

Digital Europe

Tracking the growth of online marketing spend

Digital Insight Report

February 2006

Online advertising is changing the face of marketing across Europe. Since 2000 the web has become established as a mainstream consumer media channel, and across the continent marketing budgets have now followed audiences. This edition of the Digital Europe tracking study provides a snapshot of where the industry is today and directs you to national IABs for more information.

Online advertising is changing the face of marketing across Europe. Since 2000 the web has become established as a mainstream consumer media channel, and across the continent marketing budgets have now followed audiences. This sixth edition of the Digital Europe tracking study collates fresh research - provided by national IAB teams across Europe - to give a snapshot of where the industry is today. Contact national IABs for more information.

Our thanks to national IABs, and a note about comparability of data

We would like to thank all the IAB teams who shared information and insights about their markets.

Because many of the national data sets are collected using different methodologies and approaches, attention should be paid when comparing the data provided by different countries. Inconsistencies between the definitions of net or gross advertising spend, or what is counted within the remit of 'interactive', prevent the accurate collation of these numbers into a single pan-European figure.

The figures presented here should be taken as indicative. Contact the national IAB for more information, and use the IAB's European portal – IABEurope.ws – for a listing of all IABs. Several countries may be in the process of setting up IAB associations, and from time to time their organizing teams have been able to provide market estimates.

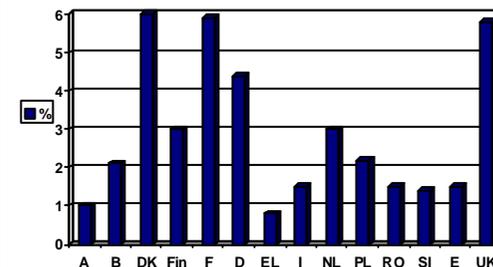
Tracking the growth in online advertising

The big switch to bringing online advertising into the mainstream media mix continues across Europe. This new research - which includes collated forecasts from IABs across Europe - reveals European online advertising spend comfortably broke €4bn in 2005 for the first time (a total of €4023m for the markets surveyed).

In some markets more than 5% of the country's spend on advertising already goes into online, and the proportions continue to grow as more and more firms discover the power of web advertising as both a branding and direct marketing medium. With audiences across the continent spending 15% of their 'media time' online, it's no wonder that marketers are turning their attention to the web. But this is about more than having a successful website. Online marketing can support every aspect of a customer's journey – from the early stages of raising awareness of a brand, through the sale itself, and into the after sales service.

Search engine listings have become the new customer acquisition tool, but alongside them dozens of other online advertising formats are also driving the growth. A new generation of web banners are using sophisticated 'behavioural targeting' techniques to learn about the viewer's interest and provide tailored messaging, television-style commercials can now easily be rebroadcast online, the creative power of the 'rich media' formats are taking commercial messages across the whole web page, affiliate marketing is extending the reach of online retailers and giving customers more choice – there are formats and models online that will satisfy any marketing objective.

But that doesn't mean every advertiser has discovered them. Like any marketing innovation, there are some firms who lead, and some who follow. Online may be enjoying a share of between 2% and 5% of advertising spend in most European countries, but this hides a more interesting insight: most firms are yet to start advertising online at all. So the figures in this insight report represent a simple average of an entire country. Dig deeper and you'll find companies who have become experienced in online advertising putting 20% or more of their budgets into the web, while others in the same business sector may be yet to even start.



Market share

The market share of online vs other media is the most revealing way of seeing how the use of digital has advanced. Across Europe share is rising, and the rate varies from just under 1% to 6% in the more mature markets.

Austria

Audience

65% of the population is online (4.4m users)

Online advertising spend

€17.6m for January to August 2005

20-30% annual increase since 2003

Data supplied Autumn 2005

Belgium

Audience

52% of population online

80% of household connections are broadband

15% of users shop online

Online advertising spend

€32 m for 2004

€44 m predicted spend for 2005

2.1% share of all advertising media spend

2004 data, supplied December 2005 (Source – CIM)

Denmark

Audience

78% of 5.5m population

Online advertising spend

€81m for 2005

€52m is display and search

€29m is job listings for 2005

Almost 6% share of all advertising media spend

Data supplied March 2006

Finland

Audience

60% of adult population (3.1m users)

90% of all connections and 66% of home connections are broadband

45% of users shop online

Online advertising spend

€36.1m for 2005 (net figure, inc classifieds, but not search or directories)

42.1% increase 2004-2005

3% share of all media spend

Data supplied January 2006, Source – TNS Gallup Oy

France

Audience

44% of population online (21.6m users)

75% of connections are broadband

59% of users shop online

Online advertising spend

€1.1bn 2005

74% increase on same period 2004

5.9% of all advertising media spend

Online advertising spend is at ratecard value rather than cash transacted. Data supplied December 2005, source - TNS Media Intelligence - Mediametrie/NetRatings – Ipsos

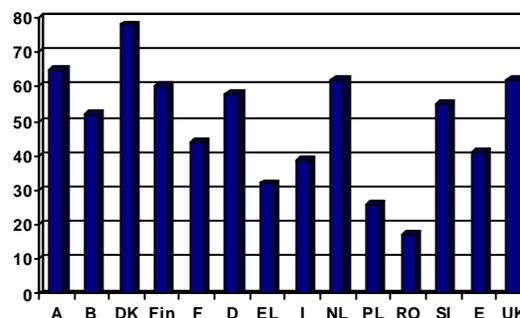
'Among IAB France's great achievements in 2005, the NetImpact 3 study has showed the direct impact of online advertising when it comes to sell goods in retail stores and supermarket. This brand new measure paves the way to new commercial media potentiality and confirms the power of online advertising. We're also proud to announce a great 2005 first semester report in online ad spend, with a 70% growth compared to the same period in 2004'

Bruce Hoang, IAB France

Germany

Audience

58% of population online



Online audience
As the price of broadband connections comes down, the proportion of each national population that has online access has risen rapidly, creating a massive shift in media focus and consumer media consumption throughout Europe.

60% of connections are broadband
58% of users shop online
55% of users bank online
14% of media time is spent online

Online advertising spend

€885m for 2005
60% increase on 2004
4.4% of all advertising media spend

Data supplied February 2006, source - Nielsen & OVKMarkt

Greece

Audience

32% of population is online (2.2m users)
5% of connections are broadband

Online advertising spend

€15m for 2005
25% increase on same period 2003
0.8% of all advertising media spend

Data supplied January 2006

'2005 was a difficult year for advertising as a whole in Greece, spending being influenced by post-Olympic corporate melancholy and government austerity measures. Still, even under these adverse conditions, online advertising continued its progress, both in terms of total revenues and media market share. Indeed, record advertiser attendance at IAB Greece's seminars means that, with continued hard work from our industry, online in Greece is set for strong yet sustainable growth over the coming years'

Constantine Kamaras, Vice Chairman, IAB Greece

Italy

Audience

39% of population is online (19m users)
42% of connections are broadband
16% of users shop online

Online advertising spend

€138m for 2005
18% increase on same period 2004
1.5% of all advertising media spend

Data supplied February 2006, Source Audiweb for online audience
Nielsen Media Research/IAB Italy Assointernet for Adspending

'2005 was a great year for online in Italy. Two very interesting things happened. It was a celebration of the first year in which online advertising has been really well understood by clients. The massive conference in Milan for 1500 delegates gave a unique focus in a market which is growing 15% year on year. Online advertising spend topped €138m in 2005, however this excludes search engine advertising, which remains difficult to calculate. Inside the IAB we have made some estimates of what we think this is worth and it looks set to be around €80m, making the Italian market worth more than €215m.'

Layla Pavone, President, IAB Italy

Netherlands

Audience

62% of population online (10m users)

Online advertising spend

€67.7m total online adspend, Jan-Sept 05
49% increase on Q3 2004-05
46% on Search
3% share of all advertising media spend

Data supplied January 2006, Source Nielsen Media Research

Poland

US market continues strong growth

By November 2005, the US IAB was predicting their total market size would top \$12bn for the year. This followed news of a \$3.1bn third quarter, and suggests that the increase on 2004 will be around 25% (up from \$9.6bn). Although the US online advertising market began at around the same time as the European market, growth has generally been faster, and it is providing an outlet for national campaigns in a country that does not have the same pattern of national press dominance we are familiar with in Europe.

Part of the growth is also due to the economies of scale, which allowed many of the digital media properties to develop audience volumes comparable to traditional media brands much earlier on. Those economies have now been absorbed throughout the supply chain, with agencies and clients orientating to large scale national online campaigns.

In contrast Europe's experience reflects a patchwork of national markets, each at their own stage in the adoption of digital marketing. In some countries the market share is comparable to the US, but many countries are still to cross the tipping point in the expansion of their digital marketing industries.

Audience

40% of population is online (9m users)

Online advertising spend

€13.2m for January to June 2005 (€20m 2004)

60% increase on 2003

2% of all advertising media spend

Data supplied Autumn 2005

Romania

Audience

17% of population online (4m internet users)

Online advertising spend

€2m for 2004

1-2% share of all media spend

Total advertising market \$0.5bn US

Forecasts: 2006 online ad spend probably around €10m Data supplied Autumn 2005

Slovenia

Audience

55% of 1.6m population online, of which 40% are on broadband

Online advertising spend

€4.06m online advertising spend, making 1.4% of all advertising spend

Search accounts for 30% of all advertising spend

Year on year increase 40%

60% of online advertising spend goes through agencies

Data supplied December 2005

Spain

Audience

41% of adult population is online (15.1m users)

25% of connections are broadband

9% of users shop online

20% of media time is spent online

Online advertising spend

€150m for 2005 (estimate)

50% increase in first half figures between 2004 and 2005

1.5% share of all media spend

31% of advertising spend is placed with search engines

Data supplied January 2006

'Search is the driving motor in our market – it accounts for 31.5% of Spain's online advertising. The proportion of online advertising spent on it has increased 195% in the last year and we saw actual investment in search triple during this period. The other key to the increased investment is the growing role of the traditional advertisers; they represent 55% of total ad spend, an increase of 61% on last year's figures.'

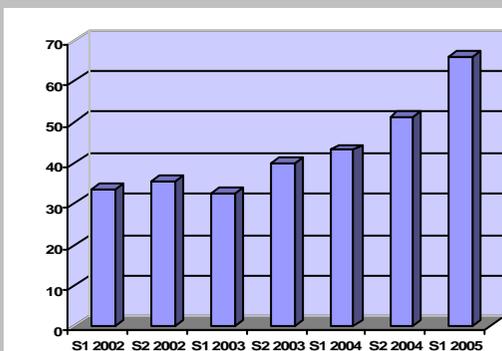
Antonio Traugott, Director General, IAB Spain

Europe's broadband growth fuels adspend

The faster access speeds provided through broadband connections are recognized as a key driver in the growth of online advertising. The 'always-on' potential changes the internet experience for good. Broadband viewers read more pages, spend more time online, are more likely to shop and generally use the web more widely in their lives.

'Europe is seeing higher rates of growth in the take up of broadband than the USA, Canada and Japan. By July 2005 there were 48.4m broadband users in the European Union, and this is only the beginning. Recent research revealed a 60% growth in the number of broadband subscribers between July 2004 and July 2005 within the EU.'

Information Society Benchmarking report, available from IAB Europe's Knowledge Bank



Strong Spanish growth

Fuelled by the rapid expansion of search engine advertising, these half-yearly spend figures from the Spanish market reveal consistent strong growth. Marketers in Spain who control the budgets of traditional advertising channels have warmed to the power of the internet and consistently expanded their investment.

United Kingdom

Audience

62% of the population is online (29.3m users)
71% of home connections are broadband
18m shop online

Online advertising spend

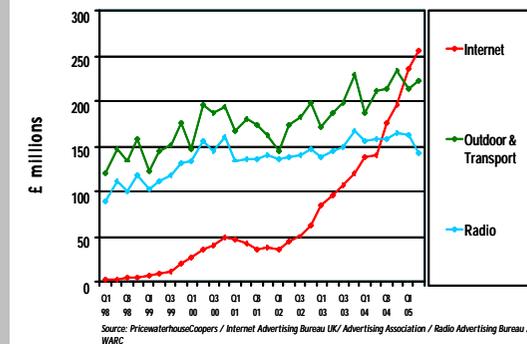
€723m (£490.8m) in January to June 2005
62.3% increase from same period in 2004
5.8% of all media spend
40% of advertising spend is placed with search engines

Data supplied December 2005, sources NOP & PriceWaterhouseCoopers

Analysis

'The 2005 results surpassed our expectations. At the end of 2004 the IAB predicted online would overtake outdoor by mid 2006 and research from the first half year confirms we've beaten this target. Now the internet looks certain to be a £1 billion medium in 2005. Broadband is experiencing record take up this year, which has fuelled internet consumption, and in turn attracted a greater share of advertisers' spend. Marketers are recognising the internet's full potential and are actively diverting budgets into online advertising.'

Guy Phillipson, Chief Executive, IAB UK



UK: outdoor overtaken

Rising more than 60% year-on-year, the UK remains the largest market in Europe, with 2005 highly likely to break the £1bn threshold. Online media spend has overtaken cinema, radio and now outdoor advertising at a time when the rest of the industry is relatively static. By summer 2005 it was five times larger than at the height of the dotcom boom, accounting for 5.8% of all ad spend.

Viewpoints

'Search marketing is changing the advertising world because it offers a "pull" communication and because its price is based on performance. Search is everywhere: not only does a "search" feature appear in every online application, but it is already available on every software and digital device. This means that search marketing has become a highly strategic part of online advertising and of communication in general.'

Ad Maiores - Mario Lupi, President.

'It's no longer a question of whether to invest; it's now a matter of how much. Marketers have realised there is no escaping the enormous impact that Digital is having. The key now is to work out how to fit this new opportunity into the rest of the marketing mix.'

AKQA - Michael de Kare-Silver, Managing Director, Europe.

'The world of media is changing and agencies across Europe need to be braver in crafting a new mix of media that really explores the rich variety of digital tools available and the vast European audiences you can reach with them'

Isobar Communications - Nigel Morris, President Worldwide.

'We have clearly entered and in many cases passed the tipping point when it comes to interactive. As a result our clients have recognized that "new media" agencies need to be firmly seated at the top marketing table to ensure budgets and initiatives are seriously considering and using online within the overall marketing mix'

Modem Media - Norm Johnston, Managing Director, Europe.

'The growth across local European markets has been incredible. Amazingly however, there are still some pan European advertisers who are only just waking up to the power of online in engaging with their consumers which means that the market will only continue to grow.'

Profero - Daniele Fiandaca, COO.

'We expect in 2006 to see search becoming much more integrated with other advertising media, not only across the online platform, but also with offline campaigns. Clients are beginning to see the benefits of incorporating search into campaign planning instead of treating it as a stand-alone medium'

The Search Works - Nick Hynes, CEO.

'Across Europe brands are discovering the creative potential of web advertising. The interactive technologies and the video formats give creative directors the chance to build communications with a brand impact that beats television or cinema. 2006 is the year of online advertising creative for IABs. It's time to celebrate what the industry can deliver!'

Weboptimiser - David White, CEO.

'2005 saw search marketing go from strength to strength and 2006 promises to follow the trend. It will be a great year for new products in Europe - we'll see advances in Local and Mobile Search in particular and a continued focus on maximising relevancy through enhanced matching technologies.'

Yahoo! Search and Yahoo! Search Marketing - Stephen Taylor, RVP and MD, Europe.

Summary

Strong growth; a patchwork of markets

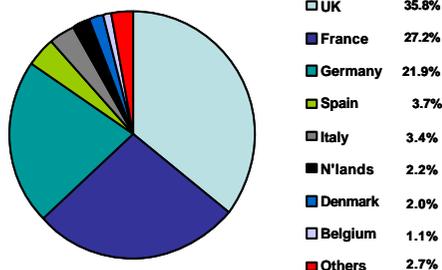
Europe's markets are all growing rapidly, and are generally following along a similar path in the widespread adoption of interactive advertising by marketers. Each country is at a different stage in that journey. However, each market also has its own unique experience of how online is being incorporated into the media mix, and which client sectors are championing its use.

A €4bn market? Probably more

The research collated here suggests Europe's marketers spent around €4bn in online advertising during 2005. It's worth remembering that data were not available for a few countries, and that many of the 2005 predictions are simple cautious doublings of the first half year reported figures. This means Digital Europe should only be used to give a general picture of the landscape. On balance the total market size is likely to be significantly greater than €4bn

Data comparisons

The methodologies used to collect the data vary significantly between countries; some report net rather than gross, some exclude certain ad formats. The continued rapid growth in search marketing (doubling annually in several countries) presents a particular challenge as figures are often not available. With search accounting for 40% of total spend in many countries, understatements of revenue within this format could significantly understand total market size.



Source: Various national market estimates for 2005, presented as a share of total spending online advertising across Europe

Europe's online advertising pie

By extrapolating the available figures to create a conservative estimate of each market's full year spend for 2005, it's clear that the three top tier markets continue to dominate.

The UK remains the largest market, but with the French market data based on ratecard, direct national comparisons are difficult.

Actions

If you control an advertising budget, reflect on how your business uses online, and the role it plays in your media mix. While some countries may be reporting 5% of all media spend going into online, this is simply a crude average across the whole economy. In every European country, most firms are yet to start using online, yet those experienced in digital may already be investing 20% or more of their marketing.

Ask your national IAB for case studies and more details on the advertising spend and online audience data collated in this edition of Digital Europe. More detailed reports are available from many IABs.

To supply data for the next edition of Digital Europe, contact IAB Europe

To receive regular news and information about a specific European market, join the appropriate national IAB.

To receive regular news and information about developments in pan-European online advertising, contact IAB Europe directly.

Additional reports and market analysis presentations are available in many countries from national IABs.

Resources & Links

IABEurope.ws – for access to the network of European IABs

IAB Europe's 'Informer' newswire service

National IABs across Europe

IAB Europe's taskforce for interactive advertising expenditure research

DigitalStrategyConsulting.com for further insight reports about marketing and commerce in the digital networked economy

About the Interactive Advertising Bureau Europe (IAB Europe)

IAB Europe is a federation of national IAB associations and think-tanks set up from 1997 onwards to help marketers get the most from the new digital channels.

IAB Europe develops the industry's standards as part of a worldwide IAB programme to give online media strong foundations. It coordinates research with some of the world's leading analysts and support national IAB's in Europe, the Middle East and Africa with marketing and educational materials. It forms the primary liaison channel with European government, lobbying to defend the freedom to advertise and market online, and its network of task forces and think-tanks tackle the critical issues that are holding the industry back from even faster growth, shaping policy and best-practice across the continent.

Supported by all the leading media groups, agencies, portals, technologists and service providers, the IAB's European network embraces more than two thousand companies. There are sister IAB organizations in North and South America, Asia and the Far East, collectively providing a global network of dialogue in the world's first global media channel. The IAB's core mission is to help firms discover the potential online marketing has to enhance their business. Advertisers who would like to know more should ask us about their in-company roadshows or conferences. Log on to www.IABEurope.ws to find your national IAB.

About the Digital Insight Report series

In times of huge economic and technical change, knowledge becomes a critical success factor. We created the Digital Insight Reports to bring you insights from a particular part of this fast changing industry. They are independent perspectives on key issues in doing business or marketing in the digital networked economy, and are published monthly. We also publish similar Digital Thought Leadership interviews and Digital Book Club reviews to share the ideas and thinking of some of the people and companies shaping the digital networked world. These often accompany our own talks and training workshops because knowledge and training can unlock the potential of your team.



Digital Strategy Consulting Limited
Tel +44 (0)20 7244 9661
Fax +44 (0)20 7168 2659
Email TheTeam@DigitalStrategyConsulting.com
Company 4342606
The Digital Hub, 34 Kenway Road, Kensington, London SW5 0RR, UK

Copyright, marks and small print

Copyright 2006 Digital Strategy Consulting Limited. All rights and marks are our property. IAB Europe and National IABs that are part of the IAB Europe network have a licence to distribute this report to their members. While every effort has been made to ensure the accuracy of this paper, we offer no guarantee or warranty on the information contained herein. Nothing in this document forms any part of a contract and our approach to research, consultancy and training is subject to change without notice. For a full schedule of terms and conditions for working with us contact our team.