

JANUARY 2001

T H E F O R R E S T E R R E P O R T

Online Advertising Eclipsed

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Online Advertising Eclipsed

Online advertising's current swoon won't last. A new wave of companies will power a recovery in 2003 that will propel US digital marketing -- not just impression-based advertising -- to \$63 billion in 2005.

2 INTERVIEWS

- Advertisers plan to double online marketing by 2003.
- Marketers will pressure media to take performance-based pricing for 83% of spending.

7 ANALYSIS

- Digital marketing will eclipse online advertising.
- US traditional marketers will embrace and drive 84% of digital marketing by 2005.
- Global online advertising will top \$42 billion by 2005.

17 ACTION

- Marketers should integrate online promotions with advertising.
- Media companies must embrace performance pricing.

18 WHAT IT MEANS

- Accessibility develops into a key metric of audience value.
- Media buyers evolve into attention brokers.

19 RELATED MATERIAL

20 GRAPEVINE

The dark side of multichannel marketing.

Sometimes, consumers need their own walled garden.

I'll take ITV for \$300 please, Alex.

Webring masters flee the Yahoo! circus.

INTERVIEWS

Advertisers Reaffirm Online's Future

Banner bashing and low click-through rates won't deter advertisers from doubling online spending by 2003. They don't foresee major changes in online marketing strategy but do admit that they have a lot to learn before shifting spending from their offline media.

ONLINE ADVERTISING'S DEATH IS GREATLY EXAGGERATED

Has online advertising failed? Growing disappointment with banner performance and Wall Street disenchantment with advertising stars such as Yahoo! and DoubleClick have cast doubt on the new medium's future in the marketing universe. Forrester surveyed 59 marketers and found that these marketers' plans paint a much different story: Online marketing per company will rise from \$550,000 this year to \$1 million in 2003.

Marketers Still Believe In Online's Promise

Far from abandoning the Web, both dot-coms and traditional companies plan to grow their online presence (see Figure 1-1). They believe in online marketing's ability to impact consumers' purchase decisions by combining message delivery with interactivity.

“As we grow our customer database, more of our ad and promotional spending will go online. We can be more efficient by identifying customers who mean more to us and reaching them more often.” (Consumer packaged goods manufacturer)

“The Internet is a direct marketing medium, so success depends on the intelligence you apply to it. We have built good datamarts and customer profiles, and we now use Mediaplex for ad serving. We went from cost-per-order in the triple digits to online becoming one of our most efficient media.” (Multichannel retailer)

Online Spending Will Draw From Offline Budgets

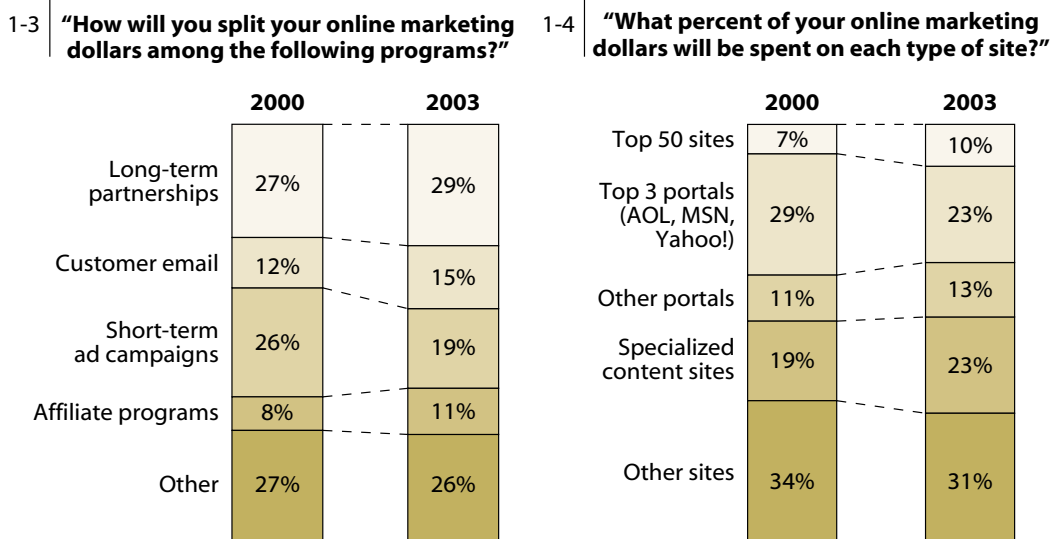
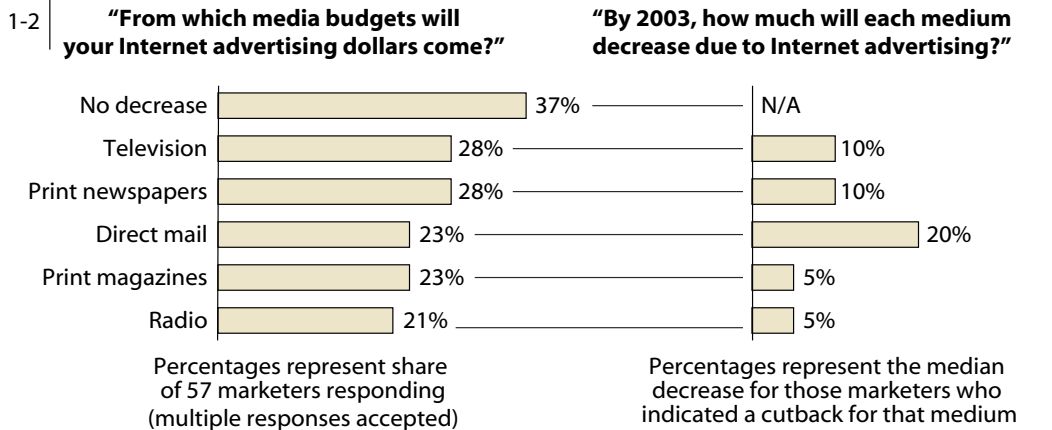
To support this growth in online spending, 63% of respondents say they will draw from offline budgets -- primarily TV, print, and direct mail (see Figure 1-2).

Figure 1 Marketers Plan To Increase Online Marketing

1-1 **"How will you allocate spending in your marketing budget?"**

	Traditional		Dot-coms		Bricks and clicks	
	2000	2003	2000	2003	2000	2003
Percent of total marketing budget spent online	8%	15%	70%	60%	35%	25%
Median online marketing budget (thousands)	\$550	\$750	\$750	\$1,500	\$875	\$2,250
Year maximum is reached	2005		2002		2004	
Online's maximum percent of the total marketing budget	25%		78%		45%	

All figures are medians and based on interviews with 59 marketers



Based on responses of 55 (for 2000) and 53 (for 2003) marketers. "Other" includes email list rental, search engine optimization, online promotions, and ad networks

Based on responses of 48 marketers

Source: Forrester Research, Inc.

“To increase online advertising, the company has to either allocate more money or cut somewhere. Knowing how tight the market is, it seems newspaper and magazines are the place to cut.” (Financial services company)

“We will take money from direct mail to fund email campaigns. Direct mail has been very successful for our online banking services, but targeting people who already spend time online is better.” (Financial services company)

Marketers Fine-tune Their Online Plans

Despite big increases in spending, marketers will make only minor changes to how they spend the money. Ad campaigns will yield to affiliate programs and email campaigns (see Figure 1-3). Spending will diversify to niche content sites and other top 50 most-visited sites (see Figure 1-4).

“On Yahoo! and AOL, we would be neck and neck with 15 other anchor tenants. But on bCentral we are the main merchant in our category and can better reach our small-business target.” (Multichannel retailer)

“To build affinity relationships, we look for Web sites geared toward people like our existing customers. For our women’s programs, we’re going to find partners that have a bias toward women and finance.” (Financial services company)

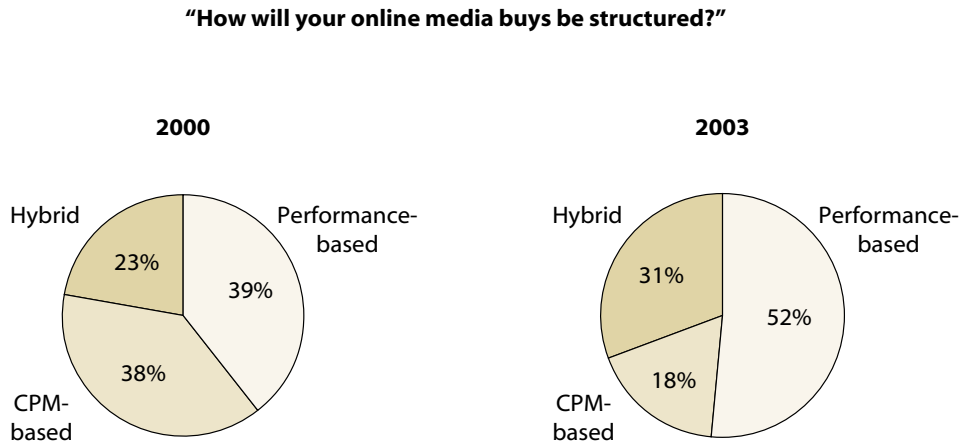
Marketers Still Focus On The PC

Almost all PC marketing spending will be Web- or email-based. Despite the hype, only one-third of marketers plan to spend an average of 2% of their budget on wireless devices. Interactive TV fares even worse -- only 27% say they have plans to spend an average of 1.4% of their budget on this platform by 2003. And when spending does start, it is unclear whether the money will come from interactive or traditional marketing budgets.

“We’re excited about wireless and have someone on staff studying it. A lot of wireless companies pitch proposals to us. We haven’t looked at interactive TV as much, and no one is approaching us about it.”
(Consumer packaged goods manufacturer)

“The interactive marketing group will be the first to do interactive TV, but I think they would have to fight with the offline guys for the budget. Interactive TV would push the Web site and the reservations center to converge -- I don’t know how we’d handle that.” (Travel company)

Figure 2 Marketers Will Demand More Performance-Based Pricing



Mean spending for 51 companies responding
(percentages may not total 100 due to rounding)

Source: Forrester Research, Inc.

Performance Will Dictate Pricing

Marketers say they will aggressively push for more performance-based pricing -- by 2003, 83% of spending will be pure cost-per-action deals or a hybrid of CPM and performance (see Figure 2). They also plan to use online performance to hammer traditional ad rates.

“Our longer-term partner sites know exactly what our click-throughs are and how much we sell through their sites. They have incentives to help us lower acquisition costs.” (Financial services company)

“Once we have the performance metrics to show that we get more bang for the buck from online, we might go to the offline media and tell them to lower their rates.” (Consumer packaged goods manufacturer)

Spending Growth Comes With Some Caveats

While online marketing holds tremendous promise, marketers said increased spending is dependent on three factors: conquering the learning curve, seeing successes by others in their industry, and more effective ad targeting and formats.

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“Even though our brand managers are still in wait-and-see mode, our online spending grew 200% this year. I could eventually see 20% of our marketing budget going online, but not until we develop some hard-core learning about what works.” (Auto manufacturer)

“We won’t trailblaze into the unknown if we have to take money away from what we know will work in our traditional advertising. We will wait for P&G to figure out what is the right thing to do online, then we’ll follow their lead.” (Consumer packaged goods manufacturer)

“Two things could slow my spending. Though email lists aren’t efficient for new-customer acquisition now, my budget plans assume I will learn how to make them work for me that way. Second, if privacy laws restrict my ability to use data, I won’t spend as much.” (Multichannel retailer)

INTERVIEW CONCLUSIONS

The promise of more accountable, measurable advertising will result in marketers doubling online marketing by 2003. In doing this, they will:

- **Shift offline marketing budgets online.** Marketers will trim around the edges of offline budgets to fund this growth in online marketing.
- **Embrace performance-based pricing.** With the ability to track the impact of their campaigns, marketers will pressure media companies to tie compensation to performance.
- **Overcome barriers.** Increasing online spending is contingent on marketers’ ability to use online advertising more effectively than offline media.

ANALYSIS

7

Digital Marketing Overshadows Advertising

The loss of dot-com spending will only pause online marketing's growth. As traditional marketers learn that online advertising is just the first stage of a campaign, they will augment budgets for later-cycle activities like promotions and email, boosting US digital marketing to \$63 billion by 2005. Online advertising alone will rise to \$42 billion worldwide by 2005.

DIGITAL MARKETING ASCENDS

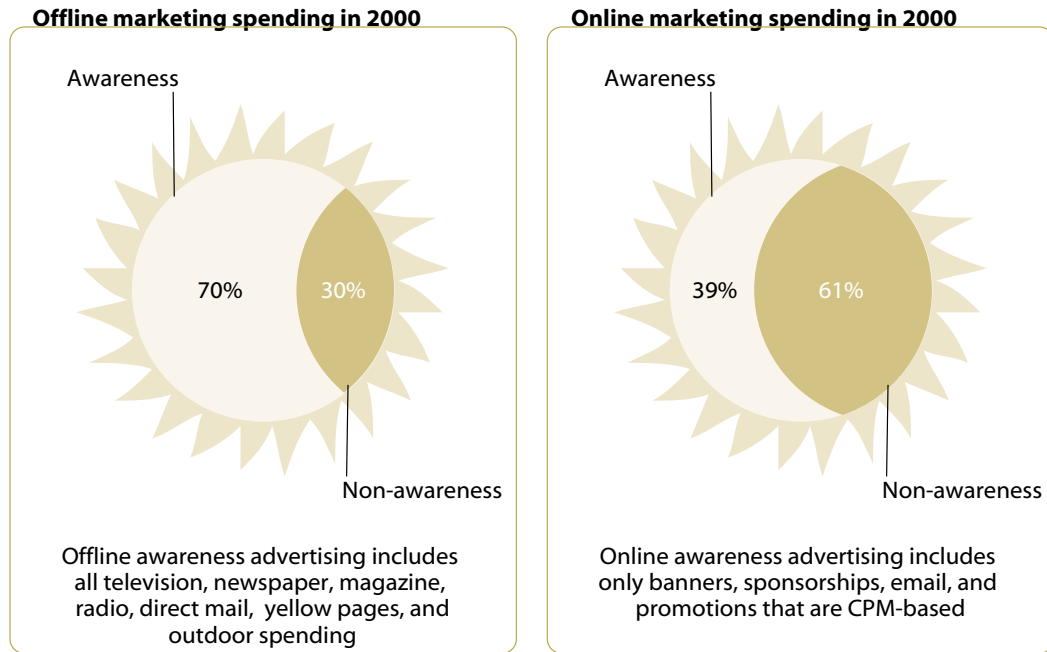
At the start of 2000, the sky was the limit for online advertising. But while the financial market meltdown has dampened dot-com spending, other forces behind online marketing growth are more powerful than ever (see the August 1999 Forrester Report "Internet Advertising Skyrockets").

- **Consumers adopted the digital lifestyle faster.** In 1999, Forrester projected that 60 million US households would be online by 2003. New forecasts show online penetration passing that benchmark two years earlier, in 2001 (see the May 2000 Forrester Report "Benchmark Data Overview").
- **eCommerce grew even bigger.** In 2000, 35 million households will purchase \$45 billion online -- 25% more households and 16% more dollars than anticipated (see the September 2000 Forrester Report "Online Retail's Ripple Effect").
- **Online's influence spread beyond purchases.** Already, 44% of online consumers use the Web to research offline purchases on a weekly basis (see the November 2000 Forrester Report "Retail & Media Data Overview"). By 2005, consumers will make 11% of all retail purchases online while they will research another 15% of purchases online -- \$378 billion -- before purchasing offline.

Marketing Services Will Eclipse CPM-Based Ads

As marketers have grasped the Web's ability to intercept and sway consumers' purchase decisions, they have shifted online dollars away from awareness generation -- especially when compared with traditional offline marketing budgets (see Figure 3). Three trends are feeding this shift:

Figure 3 Marketing Services Will Eclipse Awareness-Based Advertising



Source: Forrester Research, Inc.

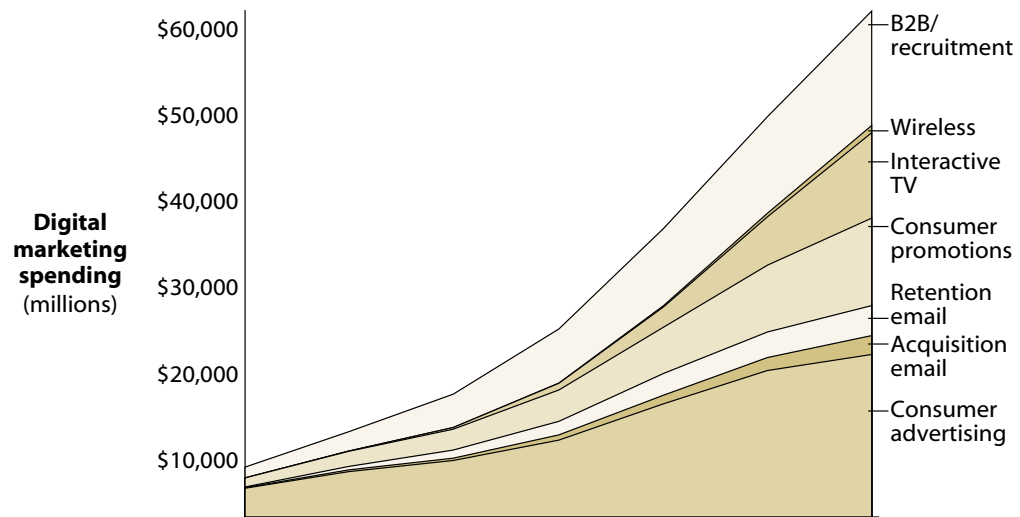
- **Marketers are shifting resources down the decision-making process.** Eager to bridge the gap between awareness and purchases, marketers increasingly use the Internet to influence preference and consideration. CNET supports rich media ads they call “product marketing units” that embed detailed product information in the ad -- thus allowing the consumer to gather more information before making the decision to click on the marketers’ ad and leave CNET.
- **Marketers are focusing on buying media for results, not audiences.** Traditionally, marketers targeted ad buying based on which media would deliver the appropriate audience. But digital marketing shifts the focus away from traditional targets like 24- to 45-year-old females on a site to targeting people who are shopping for DVDs, and recasts measurement from using recall studies to track simple message communication to tracking results in the form of click-throughs, leads, or even purchases.
- **Media companies are evolving into marketing service providers.** Media companies increasingly offer promotions, email, and other marketing services to marketers as part of their total solution to engage the consumer. Why? Because online shopping channels -- such as those on Yahoo! and AOL -- transform these companies from being media businesses that merely deliver messages to an audience into sales channels responsible for driving traffic through the online “store.”

DIGITAL MARKETING GROWS TO \$63 BILLION IN THE US BY 2005

How much will these new marketing services propel online spending? In total, US digital marketing will grow from \$11 billion in 2000 to \$63 billion by 2005 -- representing 12% of all marketing dollars (see Figure 4). The components of this spending include:

- **Consumer online advertising.** The rise of other online marketing elements will decrease the role of online advertising -- by 2005, \$20 billion in consumer advertising spending will represent just 32% of all digital marketing spending, down from 53% in 2000. Ad growth will slow from a dizzying compound annual growth rate of 93% between 1998 and 2000 to a 29% annual rate from 2000 to 2005.
- **Email.** More than \$6 billion will be spent on email marketing in 2005, spanning both customer acquisition and retention (see the January 2000 Forrester Report "The Email Marketing Dialogue"). Email's compound annual growth rate of 88% will make it 10% of digital marketing by 2005.
- **Online promotions.** Luring consumers along the marketing cycle with targeted offers will propel the growth of promotions 42% annually. This later-stage marketing activity will grow to more than \$11 billion, 17% of digital marketing, by 2005 (see the April 2000 Forrester Report "The Promotion Commotion").
- **Interactive TV.** Although companies today barely take ITV into account in their marketing planning, compelling interactivity and swift adoption rates will result in 48 million households having ITV service by 2005 (see the July 2000 Forrester Report "Smarter Television"). The budget may still be called "television" but more than \$10 billion will gradually become digital as cable networks upgrade, set-top boxes reach consumers, and advertisers enhance their commercials. As a result, ITV will comprise 17% of digital marketing by 2005.
- **Wireless.** Despite the headlines, wireless will grow slowly as telecoms upgrade to high-speed infrastructure through 2003 -- and then must wait for consumers to upgrade handsets (see the May 2000 Forrester Report "Mobile Internet Realities"). As a result, wireless advertising won't even reach \$1 billion before 2005 (see the July 10, 2000 Forrester Brief "US Mobile Users Have No Time For Ads").
- **B2B advertising picks up steam.** By 2005, companies will spend \$10 billion to market online to other companies, while human resources departments will shift their job hunting online, spending \$4 billion in recruitment advertising (see the September 2000 Forrester Report "eBusiness Network Marketing" and see the February 2000 Forrester Report "The Career Networks"). These nonconsumer marketing budgets will account for 23% of digital marketing in 2005.

Figure 4 US Digital Marketing Grows To \$63 Billion By 2005



	1999	2000	2001	2002	2003	2004	2005
B2B/recruitment	\$1,337	\$2,389	\$4,128	\$6,699	\$9,562	\$11,959	\$14,176
Wireless	\$0	\$0	\$3	\$27	\$159	\$440	\$891
Interactive TV	\$3	\$36	\$209	\$831	\$2,513	\$5,991	\$10,582
Cons. promotions	\$1,121	\$1,867	\$2,584	\$3,885	\$5,738	\$8,277	\$10,834
Retention email	\$77	\$424	\$1,006	\$1,678	\$2,693	\$3,163	\$3,715
Acquisition email	\$79	\$219	\$285	\$648	\$1,065	\$1,607	\$2,339
Cons. advertising	\$3,551	\$5,600	\$6,988	\$9,511	\$12,771	\$16,805	\$20,120
Total (millions)	\$6,168	\$10,534	\$15,202	\$23,278	\$34,500	\$48,242	\$62,657

(totals may not equal sum of rows due to rounding)

Dig. marketing as % of total marketing	2%	3%	4%	5%	8%	10%	12%
Online cons. mktg. as % of eCommerce	N/A	14%	14%	15%	15%	15%	15%
Offline cons. mktg. as % of offline retail	N/A	17%	13%	12%	12%	12%	11%
Digital mktg. per capita spending	\$74	\$105	\$128	\$180	\$249	\$335	\$430
Newspaper per capita spending	\$375	\$399	\$421	\$444	\$466	\$484	\$503

Percent of spending by compensation	1999	2000	2001	2002	2003	2004	2005
CPM-based	68%	43%	37%	33%	30%	29%	29%
Hybrid	19%	21%	23%	26%	27%	31%	33%
Performance-based	14%	35%	39%	41%	42%	39%	37%

Source: Forrester Research, Inc.

New Marketers Power Digital Marketing

Who will be spending all these dollars? The dot-com tide has begun to ebb -- Forrester projects that while dot-coms accounted for 69% of digital marketing spending in 2000, their share will decline to just 16% of spending by 2005. In their place, three waves of traditional advertisers will embrace digital marketing:

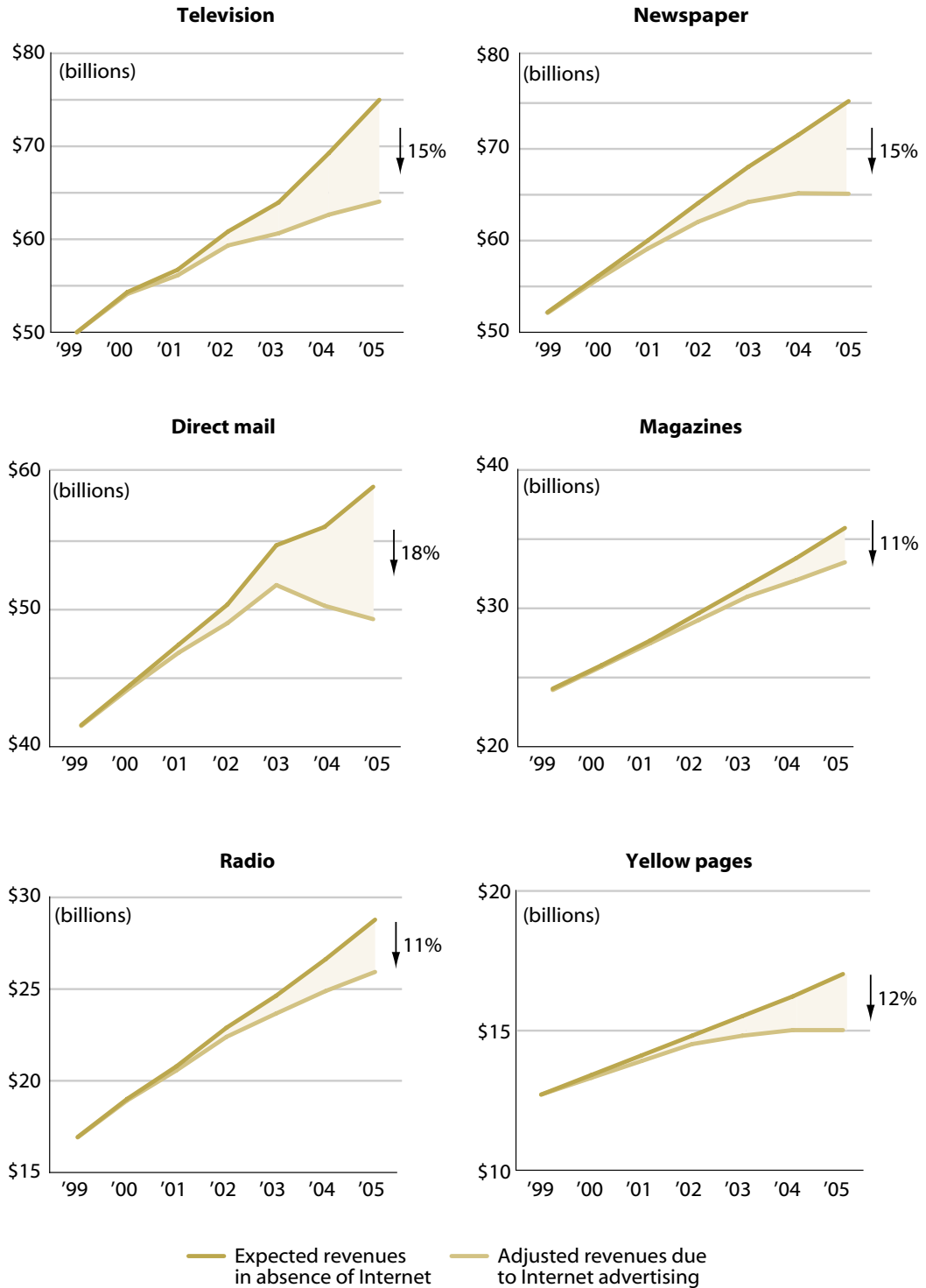
- **Traditional early adopters will carry the weight.** Based on Forrester estimates, the early movers -- companies that started advertising online before 1999 and include sellers of highly considered products or services like autos and financial services -- accounted for 16% of offline marketing in 2000. But because they plan to shift 25% of the overall marketing budget online over the next five years, they will represent 32% of all digital marketing spending by 2005.
- **Mainstream advertisers will jump in by 2002.** Many traditional companies like Chrysler have hung back and waited to see how the market develops. With the increased spending of their early adopter competitors now evident, these companies will begin to market online in earnest in 2002. They control 46% of all offline marketing spending and plan to eventually spend 15% of their budget online -- but because of their late start, they will spend only 10% online by 2005, equal to 41% of digital marketing.
- **Laggards will delay and spend little.** Low-consideration products such as soft drinks and household cleaners began to dabble online in 2000 and will start to take the online medium more seriously in 2002. Although Coca-Cola signed a two-year, \$64 million strategic marketing alliance with AOL, it doesn't plan to commit more than a few percent of its budget online in the near future. With online budgets representing a lower percentage of the total marketing budget, this group will account for only 11% of digital marketing in 2005.

Bad Omens For Old Media

Advertising's eclipse will cast a shadow on offline media as digital marketing diverts dollars to fund online spending. Furthermore, it augurs a change in the relationship between marketers and media companies as performance-based pricing develops.

- **Digital marketing siphons \$40 billion from offline media.** As marketers put offline budgets under the microscope, they will trim inefficient spending and funnel the savings to new digital marketing programs (see Figure 5). Direct mail printers and lettershops will see \$10 billion, or 18% of expected revenues, leave their industry. Television and print media won't fare much better.

Figure 5 Digital Media Grows At The Expense Of Traditional Media



Source: Forrester Research, Inc.

- **Sites reluctantly accept performance-based deals.** Although marketers would like to base most of their online spending on performance, content sites don't want to be stuck with pure per-click or percent-of-sale payments. As a compromise, major portals are developing hybrid deals that require upfront payments but also guarantee a number of sales or click-throughs, with "make goods" if they fall short. As these deals spread, Forrester estimates that spending with performance criteria -- which includes a combination of hybrid and pure pay-for-performance pricing -- will increase from 57% in 2000 to 71% in 2005.

GLOBAL ONLINE ADVERTISING SOARS TO \$42 BILLION IN 2005

While digital marketing takes hold in the US, the rest of the world will not experience the eclipse of online advertising for another 18 months. Thus, on a worldwide basis, Forrester looked at online advertising on its own and found that while regions outside of North America represented only 16% of online advertising in 2000, they will grow their share to 27% of the \$42 billion online advertising market in 2005 (see Figure 6).

European Online Advertising Grows Ninefold To \$6 Billion By 2005

Consumer eCommerce will drive the European online advertising market as it balloons from €8.5 billion to €174 billion in 2005 (see the April 2000 Forrester Report "Retail's Pan-European Future"). But high access charges, lower technology adoption rates, and lower overall per capita ad spending all stem the growth of online advertising when compared with the US. Despite this, European online advertising will grow on average 52% annually and will be \$5.7 billion by 2005.

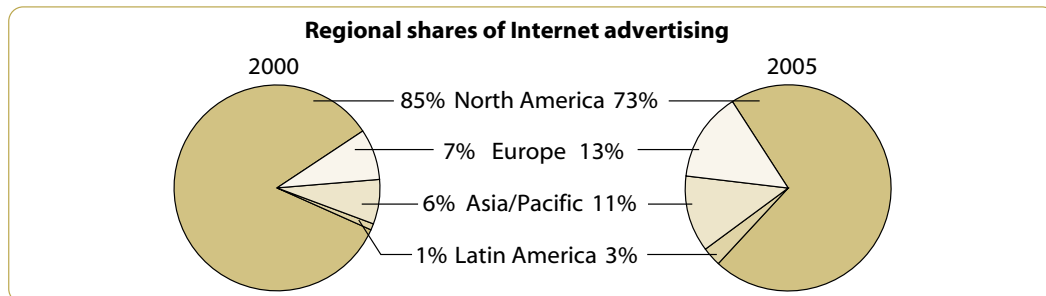
- **The UK keeps the lead . . . for now.** In the UK, 40% of online households purchase online compared with only 28% of Germans online households. Despite a traditional advertising market that is 20% smaller, this embrace of eCommerce encouraged UK marketers to spend \$177 million online in 2000, edging Germany out of its spot as the No. 1 online advertising market in Europe. But Germans spend one-third more time online, and as traditional marketers shift their larger budgets online, Germany's online ad spending will overtake the UK in 2003.
- **The Nordic countries drive 10% of European online advertising.** Sweden, Finland, Denmark, and Norway have the fastest technology adoption rate in Europe (see the February 1999 Forrester Report "Europe's eZones"). By 2005, the Nordic region's \$565 million in online advertising spending will challenge France for the position of third-largest online advertising market in Europe.

Figure 6 Worldwide Online Advertising Grows To \$42 Billion By 2005

	2000	2001	2002	2003	2004	2005
North America (\$ millions)						
United States*	\$6,983	\$9,462	\$13,612	\$19,015	\$24,806	\$30,213
Canada	\$59	\$101	\$167	\$268	\$402	\$560
Total North America	\$7,042	\$9,562	\$13,779	\$19,282	\$25,208	\$30,774
Europe (\$ millions)						
Germany	\$140	\$238	\$458	\$704	\$1,057	\$1,514
United Kingdom	\$177	\$299	\$471	\$681	\$971	\$1,326
France	\$90	\$157	\$236	\$342	\$479	\$664
Nordic countries	\$68	\$111	\$177	\$272	\$400	\$565
Italy	\$46	\$95	\$150	\$228	\$312	\$421
Spain	\$23	\$46	\$75	\$116	\$173	\$252
Other Europe	\$76	\$132	\$226	\$380	\$616	\$943
Total Europe	\$620	\$1,079	\$1,792	\$2,723	\$4,008	\$5,685
Asia/Pacific (\$ millions)						
Japan	\$368	\$630	\$1,035	\$1,606	\$2,325	\$3,125
South Korea	\$25	\$43	\$71	\$113	\$177	\$261
Australia	\$59	\$101	\$165	\$256	\$371	\$499
China	\$7	\$9	\$13	\$19	\$26	\$37
Hong Kong	\$31	\$54	\$91	\$135	\$192	\$253
Taiwan	\$23	\$39	\$65	\$98	\$137	\$182
Other Asia/Pacific	\$22	\$35	\$55	\$82	\$118	\$162
Total Asia/Pacific	\$534	\$911	\$1,494	\$2,309	\$3,346	\$4,518
Latin America (\$ millions)						
Brazil	\$62	\$104	\$166	\$257	\$381	\$536
Mexico	\$20	\$36	\$67	\$114	\$192	\$320
Argentina	\$7	\$14	\$27	\$49	\$83	\$125
Other Latin America	\$17	\$28	\$48	\$79	\$129	\$202
Total Latin America	\$106	\$182	\$308	\$499	\$785	\$1,183
Total worldwide (millions)	\$8,303	\$11,735	\$17,374	\$24,814	\$33,347	\$42,160

(totals may not equal sum of rows due to rounding)

*To show comparable spending levels to worldwide online ad spending, US includes: recruitment ads, acquisition and retention emails, and consumer advertising



Source: Forrester Research, Inc.

- **Portal consolidations create more attractive online audiences.** Portals must grab a critical mass of traffic to earn enough ad revenue to survive (see the October 2000 Forrester Report “Europe’s Portal Squeeze”). This reality set off a wave of consolidation as Spanish portal Terra bought both Lycos and Swedish portal Spray, French portal Wanadoo scooped up leading UK ISP Freeserve, and Dutch portal World Online merged with the Italian portal Tiscali. As marketers begin to capitalize on cross-border opportunities, these portals provide the ability to create country-specific campaigns while still achieving Pan-European reach.

Asia-Pacific Online Ad Spending Rises To \$4.5 Billion By 2005

While Japan and Australia continue to power 80% of the region’s online advertising market, online advertising remains embryonic elsewhere in the Asia-Pacific region. But growing technology penetration in countries with healthy traditional advertising markets will fuel the region’s ninefold growth to more than \$4 billion in 2005.

- **Japan’s recovery drives the region.** With an annual compound growth rate of 53%, Japan will continue to dominate the region -- especially as its improving economic climate encourages online buying and thus marketing. Online advertising will grow from \$368 million in 2000 to \$3.1 billion by 2005.
- **Hong Kong and South Korea lead the Asian Tigers.** Hong Kong and South Korea will take in \$514 million in online advertising by 2005. Hong Kong’s advanced telecom infrastructure and \$412 per capita offline ad spending make online advertising a natural. South Korea is building out an extensive broadband network while its government actively promotes eCommerce through enabling legislation and establishing the Korea Institute for eCommerce.
- **Uncertainty stymies China’s potential.** With nearly 90% of Chinese homes passed by cable, marketers dream of a broadband pipeline direct to a potentially huge consumer base. But competing regulatory agencies wrestle over jurisdiction, first allowing foreign investment to upgrade in the system and then abruptly canceling the deals. In addition, government officials recently announced plans to tax Internet transactions and issued regulations putting controls on online advertising. Confusion and fear will keep marketers on the sidelines until a clearer picture emerges, limiting Chinese online ad spending to \$37 billion even by 2005.

Latin America Grows Online Ad Spending To \$1.2 Billion By 2005

Throughout the region in 2000, Internet activity became more frenzied than Rio during Carnival. A flood of foreign investment, the spread of free ISPs, and the emergence of dot-com entrepreneurs set off a temporary Internet boom. Despite the dot-com meltdown, online ad spending in Latin America will continue to grow to \$1.2 billion by 2005.

- **Ad spending concentrates in Brazil and Mexico.** These two countries accounted for 77% of the online advertising market in 2000 and will drop slightly to 72% in 2005 as Argentina's online market grows. Continuing economic problems and political turmoil will delay the online development of the large traditional ad markets in Colombia and Venezuela.
- **US and Europe position for Internet dominance.** Major players in both the US and Europe rushed to align themselves with local Internet leaders to gain access to the large Latin American audience. Microsoft extended its cable TV holdings by taking an 11.5% stake in Brazil's largest cable operator while Portugal Telecom bought Brazil's Zip.net Internet portal.
- **Cross-media deals lay a digital marketing foundation.** In November, El Sitio trumped leading online network Starmedia by merging with Ibero-American Media Partners' broadcast and pay television properties to create Claxson Interactive Group. The new company's plan: sell integrated bundles of offline and online campaigns to give marketers the best access to their audiences. This plan will accelerate the growth of online advertising -- traditional marketers who might turn away an Internet-only sales pitch will be educated by their TV sales rep.

ACTION

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Marketers should integrate promotions with advertising.

Rather than organize and budget around “above-the-line”(advertising) and “below-the-line” (direct marketing and promotions) activities, marketers should reorganize around different consumer goals, such as new customer acquisition, competitive switching, or loyalty. Marketing managers can then match the media mix with marketing tools that will best deliver against those objectives.



European marketers should embrace promotional rewards.

Europeans tend to dismiss America’s hard-sell promotional methods. But digital marketing provides a new opportunity that fits with the region’s kinder, gentler style by discreetly inserting rewards, discounts, and giveaways into prospect and customer communications. Rather than use promotions as high-volume, undifferentiated pressure tactics, digital marketers can position them as a thank you to a loyal customer or welcome gift to a new buyer.



Ad agencies should farm out interactive TV talent.

Ad agencies can’t afford to let upstart interactive shops take the lead as their bread-and-butter TV revenues metamorphose into digital marketing. Agency holding companies should view their interactive arm as a digital marketing farm team. When Omnicom needs expertise on Wink and WorldGate systems, its creative and production teams should call up the experts from Organic to add their interactive experience and technology knowledge. The same strategy will work in wireless: Omnicom should transfer talent from Razorfish’s Mobile Solutions Laboratory to direct marketing arm Rapp Collins.



Media companies should learn to live with performance payment.

Media companies cling to CPM-based pricing that guarantees revenues. But to thrive in the digital marketing world, they must instead take three steps to embrace performance payments. First, discard the idea that marketers are paying media companies for “opportunities” to view ads -- marketers want results, not eyeballs. Second, develop an understanding of audience click-through and purchase behaviors to accurately predict the value of those actions -- and thus know which performance deals to accept or reject. Third, add merchandisers to the marketing department -- people who can improve results and generate upside revenue within a performance deal.

WHAT IT MEANS



Media companies place a value on audience accessibility.

Use of online media will yield a new type of insight into consumer media consumption: consumers' tolerance to ads. In the process of tracking how overexposure to ads decreases click-throughs -- or worse, drives the viewer to another site -- media companies will limit the number of ads they deliver. Combined with TV viewing data from cable head ends and print subscription data, individuals will receive a score of their "media accessibility." Media companies will charge more for consumers whose low accessibility means less exposure to ads -- and more impact for the ads that they *do* see.



Media mergers face scrutiny on data ownership.

As online and offline media companies consolidate to reach consumers throughout the marketing cycle, they will merge their user databases to enhance targeting and tracking. As these companies become more adept at influencing individual buying decisions, government will focus antitrust scrutiny away from distribution control to data control. Legislatures will submit regulation that requires companies to install data firewalls between media properties to restrain the development of this higher level of influence.



Wanted: VP, Marketing. Math degree required.

Today, managing big budgets is often the route to the top marketing positions. Tomorrow, proving that your plans deliver higher profitability will pave the way up the ladder. Instead of hiring MBAs with general management skills, companies will recruit from applied math departments to fill junior brand manager slots. Deep data analysis and systems design skills will give these managers an edge as they show the CEO how shifting 5% of the marketing budget from promotions to loyalty programs added 8% to the bottom line.



Offline media partner to reinforce their mass-media standing.

Unable to generate significant online revenues, newspapers and co-op mailers like Advo and Val-Pak instead focus on defending their offline mass audience reach with a series of online mergers and partnerships. Newspapers will pursue online partnerships with cross-town print rivals to supplement their 55% offline reach. Co-op mailers will form partnerships with newspapers to electronically fill in distribution holes while also reaching people later in the marketing cycle.

RELATED MATERIAL

Companies Interviewed For This Report

24/7 Media <i>www.247media.com</i>	drkoop.com <i>www.drkoop.com</i>	SINA.com <i>www.sina.com</i>
adMaster network <i>www.admasternetwork.net</i>	E-Mail Vision <i>www.e-mailvision.com</i>	Sportal <i>www.sportal.com</i>
ad pepper media <i>www.adpepper.com</i>	Expedia.com <i>www.expedia.com</i>	StarMedia <i>www.starmedia.com</i>
Alta Vista <i>www.altavista.com</i>	Freeserve <i>www.freeserve.com</i>	Sympatico-Lycos <i>www.pre.sympatico.ca</i>
America Online <i>www.aol.com</i>	Ginger Media Group	Terra Networks <i>www.terra.com</i>
AutoTrader.com <i>www.autotrader.com</i>	HealthCentral.com <i>www.healthcentral.com</i>	The Motley Fool <i>www.fool.com</i>
Caramail <i>www.caramail.com</i>	i-level <i>www.i-level.com</i>	Torstar <i>www.torstar.com</i>
cars.com <i>www.cars.com</i>	IDG <i>www.idg.net</i>	Travelocity <i>www.travelocity.com</i>
CBS Marketwatch <i>www.marketwatch.com</i>	Internet Venture Works <i>www.iwv.com</i>	Tribal DDB <i>www.tribalddb.com</i>
CNET <i>www.cnet.com</i>	iVillage <i>www.ivillage.com</i>	Wieden + Kennedy <i>www.wk.com</i>
Competitive Media Reporting <i>www.cmr.com</i>	MapQuest <i>www.mapquest.com</i>	World Online <i>www.worldonline.com</i>
Credit Suisse First Boston <i>www.csfb.com</i>	MSN <i>www.msn.com</i>	Virgilio <i>www.virgilio.it</i>
Dentsu <i>www.dentsu.co.jp</i>	Nikkei Net Interactive <i>www.nikkei.co.jp</i>	Yahoo! <i>www.yahoo.com</i>
Disney Internet Group <i>www.disney.com</i>	pixelpark <i>www.pixelpark.com</i>	Yahoo! UK <i>www.uk.yahoo.com</i>
DoubleClick <i>www.doubleclick.net</i>	PricewaterhouseCoopers <i>www.pwcglobal.com</i>	Yupi Internet <i>www.yupi.com</i>
DoubleClick UK <i>www.doubleclick.net/uk</i>	renren Media <i>www.renren.com</i>	

Related Research

November 2000 Forrester Report “Retail & Media Data Overview”
September 2000 Forrester Report “Online Retail’s Ripple Effect”
May 2000 Forrester Report “Benchmark Data Overview”
April 2000 Forrester Report “Retail’s Pan-European Future”
August 1999 Forrester Report “Internet Advertising Skyrockets”

G R A P E V I N E

The dark side of multichannel marketing.

When we signed up to give a speech to the Direct Marketing Association, we thought it would be a good way to reach marketers. Little did we know that the DMA is as sticky as tar. Unsolicited, the DMA put us on its mailing list and the assault of spam began -- in email, snail-mail, and fax. Our second attempt to get off the mailing list finally led us to a special Web page, where if you fill out the form just right, the email and faxes stop -- but the direct mail brochures continue to show up. If the DMA wants to hold itself up as representing the best practices of its industry, it should get its own house in order first.

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Sometimes, consumers need their own walled garden.

Dissatisfied with his telco-provided home DSL service, a Forrester analyst decided to switch to Microsoft's offering. But then he learned that his Outlook Express email client was incompatible with the service -- he had to use Microsoft's Hotmail service instead. Why? Presumably so Microsoft could place banners in his inbox. Forrester thinks it's double dipping to impose this on customers already paying \$39.95 a month.

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I'll take ITV for \$300 please, Alex.

Bruce Annan of *The Toronto Star* gave us the skeptic's view of the future of interactive television. He suggested that "People just don't want to play along with 'Jeopardy' and find out they're not right as often as they think they are." But PVRs may brighten the future of ITV -- if consumers fail to answer questions on "Jeopardy," their TiVo can recommend a game more their speed. Perhaps "The Price Is Right?"

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Webring masters flee the Yahoo! circus.

Webrings are a series of sites tied together by simple navigation and serve as an easy way for users to find similar sites. One example: "The Free Knitting Pattern Netring" which featured 68 sites -- a magnet for knitters and, potentially, advertisers. At least so thought Yahoo!, which acquired pioneer webring.org as part of its GeoCities purchase. This past September, Yahoo! began requiring that users have a Yahoo! ID to join its rings -- causing a mass exodus to alternative ring sites like RingSurf. RingSurf's CEO, Hunter Gordon: "We're looking at more than 2 million page views this month just on our directory pages. We'll soon be able to work with DoubleClick to target ads."