

European Internet Advertising Expenditure Report 2006

A report prepared by PwC for IAB Europe



Contents

Executive Summary

Key Themes

Detailed Findings

Appendix

- I Definitions of formats
- II Participating Countries
- III Survey methodology
- IV Local IABs and Partners

About the report

“These are exciting figures that show without question the significance of the European online advertising sector. We have demonstrated that by uniting the data from across the continent we can produce information that highlights the importance of online advertising to marketers everywhere.”

*Alain Heuresux,
President IAB Europe*



About the IAB Europe Internet Advertising Revenue Report

Conducted by the Interactive Advertising Bureau Europe (“IAB Europe”) working with PricewaterhouseCoopers LLP (“PricewaterhouseCoopers”) for the first time in 2007 with results to be released annually, the “European Internet Advertising Expenditure Report 2006” was initiated by the IAB Europe with support from local European IABs. This report aggregates data and information reported to the IAB Europe and PricewaterhouseCoopers by member IABs representing the income of thousands of websites and online advertising businesses.

The results reported are considered the closest measurement of Internet/online advertising revenues across Europe as the data is compiled directly by local IABs based on information supplied by companies selling advertising online. The data for this report is stated on the basis of actual income (gross billings).

The report covers data reflecting online advertising revenues from display, classifieds, search and email marketing.

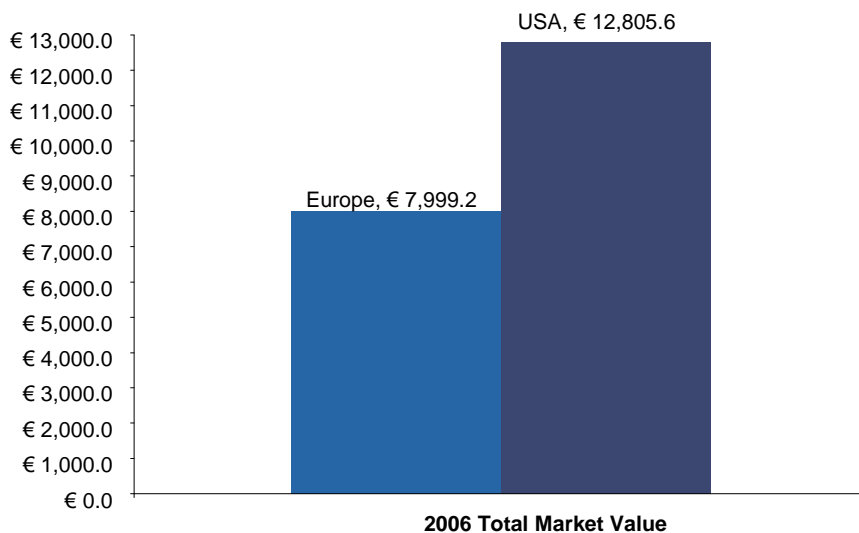
The data is compiled by PricewaterhouseCoopers in partnership with the IAB Europe. PricewaterhouseCoopers does not audit the information or the data from local IABs and provides no opinion or other form of assurance with respect to the information. Only aggregate results are published and individual company information is held in strict confidence with the local IABs and their individual arrangements with companies who submit data. Further details regarding scope and methodology are provided in the appendix to this report.

Executive Summary

An €8 billion market

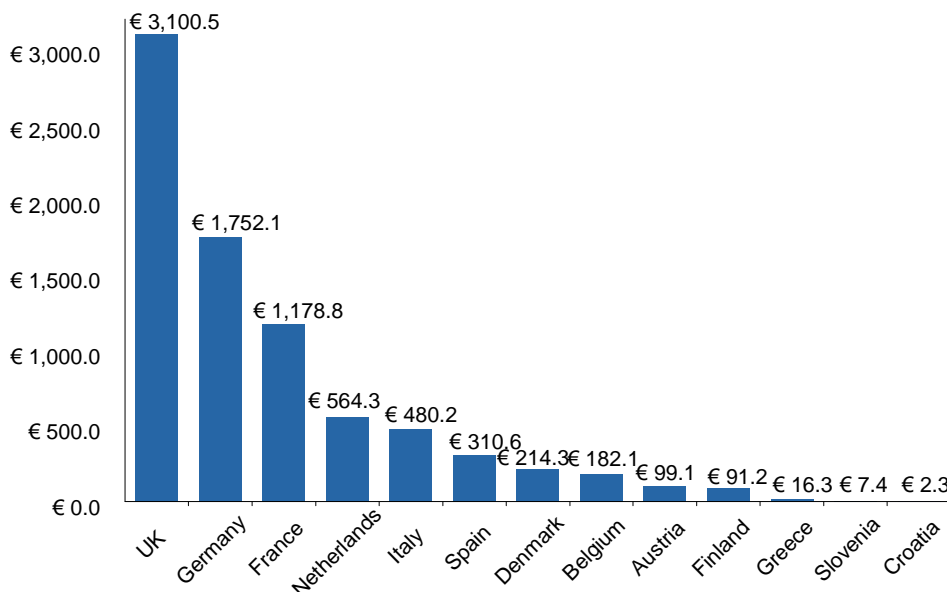
The combined value of the internet advertising markets that participated in this year's IAB Europe study reached a massive figure of 8 billion Euros. The overall total was €7.992 billion, with France, Germany and the UK taking 75% of this total figure between them.

The comparable US market is just over €12 billion, meaning the European market for 2006 is two thirds the size of the US market. The ability of Europe to catch up to the US as growth rates start to tail off in America, is high with European market growth expected to be in double figures for the next 2-3 years.



Source: IAB Europe / PwC

13 countries across Europe took part in the survey, which will be repeated in 2007. The UK was the market leader, with Germany the second largest market. France was the only other country to reach over a billion Euros.



Source: IAB Europe / PwC

Key Themes

Key themes from the research

Search dominates

Search was the largest format in the European internet advertising market, with 45% of market share. This rose to as high as 58% in the UK, 51% in the Netherlands, 47% in Spain and 44% in Germany. Countries where Search has yet to make such a large impact are Croatia 2%, Slovenia 18%, Denmark 23% and Austria 25%.

It is expected that with rising broadband penetration across Europe, and a growth in investment in Search in mainland Europe that this figure will continue to rise and the share of Search in the internet advertising market in Europe will grow.

Room for growth

There are some countries where there is obvious room for growth. The German advertising market is very healthy at €1.7 billion, and with rising broadband penetration and large internet population it should have the potential to increase the value of internet advertising and close the gap on the UK market.

Despite having a smaller population than France, Spain and Italy, the Netherlands was a large market for internet advertising in 2006, partly due to their higher than average level of broadband penetration. When the rest of Europe starts reaching similar broadband penetration levels it will be interesting to see if the same uplift in internet advertising is experienced and Spain and Italy start to overtake the Netherlands in total expenditure.

The strength of the UK; something to aim for?

The dominance of the UK advertising market in the internet replicates the overall size of the UK as the European leader for all advertising expenditure. The second largest market, Germany, is nearly half the size of the UK market. Possible reasons for this include the lack of a language barrier for the larger American internet properties and advertisers, the established strength of media buying in the UK and the strength of the UK e-commerce market, particularly in the financial services, retail, classifieds and recruitment sectors.

“Search has always been a big factor in our territory, as there is a big local search engine that is very active. We expect a big step forward in online advertising spend for 2007”
Zoran Savin, IAB Slovenia

“The year 2006 exceeded all expectations with regard to the development of the online advertising market in Germany. Especially notable is the fact that more and more traditional industries are discovering the internet as an advertising platform. And the upward tendency is supposed to continue: for 2007 experts anticipate even more. Comparing the German national figures with other European markets strengthens our trust in the work we have already done.”
Thomas Duhr, IAB Germany

The results shed some light on a market which has proved to be difficult to measure in the past. This is valuable information for all Pan-European media owners, agencies and advertisers who have not been able to get hold of comparable data for the past 10 years... finding out that the UK accounts for 38% of all European online ad spend is great news from a national perspective!
Laurence Bird, IAB UK

Key Themes

Emerging markets

The smaller countries in Europe who took part in the survey are expecting to see further growth in 2007. Greece, Slovenia and Croatia together contributed 0.4% of the overall total at € 26 million. With the potential addition of more emerging markets in the 2007 IAB Europe survey, it will be interesting to see how this share of the overall market grows, and also the ability of the smaller markets to capitalise on the high investment in the rest of Europe.

The fight for 4th place

The European market is growing and it is expected that the figures in 2007 will provide a view on where future growth can be expected, and the ability of the smaller markets to reach higher levels of expenditure. The placement of the Netherlands in 2006 in fourth place ahead of Spain and Italy may be challenged as the Italian and the Spanish markets may show strong growth fuelled by faster broadband adoption and the increasing use of Search and other forms of internet advertising by consumers.

Conclusion

The European Internet Advertising market is already a large developed market in some countries, with the potential for further growth across for all survey participants. The dominance to date of US internet advertising is set to be challenged by Europe and the 2007 figures will give an indication as to where growth is occurring fastest, and the strength of the different formats to increase their popularity among advertisers.

In 2008, we hope to achieve a further pan-European study for the 2007 figures, and provide growth data from 2006. The continuing investment by local IABs in providing this data to the market is invaluable in the development of internet advertising. By co-operating to produce pan-European figures, the IAB network in Europe is at the forefront of driving growth and investment in internet advertising across the region.

“First results from media tells us that the market will grow by 75% in 2007, but we are expecting the real boom to be in 2008.”

Jan Jilek, IAB Croatia

“What’s most striking comparing the Danish market to other European markets is the strength of the classifieds category, accounting for approximately 50 % of all online adspend. Directories are very strongly positioned on the Danish market, with three out of top ten most visited websites being national directories.”

Christian Peytz, IAB Denmark

“Italy’s online advertising market has shown strong growth over the last few years. This growth is set to continue as the big spenders from the traditional advertising world have now developed confidence in online marketing channels, and are starting to include online in their advertising strategies.”

Mauro Lupi, IAB Italy

“Until now in the Netherlands we had only measured the display advertising sector. We are now seeing the rate of growth in the display market slow down, as users and advertisers recognise the value of these other formats. The AdEX figures have enabled us to gauge the development of other formats and show clearly that the Netherlands is one of the most developed markets in Europe.”

Marco Derksen, IAB Netherlands

Detailed Findings

Chart 1 overall market size for each country

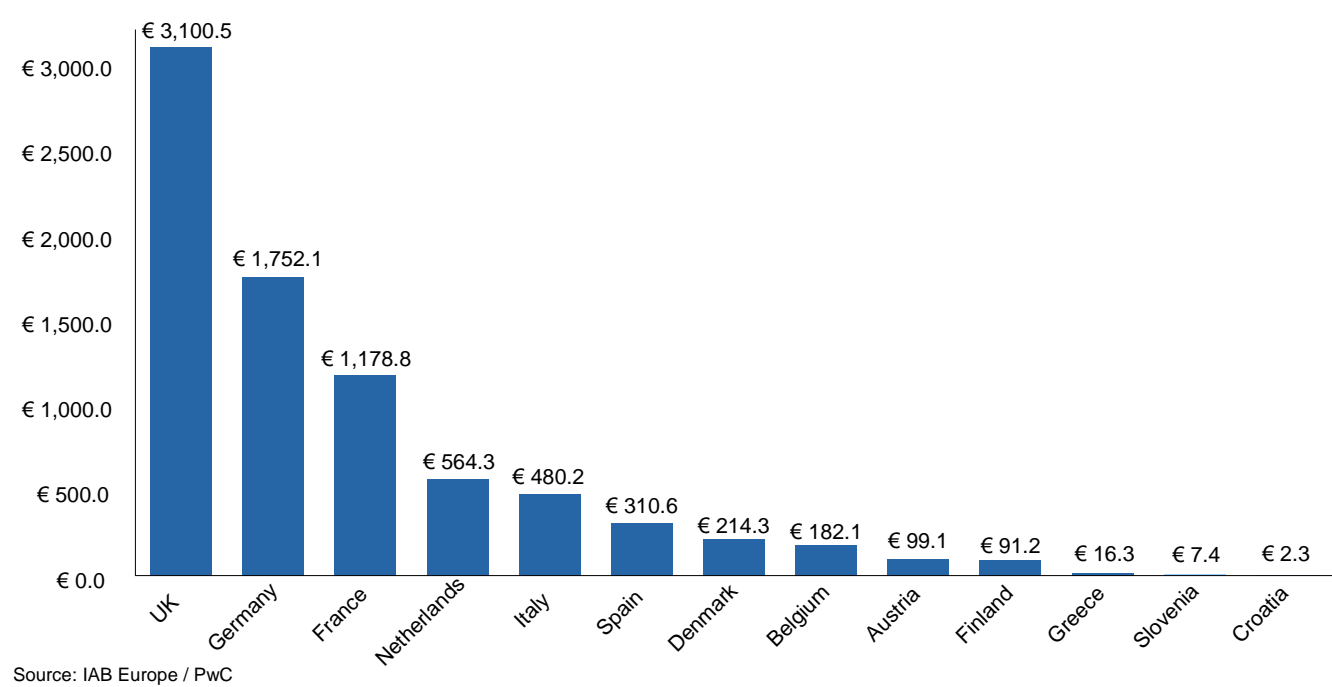
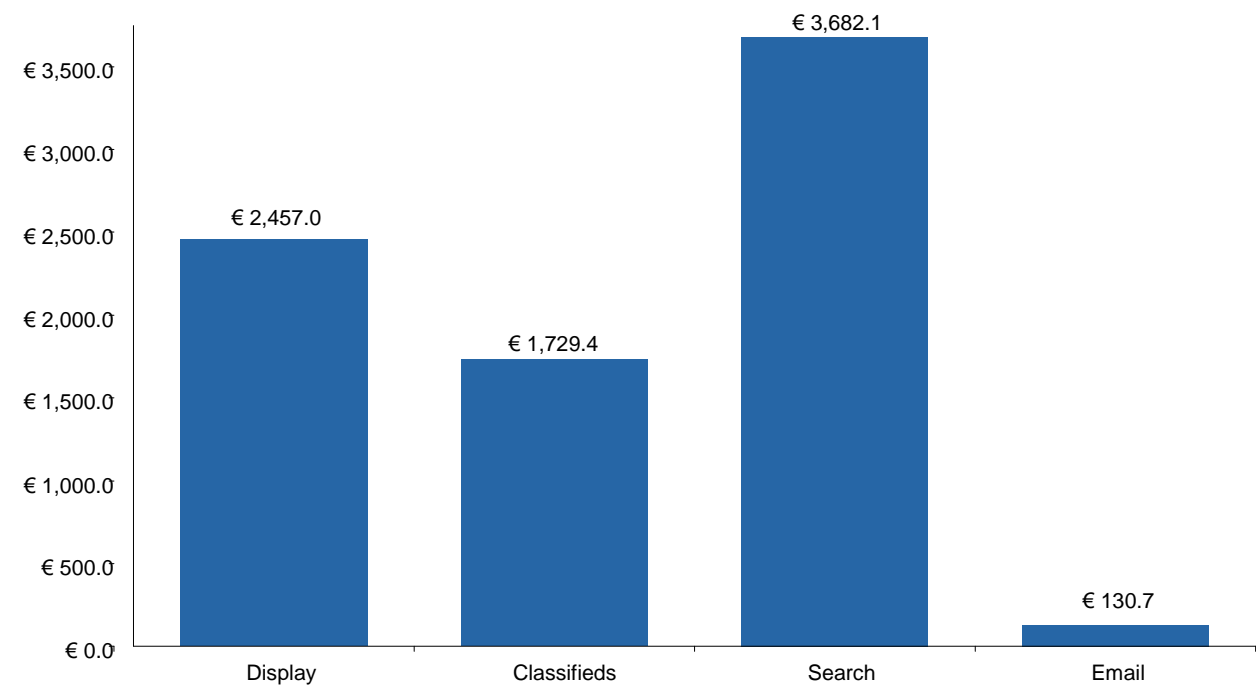
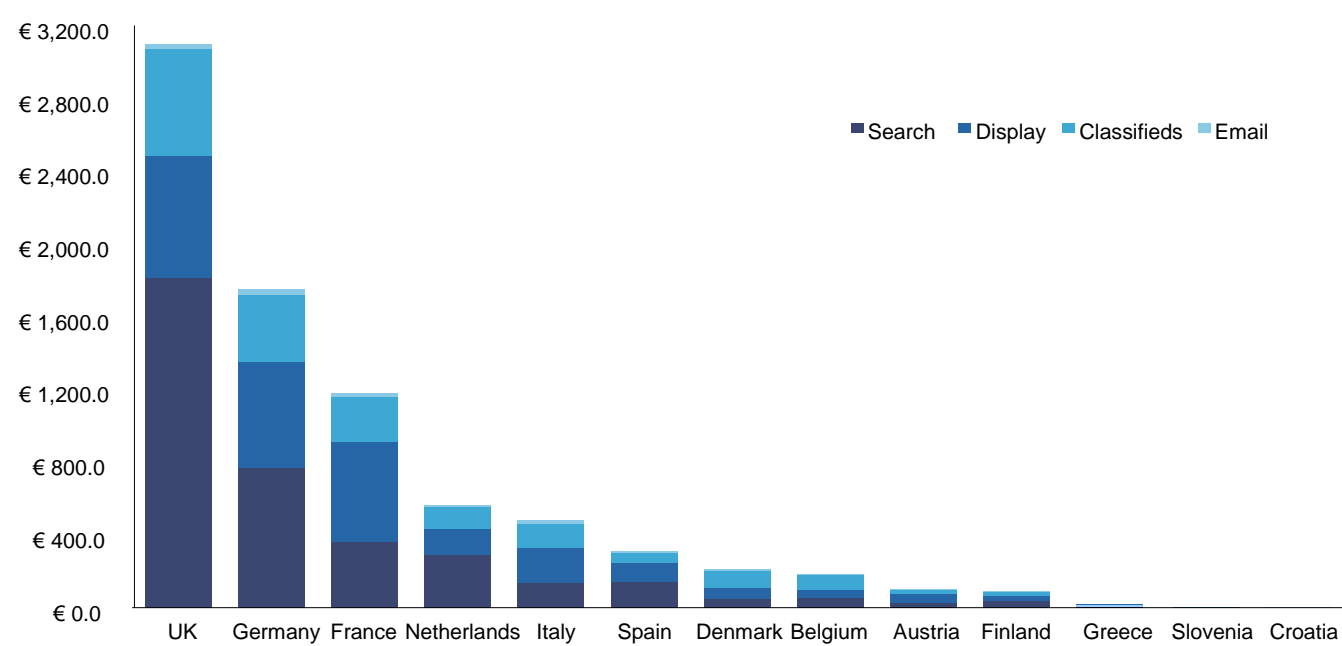


Chart 2 overall market size by format



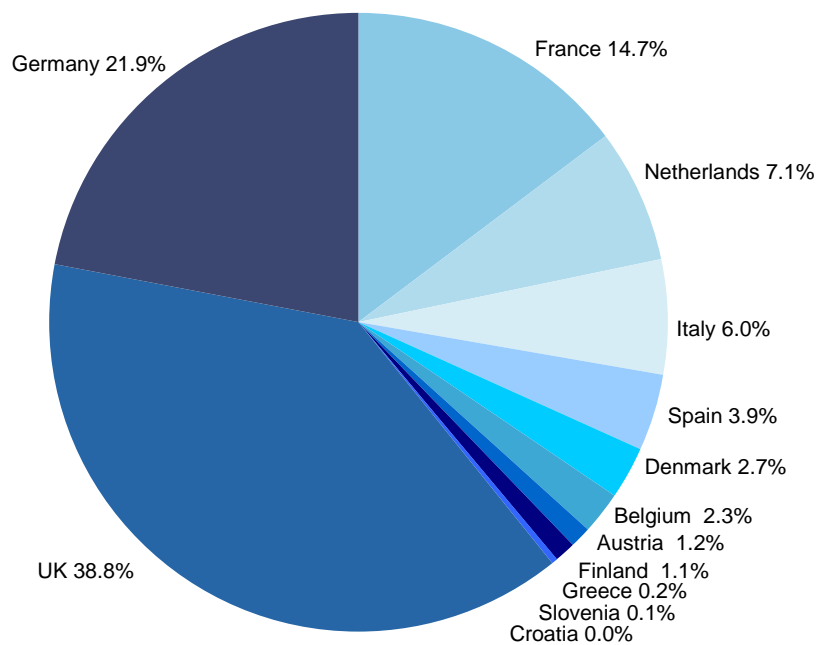
Detailed Findings

Chart 3 Share of formats by country



Source: IAB Europe / PwC

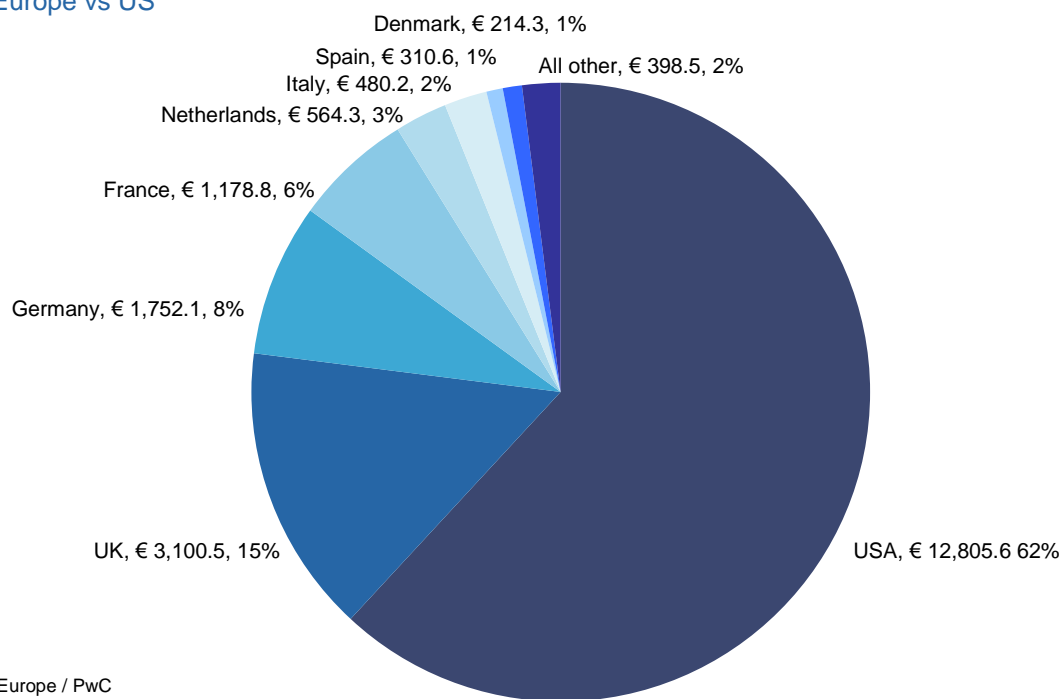
Chart 4 Share of total for countries



Source: IAB Europe / PwC

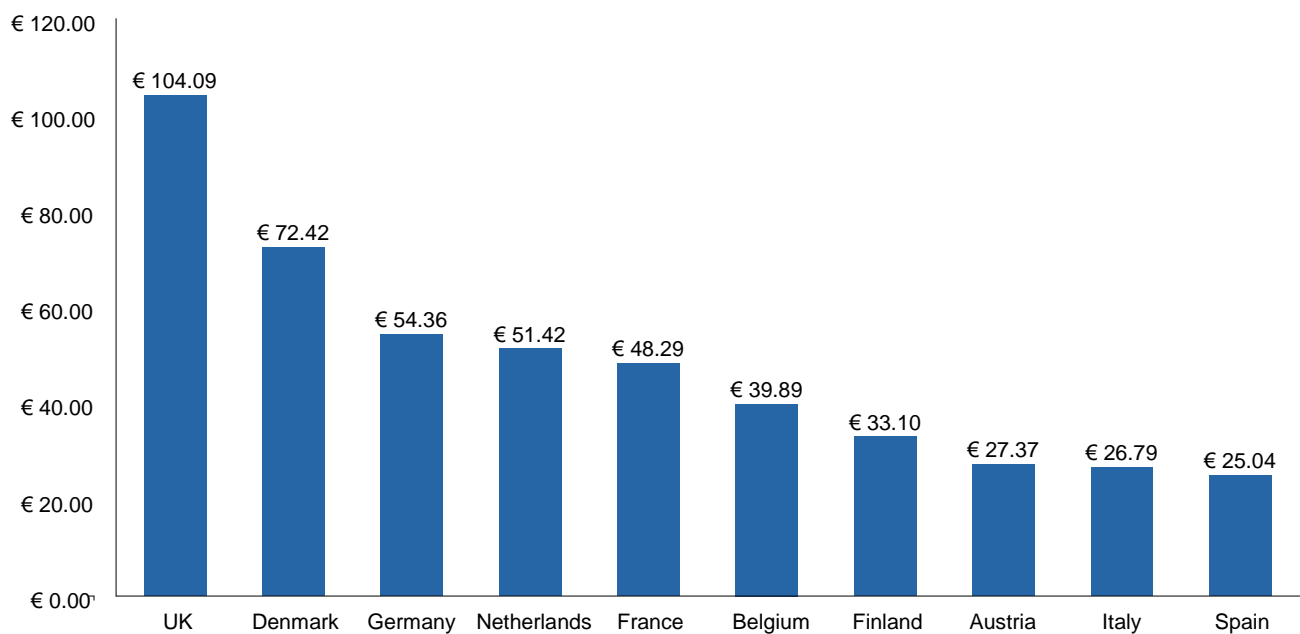
Detailed Findings

Chart 5 Europe vs US



Source: IAB Europe / PwC

Chart 6 Spend per internet user

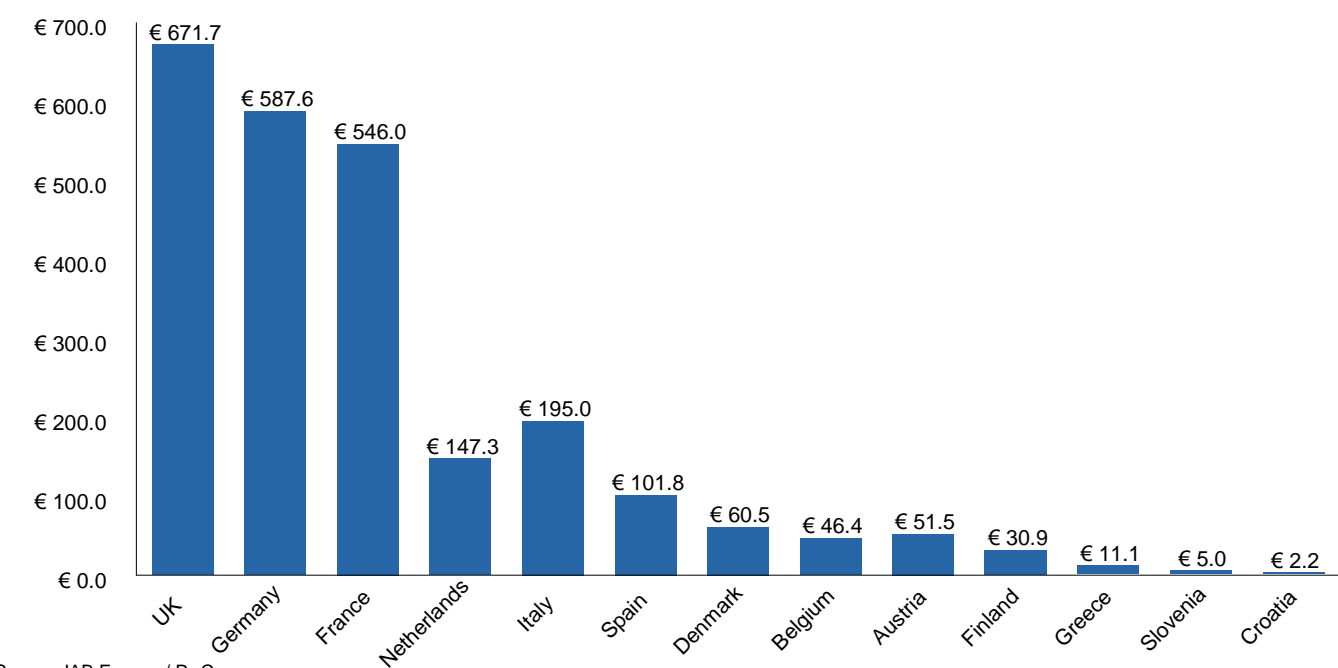


Source: IAB Europe / PwC

Note: Internet Audience Figures are from Comscore December 2007 Total Unique internet audience. No figures available for Croatia, Greece and Slovenia. Figures are calculated in Euros spent on internet advertising per audience member.

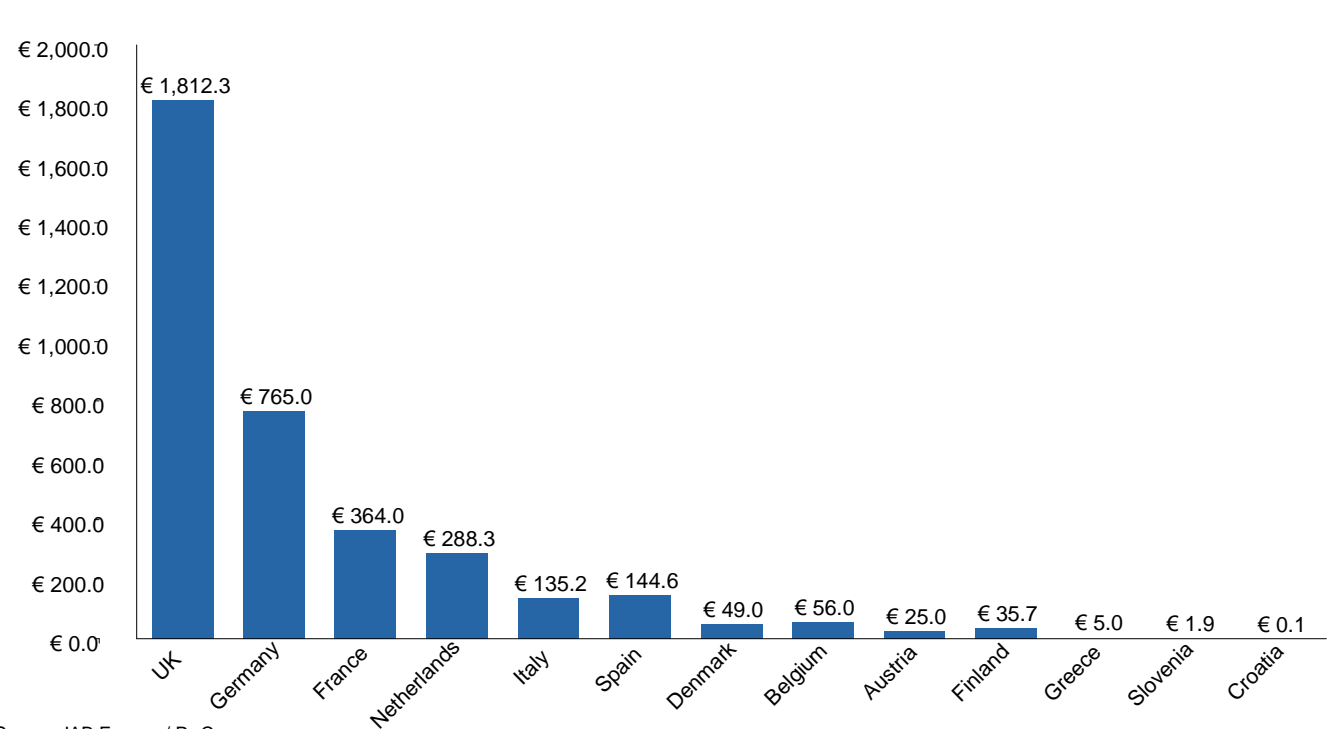
Detailed Findings

Chart 7 Display advertising



Source: IAB Europe / PwC

Chart 8 Search advertising



Source: IAB Europe / PwC

Detailed Findings

Chart 9 Classified advertising

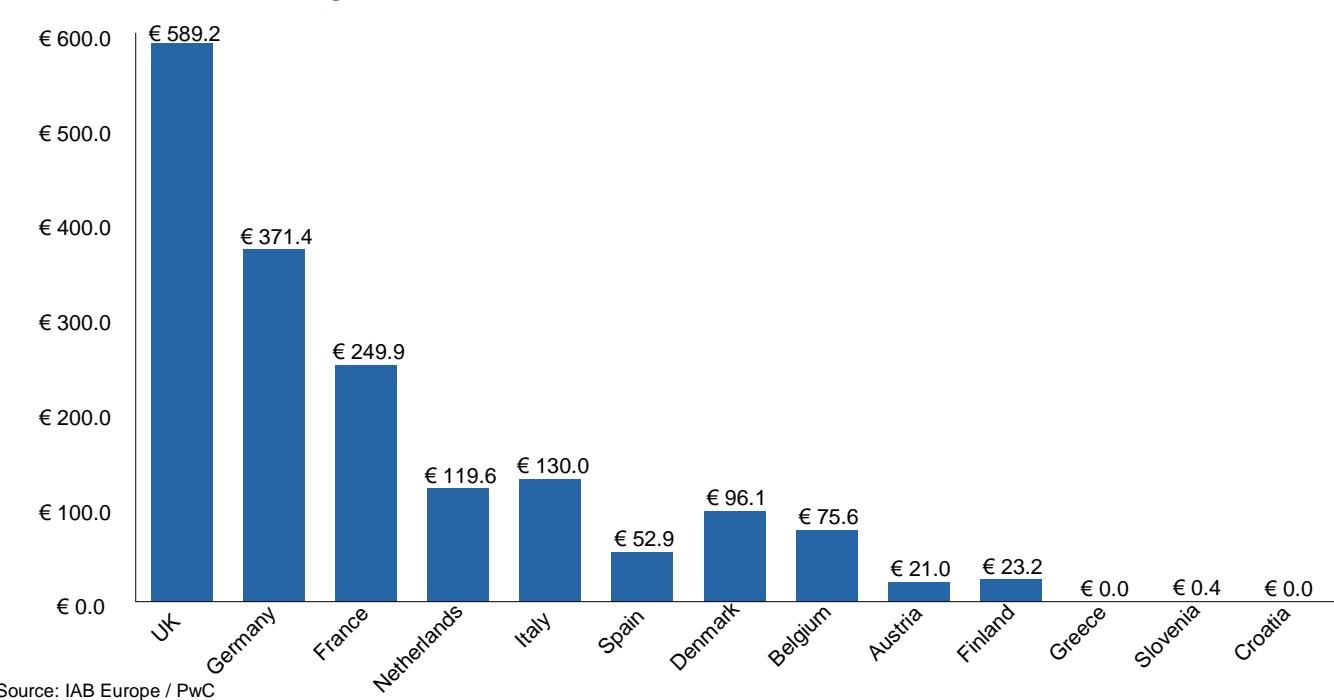
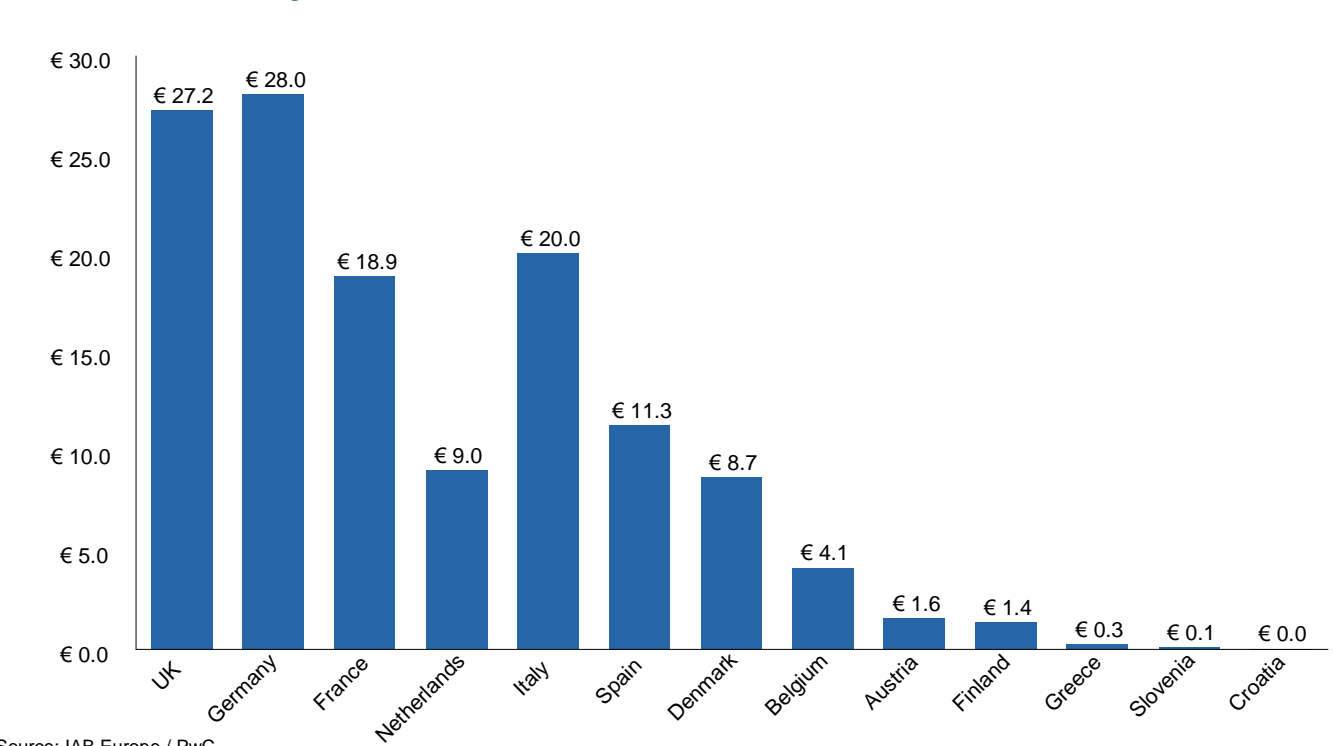


Chart 10 Email advertising



Appendix: Definitions of formats

The following four formats are collated as part of this report

Display Advertising

An advertiser pays an Internet company for space to display a static or hyper-linked banner or logo on one or more of the Internet company's pages. For the purposes of this report, all forms of internet sponsorship, tenancies and rich media formats were collected separately by local IABs have been included in the figure for display advertising.

Search

Fees advertisers pay Internet companies to list and/or link their company site domain name to a specific search word or phrase (includes paid search revenues). Search categories include:

- *Paid listings*—text links appear at the top or side of search results for specific keywords. The more a marketer pays, the higher the position it gets. Marketers only pay when a user clicks on the text link.
- *Contextual search*—text links appear in an article based on the context of the content, instead of a user-submitted keyword. Payment only occurs when the link is clicked.
- *Paid inclusion*—guarantees that a marketer's URL is indexed by a search engine. The listing is determined by the engine's search algorithms.

Classifieds

Fees advertisers pay Internet companies to list specific products or services (e.g., online job boards and employment listings, real estate listings, automotive listings, yellow pages). Can be both Business-to-Business or Business-to-Consumer.

Email Marketing

Banner ads, links or advertiser sponsorships that appear in e-mail newsletters, e-mail marketing campaigns and other commercial e-mail communications. Includes all types of electronic mail (e.g., basic text or HTML-enabled).

The participating IABs

IAB Austria

www.iab-austria.at

Partner: Maketagent & Focus MR

IAB Belgium

www.iab-belgium.be

Partner: SP Consult

Croatia

www.iabeurope.ws

Partner: PULS

FDIM, IAB Partner in Denmark

www.fdim.dk

Partner: Deloitte

IAB Finland

www.iab.fi

Partner: TNS Gallup Oy Media Intelligence

IAB France

www.iabfrance.com

Partner: TNS Media Intelligence

OVK, IAB Partner in Germany

www.bvdw.org

Partner: Nielsen Media Research

IAB Greece

www.iab.gr

IAB Italy

www.iab.it

Partner: Assointernet / Nielsen

IAB Netherlands

www.iab.nl

Partner: Nielsen Media Research

IAB Slovenia

www.soz.si

Partner: Mediana

IAB Spain

www.iab-spain.net

Partner: PwC

IAB UK

www.iabuk.net

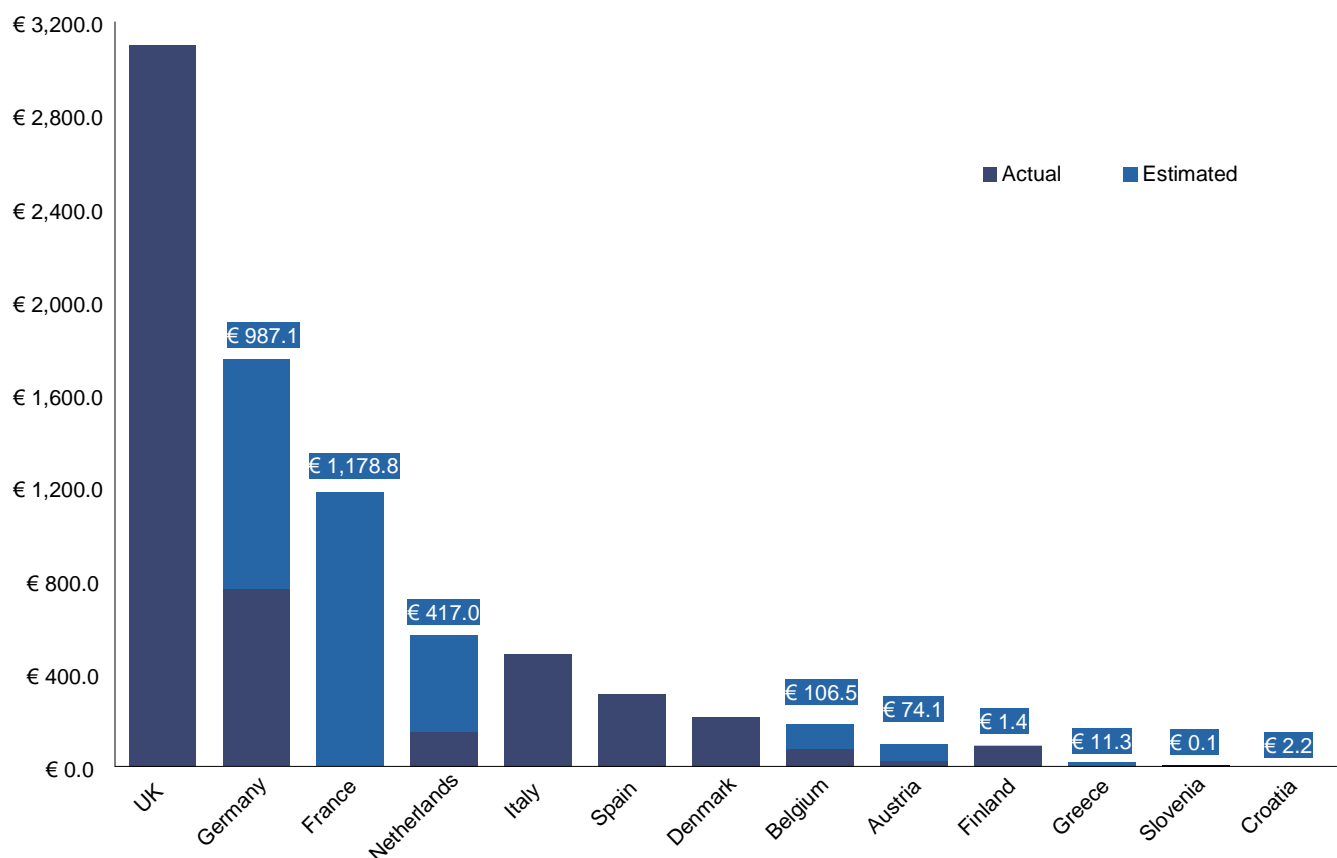
Partner: PwC

Appendix: Methodology and adjusted / estimated data

Not every IAB collects data using the same methodology. A decision was made to use the dominant methodology, which is to use data based on actual billings (gross revenue). A decision was also made to include the four formats Display, Classifieds, Search and Email even though not every country collects data on all of these formats. Therefore some adjustments were made to the data where the method of reporting differed from actual billings, and also estimates were made where the data was not collected.

The aim going forward is to find ways to improve comparability of online ad spend figures across Europe, ensuring that ad spend projects keep up with developments in the local markets.

The table below shows the amounts of estimated / adjusted data for each country.



Source: IAB Europe / PwC

Ratios applied to estimated data were calculated as a % of the total of all of the formats for countries where all formats were collated.

Estimated values using ratios are:

- Classifieds: 21.2% of the total
- Search: 51.1% of the total
- Email: 1.6% of the total

Adjusted data was done on the advice of the local IAB and reviewed by members. Estimated data was also reviewed by members for reasonableness in that local market.

Appendix: Methodology and adjusted / estimated data

Austria

Display adjusted by 20% (Ratecard to Gross)
Classifieds estimated using ratio

Belgium

Search estimated by applying display % increase (2005-06) to 2005 search value
Display adjusted by 30% (Ratecard to Gross)

Croatia

Display figure discounted by 17.5% and multiplied up to represent whole market
Search, Email & Classified numbers supplied by IAB Croatia

Denmark

Classified figure adjusted to discount e-Commerce revenue and auctions

Finland

Display increased by 15% to adjust from Net to Gross
Figure for email estimated using ratio

France

Display figure discounted by 75% to adjust from Ratecard to Gross
Search figure generated by using 60:40 Display:Search ratio
Email and classified figures estimated using ratios

Germany

Display figure discounted by 35% to adjust from Ratecard to Gross
Search figure discounted by 10% to adjust from Ratecard to Gross
Classified figure estimated using ratio

Greece

Display figure discounted by 35% to adjust from Ratecard to Gross
Email estimated using ratios

Italy

No changes to the data supplied by Italy

Netherlands

15% added to 50% of display figure to adjust from Ratecard to Gross
All other figures generated using ratios

Slovenia

Email estimated using ratios

Spain

No changes to the data supplied by Spain

UK

No changes to the data supplied by UK

Contact details

IAB Europe

Alain Heureux
President, IAB Europe
c/o IAB Belgium
Roularta
Research Park
1731 Zellik
Belgium
President@IAB-Belgium.be
Tel - 0032 2 467 58 57

Catherine Evans
Project Manager
Catherine@IAB-Belgium.be
Tel – 0044 7870 781 260

www.iabeurope.ws

PricewaterhouseCoopers

Nicki Lynas
Entertainment & Media
1 Embankment Place
London
WC2N 6RH
nickilynas@hotmail.com
+44 207 804 7192

www.pwc.com

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2007 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.