



iPROSPECT QUARTERLY REPORT:

Paid Search Trends

2017 Q1

By Charlotte Morris, Michael Kelley, Jessica Freistat and Michael Engels



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Driving Business Performance

Introduction

iProspect's Q1 year-over-year (YoY) Google AdWords data showed strong mobile growth in terms of both impressions and clicks. Volume on desktops and tablets, however, was down, indicating an overall decrease in demand for those devices. Cost per click (CPC) increased across all devices, reaching the highest CPC recorded since this report's inception in 2014. Mobile CPC saw a particularly significant increase—up 40% YoY—further closing the gap on desktop. Mobile click share also continued to grow, as advertisers adapted their strategy based on the device-specific search preferences of consumers, and now represents 59% of all paid search traffic.

Google Shopping (PLA) investment continued to grow, with advertiser investment up 44% YoY. Top of mind for advertisers this year is Amazon's recent

entry into the Google Shopping space. Initial analysis across iProspect's retail brand portfolio in Q1 showed that Amazon has a strong presence in most Google Shopping categories, such as apparel, home and garden, and furniture.

Consumer search behavior is evolving in more ways than just device preference. Voice search, for instance, is quickly becoming the search method of choice for many consumers. Today, 500M people use a voice search-powered digital assistant of some kind, and half of all searches will be voice searches by 2020 (Tractica, 2016). This behavioral shift is ushering in a rise in longer, more conversational queries, causing savvy advertisers to refocus their keyword strategy to ensure it includes question-based keywords such as who, what, when, where, why and how, as well as qualifying phrases such as near me.



Representing 1,300 Google AdWords accounts and more than 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 U.S. markets) and include Google AdWords paid search and Shopping (PLA) campaigns.

Overarching Q1 2017 Trends — A Look at Primary KPIs

Although there were minimal search engine results page (SERP) updates in Q1 2017, this quarter has been costly for advertisers. Overall CPC was up 27% YoY, and did not see the typical decline from Q4 into Q1. In fact, in a lot of cases, CPC has been increasing since the 2016 holiday season. As expected, much of the overall increase can be attributed to more aggressive competition on mobile. More surprising is the CPC increase that is coming from desktop, especially as both impressions and clicks on desktop devices are decreasing.

Overall, iProspect paid search impressions recorded positive YoY growth, increasing by 10% in Q1 2017, a gain which is in line with overall paid search investment growth. This growth was driven by mobile

while desktop impressions actually decreased 16% YoY. Desktop clicks also decreased—down 27% YoY—and mobile clicks increased 13%, resulting in an overall 8% decrease in clicks. While some of the gap in click growth compared to impression growth is due to changing search behavior (such as device preferences or voice search, for example), large increases in CPC have also contributed to this gap.

As advertisers are forced to pay more for each click, fewer overall clicks can be obtained using available budgets. In addition, advertisers are expanding into advanced audience segmentation and targeting, including strategies such as increasing bids for the highest-value customer. Based on these two trends alone, overall CPC increases are inevitable. Outside

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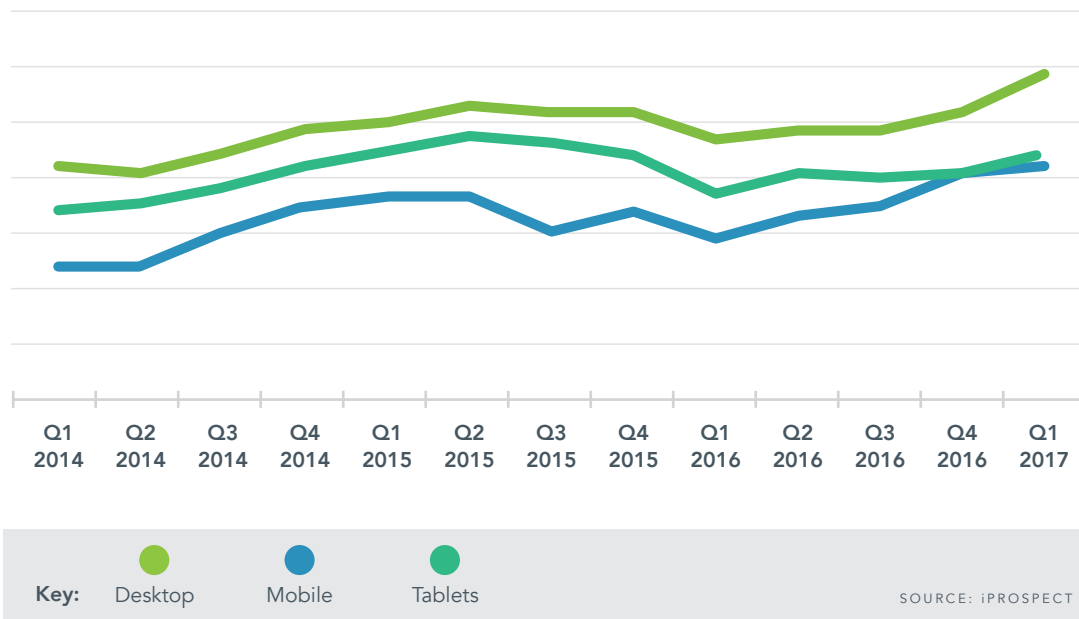
*CPC hit all-time
highest record in
report history*

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of consumer search behavior and advertiser strategy, there's also a third component to AdWords CPC: Google's algorithm. While Google's Quality Score and Ad Rank formulas are complex and ever-changing, it's reasonable to conclude that they also played a part in the trend of rising CPC.

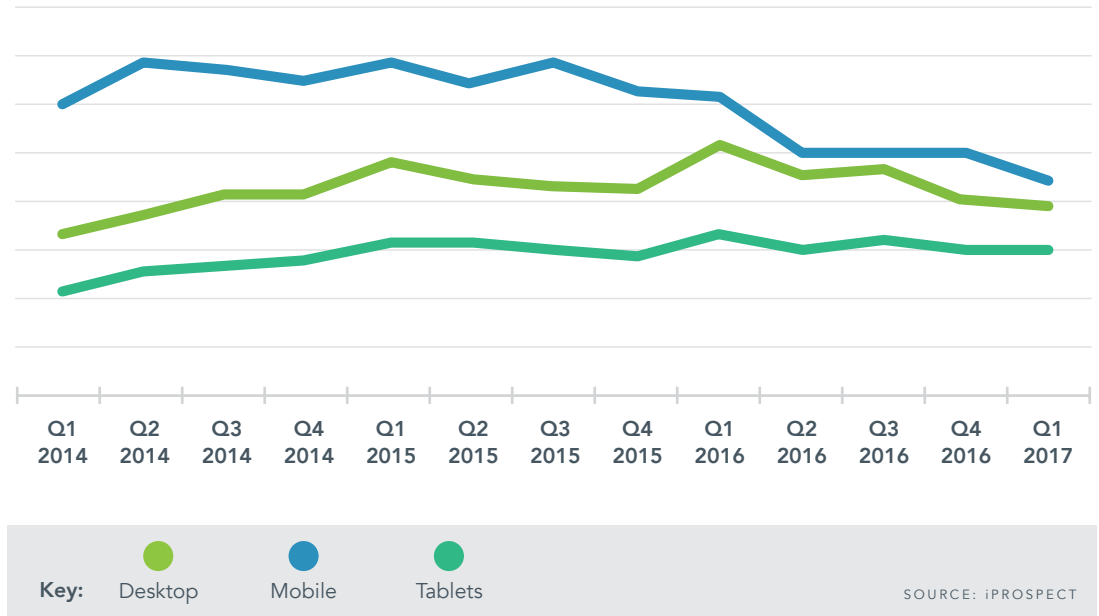
CPC increased across all devices, with the largest increase coming from mobile (up 42% YoY). Desktop and tablet CPC increased 26% and 18% YoY respectively. While Mobile CPC is still 29% lower than desktop CPC, we expect mobile CPC will continue to trend upward and close the gap with desktop over the year. Mobile and tablet CPC first hit parity in Q4 of 2016 and remained approximately equal in Q1.

QUARTERLY TRENDING: CPC BY DEVICE



Click through rate (CTR) decreased 17% overall YoY, with the largest decrease in mobile (down 27% YoY). In June 2016, Google began showing up to four paid search ads on mobile. This update, coupled with the increased mobile investment across all verticals, resulted in substantially more competition on the mobile SERP. While Google may have increased overall ad clicks on the mobile SERP, early adopters of mobile paid-search targeting have seen first hand how the increase in competition has resulted in the decline of CTR. For all devices, advertisers gained more real estate to test messaging with the July 2016 launch of expanded text ads. Testing ad messaging—by taking advantage of both the more expansive ad format and the ability to personalize ads based on device type and audience lists—should be a strong focus for advertisers throughout the year.

QUARTERLY TRENDING: CTR BY DEVICE

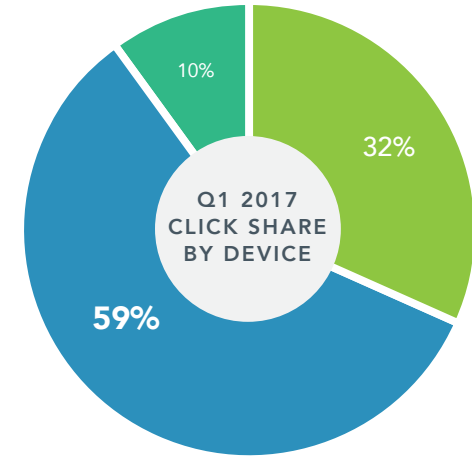
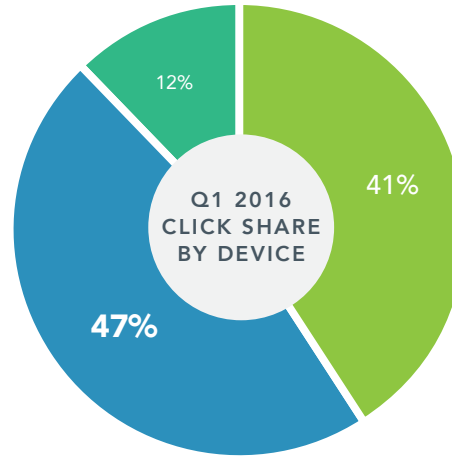


Taking a Closer Look: Areas of Special Interest

Mobile

In Q1 2017, mobile click share continued to increase with 59% of clicks coming from mobile vs. 32% from desktop and 10% from tablet. This figure represents a 24% YoY increase in overall mobile click share, an increase that is attributable to advertisers shifting budgets to align with consumer device usage.

Mobile impression growth is outpacing mobile click growth: impressions and clicks increased 56% and 13% respectively YoY. It's important to note that click growth did not pace as high as impression growth



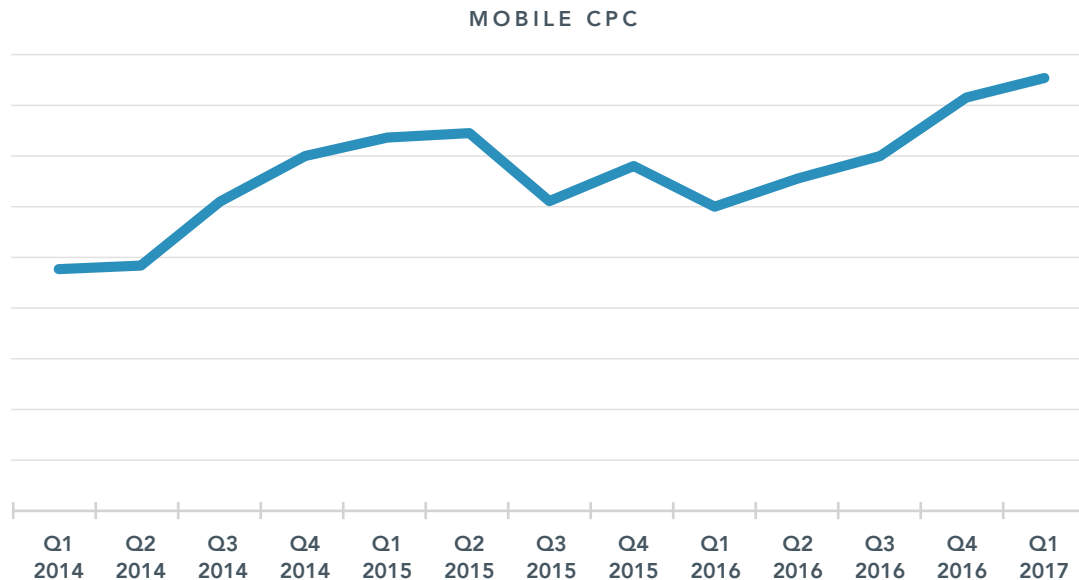
Key: ● Desktop ● Mobile ● Tablets

SOURCE: iPROSPECT

despite advancements in advertisers' abilities to measure and quantify the value of mobile paid search investment. The largest contributing factors to the lag in mobile click growth were the continued increase in mobile CPC and the increase in the number of ads (up to four) that are now visible on the mobile SERP.

Mobile CPC was higher in Q1 2017 than it has ever been. YoY, mobile CPC increased 40%. This increase has limited the amount of traffic each advertiser is able to drive due to the combination of budget constraints and the increasing price tag of each mobile click. Even advertisers who continue to increase their mobile investment face challenges as more competitive keyword bidding in search auctions drives up costs.

Advertisers will need to pay to play in order to thrive despite the increase in competitive pressure. We recommend audience targeting strategies such as



SOURCE: iPROSPECT

Remarketing Lists for Search Ads (RLSA), Customer Match, and Demographic Targeting to prioritize investment toward the most valuable consumers—those who are most likely to convert and who will drive the highest short- and long-term conversion value.

Smart advertisers will couple audience targeting strategies with IF statements for ad copy. This approach will allow them to customize ads based on device and audience lists to deliver the most relevant, personalized message to each consumer.

AdWords	Google Search
<p>Headline 1: Running Shoes</p> <p>Headline 2: 1 Day Shipping</p> <p>Description: The Best Selection of Shoes on Earth! Free Return Policy. Weekend Deal! <code>{=IF(audience IN (Cart Abandoners), 15% off your order!):10% off your order!}</code></p>	<p>Audience = cart abandoners</p> <p>Running Shoes - 1 Day Shipping Ad www.example.com/shoes The Best Selection of Shoes on Earth! Free Return Policy. Weekend Deal! 15% off your order!</p> <p>Other audiences</p> <p>Running Shoes - 1 Day Shipping Ad www.example.com/shoes The Best Selection of Shoes on Earth! Free Return Policy. Weekend Deal! 10% off your order!</p>

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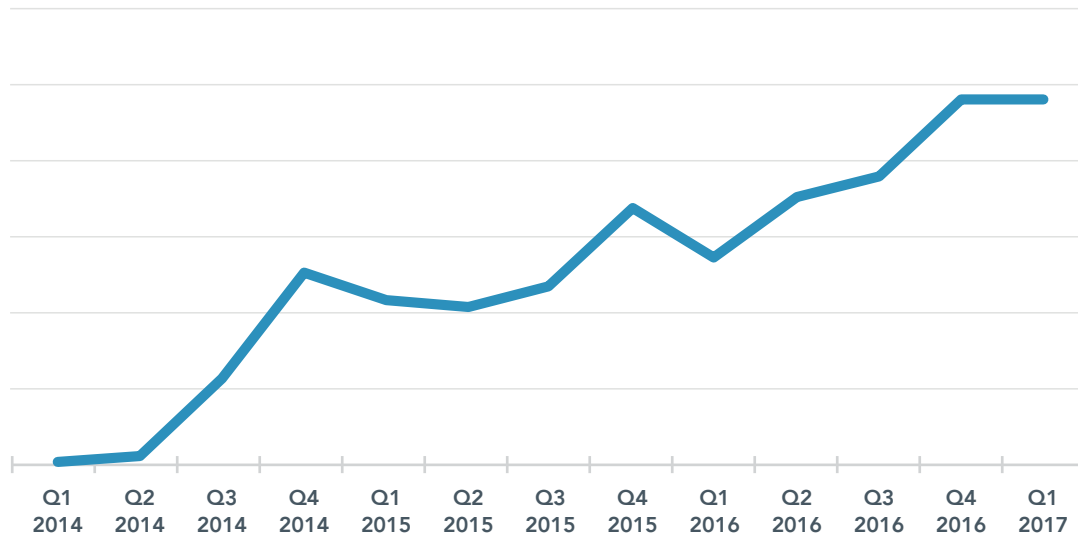
*Mobile is now
59% of all
paid search clicks.*

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Google Shopping

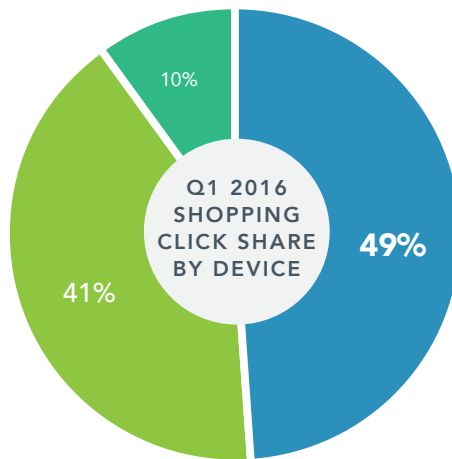
Total investment on Shopping (PLA) increased 44% YoY and clicks increased 76% YoY as advertisers placed an increasing share of their paid search dollars into Google Shopping ads. As long as an advertiser's product pricing is competitive on the SERP, Shopping ads tend to have stronger conversion rates than text ads. This is because they are better able to capture the attention of consumers who are furthest down the purchase funnel. Consumers at this stage of the purchase journey know what they want and how much they're willing to pay, and are therefore more easily enticed to convert when served an image of a specific product with a price point.

PLA (SHOPPING) CLICKS



SOURCE: iPROSPECT

Contrary to the overall CPC trends in this report, CPC for Shopping ads decreased 18% YoY. This decrease in CPC is attributed to a larger click share distribution in mobile YoY. Google also released audience targeting options (Customer Match, RLSA) a bit later to Shopping than to Search, so advertisers are concentrating efforts on refining Shopping audience targeting strategies. In Q1 2017 62% of clicks were on mobile vs. only 49% last year.



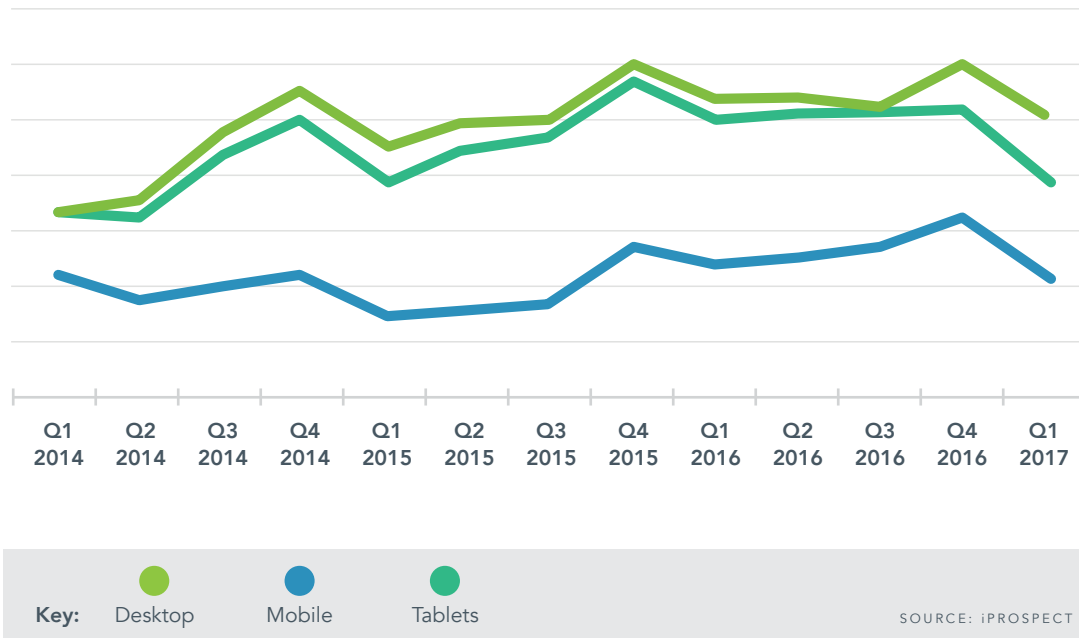
Key:  Mobile  Desktop  Tablets

SOURCE: iPROSPECT

The disparity between mobile and desktop CPC is much greater on Shopping Ads than Search ads with mobile Shopping ads CPC currently less than half (43%) of desktop CPC. Mobile Shopping CPC is on the rise, but at a slower rate than Mobile Search. It's expected that Shopping ad mobile CPC will eventually catch up to desktop, but not as quickly as it will catch up to desktop CPC for text ads. In aggregate across all devices, Shopping ad CPC is 39% cheaper than text ads.

Top of mind for advertisers this year is Amazon's entry into and expansion within the Shopping ads space. iProspect analyzed the initial impact and our auction data insights across iProspect's retail brand portfolio show that Amazon has a strong presence in most Google Shopping categories, such as apparel, home and garden, and furniture. Early insights indicate that Amazon seems to be focused on advertising lower-margin products and items that are easy to ship, such

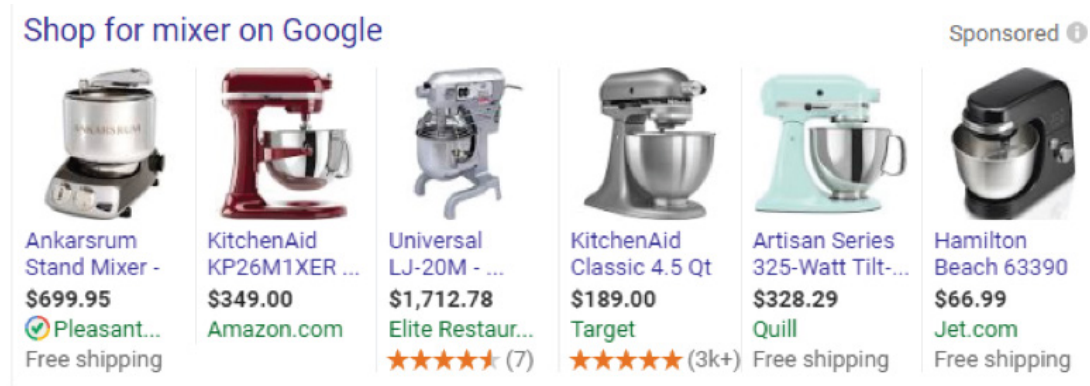
PLA (SHOPPING) CPC BY DEVICE



as a kitchen mixer. It is recommended that advertisers continue to emphasize feed- and shopping-campaign optimizations as well as their presence in product categories that don't compete directly with Amazon.

These strategies will help brands continue to drive performance for Shopping campaigns and remain competitive, despite the presence of a behemoth like Amazon in the market.

Shop for mixer on Google



Product	Price	Retailer	Shipping
Ankarsrum Stand Mixer -	\$699.95	Pleasant...	Free shipping
KitchenAid KP26M1XER ...	\$349.00	Amazon.com	
Universal LJ-20M - ...	\$1,712.78	Elite Restaur...	★★★★★ (7)
KitchenAid Classic 4.5 Qt	\$189.00	Target	★★★★★ (3k+)
Artisan Series 325-Watt Tilt-...	\$328.29	Quill	Free shipping
Hamilton Beach 63390	\$66.99	Jet.com	Free shipping

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Google Shopping mobile CPC is steadily increasing, but at a slower rate than search.
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Amazon is on Google Product Listing Ads. Now what? Learn more in the thought leadership piece from iProspect. [> READ NOW](#)

Vertical Deep Dives

In addition to the overall trends, we took a closer look at Q1 performance for three key verticals:

Retail

Retailers continue to invest more in mobile and Shopping ads, more than doubling their investment in Shopping ads in Q1 YoY. They are also allocating an increasing share of their search investment to Shopping ads due to stronger conversion rates that correlate to the ad format's ability to attract lower-funnel users at a cheaper CPC than Search ads.

For retailers, 58% of all clicks were on mobile vs. 32% on desktop and 10% on tablet. Overall CPC increased 23% YoY based on a mobile CPC increase of 39% YoY and a desktop CPC increase of 20% YoY. Tablet CPC remained relatively flat for the same time period.

With the help of product innovations from Google—such as AdWords Store Visit conversions—retailers with physical store locations continue to get savvier about measuring the influence of their paid search initiatives on in-store activity. This trend is expected to continue as measurement innovations in machine learning, mapping, and survey quality make store visits data available to thousands more advertisers and provide a more complete view of performance to advertisers who are already using these insights.

B2B

The B2B vertical also saw similar overarching trends in Q1 2017, including a higher CPC (up 12% YoY) and growth in both mobile impressions (up 8%YoY) and traffic (up 18% YoY). Mobile B2B CTR continues to benefit from an upward growth trend that tapered off for other verticals, including retail, in mid-2015.

It's no surprise that the B2B industry has been slow to adopt mobile. The complexity of the business buyer's journey and conversion process is not easily translated to the mobile screen. However, the Q1 growth in B2B traffic and CTR indicates a pivotal change: B2B brands are starting to expand coverage and embrace mobile. Many B2B brands are testing easier-to-use lead forms and dynamic landing pages to help create an easier and more effective mobile user experience. We are also seeing B2B clients starting to adopt more advanced audience targeting and segmentation strategies to guide the user through the complex conversion journey. There is no question that 2017 will be a pivotal year for B2B advertisers as they make up ground and begin to align their strategies more closely with user search behaviors.

Consumer Packaged Goods

The CPG vertical channel continues to be one of the fastest-growing search programs at iProspect. In Q1 2017, iProspect CPG clients recorded an outstanding 61% increase in traffic and an equally impressive 59% increase in CTR. As Search is one of the most successful channels for direct response, CPG advertisers are increasing their focus on the channel. CPG advertisers are also feeling the effects of higher costs driven by increased competition as resellers who are competing on the same terms increase their investment in paid search and Shopping (PLA) ads. CPC is on the rise, with CPG clients recording a 146% YoY increase in Q1.

This CPC increase was recorded across all devices, with the largest increase coming from mobile (up 167% YoY), followed by tablet and desktop (up 157% and 126% YoY respectively).

With the expansion of auction-based merchandising with partners such as Amazon and Criteo, further direct response-focused measurement has brought a new energy to CPG digital marketing, and we expect to see increases in adoption of auction-based merchandising across CPG advertisers over the course of 2017.

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Predicting What's Next – 2017

Mobile CPC and click share have continued to increase. Looking ahead, we expect to see further increases in mobile search share, resulting in increased mobile spending that we expect will drive mobile CPC to parity with desktop by early 2018. Search platform product releases in 2017 will likely continue to focus on mobile, and advertisers should continue to adopt them as they are released in order to remain competitive on the SERP. A positive mobile site experience, effective attribution, and measurement plan (including both cross-device and in-store performance) will be critical components of a successful mobile-first approach for the remainder of 2017.

Shopping investment continues to rise, and we anticipate this trend will continue. CPC will likely

increase as existing advertisers invest more in Shopping ads, new advertisers enter the Shopping ads space, and if and when Amazon—the top paid search advertiser in the world—boosts their investment in Shopping ads. Advertisers should leverage Auction Insights reporting to monitor and identify shifts in competition and to define and prioritize reactions while focusing on data feed optimization, Google Shopping optimization, and loyalty program efforts. Amazon won't be able to compete with Local Inventory ads (since they don't have physical stores housing their inventory), so advertisers with brick-and-mortar locations should take advantage of this ad type as a competitive asset. They should also capitalize on instances where product pricing is most competitive by highlighting sales pricing and offers in ads.

Even while focusing on online optimization efforts, brands should not forget about local search! Two years ago, Google released in-store visits conversions to help advertisers measure the effects of paid search advertising on in-store traffic. Google's latest innovations to this product (in areas such as machine learning, mapping, and survey quality) will make the feature available to more advertisers while allowing advertisers who are currently using the product to report more in-store visits and gain a more complete view of performance. We anticipate that product releases for in-store reporting will become available across other engines in the future. Local Inventory ads are another great way to showcase products and store information to nearby shoppers within Google Shopping. In Q1 2017, Google also began rolling out a

Local Unit that allows business locations to advertise in the top spot in the Google Local pack. Advertisers who continue to maximize local strategies will gain an important competitive advantage against competing advertisers who do not have physical locations.

Because paid search advertisers are becoming increasingly savvy about their audience targeting efforts, it's more important than ever to make a personalized, 1:1 connection with customers. These days, advertisers should think about their paid search targeting in terms that extend well beyond just the keyword. To be effective, they need to ensure they are using Remarketing Lists for Search Ads (RLSA), Customer Match, and Demographic targeting options where applicable. In addition to building targeted lists of customers, advertisers should also use Similar Audience targeting to find new and qualified customers whose search behaviors are similar to the customers within existing lists. Advertisers should also make it a priority to build relevant ads that are customized based on device and audience lists. This attention to detail will help them

deliver the most relevant, personalized message to each consumer and also make it possible for brands to take advantage of Google's new IF statements for ad copy.

Lastly, voice search is quickly becoming the search method of choice for a large segment of consumers. Today, 500M people use a voice search-powered digital assistant of some kind, and half of all searches will be voice searches by 2020 (Tractica 2016). Advertisers don't yet have the ability to target voice-search interactions separately from typed searches. For now, in order to successfully target voice searchers, advertisers should optimize their keyword strategy to include longer, more conversational, question-based keywords including questions such as who, what, when, where, why and how, and qualifying phrases such as near me.

To win in voice search, iProspect also advises clients to optimize site content so that digital assistants can easily find and deliver brand information to the consumer. Advertisers can begin by optimizing their

site for organic voice search, including writing content in a conversational tone and using question words, longer-tail keywords, and mobile-friendly content.

Learn more in the thought leadership piece from iProspect and Bing: *"Digital Assistants: Reordering Consumer Lives and Redefining Marketing."*

[> READ THE WHITE PAPER](#)

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 4,000+ employees in 88 offices across 54 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, 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.

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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.



Jessica Freistat, Director, Paid Search

Jessica oversees all Paid Search teams in the Boston office and is responsible for the paid search executional excellence, innovation, and account strategy for clients serviced out of Boston. A passionate marketer with over 7+ years' of digital experience, Jessica thrives on driving business performance while making meaningful connections between brands and consumers. Since joining iProspect in 2010, Jessica has worked in multiple channels, across Fortune 500 clients and various verticals including Retail, B2B, Healthcare, Travel, and Education.



Michael Engels, Associate Director, Data & Insights

Michael works with both clients and internal iProspect teams with advanced analytics and insights out of the Fort Worth office. His focuses are Attribution, Visualization, Reporting Architecture and productization of Data and Insights along with best practices for consumption of an ever-growing spectrum of data. Michael joined iProspect in 2015 and has a great deal of experience in the Digital Analytics space including time with agencies and client-side within the Travel, Lodging, CPG and financial services verticals.





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