The digital rollercoaster
Factsheet: Landmarks in digital development

Digital Insight Report

Internet communications have become a routine part of the daily lives of most people in the technically advanced countries of Asia, Western Europe and North America. Their sudden arrival has displaced some of the use of classic media channels, and although the changes are still unfolding, understanding the scale of shift helps clarify the scale of the response needed by firms either marketing their services or helping others to. Online marketing has already become a mainstream part of the media mix, but it continues to grow at a staggering fast pace. In this Digital Insight Report, we collate just a few of the facts and landmarks in the growth of internet and marketing communications. They are intended to present a few highlights of the immense changes so far, and give readers a taste of what is yet to come.

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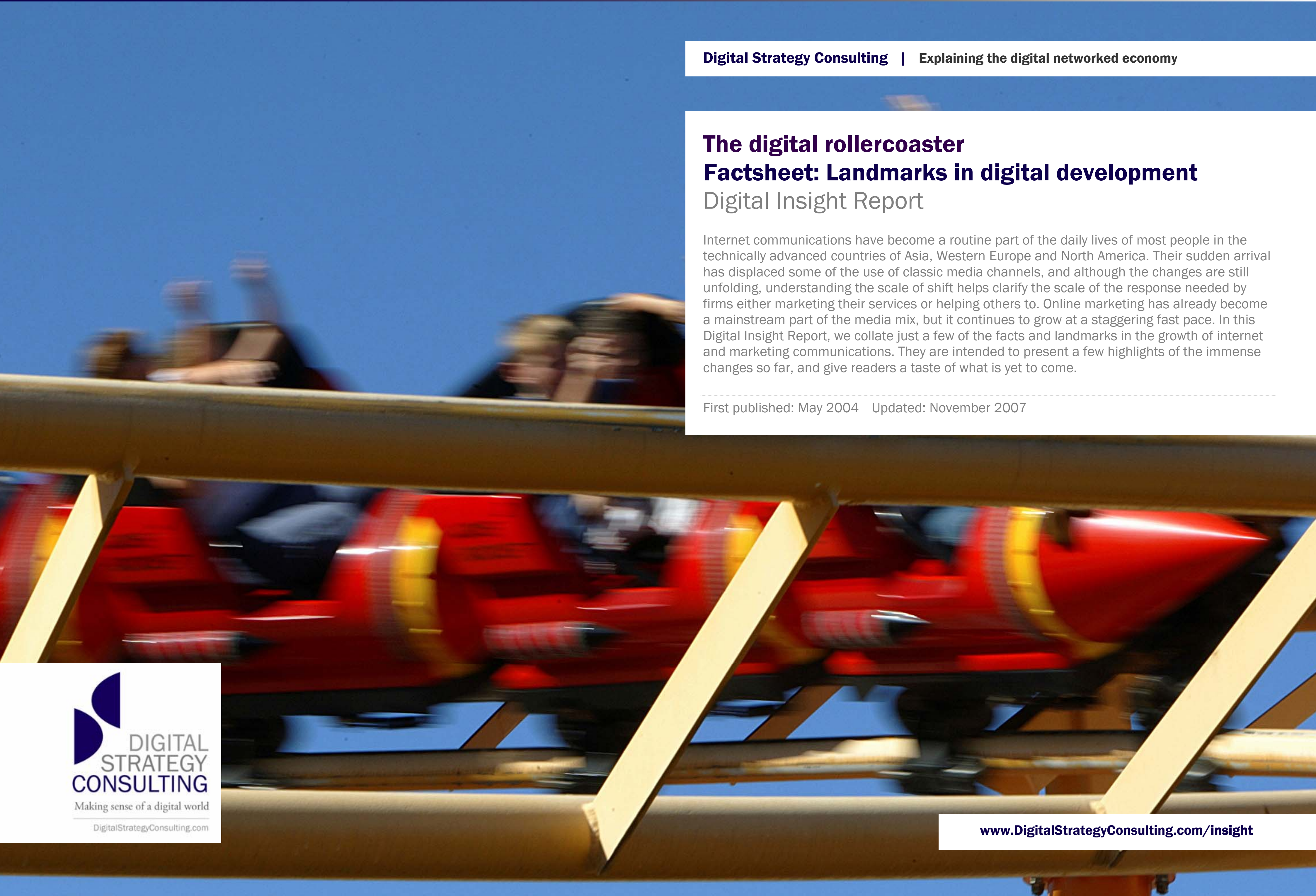

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Making sense of a digital world
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At a glance

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Preface

Internet communications have become a routine part of the daily lives of most people in the technically advanced countries of Asia, Western Europe and North America. Their sudden arrival has displaced some of the use of classic media channels, and although the changes are still unfolding, understanding the scale of shift helps clarify the scale of the response needed by firms either marketing their services or helping others to. Online marketing has already become a mainstream part of the media mix, but it continues to grow at a staggering fast pace. In this Digital Insight Report, we collate just a few of the facts and landmarks in the growth of internet and marketing communications. They are intended to present a few highlights of the immense changes so far, and give readers a taste of what is yet to come.

Since 2000, Digital's team have been talking about the digital networked society and the implications for firms as their sectors make the transition. Digital Insight Reports explore patterns within these changes and provide some of the navigation to successfully make the transition.

Speed read

Audience growth has propelled the internet to one of the top two media channels.

Online advertising spend is a simple barometer of where marketers place their focus.

It reveals that the web is now accounting for 15% of all adspend in the UK and that search engine marketing is taking half of this.

The pace of change has been rapid, but shows no signs of slowing down.

Several strategic trends in digital marketing have emerged and can easily be harnessed.

Timeline

A few landmarks in digital history

1969 The internet was created out of ARPNET in the 1960s to protect US military communications

1971 First email programme created

1973 First international connections to ARPNET (UK / Norway)

1980s Compuserve dominates the US access market arriving in Europe in 1990

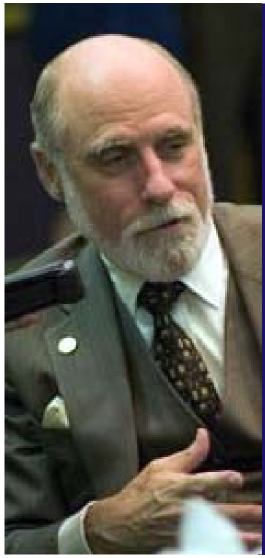
1980s (late) the first generation of home PCs enter the market in Western Europe and the US: take-up gains critical mass among early adopters (initial brands ZX81 and ZX Spectrum, later Atari, BBC and C64)

1990-1 Tim Berners-Lee and scientific researchers at CERN use Internet protocols (IP) to create hyperlinks, building the basic structures that became the world wide web. The concept of browsing is born

1992 First graphical browser released. Mosaic allows users to 'point and click' to access content

1993 Netscape and web crawlers pioneer the concept of search

1994 Directories such as Yahoo start to provide a structure for finding web pages



"In 2006, most people in the developed world would find it hard to imagine life without the internet – never before has a single technology become so central to our lives so quickly."

Vinton Grey Cerf
Chief internet evangelist at Google
Co-designer of TCP/IP protocols and basic architecture of the internet

Media storage costs collapse

A 1GB USB flash drive now costs about £20

1GB can hold more than 800 pictures (at 3 megapixels each) or 240 songs

You can get up to 10GB free online storage at sites like Streamload.com

This is enough for:

→ 4 hours of high-definition video, or

→ 2000 MP3s, or

→ 10,000 digital photos

Audience

Audience growth: unstoppable

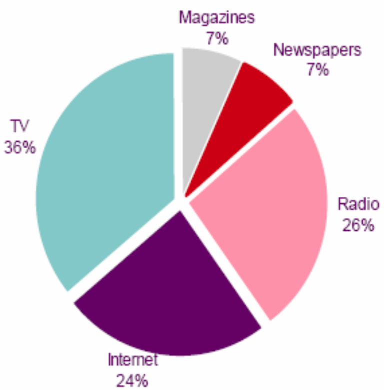
Today: more than 1 billion people now online worldwide

23 hours a week: the average for British internet users

Access: 50,000 new installations of broadband every week in the UK

2003: 15% of European consumer's media time

2004: 70% planned to take a net-enabled device with them on holiday (Source: Nielsen//NetRatings, June 2004)



Source: BRMB Internet Monitor. August 2004

2004: Share of media time amongst broadband users

20% of media time
European consumers are now spending a fifth of their media week using the internet

Above press
Which means they are spending more hours surfing the web than they do reading newspapers and magazines combined

11 hours
The Internet now claims 11.3 hours per week per UK user, the largest of all the European online ad markets

(Source: EIAA, November 2004)

United Kingdom
Online population is 56% of adults over 16

77% of 16-34s use the internet during the week

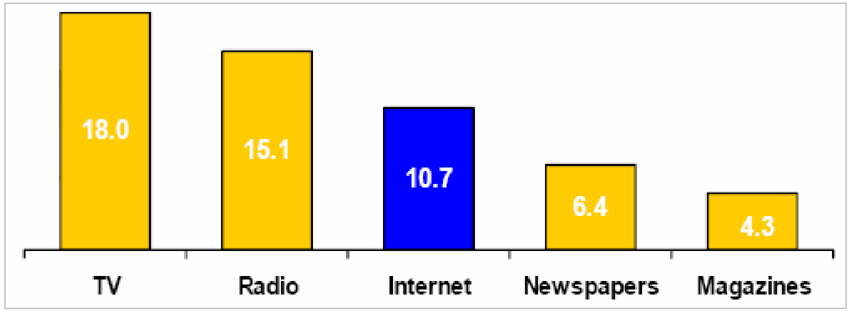
70% of internet users are on broadband

From 2004 to 2005 - 16% increase in time spent online

News and travel sites most popular in the UK

More people in the UK visit shopping and jobs websites than the European average

Average hours spent consuming each media:



2006

160 minutes per day
Men are still the highest internet users
- an average of 172 minutes per day

Women
156 minutes per day

Shopping
Shopping has become one of the most popular online activities
Internet users now spend an average of £446 online each year

(National Office of Statistics Time Use Survey/TNS Research Feb 2006)

Media time
The average British internet user now spends 164 minutes online each day for personal use - the equivalent of over 41 days each year

This compares to 148 minutes spent watching television

Two thirds (66%) of survey respondents were found to have increased their time online over the past 12 months

The biggest growth seen among 16-24 year olds

(Source: National Office of Statistics Time Use Survey/TNS Research Feb 2006)

On average, internet users spend a quarter of their weekly media time on the internet

(Source: BMRB Internet Monitor, January 2006)

The internet is the second most commonly used medium after television

The research, carried out in November 2005, showed that 26.5 million people (half the UK population) used the internet during that month, compared to 23.4 million people in November 2004

(Source: E-consultancy, November 2006)

Rise of broadband in Europe

23% of European households now have broadband access

A total of 40% of households have internet access, with 16% going online via dialup

75% of four people households have broadband compared to 12% of single occupant homes

57% of British households (13.9 million) are now connected to broadband

72% of UK internet users have used broadband in June 2006, up from 54.4% in 2005

This represents an annual increase of 600,000 households

The average British broadband user spends 50 days per year online

Broadband access technology:

	2004	2005	2006	2007	2008	2009	2010
ADSL	3,652	6.182	8,615	10,541	12,228	13,439	14,353
Cable	1,950	2,750	3,389	3,863	4,288	4,695	5033
Other*	21	30	41	60	85	119	138
Total	5,623	8,962	12,045	14,464	16,601	18,253	19,524
% of house holds	22.3%	35.4%	47.4%	56.7%	64.8%	71.0%	75.7%

Source:eMarketer May 2006

Digital Insight Report - UK: Digital advertising market commentary

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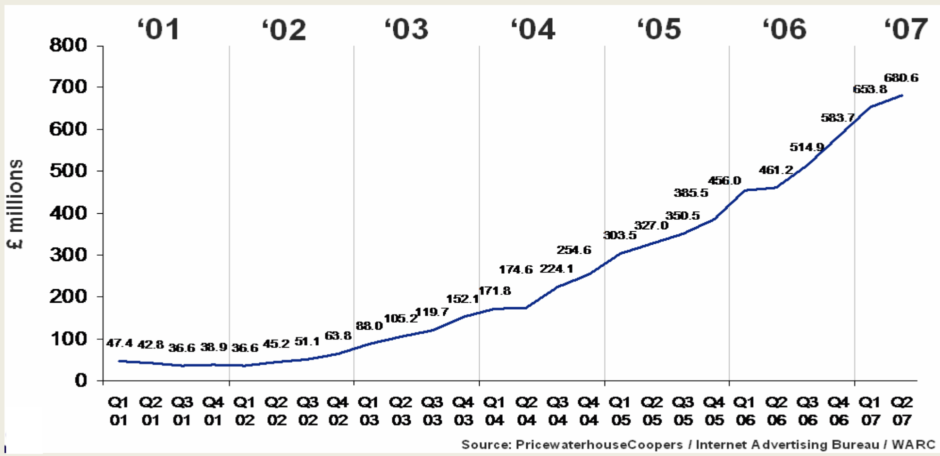
Biggest leap yet

The latest figures confirm the rapid switch to online marketing is continuing in spite of the sector's existing size, challenging any suggestions that the market has matured and is slowing down. In Europe's lead media market, the internet's share of all advertising swelled to almost 15% in the first half of 2007, with further record-setting leaps in real growth. Boosted in particular by massive increases in the supply of media from social networks, and the continued switch of acquisition budgets into search engines, the wider media sector is starting to feel the real impact of the digital networked economy as the models that underpin many print and broadcast players get called into question.

As Digital's team had forecast, online ad spend growth held steady at above 40% year-on-year, giving the largest quarterly rises, and triggering further concerns across the TV and magazine industries about the profitability of classic media.

- First half of 2007: £1,334.3 million
- First half of 2006: £917.2 million

With the UK market acting as a key indicator for European online adspend behaviour, the latest results will boost stock prices for continental firms looking for models of their own country's digital economy a few years down the line. The research is particularly accurate because it relies on publisher revenue declarations (under non-disclosure agreements to PricewaterhouseCoopers) and not rate card or sector estimates. It is also one of the only markets in the world to include a revenue declaration from the largest single player – Google. This ceaseless rise in online advertising spend is a very simple way of measuring how fast advertisers are tuning to the web from classic media.



Online advertising growth since the dotcom boom: now nearly £700m in Q2

Source: PricewaterhouseCoopers / Internet Advertising Bureau / WARC

Online advertising spend in the world's largest economy

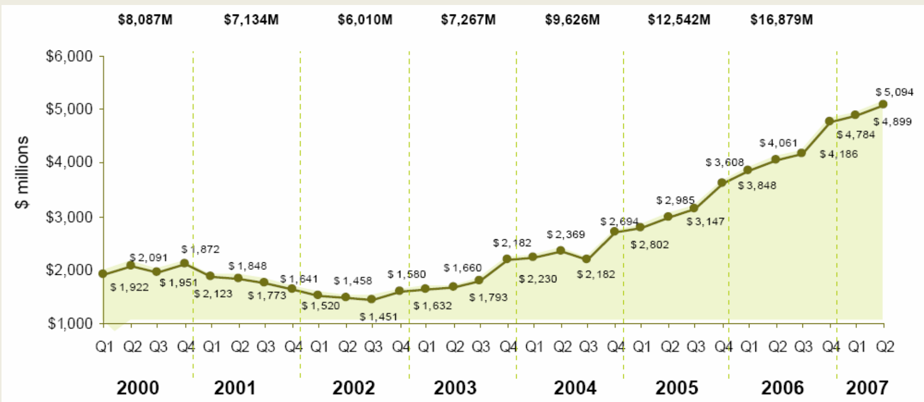
New records set as net breaks $5bn a quarter

The latest numbers for the US from PricewaterhouseCoopers (PwC) and the IAB confirm that the world's largest online ad market is still enjoying the largest annual growth in real terms. Spend surged ahead by 25.4%, crossing the $5bn mark in a single quarter.

US Internet advertising revenues for the first six months of 2007 were nearly $10 billion, setting yet another new record and were almost 27 % up on the first half of 2006. Spend reached nearly $5.1 bn in the second quarter of 2007.

US IAB President Randall Rothenberg noted that the results "are really no surprise", and went on to suggest that because "more and more marketers have embraced the reality that interactive is the fulcrum on which their brand strategies need to be based", he expects "robust growth to continue."

The growth was propelled not just by search engines (which increased their share of online adspend to 41%) but also by the wider consumer advertising sector. Classifieds continued to swell, but they did lose share within online to the Rich Media and Video formats which now account for 8% of all online advertising.



Quarterly $ revenue growth comparisons — 2000-2007 year to date

2007 second-quarter revenues recorded the highest quarterly revenue total since reporting began in 1996, and marked the first time quarterly revenues exceeded $5.0 billion.

Source: PricewaterhouseCoopers / Internet Advertising Bureau

Advertising Formats - Search and Display continue to lead formats

Search engine advertising continues to dominate the US market, indicating how search will rise to become the largest format is most countries over the next three years. Rich media advertising (which includes video) is now set for rapid growth as new models for the delivery of television content through the internet start to accelerate.

	FH 2006 ($ millions)	FH 2007 ($ millions)
Search	40% ($3,164)	41% ($4,097)
Classifieds	20% ($1,582)	17% ($1,699)
Referrals/Lead Generation	7% ($592)	8% ($799)
E-mail	2% ($158)	2% ($200)
Display Related:	31% ($2,413)	32%($3,198)
– Rich Media (Includes Video)	6% ($475)	8%($799)
– Ad Banners / Display Ads	21% ($1,622)	21%($2,099)
– Sponsorships	4% ($316)	3% ($300)
– Slotting Fees	<1% (<1$)	<1% (<$1)

Source: IAB US, PricewaterhouseCoopers 2007

Industry Concentration - Concentration of revenues by top companies remained consistent

The market remains highly concentrated, with 70% of all advertising dollars traded through the hands of just ten sales points. This pattern has been consistent since the mid nineties, however the sales points themselves include advertising networks who represent large numbers of sites.

	FH 2006	FH 2007
Top 10	71%	70%
Top 25	84%	82%
Top 50	94%	91%

Source: IAB US, PricewaterhouseCoopers 2007

Pricing Models - Performance deals now leading pricing models, followed closely by CPM deals

The trading models in online marketing continue to be more diverse than those of any other media. The CPM (cost per thousand exposures) model has been eclipsed for the first time by performance based marketing (pricing on a per click or per action basis), as search engine advertising influences the wider banner culture to spread the idea of shared risk. This is likely to have a wider effect on how television and print media are traded.

	FH 2006 ($ millions)	FH 2007 ($ millions)
CPM	48% ($3,797)	45%($4,497)
Performance Deals	47% ($3,717)	50%($4,997)
Hybrid	5% ($395)	5% ($499)

Source: IAB US, PricewaterhouseCoopers 2007

Strategic trends and differences

Strategic trends

In the digital networked society, people have a different relationship with their media and communication channels. They are more empowered and more selective. This has several implications for marketers.

Digital's 5 things that get replaced in the digital networked society

- Conversations in marketing replace control
- Engagement replaces interruption
- The media of the masses (social media) replaces mass media
- Diversity and self-expression replaces conformism and unity
- Granular insights and data replaces generalization

Digital's 5 things that get created

- Empowerment creates customers in control
- Digital channels create time
- Time creates communication opportunities
- Opportunity creates competitive advantage
- Transparency creates accountability

These ten factors have a profound effect on the nature of marketing and the way organizations harness their communication channels.

"The ultimate search engine will understand everything in the world... and give you back something instantly. We have a long way to go before we're there."

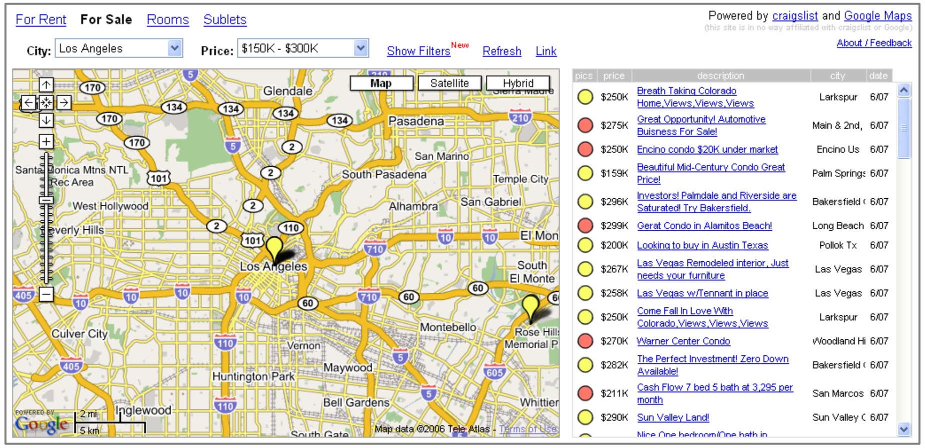
Larry Page, Co-founder & President of Products at Google talking last year about the future of search engines and artificial intelligence.

www.DigitalStrategyConsulting.com/thoughtleaders

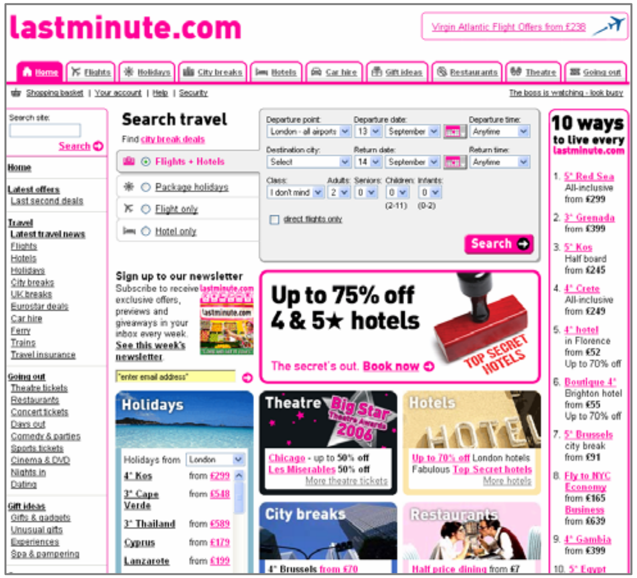
Search marketing

Search engines today

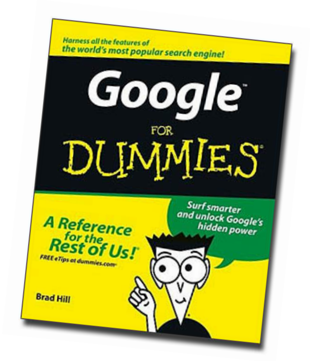
Search engines now fuse with maps and other data sources to provide new forms of information



'Search' also includes the vertical search engine services from sites that consolidate goods and services.



Digital marketing goes mainstream:
As online marketing breaks into the mainstream, Digital has worked with the 'For Dummies' publishers to help more people access knowledge and insights in search marketing. Search engines have opened up digital marketing to millions of small firms who need only a credit card and the simplest of copy writing skills to get started in online marketing.



Google ad revenue overtakes TV

Google made more money from UK advertising than Channel 4 in 2006

Google's ad revenue overtook the UK television channel ITV 1 in 2007

"There is deep structural change taking place. If we want to protect the fantastic legacy of UK broadcasting, we need to wake up to this sooner rather than later"

Andy Duncan
- who has lobbied for additional state support for C4

Actions

What should I do? Key takeouts

Consumer brands and client-side marketers
Learn more about where your audiences and customers are placing their attention, and as the balance of the media mix changes in their lives, dig into the trends to learn about who are the winners and losers.

Question whether your strategic media mix reflects where your audiences place their attention. Question whether the integrated marketing models you run are designed for today or 2003. Invest in talent, training and retention of digital staff. Learn about the strategic models that can integrate your media and heavily invest in data analysts to learn exactly what works and how: put the science into marketing - create a culture of optimisation of the results.

Find sectors of the business where you can experiment with the new models, but put in tight performance tracking mechanics to be sure about what is working, how and from that, why. Harness this type of accountability to create a learning engine inside your business, making each wave of your marketing smarter than the wave before. Remember to put the building blocks of the web in place first: content (on the website), discoverability (search engine marketing), customer retention (email relationship management).

Media owners
If not already in place, invest fast in building a digital strategy that helps protect your brand franchise. Focus investment on building sustainable product rather than protecting short term ad revenue. Explore different areas of product development until you have a robust model in place that can be turned into a content or service platform. Harness the social media techniques as well as the fundamentals of the Web 1.0 content approach. Train teams at every level, and invest in talent.

Offline agencies
Find strong digital partners and build integrated plans to protect your client relationships and continue delivering value. It's too late for many to migrate to digital and hire the teams needed, so by focusing on partnerships there's a way of protecting client relationships.

Digital agencies
Invest in talent, training and staff retention. Build strategic models for media that can work across thousands of campaigns, and focus on analytics as a way of learning exactly what works and how: put the science into marketing and optimise the results.

For information about developing resilient digital strategies, or training your team to thrive and succeed in the rapidly changing digital sector, just ask Digital's team.

The Search Academy

One of the most popular Digital Training Academies that help you harness search engine marketing to get the right customers at the right price. This portfolio of Academies includes advanced training for search engine agencies as well as those new to the sector.

"I've failed over and over and over again in my life and that is why I succeed"

Michael Jordan, basketball player

Who is it for?

A portfolio of Digital Training Academy courses for any marketer planning to acquire customers through search engines. Designed for search marketing agencies, experienced digital marketing teams, newcomers, brand managers or directors in small firms.

What is it about?

Training that will boost your results and help you make stronger strategic decisions in search engine marketing.

Our support programme

- → Coaching and mentoring
- → Customised in-company Academies
- → Senior masterclasses for critical issues
- → Workshops for staff at all levels
- → Complete training and development planning

If you have any questions about our approach to training, or the detailed content of the course then please email or call the team.

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