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Q4 2017

DIGITAL MARKETING REPORT

Quarterly Benchmarks for Your Digital Marketing Program

MERKLE

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EXECUTIVE SUMMARY

NEW & NOTABLE FOR Q4 2017

As the largest digital marketing investment for most brands, Google search ads helped drive strong year-over-year (Y/Y) online ad spending growth in Q4 2017. Search ad spending on Google grew 23% Y/Y, as retail and consumer goods spending rose 24% during the busy holiday shopping season.

Google search ad click growth did slow sharply, however, while average cost per click (CPC) growth spiked to 14%. To the benefit of advertisers, though, this trend shift was met by an improvement in the quality of traffic that Google search ads delivered.

One driver of the overall Google CPC increase was a dramatic reversal in CPC trends for keywords targeted to advertisers' own brand names. Brand keyword CPCs had fallen as much as 13% Y/Y following a mid-2017 Google change to its Ad Rank calculation. In Q4, brand keyword CPCs jumped 23% Y/Y.

Even with the brand CPC spike, spending on Google Shopping grew over twice as fast as spending for keyword-based text ads. The Product Listing Ad (PLA) format that powers Google Shopping accounted for 55% of retailers' Google search ad clicks in the US and 58% in the UK.

Product ads were also instrumental in delivering a turnaround in the performance of the Bing Ads platform. Spending on Bing Product Ads grew 43% Y/Y as mobile traffic was over seven times higher in Q4 2017 than in Q4 2016. Altogether, search ad spending across the Bing and Yahoo search ad platforms grew 32% Y/Y, up from just 6% growth in Q3, even as Yahoo lost its status as the default search provider for Firefox.

Likely as a direct result of factors leading to slower overall paid search click growth, organic search posted its strongest visit growth in over two years, with visits from Google organic search rising 8% Y/Y. Despite these gains, organic search produced a smaller share of overall site visits in Q4 than it did earlier in the year, with seasonality playing a factor.

In line with Facebook's stated expectations that ad load would play a lesser role in the growth of its ad business beginning in the back half of 2017, impressions for Facebook advertisers declined 27% Y/Y in Q4. Spend growth decelerated sharply from 40%+ the first three quarters of the year to 20% in Q4, as increased pricing and higher click-through rate (CTR) both helped to make up for declining impressions, but not enough to maintain previous spending growth rates.

Instagram grew much faster, with significant increases in both inventory and pricing leading to a 122% increase in spend Y/Y. With strong targeting capabilities and the potential to roll out advertising to features such as hashtag follows (which were launched in December), Instagram spend will likely continue to grow meaningfully for the foreseeable future.

Investment in Amazon's two biggest ad formats, Sponsored Product Ads and Headline Search Ads, increased 64% and 75% from Q3 to Q4 2017, respectively. Those figures represent an acceleration for both ad formats compared to Q3 Q/Q growth, as well as a higher growth than that of Google Shopping. Sponsored Product Ads continued to account for the vast majority of ad spend on Amazon, taking 85% of ad dollars in Q4.

EXECUTIVE SUMMARY

PAID SEARCH

- Across all search ad platforms, spending grew 24% Y/Y in Q4 2017, up from 22% growth in Q3. Click growth slowed sharply to 9%, while CPC growth jumped to 14%.
- Google search ad spending grew 23% overall, led by 32% growth for PLAs, while text ad spending rose 15%. Phone spending grew 38%, while desktop grew 21%.
- Amazon did not appear to make a further push into running Google Shopping ads, as its presence in PLA auctions remained limited to select product categories.
- Combined search spending across Bing Ads and Yahoo Gemini grew 32% in Q4 2017, up from 6% growth in Q3. Bing Product Ad spending grew 43%, due largely to an influx of mobile traffic.
- Between Google's Customer Match, RLSA, and similar audiences products, audiences accounted for over 30% of Google search ad clicks in Q4 2017, up 10 points from Q4 2016.

ORGANIC SEARCH & SOCIAL

- Total site visits driven by organic search grew 6% Y/Y in Q4 2017, the strongest rate of growth since 2015. Organic search visits driven by Google rose 8% Y/Y in Q4 2017, up from less than 1% growth in Q3.
- Google's share of US site visits driven by mobile organic search rose to 96% in Q4 2017, a three point increase in share from a year earlier.
- In Q4 2017, 75% of site visits produced by social media platforms occurred on mobile devices, an increase of nearly 11 points from a year earlier. Social media platforms produced 3.3% of all site visits in Q4 2017.

DISPLAY & PAID SOCIAL

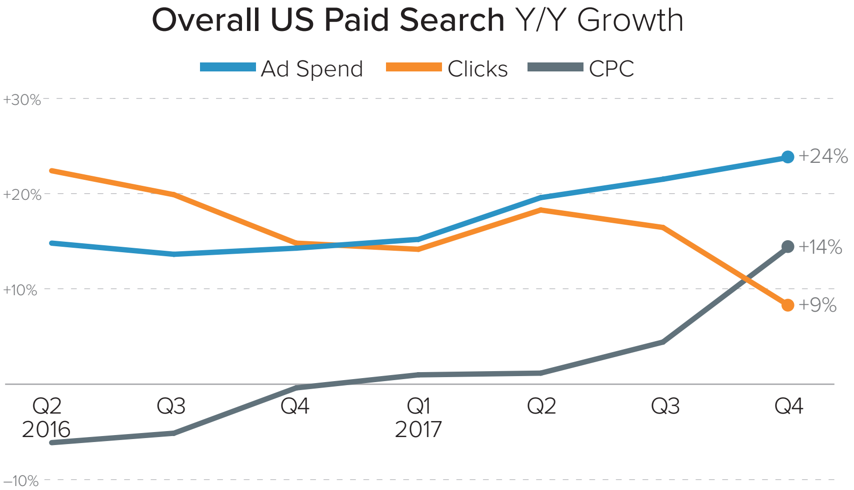
- Facebook ad impressions declined 27% Y/Y as ad spend growth slowed from 40%+ the first three quarters of 2017 to 20% in Q4 2017.
- Instagram spend increased by 122% Y/Y, with growth in both pricing and inventory driving additional investment for the Facebook-owned property.
- Facebook continues to dominate paid social spend share, accounting for 82% in Q4. Instagram and Pinterest accounted for 8% and 7%, respectively.

MARKETPLACES & CSEs

- Amazon Sponsored Products spend grew 64% Q/Q and Headline Search Ads grew 75%, both accelerations from Q3 as advertisers continue to grow campaigns for these relatively new formats.
- Sponsored Products Ads accounted for 85% of all Amazon ad spend in Q4, and also drove the highest sales per click for advertisers among Amazon ad formats.
- Traditional CSEs continue to struggle as advertisers saw 12% less revenue come driven by CSEs in Q4 2017 than in Q4 2016.

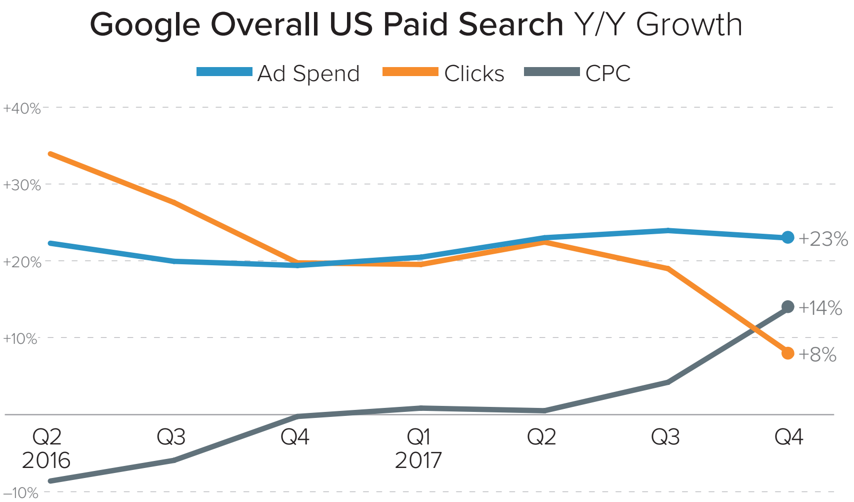
PAID SEARCH

Paid Search CPC Growth Spikes to 14%, Click Growth Slows



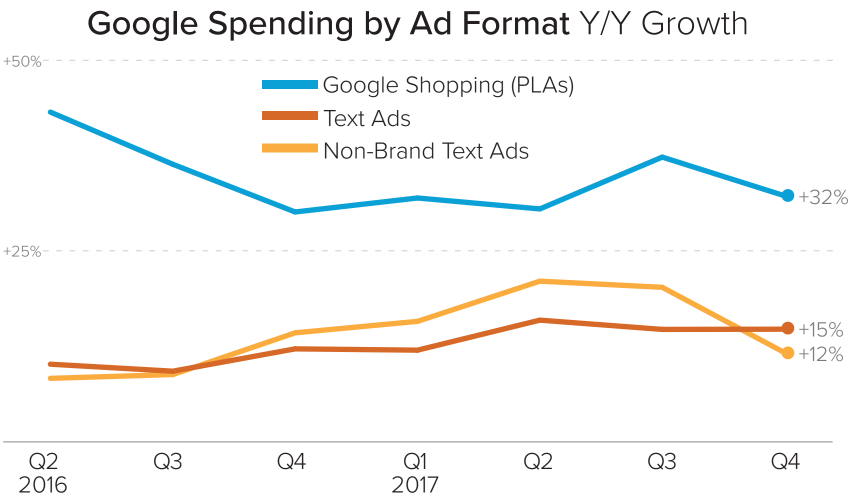
Year-over-year paid search CPC growth has now accelerated for each of the past six quarters, but the 10 point increase in growth rate between Q3 and Q4 2017 was by far the largest quarterly jump during that period. CPCs rose 14% in Q4 2017, up from 4% growth a quarter earlier, while click growth slowed to 9% Y/Y. Slower volume growth was not all bad for advertisers, as rising CPCs have generally reflected better performing traffic.

Google Search Spend Up 23%, Brand Keyword CPCs Spike



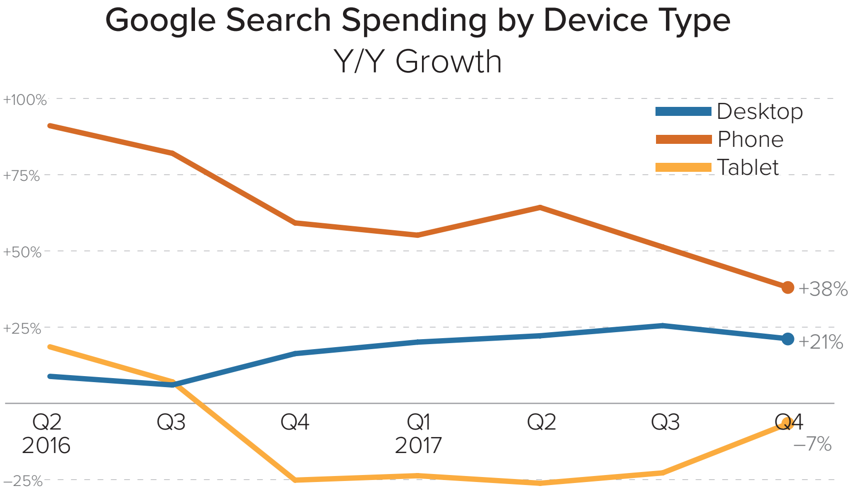
Spending on Google search ads was up 23% Y/Y in Q4 2017, down slightly from Q3 growth levels. Average CPC rose 14% Y/Y in Q4, while click growth slowed to 8%. Click prices accelerated across most major traffic and device segments, but the most dramatic shift in trends occurred for brand keyword text ads, where CPCs had fallen 13% Y/Y in Q3 2017, but spiked by 23% Y/Y in Q4.

Google Text Ad Spending Growth Steady, Despite Non-Brand Deceleration



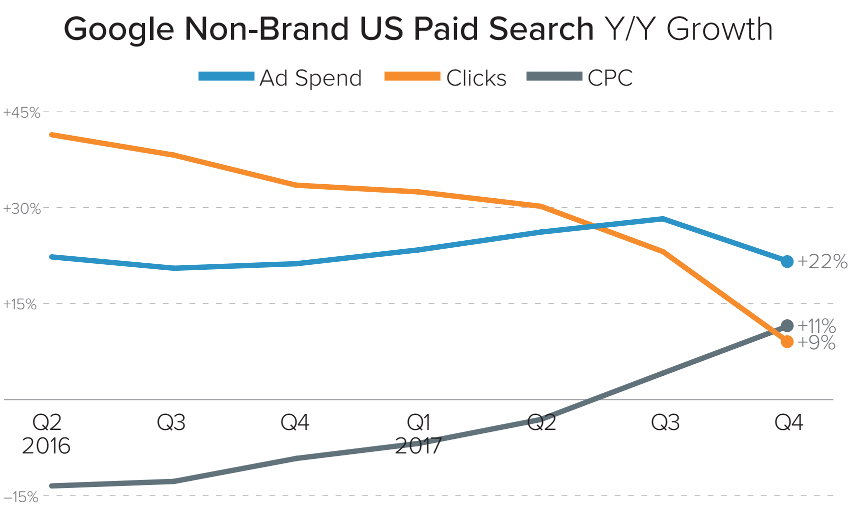
Spending on Google Shopping ads grew 32% Y/Y in Q4 2017, down from Q3 growth rates, but in line with performance from the first half of 2017. Spending on non-brand keyword text ads slowed from 20% Y/Y growth in Q3 to 12% in Q4, as pressure on click prices may have put a damper on volume growth for ROI-focused search programs. Higher spending growth for brand keywords offset weaker non-brand growth, leaving total spending growth for text ads unchanged at 15% Y/Y.

Google Phone and Desktop Search Spend Growth Cools, Tablet Rebounds



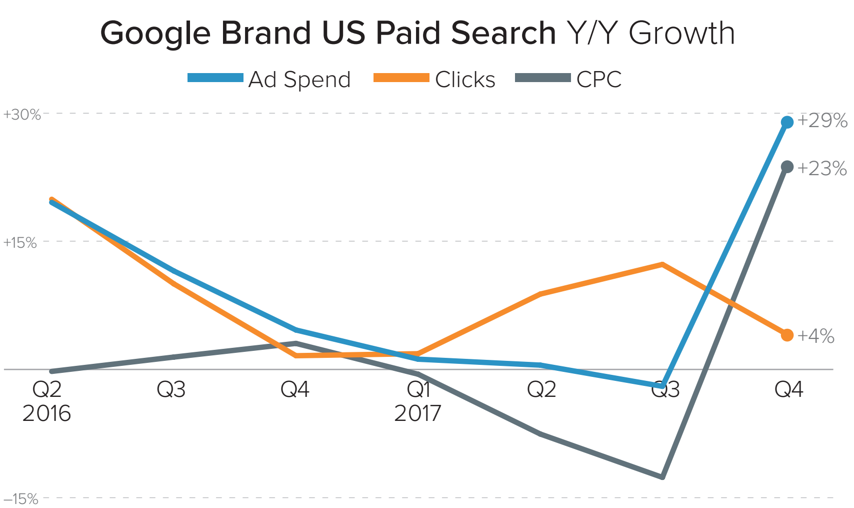
As phones have come to make up the majority of Google search traffic, advertiser spending growth for mobile has naturally slowed. In Q4 2017, mobile spending growth continued that trend, coming in at 38% Y/Y. Desktop spending growth also slowed as the tailwinds to Y/Y growth produced by Google decoupling desktop and tablet bids in late 2016 began to wear off. On the flipside, tablet spending declines lessened significantly in Q4 2017, as advertisers had pulled back sharply on tablet bids in late 2016.

Google Non-Brand CPCs Rise, But Traffic Quality Improves



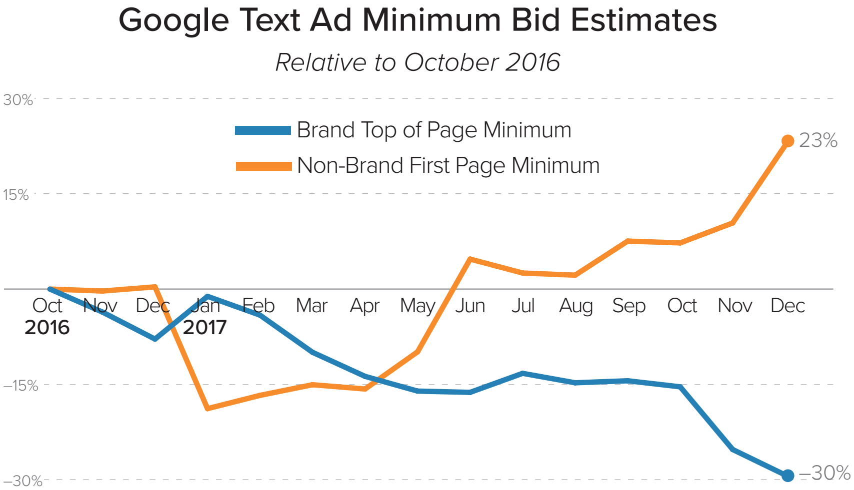
The average CPC for a non-brand Google search ad click rose 11% Y/Y in Q4 2017, up from 4% growth in Q3. Click growth slowed from 23% Y/Y in Q3 2017 to 9% in Q4, but improved performance of non-brand ads, both in terms of conversion rates and sales per click, worked to offset lower volume growth. One contributor to these trends has been a decline in non-brand traffic from Google search partners, which produce lower quality traffic at lower prices.

Google Brand Keyword CPCs Spike, Rise 23% Y/Y



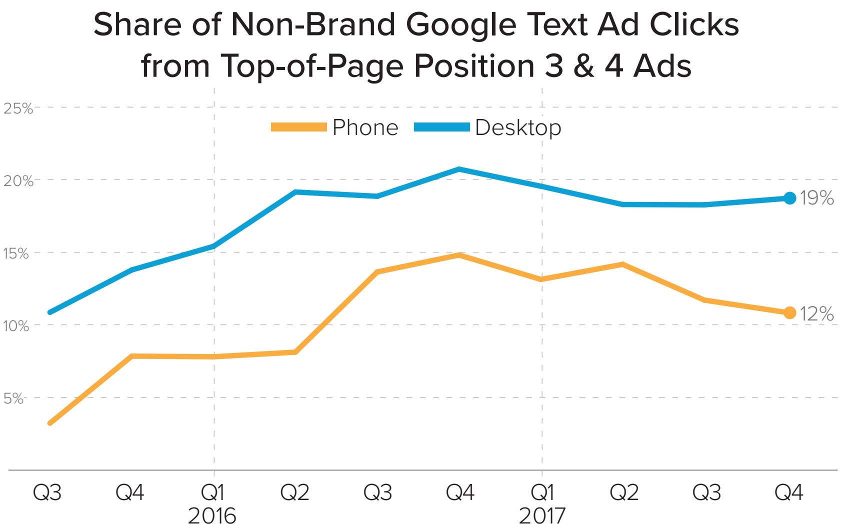
After falling 13% Y/Y in Q3 2017, CPCs for brand keywords on Google jumped 23% Y/Y in Q4. The mid-2017 CPC declines followed May changes by Google to its Ad Rank calculation, which led to large and clear declines in the minimum bids needed for brand keyword ads to appear in Google's results. Oddly, the Q4 CPC spike was not matched by a rebound in minimum bids, at least in the figures Google reported to advertisers.

Google Non-Brand Keyword Minimum Bids Soar



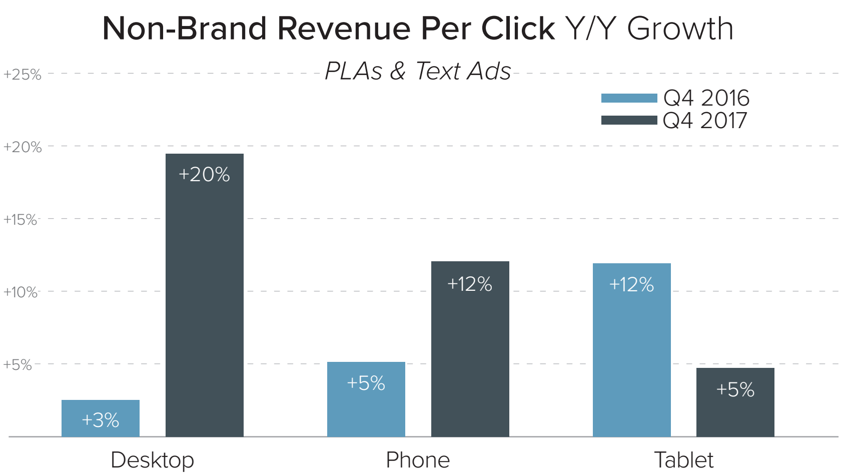
Google minimum bid estimates to appear on the first page of results for non-brand keywords rose as much as 23% Y/Y in Q4 2017. These estimates began to trend significantly higher in May 2017, matching the timing of a Google change to Ad Rank, and increased sharply throughout Q4 2017. While competition is higher in Q4 than the rest of the year, non-brand minimum bids were flat throughout Q4 2016. For brand keywords, top-of-page minimum bids fell in late Q4, even though average CPCs paid jumped.

Ads in Lower Positions Producing Smaller Share of Google Non-Brand Clicks



Ads in position three and four at the top of Google search results pages produced 12% of mobile non-brand text ad clicks in Q4 2017, down from a high of 15% a year earlier. These units were introduced over the last two years and had depressed CPCs, while leading to higher mobile click growth. Similarly, ads in position three and four produced a smaller share of clicks on desktop in recent quarters, helping to drive overall CPCs higher.

Value of Non-Brand Google Search Ad Clicks Improves Significantly



The average revenue per click produced by a non-brand Google search ad on desktop improved nearly 20% Y/Y in Q4 2017, a vast improvement from 3% growth in Q4 2016. Mobile has exhibited a similar trend with revenue per click growing 12% in Q4 2017, up from 5% growth a year earlier. The smaller tablet segment was an exception, seeing larger revenue per click growth in 2016, when advertisers bid down the segment after Google gave search programs the ability to bid tablet separately from desktop.

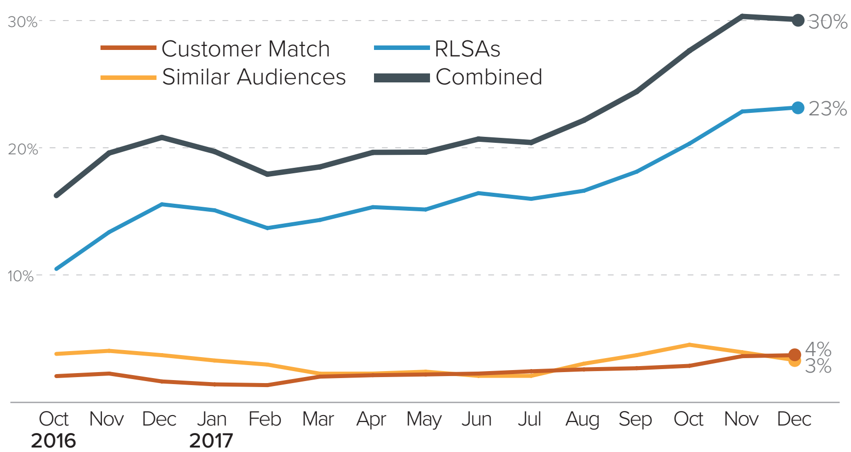
Search Partner Share of Google Search Ad Clicks Drops in Second Half of 2017

Search Partner Share of Google Search Ad Clicks

Largely steady through the first half of 2017, search partner share of Google search ad clicks fell one point to 5% in the back half of the year. This decline has coincided with and contributed to a rise in CPC growth and improving quality of Google search ad clicks. Search partner click share had risen nearly two points in 2016, largely due to the expansion of PLAs on Google image search.

Audiences Account for Much Greater Share of Google Search Ad Clicks

Share of Google Search Ad Clicks by Audience Type

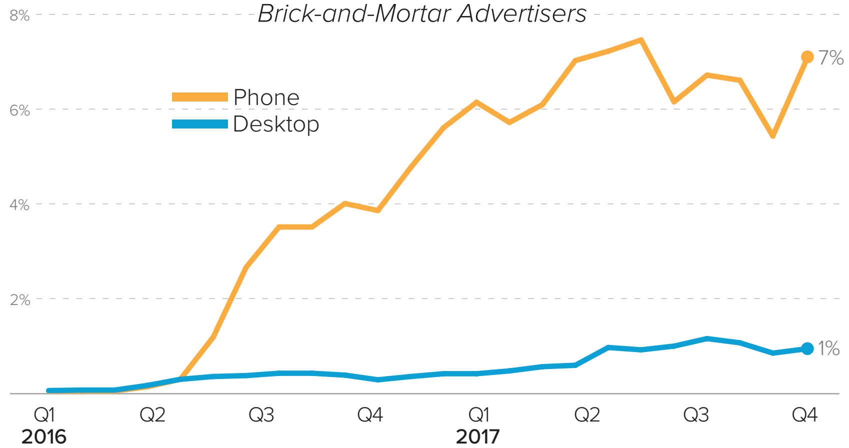


Between Google's Customer Match, RLSA, and similar audiences products, audiences accounted for over 30% of Google search ad clicks in Q4 2017, up 10 points from Q4 2016. On a like-for-like basis, advertisers generally pay more for specific audiences than unknown users, which has contributed to overall Google CPC growth. While RLSA continues to generate the lion's share of audience clicks and saw the largest absolute traffic gains from year to year, Customer Match clicks grew at the fastest pace.

Google Maps Click Share Holds Relatively Steady

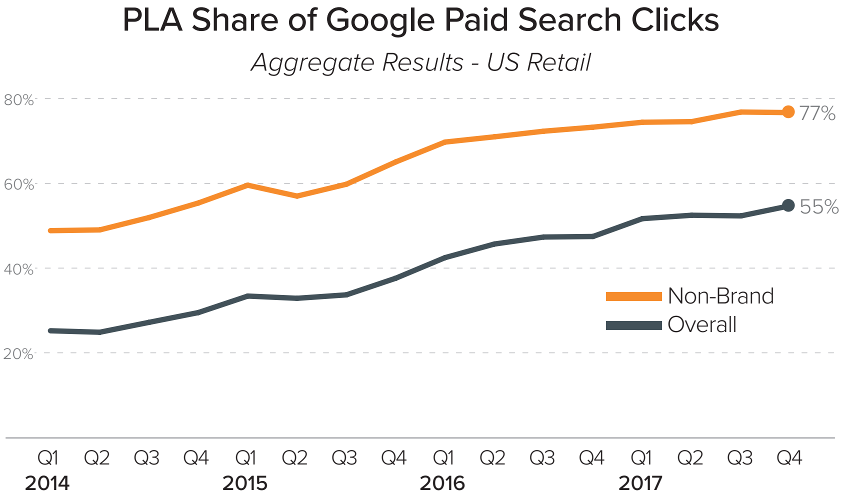
Get Location Details Share of Brand Text Ad Traffic

Brick-and-Mortar Advertisers



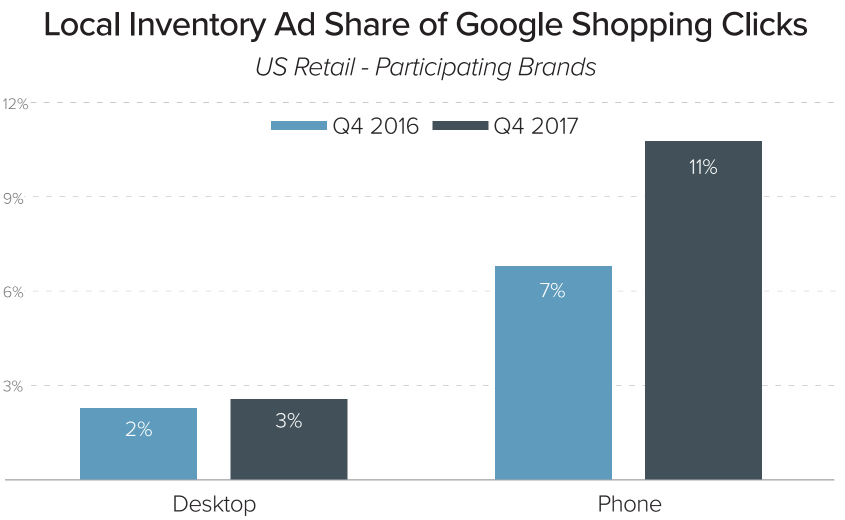
Although it has had some ups and downs in recent months, the share of Google search ad clicks attributed to Google Maps ended 2017 roughly where it was in mid-2017. The Get Location Details click type, which occurs on Google Maps ad listings, accounted for 7% of brand keyword clicks on phones in December 2017, among brick-and-mortar advertisers. A year earlier, Google Maps produced 5% of phone brand clicks. Brand keyword clicks from Maps have come at higher CPCs than clicks from Google's core search property.

PLAs Produce 55% of Retailers' Google Search Ad Clicks in Busy Q4



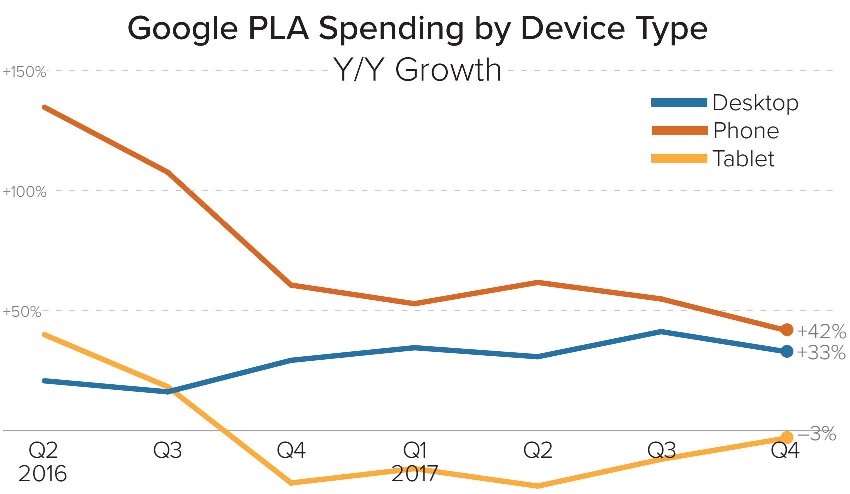
Google PLAs produced 55% of retailers' Google search ad clicks in Q4 2017, up seven points from a year earlier. Within the non-brand segment, PLAs produced 77% of Google search ad clicks in Q4 2017, up over three points from a year earlier. Although it is not an entirely incremental source of PLA clicks, Local Inventory Ads have seen their share of PLA clicks increase in the last year.

Local Inventory Ad Share of PLA Clicks Jumps on Phones



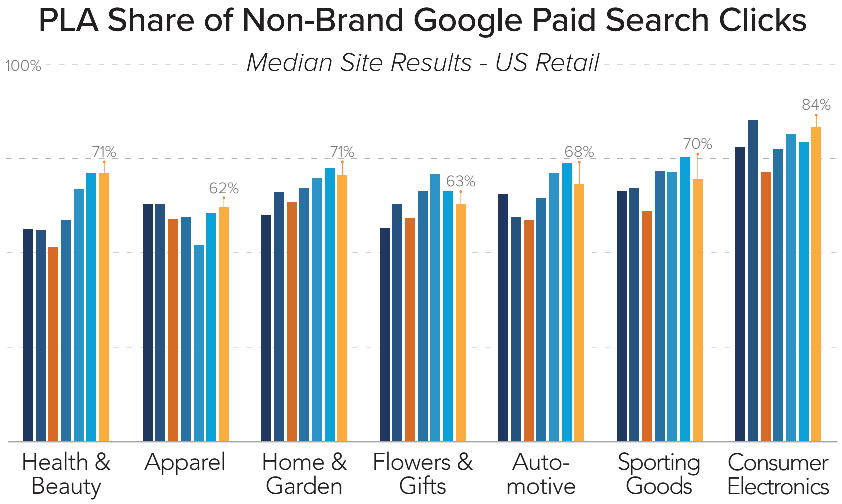
Among advertisers running the ad format, Local Inventory Ads produced 11% of phone PLA clicks in Q4 2017, up from 7% in Q4 2016. Local Inventory Ad click share grew more modestly on desktop, coming in a little under 3% in Q4 2017. As expected, Local Inventory Ad click share surged over the last few days before Christmas as shoppers looked to head in store to complete their final holiday purchases.

Despite Dip, Desktop PLA Spending Growth Running Above Historical Levels



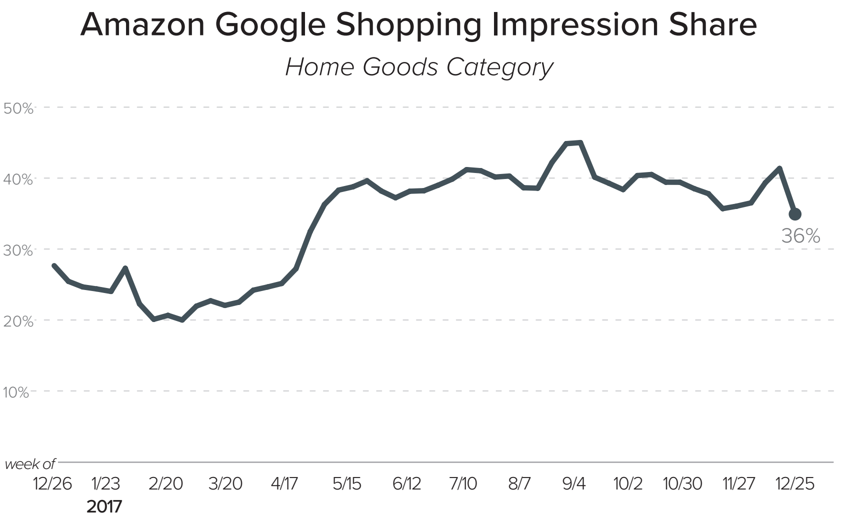
Desktop PLA spending growth slowed to 33% in Q4 2017, but that rate was still well above those seen in the quarters before Google began allowing separate bids for desktop and tablet PLAs in Q3 2016. Phone PLA spending grew dramatically over late 2015 and early 2016 as Google ramped up the format on mobile, but mobile PLA spending growth has since continued to cool, coming in at 42% Y/Y in Q4 2017. Tablet PLA spending declines lessened to 3% in Q4 2017.

Health and Beauty Sees Biggest Yearly PLA Share Gains, Apparel Holds Flat



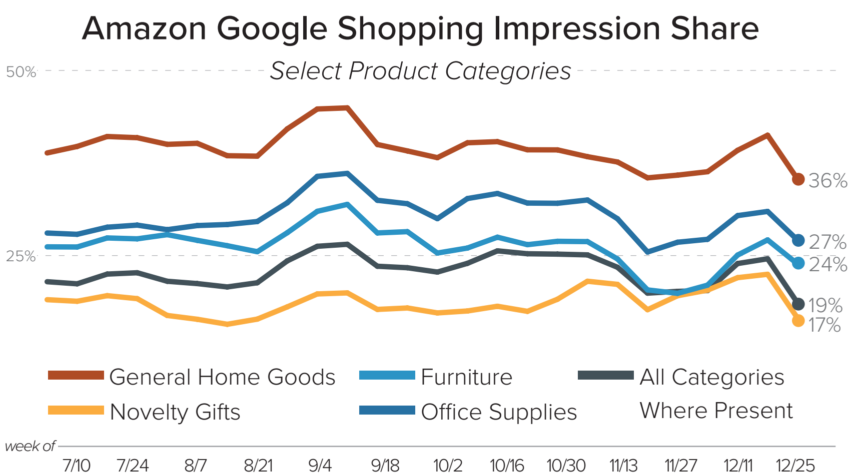
Health and beauty retailers saw the largest increase in PLA share of Google non-brand search ad clicks between Q4 2016 and Q4 2017, as PLA share rose 20 points over that period to 71%. By contrast, apparel retailers have seen PLA click share running more or less flat over the last year and a half, with PLA click share coming in below other major product categories at 62% in Q4 2017. Consumer electronics retailers continued to see the highest PLA click share at 84% in Q4 2017.

No Major PLA Push from Amazon as Impression Share Slides in Q4



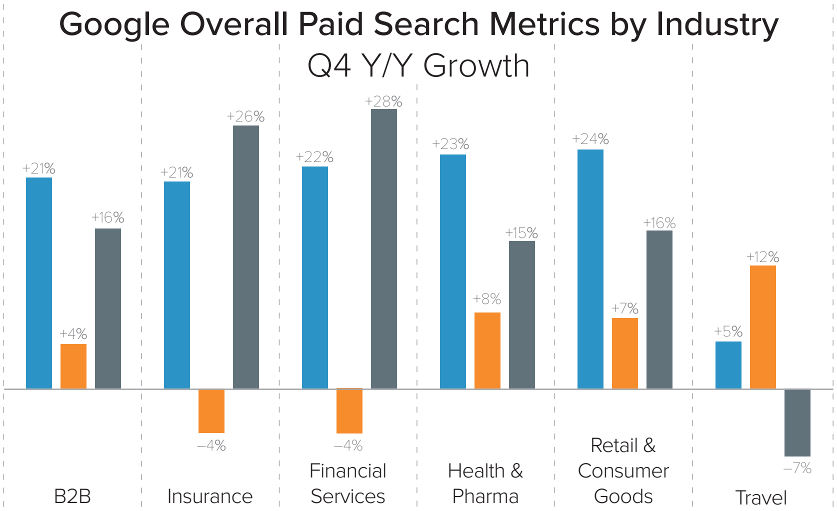
After going years without participating in Google's PLA auctions, Amazon made its first foray into Google Shopping about a week before Christmas 2016. Its presence has since been strongest and most consistent within the home goods product category, but Amazon's home goods impression share appeared to drop a bit during some of the peak days for holiday shopping in Q4 2017. Amazon's presence in home goods auctions had jumped sharply in early May 2017, a time when Amazon also began appearing more consistently in auctions for a small number of other product categories.

Amazon Exhibits Consistent PLA Spending Trends Across Narrow Range of Product Categories



Amazon's share of Google Shopping impressions was down consistently in late November through early December, across the handful of broad product categories where it has maintained an impression share greater than 10% since May 2017. Apparel and consumer electronics are not among the product categories where Amazon has had such a presence, but there have been specific niches, such as athletic apparel, where Amazon has been more aggressive.

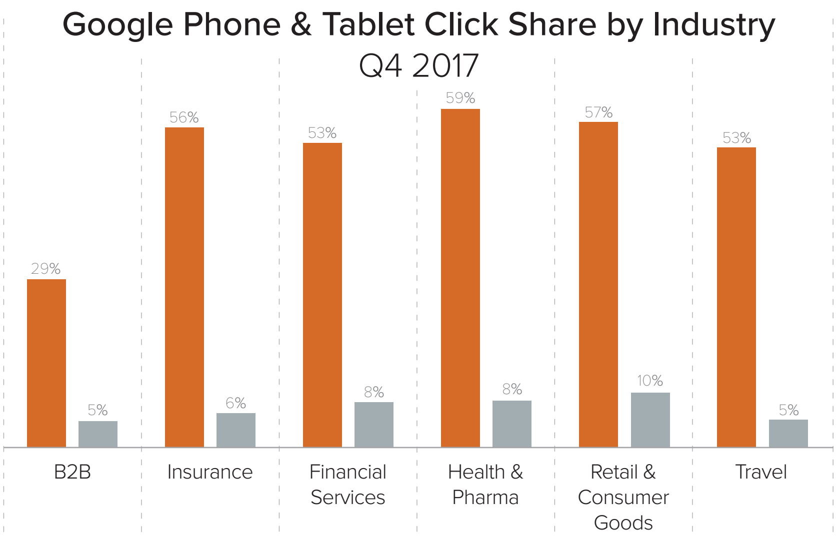
Google Search CPCs Up Sharply Across Most Major Industries



Across six major industries, Google CPCs grew 15% or more Y/Y, with the exception of travel, which saw a 7% Y/Y CPC decline. Travel spending growth for Google search ads slowed sharply between Q2 and Q3 2017, with growth rebounding just slightly in Q4 to 5%. Other industries saw Google spend grow between 21% and 24%, with retail and consumer goods coming in at the high end of that range.

Metrics: Ad Spend Clicks CPC

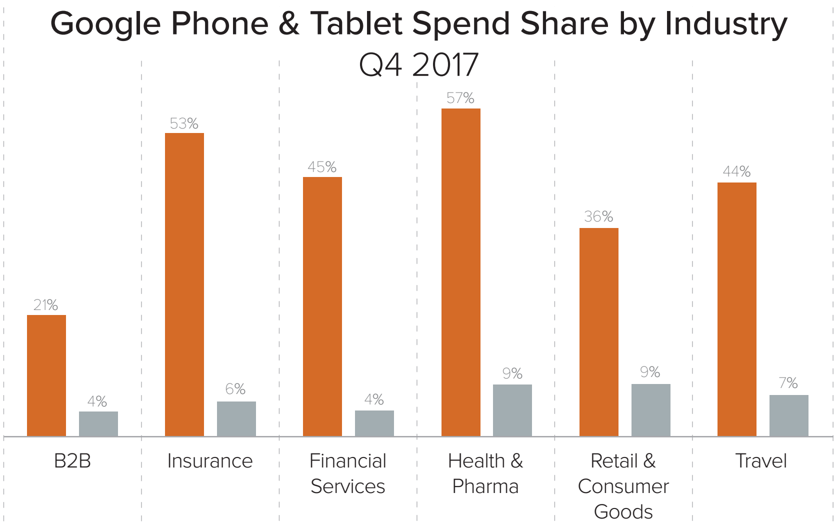
Insurance Industry Sees Largest Gains in Phone Search Click Share



In Q4 2017, insurance advertisers saw phones produce 56% of their Google paid search clicks, an eight point increase from Q4 2016 and the largest gain in phone click share across major industries. At 59%, phones produced the largest share of Q4 2017 clicks for health and pharma brands, while B2B advertisers generated just 29% of their Google search ad clicks from phones in Q4 2017.

Metrics: Phone Tablet

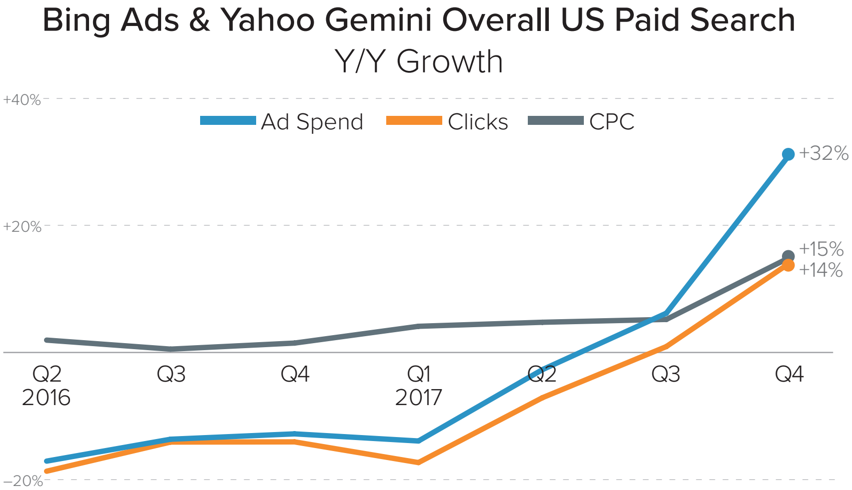
Retail Sees Largest Gap Between Mobile Click and Cost Share



Retail and consumer goods brands saw the largest disparity between mobile click and cost share of Google search ads in Q4 2017. Phones and tablets combined to produce 67% of retail and consumer goods clicks, but just 46% of costs. The insurance and health and pharma industries saw near parity between mobile click and cost share, but all major industries saw mobile generate at least a slightly lower share of Google search ad costs than clicks.

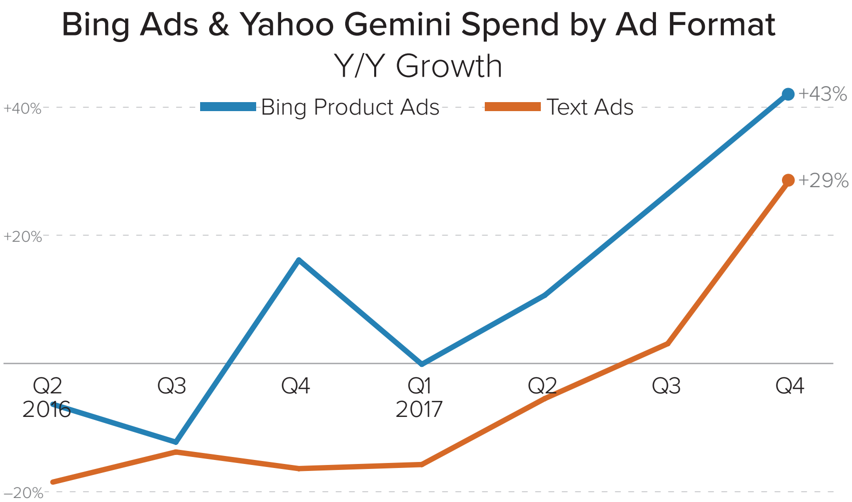
Metrics: Phone Tablet

Bing and Yahoo Search Spending Sees Major Rebound



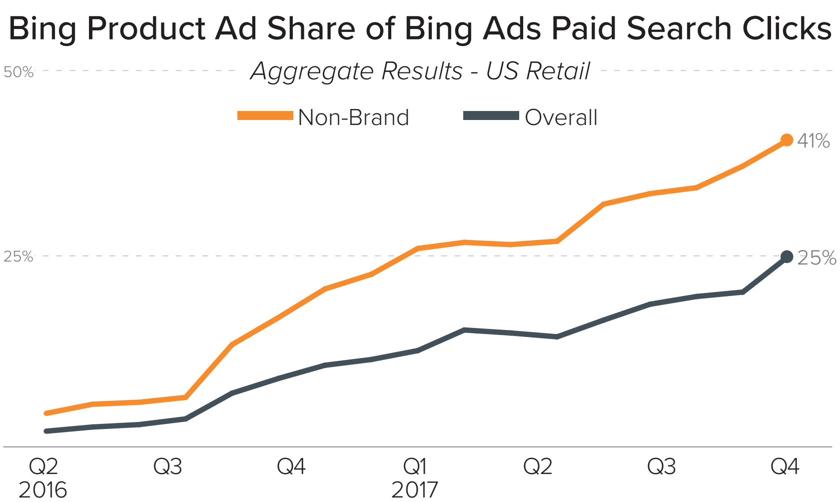
Even though Yahoo lost its status as the default search provider for Firefox in mid-November, search spending growth across the Yahoo Gemini and Bing Ads platforms surged to nearly 32% Y/Y. Click growth accelerated from 1% in Q3 2017 to 14% in Q4 2017. At the same time, CPC growth jumped from 5% Y/Y to 15%, largely due to a mix shift to non-brand search ads, which carry higher CPCs than brand keyword ads.

Mobile Delivers Huge Product Ad Click Gains for Bing



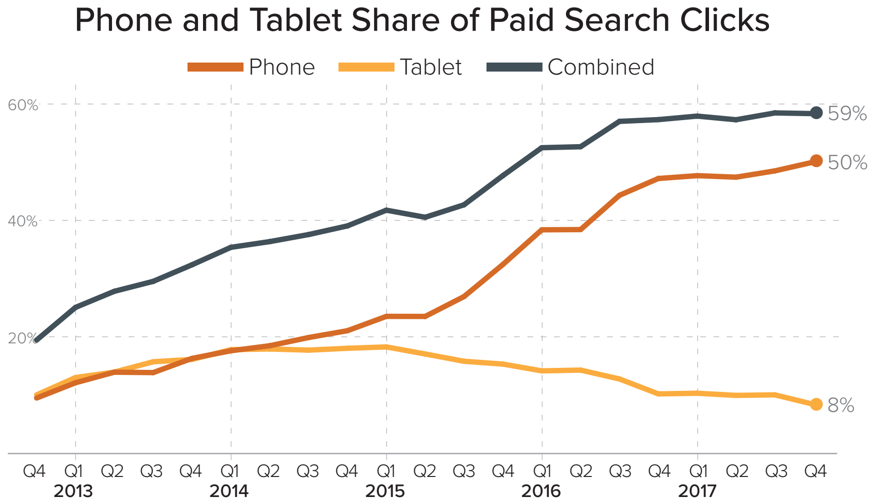
Bing Product Ads saw their highest rate of spending growth in two years as clicks rose 62% and CPCs fell 11%. The CPC decline was primarily due to a huge influx of mobile Product Ad clicks, which were over seven times higher in Q4 2017 than in Q4 2016. Phone share of all Product Ad clicks nearly doubled from Q3 to Q4 2017. Likely due to the Product Ad surge, text ad spending on phones fell 8%, but strong desktop performance pushed total text ad spending up 29% Y/Y.

Bing Product Ads Now a Quarter of Retailers' Bing Search Ad Volume



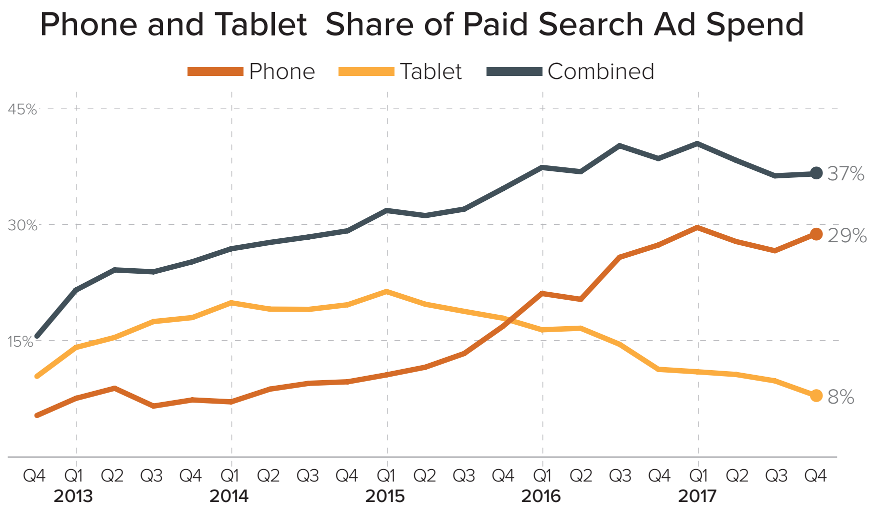
Bing Product Ads produced 25% of retailers' Bing search ad clicks in Q4 2017, up five points from the previous quarter and nine points from a year earlier. Though Product Ads saw impressive gains, Google's PLAs passed the same click share mark four years ago. Within the non-brand segment, Product Ads produced 41% of Bing search ad clicks.

Phones Pass 50% Share of All Search Ad Clicks for First Time



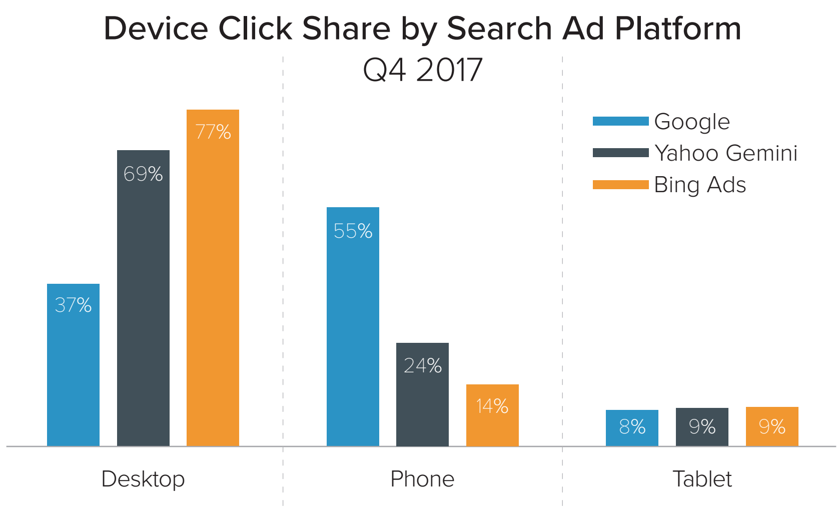
Although phones first produced over half of Google search ad clicks a year earlier, relatively low mobile click share on Bing and Yahoo kept phone share of all search ad clicks below the 50% mark until Q4 2017. Tablet click share slipped to a little over 8% in Q4 2017, keeping combined phone and tablet click share steady at 59%.

Phone and Tablet Share of Search Spend Still Down from All-Time High



Phones and tablets combined to account for 37% of total paid search spending in Q4 2017, up slightly from Q3, but down from 41% in Q1 2017. Tablet spend share has been on the decline since 2015, but its drop steepened when Google began allowing advertisers to split desktop and tablet bids in late 2016. Phone spend share stood at 29% in Q4 2017, up two points from a year earlier.

Phones Up to 55% of All Google Search Ad Clicks

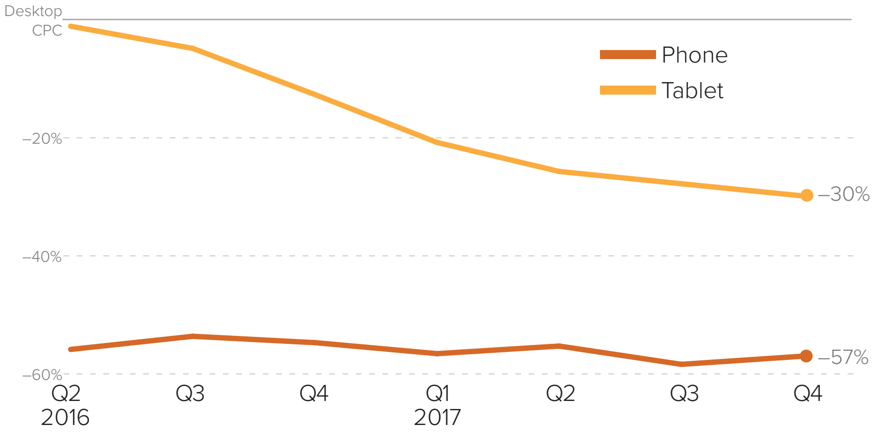


Phones produced 55% of Google search ad clicks in Q4 2017, up a point from the previous quarter. Yahoo, which lost its status as the default search provider for Firefox to Google in November, saw desktop share of Yahoo Gemini clicks decline 1.4 points from Q3. As Bing significantly ramped up mobile Product Ads in Q4, its share of total clicks from phones rose two points from quarter to quarter.

Tablet CPCs Continue to Slide Compared to Desktop

Non-Brand Mobile CPC vs. Desktop

Median Site Results

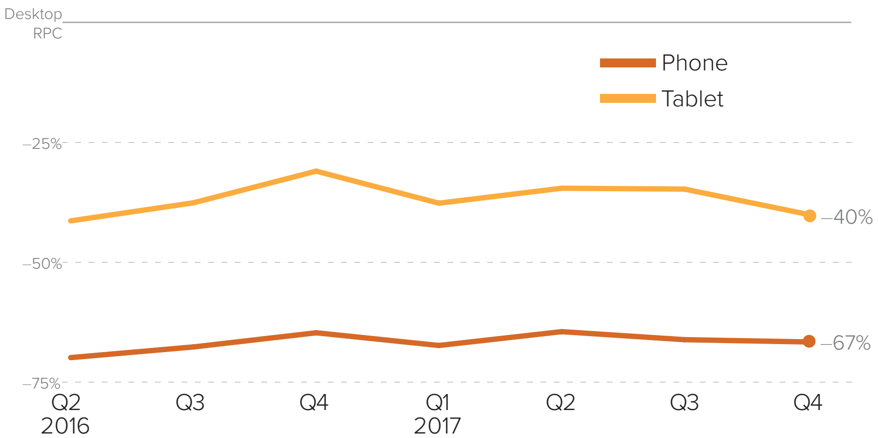


For a comparable non-brand search ad click, average tablet CPC was 30% lower than desktop CPC in Q4 2017. In Q2 2016, prior to Google's move to allow advertisers to segment desktop and tablet bids, tablet CPCs were at parity with desktop. Phone CPCs were 57% lower than desktop on average in Q4 2017, a small improvement over the previous quarter.

Though Narrowing, Performance Gap Remains Between Desktop and Mobile

Non-Brand Revenue Per Click vs. Desktop

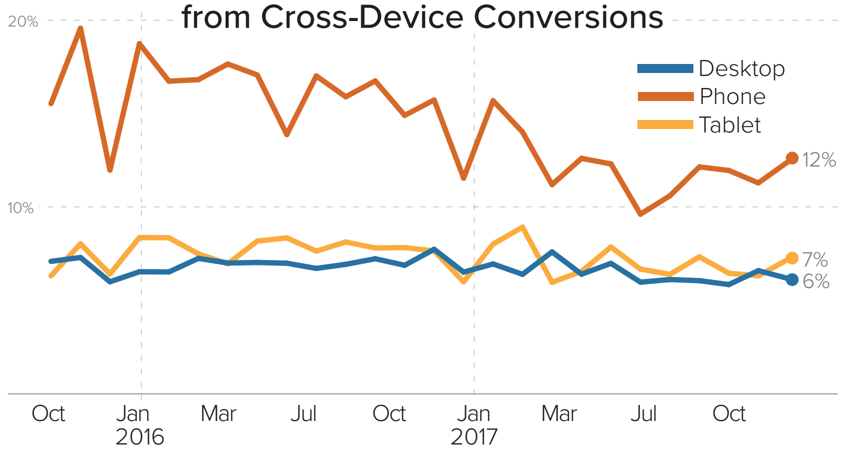
Median Site Results



Although the performance of mobile search ad clicks has improved in recent years compared to desktop, there is still a wide gap between average desktop and mobile revenue per click. Online revenue per click for tablet traffic was 40% lower than desktop in Q4 2017, while phone revenue per click was 67% lower. Phone traffic, however, disproportionately benefits from considering offline and cross-device conversions.

Phones See Large, But Declining Boost from Cross-Device Conversions

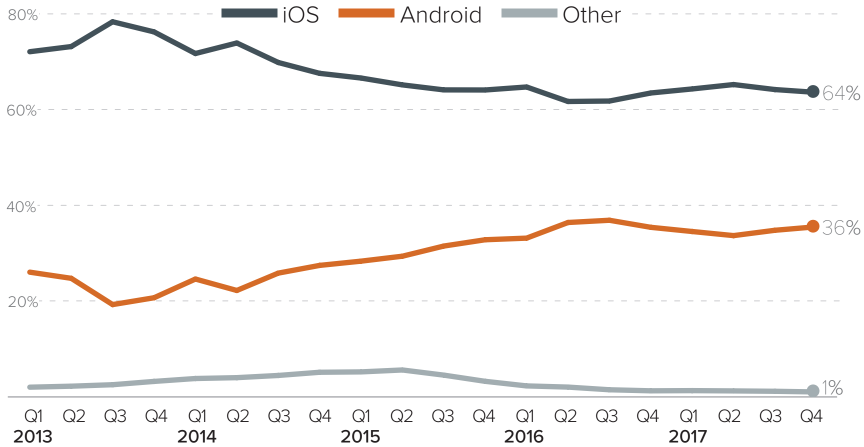
Lift in Total Google Search Ad Conversions from Cross-Device Conversions



Cross-device conversions provided a 12% lift to total online Google search ad conversions attributed to phones in Q4 2017, roughly double the rate for desktops. Interestingly, that advantage has decreased over time as users have become more comfortable completing orders on their phones, rather than moving to desktop or tablet.

Android Share of Mobile Search Ad Clicks Continues to Rebound

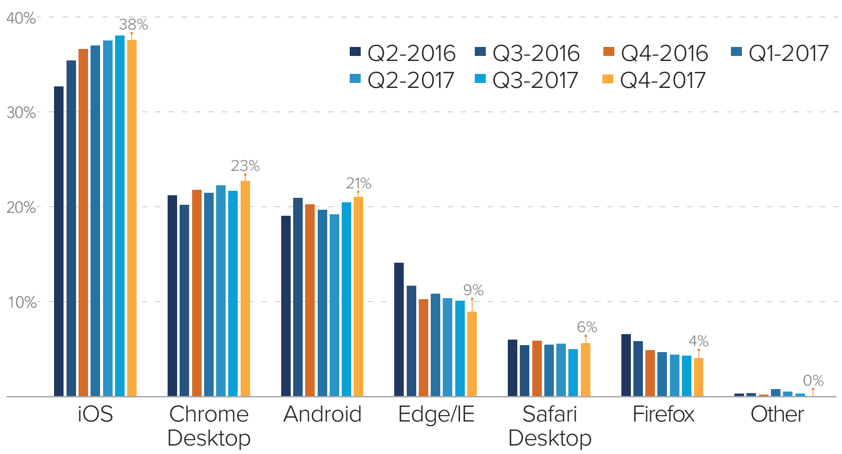
Share of Phone and Tablet Paid Search Clicks by OS



Despite the release of a new slate of Apple devices over Q3 and Q4 2017, iOS produced just under 64% of phone and tablet search ad clicks in Q4 2017, a slight decline from the prior quarter. Android's share of mobile clicks has now risen two points from a recent low of 34% in Q2 2016. Over a longer period, iOS share of mobile clicks has taken a hit from declining consumer usage of tablets.

Firefox Down to 4% Share of Search Ad Clicks, Chrome Share Rises

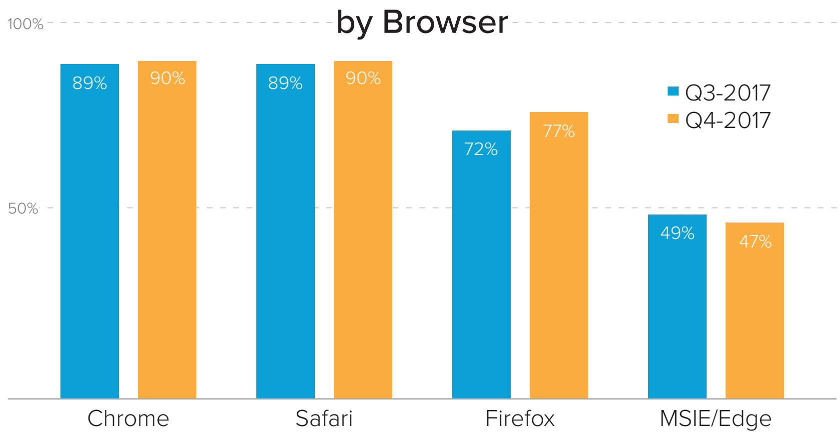
US Paid Search Click Share by Browser/OS



As Google retook its place as the default search provider for Firefox, the browser saw its share of total search ad clicks fall to 4% in Q4 2017. When Yahoo became the default Firefox search provider in December 2014, Firefox produced about 10% of search ad clicks. Elsewhere, desktop Chrome has managed to avoid the same click share declines that other desktop browsers have seen as traffic has moved to mobile. Desktop Chrome's share of search ad clicks rose one point from Q4 2016 to Q4 2017, coming in at 23%.

Google Likely to See Only a Small Share Gain from Firefox Deal

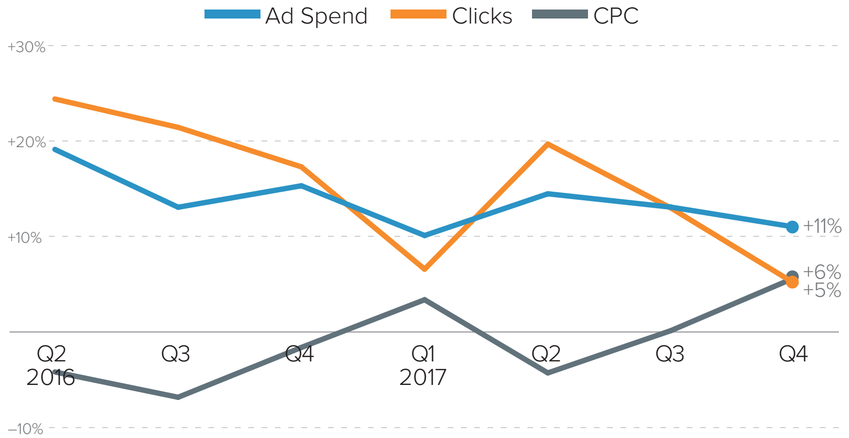
Google Share of Desktop Search Ad Clicks by Browser



In Q3 2017, Google's share of search ad clicks produced by the Firefox browser was 72%, about 18 points lower than its share of desktop Chrome and Safari clicks. Google's Firefox share improved to 77% in Q4 after it became the default search provider in November, but even if Google can match its position on Chrome or Safari over time, and Firefox can avoid further share declines, Google will gain about 0.7 points of total search ad click share as a result of the deal.

UK Google Search Ad Click Growth Slows as CPCs Rise

UK Google Overall Paid Search Y/Y Growth



Similar to US trends, UK Google search ad click growth slowed from 13% Y/Y in Q3 2017 to 5% in Q4. At the same time, CPC growth rose to 6% Y/Y in Q4 2017 after coming in flat in Q3. Total Google search ad spend in the UK market grew 11% Y/Y in Q4 2017, a two point deceleration from Q3 2017.

Google Shopping Click Share Remains Strong in UK Market

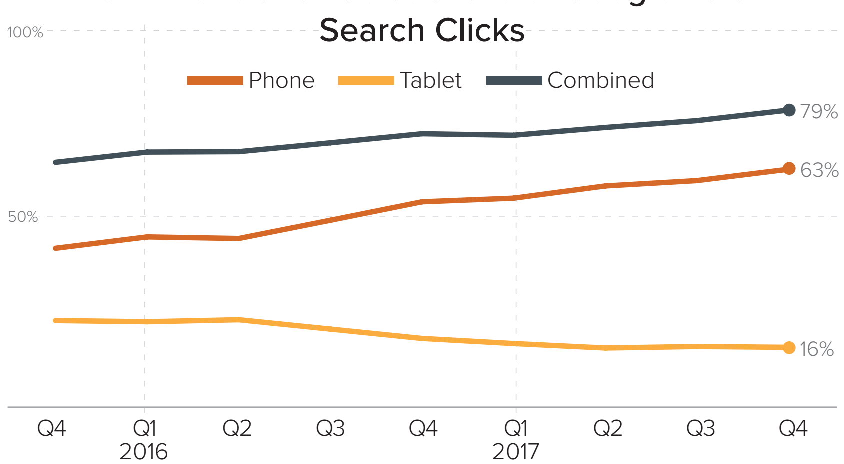
PLA Share of Google Paid Search Clicks

Aggregate Results - UK Retail

Google Shopping share of retailers' UK Google search ad clicks dipped a point from Q3 to Q4 2017, coming in at 58%. That rate was still above Shopping click share in the US market, where PLAs produced 55% of retailers' Google search ad clicks. While UK Google search ad CPCs rose 6% overall, Google Shopping CPCs were down slightly Y/Y in Q4 2017.

Mobile Playing Larger Role in UK Search Market

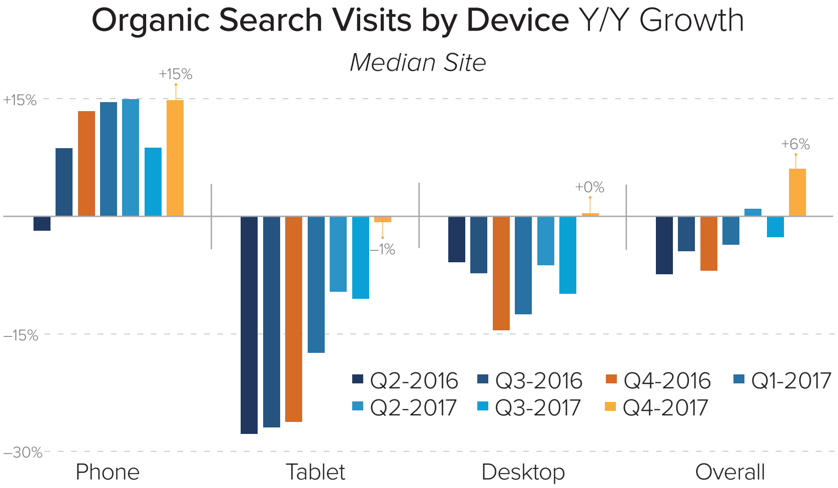
UK Phone and Tablet Share of Google Paid Search Clicks



Phones and tablets combined to produce 79% of UK Google search ad clicks in Q4 2017, up from 73% in Q4 2016. For comparison, phones and tablets generated 63% of US Google search ad clicks in Q4 2017. Phones alone produced 63% of UK clicks in Q4 2017, compared to 55% of US clicks, while tablets produced 16% of UK clicks in Q4 2017 and just 8% of US clicks.

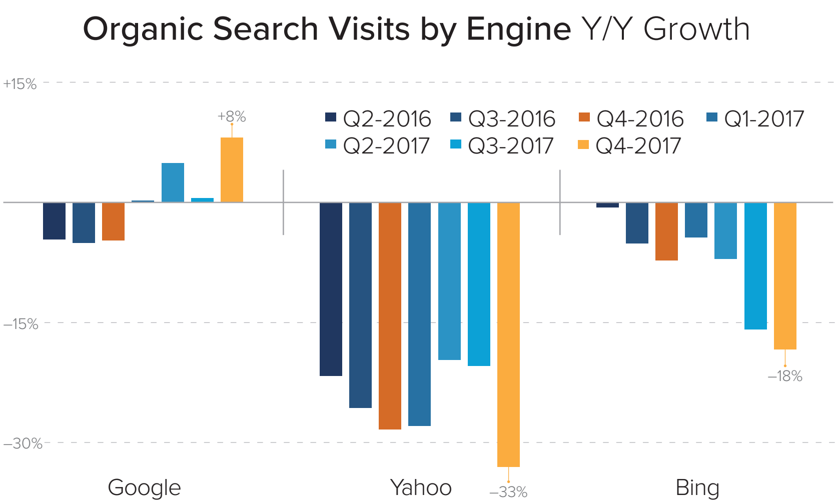
ORGANIC SEARCH & SOCIAL

Organic Search Posts Strongest Visit Growth in Over Two Years



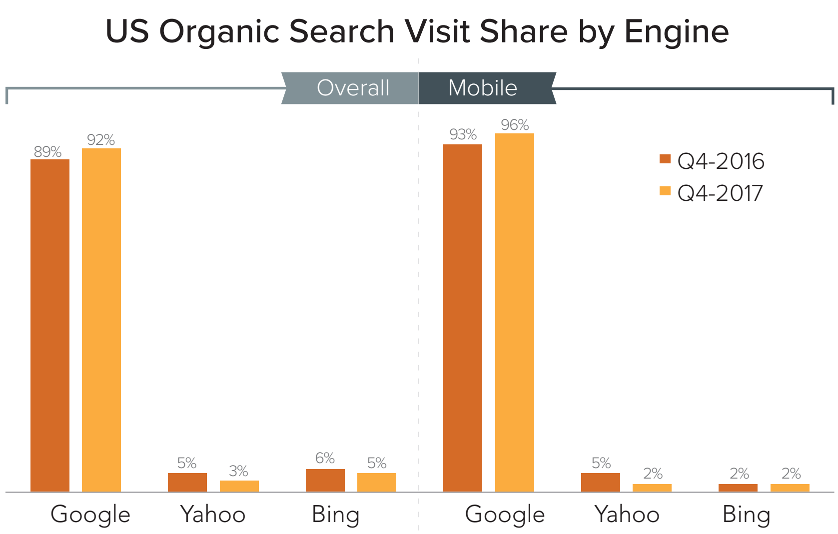
Total site visits driven by organic search grew 6% Y/Y in Q4 2017, the strongest rate of growth since 2015. Desktop organic search visits rose slightly in Q4 2017 after having fallen sharply over the previous year, as paid search advertisers pushed bids for desktop search ads. Mobile organic search visits grew 15% Y/Y in Q4, up from Q3 growth, but in line with growth rates from earlier in the year.

Google Organic Search Visits Grow 8% as Paid Click Growth Slows



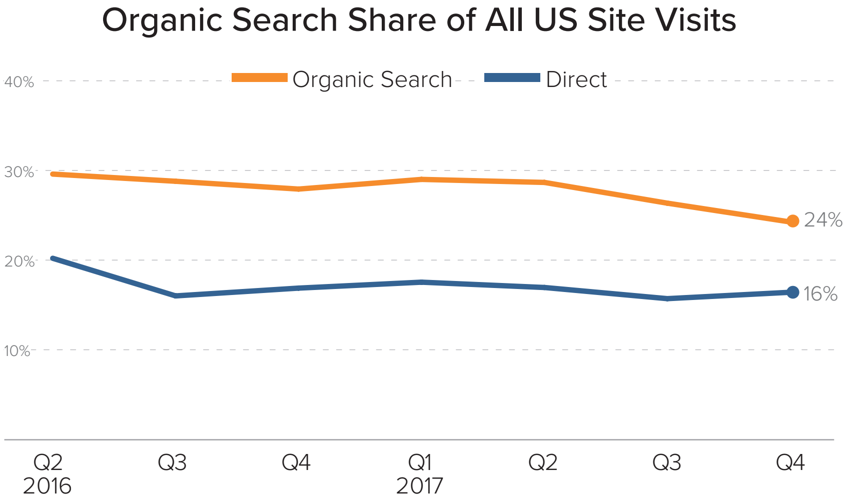
Organic search visits driven by Google rose 8% Y/Y in Q4 2017, up from less than 1% growth in Q3. Over the same period, Google paid search click growth slowed from 19% Y/Y to 8%. Yahoo organic search visits fell 33% Y/Y in Q4 2017, a steeper decline than the previous quarter. Yahoo lost its status as the default search provider for desktop Firefox in November, but it also saw larger Y/Y declines on mobile in Q4 than Q3.

Google Share of Mobile Organic Search Rises to 96%



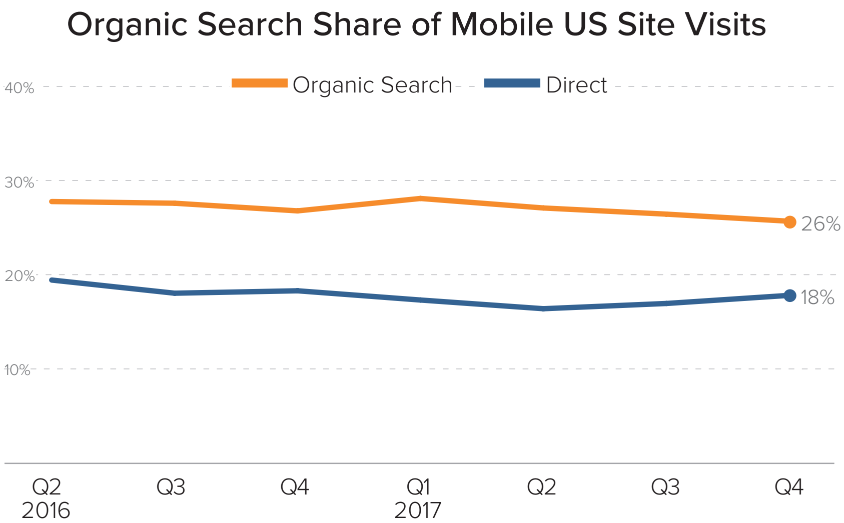
Google's share of US site visits driven by mobile organic search rose to 96% in Q4 2017, a three point increase in share from a year earlier. Across all devices, Google also saw a three point share gain, as it produced 92% of organic search visits in Q4 2017. Yahoo has seen the largest share losses in the past year, as it produced 3% of organic search visits in Q4 2017, down from nearly 5% in Q4 2016.

Despite Visit Growth, Organic Search Produces Smaller Share of All Site Visits



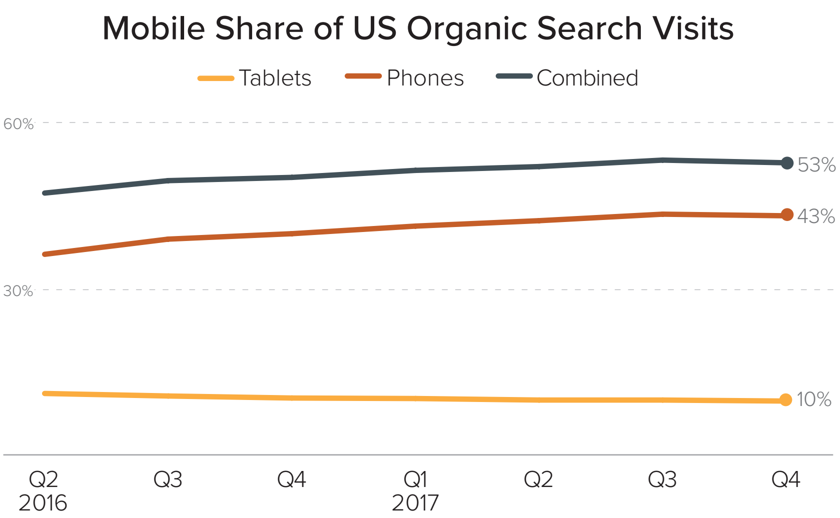
Although organic search visits grew at a stronger pace in Q4 2017, other digital channels produced larger gains, leading to a decline in the share of site visits produced by organic search. With seasonality playing a part in the quarter-to-quarter decline, organic search site visit share slipped from 26% in Q3 2017 to 24% in Q4 2017. Social, email, and display all delivered stronger-than-average visit growth in Q4.

Organic Search Share of Mobile Site Visits Down Slightly



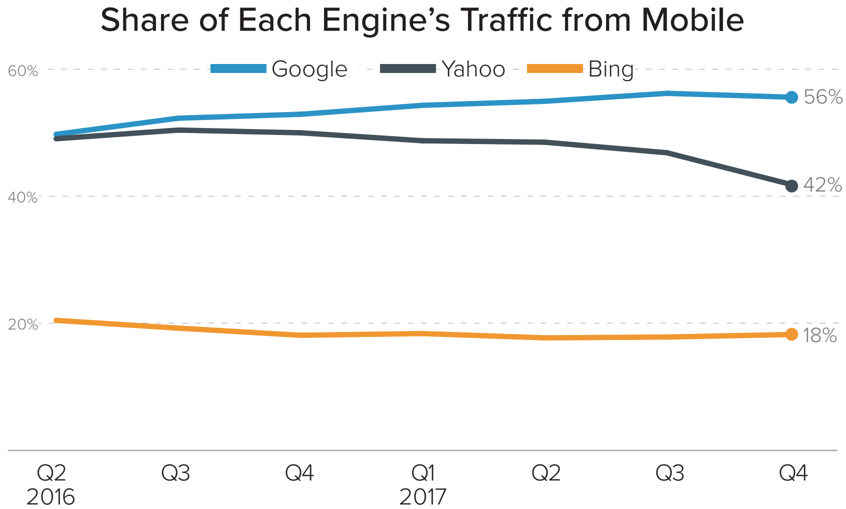
The share of site visits produced by organic search held up better on mobile devices between Q3 and Q4, coming in a point lower at 26%. While direct site visits have generally trended similarly to organic search visits, due at least in part to misattributed organic search, direct site visit share trended higher in Q4, both on mobile devices and overall.

Mobile Share of Organic Search Visits Steady at 53%



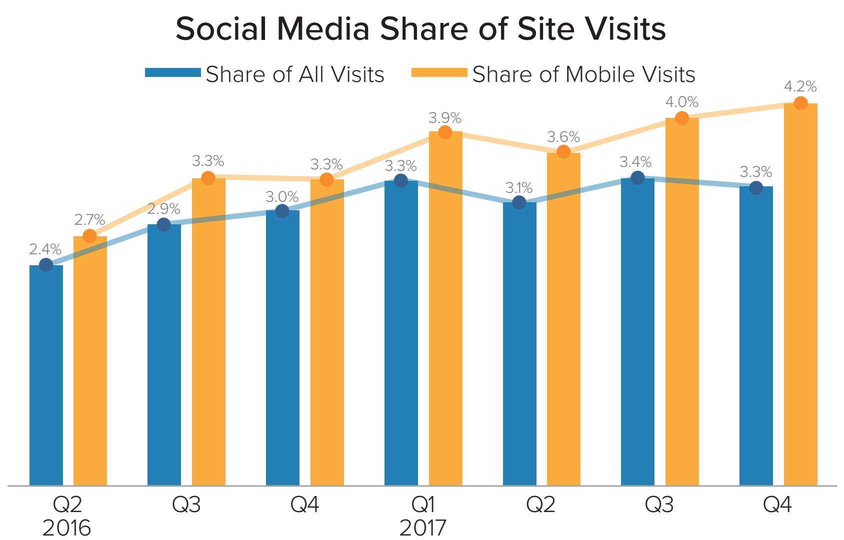
Phones contributed 43% of visits produced by organic search in Q4 2017, while tablets accounted for just under 10%. Both figures were in line with results from the previous quarter, leading to a flat combined mobile share of 53%. By comparison, phones produced 50% of paid search clicks in Q4 2017, while tablets produced 8%.

Mobile Share Gap Grows Between Google and Organic Search Competition



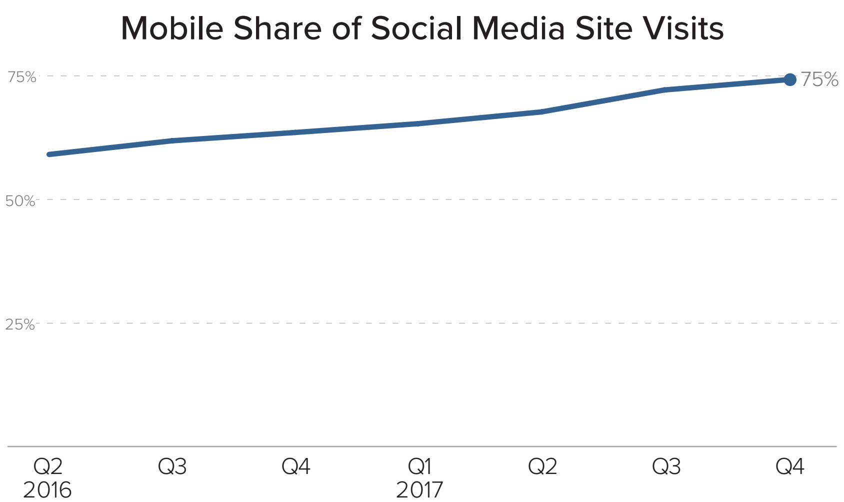
Mobile produced 56% of Google organic search visits in Q4 2017, well above the rates for Google's key competitors. The share of Yahoo organic search produced by mobile has now declined for five straight quarters, but it fell by a larger-than-usual amount between Q3 and Q4 2017, coming in five points lower at 42%. Mobile share of Bing organic search remained roughly flat at just 18%.

Social Media Share of Mobile Site Visits Rises Above 4%



Social media platforms produced 3.3% of all site visits in Q4 2017, a slight decline from the previous quarter, but up a third of a point from a year earlier. On mobile, social media produced 4.2% of site visits, small increase from the prior quarter and a one point increase from a year earlier. There remains a wide range of social media contribution to site traffic from one brand to the next.

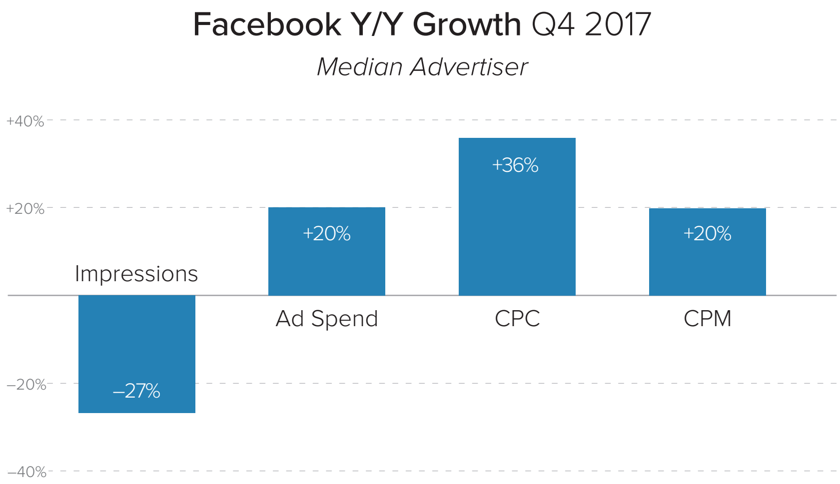
Mobile Share of Social Media Visits Up Sharply in Past Year



In Q4 2017, 75% of site visits produced by social media platforms occurred on mobile devices, an increase of nearly 11 points from a year earlier. As the largest social media site traffic producer for brands, Facebook leads the way in these trends, both in terms of traffic and ad dollars. In Q4 2017, phones and tablets accounted for 83% of Facebook ad spend.

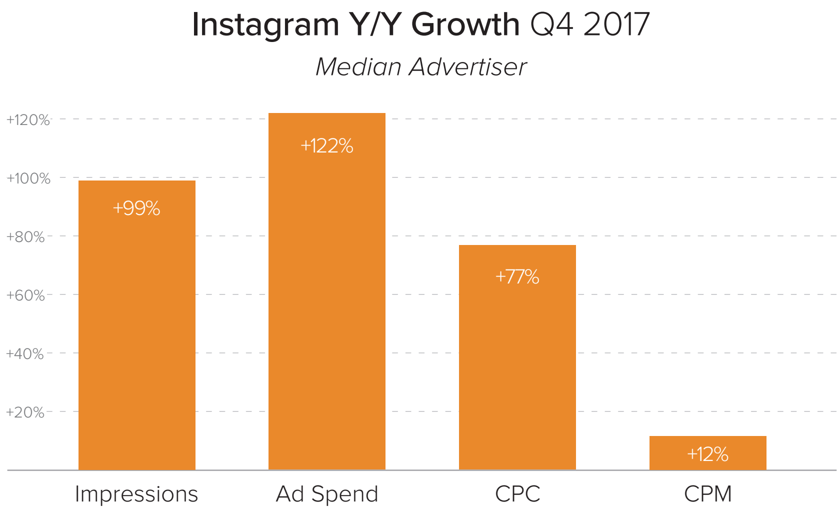
DISPLAY & PAID SOCIAL

Facebook Y/Y Ad Spend Growth Slows as Impressions Decline



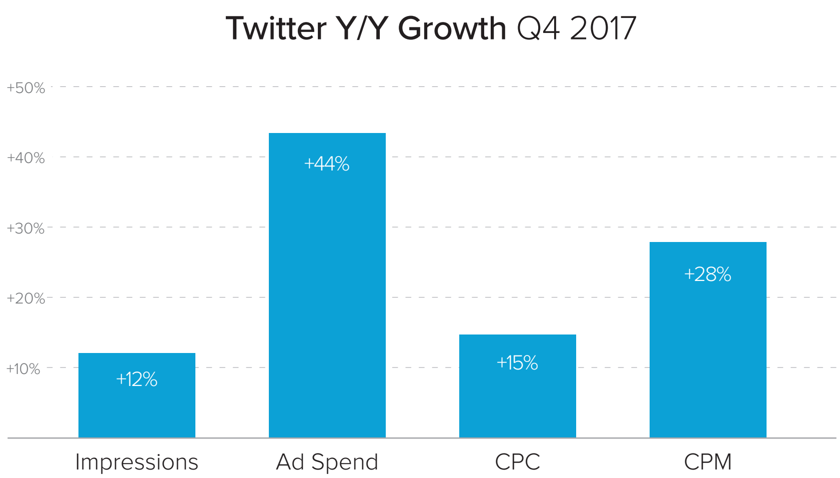
Facebook ad spend, excluding Instagram, grew 20% Y/Y for the median advertiser in Q4, a steep deceleration from the 40%+ growth observed through the first three quarters of the year. Spend growth was driven by increases in pricing, as impressions decreased 27% Y/Y for the quarter. This decline aligns with Facebook's stated expectation that increases in ad load would decline in the back half of 2017 as the social media giant seeks to optimize user experience.

Instagram Spend More than Doubled Y/Y in Q4



Brands increased Instagram ad spend by 122% Y/Y, as growth came from increased inventory as well as pricing increases for both clicks and impressions. With continued growth of Instagram Stories and the potential to monetize a December update to allow users to follow hashtags, in concert with nearly all of the targeting capabilities of Facebook, Instagram spend will likely continue to outpace that of Facebook proper.

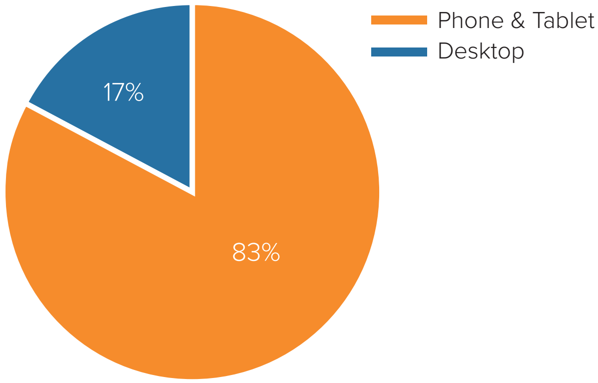
Twitter Ad Spend Up 44% Y/Y in Q4 2017



Brands advertising on Twitter since Q4 2016 increased spend 44% Y/Y, mostly as a result of higher click and impression pricing, though ad impression volume did grow a modest 12%. This 44% ad spend growth far outpaces Twitter's reported revenue numbers, which have been in decline Y/Y for the past four quarters. As these figures are compiled on a same-site basis, they do not reflect the increase in ad engagements that Twitter has reported as a bright spot in 2017.

Phones and Tablets Dominate Facebook Advertising Spend

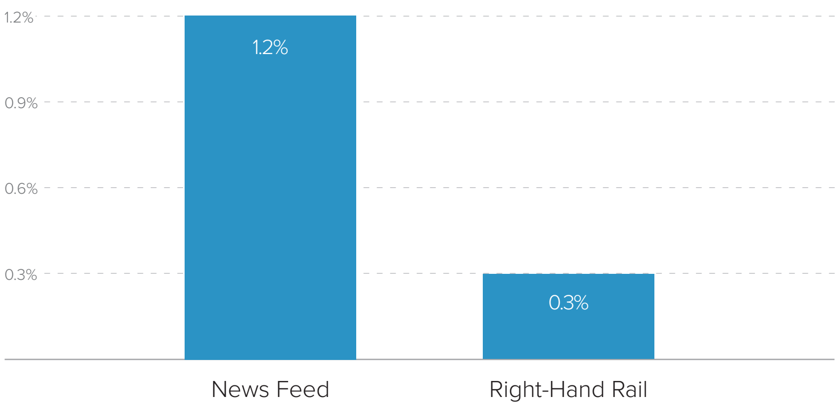
Facebook Device Spend Share Q4 2017



Phones and tablets combined to account for 83% of all Facebook ad spend in Q4, up from 80% in Q4 2016. Even relative to other social media platforms, which are predominantly accessed via mobile devices, the share of Facebook ad spend going to phones and tablets is strong, far outpacing that of both Google search and display networks.

News Feed Ads Continue to Drive Higher CTR than Right-Hand Rail

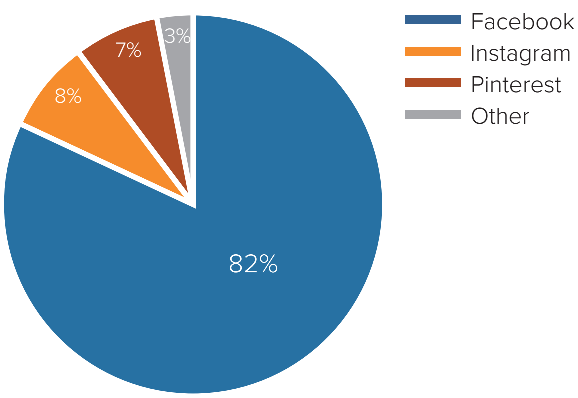
Facebook Ad Location CTR Q4 2017



With prime placement in the center of the page, Facebook's News Feed ads produced a CTR more than four times that of ads featured on the right rail. It remains to be seen how significantly Facebook's News Feed might shift following the January announcement to focus on showing more posts from friends and family. But fewer public, non-sponsored posts might result in increased engagement for those posts which are sponsored.

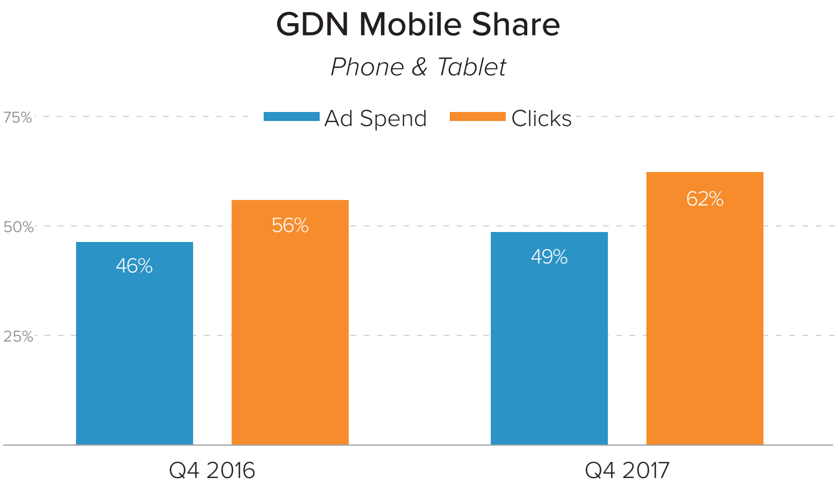
Facebook Accounts for Lion's Share of Paid Social Ad Spend

Paid Social Spend Share by Platform Q4 2017



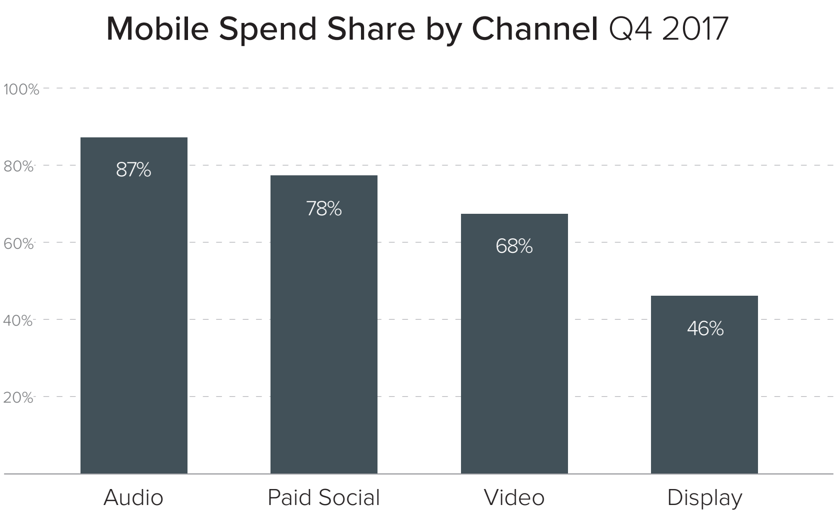
Over 82% of all paid social investment was spent on Facebook proper in Q4, while its quickly growing Instagram property accounted for 8%. Pinterest, which received 7% of paid social spend, naturally attracts mostly retailers as advertisers. Other networks, including Twitter, Snapchat, and LinkedIn, accounted for 3% of paid social spend, but can be a much larger part of paid social budgets for individual brands.

Google Display Network Mobile Spend Share Edges Up Y/Y



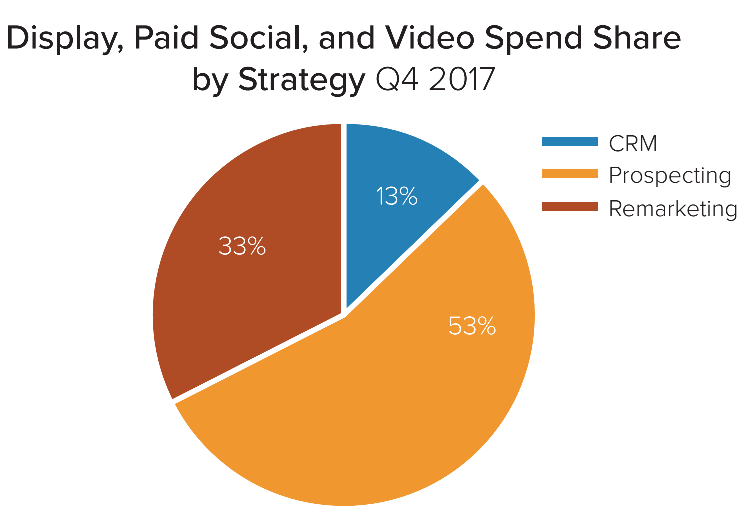
Phones and tablets contributed 49% of ad spend on the Google Display Network in Q4 2017, up from 46% a year prior. Mobile click share increased even more, up from 56% to 62%. However, mobile pricing, already lower than that of desktop, declined relative to desktop, a trend also observed Y/Y for Google's core search advertising business in Q4.

Audio Platforms Show Highest Mobile Spend Share in Q4



Over 87% of all audio-based digital advertising spend came from phones and tablets in Q4, meaningfully outpacing all other channel types. Paid social ads (excluding video ads), buoyed by Facebook's 83% mobile spend share, came in second, while video ads (including those featured on social networks) had the third highest share. Traditional display advertising significantly lagged other options, with just 46% share of spend from mobile.

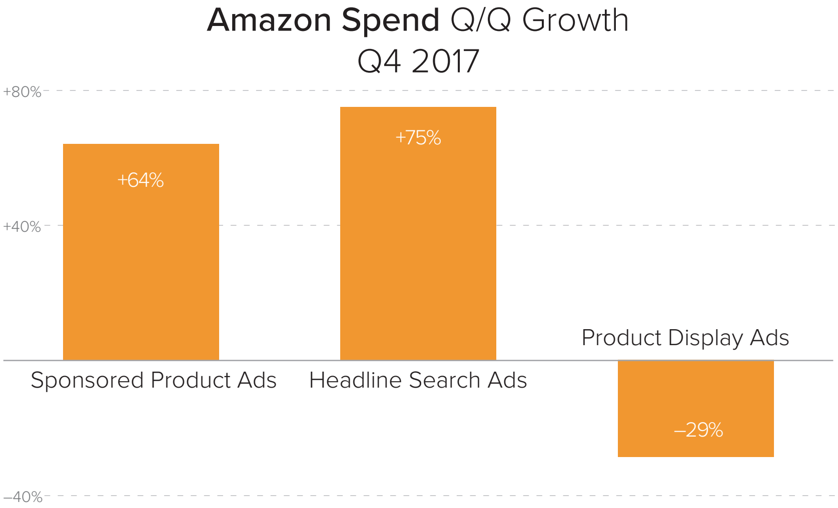
Advertisers Continue Focus on Prospecting in Display, Paid Social, and Video



Campaigns targeting prospective customers accounted for 55% of spend across display, paid social, and video platforms in Q4 2017, an uptick from the 49% observed in Q3. Campaigns using CRM-based targeting accounted for 13% of spend and allow advertisers to incorporate customer-specific information in formulating effective targeting strategies. Remarketing campaigns based on web activity accounted for the remaining third of spend.

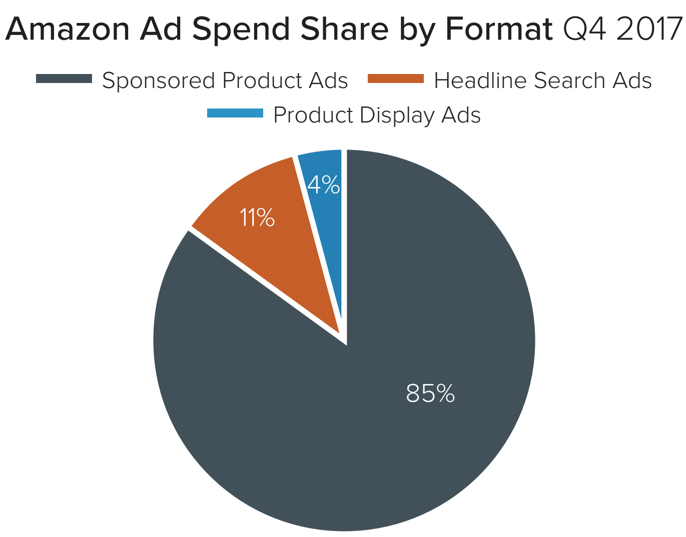
MARKETPLACES & CSEs

Amazon Sponsored Products and Headline Search Spend Soars



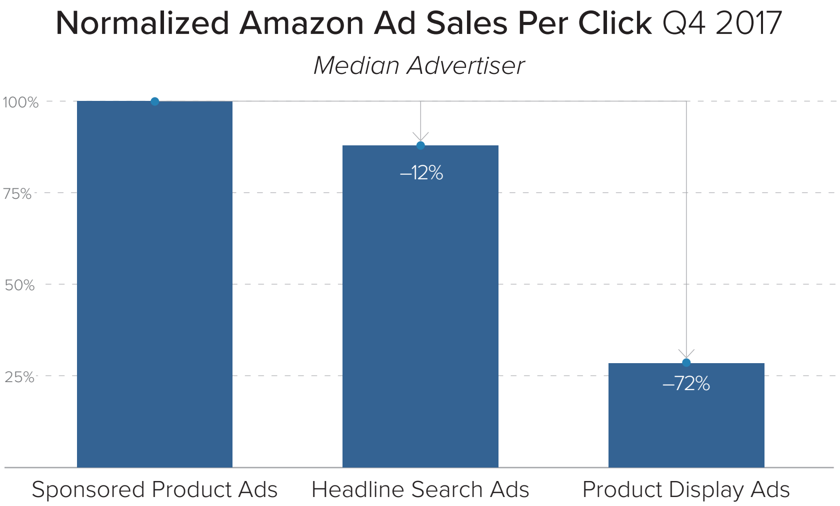
Advertisers increased investment in Sponsored Product Ads and Headline Search Ads Q/Q by 64% and 75%, respectively, an acceleration for both ad formats from Q3 growth as the busy holiday shopping season kicked in. By comparison, Google Shopping advertisers increased spend 37% from Q3 to Q4 on that platform. Product Display Ads spend declined Q/Q, but represents only a small share of overall Amazon spend.

Sponsored Product Ads Continue to Dominate Amazon Spend Share



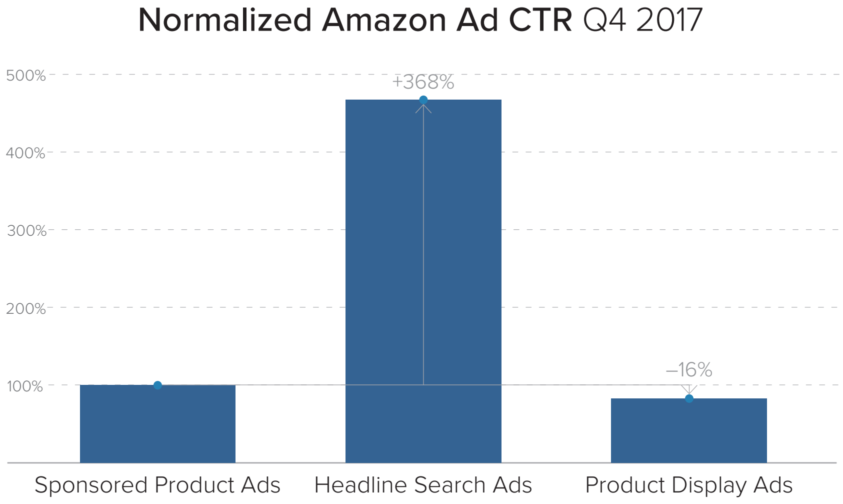
Sponsored Product Ads accounted for 85% of all Amazon search and product detail page ad spend in Q4 2017, up from 80% in Q3. Sponsored Products and Headline Search Ads are available for both first-party and third-party sellers, while Product Display Ads are currently available only to first-party sellers.

Sponsored Products Continue to Drive Highest SPC for Amazon Advertisers



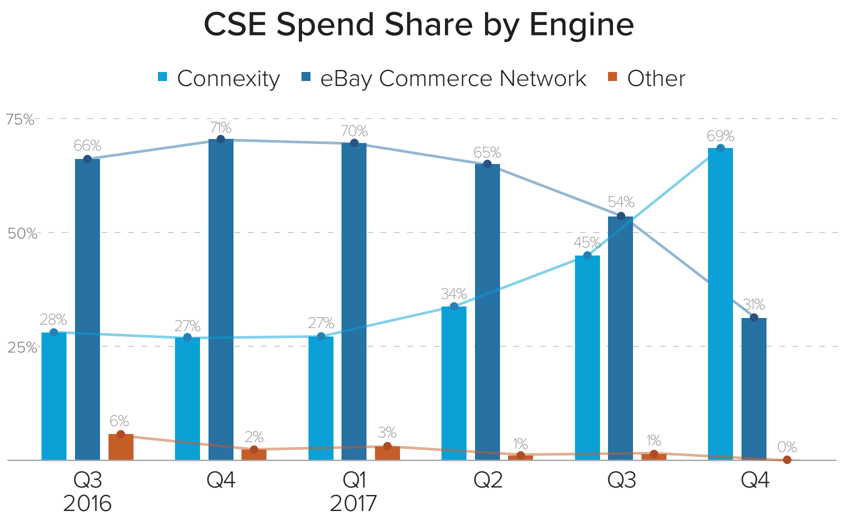
The sales per click of Amazon Headline Search Ads and Product Display Ads were 12% and 72% lower than Sponsored Products in Q4, respectively. While this gap shrank from Q3 to Q4 for Headline Search Ads, it expanded considerably for Product Display Ads. Given how relatively new these ad formats are, it's difficult to assess how seasonal shifts like Q4 holiday shopping might drive changes in these comparisons.

Headline Search Ads Continue to Drive Highest CTR



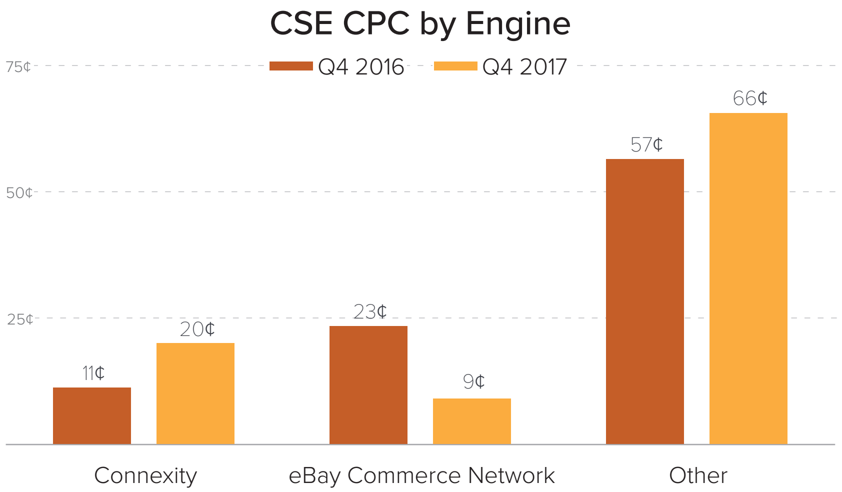
Prominently placed Headline Search Ads drove a CTR nearly five times that of Sponsored Products, which are featured below Headline Search Ads in search results. While prime placement of the product carousel-based Headline ads is the primary reason for such a CTR discrepancy, another factor is that there can be multiple Sponsored Product Ads per search, but just one Headline Search Ad.

eBay and Connexity Account for Nearly All CSE Spend in Q4



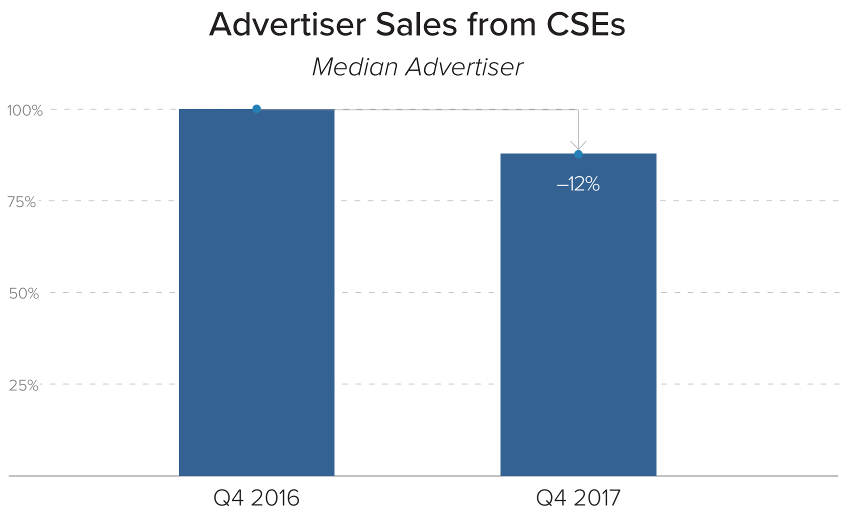
While smaller CSEs once accounted for meaningful spend share, particularly in niche industries, they've been in steady decline for the past few quarters, and in Q4 accounted for less than 1% of overall CSE spend. eBay continued to decline in spend share following its decision in May to sunset product ads on ebay.com, while Connexity share has grown over the same time frame.

Connexity CPC Growth Accelerates in Q4 2017



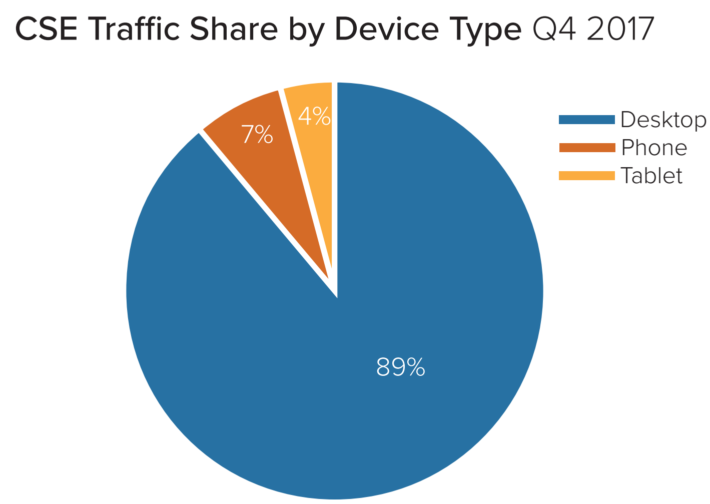
Following a Q3 in which Connexity CPC went up 34% Y/Y, the pace of increase quickened in Q4 as the cost of traffic grew 79% Y/Y. eBay Commerce Network CPC continued to decline significantly following its May decision to sunset product ads on ebay.com, a decision that eliminated a source of high-value traffic for advertisers and led to lower CPC and fewer clicks on the ECN.

Q4 CSE Sales Decline Y/Y for Median Advertiser



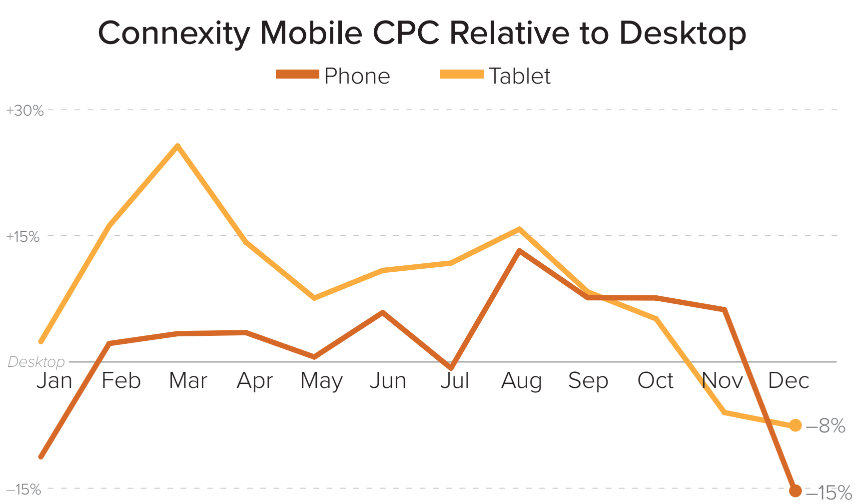
The median brand advertising on comparison shopping engines saw a 12% decline in sales Y/Y coming from all engines. In addition to sales declines for the brands still actively competing on comparison shopping engines, some brands have left the platforms altogether as a result of declining performance over the past couple of years.

Phones Account for Just 7% of All CSE Q4 Traffic



CSEs continued to garner the vast majority of ad traffic from desktop computers in Q4 2017, with phones and tablets accounting for a mere 7% of traffic. The traffic share from each device type was nearly identical for both Connexity and the eBay Commerce Network, which together accounted for very nearly all CSE spend for the quarter.

Connexity Mobile Pricing Dips Relative to Desktop in Late Q4



The CPC of both phone and tablet Connexity traffic was trending modestly above that of desktop traffic until December, when both took a sharp turn downward, with phone CPC finishing 2018 15% below that of desktop and tablet CPC finishing 8% lower. Connexity does not allow advertisers to adjust bids for different device types, unlike platforms like Google Shopping.

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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.