Alternative Media Research Series I:

Blog, Podcast and RSS Advertising Outlook

Executive Summary

April 2006

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Key Takeaways

Combined advertising spending on blog, podcast and RSS – collectively known as user-generated online media – did not begin until 2002 when blog advertising became available. But by the end of 2005, total user-generated media spending had grown to $20.4 million, a 198.4% increase over the 2004 level

Spending on blog, podcast and RSS advertising is projected to climb another 144.9% in 2006 to $49.8 million, driven by several factors including user-generated media's ability to reach the 18- to 34-year-old market as well as so-called influentials, and the media's high engagement with users

The blog market is the largest of the three user-generated online media, accounting for 81.4% of total advertising in 2005 at $16.6 million, followed by podcast advertising at $3.1 million and RSS advertising at $650,000

Technology, automobile and media brands are the most active in user-generated media advertising, accounting for a combined 54.5% of advertising spending in 2005, with food & beverage and apparel rounding out the top five categories

Advertising networks and click-throughs are the largest ad insertion methods, generating $8.0 million and $7.8 million, respectively, in 2005. Affinity programs, however, are expected to be the fastest growing methods from 2005-2010, climbing at a compound annual rate of 130.8%

National advertising dominates user-generated online media, accounting for 98.1% of total spending in 2005 at $20.0 million. But as more compelling local content is generated, we project the share of local advertising to grow to 9.3% in 2010

Total spending on user-generated online media is forecast to grow at a compound annual rate of 106.1% from 2005 to 2010, reaching $757.0 million in 2010. By comparison, total spending on alternative media, including expenditures on branded entertainment, digital out-of-home and on-demand marketing, among others, is projected to grow at a compound annual rate of 14.8% to $253.7 billion in 2010

User-Generated Online Media in 2005 and 2006

While advertising in user-generated online media, including blogs, podcasts and RSS feeds, did not begin in earnest until 2002, user-generated media has since become the fastest growing segment of the burgeoning alternative media industry. Combined spending on blog, podcast and RSS advertising surged 198.4% in 2005 to $20.4 million, and is expected to grow another 144.9% in 2006 to $49.8 million. Some of the key growth drivers are the same as those boosting the expansion of the overall alternative media sector. Among them are continued audience fragmentation, the perceived ineffectiveness of traditional advertising, and the desire to reach the elusive 18- to 34-year-old demographic. Other catalysts are more specific to user-generated media, which have demonstrated the ability to reach not only younger demographics, but the so-called influential market as well. In addition, these media tend to be highly engaging, making this segment increasingly attractive to brand marketers focused on return on investment.

Each of the three user-generated online media offers unique characteristics to brand marketers. Blogs were the first to provide advertising opportunities in 2002, and they are popular with influential audiences, such as technologists and politicians. Podcast advertising has been available since 2004, offering brand marketers enhanced audio and video components that are attractive to the 18-34 market. RSS advertising, available only since 2005, gives brand marketers the potential to reach the largest audiences with a single message. While the blog market is by far the largest of the three today, podcast advertising is expected to be the largest by 2010.

Blog advertising accounted for 81.4%, or $16.6 million, of total spending on user-generated online media in 2005, but blog ads will comprise only 39.7%, or $300.4 million, of overall spending in 2010. Podcast advertising totaled only $3.1 million in 2005, but is projected to reach $327.0 million in 2010, when it will account for 43.2% of all user-generated media advertising. Spending on RSS advertising totaled $650,000 in 2005 and will grow to $129.6 million in 2010.

The relatively small size of these markets is an indication of the newness of the media, the lack of standard metrics and various technology issues. But as advertising networks become more effective, user engagement escalates, and the industry works through its technology and measurement challenges, we expect user-generated media to grow at triple-digit rates over the next five years.

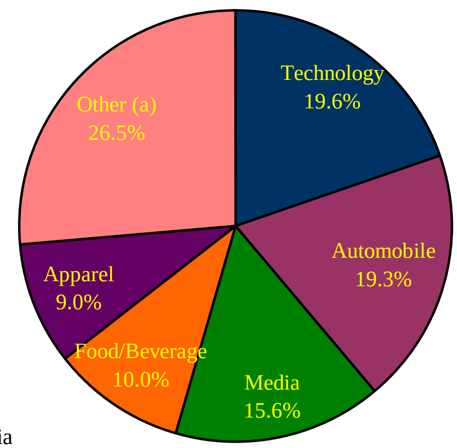
User-Generated Online Media Spending & Growth, 2002 to 2006

($ Millions)	*2002*	*2003*	*2004*	*2005*	*2006 E*
Total	$0.1	$1.2	$6.8	$20.4	$49.8
% Change		2,340.0%	459.0%	198.4%	144.9%

Source: PQ Media
Note: Growth rates shown are actuals. Calculation of dollar figures shown will not produce actual growth rates due to rounding.

The most active brand marketers in user-generated online media are the three marketing categories that have shown a penchant for testing alternative media strategies – technology, automobile, and media. These three categories combined accounted for 54.5%, or $11.1 million, of total user-generated media spending in 2005. The other two leading marketing categories are food & beverage and apparel, accounting for an additional 19.0% of overall spending. Technology was the largest single category at $4.0 million in 2005, due primarily to the technology-savvy early adopters of user-generated media. Auto was the second largest marketing category, generating $3.9 million in 2005, as car manufacturers utilized user-generated media to market their higher-end models to the "influential" demographic. The media industry spent $3.2 million to advertise in user-generated media in 2005, as the industry tried to capitalize on its advanced knowledge of the consumer shift away from traditional media. Of note in 2006 is the anticipated spike in spending on user-generated media by political campaigns as they hope to reach those consumers and potential voters migrating away from conventional media. This category, however, is projected to realize even more significant growth in 2008 as national campaigns target the influential audiences.

Shares of Advertising Spending by Marketing Category in 2005



Source: PQ Media
(a) Home, health & beauty, sports & games, travel and miscellaneous

We believe 2005 and 2006 will be seen as a benchmark period for advertising insertion methods. While click-through programs, such as Google's AdSense, are currently used by the most sites, user-generated media companies are gradually transitioning to ad insertion methods that offer the potential for higher CPMs, such as advertising networks. As a result, several notable ad networks were launched in 2005, including Pajamas Media and Federated Media in the blog market; PodShow and PodTrac for podcasts; and Pheedo and FeedBurner for RSS feeds. Another ad insertion technology was developed in 2005 called affinity programs, such as those provided by LinkShare and Shareasale, in which a website receives payment when a consumer purchases an advertised product online. Advertising networks are already the largest ad insertion method, accounting for 39.2%, or $8.0 million, of user-generated media spending in 2005, followed closely by click-through insertions at $7.8 million, or a

38.2% share. Going forward, we expect ad networks and affinity programs to grow faster than click-throughs because of the potential for higher CPMs and other perks associated with these programs.

User-generated media remains primarily national in scope with 98.1%, or $20.0 million, of all advertising spending coming from the broader market in 2005. However, we expect the local market to expand faster in the forecast period as more local user-generated media are launched and they produce original and compelling content relevant to targeted communities. The growing availability of local search technology will also drive up local ad spending over the next five years. Local advertising will account for 9.3% of all user-generated media advertising in 2010, compared with only 1.9% in 2005.

Major Trends and Drivers

The growing interest and advertising spending in user-generated online media is being driven by both broad industry trends and narrow market factors, as mentioned previously. From a broader alternative media perspective, continued audience fragmentation, the perceived ineffectiveness of traditional advertising, and the desire to reach elusive younger markets are leading more marketers to take a serious look at new media opportunities. In the user-generated media markets, more advertisers are seeing the potential to reach the aforementioned younger demographics, as well as the lucrative influential markets, with media that tend to be highly engaging. On the downside, user-generated media also have a host of technology and measurement issues that need to be resolved before these media can reach their full potential.

Various sources estimate that the number of user-generated media sites doubles every six months. For example, there is a new blog developed every second, with up to 30 million blogs operating as of April 2006. Meanwhile, there are over 25,000 active podcasts, more than twice the number operating in 2005. Approximately one-third of the Internet universe visits a user-generated media website per week, with an estimated 100 million unique visitors per quarter.

Not surprisingly, major brand marketers – more focused on return on investment than ever – have begun to notice user-generated online media. Advertisers ranked blogs, podcasts and RSS among the highest of all online media in which they plan to experiment in 2006, according to a recent study. One of the primary reasons marketers are willing to shift advertising to user-generated media is the perception that consumers are highly engaged with these media. For example, members of PQ Media's opinion leader panel said their own research indicated that more than 10% of active users (those who visit weekly) clicked through an ad in 2005 and a significant share of these users purchased the product advertised. Other research supports this assumption, as consumers rank other consumers' opinions as important factors when considering the veracity of an ad and whether or not to purchase a product.

One of the primary challenges in user-generated media is the lack of standard metrics, particularly those related to demographics, although ad networks make some measurements available privately to media buyers. Data that undecided marketers have access to are limited to unique visitors and click-through rates. As a result, many marketers are still tentative to advertise in blogs, podcasts or RSS feeds. While these segments of alternative media are the fastest growing in the industry, spending is expected to remain relatively low until the industry devises more reliable and uniform metrics. Of utmost importance to media buyers is the ability to provide critical mass, something that most user-generated media sites have not yet reached. Consequently, fewer than 10% of brand marketers plan to employ user-generated media in 2006.

Forecast Conclusions

We project user-generated online media spending will continue to expand at triple-digit rates for the rest of the decade, fueled by the media's strengthening reach and engagement, more effective advertising networks, and the gradual shift of ad dollars by brand marketers to alternative media. Total spending on user-generated media is forecast to grow at a compound annual rate of 106.1% from 2005 to 2010, reaching $757.0 million in 2010. By comparison, the overall alternative media industry is projected to grow at a compound annual rate of 14.8% in the 2005-2010 period to $253.7 billion.

User-Generated Online Media Spending Forecast, 2005 to 2010

($ Millions)	*2005*	*2006E*	*2007E*	*2008E*	*2009E*	*2010E*	*05-10 CAGR*
Total	$20.4	$49.8	$109.5	$233.9	$433.0	$757.0	
% Change		144.9%	119.7%	113.6%	85.1%	74.8%	106.1%

Source: PQ Media
Note: Growth rates shown are actuals. Calculation of dollar figures shown will not produce actual growth rates due to rounding.

The blog market will remain the largest of the three user-generated media in 2006, climbing 117.8% to $36.2 million, and the market will expand at a compound annual rate of 78.4% to $300.4 million in 2010. However, we expect podcast advertising to be a larger market than blogs by 2010, primarily as a result of the medium's more attractive audio and video components.

The technology, automobile, and media categories will continue to generate more than half of total user-generated online media spending in the forecast period. The technology sector will lose share to categories such as sports & games, but it will remain the largest marketing category in 2010, primarily due to its large share of the fast-growing RSS market. Spending will increase at a compound annual rate of 102.5% to $136.1 million in 2010.

Advertising networks will remain the largest insertion method over the next five years, growing at a compound annual rate of 126.0% from 2005 to 2010 to $470.4 million. Growth will be driven by improved efficiency and organization, the constant addition of popular websites, and the formation of new targeted networks.