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THE DECADE IN Online Advertising 1994-2004

With data from DoubleClick, Nielsen//NetRatings and other sources

10 *years*

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Table of Contents

Online advertising has come a long way since those first ad banners on HotWired in 1994. The Internet, virtually unheard of just over a decade ago, is today a vital daily part of most American's lives.

Executive Summary

2004 marked the 10-year anniversary of web advertising. Since DoubleClick has been around for nearly that entire history (the DART system began serving ads in 1995, and DoubleClick incorporated in January, 1996), we felt this was an appropriate opportunity to step back and take a broad assessment of the industry: where it came from, what it has accomplished and where we believe it is going. Last year we introduced *The 2003 Year in Online Advertising Report*—our most-downloaded report to date—and since mid-2002 we have been issuing our *Quarterly Ad Serving Trend Report*. So in place of a *2004 Year in Online Advertising Report*, we offer this year *The Decade in Online Advertising* as an attempt to rise above the trees and see the whole forest.

Online advertising has come a long way since those first ad banners on HotWired in 1994. The Internet, virtually unheard of just over a decade ago, is today a vital daily part of most American's lives. The many forms of marketing and advertising it enables—permission email, keyword-targeted search engine advertising, floating animated page takeovers, interactive on-page rich media ads, streaming audio and video, consumer-fueled "viral marketing," to name a few—have excited early adopters and now mainstream marketers in ways that traditional advertising has not seen the likes of since the early days of color television.

This paper lays out a detailed analysis of market trends impacting online advertising and as well as the larger ad industry in general. At the highest level, the findings in this report can be summed up in three key conclusions:

- **A seller's market is emerging in online advertising.** The first 10 years of online ad spending have been a rollercoaster ride, with a boom, a bust and a new resurgent boom. For the first time, the advertising industry is now experiencing a significant transformation of pricing dynamics, given changes in the supply and demand of ad inventory. At least for premium inventory categories such as auto, tech and business, what once seemed destined always to be a buyer's market is in fact turning into a seller's market.
- **Marketers are demanding more accountability.** Companies are increasingly demanding greater accountability for the return they get on their advertising spending. This represents a double-edged sword for online media. Viewed one way, the Internet delivers fairly well on its promise of greater measurability compared to traditional media. Alternatively, the Internet industry has fought hard to avoid being pigeonholed as a direct-response medium because of its ability to measure performance so many ways. In the last few years, ad sellers have made great advances in demonstrating online media's value also as a brand vehicle with significant audience reach. In the end, the Internet's accountability for measuring both brand and performance lift appears to be winning converts, as more mainstream ad dollars continue to shift rapidly online. As a possible consequence, marketers are putting more pressure on traditional media to likewise improve their metrics for accountability.

- **Consumers are demanding more control.** Consumers, meanwhile, are reacting to their plethora of media choices and a growing volume of marketing messages by wrestling the instruments of control from the corporations that have been accustomed to prescribing the media diet that consumers should consume. From Napster to TiVo to pop-up blockers to blogs, individuals are turning the media model on its head, driven in large part by the same kind of technology tools that heralded the digital revolution in the first place. What the new media and marketing landscape will look like a few years from now is still unclear, but it is likely that the winners in both media and advertising will be those that adapt most effectively to the new consumer-centric model.

No medium since black-and-white television has penetrated 50% of U.S. households as quickly as the Internet: both did so in eight years

As per the famous Chinese curse, we live in interesting times. No medium since black-and-white television has penetrated 50% of U.S. households as quickly as the Internet: both did so in eight years, counting from the 1993 birth of the Mosaic graphical web browser to 2001, when the U.S. Census found half of homes were wired. That compares to nine years for radio, 10 for the VCR, 17 for personal computers, 39 for cable TV and 70 for the telephone.

Unlike those other media, however, the Internet is literally a hands-on experience, where consumers, with hands on mouses and keyboards, can read, research, watch, listen, write, send, meet, organize, post, program, purchase and much more, all through various simple devices across a vast network of millions of collaborators and destinations.

In the midst of this churning sea of information and activity, companies advertise. And ample data show that they often succeed in their goals. Which is not to say we have figured it all out yet. But, as the pages that follow aim to demonstrate, we're getting there.

'Click here'

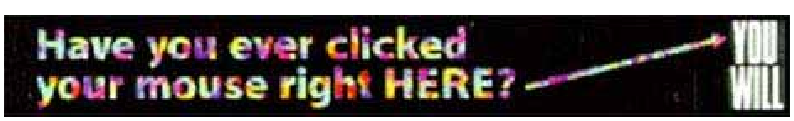

Figure 1 Source: AT&T, October 1994, one of the first Internet ads, on HotWired

2004: a Banner Year

By most accounts, the first web advertisements were introduced on HotWired (today Wired News, part of Lycos) in October, 1994, for brands including Zima, Club Med and AT&T. The ads were narrow strips that ran across the top of the pages, 60 pixels tall and 468 pixels wide—the proverbial "banner ad"—precise dimensions that remain surprisingly popular to this day.

The text of the AT&T ad, the first "cross-media" online-plus-TV campaign (titled "You Will" by the agency N.W. Ayer), read, with eerie prescience, "Have you ever clicked your mouse right HERE? You will." (**Figure 1**)

And how. A decade later, advertisers in the U.S. market spent $9.6 billion on Internet ads, according to the Interactive Advertising Bureau (IAB) and PricewaterhouseCoopers (PWC).

That is larger than the whole outdoor advertising industry, about 80% of the size of the magazine ad industry and half the size of the radio ad sector, according to estimates from their respective industry associations. Moreover, spending on Internet ads grew at a rate of 31.5% from 2003 to 2004 (IAB/PWC), compared to 10% for broadcast TV, 7.4% for the advertising industry in general (Universal McCann) and 6.6% for the current-dollar GDP of the U.S. economy as a whole.[1]

A brief history of online advertising

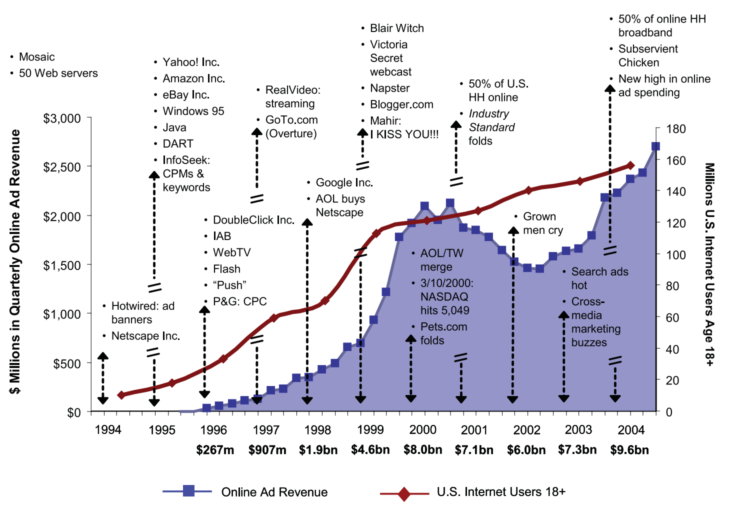

Figure 2 Source: Interactive Advertising Bureau/ PricewaterhouseCoopers, 2004; Harris Interactive, 2004; Archer Advisors, 2005; U.S. Census Bureau, 2002; DoubleClick analysis, 2005 (Footnote 1)

Fortune 500 companies' share of all online display ad impressions

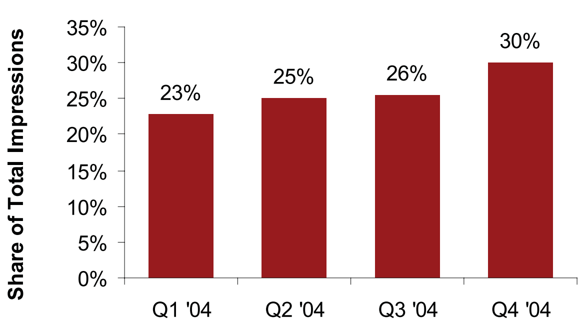

Figure 3 Source: Nielsen//NetRatings AdRelevance, 2005

Catching up to Consumers, Online Advertising Booms Back

2004 was also the high-water mark for online ad spending in the U.S. and the first time in four years that the industry has outspent the previous highpoint of 2000, as shown in **Figure 2**. After the dot-com-fueled NASDAQ peaked at 5,049 in March of 2000, spending on Internet advertising dropped during the ensuing economic recession by 25% from 2000 to 2002.

Notably, however, during that same period the number of adult Americans using the Internet rose steadily, at an average cumulative annual rate of 7% from 2000 to 2004. So while the advertising community went through a period of uncertainty about the viability of the Internet as a serious medium, consumers had no similar doubts and continued to embrace it wholeheartedly. It is only natural, therefore, that advertisers eventually returned in force, recognizing the need to be where their audience is.

Another important difference between the first peak of online ad spending in 2000 and the resurgence in 2004 is "the golden rule": whoever has the gold makes the rules. That first time around, during the era of "irrational exuberance," the bulk of online ad spending came from now defunct dot-coms such as Pets.com, Boo.com and Toysmart.com. The more recent spike in ad dollars, meanwhile, has been driven by bottom-line-focused traditional advertisers. According to Nielsen//NetRatings AdRelevance, 30% of ad impressions in Q4 2004 were for companies in the Fortune 500, as shown in **Figure 3** (previous page).

Perhaps an even more important milestone of 2004 is that it witnessed sold-out advertising inventory for many premium online publishers for the first time in years (if ever). In fact, in some categories, notably automotive, popular content areas experienced large ad buys as much as a full year in advance, along the lines of TV "upfronts."

Emergence of a Seller's Market

Thus, at the end of online advertising's first 10 years, a major change is afoot in the supply and demand of ad inventory, which is going to force advertisers to work harder at optimizing the efficiency of their media buys. Until as late as 2003, it had been assumed to be a law of the online marketplace that the supply of web ad inventory was substantially larger than the demand from advertisers: a classic "buyer's market." Simply put, web advertising was very cheap for the last several years.

Demand out-stripping supply

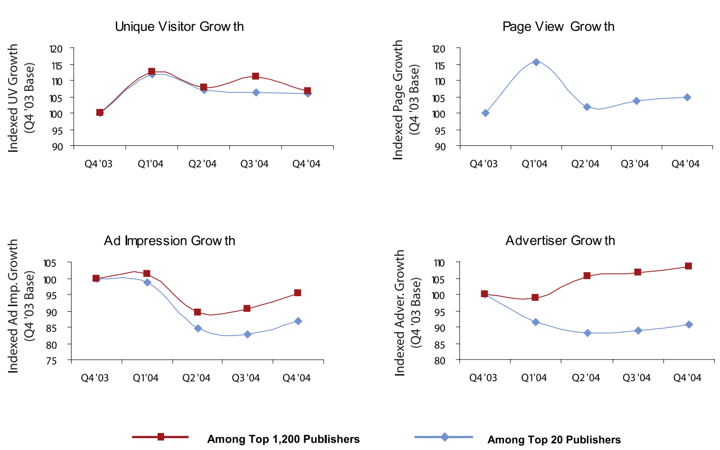

Figure 4 Source: Nielsen//NetRatings AdRelevance and NetView (U.S. market), 2005 (Footnote 2)

That situation is rapidly changing. As **Figure 4** shows, the growth in the number of unique visitors and page views has slowed to an almost negligible rate compared to years earlier. Among the 20 sites with the most display ad impressions, the total number of page views was up only 5% from Q4 2003 to Q4 2004, according to Nielsen//NetRatings. At the same time, the number of display ad impressions in the last year among major U.S. sites is down (5% down for the top 1,200 ad-supported sites; 13% down for the top 20 ad-supported sites).[2]

Part of that decline in overall display ad impressions among the largest sites is due in large part to a reduction of clutter, as sites increasingly feature fewer smaller ad units (such as buttons and half banners) and standardize on the new larger ad sizes promoted in recent years by the IAB (especially extra-large banner "leader boards," wide skyscrapers and medium and large rectangles).

Meanwhile, there are more advertisers among the top 1,200 sites (up 9% Q4 2003 to Q4 2004) competing for those fewer ad impressions. Among the top 20 ad-supported sites, however, the number of advertisers is actually down (8% year over year).

The decline in the number of advertisers among top 20 sites is most likely due to their selling less of their inventory through third-party "remnant inventory" networks

Whereas 2003 was the year when the online ad industry saw "the light at the end of the tunnel," turning around the precipitous decline in spending of the previous two years, 2004 was the year when the industry reached a "tipping point."

for distressed prices. Instead, top publishers are serving more of their ad inventory themselves for premium CPM prices to fewer (brand-oriented) advertisers for longer-term commitments.

The reported revenue growth, meanwhile, among several of those large ad networks could be attributed to growth among smaller sites joining the ad boom, including more international sites, as well as incremental increases in media prices even at the run-of-network level of the market.

The result is that market conditions are changing, particularly for premium publishers, to the pricing advantage of ad sellers. Anecdotally, many advertisers tell us that CPM prices are rising while more and more publishers report that large portions of their impressions are selling out a month or more in advance.

Car companies, representing one of the strongest sectors of offline advertising, are putting the pedal to the metal online. With two thirds of all car purchases now preceded by web research (JupiterResearch) and one in five car purchases directly attributable to a lead from a car website (J.D. Power & Associates), car advertisers spent an estimated $1.2 billion online in 2004, a 51% increase from 2003, according to Borrell Associates.

At the same time, the share of online ads in the auto sector that are rich media format rose from 23% in 2003 to 58% in 2004, according to Nielsen//NetRatings AdRelevance.

With limited auto content available at top sites, advertising for this precious commodity was widely reported to have reached a state unthinkable just a couple years earlier: inventory snapped up a year in advance by advertisers. One can only wonder whether other hot sectors of the online ad mix—technology, telecom, travel, heath care—will follow the same trend soon.

Whereas 2003 was the year when the online ad industry saw "the light at the end of the tunnel," turning around the precipitous decline in spending of the previous two years, 2004 was the year when the industry reached a "tipping point." Although the tremendous growth rate of ad spending from 2003 to 2004 will likely not continue for years at the same pace, it is clear that major advertisers have now bought into the value of the channel and are making up for lost ground.

More to the point, advertisers are determined to catch up with their target audiences. According to estimates from media-specialist merchant bank Veronis Suhler Stevenson, Americans spent more time on the Internet in 2004 than with any other media except for TV and radio. And increasingly, Internet users are "multimedia-tasking," surfing the web at the same time as they watch TV or listen to the radio in the background.

Advertising: An Industry in Transition

In many ways, the U.S. advertising industry has remained remarkably stable for the past decade. According to estimates from Universal McCann, the overall U.S. ad industry (including direct mail and yellow pages) grew from $153 billion in 1994 to $264 billion in 2004.

During that period, it maintained a steady proportion of approximately 2.2% of U.S. gross domestic product. Over those 10 years, it grew at an average compound annual growth rate of 5.7%, with only one year of negative growth, falling 6.5% from 2000 to 2001.

Spending on the Internet, meanwhile, as a brand new medium, has grown much faster than on other media, as noted above. Using Universal McCann's numbers, which are more conservative for the Internet than the IAB's, online ad spending grew 63% from 2000 to 2004 in absolute terms ($4.3 billion in 2000 to $7.1 billion in 2004). The Internet's growth, meanwhile, was 52.7% as a share of total consumer media ad spending (excluding direct mail and yellow pages) in that same period, as shown in **Figure 5**.

Change in share of ad spend by consumer medium, 2000-2004

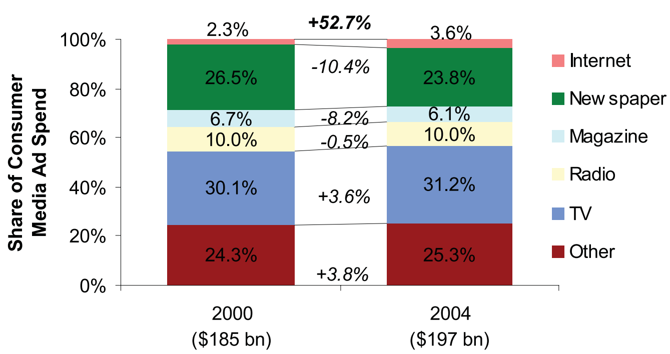

Figure 5 Source: Robert Coen's "Insider Report," Universal McCann, 2001 and 2004, excluding direct mail and yellow pages

Online projected to grow gradually as share of total ad industry spending

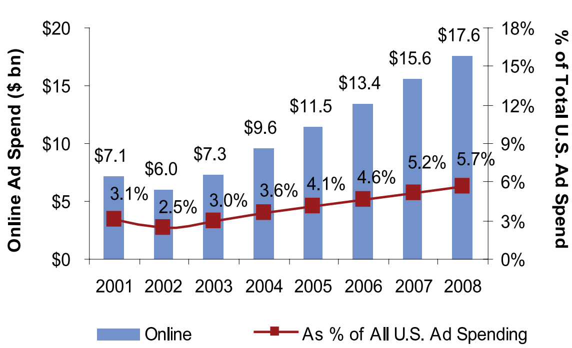

Figure 6 Source: eMarketer, based on IAB/PWC (for online ad spend, which includes search, display ads, rich media, classifieds and other) and Universal McCann (for total ad industry spend, which includes direct mail and yellow pages), 2005

By comparison, overall ad spending in the same period on TV grew 10.6% in absolute terms (from $51 billion to $62 billion) and 3.6% as a share of total consumer media ad spending. The newspaper sector was the biggest loser in the media mix in terms of share of all ad dollars. Its readership is aging and declining, and its important base of classified ad revenue faces stiff competition online from the likes of eBay, Craig's List, Monster.com and Match.com. Newspaper ad revenues were down 4.3% in absolute terms over the last five years ($49 billion to $47 billion), and they fell 10.4% in terms of share of media spend.

But those numbers do not tell the whole story. While at a high level, the growth of the industry remains steady and the budget allocation among media outlets is shifting only gradually (**Figure 6**), even a casual observer of the ad industry should recognize that over the last several years the whole sector has been building up to major change.

Jim Stengel, the Global Marketing Officer for Procter & Gamble, who controls the world's largest ad budget ($2.9 billion) and is the new chairman of the Association of National Advertisers, *"I believe today's marketing model is broken... The traditional marketing model is obsolete."*

-Jim Stengel, Global Marketing Officer, Procter & Gamble

described an industry approaching radical transformation at the annual conference of American Association of Advertising Agencies (AAAA) in February, 2004: "I believe today's marketing model is broken. We're applying antiquated thinking and work systems to a new world of possibilities... The traditional marketing model is obsolete."

Many factors are at play in transforming the media and marketing landscape, but the most important of these can be summed up as two sea-changing trends: a demand by marketers for greater accountability in the return they get for their ad spend, and a demand by consumers for greater control over their media and marketing experiences. Both of these trends have major implications for online marketing, and both are being driven in no small part by pressures that "new media" are putting on "old media."

Marketers Demand Greater Accountability

Some brands, such as Marlboro, DeBeers, Nike, Coca-Cola and McDonald's, can confidently attribute their respective dominant market positions largely to their heavy investment in brand advertising. Some other brands, by contrast, such as Starbucks, Google and The Body Shop, have grown to prominence based almost entirely on PR and word of mouth and no conventional advertising.

Most companies, however, fall somewhere in between. They feel compelled to spend on advertising in order maintain competitive share, but their confidence in traditional measures of the effectiveness of their ads is moderate at best.

Answering to the CFO

Oh, for the days of the three-martini lunch. Making advertising perform more efficiently is more than an academic exercise for businesses today. Over the past 25 years of hyper global competition, companies have been in a race to cut expenses and improve efficiencies in all aspects of their businesses. Materials are now sourced from the cheapest possible markets worldwide. Logistics and operations have been streamlined through tools and processes such as "just-in-time delivery" and enterprise resource planning (ERP). Manufacturing has been outsourced to regions with cheaper labor, as have, more recently, certain white-collar jobs such as accounting and computer programming.

Luckily for our industry, strategic marketing cannot be easily outsourced, as by definition it requires intimacy with local markets. On the downside, with the fat squeezed out of virtually every other aspect of businesses, marketing functions look temptingly ripe for cost-cutting. That is particularly so when the prevailing wisdom is that a high degree of inefficiency has been built into marketing programs, à la the infamous John Wanamaker axiom ("I know half of my advertising is wasted, I just don't know which half").

All media are feeling this pressure to be more accountable. Responding to years of demand from advertisers, Nielsen

Media Research, the dominant firm in television media measurement, announced in 2004 it would release a new minute-by-minute audience rating system for TV, due out in October, 2005. With the advent of that service, advertisers will for the first time better understand consumers' channel-switching activity during commercial breaks (although trips to the bathroom and kitchen may still be obscured).

From Eyeballs and Clicks to Interaction Times and Econometric Models

Starting with the invitation to click featured in that first AT&T banner, online has promised real-time performance metrics. For the most part, it has delivered on that promise.

When it comes to measurability, online marketing certainly has an advantage over traditional media, both real and perceived. Starting with the invitation to click featured in that first AT&T banner, online has promised real-time performance metrics. For the most part, it has delivered on that promise, although Internet media's extremely detailed ability to report consumer interactions has led many marketers to initially pigeonhole it as a direct-response medium.

In the last few years, however, that perception has changed. The reach of the Internet now extends to a majority of homes; high-impact rich media ads have grown in popularity; and brand impact measurement studies from firms such as Dynamic Logic and Insight Express have become a routine part of online ad research. As a result, mainstream brand advertisers increasingly recognize that online media have an important place in their advertising mix as well.

Clicks are only the most basic way online marketing programs can be measured. The following are among the metrics by which sophisticated advertisers commonly measure the effectiveness of their online campaigns:

- post-click conversions
- cost per conversion
- unique reach of ads delivered
- average frequency of exposures
- frequency-to-conversion ratio
- ad exposure time (rich media)
- ad interaction rate (rich media)
- brand impact lift vs. control ad (including ad recall, brand awareness, message association, brand favorability, purchase intent)
- view-through rate (i.e., delayed visits to advertiser's site without a direct ad click-through)
- share of voice
- web page eye tracking
- offline sales lift
- cross-media-mix econometric modeling

Two of the most important developments in online advertising in the past decade also play directly to the Internet's strength of measurability: rich media and search engine advertising.

The Future Looks Rich

"Rich media" is a term used to describe a variety of online advertising media experiences, including high-quality animation, streaming audio and video, and software-like features that can be embedded in relatively small ad files, such as games, registration forms and detailed marketing information. A user can explore all of those features in the ad unit without ever leaving the content page on which the ad appears.

Various web programming technologies can be employed to deliver rich media functionality, including Java, Javascript and DHTML, but by far the most popular is Macromedia's versatile and widely supported Flash software platform. According to Nielsen//NetRatings AdRelevance, 97% of the advertising it classifies as "rich media" is Flash-based.

Introduced in 1996, Flash is able to deliver functions like those described previously, stably and consistently to more than 98% of Internet-connected computers. Proprietary rich media platforms—such as Eyeblaster, PointRoll and DoubleClick's Motif—expand the funtionality of Flash with ad-specific features, workflow and reporting.

Rich media is appealing to advertisers for several reasons. For brand-oriented advertisers, features such as video, audio, animation and a framework for immersive marketing content are effective for achieving brand objectives such as awareness and message association. For direct marketers, rich media ads can help better pre-qualify leads by presenting information-rich ad content that consumers can read before they click through to the advertiser's site.

As advertisers are challenged to reach consumers in a fragmented media world, "experiential marketing" metrics such as "time spent" and "brand interaction" will become more relevant, both online and offline. To that end, another critical breakthrough of Flash-based rich media advertising is the granularity of reporting it provides of user/ad interactions. Among the rich media metrics DoubleClick's Motif platform can report, for example, are the total time the ad is displayed on the user's page, any interactions the reader makes with her mouse over the ad, the total time she spends exploring features of the ad, and so on.

Rich media has risen steadily in popularity with advertisers over the past five years, reaching a 35% share of all ad impressions by December 2004, according to Nielsen//NetRatings AdRelevance. The parallel between the rise of rich media among advertisers and the rise of broadband Internet access among U.S. homes is a striking one, as shown in **Figure 7**. By December 2004, 54% of Internet connected homes did so via high-speed connections.

Rich media is particularly popular among certain segments of advertisers.

Rich media's rise in popularity parallels that of broadband

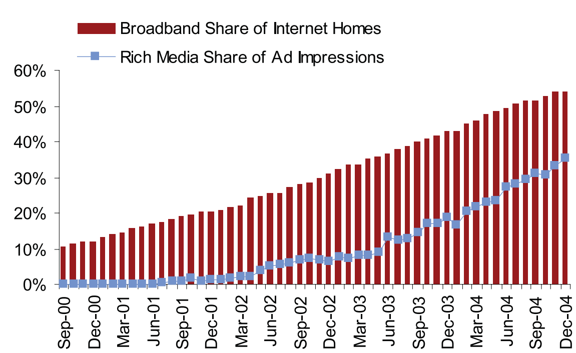

Figure 7 Source: Nielsen//NetRatings AdRelevance and NetView, 2005

Among Fortune 500 firms, 39% of their total 2004 ad impressions were rich media, according to Nielsen//NetRatings AdRelevance. Auto and telecommunications dedicated more than half of their online ads to the high-impact format last year, as shown in **Figure 8**.

Some sectors enjoy a richer media diet than others

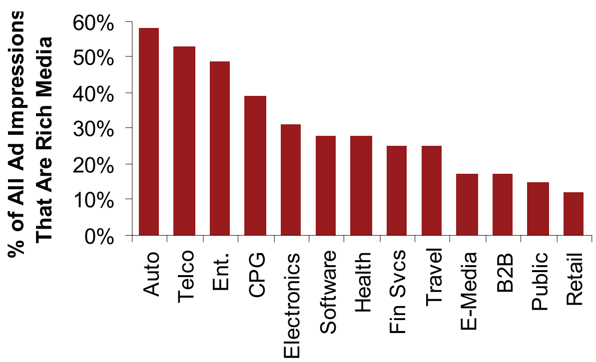

Figure 8 Source: Nielsen//NetRatings AdRelevance, 2005

Search for Marketing Perfection

Meanwhile, the drive for more accountability in marketing has helped drive a tremendous boom in search advertising. In its present form, search advertising is at once starkly simple, bafflingly complex and highly effective.

In principle, search advertising is elegantly straightforward: advertisers bid on keywords to affect the rank positions of their text ads on search results pages, aggregated data for all 2004 ad impressions, and they pay only when a person clicks on their ad. The complexity comes into play both in terms of the dynamic auction environment of price for position, as well as in the seemingly infinite motivations behind the query behaviors of search engine users.

Even for those marketers who do not want to apply advanced calculus to optimize their campaigns at the level of thousands of keywords, search advertising remains highly quantifiable for any marketer who can estimate the value of a single click-through to their site or product page. It is that basic accountability, combined with the hand-raising nature of search engine users, that explain the tremendous popularity of search advertising in the last few years.

The roots of the search advertising date back almost as far as search engines themselves. The same year that Yahoo! incorporated, 1995, another early search engine, InfoSeek, introduced the concept of targeting ads to keyword search queries, albeit against display banners not text ads. Another milestone in this form of advertising came in 1996 when Procter & Gamble pioneered an important online pricing model, convincing Yahoo! it would pay for ads only on a cost-per-click basis.

Erstwhile search engine OpenText first tried to put together the ideas of targeted search queries with paid listings. But it met with considerable outcry from users who were apparently not yet ready for such blatant commercialization of one of their favorite tools. Other search engines mostly took the cue and resisted sponsored text links until the business incubator Idealab! introduced GoTo.com in 1998, which revived the practice of clearly labeling text ads on search engines to much greater success.

GoTo later changed its name to Overture, which Yahoo! later acquired. Like Overture, Google's AdWords program sells keyword targeted ads both through their respective parent search engines as well as through a network of smaller partner search engines. In this manner, Overture and AdWords together receive the vast majority of revenue in the search advertising sector.

Search advertising is by far the largest piece of the online ad spending pie

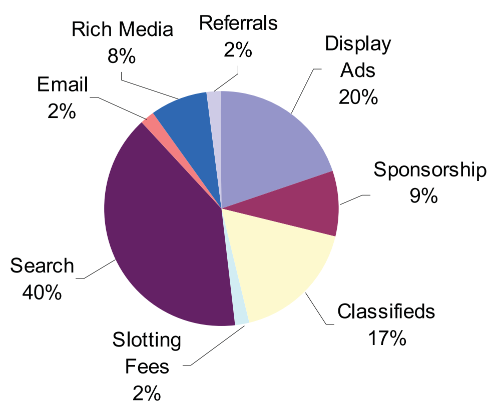

Figure 9 Source: Interactive Advertising Bureau/PricewaterhouseCoopers, "IAB Internet Advertising Revenue Report" Q2 2004

Roughly half of online buyers make a related search before their purchase

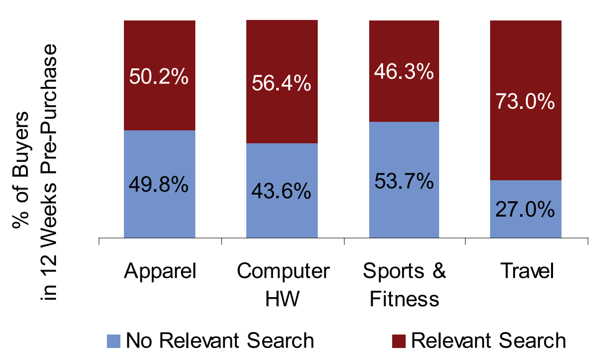

Figure 10 Source: DoubleClick Performics and comScore Networks, "Search Before the Purchase" report, 2005

Given the complexity, however, of managing large keyword campaigns, a number of specialized search marketing firms, including DoubleClick's Performics division, and search ad management platforms, including DoubleClick's soon-to-be-released DART Search, have emerged in recent years to help companies manage their search ad programs.

The IAB and PWC estimated that as of the first half of 2004 (the latest for which estimates were available), fully 40% of online advertising spending was being spent on search advertising, by far the largest piece of the total online ad market, as shown in **Figure 9**. Applying that percentage to the IAB/PWC's year-end 2004 online ad industry total estimate of $9.6 billion, the U.S. search advertising market would account for $3.8 billion.

The key reason for the prominence of search listings in the online ad mix is that consumers rely on search heavily to aid their online shopping behavior. DoubleClick demonstrated that conclusively in a study its search marketing division Performics released earlier this year with comScore Networks, titled "Search Before the Purchase." The study concluded that roughly half of the people examined in the study who made an online purchase first conducted a search related to the product sometime in the 12 weeks prior. In the case of the travel category, 73% of ticket buyers first researched their purchase on a search engine, as shown in **Figure 10.**

Tracking Onlines Impact Across Sales and Media Channels

In addition to DoubleClick, other leading organizations are pioneering new ways to measure the impact of online advertising in innovative ways. For example, Yahoo! and ACNielsen have established a research methodology called Yahoo! Consumer Direct to measure the impact that online ads have on offline retail purchases of consumer products, which they report lift sales 19% on average.

The IAB, meanwhile, has produced a series of Cross Media Optimization Studies (XMOS). These large-scale research projects aim to measure ad programs across multiple media (TV, print, online) to determine the optimal mix of budget allocation for individual campaigns to achieve target goals, including audience reach, brand impact and sales lift.

Striking a Balance Between Measurement and Creativity

The Internet's promise of perfect measurability for marketing programs has been both a blessing and a curse. On the one hand, the kind of observed measurements describe above, such as "view-through" and search behavior analysis over time, are certainly more sophisticated than the focus groups and paper diaries that typify media measurement in print and broadcast. It is that level of accountability and the steadily growing body of research about online ad effectiveness that has fueled the resurgence of marketer spending in the online channel.

On the other hand, some industry veterans, such as consultant Jeff Einstein, writing in a column for MediaPost, argue that marketers' fixation with quantifying return on investment and click-through rates have stifled the creative potential of online advertising.

The optimal balance probably lies somewhere in between pure branding and pure direct response, which are too often characterized as if they were two mutually exclusive ends of a spectrum. "Brand-response" is one term some marketers now favor to describe a middle road of recognizing value both in terms of direct-response and branding for the effectiveness of advertising. Rich media is an excellent embodiment of that strategy, providing at once high brand impact and also finely trackable direct-response metrics.

Few brand advertisers are comfortable with Wanamaker's cavalier irony that half of ad spending is wasted. At the same time, sophisticated marketers understand that the consumer buying process is often more circuitous than a direct link from a mouse click to a credit card number.

Metrics for better understanding the effectiveness of marketing programs are undergoing rapid evolution, driven in no small part by the Internet's example. But unfortunately, there is no "golden metric" on the horizon. Myriad factors influence how consumers make purchase decisions, and systems for measuring marketing accountability must recognize that complexity and help to put it in perspective.

Consumers Demand Greater Control

Two competing forces have been building for decades in the American communications world that in recent years have heralded significant changes for both media companies and marketers. One is the vast proliferation of media outlets. The other is the surfeit of marketing messages in our society. Add to that digital technologies such as peer-to-peer file-sharing networks, digital video recorders (DVRs) and blog publishing tools, and the media landscape as we have known it will never look the same again.

Mass Media Goes Niche

In 1965, advertisers could reach 80% of Americans aged 18-49 by running TV commercials on only CBS, NBC and ABC. By 1994, the "big four" broadcast networks (with Fox) commanded a 52% prime-time audience share. By 2004, that share was down to 31%.[3] Today, the average U.S. household has 90 TV channels.

As P&G's Jim Stengel told the AAAA audience in February 2004, "We must accept the fact that there is no 'mass' in 'mass media' anymore, and leverage more targeted approaches... And, we must better understand who we are reaching as media plans become more fragmented. I give us a 'D' here because our mentalities have not changed. Our work processes have not changed enough. Our measurement has not evolved."

As media choices have proliferated for consumers, so has the volume of advertising we are all exposed to every day. Estimates from various research companies of the number of commercial messages the average American is exposed to every day range from hundreds to more than 5,000, when you include not only ads in TV, radio magazines, newspapers, movie theaters, web sites and email messages but also omnipresent logos on billboards, bus stops, stadiums, key rings, t-shirts, baseball caps and beyond.

More media revenue now comes directly from consumers than from advertisers

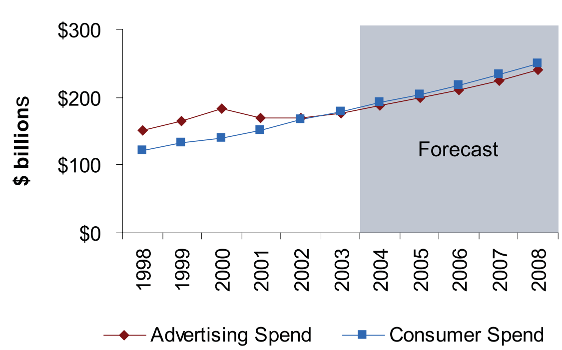

Figure 11 Source: "Veronis Suhler Stevenson Communications Industry Forecast Report," 2004

'I Want My iTV!'

It is no surprise, therefore, that consumers feel overwhelmed and are increasingly opting out of ads at many opportunities. What started as switching from one program to another during commercial breaks with the widespread adoption of the remote control in the 1980s has evolved into MP3 podcasting as a homegrown alternative to commercial radio, pop-up blockers swatting down online annoyances, and, most terrifying to Madison Avenue, TiVo and its rival DVRs radically changing TV viewing habits, including ad-skipping abilities.

In its *Communications Industry Forecast Report* in 2004, merchant bank Veronis Suhler Stevenson concluded that for the first time in history the larger share of media revenue came not from advertising sponsorship but directly from consumer spending, such as satellite and cable TV subscriptions, home DVD and videos and Internet access, as shown in **Figure 11 (**previous page).

By the end of 2004, millions of consumers were opting for new technologies that grant them tremendous control over their media experiences, including these:

- XM Radio: 2.5 million subscribers
- Netflix: 3 million
- DVR services: 6 million
- Video-on-Demand: 10 million
- Apple iPods: 11 million

It's possible that this trend has less to do with advertising avoidance and more to do with consumers' desire for greater control over what content they want and when. Either way, advertisers are increasingly taking notice, as well they should.

U.S. consumers steadily paying for more content online

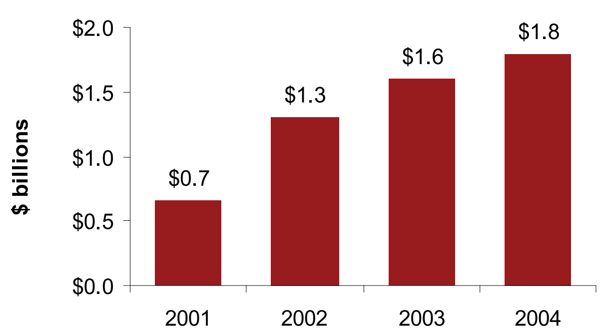

Figure 12 Source: Online Publishers Association and comScore Networks, "Paid Online Content U.S. Market Spending Report, FY 2004"

On the web, consumers are similarly demonstrating that if they want quality content enough, they are willing to pay for it. In the earliest days of Internet publishing, many sites tried charging for content only to abandon the effort in the face of initial consumer resistance (with the exception of a few specialty sites such as the Wall Street Journal and ConsumerReport.org that stuck with the paid model). Then, during the recession years earlier this decade, many sites gave subscriptions and one-off content sales another chance, with greater success.

In 2004, consumers spent nearly $2 billion on content, according to the Online Publishers Association (OPA), as shown in **Figure 12**. That is roughly a fifth as much as the IAB reports content companies are earning from online advertising. The most popular content that consumers are paying for are dating services, entertainment products (principally music) and business/investment content, according to the OPA.

It's a High-Speed World We Live In

Part of what is driving greater adoption of paid content—particularly music and video—is the steady adoption among home Internet users of high-speed connections. By December of 2004, 54% of wired U.S. homes were using broadband, a 31% increase from December 2003, according to Nielsen//NetRatings. With 67% of all U.S. homes online as of the same month, that works out to 38% of all U.S. household on broadband.

According to USC Annenberg School's *2004 Digital Future Report*, broadband users not only spent more time online at home (an average 10.4 hours per week versus 6.6 among telephone modem users), they also spent significantly more time online shopping, listening to music, playing games and accessing entertainment information.

Many big companies are betting that widespread broadband adoption will usher in a new era of the Internet as a major new entertainment medium, alongside its present primary uses for information, communication and shopping. Online video has certainly captured the imaginations of both content providers and advertisers and been a major source of buzz in 2004.

In 2004, both Yahoo! and Google launched video search engines, and all three major portals—Yahoo!, MSN and AOL—have embarked on aggressive video content strategies. Yahoo! recently appointed Lloyd Braun, formerly chairman of ABC TV, as head of the Yahoo! Media Group. MSN has an edge in the wide adoption of its Windows Media Player as a content channel, and AOL brings a nearly limitless library of new and classic content to the table through its parent Time Warner.

Weblog host Blogspot surpassed the unique monthly audience of NYTimes.com by the end of 2004

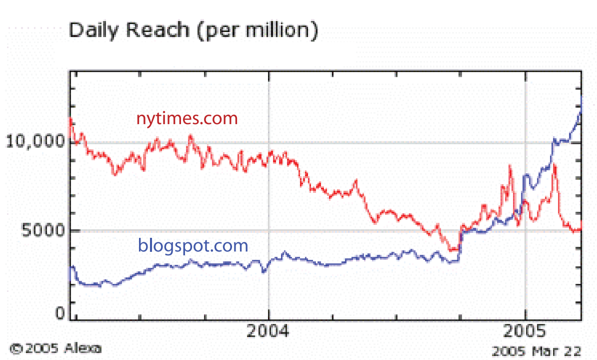

Figure 13 Source: Alexa Internet, 2005

The Revolution Will Be Blogged

No discussion of the changing media landscape in recent years could be complete, of course, without talking about blogs and other consumer-generated content, including social networks, audio podcasting, mobile-camera-phone "mo-bloging" and so on. The ultimate expression of consumers' desire to have more control over their content, blogs and related tools allow consumers to create their own content, without the help of traditional media.

The popularity of the phenomenon appears to be more than a mere fad, having gone from relative obscurity just a few years ago to a significant factor in the 2004 presidential election. According to the Pew Internet & American Life Project, 8% of all Internet users maintained a blog as of November 2004, while 38% said they were familiar with them, and 27% called themselves regular blog readers.

As shown in **Figure 13**, Blogspot, a popular blog hosting service and part of the Blogger.com publishing service, which Google acquired in early 2003, now receives a larger audience of unique users across its million-plus blogs collectively than does the NYTimes.com, according to Alexa. This finding is confirmed by comScore Networks, which reports that in February 2005, NYTimes.com had a unique U.S. audience of 5.7 million compared to Blogspot's 7.6 million.

And it is not just college kids who are taking blogs seriously. Gawker Media, Gothamist, Weblogs Inc. and others have set out to build professional blog publishing networks, and so far mainstream advertisers including Absolut, American Express, Audi, British Airways, Fox Searchlight Films, HP, Jose Cuervo, Nike, Sony, Palm, Paramount Pictures, Subaru, Suzuki, Volvo, W Hotels and Warner Bros. are among the advertisers running ads on these and other blogs.

The Long Tail of Potential Ad Inventory

This explosion of user-generated content is changing the web media landscape. While there have always been large numbers of sites online, traditionally the largest have dominated in terms of audience and advertising dollars. That remains true today, but there are indications that the balance may be shifting with the fast-growing popularity of blogs, social networks and similar below-the-radar content.

According to comScore analysis prepared for DoubleClick, Yahoo! alone generated 12% of all page views among the top 16,000 domains in the U.S. market in February 2005. Together, the top 100 domains generated 58% of the total page views in the market. The bottom 15,500 sites collectively generated 25% of those page views (**Figure 14**).

That last group may or may not sound like a lot. Consider, however, that Google is one of the largest players in the online ad world. It does so in part by accessing those many smaller sites, connecting more than 150,000 mostly small advertisers (though many large ones too) with hundreds of thousands of small sites and blogs through its contextually targeted AdSense program (in addition to its AdWords search-targeted program).

There are, in any event, many more than the 16,000 domains online comScore included in its analysis above. Alexa, for example, tracks more than 2 million different domains. So the "long tail" of page views generated by smaller sites may be very long indeed. The significance of this for advertisers is it represents a possible ad inventory opportunity particularly as inventory tightens among top sites.

Page view inventory: Few sites dominate, followed by a 'long tail' of many thousands

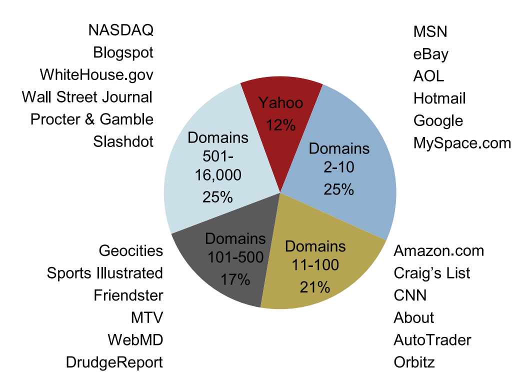

Figure 14 Source: comScore Networks, based on 16,000 top domains ranked by their page views for February 2005

Antidote to Ad Overload: Invertising?

The Latin root of "advertise"—*advertere* —literally means "to turn towards," the same root word as "adverse" and

"Your challenge is to stop being annoying. You're almost forcing regulators to get involved."

-Edmond Thomas, Chief of Technology, Federal Communications Commission

"adversary." This sense of confrontation at the essence of advertising may be what undergoes the most radical change in the next decade of marketing sponsorship.

Contrary to popular wisdom, consumers do not hate advertising per se. Clearly, catalog merchants continue to sell briskly through direct mail; search advertising is booming because people do click ads usefully targeted to their queries, and everyone can hum a dozen or two favorite TV jingles. However much people may tell us they "never look at the ads," there are ample data from media research reports and cash register receipts that demonstrate otherwise. Ultimately, customers need to make purchase decisions, and they seek out information to inform those decisions, even if that information comes from the merchants and manufacturers themselves. Sometimes, you actually *do* want to speak to the salesperson.

Yet, in this world of hyper-fragmented media and too many marketing messages, consumers are acting to avoid the overload, paying for the unadulterated media they want and investing in technology to strip out unwanted ads, if necessary.

Advertisers have to accept that fact not only to be more polite; it's increasingly a legal requirement. In the past few years, the U.S. Congress, responding to voter outcry, has passed a bevy of policies restricting intrusive marketing practices including telemarketing, fax marketing, email spam and, as of this writing, web "spyware" legislation is making its way through the House and Senate.

Edmond Thomas, chief of technology at the Federal Communications Commission, bluntly warned attendees to an AAAA breakfast this March: "Your challenge is to stop being annoying. You're almost forcing regulators to get involved."

P&G's Stengel was a bit less harsh in telling the same body more or less the same thing last year: "All marketing should be permission marketing. All marketing should be so appealing that consumers want us in their lives. We should strive to be invited into consumers' lives and homes."

There are many signs that advertisers are starting to get the message, and once again the Internet marketing community is leading the way. Stengel's phrase "permission marketing" is now almost synonymous with best practices in opt-in email marketing, which stands in stark contrast to spam. DoubleClick's *2004 Q4 Quarterly Email Trend Report* shows that click rates for permission email have held more or less constant for three years, while 2004 witnessed conversion and delivery rates for email steadily rise to all-time highs. That is testimony to the enduring health of the channel when practiced responsibly in accord with consumers' wishes.

In the world of web advertising, there are signs of improvement as well. One important development is the rapid adoption of the new larger IAB-recommended standard ad units at the expense of smaller buttons and banners. The result is an overall reduction of ad clutter on publishers' pages, as noted at the beginning of this paper in **Figure 3**.

Figure 15 shows how some of the smaller units such as the 468x60 "full banner," the half banner and various smaller bars and buttons have lost share while the larger banner "leader board," the wide skyscraper and medium and large rectangles have steadily grown in popularity over the past two years. The result is fewer demands for consumers' attention on each page, leading in turn to higher brand impact for marketers and higher per-unit ad prices publishers can charge; the proverbial win-win-win.

"Permission marketing" may not be the best phrase to describe the new era of marketing that is already beginning to take shape. "Service marketing" may be closer to the idea:

Ad clutter is on the retreat online, as earlier smaller units are phased out in favor of fewer larger IAB standard units per page

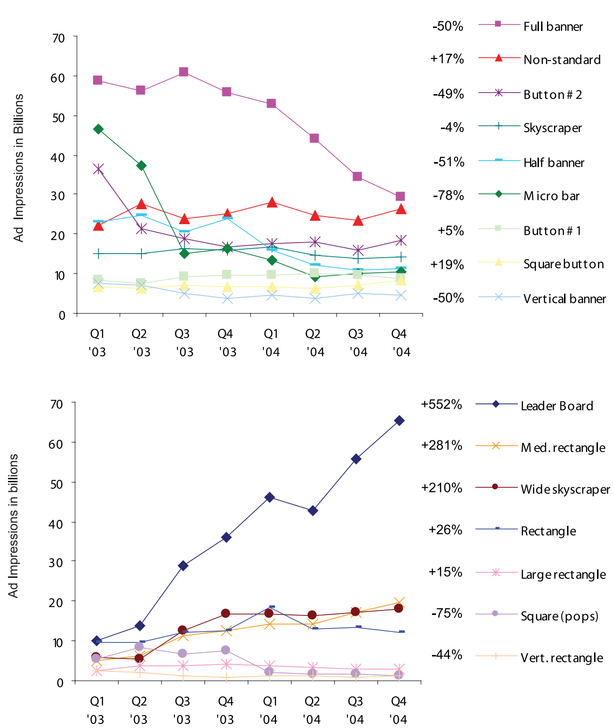

Figure 15 Source: Nielsen//NetRatings AdRelevance, 2005

- helping people make purchase decisions when they are seeking advice, such as with search engine marketing;
- providing regular product and category information when they request it, as in the case of opt-in email programs;
- explicitly underwriting the cost of premium content they would otherwise have to pay for, as in the case of ad sponsorships;
- offering ad vehicles that passively await the user to engage interactive, information-rich content without requiring a click-through to another site, as in the case of some rich media formats;
- delighting with ads featuring content so entertaining—funny, inspiring, intriguing, challenging, beguiling—such as advermovies, advergames and other forms of advertainment, so that consumers download the ads or copy their URLs in order to enjoy them over and over and forward them to their friends.

Let's call it "invertising"—various forms of marketing that consumers invite into their lives.

Looking Forward: Advertising's Finest Era

In conclusion, DoubleClick believes that the net result of all of the trends discussed in this paper portend great things for the advertising industry in the coming years, both in traditional media and especially online. The rapid growth of online ads may not continue for long at the 32% year-over-year pace witnessed in 2004, but strong growth is likely to continue for several years to come.

Advertisers still lag consumers in their adoption of digital media. As broadband reaches more American homes, as entertainment companies develop more digital content, and as televisions, mobile phones and other devices further blur the distinction between "online" and "offline," all advertisers will be forced to adapt faster to the new media environment or struggle to stay relevant.

With competition for online ad inventory fast increasing and prices already rising, marketers will have to take a closer look at the ample collection of maturing metrics for the online media environment —brand lift, view-through conversions, offline sales impact, mega-panel behavioral tracking, cross-media mix modeling, detailed rich media interactions, keyword search usage, and more. As Internet media continue to lead the way for the future of marketing accountability, traditional media will have to respond with better metrics for audience composition and marketing performance in their own channels.

At the same time, in order to better engage consumers in an advertising- and media-saturated world, where individuals have more choices and greater control over message delivery than ever, corporations and their agencies will simply have to strive to make better advertisements than ever. The new face of advertising is almost certain to be more entertaining, more informative, more timely, more relevant, more authentic and more in tune with customers.

Premium media brands are likely to attempt to further reduce ad clutter to avoid the risk of turning off their audiences. Publishers that depict the sponsorship value of advertising more transparently to consumers and at the same time reduce interruption-overload will benefit from more loyal audiences and higher ad prices.

Finally, for ad agencies, more creative ad programs and more attention paid to ad effectiveness means higher margins and less likelihood of formulaic ad models being farmed out to the lowest-cost production houses.

DoubleClick looks forward to the opportunity to look back in our next *Decade in Online Advertising Report* at the 20-year anniversary of the ad banner to see whether these predictions pan out. Meanwhile, keep on clicking!

Data Footnotes

1:
IAB/PWC "Internet Advertising Revenue Report" estimates include search advertising, display ads, classifieds, sponsorships, rich media and more (as shown in Figure 9). For further details, see http://iab.net/resources/ad_revenue.asp. Estimates for the ad market sizes for outdoor, magazines and radio come respectively from the Outdoor Advertising Association of America, the Magazine Publishers of America and the Radio Advertising Bureau. Estimates for the growth rates of TV advertising and the advertising industry in general come from Universal McCann. The current-dollar GDP of the U.S. economy comes from the Bureau of Economic Analysis, U.S. Department of Commerce. ("Current-dollar GDP" refers to the gross domestic product without adjustment for inflation, which makes it more comparable to the industry growth numbers discussed here, which are likewise not adjusted for inflation.) For Figure 2, the shaded area shows Internet ad revenue on a quarterly basis as reported by IAB/PWC. The trend line shows the growth of Internet use among U.S. residents age 18+ as reported by Harris Interactive and provided by eMarketer. The events in Internet history are compiled principally from official company sources, credible news sources, personal websites (e.g., in the case of Mahir), and the U.S. Census with regard to 50% of U.S. households being online by 2001. Archer Advisors contributed to the concept of this chart.

2:
For Figure 4, and report's discussion of those data, Unique Visitor Growth and Page View Growth numbers come from Nielsen//NetRatings NetView, while Ad Impression Growth and Advertiser Growth comes from Nielsen//NetRatings AdRelevance. AdRelevance examines only online display advertising, not search advertising, classifieds or other types of online ad media. It is based on traffic to 1,200 U.S.-based sites and is extrapolated based on Nielsen//NetRatings NetView panel, which comprises only U.S. based audience. Therefore, the trends discussed in this section should be understood to represent only online display advertising on the larger U.S. based sites and U.S. audiences. Growth patterns for smaller sites, non-U.S. sites, non-U.S. audiences visiting U.S. sites and ad formats other than display ads may behave differently that what is described in this section. The top 20 sites ranked by volume of ad impressions (as of Q4 2004) referred to in this section are, in order of ad impression volume, Yahoo!, MSN, iWon, CNN, eBay, ESPN.com, Excite, AOL.com, Juno, The Weather Channel, New York Times, NetZero, Netscape, MSNBC, EarthLink, Classmates, AT&T Worldnet, CBS MarketWatch, Realtor.com and FoxNews.com.

3:
Statistic that in 1965, advertisers could reach 80% of Americans aged 18-49 by running TV commercials on the Big Three networks from an article "The New Pitch: Do ads still work?" by Ken Auletta, published in the March 28, 2005 issue of *The New Yorker* magazine. The other TV share numbers in this section come from P&G Global Marketing Officer Jim Stengel's speech titled "The Future of Marketing" given February 12, 2004 to the American Association of Advertising Agencies. The full text of that speech is available at http://www.pg.com/content/pdf/04_news/stengel_feb_12_2004.pdf

About DoubleClick

DoubleClick (NASDAQ: DCLK) is the leading provider of solutions for advertising agencies, marketers and web publishers to plan, execute and analyze their marketing programs. DoubleClick's marketing solutions—online advertising, search engine marketing, affiliate marketing, email marketing, database marketing, data management and marketing resource management—help clients yield the highest return on their marketing dollar. In addition, the company's marketing analytics tools help clients measure performance within and across channels. DoubleClick Inc. has global headquarters in New York City and maintains 22 offices around the world.

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