

# Online Advertising Tactics:

Trends, Stats and Best Practices for Using  
Banners, Rich Media, Search, Sponsorships,  
E-Mail, Classifieds and More

July 2003



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## Welcome to eMarketer

Dear Reader:

The *Online Advertising Tactics* report from eMarketer provides marketing, media, advertising agency, and business professionals with an extensive analysis of interactive advertising's primary vehicles: banners, rich media, search engine marketing, classifieds, sponsorship, interstitials, and e-mail. From detailed spending statistics to an examination of why advertisers use some formats more and others less, this report will help marketers understand how to reach their goals when advertising on the Internet.

With more online ad format choices than ever, effective tactics means knowing which formats to deploy, when to deploy them, and how consumers react to the various techniques of reaching them interactively. In addition to an array of more than 225 charts and accompanying analysis, *Online Advertising Tactics* offers strategies on how best to position online advertising by selecting formats that match up both with branding and direct response objectives, along with current company budgets. Further data and analysis helps marketers understand consumer reactions to problematic elements such as pop-up ads—and why they still might consider including such formats in certain campaigns.

*Online Advertising Tactics* is part two of three interrelated eMarketer reports focusing on interactive advertising and marketing. The other two reports are:

- *Online Advertising Essentials*: What Marketers Need to Know About Online Audiences, Dayparts, Branding, Direct Response, Context, Advertisers and Publishers
- *Advertising Spending & Cross-Media Trends*: Online and Offline Spending Forecasts in the US and Globally, along with the Latest Data on Cross-Media Integration

In the pages ahead, you'll find statistics, lists, and detailed information that can help you develop business and marketing plans, create presentations, answer questions from clients or management and make critical decisions about ventures that affect all aspects of your company's marketing operations.

Like all eMarketer reports, *Online Advertising Tactics* presents statistical information aggregated from a broad range of authoritative research sources, totaling nearly 60 in this report. The data and analysis provide anyone working in nearly any enterprise with 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.

David Hallerman  
Senior Analyst

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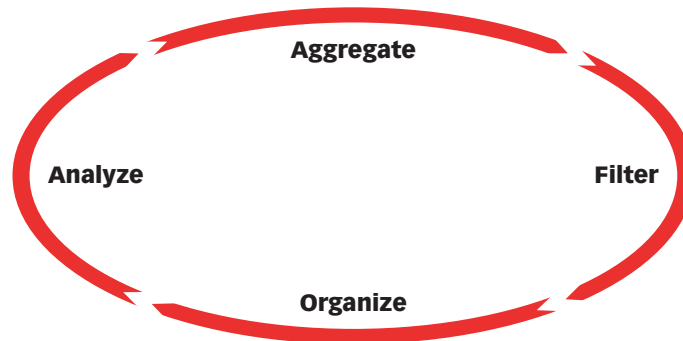
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eMarketer's approach to market research is founded on a philosophy of aggregating data from as many different sources as possible. Why? Because there is no such thing as a perfect research study and no single research source can have all the answers. 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, it therefore 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



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## The Benefits of eMarketer's Aggregation Approach

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**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

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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.

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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 its 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

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What was mighty has now fallen. What was weak has now grown strong. While the sundry vehicles that make up the online advertising universe have not quite reached some biblical the-first-shall-be-last stage, they have been going through diverse sea changes during the past three years.

For illustration's sake, two examples: The share of US online advertising spending devoted to banners shrank from 46.8% in 2000 to 29.4% in 2002, a 17.4-point fall. Meanwhile, spending on keyword search (also called paid search) rose from a 1.3% share to 15.4%, or a 14.1-point gain.

In addition, the use of online sponsorships has dropped by 10.2 points during the three-year period, while classifieds have increased their market share by 7.6 points.

## US Online Advertising Spending, by Vehicle, 2000-2002 (as a % of total spending)

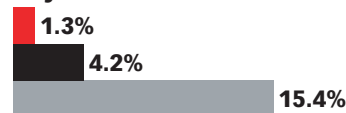
### Banners



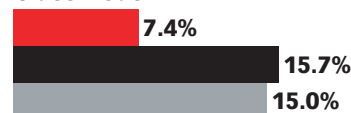
### Sponsorships



### Keyword search



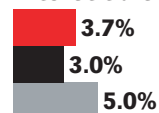
### Classifieds



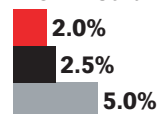
### Slotting fees



### Interstitials



### Rich media



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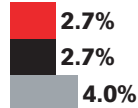
Interstitials & Pop-Ups

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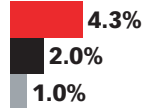
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## E-Mail



## Referrals



2000

2001

2002

Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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As the ad formats continue to shift places, total online spending has decreased by about \$2 billion. What that means for specific online vehicles is a spending shift during the three-year span shown below, where increased gains are found for only four formats: keyword search, classifieds, rich media, and (barely) e-mail.

## US Online Advertising Spending, by Vehicle, 2000-2002 (in millions)

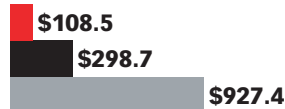
### Banners



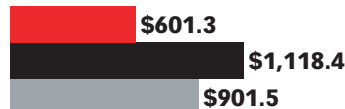
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### Keyword search



### Classifieds



### Slotting fees



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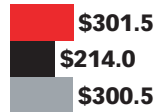
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## Interstitials



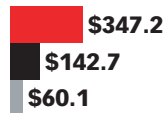
## Rich media



## E-Mail



## Referrals



■ 2000

■ 2001

■ 2002

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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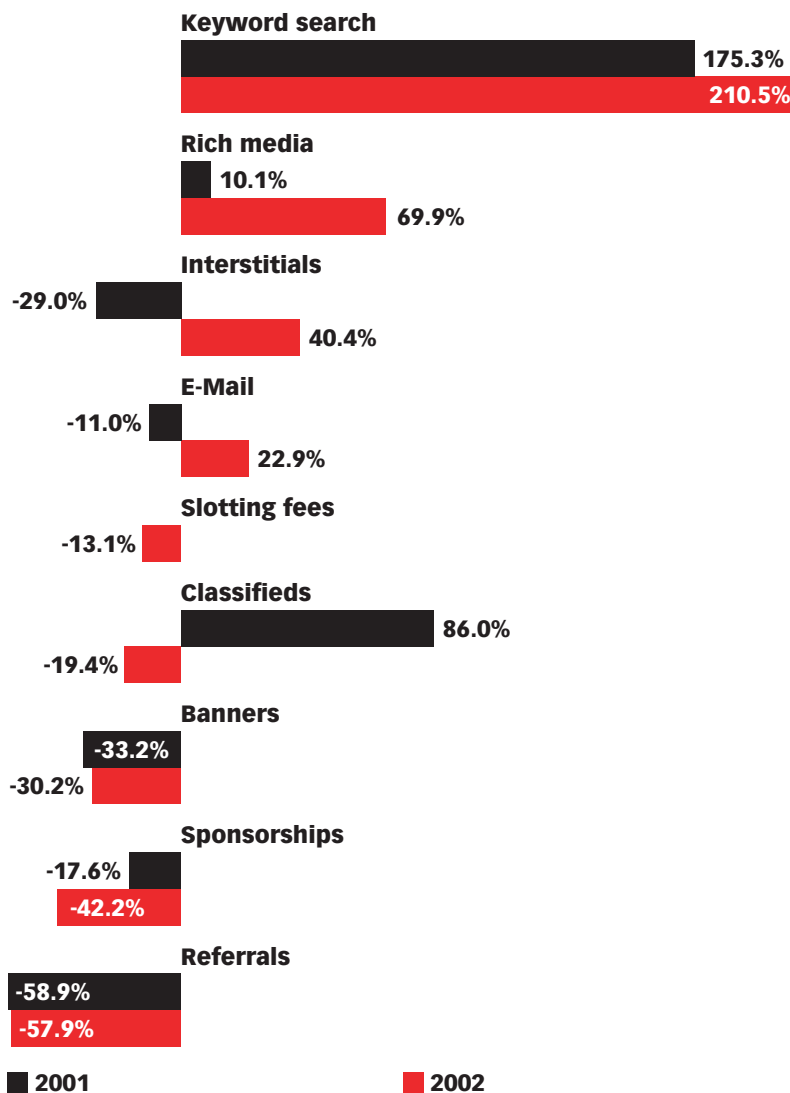
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When you view that spending by growth rates, the astounding increases for paid search become clear, with triple-digit increases in both 2001 and 2002. And, as is obvious to most people who spend time on the Web, rich media and interstitial (including pop-up) ads are also rising, with growth rates of approximately 70% and 40%, respectively, last year—albeit from small bases.

## US Online Advertising Spending, by Vehicle, 2001 & 2002 (as a % increase/decrease vs. prior year)



Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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## A. Ad Tactics: What Are the Online Vehicles?

Even as the balance among online ad vehicles shifts, none of them have gone away. So with more choices than ever, how can an advertiser determine which one(s) to use?

The diversity for online advertising bestows both blessing and complexity. The format choices for online advertising range from magazine-like display ads (banners), TV-like video (rich media), radio-like audio (streaming media), and newspaper-like agate type (classifieds) to Internet-only research (paid search) and online-style intrusiveness (interstitials, especially pop-ups).

In trying to understand the differences among ad formats, going to a standard source helps. When PricewaterhouseCoopers gathers data for the quarterly online advertising spending reports it creates for the Interactive Advertising Bureau, here's how it defines the 11 major interactive advertising vehicles.

### Definitions of Online Advertising Vehicles that PricewaterhouseCoopers Supplies to US Publisher Web Sites that Report Data, 2002

#### Ad banner:

advertiser pays an online company for space to display a static or hyper-linked banner or logo on one or more of the online company's pages.

#### Classifieds:

fees advertisers pay online companies to list specific products or services (e.g., online job boards, real estate listings, directories auctions).

#### Content sponsorship:

advertiser sponsorships of targeted content areas (e.g., entire Web site, site area or an event).

#### E-Mail:

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

#### Interstitial:

full-page text and image server-push advertisements which appear in the transition between two pages of content. Other forms of interstitials include a variation of the following terms:

- splash screens: a preliminary page that precedes the regular home page of a Web site that usually promotes a particular site feature or provides advertising. A splash page is timed to move onto the home page after a short period of time;
- pop-up windows: an advertisement that appears in a separate window which automatically loads over an existing content window, without an associated banner;
- daughter windows: an advertisement that runs in a separate window associated with a concurrently displayed banner. The content and banner are typically displayed first, followed by the daughter window;
- superstitials: ads that are distinct from interstitials because of the much higher ad quality, and that they play instantly (ads are fully downloaded before they are displayed).

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## ITV:

advertisements unique to interactive television appliances (e.g., digital video recorder).

## Keyword search:

fees advertisers pay online companies to list and/or link their company site domain name to a specific search word or phrase.

## Referrals:

fees advertisers pay to online companies that refer qualified leads or purchase inquiries (e.g., automobile dealerships which pay a fee in exchange for receiving a qualified purchase inquiry online, fees paid when users register or apply for credit card, contest or other service).

## Rich media:

advertisements that integrate some component of streaming video and/or audio and interactivity. Rich media ads typically allow users to view and interact with products or services (e.g., a multimedia product description, a "virtual test-drive" etc).

## Slotting fees:

fees charged to advertisers by online companies to secure premium positioning on their site, category exclusivity, or similar preference positioning (similar to slotting allowances charged by retailers).

## Wireless:

advertisements unique to and displayed onto a wireless/mobile device (e.g., cellular/mobile phones, WAP/I-mode, SMS/Pagers, PDA's, etc).

Source: *PricewaterhouseCoopers (PWC), December 2002*

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Even with these sanctioned definitions in hand, the evolving nature of online advertising creates an abundance of mix-and-match situations among the formats defined above.

- Banner ads are far from just the traditional 468x60 full banner – they're any size of static display ad. Publishers and advertisers create new banner formats all the time, such as the new half-page size being sold by New York Times Digital and CBS MarketWatch.
- Interstitials can be static and banner-like, or, more often, they're delivery mechanisms for full-blown rich media ads.
- Interstitials may also appear as originally defined—transitional ads arising between site pages—but they also include the intrusive pop-up or pop-under formats.
- Rich media as a separate type of ad vehicle is somewhat illogical, since rich media elements are typically found as part of interstitials, banners, e-mail, and classifieds.
- Classified ads include both traditional-style listings that appear on a newspaper's online edition and entire Web sites, such as eBay or Monster.
- Sponsorship is another amorphous category, since a sponsor can deploy virtually any type of ad technology, including banners, rich media, and e-mail.
- Keyword search, also known as paid-search and paid-listings, can be part of ad campaigns both on search engine sites or as part of search on content or e-commerce sites.
- Slotting fees for premium placement could be paid for banner or rich media ads, just to name two.

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## B. Ad Vehicle Choices: Blessing or Babel?

With all those available choices—although all are not available on all Web sites—how can advertisers know which vehicle to choose?

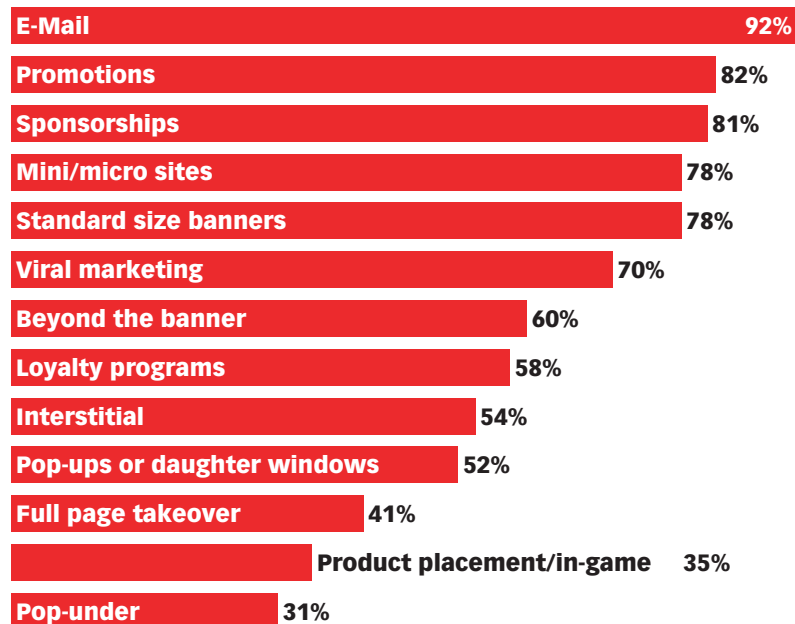
Brian McAndrews, president and CEO of Avenue A, told eMarketer in early February that rich media and paid-search were the two ad vehicles that Fortune 500 companies are looking to more and more over the past year. That large companies will be spending more on those two formats is both cause (of spending increases) and effect (as companies see others advertising through those formats, that makes them want to do the same).

**"It's a distributed system. You put tools out there and see what happens. You accept that things are going to be messy and somewhat unpredictable."**

— Tim Berners-Lee, creator of the World Wide Web; *The New York Times*, 11 May 2003

Research from the Myers Group on marketing expectations among US ad executives highlighted other ad formats—both online and offline—such as e-mail and standard-size banners, at 92% and 78% of respondents, respectively.

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



Note: n=176

Source: Myers Group, October 2002

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The proliferation of formats within formats complicates online ad decisions. Take the banner. While the research from Myers found the continued popularity of the standard 468x60 banner, the Interactive Advertising Bureau has suggested that online advertisers give some of the bigger ad formats a try. These formats include leaderboards—horizontal ads that appear at the top of a Web page and, at 728x90 pixels, are 233% larger than a standard banner.

As reported by MediaPost, online ad network Tribal Fusion tested the leaderboard against the traditional banner in December 2002, using the same basic creative from advertisers such as Palm, Oracle, Nokia, and Classmates.com. The leaderboard CTRs were between 40% and 125% better than the standard banners' rates. And in the campaigns that tracked post-click results, the larger online ads outperformed the banners by 30% to 50%.

With results like these, it's hard to deny the importance of multiple choices in online advertising formats. At the same time, that multiplicity of choices creates confusion. We're just talking about banner ads here; there's also a plethora of formats for rich media ads, just to pick another example.

As choice turns from blessing to Babel—which can be said sometimes about all media in general—some call for more standardization of online ad formats. According to Greg Stuart, the president and CEO of the IAB, it is marketers, not publishers, who are driving the Web's addiction to non-standard sizing. As he told *Media* magazine, "We have to get away from marketers' each wanting to be unique."

To combat format proliferation, more than 20 large online publishers, the American Association of Advertising Agencies (AAAA), and many agencies support the IAB's recent proposal for a Universal Ad Package. "While free to deploy other ad technologies as well, publishers would agree to carry four basic formats (160x600, 300x250, 180x140, and 720x90) so that marketers can count on being able to create and place these sizes at most sites," reports *Media*.

**"We tried to limit the sizes [in the Absolut ad campaign] to increase the 'production value' of each ad—resizing can really kill good creative."**

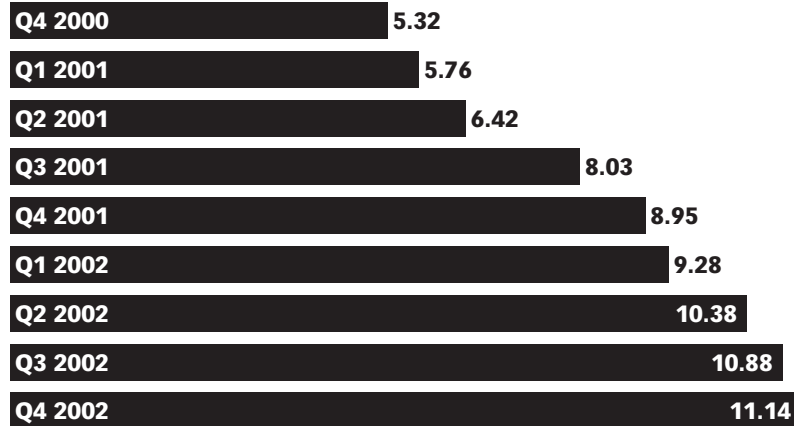
— Doug Jaeger, group creative director at TBWA\Chiat\Day; *Media*, March 2003

Furthermore, "some consolidation and standardization of formats is occurring naturally already," writes *Media* in the April 2003 issue. "DoubleClick reported in January that 70% of online ads placed in Q4 2002 conformed to one of the IAB's (albeit diverse) standard sizes. Support is also consolidating around some of the more effective units, with skyscraper placements doubling in 2002 to 8% of volume and large rectangles up fourfold."

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Even with efforts such as the IAB's and the natural tendency toward standardized formats, the number of ad sizes supported by US Web sites more than doubled in the two years from Q4 2000 to Q4 2002, according to Nielsen//NetRatings.

### Number of Ad Sizes Supported by US Web Sites, Q4 2000-Q4 2002



*Note: data limited to the advertising technologies and Web sites that Nielsen//NetRatings' AdRelevance service tracks; AdRelevance does not probe inside the AOL proprietary network*  
Source: Nielsen//NetRatings, January 2003

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In fact, new online ad formats appear steadily. In April 2003, New York Times Digital and CBS MarketWatch introduced the half-page ad, a 336x800 unit that runs on their news and story pages. One of their rationales for the new format is that “more traditional advertisers are going to be able to relate to this format,” as MarketWatch’s executive vice president of sales, Scot McLernon, told MediaPost.

Shortly after, in a move that muddies the standardization waters, Forbes.com introduced its half-page ad—measuring a different 336x850 pixels, and with rich media capabilities.

Perhaps standardization of online ad formats isn’t of ultimate importance, not when publishers and advertisers alike are still seeking ways to make the most of this still-evolving medium.

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As discussed earlier, the variety of ad sizes makes the term “banner” a flexible one, referring to any static (and often hyperlinked) display ad. Even with that flexibility, the days of banners as top dog in the online ad pack appear numbered.

**“When a consumer goes to a Web site, banners are exceptionally easy to ignore.”**

— Gary Stein, analyst, Jupiter Research; *Internet Advertising Report*, 23 October 2002

## A. Banner Spending

From a 46.8% share of all US online advertising spending in 2000, banners in 2002 fell to 29.4% of the spending pie.

### Banner Ad Spending in the US, 2000-2002 (as a % of total spending)

2000	46.8%
2001	35.4%
2002	29.4%

Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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The spending on banners last year was more than \$2 billion less than only two years earlier, dropping to \$1.76 billion. This drop was due both to a shrinkage in total ad spending—from \$8.09 billion in 2000 to \$6.01 billion in 2002—and banner’s reduced portion of the online pie.

### Banner Ad Spending in the US, 2000-2002 (in millions)

2000	\$3,783.2
2001	\$2,526.4
2002	\$1,764.4

Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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Translated to growth rates, banner-ad spending fell by more than 30% both last year and the year before.

### Banner Ad Spending in the US, 2001 & 2002 (as a % decrease vs. prior year)

-33.2%	2001
-30.2%	2002

Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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These sharp declines in spending lead to questions such as “Is the banner dead?” (which a *Wall Street Journal* reporter asked eMarketer recently). Perhaps there’s a touch of irony here: Just as many people in the online advertising industry like to use the term “traditional” when talking about advertisers and media that existed before the Internet, the same term is easy to apply to several elements of the still-young interactive ad world. The banner—as the original type of Internet display ad—appears equally traditional, and permanent. Or so it seems from the IAB/PwC numbers above, which show how banner ad spending, while diminishing, still holds the highest share among all online ad vehicles.

Projections from Jupiter Research appear to back up those numbers. Lumping all ads that aren’t streaming or rich media into the “conventional” category, Jupiter says that banners and their ilk still dominate online advertising, accounting for 89% of US online advertising spending in 2003.

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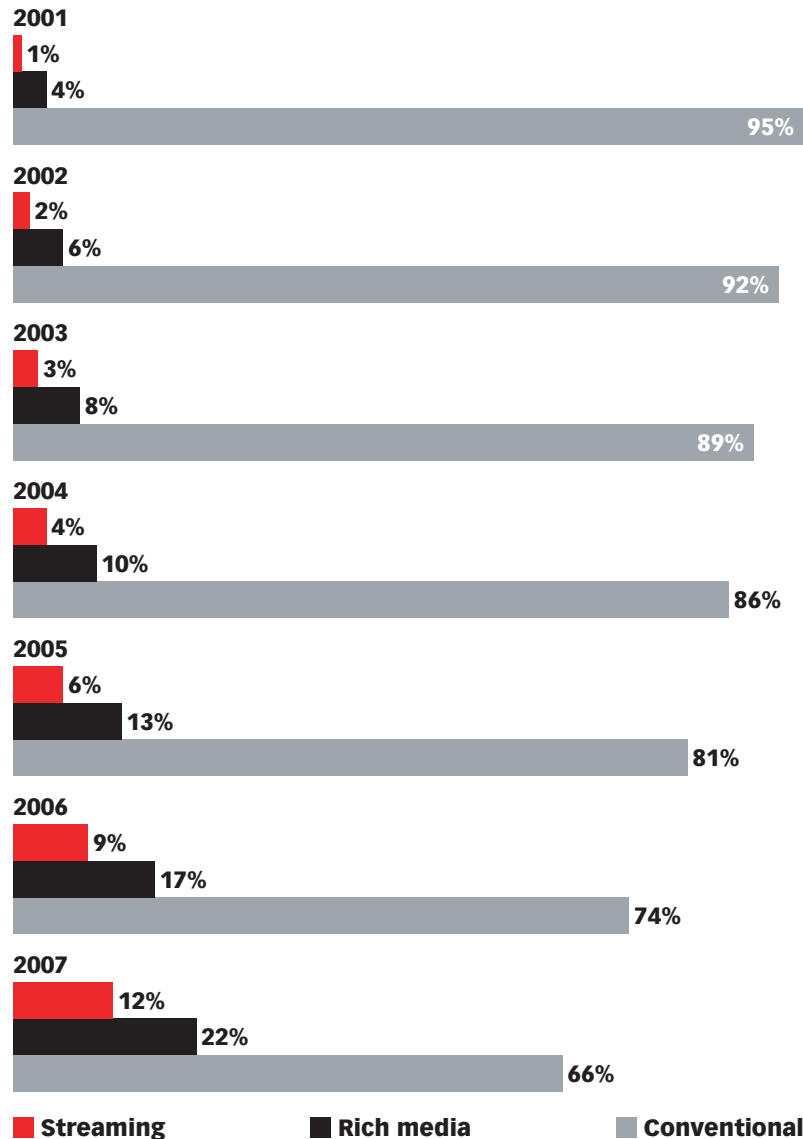
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However, as high-bandwidth, high-engagement advertising becomes more common, spending on conventional, traditional online ads should drop to a 66% share in four years. (See the next section for more on rich media ads.)

## 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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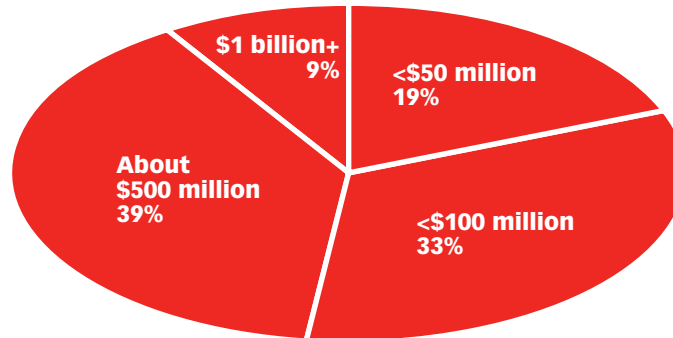
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Finally, one type of banner-like display advertising is found on Internet-based yellow pages. According to industry executives who specialize in this type of advertising, spending for national yellow pages is increasing online. Five years from now, it will be about \$500 million, according to 39% of respondents to a Kelsey Group survey.

### US Yellow Pages Executives' Opinions Regarding Online National Yellow Pages Ad Spending Five Years from Now, September 2002 (as a % of respondents)



Note: n=103

Source: Kelsey Group, 2002

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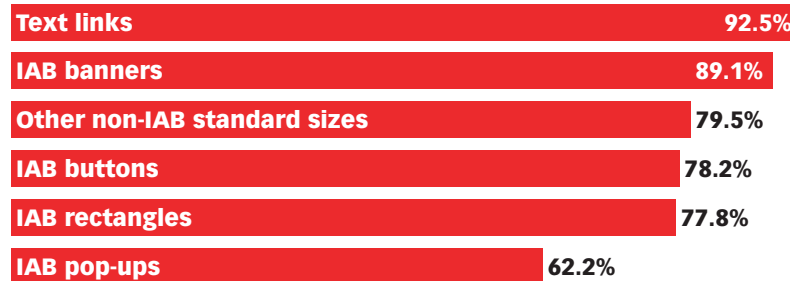
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## B. Banner Formats & Usage

Survey research supports banner durability. When the Myers Group asked US ad executives last October which online ad sizes they planned to use over the next 12 months, nearly 90% mentioned traditional IAB standard-size banners.

### Online Ad Sizes US Advertising Executives Plan to Use in the Next 12 Months, August 2002 (as a % of respondents)



Note: n=176

Source: Myers Group, October 2002

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**"A lot of content sites can't afford to remove banners because they don't have anything to replace them with...I don't think banners are going away."**

— Steve Berkowitz, president of Web properties, Ask Jeeves; MediaPost, 6 January 2003

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Similarly, DoubleClick found that nearly 50% of the total ads served as IAB standard sizes in Q4 2002 were the traditional, original full 468x60-pixel banner.

### Percent of Total Online Ads Worldwide Served as IAB Standard Sizes, Q4 2002

#### Full banner (468x60)



#### Skyscraper (120x600)



#### Button 2 (120x60)



#### Half banner (234x60)



#### Medium rectangle (300x250)



#### Wide skyscraper (160x600)



#### Button 1 (120x90)



#### Square button (125x125)



#### Vertical banner (120x240)



#### Other



#### Total



*Note: results based on 630 billion ads generated by DoubleClick clients*  
*Source: DoubleClick, January 2003*

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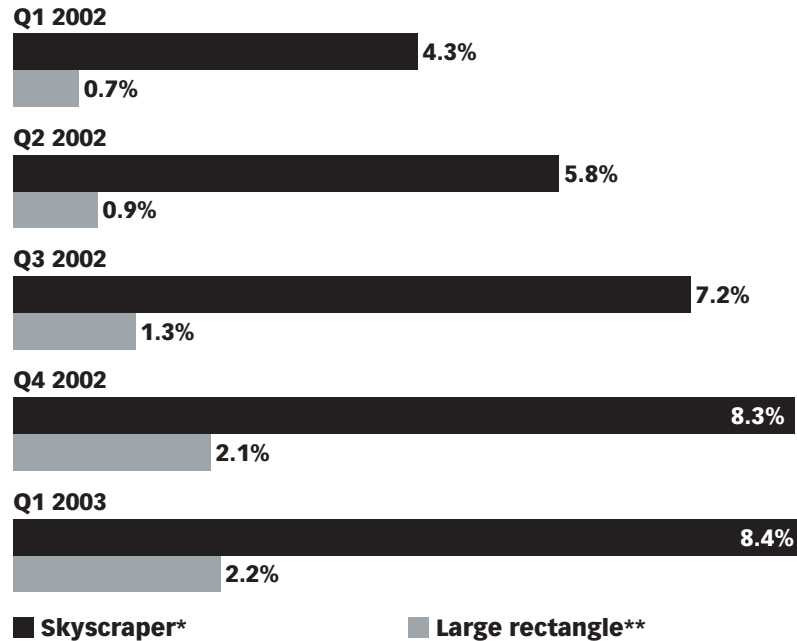
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However, two larger banner formats—the skyscraper and large rectangle—continue to make inroads into the traditional full banner's share of the online display-ad market, according to more recent DoubleClick data. As of Q1 2003, skyscrapers made up 8.4% of the ads delivered worldwide on the DoubleClick network, up from 4.3% a year earlier. Similarly, the large rectangle moved from only 0.7% in Q1 2002 to a 2.2% share a year later.

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Even this gain for larger, often more effective, banner sizes is indication of format proliferation. Look at the note in the chart below. Neither the skyscraper nor large rectangle is purely standardized, as both are offered in two different sizes.

### Skyscraper and Large Rectangle Ads as a Percent of Total Online Ads Worldwide, Q1 2002-Q1 2003



Note: \*skyscraper defined as either 120x600 or 160x600 pixels; \*\*large rectangle defined as either 336x280 or 300x250 pixels

Source: DoubleClick, April 2003

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Despite larger banners' greater effectiveness, traditional companies seem to take more to traditional banner formats, according to Nielsen//NetRatings' study of the top 100 cross-media advertisers. Again, the enduring popularity of the full banner is cited, with 29% of impressions coming from that format among the top 100 cross-media advertisers.

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Or, looking at it another way, only eight of the top 100 did not use full banner ads in Q4 2002. Compare that to the skyscraper, which while nearly as popular—used by 87 of the top 100—accounted for only 8% of the advertisers' impressions.

### Online Ad Formats\* Used by the Top 100 Cross-Media Advertisers in the US, Q4 2002

	Share of selected advertisers impressions	# of top 100 advertisers
1. Full banner	29%	92
2. Non-standard (large size)	16%	80
3. Half banner	10%	84
4. Rectangular	10%	68
5. Medium rectangle	9%	79
6. Skyscraper	8%	87
7. Vertical banner	4%	82
8. Wide skyscraper	3%	73
9. Large rectangle	3%	66
10. Vertical rectangle	2%	58

*Note: \*excluding small ad formats such as micro bars and buttons*

*Source: Nielsen//NetRatings AdRelevance, December 2002*

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Perhaps one of the reasons for the diminished use of banner ads compared to other online formats such as paid search comes from consumer reactions. When PlanetFeedback asked consumers to rate their trust and annoyance with various online and offline ad formats, only 8% said they trust banners, compared to 14% trusting paid search. On the other end of the scale, banner ads received an annoyance index 60 points above the norm of 100; while paid search, at an 87 index, is less annoying than the average advertisement. (You'll find more on paid search in Chapter IV below.)

### US Consumers' Trust in and Annoyance with Select Advertising Formats, April 2003 (as a % of respondents)

	% that trust	Trust index (100 is norm)	% annoyed by	Annoyance index (100 is norm)
Word-of-mouth recommendations	61%	251	9%	27
Print ads	47%	194	5%	15
TV ads	42%	173	13%	39
E-Mail subscriptions	39%	161	13%	39
Radio ads	35%	144	11%	33
Direct mail	21%	86	31%	93
Outdoor ads	20%	82	11%	33
Paid search engine listings	14%	58	29%	87
Infomercials	9%	37	39%	117
Web site banner ads	8%	33	53%	160
Door-to-door solicitation	4%	16	78%	235
Spam	3%	12	77%	232
Pop-up ads	2%	8	83%	250

Source: PlanetFeedback, April 2003

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One way or another, even with diminished share, banner ads will survive, even if they're sold by smaller Web publishers or on lesser pages of larger sites. Another way banners will continue is by moving beyond static display units to contain rich media elements. In late April 2003, Eyeblander introduced a rich media banner that's only 100k, a file size about five times larger than a standard banner, but much smaller than the typical rich media ad. At this point, however, is the ad bought this way counted as a banner or a rich media spend? Here's another place where ad format categories blend.

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## C. Banner Results

Indications of the greater effectiveness for certain larger banners, such as skyscrapers, shows up in a recent study. When Advertising.com compared the click-through and conversion rates for the large banner, skyscraper, and pop-up formats to the traditional full banner, it found that skyscrapers (at 120x600 pixels) get clicks at a rate 60% higher than full banners (468x60), while having slightly higher conversion rates, too. Large banners (728x90), on the other hand, also called leaderboards, garner only slightly higher CTRs and have lower conversion rates than full banners.

This research, based on a test of over 15 million users served more than 168 million impressions during a one-week period, brought up controversial results: pop-up ads are more effective than any size banner. (Read more on pop-ups in the chapter on interstitial ads.)

### Click-Through Rates and Conversion Rates, by Online Ad Format, 2003 (indexed to 468x60 banner)

#### 468x60 (full banner)



#### 728x90 (large banner)



#### 120x600 (skyscraper)



#### Pop-up



■ Click-through rate

■ Conversion rate

*Note: Based on more than 168 million ads served to over 15 million users during a one-week period*

*Source: Advertising.com, May 2003*

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**"I certainly don't believe that click-throughs are on their way out—that's too extreme. The click will never die. It is a really interesting metric, just overblown in terms of its relative marketing importance."**

— Nick Nyhan, president, Dynamic Logic; [avant|marketer](#)

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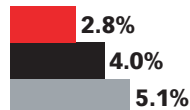
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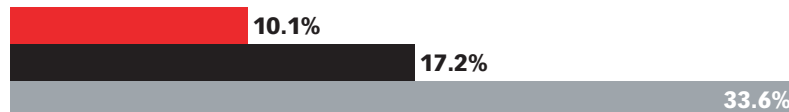
Even when companies put money into banner ads, the choice of standard banners might be a poor one. Research from Dynamic Logic, a New York-based company that focuses on branding, shows that various brand metrics gain higher lifts through skyscraper and large rectangle or square formats. For example, while message association rises 7.3% through banners, it soars by 27.9% for the large rectangle or square format.

## Lift in Brand Metrics due to One Online Advertising Exposure, by Type of Format, 2003 (as a % increase)

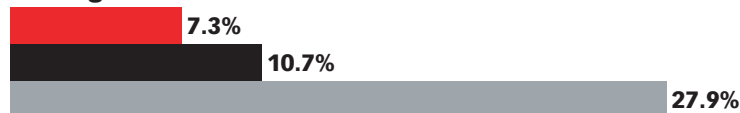
### Aided brand awareness



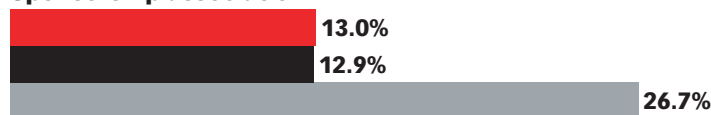
### Online ad awareness



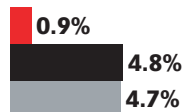
### Message association



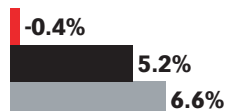
### Sponsorship association



### Brand favorability



### Purchase intent



**Banner**      **Skyscraper**      **Large rectangle/square**

Source: Dynamic Logic, April 2003

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Even within a single ad format, such as the skyscraper—a long vertical, as the name implies—the placement of the advertiser's logo highly influences both awareness and persuasion metrics. As you might imagine, placing the logo at the top of the skyscraper lifts branding factors much more than when it's at the bottom. That kind of placement is akin to a newspaper article being above or below the fold, as with a standard-size paper such as *The New York Times*.

### Lift in Brand Metrics Based on Advertiser's Logo Placement in Skyscraper Banner Ads, Q3 2002

#### Average



#### Logo bottom



#### Logo top



#### Logo top & bottom



■ Awareness metrics

■ Persuasion metrics

Note: n=592,819; results from MarketNorms database

Source: Dynamic Logic, November 2002

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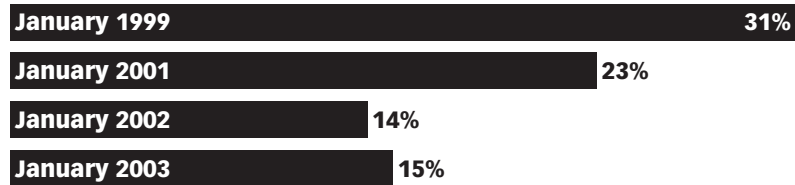
**“Branding metrics are coming onto the scene in a strong way. It’s interesting you call it a post click-through era. But we haven’t abandoned click-through; we’ve assigned it a new moniker: We report click-through as a Brand Interaction. That means, if someone clicks on an ad unit the person is spending time with the brand, learning about the brand, etc.”**

— Pete Lerma, managing director, Click Here; iMedia Connection, 16 January 2003

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Like most online advertising formats, banners work to reinforce direct response goals as well as branding. While the often-maligned click-through is an imperfect direct response metric at best, people still click. According to data from the 10th iteration of the Arbitron and Edison Media Research study “Internet and Multimedia,” 15% of US Internet users in January 2003 said they click on banners. That’s a one-point gain from last year, but a 16-point decline from 1999’s peak.

### Percent of US Internet Users Who Click on Banner Ads, 1999-2003



*Note: Internet users ages 12+ clicking on banner ads during the past month*

*Source: Arbitron/Edison Media Research, February 2003*

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When the criterion becomes who has ever clicked on an online ad, 28% of Arbitron/Edison respondents said yes.

### US Internet Users Who Have Ever Clicked on Web Site Advertisements, January 2003



*Source: Arbitron/Edison Media Research, February 2003*

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And just as with most online activities, broadband users do it more—such as clicking on Web site ads. That's true whether the clicking occurred ever, last month, or last week.

### US Residential Broadband and Dial-Up Internet Users Who Have Ever Clicked on Web Site Advertising, January 2003

#### Ever



#### Last month



#### Last week



■ Broadband

■ Dial-up

Source: Arbitron/Edison Media Research, February 2003

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And again, when GartnerG2 asked executives in a Forbes.com-sponsored study if they ever click on online ads when they find something interesting, nearly half of them said yes.

### C-Level and Non C-Level Executives Worldwide Who Click on Online Ads When They Find Something Interesting, 2003 (as a % of respondents)



Note: n=11,350; 66% in North America, 34% rest of world

Source: Forbes.com, GartnerG2, March 2003

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What is that click-through rate? Results from the DoubleClick network show average CTRs worldwide hovering in the 0.70% range during 2002. Increased use of rich media is keeping that average rate up.

### Average Click-Through Rates for Online Ads Worldwide, Q1 2002-Q4 2002

<b>Q1 2002</b>	<b>0.72%</b>
<b>Q2 2002</b>	<b>0.69%</b>
<b>Q3 2002</b>	<b>0.69%</b>
<b>Q4 2002</b>	<b>0.72%</b>

*Note: results based on 630 billion ads generated by DoubleClick clients*  
*Source: DoubleClick, January 2003*

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Another snapshot of current CTR trends comes from the Advertising.com network. When viewed over the first 12 weeks of this year, the rates range from 1.41% down to 0.91%, based on a percentage of clicks per impression. In this case, the variance in CTR depends largely on which ads were running during any particular week more so than any changed willingness among users to click on those ads.

### Click-Through Rate for Online Ads on Advertising.com Network, Week of 1 January 2003-Week of 19 March 2003 (as a % of clicks per impression)

<b>1 January</b>	<b>1.40%</b>
<b>8 January</b>	<b>1.36%</b>
<b>15 January</b>	<b>1.25%</b>
<b>22 January</b>	<b>1.41%</b>
<b>29 January</b>	<b>1.29%</b>
<b>5 February</b>	<b>1.16%</b>
<b>12 February</b>	<b>1.13%</b>
<b>19 February</b>	<b>0.98%</b>
<b>26 February</b>	<b>1.20%</b>
<b>5 March</b>	<b>1.04%</b>
<b>12 March</b>	<b>0.99%</b>
<b>19 March</b>	<b>0.91%</b>

*Note: impression count during 12-week period shown ranged from 15.9 million to 18.3 million*  
*Source: Advertising.com, March 2003*

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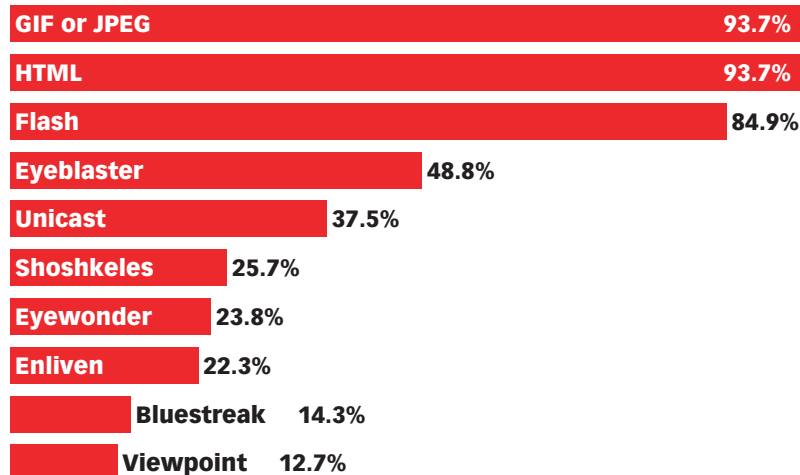
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Nailing down an absolute definition of rich media ads is like trying to nail jelly to a tree. If you think choices among static banner ads are proliferating, rich media choices are as dynamic as the technology itself.

When the Myers Group asked about 200 online advertising executives last August which formats they planned to use in the coming year, 84.9% mentioned Macromedia's ubiquitous and useful Flash for rich media ads. However, below that response level, executives cited various companies focused on rich media ads, such as Eyeblander (at 48.8%), Unicast (at 37.5%), and Eyewonder (at 23.8%).

And each of these companies offers clients a panoply of similar but proprietary rich media formats, such as the Wallpaper Ad and Floating Ad from Eyeblander or the Superstitial and In-Page Advertisement from Unicast.

### Online Ad Formats US Advertising Executives Plan to Use in the Next 12 Months, August 2002 (as a % of respondents)



Note: n=176

Source: Myers Group, October 2002

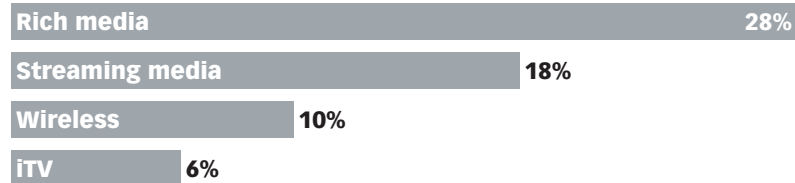
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Similarly, in a survey sponsored by MediaPost, when InsightExpress asked US media planners which advertising “frontiers” they expect to buy for clients this year, 28% cited rich media, more than any other emerging advertising technology.

### Advertising "Frontiers" US Media Planners Expect to Buy for Clients in 2003 (as a % of respondents)



Note:  $n=1,092$

Source: MediaPost, InsightExpress, February 2003

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**“Perhaps, the term ‘rich media’ may have outlived its usefulness....It is almost as meaningless as talking about the effectiveness of video and audio in the context of a television commercial.”**

— Bill McCloskey, founder and CEO, Emerging Interest

Among the reasons for the upsurge in research and interest in rich media lies in the ad vehicle’s variety. As reported by iMedia Connection, rich media embraces the following formats:

- In-page ad vehicles (including “standard,” multi-panel, and expandable banners from the likes of Yahoo!, PointRoll, Klip-Mart, and B2BWorks);
- Floating screen takeover ads (Eyeblaster, Shoshkeles, Unicast);
- Pop-out/up/over/under ads (from all flavors of vendors);
- Out-of-browser technologies such as Viewpoint (and Gator, for that matter), which can extend the interactive experience beyond a user’s browser and onto the desktop. In the case of Viewpoint, its distribution relationship with America Online and AOL Instant Messenger lets it reach a community of Web users who use the Internet daily for communications; and
- E-mail, which in itself can be a complete interactive experience without the user ever leaving the inbox (MindArrow, Netomat).

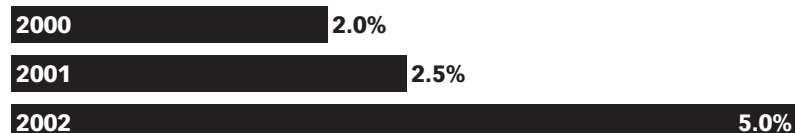
In the case of rich media, more appears to be better, as advertisers pursue ways to make their online advertising as compelling and memorable as a good TV commercial.

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## A. Rich Media Spending

According to the research from the IAB and PwC, for all the attention rich media gets from both users and the online advertising industry alike, spending on the format made up only 5.0% of the total for 2002. However, that share doubled the 2001 figure of 2.5%.

### Rich Media Ad Spending in the US, 2000-2002 (as a % of total spending)



Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

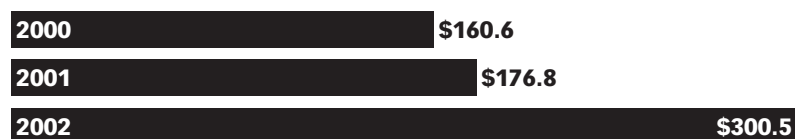
Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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And even though rich media ads are more expensive to run than most banner ads, the actual dollars reached only \$300.5 million in 2002.

### Rich Media Ad Spending in the US, 2000-2002 (in millions)



Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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However, where rich media spending figures really shine appears in its 69.9% growth rate for last year.

### Rich Media Ad Spending in the US, 2001 & 2002 (as a % increase vs. prior year)



Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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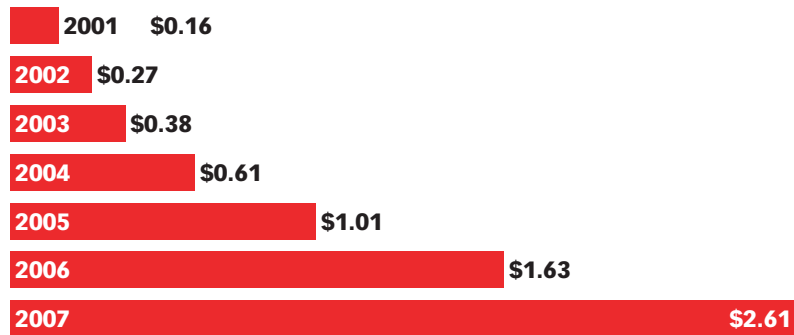
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Those relatively low spending figures for rich media belie the online advertising vehicle's importance today and significance for the upcoming years. The IAB/PwC 2002 figure of \$300 million appears pretty much in line with estimates from Jupiter Research, also relatively low at \$270 million. However, the New York-based research firm projects a spectacular rise in rich media ad spending, more than doubling to \$610 million by 2004 and soaring 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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When you look at those dollar figures by growth rates, most in the 60% range, the move toward rich media appears clear. The lower increase for 2003, however, might reflect Jupiter's sense that rich media still needs a bit more time to become de rigueur—partially while waiting for broadband to reach critical mass.

### 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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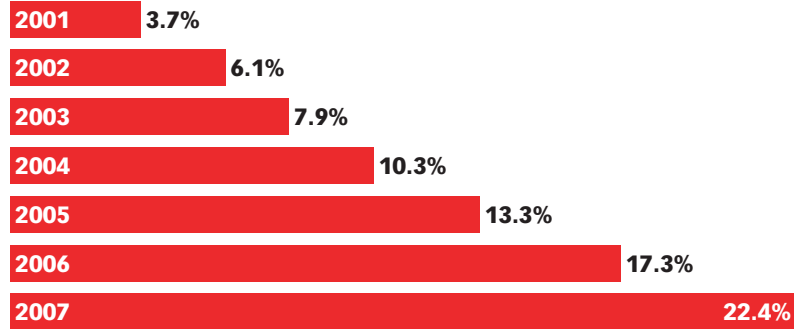
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And not only will spending on rich media ads increase dramatically, their share of all US online ad spending should rise accordingly. While Jupiter pegs last year's portion at 6.1%—about the same as in the IAB/PwC study—it also sees rich media spending's share rising to over 22% by 2007.

### 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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Jupiter reports, “For this move to rich media to continue...the industry needs to avoid a messy standards fight that could confuse buyers.” The Internet Advertising Report reported that Jupiter attributed rich media growth to “publishers’ invigorated efforts in pushing rich media...the attractiveness of their higher prices, and to a return of online ad demand as available inventory shrinks as sites increasingly bundle rich media into larger ad deals as a way to bump up CPMs.”

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## B. Growth, Formats & Advertisers

Further signs of rich media's importance not being fully reflected in the ad spending figures shows up in the chart below. When DoubleClick measured the 630 billion ads served through its worldwide system—mainly in the US—27.8% were rich media as of Q1 2003—a 10.5-point jump from the corresponding quarter in 2002.

If, in fact, nearly 28% of all online ads served—not just from DoubleClick's network—were of the more costly rich media variety, the vehicle's spending share would certainly far surpass the 5.0% reported by the Interactive Advertising Bureau.

### Rich Media Ads as a Percent of Total Online Ads Worldwide, Q1 2002-Q1 2003



*Note: results based on 630 billion ads generated by DoubleClick clients*  
*Source: DoubleClick, May 2003*

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One more bottom line factor for ignoring dollars spent as the sole factor when measuring rich media's importance: As of mid-June 2003, the eMarketer eStat database added 26 new charts in the prior 12 months with the term "rich media" in the title compared to only 10 new charts with "banner" in the title. Research follows interest, and interest follows research.

eMarketer's eStat Database has thousands more charts on advertising and marketing that aren't included in this report. For access to every last fact and figure, check out the Database here:  
<http://www.emarketer.com/products/database.php>

**"Many traditional advertisers are seeing a form of advertising that looks familiar to them for the first time. This growth in rich media is making them more comfortable."**

— Charles Buchwalter, vice president of analytics, Nielsen//NetRatings;  
 CNET News, 21 April 2003

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The growth levels for rich media indicated by the Jupiter and DoubleClick data above make sense for several reasons. As Eric Picard, cofounder and director of product management at Bluestreak, a Newport, RI-based online direct marketing firm, wrote in ClickZ, rich media has finally achieved prominence for six reasons:

1. Broadband adoption. High-speed access will make up 39% of Internet users this year, according to eMarketer, jumping to nearly 50% by 2005.
2. Flash player penetration. Now it is found as part of nearly every Web browser.
3. Branding and direct response. Rich media both improves recall and boosts conversion rates.
4. Falling click-through rates. Even though the CTR is a flawed metric, the higher CTRs for rich media make it an easier sell.
5. Natural selection. Individuals in the online ad industry who've survived the bubble-bursting layoffs are "the cream of the crop... and willing to push the creative and media planning envelope."
6. Publisher financial need. The huge revenue losses among Web publishers have made "even the most conservative publisher open to almost any type of campaign"—especially the rich media ones that both pay more and are more attractive to many advertisers.

### **"Isn't that what advertising is supposed to be? Intrusive?"**

—Jim Meskauskas, chief strategic officer, Underscore Marketing;  
*MediaPost*, 7 February 2002

To Picard's list, eMarketer would offer the following additional grounds for rich media's growth

- According to eMarketer, broadband access will increase from 47.8 million users in 2002 to 83.9 million in 2005, which translates to a 75.5% growth rate. One downside of rich media ads is the amount of bandwidth they demand; that causes difficulties with dial-up connections—making people just click away quickly—but becomes minimal with fast online access.
- Even as broadband use soars at home, its at-work penetration rate is even higher at 86%. That allows for rich media ads targeted both by demographics (higher incomes in general in the online workplace) and dayparts.
- Rich media ads offer advertisers richer engagement with their audience. Unlike static, flat banner ads, the sound and movement of rich media hold people's attention, similar to TV ads.
- In addition to the more compelling nature of sight and sound alone, rich media gives advertisers an opportunity for more creative advertising—more akin to what can be done on television.

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■ For many traditional advertisers, often companies with deep pockets, rich media's greater engagement and creativity is a necessary condition for wanting to place part or more of their ad budgets into interactive. Simply put, rich media ads are more effective.

**"The Internet will transform advertising because of its trackability, not its beauty."**

— Eric Schmidt, chairman and CEO, Google; Jupiter/IAB Ad Forum, October 2002

The notion that broadband and rich media work hand-in-hand is backed up by the latest "Internet and Multimedia" study from Arbitron and Edison Media Research. For example, while 25% of broadband-connected users have ever seen a commercial with video online as of January 2003, only 14% of dial-up users have.

## US Residential Broadband and Dial-Up Internet Users Who Have Ever Listened to or Viewed Online Commercials, January 2003

### Ever heard audio commercial online



### Ever saw video commercial online



■ Broadband

■ Dial-up

Source: Arbitron/Edison Media Research, February 2003

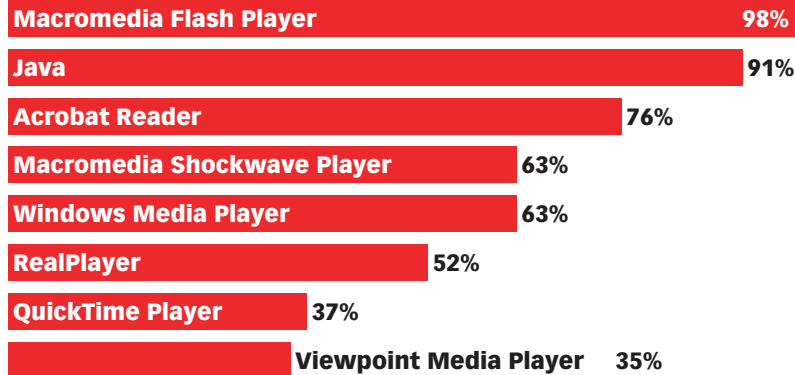
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Picard's point about Flash player penetration is reinforced by research by the NPD Group sponsored by Macromedia. As of December 2002, the sponsor's Flash player was found on a nearly universal 98% of Web browsers—more so than any other client-based rich media technology.

### Rich Media Browser Penetration in the US, by Application, December 2002 (as a % of respondents)



*Note: NPD Online Survey - n=2,000 online participants with a sampling error +/-2% at the 95% confidence level*

*Source: NPD Group, 2002; Macromedia, 2003*

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That broad penetration for Flash is one reason more traditional companies are advertising online. While static banner ads are only modest attractions for advertisers accustomed to the spark and movement of TV commercials, rich media turns that around. But without a solid technology foundation among both Web publishers and consumers—such as Flash—rich media ads can seem daunting to companies used to the simplicity of a 30-second spot.

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So when Nielsen//NetRatings asked the top 100 cross-media advertisers which online ad technologies they use, the top-cited rich media tool was Flash, which had an 11% share of impressions and was deployed by a significant 82% of those advertisers.

### Online Ad Technologies Used by the Top 100 Cross-Media Advertisers in the US, Q4 2002

	Share of selected advertisers impressions	# of top 100 advertisers
1. Image	43.0%	94
2. Animation	38.0%	92
3. Flash	11.0%	82
4. Form	3.0%	25
5. Imagemap	3.0%	47
6. Compound Ad	2.0%	52
7. Flash-Eyeblander	0.44%	40
8. Flash-Unicast	0.33%	28
9. PointRoll	0.20%	24
10. Flash-Shoshkele	0.07%	8
11. EyeWonder	0.02%	8
12. Applet-Generic	0.02%	6
13. Klip-Ad	0.01%	5

Source: Nielsen//NetRatings AdRelevance, December 2002

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**“Beyond the banner and rich media are a set of opportunities, not a set of solutions. The format doesn’t necessarily solve the problem.”**

— Gary Stein, analyst, Jupiter Research; Internet Advertising Report, 23 October 2002

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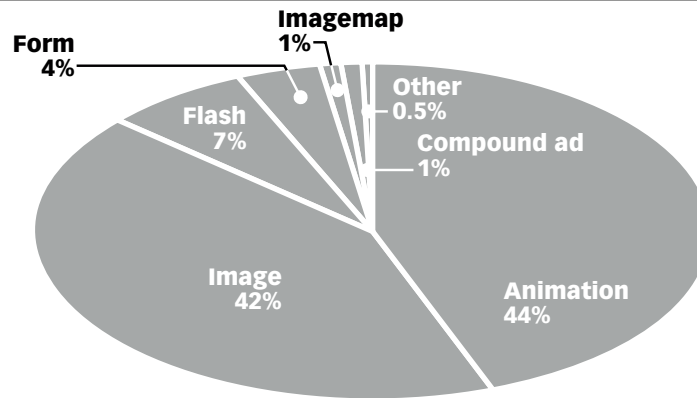
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When Nielsen expanded the focus from the top 100 cross-media advertisers to its entire network, it found that rich media maintained most of its impression share through Flash-based advertising, at a 7% share. “Flash technology can be used to create ads in any format, such as full banner, button, skyscraper, pop-up, or ‘floating’ ads.” And even much of the branded rich media formats—which fall into the 0.5% “Other” category below—from companies such as Eyeblaster, Unicast, and BlueStreak are varieties of Flash.

### Breakdown of Online Ad Impressions in the US, by Technology, October 2002



*Note: numbers may not add to 100% due to rounding*

*Source: Nielsen//NetRatings AdRelevance, November 2002*

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

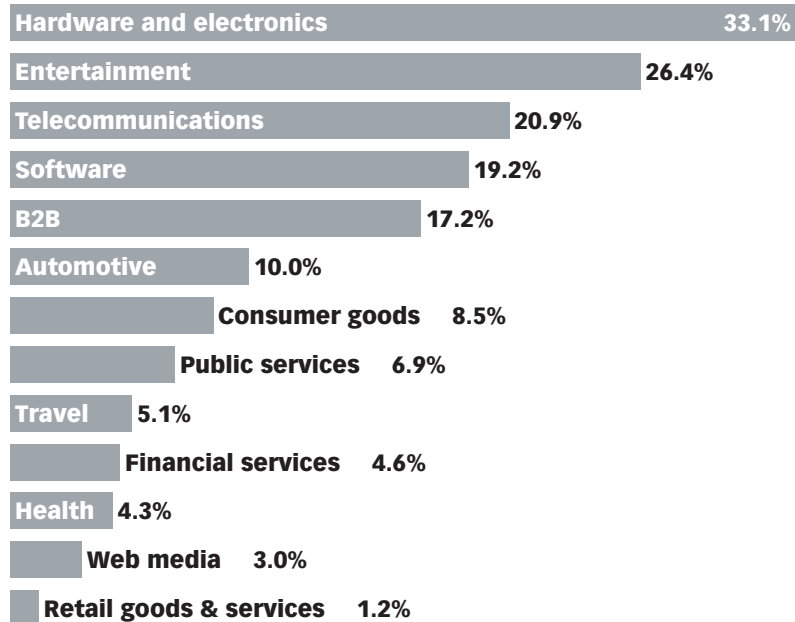
— Charles Buchwalter, vice president of client analytics,  
Nielsen//NetRatings; *Investor’s Business Daily*, 22 May 2002



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Not surprisingly—because of its comfort with technology—the industry most committed to rich media advertising is hardware and electronics, which devoted one-third of its impressions to those types of ads in October 2002. Also not surprisingly—because of its typical reliance on motion and sound—entertainment advertisers were second among the heaviest employers of rich media, with 26.4%. And two more industries with technology foundations, telecommunications and software, are also keen users of rich media advertising.

### Percent of Ad Impressions Devoted to Rich Media among US Industries, October 2002



Source: Nielsen//NetRatings AdRelevance, November 2002

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The leading companies among those top four rich media industries are Hewlett Packard in the hardware and electronics category, SPC Communications in telecom, Microsoft in software, and Cassava Enterprises in entertainment.

### Top 10 Rich Media Advertisers in the US, by Impressions, Q4 2002 (in millions)

#### Hewlett Packard Company (9)\*

3,116

#### SBC Communications, Inc. (27)

1,557

#### Microsoft Corporation (5)

653

#### Cassava Enterprises/Casino-On-Net (16)

574

#### Harris Investor Services LLC (n/a)

550

#### Sony Corporation (29)

470

#### AT&T Wireless Services, Inc. (17)

292

#### NBA (n/a)

290

#### Toyota Motor Corporation (47)

270

#### USA Interactive (79)

259

*Note: data limited to the advertising technologies and Web sites that Nielsen//NetRatings' AdRelevance service tracks; AdRelevance does not probe inside the AOL proprietary network; \*(#) equals rank in Q4 2001*  
*Source: Nielsen//NetRatings, January 2003*

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One hope among traditional advertisers looking to the Internet is for solutions that emulate ad media they're used to, such as television—and not just emulate, in some cases, but repurpose existing TV commercials to the Web. One block to such reuse is that while most people have some kind of media player plug-in for their browser, those players often work only with specific rich media file formats. "Ads requiring a proprietary media player could only be viewed by the percentage of the population that has that player on their computers," reports Nielsen//NetRatings. For example, while 63% of Internet users have the Windows media player, only 37% have a QuickTime player (as in the NPD Group chart above).

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One solution to this dilemma comes from Klip-Mart, which offers a “licensed java applet to display streamed video and audio, allowing anyone with a java-enabled browser to view the ads regardless of their preference for media players,” writes Nielsen. And while not quite as ubiquitous as Flash, java is found on 91% of Web browsers.

This technology from Klip-Mart allows ads such as movie trailers or recycled commercials to appear in a large banner ad. That’s why AOL Time Warner posted nearly 4 million impressions in September and October 2002 using this technology, with Toyota at more than 1 million impressions.

### Top Five US Adopters of Klip-Mart Rich Media Technology, September-October 2002 (in thousands of impressions)

AOL Time Warner (20)*	3,943
Toyota Motor Corp. (129)	1,113
The News Corp. (78)	657
Lions Gate Entertainment (333)	208
Eidos Interactive (1026)	91

Note: \*total impressions rank

Source: Nielsen//NetRatings AdRelevance, November 2002

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## C. Rich Media Results

And while better tools than click-through rates exist as a measure of online advertising effectiveness, CTRs still indicate some degree of response from the online audience. So when you compare apples to apples, as DoubleClick did when measuring CTRs for rich media against non-rich media ads, you find a huge difference with rich media. In Q4 2002, that meant a 2.44% CTR for rich media ads versus only 0.27% for all others.

### Average Click-Through Rates for Rich Media vs. Non-Rich Media Ads Worldwide, Q1 2002 & Q4 2002

#### Q1 2002



#### Q4 2002



■ Rich media

■ Non-rich media

*Note: results based on 630 billion ads generated by DoubleClick clients*

*Source: DoubleClick, January 2003*

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However, Q1 2003 results from DoubleClick indicate that rich media CTRs fell to 2.15%. The company speculates that this drop could be “due to advertisers using rich media creative for branding (and thus not eliciting clicks from the consumer) or some of the novelty of rich media formats wearing off.”

For rich media ads run on its seven-format platform, Eyeblander found even higher CTRs than did DoubleClick, ranging from 5.33% up to 6.36% in the 14-month period from January 2002 through February 2003.

What's most interesting in the New York-based rich media firm's data below is the relationship between ad frequency and click-through rate. In this study, an exposure of two times obtained the optimum CTR from consumers. With frequency rates beyond two, the CTR dropped.

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At least two conclusions can be drawn from those results: One, targeting consumers with a frequency rate of four or more is not as effective as rich media ads seen two or three times. And two, the extra costs saved by not trying for a higher frequency on one site can be transferred to running ads on complementary sites, to extend reach where they might be seen by other users.

### Click-Through Rate for Rich Media Ads Run on the Eyeblander Platform, by Ad Frequency, January 2002 - February 2003

1x	6.00%
2x	6.36%
3x	6.03%
4x	5.93%
5x	5.84%
6x+	5.33%

Note: Average click-through rate=5.99%; seven rich media ad formats  
Source: Eyeblander, April 2003

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Some see potential danger in promoting rich media advertising by citing improved click-through rates. As iMedia Connection reported earlier this year, "When talking about rich media, we would do well to avoid couching the benefits in terms of the increase in click-through rates. Insistence upon higher CTR as the benefit of rich media discounts the correlative relationships advertising events have with actions taken on the part of the consumer. Advertising sans CTR still has meaning."

**"All advertisers are looking for richer ways to communicate with their consumers. Richer in our case also means educational. ... It's hard to do in a 30- or 60-second commercial."**

— T. Scott Edwards, consumer segment marketing officer, Sony Electronics;  
iMedia Connection, October 2002

Here are some of those meanings for online advertising's importance beyond the click.

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Besides click-throughs, online consumers tend to react in greater numbers to rich media than non-rich media ads. The Q1 2003 “Ad Serving Trend Report” from DoubleClick shows to what degree consumers react to online ads after the impression. For example, there’s activity, meaning things like visiting an advertiser’s Web site, downloading a document, or requesting more information. With non-rich media ads, the activity rate per impression was 0.41%, while that nearly doubled to 0.78% with rich media in the mix.

### Consumer Post-Impression Reactions to Rich Media vs. Non-Rich Media Online Ads, 2003

#### Post-impression activity\* per impression



#### Post-impression sales per activity



■ Rich media

■ Non-rich media

*Note: \*any activity taken by a consumer subsequent to viewing an online ad but not clicking on it; includes visiting advertiser's Web site, downloading document or filling in form for more information*

*Source: DoubleClick, April 2003*

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Another view of post-impression activity as a result of rich media ads comes from Advertising.com. During the 12 weeks from 1 January through 19 March 2003, rich media ads had anywhere from 7.51% to 10.30% of all ad impressions on the network, but generated from 10.50% to 43.50% of all the actions (defined as any post-click event such as lead acquisition or a user registering on a site).

Take one week in the middle as an example, 12 February. While rich media ads had 8.87% of all impressions, and got a corresponding 8.75% of all clicks, they also lead to 28.80% of all actions.

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In essence, then, on a per-impression basis, rich media ads are more effective than static ads at motivating consumers to respond in some way.

### Rich Media Ad's Share of Impressions, Clicks and Actions\* on Advertising.com Network, Week of 1 January 2003-Week of 19 March 2003

	Impressions	Clicks	Actions
1 January	7.51%	6.60%	10.50%
8 January	10.30%	9.59%	26.80%
15 January	9.40%	9.35%	26.50%
22 January	9.77%	8.48%	20.80%
29 January	9.43%	8.89%	25.20%
5 February	8.82%	8.20%	33.60%
12 February	8.87%	8.75%	28.80%
19 February	8.88%	8.50%	41.60%
26 February	9.54%	6.59%	33.20%
5 March	9.45%	6.01%	40.30%
12 March	8.97%	4.86%	43.50%
19 March	8.10%	8.37%	11.80%

Note: \*actions defined as any post-click event, such as lead acquisition or user filling out a site registration

Source: Advertising.com, March 2003

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**“All advertisers are looking for a way to use online advertising better. Banner advertising isn’t as effective as we thought. The point is to make that online ad entertaining.”**

— Meg Seiler, director of public relations, Team One Advertising (a division of Saatchi & Saatchi); *The Wall Street Journal*, 11 February 2002

The success of rich media advertising for branding purposes appears in a study from Lightningcast, along with Microsoft and Dynamic Logic, to measure the impact of an ad campaign for the Hyundai Tiburon automobile that ran on the New York-based rich media company’s network.

The research involved a randomly sampled group of 628 Internet users, 228 of whom were shown a 30-second ad created and delivered using Microsoft Windows Media video streams, while 400 people formed the control group. Results of changes in awareness, brand favorability, and intent to purchase include:

- Those exposed to the rich media ad were 80% more likely to be aware of the Tiburon than the control group.
- They also expressed a 46% higher likelihood to purchase the Tiburon compared with the control group.
- And of those who were aware of the brand and expressed an interest in purchasing it, 14% said they had a more favorable impression of Hyundai than did the control group.

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## D. The Rich Media Audience

The prime audience for rich media ads goes online via a broadband connection. That audience consists of 62.9 million users, both at-home and at-work, according to eMarketer estimates, with projections that it will rise to 83.9 million by 2005.

### US Internet Users: Broadband & Dial-Up, 2002-2005 (in millions)

	2002	2003	2004	2005
Broadband	47.8	62.9	73.9	83.9
Dial-up	105.0	99.1	94.1	87.5
<b>Total Internet users</b>	<b>152.8</b>	<b>162.0</b>	<b>168.0</b>	<b>171.4</b>

Source: eMarketer, April 2003

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Translated to a share of the total Internet user base, and nearly 50% will have broadband access by 2005.

### US Internet Users: Broadband & Dial-Up, 2002-2005 (as a % of total users)

	2002	2003	2004	2005
Broadband	31.3%	38.8%	44.0%	48.9%
Dial-up	68.7%	61.2%	56.0%	51.1%
<b>Total Internet users (in millions)</b>	<b>152.8</b>	<b>162.0</b>	<b>168.0</b>	<b>171.4</b>

Source: eMarketer, April 2003

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**"In the past, people said you can't do branding online, but it [broadband] certainly allows you to put more depth in your branding ... to do experiential branding using full-motion video and true stereo sound."**

— Phil Bienert, e-business manager, Volvo; Advertising Age, 8 April 2002



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Those 62.9 million broadband users this year translates to 24.2 million households.

## Broadband Households in the US, 2000-2005 (in millions)



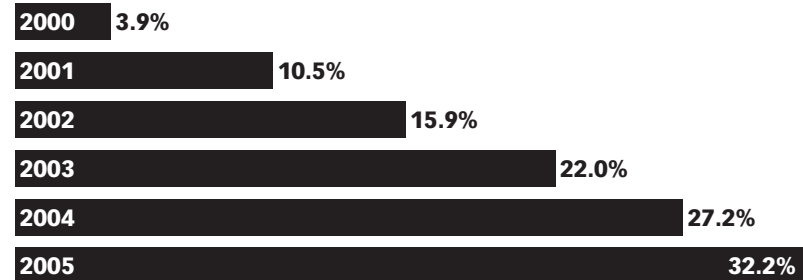
Source: eMarketer, March 2003

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And the individual broadband penetration rate of 48.9% in 2005 also equals 32.2% of US households.

## Broadband Penetration in the US, 2000-2005 (as a % of total households)



Source: eMarketer, March 2003

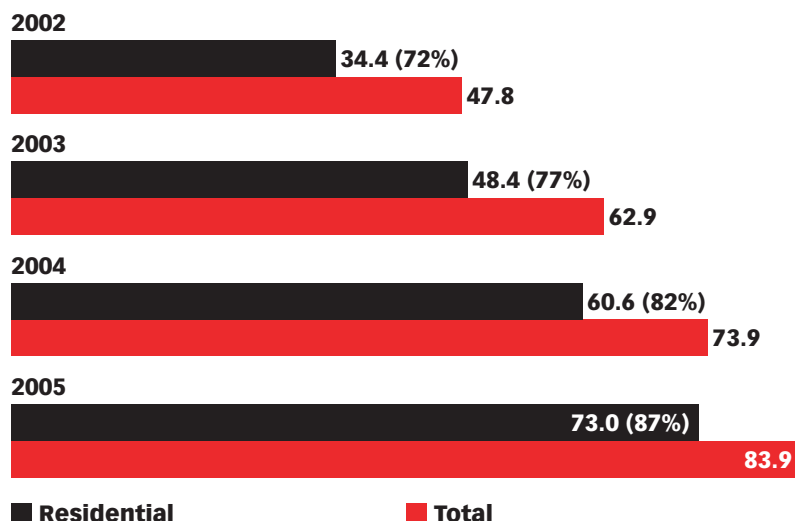
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The shift toward broadband is coming from increased adoption in the home. In 2002, residential broadband made up 72% of all high-speed access; that figure will rise to 87% by 2005.

### Total and Residential Broadband Users in the US, 2002-2005 (in millions and as a % of total broadband users)



Source: eMarketer, April 2003

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Not only does broadband access create an audience more accessible to rich media advertising, that audience also has a higher income. In a March 2003 report commissioned by The Corporation for Public Broadcasting titled "Connected to the Future," Grunwald Associates found that in 2002, the average annual income for broadband families was \$72,000, or \$7,000 more than those families that only plan to get broadband.

### Broadband Households\* in the US, by Income, 2002

#### Average annual income of current broadband families

\$72,000

#### Average annual income of families with plans to get broadband

\$65,000

Note: \*households with at least one child between the ages of 2-17  
Source: Grunwald Associates/The Corporation for Public Broadcasting, March 2003

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For more details about broadband, see eMarketer's "Broadband Worldwide" report at:  
[http://www.emarketer.com/products/report.php?broad\\_world\\_apr03](http://www.emarketer.com/products/report.php?broad_world_apr03)

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Like the US ad industry in general, several types of online advertising are still straining to dig out from the 2001 and 2002 spending freefall. Search engine marketing, however, represents one clear exception to that trend, with nearly steady spending increases since early 2000. While the full extent of the search advertising market is open to debate, its expansion isn't.

- "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 US Bancorp Piper Jaffray.
- Estimates from Salomon Smith Barney (SSB) corroborate that figure, calling paid-search a \$1.4 billion market, with the potential to grow 30% to 35% per year to 2004, and reaching \$5 billion by 2008.
- At \$927 million for 2002, the IAB/PwC research submits a figure that's about two-thirds of the Piper Jaffray and SSB estimates.
- Similarly, Deutsche Bank Securities says paid-search billings reached \$1 billion in 2002 and projects it to soar to almost \$4 billion by 2005.

In fact, the growth of search advertising will not impinge on other forms of online advertising as much as on direct mail. As Deutsche Bank notes, paid search is making inroads into the \$200 billion traditional direct marketing industry.

However, all that billion-dollar spending, even with its significant increases, "is not commensurate with consumer activity in the medium," reports *DM News*. "More than 90 million people search online monthly, making it one of the leading uses of the Internet along with e-mail and news...[and] nearly 800 million searches take place daily, compared with 2.7 million pieces of direct mail sent daily."

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## A. Spending & Revenues

The most recent online search spending figures from the Interactive Advertising Bureau and PricewaterhouseCoopers clearly show its tremendous growth, going from a single-digit share of the interactive ad vehicle market in 2000 and 2001 to a 15.4% slice in 2002.

### Online Search Ad Spending in the US, 2000-2002 (as a % of total spending)



*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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### "Paid search is the new gold."

— Gary Stein, analyst, Jupiter Resesarch; San Jose Mercury-News, 7 April 2003

Translated to absolute dollars, advertisers last year spent nearly \$1 billion on various forms of paid search.

### Online Search Ad Spending in the US, 2000-2002 (in millions)



*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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The figures below unmistakably show search advertising's tremendous growth, going from a strong 175.3% gain in 2001 to an even stronger 210.5% gain in 2002.

### Online Search Ad Spending in the US, 2001 & 2002 (as a % increase vs. prior year)

2001	175.3%
2002	210.5%

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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From the search site's perspective, according to US Bancorp Piper Jaffray and company reports, 2002 revenues range from Overture's \$688 million down to \$9 million for FAST (which Overture purchased earlier this year; see the section entitled "The Search Engine Market" for more on the recent acquisitions among these sites.)

### "Search has emerged as the most important source of advertising revenue on the Internet."

— James Lamberti, vice president of entertainment and media solutions, comScore Networks

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That Piper Jaffray says the total revenues for the search sites will reach \$1.8 billion in 2002, higher than the earlier-mentioned \$1.5 billion figure, is because not all search site revenues come from paid search.

### Revenues Generated by Online Search in the US, by Search Site, 2002 (in millions)

#### Overture

\$688

#### Google\*

\$294

#### Yahoo!

\$140

#### MSN\*

\$138

#### AOL\*

\$92

#### LookSmart

\$75

#### Ask Jeeves

\$74

#### AltaVista

\$55

#### Inktomi

\$46

#### InfoSpace

\$43

#### Lycos\*

\$43

#### FindWhat

\$42

#### eSpotting\*

\$40

#### About.com\*

\$20

#### Fast

\$9

*Note: cumulative total=\$1,799 million; \*estimates based on best available information since companies are either private or are divisions of larger public companies that do not disclose specific search revenues*  
*Source: US Bancorp Piper Jaffray, company reports, March 2003*

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Much of the revenues generated by search sites come from a high volume of advertisers. Salomon Smith Barney estimates the \$1.4 billion in 2002 search revenues came from 100,000 advertisers (which makes the average annual spend for this vehicle only \$14,000). In order to encourage advertisers at all levels, Google recently “lowered the minimum price of some keywords in its AdWords program,” writes the Internet Advertising Report. That minimum bid price for all keywords is now 5 cents per click. “While the majority of keywords were already at this range, others in attractive verticals like travel commanded a higher minimum.”

However, Google’s shift goes “against the grain in the paid search industry, which has seen minimum bids rising recently.” For example, key competitor Overture raised its minimum bid in February 2003 from 5 cents to 10 cents. Furthermore, “most keywords on Google command far above the 5 cents minimum, with industry analysts estimating that [Google] AdWords commands near or over the 37 cents that Overture reported [in Q1 2003].”



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## B. Why Search Is Booming

The key factors behind search advertising's booming growth are:

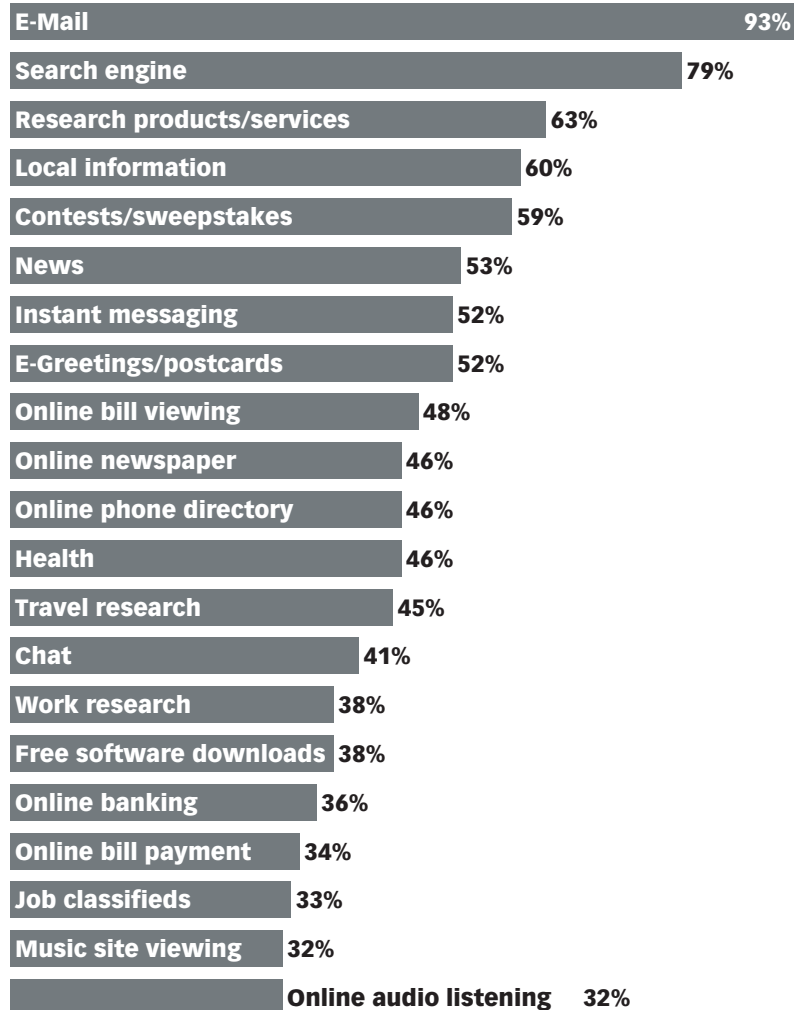
- Search is a highly popular activity among Internet users.
- Balanced against rich media ads, for example, paid search is relatively inexpensive. Because of the low costs, "paid search players tap into a huge market that otherwise wouldn't even play the online advertising game," wrote Tom Hespos on MediaPost.
- In addition, paid search is attractive for advertisers who pay only for what they get in terms of consumer response (pay per click).
- Search engine advertising is effective. Compared to typically less targeted methods of online advertising, such as the still popular banner, search advertising cashes in on the Internet's interactivity. That is, these ads appear only when the user indicates an interest in an area simply by making a search. That's also why Jupiter Research says that of executives who use search engine marketing, 76% rate it as more successful than banners.
- Search marketing works to enhance either direct response or branding goals, and often both together. For example, a successful search listing will get a consumer to respond and visit a company Web site. And once there, the company can interact with the consumer to reinforce its brand. Furthermore, even when the main goal of a search listing is direct response, how the marketer phrases the listing can affect the entire brand.
- More and more types and sizes of companies realize that search complements nearly any other type of advertising they do on the Internet; therefore, more and more larger advertisers are putting a greater share of their marketing budgets into search. For example, Jupiter also announced that 64% of marketing executives plan on increasing their paid-search spending this year.

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Following is more data that backs up the search advertising boom.

First off, in nearly every survey eMarketer aggregates, searching for information trails only e-mail use among the most popular online activities. That's true in the Jupiter Research data below, whether it's the 79% of respondents who directly said they use search engines or the 63% who research products and services.

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



Note: n=4,341; multiple responses allowed

Source: Jupiter Research, September 2002

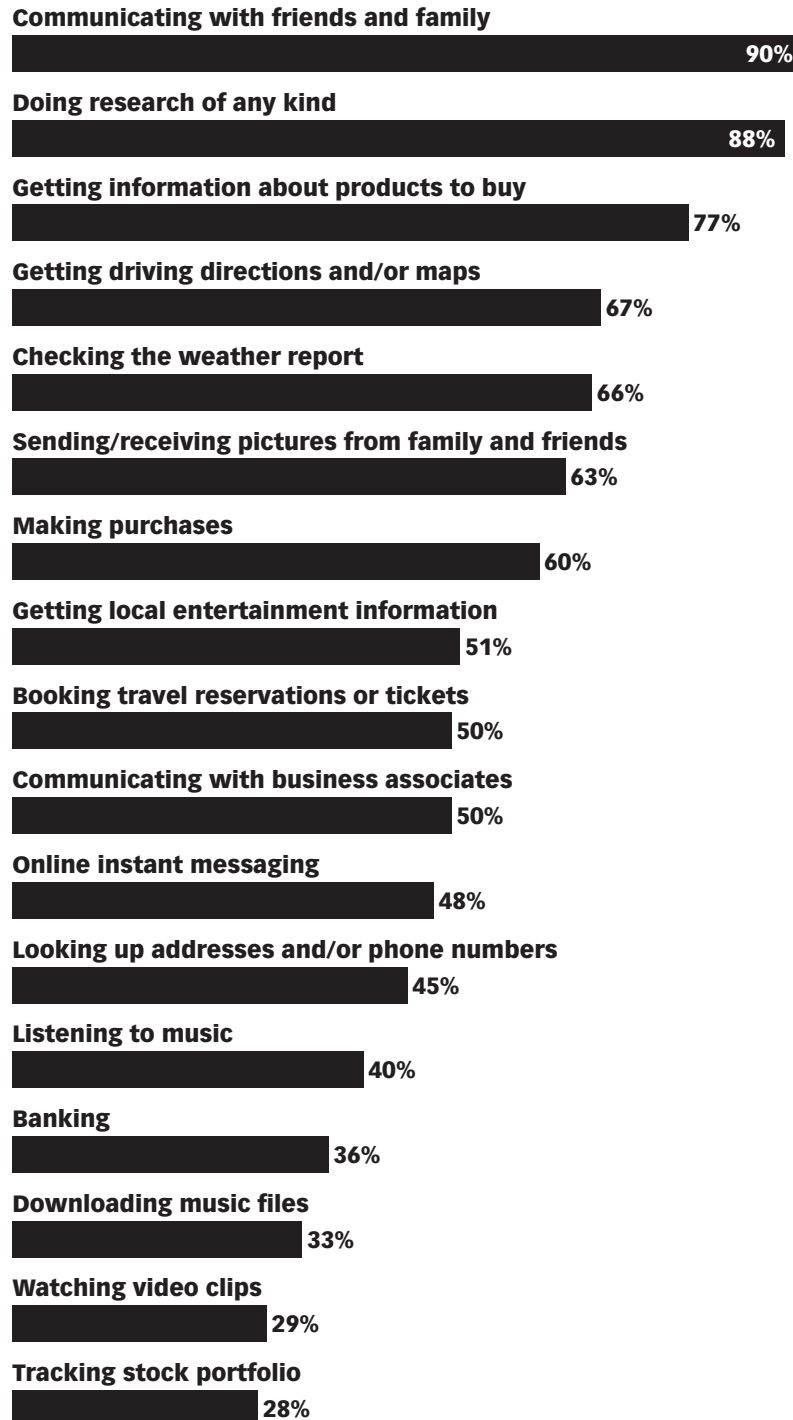
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In parallel, more recent research from RoperASW and AOL has 88% of respondents doing research and 77% getting information about products and services.

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



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## Taking part in an online auction

24%

## Filing or paying income taxes

20%

## Getting coupons

17%

## Trading stocks

10%

## Downloading books

10%

Note: n=1,001 Internet users ages 18+

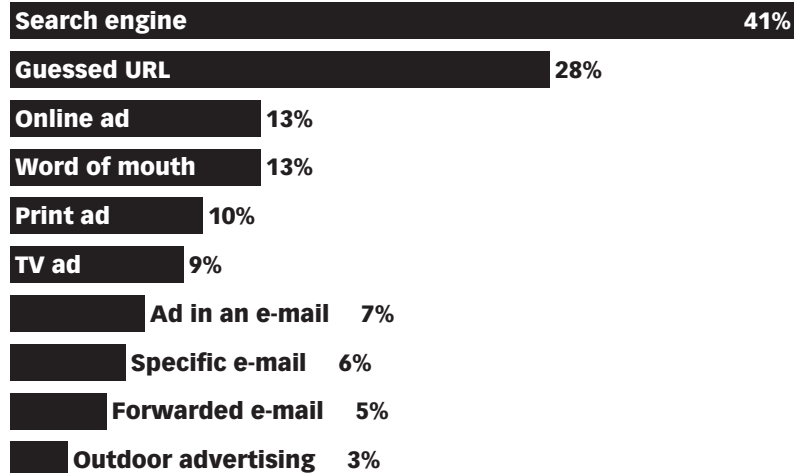
Source: America Online/RoperASW, April 2003

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Part of the getting information process means finding a company's Web site. According to DoubleClick, 41% of US consumers use search engines when looking to research a purchase, more than by any other method.

## How US Consumers Find Product Web Sites Used to Research a Purchase, December 2002 (as a % of respondents)



Note: n=2,000

Source: DoubleClick, Greenfield Online, March 2003

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## "The best advertising doesn't look like advertising."

— Elias Plishner, manager of interactive media, Universal McCann; iMedia Connection, October 2002

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Behind the move to online research about products and services is the consumer belief that they'll find the information they need on a company's site. In a study from Pew Internet & American Life Project, 79% of Internet users said they expect to find needed information online. Even 38% of non-Internet users feel the same way, which indicates the pervasive nature of online research—even a good portion of people who don't use the tools expect them to work.

### US Internet Users' and Non-Internet Users' Expectations Regarding Ability to Purchase Products or Obtain Product Information on a Store's Web Site, September-October 2002 (as a % of respondents)

	All	Internet users	Non-Internet users
Expect to find online	63%	79%	38%
Don't expect to find online	32%	18%	53%
Don't know	5%	3%	10%

*Note: n=2,092 adults; 1,318 Internet users; numbers may not add up to 100% due to rounding*

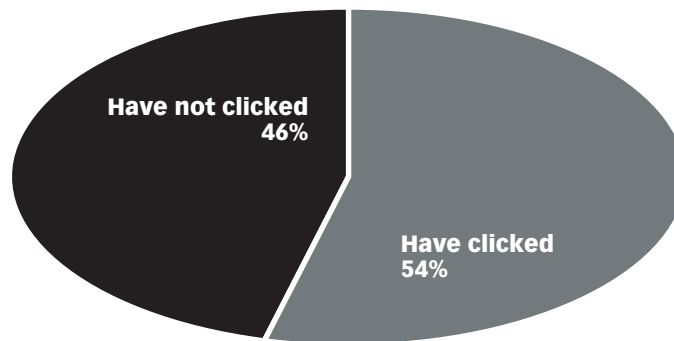
*Source: Pew Internet & American Life Project, December 2002*

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Besides the very active use of search in general, 54% of US Internet users clicked on a paid-search listing as of last July, according to research from Market Facts for Overture.

### US Internet Users Who Have Clicked on a Paid-Search Listing, 2002 (as a % of respondents)



*Note: n=1,000 adults ages 18+*

*Source: Market Facts conducted for Overture, July 2002*

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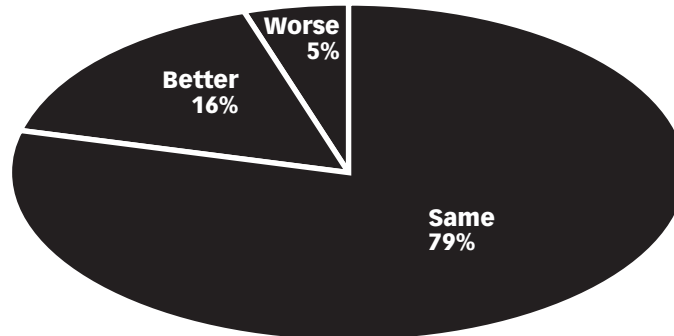
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The same survey found that 16% of Internet users believe paid-search listings are better than standard listings, while only 5% thought they're worse.

### US Internet Users' Attitudes Regarding Quality of Clicked-On Paid-Search Listings vs. Other Search Results, 2002 (as a % of respondents)



Note: n=1,000 adults ages 18+

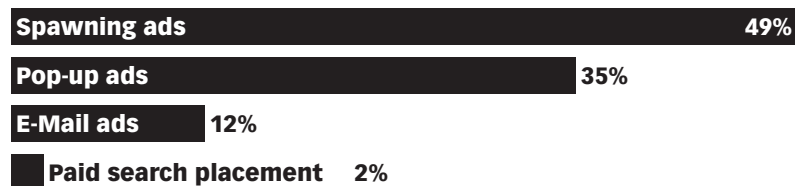
Source: Market Facts conducted for Overture, July 2002

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Finally, the Overture-sponsored research found that when Internet users were asked what the single online advertising issue that most concerns them, paid-search placement bothered only 2% of them.

### Online Advertising Issue that Most Concerns US Internet Users, 2002 (as a % of respondents)



Note: n=1,000 adults ages 18+; could select only one

Source: Market Facts conducted for Overture, July 2002

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**"Search is the single greatest opportunity to learn from—and influence—customer behavior."**

— Matthew Berk, senior analyst, Jupiter Research; MediaPost, 28 May 2003

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However, research from PlanetFeedback—the Cincinnati-based research division of Intelliseek—indicates that only 14% of US consumers trust paid-search listings, while 29% are annoyed by them. To the degree that these results are accurate, companies will need to regularly monitor their results from paid-search efforts.

### US Consumers' Trust in and Annoyance with Select Advertising Formats, April 2003 (as a % of respondents)

	% that trust	Trust index (100 is norm)	% annoyed by	Annoyance index (100 is norm)
Word-of-mouth recommendations	61%	251	9%	27
Print ads	47%	194	5%	15
TV ads	42%	173	13%	39
E-Mail subscriptions	39%	161	13%	39
Radio ads	35%	144	11%	33
Direct mail	21%	86	31%	93
Outdoor ads	20%	82	11%	33
Paid search engine listings	14%	58	29%	87
Infomercials	9%	37	39%	117
Web site banner ads	8%	33	53%	160
Door-to-door solicitation	4%	16	78%	235
Spam	3%	12	77%	232
Pop-up ads	2%	8	83%	250

Source: PlanetFeedback, April 2003

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Another force behind the growth of search engine advertising is its low cost for direct response marketing. According to combined research from US Bancorp Piper Jaffray, the Myers Group, and the DMA, the average cost per lead for search is only 29 cents—far less than for print tools such as the yellow pages or direct mail, or online ad vehicles such as banners.

### Cost per Lead for Various Direct Marketing Methods, 2002

<b>Search</b>	<b>\$0.29</b>
<b>E-Mail</b>	<b>\$0.50</b>
<b>Yellow pages</b>	<b>\$1.18</b>
<b>Banner ads</b>	<b>\$2.00</b>
<b>Direct mail</b>	<b>\$9.94</b>

Source: US Bancorp Piper Jaffray, Myers Group, Direct Marketing Association, March 2003

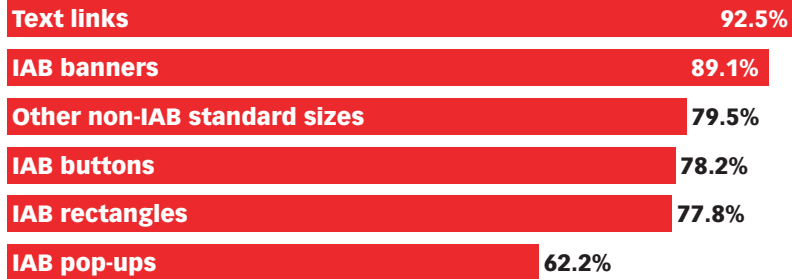
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And that advertisers increasingly buy into search engine marketing comes from more than just the spending or cost figures. According to the Myers Group, 92.5% of US ad execs said in August 2002 that they planned to use text links over the succeeding 12 months. That type of online ad is core to paid-search listings.

### Online Ad Sizes US Advertising Executives Plan to Use in the Next 12 Months, August 2002 (as a % of respondents)



Note: n=176

Source: Myers Group, October 2002

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## C. Search Marketing Methods

To reach online consumers, search engine marketing offers companies three basic choices, two of which are pure ad vehicles.

- 1. Paid placement.** Also called pay-per-click (PPC) search or keyword search. With this ad model, companies bid to show up high on the list of search results, and the highest bidder gets the top slot. The companies also write their own ad listings. These “display” ads can be seen as the online equivalent of yellow pages advertising. Paid placement listings generally appear in discrete sections of the search results page and are noted as being paid for by the advertiser.
- 2. Paid inclusion.** Also called keyword search or paid submission. With this ad model, companies pay a search engine to visit their sites more frequently and dig deeper into their pages, enhancing the odds that their companies will get listed properly. Unlike paid placement, inclusion does not guarantee particular positions in the main search results; however, it tends to enhance a company’s search-results position.
- 3. Search engine optimization.** Also called organic or editorial listings, and often abbreviated as SEO. With this marketing 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 employ SEO, they pay nothing to search sites—therefore, SEO does not count in the spending figures above or below—however, they typically engage specialist marketing firms to perform this ongoing operation.

### “Paid inclusion has been an incredibly difficult thing to understand.”

— Danny Sullivan, editor, *Search Engine Watch*; *Internet Advertising Report*, 19 February 2003

Most search-marketing experts recommend a mix of all three endeavors, since each offers unique benefits. Paid search gives the best potential for a high ranking, although with popular and increasingly expensive keywords, costs can outweigh returns. Paid inclusion offers the best balance of a listing appearing “natural” (aka, not like an ad), but relatively high in the rankings; however, the ranking still may not be high enough to get the desired amount of user clicks. And SEO complements either paid technique, since among other uses it can raise a company’s search ranking both on search sites where nothing has been paid or for keywords not necessarily paid for; however, its success is typically seen over time, at least six months and on an ongoing basis.

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— Seana Mulcahy, director of interactive media, Mullen; MediaPost, 3 June 2003

So when putting together a plan for search engine marketing, which method works best for what purpose? When is it better to invest in paid search, and when in SEO? Furthermore, which search engines offer the best return for a company's investment?

First off, most seasoned observers of this online advertising realm believe SEO supplements paid search or inclusion. That's because while a company might not want to spend for high rankings on every search site, or for every useful keyword term, well-done optimization is designed to boost rankings on all sites.

**"Pay-per-click is advertising. Search engine optimization, like public relations, is editorial. Companies will continue to need both."**

— Fredrick Marckini, CEO, iProspect; avant|marketer

When looking at which pay-per-click (PPC) search engine to choose, 85% of US advertisers cited the quality of the traffic, according to research from Search123, a Westlake Village, CA-based PPC search site. Bid prices are also a factor for 67% of respondents, while sheer traffic numbers is the third-ranked consideration.

**Top Considerations by US Advertisers When Selecting a Pay-per-Click Search Engine, 2002 (as a % of respondents)**

Note: n=300 businesses advertising on Search123

Source: Search123, November 2002

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Of the surveyed advertisers, “66% regard PPC search as their most effective method of online advertising, compared with 15% who believe SEO offers greater effectiveness,” reports Search123. And 53% of respondents supplement their paid-search advertising with SEO to enhance rankings within algorithmically-based engines such as Google.

Among those advertisers who’ve bought into PPC search, 31% also utilize permission-based e-mail, while only 14% buy banner ads. That low percentage implies that the surveyed advertisers might be skewed more to smaller companies.

### Additional Online Marketing Methods Used by US Pay-per-Click Advertisers, 2002 (as a % of respondents)

Opt-in e-mail	31%
Affiliate marketing	24%
CPM banner ads	14%

*Note: n=300 businesses advertising on Search123*

*Source: Search123, November 2002*

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## D. How People Search

In order to make the most of search engine advertising, a basic understanding of how people use search is in order. According to IDC, Mondosoft performed an extensive study of site search users and their behavior between October 2001 and April 2002. Mondosoft is a Copenhagen-based search technology company, with US headquarters in Palo Alto, CA.

IDC reports, "The study looked at search activity across 400 Web sites running Mondosoft Site Search, analyzing more than 57 million search sessions. The sample included sites in a wide range of vertical applications as well as general Web search portals. About half the sites were based in North America, with the rest located in nine European countries."

**"As more people come to use the Web, they don't need portals to help guide them, they go directly to a search engine to find what they need."**

— Lisa Strand, chief e-commerce analyst, Nielsen//NetRatings; San Jose Mercury-News, 12 December 2002

Some key findings from the study include:

- Each search session is composed of an average of 1.56 searches.
- The average duration of each search session is 1 minute 50 seconds, ranging from 48 seconds to 4.4 minutes. That range depends on the type of site; small sites have short search duration, and portals have longer search sessions.
- Only 5% of visitors will scroll to the second results page to find links.
- On average, 58.8% of searches are successful, with ranges from 30% to 90% from one site to another.
- A total of 22% of searches produce no results.
- More than half the visitors, or 52%, perform a search using one word; 12% utilize three or more words.
- There is no significant difference in user behavior on North American and European Web sites.

Further IDC research from March 2002 shows that:

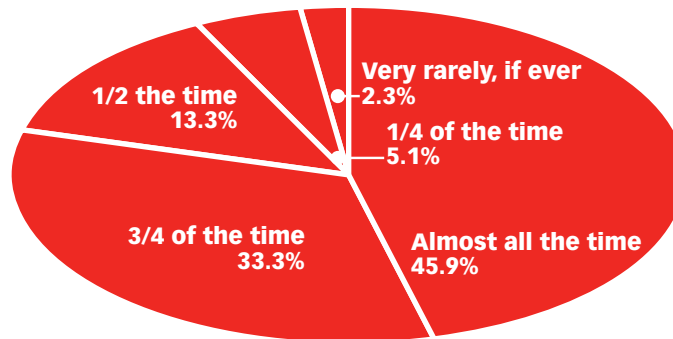
- Over 90% of respondents indicated that they spend 1 to 12 hours or more each week searching online for needed information.
- Only 21% considered their searches truly successful, defined as finding the information they need 85% to 100% of the time.
- And 31% felt that their searches were successful only 50% to 75% of the time.

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Most Internet users feel that search engines work well for their needs.

According to research by iProspect, over 45% of people online feel they're successful almost all the time when searching for products and services. An additional 33% cite success three-quarters of the time.

### US Internet Users' Perceived Success Rate in Searching for Products and Services, May 2002 (as a % of respondents)



Note: n=1,403; numbers may not add up to 100% due to rounding  
Source: iProspect, November 2002

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Experience most likely contributes to perceived search success. While 57% of those who use search engines very frequently find what they need almost all the time, only 27% of those who search once in a while feel the same way. Perhaps this survey question is self-referring. It's kind of like saying, "If you play golf frequently, you will probably have a better score than if you play almost never or only play once in a while."

### US Internet Users' Perceived Success Rate in Searching for Products and Services, by Frequency of Search Engine Use, May 2002 (as a % of respondents)

	Almost never	Once in a while	Some-what frequently	Very frequently
Almost all the time	18.18%	27.09%	39.60%	57.10%
3/4 of the time	18.18%	29.56%	34.45%	34.03%
1/2 the time	0.00%	18.72%	20.58%	6.61%
1/4 of the time	18.18%	16.75%	4.47%	1.45%
Very rarely, if ever	45.45%	7.88%	0.89%	0.81%

Note: n=1,403; frequency of search engine use among respondents was 0.9% (almost never), 16.3% (once in a while), 35.0% (somewhat frequently), and 47.8% (very frequently)  
Source: iProspect, November 2002

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**“Remember that the user query is the holy grail of online marketing. No online behavior provides more insight into the intent of an individual online. In some circumstances, at the ‘right’ price, there is value in purchasing the paid placement even when you enjoy a top ranking on the very same keyword.”**

— Fredrick Marckini, CEO, iProspect; MarketingSherpa

The importance of using one or more of three search marketing methods—paid, inclusion, and optimization—to enhance a company’s search rankings gets underscored by findings from WebSideStory’s StatMarket, which tracks usage patterns of millions of Internet users worldwide (from 245 countries) to over 100,000 Web sites. The data shows how once consumers initially find the sites they want, typically by using a search engine, they tend to use bookmarked direct navigation for subsequent visits—as 64.4% of users did in February 2003—rather than return to a search engine.

### Methods Used by Internet Users Worldwide to Arrive at Web Sites, 2001-2003

#### Direct navigation



#### Web links/search engines



■ February 2001

■ February 2002

■ February 2003

Source: WebSideStory, February 2003

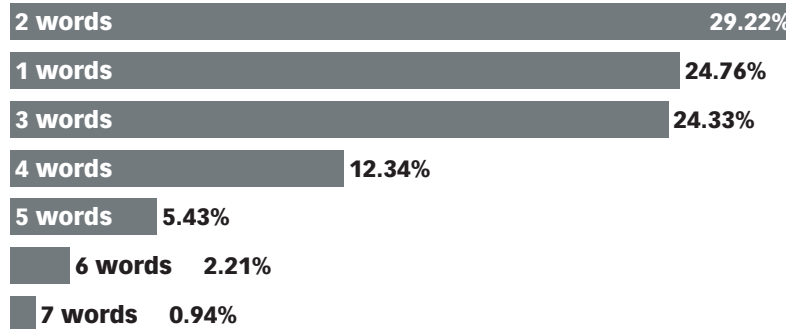
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When conducting a search, 29.22% of people worldwide use two-word phrases, according to OneStat.com. One-word and three-word search terms were about equally used at 24.76% and 24.33% of respondents, respectively.

### Breakdown of the Number of Words Used in Search Phrases\* Worldwide, March-April 2003



Note: \*via search engines

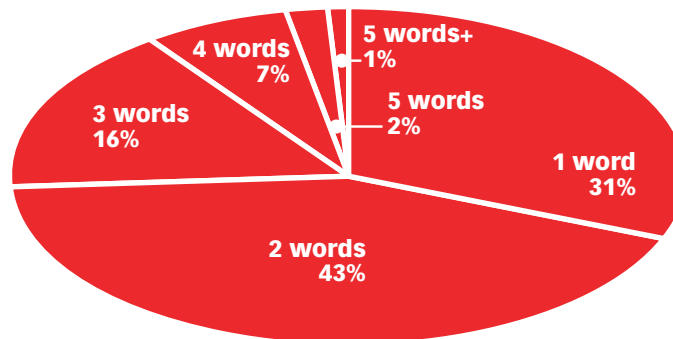
Source: OneStat.com, April 2003

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Research from US Bancorp Piper Jaffray focused on just the US also revealed that two-word search terms are most common, although from 43% of users.

### Average Number of Keywords US Internet Users Use per Query, 2003



Source: US Bancorp Piper Jaffray, March 2003

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Then, in a survey on searcher behavior released in November, iProspect found that more than half of US Internet users usually use the same search engine or directory. That tends to be one of the top two, either Yahoo! or Google.

### "Search engine users use multiple search engines."

— Skip Battle, chief executive officer, Ask Jeeves; Reuters, 28 May 2003

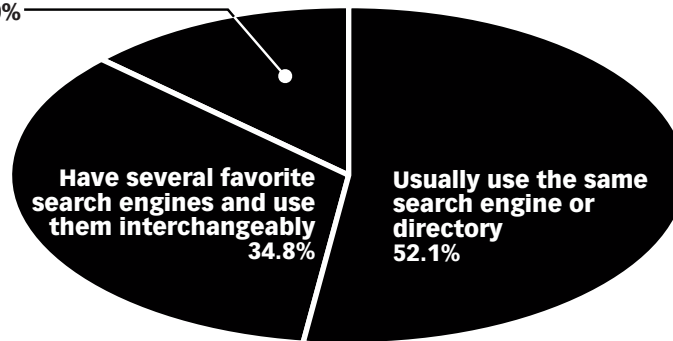
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These results differ from Ask Jeeves' contention that "consumers do not view search as an either-or behavior, using many different search engines for their needs," as was written in the Internet Advertising Report.

And yet 34.8% of users use multiple search engines; these people tend to visit a few favorites and use them interchangeably. That result implies the need to target more than just the top search sites when putting together a search engine marketing campaign. And it points to the usefulness of SEO, since that method can place company listings higher on multiple search engines at once. However, note that the survey sponsor is an SEO consulting firm.

### Search Engine Preferences among Internet Users in the US, May 2002 (as a % of respondents)

Use different search engines for different types of searches  
13.0%



Note: n=1,403; numbers may not add up to 100% due to rounding  
Source: iProspect, November 2002

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Another result from the iProspect survey found that nearly half of users (48.0%) go no further than the first page of search results before clicking on a listing.

### Number of Search Results US Internet Users Review before Selecting a Listing, May 2002 (as a % of respondents)

#### Only a few

 16.1%

#### The first page

 31.9%

#### The first two pages

 23.0%

#### The first three pages

 10.3%

#### More than three pages

 8.7%

#### The whole list, unless it's dozens of pages

 9.9%

Note: n=1,403

Source: iProspect, November 2002

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When those same patterns of search results are parsed by degree of online experience, it appears that the longer a user has been going online, the more likely he or she is to drill down past the first page of results. However, it's hard to discern an absolute trend in the data below.

### Number of Search Results US Internet Users Review before Selecting a Listing, by Online Experience, May 2002 (as a % of respondents)

	Less than 6 months	6-12 months	1-3 years	4-6 years	6+ years
Only a few	33.33%	27.27%	15.86%	16.14%	15.98%
The first page	66.67%	18.18%	30.03%	33.47%	31.72%
The first two pages	0.00%	18.18%	22.10%	23.51%	23.49%
The first three pages	0.00%	18.18%	10.20%	10.16%	10.41%
More than three pages	0.00%	9.09%	10.76%	7.97%	7.99%
The whole list, unless it's dozens of pages	0.00%	9.09%	11.05%	8.76%	10.41%

Note: n=1,403; length of online experience among respondents was 0.3% (less than 6 months), 0.9% (6-12 months), 28.4% (1-3 years), 38.5% (4-6 years), 31.9% (6 or more years)

Source: iProspect, November 2002

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The flip side of how deep users dig into search results is the point of abandonment. That is, when do they give up on disappointing results and either try another search term on the same site or move on to another search engine entirely?

The iProspect study shows that a substantial share of users (28.3%) abandon their initial search after the first page or even the first few entries. The same number of users reach two pages before giving up on their search.

### Point of Search Abandonment\* among Internet Users in the US, May 2002 (as a % of respondents)

#### The first few entries



#### The first page



#### The first two pages



#### The first three pages



#### More than three pages



#### The whole list, unless it's dozens of pages



*Note: n=1,403; \*at what point the user moves on to another search engine or to another search on the same engine when the user doesn't find what is being looked for*

*Source: iProspect, November 2002*

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However, as you might expect, people who use search engines less tend to forsake their searches more readily. While 40.0% of those users who almost never frequent search sites abandon after the first few entries, only 11.4% of those who search somewhat frequently give up so easily.

### Point of Search Abandonment\* among Internet Users in the US, by Frequency of Search Engine Use, May 2002 (as a % of respondents)

After:	Almost never	Once in a while	Somewhat frequently	Very frequently
The first few entries	40.00%	24.14%	11.41%	12.88%
The first page	0.00%	13.79%	16.11%	12.56%
The first two pages	30.00%	21.67%	31.77%	27.86%
The first three pages	10.00%	18.23%	20.81%	23.51%
More than three pages	10.00%	9.85%	10.74%	13.85%
The whole list, unless it's dozens of pages	10.00%	12.32%	9.17%	9.34%

*Note: n=1,403; frequency of search engine use among respondents was 0.9% (almost never), 16.3% (once in a while), 35.0% (somewhat frequently), and 47.8% (very frequently); \*at what point the user moves on to another search engine or to another search on the same engine when the user doesn't find what is being looked for*

*Source: iProspect, November 2002*

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In response to an unsuccessful search, 67.5% of Internet users examine their own actions and alter keywords to better target the search. However, 27.2% of users believe the fault lies in the search engine, not in themselves, since those respondents enter the same keywords at another search engine.

This substantial share that migrates from site to site points to the need to invest one's search engine marketing budget across multiple engines.

### Action US Internet Users Take after an Unsuccessful Search, May 2002 (as a % of respondents)

Enter a few more words to better target the search

67.5%

Switch to another search engine and enter the same keywords

27.2%

Switch to another search engine and enter different keywords

1.8%

Give up

3.5%

*Note: n=1,403*

*Source: iProspect, November 2002*

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The reader should note that much of this extensive research on user interaction with search sites comes from a company involved in this space, with a focus on search engine optimization. Even with that built-in bias, the iProspect results strongly suggest that whether a company's search-marketing technique is optimization, paid search, paid inclusion, or some combination, there's an evident need to push rankings higher—or lose the online consumer's attention.

That Internet users will dig only so deep before either selecting a listing or abandoning a search reinforces the need for a company to get a high position in search results. According to data from US Bancorp Piper Jaffray and Overture, the per-click charges between position one and position 10—based on five sample search terms—differ sharply.

For instance, the per-click cost for the keyword “travel” ranges from 90 cents for position one down to half that cost for position five. What's implied there is that for some advertisers, the lesser cost of position five might well be a smarter buy, even though they'll lose some Internet searchers by that point.

Note that these absolute prices per click have undoubtedly changed since this research was done, but it's the relative nature of cost and position that the chart most ably illustrates.

### Incremental per-Click Charges for Various Positions of Select Keywords, 2002

Position	Camera	Travel	Web hosting	Online banking	Books
1	\$0.71	\$0.90	\$9.97	\$1.19	\$0.61
2	\$0.71	\$0.63	\$7.04	\$1.18	\$0.60
3	\$0.51	\$0.62	\$7.03	\$1.09	\$0.50
4	\$0.50	\$0.61	\$5.25	\$1.01	\$0.42
5	\$0.43	\$0.45	\$5.16	\$1.00	\$0.42
6	\$0.42	\$0.40	\$5.03	\$0.45	\$0.40
7	\$0.40	\$0.40	\$5.00	\$0.44	\$0.36
8	\$0.39	\$0.38	\$4.99	\$0.42	\$0.35
9	\$0.39	\$0.36	\$4.74	\$0.31	\$0.35
10	\$0.32	\$0.35	\$4.05	\$0.30	\$0.32
<b>Difference from 1 to 10</b>	<b>\$0.39</b>	<b>\$0.55</b>	<b>\$5.92</b>	<b>\$0.89</b>	<b>\$0.29</b>

Source: US Bancorp Piper Jaffray, Overture Services, March 2003

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In addition, iProspect reports, “One of the most surprising findings is that many search engine users believe that top listings equal top brands.” That result also points to the dual-sided nature of search engine marketing: not just the direct response of getting a consumer to a company's Web site, but making sure that consumer remembers the company's brand.

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## "The FTC just wants consumers to understand better what is paid and not paid."

— Cathy MacFarlane, spokeswoman, FTC; *The Oregonian*, 2 July 2002

In the end, what people look for when they search are relevant results. According to Harris Interactive research, when Internet users were asked to rate the relevance of major search engines on a scale of 1 to 7, Overture was top ranked, with MSN, Yahoo! and Google's non-paid (algorithmic) listings close behind. Note that not only were the results of this research based on a single search term—"Italian charm bracelet"—it was sponsored by Overture, as well.

### US Internet Users' Attitudes toward Relevance of Major Search Engines\*, Q1 2003 (rated from 1 to 7\*\*)

Overture	7.09
MSN directory/featured sites	6.92
Yahoo! Web matches	6.84
Google algorithmic	6.80
<b>Mean</b>	<b>6.69</b>
Inktomi	6.68
Google AdWords (on AOL)	6.47
FindWhat	6.41
Google AdWords (on Google.com)	6.30

Note: n=2,500 adults ages 18+; \*based on search on term "Italian charm bracelet"; \*\*1=not at all relevant to 7=very relevant  
Source: Harris Interactive/Overture, April 2003

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## E. The Top Search Sites & Engines

For marketers, as with most forms of advertising, head counts shape choices in search engine marketing. While the Nielsen//NetRatings data below misleads somewhat, because it conflates search engines/portals with community sites such as Classmates.com, the top four search sites for the week ending 2 February 2003 are the four most industry observers would expect: AOL, Yahoo!, MSN, and Google.

### Top 10 Search Engines/Portals and Community Sites among At-Home Internet Users in the US, Week Ending 26 January 2003 (in thousands and % active reach)

	Unique audience	Active reach
AOL	41,258	49.1%
Yahoo!	39,462	46.9%
MSN	37,173	44.2%
Google	14,368	17.1%
Lycos Networks	8,217	9.8%
Netscape	6,303	7.5%
AT&T	4,727	5.6%
Classmates.com	3,440	4.1%
Ask Jeeves	3,099	3.7%
iWon	2,898	3.5%

Source: Nielsen//NetRatings, January 2003; Center for Media Research, February 2003

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Another take on which search engine destinations have the biggest share comes from US Bancorp Piper Jaffray and Nielsen//NetRatings. In 2002, Google gained 34% of US visitors, with the search elements of Yahoo! and MSN trailing at 21% of 18%, respectively.

### Market Share of US Search Destinations, 2002

Google	34%
Yahoo! Search	21%
MSN Search	18%
AOL Search	11%
Lycos Search	3%
Ask Jeeves	3%
Alta Vista	2%
Other	8%

Source: US Bancorp Piper Jaffray, Nielsen//NetRatings, March 2003

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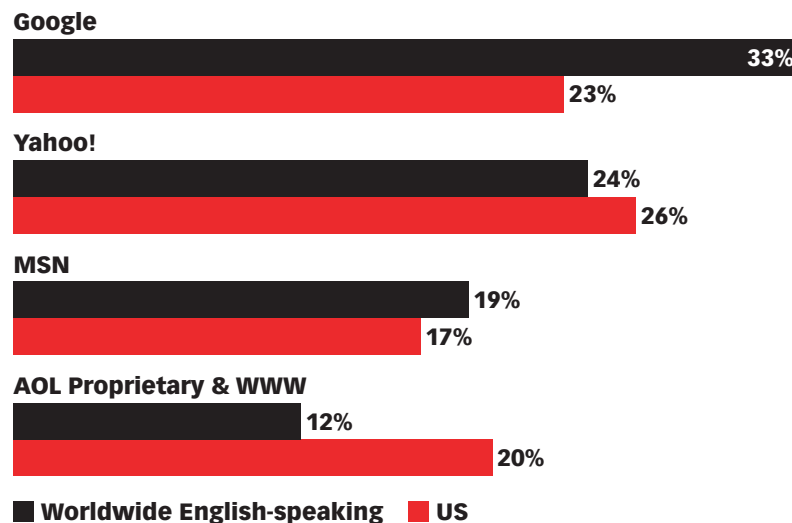
The search site leaderboard takes on a different aspect according to comScore Network, which looks not only at visitor counts or destination shares but market shares. This research from comScore's new qSearch service reveals that 33% of online searches made Google the worldwide leader among English-speaking users. However, at 26% of the 790 million average weekly searches in the US, Yahoo! is on top domestically.

**"The mistake we always make is we assume the success in the next 10 years will be the same as the success in the last 10 years."**

— Eric Schmidt, chairman and CEO, Google; Jupiter/IAB Ad Forum, October 2002

comScore reports, "Yahoo!'s domestic leadership is driven primarily by the strength of its channel offerings, such as Yahoo! Finance and Yahoo! Yellow Pages. In fact, more than half of total searches at Yahoo! were submitted within these channels, indicating that a reliance upon unique visitors to Yahoo! Search as a measure of search behavior does not account for the majority of actual Yahoo! search activity."

## Share of Online Searches Worldwide and in the US, by Provider, Four Weeks Ending 26 January 2003



Note: includes searches at sub-channels such as Yahoo! Finance or MSN Shopping

Source: comScore qSearch, April 2003

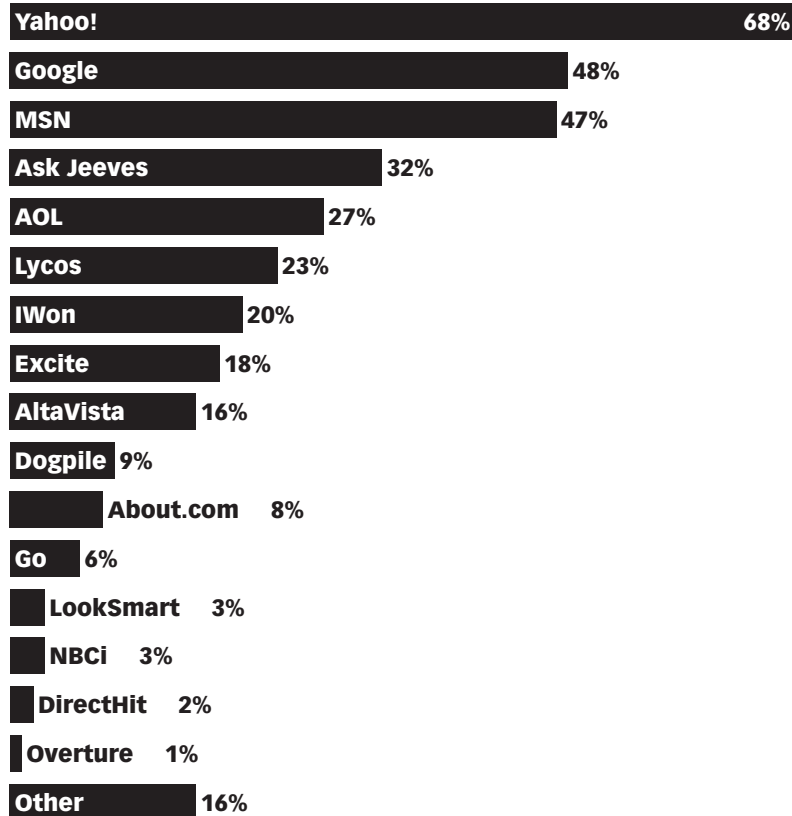
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While the research above from comScore's qSearch service dates from April 2003, some earlier data points to a shift among search-site usage. That is, in July 2002, US Internet users told Market Facts that Yahoo! was the most used site, at 68% of respondents, while Google and MSN stood behind it at 48% and 47%, respectively.

### Search Site Used in Last Three Months by US Internet Users, July 2002 (as a % of respondents)



Note: n=1,000 adults ages 18+; multiple responses allowed

Source: Market Facts conducted for Overture, July 2002

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Non-charted data from comScore shows the true pure-search dominance of Overture and Google. Sites that are a part of the Overture network—including Yahoo!, MSN, InfoSpace and AltaVista—served a total of 46.8% of all searches conducted in the four weeks ending 26 January 2003. Over the same time period, sites that offer Google results—including Google.com, AOL, InfoSpace and Ask Jeeves—accounted for a nearly identical 46.6% of all searches. Combined, those two search networks have a total 93.4% share, not leaving much for the rest of the search site industry.



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**“We’re like search meets the Yellow Pages. If someone is looking for information, the fact that an advertiser is paying is irrelevant.”**

— Harry Chandler, vice president, Overture; *USA Today*, 13 May 2002

Translating that total share of the search market into a count of advertisers is why “Overture said it added 8,000 advertisers in [Q1 2003], bringing its total number to 88,000,” according to the Internet Advertising Report in April, “[while] recently, Google said its network encompasses 100,000.”

Within the at-work audience, Google and Yahoo! are the search share leaders at 27% and 26%, respectively, of total searches. And while the same one-two pattern occurs among university users, the at-home segment shows the influence of AOL, with that site at 25%, the same as Yahoo! and a little less than Google at 23%

### Share of Total Online Searches in the US, by Provider and Access Location of User, Four Weeks Ending 26 January 2003

	Home users	Work users	University users
Yahoo!	25%	26%	27%
AOL	25%	14%	18%
Google	23%	27%	31%
MSN	15%	22%	12%

Source: comScore qSearch, April 2003

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However, while not a leader in any of the three primary access locations, MSN has the highest proportion (51%) of its total searches conducted by at-work users, while the highest proportion (64%) of AOL’s total searches are conducted by at-home users. This access contrast lends itself more to MSN, since the valuable at-work audience is responsible for more than half of all online buying, according to previous comScore research.

### Percent of Leading Internet Search Sites' Total Searches, by Access Location of User, Four Weeks Ending 26 January 2003

	Home users	Work users	University users
MSN	43%	51%	6%
Google	45%	45%	10%
Yahoo!	50%	41%	9%
AOL	64%	28%	8%

Source: comScore qSearch, April 2003

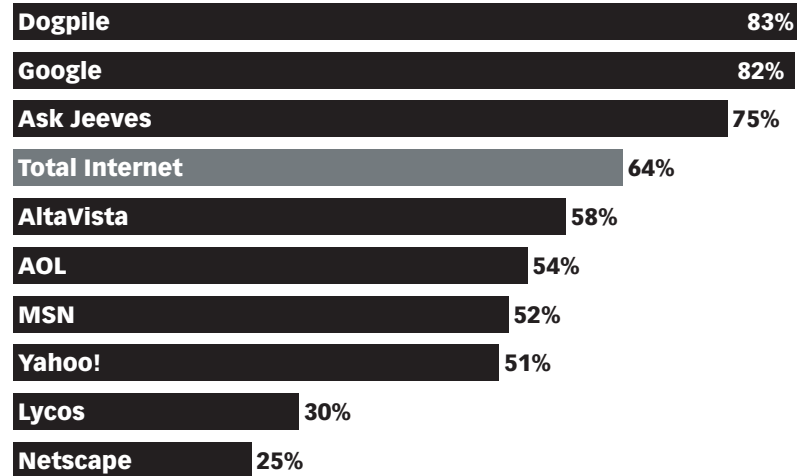
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While most Internet users look to certain site destinations, such as Google and Ask Jeeves, mostly for search, they also look to other sites, such as AOL, MSN, and Yahoo!, for non-search purposes. Those usage patterns appear in the chart below, which shows that while 82% of Google visitors perform a search, for example, only 51% of Yahoo! visitors search.

### Average US Visitor-to-Searcher Conversion Rate on Leading Internet Search Sites, Four Weeks Ending 26 January 2003 (as a % of visitors who search)



Source: comScore qSearch, April 2003

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**"A high ranking in Google, Yahoo! or other top search engine works like a testimonial. It has more credibility than claims you can make about yourself."**

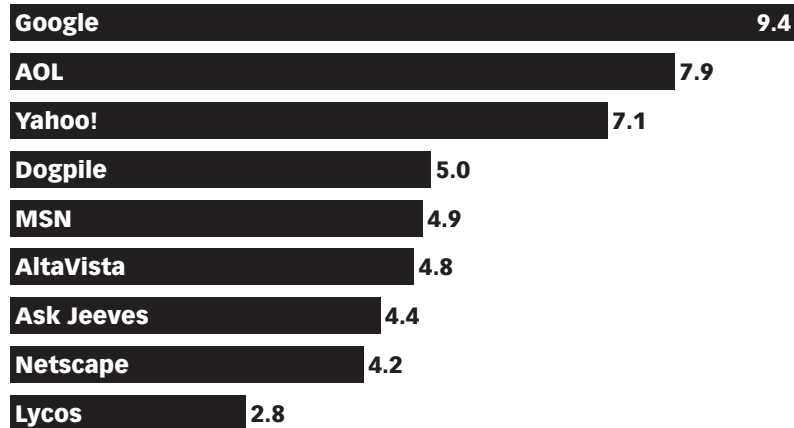
— Kevin Donlin, marketing author and consultant; Saint Paul Pioneer Press, 10 June 2002

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However, while only a little more than half of AOL visitors conducted a search, those who did so searched a notable 7.9 times per week. And highlighting Google's success in attracting a loyal and active user base, comScore's research also reveals that a typical Google user searched an average of 9.4 times per week.

Across all sites, Internet users initiate an average of 10.8 searches per week.

### Average Weekly Searches per US Search Site Visitor, Four Weeks Ending 26 January 2003



Note: total Internet=10.8 average weekly searches

Source: comScore qSearch, April 2003

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**"They're the eBay of information. You go to eBay to find things that are hard to find. You go to Google to find information that is hard to find."**

— Mary Meeker, analyst, Morgan Stanley; *Fortune*, 27 May 2002

Research from Nielsen//NetRatings and SearchEngineWatch.com also looks at how often users search, but this data presents results by total hours per month instead of comScore's average searches per week. In January 2003, US Internet users spent 18.7 million hours on Google, with AOL use trailing at 15.5 million.

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Mixed goals might be reflected in this data, since a search engine with effective algorithmic listings might get visitors in and out quickly, as they easily find what's needed. At the same time, more and more search sites look to keep visitors around with non-search offerings.

### Total Search Hours Spent on Select US Search Engine Sites, August 2002 & January 2003 (in millions)

	August	January
Google	15.1	18.7
AOL	4.2	15.5
Yahoo!	6.2	7.1
MSN	5.0	5.4
Ask Jeeves	2.0	2.3
InfoSpace	1.0	1.1
AltaVista	0.9	0.8
Overture	0.7	0.8
Netscape	0.6	0.7
Lycos	0.3	0.2
LookSmart	0.3	0.2
<b>Total</b>	<b>36.3</b>	<b>52.8</b>

*Note: among US at-work and at-home users*

*Source: Nielsen//NetRatings, SearchEngineWatch.com, September 2002 & February 2003*

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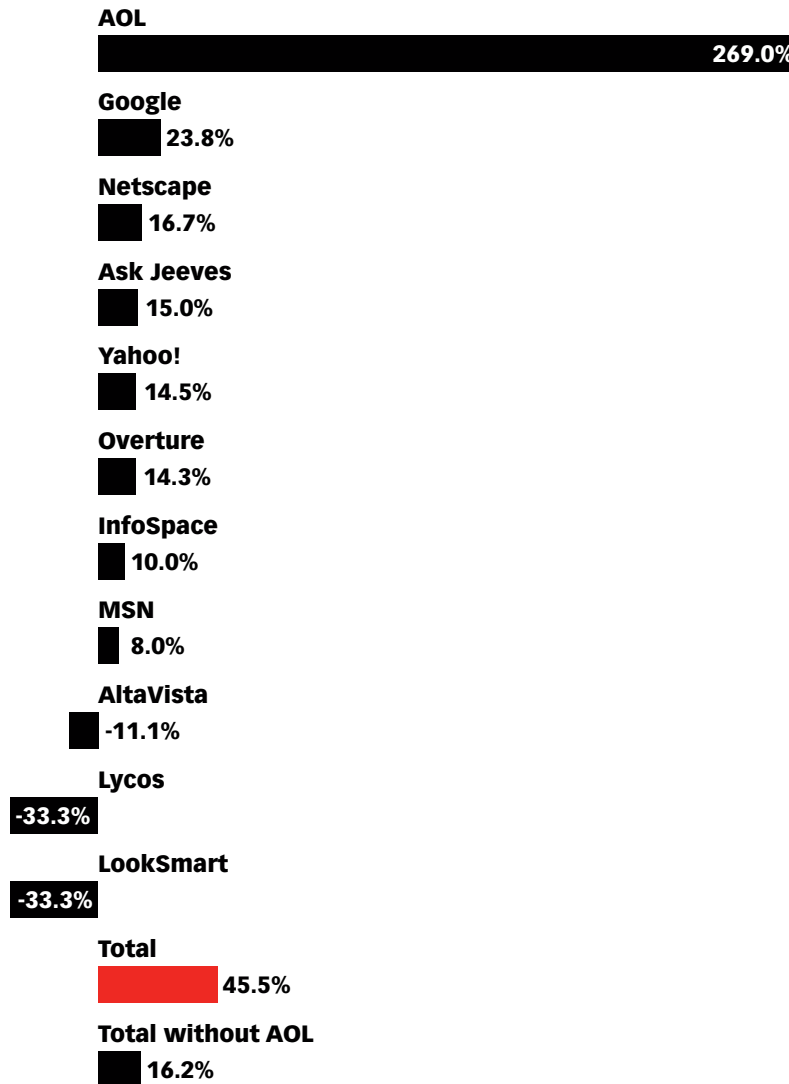
Note that while sites like Google, Netscape, Ask Jeeves, and Yahoo! all showed double-digit increases from August 2002 to January 2003, AOL soared by 269%. According to SearchEngineWatch.com, the sharp increase is due to changes in Nielsen//NetRatings' measurement methodology, not necessarily real changes in AOL's search use.

"The old measuring system used by NetRatings prior to October 2002 monitored only visits to Web sites made through standard browsers such as Internet Explorer or Netscape Navigator," wrote SearchEngineWatch.com. "However, people may access Web sites via other means, such as through specialized software....In terms of search, the new system made little difference except with AOL. AOL's audience reach stayed about the same, but the time those visitors spent searching dramatically increased."

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The total growth rate for search engine use, even without the outsized AOL total hour figure, is 16.2% for the five-month period surveyed.

### Total Search Hours Spent on Select US Search Engine Sites, August 2002 vs. January 2003 (as a % increase/decrease)



*Note: among US at-work and at-home users*

*Source: Nielsen//NetRatings/SearchEngineWatch.com, September 2002 & February 2003; eMarketer calculations, April 2003*

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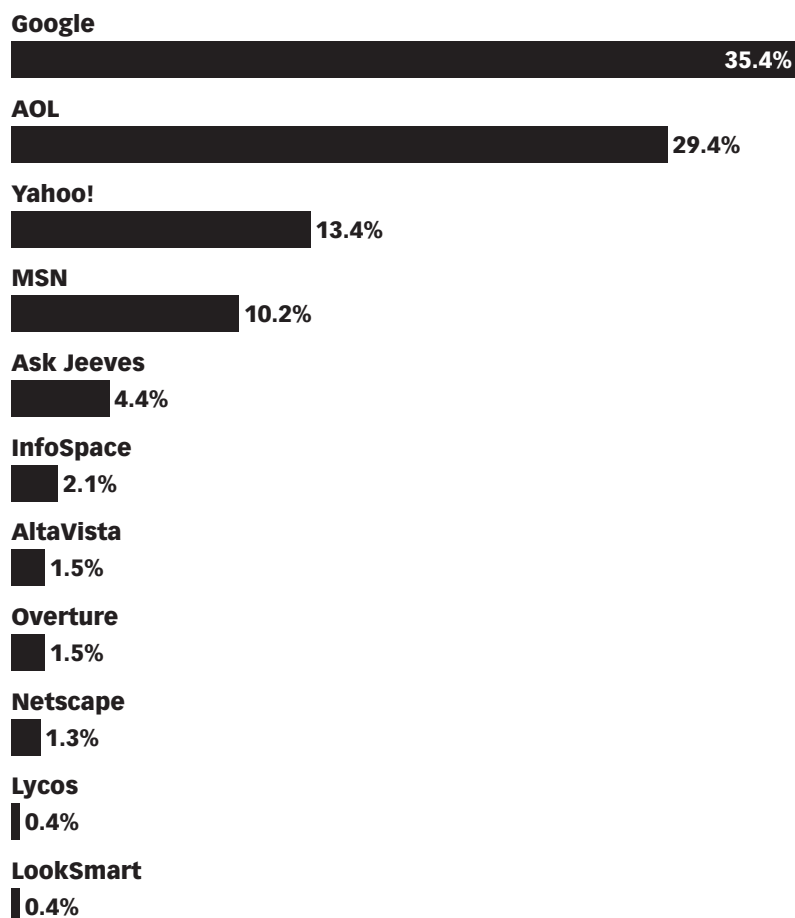
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No matter how you look at the Nielsen//NetRatings and SearchEngineWatch.com numbers, Google is the market leader, with 35.4% of the total hours. (In fact, if you calculate Google's share without the newly inflated AOL hourly figure for January, it's more than 50%.)

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Rounding out the Big Four of search come AOL, Yahoo!, and MSN.

## Hours US Internet Users Spent on Select Search Engine Sites, January 2003 (as a % of total hours\*)



*Note: US at-work and at-home users; \*total hours=52.8 for the 11 listed search engines*

*Source: Nielsen//NetRatings/SearchEngineWatch.com, February 2003; eMarketer calculations, April 2003*

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When it comes to the focused search for shopping Web sites, the shift toward Google among users gets highlighted once more. While Yahoo! was the December 2001 leader, with 41.41% of referrals, by December 2002, Google edged up with 27.16% of referrals.

That the data below from WebSideStory's research unit, StatMarket, focuses on searches for shopping Web sites may be seen as further illustration of Google's current prominence. That is, the product-oriented search for a shopping site—such as for automobiles or consumer electronics—is perhaps best done on a catalog-style search site such as Yahoo! rather than on an indexed-style search site such as Google. And yet more and more users just seem to gravitate to Google. "Google is even more central to e-commerce, since its algorithmic search results are used by Yahoo!" wrote the Internet Advertising Report.

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Even so, search is not a one-site game. But StatMarket writes that “more than ever, there’s the haves and have-nots on the Web. Retailers recognize in general there are four search engines that matter and everything else is really small returns.”

## Search Engine Referrals to Shopping Web Sites, December 2001 & December 2002

### Yahoo!



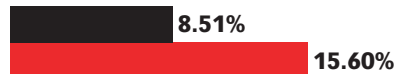
### Google



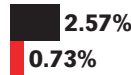
### MSN



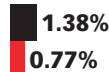
### AOL NetFind



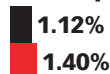
### Lycos



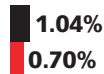
### Ask Jeeves



### Netscape



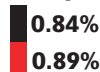
### LookSmart



### Dogpile



### CompuServe



■ 1 December 2001

■ 1 December 2002

*Note: referral statistics reflect the percentage of daily global Internet users arriving at a Web page via a particular search site*

*Source: WebSideStory, December 2002*

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The growth of Google comes up not only in relation to other search engines, but vis-à-vis all other brands. In Interbrand's annual survey, Google was named by 15% of respondents as the brand with the greatest impact worldwide—more so than Apple, Coca-Cola, Starbucks, or Ikea. (Interestingly, both Google and Starbucks have built their brands without major advertising, while Coke is noted for ads dating back to the early 20th century and Apple has garnered much attention over the years for its innovative advertising, such as its “1984” commercial during that year's SuperBowl.)

**“If I were Yahoo!, MSN or a comparison site, I would keep an eye on Google given their strong brand.”**

— Lisa Strand, chief e-commerce analyst, Nielsen//NetRatings; San Jose Mercury-News, 12 December 2002

“However, the strength of Google's brand could end up hurting it in its paid-listings business,” writes Internet Advertising Report. “Rival Overture has harped on the fact that it does not compete with its partners for traffic, while Google has shown signs of developing into a general-purpose portal by adding a news section and shopping-comparison tool.”

### Brands with Greatest Impact Worldwide, 2002 (as a % of respondents)

Google	15%
Apple	14%
Coca-Cola	12%
Starbucks	11%
Ikea	10%

Note:  $n=1,317$

Source: BrandChannel.com/Interbrand, February 2003

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## The Search Engine Market

Google's rise over the past few years is one explanation for the various shake-ups among search sites—their partnerships, purchases, and profits.

Here is a timeline of these changes:

**April 2002:** Google used its paid-listings program, AdWords, to woo away former Overture partners EarthLink and Ask Jeeves.

**April 2002:** LookSmart purchased the WiseNut search engine for \$9.25 million in stock.

**May 2002:** Google's AdWords again swiped business from Overture — this time a very big fish: AOL.

**January 2003:** As of the start of the year, Overture depends on its partnerships with MSN and Yahoo! for two-thirds of its revenue.

**January 2003:** Yahoo! plunked down \$235 million to buy Inktomi—a search-technology provider and a Google competitor—to allow the portal to create and license its own search service. “Many analysts saw [the purchase] as a first step for Yahoo! to sever ties with Google in response to the competitive challenge it feels,” wrote Internet Advertising Report.

**February 2003:** Overture reported net income of \$9.5 million for Q4 2002, down from \$20.8 million for the same quarter in 2001. However, for the entire year of 2002, Overture reported net income of \$78.4 million, up from 2001's net income of \$20.2 million. (The company achieved its first quarter of net income profitability in Q3 2001.)

**February 2003:** Overture purchased AltaVista in a \$140 million cash-and-stock transaction. By gaining AltaVista's algorithmic search technology and paid-inclusion product, Overture can supplement its paid listings with a complete search package, and therefore better compete with Google.

**April 2003:** Google added Amazon.com to its stable, signing an agreement to provide paid links and Web search on the immense e-commerce site.

**April 2003:** Yahoo! reported Q1 2003 revenues of \$282.9 million, of which \$190 million came from marketing services, including paid search. That was up 38% from the same period in 2002.

**April 2003:** Overture completed its purchase of the Web search unit of Fast Search & Transfer (FAST)—a Norwegian developer of enterprise search and real-time filtering technologies—for \$70 million in cash. The transaction also includes a performance-based cash incentive payment of up to an additional \$30 million over three years.

**April 2003:** Overture announced that its 2003 earnings would be much lower than expected, with net income for the year projected at \$22 million to \$26 million, or between 35 and 42 cents per share, less than the 63 cents per share earnings forecast by Wall Street analysts. Overture blamed a variety of factors, including increased spending from its recent purchases of AltaVista and FAST, lower revenue from its US paid listings, and higher-than-anticipated traffic-acquisition costs (the amount of

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money Overture gives to partners such as Yahoo! and MSN who carry its paid listings and make up two thirds of its revenue).

**April 2003:** Google acquired Applied Semantics, a producer of software applications for semantic text processing and online advertising; this is expected to help Google strengthen its search and advertising programs, notably its fast-growing content-targeted advertising offering. In addition, the Internet Advertising Report writes, “The deal is significant considering Applied is a top 10 affiliate (based on revenue) and technology partner of Google’s paid search advertising competitor Overture.”

**April 2003:** Ask Jeeves reported revenue of \$25.2 million for Q1 2003, a 57% gain from a year earlier. And net income mushroomed to \$7.7 million, compared to a loss of \$10.4 million in Q1 2002.

**April 2003:** comScore Networks launched qSearch, a system that tracks and reports consumers’ distinct search queries across 25 major search engines and portals.

**May 2003:** LookSmart announced that its earnings for the year—before interest, taxes, depreciation and amortization—would hit only \$13 million, down considerably from the \$22 million to \$25 million it had forecast. The market leader for paid inclusion said it still expects revenue in the \$140 million to \$150 million range. Even as it announced reduced revenues, LookSmart also said it earned a \$1.1 million profit in Q1 2003, or 1 cent per share (lower, though, than the 4 cents per share market analysts expected).

**May 2003:** Ask Jeeves—operator of the Ask.com and Teoma search sites (the algorithmic search engine it bought in September 2001)—announced it would sell its enterprise search division and use proceeds from an upcoming \$100 million debt offering for “general corporate purposes which might include potential acquisitions and investments.” The enterprise unit saw revenues decline in Q1 2003 to \$3.6 million from \$5.3 million in the corresponding 2002 quarter.

**June 2003:** ValueClick acquired Search123.com, a privately held pay-per-click search engine company, for an aggregate purchase price of approximately \$5 million.

All this activity is a fundamental sign that the whole concept of search engine marketing has shifted from experimental to mainstream.

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## F. A Search Marketing Case Study: Stage One

The purpose of search marketing is to align three perceptions of a company or brand:

1. Which keywords or search terms potential and existing customers would use to find the company's site or sections of the site
2. Which keywords the company believes best describes what it does, what it sells, and how it might be viewed by outsiders
3. Which keywords receive high rankings from the various search engines

This is equally true whether the company is looking to paid search, paid inclusion, or search engine optimization—knowing how the public might look for a company and how the search engines currently rank the company form the foundation for all search marketing campaigns.

But does that mean you need to spend enough to make certain your enterprise is top-listed for all relevant keywords on all sites? Clearly, that's not cost effective. According to Cory Treffeletti—media director for the Freestyle Interactive agency—writing in MediaPost, “Currently there is no industry-wide data that details what the average effect on clicks or conversions are between relative positions within a search engine. Basic optimization assumes that position 1 and position 2 will generate the same click rate and same conversion rate, but this is not always the case. Position 1 is typically going to receive the highest click rate, and if the category was not initially cluttered, it may receive a higher conversion rate as well. The user may assume that this fits their needs exactly and will lock in right away. Conversely, being in position 2 or position 3 may see a lower click rate, but the conversion rate may fluctuate as well.”

These kinds of questions currently concern eMarketer, as the research firm looks to improve its listing positions on various search engines. Being in stage one of this process, eMarketer asked Oneupweb—a Suttons Bay, MI -based search engine optimization firm—to analyze the company's ranking by keywords prior to any active SEO efforts.

The chart below for 28 March 2003 reveals some interesting elements among a handful of the possible keywords that could describe eMarketer. For one, while as a research company eMarketer might think that “market research” is an important keyword for searchers, that term is unranked on most search sites, reaching position 7 on Lycos and 13 on Teoma. Another term that eMarketer believes describes the company well is “Internet statistics.” While that keyword delivered a position on six of the 11 listed search sites, it ranked no higher than position 8. In both cases, those are search terms eMarketer might want to boost through a combination of SEO and paid search efforts.

Meanwhile, the keyword “marketing statistics” delivered position 1 on seven sites and position 2 on two sites. However, the similar term “marketing surveys” had far fewer rankings.

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It's also worth noting that while some keywords may only partially describe a company's activities, they may be useful nonetheless. In eMarketer's case, take the term "online advertising report." While this topic is only one of several we cover, it ranked in position 2 on Google and position 4 on Overture, the two search engine leaders.

### Various eMarketer Search Engine Positions on the Largest Search Sites, by Keywords, 28 March 2003

	Internet statistics	Market research	Marketing statistics	Marketing surveys	Online advertising report
AltaVista	26	—	—	—	—
AOL	—	—	1	—	2
Ask Jeeves	8	—	1	—	5
Google	—	—	1	—	2
HotBot	8	—	1	—	1
Lycos	—	7	—	—	—
MSN	19	—	2	—	1
Netscape	—	—	1	—	2
Overture	14	—	2	—	4
Teoma	8	13	1	13	6
Yahoo!	—	—	1	—	2

*Note: Search engine placement rankings prior to search engine optimization efforts*

*Source: Oneupweb, March 2003*

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This kind of analysis is fundamental to any company looking to improve its search site ranking, no matter which method it's looking toward.

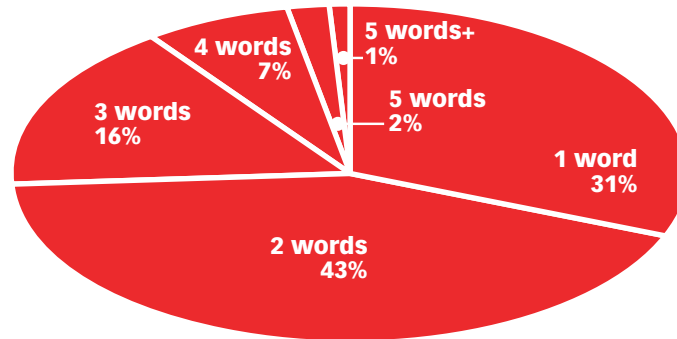
"Marketers often pick the top 20 or 40 keywords they think are important for their businesses in search engine campaigns," writes ClickZ. "Those words are the core of the campaign."

The problem is finding the balance between popular keywords useful for your company and paying what it's worth to you. "Keywords tend to be the obvious ones and, therefore, the ones with high search volumes. Often, fierce competition ensues for these terms, driving up prices in auction marketplaces," reports ClickZ.

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When doing this kind of self-research, it's worth remembering that most Internet users conduct searches with either two or one keywords, as US Bancorp Piper Jaffray found out.

### Average Number of Keywords US Internet Users Use per Query, 2003



Source: US Bancorp Piper Jaffray, March 2003

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Paid search is another option altogether. When looking in that direction, companies want to make an analysis of average per-click charges, as in the chart below from Overture data.

### Average per-Click Charges for Various Keywords on Overture, Q1 2002-Q4 2002 (in dollars and as a % change from Q1 to Q4)

	Q1	Q2	Q3	Q4	% change
Advertising	\$1.72	\$1.56	\$1.78	\$2.48	44.2%
Books	\$0.42	\$0.39	\$0.69	\$0.54	28.6%
Cable TV	\$0.55	\$0.68	\$0.70	\$0.47	-14.5%
Car	\$0.40	\$0.52	\$0.67	\$0.66	65.0%
Careers	\$0.52	\$0.53	\$0.56	\$0.61	17.3%
Coffee	\$1.12	\$1.20	\$1.72	\$1.94	73.2%
College	\$0.97	\$1.50	\$2.08	\$1.86	91.8%
Computer	\$0.68	\$0.55	\$0.74	\$1.23	80.9%
Dieting	\$0.82	\$0.96	\$0.79	\$0.74	-9.8%
Drugs	\$0.92	\$0.46	\$0.61	\$0.79	-14.1%
DVD	\$0.44	\$0.72	\$0.61	\$0.66	50.0%
E-commerce	\$3.46	\$4.13	\$5.98	\$5.10	47.4%
Electronics	\$0.52	\$0.52	\$1.04	\$0.79	51.9%
Entertainment	\$0.21	\$0.21	\$0.26	\$0.51	142.9%
Fashion	\$0.39	\$0.36	\$0.35	\$0.36	-7.7%
Finance	\$1.75	\$1.54	\$1.83	\$2.07	18.3%
Fishing	\$0.50	\$0.57	\$0.45	\$0.54	8.0%

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Gambling	\$9.07	\$9.08	\$10.15	\$9.94	9.6%
Games	\$0.19	\$0.25	\$0.14	\$0.18	-5.3%
Health	\$0.39	\$0.39	\$0.60	\$0.92	135.9%
Hobbies	\$0.25	\$0.23	\$0.24	\$0.29	16.0%
Internet marketing	\$2.26	\$2.72	\$4.20	\$5.53	144.7%
Jobs	\$0.27	\$0.24	\$0.27	\$0.35	29.6%
Karaoke	\$1.47	\$2.51	\$2.89	\$3.14	113.6%
Marketing	\$1.23	\$0.99	\$1.52	\$2.08	69.1%
Mortgage	\$3.07	\$4.39	\$4.27	\$5.11	66.4%
Movies	\$0.32	\$0.36	\$0.46	\$0.43	34.4%
Music	\$0.44	\$0.74	\$1.05	\$0.86	95.5%
Nutrition	\$1.16	\$1.40	\$1.25	\$1.36	17.2%
Online advertising	\$3.66	\$3.24	\$3.20	\$6.32	72.7%
PDA	\$0.74	\$0.73	\$1.39	\$2.09	182.4%
Pets	\$0.38	\$0.54	\$0.68	\$0.72	89.5%
Photography	\$0.46	\$0.57	\$0.59	\$0.64	39.1%
Shipping	\$1.33	\$1.28	\$2.04	\$1.52	14.3%
Shopping	\$0.70	\$0.74	\$0.59	\$0.65	-7.1%
Theatre tickets	\$1.34	\$1.58	\$1.08	\$1.13	-15.7%
Travel	\$0.77	\$1.10	\$1.06	\$1.00	29.9%
Vacation	\$0.80	\$1.21	\$1.15	\$1.02	27.5%
Web hosting	\$6.52	\$7.36	\$7.26	\$6.89	\$6.89

Source: US Bancorp Piper Jaffray, Overture Services, March 2003

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When it comes time to peruse the classifieds, more and more people choose online over print. Perhaps the key reason why can be summarized in a single word: search. For example, instead of churning laboriously through page after page of fine print when looking to buy a new home, online classified ads let people pick just the area and price range they want.

A further and significant gift the Internet throws into the once drab classified ad mix is color: as in photos of homes, cars, and other goods. And what's more, many of the pictures move, allowing people to tour interactively through a home, for instance. Combined with the inestimable benefits of search, it's easy to see why this is one of the top vehicles for interactive advertising.

## A. Spending & Revenues

The hurting economy is also hurting online classified spending. With the tight job market in the US, there were fewer help-wanted ads last year than in 2001. Even so, estimates from the IAB/PwC study show that online classified spending made up 15.0% of last year's \$6.01 billion total, down from 2001's figure of 15.7% and just a bit less than paid search's 15.4% share.

Even with fewer recruitment ads, the success of auction sites, most notably eBay, keeps the classified format healthy.

### Online Classified Ad Spending in the US, 2000-2002 (as a % of total spending)

2000	7.4%
2001	15.7%
2002	15.0%

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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Total spending for online classifieds dropped below \$1 billion last year to \$901.5 million.

### Online Classified Ad Spending in the US, 2000-2002 (in millions)

2000	\$601.3
2001	\$1,118.4
2002	\$901.5

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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There was also a 19.4% drop in the growth rate for online classifieds last year, after a significant 86.0% gain in 2001.

### Online Classified Ad Spending in the US, 2001 & 2002 (as a % increase/decrease vs. prior year)

2001	86.0%
2002	-19.4%

Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion

Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003

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From the perspective of a half-year earlier, Jupiter Research estimated somewhat higher online classified spending in 2002, at \$1.24 billion. However, the firm expects US online classified ad spending to nearly double from last year's figure to \$2.34 billion by 2007.

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

2001	\$1.06
2002	\$1.24
2003	\$1.44
2004	\$1.65
2005	\$1.88
2006	\$2.11
2007	\$2.34

Source: Jupiter Research, October 2002

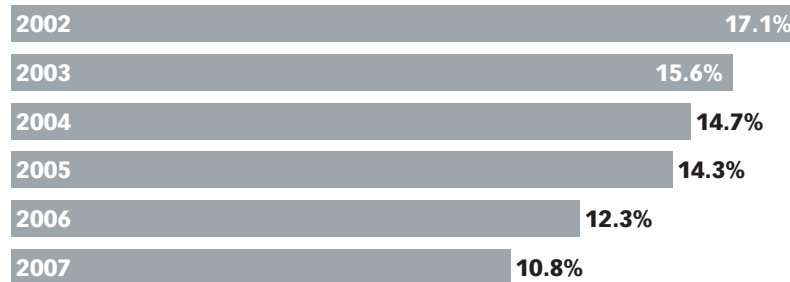
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Jupiter's online classified growth rate remains in the double-digit range for the six years shown, but decreases over time.

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



Source: Jupiter Research, October 2002

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Compared to the 15.0% share figure from the IAB/PwC research, Jupiter sees classified ads as a stronger element of online ad spending, at 22.2% in 2002. However, the research firm also expects classified's share of the total US online ad spending universe to fall from this year's peak of 23.2% to a 16.7% share by 2007.

That drop in market share is not so much because online classified ads will be less used, but because other forms of Internet advertising—such as rich media and paid search—will simply grow their portions of the whole pie.

### 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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## B. The Recruitment Market

With spending figures like the ones above, it's no wonder that the classified ad market's major shift is away from traditional placements, mainly in daily newspapers, and toward online ads. Take help-wanted ads alone. Also called the recruitment category, this slice dominates the US classified ad market, both in print and online.

The importance of recruitment classifieds to the online market shows up in the three Jupiter Research charts following. First off, online recruitment ads will take up a 64.3% share of spending this year—and account for about 64% of the total online classified spending in each year shown. Real-estate classifieds trail recruitment, with shares ranging around 18% to 19%.

### 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%
<b>Total (in millions)</b>	<b>\$1,061</b>	<b>\$1,242</b>	<b>\$1,436</b>	<b>\$1,648</b>	<b>\$1,884</b>	<b>\$2,114</b>	<b>\$2,343</b>

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

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Looked at in absolute dollars, you can see how Jupiter expects online recruitment classifieds to grow from less than \$1 billion this year to nearly \$1.5 billion by 2007.

### 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
<b>Total</b>	<b>\$1,061</b>	<b>\$1,242</b>	<b>\$1,436</b>	<b>\$1,648</b>	<b>\$1,884</b>	<b>\$2,114</b>	<b>\$2,343</b>

Note: numbers may not add up to total due to rounding

Source: Jupiter Research, April 2002

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However, even if the help-wanted category is king, it's projected to grow at a slightly lesser pace than certain other online classified categories, such as personals and for-sale ads.

## 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%
<b>Total</b>	<b>17.1%</b>	<b>15.6%</b>	<b>14.8%</b>	<b>14.3%</b>	<b>12.2%</b>	<b>10.8%</b>

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

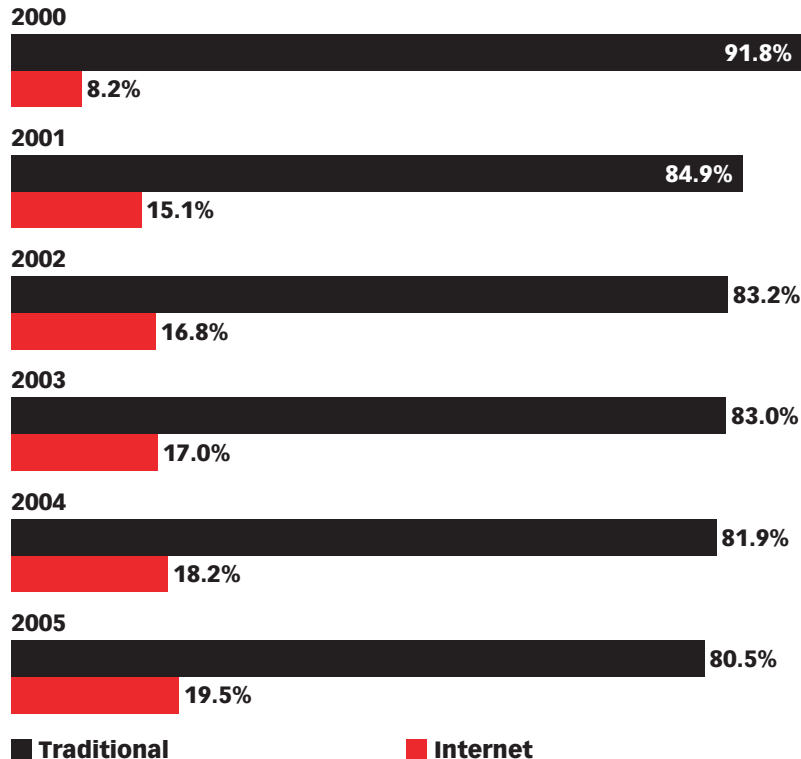
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Now let's compare recruitment ads online with the offline market.

Estimates from Morgan Stanley Equity Research—based on data from the Newspaper Association of America (NAA), Forrester Research, and IDC—show Internet help-wanted classified ads moving from 15.1% of the entire US market in 2001 to 19.5% by 2005.

## Online vs. Traditional Help-Wanted Classified Advertising in the US, 2000-2005 (as a % of total market)



Source: Morgan Stanley Equity Research, Newspaper Association of America, Forrester Research, IDC, November 2002

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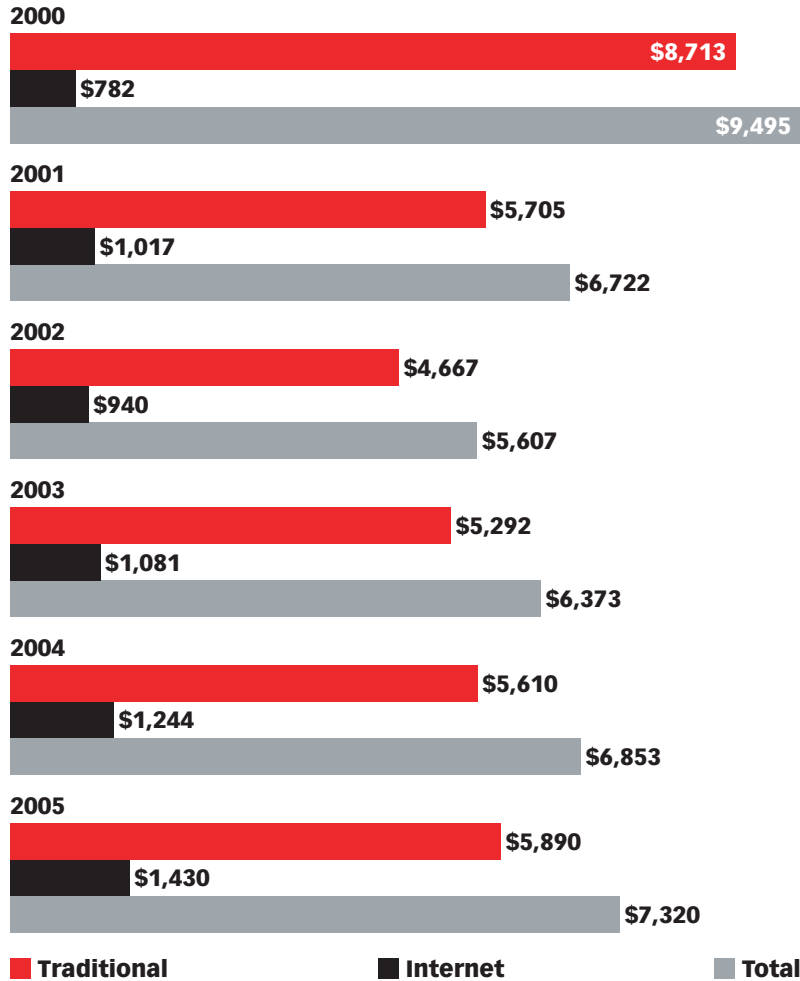
**“The growth of classified advertising really is a story about cannibalization. What we saw is that offline classifieds declined about 15% last year, while online classified spending increased 38%. We’ve seen a shift in consumer behavior because online is essentially cheaper, more efficient, faster.”**

— Marissa Gluck, senior analyst, Jupiter Research; CNNfn, 2 May 2002

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In absolute dollars, however, print-placed help-wanted ads still dominate in the US. The Morgan Stanley projections have the traditional segment edging up from \$5.3 billion this year to \$5.9 billion in 2005—still far below the \$8.7 billion peak in 2000. In contrast, Internet recruitment classifieds show a slightly more robust uptick, growing from \$1.1 billion this year to \$1.4 billion in 2005—a bit more than the Jupiter figures above.

### Online vs. Traditional Help-Wanted Classified Advertising in the US, 2000-2005 (in millions)



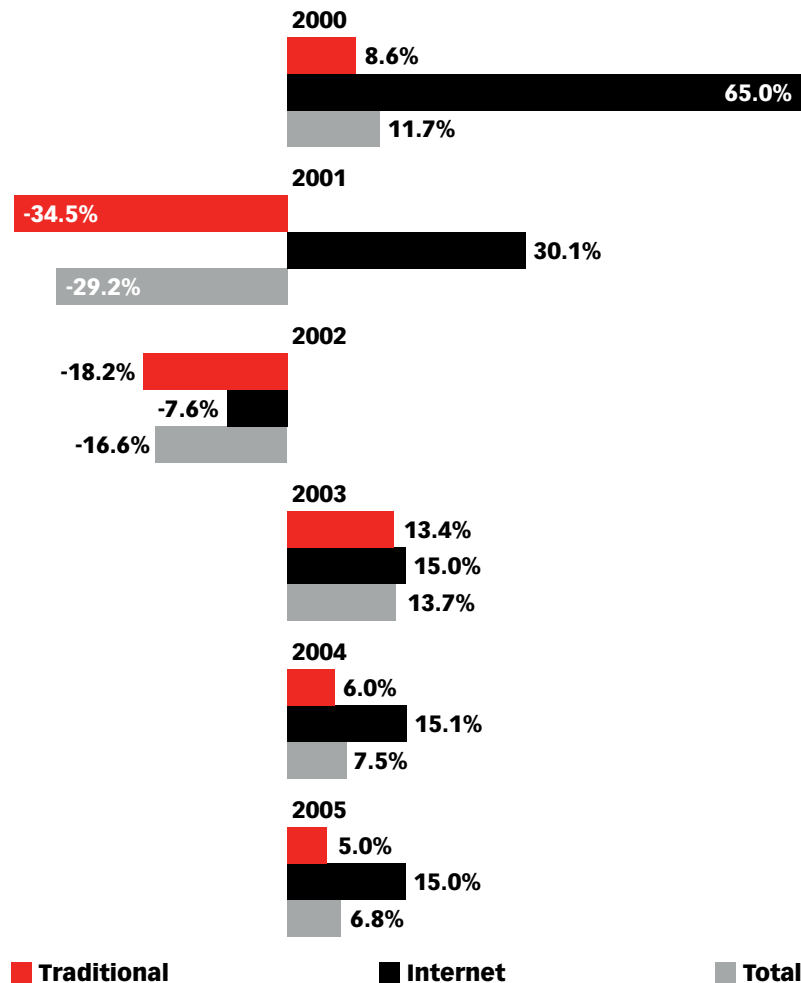
Source: Morgan Stanley Equity Research, Newspaper Association of America, Forrester Research, IDC, November 2002

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However, when you compare the growth rates for online recruitment classifieds versus traditional ones, the shift becomes clearer. In every year shown in the chart below, Internet classifieds outperformed traditional ones when measured by growth percentages.

## Online vs. Traditional Help-Wanted Classified Advertising in the US, 2000-2005 (as a % increase/decrease vs. prior year)



Source: Morgan Stanley Equity Research, Newspaper Association of America, Forrester Research, IDC, November 2002

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Historically, the lion's share of print recruitment ads were placed in newspapers. That's not true online, with sites such as Monster and HotJob as prominent players.

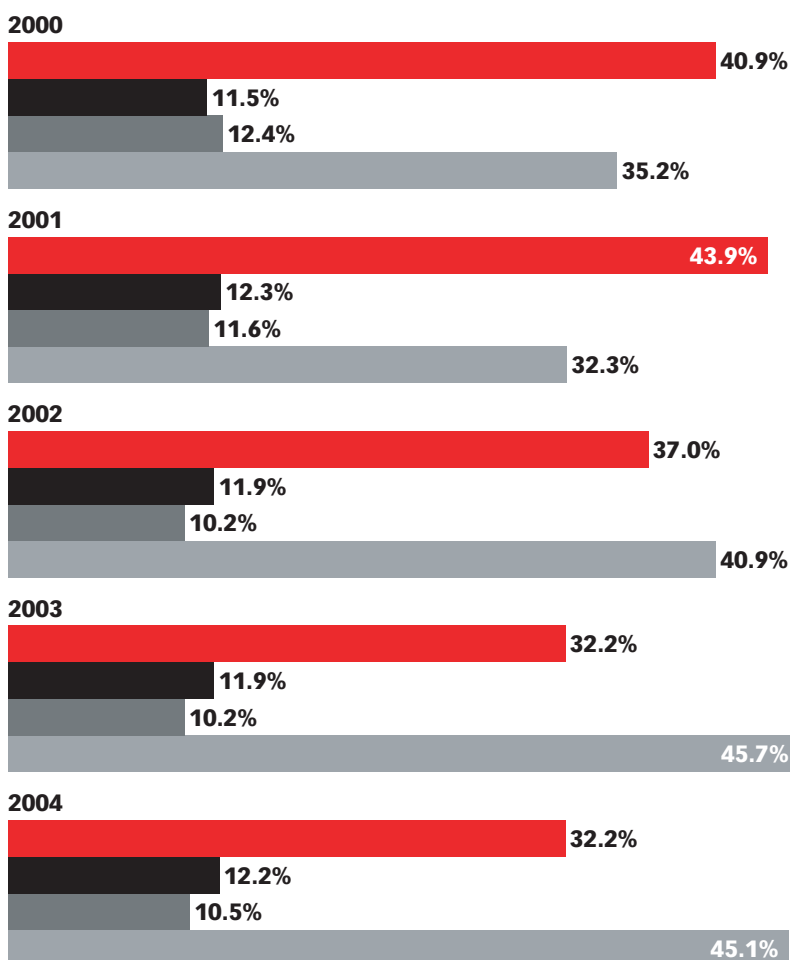
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**“Internet recruiting has revolutionized the way organizations of all sizes seek new applicants. It has proven to be a cost-effective recruiting tool that complements newspaper advertising and other methods of attracting new recruits.”**

— Debra Cohen, Ph.D., vice president of knowledge development, Society for Human Resource Management

When Morgan Stanley examined the online help-wanted market, it found that Monster.com is the giant in the room, with over 32% of the market in 2003. Note, though, that while Monster's share is expected to decrease from 2001's high point—and while Career Builder and Hot Jobs have maintained a steady market share—the Other category of miscellaneous sites, including newspapers, continues to build.

### Online Help-Wanted Classified Advertising Revenues in the US, by Web Site, 2001-2005 (as a % of total market)



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**2005**



Source: Morgan Stanley Equity Research, Newspaper Association of America, Forrester Research, IDC, November 2002

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In revenue dollars, Monster's projected \$456 million in 2005 will only barely surpass its 2001 level of \$446 million.

## Online Help-Wanted Classified Advertising Revenues in the US, by Web Site, 2000-2005 (in millions)

	2000	2001	2002	2003	2004	2005
Monster	\$320	\$446	\$348	\$348	\$400	\$456
Career Builder/Headhunter	\$90	\$125	\$112	\$129	\$152	\$178
HotJobs	\$97	\$118	\$96	\$110	\$130	\$153
Other	\$275	\$328	\$384	\$494	\$561	\$643
<b>Total</b>	<b>\$782</b>	<b>\$1,017</b>	<b>\$940</b>	<b>\$1,081</b>	<b>\$1,244</b>	<b>\$1,430</b>

Source: Morgan Stanley Equity Research, Newspaper Association of America, Forrester Research, IDC, November 2002

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Looking at growth rates, the revenues for Career Builder and HotJobs—along with the other category—will surpass Monster this year.

## Online Help-Wanted Classified Advertising Revenues in the US, by Web Site, 2001-2005 (as a % increase/decrease vs. prior year)

	2001	2002	2003	2004	2005
Monster	39.4%	-22.0%	0.0%	14.9%	14.0%
Career Builder/Headhunter	38.9%	-10.4%	15.2%	17.8%	17.1%
HotJobs	21.6%	-18.6%	14.6%	18.2%	17.7%
Other	19.3%	17.1%	28.6%	13.6%	14.6%
<b>Total</b>	<b>30.1%</b>	<b>-7.6%</b>	<b>15.0%</b>	<b>15.1%</b>	<b>15.0%</b>

Source: Morgan Stanley Equity Research, Newspaper Association of America, Forrester Research, IDC, November 2002

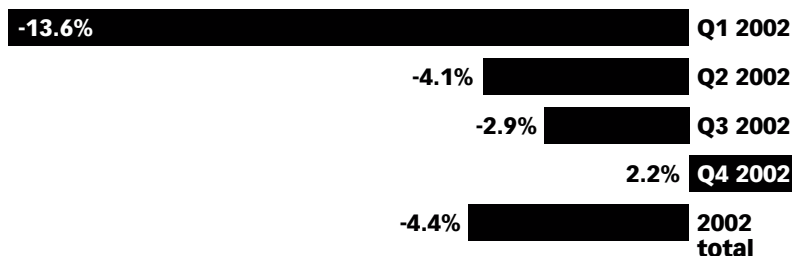
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How much are these sites truly disrupting pre-existing print classified ad revenues? The NAA reports a continued weakening market in traditional classified ad spending, down by 4.4% in 2002. However, the last quarter of last year offered some small hope, a 2.2% increase compared to the prior quarter.

### Classified Advertising Revenues in US Daily Newspapers, Q1 2002-Q4 2002 (as a % increase/decrease vs. same quarter of prior year)



Source: Newspaper Association of America, February 2003

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In absolute dollars, that 4.4% annual decrease translates from approximately \$16.6 billion in classified ad revenue in 2001 to \$15.9 billion in 2002.

### US Daily Newspapers' Classified Advertising Revenues, Q1 2002-Q4 2002 (in billions)



Source: Newspaper Association of America, February 2003

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However, the NAA insists that the shift toward Internet classifieds is not the main cause of the decline. Instead, the Vienna, VA-based trade organization cited the soft job market as the impetus for the newspaper industry's reduced classified ad revenues.

For example, in Q3 2002 when all newspaper classified spending was down 2.9%, auto dealer advertising climbed 5% and real estate ads edged up by 1.6%. But recruitment advertising fell by 19.4%, dragging down the overall total. And the NAA "also forecasts some returned health in classified advertising, with an upturn of as much as 8%."

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*The New York Times* reported in February 2003, “The bigger problem seems to be companies’ unwillingness to hire new workers. In December, the number of help-wanted advertisements in newspapers across the country fell to the lowest level in almost 40 years, according to the Conference Board, a research group in New York.”

The direct relationship between the ongoing US job market slump—with the highest unemployment rate in nine years reported for May 2003—and the downswing in the largest classified ad category may be obvious. However, even without online help wanteds on newspaper or job sites, the Internet has stolen recruitment classified ad revenues from traditional media.

“According to Barbara Cohen of Kannon Consulting in Chicago, roughly four out of every five businesses with Web sites use at least part of their sites for recruitment,” reports the NAA’s *Presstime* magazine. “Think of it this way: If half of the businesses in the United States have their own Web sites, that’s a total of over 5 million with some Internet presence. If even half of those companies decide to post just five jobs each on their sites during the coming year, rather than advertising them in local papers, more than 12 million ads will be lost to newspapers.”

Of course, newspaper classified ad placements are not either/or—more and more ads appear both in print and online, and some appear online only. However, it’s mainly Internet-savvy newspapers that are making the most of this cross-media trend—and more and more newspapers are increasingly savvy.

Research from Corzen shows that as of Q1 2003, 49% of the nation’s largest 245 newspapers offer a rate card for Internet-only recruitment advertising, up from 32% in Q4 2002. In addition, while Corzen’s Q4 2002 survey disclosed that mostly papers in larger metropolitan areas were offering Web-only advertising, now the New York-based research company finds that smaller papers are adopting that same strategy.

### Percent of US Newspapers that Offer Internet-Only Recruitment Classified Advertising, Q4 2002 vs. Q1 2003



*Note: based on the largest 245 newspapers*  
*Source: Corzen, May 2003*

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Not only are newspapers working hard to compete with Internet-only recruitment sites, their pricing is competitive as well. The average price among all newspapers for a 30-day Internet-only recruitment ad is \$196, less than two of the three major job sites.

### Pricing for a One-Month Online Recruitment Classified Ad, by Site, Q1 2003

<b>HotJobs</b>	<b>\$275</b>
<b>CareerBuilder</b>	<b>\$200</b>
<b>Average newspaper</b>	<b>\$196</b>
<b>Monster*</b>	<b>\$153</b>

*Note: \*based on \$305 price for a 60-day run*

*Source: Corzen, May 2003*

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The move to online classifieds is true for Internet-savvy advertisers, too. When members of the Society for Human Resource Management were asked where they advertise to recruit new staff, 93% of the HR professionals cited newspapers and 82% said the Internet. Clearly, there's overlap.

Together the two media command 84% of recruiting budgets. According to the Alexandria, VA-based trade group, "Newspaper advertising remains the dominant choice for filling local positions and enhancing corporate brand in a local market. Internet recruiting has also revolutionized the newspaper industry, affording companies the opportunity to advertise local positions globally through the newspaper's online product. Many recruiters have found that the combination of print and online advertising techniques is the most effective way to fulfill recruiting objectives."

### Media Which Human Resource Professionals Use to Advertise Open Staff Positions, 2002 (as a % of respondents)

<b>Newspapers</b>	<b>93%</b>
<b>Online</b>	<b>82%</b>

*Note: n=281*

*Source: Society for Human Resource Management (SHRM), October 2002*

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In open-ended responses in the SHRM poll, recruiters most commonly mentioned that Internet advertising helps them penetrate new markets and develop a wider range of qualified applicants, while newspaper classifieds allow them to concentrate on the local market.

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A more recent survey from *The New York Times* Job Market asked US hiring managers what sources they use to fill positions outside their organizations. While 79% cited newspapers, more than the other sources listed, the research failed to make clear whether or not that included a newspaper's online classifieds—since that section wasn't mentioned among possible choices.

### Sources Used by Hiring Managers in NY to Fill Positions, 2003 (as a % of respondents)

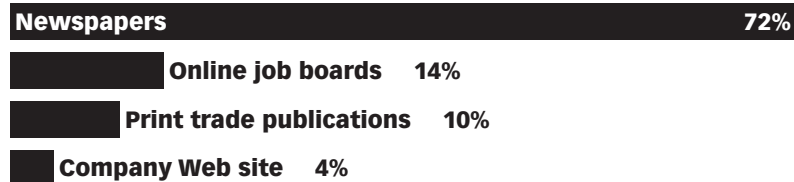


Note: n=250 hiring managers in the New York metropolitan area;  
 \*companies with 100+ employees are more likely to say this  
 Source: Beta Research Corporation for New York Times Job Market, April 2003

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### Sources Used to Find the Highest Quality Candidates by Hiring Managers in NY, 2003 (as a % of respondents)



Note: n=250 hiring managers in the New York metropolitan area  
 Source: Beta Research Corporation for New York Times Job Market, April 2003

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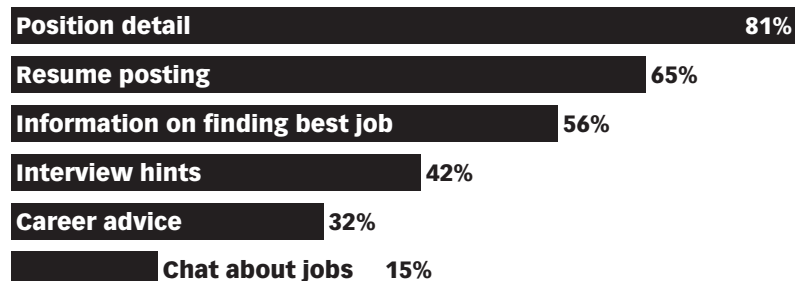
The same Job Market survey found an equal division among 200 New York metropolitan area job seekers—49% said they spend more time searching online job boards, while 49% said they focus on print recruitment advertisements. Similarly, 60% responded to online job listings, while 59% responded to print classified ads during their current job search.

When Belden Associates surveyed 1,467 newspaper-site classified section visitors, 66% said they scanned the classifieds. What these people rank most important in an online classified section is position detail, with the ability to post their resumes and information on finding the best job also key.

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These rankings undoubtedly reflect the crippled job market, and the way people look to online tools—such as newspaper sites—to help them.

### Important Elements of Online Classifieds & Advertisements According to US Newspaper-Site Visitors, 2002 (as a % of respondents)



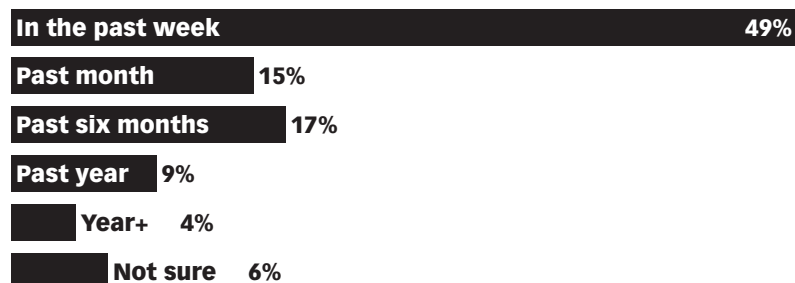
*Note: n=13,952 newspaper-site visitors (1,467 of these respondents received the pop-up survey while looking at the classifieds section)*  
*Source: Belden Associates, 2002*

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Among that same group, the Dallas-based newspaper research and consulting firm found that nearly half had used the online classifieds in the previous month.

### Usage of Online Classified Sections in the US, by Frequency, 2002 (as a % of respondents)



*Note: n=13,952 newspaper-site visitors (1,467 of these respondents received the pop-up survey while looking at the classifieds section)*  
*Source: Belden Associates, 2002*

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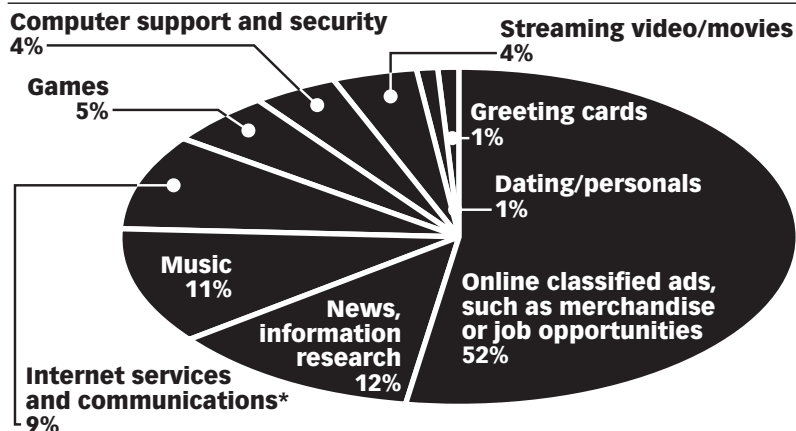
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So while online classifieds may simply be better (at least for most users), and while the online classified realm is both growing and stealing market share from print, the two channels will continue to coexist indefinitely.

## Online Content and Services that US Consumers Are Most Interested in Buying, 2003 (as a % of respondents)



Note: \*includes Internet access and premium e-mail

Source: PaymentOne, April 2003

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According to PricewaterhouseCoopers, the definition for an interstitial is a “full-page text and image server-push ad which appears in the transition between two pages of content.” Interstitials also come in several format flavors. Pop-up ads are simply one of those formats, defined as “an advertisement that appears in a separate window which automatically loads over an existing content window.”

Furthermore, the interstitial and pop-up vehicles are often used to deliver rich media ads, such as Unicast’s Superstitial or Eyeblaster’s Commercial Break.

## A. Interstitial Spending

The spending figures from the IAB and PwC don’t really answer that question. In 2002, interstitials’ share of US online ad spending was 5.0%, the same as rich media. Also like rich media, the 2002 share rose slightly over the 2001 figure. The increased portion of spending going to interstitials is partially due to a greater use of pop-ups.

### Interstitial Ad Spending in the US, 2000-2002 (as a % of total spending)

2000	3.7%
2001	3.0%
2002	5.0%

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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Interstitial spending in 2002 totaled \$300.5 million, up from \$214.0 million in 2001.

### Interstitial Ad Spending in the US, 2000-2002 (in millions)

2000	\$301.5
2001	\$214.0
2002	\$300.5

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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In a market where total ad spending decreased by 15.8%, interstitial spending increased by a significant 40.4%.

## Interstitial Ad Spending in the US, 2001 & 2002 (as a % increase/decrease vs. prior year)



*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PWC), June 2003*

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## B. The Evolving Interstitial

Behind the spending growth is flexibility. One key benefit of the interstitial's multiple formats is how the choices evolve to fit advertiser needs and market trends.

For example, in April 2003, Unicast introduced a full-screen, 15-second ad that plays transitionally when consumers are moving between pages. Called the Full Screen Superstitial, and compared to TV commercials by the company, this format measures in at 900x680 pixels, or 63% percent longer and 42% wider than Unicast's regular rich media Superstitial.

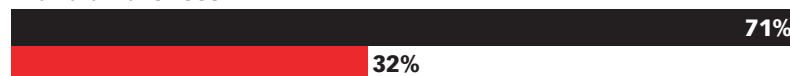
**"The distinction between [interstitials] and pop-ups is that they [interstitials] remain within the screen environment. Instead of hijacking the user experience, like pops, they blend within it."**

— Robert Loch, publisher, *Internet Marketing Strategy & News*

In tests for Unilever's Snuggle laundry detergent's new Botanical Bliss line, a full-screen interstitial scored higher than average on four key branding metrics. For example, the awareness lift was nearly 40 points higher than the 32% figure from Dynamic Logic's MarketNorm database control. Even the harder-to-move brand favorability and purchase intent metrics increased by 11 and 10 points, respectively, over the control.

### Lift in Brand Metrics for Full-Screen Interstitial Ad vs. MarketNorms Control, Based on Ads for Snuggle Botanical Bliss, 2003 (as a % of respondents)

#### Brand awareness



#### Message association



#### Brand favorability



#### Purchase intent



■ Full-screen interstitial\*      ■ MarketNorm control\*\*

Note: \*Unicast branded interstitial called "Superstitial"; \*\*control figures from Dynamic Logic's MarketNorms database  
Source: Unicast/Dynamic Logic, April 2003

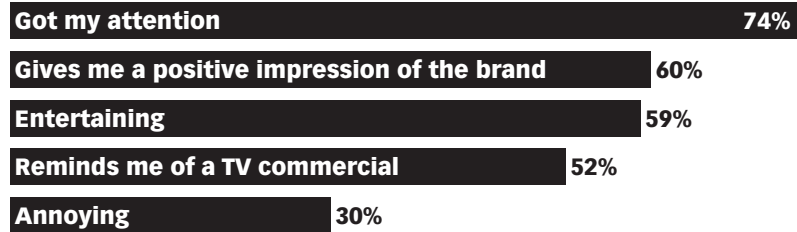
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Further research found that while 38% call TV commercials annoying, only 30% found this full-screen online ad annoying. Not the best recommendation, but in addition, 74% of consumers said the Snuggle ads got their attention, while 60% got a positive impression of the brand.

### US Consumers' Attitudes Regarding Full-Screen Interstitial Ads\* for Snuggle Botanical Bliss, 2003 (as a % of respondents)



Note: \*Unicast branded interstitial called "Superstitial"

Source: Unicast/Dynamic Logic, April 2003

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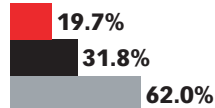
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Interestingly, Unilever's Snuggle Botanical Bliss laundry detergent was the subject of another rich-media ad company's research, this from Eyeblaster. Of the five brand metrics tested, all gained greater lift from the two types of interstitial ads, most notably aided awareness, with a 375% lift.

### Brand Metric Results and Lift for Rich Media Interstitial Ads\* for Snuggle Botanical Bliss, by Control and Exposed Groups, 2003

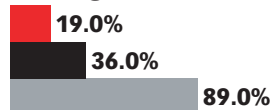
#### Brand awareness (aided)



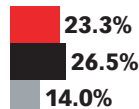
#### Ad awareness (aided)



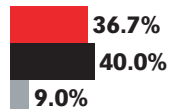
#### Message association



#### Brand favorability



#### Purchase intent



■ Control                      ■ Exposed                      ■ Lift

*Note: \*the two types of Eyeblaster-branded rich media interstitials used were a commercial break (a full-page ad that plays on site entry or before any other site page) and a floating ad (moves within transparent layer over Web page and plays within area up to 500x500 pixels)*

*Source: Eyeblaster/Dynamic Logic, April 2003*

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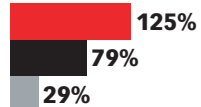
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Two different interstitial formats increased awareness dramatically compared to static banner ads. Somewhat surprisingly, the smaller Floating Ad raised message association even more than the full-page Commercial Break format.

### Brand Metric Lift for Rich Media Interstitial Ads\* for Snuggle Botanical Bliss, by Creative Format, 2003

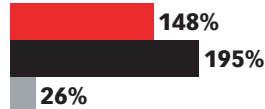
#### Brand awareness (aided)



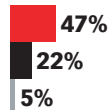
#### Ad awareness (aided)



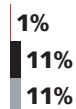
#### Message association



#### Brand favorability



#### Purchase intent



■ Commercial break    ■ Floating ad    ■ GIF banner

*Note: \*the two types of Eyeblaster-branded rich media interstitials used were a commercial break (a full-page ad that plays on site entry or before any other site page) and a floating ad (moves within transparent layer over Web page and plays within area up to 500x500 pixels)*

*Source: Eyeblaster/Dynamic Logic, April 2003*

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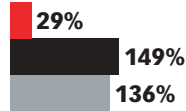
One of the more important finds of this Dynamic Logic research for Eyeblaster came when examining brand metric lift for the rich media interstitial ads combined with static banners. Take message association, which gained a 26% lift with banners alone, but a 211% lift when a full-page interstitial ran as well.

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This is further indication that the banner ad is not dead, but is best deployed in combination with other online advertising formats.

## Brand Metric Lift for Rich Media Interstitial Ads\* for Snuggle Botanical Bliss, by Ad-Type Combination, 2003

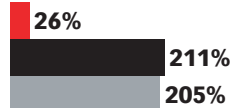
### Brand awareness (aided)



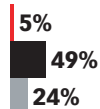
### Ad awareness (aided)



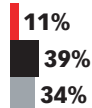
### Message association



### Brand favorability



### Purchase intent



■ GIF banner ■ Commercial break ■ Commercial break, floating ad and GIF banner

*Note: \*the two types of Eyeblander-branded rich media interstitials used were a commercial break (a full-page ad that plays on site entry or before any other site page) and a floating ad (moves within transparent layer over Web page and plays within area up to 500x500 pixels)*  
*Source: Eyeblander/Dynamic Logic, April 2003*

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Eyeblander noted, “While the GIF banners generated impression volume, the [two] ad units—the Commercial Break and the Floating Ad—motivated the users to interact with the ad.” The Commercial Break generated click-through rates over 14 times greater than the banner, while the Floating Ad’s click-rate was almost 40 times that of the banner.

### Click-Through Rate for Rich Media Interstitial Ads\* for Snuggle Botanical Bliss, by Creative Format, 2003

Floating ad	4.39%
Commercial break	1.56%
GIF banner	0.11%

*Note: \*the two types of Eyeblander-branded rich media interstitials used were a commercial break (a full-page ad that plays on site entry or before any other site page) and a floating ad (moves within transparent layer over Web page and plays within area up to 500x500 pixels)*

*Source: Eyeblander/Dynamic Logic, April 2003*

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While a large part of the interstitial’s evolution derives from its effective use for branding, that occurs not just online but in cross-media tests as well.

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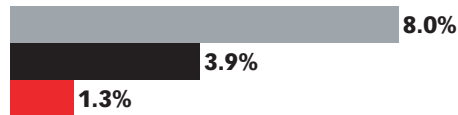
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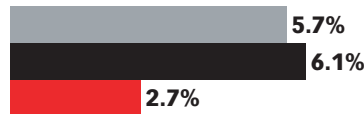
When the IAB sponsored a comparative test of a McDonald's ad for its Grilled Chicken Flatbread Sandwich, it found that a Unicast interstitial lifted four branding attributes better than the other online formats (various types of banners). Furthermore, the interstitial even did better than a 30-second television commercial when it came to imparting the idea that the new sandwich is exciting (with an astounding 16.3% lift) and a combination of great flavors.

## Comparative Branding Metrics for McDonald's Ad on Television and Online, 2003 (based on % incremental lift)

### New



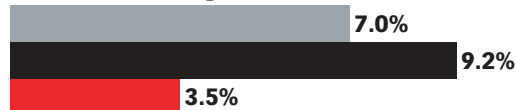
### Different



### Exciting



### Combination of great flavors



■ Television\* ■ Transitional ad\*\* ■ Online all other formats\*\*\*

Note: \*30-second commercial; \*\*a 550x480 pixel 30-second Superstitial (Unicast branded interstitial); \*\*\*includes banners (468x60), skyscrapers (160x60, 120x600 or 120x400), boxes (300x250, 510x425 or 550x480), and rectangles (210x275 or 260x140)

Source: Interactive Advertising Bureau (IAB), June 2003

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## C. Pop-Ups: Pernicious & Profitable

While the entire interstitial category gets only a 5.0% share of US online ad spending, the ubiquitous pop-ad makes up just 3.5% of all US online ads in Q4 2002, based on impressions. However, that number is a near-doubling of the previous year's figure, according to Nielsen//NetRatings. In addition, Nielsen says that publishers served 13.4 billion pop-up ads in Q1 2003 (not counting house ads), a 24% increase from the previous quarter.

### Pop-Up Ads\* as a Percent of Total US Online Ads, Q4 2001 vs. Q4 2002

Q4 2001	1.9%
Q4 2002	3.5%

*Note: data limited to the advertising technologies and Web sites that Nielsen//NetRatings' AdRelevance service tracks; AdRelevance does not probe inside the AOL proprietary network; \*pop-up ads defined as "any ad that spawns a new browser window," which means both pop-up and pop-under ads*

*Source: Nielsen//NetRatings, January 2003*

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**"In a show of stupendous ignorance, many brand managers haven't begun to figure out that these same market forces—the exponentially increasing revulsion of the Internet audience—affect the brands that exploit pop-ups."**

— Tig Tillinghast, marketing consultant; MediaPost

Consider then how pop-up ads are only one part of the relatively small interstitial market. Yet relative to their dollar impact on Internet ad spending, pop-ups seem to get a disproportionate amount of attention from both the media and consumers. Why? Many people find them annoying.

**"The whole pop-up issue is going to be a mere footnote of the online advertising story. Pop-ups are a transitional form of advertising."**

— Charles Buchwalter, vice president of client analytics,  
Nielsen//NetRatings; *Internet Advertising Report*, 17 December 2002

For example, the same Unicast and Dynamic Logic research cited above, where 38% of consumers call TV commercials annoying, and 30% call full-screen interstitials annoying, found that 78% think pop-up, pop-under, and floating ads are annoying.

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The universality of that annoyance comes up both in anecdotes and in data, such as the survey from Kansas City, MO-based Valentine Radford, which found in 2002 that 93% of US online shoppers think pop-up ads are annoying, up from 74% in 2000.

### US Online Shoppers Who Find Pop-Up Ads Annoying, 2000 & 2002 (as a % of respondents)



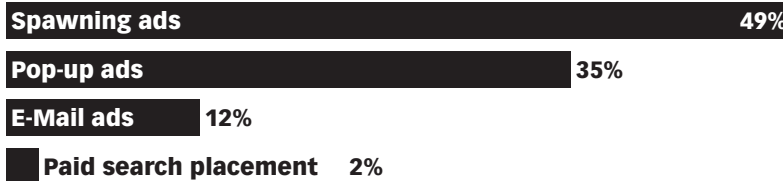
Source: Valentine Radford, February 2003

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Further research, sponsored by search engine Overture, found that when US Internet users could choose only one online advertising issue that most concerned them, 35% cited pop ups.

### Online Advertising Issue that Most Concerns US Internet Users, 2002 (as a % of respondents)



Note: n=1,000 adults ages 18+; could select only one  
Source: Market Facts conducted for Overture, July 2002

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The results from a GartnerG2 consumer survey conducted last year were no better—especially when you note that the criterion was ratcheted up to “very annoying,” a distinction respondents gave to 78% of pop-up ads. In contrast, only 43% found interstitial ads very annoying. GartnerG2 defines these interstitials as “the ones that open when a user goes from one Web page to another and disappear unless clicked on.”

### US Internet Users' Opinions Regarding Which Online Ad Formats Are “Very Annoying”, 2002 (as a % of respondents)



Source: GartnerG2, December 2002

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**“Current click-through rates are inflated because many Internet users are not familiar with how to close the pop-up window. The rates will decrease as users gain experience.”**

— Denise Garcia, media research director, GartnerG2

That pop-ups push themselves to the browser foreground, while pure interstitials retreat when users ignore them, gets to the core distinction between the two.

This interstitial annoyance figure “led the researcher, Denise Garcia, to explore why the interstitial was so much less annoying than the other ad formats,” writes iMedia Connection. “After finding a statistic that stated that 38% of TV viewers find commercials annoying—a similar number to those who find interstitials annoying—she concluded that there’s a certain percentage of people (around 40%) who just dislike advertising in any form.”

**“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]; CNET News, 8 October 2002

And perhaps most alarming to pop-up proponents is the recent PlanetFeedback survey that found pop-ups lead all ad forms in levels of annoyance and distrust—even more so than spam. In addition to the 83% of consumers annoyed by pop-up ads, 97% feel “furious” or “angry” with pop-up ads that appear without warning.

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These strong feelings should make potential pop-up advertisers both aware and wary.

### US Consumers' Trust in and Annoyance with Select Advertising Formats, April 2003 (as a % of respondents)

	% that trust	Trust index (100 is norm)	% annoyed by	Annoyance index (100 is norm)
Word-of-mouth recommendations	61%	251	9%	27
Print ads	47%	194	5%	15
TV ads	42%	173	13%	39
E-Mail subscriptions	39%	161	13%	39
Radio ads	35%	144	11%	33
Direct mail	21%	86	31%	93
Outdoor ads	20%	82	11%	33
Paid search engine listings	14%	58	29%	87
Infomercials	9%	37	39%	117
Web site banner ads	8%	33	53%	160
Door-to-door solicitation	4%	16	78%	235
Spam	3%	12	77%	232
Pop-up ads	2%	8	83%	250

Source: PlanetFeedback, April 2003

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In response to pop-up annoyance, two market reactions have emerged. One, service providers such as American Online and EarthLink have banned them (although not always ones from their parent company, such as AOL Time Warner), along with some Web sites, such as iVillage. Two, more and more Internet users are deploying pop-up blocking software to kill the intrusive ads before they arise. According to the same GartnerG2 survey cited above, 12% of the Internet population already uses such programs.

**"It's important to realize that they [Internet users] don't distinguish between pop-ups and pop-unders. That, to me, just says that they're lumping everything into a category."**

— Denise García, media research director, GartnerG2; ClickZ, 17 January 2003

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However, even limits on pop-ups aren't black and white. In the eyes of some Web sites, one solution to the pop-up problem is a mix of limiting their frequency and turning them into a less intrusive format, pop-under, instead. Even after its pop-up ban, iVillage continues to run pop-under. MediaPost reports, "The site, which is currently running pop-under for Orbitz and LowerMyBills.com, caps pop-under reach and frequency to one impression per user/per day so as not to bombard visitors."

**"The [pop-up ad] problem is caused by lack of frequency controls. But intrusive advertising is here to stay."**

— Nick Nyhan, president, Dynamic Logic; *Internet Advertising Report*, 17 December 2002

But, according to GartnerG2 analyst Garcia, "iVillage is not doing a service to their users; they're actually misleading them." That's because many people find even limited pop-under nearly as annoyed as pop-ups.

So when you combine consumer annoyance with ISP and Web site reactions, why aren't pop-up ads going away? First off, many online publishers like how they receive at least twice as much for pop-ups as they do for banners. "Pop-up ads can cost between \$15 and \$35 per thousand impressions, according to Gartner, while the average banner ad costs between \$3 and \$7 per thousand impressions," reports Dow Jones Business News.

**"In user testing, I virtually always find that users will ignore a moving or blinking design element, even if it's not an ad but actually something useful that they are looking for. It's likely that the effect of these new formats will wear off over time."**

— Dr. Jakob Nielsen, principal, Nielsen Norman Group; *The New York Times*, 5 May 2003

Secondly, average click-through rates for pop-ups surpass those for banner ads—a draw for advertisers. "However, current click-through rates are inflated because many Internet users are not familiar with how to close the pop-up window," writes GartnerG2's Garcia. "The rates will decrease as users gain experience."

For now, pop-ups spread themselves unevenly across Web sites. As mentioned in the top of this section, Nielsen//NetRatings research shows that the average US commercial Web site sold 3.5% of its total ads in Q4 2002 as pop-ups. However, some site genres are more heavily invested in pop-up sales than average. Take community sites, which served up nearly a quarter of their ads as pop-ups. At the other extreme, portals and search engines are sensitive to user annoyance with pop-ups, and therefore use them sparingly.

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## Pop-Up Ads\* as a Percent of Total Ads in the US, by Web Site Genre, Q4 2002

Society, politics and science	27.1%
Community	23.2%
Music and streaming media	22.6%
Personal expression	19.7%
Fashion, romance and celebrity	15.7%
Yellow and white pages	15.7%
Reference and education	13.8%
Kids and family	12.9%
B2B	11.5%
Movies and television	10.4%
Games	9.6%
Home and garden	9.0%
Comics and humor	7.6%
Computing and technology	5.6%
Local and regional	5.3%
Sports and recreation	4.9%
General news	3.5%
<b>WEB SITE AVERAGE</b>	<b>3.5%</b>
Business and finance	3.3%
Incentive	3.3%
Travel	3.0%
Employment	2.9%
Health and fitness	2.8%
Search engine	1.7%
Automotive	1.2%
Shopping and auction	1.2%
Shopping and auction	1.2%
Portal	0.8%
ISP and telecommunications	0.7%

*Note: data limited to the advertising technologies and Web sites that Nielsen//NetRatings' AdRelevance service tracks; AdRelevance does not probe inside the AOL proprietary network; \*pop-up ads defined as "any ad that spawns a new browser window," which means both pop-up and pop-under ads*

*Source: Nielsen//NetRatings, January 2003*

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Negative consumer opinions and outlawing pop-ups aside, sites still run them. Media Life outlined one potential pop-up future: "Pop-ups will not disappear from the Internet, but going forth they will be increasingly associated with lower-end sites and grittier e-commerce functions. Imagine the pop-up ad becoming the carnival barker of the Internet, full of sales bluster and false promises of what lurks behind the tent door respectable folks would rather not enter."



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**“We’re still selling them [pop-up ads]. Our advertisers are still finding great value to them, and obviously some of our users find them attractive enough to click on them.”**

— Jason Krebs, vice president of ad sales, *NYTimes.com*; *Internet Advertising Report*, 17 December 2002

While that’s a colorful image, the reality for now is that pop-ups continue because pop-ups work. Recent research released by Advertising.com shows how both the click-through and conversion rates for pop-up ads are 13 and 14 times higher, respectively, than for standard banner ads.

### Click-Through Rates and Conversion Rates, by Online Ad Format, 2003 (indexed to 468x60 banner)

#### 468x60 (full banner)



#### 728x90 (large banner)



#### 120x600 (skyscraper)



#### Pop-up



■ Click-through rate

■ Conversion rate

Note: Based on more than 168 million ads served to over 15 million users during a one-week period

Source: Advertising.com, May 2003

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Another study from Advertising.com shows that in the 12-week period from early January to mid March of this year, pop-up ads got far more clicks per impression than any type of banner format. For example, during the week of 19 February, one impression of each standard banner ad (468x60) got 0.44 clicks, while one pop-up impression got 5.04 clicks.

### Click Ratio on Advertising.com Network, by Online Ad Format, Week of 1 January 2003-Week of 19 March 2003 (relative to impression ratio of 1.00)

	120x600	468x60	728x90	Other	Pop-ups
1 January	0.74	0.40	0.36	0.93	5.84
8 January	0.55	0.34	0.45	1.22	6.09
15 January	0.60	0.40	0.45	0.87	5.62
22 January	0.53	0.38	0.42	0.77	5.56
29 January	0.61	0.40	0.61	0.58	5.34
5 February	0.67	0.45	0.65	0.77	4.83
12 February	0.65	0.43	0.43	1.84	4.85
19 February	0.83	0.44	0.40	1.35	5.04
26 February	0.70	0.41	0.30	1.03	5.54
5 March	0.76	0.43	0.32	1.40	5.09
12 March	0.62	0.45	0.28	1.34	4.81
19 March	0.61	0.39	0.57	0.94	5.13

Note: relative to impression ratio of 1.00

Source: Advertising.com, March 2003

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**“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;  
Target Marketing, May 2002

Actions speak louder than clicks for pop-ups, too. During that same February week, one impression of a standard banner lead to 0.38 actions (defined as any post-click event, such as a user registering on a Web site). In contrast, one impression of a pop-up lead to 6.11 actions.

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With results like that, even the greater cost and annoyance level associated with pop-ups will attract more advertisers.

### Action\* Ratio on Advertising.com Network, by Online Ad Format, Week of 1 January 2003-Week of 19 March 2003 (relative to impression ratio of 1.00)

	120x600	468x60	728x90	Other	Pop-ups
1 January	0.93	0.51	0.19	1.75	4.49
8 January	0.40	0.28	0.18	1.04	6.92
15 January	0.51	0.49	0.20	1.09	5.17
22 January	0.73	0.51	0.21	1.39	4.40
29 January	0.74	0.51	0.35	0.84	4.54
5 February	0.31	0.34	0.17	0.97	5.97
12 February	0.26	0.30	0.18	0.74	6.63
19 February	0.35	0.38	0.39	0.99	6.11
26 February	0.32	0.41	0.35	0.69	6.24
5 March	0.34	0.33	0.22	0.30	6.94
12 March	0.28	0.21	0.12	0.27	7.35
19 March	0.25	0.28	0.38	0.22	6.81

Note: relative to impression ratio of 1.00; \*actions defined as any post-click event, such as lead acquisition or user filling out a site registration

Source: Advertising.com, March 2003

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The people who run Orbitz would agree. “The discount travel site, the second largest pop-under and pop-up advertiser on the Internet, recently began using humor as its main weapon against pop-up haters,” writes Internet Advertising Report. “And while Orbitz often gets complaints about its ads, which in the first half of the year totaled 667 million, it still sees a very high conversion rate for individuals who click on a pop ad and make a purchase, compared with other forms of advertising.”

**“For advertising to be effective, it has to be intrusive. Obviously, there is a fine line beyond which advertising may alienate consumers...This shouldn’t distract us from the fact that mainstream publishers can also use the pop-ups in an effective and appropriate way.”**

— Sufa Rashtchy, senior research analyst, US Bancorp Piper Jaffray;  
MediaPost, 9 September 2002

The bottom line for now is summarized best by Nielsen//NetRatings: “As pop-up share increases in the market, consumers will speak with their site visits. If Web site popularity declines as pop-up ad serving increases, then properties and advertisers may be forced to reconsider their use. The alternative is eventual consumer acceptance of pop-ups, and advertisers continued use of the medium as an effective marketing platform.”


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As noted in the introduction to this report, the online sponsorship category blends nearly every type of ad format: banners, rich media, interstitial, and e-mail, to name just a few. That said, more companies find that content Web sites, with their regular visitors, are well suited for sponsored advertising.

As defined by PwC, spending in this category consists of “advertiser sponsorships of targeted content areas (e.g., entire Web site, site area, or an event).” Another way to define sponsorships is by space and time. That is, effective sponsorship means ads that are in the right place at the right moment for the right audience.

However, the apparently amorphous nature of sponsorship online makes it hard to pin down. For instance, do the IAB/PwC spending figures below include banners and rich media run by sponsors? When a sponsoring advertiser runs an interstitial, where is that counted? Or when a search engine labels a paid-search ad as a “sponsored link,” is that part of sponsorship spending?

In the case of those three questions, the quick answers are sponsorship, sponsorship, and keyword search, respectively.

## A. Online Sponsorship Spending

With the growth of advertising formats such as paid search and rich media, sponsorships are like banner ads—both have retained their status as one of the two most used online ad vehicles and both have lost market share over the past three years.

In 2002, 18.2% of the US online spending went into sponsorships, a greater than 10-point drop from 2000's figure.

### Online Sponsorship Ad Spending in the US, 2000-2002 (as a % of total spending)

2000	28.4%
2001	26.5%
2002	18.2%

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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Actual 2002 spending reached \$1.09 billion, a significant decrease from \$1.89 billion the year before.

## Online Sponsorship Ad Spending in the US, 2000-2002 (in millions)

2000	\$2,293.6
2001	\$1,889.7
2002	\$1,092.8

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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Translated to growth rates, online sponsorship spending fell by 42.2% last year.

## Online Sponsorship Ad Spending in the US, 2001 & 2002 (as a % of total spending)

-17.6%	2001
-42.2%	2002

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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## B. Sponsorship Variety

Even with reduced spending, the other side of online sponsorship is how its all-encompassing nature makes it a natural vehicle for companies trying to get out a specific message to specific consumers—a key element of sponsorships is effective targeting. That's one reason why 40% of US marketers project increased spending on online sponsorship in 2003, according to the Myers Group. Note how that's less than the 25% looking to spend more on search engine advertising, a more ballyhooed vehicle.

### US Marketers' Projected Increases for Online Advertising, by Vehicle, 2003 (as a % of respondents)

#### E-Mail marketing

60%

#### Sponsorship

40%

#### Portal advertising (AOL, MSN and Yahoo!)

40%

#### Banner ads

25%

#### Pop-up ads

25%

#### Search engine advertising (Google and Overture)

25%

Note: n=143

Source: Myers Group, December 2002

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The wide net thrown by online sponsorship deals encourages experiments in marketing. One example is WeatherBug, the combination Web site and desktop software that gives its 17 million users local weather and forecasts. With the WeatherBug model, people who sign up choose one of 10 sponsor categories, such as shopping, hobbies and interest, or small business. Then, from within each category, they choose a specific advertiser to sponsor the free service (with no advertising for those who pay for the service).

This choose-a-sponsor ad model also allows people to change sponsors. "When a new advertiser is selected, WeatherBug's appearance changes to display the advertiser's messages wrapped around the weather content in a format called BrandWrap," says the Gaithersburg, MD-based company. "Advertisers participating in this program only pay for sponsorships when their ads are chosen."



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A similar trade-off of free content in exchange for viewing sponsored ads is a key element in how Salon.com supports its daily online magazine. In order to get a daily pass for the online magazine's premium content, users must watch a full-blown rich media ad. And as the site visit continues, other, simpler ads from the sponsor appear in appropriate sections.

Another innovative form of online sponsorship is the surround session, pioneered by New York Times Digital. With this model on the national newspaper's Web site, "an advertiser has all or most of the ads on each page for a visitor's entire site visit. As the visitor moves from page to page, the same advertiser is represented in various ad placements," as MarketingTerms.com puts it.

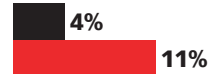
Surround session sponsorships offer advertisers several possible benefits. One, it eliminates clutter, since only one company's ads appear all the way through a user's time on the site. Two, advertisers can build a story along the way, reinforcing a particular message and allowing for more compelling creative. Three, the surround session "introduces a measurement of frequency, which is aligned with the more traditional measures in the media marketplace," as the Newspaper Association of America wrote shortly after *The Times* introduced the sponsorship model.

When the online newspaper and Dynamic Logic performed studies on two surround campaigns—from American Airlines and Nexium—it found lift in all four key branding metrics. The spectacular 47-point lift in message association, particularly, points to how frequency and memorability combine just as well online as it does in traditional media.

According to the Advertising Research Foundation, “Creative quality is the main success driver for surround sessions. The message has to be focused, the logo ubiquitous, the look and feel consistent. The better the creative the stronger the impact.”

## Changes in Online Branding Metrics for New York Times Digital's Surround Sessions vs. Dynamic Logic's AdIndex Average Scores, 2002 (as a % lift)

### Brand awareness



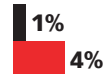
### Message association



### Brand favorability



### Purchase intent



**AdIndex average**
 **Surround session**

Source: New York Times, Dynamic Logic, October 2002

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In fact, when Dynamic Logic looked at the branding effects of online sponsorship in general versus traditional ad units such as banners, it found that sponsorships tend to boost association and awareness even more than favorability and purchase intent.

### Effect of Online Sponsorship vs. Traditional Advertising Units on Brand Metrics, Q4 2002 (by point increase)

#### Sponsorship association



#### Brand awareness



#### Brand favorability



#### Purchase intent



■ Sponsored campaign

■ Traditional online ads

Note: n=712

Source: Dynamic Logic, March 2003

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Sponsorship works across media as well. Figures from Hitwise point to the benefits AT&T Wireless found from sponsoring the hit TV program “American Idol.” That show aired on Tuesday and Wednesday each week, and the figures below show how the market share of telecom site visitors to the www.attws.com Web site peaked every week on Wednesday.

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### Daily US Visitors to the AT&T Wireless Web Site, 1 March 2003 - 4 April 2003 (as % of visitors in telecommunications category)

Date	Day of Week	Share
1 March 2003	Saturday	10.41%
2 March 2003	Sunday	11.25%
3 March 2003	Monday	11.75%
4 March 2003	Tuesday	12.05%
<b>5 March 2003</b>	<b>Wednesday</b>	<b>13.10%</b>
6 March 2003	Thursday	12.50%
7 March 2003	Friday	12.35%
8 March 2003	Saturday	10.92%
9 March 2003	Sunday	11.24%
10 March 2003	Monday	10.78%
11 March 2003	Tuesday	10.32%
<b>12 March 2003</b>	<b>Wednesday</b>	<b>10.73%</b>
13 March 2003	Thursday	9.75%
14 March 2003	Friday	8.84%
15 March 2003	Saturday	8.51%
16 March 2003	Sunday	8.65%
17 March 2003	Monday	8.98%
18 March 2003	Tuesday	9.31%
<b>19 March 2003</b>	<b>Wednesday</b>	<b>9.79%</b>
20 March 2003	Thursday	8.89%
21 March 2003	Friday	9.36%
22 March 2003	Saturday	8.94%
23 March 2003	Sunday	8.85%
24 March 2003	Monday	9.96%
25 March 2003	Tuesday	9.74%
<b>26 March 2003</b>	<b>Wednesday</b>	<b>11.05%</b>
27 March 2003	Thursday	9.52%
28 March 2003	Friday	9.60%
29 March 2003	Saturday	8.55%
30 March 2003	Sunday	8.55%
31 March 2003	Monday	8.89%
1 April 2003	Tuesday	8.67%
<b>2 April 2003</b>	<b>Wednesday</b>	<b>9.79%</b>
3 April 2003	Thursday	9.17%
4 April 2003	Friday	9.47%

Note: AT&T Wireless sponsored the "American Idol" television show which aired on Tuesday and Wednesday

Source: Hitwise, June 2003

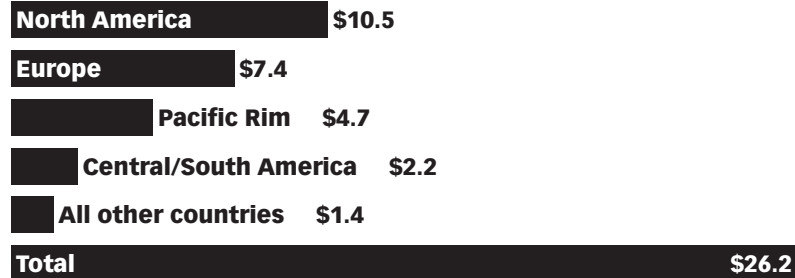
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The next three charts in this section from IEG Inc. reflect sponsorship in all media, not just online. That said, the lion's share of sponsorship spending in 2003 will occur in North America, at \$10.5 billion according to the Chicago-based sponsorship association.

### Worldwide Sponsorship Spending, by Region, 2003 (in billions)



Note: projected

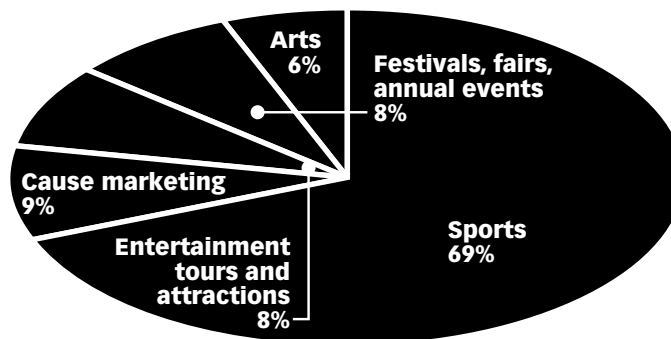
Source: IEG, Inc., January 2003

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In North America, the primary type of event that attracts sponsorship dollars is sports related. In addition to deals such as corporate-named stadiums, it also includes arenas in which Web sites can attract sponsored advertising.

### North American Sponsorship Spending, by Property, 2003



Note: projected

Source: IEG, Inc., January 2003

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Finally, estimates of annual sponsorship spending by the top 20 US companies range from PepsiCo, at \$240 million, to Motorola, at about \$50 million. Within many of these corporations are people who understand not only the role and importance of sponsorship but also the Internet's place in cross-media marketing campaigns.

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For instance, Bill Lamar—the senior vice president of US marketing for McDonald's, and the 11th ranked company below—recently told the 85th annual AAAA management conference that “the days of spending hundreds of millions of dollars on TV advertising are over.” As reported in MediaPost, Lamar said, “In six months, McDonald's will move away from its current ‘mostly TV’ marketing strategy toward more digital media, saying that the company is already doing the most of any other company to reach customers on the Web.”

### Sponsorship Spending by US Companies, 2002 (in millions)

<b>PepsiCo</b>	<b>\$235-\$240</b>
<b>Anheuser-Busch</b>	<b>\$230-\$235</b>
<b>General Motors</b>	<b>\$175-\$180</b>
<b>Coca-Cola</b>	<b>\$165-\$170</b>
<b>Miller Brewing</b>	<b>\$145-\$150</b>
<b>Nike</b>	<b>\$140-\$145</b>
<b>DaimlerChrysler</b>	<b>\$115-\$120</b>
<b>Eastman Kodak</b>	<b>\$95-\$100</b>
<b>Ford</b>	<b>\$90-\$95</b>
<b>Visa International</b>	<b>\$75-\$80</b>
<b>McDonald's</b>	<b>\$75-\$80</b>
<b>MasterCard International</b>	<b>\$70-\$75</b>
<b>FedEx</b>	<b>\$60-\$65</b>
<b>IBM</b>	<b>\$60-\$65</b>
<b>AT&amp;T</b>	<b>\$55-\$60</b>
<b>Bank of America</b>	<b>\$50-\$55</b>
<b>Shell Oil</b>	<b>\$50-\$55</b>
<b>John Hancock</b>	<b>\$45-\$50</b>
<b>Philip Morris</b>	<b>\$45-\$50</b>
<b>Motorola</b>	<b>\$45-\$50</b>

Source: IEG, Inc., January 2003

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With e-mail, the advertising side and the marketing side are more mixed than for any other interactive vehicle. As defined by PricewaterhouseCoopers, e-mail advertising consists of “banner ads, links, or advertiser sponsorships that appear in e-mail.” But many commercial e-mails, such as content newsletters, contain little or no direct advertising; the e-mail itself is an advertisement from the company that sent it. This type of commercial e-mail is generally counted under the marketing umbrella rather than advertising specifically.

## A. Spending & Costs

Like rich media and interstitials, e-mail advertising increased its market share by a small amount last year, rising by 1.3 points to 4.0% of total spending.

### E-Mail Ad Spending in the US, 2000-2002 (as a % of total spending)

2000	2.7%
2001	2.7%
2002	4.0%

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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In absolute dollars, that means e-mail advertisers spent \$240 million in 2002.

### E-Mail Ad Spending in the US, 2000-2002 (in millions)

2000	\$219.6
2001	\$195.6
2002	\$240.4

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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The ad spending gain of 22.9% is significant in a year when all online advertising declined by 15.8%.

### E-Mail Ad Spending in the US, 2001 & 2002 (as a % increase/decrease vs. prior year)

-11.0%	2001	
	2002	22.9%

*Note: 2000 total=\$8.09 billion; 2001 total=\$7.13 billion; 2002 total=\$6.01 billion*

*Source: Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC), June 2003*

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When it comes to e-mail, the measured ad spending figures above do not constitute the entire e-mail spending pie. That's because the vast majority of e-mail dollars fall into some form of marketing, not necessarily ads embedded in commercial e-mails.

Contrast the IAB/PwC figures above with the following estimates from Jupiter Research and Forrester Research. In estimates from last September, Jupiter pins US e-mail marketing spending at \$1.4 billion, and projects it to soar by 493% to \$8.3 billion by 2007.

### US E-Mail Marketing Campaign Spending, 2002 & 2007 (in billions)

2002	\$1.4	
2007		\$8.3

*Source: Jupiter Research, September 2002*

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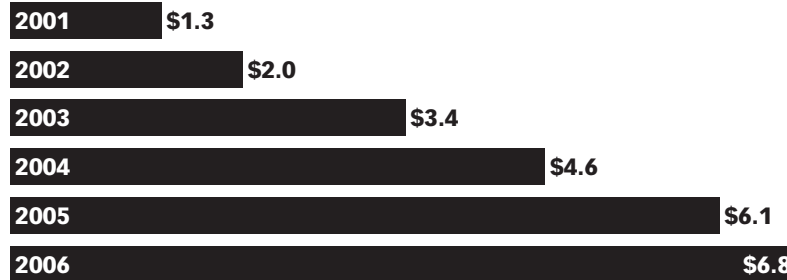
[www.eMarketer.com](http://www.eMarketer.com)

Note that Jupiter's spending estimates from a year earlier were a bit more optimistic, pegging 2002's figure \$0.39 billion higher at \$1.79 billion and surpassing the 2007 projection by the year 2006 instead.

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The somewhat dated data from Forrester also points to large leaps in US e-mail marketing spending, rising from \$2.0 billion in 2002 to \$6.8 billion by 2006. These figures translate to a 240% growth rate over that five-year span.

### US E-Mail Marketing Services Spending, 2001-2006 (in billions)



Source: Forrester Research, August 2001

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That e-mail marketing will continue to thrive is due to several factors, including the popularity of e-mail among individuals and its low cost for garnering leads. Next to paid search, the 50 cents per lead for e-mail makes it far more cost-effective than competing vehicles such as banner ads or traditional direct mail.

### Cost per Lead for Various Direct Marketing Methods, 2002



Source: US Bancorp Piper Jaffray, Myers Group, Direct Marketing Association, March 2003

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## B. Volume & Consumer Attitudes

When US consumers receive e-mails from legitimate marketers, the primary goal is retention, according to Jupiter Research data. In 2003, the research firm estimates that the average online consumer will be bombarded by 2,210 total commercial e-mails, of which 930 will be for customer retention—aka, relationship marketing. Not surprisingly, spam is close behind, and Jupiter expects its volume to surpass retention posts by 2005.

For more on spam, see the sections below, starting with “The Spam Disaster.”

### Volume of Commercial E-Mails per Online Consumer in the US, by Type of Message, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Spam	440	571	696	861	1,046	1,253	1,479
Retention	545	675	786	930	1,082	1,242	1,406
Sponsorship	136	195	195	354	467	605	769
Acquisition	11	24	42	66	99	140	192
<b>Total</b>	<b>1,132</b>	<b>1,466</b>	<b>1,785</b>	<b>2,210</b>	<b>2,693</b>	<b>3,240</b>	<b>3,846</b>

Source: Jupiter Research, October 2001

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**“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

Despite data such as Jupiter’s, and despite many people’s own perception that the wave of spam is turning into a tsunami, the Pew Internet & American Life Project reports that 65% of at-work e-mail users say the volume of e-mail messages that comes to their work accounts is not a problem, while an additional 30% manage to stay on top of the volume of messages they receive. One might guess that these respondents come from companies that have installed tight spam filters.

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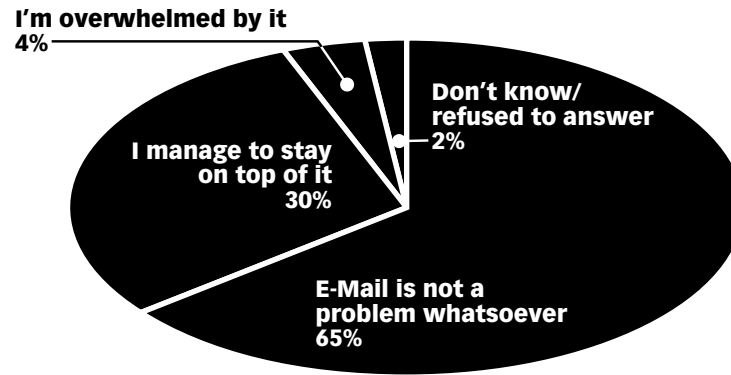
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Only 4% say they are overwhelmed by the amount of e-mail that comes to work.

### US Internet Users' Opinions Regarding the Volume of E-Mail Received at Work, April-May 2002 (as a % of respondents)



Note: n=1,003 at-work e-mail users; numbers may not add to 100% due to rounding

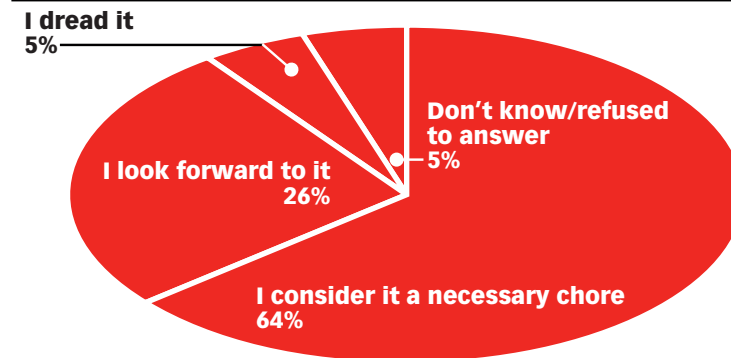
Source: Pew Internet & American Life Project, December 2002

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Additionally, Pew found that over one-quarter (26%) of at-work Internet users actually look forward to receiving e-mail. Assuming the accuracy in the Washington, DC-based organization's counterintuitive results, it indicates that there is a potential receptivity among at-work users to marketing via the e-mail channel.

### US Internet Users' Attitude toward E-Mail at Work, April-May 2002 (as a % of respondents)



Note: n=1,003 at-work e-mail users

Source: Pew Internet & American Life Project, December 2002

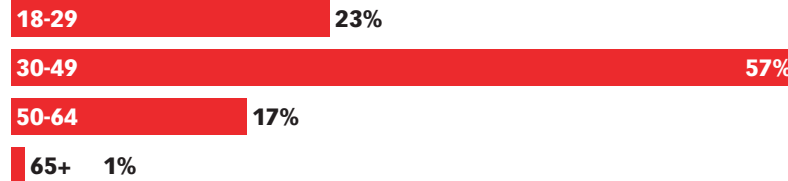
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A pronounced skew towards the baby boomer demographic is also seen with at-work e-mailers, which can point marketers to products and services best targeted to that group.

### US E-Mail Users at Work, by Age, April-May 2002 (as a % of respondents)



Note: n=1,003 at-work e-mail users

Source: Pew Internet & American Life Project, December 2002

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Targeted marketing e-mails tend to succeed when the recipient gives permission first. Along with the opt-in itself, marketers may want to give the customer a choice about how often to receive the company's e-mails—but many don't. Even so, Jupiter Research found that 34% of US consumers want to receive permission-based e-mails weekly, and 21% prefer to get them monthly.

How frequently marketers send e-mails, even with permission, can strongly influence the response rate among recipients.

### Frequency with Which US Online Consumers Want to Receive Permission-Based Marketing E-Mails, August 2001 (as a % of respondents)



Note: n=2,058

Source: Jupiter Research, October 2001

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## C. E-Mail Results

Despite the surge in spam and the increase of e-mail volume generally, various performance results remain stable according to DoubleClick's latest "E-Mail Trend Report." Delivery rates in Q1 2003 increased by one percentage point over the previous quarter. According to the ad network, the strong delivery rates "reflect the emphasis that legitimate marketers are giving to good list hygiene practices."

### E-Mail Marketing Delivery Rates, Q2 2002-Q1 2003

<b>Q2 2002</b>	<b>86.4%</b>
<b>Q3 2002</b>	<b>86.7%</b>
<b>Q4 2002</b>	<b>86.5%</b>
<b>Q1 2003</b>	<b>87.5%</b>

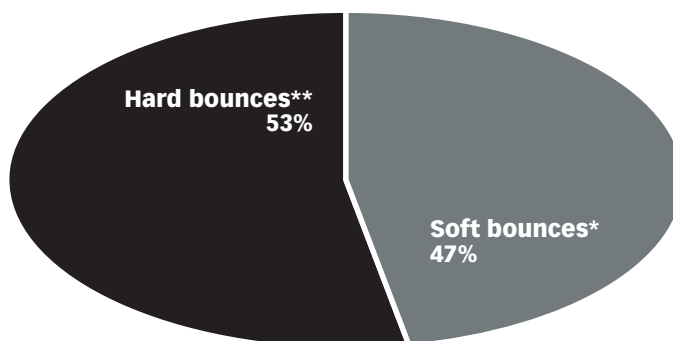
Source: DoubleClick, May 2003

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The flip side of delivery comes from returned e-mail, measured by bounce-back rates. Soft bounces (unsuccessful delivery for reasons such as a full inbox) account for 47% of undeliverable e-mail, or 5.9% of total e-mails sent. Hard bounces (received when an e-mail address is no longer valid, often reflecting a switch to a different address due to a change of job or ISP) account for the remaining 53% of bounce-backs, or 6.6% of total e-mails sent.

### Types of E-Mail Marketing Bounce-Backs, Q1 2003



Note: \*for reasons such as full inbox; \*\*for reasons such as change of e-mail address

Source: DoubleClick, May 2003

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**“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; The Silk Road Weekly, 24 September 2002*

E-mail open rates increased in Q1 2003, rising by nearly 3 points to 39.2%. Note, however, that the open rate is a flawed metric since many e-mail programs register a message as opened when it simply appeared in the software’s preview window.

### E-Mail Marketing Open Rates, Q2 2002-Q1 2003

Q2 2002	37.6%
Q3 2002	37.3%
Q4 2002	36.4%
Q1 2003	39.2%

Source: DoubleClick, May 2003

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Regardless of people’s attitudes toward the volume of commercial e-mails, it appears that many are ready to respond. That’s true, at least, for opt-in e-mails, according to findings from DoubleClick’s previous “E-Mail Trend Report” from Q4 2002. The click-through rate in that quarter remained relatively steady at 6.4%—far higher than the CTR for banner ads, say, or even rich media.

### E-Mail Marketing Click-Through Rates, Q1 2001-Q4 2002

Q1 2001	8.4%
Q2 2001	6.8%
Q3 2001	6.1%
Q4 2001	5.8%
Q1 2002	6.8%
Q2 2002	4.9%
Q3 2002	6.1%
Q4 2002	6.4%

Source: DoubleClick, March 2003

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However, DoubleClick has now changed how it measures the rate of e-mail click-throughs. In the chart above, the figures are weighted by quantity of e-mails. That means if one company sent 65% of all the marketing e-mails on the DoubleClick network, that one company would have a disproportionate effect on the reported rates. In essence, the rates above answer the question: What is the average CTR per message?

Now, in DoubleClick's "Q1 2003 E-Mail Trend Report," the question becomes: What is the average company's CTR performance? That's because the results are now unweighted, with each company having one voice.

Both questions are legitimate ways of measuring aggregated e-mail results, but the latter per-company method yields higher rates.

### E-Mail Marketing Click-Through Rates, Q2 2002-Q1 2003



Source: DoubleClick, May 2003

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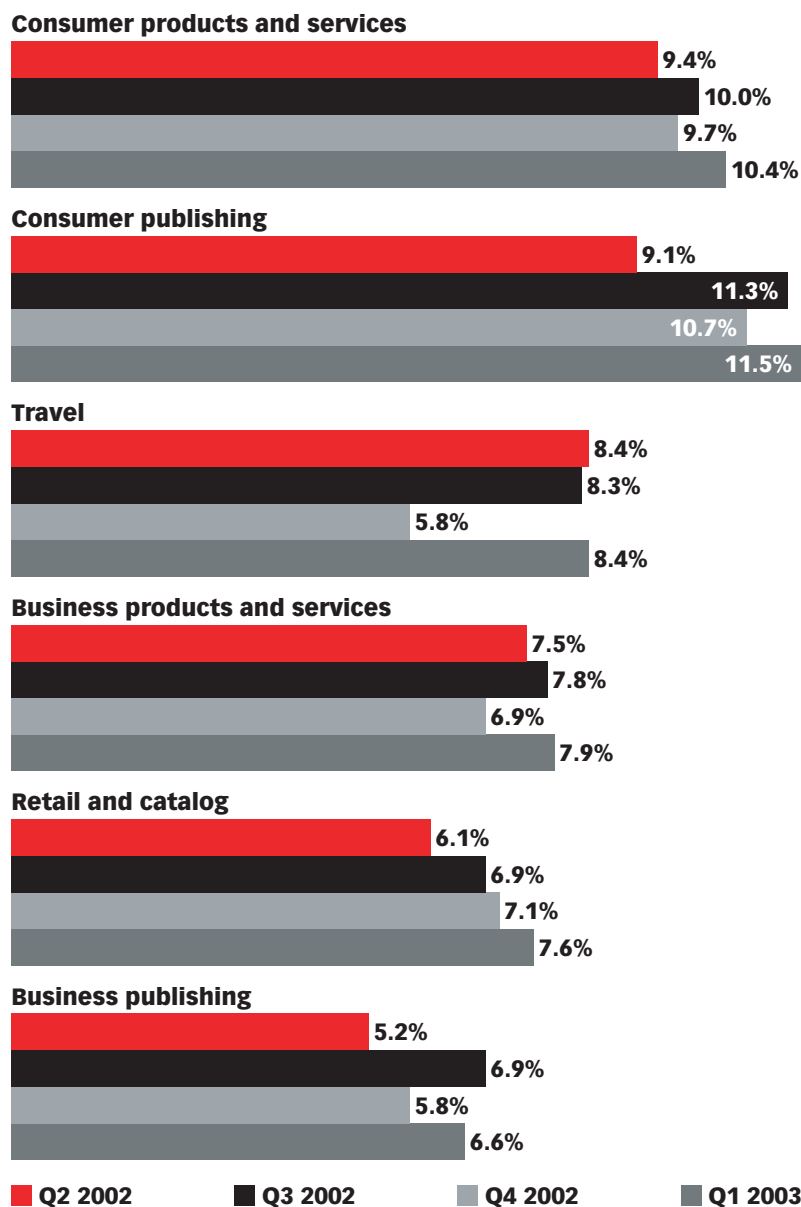
When DoubleClick analyzed the same data by industry—which corresponds with its new unweighted averaging—consumer publishing (at 11.5%) and consumer products and services (at 10.4%) achieved the highest CTRs in Q1 2003.



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And while both surpassed the cross-industry average of 8.9%, each of the six listed industries increased its e-mail CTR in this year's first quarter over the previous quarter.

### E-Mail Marketing Click-Through Rates, by Industry, Q2-Q1 2003



Source: DoubleClick, May 2003

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Superior results such as these are why, when DoubleClick asked US marketers from both B2C and B2B companies which media they would keep even if their budgets were cut, e-mail ranked the highest among interactive media.

## Type of Media US Marketers Would Keep If Their Marketing Budget Was Cut, 2002 (on a scale of 1-10\*)

### TV general



### Print



### TV direct response



### E-mail



### Online



### Radio



### Out-of-home



■ Spring DoubleClick study ■ Fall DoubleClick study

Note: n=190 for Spring and 200 for Fall; \*10=keep, 1=cut

Source: DoubleClick, December 2002

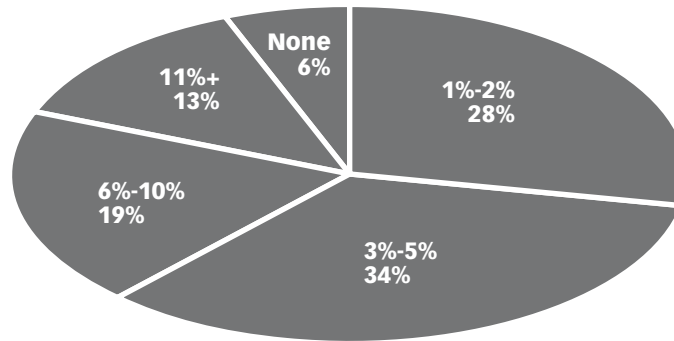
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Looked at by company budgets, Jupiter found that for 34% of US marketers, e-mail marketing made up a 3% to 5% share in August 2001.

### E-Mail Marketing's Share of US Marketing Budgets, August 2001 (as a % of respondents)



Note: n=32

Source: Jupiter Research, October 2001

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## E-Mail Metrics

By the mere fact that marketers know at least something about recipients of their e-mails, one might think that measuring e-mail marketing would be easier and more effective than for other forms of online advertising. However, as MarketingSherpa wrote earlier this year, "Many marketers put undue emphasis on numbers that don't matter (such as unsubscribe rates), others use common terminology with very different meanings. Also, metrics reporting systems aren't standardized, so there's confusion there too."

The marketing newsletter outlined five common e-mail metrics, and the caveats inherent in each one.

1. **Open rate.** This metric tells you the percentage of people who opened a message. There are several red flags here. One, only e-mails containing some HTML can report open rates. Two, it measures just the percentage of e-mails that were sent, not the share of the smaller number that were actually received, due to undeliverables. Three, the open rate doesn't actually measure the percentage of people who opened an e-mail. In fact, some e-mail programs automatically open a message. In addition, a program's preview screen makes a message appear as opened. Therefore, since there's no way of telling whether or not an opened e-mail meant the recipient wanted to read it, the open rate is a useless number to focus on, except in some rough way—that is, an open rate of 85% certainly beats a 12% rate.
2. **Click-through rate.** The most-cited of all online ad metrics might also be one of the most slippery. When you calculate the rate, are the clicks a percentage of total e-mails sent? Or only of opened e-mails? If it's the latter, that tends to inflate the rate. Then, do you tally only unique clicks? That means numerous clicks from one recipient—whether on

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multiple links or multiple clicks on a single link—count as a single click? Or are you counting non-unique clicks, which also typically inflate the rate? Other CTR questions include: Are the click percentages from house lists or rental lists? (Hint: house lists generally give more accurate rates.) And who sent your marketing e-mails? (Note: some broadcast firms are filtered more heavily than others, again influencing the click rate.)

3. **Conversion rate.** This percentage shows how many people “actually ended up taking the action you wanted them to take—perhaps buying something from you, registering, or signing up for a newsletter.” However, according to MarketingSherpa, “Most marketers don’t have the tech back-end they need to really count conversions properly.” And yet the conversion rate is, for marketing e-mails, “by far the most important number you can gather. More important than clicks, opens, deliveries, anything!”
4. **Unsubscribe rate.** MarketingSherpa calls this metric “practically meaningless,” since most people don’t unsubscribe even when they don’t want a marketing e-mail. However, it’s worth watching this rate (also called the opt-out rate) when using a house list and there’s a substantial upward trend.
5. **Bounce rate.** Also called the undeliverable rate, this measures e-mails that a marketer knows haven’t been delivered. Why? That’s where the caveats begin. “A bounce could be from a bad address, a full mailbox, a downed computer system or ISP, or it could be a formal bounce by an ISP that’s decided not to accept any e-mail from your IP address (the place your e-mail comes from).” Even if you find out why various bounces occur, you’ll never know about the undelivered e-mails that ISPs, company IT departments, and individuals filter before reaching the inbox. “This means anyone who promises you they know their delivery rate, or that they know their messages are not filtered, is not telling you the truth. It’s technically impossible right now to know how much is being filtered. Period.”

After all those warning shots, you might wonder why anyone would even attempt to measure the effectiveness of marketing e-mails. But knowing the limitations of the various metrics actually helps you make more accurate assessments of e-mail results.

Some of the problems outlined above appear in the e-business profile below. When Nine West launched an e-mail marketing campaign last year, it aimed a series of monthly posts to a list of 180,000 opt-in recipients. According to *Internet Retailer*, the White Plains, NY-based woman’s shoe chain claimed a CTR of 20% to 30% for personalized e-mails.

Those rates are so far out of line for opt-in e-mail in general that one wonders how the company calculated the clicks. Perhaps from only those e-mails opened, and perhaps all clicks not just unique ones.

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## E-Business Profile: E-Mail Marketing Campaign Metrics for Consumer Footwear Retailer Nine West, 2002

Number of monthly opt-in e-mail recipients	180,000
Click-through response rate for personalized e-mails	20% to 30%
Increase in sales during 7 days following an e-mail campaign	20% to 40%
Percent of e-mail respondents that purchase offline	approx. 70%

Source: *Internet Retailer*, August 2002

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In contrast to the inflated Nine West CTRs, return for a moment to the DoubleClick e-mail marketing click-rate chart which shows a range of 4.9% to 8.4% during the eight quarters of 2001 and 2002. And remember: These CTRs are substantially higher than the 0.3% CTR for online advertising in general for at least two reasons. One, these are for opt-in marketing e-mails, where the recipient has given permission. And two, because e-mails are direct and personal, they tend to get a higher rate of response than do Web site banners.

## E-Mail Marketing Click-Through Rates, Q1 2001-Q4 2002

Q1 2001	8.4%
Q2 2001	6.8%
Q3 2001	6.1%
Q4 2001	5.8%
Q1 2002	6.8%
Q2 2002	4.9%
Q3 2002	6.1%
Q4 2002	6.4%

Source: *DoubleClick*, March 2003

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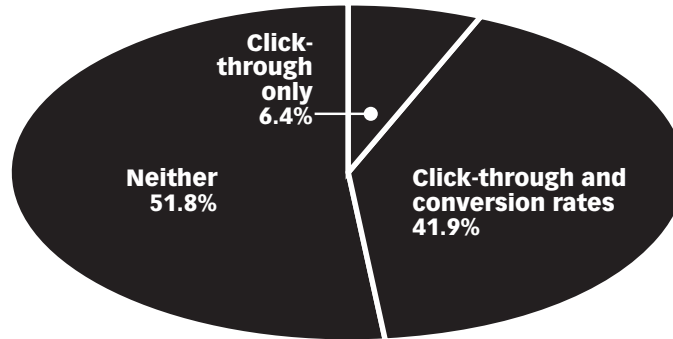
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Some the difficulties for measuring e-mail properly are why 51.8% of US marketers said they have no ability to report e-mail campaign performance metrics. Even though that IMT Strategies figure is from September 2001, the odds are good that it's fallen since then; but even so, that's a poor statement about such a potentially measurable medium.

### US Marketer Ability to Report E-Mail Campaign Performance Metrics, 2001 (as a % of respondents)



*Note: figures total more than 100% due to rounding*

*Source: IMT Strategies, September 2001*

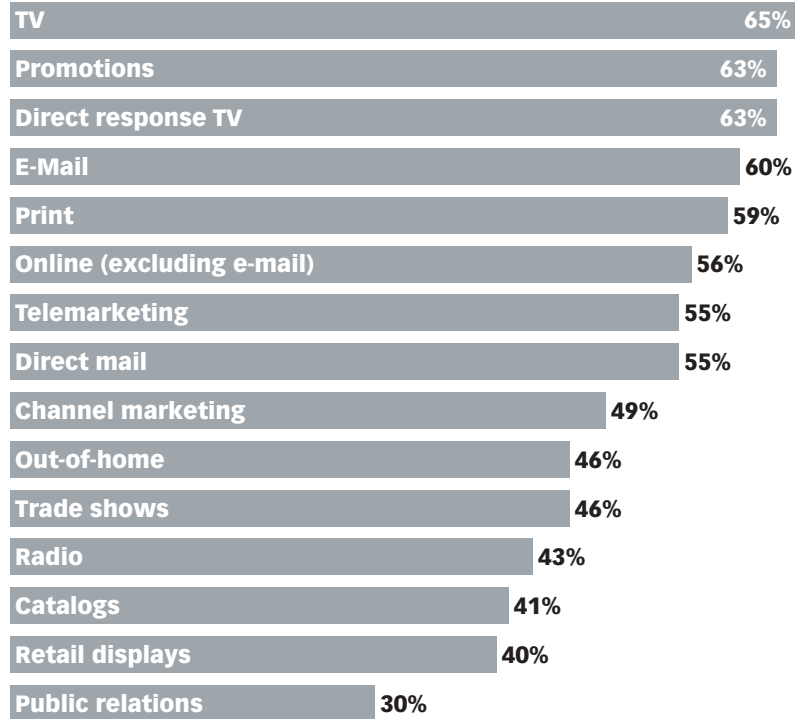
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That the ability to measure e-mail has gotten better since the study above appears in the DoubleClick data below, where 60% of US marketers says that they have measurement tools in place for e-mail. That's more than for the rest of online advertising or for direct mail.

### 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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In that same DoubleClick survey, US marketers rated the effectiveness of e-mail measurement tools on the same high level as TV or promotions, and greater than for print ads or direct mail, for instance.

### Effectiveness of Measurement Tools Rated by US Marketers, by Channel, 2002 (based on a scale of 1-5)

Promotions/coupons	4.48
E-Mail	4.46
TV	4.45
Online (excluding e-mail)	4.33
Trade shows	4.25
Print advertising	4.24
Direct mail	4.23

*Note: rated among respondents who have measurement tools in place  
Source: DoubleClick, June 2002*

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Furthermore, metrics such as click-throughs often reflect direct response objectives. However, when part of the e-mail's intent is to drive recipients to a company's Web site, where somehow the individual will engage with the company and its product(s), those same clicks reflect branding goals.



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In addition, even for direct response campaigns, the DMA found that US direct marketers use several methods besides orders to gauge the effectiveness of e-mail and postal mail. The most cited method was referrals, a viral marketing style metric mentioned by 51% of respondents. Also of note: e-mail works as part of cross-channel marketing, with 32% of marketers saying that questions at retail shops are a core method for measuring success.

### Methods Besides Orders US Direct Marketers Use to Gauge Effectiveness for E-Mail vs. Postal Mail, 2002 (as a % of respondents)

#### Referrals



#### Inquiry conversion



#### "Where did you hear about us?"/Questions at retail



#### Sales force demand



#### Attitude and usage tracking



#### Self-reported



#### Shifts in market share



#### Lifetime value by source



#### Behavioral research panel



■ E-Mail

■ Postal mail

Note: n=386

Source: Direct Marketing Association, April 2002

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Those DMA results come in contrast to contemporaneous data from e-mail

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marketing firm e-Dialog. Here 64% and 61% of marketers said they employ click-through and unsubscribe rates, respectively, to measure their e-mail campaigns. The limitations of those click and unsubscribe metrics, along with the 47% who measure open rates, another limited metric, give the impression that many marketers only think they're effectively measuring their e-mail campaigns when they're not.

However, at least 46% of respondents measure conversion rates on Web sites. And the same percentage want to measure e-mail forward rates—another active metric.

### How US Marketers Measure the Effectiveness of E-Mail Marketing Campaigns, 2002 (as a % of respondents)

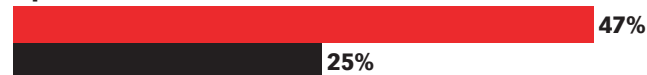
#### Total click-through rates



#### Unsubscribe rates



#### Open rates



#### Conversion rates-Web site only



#### Unique click-through rates



#### Direct revenue



#### E-Mail pass along or forward rates



#### Conversion rates-other channels



#### Brand recognition



■ Currently measuring

■ Not currently measuring, but want to measure

Source: e-Dialog, Inc., April 2002

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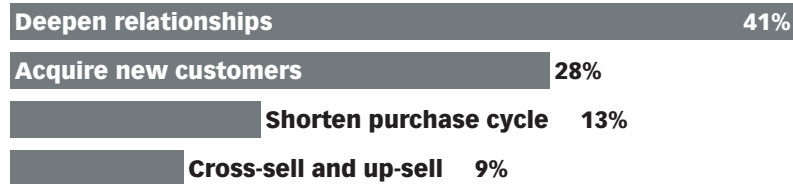
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## D. E-Mail Marketing Objectives

As a marketing tool, e-mail might seem, like paper mail, to be largely a direct response medium. However, like online in general, commercial e-mail can be positioned for both direct response and branding goals.

For example, when Jupiter Research surveyed US marketers regarding their primary goal for e-mail marketing efforts, 41% said to deepen relationships—the aim of many branding campaigns. An additional 41% cited either acquiring new customers or shortening the purchase cycle—both direct response objectives.

### US Marketers' Primary Goal for E-Mail Marketing Efforts, August 2001 (as a % of respondents)



Note: n=32

Source: Jupiter Research, October 2001

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**"E-mail will drop as an acquisition tool, but it will become an important loyalty tool—a way to keep customer relationships growing deeper. If a brand holds up its end of the bargain by delivering value to its customers, those people will throw open their mailboxes. I think the power of e-mail is still very much untapped."**

—Laurie Coots, chief marketing officer, TBWA\Chiat\Day; FastCompany, April 2002

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Even among the direct marketers interviewed by the Direct Marketing Association, building relationships is considered the most valuable use of their e-mail databases.

### Most Valuable Uses of Marketing Databases for E-Mail vs. Postal Mail According to US Direct Marketers , 2002 (as a % of respondents)

#### Build relationship with customers



#### Better target offer to customer



#### Refine customer contact strategy



#### Determine lifetime value of customer



#### Determine productive mail scheduling



#### Test new products



#### Identify changes in channel behavior



#### Identify new spin-off opportunities



■ E-Mail

■ Postal mail

Note: n=386

Source: Direct Marketing Association, April 2002

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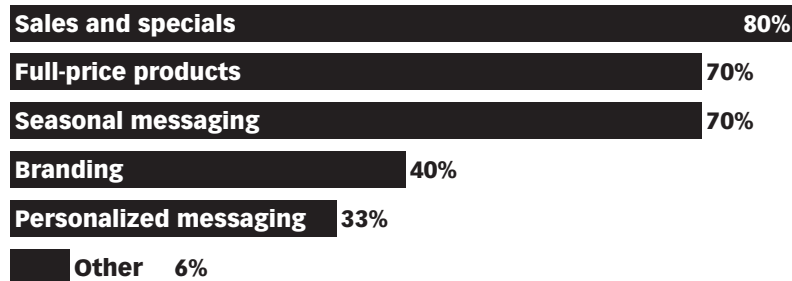
**“As the curiosity factor surrounding e-mail diminishes for users—which it already is—and as the e-mail channel matures, if the e-mail message isn’t adding value to the recipient’s life, they’re going block it out or unsubscribe.”**

— John Funk, CEO, Quris; avant|marketer, 21 October 2002

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A recent study from the e-tailing group found that among US online merchants, direct response is the dominant objective of their e-mail marketing. Of the 200 surveyed e-commerce sites, 80% use e-mail for promotions (sales and special items), while 70% e-mail customers to call attention to full-price products or for seasonal messaging. And “while e-mail has been shown to be an ideal branding vehicle,” as MediaPost writes, only 40% of Internet merchants used e-mail for this purpose.

### E-Mail Marketing Initiatives of Retailers in the US, Q1 2003 (as a % of respondents)



Note: n=200 senior executives

Source: the e-tailing group, April 2003

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Furthermore, the e-tailing group found that 56% of online merchants considered their marketing e-mails to be somewhat personalized, while 38% were impersonal messages. “Understandably,” wrote the Chicago-based e-commerce consulting company, “only 6% are sending very personal e-mail messaging as it is extremely difficult to do well.”

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In order to make that list value come to life, marketers try e-mail contact strategies such as customized mailings based on the customer profile (at 78% of respondents), varying frequency and method of contact (at 75%), and classifying recipients by geographic and demographic qualities (at 66%).

### **E-Mail Marketing Strategies Sometimes Used by US Direct Marketers, 2002 (as a % of respondents)**

#### **Customize mailing according to customer profile**

**78%**

#### **Create new contact strategies based on promotion and response history**

**75%**

#### **Use geo-demographic classification**

**66%**

#### **Personalize information about a customer in the offer**

**62%**

#### **Use behavior-based lists (buyer/responder) to classify potential customers**

**54%**

#### **Use questionnaire/survey data to collect additional database information**

**52%**

#### **Create new target markets through statistical analysis of buyer file**

**52%**

#### **Determine strategy for investment in new name acquisition (LTV)**

**48%**

#### **Create new target markets through statistical analysis of prospect files**

**44%**

#### **Improve segmentation by scoring buyer file on multiple attributes**

**43%**

Note: n=386

Source: Direct Marketing Association, April 2002

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When the DMA asked about strategy intent for the next two years, most marketers mentioned using a customer's promotion and response history to create new strategies, with profile-based customization just behind.

### **E-Mail Marketing Strategies US Direct Marketers Intend to Use in the Next Two Years, 2002 (as a % of respondents)**

**Create new contact strategies based on promotion and response history**

**72%**

**Customize mailing according to customer profile**

**69%**

**Personalize information about a customer in the offer**

**66%**

**Improve segmentation by scoring buyer file on multiple attributes**

**62%**

**Create new target markets through statistical analysis of buyer file**

**61%**

**Determine strategy for investment in new name acquisition (LTV)**

**59%**

**Use questionnaire/survey data to collect additional database information**

**56%**

**Create new target markets through statistical analysis of prospect files**

**55%**

**Use behavior-based lists (buyer/responder) to classify potential customers**

**48%**

**Use geo-demographic classification**

**44%**

*Note: n=386*

*Source: Direct Marketing Association, April 2002*

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## E. Format Choices

Depending on the marketing goal, the e-mail format the sender chooses can influence the recipient's perception and responsiveness. For example, in other interactive marketing, rich media tends to deliver better branding results than do other formats. Projections from Jupiter Research indicate a moderate rise in rich media e-mails, from 5% of all marketing messages in 2002 to 12% by 2006.

However, the rich nature of HTML-formatted messages may be more important for e-mail than rich media. While not necessarily filled with motion and sound like rich media, Web-like e-mails offer engaging interactivity such as images and links. In addition, HTML e-mails allow the tracking of open rates, while text-only do not.

**“As bandwidth becomes less of an issue, we see more rich media e-mail—which would include HTML and other flash-type e-mails—and that’s where it’s really picked up.”**

— Trent Ricker, principal, 23airmail (affiliate of Linhart McClain Finlon Public Relations); *Denver Post*, 9 December 2001

No wonder, then, that Jupiter sees HTML's share of US marketing e-mails rising from 30% in 2002 to 50% by 2006—finally eclipsing static text-based messages in that year.

### US Marketing E-Mails, by Format, 2000-2006 (as a % of total)

	2000	2001	2002	2003	2004	2005	2006
Rich media	1%	3%	5%	7%	8%	10%	12%
HTML-formatted	20%	25%	30%	35%	40%	45%	50%
Text-based	79%	72%	65%	59%	52%	45%	38%

Source: Jupiter Research, October 2001

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A May 2003 study from Jupiter Research titled “Rich Media E-Mail: Analyzing Costs and Prioritizing Budgets” found that rich media e-mail costs 30% to 60% more than HTML e-mail, but only a fraction of consumers can view it. Jupiter writes “Creative and production fees [for rich media e-mail] can exceed \$10,000, and rich media serving fees add an extra \$0.02 to \$0.04 per message delivered.”



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As reported by MediaPost, “Jupiter research indicates that over 65% of personal e-mail accounts use clients, including AOL, Hotmail, and Yahoo! Mail, which do not display rich media content. As a result, only one-third of Internet users have the ability to view Flash- and video-enhanced e-mail. In a typical consumer rich media e-mail campaign, 30% to 35% of consumers e-mailed will view the rich media message, 50% to 60% will view an HTML version of the message, and 10% to 20% of the list will view a text message.”

**“Rich media e-mail is today is where Web-based rich media was few years ago. Marketers aren’t comfortable with the tools, so it’s easier to avoid the topic entirely.”**

— Nate Elliott, associate analyst, Jupiter Research; MediaPost, 22 May 2003

While that limited audience might make it seem that rich media e-mail is generally to be avoided by marketers, “the key point of the study, [according to Jupiter], is that certain marketers can indeed make rich media e-mail work for them. But they should ‘work the numbers’ and do some test campaigns at the outset to make sure,” writes MediaPost.

Expanding the scope from US to worldwide, data from the Yankee Group’s report titled “Follow E-Mail Marketing Best Practices and Avoid Disastrous Results” shows that in 2002, certain industries were heavily invested in both rich media and HTML e-mails. For example, 67% of financial service firms used HTML-based e-mail offers, while 31% tried video in their marketing posts. Even so, 72% of those companies still went with text-based e-mails.

### **E-Mail Marketing Formats Used by Companies Worldwide, by Industry, 2002 (as a % of respondents)**

	<b>Firms using text-based e-mail offers</b>	<b>Firms using HTML-based e-mail offers</b>	<b>Firms using video-based e-mail offers</b>
Financial services	72%	67%	31%
Manufacturing	45%	45%	9%
Retailing	73%	73%	20%
Telecommunications	71%	86%	24%

Note: n=600; multiple responses allowed

Source: Yankee Group, February 2003

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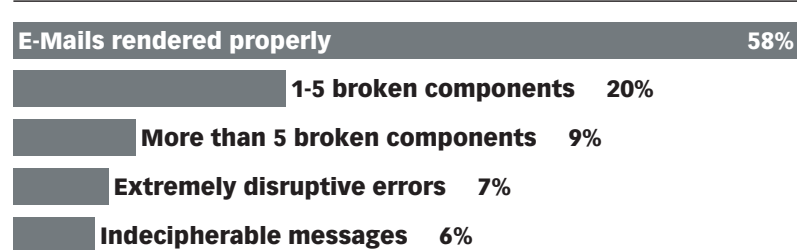
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Just as the extra bandwidth required by rich-media e-mails can create difficulties, HTML messages create other tech-based snafus. A late 2002 study from Silverpop—an Atlanta-based e-mail services company—points to several often-ignored problems with HTML-based e-mails. The study, titled “The Broken Link—What Do Recipients Really See?,” analyzed nearly 700 HTML e-mails in nine of the most popular e-mail programs. It found that 42% of the HTML e-mails reviewed were somehow rendered improperly. That might mean broken components, such as links, missing graphics, or even the display of raw HTML code.

Furthermore, 13% of these e-mails had extremely disruptive errors or were completely indecipherable.

### Problems with HTML E-Mails Used in Permission E-Mail Marketing Campaigns, 2002 (as a % of e-mails analyzed)



Source: Silverpop, November 2002

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Other than among Internet technicians, why should marketers care about these results? According to commentary from the Aberdeen Group, “A key take-away from this [Silverpop] study is that properly formatted HTML messages can improve response rates from 10% to as high as 40%.”

## F. Building Lists

With the dead weight that spam inflicts increasingly on all e-mail marketing, even permission-based offers from legitimate companies suffer. In today’s growing anti-spam climate, paying close attention to every detail means the difference between hit or miss marketing. As discussed above, those elements include customizing e-mails according to the customer profile, choosing the e-mail format that works best both for your recipients and your pitch, and making sure elements such as links back to company Web pages aren’t broken.

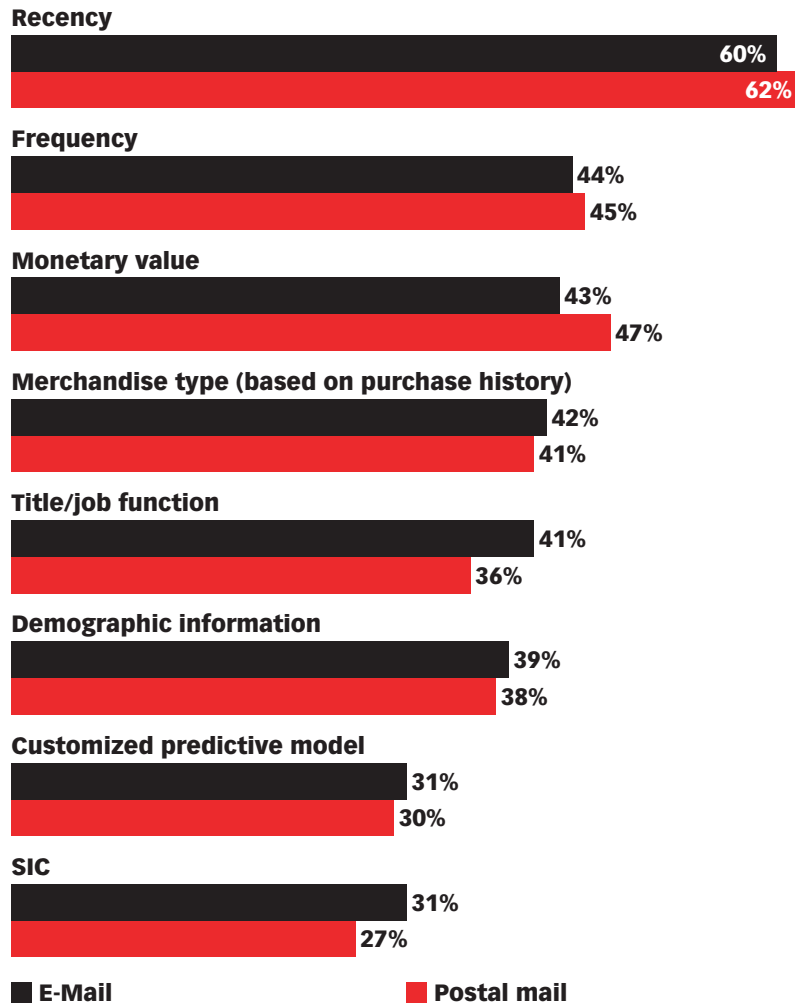
Those kinds of details help raise response rates, but when it comes to lists, the question comes back to an age-old direct-mail concern: How good is the list? Goodness, in these cases, consists of factors such as accurate addresses and the quality of the recipients.

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When it comes to getting desired qualities—such as high income, interest in the type of product or service being pitched, and receptivity to direct response offers—recency is the prime segmentation technique used by US direct marketers for both e-mail and postal mail.

This is true for housefile lists, according to “The DMA State of Postal & E-Mail Marketing” survey, since recency indicates existing customers who have responded in some way recently, and therefore are more likely to respond again. Other important housefile segmentation factors for e-mail marketing include frequency, value of previous purchases, and what’s been bought before.

### Segmentation Techniques US Direct Marketers Use for Housefile List Selection for E-Mail vs. Postal Mail, 2002 (as a % of respondents)



Note: n=386

Source: Direct Marketing Association, April 2002

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The average size house list among US e-mail marketers in the Fall of 2002 was 518,000 names, a 3.2% increase from the Spring period according to research by DoubleClick. With so many names in a list, accurate and effective segmentation techniques become even more necessary.

### Average Size of House List among US E-Mail Marketers, 2002 (in thousands)

Spring	502
Fall	518

Note:  $n=190$  (spring),  $n=200$  (fall)

Source: DoubleClick, December 2002

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However, marketers working with prospect lists segment more by demographic information than recency. Here's where they seek out basic correlations, such as mothers when selling children's goods, for example, or people between 18 and 30 when the movie studio releases a new romantic comedy.

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Worth noting in both the chart above and below is that the segmentation techniques direct marketers employ for e-mail and paper mail differ only slightly. Is that because e-mail is still relatively new to these professionals, and therefore it's easiest to use the same techniques they've always used regardless of channel? Or is that because, in the end, e-mail and postal mail are more alike than different for direct response purposes?

### Segmentation Techniques US Direct Marketers Use for Prospect List Selection for E-Mail vs. Postal Mail, 2002 (as a % of respondents)

#### Demographic information



#### Recency



#### Title/job function



#### Monetary value



#### SIC



#### Merchandise type (based on purchase history)



#### Customized predictive model



#### Frequency



■ E-Mail

■ Postal mail

Note: n=386

Source: Direct Marketing Association, April 2002

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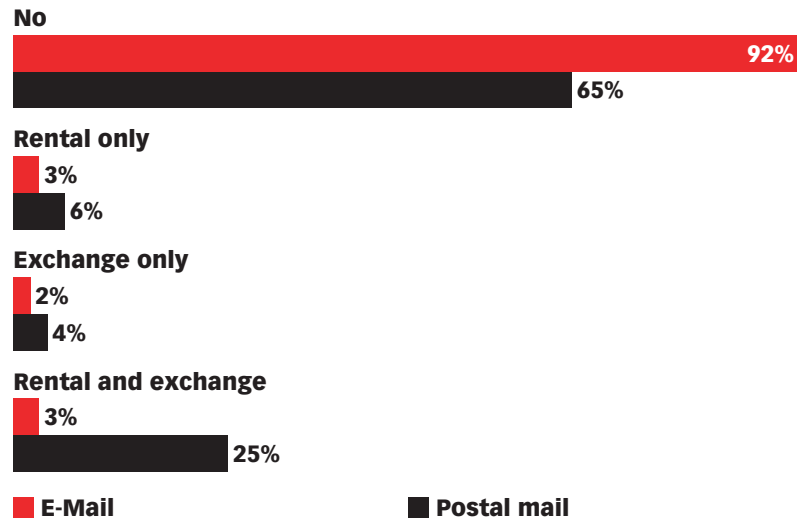
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One area where the direct marketers surveyed by the DMA differ sharply between e-mail and postal mail is in renting house lists—92% say no for e-mail, yet only 65% of respondents refuse to rent or exchange their postal lists.

The key factor in that difference is due undoubtedly to the dread of spam—and the perception among Internet users that companies who sell their e-mail addresses violate their privacy.

### US Direct Marketers Who Make Customer Files Available for Rental or Exchange for E-Mail vs. Postal Mail, 2002 (as a % of respondents)



Note: n=386

Source: Direct Marketing Association, April 2002

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However, even though 35% of marketers rent or trade their postal mail house lists, respondents to the DMA survey cite concerns about consumer privacy as the number one issue facing the list industry today, no matter the type of mail.

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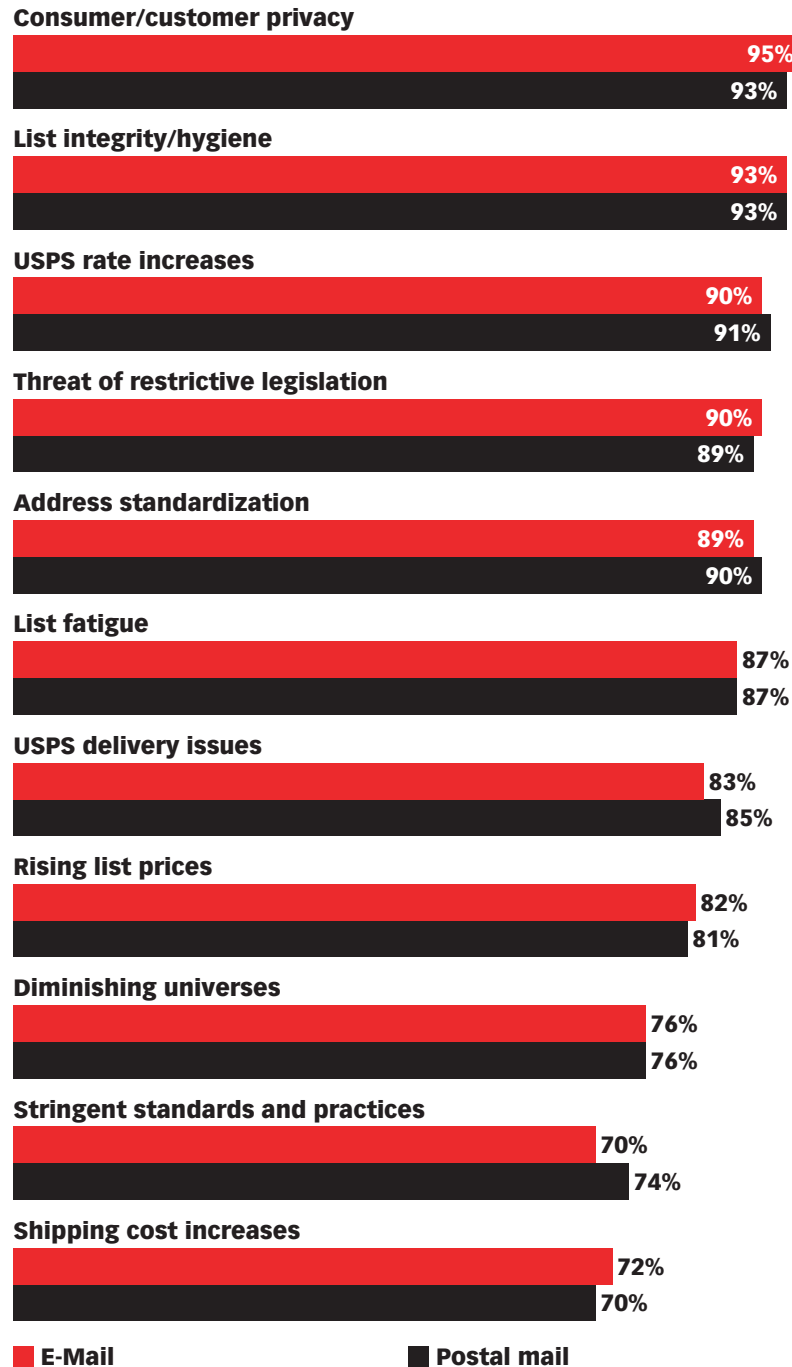
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Again, for the rest of the issues mentioned, convergence appears between online and offline.

## Issues Facing List Industry that US Direct Marketers Rate As "Very Important" or "Somewhat Important" for E-Mail vs. Postal Mail, 2002 (as a % of respondents)



Source: Direct Marketing Association, April 2002

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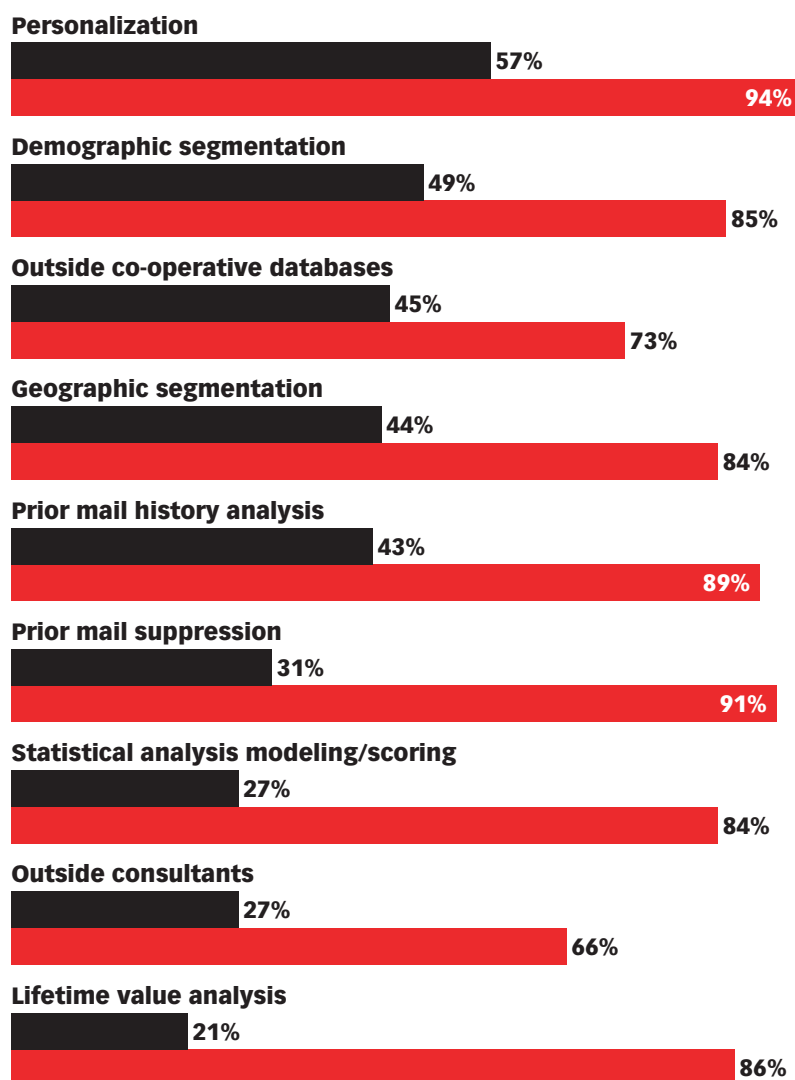
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Besides the quality of the list, the most-cited techniques direct marketers use to improve e-mail response rates include personalization (at 57%), demographic and geographic segmentation (at 49% and 44%, respectively), and matching up the list to outside cooperative databases (at 45%).

The most-used techniques aren't always rated the most successful, however. While 94% of respondents call personalization successful, only 73% feel the same about outside databases. Meanwhile, a less-used technique such as lifetime value analysis (which measures how profitable any recipient is over time) gets an 86% success rating.

### List Techniques US Direct Marketers Use to Improve E-Mail Response Rate and Techniques They Rate As Successful, 2002 (as a % of respondents)



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Advertising & Marketing](#)[Index of Charts](#)**Hot line mailing****Use of national or independent e-mail change of address service**■ **Used**■ **Rated successful***Note: n=386**Source: Direct Marketing Association, April 2002*

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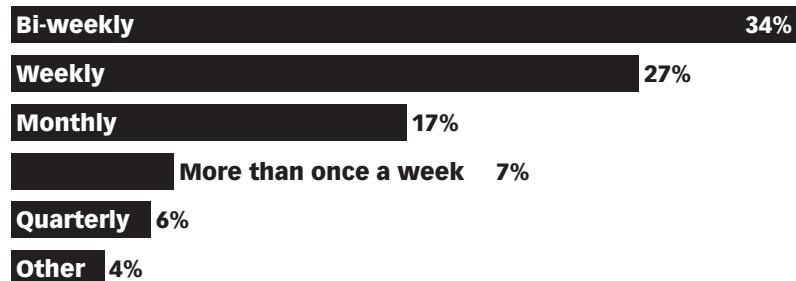
While by its charter the DMA study focuses on the direct response use of e-mail, research from DoubleClick looks at how marketers use e-mail for branding goals as well. According to the New York-based online ad company's findings, 58% of US e-mail marketers use rented lists for brand awareness, while 54% use house lists for the same objectives.

**Use of Rented Lists vs. House Lists for Brand Awareness among US E-Mail Marketers, 2002 (as a % of respondents)**
*Note: n=200**Source: DoubleClick, December 2002*

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One key element in both attracting people to sign up for a marketer's house list, and keeping them on it, is how often they hear from that marketer. While the best blend depends on the offering and the level of customer interest, research from the e-tailing group has 34% of US online merchants sending e-mails bi-weekly, 27% weekly, and 17% monthly.

**E-Mail Marketing Frequency Used by Retailers in the US, Q1 2003 (as a % of respondents)**
*Note: n=200 senior executives**Source: the e-tailing group, April 2003*

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In addition, the e-tailing group found that 83% of the time, merchants decide how often their e-mails will be sent; only 7% have “empowered their customers to choose e-mail frequency.” In that word “empowered” lies a key for creating an effective house list for e-mail. The nature of the Internet is self-directed, with people choosing where and when to go to various Web sites. By giving customers a choice for e-mail frequency, for example, that reinforces the self-directed tendency and potentially makes for a better relationship between company and consumer.

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## G. Viral Marketing

As the online version of word-of-mouth, viral marketing may in fact be more talked about than actually accomplished. According to its advocates, viral marketing costs little yet can deliver results quickly. While companies may market virally through various interactive channels, e-mail is the prime petrie dish for message propagation.

Make no mistake: word of mouth works, no matter what the channel. More so than any other type of advertising format, 61% of US consumers trust direct recommendations from other individuals. Looked at from the opposite angle, only 9% get annoyed by word of mouth—fewest among the 13 formats in the recent survey from PlanetFeedback, a division of Cincinnati-based Intelliseek.

### US Consumers' Trust in and Annoyance with Select Advertising Formats, April 2003 (as a % of respondents)

	% that trust	Trust index (100 is norm)	% annoyed by	Annoyance index (100 is norm)
Word-of-mouth recommendations	61%	251	9%	27
Print ads	47%	194	5%	15
TV ads	42%	173	13%	39
E-Mail subscriptions	39%	161	13%	39
Radio ads	35%	144	11%	33
Direct mail	21%	86	31%	93
Outdoor ads	20%	82	11%	33
Paid search engine listings	14%	58	29%	87
Infomercials	9%	37	39%	117
Web site banner ads	8%	33	53%	160
Door-to-door solicitation	4%	16	78%	235
Spam	3%	12	77%	232
Pop-up ads	2%	8	83%	250

Source: PlanetFeedback, April 2003

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And yet all the talk surrounding viral marketing may confuse—first off, people refer to the method using an abundant array of synonyms: buzz, tipping point, person-to-person marketing, guerilla marketing, advocacy marketing, organic marketing, referral marketing, word-of-mouth marketing, and affiliate marketing, along with word of mouth.

**"The award for Internet marketing buzzword of the year goes to 'viral marketing.'"**

—Iconocast, 16 December 1998

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Secondly, viral marketing is appropriate for only a small proportion of products and companies. As Emanuel Rosen, author of “The Anatomy of Buzz,” told avant|marketer: “Typically, viral marketing works best for products that are, at some level, important to people, so that they would care enough to talk about them. And, in general, people talk about products that they find exciting, innovative, complex or risky in some way. Products and services that are based on personal experience are also [more] likely [than average] to be talked about: hotels, music, cars, books, etc.”

The concept is simple. Viral marketing is any technique that persuades individuals or Web sites to pass on a marketing message to other individuals or sites, creating a potentially exponential growth in the message’s visibility and effect.

**“Word of mouth is most powerful when it’s seen as genuine, and it’s not powerful when it’s seen as hype. How do you use the medium uniquely to attract the people you want to attract and get them to the product you want to sell to them? Viral marketing is far from a science. It’s still in the realm of alchemy.”**

— Bennett McClellan, director of entertainment and media practice, PricewaterhouseCoopers; *Newsday*, 20 June 2001

But the execution is not so simple. According to TechRocks, a San Francisco-based consulting company for non-profit organizations and advocacy groups, there are three main ways to launch a viral marketing campaign.

- E-mail a list. Whether it’s yours or another company’s, you can send e-mail directly to people for the express purpose of getting them to send it on to others.
- Build it into your Web site. Add buttons or forms into your site that let users e-mail their friends, family, or co-workers with a message about your product or service.
- Include a viral marketing message in all your e-mail communications. Simply remind recipients at the end of every message to “Tell a Friend” by forwarding your e-mail.

Of course, the launch is merely a first step. Finding people who might spread the word about your company, brand, product, or service—and then motivating them to want to—are the crucial and difficult following two steps. The best customers for viral marketing both like what you do and are the type of people who tend to spread the word, whether online or offline.

**“If you receive something from a friend, it’s more welcomed communication, as opposed to spam.”**

— Trent Ricker, principal, 23airmail; *Denver Post*, 9 December 2001

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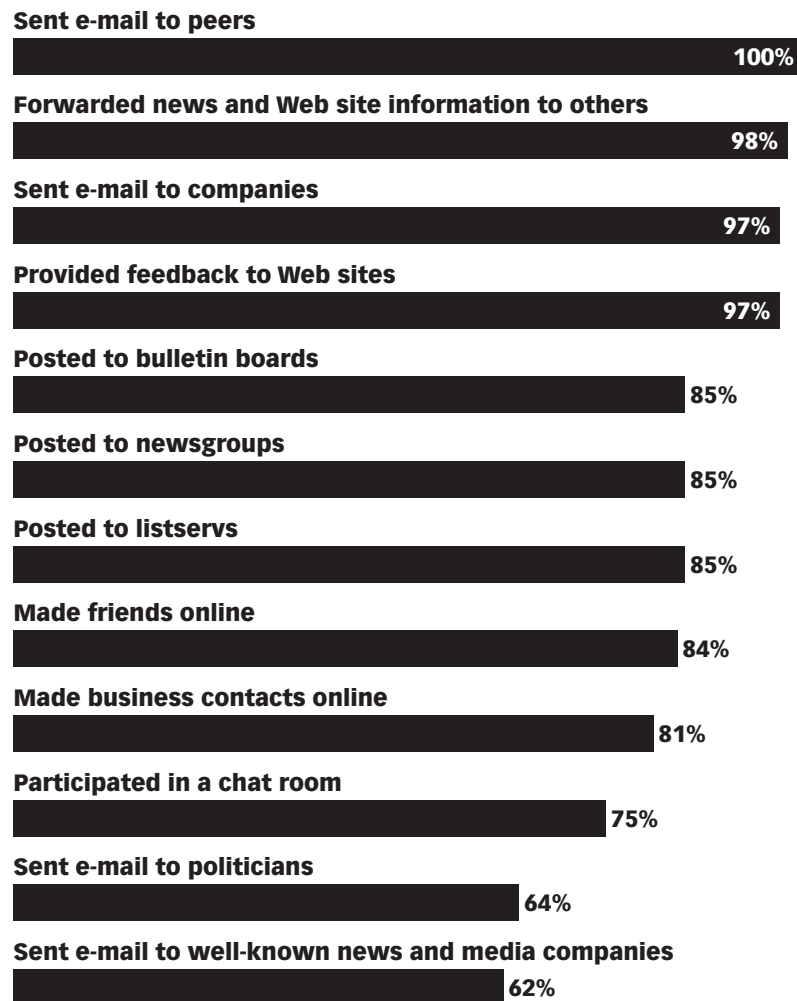
That latter type of best customer also sports several names. Rosen calls people who communicate with more people than average about a certain category of product “network hubs.” Seth Godin, the author of “Unleashing the Ideavirus,” calls them “sneezers.” Proctor & Gamble calls them “connectors.” And Burson-Marsteller calls them “e-fluentials.”

According to Burson, the New York-based public relations giant, these online opinion leaders are “persuasive individuals who defy the limits of traditional viral marketing and spread the word to an average of 14 people. [They are] defined according to their intensive use of e-mail, chat rooms, message boards, company and opinion Web sites. They make up 10% of the U.S. online adult population (11 million), but reach a total of 155 million U.S. adults online or offline as they tell on their experiences.”

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How do you identify online opinion leaders? For example, during the year prior to October 2002, all of the online opinion leaders surveyed by Burson-Marsteller sent e-mail to peers, and nearly all forwarded information to others, sent e-mail to companies, and provided feedback to Web sites.

### Tasks that US Online Opinion Leaders\* Did Online during the Past Year, 2001 (as a % of respondents)



*Note: n=525; \*online opinion leaders, called "e-fluentials" by Burson-Marsteller, make up 10% of the US online adult population (approximately 11 million) but reach a total of 155 million US adults online or offline as they share experiences*

*Source: Burson-Marsteller, December 2001*

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With survey results such as these, it's no wonder that Rosen says, "Some of them are actually quite easy to identify, because they approach your company for new information. Firms need to treat such individuals well, and not scare them away. You'd be amazed how many companies don't even respond to e-mails from these people. [Also]...look for individuals who are vocal. In the online world, you can go to chat rooms and newsgroups and try to identify people who are obviously more influential in that group. You can also conduct surveys to identify these individuals."

**"Buzz marketing's been around forever, right? Word of mouth. Word of mouth, buzz marketing, viral marketing—they're all flavors of the same idea—it's people talking to people, people believing other people because they're human.... What the Internet's done is it's allowed us to structure and accelerate word of mouth marketing."**

— Tim Sanders, chief solutions officer, Yahoo!; eMarketer, 14 February 2002

Research from Burson-Marsteller shows heavy use of company Web sites by online opinion leaders, across the five industries measured. They're more likely to make their presence felt there than at online magazines or opinion sites.

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Keep in mind, then, that the best people for any particular company's viral marketing campaign are likely to be found in their virtual backyard.

## US Online Opinion Leaders\* Use of Web Sites during the Past Year, by Industry, 2001 (as a % of respondents)

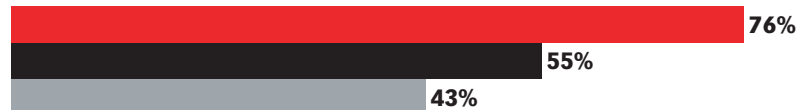
### Technology



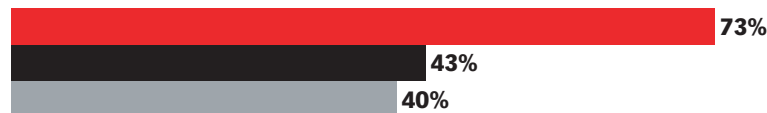
### Retail



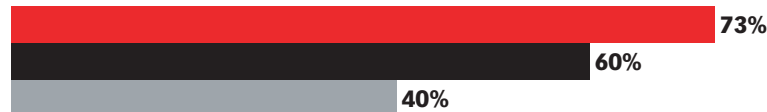
### Financial services



### Pharmaceuticals



### Automotive



■ Company Web site ■ Online magazines ■ Opinion sites

Note: n=525; \*online opinion leaders, called "e-fluentials" by Burson-Marsteller, make up 10% of the US online adult population (approximately 11 million) but reach a total of 155 million US adults online or offline as they share experiences

Source: Burson-Marsteller, December 2001

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With e-mail forwarding a prime method for online opinion leaders to spread the word, it's useful to understand how US consumers pass on e-mails. While nearly two-thirds of respondents to a Jupiter Research survey simply use their e-mail software's forward function, as is not surprising, more than one-third take advantage of a forward-to-a-friend marketing feature in commercial e-mails or on Web sites. It's this group that is more likely open to viral marketing campaigns.

## How US Online Consumers Forward E-Mails, August 2001 (as a % of respondents)

### Forward function in e-mail program

64%

### Use forward-to-a-friend marketing feature

36%

### Cut and paste content

30%

### Never forwarded an e-mail

26%

Note: n=2,058

Source: Jupiter Research, October 2001

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Finally, while incentives in the form of discounts or free items can certainly motivate some people to let others know about your product or service, that isn't always feasible. Furthermore, "they shouldn't be the main motivation for the recommendation," according to Rosen. "An incentive should come on a foundation of a product that people really like."

Probably a more compelling incentive among online opinion leaders is information. Remember: these are the kinds of people who seek out information and like to tell others about it. In addition, be especially careful in using incentives with these vocal people. "You want them to talk about your product because they are excited about it, not because they got a t-shirt," notes Rosen. "The best incentive that motivates [online opinion leaders] is information, plain and simple. But make sure to give them information ahead of everyone else and get them involved in what you firm is doing, early."

In the end, viral marketing has a lot to do with being cool—both on the part of the company and what it's marketing and on the part of the person who has the information before anyone else does.

The cool factor is one reason why last year P&G started Tremor, a marketing group that "strives to connect members with inside information and ideas on products in entertainment, fashion, food, and games," as the Tremor help screen puts it. Members, in this case, are those one-in-five trend-setting teens who are "influential in forming teen opinions about products," as reported by the Internet Advertising Report.

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How does Tremor work? P&G sends “members inside information and ideas from different companies. In less than five minutes, members can review and rate these ideas online. Every time the Tremor Crew voices their opinion, they have the chance to influence these [different] companies and win prizes (e.g. \$250 to a favorite store),” according to the CPG giant.

Or, as the IAR wrote, “In exchange for a sneak peak at new products and chances to win prizes like gift certificates, the teens would then be asked to spread the word to their friends” via various media, but especially through e-mails to friends and family.

And if there’s any demographic that thinks getting the inside scoop ahead of everyone else is cool, and therefore is a perfect target for viral marketing, it’s teens. Or as Emanuel Rosen nailed it: “Person-to-person communication is very popular on the Net and its popularity is likely to increase. Kids and teenagers who are now heavy users of chat rooms, instant messaging, and e-mail are likely to continue using these tools in a significant way, as they grow up. Compounding this, their younger brothers and sisters are now starting to use these technologies as well.”

The inevitability of aging, therefore, is why viral marketing’s importance is likely to increase steadily over the decade ahead.

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## H. The Spam Disaster

It's impossible to explore e-mail marketing without delving into spam. What's also impossible, it seems, is eliminating spam and the dangers it presents to legitimate e-mail marketing. The never-ending battle against unwanted and intrusive e-mails makes spam perhaps the most frustrating aspect of the Internet for marketers and users alike.

In one way, all the attention people focus on spam is much like a 22-car pile-up on a foggy freeway: It's really an awful thing, no one person can see the details all too well, but everybody still slows down to take a close look at it. For spam, that close look translates to a growing array of articles and news programs in the mainstream media bemoaning its increasing presence and to copious amounts of research proving what you probably already know about spam both intuitively and from your own experience.

What you may not know is how spam colors reactions to all advertising—not just e-mail and not just online. According to PlanetFeedback, while slightly more than 10% of consumers consider traditional ad forms—TV, radio, billboards, and event sponsorships—annoying, their annoyance level rises with the amount of spam they receive. For example, nearly 55% of consumers who receive more than 50 spam messages a day are more annoyed by TV ads than those who receive less spam.

**"The root of the problem is in desperate economic times, people do desperate economic things. People are spamming because they're probably laid off or they don't have a job, and they've got a permit to resell a particular product, and they see this as a cheap alternative. It's wrong."**

— Michael Mayor, president, NetCreations

So, here are a few figures that illustrate spam's large and intrusive reach into the lives of Internet users and those who'd like to sell to them.

Start with this overview of US consumers' experience with and attitudes toward spam. According to research by Symantec, a manufacturer of anti-spam software, 63% of respondents receive more than 50 spam messages each week, 74% believe that spam is increasing, and 65% spend more than 10 minutes each day dealing with spam.

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Bottom line: 69% agree that spam is generally harmful to e-mail users (and yet only 58% use a spam filter).

## US Consumers' Experience with Spam, 2002 (as a % of respondents)

### Spam is decreasing

4%

### Spend more than 20 minutes each day dealing with spam

24%

### Receive more than 100 spam e-mails each week at home and work

37%

### Don't use a spam filter

42%

### Receive more than 50 spam messages weekly

63%

### Spend more than 10 minutes each day dealing with spam

65%

### Agreed or strongly agreed that spam is generally harmful to e-mail users

69%

### Spam is increasing

74%

### Parents with children under the age of 18 who are concerned or very concerned about their children reading spam

77%

### Agree that spam places a burden on their individual time

84%

Source: InsightExpress; Symantec, December 2002

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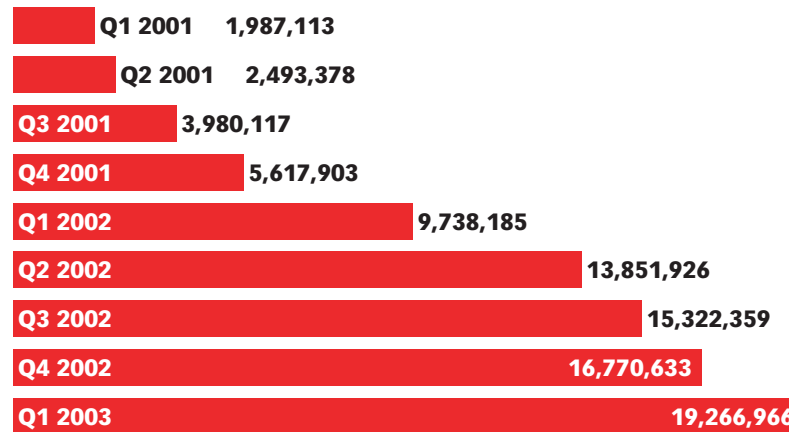
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## Counting Spam

The exact number of unique spam attacks in the US has not been nailed down. But as measured on Brightmail's network over the past nine quarters, the trend is one-way only, from less than 2 million in Q1 2001 to over 19 million in this year's Q1.

### Unique Spam Attacks in the US, by Quarter, Q1 2001-Q1 2003



Note: as measured by Brightmail's Probe Network

Source: Brightmail, May 2003

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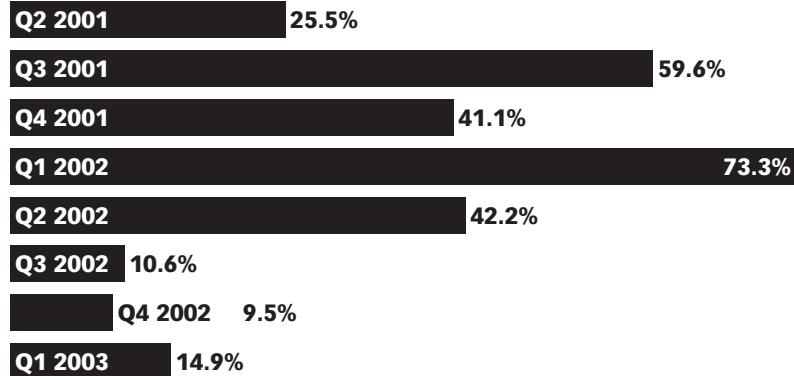
### "I see spam as one of the major marketing problems in 2003."

— Matt Leonard, senior manager of global customer information policy and privacy, IBM

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The only good news hidden in that data might be how the rate of increase appears to be slowing—from as high as 73.3% in Q1 2002 to less than 15% over the past three quarters. However, those decelerating rates might have little to do with any real slack in the spam flood, and more due to the increasing effectiveness of Brightmail, described as the spam “filtering service to the ISP superstars (EarthLink, MSN, AT&T)” by MediaPost.

### Unique Spam Attacks in the US, by Quarter, Q2 2001-Q1 2003 (as a % increase vs. prior quarter)



Note: as measured by Brightmail's Probe Network

Source: Brightmail, May 2003

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That single network offers just one indicator of spam's sharp increase. Last month Ferris Research released a report titled “Anti-Spam for Businesses and ISPs” that estimates revenues from anti-spam services will rise from \$120 million worldwide in 2003 to over \$1 billion by 2008.

### “Your legitimate e-mail is getting lost.”

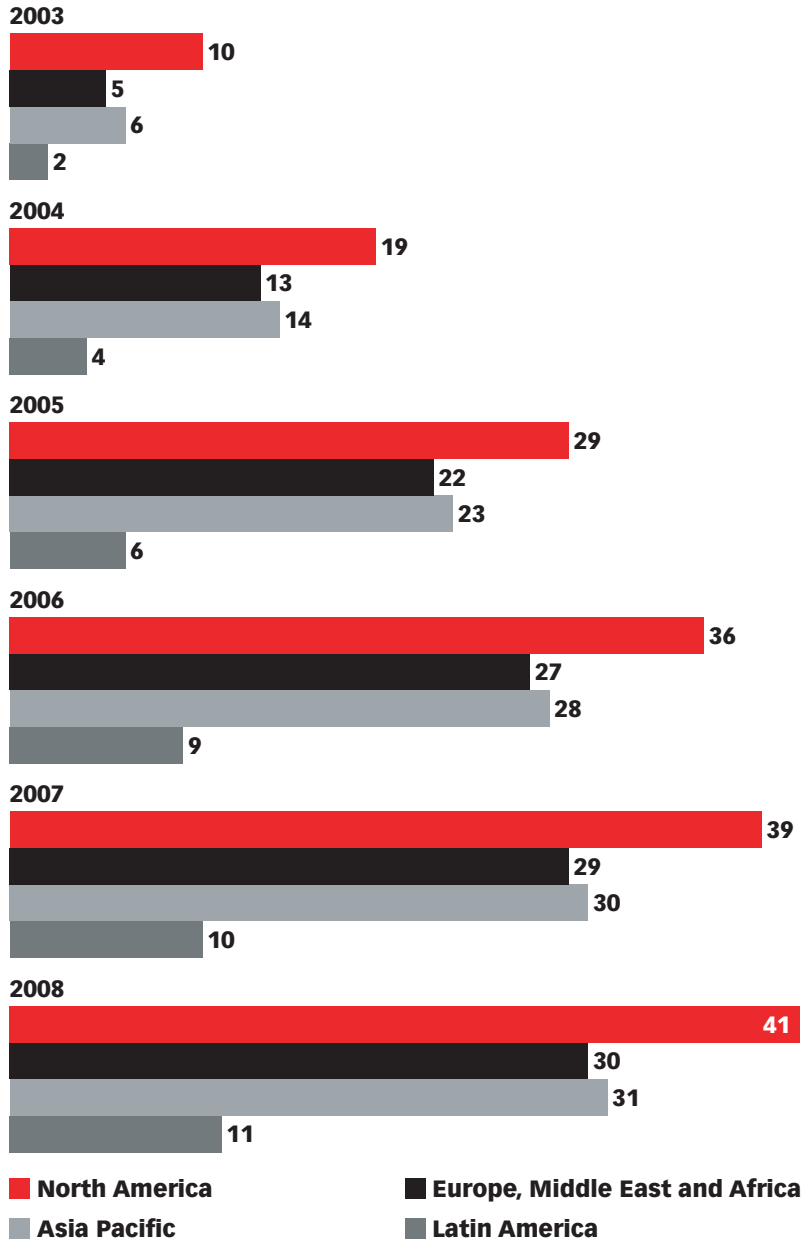
— Brian Zwit, director of integrity assurance, America Online; Internet Advertising Report, 20 May 2003

As more individuals and companies try to counter the influx of spam, the spending boost will reflect increased numbers. For example, an Internet user in North America will get an average of 10 spam messages daily in 2003, according to Ferris. And by 2008, that same at-work user will get 41 pieces of spam each day, a 310% increase over the five-year period.

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These numbers seem low relative to the larger quantity of spam many Internet users receive every day.

## Amount of Spam Received per At-Work Internet User per Day Worldwide, by Region, 2003-2008



Source: Ferris Research, April 2003

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Viewed by growth rates, the Ferris figures match up with the Brightmail data, in that while spam will continue to proliferate, the increases will drop off further into the decade. Over the whole six-year span charted above, the growth rate in North America will be 310%.

### Amount of Spam Received per At-Work Internet User per Day Worldwide, by Region, 2004-2008 (as a % increase vs. prior year)

	2004	2005	2006	2007	2008
North America	90.0%	52.6%	24.1%	36.0%	36.1%
Europe, Middle East, Africa	160.0%	69.2%	22.7%	7.4%	3.4%
Asia-Pacific	133.3%	64.3%	21.7%	7.1%	3.3%
Latin America	100.0%	50.0%	50.0%	11.1%	10.0%

Source: Ferris Research, April 2003; calculated by eMarketer, May 2003

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And the share of worldwide spam will shift away from North America over the next five years, decreasing from 43.5% of the total in 2003 to 36.3% in 2008. The corresponding increase will occur mainly in Europe, rising by nearly 5 points.

### Amount of Spam Received per At-Work Internet User per Day Worldwide, by Region, 2003-2008 (as a % of total)

	2003	2004	2005	2006	2007	2008
North America	43.5%	38.0%	36.3%	36.0%	36.1%	36.3%
Europe, Middle East, Africa	21.7%	26.0%	27.5%	27.0%	26.9%	26.5%
Asia-Pacific	26.1%	28.0%	28.8%	28.0%	27.8%	27.4%
Latin America	8.7%	8.0%	7.5%	9.0%	9.3%	9.7%

Source: Ferris Research, April 2003; calculated by eMarketer, May 2003

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Projections from Jupiter Research point in the same direction as the Ferris study, with an annual increase from 696 spam messages per US consumer in 2002 to 1,479 in 2006, or a 113% growth rate during that four-year period.

### Volume of Commercial E-Mails per Online Consumer in the US, by Type of Message, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Spam	440	571	696	861	1,046	1,253	1,479
Retention	545	675	786	930	1,082	1,242	1,406
Sponsorship	136	195	195	354	467	605	769
Acquisition	11	24	42	66	99	140	192
<b>Total</b>	<b>1,132</b>	<b>1,466</b>	<b>1,785</b>	<b>2,210</b>	<b>2,693</b>	<b>3,240</b>	<b>3,846</b>

Source: Jupiter Research, October 2001

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Two “however” statements accompany the Jupiter data. One is that spam’s share of all commercial e-mails remains steady over the seven-year period shown, from a high of 39.0% this year to 38.5% three years from now.

Therefore, according to Jupiter, spam’s increased presence in consumer inboxes simply parallels the growth of all commercial e-mails.

### Volume of Commercial E-Mails per Online Consumer in the US, by Type of Message, 2000-2006 (as a % of total)

	2000	2001	2002	2003	2004	2005	2006
Spam	38.9%	38.9%	39.0%	39.0%	38.8%	38.7%	38.5%
Retention	48.1%	46.0%	44.0%	42.1%	40.2%	38.3%	36.6%
Sponsorship	12.0%	13.3%	14.7%	16.0%	17.3%	18.7%	20.0%
Acquisition	1.0%	1.6%	2.4%	3.0%	3.7%	4.3%	5.0%
<b>Total</b>	<b>1,132</b>	<b>1,466</b>	<b>1,785</b>	<b>2,210</b>	<b>2,693</b>	<b>3,240</b>	<b>3,846</b>

Source: Jupiter Research, October 2001; eMarketer calculations, April 2003

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### “Is spam going to be something we will all learn to live with, like increased airline security? Or will it disappear?”

— Enrique Salem, chief executive officer, Brightmail; *The New York Times*, 27 June 2002

The other “however” concurs with the Brightmail data above—while spam continues to grow, it’s rate of growth is expected to drop from 23.7% in 2003 to 18.0% in 2006.

### Volume of Commercial E-Mails per Online Consumer in the US, by Type of Message, 2001-2006 (as a % increase vs. prior year)

	2001	2002	2003	2004	2005	2006
Spam	29.8%	21.9%	23.7%	21.5%	19.8%	18.0%
Retention	23.9%	16.4%	18.3%	16.3%	14.8%	13.2%
Sponsorship	43.4%	34.4%	35.1%	31.9%	29.6%	27.1%
Acquisition	118.2%	75.0%	57.1%	50.0%	41.4%	37.1%
<b>Total</b>	<b>29.5%</b>	<b>21.8%</b>	<b>23.8%</b>	<b>21.9%</b>	<b>20.3%</b>	<b>18.7%</b>

Source: Jupiter Research, October 2001; eMarketer calculations, April 2003

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When the volume of spam is measured by ISP, as Forrester Research did this April, data backs up perception. That is, AOL users get the most spam, at 154 message each week. That's 40% higher than 110, the average number of unwanted messages for all online consumers.

### Number of Pieces of Spam US Online Consumers Receive Each Week, by E-Mail Provider, 2003

<b>AOL</b>	<b>154</b>
<b>Yahoo!</b>	<b>141</b>
<b>MSN Hotmail</b>	<b>106</b>
<b>Earthlink/MindSpring</b>	<b>89</b>
<b>AT&amp;T Worldnet</b>	<b>76</b>

Note:  $n=100$

Source: Forrester Research, April 2003

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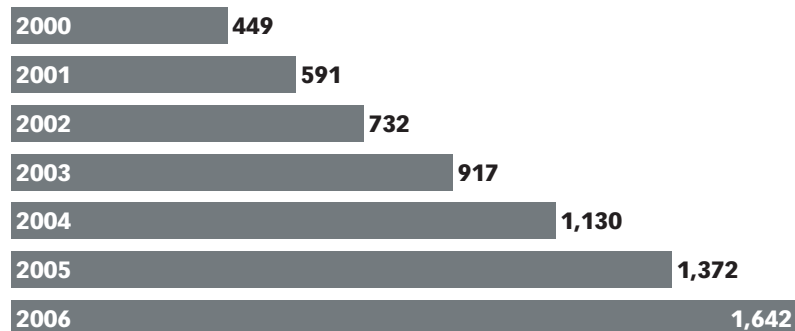
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In truth, the broad brush of spam colors not just obvious, invasive, ill-targeted messages but all unsolicited commercial e-mail (UCE). By Jupiter Research's definition, approximately 85% of acquisition e-mails are unsolicited. These posts typically come from rented or exchanged lists, by legitimate companies prospecting for new business. A recent article in *The New York Times* describes an e-mail marketer, who many would call a spammer, who sends messages "only to lists of people who have agreed to receive marketing offers over the Internet. These opt-in lists, as they are called, are generated when Internet users enter a contest on the Web or sign up for an e-mail list in which the fine print says the user agrees to receive 'occasional offers of products you might find valuable from our marketing partners.'"

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Jupiter estimates that each US consumer will receive 1,642 UCEs annually by 2006, or 4.5 per day. (Yes, many people would be overjoyed to receive fewer than 5 per day.)

### Unsolicited\* Commercial E-Mails per Online Consumer in the US, 2000-2006



Note: \*unsolicited defined as all spam and approximately 85% of acquisition e-mails

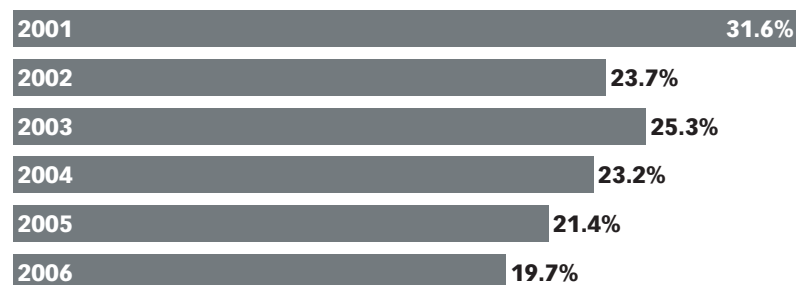
Source: Jupiter Research, October 2001; eMarketer calculations, April 2003

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Again, as with spam alone, the rise in UCEs should taper off over the next few years.

### Unsolicited\* Commercial E-Mails per Online Consumer in the US, 2001-2006 (as a % increase vs. prior year)



Note: \*unsolicited defined as all spam and approximately 85% of acquisition e-mails

Source: Jupiter Research, October 2001; eMarketer calculations, April 2003

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But when looked at by inbox standards, more than 40% of all commercial e-mails are unsolicited by Jupiter's measurements. No wonder that even solicited commercial e-mails get hit by a double whammy: one, they get lost among all the unwanted messages; and two, the glut of all commercial e-mails tends to make people weary even of ones they might want, which then get trashed unread.

### Unsolicited\* Commercial E-Mails per Online Consumer in the US, 2000-2006 (as a % of total)

2000	39.7%
2001	40.3%
2002	41.0%
2003	41.5%
2004	42.0%
2005	42.3%
2006	42.7%

*Note: \*unsolicited defined as all spam and approximately 85% of acquisition e-mails*

*Source: Jupiter Research, October 2001; eMarketer calculations, April 2003*

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The only countervailing data to the spam epidemic comes from Pew Internet & American Life Project. In the Washington, DC-based research organization's December 2002 report titled "E-Mail at Work," a majority of users claim to receive no e-mail at work. The best understanding of this figure would attribute it to the effectiveness of enterprise-wide spam filters.

### Amount of Spam that US Internet Users Receive at Work, April-May 2002 (as a % of respondents)

None	52%
1%-10%	19%
33% or more	11%

*Note: n=1,003 at-work e-mail users*

*Source: Pew Internet & American Life Project, December 2002*

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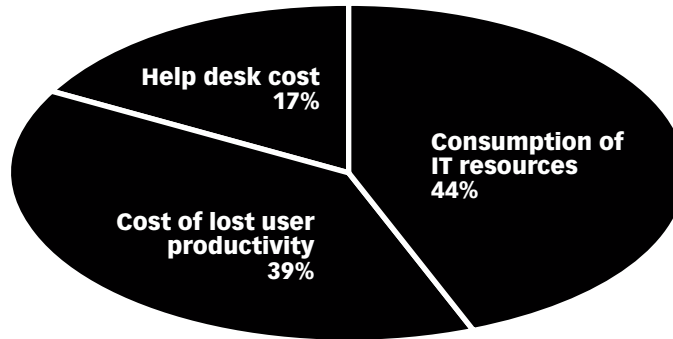
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All this spam costs. According to Ferris Research, 39% of spam's costs to US corporations comes from lost user productivity, while 44% is due to the unwanted messages consuming IT resources. In total dollars, Ferris estimates the loss at \$8.9 billion in 2002. "It's about \$10 per user per month," says the San Francisco-based market research company. "That's a considerable cost."

### Breakdown of the Costs of Spam to US Corporations, 2002



Source: Ferris Research, January 2003

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## I. Reactions to Spam

However you regard spam, the reasons for its rise begin with the word “cheap.” The nearly insignificant cost for sending e-mail allows people to make money selling products even when the response rate is a microscopic 0.001%. “Internet marketing companies typically charge \$500 to \$2,000 to send a solicitation to a million inboxes,” reported *The New York Times*, “but the cost goes up if the list is from a reputable source or is focused on people in certain favored demographic groups.” In contrast, the amount of junk paper mail most people get shrinks in comparison. “Sending the same offer to a million people by mail costs at least \$40,000 for a list, \$190,000 for bulk-rate postage, and more for paper and printing.”

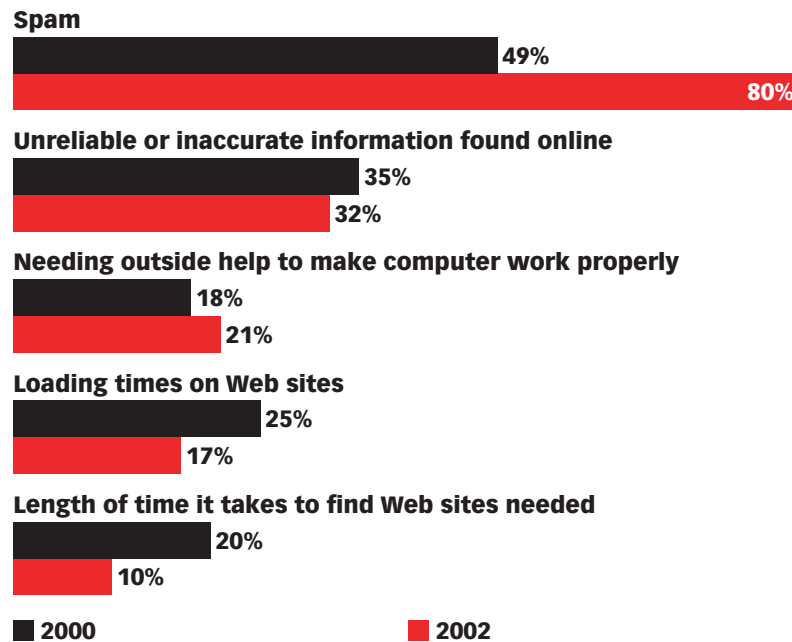
**“There are elements about spam that are very entertaining whether we like to admit it or not. I don’t think people would spend so much time talking about it if they didn’t find some kind of strange curiosity in it.”**

— David Silver, director, Resource Center for Cyberculture Studies at the University of Washington; *The New York Times*, 11 May 2003

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But what's cheap for senders of unsolicited e-mail may wind up costing those who send permission-based e-mail. The rising tide of spam pushes ahead of it a rising wave of anger among Internet users. When Harris Interactive asked over 2,000 US adults what aspects of the Internet and computers they find most annoying, a full 80% mentioned spam. That 2002 figure is a sharp jump up from 49% in 2000.

### Aspects of the Internet/Computers that US Internet Users Find Most Annoying, 2000 vs. 2002 (as a % of respondents)



Note: n=2,221 US adults ages 18+

Source: Harris Interactive, January 2003

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**"Although it is inconvenient to receive spam, it costs the recipient nothing but time. I prefer spam to junk mail, which wastes both time and trees."**

— Mary Jankowski, Elizabeth, NJ; letter to *The New York Times*, 29 April 2003

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Research from PlanetFeedback in April of this year found similarly that spam annoys 77% of US consumers. That even 3% of respondents actually trust spam lends credence to the P.T. Barnum-like persistence of spam, as in, “There’s a sucker born every minute.”

### US Consumers' Trust in and Annoyance with Select Advertising Formats, April 2003 (as a % of respondents)

	% that trust	Trust index (100 is norm)	% annoyed by	Annoyance index (100 is norm)
Word-of-mouth recommendations	61%	251	9%	27
Print ads	47%	194	5%	15
TV ads	42%	173	13%	39
E-Mail subscriptions	39%	161	13%	39
Radio ads	35%	144	11%	33
Direct mail	21%	86	31%	93
Outdoor ads	20%	82	11%	33
Paid search engine listings	14%	58	29%	87
Infomercials	9%	37	39%	117
Web site banner ads	8%	33	53%	160
Door-to-door solicitation	4%	16	78%	235
Spam	3%	12	77%	232
Pop-up ads	2%	8	83%	250

Source: PlanetFeedback, April 2003

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### “Some countries have to invent scapegoats to bring people together. But we all despise spam.”

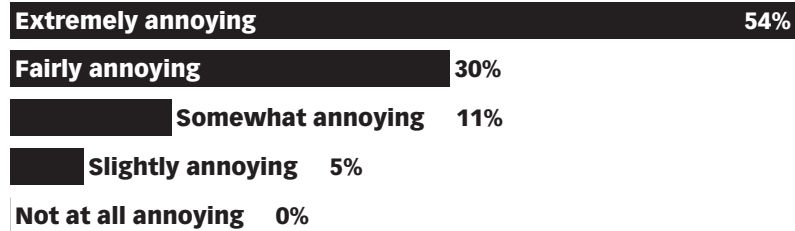
— Barry Wellman, sociologist, University of Toronto; *The New York Times*, 11 May 2003



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And for 84% of the respondents to a recent Osterman Research survey, spam is either extremely or fairly annoying.

### North American Internet Users Opinions Regarding Spam, 2003 (as a % of respondents)



Note: n=196

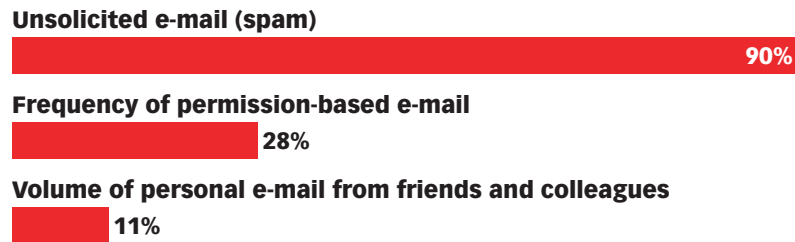
Source: Osterman Research, April 2003

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When the level of surveyed concern drops from “annoying” to just plain “concern,” 90% of US e-mail users told DoubleClick that spam concerns them.

### 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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**“Regular mail is different. You just dump it into the trash can. This [spam] is something that is time-consuming and nerve-racking.”**

— Sylvia Barksdale, Lynnfield, MA; letter to *The New York Times*, 29

April 2003

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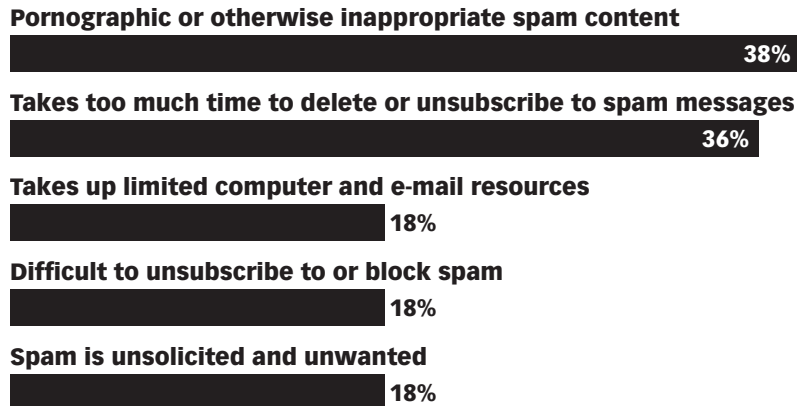
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Research by InsightExpress for Symantec found that pornographic or otherwise inappropriate spam is the chief concern of 38% of US consumers. That it takes too much time to deal with unwanted messages comes close as the primary concern, according to 36% of respondents.

### US Consumers' Primary Concern about Spam, 2002 (as a % of respondents)



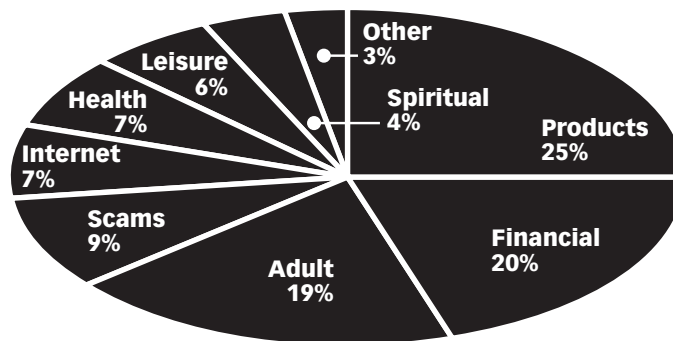
Source: InsightExpress; Symantec, December 2002

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Those chief concerns appear on target, since data from Brightmail's servers show more adult-oriented spam in March 2003 than any other type, other than spam pitching products.

### Spam Received in the US, by Category, April 2003



Note: as measured by Brightmail's Probe Network

Source: Brightmail, May 2003

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Furthermore, when the Harris Poll measured levels of annoyance by type of spam, 91% of respondents cited pornography. But even less-shady categories, such as mortgages and investments, received high annoyance marks in the survey.

### Categories of Spam that US Internet Users Find the Most Annoying, 2002 (as a % of respondents)

#### Pornography

91%

#### Mortgage and loans

79%

#### Investments

68%

#### Real estate

61%

#### Software

41%

#### Computers and other hardware

38%

#### None

3%

Note: n=2,221 US adults ages 18+

Source: Harris Interactive, January 2003

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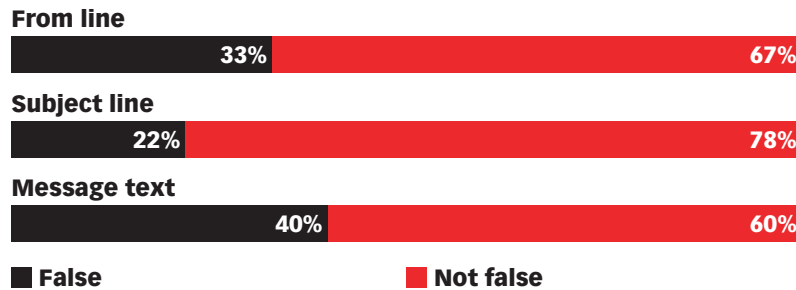
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## How Spam Deceives

Besides the anger and annoyance that spam creates among many people towards all forms of e-mail, not just unsolicited commercial posts, the various deceptions spam tries to pull over on its recipients acts as both warning and indicator to legitimate e-mail marketers. That is, the strong reactions against spam warn those marketers to be increasingly careful about who they target with their commercial e-mails. And the ways spammers try to fool people into opening their messages indicate to those same marketers what not to do with their e-mail campaigns.

A report released last month by the US Federal Trade Commission (FTC) says that 33% of spam makes some kind of false claim in the messages' "from" line, 22% in the "subject" line, and 40% in the message text. The specific false claims the FTC found in spam include indicating pre-existing personal or business relationships. While a legitimate marketer wouldn't make a false claim like that, even a truthful claim of relationship could make a recipient wary and likely to trash the message without reading it.

### Percent of US Spam with False Claims in Header or Message, 2003



Source: US Federal Trade Commission (FTC), April 2003

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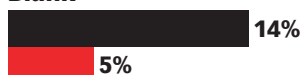
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## Types of False Claims Used in the "From" or "Subject" Lines of Spam Received in the US, 2003 (as a % of total spam studied\*)

### Personal relationship



### Blank



### Business relationship



### Message from recipient



### Sender's identity disguised in some other way



### Re:



### Misleading/unrelated



■ From

■ Subject

Note: \*approximately 1,000 pieces of unsolicited commercial e-mail were studied

Source: US Federal Trade Commission (FTC), April 2003

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When you examine deceptive spam by the type of offer, the FTC data points in several directions. For one, individuals should be exceptionally cautious of e-mail from unknown senders with investment or business opportunities, since 90% of those messages make false claims. That also means that companies with legitimate investment or business opportunities are pushing against the tide, and perhaps should find another online vehicle other than e-mail to promote their offerings.

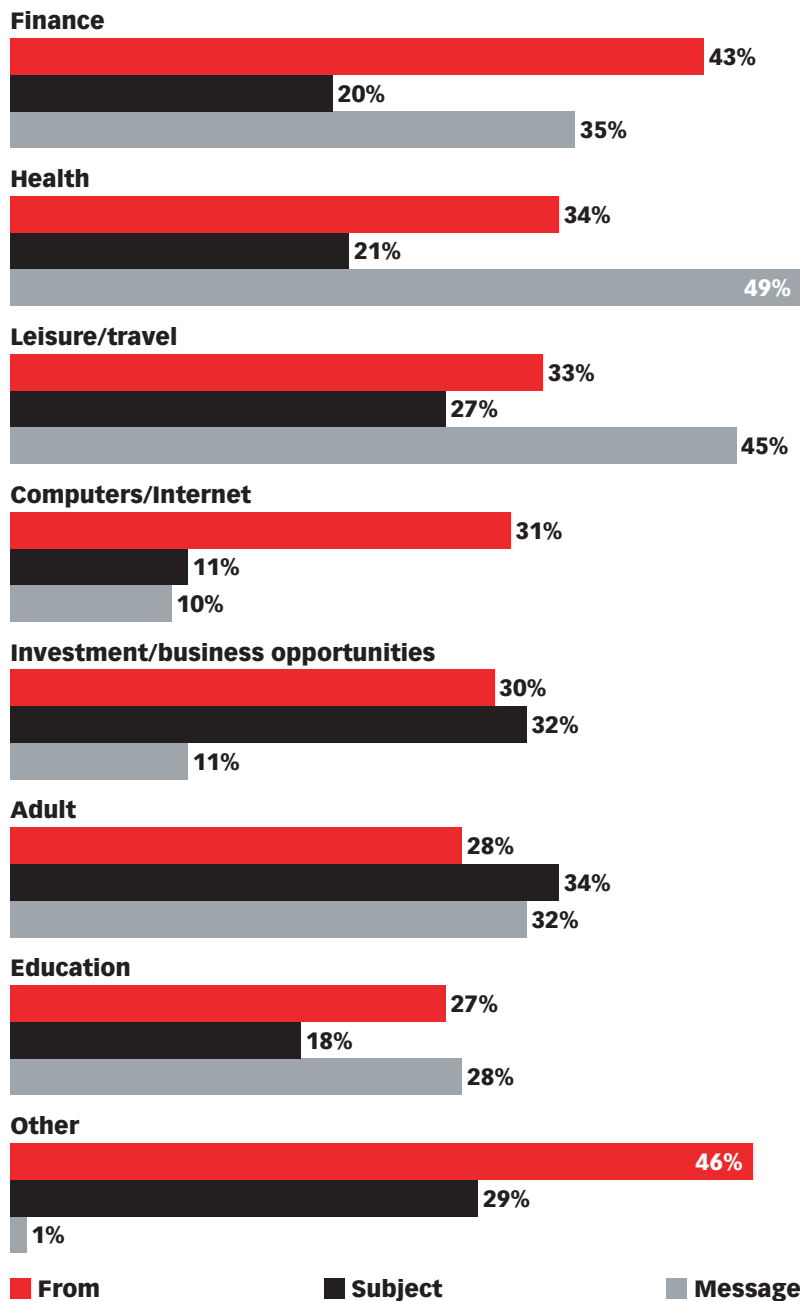
**"The answer to spam is not limiting the messages, let alone vilifying the messenger, but doing what marketers have always done—penetrate the clutter."**

—Adam Deringer, director, WebFingerprint; Media, August 2002

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Another example is the false claims the FTC found in 49% of health spam messages. Again, these results should act as a warning to legitimate vendors of such products: Be especially sure that your marketing e-mails are not just aboveboard but entirely clear, so that the recipient won't be gulled into thinking it's spam.

### Percent of US Spam with False Claims in Header or Message, by Type of Offer, 2003



Source: US Federal Trade Commission (FTC), April 2003

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Narrowing in on specific e-mails across its network, Brightmail put together the top 10 list of spam messages in 2002. Surprisingly, none of the subject lines in these 10 spam mention anything about making body parts bigger.

### Top 10 Spam Messages in the US, 2002 (based on volume of messages as a percent of all spam\*)

Subject line of unsolicited bulk e-mail	Description
1. "Protect Your Computer Against Viruses for \$9.95"	Anti-virus software spam was the most common this year
2. "Verification Department"	Credit card scam spam has been prominent, especially in recent months
3. "Refinancing? Get a FREE quote on any mortgage loan program"	Mortgage spam holds its ground this year as a classic
4. "Printer Cartridges - Save up to 80% - Free Shipping Offer"	Printer cartridge spam, also a classic, is still one of the top spams
5. "Miniature Remote Control Car. Great Gift!"	A newer spam about toy cars for the holidays has hit e-mail accounts at full throttle in recent months
6. "\$100 F R E E, Please Play Now!"	Casino spam continued to stake out e-mail inboxes worldwide
7. "Online Auction Marketing Secrets!"	Online auction marketing scams bid heavily on e-mail users this year
8. "Important news Kuira"	Septic system spam seeped rapidly through the Internet for quite some time in early 2002
9. "URGENT & CONFIDENTIAL."	Nigerian scam spam asked millions of e-mail users to help free-up usurped royal coffers
10. "GET A FREE PASS TO THOUSANDS OF XXX SITES!"	Pornographic e-mail slithered into inboxes, including those of children

*Note: \*as measured on Brightmail's Probe network  
Source: Brightmail, December 2002*

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All spam isn't as obvious as that top 10 list. Even the most innocuous elements in a legitimate company's e-mail may get it tagged as spam. According to Assurance Systems—a Superior, CO-based e-mail filtering company—here are the top three triggers that are flagged by content-based spam filters, and ways to avoid them.

■ **Click Here or Click Below.** Most filters scan the body of a message looking for the phrases "click here" or "click below." Phrases like "Click here for your great offer" or "Click on the link below for details" can trigger it. Don't use the word "click," but try "visit here" as an alternative.

■ **Blue HTML Font Coloring.** Filters scan a message looking for HTML <font> tags. Specifically it looks for <font> tags whose "color" attribute is blue. Blue color font has been historically associated with spam; its spam-trigger score, however, has fluctuated and decreased recently.

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■ **Spam Keywords.** Filters count the number of times common “spam phrases” are included in the message being tested. Depending on the count, the total spam phrases score will result in a rating of low, medium, or high. Since most spam senders are trying to sell something, most spam phrase collections tend to heavily penalize phrases like “free offer,” “just for you,” and “make \$\$\$.” Try to find alternate phrases that still get the point across.

## Dealing With Spam: Laws & Filters

When you view the loss of money, of time, of patience, and of trust, the full costs of spam for both companies and individuals is not so easy to measure. First off, before you can really deal with spam, you need to define it—but a clear-cut definition may be as slippery as spam itself. Various studies show that one person’s spam is another person’s marketing message. Take the following chart from SurfControl—a Scotts Valley, CA-based e-mail filtering software company—which has 82% of at-work Internet users saying the e-mail is spam just because it’s unsolicited, even if it comes from a legitimate or well-branded business.

### Definitions of Spam among US At-Work Internet Users, April 2003 (as a % of respondents)

**Unsolicited mass e-mail that is deceptive in its subject line and hides the sender or seeks to commit fraud**

**93%**

**Unsolicited mass e-mail, even if it comes from legitimate or well-branded businesses**

**82%**

**Unsolicited mass e-mail on subjects or offers that interest them**

**78%**

*Note: n=535*

*Source: SurfControl/Public Opinion Strategies, April 2003*

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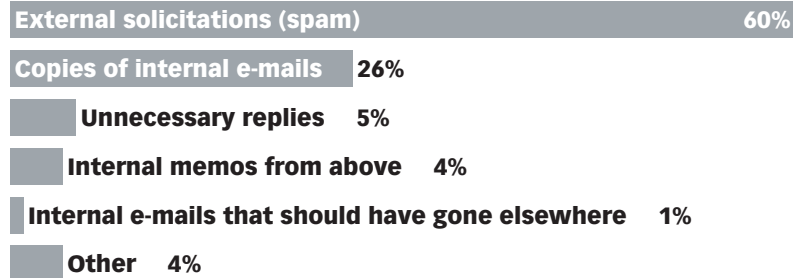
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Then, when the Net Future Institute Research—a North Hampton, NH-based research company—asked executives and managers worldwide to describe their unwanted e-mails, 60% cited all external solicitations, which they labeled as spam.

### How Executives and Managers Worldwide Describe Their Unwanted E-Mails, 2002 (as a % of respondents)



Note:  $n=2,500$

Source: Net Future Institute Research, 2002; Darwin Magazine, October 2002

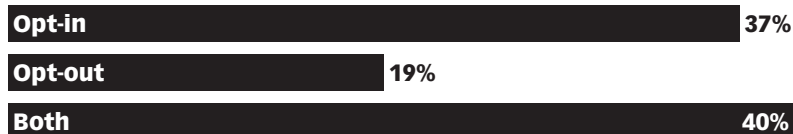
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That the definition of spam includes not only misleading e-mails of the build-your-body-part-overnight-while-helping-a-Nigerian-get-better-credit variety, but also ones from legitimate companies, is due partially to how those companies deal with the permission process. According to the e-tailing group—a Chicago-based e-commerce consulting firm—while 37% of US online merchants send marketing e-mails only to customers who've opted-in, 19% force the customers to opt-out and 40% play both sides of the street.

Those opt-out e-mails give cause for individuals to define even e-mails from legitimate companies as spam.

### E-Mail Marketing Permission Basis Used by Retailers in the US, Q1 2003 (as a % of respondents)



Note:  $n=200$  senior executives

Source: the e-tailing group, April 2003

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With these larger definitions of spam in mind, ones that often include not just deceptive e-mails but all UCE, ideas on how to deal with spam fall into five main groups:

1. Outlaw it.
2. Filter or block it.
3. Trash it.
4. Ignore it.
5. Unsubscribe from it.

That last option for dealing with spam was the primary one chosen by respondents to the April 2003 survey from Bigfoot Interactive and RoperASW. An overwhelming 89.7% of at-home Internet users said they would prefer if their service provider would include an unsubscribe option to remove them safely from e-mail lists.

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A major caveat attaches itself to that perhaps naïve reply: The mere act of unsubscribing to spam from misleading senders just confirms to them that the e-mail address is valid and potentially increases the flow of spam. In fact, 57.7% of respondents to the same survey acknowledge that. So perhaps they feel that if the ISP takes care of the unsubscribe task, it won't rebound on them.

### US At-Home Internet Users' Opinions Regarding Methods Used to Deal with Spam, 2003 (as a % of respondents)

**I would prefer if my ISP or e-mail service provider would include an unsubscribe option that would safely remove me from e-mail lists**

89.7%

**Unsolicited e-mail containing pornography should be treated differently by the ISP vs. other types of unsolicited e-mail**

79.0%

**Unsubscribing from unwanted e-mails has resulted in receiving additional unwanted e-mail**

57.7%

**I would prefer to have all my billing alerts and e-mails sent to a separate folder**

52.3%

**I would subscribe to a free service which guarantees delivery of critical communications/e-mails**

50.4%

**I am considering installing, using or setting anti-spam filtering software or services**

39.6%

**I recently did not receive an e-mail that I requested from a trusted source (friend, family, company I have a relationship with)**

38.2%

**E-Mail I have requested from a trusted source was delivered to a junk mail folder**

28.6%

Note: n=474

Source: RoperASW/Bigfoot Interactive, May 2003

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A large portion of at-work Internet users (71%) would even be willing to make some sort of trade-off to stop spam, according to SurfControl.

**"Laws like these [anti-spam] do nothing but send spammers to other states or overseas."**

— Wayne Crews, director of technology studies, Cato Institute; PC Magazine, 25 February 2003

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One idea that seems sensible to many is to charge a fee for sending e-mails, just as is done for postal mail. That fee could be as low as a penny per e-mail, say. While such a tiny cost would not hurt most individuals and at-work users, and would be affordable by companies sending legitimate offers, it would make a spam broadcast of one million e-mails cost \$10,000—perhaps enough to deter most spammers living off the low-cost of the Internet.

### **Sacrifices that US At-Work Internet Users Are Willing to Make to Stop Spam, April 2003 (as a % of respondents)**

#### **Willing to make some sort of trade-off or sacrifice to stop spam**

**71%**

#### **Sacrifice the ability to learn of new products and ways to save money**

**32%**

#### **Sacrifice receiving some e-mail like newsletters and other requested bulk mail**

**14%**

#### **Sacrifice some measure of privacy and the ability to send and receive e-mail anonymously**

**11%**

#### **Agree to slowing down the speed at which they send and receive e-mail**

**10%**

#### **Agree to stopping some business e-mail they needed to get through**

**4%**

*Note: n=535*

*Source: SurfControl/Public Opinion Strategies, April 2003*

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When SurfControl asked employees if they support a proposal before Congress to include warning labels on pornographic spam and to impose criminal penalties for spam that contains misleading information regarding the identity of the sender, nearly all backed the proposal. Somewhat interesting is how those who get the most spam, 51 or more weekly, desire federal laws controlling spam slightly less than those who get no spam. Perhaps that's because those with more spam experience have less faith in the idea of spam-control laws.

### US Employees Who Support Congress Strengthening Laws Against Spam, by Weekly Volume of Spam Received, 2003 (as a % of respondents)

0	90%
1-10	87%
11-50	90%
51+	86%

*Note: Respondents were asked about a proposal before Congress that included warning labels on sexually explicit or pornographic spam and criminal penalties for spam that contains misleading information regarding the identity of the sender of the e-mail*

*Source: SurfControl/Public Opinion Strategies, February 2003*

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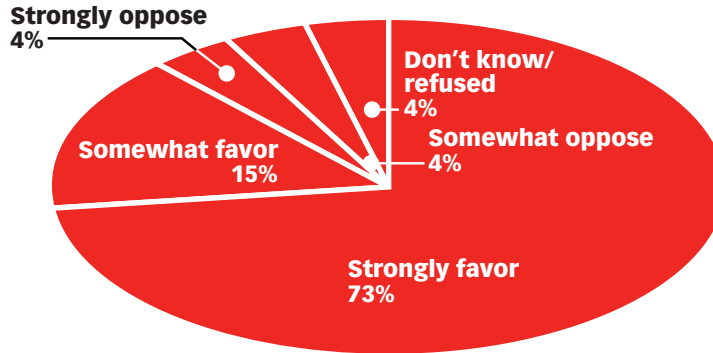
**"We are at a tipping point with spam. But, with the bills we see now, I fear we will be on the wrong side of the cow."**

— David Sorkin, associate professor, John Marshall Law School in Chicago;  
*The New York Times*, 5 May 2003

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The same SurfControl survey shows 73% of respondents strongly favoring strengthened federal laws against spam.

### US Employees Who Support Congress Strengthening Laws Against Spam, 2003 (as a % of respondents)



*Note: Respondents were asked about a proposal before Congress that included warning labels on sexually explicit or pornographic spam and criminal penalties for spam that contains misleading information regarding the identity of the sender of the e-mail*

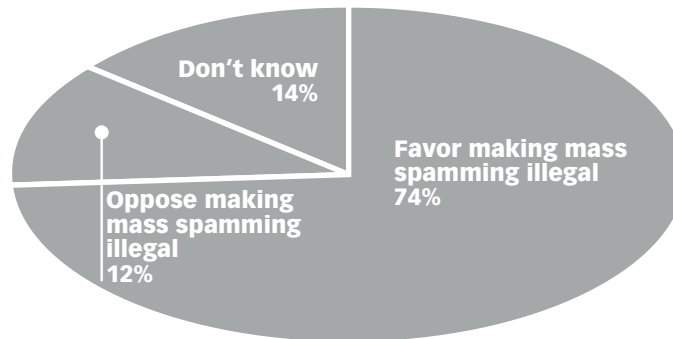
*Source: SurfControl/Public Opinion Strategies, February 2003*

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Research from the Harris Poll found similar numbers, with 74% of all US Internet users favoring making mass spamming illegal.

### US Internet Users' Opinions Regarding Making Spam Illegal, 2002 (as a % of respondents)



*Note: n=2,221 US adults ages 18+*

*Source: Harris Interactive, January 2003*

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For a good share of legitimate marketers, however, the idea of government prohibition of spam might be a menacing one, since that could also hurt their efforts as all commercial e-mails get painted with the broad brush of legal spam control. In addition, some people argue that it would be futile for the US Congress to impose penalties for sending spam, since so much spam is sent from outside the country.

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That may be true, at least for 41.6% of the spam tracked by MessageLabs in March 2003. However, there's still the 58.4% of spam that originated in the US. In addition, some might argue that by Congress establishing laws against spam, other nations could join in for international efforts to deal with the growth of misleading and undesired e-mail.

### Breakdown of Spam Received Worldwide, by Country of Origin, March 2003

#### US

58.4%

#### China

5.6%

#### Great Britain

5.2%

#### Brazil

4.9%

#### Canada

4.1%

#### South Korea

3.5%

#### Italy

1.9%

#### Mexico

1.5%

#### Spain

1.3%

#### Argentina

1.1%

#### Others

12.4%

*Note: In March 2003, MessageLabs found roughly 38.1 million spam messages in the 104.9 million e-mail messages it tracked*  
*Source: MessageLabs, April 2003*

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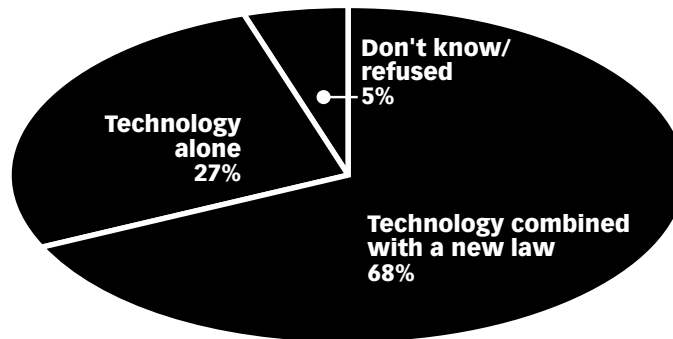
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And even among those surveyed who favor anti-spam laws, 68% told SurfControl that technology as well is needed to combat unwanted e-mails. A substantial 27% believe that technology alone is the answer to deal with what appears to be a technology problem.

### US Employees' Opinions Regarding What's Needed to Control and Eliminate Spam in the Workplace, 2003 (as a % of respondents)



Source: SurfControl/Public Opinion Strategies, February 2003

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When SurfControl narrowed its survey from employees in general to IT professionals, the group that cleans up after spam attacks, a surpassing 95% favor legislation to establish criminal penalties for spam that misleads the identity of the sender, plus strengthening restrictions on pornographic spam. However, two more large segments believe technology combined with a new law is needed to control and eliminate spam, or would support their company using technology to control spam or unsolicited commercial e-mail, at 87% and 86%, respectively.

### US IT Professionals' Opinions Regarding Spam, 2003 (as a % of respondents)

**Favor legislation to establish criminal penalties for spam that misleads the identity of the sender, and strengthens restrictions on pornographic spam**

95%

**Believe technology combined with a new law is needed to control and eliminate spam**

87%

**Would support their company using technology to control spam or unsolicited commercial e-mail**

86%

**Spam interferes with their ability to do their job on a daily basis**

75%

**Their company currently uses technology to control spam**

51%

*Note: n=1,065*

*Source: SurfControl, February 2003*

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While that's how the people who run the e-mail servers want to deal with spam epidemic, how typical US Internet users eliminate unsolicited e-mail varies by the type of message according to recent research from Bigfoot Interactive and RoperASW. For example, 16.7% of respondents try to block spam that's pornographic, while 70.4% simply delete an unsolicited e-mail from a familiar brand or marketer.

### How US Internet Users Eliminate Unsolicited E-Mail, by Type, 2003 (as a % of respondents)

	Porno- graphy	From unknown sender	From familiar brand/ marketer	From familiar brand/ marketer that you have relationship with
Delete	58.2%	73.2%	70.4%	57.7%
Unsubscribe link	4.2%	1.9%	3.3%	4.6%
Unsubscribe reply	1.5%	0.2%	2.6%	8.2%
Ignore	3.1%	3.7%	7.1%	5.2%
Set filter	4.6%	2.9%	2.1%	2.5%
Report spam button or link	4.8%	1.9%	1.8%	1.0%
Block spam	16.7%	11.5%	6.2%	1.2%
Don't know	4.8%	2.9%	4.1%	7.6%
Other	2.3%	2.2%	2.9%	12.5%

Note: n=474

Source: RoperASW/Bigfoot Interactive, May 2003

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**"I think this [filtering] is the biggest problem that legitimate marketers face. Filters are beginning to get overzealous...because some of these filters are getting tuned to use criteria that are not carefully managed, it is getting to be a problem."**

— Enrique Salem, chief executive officer, Brightmail; Internet Advertising Report, 20 May 2003

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The enormous expansion of all kinds of e-mail, not just spam, makes many Internet users quick on the delete key. Even with solicited e-mail, by definition the seeming opposite of spam, approximately 60% of respondents delete newsletters, requested service messages, or e-mail promos. That spam's intrusive presence colors all e-mail, even permission-based, turns the simple act of eliminating e-mail into a coping mechanism for many people.

### How US Internet Users Eliminate Solicited E-Mail, by Type, 2003 (as a % of respondents)

	Newsletter or other requested e-mail	Service message	Marketing or promotional message
Delete	57.7%	58.7%	62.8%
Unsubscribe link	4.6%	4.2%	3.7%
Unsubscribe reply	8.2%	7.1%	7.6%
Ignore	5.2%	3.2%	4.8%
Set filter	2.5%	3.1%	2.8%
Report spam button or link	1.0%	1.0%	0.8%
Block spam	1.2%	2.0%	2.2%
Don't know	7.6%	10.6%	7.0%
Other	12.5%	11.0%	8.9%

Note: n=474

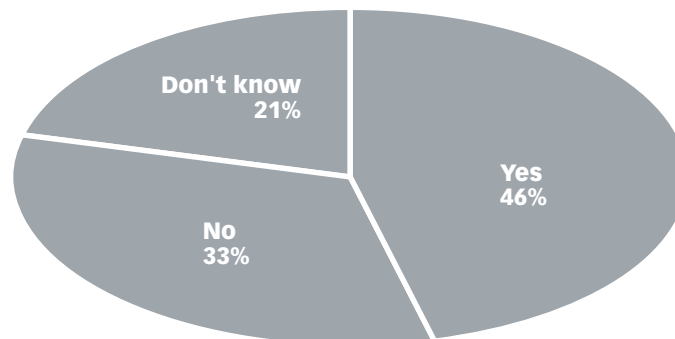
Source: RoperASW/Bigfoot Interactive, May 2003

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Even when Internet users don't purposely delete e-mail, all that spam caused 46% to somehow overlook or otherwise miss legitimate messages, according to Osterman Research.

### North American Internet Users Who Have Overlooked a Legitimate E-Mail Because of Spam, 2003 (as a % of respondents)



Note: n=196

Source: Osterman Research, April 2003

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The Bigfoot/Roper data above shows single-digit response rates for spam filters; although if you combine the block spam and set filter numbers—being similar if not the same processes—the results are somewhat greater. However, a survey from Forrester Research indicates adoption rates for spam filters that are substantially higher than in the two Bigfoot/Roper charts. As of April 2003, according to Forrester, 67% of consumers who use Yahoo! e-mail also use a spam filter. That figure is greater than, but similar to, the rates for MSN Hotmail and EarthLink customers.

Notably, only 15% of people getting their e-mail through AOL use a spam filter.

### US Online Consumers Who Use Spam Filters, by E-Mail Provider, 2003 (as a % of respondents)

<b>Yahoo!</b>	<b>67%</b>
<b>MSN Hotmail</b>	<b>59%</b>
<b>Earthlink/MindSpring</b>	<b>57%</b>
<b>AT&amp;T Worldnet</b>	<b>38%</b>
<b>AOL</b>	<b>15%</b>

Note: n=100

Source: Forrester Research, April 2003

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Among US enterprises, the rate for using spam-blocking software will rise from three out of four this year to nearly universal by 2006, according to the recent “Spam in the Enterprise” study from Osterman Research.

### Penetration Rate for Spam-Blocking Software in US Enterprises, 2003-2007 (as a % of respondents)

<b>2003</b>	<b>75%</b>
<b>2004</b>	<b>84%</b>
<b>2005</b>	<b>92%</b>
<b>2006</b>	<b>97%</b>
<b>2007</b>	<b>98%</b>

Note: n=196

Source: Osterman Research, May 2003

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In terms of limiting annoyance, spam filters seem to do the job. Results from an Osterman Research survey show that Internet users without spam blocking spend 200 minutes dealing with spam, per one thousand e-mails. That number drops to 80 minutes when spam blocking mechanisms are in place.

### Time Internet Users in North America Spend Dealing with Spam per 1,000 E-Mails, with and without Spam Blocking, 2003 (in median minutes)

With spam blocking	80
Without spam blocking	200

Note:  $n=196$

Source: Osterman Research, April 2003

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Whether you call them spam filters or spam blockers, these software tools create one problem that sounds like an awry medical test: a false positive. That's when filters catch legitimate, opt-in commercial e-mails by mistake. According to Assurance Systems—a Superior, CO-based e-mail messaging company—15% of messages on average do not get through to the customer's inbox because of the "false spam" problem. And in the worst-case example, 38% of e-mails were not delivered because of imperfect technology used for spam control.

### Best, Worst and Average Non-Delivery Rate for Permission B2C E-Mail Sent by Select US Marketers, October-December 2002 (at top 11 ISPs)

"Worst"	38%
"Average"	15%
"Best"	4%

Note: Assurance Systems rated the best, worst and average non-delivery rates for its customers based on 800 e-mail campaigns across 11 major ISPs, they were, Netzero, Yahoo!, AOL, Compuser, AT&T, Hotmail, Mail.com, MSN, USA.net, EarthLink, Bell South; these 11 ISPs represent 63% of the e-mail addresses for most customer lists

Source: Assurance Systems, February 2003

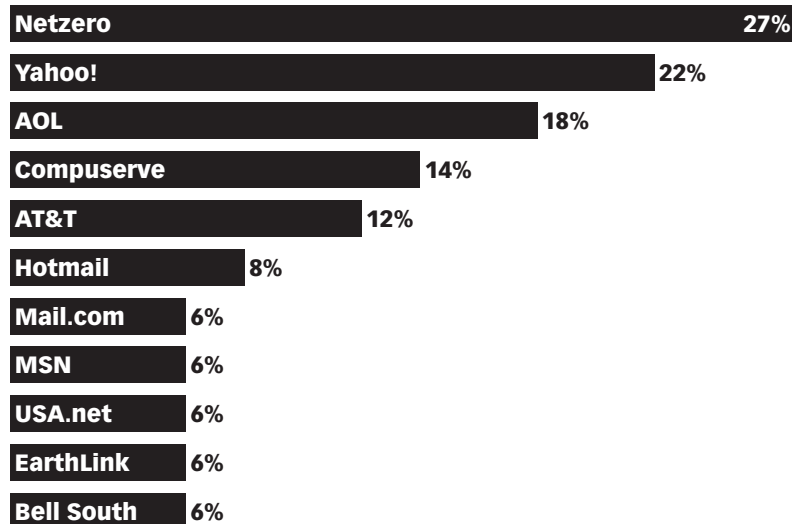
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When marketers are looking for ways to perfect permission-based e-mail campaigns, it's worth matching up the domains on the list with how well each e-mail account provider deals with spam filters and false positives. According to Assurance, non-delivery rates for opt-in B2C e-mail ranges from Netzero at 27% down to 6% at several providers.

### Non-Delivery Rates for Permission B2C E-Mail, by E-Mail Account Provider, October-December 2002



Source: Assurance Systems, February 2003

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These results in a way summarize some of the problems in dealing with spam. Laws can be flaunted, and technology is imperfect. "E-mailers look like spammers to ISPs if their volume of e-mail or their bounce rate exceeds the ISP's threshold," reported *Direct Magazine* in January 2003. "That threshold number is not made public, and it differs for each ISP. But e-mail that goes above the threshold is blocked or redirected to junk mailboxes."

Furthermore, the over "300 blacklists operated by ISPs and others...contain addresses the ISPs have deemed belong to spammers." And, according to Digital Impact, "Virtually all e-mail marketers are on one or more blacklist."

Yet even as providers attempt to filter spam at their servers, spammers keep coming up with new ways to run around them. "But there will always be a trade-off between catching all the spam and ensuring that every piece of legitimate e-mail gets through," says a Slate.com article.

For more about e-mail and its future as a marketing medium, including hundreds of charts not found in this report, see the eMarketer's "E-Mail Marketing: Strategies, Stats, Techniques & Tools" at: [http://www.emarketer.com/products/report.php?e-mail\\_mktg](http://www.emarketer.com/products/report.php?e-mail_mktg)

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