

RKG

Digital Marketing Report
▶ Q3 2012



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▶ Total same-site paid search spending grew at a 19% year over year rate in Q3 2012. That was down from a 32% growth rate among the same client sample for Q2.

▶ Google paid search spending growth decelerated to 18% Y/Y in Q3, down from 34% in Q2. Google paid click growth was 21%, including the traffic infusion from the Google Shopping transition. CPCs were 3% lower Y/Y in Q3, while ROI rose 12% for competitive queries.

▶ Paid search spending on Bing and Yahoo combined grew 26% Y/Y in Q3, up from 19% growth in Q2. Click growth accelerated to 14% Y/Y, while CPCs increased 10%.

▶ Google's Product Listing Ads traffic grew 262% Y/Y and provided 20% of Google paid search clicks for the quarter. However, CPCs for PLAs ran 15% lower than those for comparable text ads.

▶ Google held a 77% share of organic search visits among RKG SEO clients. Bing and Yahoo each held a share of 10%. In paid search, Google AdWords generated 82% of clicks in Q3, down from 84% in Q2.

▶ Facebook's share of referral traffic remained at 6%, while Pinterest continued to provide a larger share of traffic. Along with Twitter, these social sites accounted for a little under 1% of all site visits in Q3.

▶ Nearly 21% of organic search visits occurred on mobile devices in Q3, up from 18% in Q2. For paid search, 16% of clicks and 11% of ad spend were mobile.

▶ Tablet share of paid clicks nearly tripled to 9% and the gap between tablet and desktop CPCs fell to 5%. Smartphone CPCs remained 54% lower than desktop.

▶ Among CSEs, Amazon Product Ads has made the largest gains in 2012, seeing its share of clicks increase from around 5% in Q4 2011 to nearly 20% in Q3 2012.

▶ RKG attribution data shows there was an average 3.2 non-brand marketing touches per order in Q3, but for 76% of orders, marketing touches were only generated by a single channel.



> Paid Search Marketing

► Google’s move to begin powering its previously free Google Shopping listings with the Product Listing Ads format made a big splash when it was announced in late May of this year. Financial analysts worked quickly to assess the potential impact to Google’s revenue haul, and what those projections might mean for Google’s stock price – apparently good things, as Google’s stock is up nearly 30% since the news.

Some digital agencies scrambled to rebrand their approach to PLAs, while others forged new partnerships or made acquisitions in order to manage them at all. In the end, however, the Google Shopping transition was eclipsed by larger factors, and it was not enough to reverse a trend of decelerating paid search spending growth.

Specifically, Google’s officially reported revenue growth hit a thirteen-quarter peak of 33% in the third quarter of 2011. Those year-ago quarterly comps have been strengthening largely due to a surge in paid click growth last year, which was brought upon by an increase in click-through rates. At least for the RKG client base, PLAs were a major factor in our own surge in ad spending last third quarter, when we recorded a same-site growth rate of 32%.

For early adopters of the PLA format, like the majority of RKG clients, the Shopping transition did lead to a single digit lift in paid clicks this year, but Y/Y growth of PLAs still slowed from Q2 to Q3. PLA volume was already much larger than that from Google Product Search and it had grown rapidly since late 2010. Simply put, even with the boost provided by the transition, traffic growth of 365% like we saw in Q2 is ultimately unsustainable. Q3 Y/Y traffic growth of PLAs was 262%.

RKG’s total growth rates on Google have run appreciably higher than industry-average over the last few quarters, suggesting our adoption rates and volume

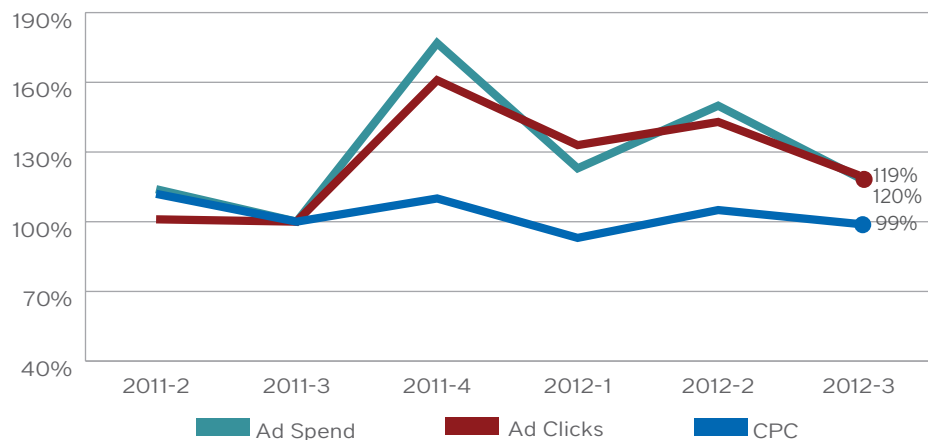
for PLAs is likely the exception. To the extent that is the case, and the Shopping transition has led to greater adoption of the PLA format among the industry, the Q3 outlook for Google may be more positive than our results suggest.

Also, to be clear, while an argument could be made that PLAs should fall under the category of comparison shopping, we are grouping them entirely under paid search for the purposes of this report. As noted above, a large majority of PLA traffic is generated on the main Google SERP, and the mechanics of the format do not allow most advertisers to distinguish that traffic from clicks generated on the Google Shopping page.

For all the details on Google, as well as our analyses of Bing, Yahoo, and mobile trends, please read on.

Overall Trends

► We saw a deceleration in year over year paid search ad spend growth for the third quarter in a row in Q3. Same-site spending rose 19% in Q3, down from a 32% growth rate for the same sample in Q2. Advertisers have been facing increasingly strong 2011 comps, particularly on Google, and many are also seeing revenue growth outpacing spend, leading to higher ROI.

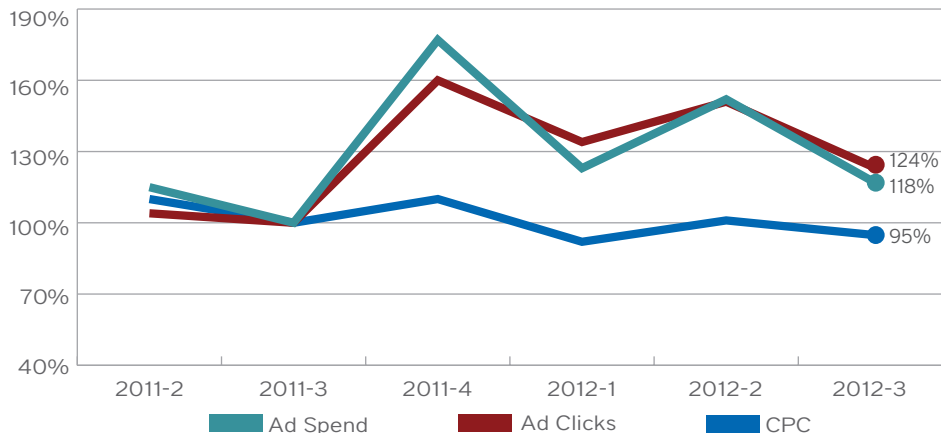


Paid Search

PAID SEARCH MARKETING

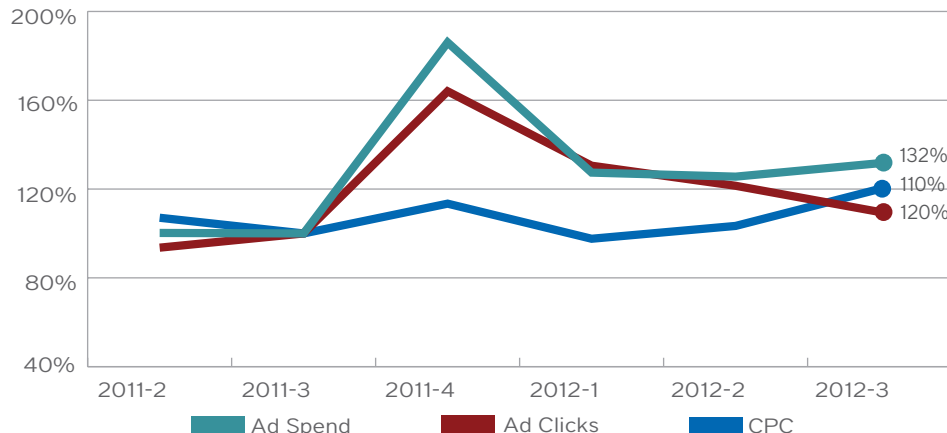
Non-Brand Trends

▶ The trends for non-brand, or competitive, paid search largely mirror the overall results. Ad spending rose 18% Y/Y on 24% higher clicks. The average cost-per-click fell 5%, a small sign of improvement for the engines following Q2's 9% decline.



Brand Trends

▶ Advertisers paid significantly more for clicks on their own brand terms in Q3 as average CPCs rose 20%. Brand CPCs had been in decline on Google for several quarters, tempering increases on Bing Ads. That trend came to an end in Q3 as Google brand CPCs rose 9% Y/Y and 22% from quarter to quarter.

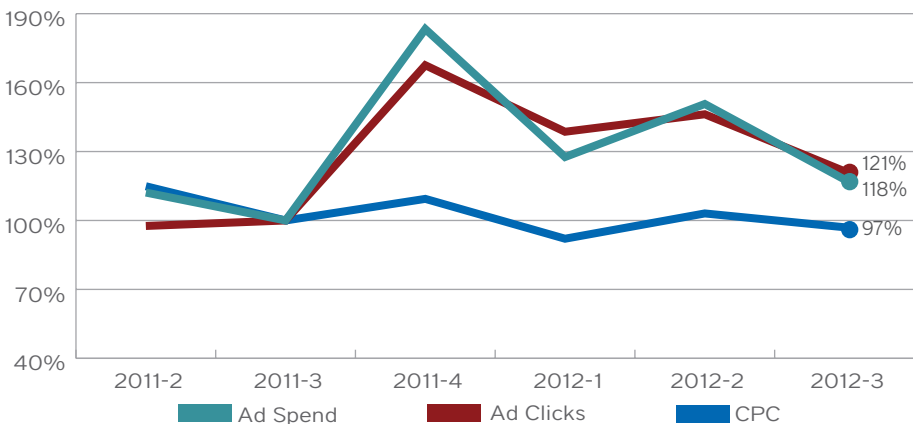


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Paid Search: Google

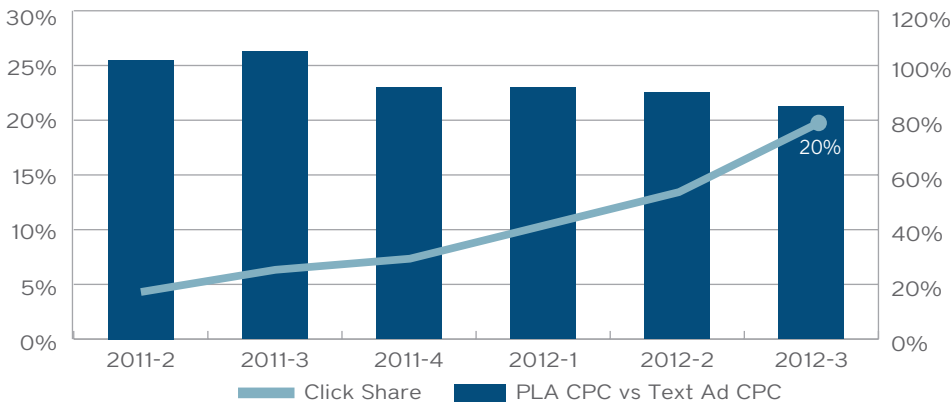
Google: Overall Trends

▶ Despite receiving a boost from the Google Shopping transition, Google paid search spending growth fell from 34% Y/Y in Q2 to 18% in Q3. Click growth was 21%. Above all, Google could not deliver another nearly unprecedented surge in click growth as it did in Q3 2011 when its official paid clicks growth rate jumped from 18% to 28%, a fifteen-quarter high at the time. Meanwhile, Google CPC comps from 2011 are weakening, and we saw CPCs decline just 3% in Q3.



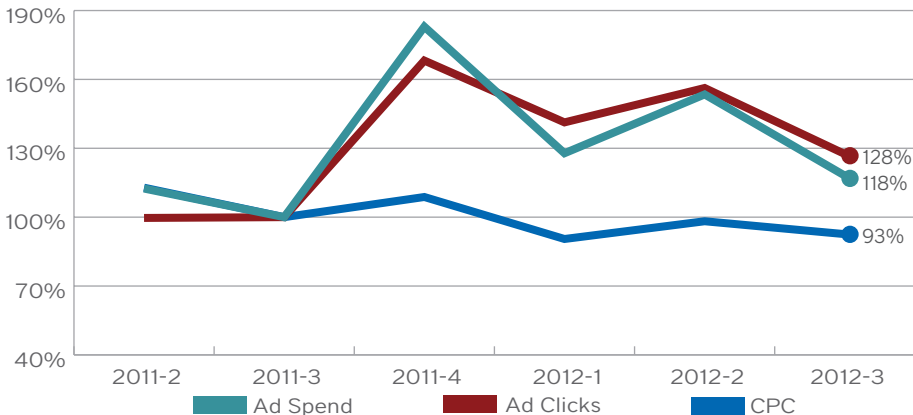
Google: Product Listing Ads

▶ As we've pointed out, prior to their powering Google Shopping results, PLAs were already a rapidly growing segment of the average RKG clients' paid search program. For the full third quarter, PLAs generated 20% of Google paid search clicks at a CPC that was 15% lower than the average non-brand text ad.

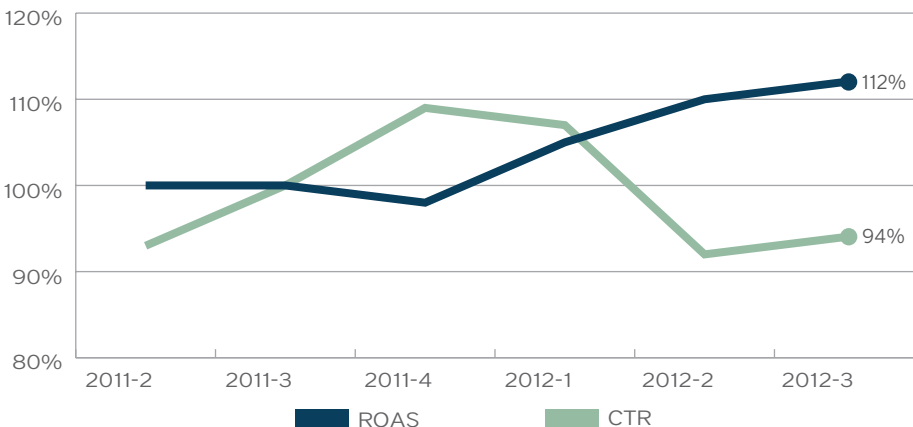


Google: Non-Brand Trends

▶ **Ad Spend, Clicks & CPC:** For non-branded queries, Y/Y spend growth was also 18%. Click volume grew 28%, while CPCs fell 7%. These figures have been heavily influenced by Product Listing Ads and the Google Shopping transition, which have provided incremental traffic, but at a lower average CPC. PLA click growth was an impressive 262% Y/Y, but that was actually down from a 365% growth rate for RKG clients in Q2. Late adopters of PLAs, however, may continue to see a more positive impact on Y/Y growth.



▶ **ROAS & CTR:** Return on ad spend and click-through rate trends provide some additional context to the larger picture we've outlined so far. Advertisers are enjoying a 12% higher ROI than they achieved a year ago. Much of this is due to the impact of PLAs, suggesting that market is still immature. We can also see the large CTR gains that drove the traffic surge in late 2011. CTRs have since come down as we've seen inflation in impressions being reported by Google.

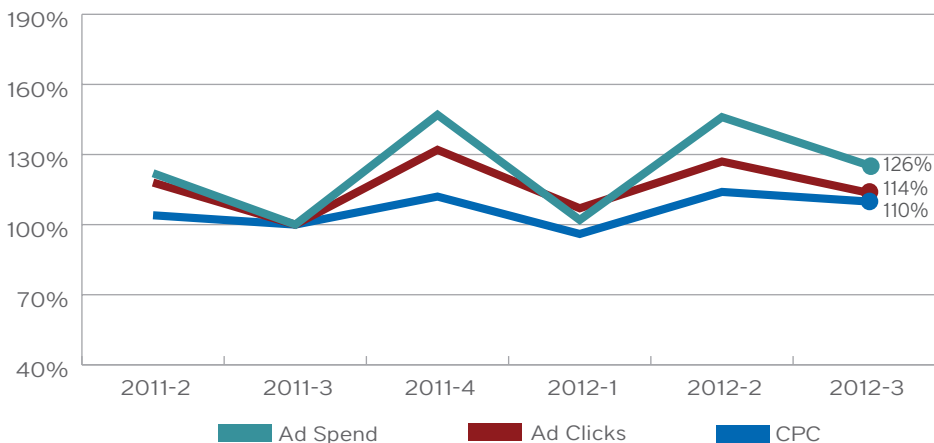


Paid Search: Bing & Yahoo

PAID SEARCH MARKETING

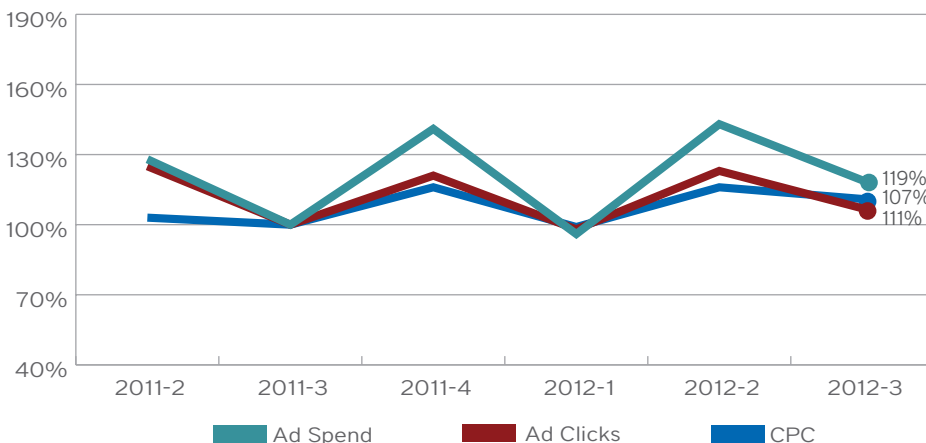
Bing & Yahoo Overall Trends

► Trends for Bing Ads, which powers both Yahoo and Bing, have bounced around in recent quarters, but are generally on an upswing due to relatively weak comps dating back to the launch of the Search Alliance in late 2010. Ad spend rose 26% Y/Y in Q3, compared to 19% in Q2. Ad clicks rose 14%, while CPCs were up 10%.



Bing & Yahoo Non-Brand Trends

► Until recently, most of the gains for Bing Ads have come from higher click costs for brand terms. A positive sign for advertisers is that non-brand ad clicks rose 7% in Q3 2012, albeit with an 11% higher CPC.



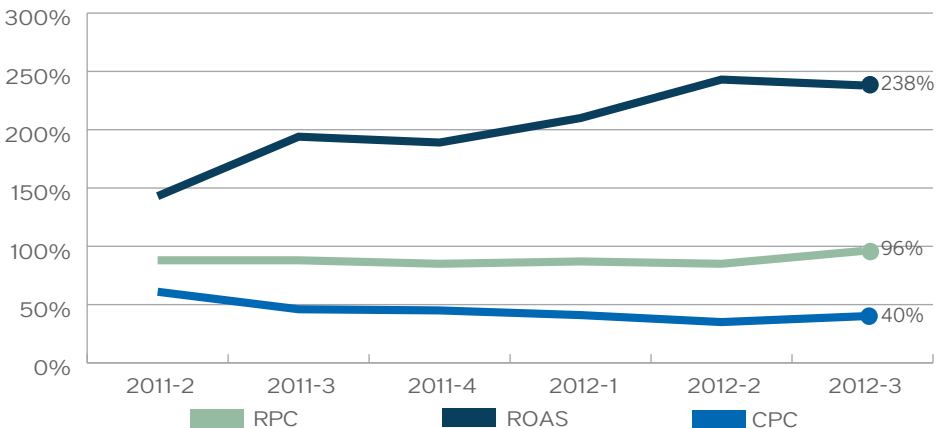
► Paid search spending on Bing and Yahoo combined grew 26% Y/Y in Q3, up from 19% growth in Q2. Click growth accelerated to 14% Y/Y, while CPCs increased 10%.

Paid Search: Comparing Engines

PAID SEARCH MARKETING

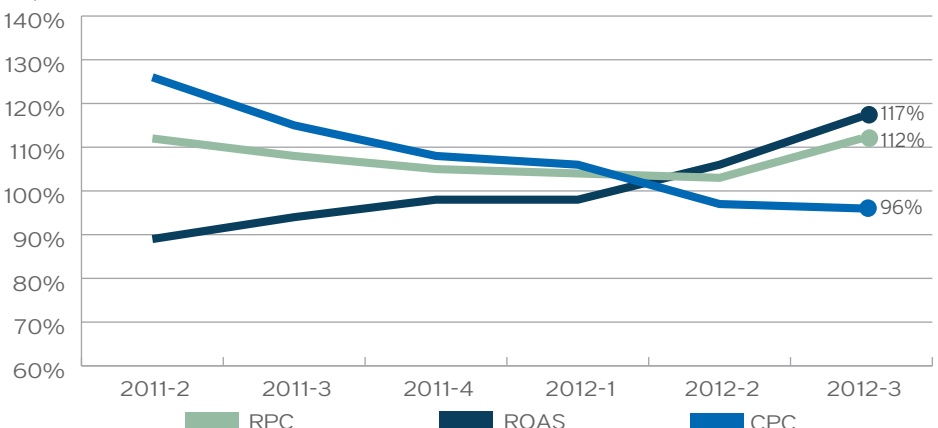
Google vs Bing: Brand Trends

▶ As noted earlier in this report, Bing Ads had been trading water despite weakness in non-brand traffic by driving up CPCs for brand terms. Pitted against Google in the figure here, we can see how advertisers are enjoying a much higher ROI for brand terms on Google. Fortunately for those advertisers, the trend of significantly increasing brand CPCs on Bing has subsided.



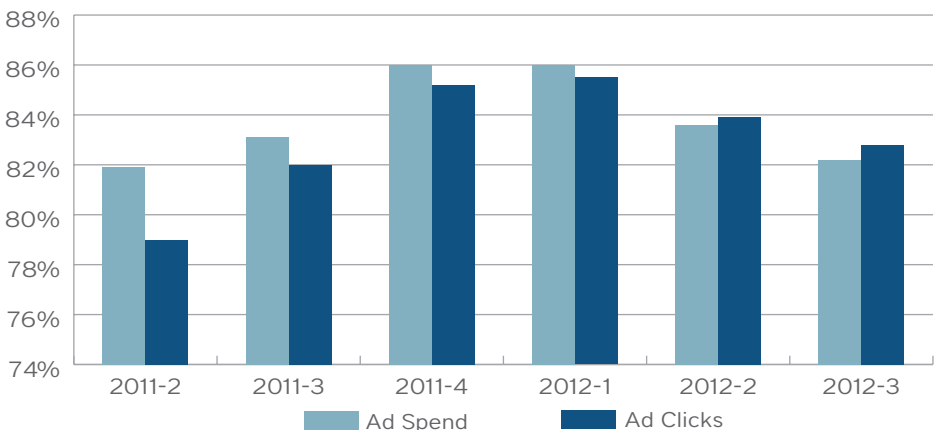
Google vs Bing: Non-Brand Trends

▶ Q2 2011 saw Google and Bing achieving near parity on three key metrics: CPC, revenue per click, and ROI. With PLAs driving down non-brand Google CPCs and raising advertisers' ROI, these trends diverged again in Q3 in an interesting manner, with Bing seemingly monetizing its paid traffic better than Google. However, Google almost certainly still holds a commanding lead in revenue per search -- an important distinction.



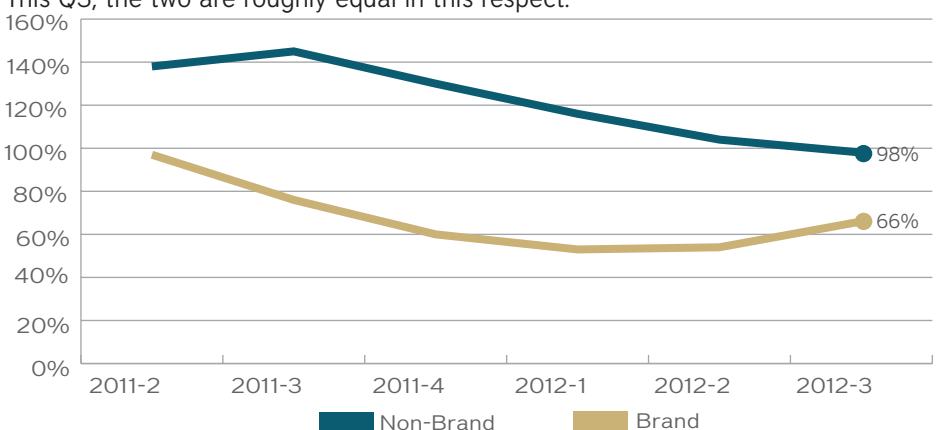
Google vs Bing: Share of Paid Search

▶ This was the second quarter in a row where we saw Google lose both spend and click share to Bing Ads. Although it still holds a dominant lead, Google's share of paid search spend slipped to 82%, while its share of ad clicks declined to 83%.



Google vs Bing: Share of Clicks from Broad Match

▶ Bing has been able to make traffic gains overall, and compared to Google, by increasing its rate of broad matching keywords to queries. In Q3 2011, Google utilized broad matching on a 45% higher share of non-brand queries than Bing. This Q3, the two are roughly equal in this respect.

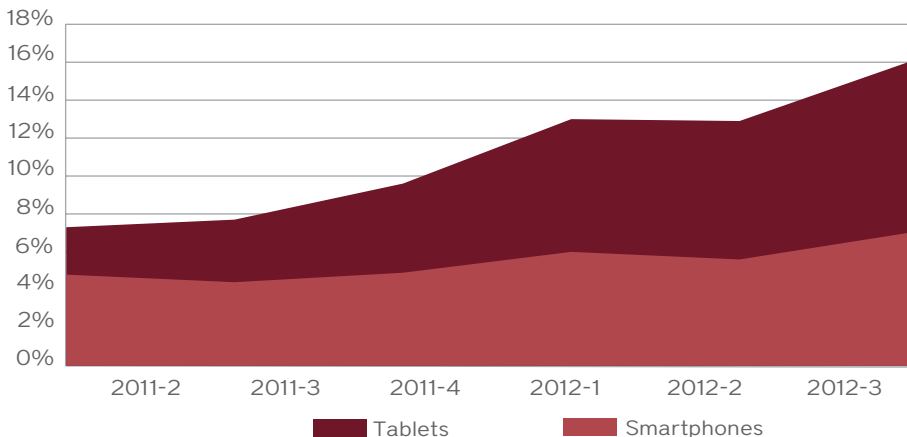


Paid Search: Mobile

PAID SEARCH MARKETING

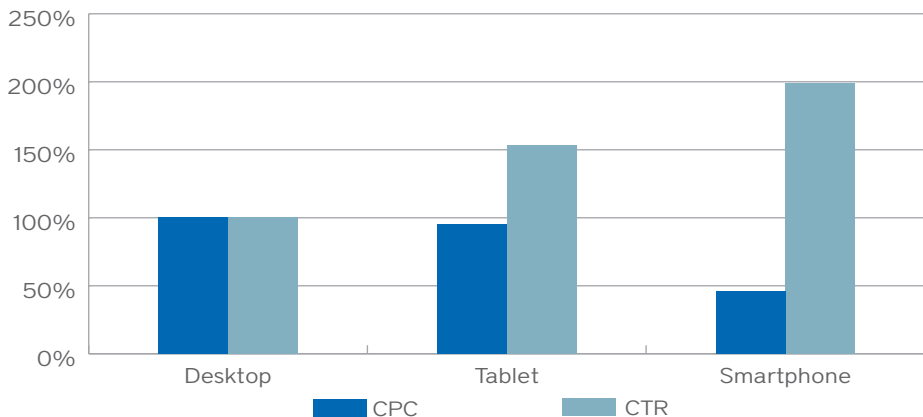
Mobile: Paid Search Click Share

▶ Smartphones and tablets combined to generate 16% of paid search clicks in Q3 2012. Tablet share nearly tripled Y/Y to 9%, while smartphones held a 7% share. The mobile share of paid search runs lower than the 21% share we see for organic search due to advertiser strategies to limit spending on lower quality smartphone traffic.



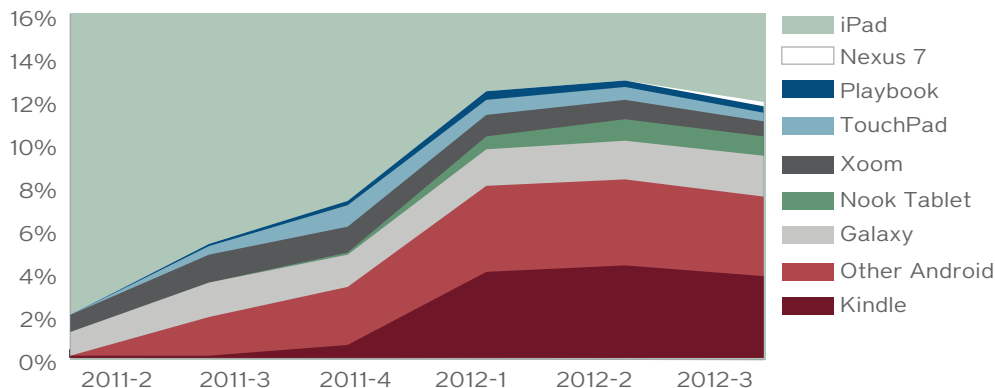
Mobile vs Desktop: CPCs & Click-Through Rate

▶ The CPC and CTR differentials we see between mobile and desktop in Q3 were nearly identical to those we recorded in Q2. Tablet CPC relative to desktop edged up from 93% to 95%, while smartphone CPCs remained at 46% that of desktop. As a result, mobile's share of ad spend was just over 11%, despite its 16% share of clicks.



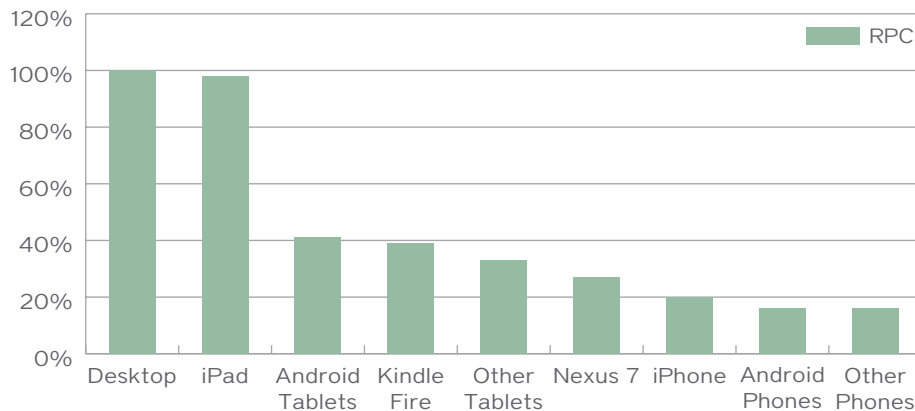
Mobile: Tablet Paid Search Click Share by Device

▶ A new wave of tablets has helped fuel growth of the segment, but the market-leading iPad continues to provide the lion's share of tablet paid search traffic. The iPad accounted for 88% of tablet paid search clicks in Q3. This fits with Apple's recent claim that the iPad is 91% of all web traffic. The Kindle Fire generated 3.8% of tablet clicks, while share for Google's Nexus 7 was 0.2%.



Mobile vs Desktop: Revenue Per Click by Device

▶ In terms of the revenue per click generated by the most popular mobile devices, the iPad is the only one that comes close to matching desktop performance. In Q3, the iPad generated an average RPC that was more than double that for Android tablets, including the Kindle Fire and Nexus 7. Smartphone RPC languished at roughly a fifth that of desktop.



> SEO

► Over the past 18 months, Google has made an unprecedented number of changes that have raised the bar for SEO practitioners. The industry as a whole is working rapidly to keep pace with these changes, and to understand how to stand apart in the new playing field Google has created. While Bing's efforts to innovate - notably in the integration of social media and search - are noteworthy, Google still represents the majority of market share, and therefore opportunity.

The loss of Google query data due to secure search should be a point of concern for every online marketer. RKG has been working diligently on techniques to make up for this lost data. However, with (not provided) now representing about a quarter of all organic Google traffic for our clients, it is both a glaring hole and opportunity for savvy SEOs. Watch this segment increase further due to Firefox defaulting to secure search, and also to the continual rise of Google+ signups, which now exceed 400 million.

Google+ is an important area to watch for other reasons, as well, particularly in the blended results delivered as part of Search Plus Your World -- the personalized result set for logged in users. Brands should prioritize their strategies in social media and ensure Google+ is high on the list, both in terms of user engagement and the production of high-quality, compelling and original content. Building engagement and followers on Google+ can literally change the search results in your favor.

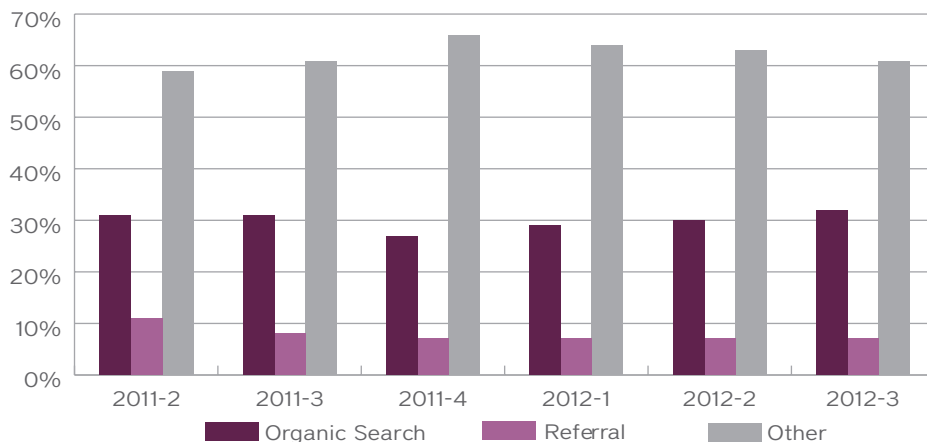
As mobile continues its rapid ascent, we are keen on researching SEO strategies both for the delivery of that content, which are technical in nature, and the proper methods to create mobile experiences that are differentiated to desktop. Responsive design, while de rigueur currently, may not always be the best approach depending on your target demographic and their unique

needs. This is going to be a rich area of exploration on into 2013 as the channel continues to develop.

As we look to the future, signs are already pointing to a world where traditional linking signals will be augmented, if not outright displaced, by machine learning and semantic understanding. Google's Knowledge Graph and Author Rank point to a query space returning results based on known entities and aspects related to people, places, and things. This semantic understanding goes far beyond traditionally vulnerable linking signals in the ability to inform a result set to a given query. It's also much harder for aggressive SEO techniques to manipulate, which we view as a very positive thing. The flight to quality in SEO has begun.

Visit Share by Channel

► Organic search delivered 32% of site visits on average in Q3, up from 30% for the same sample in Q2. Referrals made up 7% of visits, while other sources, including paid search and direct site loads, accounted for 61%.

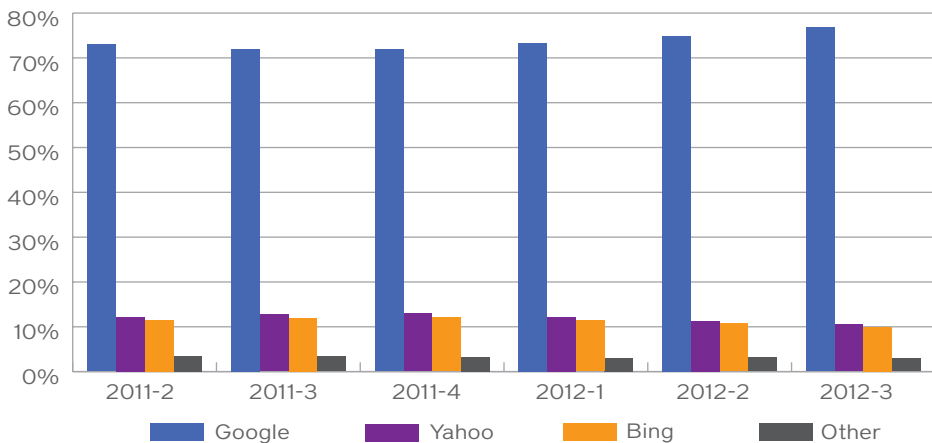


SEO: Search Engines

SEARCH ENGINE OPTIMIZATION

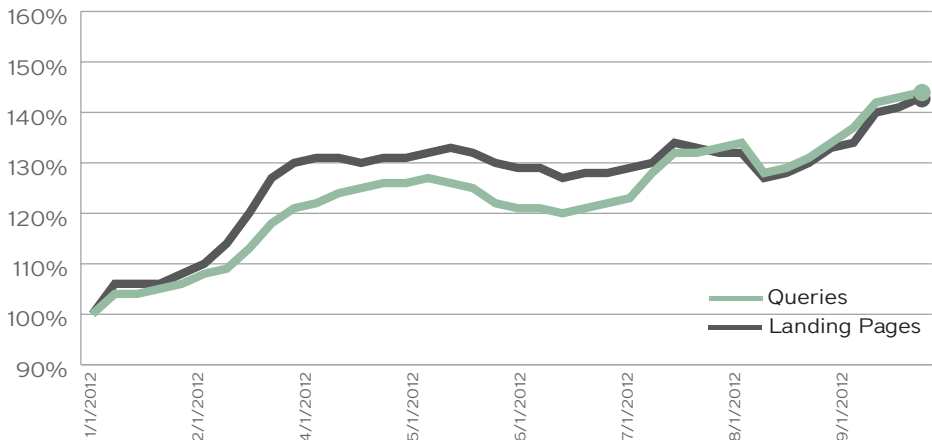
Organic Search Visit Share by Engine

▶ Although third party reports suggest that Bing has been gaining search share, data for RKG SEO clients shows Microsoft's search engine slipping slightly in recent quarters as Google has made gains. In Q3, Google generated 77% of organic search visits, with Bing and Yahoo at 10% each.



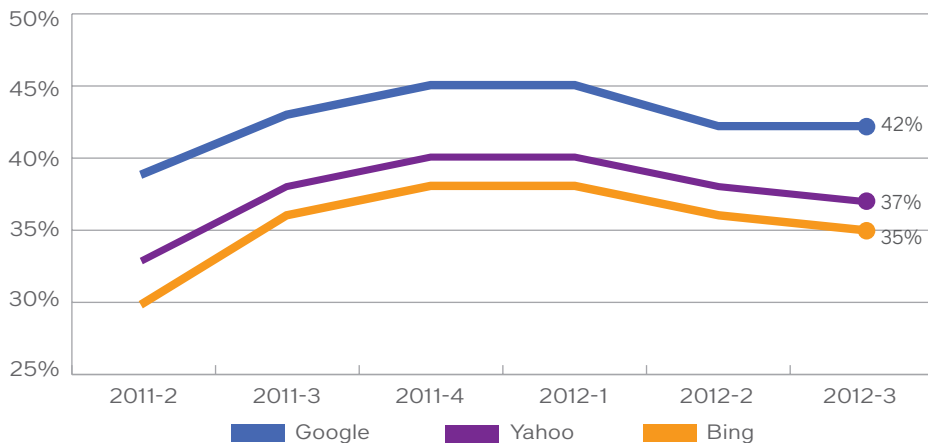
Unique Organic Search Queries & Landing Pages

▶ Despite less and less search query information being returned by Google, RKG SEO clients continued to see gains in the number of unique queries and landing pages generating traffic. Compared to the start of the year, weekly unique queries have risen 43% while unique landing pages are up 44%.



Organic Search Bounce Rates

▶ All three major search engines have shown improvement in average bounce rates, particularly as we have seen improvements in bounce rates for mobile devices. Google continues to exhibit 5-7% higher bounce rates than its rivals.



▶ Google held a 77% share of organic search visits among RKG SEO clients. Bing and Yahoo each held a share of 10%. In paid search, Google AdWords generated 82% of clicks in Q3, down from 84% in Q2.

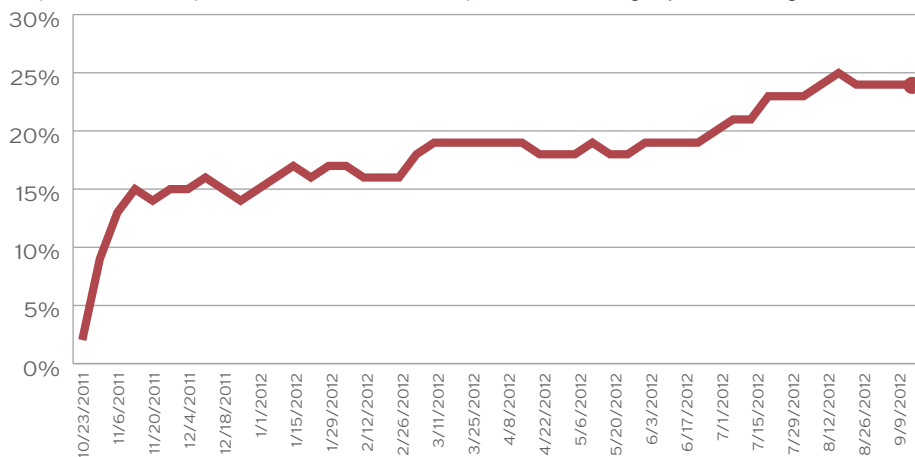


SEO: Google

SEARCH ENGINE OPTIMIZATION

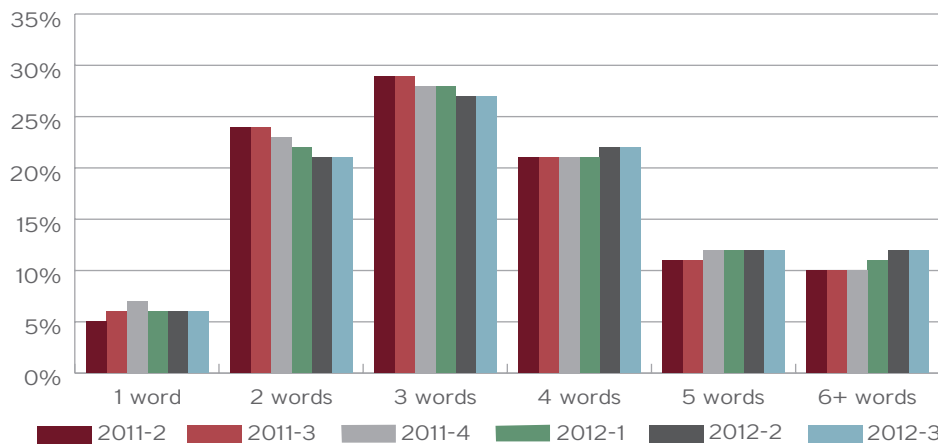
(Not Provided) Share of Google Organic Traffic

► The SEO view of Google search query information continues to become more obfuscated as we approach the one-year anniversary of Google choosing to block keyword referral information for secure organic searches. At the end of Q3, about a quarter of all queries fall into the (not provided) category on average.



Google Organic Search Share by Query Length

► Helping to fuel the growth in organic search queries, we have seen a shift to longer search queries over the last six quarters. This may reflect changing user behavior, but these numbers are also influenced by our SEO efforts to deliver traffic to a broader range of landing pages.



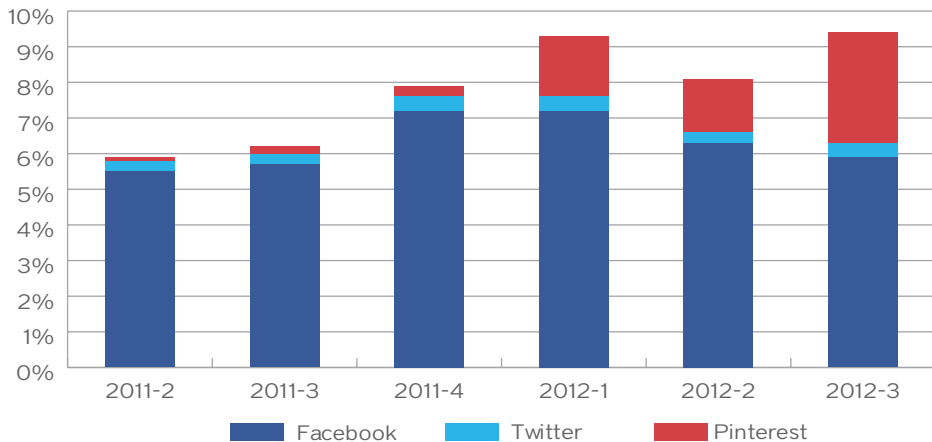
► With (not provided) now representing about a quarter of all organic Google traffic for our clients, it is both a glaring hole and opportunity for savvy SEOs. Watch this segment increase further due to Firefox defaulting to secure search, and also to the continual rise of Google+ signups, which now exceed 400 million.

SEO: SEO & Social Traffic Share

SEARCH ENGINE OPTIMIZATION

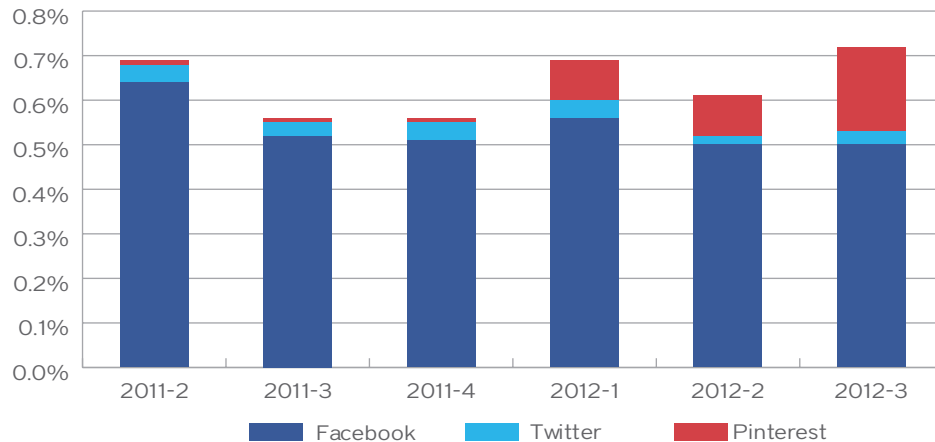
Share of Referral Traffic for Top Social Domains

▶ Among the top social domains, Pinterest remains a real wildcard. For many sites, Pinterest referrals are non-existent, while a select few are able to generate heavy traffic volume approaching a quarter to a third of all referrals. For Q3, Facebook delivered an average of just under 6% of referral traffic.



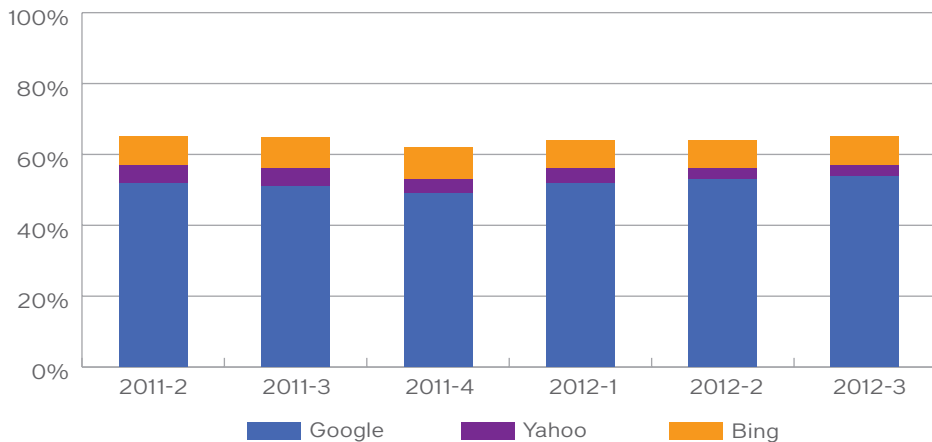
Share of All Traffic for Top Social Domains

▶ Supporting recent Forrester findings that less than 1% of online transactions could be tied to a social media post, we see Facebook, Twitter and Pinterest providing a combined total of just over 0.7% of all site visits on average in Q3.



Share of All Traffic for Top Search Domains

▶ While social media sites remain a more prospective opportunity, the leading search engines continue to deliver the bulk of all site visits. Looking across both paid and organic channels, Bing, Yahoo and Google combined to generate an average of nearly 2/3 of all site visits in Q3.

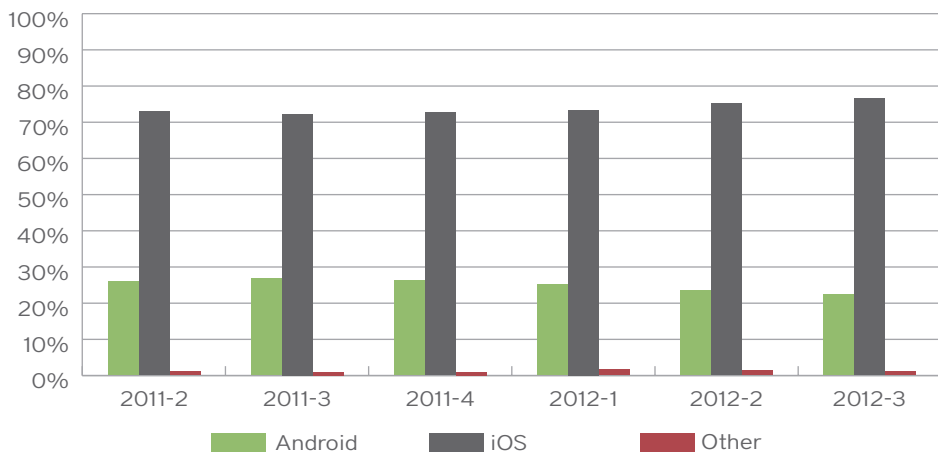


▶ Facebook's share of referral traffic remained at 6%, while Pinterest continued to provide a larger share of traffic. Along with Twitter, these social sites accounted for a little under 1% of all site visits in Q3.

SEO: Mobile Devices

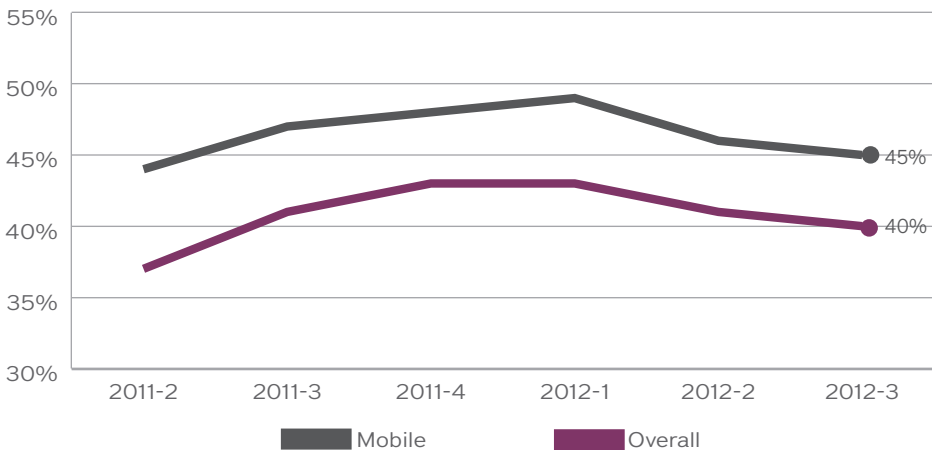
OS Share of Mobile Organic Search

► Buoyed by the dominance of the iPad in the tablet market and its comparatively strong usage rates per installed user, iOS held a 77% share of mobile organic search in Q3, an increase from 75% in Q2.



Mobile vs Overall Bounce Rate

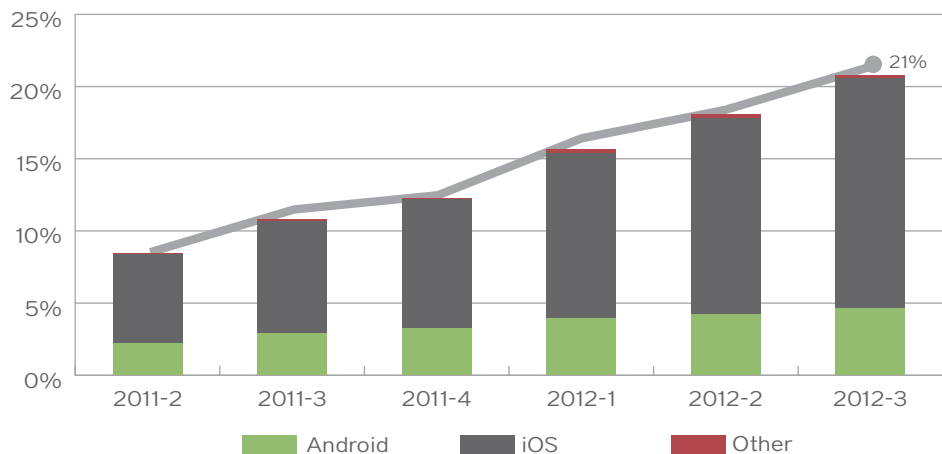
► Although mobile bounce rates have improved recently, they still run about 5% higher than the overall average. This disparity contributes to Google’s relatively high bounce rates seen earlier in this report.



OS Share of Organic Search

► The combined share of smartphones and tablets continued its steady ascent, reaching 21% of organic search visits in Q3. This was nearly double the level we saw in Q3 last year.

► iOS generated 16% of organic search visits on average in Q3, while Android’s share was just under 5%. With changes in iOS 6 that block referral data, this view will become increasingly opaque as traffic from iPhones and iPads will appear to be direct visits.



> CSEs

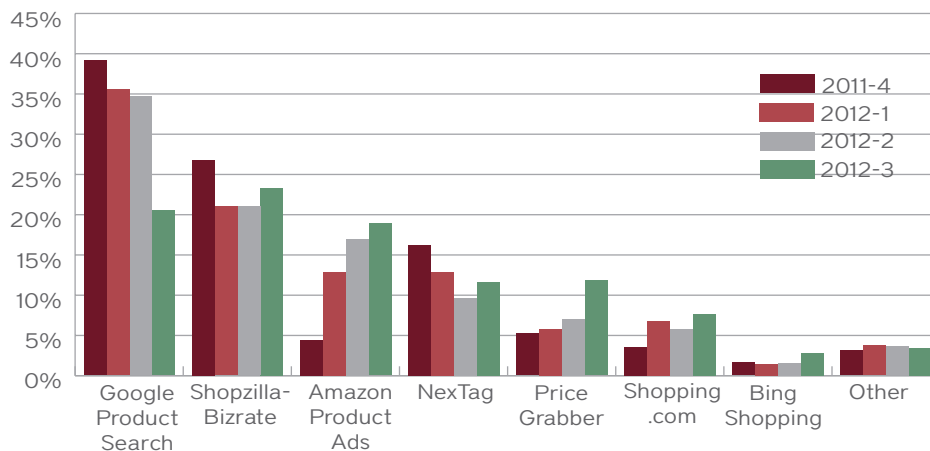
► The Google Shopping transition had a dramatic impact on the comparison shopping engine landscape in Q3 and on how the CSE results appear in this report. As noted in the paid search section above, we are choosing to group our data for Product Listing Ads – the format powering Google Shopping – with paid search because the majority of PLA volume occurs on the main Google SERP and the mechanics of the format do not allow most advertisers to distinguish that traffic from clicks occurring on the Google Shopping page. To be clear, the skill set of CSE managers is just as vital to PLA success now, if not so more so, and RKG favors an approach to PLAs that brings together CSEs and paid search under one roof.

Because the former Google Product Search generated a large plurality of CSE traffic prior to the transition to paid listings, its decline has shifted significant share to the rest of the CSE field. As of this writing, a fraction of Google Shopping traffic remains free, but Google has set October, 17th as the official start date of 100% paid listings.

While advertisers aren't likely to increase spend on other CSEs just to keep volume levels up, we have been seeing an increasing interest in Amazon Product Ads, which has seen its share of CSE traffic increase from around 5% in Q4 2011 to nearly 20% in Q3 2012. Since many have speculated the Google Shopping transition was just a first step for Google in creating a marketplace to compete more directly with Amazon, it will be interesting to see if that trend continues.

Click Share for Top Engines

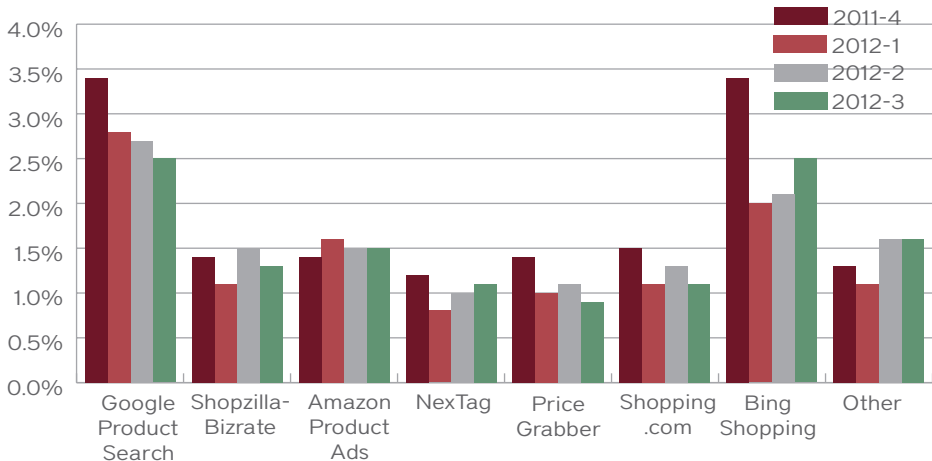
► As Google ramped up its transition to replace the free Google Product Search listings with paid ads powered by the PLA format, we saw a sharp decline in GPS clicks, as expected. As a result, all of the other major comparison shopping engines picked up share, although not necessarily volume.



CSEs

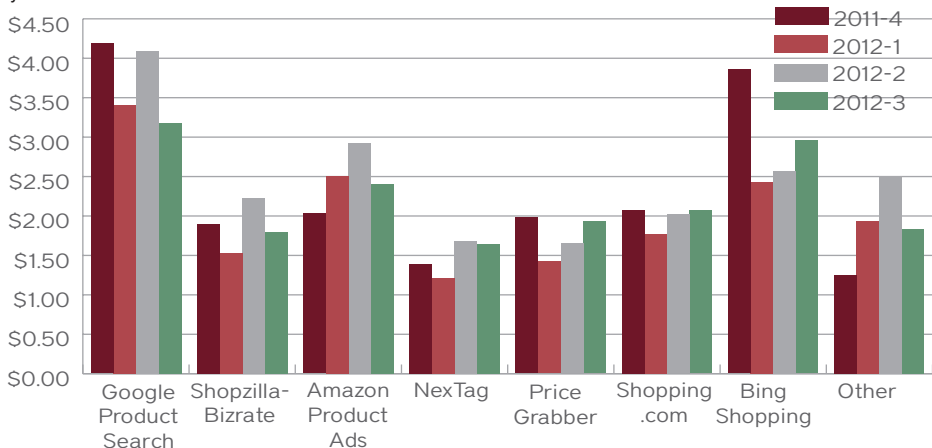
Conversion Rate for Top Engines

► Conversion rates for the major CSEs have been fairly stable throughout the year, following stronger performance in Q4 2011, when holiday seasonality provided an appreciable lift. The two free engines in this list, Google Product Search and Bing Shopping, have continued to deliver the best results.



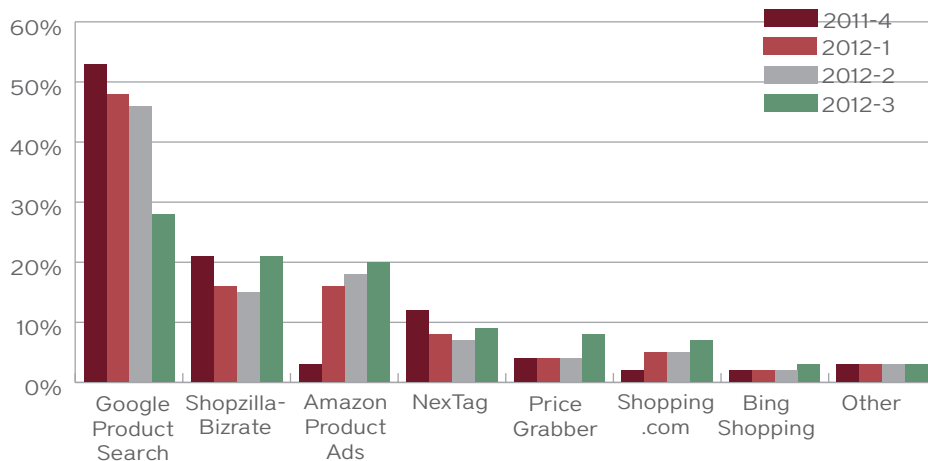
Revenue Per Click for Top Engines

► We see a bit more parity in the revenue per click generated by the top CSEs than we do in their conversion rates, which is to be expected for programs driven by an ROI target. Generally RPC has been improving since the beginning of the year.



Order Share for Top Engines

► Following the traffic trends noted earlier, GPS order share was cut nearly in half from Q2 to Q3. At the same time, Amazon continues to play a larger role in the CSE space with its Amazon Product Ads rivaling Shopzilla-Bizrate in order volume in Q3.



Total Comparison Shopping Engine Traffic

► As we highlighted earlier in this report, the vast majority of Google Product Search traffic has converted over to the PLA ad format. In this view that excludes PLAs, we can see that the other CSEs do not appear to be gaining much actual traffic volume as a result of Google's transition, only share.



> Attribution

ATTRIBUTION

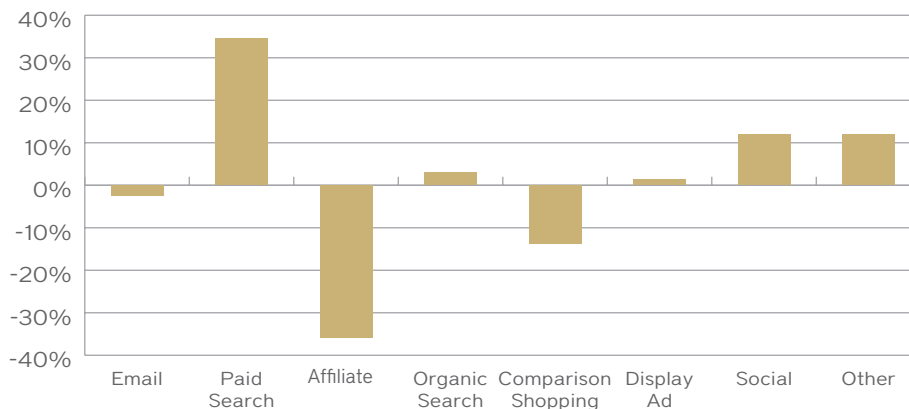
► RKG’s Attribution Management service offers customized statistical models that combine sophisticated technology with business intelligence to produce actionable insights. For the purposes of this report though, we are primarily reviewing data from two of the most basic attribution models: first touch (the first click event gets full credit for an order), and last touch (the last click event gets full credit for an order). These views provide an easy-to-comprehend benchmark of the multi-channel landscape and the opportunity that exists from applying more advanced attribution methods.

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.

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.

Change in Revenue Contribution from First to Last Touch Attribution Model

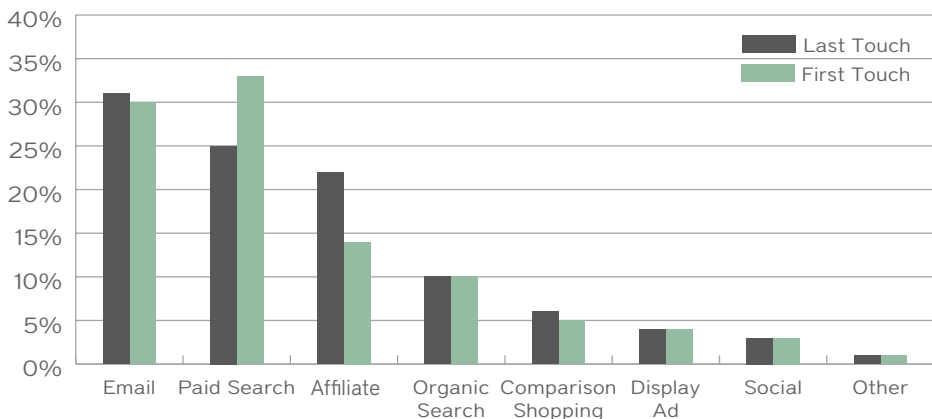
► Looking at how revenue credit would shift if we switched from a last touch model to a first touch model is a good way to see early funnel interaction that may be being under-credited and therefore under-budgeted. Excluding navigational brand name searches from both paid and organic search, we once again we see that paid search would gain the most on average by placing more value on early touches, while affiliates would lose significant credit doing the same. As we saw last quarter as well, the social channel also commonly appears earlier in the sales funnel.



Attribution

Percent of Revenue by Marketing Channel

► Here we can see the last to first touch gains in terms of the revenue share generated by each channel. Direct navigation visits to the site are excluded here. Again, paid search comes out favorably here, but its relative strength may certainly be influenced by the make-up of the RKG client base.



Average Non-Brand Marketing Touches per Order

► 3.2 is the average number of non-brand marketing touches we saw per order in Q3. While over three-quarters of orders only involve a single marketing channel, there are often multiple touches for each channel, speaking to the importance of smart attribution not only across channels, but within them.

3.2

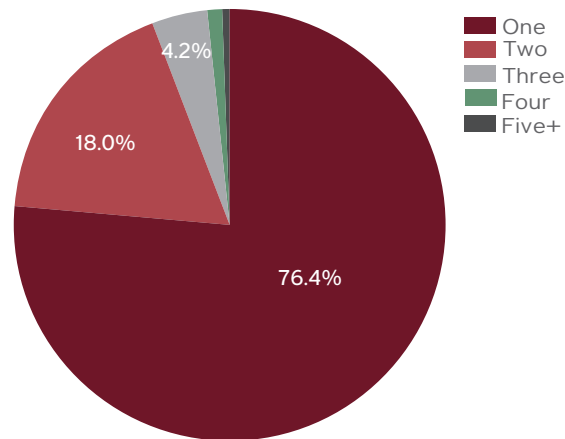
10 Most Common Channel Overlaps

► When digging into attribution data it is often fascinating to observe the myriad paths our users took before converting. The table above highlights the ten pairs of touches that most commonly appear in the same path for a given first touch channel. Most common, occurring before 2% of all orders, is a first touch of a non-brand paid search ad, followed at some point before the conversion by a brand paid search ad click.

| First Channel | Subsequent Channel | Order Frequency |
|-----------------------|--------------------------|-----------------|
| Non-Brand Paid Search | Brand Paid Search | 2.0% |
| Non-Brand Paid Search | Non-Brand Organic Search | 2.0% |
| Brand Paid Search | Brand Organic Search | 1.8% |
| Non-Brand Paid Search | Comparison Shopping | 1.2% |
| Brand Paid Search | Non-Brand Paid Search | 1.2% |
| Non-Brand Paid Search | Affiliate | 1.1% |
| Non-Brand Paid Search | Brand Organic Search | 1.0% |
| Brand Organic Search | Brand Paid Search | 1.0% |
| Non-Brand Paid Search | Email | 1.0% |
| Brand Paid Search | Affiliate | 0.9% |
| Email | Brand Paid Search | 0.9% |
| Brand Paid Search | Email | 0.9% |

Non-Brand Marketing Channels per Order

► Although the average number of non-brand marketing touches was 3.2, users will often touch the same multiple times, resulting in fewer total channels per order. In Q3, 76% of orders involved only a single marketing channel.





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.

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Methodology

▶ Figures are derived from samples of RKG clients who have worked with RKG for each respective marketing channel. Where applicable, these samples are 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. All trended figures presented in this report represent the average same-site change over the given time period.