



## GLOBAL ONLINE ADVERTISING REPORT

# Q3 2011

■ A report by digital marketing technology firm IgnitionOne.

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## EXECUTIVE SUMMARY

- **GLOBAL ONLINE ADVERTISING SPEND GREW 10% YOY IN Q3**, excluding Asia. This represents strong growth in spite of global economic challenges.
- **SEARCH ADVERTISING SPEND REMAINS SOLID IN Q3**. In Q3, Google's domestic search advertising spend grew at 12.3% year-over-year (versus Q2 YOY increase of 17.7%), while total search spend was up 7.2% (versus Q2 YOY increase of 11.8%). Quarter-over-quarter, Google spend was +5.1% versus +5.3 QOQ in 2010. Spend growth was driven by continued growth in impressions base (Google +24.8%, All engines +22.1%).

Solid YOY search spend growth in retail, finance and auto was partially offset by modestly lower YOY spends in travel. Travel is typically a more discretionary purchase (both on the business and personal side) and therefore one of the first expenses that consumers' cut. In addition, Google has been supplanting some travel-related advertising with personalized search results (maps and OTA formats) at the expense of traditional SEM advertising.

- **PERFORMANCE-FOCUSED ADVERTISERS CONTINUE TO INCREASE THEIR DISPLAY ADVERTISING BUDGETS**, namely for inventory sold via real-time bidding (RTB). This form of display advertising is similar to search in that it is bought in an online auction marketplace, and therefore, highly measurable with spend able to be quickly scaled up or down. CPMs on RTB display are also declining as more inventory floods the market, increasing its cost-effectiveness.
- **U.S. RETAILERS' SEARCH ADVERTISING SPEND GREW 22% YEAR-OVER-YEAR**, but average order value and conversion rates lagged on a YOY basis which resulted in ROI being squeezed.
- **GOOGLE'S DOMINANCE OF THE ONLINE ADVERTISING LANDSCAPE GREW FURTHER IN Q3**. The company's share of U.S. search advertising rose to 81.6%, and its display advertising platform experienced 184% growth year-over-year. Higher quality search inventory, the product enhancements in Google's Ad Exchange and new highly effective ad formats form the basis of Google's dominance and continued growth in market share.
- **YAHOO/BING ALLIANCE SHOWS LITTLE IMPACT ON THE SEARCH ENGINE LANDSCAPE AT ONE YEAR ANNIVERSARY**. On a year-over-year basis, Yahoo/Bing's effective cost-per-impression has declined by 22.8% mainly due to declining CPCs (-18%) and declining CTRs (-5.9%). While the Yahoo/Bing alliance has recently introduced (or reintroduced) ad format changes (Rich Ads in Search) and other innovations, these efforts have had little effect in attracting new advertiser dollars.

## OUTLOOK FOR Q4 2011

We anticipate that Q4 2011 search budgets will continue to grow at +12% to +15% rate. Historically, during the extended holiday shopping season, rising conversion rates (+7.9% Q3 2010 to 4Q 2010) and AOVs (+9.7% Q3 2010 to 4Q 2010) have allowed advertisers to naturally expand their budgets to capture the increased demand.

We also anticipate that performance display advertising will continue to see healthy gains as more advertisers become comfortable with new forms of buying (RTB) and targeting display.

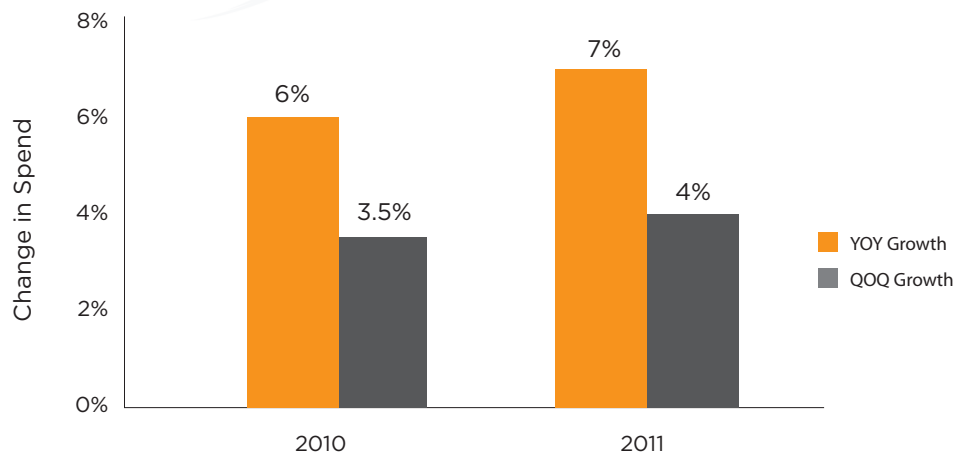
Even if consumer spending remains weak, the continued adoption of digital commerce (impression growth) will cause YOY budgets to increase. Significant upside to these estimates, though, can be expected if consumer sentiment strengthens during the quarter and especially if consumers regain confidence during the crucial post-Thanksgiving holiday period.

## PAID SEARCH

### U.S. SPEND TRENDS

U.S. paid search spend grew a modest 7% year-over-year in Q3 and 4% quarter-over-quarter. This compares with 6% year-over-year growth in the same quarter last year.

#### Q3 PPC Spend Growth in U.S.

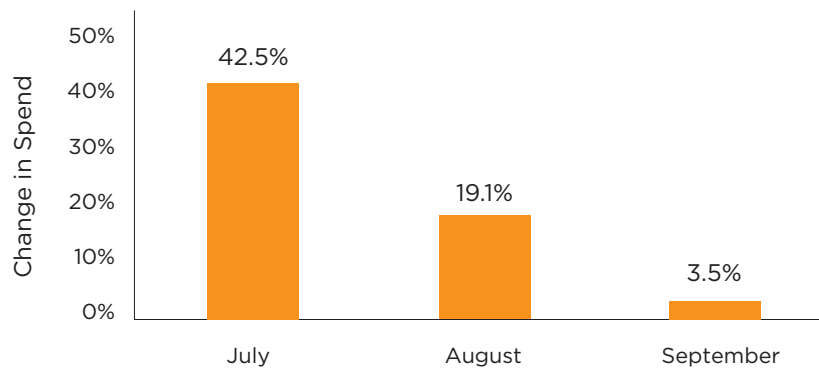


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### EUROPE SPEND TRENDS

Paid search spend in Europe grew 20% year-over-year, but decelerated throughout the quarter with spend up only 3.5% in September YOY.

#### Q3 PPC Spend Growth in Europe



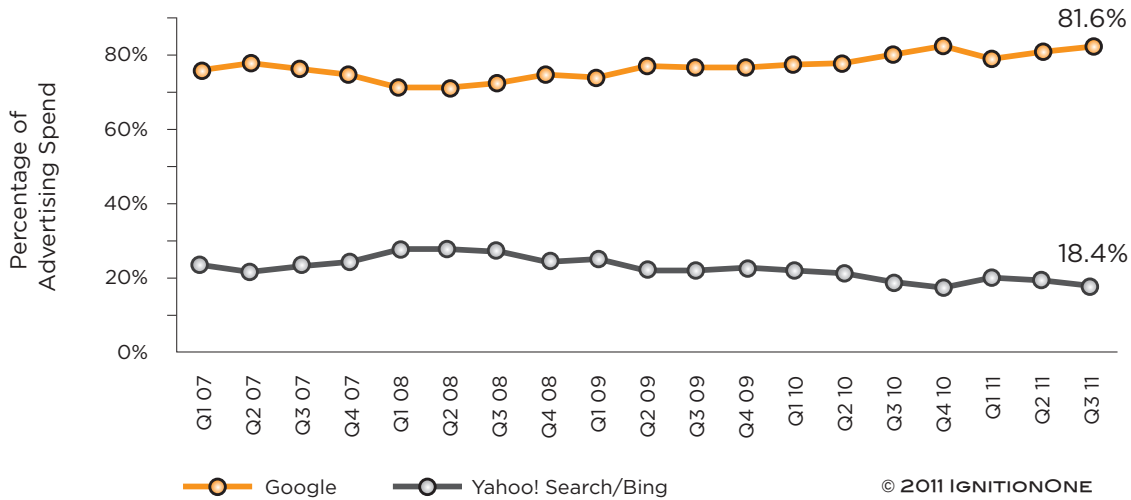
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### U.S. SEARCH ENGINE MARKET SHARE

Most of the spend growth domestically went to Google, who grew to 81.6% of all search advertising spend. Spend on the combined Yahoo/Bing fell to 18.4% of search advertising spend.

The alliance between the two companies has thus far had a negligible impact on their share of the search advertising market. In Q3 2010, Yahoo and Bing collectively commanded 20% share of ad spend.

**Quarterly Percentage of Advertising Spend by Engine in U.S.**

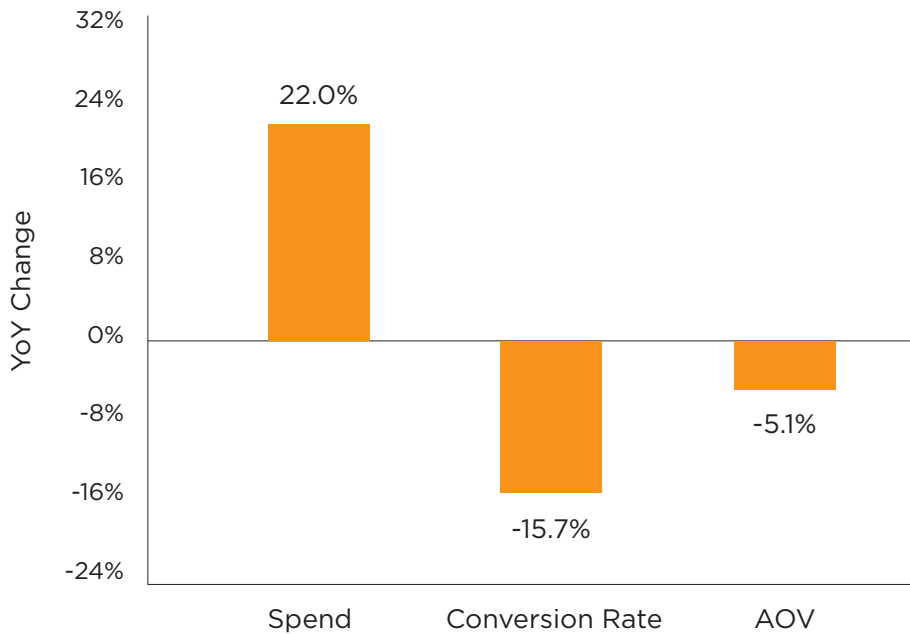


## RETAIL INDUSTRY

### U.S. RETAILERS & SEARCH ADVERTISING

Retailers' search advertising spend grew 22% year-over-year, but ROI declined as consumers cut back on spending. Conversion rates and average order values (AOV) were down throughout the quarter compared with the same time last year.

### U.S. Retail Advertisers YOY Changes in Paid Search



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## DISPLAY

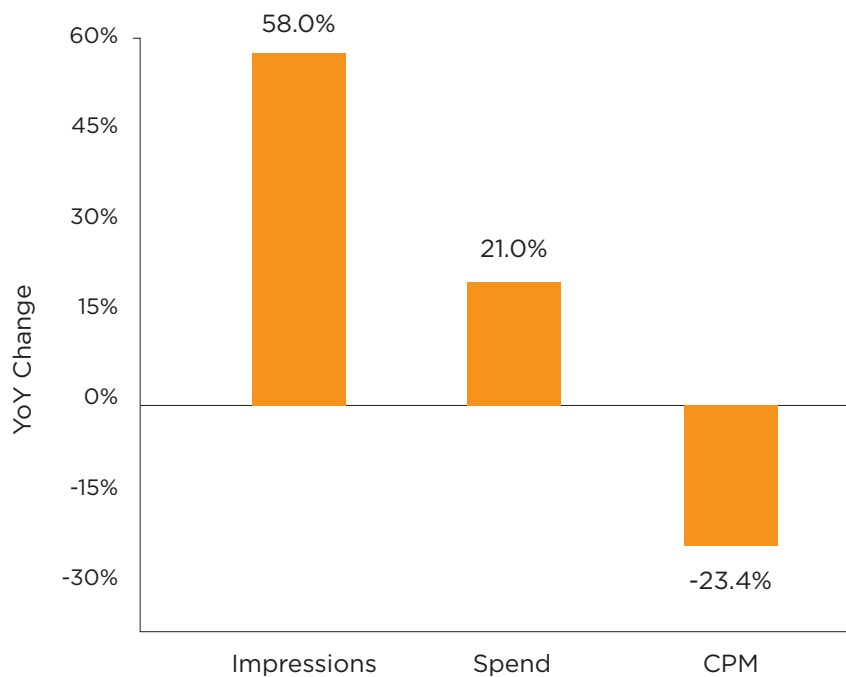
### YEAR-OVER-YEAR CHANGE IN DISPLAY ADVERTISING

Display continues to experience healthy growth as more advertisers increase their investments, namely in display advertising sold via real-time bidding (RTB). CPMs on RTB display are also declining as more inventory floods the market, making it an increasingly more cost-effective channel for advertiser's budgets.

The rise of RTB can be attributed to increasing adoption by both publishers and marketers alike. More publishers are recognizing that their inventory can be effectively auctioned through the RTB market and are getting more comfortable with RTB sales channels. Advertisers have also gained a greater understanding of RTB and its value. Similar to search, it's easily managed and budgeted for, and relatively cheap and efficient (high ROI) as compared to more traditional display. This has also increased demand.

Google's DoubleClick Ad Exchange continued to see strong growth, with advertising spend up 184% year-over-year.

**Year-over-Year Change in Display Advertising**



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## METHODOLOGY

This is one in a series of reports from IgnitionOne, which have tracked more than 75 billion impression and more than 1.5 billion clicks on Google, Yahoo!, Bing, Facebook and display networks from January 1, 2006 through September 30, 2011.

Other reports can be found at <http://bit.ly/ignitiononeresearch>.

## ABOUT IGNITIONONE

IgnitionOne is the world's first closed loop Digital Marketing Suite, offering multiple solutions to improve online performance within a single interface. Solutions include ad management and optimization (search, display and Facebook), cross-channel attribution and website optimization.

IgnitionOne currently powers more than \$20 billion in revenue each year for some of the world's leading online marketers, including General Motors, Chico's, Ann Taylor, Fiat and advertising agencies such as MRM Worldwide, CyberAgent and more.

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