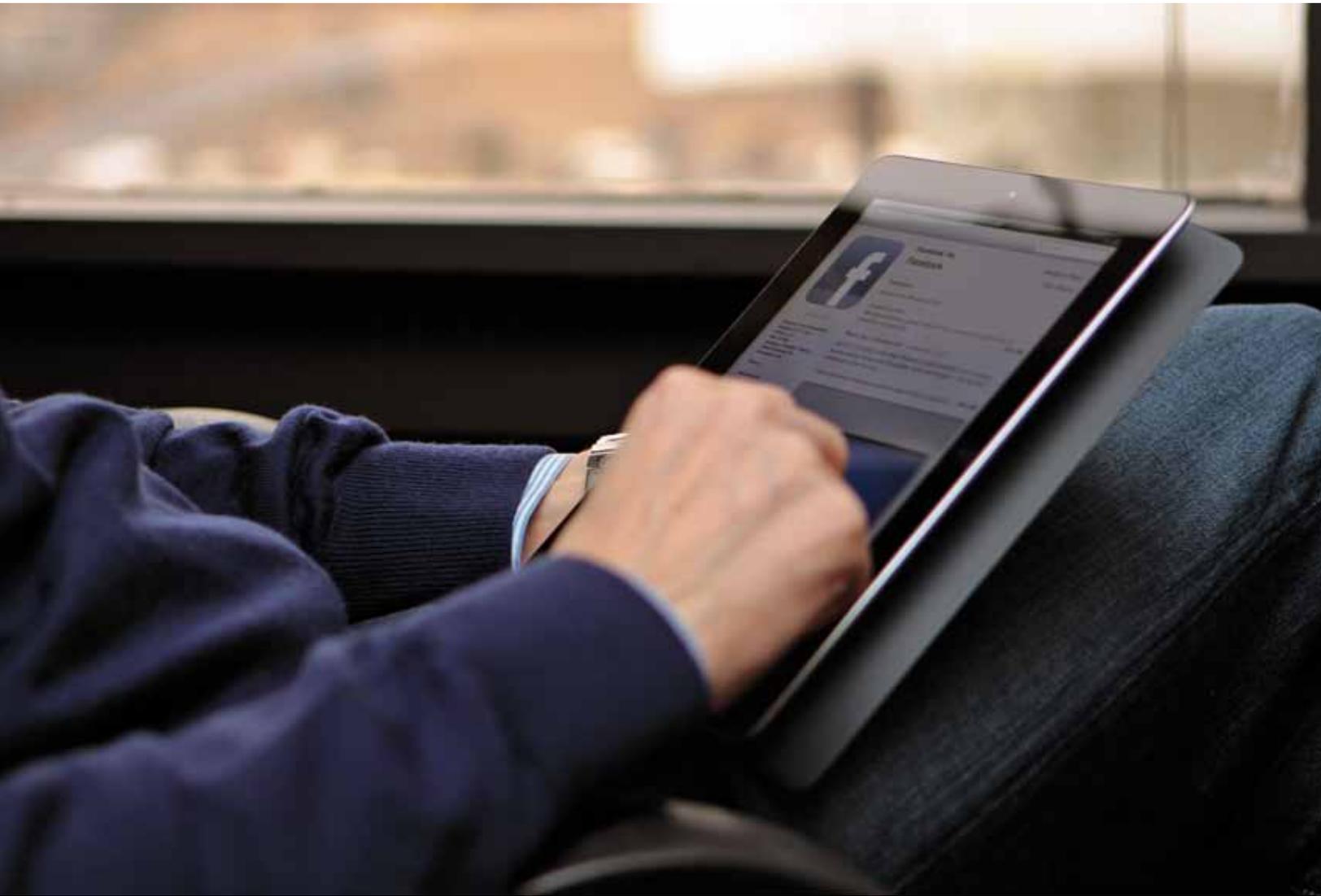


Global digital advertising Q1 2012 update



Global digital advertising update

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Q1 2012 executive summary

Digital advertising in Q1 2012 continues to show growth across all channels. Search remains the biggest driver of return on investment (ROI) for marketers absorbing the majority of biddable digital advertising spend. Search continues to grow rapidly, increasing 16 percent year on year during Q1 2012. As traffic on mobile devices, specifically tablets, increases four-fold year on year, advertisers are adding search investments to these devices. This indicates that search on mobile and tablets is just as strong of an emerging market as social media, and will continue to positively influence the growth in search spend globally.

Search spend increased year over year 16 percent in the U.S. and 3 percent in the U.K.—In the U.S., ROI increased by 11 percent year on year indicating there is room to increase search spend. Industry sectors, such as finance and automotive, showed large increases in year on year spend, while the retail sector dropped 5 percent. The minimal increase in U.K. search spend levels reflect the fragile state of the European economic recovery.

Mobile spend on search has grown year over year by 250 percent in the U.K.—In Q1, mobile spend reached 8 percent of all search spend in the U.S. and 11 percent in the U.K. Of this, tablets alone accounted for 4.25 percent of search spend. Because costs per click (CPC) on tablets are disproportionately low compared to desktop CPCs (despite comparable conversion rates), mobile and tablet advertising investments will become more appealing to advertisers in the short term.

Google CPC fell by 5 percent year on year—Bing/Yahoo CPC rates increased by 18 percent year on year as marketers took advantage of better return per click (RPC) rates. As a result, the Bing/Yahoo ROI advantage over Google no longer exists. Note that when Yahoo Japan converted to the Google ad serving platform from Bing/Yahoo, CPC rates dropped significantly. This indicates that Google, on average, charges a lower premium to search advertisers.

Google search algorithmic changes contribute to growth in search spend—Increases in search spend are a result of increased click volume rather than increased CPC rates. This has been true for the past two quarters, but is contradictory to trends in prior quarters. Algorithmic changes to Google in Q4 2011, such as increased site links, have led to a greater proportion of branded traffic that does not impact CPC rates.

Google spend and click share rose to 93 percent in the U.K.—This is up from about 90 percent in Q4 2011. Google also continues to dominate market share in other European markets.

Facebook post engagement increased 176 percent year on year—Engagement in the brands' Facebook posts have increased dramatically since the beginning of this year. This may be due to the new platform changes Facebook has made in the last two quarters. The most significant lifts were seen immediately after the release of Facebook Timeline for brands.

Facebook spend has grown by 93 percent year on year—On a relative basis, this represents 3 to 5 percent of search spend—indicating that social media continues to be a strong, digital advertising channel.

Display advertising continues to increase in strength—Google DoubleClick Ad Exchange continues to capture market share from Right Media Exchange.

Outlook for Q2-Q4 2012

Tablets and mobile devices will continue to assume a larger percentage of overall search spend, reaching 15 to 20 percent by the end of this year. Mobile growth is driven by advertisers' interest in other digital marketing channels that yield desktop search ROI with lower CPC rates for maximizing returns. Also, as more brands maximize the new Facebook Timeline for brands, we expect to see increases in postengagement, resulting in lifts in Facebook ad spend from those advertisers looking for more engagement with their social audiences.

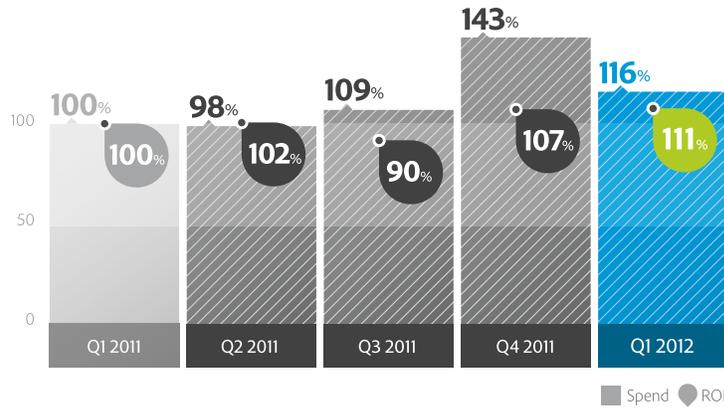
Search spend in the U.S. will increase 10 to 15 percent for the rest of 2012—This rate is consistent with macro trends. Search spend is typically indicative of the current state of the economy—as the medium allows advertisers to react quickly to marketplace changes—thus providing a positive outlook for both search and the U.S. economy.

Tablet and mobile spend will make up 15 to 20 percent of all search spend by the end of 2012—Marketers should focus on tablet and mobile markets as they still appear to be underinvested opportunities. Investments in tablet advertising will increase because tablet visitors are rapidly growing, as shown in a recent Adobe Digital Index study. Retail websites' share of total visits increased from 1 percent to 4 percent in just 12 months. Conversion rates on mobile devices are comparable to desktop performance, even though mobile CPC rates are 30 percent lower. In a rational marketplace, the CPC rates on tablets should be identical to desktop CPC rates if the conversion rates are comparable. Furthermore, current trends indicate that tablets may cannibalize smartphone and desktop search spend as investments continue to shift to tablet devices.

Facebook CPC rates are expected to decelerate—While Facebook ad CPC rates have increased 40 percent quarter over quarter for the past three quarters, CPC rates on Sponsored Stories tend to be lower than Marketplace Ads, which may contribute to temporary decreases in CPC rates.

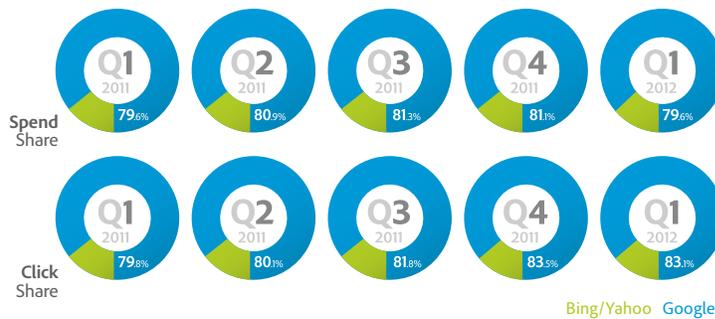
Facebook engagement rates will grow as more brands convert to and maximize Facebook Timeline for brands—Brands that measure success of Facebook via engagement will probably spend more on Facebook advertising to build their audiences and engage with fans in a meaningful way.

Search: United States



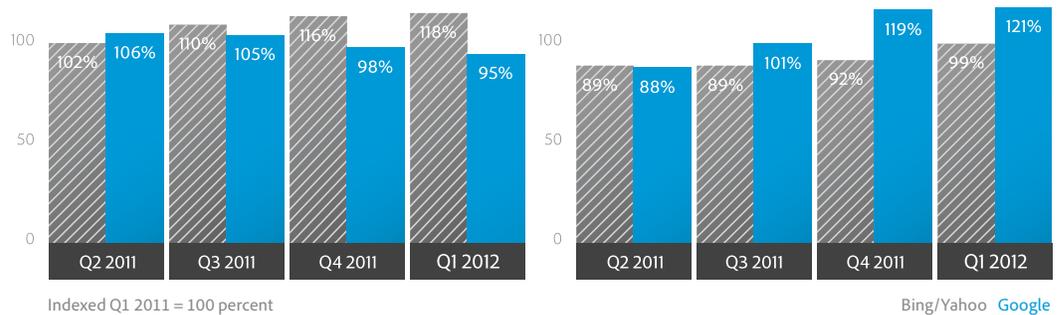
Overall spend and ROI

Overall search spend increased 16 percent year on year, while ROI increased 11 percent, indicating room for greater spend.



Spend share and click share

Google and Bing/Yahoo maintain an 80/20 spend share respectively year on year. Q1 is typically stronger for Bing/Yahoo due to their strength in the financial vertical. However, click share remained mostly unchanged quarter over quarter, resulting in decreased share year on year, from 20.2 percent to 16.9 percent.

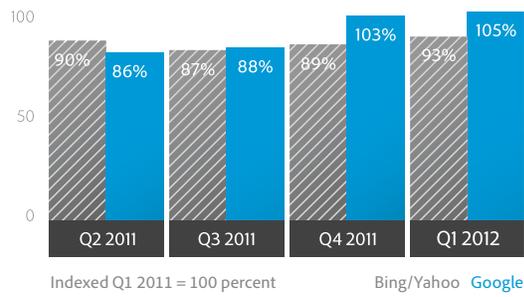


U.S. search: CPC trends

Bing/Yahoo CPC continues to rise, reaching an 18 percent increase year on year. Conversely, Google shows decreases in CPC since last quarter and down 5 percent YoY.

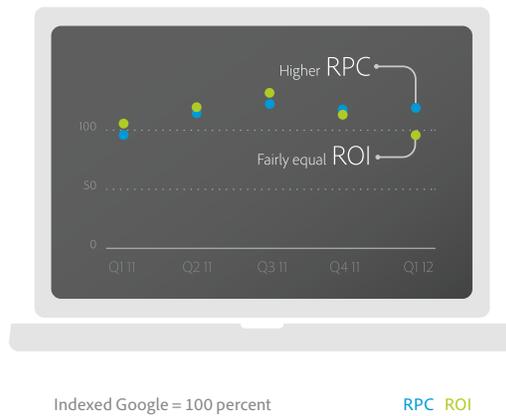
U.S. search: Click trends

Google increased click volume by over 20 percent year on year, while Bing/Yahoo has maintained a fairly flat click volume year on year. Despite drops in its CPC rates, Google has been able to preserve its market share of spend.



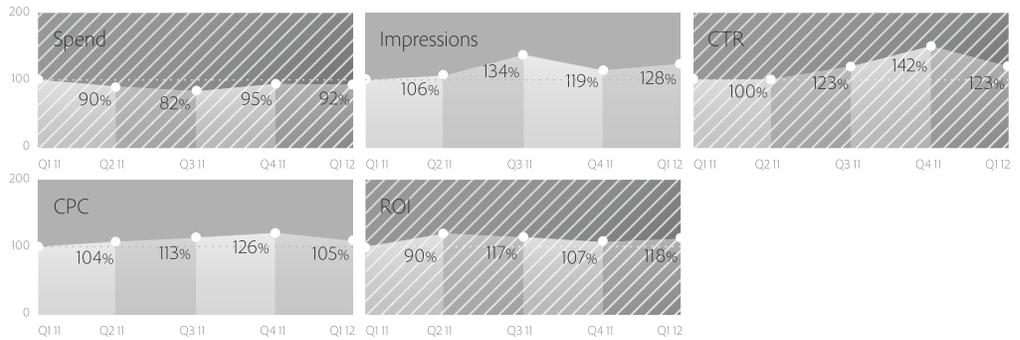
U.S. search: Impression trends

Impressions on Google increased by 5 percent year over year, while Bing/Yahoo dropped by 7 percent. In contrast, Google clickthrough rates (CTRs) increased by 21 percent and dropped on Bing/Yahoo by only 1 percent. This indicates that both search engines have improved CTRs, with Google seeing even more significant improvements.



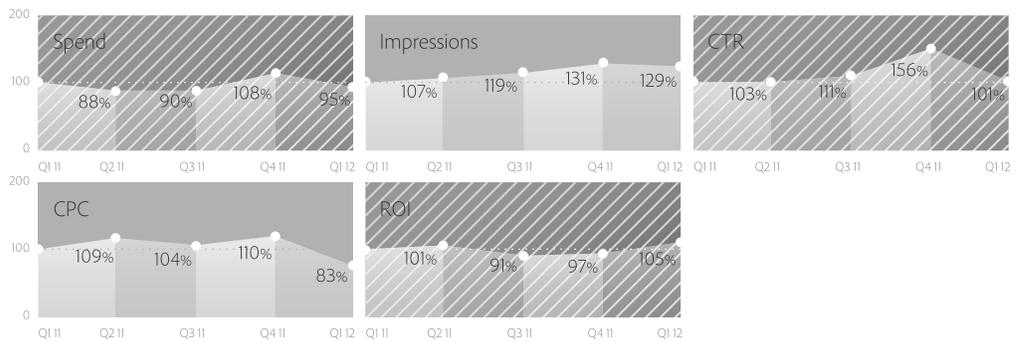
U.S. search: RPC and ROI Bing/Yahoo vs. Google

The average revenue per click (RPC) rate for Bing/Yahoo is still significantly higher than for Google. However, due to the 18 percent year on year increase in Bing/Yahoo CPC rates, the ROI on Bing/Yahoo is basically equal to the ROI for Google.



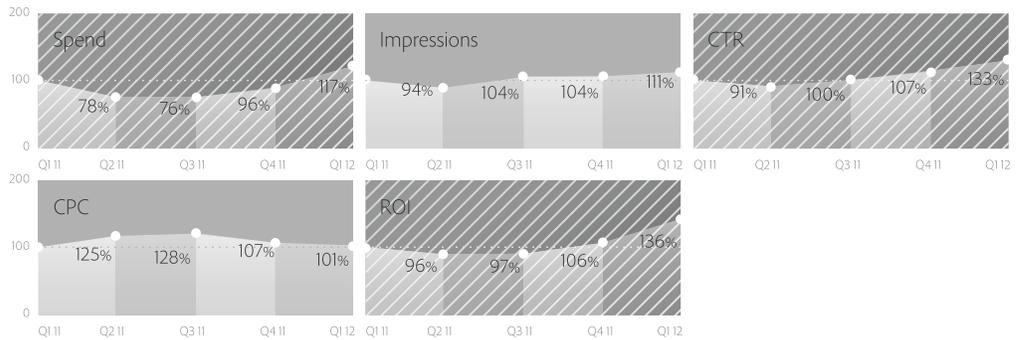
U.S. search: Automobiles

A deep dive into the automotive sector shows mixed results with spend and CPC dropping quarter over quarter, with ROI on the rise. Year-on-year impressions are down 8 percent, but spend and ROI are up 23 percent and 18 percent respectively. This is inline with broader economic indicators which show automobile sales are up year on year.



U.S. search: Retail

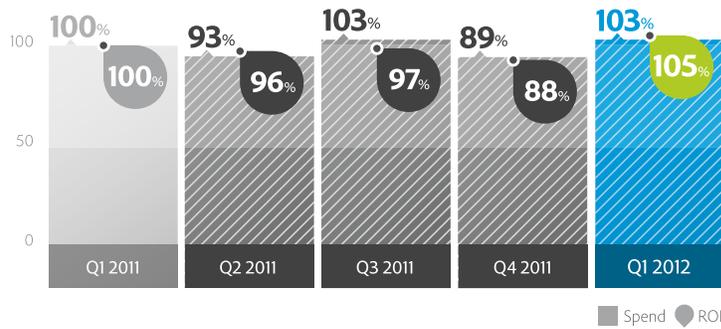
Spend is down 5 percent year on year as a result of a sharp decline in CPC rates which are down 17 percent..



U.S. search: Finance

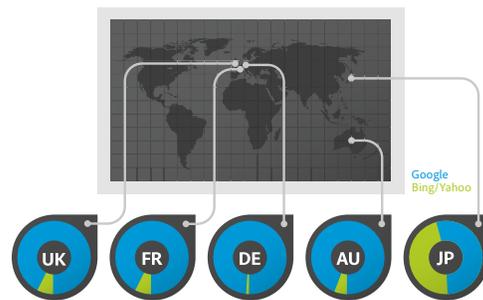
Finance is showing strong growth with a 17 percent spend increase year on year, and a 36 percent increase in ROI. The higher ROI indicates there is room for spend to increase in this sector.

Search: International



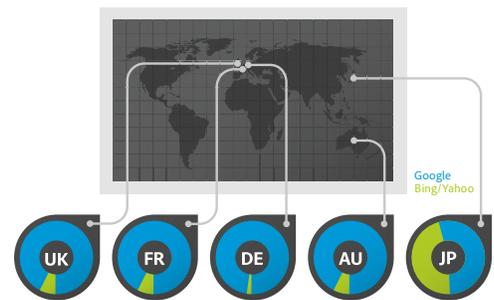
UK search: Overall spend and ROI

Overall search spend is up 3 percent and ROI has increased by 5 percent YoY.



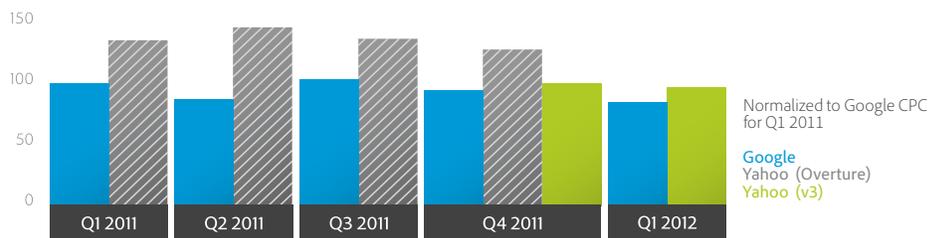
Market share by country

Google continues to dominate the search space despite suffering its first loss in market share since Q1 2011. The trend in France is similar to that of the U.K. with Google growing year over year at Bing/Yahoo's expense. In Germany, however, Google has significant market share relative to last year with a 1.6 percent year-on-year gain. Japan is more evenly split between Bing/Yahoo and Google.



Click share by country

In the U.K. and France, click shares are consistent with spend shares, indicating CPC rates are comparable to Bing/Yahoo and Google, whereas generally Bing/Yahoo has lower CPC rates. Germany and Australia both have significantly higher click share than spend share for Bing/Yahoo than Google. Japan has comparable figures, but this is expected given the much higher prevalence of Yahoo in Japan.

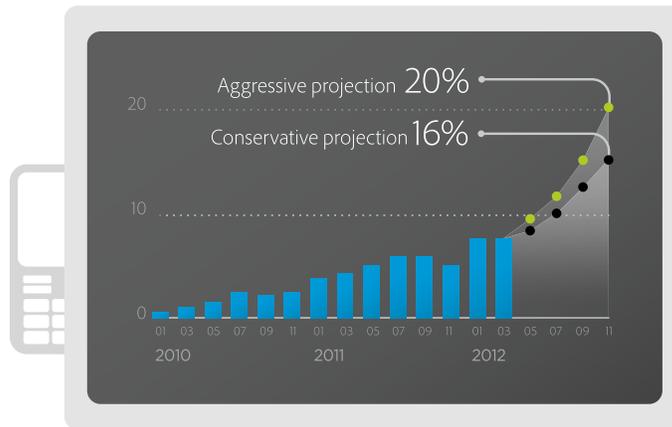


Japan search: CPC trends

CPC rate in Japan have generally fallen since the earthquake and tsunami of 2011. In addition, Yahoo Japan* changed its ad serving platform in Q4 2011 to Google, which resulted in drastic decreases in CPC rates. on the older platform, Yahoo commanded a 20 percent CPC premium over Google, but in the new version it commands only a single-digit premium over Google.

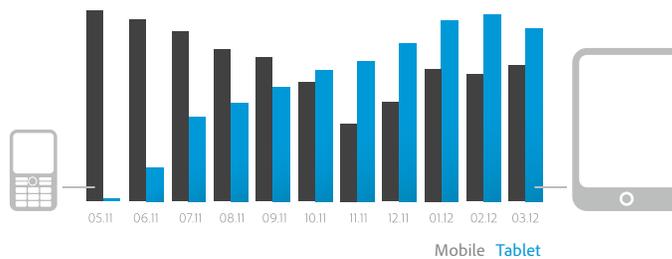
* Yahoo Japan migrated from their old platform using Overture technology to a new platform (v3) using Google technology in November 2011. Data shows that CPC rates for Yahoo were much higher than Google before the transition, but CPC rates have dropped considerably after the transition to be closer to Google CPC rates. This is logical since Google technology is now being used.

Mobile: United States



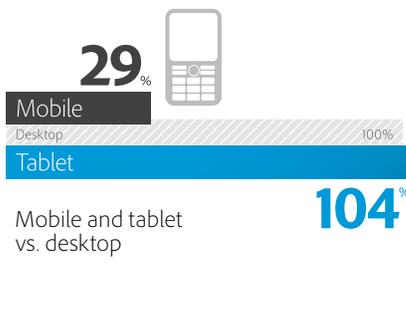
U.S. mobile spend and forecasts

In the U.S., overall spend on mobile devices reached 7.65 percent in Q1, on pace to be 15 percent to 20 percent of search spend by the end of 2012.



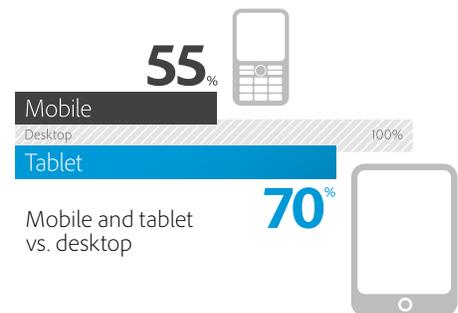
U.S. mobile and tablet spend

The tablet is driving the spend. Tablet spend has grown from virtually zero in May 2011 to 4.25 percent of all search ad spend by March 2012. Spend on tablets now exceeds smartphones, with the inflection point occurring in October 2011.



U.S. mobile and tablet vs. desktop conversion rates

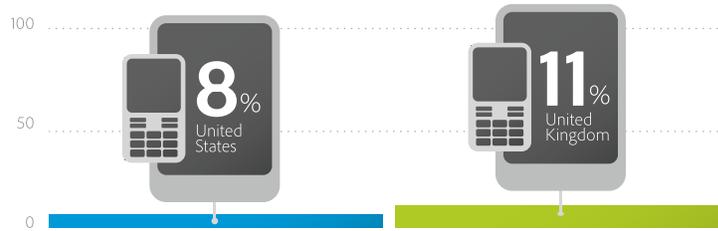
Tablets displaying higher conversion rates than desktop, while mobile conversion rates remain much lower at about a third.



U.S. mobile and tablet vs. desktop CPC rates

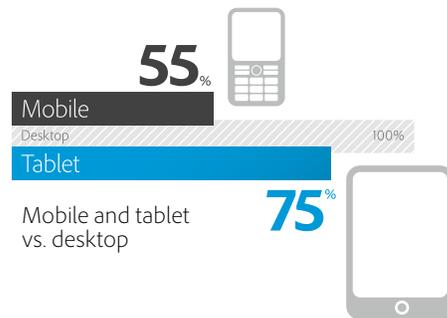
CPC conversion rates on mobile and tablet devices continue to remain lower than on desktops. Since conversion rates of tablets are similar to that of desktops, the CPC rates should be identical to desktops in an efficient marketplace. However, this is not the case, perhaps because advertisers have yet to make larger investments in mobile search.

Mobile: United Kingdom



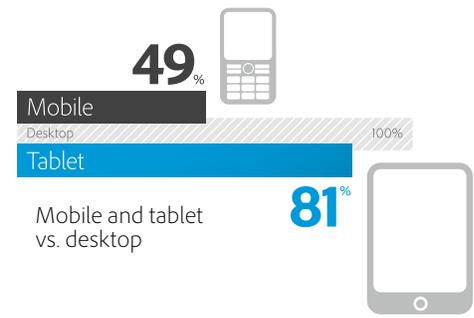
U.S. vs. U.K. mobile spend

Mobile spend in the U.K. is currently higher than in the U.S. (11 percent in the U.K. vs. 8 percent in the U.S.).



U.K. mobile and tablet vs. desktop conversion rates

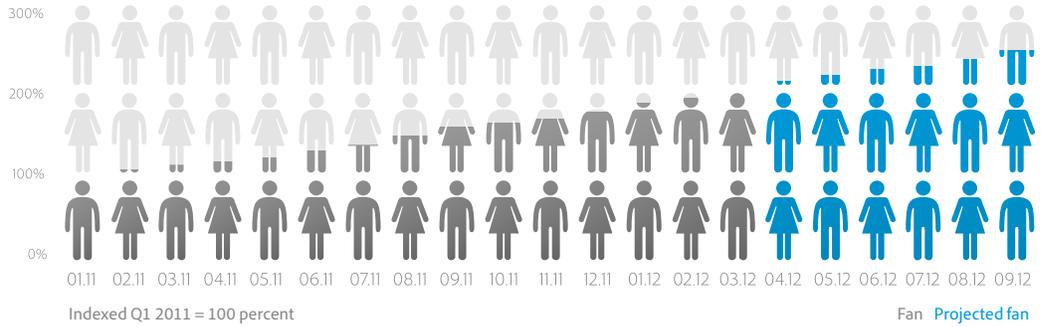
Conversion rates for mobile and tablet devices remain fairly equal.



U.K. mobile and tablet vs. desktop CPC rates

CPC rates on mobile and tablet devices are still lower than desktops, although the conversion rates on tablets are similar.

Social Media: Facebook



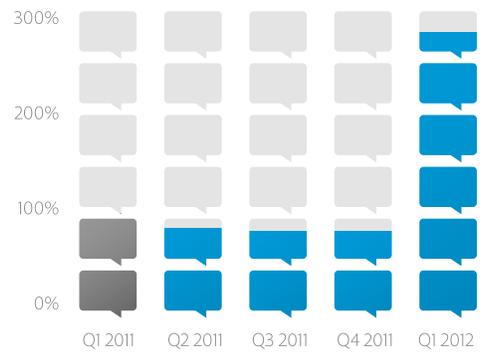
Fan growth rate

Brands continue to acquire fans at significant growth rates and are on pace to double fan bases in the next 14 months.

CPC [↑] **40%**

Facebook CPC rates

Facebook CPC rates have continued to increase by 40 percent quarter over quarter.



Facebook engagement

Facebook postengagement increased 176 percent year on year. The most significant rise in engagement rates was seen immediately after the release of Facebook Timeline for brands.

Definitions

Click share—The amount of share received by a particular engine of all paid clicks as calculated by this formula: paid clicks on a particular search engine/total paid clicks across all engines.

Cost per click (CPC)—The amount paid by a marketer per user click on a paid search ad. CPC is determined by an auctioning process and is a good indicator of market conditions. Increases in CPC indicate advertisers are willing to spend more on advertising, and a decrease indicates that advertisers are willing to spend less.

Impressions—The 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 ad spend (ROAS)—A measure of profitability based on how much an advertiser received in terms of results compared to how much ad budget was spent.

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—The amount of share that marketers spend buying paid search on a particular search engine as calculated by this formula: particular search engine spend/total search engine marketing spend.

Methodology

Our analysis of digital marketing and Facebook performance is based on data derived from technology Adobe acquired from Efficient Frontier and Context Optional, which is now part of the Adobe® Digital Marketing Suite (DMS). We built a client index representing over 15 advertisers and 20 million fans from a multitude of verticals including retail, entertainment, CPG, and finance from a subset of advertisers, brands, and fans managed through the platforms. We then analyzed advertiser and user behavior for three quarters, beginning in Q2 2011.

Adobe Digital Marketing Suite

Adobe Digital Marketing Suite offers an integrated and open platform for online business optimization, a strategy for using customer insight to drive innovation throughout the business and enhance marketing efficiency. The DMS consists of integrated applications to collect and unleash the power of customer insight to optimize customer acquisition, conversion and retention efforts, as well as the creation and distribution of content. For example, using the DMS, marketers can identify the most effective marketing strategies and ad placements as well as create relevant, personalized, and consistent customer experiences across digital marketing channels, such as onsite, display, email, social media, video, and mobile. The DMS enables marketers to make quick adjustments, automate certain customer interactions, and better maximize marketing ROI, which, ultimately, can positively impact the bottom line.

Adobe Digital Index

Adobe Digital Index publishes research on digital marketing and other topics of interest to senior marketing and e-commerce executives across industries. Research is based on the analysis of select, anonymous, and aggregated data from over 5,000 companies worldwide that use the Adobe Digital Marketing Suite, powered by Adobe technology and solutions, to obtain real-time data and analysis of activity on their websites.

For additional information about this report, contact Austin Bankhead, Director, Adobe Digital Index, at DigIndex@adobe.com.

