October 10, 2007

US Interactive Marketing Forecast, 2007 To 2012

by Shar VanBoskirk
for Interactive Marketing Professionals

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Expect $61 Billion By 2012 As Marketers Distribute Spend Across Channels

by Shar VanBoskirk

with Charlene Li, Julie Katz, and Christina Lee

EXECUTIVE SUMMARY

Interactive marketing over the next five years will not be dominated by a single revolutionary channel. Forrester forecasts that interactive marketing spend will grow to $61 billion by 2012, an increase driven by marketers who will leverage a distribution of channels rather than pour new spends into a single place. This maturing perspective on interactive channels coupled with technology advances will lead to a customer-centric future in which interactive technologies actually infuse all marketing efforts.

TABLE OF CONTENTS

NOTES & RESOURCES

Forrester conducted an online survey of 344 interactive marketers. We also conducted in-depth interviews with 25 vendors, media companies, and marketers, including Google, MSN, CBS, MySpace, and Facebook.

Related Research Documents

"Marketing's New Key Metric: Engagement"
August 8, 2007

"US Online Marketing Forecast: 2005 To 2010"
May 2, 2005

"Interactive Marketing Channels To Watch"
March 27, 2007

INTERACTIVE MARKETING BUDGETS AND EFFECTIVENESS WILL GROW

We surveyed 344 marketers of different sizes, industries, and attitudes toward technology and found that a number of factors have a hand in expanding the interactive marketing pie (see Figure 1). For instance:

- **Consumer behavior.** Most marketers are already invested in email and search — the channels more than 85% of online consumers use at least monthly. But consumers continue to embrace new online technologies, for example, watching peer-contributed videos on YouTube or reading blogs (see Figure 2). Staying current with consumers as they increase their adoption of online video, community sites and social networks, and blogs requires additional budget. In particular, marketers should tune their budgets to match the extremely online-heavy behaviors of Gen Yers as they age and become the dominant consuming population (see Figure 3).

- **Organizational support.** Interactive marketing is increasing its organizational visibility, with top marketing executives taking a direct hand in setting its strategy.[1] With this shift, legacy management is giving way to executives who are more familiar with the value of interactive marketing. As one travel marketer we interviewed explained, "We have a new tech-savvy executive group, and we are getting the green light to increase spending much more easily than in years past." Another interviewee expects this trend to increase as retiring executives are replaced by managers who have "come of age seeing interactive marketing work."

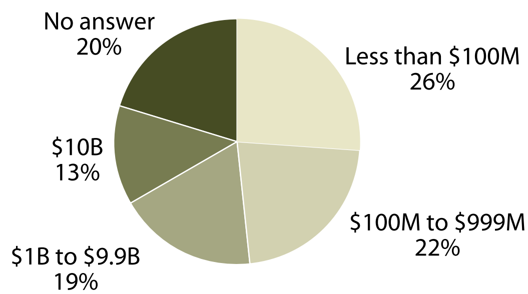
- **Emerging technologies.** Emerging media alone is not fueling all of interactive marketing's growth; most marketers still hesitate to invest in untested channels like social media, mobile, and game marketing.[2] However, emerging media has significant advertising promise because: 1) it creates new inventory — for example, in August, YouTube started selling in-video ads; 2) it reaches different customers — for example, Victoria's Secret sponsored content on Facebook to connect with young consumers for the launch of its Pink line; and 3) it provides a new way for marketers to interact with their customers — for example, brand marketers like Procter & Gamble engage audiences for hours through sponsored online games.

- **Increasing interactive effectiveness.** Consistent with past findings, marketers continue to believe that interactive channels will become more effective over time, while traditional channels will languish (see Figure 4).[3] In fact, marketers find interactive channels better than traditional channels for every marketing goal (see Figure 5). Somewhat surprisingly, most marketers find interactive channels to be even better for building loyalty and brand awareness than traditional channels.

- **A strong national economy.** The United States gross domestic product (GDP) increased at an annual rate of 4% in the second quarter of 2007, while corporate profits grew $98.3 billion in the same time period.[4] Advertising spend overall rose 7% in 2006.[5] And economists estimate that total spend on intangibles — including advertising, R&D, design, and training — is up to about $1 trillion.[6] A growing economy makes it easier for marketers to justify increased expenditures in interactive channels.

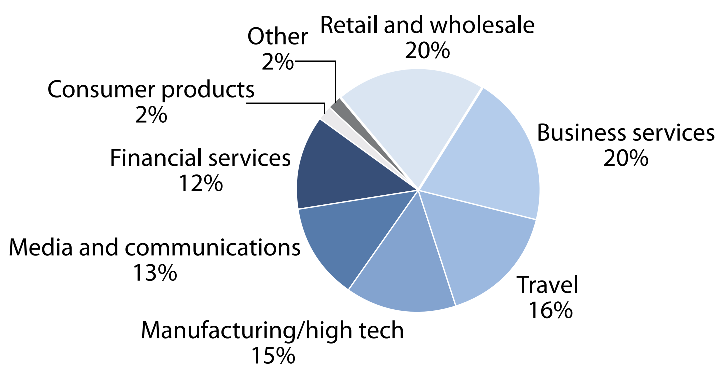
Figure 1 Demographics Of Surveyed Marketers

1-1 "In FY 2006, what were your company's worldwide revenues?"



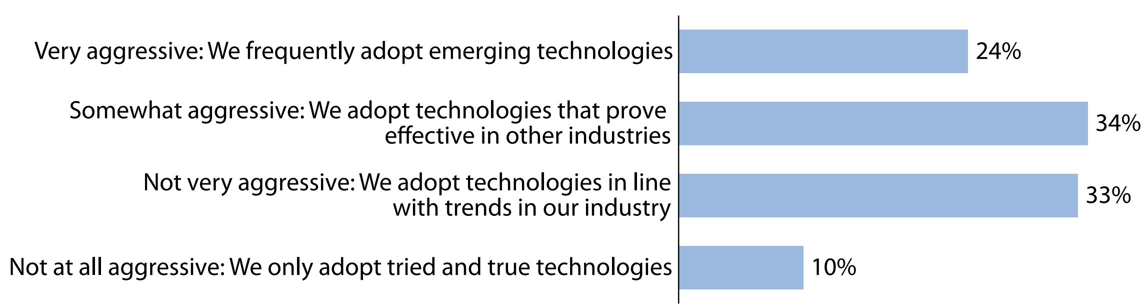
Base: 246 marketers

1-2 "Which of the following best describes your marketing organization's industry group?"



Base: 297 marketers
(percentages may not total 100 because of rounding)

1-3 "How aggressive is your company when it comes to investing in marketing technology?"

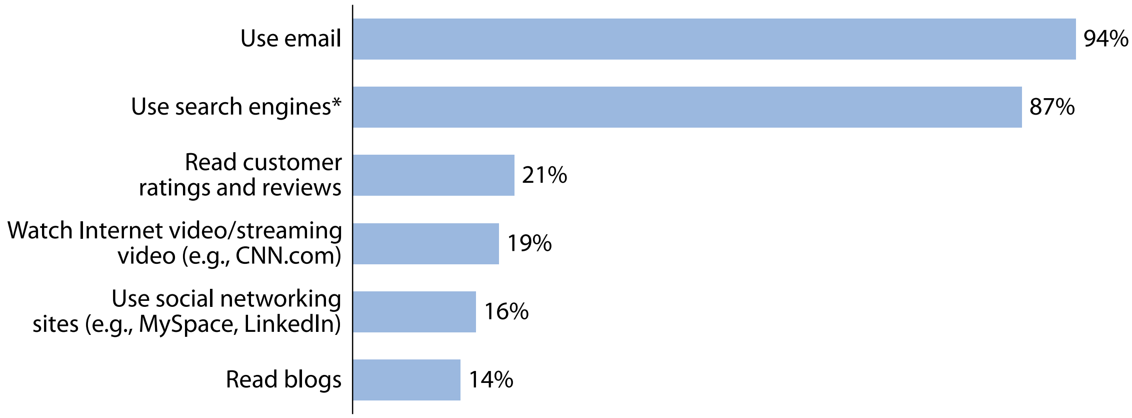


Base: 245 marketers
(percentages may not total 100 because of rounding)

Source: Interactive Marketer Online Survey, Q3 2007

42463 Source: Forrester Research, Inc.

Figure 2 Consumers Embrace New Online Technologies



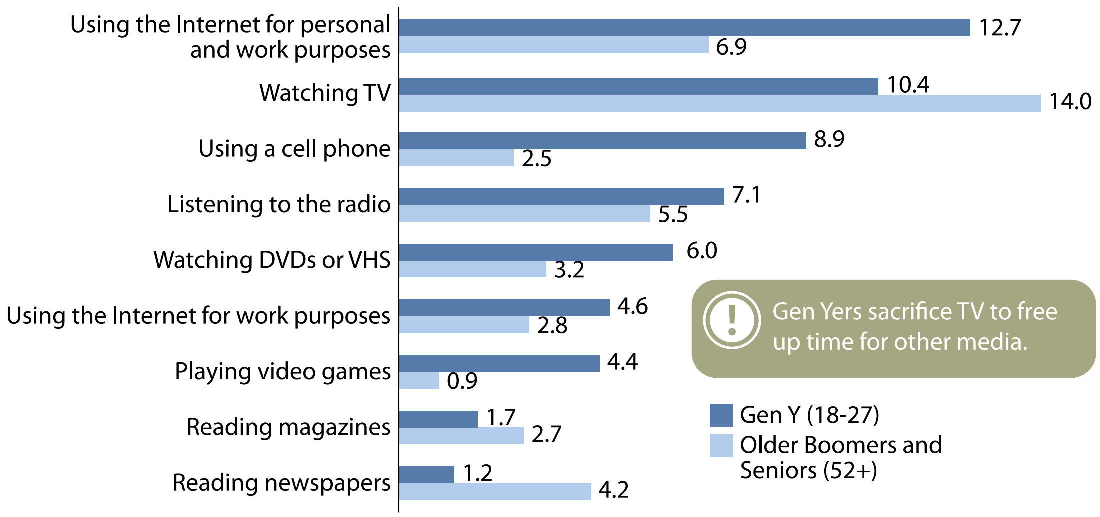
Base: US online adults who do the above activities at least monthly

Source: North American Technographics® Benchmark Survey, 2007
*Represents using AOL, Google, MSN, and Yahoo! at least weekly (or once a week)

42463 Source: Forrester Research, Inc.

Figure 3 Next-Generation Consumer Behavior Varies From That Of Boomers And Retirees

"In a typical week, how many hours do you spend doing each of the following:"

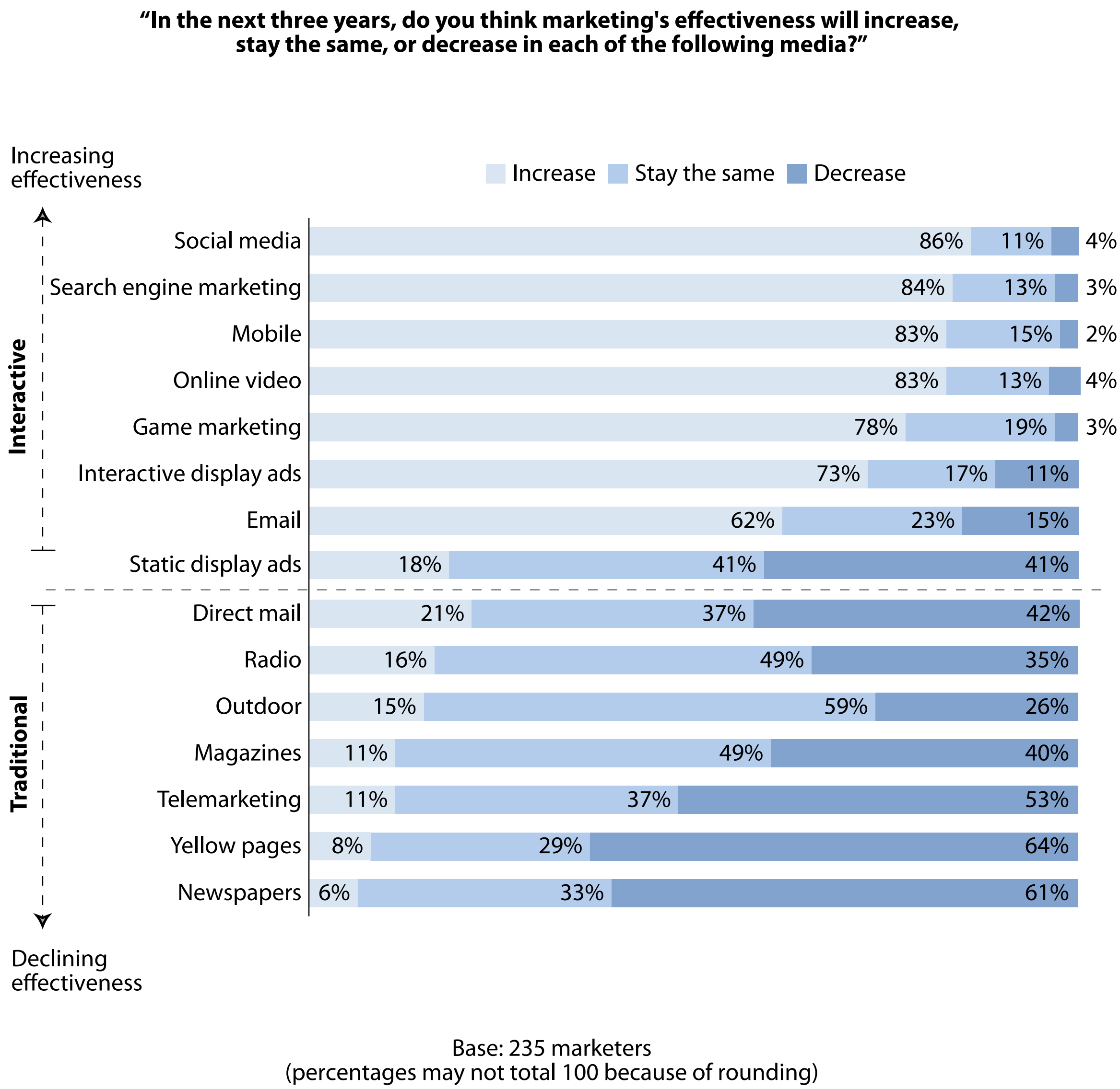


Base: US adults
(numbers have been rounded)

Source: North American Technographics® Benchmark Survey, 2007

42463 Source: Forrester Research, Inc.

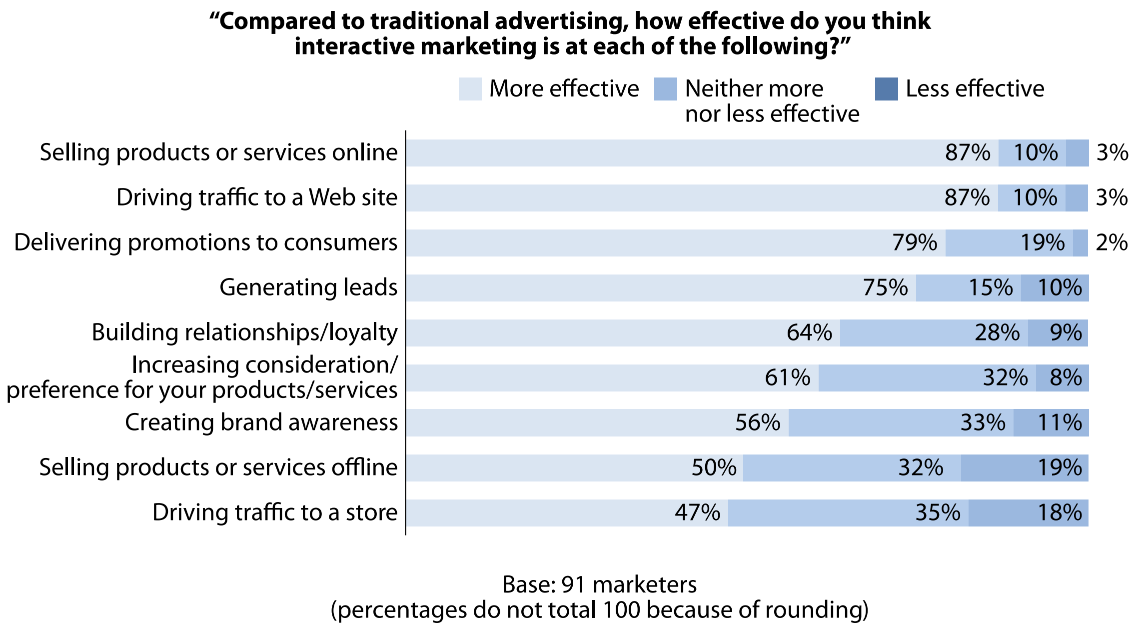
Figure 4 Interactive Channels Are More Effective Than Traditional Ones



Source: Q3 2007 US Interactive Marketer Online Survey

42463 Source: Forrester Research, Inc.

Figure 5 Marketers Find Interactive Marketing More Effective Than Traditional Offline Channels



Source: Q3 2007 US Interactive Marketer Online Survey

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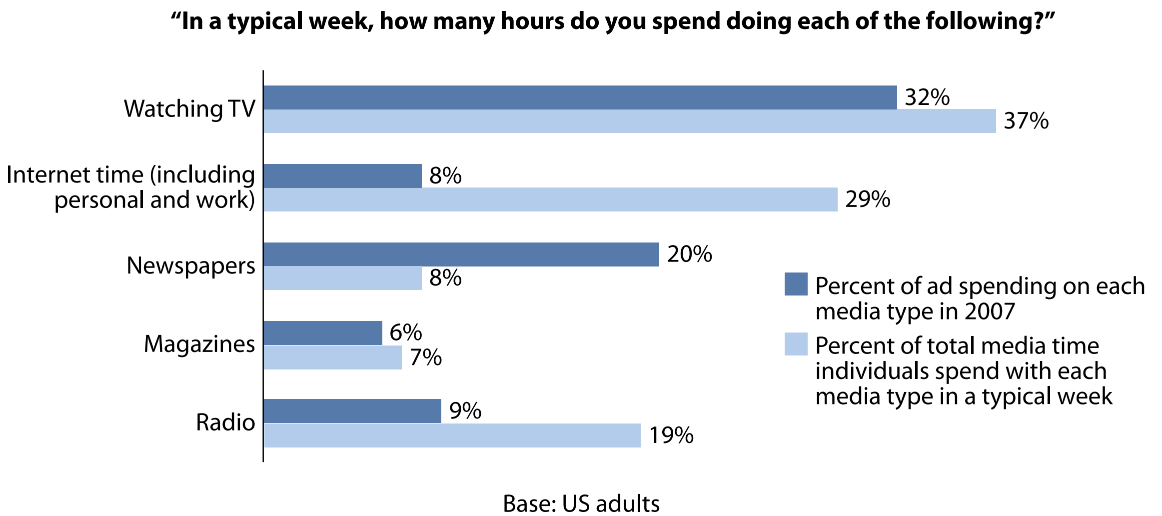
Source: Forrester Research, Inc.

INTERACTIVE SPEND WILL BETTER ALIGN WITH CONSUMERS' MEDIA BEHAVIOR

In years past, interactive marketing spend grew largely due to novelty or from dot-com flameouts dumping dollars into a single interactive channel — first display ads, then email, and now search. But interactive marketing growth over the next five years will be driven by mainstream businesses that embrace the unique value of interactive tools that engage customers in new ways.[7] Thus, this interactive marketing forecast is not about the explosion of a single interactive channel driving budget increases, nor is it about online spending outpacing radio. Instead, it's a story about interactive budgets that will grow as marketers sync with media behavior and distribute their dollars across the channels their customers use. Interactive marketing's meager 8% share of advertising spend is poised to grow as advertisers invest to better match the 29% of media time consumers spend online (see Figure 6).

Figure 6 Interactive Marketing Spend Is Still Out Of Sync With Consumer Behavior



Source: North American Technographics® Benchmark Survey, 2007
*Consumer media time does not include time spent using a cell phone, watching DVDs, or playing video games

42463 Source: Forrester Research, Inc.

Marketer Maturity Influences Interactive Channel Growth

A major driver of a marketer's spend on interactive channels stems from this interactive marketing maturity. What some firms consider well-established interactive tools other marketers consider cutting-edge. This matters to the overall growth of interactive marketing, because it means that even when a channel like search marketing reaches saturation among one set of marketers, it still has growth potential among slower adopters. Keeping this in mind, we used three groups of marketers to help form our overall growth assumptions across channels:

- **Vanguards.** This handful of marketers (we estimate that there are no more than 25 vanguard firms) is not typical of any particular industry. Nor does it have any other unique identifiers except aggressiveness toward technology adoption and the belief that the benefits of early arrival are worth the challenges of trialing untested media. Firms like Wells Fargo, 1-800-Flowers.com, Hewlett-Packard (HP), Nike, and Best Buy are some of the recognizable few vanguards consistently featured by the press or touted in case studies. This group of influencers is too small for its collective budget to count for much of interactive marketing's expected growth, but since the vanguards drive standards and best practices for other marketers to follow, their current emphasis on emerging channels and online video signals where less mature marketers will spend their dollars in three to five years' time.

- **Mainstreamers.** This largest group of interactive marketers includes two distinct types of marketers: 1) retailer direct marketers who adopt interactive channels as they emerge, beginning with online display ads, following with email and search, and bringing up the rear with mobile and social media; and 2) media and consumer products brand marketers who started out with display ads, then leapt immediately to the next available branding media — online video and social media — without mastering email and search.[8] The five-year interactive marketing horizon primarily reflects the maturing of this group.

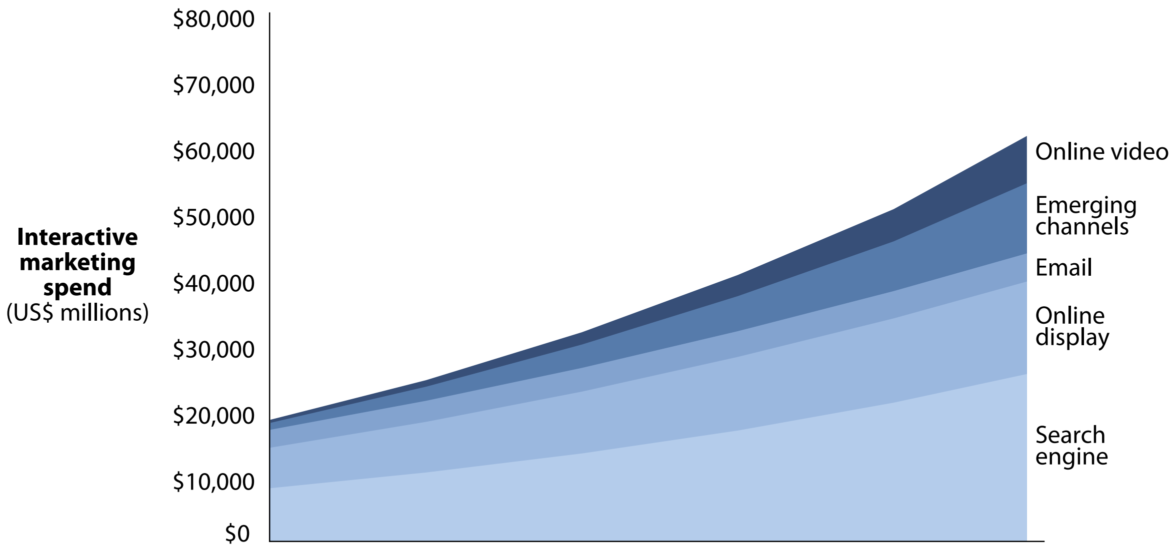
- **Stragglers.** Stragglers are the least advanced adopters of interactive marketing and will spend the next five years building the case for interactive marketing at their firms. They represent about 15% of marketers and are mostly small B2B firms (40% of them have revenues of less than $20 million).[9] Stragglers' investments will contribute slightly to the growth of email marketing, display ads, and online video as they develop programs similar to what vanguard marketers were spending in 2003, but their spending on emerging media will be inconsequential.

INTERACTIVE MARKETING WILL TOP $61 BILLION BY 2012

Each year, new technologies and changing social behaviors introduce additional channels into the interactive mix. To accommodate these changes, we've adjusted our market sizing from years past in order to best match the channels marketers include in their interactive budget decisions. This year's analysis includes stalwarts like display ads, search, and email marketing, and also welcomes a few new entrants, namely online video and emerging channels.[10] Collectively, these channels will grow to $61.3 billion by 2012 (see Figure 7). We have also detailed spending projections across seven industry segments as well as by business size (see Figure 8).[11]

Figure 7 Forecast: US Interactive Marketing Spend, 2007 To 2012

A spreadsheet with additional data is available online.



	2007	2008	2009	2010	2011	2012	CAGR
Search engine marketing	$8,056	$10,432	$13,310	$16,775	$20,993	$25,323	26%
Online display marketing	$6,126	$7,656	$9,354	$11,137	$12,745	$13,988	18%
Email marketing	$2,710	$3,189	$3,588	$3,892	$4,130	$4,256	9%
Emerging channels marketing	$1,040	$2,130	$3,534	$5,301	$7,519	$10,610	59%
Online video marketing	$471	$989	$1,859	$3,198	$4,875	$7,153	72%
Total	**$18,402**	**$24,396**	**$31,645**	**$40,304**	**$50,261**	**$61,330**	**27%**
Percent of total advertising	8%	10%	12%	14%	16%	18%	

(numbers have been rounded)

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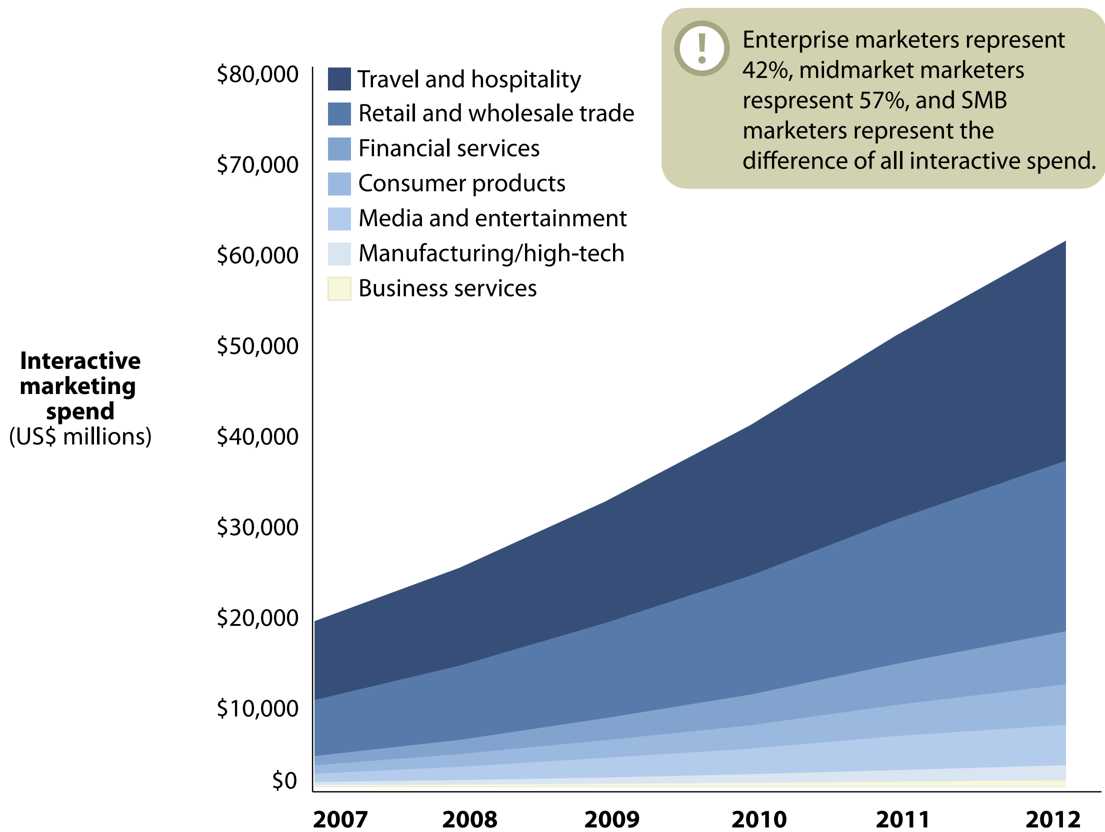
Source: Forrester Research, Inc.

Figure 8 Forecast: US Interactive Marketing Spend By Industry, 2007 To 2012



	2007	2008	2009	2010	2011	2012
Business services	$197	$273	$368	$491	$640	$827
Manufacturing/ high-tech	$351	$507	$717	$1,001	$1,339	$1,769
Media and entertainment	$974	$1,462	$2,184	$2,915	$3,762	$4,457
Consumer products	$955	$1,417	$1,977	$2,675	$3,557	$4,576
Financial services	$1,009	$1,631	$2,433	$3,391	$4,524	$6,073
Retail and wholesale trade	$6,207	$8,307	$10,600	$13,228	$16,148	$19,351
Travel and hospitality	$8,709	$10,799	$13,366	$16,604	$20,291	$24,277
Total	**$18,402**	**$24,396**	**$31,645**	**$40,304**	**$50,261**	**$61,330**

42463 Source: Forrester Research, Inc.

Search Marketing Will Triple In Five Years

Competition for cost-per-click (CPC) inventory is driving prices up, but investments in paid search, search engine optimization (SEO), paid inclusion, and contextual ads are hardly slowing down. While we do expect that over the course of five years the definition of "search marketing" will change as the category surrenders contextual ads to the online display budget, our forecast is built based on the media purchased today with a search budget and in conjunction with search engines. Mainstreamers' aggressive use of search will grow it at a compound annual growth rate (CAGR) of 26% to $25 billion by 2012 due to (see Figure 9):

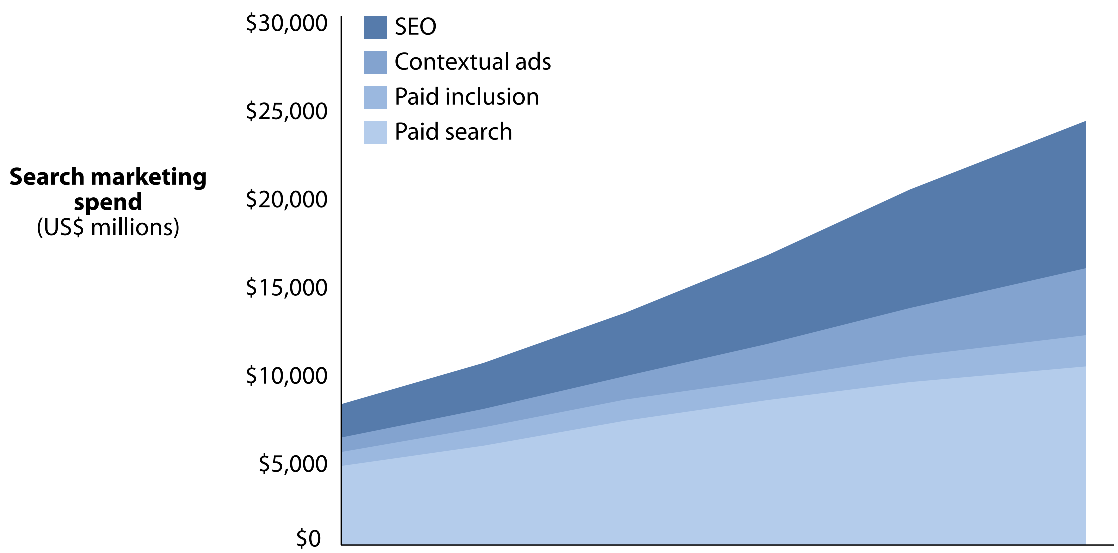
- **Increasing costs of paid search.** There were six times as many keywords with a CPC of more than $1 in January 2007 than in the same period the year prior — and costs per keyword (CPK) rose an average 33% each month in Q1 2007 compared with the same respective months in 2006.[12] As a result, some marketers have adjusted to accommodate rising keyword costs over generic or trademark terms. For example, one marketer we spoke with is now prioritizing long-tail terms — those terms that generate only a few clicks independently but taken together can constitute a substantial volume. But many still spend with abandon because search is their most efficient channel — even with more expensive keywords. As one interviewee explained, "Our cost per lead probably is going up . . . but we will continue spending on search because its cost per lead has outperformed every other acquisition channel we use on- and offline."

- **Additional spend on optimization tools and services.** As search marketing efforts mature, we expect that marketers will increasingly require external tools and support to help them manage increasing volumes of keywords and integration between paid and natural search efforts.[13] The vanguard marketers herald this: 56% of advanced search marketers manage their programs with third-party tools or outsourcers.[14] And the investment in outside help is well worth it. For example, dLife, an online community for diabetics, boosted its conversion rate from 15% to 35% after implementing Omniture's Search Center. Furthermore, marketers are willing to pay for better-targeted ads — a premium capability MSN introduced with adCenter — for an increased CPC (see Figure 10). The emphasis on targeting will also drive budgets up as search engines enhance targeting options and as emerging technology platforms like the new Responsys Interact make it easier to target search ads based on responses to ads in other channels.

- **International expansion.** Today few vendors provide capabilities that span the breadth of languages, economies, and cultures needed to help global businesses create a consistent search marketing strategy across their world markets. But this shift is at hand. Earlier this year, search agency iCrossing purchased UK-based firm Spannerworks to beef up its international presence and has established global search standards for firms like Coca-Cola that still use local players to implement campaigns in some markets. Forrester expects further internationalization as pioneering US search agencies share their technologies and practices with local partners. For example, Isobar agencies around the globe must graduate from "iProspect University" before they are certified to conduct search programs under the iProspect brand.

Figure 9 Forecast: US Search Marketing Spend, 2007 To 2012

The spreadsheet detailing this forecast is available online.

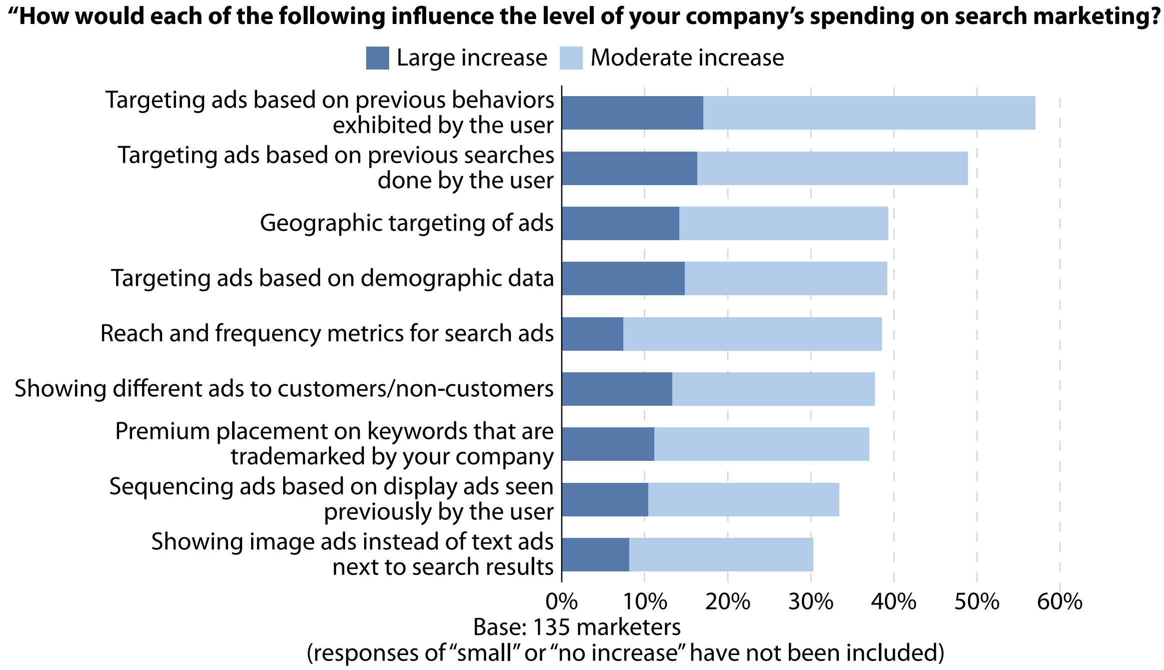


	2007	2008	2009	2010	2011	2012
Paid search	$4,496	$5,633	$7,054	$8,220	$9,237	$10,129
Paid inclusion	$818	$1,043	$1,198	$1,342	$1,469	$1,773
Contextual ads	$838	$1,043	$1,464	$2,013	$3,359	$4,558
SEO	$1,904	$2,712	$3,594	$5,200	$6,928	$8,863
Total	**$8,056**	**$10,432**	**$13,310**	**$16,775**	**$20,993**	**$25,323**

(numbers have been rounded)

42463 Source: Forrester Research, Inc.

Figure 10 Influences On Search Marketing Spend



Source: Q3 2007 US Interactive Marketer Online Survey

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Source: Forrester Research, Inc.

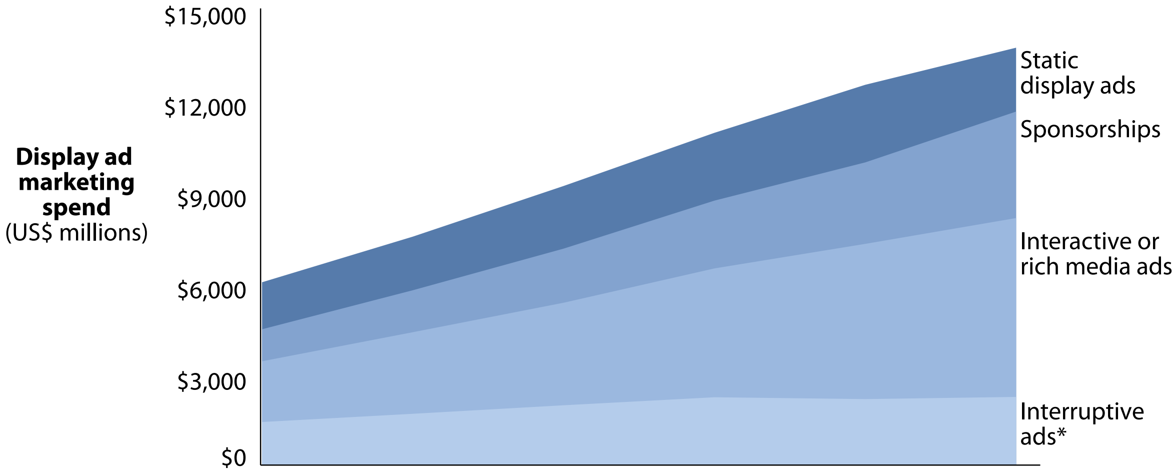
Display Advertising Steps Into The Light

Display ads will never be the stars of the interactive marketing show as search has been for the past three years, but they will be key to the interactive marketing budget by stepping up to a subtle but essential supporting role in all interactive campaigns. Reliable investments from all three marketer groups will grow spend on display media at a CAGR of 18% over the next five years to almost $14 billion by 2012 (see Figure 11). Why?

- **Rich media.** Display ad formats beyond the standard 468x800, such as PointRoll's Fatboy, have been available for years.[15] But many marketers have eschewed them for CPC vehicles like keyword ads. However, improved rich media creation tools like DoubleClick Rich Media and Video, combined with the fact that consumer broadband adoption will have occurred in 82% of households within the next five years, will boost spend on interactive and rich media ads to almost $6 billion in 2012.[16] Additionally, display ads provide a way for advertisers to expand their audience for online video ads. Vanguard marketers like Levi's already shoots high-quality videos for Interactive Advertising Bureau (IAB)-standard display ads in order to get immersive ad content in front of an audience more mainstream than the 34% of consumers who routinely watch Internet video.[17]

Figure 11 Forecast: US Online Display Ad Spend, 2007 To 2012

The spreadsheet detailing this forecast is available online.



	2007	2008	2009	2010	2011	2012
Interruptive ads*	$1,421	$1,684	$1,964	$2,005	$2,167	$2,238
Interactive or rich media ads	$2,020	$2,680	$3,368	$4,232	$5,098	$5,875
Sponsorships	$1,076	$1,455	$1,871	$2,672	$3,059	$3,637
Static display ads	$1,609	$1,838	$2,152	$2,227	$2,421	$2,238
Total	$6,126	$7,656	$9,354	$11,137	$12,745	$13,988

(numbers have been rounded)

*Includes pop-ups, pop-unders, floating, and expanding ads

42463 Source: Forrester Research, Inc.

- **A return to branding.** Over the past three years, the growth in interactive marketing spend has come mostly from marketers driving direct sales. And because of the measurability of direct response tools like search, many mainstreamers and stragglers are still focused in this area.[18] But with search inventory growing pricier, many marketers are starting to recognize that engaging customers beyond a sale boosts lifetime value. For example, in the past 18 months, Carnival Cruise Lines shifted its campaign focus away from direct sales and toward media that would demonstrate the experiences travelers could have on their cruises. Google, MSN, and Yahoo!'s heavy investments in display advertising anticipate a similar wide-scale move as marketers look to use multiple media to create brand experiences, not just transaction environments, for their customers.

- **Better targeting.** Past display ad networks fell short of their audience targeting promise because demographic targeting by itself failed online.[19] But today, thanks to more data and better technology, marketers use some type of targeting for 89% of their display ads.[20] Advanced analytics that identify optimum placement, offer, and price for future targeting come standard on top ad servers like Atlas Media Console. And ad networks today target with much more than demographics. For example, specialty gifts retailer Personal Creations boosted online conversions 18% by running a retargeting campaign through 24/7 Real Media's Global Web Alliance network. And Tribal Fusion's new Dynamic Ads product custom populates ad content or creative based on a user's location, demographics, or past online behaviors. Targeting will only advance — and lead to greater adoption of display ads — as brand-focused mainstreamers succeed with it and push vendors to refine their offerings.

Email Marketing Spend Shifts To Services And Integration

Email marketing continues to grow despite concerns about crowded inboxes and user fatigue. Spending will focus on improving email relevancy, not just sending more, and will grow email at a CAGR of 9% to more than $4 billion by 2012, at which point we think it will plateau (see Figure 12).

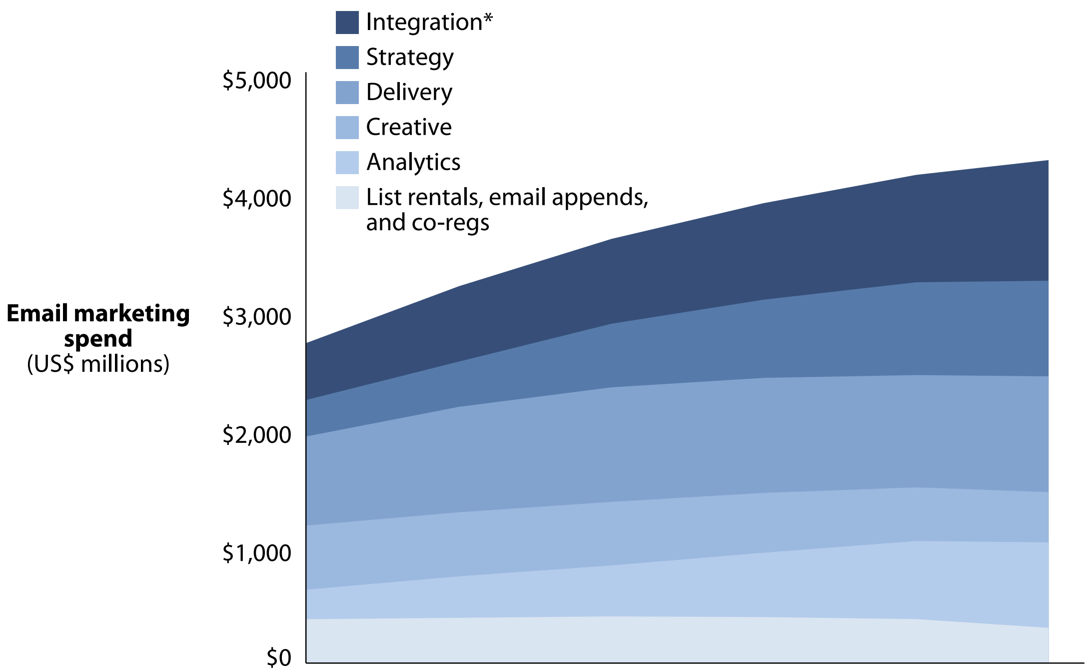
- **Services and integration — not volume — will drive growth.** At last, email costs will un-tether themselves from email volume as marketers realize that it is smarter to pay for services that will make messages more relevant, such as analytics and data management, than to just send more. This means that users will see some relief from burgeoning inboxes, and vendors will stop needing to cut their costs per thousand (CPMs) to win business. Email marketing service providers tell us that this trend is just appearing among vanguard and advanced mainstreamers. One vendor won back a sophisticated client at full price after the client tried a lower-cost competitor that could not deliver needed analytics, strategy, and technology services.

- **Nontraditional providers will capture more of the email budget.** As marketers realize that email has greater value as part of a larger marketing conversation than as a standalone function, they will shift focus away from email program optimization and toward integration with other channels. This means that firms that can help plan email into a broad marketing strategy — including direct agencies like Rapp Collins or marketing consultancies like Carlson Marketing Group, or those enabling technology integrations like Omniture's Genesis product — will start taking a share of the email marketing pie. Strategy firm The Monitor Group is already developing cross-channel and contact optimization strategies for enterprise firms.[21]

- **Email penetration won't grow past 2010.** Enterprise email revenues will come from program growth and additional investment in strategy and integration services, not new entrants — 97% of enterprise marketers are already using, piloting, or planning to pilot email.[22] But small and medium-size businesses (SMBs) — which comprise most of the stragglers — are still figuring out email marketing. SMB email vendor Constant Contact signs up eight to 10,000 new small marketer customers a month. Increased penetration of the small and mid-size markets — growing from 7% and 50% in 2007 to 15% and 55% by 2012, respectively — coupled with increased spend on email optimization and cross-channel services across company types will grow email at a healthy clip until 2010, when the mature channel will level off.

Figure 12 Forecast: US Email Marketing Spend, 2007 To 2012

The spreadsheet detailing this forecast is available online.



	2007	2008	2009	2010	2011	2012
Integration*	$482	$638	$718	$817	$909	$1,021
Strategy	$309	$383	$538	$662	$785	$809
Delivery	$754	$893	$969	$973	$950	$979
Creative	$543	$542	$538	$506	$454	$426
Analytics	$250	$351	$431	$545	$661	$723
List rentals, email appends, and co-regs	$371	$383	$395	$389	$372	$298
Total	**$2,710**	**$3,189**	**$3,588**	**$3,892**	**$4,130**	**$4,256**

(numbers have been rounded)

*Includes data management and technology integration

42463 Source: Forrester Research, Inc.

Online Video Ads Perpetuate A Virtuous Cycle Of Growth

Online video ads debut in our forecast at $471 million this year. Increased user adoption will start a cycle of increased video creation, video advertising, and additional user adoption, resulting in online video ads roaring through the next five years at a 72% CAGR to land at $7.1 billion by 2012 (see Figure 13). What factors will set the pace of this growth?

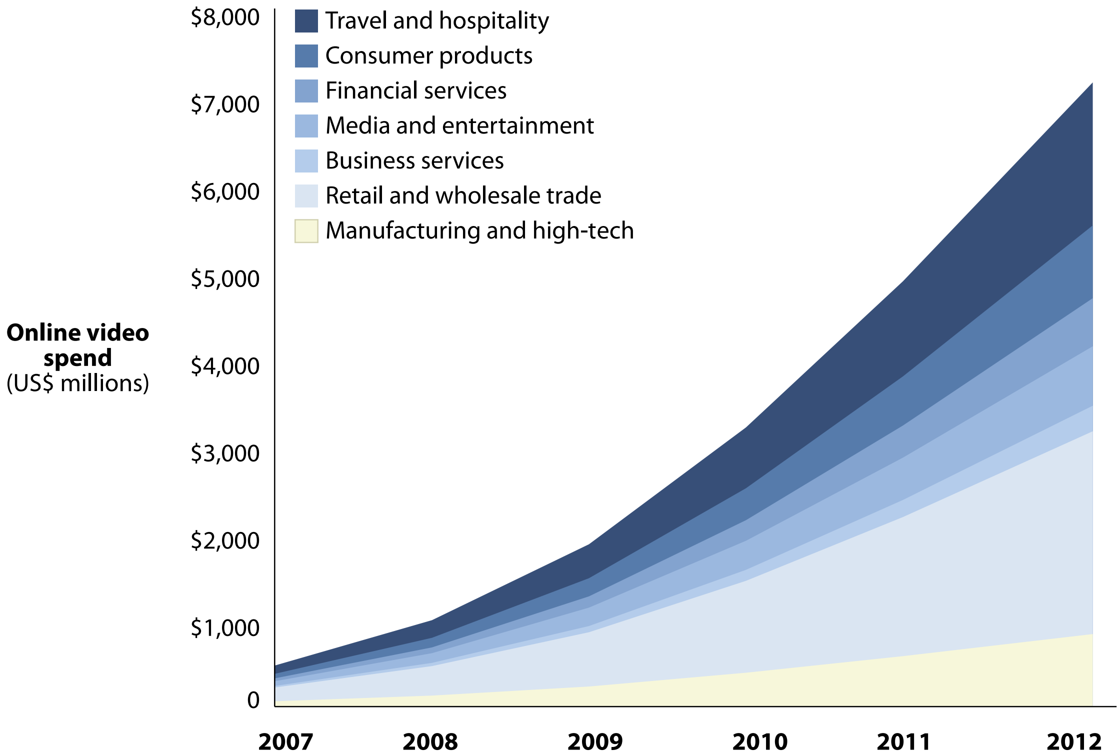
- **Easy entry.** Online video ads already make sense to most marketers because they are a cousin to TV commercials, a medium that marketers know well. While user engagement with online video is different from how users view television programs, production, distribution, and even how video ads are bought and sold is familiar enough to mainstreamers that adopting it will be easier than with other interactive media, such as blogs or even CPC ads, which have a unique set of new rules and formats. And new technologies are on the horizon to streamline the translation between television and online video ads. Time Warner and Internet applications developer Live Oak Interactive plan to announce a product in fall 2007 that will repurpose TV ads for online and online ads for television.

- **Proliferation of online video content.** Today, online video viewers are a small but growing population — 19% of online adults watch online video content at least monthly.[23] But this will grow as more video content comes online. Content delivery network Akamai sees a doubling every month in online video usage due to media outlets repurposing television content in short clips onto their sites and banners. For example, in one night the NBA may post a few hundred videos of game recaps, commentary, or player interviews. As the amount of online video available becomes widespread, more consumers will grow accustomed to digesting it more regularly, encouraging still more content providers to produce more videos. More videos lead to additional video advertising inventory and increased marketer spend.

- **Ad formats better aligned to user habits.** Today online video buys are limited primarily to formats that 82% of consumers find annoying.[24] That is: 1) pre-roll — ads that show at the beginning of a video clip; 2) in-player — ads that show in the media player frame while the video is running; or 3) in-stream — ads embedded within video content. But ad overlay formats invented by video ad pioneer VideoEgg and reengineered by Google for YouTube better match users' habits of watching short video clips in spurts of four to five videos at a time. Rather than forcing ads into a television-come-online video model, overlay formats allow users to pause the video they are watching and launch a contextually related video ad if they choose.[25] Vanguard marketers and brand mainstreamers, including Nike, Disney, and Nestle, are already advertising with VideoEgg — and with good reason. YouTube tests show that video overlays generate five to 10 times more clicks than banner ads.[26] More customer-centric online video applications will increase the medium's appeal for consumers and marketers.[27]

Figure 13 Forecast: US Online Video Marketing Spend, 2007 To 2012

The spreadsheet detailing this forecast is available online.



	2007	2008	2009	2010	2011	2012
Total	**$471**	**$989**	**$1,859**	**$3,198**	**$4,875**	**$7,153**

(numbers have been rounded)

42463 Source: Forrester Research, Inc.

Social Media Will Drive Emerging Channels To $10.6 Billion By 2012

Today's emerging channels — social media, mobile, game marketing, widgets, podcasts, and RSS — are the most talked about and least utilized media in the interactive mix. But marketer hesitancy to adopt these channels will give way by 2010 as the vanguard marketers achieve solid results and define best practices that mainstreamers can follow. Subsequent mainstream adoption will boost spending in emerging channels at a CAGR of 59% to $10.6 billion by 2012 (see Figure 14). Three factors will drive this growth:

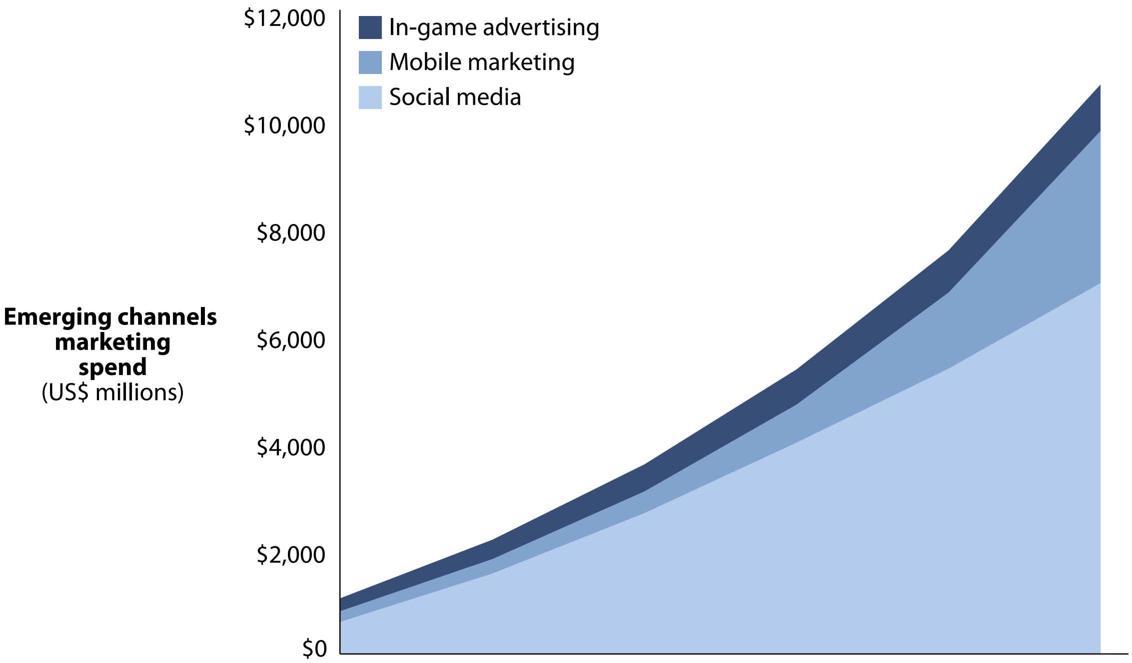
- **Marketers will understand how to use and measure social media.** Marketers today try to fit emerging media into traditional marketing frameworks with a very transactional measure of marketing value. But social media is capable of driving valuable customer behaviors beyond sales, such as influencing peer opinion. Footwear manufacturer Adidas leveraged this phenomenon by creating a MySpace page that influences more than 400,000 people per $100,000 of marketing money spent — a ratio almost five times higher than that of television.[28] As marketers learn to recognize the value of social media, they will invest heavily in creating their own pages on social networks, building blogs, and advertising through community sites. The result: Social media spending will grow to $6.9 billion by 2012.

- **Consumers will expect mobile transaction capabilities.** Almost every one of our interviewees mentioned "mobile" when we asked what interactive marketing would look like in 2012. But the future they see is not the slapdash mobile ads of today that are too small to read and have limited interactive value.[29] Rather, marketers of all maturities expect that as consumers become increasingly tied to personal computing handsets like the iPhone for their entertainment, communications, and media, they'll want to extend their mobile utility to accommodate transactions as well. As one financial services marketer explains, "I think you'll see a lot more stuff going to people's phones due to email fatigue and the improved ability to interact via mobile with an advert in other channels." This transition will drive mobile marketing to grow to $2.8 billion by 2012.

- **Casual games create brand experiences.** Prior hype around game marketing has been for brand or product placement in video games.[30] Forrester still believes that in-game ads can pay off, but immediate momentum is around mainstreamers creating or sponsoring online casual games to engage customers or deliver promotions. Casual game and console creator WildTangent estimates that 60% of its revenue comes from advergames and casual game sponsorship, both of which generate click-through rates between 10% and 34% and captivate users for almost a full minute on average. Procter & Gamble's Olay brand found that the more women between the ages of 25 and 54 played sponsored games on Olay's "Rejuvenate" channel the more inclined they were to purchase the new Rejuvenate skin care product. Game marketing is not a significant line item in the marketer's budget, but it will grow as marketers seek inventive ways to connect with their ever-more-game-playing target audience.[31]

Figure 14 Forecast: US Emerging Channel Spend, 2007 To 2012

The spreadsheet detailing this forecast is available online.



	2007	2008	2009	2010	2011	2012
Social media	$600	$1,500	$2,625	$3,938	$5,316	$6,910
Mobile marketing	$200	$270	$405	$709	$1,418	$2,835
In-game advertising	$240	$360	$504	$655	$786	$865
Total	**$1,040**	**$2,130**	**$3,534**	**$5,301**	**$7,519**	**$10,610**

(numbers have been rounded)

42463 Source: Forrester Research, Inc.

WHAT IT MEANS

ALL MARKETING WILL BECOME INTERACTIVE

The primary hypothesis driving this year's forecast is that marketers are wising up to the ways of online marketing and will actually better distribute their dollars across all relevant channels rather than hyperfocus on the one that seems most en vogue. As this practice plays out over the next five years, we do not expect that a significant mass of traditional marketing dollars will slowly move online but rather that interactive technologies will gradually infiltrate all media — including such traditional paragons as television, billboards, and direct mail. How will this change come to pass?

- **Planning and execution will shift from channels to customers.** Forrester expects that the question, "How big will the X channel be in 2012?" will be obsolete in five years as marketers find it increasingly difficult to determine when and how to leverage which of the myriad available channels. Instead of planning for a set "search budget" or an "online video campaign," marketers will instead organize around "persona planning" — that is, they will plan around generating a desired response from a priority customer type. In response to changing customer behavior, channel optimization will take place on the fly, shifting budgets between channels dynamically.

  Google is already priming for this future by aggregating a cross-channel media network to sell familiar performance-based media. Microsoft too has aggregated its multiple media properties onto AdCenter, a singular, ad management platform that will eventually buy across media in response to a marketer's preset budget and target profile. And outside of the media giants, new online marketing suites like an evolved version of Omniture's Genesis will also develop to allow marketers to set up campaigns in a singular campaign management interface and implement them through a network of execution partners.[32]

- **The interactive marketing organization will dissolve.** As firms prioritize customer centricity, they will recognize that maintaining separate teams to manage different sets of channels that all target the same customers makes no sense. They'll do what they did with their eCommerce teams in the early 2000s and roll all marketers back into one organization structured by customer types or by business objectives for those customers, i.e., acquisition, retention, or loyalty. In addition, as online media-buying and execution models — like pay-for-performance pricing, performance optimization, and ad exchanges — extend to offline media, interactive marketer skills will become highly sought-after by other marketing departments.

- **The CMO will come from interactive.** No doubt, interactive marketing is gaining executive visibility as much for its popularity with young consumers as for its measurability and cost effectiveness. Companies like Target are finding that their interactive marketing teams are at last helping to define their company's customer strategy. While this will be a refreshing development for long-suffering interactive veterans who have struggled for a decade to establish interactive media's credibility, we believe that a class of marketers will actually embrace interactive as their ticket to the executive spotlight. Look for young, aggressive marketers currently at the director level to involve themselves with a few high-profile interactive experiments via emerging channels like social media and online video. Success with these initiatives will secure the endorsement of the CFO and CEO and catapult these whippersnappers into the CMO seat.

- **Large interactive spend will be expected and accepted.** We're betting that most readers' stomachs flipped a bit when they realized that Forrester is projecting that interactive marketing will reach 18% of all marketing spend by 2012. But don't worry. Interactive components are already becoming more tightly integrated with all media. And traditional channels are taking on digital elements. For example, today marketers can buy spot television ads online through Spot Runner; they can also customize TV ads for different audiences through Visual World or tie mobile interactivity to billboards a la the Nike ID digital billboard in Times Square. As these innovations become more commonplace, we expect that spending 18% of total ad dollars on interactive will actually be easy for marketers to stomach. Instead of being "money to experiment with new channels," future interactive investments will be "money to enable marketing."

SUPPLEMENTAL MATERIAL

Online Resource

The underlying spreadsheets for Figures 7, 8, and 9 and 11, 12, 13, and 14 detailing the forecasts are available online. Readers can adjust the cells colored in light blue to create a forecast customized to their own assumptions.

Methodology

An online survey of interactive marketers was conducted in July 2007. Marketers were invited to complete the survey in return for a copy of the report as well as the opportunity to win gift certificates to Amazon.com.

Companies Interviewed For This Document

Akamai

Captivate Network

CBS

Commission Junction

Cymfony

Facebook

Google

Idearc

Linkshare

MSN

MySpace

Organic

Panache

Performics

RealNetworks

Reprise Media

Vibrant Media

VideoEgg

WildTangent

ENDNOTES

[1] Interactive marketing is finally gaining executive attention. But while budgets and expectations for interactive marketing programs are on the rise, supporting organizational structures are ad hoc at best. See the May 1, 2007, "Maturing Your Interactive Marketing Organization" report.

[2] Mainstay interactive channels like email and search are well adopted by marketers. However, emerging channels — although curiosities for marketers — remain relatively ignored. See the March 27, 2007, "Interactive Marketing Channels To Watch In 2007" report.

[3] When Forrester last sized the online marketing space in 2005, at least 55% of marketers agreed that online classifieds, online display ads, email, wireless, Web sites, and search engine marketing would increase in effectiveness. See the May 2, 2005, "US Online Marketing Forecast: 2005 To 2010" report.

4 The U.S. Department of Commerce's Bureau of Economic Analysis releases quarterly and annual reports on the GDP and corporate profits for the United States. Go here for the latest quarterly report: http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

5 Veronis Suhler Stevenson reports a 7% growth in all marketing spend from 2005, when it was at $221 billion, to 2006, when it was at $242.6 billion. See the Veronis Suhler Stevenson "Communications Industry Forecast 2006-2010" or the summary of its projections in the "Overall Ad Spending Reference" tab in this doc's associated Excel spreadsheet that underlies Forrester's forecasts in this report.

6 In early 2006 *BusinessWeek* reported on the "uncounted" investments made by businesses in intangibles like employee training and product design, which are not included in the US GDP. (http://www.businessweek.com/magazine/content/06_07/b3971001.htm)

7 The marketing funnel is a broken metaphor that overlooks the complexity social media introduces into the buying process. As consumers' trust in traditional media diminishes, marketers should measure engagement instead. Engagement includes four components: involvement, interaction, intimacy, and influence. See the August 8, 2007, "Marketing's New Key Metric: Engagement" report.

8 Paid search is primarily a direct response medium, which, without detailed commitment and analysis, is difficult to use to accomplish branding goals. Many brand marketers do leverage email, but the value of email to them is less obvious since it is also not a medium they can employ for direct sales.

9 Based on analysis of the respondents in our Q3 2007 US Interactive Marketer Online Survey, 40% of marketers who are just beginning email marketing programs have less than $20 million in revenues.

10 This forecast does not include classifieds, a channel only few marketers include in their interactive mix and budgets.

11 For additional detail on company spend by channel according to industry or company size, please access the Excel spreadsheet that underlies Forrester's forecasts in this report.

12 DoubleClick Performics indicates in its Q1 2007 Search Trends Report that, "There were nearly six times as many keywords with a CPC of more than $1 in January 2007 than there were in January 2006. This helps explain why CPK for the first three months of the quarter increased on average 33% per month over the first quarter of last year, while CPC rose an average of 55% per month." (http://www.doubleclick.com/insight/pdfs/DoubleclickPerformics50_Q1_2007.pdf)

13 Bid management tools help search marketers develop keyword lists, optimize and execute bids, and report on search marketing results — all capabilities key to keeping paid search ads performing well in the face of increasing keyword competition. See the June 13, 2007, "Bid Management Explained" report.

14 Marketers will move toward more sophisticated tools and partners as program complexity grows. In fact, 42% of advanced search marketers already use dedicated search marketing tools, and 14% outsource to full-service agencies. See the August 20, 2007, "Get Serious With Search Marketing" report.

15 PointRoll created a number of inventive ad formats, including the "FatBoy," which expands when users mouse over it. For a demo of this and other PointRoll formats, visit http://www.pointroll.com/showcase.html.

[16] In our annual projections of consumer technology and media adoption, we forecast that broadband penetration will reach 82.8 million households by 2012. See the September 7, 2007, "The State Of Consumers And Technology: Benchmark 2007" report.

[17] More than one-third (34%) of adults ages 18 and older say they view online video at least monthly. See the October 3, 2006, "Should Your Brand Use Online Video?" report.

[18] What keeps marketers from becoming more deeply involved with emerging channels is a lack of certainty that new media is being used by their customers and that it can effectively help them drive sales and boost loyalty. See the March 27, 2007, "Interactive Marketing Channels To Watch" report.

[19] Early ad networks failed to deliver on marketer expectations in part because their audience targeting was inefficient. See the June 26, 2001, "Ad Networks Bring New Value By Leaving Old Ways" report.

[20] Behavioral targeting was possible in the early days of online advertising, but advertiser efforts to identify relevant behaviors were constrained by the shallow click-through data available. Now technology specialists make it possible to create detailed behavioral profiles based on cross-site data like browsing activity, registration information, ad response, and blog postings. See the March 10, 2006, "The Reality of Behavioral Ad Targeting" report.

[21] Strategy consultancy The Monitor Group conducted a large-scale acquisition and customer-service approach for a North American brokerage to help it improve its customer retention. Read the detailed case study here: http://www.monitor.com/articles/index.php?op=view&breadcrumb=%3Ca+href%3D%2Fservices%2F%3EServices%3C%2Fa%3E+%26gt%3B+%3Ca+href%3D%2Fservices%2Fcase_studies%2F%3ECase+Studies%3C%2Fa%3E&id=84

[22] Source: Forrester's Q4 2006 Marketing Benchmark Survey

[23] Source: North American Technographics® Benchmark Survey, 2007

[24] Source: Consumer Technographics Q4 2005 North American Survey

[25] View a demo to see the VideoEgg online video overlay format in action: http://www.videoegg.com/platform/player

[26] Prior to launching its video overlay ad format, Google conducted trials of the product with YouTube users to test effectiveness. It found that consumers clicked on the video ads five to 10 times more often than they did banner ads on the YouTube site. VideoEgg confirms that its ads also see about five times more click-throughs than banner ads. (http://www.nytimes.com/2007/08/22/technology/22google.html)

[27] Not all initial responses to the Google/YouTube video ad format have been positive. Additional innovation is needed to make this ad format as appealing as possible to consumers. (http://googlewatch.eweek.com/content/youtube/youtube_users_rail_against_invideo_ads_1.html)

[28] MySpace released a research study in April 2007 called "Never Ending Friending" that examined the advertising and "momentum" impact of advertising on MySpace. The study is available at http://blogs.forrester.com/Never_Ending_Frieding_April_2007.pdf. See the July 5, 2007, "Marketing On Social Networking Sites" report.

[29] Successful mobile marketing campaigns are ones that respect the medium and deliver value to targeted audiences. See the March 29, 2007, "Best Practices: US Mobile Marketing" report.

[30] In-game placements are the flashiest of all the ways marketers can use games to advertise, but casual and promotional games actually reach a more mainstream consumer. See the July 6, 2006, "Why Game Marketing Matters" report.

[31] Casual gamers are older, female, and more motivated by family than entertainment; heavy gamers prefer games over TV. See the April 30, 2007, "Profiles Of North American Video Gamers — They're Not Who You Think They Are" report.

[32] Forrester believes that a suite of technologies will emerge that will manage the entire online marketing process, from planning through to execution and optimization. Stay tuned for an upcoming document defining this online marketing suite. See the March 10, 2006, "The Reality Of Behavioral Ad Targeting" report.

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