

GLOBAL  
**DIGITAL MARKETING  
PERFORMANCE** REPORT

Q2 2011

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# Q2 2011 EXECUTIVE SUMMARY

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**SEARCH SPEND GROWTH IN Q2 SLOWS TO 8% INCREASE YoY, DOWN FROM 17% YoY IN Q1.** We believe this is due to three main factors: first, advertisers altered strategies to focus on ROI instead of volume. Second, Search is a strong indicator of macro economic conditions; recently the Federal Reserve forecast down GDP growth for the second part of 2011. Globally, there is uncertainty in the Eurozone and Japan is still recovering from the March earthquake. Thirdly, we saw significant growth from Q1 to Q2 2010 of approximately 9%, meaning the YoY comparison in Q2 2011 is harder to keep pace than in Q1 2011.

**BRANDS THAT ARE ACTIVELY ACQUIRING FANS ON FACEBOOK ARE ON COURSE TO DOUBLE THEIR FAN BASE YoY BY OCTOBER 2011.** This quarter's report uses data from Context Optional for the first time, including a sample of over 20 million fans. Consumers are faced with an increased number of choices of which brands to like, creating an increasingly competitive environment on Facebook for brands.

**FACEBOOK AD CPCs INCREASE 22% IN Q2 FROM Q1.** Increased presence on Facebook from advertisers continues to push up CPCs. This means that the longer brands wait to engage with consumers on Facebook, the more expensive it will become to acquire fans. Although the previous quarter's CPC growth was 40%, we do not consider this a deceleration. The immaturity of the medium results in high volatility in the data.

**FACEBOOK SPEND IS INCREMENTAL AS BUDGET MOSTLY COMES FROM OFFLINE MEDIA SUCH AS TV AND PRINT.** Facebook is around 5% of Search budgets, though for some advertisers this can peak to 25% during time sensitive, offer led promotions.

**YAHOO/BING GAINED 3.4% POINTS OF SPEND SHARE SINCE Q4 FROM GOOGLE.** Bing's continued focus on higher quality and higher monetized traffic is paying off. Last quarter, we noted that the ROI on Yahoo/Bing was better than Google. Bid management platforms such as those provided by Efficient Frontier enable advertisers to move budgets to take advantage of increased ROI. However, in International markets where the Search Alliance has not yet been implemented, Google's dominance continues unabated, with the exception of Japan.

# OUTLOOK FOR H2 2011

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**FACEBOOK CPCs WILL CONTINUE TO RISE AT DOUBLE DIGIT PACE.** Even if CPCs increase at 20% per quarter for the remainder of the year, this will still result in an 80% growth in a year. This could reasonably equate into a doubling of Facebook's revenue from marketplace ads.

**BRANDS LOOKING TO ACQUIRE FACEBOOK FANS NEED TO DO SO NOW.** With marketplace ad CPCs increasing and already active brands exploiting the channel, there's no time to waste. Advertisers also need to exploit new ad formats on Facebook such as Sponsored Stories, to find further efficiencies.

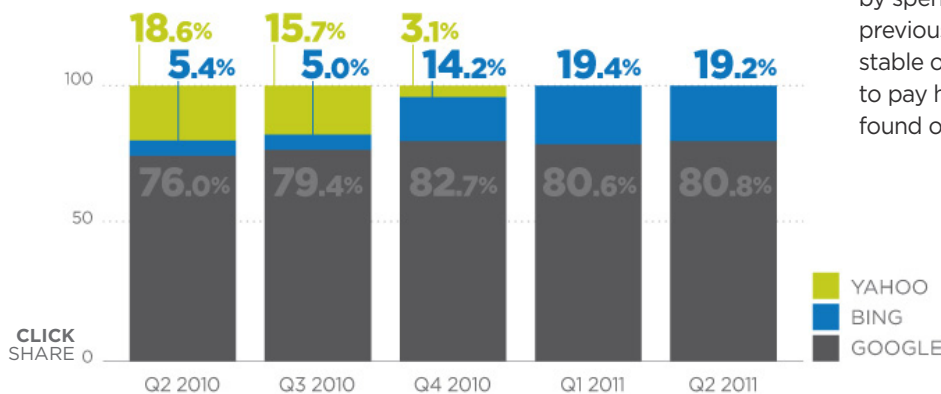
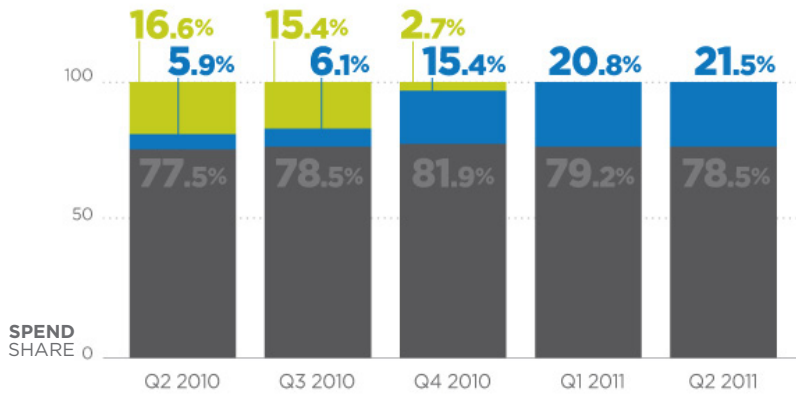
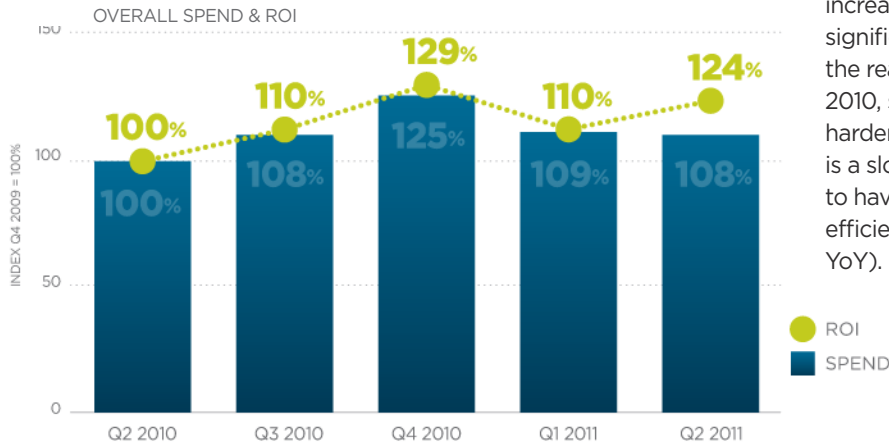
**YAHOO/BING WILL BENEFIT IF ROI IMPROVEMENTS CONTINUE.** The Search marketplace is largely rational, so advertisers will move money towards Yahoo/Bing to take advantage of ROI improvements. If the Search Alliance renews integration in international markets next year, non-U.S. advertisers should make the same budgeting decisions in those markets.

**ADVERTISERS WILL INCREASE UNDERSTANDING OF FACEBOOK CHANNEL.** Continued testing and investment in Facebook will see advertisers evaluate and likely increase their spend. Looking ahead, we believe that advertising dollars will shift from offline media to search, Facebook and Display. While we believe all online advertising channels will continue to grow, the Facebook channel will show the strongest growth in the months ahead.

# SEARCH

## SEARCH SPEND & ROI TRENDS

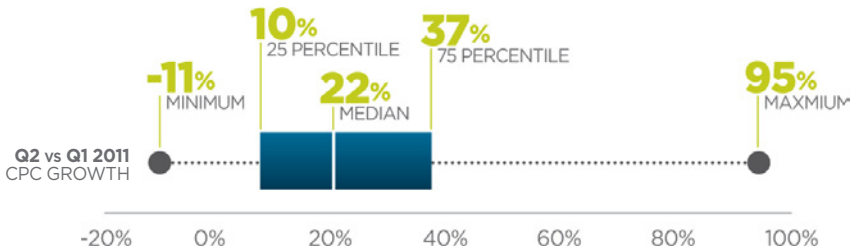
Spend is **up 8% YoY** down from a 17% increase last quarter. While this is a significant deceleration, we remind the reader that between Q1 and Q2 in 2010, spend went up 9%, making for a harder comparison. Nevertheless, this is a slowdown as marketers appear to have shifted from a volume to an efficiency strategy (ROI went up 24% YoY).



## SEARCH ENGINE LANDSCAPE

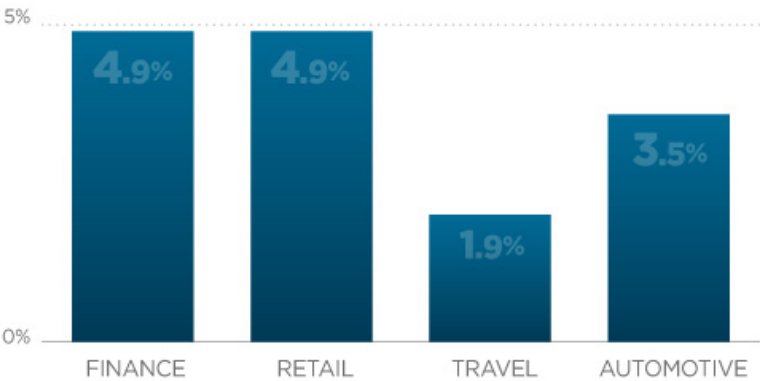
Bing slightly increased marketshare by spend, building on increases in the previous quarter. Click share remained stable on account of marketers willing to pay higher CPCs for the higher ROI found on Yahoo/Bing.

# FACEBOOK



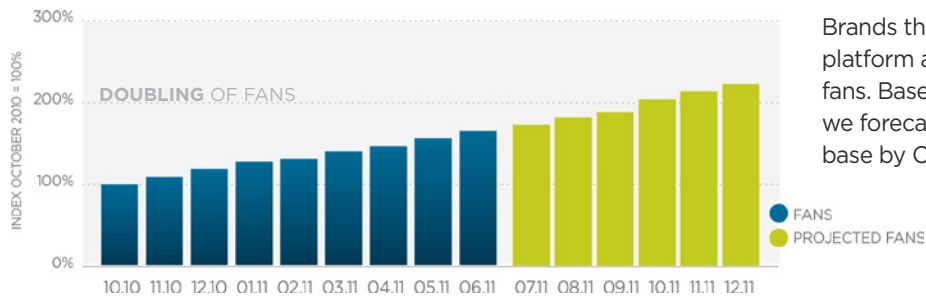
## FACEBOOK COST PER CLICK (CPC)

Median CPCs on Facebook increased 22% QoQ. In such a young channel, there is a lot of volatility in the data. Hence we show the spread of CPC changes across the data set in a box plot.



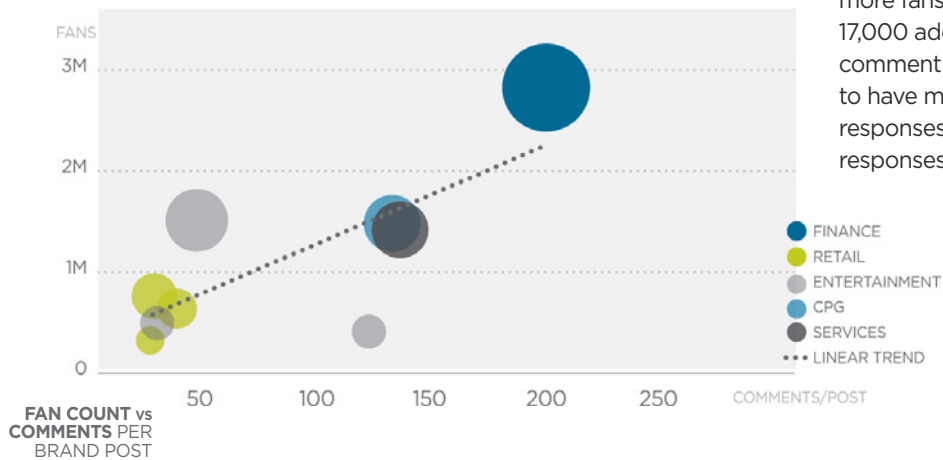
## FACEBOOK SPEND COMPARED TO SEARCH

Facebook spend as percentage of Search spend is at most 5% overall. However, there are outlier brands where this rises to 25% of Search spend, depending on seasonality and specific promotions. At this point, most signs seem to point that Facebook spend is incremental and not cannibalizing Search. However, we anecdotally know that some cannibalization has started to occur in retail during promotional times. Second, in the entertainment category we have some very large advertisers who solely advertise on Facebook. This also hints that there are new advertising budgets from the gaming and dating sectors going to Facebook which would not have gone into Search otherwise.



## FAN GROWTH

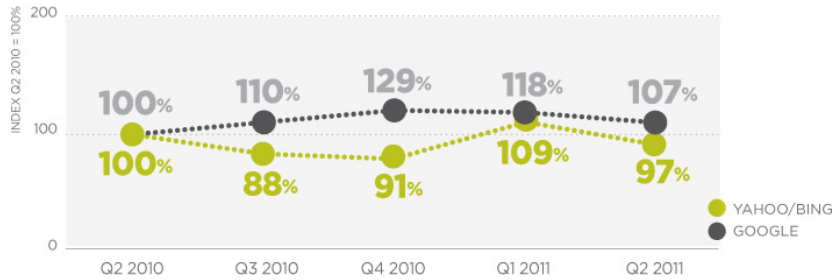
Brands that are active on the Context Optional platform are aggressively acquiring Facebook fans. Based on fan growth since October 2010, we forecast that brands will double their fan base by October 2011.



## FAN ENGAGEMENT

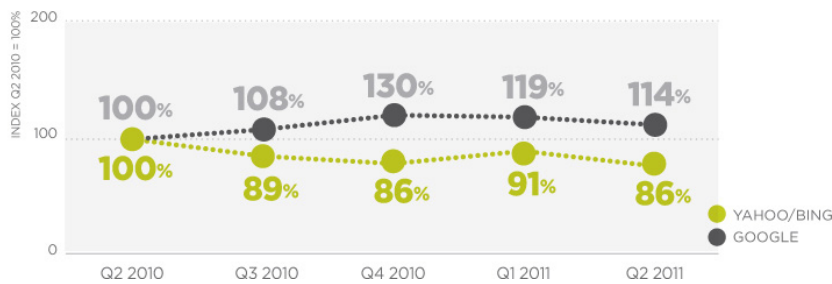
An analysis of 20 million fans managed by the Context Optional platform shows that for every brand post, there was an average of 100 comments in response. However, brands with more fans receive greater interactions: every 17,000 additional fans generates 1 additional comment per post. There is a virality effect to have more fans, as this creates more direct responses (from existing fans) and also indirect responses (from friends of fans).

# DEEPA DIVE: SEARCH METRICS



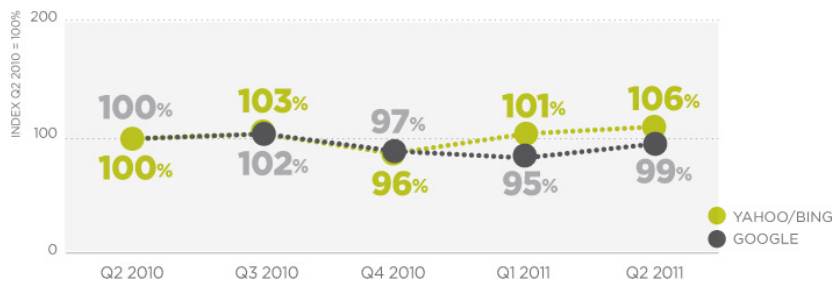
## IMPRESSIONS TRENDS

Yahoo/Bing dropped 3%, Google rose 7%. This overall core paid impression growth in each is in the 5% range.



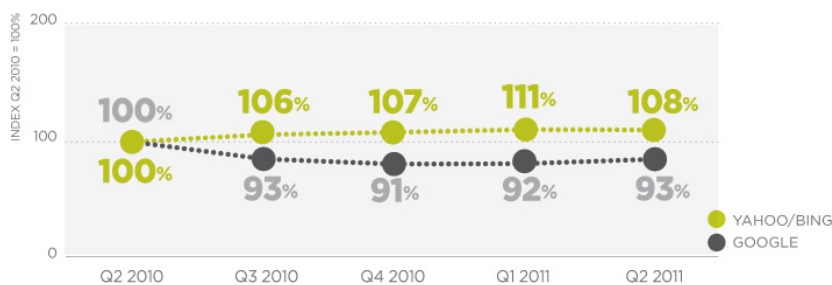
## CLICKS TRENDS

Click growth in Google exceeded impression growth, indicating that Google has been able to find ways to improve CTR. We surmise that ad extension innovations such as Sitelinks and Product Listings, and improved relevance matching to queries has helped them here. Yahoo/Bing's click growth is directionally in line with its impression volume.



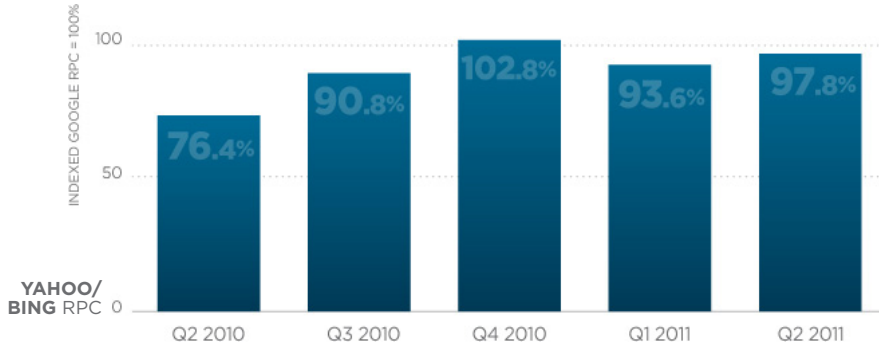
## COST PER CLICK TRENDS

Yahoo/Bing's CPC increased between Q1 and Q2, did Google. Yahoo/Bing's CPCs are up 5% YoY, Google is 1% down.



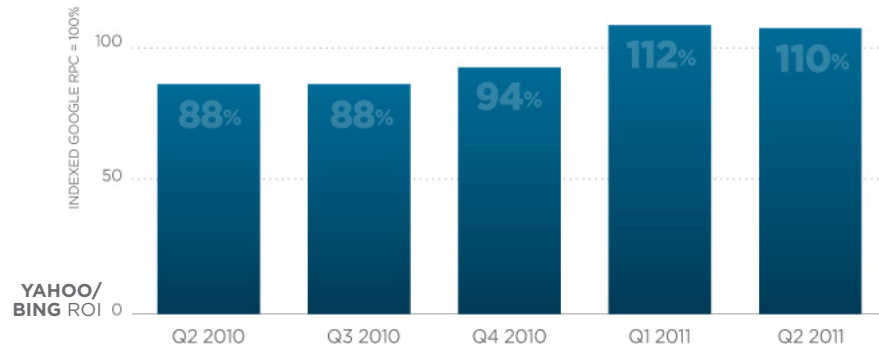
## RETURN ON INVESTMENT (ROI) TRENDS

Yahoo/Bing's ROI is up 8% YoY, as it continues to focus on higher quality, higher monetized traffic, while Google's is down 7%.



## GOOGLE vs. YAHOO/BING

**Revenue Per Click (RPC)** on Yahoo/Bing continued to increase in Q2 compared to Google, indicating further improvements in traffic quality. RPCs on both engines are near identical at this point.



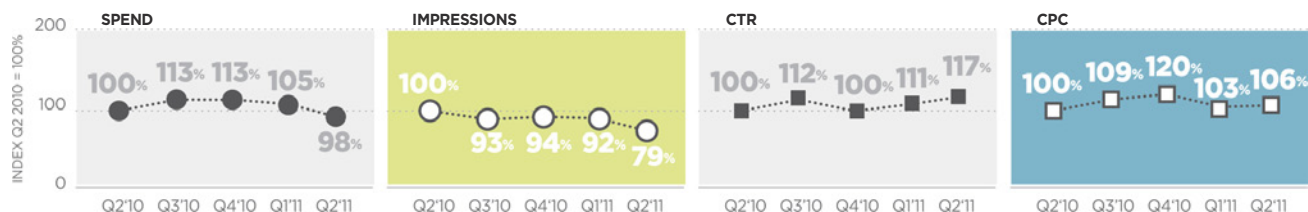
## GOOGLE vs. YAHOO/BING

**ROI** on Yahoo/Bing slightly decreased as although RPCs increased, CPCs increased too as advertisers were willing to pay more on Bing. Still, there is 10% discrepancy in ROI between the two engines indicating that advertisers should spend more on Bing.

# DEEPDIVE: SEARCH SECTOR DATA

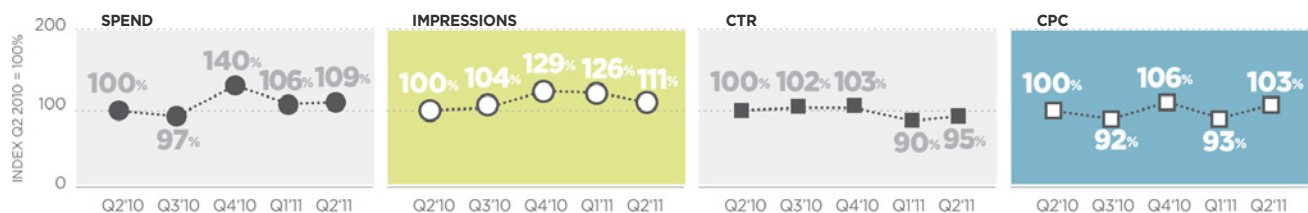
## U.S. AUTOMOBILE SECTOR TRENDS

The Automotive sector is starting to show a decline in consumer interest, with impressions down 21%. As a result, spend fell 2%, despite CPCs increasing 6%.



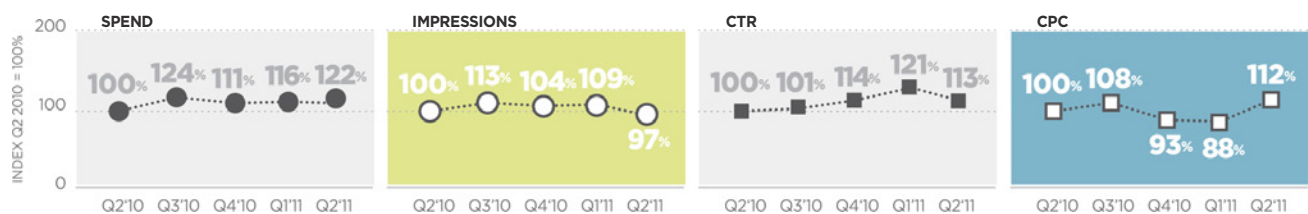
## U.S. RETAIL SECTOR TRENDS

Spend in Retail is up 9% YoY. Of this, 3% is attributable to CPC increases. We note that impression volume grew 11% which is above the overall average of 5% this year.



## U.S. FINANCE SECTOR TRENDS

Spend in the Finance sector is up 22% YoY, partially from CPC increase and partially from CTR increase. We have noted advertisers willing to spend a lot more than 2010 as they are aggressively pursuing acquisition type activity.



Auto	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Google	72.2%	72.9%	75.6%	76.5%	73.9%
Bing	8.0%	9.2%	20.3%	23.5%	26.1%
Yahoo	19.8%	17.8%	4.1%		

Finance	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Google	76.2%	79.8%	82.3%	79.2%	74.6%
Bing	5.5%	6.2%	14.4%	20.8%	25.4%
Yahoo	18.2%	14.0%	3.2%		

Retail	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Google	82.0%	86.7%	86.8%	85.2%	85.3%
Bing	5.5%	4.5%	11.7%	14.8%	14.7%
Yahoo	12.5%	8.8%	1.5%		

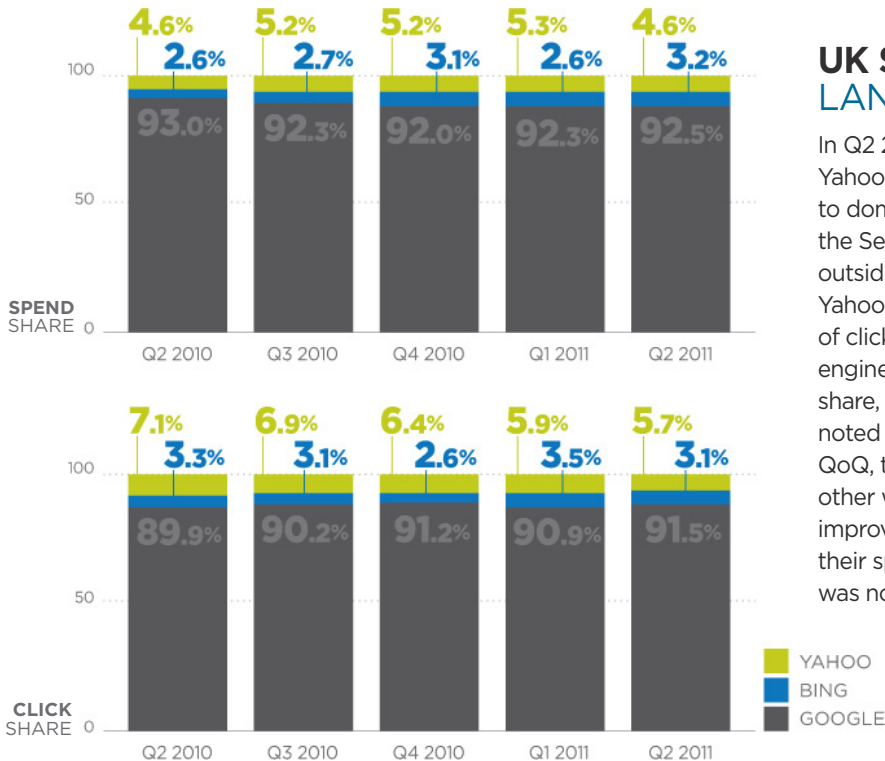
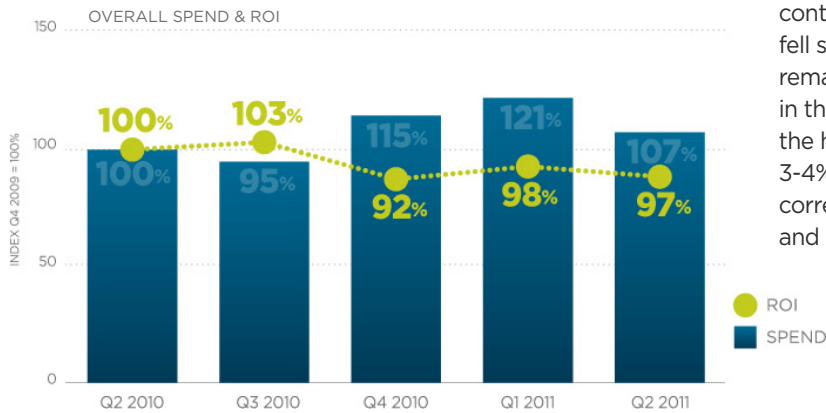
## SEARCH ENGINE LANDSCAPE BY SECTOR

Although Google has 78.5% spend share overall, breaking this down by sector demonstrates that Google is not as strong in the Automotive and Finance sectors.

# DEEPPDIVE: INTERNATIONAL SEARCH DATA

## UK SEARCH SPEND & ROI TRENDS

The **7% YoY growth** in the UK Search spend reflects the advertisers confidence in the continual expansion of e-commerce. ROI fell slightly by 3% compared to last year but remains steady QoQ. A more detailed look in the Q2 2011 data shows that the ROI was the highest in April in this quarter, being 3-4% higher than the other two months, corresponding to the Easter holiday season and warm weather.

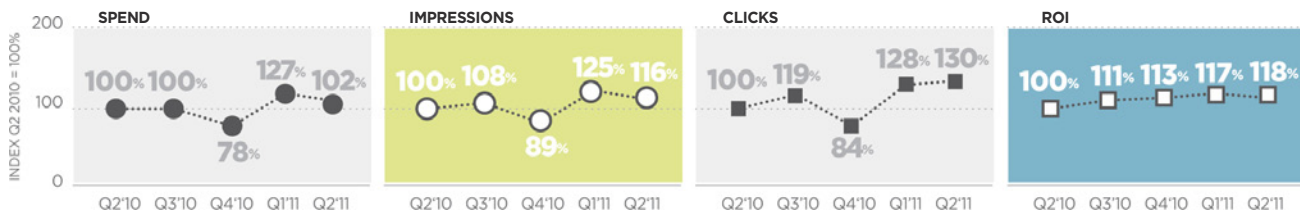


## UK SEARCH ENGINE LANDSCAPE

In Q2 2011 we saw a shift of spend share from Yahoo and Bing to Google, who continues to dominate with a share of 92.5%. Note that the Search Alliance is yet to be implemented outside of the US, hence we continue to report Yahoo and Bing share separately. In terms of click share, Yahoo was the only search engine who had more click share than spend share, reflecting cheaper clicks. It should be noted that despite a 0.7% fall in spend share QoQ, the click share only fell by 0.2%. In other words, the cost efficiency on Yahoo has improved. Bing's click share was higher than their spend share in previous quarters but this was no longer the case in Q2 2011.

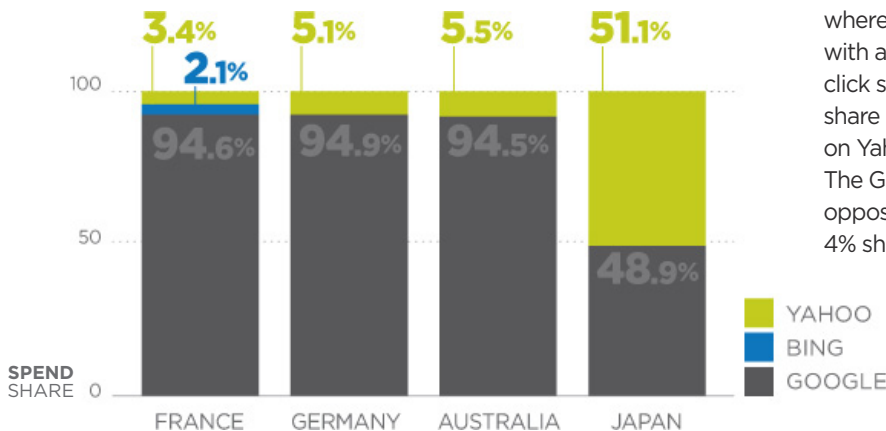
## UK TRAVEL SECTOR TRENDS

The UK travel sector has had another strong quarter. With a small spend increase of 2% YoY, we have observed an 18% increase in ROI. The 30% YoY rise in clicks is countered by a 15-30% fall in CPC across our sample of travel clients over this period of time. Also, though impressions fell QoQ, click volume increased. This translates into a 9% rise in click through rate from Q1 to Q2. This may be due the holiday season approaching, consumers have become more specific with their search and hence a rise in click through rate. In fact, we saw a rise in click through rate from Q1 to Q2 in 2010 as well.



## OTHER INTERNATIONAL SEARCH MARKETS

In France, Google has gained 1% market share from Bing and Yahoo from the previous quarter. In Germany, Yahoo is losing out to Google, down from 6.4% in Q1 2011 to 5.1% this quarter. This is also a significant quarter in Australia where Google broke through the 92% share with an increase of almost 3%. However, their click share was only 90.6% and Yahoo's click share was 9.4%, making the cost efficiency on Yahoo much greater than on Google. The Google/Yahoo share trend has been the opposite in Japan, where Yahoo gained almost 4% share from Google in the last quarter.



# DEFINITIONS

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**CLICK SHARE** – Amount of share received by a particular engine of all paid clicks as calculated by the formula: paid clicks on a particular search engine/total paid clicks across all engines.

**COST PER CLICK (CPC)** – Amount paid by a marketer per user click on a paid search ad(s). CPCs are determined by an auctioning process and are a good indicator market conditions. Increases in CPCs indicate advertisers are willing to spend more on advertising and a decrease in CPCs indicate that advertisers are willing to spend less.

**IMPRESSIONS** – Number of views of an ad by a consumer on a particular search engine. Impressions indicate consumer interest in a product. The more consumers search the higher the impression volume, the less consumers search the lower the impression volume.

**RETURN ON INVESTMENT (ROI)** – A measure of profitability based on how much a marketer received in terms of results compared to how much was invested. Also known as a measure of efficiency.

**SPEND SHARE** – Amount of share that marketers spend buying paid search on a particular search engine as calculated by the formula: particular search engine spend/total search engine marketing spend.

# METHODOLOGY

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This analysis was completed based on data from Efficient Frontier search engine marketing customers and the resulting Efficient Frontier's Customer Index. The Efficient Frontier Customer Index represents a subset of Efficient Frontier clients who have spend data for six consecutive quarters or more whose resulting SEM metrics are then normalized to average industry category contributions established by multiple third party data providers. The Efficient Frontier Customer Index consists of a fixed sample of large scale U.S. search engine advertisers across multiple sectors, including finance, travel, retail and automotive. The Efficient Frontier Customer Index sheds light on trends in search engine spending and performance on a year-over-year (YoY) and quarter-over-quarter (QoQ) basis.

Our analysis of Facebook performance was based on data from both the Efficient Frontier and Context Optional platforms. A client index representing over 15 advertisers and 20 million fans from a multitude of verticals including retail, entertainment, CPG and Finance was built from a subset of advertisers, brands and fans managed through the platforms. Advertiser and user behavior was then analyzed for three quarters beginning Q4 2010.

# ABOUT EFFICIENT FRONTIER & CONTEXT OPTIONAL

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Efficient Frontier is a leader in online digital marketing, managing search marketing, display and social media campaigns for advertisers and agencies around the world. Efficient Frontier currently manages well over \$1 billion in annual digital marketing spend on behalf of its clients globally.

In May 2011, Efficient Frontier acquired Context Optional, the leading provider of social marketing management solutions for global brands on the leading social networks, Facebook and Twitter. Context Optional's Social Marketing Suite enables global enterprises to build, manage and measure their brand presence, and engage their fans to increase mindshare, word of mouth, customer loyalty and website traffic. Together, Efficient Frontier and Context Optional offer a complete solution for brands to acquire, activate and drive value from fans on Facebook and Twitter.

Efficient Frontier is headquartered in Sunnyvale, California, with offices in New York, Chicago, the United Kingdom, France, Germany, and India, and technology licensing partnerships in Japan, Hong Kong and Australia. Context Optional is headquartered in San Francisco. Efficient Frontier is a privately held company with funding from Redpoint Ventures and Cambrian Ventures. For more information on Efficient Frontier, visit [www.efrontier.com](http://www.efrontier.com) and for Context Optional visit [www.contextoptional.com](http://www.contextoptional.com).