Deutsche Bank Research

November 25, 2009

Online advertising in Germany

Ray of light in the crisis

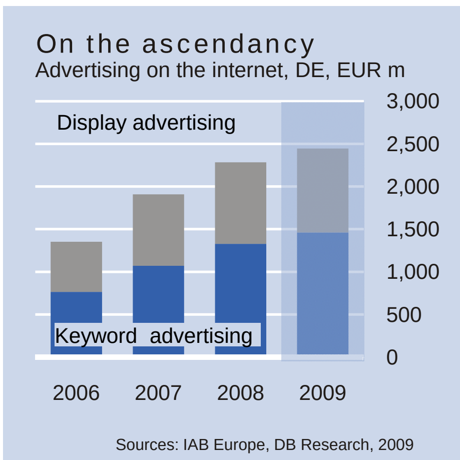
The market for online advertising has grown rapidly in recent years. By the year 2008 classic display advertising captured a share of close to 5% of total advertising expenditure in Germany. Together with expenditure on keyword advertising, a total of EUR 2.25 bn was spent on online advertising in 2008.

Growth in online advertising in 2009 despite the crisis (7% yoy) – thus bucking the trend of declining budgets in the advertising industry. This is also because in the crisis marketers are turning to low-cost advertising channels such as online advertising. Although advertising on the internet can no longer post the growth rates seen in the past boom years, it can still expand its share of total advertising spend, especially at the expense of print media. From 2010 onwards the online advertising segment should return to double-digit growth rates.

Keyword advertising on the ascendancy. This is due among other things to high acceptance among users who feel that keyword advertising supports them in their information and purchasing process. However, the success of keyword advertising is often assessed one-dimensionally, ignoring the interaction between different advertising formats and especially the role of branding formats.

Many experiments with video ads and Web 2.0. Surfers' quest for entertainment on the web and the spread of moving-picture formats present an attractive market in future for the advertising industry. Tight advertising budgets and inadequate performance measurement metrics are dampening factors at present. However, with the cyclical upswing these advertising formats should receive a renewed boost.

Targeting aims to direct the advertising more effectively at the target group. The logic behind targeting is to use information about consumers and/or their behaviour on the web to place the advertising. Behavioural targeting especially, which builds on behavioural research, will gain strongly in importance and further increase the effectiveness of advertising on the internet.



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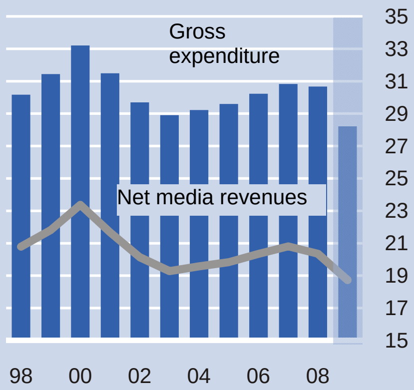
The market for online advertising has been growing dynamically for some years. The figures say it all: spending on so-called display advertising in Germany surged by a good 40% yoy in 2007, and still grew by a respectable 14% yoy in 2008 when the financial crisis had already begun to make its mark. At the same time, keyword advertising has become a firmly established part of the marketers' advertising mix. The market for online advertising also boasts a wide diversity of innovative advertising formats. This includes viral marketing campaigns[1], which exploit the popularity of Web 2.0 and the spread of videos on the internet. In this study we discuss the developments in the market for online advertising on the stationary internet and provide an outlook beyond the crisis year 2009.

Advertising in Germany: Turbulent times
EUR bn



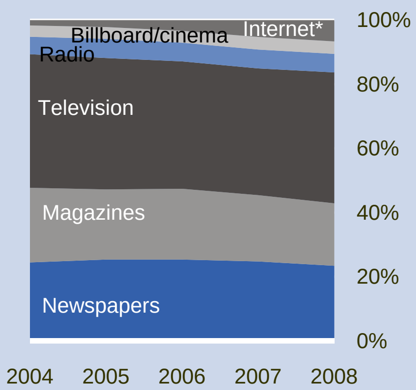
Source: ZAW, 2009 1

Strong growth in online advertising

The advertising industry in Germany has turbulent years behind it. Its development saw both the rise during the new economy boom and the ensuing fall. Along with the economic recovery since 2003 – until the latest crisis – advertising expenditure generally picked up again moderately (see figure 1). However, the peak reached in 2000, driven by the new economy hype, was not regained.

In this environment the stationary internet has captured a growing share of the advertising market. While the internet still barely played a role in the competition for advertising expenditure before 2002/03, spending on online advertising has grown at high double-digit rates since then. Initially, so-called classic online advertising formats (display ads) were placed. These are ad formats such as banners or skyscrapers (for definitions of the different advertising formats see the box on page 4). According to estimates by the *International Advertising Bureau Europe* (IAB Europe), EUR 956 m was spent on display advertising in Germany in 2008 (+14% yoy after EUR 837 m in 2007), with display advertising meanwhile accounting for a share of almost 5% of the total advertising market. However, these estimates are subject to considerable uncertainties. There are no official statistics for the online advertising segment for instance, and the figures published by the industry associations and market research institutes differ widely according to the definitions used (see "Statistics" box on page 4).

Internet captures ad revenues from print
Advertising revenues, % of total market



* display advertising only

Source: Nielsen, 2008 2

Online advertising has captured market share from the traditional advertising media (see figure 2). This has been especially at the expense of advertising spend in the magazine segment. Television has also lost but not as much. It is still the biggest advertising channel, accounting for about 40% of total advertising revenues.

In addition to display advertising, so-called search or keyword advertising has also gained rapidly in importance since 2005. According to figures published by IAB Europe, revenues from keyword advertising rose to EUR 1.3 bn in 2008 (+ 24% yoy after EUR 1.07 bn in 2007). Spending on search marketing has thus overtaken display advertising – even though keyword advertising has a shorter history. Keyword advertising accounts for 6 ¾% of total advertising expenditure in Germany so, in all, the share of online advertising comes to almost 12%.

[1] With viral marketing campaigns witty or catchy information about a product is spread rapidly from user to user like a biological virus. This is often done through social networks.

Statistics with definition problems

The statistics on the market for display and keyword advertising in Germany are published by industry associations and market research institutes. The data differ widely.

The *Zentralverband der deutschen Werbewirtschaft* (ZAW), the German advertising industry association, only records revenues in display advertising. They are reported on the basis of a net concept, i.e. estimated rebates and agency commissions are deducted from the gross list prices.

The *Online-Vermarkterkreis im Bundesverband Digitale Wirtschaft* (OVK im BVDW), the online marketer section within the German digital industry association, publishes gross expenditures (in cooperation with the Nielsen online advertising statistics). They include not only display advertising but also the search marketing and affiliate marketing categories. For the latter categories the association assumes that gross equals net.

The *International Advertising Bureau Europe* (IAB Europe) is the European industry association for companies in the digital and interactive marketing industry. IAB Europe publishes harmonised data at the European level. The figures for Germany are based on the OVK statistics but differ from them due to harmonisation. In contrast to the national statistics IAB Europe publishes figures on display advertising and keyword advertising, and estimates data for e-mail marketing and the classifieds category.

In this study we use the figures published by IAB Europe for the online advertising segment as they are comprehensive and allow international comparison.

Diversity of advertising formats

Online advertising originated in the USA – like most other innovations in the fields of IT and the internet. The US telecoms group AT&T placed the first banner ad on the online magazine hotwired.com back in October 1994.* Meanwhile, a wide range of advertising formats has emerged on the stationary internet – and new ones are added every day. The following groups are normally distinguished in the statistics:

Display advertising comprises (large-) space ad formats such as banner, super banner, medium rectangle, skyscraper, banderole, wallpaper, pop-ups, etc. They differ in size, shape, dynamic, and their positioning on the web page. Multimedia advertising content (rich media) is often used, too. This is embedded as video files on the web pages and also classifies as display advertising. Billing is for instance according to the number of visits on a so-called cost per thousand impressions (CPM) basis.

Keyword advertising or marketing refers to paid text ads (links) on the search engine results page. In addition to the page hits for the search (so-called *natural results*) related ads are displayed. The advertiser pays to have its link placed in a certain position in the ad section of the search engine (i.e. above or to the right of the search results). The keyword ad appears higher up the list the closer the ad matches the search and the more the advertiser is prepared to pay. The rank and positioning is awarded to the bidders in an auction process. A charge is only made if a user clicks on the advertising link (cost per click, CPC).

The aim of *affiliate marketing* is to place and link advertising on various partner websites (affiliates). Billing is for instance on a CPC or cost per lead basis (CPL, i.e. number of customer contacts) or according to the sales that can be clearly attributed to the advertising.

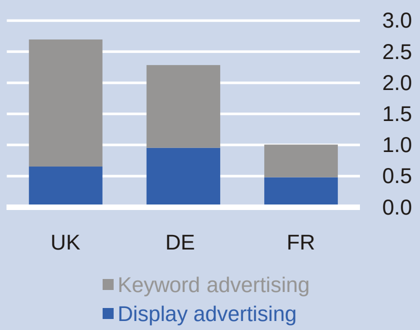
The international statistics often also include *e-mail advertising* and *classifieds*. However, these categories are not covered by the industry associations and market researchers in Germany. Innovative advertising formats are not covered, or not comprehensively, as yet either.

* See Sander, Carsten und Alexander Schott (2008). Bannerwerbung – Formate, Erfahrungen und Trends. In: Schwarz, Torsten: Leitfaden Online Marketing. Waghäusel, p. 277.

Within Europe, the UK is by far the biggest market for online advertising. According to estimates by IAB Europe, British companies spent EUR 2.7 bn on keyword and display advertising in 2008 (see figure 3). Germany is runner-up with expenditure of a good EUR 2 bn, while France follows well behind in third place with EUR 1 bn. However, the importance of the various advertising formats differs from country to country. In the UK keyword advertising plays a dominant role, accounting for three-fourths of total spending. This is probably due, among other things, to the established role played by B2C e-commerce.[2] In Germany, by contrast, keyword advertising only accounts for about 60% of total expenditure; in France, the figure is a just over 50%.

UK: Keyword advertising clearly in the lead

EUR bn, 2008



Source: IAB Europe, 2008

3

Online advertising follows the growth in internet usage

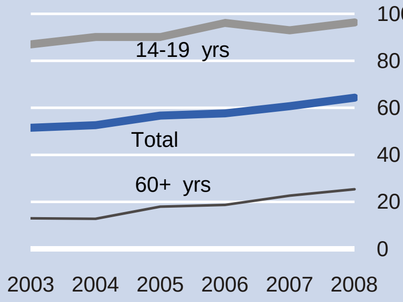
Why has the online advertising segment captured a slice of the advertising cake so rapidly in recent years? The key driver is the growing number of people who spend a significant part of their working hours and leisure time on the web. In 2003, only half of the population in Germany was online; by the year 2008 it was already about two-thirds (see figure 4). In the under 30 year age group well over 90% are online; in the 50-59 year age group it is still a respectable 64%. On a statistical average, German internet users access the web 5.1 days a week. So the web is a firmly established part of the media mix and provides an increasingly attractive platform for marketers.

[2] See IAB Europe (2007): IAB Europe AdEx 2007 Report, p. 6.

Internet on the advance

Internet users, % of pop. > 14 yrs

Internet usage in the last 4 weeks



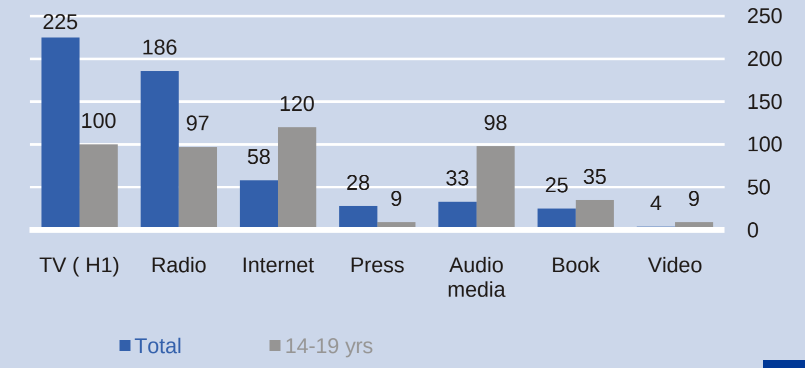
Source: ARD/ZDF online survey 2008 4

Nonetheless, so far it has not managed to topple the established media from their positions. Firstly, the average German spends four times more time a day watching television (225 minutes) than surfing on the internet (58 minutes, see figure 5). The latter should now only rise slowly in future.[3] Secondly, the average time spent watching TV has been more or less constant since 2004, so the rise in the importance of the internet has not been at the expense of television (but at the expense of radio and print media). On the contrary: people in Germany are spending more and more time on media consumption. This is indicated especially by the behavioural patterns of internet users: they watch television even more (248 minutes per day) than the average German.

With advertising budgets currently on the decline there is likely to be growing competition among the media for advertisers' budgets. The internet, as a so-called lean-forward medium that demands closer attention from the user, should tend to have an advantage over, say, television or radio that can incline to be used as background sound.

Television still in first place

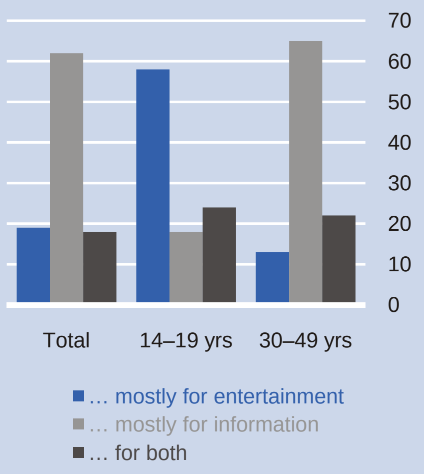
Average daily usetime in minutes, 2008



Source: ARD/ZDF online survey 2008 5

Information still foremost

"Use the Internet...", in %



Source: ARD/ZDF online survey 2008 6

Content becomes more important in the WWW

As the number of internet users has grown the medium's content has become increasingly important, too: 62% of the internet users polled in an ARD/ZDF online survey stated that they used the internet as a daily aid on "all sorts of questions and topics". For most people the internet is an important information source: 62% mostly use the internet to obtain information (see figure 6). A sizeable 37% of the users search for consumer information on the web.[4] This information process is in preparation for online or in-store purchases. Marketers are therefore interested in providing internet users with information on their products and services as they surf the WWW. For them it is becoming increasingly attractive to be present with advertising content on frequently visited (entry) web pages (e.g. search engines, news and consumer portals).

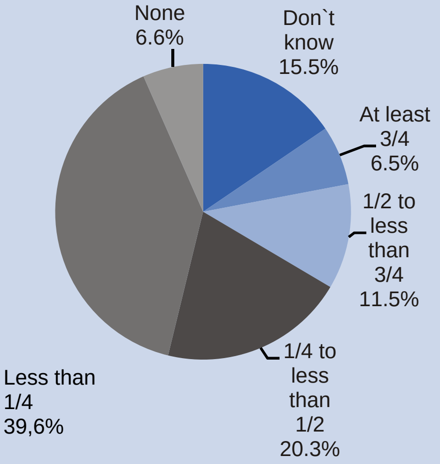
However, users also spend a lot of their time off the mainstream sites. Small specialised pages, the so-called "long tail" of the internet, can be found easily with search engines. In a survey conducted for the agency eprofessional, 18% of the respondents

[3] The time spent online has been stable since 2002, so the rising average daily usetime (from 35 (2002) to 58 minutes (2008)) is due to the growing proportion of the population using the internet.

[4] See van Eimeren, Birgit and Beate Frees (2008): Ergebnisse der ARD/ZDF-Onlinestudie 2008. Internetverbreitung: Größter Zuwachs bei den Silver-Surfern. Media Perspektiven 7/2008. P. 338, table 10.

Specialised websites out front!

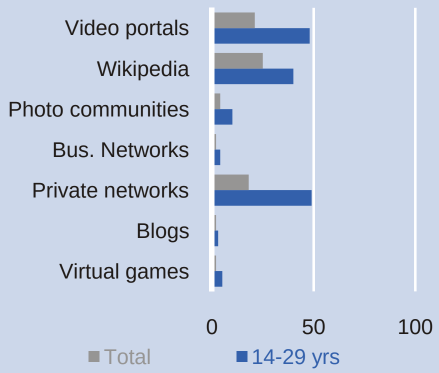
"How much of your internet usetime do you spend on small, less well-known websites on specialised topics?"



Sources: Fittkau & Maaß, eprofessional, 2007 7

Web 2.0 popular with younger people

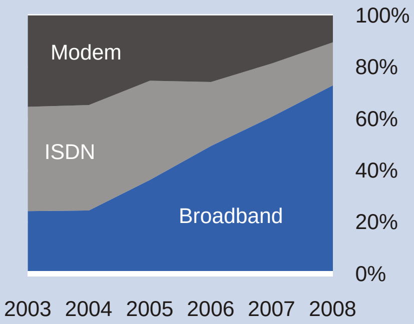
Minimum weekly usage, %
Base: online users over 14 yrs



Source: ARD/ZDFonline survey 2008 8

Broadband dominant

Internet access in %, base: online users



Source: ARD/ZDF online survey 2008 9

stated that they spend at least half of their time on the internet on small, less well-known websites. Another 20% spend between one-fourth and one-half of their time there (see figure 7). This behaviour is more pronounced the more internet experience a user has. This means that the users to be addressed cannot be reached solely through broad-based campaigns on big websites. Advertisers therefore need to define their target group precisely and address it in an increasingly targeted manner on specific topics on smaller web pages.

Young people are a demanding target group

Because they use the internet particularly intensively young people are an interesting target group for the advertising industry – but also a challenging one. Virtually all of the 14-19 year age group are online and spend a lot of time on the internet on average (see figure 5). For teenagers the web has a much higher status in the media mix; their time is split roughly equally between television, radio, internet and music. For 58% of the teenagers surveyed, the internet is mainly an entertainment medium (see figure 6). A good 90% of them at least occasionally download videos and watch television programmes on the internet either live or after they are broadcast. Young internet users (up to 29 years) are particularly interested in Web 2.0. About half of the respondents in this age group use video portals and private networks and communities at least once a week (see figure 8). About 60% of teenagers and a good half of the 20-29 year age group have created their own profiles. However, there is a considerable asymmetry between Web 2.0 platform usage and contributions. Only 15% of the young users of video portals have made own videos available.* The so-called cohort effect, i.e. the ageing of young intensive users, will lead to an increasing diffusion of Web 2.0 and a growing perception of the internet as an entertainment medium in the population at large.

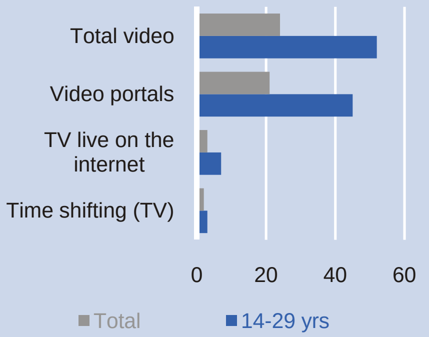
* See Fisch, Martin and Christoph Gscheidle (2008): Ergebnisse der ARD/ZDF-Onlinestudie 2008. Mitmachnetz Web 2.0: rege Beteiligung nur in Communitys. Media Perspektiven 7/2008. P. 360, see also figure 2, p. 362.

Broadband internet increasingly attractive for advertisers

The internet is also evolving more and more into an entertainment medium. This is driven by the growing number of broadband connections (see figure 9) and more attractive pricing models (flat rate tariffs). Nearly 20% of the internet users stated that they used the medium mostly for entertainment (see figure 6). Online entertainment is especially popular among young people. Broadband content, such as audio and video files, are available on specialised portals, in mediatheques or on Web 2.0 platforms (Flickr, YouTube etc.). Moving-picture formats especially are enjoying growing online popularity (see figure 10). Users can choose from a rapidly growing pool of offerings ranging from high-quality films to amateur videos. They increasingly decide themselves when, where and what form of content they consume (individualisation of media consumption). As a result, conventional advertising, for instance on linear television, will lose more and more in importance. Technical innovations, such as the time shift function on digital hard disk recorders, will also support this trend as they enable advertising-free TV consumption at non-appointment-based viewing times.

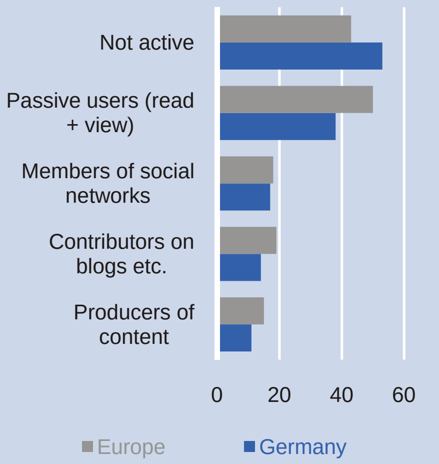
The issue for marketers is to capitalise on this growing market for broadband online content. The increasing presence of moving-picture formats on the internet is an opportunity for them because users pay closer attention to this format than to static display advertising. Marketers need to identify new channels (e.g. video portals) and new forms of multimedia offerings on the internet that they can use for their advertising strategies.

Moving pictures popular on the internet
Minimum weekly video viewing, %
Base: online users over 12 yrs



Source: ARD/ZDF online survey 2008 10

Germans less active on Web 2.0
%, base: over 16 years old



Source: Forrester Research Inc., 2008 11

Closely associated with this is the growing importance of the Web 2.0 world. The activity of German internet users on Web 2.0 is still below average on a European comparison (see figure 11) but it is growing dynamically. The passive viewing of Web 2.0 content is still foremost; only a good 10% of adults actively produce Web 2.0 content. Just less than 20% are members of social networks. Although Web 2.0 is still the domain of young people, older internet users have also started to discover social networks: the latter are increasingly becoming mainstream. The rapid growth of this segment has drawn the attention of marketers to the established Web 2.0 platforms, especially the big social networks such as Facebook for instance. Here, too, they hope to be able to capitalise on the fast-developing markets, although the business benefits are uncertain.

Objectives and means need to be closely defined

In planning their communication activities marketers face a broad spectrum ranging from display advertising, via keyword advertising and affiliate concepts, through to video formats or viral Web 2.0 campaigns. The boundaries are often fluid, for instance if display advertising is combined with Web 2.0 elements.

This makes it all the more important for the advertiser to clearly define before the campaign what target groups it wants to reach and what campaign objectives it aims to achieve with the online advertising. Are consumers to be directed to the company's website, e.g. by clicking on a text link (keyword advertising) or through a banner? Are they to enter into contact with the company (e.g. by entering their name on a mailing list or by buying a product) or even be motivated to participate in the campaign? Or is the campaign to be used primarily for branding purposes? Here, too, the boundaries are fluid: various objectives can be combined into one campaign.

Dynamic development in display segment

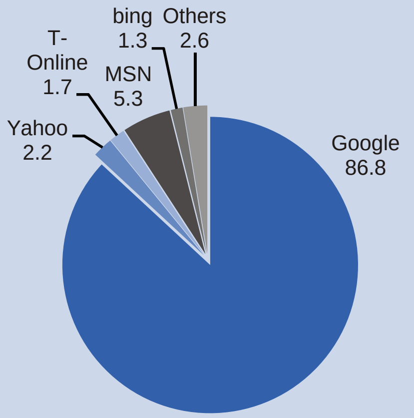
The display advertising segment has developed rapidly since its origins in the mid-1990s. A wide diversity of these graphic advertising formats has emerged, which differ among other things according to their positioning on the web page (top, side, above content) or their size or dynamic (see box on page 4). By clicking on the ad, the user is routed directly to a page on the advertiser's website. National and international industry associations have developed standards for these formats to simplify the use of advertising campaigns on different websites.

Display advertising conveys a brand's image

Classic online advertising is suitable for conveying visual messages. Banners, wallpaper and related formats can impart (lasting) impressions, and thus a brand image, to the viewer. The growing number of broadband internet connections opens the way for technically more elaborate display formats. Short, interactive video sequences (rich media) are being used increasingly in the editorial environment as they command greater attention from users than conventional display ads. This rich-media content is embedded on web pages within standard advertising formats (e.g. medium rectangle or skyscraper). This helps to make display advertising more interesting and is better able to convey emotion.

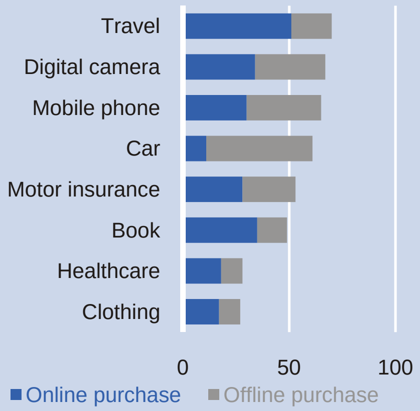
Together with the video formats (for more details see page 14) display advertising and rich media formats are classified as branding formats. Keyword advertising and e-mail marketing, on the other

Search engines in Germany: Google way ahead
Market share in %, as of July 10, 2009



Source: webhits.de 12

Online researching widespread
% of internet users who search online for a product before buying



Sources: Google, TNS Infratest, 2008 13

hand, are classified as direct response formats, designed to elicit a direct response from the user.[5]

Search: Beginning or end of a purchasing process?

Keyword advertising has seen a steep career in the few years it has been in existence. The likely reason is that this form of advertising matches consumers' needs and behavioural patterns. In Germany, the "search" function features uppermost on the list of online applications: 84% of the internet users asked in the ARD/ZDF online survey stated that they use a search engine at least once a week; 54% search for specific product offerings.[6] Google is by far the most popular search engine in Germany with a market share of 85-90% (see figure 12).

The paid advertising links displayed additionally to the actual search results put marketers in a good position to reach potential consumers. Searchers are only fed links to products and services in which they have shown an interest based on the keyword entered. Ideally, they already have a purchase intention, or at least want to inform themselves. The idea behind this type of advertising is that the target group finds the advertiser and not vice versa. It represents a conceptual "shift from push marketing to pull marketing".[7] Consequently, consumer acceptance of keyword advertising is relatively high.

However, search engines not only help internet users to find their way about the web and to research information in the online world. They also make it easier for them to find their way about in the offline world. With many products the online research prepares the way for offline purchases (so-called ROPO effect, Research Online Purchase Offline). Two-thirds of consumers who purchase a digital camera research on the internet before making a purchase (see figure 13). Of these, about half make their purchase later at a brick-and-mortar store. Consequently, keyword advertising reaches beyond the online marketing of goods and services and also benefits the offline retail trade.

For marketers, keyword advertising is associated with low waste circulation and is therefore a popular form of advertising. Its immediate results are easy to measure and allocate: costs only arise when a user clicks on the text link (cost per click, CPC). Some authors also point out that - viewed in isolation - keyword advertising is a cost-effective form of advertising. Design costs are low and the number of clicks is relatively high compared to display ads. In addition, keyword advertising is quick and easy to place.

A drawback is that keyword advertising only addresses those users who are actually in the search process and are already able to define their interest in information or their purchase intention in concrete terms. However, according to the so-called AIDA (Attention – Interest – Desire – Action) principle, advertising is intended to awaken dormant purchase wishes. Critics therefore argue that keyword advertising only addresses the last step (the final click) in this chain, the so-called sales funnel. Furthermore, by virtue of its underlying working principle, keyword advertising is confined to the

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5 See Ramsey, Geoffrey (2009). Online Brand Measurement: Connecting the Dots. eMarketer Special Report.

6 See van Eimeren, Birgit and Beate Frees (2008): Ergebnisse der ARD/ZDF-Onlinestudie 2008. Internetverbreitung: Größter Zuwachs bei den Silver-Surfern. Media Perspektiven 7/2008. P. 337.

7 Koch, Markus (2007): Erfolgsfaktoren im Keyword-Advertising. www.marketing-boerse.de/Fachartikel/details/erfolgsfaktoren-im-keyword-advertising.

number of users who enter the keywords associated with the text link.

Little creative scope

Also, with keyword advertising the range of tools is confined to text ads that leave little creative scope. Keyword advertising is therefore only capable of producing a branding effect or conveying emotion indirectly. Nonetheless, indirect effects are discernible: the searchers have a close involvement and should therefore tend to be susceptible to brand messages. They can therefore be attracted in a targeted way via the matching link to the relevant web page where they can be supplied with further information. This can increase brand awareness. A similar role for catching the consumer's attention is the positioning of ads within a hierarchical ad system: links positioned higher up are heeded more than those on the bottom right of the page.

Online advertising: Response is easier to measure

Consumer response can be easily measured

For marketers faced with the decision whether to place their advertising messages online and/or offline the internet offers some basic advantages over traditional advertising, such as print media or television. With advertising in offline media the contact with the campaign or advertising medium, on the one hand, and the consumer response, on the other, are isolated from each other. The response cannot therefore be measured directly.[8] The internet, on the other hand, is a medium with back-channelling capability, so it is easier to measure and statistically evaluate consumer responses to the online advertising.

Evaluation of reaction to campaign possible

With display or keyword advertising the effectiveness of the advertising measures can be measured for instance on the basis of the number of clicks or the conversion rate. The conversion rate indicates the ratio of buyers to visitors for instance.[9] This enables marketers to evaluate exactly when and in what situation the target group reacts to the campaign. The success of keyword advertising especially has led to a strong focus on direct response measurement in the industry.

But don't just concentrate on the final click!

However, critics consider direct response measurement to be highly overrated and not all that indicative. Click rates in display advertising have fallen dramatically in recent years and are now in the region of a mere 0.1%.[10] Still, these levels do not adequately reflect the effectiveness of an advertising campaign as the consumer response to advertising is multi-facetted. It cannot be reduced to the final click. This applies to keyword advertising, too, whose importance is often misjudged due also to the fact that the response is easy to evaluate statistically.[11]

Measuring effectiveness based only on the final click ignores both the time dimension of the impact of advertising and the interaction between different advertising formats. For instance it is found that

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8 See Hegge, Ulrich (2008). Targeted Advertising. In: Schwarz, Torsten (Ed.) Leitfaden Online Marketing. Waghäusel. P. 286-296, here p. 287.

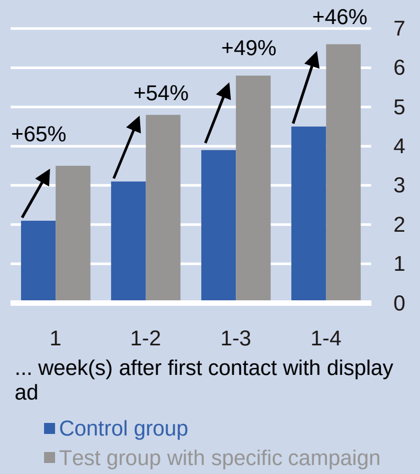
9 However, more generally page impressions on a given website or actions on the website (e.g. subscriptions to an e-mail newsletter) can also be taken as the reference basis. The billing modalities are chosen accordingly (see box on p. 4).

10 See Fulgoni, Gian M. and Marie P. Mörn (2009). Whither the click? How online advertising works. In: Journal of Advertising Research. Volume 49, No. 2, June 2009, pp.134-142.

11 See Gian Fulgoni in an interview with eMarketer, http://www.emarketer.com/brandmeasurement/index.php/gian-fulgoni-comscore.

Display advertising pulls

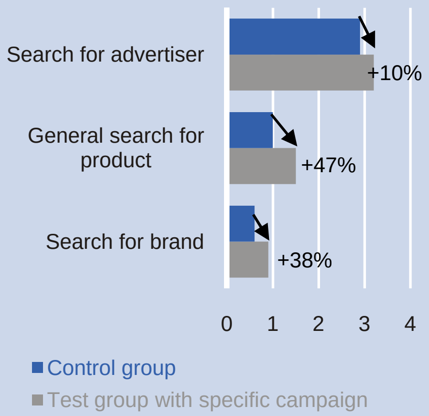
Visits to advertiser`s website, %



Source: Fulgoni und Mörn, 2009 14

Display advertising inspires search

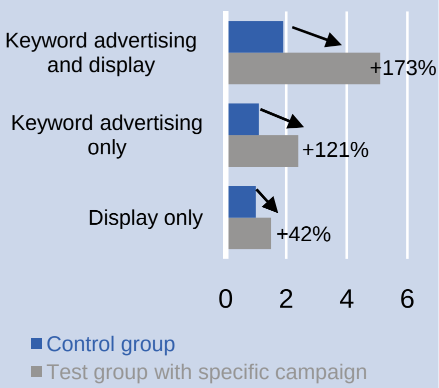
% of consumers who have seen a display ad and search 1-4 weeks later



Source: Fulgoni and Mörn, 2009 15

Display and keyword advertising yield synergies

% of consumers who buy online on an advertiser`s website



Source: Fulgoni und Mörn, 2009 16

users often react with delayed effect: they take notice of the advertising but do not visit the website until much later. This is shown by a global study conducted by Fulgoni and Mörn (2009) which monitored the online behaviour of a test group over a period of up to four weeks after they had been exposed to a given display ad. 65% more persons from the test group than from the control group visited the advertiser's website one week after the ad was placed (see figure 14). Thereafter the number of visits by the test group still grew compared to the control group, though at a slower pace. The advertising impact would therefore have been hugely underrated if only the consumers' immediate "click" response had been measured.

Interaction of different advertising formats

Moreover, measuring the response to individual advertising formats does not go far enough. Consumers' search behaviour is influenced for instance also by whether they have previously seen ads on the product. Fulgoni and Mörn demonstrate that over a period of four weeks from the first contact with the advertising consumers who have previously seen display advertising are more inclined to search for the brand on the internet than the control group without exposure to the advertising. The proportion of the test group who search for the brand rises 38% compared to the control group (see figure 15). As much as 47% more consumers start a general search for the product. Here, too, it is found that consumers do not react directly to banner advertising but only become active and start a search process later.

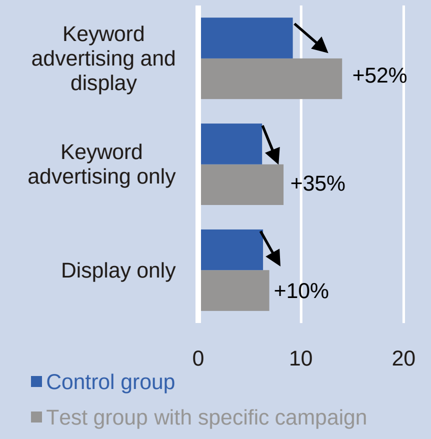
Accordingly, the study also finds evidence of synergies between display advertising and keyword advertising. Searchers are more likely to buy a product if they already know the presented brand. The percentage of consumers on the promoter's website who buy a product after seeing a banner rises 42% compared to the control group (see figure 16). In the case of keyword advertising the rise is 121%. If consumers see both keyword and display advertising, the increase is 173%. This shows that marketers who combine keyword and display advertising can increase their sales significantly compared to single-format campaigns. Isolated campaigns forfeit online sales.

This holds, incidentally, for the impact of display and keyword advertising on in-store sales (see figure 17). Both display advertising and keyword advertising – either individually or in combination – boost in-store sales. Online advertising therefore has positive cross-channel effects. However, here, the percentage rates of increase are significantly lower across all the advertising formats than in the pure online world.

The empirical findings suggest that measuring effectiveness only on the basis of the direct response to a campaign falls short of the mark. The ability to measure results *directly* that is often cited as an advantage of online advertising is therefore only true for some segments. Broader measuring techniques need to be applied to capture the mid-term effects and the prevailing interaction. Only then can these techniques also do justice to branding campaigns whose effectiveness is greater than the short-term analysis indicates.

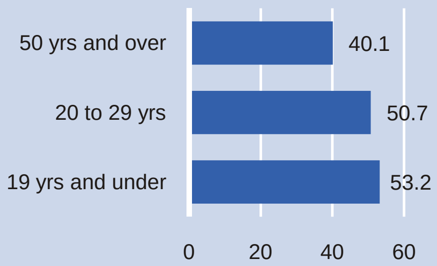
However, broader measuring techniques are also more costly as they are more complex. They need to be continuously refined in order to be able to adequately reflect the effectiveness of new advertising formats such as video or Web 2.0 campaigns (e.g.

In-store retailing profits
% of consumers who buy offline



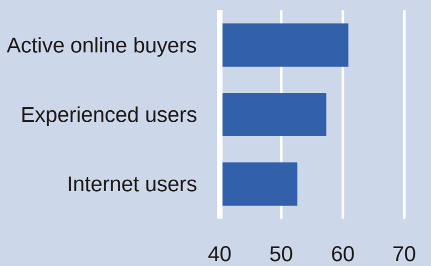
Source: Fulgoni und Mörn, 2009 17

Low acceptance among young people
"I ignore internet advertising"
as % of internet users



Sources: Fittkau & Maaß, eprofessional, 2007 18

Higher acceptance for keyword advertising
"Text advertising is less annoying than other online advertising formats"*, %



* e.g. pop-ups, banners

Sources: Fittkau & Maaß, eprofessional, 2007 19

through so-called usetime). This confronts the internet with the special challenge to configure its performance reporting in such a way that it is comparable with those of the traditional media (e.g. TV). After all, marketers want to base their decision to place advertising either on the internet or, say, on television on hard and, above all, comparable facts.

Many users are tired of advertising

The impressive growth of online advertising is felt by many users to be intrusive, however. Pop-ups or ads that cover over editorial text annoy many internet users. According to a survey, almost 60% of internet users in the up to 19 year age group find internet advertising generally annoying, and in the over 50 year age group it is still 47%.[12] Online advertising is found to be particularly annoying when it covers over editorial content: over 84 percent of all the respondents found this form of advertising annoying. About half of the respondents in the up to 29 year age group ignore advertising on the internet (see figure 18). The younger generation is therefore even more sensitive about interruptions caused by advertising and its quality and format (theme, language) than older surfers. Pop-up blockers or filters for screening out banners or flash files are users' answer if they find online advertising too annoying.

On the other hand, internet users tend to find advertising helpful if it fits the purpose for which they are currently online (e.g. searching for a product or for specific information). This is stated by one-third of all the internet users. It is also reflected in consumers' acceptance of keyword advertising: consumers already have a specific information interest when they are conducting their search. Keyword advertising is therefore considered to be much less intrusive than display advertising (see figure 19). The more active and more experienced internet users are, the more they value the targeted support that advertising can provide in the search process.

In an environment in which users can easily determine themselves what media and content they consume, advertising must be relevant for them if they are to take notice of it. For marketers it is important, firstly, that they address their target group on the internet as precisely as possible and minimise waste circulation. Secondly, they need to be as innovative as possible and closely match the advertising to the jargon and interests of the target group.

Target group on a tight rein

In the online world advertising can be deployed selectively and placed with minimum waste circulation with the aid of targeting. At the same time online advertising has to meet the challenge of reaching the numerous users surfing in the "long tail" internet. The logic behind targeting is to collect information about consumers and/or their behaviour on the web. The data obtained is analysed and the advertising strategy is aligned accordingly. This is done as quickly as possible, ideally on a real time basis (direct response monitoring).

The methods used to target consumers have been continuously refined. Basically, the following forms of targeting can be

[12] See eprofessional (2007). Online-Werbung: Relevanz und Akzeptanz. Report on the results of the exclusive special evaluation of the internet survey "WWW-Benutzer-Analyse W3B" by Fittkau & Maaß for eprofessional, p. 10.

distinguished. They can also be combined (so-called integrated targeting):[13]

Targeting uses technical and user data ...

— *Technical targeting*: Evaluation of various technical details on the computer used, e.g. browser type, IP address. This is used for so-called geo-targeting where IP addresses are clustered geographically (on a national / regional basis).

— *Profile-based targeting*: Evaluation of data provided by the users themselves (e.g. sex, age, interests, etc.). This enables targeting according to socio-demographic criteria or milieus. However, problems often arise here because data is outdated or wrong or due to the multiple use of accounts.

... but also information on content and behavior

— *Context-based targeting*: On the basis of an automated semantic analysis of the content of a web page a text ad is inserted matched to that content. The best known example is Google's "AdSense".

— *Behavioural targeting*: The user's online behaviour is tracked, e.g. via a cookie, and interpreted. Users are fed online ads matched to their interests.

For marketers, targeting can considerably increase the cost efficiency and effectiveness of campaigns because it is aligned to the actual recipients, not to the environment in which it is supposed they might be. This means that marketers can reach a specific target group with less advertising and can receive more responses per placement than with untargeted advertising.

Interest-based advertising

Google has recently widened its context-based advertising (AdSense) with the concept of behavioural targeting. So-called "interest-based" advertising collects all the information about a user's surfing behaviour on the partner pages on which ads are placed with AdSense. If users visit a given web page that also uses AdSense, they are fed interest-based ads according to their user profile. Users can access, edit and, if desired, deactivate their profile on the Google website.

Behavioural targeting focuses on individual preferences

With the aid of behavioural targeting (BT) marketers are seeking to come still closer to the ideal of deploying marketing budgets without waste circulation. The aim is to feed users only with advertising they are interested in on the basis of their own behaviour, reducing the glut of information and increasing the acceptance of advertising by improving the way in which users are addressed. This is measurable on the basis of rising conversion rates or higher brand recall rates among consumers. "Conceptually, this means that advertisers are buying audience, not web pages or impressions."[14]

Behavioural targeting tracks surfing behaviour

BT tracks users' surfing behaviour with the aid of a cookie. No personal data – for the purposes of the law – is stored, only number combinations (codes).[15] If there is an accumulation of one or more codes (e.g. of web pages on the subject of angling) this is interpreted as indicating that the user has a special interest in angling. The user is then fed ads that are more relevant to him, e.g. angling equipment and accessories, on the respective web page or a network of web pages. The user profile established in this way can also be supplemented with typical socio-demographic data for the "angler" user group (so-called predictive BT). The surfer is then fed additional ads that are presumed to be of interest to him on that basis (e.g. finance, sport).

Uncertainty is still high

Although BT is being widely discussed at present, it is still very much in its infancy in practice. A survey conducted by Forbes in

[13] For further information see Hegge, Ulrich (2008). Targeted Advertising. In: Schwarz, Torsten (Ed.) Leitfaden Online Marketing. Waghäusel. P. 286-296, here p. 288ff.

[14] Ramsey, Geoffrey (2009). Online brand measurement: Connecting the Dots. eMarketer Special Report, p. 34.

[15] Obviously, they can be traced back to the user on the PC, i.e. search behaviour is per se person-specific.

spring 2009 reveals that only a good 30% of advertisers in the USA use BT.[16] The figure is likely to be much lower in Germany. So the uncertainty among marketers as to its practicality and its acceptance among users is still relatively high. The use of cookies is critical to the implementation of BT. Studies reveal that 30-50% of internet users regularly delete their cookies. This limits the success of BT as it means that the web user's behavioural history is lost. Moreover, use of a PC by more than one user can blur the targeting of ads.

Privacy and data protection are a big issue

Data protection must have priority

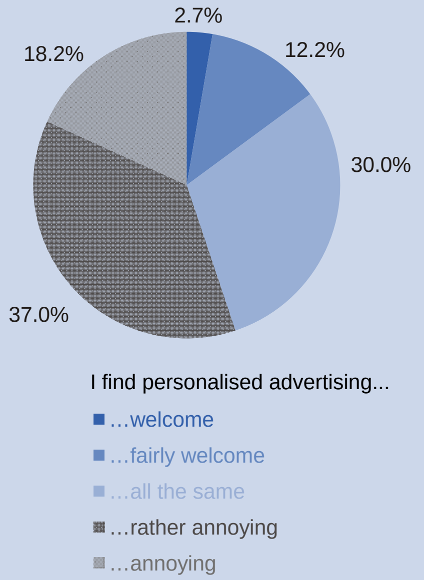
Consumers' acceptance of targeting generally and BT specifically depends to a critical extent on privacy and data protection issues. Targeting can be done especially well on social network web pages as users create their own profiles and provide a lot of information about themselves. However, targeting can also lead to major upsets, as demonstrated by a number of cases in the last two years where social networks exploited customer data and behaviour for placing ads.

Privacy protection needs to be further elaborated

A number of factors were responsible for this. On the technical side there was an immature technology combined with unprofessional matching of the advertising. Poor information policy and resistance to using personal data in combination with behavioural data were other issues relating to data protection and privacy. Even though the great majority of the members of social networks are still pretty carefree with regard to the personal information they disseminate, there is meanwhile a strong sensitivity to data being commercially exploited and to infringements of privacy. This is also illustrated by the example of a social network that wanted to modify its business conditions to allow data to be passed on to advertising partners. Protests from users caused the company to rethink its strategy. A survey underscores that companies need to be particularly careful in their approach to personalised advertising on Web 2.0 platforms: over half of the respondents rejected this form of advertising in social networks (see figure 20).

Personalised advertising on social networks annoys

% of social network users surveyed



Sources: CSCM, Forschungsgruppe Kooperationssysteme München, 2008 20

Simple solutions are not in sight in this very dynamically developing market of Web 2.0 offerings and new personalisation techniques. Obviously, it is crucial that providers observe the data protection rules regulated in Germany within the framework of the Telecommunications Act, the Telemedia Act, and the Federal Data Protection Act. Under these rules third parties may only use personal data with the user's express consent.[17] In addition, rules need to be developed that suitably regulate the interests of consumers and firms in the conflicting field of personalised advertising and rights of privacy.

In Germany, user profiles may be created using pseudonyms or anonymously. If the profiles are anonymous, users do not have to give their consent. This is also a reason why many consumers are not aware that BT is used by providers as a marketing instrument and what possibilities it offers. Consumers therefore need to be informed especially about the opt-out possibility (e.g. by deleting cookies). In addition, consideration should be given to further reaching options for privacy protection. Providers could be obliged by law to inform users that they make use of BT or to obtain the

[16] See Forbes (2009). 2009 Advertising Effectiveness Survey.

[17] For a summary see also Eckhardt, Jens (2009). Datenschutz – Was ist beim Online-Marketing zu beachten? In: Schwarz, Torsten: Leitfaden Online Marketing. Waghäusel.

surfer's express consent before creating anonymous user profiles. However, as a first step, providers could commit to this on a voluntary basis, on the lines of the recent guideline published by the US Federal Trade Commission (FTC). In this case, efforts are needed at the international level as BT does not stop at national boundaries.[18]

Experiments with multiplicity of colours and formats

In the last two years, online advertising has also developed rapidly beyond the "established" classic formats. Moving-picture formats and the Web 2.0 phenomenon are the two most important catalysts for many new advertising formats in different "virtual spaces". In all these formats advertisers are still in the experimental phase. Ever new formats are being tested interactively with users. Their success, however, is very uncertain. Which advertising formats will win through in the future is difficult to predict.

Communities and content portals

For advertising purposes on Web 2.0 portals a distinction needs to be made between communities, on the one hand, and content portals, on the other. *Communities* (e.g. Facebook, Xing) are aligned to the actual users and their interaction with other users. Users have to register and can then create their profiles. Communities can be operated with a private or business intention.

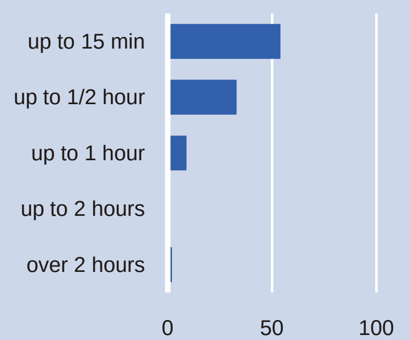
With *content portals* (e.g. YouTube, Flickr) the content is in the fore. Users enter content they produce themselves (user generated content, UGC). However, content can also be made available by professional content producers (marketers, film makers). Films or photos can be shown for instance to the public at large, shared in a group or recommended to others.

Video ads have entertainment value

The spread of videos on the internet opens up an attractive market for the advertising industry. According to OVK, it is still very small but is growing fast. Precise data are not available due to market definition problems. However, the volume is unlikely to be more than a few percent of the expenditure on display advertising.

Videos can be distributed to viewers in a great many different ways. The best known channel at present are the video portals on which users can place their own videos (e.g. MyVideo, YouTube) or professionally produced content is made available. They are mostly shorter formats. Through video-on-demand portals or mediatheques it is possible to watch videos or TV programs after they are broadcast (as stream or download). Live streaming offerings enable current TV programming to be viewed on the internet, e.g. via the websites of the TV channels or special providers. Currently, internet users mostly prefer short entertainment sequences which they can consume self-directedly. Over half of the users spend only up to 15 minutes on a video portal (see figure 21).

Short visits to video portals
"How much time do you spend on the pages on average per visit?"
% of video portal users



Source: SevenOne Media, 2007 21

The form in which video ads can be used on the internet depends very much on the type of online video offering. Marketers can place advertising clips on video portals directly (see below). Also, so-called pre, mid or post-rolls are in widespread use. These are advertising clips which the viewer sees before, during or after the actual video. On ad-financed platforms with linear TV programming short commercials are presented for instance when users change channel or before they call up a programme. For advertisers, the recognition value of video ads from television is an important bonus point for the credibility and authenticity of the messages communicated. Compared to conventional TV commercials the ads on the internet are generally much shorter. In addition, online video advertising is interactive, i.e. by clicking on the ad the user is routed to the web page advertised.

The placing of video ads before, during or after the actual video chosen assures closer attention from the viewer and the good recall of the advertised product demonstrated by surveys. Various studies – albeit conducted by marketers – show that with video ads click

[18] On this subject see for instance Kuneva, Meglena (2009). European Consumer Commissioner. Keynote Speech. Roundtable on Online Data Collection, Targeting and Profiling. http://www.edri.org/edri-gram/number7.7/behavoural-target-eu-consumers.

rates are relatively high compared to conventional, static display ads. Video ads benefit from the fact that many users consider short advertising films on the internet to have entertainment value and therefore tend to be more open to them. This may also be due to the fact that video ads are still a new, fresh instrument, so the rejection observable with other advertising formats (reactance) has not yet emerged. However, on the whole video ads should profit from the trend towards greater consumption of professionally produced, high-quality videos on the internet. This is fuelling hopes among advertisers that their advertising films will generally command closer attention on the internet than on television.[19]

Web 2.0 platforms: Advertising medium only with qualifications

Web 2.0 platforms - in search of stable revenue models

The rapid growth in the membership of Web 2.0 platforms and the close attention consumers pay to these platforms make them very attractive for advertisers. Facebook, YouTube & Co offer advertisers new opportunities to communicate actively with their mostly young target groups who are difficult to reach otherwise. At the same time, the operators of these platforms themselves have a strong interest in experimenting with advertising. Currently, many Web 2.0 platforms are still operating at a loss and are seeking to establish stable revenue models.

Established advertising formats not popular with users

Basically, the conventional advertising formats such as banners or context-sensitive text ads can be integrated in Web 2.0 platforms. However, this often has only modest results as Web 2.0 users respond reservedly to the established advertising formats. This might also be due to the fact that they are not very receptive for advertising depending on how they are using the platform, e.g. when they are communicating with friends. Providers are therefore experimenting with advertising that exploits the special characteristics of Web 2.0 for their purposes. However, as mentioned earlier, some operators of communities have experienced major setbacks when they sought to use the enticingly large pool of personal data for target group-specific advertising.

Branded channels – who hasn't got one yet?

Web 2.0 principles must be observed

After these initial failures providers are searching for new formats. "We are trying to provide the antidote for the consumer rebellion against interruptive advertising", Sheryl Sandberg, COO of Facebook, has commented.[20] This "second generation" conforms to the principles of active communication and engagement as lived on the Web 2.0 platforms. Some advertisers – mostly in the US – have successfully built up a captive community for a brand on social networks. Here, the boundaries between the different approaches are fluid. They are often combined to reinforce the advertising impact:

— A firm creates its own channel on a content platform (e.g. YouTube). Users can view films or photos on the products there, recommend them to others or enter comments. Sometimes gadgets can be appended to the own profile.

User generated content in the service of the brand

— Users can be invited through a sponsored channel to provide user generated (advertising) content (UGC), for instance in a competition. In this way brands can draw on the creativity of their

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[19] Kemp, Mary Beth (2007). European online display advertising spend will double by 2012. Forrester Research Inc., p. 11.

[20] See Stone, Brad (2009). Is Facebook growing up too fast? The New York Times, 29.3.2009.

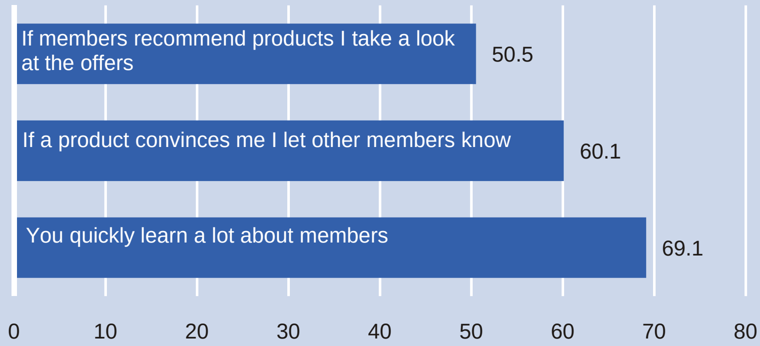
consumers. They are involved in the campaign and are bonded more closely to a brand.

— The principle in communities is similar but here there are yet other forms of interaction. With the engagement ads that Facebook introduced last year users can make virtual gifts to their friends, send opinions on products, request samples of a new product or become a brand fan on Facebook. A manufacturer of sports articles for instance has over 2 million registered fans on Facebook.

Consumers have faith in recommendations

User motivation within social communities

"Do you agree wholly or to some extent with the following statement?", % of response



Sources: Digitalbarometer, TNS Emnid, 2008 22

Employing users as brand ambassadors

These forms of advertising exploit the principle of active participation that is lived on the social networks. The activity triggered intensifies discussion of the product by fans. Successful brands and their campaigns manage to engage and inspire users and to spark a dialogue. An important success factor is also the authenticity with which users are addressed. Ideally, users can be employed as brand ambassadors if they draw the attention of friends to the product on or off the network (viral principle). This strengthens a brand's credibility as consumers have strong faith in the opinions (consumer ratings, recommendations) of their peers (see figure 22).

Viral marketing: Already recommended something today?

Some viral campaigns have been highly successful

Sponsored Facebook pages or YouTube channels utilise the viral principle of Web 2.0 to disseminate promotional content. Meanwhile there are a number of very successful examples of active viral marketing campaigns on the web, such as the Evian-Babys, Ron Hammer (Hornbach) or Horst Schlämmer (VW) campaigns. Here, promotional clips are distributed that have been produced especially for viral campaigns. Their initial dissemination is launched through popular web pages. In contrast to TV commercials, they are often not immediately recognisable as advertising to users and enter the grey zone bordering on deception.

The aim is for information on a product to be spread rapidly by internet users through online P2P communication. The campaign profits from consumers being taken with a video or a character, for instance, and passing the clip on to friends and acquaintances. 82% of video portal users stated that they watch videos that have been recommended to them by friends or acquaintances.[21] Here, too, the mechanism of the consumer as brand ambassador comes into play. Ideally, web users thereby assure a rapid and broad reach of the campaign – thus performing what was traditionally the marketer's job.

Success is unpredictable

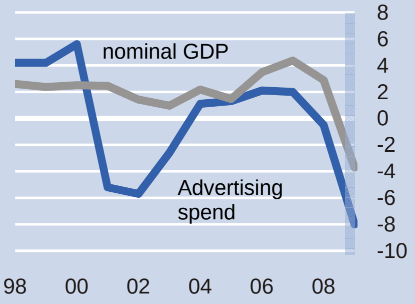
Although there are a number of prominent examples, the success of such campaigns is unpredictable. It is uncertain whether the content of an ad will be so popular that it breaks through the threshold at which the campaign spreads like an epidemic (so-called tipping point). This depends largely on the creativity and originality of the campaign. A questionable point of course is whether given ever more content and viral campaigns high enough user attention can be assured for each individual campaign.

Professional concept absolutely essential

Critics also argue that even very successful viral campaigns often make an only small measurable contribution to brand awareness and purchase intentions. This is the case especially if the witty "tag" to the ad has nothing to do with the advertised product. Moreover, viral campaigns also often operate at the limits of legality if concealed advertising is used or if sources are deliberately altered (for instance to make it look like a person in an online encyclopaedia). Finally, viral campaigns do not come cheap. Considerable costs and time need to be invested. A creative agency has to develop an interesting and professional viral concept. At the same time the fans on the web have to be nurtured and the competitions launched have to be managed.

Procyclical: GDP and advertising spend

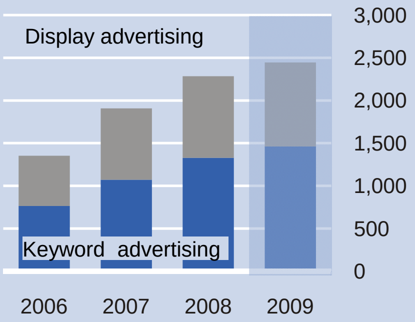
DE, % yoy



Sources: ZAW, Destatis 23

On the ascendancy

Advertising on the internet, DE, EUR m



Sources: IAB Europe, DB Research, 2009 24

Online advertising: Ray of light in the crisis

The advertising industry has also been hit hard by the financial crisis. Companies' advertising budgets have contracted sharply in 2009 (see figure 23). At the same time, marketers are under even greater pressure than before. As eMarketer has revealed for the USA, achieving a measurable return on investment (ROI) for marketing expenditures currently has top priority for those responsible. 80% of the respondents stated that the pressure to document the effectiveness of marketing measures was higher in 2009 than previously.[22]

Given the advantages of target group-specific online advertising, i.e. target group precision and measurability of the response, it is likely that in times of tight budgets when marketers have to decide between online or offline advertising campaigns they will tend to opt for the online segment. This will probably cause a shift in the heavily reduced marketing budget in favour of the internet. However, falling prices for ad placements on the web will have a negative impact on revenues. All in all, the growth in online advertising is likely to slow in 2009 but still be positive at 7% yoy (see figure 24). This is in sharp contrast to the strong fall in total advertising expenditure. So online advertising is set to increase its share of the market further.

At the same time, in the online advertising segment it will be formats whose effectiveness can be more readily demonstrated that should stand to gain. Easily measurable segments like keyword advertising ought to benefit. On the other hand, classic formats such as banners that serve more for branding purposes are likely to lose out. This is

[21] See Kaumanns, Ralf; Siegenheim, Veit, Neumüller, Gerald and Martin Krautsieder (2008). Videoportale in Deutschland. Im Spannungsfeld zwischen Fernsehen und Internet. SevenOne Media, Accenture, p. 22.

[22] See Ramsey, Geoffrey (2009). Online Brand Measurement: Connecting the Dots. eMarketer Special Report.

also indicated by the fact that expenditure on branding (so-called above-the-line spending) tends to be reduced in times of crisis. The focus then is more on below-the-line spending, i.e. on direct marketing to promote product sales and to achieve measurable short-term results. Marketers are also likely to try and increase the effectiveness of their advertising measures by combining various formats (e.g. keyword and display advertising).

Marketers currently more reserved about innovative advertising formats

Even though market observers are very enthusiastic about the opportunities presented by video and Web 2.0 based advertising, the experience with this topic is still very thin as yet. The economic crisis and its consequences are likely to put a dampener on the wish to experiment with these advertising formats. A survey conducted by Forrester Research Inc. among 200 large US companies reveals that marketers are reserved about innovative advertising channels, such as advertising on social networks.[23] New advertising formats are currently emerging more slowly than before the recession.

Beyond the year 2010: A maturing market

The market for online advertising is maturing

The online advertising segment is likely to grow at double-digit rates again from 2010 onwards. Still, the high growth rates of the early years are unlikely to be repeated. Supporting this scenario is the circumstance that the market for online advertising is maturing and is positioned more on the right of the typical S-shaped development pattern for new markets. Internet usage as an important growth driver will have a weaker impact in future, too: 80% of the working population and almost 100% of trainees are already online today. Also, the time people spend on the internet is no longer rising as strongly. This suggests that the catch-up effect from which online advertising has benefited in the media mix is still positive but fading.

But continued positive outlook...

The rising importance of e-commerce and the growing role of the internet as an information platform for online and offline purchases are drivers of the continued positive outlook for this still young industry. Keyword advertising should profit especially. The evolution of the internet as an entertainment medium, already observable among young internet users, will reinforce the role of moving-picture formats and thus video ads. In classic display advertising the simple formats will be replaced more and more by rich media formats.

... and dynamic growth

Today, the albeit weaker than in earlier years but still positive market development in online advertising is a ray of light in the crisis. In the coming years the market will mature and a new balance between the advertising channels will emerge. In this period there will be a high degree of Schumpeterian creative destruction. Along the way there will still be attractive, double-digit growth rates.

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[23] See VanBoskirk, Shar (2009). Interactive marketing channels to watch in 2009. The recession inhibits firms from trialing emerging channels. Forrester Research Inc.

Economics
ISSN 1619-3229

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E-mail: marketing.dbr@db.com

Printed by: HST Offsetdruck Schadt & Tetzlaff GbR, Dieburg

ISSN Print: 1619-3245 / Internet ISSN: 1619-3253 / E-Mail: ISSN 1619-4756