

## Beyond Growth Limits

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**The Internet advertising market will continue along in the coming years but its progress will gradually slow down. This outlook means search engines have to build audiences by delving deep into their pocketbooks, as Google has done with its purchase of YouTube.**

The growing interest in the Internet hurts other media, especially in the case of the younger users, who are the primary audience for digital entertainment. This is what can be gathered from the main international and Spanish indicators. Meanwhile, Chris Anderson, in his book *The Long Tail*, reminds us that males aged between 18 and 34—the number-one target group for advertisers—are abandoning television in favor of the Internet and videogames, two arenas that offer a wide variety of entertainment.

Companies are aware of this trend and need to allocate increasingly more resources to advertising through the new interactive channels. Forrester has performed a study on the expected growth in advertising investment in the United States for the years 2004-2010. The consulting firm shows that digital advertising on the whole rose in 2004 to \$11.962 billion, accounting for barely 5% of the overall investment by advertisers in the existing media platforms. This amount will rise to \$11.571 billion in 2010, representing 8% of the overall advertising investment.

The Forrester study breaks down digital advertising into four types: a) marketing campaigns done via email, which will be the channel seeing the least growth, inching up from \$1.393 billion to \$1.664 billion; b) classified ads, which jump from 4.268b to 11.571b; c) display ads, from 4.128b to 8.109b, and d) sponsored links in search engines. The latter will go from 4.268b in 2004 to 11.571b in 2010. In other words, from 1.78 to 3.55% of the total advertising budget for digital media for those years. This segment will be seeing the most growth, although it will not be unaffected by the slowdown in growth predicted by the Forrester study.

Should these forecasts be accurate, in order to maintain steady growth rates search engines will have to branch out into new areas. One strategy would be to capitalize on the young audience's affinity for the Internet, especially in the area of content, which is becoming one of the cornerstones of the digital age. This is already in practice, as witnessed by the investment in video by the Internet's big guns. The most evident case is Google, with its own Google Video service, its deal with MySpace and, most significantly, its celebrated purchase of YouTube. The latter of these moves is aimed at combining Google's advertising systems (AdWords and AdSense) with YouTube's video content, thereby multiplying its potential audience.

Of course, this growth model has its weak points. One is price. But if Google paid the astronomical figure of \$1.650b for YouTube, it is because the company is convinced that others will be just as interested in placing their advertising alongside YouTube videos as within the search results page. The other weak point is the problem that

copyrights are not always respected by those sending in free video content, since it is not always theirs.

This is not a new problem for Google, which is already developing a proprietary technology that helps protect such copyrights as well as launching a series of deals and measures aimed at avoiding lawsuits, including its recent mass withdrawal of content from Japanese providers.

However, if it wants to split earnings with the major content providers, Google will have to ante up. Unlike the content traditionally offered by the search engine or the free videos, content from large providers—such as Warner Music, Universal Music or Sony BMG—generally carries a hefty price tag. It remains to be seen how much Google is willing to pay for this, but if the figure escalates too much it could jeopardize profitability for search engines in the audiovisual content realm.