eMarketer™

Interactive Marketing:

Stats, Strategies and Trends

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Welcome to eMarketer

Dear Reader:

Welcome to the latest edition of eMarketer's *Interactive Marketing* Report.™ This compendium of data, research, and analysis offers an invaluable reference tool for tracking, forecasting, and understanding the entire interactive marketing universe—its size and growth trends, as well as strategic issues, the online advertising process, consumer attitudes, and industry best practices.

As marketers learn how and when to cross channels from the internet alone to a multi-media mix, this report will help them develop business and marketing plans, create presentations, answer questions from clients or management, and make critical decisions about ventures in the rapidly growing field of interactive marketing.

Like all eMarketer reports, the *Interactive Marketing* Report™ presents statistical information aggregated from a broad range of authoritative research sources—over 50 top sources in all. The pages ahead provide anyone working with interactive marketing the answers they need, in an easy-to-search format.

If you have any questions or comments concerning eMarketer or any of the material in this report, please call, fax, or e-mail us.

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Written by David Hallerman

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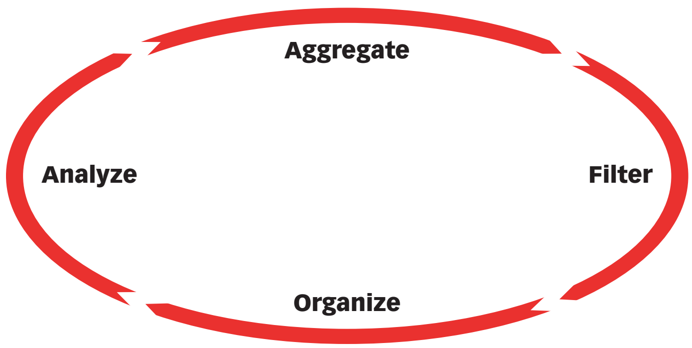
eMarketer's approach to market research is founded on a philosophy of aggregating data from as many different sources as possible. Why? Because there is no such thing as a perfect research study and no single research source can have all the answers. Moreover, a careful evaluation and weighting of multiple sources will inevitably yield a more accurate picture than any single source could possibly provide.

The eMarketer Difference

eMarketer does not conduct primary research. Neither a research firm nor a consultancy, eMarketer has no testing technique to defend, no research bias and no client contracts to protect.

eMarketer prepares each market report using a four-step process of aggregating, filtering, organizing and analyzing data from leading research sources worldwide.



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Using the internet and accessing a library of electronically-filed research reports and studies, the eMarketer research team first aggregates publicly available e-business data from hundreds of global research and consultancy firms. This comparative source information is then filtered and organized into tables, charts and graphs. Finally, eMarketer analysts provide concise and insightful analysis of the facts and figures along with their own estimates and projections. As a result, each set of findings reflects the collected wisdom of numerous research firms and industry analysts.

"I think eMarketer reports are extremely useful and set the highest standards for high quality, objective compilation of often wildly disparate sources of data. I rely on eMarketer's research reports as a solid and trusted source."

— Professor Donna L. Hoffman, Co-Director, eLab, Vanderbilt University

The Benefits of eMarketer's Aggregation Approach

Objective: information is more objective than that provided by any single research source

Comprehensive: gathered from the world's leading research firms, consultancies and news organizations

Authoritative: quoted in leading news publications, academic studies and government reports

All in one place: easy to locate, evaluate and compare

Readily accessible: so you can make quick, better-informed business decisions

Above the hype: accurate projections that business people can use with confidence

Time saving: there's no faster way to find internet and e-business stats, online or off

Money saving: more information, for less, than any other source in the world

"Benchmarking" and Projections

Until recently, anyone trying to determine which researcher was most accurate in predicting the future of any particular aspect of the internet did not have a definitive source with which to do this. For instance, over 10 firms predicted e-commerce revenues for the fourth quarter 1998 online holiday shopping season, and yet no single source could be identified after the fact as having the "correct" number. In the Spring of 1999, however, the US Commerce Department finally began measuring e-commerce B2C activity so business people and others could have a benchmark with which they could compare and evaluate projections.

eMarketer has adapted its methodology to recognize that certain government and other respected, impartial sources are beginning to provide reliable numbers that can be consistently tracked over time. Most of these established sources, however, only measure past results; typically, they do not make predictions.

Today, eMarketer formulates its Essential E-Business Numbers by first identifying the most established, reputable source for a given sector being measured and then adopting that organization's figures as *benchmarks* for the historical/current period. For instance, eMarketer's US internet user figures will be based on a combination of the most recent data from the US Census Bureau and the International Telecommunication Union. Using this data as the benchmark for 2000 and 2001, eMarketer will make projections for subsequent years based on the following factors:

- a comparative analysis of user growth rates compiled from other research firms
- additional benchmark data from internet rating firms, e.g., Nielsen//NetRatings, comScore Media Metrix, which use panels to measure internet user activity on a weekly and monthly basis
- an analysis of broader economic, cultural and technological trends in the US

Similarly, US e-commerce revenues are being "benchmarked" using historical data from the US Department of Commerce, and broadband household and penetration rate forecasts are being built off baseline data from the Organization for Economic Cooperation and Development (OECD).

Through this benchmarking process, eMarketer will be holding itself – and our projections – accountable.

"When I need the latest trends and stats on e-business, I turn to eMarketer. eMarketer cuts through the hype and turns an overabundance of data into concise information that is sound and dependable."

— Mark Selleck, Business Unit Executive, DISU e-business Solutions, IBM

Marketing online is just like marketing offline.

That statement may go one step over the line, but as interactive marketing matures, continuing to make major distinctions between marketing online and offline might be as off-track as believing that advertising online is not truly a part of a company's entire marketing efforts. (Anyone for separate internet marketing divisions?)

Companies of all sizes and in all industries are finding that the full range of marketing endeavors needs to include the internet as much as it does traditional media such as TV, radio, and newspapers. That take on the matter is shifting from opinion to researched fact. Look at the case study of the Dove Nutrium bar (soap, not ice cream) from the Interactive Advertising Bureau, Microsoft Network, and Advertising Research Foundation. It explains how increasing the budget share allocated to online advertising, without increasing the budget itself, will boost the brand's image, unaided awareness, and purchase intent among consumers.

Or examine findings from the recent IAB's Cross Media Optimization Study focusing on McDonald's Grilled Chicken Flatbread Sandwich. The research—done in concert with Marketing Evolution, Dynamic Logic, and Forrester Research—shows that with a combination of TV and radio ads, the product's branding lift over pre-campaign levels is 187%. But when the percentage of online advertising is increased to 13% of the same budget, the projected lift would be 232%.

"It does not help the industry to call it online and traditional media."

– Mark N. Dorf, CEO, AMS Interactive Media

In fact, when the term "interactive" is used in its pre-computer meaning—which dates back 170 years to 1832, according to Merriam-Webster's website—it's easy to see that much of marketing is interactive. To wit, interactive defined: mutually or reciprocally active.

When creating and executing marketing plans, companies hope for some kind of mutuality from their targeted audience, from direct response especially but even with branding efforts. Marketers want to move their audience, no matter what the media—move them to action, or move their hearts so they remember and identify with a brand. That's why marketers are learning increasingly how to deliver coherence across marketing channels, no matter what the media.

A. Channel Convergence: Consumer Multitasking & Cross-Media Marketing

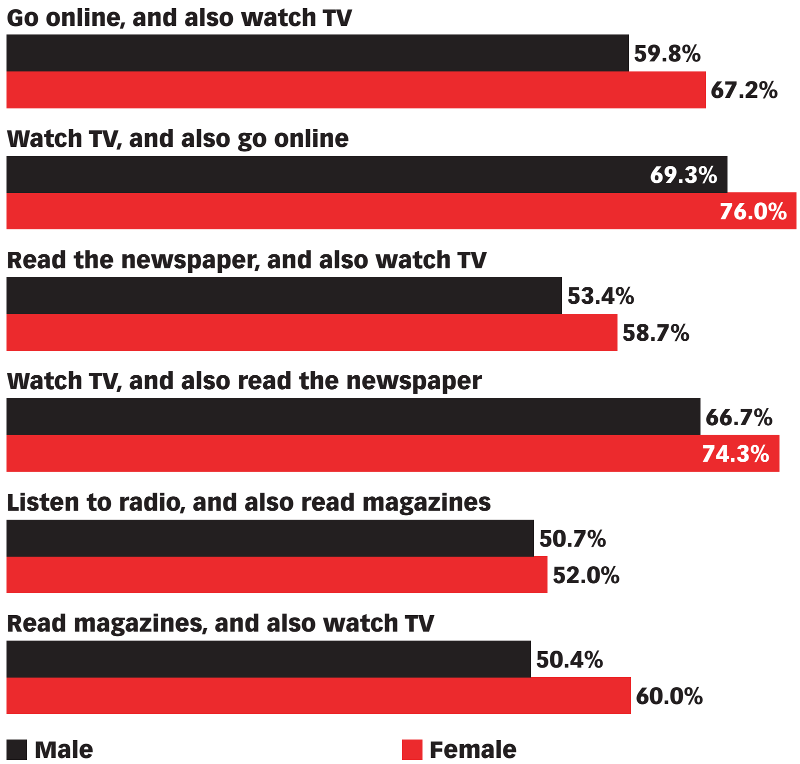
As people multitask more and more, marketers need multiple channels in order to reach them. It's that simple, and that complex. To get the attention of a consumer who is online and also watching TV, for example, means not only perfecting the creative so that it cuts through the clatter but also finding ways to deliver the same message in various ways across various platforms.

According to a report published in October 2002 by the Retail Advertising and Marketing Association (RAMA) and BIGresearch, multitasking is an established fact, with more than half the respondents consuming two media at a time for each of the pairs shown in the following chart.

"The study, which measures simultaneous media usage (when consumers use a primary media source while a secondary source is in use), may change how marketers reach their target audiences," reports MediaPost.

Interestingly, females are more likely than males to media multitask; where, for example, 67.2% of females also watch TV when they go online, only 59.8% of males do so. Note that these findings include respondents who say they "regularly" or "occasionally" participate in two different media at the same time.

Dual-Media Consumption in the US, by Gender, 2002 (as a % of respondents)



Note: n=7,800; figures from respondents who "regularly" or "occasionally" consume two different media at the same time
Source: Retail Advertising and Marketing Association (RAMA)/BIGreseach, October 2002

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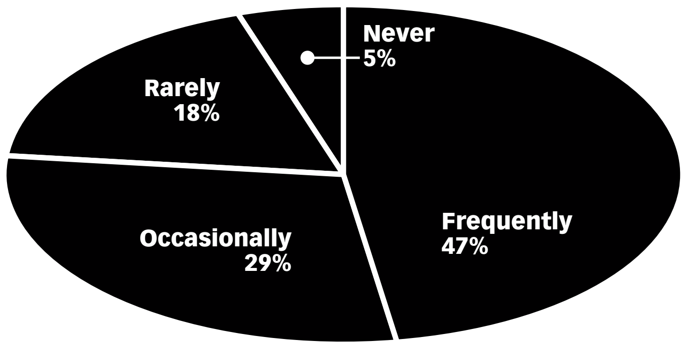
"Today's fragmented media environment is characterized by an exploding number of media alternatives vying for peoples' time. Unfortunately, people still have only 24 hours in a day, which has necessitated their need to simultaneously use the media in order to keep pace."

– Dr. Joe Pilotta, vice president, BIGresearch

As you can see from this RAMA research, TV and the internet are a popular media mix. A similar study from comScore Media Metrix backs up those figures, with 76% of respondents either frequently or occasionally going online while watching TV. That figure exactly matches the 76.0% of females surveyed by RAMA who also go online while the tube is playing.

Frequency with Which US Internet Users Go Online While Watching TV , Q1 2002 (as a % of users with a PC and television in the same room)



Note: numbers may not equal 100% due to rounding
Source: comScore Media Metrix, September 2002

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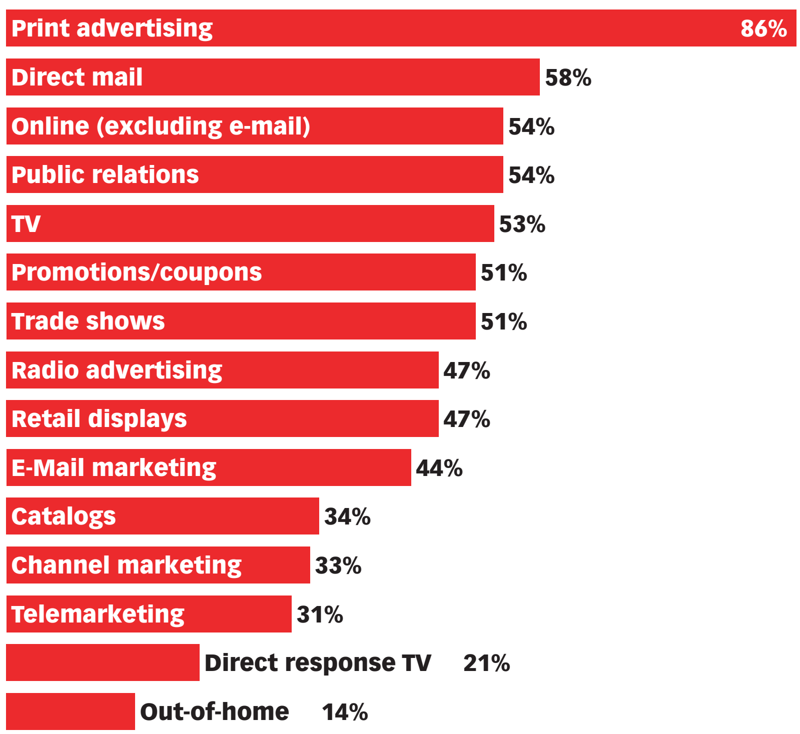
"Jumping all the way to 10 years from now, there is going to be no such thing as the 'internet advertising industry.' Ten years from now, we're simply going to have the 'advertising industry.' Ironically, the future of this industry is that 10 years from now it will be so successful that it will no longer exist."

– Rosalind Resnick, co-founder, NetCreations

So as consumers multitask, more and more companies find that convergence among media is essential for marketing. Take Minute Maid, which made a product-specific website a central element when launching its Simply Orange brand in April 2001. In fact, as marketers move their activities across media, picking various venues based on intent, goals, and budgets, core choices emerge among channels. For example, while 86% of the respondents to DoubleClick's "Marketing Spending Index" survey participate in print advertising, a close range of 44% to 58% focus their marketing activities within nine channels, including online (at 54%) and e-mail (at 44%).

Marketing Activities in Which US Companies, Products, or Brands Participate, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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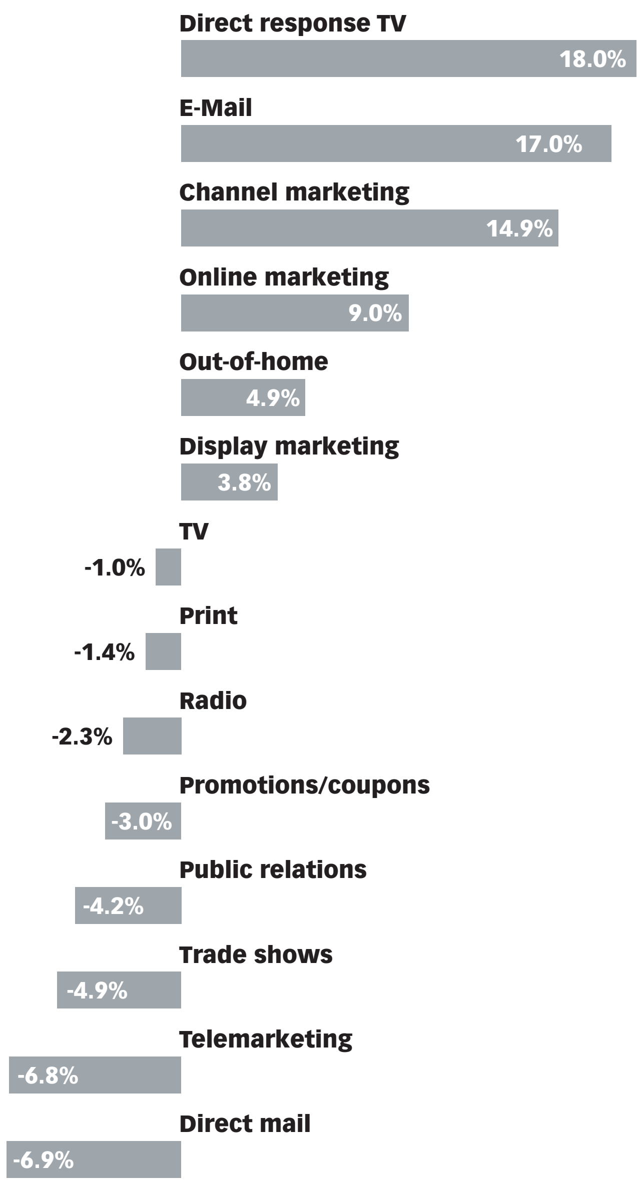
With only so much money to spend, and with the recession shaving marketing bottom lines, even cross-channel campaigns have shifted budget allocations. For example, 17.0% of respondents to DoubleClick said they're increasing their e-mail marketing budget in 2002, and 9.0% plan on increasing online budgets (excluding e-mail). Meanwhile, radio's share is expected to drop by 2.3%, while projected spending on public relations will fall by 4.2%.

US Marketer Budget Allocation, by Channel, 2002 (as a % increase/ decrease vs. prior year)



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Note: n=190
Source: DoubleClick, June 2002

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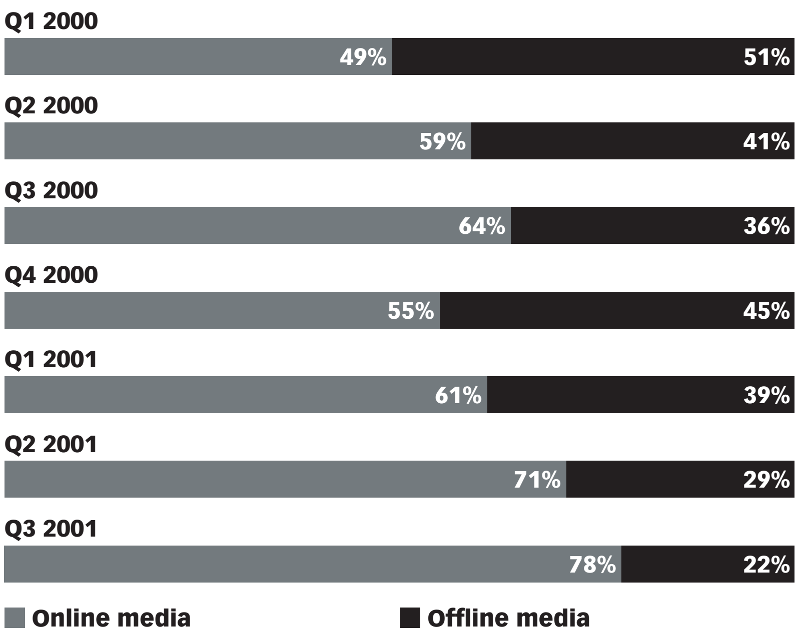
Online retailers are also shifting spending from offline media to online, according to research from Shop.org and the Boston Consulting Group. The numbers go from 64% of marketing spending for online media in Q3 2001 to 78% a year later in Q3 2001.

Online vs. Offline Media Spending among US Retailers, Q1 2000-Q3 2001 (as a % of marketing spending)



Source: Shop.org/Boston Consulting Group, December 2001

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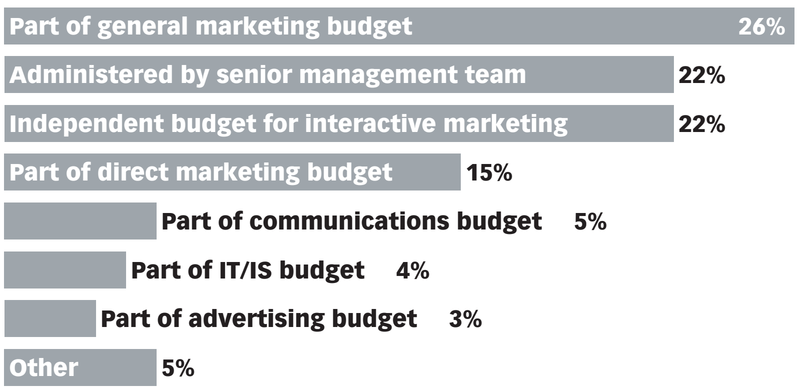
Part of what encourages the cross-channel shift to online, at least among US direct marketers, is the arrangement of interactive marketing budgets. For only 22% of the respondents to a Direct Marketing Association survey is the interactive budget independent of the rest of marketing; for the remainder the interactive dollars are in some way part of the mainstream. That might be the 26% who say interactive is part of the general marketing budget, or the 22% who note that it's administered by the senior management team.

Set-Up of Interactive Marketing Budget among US Companies, 2001 (as a % of respondents)



Note: n=191
Source: Direct Marketing Association, April 2002

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While most people feel a frisson of pleasure at the word "independent," in the case of interactive marketing, independent is a pitfall. Separate is not equal. Putting interactive marketing in a niche disconnects it from a company's entire marketing efforts, and that's the wrong way to go.

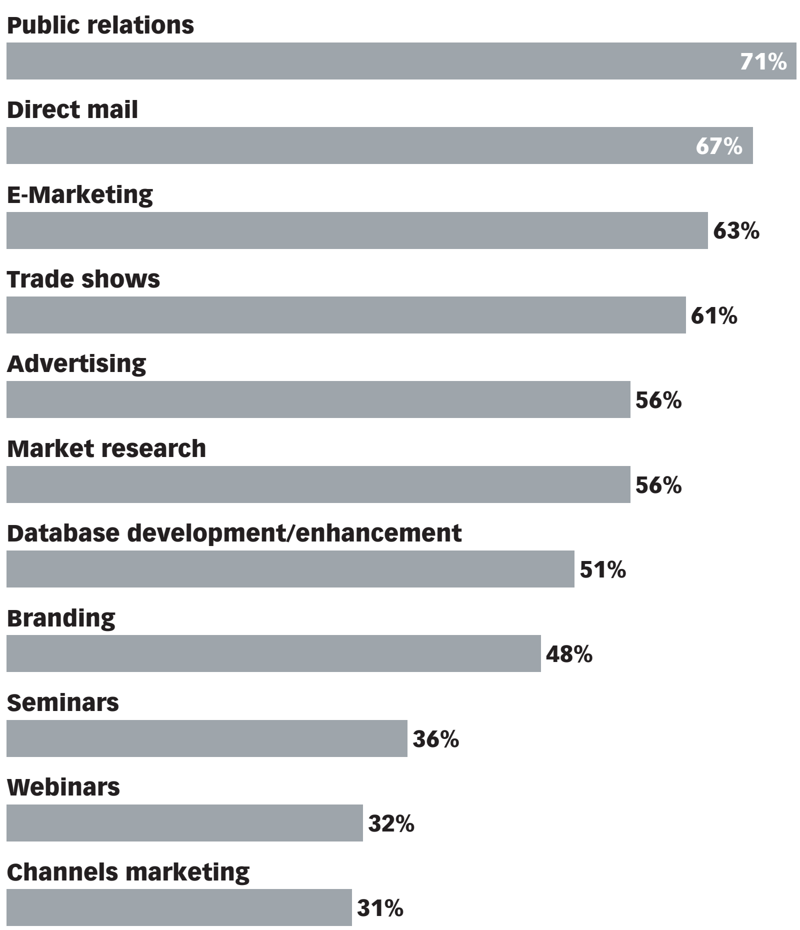
B. Choosing Channels

In fitting together the pieces of various marketing channels, companies hope to create a unified image for their products and services among customers, a coherent campaign that hits the target in the most cost-effective way possible.

Research indicates that various forms of online marketing are now in the sights of US companies. According to Patrick Marketing Group (PMG)—a Calabasas, CA-based marketing agency—63% of companies intend to implement online sales and marketing efforts over the next 12 months (starting September 2002). This figure is greater than for advertising in general, at 56%.

Note, too, that while the highest figure (at 71%) is cited for public relations, that may not contradict the DoubleClick data above that shows a decrease in spending for that type of marketing. This PMG chart simply shows strength of intent, not how much money will be allocated for it.

Sales and Marketing Actions US Companies Intend to Implement in the Next 12 Months, September 2002 (as a % of respondents)



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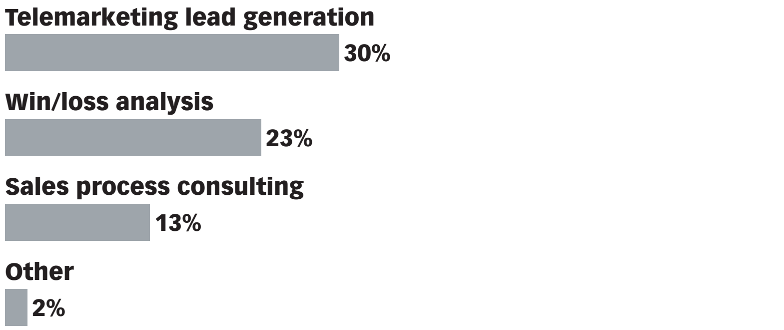

Note: n=250 marketing executives; multiple responses allowed
Source: Patrick Marketing Group, October 2002

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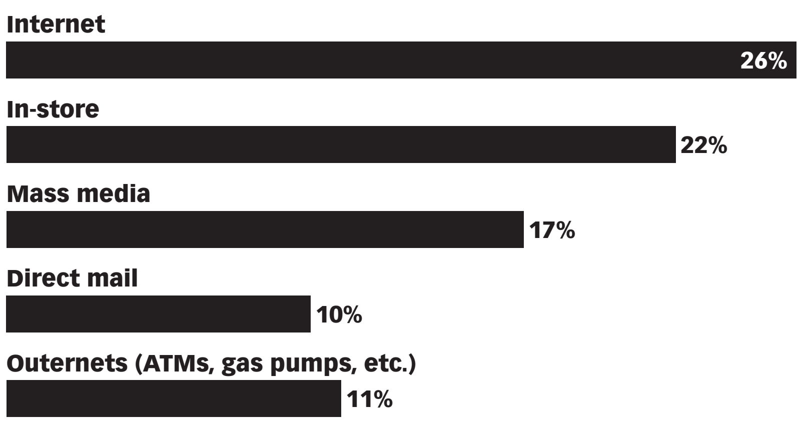
When attempting to promote a new product, or to launch new promotional ideas for old products, marketers tend to turn to the internet. At least 26% of the respondents to a Reveries.com poll do, while the media mix for new promotional ideas also includes in-store (at 22%) and mass media (at 17%).

Channels US Marketers Believe Are the Best for Creating New Promotional Ideas, June 2002 (as a % of respondents)



Note: n=320
Source: Reveries.com, June 2002

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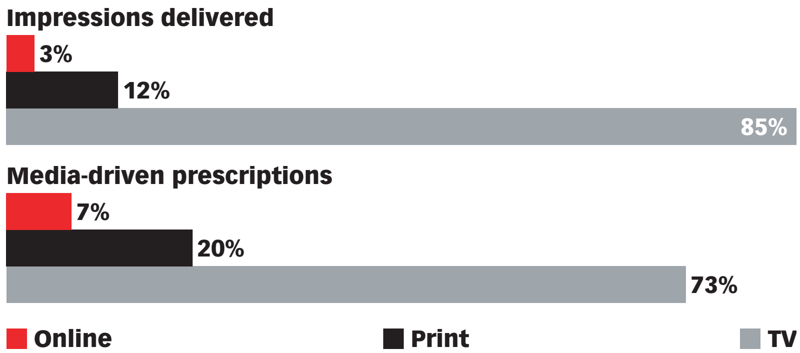
Another piece of the marketing puzzle might be solved by further cross-media campaigns. In the "Media Mix Modeling Case Study" sponsored by DoubleClick and performed by Beyond Interactive, TV ads propelled the greatest share of incremental sales of an unnamed prescription allergy drug brand, leading to 73% of media-driven prescriptions.

However, the TV portion of the campaign consumed 85% of the impressions delivered. In contrast, online ads were far more efficient, with only 3% of impressions leading to 7% of prescriptions. And print ads fell in-between, with a 12% impression base and 20% prescription outcome.

Translated to ratios, it means that each online impression led to 2.3 prescriptions, each print impression led to 1.7 prescriptions, and each TV impression led to 0.9 prescriptions.

Responsiveness of Online, Print and TV Ads in the US, by Impressions Leading to Media-Driven Prescriptions, 2002



Source: DoubleClick, September 2002

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Or, even though online appeared to cost more than print or TV, its greater effectiveness made it a better buy. As DoubleClick noted in the report, "Despite higher CPMs than any other media, online was more efficient at driving incremental prescriptions."

- The online CPM was $8.22 due to keyword buys, but the cost per incremental prescription was only $11.33.
- At a CPM of $4.01, television's cost per incremental prescription was $17.12.
- The CPM for print was $5.79, and the cost per incremental prescription $13.33.

To use an analogy: It's like buying expensive, high-quality shoes—the initial price might be higher, but since you get more wearings, the cost is truly less.

Therefore, in a marketing reallocation simulation, DoubleClick came to the following channel-mix conclusion: "If the television spend was decreased by 3.1%. and online was increased by 50% (still at the same total dollars), prescriptions would have increased by 0.1% over the five quarters analyzed."

While that 0.1% increase sounds insignificant, and undoubtedly would be for certain products and services, DoubleClick claims it can "translate to significant revenue for a large prescription brand."

Even when online is the channel choice alone, another component in the mix raises the question: How does an advertiser divide impressions across sites? Research from Jupiter Media Metrix shows that if a marketer disperses an ad campaign of four million impressions from one site to four sites, it will increase the number of unique visitors viewing the ad by 36% for news sites, 56% for financial sites, and 67% for music sites.

Jupiter concluded that optimizing online advertising across multiple sites like this confirms that "the more you target your audience or ad buy, the greater the likelihood is that you'll need to move away from simple audience-reach metrics and toward more sophisticated reach-and-frequency metrics commonly applied in traditional media."

Average Audience Reached with a Four-Million Impression Ad Campaign for At-Home and At-Work Users in the US, by Site Category, August 2001 (in millions of unique visitors)

Number of sites advertised on	News	Finance	Music
One site only	1.9	1.4	1.4
Two of four sites	2.2	1.8	1.9
Three of four sites	2.5	2.1	2.2
Four of four sites	2.6	2.2	2.3
% difference between one and four sites	**36%**	**56%**	**67%**

Source: Jupiter Media Metrix, Inc., May 2002

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Methodology

Marketing Online or Offline: It's All Part of the Mix

Interactive Marketing: Where's the Money Going?

Issues & Barriers

Total Media & Offline Ad Spending

Hot Wheels: Marketing Vehicles Rising

E-Mail Marketing: Trouble Ahead?

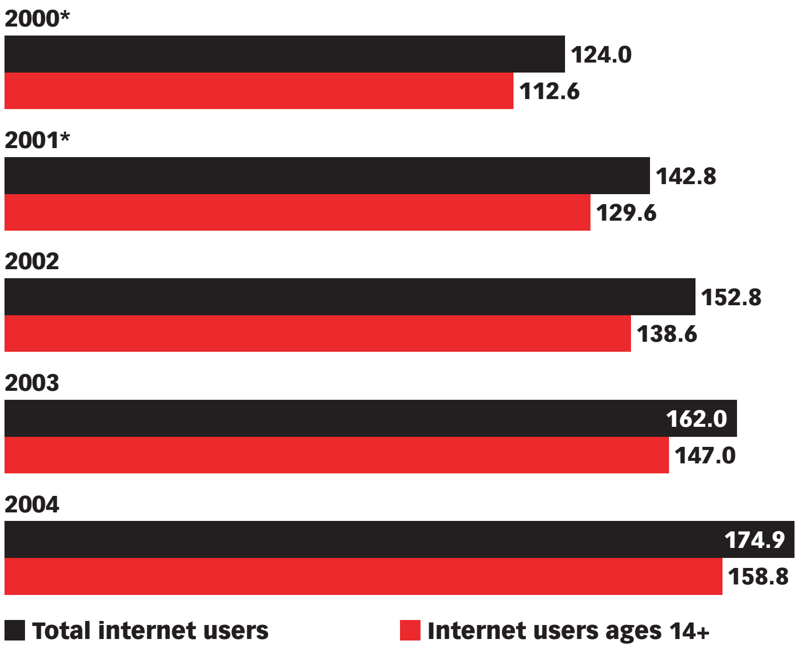
The Measure of Marketing: What's the Bottom Line?

Website Marketing: How Companies and Consumers Use Sites

Index of Charts

Supporting interactive marketing's growing use is the steady uptick of internet users—in the media world, dollars usually follow eyeballs. In 2002, the 152.8 million US internet users estimated by eMarketer represents 54.5% of the total population (based on US Census Bureau data). By 2004, eMarketer's projection of 174.9 million internet users means that they will represent 61.3% of the entire population.

Total US Internet Users and Internet Users Ages 14+, 2000-2004 (in millions)



*Note: *eMarketer's year 2000 and 2001 baselines are from the International Telecommunication Union's estimate of internet users aged 2 years and older, who have accessed the internet within the previous 30 days; the age 14+ group represents roughly 90.75% of all US users according to the August 2000 US Department of Commerce survey*
Source: eMarketer, May 2002

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"The number of people online is reaching saturation, meaning nearly all of the people who will ever be online already are."

– Denise Garcia, director of research, GartnerG2

And as expected, as income rises so does internet use. Research from the US Department of Commerce's February 2002 report, "A Nation Online," shows that for households with a family income of $75,000 or more, there's a 78.9% online penetration rate. That's 11.6 points greater than the preceding income segment.

Internet Users in the US, by Family Income, September 2001 (in millions and penetration)

Less than $15,000	7.8	25.0%
$15,000 - $24,999	8.9	33.4%
$25,000 - $34,999	12.6	44.1%
$35,000 - $49,999	20.6	57.1%
$50,000 - $74,999	30.1	67.3%
$75,000 & above	44.5	78.9%

Source: US Department of Commerce, February 2002

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A. Spend & Trend: 2000 to 2002

While several later chapters in this report will look at non-advertising sides of interactive marketing, much of the core research examines traditional online advertising. That said, online advertising spending patterns paint an out-of-focus picture, with some researchers talking about small increases and others pointing to definite declines.

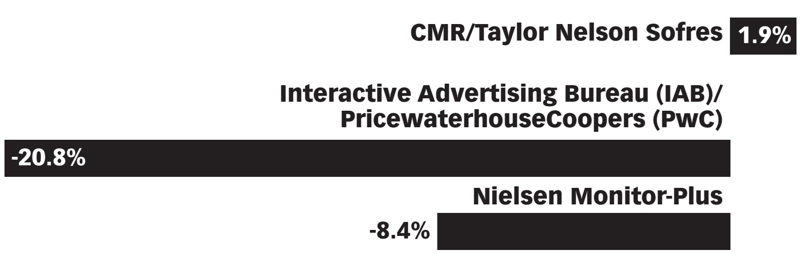
According to a late August report from CMR and Taylor Nelson Sofres (TNS), internet ad revenues for the first half of 2002 improved by a modest 1.9% compared to the corresponding period in 2001. In specific dollars, that percentage represents a first-half improvement from $1.50 billion in 2001 to $1.53 billion in 2002. Furthermore, that small upsurge for online ads must be judged against an estimated 0.2% fall for total media advertising.

Now contrast CMR's first half 2002 estimate of $1.53 billion to the Interactive Advertising Bureau's $2.98 billion for the same period—nearly twice as much. However, while the CMR figure represented a 1.9% gain, the IAB number points to a staggering 20.8% decline, from $3.76 billion in spending during the first half of 2001.

"Given the current economy, online ad spending understandably saw a year of virtually no growth, but the industry is in recovery mode."
– Patrick Keane, analyst, Jupiter Research

Then, to throw a third measurement source into the mix, Nielsen Monitor-Plus reported a drop of 8.4% for internet ad spending during the first half of 2002, whereas overall ad spending grew by 2.3% during the same six months. The main cause of the online decline, according to this service of Nielsen Media Research, is due to large advertisers still being unfamiliar with interactive advertising.

Comparative Estimates: US Online Advertising Spending, First Half 2002 (as a % increase/decrease vs. prior year's first half)



Source: various, as noted, 2002

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However, in a subsequent mid-November release covering the first three quarters of 2002, the CMR/TNS spending numbers changed radically. The New York-based firm reported an 18.2% plunge in internet advertising compared to the same period in 2001—this in a market where CMR/TNS now projects 2.2% year-over-year growth for total media ad spending during the same three-quarter period.

US Advertising Spending, by Media, Q1-Q3 2001 vs. Q1-Q3 2002 (in billions)

	Q1-Q3 2001	Q1-Q3 2002	% change
Local newspapers	$13.38	$14.39	7.57%
Network TV	$13.43	$14.37	7.07%
Spot TV	$10.50	$12.04	14.7%
Consumer magazines	$11.93	$11.76	-1.4%
Cable TV	$7.76	$7.68	-0.9%
B2B magazines	$6.43	$5.31	-17.4%
Local radio*	$3.95	$4.32	9.54%
Internet	$4.59	$3.76	-18.2%
Syndication-national	$2.41	$2.12	-11.8%
National newspapers	$2.18	$2.11	-3.3%
Outdoor	$1.86	$1.79**	-3.8%**
National spot radio	$1.61	$1.71**	-6.1%**
Spanish language network TV***	$1.13	$1.42	25.5%
Sunday magazines	$0.82	$0.90	9.9%
Network radio	$0.62	$0.71	14.3%

*Note: *includes spending for 30 markets in the US;**estimate; ***Spanish language network TV includes spending from Univision and Telemundo*
Source: Competitive Media Reporting (CMR)/TNS Media Intelligence, November 2002

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Consider, though, that while earlier in the year CMR/TNS said full-year 2001 internet ad revenues hit $2.50 billion, and that in November the same company's research showed $4.59 billion online ad spending for only three-quarters of 2001, it appears that CMR/TNS is changing either methodologies or its interpretation of existing data.

Then in September, the Online Publishers Association stated that advertising revenue for top content websites—including ESPN.com, Forbes.com, NYTimes.com, Slate.com, USAToday.com, and the Wall Street Journal Online—shot up by 34.2% in Q2 2002 when compared to the same period last year. And ad spending for the first half of 2002 grew by 33.5% versus last year's first half, at OPA member sites.

Michael Zimbalist, the OPA's executive director, attributed a generous proportion of the spending growth to rich media ads, which publishers charge more for and potentially deliver more value to the advertiser. "Rich media ads, with CPMs ranging from $30 to $40, cost significantly more than banners, at $1 to $4," writes MediaPost.

Growth in Advertising and Total Revenues at Online Publishers Association (OPA) Member Sites*, 2002

	Q2 2002 vs. Q2 2001	First half 2002 vs. first half 2001
Ad revenues	34.2%	33.5%
Total revenues	36.1%	33.7%

*Note: *sites reporting revenues include Bankrate.com, Boston.com, CondeNet, ESPN.com, FoodTV.com, Forbes.com, HGTV.com, NYTimes.com, Slate.com, SportingNews.com, Tribune Interactive, USAToday.com, Wall Street Journal Online, Washingtonpost.Newsweek Interactive*
Source: Online Publishers Association (OPA), September 2002

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So, which is it, up or down? What's the state of online advertising today?

Returning to the IAB/PwC research, and drilling down to quarter-by-quarter spending, you can see a steady decline from Q1 2001 through Q2 2002. Note that during this year's second quarter, online ad spending plunged to a reported $1.46 billion, the lowest quarterly figure since $1.22 billion during 1999's third quarter. Note, too, that eMarketer benchmarks its online advertising spending figures against data from the IAB and PwC.

US Online Advertising Spending, Q1 2001-Q4 2002 (in billions)

*Note: eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full quarter measured was Q2 2002; total online ad spending in 2001=$7.21 billion; estimated total for 2002=$6.38 billion; *eMarketer projections*
Source: eMarketer; Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), October 2002

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Why such a decline this year? Economic fears combined with an unwillingness to experiment—which is how some old-line agencies and advertisers still see marketing on the internet—helped contribute to be sure. Other barriers to online advertising, such as the confusing plethora of ad formats and not-yet-fully-accepted metrics, will be examined in the next chapter, "Issues & Barriers."

Perhaps, too, another reason for the reported ad spending drops by the IAB/PwC is their change in research methodology. Previously, PwC actually surveyed "all companies that sell meaningful online advertising revenues." Starting with this year, however, PricewaterhouseCoopers surveys a segment of internet ad sellers that it says have consistently accounted for the lion's share of revenues, and extrapolates from the total revenue number to come up with an industry-wide figure.

"Advertising accounts for 30% of all communications spending and has a cyclical relationship with the economy. So as the economy improves, we expect advertising and therefore communications spending to grow in a parallel path."

– James P. Rutherfurd, executive vice president, Veronis Suhler Stevenson

Even with the first half's decline, eMarketer expects the second half of 2002 to produce a small but significant upswing in US online ad spending. Projections for the recently ended third quarter show $1.59 billion in ad spending, a 9.1% increase from the prior quarter (but still an 11.3% decrease from the corresponding third quarter in 2001).

Then, for the holiday season's fourth quarter, online ad spending will jump by 13.8% to $1.81 billion. That figure also represents a 9.2% increase from last year's fourth quarter, when the nation remained in deep shock from the September terrorist attacks.

The last half of 2002 will bring internet ad spending gains for several reasons. One, research such as the IAB's recent optimization study focusing on McDonald's is giving marketers—especially traditional ones—evidence of how interactive media is effective for branding efforts, notably as part of cross-media campaigns. Two, increased ad spending in general will deliver its share to the internet. And three, increasingly popular online ad vehicles such as classifieds and search engine pay-for-placement will continue to boost the bottom line.

US Online Advertising Spending, Q1 2001-Q4 2002 (as a % increase/decrease vs. prior quarter and vs. same quarter of prior year)

	% growth vs. prior quarter	% growth vs. same quarter of prior year
Q1 2001	-12.4%	-3.1%
Q2 2001	-1.3%	-12.1%
Q3 2001	-4.1%	-9.8%
Q4 2001	-7.5%	-23.3%
Q1 2002	-8.2%	-19.6%
Q2 2002	-4.1%	-21.8%
Q3 2002	8.9%	-11.3%
Q4 2002	13.8%	9.2%

Note: eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full quarter measured was Q2 2002; total online ad spending in 2001=$7.21 billion; estimated total for 2002=$6.38 billion
Source: eMarketer; Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), October 2002

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However, all bets are off on increased ad spending should United States forces invade Iraq; that scenario would lead to severe economic pullbacks among both companies and consumers.

Stepping back from quarter-by-quarter online ad spending figures to an overview of the past few years, you can see a steady decrease in online advertising from the IAB's 2000 and 2001 figures of $8.23 billion and $7.21 billion, respectively, to eMarketer's estimate of $6.38 billion for 2002.

US Online Advertising Spending, 2000-2002 (in billions)

Note: eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2001
Source: eMarketer, October 2002

Those annual spending numbers represent double-digit decreases of 12.3% last year and 11.5% this year.

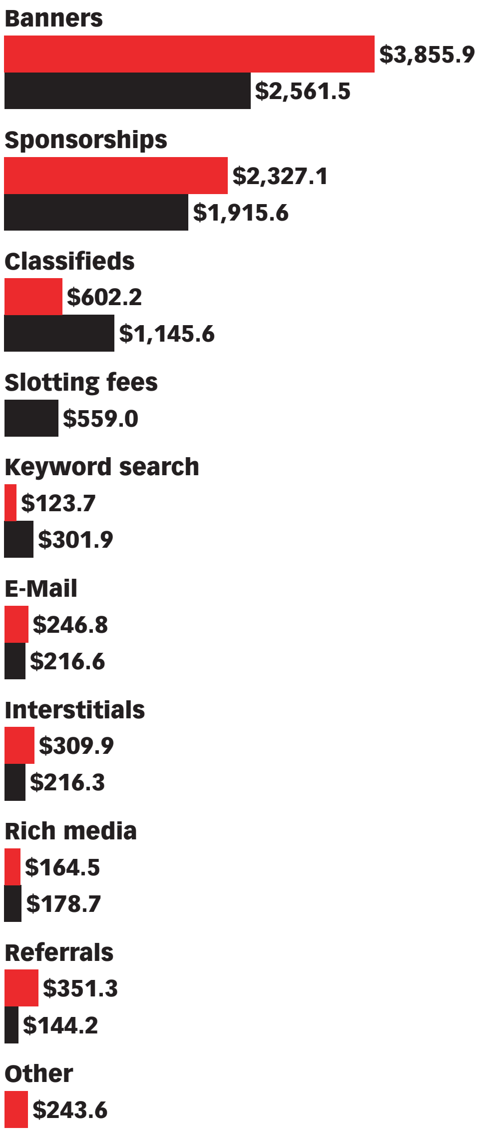
US Online Advertising Spending, 2001 & 2002 (as a % decrease vs. prior year)

Note: eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2001
Source: eMarketer, October 2002

However, in a classic bad news/good news scenario, a closer look turns some of this ill wind into a fresh breeze. Take online classified ads. Not only did their share of total internet advertising more than double—from 7% in 2000 to 16% in 2001—the absolute dollars jumped as well, even as the entire market fell. The increase from $0.60 billion to $1.15 billion translates to a 90.2% growth rate.

That classifieds surged while other online ad vehicles such as banners and sponsorships plunged points to at least one trend: newspaper readers are migrating from paper to electrons, and as they do, so do the classifieds. In addition, the interactive nature of online classifieds—with the ease of searching and sorting, along with instant updating—make them more suited for the internet than other media.

US Online Advertising Spending, by Vehicle, 2000 & 2001 (in millions)



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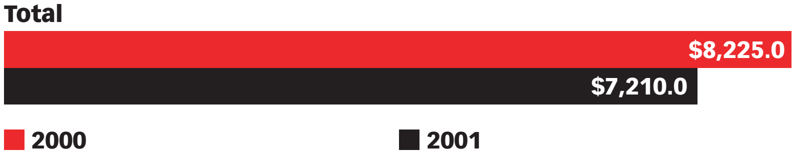

Note: figures may not add exactly to total due to rounding
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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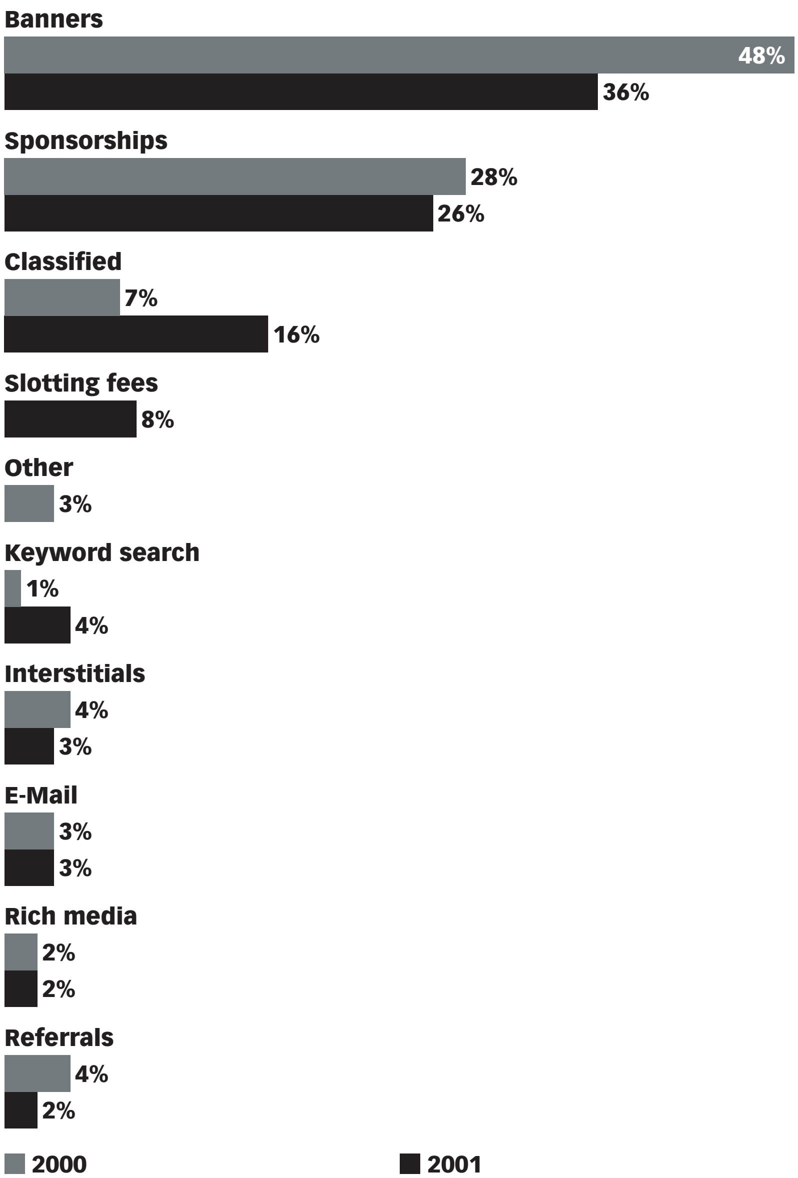
Besides classifieds, two more online ad types increased both their market share and absolute dollars: keyword searches and rich media.

What the IAB calls keyword search, and what many others call pay-for-placement search, increased its dollar share from 1% in 2000 to 4% in 2001. In absolute dollars, that translates to gain from $123.7 million to $301.9 million, or a 144.0% growth rate. And in the first half of 2002 alone, keyword search represented 8% of the reported ad spending, or $237.6 million total for six months alone.

Meanwhile, rich media—which may or may not be a separate online ad vehicle—appeared static with a 2% share of dollars spent both years (and increasing to 3% for the first half of 2002). However, when numbers aren't rounded off, you can see how the absolute dollars grew from $164.5 million in 2000 to $178.7 million in 2001, an 8.6% growth rate.

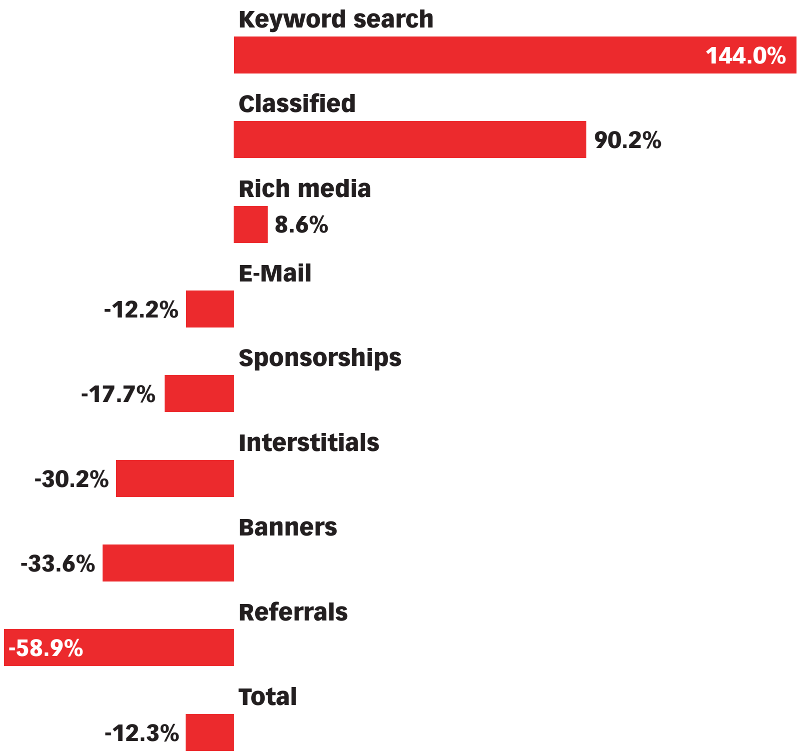
Further details about all three rising ad vehicles will be examined in Chapter V.

US Online Advertising Spending, by Vehicle, 2000-2001 (as a % of total spending)



Note: total spending for 2000=$8.23 billion; for 2001=$7.21 billion
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

US Online Advertising Spending, by Vehicle, 2001 (as a % increase/decrease vs. prior year)



Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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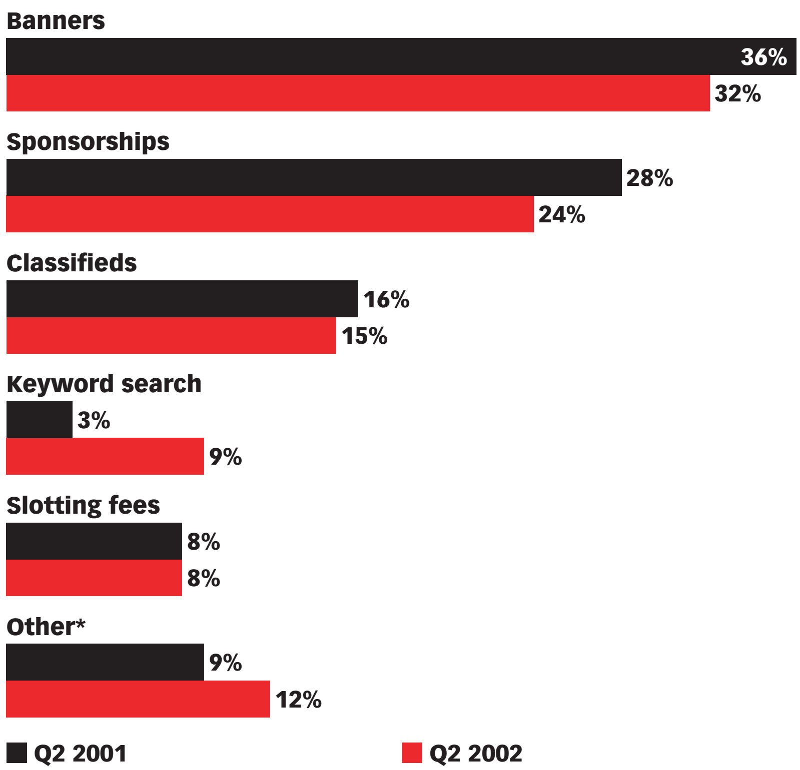
The dollar share of the top online ad vehicles continues to change in 2002. Comparing the IAB's second quarter figures from 2001 to 2002, banners and sponsorships both decreased by four points each, and even classifieds dropped by one point. But keyword search jumped by six points, from 3% in Q2 2001 to 9% in the matching quarter this year.

US Online Advertising Spending, by Vehicle, Q2 2001 vs. Q2 2002 (as a % of total spending)



*Note: total ad spending for Q2 2001=$1.87 billion, for Q2 2002=$1.46 billion; *other includes e-mail, interstitials, rich media, referrals*
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), October 2002

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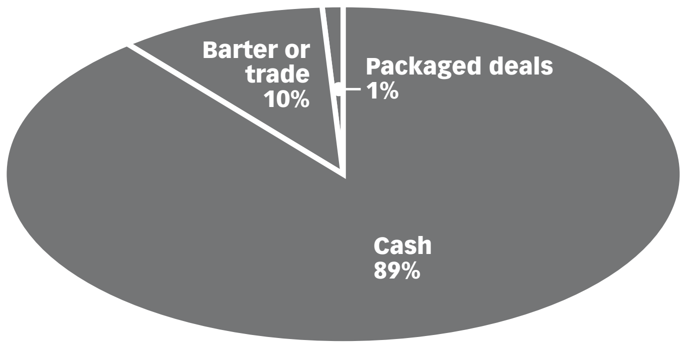
Further changes in the composition of online advertising appear in the two IAB charts below that break down spending by transaction type. While cash still prevails for buying and selling ads, at 89% in 2001, ads transacted by barter or trade increased to 10%.

US Online Advertising Spending, by Transaction Type, 2001 (as a % of total spending)



Note: total spending for 2001=$7.21 billion
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2002

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That 46.1% jump for barter/trade transactions is an indication of publishers having surplus space to sell, and therefore are willing to make a deal, and advertisers sometimes being short of cash, and therefore looking for a barter bargain.

US Online Advertising Spending, by Transaction Type, 2001 (as a % increase/decrease vs. prior year)

Note: total spending for 2000=$8.23 billion; for 2001=$7.21 billion
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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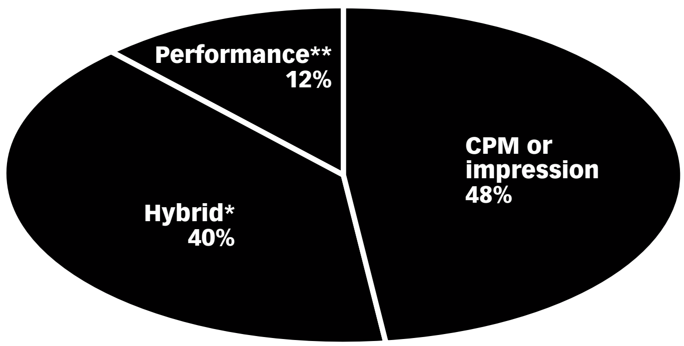
In the next pair of IAB charts, spending by pricing model, you see how in 2001, nearly half of online ads were sold on a cost-per-thousand (CPM) or impression model. Close behind, at 40% share, were ads priced on a hybrid basis—part impression, part performance. Furthermore, the uptick in performance-based deals increased during the first half of 2002, rising to 15% of online ad spending, while the CPM/impression model fell to 45%.

US Online Advertising Spending, by Pricing Model, 2001 (as a % of total spending)



*Note: *hybrid deals defined as a mix of impression-based pricing plus performance-based compensation; **performance deals defined as cost-per-click, -sale, or -lead, or straight revenue share; total spending for 2001=$7.21 billion*
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2002

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When examining the trend from 2000 to 2001, only pure performance-based deals delivered an increase, small but significant at 5.2% growth. As tools for measuring the effectiveness of online ads grow more sophisticated than simple click-through rates, possibilities increase for gauging performance, leading to more ads sold by that pricing model. In addition, the tight economy makes advertisers want deals that offer more certainty, and it makes publishers more willing to give out those sometimes less-lucrative deals.

US Online Advertising Spending, by Pricing Model, 2001 (as a % increase/decrease vs. prior year)

Note: total spending for 2000=$8.23 billion; for 2001=$7.21 billion
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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Pricing model data from Jupiter Research indicates a somewhat smaller share of spending based on impression pricing, 42.7% in 2001 compared to the IAB's 48%. But from Jupiter's perspective, performance-based pricing was about twice as popular in 2001 than the IAB's estimate: 24.8% versus 12%, respectively.

In either case, the trend toward more performance-based deals is clear.

US Online Advertising Spending, by Pricing Model, 2001-2007 (as a % of total media buys)

	Impression	Sponsorship	Performance
2001	42.7%	32.6%	24.8%
2002	42.5%	31.3%	26.2%
2003	42.4%	30.0%	27.7%
2004	42.2%	28.6%	29.1%
2005	42.1%	27.3%	30.6%
2006	41.9%	26.0%	32.0%
2007	41.8%	24.7%	33.5%

Source: Jupiter Research, October 2002

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B. What's To Come: 2002 and Beyond

The overall decline in US online advertising spending over this year and last will reach a turning point by next year. According to eMarketer projections, 2003 spending will swell slightly to $6.70 billion, up from $6.38 billion this year. The expected bounce-back is due to a combination of factors, including traditional marketers devoting larger slices of their ad budgets to online advertising as well as a general easing of the economic recession.

And by 2005, online ad expenditures will hit $8.10 billion—still less, however, than 2000's peak (internet bubble) spending figure of $8.23 billion.

US Online Advertising Spending, 2000-2005 (in billions)

Note: eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2001
Source: eMarketer, October 2002

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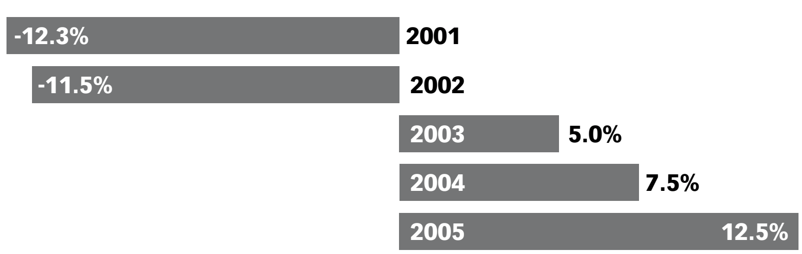
Viewing the same eMarketer numbers as growth rates, two-digit declines are seen in 2001 and 2002. By next year, those numbers turn from negative to positive, a 5.0% gain. And beyond next year, online ad spending will show continued growth, reaching a healthy 12.5% in 2005.

US Online Advertising Spending, 2001-2005 (as a % increase/decrease vs. prior year)



Note: eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2001
Source: eMarketer, October 2002

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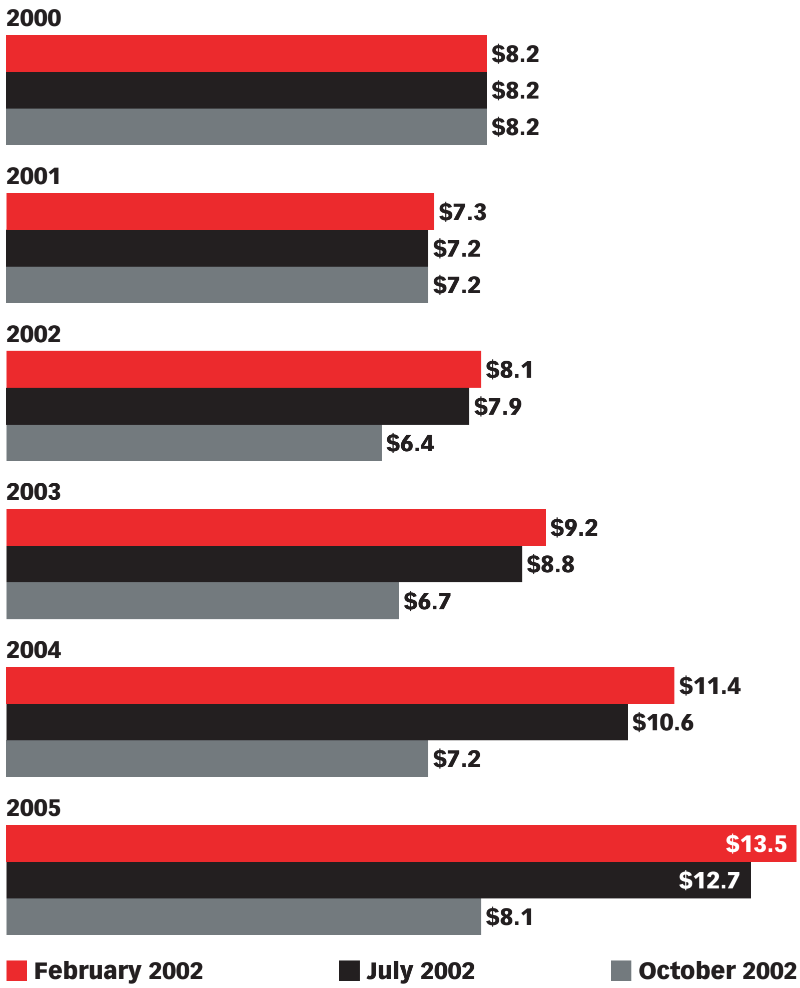
The difficulty in projecting online ad spending is part and parcel of the general label applied to economics: the "dismal science." Throughout 2002, the sagging economy has, at various times, been expected to rebound. So, for the sake of transparency, the chart below. Given the constantly shifting spending data and continued economic uncertainty, eMarketer has been forced to revise its forecasts three times in 2002.

US Online Advertising Spending, by Forecast Date, 2000-2005 (in billions)



Note: eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2001
Source: eMarketer, October 2002

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When you evaluate the most currently available estimates for US online advertising spending from 21 researchers, it's clear why eMarketer had to revise its projections—the numbers are still all over the map.

Take 2002 alone. Spending predictions range from $9.0 billion that Adams Media Research reported in May 2001 down to $4.0 from the Myers Group, announced in October 2002.

As the comparative estimates look to the future, two tendencies appear: fewer researchers and a greater range among the figures. Looking at next year (and throwing away the probably outdated projections from Adams), you'll find nine researchers with spending projections ranging from Gartner's $9.1 billion at the peak to Myers' $3.8 in the valley.

Comparative Estimates: US Online Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
Adams Media Research, May 2001	$7.0	$7.6	$9.0	$10.6	$12.4	$14.1
Competitive Media Reporting (CMR)*, August 2002	$2.8	$2.5	–	–	–	–
eMarketer, October 2002**	**$8.2**	**$7.2**	**$6.4**	**$6.7**	**$7.2**	**$8.1**
Forrester Research, October 2001	$7.4	$6.0	$6.3	–	–	–
GartnerG2, October 2002	–	$8.3	$8.7	$9.1	$9.5	$10.0
Goldman Sachs, December 2001	$8.2	$7.4	$7.7	–	–	–
J.P. Morgan H&Q, August 2002	$8.2	$7.2	$6.4	$6.9	$7.7	$8.3
Jupiter Research, October 2002	$5.4	$5.5	$5.6	$6.2	$7.5	$9.5
Kagan World Media, December 2001	$8.5	$6.4	$7.0	$7.9	$8.9	$10.1
Lehman Brothers, May 2002	$6.5	$5.5	$4.8	$7.6	$9.5	–
Merrill Lynch, September 2001	$6.9	$6.5	$7.3	–	–	–
Morgan Stanley, November 2001	$7.4	$5.7	$5.7	–	–	–
Myers Group, October 2002	$4.3	$4.3	$4.0	$3.8	$4.4	–
Salomon Smith Barney, September 2001	$6.3	$5.9	$6.5	–	–	–
Universal McCann, July 2002	$6.3	$5.8	$5.5	–	–	–
Veronis Suhler, July 2002	$8.2	$7.3	$7.6	$7.9	$8.4	$8.9
Yankee Group, 2001	$6.6	$8.6	$8.9	–	–	–
Zenith Media, December 2001	$6.0	$6.6	$7.5	$8.6	–	–

*Note: *not including sponsorships, e-mail, most classifieds and barter; **eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2001*
Source: eMarketer, October 2002; various, as noted, 2001 & 2002

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When the comparative estimates turn from absolute dollars to percentages, a bit more coherence appears. Of the 16 researchers charted for 2002, the estimates range from an 18.4% increase from Adams Media and a 13.0% increase from Zenith Media down to 13.1% and 11.5% decreases, respectively, from Lehman Brothers and eMarketer.

"These are troubling times for sure, no question about it. The fundamentals for many businesses are still not strong, causing some marketers to pull back and hurting the media and agencies."

– James D. Speros, chief marketing officer for the US, Ernst & Young

Perhaps the market trend charted below says more than any absolute dollar figures. In that light, eMarketer's expected 2002 decrease might appear a bit downbeat, what with companies such as Gartner G2, Jupiter Research, and Veronis Suhler predicting small increases. However, eMarketer benchmarks its online advertising spending figures against research from the Interactive Advertising Bureau and PricewaterhouseCoopers, and hard data from PwC says that 2002's first half ad spending tumbled by 20.8% compared to 2001's first half. Therefore, only through eMarketer's anticipated increase in online ad spending during the year's second half will 2002's rate settle at an 11.5% drop.

Comparative Estimates: US Online Advertising Spending Growth, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
Adams Media Research, May 2001	8.0%	18.4%	17.8%	17.0%	13.7%
Competitive Media Reporting (CMR)*, August 2002	-11.7%	–	–	–	–
eMarketer, October 2002**	**-12.3%**	**-11.5%**	**5.0%**	**7.5%**	**12.5%**
Forrester Research, October 2001	-18.9%	5.0%	–	–	–
GartnerG2, October 2002	–	4.9%	4.7%	4.6%	4.5%
Goldman Sachs, December 2001	-9.8%	4.1%	–	–	–
J.P. Morgan H&Q, August 2002	-12.2%	-10.8%	7.2%	11.3%	8.3%
Jupiter Research, October 2002	2.5%	1.0%	10.7%	21.8%	25.9%
Kagan World Media, December 2001	-24.9%	9.0%	13.4%	12.1%	14.6%
Lehman Brothers, May 2002	-15.4%	-13.1%	59.0%	25.0%	–
Merrill Lynch, September 2001	-5.8%	12.3%	–	–	–
Morgan Stanley, November 2001	-23.0%	–	–	–	–
Myers Group, October 2002	0.0%	-8.0%	-3.0%	15.0%	–
Salomon Smith Barney, September 2001	-6.3%	10.2%	–	–	–
Universal McCann, July 2002	-8.7%	-5.0%	–	–	–
Veronis Suhler, July 2002	-11.9%	4.1%	4.0%	6.9%	5.6%
Yankee Group, 2001	30.3%	3.5%	–	–	–
Zenith Media, December 2001	10.0%	13.0%	15.3%	–	–

*Note: *not including sponsorships, e-mail, most classifieds and barter; **eMarketer benchmarks its online advertising spending figures against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2001*
Source: eMarketer, October 2002; various, as noted, 2001 & 2002

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The next chart shows online ad spending as a percentage of total media spending. Using a baseline mainly of J.P. Morgan's total media estimates, along with Veronis Suhler's figures for yellow pages, eMarketer estimates that online ads will make up 2.5% of total US media spending in 2002, rising to 2.8% by 2005.

US Online Advertising Spending, 2000-2005 (as a % of total media spending)

Note: measures online advertising as a % of total US media spending, including direct mail; based on total media figures and direct-mail figures from J.P. Morgan H&Q, August 2002; yellow pages figures from Veronis Suhler, July 2002
Source: eMarketer, October 2002

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When comparing estimates for online's share of all media advertising, five of the six researchers see the internet as making up from 2.3% to 2.7% of total spending in 2002, with only Veronis Suhler as the 4.3% contrarian. Similar balances hold true for 2003 and 2004, with Veronis again on the high side.

Comparative Estimates: US Online Advertising Spending, 2000-2005 (as a % of total media spending)

	2000	2001	2002	2003	2004	2005
eMarketer, October 2002	**3.1%**	**2.9%**	**2.5%**	**2.5%**	**2.6%**	**2.8%**
J.P. Morgan H&Q, August 2002	3.3%	3.1%	2.7%	2.8%	–	–
Jupiter Research, October 2002	–	2.4%	2.4%	2.5%	2.9%	3.4%
Myers Report, October 2002	2.6%	2.8%	2.5%	2.4%	2.7%	–
Universal McCann, May and July 2002	2.6%	2.5%	2.3%	–	–	–
Veronis Suhler, July 2002	4.5%	4.2%	4.3%	4.2%	4.2%	4.2%

Note: all firms' base total-media figures include TV, radio, magazines, newspapers, outdoor and internet (except Jupiter, which does not include outdoor); in addition, J.P. Morgan includes direct mail and other; Jupiter includes yellow pages, direct mail and other; Myers includes yellow pages; Universal McCann includes direct mail, yellow pages and miscellaneous; Veronis includes yellow pages
Source: eMarketer, October 2002; various, as noted, 2002

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Another way to view online advertising spending, this from Jupiter Research, combines figures from three projections— online spending, households, and users—to create a pair of fourth elements: online advertising's average cost per household and per user. While Jupiter expects both figures to rise over the seven years shown, the cost of reaching online households will go up by 76%, while reaching users compares at 64%.

US Online Advertising Spending per Online Household and User, 2001-2007

	Online household	Online user
2001	$89	$39
2002	$84	$36
2003	$87	$36
2004	$99	$41
2005	$117	$48
2006	$135	$55
2007	$157	$64

Source: Jupiter Research, October 2002

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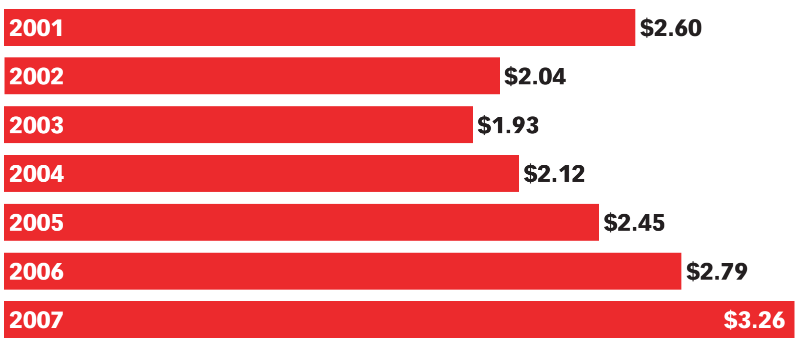
CPM Trends

In this hard-times market for online advertising, and equally as a reaction to the overblown promises and premises of the dot-com era, the effective CPM for online advertising has dropped by over 21% this year—"effective" meaning after typical discounts. According to Jupiter's report, "Online Advertising: Traditional Advertisers, Classifieds Pave Road to Recovery," pricing's trendline moved from $2.60 per thousand impressions in 2001 to $2.04 in 2002.

The New York-based research firm expects further pricing declines next year, a 5.9% drop to $1.93. However, starting in 2004, the average price for an impression-based online ad should rise steadily, going from $2.12 to $3.26 by 2007.

Effective CPM for US Online Advertising, 2001-2007



Source: Jupiter Research, October 2002

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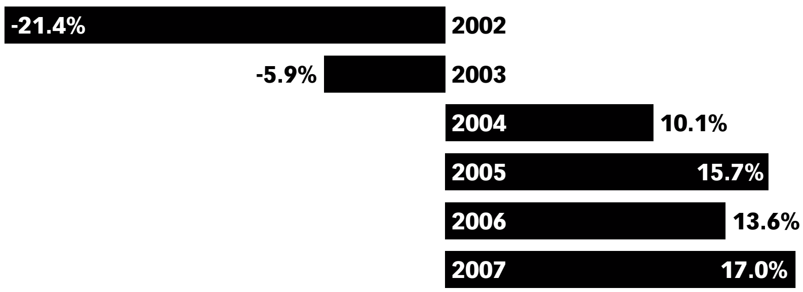
"Online marketing is cheap, and it works."

–Denise Garcia, director of research, GartnerG2

In the near term, Jupiter expects CPM rates to remain low: "This is a buyer's market, and that's not changing much at all." However, the research firm also expects two-digit growth rates for online advertising CPMs starting in 2004, through 2007.

Effective CPM for US Online Advertising, 2002-2007 (as a % increase/decrease vs. prior year)



Source: Jupiter Research, October 2002

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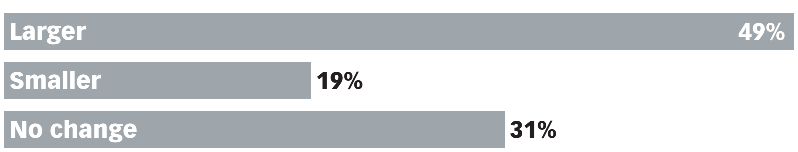
Spending Indicators

Turning from cost projections to executive expectations, a report from the Patrick Marketing Group points to a general increase in marketing budgets next year, with 49% of respondents talking about larger budgets and only 19% anticipating smaller ones.

US Marketing Executives' Expectations Regarding Change in Marketing Budgets, 2002 vs. 2003 (as a % of respondents)



Note: n=250; on average, companies surveyed spend 3.4% of gross annual revenues on marketing
Source: Patrick Marketing Group, October 2002

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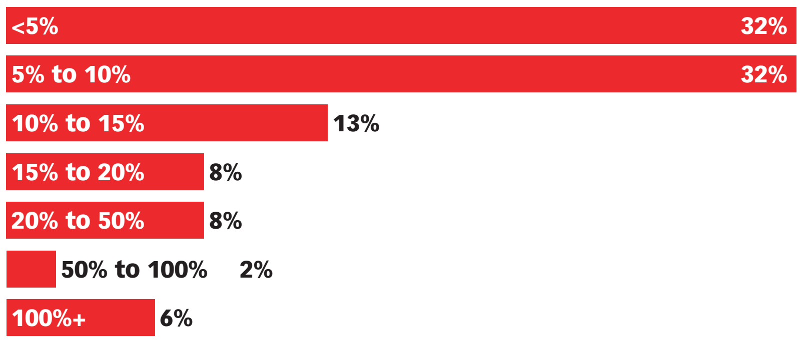
Among those 49% of companies that expect higher marketing budgets in 2003, most of the increases will be modest, however, since 64% of that group foresees budget growth of 10% or less.

Amount US Companies Expect to Increase Marketing Budgets*, 2002 vs. 2003 (as a % of respondents)



*Note: *based on the approximately 125 companies whose marketing budgets will be higher in 2003; on average, those companies expect to spend 11.1% more in 2003 than in 2002*
Source: Patrick Marketing Group, October 2002

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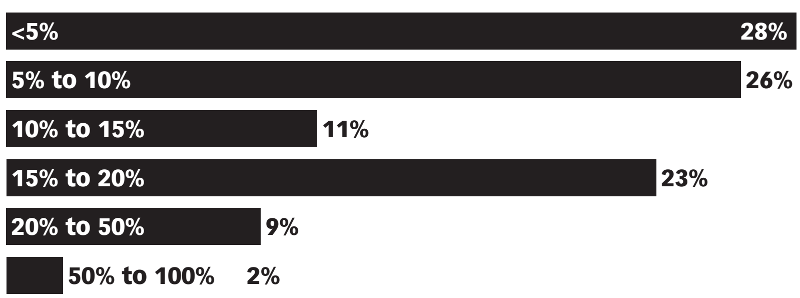
Corresponding decreases should be equally modest, with 54% saying budgets will drop by 10% or less.

Amount US Companies Expect to Decrease Marketing Budgets*, 2002 vs. 2003 (as a % of respondents)



*Note: *based on the approximately 125 companies whose marketing budgets will be lower in 2003*
Source: Patrick Marketing Group, October 2002

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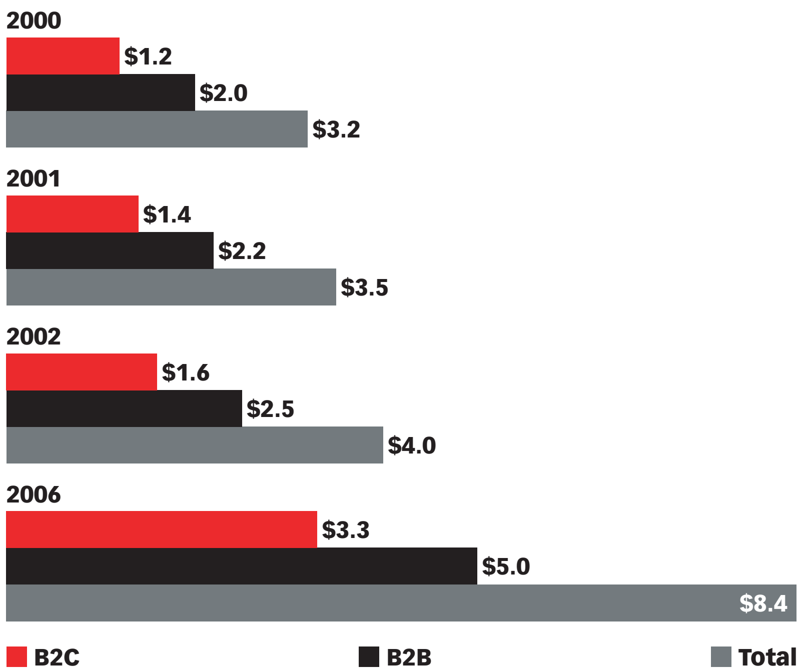
When the interactive advertising universe is narrowed to direct marketing companies, spending will grow steadily, according to the DMA, from $3.2 billion total in 2001 to $8.4 billion in 2006. The larger share of direct marketing interactive ad spending will come from the business sector, at about a 60% dollar share for each year shown in the following chart.

Advertising Spending for Direct Marketing Interactive Media among US B2C and B2B Companies, 2000-2002 & 2006 (in billions)



Source: Direct Marketing Association, July 2002

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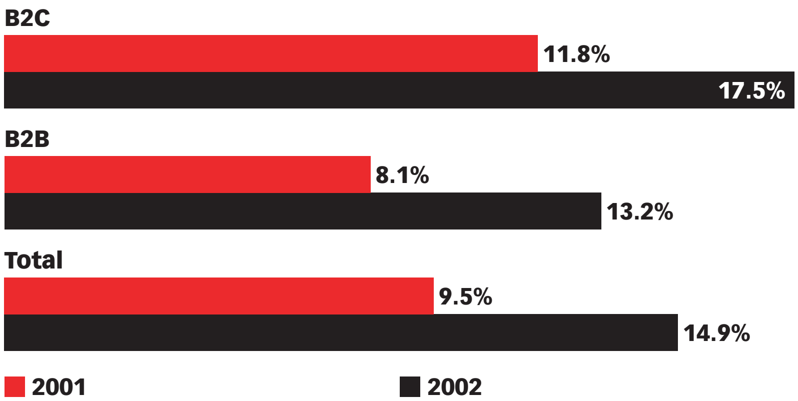
The growth rate for direct marketing interactive ad spending will be higher than for the entire online advertising market, if you accept the DMA figures. For example, in 2002, spending will jump by nearly 15%.

Advertising Spending for Direct Marketing Interactive Media among US B2C and B2B Companies, 2001 & 2002 (as a % increase vs. prior year)



Source: Direct Marketing Association, July 2002

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Of course, budget allotments and plans for marketing, such as how much to allocate to online, may change quickly. In a Forrester Research report called "Making Marketing Measurable," marketers and agencies were asked how often they re-evaluate marketing plans and budgets. While both are annual tasks for the majority of respondents, over one-third re-evaluate marketing plans either quarterly or more than once a month. And 22% re-evaluate budgets with the same frequency.

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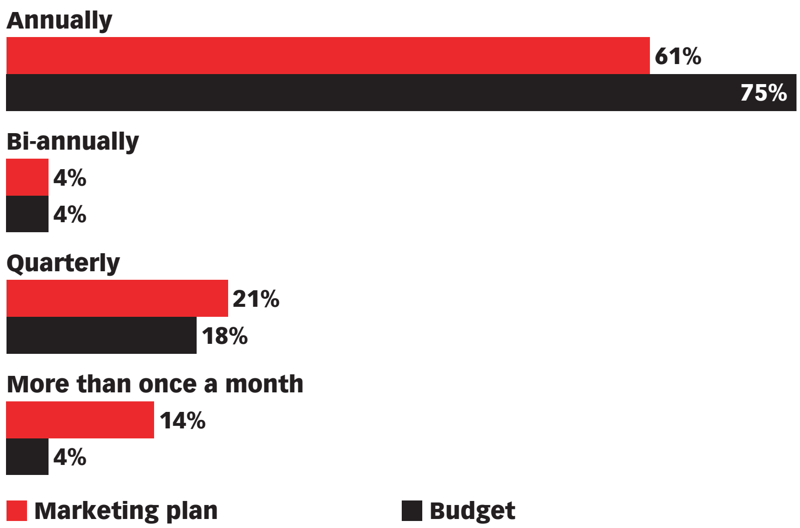
These numbers point to the realization that forecasters, advertisers, and marketers alike should not get stuck in viewing spending patterns; they're extremely dynamic.

Frequency of Re-Evaluating Marketing Plans and Budgets among US Marketers, 2001 (as a % of respondents)



Note: n=28 (agencies and marketers); percentages may not total 100% due to rounding
Source: Forrester Research, December 2001

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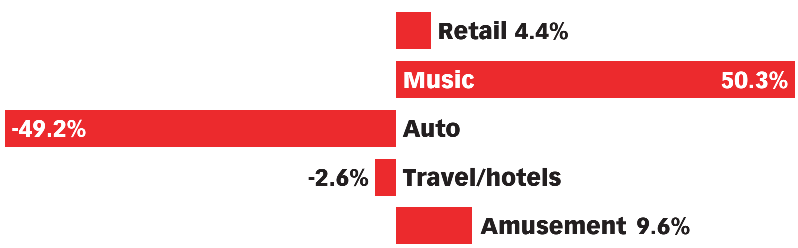
C. Who Advertises Online & Where Ad Dollars Are Spent

Who advertises online? That is, what consumer categories, industries, and companies consider interactive media as effective marketing vehicles? And, as a counterpoint, where do they place those ads? Which websites publish what types of ads? The most ads?

To start with, one good news growth area in the IAB/PwC research arises in online advertising spending by major consumer categories. Of the top five groups listed, which accounted for 88% of 2001's total online ad spending, three increased their spending during the otherwise down year. Music showed the largest growth rate, at 50.3%, with amusement up at 9.6% and retail at 4.4%. As more and more research shows the effectiveness of branding strategies online, consumer advertisers see the internet as a viable a market for reaching their target audiences.

US Online Advertising Spending, by Major Consumer Category, 2001 (as a % increase/decrease vs. prior year)



Note: total spending for 2000=$8.23 billion; for 2001=$7.21 billion; top five major consumer categories accounted for 81% of 2000 total spending, 88% of 2001 total spending
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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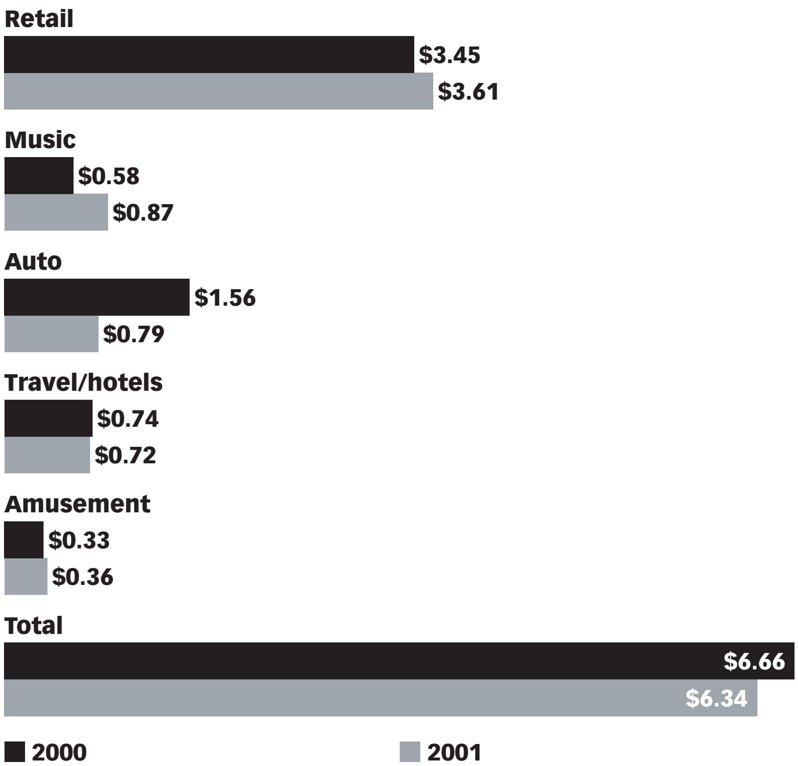
Translating percentages to dollars, the retail consumer category spent more advertising online than any other, at $3.61 billion. And the music category, which trailed automobiles and travel in 2000, surpassed them in 2001 with $0.87 billion in spending.

US Online Advertising Spending, by Major Consumer Category, 2000 & 2001 (in billions)



Note: total spending for 2000=$8.23 billion; for 2001=$7.21 billion; top five major consumer categories accounted for 81% of 2000 total spending, 88% of 2001 total spending
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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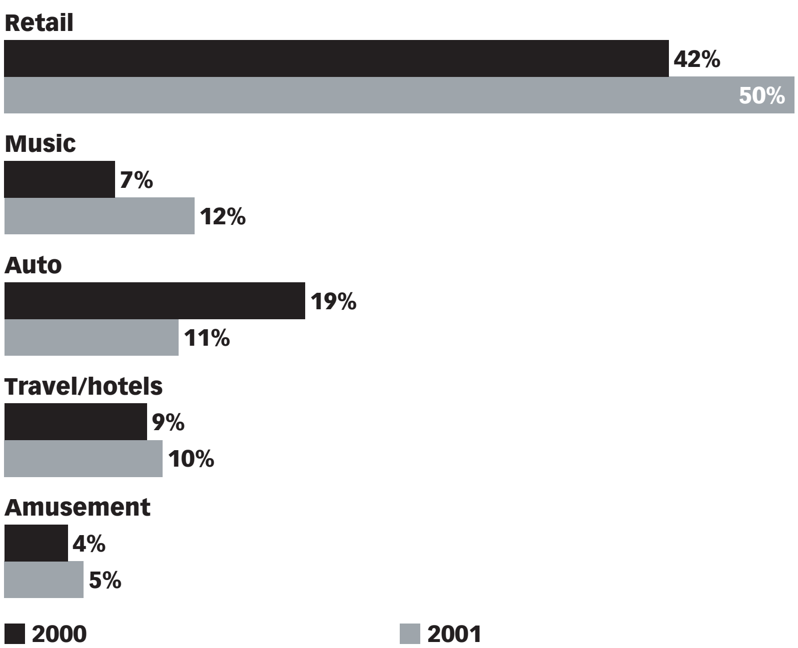
The retail category remains the proverbial 800-pound gorilla among US online advertisers, with a 50% share of spending in 2001.

US Online Advertising Spending, by Major Consumer Category, 2000 & 2001 (as a % of total spending)



Note: total spending for 2000=$8.23 billion; for 2001=$7.21 billion; top five major consumer categories accounted for 81% of 2000 total spending, 88% of 2001 total spending
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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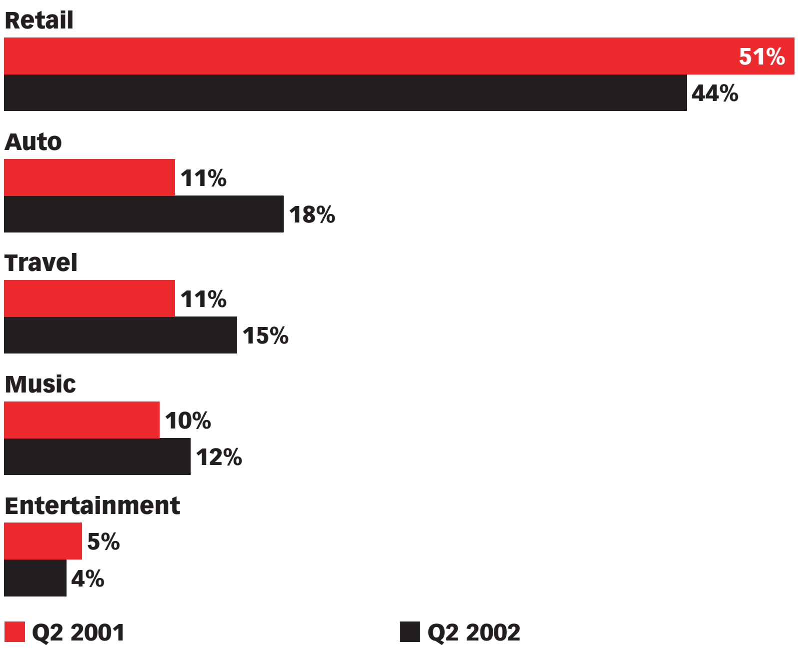
Now that Q2 2002 spending figures are in from the IAB, it appears that the retail gorilla has gone on a diet, dropping from 51% in 2001's second quarter to 44% in 2002's corresponding quarter. Auto advertising rose to an 18% market share, undoubtedly due to that category's reliance on more-expensive rich media advertising.

US Online Advertising Spending, by Major Consumer Category, Q2 2001 vs. Q2 2002 (as a % of total spending)



Note: total ad spending for Q2 2001=$1.87 billion, for Q2 2002=$1.46 billion
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), October 2002

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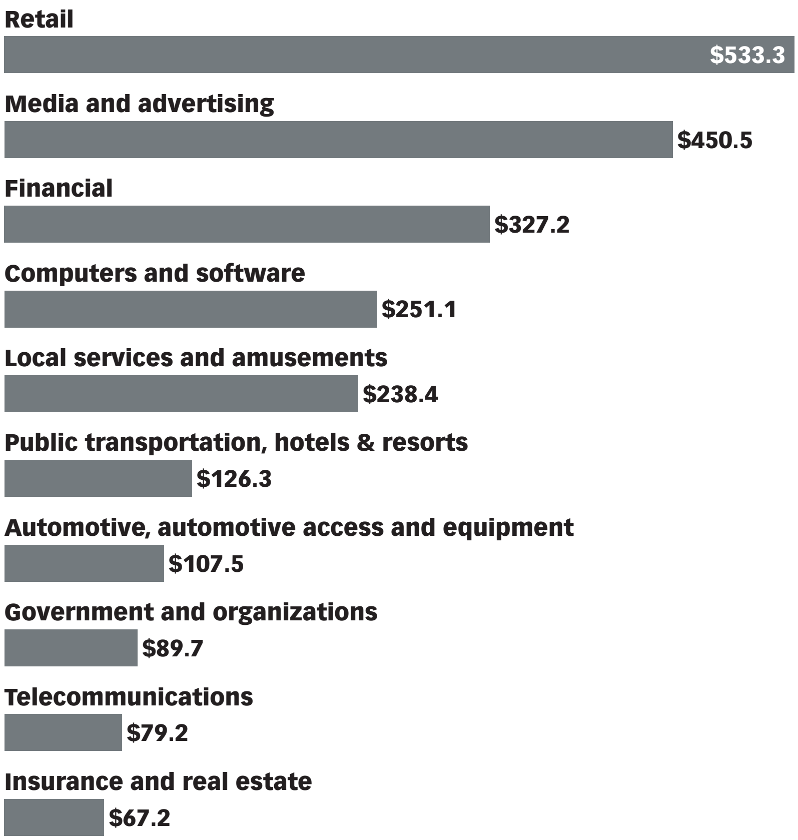
While CMRi's AdNetTrackUS also sees the retail category as the biggest advertiser online, at $533.3 million in 2001, the company's finer industry distinctions and different methodology makes that figure far less than the $3.61 billion estimate from the IAB.

Top US Online Advertising Spending, by Industry, 2001 (in millions)



Source: CMRi's AdNetTrackUS, March 2002

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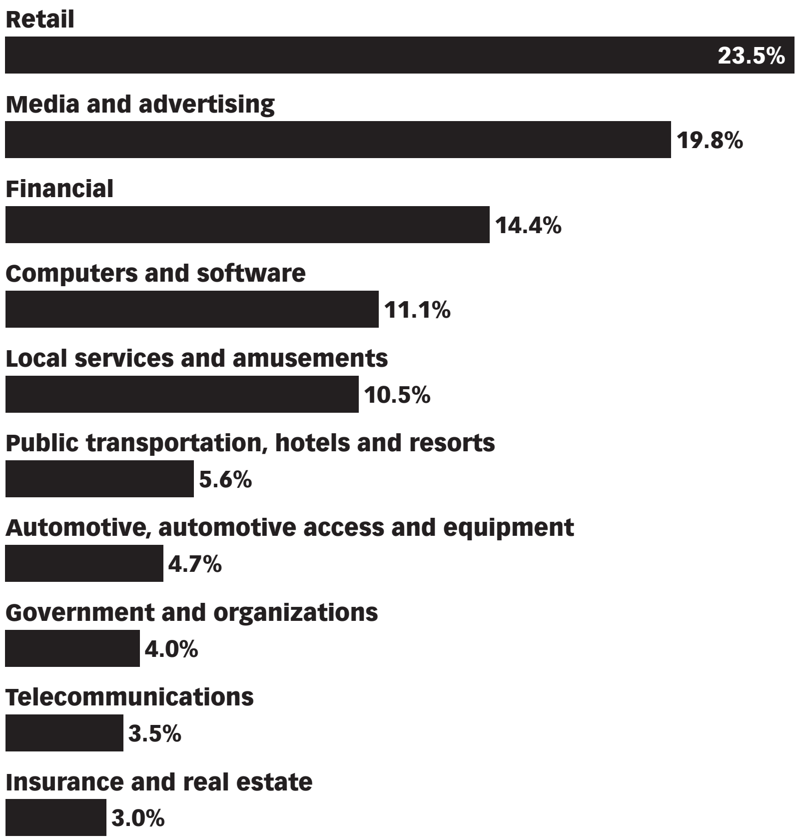
CMRi's spending-share figures also differ greatly from the IAB's. Looking again at retail in 2001, you see a 23.5% slice of the total spending figure of $2.3 billion compared to the IAB figure of 50%.

Top US Online Advertising Spending, by Industry, 2001 (as a % of total spending)



Note: total=$2.3 billion
Source: CMRi's AdNetTrackUS, March 2002

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Within the direct marketing segment of interactive media, depository institutions (banks and such) are expected to spend the most in 2002. According to the DMA's "Economic Impact: US Direct & Interactive Marketing Today" report, after banks at $183.3 million come transportation equipment at $103.7 million and real estate at $88.0 million.

US Consumer Interactive Media Advertising Spending for Direct Marketing, by Industry, 2002 (in millions)

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*Note: *excludes airlines*
Source: Direct Marketing Association, July 2002

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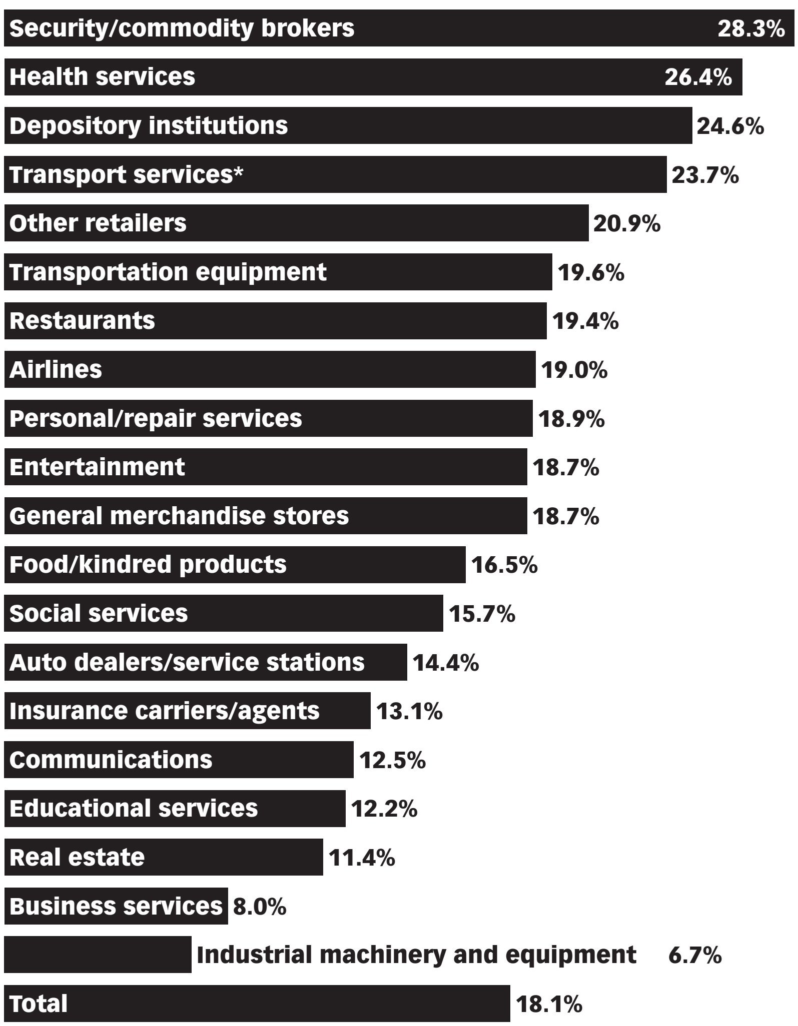
Turning those same numbers in growth rates, the DMA sees sharp increases in two financial service industries: security brokers at 28.3% and depository institutions at 24.6%. Other industries projected to increase their ad spending for interactive direct marketing beyond the industry average of 18.1% include health services, transportation services, and restaurants.

And that the DMA expects the smallest increase from the industrial machinery and equipment industry (at 6.7%) might be due to the recession, with less investment by companies in the types of construction that would require products from that industry.

US Consumer Interactive Media Advertising Spending for Direct Marketing, by Industry, 2002 (as a % increase vs. prior year)



*Note: *excludes airlines; total for 2001=$1,068.3, for 2002=$1,261.9*
Source: Direct Marketing Association, July 2002

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Online marketing is drawing in an increasingly diverse range of advertisers—but not as diverse as some in the industry want. Many old standbys still rule, with eBay as the second largest spender for US online advertising at $45.4 million in 2001, according to CMRi. And Amazon, another web stalwart, ranks as number five, spending $27.7 million.

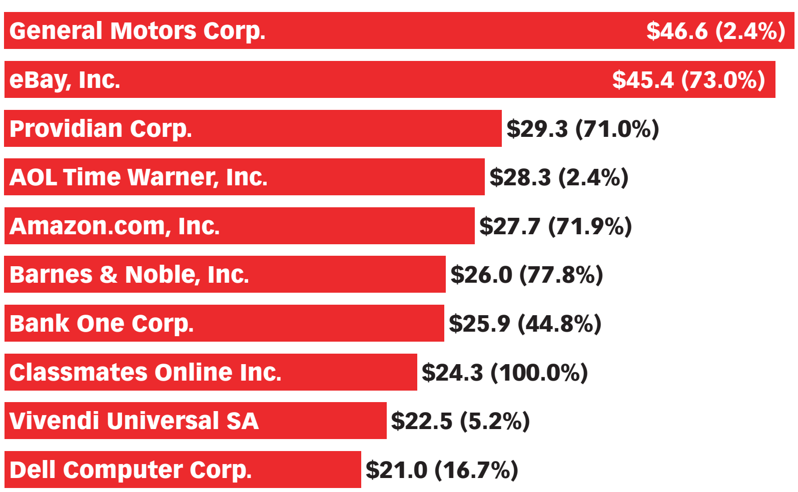
Even so, several traditional companies make the list of 2001's big spenders. Look at General Motors, topping the list at $46.6 million, or credit-card provider Providian, at number three with $29.3 million.

"We're starting to see an adaptation of the online medium by what I'd consider traditional blue-chip companies. That's in contrast to two years ago, when there were a lot of companies advertising online that would have had a dot-com associated with them."

– *George Shababb, senior vice president, CMR*

Several of these figures, however, need to be put into context. Take GM's spending—for total US media in 2001, that is. CMR puts that at $1.93 billion, making the Detroit iron's online ad spending a mere 2.4% of its total outlay. Or AOL Time Warner, also at 2.4%—despite the company's major online component.

Top US Online Advertising Spending, by Company, 2001 (in millions and as a % of total advertising)



Source: CMRi's AdNetTrackUS, March 2002

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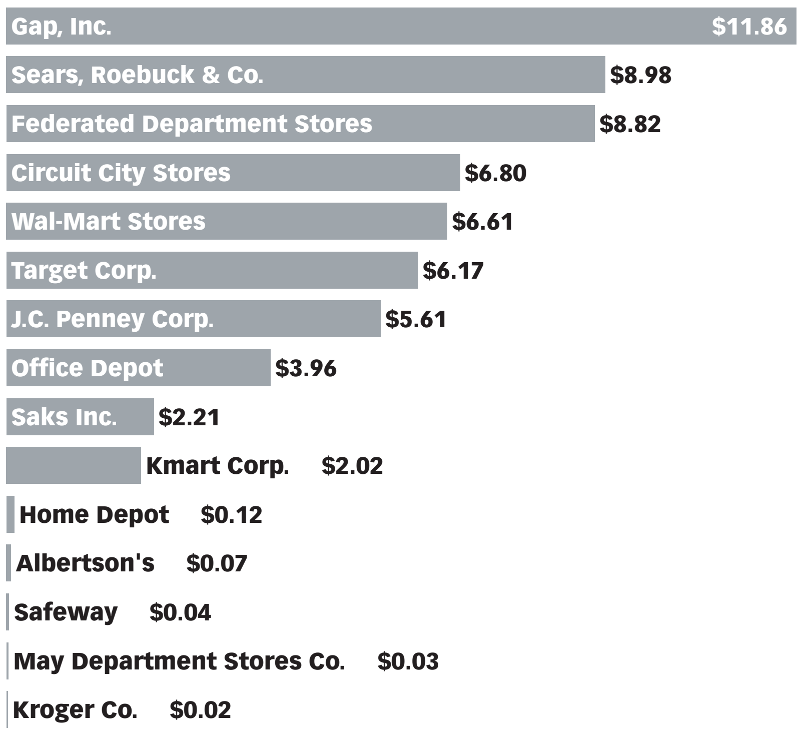
Among leading US retailers, The Gap spent the most in 2001 for online advertising, or $11.86 million. Two department store chains follow: Sears and Federated, at $8.98 million and $8.82 million, respectively.

Leading US Retailers' Online Advertising Spending, 2001 (in millions)



Source: Advertising Age, June 2002

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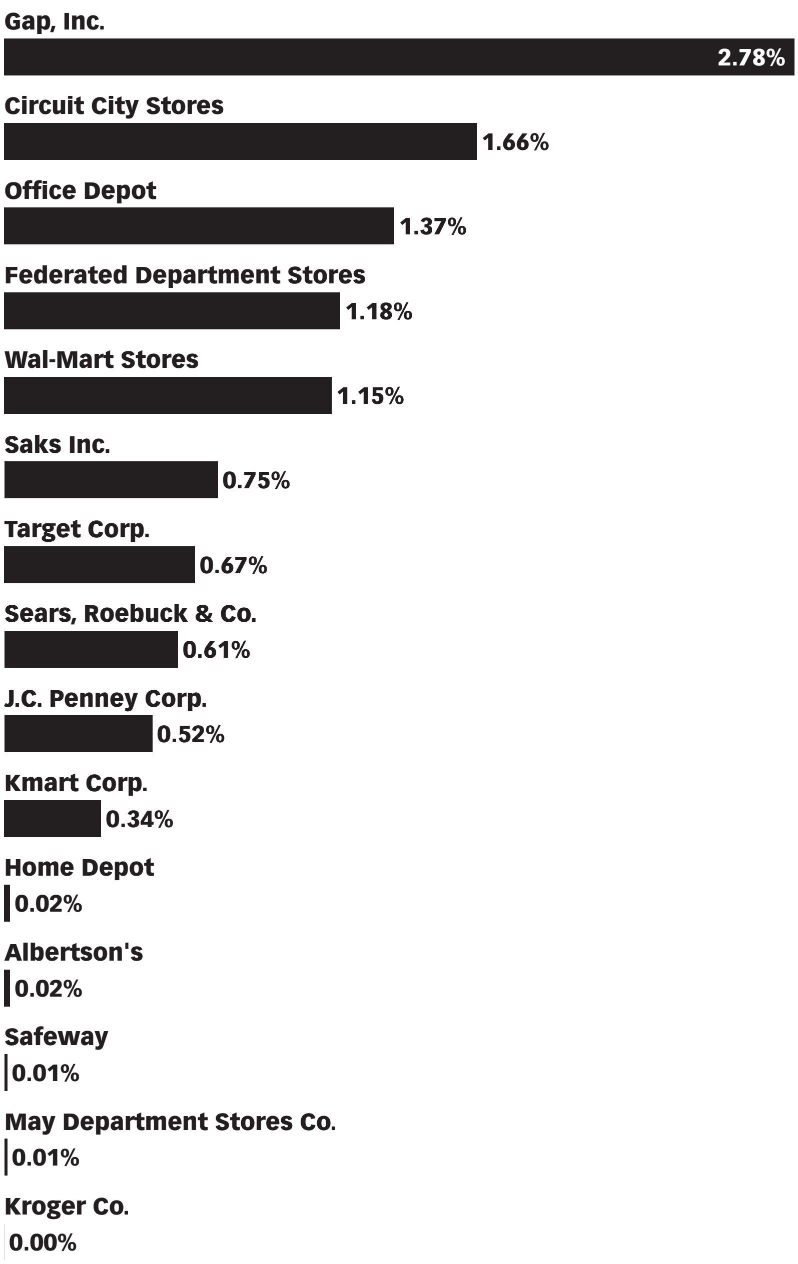
Even so, total media ad spending by these retailers is so large that even The Gap's leading number above translates to a mere 2.78% of its entire advertising budget in 2001, according to *Advertising Age*.

Leading US Retailers' Online Advertising Spending as a Percent of Total Advertising Budgets, 2001



Source: Advertising Age, June 2002; eMarketer calculations, September 2002

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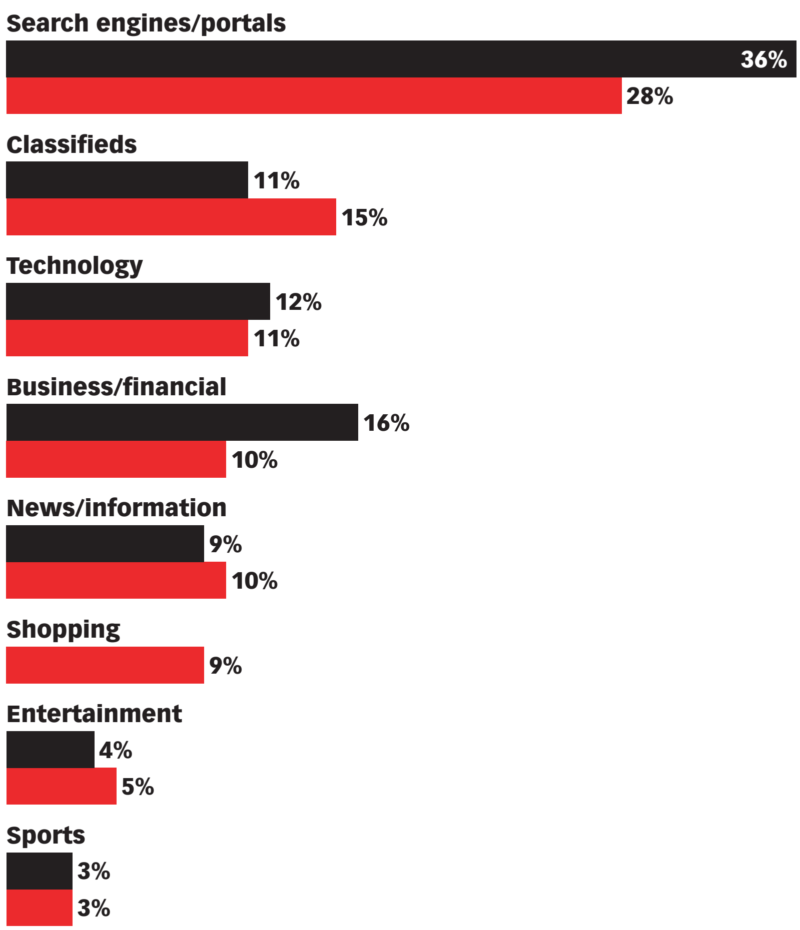
For more research and data from eMarketer about retailers and interactive channels, see eMarketer's Retail Industry Online report at: http://www.emarketer.com/products/report.php?retail_ind

Website Advertising Revenues

The web publisher shift from 2000 to 2001 shows search engines and portals are still the most popular website genre for advertisers, but this dropped by eight points to a 28% share.

Classified ads sites, such as Monster.com or newspaper classified sections, increased their share from 11% in 2000 to 15% in 2001, according to the IAB/PwC. Content sites, the news/information genre in particular, also delivered a small increase, going from 9% to 10%.

US Online Advertising Revenues, by Website Genre, 2000 & 2001 (as a % of total spending)



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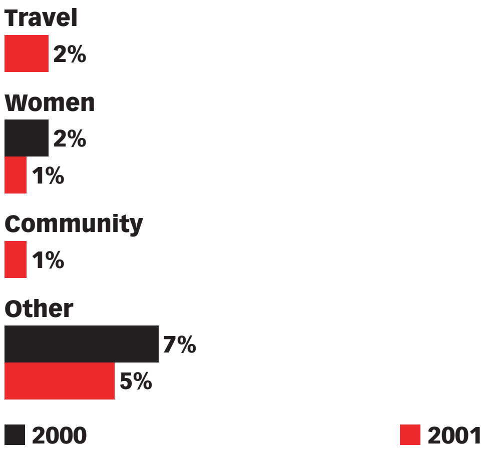

Note: total spending for 2000=$8.23 billion; for 2001=$7.21 billion
Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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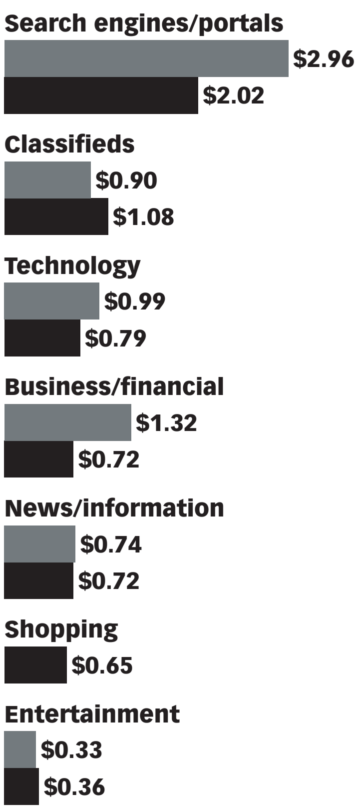
Those market shares above mean that, by IAB/PwC statistics, advertisers spent $2.02 billion at search engine/portals in 2001. The only other billion-plus website genre was classifieds, at $1.08 billion. (For more about ad spending on search sites and for classifieds, see Chapter V, "Hot Wheels".)

US Online Advertising Revenues, by Website Genre, 2000 & 2001 (in billions)



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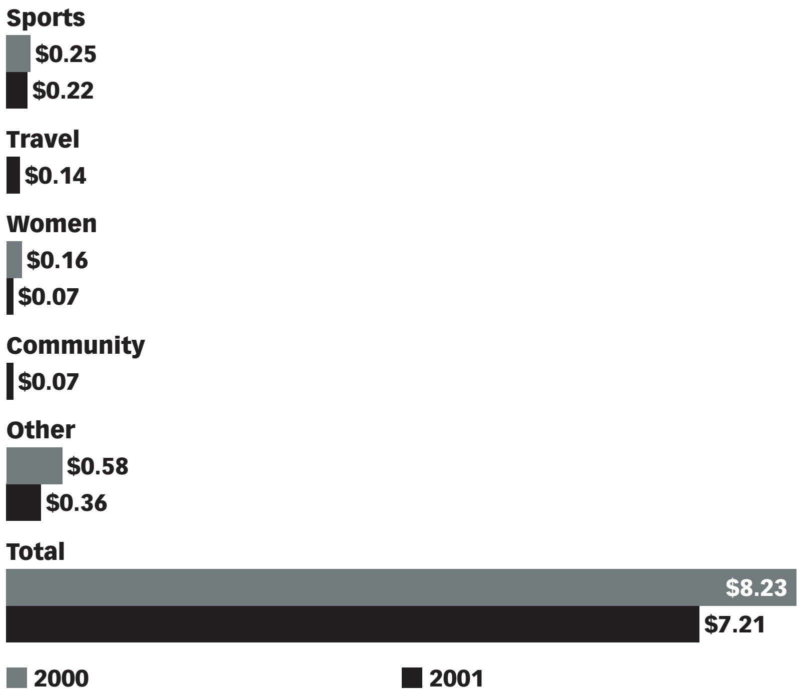

Source: Interactive Advertising Bureau (IAB), PricewaterhouseCoopers (PwC), June 2002

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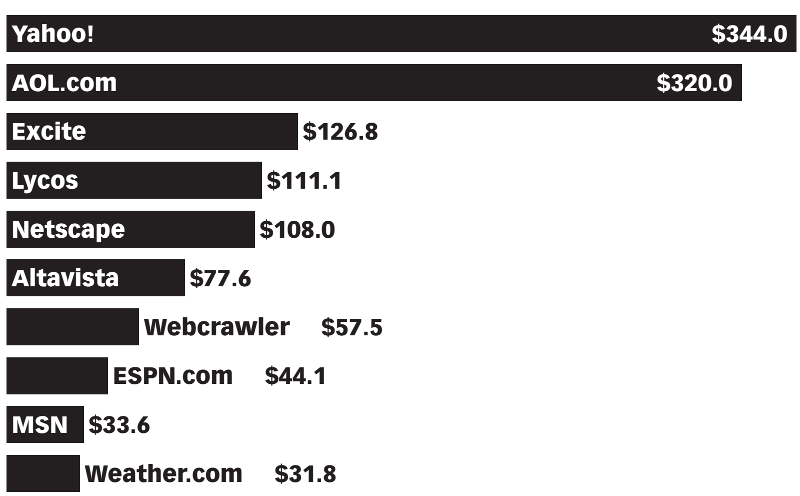
Research from CMRi shows search sites and portals as the top seven US websites in revenue generated in 2001, ranging from Yahoo!'s $344.0 million down to Webcrawler's $57.5 million. The only pure content site in the top 10 list is ESPN.com, with $44.1 million in ad spending revenues.

Leading US Websites, by Advertising Revenue Generated, 2001 (in millions)



Source: CMRi's AdNetTrackUS, March 2002

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The continued evolution and expansion of online marketing creates as many problems as promises. The truth is, as the internet becomes one media among many—and not a universe unto itself—several of the issues that arise reflect offline concerns, not just parochial internet matters.

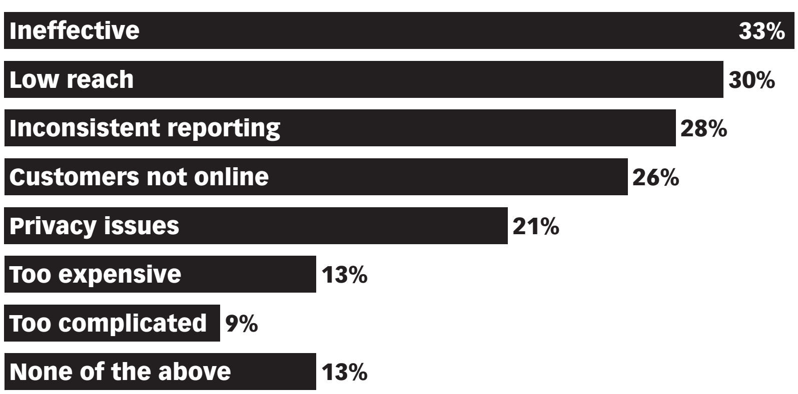
Take spam, for example. And not spam just as in unsolicited commercial e-mail but spam as "a generic term for any intrusion that people don't like," as Ray Everett-Church, a privacy and government relations consultant with ePrivacy Group, told CNET News.

The increasing sensitivity among consumers to privacy matters both online and offline means "people begin to view all interruptions on a computing or telecommunications device as out of bounds," according to CNET News. "The result could be a delay in the long hoped-for recovery in the battered online ad market as consumers dig in their heels."

According to research from DoubleClick, 33% of US marketers cite perceived ineffectiveness of online advertising as a barrier to increased online ad spending. That particular barrier is seen in the unwelcome plethora of online ad formats, web page clutter, and sometimes convoluted metric choices addressed later in this chapter.

Even the second and third cited barriers, low reach and inconsistent reporting, may be more due to conflicting measurement tools and the existence of too many research sources for the online advertising industry.

Barriers to Increasing Online Advertising Spending among US Marketers, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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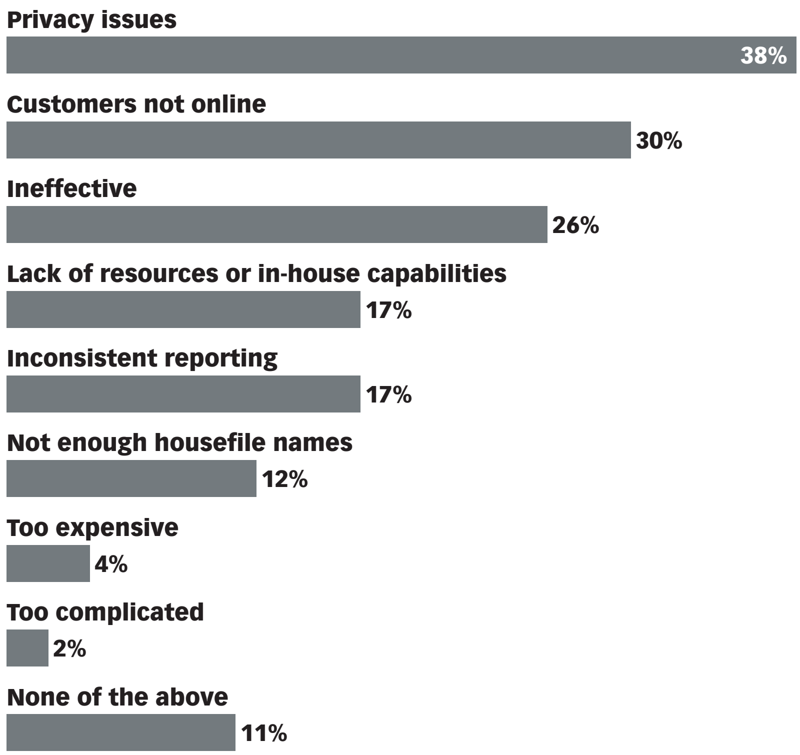
When the focus turns to e-mail marketing spending, privacy issues are foremost, according to 38% of DoubleClick's respondents. And that 30% of US marketers see customers not being online as a barrier, when the prime income and age demographic segments are overwhelmingly online, could easily be due to poor research, or perhaps not believing the research.

Barriers to Increasing E-Mail Marketing Spending among US Marketers, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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A. Despised Pop-Ups

People hate pop-ups. That surely sounds extreme, but look at some recent actions by various internet service providers and websites.

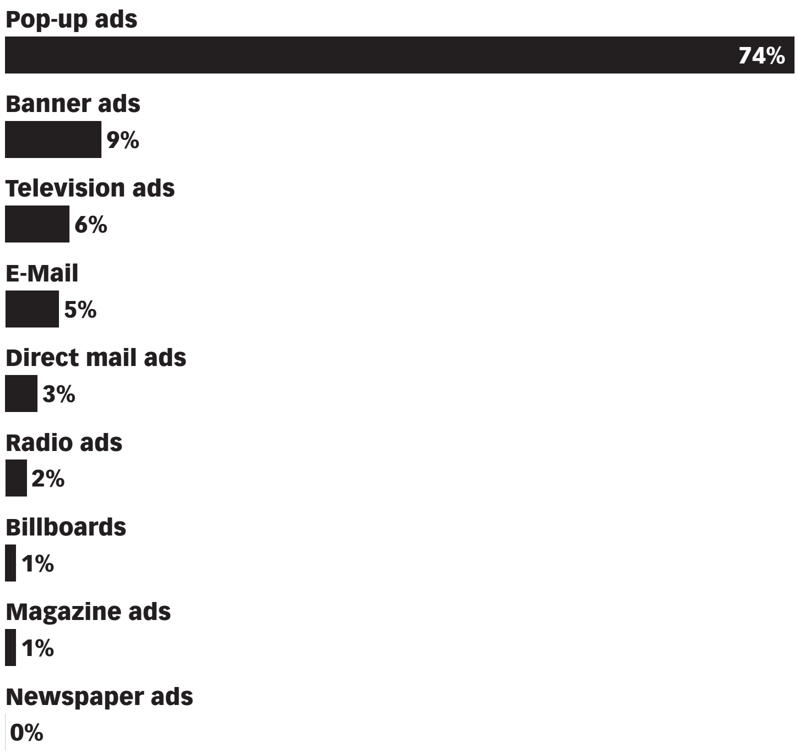
- In July 2002, the website iVillage said it would cut pop-up ads from its network by the end of the third quarter in reaction to complaints from its predominantly female audience. The site did, however, admit that a few pop-ups would continue, but "mostly tied to research and in-house subscription offerings," according to *Advertising Age*. In fact, a survey done for iVillage by Vividence discovered that 92.5% of the website's audience find pop-up advertising to be the web's most frustrating feature.
- In August 2002, EarthLink began to provide its customers with free software to prevent pop-up ads from appearing. The Atlanta-based ISP, one of the largest in the US with about 4.9 million subscribers, thinks enough of this service to trumpet the pop-up blocker in its newest advertising campaign.
- Then, in October 2002, America Online announced it will sell no more pop-up ads to outside companies, reacting to feedback from its subscribers. However, the world's largest ISP will still allow house-ad pop-ups to appear.
- A week later in October, the Microsoft Network (MSN) also unveiled a no-pop-up policy.
- Further along, additional websites that have dropped pop-ups include Ask Jeeves and Google. And if a company wants to place paid-search ads on Google, it cannot have pop-ups on its landing page (although other pages on the website are okay for pop-ups; Google ads just can't point to those pages).

"Clearly intrusive advertising benefits advertisers, but not if it's at the expense of the consumer."

– Nick Nyhan, president, Dynamic Logic

Besides this evidence of a mounting counterattack to pop-up ads, surveys such as one by Valentine Radford—a Kansas City, MO-based ad agency—indicate that 74% of US consumers find pop-ups far more annoying than any other type of ad. Even other interactive ads, such as banners at 9% and e-mail at 5%, barely hit the annoyance radar screen.

Types of Advertising US Consumers Find the Most Annoying, 2002 (as a % of respondents)



Source: Valentine Radford, August 2002

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"Pop-ups have been banned in the [B2B] arena already, especially the tech websites."

– Denise Garcia, director of research, GartnerG2

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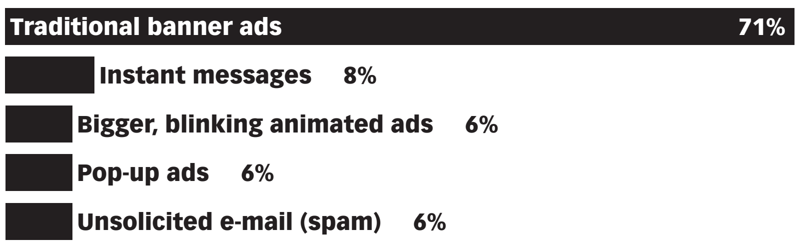
Similarly, an active distaste for pop-up ads also shows in an online poll last year on the Wall Street Journal.com website. People were asked, "If there were only one way for online marketers to reach you, what would it be?" Perhaps unexpectedly, traditional banner ads came out on top, with 71% of respondents favoring them. But only 6% of respondents prefer pop-ups, the same share that would want to be spammed.

How Internet Users Want to be Reached by Online Marketers, 2001 (as a % of respondents)



Note: n=770; based on responses to an online poll asking, "If there were only one way for online marketers to reach you, what would it be?"
Source: Wall Street Journal.com, October 2001

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In fact, for all the attention they get, pop-up ads appear to be a relatively small part of the online marketing spectrum. First, a quick definition of pop-up and pop-under ads, per IAB's online glossary:

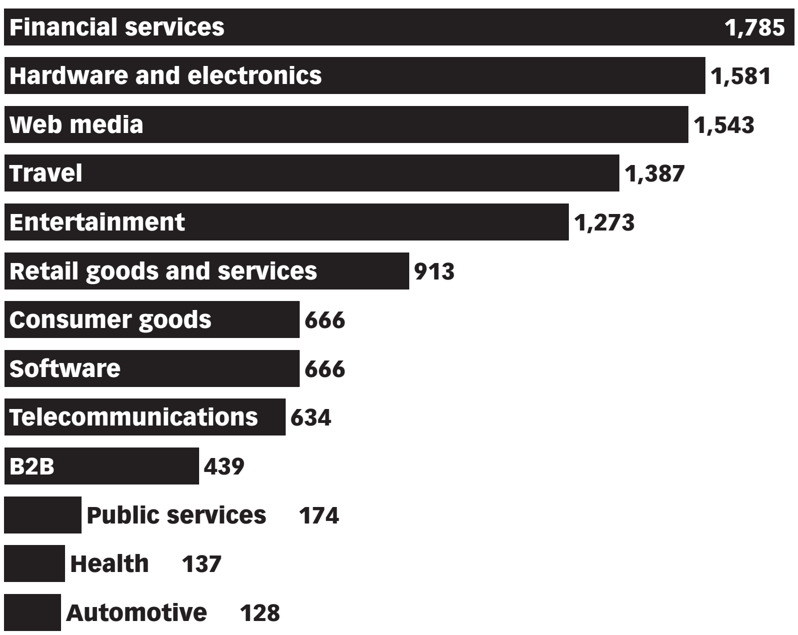
- Pop-up: an ad that appears in a separate window on top of content already onscreen.
- Pop-under: an ad that appears in a separate window beneath an open window, and is concealed until the top window is closed, moved, resized, or minimized.

Note that neither of the two pop-type ads are the same as interstitials, which are ads that appear between two content pages.

"The distinction between [interstitials] and pop-ups is that interstitials remain within the screen environment. Instead of hijacking the user experience, like pops, interstitials blend within it."
– Robert Loch, publisher, Internet Marketing Strategy & News

According to a recent study from Nielsen//NetRatings AdRelevance, only 9.2% of all companies advertising online use pop-ups. Of the 11.33 billion ad impressions during the January to July 2002 period for both pop-ups and its polar sibling, the pop-under, the bulk came from five industries. (In this study, pop-up advertising was defined as "any ad that spawns a new browser without user input.")

Top US Industries Using Pop-Up Ads, Ranked by Impressions, January-July 2002 (in millions)



Source: Nielsen//NetRatings AdRelevance, August 2002

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"For advertising to be effective, it has to be intrusive. Just like any medium, there will be the extreme cases where both the quantity and quality of [online] advertising will be excessive and distasteful. This shouldn't distract us from the fact that mainstream publishers can also use the pop-ups in an effective and appropriate way."

– Safa Rashtchy, senior research analyst, US Bancorp Piper Jaffray

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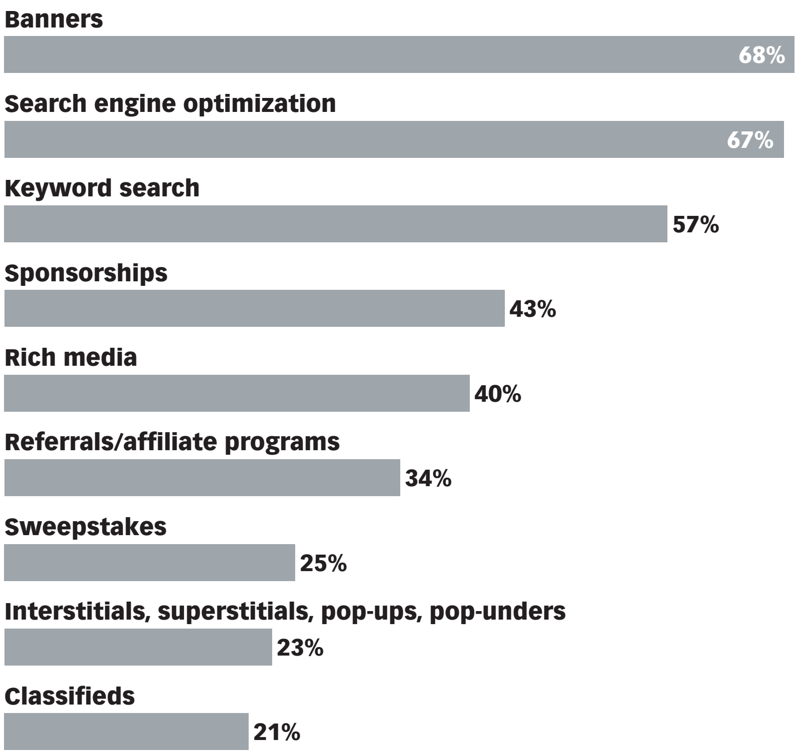
Research from DoubleClick's "Spring 2002 Marketing Spending Index" points to a higher pop-up penetration of 23% among US marketers (but lumps interstitials with pop-ups). While this estimate surpasses Nielsen//NetRatings's 9.2% figure, the format still lags well behind banners and pay-for-placement on search engines.

Online Advertising Vehicles Used by US Marketers, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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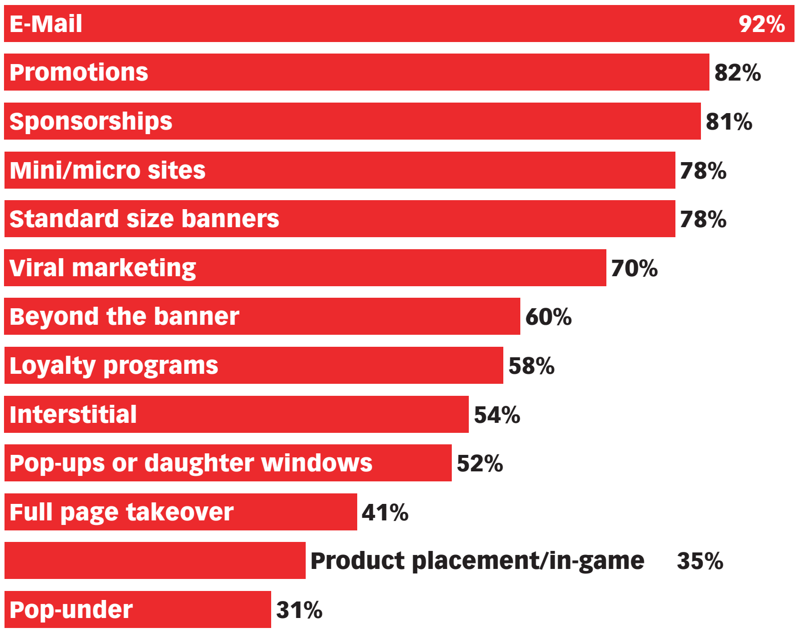
"Despite general distaste for the ads, a few advertisers clearly view the benefits of pop-up advertising as greater than the potential harm to brand image."

– Charles Buchwalter, vice president of client analytics, Nielsen//NetRatings

And further research from Jack Myers indicates a strong intent to deploy pop-up ads, with 52% of US advertising executives saying they plan to use them in the next 12 months (starting August 2002).

Ad and Marketing Vehicles US Advertising Executives Plan to Use in the Next 12 Months, August 2002 (as a % of respondents)



Note: n=186
Source: Myers Group, October 2002

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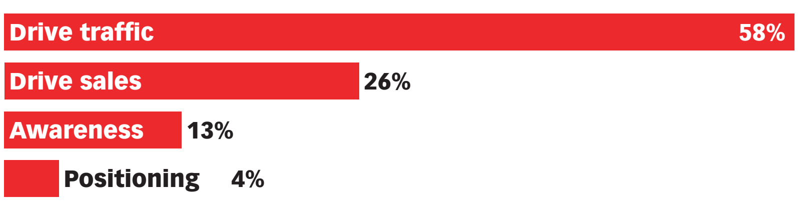
Among companies that buy into pop-ups, the urge to drive traffic to their websites appears as the main strategy, with 58% of impressions going to that purpose according to the Nielsen//NetRatings's study during the beginning of 2002. Another 26% were used to drive sales, 13% were used to create general awareness of the advertisers, and only 4% were bought for positioning purposes.

Pop-Up Ads Used by US Companies, by Strategy, January-July 2002 (as a % of all pop-up impressions)



Note: figures do not total 100% due to rounding
Source: Nielsen//NetRatings AdRelevance, August 2002

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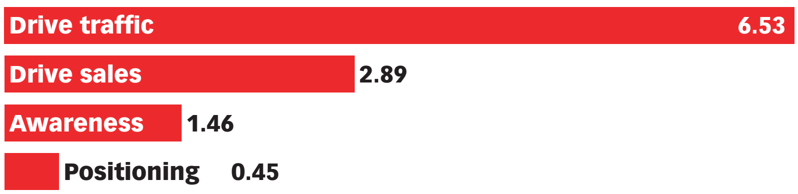
However, that impression total of 11.33 billion adds up to only 2% of the online advertising market. And that small slice came from a small segment of advertisers, with a mere 63 companies launching 80% of all pop-ups; while another 2,145 advertisers split the remaining 20%.

Pop-Up Ads Used by US Companies, by Strategy, January-July 2002 (in billions of impressions)



Note: total impressions=11.33 billion
Source: Nielsen//NetRatings AdRelevance, August 2002

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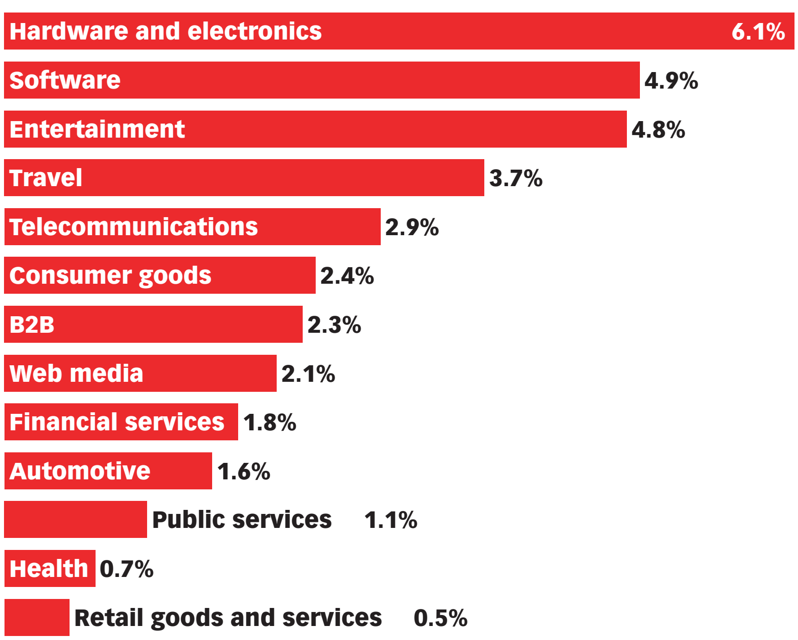
Some industries surpass that 2% share, most notably computer hardware and electronics, at 6.1%, software at 4.9%, entertainment at 4.8%, and travel at 3.7%.

Top US Industries Using Pop-Up Ads, Ranked by Pop-Ups' Share of Industry Ad Impressions, January-July 2002



Source: Nielsen//NetRatings AdRelevance, August 2002

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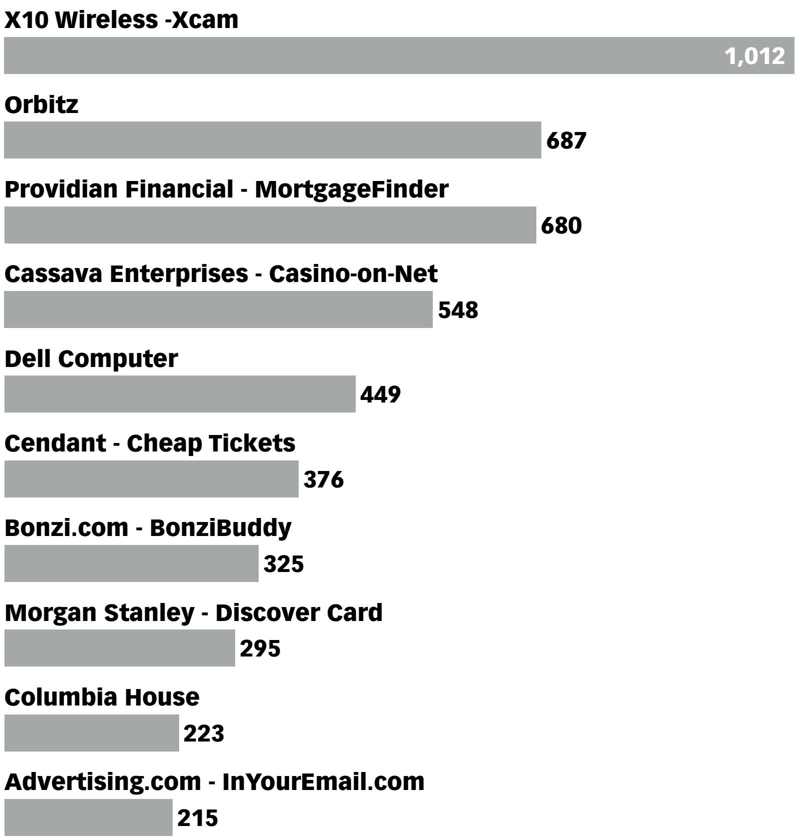
The specific companies employing pop-ups are well-known to anyone who spends time on the web, with X10 and its spy camera on top, followed by the Orbitz travel site and Providian Financial's mortgage pop-ups.

Top US Advertisers Using Pop-Up Ads, Ranked by Impressions, January-July 2002 (in millions)



Source: Nielsen//NetRatings AdRelevance, August 2002

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And perhaps that's just the point of pop-ups—their intrusiveness may annoy people, but they're memorable too. Some people insist that no matter what the media, being intrusive is, if not an advertising virtue, an advertising necessity.

"People see pop-ups the way they see blow-in cards in magazines. Everyone says they hate them, but they still perform at three to four times the rate of a standard ad."

–Will Tifft, senior vice president and general manager, 24/7 Real Media

Some observers—such as Safa Rashtchy, a senior research analyst at US Bancorp Piper Jaffray—insist that pop-up ads are "here to stay." In Rashtchy's e-newsletter, the Silk Road Weekly, he offers three reasons supporting pop-ups:

1. Pop-ups are exceedingly effective, getting higher click-through rates than banner ads. Their conversion rates are higher too.
2. That major advertisers such as Providian, Dell, Morgan Stanley, and Columbia House turn to pop-ups is a leading indicator that other advertisers will follow.
3. While some websites and ISPs are banning pop-ups, other major sites such as the New York Times, Yahoo!, and CBS MarketWatch continue to deliver them. This is notably true as a platform for rich media ads, which many industry experts see as the future of internet advertising.

The ongoing balance between being intrusive and being effective is one that advertisers in all media need to work on. Despite Rashtchy's three points in favor of pop-ups, the relative newness of online advertising, where formats still come and go, means the jury is still out on pop-up advertising.

Guilty or innocent?

"Pop-ups are a strong form of spam because they come at you from any angle, any site, and you have to stop what you're doing to close them."

– Matina Fresenius, CEO, Panicware [maker of ad-filtering software]

As far as companies such as United Parcel Service, the *New York Times*, and *The Wall Street Journal* are concerned, "guilty" is the perfect term—especially when applied to pop-up ads served up by Gator, a technology/marketing company being sued by those three companies and more. The various companies claim Gator's pop-ups appear illegally and diminish the value of paid ads. Gator claims "its ads receive a 6% to 26% click-through rate," according to Forbes.com, "which is significantly better than the less than 1% of users that click on traditional ads."

What makes pop-ups from Redwood City, CA-based Gator annoying not to consumers but to corporations is how they pop. "Internet users get Gator advertising software when they install a separate product for filling out online forms and remembering passwords," according to Associated Press. "As users surf the web, Gator runs in the background and delivers advertisements on top of what the surfer would normally get at a site."

That means FedEx ads popped-up and obscured paid-for UPS ads (hence its suit, filed in October). Or it means Gator pop-ups, a form of guerilla advertising, would appear to the user on the Times or Journal sites instead of the ads their customers paid for. Hence their lawsuit filed in June which called Gator a "parasite."

B. Spam, Spam, Spam

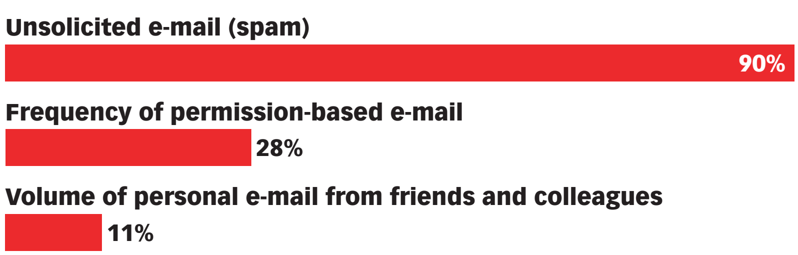
Spam, which the more polite or euphemistically inclined among us call unsolicited commercial e-mail (UCE), is akin to pop-up advertising in two key ways. First off, both spam and pop-ups "operate on the broadcast model," as MediaPost recently put it. "That is, the marketing folks behind them don't seem to care about awareness levels, effective frequency, or being exceptionally annoying, as long as the orders keep rolling in."

Secondly, just as with pop-ups, the majority of consumers find spam annoying and intrusive. So, just as pop-up ads form one barrier for web-based advertising, so does spam for e-mail marketing.

"Spam has become a generic term for any intrusion that people don't like."
– Ray Everett-Church, consultant, ePrivacy Group

In DoubleClick's "2002 Consumer E-Mail Study," concerns about spam stood far above any other, cited by 90% of respondents. A high number like that comes nearly as close to universal as any survey response ever gets.

US E-Mail Users' Concerns Regarding Their E-Mail Inbox, September 2002 (as a % of respondents)



Note: n=1,000
Source: DoubleClick, Beyond Interactive, Greenfield Online, October 2002
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With such strong negative reaction to spam, it's not surprising that 73% of US consumers delete the stuff without even reading it, according to the "E-Mail Habits and Practices Study" from NFO WorldGroup, Return Path, and the Global Name Registry.

"The privilege to market to people via e-mail, even for legitimate commercial e-mail, will be severely restricted if the industry doesn't act quickly and decisively."
– Fran Maier, executive director, TRUSTe

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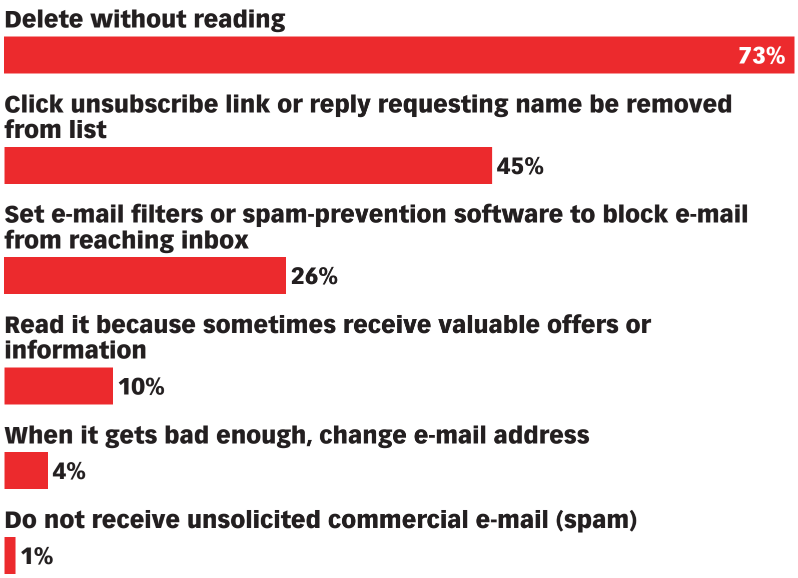
And while 45% of survey respondents click on the e-mail's unsubscribe link or reply requesting name be removed from list, those actions often only increase the spam. That's because such a response only confirms to the spammer that there's a legitimate and live e-mail address at the other end, which then gets added to the permanent spam list.

How US Consumers Treat Unsolicited Commercial E-Mail, August 2002 (as a % of respondents)



Note: n=1,015; multiple responses allowed
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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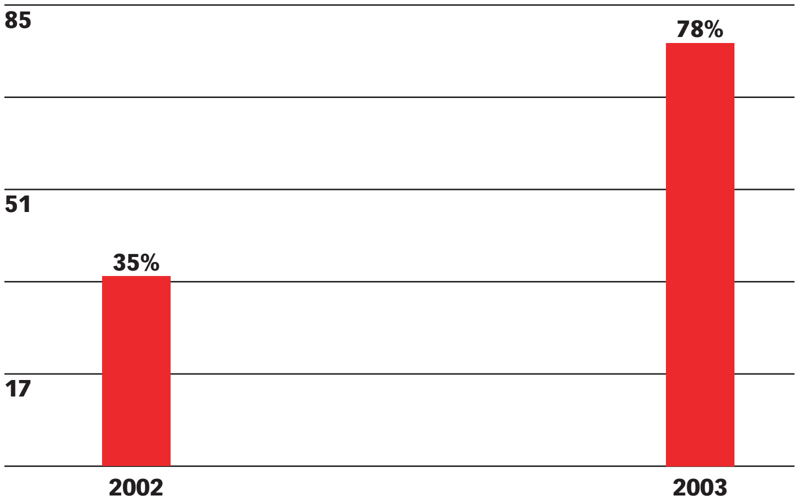
Spam is anathema not just to consumers but to businesspeople as well. According to research from MessageLabs, a UK-based e-mail security company, the problem is escalating, too, with 35% of US business managers saying that spam is a major problem this year, while 75% expect the same degree of spam-crisis next year.

US Managers Who Think Spam Is or Will Be a Major Problem, 2002 & 2003 (as a % of respondents)



Source: MessageLabs, July 2002

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Crisis might not be too strong a term, because spam threatens the health of what otherwise could be a viable, useful, and popular marketing vehicle—e-mail. "It is important to understand that spam is much more than the nuisance and inconvenience that we may consider regular junk mail we get at home," reports the Silk Road Weekly, which also calls spam "a destructive and insidious operation."

"We already hear stories about the burden of junk e-mail threatening to drive consumers off of e-mail altogether."

– Ken McEldowney, executive director, Consumer Action

The e-newsletter from US Bancorp Piper Jaffray lists three reasons why spam is so dangerous:

1. "The problem with spam is not just that it represents unwanted e-mails, but that it may consist of 'shady' and, potentially illegal, segments of the industry." That tends to rub off, so to speak, on legitimate e-mail marketers, giving them a bad name.
2. "While regular [postal] junk mail is done by obtaining or buying mailing addresses legitimately, much spam is sent by enterprises that engage in illegally obtaining e-mail information of users." In fact,

most junk postal mail is highly targeted and relevant, simply because it costs "at least $1 to produce and at a minimum $0.37 to mail." In contrast, e-mail's inexpensive nature lends itself to a flood of random and unwanted messages.

3. "Spam costs all of us money; delivering the e-mail and storing it and the time lost in productivity going through spam are real costs to the employers, ISPs, and consumers." Is this a hidden cost?

"A year ago, spam was an annoyance; now it's a productivity drain. A lot of the spam has become quite distasteful, and it's a drain…not just on bandwidth, but on storage."

– Maurene Carson Grey, research director, Gartner

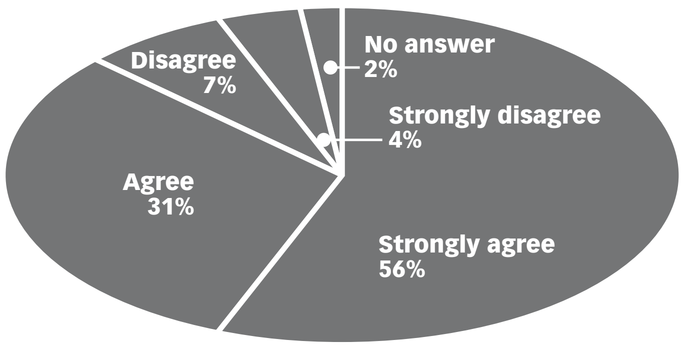
For more on spam and other facets of e-mail marketing, see both Chapter VI below, "E-Mail Marketing: Trouble Ahead?," and the latest eMarketer report on the entire subject, E-Mail Marketing: Strategies, Stats, Techniques & Tools at http://www.emarketer.com/products/report.php?e-mail_mktg

C. Permission and Privacy

The twin concerns about permission and privacy both act as a barrier against further growth of interactive marketing, and not only because of consumer distaste for spam.

While some types of spam come from screen-scraped e-mail addresses, other unsolicited commercial e-mail lists are built by the sale of addresses without permission. According to the latest "Consumer Outlook" survey from *Direct Magazine* and Yankelovich, 87% of US consumers agree or strongly agree with the premise that the sale of e-mail lists without permission is a serious privacy violation.

US Consumers Who Believe the Sale of E-Mail Lists without Permission Is a Serious Privacy Violation, 2002 (as a % of respondents)



Note: n=1,000
Source: Direct Magazine, Yankelovich, August 2002

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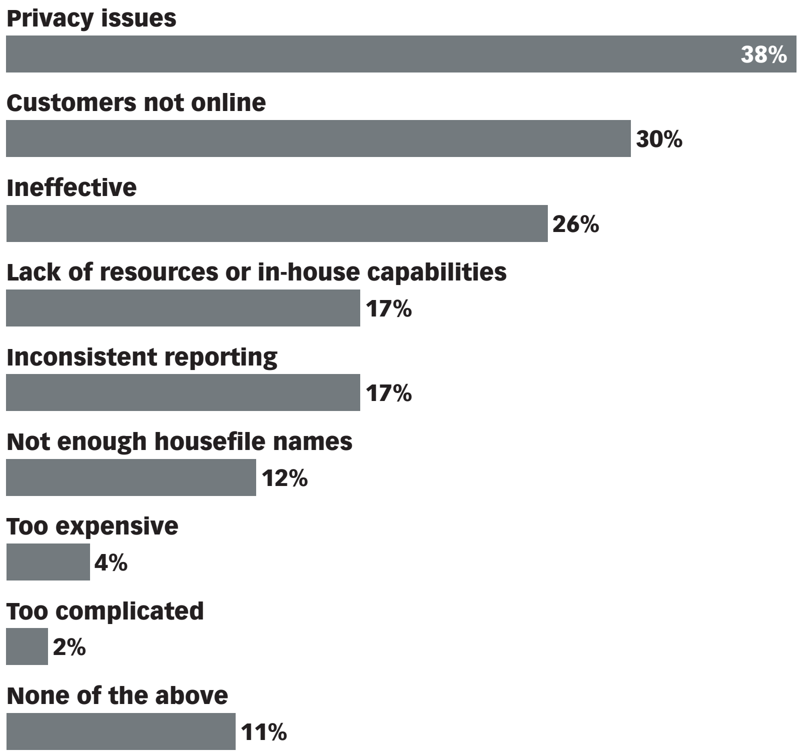
Sending e-mails without first getting permission, then, violates people's sense of privacy. It's no surprise that when it comes to increasing e-mail marketing spending, the prime barriers are privacy issues, according to 38% of US marketers surveyed earlier this year by DoubleClick.

Barriers to Increasing E-Mail Marketing Spending among US Marketers, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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Concerns about privacy serve not only as a marketing barrier to specific vehicles such as e-mail but in general to all forms of internet-based advertising. "A report released [on 16 October] by the Conference Board, a business research organization, showed that just 31% of online consumers thought their personal information would be safe—a slight increase from 27% a year ago," according to the *New York Times*.

Okay, that's a small improvement in trust among US consumers. However, consumer concerns about privacy are powerful; they're not going away. As further indication, consider an Indiana initiative mentioned in the same *Times* article. When the state created a do-not-call list for telemarketers last year, it first "received blocking requests from 784,000 household phone lines out of 2 million in the state; by this summer 1.2 million lines were on the list." That's 60% of all households in Indiana.

"The cost of this muddle, surveys show, is trust," reports the *Times*.

D. Too Many Online Ad Formats

While some consumer concerns work as barriers to interactive marketing, certain intra-industry issues also likely block the medium's growth. The plethora of online ad formats is one key issue.

For some industry players, creative experimentation with online ad formats is what makes the internet great. This is a young medium, they argue, and there's no good reason to lock into formats yet. Besides, one of online advertising's implicit strengths is the variety of available creative options. Diversity is strength for any ecosystem, they say, and with online advertising, that strength comes from both the wide range of ad formats and the ability to mix-and-match them.

But the flip side to diversity is complexity, note other industry players. If taken too far, a variety of choices turns into too many choices. With about 4,000 sizes and shapes for banner ads and their many derivatives—such as pop-ups, interstitials, and skyscrapers—online advertising can be a creative and logistical headache for agencies and advertisers used to the relative simplicity of a 60-, 30-, or 15-second television spot.

Perhaps even that 4,000 figure, as astounding as it might sound to marketers outside the interactive field, falls short. Earlier this year, DoubleClick reported that it served more than 8,000 different ad sizes in May 2002. However, only 5.5% of those ads adhered to the Interactive Advertising Bureau's voluntary Interactive Marketing Unit (IMU) ad formats, one stab at standardization for the online ad industry.

A tip of the ad-format iceberg shows in data from Nielsen//NetRatings that delineates the share of ad types served on the top 30 US websites. While full banners, the traditional 468x60 unit that's been used since the dawn of internet advertising, takes top honors at 41%, that means 14 other ad formats divide small shares ranging from the 9% for button #2 (a 120x60 unit) down to the 1% for vertical rectangles (a 240x400 unit).

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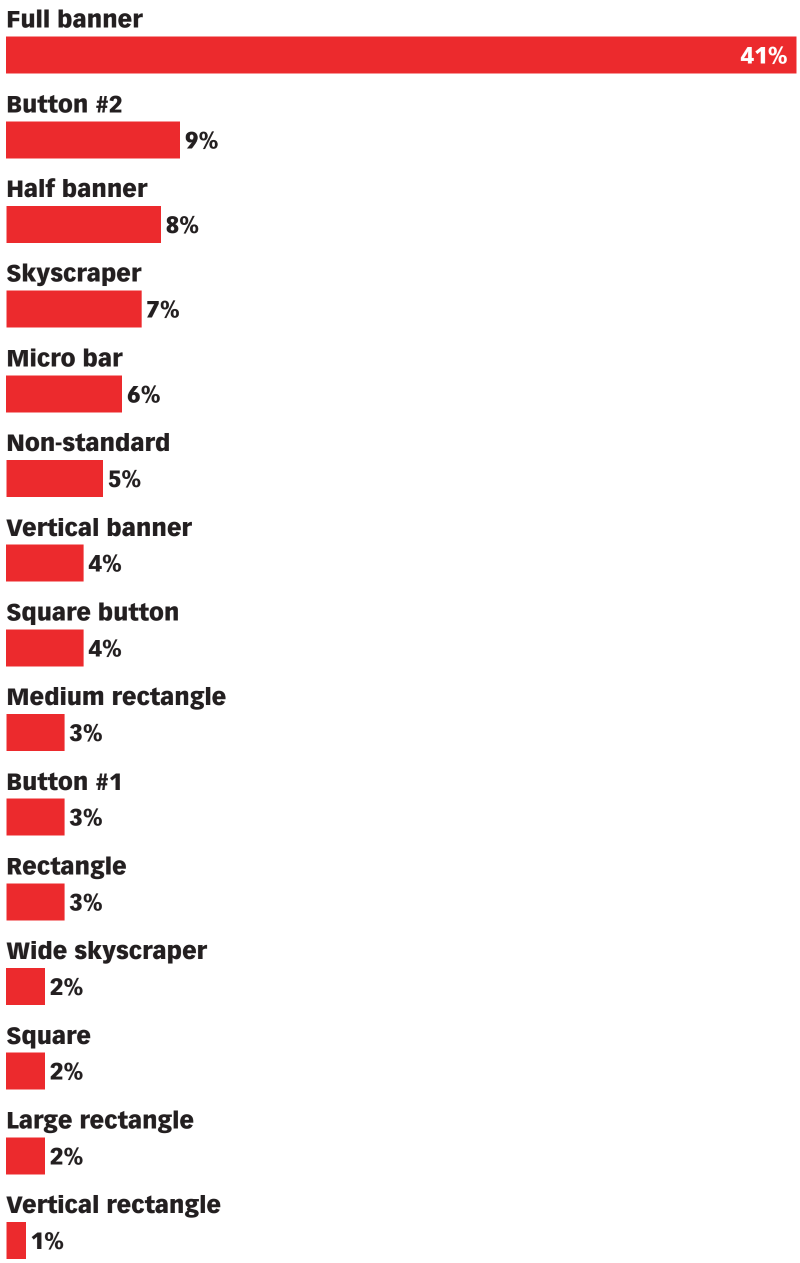
And how many types of ad sizes fall under the listed "non-standard" unit, at 5% share?

Percent of Ad Types Served on the Top 30 Websites in the US, 2002



Source: Nielsen//NetRatings, September 2002

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In a society where bigger is better and too many want to supersize their order, "There is also an embarrassment of marketing riches right now," Jon Klein—CEO of The Feedroom, a streaming news provider—told MediaPost. The advertising and media portal site reports that ad execs tell Klein, "We're just overwhelmed with a tide of options washing up on our doorstep, and we don't have time to pay attention."

This glut of format choices turns a blessing into a bother. "It's more expensive creatively to advertise on the internet because of multiple executions," Doug Jaeger, creative director at TBWA/Chiat/Day, told MediaPost, adding that "he doesn't think that any other media operates the way the internet does."

In response to the imbalance of costs required by the format deluge, some companies are pressing to institute standards that would limit choices but potentially free up budgets for more advertising online. In recent months, Unicast—a New York-based advertising company—began to promulgate standard design and development specifications for creating and buying multiple online ad units. "In traditional media, advertisers and agencies allocate a small percentage of their overall budget to account services and creative, with the balance going to media," says Allie Savarino, senior vice president of global marketing for Unicast. "The larger percentage that goes to media, the better. In TV, 90% usually goes to media. Online, the ratio is about 50/50."

Others, such as Jim Meskauskas—who heads an independent media consultancy called MediaDarwin—may see the numbers differently, but the problem the same. "As it stands," Meskauskas wrote on MediaPost, "agencies are forced to go to clients and tell them that it is going to cost them 10% to 15% to do a transaction that, in broadcast, would only cost the client 2% or 3%."

With the hope that standards would eliminate the time-consuming and costly process which agencies currently face in recreating the same ad for different sites in their campaigns, Unicast's proposals have been met with murmurs of agreement and shouts of disagreement. While most in the online ad industry—from advertiser to agency to publisher—concur on the need for standard formats, many believe that an industry association or a group of like-minded companies would be more effective in setting standards than a single company.

In stark opposition to any online advertising standards, at least when it comes to rich media, are provocative articles such as "Are Rich Media Standards a Mistake?" from TurboAds.com. The piece concludes by saying, "Standards tend to arrive only after a period of creative evolution, during which graphic designers experiment thoroughly with a new medium. Practitioners of the new medium discover through research and trial-and-error what works and what doesn't."

"It's not the bandwidth side, it's the supply side, and most of that has been the technology and the cost of delivery. What needs to take place is more standardization around MPEG-4 or something like that."

– Rick Hutton, senior director for multimedia and mobile services, Lycos

However, one might keep in mind the history of other technology-based formats, such as computers, where standards often arise through the efforts of one or a few companies. Take, for example, the standards of the 3.5-inch floppy disc and the CD. Both came from a single company, Sony, but working with other companies; they became standards that allowed further creativity by other players in the industry.

In fact, the paradox of technology-based standards is that the limits they provide, enforce, and maintain actually free up the creative side to ignore the technology, in a sense, and just be more creative.

E. Web Page Clutter

Just as too many formats create a barrier to online advertising's growth, too many online ads on a given page form another barrier. This is another paradox, too, in that recessionary markets—with advertisers spending fewer dollars—produce more ads as publishers drop prices.

"Web surfers face an internet average of three ads per page view, making message delivery tough for marketers," reports Nielsen//NetRatings. "The current low cost of embedded advertising allows advertisers to take a buckshot approach: spray enough impressions out there and you're bound to hit the right target." The same low cost spurs publishers to add more ad space; Nielsen says that by June 2002, there was a 77% increase in inventory compared to a year earlier.

Research from Nielsen chart shows how the number of unique online ads reached a 16-month peak in April 2002.

Number of Unique Online Ads in the US, January 2001-April 2002

Source: Nielsen//NetRatings AdRelevance, May 2002

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While more ads might appear like a good thing, clutter kills—advertising's effectiveness, that is. A recent survey by Burst! Media of nearly 3,000 web users found that while 30% of respondents could tolerate up to two ads on a page, the limit for another 33% is only a single ad per web page.

When a web page surpassed the respondents' ad limits, 36% told the Burlington, MA-based internet advertising network that they would immediately leave a site if it appears cluttered with advertising. "This finding is nearly identical for men and women, and for all income segments analyzed," according to MediaPost.

"We're seeing a lot of sites trying to reconfigure their interface to get rid of a lot of that clutter, and really focus on one big ad that the consumer can't ignore."

– Marissa Gluck, senior analyst, Jupiter Media Metrix

Even more lost to the advertiser, in a way, than those who abandon a website are those users who remain on a site they consider cluttered, since 70% of them simply pay less attention to the ads. Worst of all, "58% of survey respondents said they have a less favorable opinion of an advertiser's product or service when it appeared on a web page they perceived as cluttered." That's why Burst! Media concluded its survey by saying that "clutter is a hidden cost that will impact not only the effectiveness, but also the return on the media dollars you spend."

Alongside the rise of online ad clutter is the rise of online ad impressions. According to Burst!, overall impressions shot up from 53.2 billion in May 2001 to 94.2 billion in May 2002, a 77% gain.

From an individual perspective, "surfers face an internet average of three ads per page view, making message delivery tough for marketers," according to Nielsen//NetRatings.

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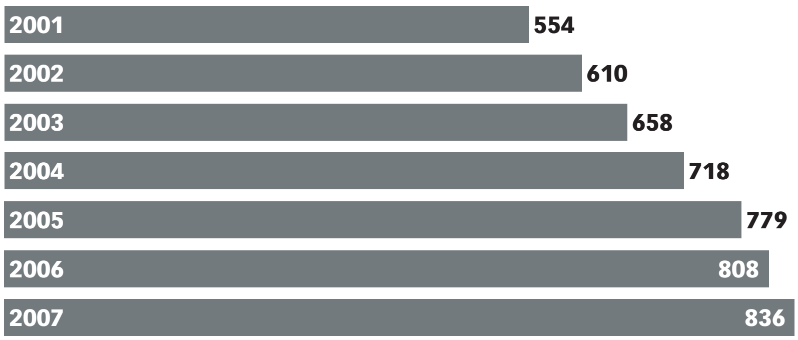
Combine Nielsen's three ads per page with Jupiter Research's take on the matter from its recent report—"Online Advertising: Traditional Advertisers, Classifieds Pave Road to Recovery"—which shows that the average internet user will receive 610 online marketing impressions per day, and you get the potential for about 200 cluttered pages daily.

US Online Marketing Impressions per Internet User per Day, 2001-2007



Source: Jupiter Research, October 2002

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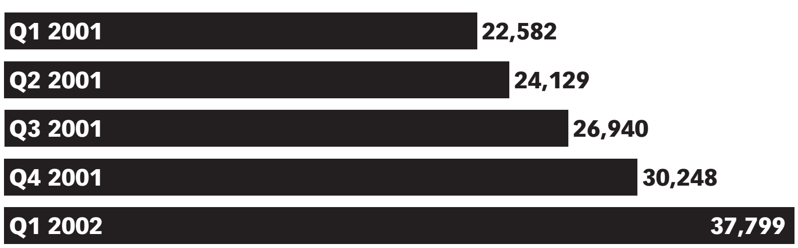
In parallel with the increasing impression flow is their size. A recent Nielsen//NetRatings AdRelevance report—"The Changing Media Landscape: Online Advertising's Teenage Years"—shows a sharp uptick in an average online ad's size, from 22,582 pixels in the first quarter of 2001 to 37,799 pixels a year later.

Average Online Ad Size, Q1 2001-Q1 2002 (total area in pixels)



Source: Nielsen//NetRatings AdRelevance, July 2002

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That translates to a 67.4% increase. And while the larger ads might very well be more effective, if looked at individually, the takeover of web pages by ads contributes to the clutter that reduces online's advertising value.

In its examination of website design, from both the advertiser's and publisher's point of view, avant|marketer noted that according to AdRelevance, "ad-supported websites average between 2.5 and 3 ads per page." Therefore, to break down the clutter barrier, avant|marketer advised "advertisers to buy media on sites that display between one and two ads per page, as—all else being equal—this is likely to contribute to superior advertising ROI."

F. Cross-Channel Conundrums

If website clutter is a brake on internet ad growth, then the tug that US consumers feel daily from numerous media choices is another form of clutter—one that creates a hurdle for advertisers looking for the best way to divide their marketing budgets. This is the first conundrum created by cross-channel marketing.

If dollars follow eyeballs, and eyeballs equal the best way to divvy up dollars, then tracking how US consumers continue to change their use of media is the necessary first step to budget planning. However, as you probably know, the dollar/eyeball equation is an imbalanced one. Hence, the second conundrum barrier that needs to be overcome to help grow interactive marketing: if more and more people go online, why don't the dollars follow them?

In its annual report, "Communications Industry Forecast," Veronis Suhler tracks the annual use of media among US consumers from 2000 to 2006. To start with in the following chart, note the bottom line, the average per day media use. Not only does it grow steadily from 9.93 hours this year to 10.37 hours by 2006, consider these rough numbers: work = 8 hours; commute = 1 hour; sleep = 7 hours. That leaves 8 hours in a day, apparently not enough for that average media use. Unless, of course, you listen to the radio while driving, and watch TV while going online, and read periodicals while listening to music, and so on.

Of course, you know the multitasking facts from your own life, splitting your attention among several media regularly. Overcoming that split, and making the most of it through cross-channel marketing that hits the consumer from various sides, is the challenge for crossing this barrier.

"Today's consumers are hearing overlapping messages from advertisers. Simultaneous media usage changes all the rules."

– Tom Holliday, president, Retail Advertising & Marketing Association (RAMA)

That said, the next worthy projection in Veronis data is the increased use of the consumer side of the internet, from 157 hours annually in 2002, trailing the daily newspaper at 175 hours, to 213 hours by 2006, trailing only TV and radio. (And that internet figure does not count the hours spent at work, focused on job-related websites.)

Annual Use of Media among US Consumers, 2000-2006 (in hours)

	2000	2001	2002	2003	2004	2005	2006
TV (broadcast and cable)	1,640	1,661	1,661	1,656	1,669	1,672	1,679
Radio	964	983	1,001	1,014	1,032	1,049	1,062
Internet, consumer	106	134	157	174	189	199	213
Recorded music	264	238	228	219	211	203	195
Newspapers, daily	179	177	175	173	172	170	169
Home video (pre-recorded tapes)	46	56	77	96	109	120	126
Magazines, consumer	121	119	117	116	115	113	112
Video games	75	78	84	90	95	101	106
Books, consumer	111	109	107	106	105	104	103
Box office (movies)	12	13	13	13	14	14	14
iTV (video-on-demand only)	2	2	2	3	3	5	6
Total	**3,519**	**3,570**	**3,623**	**3,661**	**3,715**	**3,750**	**3,785**
Average per day*	**9.64**	**9.78**	**9.93**	**10.03**	**10.18**	**10.27**	**10.37**

*Note: ranked by 2006 figures; numbers may not add to total due to rounding; *average per day figures based on 365-day year*
Source: Veronis Suhler Stevenson , July 2002

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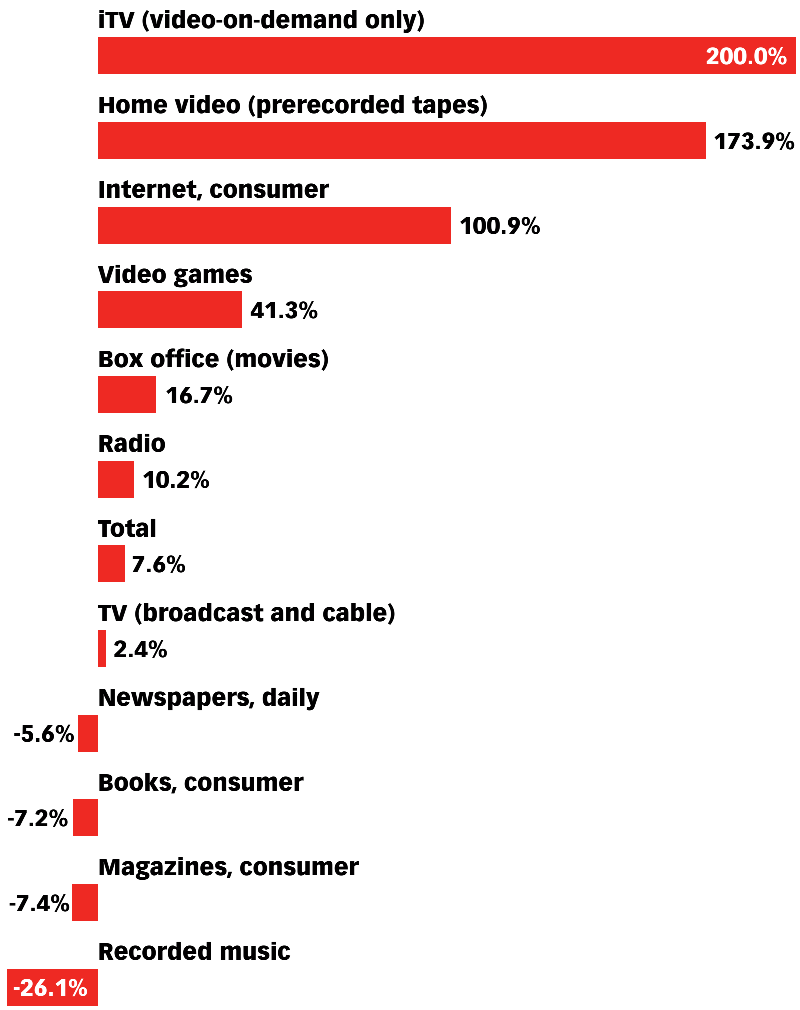
Veronis projects the internet's total growth rate for the whole seven-year span at 100.9%, far above the 7.6% average, TV's 2.4% growth, or the declining use of traditional reading matter such as the daily newspaper, consumer magazines, and books.

Growth Rate in Media Use among US Consumers, 2000-2006 (as a % increase/decrease)



Source: Veronis Suhler Stevenson, July 2002; calculated by eMarketer, October 2002

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So as consumers mix their media use—not necessarily choosing one over another, but multitasking across channels instead—the advertising industry is best served by mixing its media use across channels, into the media where consumers multitask.

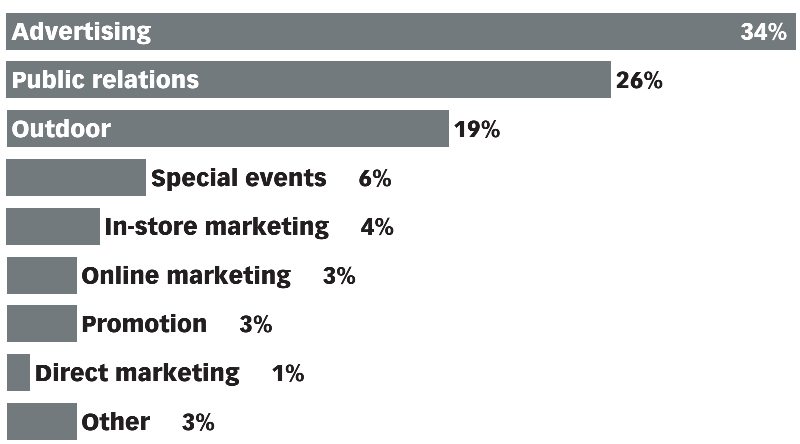
G. Convoluted Metric Choices

Measuring the success or failure of any marketing endeavor—whether online, offline, or mixed—would appear as basic as deciding whether or not to market at all. But because of interactive marketing's relative newness, the ability to measure it is hampered by a combination of convoluted metrics, the complexity of the medium, and sometimes inadequate tools.

Jupiter Research says that one reason it remains difficult to convince traditional brand advertisers to increase their online ad spending is that "most marketers remain behind the curve in understanding the usefulness of online ads," as reported on the Internet Advertising Report. Jupiter research indicates that "67% of marketing departments still use click-throughs as a legitimate measuring stick of the performance of their online ads—a practice that many web advertising insiders believe ignores the longer-term branding effects of the medium. [Furthermore] just 35% of marketers take the effort to track branding and predictive behavior."

In a survey of 213 US marketing professionals, 59% of whom had 10 years or more experience in marketing, 34% of respondents said that advertising is the most difficult form of marketing to measure. However, when the focus turns specifically to online marketing, only 3% called it hard to measure.

Type of US Marketing Activity Most Difficult to Measure, August 2002 (as a % of respondents)



Note: n=213 US marketing professionals
Source: Reveries.com, August 2002

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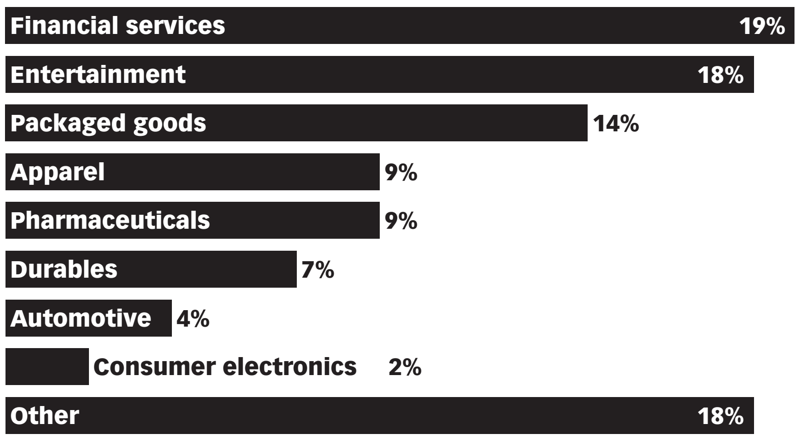
And in the same Reveries.com survey, the marketers said that financial services is the most difficult category to measure. Surprising, in that the financial services industry is in the habit of gathering data about its customers.

US Product/Service Category for Which It Is Most Difficult to Measure Marketing Results, August 2002 (as a % of respondents)



Note: n=204 US marketing professionals
Source: Reveries.com, August 2002

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Besides the results shown in the two charts above, the Reveries researchers uncovered some disturbing issues. For one, 72% of respondents said they lack the necessary data to accurately assess the return on their marketing investments. However, according to Marketing Management Analytics—the Wilton, CT-based marketing and media management consulting firm that fielded the study in partnership with Reveries—that lack is often a misperception, since "companies often don't realize that useful data is available, albeit somewhat hidden," as reported by BusinessMedia.

"It's crucial for the online industry to have the same level of sophisticated research tools as traditional media."

– Susan Nathan, senior vice president, Universal McCann

Furthermore, 7% of the marketing executives surveyed said they had no process to measure marketing ROI, while 16% said they rely on sales data alone, and 22% said they rely on research such as focus groups, syndicated data analysis, brand awareness studies, or competitive benchmarking. According to Marketing Management Analytics, "These findings support the conventional belief that measuring the return on marketing investments continues to confound most marketers." Additionally, the company notes that "only a handful of marketers said they were using more sophisticated measurement approaches, such as marketing metrics modeling."

Too Many Research Sources

That 72% of marketers claim they lack the necessary data to accurately assess the return on their marketing investments becomes more pronounced in the online world, where too many research sources once more proves that less is better. Contrast internet research measurement with TV and radio, where each industry has only one main source for research: Nielsen and Arbitron, respectively. Or take consumer magazines, which have only two sources: MRI and Simmons.

As David L. Smith—president of San Francisco-based Mediasmith—points out, "This research is good for defining media vehicle audience, programming audience, reach and frequency, pre-buy estimates for campaigns and post buy-delivery on a proof of performance basis."

And with the traditional media, "economies of scale and the competitive marketplace are recognized—and pricing reflects that competitive aspect. In addition, all of these are priced based on the spending of the agency within the medium or client subscribing and taking into account ability to pay."

In contrast, "the web has yet to settle down to a few vendors. This has pricing policies all over the lot, seemingly without any sensitivity to the pricing of the rest of the media world."

"It is no wonder that many of the heads of the major media and advertising agencies think that doing web advertising is inefficient and that they cannot make money at it."

– David L. Smith, president and media director, Mediasmith

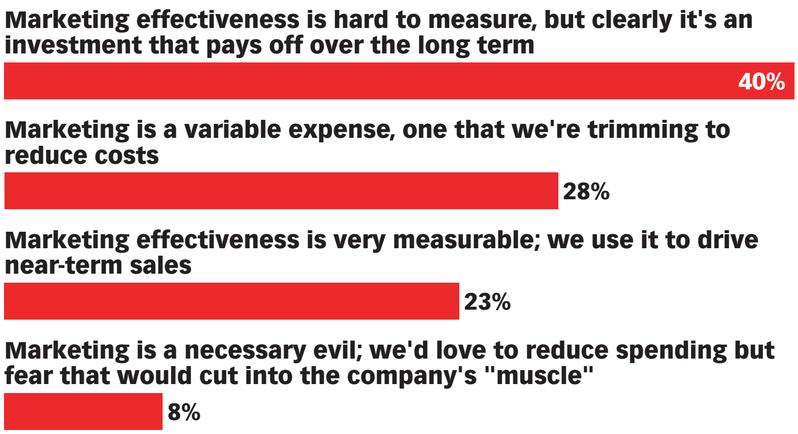
So the plethora of research sources for interactive media makes it more difficult and more costly for agencies and advertisers looking to market in this realm. Instead, limiting research sources to one or two, as with traditional media, would not only save time and money, but would also make it easier for the online ad industry to subsequently add unique metrics that demonstrate the benefits of interactive marketing.

Despite these research issues that block the fuller growth of online advertising, companies continue to express some hope for the endeavors, even as they enter into the unknown. A recent survey from the Patrick

Marketing Group shows that 40% of the CEOs at US companies believe that marketing effectiveness is hard to measure, but even so, it pays off over the long term.

And 23% see marketing as very measurable. However, 28% are ready to cut their marketing budgets in response to other economic pressures.

How CEOs at US Companies View Marketing Spending, September 2002 (as a % of respondents)



Source: Patrick Marketing Group, October 2002

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H. The Hurting Economy

At this point, the recession continues to pressure virtually every industry. With the internet still viewed as a young medium compared to other choices—therefore more easily jettisoned or ignored or diminished in marketing plans than might TV or radio, for example—the hurt in the economy puts a big hurt on interactive marketing.

Gross domestic product (GDP) refers to the output of goods and services produced in the US. Projections for the third and fourth quarters of 2002 from 13 companies nearly universally point to slow growth. The median rate in Q4 2002 for the GDP is a mere 2.4%.

US GDP Forecasts, by Firm, Q3 & Q4 2002

	Q3 2002	Q4 2002
ClearView Economics	4.5%	2.5%
Economy.com	3.1%	2.0%
Goldman Sachs	3.5%	2.0%
HSBC Securities	5.5%	3.0%
ISI Group	3.5%	4.0%
Lehman Brothers	3.5%	1.8%
Macroeconomic Advisers	3.8%	1.8%
Moody's	3.8%	2.5%
Nomura Securities International	3.7%	1.4%
Salomon Brothers	3.8%	2.2%
UBS Warburg	3.0%	2.5%
Wells Fargo & Co.	3.5%	2.5%
Median	**3.6%**	**2.4%**

Source: The Wall Street Journal, September 2002

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While last year and earlier this year, it appeared that consumer spending might continue to buoy the economy even as corporations pulled back, that may no longer be the case. Even though Secretary of the Treasury Paul H. O'Neill said in October that "the latest indicators look good," the Consumer Confidence Index hit a nine-year low just days later.

"When it comes time to make cuts, you go with what you know. The continuing downward trend doesn't mean the [online] medium is less effective or more expensive."

– Marc Ryan, director of analysis, Nielsen//NetRatings

While interactive marketers can do nothing directly about the depressed economy—as they could with the other issues covered in this chapter, such as pop-ups, clutter, and inadequate metrics—indirect solutions are available. At least that's what one web publisher, Forbes.com, is attempting with a recent offer to advertisers. The clever ploy guarantees that if advertising on its site doesn't work, the advertiser won't have to pay Forbes.com. As with any special offer, conditions apply. The advertisers must spend at least $100,000 over a two-month period, and the guarantee is that the advertising will boost at least one of four brand metrics—awareness, message association, purchasing intent, and brand favorability—as measured by a Dynamic Logic brand metric studies to determine whether the advertising achieves results.

For wary advertisers, especially the larger ones willing to spend $100,000—because these are advertisers who purchase enough impressions to measure, according to James Spanfeller, Forbes.com's president and CEO—this is just the type of move that can "kick start the online market," as Forrester Research put it.

In fact, as a highly measurable medium, the online advertising industry will continue to need to come up with ways to distinguish itself in this trying economic period.

Increasingly, leading edge marketers mix media in their advertising campaigns, making online one of several channels. At the same time, media competition—or at least definite disparities among media—continues. The ad dollars spent reflect not only competition but the marketer's focus on either branding or direct response, along with targeting different audiences based on media use.

A. Total Media Trends

When comparing estimates from different researchers for US ad spending by total media, the first thing to note is how different companies define "total media." While all eight companies in the two charts below include the big four of TV, radio, magazines, and newspapers, that's where unanimity ends. Jupiter Research does not include outdoor ads in its estimate, while Zenith Optimedia fails to include the internet.

At $45 billion or so, direct mail is another big slice of the ad pie that some include and some don't. The in-crowd for that medium includes J.P. Morgan H&Q, Jupiter, and Universal McCann. The variations go on, but the point is that when comparing absolute dollars, as in the first chart below, the disparities come more from differing definitions of the total-media universe than from differing takes on how well or poorly the US advertising industry is doing.

"Everyone is cautious. Even people who are optimistic are cautious."

– John J. Sarsen Jr., president and CEO, Association of National Advertisers

To show you how much the different choices for total media effects estimates, let's look at CMR's outlying $109.10 billion figure for 2002. If you add Myers' yellow pages estimate, and Jupiter's direct mail and other-category estimates to the CMR number, you get $204.29 billion—much more in line with the other companies.

That said, four researchers virtually agree for 2002's spending figures, with J.P. Morgan at the high end at $238.46 billion, McCann at the low end at $236.24 billion, and Jupiter and Standard & Poor's right in-between. The four other researchers, having included fewer media, range more widely from CMR's $109.10 billion on this group's low side and Veronis Suhler's $177.15 on the high side.

Comparative Estimates: US Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
Competitive Media Reporting (CMR), June 2002	$116.90	$106.40	$109.10	–	–	–
J.P. Morgan H&Q, August 2002	$250.12	$234.02	$238.46	$249.18	$262.41	$275.85
Jupiter Research, October 2002	–	$231.07	$236.37	$248.91	$263.89	$276.03
Myers Report, October 2002	$163.78	$154.08	$155.63	$159.17	$166.45	–
Standard & Poor's, August 2002	$247.00	$231.00	$237.20	$249.20	–	–
Universal McCann, May and July 2002	$247.47	$231.40	$236.24	–	–	–
Veronis Suhler, July 2002	$183.46	$172.11	$177.15	$186.51	$200.03	$211.93
ZenithOptimedia, September 2002	$144.39	$135.59	$135.47	$137.48	$142.82	–

Note: all firms' figures include TV, radio, magazines, newspapers, outdoor and internet (except Jupiter, which does not include outdoor and Zenith, which does not include internet); in addition, J.P. Morgan includes direct mail and other; Jupiter includes yellow pages, direct mail and other; Myers includes yellow pages; Universal includes direct mail, yellow pages, and miscellaneous; Veronis includes yellow pages; Zenith includes cinema
Source: eMarketer, October 2002; various, as noted, 2002

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Which media each firm includes in its ad-spend definition becomes less of a distinction, however, when the comparative estimates focus on growth rates. For 2002, seven firms expect small increases in spending, ranging from Veronis Suhler's 2.9% to 1.0% from Myers. Zenith is the only one predicting no growth.

Similarly, as you look to the next three years, those firms with estimates line up relatively closely, with Veronis high and Zenith low.

Comparative Estimates: US Advertising Spending Growth, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
Competitive Media Reporting (CMR), June 2002	-9.0%	2.5%	–	–	–
J.P. Morgan H&Q, August 2002	-6.4%	1.9%	4.5%	5.3%	5.1%
Jupiter Research, October 2002	–	2.3%	5.3%	6.0%	4.6%
Myers Report, October 2002	-5.9%	1.0%	2.3%	4.6%	–
Standard & Poor's, August 2002	-6.5%	2.7%	5.1%	–	–
Universal McCann, May & July 2002	-6.5%	2.1%	–	–	–
Veronis Suhler, July 2002	-6.2%	2.9%	5.3%	7.2%	5.9%
Zenith Optimedia, September 2002	-6.1%	-0.1%	1.5%	3.9%	–

Note: all firms' figures include TV, radio, magazines, newspapers, outdoor and internet (except Jupiter, which does not include outdoor and Zenith, which does not include internet); in addition, J.P. Morgan includes direct mail and other; Jupiter includes yellow pages, direct mail and other; Myers includes yellow pages; Universal includes direct mail, yellow pages, and miscellaneous; Veronis includes yellow pages; Zenith includes cinema
Source: eMarketer, October 2002; various, as noted, 2002

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Considering that all of these total media spending projections were made in 2002, the state of the economy is better factored in. Any earlier estimates were left off these charts.

B. Television

As the big dog that wags the tail of US advertising, television ad spending estimates in 2002 vary from McCann's $52.67 billion up to J.P. Morgan's $57.86 billion, a relatively narrow range. These estimates include all aspects of TV, both broadcast and cable, national and local.

Comparative Estimates: US Television Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	$61.06	$55.13	$57.86	$60.10	–	–
Jupiter Research, October 2002	–	$54.42	$56.25	$60.00	$64.58	$66.66
Myers Report, October 2002	$56.64	$52.16	$54.65	$57.23	$60.84	–
Universal McCann, May and July 2002	$60.26	$54.40	$52.67	–	–	–
Veronis Suhler, July 2002	$56.08	$53.88	$57.68	$61.07	$66.67	$70.05

Note: includes broadcast and cable TV and national and local TV
Source: eMarketer, October 2002; various, as noted, 2002

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The television growth estimates for this year don't offer as close a pattern as do total media figures. For TV, some companies predict a downturn, such as McCann's 3.2% drop. The others expect increases, with 7.1% from Veronis the largest prediction.

Comparative Estimates: US Television Advertising Spending Growth, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	-9.7%	4.9%	3.9%	–	–
Jupiter Research, October 2002	–	3.4%	6.7%	7.6%	3.2%
Myers Report, October 2002	-7.9%	4.8%	4.7%	6.3%	–
Universal McCann, May and July 2002	-9.7%	-3.2%	–	–	–
Veronis Suhler, July 2002	-3.9%	7.1%	5.9%	9.2%	5.1%

Note: includes broadcast and cable TV and national and local TV
Source: eMarketer, October 2002; various, as noted, 2002

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As the media that gets the lion's share of advertising dollars, TV is closely watched by many investment banks, brokerage firms, and other researchers. The detailed chart below offers comparative growth-rate projections from 13 companies, broken out by five categories.

The figures for each category vary significantly among firms. Take network TV in 2003. While all predict a rise in ad spending, the percentages go from 10.0% at the high end from Bear Stearns down to 1.0% from Vogel Capital at the low end. If the ad spending in a well-established segment such as network TV is so hard to estimate—which is what a sharp spread partially indicates—then consider the difficulties in projecting spending for much newer media, such as the internet.

Comparative Estimates: US Television Ad Spending, by Type, 2003 (as a % increase/decrease vs. prior year)

	Local spot	National spot	Net-work	Syndi-cation	Cable
Bain Capital, Sankaty Advisors	5.0%	4.0%	3.0%	4.0%	10.0%
Bear Stearns	3.0% to 4.0%	-5.0% to 2.0%	10.0%	5.0% to 7.0%	4.0% to 6.0%
CIBC World Markets	-1.0%	0.5%	5.0%	–	–
Credit Suisse First Boston	3.0%	2.0%	3.0%	3.0%	5.0%
DAIWA Institute of Research America	4.0%	5.7%	6.6%	6.4%	9.4%
J.P. Morgan Chase	2.0%	-4.4%	3.5%	3.0%	10.3%
Myers Reports*	3.0%	3.0%	6.0%	6.0%	11.0%
Prudential Securities	0.0%	1.0% to 2.0%	2.0% to 3.0%	0.0%	5.0%
Sanford C. Bernstein & Co.	3.0%	-3.0%	6.0%	4.0%	2.0%
UBS Warburg	3.0%	-2.0%	4.0%	7.0%	11.0%
Universal McCann	1.0%	-1.0%	2.5%	2.0%	5.0%
Veronis Suhler	1.8%	1.5%	2.0%	3.2%	15.2%
Vogel Capital	2.0%	2.0%	1.0%	2.0%	3.0%

*Note: *measures total spot advertising*
Source: Television Bureau of Advertising (TVB); various, as noted, 2002

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C. Radio

The history of radio as an advertising medium, with a stable share of the market after nearly 80 years, alludes to possibilities for online advertising. That is, while electronic media evolve in both how both consumers and advertisers use them, they tend to offer a unique value based on how people interact with them.

"Looking at the history of media over the last hundred years, we can see that whenever a new medium bursts on the scene everyone says it's going to be better than the old media, but what really happens at the end of the day is that the new medium is eventually just absorbed into the older mix."

– Rosalind Resnick, co-founder, NetCreations

The comparative estimates for US radio ad spending are much like the TV projections, found in a narrow range. For 2002, this spread goes from J.P. Morgan at $19.19 billion down to Veronis Suhler at $18.46. Even by 2005, projections from Jupiter Research and Veronis remain nearly equal.

Comparative Estimates: US Radio Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	$19.82	$18.36	$19.19	$20.29	–	–
Jupiter Research, October 2002	–	$17.86	$18.58	$19.75	$21.17	$22.44
Myers Report, October 2002	$19.09	$18.40	$19.04	$19.62	$20.79	–
Universal McCann, May and July 2002	$19.30	$17.90	$18.58	–	–	–
Veronis Suhler, July 2002	$19.07	$17.89	$18.46	$19.41	$20.88	$22.34

Note: includes national and local radio
Source: eMarketer, October 2002; various, as noted, 2002

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Methodology
Marketing Online or Offline: It's All Part of the Mix
Interactive Marketing: Where's the Money Going?
Issues & Barriers
Total Media & Offline Ad Spending
Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
Index of Charts

Therefore, as might be expected, growth rate estimates also tend to converge. From 2002 through 2005, the five companies shown below all see steady growth in the 3.2% to 7.5% range.

Comparative Estimates: US Radio Advertising Spending Growth, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	-7.4%	4.5%	5.7%	–	–
Jupiter Research, October 2002	–	4.0%	6.3%	7.2%	6.0%
Myers Report, October 2002	-3.6%	3.5%	3.0%	6.0%	–
Universal McCann, May and July 2002	-7.2%	3.8%	–	–	–
Veronis Suhler, July 2002	-6.2%	3.2%	5.2%	7.5%	7.0%

Note: includes national and local radio
Source: eMarketer, October 2002; various, as noted, 2002

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D. Newspapers

Next to TV, and about the same as direct mail, the combination of national and local newspapers get the second-largest share of US ad dollars. This is another established medium where estimates tend to converge. In 2002, four companies expect spending in the $44 billion to $45 billion range, with Veronis significantly higher at $52 billion.

That disparity between the New York-based media merchant bank and the other four continues through 2005 as well.

Comparative Estimates: US Newspaper Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	$48.67	$44.32	$44.59	$46.55	–	–
Jupiter Research, October 2002	–	$44.26	$44.76	$46.55	$48.51	$50.35
Myers Report, October 2002	$48.40	$44.30	$43.41	$43.41	$44.72	–
Universal McCann, May and July 2002	$49.05	$44.30	$44.76	–	–	–
Veronis Suhler, July 2002	$54.96	$50.73	$52.35	$55.70	$59.48	$63.81

Note: includes national and local newspapers
Source: eMarketer, October 2002; various, as noted, 2002

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And just as with absolute dollars, Veronis projects higher growth rates than the other four firms. Compared to radio and TV, however, the newspaper advertising growth rates are not as strong. When you consider the dual factors of falling readership and the internet's inroads into classified ads, the modest increases predicted for 2003 through 2005 are to be expected.

Comparative Estimates: US Newspaper Advertising Spending Growth, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	-8.9%	0.6%	4.4%	–	–
Jupiter Research, October 2002	–	1.1%	4.0%	4.2%	3.8%
Myers Report, October 2002	-8.5%	-2.0%	0.0%	3.0%	–
Universal McCann, May and July 2002	-9.7%	1.0%	–	–	–
Veronis Suhler, July 2002	-7.7%	3.2%	6.4%	6.8%	7.3%

Note: includes national and local newspapers
Source: eMarketer, October 2002; various, as noted, 2002

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E. Magazines

Of the four large established ad media, magazines are hurting the most. As a diverse universe, it's also harder to estimate. That's why spending projections for 2002 range from $21.11 billion from Veronis to nearly half that figure, $10.98 billion, from both Jupiter and McCann, to basically equal estimates of $15.43 billion and $15.40 billion from J.P. Morgan and Myers, respectively.

While researchers typically separate consumer and business magazines—including both trade magazines as well as the top business books like *Forbes*, *Fortune*, and *BusinessWeek*—these charts combine the two. Why the great disparity among researchers isn't clear, but it might be due to greater segmentation of the magazine universe by Jupiter, say, compared to J.P. Morgan.

Comparative Estimates: US Magazine Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	$17.29	$15.56	$15.43	$16.14	–	–
Jupiter Research, October 2002	–	$11.10	$10.98	$11.64	$12.34	$12.96
Myers Report, October 2002	$17.05	$16.21	$15.40	$15.71	$16.18	–
Universal McCann, May and July 2002	$17.29	$15.60	$10.98	–	–	–
Veronis Suhler, July 2002	$26.18	$22.73	$21.11	$21.93	$23.38	$24.82

Note: includes consumer and business magazines
Source: eMarketer, October 2002; various, as noted, 2002

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Each researcher sees a drop in magazine ad spending for 2002, ranging from J.P. Morgan's near flat 0.9% fall to McCann's mammoth 29.6% plunge. However, all expect a turnaround next year, with small increases in the 2.0% to 6.0% range.

Comparative Estimates: US Magazine Advertising Spending Growth, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	-10.0%	-0.9%	4.6%	–	–
Jupiter Research, October 2002	–	-1.0%	6.0%	6.0%	5.0%
Myers Report, October 2002	-4.9%	-5.0%	2.0%	3.0%	–
Universal McCann, May and July 2002	-9.7%	-29.6%	–	–	–
Veronis Suhler, July 2002	-13.2%	-7.1%	3.9%	6.6%	6.2%

Note: includes consumer and business magazines
Source: eMarketer, October 2002; various, as noted, 2002

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F. Direct Marketing: Direct Mail & More

As you saw earlier in this chapter, some researchers include direct mail in their total media ad spending estimates, but several do not.

According to "E-Mail Savings Threaten a $196.8 Billion Direct Mail Market," a GartnerG2 report released earlier this year, "Direct mail has reached its peak and will account for less than 50% of mail received by US households by 2005, down from 65% in 2001. As e-mail use, familiarity, and trust increases, consumers will become more comfortable with accepting advertisements through their computer."

That's the take from one research firm. However, when viewed by spending, the comparative estimates for direct mail are strikingly similar. For 2002, both Jupiter and McCann project $45.87 billion, while J.P. Morgan calls it $45.10 billion. Meanwhile, the trade group most involved with direct mail, the Direct Marketing Association, estimates spending at $49.09 billion.

And while there are less than a handful of spending projections for 2003 through 2005, all show small but steady growth for direct mail ad spending.

Comparative Estimates: US Direct Mail Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
Direct Marketing Association, July 2002	$44.52	$46.51	$49.09	–	–	–
J.P. Morgan H&Q, August 2002	$44.52	$44.65	$45.10	$46.90	–	–
Jupiter Research, October 2002	–	$44.73	$45.87	$47.80	$49.61	$51.40
Universal McCann, May & July 2002	$44.59	$44.70	$45.87	–	–	–

Source: eMarketer, October 2002; various, as noted, 2002

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Translated to growth-rate percentages, the same similarities show up.

Comparative Estimates: US Direct Mail Advertising Spending Growth, 2001-2005 (as a % increase vs. prior year)

	2001	2002	2003	2004	2005
Direct Marketing Association, July 2002	4.5%	5.5%	–	–	–
J.P. Morgan H&Q, August 2002	0.3%	1.0%	4.0%	–	–
Jupiter Research, October 2002	–	2.6%	4.2%	3.8%	3.6%
Universal McCann, May & July 2002	0.2%	2.6%	–	–	–

Note: includes consumer and business direct mail
Source: eMarketer, October 2002; various, as noted, 2002

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Of the various media direct marketers employ, direct mail is the second largest, according to the DMA's latest edition of its "Economic Impact: US Direct & Interactive Marketing Today" report. In 2002, that $49.1 billion spent for direct mail endeavors makes up 23.8% of all US direct marketing spending.

US Direct Marketing Advertising Spending, by Media, 2000-2002 (in billions)

	2000	2001	2002
Telephone	$72.6	$76.2	$80.3
Direct mail	$44.5	$46.5	$49.1
Television	$22.0	$22.3	$23.1
Newspaper	$18.5	$18.8	$19.5
Magazine	$9.6	$9.8	$10.2
Radio	$7.3	$7.6	$7.9
Other	$15.3	$15.6	$16.1
Total	**$189.9**	**$196.8**	**$206.1**

Note: includes consumer and business direct marketing
Source: Direct Marketing Association, July 2002

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That telemarketers must be doing something right—despite the nearly universal disdain for the vehicle—is indicated by the fact that direct marketers will spend over $80 billion on it this year. That's more than the spending for any other media, including television.

As a share of all US direct marketing ad spending, by media, the telephone comes in at 39.0%.

US Direct Marketing Advertising Spending, by Media, 2000-2002 (as a % of total spending)

	2000	2001	2002
Telephone	38.2%	38.7%	39.0%
Direct mail	23.4%	23.6%	23.8%
Television	11.6%	11.3%	11.2%
Newspaper	9.7%	9.6%	9.5%
Magazine	5.1%	5.0%	4.9%
Radio	3.8%	3.9%	3.8%
Other	8.1%	7.9%	7.8%
Total (in billions)	**$189.9**	**$196.8**	**$206.1**

Note: includes consumer and business direct marketing
Source: Direct Marketing Association, July 2002; calculated by eMarketer, October 2002

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Keep these telemarketing figures in mind when viewing other marketing vehicles that people tend to scorn, like spam and pop-ups—negative consumer reactions don't always translate to lesser spending.

G. Yellow Pages

Unsexy, ubiquitous, unassuming, underestimated, and definitely uncool, yellow pages advertising almost flies under the radar—except when you look at the spending patterns.

The 2002 comparative estimates range from a healthy $13.86 billion at the low end (from both Jupiter and McCann) to $14.67 at the high end (from Veronis). These figures are not far behind the projections for radio advertising, and are greater than some researchers' projections for magazines.

Comparative Estimates: US Yellow Pages Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
Jupiter Research, October 2002	–	$13.59	$13.86	$14.56	$15.26	$15.96
Myers Report, October 2002	$13.20	$13.57	$13.98	$14.12	$14.12	–
Universal McCann, May and July 2002	$13.23	$13.60	$13.86	–	–	–
Veronis Suhler, July 2002	$13.70	$14.43	$14.67	$15.11	$15.64	$16.27
Yellow Pages Publishers Association, February 2002	$13.20	$13.60	$14.10	–	–	–

Source: eMarketer, October 2002; various, as noted, 2002

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All five researchers say that yellow pages advertising will enjoy small but steady growth, both this year and over the next three. Even though there is an active online segment for yellow pages websites, it doesn't appear to have impacted on this niche advertising market.

Comparative Estimates: US Yellow Pages Advertising Spending Growth, 2001-2005 (as a % increase vs. prior year)

	2001	2002	2003	2004	2005
Jupiter Research, October 2002	–	2.0%	5.0%	4.8%	4.6%
Myers Report, October 2002	2.8%	3.0%	1.0%	0.0%	–
Universal McCann, May and July 2002	2.8%	1.9%	–	–	–
Veronis Suhler, July 2002	5.3%	1.7%	3.0%	3.5%	4.1%
Yellow Pages Publishers Association, February 2002	3.0%	3.7%	–	–	–

Source: eMarketer, October 2002; various, as noted, 2002

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H. Outdoor

Another niche advertising market, one about the same size or slightly smaller than the online channel, is outdoor—billboards, ads in restaurant bathrooms, et cetera. Universal McCann calls this medium "out-of-home," but whatever its name, all four companies offer estimates in a narrow range: $5 billion plus from each for all years shown.

Comparative Estimates: US Outdoor Advertising Spending, 2000-2005 (in billions)

	2000	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	$5.24	$5.20	$5.25	$5.46	–	–
Myers Report, October 2002	$5.10	$5.14	$5.19	$5.24	$5.40	–
Universal McCann*, May and July 2002*	$5.18	$5.10	–	–	–	–
Veronis Suhler, July 2002	$5.24	$5.19	$5.32	$5.44	$5.59	$5.77

*Note: *out-of-home advertising*
Source: eMarketer, October 2002; various, as noted, 2002

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The growth rate for outdoor advertising will be small, according to the researchers.

Comparative Estimates: US Outdoor Advertising Spending Growth, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
J.P. Morgan H&Q, August 2002	-0.7%	1.0%	4.0%	–	–
Myers Report, October 2002	-0.8%	1.0%	1.0%	3.0%	–
Universal McCann*, May and July 2002	-1.5%	–	–	–	–
Veronis Suhler, July 2002	-0.8%	2.5%	2.2%	2.7%	3.2%

*Note: *out-of-home advertising*
Source: eMarketer, October 2002; various, as noted, 2002

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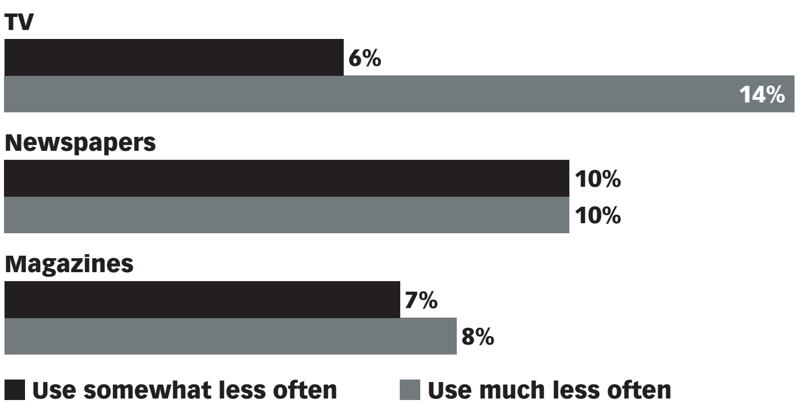
I. Consumer Media Consumption Trends

Just as the internet both competes with and complements other media in the battle for advertiser dollars, so it is for consumers. In a world where media options multiply seemingly monthly, people are split. Their time is split, their spending is split, their attention is split.

The split, however, appears to favor the internet over traditional media—even if the ad spending doesn't always follow. A recently released GartnerG2 survey points to the extent to which the internet continues to make inroads into media use among US consumers. Both for TV and newspapers, 20% of respondents use them somewhat less or much less often. Somewhat surprisingly, while magazine use has also dropped, it's been less than the other two traditional media.

Change in Use of Traditional Media among US Internet Users, 2002 (as a % of respondents)



Note: n=4,398
Source: GartnerG2, 2002; Center for Media Research, October 2002

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Lining up that company's media-use figures alongside those from four other researchers indicates that Gartner's estimates might be on the conservative side. Take decreased TV use due to internet use, cited by 37% of respondents to both Arbitron and Pew. Or take decreased newspaper use, which 31% of respondents to both Arbitron and UCLA claimed as a reaction to going online.

Comparative Estimates: Decreased Media Use due to Internet Usage among US Internet Users, 2001 & 2002 (as a % of respondents)

	Television	Magazines	Newspapers
Arbitron/Edison Media Research, September 2002	37%	27%	31%
GartnerG2, October 2002	20%	15%	20%
Pew Internet & American Life Project*, June 2002	37%	–	18%
Scarborough Research, May 2001	23%	20%	15%
UCLA Center for Communication Policy, November 2001	27%	28%	31%

*Note: based on internet users who say their web use has either greatly or somewhat decreased the time they spend with television, magazines, and newspapers; *impact of broadband internet access on use of other media*
Source: various, as noted, 2001 & 2002

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As further indication of continued media-use shifts among US consumers , look at figures from Veronis Suhler's massive and invaluable annual report, "Communications Industry Forecast." As might be expected, US consumers spend more time with television than any other medium—up to 1,679 hours annually by 2006. And consumer internet use is gaining, becoming third-most popular at 213 hours by the same year. (If you add in at-work business internet use, that total online hourly estimate would rise significantly.)

Most vital to perceptions of multitasking are the average hours per day figures shown on the bottom line. Think about it: for most people employed about eight hours a day, who also like to sleep six to eight hours each night, and perhaps eat once in a while or even spend some time talking with family and friends, the only way to spend about 10 hours per day with all media is to multitask.

Annual Use of Media among US Consumers, 2000-2006 (in hours)

	2000	2001	2002	2003	2004	2005	2006
TV (broadcast and cable)	1,640	1,661	1,661	1,656	1,669	1,672	1,679
Radio	964	983	1,001	1,014	1,032	1,049	1,062
Internet, consumer	106	134	157	174	189	199	213
Recorded music	264	238	228	219	211	203	195
Newspapers, daily	179	177	175	173	172	170	169
Home video (pre-recorded tapes)	46	56	77	96	109	120	126
Magazines, consumer	121	119	117	116	115	113	112
Video games	75	78	84	90	95	101	106
Books, consumer	111	109	107	106	105	104	103
Box office (movies)	12	13	13	13	14	14	14
iTV (video-on-demand only)	2	2	2	3	3	5	6
Total	**3,519**	**3,570**	**3,623**	**3,661**	**3,715**	**3,750**	**3,785**
Average per day*	**9.64**	**9.78**	**9.93**	**10.03**	**10.18**	**10.27**	**10.37**

*Note: ranked by 2006 figures; numbers may not add to total due to rounding; *average per day figures based on 365-day year*
Source: Veronis Suhler Stevenson , July 2002

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Looking at the Veronis media-use hours as a percentage of the total, even the internet's growth pales alongside TV and radio, which by 2006 will still pull down 44.4% and 28.1% shares, respectively.

Share of Total Annual Media Use among US Consumers, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
TV (broadcast and cable)	46.6%	46.5%	45.8%	45.2%	44.9%	44.6%	44.4%
Radio	27.4%	27.5%	27.6%	27.7%	27.8%	28.0%	28.1%
Internet, consumer	3.0%	3.8%	4.3%	4.8%	5.1%	5.3%	5.6%
Recorded music	7.5%	6.7%	6.3%	6.0%	5.7%	5.4%	5.2%
Newspapers, daily	5.1%	5.0%	4.8%	4.7%	4.6%	4.5%	4.5%
Home video (prerecorded tapes)	1.3%	1.6%	2.1%	2.6%	2.9%	3.2%	3.3%
Magazines, consumer	3.4%	3.3%	3.2%	3.2%	3.1%	3.0%	3.0%
Video games	2.1%	2.2%	2.3%	2.5%	2.6%	2.7%	2.8%
Books, consumer	3.2%	3.1%	3.0%	2.9%	2.8%	2.8%	2.7%
Box office (movies)	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
iTV (video-on-demand only)	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
Total (in hours per person per year)	**3,519**	**3,570**	**3,623**	**3,661**	**3,715**	**3,750**	**3,785**

Note: ranked by 2006 figures
Source: Veronis Suhler Stevenson, July 2002; calculated by eMarketer, October 2002

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However, next to interactive TV, which begins the decade at a near-zero base, and home video (which includes the boom in DVDs), the internet will deliver the highest growth rates among consumer media, ranging from 17.2% in 2002 to a respectable 7.0% by 2006.

Growth Rate in Media Use among US Consumers, 2001-2006 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005	2006
iTV (video-on-demand only)	0.0%	0.0%	50.0%	0.0%	66.7%	20.0%
Internet, consumer	26.4%	17.2%	10.8%	8.6%	5.3%	7.0%
Home video (pre-recorded tapes)	21.7%	37.5%	24.7%	13.5%	10.1%	5.0%
Video games	4.0%	7.7%	7.1%	5.6%	6.3%	5.0%
Radio	2.0%	1.8%	1.3%	1.8%	1.6%	1.2%
TV (broadcast and cable)	1.3%	0.0%	-0.3%	0.8%	0.2%	0.4%
Box office (movies)	8.3%	0.0%	0.0%	7.7%	0.0%	0.0%
Newspapers, daily	-1.1%	-1.1%	-1.1%	-0.6%	-1.2%	-0.6%
Magazines, consumer	-1.7%	-1.7%	-0.9%	-0.9%	-1.7%	-0.9%
Books, consumer	-1.8%	-1.8%	-0.9%	-0.9%	-1.0%	-1.0%
Recorded music	-9.8%	-4.2%	-3.9%	-3.7%	-3.8%	-3.9%
Total	**1.4%**	**1.5%**	**1.0%**	**1.5%**	**0.9%**	**0.9%**

Note: ranked by 2006 figures
Source: Veronis Suhler Stevenson, July 2002; calculated by eMarketer, October 2002

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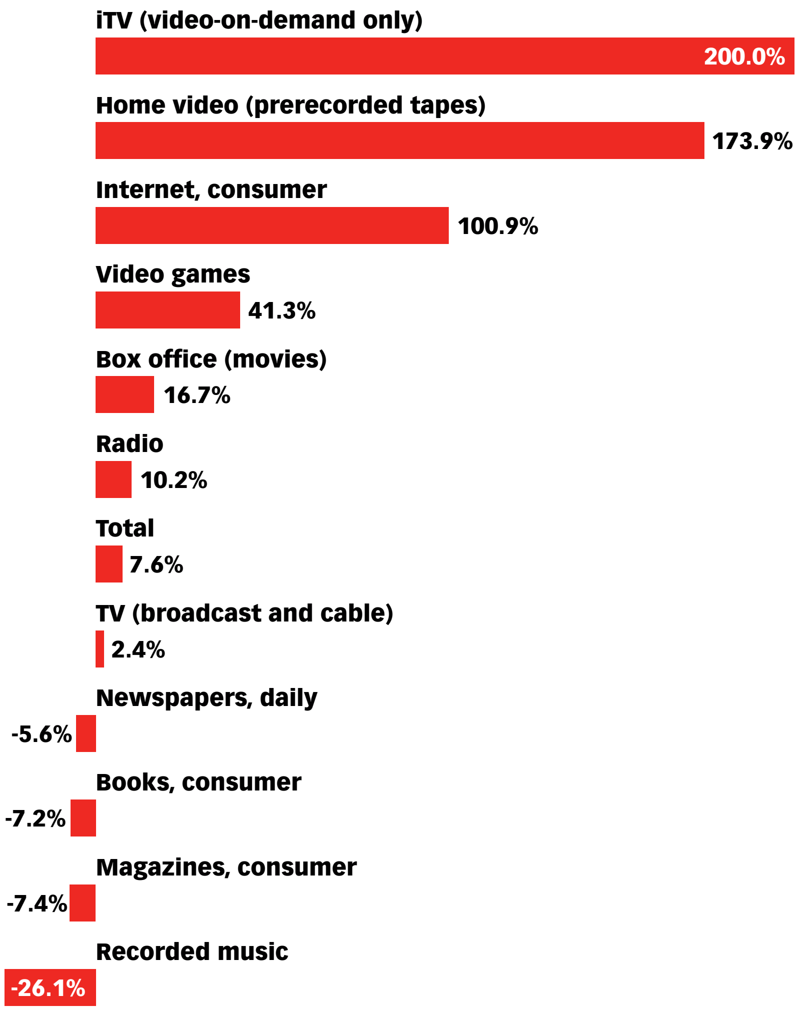
Veronis projects the internet's total growth rate for the whole seven-year span at 100.9%, far above the 7.6% average, TV's 2.4% growth, or the declining use of traditional reading matter such as the daily newspaper, consumer magazines, and books.

Growth Rate in Media Use among US Consumers, 2000-2006 (as a % increase/decrease)



Source: Veronis Suhler Stevenson, July 2002; calculated by eMarketer, October 2002

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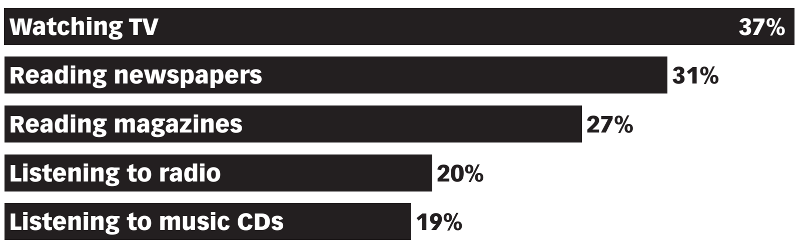
Then, in the latest Arbitron/Edison Media Research study "Internet 9: The Media and Entertainment World of Online Consumers," 2,511 people ages 12 or older were interviewed about their media habits.

The big dog of the ad world, TV, has been most affected by the realignment of consumer media time, with 37% of respondents saying they spend less time watching TV due to internet usage. Going online also takes time away from reading, with 31% and 27% of respondents spending less time with newspapers and magazines, respectively.

US Consumers Spending Less Time with Traditional Media due to Internet Usage, by Media Type, July 2002 (as a % of respondents)



Source: Arbitron/Edison Media Research, September 2002

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The impact of high-speed broadband appears to accelerate this trend away from traditional media. Take radio, which internet dial-up users listen to an average of 2 hours and 43 minutes per day versus 24 minutes less per day for residential broadband users.

And time online increases with broadband, increasing by an average of 43 minutes per day—even though broadband use means you get more done in less time. The change created by broadband doesn't appear to affect total media time that much, either, which increases by only 7 minutes per day when compared to dial-up users.

Media Usage Residential Broadband Subscribers vs. Dial-Up Subscribers in the US, by Media Type, July 2002 (in hours:minutes per day)

	Residential broadband	Dial-up
TV	2:35	2:47
Radio	2:19	2:43
Newspaper	0:35	0:35
Internet	2:00	1:17
Total media time spent	**7:29**	**7:22**

Source: Arbitron/Edison Media Research, September 2002

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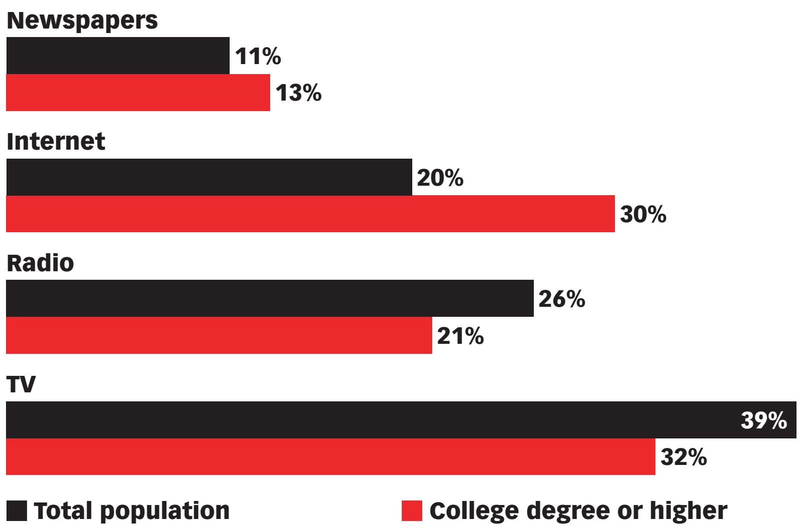
Another significant media shift the Arbitron/Edison survey points to, one that appeals to interactive marketers looking for a more affluent audience, is how consumers with college degrees more likely deem the internet as "most essential" compared to the total population. In fact, while 32% of college graduates think TV is the most essential medium, that's virtually tied with the 30% who feel that way about the internet.

Media Most Essential to US Consumers, July 2002 (as a % of total population and those with a college degree or higher)



Source: Arbitron/Edison Media Research, September 2002

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A related attitudinal shift shows in the following chart, where 52% of respondents think that television is getting worse, while only 14% say the same about the internet. To reverse that thought, 43% say the internet is getting better versus 33% for TV.

US Consumers' Opinions Regarding Whether Various Types of Media Are Getting Better or Worse, July 2002 (as a % of respondents)

	% who say medium is getting better	% who say medium is getting worse
Radio	59%	19%
Internet	43%	14%
Newspapers	37%	23%
Television	33%	52%

Source: Arbitron/Edison Media Research, September 2002

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Even amidst 2001's downturn in US online advertising spending, where six types of online ads posted losses, positive results came from three online vehicles: keyword searches, classifieds, and rich media. Here are the spending specifics, according to the Interactive Advertising Bureau and PricewaterhouseCoopers.

- Keyword search: $123.73 million in 2000, $301.91 million in 2001—a 144.0% gain.
- Classified: $602.21 million in 2000, $1,145.64 million in 2001—a 90.2% gain.
- Rich media: $164.50 million in 2000, $178.72 million in 2001—an 8.6% gain.

What makes these advertising vehicles buck the ad-spend trend illustrates changes both in the online market itself, as advertisers pull back from established and still heavily invested formats such as banners, and in the ways companies seek online advertising success. That places keyword search as the current best tool for driving carefully targeted audiences to company websites, classified ads as a niche market that's bursting beyond its niche, and rich media as online's still budding attempt to emulate the branding capabilities of TV and radio.

A. Search Engine Marketing

Search engines and search portals are vehicles for at least three forms of interactive marketing, two of which are also profitable for the search site itself.

- **Paid placement.** Also called pay-per-click (PPC) search, keyword search, or pay-for-performance search. With this ad model, companies bid to show up high on the list of search results at a search engine site, and the highest bidder gets the top slot. The companies also write their own ad listings. However, the search site must note that these matches are ads; the terms vary from "sponsor match" (Yahoo!) to "sponsored listing" (Overture) to "sponsored links" (Google) to "premium search results" (Search123), to name a few. Then, for each user click on a paid placement listing, the company pays the search site the bid-agreed amount.
- **Paid inclusion.** Also called keyword search. With this ad model, companies pay search engines to visit their sites more frequently and dig deeper into their content, therefore ensuring their companies get listed properly. In another version of this model, search sites charge fees to include company websites in a web directory that used to include them for free. In either case, unlike paid placement, companies are not guaranteed particular positions in the main search results. However, this method "intertwines paid listings with those that are automatically indexed by the unbiased algorithms of search engines," as Search123 puts it.

- **Search engine optimization.** Often abbreviated as SEO. With this ad model, companies make "detailed modifications to a site's contents and technical architecture in order to enable it to rank higher in the search results for a given set of keywords," according to avant|marketer. When companies make use of SEO, they pay nothing to search sites. However, companies typically engage specialist online marketing firms to perform this ongoing operation.

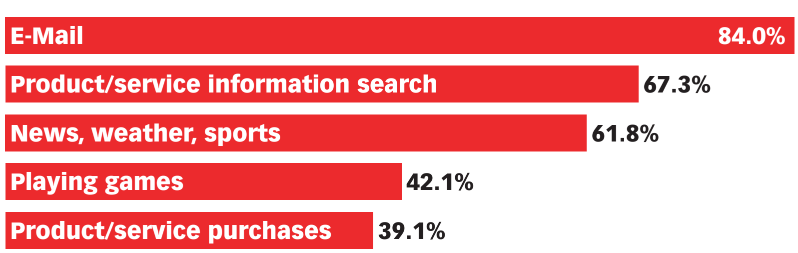
"The search market remains one of the fastest-growing segments of the internet and is clearly the most vibrant area. However, the market is still small at under $1.5 billion," reports the Silk Road Weekly, an e-newsletter from US Bancorp Piper Jaffray. In contrast, the Interactive Advertising Bureau says that the market for keyword search—its term for both paid placement and paid inclusion—totaled $301.9 million in 2001. However, while that IAB figure is smaller than the Piper Jaffrey number, it represents a 144.0% gain from $123.7 million in 2000.

"There's little downside to doing it [pay for placement advertising]. There's almost perfect alignment between the needs of the consumer, the marketer, and the publisher."
– Marissa Gluck, senior analyst, Jupiter Research

The Silk Road Weekly writes, "Paid placement (Overture's model) is the dominant and fastest-growing segment within search, while paid inclusion is increasingly becoming popular and is generating additional revenues for destinations and providers of search technologies." Additionally, the Silk Road Weekly estimates at least $100 million per year for the paid inclusion market.

Considering the popularity of online searching, the growing use of search sites for marketing is almost a no-brainer. Advertisers find that keyword searches are an effective way to position their brands and products—effective since next to e-mail, the most common activity for US internet users is searching for information, according to the US Department of Commerce.

Top Five Activities of Americans Online, 2001 (as a % of internet users ages 3+)



Source: US Department of Commerce, February 2002

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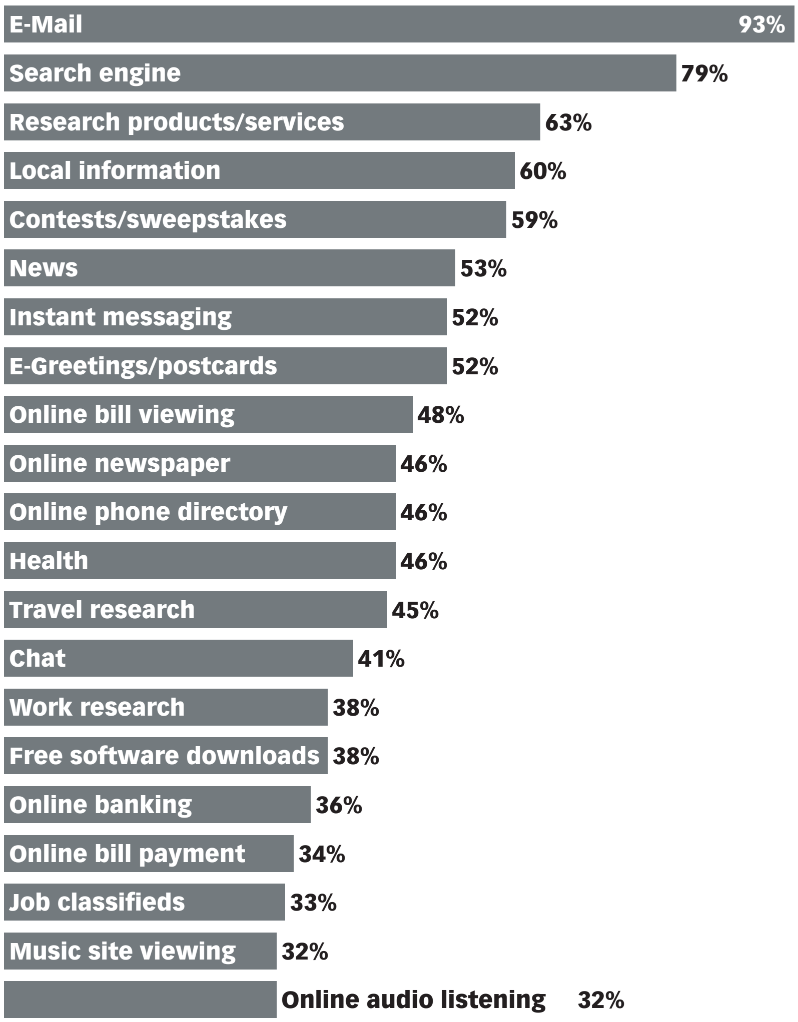
Similarly, when Jupiter Research recently studied the most popular online activities among US internet users, search engine use, at 79% of respondents, trailed only e-mail.

Popular Online Activities among US Internet Users, September 2002 (as a % of respondents)



Note: n=4,341; multiple responses allowed
Source: Jupiter Research, September 2002

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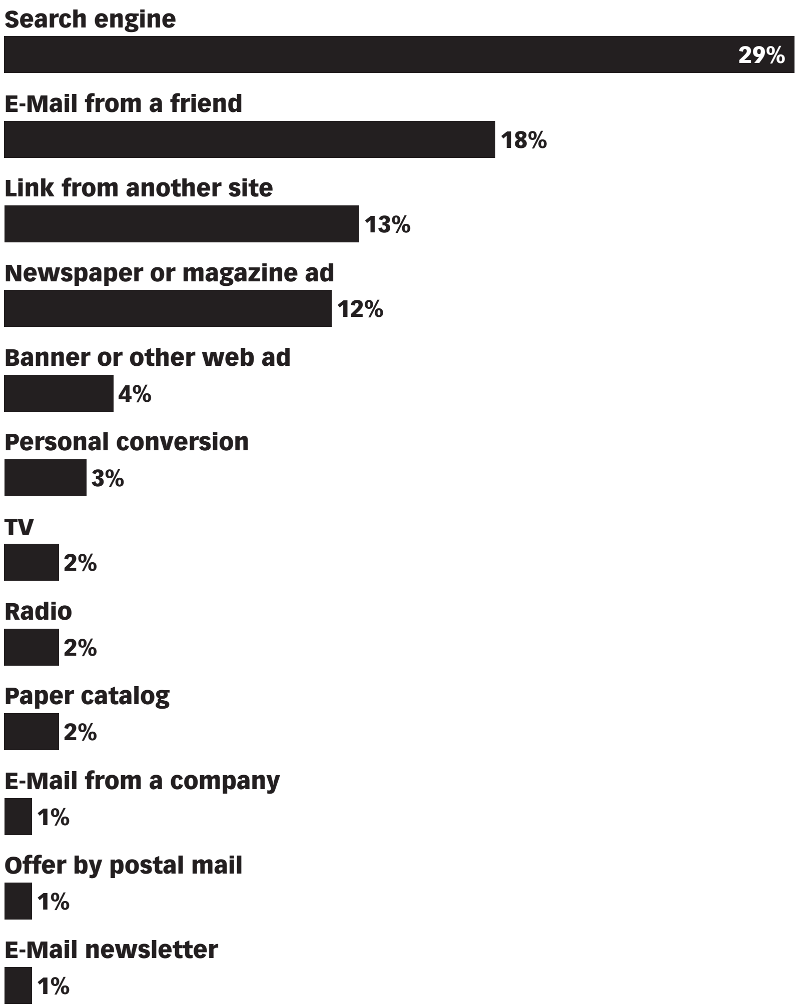
And, if there were any doubt, search engine marketing makes sense if you believe the results from the IMT Strategies survey from last year, showing that the main way US internet users learn about new websites is through a search engine.

How US Internet Users Learn about New Websites, 2001 (as a % of respondents)



Source: IMT Strategies, September 2001

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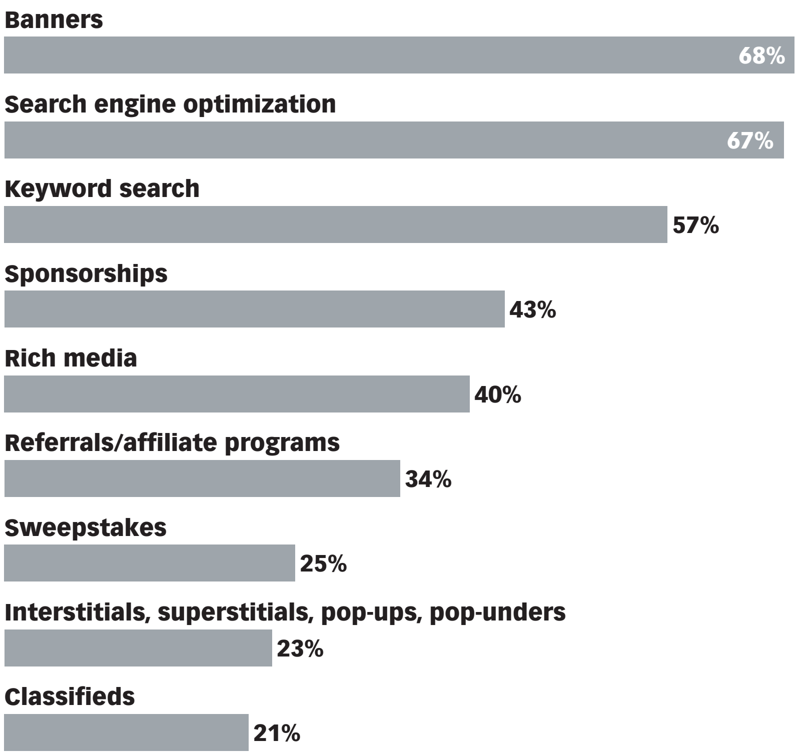
Methodology
Marketing Online or Offline: It's All Part of the Mix
Interactive Marketing: Where's the Money Going?
Issues & Barriers
Total Media & Offline Ad Spending
Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
Index of Charts

The well-established popularity and necessity of search sites among consumers is clearly translating to marketing choices. According to DoubleClick's "Spring 2002 Marketing Spending Index," search engine optimization is nearly tied with banner ads as the most used online ad vehicle, cited by 67% and 68% of respondents, respectively, with keyword searches not far behind at 57%.

Online Advertising Vehicles Used by US Marketers, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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Research from The Conference Board runs in parallel to the DoubleClick data. When 60 executives from major US firms were polled on their most prevalent brand-building tactics, both online and offline, 59% of respondents cited search engine listings as the primary internet tool for boosting their companies' brands.

Most Prevalent Online vs. Offline Brand-Building Tactics among US Companies, 2001 (as a % of respondents)

	Online	Offline
Print ads	–	71%
Search engine listings	59%	–
Event sponsorships	–	50%
Trade shows	–	48%
Referrals from online affiliate partners	48%	–
TV ads	–	46%
Banner ads	43%	–
Direct mail	–	41%
Referrals by offline partners	–	36%
Customized extranets	34%	–

Note: n=60 executives from major US firms
Source: The Conference Board, December 2001

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Choices for Search Marketing

That DoubleClick-researched primacy of search engine optimization over keyword search might be old news, if you believe the title alone of a recent Jupiter Research report: "Paid Search Precipitates Decline of Search Engine Optimization." Still others, such as Kansas City, MO-based ad agency Valentine Radford, call SEO "one of the most cost-effective ways to market your website these days."

While it's true that paid search is growing rapidly and receiving much attention among interactive marketers, it's doubtful that the paid method will kill off the technical method. Both have their place in marketing plans.

"Pay-per-click is advertising. Search engine optimization, like public relations, is editorial. Companies will continue to need both."
– Fredrick Marckini, CEO, iProspect

Of the three main methods of search engine marketing, each has its pros and cons. For most interactive marketers, it need not—nor should not—be a question of which method. Instead, figuring out when to use each search engine positioning tool is most likely to produce a greater return on investment.

To start with, note a July 2002 directive from the Federal Trade Commission (FTC) telling search sites to make sure paid placement ads appear separately from "natural" listings (those unpaid search result derived from the search site's web crawler-based algorithms). In addition, the FTC advised the sites to label paid placements as "sponsored search listings" or some such term. However, the FTC did not yet say that each paid inclusion listing be labeled as ads.

"By using my trademark as a keyword, you can take advantage of my reputation, and that can be unfair competition."
– Steven Weinberg, partner, Greenberg Traurig [law firm]

One key advantage of paid placement is how marketers choose the keyword(s) to link their ad to, and then get to write the ad that appears when users perform a relevant search. However, that link of keyword and search continues to drive up the price of popular keywords.

For example, in early November 2002 on Overture, the top price per click for the keywords "e-mail marketing" was $6.50, from Unica, an enterprise marketing management company. In contrast, the high bid for the common keyword "computer" sold for $0.86 (Dell had it). A less popular keyword phrase, "golden retriever," went for $0.30 tops. Whereas a more focused, and even less popular, keyword phrase like "Macintosh OS-X" (Apple's latest operating system), sold for only $0.07. (Overture's transparency in making these prices easily available online is notable.)

"Branded queries are rarely the most frequent queries on the internet in general. And branded queries only bring you customers who already know the brand—all the rest of your potential audience will search and be introduced to a competing brand."
– Fredrick Marckini, CEO, iProspect

Furthermore, with the various pros and cons among the three search-site marketing choices, picking just one over the others may not be the most feasible approach. Here's an outline of each method's pros and cons.

Pros and Cons of Search Engine Marketing, by Method, 2002

	Pros	Cons
Paid placement	• Bid high enough, and an ad will top the listings • Companies get to write their own ads • Choosing the right keyword will accurately target potential customers • Ad gets delivered only to consumers who have shown interest in a company's product or service (based on keyword used in search) • Advertisers have no incentive to misguide an unqualified user, since they pay for each click whether or not the user becomes a customer • Competition for highly sought-after keywords is driving up price (pro, for search site)	• No pay, no placement • Paid listings face stricter guidelines than "natural" search (crawler-based) results; ads must be relevant in some way to the terms they appear for, and most search sites set a high relevancy standard • The wording of company-written ads must take into account a variety of search site style guidelines • Users often see paid listings as advertising, reducing its credibility • Must pay for clicks even from indifferent users • Trademark lawyers dislike use of brand-names as keywords; some suits have been initiated, more might come • Competition for highly sought-after keywords is driving up price (con, for advertiser)
Paid inclusion	• By being mixed with "natural" search results, looks less like an ad (more subtle than paid placement) • Costs less than paid placement • More likely to appear in response to a wide range of search terms • Ads directly relate to the search initiated by the consumer	• By being mixed with "natural" search results, can be buried in listings • Experienced users will rarely go farther than the first 20 results in a search engine • Does not guarantee exposure or a particular ranking within the search site
Search engine optimization (SEO)	• Drives traffic over longer period than paid search • Listings become part of search site's editorial function (since they derive from the site's mathematical algorithms), so users see them as more reliable • Search site neither controls title and description, nor imposes a keyword-by-keyword relevancy review of content • Marketers don't pay search sites • Flat rate, not cost per click	• Takes longer to implement successfully than paid search • Time and labor intensive • Not a singular project but an ongoing process that must be updated regularly • Can be more costly than paid search • Flat monthly rate, not cost per click

Source: eMarketer, November 2002

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There are several caveats to keep in mind about these interactive marketing methods. While paid search seemingly offers much freedom to marketers, such as choice of appropriate keywords and the ability to write their own ads, it's not so simple.

As the SearchEngineWatch.com site wrote: "Overture, Google, and any other paid listing service with significant distribution will insist that you only bid on terms that are relevant to your website....Why? Money is a chief reason. In a cost-per-click situation, they only get paid if people decide they like what your ad offers and click on it....In addition, irrelevant ads can potentially cause people to dismiss ads altogether. ...That hurts the underlying business model in the long term. Running irrelevant ads can also hurt you. Targeting a term that you aren't really best for may get you traffic, but that traffic might not convert into sales."

"The power of advertising on search is that you can reach an audience looking for exactly what you sell. Relevancy is key to harnessing that power."

– Sheryl Sandberg, director of AdWords sales and operations, Google

That lack of search site limitations is one potential advantage of SEO over paid search. However, SEO is akin to exercise—it works well only if you do it regularly. According to Fredrick Marckini—CEO of iProspect, an Arlington, MA-based SEO provider—search engine optimization is an "iterative, ongoing process, and it must be performed on an ongoing basis." He offers four reasons for that:

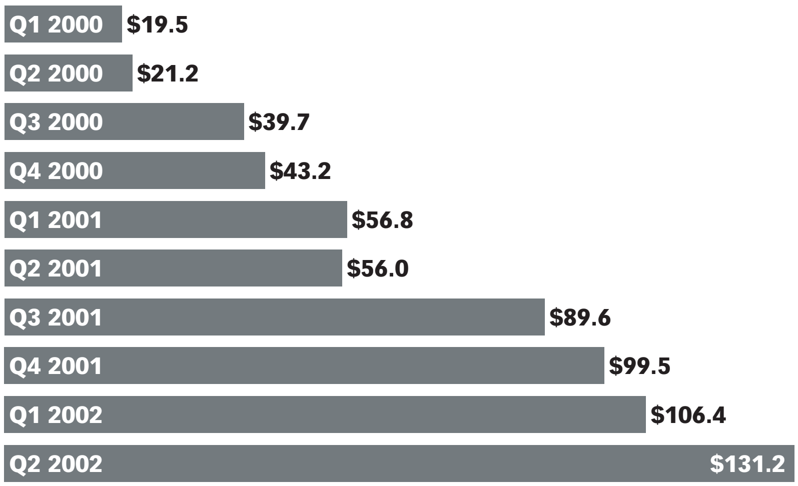
- Websites change. New or altered content needs to be optimized for the search sites.
- Websites get complete facelifts. That's when rankings on important keywords can be lost.
- Users change the way they query. Where four years ago, virtually all internet users searched using one-word queries, nowadays two to five-word queries are commonplace. Therefore, targeted keywords must change to match user habits; otherwise a site may continue to get traffic but not its target audience.
- The "search vocabulary" users choose evolves. New products and phrases to describe them enter into the vernacular, so companies must evaluate targeted keywords regularly.

Search Spending

The size of the paid search advertising market is open to debate. As mentioned, US Bancorp Piper Jaffray estimates it as "under $1.5 billion." The Interactive Advertising Bureau offers one-fifth that estimate, at $301.9 million for 2001.

Looking at the IAB spending figures on a quarterly basis, you can see the nearly steady rise up to $131.2 million in the second quarter of 2002.

Online Keyword Search Ad Spending in the US, by Quarter, Q1 2000-Q2 2002 (in millions)



Note: total for 2000=$123.7; total for 2001=$301.9
Source: Interactive Advertising Bureau/PricewaterhouseCoopers (PwC), October 2002

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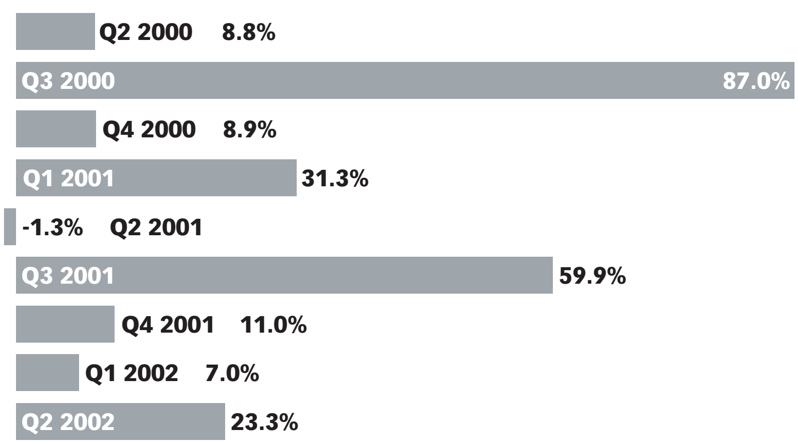
The quarterly growth rate figures point to some large jumps, such as 59.9% in the third quarter of last year. More to the point, the increase from 2000 to 2001 was 144.0%. And even in the current down market, keyword search revenues increased by 7.0% and 23.3%, respectively, Q1 and Q2 2002.

Online Keyword Search Ad Spending in the US, by Quarter, Q2 2000-Q2 2002 (as a % of increase/decrease vs. prior quarter)



Note: annual increase of 144.0% from 2000 to 2001
Source: Interactive Advertising Bureau/PricewaterhouseCoopers (PwC), October 2002

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While those IAB spending numbers represent 6% of Q4 2001's online advertising spending, that share was a quick doubling from 3% in Q2 2001. And the trend is likely to continue. According to Jupiter Research, pay-for-performance advertising—of which paid search is only a proportion—accounts for 25% of online ad spending, with it forecast to increase to 34% in 2007.

"[Paid search] may be one of the most profitable businesses we've embarked on."

–Terry Semel, CEO, Yahoo!

When the marketer's intent is to induce the user to visit the company website, comparative costs indicate that paid search is more cost effective than e-mail marketing or banner ads. According to estimates provided by iProspect, even when CPMs, impressions, and click-through rates vary—but with the same annual investment of $150,000—the cost per visitor for paid searches would be $3.00, below banner's $3.66 and much under e-mail marketing's $9.00.

One might quibble with some of the assumptions in this chart (why is e-mail's CPM so much higher than the other two vehicles?), yet it serves as a useful benchmark process for figuring out the potential ROI for increasing a company's website activity.

Comparative Costs for E-Mail Marketing, Banner Ads, and Paid Keyword Searches in the US, 2002

	E-Mail marketing	Banner ads	Paid keyword searches
Annual investment	$150,000	$150,000	$150,000
Cost per thousand (CPM)	$450	$11	$30
Impressions (outbound e-mails)	333,333	13,636,363	5,000,000
Click-through rate	5.0%	0.3%	1.0%
Visitors	16,667	40,909	50,000
Cost per visitor	$9.00	$3.66	$3.00

Source: iProspect, August 2002

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Search Market Trends

With revenue increases that major search sites like Overture have shown—a 148.7% growth rate in Q2 2002 from 2001's corresponding quarter—no wonder more and more competition is edging its way into this business. As reported in *Fortune Small Business*, "by April [2002] more than 270 pay-for-performance search engines were up and running, according to the industry site PayPerClickSearchEngines.com."

Still, just as three-quarters of Overture's revenue came from only 10 of its affiliates, so do the top search sites gain the vast majority of visitors. Recent numbers from Nielsen//NetRatings show Yahoo!, MSN, AOL, and Google as the four busiest search sites, with audiences for the week ending 8 September ranging from more than 36 million to just over 12 million.

The entire audience in one week at the top 10 search sites listed totaled 138.7 million, although that counts duplicates.

Top 10 Search Engines/Portals and Community Sites among US Internet Users, Week Ending 8 September 2002

	Audience (in thousands)	Active reach
Yahoo!	36,470	44.84%
MSN	33,629	41.35%
AOL	28,332	34.84%
Google	12,032	14.79%
Lycos Networks	7,795	9.58%
Netscape	6,305	7.75%
AT&T	5,092	6.26%
Classmates.com	3,595	4.42%
iWon	2,821	3.47%
Ask Jeeves	2,581	3.17%

Source: Nielsen//NetRatings, September 2002; Center for Media Research, September 2002

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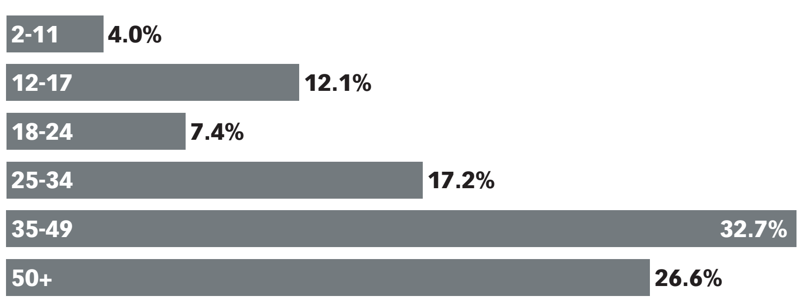
The age demographics for these sites, the same week, show the 35-to-49 year old group as the largest slice, at 32.7% of visitors.

Age Demographics for US Search Engines/Portals and Community Sites, Week Ending 8 September 2002



Source: Nielsen//NetRatings, September 2002; Center for Media Research, September 2002

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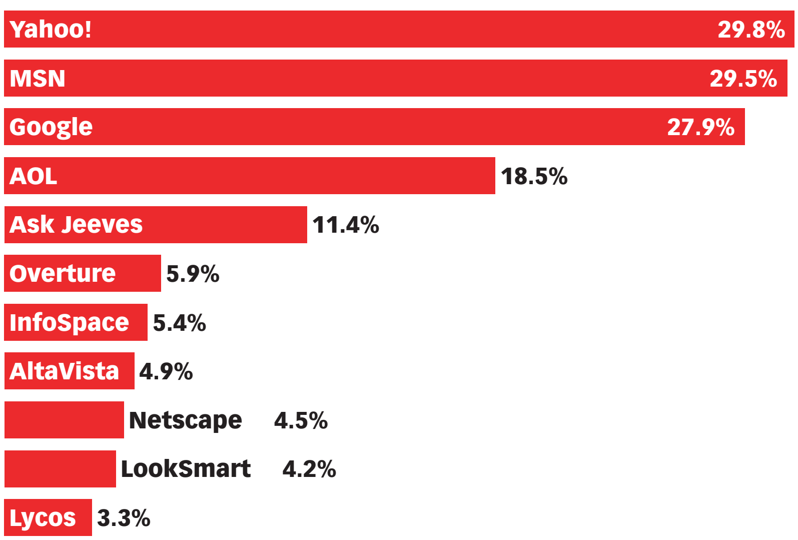
In August 2002, Nielsen//NetRatings performed a more in-depth study of search engines for SearchEngineWatch.com. The first chart below measures audience reach—the percentage of US home and work internet users estimated to have searched on each site at least once during the month. Note that reach is somewhat misleading here, since "some services listed may have greater reach than the chart reflects," according to SearchEngineWatch.com. Take Overture as an example, again. While links from that search site appear on results pages at Yahoo!, MSN, and Lycos—to name a few of Overture's affiliates—the chart shows only the audience who actually visited Overture or a site "powered" by Overture.

Similarly, users viewing Google results at Yahoo!! or Netscape are not counted in Google's reach of 27.9%. So, while this chart works as a starting point, too many data points are missing.

Search Engine Audience Reach in the US, August 2002 (as a % of internet users who have searched at least once)



Note: among US at-work and at-home users
Source: Nielsen//NetRatings, SearchEngineWatch.com, September 2002

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Another problem with the chart above is that the reach percentages reflect unique visits to each search site. That is, a user might visit MSN only once and yet visit Google several times in the same given month, performing dozens more searches on Google. Despite this, Nielsen//NetRatings counts the user only once in both the Google and MSN figures above.

Therefore, the average time spent searching is a more useful gauge for figuring out which sites are the most popular. The next chart tracks the average number of minutes each visitor spent at each site in August 2002.

Methodology

Marketing Online or Offline: It's All Part of the Mix

Interactive Marketing: Where's the Money Going?

Issues & Barriers

Total Media & Offline Ad Spending

Hot Wheels: Marketing Vehicles Rising

E-Mail Marketing: Trouble Ahead?

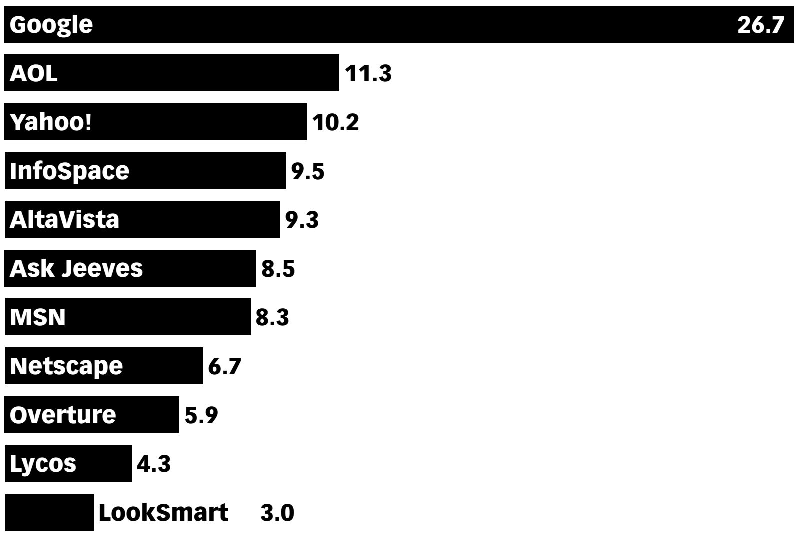
The Measure of Marketing: What's the Bottom Line?

Website Marketing: How Companies and Consumers Use Sites

Index of Charts

As you can see, while Google's audience reach numbers above are approximately the same as Yahoo!'s and MSN's, visitors spend far more time at Google than any other search site. In fact, the average of 26.7 minutes for Google is more than twice any other site, and nearly three times as much as MSN, which otherwise tops Google by the reach metric.

Average Time Spent Searching on Selected US Search Engine Sites, August 2002 (in minutes per visitor)



Note: among US at-work and at-home users
Source: Nielsen//NetRatings, SearchEngineWatch.com, September 2002

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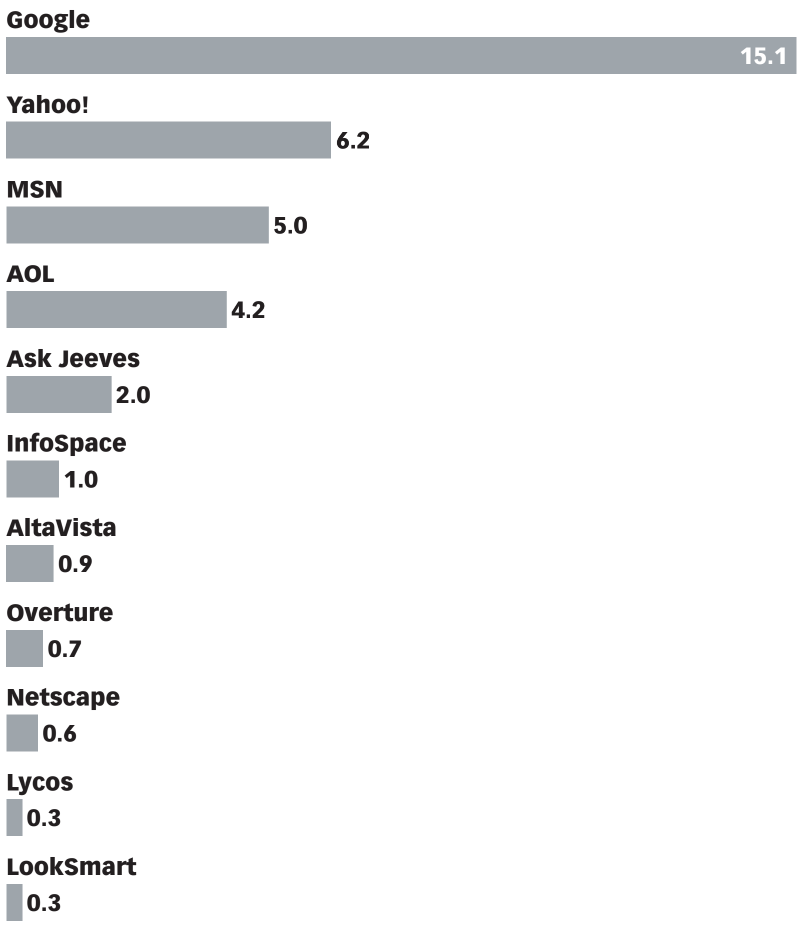
A related chart from SearchEngineWatch.com "multiplies the number of visitors to each site by the average number of minutes each visitor is estimated to have spent at the site" to obtain the total search hours for August 2002.

In this measurement, a site such as MSN bounces back—even though each visitor on average doesn't spend much time there searching, the Microsoft site has lots of visitors.

In making marketing plans for paid search, a company would want to take into account a mix of which sites get the most devoted users (as in the chart above) and which sites get the most total traffic (as in the following chart).

Total Search Hours Spent on Selected US Search Engine Sites, August 2002 (in millions)



Note: among US at-work and at-home users
Source: Nielsen//NetRatings, SearchEngineWatch.com, September 2002

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Methodology
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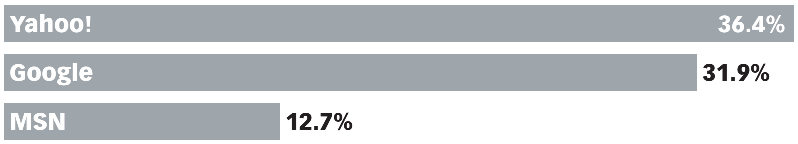
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
Index of Charts

Other researchers, such as WebSideStory—a San Diego-based web analytics firm—also point to Yahoo! and Google as the leaders in search.

Leading Search Engines, April 2002 (ranked by % of search referrals to websites worldwide)



Source: WebSideStory, April 2002

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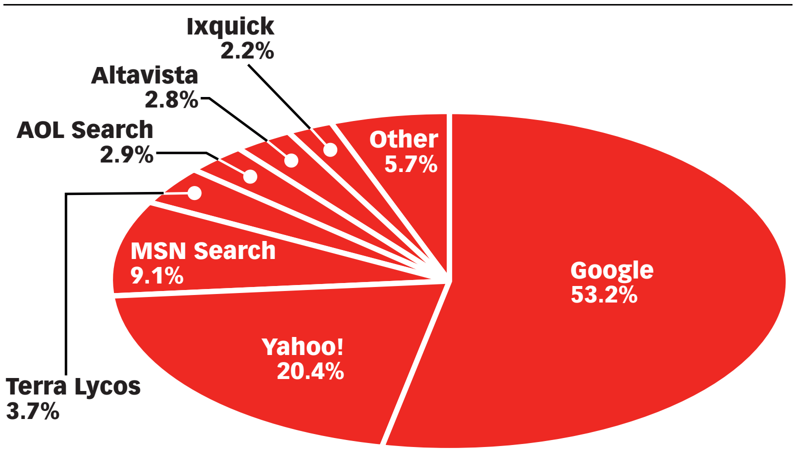
Similarly, when OneStat.com surveyed 2 million internet users—20,000 users in 100 countries—over two months this past summer, Google and Yahoo! again appeared as the most-used search sites.

Global Usage Share of the Top Search Engines, June-July 2002



Source: OneStat.com, August 2002

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Consumer Attitudes about Search

Further market trends worth observing encompass user attitudes toward search sites. Take a look at results from the American Customer Satisfaction Index (ACSI) in the second quarter of 2002. While the average ACSI score for search engines in 2002 was 68 (on a scale of 1 to 100), Google topped that with an 80 score.

And among portals, which also serve as search sites, while the average score was also 68, AOL fell below average in customer satisfaction with a 59 score.

US Customer Satisfaction with Portals, Search Engines and News Sites, 2001 & 2002 (based on American Customer Satisfaction Index (ACSI) scale of 0-100)

E-Business category	2002 ACSI score	2001 ACSI score
Portals (avg. score)	**68**	**65**
Yahoo! (Yahoo, Inc.)	76	73
MSN (MSN Corporation)	72	67
All others	72	72
America Online, Inc.	59	58
Search engines (avg. score)	**68**	nm
Google, Inc.	80	nm
Ask Jeeves	62	nm
Alta Vista	61	nm
All others	–	nm
News (avg. score)	**73**	nm
ABCNews.com	74	nm
MSNBC.com	73	nm
All others	73	nm
CNN.com (AOL Time Warner)	72	nm
NYTimes.com	71	nm
USAToday.com	71	nm

Note: nm=not measured
Source: ForeSee Results and the University of Michigan, August 2002

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The whole concept of paid search crosses lines, which is why the FTC made those recommendations to search sites this past summer, as discussed above. The lines, at least as observed by consumers, are ones of advertising (paid search) versus editorial content ("natural" or algorithm-derived search). Are consumers being fooled by paid ads when they perform searches? Or, even if not fooled, does this annoy consumers—and therefore present a risk to those companies involved in paid search, both advertisers and sites?

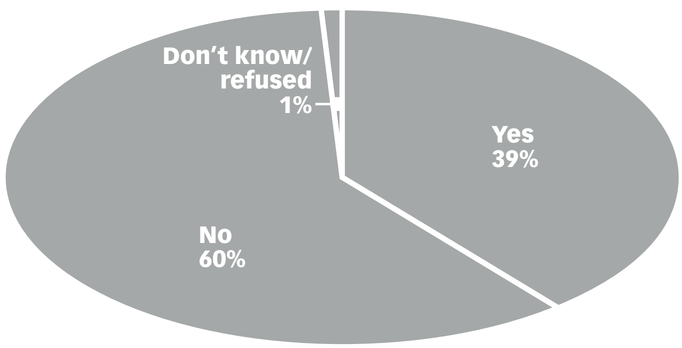
"It's important for people to know whether or not their search results are being bought by big business."

– Gary Ruskin, executive director, Commercial Alert

In a Princeton Survey Research Associates study—"A Matter of Trust: What Users Want from Websites"—conducted earlier this year for Consumer WebWatch, it appeared that 60% of US internet users had not even heard about the existence of paid search.

Word often passes quickly in the online universe, and with the continued rise of paid search, it's easy to imagine that more than 39% users now know about "search engines being paid fees to list some websites more prominently than others in their search results," as the survey phrased it.

US Internet Users Who Have Heard or Read about Search Engines Being Paid Fees to List Some Websites More Prominently than Others in Their Search Results, January 2002 (as a % of respondents)



Source: Princeton Survey Research Associates for Consumer WebWatch, January 2002

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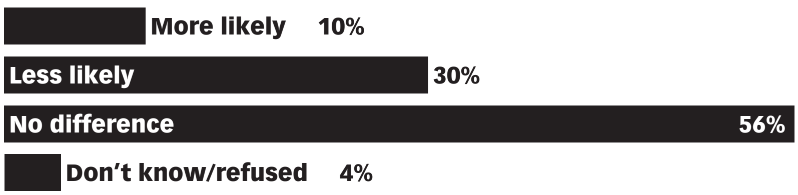
Even so, a 56% majority of respondents said that even if they knew that some companies paid to be listed higher in search result, it would make no difference to them—they'd still use the particular search site. And 10% even said they'd be more likely to use the site.

However, watch that 30% of US internet users who said they're be less likely to use search sites with paid search listings. That's too large a segment to ignore, and if not handled carefully could undermine the credibility that most search sites currently have.

Likelihood that US Internet Users Would Use a Search Engine if They Knew that Some Sites Paid to be Displayed More Prominently, January 2002 (as a % of respondents)



Source: Princeton Survey Research Associates for Consumer WebWatch, January 2002

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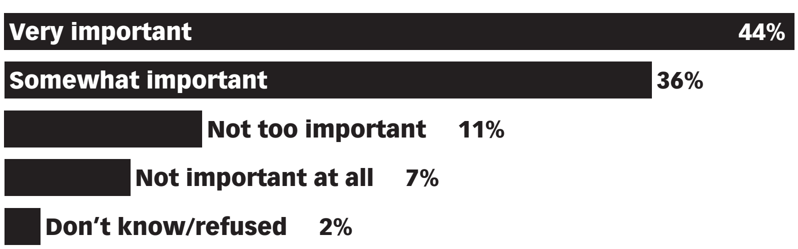
One of the best ways for search sites to handle users carefully is the hidden blessing in the FTC requests for greater openness about paid search. That is, since an overwhelming 80% of respondents to the Consumer WebWatch survey said it is very or somewhat important that search engines disclose their paid listings policy, being forced to do so is a vital tool for retaining their authority.

That applies to both the consumer and the company looking to place paid search ads, since if a search site is no longer credible among users, it becomes a less valuable site for marketers as well.

US Internet Users' Opinions Regarding the Importance of Search Engines Disclosing Their Paid Listings Policy, January 2002 (as a % of respondents)



Source: Princeton Survey Research Associates for Consumer WebWatch, January 2002

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Each independent search site is finding its own way to disclose paid search information to consumers. More than most, Overture appears more-transparent-than-thou by showing users the specific payments for search engine positioning, which it calls "advertiser's max bid."

If you entered the search term "bicycle" into the Overture engine on 29 October, 2002, here are the top three listings that keyword would have called up:

1. **Great Values on Folding Bicycles**
   AhoyCaptain.com retailer of folding bicycles for marine, urban use or mountain biking. Great Values. Dahon and Montague.
   www.ahoycaptain.com (Advertiser's Max Bid: $0.23)
2. **Rhoades Car - 4 Wheel Bikes**
   Drive Like a Car!, 1,2 & 4 seat models, Easy to pedal, Factory assembled, free literature
   www.rhoadescar.com (Advertiser's Max Bid: $0.22)
3. **Euro-Bike and Walking Tours**
   Leisurely bicycle tours, with exceptional cultural experiences, deluxe accommodations and gourmet dining. Destinations throughout Europe. Join us for the vacation of a lifetime.
   www.eurobike.com (Advertiser's Max Bid: $0.22)

In fact, if you then entered the more focused term "folding bicycle" into Overture, you might have expected the top result above to be the top result again, but it was only number three.

These results point to one potential flaw in the paid-search advertising model. While the term "bicycle" is certainly a general keyword, bound to call up a wide range of responses, these top three ad listings are very specific and would probably not appeal to most people interested in bicycles, both beginners and long-timers (take it from an experienced cyclist). Without the right choice of keywords, advertisers can be getting unqualified visitors to their websites, wasting marketing dollars.

B. Classified Ads Growth

Of the three online ad vehicles that expanded in 2001, more dollars were put into classified advertising than into either paid search or rich media. Not as chic or sexy as those other two vehicles, classifieds are more like a good pair of jeans—necessary, basic, and individually inexpensive.

To an extent, online classifieds are also stolen goods—taking away ad space from local newspapers. In fact, the online classified market consists mainly of two strands. First, there are national classified sites such as Monster.com, HotJobs.com, and CareerBuilder.com. But traditional newspapers are fighting back, bulking up their websites with not only news and local events, but classifieds. According to International Demographics's The Media Audit, there are "increasing signs that the newspaper industry is viewing the internet as an opportunity rather than a threat."

"We just don't report the community, we are the community. Growth can only be achieved at the local level."

–William Dean Singleton, CEO, Newspaper Association of America

The weak job market is working to increase consumer use of classifieds, both online and offline. According to a September 2002 survey from The Media Audit, while 12,406,000 people regularly read newspaper employment ads in the 85 metropolitan markets it surveys, "web job classified visitors totaled 4,553,000" in 2001. And when the survey turned from regular to occasional readers of employment classifieds, "the 12 million becomes 32 million and the 4.5 million [online] becomes 20 million."

Furthermore, "40% of those who regularly read newspaper employment ads also regularly visit web classified job sites. Conversely, only 14.9% of those who regularly visit web classified job sites also regularly read newspaper employment ads."

According to The Media Audit, "The level of duplication between employment ad readers on the web and in the newspaper may be of critical importance to newspaper publishers, The competition for recruitment advertising expenditures is not simply a battle between newspapers and the dot-coms. The newspapers are playing on both sides of the ball. They have powerful print products and a growing presence on the web. And, for these reasons they still dominate the recruitment advertising market."

The entire classified ad market of regular readers, not just for employment, increased from 14,680,000 in 2000 to 18,928,000 in 2001, a 29% gain, says The Media Audit.

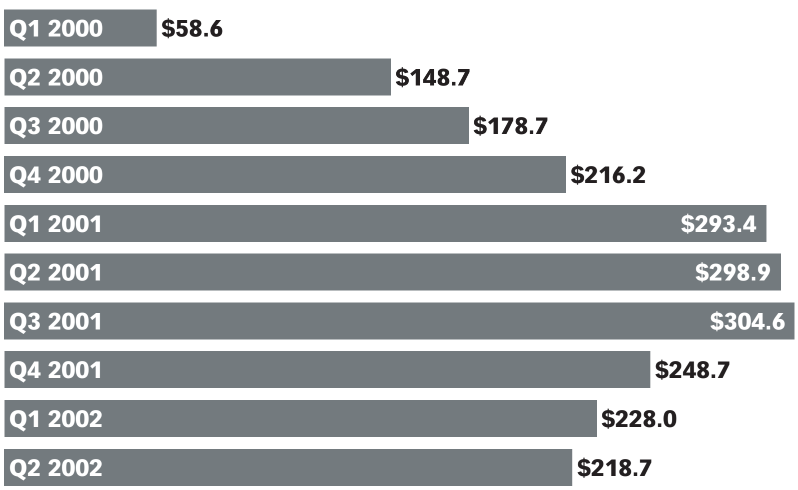
Whether or not the online classified race goes to newspapers or the Monster.coms of the world is still to be decided. If newspapers have any advantage, it's "that enormous competitive edge: content," according to The Media Audit. "But Monster.com and similar sites have shown that content alone will not permit newspapers to dominate the local classified market."

Classified Spending

During the eight quarters of 2000 and 2001, spending for online classified ads grew steadily until the general social and economic malaise of last year's last quarter. According to the IAB/PwC, total online classified ad spending in 2001 hit $1.15 billion.

Then in the first two quarters of this year, online classified spending fell further, dropping to $218.7 million in Q2 2002.

Online Classified Ad Spending in the US, by Quarter, Q1 2000-Q2 2002 (in millions)



Note: total for 2000=$602.2; total for 2001=$1,145.6
Source: Interactive Advertising Bureau/PricewaterhouseCoopers (PwC), October 2002

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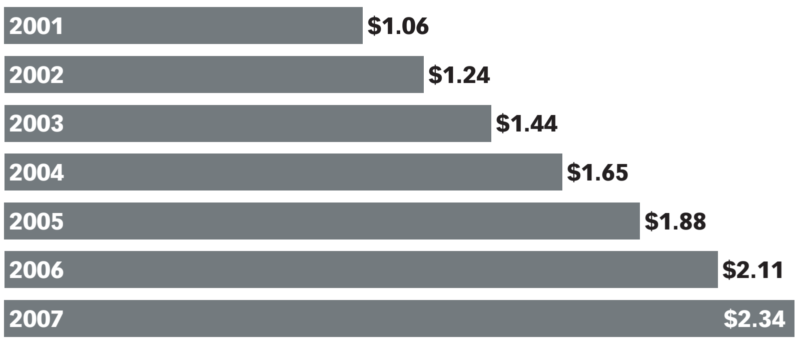
That IAB figure for 2001's total is nearly the same as Jupiter Research's 2001 estimate, $1.06 billion. Projecting over several more years, Jupiter sees a steady climb for online classified spending, ready to pass the $2 billion mark by 2006.

Online Classified Ad Spending in the US, 2001-2007 (in billions)



Source: Jupiter Research, October 2002

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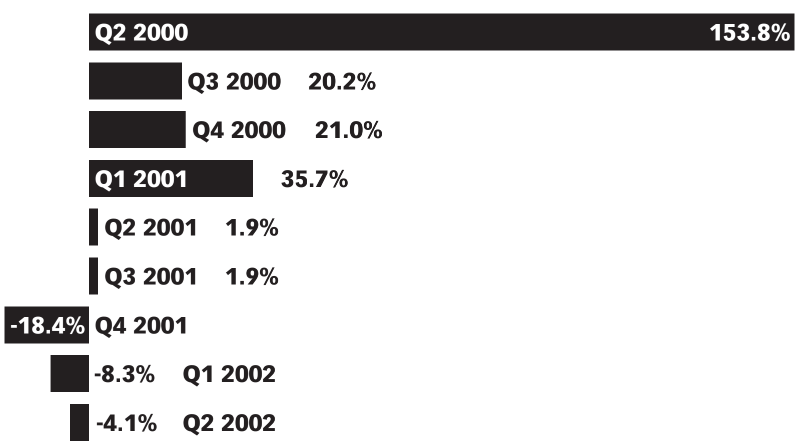
Turned into growth rates, the IAB quarterly figures show a clear discrepancy between the two-digit increases during 2000 and the first quarter of 2001, moving to a flat market during the next two quarters, and falling at year's end. However, expressed as an annual growth rate from 2000 to 2001, the IAB research came up with a 90.2% increase.

However, starting in Q4 2001, there've been decreases in spending for interactive classifieds during each of the three most recent quarters. A probable cause is the tight job market, with fewer employers placing ads.

Online Classified Ad Spending in the US, by Quarter, Q2 2000-Q2 2002 (as a % increase/decrease vs. prior quarter)



Note: annual increase of 90.2% from 2000 to 2001
Source: Interactive Advertising Bureau/PricewaterhouseCoopers (PwC), October 2002

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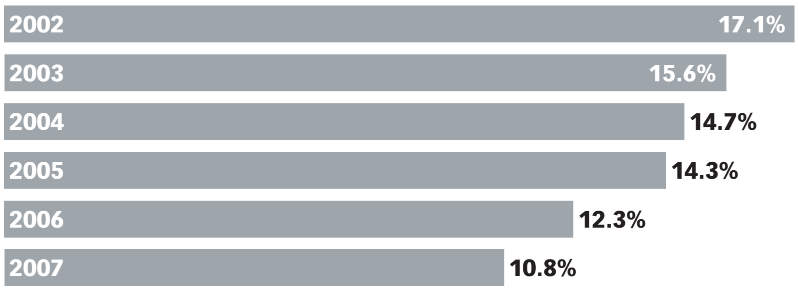
That volatile market for online classifieds is not how Jupiter sees it. Instead, the New York-based research firm projects growth rates in the mid-teens through 2005, dropping only a few points after that. And in what's also a volatile time for the economy in general, why would growth rates be so relatively even for online classifieds?

Online Classified Ad Spending in the US, 2002-2007 (as a % increase vs. prior year)



Source: Jupiter Research, October 2002

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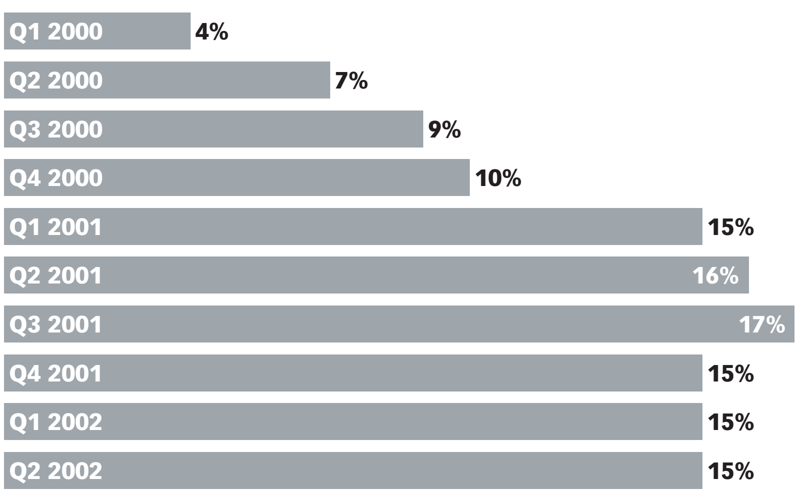
What's most striking about the IAB's figures showing classified's share of the total US online ad spending market is how it divides into two halves. During each quarter of 2000, classifieds made up 10% or less of all spending. However, starting in Q1 2001, classified's share hovered in the 15% to 17% range—third among all online ad formats.

Classified Advertising's Share of US Online Ad Spending, Q1 2000-Q2 2002 (as a % of total)



Note: total for 2000=$602.2 million, for 2001=$1,145.6 million
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), 2000-2002

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For Jupiter, online classifieds occupy a larger share of the US online advertising universe. Currently in the 20%-plus range, Jupiter projects a peak next year at 23.2%. In the four years following, it expects classifieds to drop in market share to 16.7% by 2007.

However, since that share will still represent a strong increase in absolute dollars over the seven years shown, Jupiter's prediction is mainly indicative of its view that the entire online ad market will grow even faster than classifieds.

Online Classified Ad Spending in the US, 2001-2007 (as a % of total online ad spending)

Source: Jupiter Research, October 2002

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By narrowing the focus from the entire online classified market to specific categories, Jupiter not only projects spending patterns but also paints a priority list among classifieds. As expected, ads for recruitment (help wanted) make up the majority of the online classified palette, rising from $799 million in 2002 to $1,498 million in 2007, or about 64% of all interactive classifieds.

Online Classified Ad Spending in the US, by Ad Category, 2001-2007 (in millions)

	2001	2002	2003	2004	2005	2006	2007
Recruitment	$683	$799	$923	$1,057	$1,207	$1,354	$1,498
Real estate	$209	$241	$274	$310	$350	$387	$424
Automotive	$97	$115	$135	$157	$182	$206	$231
Personals	$48	$59	$71	$84	$99	$114	$130
For sale	$8	$10	$12	$15	$17	$20	$23
Other	$16	$19	$22	$25	$29	$32	$36
Total	**$1,061**	**$1,242**	**$1,436**	**$1,648**	**$1,884**	**$2,114**	**$2,343**

Note: numbers may not add up to total due to rounding
Source: Jupiter Research, April 2002

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The other top classified types are real estate, which Jupiter expects to drop from 19.4% in 2002 to 18.1% in 2007 (perhaps as the US real estate market cools off), and auto sales, which stay pretty steady at 9.3% share in 2002 or 9.9% by 2007.

Online Classified Ad Spending in the US, by Ad Category, 2001-2007 (as a % of total)

	2001	2002	2003	2004	2005	2006	2007
Recruitment	64.4%	64.3%	64.3%	64.1%	64.1%	64.0%	63.9%
Real estate	19.7%	19.4%	19.1%	18.8%	18.6%	18.3%	18.1%
Automotive	9.1%	9.3%	9.4%	9.5%	9.7%	9.7%	9.9%
Personals	4.5%	4.8%	4.9%	5.1%	5.3%	5.4%	5.5%
For sale	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%	1.0%
Other	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Total (in millions)	**$1,061**	**$1,242**	**$1,436**	**$1,648**	**$1,884**	**$2,114**	**$2,343**

Source: Jupiter Research, April 2002; calculated by eMarketer, October 2002

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The growth rates among classified categories are best looked at in comparison to the total market growth rates, the bottom line in the following chart. So, in 2002, with the average spending increase at 17.1%, personal and for-sale ads will surpass that figure, at 22.9% and 25.0%, respectively.

Personal ads will continue to grow at a higher rate than the total classified universe in all six years shown, with real estate growing at a lower rate for the same period.

Online Classified Ad Spending in the US, by Ad Category, 2002-2007 (as a % increase vs. prior year)

	2002	2003	2004	2005	2006	2007
Recruitment	17.0%	15.5%	14.5%	14.2%	12.2%	10.6%
Real estate	15.3%	13.7%	13.1%	12.9%	10.6%	9.6%
Automotive	18.6%	17.4%	16.3%	15.9%	13.2%	12.1%
Personals	22.9%	20.3%	18.3%	17.9%	15.2%	14.0%
For sale	25.0%	20.0%	25.0%	13.3%	17.6%	15.0%
Other	18.8%	15.8%	13.6%	16.0%	10.3%	12.5%
Total	**17.1%**	**15.6%**	**14.8%**	**14.3%**	**12.2%**	**10.8%**

Source: Jupiter Research, April 2002; calculated by eMarketer, October 2002

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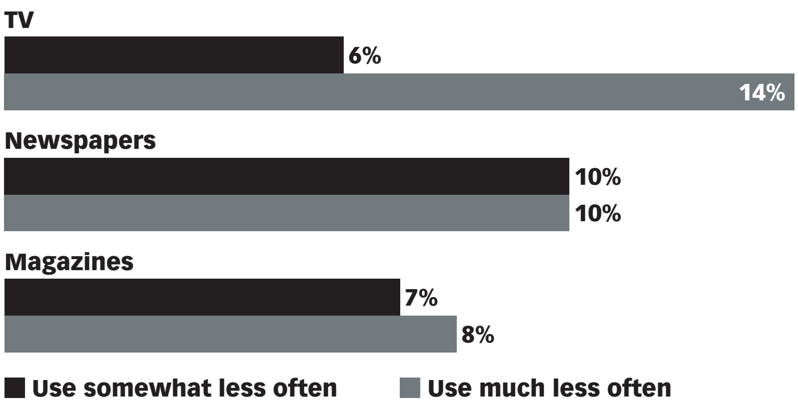
Online Classified Trends

Reduced newspaper use offline combined with online classified competition continues to hurt some newspapers more than others. In the print world, this habit shift among US consumers affects newspapers more than magazines. Data shown earlier from a GartnerG2 survey indicates that while 20% of respondents read newspapers somewhat or much less often than before, the same reduced use of magazines is true for only 15%.

Change in Use of Traditional Media among US Internet Users, 2002 (as a % of respondents)



Note: n=4,398
Source: GartnerG2, 2002; Center for Media Research, October 2002

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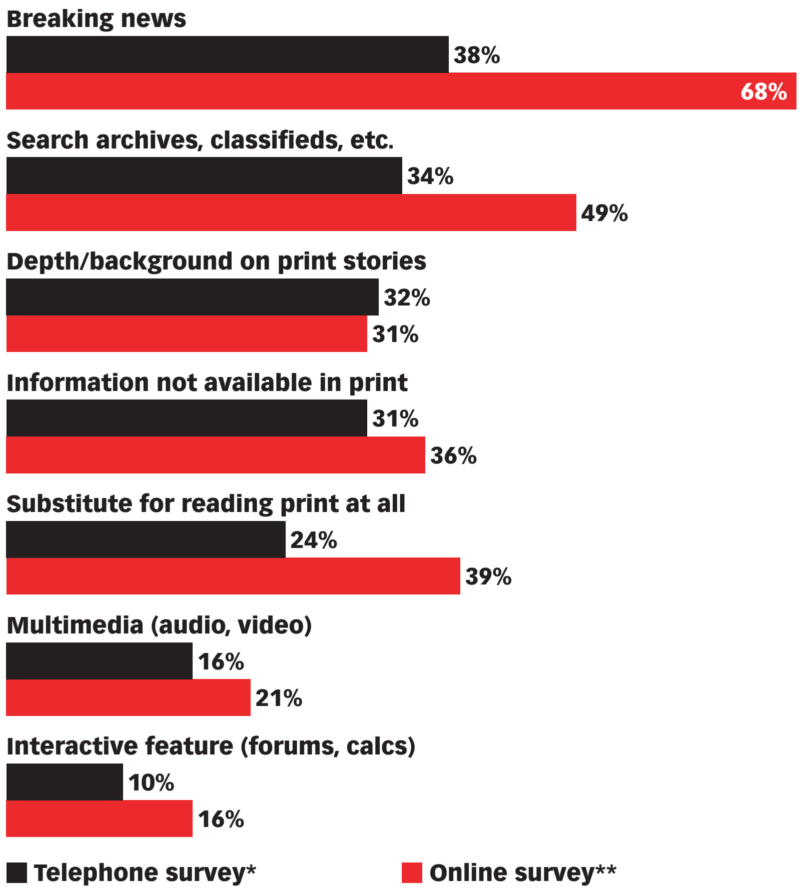
In order to maintain a hold on the classified ad market as it migrates online, newspapers need to find ways to shift their existing audience online and attract internet users who don't normally read newspapers to their websites.

Besides national newspapers such as the *New York Times* and *The Wall Street Journal*, which have two of the most popular content-based sites on the web, it's the local newspaper market that works best for classified ads both online and offline.

With the focus on internet users alone, the Newspaper Association of America found that the second-most popular reason people read a newspaper's web version is to search for classified ads (along with the paper's archives).

Reasons Why US Internet Users Read the Web Version of Newspaper, 2002 (as a % of respondents)



*Note: *n=809; **n=12,429*
Source: MORI Research commissioned by the Newspaper Association of America, May 2002

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Clearly, then, online classifieds can serve as a profit base for most US local newspaper websites.

C. Rich Media Expansion

Perhaps tracking rich media as a separate online advertising vehicle will go the way of the pure-play internet company: rarely done well and often misleading about underlying value.

"The term 'rich media' may have outlived its usefulness," wrote Bill McCloskey, founder and CEO of Emerging Interest, in the Interactive Advertising Bureau's e-newsletter. "The tools and techniques of rich media are now such an integral part of e-mail, floating ads, in-page ads, wireless, iTV, and every other emerging marketing platform, that trying to isolate it apart from the delivery platform—and the reporting, targeting, and optimization techniques and technologies that surround it—is almost meaningless. It is almost as meaningless as talking about the effectiveness of video and audio in the context of a television commercial."

While it's true that rich media—defined by the IAB as "a method of communication that incorporates animation, sound, video, and/or interactivity"—can be delivered by banner ad, e-mail, interstitial, button. or pop-up, the New York-based trade association and Jupiter Research still track it separately. And while rich media is included in this chapter because the format showed spending gains last year, up 8.6% to $178.72 million in the IAB's research, its importance goes far beyond dollars alone.

"I don't have a body of evidence that broadband ads work better. I think the industry stopped hyping broadband because it seemed that it was becoming hype instead of real progress. The industry maybe overplayed it early and now they are just letting it happen without a lot of talk."

– Nick Nyhan, CEO, DynamicLogic

If traditional companies are going to find a place marketing online, they seem to need a comfort level with elements such as creative. The flat nature of conventional banner ads rarely appeals to marketers used to video and audio elements. When they're small and static, banners appear old hat. Banners still have their place for direct marketing campaigns, for instance, but often fall short when the emotionally laden needs of branding come to the fore.

But the increasing use of rich media is opening online doors to more companies used to marketing television-style. With ads that zoom or float across the screen, full-motion video in separate windows, sound effects, and inviting music, marketers from diverse industries are among the top 10 rich media advertisers for the first quarter of 2002 according to Nielsen//NetRatings.

That group includes telecoms (Nextel and Verizon), financial-service firms (State Farm), CPG giants (Procter & Gamble and Coca Cola), media and marketing companies (Vivendi Universal and Virtumundo), pharmaceutical firms (AstraZeneca), auto manufacturers (General Motors), and even the United States Federal Government.

Top 10 Rich Media Advertisers in the US for Home and Work Users, Q1 2002 (in thousands of impressions)

1. Virtumundo, Inc.	154,335
2. Nextel Communications, Inc.	111,835
3. State Farm Insurance Company	101,060
4. The Procter and Gamble Company	53,358
5. Verizon Communications, Inc.	44,086
6. The Coca Cola Company	40,326
7. General Motors Corporation	26,930
8. AstraZeneca Pharmaceuticals LP	23,663
9. United States Federal Government	21,312
10. Vivendi Universal S.A.	20,561

Source: Nielsen//NetRatings AdRelevance, May 2002

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The "ROI for High-Tech Ads Requires Accurate Targeting" study from Nielsen also shows that the lion's share of these rich media ads (67%) are "highly targeted creatives"—or ads aimed at specific customer demographics, such as women of a certain income or age bracket. However, only 7% are diversified, meaning not targeted by any demographic. In contrast, only 30% of all online ads, whether rich media or not, are highly targeted, while 49% are diversified.

"But now, with rich media, [big companies] are finding more of a kinship with the traditional ads they're used to."

– Charles Buchwalter, vice president of client analytics, Nielsen//NetRatings

The data is based on Eyeblaster ads, a type of Flash-enabled rich media interstitial that floats over web pages, for March 2002.

Targeting Focus of Eyeblaster and All Online Ads in the US among At-Home and At-Work Users, March 2002

	Highly targeted (1)	Targeted (2)	Diversified (3)
Targeting focus of Eyeblaster ads	67%	26%	7%
Targeting focus of all online ads	30%	21%	49%

Note: (1) Ads that show a bias across multiple demographic categories
(2) Ads that show a bias in one demographic category
(3) Ads show little bias in any demographic category
Source: Nielsen//NetRatings AdRelevance, May 2002

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According to Nielsen//NetRatings, advertisers who employ rich media ads may spend more per ad, but because of the high level of targeting, they need fewer ads to reach their intended results. "[These] advertisers pay more money to target very specific demographics with an extremely large creative canvas, as opposed to bombing the web with tiny branding banners and buttons."

Along with targeting, rich media ingredients tend to make online ads more effective. DoubleClick's June 2002 release of its "Ad Serving Trend Report" revealed significant variations between click-through rates of rich media ads, at 2.4%, and conventional online ads, six times less at 0.4%. These results were based on an average of 400 million rich media ads DoubleClick serves daily, out of 2 billion total.

Click-Through Rates of Rich Media Ads vs. Static Online Ads Served Worldwide by DoubleClick's DART System, January 2002-May 2002

Source: DoubleClick, June 2002

While the higher click-throughs for rich media signal its greater effectiveness over static ads, keep in mind that CTRs offer limited benefit as an online yardstick. For instance, they fail to measure rich media strengths such as branding impact. Take some Dynamic Logic research released this past June. The company's report, based on more than 300,000 consumers surveyed, found that rich media lifts message association by 44%, compared with a 21% lift from static web ads. As reported by MediaPost, "The rich media used in the study included Unicast Superstitials and a variety of DHTML formats, such as Eyeblaster, Shoshkeles, Eyewonder, and Klipmart."

However, as discussed in Chapter III, "Issues & Barriers," this excess of rich media ad formats threatens to stall the uptake in dynamic online advertising—too many formats makes the purchase harder for advertisers and agencies accustomed to simpler media such as TV and radio.

To forestall that problem, Unicast—the largest rich media advertising firm—recently proposed rich media standards. Certain other companies, such as Unicast competitors like Eyeblaster, and some industry experts think only standards from unbiased sources, not from a single company, make sense. Furthermore, some even think that it's premature to reduce rich media choices by adhering to standard formats.

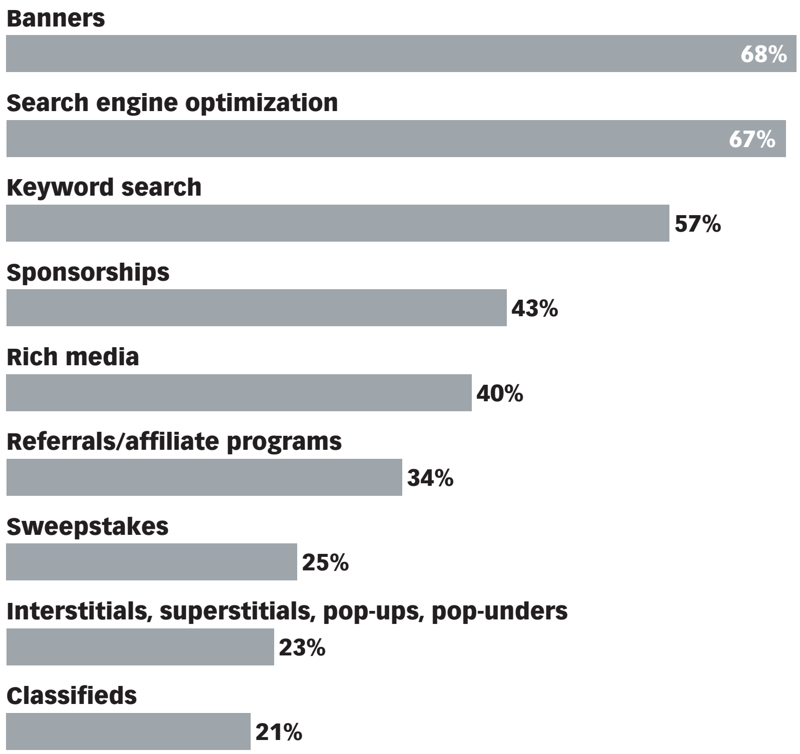
"We're in a key moment now. There's a de facto standard [for rich media] coming out."
– Gary Stein, research analyst, Jupiter Research

Here's how MediaPost's editor, Masha Geller, outlined the pros and cons: "On one hand, standardizing rich media formats could definitely make it easier for publishers and advertisers to deal with rich media—less time wasted on configuring websites to accept rich media ads, negotiating licensing fees, producing different creatives for different sites, etc. On the other hand, as Zachary Rodgers [associate editor of TurboAds.com] so eloquently put it, at a time when the web's biggest publishing players are finally beginning to embrace the full array of rich media technologies available, 'is it time to reduce the palette to a few standardized formats?'"

And some high-placed people in the internet world think that rich media ads are a poor choice in most cases, standards or not. At October's IAB/Jupiter Research Advertising Forum, Eric Schmidt, Google's chairman and CEO, urged online advertisers to "stop scaring users" with intrusive ads that hinder the user experience. As reported in MediaPost, "He particularly cautioned against rich media as a slower-loading format undesirable for the fast-paced internet user." In this context, it's worth noting that one common type of format sold on Google is an all-text ad.

Considering rich media's value, both now and in the near future, it's hard to imagine many interactive marketers taking Schmidt's advice. Consider too that among all online advertising vehicles today, 40% of US marketers use rich media, according to June 2002 data from DoubleClick.

Online Advertising Vehicles Used by US Marketers, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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And also consider this bit of data from Arbitron/Edison Media: on average, streaming media users will spend $219 more each year online. Simply, then, who is the better target, and how better to target them?

Amount Spent Online by Streaming Media Users vs. Average Internet Users in the US, July 2002 (per year)

Source: Arbitron/Edison Media Research, September 2002

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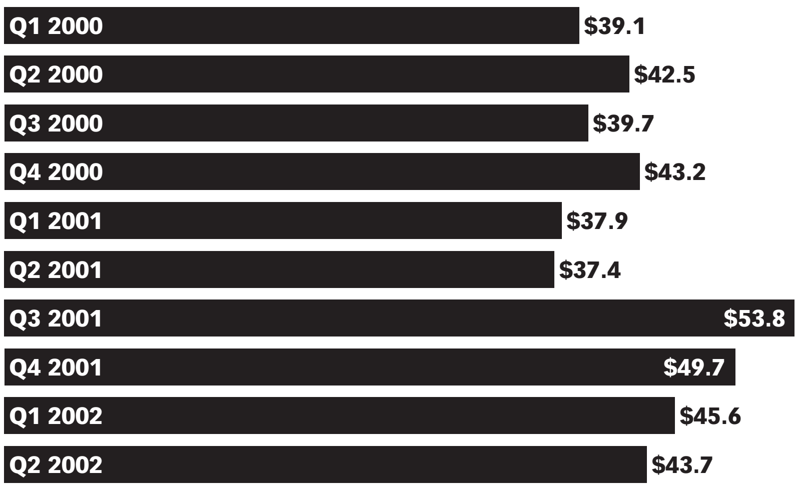
Rich Media Spending

The difficulty in quantifying rich media ad spending separately from related vehicles such as banners and e-mail doesn't seem to deter researchers such as the Interactive Advertising Bureau/PricewaterhouseCoopers team or Jupiter Research.

A look at the quarterly flow from the IAB/PwC shows the largest spending in the last two quarters of 2001. The total calculated for that year is $178.7 million.

Online Rich Media Ad Spending in the US, by Quarter, Q1 2000-Q2 2002 (in millions)



Note: total for 2000=$164.5; total for 2001=$178.7
Source: Interactive Advertising Bureau/PricewaterhouseCoopers (PwC), October 2002

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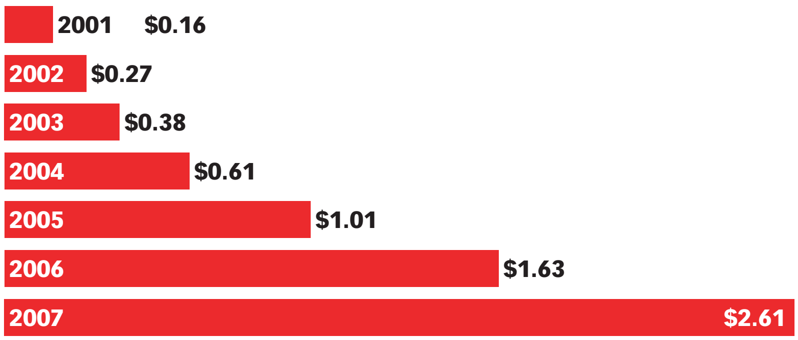
Jupiter's estimate falls in line, at $160 million in 2001. With projections for succeeding years, the company's research points to increasing use of rich media in online ads, reaching over $1 billion in 2005 and leaping to $2.61 billion by 2007.

Online Rich Media Ad Spending in the US, 2001-2007 (in billions)



Source: Jupiter Research, October 2002

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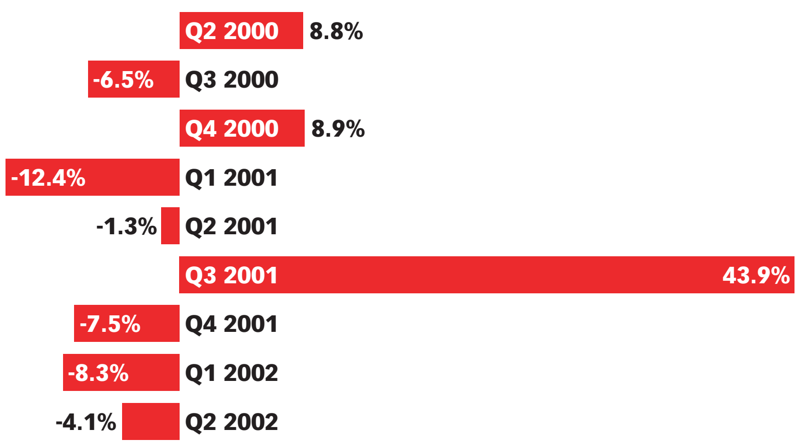
From the IAB's perspective, the annual growth rate from 2000 to 2001 was 8.6%. But viewed quarter by quarter, a scattered trend line appears: up one quarter, down the next, up again, down again, a huge 43.9% leap in Q3 2001, then down again since that period.

Online Rich Media Ad Spending in the US, by Quarter, Q2 2000-Q2 2002 (as a % increase/decrease vs. prior quarter)



Note: annual increase of 8.6% from 2000 to 2001
Source: Interactive Advertising Bureau/PricewaterhouseCoopers (PwC), October 2002

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When viewing the trend on a yearly basis, Jupiter is anything but scattered. According to the researcher, rich media ad spending will simply rise regularly and by strong percentages this year and the five years following.

Online Rich Media Ad Spending in the US, 2002-2007 (as a % increase vs. prior year)

Source: Jupiter Research, October 2002

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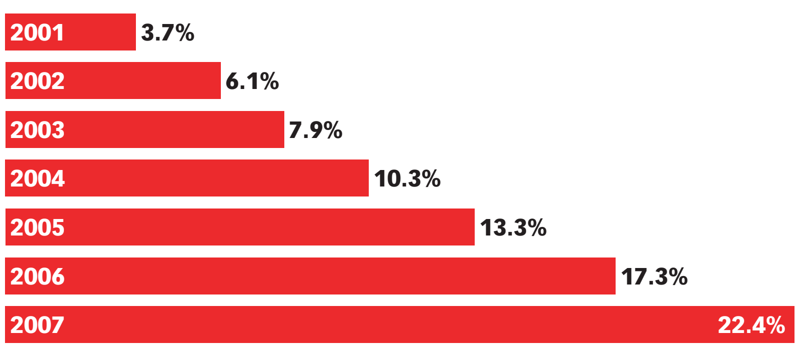
While rich media ads have a small 6.1% share in 2002, according to Jupiter, that slice will leap to 22.4% in 2007. By then, with the significant penetration of broadband in US homes, rich media ads will be common across virtually all types of websites.

Rich Media Ad Spending in the US, 2001-2007 (as a % of total online ad spending)



Source: Jupiter Research, October 2002

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And in a subset of rich media ad spending, Jupiter projects a significant portion of marketing e-mails to have embedded rich media, reaching 25% by 2007.

Rich Media E-Mail Spending in the US, 2005 & 2007 (as a % of e-mail marketing spending)

Source: Jupiter Research, September 2002

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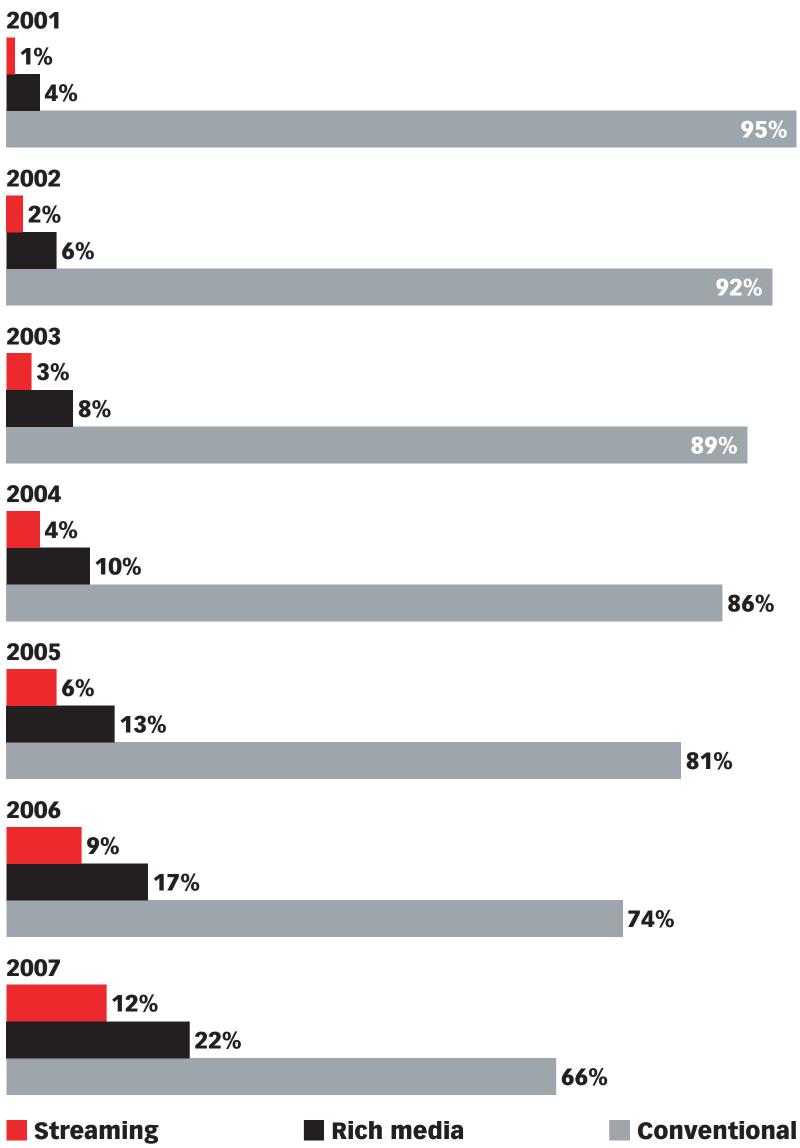
Broadband makes for more effective rich media ads, and broadband access is growing rapidly. For more about the subject, see eMarketer's Broadband & Dial-Up Access report at: http://www.emarketer.com/products/report.php?broad_dialup

Methodology
Marketing Online or Offline: It's All Part of the Mix
Interactive Marketing: Where's the Money Going?
Issues & Barriers
Total Media & Offline Ad Spending
Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
Index of Charts

Rich Media Trends

Not surprisingly, as rich media's share of the spending pie grows, conventional ads' share will shrink, according to Jupiter Research. But in addition, streaming media—such as internet radio, which some consider a form of rich media—will also grow, moving up from a 1% share in 2001 to 12% in 2007.

US Online Advertising Spending, by Content Type, 2001-2007 (as a % of total online ad spending)



Source: Jupiter Research, October 2002

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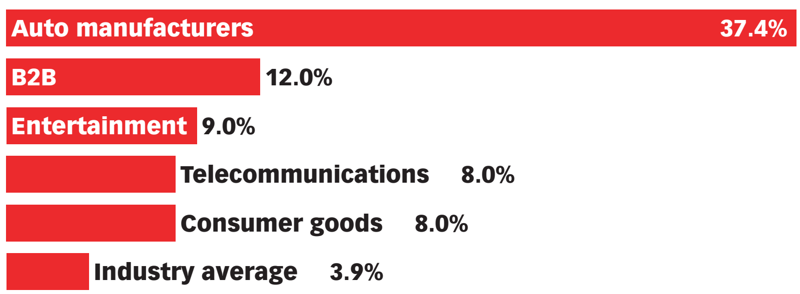
According to Jupiter, rich media is attractive to publishers because they generally charge higher prices for it. Rich media ads, with CPMs ranging from $30 to $40, cost significantly more than banners, at $1 to $4.

And for marketers, well-targeted rich media will increase their advertising's effectiveness. "But for this move to rich media to continue," writes the Internet Advertising Report, Jupiter analysts say that "the industry needs to avoid a messy standards fight that could confuse buyers."

Those buyers partial to rich media advertising during the second quarter of 2002 are exceptionally common among auto manufacturers, who garnered 37.4% of their ad impressions that quarter from rich media. This skew by Detroit points to the connection between rich media and branding goals.

Top US Industries Using Rich Media Advertising, Q2 2002 (as a % of each industry's total online ad impressions)



Note: Rich media ad formats include generic flash, java-enabled ads and branded technologies such as Eyeblaster, Shoshkele, Unicast, Enliven and Bluestreak
Source: Nielsen//NetRatings AdRelevance, August 2002

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Nielsen//NetRatings believes that the move to rich media ads among large advertisers accustomed to traditional media is a natural next step. "Advertisers seem to prefer ads that pop up and flash swirly, interactive effects," Charles Buchwalter, vice president of client analytics at Nielsen//NetRatings, told *Investor's Business Daily*. "As a visual experience, the latest internet ads look more like traditional TV commercials. Big companies know TV ads work, so they're more willing to shell out for next-generation online ads... now, with rich media, they're finding more of a kinship with the traditional ads they're used to."

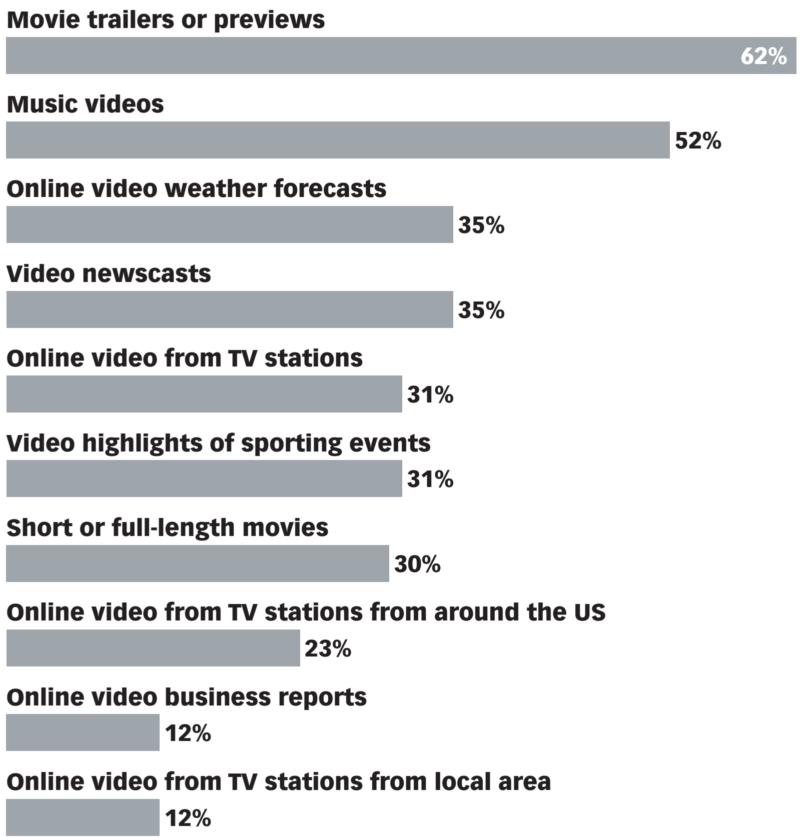
Being an industry that sells moving pictures and sound—the very ingredients of rich media—it makes perfect sense that entertainment companies are also looking to weave rich media into their online marketing campaigns. According to GartnerG2, movie studios bought 26.4 million banner ad impressions in January 2002, up from 9.4 million the previous September. More important, online distribution of movie trailers through websites specific to each release is becoming an important marketing tool.

"Studios are using these sites as marketing vehicles to hype a film if people are curious, and then to draw them in and engage them further," according to Nielsen//NetRatings.

"The [movie] studios are able to deliver a rich media experience at a lower cost [than on television]. That's the main reason you're seeing more of them going online."
– Denise Garcia, director of research, GartnerG2

In fact, research from Arbitron/Edison shows that more than any other type of streaming media content, movie trailers are the most popular, according to 62% of respondents.

Top 10 Content Types among Streaming Media Users in the US, July 2002 (as a % of respondents)



Source: Arbitron/Edison Media Research, September 2002

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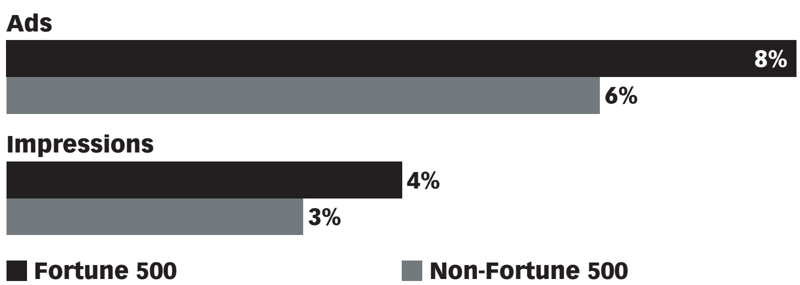
"While traditional banner ads still form the basis of most ad campaigns, studios are taking fuller advantage of rich media and interstitial ads," writes MediaPost, noting that the advertising thrust online is starting to match the entertainment industry's essential nature, as rich media applications "are becoming more popular as methods of delivering a TV-like experience."

As a whole, traditional companies—as represented by the Fortune 500—are more likely to place rich media ads than smaller or newer companies. According to a Nielsen//NetRatings AdRelevance report titled "The Changing Media Landscape: Online Advertising's Teenage Years," while rich media ads make up 8% of Fortune 500 companies' online endeavors, that's true for 6% of non-Fortune 500 firms.

Rich Media Ads and Impressions among Fortune 500 and Non-Fortune 500 Companies, 2002 (as a % of total online ads and impressions)



Source: Nielsen//NetRatings AdRelevance, July 2002

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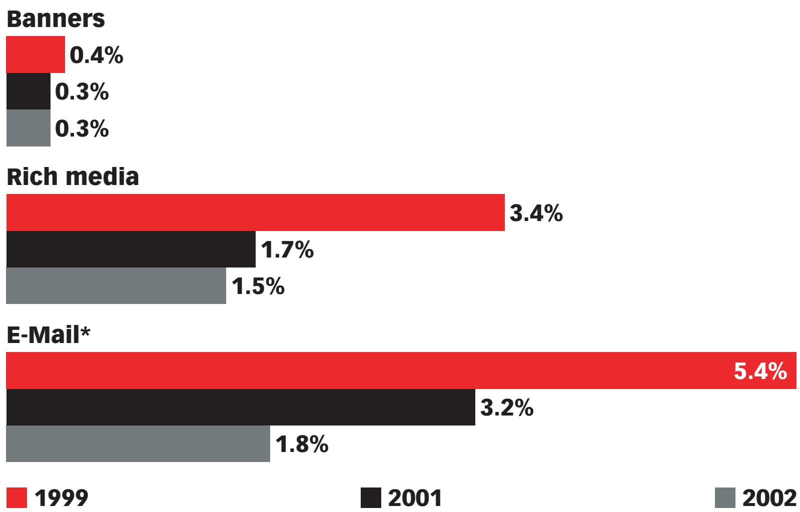
That the move toward rich media is being spearheaded by traditional companies—which typically focus on branding rather than direct response—makes sense when you consider click-through rates, basically a direct response metric. Just as with banners and e-mail, CTRs for rich media ads are falling. When rich media was still novel, back in 1999, 3.4% of all users clicked on these ads, according to eMarketer. Over the past two years, however, the rate has declined to the 1.5% range.

While that's a useful response rate for some types of direct response marketing, it's not meaningful for branding purposes, which has different objectives.

US Click-Through Rates, by Online Marketing Format, 1999-2002



*Note: *e-mail click-through rates include both opt-in and opt-out e-mails*
Source: eMarketer, October 2002

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Return again to DoubleClick's rich media CTR, at 2.4% substantially higher than eMarketer's figure. However, those click-throughs are based solely on ads served up by DoubleClick's DART system, in contrast to eMarketer's figures, which reflect the internet as a whole.

Click-Through Rates of Rich Media Ads vs. Static Online Ads Served Worldwide by DoubleClick's DART System, January 2002-May 2002

Source: DoubleClick, June 2002

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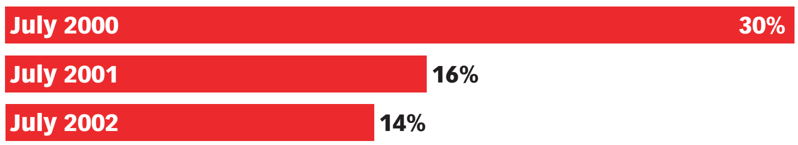
Related to CTRs are the three charts below from Arbitron/Edison, which detail percentages of internet users who have clicked on various types of ad.

For banner ads in general, the share of US online consumers who have clicked on a banner ad has dropped by more than half since July 2000, when 30% admitted to ad clicking. By July of this year, that figure stood at 14%.

Clearly, the trend points to fewer clicks. Note, though, how that 14% figure might represent only a single click in a month per person, whereas in that same group of online users, each person may have received hundreds, if not thousands, of ad impressions during that same month.

Percent of US Online Consumers Who Have Clicked on a Banner Ad in the Past Month, July 2000-July 2002



Source: Arbitron/Edison Media Research, September 2002

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When the time span for clicking opens from a single month to "ever clicked," users of streaming media are even more likely to click on website advertising than the average internet user, with an 11-point differential here.

Percent of Internet Users vs. Streaming Media Users that Have Ever Clicked on Website Advertising in the US, July 2002

Source: Arbitron/Edison Media Research, September 2002

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Streaming media users appear to be more open to online advertising, and rich media in particular, according to Arbitron data. While 58% of streaming audio users believe that viewing banner ads is a fair price to pay for free website content, the fair-price contingent increases to 70% when the ads are audio commercials on audio websites.

Percent of US Streaming Audio Users Who Believe that Online Audio Commercials are a Better Trade for Free Content than Banner Ads, July 2002

Source: Arbitron/Edison Media Research, September 2002

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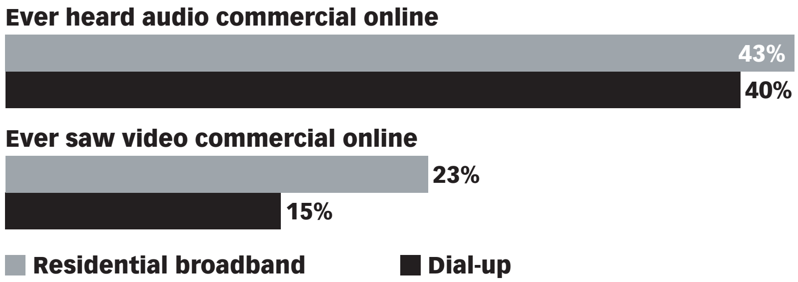
As expected, broadband's higher speed makes it more likely that at home internet users have heard or seen specific types of rich media ads. For example, while 23% of residential broadband users have seen online video commercials, the same holds for only 15% of dial-up users.

Percent of Residential Broadband Subscribers vs. Dial-Up Subscribers Who Have Ever Heard Audio or Seen Video Commericals Online in the US, July 2002



Source: Arbitron/Edison Media Research, September 2002

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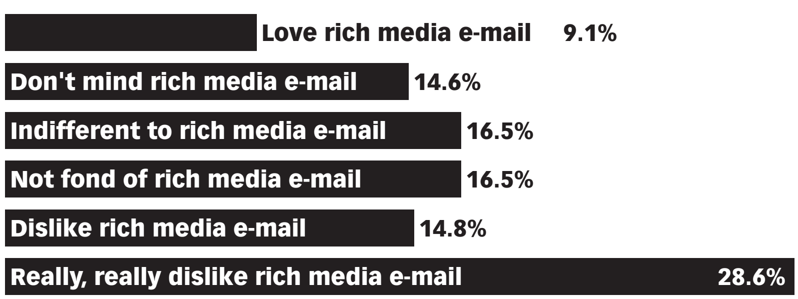
However, as much as US internet users might like rich media, they're picky about where they receive it—on the web as streaming media, say, or a rich media ad on a content site, or via e-mail. According to a study from GotMarketing—a San Jose, CA-based e-mail marketing company—and EZine-Tips, while 9.1% of US internet users love rich media e-mail, 43.4% either dislike or highly dislike rich media e-mail.

US Internet Users Attitudes toward Rich Media Marketing E-Mail, 2002 (as a % of respondents)



Note: n=637; multiple responses allowed
Source: GotMarketing, Ezine-Tips.com, September 2002

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For more charts on rich media, and every other marketing topic, see the eMarketer eStat Database at: http://www.emarketer.com/products/database.php

While e-mail is a major element of the internet and is highly connected to the web, people tend to look at it differently than, say, a website. Here, then, are a dozen ways of looking at e-mail marketing.

1. E-mail is the most cost-effective means of marketing electronically.
2. E-mail inventory is both theoretically bottomless and staggeringly cheap.
3. E-mail is the most flexible mechanism in the online marketing toolbox, useful for both branding and direct response goals.
4. E-mail is being threatened by widespread illegitimate marketing, aka spam.
5. E-mail spam's widespread use proves the effectiveness of e-mail marketing.
6. E-mail is so popular that it's becoming unpopular.
7. Everyone gets too much e-mail, so it's an endangered marketing vehicle.
8. With e-mail click-through rates plummeting, it's become a moot marketing tool.
9. Plummeting click-through rates are irrelevant, since the click-through is an outmoded metric.
10. E-mail is the most personal communications mode of the entire internet.
11. E-mail is a bubble that's about to burst.
12. Since this past July, more new data on e-mail marketing has been entered into the eMarketer eStat Database than for any other single interactive marketing vehicle.

That twelfth way of looking at e-mail reflects its central position for marketers. While the dollars spent on e-mail marketing are relatively small, that's only because the dollars required for e-mail marketing are so few. While some companies focus their interactive marketing efforts solely or mainly on e-mail, nearly every company uses e-mail for some aspect of its broader marketing goals. While some marketers believe the elements of good e-mail marketing are self-evident, other marketers are willing to try annoying potential customers in order to make a sale.

And so researchers continue to come up with new data, new studies, new surveys, and new ways of looking at the e-mail marketing universe.

The E-Mail Universe

According to a September 2002 Jupiter Research report entitled "Marketing & Branding Forecast: Online Advertising & E-Mail Marketing Through 2007," the number of US e-mail users will escalate from 104.5 million in 2001 to 165.4 million in 2007, or an astounding 58% gain in what appears already as a saturated market. (Do you know many people who don't use e-mail?)

US E-Mail Users, 2001 & 2007 (in millions)

Source: Jupiter Research, September 2002

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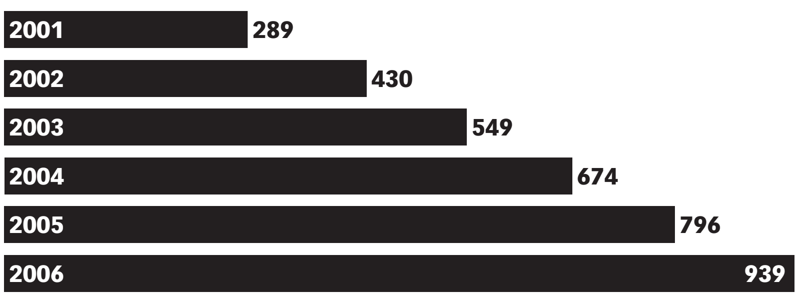
That Jupiter user projection reflects e-mail's ubiquity for online marketers. With the number of marketing e-mails in the US currently at 430 billion, according to Forrester Research's report titled "Effective E-Mail Marketing," that means companies send an average of 1.18 billion every day.

By 2006, Forrester expects marketing e-mail volume to reach 939 billion, or an average of 2.57 billion e-mails daily.

Number of Marketing E-Mails Sent in the US, 2001-2006 (in billions)



Source: Forrester Research, August 2001

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Methodology
Marketing Online or Offline: It's All Part of the Mix
Interactive Marketing: Where's the Money Going?
Issues & Barriers
Total Media & Offline Ad Spending
Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
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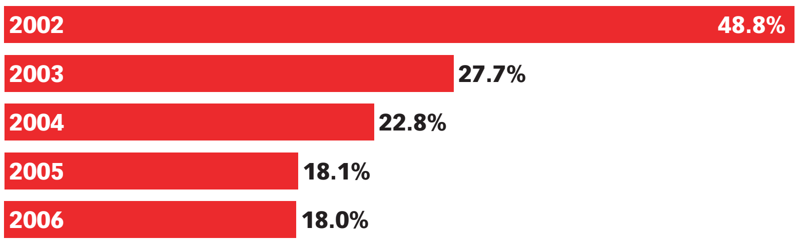
When the same Forrester estimates are expressed as growth rates, the largest jump in marketing e-mails will occur this year, at 48.8%. But growth will remain double-digit, and the total gain from 2001 to 2006 is nearly 225%.

Number of Marketing E-Mails Sent in the US, 2002-2006 (as a % increase vs. prior year)



Source: Forrester Research, August 2001

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Whether the e-mails come from companies, colleagues, or close friends, there's little question about its proliferation. According to a recent IDC report, "Worldwide E-Mail Usage Forecast, 2002-2006," the total number of e-mail messages sent daily is expected to exceed 60 billion worldwide in 2006, up from 31 billion in 2002. Slightly more than half of the 2006 count will be person-to-person e-mails; therefore, the other half of the e-mail flood will consist of automated mailings, such as stock price alerts, or marketing messages.

> **"Like water flowing out of a hose, e-mail has the potential to fill our inboxes and workdays, overwhelming our abilities to navigate through the growing currents of content."**
> *– Mark Levitt, vice president, IDC*

"Since such automated and sales-related communications now only make up about 33% of e-mail volume," according to Internet Advertising Report, that signifies business-related e-mail will increase radically over the five-year period.

Number of E-Mail Messages Sent Daily Worldwide, 2002 & 2006 (in billions)

Note: includes person-to-person, spam and e-mail alerts and notifications
Source: International Data Corporation (IDC), September 2002

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Opt-In vs. Opt-Out

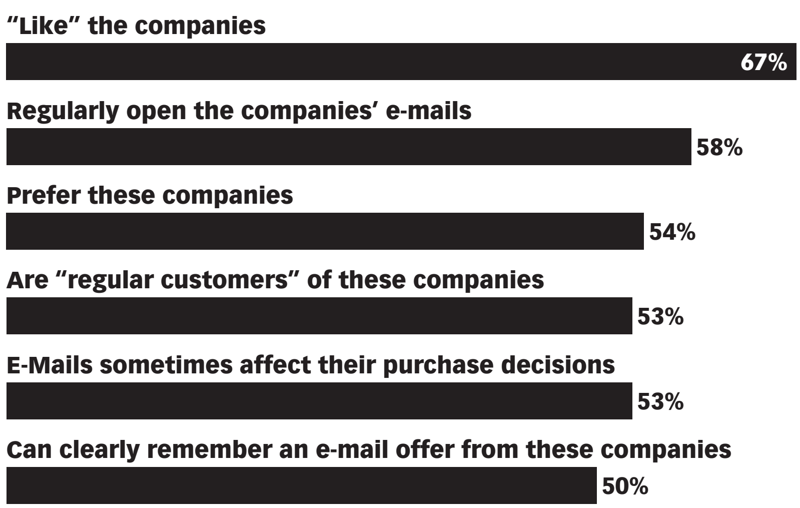
How US internet users perceive this tidal wave of marketing e-mails depends highly on where the marketer stands on the permission axis: opt-in or opt-out. According to John Funk—the CEO of Quris, a Denver-based e-mail agency—e-mail marketing today stands at a balance point on that axis. "Overall, permission e-mail marketing is in a transitional phase, where some companies are finally starting to get what e-mail can do, whereas most companies are stuck in an outdated 'batch and blast' metaphor," as he told avant|marketer.

"E-mail relationships are incredibly fragile. It takes a long time to build credibility, and once you've turned someone off, it's really hard to re-engage them."

– John Funk, CEO, Quris

Specific research from Quris indicates that 67% of US consumers tend to "like" companies that execute e-mail well. In this context, "well" means only sending e-mails to customers who have expressly given the company permission to send them marketing e-mails, but also sending those e-mails too often, among other factors.

US Consumers' Opinions Regarding Companies That Execute E-Mail Well, February 2002 (as a % of respondents)



Note: n=1,256 US e-mail users were asked to think of companies that "did permission e-mail well"
Source: Quris/Executive Summary Consulting, October 2002

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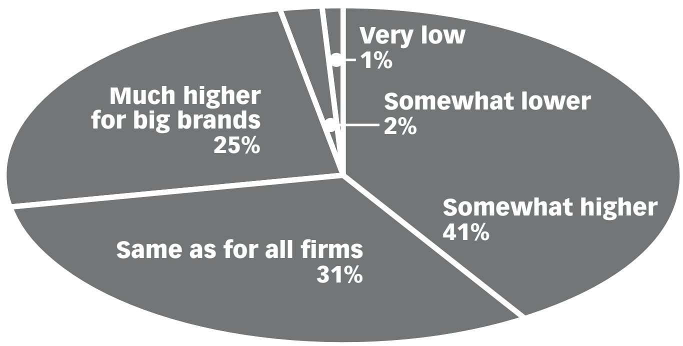
At the same time that US consumers appear favorably disposed toward companies that are skillful and respectful with their e-mail marketing, those consumers also tend to expect a lot from those companies—especially from well-known brands. Quris found that 66% of consumers hold familiar brands to somewhat higher or much higher standards when receiving their permission-based e-mail.

US Consumers' Expectations of Permission E-Mail from Well-Known Brands, February 2002 (as a % of respondents)



Note: n=1,256 US e-mail users
Source: Quris/Executive Summary Consulting, October 2002

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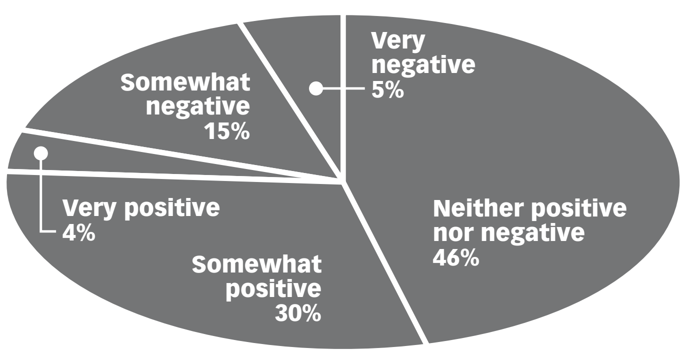
Another recent survey, this done by Harris Interactive for Digital Impact—a San Mateo, CA-based direct marketing firm—found that even when the e-mail marketing is legitimate (permission-based, not spam), a near majority of 46% of US internet users feel neutral about the topic. However, while 20% of respondents feel somewhat or very negative even about legitimate marketing e-mails, 34% feel somewhat or very positive.

US Internet Users' Impressions of Legitimate E-Mail Marketing, 2002 (as a % of respondents)



Note: n=2,837
Source: Harris Interactive for Digital Impact, September 2002

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According to Harte-Hanks, a San Antonio, TX-based marketing company, the top nine best practices for e-mail marketing include offering the customer a clear opt-out process and crafting the content specially for the recipients.

Top Nine High Perfomance E-Mail Best Practices, 2002

1. Integrating telemarketing and direct mail
2. Segmentation: content crafted specifically for recipients
3. Straightforward subject line
4. Clarity of message, offer and response
5. Sender should be a person, not a company
6. E-Mail messages must have a clear opt-out process
7. Response device should be more compelling than a simple link to a homepage
8. Properly targeted, brief, plain text e-mails
9. Low saturation points

Source: Harte-Hanks, August 2002

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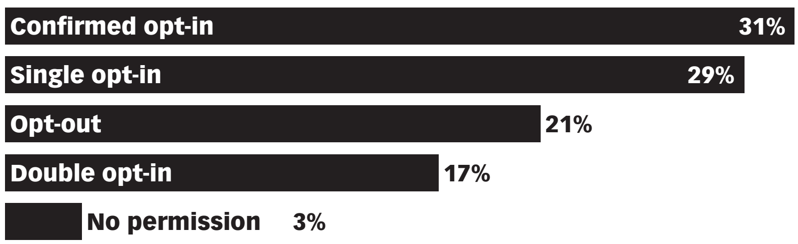
When pulling together a company e-mail list, some techniques work better than others. As Jean-Paul Hepp, director of global privacy for Pharmacia, told MarketingSherpa, e-mail marketing programs must "go beyond just meeting legal standards in order to proactively grow consumer trust." Hepp suggests marketers use one of three possible best practices in gathering e-mail addresses:

1. **Single opt-in.** A company should not pre-check an e-mail opt-in box on its website. If a box is pre-checked, it should say "no, I don't want your service." Otherwise, give customers a choice in whether or not to be added to a company list.
2. **Confirmed opt-in.** When a customer registers for e-mail, a company's e-mail list server automatically sends a single message to the new opt-in's e-mail address to confirm the address is valid. A customer has the chance to unsubscribe at that time, but is not required to do anything to stay on the list. Hepp adds that if a company buys e-mail addresses through co-registration deals, it should insist on only paying for names that pass this test.
3. **Double opt-in.** Here, a customer must take two positive steps to be added to a company list. First the opt-in, then a response to an e-mail sent by the company to the newly registered address, to prove the desire to stay on the list permanently. This practice is critical for any lists regarding highly sensitive or personal information, or for intended for rental. It's also the best way to create a list that's as fully permission-based as possible.

Surprisingly, even though the double opt-in technique respects consumer privacy more than any other method, only 17% of US consumers cited it as the desired e-mail marketing permission level. According to the "E-Mail Habits and Practices Study" from NFO WorldGroup, Return Path, and the Global Name Registry, even opt-out at 21% is more desired—even though opt-out is the opposite of true permission-based marketing.

This skew in the results makes you wonder if all the consumers polled in this survey truly understood the differences among opt-out and the three different flavors of opt-in.

E-Mail Marketing Permission Level Desired by US Consumers, August 2002 (as a % of respondents)



Note: n=1,015; total does not equal 100% due to rounding
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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In the best of all possible worlds, e-mail marketers would limit their list-acquisition methods to Hepp's three best practices. However, the confluence of the rising e-mail flood, even from legitimate practitioners, the sharp increase in unsolicited commercial e-mails (that is, spam), and the consumer intolerance for unwanted e-mails, whether spam or not, is creating a situation that threatens all of e-mail marketing. *Media* magazine writes, "Will a once-promising marketing vehicle become new media's first 'suicide app,' a platform that got so thoroughly abused so quickly, even by its legitimate practitioners, that it lost all of its effectiveness?"

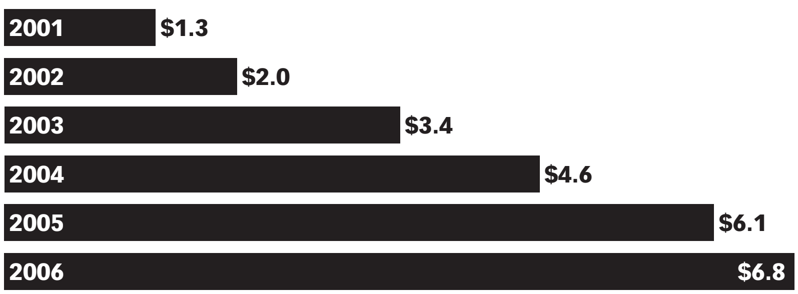
A. E-Mail Spend & Trend

As with any marketing effort, the keystone for e-mail requires defining goals between the two main streams: direct response and branding. What purpose does e-mail serve in your company's interactive marketing toolbox?

E-Mail Spending

The same Forrester survey cited above—projecting a 225% increase in the number of marketing e-mails in the US from 289 billion in 2001 to 939 billion in 2006—also points to an even stronger gain in e-mail marketing spending. The $6.8 billion estimate for 2006 translates into a 423% gain for the six years shown.

US E-Mail Marketing Services Spending, 2001-2006 (in billions)



Source: Forrester Research, August 2001

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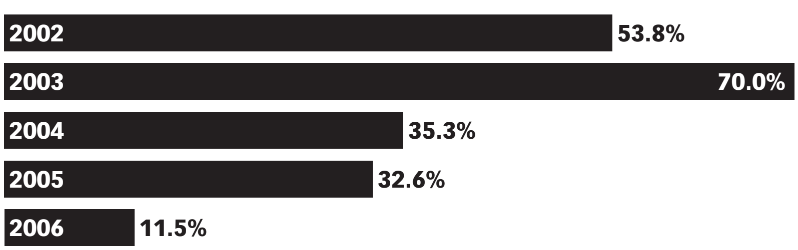
Looking at annual growth rates points to greater dollar increases than in numbers of e-mails (as shown above). For example, in 2003 spending will increase by 70.0% while the number of e-mails will increase by 27.7%, according to Forrester. The sharper uptick in spending over quantity reflects increased use of e-mail newsletters and of elements like rich media, both of which are more expensive to create than pure sales-oriented, or plain HTML, posts.

US E-Mail Marketing Services Spending, 2002-2006 (as a % increase vs. prior year)



Source: Forrester Research, August 2001

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Methodology
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Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
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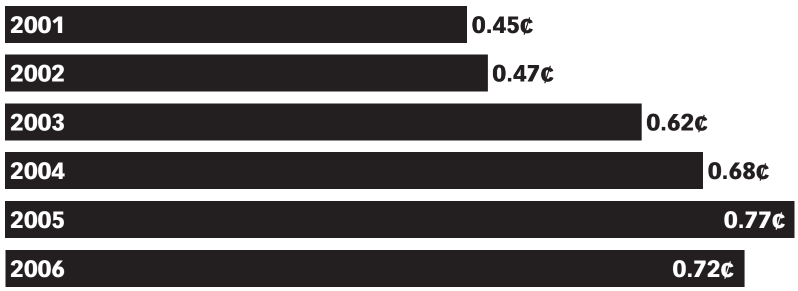
Take Forrester's numbers for 2002: 430 billion marketing e-mails sent in the US at a cost of $2.0 billion. Then calculate the average cost a single e-mail—less than a half-cent per post. Even as the more costly newsletter and rich media e-mails increase, the unit cost is projected to remain under a penny per, reaching 0.72¢ by 2006.

Average Cost per Marketing E-Mail Sent in the US, 2001-2006 (in cents)



Source: Forrester Research, August 2001; extrapolated by eMarketer, June 2002

In its cost comparison below, GartnerG2 concurs with the Forrester numbers for unit costs, pegging e-mail at 0.50¢ to 0.70¢ per post (or $5 to $7 per thousand). Notably, costs for direct (paper) mail run 100 times more—even at the low end, estimates come in at $0.50 per piece. No wonder marketing e-mails are booming—even if they don't always parallel the direct response intent of traditional direct mail.

Costs for E-Mail vs. Direct Mail in the US, 2002 (per thousand)

E-Mail	$5 to $7
Direct mail	$500 to $700

Source: GartnerG2, March 2002

Estimates from Jupiter Research for e-mail marketing spending come in at $1.4 billion in 2002, lower than Forrester's $2.0 billion. However, by 2007, spending should hit $8.3 billion according to Jupiter; Forrester estimated $6.8 billion for 2006.

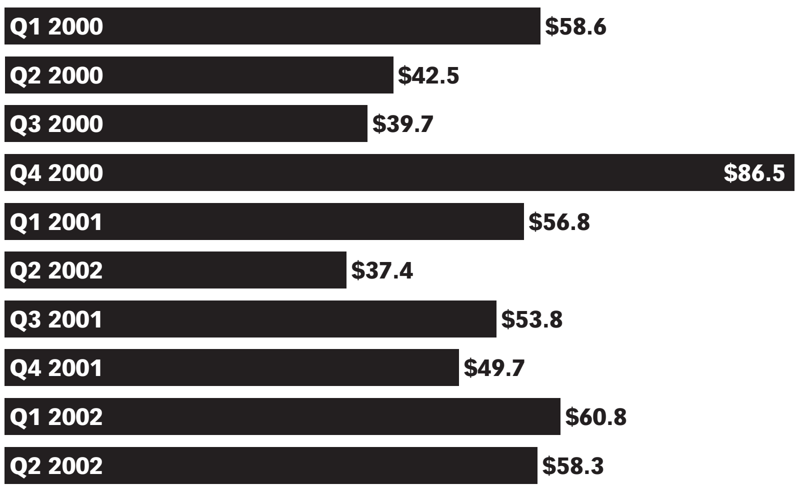
US E-Mail Marketing Campaign Spending, 2002 & 2007 (in billions)

Source: Jupiter Research, September 2002

Of course, advertising is only one component of e-mail marketing. So when you weigh the IAB/PwC e-mail ad spending numbers against e-mail marketing spending projections from either Jupiter or Forrester, you'll discover a wide gap.

In 2001, for instance, as spending for e-mail advertising dropped to $216.6 million (IAB/PwC's research), total e-mail marketing came to $1.3 billion (Forrester's estimate). If you accept both figures together, that makes advertising roughly 17% of the commercial e-mail spending total. The Forrester numbers include all aspects of e-mail marketing, such as the costs of creating and distributing e-mails, outsourcing, list rental and other components of the entire marketing process.

E-Mail Advertising Spending in the US, Q1 2000-Q2 2002 (in millions)



Note: total for 2000=$246.8; total for 2001=$216.6
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), October 2002

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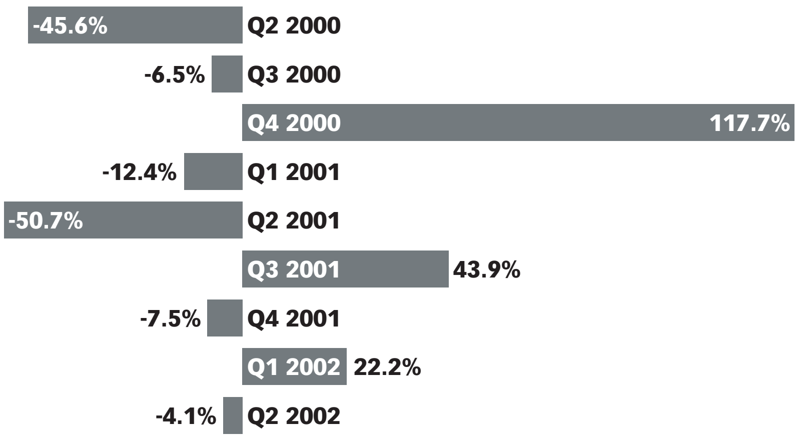
E-mail ad spending has been riding a roller coaster course, down for two quarters then up, down again for two quarters then up again, then down and up and down.

E-Mail Advertising Spending in the US, Q2 2000-Q2 2002 (as a % increase/decrease vs. prior quarter)



Note: total for 2000=$246.8; total for 2001=$216.6
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), October 2002

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Compared to the IAB/PwC statistics, GartnerG2's projections for US e-mail advertising revenue indicate substantially higher figures—a slow but steady rise from $0.9 billion last year to $1.5 billion by 2005. The variance is due to differing definitions of e-mail marketing as well as dissimilar methodologies.

E-Mail Marketing Advertising Revenue in the US, 2001, 2002 & 2005 (in billions)

Source: GartnerG2, January 2002

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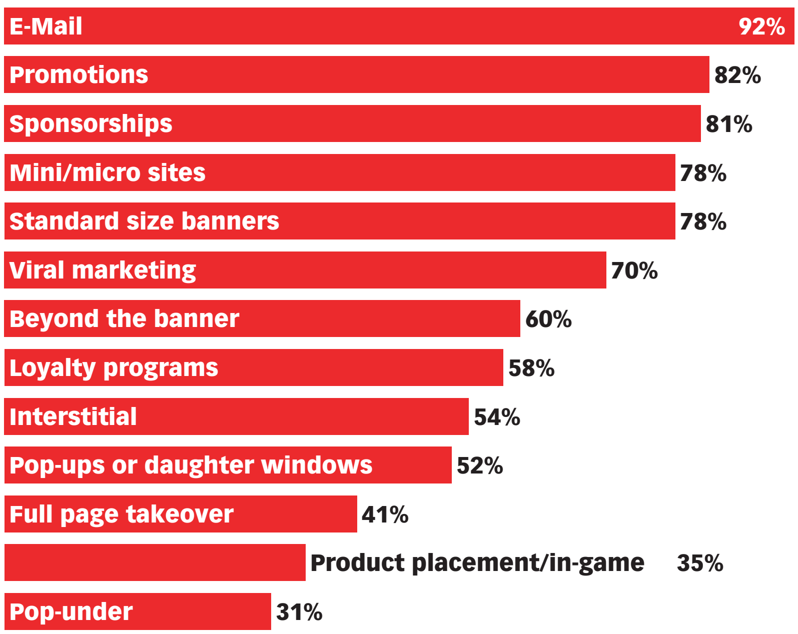
E-Mail Market Trends

More than any other online marketing vehicle, e-mail finds near universal use among US advertising executives, according to a survey by the Myers Group. Contrast the 92% of respondents who plan to use e-mail in the next 12 months with 81% planning to do sponsorships, 78% planning to buy standard banner ads, and 52% planning to place pop-ups.

Ad and Marketing Vehicles US Advertising Executives Plan to Use in the Next 12 Months, August 2002 (as a % of respondents)



Note: n=186
Source: Myers Group, October 2002

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Some say that while e-mail is most certainly part of the direct response mix, its function is not to make a sale per se. "The purpose of e-mail is to serve as a teaser to drive people to the website in order to get them to sign up for a house file list, fill out an information request form, or possibly make a purchase," Rosalind Resnick, founder and former CEO of NetCreations, told avant|marketer. "E-mail by itself is simply a powerful lead generation tool. That's its role."

"The e-mail is simply the envelope. The website is really the letter."

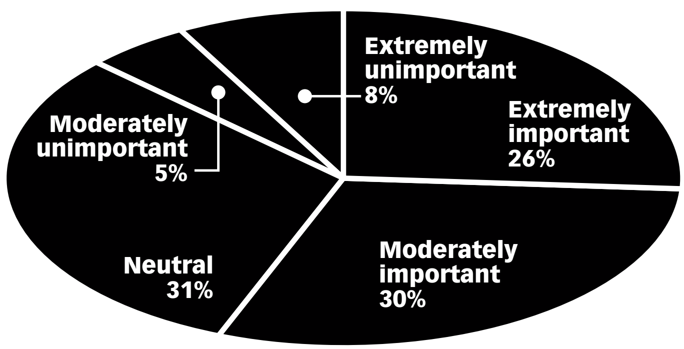
– Rosalind Resnick, co-founder, NetCreations

On the other hand, other industry experts—such as John Funk at Quris—believe e-mail marketing works best as a customer retention and branding tool. As avant|marketer noted in another issue of their e-newsletter, "Funk suggests [that] the future of the medium lies in its strategic exploitation towards these two ends [customer retention and branding]... and we concur."

"E-mail is a channel and a medium that was designed for something other than customer acquisition."
– John Funk, CEO, Quris

A recent Quris survey on the e-mail/branding connection found that 56% of US consumers think permission-based e-mail is either extremely or moderately important in influencing brand perceptions.

US Consumers' Opinions Regarding How Important Permission E-Mail Is in Influencing Brand Perception, February 2002 (as a % of respondents)



Note: n=1,256 US e-mail users
Source: Quris/Executive Summary Consulting, October 2002

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According to "Marketing & Branding Forecast: Online Advertising & E-Mail Marketing Through 2007," a recent Jupiter Research report, "retention campaigns will dominate the volume of non-spam e-mails over the next five years, but marketers will spend more on acquisition e-mails through 2004. The proliferation of newsletters, combined with the overall growth of e-mail marketing, will cause consumers to ignore newsletters and spam messages in greater numbers, thereby reducing the branding and messaging effectiveness of these missives."

Knowing what your customers want and what they're interested in, and then focusing on those desires, is key to e-mail branding attempts. The Digital Impact survey this past September has 73% of US internet users saying that the main reason they want to receive e-mail marketing is to receive information on topics of interest. Note: of interest to internet users, not to your company.

Reasons US Internet Users Choose to Receive Legitimate E-Mail Marketing, 2002 (as a % of respondents)

Note: 86% of 2,837 survey respondents say they request legitimate e-mail marketing; multiple responses allowed
Source: Harris Interactive for Digital Impact, September 2002

Funk points to the potential branding use for transaction confirmations and account status update e-mails. These are forms of e-mail communication most welcomed by consumers and widely underutilized by e-mail marketers. "The customer service e-mails and the account status e-mails are highly linked to consumers lives, and deliver information that is highly personalized, and which has a certain urgency to it," he says.

"Companies should look for areas where they can pull very personalized data from their customer database and deliver this via branded e-mail. There's a lot of huge branding opportunities in this area."
– John Funk, CEO, Quris

And while companies such as Jupiter Research and Quris believe the future of e-mail marketing belongs to branding, 65% of the US marketers surveyed this past spring by DoubleClick say that getting new leads is their primary e-mail marketing objective. But branding isn't lost on them, as 55% of respondents cite information, retention, and awareness as key objectives as well.

E-Mail Marketing Objectives among US Marketers, 2002 (as a % of respondents)

Note: n=190; multiple responses allowed
Source: DoubleClick, June 2002

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Of course, even if branding efforts becomes the future of e-mail marketing, most companies involved in direct response today will still be involved in direct response tomorrow. When the Direct Marketing Association released its annual "State of Postal and E-Mail Marketing" survey in October, findings showed that 71% of direct marketers increased their use of e-mail.

> **"You start with an offline message, and reinforce it with e-mail to take the customer to the point of conversion. This represents a tremendous cost-savings for companies."**
> *– Rosalind Resnick, former CEO, NetCreations*

"Cost-related factors accounted for most direct mailers' interest in the channel, with about 60% citing the relative inexpensiveness of online direct marketing as their main reason for adopting e-mail," writes the Internet Advertising Report. "E-mail also seems to be proving more effective than direct mail for many marketers. Online marketers participating in the study reported a 35.2% increase in responses in 2001, while 25% of offline mailers reported the same. Only 6% of online mailers said they saw a decrease in response rates, while traditional direct mailers reported a 21% fall."

Interestingly, while 57% of respondents attempt to increase e-mail effectiveness through personalization, 91% of respondents use the same technique for postal mail.

Or take targeting. While 49% and 44% of respondents use demographic and geographic segmentation, respectively, for e-mail marketing, no direct equivalent was cited for postal mail.

However, note the 90%-plus responses for the five listed postal mail techniques, in contrast to the much lower figures for e-mail. That marketing divergence comes from the known (established postal mail) versus the unknown (the still greatly evolving nature of e-mail).

Techniques US Direct Marketers Use for Increasing Effectiveness of E-Mail vs. Postal Mail, 2002 (as a % of respondents)

	E-Mail		Postal mail
Personalization	57%	Internal housefiles	93%
Demographic segmentation	49%	Prior mail histories	93%
Outside databases	45%	Personalization	91%
Geographic segmentation	44%	National change of address information	90%
		Re-mailing to multi-buyers	90%

Note: multiple responses allowed
Source: Direct Marketing Association, October 2002

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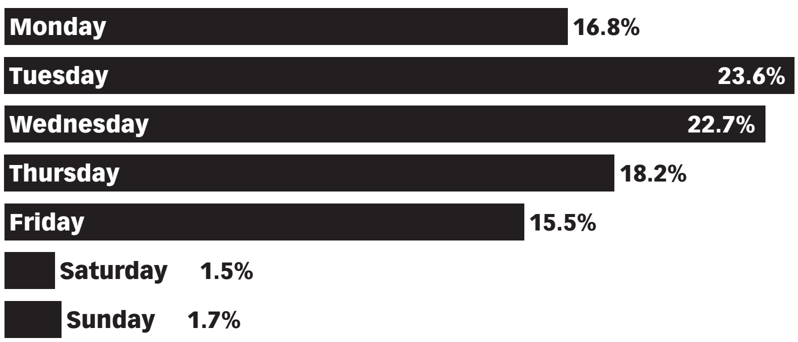
Among the other differences between e-mail and postal mail marketing is timing. Without being able to determine exactly when third-class postal mail will be delivered, time of year is more significant, say with pre-Christmas mail-order catalogs which start to arrive in bulk in October.

But e-mail, of course, can have its delivery timed nearly to the second. So while savvy e-mail marketers send most posts during daytime hours, the day of the week is also an important criterion. Research from DoubleClick for the second quarter of 2002 shows peak send days are Tuesday and Wednesday—not as much on Monday when people are often catching up on e-mails from over the weekend, not as much on Friday when the work week ends for most people, and certainly not at all on the weekend, when many people ignore e-mail.

Day of the Week that US Companies Send Marketing E-Mails, Q2 2002



Note: based on volume of e-mail sent
Source: DoubleClick, September 2002

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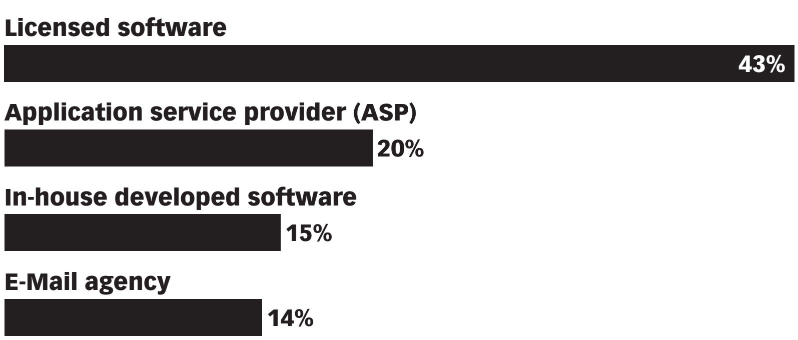
To keep up with demands of increased e-mail marketing, 43% of US advertisers license software for in-house deployment, while 15% are sophisticated enough to develop their own software. And according to Forrester Research and the Association of National Advertisers, 34% of advertisers send out their e-mail tasks: 20% to application service providers and 14% entirely to an e-mail agency.

E-Mail Marketing Technologies Used by US Advertisers, 2002 (as a % of respondents)



Note: respondents were members of ANA
Source: Forrester Research/Association of National Advertisers (ANA), September 2002

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That many companies seek outside help for e-mail marketing is inevitable when you consider the sundry tasks involved in developing, launching, and maintaining an e-mail marketing campaign. For the moment, consider one task: keeping an e-mail address list clean in the face of life's changes among US consumers. As in the following chart from NFO WorldGroup, the annual e-mail address churn rate (aka, change of address) is 31% for both work and personal addresses.

Without an effective means to handle the annual churn of nearly one-in-three e-mail addresses—updating changed addresses and purging inactive ones—entire e-mail marketing efforts can go awry.

Annual E-Mail Address Churn Rate among US Consumers for Work and Personal Addresses, August 2002 (as a % of respondents)

Note: n=555 (work), n=981 (personal), n=1,015 (all); total annual rate of churn (31%) reflects the net average, including multiple e-mail address changes across both work and personal e-mail addresses from the same respondents, therefore the work and personal churn rates are not additive
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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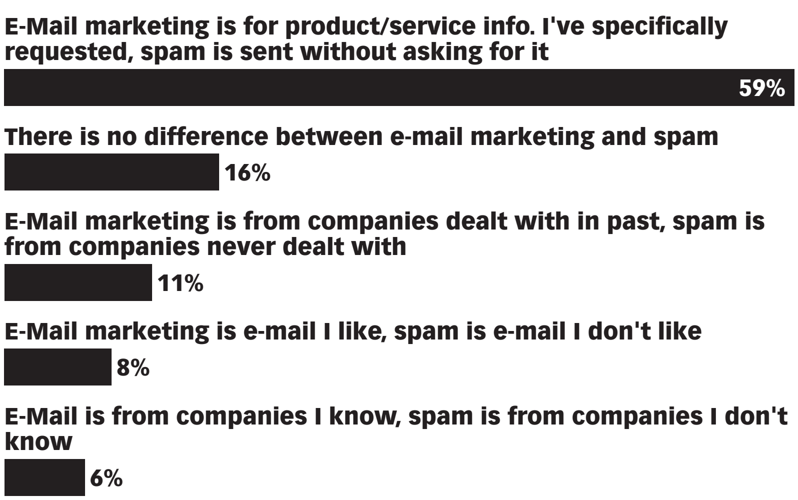
Consumer Attitudes & Actions

When it comes to e-mail, more and more consumers put up their spam filter—not necessarily some software-based filter but the psychological filter that makes them wary of all non-personal e-mail.

In a recent survey by Harris Interactive underwritten by Digital Impact, 41% of the more than 2,800 respondents paint most marketing e-mails with the spam brush. Take the 16% who equate all e-mail marketing with spam. Or consider the 11% who think any e-mail from a company they've never dealt with is spam.

How US Internet Users Differentiate between Spam and Legitimate E-Mail Marketing, September 2002 (as a % of respondents)



Note: n=2,837; respondents were asked, "How would you differentiate between spam and legitimate e-mail marketing?"
Source: Harris Interactive for Digital Impact, September 2002

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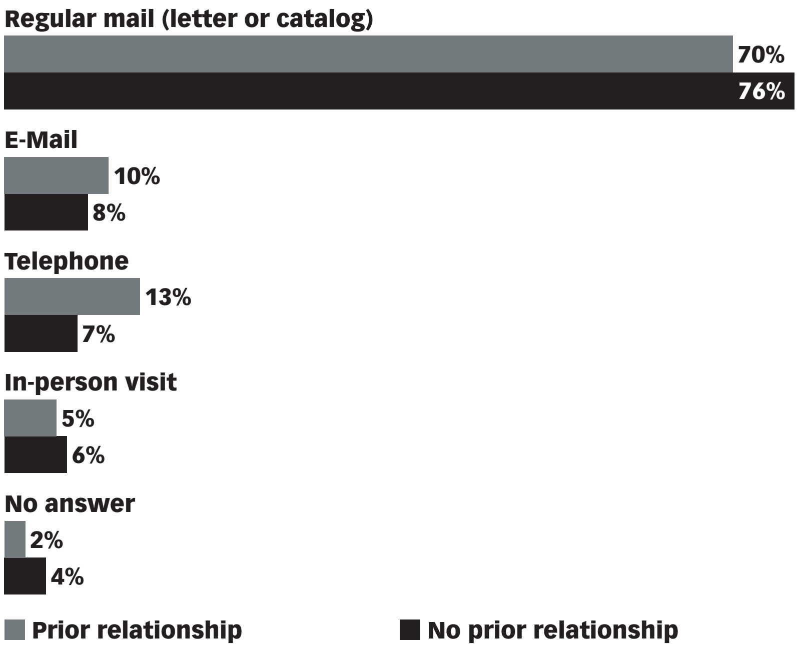
Even with that growing wariness, 86% of the same respondent group has requested to receive some form of legitimate marketing e-mail—a good number, considering the spam perceptions. "However, those numbers might overestimate the goodwill that the average internet user has for e-mail marketing," the Internet Advertising Report noted. "Because respondents have opted in to receive Harris surveys via e-mail, they might be more likely to represent advanced internet users than the general online population."

When surveys turn from internet users to US consumers in general, as does the one below from *Direct Magazine*—a direct marketing publication—the desire to hear from marketers via e-mail drops precipitously. Of the 2,500 respondents, only 10% prefer e-mail, even when they have a prior relationship with the company. In contrast, 70% prefer contact by postal mail.

How US Consumers Prefer Marketers Contact Them, by Prior Relationship, 2002 (as a % of respondents)



Note: n=1,000
Source: Direct Magazine, Yankelovich, August 2002

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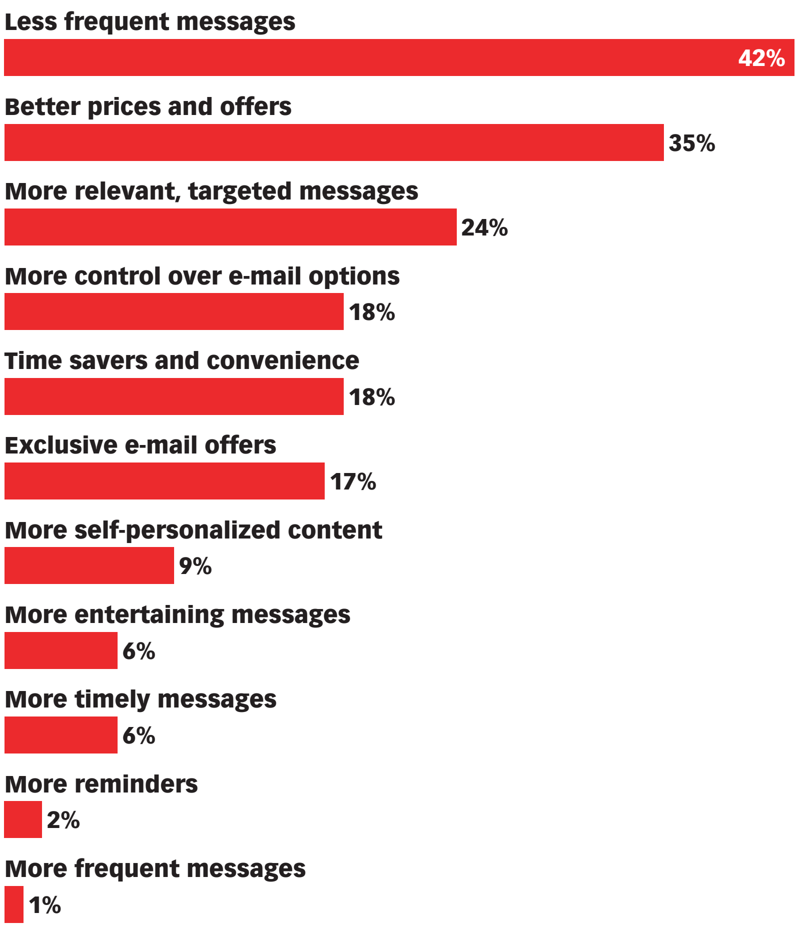
So even when companies get permission from consumers, and even when a relationship exists between company and consumer, it appears that marketers need to walk a fine line in order to make their e-mails effective. In a survey earlier this year by Quris, e-mail users told permission marketers that the main way they can improve their e-mail programs is less frequent messages, according to 42% of the respondents

US E-Mail Users' Opinions Regarding Ways Permission Marketers Can Improve E-Mail Programs, Q1 2002 (as a % of respondents)



Note: two choices per respondent allowed
Source: Quris/Executive Summary Consulting, May 2002

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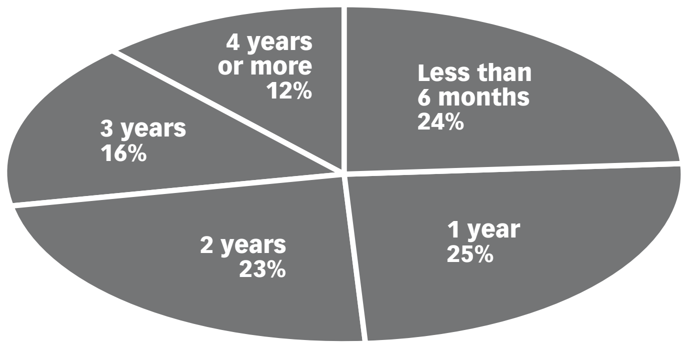
A more recent Quris survey asked US consumers about their most long-term permission e-mail relationship and found that 51% of respondents have maintained at least one company relationship for two years or longer.

In today's fast-paced world, that's significant time. The result points to the possibility of continued contact between company and consumer—more important for branding efforts than direct response.

Longest Time US Consumers Have Maintained Any Permission E-Mail Relationship, February 2002 (as a % of respondents)



Note: n=1,256 US e-mail users
Source: Quris/Executive Summary Consulting, October 2002

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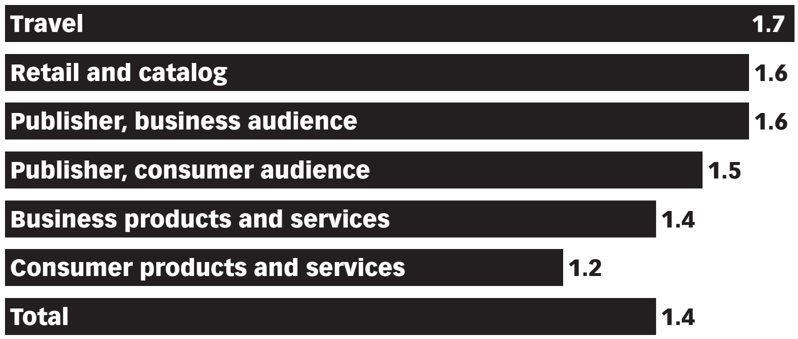
One marketing key for ongoing relationships is not only getting permission, but also sending e-mails in the format recipients most prefer. According to Jupiter Research, while "text e-mails will continue to comprise the majority of e-mail volume until 2004, in general HTML messages receive a better response rate from consumers."

Another look at consumer attitudes regarding e-mail format shows up in the following chart. When text-only e-mails are assigned a base rate of 1.0, DoubleClick research says that HTML e-mails generate an average response rate 1.4 times higher. In the second quarter of 2002, HTML e-mails increased performance particularly well for travel companies (1.7 times more effective than text e-mails), and retail/catalog and B2B publisher companies (both 1.6 times more effective).

The overall click-through rate for text e-mails was 7.1%, while it increased to 10.0% for HTML e-mails. That higher CTR appears to be a consumer statement of format preference.

HTML vs. Text Format Influence on E-Mail Marketing Response Rates, by Industry, Q2 2002 (base response rate for text format e-mails=1.0)



Source: DoubleClick, September 2002

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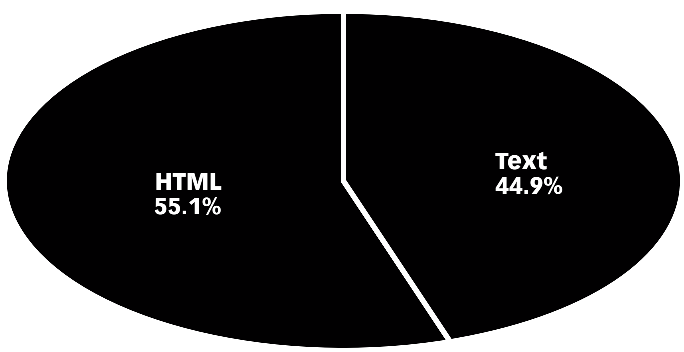
It's good news, then, that the greater effectiveness of HTML e-mail is also the format more US internet users prefer, at least according to 55.1% of respondents to a recent GotMarketing and EZine-Tips survey.

Format US Internet Users Prefer for E-Mail Newsletters and Promotions, 2002 (as a % of respondents)



Note: n=630
Source: GotMarketing, Ezine-Tips.com, September 2002

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The reasons why users prefer HTML e-mail can be used by marketers to better craft their messages. The first three reasons given in the following chart all point to clearer, more attractive layouts as HTML's appeal.

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Marketing Online or Offline: It's All Part of the Mix
Interactive Marketing: Where's the Money Going?
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Total Media & Offline Ad Spending
Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
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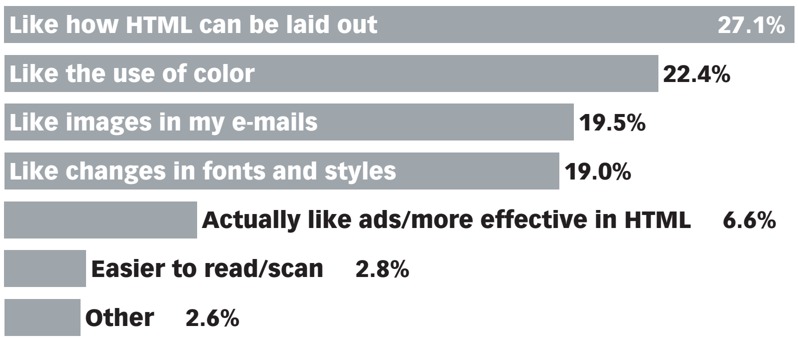
The fact that ads in HTML e-mails might be livelier, such as with rich media elements, was a preference cited by only 6.6% of respondents.

Reasons Why US Internet Users Prefer HTML Format for E-Mail Newsletters and Promotions, 2002 (as a % of respondents)



Note: n=1,123; multiple responses allowed
Source: GotMarketing, Ezine-Tips.com, September 2002

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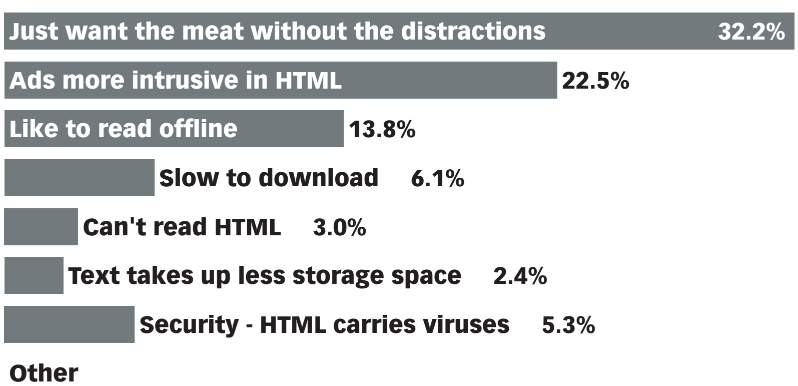
And yet a near majority of 44.9% expressed a preference for text-only marketing e-mails. Their key reason was a focus on "the meat without the distractions," which might be a good reminder for any type of marketing e-mail.

Reasons Why US Internet Users Prefer Text Format for E-Mail Newsletters and Promotions, 2002 (as a % of respondents)



Note: n=636; multiple responses allowed
Source: GotMarketing, Ezine-Tips.com, September 2002

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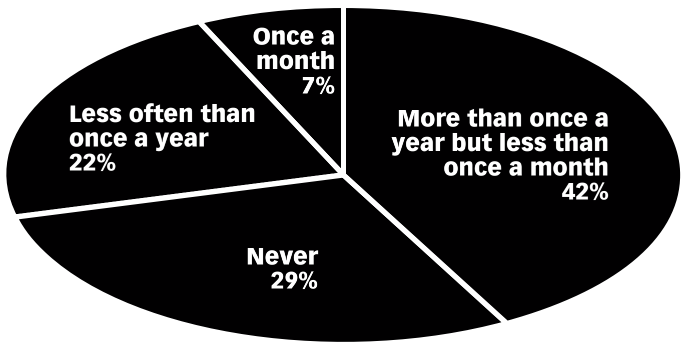
The Harris/Digital Impact survey found a significant relationship between e-mail and buying among US internet users, with 42% of respondents making some purchase more than once a year and 7% more than once a month.

Frequency by Which US Internet Users Make Purchases Based on E-Mail Marketing, September 2002 (as a % of respondents)



Note: n=2,837
Source: Harris Interactive for Digital Impact, September 2002

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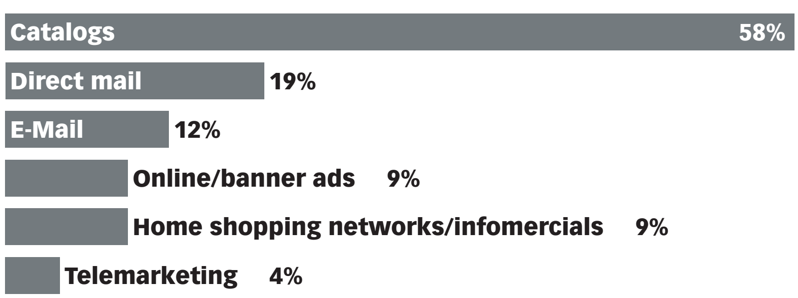
A different take on the e-mail/buying subject comes up in research done by Yankelovich for *Direct Magazine*, which found that 78% of US consumers considered responsive to direct marketing prefer paper (catalogs or direct mail) over the 12% who prefer e-mail.

Channels US Consumers Who Are Responsive to Direct Marketing Use to Make Purchases*, 2002 (as a % of respondents)



*Note: multiple responses allowed; *during six months prior to survey*
Source: Direct Magazine, Yankelovich, August 2002

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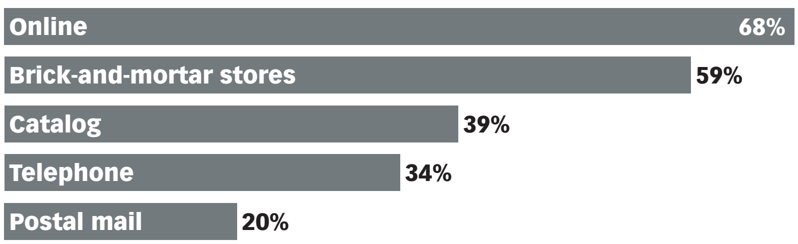
Even when e-mail induces a purchase, the final-destination channel might be online—as it is for 68% of the respondents to a recent DoubleClick/Beyond Interactive poll. But cross-channel shopping is becoming the norm, as significant shares of US consumers who receive permission-based e-mails also hit the mall, the paper catalog, or the telephone.

Retail Channels US Consumers Use to Purchase Items as a Result of Receiving Permission-Based E-Mail, September 2002 (as a % of respondents)



Note: n=1,000; multiple responses allowed
Source: DoubleClick, Beyond Interactive, Greenfield Online, October 2002

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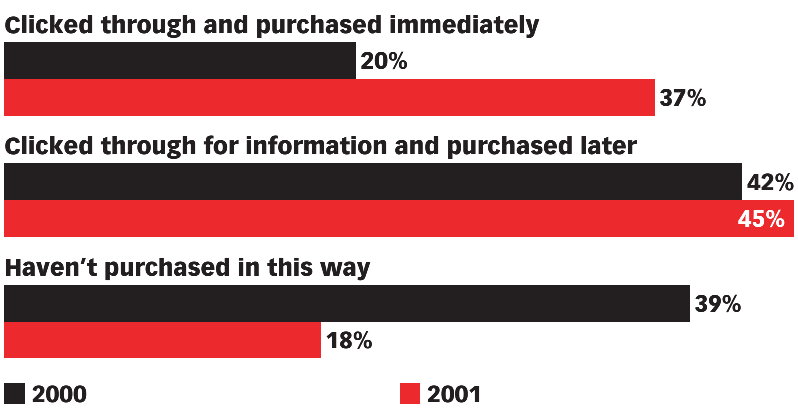
B. E-Mail Metrics: Beyond the Click Rate

For interactive marketers, click-through rates are a lot like the old relationship cliché about men and women: can't live with them, can't live without them. As probably the oldest, and certainly to this day the most cited, interactive marketing metric, the classic CTR rules—even though it creaks and groans and can sometimes mislead. For example, just because a marketing e-mail recipient fails to click doesn't mean the message hasn't been effective. According to DoubleClick, nearly one-fifth of US online shoppers who purchased some goods online in 2001 failed to click-through on a marketing e-mail.

Proportion of US Online Shoppers Who Made a Purchase after Clicking Through an E-Mail, 2000 & 2001 (as a % of respondents who have purchased online in the last year)



Source: DoubleClick/NFO WorldGroup, October 2001

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Despite the click-through's only partial usefulness, 64% of US marketers measure the effectiveness of their e-mail marketing campaigns through that standard—and 19% more want to, according to a survey by e-Dialog. Note how 43% of respondents to the Lexington, MA-based e-mail marketing company's survey measure e-mail campaigns using unique CTRs, which are more exact—and therefore more informative—than the total CTRs that the largest group chooses.

"Click-through is definitely number one to see what hard dollars you did get. You're obviously going to send your next campaign to anyone who clicked on the last one."

– Gaurav Verma, analyst, Doculabs

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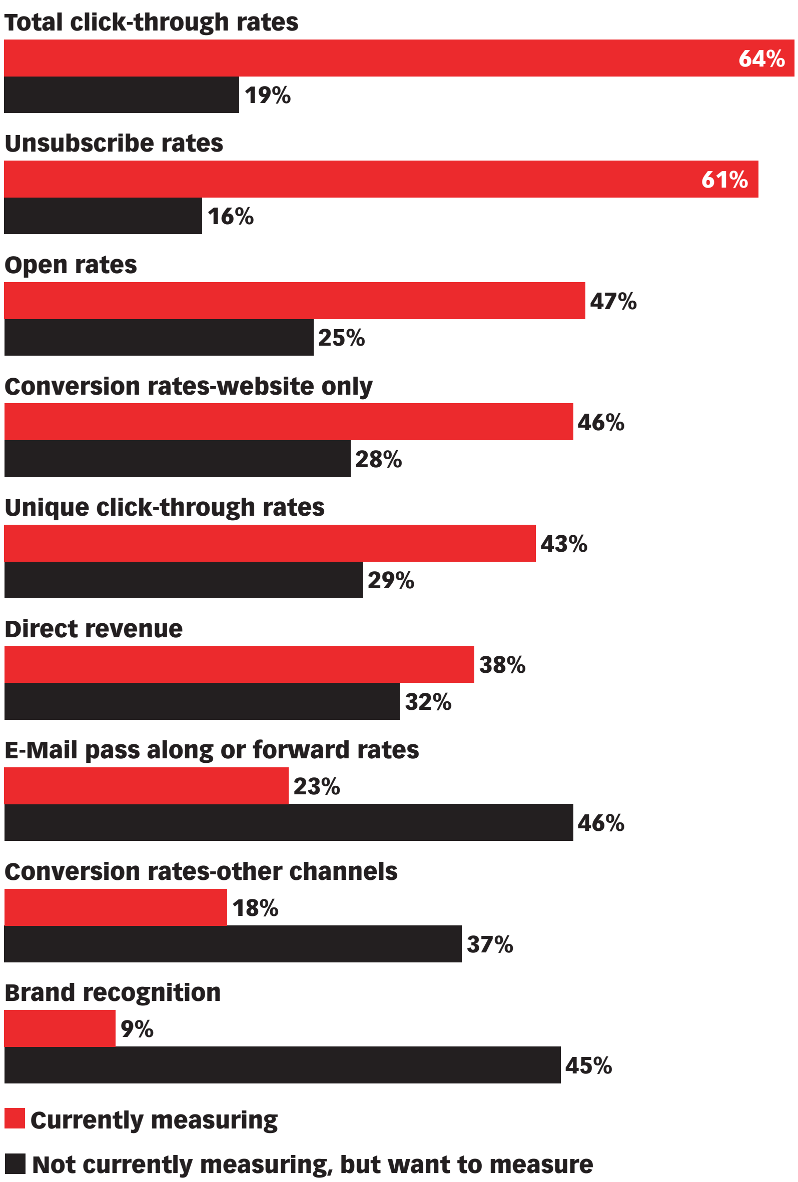
And further note the not-currently-measuring-but-want-to group, the black bars in the following chart. The most wanted e-mail marketing measurement tools are e-mail pass-along or forward rates (aka, viral marketing, at 46%) and brand recognition (at 45%).

How US Marketers Measure the Effectiveness of E-Mail Marketing Campaigns, 2002 (as a % of respondents)



Source: e-Dialog, Inc., April 2002

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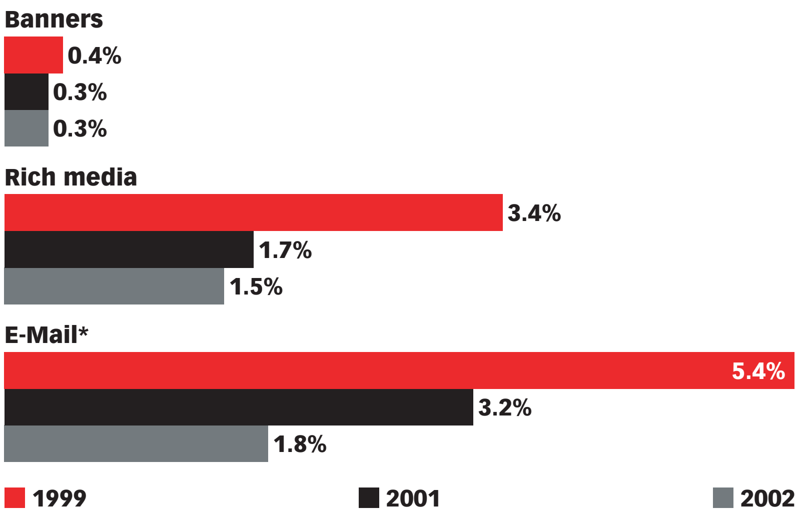
"A click-through means someone was interested enough to take an additional step. But impressions and clicks don't translate into completed actions."

– Paul Soltoff, president and COO, DirectNet Advertising.net

When eMarketer estimates e-mail CTRs at 1.8% for 2002, that includes the full spectrum of marketing messages, including opt-out (but not spam). The rate has dropped, even from last year, as US consumers find too many e-mails in their inbox.

US Click-Through Rates, by Online Marketing Format, 1999-2002



*Note: *e-mail click-through rates include both opt-in and opt-out e-mails*
Source: eMarketer, October 2002

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That the CTRs shown in the DoubleClick chart below are substantially higher than the eMarketer figures is probably due to the source. Since the DoubleClick data is based on 1.7 billion e-mails from DoubleClick's system, with nearly all legitimate marketers using some form of opt-in, it skews the figures relative to eMarketer's, which includes opt-out.

"It's a mistake to look at response rates alone—that's a mistake that we as an industry have made in looking at everything from banners to e-mail."

– Rosalind Resnick, co-founder, NetCreations

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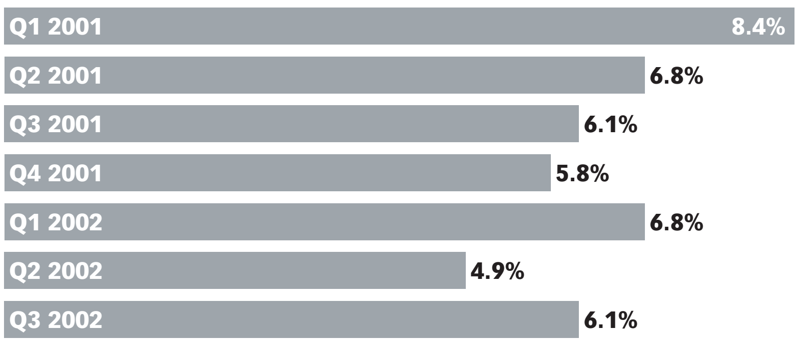
Nevertheless, such a skew is highly useful, pointing out the e-mail response rate possibilities when marketers send e-mails to those who, in some way, asked for them. The trend line was generally up, reaching 6.8% click-through in Q1 2002, but it dropped to 4.9% in the year's second quarter before rebounding to 6.1% in the third quarter.

Could that point to reduced responses even from permission-based lists?

E-Mail Marketing Click-Through Rates, Q1 2001-Q3 2002



Source: DoubleClick, November 2002

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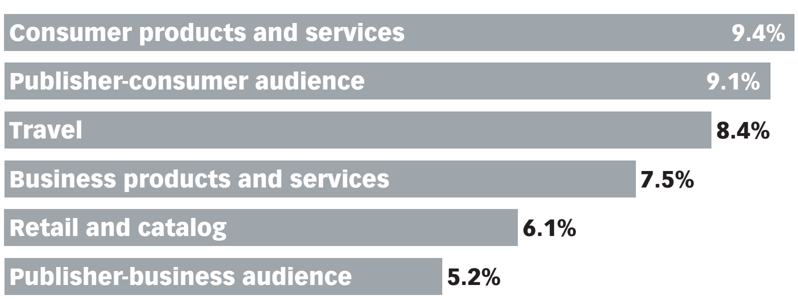
With an average CTR of 7.7% across the six industries shown below, e-mails from consumer products and services companies were most likely to be clicked, at a 9.4% rate. Close behind are publishers for the consumer audience, at a 9.1% CTR.

E-Mail Marketing Click-Through Rates, by Industry, Q2 2002



Source: DoubleClick, September 2002

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However, the same DoubleClick "E-Mail Trend Report" that gave us the two charts above also says that bounce-back rates reached historical highs in Q2 2002, at 12.6%, compared to 7.7% in Q3 2001. "That likely reflects full inboxes both due to high volumes of mail and new size limits on inboxes by e-mail providers along with increasing job changes due to economic conditions," according to DoubleClick.

One of the problems with CTRs as an e-mail marketing metric can be seen in the following chart, based on a recent survey by Harte-Hanks. When the marketing firm examined the responses to e-mails sent to a collective 4.25 million addresses as part of 700 permission-based B2B e-mail marketing campaigns, it found a 3.1-point variance in average CTR, depending on the purpose of the e-mail.

"Most good B2C and B2B e-mail marketers have already accepted that they aren't going to be getting the 5% to 15% click rates that they used to get, but that they can still achieve a profitable acquisition cost with a 1% to 2% click rate."

– Rosalind Resnick, former CEO, NetCreations

To start with, the CTR for market research e-mails averaged 4.1%, while sales promotion messages averaged 1.7%—and averages can be misleading. More so, examine the high range and low range for any particular marketing purpose. Take sales promotions again, where click-throughs ranged from a healthy 10.3% rate down to a paltry 0.1%.

So if an e-mail development firm told your company that its clients e-mail's garner a 1.7% CTR, and that's why you should hire them, what might that mean for your campaign? That same 1.7%? Or perhaps 0.1%?

North American B2B* E-Mail Campaign Click-Through Rate, by Purpose of E-Mail, August 2001-August 2002

	CTR rate average	High range	Low range
General marketing	1.3%	25.0%	0.2%
Market research	4.1%	21.0%	0.5%
Sales promotion	1.7%	10.3%	0.1%
Offline seminar invitation	1.0%	9.2%	0.1%
Subscription offer	1.4%	3.8%	0.1%
Online seminar invitation	1.0%	3.6%	0.0%

*Note: *primarily telecom and technology*
Source: Harte-Hanks, August 2002

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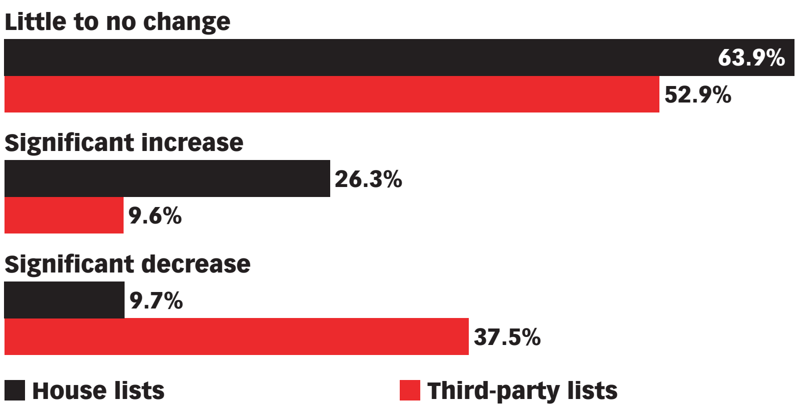
However, one thing is certain about e-mail marketing: lists matter. When MarketingSherpa compared click rates for house lists—defined as opt-in lists gathered by the company sending the e-mail—versus rented third-party lists, 26.3% of the US marketers surveyed said that house lists gave them a significant increase in e-mail click-throughs, but only 9.6% said the same about rented lists.

E-Mail Click Rates over Past Year for US Marketers Using House Lists* vs. Third-Party Lists, 2002



*Note: n=1,711; *house lists defined as opt-in lists they gathered themselves*
Source: MarketingSherpa, July 2002

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How effective any e-mail list is to a particular e-mail offer depends on several interrelated factors, not just the response rate. In its latest "E-Mail Marketing Trend Report," DoubleClick offered a useful scenario based on actual e-mails from the retailer and cataloger segment. These were offers to drive consumers to purchase, and the basic scenario goes like this: For every 1,000 e-mails sent, approximately 3 people make an immediate and direct purchase as a result, with an order size of $101.55.

And DoubleClick's analysis of the interrelated factors goes like this:

- For every 1,000 pieces mailed, 882 are delivered; that makes the bounce rate 11.8%.
- For every 882 pieces delivered, 68 get clicked on; that makes the click-through rate 7.7%.
- For every 68 pieces clicked on, 3 people make an immediate and direct purchase; that makes the conversion rate 4.3%.

Another metric that offers some value is the open rate, not as much of a commitment on the part of the recipient as a click-through, but indicative that some kind of attention is being paid to the e-mail.

Or is it?

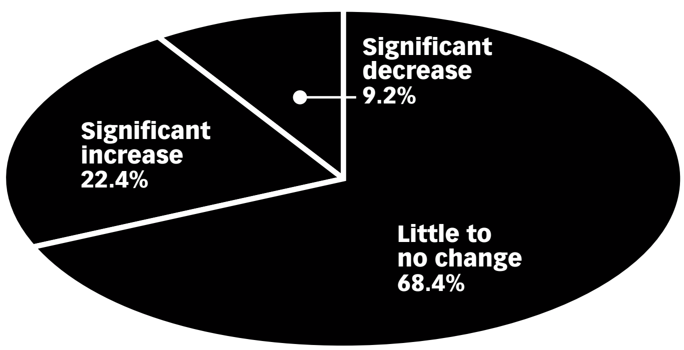
The way some e-mail programs work, displaying a small part of the message in a preview pane, will fool the sender's tracking programs into thinking the e-mail was opened, even if it was only previewed in a flash and then trashed. In addition, some e-mail programs automatically open all incoming e-mail, again fooling the sender's tracker program into thinking a live human opened the message.

"We estimate that the open rates have dropped by at least 30% to 40% over the past two years because of increased spam."
– Safa Rashtchy, senior research analyst, US Bancorp Piper Jaffray

With those caveats in mind, begin with DoubleClick's open rate from Q2 2002, which averaged 37.6% across all industries, all companies.

Then, when MarketingSherpa asked over 1,700 US marketers how their e-mail open rates performed when they used house lists, 22.4% of respondents cited a significant increase, while 9.2% mentioned a significant decrease.

Change in E-Mail Open Rates over Past Year for US Marketers Using House Lists*, 2002



*Note: n=1,711; *house lists defined as opt-in lists they gathered themselves*
Source: MarketingSherpa, July 2002

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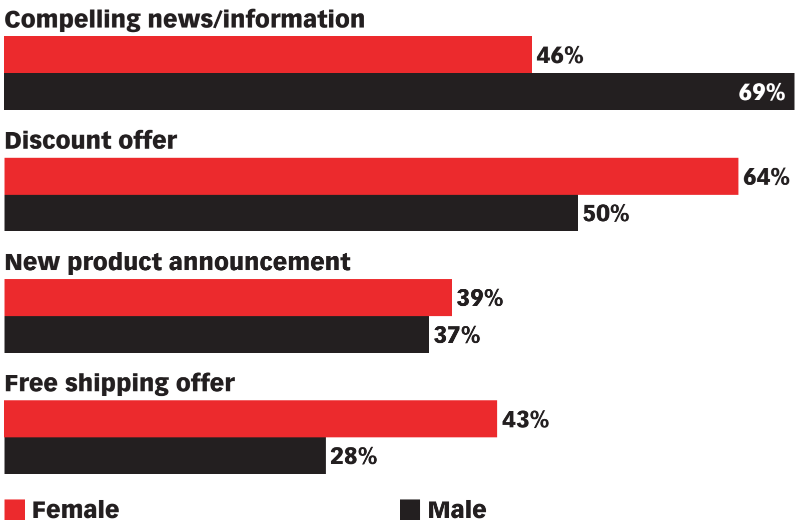
So, even with the open hole in the logic of open rates, getting a recipient to actually open an e-mail is, of course, the necessary first step to any possible further action. And disregarding preview panes, every recipient sees the subject line. Is that enough of a call to action?

Recent research from DoubleClick and Beyond Interactive points to key differences in what moves the two genders to open permission-based e-mails. For example, subject lines with compelling news or information were more a guy thing, with a 69% open rate versus 46% for females. Discount offers better turned to open rates among US females, at 64% versus 50% for males.

Subject Lines that Compel US E-Mail Users to Open Permission-Based E-Mails, by Gender, September 2002 (as a % of respondents)



Note: n=1,000
Source: DoubleClick, Beyond Interactive, Greenfield Online, October 2002

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But with all the statistics about click rates, open rates, bounce rates, and beyond, "response rates alone don't determine whether a marketing medium is useful to a marketer," Rosalind Resnick, former CEO and founder of NetCreations, told avant|marketer.

Still, better rates typically translate to bigger bottom lines. According to Cynthia Brown, vice president of engineering at Experian, to improve an e-mail marketing campaign, a company needs to work on four individual elements: net delivery, open rate, click through, and conversions. As reported in MediaPost, here's how that works:

- **Improved net delivery:** Use change of address services that verify e-mail addresses to boost the actual delivery of e-mails. Engage in bounce processing—resending mail to soft bounces, such as prospects whose mail boxes were full.
- **Improved open rates:** Use better subject lines and personalization.
- **Improved click rates:** Use personalization, better position URLs, and embed vivid images that promote clicks.
- **Improved conversions:** Enhance the three elements above.

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C. Spam Works?

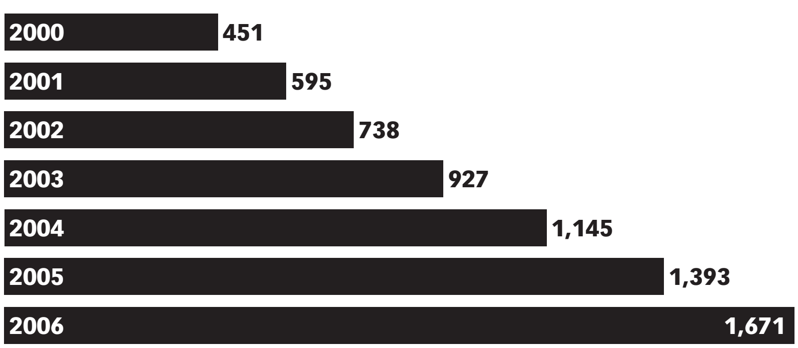
Who would say that spam's very existence is proof that e-mail marketing works? How can any responsible person say anything good about what virtually all e-mail recipients view as the most sleazy, seedy, underhanded form of marketing on the internet? Why would a legitimate marketer ever send spam to prospects, and therefore be lumped with the dirt bags who promise to enlarge your debt overnight?

And yet, spam works. Think about it. Why would a broad spectrum of marketers—not only the low lifes, but also legitimate companies—continue to send e-mails to users who have not given them permission unless there was profit in it?

> **"Spam's very existence is simply an indication that e-mail marketing may be one of the most powerful tools available to marketers today. Spam is not killing e-mail marketing any more than junk snail mail has killed the cataloguers."**
>
> *– Paul Entin, founder, EPR Marketing*

And continue is only half the word for spam, as it spreads like kudzu across the South. According to Jupiter Research, the number of unwanted e-mail messages sent annually in the US will reach more than 645 billion by 2007. Translated to a per-user/per-year perspective, spam will more than double from 738 in 2002 to 1,671 in 2006.

Spam Received per User in the US, 2000-2006



Source: Jupiter Media Metrix, Inc., 2002

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Forget four years down the line. Jupiter also says that the average number of spam e-mails received per day will hit 6.2 this year, a generous 67.6% increase from 3.7 spams per day last year.

Average Number of Spam E-Mails Received per Day in the US, 2001 & 2002

Source: Jupiter Research, September 2002

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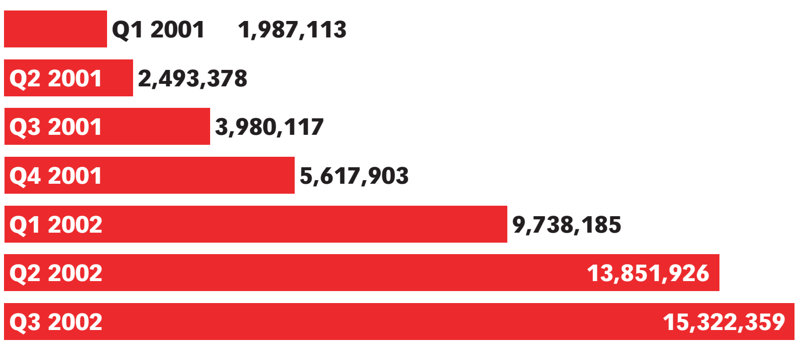
"No one knows precisely why spamming has increased so much," according to the *New York Times*. "One reason may be that it is an inexpensive form of marketing favored in a slumping economy. Another may be that it is relatively simple to do—it is not much harder to send one million e-mail messages than it is to send one."

But the spam flood "may also result, paradoxically, from the efforts to curb spam....That is, the more efforts are made to block unwanted e-mail, the more messages spammers send to be sure that some will get through."

The latest statistics from Brightmail—described as the "spam filtering service to the ISP superstars (EarthLink, MSN, AT&T)" by MediaPost—show that as of this year's third quarter, unique spam attacks in the US increased to over 15 million, as measured by Brightmail's Probe Network.

Unique Spam Attacks in the US, by Quarter, Q1 2001-Q3 2002



Note: as measured by Brightmail's Probe Network
Source: Brightmail, October 2002

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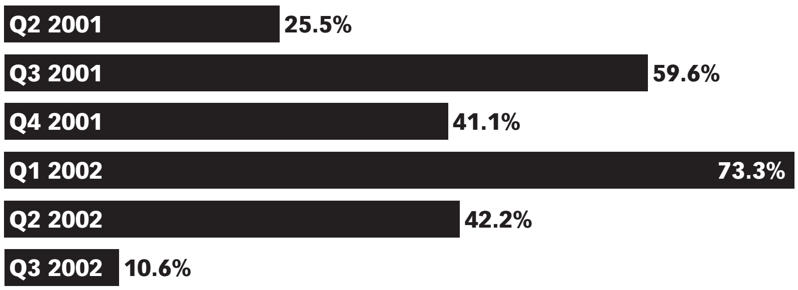
A bit of good news amidst the spam glut is the decrease in its increase. As of Q3 2002, those unique spam attacks grew by "only" 10.6%, less than in any of the five preceding quarters.

Unique Spam Attacks in the US, by Quarter, Q2 2001-Q3 2002 (as a % increase vs. prior quarter)



Note: as measured by Brightmail's Probe Network
Source: Brightmail, October 2002

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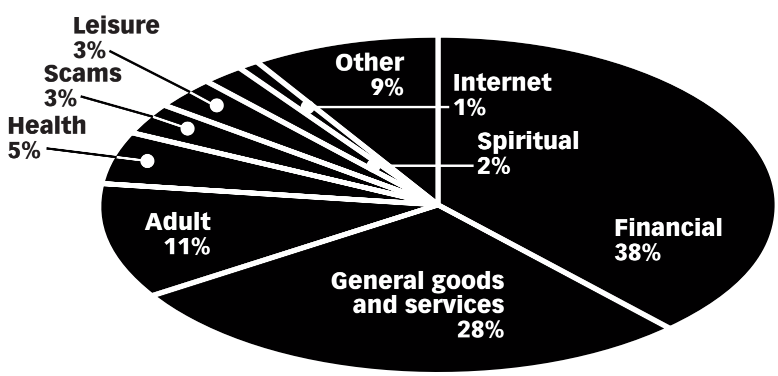
Money-related matters lead the spam brigade, with 38% of the US total in September 2002, according to the San Francisco-based anti-spam software company.

Spam Received in the US, by Category, September 2002



Note: as measured by Brightmail's Probe Network
Source: Brightmail, October 2002

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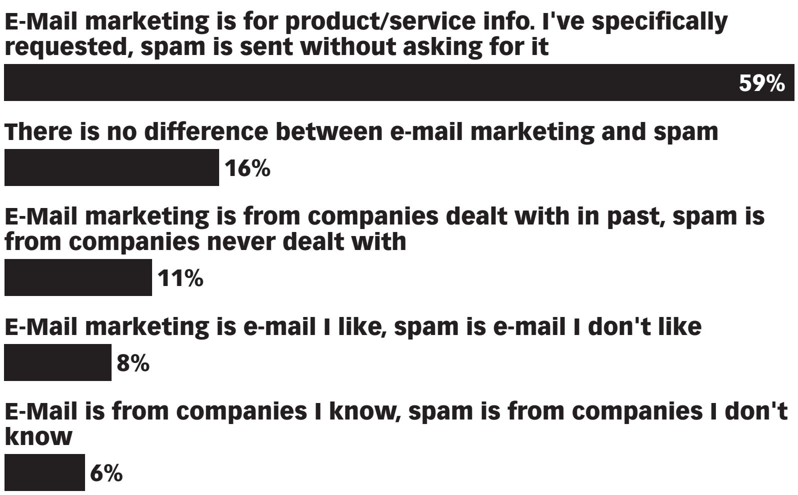
The term "spam" paints a broad brush. While almost anyone would label an e-mail from an unknown sender with one of the clichéd pitches about ingenious money-making schemes as spam, what do you call an e-mail from a known company with a legitimate product that you simply didn't ask for? In one light, the classic type of spam which misleads the recipient is "dirty spam," and the other might be called "clean spam."

Still, why spam itself is such bad news starts and ends with perception—if the recipient thinks an e-mail is spam, it truly doesn't matter much what the marketer thinks. That e-mail is treated as spam. According to the Harris Interactive survey done for Digital Impact, 59% of US internet users designate any e-mail sent without asking for it as spam.

How US Internet Users Differentiate between Spam and Legitimate E-Mail Marketing, September 2002 (as a % of respondents)



Note: n=2,837; respondents were asked, "How would you differentiate between spam and legitimate e-mail marketing?"
Source: Harris Interactive for Digital Impact, September 2002

"One man's spam is potentially another's useful information."

– John Harrington, director of US marketing, MessageLabs

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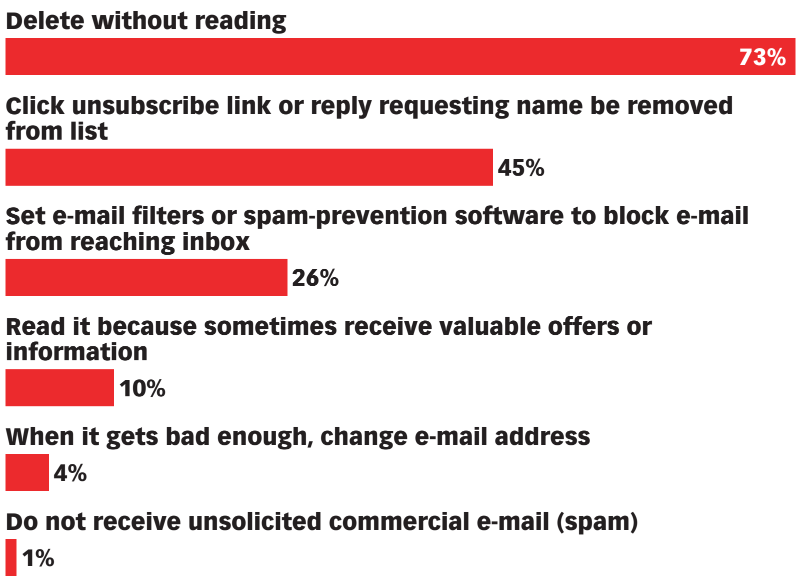
And when you consider that 73% of the US consumers surveyed recently by NFO WorldGroup simply delete unsolicited commercial e-mail without reading it, and 26% filter out possible spam, it doesn't give a marketer whose e-mails are seen as spam much of a shot.

How US Consumers Treat Unsolicited Commercial E-Mail, August 2002 (as a % of respondents)



Note: n=1,015; multiple responses allowed
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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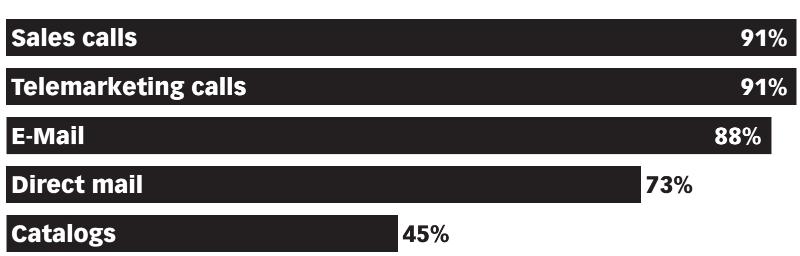
Surprisingly, US consumers don't view spam as the single most annoying form of unsolicited sales contact, according to a Valentine Radford poll. Only 88% call spam most annoying, while 91% don't want to be bothered by unsolicited salespeople hitting on them by either knocking at their doors or ringing their phones.

US Consumer Opinions Regarding the Most Annoying Forms of Unsolicited Sales Contact, 2002 (as a % of respondents)



Source: Valentine Radford, June 2002

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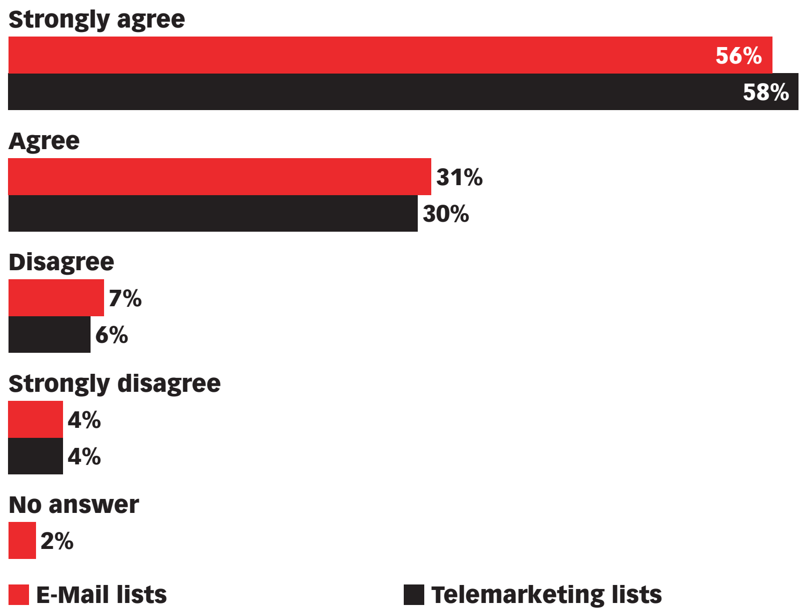
What's beyond merely annoying is how 87% of US consumers either agree or strongly agree with the statement that "the sale of e-mail lists without permission is a serious privacy violation." That's nearly the same percentage who feel the same way about telemarketing lists, according to the *Direct Magazine* poll done by Yankelovich.

US Consumers Who Believe the Sale of E-Mail and Telemarketing Lists without Permission Is a Serious Privacy Violation, 2002 (as a % of respondents)



Note: n=1,000
Source: Direct Magazine, Yankelovich, August 2002

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"We wouldn't support legislation or regulation that would prohibit or substantially impede dissemination of legitimate commercial e-mail offers. The DMA is on record that self-regulation is the answer."

– Jim Conway, vice president of government relations, Direct Marketing Association

In reaction to the public's distaste for telemarketing, new laws and state-government administrated do-not-call lists have placed limits on phone-based marketing. Whether or not the government will, or should, get involved to limit spam is still up in the air.

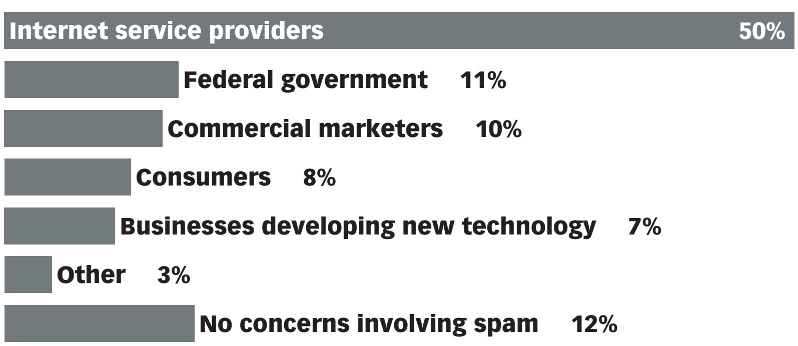
"The FTC currently receives 40,000 spam complaints a day at its website," reports the *New York Times*, "but the commission cannot and does not regulate unsolicited commercial e-mail. There are currently no federal laws against spam. Spam is a form of commercial speech. While commercial speech enjoys some protection under the First Amendment, it is also subject to regulation—but such regulation needs to be established by legislation."

"We would like the [proposed anti-spam] bill narrowed so only pornographic, fraudulent, and deceptive spam are targeted. We think that is where the consumer angst is."

– John Savercool, vice president of federal affairs, American Insurance Association

In fact, half of US consumers believe that internet service providers, not the feds, are best positioned to address spam concerns. According to the survey by NFO WorldGroup for Return Path and the Global Name Registry, only about 10% of consumers put the onus on either the federal government or commercial marketers.

Who US Consumers Feel Is Best Positioned to Address Spam Concerns, August 2002 (as a % of respondents)



Note: n=1,015; total does not equal 100% due to rounding
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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Why most people dislike spam more than unsolicited direct paper mail comes down to four basic reasons.

1. People pay to go online, and therefore pay to receive e-mail. So spam is more than just discourteous; it's a money-waster for the recipient, and a time-waster, too.
2. Some spam is vulgar or unwanted in other ways—what do you do when your children receive pornography solicitations via e-mail?

3. For many people, e-mail is a personal thing, and so getting spam appears invasive and a violation of privacy.
4. As more users connect via broadband, spammers will likely add rich media elements, which creates larger e-mail files. Multiplied by spam's ubiquity, this could cause insidious mischief by crashing e-mail servers and causing network downtime.

In fact, earlier this year Postini—a new Redwood City, CA-based competitor to Brightmail—released a study showing that 53% of e-mail server processing time is wasted on junk e-mail and e-mail attacks.

Some even see spam senders as unethical, such as this intriguing take on the subject from Consumer WebWatch. "Spam is unethical because it wastes recipients' time without allowing them the opportunity of avoiding that waste," wrote the Yonkers, NY-based grant-funded project of Consumers Union, best known as publishers of *Consumer Reports* magazine. "On a deeper (that is, classical) ethical level, spamming is unethical behavior simply...because there's no particular reason [a spammer] ought to have more right to the internet's resources than the rest of us."

Cleaning up after spam is not just a consumer concern. In a survey of US business managers by MessageLabs—a UK-based e-mail security company—more than half of them said that 30% or more of their e-mail is either unsolicited or spam.

Percent of E-Mail US Managers Describe as Unsolicited or Spam, 2002 (as a % of respondents)

Source: MessageLabs, July 2002

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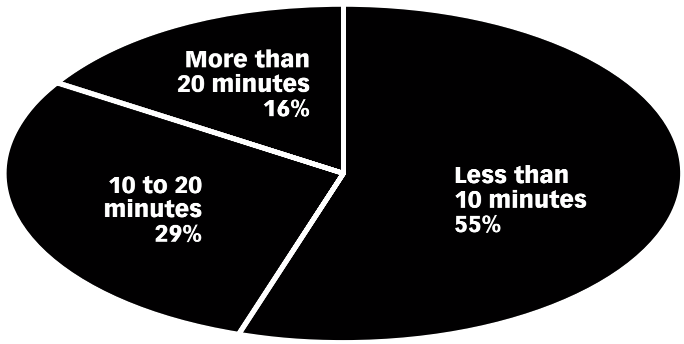
According to 45% of managers who receive 50 or more e-mails a day, they're forced to spend at least 10 minutes each hour of e-mail activity wading through spam. For an executive paid $50 per hour, that is at least $8 squandered on spam for every hour spent e-mailing.

Time* that US Managers Spend Dealing with Spam, 2002 (as a % of respondents)



*Note: based on managers who receive 50+ e-mails a day; *during a typical hour of e-mail activity*
Source: MessageLabs, July 2002

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These numbers illustrate spam's bottom line impact, with employee time, system bandwidth, and storage space all compromised. However, managers do not yet feel overwhelmed by spam, with 43% regarding it as a "minor" business problem. Nonetheless, 65% fear the problem will significantly increase in the coming year.

Technology-based solutions to cut back on spam's spread range from consumers changing e-mail addresses to both companies and consumers attempting to filter out unsolicited commercial e-mail.

When NFO WorldGroup's "E-Mail Habits and Practices Study" asked US adults why they change their e-mail addresses, they gave common life changes as the main reasons: changing jobs, choosing a new ISP, moving to a new home, and getting married or divorced. After the common, however, they cited spam, with 16% of respondents dropping their personal e-mail address because of unwanted e-mails.

Reasons Why US Adults Change Their E-Mail Addresses, August 2002 (as a % of respondents)

	Work e-mail	Net - personal e-mail	Primary e-mail	Secondary e-mail
Job change (voluntary)	41%	2%	2%	2%
Job change (involuntary)	10%	1%	1%	1%
New ISP (voluntary)	7%	48%	50%	16%
New ISP (involuntary)	11%	8%	7%	6%
Moved/changed residences	8%	12%	13%	6%
Married/divorced	6%	2%	2%	1%
To get away from SPAM	4%	16%	9%	24%
Wanted different/more attractive address	2%	8%	5%	10%
To obtain free web/e-mail address	2%	6%	2%	10%
Other	9%	16%	10%	23%

Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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And 32% of US consumers establish multiple e-mail addresses to get away from a spam-tainted account.

Reasons Why US Consumers Establish Multiple E-Mail Addresses, August 2002 (as a % of respondents)

Note: n=476 respondents who have more than one e-mail address; multiple responses allowed
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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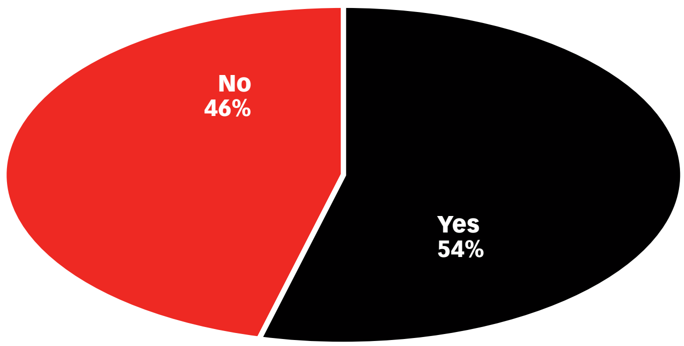
Well, consumers can run, but can they hide? Anti-spam filtering hides incoming spam automatically in the trash, or blocks it entirely, through a combination of software, services, and lists. At this point, however, anti-spam filtering is more an enterprise than an individual tool, although one employed both by companies for their business e-mail and by ISPs to protect their customers.

According to an online poll by Osterman Research, 54% of US organizations have implemented anti-spam filtering on their e-mail systems.

US Organizations that Have Implemented Anti-Spam Filtering on Their E-Mail System, 2002 (as a % of respondents)



Note: n=127
Source: Osterman Research, August 2002

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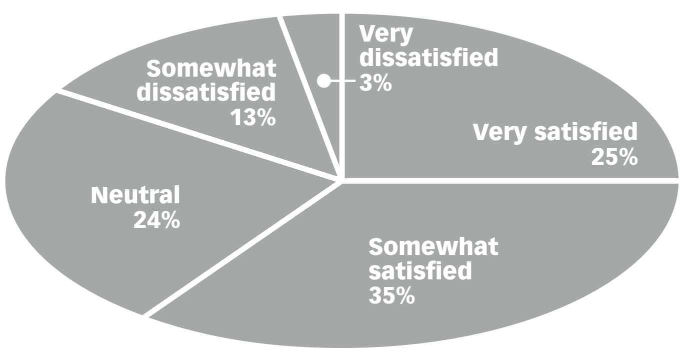
And perhaps on the theory that something is better than nothing, 60% of business respondents are either very or somewhat satisfied with their anti-spam filter's ability not to generate false positives (that is, reject an e-mail that is, in fact, not spam).

US Organizations' Satisfaction with Their Anti-Spam Software's Ability Not to Generate False Positives, 2002



Note: n=127
Source: Osterman Research, August 2002

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Managers who responded to the MessageLabs survey appear less satisfied, with over 50% saying that traditional "black list" and "white list" spam solutions are ineffective for combating spam. However, 68% see value in smarter spam management to "filter my e-mail so I only get those messages I'm probably interested in." (What are the other 32% thinking?)

"But even technology is limited, since spam is e-mail and e-mail is designed to flow easily," reports the *New York Times*. That's why "only 5% of all enterprises will be able to filter 90% of spam in 2002, [according to] Gartner Research." And as ISPs continue to filter for spam, marketers are finding "that this approach leads to too many 'false positives'—legitimate, permissioned e-mail getting blocked," according to *Media* magazine.

From the legitimate marketer's point of view, dealing with spam is essential to prevent the e-mail medium from becoming permanently tarnished.

"The answer to spam is not limiting the messages, let alone vilifying the messenger, but doing what marketers have always done—penetrate the clutter."

–Adam Deringer, director, WebFingerprint

Others believe a prime spam solution would be industry self-regulation, such as "a coalition of top-tier companies setting stricter address-gathering guidelines and best practices." However, up to now such attempts "have been rebuffed because few companies want to submit to standards."

Sounds like the brouhaha over setting rich media standards. Why does the interactive marketing industry seem to resist standards?

For more analysis about e-mail marketing, including hundreds of charts not found in this report, see the July 2002 eMarketer report, E-Mail Marketing: Strategies, Stats, Techniques & Tools at: http://www.emarketer.com/products/report.php?e-mail_mktg

Measuring interactive marketing and its return on investment cannot occur in a vacuum, with abstract numbers gathered from servers churned through the marketer's spreadsheet. All the best metrics in the world mean little without a plan. You might call that Marketing 101—and it is—but consider the following chart.

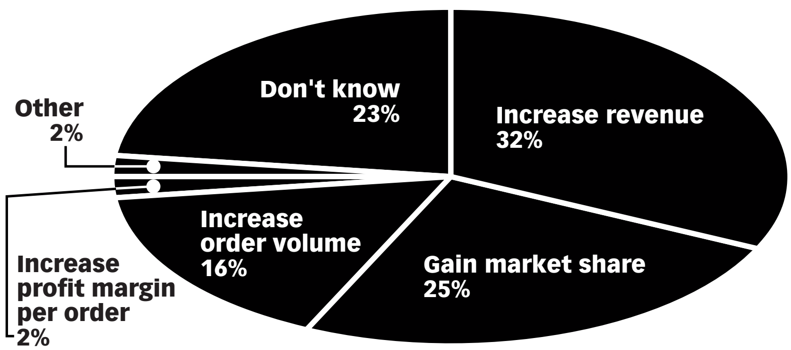
"You can look at the web log reports and metrics, but until you ask the customer what they're thinking you're probably wrong."

– *Guy Creese, research director, Aberdeen Group*

For example, is the primary business objective for your company's online advertising campaigns the same as 32% of the respondents to a Jupiter Research survey, increasing revenue? Or perhaps your company's objective is to gain market share, the same as 25% in the survey?

But it would be sad if, like 23% of the respondents, you answered "don't know" when asked what is your company's primary interactive marketing business objective.

Primary Business Objective of US Companies' Online Advertising Campaigns, 2002 (as a % of respondents)



Note: n=44 executives
Source: Jupiter Research, February 2002

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In general, the classic division between direct response and branding underlies the rationale US companies give for marketing spending. According to the Patrick Marketing Group (PMG), a Calabasas, CA-based marketing agency, generating leads is important to 71% of companies, while building the brand and awareness matter to 68%.

Why US Companies Invest in Marketing, September 2002 (as a % of respondents)

Note: n=250 marketing executives; multiple responses allowed
Source: Patrick Marketing Group, October 2002

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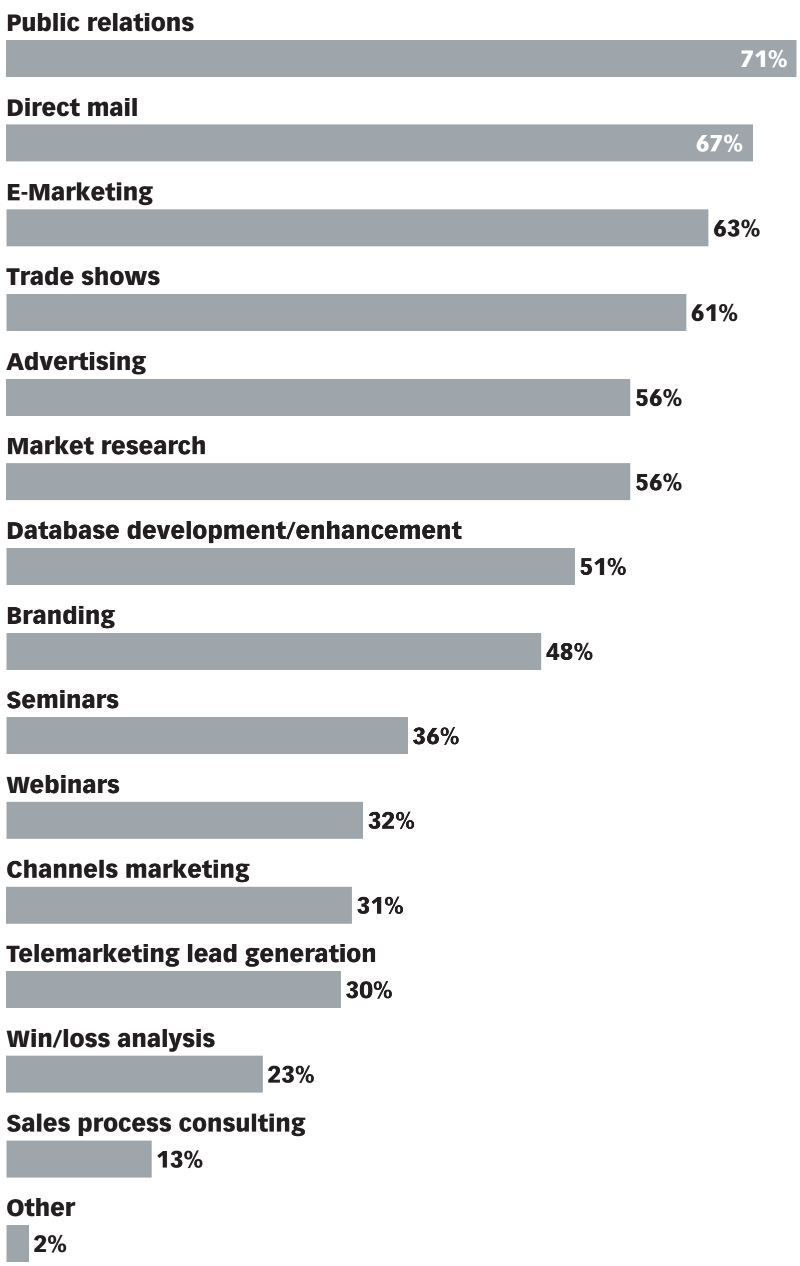
In the same survey, PMG found the importance of interactive marketing, which 63% of companies intend to implement during the next 12 months (beginning September 2002). That online marketing gained a higher intent level than market research (at 56%) or win/loss analysis (at 23%) is of note.

Sales and Marketing Actions US Companies Intend to Implement in the Next 12 Months, September 2002 (as a % of respondents)



Note: n=250 marketing executives; multiple responses allowed
Source: Patrick Marketing Group, October 2002

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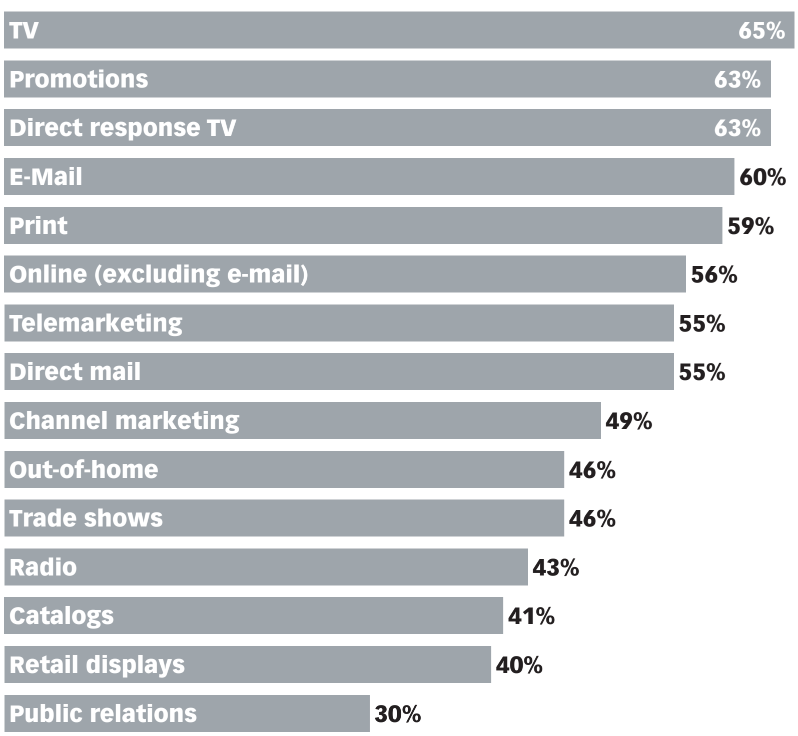
That marketing online can play either a branding or direct-response game is no longer a question. How to best use the internet for your marketing goals, however, and then how to measure whether or not you've reached those goals, remains a question for many.

"There really isn't a way to figure out return on investment. The measurement services that are out there just tell you the nature of the audience and the reach of your campaign—things that help you with media planning."

– Jim Spaeth, former president, Advertising Research Foundation

Every number in the following chart has its opposite—those channels for which US marketers have no measurement tools in place. So, 40% of marketers have no way to measure e-mail marketing, or simply fail to. The same is true for 44% of online marketers (excluding e-mail), and it's even true for 35% of TV marketers, in the most-researched medium of all.

Channels for Which US Marketers Have Measurement Tools in Place, 2002 (as a % of respondents)



Note: n=190
Source: DoubleClick, June 2002

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And not measuring makes little sense. Marketers who do commonly call their measurement tools effective, as gauged in the five-point scale below. In this light, e-mail and TV measurement tools appear equally effective, while it's even easier to measure online marketing than print advertising or direct mail.

Effectiveness of Measurement Tools Rated by US Marketers, by Channel, 2002 (based on a scale of 1-5)

Note: rated among respondents who have measurement tools in place
Source: DoubleClick, June 2002

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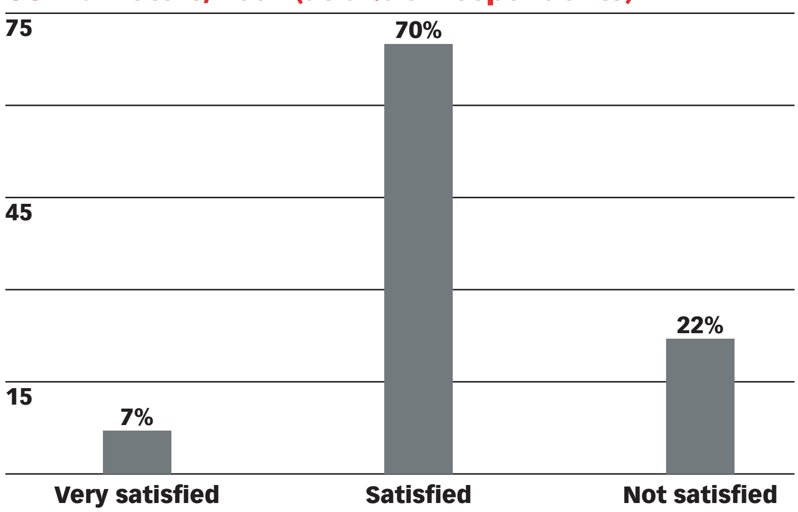
According to a Forrester Research report titled "Making Marketing Measurable," 70% of the marketers and interactive, media-buying and/or creative agencies interviewed are satisfied with their current measurement tools.

Satisfaction with Current Measurement Tools among US Marketers, 2001 (as a % of respondents)



Note: n=27 (agencies and marketers); percentages may not total 100% due to rounding
Source: Forrester Research, December 2001

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As the internet becomes established among media choices, its unique measurability will force other media to be more accountable. So, why do some interactive marketers still fail to measure marketing?

Why Marketers Don't Measure: One Point of View

A portion of the section above appeared in eMarketer's daily e-newsletter. In response, Raquel Hirsch—CEO of Vancouver, Canada-based Hirsch Strategies, a customer relationship management consulting firm—sent eMarketer a somewhat tongue-in-cheek examination of why marketers don't measure. Here's an excerpt:

Who goes into marketing?

Marketers are attracted to the job because they like creative images, colors, jingles, words, being known and recognized by peers for their "out of the box" thinking, being dined and wined by the ad agencies, and so forth. Marketers' mantra is b-r-a-n-d. Marketers by and large do not get into the profession because they have a passion for business models, metrics, numbers, or even sales. The thought of calculating marketing ROI is, well, boring. In fact, most people in marketing have short attention spans and live inside a silo where they do not understand how the marketing and sales functions relate (the only exception is lead generation, where they tend to throw over the wall quantity and not quality). Marketing executives rarely become CEOs.

CFOs and CEOs on the other hand, care deeply about business models, metrics, numbers, lead generation, marketing ROI, and sales. With the advent of marketing automation technology and customer relationship management, suddenly CEOs and CFOs are demanding measurable marketing expenditures—and senior marketing executives are stumped. They simply do not have the skill set to do it, and they fear the measurements are ugly—so they prefer to live in the dark. At best, they can begin to work on "campaign ROI"—but they are unable to defend their marketing budgets (the largest unallocated pool of funds in any company's budget) when the CFO comes around to cut it. The dialogue goes something like this:

CFO: We need to cut the marketing budget this quarter.

Marketing: We cannot do it. It will impact sales.

CFO: How? By how much?

Marketing: (pauses) Fine, then. How much would you like to cut?

A. Know Thy Customers

Knowing who your customer is, what your customer wants, and when your customer wants it is the indispensable first step in determining marketing results. That's true, of course, for both direct marketing and branding campaigns.

Steps toward knowing include techniques (and technologies) such as customer relationship management (CRM), targeting, personalization, and segmentation. But these steps need to be part of a holistic approach to marketing; otherwise the dots will disconnect into a Rorschach test rather than unite as in a Georges Seurat painting.

CRM and Beyond: Connecting the Dots

According to Paula Fedoris, the senior vice president for customer and data strategy at iDeutsch—the New York- and Los Angeles-based interactive division of the Deutsch advertising agency—when it comes to the ABCs of CRM, too many companies are stuck at the first letter. She says that CRM needs to progress in its ABCs: "A for acquisition, B for building relationships, and C for caring."

Some think the idea of CRM isn't to sell more stuff, per se, but to increase profit margins—which might mean selling less stuff. Others think CRM is merely a technology system for "managing" customers—whatever that might mean to the customer.

In fact, getting direct feedback from customers, and then combining that feedback with specific data points about those customers (age, income, purchase history, and so on), helps tremendously in making more profitable customers. "Indeed, good relationships are the linchpin of the [direct marketing] business. Nothing is more fundamental than understanding what consumers think, complaints and all," writes *Direct Magazine*.

"Overall, the thing that's truest about CRM is that it is a process, not a goal."

– *Denis Pombriant, vice president, Aberdeen Group*

Today's shorthand for the getting-to-know-you process is CRM. While most interpret that acronym as customer relationship management, a recent survey done by Reveries, the online magazine, uncovered several alternatives from marketers: customer relationship marketing and customer retention marketing are two—or the McKinsey & Company phrase, continuous retention marketing.

Several of selected verbatim responses to the Reveries survey show not only differing meanings for the CRM acronym, but differing approaches as well. Several marketers see CRM as a means to create "ongoing loyalty and brand associations among customers," or, in plain English, "Know your customer, give him what he wants, and keep him happy."

Others take a tech-head view, as in this jargon-filled definition:

"Advanced integrated database drawing on diversified touchpoints with responses via both closed loop and employee/data interaction. Each input to output generates its own information which is further added to the main database."

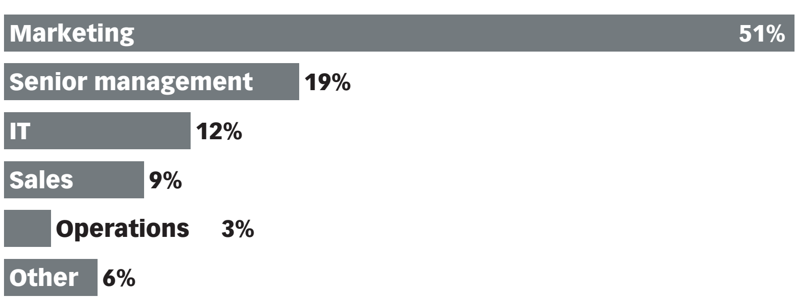
More important than how marketers decoded the acronym, they divided CRM's definition into two buckets, according to Reveries: "One, tracking customer behavior for the purpose of developing marketing and relationship building processes that bond the customer to the brand, and two, developing systems (software) to provide one to one customer service and personal contact between the company and the customer. The distinction between these two definitions may be fine, but one that has driven a wedge between marketing and IT when it comes to the implementation of CRM solutions."

"We do not do prospecting via e-mail. We don't do a lot of it, period. A lot of people don't like to get unsolicited mail. We push our clients toward using e-mail as a CRM device."

– Chip Walker, executive vice president for strategy and business development, Wunderman New York

So, is CRM a marketing endeavor or a technology system for providing customer service? The same Reveries survey points to the primacy of marketing, since 51% of respondents said that department typically leads CRM initiatives, compared to 12% of IT personnel. This is as it should be, as companies need to use technology to support marketing, not just tech for tech's sake.

Department at US Companies Which Typically Leads CRM Initiatives, May 2002 (as a % of respondents)



Note: n=197 marketing executives
Source: Reveries.com, May 2002

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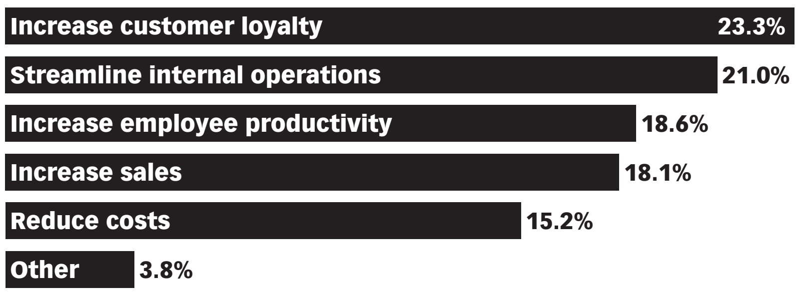
As a marketing tool, the main goal of CRM is to increase customer loyalty, at 23.3% of respondents according to research from CRMindustry.com and SupportIndustry.com. But the customer orientation of CRM faces challenges, as 21.0% said its main purpose is to streamline internal operations.

Primary Goals US Customer Service Executives Want to Achieve by Implementing CRM, August 2001 (as a % of respondents)



Note: multiple responses allowed
Source: crmindustry.com/supportindustry.com, October 2001

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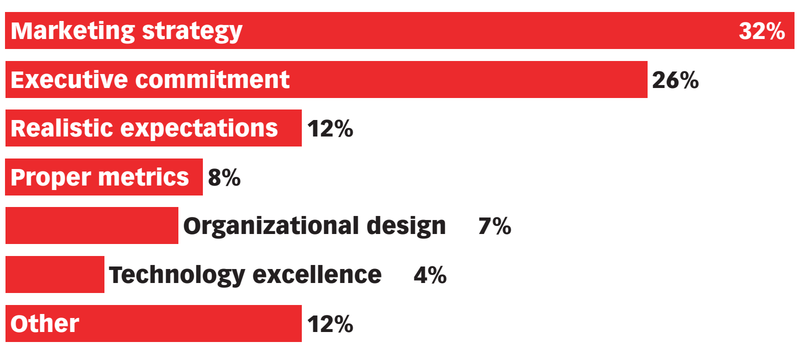
Even so, US marketers insist that the single biggest reason for a company's CRM success is its use as a marketing strategy, according to 32% of respondents to the Reveries survey.

US Marketers' Opinions Regarding the "Single Biggest" Reason for a Firm's CRM Success, May 2002 (as a % of respondents)



Note: n=197 marketing executives
Source: Reveries.com, May 2002

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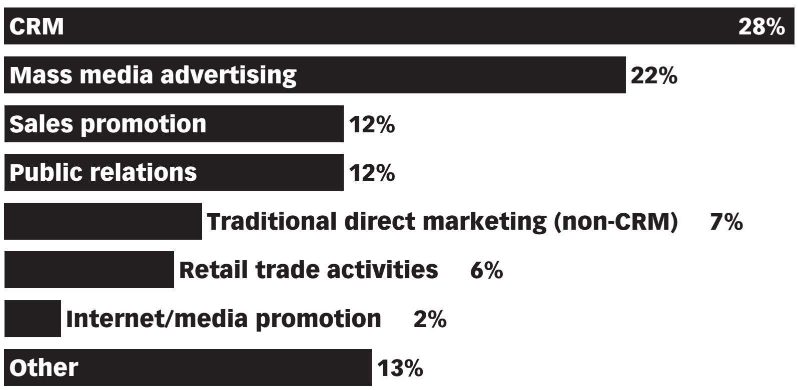
The following chart reveals the continued popularity of CRM endeavors. The research allowed US marketers to fantasize how they'd invest the majority of their marketing dollars if budget were not an issue. More than mass media advertising (at 22% of respondents) or internet/media promotion (at a mere 2%), CRM at 28% attracts the most wish-dollars. Is CRM the magic bullet for their concerns?

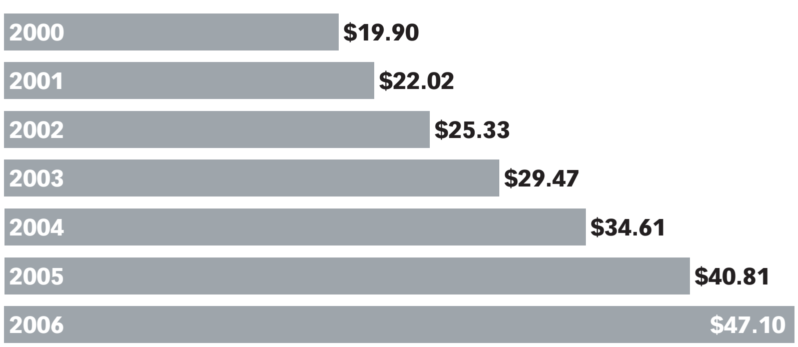
How US Marketers Would Invest the Majority of Their Marketing Dollars if Budget Were Not An Issue, May 2002 (as a % of respondents)



Note: n=197 marketing executives
Source: Reveries.com, May 2002

All those positive views of what CRM can do for a company are why Gartner Dataquest projects steady growth for the worldwide CRM market, reaching $47.10 billion by 2006.

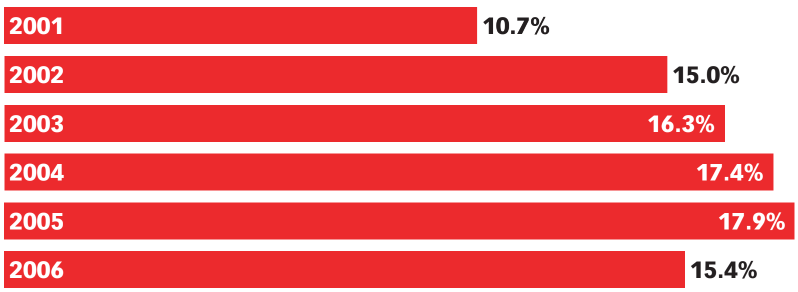
CRM Services Market Worldwide, 2000-2006 (in billions)



Source: Gartner Dataquest, March 2002

The prevailing recession of 2001 kept the CRM market increase to less than 11%, but Gartner expects a strong 15%-plus growth rate over this year and the next four, as reported in "CRM Services Market Size and Forecast, 2001-2006."

CRM Services Market Worldwide, 2001-2006 (as a % increase vs. prior year)



Source: Gartner Dataquest, March 2002

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Beyond CRM, the internet offers various other means for companies to learn about their customers. The internet's unparalleled capability of letting marketing track a customer's actions presents possibilities unknown by broadcast or print media.

Of course, not all tracking data turns into useful information about customers. But data points such as how customers arrive at a company website, which 53% of US companies monitor and 46% use in marketing, tell a lot about customer habits. Another useful tracking element, according to the DMA research, would be click-throughs for store or company promotions, which 42% of companies track and use in marketing.

And, for companies selling goods online, tracking shopping cart abandonment—which then can be the springboard to ask the customer why and possibly bring him or her back—would be a useful measurement tool for marketing. Yet only 37% of US companies track that feature, and only 22% use that data for their marketing.

Customer Tracking and Marketing Strategies Used by US Companies, 2001 (as a % of respondents)

	Track	Used in marketing	Both
Amount of time customer spends on primary website	63%	38%	58%
Time customer spends on each area/page	62%	40%	48%
Information about customer's system	57%	20%	36%
How customer arrived at website	53%	46%	65%
Connection speed of user	45%	22%	27%
Click-throughs for store/company promos	42%	42%	57%
Links from e-mail	40%	60%	68%
Abandoned virtual shopping cart	37%	22%	34%
Click-throughs for promotions offered on sites other than your own	33%	40%	51%
Promotional source of an order	32%	40%	63%

Source: Direct Marketing Association, April 2002

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For more on CRM and its place in marketing, see eMarketer'sOnline Selling & eCRM Report at: http://www.emarketer.com/products/report.php?crm_online

Targeting Tools and Methods

The information picked up and deployed throughout a company via CRM processes and through CRM technology is another major building block in the marketing measuring equation—targeting the right customers. However, according to a survey conducted by Purdue University's Center for Customer Driven Quality, while plans to integrate such customer-service channels as phone, e-mail, and the web are very popular with call center managers and CRM executives, only 12% of respondents said that CRM means "knowing more about the customer," a finding that suggests customer analytics may not be as important to CRM endeavors as some industry observers have been suggesting.

Perhaps more unfortunately, nearly one-third of respondents take a tech view of CRM, in contrast to the 20% who see CRM as a customer-focused process.

What CRM Means to US Call Center Managers and CRM Executives, 2002

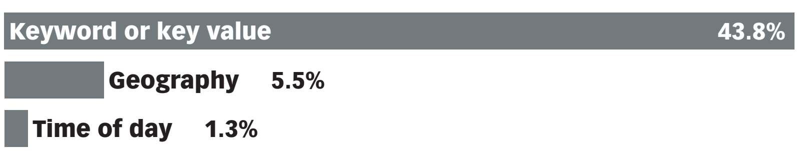
Refers to the technology that supports customer interactions	32%
Being customer-focused rather than company-focused	20%
Dealing with customers on a one-to-one basis (personalization)	18%
Knowing more about the customer (analytics)	12%

Source: Purdue University Center for Customer Driven Quality/BenchmarkPortal, May 2002

Whether customer data is gathered through CRM or other tools, such as database analysis or focus groups, one standard way to target online ads is through keywords or key values. For instance, that might mean a Ford rich media ad would appear on Yahoo! in response to a user search in the automobile category for "Mustang."

According to data from DoubleClick's servers, 43.8% of online ads served worldwide in the first five months of 2002 were targeted with keywords. Other targeting methods, such as geography or time of day, were rarely used. And, perhaps surprisingly, nearly half of DoubleClick-served ads were not targeted at all.

Targeting Method Used by Online Ads Served Worldwide by DoubleClick's DART System, January 2002-May 2002

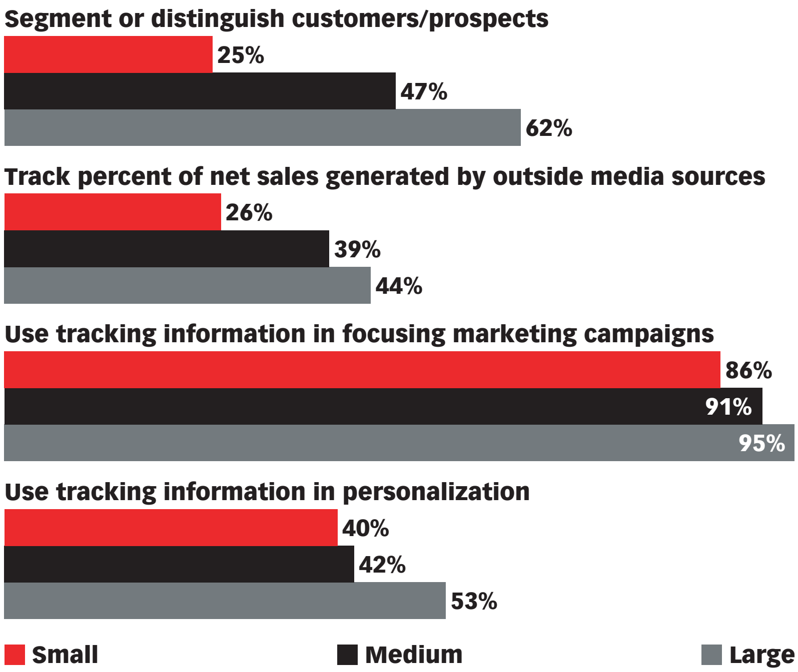


Source: DoubleClick, June 2002

Targeting without tracking is like the arrow without the bow—the marketer has a point but no good means to get it there. According to the Direct Marketing Association, 95% of large companies use tracking information in focusing marketing campaigns, while that figure drops to 86% for small companies.

Also, according to the study titled "The DMA's State of the E-Commerce Industry Report 2001-2002," tracking information is used in personalizing marketing by 53% of large companies, but less so by smaller firms.

Online and Offline Customer Tracking among US Companies, by Company Size, 2001 (as a % of respondents)



Note: company size defined by annual sales: small - $5 million or less, medium - $5 million to $500 million, large - $500+ million
Source: Direct Marketing Association, April 2002

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Personalization is an increasingly popular method for turning tracked information about customers into finely targeted marketing. "Personalization now includes anything from a simple mail merge to extending specific sales and promotional offers based on extensive customer profiling," according to CRM Daily. "That broad definition, at the very least, can confuse corporate decision-makers. Still, the lure of personalization is undeniable."

Perhaps the broader brush of segmentation makes more sense for many companies than the more subtle details of personalization. At least in the DMA chart above, large companies are more likely to segment (at 62%) than personalize (at 53%).

Eric Schmitt, a senior analyst at Forrester Research, "believes that many businesses would benefit greatly from focusing on segmentation, rather than the complexities of personalization," as reported in CRM Daily. "For a lot of companies, segmentation would be a win; 80% of value comes from breaking the base down to 10 segments, instead of an infinite number of segments," Schmitt said.

When US direct marketers employ segmentation techniques to target, they use factors such as purchase history, zip code, and basic demographics in nearly equal proportions, indicated by the 62% to 58% response level for online customers. And direct marketers use those same factors with offline customers, too, just more so, with 72% to 65% response levels.

Considering it's even easier to gather information about customers online than offline, the differences below are likely due to marketers' greater comfort and experience with offline techniques.

US Companies Who Use Segmentation Techniques on their Customer Files for Online and Offline Customers, 2001 (as a % of respondents)

Segmentation factor	Online customers	Offline customers
Purchase history	62%	72%
Location/zip code	60%	68%
Demographics (e.g., income and age)	58%	65%
Lifestyle/hobbies/interests	37%	35%

Note: n=151
Source: Direct Marketing Association, April 2002

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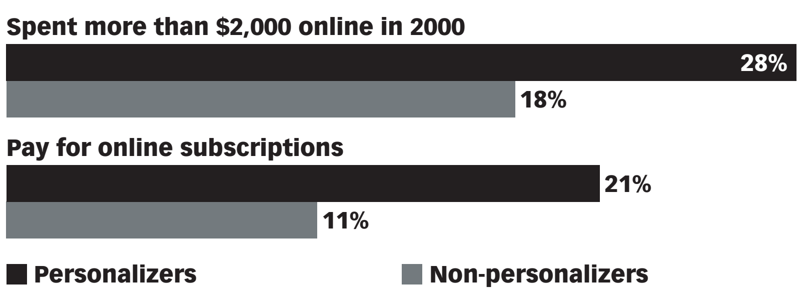
Research done last year by Cyber Dialogue points to the possibility that US consumers who value personalization tend to spend more online (at 28%) and pay for online content (at 21%) more often than those who don't value the targeting technique.

Online Spending Habits of US Consumers Who Value Personalization Features, March 2001 (as a % of respondents)



Source: Cyber Dialogue, The Personalization Consortium, 2001

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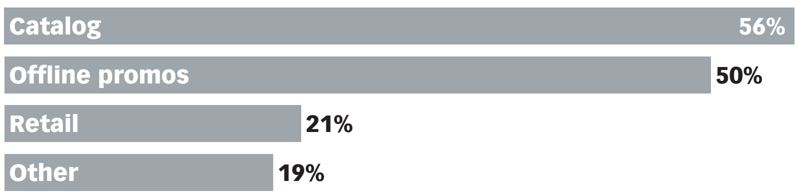
For direct marketers, accustomed as they are to advertising vehicles such as direct mail, the upsurge in online buyers means a need to target them—and not only through online methods but offline, too. The DMA found that 56% of marketers use traditional catalogs to target online buyers, with offline promos second among 50% of respondents.

Since paper catalogs are the nearest offline equivalent to shopping websites, the parallel method for targeting makes good sense.

Methods of Targeting Online Buyers Offline Used by US Companies, 2001 (as a % of respondents)



Note: n=132
Source: Direct Marketing Association, April 2002

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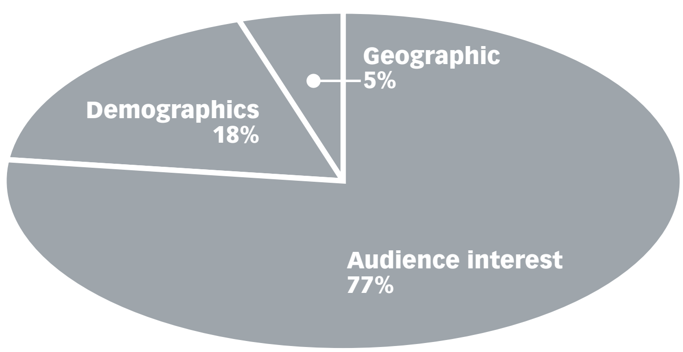
Because of its individual nature, e-mail lends itself to interactive targeting more so than web-based marketing. In order to profile the customer base, US media buyers marketing to consumers prefer segmentation by audience interest, according to 77% of respondents to an *Opt-In News* survey in Q1 2002.

Profiling Methods Used for B2C E-Mail Marketing Campaigns by US Media Buyers, 2002 (as a % of respondents)



Source: Opt-In News, May 2002

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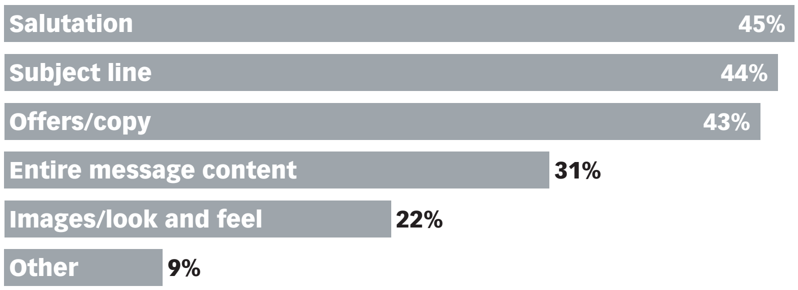
The three most-used e-mail personalization methods are salutation (at 45%), subject line (at 44%), and offers or copy (at 43%). That last element ties in with the audience interest profiling method cited in the chart above.

How US Marketers Personalize E-Mail Marketing Campaign Messages, 2002 (as a % of respondents)



Source: e-Dialog, Inc., April 2002

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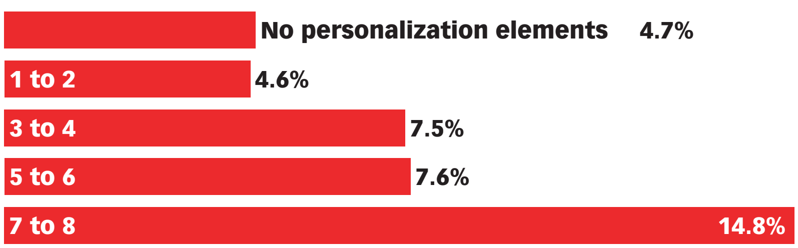
And the more personalization elements in a marketing e-mail, essentially the greater the response rate, according to Yesmail. For example, with two or fewer elements, the response rate is in the 4.6% range. Increase the element count to between three and six, and the response rate rises to about 7.5%. And, according to the Chicago-based e-mail marketing company, the response rate nearly doubles to 14.5% when seven or eight personalization elements are part of a marketing e-mail.

E-Mail Marketing Response Rates, by Number of Personalizaion Elements, 2002



Note: based on analysis of more than 90 million messages
Source: Yesmail, July 2002

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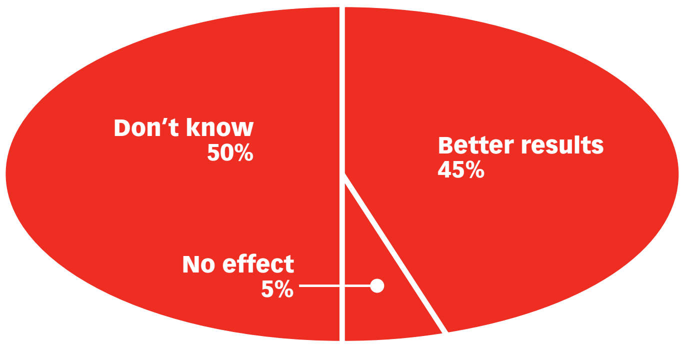
While Yesmail did not reveal how it measured the increased response rates above, tracking personalization's effectiveness is a large element of measuring e-mail marketing. In a survey by e-Dialog, 45% of the respondents noted that personalization helped create better results for their e-mail marketing campaigns.

But 50% said they don't know. Why bother to try various variables, as e-mail marketers do when using personalization techniques, and then not know the outcome?

Effects of Personalization on E-Mail Marketing Campaign Results, 2002 (as a % of respondents)



Note: n=302
Source: e-Dialog, Inc., April 2002

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For more about e-mail targeting, see the recent eMarketer report, E-Mail Marketing: Strategies, Stats, Techniques & Tools at: http://www.emarketer.com/products/report.php?e-mail_mktg

The Best Targets: At-Work Users

In the measuring/targeting dance performed by marketers, clearly the "best" targets are those people ready, willing, and able to buy your product or service. In fact, when it comes to the online world, active users with elevated incomes are a vital subset of "best."

As noted above, the financial demographics of US internet users show higher incomes than US residents as a whole. Look at the chart again: Internet users with family incomes of $75,000 or higher make up both the largest income segment, at 44.5 million, and have the highest penetration rate, at 78.9%.

Internet Users in the US, by Family Income, September 2001 (in millions and penetration)

Less than $15,000	7.8	25.0%
$15,000 - $24,999	8.9	33.4%
$25,000 - $34,999	12.6	44.1%
$35,000 - $49,999	20.6	57.1%
$50,000 - $74,999	30.1	67.3%
$75,000 & above	44.5	78.9%

Source: US Department of Commerce, February 2002

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According to various researchers, the best way to target users with higher incomes is at work. An hour-by-hour analysis by Nielsen//NetRatings shows how online at-work usage begins at 8 am and drops off around 4 pm, with peak hours between 10 am and 12 pm, when overall usage climbs to 86%.

Estimates for US at-work internet users range from Morgan Stanley's 62.6 million down to Nielsen's 45.7 million, with eMarketer's projection at 60.0 million. That eMarketer figure means 43% of internet users ages 14 or older go online when they're at work (based on 138.6 million online users ages 14 or older in 2002).

Comparative Estimates: US At-Work Internet Users, 2002 (in millions)

Source: eMarketer, November 2002; various, as noted, 2000-2002

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Another survey focusing on at-work users comes from the online version of the *Washington Post* (Washingtonpost.com), partnering with Market & Opinion Research International (MORI Research) and Nielsen//NetRatings. The September 2002 report, titled "Business Decision Makers Online," found that 77% of business decision-makers think the web is the best way to stay current with new products and companies. In fact, 60% say the web is the best way for advertisers to reach them, and that they had decreased usage of other media such as newspapers and magazines.

One caveat regarding this survey is its possible slant toward internet savvy executives, since it was disseminated via the DC newspaper's website. Another caveat as a result of the survey's online genesis and the publication's capital locale is how "a greater number of respondents—about 18%—came from the high-tech and media industries than other sectors," according to the Internet Advertising Report. "Public-sector and educational decision-makers also comprised about 21% of the respondents."

"[Business decision-makers] are focused on the task at hand, so that when ads are served to them they're engaged. If I'm an advertiser, I want the business decision-makers when they're engaged and making decisions."

– Chris Schroeder, CEO and publisher, Washington Post/Newsweek Interactive

The Nielsen//NetRatings screening methods left 999 respondents considered "business decision makers." On an average weekday, 24% of these executives spend one to two hours on the internet (excluding e-mail), while 41% spend two or more hours online.

In contrast, while 27% of respondents spend one to two hours watching television, only 32% spend two or more weekday hours in front of the tube.

Average Weekday Media Usage among US "Business Decision Makers", 2002 (as a % of respondents)

	News-papers	Magazines	Internet (excluding e-mail)	Radio	TV
<15 minutes	24%	38%	3%	12%	7%
16-30 minutes	30%	27%	10%	18%	10%
31-60 minutes	23%	13%	21%	19%	19%
1-2 hours	10%	6%	24%	19%	27%
2-3 hours	3%	2%	15%	8%	17%
3-5 hours	1%	0%	9%	6%	8%
>5 hours	1%	1%	17%	9%	7%
None	6%	6%	0%	4%	4%

Note: Respondents included in this study are "business decision makers" who answered "yes" to one or more categories for the following question: "Do you, personally and directly, participate in or influence the decision to purchase any of the following for your company?" Answers included: ASPs/Internet Access Services/Website Hosting Services, Legal Services; Business Consulting Services; IT Technology Consulting Services, etc.
Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com, September 2002

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Looking at the same one-to-two-hour slot on weekends, internet usage still trails only watching television, 19% versus 23%, respectively. And in the two-plus-hour combined category, the internet at 27% is also second to TV at 43%.

Average Weekend Day Media Usage among US "Business Decision Makers", 2002 (as a % of respondents)

	News-papers	Magazines	Internet (excluding e-mail)	Radio	TV
<15 minutes	16%	29%	9%	21%	6%
16-30 minutes	23%	25%	16%	20%	7%
31-60 minutes	27%	17%	18%	14%	14%
1-2 hours	18%	10%	19%	12%	23%
2-3 hours	4%	3%	13%	8%	22%
3-5 hours	1%	1%	7%	6%	13%
>5 hours	1%	0%	7%	4%	8%
None	7%	7%	5%	7%	4%

Note: Respondents included in this study are "business decision makers" who answered "yes" to one or more categories for the following question: "Do you, personally and directly, participate in or influence the decision to purchase any of the following for your company?" Answers included: ASPs/Internet Access Services/Website Hosting Services, Legal Services; Business Consulting Services; IT Technology Consulting Services, etc.
Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com, September 2002

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When asked which media they suggest to best target them, 61% of business decision makers said to definitely or probably include the internet. To compare, the definitely-and-probably-include categories totaled 33% and 47% for TV and newspapers, respectively.

Media Suggested by US "Business Decision Makers" for Use in an Advertising Campaign Targeted at Them, 2002 (as a % of respondents)

	Internet	TV	Radio	News-papers	Magazines
Definitely include	36%	20%	12%	21%	25%
Probably include	25%	13%	19%	26%	30%
Might or might not include	14%	15%	18%	19%	14%
Probably not include	6%	12%	13%	7%	6%
Definitely not include	5%	16%	14%	8%	6%
Don't know/ refused	7%	8%	8%	7%	8%

Note: Respondents included in this study are "business decision makers" who answered "yes" to one or more categories for the following question: "Do you, personally and directly, participate in or influence the decision to purchase any of the following for your company?" Answers included: ASPs/Internet Access Services/Website Hosting Services, Legal Services; Business Consulting Services; IT Technology Consulting Services, etc.; multiple responses allowed
Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com, September 2002

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More than the other four media, the internet is where these decision makers prefer to find out about new products, at 65% of respondents. And for the daytime targeting agenda, 45% say the internet has advertising they notice at work. Again, this figure is more than the other media.

When looking for advertising that helps them make buying decisions, the internet is about equal with newspapers and magazines, at 40%, 41%, and 38%, respectively. But when it comes to memorability, the original rich media—television—is far above the other four, at 43% of respondents.

US "Business Decision Makers'" Opinions Regarding Advertising Contained within Various Media, 2002 (as a % of respondents)

	Internet	TV	Radio	News-papers	Maga-zines	None of these	Don't know/ refused
Where I prefer to find out about new products	65%	11%	6%	25%	35%	7%	3%
Has advertising I notice at work	45%	3%	8%	18%	17%	30%	6%
Has advertising that helps me decide what to buy	40%	20%	14%	41%	38%	20%	4%
Has advertising that is relevant to me	40%	35%	30%	54%	46%	13%	3%
Has advertising I remember for a long time	17%	43%	18%	15%	22%	25%	6%

Note: Respondents included in this study are "business decision makers" who answered "yes" to one or more categories for the following question: "Do you, personally and directly, participate in or influence the decision to purchase any of the following for your company?" Answers included: ASPs/Internet Access Services/Website Hosting Services, Legal Services; Business Consulting Services; IT Technology Consulting Services, etc.; multiple responses allowed
Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com, September 2002

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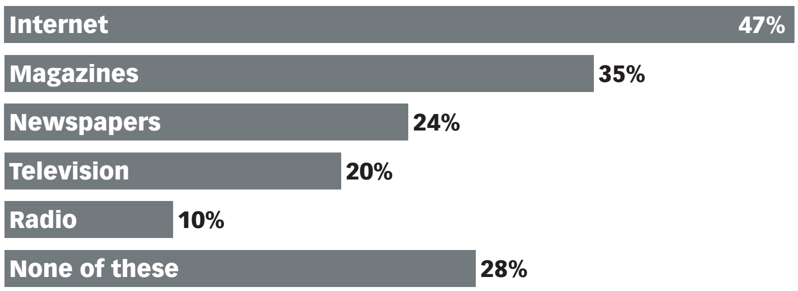
When it comes to advertising with some kind of call to action, the internet—at 47% of respondents—most influenced these business decision makers to make a purchase or obtain services for their companies.

Advertising Media Type that Has Most Influenced US "Business Decion Makers" to Make a Purchase or Obtain Services for Their Business, 2002 (as a % of respondents)



Note: Respondents included in this study are "business decision makers" who answered "yes" to one or more categories for the following question: "Do you, personally and directly, participate in or influence the decision to purchase any of the following for your company?" Answers included: ASPs/Internet Access Services/Website Hosting Services, Legal Services; Business Consulting Services; IT Technology Consulting Services, etc.; multiple responses allowed
Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com , September 2002

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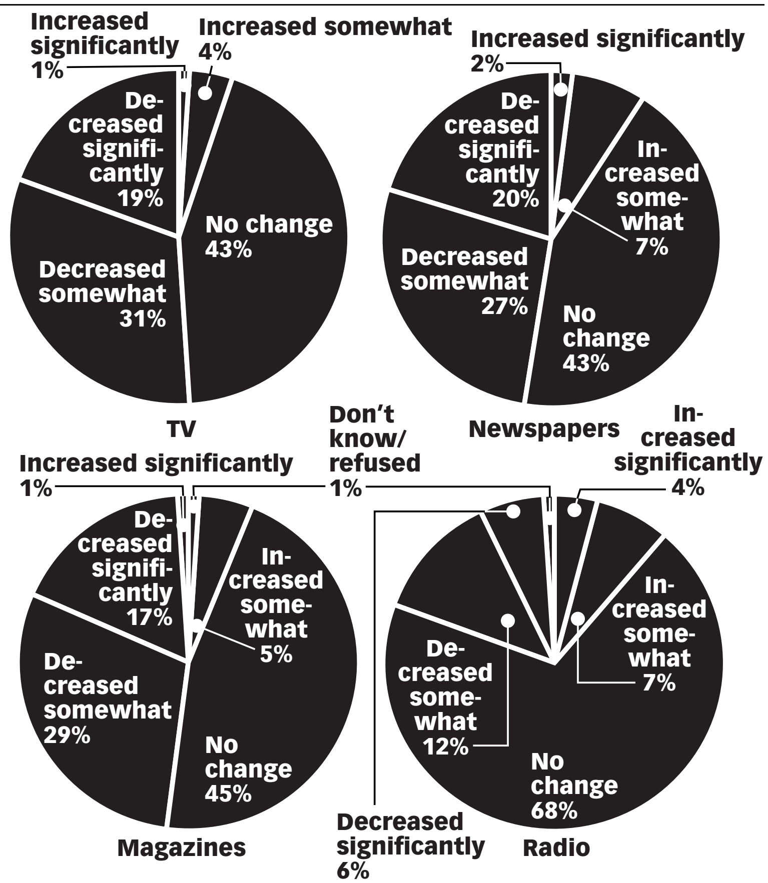
As business executives spend more time online, their use of other media tends to dwindle. In the Washingtonpost.com survey, here's how the internet changes other media use, either somewhat or significantly decreasing them:

- TV: 50% decreased use.
- Newspapers: 47% decreased use.
- Magazines: 46% decreased use.
- Radio: 18% decreased use.

All combined increases (somewhat or significantly) of traditional media due to increased internet usage are in the single-digit range.

Change in Traditional Media Usage as a Result of Increased Internet Usage among US "Business Decision Makers", 2002 (as a % of respondents)



Note: Respondents included in this study are "business decision makers" who answered "yes" to one or more categories for the following question: "Do you, personally and directly, participate in or influence the decision to purchase any of the following for your company?" Answers included: ASPs/Internet Access Services/Website Hosting Services, Legal Services; Business Consulting Services; IT Technology Consulting Services, etc.
Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com, September 2002

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In the end, 72% of these already-wired business decision makers who answered a survey on the Washingtonpost.com website called the internet the place "where modern and up-to-date companies advertise." Magazines came next, at 58%, even higher than TV at 53% for executive perceptions of where cool companies advertise.

Opinions of "Business Decision Makers" Regarding the Advertising They Encounter, by Media Type, 2002 (as a % of respondents)

	Internet	TV	Radio	Newspapers	Magazines	None of these	Don't know/ refused
Where to receive information about products	77%	7%	6%	23%	32%	4%	4%
Where modern and up-to-date companies advertise	72%	53%	28%	31%	58%	2%	5%
Has advertising that is rich in information	47%	8%	5%	29%	42%	15%	5%
Has innovative advertising	43%	50%	13%	8%	23%	11%	8%
Has interesting advertising	30%	54%	21%	16%	38%	13%	6%
Where traditional companies advertise	20%	78%	49%	68%	58%	1%	5%

Note: Respondents included in this study are "business decision makers" who answered "yes" to one or more categories for the following question: "Do you, personally and directly, participate in or influence the decision to purchase any of the following for your company?" Answers included: ASPs/Internet Access Services/Website Hosting Services, Legal Services; Business Consulting Services; IT Technology Consulting Services, etc.; multiple responses allowed
Source: Nielsen//NetRatings @Plan, MORI Research and washingtonpost.com , September 2002

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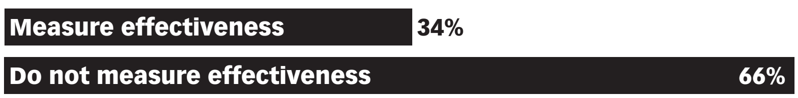
B. Direct Response Measurements

Measuring the results of interactive direct response means turning the spotlight on three marketing kings: acquisition, retention, and conversion. The potential ease of data collection online should be a boon to direct marketers.

But surprisingly—no, shockingly—only 34% of US direct marketers measure the effectiveness of interactive media, according to the DMA's data. How two-thirds of marketers can hope to use this media successfully without measuring the aftermath is tough to swallow.

US Direct Marketers Who Measure the Effectiveness of Their Interactive Media Campaigns, 2001 (as a % of respondents)



Note: n=235
Source: Direct Marketing Association, April 2002

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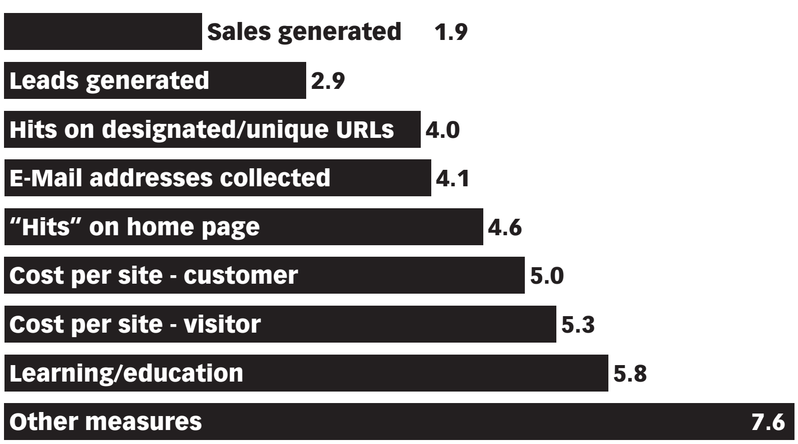
Those who do measure appear to be classically minded. That is, direct marketers consider sales generated the most useful way to gauge the effectiveness of interactive media. They see leads generated as second-most useful, with its next of kin—e-mail addresses collected—as fourth-most useful.

Top Criteria Used by US Direct Marketers for Measuring the Effectiveness of Interactive Media, 2001 (based on a 1-9 scale*)



*Note: n=80; *scores are based on a scale of "1" to "9" where "1" would be the most effective and "9" would be the least effective*
Source: Direct Marketing Association, April 2002

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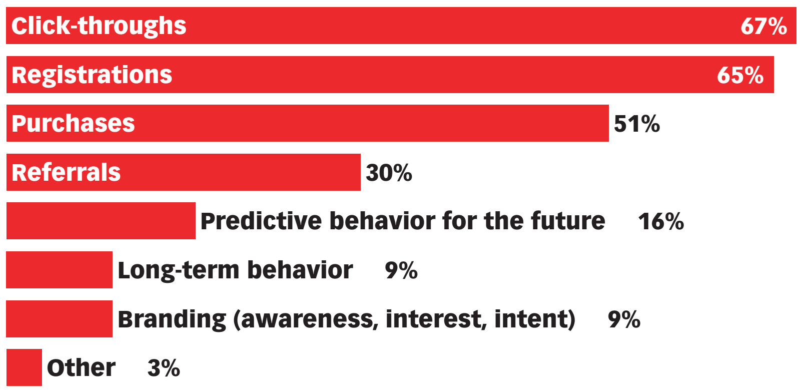
Another look at the means US marketers use to measure online ad campaigns shows that click-throughs, at 67%, and registrations at websites, at 65%, are the two most commonly used metrics. And at 51% in this Jupiter Research data, purchases finds its parallel with the sale generated method in the DMA chart above.

Metrics US Marketers Use to Measure Online Advertising Campaigns, 2002 (as a % of respondents)



Note: n=43; multiple responses allowed
Source: Jupiter Research, February 2002

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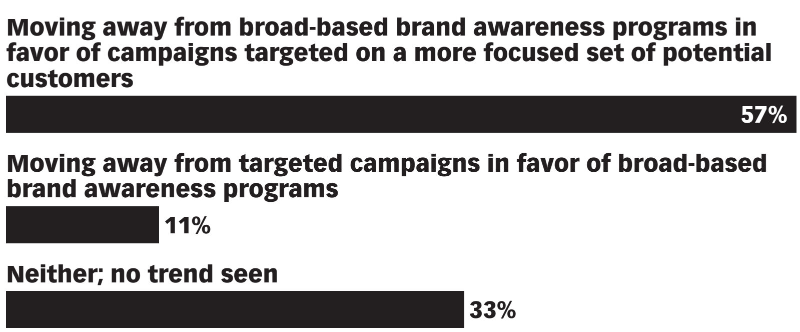
In fact, there appears a move away from broad-based brand awareness programs in favor of more targeted response campaigns, according to 57% of the respondents to a recent Patrick Marketing Group survey.

Marketing Investment Trends among US Companies, 2002 (as a % of respondents)



Note: n=250 marketing executives
Source: Patrick Marketing Group, October 2002

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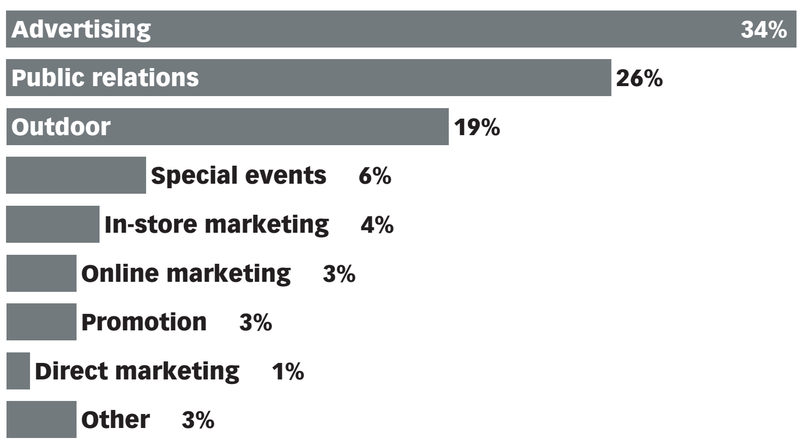
It would seem that once marketers collect data on acquisition, retention, and conversion, a full measurement of the particular campaign would be a natural and simple next step. But collecting that data might not be as clear-cut as hoped. According to Reveries.com, most marketers are frustrated with the amount of data available to monitor their programs, noting that 72% of respondents to a recent survey would characterize their level of marketing data as "not enough."

However, while 34% of respondents believe that general mass-media advertising is the most difficult type of marketing to measure, whereas just 3% say the same about online marketing and 1% about direct marketing.

Type of US Marketing Activity Most Difficult to Measure, August 2002 (as a % of respondents)



Note: n=213 US marketing professionals
Source: Reveries.com, August 2002

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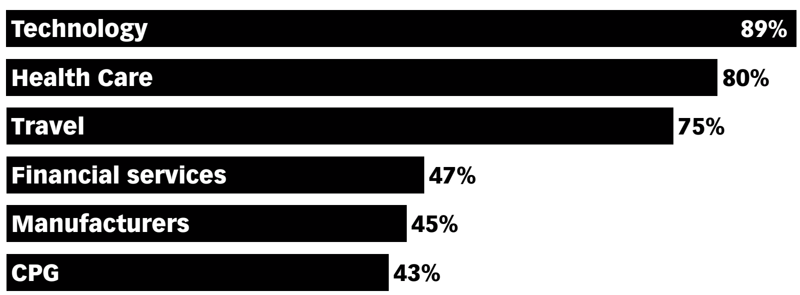
To improve upon data collection and subsequent marketing measurements, some industries are using marketing automation technology very or somewhat aggressively, according to Forrester Research's report titled "Mastering Marketing Measurement." Naturally enough, 89% of respondents at technology companies are aggressive about deploying marketing measurement technology, but so are 80% of health care firms (under great pressure to reduce, and therefore understand, costs) and 75% of travel-related companies (in a downturn since the terrorist attacks last year).

US Marketing Executives Who Use Marketing Automation Technology "Very" or "Somewhat" Aggressively, by Industry, 2002 (as a % of respondents)



Note: n=113
Source: Forrester Research, September 2002

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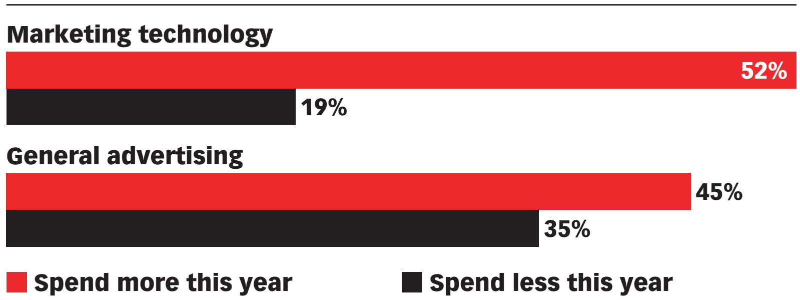
The need to know is also why 52% of US advertisers told Forrester and the Association of National Advertisers that they intend to spend more on marketing technology in 2002.

US Advertisers' Spending Intentions for Marketing Technology and General Advertising, 2002 (as a % of respondents)



Note: respondents were members of ANA
Source: Forrester Research/Association of National Advertisers (ANA), September 2002

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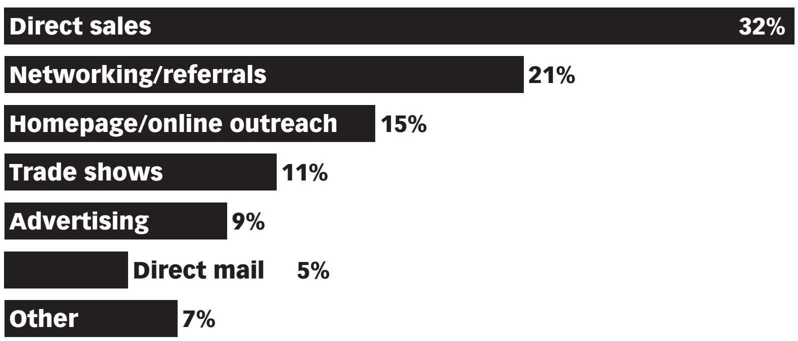
That direct sales is the marketing activity that has yielded the largest ROI during the past year, according to 32% of respondents to the Industrial Purchasing Barometer survey from Thomas Register, might have just as much to do with the greater ease of measuring direct marketing than branding efforts.

In the poll of Thomas Register's members—a pool of 760,000 opt-in users, which is made up of buyers in the manufacturing, engineering, wholesale trade, distribution, and government sectors—only 15% said the internet yielded the largest ROI. Perhaps that lower figure is due just as much to marketers learning how to measure interactive marketing as its reality.

Marketing Activity Worldwide that Has Yielded the Largest Return on Investment (ROI) During the Past Year, July 2002 (as a % of respondents)



Source: Thomas Register, August 2002

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C. Branding Metrics

Measuring branding's triumph and failures is trickier than gauging direct response marketing. With its "softer" approach to marketing, branding's yardsticks consist mainly of consumer thoughts, feelings, opinions, mindsets, and memories.

And yet building brand awareness is the prime online advertising objective for 75% of US marketers, according to DoubleClick's "Spring 2002 Marketing Spending Index." Not far behind are three direct response objectives—acquiring leads, getting sales, and driving retention—before you get to the cross-marketing goal of building stronger relationships.

Online Advertising Objectives among US Marketers, 2002 (as a % of respondents)

Note: n=190
Source: DoubleClick, June 2002

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The increased efforts to boost online branding is due to a mix of factors. One, the sheer growth among internet users in the US and their upscale nature make them prime branding targets. Two, more and more research reports indicate that online advertising works to increase the four prime brand metrics: awareness, recall (also called recognition or message association), interest (also called favorability), and purchase intent.

"At this point, most traditional planners do not understand the internet and they don't feel their dollars will be as well spent."

– Carole Walker, director of e-communications advertising and strategy, Kraft Foods

Reports from researchers include comScore's look at Nestlé Purina O.N.E. dog food; the cross-media Dove Nutrium soap study from the Interactive Advertising Bureau, the Microsoft Network, and the Advertising Research Foundation; Dynamic Logic's case study of Panasonic's MP3 player; and the Millward Brown IntelliQuest report on Air Force ads done for the Online Publishers Association.

Research based on familiar brand metrics is crucial for traditional advertisers, especially ones considering interactive advertising, since without research it's difficult for them to recognize the marketing value in any medium. However, even with the softer metrics branding requires, and the potential plethora of hard data on customer behavior available on the internet, the don't-measure group for online branding campaigns registers 45%, according to Forrester Research. That's substantially less than the 66% of respondents who don't measure interactive direct response (as in the DMA chart leading off the preceding section).

How US Marketers Measure the Impact of Online Branding Campaigns, 2001 (as a % of respondents*)

*Note: *based on the responses of 50 marketers (multiple responses accepted)*
Source: Forrester Research, October 2001

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Among US ad execs who expect to measure their online advertising over the next 12 months (starting October 2002), branding methods include impression by demographics (at 60.0%), pre/post brand tracking (at 58.0%), and online reach/frequency models (at 57.7%), according to the Myers Report.

But the click-through remains king, according both to Forrester in the chart above (at 55%) and to research from Myers, with 94.2% of respondents planning to use that metric.

Methods US Advertising Executives Expect to Use for Planning or Measuring Online Advertising, October 2002 (as a % who plan to use in the next 12 months)

	Total	Time Invested in Online Advertising	
		1% to 50%	50% to 100%
Click-through rates	94.2%	94.0%	94.3%
Website traffic	90.1%	88.0%	92.0%
E-Mail responses	88.2%	88.9%	87.5%
Online conversion rates	83.1%	75.9%	89.8%
Third-party ad server reporting	80.5%	71.3%	88.6%
Website ad server reporting	75.3%	74.4%	75.9%
Impressions by demographics	60.0%	61.0%	58.6%
Pre/post brand tracking	58.0%	42.5%	72.7%
Online reach/frequency models	57.7%	53.1%	62.8%
Technology aided/cookies (e.g., Dynamic Logic)	55.9%	37.8%	73.6%
Media industry association research (e.g., IAB)	48.5%	39.5%	57.5%
Cross-media reach/frequency tools	46.7%	42.0%	51.7%
Media-mix modeling (e.g., Sales Impact)	34.7%	24.7%	44.3%

Note: n=176 advertising industry executives
Source: Myers Report, October 2002

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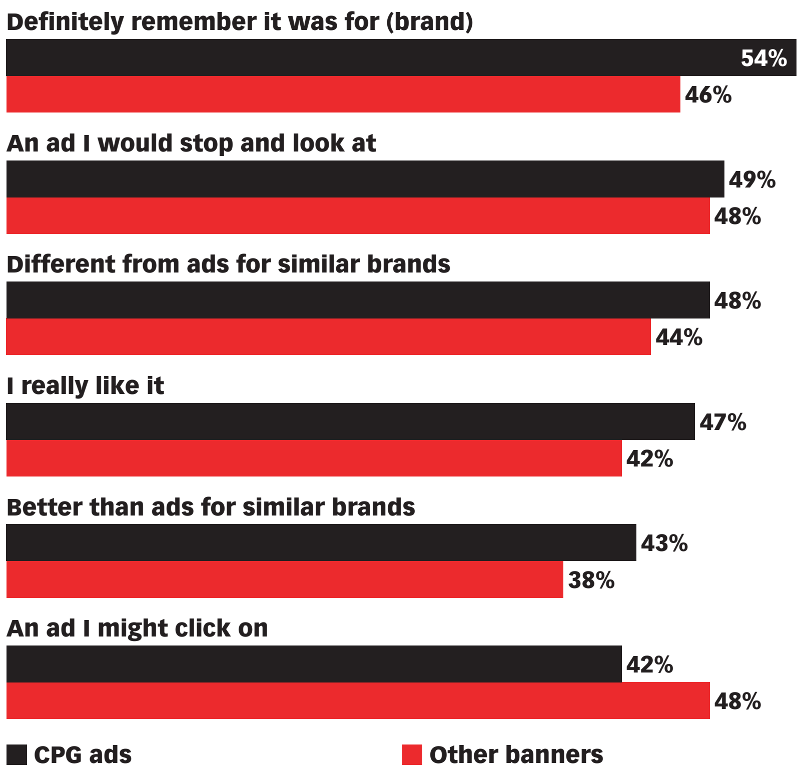
The click's ease of measurement belies its relative inadequacy as an indicator of online advertising effectiveness, especially for branding goals. in the following chart from Millward Brown IntelliQuest (MBIQ), delineating US consumer reactions to banner ads from CPG and other advertisers, note the bottom pair of bars. If only 42% of consumers would click on a banner ad for a CPG product, a banner ad that by the very nature of the product would be placed for branding purposes, then how well does measuring clicks work for marketers with branding goals?

"Advertisers forget [that] ROI is more than just conversion. You also want to concentrate on getting a brand across. Unaided brand awareness means an ad is effective. But people think an ad is a failure unless a consumer sees that ad and clicks through to the site."

– Mike Ripka, account executive, Millward Brown IntelliQuest

And yet 54% of these same consumers would definitely remember a CPG banner ad for the specific brand—the kind of traditional branding metric favored both online and offline.

US Consumer Reactions to Banner Ads from CPG and Other Advertisers, 2001 (as a % of respondents)



Source: Millward Brown IntelliQuest, December 2001

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Brand Measurement Examples & Reactions

As an example of how click-throughs and branding fail to mesh well, look at some of the results from comScore's research on banner ads for Nestlé Purina O.N.E. dog food. In fact, when consumers receive more exposures to these banners, the CTR declines, going from 0.08% to 0.05%.

Click-Through Rate on Purina O.N.E. Banner Ads, 2002

Source: Nestle Purina/ comScore Networks Inc, 2002

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However, the same increase in exposures increases awareness, with a 22.3% awareness rate for the control group that rises by 9.5 points for the group exposed to the dog-food banners.

Awareness of Purina Brand Following Exposure to Online Banner Ads, 2002 (as a % of respondents)

Source: Nestle Purina/comScore Networks Inc., 2002

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Of the 31.8% of respondents exposed to the Purina banner ads, multiple exposures drove higher awareness, rising by 7.2 points with greater exposure.

Awareness of Purina Brand, by Number of Online Banner Ad Exposures, 2002 (as a % of respondents)

Source: Nestle Purina/comScore Networks Inc., 2002

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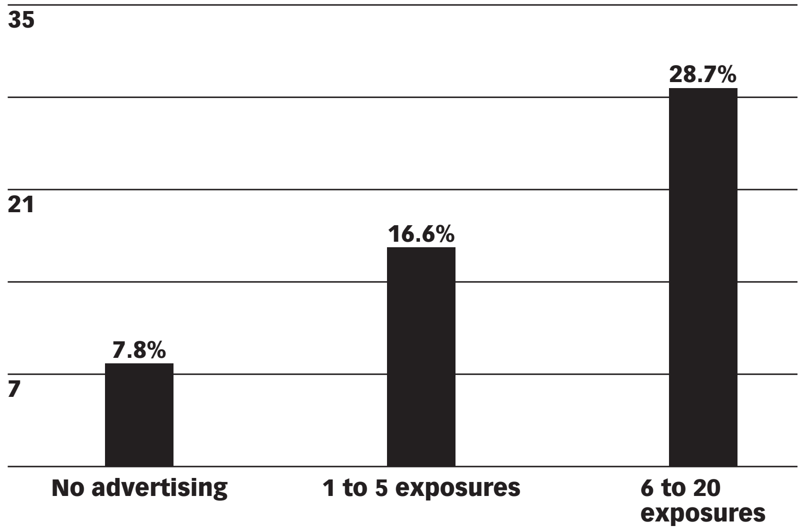
Consumer awareness (albeit prompted) of the O.N.E. brand also rose with more exposures, jumping by 12.1 points when exposures were increased to the 6-to-20 range.

Prompted Recognition of Purina O.N.E. Banner Ads, by Number of Exposures, 2002 (as a % of respondents)



Source: Nestle Purina/comScore Networks Inc., 2002

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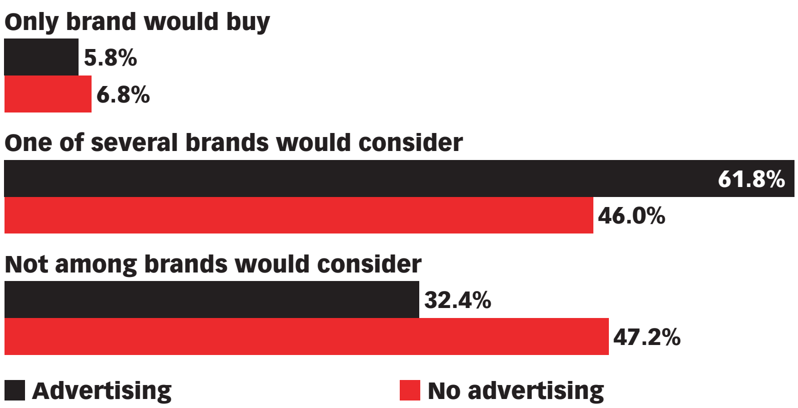
"We're just talking about applying offline metrics to online advertising. That in and of itself isn't valuable to me."

– Christian Kugel, associate director, Starcom IP

And, in a near bottom line branding metric, comScore found that these banner ads augmented Purina O.N.E.'s consideration set by 15.8 points, rising from 46.0% for consumers not exposed to the ads to 61.8% for those dog or puppy owners who saw the banners.

How Banner Advertising Moved Purina O.N.E. in Consumers' Consideration Set, 2002 (as a % of respondents*)



*Note: *results based on dog/puppy owners only*
Source: Nestle Purina/comScore Networks Inc., 2002

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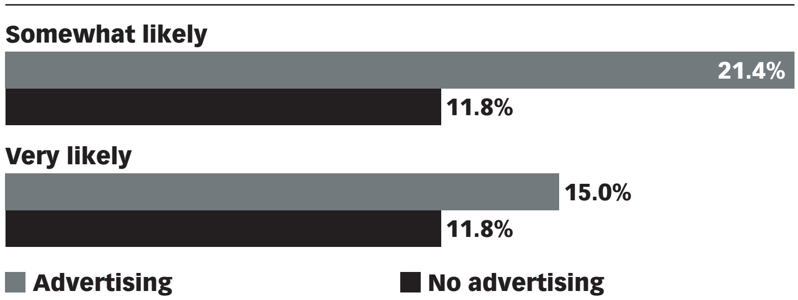
Finally, when you combine the two sets of figures below, you'll find a 12.8-point increase in the likelihood of purchasing the dog food among consumers exposed to the banner ads within three months of seeing the ad.

Likelihood of Dog Owners to Purchase Purina O.N.E. after Seeing Online Ad, 2002 (within 3 months of seeing ad)



Source: Nestle Purina/comScore Networks Inc., 2002

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Implications for Marketers

To make the branding data in this section more tangible to marketers, the following provides some helpful insight from Rex Briggs, principal of Marketing Evolution and research consultant to the IAB. Here's how increases in brand awareness, brand favorability, message association, and purchase intent work.

Take the 20.9-point increase (from 7.8% to 28.7%) in prompted recognition after 6 to 20 exposures in the chart above. What does it really mean? It means that if you advertised to 90 million people:

- **7.0 million would already recognize the brand even with no advertising (90 million x 7.8% = 7.0)**
- **Online advertising, with only 1 to 5 exposures, could lift that group to 14.9 million (90 million x 16.6% = 14.9)**
- **Increasing the exposure count to the 6 to 20 range could lift the prompted recognition group to 25.8 million (90 million x 28.7% = 25.8)**
- **That's 18.8 million new people who would recognize the brand as a result of online advertising (25.8 – 7.0 = 18.8 million)**

Next consider the media-mix study undertaken by MBIQ on behalf of the Online Publishers Association. The research was designed to test recall and memorability of online and television advertising—each alone and in combination—following a single, forced exposure to the ad creative. The branding research used ads created for the United States Air Force, which appeared online on the ESPN.com website and offline during an episode of "Who Wants to be a Millionaire."

"The results are better when online plays a larger role in the mix because offline media reaches a point of diminishing returns."
– Rex Briggs, principal, Marketing Evolution

In a test of day-after recall, respondents who had been exposed to ads in both media were, at 32%, significantly more likely to remember the TV ad than those who were exposed to only the TV ad or the control group, both at 23%.

Recognition of Offline and Online Ads in the US, 2002 (as a % of respondents)

Note: Control group watched similar TV show without test ads or went to similar website without test ads
Source: Online Publishers Association (OPA)/Millward Brown IntelliQuest, April 2002

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Brand-linked awareness for the Air Force ads also soared among the internet-only group, escalating to 38% among those exposed to the online ads versus 21% awareness among the control group, who went to a similar website without the test ads.

Brand-Linked Awareness of Online Ads in the US, Control vs. Internet Only, 2002 (as a % of respondents)

Note: Control group went to similar website without test ads
Source: Online Publishers Association (OPA)/Millward Brown IntelliQuest, April 2002

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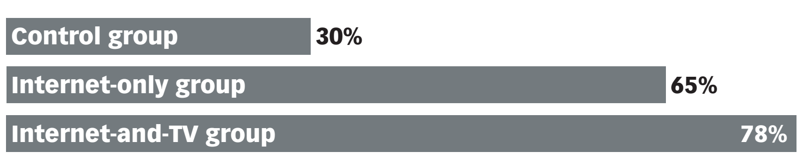
Millward Brown also found that day-after recognition (recall) of the specific online banner ad was more than double that of the control group, at 65% versus 30%. And the recall rate rose to 78% among viewers of the Air Force ads both online and on TV.

Recognition of Online Ads in the US, 2002 (as a % of respondents)



Note: Control group went to similar website without test ads
Source: Online Publishers Association (OPA)/Millward Brown IntelliQuest, April 2002

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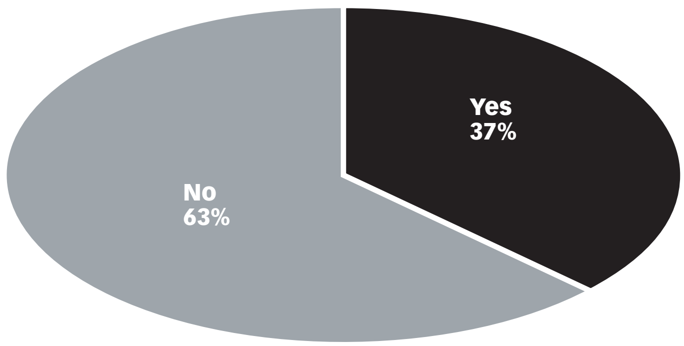
The measured implications of this study point to the synergy of branding ads that appear both online and offline. So "rather than competing with mainstream media for ad dollars, the web might serve as a valuable add-on to traditional media buys," concluded the Internet Advertising Report.

To take advantage of the potential growth in multiple-media marketing, it would help to be among the 37% of US marketers who told Forrester Research last year that they have cross-media metrics in place.

US Marketers Who Have Cross-Media Metrics in Place, 2001 (as a % of respondents)



Note: n=27 (agencies and marketers); metrics include reach, sales lift, market share and response
Source: Forrester Research, December 2001

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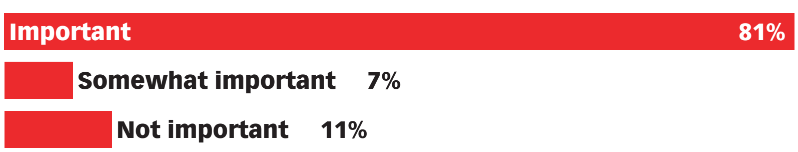
Even those 63% who didn't have cross-media metrics last year see it's necessity, since 81% of the same group told Forrester that these measuring tools are important, while only 11% dismissed them.

Importance of Cross-Media Metrics among US Marketers, 2001 (as a % of respondents)



Note: n=27 (agencies and marketers); metrics include reach, sales lift, market share and response; percentages may not total 100% due to rounding
Source: Forrester Research, December 2001

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Considering how nearly 50% of the top consumer package-goods sites sell products or market merchandise of some kind online, according to a February 2002 report by Forrester Research, their participation in branding measurement is key.

In a related cross-channel brand study designed to measure the impact of internet advertising on offline purchase behavior and consumer attitudes, Information Resources Inc. (IRI) found incremental growth in brand awareness, message recall, and sales compared to the base levels achieved through TV, radio, and print advertising.

The research, titled "e-AdWorks: Internet Advertising Effectiveness Study," points to statistically significant increases in unaided brand awareness among half the brands, ranging from 6.0% awareness for the frozen food brand up to 23.9% for the breakfast food. The awareness shift as a result of the online ads is dependent on ad impact, ad frequency, and base awareness levels.

In addition, six of the eight brands achieved significant growth in aided message recall, from 7.7% at the low end for confectionary to 54.3% for the personal care product.

Online Advertising's Effect on Brand Metrics for US Consumer Products, 2001 (as a % change vs. control)

	Unaided brand awareness	Aided message recall	Purchase intent
Breakfast food	23.9%	16.4%	3.0%
Culinary	15.0%	49.0%	0.0%
Laundry	8.7%	37.8%	12.0%
Frozen food	6.0%	2.7%	0.0%
Personal care	4.3%	54.3%	0.0%
Beverage (non-alcoholic)	4.0%	4.8%	5.0%
Confectionary	3.6%	7.7%	-0.1%
Beauty care	1.8%	20.9%	0.8%

Source: Information Resources Inc., March 2002

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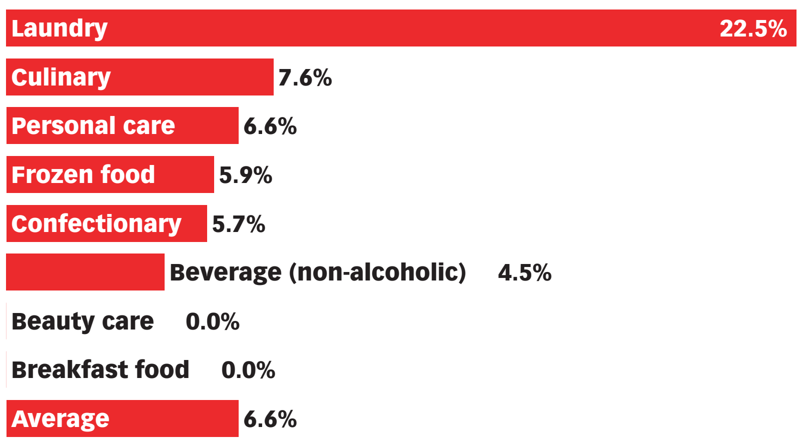
However, increased awareness and recall didn't always translate to purchase intent for these CPG brands, with only the laundry brand having a statistically significant rise, at 12.0%.

From intent to actual purchases, the study also found a sales lift resulting from online advertising ranging from flat for two brands in beauty care and breakfast food, up to an average of 6.6% across all eight brands, and reaching 22.5% for the laundry brand, which had a new line extension. (Sales increase measurements were based only on consumers exposed to the online ads—that is, 100% reach—with a median frequency of five exposures.)

Online Advertising's Effect on Offline Sales for US Consumer Products, 2001 (as a % increase)



Source: Information Resources Inc., March 2002

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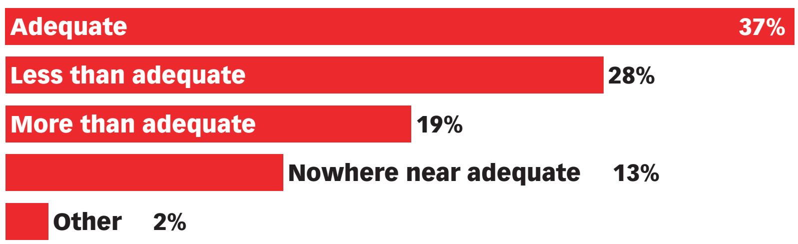
And in another measure of interactive's branding capabilities, Dynamic Logic unveiled a study in late July 2002 "that demonstrates the power of interactive broadcast advertising in building brands online," according to MediaPost. "The study examined three primary objectives to measure the effectiveness of online audio advertising: brand and advertising awareness, advertising element recall, and intent to purchase the product." The research showed that internet users exposed to an internet radio ad campaign for Dentyne Ice "were 50% more likely to be aware of the advertiser than the unexposed control group. Also, ad awareness and message association increased by 28% and 23% respectively as compared to the unexposed control group. And, web users who heard the ad were 36% more likely to purchase Dentyne Ice the next time they were shopping for chewing gum."

The internet radio network that ran the campaign, Lightningcast Network, concluded that the study "provides further evidence that the brand building commercials that have been so effective on radio for decades can deliver at least equally effective results on interactive broadcasting sites."

Just as direct response marketers are increasing their technology focus and spending to better measure interactive efforts, executives involved in branding are moving in the same direction. Research from Reveries.com shows a split between the 56% of respondents who find their brand's investment in research and development either adequate or more than adequate, versus the 41% who find it either less than or nowhere near adequate.

US Marketing Executives' Characterizations of their Brands' Investment in Research and Development, February 2002 (as a % of respondents)



Note: n=205
Source: Reveries.com, February 2002

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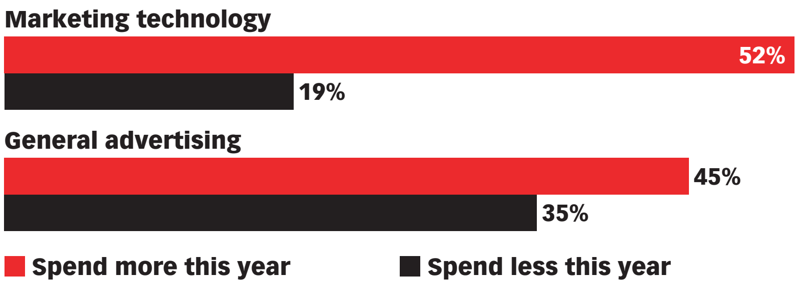
And returning to the Forrester Research study for the Association of National Advertisers—the New York-based trade organization that represents major US advertisers—note that a greater percentage of advertisers (at 52%) plan to spend more on marketing technology than those (at 45%) who say the same about general advertising expenditures.

In addition, 47% of the US advertisers surveyed "plan to spend more than $750,000 this year on developing, licensing, or subscribing to marketing applications, including e-mail, CRM, campaign management, and online ad serving," according to the Internet Advertising Report. "The reasons for the advertising industry's increased interest in technology that automates and tracks marketing stem from the growing demands placed on marketers to quantify results eked out with shrinking budgets."

The survey revealed that 83% of ANA members found it difficult to measure the effectiveness of campaigns across different media—but 81% also agreed that technology could be useful in solving the problem.

US Advertisers' Spending Intentions for Marketing Technology and General Advertising, 2002 (as a % of respondents)



Note: respondents were members of ANA
Source: Forrester Research/Association of National Advertisers (ANA), September 2002

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As the online advertising industry matures, with less of a need to make the internet exceptional, unique, and separate from other media, the measurement tools traditional branding media such as television apply look more and more attractive. Metric tools such as reach and frequency and GRPs (gross ratings points, which calculate advertising exposure by multiplying reach times the average frequency for a buy) are being deployed by various online ad technology players. This includes Nielsen//NetRatings and Interactive Market Systems (IMS), with their WebRF planning tool, and Avenue A, through its Atlas DMT division, with its Atlas GRP and Reach Forecaster service.

The argument for these standard branding metrics lies in the need to measure internet advertising in the language that traditional media planners already speak. By layering the familiar metrics on top of internet advertising, with its click-throughs and impressions, it's hoped that traditional agencies will give the internet more attention.

"Our industry needs to speak the same language as that of traditional advertising."

– Cory Treffiletti, media director, Freestyle Interactive

The argument against reach and frequency and other traditional metrics is that the internet is far more measurable than other media. That allows marketers to purchase online ads by actual impression counts, not just impression potential as with, say, television.

In March 2002, the Advertising Research Foundation stated that "the most accurate reach and frequency tools should include data from both syndicated research providers (such as comScore) and ad serving companies (such as DoubleClick)," reports *Advertising Age*. "All sides realize the endgame is to include data on web media properties in cross-media planning tools."

"If we're going to get in the game, we have to come up with a combined reach and frequency."
– John Keck, interactive media director, Foote Cone & Belding

The risk for the internet, in playing the TV metrics game, is that by switching to an apples-to-apples comparison across media, the internet could lose. "Many sites have a strong base of loyal visitors, but that also means that those loyal visitors will consume a majority of the ad inventory, simply by virtue of the fact that they visit the site so often." Those loyal visitors could potentially reduce online reach/frequency figures dramatically, but as the OPA pointed out in two white papers earlier this year, content-driven sites with a loyal audience "deliver universally positive results...in every measure of brand awareness and persuasion."

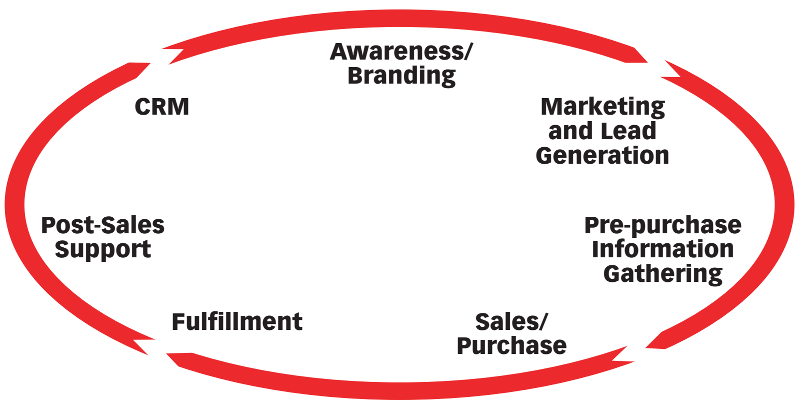
As ZDNet News wrote, "In traditional media, the thinking goes that if reach and frequency goals are accomplished a product will be sold." Is that also true for the internet?

VIII

How does a company's website fit into its entire marketing strategy—both online and offline, for branding and direct response? Does web-based marketing translate cross-channel both to other media, such as TV and newspapers, and to other direct sales venues, such as retail stores and the telephone? How does a company use its website to gather information about customers and prospects? What do those customers do on company websites?

Looking at the internet's impact on the entire sales cycle, consider that a company's website can contribute marketing elements at six of the seven stages (and even sometimes for fulfillment, if the product or service is electronic and can be downloaded).

The Internet's Impact on the Sales Cycle



Source: eMarketer, 2002

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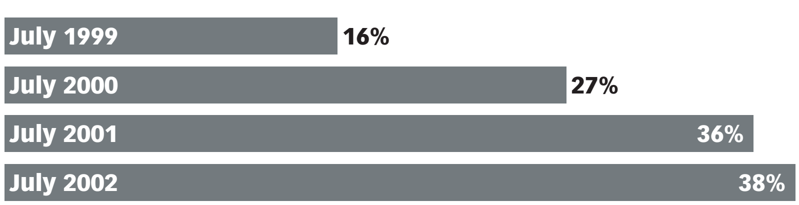
While getting the customer or prospect to buy is actually only one element of website marketing, it's worth a quick look at the impressive growth of online buyers. According to Arbitron and Edison Media Research, that figure—defined as consumers who have ever made an online purchase—increased to 38% of the entire US population as of July 2002.

Online Buyers in the US, July 1999-July 2002 (as a % of the population)



Note: consumers that have ever made a purchase online
Source: Arbitron/Edison Media Research, September 2002

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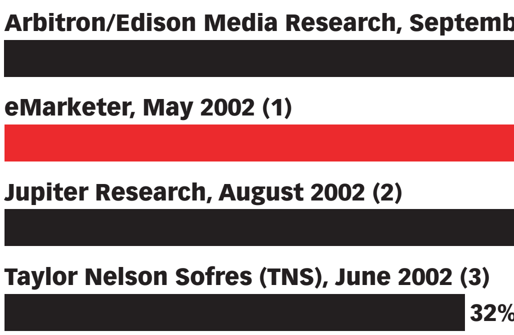
Methodology
Marketing Online or Offline: It's All Part of the Mix
Interactive Marketing: Where's the Money Going?
Issues & Barriers
Total Media & Offline Ad Spending
Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
Index of Charts

When measured as a percentage of internet users ages 14 or older, eMarketer's estimates indicate that 52% have purchased something online.

Comparative Estimates: Online Shoppers/Buyers in the US, 2002 (as a % of internet users)



Note: (1) Internet users ages 14 years and older who have ever purchased online; (2) used the internet to purchase and/or research purchases; (3) Internet users who have bought or ordered goods online "in the past month"
Source: eMarketer; various as noted, September 2002

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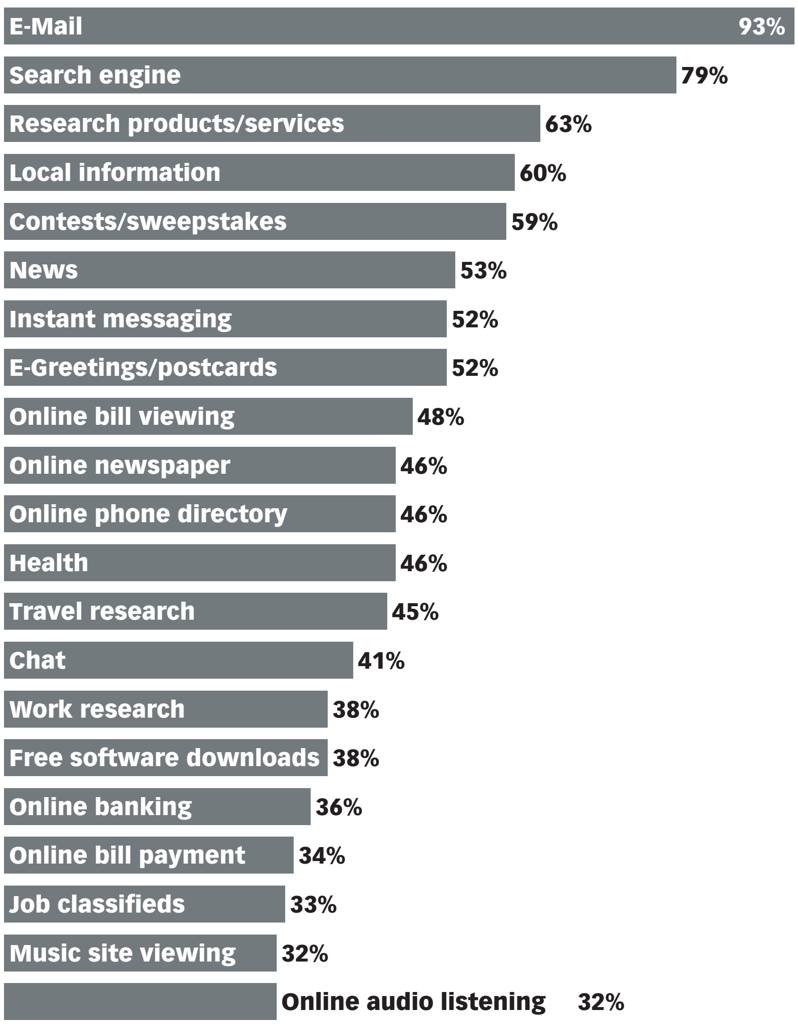
While buying stuff is certainly a common online activity among US internet users, researching goods and services is more than common—it's popular. That's according to 63% of the 4,341 respondents in a recent Jupiter Research survey. And what happens during that research, for both consumer and company, is a significant element of website-based marketing.

Popular Online Activities among US Internet Users, September 2002 (as a % of respondents)



Note: n=4,341; multiple responses allowed
Source: Jupiter Research, September 2002

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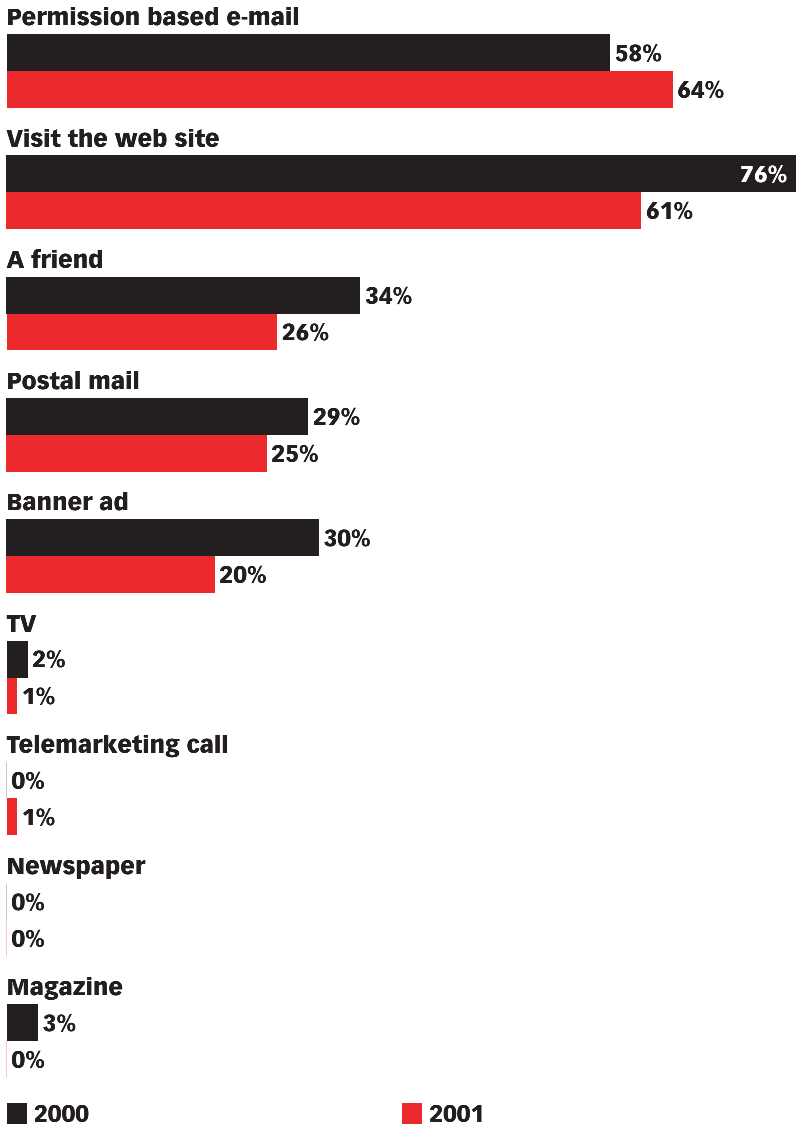
And when companies want to introduce new products, services, and promotions, they might want to remember than next to e-mail, more US internet users find out about new items by visiting websites (at 61% in 2001) than they do from direct mail (at 25%) or watching TV (at 1%), at least according to DoubleClick.

How US Online Users Find Out About New Products, Services or Promotions, 2000 & 2001 (as a % of respondents)



Source: DoubleClick/NFO WorldGroup, October 2001

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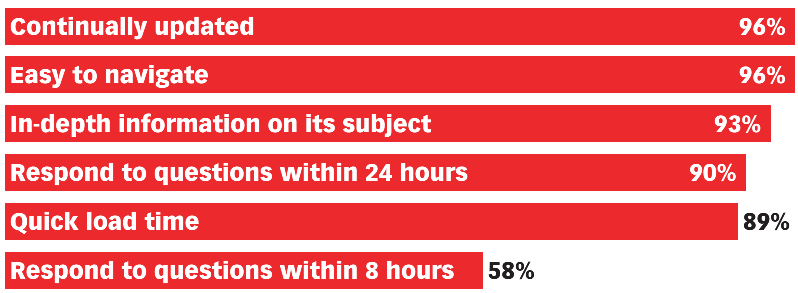
When those consumers arrive at a company website, their initial and subsequent impressions contribute in substantial and subtle ways to a company's marketing efforts. According to interviews with 301 business professionals by Enterpulse—an Atlanta-based professional services firm—among the prime features that make a website great include being easy to navigate (at 96%) and responding to questions within 24 hours (at 90%).

Features that Make a Website Great, 2002 (as a % of respondents)



Note: n=301; interviews with four groups of US business professionals in sales/marketing, IT, human resources and purchasing
Source: Enterpulse, May 2002

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The need for website features such as the ones cited above may seem obvious, but "marketers often overemphasize the hard sell of specific products or fall in love with whiz-bang technology instead of worrying about whether sites create a pleasant atmosphere for consumers and dovetail with companies' overarching branding messages," according to the *New York Times*.

"General site design and performance—how fast it takes to load—will color the brand. Many customers will infer what it means to be in the relationship with a company for its design, navigation, and performance."

– Michael Moon, president, Gistics Inc. (website consulting and research)

That's why some company website developers turn to usability testing firms that "conduct surveys and focus groups and even use high-technology eye-tracking devices to uncover how customers use a website and how their experiences affect feelings about the parent company."

"There's a misconception that a lot of companies make that websites should be treated as if they are a television commercial or application. They're not," says Steven L. Telleen, a vice president at the Giga Information Group, a Cambridge, MA-based technological advisory company. "People interact with websites the same way they interact with employees in a store. "

"The strength and image of a site rubs off on the advertiser's brand."

– Anke Audenaert, director of global market research, Yahoo!

Or as Jakob Nielsen—a co-founder of the Nielsen Norman Group, a Fremont, CA-based usability testing company—told the *Times*: "On the web, you want customers to give you a high score that said 'This company is easy to do business with.'"

Beyond a pleasant atmosphere, ease of use, and coherence with a company's overall branding objectives, a website's credibility is another major factor in consumer acceptance of the company's message. According to the three years of research conducted by the Stanford Persuasive Technology Lab at Stanford University, among the top 10 guidelines for website credibility are:

- showing that trustworthy people stand behind a site (too much hard-sell is not trust inducing),
- making it easy for customers to contact the company (you'd be surprised the websites mazes that exist), and
- using restraint with promotional content (even for commercial websites, subtle works better than overt—remember Giga's comment: "People interact with websites the same way they interact with employees in a store").

Top 10 Guidelines for Website Credibility, 2002

Guideline	Additional comments
1. Make it easy to verify the accuracy of the information on your site.	You can build website credibility by providing third-party support (citations, references, source material) for information you present, especially if you link to this evidence. Even if people don't follow these links, you've shown confidence in your material.
2. Show that there's a real organization behind your site.	Showing that your website is for a legitimate organization will boost the site's credibility. The easiest way to do this is by listing a physical address. Other features can also help, such as posting a photo of your offices or listing a membership with the chamber of commerce.
3. Highlight the expertise in your organization and in the content and services you provide.	Do you have experts on your team? Are your contributors or service providers authorities? Be sure to give their credentials. Are you affiliated with a respected organization? Make that clear. Conversely, don't link to outside sites that are not credible. Your site becomes less credible by association.
4. Show that honest and trustworthy people stand behind your site.	The first part of this guideline is to show there are real people behind the site and in the organization. Next, find a way to convey their trustworthiness through images or text. For example, some sites post employee bios that tell about family or hobbies.
5. Make it easy to contact you.	A simple way to boost your site's credibility is by making your contact information clear: phone number, physical address and e-mail address.
6. Design your site so it looks professional (or is appropriate for your purpose).	We find that people quickly evaluate a site by visual design alone. When designing your site, pay attention to layout, typography, images, consistency issues and more. Of course, not all sites gain credibility by looking like IBM.com. The visual design should match the site's purpose.
7. Make your site easy to use-and useful.	We're squeezing two guidelines into one here. Our research shows that sites win credibility points by being both easy to use and useful. Some site operators forget about users when they cater to their own company's ego or try to show the dazzling things they can do with web technology.
8. Update your site's content often (at least show it's been reviewed recently).	People assign more credibility to sites that show they have been recently updated or reviewed.
9. Use restraint with any promotional content (e.g., ads, offers).	If possible, avoid having ads on your site. If you must have ads, clearly distinguish the sponsored content from your own. Avoid pop-up ads, unless you don't mind annoying users and losing credibility. As for writing style, try to be clear, direct and sincere.
10. Avoid errors of all types, no matter how small they seem.	Typographical errors and broken links hurt a site's credibility more than most people imagine. It's also important to keep your site up and running.

Note: n=4,500
Source: Stanford University, June 2002

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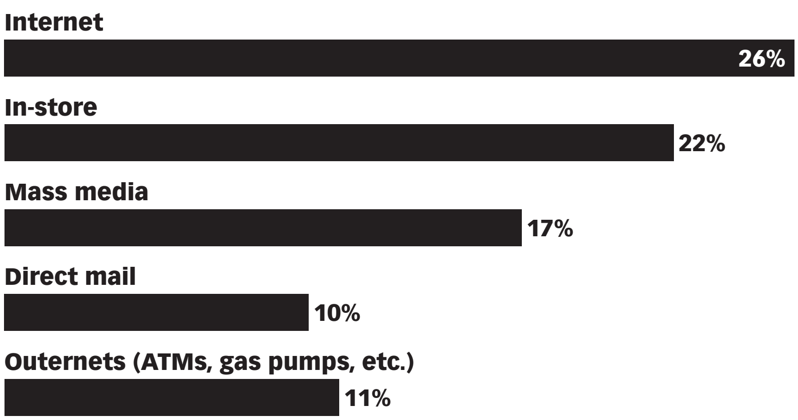
For more about online retailing and website marketing, see the Retail Industry Online report at: http://www.emarketer.com/products/report.php?retail_ind

A. Cross-Channel Marketing

Apart from the now rare pure-play company (like Amazon.com), the commercial website that is a stand-alone effort is a failure. But as part of a cross-channel undertaking, the web offers unique marketing benefits, including low-cost dissemination of information, 24/7 customer contact, and low-cost customer service.

Another web marketing focus is for creating new promotional ideas. According to a survey by Reveries.com in June 2002, 26% believe the internet is the best venue for new promotions, compared to 22% preferring in-store and 17% mass media (such as TV or newspapers).

Channels US Marketers Believe Are the Best for Creating New Promotional Ideas, June 2002 (as a % of respondents)



Note: n=320
Source: Reveries.com, June 2002

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Just as researching products and services is one of the top three online activities among US internet users, giving out information is the primary driver for the existence of a company website. According to a recent report titled "Doing Business on the Internet 2002" from the Yankee Group, 43% of companies worldwide cite information as the main reason behind their websites.

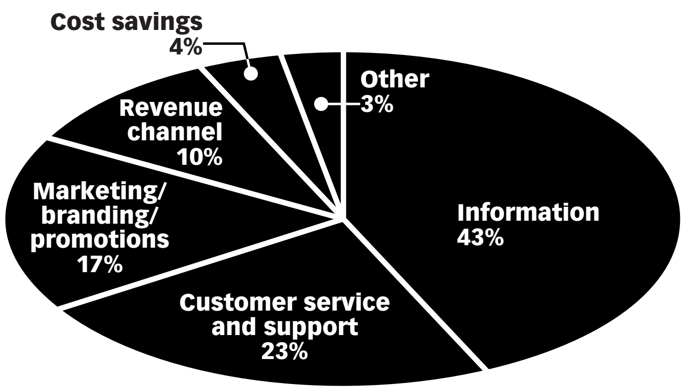
Other primary drivers for websites include customer service and support, at 23%; and marketing, branding, and promotions, at 17%. However, that latter figure might refer to an excessively narrow definition of marketing, since those other information and customer service functions also serve as part of a company's broader marketing efforts.

"There have been a great many stupidities in the past five years during this web period. But one of the biggest was the idea that there was such a thing as a pure web play. It's absolute nonsense to think that customers only want to interact through the web."

– *George F. Colony, chairman and CEO, Forrester Research*

In addition, note that only 10% of respondents to the Boston-based technology research and consulting firm's survey cited revenue as a primary driver for the existence of their company websites.

Primary Drivers for the Existence of Company Websites Worldwide, 2002 (as a % of respondents)

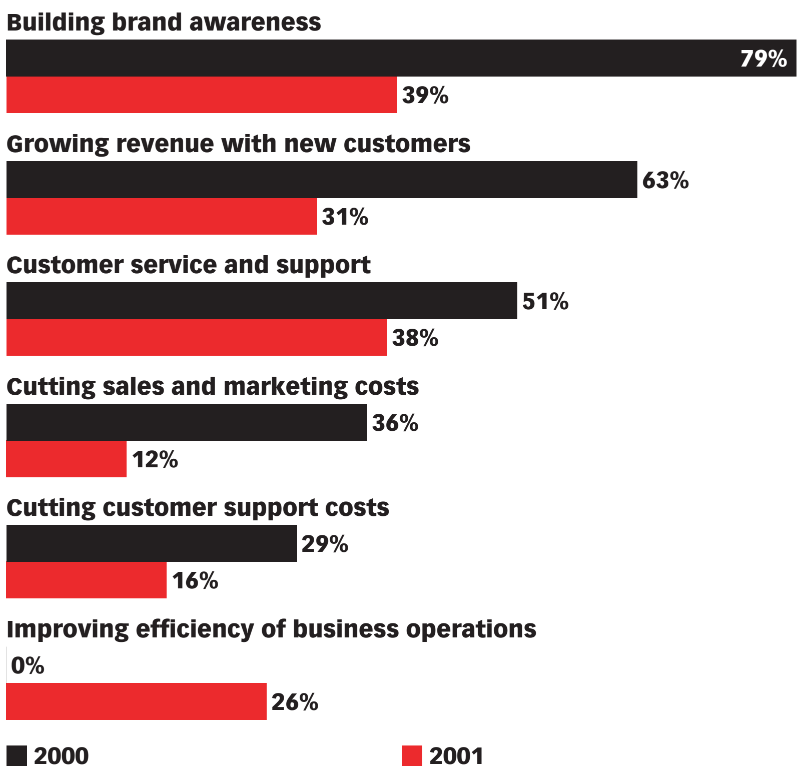


Source: Yankee Group, August 2002

The relative importance of the most website functions declined among businesses from 2000 to 2001, according to the Yankee Group. For example, while building brand awareness was cited by 39% of respondents in 2001, as the most important website function, that represented a 40-point drop from 2000's response rate.

However, much of the mindset in 2001 regarding the internet was a reaction to the dot-com downfall that began in 2000. The general tone since last year has been an understanding of the mainstream position of the web among marketing channels, although one among many.

Importance of Website Functions among Businesses with Customer Websites Worldwide, 2000 & 2001 (as a % of respondents)



Source: Yankee Group, May 2002

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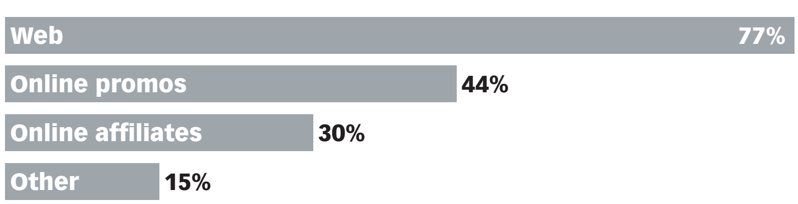
Another web-based marketing function is for targeting offline buyers when they're online. This is especially important for direct marketers, as in the 77% of respondents in the DMA study.

Methods of Targeting Offline Buyers Online Used by US Companies, 2001 (as a % of respondents)



Note: n=132
Source: Direct Marketing Association, April 2002

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In the report titled "Branding on Site: Customer Relationships in the Digital Marketplace," from The Conference Board, the marketing success elements most cited were improved customer retention (at 29%) and greater brand differentiation (at 26%).

Areas of Website Development in Which US Companies Have Had the Most Success, 2001 (as a % of respondents)

Source: The Conference Board, December 2001

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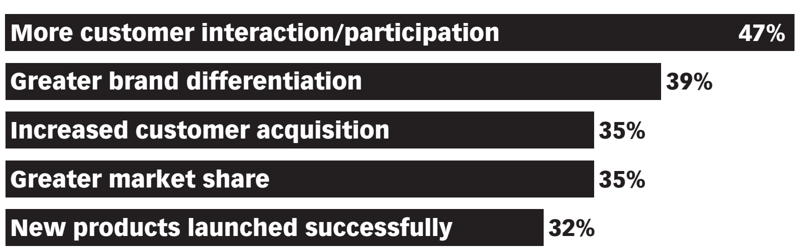
In the same report from the New York-based professional organization, marketing areas of least success include customer interaction (at 47%), greater brand differentiation (at 39%), and customer acquisition (at 35%).

With brand differentiation cited in both the most and least success categories, it would appear that some companies know how to leverage their websites for brand marketing, while others are still a bit lost in the matter.

Areas of Website Development in Which US Companies Have Had the Least Success, 2001 (as a % of respondents)



Source: The Conference Board, December 2001

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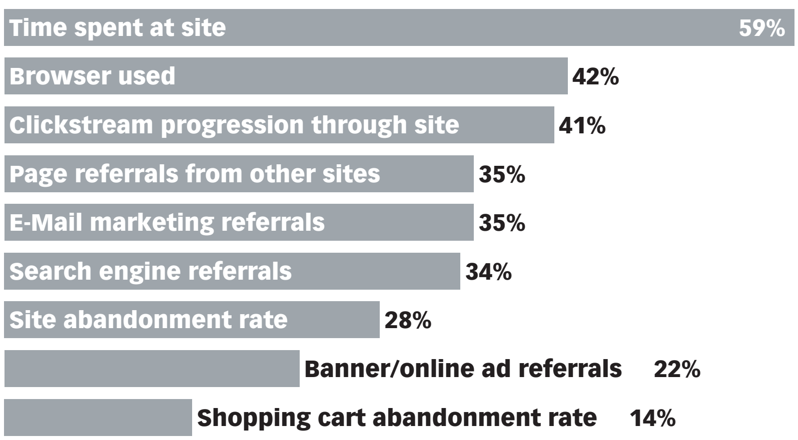
Websites are perfect venues for companies to find out who their customers are, what they want, and where they're considering buying it. Among customer behavior metrics commonly tracked at websites worldwide, the first two bars below—time spent at site and browser used—may not be too essential for marketing efforts.

However, tracking and then analyzing clickstream progression through the site, as cited by 41% of respondents to a Yankee Group survey, can tell a marketer a lot about what the customer might be interested in and also what elements of the site work better than others.

Similarly, the next three bars, all types of referrals—page, e-mail, search engine—can help marketers track customer interest and the best sources for leads.

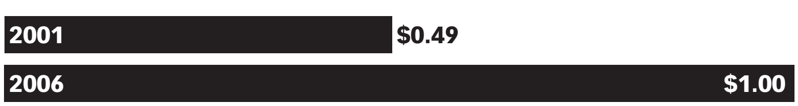
Customer Behavior Commonly Tracked at Websites Worldwide, 2002 (as a % of respondents)



Source: Yankee Group, September 2002

To make the most use of data gathered online, website analytics systems are an important tech tool. According to Jupiter, US spending on website analytics will double from $0.49 billion in 2001 to $1.0 billion by 2006.

Website Analytics Spending in the US, 2001 & 2006 (in billions)



Source: Jupiter Media Metrix, Inc., April 2002

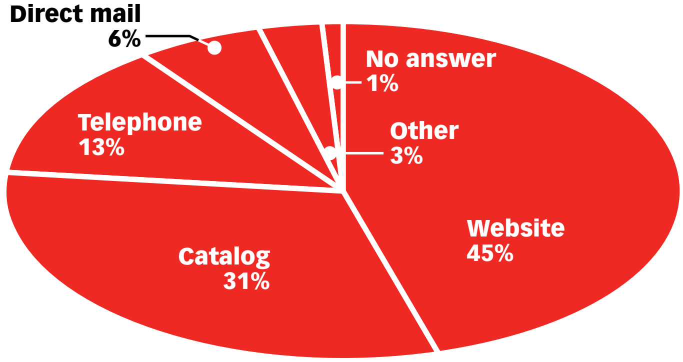
For more about using websites for sales and marketing, see eMarketer's Online Selling & eCRM report at: http://www.emarketer.com/products/report.php?crm_online

B. How Consumers Use Company Websites

As examined earlier, the marketing functions consumers use most at company websites include researching information, learning about new products, and contacting the company about service issues.

According to a survey done by Yankelovich for *Direct Magazine*, 45% of US consumers cite the web as the main channel used to research a purchase.

Main Channel US Consumers Use to Research a Purchase, 2002 (as a % of respondents)



Note: numbers may not add to 100% due to rounding; based on individuals making direct marketing purchases during previous six months who used one channel for research and another to complete the transaction
Source: Direct Magazine, Yankelovich, August 2002

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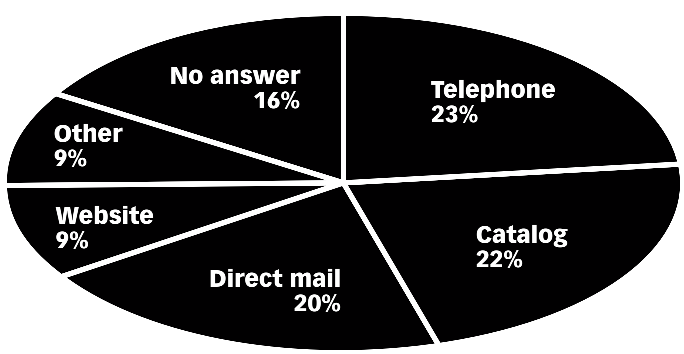
And yet the telephone, mail-order catalog, and direct mail are the most-used venues consumers use to complete a purchase.

Main Channel US Consumers Use to Complete a Purchase, 2002 (as a % of respondents)



Note: based on individuals making direct marketing purchases during previous six months who used one channel for research and another to complete the transaction
Source: Direct Magazine, Yankelovich, August 2002

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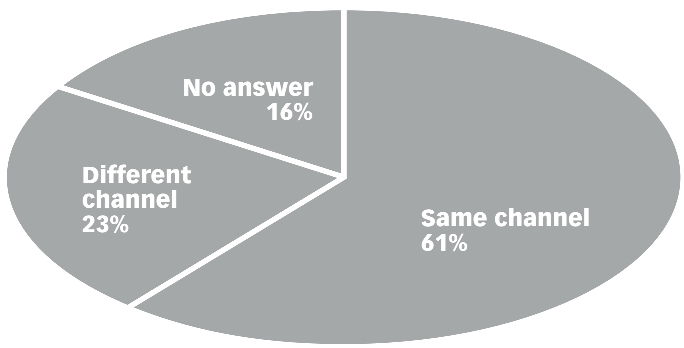
These two linked charts indicate the growing importance of cross-channel marketing, as for many customers "there is a three-step process that entails a full yet distinctive use of all direct marketing media," according to *Direct Magazine*. "Consumers who use the same channel for both researching and purchasing a product or service are slightly older while consumers who use different channels are slightly younger. Thus, the future direction of [direct marketing] will have to account for an increasing number who prefer a crossover model to a channel-centric one."

That multiple channel group is found among 23% of US consumers, according to the survey results.

US Consumers Who Use the Same Channel to Research and Make Purchases, 2002 (as a % of respondents)



Note: n=1,000
Source: Direct Magazine, Yankelovich, August 2002

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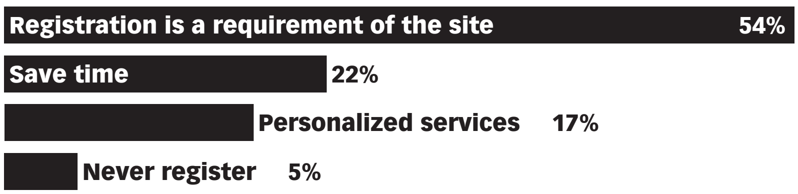
Another function of website-based marketing is developing continued contact with customers, colloquially called "relationships." These contacts help a company find out more about the customer, plus the continuity creates loyalty to a brand.

A typical first step in interactive relationship marketing is having consumers register with websites. According to Gartner Dataquest, making registration a requirement of the site is why 54% of respondents registered with US websites in 2001, followed by time savings (at 22%) and receiving personalized services (at 17%).

But 5% of consumers never register.

Reasons Why US Adult Consumers Register with Websites, 2001 (as a % of respondents who register* with websites)



*Note: *95% of the online consumers surveyed register with websites*
Source: Gartner Dataquest, August 2001

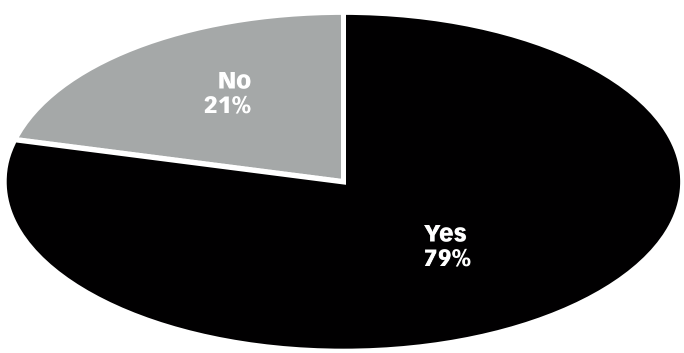
Among that indicative 5%, the two main reasons for their failure to connect is a desire not to be solicited, cited by 43%, and lack of trust about financial data, by 30% of respondents.

Reasons Why Online US Adult Consumers Never Register with Websites, 2001 (as a % of respondents who never* register with websites)

*Note: *5% of respondents never register*
Source: Gartner Dataquest, August 2001

Still, more recent data from NFO WorldGroup says that 79% of US consumers register their e-mail addresses, at least, with company websites.

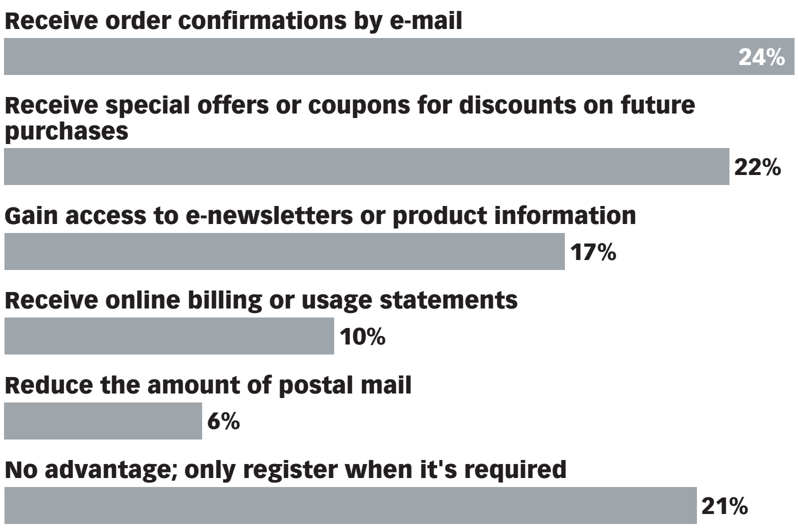
US Consumers Who Register Their E-Mail Address with Websites, August 2002 (as a % of respondents)



Note: n=1,015
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

Here's again where the linkage between website and e-mail marketing comes into play. The advantages seen for giving out address information include receiving order confirmations by e-mail (at 24%)—a great time for continued contact and upselling—receiving special offers or discounts (at 22%), and access to product information (at 17%).

Advantages US Consumers See in Registering with Websites, August 2002 (as a % of respondents)



Note: n=802 respondents who have registered their e-mail address
Source: NFO WorldGroup for Return Path and the Global Name Registry, October 2002

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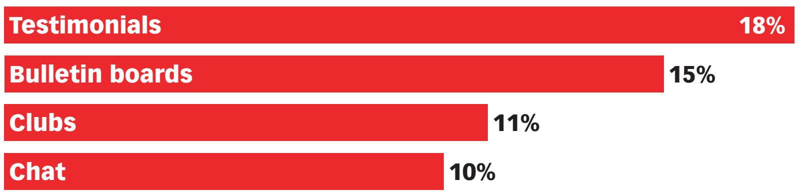
Marketing Through Community & Trust

Website bulletin boards and feedback areas are another thing consumers do online that can contribute to company marketing efforts. A recent study by McKinsey & Co. and Jupiter Research found that at some sites, regular users of these functions generated two-thirds of sales, although they accounted for just one-third of all visitors, as reported by CRM Daily. Forrester Research noted similar findings, saying that 94% of sites that use community features claim they boost repeat traffic and help generate nearly one-quarter of all site traffic—without adding significant advertising or marketing costs.

McKinsey told CRM Daily that users who post messages to a site's forum or contribute product reviews visit that site nine times more often than users who do not participate in community offerings. "They also remain twice as loyal and buy almost twice as often," said McKinsey analyst Shona Brown. "Even people who don't directly contribute, but do read those message boards, are more likely to come back and to buy. If they feel a connection, they're more likely to take the next step and become buyers."

The types of community features most offered by US retail websites include testimonials (at 18%), like Amazon.com having customers rate products, and bulletin boards (at 15%).

US Retail Websites Offering Community Features, Q4 2001 (as a % of websites reviewed*)



*Note: *the e-tailing group reviewed 100 retail websites*
Source: the e-tailing group, November 2001

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All the website-based marketing in the world means little if consumers don't trust the company's site. The advertising factors that make a website credible to internet users include the site being advertised on other media, and ads on the site that match the topic the user is reading.

> **"If websites were cars, it would be the trusty Toyota, not the flashy Ferrari, that would win the web credibility race."**
> *– B.J. Fogg, director, Persuasive Technology Lab at Stanford University*

Factors that discredit a website, according to Stanford University's Persuasive Technology Lab and Makovsky & Company, are pop-up ads and making ads and content hard to tell apart.

US and Finnish Internet Users' Opinions Regarding Factors Related to Advertising that Make a Website Credible, 2002 (mean score*)

The site is advertised on the radio, billboards or other media	0.77
The site has ads that match the topic you are reading about	0.22
The site has one or more ads on each page	-0.60
The site automatically pops up new windows with ads	-1.64
The site makes it hard to distinguish ads from content	-1.90

*Note: *survey based on 7-point likert-type scale for which "-3" indicated "much less believable" and "+3" indicated "much more believable"*
Source: Stanford University and Makovsky & Company, June 2002

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And the single most important factor in making a website trustworthy to users is that the site has previously proven useful. That result points to the importance of continuity on a company website, along with offering elements beyond just marketing. On the web, companies sometimes market by not marketing.

US and Finnish Internet Users' Opinions Regarding Factors Related to Trustworthiness that Make a Website Credible, 2002 (mean score*)

The site has proven useful to you before.	2.02
The site lists the organization's physical address.	1.67
The site gives a contact phone number.	1.56
The site gives a contact e-mail address.	1.47
The site is linked to by a site you think is believable.	1.26
The site states its privacy policy.	1.21
The site links to outside materials and sources.	1.17
The site was recommended by a news media outlet, such as a newspaper, magazine, or e-mail newsletter.	1.14
The site was recommended to you by a friend.	1.03
The site lists well-known corporate customers.	0.67
The site represents a nonprofit organization.	0.66
The URL for the site ends with ".org".	0.25

*Note: *survey based on 7-point likert-type scale for which "-3" indicated "much less believable" and "+3" indicated "much more believable"*
Source: Stanford University and Makovsky & Company, June 2002

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And supporting the e-mail and customer service information in the section above, the Stanford lab found that quick response to customer service questions is the single most important expertise factor in making a website credible.

US and Finnish Internet Users' Opinions Regarding Factors Related to Expertise that Make a Website Credible, 2002 (mean score*)

The site provides a quick response to your customer service questions.	1.83
The site provides comprehensive information that is attributed to a specific source.	1.45
The site lists authors' credentials for each article.	1.31
The site has articles that list citations and references	1.30
The site has search capabilities.	1.18
The site offers information in more than one language.	0.98
The site contains user opinions and reviews.	0.77
The site has ratings or reviews of its content.	0.72
The site selects content according to your preferences.	0.57
The site recognizes that you have been there before.	0.39
The site displays an award it has won.	0.31
The site provides comprehensive information that is unattributed to any source.	-0.53
The site has a typographical error.	-1.26
The site is sometimes unexpectedly unavailable.	-1.29
The site has a link that doesn't work.	-1.42

*Note: *survey based on 7-point likert-type scale for which "-3" indicated "much less believable" and "+3" indicated "much more believable"*
Source: Stanford University and Makovsky & Company, June 2002

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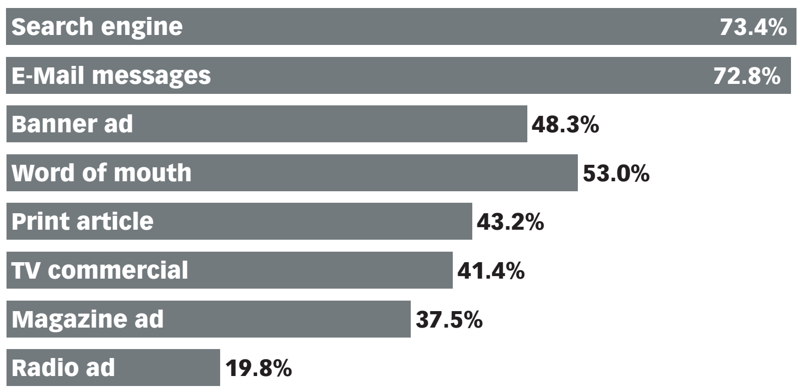
Driving Customers to Websites & Keeping Them There

All the internet-based marketing on the world wide web means little if companies fail to induce customers and prospects to visit their websites, whether the main site or a subsidiary micro-site.

The search engine marketing section in Chapter V talks about its value for generating qualified, targeted traffic. Along with e-mail messages, more than 70% of respondents to a Forrester Research and Greenfield Online survey from last year find new websites through those vehicles.

Ways Consumers Find New Websites, 2001 (as a % of respondents)



Source: Greenfield Online, Forrester Resarch, Inc., 2001

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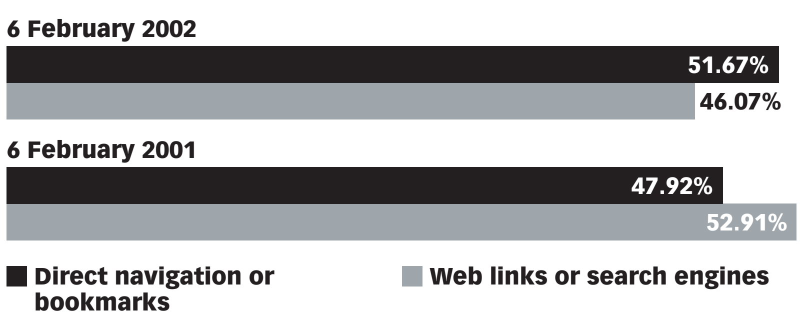
Even so, as of February 2002, more internet users arrived at websites through direct navigation or bookmarks, according to WebSideStory.

The first points to the importance of including website information in offline marketing, which people then might use for direct navigation. The second points to the importance of offering something of value on a company website; that encourages users to bookmark the site for future reference.

How Internet Users Arrive at Websites, 6 February 2002 & 6 February 2001



Source: WebSideStory, February 2002

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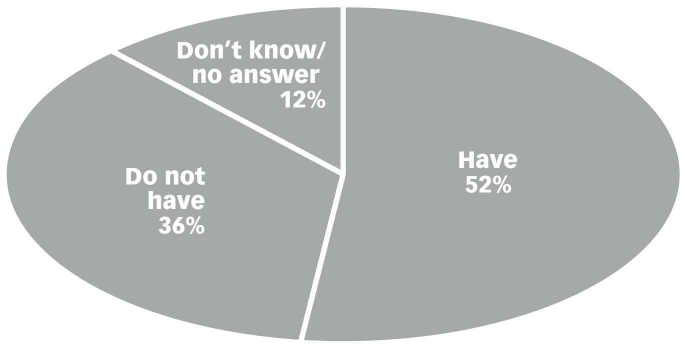
Once companies have induced users to visit their websites, how can they keep them there? Again, trust matters. The fact that as of last year 36% of US companies did not have website privacy statements, according to *Direct Magazine*, is a bad sign for those companies.

US Companies that Have Website Privacy Statements, 2001 (as a % of respondents)



Note: n=211 Direct Magazine subscribers; respondents identified themselves as consultants (19%), retailers (13%), publishers (9%), communications workers (7%), financial services employees (6%), manufacturers (5%) and nonprofit fundraisers (2%); the remaining 39% came from such sectors as list services, healthcare, insurance, wholesaling/distribution and data processing
Source: Direct Magazine, October 2001

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And when attempting to gather information on websites, to be used for future marketing, it alleviates consumer concerns to offer specific opt-in options, leaving the choice to the consumer directly.

According to a study earlier this year by the Progress & Freedom Foundation, 37% of the websites that collect personal identifying information such as name, address, and phone number play the game on an opt-in basis. The 53% who collect information the opt-out way put the onus on the consumer; over time, that method will reduce trust and potentially undermine marketing effectiveness.

US Websites that Offer Consumers an "Opt in" or "Opt out" Option* Regarding Use of Personal Information, December 2001 (as a % of sites that collect personal identifying information)**

*Note: n=178; *"Opt in" is defined as choice that requires an affirmative act by the consumer (such as checking a click-box or sending an e-mail or a letter) before the information can be used in a particular manner; i.e., the default is that the information will not be used. "Opt out" is defined as choice that allows the consumer to take an action (such as checking a click-box or sending an e-mail or a letter) to prevent the information from being used in a particular manner; i.e., the default is that, absent action by the consumer, the information may be used; **Personal identifying information refers to name, address, telephone number and/or e-mail*
Source: Progress & Freedom Foundation, March 2002

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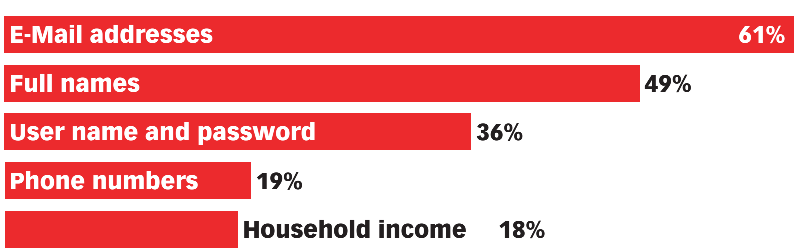
The most likely bit of info to be swapped by US online shoppers is their e-mail address, true for 61% of respondents in 2002. Well, that gives e-mail marketers one tip for building their lists. And despite privacy concerns, the lure of sweepstake winnings can induce 36% of US online shoppers to reveal their user names and passwords. When you consider that further Jupiter data says 53% of internet users maintain the same user name and password wherever they go online, that willingness to disclose passwords is worrisome.

Type of Personal Information* US Shoppers Are Most Willing to Offer to Shopping Websites in Exchange for Rewards, 2002 (as a % of respondents)



*Note: *information given to websites where shoppers have not yet made a purchase*
Source: Jupiter Media Metrix, Inc., June 2002

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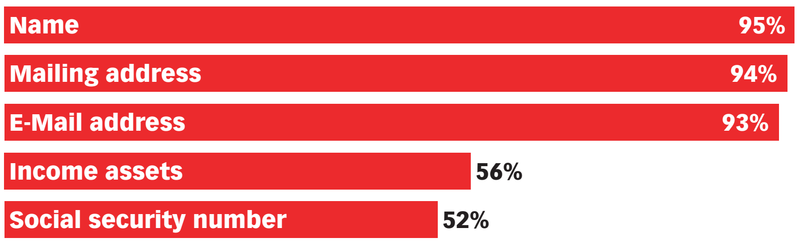
However, when the Harris Interactive results from 2001 are contrasted to Jupiter's 2002 figures, it looks like US internet users are less and less likely to divulge personal information online. For example, last year 93% of adult online users would tell their e-mail address, compared to Jupiter 61% figure for 2002. Differing methodologies also contribute to the divergent figures.

Personal Information US Online Users Are Willing to Reveal to Websites, 2001 (as a % of adult online users)



Source: Harris Interactive, 2001

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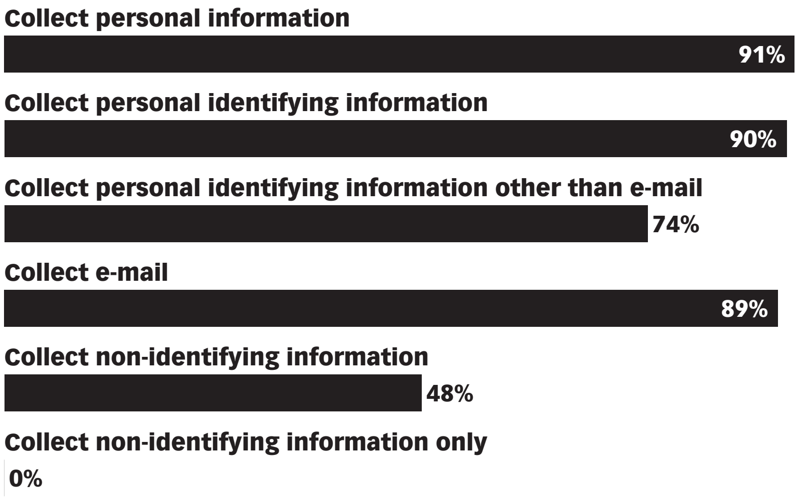
According to Jupiter, "A majority of consumers seem willing to give their personal information for small benefits because it is not always clear how their information will be used or how widely it will be shared, and the extent of this behavior varies greatly among different brands, websites, and applications."

It appears, then, that one way to differentiate one's brand or company is to make clear and obvious full privacy policies, to use them as marketing tools online.

For certain, US companies will collect data about consumers. Used as a marketing tool, websites are a perfect locus for collecting personal identifying information—such as name and e-mail address—which 90% of US websites do, according to the Progress & Freedom Foundation.

US Websites Collecting Personal Information*, December 2001 (as a % of sample)



*Note: n=302 randomly selected sites; *Personal information as defined by the FTC includes personal identifying information and non-identifying information. Personal identifying information refers to name, address, telephone number and/or e-mail. Non-identifying information includes demographic information such as age, gender, education and/or income; and preference information (e.g., hobbies, interests).*
Source: Progress & Freedom Foundation, March 2002

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Methodology
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Interactive Marketing: Where's the Money Going?
Issues & Barriers
Total Media & Offline Ad Spending
Hot Wheels: Marketing Vehicles Rising
E-Mail Marketing: Trouble Ahead?
The Measure of Marketing: What's the Bottom Line?
Website Marketing: How Companies and Consumers Use Sites
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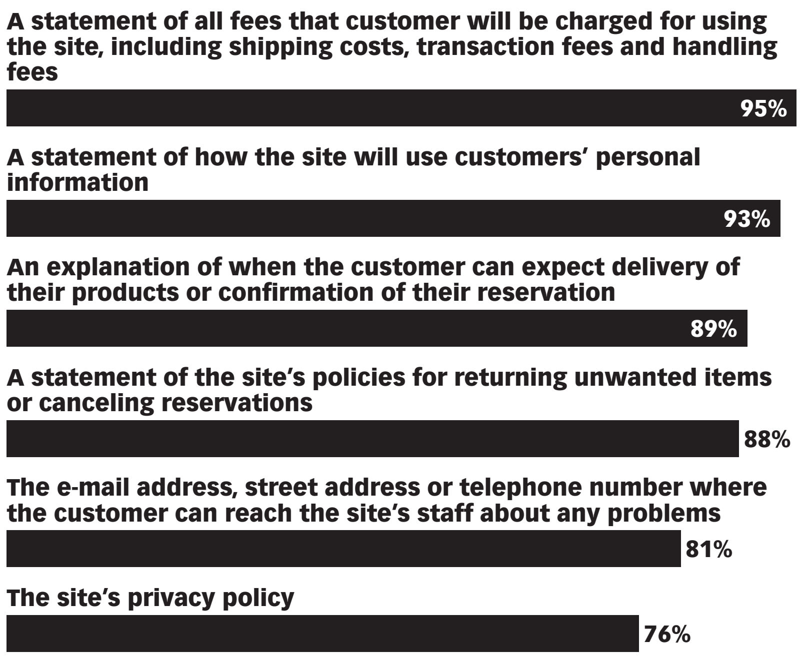
And as companies use their e-commerce websites to gather information about consumers, they would do well to remember that 93% of US internet users consider it very important that the site display a statement of how it will use personal information.

Features US Internet Users Consider "Very Important" on Shopping Websites, January 2002 (as a % of respondents)



Source: Princeton Survey Research Associates for Consumer WebWatch, January 2002

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But when privacy and trust and permission and marketing come together, things are not black-and-white. To begin with, 44% of US websites say they do or may disclose personal identifying information to third parties, according to a Progress & Freedom Foundation's study based on data collected by Ernst & Young in December 2001. That disclosure may be honest, but it decreases trust or at least the willingness to divulge personal information.

US Websites that Say They Might Disclose Personal Identifying Information* to Third Parties, December 2001 (as a % of sites that collect personal identifying information)

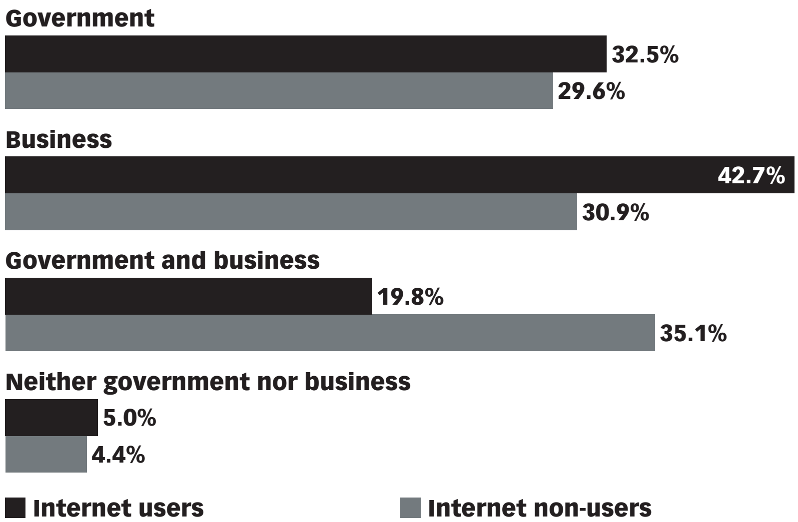
Say that domain does or may disclose personal identifying information to third parties	44%

*Note: n=273; *Personal identifying information refers to name, address, telephone number and/or e-mail*
Source: Progress & Freedom Foundation, March 2002

 www.**eMarketer**.com

All these concerns about permission and privacy among US consumers create a call to action to protect personal privacy online. Research from the UCLA Center for Communications Policy shows that while 32.5% of internet users believe it's the government's responsibility for such guarantees, 42.7% put the burden on business.

US Internet Users and Non-Users' Opinions about Who Should Be Responsible for Guaranteeing Personal Privacy on the Internet, 2001 (as a % of respondents)



Source: UCLA Center For Communication Policy, November 2001

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In the end, the fast-paced nature of information flow across the internet simply increases the importance of perception, along with reality. So if consumers see a company through its website as respectful of privacy concerns, they're more likely to stick around and be open to the company's marketing appeal.

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