

MERKLE

DIGITAL MARKETING REPORT

Deep market insights to drive smarter media investments

DMR

Q3 2018

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EXECUTIVE SUMMARY

While Google search ads achieved steady year-over-year spending growth of 18% in Q3 2018, a closer look at key metrics highlights the growing contrast between trends for traditional Google text ads and those for Google Shopping Ads. Advertiser investment in Shopping grew 33% in the quarter, compared to just 3% growth for text ads.

Excluding largely navigational queries on advertisers' own brand names, Google Shopping Ads generated 87% of Google search ad clicks for retailers in the quarter. The nature of ecommerce paid search management has changed dramatically since early 2014, when Shopping Ads still produced a minority of retailers' non-brand Google search ad traffic.

Outside of retail and ecommerce, text ad spending growth was more robust, but primarily driven by cost-per-click (CPC) increases. CPC inflation for advertiser brand keywords remains a major driver here, but brands have also seen a smaller share of traffic, driven by cheaper, lower-position text ads at the top of Google's search results.

The growing use of audience targeting to reach better performing traffic segments has also helped drive Google search CPCs higher in recent years, but one of the main pillars of this strategy faced a setback in the quarter.

The launch of Apple's Intelligent Tracking Prevention (ITP) 2.0 initiative, which debuted with iOS and Safari 12 in mid-September, appeared to disrupt advertisers' ability to use Google's remarketing lists for search ads (RLSA) product, at least temporarily. RLSA click share dropped soon after ITP 2.0 came into effect, hitting a seven-month low for the month of September.

As indicated by recent media reports that Google may pay Apple as much as \$12B in 2019 to be the default search engine for Safari, the importance of Apple to Google search only continues to grow. In the US market, iOS and desktop Safari produced 49% of all Google search ad clicks in Q3 2018.

Elsewhere, spending growth for Bing Product Ads accelerated slightly to 42% Y/Y in Q3 2018, but total spending across the Bing Ads and Yahoo Gemini platforms grew just 7%, as text ad spending on the Yahoo Gemini platform fell 8% Y/Y, while Bing text ad growth was weak, due in part to cannibalization by Product Ads, particularly on mobile.

Amazon search ad spend continued its streak of impressive growth, with Sponsored Products investment up 62% Y/Y for the quarter. Spend on Sponsored Brands, formerly known as Headline Search Ads, grew even faster at 86%, and stand to benefit from changes made in late August to significantly expand the amount of available inventory for these ad units in multiple page locations across device types.

Facebook spend across established programs increased 25% Y/Y, with pricing driving most of that increase. After announcing its second quarter results, Facebook surprised many by saying it expected growth rates to slow by high single-digits in the second half of 2018. While Merkle saw Facebook investment growth slow in Q3, Instagram spend continued to grow significantly faster than that of Facebook proper, increasing 61% Y/Y with a 58% increase in impressions.

Organic search posted a nearly 6% Y/Y increase in visits in Q3 2018, its second-best rate of growth in the past three years. Phone organic search visits grew 18% Y/Y, their strongest result since Q3 2015; meanwhile, desktop visit declines have become less severe in recent quarters. The past year has seen paid search CPCs increase and click growth decelerate, which has benefited organic traffic volume.

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EXECUTIVE SUMMARY

PAID SEARCH

- Google search ad spending grew 18% Y/Y in Q3 2018, with clicks up 8% and CPCs up 9%. Google Shopping spend increased 33%, while text ad spending rose 3%.
- Spending on phone Google search ads was up 33% Y/Y, while desktop spending increased 11%. Tablet spending growth was positive in Q3 2018 for the first time in two years.
- Among advertisers with a brick-and-mortar presence, Google Maps produced 7% of text ad clicks on phones in Q3 2018, up from 5% a quarter earlier.
- Brands running Showcase Shopping ads saw the relatively new format produce just over 5% of phone Google Shopping clicks in Q3 2018, while brands participating in Google Local Inventory Ads (LIAs) also saw that format's share of clicks increase significantly from Q2 2018.
- Spending on Bing and Yahoo search ads grew 7% in Q3 2018, down from 11% growth a quarter earlier. Clicks grew 23% Y/Y, but CPCs fell 13% as traffic shifted to mobile and as CPCs for the mobile segment itself fell on Bing.

ORGANIC SEARCH & SOCIAL

- Organic search visits produced by Google grew nearly 9% in Q3 2018, up from 2% growth a quarter earlier. This was Google's strongest performance since Q2 2015, which was just before Google rolled out a wave of additional ad inventory.
- Despite recent headlines about the strong growth for DuckDuckGo, US organic search visit share for search engines beyond Google, Bing, and Yahoo fell from just 0.8% in Q3 2017 to 0.6% in Q3 2018.
- Visits to brand sites produced by Instagram grew 111% Y/Y in Q3 2018, far outpacing most other social platforms. YouTube site visits grew an impressive 70%, while Pinterest delivered 11% visit growth. Site visits produced by Facebook and Twitter both fell Y/Y in Q3 2018.

DISPLAY & PAID SOCIAL

- Facebook spend, excluding Instagram, grew 25% Y/Y, with a 6% increase in impressions. Facebook mobile traffic and spend share continued to grow and were up to 95% and 89%, respectively, in Q3 2018.
- Instagram spend grew 61% Y/Y for the quarter, as impressions increased 58%. The median advertiser on both Instagram and Facebook spent 19% as much on Instagram ads in Q3 as on Facebook ads.
- Snapchat advertisers spent 6% as much on Snapchat ads as they did on Facebook ads for the quarter, but adoption remains small among paid social advertisers overall.
- Advertisers on YouTube continue to grow their investment significantly, with a 77% increase in ad spend Y/Y in Q3 2018.

AMAZON ADS

- Amazon Sponsored Products spend grew 62% Y/Y, while Sponsored Brands (formerly known as Headline Search Ads) grew 86%. Sponsored Brands stand to benefit from Amazon's recent layout changes that significantly increased the number of page locations where these ads may show.
- Brand keywords accounted for 62% of Sponsored Brands sales and 42% of Sponsored Products sales in Q3, as advertisers are finding it crucial to bid on their own brand keywords to stave off competitors.
- Amazon Sponsored Products conversion rate remains significantly higher than that of Google Shopping, which speaks to the high purchase intent of Amazon searchers relative to general search engine users.

PAID SEARCH

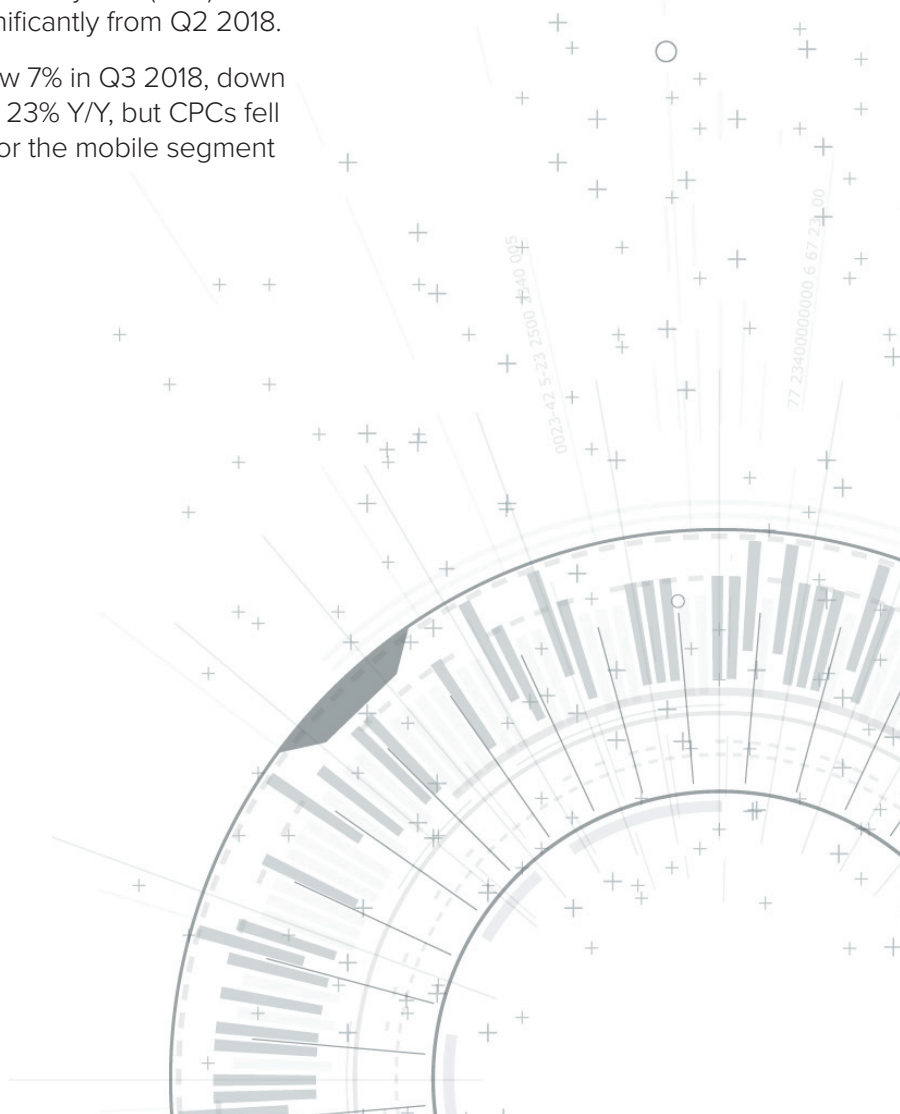
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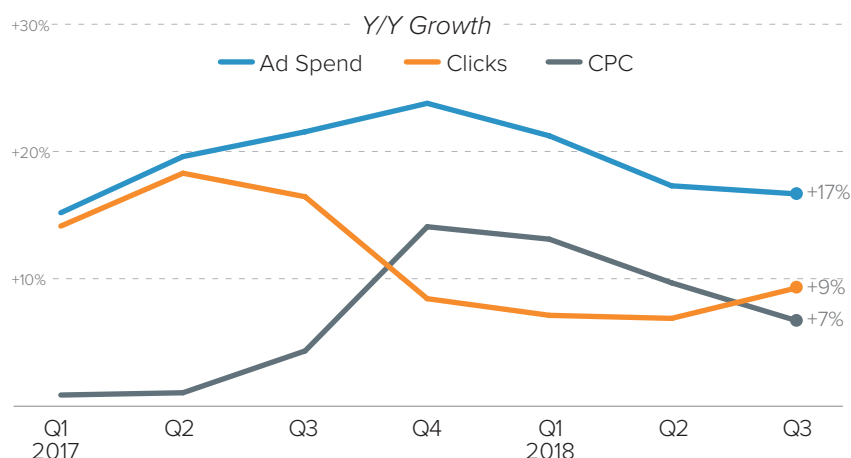
Brands running Showcase Shopping ads saw the relatively new format produce just over 5% of phone Google Shopping clicks in Q3 2018, while brands participating in Google Local Inventory Ads (LIAs) also saw that format's share of clicks increase significantly from Q2 2018.

Spending on Bing and Yahoo search ads grew 7% in Q3 2018, down from 11% growth a quarter earlier. Clicks grew 23% Y/Y, but CPCs fell 13% as traffic shifted to mobile and as CPCs for the mobile segment itself fell on Bing.



Paid Search Spending Growth Dips, but Shopping Ad Click Growth Accelerates

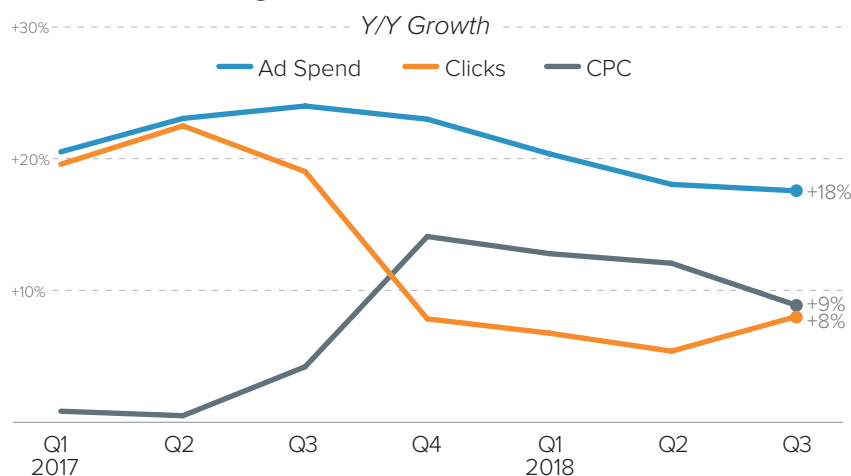
Overall US Paid Search



Total US paid search spending grew 17% Y/Y in Q3 2018, slightly below the rate of growth in Q2 2018. Click growth, however, accelerated for the first time since Q2 2017, coming in at a little over 9% higher Y/Y. Shopping ad clicks, across both Google's and Bing's search ad platforms, grew at faster rates in Q3, while increasing CPC declines on Bing and Yahoo have depressed overall CPC growth.

Google Search Ad Spending Largely Steady as Volume Growth Picks Up

Google Overall US Paid Search



Spending on Google search ads was up 18% Y/Y in Q3 2018, just a half-point deceleration from Q2. Driven by increased volume from Shopping Ads, Google click growth has begun to accelerate after over a year of weakening results. As recently as Q2 2017, Google search ad CPC growth was flat, but several factors – including a May 2017 change to Ad Rank – have since pushed CPC growth rates above click growth rates, but those trends are now poised to reverse.

Google Shopping Ads Continue to Draw Spending from Text Ads

Google Spending by Ad Format

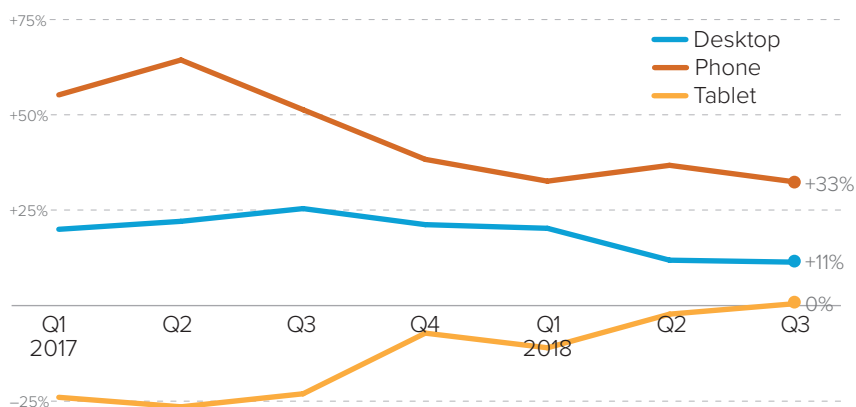


With Google Shopping Ad spending growth up 33% in Q3 2018 and text ad spending up just 3%, it appears that Google continues to increasingly favor product ad formats and that advertiser budgets have followed. For industries where Shopping Ads are not a factor, text ad spending growth is generally much more robust, but still driven primarily by higher CPCs, whereas Shopping Ad clicks grew 18% in Q3 2018.

Google Search Spending Driven by Phones, but Desktop Holding Up Well

Google Search Spending by Device Type

Y/Y Growth

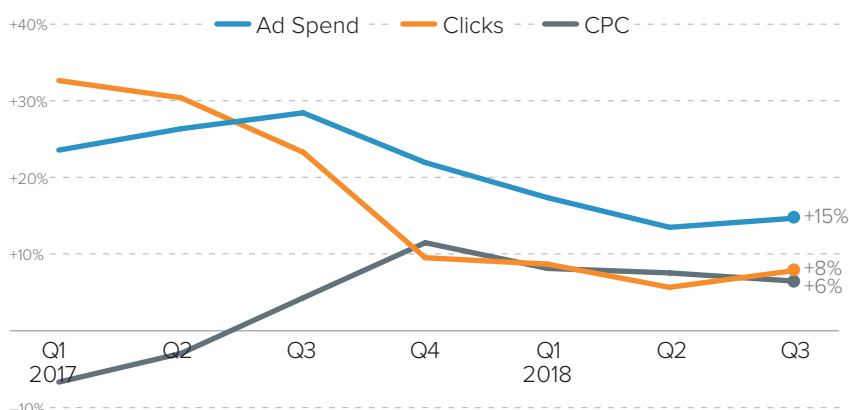


Advertiser spending on phone Google search ads rose 33% in Q3 2018, down from 37% growth a quarter earlier. Desktop spending growth, which accelerated through much of 2017 after Google gave advertisers back the ability to segment desktop and tablet bids in late 2016, has since held up well, coming in at 11% Y/Y in Q3 2018. Tablet spending growth was positive in Q3 2018 (albeit just slightly) for the first time in two years.

Shopping Ads Drive Non-Brand Google Search Click Growth Higher

Google Non-Brand US Paid Search

Y/Y Growth

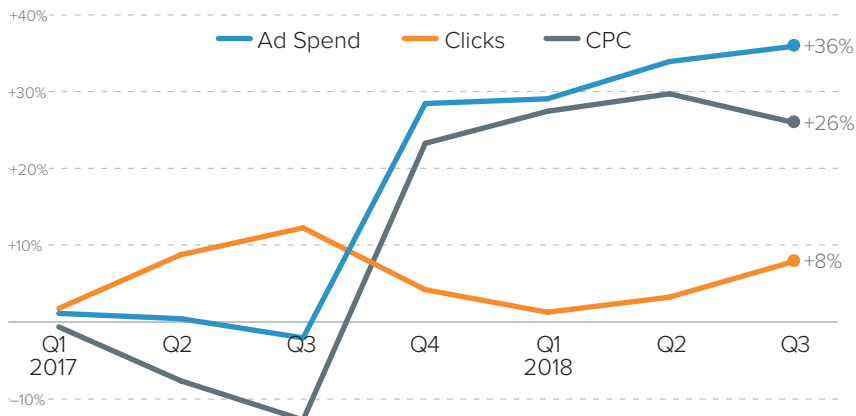


Spending on non-brand Google Shopping and text ads rose 15% in Q3 2018, up from 13% growth a quarter earlier. On the strength of Shopping Ads, click growth for non-brand Google search ads accelerated for the first time in two years, coming in at 8% Y/Y in Q3 2018. Average CPC growth for non-brand ads decelerated for the third straight quarter – primarily due to the mix shift to mobile – coming in at 6% Y/Y in Q3 2018.

Brand Keyword CPC Growth on Google Starting to Cool

Google Brand US Paid Search

Y/Y Growth

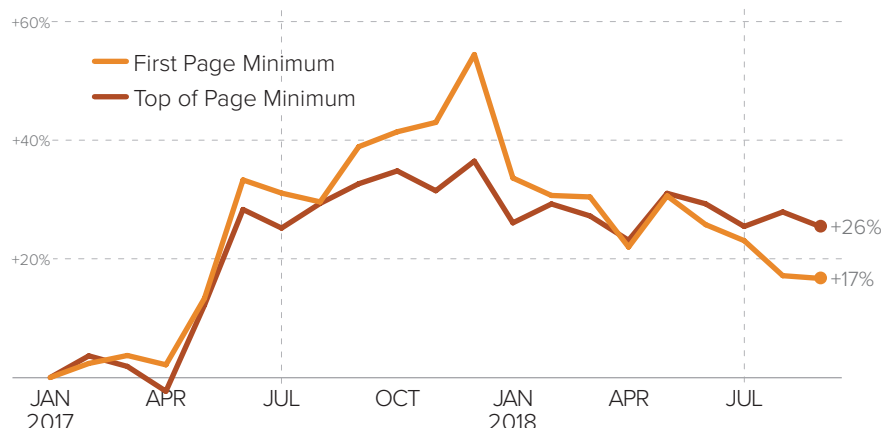


Advertisers running keywords for their own brand names paid 26% more per click in Q3 2018 than they did a year earlier; however, that rate of growth has slowed and should continue to decelerate through the end of the year. Brand keyword CPCs jumped in Q4 2017 after having fallen in mid-2017. The timing of the initial decline coincided with a Google change to Ad Rank, which Google later appeared to have corrected, if not overcorrected.

Google Minimum Bids Stay Elevated, but First Page Placement Getting Cheaper

Google Non-Brand Text Ad Minimum Bid Estimates

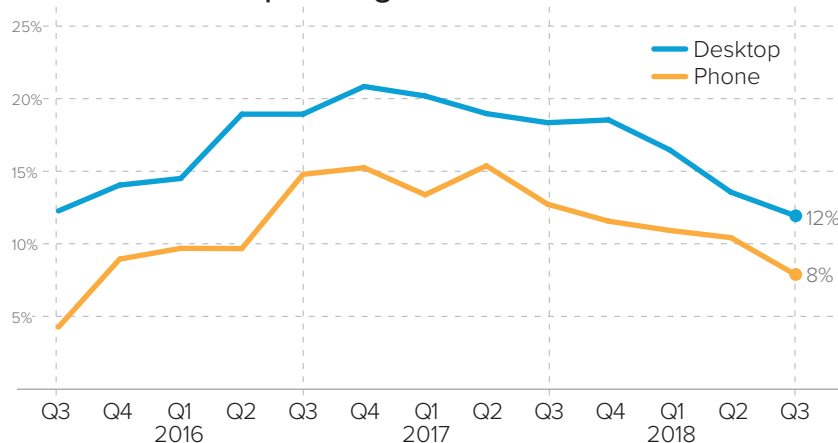
Relative to January 2017



The minimum bid required for a non-brand keyword to appear at the top of Google's results page was 26% higher in Q3 2018 than it was at the beginning of 2017. Minimum bids jumped in May 2017 around the time of a confirmed change to Ad Rank. Interestingly, first-page minimum bids have declined for the past several months, even as top-of-page minimums have been roughly flat. This has coincided with an increase in click share for bottom-of-page desktop ads.

Ads in Lower Positions at Top of Google SERP Produce Smaller Share of Clicks

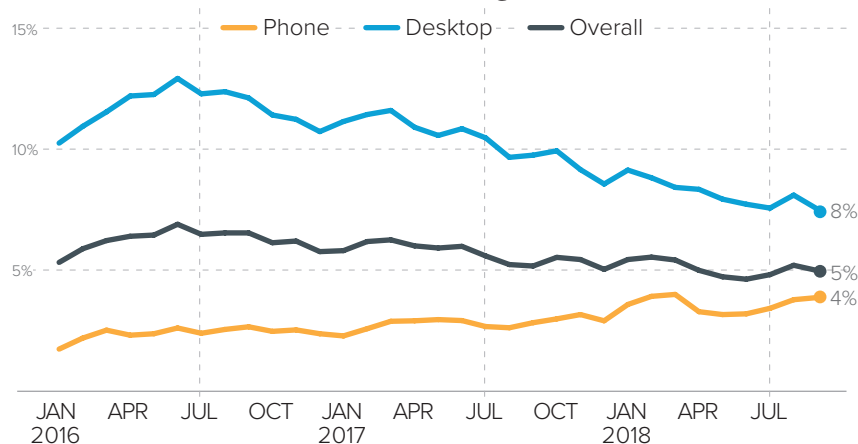
Share of Non-Brand Google Text Ad Clicks from Top-of-Page Position 3 & 4 Ads



Through 2016 and early 2017, new search ad inventory in positions three and four at the top of the search results page helped Google drive large increases in click growth. In recent quarters, however, the impact of this lower position inventory has lessened, as a larger share of clicks has gone back to the ads at the top of the page. This shift has contributed to the overall rise in advertiser CPCs on Google.

Search Partner Share of Google Ad Clicks Ticks Up

Search Partner Share of Google Search Ad Clicks

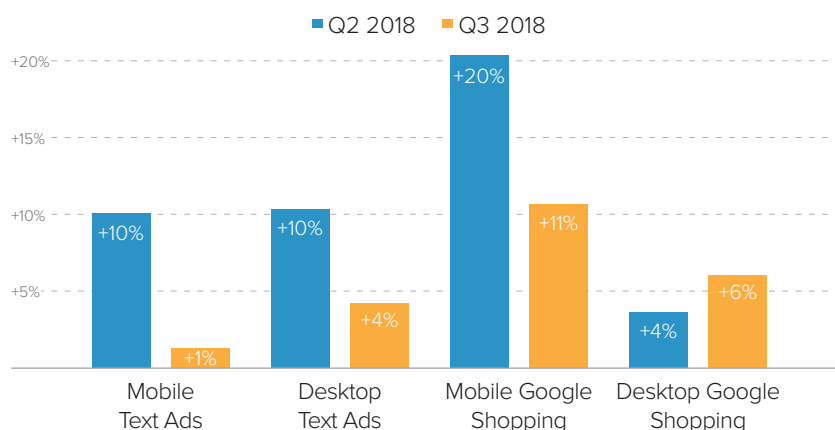


Google's search partners produced 5% of total Google search ad clicks in Q3 2018, a slight increase from a quarter earlier. Search partner share of phone clicks has generally trended higher in the past two years but is still about half the level seen on desktop, which has been trending lower. The average CPC of a search partner click runs lower than that of a Google.com click, so a higher share of partner clicks tends to depress overall Google CPCs.

Performance Gains for Google Search Ads Slowing

Non-Brand Y/Y Revenue Per Click Growth

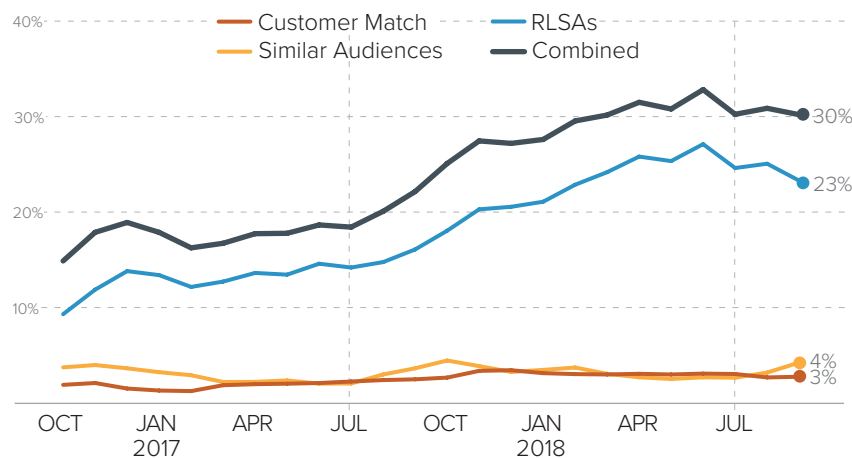
Google Shopping & Text Ads by Device



The performance of Google search ads, in terms of the average revenue per click they produce for advertisers, continued to improve in Q3 2018, but year-over-year gains slowed in Q3 2018 across most key segments. For example, revenue per click for mobile Google Shopping ads grew 11% Y/Y in Q3 2018, but that was down from 20% Y/Y growth a quarter earlier. Elsewhere, mobile text ad revenue per click grew just 1% in Q3, compared to a 10% increase in Q2.

Share of Google Clicks from Audience Targeting Drops after Apple's ITP 2.0

Share of Google Search Ad Clicks by Audience Type

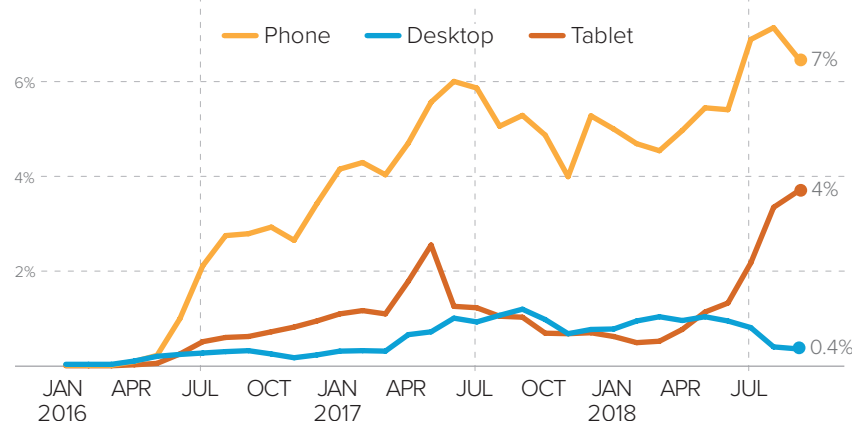


The share of Google search ad clicks produced by targeting a specific audience using Google's Customer Match, similar audiences, and RLSA products dropped at the end of Q3 2018, coming in at 30% in September. The initial timing of the share decline aligned closely with the launch of iOS and Safari 12, which ushered in Apple's Intelligent Tracking Prevention 2.0 initiative. For exact reasons unclear, RLSA click share fell across all device types and most browsers before rebounding to close out the quarter.

After Yearlong Lull, Google Maps Delivers Notable Click Share Gains

Get Location Details Share of Google Text Ad Traffic

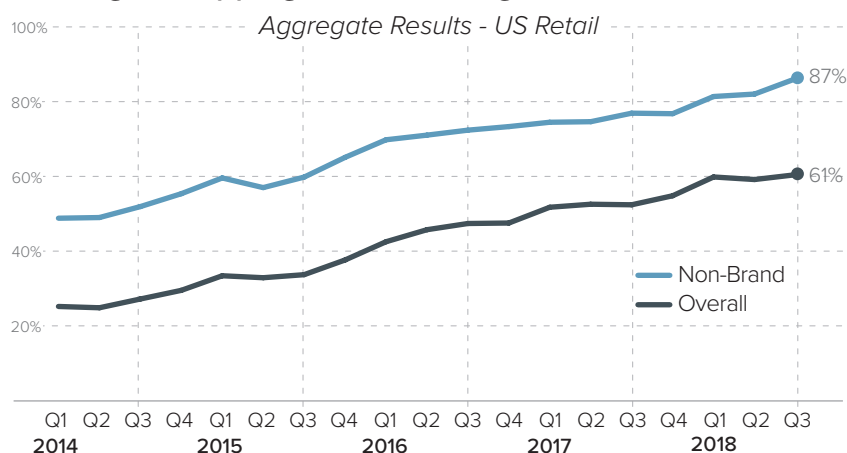
Brick-and-Mortar Advertisers



Among advertisers with a brick-and-mortar presence, Google Maps produced 7% of text ad clicks on phones in Q3 2018, up from 5% a quarter earlier. Maps ad clicks are visible to advertisers via the Get Location Details click type in Google Ads reports and still largely reflect Google drawing listings from advertisers' core keyword-based search ad programs. In early 2018, however, Google began testing Local Search Ads Experiment campaigns, which operate using a keywordless model.

Google Shopping Share of Competitive Search Ad Clicks Jumps Five Points

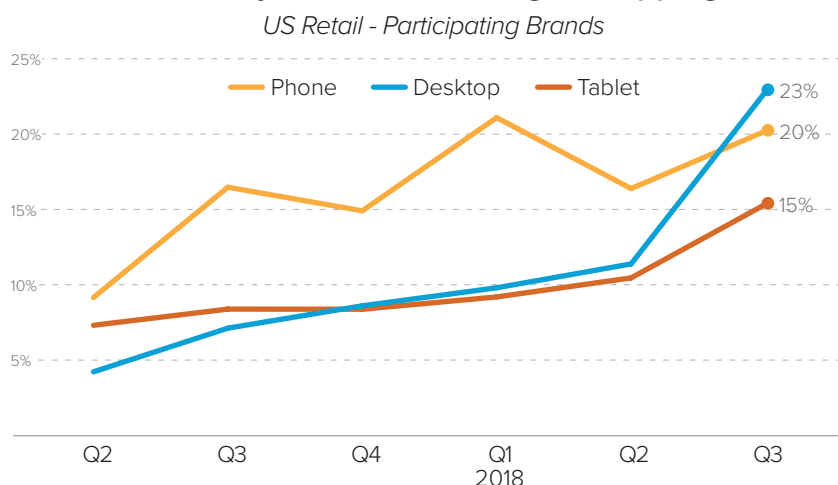
Google Shopping Share of Google Paid Search Clicks



Google Shopping Ads produced 87% of retailers' non-brand Google search ad clicks in Q3 2018, a five-point jump in click share from just a quarter earlier. Factoring in traffic targeted to advertiser brand names, Shopping Ads produced 61% of all Google search ad clicks in Q3. Newer format variations like Local Inventory Ads and Showcase Shopping Ads have contributed to the overall growth of Shopping Ads, which generally appear to be cannibalizing text ad volume at higher rates.

Local Inventory Ads See Big Click Share Gains Across Devices

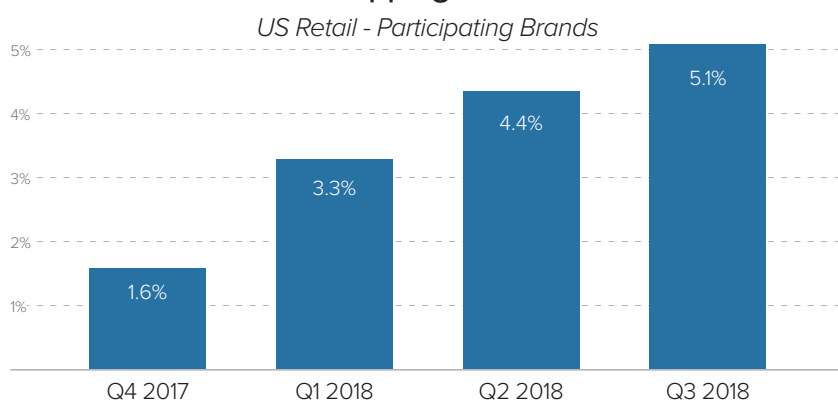
Local Inventory Ad Share of Google Shopping Clicks



Among participating brands, Google Local Inventory Ads (LIAs) produced a significantly higher share of Google Shopping clicks in Q3 2018 than in Q2. Desktop saw the biggest gains from Q2 to Q3, with LIA share doubling from 11% to 23%. On phones, LIAs produced 20% of Shopping clicks in Q3, up from 16% in Q2. Meanwhile, LIA Shopping click share rose from 10% in Q2 to 15% in Q3.

Google Showcase Shopping Click Share Triples in Past Year

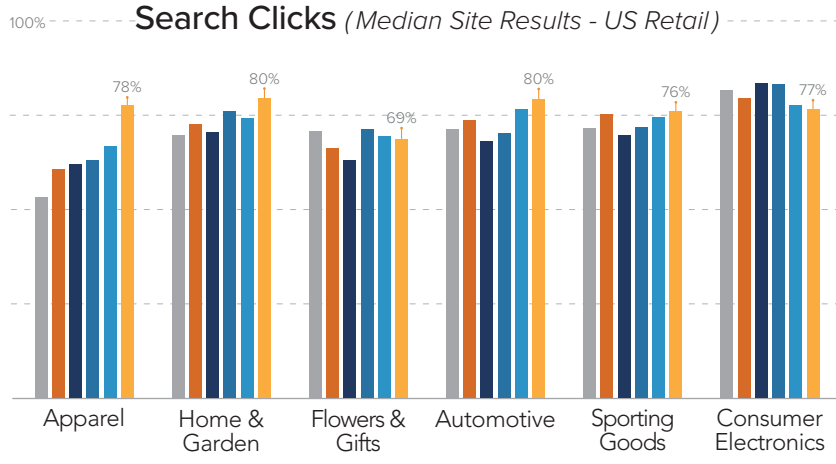
Showcase Shopping Ad Share of Phone Google Shopping Clicks



For brands running Showcase Shopping ads as part of their overall Google Shopping strategy, the relatively new format produced just over 5% of phone Google Shopping clicks in Q3 2018. First publicly announced in Q3 2016, Showcase Shopping clicks didn't really start to ramp up until late 2017 into early 2018. Since Q4 2017, Showcase Shopping click share has tripled.

Apparel Retailers See Large Jump in Google Shopping Click Share

Google Shopping Share of Non-Brand Google Paid Search Clicks (Median Site Results - US Retail)

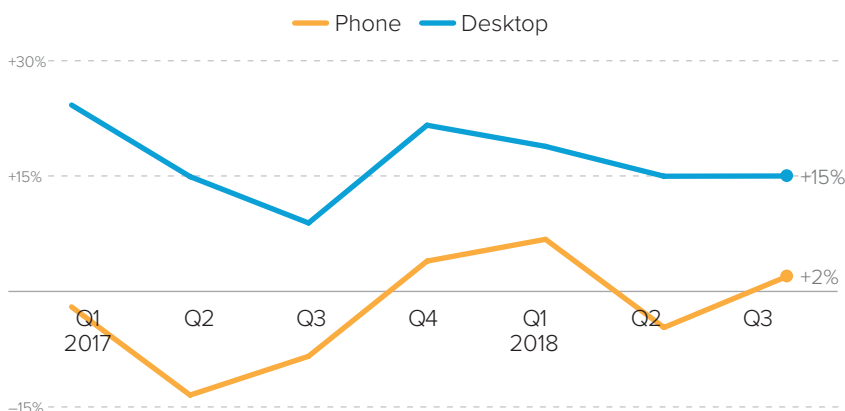


Google Shopping Ads produced 78% of apparel retailers' non-brand Google search ad clicks in Q3 2018, an 11-point increase from just a quarter earlier and a 17-point increase from Q3 2017, the largest gain for Shopping across the six major product categories reviewed for this report. The home and garden product category saw the second largest increase in Shopping click share in the past year, with both categories benefiting from the growth of Showcase Shopping ads.

■ 2017 Q2 ■ 2017 Q3 ■ 2017 Q4 ■ 2018 Q1
■ 2018 Q2 ■ 2018 Q3

Google Shopping Ad Revenue Per Click Strong through Click Share Gains

Google Shopping vs. Non-Brand Text Ads Revenue Per Click

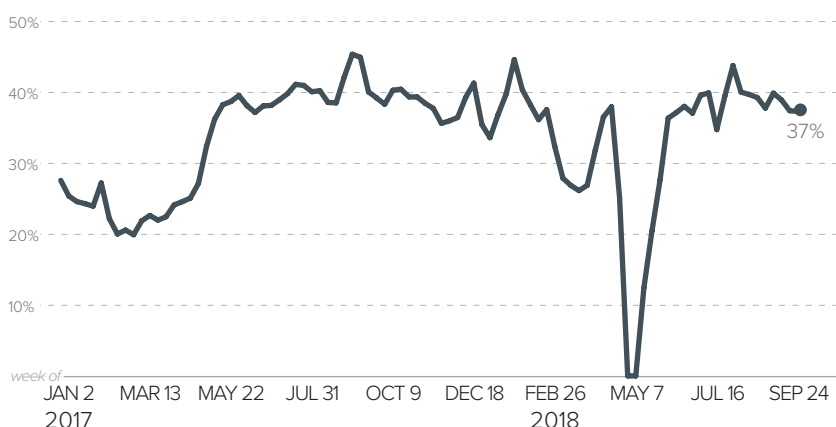


Google Shopping Ads on desktop produced a 15% higher average revenue per click than non-brand text ads in Q3 2018. This large advantage for desktop Shopping Ads has held, even as Shopping Ads have rapidly taken click share from text ads, in part as Google has deployed them for a broader range of queries. On phones, Shopping Ads have historically seen more comparable performance with non-brand text ads, but there too, advertisers have not seen a degradation in the performance of Shopping as its click share has grown.

Amazon Stands Pat on Google Shopping Investment

Amazon Google Shopping Impression Share

Home Goods Category

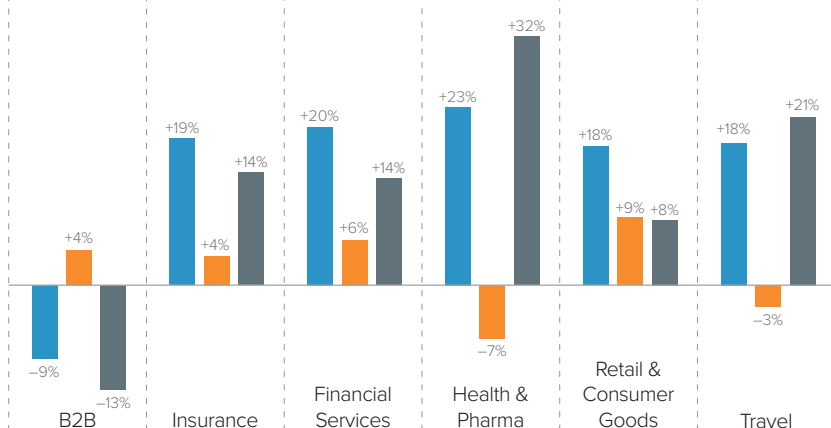


After it briefly dropped out of Google's Shopping Ad listings in mid-Q2, Amazon appears to have maintained roughly the same presence in Q3 2018 as it had to close out Q2. Although Amazon listings have appeared in Google Shopping results for some other niche categories, Amazon still appears to be focused primarily on home goods Shopping auctions, where it has been a top competitor since the end of 2016, but not as prevalent as has been for Google text ad auctions.

Retail Sees Largest Click Growth for Google Search Ads, B2B Investment Falls

Google Overall Paid Search Metrics by Industry

Q3 2018 - Y/Y Growth



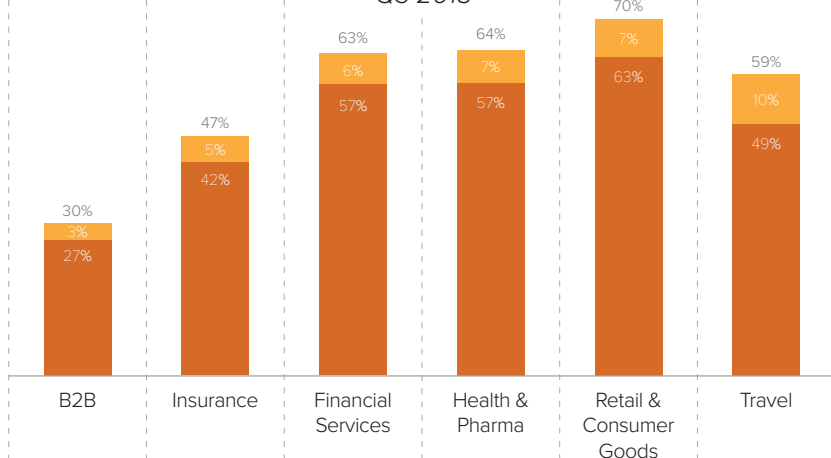
Benefiting from the strength of Google Shopping Ads, retail and consumer goods advertisers saw the largest click growth for Google search ads in Q3 2018, with volume up 9% Y/Y. Elsewhere, large CPC increases depressed click volume for health and pharma, as well as travel advertisers, which saw Google search clicks fall 7% and 3% respectively. B2B was the only industry to see a decrease in Google search investment in Q3 2018, as clicks grew 4%, but CPCs fell 13%.

Metrics: ■ Ad Spend ■ Clicks ■ CPC

Mobile Produces 70% of Google Ad Clicks for Retail, Consumer Goods Brands

Google Phone & Tablet Click Share by Industry

Q3 2018



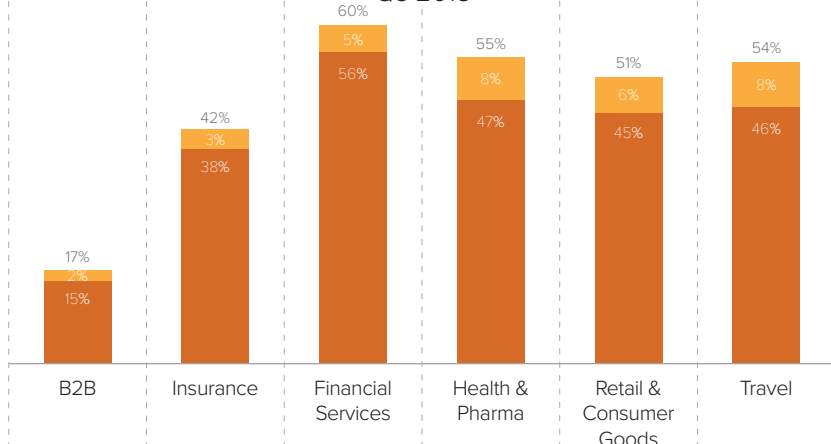
Across phones and tablets, mobile devices produced 70% of retailer and consumer goods advertisers' Google search ad clicks, the largest share across six major industries surveyed for this report. Financial services advertisers saw the largest click share gains for mobile from Q2 to Q3 2018, with phone share up 5% over that period. B2B and retail and consumer goods advertisers also saw solid mobile click share gains from quarter to quarter, while other industries saw small declines.

Metrics: ■ Phone ■ Tablet

Mobile Click & Spend Share Gap Wide but Closing for Retail, Consumer Goods

Google Phone & Tablet Spend Share by Industry

Q3 2018



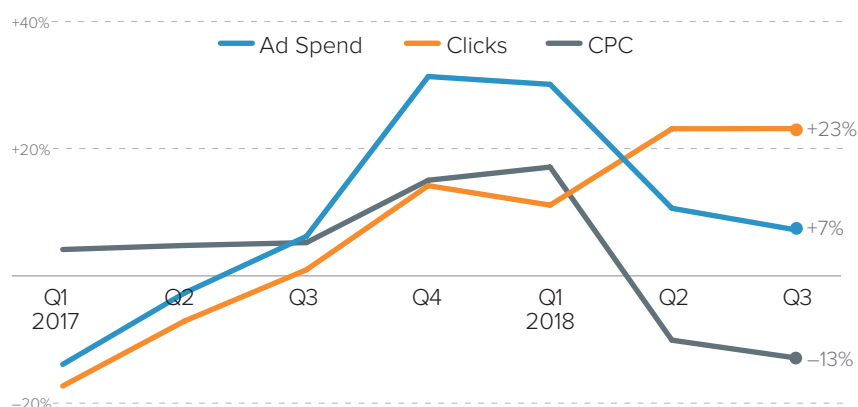
While retail and consumer goods advertisers saw the largest share of Google search ad clicks produced by mobile devices in Q3 2018, they also saw the largest gap between mobile click and spend share, as phones and tablets accounted for just 47% of their investment. That gap closed a decent amount between Q2 and Q3; however, as mobile spend share rose nearly 4%. Insurance and travel advertisers had the smallest gap between Google mobile click and spend share in Q3 2018.

Metrics: ■ Phone ■ Tablet

Bing & Yahoo Search Spend Growth Slows, Despite Strong Click Gains

Bing Ads & Yahoo Gemini Overall US Paid Search

Y/Y Growth

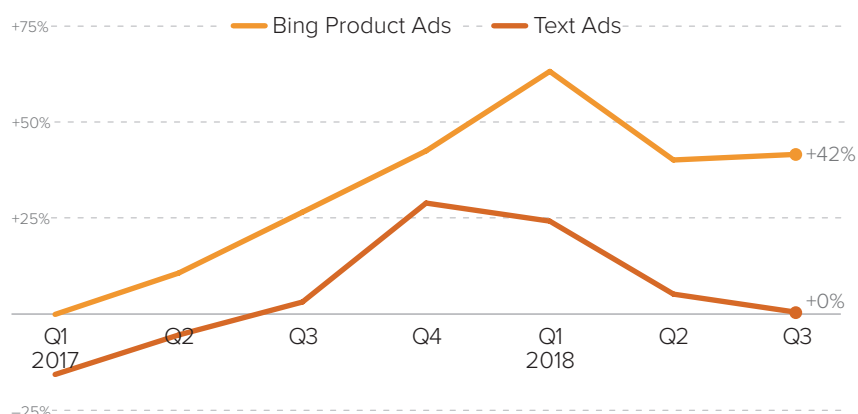


Spending on Bing and Yahoo search ads grew 7% in Q3 2018, down from 11% growth a quarter earlier. The Bing Ads and Yahoo Gemini platforms are facing tougher year-ago performance comparisons, as spending growth had rebounded sharply in late 2017. Click growth for Bing and Yahoo did remain robust at 23% Y/Y in Q3 2018, but CPCs fell 13% as traffic shifted to mobile and as CPCs for the mobile segment itself fell.

Bing & Yahoo Text Ad Growth Hurt by Sluggish Gemini Results, Product Ads

Bing Ads & Yahoo Gemini Spend by Ad Format

Y/Y Growth

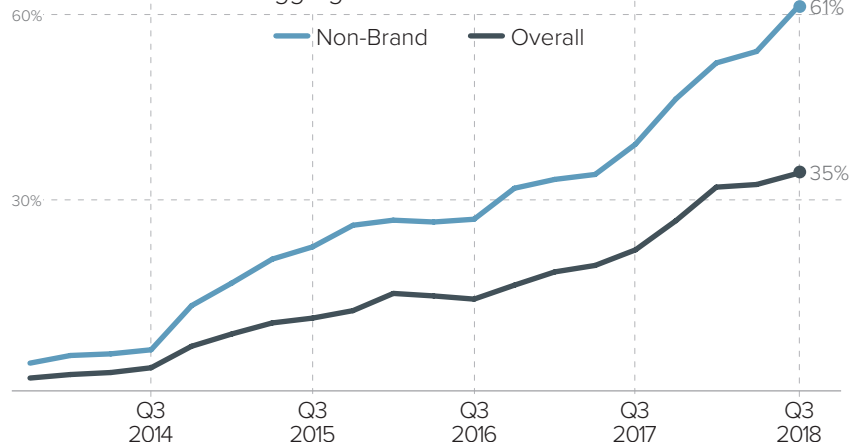


Spending growth for Bing Product Ads accelerated slightly to 42% Y/Y in Q3 2018, but text ad spending growth on Bing and Yahoo slowed to less than 1% Y/Y. Text ad spending on the Yahoo Gemini platform fell 8% Y/Y, while Bing Ads text ad growth was a little over 1%. For Bing, weakness in text ads is due in part to their cannibalization by Product Ads, particularly on phones, where text ad spending fell 7%.

Product Ad Share of Competitive Bing Clicks Continues to Surge

Bing Product Ad Share of Bing Ads Paid Search Clicks

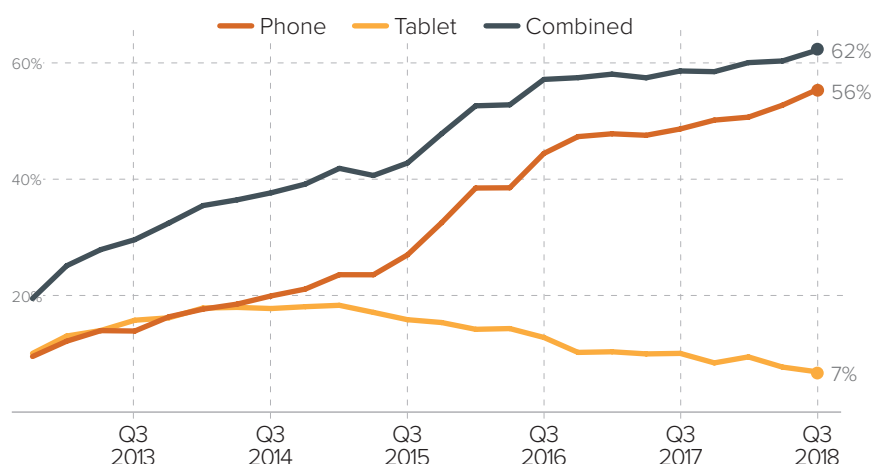
Aggregate Results - US Retail



Among retailers, Bing Product Ads produced 61% of all non-brand Bing search ad clicks in Q3 2018, up seven points from just a quarter earlier and 22 points from a year earlier. Factoring in traffic on ads targeting advertiser brand names, Bing Product Ads produced 35% of retailers' total Bing search ad clicks in Q3 2018, a rate that has roughly doubled in the past two years.

Phone Share of Search Ad Clicks Sees Biggest Jump in Nearly Two Years

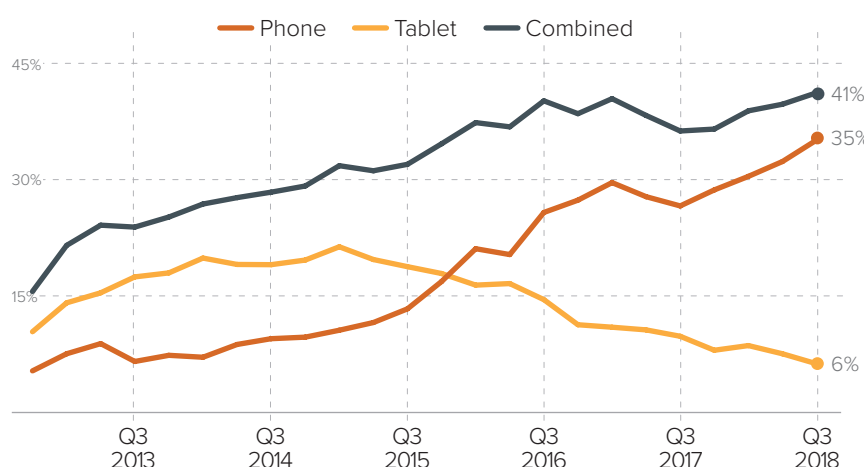
Phone & Tablet Share of Paid Search Clicks



With the rapid growth of Bing Product Ads on phones, the share of all paid search clicks produced by phones increased nearly three points between Q2 and Q3 2018 and seven points over the prior year to reach just under 56%. The quarter-to-quarter increase in phone click share was the largest seen since Q4 2016. Tablet click share, which has been in decline since early 2015, fell another point between Q2 and Q3 2018, hitting just under 7%.

Phone Share of Search Ad Spending Rises Eight Points in Past Year

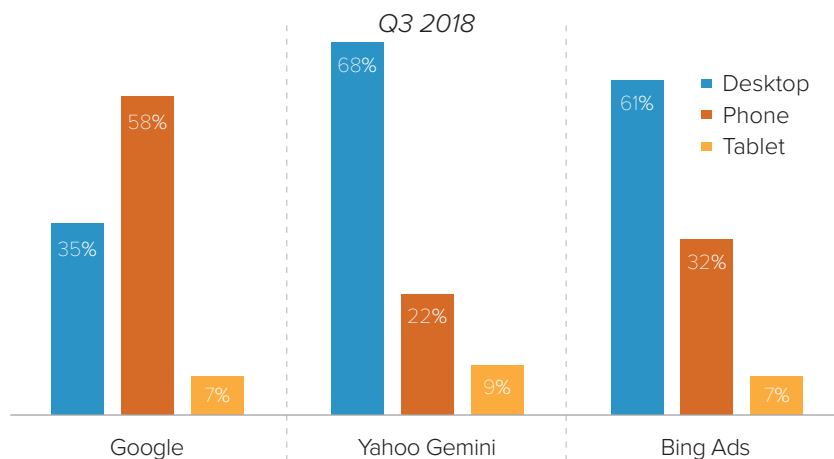
Phone & Tablet Share of Paid Search Ad Spend



Largely due to the phone and desktop CPC gap seen by retailers, mobile spend share has historically trended well below its click share. In Q3 2018, phones and tablets combined for 41% of search ad spend, compared to 62% of clicks. Phones accounted for 35% of search ad spending in Q3 2018, up from 27% in Q3 2017. Tablet spend share has fallen nearly four points over the same period, hitting 6% in Q3 2018.

Bing Surpasses Yahoo Gemini in Mobile Click Share for First Time

Device Click Share by Search Ad Platform

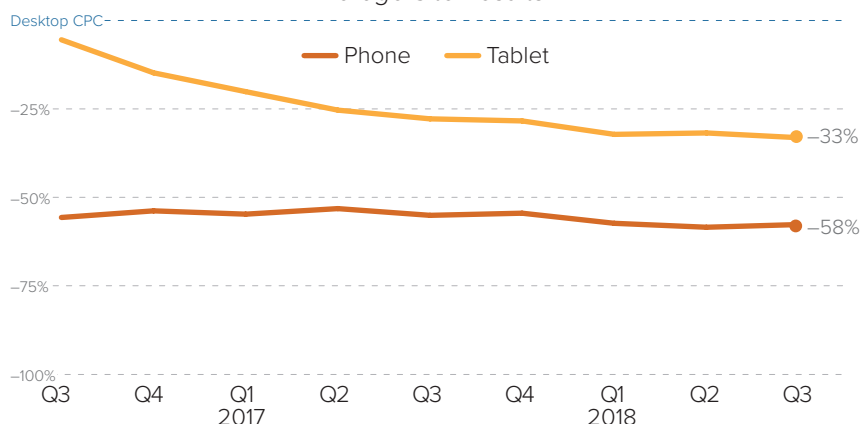


Originally launched as a mobile-first ad platform, Yahoo Gemini generated just 32% of its search ad clicks from phones and tablets in Q3 2018, and it was surpassed by Bing in mobile click share for the first time, as Bing generated 39% of its search ad clicks from phones and tablets. With the rapid growth of Product Ads on phones, Bing has seen its phone click share nearly triple in the past year; however, Google still generates a much higher share of its clicks from phones than either Bing or Yahoo.

Bing Product Ads Help Keep Wide Gap Between Phone and Desktop CPCs

Non-Brand Mobile CPC vs. Desktop

Average Site Results

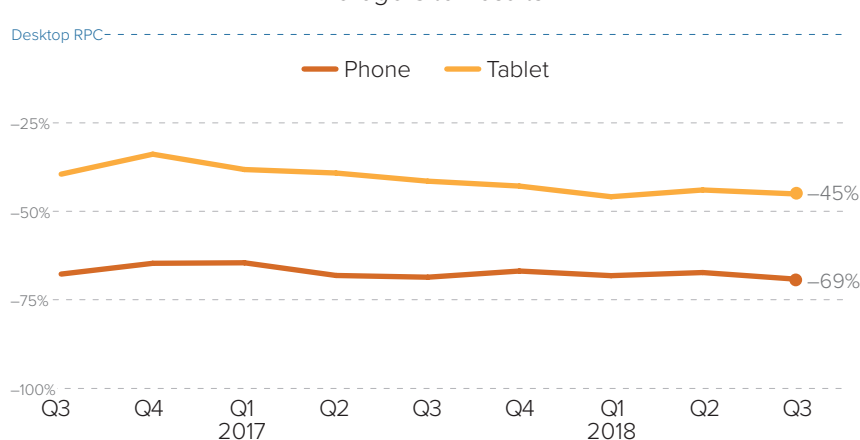


For comparable non-brand paid search traffic, phone CPCs were 58% lower than desktop CPCs across all search ad platforms. In recent quarters, a surge in phone Bing Product Ad volume and falling CPCs for those ads has depressed overall phone CPCs. In other areas, phone CPCs have made up ground on desktop CPCs. As recently as two years ago, tablet CPCs were at near parity with desktop, but once Google gave advertisers back the ability to segment desktop and tablet bids, tablet CPCs began to fall sharply in comparison.

Online Revenue Per Click for Phones and Tablets Continues to Trail Desktop

Non-Brand Revenue Per Click vs. Desktop

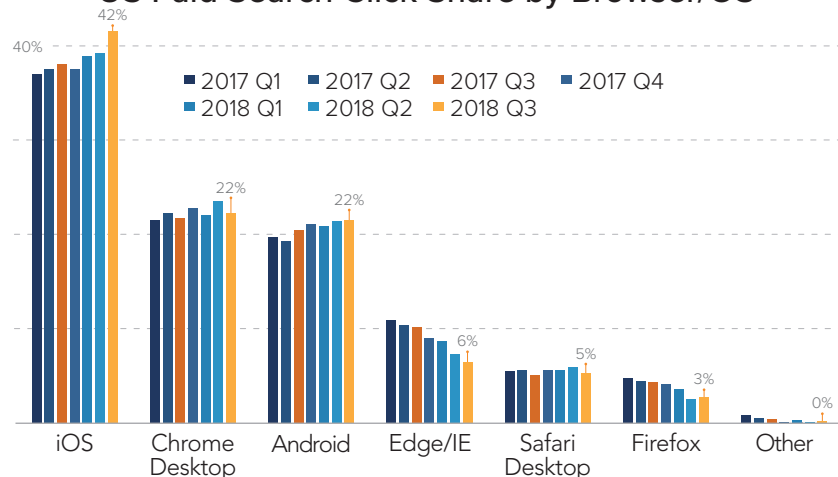
Average Site Results



For brands tracking online sales tied to non-brand paid search ads, the average revenue per click produced by phones was 69% lower than that produced by desktop in Q3 2018, before taking into account cross-device and offline behavior. Viewed through the same lens, tablet revenue per click was 45% lower than desktop revenue per click in Q3 2018.

iOS and Safari Share of US Google Search Ad Clicks Reaches 49%

US Paid Search Click Share by Browser/OS



iOS devices and desktop Safari produced 47% of all US paid search clicks in Q3 2018, up from 43% in Q3 2017. For Google specifically, iOS and desktop Safari produced 49% of clicks. Not surprisingly, desktop browsers have seen the largest click share declines in the past year, with the exception of Google's Chrome, which saw its share improve a little over one point to 22%.

ORGANIC SEARCH & SOCIAL

Organic search visits produced by Google grew nearly 9% in Q3 2018, up from 2% growth a quarter earlier. This was Google's strongest performance since Q2 2015, which was just before Google rolled out a wave of additional ad inventory.

Despite recent headlines about the strong growth for DuckDuckGo, US organic search visit share for search engines beyond Google, Bing, and Yahoo fell from just 0.8% in Q3 2017 to 0.6% in Q3 2018.

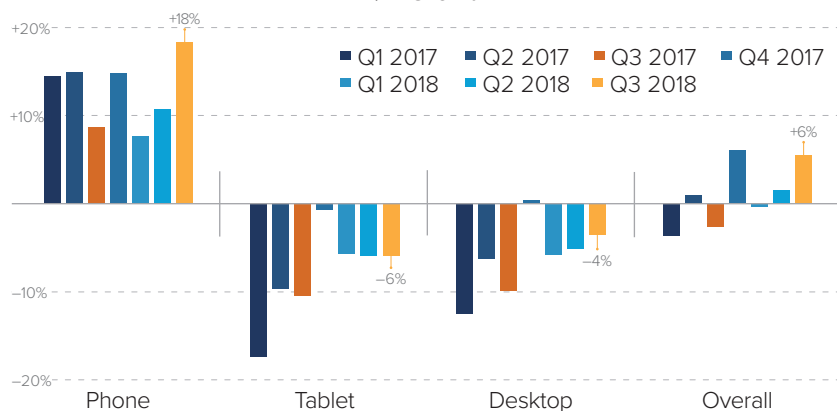
Visits to brand sites produced by Instagram grew 111% Y/Y in Q3 2018, far outpacing most other social platforms. YouTube site visits grew an impressive 70%, while Pinterest delivered 11% visit growth. Site visits produced by Facebook and Twitter both fell Y/Y in Q3 2018.



Organic Search Delivers Solid Traffic Gains, Visits Up 6%

Organic Search Visits by Device

Y/Y Growth

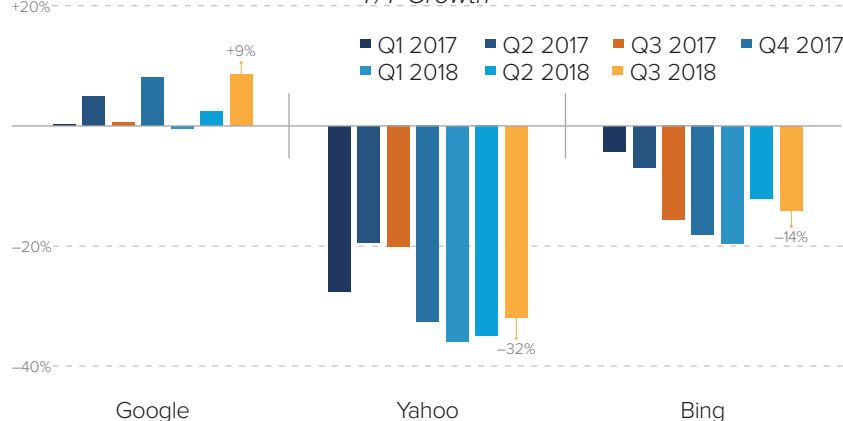


Organic search posted a nearly 6% Y/Y increase in visits in Q3 2018, its second best rate of growth in the past three years. Phone organic search visits grew 18% Y/Y, their strongest result since Q3 2015, while desktop visit declines have recently lessened. The past year has seen paid search CPCs increase and click growth decelerate, which has benefited organic traffic volume.

Google Organic Search Visit Growth Strongest in Over Three Years

Organic Search Visits by Engine

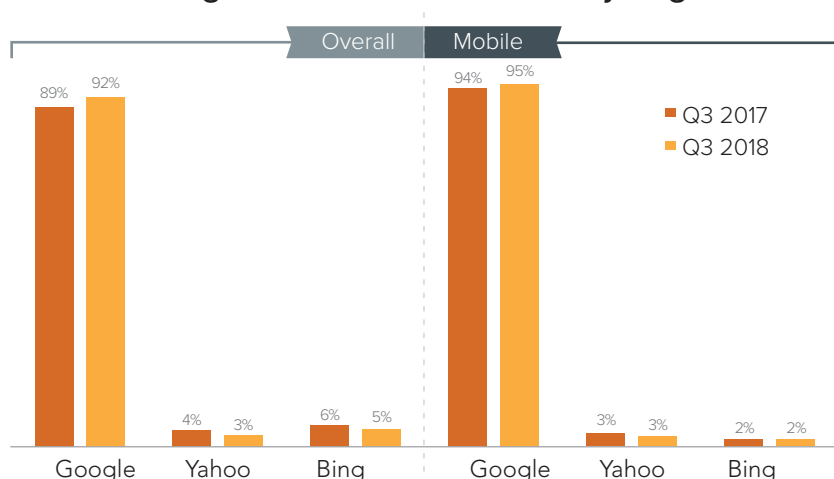
Y/Y Growth



Organic search visits produced by Google grew nearly 9% in Q3 2018, up from 2% growth a quarter earlier. This was Google's strongest performance since Q2 2015, which was just before Google rolled out a wave of additional ad inventory, particularly on mobile. Elsewhere, Bing and Yahoo continued to see large declines in organic search visits, but those declines have improved from their lowest points in early 2018.

Bing, Yahoo & Other Search Engines Lose Organic Search Visit Share to Google

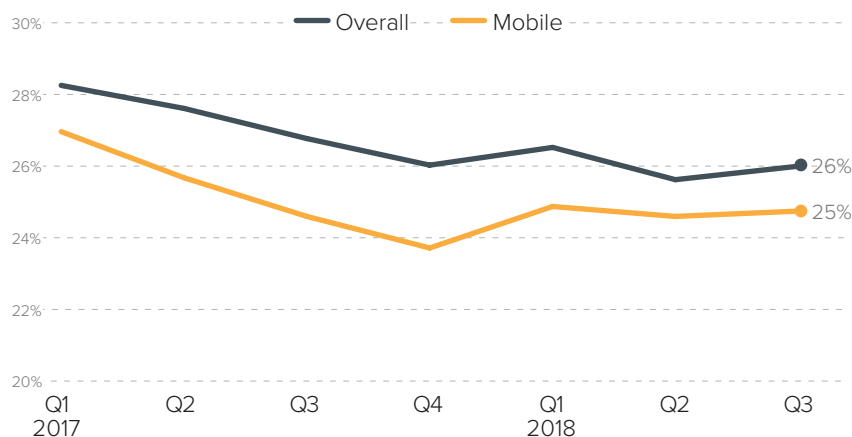
US Organic Search Visit Share by Engine



Google produced 92% of US organic search visits in Q3 2018, up from 89% a year earlier. Bing's share of organic visits stood at a little under 5% in Q3 2018, while Yahoo produced 3% of organic visits, both down from a year earlier. Despite recent headlines about the strong growth for DuckDuckGo, visit share for search engines beyond the big three fell from just 0.8% in Q3 2017 to 0.6% in Q3 2018. On mobile, Google enjoys an even more commanding share of organic search, producing 95% of visits in Q3 2018.

Organic Search Visit Share Holding More Steady in Past Year

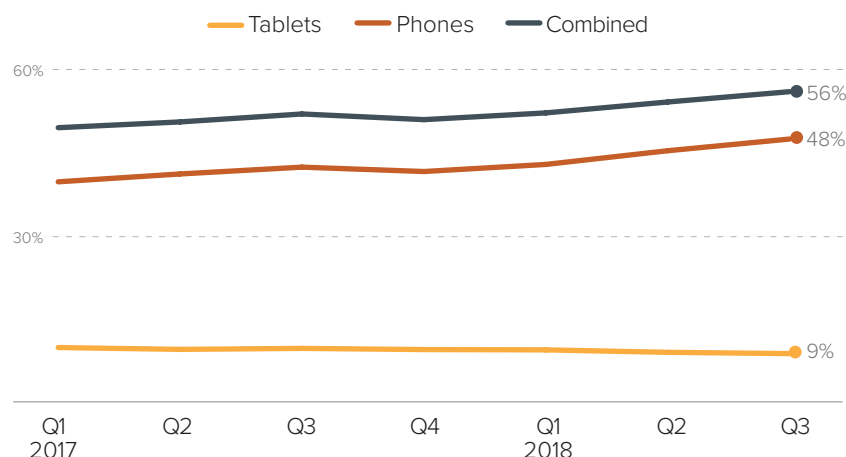
Organic Search Share of All US Site Visits



The share of total site visits produced by organic search ticked up in Q3 2018, reaching 26%. On mobile devices, organic search produced just under 25% of site visits. In recent years, organic search visit share has declined as the channel has faced competition from social media and from increased ad loads on the search results page. Over the past year, though, organic search visit share has been more stable.

Mobile Click Share Gap Between Organic and Paid Search Shrinking

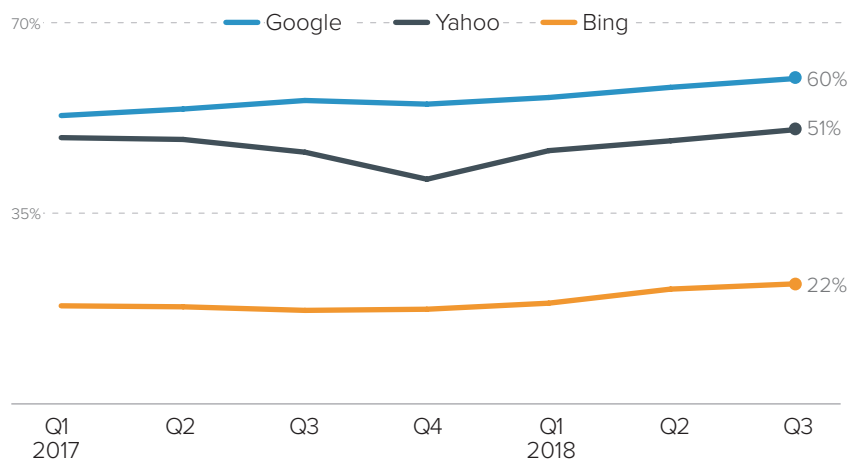
Mobile Share of US Organic Search Visits



Phones and tablets combined to produce 56% of organic search visits in Q3 2018, with phones contributing nearly 48% of visits and tablets adding under 9%. For comparison, phones and tablets produced 62% of paid search clicks in the same quarter, reflecting how well monetized the mobile search results page has become. With that noted, the six-point gap between mobile's share of organic and paid search has shrunk from the nine-point gap that existed in early 2017.

Bing Sees Solid Mobile Share Gains, but Organic Side Can't Match Paid

Share of Each Engine's Traffic from Mobile

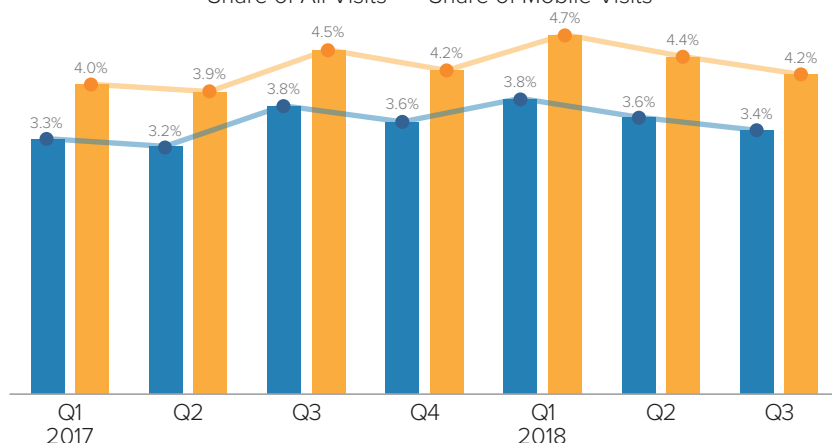


Phones and tablets accounted for 60% of organic search visits produced by Google in Q3 2018, a four-point increase from a year earlier. For Bing, mobile accounted for 22% of organic search visits in Q3 2018. While that was a five-point increase from a year earlier, those gains pale in comparison to the 16-point jump observed on the paid search side for Bing, where mobile produced 39% of clicks in Q3 2018.

Social Media Site Visit Share Languishing

Social Media Share of Site Visits

■ Share of All Visits ■ Share of Mobile Visits

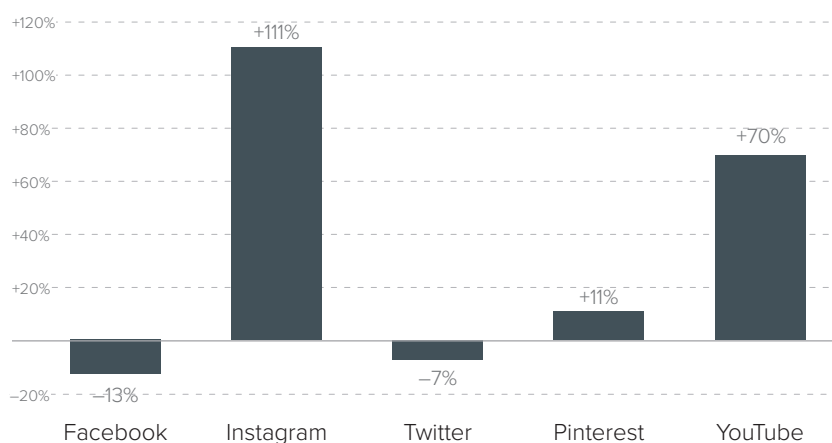


Social media platforms produced 3.4% of site visits in Q3 2018, marking the second straight quarterly decline in visit share. On mobile devices, social media produced a higher share of site visits, but the trending has been similar. While platforms like Instagram and YouTube are delivering large traffic increases, social visits to brand sites remain dominated by Facebook, which has seen weakening growth in this area.

Instagram Delivers 111% Visit Growth to Sites, Facebook Visits Fall

Social Media Site Visit Growth Y/Y

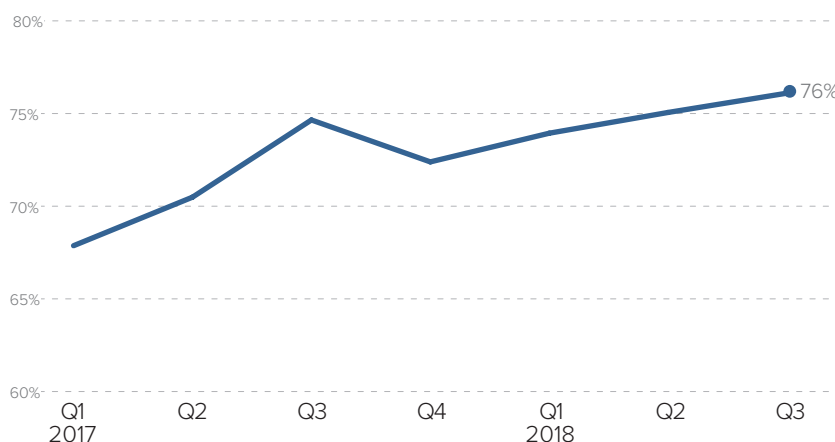
Q3 2018



Visits to brand sites produced by Instagram grew 111% Y/Y in Q3 2018, far outpacing most other social platforms. YouTube site visits grew an impressive 70%, while Pinterest delivered 11% visit growth. Site visits produced by Facebook and Twitter both fell Y/Y in Q3 2018, with Facebook visits down 13% and Twitter visits down 7%. In Q2 2018, Facebook visits were up 8%, while Twitter visits grew 13%.

Mobile Produces 76% of Site Visits Driven by Social Media

Mobile Share of Social Media Site Visits



Phones and tablets combined to produce 76% of site visits generated by social media platforms in Q3 2018, up from 75% a quarter earlier. Generating the majority of social-media site visits, Facebook dominates these trends, but Instagram and other newer, but smaller, platforms have seen their share of social media visits increase over the past year.

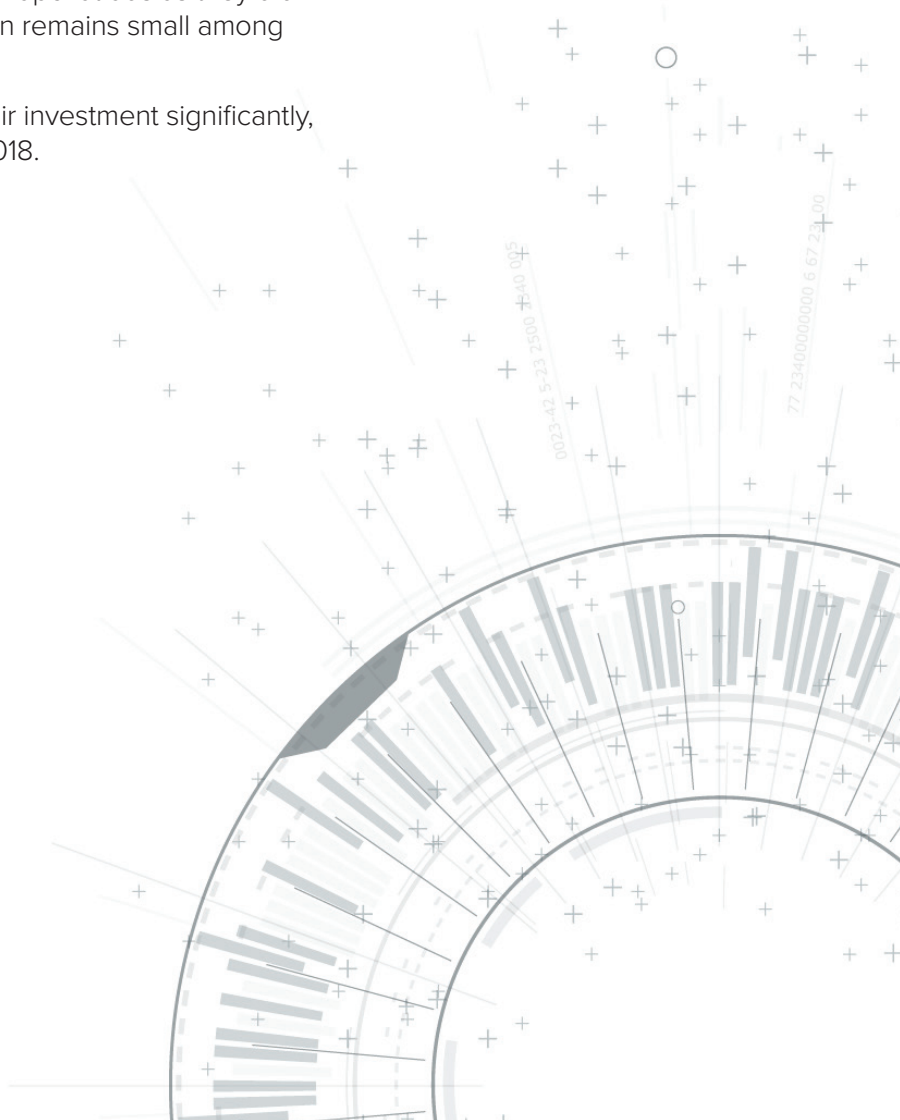
DISPLAY & PAID SOCIAL

Facebook spend, excluding Instagram, grew 25% Y/Y, with a 6% increase in impressions. Facebook mobile traffic and spend share continued to grow and were up to 95% and 89%, respectively, in Q3 2018.

Instagram spend grew 61% Y/Y for the quarter, as impressions increased 58%. The median advertiser on both Instagram and Facebook spent 19% as much on Instagram ads in Q3 as on Facebook ads.

Snapchat advertisers spent 6% as much on Snapchat ads as they did on Facebook ads for the quarter, but adoption remains small among paid social advertisers overall.

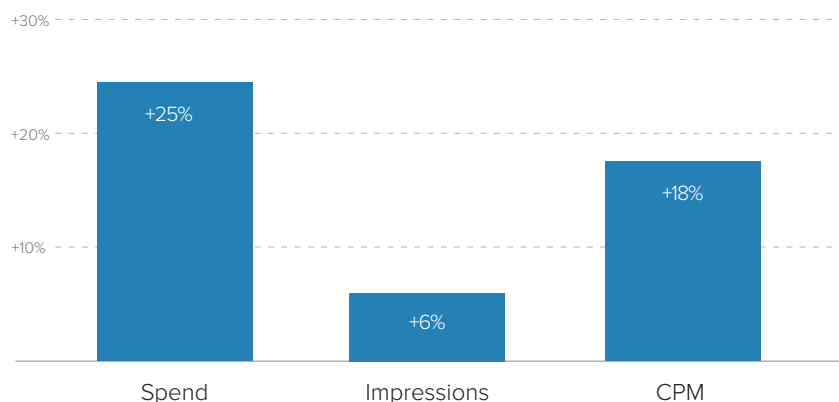
Advertisers on YouTube continue to grow their investment significantly, with a 77% increase in ad spend Y/Y in Q3 2018.



Facebook Spend Grows 25% Y/Y, Driven Mostly by Higher Pricing

Facebook Ads Y/Y Growth

Q3 2018 - Median Advertiser

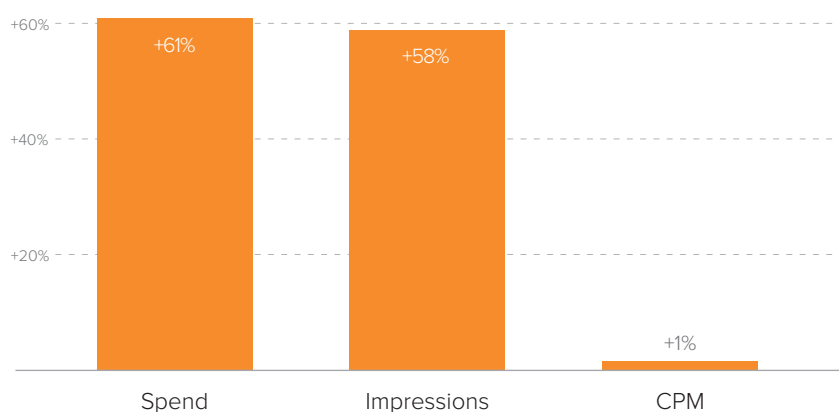


Advertisers investing on Facebook since at least Q3 2017 spent 25% more on the platform Y/Y, excluding Instagram, as increases in pricing continued to drive most of the spend growth. As has been the case for several quarters, Instagram continues to drive significantly higher growth than Facebook proper, though Facebook remains the largest recipient of paid social dollars by far.

Instagram Spend Up 61% Y/Y as Increases in Inventory Drive Growth

Instagram Ads Y/Y Growth

Q3 2018 - Median Advertiser

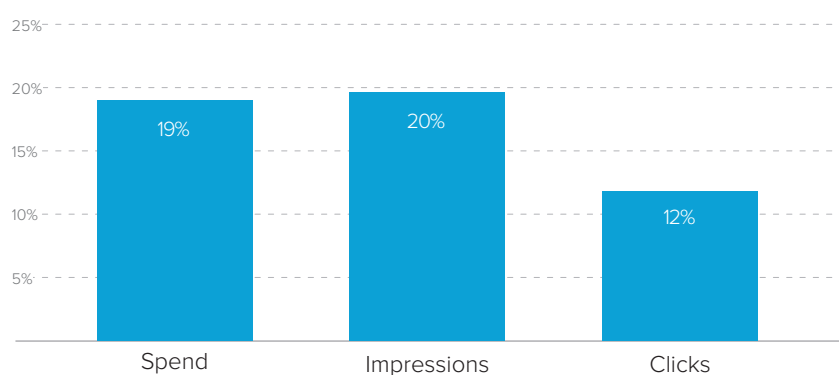


Instagram Y/Y spend growth was more than twice that of Facebook in Q3 for advertisers that have been using the platform since at least Q3 2017. This spend growth figure does not take into account the number of incremental advertisers becoming newly active on Instagram every quarter, and Instagram stands to continue to provide a meaningful share of Facebook's growth across its owned properties.

Advertisers Spend 19% as Much on Instagram as Facebook in Q3

Instagram Performance Relative to Facebook

Q3 2018 - Median Advertiser

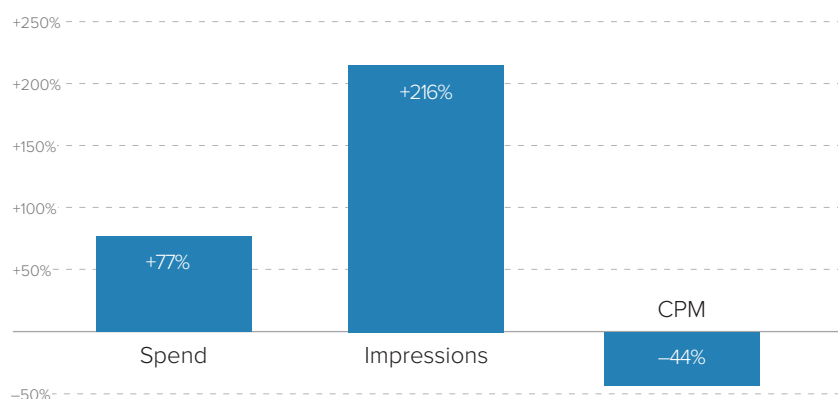


For the median advertiser marketing on both Instagram and Facebook, Instagram accounted for 19% as much ad spend as Facebook in Q3. This is down slightly from Q2, but the pool of advertisers on both platforms is consistently growing, as more advertisers become active on Instagram as well as Facebook, leading to a growing sample from quarter to quarter.

YouTube Video Advertising Spend Grows 77% Y/Y

YouTube Video Ads Growth Y/Y

Q3 2018 - Median Advertiser

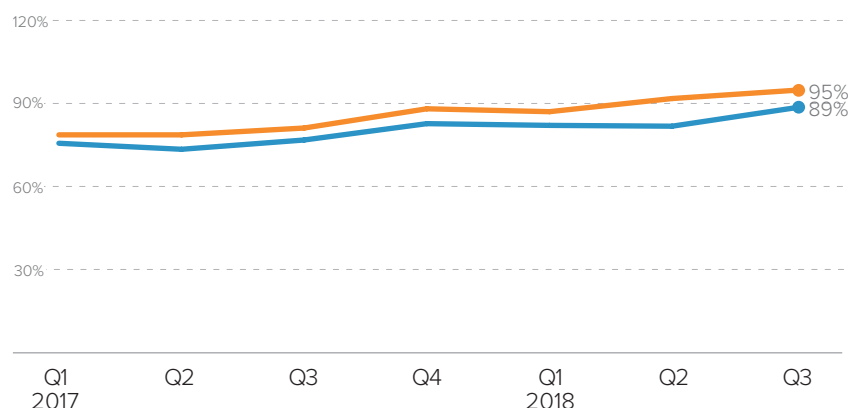


For advertisers active on YouTube advertising since last Q3, investment increased 77% Y/Y, even as CPM fell 44% over the same time frame. The digital video platform is often viewed by advertisers as a cheap option for branding campaigns, though the new TrueView for Action ad format provides a direct-response-focused option with calls to action and headline text overlays for driving leads and traffic.

Mobile Share of Facebook Spend and Clicks Continues to Climb

Facebook Ads Mobile Share

Ad Spend Clicks

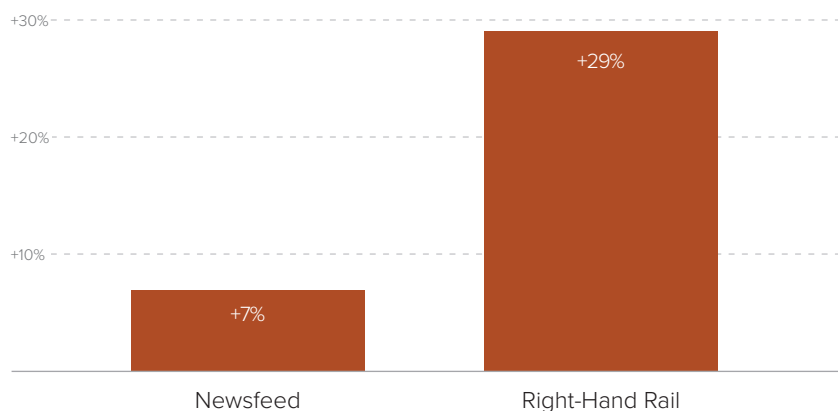


Phones and tablets grew to account for 95% of all Facebook clicks and 89% of all Facebook spend in Q3 2018, up significantly from 77% of clicks and 81% of spend in Q3 2017. This comes less than two years after Facebook sunset its desktop retargeting tool, FBX, in an acknowledgment of the importance of mobile to its ad business.

Facebook Newsfeed CTR Rises Modestly, Right-Hand Rail Ads CTR Jumps 29%

Facebook Ads CTR Change Y/Y

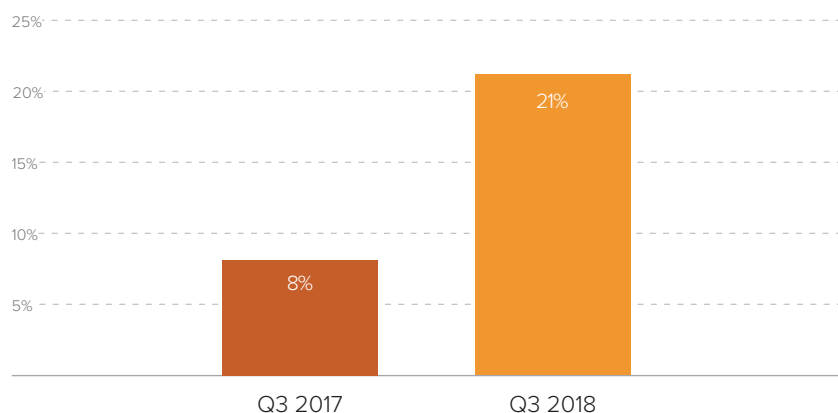
Q3 2018



Continuing a trend observed each of the past two quarters, CTR for Facebook ads located in both the primary Newsfeed as well as on the right rail were up Y/Y, though the increase in Newsfeed CTR was more modest than in the first half of 2018. At least some of the increase observed might be attributed to Facebook's January 2018 update to reduce the presence of unsponsored posts from brands and publishers.

Facebook Audience Network Spend Share Rises for Participating Brands

Audience Network Share of Facebook Ad Spend

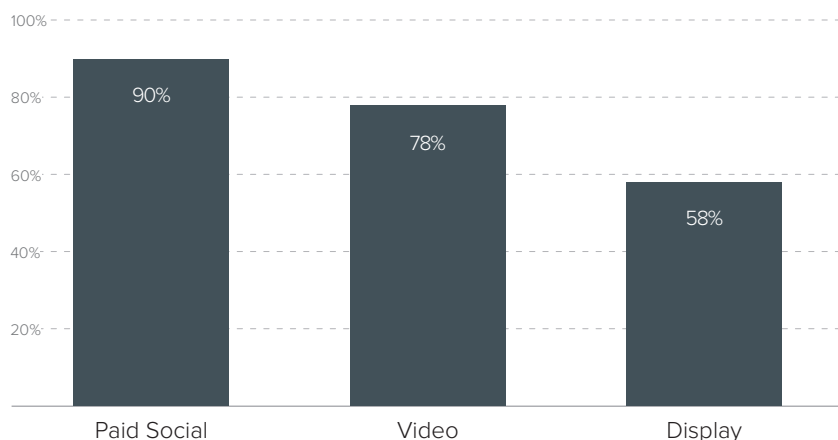


While only a relatively small fraction of Facebook advertisers are targeting the Facebook Audience Network, the share of spend attributed to the network for those that were in Q3 2018 was significantly higher than the share was for those that were in Q3 2017. The Audience Network allows marketers to target Facebook audiences across apps outside of the Facebook ecosystem.

Paid Social Continues to Lead Video and Display in Mobile Spend Share

Mobile Spend Share by Channel Type

Q3 2018

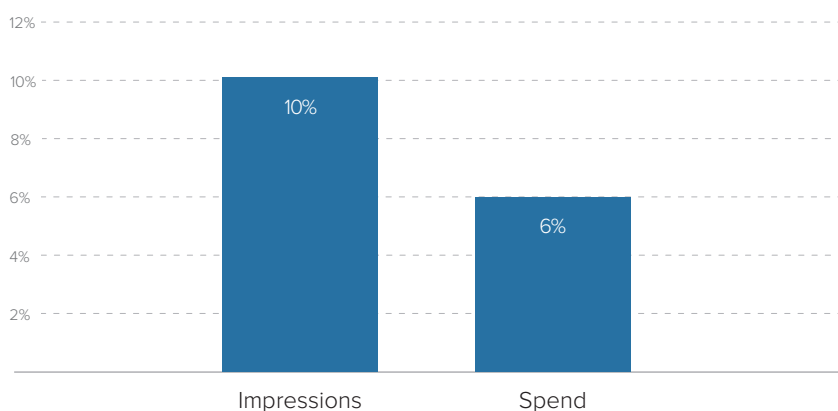


Phones and tablets accounted for 90% of all paid social spend in Q3 2018, up from 85% in the previous quarter. Traditional display advertising continues to lag video and social in terms of spend attributed to mobile devices, but is still significantly higher than the 41% mobile spend share observed for paid search in Q3 2018.

Snapchat Spend Relatively Small Compared to Facebook

Snapchat Performance Relative to Facebook

Q3 2018 - Median Advertiser



The number of advertisers active on Snapchat remains small relative to platforms like Facebook and Instagram, though the number is steadily growing. For the median brand that advertised on Snapchat in Q3 2018, investment was roughly 6% of Facebook spend, with impressions equating to 10% of those driven by Facebook.

AMAZON ADS

Amazon Sponsored Products spend grew 62% Y/Y, while Sponsored Brands (formerly known as Headline Search Ads) grew 86%. Sponsored Brands stand to benefit from Amazon's recent layout changes that significantly increased the number of page locations where these ads may show.

Brand keywords accounted for 62% of Sponsored Brands sales and 42% of Sponsored Products sales in Q3, as advertisers are finding it crucial to bid on their own brand keywords to stave off competitors.

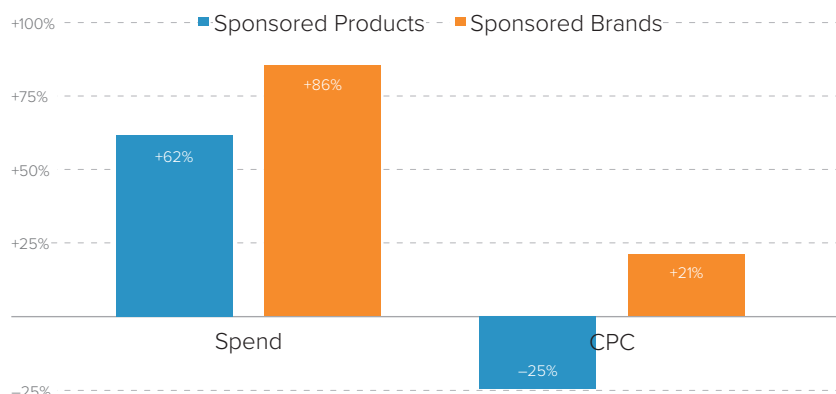
Amazon Sponsored Products conversion rate remains significantly higher than that of Google Shopping, which speaks to the high purchase intent of Amazon searchers relative to general search engine users.



Amazon Search Ad Formats Continue Strong Y/Y Growth

Amazon Ads Y/Y Growth by Ad Format

Q3 2018 - Aggregate Same Client

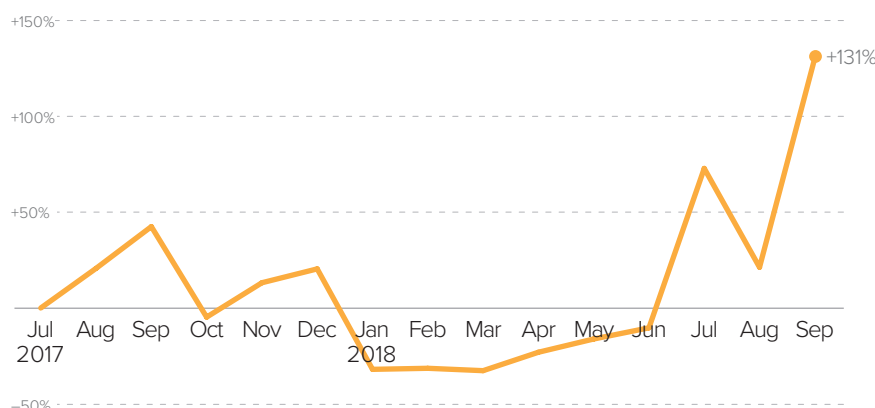


Advertising spend for Amazon Sponsored Products and Sponsored Brands (formerly Headline Search Ads) grew 62% and 86% Y/Y, respectively, for advertisers on the platform for the past year. The slower rate of spend growth in Q3 2018 vs. Q2 is not surprising, as it is largely the result of campaigns becoming more mature from Q2 to Q3 of 2017. Product Display Ads spend continued to decline and remains a small part of Amazon advertising spend.

Sponsored Brands Impressions Climb with New Placements

Amazon Sponsored Brands Impressions

Relative to July 2017

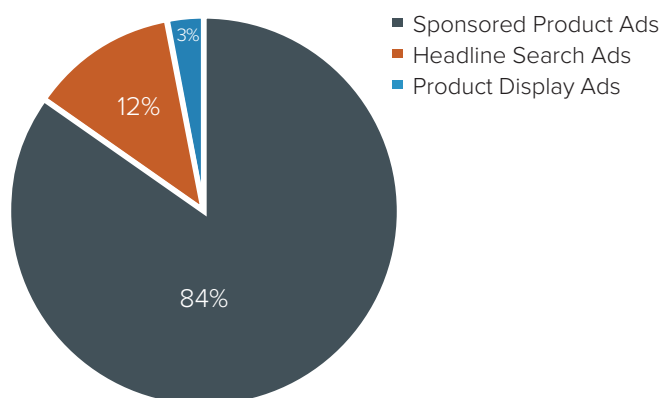


Amazon updated its search results page layout in late August to include additional placements for Sponsored Brands ads, with all advertisers automatically eligible to show in the new locations. This had an immediate impact on the number of impressions coming from these ad units, as September produced the highest number of impressions yet for Sponsored Brands advertisers. September CTR was also the lowest of the last 15 months.

Sponsored Products Continue to Account for Lion's Share of Amazon Spend

Amazon Spend Share by Ad Format

Q3 2018

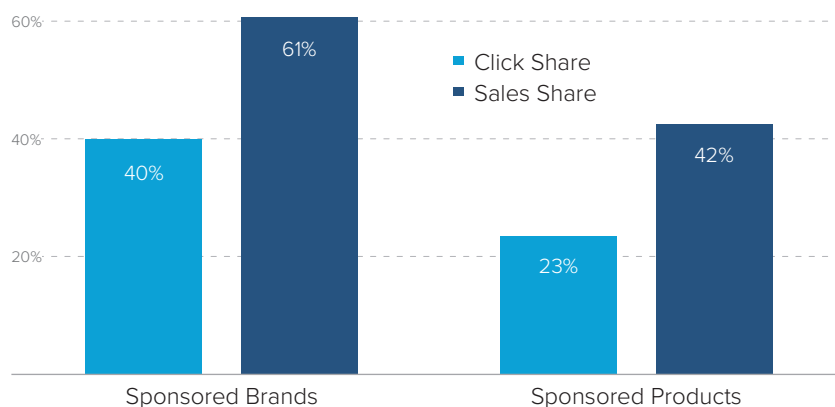


Sponsored Products accounted for 84% of all AMS spend in Q3 across both vendors and third-party sellers, while Sponsored Brands accounted for 12%. Just 3% of spend went to Product Display Ads, which are only available to vendors that sell to Amazon. With Amazon's August expansion of the number of Sponsored Brands placements, as well as other layout tests, these spend share figures may begin to shift over the next couple of quarters.

Brand Keywords Account for Over Half of all Sponsored Brands Sales

Brand Keyword Share by Amazon Ad Format

Q3 2018

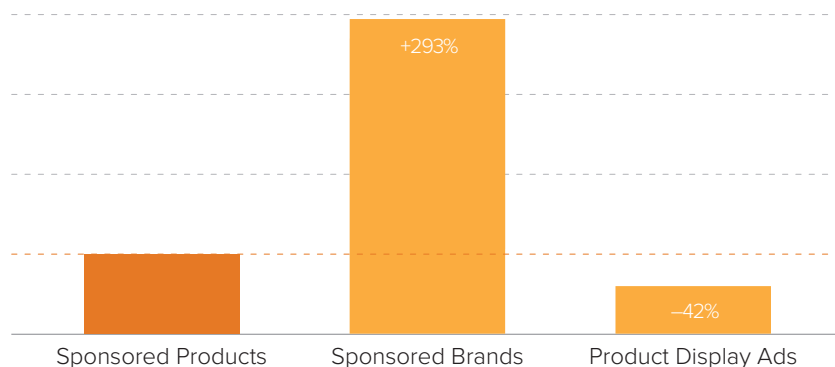


Brand keywords – where an advertiser is bidding on some variation of its own brand name – accounted for 40% of all Sponsored Brands clicks and 23% of all Sponsored Products clicks in Q3. These ads accounted for an even greater share of sales revenue for advertisers, as brand keywords are much more likely to convert than non-brand keywords. It has proven particularly important for Amazon advertisers to bid on brand keywords as it's easier for competitors to bid on them than it is on Google.

Sponsored Brands Ads Maintain Highest CTR of AMS Formats

Amazon Relative CTR by Ad Format

Q3 2018 - Median Advertiser

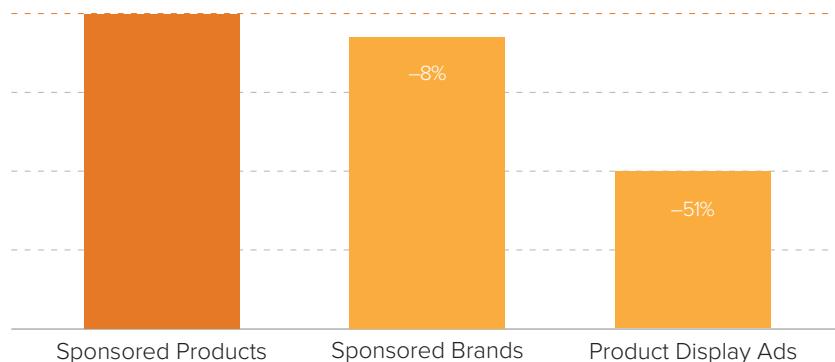


The typical CTR of Sponsored Brands ads was nearly four times that of Sponsored Products in Q3 2018, owing largely to its usual prime placement at the top of search results pages. However, with the August updates expanding the reach of Sponsored Brands to additional placements on the left rail and at the bottom of search results, the gap in CTR is likely to shrink in the coming quarters.

Relative Sales Per Click Among Amazon Formats Largely Unchanged from Q2

Amazon Normalized Sales per Click by Ad Format

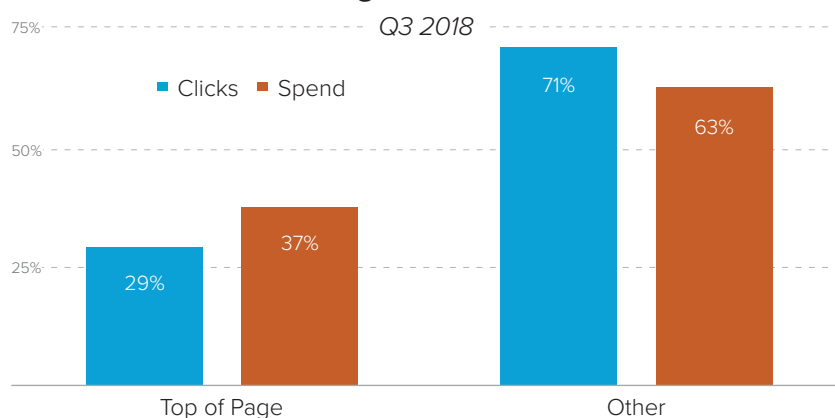
Q3 2018 - Median Advertiser



Sponsored Products maintained the highest sales per click among AMS formats, with sales per click for Sponsored Brands and Product Display Ads 8% and 51% lower, respectively. These figures are roughly the same as in Q2, but there may soon be a shift with Sponsored Brands placements beginning to receive additional inventory on the Amazon search results page.

Top-of-Page Ads Account for Less than a Third of Sponsored Products Clicks

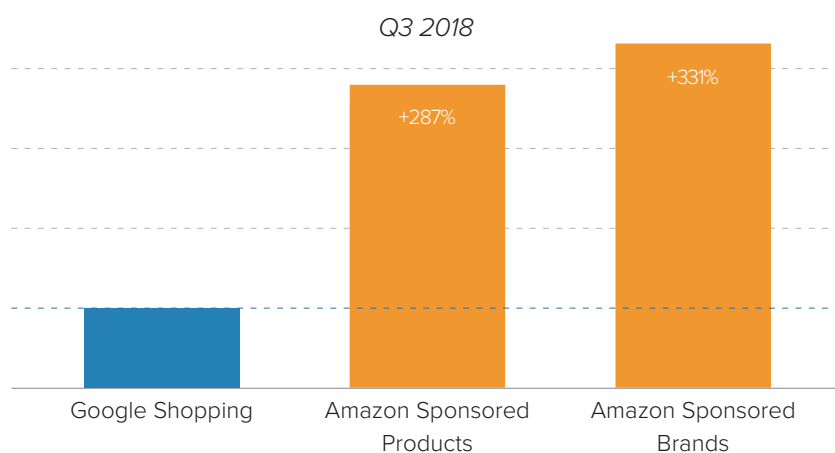
Sponsored Products Click & Spend Share by Page Location



Ads at the top of Amazon search results accounted for 29% of Amazon Sponsored Products clicks in Q3 2018, with assorted other placements accounting for the remaining 71%. As ad units placed at the top of the page are naturally more competitive in terms of bids, top-of-page ads had a higher CPC and accounted for 37% of all Sponsored Products spend.

Amazon Conv. Rate Remains Significantly Higher than that of Google Shopping

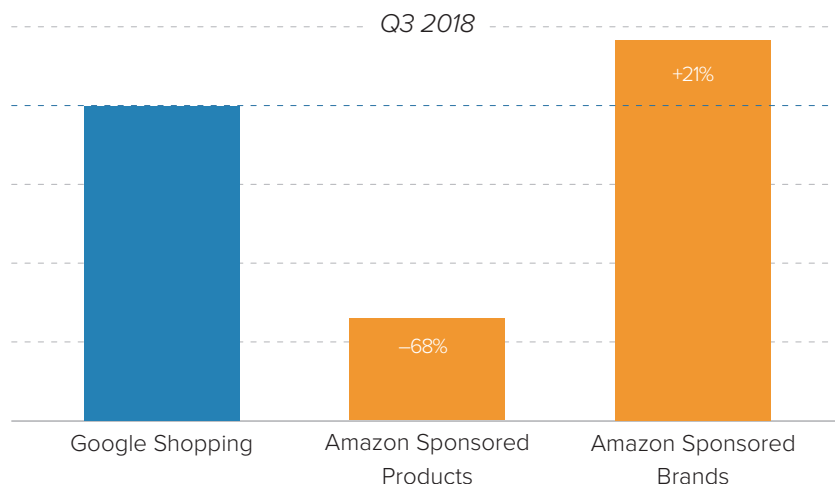
Google Shopping vs Amazon Relative Conversion Rate



With searchers already on-site and ready to purchase, it's no surprise that clicks from Amazon Sponsored Products and Sponsored Brands ad units have significantly higher conversion rate than that of Google Shopping clicks. Google is likely hoping that its Shopping Actions, which are transactional units powered by Google Express, will produce higher conversion rates than traditional Shopping ad units.

Amazon Search Results Layout Drives Lower CTR for Sponsored Products

Google Shopping vs Amazon Relative CTR



With a Sponsored Brands ad unit continuing to show at the very top of Amazon search results, Amazon Sponsored Products CTR continues to significantly lag that of Google Shopping. With new Sponsored Brands placements rolled out in August now providing additional impressions for these ad units, Google Shopping CTR may be the highest of the three formats in Q4.



ABOUT MERKLE

Merkle is a leading data-driven, technology-enabled, global performance marketing agency that specializes in the delivery of unique, personalized customer experiences across platforms and devices. For more than 30 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. The agency's heritage in data, technology, and analytics forms the foundation for its unmatched skills in understanding consumer insights that drive people-based marketing strategies. Its combined strengths in performance media, customer experience, customer relationship management, loyalty, and enterprise marketing technology drive improved marketing results and competitive advantage. With 5,500 employees, Merkle is headquartered in Columbia, Maryland, with 24 additional offices in the US and 25 offices in Europe and APAC. In 2016, the agency joined the Dentsu Aegis Network. For more information, contact Merkle at 1-877-9-Merkle or visit www.merkleinc.com.

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DMR METHODOLOGY

Figures are derived from samples of Merkle clients who have worked with Merkle for each marketing channel. Where applicable, these samples are restricted to those clients who 1) have maintained active programs with Merkle for at least 19 months, 2) have not significantly changed their strategic objectives or product offerings, and 3) meet a minimum ad-spend threshold. All trended figures presented in this report represent same-site changes over the given time period. Unless otherwise specified, the data points in this report are derived from the North American market region.