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**Keywords:** digital, online, internet, banner, data, market size, advertising spend, audit, Europe, trends, media substitution, digital networked society

# Europe crosses its online tipping point

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## Abstract

Online advertising is changing the mix of media choices in campaigns across Europe. Since 2000 the web has become established as a mainstream consumer media channel in most European countries, and across the continent marketing budgets are now starting to follow the migration of the audience's eyeballs and people's focus. They are yet to reflect the full truths emerging in media consumption within the digital networked society, but they do reveal a clear picture of the scale of change that has started in where the advertising industry places its focus. The pace of digital development and the balance of digital in the mix continue to vary greatly between countries, and this paper records a snapshot of where the markets were in 2005. What emerges is a shift in marketing spend on a scale previously unseen, and the certainty that growth will continue at rates never witnessed among traditional channels. After more than a decade of speculation about a new digital marketing mix, Europe has crossed its tipping point.

## Boom, bust and back again

The European online media markets restructured quickly after the dot.com collapse of 2001. The resurgence that followed has been fast and steep, and touched every country. Ten years of gradual increase in the role the web plays in people's lives have now started to be quantified. The radical change in the daily media consumption of people across the continent has seen online account for a quarter of the time most people spend with media. Among some younger demographics online has even overtaken television to become the lead media they choose, and the advertising markets are now responding, moving at a quicker pace than ever before to catch up with where their audiences have shifted. The scale of this restructuring in media presents structural barriers for many firms to harness, but the trajectory of change is clear.

## Total market size

European online advertising spend comfortably broke €4.5bn in 2005 for the first time, yielding a total of €4,572m for the markets surveyed. Data were collated from the 14 national IAB trade associations and their partner research houses, and although the methodologies and datasets vary significantly, consistent patterns still emerge. Because datasets were not available in several countries — including Sweden, Norway, most of

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**One firm may be putting more than 25 per cent of its advertising budgets into online, another may be yet to move beyond tokenism**

**Tracking the digital sophisticates online tops 2 per cent of media spend in eight countries**

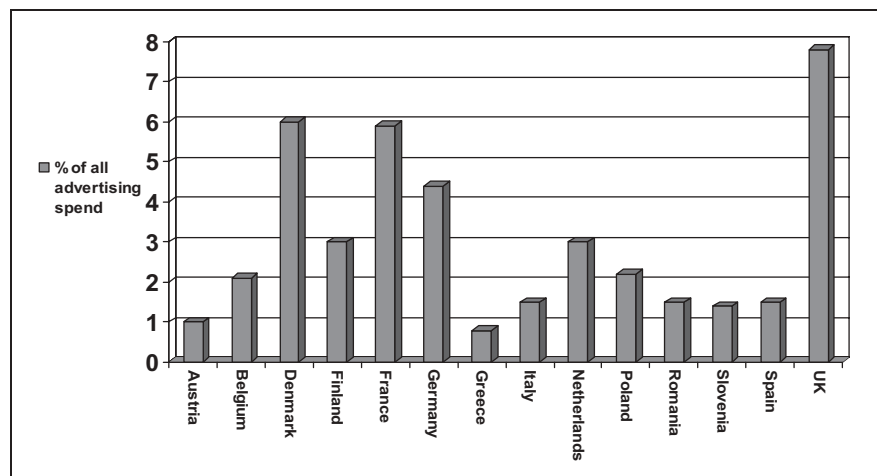
the Balkans and the Baltic states — this represents a minimum market size.

The in-depth interviews that accompanied collection revealed that a cascade effect is clearly under way as key opinion formers in each country's marketing community discover the potential of these new tools, and deeply embrace online. As an innovation, online marketing is poorly distributed, and it is not unusual to see two firms within the same sector behave radically differently. One firm may be putting more than 25 per cent of its advertising budgets into online, while another may be yet to move beyond tokenism. When the change in behaviour comes, initially it is concentrated within just a few firms, and its spread to the entire market leads to significant disparities along the way between the use of online in different marketing sectors as well as between different firms.

### Market share: the key metric to watch

Examining the market share online enjoys of the total media spend in each country is one of the most effective ways of gauging the digital sophistication of an advertising economy. In 2005 online advertising took more than 5 per cent of all advertising spend in three European markets and more than 7 per cent in one (Figure 1). Across Europe share varies from around 1 per cent to just under 8 per cent. Many more countries are closing on the 5 per cent threshold this year, and that equates to online media spend moving ahead of other channels such as radio. We consider the 2 per cent threshold to be a convenient delineator for when online is considered a 'mainstream' media channel, and eight European markets have already crossed this tipping point: Belgium, Denmark, Finland, France, Germany, the Netherlands, Poland and the UK.

This research only presents officially recognised data from each market, and, with search engine advertising proving difficult to track in most countries, these figures probably understate the real market size.



**Figure 1:** Tracking the digital sophisticates — online's market share of advertising spend by country  
Source: DigitalStrategyConsulting.com /IAB Europe, *Digital Europe*, Edition 7, June 2006. See [www.digitalstrategyconsulting.com](http://www.digitalstrategyconsulting.com) and [www.iabeurope.ws](http://www.iabeurope.ws)

Only in the UK has an official declaration of revenues by leading search engines removed any ambiguity in the data, and this probably contributes a little to the disproportionately large share of Europe's total online ad spend for which the UK accounts (42 per cent of all European spend). Were search to be fully factored in then Italy too would be reaching the 2 per cent threshold and many other countries would be much higher.

With online advertising figures among the most accurate datasets in the digital networked economy, these figures can be used to understand much wider trends in the digital marketing industry (Table 1). It may appear as a crude indicator, but the well-documented growth of online advertising acts as an excellent barometer for the wider digital marketing industry, from the switch to customer acquisition through search engine optimisation to the migration of retention marketing into e-mail. As a founder of the UK's Internet Advertising Bureau in 1997, the author helped put in place the audit of online ad spend that continues to provide the official data today, and this historic dataset unveils rich insights that can be applied to other market's developments. But for a marketing channel that prides itself on accountability, ironically there remain structural weaknesses in most other datasets, so the figures for online advertising spend hold implications way beyond the search keywords, banners, rich media, classifieds and tenancies that they aim to count.

### The three digital giants and the digital sophisticates

Europe's 'digital giants' — the UK, France and Germany — continue to account for more than 85 per cent of all online ad spend in Europe

**Table 1:** The growth in online ad spend

Country	Total online ad spend 2005 (€m)	Market share (%)	% increase 2005 on 2004
Austria*	35	—	20
Belgium**	41	2.1	38
Denmark	81	6.0	—
France	1,100	5.5	74
Finland	36	3.0	—
Germany	885	4.4	60
Greece	15	0.8	25
Italy	138	1.5	16
Netherlands*	90	3.0	49
Poland*	26	2.0	60
Romania**	2	1.5	—
Slovenia	4	1.4	40
Spain**	150	1.5	50
UK	1,940	7.8	63

Notes:

\* Annual market value based on actual figures for part of the year.

\*\* Market value based on estimates from industry body.

German data exclude classified advertising and French data are based on ratecard, making direct national comparisons difficult.

The estimate of the Austrian market is based on actual figures for H1 2005.

The value of the Finnish market does not include spend on search or directories.

The value of the French market is based on ratecard value.

The value of the German market is does not include spend on classified advertising

The value of the Italian market does not include spend on search.

The estimate of the market in the Netherlands is based on actual figures for Qs1, 2 and 3 2005.

The estimate of the Polish market is based on actual figures for H1 2005.

The estimate of the Romanian market is based on 2004.

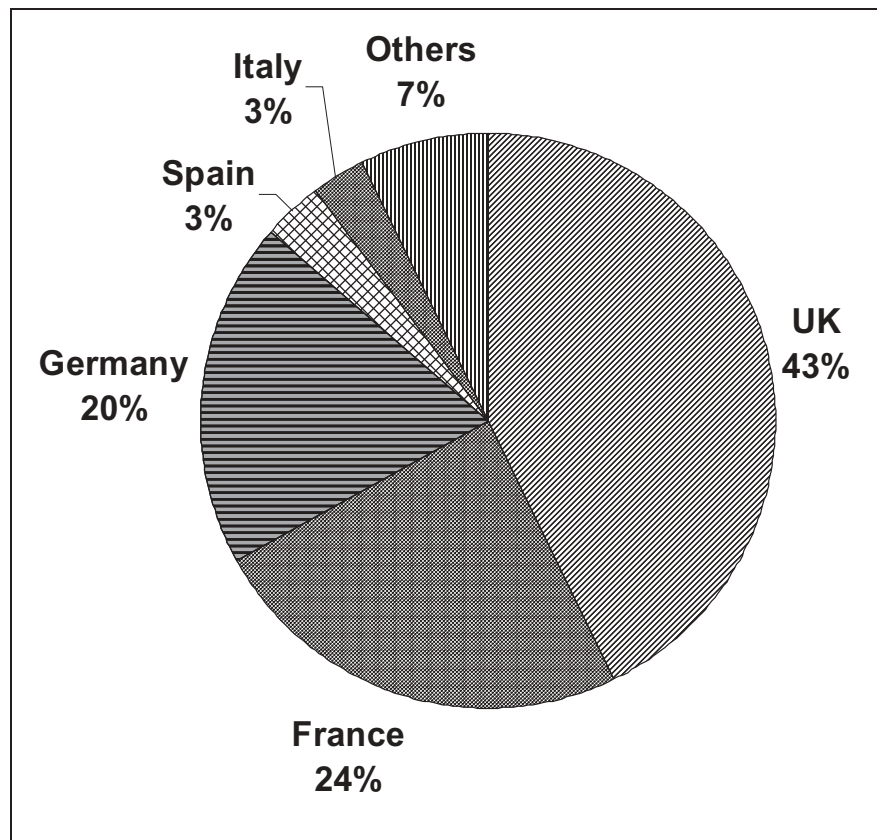
The exchange rate used to calculate the value of the UK market in Euros was £1: €1.42.

**The UK continues to lead the pack, both in terms of total online spend and market share**

(Figure 2) but the share of spend online takes within Scandinavia reflects that countries such as Denmark are also among the leaders in terms of the digital sophistication of their marketing industry. The UK is uniquely a digital sophisticate and a digital giant, and that is why the market proves such an exciting laboratory for other countries to learn from. When data for the rest of Scandinavia are available more digital sophisticates will be discovered.

The UK continues to lead the pack, in terms of both total online spend and market share, which crossed 8 per cent in the summer to yield an average of 8.4 per cent of all media spend across the second half of 2005. All this followed 12 consecutive record-setting quarters.

But the latest figures collated also reveal the stark contrasts between the more advanced networked economies of north-west Europe and those of the Mediterranean and the emerging faster-growth markets of Central and Eastern Europe (CEE). The CEE markets are growing at relatively fast rates, and among the former Soviet-bloc countries the legacy of fewer traditional media channels, combined with an advertising industry whose members are both young in both age and tenure, is providing the conditions for a leapfrog effect in the use of marketing channels. With a less entrenched traditional media legacy the conversion to online will be faster.



**Figure 2:** The three digital giants — eating the lion's share of Europe's online ad pie  
Source: DigitalStrategyConsulting.com /IAB Europe, Digital Europe, Edition 7, June 2006, see [www.digitalstrategyconsulting.com](http://www.digitalstrategyconsulting.com) and [www.iabeurope.ws](http://www.iabeurope.ws)

## Drivers of growth

Several markets have enjoyed ten or more successive quarters that each saw new records set for the amount invested in online marketing. Regardless of what happens in the wider marketing community, online is on the rise — rapidly. There are more than 20 drivers of the industry's growth, and although the relative mix of drivers varies within each country (as of course does the landscape of domestic technology), the size of the potential market continues to expand. Even if the growth in the number of people with internet access levels out at 70 per cent, the time each person spends online is critical to explaining the growing importance of the channel. Although hard to quantify, the web is playing a consistently growing role in daily life, and this continued growth in engagement guarantees the continued high growth of online advertising in all markets.

## The switch to search

Search has fundamentally changed direct marketing. Not all brands have realised this yet, and even among those which have, relatively few have gone on to unlock its full potential. What the founders of Google, Overture and E-Spotting stumbled upon at the very moment of the dot.com crash was the golden formula for customer acquisition. In the UK last year the search engine market was worth more than the whole radio advertising sector, and this year it should top consumer magazines. All this only six years on from when Google hired its first international employee and let her set up shop in London. It is still staggering to reflect on the pace of that growth.

The switch to search engine keywords is not just a switch to an entirely new advertising format, it is the switch to a model native to the medium. Since 2000 Digital Strategy has been talking about the digital networked economy, and the unique aspects of how it behaves. Search exemplifies this, harnessing social networking with customer empowerment and transparent pricing. Frictions in the supply of advertising are removed, and through dynamic bidding the price paid equates to the customer's value in the eyes of the advertiser.

But it is also the switch back to an old direct marketing model, although enriched by new efficiencies. Paying a fixed price to acquire customers and then bringing them straight into the sales pipeline of the business is a powerful offer. Harnessed with a web analytics engine, and under the controls of smart marketers, what you have is no longer an 'advertising' spend but a new factor in the cost of sales. Press your foot down to acquire more customers, and take your foot off the gas when your firm reaches capacity constraints; marketers truly driving the business.

The explosive growth of search engine listings is strongest in the UK, but is a common theme across Western Europe and Scandinavia. As Google and Yahoo build out their offerings in the CEE countries, a combination of increased supply and ramped-up marketing will see direct marketing in those countries flip even faster than it has in France and Germany.

**Search has fundamentally changed direct marketing**

## **The humble banner and his rich friends**

When the IAB created the banner back in 1996 there was no expectation that it would still be one of the main formats a decade later. At the time it filled a vacuum, and that is why it became the fastest-adopted media format in history. In 1998 a group of us expanded the range of formats, and later we worked on larger set of shapes — a universal advertising package — in 2003. All of these continue to fare well. And though search may be grabbing the headlines, banners are still grabbing the brands.

The new generation of web banners that use sophisticated ‘behavioural targeting’ techniques will carry graphical advertising to new levels of precision, learning about the viewer’s interest and providing tailored messaging. Television-like commercials can now be easily reproduced inside standard graphical formats, allowing TV assets to be rebroadcast online and the campaigns to stretch further. The creative power of the engaging ‘rich media’ formats — the ones that take commercial messages across the whole webpage — has given creative directors a new-found freedom, and the standardisation of both workflow processes and formats has removed a barrier that long held agencies back from recommending the web.

## **The late majority**

But that does not mean every advertiser has discovered what online can do. In diffusion marketers are familiar with the ‘innovators’ and the ‘laggards’, but apply this to the online marketing industry itself and it yields an interesting observation: the late majority are yet to show up. Like any marketing innovation, there are some firms which lead and some which follow, but the skewed distribution of these innovations means the bulk of marketers are only just starting to change the way they behave. Online may be enjoying a high — and rapidly growing — share of advertising spend in Western and Northern Europe, but this hides a more interesting insight: most European firms are yet to start advertising online at all. These figures represent a simple average of an entire country. Dig deeper and one will find companies which have become experienced in online advertising putting 25 per cent or more of their budgets into the web, while others in the same business sector may be yet even to start.

**Most European firms are yet to advertise online at all**

## **Building brands, generating response**

Ironically, one key challenge that held the industry back was its diversity. Because online can support any aspect of the marketing mix, the breadth of choice can be daunting. Smart online marketers realise it is about more than having a successful website. They have discovered how online marketing can support every step in the customer’s journey — from the early stages of raising awareness of a brand through the sale itself and into the after-sales service. That is why the proportion of investment into online continues to grow as more and more firms discover the power of web advertising as both a branding and a direct marketing medium. When the researchers interviewed Nigel Morris, worldwide president of the communications agency Isobar, he was clear that the growth is unstoppable, but that agencies need to change: ‘The world of media is



changing and agencies across Europe need to be braver in crafting a new mix of media that really explores the rich variety of digital tools available and the vast European audiences you can reach with them.'

### **Advertisers: Time to look again**

All this has profound implications for client-side marketers. If the last time you thought about online was six months ago, then whichever country you are in it is time to take a fresh look. This is a medium that does anything but stand still, and the reason it remains the fastest-growing marketing channel in history is the power of its results. Whether for brand building or direct response, firms are turning to online, upweighting its role and using the expanding range of tools to create the right digital media mix for them. 'It's no longer a question of whether to invest; it's now a matter of how much,' said Michael de Kare-Silver, managing director of the AKQA agency, in a spirit that summed up the views of many agency heads who enjoyed working with the more digitally progressive clients. 'Marketers have realised there is no escaping the enormous impact that digital is having. The key now is to work out how to fit this new opportunity into the rest of the marketing mix.'

### **Media substitution: Clear evidence from the UK**

The migration of advertisers from one channel to another is now clear. Much of online's growth has been at the expense of other channels, with spend migrating from the printed newspapers, magazines and directories into online properties. Some new spend has come from sales promotion and PR budgets, and search is benefiting from a reappraisal of direct mail. New models of integrated media are emerging, but as yet, while they remain intuitively smart, they usually lack the analytics to quantify the optimisation of each media channel. Gradually this will change, and as it does those who need the structure of currencies and ratings to support their media planning decisions will have the confidence to embrace online fully. The new formats will enable the transition of television campaigns to the web, initially building frequency and extending the reach of existing TV campaigns, but later routinely creating new television-style assets as a core element in all TV campaigns.

The role of direct mail continues to suffer as acquisition budgets are redirected into search and retention budgets into e-mail (the spend on which is not currently quantified). Meanwhile classified advertising in newspapers and magazines is finally migrating to the web and, although recruitment is the largest single advertising sector online in several markets, much of the ad spend simply evaporates as the customer communication takes place either through the client's own website or through the vast range of free-to-place services like *Craigslist.org* and *GoogleBase*. While there are good examples of traditional media firms that are mounting strong responses to this 'disintermediation' — *The Guardian*, *Business Week*, the *International Herald Tribune* and *Haymarket Consumer Publishing*, for example — the actions of most media groups remain either inherently weak or reflect pragmatism over strategy.

**Much of online's growth has been at the expense of other channels**

### **Which industry sectors invest most?**

Financial services and recruitment remain the largest two client categories in many countries. Their products are a natural fit with the web environments and, as the firms refocused their marketing to include the web, audiences found the services useful and a virtuous circle developed. This has changed a great deal from the early days when IT and telecoms dominated the market. In the mid-1990s their products were a perfect fit for the first wave of web users, whose interests and employment were heavily skewed in favour of the same sectors. Then came the sectors whose products could be reviewed, inspected, compared and even sold without the need to touch them: books, CDs and travel among the higher-profile movers. Although every sector has its own early adopters, the migration in the marketing industry's focus only happens when enough firms realise the potential of the new marketing channel.

Structural barriers held back many sectors, and this remains the case in the less digitally sophisticated markets. For example, the lavish advertising creative of the motoring industry rendered poorly in the early online advertising formats, but the rapid take-up of video and 'rich media' since 2002 has tackled this. Fast-moving consumer goods were unconvinced initially because of concerns over the audience reach of online, and because the model of how it drove offline sales was unclear.

Before search keywords arrived small and local firms found the internet particularly difficult to engage with, and most held back for a long time. For the first few years after the dot.com crash they were saying how they found it difficult to get started because there was no roadmap. Many of the routes they tried proved to be time consuming, expensive, slow to deliver results or even devoid of benefit. But now that any firm can enjoy a basic site for almost nothing, and pay for customers with keywords bought on their credit card, the barriers have been overcome. Add to that the efficiency with which YellowPages firms like Yell.com in the UK have bolted the web into their sales process, and the structural barriers have been conquered.

**Before search keywords arrived, small and local firms found the internet particularly difficult to engage with**

### **Where next?**

The researchers started 2006 predicting online would overtake national newspaper advertising in the UK by the end of the year. They also voiced concerns that there was a £200m understatement in search engine advertising in the UK, and proportional understatements in most other countries. The revised figures confirmed this forecast — that the sector would cross 8 per cent in mid-2005 — and now that data challenges have been resolved, firms can have more confidence in forward projections.

Spend has been rising steeply throughout 2006 in most countries. Fuelled by even more search engine advertising, total spend should easily stride over 10 per cent in the UK this year, and probably earlier than November (suggested in Digital's initial annual forecast). This will place online above the UK's national press in the media hierarchy for the first time (Figure 3), and send an emotional message to strategic media planning firms which have not yet fully embraced the changes in media



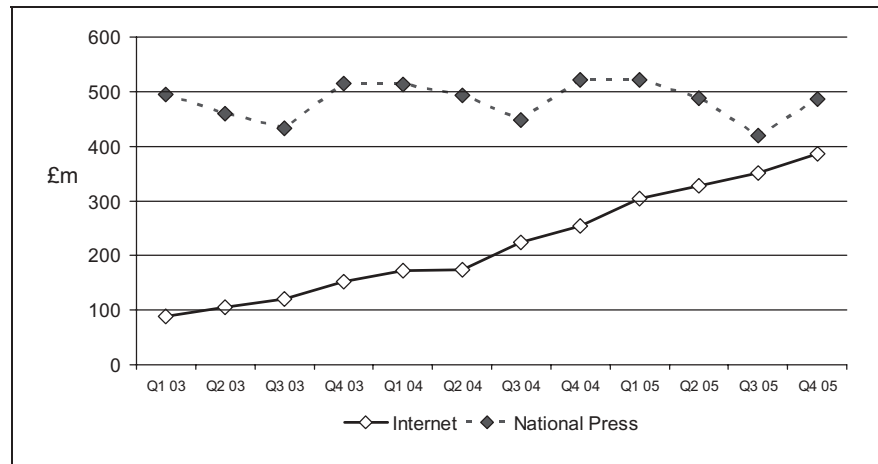


Figure 3: Search helps online close on national press

Source: PricewaterhouseCoopers /Internet Advertising Bureau UK /Advertising Association, 'IAB/PwC Online Adspend Study – Full Year 2005', 29 March 2006, see [www.iabuk.net](http://www.iabuk.net)

**The unlocking of pent-up demand will herald another step-change in how online is used**

consumption. This in turn will generate greater demand for online advertising, significantly at the expense of press and broadcast media.

But the implications of what is happening in the UK stretch well beyond its national boundaries. A significant portion of the pan-European online advertising industry is planned out of London agencies, and this shift in thinking is bound to have a knock-on effect for the mix of media in pan-European campaigns. The unlocking of the pent-up demand in this sector will herald another step-change in how online is used, and the relatively sudden arrival of new video formats — as well as a general increased ease of use and professionalism in online trading — will act as a powerful catalyst here. The researchers have been tracking the pent-up demand for multi-market and pan-European media campaigns for several years, but the internet industry's offers were not strong enough to unlock that demand until recently. The research confirmed that now it is finding a release valve through Europe's portals and sales networks, with firms like Yahoo, MSN and 24/7 RealMedia successfully offering pan-regional audiences through a single sales point and sales management team. As brand owners discover the power of having pan-European campaigns delivered with the immediacy of online bookings and the economies of centralised data analysis, a virtuous circle will quickly emerge.

Another way in which the UK's effect goes deeper is that throughout the last ten years the UK has often behaved like a laboratory experiment for revealing what then happens across most other European markets. While there are always national factors that make each market unique, the UK remains a useful indicator of what is set to come in other markets. For example, the emergence of CPM trading, the explosion of rich media, the adoption of larger formats in the universal advertising package and the switch to search all crossed their tipping points first in the UK before being replicated across the rest of Europe.

The evolutionary paths of the different groups of markets will continue, but will also continue to head towards a focal point. Total spend is certain

to continue rising at very strong rates (more than 30 per cent year-on-year in most countries), but even when it tapers off, it will settle at a level in excess of where television advertising spend sits in many markets. The revolution in media consumption is still under way, and with more people spending more time online the supply of online marketing opportunities just continues to swell. That is why online marketing will continue crossing its tipping points in each European market until it has firmly entrenched itself as a mainstream tool for all marketers.

## **Reflection**

Looking back over both the raw data and the interviews that accompanied the project, it is clear that there is a passion driving this strong growth. The passion is based on well-founded economics as well as good marketing practice, and although the European landscape is a patchwork of markets each at subtly different stages, they are stages on a journey that leads to the same place. The €4.5bn figure represents an absolute minimum for the industry. When datasets from the missing markets are added, and when the scale of search is better understood outside the UK, it will reveal a figure easily more than 10 per cent larger. But by then the growth will have pushed all the data reported on here to new heights as well. The diversity of experiences between the clients or agencies which champion online and those more reluctant to invest will continue because this industry's ceaseless capacity to innovate will continue pushing forward the art of the possible. Now that, country by country, the tipping points are being crossed, what is clear is that the momentum built up ensures that the changes coming in the next five years will dwarf those of the previous ten.

**The changes coming in the next five years will dwarf those of the previous ten**

## **Acknowledgments**

The researchers would like to thank all the IAB teams and their research partners across Europe who shared information and insights about their markets, plus those agencies, clients and media owners who took part in the qualitative interviews with Digital's team. The methodologies used to collect the data vary significantly between countries. Some report net income to the media owner rather than gross, and some exclude certain ad formats. The continued rapid growth in search marketing (doubling annually in many countries) presents a particular challenge as accurate figures are often not available. With search accounting for 40 per cent of total spend in many countries, understatements of revenue for this format could significantly understate the total market size. Because many of the national datasets are collected using different approaches, attention should be paid when comparing the data provided by different countries. These inconsistencies prevent the accurate collation of these numbers into a secure pan-European figure, and the figures presented here should be taken as indicative. Contact the national IAB for more information, and use the IAB's European portal ([IABeurope.ws](http://IABeurope.ws)) for a listing of all IABs. Several countries may be in the process of setting up IAB associations, and from time to time their organising teams have been able to provide market estimates.