

The Advertiser's Guide to Maximizing Facebook ROI

Marin
SOFTWARE



Monthly Active Users (MAUs)

(in millions)



Source: Publicly available Facebook Q3 2013 earnings report data, acquired through businessrider.com

Facebook has built the largest, most highly-engaged audience on earth, with a significant percentage of the world's population logging on daily. Consider the numbers; Facebook boasts over 1.19 billion monthly active users and continues to add more each month. Users are also logging on and spending more time on the platform than ever before. In fact, according to Facebook earnings reports, daily active users rose 25% year-over-year to 728 million in Q3 2013.

For advertisers, Facebook's meteoric rise and massive audience represents an excellent opportunity to build brand awareness and acquire revenue. Brands must reach consumers where they spend the most time, and it's clear that consumers spend large amounts of time on Facebook. Fortunately, it's now possible to reach highly targeted segments on Facebook using a combination of Facebook's own tools and third-party ad management platforms like Marin Software. By deploying advanced strategies on Facebook, advertisers can not only reach more of the right consumers with the right messages but build lasting engagement with loyal customers.

This whitepaper will highlight the four most important Facebook advertising trends and reveal top tips advertisers can use to maximize their Facebook advertising ROI overall:

Executive Summary of Overall Key Advertising Trends:

- 1. Marketers Have Embraced Facebook's News Feed as a Vehicle for Native Advertising** — News Feed has become the primary area of focus and engagement for users, creating bright opportunities for advertisers. Marin has seen a 140% QoQ increase in News Feed advertising with 67% lower costs per conversion compared to right-hand side ad placements.
- 2. Facebook Users Have Embraced Mobile as Medium of the Future** — Mobile adoption among Facebook users has skyrocketed with 74% of Facebook users now accessing the platform through their mobile devices.¹ This increase in mobile adoption, combined with attractive click-through rates via mobile advertising, has changed the way advertisers manage their campaigns. In fact, Marin saw the percentage of advertisers running mobile-only campaigns increase 45% between Q2 2013 and Q3 2013.
- 3. Facebook Users Are More Likely to Buy from Brands They've Previously Engaged With** — Of all the changes Facebook introduced to their advertising capabilities, perhaps none was more important than Custom Audiences. Custom Audiences makes it possible for most advertisers with a customer list to retarget. Retargeting customers through Custom Audiences has already proven to be the most cost effective targeting option, producing costs per conversion that are 64% lower than targeting by Broad Categories or Precise Interests according to Marin Software data.
- 4. Facebook Users Are More Likely to Engage With "Fresh" Creatives** — As Facebook advertising has become increasingly competitive, the company has become strict on showing ads with the highest click-through rates (CTR). To maintain "fresh" creatives and prevent overexposing users to the same ads, Marin has seen a substantial increase in advertisers using creative rotation strategies. On average, advertisers working with Marin using creative rotation strategies have produced 35% higher CTR than those not using creative rotation, demonstrating that users prefer and are more likely to engage with fresh creatives.

1. Source: Publicly available Facebook Q3 2013 earnings report data, acquired through marketingcharts.com

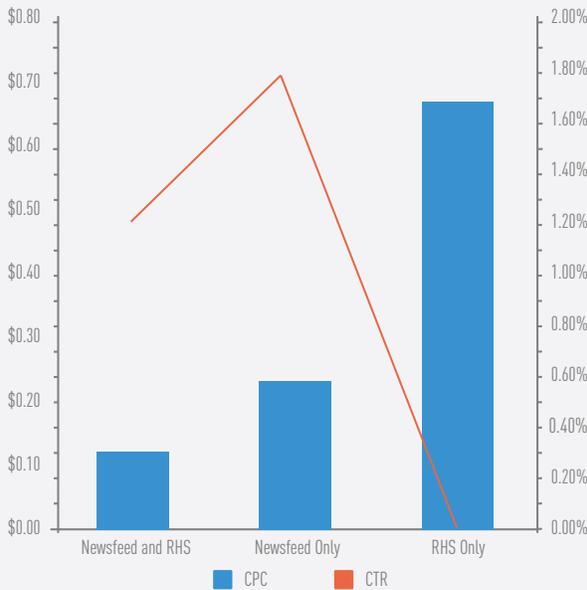
Trend #1: Marketers Embrace News Feed as Vehicle for Native Advertising

Native advertising is a trend not only on Facebook, but across the entire web. Native advertising is a strategy whereby the advertiser attempts to gain attention by providing content in the context of the user's experience. Native ad formats match both the form and the function of the user experience in which it is placed. Publishers are increasingly offering advertisers new native ad formats integrated directly into the content stream as a substitute for traditional banner ads, which typically do not drive a high volume of traffic or engagement. No publisher stands to benefit from the shift towards native advertising more than Facebook, which allows advertisers to display ads in News Feed as part of a user's personal content stream.

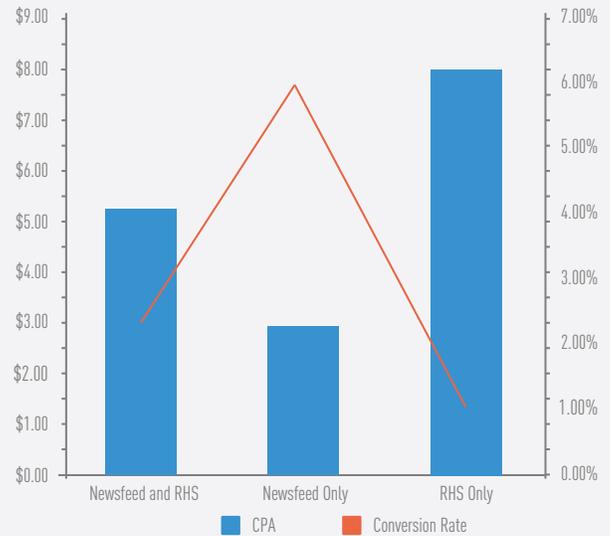
Facebook launched News Feed ads in late 2012 as a complement to its original right-hand side display ads. Compared to traditional right-hand side advertising placements, News Feed placements are designed to blend into the users' natural, social experience on Facebook rather than on the periphery of the page. Recognizing the opportunity to drive engagement and website traffic, Facebook advertisers quickly adopted News Feed creative types like the Page post ad, which allows for large images and customized deep links to the advertiser's website. Marin Software's data shows advertisers increased spending on News Feed ads by 140% in Q3 of 2013 compared to a quarter earlier, highlighting that advertisers are rapidly adopting the placement type as part of their broader Facebook advertising strategy.



CPA and CTR by Placement Type



CPA and Conversion Rate by Placement



Source: Marin Social Index (MSI) data from Q2-Q3 2013

So far, the growth in News Feed advertising adoption is proving beneficial for advertisers. Consumers pay close attention to their News Feeds, so when a brand places compelling advertising content directly into that stream, consumers are more likely to engage with the ad. Marin data shows News Feed ads attained a 44x higher CTR and a 5x higher conversion rate than right-side display ads in Q3 of 2013 compared to a year earlier. News Feed ads achieve these stellar results at a 67% lower cost-per-click (CPC) and a 64% lower cost-per-acquisition (CPA) than right-side ads.

Given the performance of News Feed ads, advertisers should focus their attention on optimizing their presence within the content stream. Doing so is particularly important when targeting mobile users, as News Feed ads are currently the only type eligible to appear on mobile devices.

Strategic Recommendations for Facebook Advertisers:

- **Allocate at least half of budget toward News Feed placements** — In addition to driving superior performance relative to the right-hand side, advertising in News Feed presents several additional key benefits for advertisers including increased visibility and mobile reach. As both mobile adoption and News Feed engagement increase amongst users, advertisers will need to begin allocating budgets toward the placements that are most likely to be seen by users.



- **Leverage Unpublished and Existing Page Post Ads** — Over the past year, Page post ads have evolved into the top performing Facebook creative type for driving conversion. There are two flavors of this creative type — unpublished Page posts and existing Page posts. Ensure you are taking advantage of the distinct benefits each. For example, advertisers should promote organic Page posts that have garnered high levels of engagement and virality amongst Facebook users, which will immediately add “social context” to the target audience. Unpublished Page posts, which do not require a prerequisite post to your fan base, should be targeted at your audiences with the highest ROI and contain deep links to optimized landing pages.
- **Track ROI of News Feed placements** — News Feed placements perform differently and therefore must be managed separately from right-hand side ads. Advertisers should ensure they are working with a Facebook ads management platform that can track not only conversions and ROI but also the lifetime value (LTV) of desktop and mobile News feed placements separately from right-hand side placements. Elite Facebook management platforms like Marin Software can help advertisers roll up aggregate views of LTV by placement to help automate bid management and budgeting.

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The newsfeed has become an increasingly essential part of our Facebook advertising strategy. Using Unpublished Page Post ads, we’ve been able to achieve Search-like performance on Facebook and will continue to expand our strategy in 2014.

Samantha Puma, Partner and Affiliate Network Officer, Open Universities

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Trend #2: Facebook Users Embrace Mobile as Medium of the Future

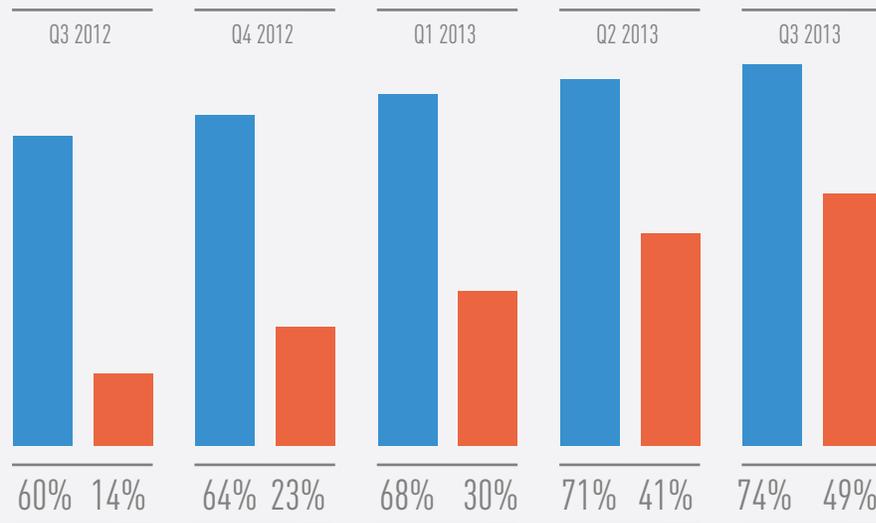
Smartphones have spread faster than any consumer technology in human history, reaching market maturity faster than radio, TV, the commercial Internet and many other devices and technologies. According to Nielsen, 61% of US mobile subscribers now own a smartphone. This surge in mobile adoption has helped skyrocket Facebook's mobile base, creating new opportunities for marketers. In its Q3 2013 investor summary report, Facebook reported 74% of Facebook users utilize the platform's mobile app. Facebook also reports that the percentage of users who access Facebook exclusively through their mobile device increased by 19% in Q3 versus Q2 2013, highlighting that overall, users are gravitating toward using Facebook exclusively on their mobile devices. In Q3 of 2013, Facebook reported 874 million mobile monthly active users, a 45% year-over-year increase. Given the surge in mobile users, in 2014 it will be imperative that Facebook advertisers target users' mobile devices.

Facebook Mobile Monthly Active Users and Ad Revenues

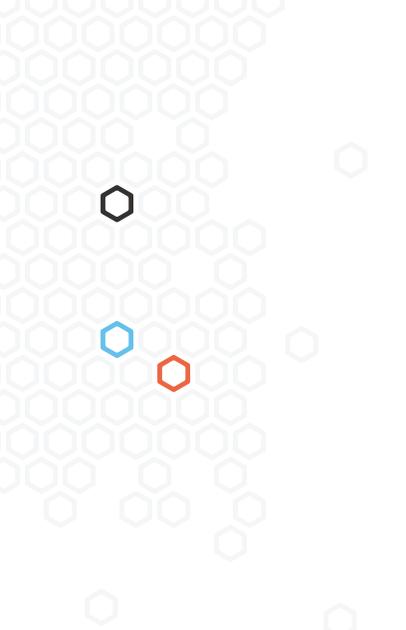
% of monthly active users (MAUs) on mobile / % of ad revenues from mobile

Q3 2012 – Q3 2013

■ Mobile % of MAUs
■ Mobile % of ad revenues



Source: Publicly available Facebook Q3 2013 earnings report data, acquired through marketingcharts.com

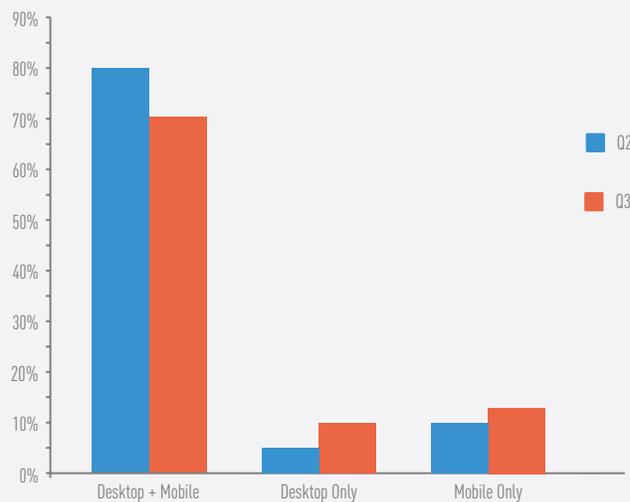


In response to the proliferation of users of their mobile app, Facebook has developed new mobile advertising solutions, primarily focused on the high-growth app market. According to Venture Beat, the mobile app market is expected to grow 257% between now and 2017 to over 200 billion total apps.² The most widely adopted of Facebook's mobile advertising solutions have been Mobile App ads, which help users discover and engage with new, relevant and interesting mobile apps through the Facebook News Feed. With their attractive cost-per-install rates, Mobile App ads have quickly become one of the more effective and efficient ways for advertisers to grow their mobile programs. When used in conjunction with Custom Audiences and / or Partner Categories, marketers can target Facebook mobile users based by their online and offline buying characteristics and drive them directly to their mobile app. For many Marin advertisers, Facebook's Mobile App ads present a viable means of driving app downloads, app engagement and mobile sales at scale.

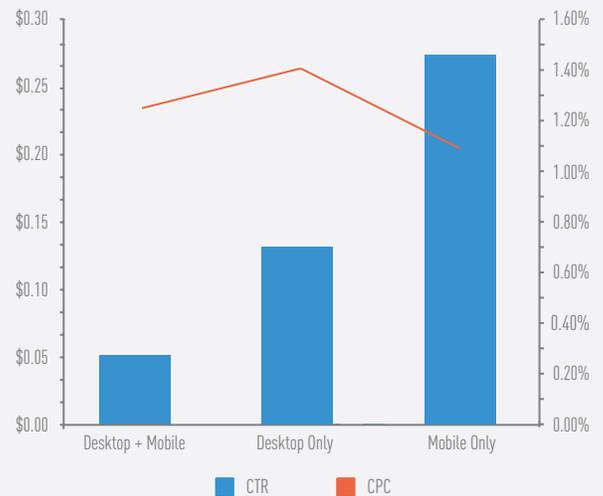
With the growing distinctions between mobile and desktop user behavior and advertising options, Facebook marketers are beginning to create unique strategies for targeting users on different devices. One key strategy advertisers already utilize to optimize their mobile ad spend on Facebook is to split targeting into separate desktop and mobile campaigns, instead of creating one campaign for both devices. Marin data shows the percentage of advertisers opting for mobile-only campaigns increased 45% between Q2 and Q3 2013, suggesting that advertisers prefer to report, budget and bid on mobile differently than desktop. It is likely that performance was a key driver of this shift in management strategy. According to Marin data, mobile-only News Feed ads outperform desktop ads by significant margins; CTR is a 187% higher on mobile and CPCs for ads served on the mobile News Feed are 22% lower. However, as competition in the mobile targeting auction increases in 2014, we may see competitive KPIs such as CPCs increase correspondingly.

2. Source: <http://venturebeat.com/2013/06/28/behind-the-top-mobile-ad-publishers-facebook-google-pandora-and-twitter/>

Spend Share by Device



CPC and CTR Performance by Device



Source: Marin Social Index (MSI) data from Q2-Q3 2013

Strategic Recommendations for Facebook Advertisers:

- **Manage mobile campaigns separately from desktop** — Split mobile-targeted creative into separate campaigns from your desktop-targeted creative. Mobile users tend to behave, research, and purchase in different ways than desktop users. Therefore, a device segmentation approach will help ensure easier management, reporting, budgeting, and optimization.
- **Take advantage of Mobile App ads** — Mobile app ads allow advertisers to promote their mobile apps and encourage downloads on Google Play or Apple's iTunes. According to Internet Retailer,³ Facebook's mobile app install ads have a 10x higher download rate at a 20% lower cost-per-download than web-based banner ads. If an advertiser has a mobile app, Facebook's mobile app install ad solution has the potential to dramatically boost downloads.
- **Ensure mobile-targeted campaigns match mobile user behavior** — To be successful on mobile, advertisers need to consider how their target audience uses Facebook on a mobile device. Are they typically at home when they use Facebook's mobile app? If so, a marketer can use Facebook's WiFi-only targeting. If target users are more apt to log-in during peak commute times, advertisers should schedule campaigns to run only during the times of the day when people are likely to be commuting. An ad management platform automates much of this process.

3. <http://www.internetretailer.com/2013/08/01/gaining-new-app-users-mobile-ads-getting-more-expensive>

Did you know?

Compared to right-side ad placements, News Feed placements drive an average of:

44%

Higher CTR

5X

Higher Conv
Rate

67%

Lower CPC

Trend #3: Facebook Users Are More Likely to Buy from Brands They've Previously Engaged With

Of the numerous changes Facebook has made to its advertising capabilities and workflow over the last year, the social network's audience targeting enhancements offer the most potential to positively impact advertisers' ROI. Facebook has always allowed advertisers to get their message in front of specific Facebook user groups based on a wide range of audience attributes; however, while targeting based on profile information has proven an excellent way to reach relevant audiences at scale, it is also limiting for two reasons.

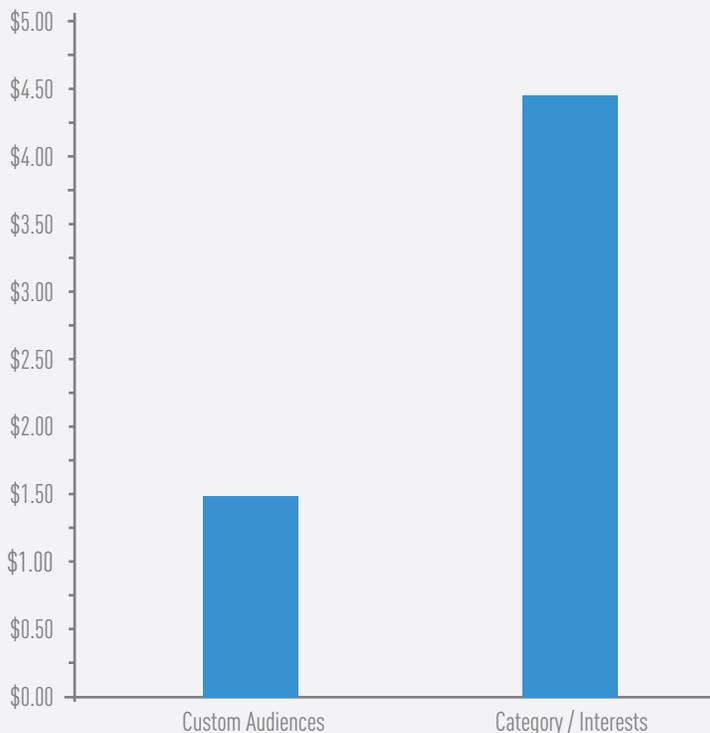
First, if users choose not to provide much information in their profile, advertisers will not be able to reach them with relevant offers. Second, demographic, category, and interest-based characteristics are not necessarily representative of a user's buying behaviors or potential to convert. Recognizing these limitations, in 2013 Facebook expanded the ways advertisers could target users by including web browsing behavior and purchase data. The new targeting feature, called Custom Audiences, enables advertisers to easily target and retarget Facebook users not only by the type of person they are but also by the type of potential buyer they are.

Custom Audience targeting provides marketers with a simple solution for reaching highly specific audience segments using a combination of Facebook-provided interest data and first-party customer or prospect data owned by the advertiser. For example, Custom Audience targeting would allow an outdoor retailer to target "a potential customer who visited our site to browse kayaks, is located in Seattle, and is interested in open-sea kayaking."

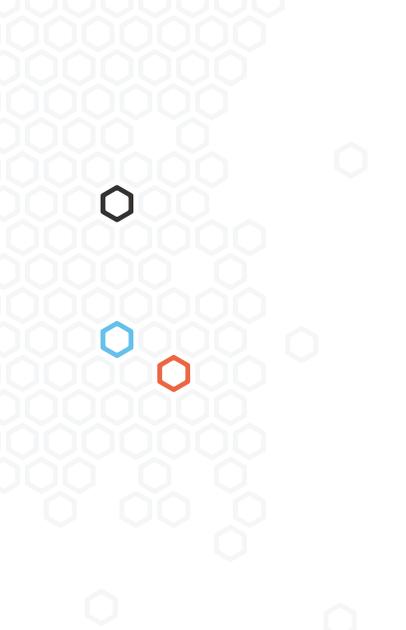
Custom Audiences allow advertisers to target and retarget in-market consumers using first-party data — offering greater flexibility, transparency, and control than third-party Facebook Exchange (FBX) targeting. The inherent value of Custom Audience targeting has prompted an increase in adoption. Marin found the number of advertisers using Custom Audiences increased 82% from Q2 to Q3 2013.

Marin’s research reveals Custom Audiences deliver a higher conversion rate at a lower cost. On average, Custom Audiences targeting has a 14% lower CPC and a 64% lower cost-per-conversion than category- or interest-based targeting alone. Additionally, ad-creative using Custom Audience targeting had conversion rate 3.87x greater than ad-creative using only demographic or category-based targeting options.

CPA: Custom Audiences vs. Category / Interest Targeting



Source: Marin Social Index (MSI) data from Q2–Q3 2013



Strategic Recommendations for Facebook Advertisers:

- **Nurture website leads** — With a CRM system, advertisers can segment email leads that have been captured and create a Facebook Custom Audiences based on this segment. They can then create a “lead nurturing” campaign targeting this Custom Audiences segment and target ads to the segment using a similar content strategy for email campaigns. For example, in the creative an advertiser could include industry updates, links to webinars and whitepapers, and best practices.
- **Retarget users who abandoned the conversion process** — FBX has become a popular way to retarget Facebook users who have previously visited a website. Advertisers can also use Custom Audiences to retarget customers on Facebook. If an advertiser tracks website visitors who have abandoned the site during the conversion process, the advertisers can then use Custom Audiences to retarget this segment in an effort to bring the visitors back to the site. Advertisers should provide a compelling reason to visit in the ad creative, such as a discount or special offer.
- **Reach the friends of current customers** — Customs Audiences also presents advertisers with the opportunity to reach the friends of current customers. For example, Disney could target the friends of customers who recently stayed at one of their resorts with a message highlighting the fact that they too can have their “dreams come true.”

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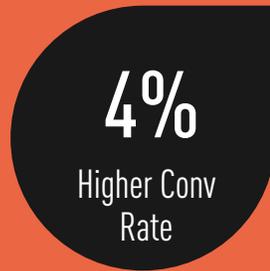
Facebook advertising has become less about targeting a specific type of person and more about targeting a specific type of buyer. Custom Audiences has allowed us to retarget website visitors and customers with amazing efficiency and accuracy.

Chase Wells, Director of Performance Marketing at Webtrends

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Did you know?

Direct response advertisers who utilize Facebook creative rotation strategies experience:

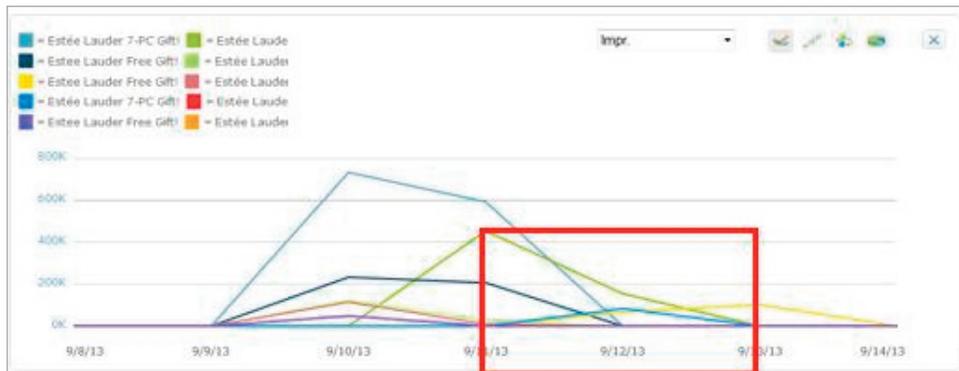


Trend #4: Facebook Users Are More Likely to Engage with “Fresh” Creatives

As the number of marketers using Facebook quickly grows, so does the competition for high-value ad placements. As a result, it is critical that advertisers ensure their ads are as compelling and engaging as possible, especially since Facebook does not promote ads in the Newsfeed unless the ad maintains a high CTR.

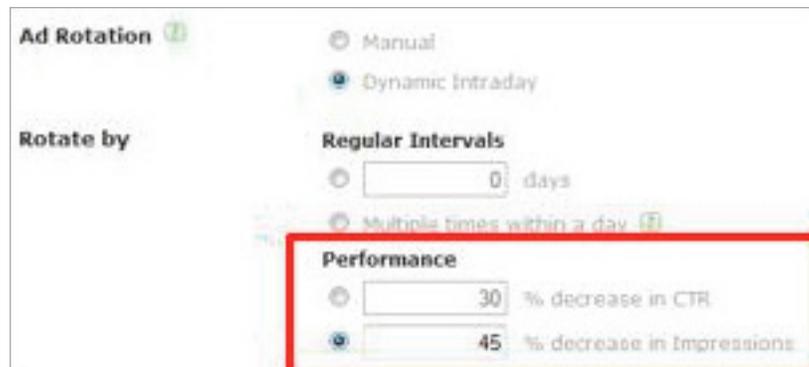
To maintain a high CTR, marketers must continually optimize, test, and improve ad creative. In particular, advertisers must pay careful attention to frequency, rotating ads to ensure they are not shown too often. When the same ads are shown to the same targets over and over, “ad fatigue” can occur — causing consumers to not only ignore your ads but become irritated by your brand.

It is commonly understood throughout the Facebook advertising industry that if an ad does not garner a high CTR within the first 3–5 days of exposure, impressions will quickly drop for the creative and impression volume will likely never recover. The below screenshot is an example of how impressions for a leading retailer’s Facebook ad campaign creative dropped within three days of launching due to a low CTR.



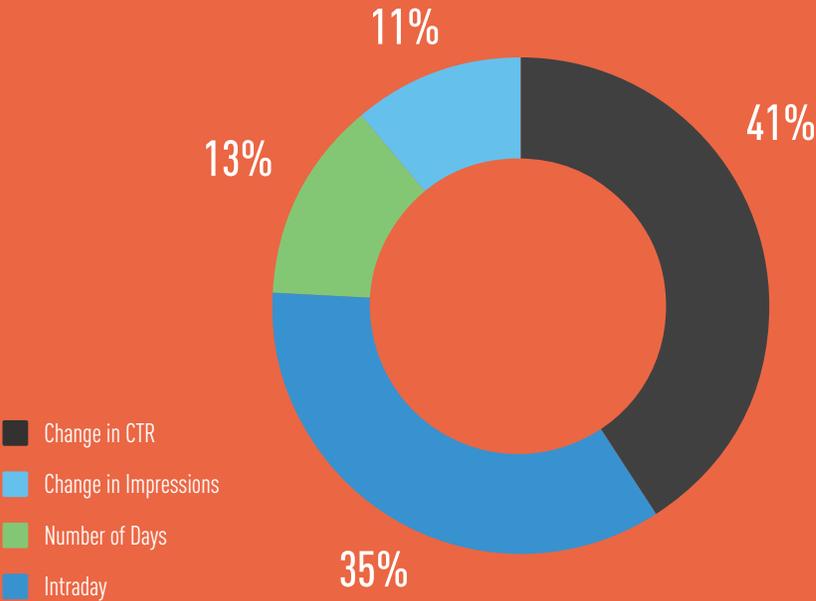
Successful Facebook advertisers are using advanced optimization techniques to refresh ad creative an average of every 2-3 days and in some cases as often as every hour to maintain strong performance in competitive auctions. According to Marin’s data, 41% of Facebook advertisers use a change in CTR as a trigger for rotating creative. Advertisers using CTR-based creative rotation strategies typically believe that CTR drops are predictive of future drops in impression volume, based on the assumption that Facebook will devalue low CTR creative in auctions.

The second most popular creative rotation technique is intraday creative rotation, with 35% of advertisers using this approach. Advertisers using this technique typically believe that rotating campaign creative frequently — regardless of performance changes — is the safest way to keep consistent impression volumes.



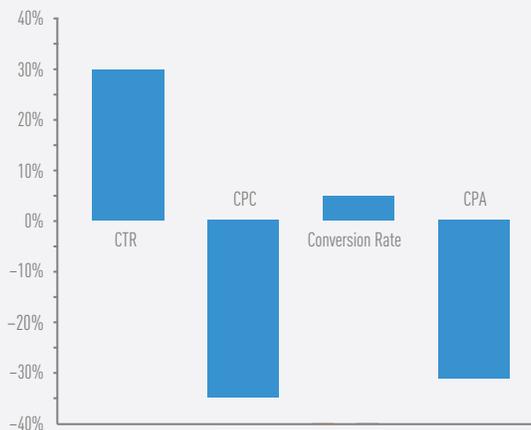
Source: Marin Social Index (MSI) data from Q2-Q3 2013

Distribution of Creative Rotation Strategies



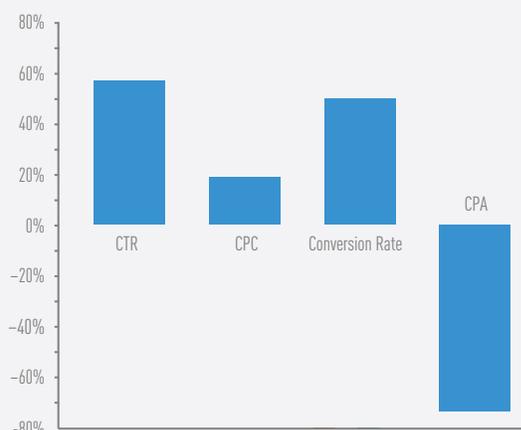
Marin found the number of Facebook advertisers using creative rotation strategies increased by 21% in Q3 2013 compared to Q2 2013, and for good reason. Advertisers who use creative rotation to eliminate ad fatigue tend to have significantly better performance than those who don't. Direct response campaigns using automated creative rotation produce 35% higher CTRs at 34% lower costs per conversion than campaigns which do not utilize automated creative rotation. Fan acquisition campaigns using creative rotation also produce 60% higher CTRs at 75% lower costs per fan than campaigns which do not use creative rotation.

Campaign Performance Using Rotation Strategy: Direct Response Campaigns



Source: Marin Social Index (MSI) data from Q2-Q3 2013

Campaign Performance Using Rotation Strategy: Fan Acquisition Campaigns



Strategic Recommendations for Facebook Advertisers:

- **Get ad content right** — First and foremost, advertisers should ensure that their ad creative follows standard Facebook design best practices.⁴ Messages should be short and concise, and specifically tailored for the target audience. To avoid truncation, text should be limited to 90 characters. Images carry the greatest impact and should be chosen wisely. Consider using headshot images of people or close-up pictures of products. For Page post ads, text should be just 20% of the overall ad and include social context as well as a website link to maximize conversion rate.
- **Conduct a frequency analysis to inform creative strategy** — Advertisers should aim for frequencies of 1–5 exposures per ad and never expose a user to the same ad more than 10 times. By analyzing the relationship between impression volume, CTR, and frequency, advertisers can identify ad fatigue. Marketers should also study their highest-volume campaigns with the greatest performance volatility. Often, higher-than-recommended frequency leads to quick drops in CTR and impressions. If an advertiser sees a correlation between these three indicators, their campaigns are likely suffering from ad fatigue. Sophisticated advertisers use creative rotation services available in an ad management platform to manage ad frequency and maintain consistent CTR and impression volumes.

4. Facebook Best Practices for writing ads: <https://www.facebook.com/help/337584869654348/>

- **Utilize automated creative rotation to improve performance** — Creative rotation has become one of the most common strategies among leading Facebook advertisers for managing frequency and maintaining consistent CTRs and impression volumes. While manually refreshing campaign creatives can help to improve performance, it is difficult to manage at scale across hundreds of campaigns and thousands of creatives. Facebook marketers looking to quickly grow their programs should utilize a Facebook management platform with automated creative rotation capabilities for best results.

Conclusion:

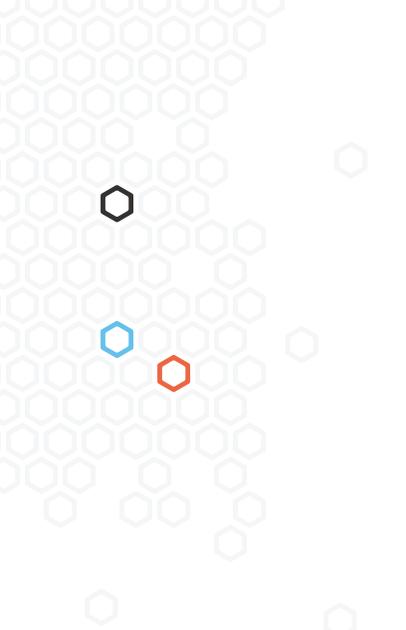
Facebook's global user base has and is predicated to continue to grow at an unprecedented rate, both in terms of volume and level of engagement. Facebook's growth in monthly active users, combined with exciting innovations in advertising, have turned Facebook into the industry's fastest growing advertising channel. Enhancements in ad placement, creative formats, mobile targeting and audience targeting have created opportunities for advertisers to drive revenue at an attractive ROI. However, in other areas such as frequency management and creative testing, Facebook continues to lag behind other channels in terms of reporting and management.

To ensure continued success, marketers must adopt sophisticated advertising techniques to take advantage of the opportunities Facebook advertising presents, and overcome the channel's shortcomings. To grow conversion volume, successful Facebook marketers will target mobile users and shift budgets toward News Feed advertising. To improve efficiency and better optimize their programs, Facebook marketers will also adopt retargeting strategies through Custom Audiences and focus on preventing overexposure of ads through automated creative rotation techniques. Finally, as competition for high-value audiences increases and advertising options become increasingly complex, successful Facebook marketers will require the use of an elite management tool to help them manage complexity, make better decisions faster, and reach their financial objectives by managing toward a variety of revenue sources. Marin Software's leading Revenue Acquisition Management platform enables marketers to manage and optimize large-scale Facebook campaigns for maximum impact and ROI. Visit www.marinsoftware.com for more information.



45%

increase in mobile only
campaign spending
between Q3 and Q2 2013



Methodology:

The data analyzed by Marin Software reflects a representative sample of over 100 clients managing Facebook programs with active campaigns tracking impressions, clicks, conversions and revenue between April 1 and October 31, 2013. The Marin Social Index (MSI) index utilizes a longitudinal analyses approach across advertisers and agencies representing the Retail, Travel, B2B, Technology, Health-care and Finance verticals. Estimates for changes in user adoption are based on changes in spend volume for the examined ad types, targeting types and placement types for Q3 2013 vs. Q2 2012. Performance comparisons between ad types, targeting types and placement types were based on available data between April 1 and October 2013, 2013.