

# US Online Advertising Forecast, 2007 to 2012

Ad spending is growing in the midst of major changes in the online ad market. However, spending is not evenly increasing across all categories and tactics.

## Key Questions

- How will spending on online advertising change from 2006 to 2012?
- Which online ad spending categories will most significantly grow during the next five years?
- What will be major drivers of change in online ad spending across search, display, and classifieds during the next five years?

## Key Finding

Total online ad spending will increase from \$19.9 billion in 2007 to \$35.4 billion in 2012. Search advertising will increase at a 12 percent compound annual growth rate (CAGR), and display advertising, at a 13 percent CAGR from 2007 to 2012. Major drivers of ad spending change include explosive display inventory growth, increased paid click volume, and improved targeting technology.



### Research Topic

- Branding Online

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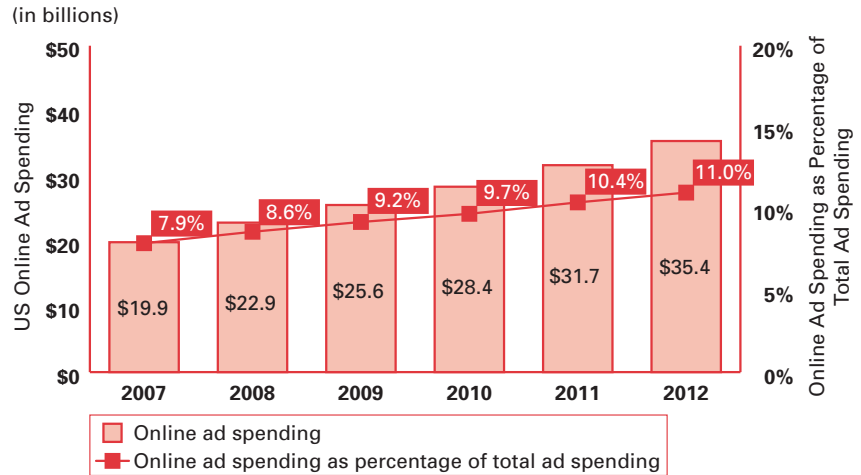
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**Total Online Spending Will Significantly Increase During Next Five Years**

**Fig. 1 Online Ad Spending as Percentage of Total Ad Spending, 2007 to 2012**

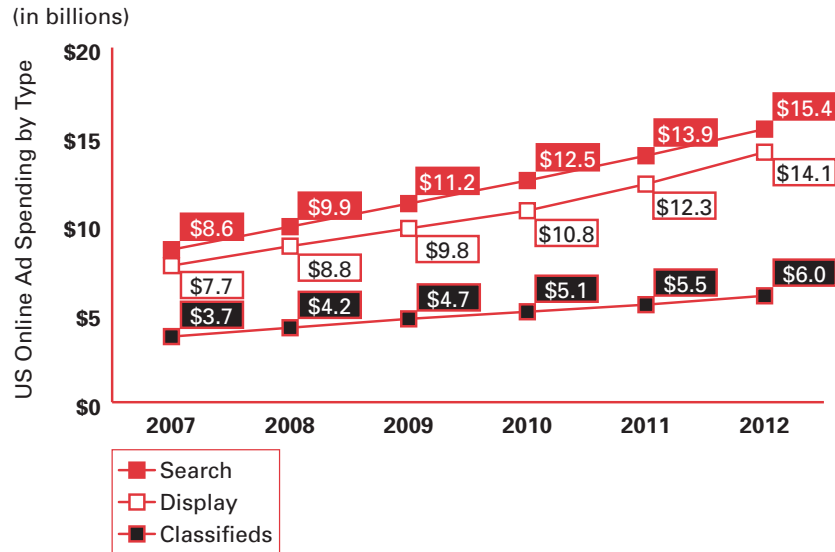


Source: JupiterResearch Internet Advertising Model, 6/07 (US only)  
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Online ad spending will total almost \$20 billion by the end of 2007, reaching \$35.4 billion by 2012. While off-line ad spending will increase at a CAGR of five percent, online ad spending will grow much more quickly at a CAGR of 12 percent through 2012. From 2007 to 2012, online ad spending as a percentage of total ad spending will rise from eight percent to 11 percent as a result of increased growth rates. Advertisers will shift budget online for several reasons. For example, online users continue to use search engines to perform product research, which encourages retailers and marketers to increase search budgets. Also, brand advertisers have more opportunities to create engaging campaigns because most sites now support rich media and video. Finally, online advertising is incredibly measurable. Because performance can be proven, it is still a relative bargain, compared with more established tactics such as TV and print.

**Search and Display Spending Growth Will Outpace Spending Growth of Classifieds**

**Fig. 2 Online Ad Spending by Type, 2007 to 2012**



Source: JupiterResearch Internet Advertising Model, 6/07 (US only)  
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Search spending overtook display spending in 2005 and will continue to be the largest spending category online during the next five years. Search will grow by 12 percent compounded annually from 2007 to 2012, largely due to phenomenal performance by Google. The recent expansion of search spending results from an increase in clicks on paid search listings, while overall click prices have generally leveled off, averaging \$0.48 across all search engines in 2006. JupiterResearch forecasts the percentage of clicks to the paid listings versus the organic listings will continue to grow at a rapid clip as firms refine their advertising algorithms and attract more advertisers.

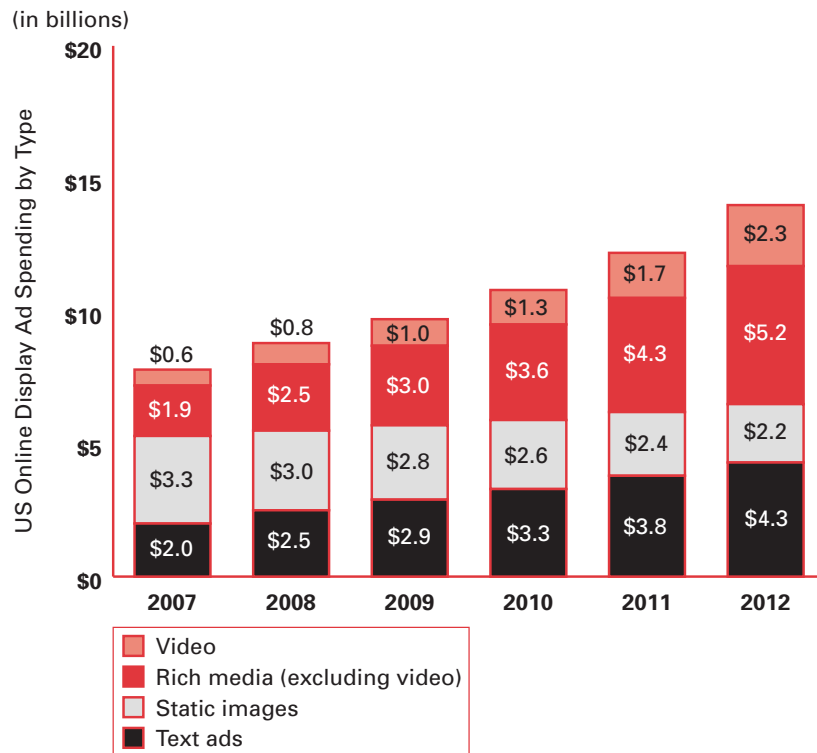
Major changes in the display ad market ensure spending will significantly increase at a CAGR of 13 percent during the next five years. Total available display ad impressions rose by 67 percent during the past year as new social sites such as MySpace.com and YouTube rapidly grew. This huge increase in inventory on social sites caused the average online CPM to plummet to \$1.92—from a peak of \$2.58 in 2005. Today, inventory on social sites is largely fulfilled through ad networks and contextual advertising. As these social sites mature, however, they will begin to use tactics such as behavioral targeting to improve monetization of their inventory. Although the CPM on social sites is low, CPM on a same-stores basis across established properties is steadily increasing. Additionally, the rise in impressions on social sites occurred without causing much impression cannibalization on other sites, which will continue to grow.

Classifieds spending will not reach the size of search or display spending, but it will expand at a 10 percent CAGR from 2007 to 2012. Consumers' behavior regarding online classifieds is already relatively mature. With consumers' use having largely shifted from

print to online for categories such as job and automotive search, ad dollars are starting to shadow this trend. For example, CareerBuilder and AutoTrader.com are thriving. In certain areas (e.g., subsets of recruitment), however, free alternatives are viable and put pressure on revenue growth. At the same time, newspapers are experiencing rapidly declining print classifieds revenue off-line, and are working to earn replacement revenue with more enticing online offerings.

### Rich Media and Video Formats Dominate Future Growth

**Fig. 3 Online Display Ad Spending by Type, 2007 to 2012**



Source: JupiterResearch Internet Advertising Model, 6/07 (US only)  
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Static and text advertising will be the two most popular display formats in 2007, comprising more than two-thirds of online display revenue. Growth of text and static ads this year is due to the massive increase in remnant impressions available across new social networking sites. However, new publishers will continue to improve their advertising mix, and will shift toward use of relatively more lucrative rich media and video formats during the next few years. As a result, static and text ads will only account for 47 percent of display advertising in 2012. Meanwhile, advertisers' spending on rich media will more than double from 2007 to 2012, while video spending will almost quadruple.