



MAKE YOUR MARKETING PERFORM

## US DIGITAL MARKETING PERFORMANCE REPORT

**Q3**  
2010

An Efficient Frontier Research Paper

October 2010

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# Q3 2010 Executive Summary

## Strong Quarter for Digital Marketing

The third quarter was a positive one for the digital marketing space including search, display and social media advertising. Advertiser sentiment was strong among Efficient Frontier's client base, shaking off lingering economic doubt opting instead to invest in growth. Specifically to search, spend rose across all tracked vertical categories including retail, finance, auto, and travel. Adoption of display buying via the ad exchanges also intensified. Additionally, demand for Facebook's marketplace advertising was noteworthy and early Facebook advertising results indicate that this channel will add significant, successful scale to digital marketing campaigns.

## Search Gains Continue

In Q3 2010, the search marketing sector extended its 2010 growth streak. Year on Year (YoY) spend was up 19% with a solid 6% sequential Quarter on Quarter (QoQ) growth. The important metrics of CPC, clicks, and impressions all rose indicating both strong advertiser and consumer demand. Overall return on investment (ROI) in search is up 8% YoY, a critical factor driving the rising CPCs and overall advertiser demand.

## Broad Based Search Growth Across All Sectors

Retail led search growth during the first half of 2010. After growing 38% YoY in Q2 retail posted another positive YoY growth rate of 20%. In line with expectations, sequential quarterly growth in retail was 1% as summer slow season was offset by strong back-to-school consumer demand.

Importantly, all sectors outside of retail also showed strength. Financial services posted positive spend gains for the first quarter in more than a year, rising 14% YoY and 20% QoQ. Consumer and advertiser demand in financial services lifted both clicks and CPC. Travel extended the strength seen throughout 2010 with an impressive 38% YoY rise and 8% QoQ gain. The automotive sector posted 20% growth YoY and 12% QoQ gains.

- **Retail:** Spend was up 20% YoY on volume and CPC gains
- **Travel:** Spend was up 38% YoY on CPC and click through rate (CTR) gains
- **Finance:** Spend was up 14% YoY on CPC and CTR gains
- **Auto:** Spend was up 20% YoY on CPC gains

## The Bing-Yahoo! Integration Begins

The early winner from the Bing-Yahoo! integration appears to be Google. Google's share of paid search spend rose from 75.8% in Q2 2010 to 77.9% in Q3 2010. In our last report, Efficient Frontier addressed the potential Bing-Yahoo! share loss that could come as a result of integration due to the variant return-on-investment metrics that the separate platforms deliver (for example, Bing's ROI is far superior to Yahoo!'s ROI). As Bing began to pick up Yahoo!'s less efficient volume, the spend trend in Google's favor may mean Efficient Frontier's ROI driven spend shift is playing out.

Due to the Yahoo!-Bing integration, there is a lot of noise in the search share data. Clearly, as a result of the transition, Bing is picking up clicks and spend at a strong rate. However, at this point it is hard to isolate natural Bing gains from forced shifts of Yahoo! traffic. In examining Google, the “clean” engine in Q3, all signs are very positive for its growth. At Google, paid clicks are up 9% YoY, CPC is up 14% YoY, and impressions are up 6% YoY. This demonstrates Google’s continued ability to increase both consumer and advertiser demand.

## Outlook for Q4 2010

### Bright Holiday Season for Search

In 2009, a recovering economy contributed to a 15% QoQ growth between Q3 and Q4. While 2010 has been a much more favorable year for search, there is no reason to believe search will not grow in the range of 15-20%. Efficient Frontier’s reason for Q4 search optimism is built on the following three reasons. First, retail has led the way for search in 2010 with consistent growth. Next, Q3’s 19% YoY growth in spend on more difficult comps and slight sequential rise is a positive signal. Finally, strengthening ROI numbers with increasing CPCs bode well for overall advertiser demand.

### Google Grabs More Share

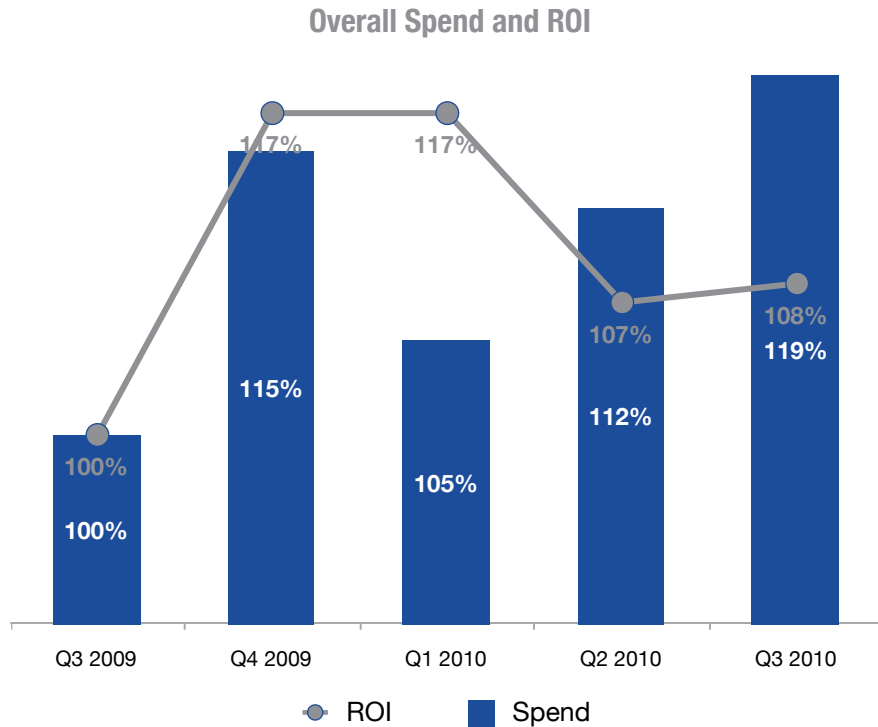
Google will likely see relatively significant gains in the fourth quarter as both seasonality and the Bing-Yahoo integration skew spend in their favor. The seasonal retail focus of Q4 typically favors Google in spend as they over-index in retail at over 80% share. The changing efficiency of the Bing-Yahoo! integration will likely see some additional, although likely temporary, spend shift in Google’s favor.

### Demand Accelerates for Facebook and Display

Due to their earlier development stages, we have yet to see prominent pricing and spend trends emerge in the display ad exchanges or Facebook. However, overall advertiser interest going into Q4 2010 for both of these channels is high. We expect significant test budgets, particularly for Facebook, to emerge in Q4 across our client base.

## Spend and ROI Trends

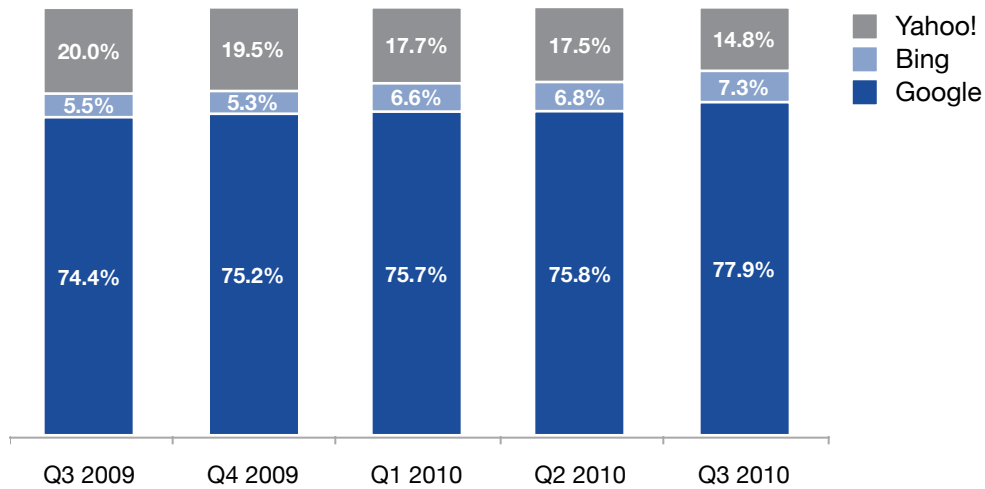
Paid Search had a very encouraging third quarter. Spend was up 21% YoY and up 8% QoQ. Importantly, Q3 2010 is a tougher comp as last year spend increased 10% between Q2 and Q3. ROI is up by 7% indicating that market has more room to spend.



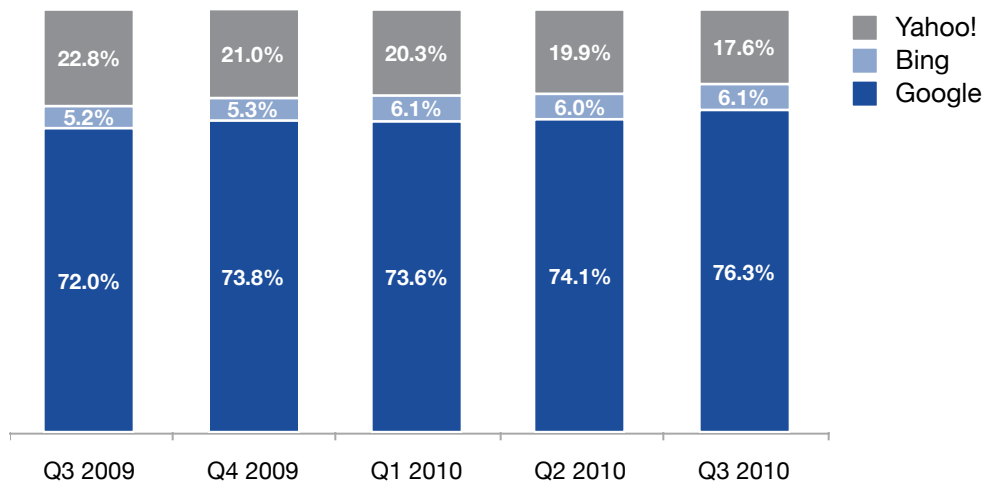
## Search Engine Landscape

Google maintains its market share while Bing has inched up its share at the expense of Yahoo!. YoY As the Yahoo! Bing integration continues, about 10% of Yahoo! ads are now served by Bing. Thus, while there is a marketshare shift by design, there has been a definite shift in favor of Google. This is to be expected (and was predicted in our last report) as the unified CPC across Bing and Yahoo! has led to a less efficient integrated marketplace in the short run.

### Spend Share



### Click Share by SE

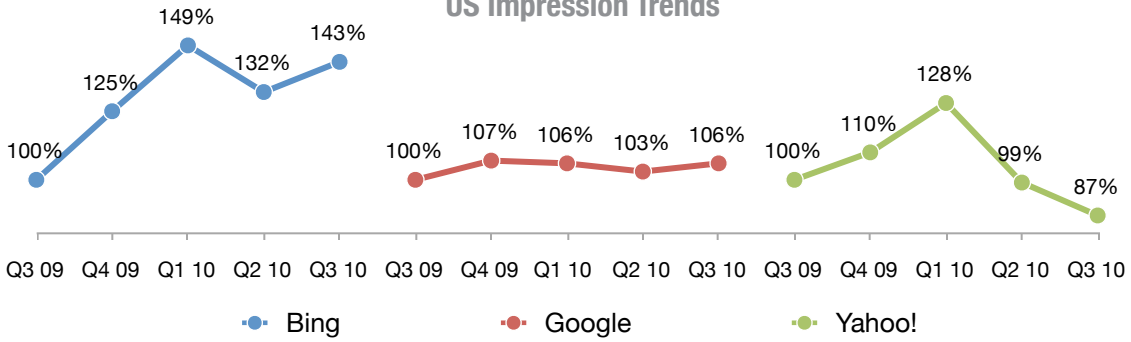


## Metrics

### Impressions

Impressions on Bing are growing in part due to the Yahoo integration. Google is showing robust 6% growth.

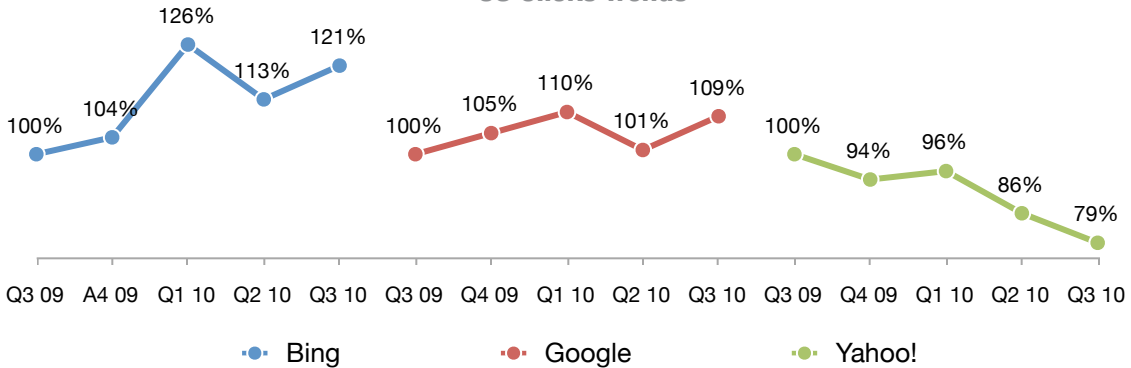
### US Impression Trends



### Clicks

As Bing continues to increase its ad serving on Yahoo, its click volume has increased by 21% YoY. Google has increased its click volume by 9% while Yahoo!'s click volume has declined by 21%.

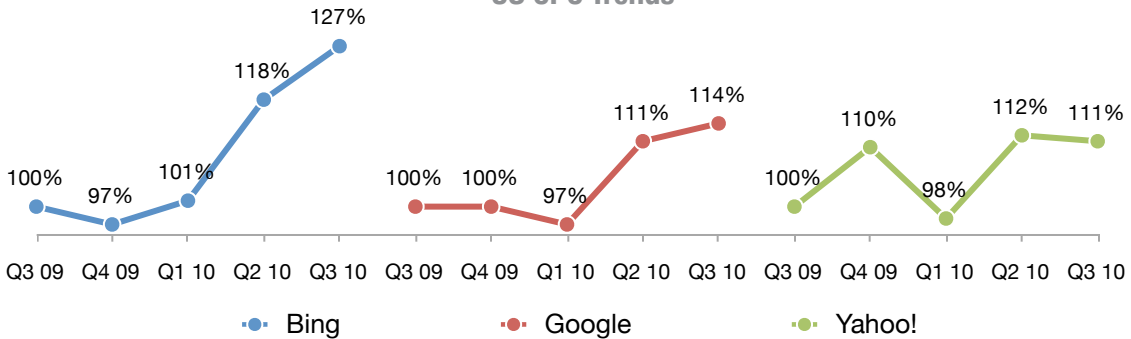
### US Clicks Trends



### Cost Per Clicks (CPC)

CPCs have increased YoY on all engines. The biggest increase of 27% is seen in Bing but Google and Yahoo!'s CPCs have also increased by 14% and 11% respectively.

### US CPC Trends

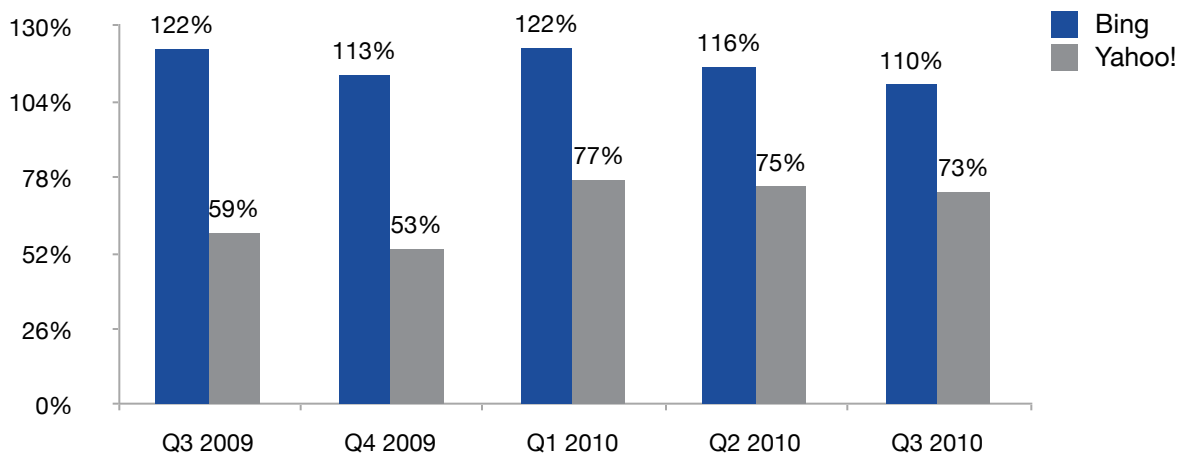


## Return on Investment (ROI)

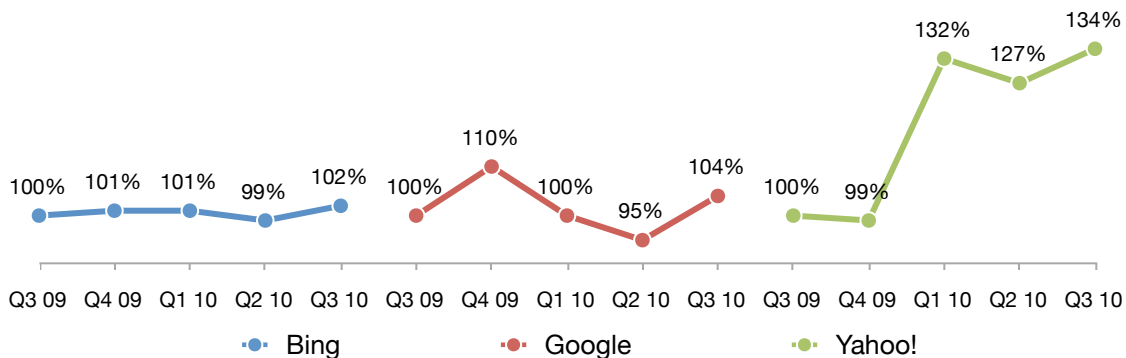
ROI has improved in all search engines but most noticeably in Yahoo!. A year ago, the ROI from Yahoo! was 41% less than Google, now it is only 27% less. While this represents significant improvement, Yahoo!'s ROI is still the least of the 3 engines.

As Bing has started reaching larger audiences, its ROI has remained flat. However, when compared to Google its ROI has fallen from being 22% better to being 10% better now. The widely varying ROIs of Yahoo! and Bing will have implications for the integration. Bing traffic will subsidize Yahoo!'s traffic with the net result of the marketplace being less efficient. We are already seeing signs of this when we look at Q3 spend share which has shifted in favor of Google.

### ROI vs Google

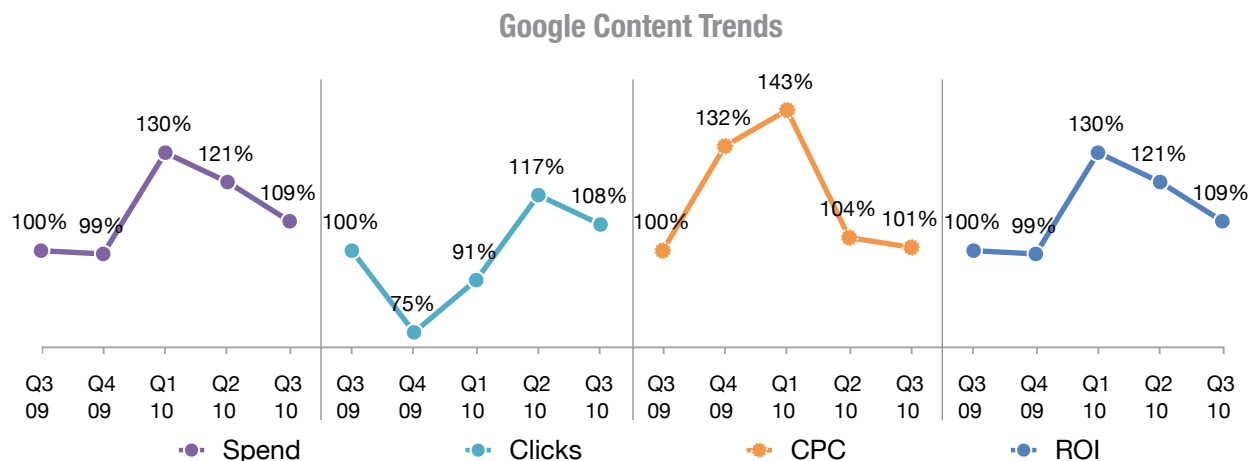


### US ROI Trends



## Google Content

YoY spend is up 9% with a corresponding improvement in ROI. Clicks are up 8% too indicating more traction for Google content.



## Sector Data

Google has seen a sharp increase in its marketshare in finance from 62.4% to 71.7%. Google's gain has been Yahoo's loss. Bing has made inroads in all sectors.

### Sector Trends

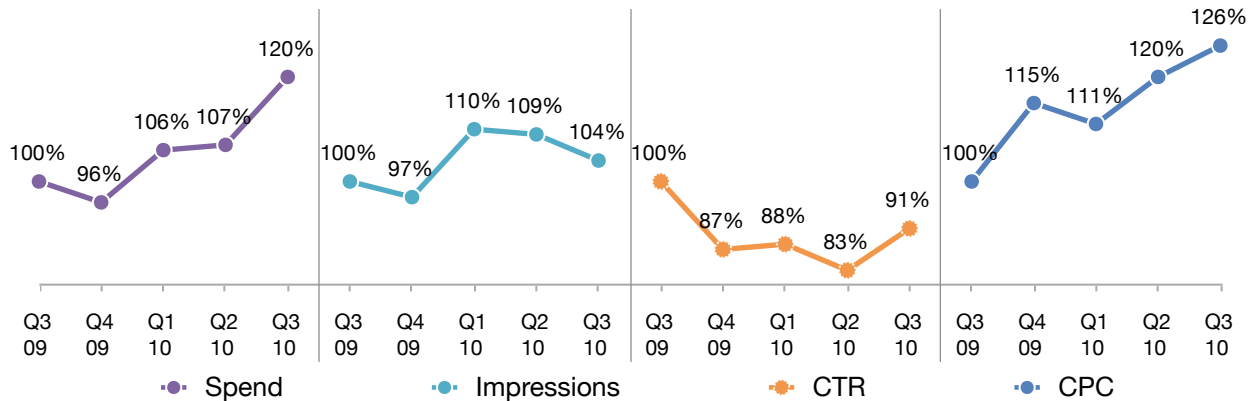
	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010
<b>Auto</b>					
Google	75.7%	75.9%	75.6%	74.5%	76.1%
Bing	5.9%	6.4%	6.6%	7.4%	7.6%
Yahoo	18.4%	17.7%	17.8%	18.1%	16.3%
<b>Finance</b>					
Google	62.4%	62.5%	69.9%	71.4%	71.7%
Bing	6.2%	4.6%	5.4%	6.4%	7.2%
Yahoo	31.4%	32.9%	24.7%	22.1%	21.1%
<b>Retail</b>					
Google	84.3%	83.5%	81.5%	82.3%	83.8%
Bing	3.9%	4.3%	5.7%	5.6%	5.2%
Yahoo	11.8%	12.1%	12.8%	12.2%	11.0%
<b>Travel</b>					
Google	75.9%	75.6%	73.8%	71.8%	76.9%
Bing	6.4%	6.9%	9.1%	9.1%	8.9%
Yahoo	17.7%	17.6%	17.2%	19.0%	14.2%

## Sectorwise

### Auto

Spend has increase by 20% which is especially encouraging given a tougher comp due to cash for clunkers last year. The sector also saw a sharp increase in CPCs of 26% YoY indicating a more profitable and more competitive marketplace.

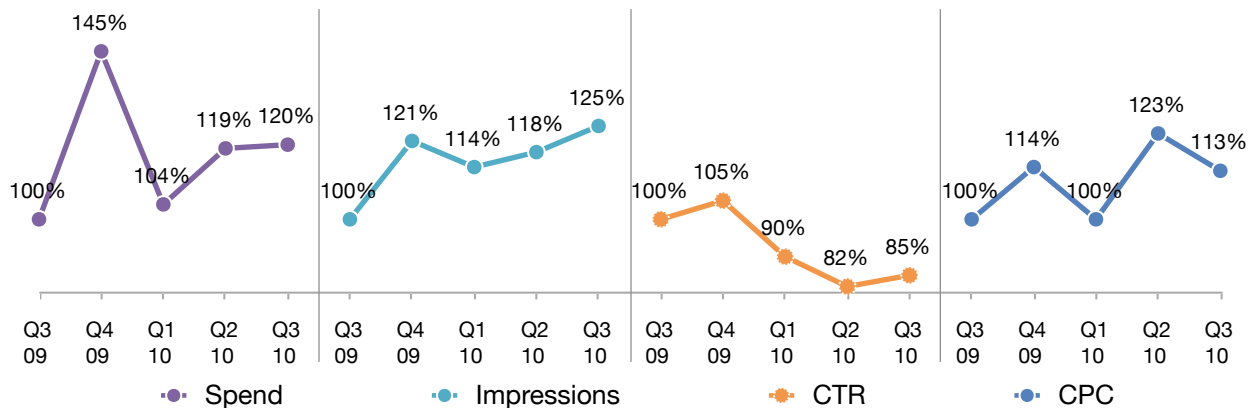
#### US Automobile Sector Trends



### Retail

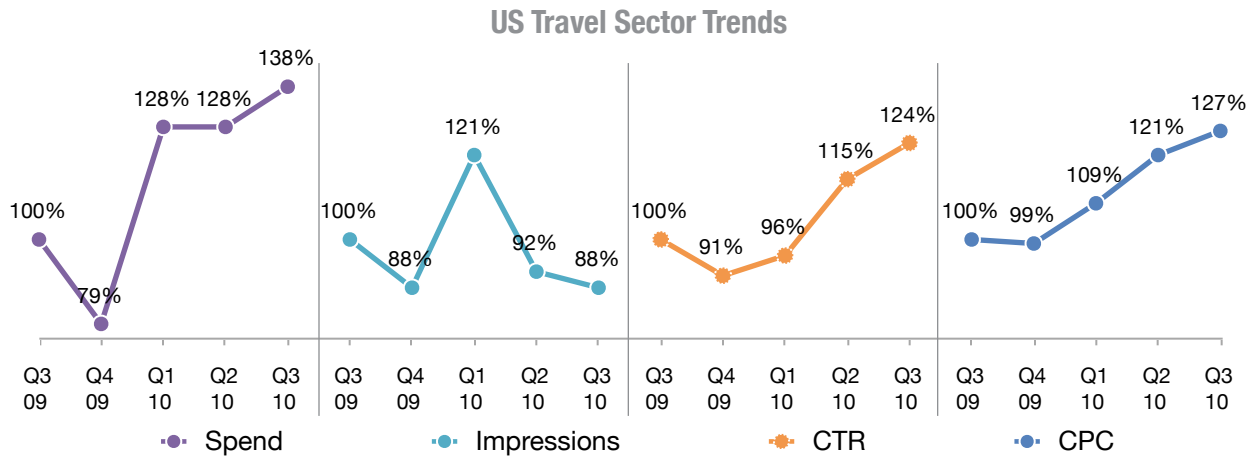
Retail saw a 20% increase in YoY as CPCs increased 13%. Thus, more than half of the spend increase can be explained by advertisers willing to pay more per click while the rest is attributable to more consumers using the online channel to make their purchases.

#### US Retail Sector Trends



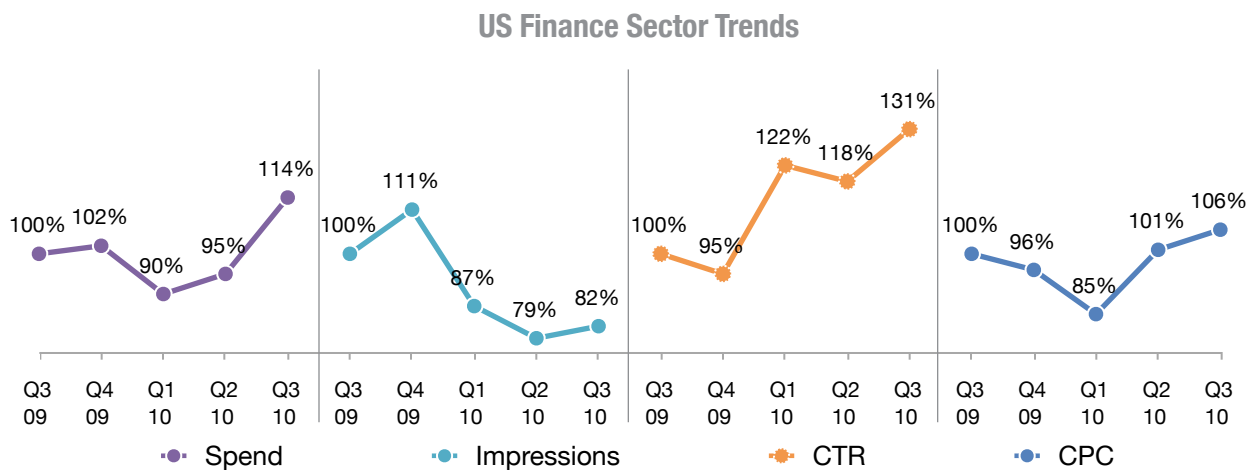
## Travel

The travel sector saw a big rebound this quarter with spend increasing by 38%. The highly competitive marketplace was also indicated by CPCs being 27% higher YoY. Q3 is typically a weaker quarter than Q2 (In 2009, Q3 spending was about 14% lower than Q2). However this year we saw a 5% increase QoQ.



## Finance

The finance sector continues its slower recovery as other sectors have rebounded. Spend was up 14% YoY and 18% QoQ as CPCs increased 6% YoY.



## Definitions

**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 of 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

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.

## About Efficient Frontier

Efficient Frontier is a leading digital performance marketing company managing search, display and Facebook optimization for large-scale marketers around the globe. Founded in 2002, Efficient Frontier pioneered the application of modern portfolio theory to first Search Engine Marketing and then to display and Social media. Today, it combines its core predictive modeling algorithms and bidding technology with comprehensive value-added services to manage more than \$1 billion in annual digital spend globally. The largest and most sophisticated advertisers and agencies partner with Efficient Frontier to achieve and sustain optimal campaign performance and growth in highly complex and competitive marketplaces. The company is headquartered in Sunnyvale, California, with offices in New York, the United Kingdom, France, Germany, and India, and technology licensing partnerships in Japan and Australia. Efficient Frontier is a privately held company with funding from Redpoint Ventures and Cambrian Ventures. For more information, please visit [www.efrontier.com](http://www.efrontier.com) and subscribe to the Efficient Frontier blog at [blog.efrontier.com](http://blog.efrontier.com). You can also follow us on [twitter.com/efrontier](https://twitter.com/efrontier) and [facebook.com/efrontier](https://facebook.com/efrontier).