

# Paid Search Trends

iPROSPECT QUARTERLY REPORT | 2017 Q4

By Jake Hughes, Director, Paid Search, Caitlin Portrie, Manager, Paid Search  
and Michael Kelley, Director, Data & Insights





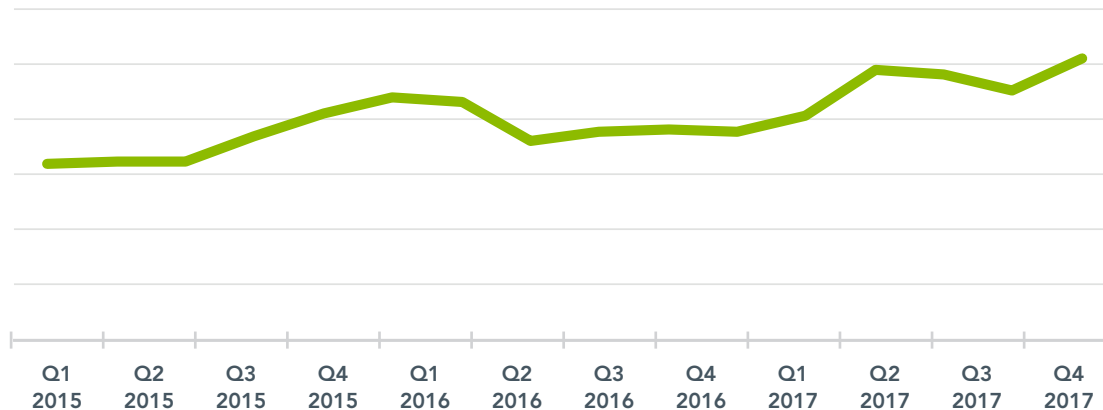
# Introduction

Q4 wrapped up a transformational year in the world of paid search. Many changes to the search engine landscape and shifts in client strategies influenced improvements in campaign targeting, but also caused dramatic increases in cost.

Competition got fierce in 2017 with more and more spend shifting toward mobile and, in the retail vertical, shopping ads. From increases in mobile ad inventory to the release of many new shopping ad formats, the race is on to stay competitive. While Google’s earnings reports for the past several quarters revealed an overall decrease in cost per click (CPC), it’s worth noting that their report combines all ad formats (including YouTube, programmatic, Gmail ads, etc), and this aggregate number doesn’t reveal trends for each type of ad. Paid search and Shopping CPC reached an all-time high in Q4 2017, rising 25% year-over-year (YoY). The good news for brands is that while these changes drove higher spend levels, they also drove better campaign efficiency, which in turn drove higher conversions.



PAID SEARCH CPC



Rising CPC could be caused by a variety of factors; however, we can pinpoint the main drivers by ruling out other factors, the first two being bidding for a higher position on the page (since average position remained flat YoY), and advertising lower quality ads (since Quality Score also remained flat YoY). This means that the CPC increase is being driven by two external factors: more competition and adjustments to the algorithm that controls the paid search ad auction (such as the one Google announced back in May). These two factors, working together, have resulted in search advertising becoming more expensive overall.

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that controls the paid search ad auction.

With holiday season driving an influx in Q4 search demand, advertiser spend jumped 31% over Q3, an increase that was much more substantial than last year's 21% quarter-over-quarter (QoQ) increase. Overall, advertisers chose to spend almost a third of their annual search budget in Q4 (29%), with retail brands capitalizing on holiday shopping and other advertisers seeking to make year-end changes in investment and revenue.

The following trends and insights are based on an analysis of data from more than 2,500 Google AdWords and Bing Ads accounts. All of these accounts are managed by iProspect U.S. (though the spend is not confined to U.S. markets), and together they represent more than 220,000 active campaigns, spanning both Search and Shopping ad formats.

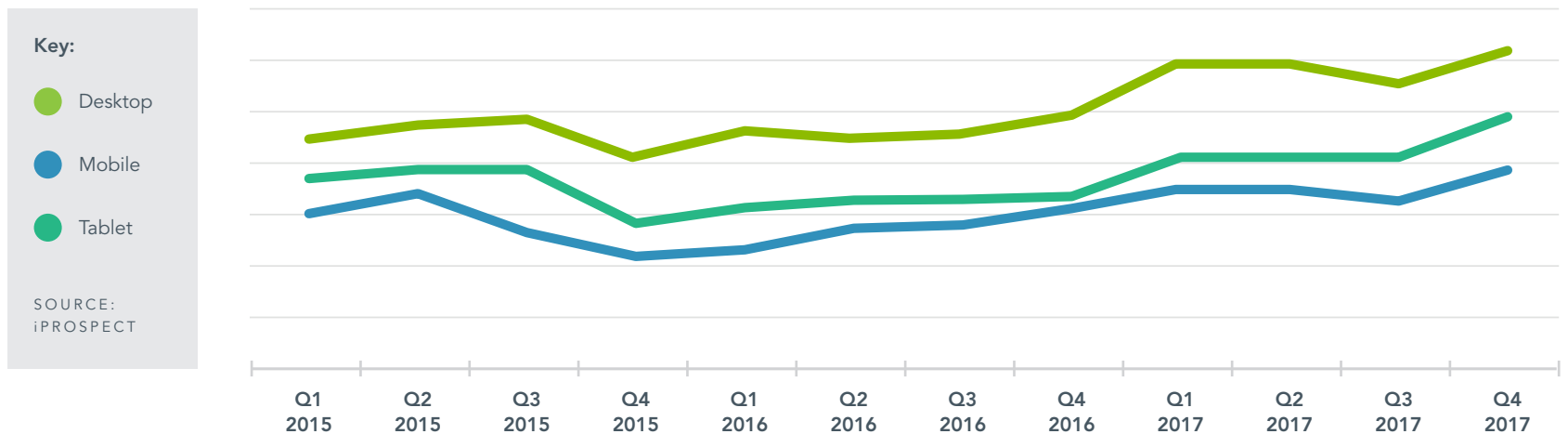


# Reviewing Overarching Q4 2017 Trends—A Look at Primary KPIs

## GOOGLE CPC RISING WHILE CLICKS DECLINE

Although Google search saw a heavy YoY CPC increase (up 21%), which marked an all-time high, the major concern for advertisers was the coinciding decline in clicks (down 18% YoY), due to desktop impressions falling faster than mobile impressions can grow. While both desktop and mobile CPC increased at the same rate, advertisers saw desktop clicks plummet 26% YoY while mobile dropped 13% (due to a drop in CTR). Desktop clicks have continued to decline due to the steady shift in device preference over to Mobile. However, Mobile clicks are now declining partly due to CPC increases, which strains budgets. This is also attributed to a large amount of search market share moving to Amazon, where a large majority of these Amazon searches are conducted on Mobile devices.

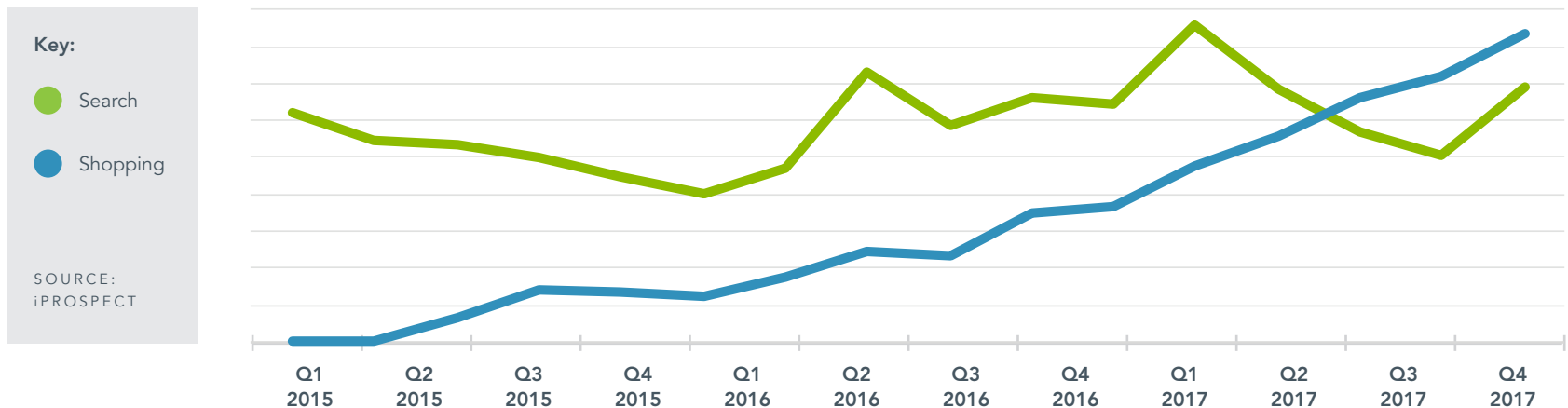
GOOGLE CPC TRENDS BY DEVICE



In addition to these device trends, Google also continues to see consumers trending away from the traditional search ad format. Even though traditional ads still make up the bulk of spend (depending on the advertiser’s vertical), they continue to be edged out by Shopping Ads, which have relatively low costs but deliver a good number of impressions and cover a lot of real estate on the SERP. Shopping Ads now show prominently even on non-product-specific queries such as searches for brand names. In addition, three substantial Google Shopping ad format changes are also affecting impressions:

- **Q2 2016:** Launch of the Showcase Ad Format which triggers higher funnel queries (and in some cases branded terms) that previously would not trigger the shopping ad unit
- **Q4 2016:** Shopping Carousel comes to desktop, causing more impressions as people scroll
- **Q4 2017:** Carousel update that increased the number of Shopping ad units that can show from 17 to 30, substantially increasing the total number of impressions per search query

GOOGLE IMPRESSIONS GROWTH

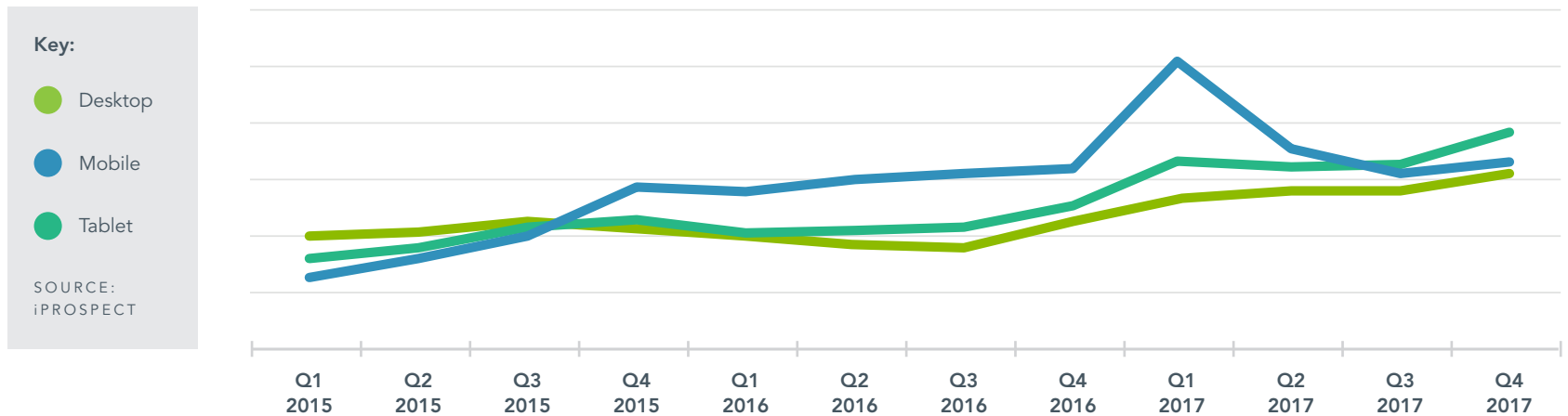


SOURCE:  
IPROSPECT

## BING

Bing is leading the race in CPC increases with a 29% YoY increase. However, compared to Google, traditional paid search on Bing did see an improvement in CTR and average position. Although costs were up, the ads achieved a higher position on the page and were therefore more effective at driving traffic, making the greater expense more tolerable.

BING CPC TRENDS BY DEVICE

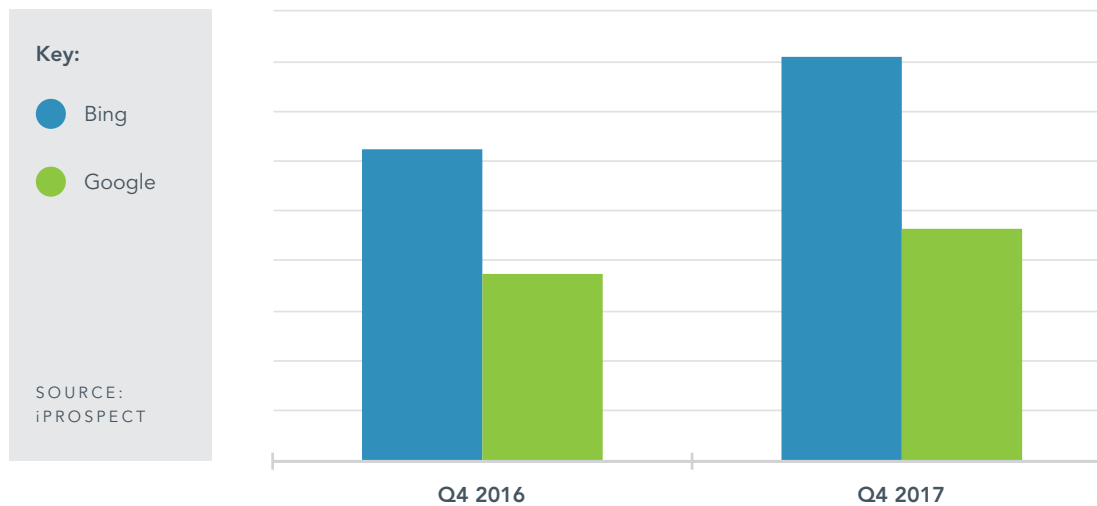


Relative to Google, Bing remains better at getting consumers to the advertiser site with a CTR that is 57% higher than Google's. This is due almost entirely to Bing's Shopping platform being much smaller than Google's. By contrast, if Shopping is removed from the equation, CTR is relatively similar for Google and Bing's traditional search products, though Bing delivered a slightly higher CTR in Q4. Those additional

clicks do come at a higher price though, with Bing's CPC being 74% higher than Google's. This is not a new trend—Bing CPC have been higher for years—however, as the cost of the click has continued to rise on both engines, Bing's increase has outpaced Google's, especially on desktop devices (which include both desktop computers and tablets).

Bing worked diligently in 2017 to further its mission to become the "King of Desktop Searches," and ultimately achieved 32% market share. However, with queries diminishing on desktop devices, these clicks will become even more expensive. With desktop devices still playing important role in completing transactions—and capturing consumer clicks in the moment just before a transaction is highly sought after—both engines will charge a premium for it.

CPC BY SEARCH ENGINE



Key:

● Bing

● Google

SOURCE:  
iPROSPECT

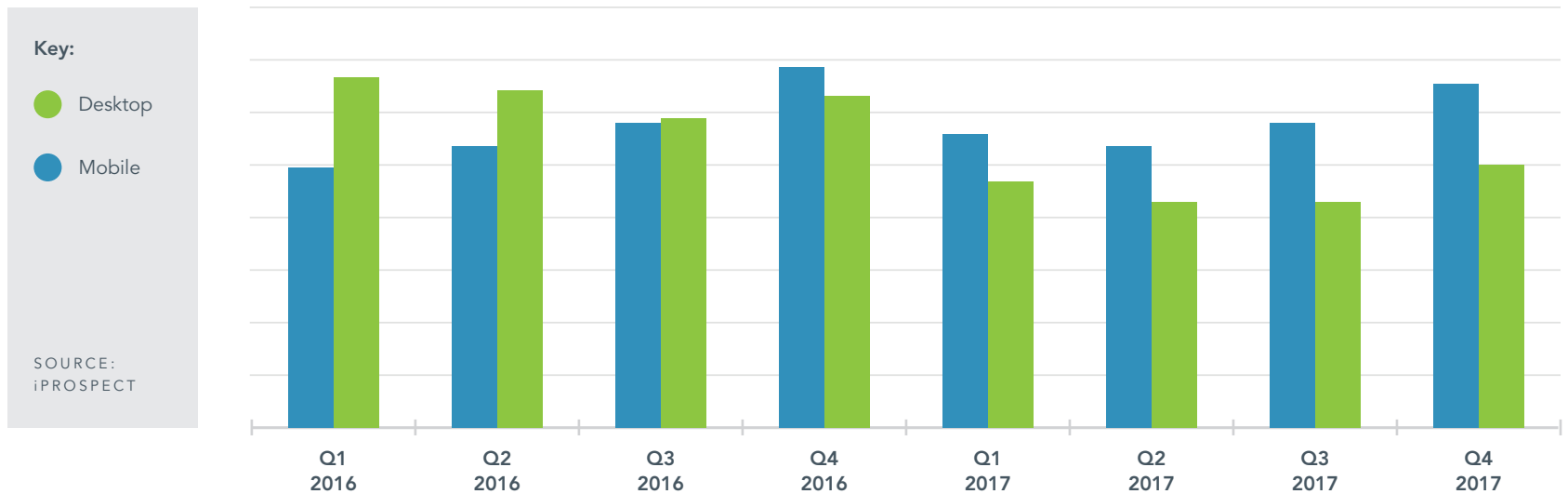


## Taking a Closer Look— Areas of Special Interest

### MOBILE

With desktop traffic declining, it might be assumed that mobile must be growing; but that isn't the case. For the first time since this report began in 2014, mobile clicks actually saw a slight YoY decline. This was driven by the "Amazon Effect" mentioned earlier, along with the fact that people who have so far resisted the smartphone revolution will probably always be holdouts, causing mobile query volume to plateau, as well as the overall increase in CPC. Advertisers couldn't afford as many clicks as they could last year, so although they spent 17% more on mobile YoY, the channel garnered fewer clicks.

CLICKS BY DEVICE





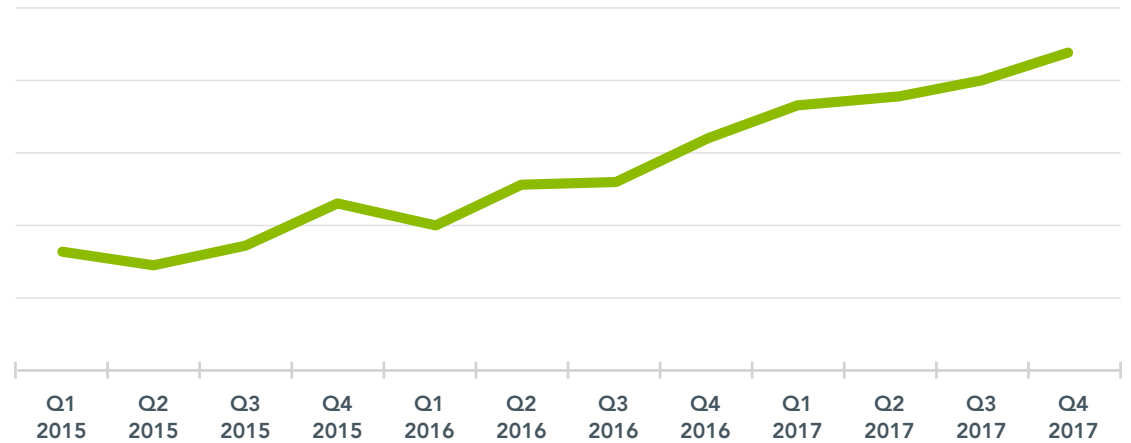
On Google, desktop and mobile CPC has been rising at about the same rate, with desktop CPC consistently being 54% higher than mobile. However, on Bing, that relationship has been much more tumultuous with mobile CPC surpassing desktop back in 2015, and then reconverging again in Q3 2017 due to their Expanded Device Targeting (rolled out in June 2017). This change gave advertisers more control over their device-specific bids and quickly reined in CPC on mobile devices.

**SHOPPING**

Despite Shopping CPC decreases earlier in 2017, advertisers invested heavily in Q4 and saw all-time highs for metrics across the board. Overall, impressions saw a 75% YoY increase and clicks saw a corresponding 37% YoY increase, which brought total investment up a staggering 53% YoY. This growth is primarily led by mobile, which continues to deliver the majority of impressions and clicks as well as almost matching desktop in spend. Overall, mobile boasts a 62% device click share, up 8% from 2016.

More than ever, advertisers are shifting their spend towards Shopping, especially during holidays like Black Friday and Cyber Monday. This trend is expected to continue due to the lower-funnel nature of the ad unit and its strong conversion rates. Over the 2017 Black Friday/Cyber Monday weekend (AKA "Cyber Five"), advertisers made big investments in Shopping and reaped the benefits with 8% YoY improvement in conversion rate and 53% YoY growth in sales.

SHOPPING CLICK VOLUME TRENDING



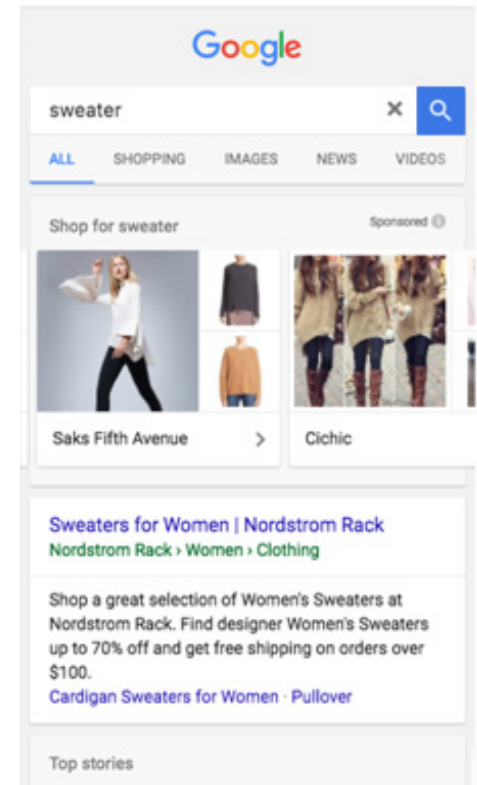
### Google Shopping Impressions on the Rise

With the multitude of Carousel and other ad unit updates this year, we continue to see Google Shopping impressions rise, especially on mobile. Google mobile Shopping impressions saw an 83% YoY increase, while desktop put up a just-as-impressive 70% YoY. Combined, these figures result in an overall 71% YoY increase in impressions for Q4 2017.

As those impressions go up, CTR is going down. Advertisers saw a 20% YoY CTR decrease across desktop and mobile, but only a 7% QoQ decrease from Q3 2017. As scary as that sounds, other metrics are actually improving. CTR isn't dropping due to poor performance; it's the changes being made to the shopping platform. Since advertisers are able to show more than one ad per search query, iProspect analyzes click share—the number of clicks each advertiser received out of the total number of clicks possible—to determine Shopping competitiveness. Click share made huge improvements in Q4, up 99% over Q3 2017. In 2018, click share will continue to be a success metric for advertisers wanting to own as much SERP real estate as possible.

### Bing Shopping Investment Growth

As expected, despite fluctuating throughout the year, Bing Shopping investment hit an all-time high in Q4 2017. The 23% YoY increase in Q4 Bing Shopping investment was also met with higher CPC both YoY and in comparison with Google. This higher CPC comes with a 44% stronger CTR, which can mostly be attributed to Bing's desk-top-heavy investment share.





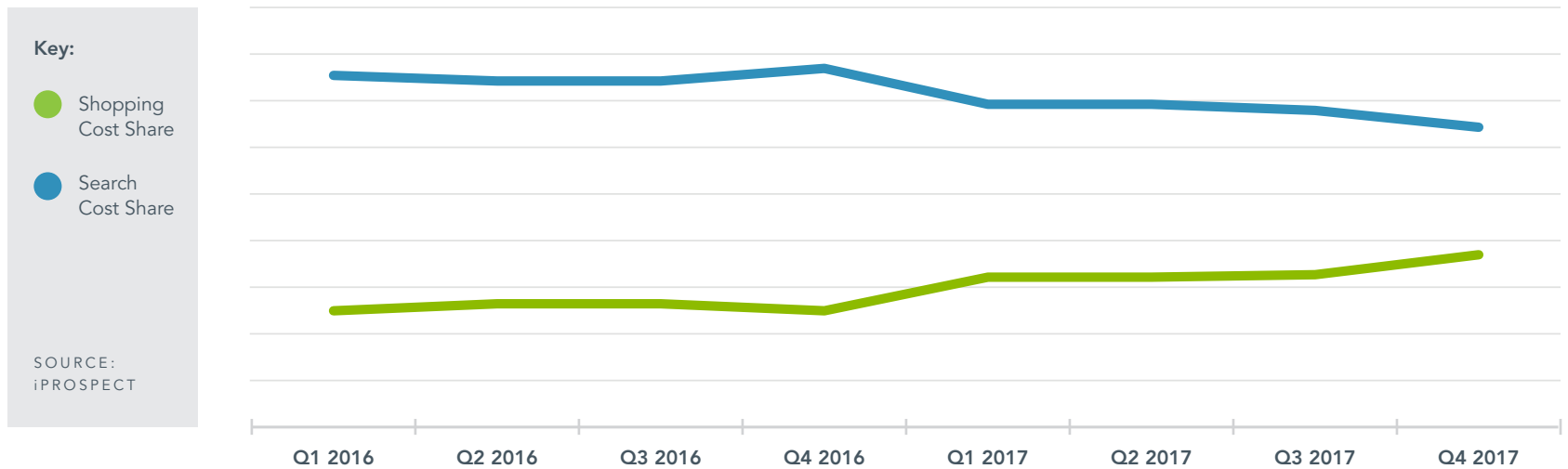
## Verticals

In addition to the overall trends, Q4 performance for two key verticals was analyzed in depth:

### RETAIL

Retail investment in search continues to grow with an 18% YoY increase in Q4 2017. Despite these investment increases, click volume fell 9% YoY as a result of a highly competitive landscape and rising CPC. The dramatic 31% YoY increase in CPC was driven mostly by the continued rise of the shopping ad unit. Even with overall click volume down, Shopping still managed to increase traffic 47% YoY. In addition, overall Shopping investment saw a significant jump all the way up to 36% of total paid search spend, up from 23% in Q4 2016.

RETAIL SEARCH & SHOPPING COST SHARE



SOURCE:  
iPROSPECT

Mobile was another contributor to Q4 gains in retail with more advertisers taking advantage of expansions to the shopping carousel and local ad units across Google and Bing. Mobile traffic continues to far surpass desktop with 58% of the overall clicks coming from mobile. Since mobile CPC is 40% less expensive than desktop CPC, the overall investment share in mobile sits at 46%, almost surpassing desktop's 47% investment share. In 2018, expect to finally see the mobile/desktop shift as both Google and Bing move to create and push more robust mobile offerings such as Purchases On Google.

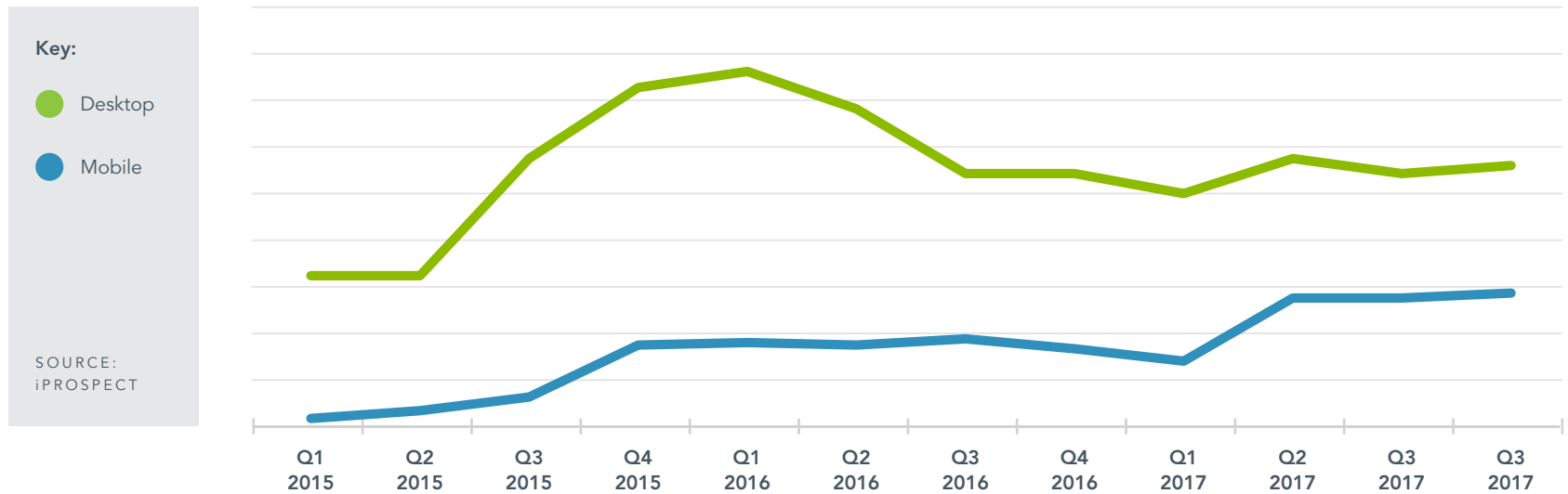
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## **B2B**

Contrary to the overarching trend, Q4 2017 continued to show CPC declines for B2B despite YoY increases in investment and traffic. Overall, looking at YoY figures, advertisers saw an 18% increase in clicks, 8% improvement in CTR, and a CPC reduction of 6%. These improvements can largely be attributed to the vertical's continued adoption of mobile.

As mobile’s influence continues to grow in the B2B space, advertisers are seeing improvements in traffic with a 70% YoY increase in traffic. B2B traditionally has not adopted mobile as quickly as other verticals, but with enhancements to Click to Call and mobile lead measurement, B2B will continue to see mobile investment share grow.

B2B CLICKS BY DEVICE



SOURCE:  
iPROSPECT

Even with CPC declines, B2B CTR has consistently improved over the last year and is up 6% YoY in desktop and 16% YoY in mobile. It’s easier than ever to reach a more qualified target market with improvements to audience lists, such as Customer Match, Similar Audiences, and even In-Market Audiences in Bing. With some of the most competitive CPC rates of all verticals, B2B advertisers should focus on building out granular audience segments to ensure budget is allocated toward high-value audiences.



## Predicting What's Next in 2018

Q4 2017 saw QoQ increases in impression volume and costs, largely driven by more advertisers entering the paid search space, an increase in mobile and shopping searches during the holiday season, and updates to the auction that resulted in increased CPC. As has been the trend, it is likely that this increase in CPC will continue in the paid search space throughout 2018 and beyond.

To further hone in on these trends, we encourage individual advertisers to make distinctions between campaign type (brand, non-brand, shopping, competitor.) By analyzing more specific activity per advertiser, optimizations will likely be more thorough and spend can be attributed for long term results rather than simply skewed toward lower cost activity.

Looking forward to 2018, new advances in the search space will give advertisers a chance to be efficient in the paid search activity:

### **AUTOMATION THROUGH MACHINE LEARNING**

Machine Learning and AI were big buzzwords for 2017, and we expect to see continued developments in both these areas over the course of 2018. Improved features like contextual smart bidding (with eCPC), dynamic ad copy serving, and data-driven attribution will continue to evolve and advertisers should test these to capitalize on the opportunity. By investing in these types of technology, search engines are helping improve performance and enabling advertisers to spend more time on strategy. As CPC rates increase across all major search engines, it's important to be mindful of the technology investment companies like Google and Bing are making in efforts that will hopefully deliver a valuable payoff to everyone, including advertisers.

## AUDIENCE TARGETING

As we've seen over the past few years, audience targeting options will advance. Remarketing, Customer Match, Similar Audiences, and In-market Audiences now provide advertisers a means to be more selective about who sees their ads. These additional features, however come at a cost, with most CPC rates on specific audiences coming at a premium. These additional features do, however, come at a cost with most CPC rates on specific audiences coming at a premium. Similarly, recent legal privacy concerns combined with a trend of companies taking control of their data and not sharing it with search engines (e.g., the rise of ISPs controlling more user data and Apple releasing Intelligent Tracking Prevention), mean that search engines may be unable to maintain current levels of targeting and custom segmentation capabilities. As targeting capabilities evolve—raising new questions and concerns—advertisers will likely be forced to pay premium CPC rates to gain access to more specific audiences.

## COMPETITION IN THE SEARCH SPACE

2017 has certainly seen the nature of search change, and 2018 will undoubtedly be a big year for all the advertisers competing in the space. The growth of Amazon—both through its auction-based product platform and through Amazon Alexa voice devices—has prompted Google to make some fast changes to their offerings, including Google Express, Purchases on Google, and Google Home. We expect Google to continue to roll out significant updates to their suite of commerce advertising products throughout 2018. Additionally, other players in the market are set to disrupt the status search quo including Microsoft's Cortana voice products, Pinterest's Lens visual search, and Criteo's Sponsored Products, all of which are helping alter the way consumers make search queries.

## STRUCTURED DATA

The rise of Shopping is making it necessary for brands to focus on structured data. Two out of three shoppers have abandoned a sale due to limited product information (Source: Shotfarm.) Descriptive, accurate data creates a better experience for the shopper and drives increases in traffic and sales for the advertiser. Updated data for details like availability, price and promotions, is especially essential for large advertisers to ensure the best ad-to-checkout experience. Data feeds are an extension of an advertiser's website and should be updated just as often to ensure that accurate product information is available to consumers when they are searching. Even though it has been out for more than two years, Google Manufacturer Center will play a big role in how advertisers streamline product data quality in 2018. Brands that own and optimize product data through this tool will set themselves up for success not only with Shopping but also with expansions into Google Express and, eventually, voice search.

It's also important to note that the influence of structured data isn't exclusive to Shopping ads. Expect to see it used more widely in text ads in 2018, especially when it comes to ad customizers. Messaging based on user location, landing pages based on audience segment, and even calls to action based on past media exposure are all use cases for structured data automating personalization at scale.

## DON'T FORGET ABOUT MOBILE

Lastly, mobile isn't going away and it will surpass desktop in paid search spend in 2018. At this stage in the game, it's no longer enough to have super relevant ad copy and targeting. Those are both required, but they won't offset a poor mobile experience. Understanding where mobile fits into the customer's path to conversion is crucial to optimizing investment levels and the ad experience advertisers are providing.



And so, with constant changes in automation, targeting, competition, and structured data, advertisers are forced to regularly adjust their approach. Otherwise, their search program can quickly become obsolete. Investing in a search strategy now that accounts for these larger trends will deliver a better return media dollars.

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#### ABOUT THE DATA

- Based on Google AdWords and Bing Ads data
- Includes Google Search, Google Shopping, Bing Search, Bing Shopping
- Does not include YouTube or the Google Display Network



## About the Authors

### **JAKE HUGHES | DIRECTOR, PAID SEARCH**

Jake oversees paid search out of Fort Worth and is responsible for the paid search executional excellence, innovation, and account strategy. A passionate marketer with more than six years of digital experience, Jake thrives on innovating how the search channel is used to meet each advertiser's goals and how to create meaningful connections between brands and consumers.



### **CAITLIN PORTRIE | MANAGER, PAID SEARCH**

Caitlin oversees the strategic activation of paid search media across key accounts in iProspect's Boston office. Since joining iProspect in 2016, she has provided leadership and account support to clients in a variety of verticals including Retail, B2B, Healthcare, and CPG. She now leads paid search media strategy for Staples.



### **MICHAEL KELLEY | DIRECTOR, DATA & INSIGHTS**

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



**Additional contributors include Andrew Ford, Director of Data Science and Christina Malcolm, Director, Paid Search.**



## 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 4,200+ employees in 91 offices across 55 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, Procter & Gamble, 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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