



iPROSPECT QUARTERLY REPORT:

Paid Search Trends

2016 Q4

By Charlotte Morris and Michael Kelley



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Driving Business Performance

Introduction

2016 proved to be an eventful year in the world of paid search. External changes on the search engine side and internal shifts in client strategies both influenced changes in the Paid Search channel.

From decreased ad inventory on the desktop SERP to ad format changes to the continuing evolution of a mobile-first advertising focus, Google's 2016 AdWords feature and update releases kept paid search marketers busy. The good news for brands is that, for iProspect clients, these external forces not only drove change but also efficient growth. Overall, our clients were able to generate more traffic at a lower cost – an ideal outcome that was a welcome change from the upward trend in cost-per-click fees that we'd seen over the past several years.

Internally, we saw changes across our extensive client base to marketing strategies across all digital channels, including a greater focus on the growing opportunities within paid search. Brands are seeing even more success from audience segmentation strategies; they're also prioritizing paid search coverage on mobile devices where the majority of searches now take place. In addition to taking advantage of new, device-specific AdWords features, brands have also increased their measurement sophistication, allowing for a more complete and effective understanding of the benefits of a mobile-first approach.

Representing 1,300 Google AdWords accounts and over 176,000 active campaigns, this report provides



an analysis and overview of the trends and corresponding opportunities relevant for brands that are taking a strategic, performance-focused approach to paid search marketing. The client portfolio represented consists primarily of enterprise-level clients who have expansive accounts with complex challenges. All analyzed accounts are managed by iProspect U.S. (though the spend is not confined to just U.S. markets) and include Google AdWords paid search and shopping (PLA) campaigns.

2016 Trends — The Year of Efficient Growth

WITH TRAFFIC UP AND CPC DOWN, 2016 WAS THE YEAR OF EFFICIENT SCALE

For iProspect U.S. clients, 2016's paid search campaigns delivered both large YoY growth and improved cost efficiency. We saw double-digit jumps in both impressions (19%) and clicks (15%) and an overall decrease of 5% in Cost-per-click (CPC).

The first three quarters of the year demonstrated steady incremental improvements in Clickthrough rate (CTR) and CPC, but substantial Q4 fluctuations affected aggregate 2016 results for these two metrics. For most of the year, CTR slightly exceeded or maintained pace with 2015 trends, but increased competition in Q4 caused it to dip below last year's benchmark, netting out at an overall 3% decrease for

the entirety of the year. Similarly, CPC decreased for the first half of the year but jumped up 5% YoY during Q4, netting out with an overall decrease of 5%. Comparing just Q1-Q3 YoY, CPC decreased at an outstanding 10%. The Q4 performance fluctuations were driven by mobile and tablet, with desktop metrics remaining flat YoY. The era of undervalued mobile paid search traffic is finally coming to end as advertisers expand mobile coverage to mirror consumer search behavior.

Google made several key changes to AdWords paid search in 2016, and all of these changes were driven by the need for increased consistency in the execution (and consumption) of advertising across all devices.

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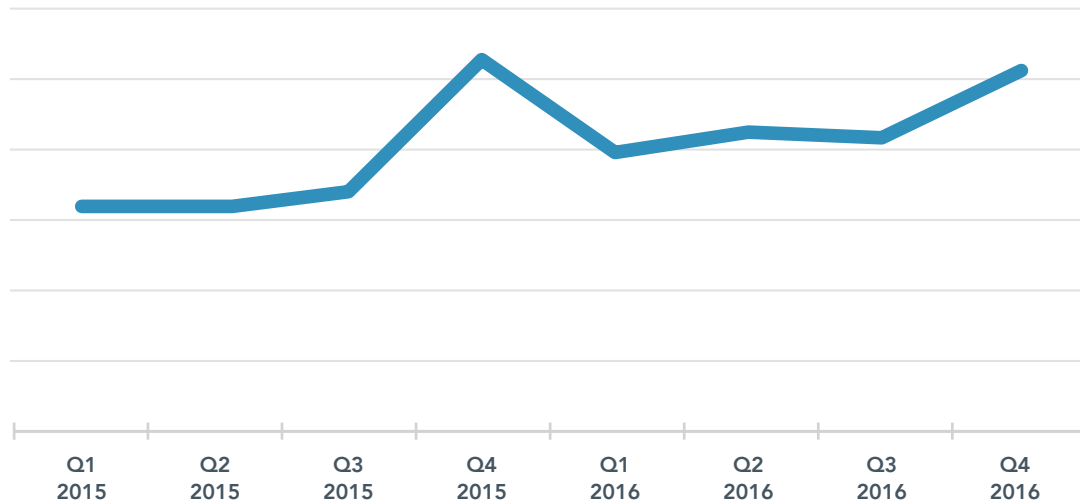
The era of undervalued mobile paid search traffic is finally coming to an end as advertisers expand mobile coverage to mirror consumer search behavior.

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The biggest changes to paid search were related to how text ads are written and displayed. In February, Google completely removed the right-hand rail ads from the desktop SERP and, shortly thereafter, **announced a new format called Expanded Text Ads (ETA)** that provided more space for advertisers to write an expanded marketing message. While some advertisers struggled to migrate to the new ad format, those that took the time to re-write their ads and take advantage of increased character limits (as opposed to just inserting old ad text into the new structure) saw **significant performance improvements**.

Google also launched a major change to the way advertisers manage device-specific strategies. Back in 2013 Google simplified device targeting with Enhanced Campaigns, requiring advertisers to set a base desktop bid and use bid modifiers to adjust mobile strategy. Recognizing that in a mobile-first world it no longer made sense to require advertisers

iPROSPECT CLICKS BY QUARTER

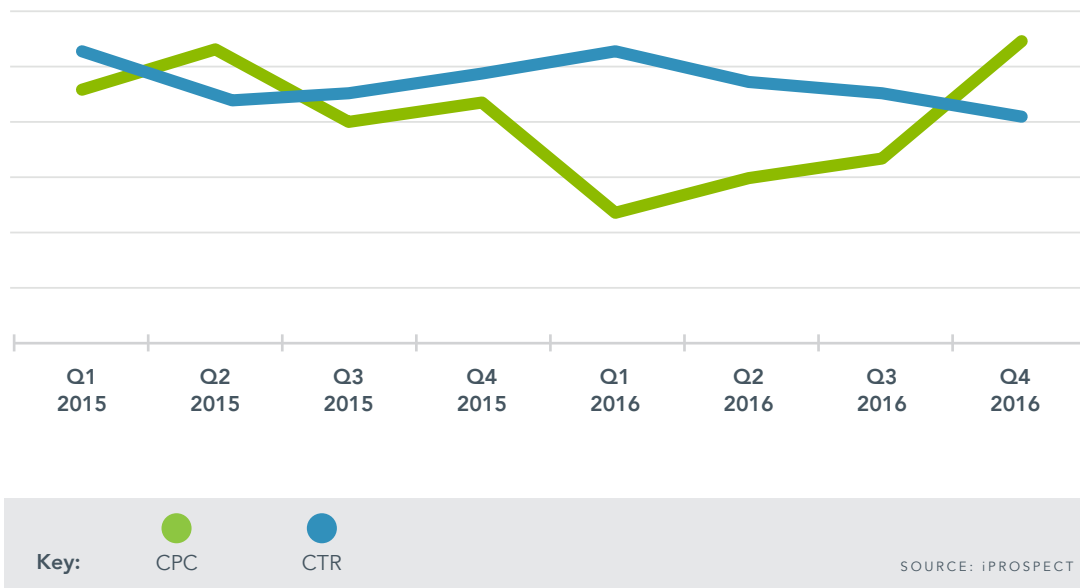


SOURCE: iPROSPECT

to manage mobile bids in this complex fashion, Google launched an AdWords update in Q2 of 2016 allowing advertisers to choose not only which device they wanted to designate as their base bid, but also which specific device they wanted to target. This update provided advertisers with an increased level of granular control.

Other changes on the SERP included a shift to focus on more visual ad formats. Examples include visual sitelinks and showcase ads within shopping campaigns. Google also continued to test and launch new, more engaging ad formats that reach consumers at different points along the path to purchase. While paid search is still seen primarily as a direct response channel, as marketers gain access to more paid search awareness and research tools, the channel will become more effective at capturing advertising dollars from competing channels such as display and paid social.

iPROSPECT CPC & CTR BY QUARTER



Q4 2016 Performance Driven by Mobile and Shopping Ads

Aggressive budgets and goals in the retail vertical resulted in a significant change to metrics during Q4. As an aggregate, impressions increased 13% YoY in Q4 and clicks decreased slightly by 3%, resulting in a 14% decrease in CTR for the quarter. This change is likely driven by changes to the ad display format (more ads shown at the top of the screen on mobile for a portion of searches, the addition of a fourth top ad on desktop). As a result of this CTR decrease and aggressive budgets from retailers, overall Q4 CPC rose 13% compared to Q3, and CPC is up 7% compared to Q4 of last year.

It's important to acknowledge, however, that these shifts in CPC, CTR, impressions, and clicks are to be expected in Q4 because of the influence of the

holiday shopping season. Two other Q4 trends provide more interesting and actionable insight. The most influential drivers of Q4 performance were the 41% spend increase for Shopping ads and the 26% CPC increase for mobile.

Shopping ads (also called Product Listing Ads, or PLAs) delivered yet another season of massive growth. **As we reported in December**, for the period between Thanksgiving day and Cyber Monday, Shopping Ads recorded strong growth with traffic up 55% and sales up 9%. This growth was sustained for the duration of the holiday season as iProspect's retail clients saw Shopping impressions grow an incredible 76% YoY and traffic increase an impressive 44%. Interestingly, we also saw a slight YoY decrease in CPC for Q4. However,

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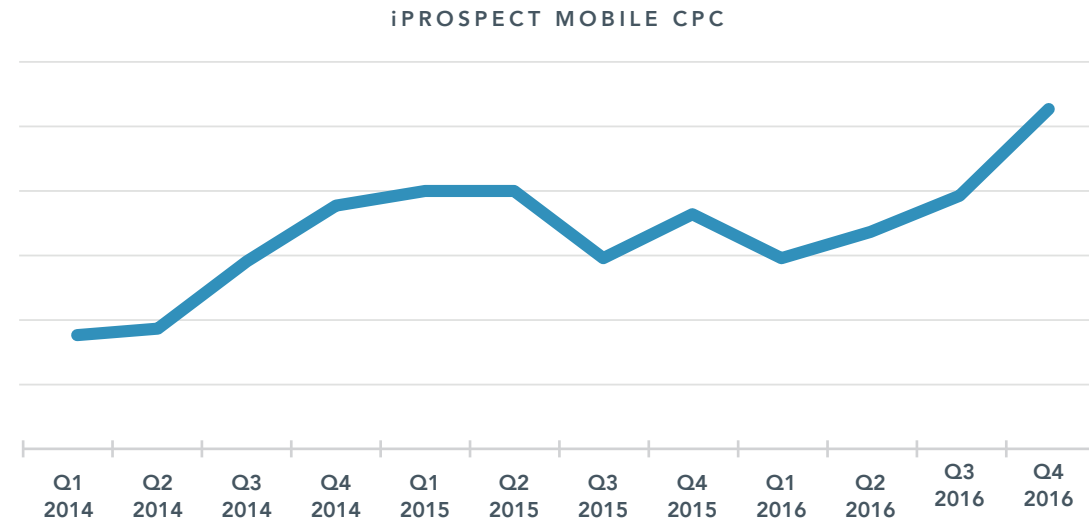
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we're cautioning retailers because this trend will not continue into 2017 after Amazon's entry into the shopping ad space. There's bound to be substantially more competition in the coming months. Despite these headwinds, PLA continues to drive outstanding performance, and retailers should continue to maintain momentum and stake out top spots before increased competition limits their opportunity.

One other notable Q4 change for Shopping ads was a YoY CTR decrease of 19%. This is the lowest Shopping ad CTR iProspect's clients have ever seen. There are two causes for this dramatic drop. The first is a direct result of Google's attempt to deliver greater impression volume to Shopping advertisers. Over the past two years, Google has repeatedly expanded the query types that are eligible to trigger shopping ads, and in mid-2016 we saw another example of this type of expansion when Google started serving Shopping ads on our clients' core trademark keywords. While this change to the Shopping ads algorithm clearly provided greater impression volume, we have yet to see corresponding jumps in either traffic or sales. The second reason for the impression jump is result of Google testing new Shopping ad formats in their pursuit of a more visually appealing SERP.

The 26% CPC increase for mobile paid search is especially noteworthy. Mobile impressions increased 80% YoY and traffic increased 25%, both significant jumps. But these increases are unsurprising when we



factor in that brands are adopting the mobile-first mentality that mirrors the behaviors consumers began displaying a few years ago. However, because impression growth outpaced click growth, CTR decreased by

31% YoY. Decreased CTR combined with more competition during the holiday season drove the dramatic jump in mobile CPC, bringing it to the highest number we've ever seen.

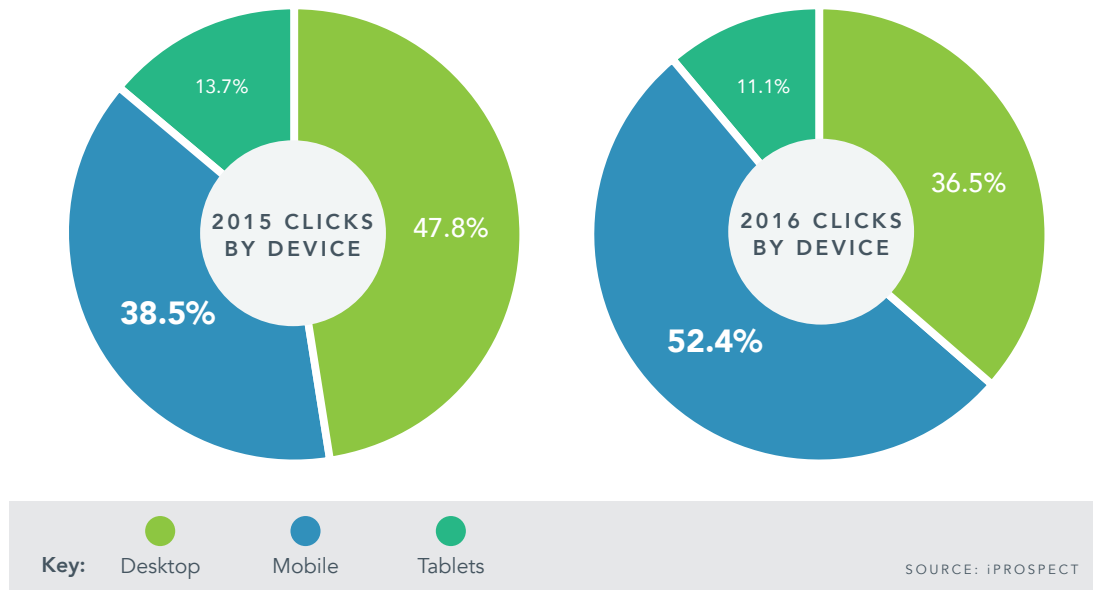
Taking a Closer Look: Areas of Special Interest

Mobile

52% OF ALL PAID SEARCH TRAFFIC COMING FROM MOBILE DEVICES

Mobile paid search continued to grow in 2016, with full-year mobile clicks officially exceeding desktop for the first time across iProspect's client portfolio. 52% of all clicks in 2016 were mobile, and mobile clicks and impressions saw YoY increases of 57% and 79%, respectively. Comparatively, desktop clicks and impressions decreased 12% YoY and tablet clicks decreased 7% YoY.

Mobile CPC increased 7% YoY while CTR decreased 12%, a shift that was largely due to the increased competitive pressure that resulted when more advertisers increased mobile spending. As spending continues to shift to mobile to align with the increas-



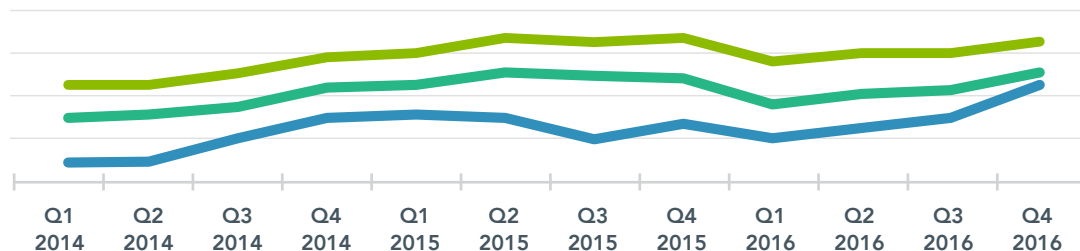
ing share of searches that take place on mobile devices, we expect CPC to continue to trend toward closing the gap between mobile and desktop CPC.

Ultimately, mobile traffic, historically undervalued in paid search, made substantial progress toward price parity in Q4 of 2016.

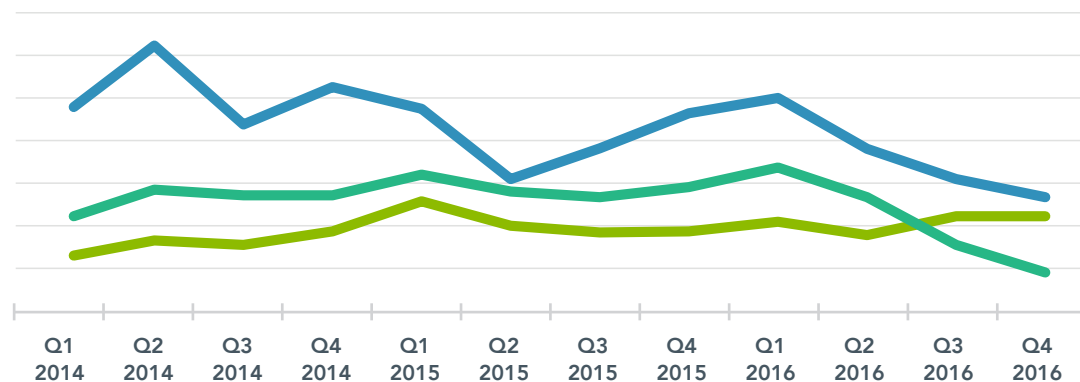
Mobile click share grew steadily throughout the year, with mobile share at 57% of clicks in Q4 2016. Throughout the year, as clicks rose, mobile CPC increased and mobile CTR declined. In Q4, mobile CPC were 21% lower than desktop, a smaller gap than the 37% difference in Q4 2015.

Over the course of the year, several mobile-first product updates were released that allowed advertisers to make mobile the focal point of their campaigns. In May, Google announced the ability to set separate bid adjustments for mobile, desktop, and tablet and also provided functionality that made it possible to anchor base keyword bids to any device. In addition, Google increased the maximum allowable bid adjustment to cover an expanded spread of -100 to +900%. Mobile ads became larger with the rollout of Expanded Text Ads and several new mobile Shopping Ad format experiments. Google also released new mobile-focused extensions, including price extensions, Click-to-Message, Visual Sitelinks, and a new Maps ad format, "Promoted Places." Mobile developments

MOBILE CPC GAP IS CLOSING



MOBILE CTR ON THE DECLINE



Key: Desktop Mobile Tablets

SOURCE: iPROSPECT

will continue to launch throughout 2017 as mobile becomes the new norm in search advertising.

Google Shopping

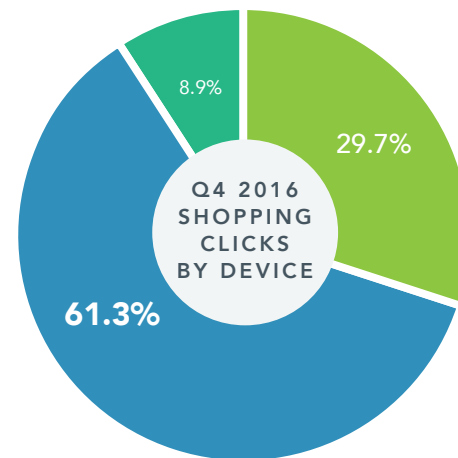
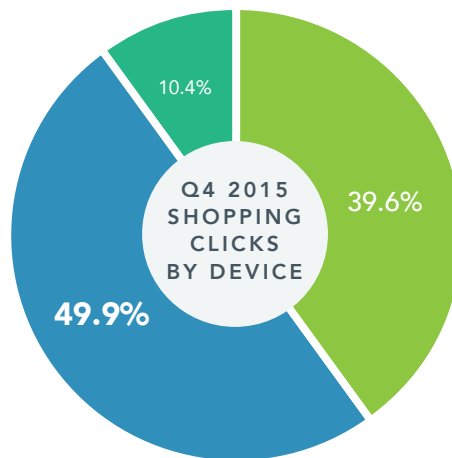
MOBILE SHOPPING SPEND AT AN ALL TIME HIGH

Shopping growth exploded in 2016, with Q4 spend up 40% and clicks up 44% YoY. In comparison, Q4 text ad (non-Shopping) spend was up a modest 6% YoY. Because Shopping ads tend to capture customers who know exactly what they want, know how much they're willing to pay, and are ready to purchase, savvy advertisers capitalize on the efficiencies of the lower-funnel ad format. Spending on Shopping ads rose steadily throughout the year, and Q4 2016 had the highest Shopping spend ever across iProspect's client set.

Also in Q4 2016, despite increased Shopping investment across the full client set, iProspect saw a slight YoY decline of 2% in Shopping CPC. This decline was caused by the shift in spend to mobile, which has 46%

lower CPC than desktop. iProspect clients doubled their mobile Shopping spend YoY and spent 11% more on mobile than desktop in Q4. The majority

(61%) of Q4 Shopping traffic came from mobile clicks, a jump up from the 50% mobile click share in Q4 2015.

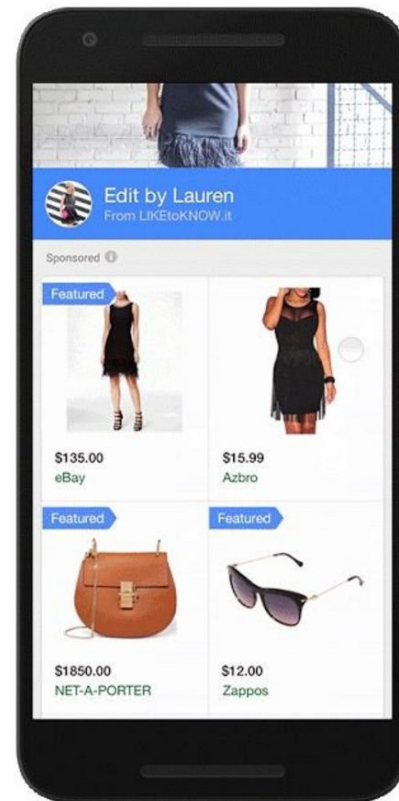
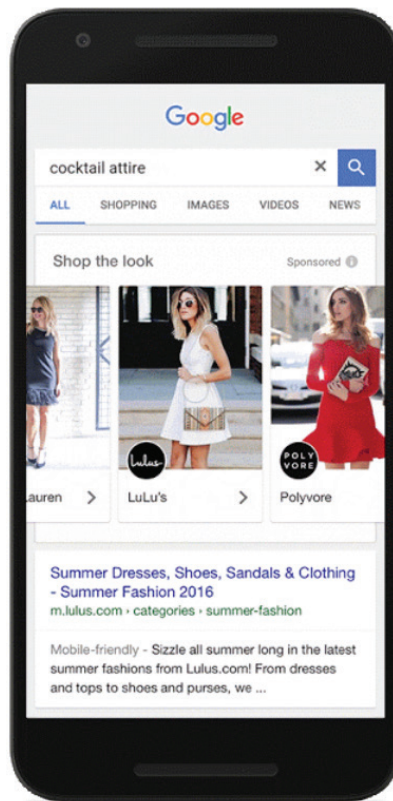


Key: Desktop Mobile Tablets

SOURCE: iPROSPECT

Throughout 2016, Google tested several new Shopping ad formats such as a “Shop the Look” experience, which displays shoppable images mapped to Shopping ads for apparel and home décor queries.

Showcase Shopping ads help users find what to buy and where to buy it by allowing merchants to engage users earlier in the shopping journey (during the discovery and exploration phase). By curating the product images that appear in the ad, merchants can showcase a collection of products designed to both increase basket size and also give shoppers a flavor of the merchant’s brand. Google released other Shopping features such as Similar Audiences and Shopping Annotations. All of these product advancements prove that Shopping ads are profitable not just for advertisers but also for Google. Based on that win-win, we expect to see continued focus on this ad format in 2017 and beyond.



Vertical Deep Dives

In addition to the overall trends, we took a closer look at Q4 performance for three key verticals:

Retail

RETAIL TRENDS DRIVEN BY MOBILE AND SHOPPING AD GROWTH

Q4 continued the YoY growth trend for retail with spend increasing 8%. This increase in spend may be attributable to shifts toward digital for Black Friday and to retailers beginning holiday promotions earlier in the season. Despite the increase in spend, clicks were down YoY (4%) as a result of a rise in CPC (13%). With the removal of the right-hand rail and the addition of a fourth ad position, competition was fierce this holiday season.

The new text ad formats (ETAs) and extensions that gave retailers room to include expanded promotional

messaging contributed to a 6% YoY CTR increase for all of 2016. Despite the 13% jump in Q4, 2016 overall retail CPC decreased and was more efficient overall (3%) and steadily decreased YoY every quarter before Q4. Q4 continues to be the most important and competitive season for retailers.

Mobile traffic continued to grow in Q4 (21%) with a 57% click share. While mobile traffic increased, desktop traffic plummeted (26%), resulting in an overall decrease in click volume. As consumers continue to become more comfortable shopping on their phones and as more conversions are attributed to drive-to-store, we will see retailers continue to invest in mobile because they will be able to prove the value more definitively and accurately. With advertisers increasing their mobile presence, mobile CPC increased in both Q4 (35%) and overall in 2016 (14%).

B2B

B2B CUSTOMERS ALSO USING MOBILE MORE THAN EVER

Total B2B paid search demand and investment both hit an all-time high in Q4 2016 with impressions up 12% YoY, and spend up 27%. These spikes were driven largely by mobile, which continues to grow in relation to the overall digital landscape, accounting for 58% of total clicks and 35% of total spend in Q4. Mobile traffic is still extremely undervalued, with mobile CPC at \$0.63, which is 63% lower than desktop (\$1.73). This disparity exists because the desktop environment is more conducive to the complex conversion types inherent to the B2B space. The big story of the year, however, is definitely that mobile clicks crossed the 50% mark, finishing the year at 51% of total B2B paid search click volume. This is in line with the industry total (52%) and reflects that B2B advertisers are

moving to capitalize on the increased adoption and use of smartphones by B2B buyers.

Consumer Packaged Goods

CPG MIRRORS RETAIL IN Q4

The Consumer Packaged Goods (CPG) industry experienced substantial growth in 2016 with budgets increasing through the holiday season. Q4 made up the second-highest click volume quarter as shoppers are already in the buying mindset and products are pushed to coincide with all Q4 holidays, including Halloween, Thanksgiving, Christmas, and New Year's Eve. Following a trend we typically only see in Retail, CPG clients expanded promotional messaging throughout all of Q4 to capitalize on the holiday gift-giving season.

Click volumes increased 81%, a result of 23% higher impressions and 186% higher media spend. However, aggressive growth comes with a cost, and CPC

increased 58% YoY in Q4. Annual totals show impressions doubling for 2016 as a whole and clicks more than doubling, delivering 122% more volume compared to the previous year. CTR remained flat as a result of the surge in impressions and clicks and some key changes to the SERP.

Outside of Google search trends, CPG advertisers are continuing to explore opportunities with Auction-Based Merchandizing through Amazon and Hooklogic. With the use of these additional partners, we expect to see CPG explore additional e-commerce opportunities while continuing to work out how to take the grocery shopping experience and place it online.

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Auction-based merchandising contributed to a 23% increase share of wallet for Intel.

[> READ THE CASE STUDY](#)

Predicting What's Next – 2017

In many ways Q4 of 2016 demonstrates what we expect to see in 2017, especially the growth and evolution of mobile paid search and Shopping ads. However, we also predict that more advertisers will take advantage of opportunities from Amazon and Apple, including additional refinement of audience segmentation and an increased focus on the opportunities provided by voice search and digital assistants.

Paid search product and feature releases in 2017 will continue to be mobile-first (not just mobile compatible), and advertisers should continue to adopt them in order to remain competitive on the mobile SERP. However, mobile success doesn't end when the searcher clicks your ad. Delivering a competitive mobile site experience and building a robust attribution and measurement plan that takes into account the

different ways mobile users interact with your brand will be two critical components of a successful mobile-first approach in 2017. Looking ahead, we expect to see continued increases in mobile search share resulting in increased mobile spending, increased mobile CPC, and potential CTR decreases as volume increases. Advertisers who have not yet built out a mobile search strategy or put concerted effort and resources behind a sophisticated measurement strategy, will have some critical ground to make up in 2017 if they want to stay competitive.

For Shopping ads, we expect to see continued increases in spend alongside additional testing of new features and formats. We also predict a continued focus on the visual shopping experience along with new metrics to help advertisers measure the value of

higher-funnel strategies. Advertisers should also anticipate more and more competition leading to further increases in CPC. In December 2016, Amazon began bidding on Google Shopping ads for the first time (on both desktop and mobile devices). This is notable because Amazon has not advertised in the Google Shopping space since Google moved to the current paid model. Because Amazon competes with practically every retailer (and continues to venture beyond retail into verticals such as media and home services), advertisers should review Auction Insights reporting closely in order to identify if and when their products are in direct competition with Amazon and revise bidding strategies accordingly.

Looking outside of the SERP, we expect that both Amazon and Apple App advertising will be an

increased focus for 2017. **44% of all product searches now begin on Amazon.** In order to take advantage and ensure that brand products are defended from competitors, marketers should explore further advertising opportunities within Amazon. Amazon continues to only allow advertising to drive to on-store pages, so they will need to be a vendor or seller to participate; but it's likely a worthwhile investment. However, as with any new initiative, advertising on Amazon requires additional time and resources. It's important to realize that Amazon's advertising platform and capabilities are where paid search was more than five years ago, meaning they are very manual.

For advertisers with mobile app initiatives, Apple released App Store advertising opportunities in Q3. As they build out this functionality in 2017 and advertisers build more robust app experiences for their consumers, expect further investment in app-specific opportunities.

Audience segmentation continues to be hands down the most effective way to improve paid search efficien-

cy, and we anticipate continued evolution of such features. RLSA continues to become more powerful, and we anticipate much higher adoption of Customer Match in 2017, allowing brands to budget and message to existing customers differently than new customers. Demographic bidding finally launched in 2016, allowing advertisers further options for personalization and segmentation. Combined with other signals including location, device, and time of day, these contextual signals represent a complex but powerful tool for advertisers. A strategic, granular approach based on detailed campaign structure and thoughtful application of targeting strategies magnifies the power and impact of paid search tremendously. We've seen this proven time and time again across our client base.

Looking further into the future, advertisers are beginning to strive for a better understanding about how to leverage voice search and digital assistants. Although we are still in the early days of digital assistants, the rapid growth of consumer adoption points to a "zero UI" future, where searchers' primary interaction point

with the search engines is purely audio. In this future, brand loyalty becomes the norm, and in order to effectively market to an audience that is looking for one answer (instead of a page of links visually displayed on a screen) brands must structure their data, focus on their differentiators and value proposition, and leverage the concept of search as an ongoing personal conversation in order to personalize their message to each individual. For more perspective on this upcoming sweeping change, look for a forthcoming whitepaper co-authored by Bing and iProspect to be released later in Q1.

About the Data:

- Based on Google AdWords data
- Includes Search and Google PLAs/Shopping
- Does not include YouTube or the Google Display Network

About iProspect

At iProspect, we transform our clients' businesses by connecting brands with people. Leveraging our suite of services, smart technology, extensive global footprint, and the industry's best specialists, we provide best-in-class performance strategies to get you the results your business needs.

iProspect is the first truly global digital marketing agency, with 3,000+ employees in 84 offices across 52 countries. A trusted partner with an in-depth understanding of consumer behavior, iProspect reshapes brand strategies to meet the fast-paced demands of the convergent world with a focus on exceeding the client's business objectives.

Our global reach, in-depth knowledge of diverse local markets, and expertise produce award-winning, performance-based marketing strategies for leading brands such as General Motors, adidas, T-Mobile, Hilton Worldwide, Sunglass Hut, Microsoft, and many others. iProspect has been named the "Best Agency for Performance Marketing" by iMedia for 3 years in a row, the 2015 MediaPost Search Agency of the Year and iMedia's Best Agency for Search.

For more information, visit www.iProspect.com or follow us on Twitter @iProspect.



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About the Authors

Charlotte Morris, Regional Director, Paid Search — East

Charlotte oversees all paid search media execution and innovation for Boston and New York. With 8+ years in the digital field, Charlotte's experience spreads across all core verticals as well as all digital channels. Charlotte's entrepreneurial spirit allows her to remain flexible and innovative, quickly adapting strategy and process to match the ever-changing digital landscape. With performance marketing at her core, Charlotte has a passion for delivering results by finding stories in numbers; leading teams to consistently surpass client goals.

Michael Kelley, Director, Data & Insights

Michael works directly with both the iProspect account teams and clients to deliver analytics services that include Measurement Strategy, Attribution, Forecasting, and Reporting & Data Visualization support. Michael joined iProspect in 2010, following his departure from a PhD program at the University of Chicago and has since offered his expertise and insights to various Fortune 500 clients across the Retail, Luxury, CPG, and Travel industries.

Additional contributors include Alex Baquero, Jason Comack, Michael Engels, Jessica Freistat and Mark Magnani.





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