



...The Whole Internet Ad Picture

When it comes to understanding the size of the Internet advertising market, **it pays to look at the big picture!**

The release of second-quarter (2005) ad spending numbers by [Nielsen Monitor-Plus](#) generated dozens of headlines, and many publications focused on the Internet angle:

- [Reuters](#): "Internet advertising rose nearly 13 percent."
- [Ad Age](#): "The Internet rose 12.6%."
- [Adweek](#): "The Internet [was up] 12.6 percent."

At least one publication, [MediaPost](#), contrasted the second-quarter growth with projections from research firms: "*JupiterResearch forecast earlier this month that spending for online display ads would reach \$5.1 billion this year, up around 25 percent from last year's \$4.1 billion. Other researchers and analysts anticipated even higher numbers. Goldman Sachs predicted that online advertising overall (including search) would soar by 28 percent for the year; Forrester Research predicted that all online advertising would climb by 23 percent this year; and research firm eMarketer predicted a 34 percent increase.*"

The headline number from the *Nielsen* release is accurate, but the footnote is telling: "*Estimated online spending reflects CPM-based advertising only and **excludes search-based advertising**, paid fee services, performance-based campaigns, sponsorships, barter, partnership advertising, advertorials, promotions, email and direct response.*"

David Hallerman, *eMarketer* Senior Analyst and author of the forthcoming report on ad spending trends, says, "*Concerns about what formats get included or not in Internet ad spending estimates cloud projections for this market.*"

eMarketer's latest projections, updated earlier this summer, are that Internet ad spending will increase 33.7% in 2005 to reach \$12.9 billion – the first time that total annual Internet ad spending has surpassed \$10 billion. eMarketer's projections include search advertising, the largest single component of Internet advertising.

Sales Are Expected to Rise Sharply

Online Ads Soared in First Half...US Internet advertising revenues for the first six months of 2005 reached a new high. It's official. **2005 is on track to be the best year for Internet advertising in history.**

The [Interactive Advertising Bureau](#) and [PricewaterhouseCoopers](#) released Internet advertising revenue figures for the second quarter and the first six months of 2005. For the quarter, **online ad revenues totaled \$2.985 billion, a 26% increase over same period 2004.**

"*The consistent growth in overall revenues shows marketers may be shifting more of their total advertising budgets to online. This is a natural development as research shows more consumers are spending a larger percentage of their media time online, while the flow of advertising dollars follows,*" said David Silverman of PricewaterhouseCoopers.

eMarketer predicts that this will (*have been...and it was!*) be the largest online holiday shopping season ever.

There are ominous economic signs on the horizon. High oil prices, a negative personal saving rate and a dip in consumer confidence could cause consumers to tighten their purse strings. In addition, the effects of Hurricane Katrina are still unclear.

Nevertheless, online holiday shopping should continue to log impressive gains. *eMarketer* forecasts that online sales for the fourth quarter will be \$26.2 billion, up 21.9% over last year.

US Q4 Online Retail Sales*, 2001-2005 (in billions and as a % increase vs. prior year)

Q4 2001	\$10.80 (21.3%)
Q4 2002	\$14.12 (30.7%)
Q4 2003	\$17.36 (22.9%)
Q4 2004	\$21.52 (24.0%)
Q4 2005**	\$26.23 (21.9%)

Note: Excludes online travel services, financial brokers and dealers and ticket sales agencies. The DOC defines e-commerce sales to be the sales of goods and services whether an order is placed by the buyer or price and terms of sale are negotiated over an Internet, extranet, electronic data interchange (EDI) network, electronic mail or other online system; *not adjusted; **eMarketer estimate
Source: US Department of Commerce, August 2005; eMarketer calculations, September 2005

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Where will the additional spending come from?

"The coffers of offline retailers," answers Jeffrey Grau, Senior Analyst at eMarketer and author of the [Online Holiday Shopping Preview](#) report. *"The Internet is ideally suited for the holiday gift-buying season. It offers a convenient and comfortable way to find good values and a wide assortment of products without having to negotiate crowded malls or wait in long lines at the post office. Wild cards such as high gasoline prices and bad weather may even spur consumers to do more of their holiday shopping over the Internet."*

The chief reasons consumers are shifting their holiday spending from stores to the Internet relate to convenience, low prices, product selection and fewer hassles.

Reasons Why US Internet Users Purchased Items Online, November 2004 (as a % of respondents)

Item price is lower on the Internet	35.7%
Wider selection of products available online	33.9%
Prefer to avoid crowds	32.9%
Prefer to have things delivered to my house	27.6%
Easier to compare products and prices online	27.6%

Note: n=1,352 online consumers surveyed during the fourth week of November
Source: Goldman Sachs, Harris Interactive, Nielsen//NetRatings, December 2004

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Data from the annual 2004 eSpending Report, jointly produced by [Goldman Sachs](#), [Nielsen//NetRatings](#) and [Harris Interactive](#), noted that for the last several years consumers have shifted a portion of their gift spending from stores to Web sites. In 2004, holiday shoppers spent 22% of their gift budget online compared to 16% in 2002. At the same time, consumers decreased the amount spent in stores to 72% in 2004 from 78% in 2002. The percentage of spending generated by catalogs stayed level over the 2002-2004 period.

**US Holiday Gift Spending, by Sales Channel, 2002-2004
(as a % of total)**

	2002	2003	2004
Stores	78%	74%	72%
Web sites	16%	20%	22%
Catalogs	6%	6%	6%

Source: Goldman Sachs, Harris Interactive, Nielsen//NetRatings, 2004; Internet Retailer, March 2005

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Nielsen//NetRatings, in a study commissioned by [DoubleClick](#), attributed an even higher percentage of gift spending to the Internet sales channel during the 2004 holiday season.

Allocation of Holiday Spending Budget by US Holiday Online Shoppers, 2004 (as a % of total budget)



Source: Nielsen//NetRatings commissioned by DoubleClick, December 2004

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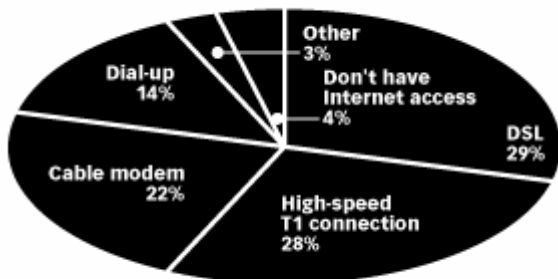
"The Internet actually seems to be expanding the holiday season, making it longer," says Mr. Grau. Online retailers expect the online holiday shopping season to begin earlier than the traditional offline holiday season. Over 25% of respondents believed online shopping would start in August or September and over 60% stated they believed the season would start before November 1st. This extends the holiday season to the full fourth quarter of the calendar year.

Why? Because Web Sites Work!

A new survey finds that not only are small and medium-sized businesses going online — they are depending on it more for marketing and profits.

The "Summer 2005 Small and Medium-sized Business Barometer," a nationwide survey of 780 leaders of small and medium-sized US businesses, found that 96% of them had Internet access, and most had high-speed connections.

Internet Access Technology Used by US SMBs, Summer 2005 (as a % of respondents)



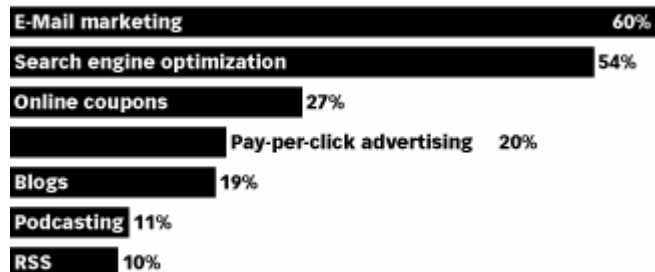
Note: n=780 leaders of small and medium-size businesses
Source: Interland, September 2005

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Of the 72% of respondents with a business Web site, more than half are using or interested in using e-mail marketing (60%) and search engine optimization (54%).

Online Features that US SMBs Use or Are Interested in Using, Summer 2005 (as a % of respondents)



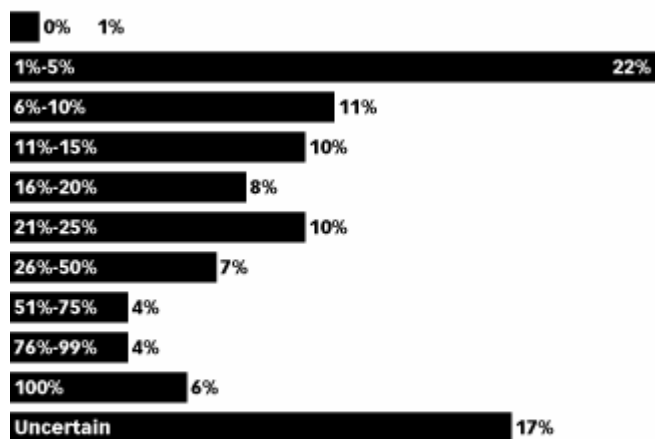
Note: n=780 leaders of small and medium-size businesses
Source: Interland, September 2005

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Additionally, 78% report their business is healthier — has a competitive advantage or stronger economic footing — because they have a Web site, and 76% say their Web site generates leads for their business. **The strongest indicator of how businesses have taken to the Internet, however, is the fact that they are making money online.** Of the 32% of the respondents who sell products or services online, **82% reported receiving monthly revenue from their Web sites.**

Percent of Sales that Come from US SMBs' Web Sites, Summer 2005 (as a % of respondents)



Note: n=780 leaders of small and medium-size businesses, 32% of respondents sell through their Web site and 82% of these report receiving monthly revenues
Source: Interland, September 2005

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These results demonstrate that business leaders understand the importance of the Internet, Web sites and online marketing tools and are acting on that knowledge. With 53% of small businesses with Web sites saying their sites are primarily to provide company credibility, and 29% saying the sites provide a critical building block for developing the products and services, **the results revealed how central Web sites are becoming for businesses.**

When asked how Web site success is evaluated, 54% said through customer and prospect comments, 48% site activity, traffic and number of visitors, 36% sales leads, 24% online sales and 21% said efficiencies of internal processes such as faster payment processing or fewer phone calls.

END

Editor's Note: The above report is a reprint of factual data from several sources, all of which have been accurately cited herein and edited only to reflect chronological updates. Cartel Funding, LLC