

THE STATE OF MOBILE SEARCH ADVERTISING IN THE US

How the Emergence of Smartphones
and Tablets Changes Paid Search

MARCH 2012



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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 consumer's hearts, minds and wallets.

DIGITAL ADVERTISING AT A CROSSROADS

The introduction of Google AdWords in 2000 revolutionized the search business by tying advertising spend to purchase intent. The emergence of high-powered mobile devices is now 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

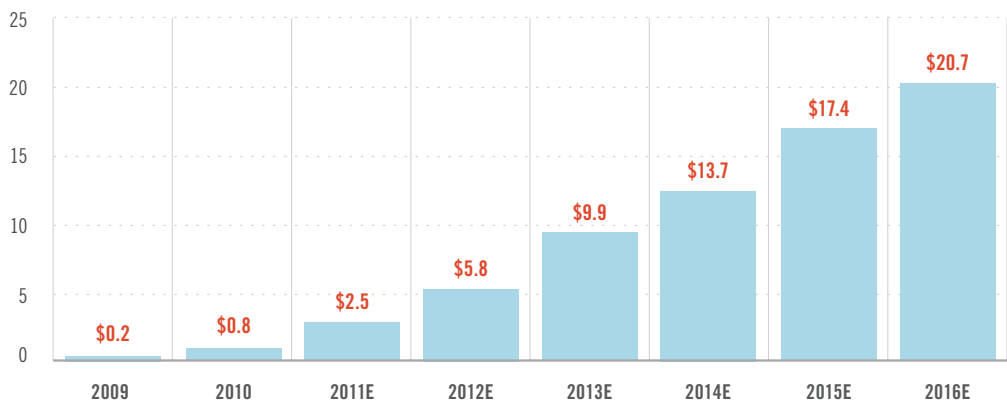
DID YOU KNOW:

Sales of all mobile devices running Google Android are expected to eclipse Windows PC sales in 2012

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 respective smartphones. But the rise of smart mobile devices isn't just about Angry Birds, lines at the Apple store, or endless stories about Siri. At its core, mobile also represents a paradigm shift in online advertising.

According to a research report from Cowen¹ and Company, Google earned \$2.5 Billion in mobile revenue in 2011. 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 of smart mobile devices. Smartphones now have a 50% penetration in the US² 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 eclipse 'PC' sales in 2012³.

TOTAL GOOGLE MOBILE REVENUES (IN BILLIONS)



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

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

2: <http://gigaom.com/mobile/7-signs-that-android-is-faltering-as-ios-strengthens/>

3: <http://www.asymco.com/2012/01/17/the-rise-and-fall-of-personal-computing/>

The emerging world of a mobile-enabled consumer will be significantly different from a pre-smartphone world. In this new reality, the walls between online and offline commerce are crumbling. For instance, consumers can now check product reviews and compare prices, while they're looking at a product in a physical store. One implication of this is that a mobile search could be a lot closer to the purchase point than a desktop search, and therefore be more valuable and competitive.

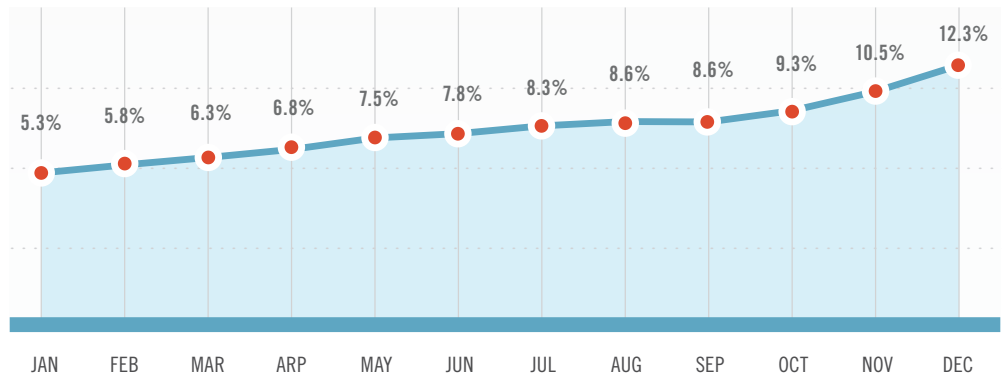
With smart mobile devices becoming increasingly ubiquitous, advertisers will need to adapt their online marketing strategies to more closely reflect how people search, buy and share. Broadly, marketers will need to communicate more effectively with an always-on audience, think harder about their digital ad distribution channels and budgets as mobile devices become more commonplace, and develop more reliable 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 optimize their mobile search opportunity.

MOBILE SEARCH TRENDS AND PROJECTIONS

2011 was a watershed year for mobile search. In January 2011, mobile devices accounted for 5.3% of all clicks on Google. By December 2011, mobile devices were generating over 12% of all clicks on Google. In the span of a short 12 months, Google's share of clicks from mobile devices increased by 132%.

SHARE OF CLICKS FROM MOBILE DEVICES - 2011

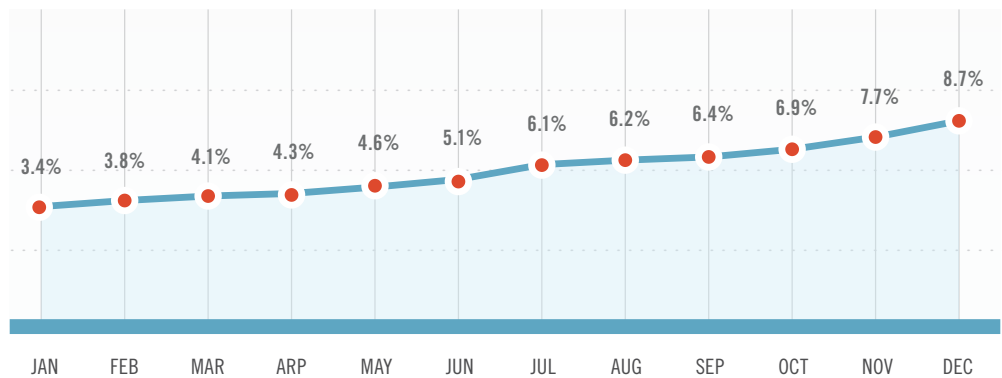


Spend, or ad budgets on mobile devices, increased at an even faster pace. In 2011, advertisers increased their share of search budget on mobile devices from 3.4% to 8.7%, an astounding 156% increase. Despite their efforts to continually increase spend on mobile, ad budgets still lagged the click volume arising from smart mobile devices.

DID YOU KNOW:

Mobile devices will account for 25% of all paid-search clicks and 23% of search budgets by December 2012

SHARE OF SPEND FROM MOBILE DEVICES - 2011



At their current run-rates, mobile devices will account for 25% of all paid-search clicks on Google by December 2012. Also by this time, we estimate that 23% of Google's US paid-search spend will come from mobile campaigns.

THE IMPACT OF MOBILE DEVICES (US PAID SEARCH - GOOGLE)	DEC. 2011 (ACTUAL)	DEC. 2012 (PROJECTED)	ANNUAL GROWTH
SHARE OF CLICKS	12.3%	25%	103%
SHARE OF AD SPEND	8.7%	23%	164%

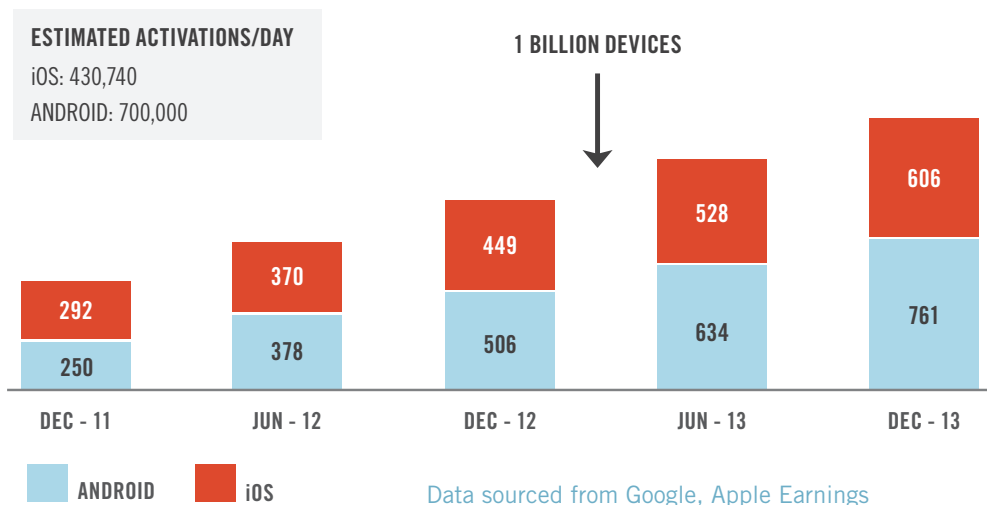
DID YOU KNOW:

Apple sold more iOS devices in 2011 than the total number of Macs sold in all 28 years of its existence

The driving factor behind these meteoric growth rates is the unprecedented consumer adoption of smartphones and tablets. By way of context, Apple sold more iOS devices in 2011 than the total number of Macs sold in all 28 years of its existence⁴.

The following chart, based on publically available data from Google and Apple, forecasts the cumulative number of smartphone and tablet devices being used between now and the December 2013. Based on the number of iOS⁵ and Android⁶ devices currently in existence, and the number of new devices being activated each day, we estimate that there will be one billion smart mobile devices in-use globally sometime between December 2012 and June 2013.

**MOBILE DEVICE GROWTH PROJECTIONS
SMARTPHONES & TABLETS (MILLIONS)**



4: http://www.theregister.co.uk/2012/02/17/apple_ios_v_mac_sales/

5: <http://investor.apple.com/>

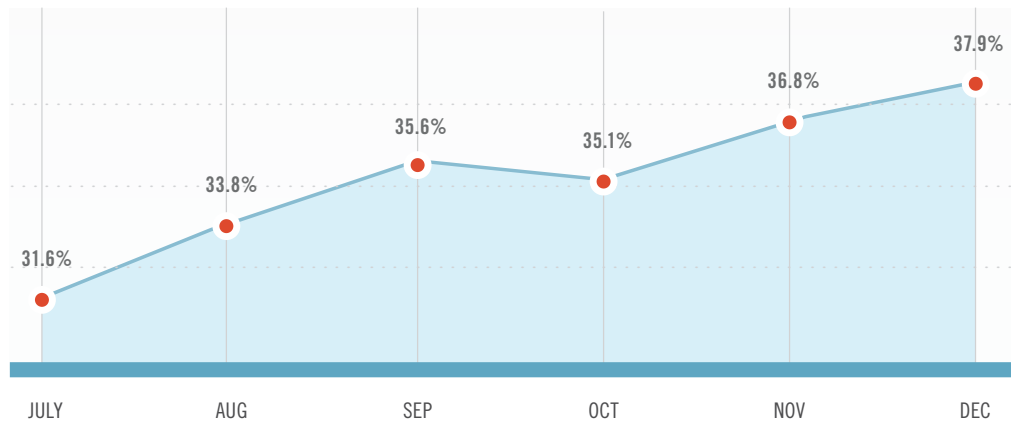
6: <http://www.asymco.com/2011/12/21/how-many-android-phones-have-been-activated/>

DID YOU KNOW:

December 2012:
Tablets may account
for 45% of all US
paid-search clicks from
mobile devices

As consumers rapidly expand the use of smart mobile devices, advertisers will need to follow by increasing their search budget on these devices. However, 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 clicks from tablets versus total mobile clicks is a good proxy for the percent of search budget to allocate towards tablets. The following chart tracks the percentage of mobile clicks originating from tablets during the second half of 2011. Our analysis suggests that tablets will account for 45% of all mobile clicks by December 2012.

TABLETS AS A FRACTION OF ALL MOBILE CLICKS - H2 2011



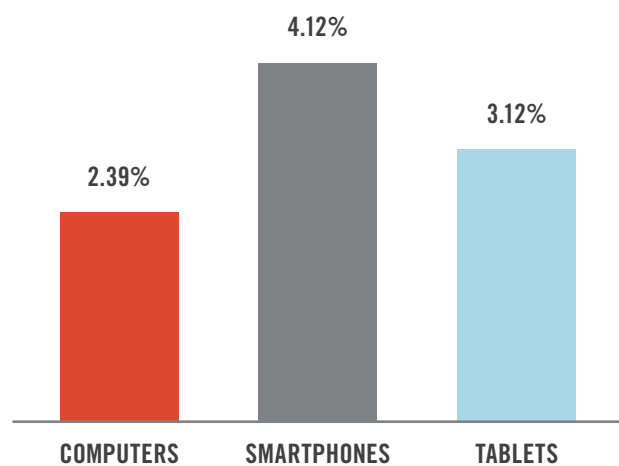
BENCHMARKING SEARCH PERFORMANCE ACROSS DEVICES

Mobile search behaves differently from search on the traditional computer or desktop. For one, smartphones and tablets have much 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 suggest 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 72% and 31% 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, smartphone clicks are approximately 36% cheaper than desktop clicks. Along the same lines, tablet clicks are about 24% cheaper than their desktop counterparts.

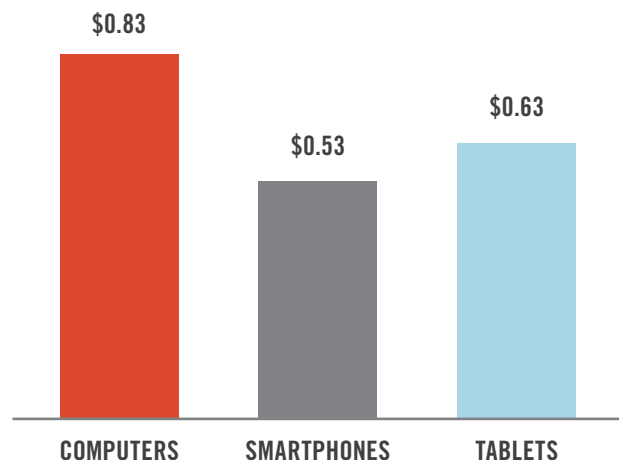
When you couple the fast-growing click volume on smartphones and tablets with their superior ad engagement rates and economics, it's easy to see why smart mobile devices are becoming increasingly important for advertisers. While it's clear that mobile devices are an efficient source of paid search traffic, it's unclear if mobile conversion rates are comparable to computers? Put another way, advertisers want to know if clicks on mobile devices will lead to meaningful and quantifiable revenue.

AVERAGE CLICK THROUGH RATE BY DEVICE - 2011



Smartphone & tablet users are much more likely to click on search ads than desktop users

AVERAGE COST PER CLICK BY DEVICE - 2011



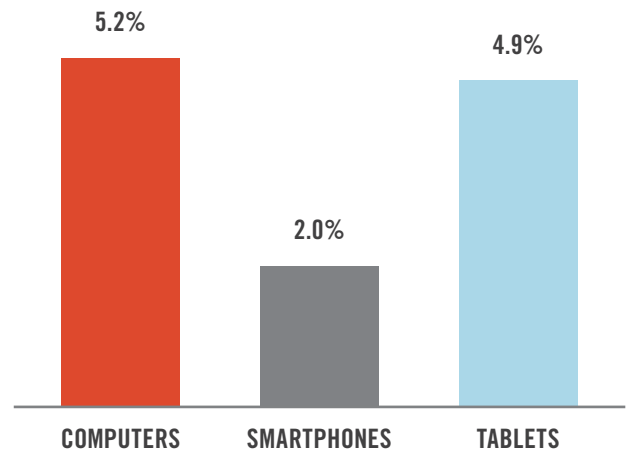
Smartphone & tablet clicks are cheaper than clicks coming from the desktop

In looking across our clients, we found that there is a significant difference between conversion rates across devices. On average, we found that smartphones have the lowest conversion rate across all devices, whereas tablets are very comparable to desktop computers. Specifically, tablets and computers have conversion rates that are respectively 145% and 160% higher than smartphones.

While our data suggests that smartphones significantly underperform in this area, we think that more research is necessary. Being inherently mobile, smartphones are used differently and many of their conversions could happen in a physical store, making them harder to track. Additionally, the rise of shopping apps makes conversion tracking more complex. 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.

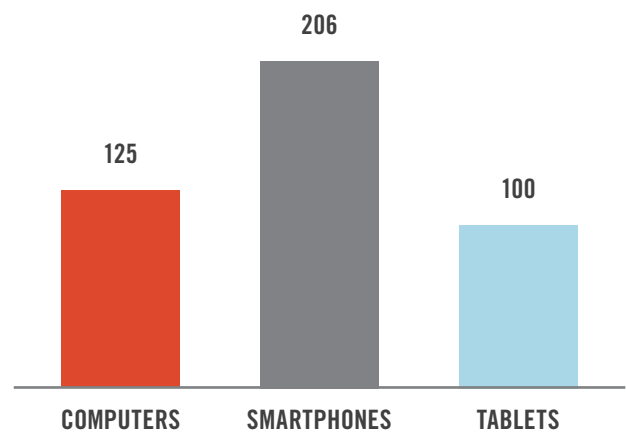
So which device delivers the best overall return on ad spend (ROAS) for advertisers? Our research to-date has tablets leading the pack on a price-performance basis. Specifically, tablets had the lowest cost per conversion, followed by desktop computers (25% higher) and smart phones (106% higher). While tablets are still relatively new and not as commonplace as smartphones, they're already delivering a strong combination of price and performance when it comes to paid-search. Advertisers would be well advised to develop a focused strategy around these exciting new devices.

AVERAGE CONVERSION RATE BY DEVICE - 2011



Computers and tablets out-perform smartphones when it comes to conversion rates

AVERAGE COST/CONVERSION BY DEVICE (INDEXED) - 2011



Tablets have a lower cost per conversion than computers and smartphones

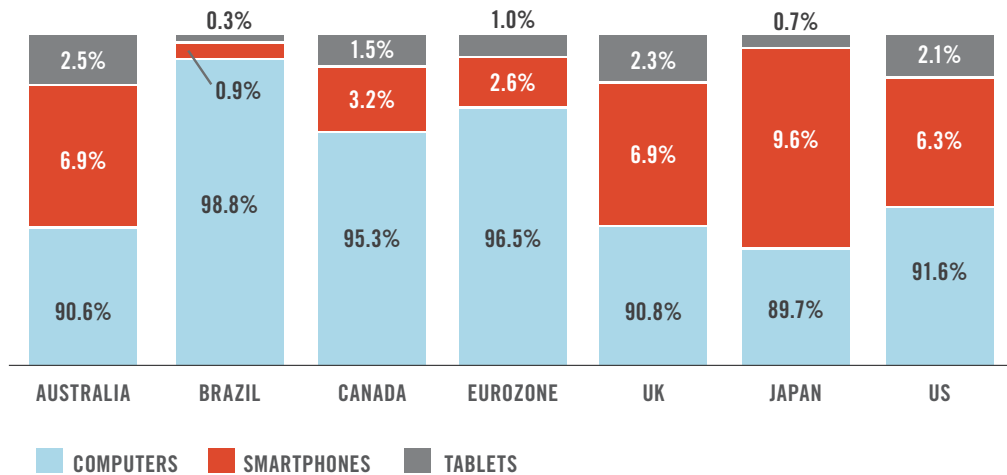
MOBILE SEARCH ACROSS THE GLOBE

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.

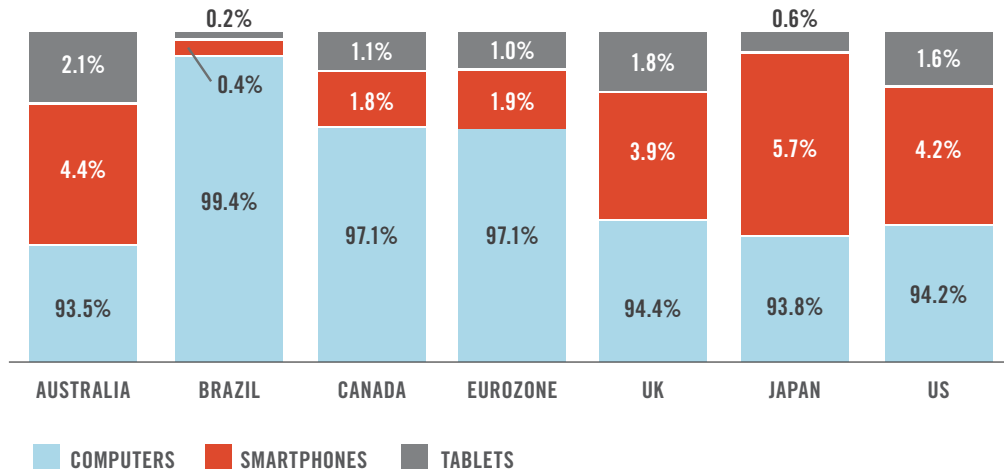
As we've seen, mobile search has been growing exponentially in the United States. But the rest of the world isn't far behind. To study international mobile search trends, we analyzed data from across a number of countries and the Eurozone. The following charts break out the share of clicks and ad spend across devices for each region in consideration. Additionally, it also compares a device-specific cost per click (normalized to USD) and click through rate for each region.

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.

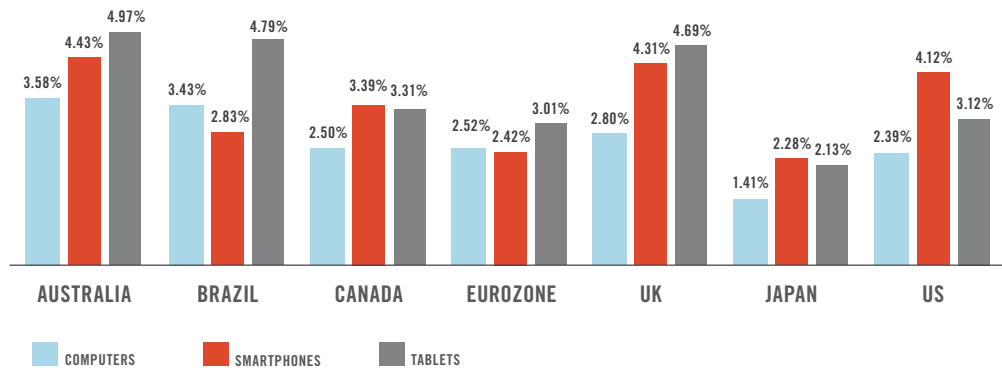
COMPARING THE SHARE OF CLICKS ON DEVICE BY REGION



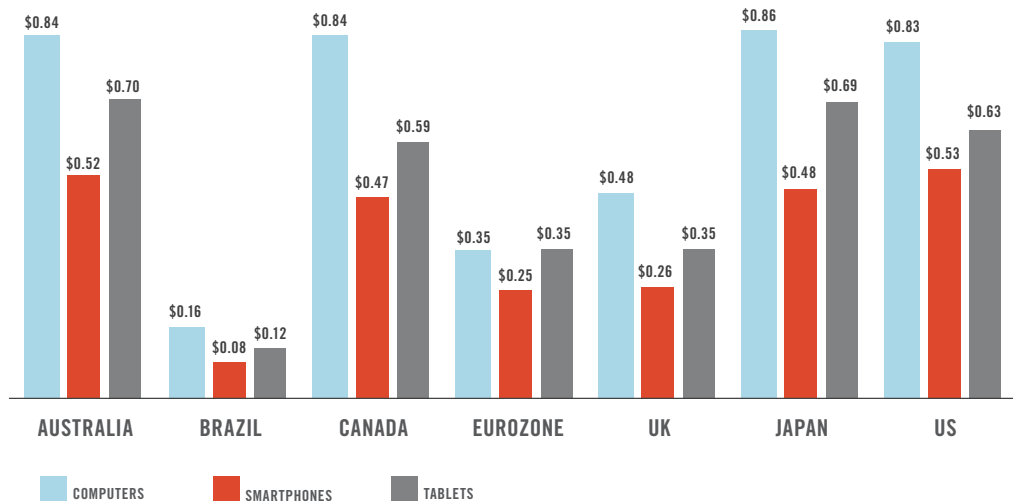
COMPARING THE SHARE OF AD SPEND ON DEVICE BY REGION



COMPARING CLICK THROUGH RATES BY REGION & DEVICE



COMPARING COST PER CLICK (USD) BY REGION & DEVICE



OPTIMIZING MOBILE SEARCH CAMPAIGNS

In many ways, successful mobile campaigns aren't that dissimilar from their desktop counterparts. However, there are important differences to keep in mind which we have detailed below.

Adapt to Mobile Search Scenarios:

When it comes to search, consumers often use a smartphone differently than they would a desktop. A typical scenario has shoppers using a smartphone to do price comparisons or check product reviews while they're in a retail store. In another common scenario, consumers use their smartphones to locate a local business while on the go. Given the differences in how customers use mobile devices, it's important to ensure that advertisers are bidding on mobile-appropriate keywords and leveraging relevant ad extensions, such as click-to-call or location extensions.

Break out Mobile Campaigns:

While it may increase operational overhead, there are good reasons to separate 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. And finally, with the emergence of newer ad formats such as click-to-call ads, mobile ad campaigns are getting increasingly specialized. 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.

DID YOU KNOW:

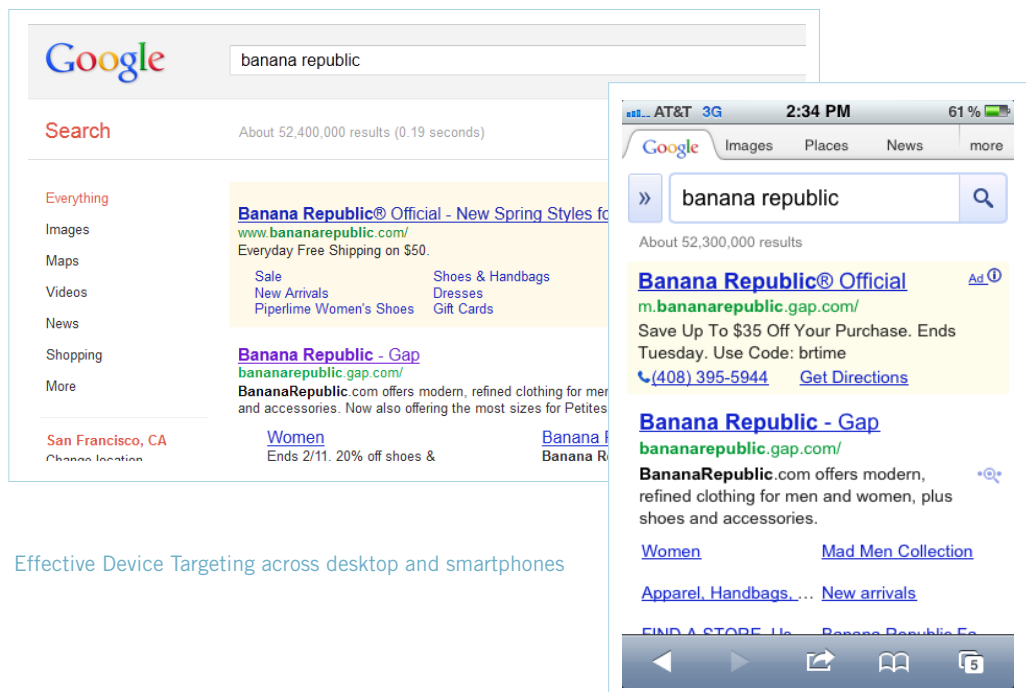
According to Google, one in three mobile search queries have local intent

Desktop Search	Mobile Search
<p>Singood's Restaurant Fine dining for any occasion. Fresh, organic ingredients. www.abcfood.com 866 333 1234 +345 Spear Street, San Francisco</p>	<p>Singood's Restaurant Fine dining for any occasion. Call us now to reserve a table! www.abcfood.com 866 333 1234 +345 Spear Street, San Francisco</p>

Use mobile specific ad types and ad copy

Target Users with Device-Specific Copy:

When browsing on mobile devices, consumers often look for assurance that links will take them to a mobile optimized 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 mobile ad to target iPhone users. While this is a relatively nuanced change, mobile copy that incorporates the device name typically outperforms even the best desktop copy.



Effective Device Targeting across desktop and smartphones

Prioritize 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 anymore, advertisers should test different bids while monitoring ad position, to ensure that their average position is between 1 and 2. Tools such as Marin can monitor this automatically, and alert the advertiser when corrective action needs to be taken.

Optimize the User Experience:

A key reason for lower conversion rates on smartphones is the lack of mobile-optimized 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 optimize their website for smartphone browsers, and subject it to the same standards of usability and A/B testing as they do their regular website.

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 Software is a leading provider of online advertising management solutions, offering an integrated platform for managing search, social, display, and mobile marketing. The company provides solutions for advertisers and agencies, enabling them to improve financial performance, save time, and make better decisions. **Marin Enterprise**, the company's flagship product, addresses the needs of online marketers spending at least \$100,000 per month on biddable media. **Marin Professional** delivers the same power and ease of use as Marin Enterprise, through an application designed for marketers spending less than \$100,000 per month. Headquartered in San Francisco, with offices worldwide, Marin's technology powers marketing campaigns for over 1,500 customers managing more than \$3.5 billion of annualized ad spend in more than 160 countries. For more information, visit: www.marinsoftware.com.

United States

San Francisco
123 Mission Street
25th Floor
San Francisco, CA 94105
415-399-2580

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

Chicago
203 N. LaSalle St, Ste 2100
Chicago, IL 60601
Tel: (312) 267-2083

EMEA

United Kingdom
1st Floor, Orion House,
5 Upper St Martin's Lane,
London, WC2H 9EA
+44 (0)203 595 1595

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

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

APAC

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

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

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