

Digital Europe **Tracking the growth of online marketing spend**

Digital Insight Report

July 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 – although the pace and scale varies greatly between countries. This seventh edition of the Digital Europe tracking study collates fresh research to give a snapshot of where the industry is today.

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 – although the pace and scale varies greatly between countries. This seventh 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 and their research partners across Europe who shared information and insights about their markets, plus those agencies, clients and media owners who took part in the qualitative interviews with Digital's team. The methodologies used to collect the data vary significantly between countries. Some report net income to the media owner rather than gross and some exclude certain ad formats.

The continued rapid growth in search marketing (doubling annually in many countries) presents a particular challenge as accurate figures are often not available. With search accounting for 40% of total spend in many countries, understatement of revenue for this format could significantly understate the total market size. Because many of the national data sets are collected using different approaches, attention should be paid when comparing the data provided by different countries. These inconsistencies prevent the accurate collation of these numbers into a secure pan-European figure and 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 organising teams have been able to provide market estimates.

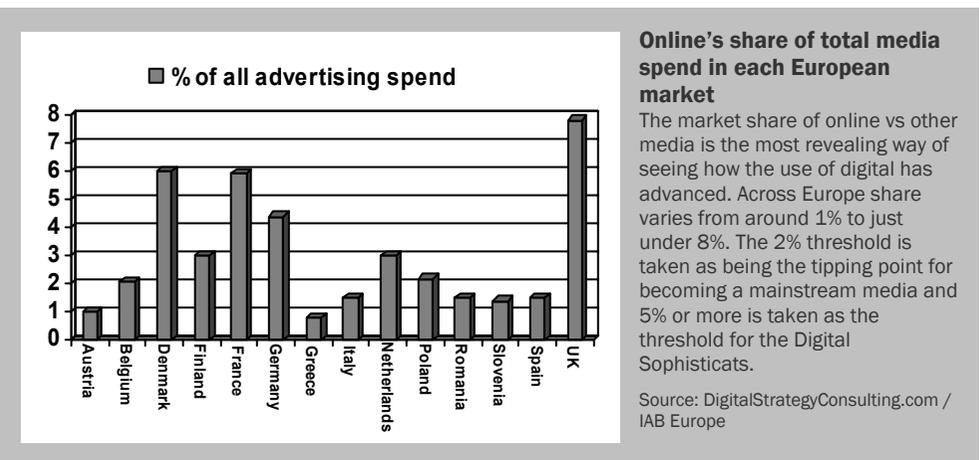
Boom, bust and back again

The European online media markets restructured quickly after the dotcom collapse of 2001. The resurgence that followed has been fast and steep, and touched every country. Ten years of gradual increase in the role the web plays in people's lives has now started to be quantified. The radical change in the daily media consumption of people across the continent has seen online account for a quarter of the time most people spend with media. Among some younger demographics online has even overtaken television to become the lead media they choose, and the advertising markets are now responding, moving at a quicker pace than ever before to catch up with where their audiences have shifted to. The scale of this restructuring in media presents structural barriers for many firms to harness, but the trajectory of change is clear.

Total market size

European online advertising spend comfortably broke €4.5bn in 2005 for the first time, yielding a total of €4572m for the markets surveyed. Data was collated from the 14 national IAB trade associations and their partner research houses, and although the methodologies and data sets vary significantly, consistent patterns still emerge. Because data sets were not available in several countries – including Sweden, Norway, most of the Balkans and the Baltic States – this represents a minimum market size.

The in-depth interviews that accompanied collection revealed a cascade effect is clearly underway as key opinion formers in each country's marketing community discover the potential of these new tools and deeply embrace online. As an innovation online marketing is poorly distributed, and it is not unusual to see two firms within the same sector behave



Online's share of total media spend in each European market

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 varies from around 1% to just under 8%. The 2% threshold is taken as being the tipping point for becoming a mainstream media and 5% or more is taken as the threshold for the Digital Sophisticats.

Source: DigitalStrategyConsulting.com / IAB Europe

radically differently. One may be putting more than 25% of its advertising budgets into online, while another may be yet to move beyond tokenism. When the change in behaviour comes, initially it is concentrated within just a few firms, and its spread to the entire market leads to significant disparities along the way between the use of online in different marketing sectors as well as different firms.

Market share: the key metric to watch

Examining the market share online enjoys of the total media spend in each country is one of the most effective ways of gauging how digitally sophisticated an advertising economy is. In 2005 online advertising took more than 5% of all advertising spend in three European markets and more than 8% in one. Many more countries are closing on the 5% threshold this year and that equates to online media spend moving ahead of other channels such as radio. We consider the 2% threshold to be a convenient delineator for when online is considered a 'mainstream' media channel, and eight European markets have already passed this tipping point: Belgium, Denmark, Finland, France, Germany, the Netherlands, Poland and the UK

This research only presents officially recognised data from each market, and with search engine advertising proving difficult to track in most countries, these figures probably understate the real market size. Only in the UK has an official declaration of revenues by leading search engines removed any ambiguity in the data, and this probably contributes a little to the disproportionately large share of online adspend that the UK accounts for (42% of all European spend). Were search to be fully factored in then Italy too would be reaching the 2% threshold.

With online advertising figures among the most accurate data sets in the digital networked economy, these figures can be used to understand much wider trends in the digital marketing industry. It may appear as a crude indicator, but the well documented growth of online advertising acts as an excellent barometer for the wider digital marketing industry, from the switch to customer acquisition through search engine optimization through to the migration of retention marketing into email. As a founder of the UK's Internet Advertising Bureau in 1997, I helped put in place the audit of online adspend that continues to provide the official data today, and this historic data set unveils rich insights that can be applied to other market's developments. However, for a marketing channel that prides itself on accountability, ironically there remains structural weaknesses in most other data sets, so the figures for online advertising spend hold implications way beyond the search keywords, banners, rich media, classifieds and tenancies that they aim to count.

Country	Total online adspend 2005 (€ million)	Market share (%)	Increase 2005 on 2004
Austria •	€35m	---	20%
Belgium*	€41m	2.1%	38%
Denmark	€81m	6.0%	---
France	€1,100m	5.5%	74%
Finland	€36m	3.0%	---
Germany	€885m	4.4%	60%
Greece	€15	0.8%	25%
Italy	€138m	1.5%	16%
Netherlands •	€90m	3.0%	49%
Poland •	€26m	2.0%	60%
Romania*	€2m	1.5%	---
Slovenia	€4m	1.4%	40%
Spain*	€150m	1.5%	50%
UK	€1940m	7.8%	63%

• Annual market value based on actual figures for part of the year

* Market value based on estimates from industry body

Please note:

- The estimate of the Austrian market is based on actual figures for H1 2005
- The value of the Finnish market does not include spend on search or directories
- The value of the French market is based on ratecard value
- The value of the German market is does not include spend on classified advertising
- The value of the Italian market does not include spend on search
- The estimate of the market in the Netherlands is based on actual figures for Q1, 2 and 3 2005
- The estimate of the Polish market is based on actual figures for H1 2005
- The estimate of the Romanian market is based on for 2004
- The exchange rate used to calculate the value of the UK market in Euros was £1: €1.42

The three Digital Giants and the Digital Sophisticats

Europe's 'digital giants' – UK, France and Germany – continue to account for more than 85% of all online adspend in Europe, but the share of spend online takes within Scandinavia

reflects that countries such as Denmark are also among the leaders in terms of how digitally sophisticated their marketing industry is. The UK is uniquely a Digital Sophisticat and a Digital Giant, and that's why the market proves such an exciting laboratory for other countries to learn from. When data for the rest of Scandinavia is available more Digital Sophisticats will be discovered.

The UK continues to lead the pack, both in terms of total online spend as well as market share which crossed 8% in the summer to yield an average of 8.4% of all media spend across the second half of 2005. All this following twelve consecutive record-setting quarters.

However, the latest figures we've collated also reveal the stark contrasts between the more advanced networked economies of North West Europe and those of the Mediterranean, or the emerging faster growth markets of Central & Eastern Europe (CEE). The CEE markets are growing at relatively fast rates, and among the former Soviet Bloc countries the legacy of fewer traditional media channels, combined with an advertising industry that is both young in age and in tenure, is providing the conditions for a leapfrog effect in the use of marketing channels. With a less entrenched traditional media legacy the conversion to online will be faster.

The creative power of the engaging 'rich media' formats that take commercial messages across the whole web page has given creative directors a new freedom

Drivers of growth

Several markets have enjoyed ten or more successive quarters that each saw new records set for the amount invested in online marketing. Regardless of what happens in the wider marketing community, online is on the rise; rapidly. There are more than twenty drivers of the industry's growth and although the relative mix of drivers varies with each country, as of course does the landscape for domestic technology, the size of the potential market continues to expand. Even if the growth in the number of people with internet access levels out at 70%, the time each person spends online is critical to explaining the growing importance of the channel. Although hard to quantify, the web is playing a consistently growing role in daily life, and this continued growth in engagement guarantees the continued high growth of online advertising in all markets.

The switch to search

Search has fundamentally changed direct marketing. Not all brands have realised this yet, and even among those who have, relatively few have gone on to unlock its full potential. What the founders of Google, Overture and E-Spotting stumbled upon at the very moment of the dotcom crash was the golden formula for customer acquisition. In the UK last year the search engine market was worth more than the whole radio advertising sector, and this year it should top consumer magazines. All this only six years on from when Google hired its first international employee and let her set up shop in London. It's still staggering when you reflect on the pace of that growth.

Search has fundamentally changed direct marketing. Not all brands have realised this yet, and ... few have gone on to unlock its full potential

The switch to search engine keywords is not just a switch to an entirely new advertising format, it's the switch to a model native to the medium. Since 2000 at Digital Strategy, we've been talking about the Digital Networked Economy, and the unique aspects of how it behaves. Search exemplifies this, harnessing social networking, with customer empowerment and transparent pricing. Frictions in the supply of advertising are removed, and through dynamic bidding the price paid equates to the customer's value.

But it's also the switch back to an old direct marketing model, but one enriched by new efficiencies. Paying a fixed price to acquire a customer, and then bringing them straight into the sales pipeline of the business is a powerful offer. Harnessed with a web analytics engine, and under the controls of smart marketers, and what you have is no longer an 'advertising' spend, but a new factor in the cost of sales. Press your foot down to acquire more customers, and take your foot off the gas when your firm reaches capacity constraints; marketers truly driving the business.

The explosive growth of search engine listings is strongest in the UK, but a common theme across Western Europe and Scandinavia. As Google and Yahoo build out their offerings in Central and Eastern Europe, a combination of increased supply and ramped up marketing, will see direct marketing in those countries flip even faster than it has in France and Germany.

The humble banner and his Rich friends

When the IAB created the banner back in 1996, there was no expectation that it would still be one of the main formats a decade later. At the time it filled a vacuum and that's why it became the fastest adopted media format in history. In 1998 a group of us expanded the

range of formats, and then we worked on larger set of shapes – a Universal Advertising Package – in 2003. All of these continue to fare well. And though search may be grabbing the headlines, banners are still grabbing the brands.

The new generation of web banners that use sophisticated ‘behavioural targeting’ techniques will carry graphical advertising to new levels of precision, learning about the viewer’s interest and providing tailored messaging. Television-like commercials can now be easily reproduced inside standard graphical formats, allowing TV assets to be rebroadcast online and the campaigns to stretch further. The creative power of the engaging ‘Rich Media’ formats – the ones that take commercial messages across the whole web page - has given creative directors a newfound freedom, and the standardisation of both workflow processes and formats has removed a barrier that long held agencies back from recommending the web.

Across much of Europe the internet averages 20% - 25% of the total time we spend with all media

The late majority

But that doesn’t mean every advertiser has discovered what online can do. In diffusion we’re familiar with the ‘innovators’ and the ‘laggards’, but apply this to the online marketing industry itself and it yields an interesting observation: the late majority are yet to show up. Like any marketing innovation, there are some firms who lead, and some who follow, but the skewed distribution of these innovations means the bulk of marketers are only just starting to change the way they behave. Online may be enjoying a high - and rapidly growing - share of advertising spend in Western and Northern Europe, but this hides a more interesting insight: most European firms are yet to start advertising online at all. Our figures 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.

Building brands; generating response

Ironically, one key challenge that held the industry back was its diversity. Because online can support any aspect of the marketing mix, the breadth of choice can be daunting. Smart online marketers realise it’s about more than having a successful website. They’ve discovered how online marketing can support every step in the customer’s journey – from the early stages of raising awareness of a brand, through the sale itself, and into the after sales service. That’s why the proportion of investment into online continues to grow as more and more firms discover the power of web advertising as both a branding and direct marketing medium.

When we interviewed Nigel Morris, President Worldwide of the communications agency Isobar, he was clear that the growth is unstoppable, but that agencies need to change: “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”.

Advertisers: time to look again

All this has profound implications for client-side marketers. If the last time you thought about online was six months ago, then whichever country you are in, its time to take a fresh look. This is a medium that does anything but stand still, and the reason it remains the fastest growing marketing channel in history is the power of its results. Whether for brand building or direct response, firms are turning to online, upweighting its role and using the expanding range of tools to create the right digital media mix for them. “It’s no longer a question of whether to invest; it’s now a matter of how much” said Michael de Kare-Silver, Managing Director of the AKQA agency, in a spirit that summed up the views of many agency heads who enjoyed working with the more digitally progressive clients. He told us “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.”

Media substitution: clear evidence from the UK

The migration of advertisers from one channel to another is now clear. Much of online’s growth has been at the expense of other channels, with spend migrating from the printed newspapers, magazines and directories into online properties. Some new spend has come from sales promotion and PR budgets, and search is benefiting from a reappraisal of direct mail. New models of integrated media are emerging, but as yet, while they remain intuitively smart, they usually lack the analytics to quantify the optimisation of each media channel. Gradually this will change, and as it does, those who need the structure of currencies and ratings to support their media planning decisions will have the confidence to fully embrace online. The new formats will enable the transition of television campaigns to the web, initially building frequency and extending the reach of existing TV campaigns, but later routinely creating new television style assets as a core element in all TV campaigns.

The role of direct mail continues to suffer as acquisition budgets are redirected into search, and retention budgets into email (the spend on which is not currently quantified). Meanwhile classified advertising in newspapers and magazines is finally migrating to the web and although recruitment is the largest single advertising sector online in several markets, much of the ad spend simply evaporates as the customer communication takes place either through the client’s own website or through the vast range of free-to-place services like CraigsList.org

and GoogleBase. While there are good examples of traditional media firms that are mounting good responses to this 'disintermediation' – The Guardian, Business Week, the International Herald Tribune, Haymarket Consumer publishing for example – the actions of most media groups remains either inherently weak, or reflects pragmatism over strategy.

Which industry sectors invest most?

Financial services and recruitment are the largest two client categories in many countries. Their products are a natural fit with the early web environments and as the firms refocused their marketing to include the web, audiences found the services useful and a virtuous circle developed. This has changed a great deal from the early days when IT and telecoms dominated the market. In the mid nineties their products were a perfect fit for the first wave of web users whose interests and employment were heavily skewed in favour of the same sectors. Then came the sectors whose products could be reviewed, inspected, compared and even sold, without the need to touch them: books, CDs, and travel among the higher profile movers. Although every sector has its own early adopters, the migration in the marketing industry's focus only happens when enough firms realise the potential of the new marketing channel.

Structural barriers held back many sectors... this remains the case in less digitally sophisticated markets

Structural barriers held back many sectors, and this remains the case in the less digitally sophisticated markets. For example, the lavish advertising creative of the motoring industry rendered poorly in the early online advertising formats, but the rapid take-up of video and 'rich media' since 2002 has tackled this. Fast moving consumer goods (FMCG) were unconvinced initially because of concerns over the audience reach of online, and because the model of how it drove offline sales was unclear.

Before search keywords arrived small and local firms found the internet particularly difficult to engage with and most held back for a long time. Even for the first few years after the dotcom crash they were telling us how they found it difficult to get started because there was no roadmap. Many of the routes they tried proved to be time consuming, expensive, or slow to deliver results, or even devoid of benefit. However now that any firm can enjoy a basic site for almost nothing and pay for customers with keywords bought on their credit card, the barriers have been overcome. Add to that the efficiency with which YellowPages firms like Yell.com in the UK have bolted the web into their sales process, and the structural barriers have been conquered.

Markets

**An overview of each national market in Europe.
Our thanks go to the national internet marketing
trade associations for sharing their knowledge and
data. More information is available from the
national IAB organisation.**

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 - C/M)

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 the 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'

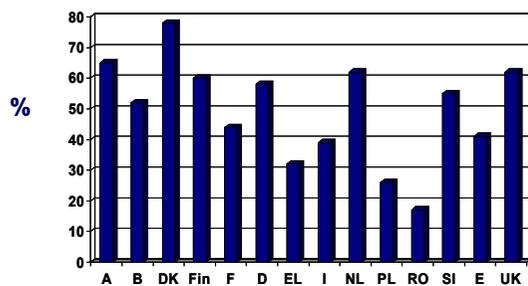
Bruce Hoang, IAB France

Germany

Audience

58% of population online

60% of connections are broadband



Online audience

The percentage of the population who has access is one of the underlying determinants for the size of the online advertising market. As the price of broadband connections comes down, we've tracked the way the proportion of each national population that has online access has risen rapidly. This creates a massive shift in media focus and consumer media consumption throughout Europe.

Source: IAB Europe

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

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

US market continues strong growth

Total internet advertising revenues for 2005 totaled \$12.5 billion in the US, setting a new annual record and growing 30% year on year. Q4 2005 internet advertising revenues totaled a record \$3.6 billion, representing a 34% increase over same period in 2004.

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, in several countries it is ahead, but many countries are still to cross the tipping point in the expansion of their digital marketing industries. Although many commentators talk about Europe being 18 months behind the US, our view has always been that Europe's wide range of experiences in the different markets means it cannot be considered as being a single market behaving in a uniform way. Added to that is the unique mix of other media in North America, and the economy of scale among both advertisers and audiences, which helps explain why the US has evolved so differently.

Data source: IAB US & PricewaterhouseCoopers

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

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

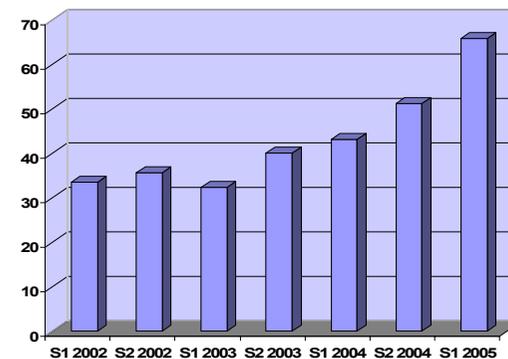
1.5% share of all media spend

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



United Kingdom

Audience

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

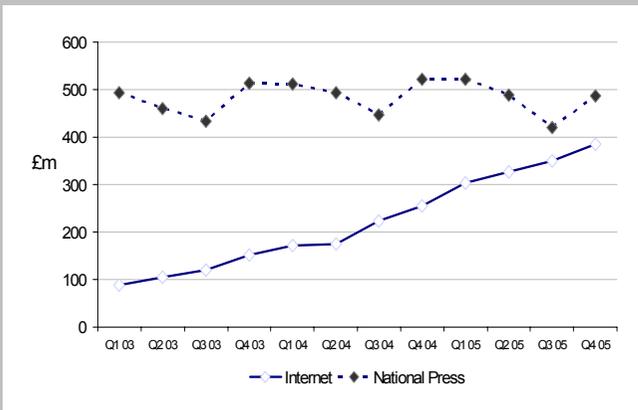
Online advertising spend

€1,939m (£1366.4m) in January to June 2005
65.6% increase from same period in 2004
7.8% of all media spend for 2005 (8.4% for H2 2005)
56% of advertising spend is placed with search engines

Data supplied March 2006, sources *NOP & PricewaterhouseCoopers*

'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 online ad spend is set to top national press advertising by the end of 2006

The massive sustained growth of online advertising in the UK has seen the industry overtake radio advertising and consumer magazines. During 2006 it look set to overtake national press.

Source: PricewaterhouseCoopers / Internet Advertising Bureau UK / WARC

Industry 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 Maiora - 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 sudden leap in pan-European spend shows how another barrier has been crossed. Advertisers now realize that there is an incredible pan-European tool here that can collate the audience data from a dozen markets into a single dashboard, showing straight away how the campaign has performed.'

IAB Europe - Danny Meadows-Klue, CEO.

'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.

Implications

Our view of how the industry develops from here and the nature of the changes in this market.

Where next?

We started 2006 predicting online would overtake national newspaper advertising in the UK by the end of the year. We also voiced concerns that there was a £200m understatement in search engine advertising in the UK, and proportional understatements in most other countries. The revised figures confirmed our forecast - that the sector would cross 8% in mid 2005 - and now that data challenges have been resolved, firms can have more confidence in forward projections.

Fuelled by even more search engine advertising, total spend should easily stride over 10% in the UK this year, and probably earlier than November (suggested in Digital's annual forecast). This will place online above the UK's national press in the media hierarchy for the first time and send an emotional message to strategic media planning firms who have not yet fully embraced the changes in media consumption. This in turn will generate greater demand for online advertising, significantly at the expense of press and broadcast media.

However, the implications of what's happening in the UK stretch well beyond its national boundaries. A significant portion of the pan-European online advertising industry is planned out of London agencies, and this shift in thinking is bound to have a knock-on effect for the mix of media in pan-European campaigns. The unlocking of the pent-up demand in this sector will herald another stepchange in how online is used, and the relatively sudden arrival of new video formats - as well as a general increased ease of use and professionalism in online trading - will act as a powerful catalyst here. We've been aware of the pent-up demand for multi-market and pan-European media campaigns for several years, but the internet industry's offers were not strong enough to unlock that demand until recently. Our research confirmed that now it is finding a release valve through Europe's portals and sales networks, with firms like Yahoo, MSN and 24/7 RealMedia successfully offering pan-regional audiences through a single sales point and sales management team. As brand owners discover the power of having pan-European campaigns delivered with the immediacy of online bookings, and the economies of centralised data analysis, a virtuous circle will quickly emerge.

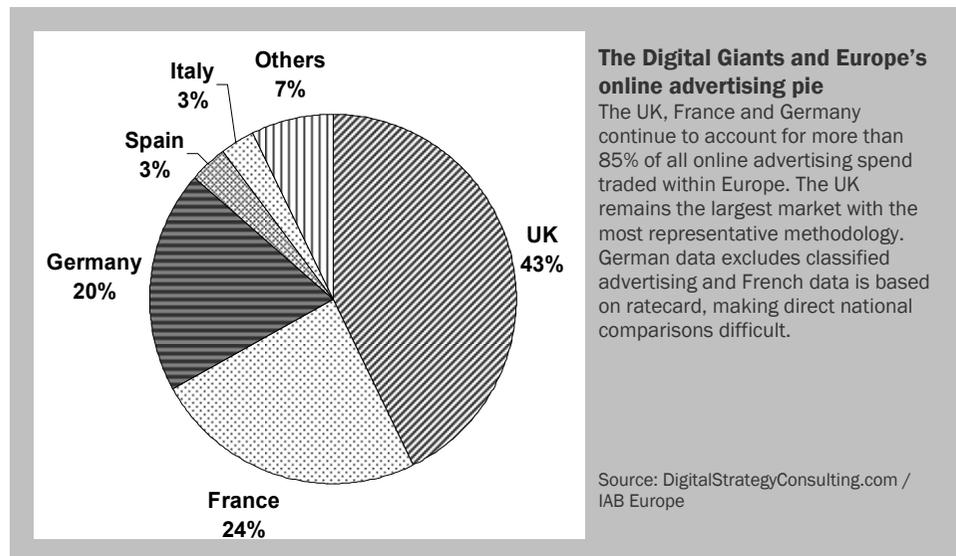
Another way in which the UK's effect goes deeper is that throughout the last ten years, the UK has often behaved like a laboratory experiment for revealing what then happens across most other European markets. While there are always national factors that make each market unique, the UK remains a useful indicator in what is set to come in other markets. For example, the emergence of CPM trading, the explosion of Rich Media, the adoption of larger formats in the Universal Advertising Package, and the switch to search all crossed their tipping points first in the UK before being replicated across the rest of Europe.

The evolutionary paths of the different groups of markets will continue, but will also continue to head towards a focal point. Total spend is certain to continue rising at very strong rates

(more than 30% year-on-year in most countries), but even when it tapers off, it will settle at a level in excess of where television advertising spend sits in many markets. The revolution in media consumption is still underway and with more people each spending more time online, the supply of online marketing opportunities just continues to swell. That's why online marketing will continue crossing its tipping points in each European market. Until it has firmly entrenched itself as a mainstream tool for all marketers.

Reflection

Looking back over both the raw data and the interviews that accompanied the project, it's clear that there is a passion driving this strong growth. The passion is based on well founded economics as well as good marketing practice, and although the European landscape is a patchwork of markets each at subtly different stages, they are stages on a journey that leads to the same place. The €4.5bn figure represents an absolute minimum for the industry. When datasets from the missing markets are added, and when the scale of search is better understood outside the UK, it will reveal a figure easily more than 10% larger. But by then the growth will have pushed all the data reported on here to new heights as well. The diversity of experiences between the clients or agencies who champion online, and those more reluctant to invest, will continue because this industry's ceaseless capacity to innovate will continue pushing forward the art of the possible. Now that, country by country, the tipping points are being crossed, what is clear is that the momentum built up ensures that the changes coming in the next five years will dwarf those of the previous ten.



Actions

If you control an advertising budget, reflect on how your business uses online, and the role it plays in your media mix. While several 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 – Follow the links from IABEurope.ws

IAB Europe's taskforce for interactive advertising expenditure research

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

Analyst's profile

Danny Meadows-Klue has been a commentator on digital networked marketing since 1995. He managed the UK's first online newspaper and has helped run web businesses ranging from mass market portals and consumer magazines, to online stores, search and email services. Among his industry roles he is the co-founder and former chairman of the UK and European Internet and Interactive Advertising Bureau, and has been lecturing on digital marketing for more than a decade. He helped set up IAB organisations around the world and created Digital Strategy Consulting in 2000 to help more firms accelerate by harnessing the tools of the digital networked economy.



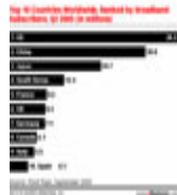
About the Digital Insight Report series

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 around 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 keynote talks and training workshops. Making sense of the digital world can be tough, but knowledge and training can unlock the potential of your team.

More research: Digital Intelligence



Keeping on top of the latest research and trends is still a challenge for many, but Digital Intelligence can help you. To keep our Digital Training Academy classes up to date we trawl through hundreds of websites, magazines and research newswires every month and distil some of the key points into this review of the industry's growth and the evolution of marketing.

Training and Development from Digital

If your firm wants to harness new marketing and publishing approaches, then why not talk to the team here at Digital? Our senior associates can deliver the hands-on expertise you need to change the way your team behaves, enabling them to understand and implement new publishing strategies. We can work with your board to improve understanding and your operational teams improve execution. We can support the rapid prototyping of new ideas and the building of simple tools to allow you to use these new insights to improve your conversion rates, unlocking more of the value from the digital channel investments you've already made. Our range of training spans all areas of digital publishing, marketing and business and includes mobile and emerging platforms. Call us to find out how we can help your team achieve more.



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Making sense of a digital world

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