



RKG Digital Marketing Report Q1.2012

RKG

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Executive Summary

- > Paid search spend grew at a 30% year over year rate in Q1 2012, a slight decline from Q4 growth of 31%. Ad clicks grew at a 36% rate, a slight increase from Q4.
- > Google paid search spend grew 35% overall, driven by a 36% increase in spend on non-brand traffic. Google again benefitted from strong click-through rate growth, while its Product Listing Ads format generated 11% of ad clicks -- albeit at an 18% lower CPC than standard text ads. Overall, Google CPCs fell nearly 9%.
- > Bing and Yahoo paid search spend grew 7% overall, but ad clicks declined 4%. Volume from non-brand terms looked particularly weak, but traffic quality, in terms of revenue per click, has risen sharply.
- > Google's share of organic search traffic increased to 76%, while Bing and Yahoo had shares of 10.4% and 10.8% respectively. In paid search, Google generated 84% of ad clicks.
- > Facebook provided 5.2% of referral visits in Q1, while Twitter stood at 0.4%. The buzz-heavy Pinterest sent even more traffic than Twitter on average, with a referral share of 0.5%. In terms of all site visits though, the three social sites combined for less than 1% of tracked visits.
- > Mobile comprised 12% of organic search visits in Q1 and 13% of paid search clicks. Google holds a 91% share of mobile paid search clicks.
- > Tablet share of PPC nearly quadrupled from year to year as the iPad alone accounts for nearly 7% of all clicks. The Kindle Fire now holds 4% of tablet click share to the iPad's 88%.
- > Advertisers on comparison shopping engines shifted traffic away from paid listings such as NexTag, which saw its share of CSE clicks decline from 14% in Q4 to 9% in Q1. Google's free Product Search listings generated nearly half of all CSE clicks in Q1, while Amazon Product Ads was the top paid CSE, taking 36% of all CSE spend.
- > RKG attribution data shows paid search losing 15-20% of credited revenue when moving from a first to last touch model in Q1, while affiliates gain 50-70%.

Paid Search Marketing

Paid search advertisers had another very strong quarter in Q1 2012, with year over year trending of key metrics looking similar to impressive fourth quarter results. Because of the retailers in our client base, we do see a decline in most volume-based metrics from the holiday peak in Q4, but the key comparison here is to the first quarter of last year.

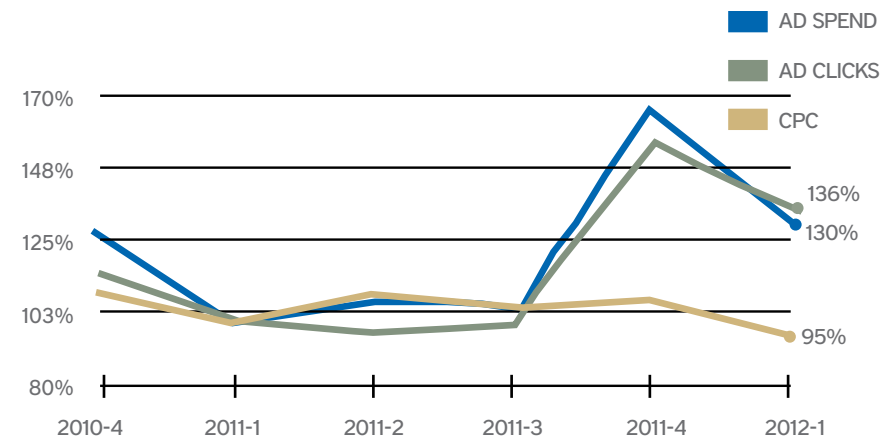
Our results are likely to outpace industry averages once again, particularly in year over year spend and click growth. This is likely due to a combination of factors including the relative strength of the retail sector, RKG's early and widespread adoption of new ad formats, and our high retention rate of top industry performers. We also think we're pretty good at this stuff..

With this quarter's Digital Marketing Report we've made a point to draw a clearer distinction between the performance of brand and non-brand segments within paid search. This is an idea we stress with our clients because the overall or "blended" view can mask the true health of an individual program and obscure important trends. This notion applies equally well when we assess the performance and prospects of the engines themselves, as we'll show over the subsequent pages.

Comparing the two big paid search programs, we found Google AdWords continuing to far outpace the growth of adCenter-powered listings on Bing and Yahoo. And while our 35% overall spend increase on Google is driven by non-brand growth, adCenter's 7% overall growth has come despite languishing non-brand volume.

Although it may not be purely incremental, mobile traffic continued its ascent in Q1, reaching nearly 14% of all paid search clicks. Google, with a 91% share of mobile PPC, is the primary beneficiary of this growth, but lower mobile click costs may be hurting its overall CPC. In a similar vein, traffic to Google's Product Listing Ads format continued its own surge, representing 11% of Google clicks, but PLAs commanded 18% lower CPCs than standard text ads.

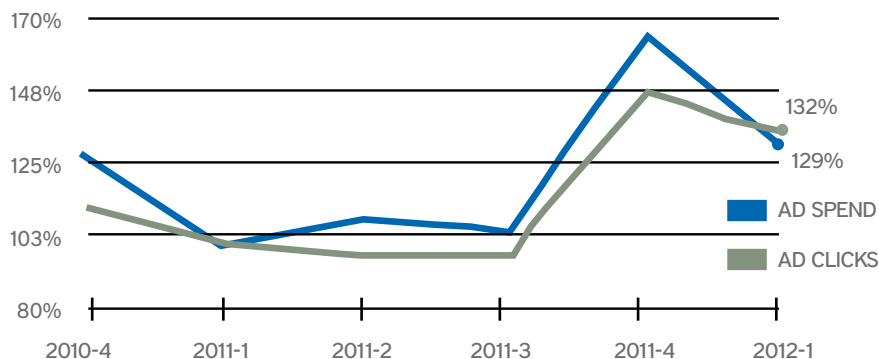
Overall Paid Search



Across all engines we saw a 30% year over year increase in PPC ad spend and a 36% increase in clicks. Cost-per-click fell 4.9%. In Q4, the same sample showed a 31% increase in spend, a 35% increase in clicks and a 2.7% decline in CPC. The quarter to quarter volume decline from Q4 to Q1 is largely a seasonality effect resulting from our sample favoring clients in the retail vertical.

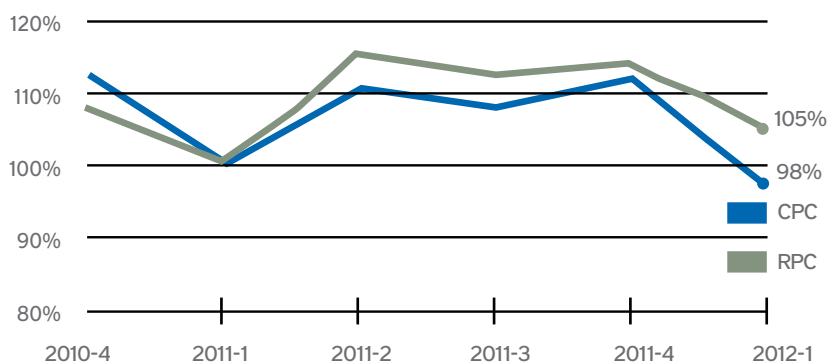
Note: These figures and others throughout this report are normalized such that Q1 2011 = 100%.

> Paid Search - Non-Brand Spend & Clicks



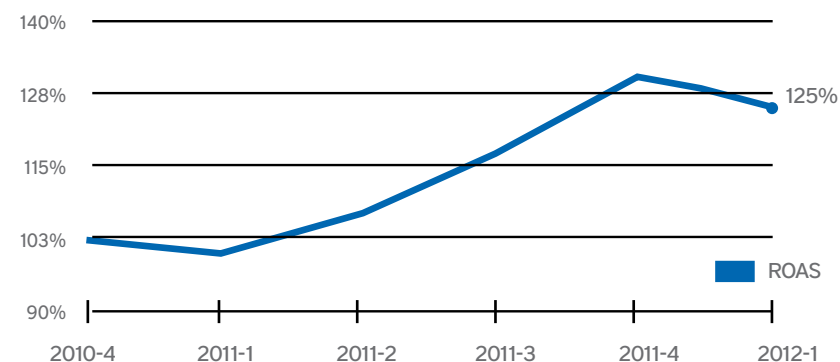
Focusing on non-brand metrics -- those for keywords which do not include our clients' brand names -- ad spend increased 29% Y/Y while ad clicks rose 32%.

> Paid Search - Non-Brand Cost & Revenue Per Click



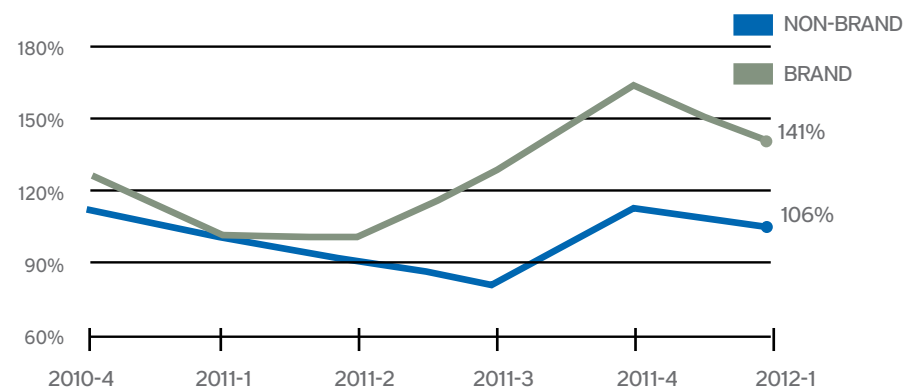
Non-brand paid search cost-per-click fell 2.4% Y/Y in Q1, compared to a 0.9% decline in Q4. Revenue per click rose 4.5% Y/Y vs 5.8% the previous quarter. As a result, our clients enjoyed a 7% increase in ROI from year ago levels.

> Paid Search - Non-Brand Click-Through Rate



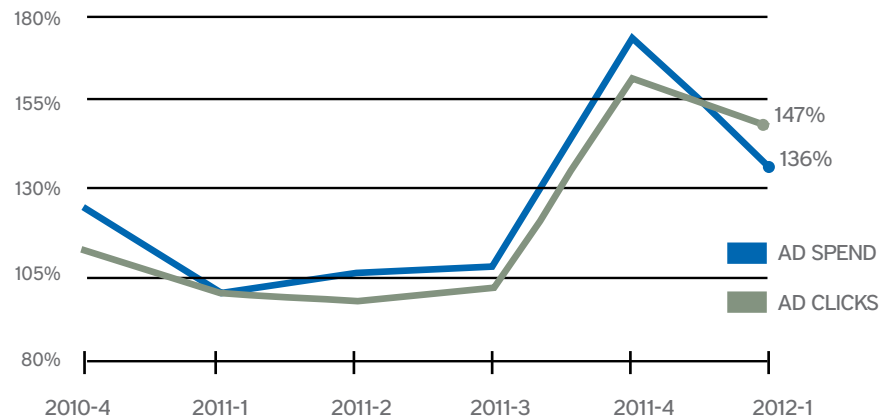
Year over year click-through rate growth for non-brand terms remained elevated at 25%, but that growth appears to have leveled off following several quarters of gains. Comps have become stronger as we have "caught up" with a number of ad format changes Google made last year that helped drive up CTR.

> Paid Search - Ad Impressions



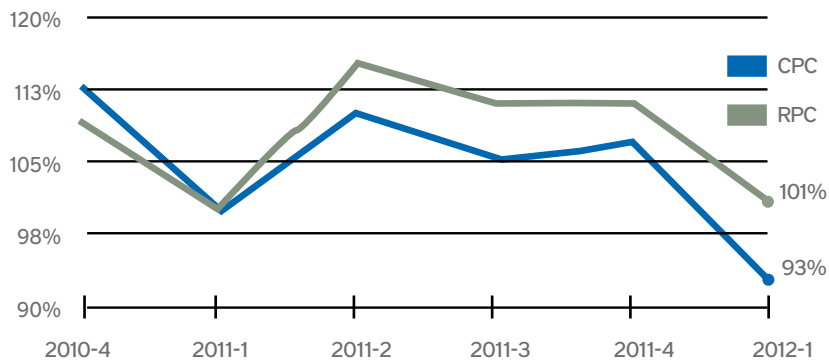
Brand ad impressions grew at a much higher Y/Y rate, 41%, than non-brand impressions, which grew at just 6%. These results are heavily skewed by Bing-powered results though, highlighting the importance of viewing engine level trends and breaking out performance along brand/non-brand lines.

Google Paid Search - Non-Brand Spend & Clicks



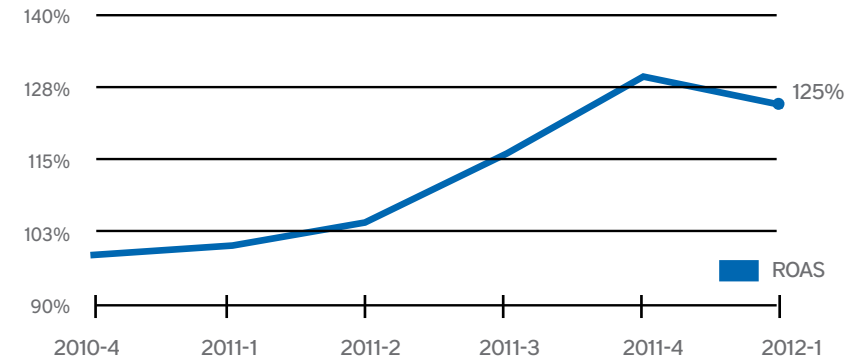
Google year over year non-brand spend growth was 36%, down just slightly from Q4 growth of 38%. Ad clicks grew at 47%, an improvement from the 45% rate we saw in Q4.

Google Paid Search - Non-Brand Cost & Revenue Per Click



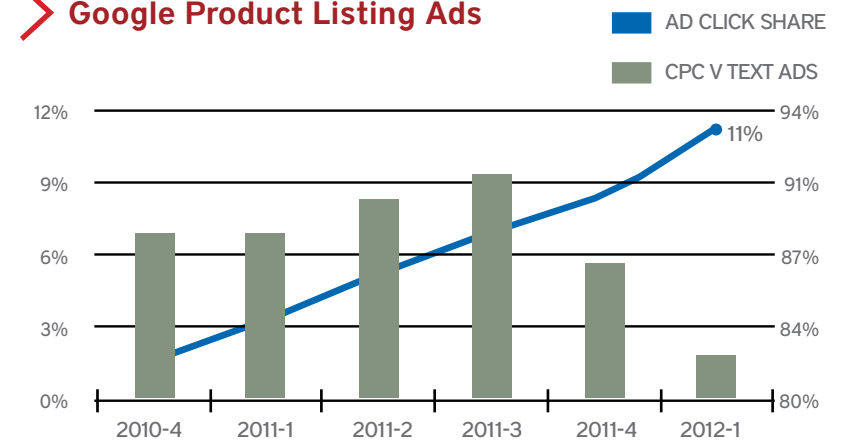
With clicks growing faster than spend, Google CPCs consequently declined for the second quarter in a row. We saw CPCs fall 7% Y/Y in Q1 vs a 5% decline in Q4. Revenue per click was up just slightly year over year.

Google Paid Search - Non-Brand Click-Through Rate



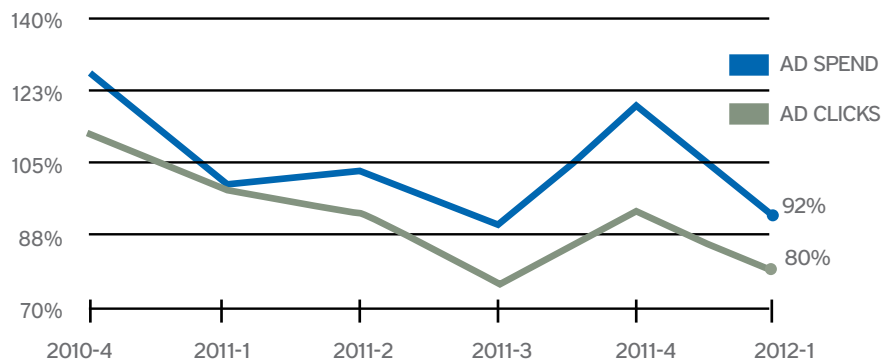
Google click-through rates grew 25% in Q1. Non-brand impressions were a solid 11% higher on Google, but CTR improvements continued to be the biggest driver of the huge click increases we are seeing. Product Listing Ad clicks, which grew over 500% Y/Y on 75% higher CTRs, are a significant factor here.

Google Product Listing Ads



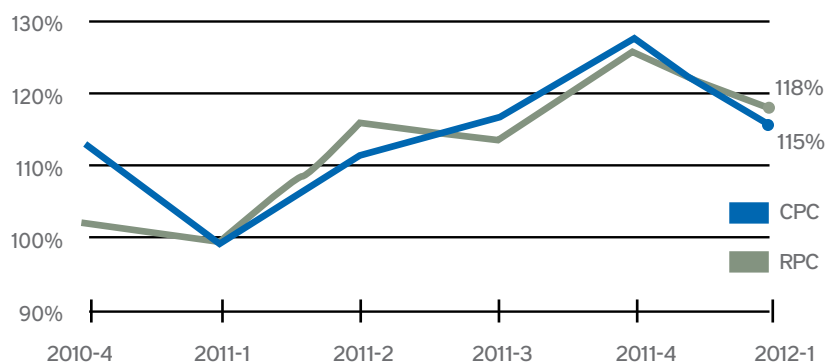
PLAs continued to provide a steadily growing share of Google traffic, generating 11% of ad clicks in Q1. With PLA cost-per-click running between 10-20% lower than standard text ads, PLAs are putting downward pressure on overall CPCs. We are finding ROI to be better than average for PLAs, suggesting the market for them remains less competitive.

> Bing & Yahoo Paid Search - Non-Brand Spend & Clicks



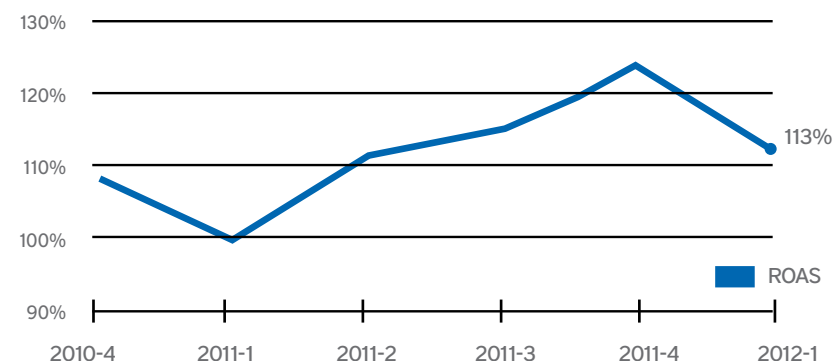
Non-brand ad spend on Bing and Yahoo continued to show year over year declines, coming in 8% lower in Q1. This was slightly worse than a 6% decline in Q4. Ad clicks fared worse, with a 20% decline in Q1, following a 17% decline in Q4.

> Bing & Yahoo Paid Search - Non-Brand Cost & Revenue Per Click



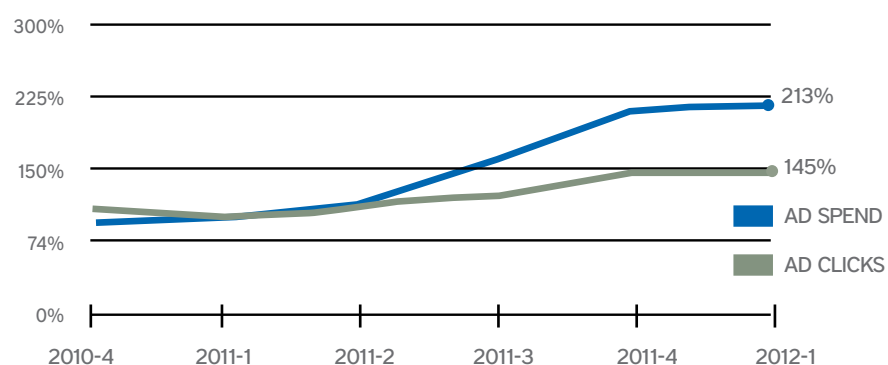
Higher revenue per click, up 18%, is nearly making up for the traffic decline on Bing and Yahoo, but total revenue was still down slightly Y/Y. CPCs were up 15% in Q1 and have generally trended closely with RPC, as we would expect.

> Bing & Yahoo Paid Search - Non-Brand Click-Through Rate



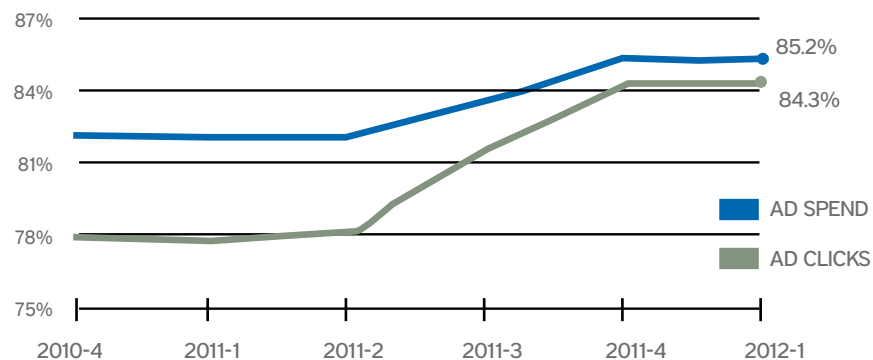
Non-brand click-through rate grew 13% Y/Y in Q1. That's a strong result given that adCenter has not had the same ad format changes that are helping to drive Google's CTR growth. Declining non-brand impression volume with higher CTRs and RPC, suggests adCenter is focusing on ad quality, possibly to a fault.

> Bing & Yahoo Paid Search - Brand Share



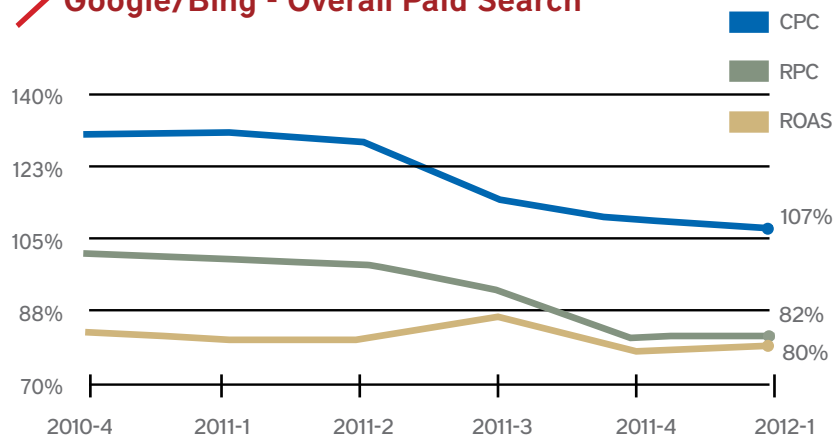
Highlighting the divergence in brand and non-brand performance on Bing, we show that the share of ad spend going to brand terms has more than doubled in the last year. Brand click share has increased a relatively small 45% as advertisers are finding their CPCs being driven up significantly.

Google Share of Paid Search Spend & Clicks



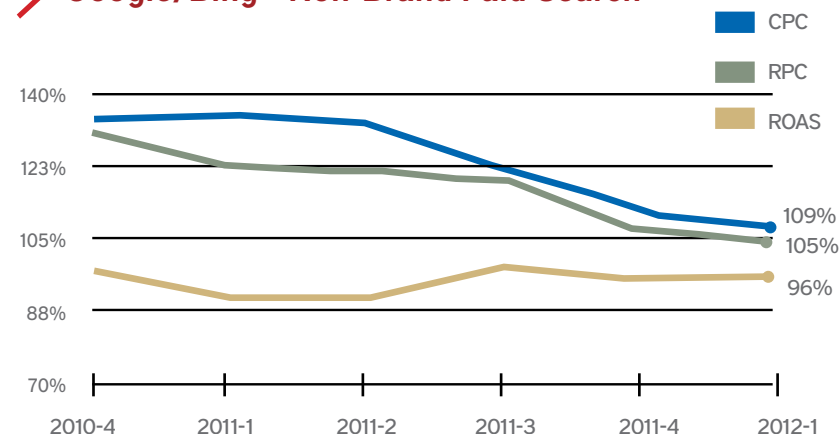
Google's share of both ad spend and clicks improved just slightly from Q4 levels, coming in at 85% and 84% respectively. The gap between these two share metrics has narrowed markedly as Google's CPCs have shown Y/Y declines and Bing's have increased.

Google/Bing - Overall Paid Search



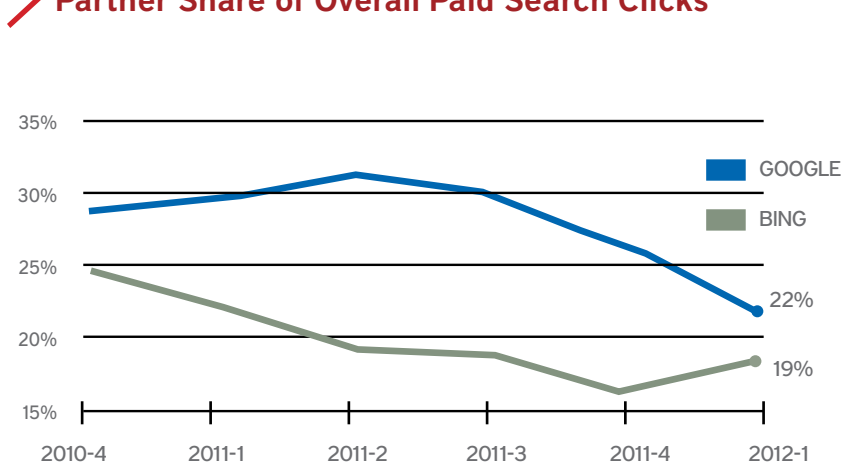
We can see here that Google now maintains just a 7% advantage over Bing in overall CPC, down from a 30% advantage in Q1 2011. Google's return on ad spend has been steadily lower than Bing's by about 20%, but this discrepancy is due largely to the brand/non-brand balance of each.

Google/Bing - Non-Brand Paid Search



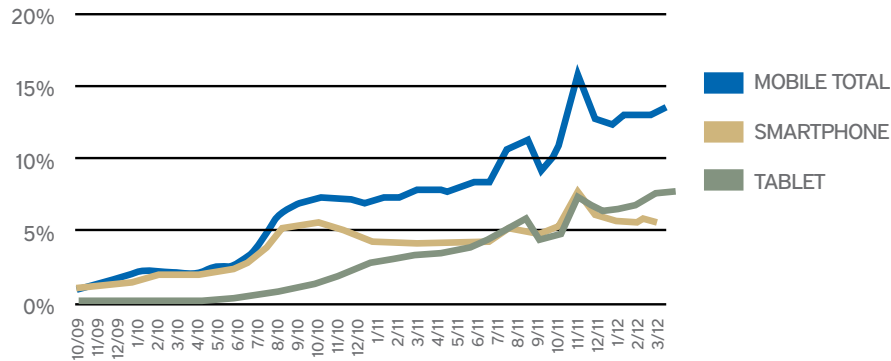
Looking at non-brand performance only, we see that Google's ROAS is just 4% lower than Bing's. This suggests that advertisers are being a bit more aggressive on Google or that Google is better able, or more willing than Bing, to deliver marginal, but incremental inventory to advertisers.

Partner Share of Overall Paid Search Clicks



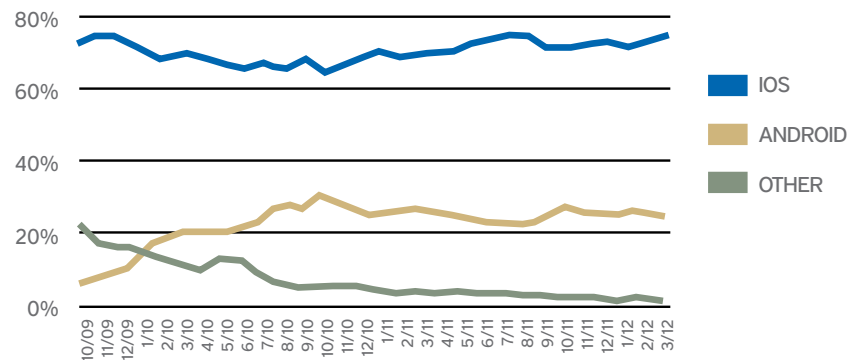
Interestingly, both Google and Bing have been delivering a smaller and smaller percentage of paid search clicks from their partner networks. We would expect this to have a positive impact on revenue per click as partner traffic generally performs worse than traffic from the core search engine itself.

Mobile Paid Search Traffic Share



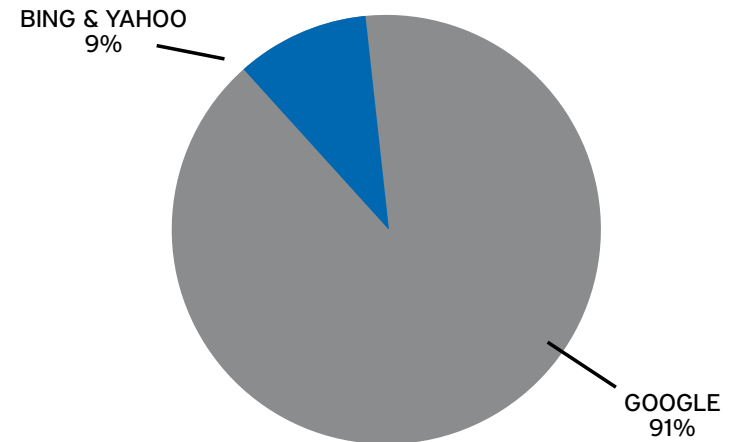
Mobile traffic share ended Q1 at just under 14%. That was down from a post-Christmas spike in Q4, but nearly double 2011 levels. Tablets, driven by the iPad, account for nearly 8% of paid search clicks and 57% of mobile clicks.

Mobile & Tablet Paid Search Traffic Share by OS



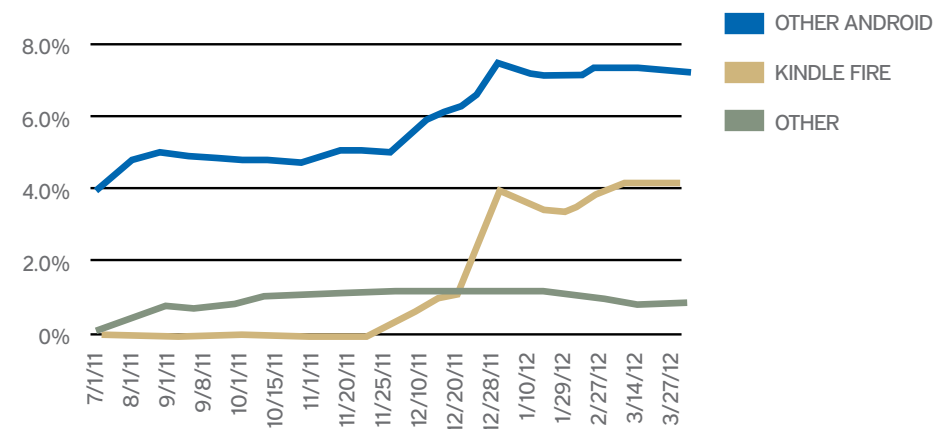
In terms of clicks advertisers receive from paid search, Apple's iOS platform continues to dominate Android and other mobile operating systems. We see iOS with a 73% share of clicks to Android's 25%, leaving just 2% to everyone else. The iPad is the primary reason iOS has such a large lead in paid search clicks. Alone it generates nearly 7% of all paid search traffic.

Q1 Share of Mobile Paid Search Clicks



Not surprisingly, Google, who is behind the Android OS and is the default search provider for iOS, has an even larger share of mobile clicks than it does for desktop. We see Google with a 91% mobile click share in Q1. Bing & Yahoo, however, do account for 71% of Windows Phone clicks.

iPad Challengers—Share of Paid Search Tablet Traffic



The Kindle Fire made waves when it was released in Q4 and quickly took a respectable 4% share of paid search clicks from tablet devices. It has since plateaued around that level, while the iPad holds an 88% share.

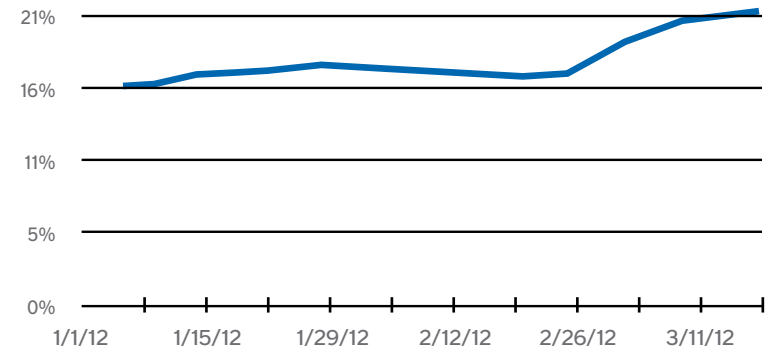
As the one year anniversary of their Panda algorithm update came and went, Google's search quality team continued to iterate updates and improvements. To this day, Panda represents one of the best things that has happened to search at Google. A big claim? Indeed, but it's hard to recall an update that had a more devastating effect on thin, low-quality, spammy sites. Surely there are good sites caught in the wide swath of Panda's influence, surely there's collateral damage. However, by and large, the low-quality sites that existed purely for SEO profit were skewered. And that's a good thing.

Several challenges arose in Q1 2012, however. Google's decision not to disclose search query data for secure sessions, and later, its partnership with Firefox to do the same, are a big deal in the SEO world. The keyword (not provided) as a segment will continue to trend upward, making the picture less clear for organic search marketers. Not only does this move make the long tail harder to manipulate (where Google and any large search engine is most vulnerable), it also goes a long way towards Google reclaiming the link graph. Combined with some changes that have made anchor text less powerful, and social metrics more powerful, we're starting to see a new picture for how Google is scoring sites.

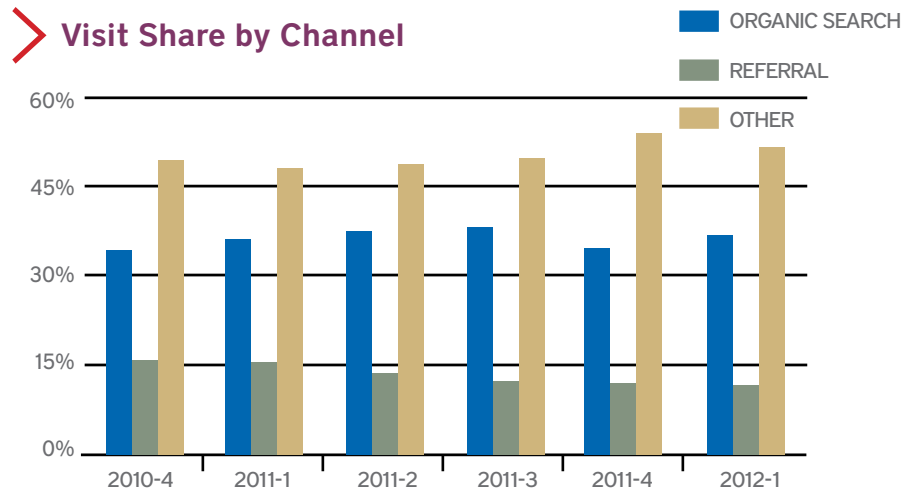
Panda is largely about user metrics. Positive and negative user behavior metrics can validate the algorithmic scoring of a domain or URL. As Google's head of search quality, Amit Singhal, told Danny Sullivan recently, "... it's not just about content. It's about relationships, identity, and content." To that end, Google introduced Search Plus Your World and aggressively pushed Google+ pages into the SERPs, to a public outcry by the web's elite (notably, Twitter and Facebook engineers, among others).

We concluded Q1 with the announcement of an impending "over-optimization" penalty rolling out at Google. Our suspicion is that this "penalty" (or filter) has been in place already for several years, but is now getting more attention. While it will likely target exact match anchor text on internal and external links, it's yet another move by Google to evolve from the classic PageRank ranking model. And like Panda, it will likely be a very good thing for the Web.

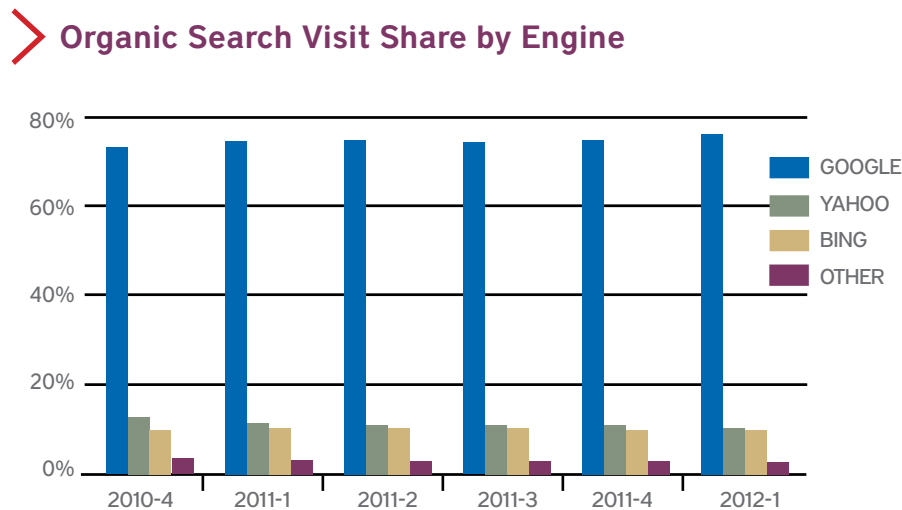
> (Not Provided) Share of Google Organic Traffic



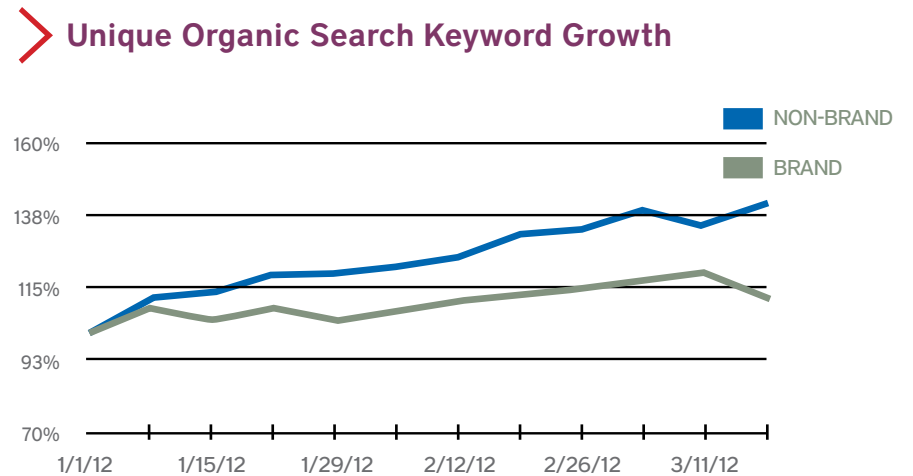
By the end of the quarter, (not provided) queries accounted for an average of 21% of Google organic search traffic. In all likelihood, that figure will only grow in the months ahead, particularly as the Firefox team moves to adopt Google secure search as its default option. This is presenting real challenges to marketers, but with some extra effort there are workarounds.



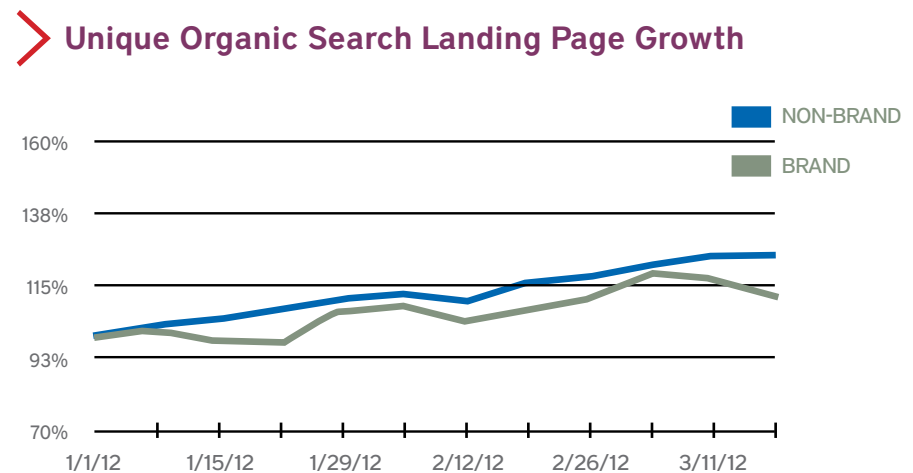
Despite headwinds from SERP changes that have favored the paid listings, we did see organic search generating a larger share of site visits. Organic search made up 36.4% of visits compared to 36.1% a year prior.



Google stretched its organic traffic lead over competitors Bing and Yahoo in Q1, taking a 75.6% share of visits. Yahoo's share was 10.8%, down from 11.5% in Q1 2011, while Bing held a 10.4% share, down from 11.1%. Other search sites generated just 3.2% of visits in Q1.

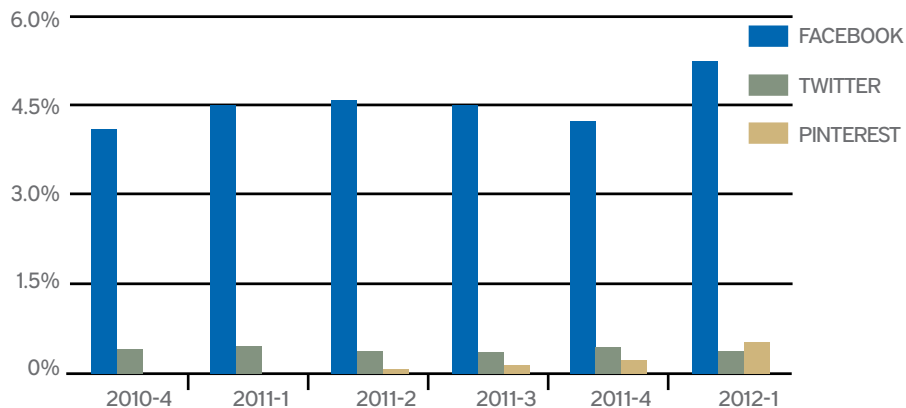


Even as (not provided) queries increased, our SEO clients managed to make steady gains in the number of unique keywords that generated visits each week in Q1. By the end of the quarter, we saw 41% more non-brand keywords generating organic traffic than we did at the beginning of the quarter.



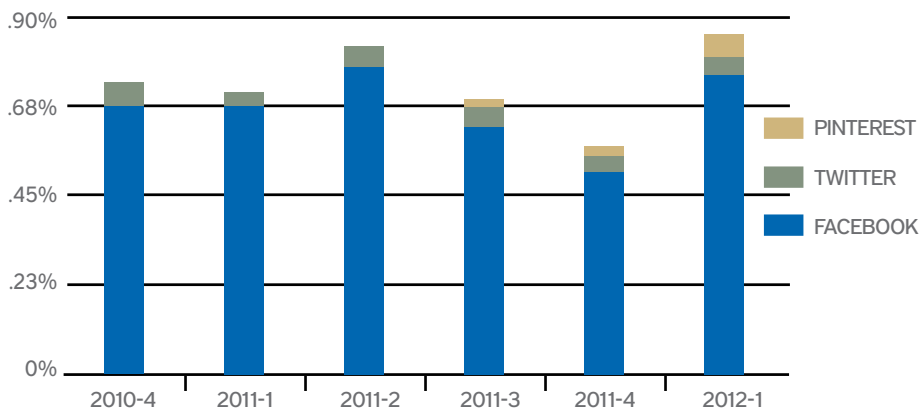
Similarly, our clients also made consistent gains in the number of unique landing pages that received organic search traffic in Q1. Weekly unique landing pages from non-brand queries rose 25% by the end of the quarter.

> Link Development: Share of Referral Traffic for Top Social Domains



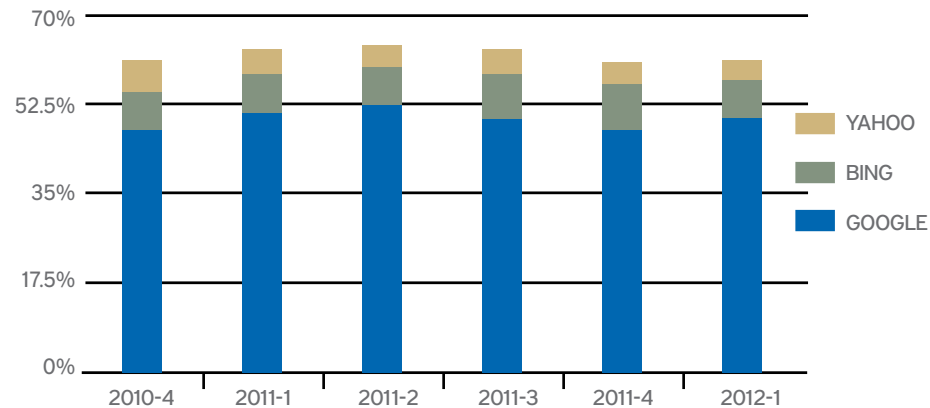
Among select social sites, Facebook continued to generate the bulk of referral visits with a 5.2% share in Q1, which was up from 4.5% in 2011. Twitter has maintained a steady 0.4% share of referral visits, while upstart Pinterest saw its share jump from essentially zero last year to 0.5% in Q1.

> Link Development: Share of All Traffic for Top Social Domains



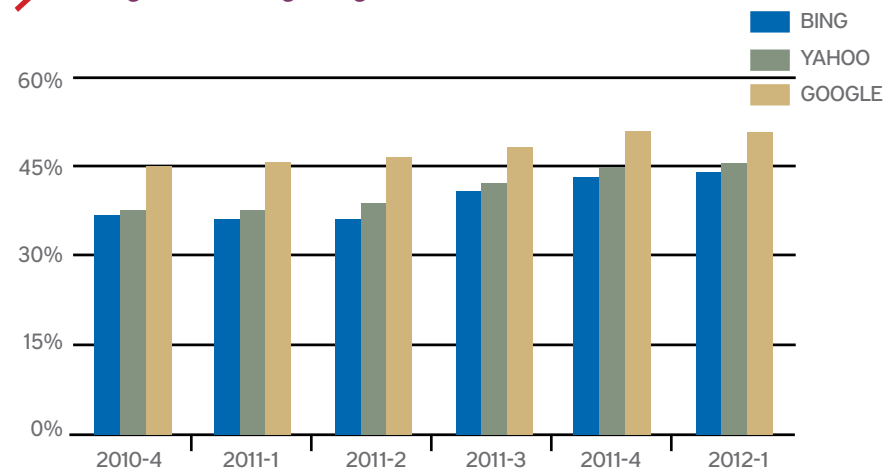
Viewed in the larger context of all site traffic, these social sites still comprise a small share of total visits. In Q1, Facebook, Twitter and Pinterest accounted for an average of a little under 0.9% of all site visits.

> Google vs. Bing: Share of All Traffic for Top Search Domains



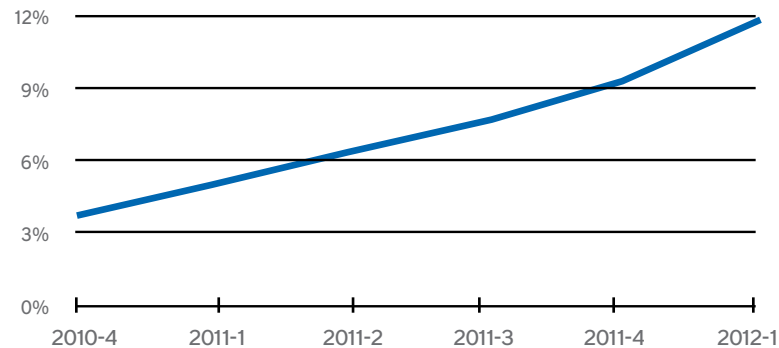
Looking at a similar view, but with the top search domains, we found Google, Bing and Yahoo sites generated a combined 62% of site visits in Q1. Google alone accounted for nearly 50% of site visits on average.

> Google vs. Bing: Organic Search Bounce Rates



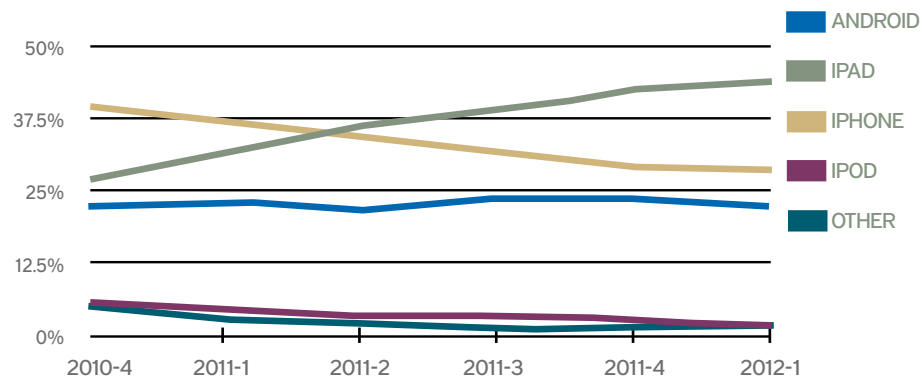
Google continued to deliver higher bounce rates than either Bing or Yahoo. The smaller engines may get some benefit here from serving as a backup option for users that did not find what they wanted from their Google search.

> Mobile Share of Organic Search Traffic



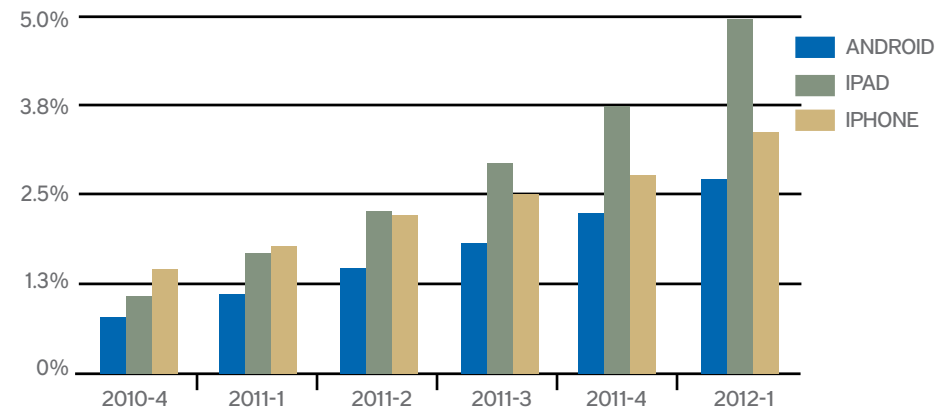
A steady increase in mobile organic search traffic for the previous four quarters accelerated a bit in Q1 as holiday tablet purchases helped push mobile to a share of nearly 12%.

> OS Share of Mobile Organic Search



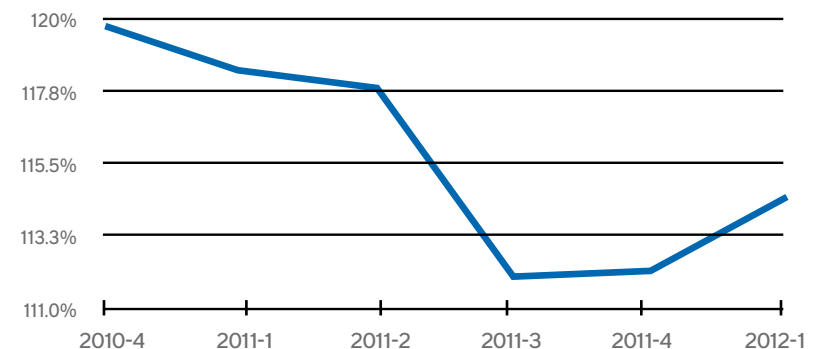
Within the mobile organic search segment, the iPad continued to grow its share despite increasing smartphone adoption and heavier competition in the tablet space. It's 44% haul of organic visits trumped the iPhone at 29% and Android devices at 23%.

> Device Share of All Organic Search



In terms of all organic search traffic, the iPad held a 5% share in Q1, which was triple its share for the same quarter last year. The iPhone still held an advantage over Android, but Android traffic grew at a faster year over year rate.

> Mobile/Desktop Bounce Rate

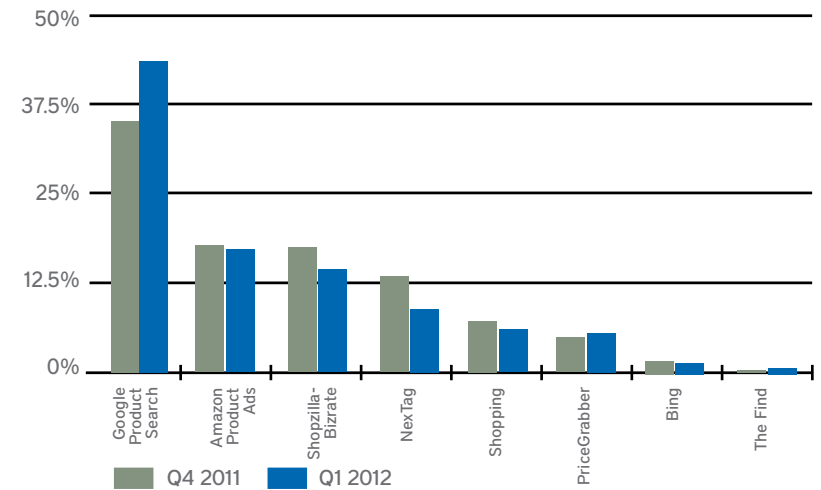


Over the past six quarters, we have found mobile to have a 15-20% higher bounce rate than desktop traffic. Our figures for overall bounce rate in this report showed an upward trend, and the growth of mobile share is a contributing factor to that result.

One of the greatest challenges that RKG faced with Comparison Shopping Engine management in the first quarter was continuing to produce a strong ROI for clients as we transitioned out of the strong fourth quarter holiday period. Many of our clients have expressed how this had been a problem for them in the past, and, in an effort to help clients continue to see ROI-positive results, RKG focused on stricter filtering rules to keep stronger performing products listed on each of the engines, while eliminating inefficient ones.

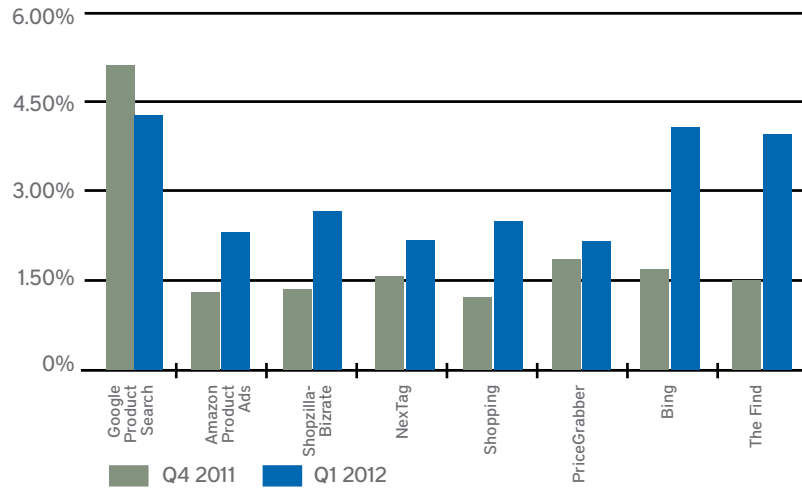
Throughout the quarter, the majority of our clients saw improvements in ROI while the rest continued to see ROI results that matched already strong Q4 results. In aggregate, our advertisers on comparison shopping engines shifted traffic away from paid listings such as NexTag, which saw its share of CSE clicks decline from 14% in Q4 to 9% in Q1. Google's free Product Search listings generated nearly half of all CSE clicks in Q1, while Amazon Product Ads was the top paid CSE, taking 36% of all CSE spend.

> Comparison Shopping Engines - Click Share for Top Engines



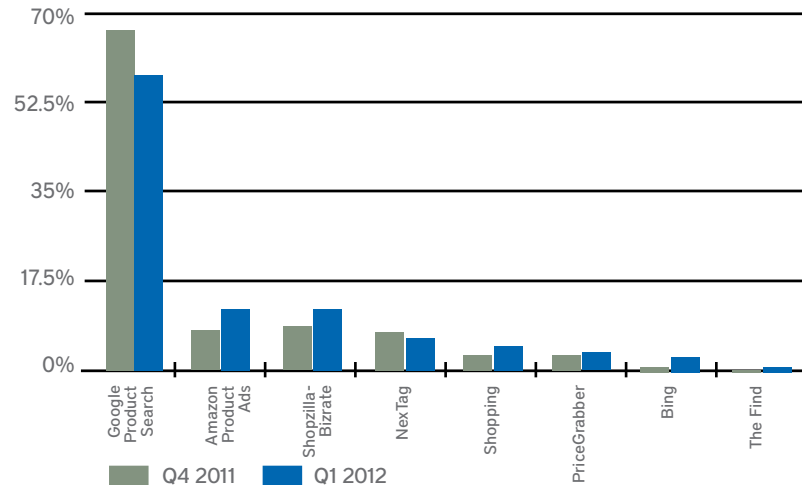
Google continues to dominate the space with 43% of CSE clicks for our clients. Most CSEs saw similar click share percentages in Q4 2011 and Q1 2012. A notable exception was NexTag, which saw a significant decrease in share from Q4 to Q1 based on RKG's work to filter out poorly performing products to better achieve efficiency goals.

Comparison Shopping Engines - Conversion Rate for Top Engines



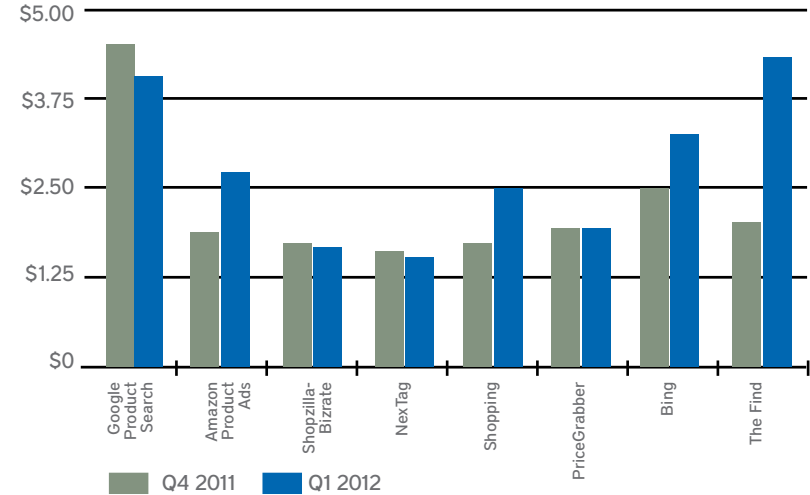
Following adjustments made by RKG, nearly all major CSEs showed an improvement in conversion rate from Q4 to Q1. Amazon Product Ads saw conversion rates nearly double from Q4 levels, while the comparatively small Bing and TheFind showed even stronger improvements.

Comparison Shopping Engines - Order Share for Top Engines



Google Product Search saw a slight decrease in its share of CSE orders for Q1 while Shopzilla/Bizrate, Shopping and Amazon Product Ads all saw increases. Amazon Product Ads had the biggest absolute jump moving from an 8.5% to 12% share.

Comparison Shopping Engines - Revenue Per Click for Top Engines



All else being equal, we expect to see a higher revenue per click in Q4 than we do in Q1, because of the impact of the holidays. We see that drop-off here with the free Google Product Search results, but we were largely able to maintain RPCs on the paid listings through program adjustments. The result was greater parity in Q1.

Throughout the quarter, the majority of our clients saw improvements in ROI while the rest continued to see ROI results that matched already strong Q4 results.

Attribution

The issue of order attribution has become an increasingly hot topic in the online marketing world. Marketers want to see how each channel works with one another so that we can allocate our marketing dollars in smarter ways.

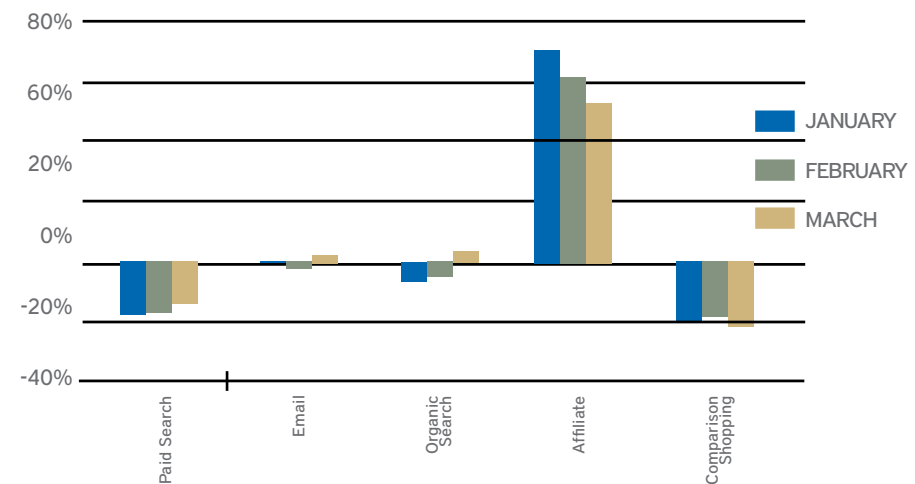
Before we review some of the trends we saw in Q1, let's outline some basic assumptions and vocabulary. The data presented here represents a subset of RKG clients that is distinct from others presented in this report. Two of the primary metrics we compare are marketing touches and marketing channels. 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 (direct loads) are ignored in this analysis. While RKG offers customized 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 Q1, we found that the percentage of orders credited to PPC under a first touch model grew as we progressed throughout the quarter, while the percentage of orders attributed to PPC under a last touch model decreased. Email and SEO remained flat throughout the quarter between the two models, while affiliates observed many more orders in the last touch model than the first touch model.

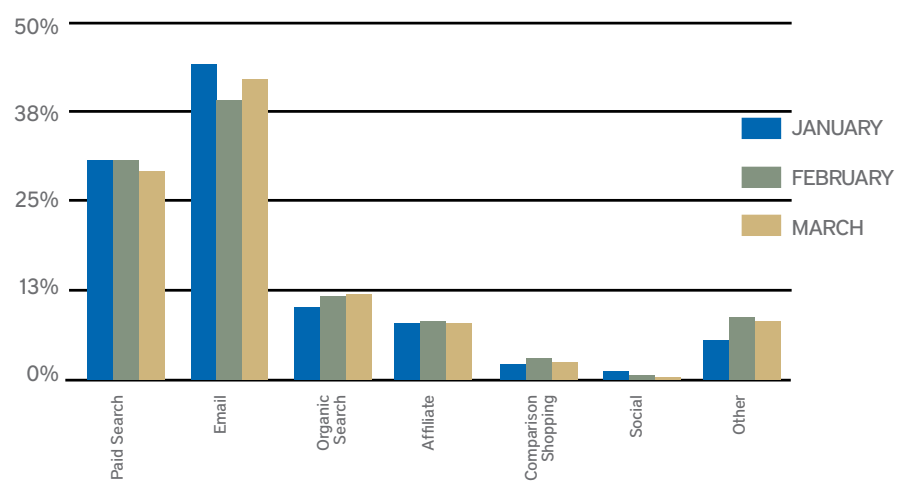
Our data also shows that marketing touches per order grew throughout the quarter (where the month represents the month of the order not the necessarily the month of the touch). We believe this may be due to shoppers being more careful and resourceful during non-holiday (less rushed) times of the year.

Change in Revenue Contribution Moving from First to Last Touch Model

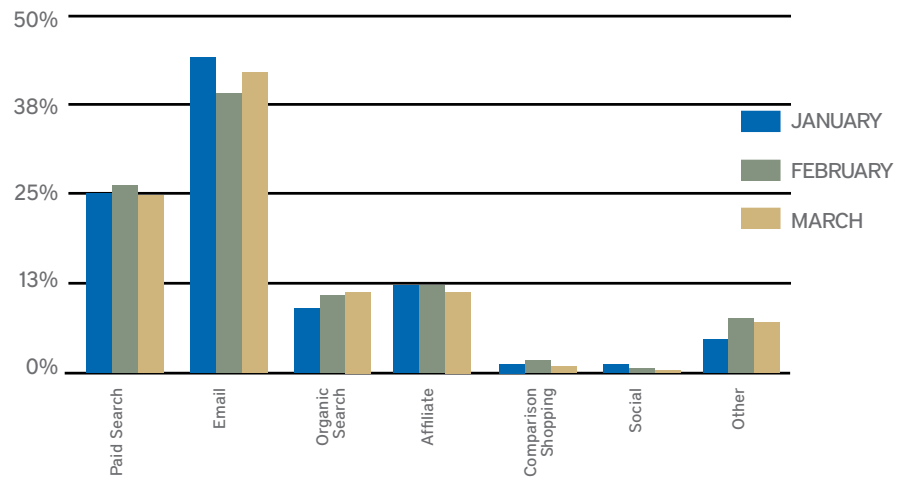


This graph shows how each channel is impacted by moving from a first touch to a last touch model. Paid search loses 15-20% of the revenue it is credited with under a first touch scheme, whereas affiliates see their credit jump between 50-70%. These numbers spotlight where channels are most likely to fall in the buying process – Paid search tends towards the beginning and affiliates towards the end.

> Percent of Revenue by First Touch Channel

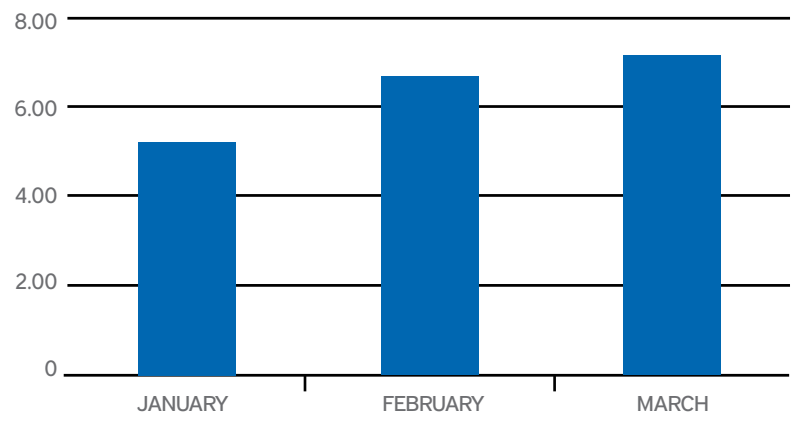


> Percent of Revenue by Last Touch Channel



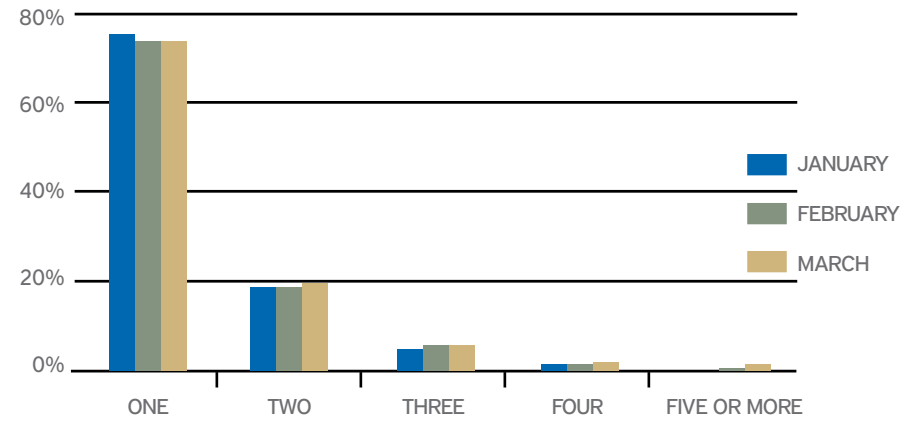
While we didn't see significant changes in revenue attribution by channel as we progressed throughout the quarter, these views do show the relative size of each channel from the previous graph. With paid search at roughly 30% of revenue under the first touch model and 25% under the last touch, a change in the attribution scheme could have a considerable impact for this sample.

> Marketing Touches Per Order by Month



Taking a look at average touches per order, we see that marketing efforts continued to rise throughout the quarter, peaking in March at 7 touches per order.

> Channels Per Order



We've always maintained that the vast majority of orders only interact with a single channel. Looking at intra quarter trends we see a modest decline in single channel interaction and an uptick in 2+ channel interaction as we progress from January through March.



About RKG:

RKG is a full-service digital marketing agency that combines talented and creative marketing analysts with unmatched proprietary technological capabilities to create the industry's most efficient and effective data-driven online marketing solutions. We drive business to our clients by maximizing a full range of opportunities including Paid Search, SEO, Social Media Advertising, Comparison Shopping Management, Display Advertising and Multichannel Attribution Management Services. RKG was founded in 2003 and works with organizations ranging in size from young startups to established Fortune 500 companies in sectors including retail, travel and finance.

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, comparison shopping engines and multi-channel 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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