WHITE PAPER

MOBILE SEARCH ADVERTISING AROUND THE GLOBE

How Smartphones & Tablets
Are Changing Paid Search

2013 Annual Report

TABLE OF CONTENTS

AT A GLANCE

We live in a world that's getting more connected by the minute. The rapid proliferation of smartphones and tablets is changing how consumers interact with brands, consume media and make purchase decisions. Advertisers who understand the broad implications of this trend and adapt their marketing strategies will ultimately win the battle for the consumers' hearts, minds and wallets.

DIGITAL ADVERTISING AT A CROSSROADS

The introduction of Google AdWords in 2000 revolutionised the search business by tying advertising spend to purchase intent. The emergence of high-powered mobile devices is incubating another revolution: one that will enable hyper-connected consumers to search, buy and share anywhere, and at any time.

FASTER THAN A SPEEDING ALGORITHM

Mobile adoption is happening along an exponential growth curve. While users relish the move to smarter mobile devices, the rapid pace of change is giving advertisers pause as they wrestle with fundamental questions. Is this a fad? How much budget should be set aside for these emerging channels? Should this investment be net new or displaced?

ADAPTING TO AN ALWAYS-ON WORLD

Marketing funnels in textbooks look very different. In the real world, search, social and location are intertwined from the point of awareness to purchase. Mobile devices, often at the heart of the modern shopper's buying process, provide instant access to product reviews, coupons and competitors. To thrive in this always-on world, marketers need to get better at quickly distilling volumes of data into key insights and corrective action.

INTRODUCTION

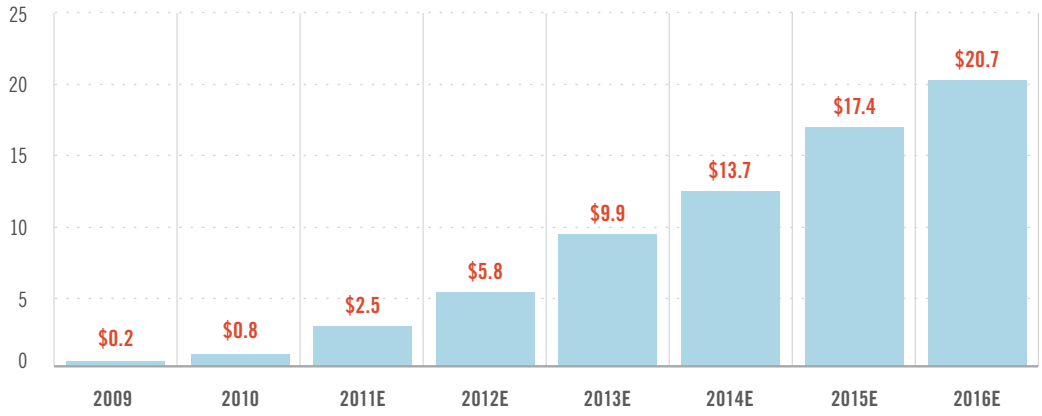
DID YOU KNOW:

Between Google and Apple, consumers have already bought more than a billion tablets and smartphones

In the few short years since the arrival of the Apple iPhone in June 2007, smartphones have become an integral part of how people relate to brands, consume and share content, and conduct commerce. So much so that today, many of us can't imagine life without our smartphones. But the rise of smart mobile devices isn't just about Angry Birds or endless stories about Siri. At its core, mobile represents a paradigm shift in digital advertising.

According to a research report from Cowen[1], Google earned $2.5 Billion in mobile revenue in 2011. And by 2016, it's estimated that mobile could drive $20 Billion in revenue for the search giant. The exponential growth in mobile advertising largely tracks consumer adoption trends. Smartphones now have a greater than 68% penetration in the Australian[2] mobile phone market. And mobile advertising isn't just limited to phones. In fact, sales of mobile devices (phones and tablets) running Google Android are expected to have eclipsed 'PC' sales in 2012[3]. And consumers worldwide have already bought more than a billion iOS and Android devices[4].

ESTIMATED GOOGLE MOBILE REVENUES (IN BILLIONS)



Source: Cowen and Company: Internet and New Media – Industry Outlook – June 2011

The emerging world of the mobile-enabled consumer is quite different from the pre-smartphone world. In this new reality, the walls between online and offline commerce are crumbling. Case in point: today's consumers routinely check product reviews and compare prices online while they're in a brick and mortar store.

1. *Cowen and Company: Internet and New Media – Industry Outlook – June 2011*
2. *http://www.marketingmag.com.au/tags/smartphone-penetration/*
3. *http://www.asymco.com/2012/01/17/the-rise-and-fall-of-personal-computing/*
4. *http://www.theverge.com/2013/1/23/3908602/apple-has-sold-over-500-million-ios-devices-activated*

With smart mobile devices becoming ubiquitous, advertisers need to adapt their online marketing strategies to more closely reflect how people search, buy and share. Specifically, marketers will need to learn how to communicate with an always-on audience, think harder about allocating ad budgets across devices, and develop better attribution models to account for the fading boundaries between online and offline commerce.

Written for the online marketer, this research brief will provide a primer on mobile search trends and projections, explore cost and performance across devices, and help advertisers optimise their mobile search opportunity.

STUDY METHODOLOGY:

To undertake this study, we looked across leading brands and advertisers that manage more than $4 Billion in annualised paid-search spend. Our data set represented all major industry sectors alongside the following countries and/or regions:

- Australia
- Brazil
- Canada
- China
- Eurozone
- India
- Japan
- Mexico
- New Zealand
- Russia
- Singapore
- United Kingdom
- USA

The size and diversity of our data set, coupled with the broad geographic coverage, enables us to provide the most comprehensive report on how smart mobile devices are changing paid-search. With that said, Marin's clients are mainly large advertisers spending upwards of $100,000 per month on paid-search. As such, the information presented in this report is biased towards larger advertisers, and may not reflect mobile search trends for small or medium sized businesses.

PART I - UNITED STATES

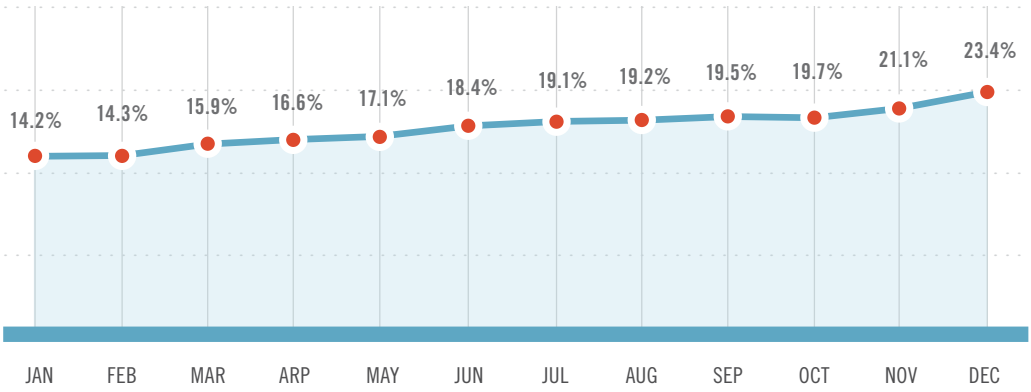
MOBILE SEARCH TRENDS AND PROJECTIONS

DID YOU KNOW:

Mobile devices will account for a third of paid-search clicks and search budgets by Dec 2013

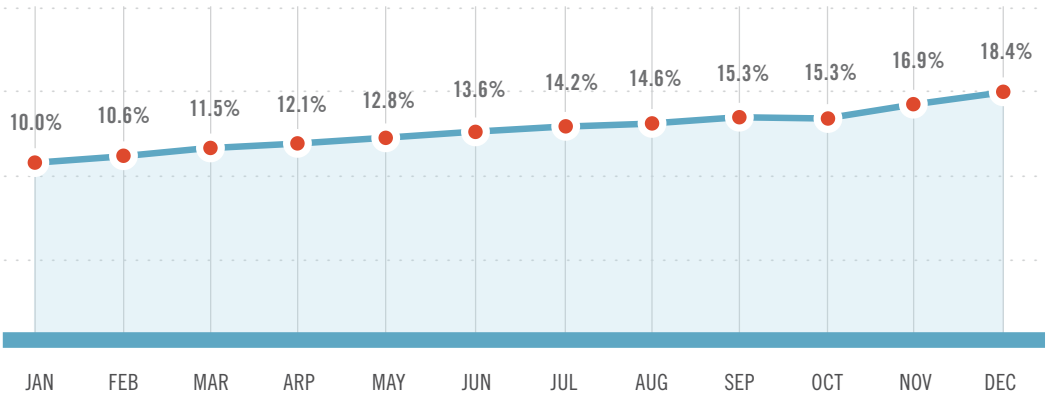
The last twelve months have seen continued adoption of mobile search by consumers and advertisers. Between January and December 2012, our US clients saw their share of Google paid-search clicks from mobile devices rise from 14.2% to 23.4%.

SHARE OF CLICKS FROM MOBILE DEVICES - 2012



Spend, or ad budgets on mobile devices, increased at an even faster pace. Between January and December 2012, advertisers increased their share of search budget on mobile devices from 10% to 18.4%, an 85% increase. Despite efforts to continually increase spend, ad budgets still lagged the click volume arising from smart mobile devices.

SHARE OF SPEND FROM MOBILE DEVICES - 2012



As consumers rapidly expand the use of smartphones and tablets, advertisers will need to follow by increasing their search budget on these devices. So how much budget should advertisers dedicate to specific mobile devices? Allocating budget across tablets and smartphones can depend on an advertiser's industry, audience and geography. In the absence of more precise data, the fraction of paid search clicks from tablets relative to total mobile clicks is a good proxy for determining how much budget to allocate for tablets.

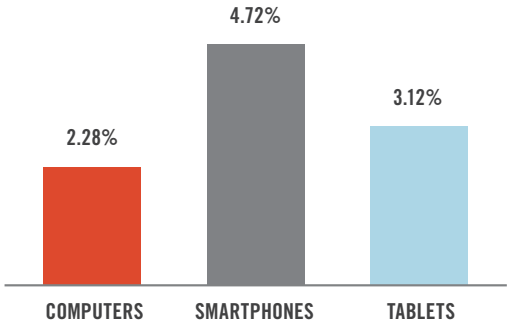
BENCHMARKING SEARCH PERFORMANCE ACROSS DEVICES

Mobile search behaves differently from search on the traditional computer. For one, smartphones and tablets have less available ad inventory because of constrained screen real-estate. This has the unintended effect of reducing the number of ad impressions that can be served across these newer devices. However, our data suggests that users are actually more engaged with search results on their mobile devices. The following chart looks at the average click-through rate (CTR) across devices and shows that smartphone and tablet users have CTRs that are respectively 107% and 37% higher than users on desktop computers.

Another positive for advertisers is that the cost-per-click (CPC) on smartphones and tablets is much lower than it is on desktop computers. As the following chart illustrates, smartphones clicks are approximately 36% cheaper than desktop clicks. Along the same lines, tablet clicks are about 17% cheaper than their desktop counterparts.

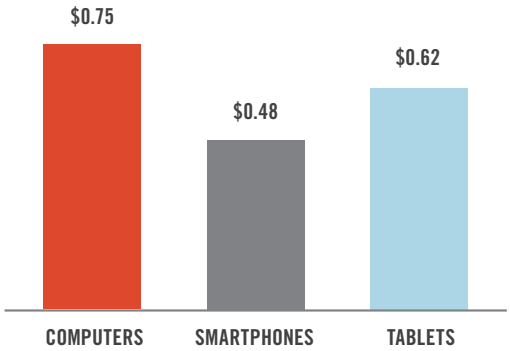
With that said, the story doesn't just end with tablets and smartphones being more cost-effective. Digging a little deeper, we found that CPCs on tablets and smartphones increased 25% and 13% respectively during 2012. In comparison, CPCs on computers increased approximately 9%. So while smartphones and tablets have lower CPCs, they're increasing at a faster pace. Our analysis suggests that tablets CPCs could equal desktop CPCs during 2013.

AVERAGE CLICK THROUGH RATE BY DEVICE - 2012



Search ads on smartphones & tablets have a much higher click through rate than similar ads on the desktop

AVERAGE COST PER CLICK BY DEVICE - 2012

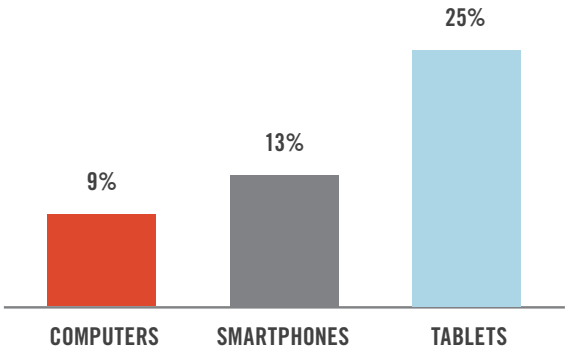


Tablet and Smartphone CPCs are cheaper than computers but increasing at a faster rate

While CPCs are one side of the coin, conversion rates are the other. Looking across our clients, we discovered that there is a significant difference between conversion rates across devices. On average, we found that ad clicks originating from smartphones have the lowest conversion rates, whereas ad clicks originating from tablets are becoming more comparable to computers. Here it's important to note that conversion rates for tablet devices are improving relative to desktops and smartphones. During 2012, tablets saw a 31% increase in conversion rates, compared to 9% for smartphones and 7% for computers.

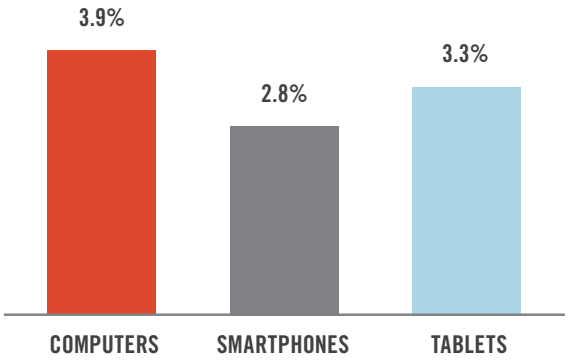
Though smartphones underperformed on conversion rates, more research is warranted here. Being inherently mobile, smartphones are used differently and many conversions may be happening in a physical store, making them hard to track. Additionally, the rise of shopping apps makes conversion tracking more complex and somewhat opaque. As such, the value of smartphone advertising is more dependent on the type of advertiser and product, and marketers should keep an open mind about their efficacy.

CPC CHANGE (JAN - DEC 2012)



Tablet CPCs could equal Desktop CPCs during 2013

AVERAGE CONVERSION RATE BY DEVICE - 2012



With conversion rates spiking by 31% during 2012, tablets are fast becoming an eCommerce powerhouse

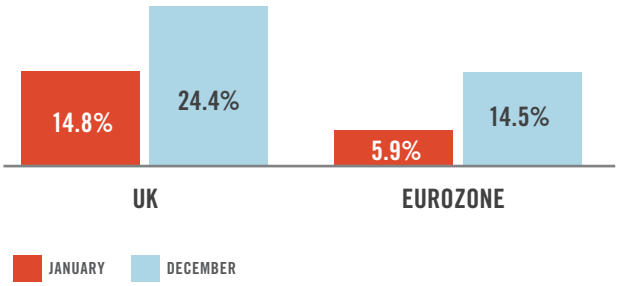
PART II - UNITED KINGDOM AND THE EUROZONE

MOBILE SEARCH TRENDS

Despite the macro-economic headwinds, 2012 was a good year for mobile search in Europe. In January 2012, smart mobile devices accounted for 14.8% of Google's UK paid clicks. By December, smartphones and tablets were generating roughly 24.4% of all paid clicks. In a mere twelve months, the UK saw Google's share of paid clicks from mobile increase 65%. By comparison, the Eurozone saw its share of paid clicks from smart mobile devices rise from 5.9% to 14.5%, a staggering increase of 146%.

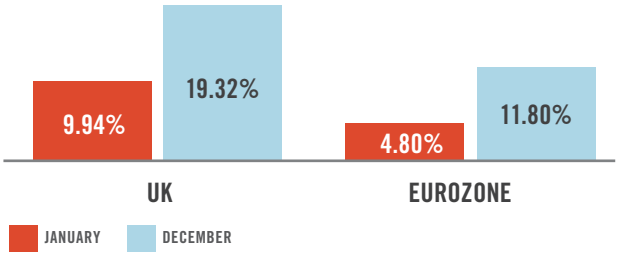
Spend, or ad budgets on mobile devices, increased at an even faster pace. During 2012, UK advertisers increased their share of search budget on smart mobile devices from 9.94% to 19.32%, an increase of 94%. Meanwhile, Eurozone advertisers upped their investment in mobile search from 4.8% to 11.8% of paid-search budgets, reflecting an increase of 146%. Despite efforts to continually increase ad spend, paid-search budget share still lagged the click share of smart mobile devices.

MOBILE SHARE OF PAID CLICKS - 2012



By December 2012, smart mobile devices were delivering a quarter of the paid search clicks in the UK

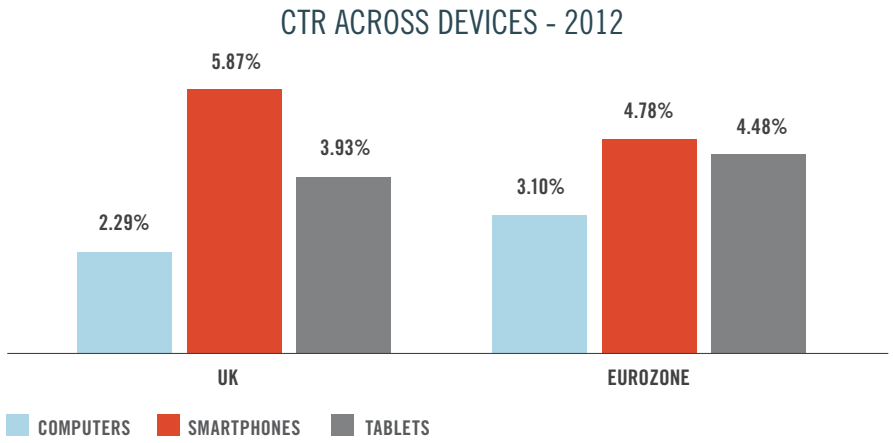
MOBILE SHARE OF SEARCH BUDGETS - 2012



During 2012, the Eurozone increased its mobile and tablet paid-search budget share by 146%

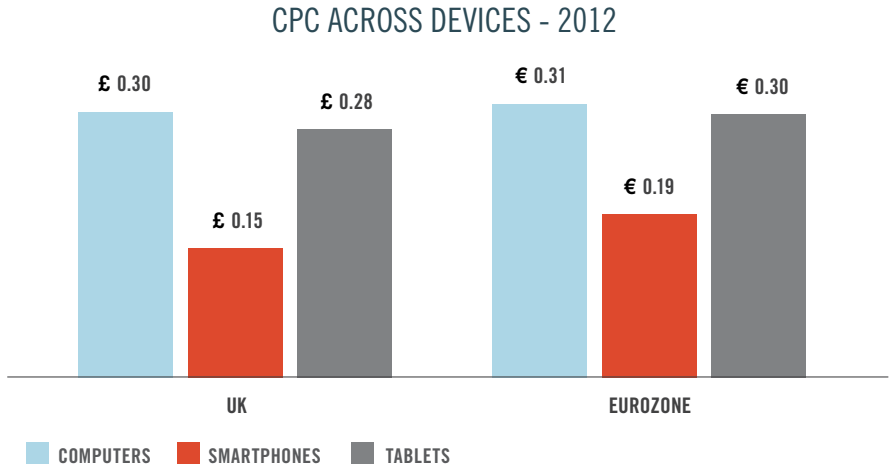
BENCHMARKING SEARCH PERFORMANCE ACROSS DEVICES

So how did smart mobile devices perform in Europe? Not surprisingly, it wasn't too dissimilar from the US. The following chart looks at the average click through rate (CTR) across devices, and shows that ads placed on smartphones and tablets have a higher CTR than those placed on computers. That being said, we also saw that differences in CTR across devices are more pronounced in the UK, and less striking in the Eurozone.



CTRs for ads on smartphones continue to eclipse the desktop and the tablet

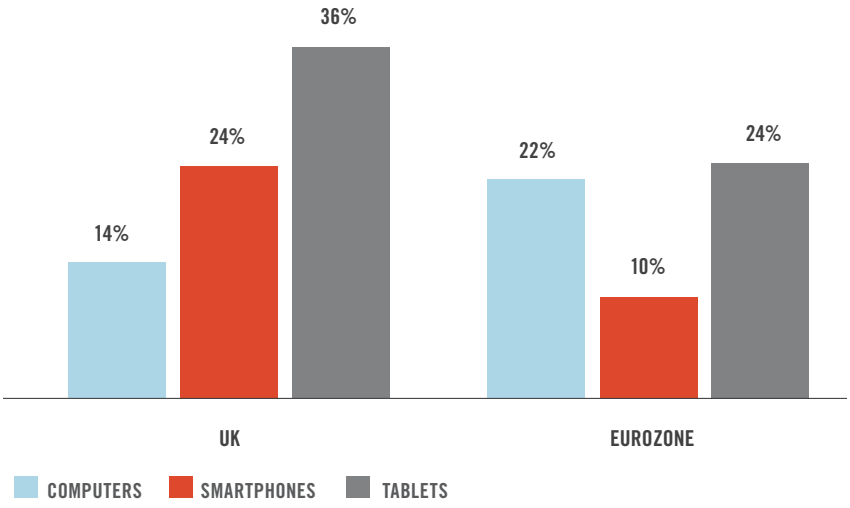
On the cost side, UK smartphones clicks are cheaper than the corresponding desktop and tablet clicks. In the Eurozone, tablet and computer clicks cost about the same, while smartphone clicks are the cheapest overall. Our findings also show that tablet CPCs in the UK and the Eurozone are closing in on computer CPCs.



The UK and the Eurozone are seeing signs of convergence in desktop and tablet CPCs

Across the UK and the Eurozone, we found significant CPC inflation through 2012. Specifically, we saw that tablets had the greatest increase in CPC, averaging a 36% increase in the UK and a 24% bump in the Eurozone. Here, it's important to note that our analysis doesn't take currency fluctuations into account.

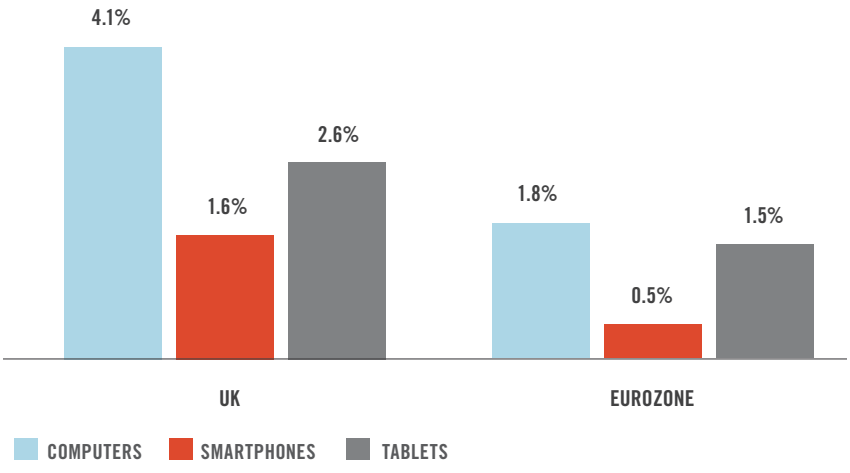
CPC INCREASE (JAN - DEC - 2012)



Tablets saw the highest inflation in CPC's across the UK and the Eurozone

While CPCs are important, advertisers ultimately care about sales and revenue. Here we found that desktops and laptops still showed the best conversion rates across the UK and the Eurozone. But within the Eurozone in particular, tablet conversion rates are starting to catch up with those on computers. Smartphones had the lowest conversion rates, but here it's important to keep in mind that smartphone conversions may be happening via a phone call or in a physical store, leading to artificially depressed measurements.

CONVERSION RATE ACROSS DEVICES - 2012



Conversion rates from tablet clicks are starting to rival those arising from desktop clicks in the Eurozone

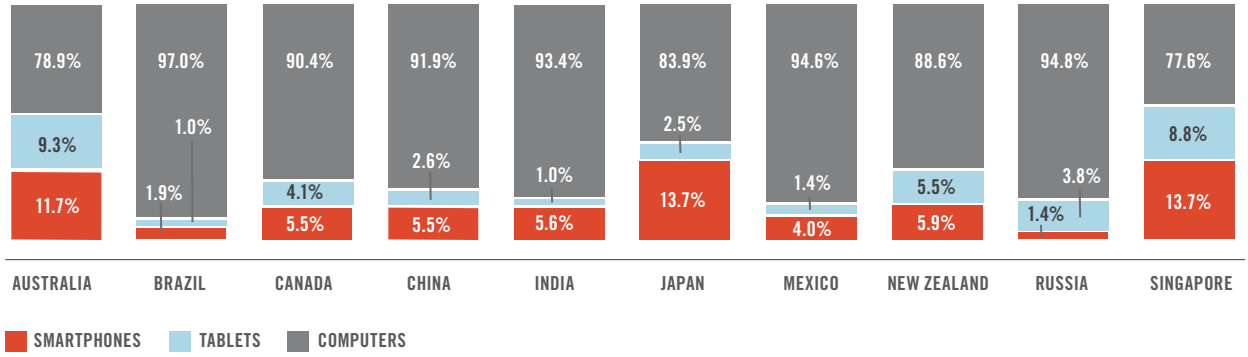
PART III - MOBILE SEARCH ACROSS THE GLOBE

Mobile is inherently more global than the desktop. With handsets becoming smarter and bandwidth more bountiful, mobile devices are now poised to leapfrog computers in bringing the Internet and digital commerce to billions of people around the world.

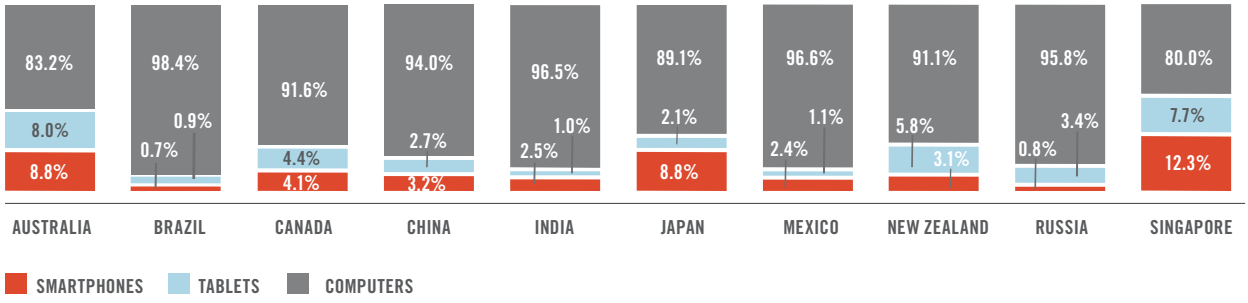
To study international mobile search trends, we analysed Google's data from across a number of major markets. The following charts break out the share of clicks and ad-spend across devices for each country under consideration. Additionally, they compare device-specific cost per click (normalised to USD) and click through rates for each region. It's important to re-emphasise here that the charts below only refer to Google's performance, and do not include data from other search engines such as Bing, Baidu, Yandex or Yahoo! Japan.

Note: Values below are rounded to one decimal place, which can lead to click and spend share across devices exceeding 100% by a small margin.

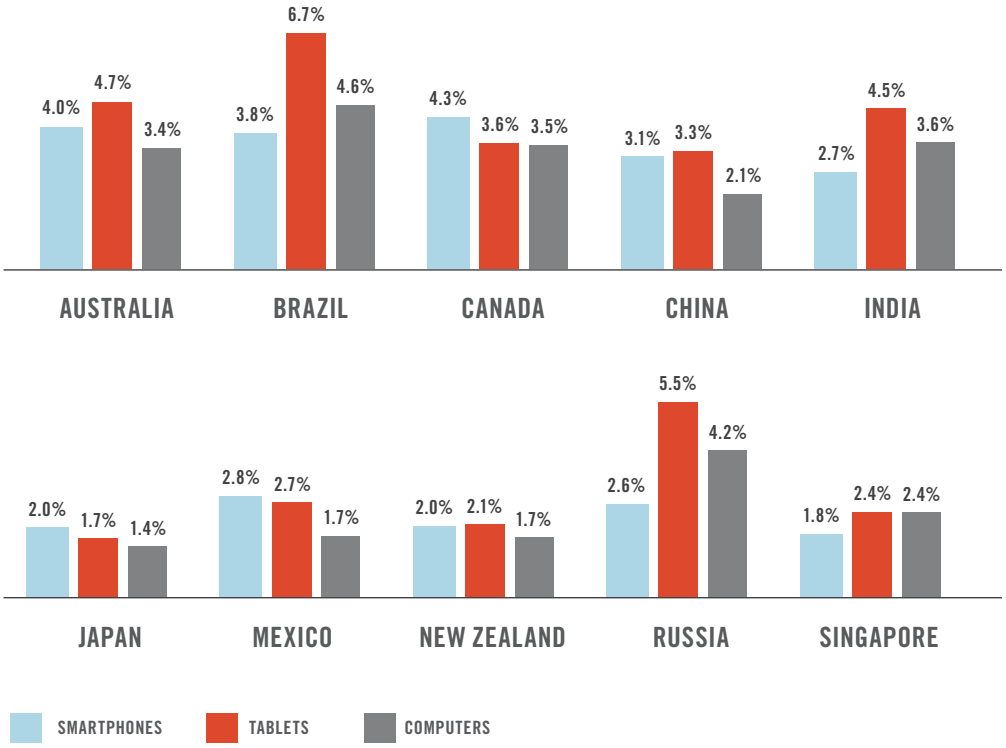
COMPARING CLICK SHARE BY DEVICE & REGION



COMPARING SPEND SHARE BY DEVICE & REGION



AVERAGE CLICK THROUGH RATES BY DEVICE & REGION - 2012



AVERAGE COST PER CLICK (USD) BY DEVICE & REGION - 2012

OPTIMISING MOBILE SEARCH CAMPAIGNS

By December 2013, smart mobile devices could make up a third of Google's paid-search clicks for large advertisers. Given mobile's rate of growth and geographic reach, it is fast becoming an area of focus for marketers. However, mobile campaigns can be quite different from their desktop counterparts in terms of targeting, bidding and ad formats. Additionally, mobile users could be using search in different ways than a desktop user. For example, click-to-call ads are highly relevant for a smartphone but not for a desktop or a tablet. To that end, the following section covers best practices for mobile paid-search and will help search marketers make the transition from desktop to mobile devices.

1. Break out Mobile Campaigns:

DID YOU KNOW:

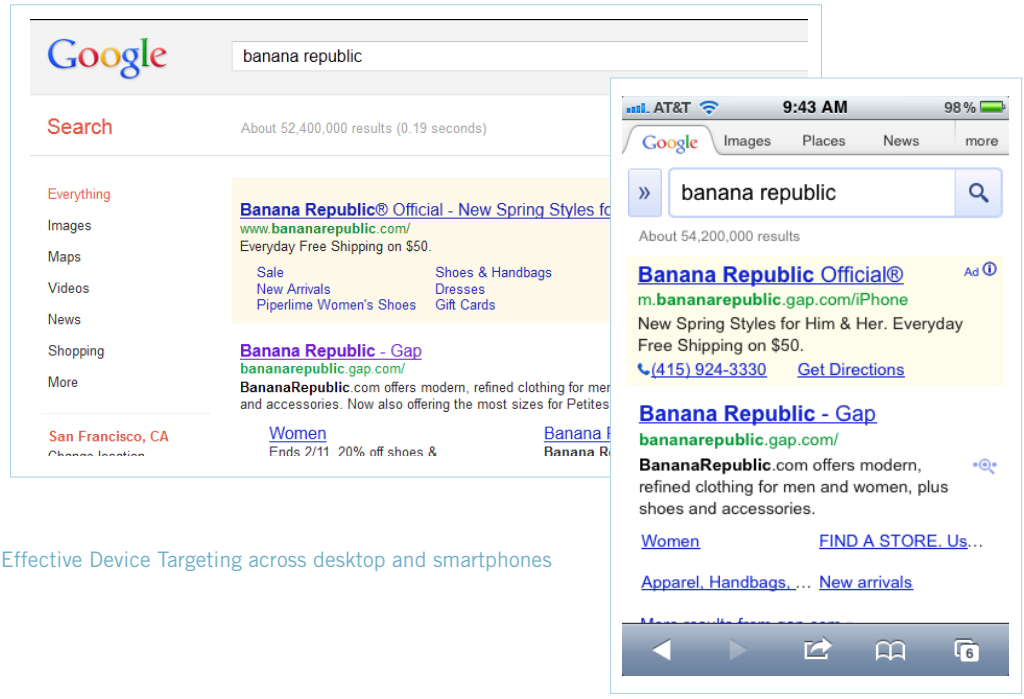
According to Google, one in three mobile search queries have local intent

While it may increase operational overhead, there are good reasons to break out mobile campaigns. First, mobile CPCs and CTRs are significantly different from the desktop. Second, destination URLs could be different for mobile ads. Third, location is usually a more important consideration in mobile searches. Finally, with the emergence of newer ad formats such as click-to-call ads, mobile ad campaigns are getting increasingly specialised. By separating mobile out, marketers will have more control over search campaigns, be able to write mobile-specific ad copy, and drive higher performance overall.

Use mobile specific ad types and ad copy

2. Target Users with Device-Specific Copy:

When browsing on mobile devices, consumers often look for assurance that links will take them to a mobile optimised experience. Incorporating device-specific ad copy into paid search ads gives consumers that assurance, increasing click-through rates in the process. In the example below, Banana Republic has tailored their mobile ad to target iPhone users. While this is a relatively nuanced change, mobile copy that incorporates the device name typically out performs even the best desktop copy.



Effective Device Targeting across desktop and smartphones

3. Prioritise Ad Position:

The effective real estate for paid search ads is smaller on mobile devices, increasing the importance of ad position. Because smartphone browsers support fewer ad units than desktop browsers, it's extremely important to ensure that your ads are in position 1 or 2. As a rule of thumb, we recommend setting bids for mobile campaigns at the outset to twice that of desktop campaigns and then adjusting downward. While Google doesn't allow for position-based bidding, advertisers should test different bids while monitoring ad position to ensure an average position that's in between 1 and 2. Tools such as Marin can monitor this and automatically alert the advertiser when corrective action needs to be taken.

4. Optimise the User Experience:

A key reason for lower conversion rates on smartphones is the lack of mobile-optimised websites. Most websites are still difficult to browse on smartphone browsers, and usability issues can introduce friction into the purchase process. To make mobile a strong and sustainable part of the conversion funnel, advertisers should optimise their website for smartphone browsers, and subject it to the same standards of usability and AlB testing as they do their regular website.

5. Track Mobile Conversions:

Mobile searches often result in conversions that happen via a call or a physical store. Unfortunately, most marketers lack the ability to glue these clicks together into a unified conversion funnel. Marketers should look to estimate their mobile-influenced revenue through the use of popular mobile ad formats such as click-to-call and store-locator. By combining the typical conversion rate for in-store and phone-based transactions with the average revenue per transaction, marketers can estimate a revenue per click for mobile devices and adjust their mobile CPCs and budget accordingly.

ABOUT MARIN SOFTWARE

Marin provides a leading revenue acquisition management platform used by advertisers and agencies to manage more than $4 billion in annualized ad investments. Offering an integrated platform for search, social, display, and mobile marketing, Marin helps advertisers and agencies improve financial performance, save time, and make better decisions. Headquartered in San Francisco, with offices worldwide, Marin's technology powers marketing campaigns in more than 160 countries. For more information about Marin's products, please visit: **www.marinsoftware.com.au**.

UNITED STATES

San Francisco
123 Mission Street
25th Floor
San Francisco, CA 94105
Tel: +1 (415) 399-2580

New York
215 Park Avenue South
Suite 1801
New York, NY 10003
Tel: +1 (646) 490-2427

Chicago
140 S. Dearborn Street
Suite 300-A
Chicago, IL 60603
Tel: +1 (312) 267-2083

Austin
7000 N Mopac Expy
Austin, TX 78731
Tel: +1 (512) 514-6000

EMEA

United Kingdom
1st Floor, Orion House,
5 Upper St Martin's Lane,
London, WC2H 9EA
Tel: +44 (0)845 262 0404

France
Actualis Level 2
21 and 23 Boulevard Haussmann
Paris 75009
Tel: +33 1 56 03 66 44

Germany
Am Kaiserkai 1
20457 Hamburg
Tel: +49 40 80 80 74-522

APAC

Singapore
One Raffles Quay
North Tower, Level 25
048583
Tel: +65 6622 5888

Japan
3rd Floor, Sanno Park Tower
2-11-1 Nagata-cho
Chiyoda-ku
Tokyo 100-6162
Tel: +81 3 6205 3000

Australia
Level 31
RBS Tower @ Aurora Place
88 Phillip Street
Sydney NSW 2000
Tel: +61 (0)2 8211 0553