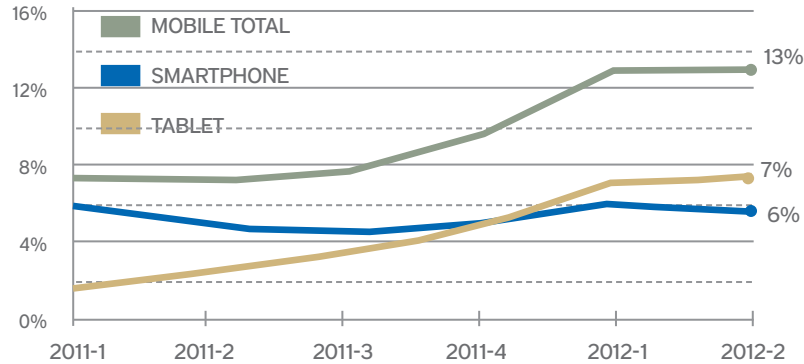
On the brand side, the opposite trending of CPCs and flat comps for revenue-per-click have driven Google's ROAS to nearly 3X that of Bing and Yahoo. The strong conversion of brand terms still gives them a far higher ROAS than non-brand terms on Bing and Yahoo, but advertisers would be wise to take steps to limit these adCenter CPC increases.

> AdWords/adCenter - Share of Clicks from Broad Match



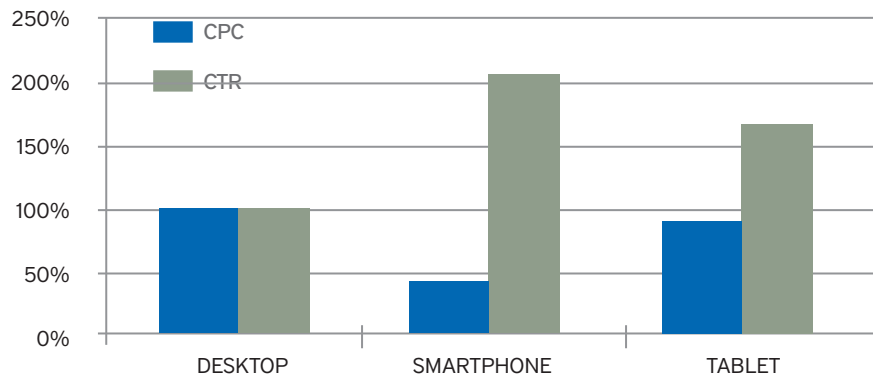
Above, we mentioned adCenter's increased use of broad matching, particularly for brand queries, and that trend is clear in this graph. Google now employs broad match for brand terms at about half the rate that adCenter does, while adCenter now broad matches roughly as often as Google does for non-brand terms.

> Mobile Paid Search Click Share



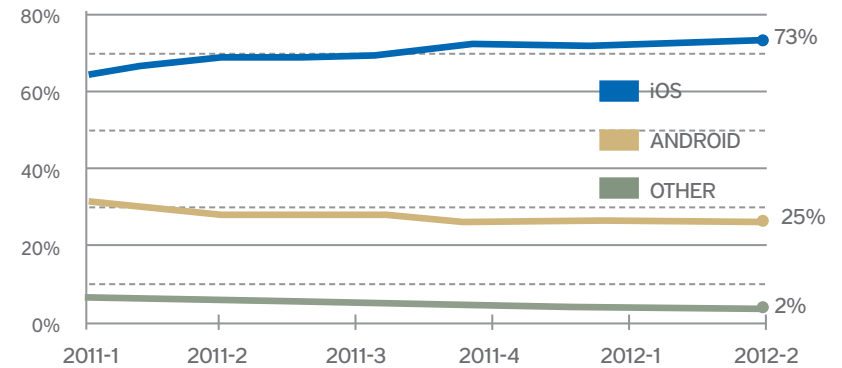
Overall, mobile share of paid search traffic was flat from Q1 to Q2 at 13%. Tablets made a small gain, but advertisers chose to limit their smartphone spend allocation due to poor e-commerce performance. Still, the entire mobile segment nearly doubled in share Y/Y while tablet share nearly tripled.

> Mobile vs Desktop - Cost-Per-Click & Click-Through Rate



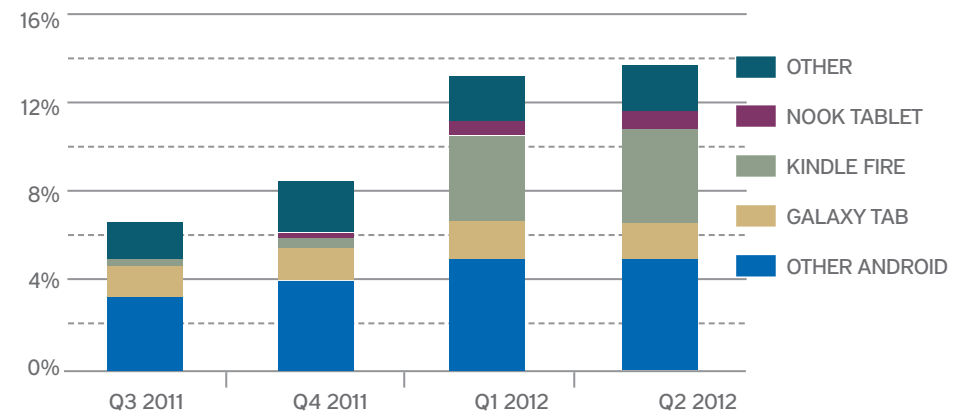
Smartphone cost-per-click was 53% lower than desktop in Q2, while tablet CPCs ran 9% lower. We have not seen any indication that those gaps are narrowing. While many have blamed mobile for Google's declining CPCs overall, mobile's contribution here is actually quite small as Google CPCs are still down significantly on desktop Y/Y.

> Mobile Paid Search Click Share by OS



In the mobile OS race, we see Apple's iOS adding to its paid search click share lead slightly from Q1 to Q2. With the iPad alone accounting for half of mobile clicks, iOS held a 73% share in Q2, while Android held 25%. Usage figures like these tend to favor iOS, while unit sales or subscriber counts generally benefit Android.

> Share of Tablet Paid Search Clicks Not on an iPad



Other tablet devices are chipping away at the iPad's dominance, but their progress has slowed. These competitors held a combined 13.7% share of tablet clicks in Q2, up from 13.4% in Q1. The Kindle Fire is the largest single competitor to the iPad with 4.3% of paid search clicks in Q2.

The first half of 2012 has been a whirlwind of changes by the search engines (notably Google) and within the SEO industry. While last year's initial Panda update set the stage for dramatic adjustments to Google's organic scoring algorithms, the Penguin "over optimization" update escalated this by targeting "unnatural" link text. This marks the first strong move by the Google search quality team towards penalizing, not just filtering, blatant examples of aggressive keyword matching within anchor text.

Both of these major updates have changed the game for SEO practitioners everywhere. An unforeseen consequence of Penguin has already come about: so-called "negative SEO" and the ability to hurt a site through the use of spammy back links and exact match anchor text.

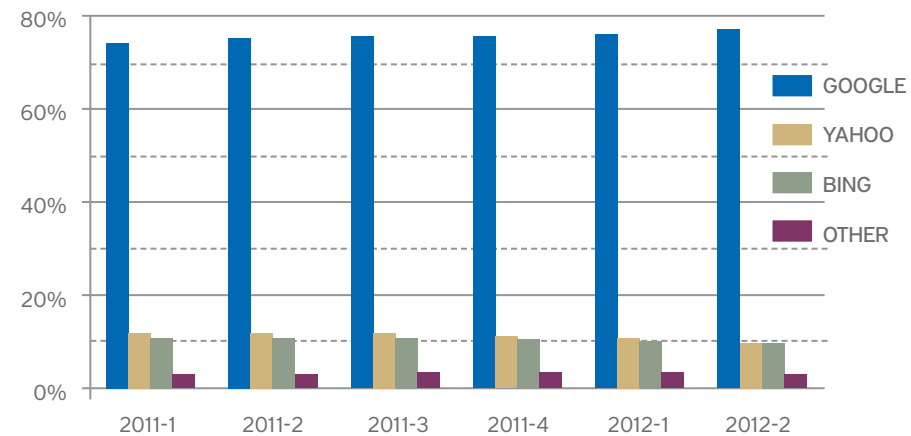
Huge ranking changes specific to user metrics came about with the Panda update and this has been extended dramatically with entities in search, such as author profiles, and the new Knowledge Graph. Along with new HTML 5 tools available for things like pagination and international SEO, entities and structured data in search results represent an area of increasing opportunity.

Both mobile and social media also continue to be critically important to our clients. The industry has arrived on an agreed best practice for handling mobile SEO, thanks to the efforts of Google supporting new annotations. And the dramatic rise of Pinterest continues to lead strong growth across social channels. It is becoming increasingly clear that meaningful content strategies will play a critical part in successful SEO campaigns in 2012 and beyond.

Let's not forget Bing. While its market share slipped slightly, Bing has continued to innovate and participate in the search community. The latest updates to Bing Webmaster Tools have impressed us. We're keenly interested in the new link index data as a viable alternative to existing data sources.

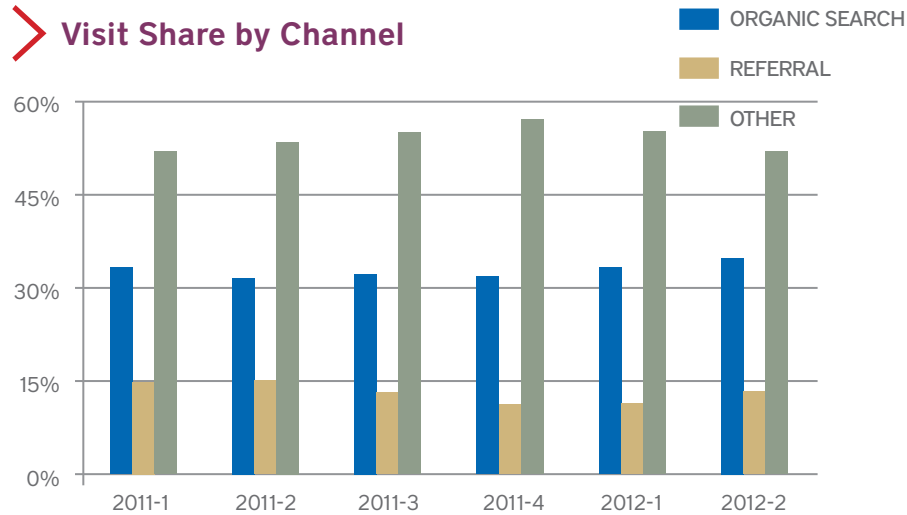
SEO represents a dramatically inconstant discipline. While major Google algorithm updates have sent waves across the industry and decimated many sites, RKG clients continue to show strong performance. Our approach is built on the cornerstone of sustainable, quality strategies that keep the focus on the user. This has served us well as the search engines continually make changes to weed out low-quality sites and spammy tactics.

> Organic Search Visit Share by Engine



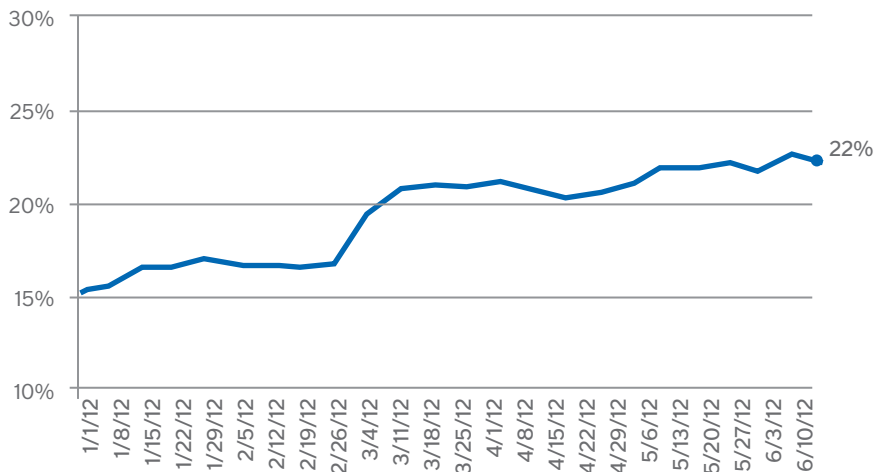
RKG clients were not negatively impacted by Google's late April Penguin update as we saw our share of organic search visits increase both from Q1 to Q2 and year over year. At 77% of visits in Q2 2012, Google continued to hold a commanding lead over Bing and Yahoo, who both slipped slightly.

> Visit Share by Channel



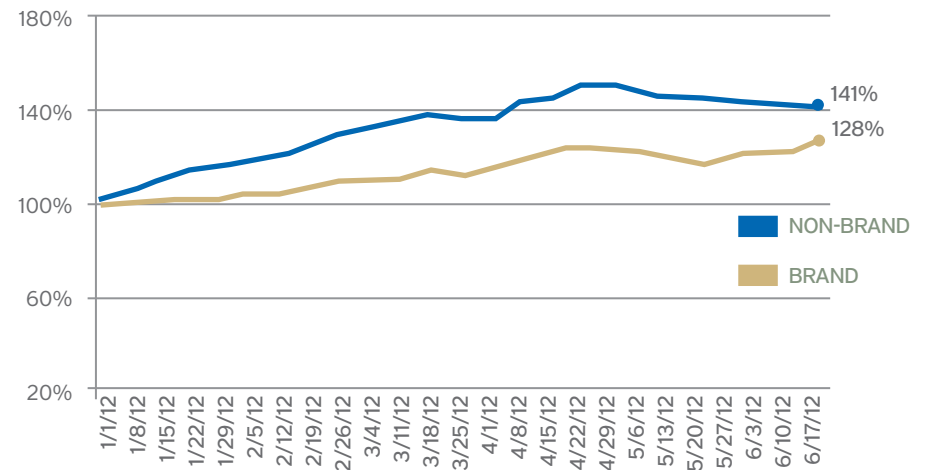
In the face of continuing changes at the search engines, particularly Google, that have given more prominence to the paid listings, RKG clients still managed to grow organic search visit share, which rose to an average of just under 35% in Q2.

> (Not Provided) Share of Google Organic Traffic



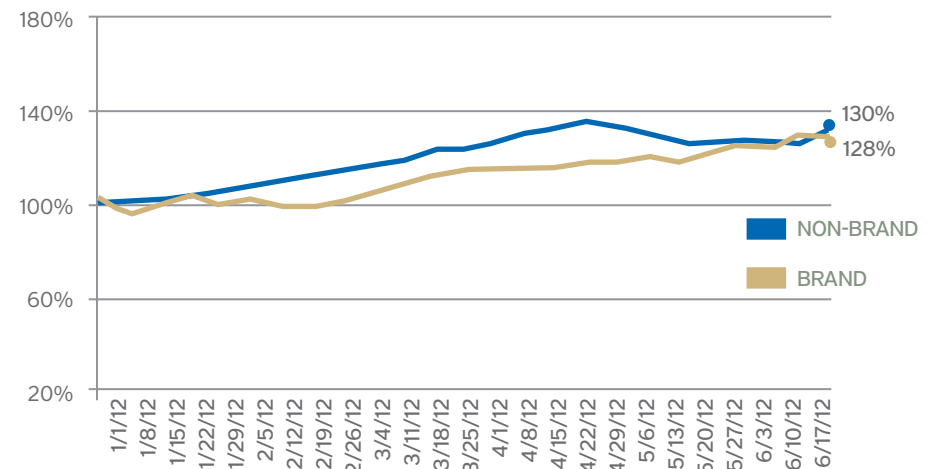
Google's obfuscation of organic search queries by logged-in users caused a great deal of consternation in October of 2011 and over the ensuing months. After a spike in cloaked queries in early March of this year, the segment has appeared to hit a plateau in the low 20% range -- for now, at least.

> Unique Organic Search Keywords by Week



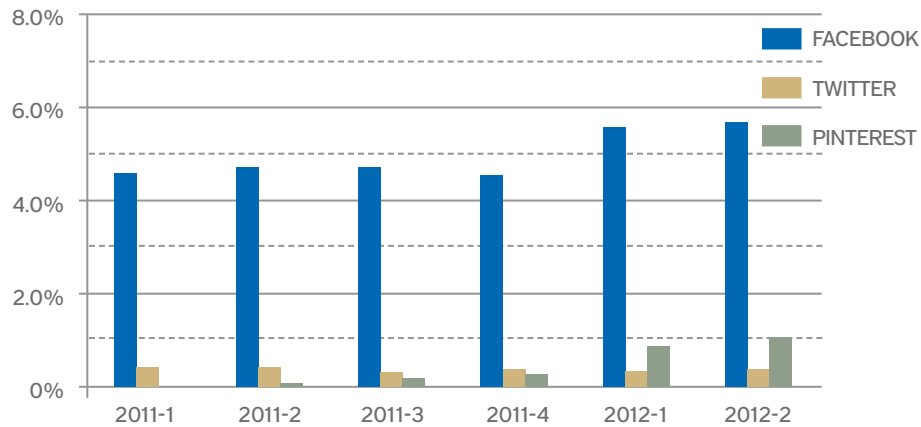
RKG SEO clients continued to see gains in the number of distinct organic search keywords leading to site visits in Q2. Compared to the first week of the year, the average client saw over 40% more unique non-brand queries generating traffic by the end of the quarter.

> Unique Organic Search Landing Pages by Week



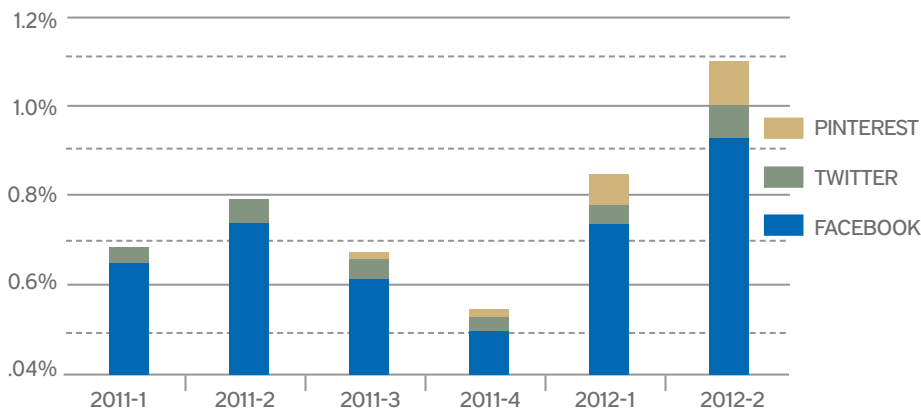
Similarly, our clients have seen a 30% lift in the number of unique landing pages being reached by way of organic search since the beginning of the year.

> Share of Referral Traffic for Top Social Domains



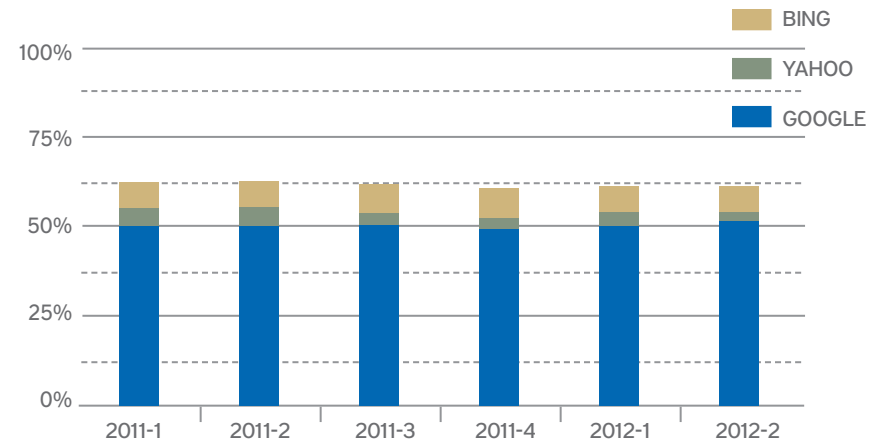
After a dip in Q4, when other marketing efforts like paid search can be much more aggressive, the top social media domains have increased their average share of referral traffic for two quarters in a row. Pinterest traffic is up dramatically, on average, but its share across individual sites is highly variable.

> Share of All Traffic for Top Social Domains



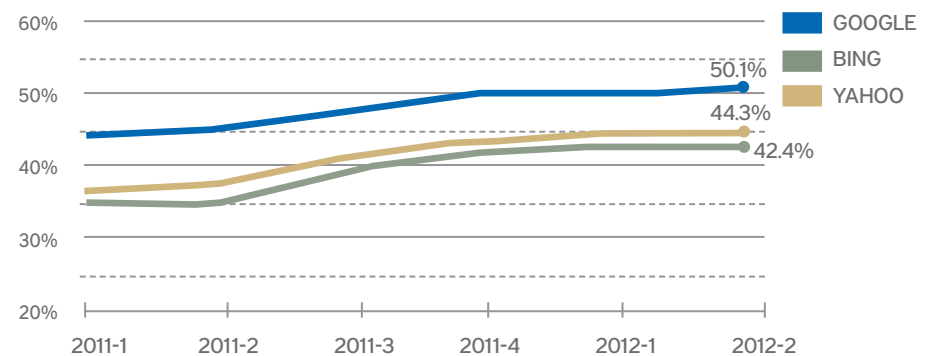
Viewed as a percentage of all site traffic, Facebook, Twitter and Pinterest combined to generate 1.1% of visits. Facebook generated a little over 0.9% of visits.

> Share of All Traffic for Top Search Domains



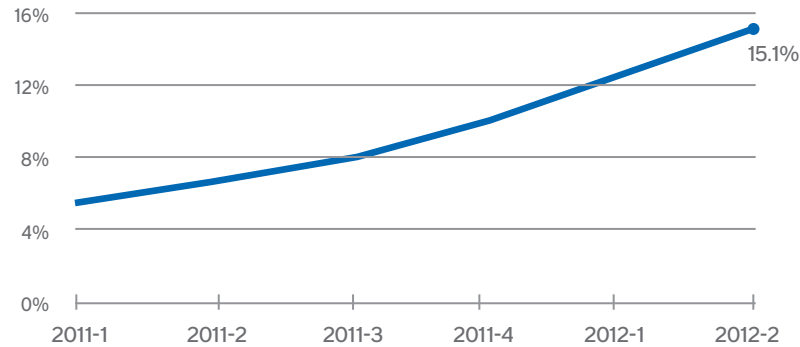
By comparison, the top search domains provided 61% of site visits on average through all channels. Google sent 54X as many visits as Facebook, while Google's market cap stands a little under 3X that of Facebook.

> Organic Search Bounce Rates



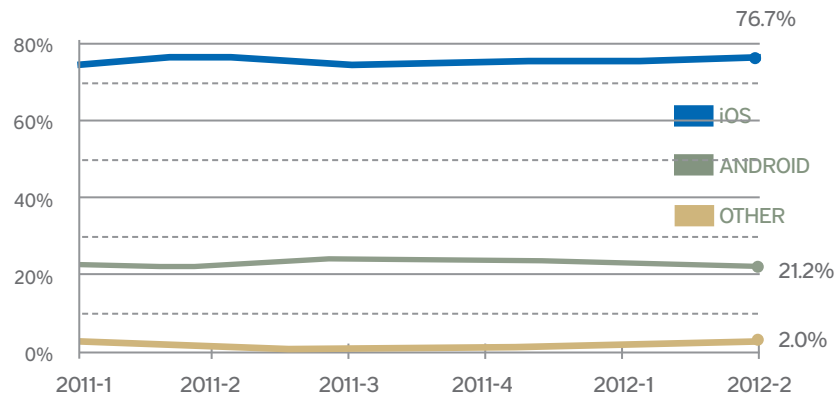
Bounce rates from organic search have trended up for some time now, but they are leveling off. Google continues to have the highest bounce rates of the three largest engines while Bing holds the lowest rate. As we'll show later, mobile bounce rates run higher than desktop and this may be a small, though not insignificant contributor to the disparity as Google holds a more dominant position in mobile.

> Mobile Share of Organic Search Traffic



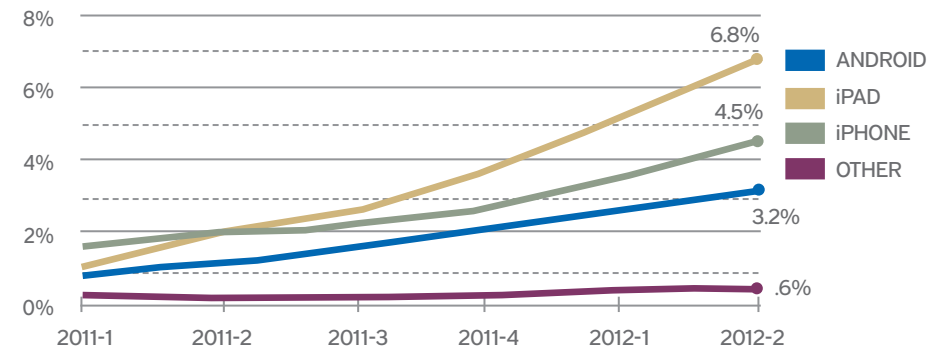
Organic search traffic from mobile devices, including smartphones and tablets, continued its climb, reaching over 15% of all visits in Q2. The trend has accelerated a bit since Q4, likely due to holiday tablet purchases and the introduction of the new iPad towards the end of Q1.

> OS Share of Mobile Organic Search



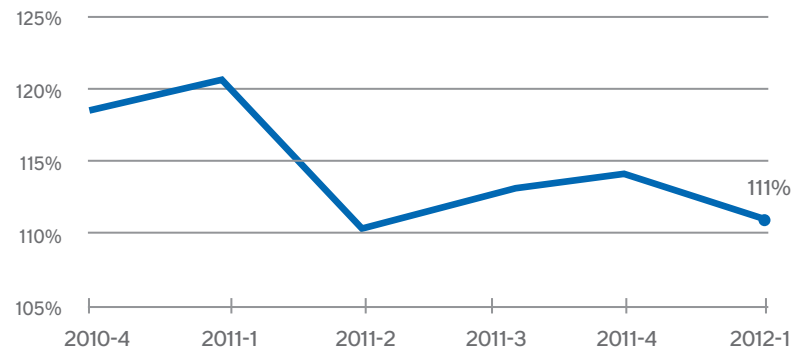
Running contrary to some views, RKG sees iOS devices holding a dominant lead over Android, and that gap widened in Q2. The iPhone, iPad and the iPod combined to account for 77% of mobile organic search traffic, while Android devices held a share of 21%.

> Device Share of All Organic Search



Looking at a breakdown by device, we see that the iPad's growth is the biggest contributor to Apple's lead in mobile organic search. In Q2, the iPad accounted for nearly 7% of all organic search visits. Last year at this time, the iPad and iPhone were neck and neck at about 2.5% share each.

> Mobile/Desktop Bounce Rate



Bounce rates for mobile ran about 11% higher than desktop bounce rates in Q2. This gap has trended downward over time, coinciding with tablets taking a larger share of mobile traffic and businesses increasingly optimizing their sites for mobile devices.

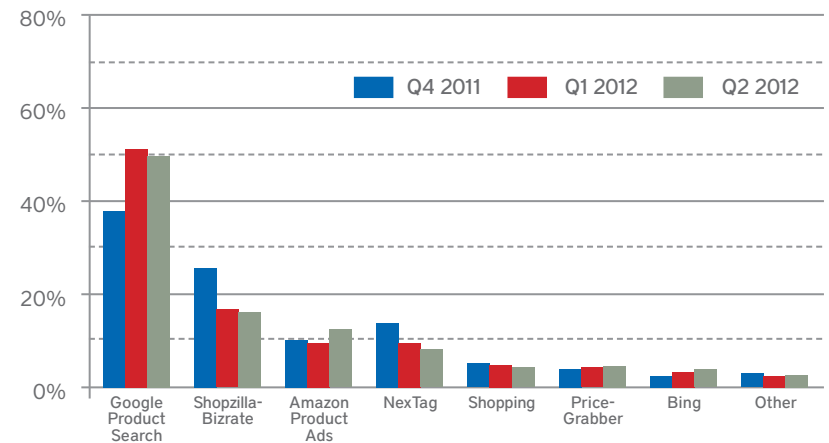
As we noted previously in this report, Google’s move to power its Product Search, aka Google Shopping, listings with Product Listing Ads was a disruptive event to both paid search and comparison shopping engine management in Q2.

At RKG we’ve argued that there are tangible benefits to having CSEs and paid search managed under one roof, particularly in light of Google’s announcement, and our clients are increasingly moving in that direction.

Paid search teams have had the better part of two years to develop sophisticated bidding and segmentation methodologies for PLAs, the mechanics of which differ significantly from traditional paid CSEs. At the same time, that work is still highly dependent on having a well-optimized feed with which to work.

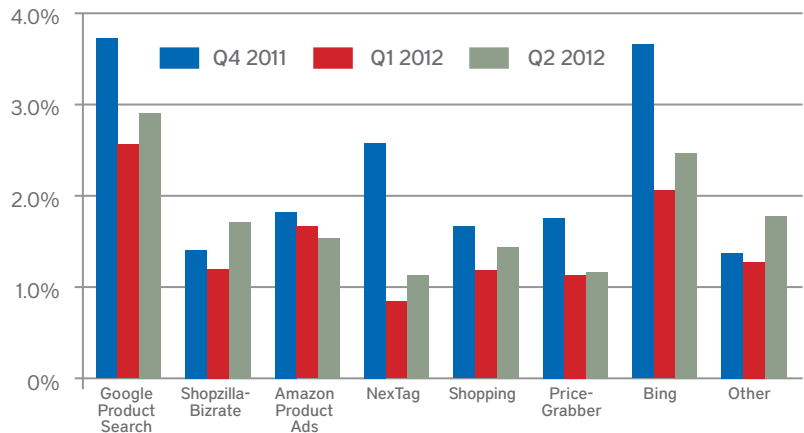
RKG clients have shown success with both PLAs and Google Product Search in recent quarters. On the CSE side, the average client saw a 14% increase in GPS orders from Q1 to Q2. Improved conversion and click-through rates, and Google’s increased display of PLAs, helped drive their order volume up an impressive 46% Q/Q.

➤ Comparison Shopping Engines - Click Share for Top Engines



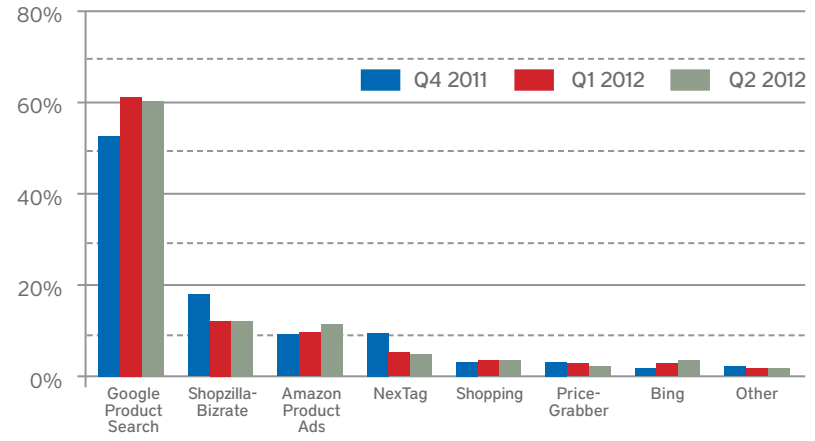
Google Product Search, aka Google Shopping, maintained a healthy click share lead over its paid rivals, taking half of all CSE traffic. NexTag, whose CEO testified at last year’s Google antitrust hearings, has seen the biggest click declines recently, dropping from a 14% share in Q4 to 8% in Q2.

Comparison Shopping Engines - Conversion Rate for Top Engines



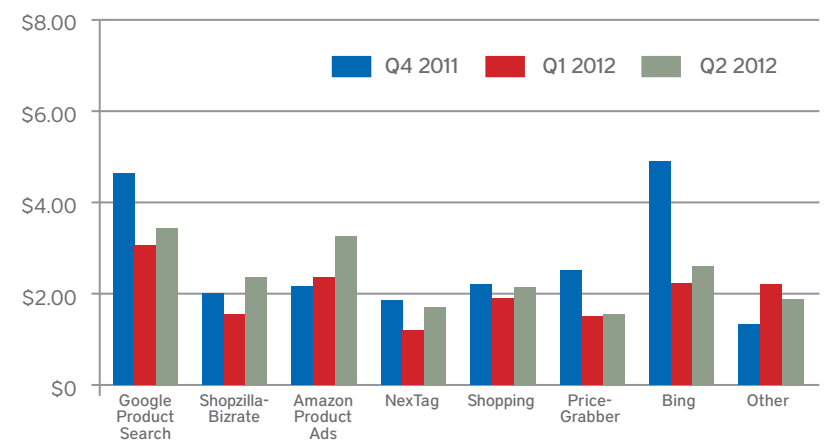
RKG clients saw an improvement in conversion rate from Q1 to Q2 on all but one of the top CSEs. Even when Google Shopping becomes a fully paid CSE, it is likely to maintain a significant edge in traffic as its ability to convert runs about double that of most of the competition. Rational advertisers with fixed CSE budgets will likely shift spend to Google Shopping at greater rates than its traffic share alone would imply.

Comparison Shopping Engines - Order Share for Top Engines



For the second quarter in a row, Google Product Search generated over 60% of CSE orders for RKG clients, speaking to the enormous value it holds in this area. Seasonality is a factor here as advertisers have shifted away from the paid engines after Q4.

Comparison Shopping Engines - Revenue Per Click for Top Engines



Similar to the conversion rate figures, revenue per click fell in Q1 from the holiday-driven Q4 highs, but rebounded in Q2 across nearly every CSE.

At RKG we've argued that there are tangible benefits to having CSEs and paid search managed under one roof, particularly in light of Google's announcement, and our clients are increasingly moving in that direction.

Attribution

Increasingly advertisers are recognizing the need to assess their marketing performance with greater sophistication than that offered by a simple “last touch” model. With multiple channels potentially contributing to a user’s ultimate decision to make a purchase or otherwise convert, the method chosen to determine proper attribution can have a material impact on how advertising dollars should be allocated, as we’ll see in the data presented here.

Before we review those data points from Q2, let’s again outline some basic assumptions and vocabulary. The data presented here represents a subset of RKG clients that is distinct from others presented in this report. Two of the primary metrics we compare are marketing touches and marketing channels. A touch is a single click event leading to a client’s website; whereas a channel is a single source of clicks, such as Paid Search.

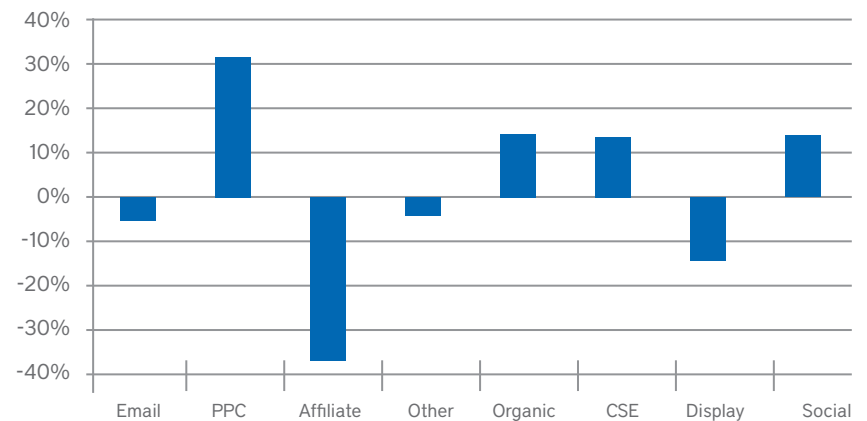
Instances where a user navigated directly to a client’s domain are ignored in this analysis, and instead we limit the view to the impact of marketing touches. Similarly, we are not including touches from navigational brand searches via organic or paid search, in order to give a clearer perspective on the true incremental impact of each channel.

While RKG offers customized statistical attribution models, for this report we review data from two of the simpler models: first touch (the first click event gets full credit for an order), and last touch (the last click event gets full credit for an order).

In Q2, when moving from a last touch view of sales to a first touch view, PPC gains over 30% more credit – meaning it is more likely to come at the beginning of the touch path. Affiliates lose almost 40% of their last touch revenue when moving to a first touch model, showing their propensity to come at the end of the touch path.

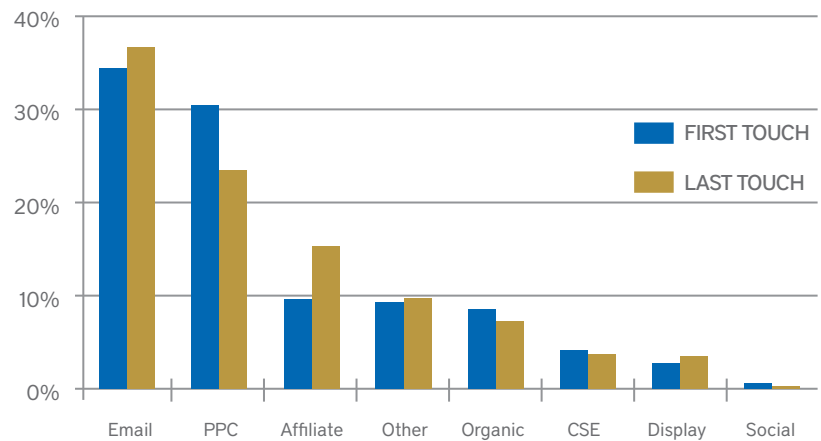
We also see display and email losing credit under the same analysis. The majority of the display data represented here is retargeting, and clicks on retargeted ads, by their very definition, have come after a user has already visited a site. Email likely loses some credit because of customers revisiting promotional emails containing a discount immediately prior to placing their order. Additionally, organic search, CSEs and social media all gain credit in the first touch view.

Change in Revenue Contribution Moving from Last to First Touch Attribution Model



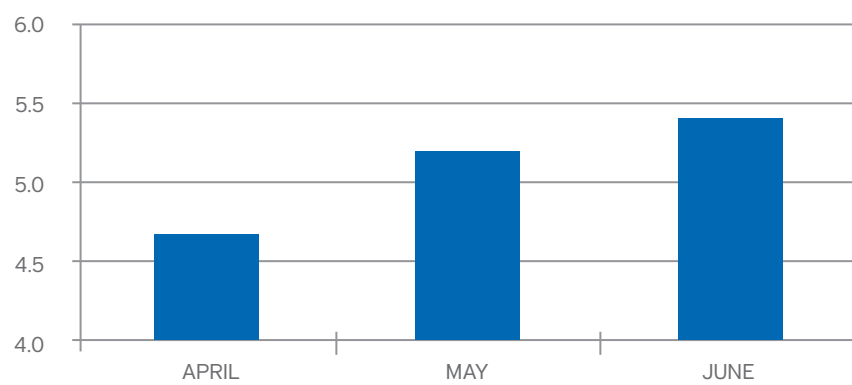
This graph shows which channels would gain credit when moving beyond a simple last touch model. We have excluded navigational brand searches from both paid and organic search here and in the following graphs. PPC gains the most on average, while the Affiliate channel shows the greatest losses. Display is also hurt by this shift as this sample has invested heavily in retargeting users who have already gotten to the site, often through other channels.

> Percent of Revenue by Marketing Channel



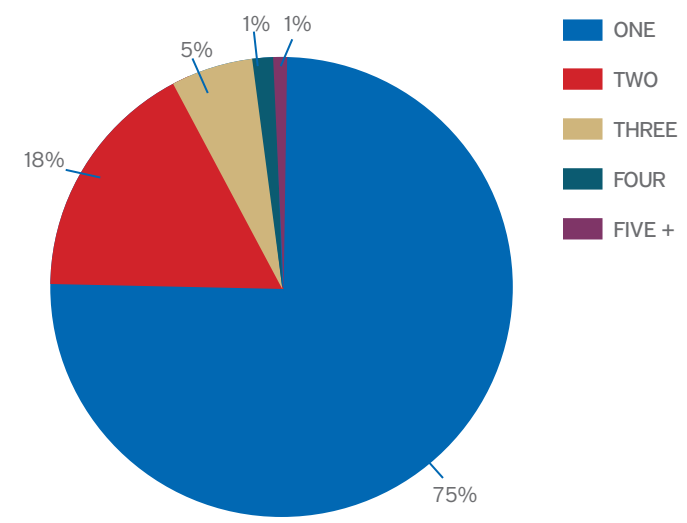
We can also see the last to first touch shift by looking at the percentage each channel contributes to revenue under either model. This is the share of all revenue credited to a marketing channel, i.e. excluding direct navigation to the site.

> Average Marketing Touches Per Order



Taking a look at average touches per order, we see a minor upward trend over Q2, with the average order having about 5 touches.

> Marketing Channels Per Order



While the average number of touches per order is around 5, users will often touch the same channel multiple times, resulting in a lower average number of channels per order. Again excluding brand search touches, we observed that 75% of Q2 orders interacted with a single marketing channel, 18% with two channels and the remaining 7% with three or more.

Affiliates lose almost 40% of their last touch revenue when moving to a first touch model, showing their propensity to come at the end of the touch path.



About RKG:

RKG is a full-service digital marketing agency that combines superior marketing talent with leading edge technology to create the industry's most effective data-driven online marketing solutions. Founded in 2003, RKG specializes in working with clients in retail, travel, financial and B2B organizations ranging in size from small startups to Fortune 500 companies. RKG is a privately held company headquartered in Charlottesville, VA with offices in Bend, OR and Boston, MA.

Methodology:

Paid search figures are derived from a sample of RKG clients currently under full-service paid search management. The sample is restricted to those clients who: 1) have maintained active programs with RKG for at least 19 months, 2) have not significantly changed their strategic objectives or product offerings, and 3) meet a minimum ad spend threshold.

Figures for organic search, social, comparison shopping engines and multichannel attribution are derived from a sample of clients that have worked with RKG for each respective service since the beginning of the most recent financial quarter.



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