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## Forecast 2006 -- Where to Next?

by Lynn Russo, Saturday, Oct 1, 2005 12:00 AM EST

**MOST ONLINE ADVERTISING FORECASTERS ARE** bullish on the future of search, e-mail marketing, and rich media as more marketers go online. Lynn Russo reports. Projections show that the online advertising market has shaken off its growing pains and is moving into young adulthood in steady growth mode. JupiterResearch projects that online marketing will reach \$18.9 billion by 2010; eMarketer puts online spending at \$22.3 billion in 2009; Forrester at \$26.0 billion by 2010; and Borrell Associates at \$34.8 billion by 2010.

Discrepancies among these figures come from differing views on how the market should be defined. "Forrester counts e-mail, but we don't," says David Hallerman, senior analyst at eMarketer. With its low-ball figure, JupiterResearch doesn't count wireless, iTV, or e-mail, while Gordon Borrell, president and CEO of Borrell Associates, feels his company does a better job than other researchers of accounting for local media that are often under the radar.

Over the next five years, growth in the online advertising sector will be steady, according to JupiterResearch. This growth is partly attributable to advertiser confidence in online's ability to show a return on investment, and also to consumer acceptance of online marketing in general. However, online spending will continue to be a small percentage of the overall ad market, comprising just 7 percent in 2010, JupiterResearch says.

About 84 percent of Forrester survey respondents

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plan to increase their online budgets this year by an average of 25 percent. Forty-seven percent will take the additional funds from overall budget increases, while smaller percentages will take them from money previously budgeted for magazines, newspapers, and direct mail. None said they would be pulling funds from their TV budgets. omma takes a closer look at nine online-media segments: Blogs, classified ads, display ads, e-mail, podcasting, rich media, RSS, search, and wireless.

The blogosphere will continue to grow, but monetization will still be a challenge. In April, there were 53.4 million hosted blogs and many more unhosted, according to Perseus Development Corp. and eMarketer. Yet just 4 percent of major U.S. corporations use blogs as a marketing tool. Even fewer produce sites with the link and feedback features most people associate with true blogs, eMarketer says.

Currently, 25 percent of Internet users read blogs, or 16 percent of the entire U.S. adult population -- 32 million people, according to the Pew Internet & American Life Project and eMarketer. However, blogging will grow among publishers that will eventually offer blogs as just another advertising option, eMarketer says. In fact, 64 percent of respondents to a Forrester survey said they are interested in advertising on blogs. In addition, BlogKits reports that 71 percent of U.S. bloggers feel advertising on blogs is acceptable, and 66.7 percent have clicked on ads, according to a June 2004 study done by Blogads.

In addition, 22 percent of business respondents to a *CMO* magazine study planned to offer a blog within the next six months, while 23.2 percent of respondents to a Hostway/ Taylor Nelson Sofres study had used blogs to learn about products and services they were considering buying, and 93.7 percent found them helpful in making purchase decisions.

Classified advertising will continue its slow climb in both revenue and efficacy. Analysts have mixed opinions on the future of online classifieds. Forrester predicts spending for online classifieds will reach \$4.7 billion in 2010, an 80.7 percent increase over \$2.6 billion in 2005.

Online job recruitment will grow 13 percent over the next five years to \$2.6 billion in 2010, while spending on automotive classifieds will reach \$1.2

billion, with the real estate category reaching \$1 billion, Forrester says. Key growth drivers include an improved economy fueling higher employment, more auto dealers coming online, and deeper real estate content, which will spur more consumers to embrace that category. And 56 percent of Forrester respondents say they feel that online classified ads will be more effective over the next three years than they are today.

But Borrell isn't as enamored of this category. "Classifieds will flatten out pretty quickly," he predicts. Online recruitment budgets had already begun to level out when the category hit 25 to 30 percent growth, according to Borrell. Auto and real estate, which are now hovering in the 10 to 12 percent growth area, will eventually follow suit.

Borrell also has concerns over how classified spending is being defined and measured. "In the old model, you pay the publisher and put three lines in the paper," he says. "Now we're talking about Realtor.com, for instance, being an advertising play, and it's not. Today, the online model is reversed. In some instances, the publisher pays. Some even pay \$1 per listing to put all the listings up on their sites."

Display ads will remain a formidable option. Spending on display advertising is dropping slightly, but analysts still have confidence in the medium. Fifty-eight percent of JupiterResearch respondents plan to use banners in the future, compared with 69 percent who said they were using them in 2004.

"The problem with banners continues to be their intrusiveness on a page," says Leo Kivijarv, Ph.D., vice president and research director of PQ Media. "Because of their relatively small size on the screen, they really don't do what many ads are able to do in other media, which is to bring the uniqueness of the brand across in a message. There's no reason for the target audience to click on that banner unless they are in the market for that product. They're not as actionable as some other formats."

Even so, Forrester predicts that banners will grow 65.3 percent during the five-year forecast period, reaching \$8.1 billion by 2010, compared with today's \$4.9 billion. In addition, 58 percent of Forrester respondents say they feel display ads will be more effective over the next three years.

"I still see display ads as a value area of online advertising because of their potentially lower cost," says eMarketer's Hallerman. "They are a way for publishers to sell ads on the back pages of their site. And companies are still spending money on display because they require low bandwidth and publishers can put them anywhere."

Use of e-mail marketing will continue to climb, as will a focus on relevance. Use of e-mail as a marketing tool is on the rise. Roughly 41 percent of respondents to a Direct Marketing Association survey said they were mailing more than 1 million pieces of e-mail per year in 2004, compared with 35.4 percent of respondents in 2003 and just 16.7 percent in 2002. Nearly half (48.6 percent) of those companies were purely consumer marketers; 18.2 percent were business-to-business; 44 percent were both.

Forrester predicts that e-mail marketing will reach \$1.7 billion by 2010, a 21.4 percent jump over \$1.4 billion in 2005. E-mail marketing fees will dip in 2008, then level off, Forrester says. Advanced targeting and measurement services, newcomers, and B2B marketers will drive the growth, but list-acquisition spending will drop by about 22.3 percent.

"I anticipate that spending on delivery will flatten out and the money will go toward analytics and integration challenges, leveraging interaction with other media," says Shar VanBoskirk, consulting analyst for Forrester Research. Sixty-five percent of respondents said they felt e-mail would be more effective over the next three years.

"We see e-mail being flat for two years," adds Borrell. But, conversely to Forrester, Borrell feels e-mail will begin to rise again in several years, as postage, printing, and production costs continue to rise and additional legislation is put in place to eradicate spam. "We think e-mail will increase significantly starting late 2007 or 2008," he says, "but a lot of things need to shake out over the next two years to make that happen."

Approximately 41 percent of dma respondents used e-mail in 2003 to deliver product information; 38.3 percent provided access to order history; 45.5 percent gave real-time inventory updates; 29 percent information on exchanges and returns; 36.6 percent upselling; and 29.1 percent for complaints/services. A bit more than a quarter (27.5 percent)

used e-mail frequently or sometimes to increase retail sales, while 84.1 percent did so for increasing Web sales. In addition, 43 percent used e-mail to reactivate customers, and 81.9 percent used it for customer retention purposes.

Kivijarv cautions that the e-mail outlook is all in how you define it. "If you look at e-mail in its entirety, with all the spam issues and challenges," he says, "the naysayers who feel e-mail is losing effectiveness are likely correct. But if you look strictly at opt-in e-mail, for people who have chosen to receive it, direct marketers argue that they have high success rates. That's where there's a positive upswing."

Podcasting is out of the box and surging forward, though its future remains uncertain

There is little data yet on podcasting, a category formed by combining "iPod" and "broadcasting." Existing numbers center primarily around awareness and use. Sixteen percent of male and 11 percent of female adult Internet users say they have a good idea of what a podcast is, according to the Pew Internet & American Life Project. In addition, 29 percent of iPod or mp3 player owners (a universe of some 22 million people), have downloaded a podcast or Internet radio program, equating to about 6 million people.

This year, it seems like podcasts have made the news every day. For example, in August, cnetnews.com reported that Kleiner, Perkins, Caufield, & Byers; Sequoia Capital; and Sherpalo Ventures put up \$8.8 million to fund PodShow, a podcast technology company. This summer, Fox News began offering podcasts of TV shows like "The Simpsons" and "The O.C." Increasingly, trade magazines and consumer news organizations are trying podcasts and attempting to lure advertisers to them.

If search is the prom king, rich media is the queen

Rich media ad spending will grow at a healthy pace through 2008 thanks to broadband Internet users, according to eMarketer. The company predicts that rich media, which includes ads that use audio, video, animation, and feature interactivity such as Flash and streaming video will reach \$2.2 billion by 2008, up from \$808 million in 2004, a 172.3 percent jump. JupiterResearch puts that number at \$4.4 billion by 2008. Rich media is expected to garner a 12.5 percent share of all ad impressions by 2008,

compared with 8.5 percent for 2004, according to eMarketer.

Rich media is paving the way for brand advertisers to move more of their spending online. Using information from the annual Interactive Advertising Bureau/PricewaterhouseCoopers study, eMarketer predicts that rich media will grow in the double digits annually and hold 34.2 percent of the share of online brand ads in 2008, compared to 24.3 percent in 2004.

Rich media is currently supported by 69.2 percent of U.S. online publishing sites, according to Advertising.com and eMarketer. However, the amount of inventory available per site remains limited. Marketers that haven't embraced rich media yet blame the fact that the audience is too small (38 percent of study respondents); the price is too high (27 percent); and they are too unfamiliar with the format (21 percent), according to Jupiter-Research and MediaPost.

RSS will be the acronym on everybody's lips though they don't know it yet

rss is less well-known than podcasting, with just 12 percent of male respondents to a Pew Internet & American Life Project study agreeing that they have a clear idea of the meaning of rss, compared with 6 percent for females. Adult rss users represent 2 percent of the u.s. online population, while young adult users represent 5 percent, according to eMarketer and Forrester Research. These are very small numbers, underscoring that rss remains a media behavior of early adopters. However, 57 percent of Forrester respondents say they are interested in advertising in rss feeds.

Both Forrester and eMarketer say rss users have a healthy appetite for information. Adults primarily use rss feeds to access national news sites (43 percent of Forrester Research respondents) and to research products for purchase (40 percent), while young adult users accessed national news (37 percent) and published or maintained blogs (33 percent, according to eMarketer studies).

rss feeds aid in podcasting and are also being used to deliver blogs. Roughly 16.5 percent of u.s. blog readers occasionally read their blogs via rss, according to Blogads. Meanwhile, a survey done by the Web site Slashdot, which caters to a technical audience, found that 73 percent plan to increase

their use of rss feeds next year.

Search will only gain in effectiveness, essentially holding its lead over other online media

Forrester predicts that search- engine marketing will reach \$11.6 billion in spending in 2009, compared with \$5.7 billion today, holding its lead as the largest online advertising category. Seventy-eight percent of Forrester respondents say they believe search-engine marketing will become more effective over the next three years.

Two-thirds of Forrester respondents claim they will spend as much as they can on search marketing, as long as they continue to see a positive return on investment. Several also plan to decrease spending in direct mail, magazines, and other online areas, in order to fund their higher search marketing budgets. Just 9 percent plan to reduce TV spending.

Paid-search spending will continue to account for the largest share of the search marketing pie. This category will reach \$7.4 billion by 2008, or 41.5 percent of total online ad spending, up from \$4.7 billion in 2005, or 41 percent of the 2005 total of online spending, according to eMarketer. Forrester puts paid search at \$6.4 billion; JupiterResearch, at \$6.2 million.

Contextual-ad spending will more than triple by 2008 to \$1 billion, up from \$300 million in 2005, according to eMarketer. Forrester places contextual listings at \$1.7 billion in 2008. Agency fees in this category will rise to \$946 million by 2008, up from \$537 million in 2005, while paid inclusion the smallest of the search categories will grow to \$408 million, up from \$271 million in 2005, all according to Forrester.

As search advertising gains in popularity, so too will pay-for-performance pricing models, predicts JupiterResearch. While 40 percent of online ads currently are purchased on a cost-per-thousand-impression basis, JupiterResearch predicts that just 28 percent will be bought that way by 2010. At the same time, 54 percent will be purchased on a cost-per-transaction basis, up from 43 percent this year.

With all the attention on paid search, marketers often overlook the importance of search-engine optimization, Hallerman says. Thirty-eight percent of respondents to a DoubleClick study use a search engine, compared with just 17 percent who use the

ads on search engines. This implies that natural search is more effective than paid search, eMarketer says. In addition, organic searches were most relevant for 60.5 percent of all search respondents to a May 2004 iProspect study.

Meanwhile, in a joint study by Pew Internet & American Life Project and comScore Networks Inc., reported on by eMarketer, 50 percent say that while they like using Internet search, they could go back to other ways if they had to; 17 percent say they wouldn't really miss search engines if they could no longer use them. Similarly, in a Harris Interactive survey of Internet users conducted for Microsoft, 29 percent say they only sometimes or rarely find what they want on search engines, while 30 percent indicate some level of dissatisfaction with their searches, eMarketer says.

Citing JupiterResearch figures, eMarketer says keyword costs will continue to rise, forcing advertisers to conduct more efficient buys. The average cost-per-click will rise to \$.47 in 2009, up from \$.36 in 2004, a 30.5 percent jump. However, a December 2004 study by the Search Engine Marketing Professional Organization found that marketers aren't willing to absorb the higher costs. Nearly a quarter (23 percent) said they wouldn't pay more for leads or conversions obtained through paid search, while another 23 percent would only be willing to absorb a 10 percent increase.

Local search will drive overall search growth. Local search promises to be the next major contributor to search- marketing growth, though analysts vary on just how great a factor it will be. JupiterResearch predicts a 75 percent growth rate by 2009 to \$4.9 billion, up from \$2.4 billion in 2004. The Kelsey Group paints a more positive picture, projecting \$2.5 billion by 2008.

In a BizRate-Kelsey survey of 3,900 consumers, respondents say that 27 percent of their total search behavior is local, with 45 percent of those searches conducted with buying intent. However, local search suffers from the proverbial double-edged sword: The universe of local searchers is not large enough to entice local advertisers, while the market is not going to grow if these advertisers don't embrace it. In addition, local businesses often don't have the budget for search.

Many stumbling blocks need to be overcome before local search can grow, including an increase in the

number of small businesses that have Web sites. In addition, there is little sales training, and many small- to medium-sized businesses don't want clicks or online leads; they want phone calls.

One trend that should pave the way for local search growth is pay-per-call, where advertisers pay only for the phone calls the ads generate. The Kelsey Group estimates that by 2009, pay-per-call could generate between \$1.4 to \$4 billion in gross revenues. At least a dozen vendors are already offering pay-per-call services, including Ingenio, which was the first to market last September. America Online and Verizon SuperPages also offer the service. But Borrell cautions that pay-per-call could be as much a headache for small advertisers as a benefit. "Small businesses are very slow to change their advertising habits. They're reluctant and they don't gamble. They stick with one thing that works."

Wireless will target you. The expanded reach of wireless broadband is paving the way for more wireless marketing efforts. Wireless broadband subscribers worldwide are expected to more than double next year (1.2 million in 2006 compared with just 445,000 in 2005) and reach 8 million by 2009, according to a December 2004 Parks Associates study and eMarketer.

Forrester reports that 52 percent of respondents surveyed are interested in advertising on mobile devices, and over the next three years, 75 percent say they feel wireless marketing would be more effective. Only 5 percent of marketers sent ads to mobile phones last year, while 9 percent say they expect to this year, according to JupiterResearch. Forty-two percent of 2,200 consumers surveyed in May say they don't want mobile ads, according to the Jupiter report.

However, widespread acceptance of wireless ads won't come soon: Forty-two percent of JupiterResearch survey respondents say they never want ads, compared with 7 percent who say they only want relevant ads, and 12 percent who only want ads they opt-in for. The growth of local search, however, may be an opportunity for brands to reach out to consumers on mobile devices, JupiterResearch says.

And carriers might not be ready for ads, either. "We have noticed that wireless carriers still don't view marketing as a priority," says Adam Zowell, director

of u.s. wireless research for Yankee Group. "They're very wary of violating the trust that consumers have in them, and they're not looking to experiment at the expense of the customer experience," Zowell explains, adding: "There will be a search for a model that will work and it hasn't been fully defined yet. Wireless carriers are currently getting \$50 a month from each subscriber, and they don't want to lose those subs."

Meanwhile, Zowell says, marketers are waiting patiently. "There is a lot of interest from the media and entertainment world [in using] wireless devices as marketing vehicles, but we're not talking about a 30-second spot. There will be a unique marketing method that will probably be a deep combination of content and advertising," he says. Lots of pieces have to come together before wireless marketing can work well, Zowell adds. "You have to have the right audio capabilities, good software, a good user interface, enough storage on your device, and enough battery life." Zowell says he sees "music phones" propelling the category, devices built especially to take consumers beyond talking on the phone. "They're cell phones, but the attention is really on the music. You can search the Internet but they're primarily designed to make a good music experience," he explains, adding, "It could be, for instance, that perhaps Apple and Motorola will come together to build a device, perhaps putting wireless radio on an iPod." That's hypothetical, but "inevitably, marketers will find ways to get in front of mobile users."

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