

# DIGITAL MARKETING REPORT

Deep market insights to drive smarter media investments

**DMR**

**Q4 2018**

## TABLE OF CONTENTS

## EXECUTIVE SUMMARY

- 03 EXECUTIVE SUMMARY
- 05 PAID SEARCH
- 16 ORGANIC SEARCH & SOCIAL
- 20 DISPLAY & PAID SOCIAL
- 24 AMAZON ADS
- 28 ABOUT MERKLE & METHODOLOGY



Click on the icons at the top of each page to jump between sections quickly.

## TABLE OF CONTENTS

## EXECUTIVE SUMMARY

For the third quarter in a row, Google search ad spending grew 18% Y/Y in Q4 2018. Over that period, though, click volume growth has overtaken cost-per-click (CPC) increases as the greater driver of advertiser investment, and the trajectories of Google's two major search ad formats has diverged significantly.

Spending on Google Shopping ads grew 42% Y/Y in Q4 2018, the highest growth rate for Shopping investment since mid-2016. On the flip side, text ad spending fell 9% Y/Y, following three quarters of single-digit growth. For retailers, Google Shopping ads accounted for 63% of all Google search ad clicks, an all-time high.

While industries outside of retail did see positive investment growth for Google text ads, Google Shopping cannibalization of text within the retail and e-commerce space pushed total text ad spending growth into negative territory.

It was also a tough quarter for Bing Ads and Yahoo Gemini paid search, as spending across the two platforms fell 7% Y/Y overall. Bing faced much stronger year-ago comps, due to a major ramp in traffic for Bing Product Ads in Q4 2017.

The future looks brighter for Bing, though, as Microsoft and Verizon announced in January that Bing Ads will become the exclusive search ad provider for Yahoo. This will include the sunset of Yahoo Gemini, which produced 1% of search ad clicks in Q4 2018. Yahoo will also cease running Google Shopping Ads, which it has relied on since early 2016.

Google search ad partners, including Yahoo, produced roughly 7% of Google Shopping ad clicks in Q4 2018. This rate will likely fall by a point or two as Yahoo fully transitions over to Bing Product Ads in the coming months, but the impact to Google's bottom line should be minimal, given that it likely paid a high revenue share to Yahoo. Yahoo's earlier agreement with Microsoft gave Yahoo a 93% cut of the search ad revenues Microsoft generated on Yahoo properties.

It's less clear what impact Google will see in the long term from Apple's launch of ITP 2.0 in September 2018. Immediately following the launch, the share of Google search ad clicks produced by remarketing lists for search ads (RLSA) fell, but by the end of the year, RLSA click share had hit new highs. Importantly, though, Safari sees a lower share of clicks tied to Google audiences, and that gap has widened over time.

Coming off a relatively strong Q3, organic search produced more modest gains in Q4 2018 with site visits up 2% Y/Y. Phone visit growth remained strong at 17% Y/Y, but tablet and desktop visits declined at faster rates. Google organic search visits grew 3% in Q4 2018, while DuckDuckGo organic search visits rose 34% overall and 75% on mobile devices.

Growth in advertiser spending on Facebook proper slowed to 10% Y/Y, driven primarily by platform maturation, as opposed to advertisers pulling back or exiting deliberately because of recent negative headlines. Facebook is now also getting significant revenue growth from Instagram, which saw a 138% increase in spend Y/Y for the quarter. Strong recent adoption of Instagram Stories played a major role in Q4 growth.

Amazon Sponsored Products and Sponsored Brands spend growth slowed from previous quarters to 15% and 26% Y/Y, respectively, but the sales revenue both formats produced skyrocketed as advertisers continued to make campaign optimizations to maximize their return. While Sponsored Brands impressions have grown significantly since the format was expanded to show in additional placements in August, Sponsored Products continued to account for the vast majority of Amazon advertiser spend in Q4 2018.

## TABLE OF CONTENTS

## EXECUTIVE SUMMARY

## PAID SEARCH

- Total paid search spending grew 16% Y/Y in Q4 2018. Steady investment growth in Google search was offset by weaker trends for Bing Ads and Yahoo Gemini. Search ad clicks grew 9% Y/Y, while CPCs grew 7%.
- Spending on phone Google search ads grew 42% Y/Y in Q4 2018, a healthy jump from 33% growth in Q3 2018. Google Shopping growth was particularly strong on mobile in Q4, as phone impressions rose 107% Y/Y.
- iOS devices produced 46% of US Google search ad clicks, while desktop Safari produced another 5%. This was the first time that Apple products accounted for a majority of Google clicks.
- The average CPC for a Google search ad click on a company's own brand name rose 18% Y/Y in Q4 2018, but that was down from a nearly 30% Y/Y increase two quarters earlier.
- Google generated 98% of US paid search spending on phones and 94% of US paid search spending overall.

## ORGANIC SEARCH & SOCIAL

- Organic search produced just under 26% of all site visits in Q4 2018, a half-point decline from Q3 2018. Historically, organic search visit share has tended to dip during Q4, as many brands are more aggressive in other, typically paid, channels.
- Google produced 96% of US mobile organic search visits. Although Bing produced roughly nine times as many organic search visits as DuckDuckGo overall in Q4 2018, on mobile devices, Bing only produced three times as many visits as DuckDuckGo.
- After falling 13% Y/Y in Q3 2018, site visits produced by Facebook rebounded in Q4 2018, coming in 19% higher Y/Y. Instagram site visit growth accelerated to 123% Y/Y in Q4 2018, while Pinterest delivered a modest 1% increase in site traffic.

## DISPLAY & PAID SOCIAL

- Facebook ad impressions grew 5% Y/Y, as spend growth slowed to 10% for the quarter.
- Instagram continues to drive significant revenue growth for Facebook and accounted for 27%, as much advertiser spend as Facebook proper for brands advertising on both in Q4 2018.
- Pinterest ad spend doubled Y/Y, as impression volume and pricing both grew meaningfully.
- Traditional display advertising spending grew just 2% Y/Y for the median advertiser, far eclipsed by the 31% growth in paid social spend.

## AMAZON ADS

- Amazon Sponsored Products spend grew 15% Y/Y, while Sponsored Brands (formerly known as Headline Search Ads) grew 26%. Sponsored Products accounted for 87% of all Amazon ad spend in Q4.
- Brand keywords accounted for 64% of Sponsored Brands sales and 47% of Sponsored Products sales in Q4, slight increases from Q3.
- With an influx of impressions on Sponsored Brands driving down CTR for the format, both Sponsored Products and Sponsored Brands have significantly lower CTR than that of Google Shopping.

# PAID SEARCH

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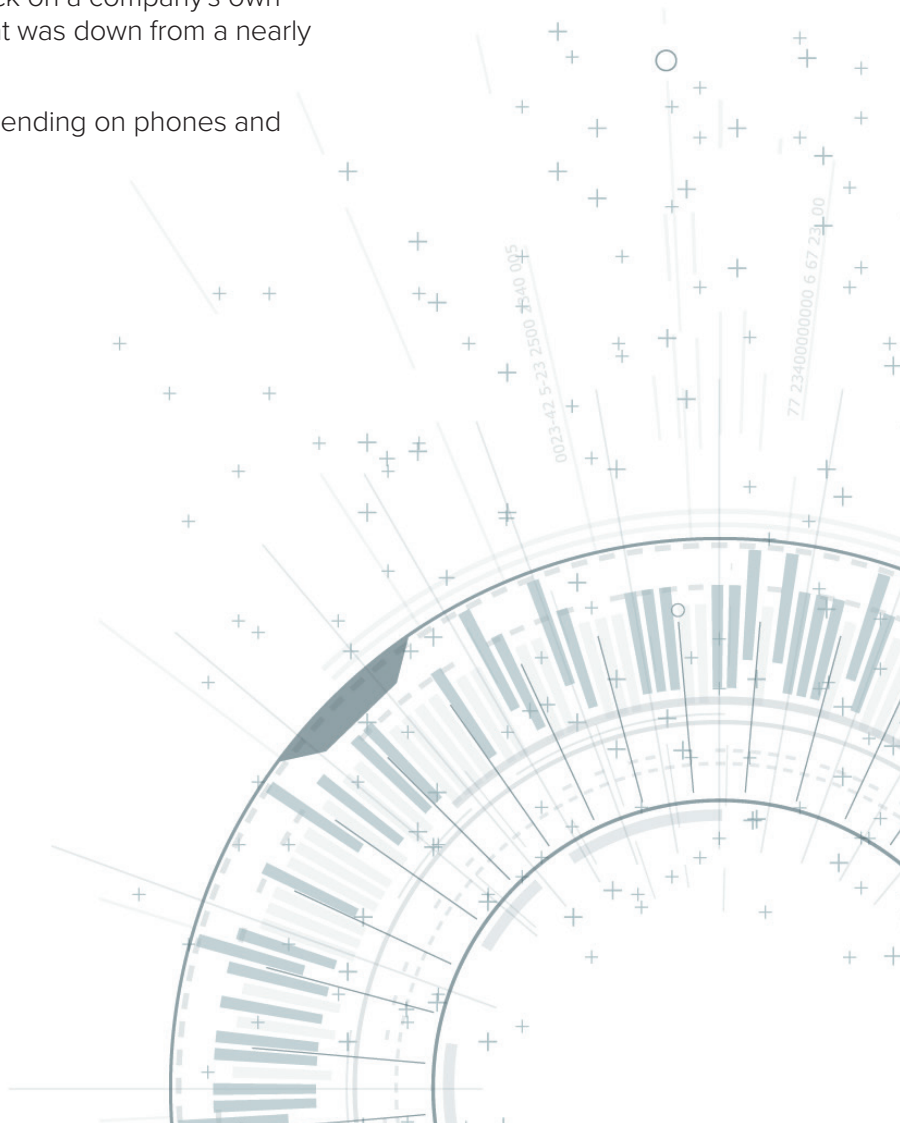
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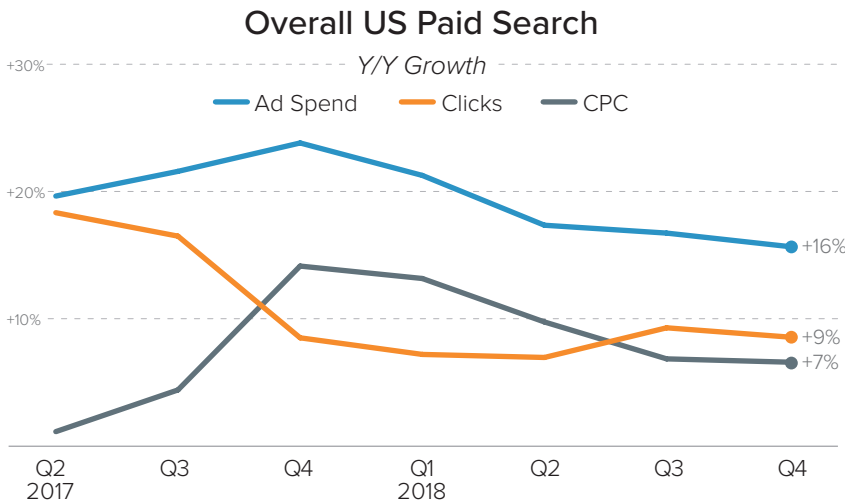
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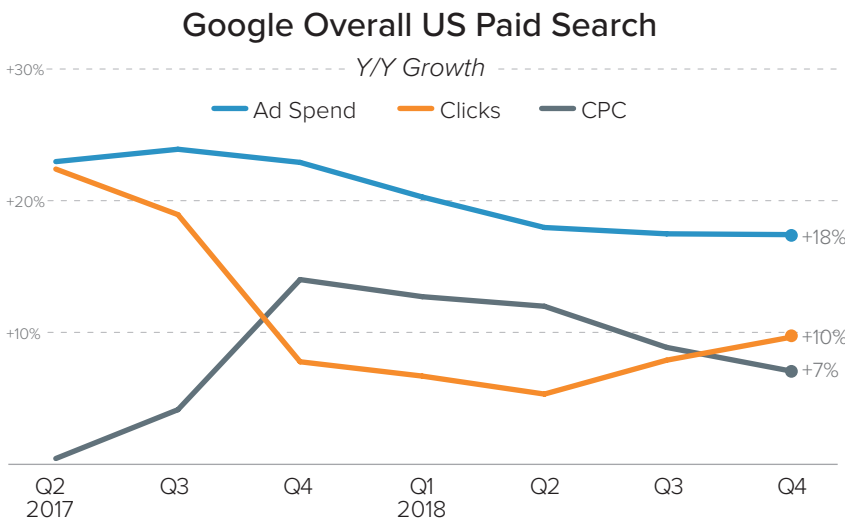


## Search Ad Spending Growth Slips to 16% on Weaker Bing and Yahoo Results



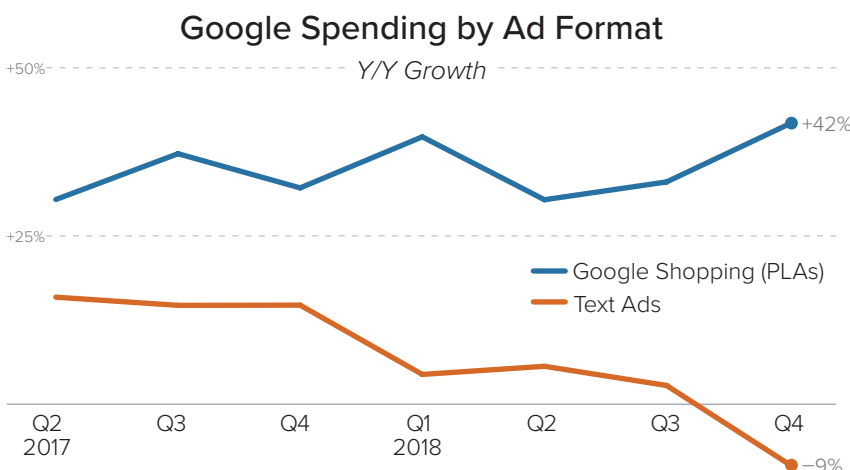
Total paid search spending grew 16% Y/Y in Q4 2018, a slight decrease in growth rate from Q3 2018. Steady investment growth in Google search was offset by weaker trends for Bing Ads and Yahoo Gemini where ad spend fell compared to a year earlier. Overall, search ad clicks grew 9% Y/Y in Q4 2018, down slightly from Q3 growth, while CPC growth was largely unchanged at 7%.

## Google Paid Search Investment Growth Remains Steady



For the third straight quarter, Google search ad spending grew 18% Y/Y in Q4 2018, but the key driver of that growth in investment has shifted from higher CPCs to improving click growth. In Q4 2018, Google search ad clicks were up 10% Y/Y, nearly double the rate of growth two quarters earlier. At the same time, CPC growth slipped to just over 7% Y/Y in Q4 2018, down from a 14% growth rate a year earlier.

## Google Shopping Spend Grows at Fastest Rate in Over Two Years

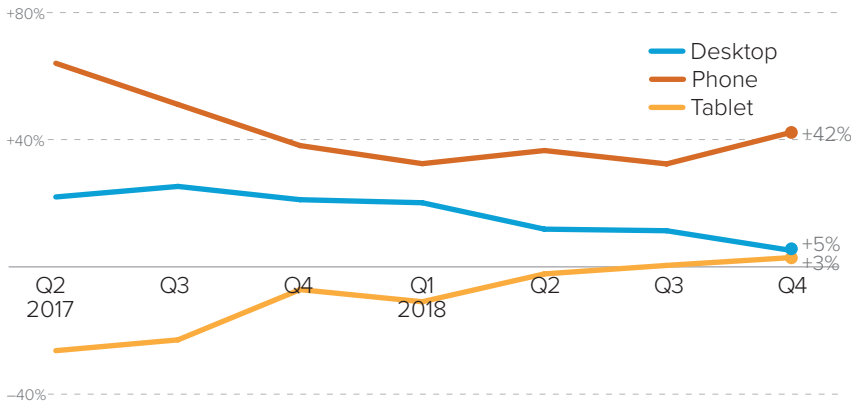


In Q4 2018, Google Shopping ad spend growth accelerated to 42% Y/Y, the highest growth rate for Shopping investment since mid-2016. On the flip side, text ad spending fell 9% Y/Y, following three quarters of single-digit growth. While industries outside of retail did see positive investment growth for Google text ads, Google Shopping cannibalization of text within the retail and e-commerce space pushed total text ad spend growth into negative territory.

## Google Phone Spend Growth Rises After Jump in Shopping Impressions

### Google Search Spending by Device Type

Y/Y Growth

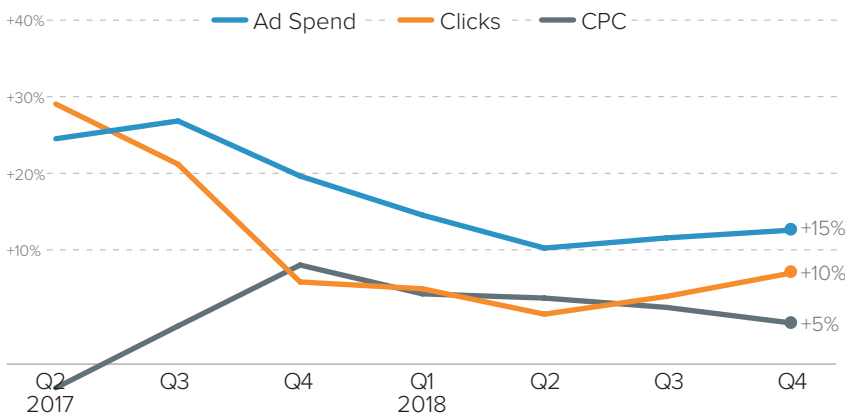


Spending on phone Google search ads grew 42% Y/Y in Q4 2018, a healthy jump from 33% growth in Q3 2018. Google Shopping growth was particularly strong on mobile in Q4, as phone impressions rose 107% Y/Y for the average retailer, compared to 60% growth in Q3. Spending growth for desktop Google search ads slowed for the fifth quarter in a row, coming in at 5% Y/Y in Q4 2018, while tablet spending growth improved to 3% Y/Y, a two-year high.

## Mobile Drives Non-Brand Google Click Gains, Depresses CPC Growth

### Google Non-Brand US Paid Search

Y/Y Growth

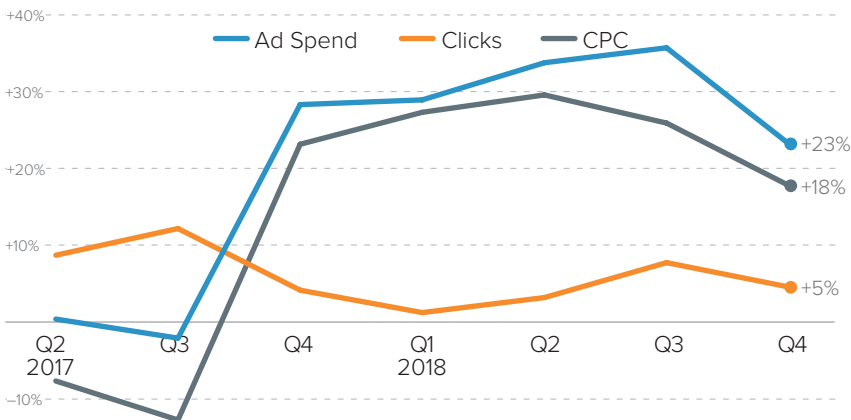


Within the non-brand traffic segment, Google search spend growth accelerated one point to a little over 15% Y/Y in Q4. Click growth rose to 10% Y/Y, compared to 8% in Q3 2018, while CPC growth slowed from 6% in Q3 to 5% in Q4. Non-brand click growth was boosted by strong results for Google Shopping ads, which drove 33% more clicks than a year earlier and 47% more clicks on phones. Faster mobile traffic share gains have depressed overall CPC growth in recent quarters.

## Brand Keyword CPC Inflation on Google Continues to Slow

### Google Brand US Paid Search

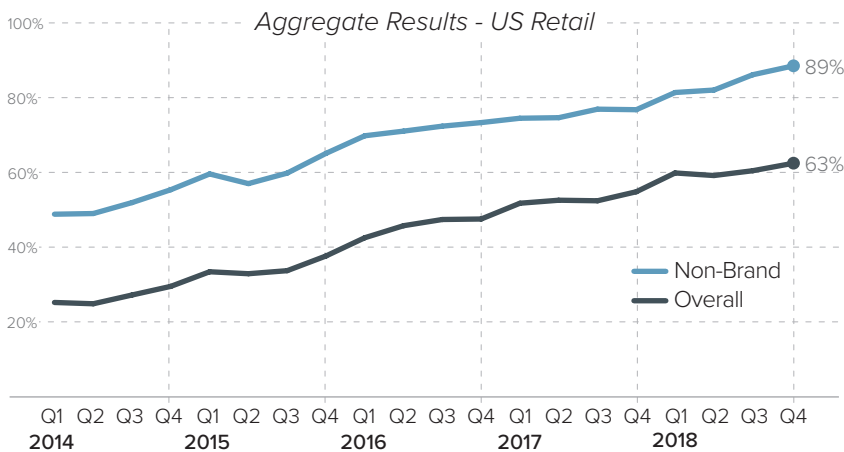
Y/Y Growth



The average CPC for a Google search ad click on a company's own brand name rose 18% Y/Y in Q4 2018, but that was down from a nearly 30% Y/Y increase two quarters earlier. Brand keyword CPCs shot up dramatically in Q4 2017 after having fallen in the middle months of 2017. Click growth trends for brand keywords on Google have been more stable over the same period, and in Q4 2018, brand keyword clicks rose 5%.

## Shopping Ads Now Account for 89% of Retailers' Non-Brand Google Clicks

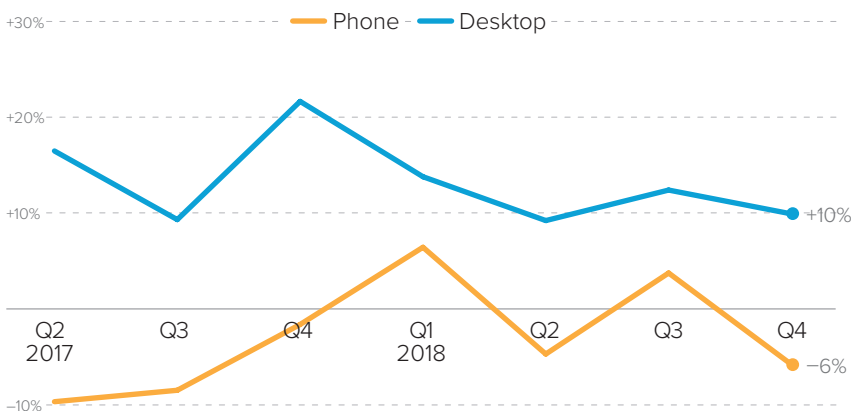
Google Shopping Share of Google Paid Search Clicks



Google Shopping Ads produced 89% of retailers' non-brand Google search ad clicks in Q4 2018, up from 77% a year earlier. Including branded queries, Shopping accounted for 63% of all Google paid search clicks in Q4 2018, up from 55% in Q4 2017. Shopping has made the biggest recent gains on phones where Shopping has also historically produced a relatively high share of total Google search ad clicks.

## Shopping Revenue Per Click Withstanding Gains in Google Click Share

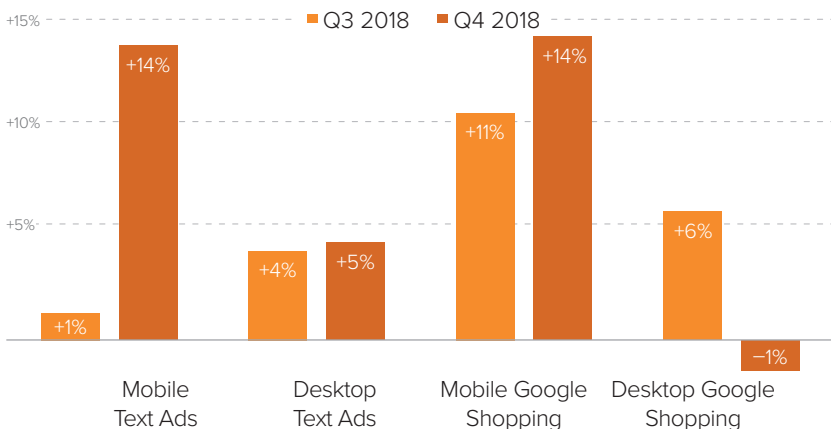
Google Shopping vs. Non-Brand Text Ads Revenue Per Click



As Google Shopping ads produce an ever-increasing share of paid search clicks by cannibalizing a broader swath of text ad traffic, one might expect their relative performance to suffer; however, the average revenue per click of Shopping ads compared to non-brand text ads has been relatively stable in the past two years. In Q4 2018, Shopping revenue per click was 10% higher than text ad revenue per click on desktop and 6% lower on phones.

## Revenue Per Click Growth Improves Across Most Google Search Ad Segments

Non-Brand Y/Y Revenue Per Click Growth  
Google Shopping & Text Ads by Device



The average revenue per click produced by mobile Google text ads and Shopping ads grew roughly 14% Y/Y for each segment in Q4 2018. On desktop, Google text ad revenue per click grew 5%, while Shopping revenue per click fell 1%. Compared to Q3 2018, advertisers saw the biggest revenue per click growth improvement for mobile text ads, while desktop Google Shopping was the only major segment to show weaker revenue per click growth in Q4.



## Amazon's Google Shopping Approach Appears Unchanged Through Holidays

### Amazon Google Shopping Impression Share

Home Goods Category

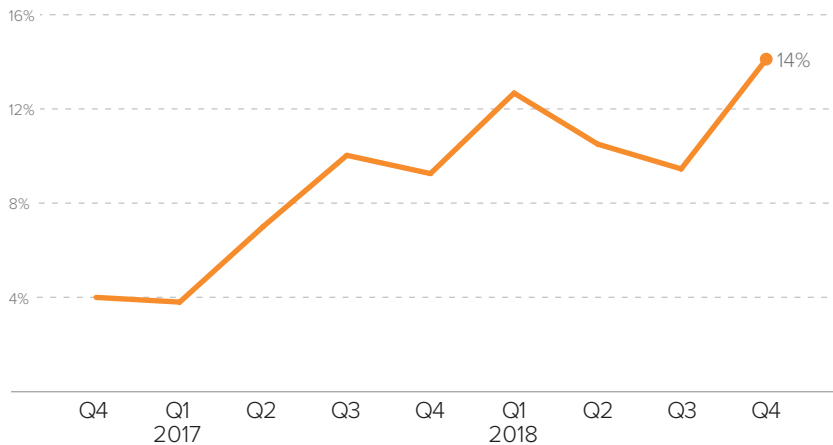


As a competitor within Google Shopping ad auctions, Amazon's share of impressions within the home goods product category increased toward the end of Q4 2018, but at a slower rate than that seen for Merkle clients. It did not appear that Amazon made any significant moves to expand its Google Shopping presence into new product categories. Amazon also remains a bigger competitor for the Google text ad segment, where it generally produces the highest share of impressions across retail product categories.

## Local Inventory Ad Share of Google Shopping Clicks Jumps Five Points

### Local Inventory Ad Share of Google Shopping Clicks

US Retail - Participating Brands

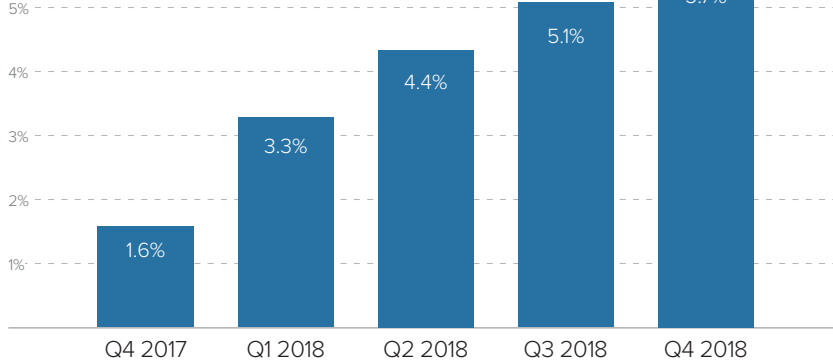


Among participating brands, Google's Local Inventory Ads (LIAs) produced 14% of all Google Shopping ad clicks in Q4 2018, a nearly five-point jump from Q3 2018 and a new all-time high for the format. LIAs have proven to be particularly valuable for brick-and-mortar advertisers as they have tried to attract last-minute holiday shoppers to physical store locations.

## Showcase Shopping Click Share Continues Steady Rise

### Showcase Shopping Ad Share of Phone Google Shopping Clicks

US Retail - Participating Brands

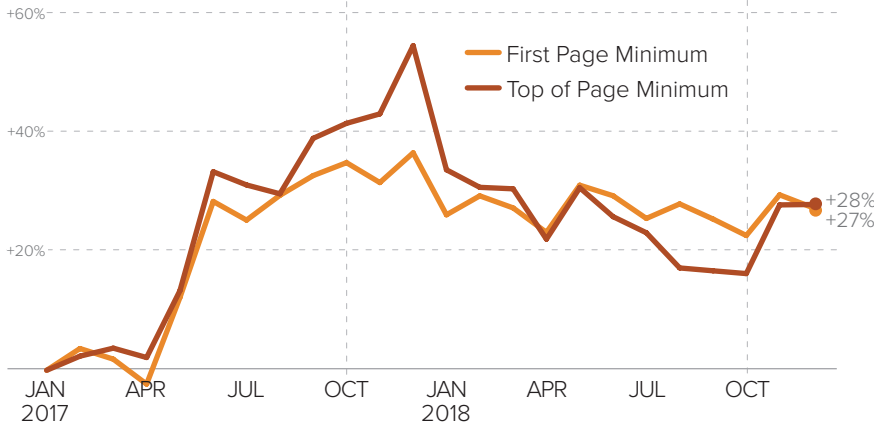


Google's Showcase Shopping ad format produced nearly 6% of all phone Google Shopping ad clicks in Q4 2018, among participating brands. First publicly announced in Q3 2016, it took until late 2017 for the format to generate meaningful volume. Since Q4 2017, Showcase Shopping click share has nearly quadrupled. Showcase Shopping ads are visually similar to traditional PLAs, but they take the user to a Google-hosted store page for the advertiser.

## Google Minimum Text Ad Bids Steady, but CPCs Have Risen

### Google Non-Brand Text Ad Minimum Bid Estimates

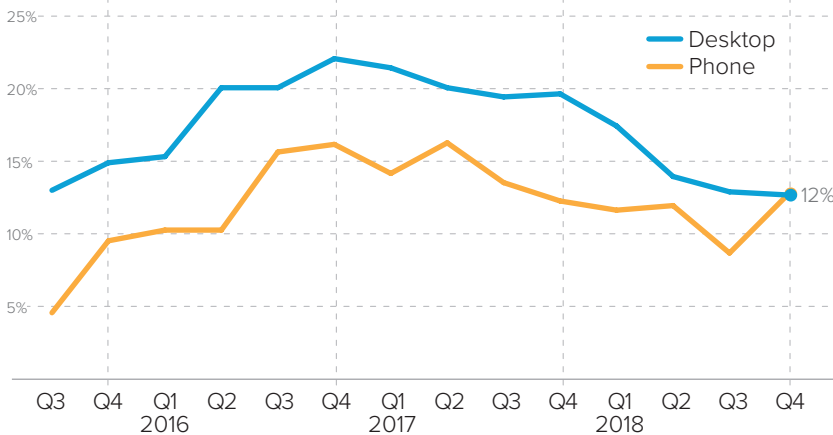
Relative to January 2017



Minimum bids to get a non-brand text ad to appear at the top of Google's search results have been fairly stable since mid-2017, remaining about 30% higher than they were at the start of 2017. Non-brand text ad minimum bids began to spike in May 2017, around the time that Google made a confirmed change to its Ad Rank calculations. While these Google-reported minimums haven't changed much in over a year, most advertisers have seen rising CPCs for non-brand text ads.

## Position One Taking More Desktop Google Search Ad Clicks

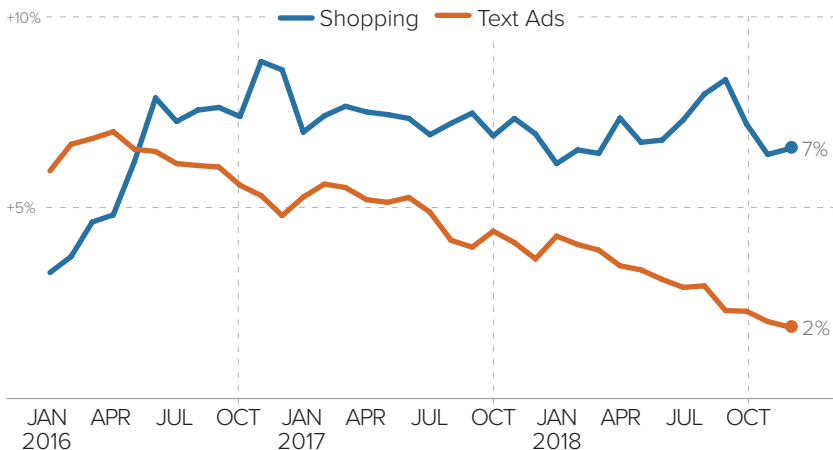
### Share of Non-Brand Google Text Ad Clicks from Top-of-Page Position 3 & 4 Ads



The share of desktop Google non-brand text ad clicks produced by ads in position three and four at the top of the results page fell slightly to 12% in Q4 2018. That was down from 19% a year earlier, as a larger share of desktop clicks has been generated by ads in position one. On mobile, position three and four click share in Q4 2018 was slightly higher than a year earlier following a particularly big jump in click share from October to November 2018.

## Search Partner Share of Google Shopping Clicks Set to Drop in 2019

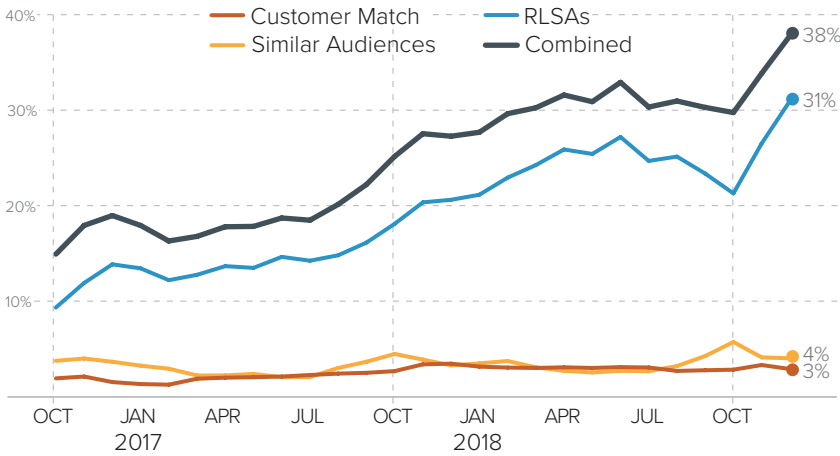
### Search Partner Share of Google Search Ad Clicks



Google's search partners produced nearly 7% of all Google Shopping clicks in Q4 2018, a level that has been fairly consistent since mid-2016. That rate is likely to fall by a couple points in Q2 2019, though, as Yahoo, which has shown Google Shopping ads since early 2016, begins to rely exclusively on Bing for its search ads. Partner share of Google text ad clicks has fallen consistently in recent years, hitting just 2% in Q4 2018.

## Reach of Audience Targeting for Google Search Ads Rebounds

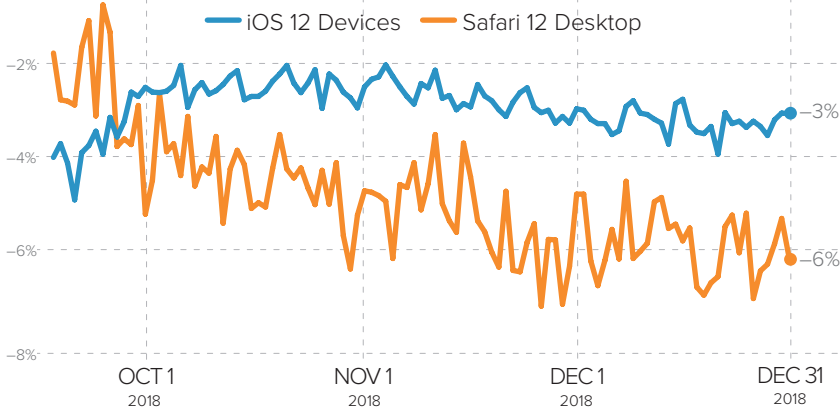
### Share of Google Search Ad Clicks by Audience Type



Google's Customer Match, similar audiences, and RLSA audience targeting products combined for 38% of Google search ad clicks in December 2018, a new all-time high. The reach of these specifically targeted search audiences had fallen appreciably after the launch of Apple's ITP 2.0 in September, with RLSA click share dropping six points below its previous high. Similar audience click share has since risen, but most of the late 2018 gains have come from a rebound for RLSA.

## Audience Click Share Gap Between Safari and Other Browsers Widens

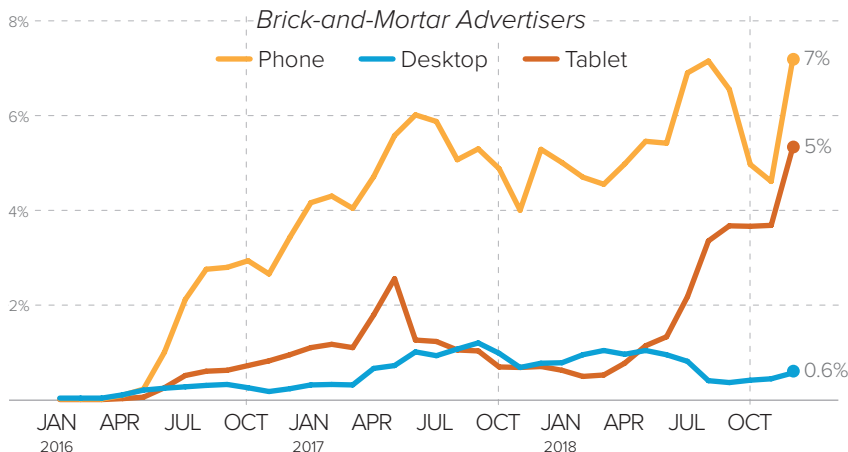
### Google Audience Click Share by Browser/OS vs. Overall Average



Although the overall share of Google search ad clicks driven by audience targeting has increased, as has the share driven on the Safari browser, the gap in audience click share between Safari and other browsers has been widening. At the end of the year, audience click share was three points below average on iOS 12 devices and six points below average on desktop Safari 12. These trends suggest ITP 2.0 may still be a threat to RLSA usage going forward.

## Google Maps Search Ad Click Share Ends 2018 On High Note

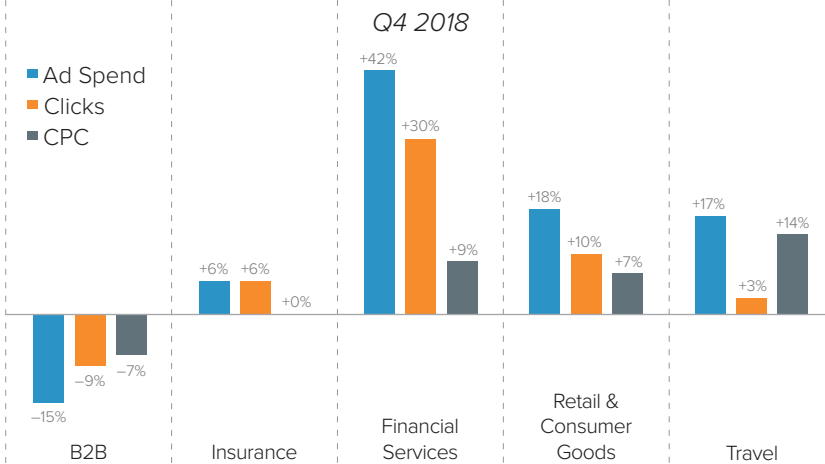
### Get Location Details Share of Google Text Ad Traffic



As indicated by numbers that Google reports as Get Location Details clicks, Google Maps produced 7% of brick-and-mortar advertisers' Google phone text ad clicks in December 2018. Maps click share on phones dipped earlier in Q4, but the December rate was near an all-time high. Tablets did see an all-time high in Maps click share in December, while desktop continues to see a relatively low click share for Maps.

## Financial Services Sees Largest Growth in Google Search Ad Investment

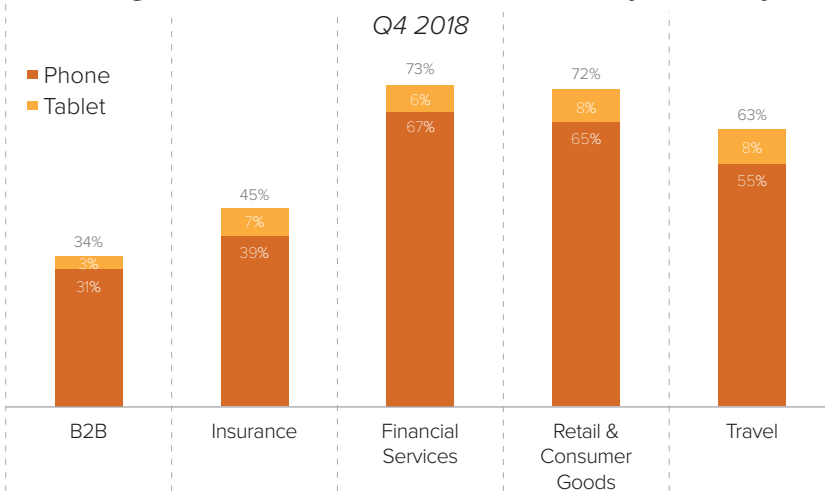
Google Overall Paid Search Growth by Industry



Financial services led other major industries with 42% growth in Google search ad investment in Q4 2018, with click growth jumping to 30%. Retail and consumer goods advertisers increased their Google search ad investment by 18% Y/Y in Q4 2018, similar to Q3 growth rates, but on stronger click growth. Travel search spending grew 17%, but that was primarily driven by higher CPCs. With spend down 15% Y/Y, B2B search ad investment fell for the second straight quarter.

## Industries with Fastest-Growing Search Spend See Highest Mobile Click Share

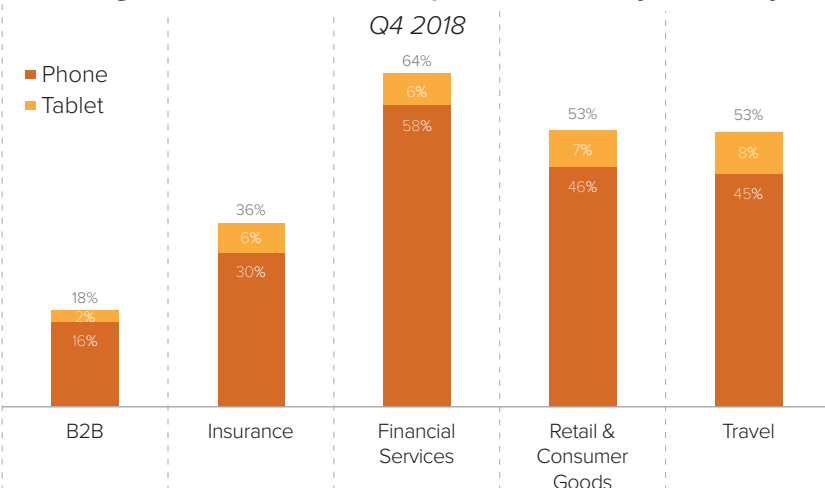
Google Phone & Tablet Click Share by Industry



The two industries with the highest growth rates in Google search ad investment also saw the highest click share for mobile devices in Q4 2018. Phones and tablets combined to produce 73% of financial services advertisers' Google search ad clicks in Q4 2018 and 72% of retailer and consumer goods advertisers' clicks. Mobile click share was up 12 points compared to a year earlier for the financial services industry and five points for retail and consumer goods.

## Retail, Financial Services See Jumps in Phone Share of Google Search Spend

Google Phone & Tablet Spend Share by Industry

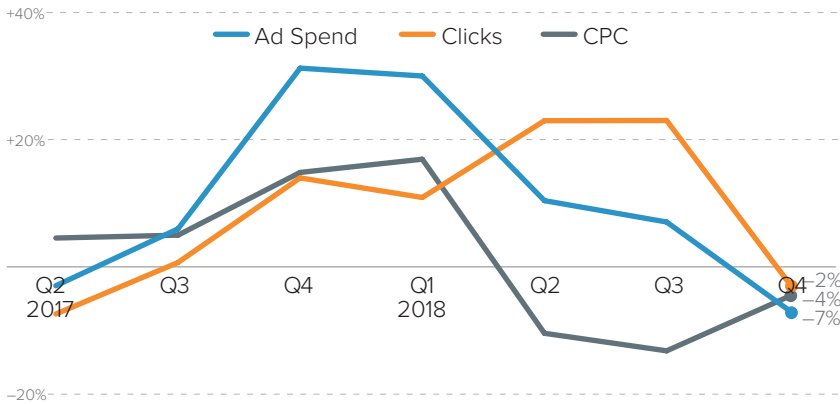


Phones contributed 58% of Google search ad spend for the financial services industry in Q4 2018, a 13-point increase from a year earlier. For retail and consumer goods, phone spend share increased 10 points over the same period to reach 46% in Q4 2018. The retail and consumer goods industry still sees the largest absolute gap between Google mobile click and spend share, but that gap closed by three points between Q4 2017 and Q4 2018.

## Facing Stronger Comps, Bing and Yahoo Search Spending Falls

### Bing Ads & Yahoo Gemini Overall US Paid Search

Y/Y Growth

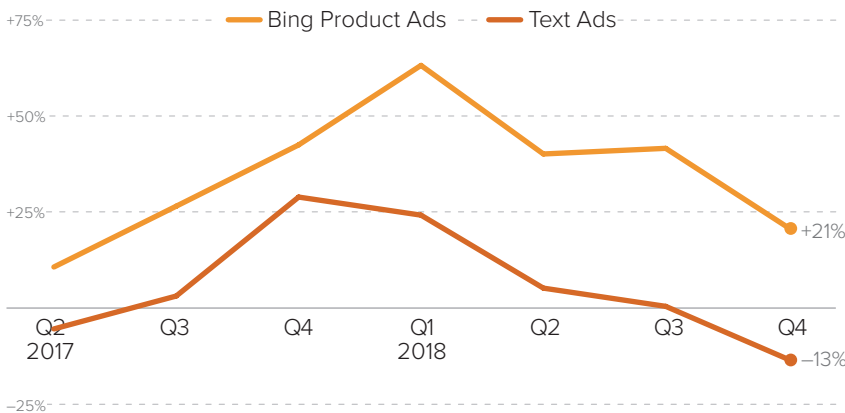


Search ad spending across Bing Ads and Yahoo Gemini fell 7% Y/Y in Q4 2018, as click growth decelerated sharply to a 2% Y/Y decline for the quarter. Bing Product Ads had seen a surge in volume in late 2017, which is now resulting in much stronger year-ago comps. Bing traffic should benefit in 2019, though, as Verizon's Yahoo stops using various ad sources like Gemini and Google Shopping and begins sourcing all of its search ad traffic from Bing Ads.

## Bing Product Ad Spending Growth Slows to 21%

### Bing Ads & Yahoo Gemini Spend by Ad Format

Y/Y Growth

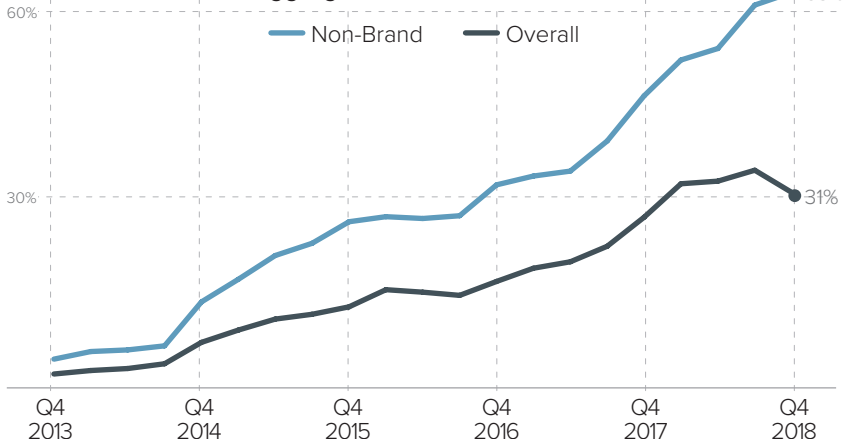


Although Bing Product Ad spending increased 21% Y/Y in Q4 2018, that was a 21-point deceleration from the previous quarter, echoing a similar sized increase in spending growth between Q3 and Q4 2017. Most of that 2017 jump in growth was driven by phone Product Ads, which achieved spending gains of over 300% in late 2017. That rate has now slowed to just 11%. Text ad spending growth for the two platforms continued its slide from a recent high of 29% in Q4 2017.

## Overall Bing Product Ad Click Share Up from 2017, but Increase Trails Google

### Bing Product Ad Share of Bing Ads Paid Search Clicks

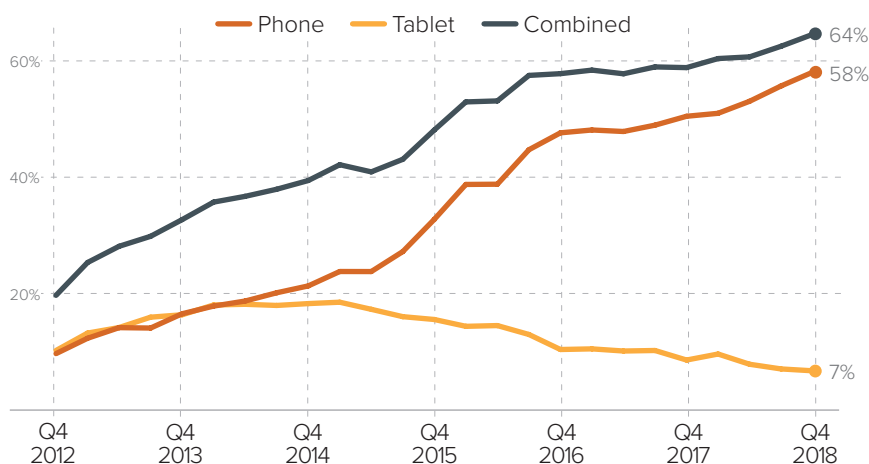
Aggregate Results - US Retail



Bing Product Ads produced 63% of retailers' non-brand search ad clicks for the Bing Ads platform in Q4 2018, up from 47% a year earlier. Including brand ads, Product Ads produced 31% of all Bing search ad clicks in Q4 2018, up from 27% a year earlier. To the degree that Google is a reasonable model for Bing, overall Product Ad click share is roughly four years behind Google's Shopping Ads and did not grow as fast between Q4 2017 and Q4 2018.

## Phones Continue to Take Search Ad Click Share at Higher Rates

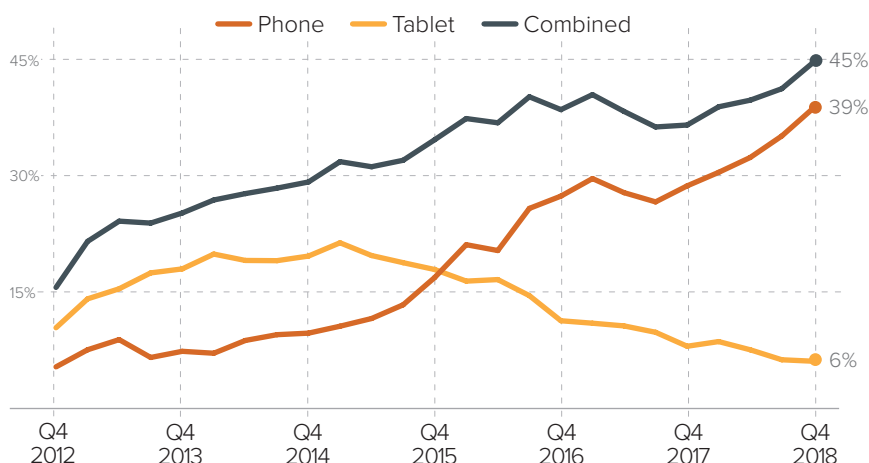
Phone & Tablet Share of Paid Search Clicks



In Q4 2018, phones picked up over two points of paid search click share for the third-straight quarter, the longest such streak since early 2016. Between Q4 2017 and Q4 2018, phone click share rose from 50% to 58%. Though still a drag on overall phone click share, Bing saw a 10-point gain in phone click share over that period, due to the strength of mobile Product Ads. Tablet click share fell from a little over 8% in Q4 2017 to under 7% in Q4 2018.

## Phone Share of Search Spend Increases at Fastest Rate in Two Years

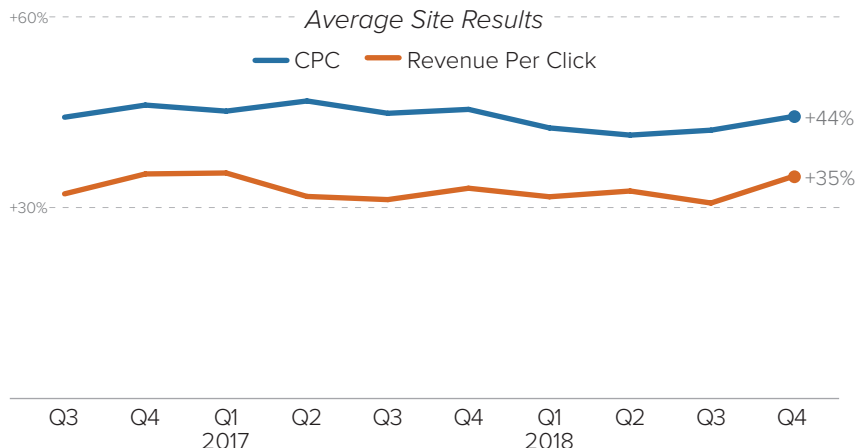
Phone & Tablet Share of Paid Search Ad Spend



Phones and tablets combined to account for 45% of search ad spending in Q4 2018, an eight-point increase from a year earlier. Phone search ad spend share jumped 10 points over the same period, reaching 39% in Q4 2018. This was the largest year-to-year increase in phone spend share since Q4 2016. The Q3 to Q4 2018 phone spend share jump of four points was the largest since Q3 2016. Having peaked in early 2015 at 21%, tablet share of search spend has now fallen to just 6%.

## Gap Between Phone and Desktop Search Ad CPCs Narrows Modestly in 2018

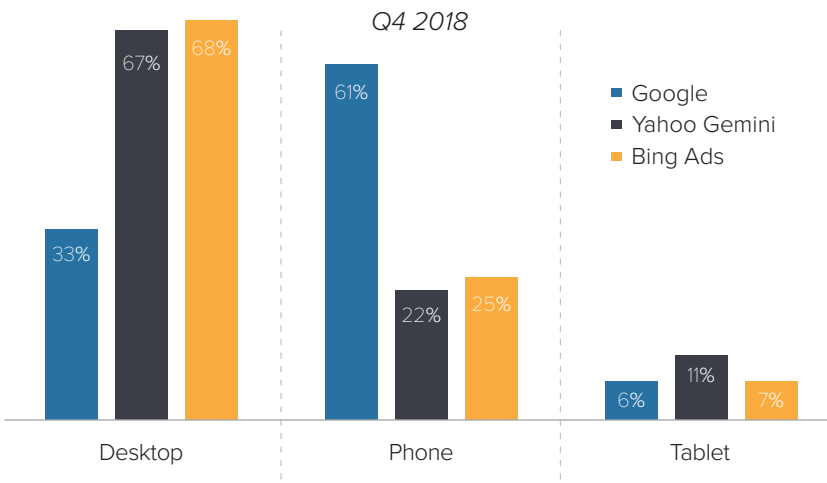
Phone vs. Desktop - Non-Brand Paid Search



For the average brand running non-brand search ads, phone CPCs were 44% as high as desktop CPCs in Q4 2018, while the average revenue per click for phone traffic was 35% of desktop revenue per click levels. The retail industry continues to see a relatively large gap between phone and desktop CPCs, while other verticals like financial services see very little difference. Overall, the gap between phone and desktop CPCs narrowed by two points in 2018.

## Mobile Devices Produce Over Two-Thirds of Google Search Ad Clicks

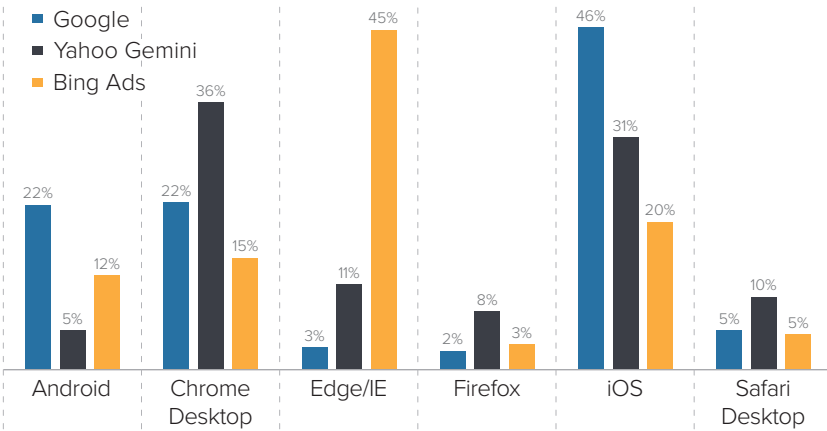
Device Share of Paid Search Clicks by Platform



For the first time, phones and tablets combined to produce over two-thirds of Google search ad clicks in Q4 2018. Phone share of Google clicks rose over six points between Q4 2017 and Q4 2018. Although Bing saw phone click share increase 10 points over the same period, Bing still relied on desktop to produce 68% of its clicks in Q4 2018. Yahoo Gemini saw similar results in Q4 2018, with desktop accounting for 67% of its clicks.

## iOS and Safari Produce Majority of Google Search Ad Clicks

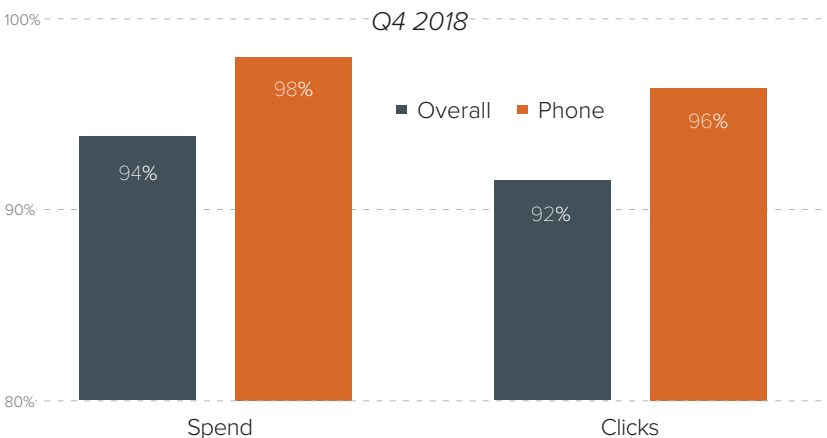
Browser/OS Share of US Paid Search Clicks by Platform



In Q4 2018, iOS devices produced 46% of US Google search ad clicks, while desktop Safari produced another 5%. This was the first time that Apple products accounted for a majority of Google clicks. Also showing the importance of being the default search provider for a browser, Bing generated 45% of its clicks from Edge and Internet Explorer, while Google produced just 3% of its clicks from Microsoft's browsers.

## Google Generates 98% of US Search Ad Spending on Phones

Google Share of US Paid Search



In Q4 2018, Google generated 98% of US paid search spending on phones and 94% of spending overall. Google's share of phone spending increased one point from a year earlier, while its share of all search spending increased nearly five points. In terms of click share, Google produced over 96% of phone clicks in Q4 2018 and 92% of all clicks, a three-point increase from a year earlier.

# ORGANIC SEARCH & SOCIAL

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Organic search produced just under 26% of all site visits in Q4 2018, a half-point decline from Q3 2018. Historically, organic search visit share has tended to dip during Q4, as many brands are more aggressive in other, typically paid, channels.

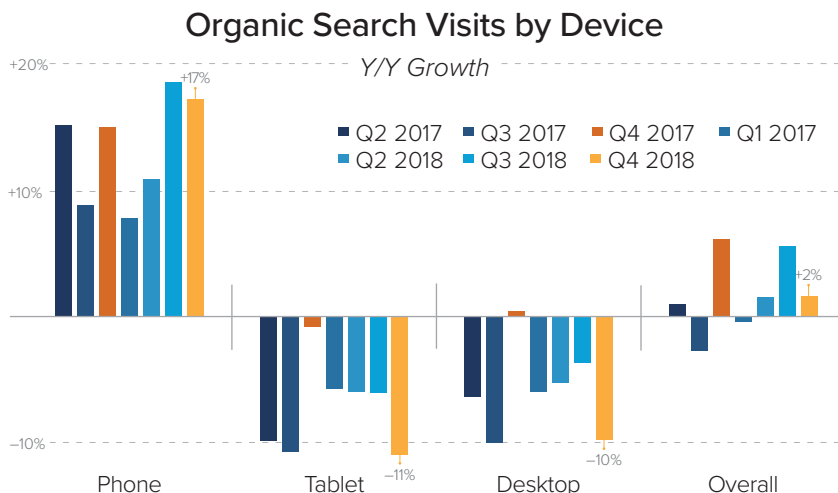
Google produced 96% of US mobile organic search visits. Although Bing produced roughly nine times as many organic search visits as DuckDuckGo overall in Q4 2018, on mobile devices, Bing only produced three times as many visits as DuckDuckGo.

After falling 13% Y/Y in Q3 2018, site visits produced by Facebook rebounded in Q4 2018, coming in 19% higher Y/Y. Instagram site visit growth accelerated to 123% Y/Y in Q4 2018, while Pinterest delivered a modest 1% increase in site traffic.



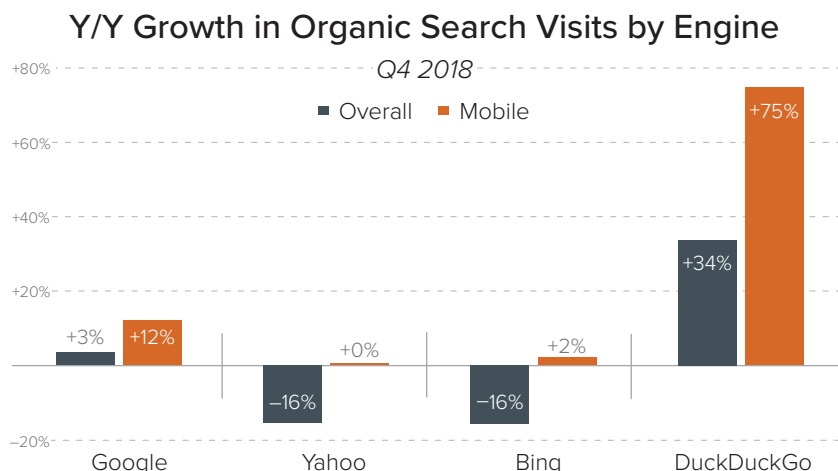


## Strong Phone Organic Search Growth Offset by Weaker Desktop Results



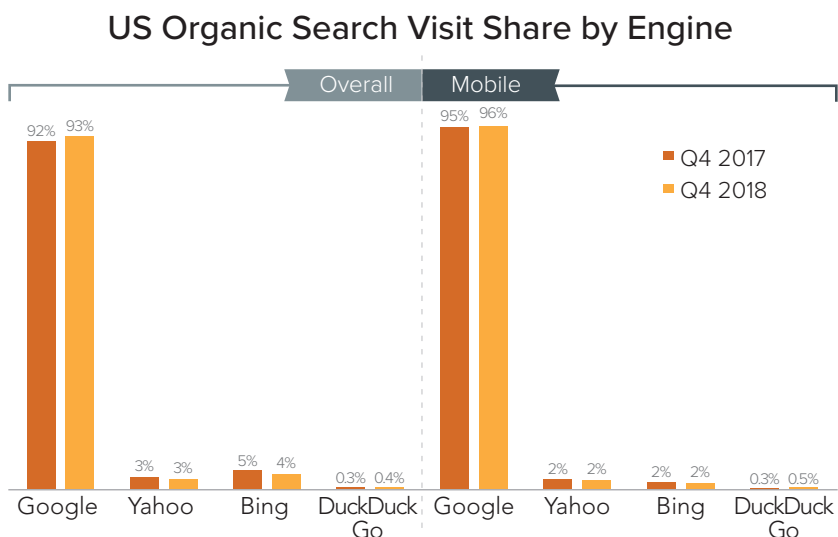
Total site visits produced by organic search grew a little less than 2% Y/Y in Q4 2018, down from nearly 6% growth the previous quarter. Phone organic search visit growth remained strong at 17% Y/Y, but tablet and desktop visits declined at faster rates in Q4. Desktop organic search visits declined 10% Y/Y, the weakest result for this segment since Q3 2017, while tablet organic search visits fell at the fastest rate since Q1 2017.

## DuckDuckGo Query Growth Translating into Notable Site Visit Growth



Official DuckDuckGo numbers show the search engine generated about 64% more direct queries in Q4 2018 than a year earlier. In terms of the site visits that growth has produced, Merkle data shows DuckDuckGo organic search visits up 34% Y/Y overall in Q4 2018, but a more impressive 75% on mobile devices. Google organic search visits grew 3% in Q4 2018, while Yahoo and Bing both saw a decline of 16%. On mobile, Google produced 12% visit growth, Bing saw 2% growth, and Yahoo saw less than 1% growth.

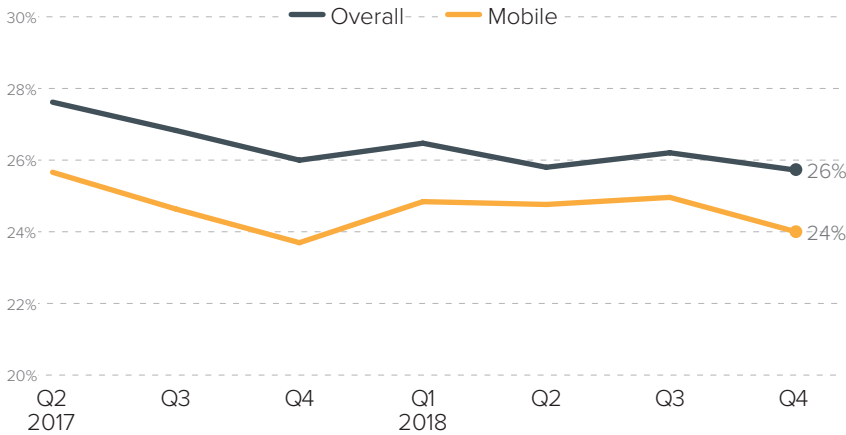
## Google Continues to Generate a Growing Share of Organic Search Visits



Google produced 93% of US organic search visits in Q4 2018, up from 92% a year earlier. On mobile, Google produced 96% of organic search visits. Although Bing produced roughly nine times as many organic search visits as DuckDuckGo overall in Q4 2018, on mobile devices, Bing only produced three times as many visits as DuckDuckGo. Still, DuckDuckGo only accounted for 0.4% of all organic search visits in Q4 2018 and 0.5% of mobile organic search visits.

## Organic Search Site Visit Share Dips in Q4 2018 as Paid Search Share Rises

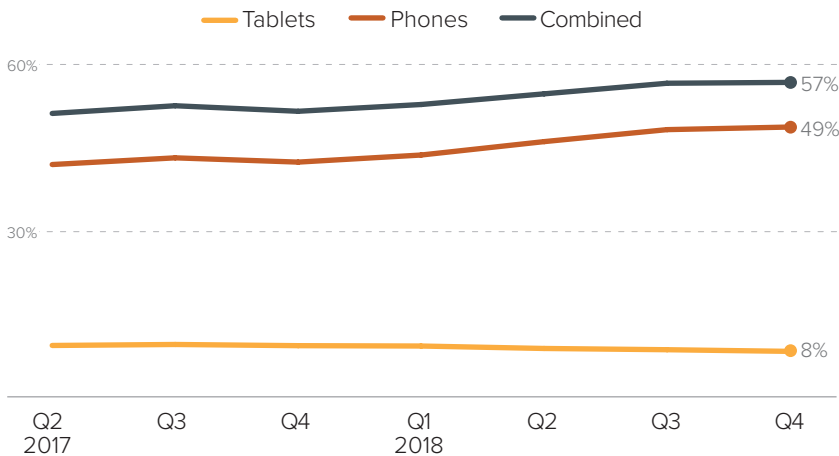
Organic Search Share of All US Site Visits



Organic search produced just under 26% of all site visits in Q4 2018, a half-point decline from Q3 2018 and a slight decline from a Q4 2017. On mobile devices, organic searches produced 24% of site visits, a small increase from Q4 2017 and a one-point decline from Q3 2018. Historically, organic search visit share has tended to dip during Q4, as many brands are more aggressive in other, typically paid channels. In 2018, paid search saw some of the largest site share gains between Q3 and Q4.

## Phone Share of Organic Search Visits Rises Seven Points in Past Year

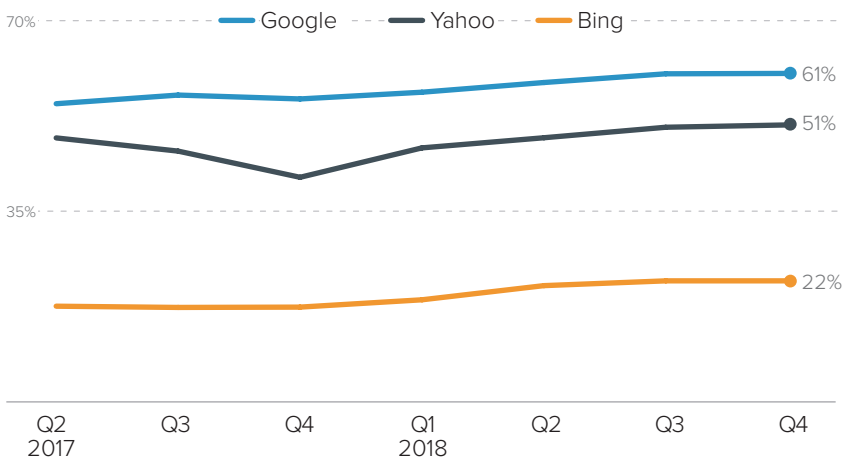
Mobile Share of US Organic Search Visits



Phones produced 49% of organic search visits in Q4 2018, up from 42% a year earlier. Tablet share of organic search fell from 9% in Q4 2017 to 8% in Q4 2018. Phone organic search visit share was nine points lower than phone paid search click share in Q4 2018, a slightly wider gap than the previous year. Tablet organic search visit share continued to run higher than tablet share of paid search clicks.

## Mobile Share of Google Organic Search Visits Holds Steady at 61%

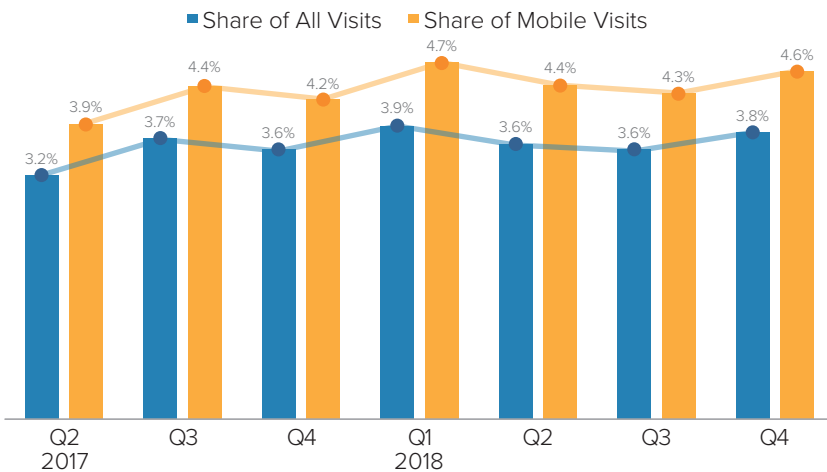
Share of Each Engine's Traffic from Mobile



Phones and tablets produced 61% of Google organic search visits in Q4 2018, in line with Q3 2018 results. Mobile devices produced 51% of Yahoo organic search visits in Q4 2018, compared to just 33% of Yahoo Gemini search ad clicks. Some of that disparity may be due to nuances in how Bing search ads power Yahoo results, as only 22% of Bing organic search visits were from mobile devices, but mobile produced 32% of search ad clicks from the Bing Ads platform.

## Facebook Helps Drive Social Media Site Visit Share Higher

Social Media Share of Site Visits

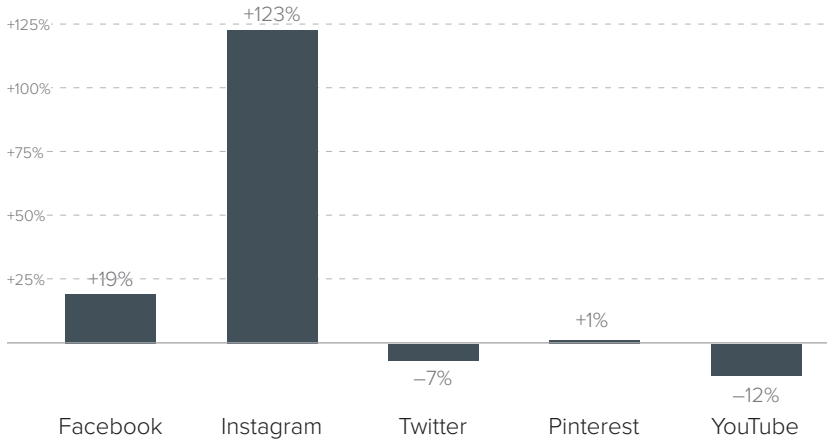


After falling for two quarters in a row, the share of visits to brand sites produced by social media increased to 3.8% in Q4 2018, in part due to higher visit growth from Facebook. On mobile devices, social media produced 4.6% of site visits in Q4 2018, up from 4.2% a year earlier, but still slightly below Q1 2018 share. There remains a wide range of social media contribution to site traffic from one brand to the next.

## Site Visits Driven by Facebook Grow at Improved Rate

Social Media Site Visit Growth Y/Y

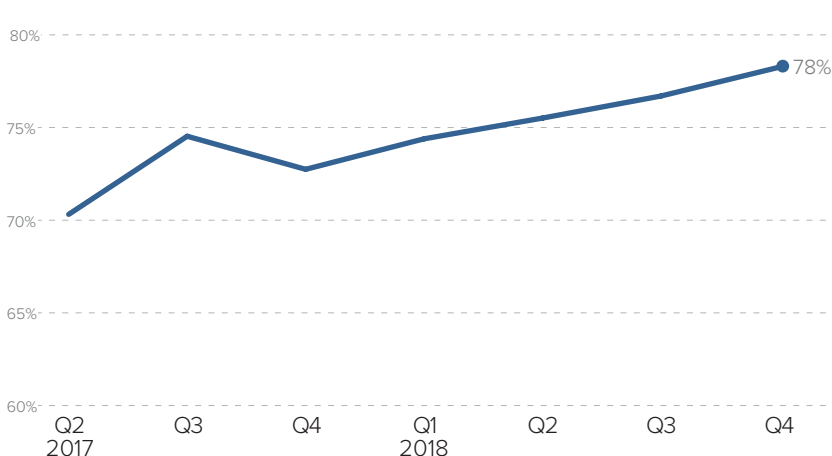
Q4 2018



After falling 13% Y/Y in Q3 2018, site visits produced by Facebook rebounded in Q4 2018, coming in 19% higher Y/Y. Instagram site visit growth accelerated to 123% Y/Y in Q4 2018, while Pinterest delivered a modest 1% increase in site traffic. Visits produced by Twitter fell 7% for the second quarter in a row, while visit growth from YouTube decelerated sharply to a 12% decline.

## Mobile Share of Social Media Visits Rises to 78%

Mobile Share of Social Media Site Visits



Phones and tablets accounted for a little over 78% of site visits produced by social media platforms in Q4 2018, up from 73% a year earlier. By comparison, mobile drove 57% of organic search visits and 64% of paid search visits. As the largest social media traffic producer in the US by far, Facebook drives social media share trends, but generally sees a higher-than-average contribution from mobile.

# DISPLAY & PAID SOCIAL

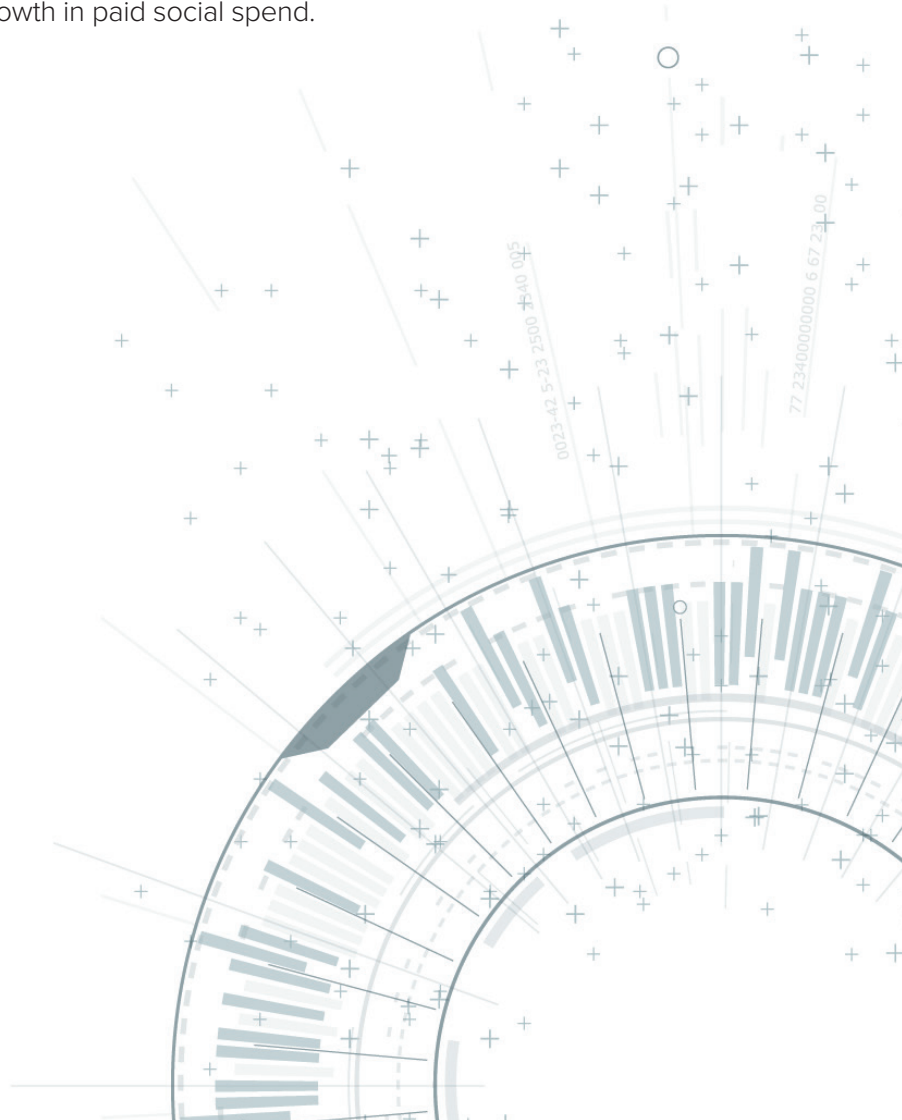
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Facebook ad impressions grew 5% Y/Y, as spend growth slowed to 10% for the quarter.

Instagram continues to drive significant revenue growth for Facebook and accounted for 27%, as much advertiser spend as Facebook proper for brands advertising on both in Q4 2018.

Pinterest ad spend doubled Y/Y, as impression volume and pricing both grew meaningfully.

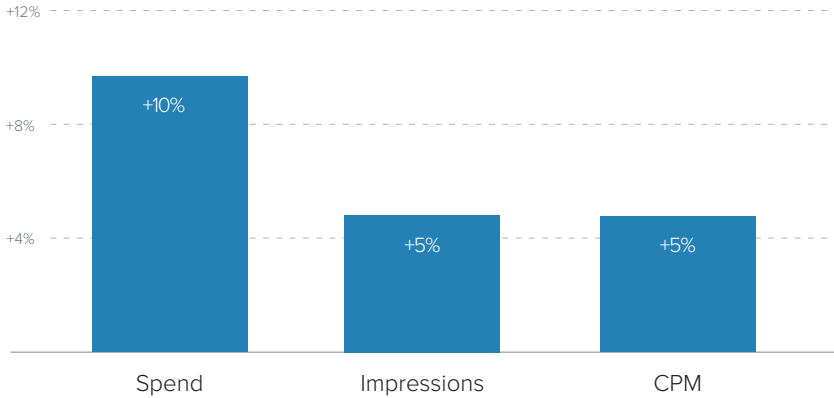
Traditional display advertising spending grew just 2% Y/Y for the median advertiser, far eclipsed by the 31% growth in paid social spend.



## Advertising Spend Growth for Facebook Proper Slows

### Facebook Ads Y/Y Growth

Q4 2018 - Median Advertiser

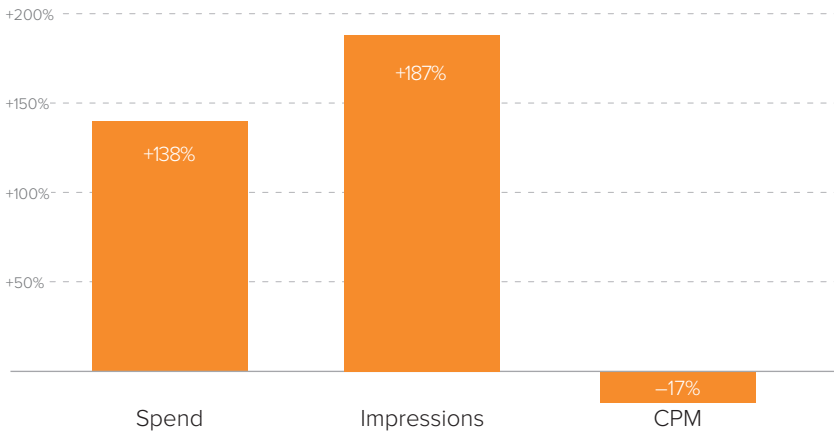


Excluding its quickly growing Instagram property, ad spend on Facebook slowed to 10% in Q4 2018, with both impressions and CPM seeing only modest 5% bumps year-over-year. Spend growth deceleration is more the result of platform maturation, as Facebook is now finding it harder to increase ad load, and is not the result of advertisers pulling campaigns down off the platform as a result of the negative news reports surrounding the social media giant.

## Instagram Ad Spend More than Doubles Y/Y, Far Outpacing Facebook Growth

### Instagram Ads Y/Y Growth

Q4 2018 - Median Advertiser

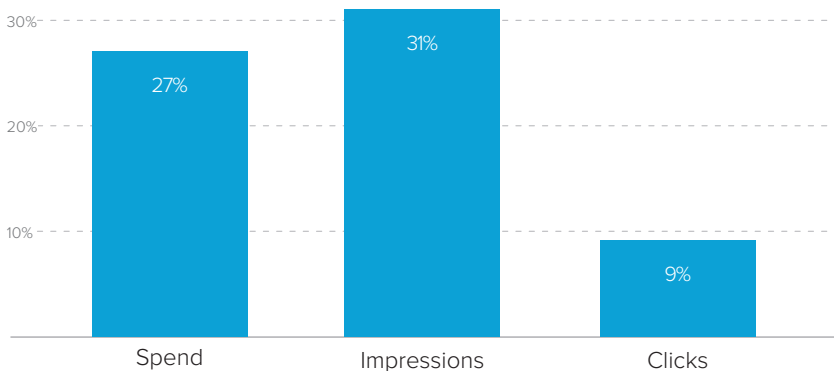


Advertisers investing on Instagram since at least last Q4 increased spend 138% despite a modest decline in CPM Y/Y. Many marketers wading into Instagram Stories later in 2018 saw great success with the format and intend to continue investing in it throughout 2019. As has been the case for a few quarters now, Instagram is driving a significant portion of the overall growth in Facebook ad revenue.

## Instagram Now Accounts for More than 1/4 as Much Spend as Facebook

### Instagram Performance Relative to Facebook

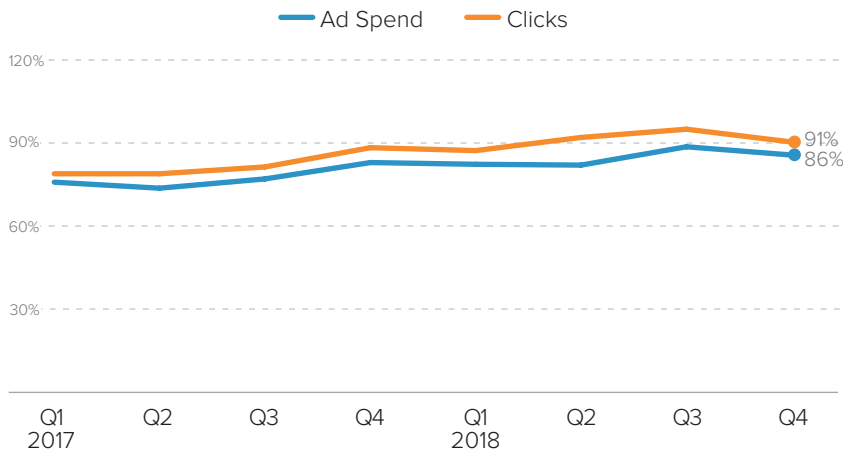
Q4 2018 - Median Advertiser



For the median advertiser spending on both Facebook and Instagram, Instagram investment rose to 27% that of Facebook in Q4 2018, up meaningfully from 19% in Q3 and triple the 9% observed in Q1. In addition to growing relative spend for those advertisers on both properties, the number of active advertisers on Instagram continues to climb, as it remains the case that nearly all Instagram advertisers are on Facebook, but that the reverse is not yet true.

## Facebook Proper Mobile Click Share Remains Above 90%

Facebook Ads Mobile Share

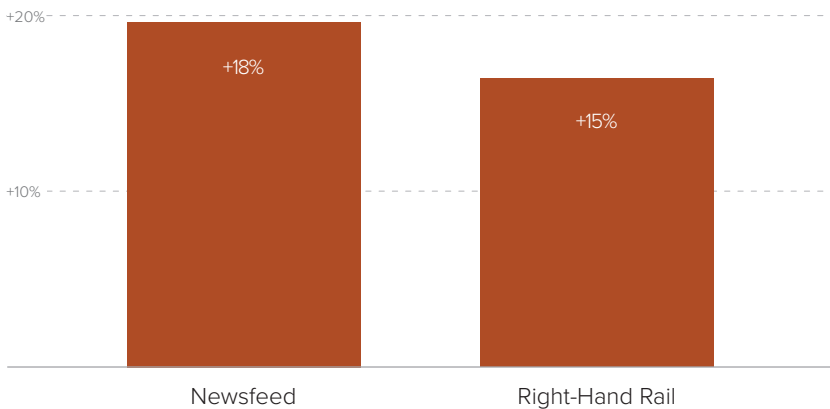


Facebook continues to derive the vast majority of its ad spend from phones and tablets, with 91% of clicks and 86% of spend attributed to mobile devices for Facebook proper (excluding Instagram). With Instagram ad clicks and spend almost entirely coming from mobile devices, the social media giant continues to outpace most other digital marketing platforms in terms of mobile dependence.

## Facebook Ad CTR Up Y/Y for Units in the Newsfeed and Right-Hand Rail

Facebook Ads CTR Change Y/Y

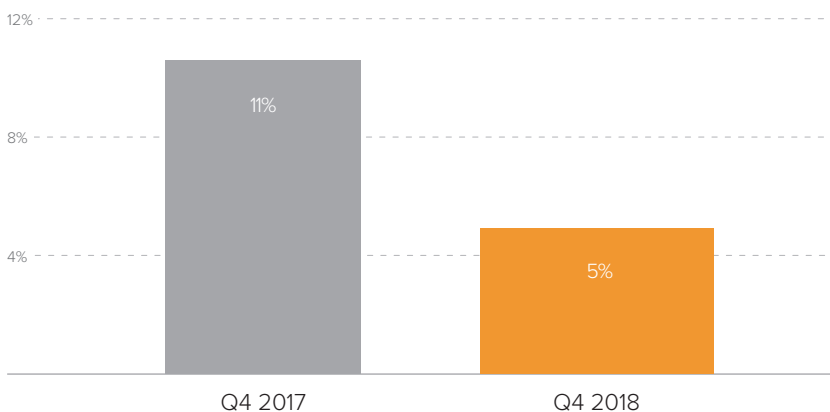
Q4 2018



As we've seen since the beginning of 2018, the click-through rate (CTR) of Facebook ads in the Newsfeed and right-hand rail increased Y/Y, with gains of 18% and 15% respectively. Having lapped Facebook's mid-January 2018 update to reduce the number of unsponsored posts from brands and publishers featured in the Newsfeed, advertisers might start to see CTR gains fade in Q1 2019.

## Audience Network Spend Share Slips for Participating Advertisers

Audience Network Share of Facebook Ad Spend

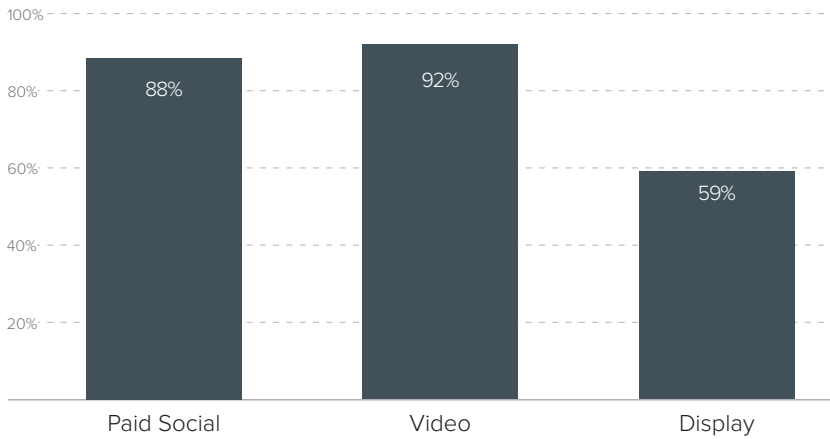


Looking at the median advertiser targeting the Facebook Audience Network in Q4 2017 versus 2018, the share of Facebook spend attributed to the network slipped from 11% to 5%. Aimed at allowing marketers to place ads on apps outside of Facebook using Facebook targeting, the Audience Network is used by a relatively small share of all Facebook advertisers.

## Video Tops 90% Mobile Spend Share in Q4, Eclipses Paid Social

Mobile Ad Spend Share by Channel Type

Q4 2018

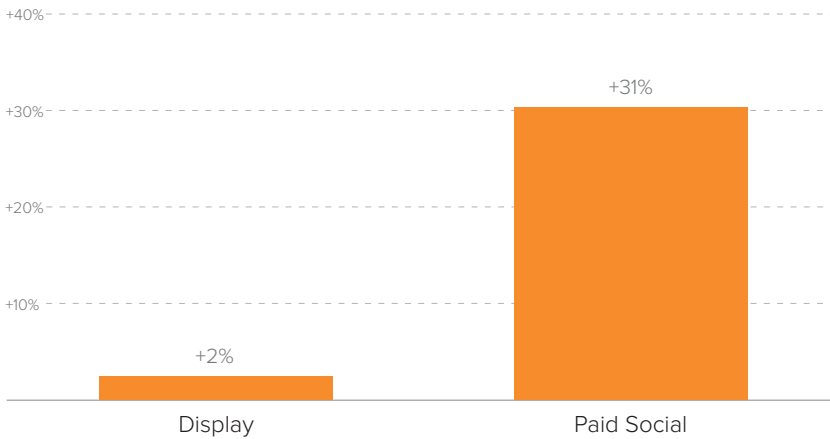


Paid social and video advertising have long outpaced traditional display advertising in terms of the spend share attributed to phones and tablets, and Q4 2018 was no different. Lagging mobile spend share is probably also one of the reasons why display advertising Y/Y spend growth trails that of paid social.

## Traditional Display Ad Spend Growth Roughly Flat Y/Y, Paid Social Soars

Display and Paid Social Y/Y Spend Growth

Q4 2018 - Median Advertiser

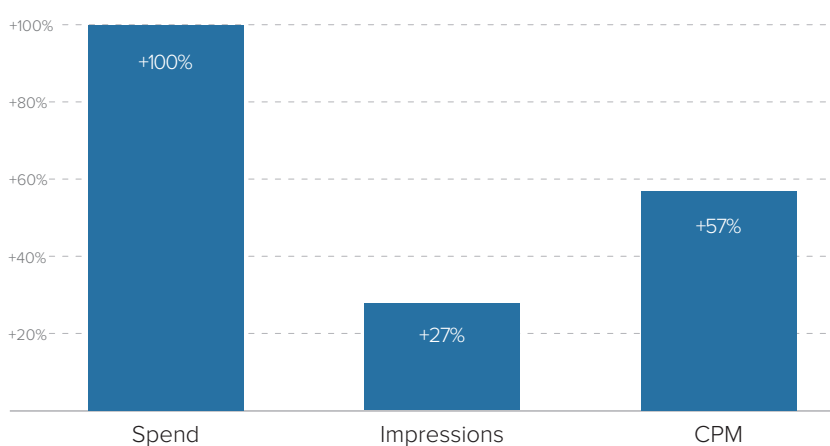


For the median advertiser investing in traditional display advertising since Q4 2017, ad spend increased just 2% Y/Y in Q4 2018. By comparison, the median paid social advertiser increased paid social investment by 31% Y/Y across all paid social networks. Instagram was the biggest driver of paid social spend growth in Q4 and stands to continue to be a key force in 2019.

## Pinterest Advertisers Double Investment in the Platform Y/Y

Pinterest Ads Y/Y Growth

Q4 2018 - Median Advertiser



The median advertiser on Pinterest since Q4 2017 increased spend by a tidy 100% Y/Y, with meaningful increases in both pricing and volume. The platform is still in the early goings of functionality and comes with struggles to manage campaigns and conduct comprehensive reporting on performance, but advertisers remain enthusiastic. In addition to driving awareness during consumer planning phases, shoppable product pins can help advertisers focused on direct response goals.

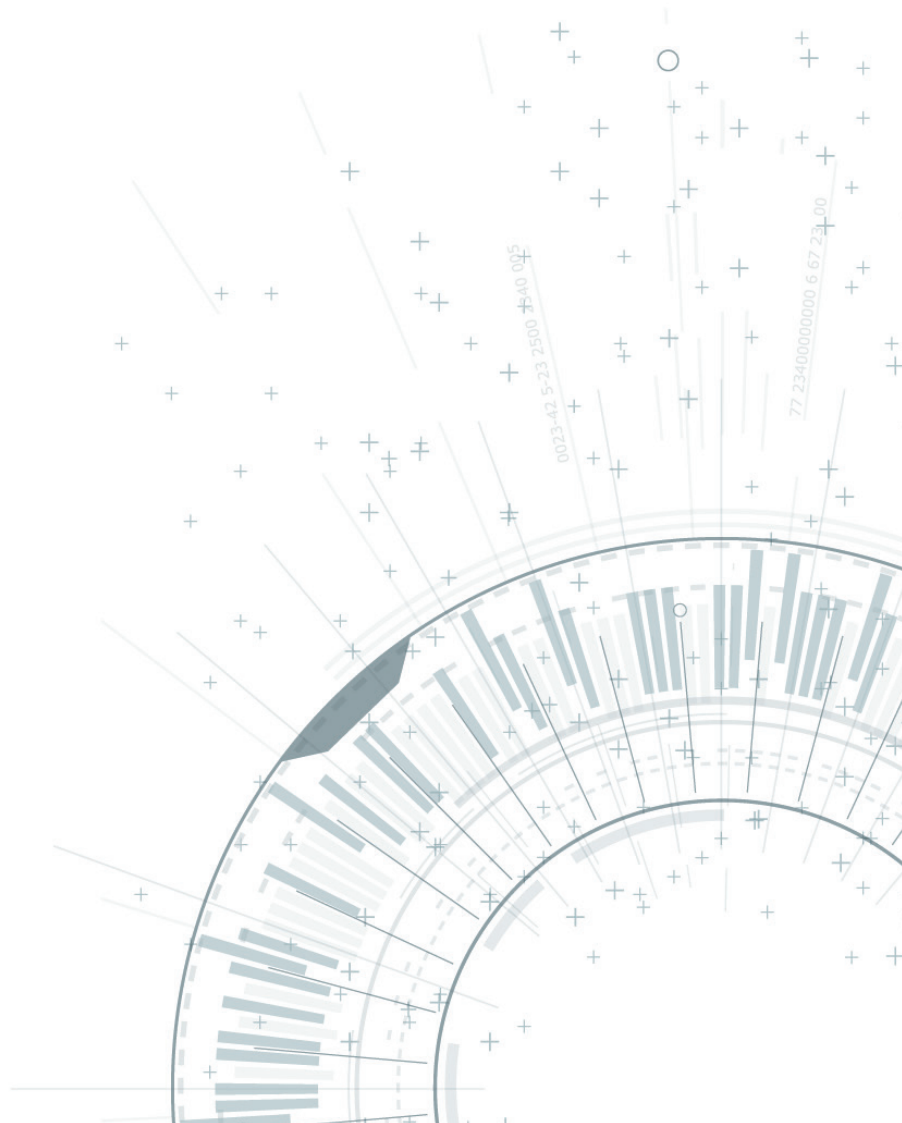
# AMAZON ADS

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Amazon Sponsored Products spend grew 15% Y/Y, while Sponsored Brands (formerly known as Headline Search Ads) grew 26%. Sponsored Products accounted for 87% of all Amazon ad spend in Q4.

Brand keywords accounted for 64% of Sponsored Brands sales and 47% of Sponsored Products sales in Q4, slight increases from Q3.

With an influx of impressions on Sponsored Brands driving down CTR for the format, both Sponsored Products and Sponsored Brands have significantly lower CTR than that of Google Shopping.

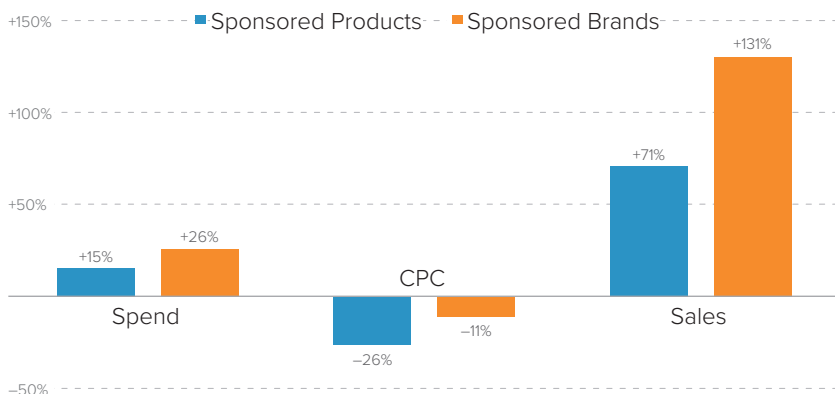




## Amazon Ads Spend Growth Slows but Advertisers See Big Sales Gains

### Amazon Ads Y/Y Growth by Ad Format

Q4 2018

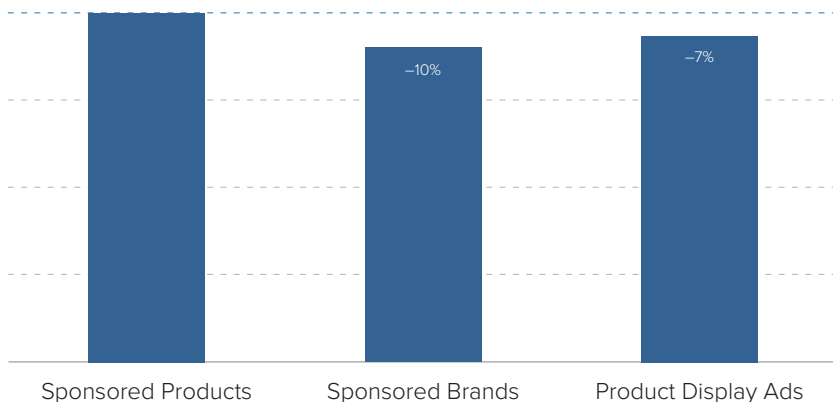


While Amazon Ads spend growth slowed from the impressive rates observed earlier in 2018, sales attributed to Sponsored Products and Sponsored Brands increased 71% and 131%, respectively, as advertisers with more mature campaigns continue to optimize traffic. Aiding in these optimizations was the rollout of automated Sponsored Brands bidding functionality through the API in the second half of 2018, allowing advertisers to take advantage of third-party bidding tools.

## Sponsored Products Maintains Highest SPC Among Amazon Ad Formats

### Amazon Relative Sales Per Click by Ad Format

Q4 2018 - Median Advertiser

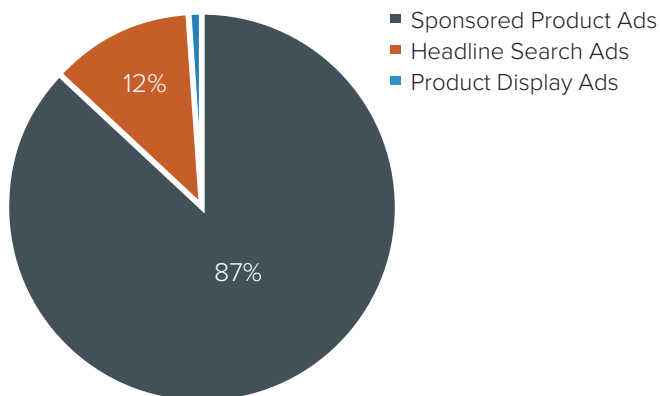


Among Amazon ad formats, Sponsored Products continues to drive the highest sales per click (SPC) for advertisers, while Sponsored Brands ads maintained roughly the same relative SPC as previous quarters. Product Display Ads sales per click surged relative to both of the other two formats after producing only about half the SPC of Sponsored Products in Q3. However, these ad units account for only a small and declining fraction of Amazon investment.

## Amazon Product Display Ad Spend Share Continues to Shrink

### Amazon Spend Share by Ad Format

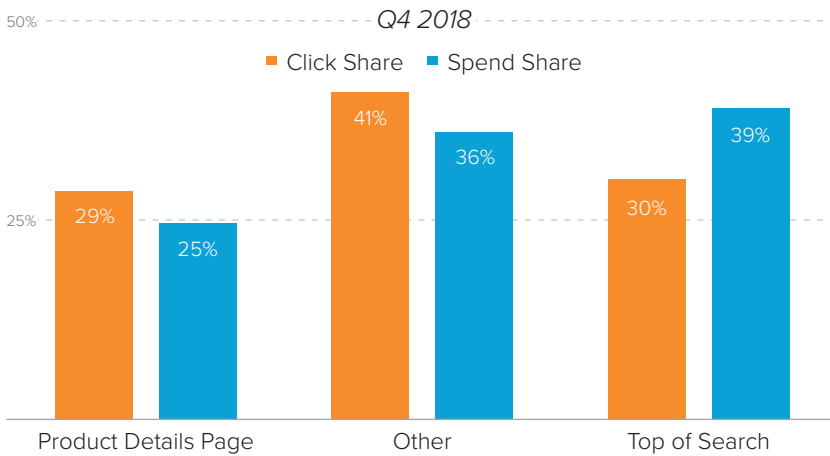
Q4 2018



Limited to only first-party vendors as an advertising option, Product Display Ads have long accounted for only a small share of overall Amazon spend, and that share continued to diminish from 3% in Q3 2018 to 1% in Q4. Sponsored Products continued to account for the vast majority of advertiser spend, showing not only in search results but also on product details pages, order confirmation pages, and in other Amazon environments.

## Amazon Product Details Pages Emerge as Significant Source of Traffic

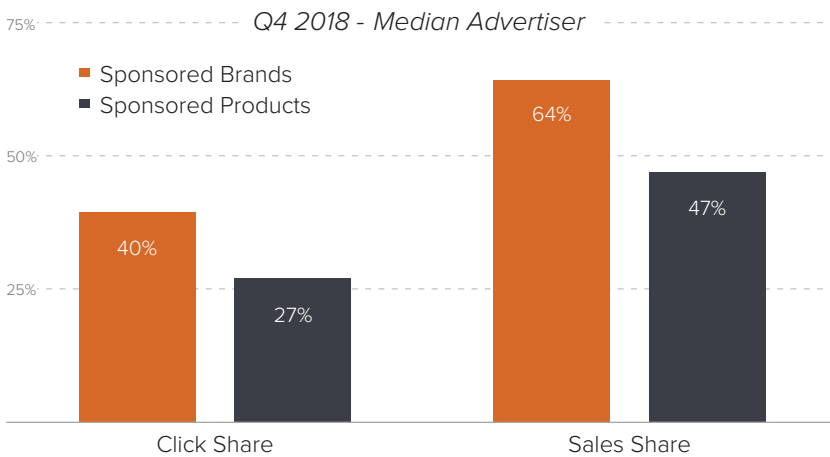
### Sponsored Products Share by Placement



Only recently segmented from "other" in Amazon reporting, product details pages ended up accounting for 29% of all clicks in Q4 2018, but were credited with 45% of December clicks, as the segmentation was rolled out throughout the quarter. Top-of-search ads accounted for roughly the same share of traffic as Q3 and continued to operate at a higher CPC than other placements. A January 2019 update will allow advertisers to adjust bids for Sponsored Products by placement.

## Brand Keywords Account for Almost 2/3 of Sales Attributed to Sponsored Brands

### Brand Keyword Share by Amazon Ad Format

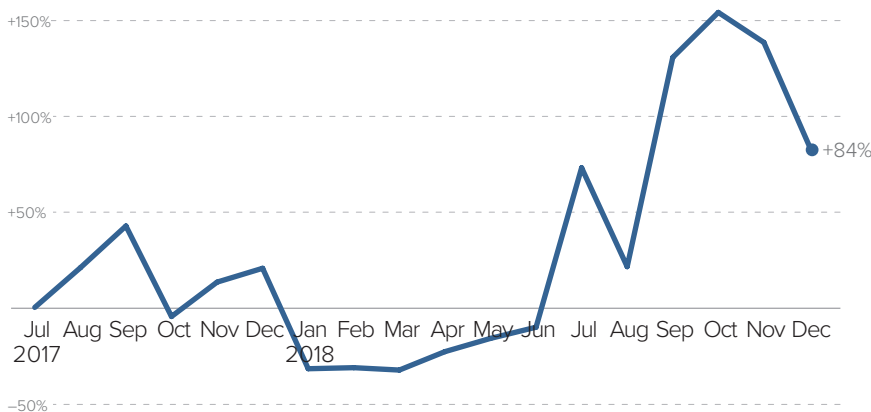


Keywords that include some iteration of advertisers' own brand names accounted for 40% of all Sponsored Brands clicks and 27% of all Sponsored Products clicks for the median advertiser. However, these ads typically convert at much higher rates than non-brand keywords, and therefore account for a much greater share of sales attributed to these ad units. Brand share of clicks and sales varies significantly based on brand recognition and affinity.

## Amazon Sponsored Brands Impressions Remained Elevated throughout Q4

### Amazon Sponsored Brands Impressions

Relative to July 2017

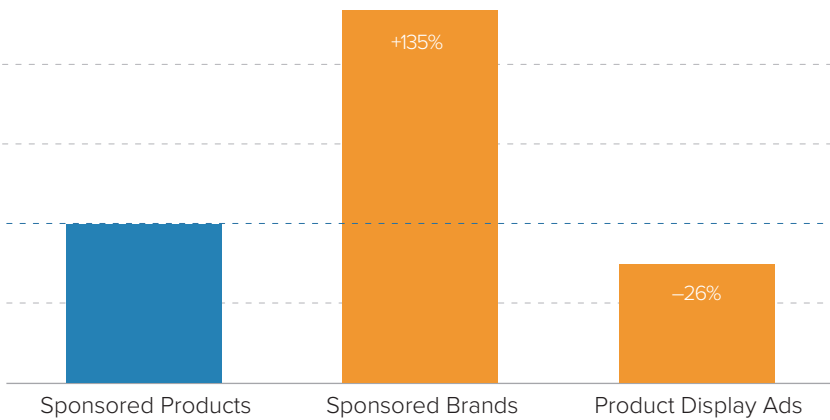


Long confined primarily to one listing at the very top of Amazon search results, Sponsored Brands were released to new placements in August, significantly increasing impressions as a result. While this has no doubt led to some additional ad clicks, Sponsored Brands continued to account for 12% of Amazon ads spend, the same as in Q3, as Sponsored Products continue to dominate the lion's share of ad dollars invested in the platform.

## Sponsored Products CTR Still Lags Behind Sponsored Brands CTR

### Amazon Relative CTR by Ad Format

Q4 2018 - Median Advertiser

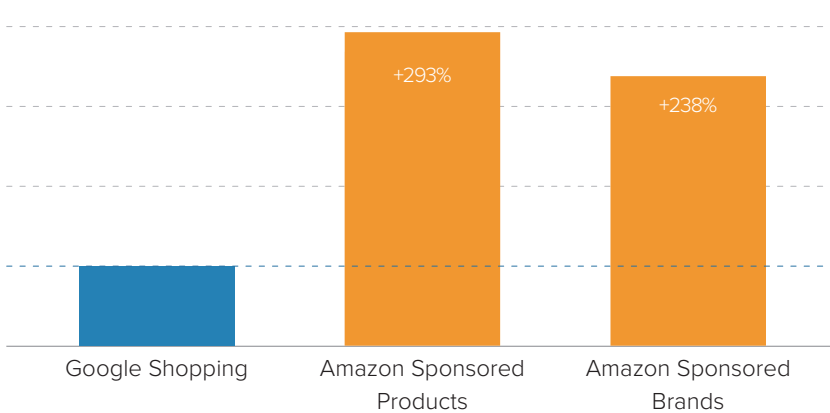


With prime placement at the top of search results pages, Amazon Sponsored Brands ads have historically had significantly higher CTR than that of the Sponsored Products units displayed further down the page. However, the August expansion of Sponsored Brands inventory, by way of additional placements in the search results, significantly decreased CTR for the format, reducing the CTR gap between Sponsored Brands and Sponsored Products.

## Conversion Rate of Amazon Ads Continues to Outstrip Google Shopping

### Google Shopping vs. Amazon Relative Conversion Rate

Q4 2018

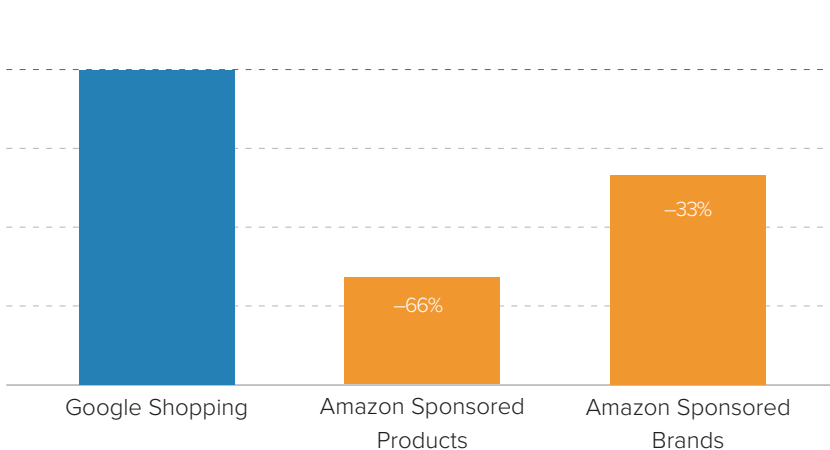


With millions of subscribers primed to convert through Amazon listings and given the ease of converting through Amazon ads directly on site, Amazon ads consistently produce higher conversion rates than that of Google Shopping. However, while there is some overlap between advertisers on Google Shopping and Amazon search ads, there are many that are only active on one or the other, making such comparisons murky.

## CTR Significantly Higher for Google Shopping than Amazon Ad Formats

### Google Shopping vs. Amazon Ads Relative CTR

Q4 2018



Despite recent declines in Google Shopping CTR across all device types as impressions soared in the latter half of 2018, Amazon Sponsored Products and Sponsored Brands CTR still significantly lags that of Google Shopping. While Sponsored Brands long had a higher CTR than Google Shopping, Amazon's August update to place additional Sponsored Brands units in search results significantly increased impressions and decreased CTR.



## ABOUT MERKLE

Merkle is a leading data-driven, technology-enabled, global performance marketing agency that specializes in the delivery of unique, personalized customer experiences across platforms and devices. For more than 30 years, Fortune 1000 companies and leading nonprofit organizations have partnered with Merkle to maximize the value of their customer portfolios. The agency's heritage in data, technology, and analytics forms the foundation for its unmatched skills in understanding consumer insights that drive people-based marketing strategies. Its combined strengths in performance media, customer experience, customer relationship management, loyalty, and enterprise marketing technology drive improved marketing results and competitive advantage. With more than 7,000 employees, Merkle is headquartered in Columbia, Maryland, with 21 additional offices in the US and 33 offices in Europe and APAC. In 2016, the agency joined the Dentsu Aegis Network. For more information, contact Merkle at 1-877-9-Merkle or visit [www.merkleinc.com](http://www.merkleinc.com).

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**CALL** 1-877-9-MERKLE

## 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.