December 2011

eMarketer

Top Digital Trends for 2012

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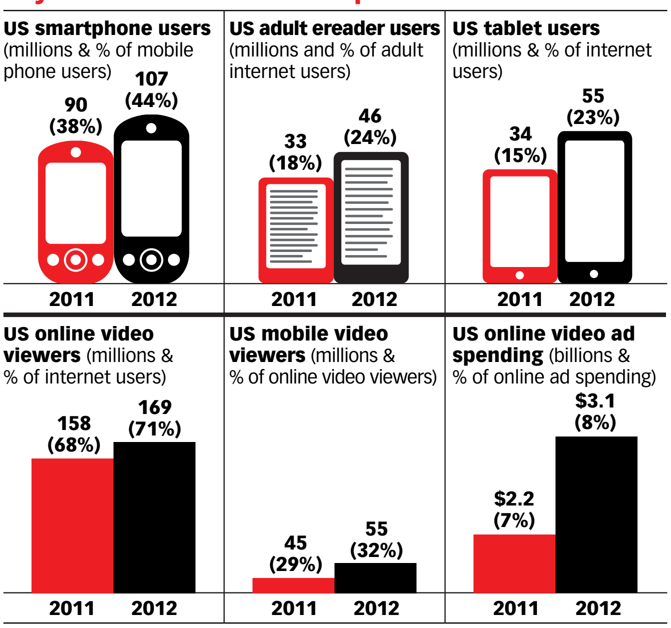
Executive Summary: Marketers, retailers, content owners and technology firms are more focused than ever on obtaining results from investments in digital marketing. If past years were about amassing data from the touchpoints between companies and consumers, 2012 will be about curating, filtering and measuring that information to drive outcomes.

Key eMarketer Numbers—Top Trends for 2012



Source: eMarketer, 2011

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To that end, retailers are synthesizing increasingly vast and complex data streams to inform decisions about inventories, pricing and merchandising. Marketers are taking a similar approach with the data they gather from the ever-expanding social web. Content owners are also using data-centric methods to analyze how people are consuming and sharing media. No longer satisfied with collecting "likes," fans, followers and viral hits, companies are now asking harder questions about the real value of these social network interactions.

More and more, marketers are realizing that traditional notions of interruptive advertising need to be rethought. Many are experimenting with branded videos, games, apps and online contests that blur the line between advertising and content. In some cases, these forms of "magnetic content" do a better job of brand projection than more conventional online video or display ads.

One of the keys to the success of magnetic content is that audiences are primed to consume media in increasingly diverse and fluid ways. People use smartphones, tablets, laptops, desktops, ereaders, game consoles, connected TVs and set-top boxes to access video and other content, and they expect that content to flow seamlessly across devices and media platforms. This presents opportunities for brand marketers and content owners that understand how to deliver to increasingly demanding customers. But it also challenges these companies to strike difficult balances between unfettered access and revenue generation, between intelligent targeting and privacy concerns, and between new and old content licensing models.

The collision of content and advertising will accelerate in the coming year as the political establishment gears up for the 2012 US presidential election. The upcoming contest promises to push the digital envelope as candidates make novel uses of viral videos, social networks, blogs and other sharing sites.

The eMarketer View

The accelerating pace of technology adoption, consumer behavior and content availability has formed a virtuous cycle. Increased use of smart devices, favorable trends in content consumption and growing access to digital media are creating a perfect storm for marketers, media companies, technology firms and end users. Smartphones are outselling feature phones, and tablets and ereaders are on a steep upward trajectory. These devices create demand for apps, streaming video and audio, games, ebooks and periodicals, social networking and other marketer-supported activities.

The more consumers adopt new technologies, the more comfortable they become with accessing content on every available screen and expecting the experience to be seamless across devices and platforms. The companies that are best suited to meet these formidable consumer expectations are those that can deliver hardware, software, content and social integration. And the marketers that will get the most out of this new content ecosystem are those that understand how to deliver the best possible experience for each platform.

The answer is blowin' in the cloud. Digital music is evolving from an ownership model to an access model as services such as Pandora, Spotify, Apple's iCloud and Amazon's Cloud Drive make their mark in the US over the next year. These services are reaching audiences through their own apps and portals, and lately through partnerships with Facebook.

This proliferation of content services would not have been possible without robust sales of smartphones and tablets, and without consumers having warmed up to the notion of consuming content on always-on, always-connected devices. The shift from discrete downloads to on-demand streaming presents opportunities for marketers, since streaming services such as Pandora and Spotify are funded largely by advertising.

Magnetic content represents a departure from the classic interruption model of advertising. Forward-thinking marketers are maximizing campaigns by creatively blurring the line between content and advertising. Some are finding that seeding catchy videos on viral channels like YouTube and Facebook can be a more cost-effective way to project brand awareness than spending millions of dollars on TV, radio and online ads.

Others are growing their audiences through custom games, mobile apps or user-generated content promotions. The goal now is to attract rather than distract, to engage rather than intrude. This trend will continue to pick up steam as marketers realize that some social channels are better suited to magnetic content than to traditional display or video ads.

Let's go to the video ad. Video is the fastest-growing segment of online advertising, and for good reason. The amount of online and mobile video content is exploding, and most of this content is supported by some type of video spot—typically an in-stream ad or overlay.

Further, non-video content is often supported by in-page video ads that expand when the user clicks on them. Video ads are considered more engaging and effective than static banners. eMarketer estimates that spending on video ads will more than double from 2011 to 2013 in key territories such as the US and UK.

A mobile marketing transition is under way as retailers and brand marketers shift from a check-in to a checkout mindset. A year ago marketers were using location-based services to get customers in the door. Now they are more interested in leading that customer toward a measurable outcome—a transaction, a "like," a shared link.

This trend can work in consumers' favors. A busy mom is almost certainly less interested in becoming the mayor of her block than in getting a 20% discount from a retailer who knows she's doing her holiday shopping at the local mall.

The revolution will be televised, streamed, shared, tweeted, linked, posted, blogged, aggregated, curated, scanned…and measured. More than ever, marketers and retailers are under pressure to show that online, mobile and social media advertising provide a good return on investment. The challenge is that there is no standard set of metrics that can prove ROI. Each campaign is unique in its goals and benchmarks, types of media used and the extent to which it combines online and offline channels.

Moreover, different industry verticals and brand profiles call for different approaches. The common thread is that measurement is becoming increasingly important as digital marketing budgets increase relative to overall marketing dollars. With a growing variety of data inputs to consider from sources such as social media, browsing histories, transactional behavior, demographics, geographic location and more, companies are under growing pressure to show that this material positively impacts the bottom line.

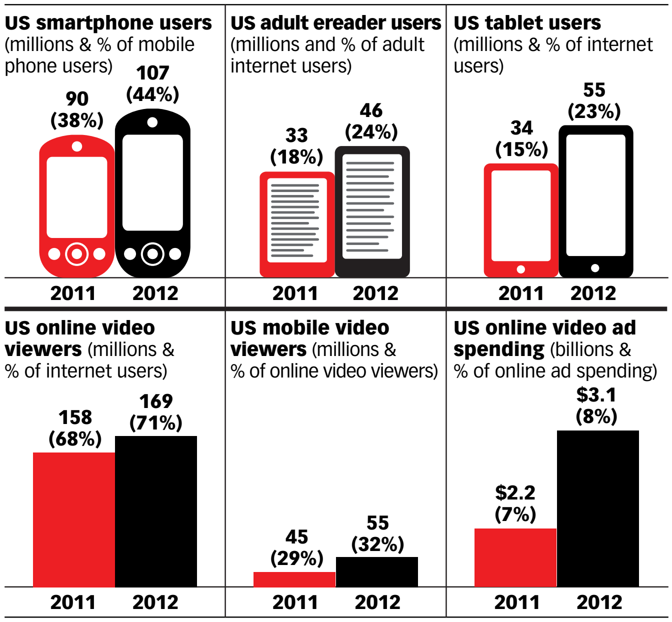
All politics is digital. In this age of divisiveness and super-heated rhetoric, all political discourse unfolds in a continuous loop on every digital medium, from YouTube to Twitter to Facebook. With 2012 being a presidential election year, the digital stakes are higher than ever. Campaigns will push beyond digital tactics used effectively in the 2004 and 2008 races, such as grassroots fundraising and mobilization of voters through Twitter and Facebook.

The next election will hit new highs in the use of display and video ads, Promoted Tweets, viral videos and more. Expect an onslaught of digital advertising and content to rival the relentless TV and radio spots that crowd the airwaves every four years.

The Virtuous Circle

Favorable trends in technology adoption, consumer behavior and content availability have created a perfect storm of opportunity for online and mobile marketers. These developments have been unfolding for the past few years but have accelerated thanks to the success of tablets, the ongoing strength of smartphones and the increased social sharing of video content.

Key eMarketer Numbers—Top Trends for 2012



Source: eMarketer, 2011

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Technology Adoption

Surges in tablet, smartphone and ereader adoption have stoked demand for content consumed on these devices, including video, audio, social media, games, news, books and periodicals.

eMarketer estimates that the number of US tablet users will reach 89.5 million in 2014, up from 33.7 million in 2011. Tablet users will make up 35.6% of internet users in 2014, up from 14.5% in 2011.

US Tablet Users and Penetration, 2010-2014

	2010	2011	2012	2013	2014
Tablet users (millions)	**13.0**	**33.7**	**54.8**	**75.6**	**89.5**
—% change	-	158.6%	62.8%	37.9%	18.3%
—% of total population	4.2%	10.8%	17.3%	23.7%	27.7%
—% of internet users	5.8%	14.5%	22.9%	30.9%	35.6%

Note: individuals of any age who use a tablet at least once per month
Source: eMarketer, Nov 2011

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The number of US adult ereader users will reach 53.9 million by 2014, up from 33.3 million in 2011. On the surface, this is a healthy increase, but a closer look at the trend line points to slowing growth as this product category becomes overshadowed by tablets. Usage is expected to grow by 37.2% in 2012 but only 5.8% in 2014, according to eMarketer estimates.

US Adult Ereader Users and Penetration, 2010-2014

	2010	2011	2012	2013	2014
Adult ereader users (millions)	**12.7**	**33.3**	**45.6**	**50.9**	**53.9**
—% change	95.1%	162.1%	37.2%	11.7%	5.8%
—% of adult population	5.4%	14.0%	19.0%	21.0%	22.0%
—% of adult internet users	7.0%	17.7%	23.7%	25.8%	26.7%

Note: individuals ages 18+ who use an ereader device at least once per month
Source: eMarketer, Nov 2011

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eMarketer's tablet and ereader forecasts are based on a meta-analysis of 2011 data on actual usage of these devices. Previously, eMarketer's estimates in these product families were limited to installed base of units.

eMarketer also expects robust growth in smartphone users, even though that product category is more mature than tablets and ereaders. By 2015, there will be 148.6 million smartphone users in the US, up from 90.1 million in 2011. These users will represent 58% of mobile phone users in 2015, up from 38% in 2011.

US Smartphone Users and Penetration, 2010-2015

	2010	2011	2012	2013	2014	2015
Smartphone users (millions)	**60.2**	**90.1**	**106.7**	**119.9**	**133.0**	**148.6**
—% change	49.0%	49.6%	18.4%	12.3%	10.9%	11.7%
—% of mobile phone users	26.0%	38.0%	44.0%	48.5%	52.8%	58.0%
—% of population	19.4%	28.8%	33.8%	37.5%	41.3%	45.6%

Note: CAGR (2010-2015)=19.8%
Source: eMarketer, Aug 2011

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Consumer Behavior

Viewing online video is a burgeoning habit among the US population, with 50.5% of the population engaging in this activity in 2011. Growth will continue at a modest pace through 2015, when penetration will increase to 60.1% of the general population. Online video viewers will grow to 76% of internet users in 2015, from 68.2% in 2011.

US Online Video Viewers, 2010-2015

	2010	2011	2012	2013	2014	2015
Online video viewers (millions)	**145.6**	**158.1**	**169.3**	**178.7**	**187.6**	**195.5**
—% change	11.3%	8.6%	7.1%	5.6%	5.0%	4.2%
—% of population	46.9%	50.5%	53.5%	56.0%	58.2%	60.1%
—% of internet users	65.0%	68.2%	70.8%	72.9%	74.7%	76.0%

Note: CAGR (2010-2015)=6.1%; internet users who watch video content online via any device at least once per month
Source: eMarketer, Nov 2011

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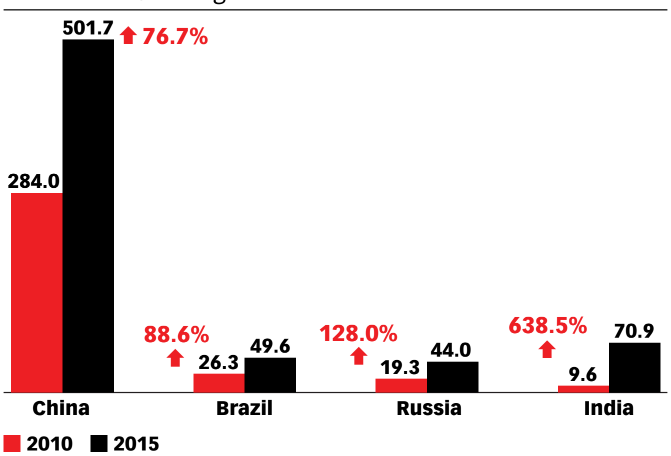
Growth in video viewers will be even more pronounced in other countries, according to a 2011 Cisco Systems study. For example, in large, fast-growing markets such as Brazil, Russia, India and China, online video viewer totals will grow by percentages ranging from 76% to 639% between 2010 and 2015. Cisco is also forecasting healthy increases in Western Europe, Latin America, Africa and other parts of Asia.

Online Video Viewers in BRIC, 2010 & 2015

millions and % change



Note: Brazil and China figures are Cisco estimates based on local telecom regulator data for current year and IDC for forecast; India figures are based on IDC and Ovum. Russia figures are Cisco estimates based on adoption rates from various consumer surveys
Source: Cisco Systems, "Cisco Visual Networking Index: Forecast and Methodology, 2010-2015," June 1, 2011; eMarketer calculations, Nov 2011

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With content channels such as Hulu, Netflix, Apple, Amazon and broadcast websites beefing up the amount of TV programming they offer online, US adult internet users will increase their consumption accordingly. The percentage of new Netflix subscribers who signed up for the company's Watch Instantly streaming service grew to nearly 75% in Q2 2011, compared with just over 33% in January 2011. Although Netflix shed 800,000 US subscribers in Q3 2011—a number that amounted to 3.25% of its domestic customer base and included streaming-only clients—the company expected streaming subscriptions to rebound in December 2011.

In 2015, 62.8% of adult online video viewers will watch TV shows online, compared with 49% in 2011.

US Adult Online TV Viewers, 2010-2015

	2010	2011	2012	2013	2014	2015
Adult online TV viewers (millions)	**50.9**	**61.9**	**73.3**	**83.0**	**91.0**	**97.1**
—% change	15.8%	21.7%	18.3%	13.3%	9.6%	6.7%
—% of adult population	21.6%	26.1%	30.5%	34.2%	37.1%	39.2%
—% of adult internet users	28.0%	33.0%	38.0%	42.0%	45.0%	47.0%
—% of adult online video viewers	43.6%	49.0%	54.3%	58.5%	61.2%	62.8%

Note: CAGR (2010-2015)=13.8%; internet users ages 18+ who watch TV shows online at least once per month
Source: eMarketer, Nov 2011

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In November 2011, eMarketer raised its forecast of US mobile video viewers, reflecting the health of the smartphone market and a proliferation of video content through mobile browsers, apps, subscription plans and downloads. In 2015, the number of mobile video viewers will reach 78.1 million, up from 45.1 million in 2011. Mobile video viewers will make up 30.5% of mobile phone users in 2015, up from 19.0% in 2011.

US Mobile Video Viewers, 2010-2015

	2010	2011	2012	2013	2014	2015
Mobile video viewers (millions)	**29.0**	**45.1**	**54.6**	**63.0**	**69.3**	**78.1**
—% of population	9.3%	14.4%	17.3%	19.7%	21.5%	24.0%
—% of mobile phone users	12.5%	19.0%	22.5%	25.5%	27.5%	30.5%
—% of online video viewers	19.9%	28.5%	32.2%	35.3%	36.9%	40.0%

Note: CAGR (2010-2015)=22%; individuals of any age who watch video content on mobile phones through a mobile browser, subscriptions, downloads or applications at least once per month
Source: eMarketer, Nov 2011

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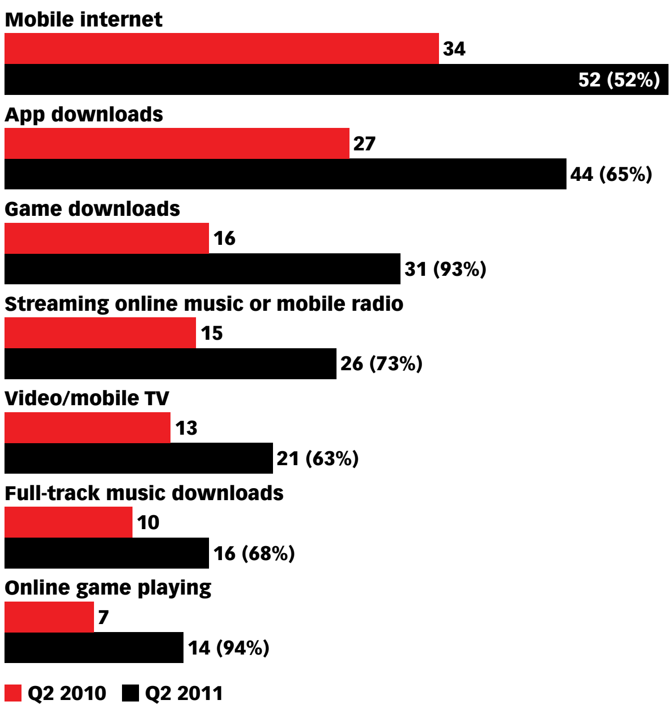
A longitudinal study by Nielsen of US smartphone subscribers' use of rich media found across-the-board increases in activities such as internet use, app downloads, game downloads, streaming music and video/mobile TV viewing.

US Smartphone Subscribers Engaged in Rich Media Activities, Q2 2010 & Q2 2011
millions and % change



Note: in the past 30 days
Source: Nielsen, "All About Android," Sep 15, 2011
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Content Availability

With device adoption on the rise and consumer behavior trending toward increased use of digital media on those devices, content owners are seizing the opportunity to capture audience share. A survey of the content landscape shows several areas in which availability has grown over the past year.

- **Episodic TV.** As the top venue for full-length TV programming online, Hulu served more than 1 billion ads at an average of 38.8 per viewer in June 2011, according to comScore. That compares with 566 million ads and 24.2 per viewer in June 2010. While part of that increase came from increased ad loads, the growth also reflects a deeper and broader content mix.
- **Movies.** Although the media has focused on a series of management missteps by market leader Netflix in mid-2011, the environment for streaming and downloading feature films remains healthy. After shedding some customers in Q3 2011, Netflix still had 23.79 million subscribers at the end of the quarter, a 42% increase from a year earlier. Premium streaming offerings from Amazon and Hulu, plus discrete downloads from the iTunes Store, round out an increasingly competitive digital movie market. These venues have stepped up their licensing activity in recent months, ensuring that more digital movie content will reach consumers in 2012.

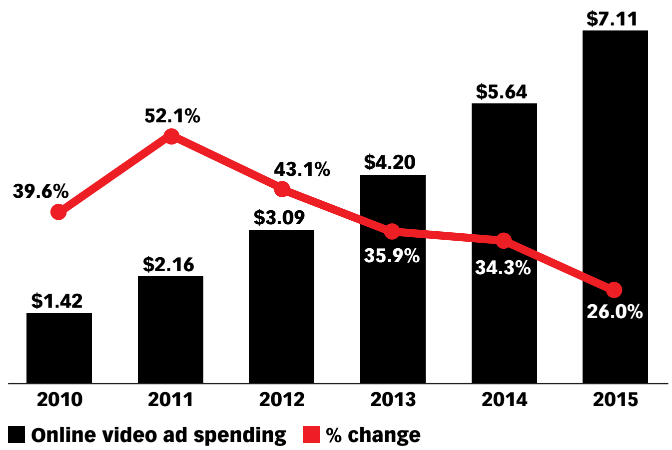
  Movie services are also beginning to emphasize social interaction. For example, in the 44 markets it serves outside the US, Netflix has partnered with Facebook for a tool that will surface friends' viewing activity. In the US, Netflix and Facebook have held off on implementing this feature for fear of violating a 1988 law that prohibits the publication of video rental information.
- **Humor video.** More and more video content in this popular genre is making its way to premium channels. For example, The Onion started as a print vehicle but has since evolved into a premium video venue with a strong presence on the web and on cable TV. Other humor video sites such as Funny or Die and College Humor have increased their visitor totals over the past year, according to Compete.
- **Sports.** The big four US sports leagues—Major League Baseball (MLB), the National Basketball Association, the National Football League and the National Hockey League—have expanded their online and mobile live-streaming offerings, using a mix of paid content and ad income to monetize them. At the same time, mega sports tournaments such as the National Collegiate Athletic Association's March Madness, the FIFA World Cup, the Olympics and the tennis Grand Slam events are growing their audiences each year through ad-supported streaming. Many of these entities have found that online and mobile access do not cannibalize TV viewing.

- **Music video.** Prior to the launch of VEVO in December 2009, the biggest venue for music clips was YouTube, where copyright holders felt the content was under-monetized. In September 2011, VEVO—a joint venture among Sony Music, Universal Music and Abu Dhabi Media—nearly tripled its traffic to 3.8 million unique visitors, from 1.3 million in September 2010, according to Compete. This growth underscores the channel's leadership in the music video space.
- **Made-for-web premium video.** In October 2011, YouTube announced a raft of partnerships with boutique production studios for short-form premium video content. The New York Times reported that YouTube invested more than $100 million in advances to its partners, indicating that the Google-owned channel is serious about a transition toward ad-friendly premium content, as opposed to the user-generated fare for which it is best known.
- **Ebooks.** Ereaders and ebooks will follow similar growth trajectories over the next several years, reflecting the close link between content and technology. However, ebook revenue growth will be even more aggressive than ereader adoption because over time more of this content will shift to tablets. PricewaterhouseCoopers and Wilkofsky Gruen Associates expect US ebook revenues to soar to $4.5 billion in 2015, from $1.7 billion in 2011. As a percentage of US book publishing revenues, ebooks are expected to reach 13% in 2014, up from 3% in 2010, according to iSuppli.
- **Epublications.** The growing device markets will have a similar effect on electronic periodicals. Although it is by no means certain that newspaper and magazine publishers will be able to reverse years of print revenue declines through digital platforms, they are in a period of intense experimentation that will result in increasing amounts of content on websites, mobile apps, social venues such as Flipboard and digital newsstands such as Zinio.
- **Music.** The US launch of Spotify and the rollout of cloud-based streaming services from Apple and Amazon are paving the way for a transition from ownership to access in the digital music space. Whether the access model will make economic sense for content owners, retailers, consumers or marketers is an open question, but what's certain is that 2012 will see a flurry of activity on the streaming front as stakeholders test new business models. As in other industries, device adoption and consumer behavior will be essential to growing the digital content pie.

Most of the content that's increasingly making its way to laptops, desktops, smartphones, tablets, set-top boxes, connected TVs and game consoles is supported by advertising. Even paid content such as Hulu Plus, MLB.tv and The New York Times online still contains significant ad loads behind paywalls, leaving plenty of opportunity for marketers to participate in the burgeoning content/technology economy.

These increases in the availability of premium content are helping drive up online video ad spending. eMarketer expects US online video ad spending to more than triple in the next four years. By 2015, spending will reach $7.11 billion, up from $2.16 billion in 2011.

US Online Video Ad Spending, 2010-2015
billions and % change



Note: includes in-banner, in-stream (such as pre-roll and overlays) and in-text (ads delivered when users mouse-over relevant words); eMarketer benchmarks its US online ad spending projections against the IAB/PwC data, for which the last full year measured was 2010
Source: eMarketer, June 2011

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Cloud-Based Music Streaming

Despite better-than-expected business in the first half of 2011, the recorded music industry remains plagued by a decade-long decline in CD sales—still its core product—and insufficient digital revenue to offset the difference.

Discrete downloads and ringtones were once hailed as promising revenue streams but both have fizzled. Even Apple, the company that pioneered the legal download model, is now pushing a cloud-based alternative, iCloud. Amazon is making a similar push with its Cloud Drive.

Both systems work on the same principle. The user gets 5 GB of free storage and an option to purchase extra space. For iCloud, prices range from $20 a year for 15 GB to $100 for 50 GB. For Cloud Drive, prices range from $20 per year for 20 GB to $1,000 per year for 1 terabyte.

Amazon's service launched in March 2011 and Apple's in October 2011, so neither has gained enough market traction to indicate whether there's a strong business case for the access model. However, other parties are moving in the same direction, notably Google Music, which transitioned from beta to public launch in late 2011.

Google and Amazon both built their services without licenses from the major music labels. By contrast, Apple waited until it secured label licenses before moving forward. As an indication of the tension level between the recording industry and the technology sector over the licensing issue, Google director of digital content for Android Jamie Rosenberg told All Things Digital, "Unfortunately, a couple of the major labels were less focused on the innovative vision that we put forward, and more interested in an unreasonable and unsustainable set of business terms."

The torturous licensing process delayed Spotify's US rollout for nearly three years after it launched in Europe. Since arriving in the US, it has amassed a sizeable following for its three-tiered services: a free, ad-supported version; an unlimited online streaming option for $5 a month; and a premium level that extends streaming to mobile devices for $10 a month.

Similarly, the music discovery service Pandora operates on a dual model, with a free, ad-supported tier and a paid subscription that allows users to bypass ads.

Profile of Select Cloud-Based Digital Music Services, 2011

	Description	Pricing	Cap
Amazon	A la carte downloads. Amazon Cloud Player allows cloud access to purchased/imported songs from any device. Browser-based cloud access.	A la carte pricing varies; cloud pricing based on storage size	-
Apple	A la carte downloads. iTunes Match allows cloud access to purchased/imported songs from any device.	A la carte pricing varies; iCloud $24.99/year	-
Google	A la carte downloads. Google Music allows cloud access to purchased/imported songs from any Android device. Browser-based cloud access.	A la carte pricing varies; free cloud storage	20,000 songs in cloud storage, max 250 MB per song
Pandora	Browser-based streaming. Automatically generates playlists based on an artist, song or genre. Songs not saved locally.	Free with ads; $36/year without	6 skips/hour per station (all users), 12 skips/day total (free users only)
Spotify	Desktop app. Hybrid model, saves partial files locally and streams the rest to eliminate load times. Extensive social media integration.	Free with ads; $4.99/month without; $9.99/month premium	Monthly cap: 10 hours, 5 plays/track (free users only)

Source: company reports, 2011

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The key to the long-term survival of these services is whether they can generate enough revenue for themselves, copyright holders, music publishers and other rights owners in the recorded music value chain.

Regardless of how cloud-based streaming plays out in the long run, 2012 will be the year in which this access-based approach will get a full test. As an indication of how streaming fits into the consumption spectrum, in September 2011 roughly equal percentages of US music consumers purchased music online, bought physical copies and streamed for free, according to a survey by music retailer eMusic. In each case, usage hovered between 49% and 53%. A slightly lower 42% downloaded files for free. Only 13% paid to stream online.

Method of Purchasing or Listening to Music According to US Online Music Consumers, Sep 2011
% of respondents

Note: ages 18-64
Source: eMusic, "Digital Music Consumer Behaviors: Ownership & Streaming" conducted by Insight Research Group, Sep 15, 2011
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This survey indicates that cloud-based streaming is a mainstream activity on a par with buying CDs or downloads, but that only a small percentage of consumers are willing to pay for this activity. If past usage of offerings such as Pandora and Spotify is any indication, cloud-based streaming will follow an economic model akin to virtual goods in social games: only a fraction of users will pay for premium service, while the majority enjoys a lesser level of service for free.

In another similarity with social gaming, Facebook may play a role here. The social network is inserting itself into the music streaming and discovery equation through partnerships with Spotify, Pandora and others. It has become common for Facebook users to share their Spotify sessions with their online friends. As cloud-based streaming continues to take hold, social channels such as Facebook could tip the scales to making the economies of the access model viable for all parties.

A key to whether the current generation of streaming services will succeed is the extent to which they provide promotional value. MTV and radio have generated revenue for songwriters, performers and labels, but their biggest contribution to the industry was their ability to spark record and CD sales. If enough people use Spotify, Pandora, Apple, Amazon and others as try-before-you-buy outlets, those services could play a similarly important, if indirect, role in driving business.

Magnetic Content Picks Up Steam

With increasing amounts of ad-supported content spreading across online and mobile venues, marketers are seeking new ways to distinguish themselves from the competition. It is no longer enough to come up with a clever ad and hope it catches on with its target audience. Forward-thinking marketers are reconsidering the interruptive approach to advertising and instead creating magnetic content designed to delight the viewer. This trend has been building momentum over the past year and will accelerate in 2012.

"The ad is yesterday. Content is the future."
—Oliver Newton, head of emerging platforms at Starcom MediaVest, quoted in the UK Online Publishers Association website, February 22, 2011

Magnetic content is designed to supplement rather than replace offline and online advertising. Ideally, the content should engage customers in ways that conventional ads cannot, thereby fostering loyalty and enhancing brand value.

This form of marketing involves blurring lines between content and advertising, as well as between online and offline media. It entails taking a holistic approach toward making a connection with the customer, whether through a viral video, an event, a 15-second sponsorship, a custom game, an email campaign or a Promoted Tweet. Marketers refer to this all-inclusive methodology by the acronym POEM, which stands for paid, owned and earned media.

Automaker Ford has been on the leading edge of experimenting with branded content and integrated campaigns. Over the past year, the company has:

- Launched the 2011 Explorer through a Facebook campaign that incorporated streams from physical launch events throughout the country
- Partnered with Hulu to develop a branded video series called "Focus Rally: America," which is modeled after shows such as "The Amazing Race"
- Held a user-generated video contest that rewarded winners with a trip to Madrid to test-drive the 2011 Focus
- Promoted the 2012 Focus through a Facebook page featuring humorous videos of a wisecracking orange puppet

These initiatives have convinced Ford's digital marketing team that social venues like Facebook can be used as content channels as much as advertising vehicles. According to a November 2, 2011, article in The Wall Street Journal, Ford purchased display ads on Facebook but stopped once the puppet videos went viral.

"You'll start to see us—and in general the industry—move away from just the static push advertising to more engaged conversations." *—Scott Kelly, digital marketing manager at Ford Motor Co., in an interview with eMarketer, February 8, 2011*

Macy's has been experimenting with magnetic content via the web video series "Wendy," which launched September 15, 2011. Episodes of this modern spin on "Peter Pan" are just five minutes long, but acting caliber and production values are on a par with network TV programming. Each episode is preceded by a pre-roll ad and opens with a "presented by Macy's" banner, but otherwise the branding is subtle. Characters wear Macy's clothing, and occasionally a Macy's bag or other branded item pops up. But the retailer does not insert itself into the plotline.

Macy's has been promoting "Wendy" through TV spots. Further, producer Alloy Entertainment has launched a Facebook page, a YouTube channel and other branded sites around the show. These venues have stoked viral interest in the show. As of November 15, 2011, YouTube views of individual episodes ranged from 82,000 to over 145,000. In addition, a music video of the theme song of the series—"Save Me," by up-and-coming indie rock band Golden State—had garnered 200,000 views.

As marketers such as Ford and Macy's are discovering, these types of integrated campaigns are most effective when content is woven through a broader branding strategy that includes multiple touchpoints.

Video Leads Online Ad Growth

Whether they think of it as magnetic content or advertising, marketers are increasingly focused on creating video assets. This type of media reproduces the richness that consumers associate with TV, often at a lower cost. And if online channels tend to fall short of TV when it comes to reach, they make up the difference by engaging viewers in an active, lean-forward mode.

The same trends that are creating growth in technology use, media consumption and content are driving huge increases in online video advertising. eMarketer estimates that US online video ad spending will grow by a compound annual rate of 38% in a five-year span ending in 2015, making it by far the fastest-rising category of online spending. By 2015, video ad spending will reach $7.11 billion, up from $2.16 billion in 2011. In the past year alone, growth was 52.1%.

US Online Ad Spending, by Format, 2010-2015
billions

	2010	2011	2012	2013	2014	2015
Search	$12.00	$14.38	$17.03	$18.85	$20.19	$21.53
Banner ads	$6.23	$7.61	$8.94	$9.93	$10.97	$11.73
Classifieds and directories	$2.60	$3.00	$3.35	$3.65	$3.98	$4.29
Video	$1.42	$2.16	$3.09	$4.20	$5.64	$7.11
Rich media	$1.54	$1.66	$1.73	$1.74	$1.73	$1.68
Lead generation	$1.34	$1.42	$1.45	$1.47	$1.50	$1.52
Sponsorships	$0.72	$0.91	$1.05	$1.18	$1.32	$1.47
Email	$0.20	$0.16	$0.16	$0.17	$0.17	$0.18
Total	**$26.04**	**$31.30**	**$36.80**	**$41.20**	**$45.50**	**$49.50**

Note: eMarketer benchmarks its US online ad spending projections against the IAB/PwC data, for which the last full year measured was 2010
Source: eMarketer, June 2011

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Similarly, in the UK, video advertising will lead the pack, growing by a compound annual rate of 65% over five years. By 2015, UK video online ad spending will reach $850 million, compared with $150 million in 2011. As a percentage of total online advertising, video will grow to 8.2% in 2015, from 2.1% in 2011.

UK Online Ad Spending, by Format, 2010-2015
billions and CAGR

	2010	2011	2012	2013	2014	2015	CAGR
Search	$3.61	$4.00	$4.45	$4.86	$5.37	$5.74	9.7%
Display	$1.45	$1.66	$1.94	$2.18	$2.45	$2.75	13.6%
—Video	$0.07	$0.15	$0.25	$0.40	$0.58	$0.85	65.0%
Classifieds and directories	$1.15	$1.24	$1.34	$1.47	$1.64	$1.73	8.4%
Lead generation	$0.06	$0.07	$0.07	$0.07	$0.07	$0.08	3.5%
Email*	$0.02	$0.03	$0.03	$0.03	$0.04	$0.04	11.2%
Total	**$6.30**	**$7.00**	**$7.84**	**$8.62**	**$9.57**	**$10.33**	**10.4%**

*Note: eMarketer benchmarks its UK online ad spending projections against the IAB UK/PwC/Warc data for which the last full year measured was 2010; includes mobile ads within the existing formats; converted at the exchange rate of US$1=£0.65; *embedded ads only*
Source: eMarketer, Nov 2011

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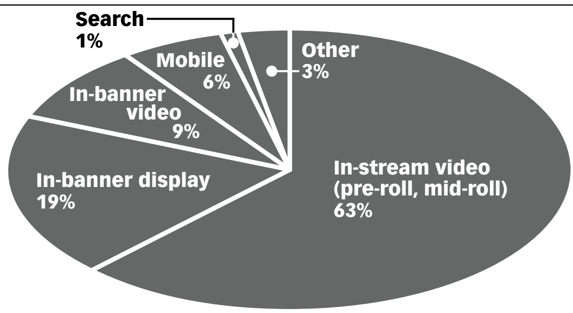
US online publishers are especially optimistic about the prospects of online video advertising. In a September 2011 survey by video ad network Brightroll, 63% of publishers said they expected in-stream video ads—pre-rolls and mid-rolls—to generate the most revenue for them over the next year.

Type of Online Ad that Will Generate the Most Revenue Next Year According to US Online Publishers, Sep 2011
% of total



Note: numbers may not add up to 100% due to rounding
Source: BrightRoll, "US Publisher Survey," Oct 26, 2011

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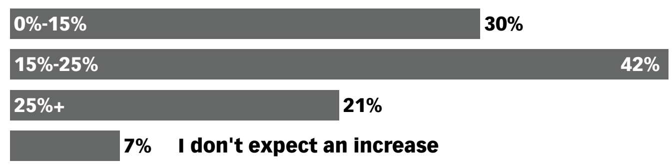
The same study found that 42% of publishers expected video CPM rates to increase by between 15% and 25% in the next year. High percentages of respondents also expected increases of up to 15% and more than 25%. Only 7% of participants said they didn't expect an increase in online video ad rates, likely indicating that publishers view this form of advertising as a rising commodity.

Amount that US Online Publishers Expect Online Video Ad Cost per Thousand (CPM) to Increase*, Sep 2011
% of total



*Note: *in Q4 2011*
Source: BrightRoll, "US Publisher Survey," Oct 26, 2011

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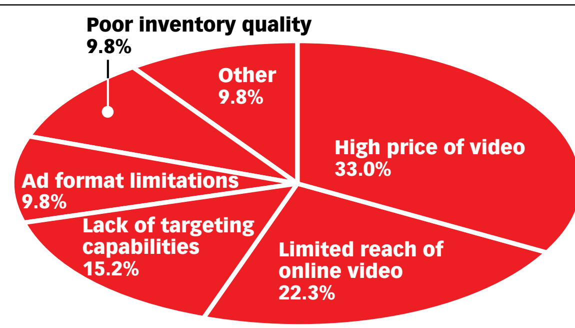
Despite these anticipated increases, there are challenges with online video ads. A separate Brightroll survey of US ad agencies found high prices, limited reach and lack of targeting to be the top three growth hurdles in online video advertising.

Factor that Is Most Limiting to the Growth of Online Video Ads According to US Ad Agencies, Q1 2011
% of respondents



Note: n=112; numbers may not add up to 100% due to rounding
Source: BrightRoll, "Video Advertising Report, Q1 2011," May 3, 2011

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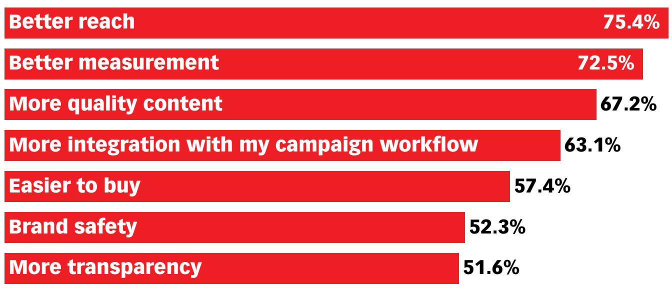
A DIGIDAY and YuMe survey of advertisers and agencies in North America noted that more than 75% of respondents would buy additional online video ads if the ads provided better reach. A similar percentage sought better measurement, and large numbers also identified amount of quality content and campaign-integration issues as areas that needed improvement.

Factors that Would Influence Advertisers/Agencies in North America to Buy More Online Video Ads, March 2011
% of respondents



Note: n=228; respondents who chose "very important" or "most important"
Source: DIGIDAY and YuMe, "State of the Industry on Digital Video," April 12, 2011
126884 www.eMarketer.com

Even with these impediments, video advertising will continue on a strong upward course in 2012 and beyond. Some of the contributing factors include:

- **Better filtering technologies for user-generated content.** This will allow ad networks and publishers to sell video ad space alongside content that has been difficult to monetize.
- **The emergence of cost-per-view and cost-per-engagement pricing models.** Under these types of structures—which are advocated by the likes of ad network Tremor Video, technology provider TubeMogul, YouTube and the Interactive Advertising Bureau—the advertiser pays only when the user clicks on an ad.
- **Increased use of interactive ad units and magnetic content.** As advertisers deploy more sophisticated ads with interactivity features and other elements designed to attract rather than distract viewers, the value of online video advertising will continue to increase.
- **Personalization and targeting of video ads.** A 2011 survey by EyeView and KAYAK found large increases in purchase intent, brand favorability and loyalty when participants were shown video ads that had personalized features, such as real-time flight deals at their local airport.

Checking In on Checking Out

With strong tailwinds from increased adoption of smartphones and tablets—and the apps, content and media consumption they enable—mobile marketers are setting their sights on using these devices to influence transactions. This represents an evolution of the mindset of getting the consumer in the door. Broadly, this is a cultural shift from check-ins to checkouts.

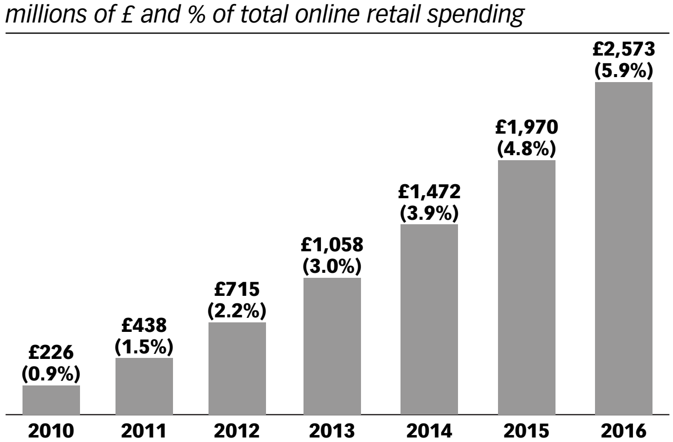
Although marketers and consumers still find value in services that use location parameters for their own sake, they are now more interested in harnessing geographic data to close a sale. This transition is driven partly by the fading novelty of services that were designed mainly to give people bragging rights for being the "mayor" of a local establishment. Consumers seem more interested in using their smart devices to get real-time deals or make purchases.

Worldwide revenues from mobile payments are expected to increase significantly. Firms that track this space, including Juniper Research, Gartner and Yankee Group, have used different methodologies and forecast periods, but they concur that the segment is poised for robust growth.

For example, Juniper expects worldwide mobile payment volume to rise to $670 billion in 2014 from $240 billion in 2011. Looking more specifically at point-of-sale transactions made using mobile phones, Yankee Group expects worldwide volume to increase to $40 billion in 2014 from $27 million in 2010.

In the UK, mobile retail spending will top £2.57 billion ($4 billion) in 2016, growing from £438 million ($686 million) in 2011, according to a Forrester study commissioned by PayPal. During this period, mobile will grow from 1.5% to 5.9% of online retail spending.

UK Mobile Retail Spending, 2010-2016
millions of £ and % of total online retail spending



Note: excludes digital downloads, travel and financial services
Source: Forrester Consulting, "The UK Mobile Retail Opportunity" commissioned by PayPal, July 2011
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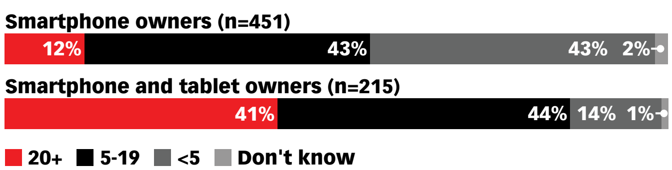
Drilling down to device usage in the purchase funnel, an August 2011 Ipsos OTX MediaCT study found that US owners of both smartphones and tablets were more prolific than smartphone-only owners in using these devices to make mobile purchases. This indicates a connection between device ownership and transaction activity and implies that the more tech-savvy the customer, the more likely he or she is to engage in m-commerce.

It is also possible that tablet owners are more likely to use the devices to shop from their couches, as one would do with a laptop. Even without this granular insight, however, it is apparent that increased adoption of both categories of devices should continue to spur purchasing activity.

Number of Mobile Purchases Made by US Smartphone-Only vs. Smartphone and Tablet Owners, Aug 2011
% of total



Note: in the past year; numbers may not add up to 100% due to rounding; read as 43% of smartphone-only owners and 14% of owners of both a smartphone and tablet made less than 5 purchases via mobile device in the past year
Source: Ipsos OTX MediaCT survey commissioned by PayPal as cited in press release, Oct 11, 2011

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Real-time discounts delivered to mobile devices will also accelerate, often in conjunction with location-based services. In an October 2011 interview with eMarketer, Stacy DeBroff, CEO and founder of Mom Central Consulting, noted that foursquare and Old Navy partnered on a promotion that allowed customers to realize substantial savings if they checked in to a participating store using the location-based service. She also described a partnership between American Express and retailer City Sports that connected check-ins with discounts.

On Black Friday, online merchants such as Gilt Groupe, Amazon and HSN launched aggressive, mobile-only deals aimed at shoppers waiting in line at retail stores. These strategies were predicated on increased use of smartphones and tablets for ecommerce and specifically designed to lure consumers away from the physical store toward an online destination.

Physical retailers are as threatened by these m-commerce tactics and as they are by barcode scanners and comparison shopping engines, which allow shoppers to quickly research competitive prices and deals. Ironically, the best way brick-and-mortar merchants can counteract the negative effects of these forms of marketing is through better use of their own mobile technologies, including apps, location-based services and real-time targeting.

The Revolution Will Be Measured

Measurability has always been one of the selling points of digital marketing, advertising and retailing. Champions of digital media have long argued that site visits, social media postings, online video views, clickthroughs and other consumer-to-brand interactions are inherently more measurable than the effects of TV, radio, print and outdoor ads.

Despite these perceived benefits, digital marketing has yet to yield standardized metrics that industry sectors can rally around. A benchmark that works for one campaign might be irrelevant for another.

In 2012, marketers and retailers will be more intent than ever on refining their approaches to measuring success. For some brand marketers, this might mean producing tangible evidence of the effectiveness of social channels. For others, it might require a tighter focus on curating information to filter out the useful from the useless. And for retailers, measurability and accountability will involve the intelligent use of multiple data inputs from online, offline and mobile sources.

Social Media Metrics Take Center Stage

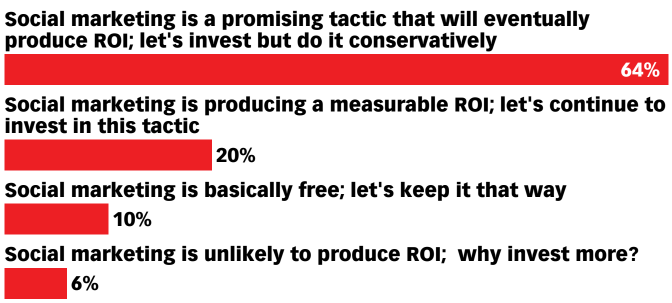
From the early days of the internet, the prospect of detailed metrics fueled the promise that online advertising could yield unprecedented insights about customer preferences and behavior. To date, that promise has only partially been fulfilled. True, online channels provide feedback that offline media cannot, but marketers are still grappling with how to make this input work toward the bottom line. The goal of all marketers is to make every dollar count, and more sophisticated data analysis, more detailed performance metrics and better integration of offline and online channels will help.

Branding campaigns, in particular, are as difficult to measure in the digital domain as they are in traditional media. With the economy stuck in neutral and competition increasing from all sides, marketers are under more pressure than ever to justify their growing digital marketing expenditures, particularly in the social space.

They may have a long way to go. The Econsultancy report "The State of Social Media 2011" noted that 41% of marketers surveyed had no return-on-investment figures for any of the money they had spent on social channels as of October 2011. Further, only 8% could attribute ROI for all their investments in social media. The survey sample was 60% UK, 14% non-UK Europe, 11% North America, 6% Asia-Pacific and 8% other regions.

In a 2011 Marketing Sherpa survey of US agencies and consultancies, only 20% said their clients felt social media marketing was producing measurable ROI. However, 64% were confident that this form of marketing would eventually deliver a return and were willing to conservatively invest in it.

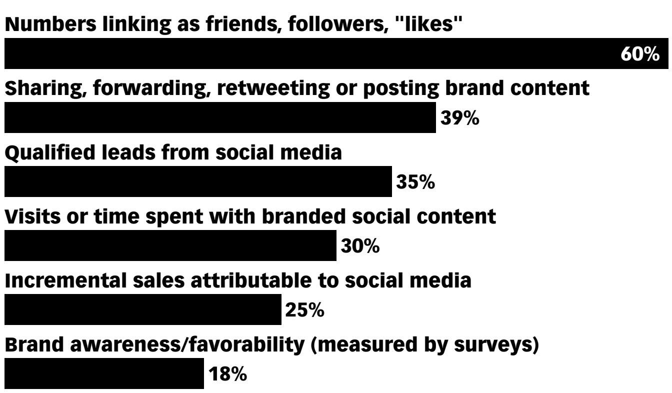
Attitude of Their Clients Toward Social Media Marketing's Ability to Produce ROI at Budget Time According to US Agencies and Consultancies, Feb 2011
% of respondents



Source: MarketingSherpa, "2011 Social Marketing Benchmark Report," Nov 15, 2011
134445 www.eMarketer.com

In August 2011, the top method used to measure the success of social media marketing campaigns was tracking the numbers of people linking as friends, followers and "likes," according to a Chief Marketer survey. Much further down the list was tracking incremental sales attributable to social media.

Methods of Measuring Social Media Marketing Success According to US B2C and B2B Marketers, Aug 2011
% of respondents



Source: Chief Marketer, "2011 Social Marketing Survey," Oct 1, 2011
133441 www.eMarketer.com

To date, marketers have been content to dabble in digital and social marketing out of curiosity or peer pressure. In 2012, they will need to focus more sharply on hard metrics to gauge digital and social marketing ROI. They will be pushed in this direction by economic and competitive forces and by rising expectations from internal stakeholders who are more interested in the bottom line than in creative experimentation. As the stakes get higher, these media will have to provide concrete business benefits.

In keeping with more holistic approaches toward brand marketing, companies are combining digital and traditional media to make each more measurable. For example, QR codes on a print or outdoor ad give marketers a trail that tells them a person physically viewed the ad and is interested in learning more. This type of cross-platform marketing has all the measurability that digital media offers, plus the added impact of gauging an important aspect of traditional marketing: knowing how many people paid enough attention to a billboard ad to take action.

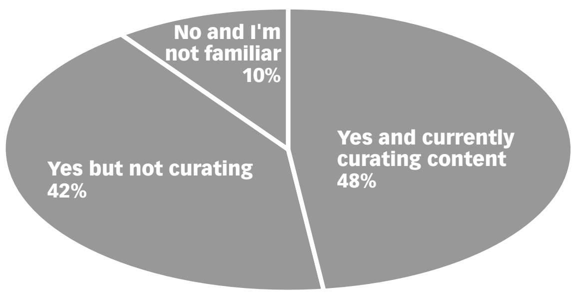
In a similar way, social TV apps can enable engagement with TV ads or programs. For example, the current models of Panasonic's VIERA TVs feature Twitter and Facebook streams on the right side of the picture. Program owners that track this social data will have more detailed metrics on how viewers are watching—and responding to—their content.

Content Curation

Marketers and retailers are moving beyond gathering terabytes of data from social sites, browser histories, blog postings and other venues where consumers express brand preferences. The goal now is to shift from acquisition to curation. Companies are focused on implementing filters that help them sift for the most relevant data. Without a well-thought-out curatorial workflow, companies can easily get bogged down in useless information.

Content marketing and curation specialist HiveFire describes content curation as "the process of finding, organizing and sharing online content." In February 2011, the company polled US marketers and found that 48% were familiar with content curation and employing some form of it. Another 42% were familiar with the concept but not using it. The remaining 10% had no familiarity with it.

US Marketers Who Are Familiar with Content Curation*, Feb 2011
% of respondents



*Note: *researching and gathering online content for a chosen topic followed by organizing and sharing the most relevant information with their audience*
Source: HiveFire, "Content Curation Adoption Survey 2011," March 30, 2011
126434 www.eMarketer.com

Further, 69% of respondents who curated content said finding, organizing and sharing online content was more important to their marketing strategies than a year earlier, and the same number said these tactics would be even more important a year from now.

In October 2011, HiveFire surveyed US B2B marketers and found that 56% were implementing curation programs, which represented a nearly 15% increase over six months earlier.

One of the challenges marketers face is that curation becomes more difficult and time consuming as digital content proliferates. Tools that manage this process are important, but they will not replace critical human input, according to digital advertising experts

In a posting on online marketing blog TopRank, Marketing Profs chief content officer Ann Handley wrote that she sees content services "providing an intelligent stream of curated stuff, but you still need a real, live human editor to pick and choose and order the best stuff for your own audience. Warm-blooded humans are still required, in other words."

Rohit Bhargava, SVP of global strategy and marketing at Ogilvy and an expert on digital marketing, called content curation "one of the hottest trends in social media" in March 2011.

In July 2011, Facebook CEO Mark Zuckerberg predicted that the amount of content shared on social networks would double in 2012, and again in 2013. If his estimates are correct, content curation will be an even hotter trend next year than in 2011.

Retailers Adopt Big-Data Approach

Retailers spend vast resources gathering data from online and offline sources. As these sources proliferate and the sheer amount of information balloons, retailers face a growing challenge in harnessing this so-called "big data" to inform decision-making in areas such as inventory management, advertising, marketing and personnel.

A June 2011 IDC report defined big data as "a new generation of technologies and architectures designed to economically extract value from very large volumes of a wide variety of data by enabling high-velocity capture, discovery and/or analysis."

The report noted that big-data inputs include transactional data, warehoused data, metadata, video surveillance, GPS information, other geolocation data and postings on social media venues such as Facebook and Twitter. Other touchpoints might include shopping cart information, site visits, video views, demographic profiles and past purchase activity.

A study by the McKinsey Global Institute estimated that a retailer using big data could increase operating margins by 60%. While the company did not provide specifics on the retail application, it highlighted five ways big data could create value:

- Making information transparent and usable
- Boosting performance by yielding accurate and detailed performance information on everything from product inventories to sick days
- Allowing narrower segmentation of customers and therefore more precisely tailored products and services
- Providing sophisticated analytics that improve decision-making
- Helping develop the next generation of products and services

In the same way that marketers are challenged with trying to make sense of an ever-expanding universe of digital information, retailers will be under growing pressure in 2012 to maximize inputs from online, offline and mobile sources. The larger and more complex the organization, the more important it will be to formulate and implement a big-data strategy.

Politics in the Digital Space

The quadrennial US presidential election cycle provides a window into the rapid evolution of digital media. Although no one can predict the results of the 2012 primaries and general election, the trends identified elsewhere in this report will have a bearing on how political parties, candidates, pundits and media outlets use digital platforms to broadcast their messages and mobilize the masses.

In the 2008 election, media companies broke ground by using YouTube as a venue for primary debates. And the Obama campaign made unprecedented, and effective, use of social media and text messaging. In the prior contest, Democrat Howard Dean pioneered the use of the internet as a grassroots fundraising medium. Even though he lost the primary, his tactics were imitated successfully by later candidates, notably President Obama in 2008.

The 2012 contest will feature all of these strategies and more. Candidates in the Republican primary pool as of early December 2011 routinely use Twitter and Facebook to post updates on campaign activities and raise funds. Republican Mitt Romney has gone one step further and become the first presidential candidate to use Promoted Tweets. Internet broadcaster Pandora is also getting into political advertising through targeted ads that use customers' ZIP codes to narrow down their locations.

Kantar Media said US political advertising could reach $4 billion in 2012, an increase of 53.8% over the estimated $2.6 billion spent in 2008. Other firms issued more conservative forecasts. Moody's estimated that total political ad spending would reach up to $2.7 billion in 2012 while S&P Capital IQ estimated political ad spending in the range of $2.6 billion to $2.8 billion.

Moody's and S&P Capital IQ concurred with Kantar Media that next year would shatter the previous spending record, set in 2008. Some analysts attributed these forecasts to loosened restrictions on corporate political ad spending in the wake of the 2010 Supreme Court decision in the *Citizens United v. Federal Election Commission* case.

Although Moody's, S&P Capital IQ and Kantar did not forecast the online share of political advertising, Kate Kaye, senior editor at ClickZ and author of "Campaign '08: A Turning Point for Digital Media," told an audience at a political advertising panel in July 2011: "We can expect more dollars to flow toward digital media in 2012 and see the share of the budget increase." She added that Facebook would rival Google as a venue for online political ad dollars, and that political video advertising on outlets such as YouTube and Hulu would increase.

With Twitter, Facebook, YouTube and other social sites now firmly in the mix, political ads, viral videos, tweets and Facebook updates will serve as hotbeds of activity for candidates, activists, lobbyists, voters and the media.

Just as political advertising dominates traditional media and tends to push the limits of people's patience, an onslaught of online political ads will risk alienating users of web and mobile media. Further, if political ads eat into other forms of online advertising, they could drive up prices across the board. 2012 will be a test case for the capabilities—and limits—of new media in the political domain.

Conclusions

Marketers, retailers, technology firms, content owners, publishers and consumers have different agendas in the digital media ecosystem, but they share a need to quantify the value of the growing amounts of data they handle on a day-to-day basis.

In 2012, the sheer volume of this data will increase across social channels, transactional systems, geolocation services and content streaming venues. Companies that make the best use of increasingly large, fragmented and potentially valuable inputs will be in the best position to compete.

eMarketer Interviews

Ford Blends Digital with Branded Content

Scott Kelly
Digital Marketing Manager
Ford Motor Co.

Interview conducted on February 8, 2011

Moms See Mobile Devices as 'Lifelines'

Stacy DeBroff
Founder and CEO
Mom Central Consulting

Interview conducted on October 13, 2011

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