



Alternative Media Research Series II: Alternative Advertising & Marketing Outlook 2006

Executive Summary

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Alternative Media Strategies: Alternative advertising and marketing includes media buying strategies that attempt to bypass the clutter of traditional advertising and marketing in an effort to reach targeted audiences, primarily through new media such as the Internet, but also by using alternative means through traditional media, such as product placement on television.

- **Alternative Advertising**

- **Entertainment & Out-of-Home Advertising**

- Alternative Out-of-Home
- Cable Network Advertising
- Cinema Advertising
- Local Multichannel Advertising
- Satellite Radio Advertising
- Videogame Advertising

- **Online Advertising**

- B-2-B E-Media
- B-2-C E-Media
- Internet Yellow Pages
- National Internet Advertising
- Local Internet Advertising
- Online Video Advertising
- User-Generated Media

- **Alternative Marketing**

- **Branded Entertainment Marketing**

- Advergaming
- Event Marketing
- Event Sponsorship
- Product Placement
- Webisodes

- **Mobile & Interactive Marketing**

- E-Custom Publishing
- Interactive Marketing
- Mobile Marketing
- Video-on-Demand Marketing
- Word-of-Mouth Marketing

Alternative Media Outpaces Traditional in the First Half of 2006

Spending on alternative media strategies rose an estimated 16.4% to \$53.37 billion in the first six months of 2006 compared with the same period of 2005, according to PQ Media's Alternative Media Network. Growth was driven by double-digit gains in most of the 23 subsegments of alternative advertising and marketing that comprise PQ Media's Alternative Media Network (AMN). The exceptions were cable network advertising, struggling at mid-single digit growth, and event sponsorship. However, in both of these markets, spending tends to accelerate during the summer – cable due to the plethora first-run episodes compared to almost none in broadcast television, and event sponsorship due to the heavy schedule of sporting and music events timed for the summer months.

All four of the broader alternative media segments – entertainment and out-of-home advertising, online advertising, branded entertainment marketing, and mobile and interactive marketing – posted double-digit growth in the first half of 2006 and are expected to continue on a similar pace through the rest of the year. The fastest growing segments were online advertising and mobile and interactive marketing. Within these segments the strongest gains were posted by the subsegments of mobile marketing, online video advertising, satellite radio advertising, video-on-demand marketing, videogame advertising, and word-of-mouth marketing. The AMN found that brand marketers are accelerating the shift of advertising and marketing dollars away from conventional media to newer media that are using digital technology to reach youth and influential demographics. In many cases these alternative media tactics are doing a better job of reaching target demographics, delivering stronger ROI metrics, or are more engaging to consumers.

AMN Quote from Media Exec:

“There are many new ways to spend ad dollars, so traditional media will continue to see “erosion” of market share, while new forms of media will show growth. Overall spending is likely steady, but there is a shift.”

PQ Media estimates that spending on alternative media strategies will grow 18.5% to \$115.77 billion for full-year 2006, followed by a 16.6% gain in 2007 to \$135.04 billion. The alternative advertising sector is forecast to grow 19.9% for full-year 2006, driven primarily by online advertising, while alternative marketing is expected to increase 17.6% for the year, fueled mainly by mobile and interactive marketing. The branded entertainment segment, including product placement, event marketing, event sponsorships, webisodes and advergames, is the largest of the four broad segments of alternative media. We will publish an update of these figures titled the *Alternative Advertising and Marketing Outlook 2007* in January 2007, and this publication will include 2006 actual spend figures, as well as a five-year forecast.

ROI, Fragmentation, Time Shifts Drive Growth

The strongest drivers of alternative media growth continue to be return on investment (ROI), audience fragmentation and younger demographics shifting away from traditional media, such as print and broadcast, and migrating to newer media like the Internet, mobile phones, videogames and cable TV. Industry executives interviewed or surveyed for the AMN said they are more than ever focused on the emergence of new media changing traditional methodologies and tactics. Opinion leaders are concerned about new media, but in some cases they remain tentative about its effectiveness as an alternative to traditional advertising. Blogs, podcasts and Web-enabled cell phones are still viewed as nascent but promising in terms of effectiveness as advertising vehicles.

AMN Quote from Media Executive:

“While advertisers are increasing budgets for alternative media, they are looking very carefully this year at three questions: how do I better segment and target my audience; what is the true ROI on this investment; and, how do I attract new audiences.”

Of no controversy is the trend of advertisers rapidly transferring dollars to various forms of Internet advertising, more recently Web video, and they are aggressively experimenting with new formats, such as wireless and videogame advertising. Traditional media vehicles are becoming more expensive to reach shrinking mass audiences, many respondents indicated. As a result, brand marketers are moving their advertising dollars to more targeted media such as cable networks, vertical search portals and local online sites of newspapers. Further, major advertisers are actively experimenting with emerging advertising platforms such as wireless devices and videogames.

2005 Results: Alternative Media Outperforms Traditional & GDP

Total spending on alternative media strategies rose 18.8% in 2005 to \$97.66 billion, a pace that is expected to continue through 2006, according to the AMN (**Table 1.1**). The growth of alternative media spending far exceeded nominal GDP growth and the growth of the traditional media sector in 2005 and in the 2000-2005 period. Spending on traditional advertising and marketing climbed 4.9% in 2005 to \$413.45 billion, while nominal GDP was up 6.4% for the year, according to the 2006 edition of the *Communications Industry Forecast*, on which PQ Media collaborates with Veronis Suhler Stevenson. The trend of traditional media growth trailing that of GDP is alarming in that, historically, conventional media growth outpaced the economy in recovery and expansion periods by an average of two to three percentage points. But the trend appears to be reversing itself, as traditional media expansion has begun to lag GDP growth by the same margin (**Chart 1.3**). Spending on alternative media strategies posted a compound annual growth rate (CAGR) of 13.0% from 2000 to 2005, while traditional media posted a CAGR of 2.5% in the same period. Nominal GDP rose 4.9% from 2000 to 2005. Accordingly, alternative media has increased its share of total spending on advertising and marketing from 12.6% in 2000 to 19.1% in 2005, and is expected to expand further in the next five years to 27.9% by year-end 2010.

Spending in the alternative advertising sector, which includes the entertainment & out-of-home segment and the online segment, grew 21.4% to \$40.20 billion in 2005 and is estimated to climb another 19.9% in 2006, reaching \$48.19 billion. Overall growth is being driven by satellite radio advertising, podcast advertising and alternative out-of-home. Smaller online segments like user-generated online media, such as blog and RSS advertising, are also contributing to growth. Entertainment & out-of-home is the larger segment of alternative advertising at \$22.65 billion in 2005, a year-over-year increase of 12.8%, while online advertising is the faster growing segment of alternative advertising, climbing 34.6% to \$17.55 billion in 2005.

AMN Quote from Media Buyer:

“We are seeing two industries today – the traditional industry that is recovering slowly or going sideways, and the new digital/online industry that is growing and expanding very quickly. The key issue is whether or not the traditional side can capitalize on the shift.”

The alternative marketing sector, which includes the branded entertainment and mobile and interactive marketing segments, expanded 17.0% in 2005 to \$57.46 billion and is projected to grow 17.6% for full-year 2006, reaching \$67.58 billion. The sector’s growth is being fueled mainly by the newest media segments, such as wireless and interactive marketing. Branded entertainment is the larger segment of alternative marketing at \$44.70 billion, up 16.3% in 2005, but mobile & interactive marketing is the faster growing marketing segment, jumping 19.7% to \$12.76 billion in 2005.

1.1 Alternative Media Spending & Growth, 2000, 2005, 2006

<i>Alternative Media Spending (\$ Millions)</i>	<i>2000</i>	<i>2005</i>	<i>2006</i>	<i>2000-2005 CAGR</i>	<i>2005 % Share</i>
Alternative Advertising	\$23,391	\$40,200	\$48,189		
% Change		21.4%	19.9%	11.4%	41.2%
Entertainment & Out-of-Home Advertising	\$14,065	\$22,647	\$25,916		
% Change		12.8%	14.4%	10.0%	23.2%
Online Advertising	\$9,326	\$17,553	\$22,273		
% Change		34.6%	26.9%	13.5%	18.0%
Alternative Marketing	\$29,518	\$57,455	\$67,577		
% Change		17.0%	17.6%	14.2%	58.8%
Branded Entertainment Marketing	\$25,066	\$44,698	\$51,618		
% Change		16.3%	15.5%	12.3%	45.8%
Mobile & Interactive Marketing	\$4,452	\$12,757	\$15,959		
% Change		19.7%	25.1%	23.4%	13.1%
Total	\$52,909	\$97,655	\$115,766		
% Change		18.8%	18.5%	13.0%	

Source: PQ Media