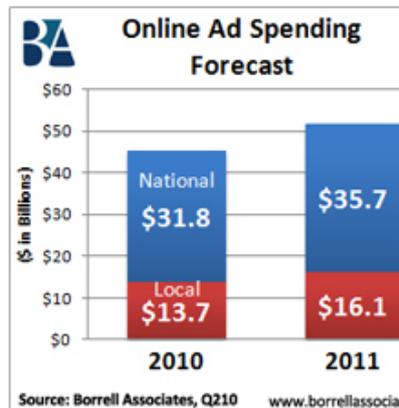


2011 ONLINE AD GROWTH TO OUTPACE TOTAL AD SPEND GROWTH



Borrell Associates is forecasting a moderate increase in overall ad spending for 2011, but continued strong growth for online advertising, including mobile. Overall, advertisers will increase their spending next year by less than 5% above this year's projected level, bringing U.S. ad spending totals to \$238.6 billion. We're expecting total online ad spending to grow almost 14%, from \$45.6 billion, in 2010, to \$51.9 billion, in 2011. The fastest-growing segments of online advertising are the local sector, anything targeted, and everything involving social media. By next year, local online advertising should grow by almost 18%, from \$13.7 billion, in 2010, to \$16.1 billion, in 2011. The big driver will be targeted display (such as banner ads) advertising, which we expect to grow almost 60% in 2011, reaching \$10.9 billion for national and local combined. While national advertisers will increase their use of targeted display by nearly 50%, local advertisers will outperform even that. Use of targeted display by advertisers local to the markets where their ads run will more than double, reaching more than \$2.3 billion next year.

However, the Web's initial darling –run-of-site display– continues to lose luster. Sales of run-of-site display ads will continue to decrease, dropping nearly 14% from this year's level – from \$9.5 billion to \$8.2 billion for both local and national. This early online format has simply been overshadowed by newer, more productive ad formats, and competition has pushed display unit prices down. Most of the spending decrease will come from national advertisers. Local run-of-site ads are forecast to decrease less than 3% next year.

The national paid search ad format will experience a double-digit spending decline next year, moving down 11.3%. This drop will be caused by lower pricing and churn, but will be mitigated by a local advertiser increase of more than 10%. (In general, local online advertiser trends tend to lag those of the larger national advertisers by about two years, and that is certainly the case for paid search.) Local spending decreases in paid search are sure to follow, perhaps as soon as 2012.

Email advertising will see moderately strong growth in 2011, up 9% to \$16.0 billion for national and local. Growth in this format is almost all from national advertisers; only 3% is local. White paper marketing is a major contributor to its popularity – especially among B2B advertisers.

The streaming video format is expected to continue its dramatic growth, increasing more than 60% to \$5.6 billion next year. More DIY and less expensive tools put this ad format within the budgets of even small advertisers. Because of this, two out of every five streaming video ad

dollars will come from local advertisers next year. Streaming audio, on the other hand, looks to remain a footnote. Though it too will enjoy double-digit ad spending increases in 2011, streaming audio has yet to pass the \$1 billion ad spending level.

Unlike legacy marketing, where promotions overshadows advertising, online advertising has historically gotten far more attention from marketers than online promotions. But changes are coming. Online promotions will top \$24 billion next year, up 10% from this year's totals. Much of this increase will be due to the rising use of online couponing, forecast to grow almost 14%, to \$9.1 billion, in 2011. Proximity advertising is also on the rise, up 11% next year. Mobile devices that can tell users when a particular merchant is in their immediate vicinity continue to sell briskly, and advertisers are expressing interest in this form of advertising.

Mobile marketing continues to grow, fueled by ubiquitous apps, user-friendly browsers and 3G/4G speeds. As smartphone ownership now comprises 25% of all cellphone ownership, mobile ad sales will enjoy growth of more than 20 cents of every online ad dollar spent next year.

Subscribers to Borrell research will be able to download the 2011 **Detailed** Forecast for free. Everyone else will be able to download the 2011

Summary

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The next Borrell 2011 Forecast will be issued as 3rd quarter data becomes available. For questions about this forecast, please call 757-221-6641 or e-mail

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