

November 19, 2007 09:50am AEDT

## **Paid online ads outstrip the rest**

Lara Sinclair | November 19, 2007

### **PAID search advertising is growing more than twice as fast as the general advertising market.**

Called "online crack" because of its addictive qualities, it will reach \$416 million this year, an increase of 65.5 per cent over 2006, the latest estimates from researcher Frost and Sullivan show.

The sector will be the largest in the online advertising industry, which the company estimates will grow at 29.8 per cent to \$1.428 billion this year, followed by classified advertising (\$407 million), general advertising, including banners and other display formats (\$384 million) and online directories such as Sensis's Yellow (\$221 million).

The research predicts the total online market will continue to grow at 30 per cent to \$1.857 billion during 2008, but indicates paid search will streak away from the rest of the industry, growing by a further 38.1 per cent to \$574 million, followed by classifieds on \$526 million, general advertising (\$487 million) and directories (\$270 million).

While the projections are more conservative than search engine Google appeared to indicate last week when general manager Karim Temsamani tipped growth in paid search advertising would not slow next year, they nevertheless show the increasing dominance of the keyword search advertising model and the threat it poses to large paid directories.

Within search and directories revenue, keyword search is tipped to grow from 43 per cent last year to 48 per cent in 2007, with online directories expected to drop from 40 per cent to 35 per cent.

"Online directories are up against search engine advertising in share of spending, and search engine advertising has captured strong mind share in the marketplace," Frost and Sullivan digital media research manager Darryl Nelson said, presenting the findings at a seminar on Friday. "The whole directories market has slowed, although niche directories have really started to show some strong growth, particularly in business-to-business," he said.

Newer entrants to paid search found some keyword terms were too expensive to buy, but they were turning to other, lower-priced combinations, Mr Nelson said.

Yahoo search marketing chief Willie Pang said the packaged goods, government and education categories were growing in addition to more traditional areas such as travel and finance.

"We're seeing the long tail continue to spend and small businesses continue to take up search quicker than they have in the past," Mr Pang said.

The average number of search terms Australians were using had grown from 1.2 words to 2.5 and search engines could expect to generate revenue from about 60 per cent of all search terms used, he said.

Online engagement and performance were becoming more important than the number of eyeballs a site reached, putting increasing pressure on the big portals and stimulating growth in the high-performance sector of the market, Mr Nelson said.

Several key publishers at the seminar last week pointed to the growing demand for advertising based on performance, which risked cutting the average yield on inventory in the short term.

Within the general advertising sector, trends included a drop in site display formats, such as banners, from 69 per cent of revenue to 65 per cent from the June half of this year to the current half, and the growing reliance of publishers on performance-based revenues - in which unsold, low-value inventory is only paid for once it has generated an action - which jumped from 14 per cent to 16 per cent over the same period. Monique Talbot, chief executive of online advertising network Tempest Media, said the display advertising market split in 2007 between advertisers who wanted to buy premium space on the big sites, which often sold out, and those who only wanted to book campaigns using remnant inventory on a performance basis.

"We saw this river part," Ms Talbot said. "Sixty to 70 per cent of our inventory could have been left on the shelf if not for performance buys."

News Digital Media sales strategy director Michael Lams said publishers needed to increase the proportion of premium inventory on their sites that could be sold on a traditional cost-per-thousand basis.

Once advertisers began using search engine marketing, it became a basic cost of doing business that was unlikely to be discontinued, Ms Talbot said.

---

*Copyright 2007 News Limited. All times AEST (GMT +10).*