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The Online Advertising Landscape, Europe

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Executive Summary

The European online ad market softened in 2001 and 2002 following the burst of the dotcom bubble, although the slowdown, like the build-up, was not as dramatic as in the United States. In 2003, European advertisers returned cautiously to online ad programs, but 2004 spending levels gained significant speed.

Household name advertisers top the lists of heaviest online advertisers in the largest European markets. Search marketing is taking off, as is rich media.

The total European advertising market - including traditional media and online - increased in value by 6% last year, according to ZenithOptimedia, to €104 billion (£71.8 billion / US$125 billion [i]). By comparison, the overall U.S. ad market is worth €168 billion (£116 billion / $203.1 billion), also according to ZenithOptimedia.

While online accounted for on average only 2.6% of overall ad spending across Europe, the sector is growing faster than any other media channel, some of which are in decline, such as newspapers (according to 2004 European Commission research). Online ad spending grew by an average of 30% across all Western European territories in 2004, according to the Interactive Advertising Bureau (IAB) and PricewaterhouseCoopers (PwC).

Some markets are growing even more rapidly. In the U.K. online ad spend was up 60%, while French advertisers spent 78% more on web ads than in 2003, making France the fastest-growing market in Europe (and the second-largest, after the U.K.).

The IAB expects online ad revenues in Europe to surpass €3.2 billion (£2.2 bn / $3.9 bn) in 2005 (Zenith puts the figure at €3.5 billion). That IAB/PWC number includes spending on web display advertising, rich media, sponsorship, search advertising, classifieds, and other smaller online marketing programs. In 2004 it estimated that eight European territories spent about €2.7 billion (£1.9 bn / $3.3 bn) on online media.

Europe Snapshot: Online Usage and Advertising in Top Markets

	U.K.	Germany	France
Number of Internet users (mil.)	35.8	47.1	25.6
Internet penetration of total population	60%	57%	42%
Number of search engine users (mil.), Jan. 05	10.0	13.3	6.7
% Average searches per month per searcher	32.8	16.9	34.8
Broadband penetration of online users	56%	65%	69%
Number of display advertisers, Dec 04.	3,359	3,369	1,905
Total display ad impressions (bil.)	37.9	114.1	47.9
Total online ad spend (incl. search)(mil.), 2004	€ 945	€ 555	€ 844
Year-over-year growth in online ad spend	60%	34%	78%
Online ads spend as % of total ad spend	3.9%	3.0%	4.6%
Rich media as portion of display ads	24%	24%	33%

Figure 1 Sources: Nielsen//NetRatings International AdRelevance (Internet users, search users, searches per month, broadband penetration, number of display advertisers, total display impressions, rich media as portion of display ads); Interactive Advertising Bureau / PricewaterhouseCoopers (total online ad spend, online ad spend growth); Strategy Analytics (one ad spend as share of total ad spend); 2005

The IAB Europe counts the following as the largest online ad markets in Europe:

- U.K. - €944 million (£653 m / $1.2 bn)
- France - €844 million (£583 m / $1.0 bn)
- Germany - €555 million (£383 m / $671 m)
- Italy - €122 million (£84 m / $147 m)
- Spain - €94.5 million (£65 m / $114 m)
- Netherlands - €66.2 mill (£45.7 m / $80 m)
- Finland - €23.1 million (£16.0 m / $28.5 m)
- Greece - €11 million (£7.6 m / $13.6 m)

Broadband adoption and rich-media advertising spreading rapidly across Europe

Consumer adoption of broadband is soaring across the globe and Europe is no exception. Heavy price competition among ISPs is helping to drive growth in broadband, as well as the urge among consumers to cruise the web at faster speeds. This is good news for the online advertising industry.

Broadband consumers are appealing to advertisers for several reasons, not least of which is ADSL and cable users spend more time online. Broadband users also consume more multimedia content, including video, audio, animation and games. In turn, advertisers can craft ads in all of the same 'rich media' formats (most frequently using some Macromedia Flash programming). Rich media ads also execute better and with less interruption for high-speed users. Accordingly, rich media advertising is booming in Europe, with one in every three display ads in France, and one in four in the U.K. and Germany, using rich media technologies.

Search engine marketing provides a stepping stone

Search engine marketing attracts the lions' share of ad spend in Europe, about 40%, compared to 36% for display ads (including rich media), according to the IAB Europe. The search engines are a crucial 'signpost' for consumers and source of quality traffic for web businesses. Search is a 'way in' for new advertisers, who can understand and implement Google far easier than working out how to create and run a display advertising campaign.

Internet is catching up to or overtaking traditional media consumption in Europe

European Internet penetration has some way to go before it reaches a plateau: 48% across the E.U. in July 2005 compared to 70% in the U.S., according to Nielsen//NetRatings.

One indication of how much upside there still is for the Internet ad market comes from a 2004 study from the European Interactive Advertising Association (EIAA), European Interactive Advertising Association (EIAA), 'European Media Consumption Study II', which suggests that consumers spend a fifth of their media week surfing the web. European consumers are now spending more hours surfing the web than they do reading newspapers and magazines combined, according to the EIAA, while the Internet now claims 11.3 hours per week per U.K. user, the largest of all the European online ad markets.

By comparison, consumers spend a combined total of 8.6 hours per week reading newspapers and magazines. Radio, at 15.8 hours weekly, is not far ahead of the Internet for consumption, while Britons watch 19.2 hours per week of TV, the EIAA reported.

A quick look across the Atlantic - where is Europe in relation to the U.S.?

We can certainly expect further maturation in Europe if we glance across the Atlantic at the United States' market, which is further along the adoption curve. US marketers spent slightly more on online advertising in the first quarter of 2005 than European marketers did in all of 2004, according to IAB / PwC estimates.

US advertisers spent €7.9 billion (£5.48 billion; $9.6 billion) of marketing budgets on e-marketing channels in 2004, including display advertising, sponsorship, rich media, paid search, classified listings and more (IAB USA). Online ad spend is also growing at a slightly faster rate than the European average, at around 33% versus 30%.

Why are US marketers spending four times as much on online media as their European peers? After all, the Europe Union has a larger population, with around 460 million people compared with 296 million for the US.

One reason is Internet penetration is higher in the U.S. than in Europe: 48% on average among the 25 European Union countries by July 2005, compared to 70% in the US, according to Nielsen//NetRatings.

There are also some important cultural differences between the US and Europe to consider, with language being the most obvious. The fragmented state of its markets and need for multilingual websites by pan-European businesses make Europe a tougher proposition for marketers.

This report examines in detail the three countries in Europe that are furthest along the online advertising adoption curve: the U.K., France and Germany. These territories account for more than half of all the online display ads in circulation in Europe, according to Nielsen//NetRatings. In addition to display advertising, this paper looks at trends in rich media and search in those big three countries.

Least online advertisers in France but total increasing at higher growth rate

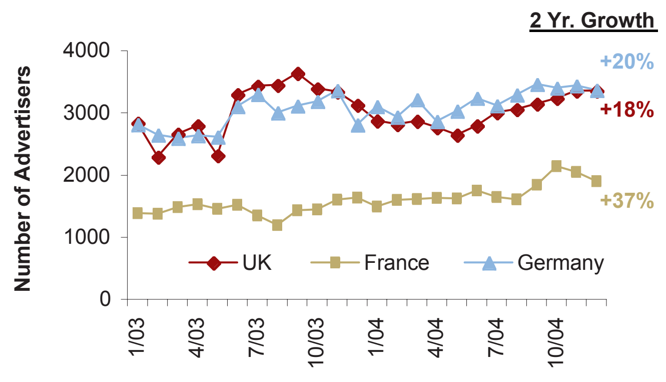

Figure 2 Source: Nielsen//NetRatings International AdRelevance

U.K. advertisers spend the most online while Germans the least of Big Three

Of the three countries, the U.K. has fewer Internet users (36 million) than Germany (47 m) while more than France (27 m). Its advertisers also displayed the fewest number of online ad impressions, 37.9 billion, compared to Germany's 114.1 billion and France's 47.9 billion. Yet the U.K. is the biggest in terms of Euros spent: € 945 compared to France's € 844 and Germany's € 555.

Germany's market appears the least mature, with a total market investment in online ads of €11.8 per Internet user in the market, less than half of the U.K.'s €26.4 and almost a third of France's €33. By comparison, the U.S., with €7.9 billion ($9.6 billion) in online ad spending to reach its 204 million online citizens, U.S. advertisers spent €38.6 ($47.0) in 2004.

Germany even has the largest number of companies using web display ads - 3,369 - a hair more than the U.K.'s 3,359 and considerably more than France's 1,905, according to Nielsen//NetRatings.

One advantage the U.K. market has over its Continental counterparts in hastening the Internet's adoption by users and marketers is (virtually) no language barrier between it and the tremendous online trove in the U.S. of consumer content and mature marketing solutions.

Pan-European Trends

For the purposes of this Pan-Europe overview, we have assembled general data on the largest Western European web markets, namely: the U.K., Germany, France, Italy, Spain, the Netherlands, Denmark, Sweden, Norway, Switzerland, Austria, Belgium and Portugal. More detailed research is limited to the largest European markets, namely the U.K., Germany and France.

The Big Three European Territories

By the end of 2004, the U.K., Germany and France had a combined 9,000 individual companies running display ad campaigns on websites, according to Nielsen//NetRatings.

The U.K. and Germany each had around 3,400 web display advertisers in December 2004, while France had fewer than 2,000, as shown in Figure 4.

French & German online ad impressions have greatest growth, but U.K. leads in volume

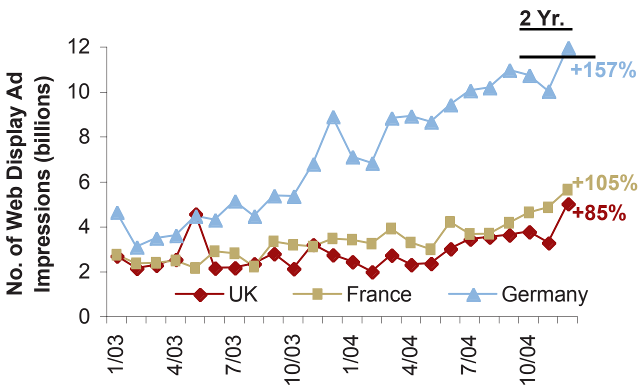

Figure 4 Source: Nielsen//NetRatings International AdRelevance

France is the smallest of the 'Big Three' European online ad markets by number of advertisers, but it is the fastest growing. From 2003 to 2004, the number of advertisers buying web display ads in France grew from about 1,400 to 1,900, a growth rate of 37%, according to Nielsen//NetRatings International AdRelevance.

In 2004 France, which then had 25.6 million Internet users, accounted for 14% of web display ad impressions of the 13 countries studied, down from 15% in 2003, as shown in Figure 1.

Ad volumes growing in all major markets

The Big Three markets placed around 70% more ads in 2004 than in 2003. Germany outpaced the U.K., with 157% more units in circulation than the previous year. The U.K., the biggest online advertising market in Europe by spend, gained 85% more ads, while France more than doubled the amount of ads placed on the web.

The busy pre-Christmas period led to a surge in ads bought in Germany, with the number of display ads online rising to12 billion in December 2004, by far the biggest single month experienced in the history of the industry through the end of 2004.

Banner ads still rule among formats in Europe

The much-maligned 468x60-pixel banner remains the most prevalent web display ad format in Europe, accounting for 41% of all ads served in 2004 in the U.K., 41% for France and 34% for Germany, according to Nielsen//NetRatings. By comparison, in the U.S. market, the 468x60 banner accounted for only 12% of the total market of web display ad activity by the fourth quarter of 2004, with the 728x90-pixel 'leaderboard' format having rising to the most popular ad format, representing a 26% share of all ad impressions.

One online ad format apparently on the outs is the pop-up, which has declined significantly in the U.K. and Germany to account for less than 1% of ads served in 2004 according to the Nielsen//NetRatings data. The pop-up does still account for about 9% of all ad formats in France.

Other popular online ad formats in Europe include skyscrapers, buttons and leaderboards.

Non-standard-sized ads are also very popular in Europe (see Figure 5), particularly in Germany, where 34% of web display ads in 2004 was one of the standard sizes described by the Interactive Advertising Bureau's definitions for 'Interactive Advertising Units' (IMUs). By comparison, non-

468x60 banner most prominent ad size among European advertisers in 2004

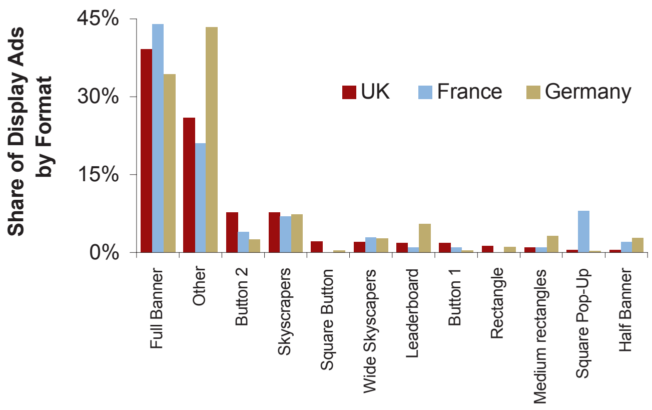

Figure 5 Source: Nielsen//NetRatings International AdRelevance

standard ads 21% of all web display ads in the U.K. in 2004, 18% in France versus only 10% in the U.S. (Q4 2004). These non-standard units include 'floating' rich media ads, as well as custom sizes for on-page units.

Rich media growing steadily

Rich media is booming in Europe, with one in four online ads in the U.K. in 2004 making use of an advanced format, in preference to display ads, according to Nielsen//NetRatings data.

The definition of 'rich media' used in this paper comes from Nielsen//NetRatings and is based on the technology format used in the ads, including Java, DHTML and Flash; by this definition, Flash overwhelmingly dominates rich media in Europe (as in the U.S.), with 98% of what Nielsen//NetRatings classifies as rich media being based on Flash.

Rich media ads can incorporate video and audio, animation, data capture functionality and other interactive features. Video and audio ads are frequently featured on the main European portals and major online news sites. Automotive and entertainment companies are among the early adopters of video, respectively using rich media to re-purpose glossy TV vehicle ads and to serve film trailers.

According to a study, 'Fishbowl 2', from French Telecom's IPS/portal Wanadoo (now 'Orange'), consumers with high-speed Internet connections are choosing to spend fewer hours in front of the TV in favour of more time surfing the web (2.1 hours of TV time becomes 2.1 hours of web time).

Search advertising is popular, but growth is challenged by multi-lingual environment

Search marketing is a core driver of new business for companies of all shapes and sizes, as consumers increasingly use search engines during the (multichannel) buying cycle, according to DoubleClick research.

Google powers more than half of all web searches in Europe's Big Three online advertising territories.

E-consultancy forecasts growth in search engine marketing in the U.K. to rise to £598 million (€865 million / $1.04 billion) in 2005, with as much as half a billion pounds spent on sponsored listings. Paid-search accounted for 39.5% of all online advertising spend in the U.K. last year (IAB/PwC), versus 35.6% share for display ads (including rich media) and 24.7% for classifieds. This spend ratio is much the same in the US.

The IAB suggests that paid-search programs, dominated by the networks Google Adwords and Yahoo Search Marketing (formerly Overture), have a 'gateway effect' on online advertising, attracting new advertisers who might subsequently experiment with display and rich media ads.

Forrester suggests that keyword costs, which are steadily rising due to the popularity of this performance-based auction-model of advertising, will be up to five-times more expensive in the US than in EU and the fragmented state of its markets.

The U.K. Online Advertising Market

The U.K. is the biggest of the European ad markets, at £653 million (€945 million / $1.14 billion) in advertiser spending in 2004, according to the IAB U.K. That figure grew by a remarkable 60% over 2003.

Online advertising now accounts for 3.9% of the total share of advertising spending in the U.K., according to IAB U.K. That is the same that advertisers spend on radio, more than in cinemas, and nearly as much as outdoor advertising.

2004 Market Snapshot: UK

Population	59.8
Internet Population	35.8
Size of Total Ad Market	€24.2 bn (£16.8 bn)
Total Ad Market Growth Over 2003	5.8%
Size of Online Ad Market	€945m (£653 m)
Online Ad Market Growth Over 2003	60%
Online Ad Spend as % of Total Ad Market	3.9%
Broadband as % of Online Homes (Dec 04)	56%
Consumer E-commerce Spending	€22.6 bn (£15.6 bn)

Figure 6 Source: IAB U.K., eMarketer, Strategy Analytics, Nielsen//NetRatings International AdRelevance; European Information Technology Observatory (EITO), International Data Corporation (IDC)

Financial Services dominates U.K. market in ad impressions

Financial services companies were responsible for most online display advertising in 2004, accounting for 23% of online all display ad impressions in 2004 (down from 25% in 2003). The second and third positions for most ad units were for retail and entertainment, with 13% and 10% of the total volume of U.K. web display ad impressions. Travel, telecom, computing, and automotive, all increased their share of ad impressions in the marketplace, too.

It is important to note that volume of display ad units, as reported here by Nielsen//NetRatings, does not necessary correlate closely with spending, as advertising costs (typically sold on a cost-per-click (CPC) or cost-per-thousand (CPM) basis) vary by industry and objective. E-commerce advertisers, for example, are likely to pay more on a CPC basis, which in terms of actual ad impressions is likely to be cheaper than CPM advertising prices, which an industry such as Entertainment would more likely pay.

Household brands dominate list of top U.K. online advertisers

The top 15 advertisers by volume of impressions includes telecom, finance and gaming companies - notably those companies that tend to pay the most to acquire customers online, since these sectors also tend to suffer from heavy customer churn.

Telecom heavyweight Vodafone leads the way in the U.K., having

Internet made up 4% of 2004 U.K. ad spending

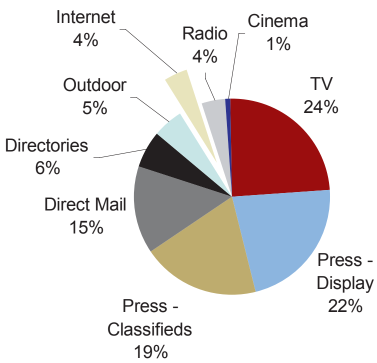

Figure 7 Source: IAB U.K.

Finance, retail & entertainment lead market fields in online display units in UK

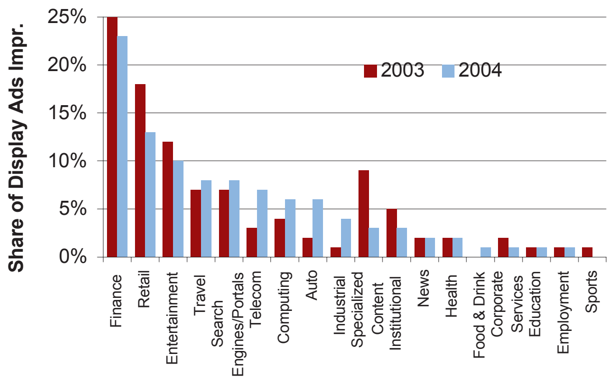

Figure 8 Source: Nielsen//NetRatings International AdRelevance, excludes house ads

Top 15 U.K. online advertisers by volume

	Advertiser	Ad impressions (000) 2004	2003	% ?
1	Vodafone	1,154,950	252,408	358%
2	British Gas	981,898	248,156	296%
3	Skybet	866,843	97,242	791%
4	Sky TV	855,952	267,556	220%
5	Dell	845,012	571,708	48%
6	Philips	724,752	22,414	3133%
7	Capital One	720,537	401,460	79%
8	O2 - Viag Interkom	687,244	499,470	38%
9	AOL	674,756	349,352	93%
10	Virgin - Virgin Money	635,544	217,928	192%
11	Expedia	588,110	126,247	366%
12	BT - British Telecom	576,031	115,036	401%
13	BT - BT Broadband	566,739	115,036	393%
14	Orange	564,193	256,573	120%
15	William Hill Online	558,700	602,119	-7%

Figure 9 Source: Nielsen//NetRatings International AdRelevance, excludes house ads

Auto & game manufacturers using the highest share of 2004 rich media ads in UK

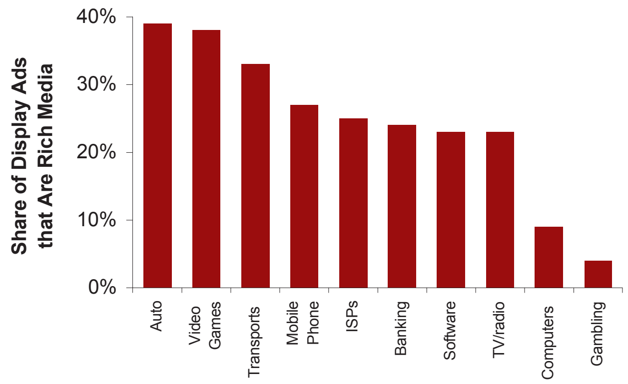

Figure 10 Source: Nielsen//NetRatings International AdRelevance

embarked on some major multichannel ad campaigns. Vodafone generated more than 1 billion web display ad impressions in 2004, making it the only company to surpass the 1 billion barrier in the U.K., although a few other companies came close: British Gas (981 million), SkyBet (866 m), Sky TV (855 m) and Dell (845 m).

Philips was by far the fastest-growing online advertiser, with ad impressions up 3133% in 2004 over 2003 (it is the sixth largest online display advertiser). BT, Expedia and Vodafone also pumped significantly more budget into web ads during 2004.

Gambling is big business online and two U.K. gaming operators make it into the Top 15: Skybet increased ad impressions by 791%, while William Hill reduced the amount of ad impressions by 7% (the only company in the Top 15 not to record a double-digit or higher percentage increase).

Rich media growth parallels broadband adoption

Since the start of 2003, rich media adoption in the U.K. has grown to reflect the rising level of broadband penetration. In the U.K. somebody new signs up to receive a high-speed connection every ten seconds, and with 8.1 million households now enabled, broadband is now more prevalent than dial-up, which has 7.4 million Internet households, according to OFCOM, the U.K. communications regulator. Nielsen//NetRatings put the number at 56% of Internet households in December 2004.

Advertisers, meanwhile, have been

adopting rich media ads at a similar pace, which makes sense as the ads give a better user experience on faster Internet connections. At the start of 2004, roughly one in five display ads on the web in the U.K. market featured rich media technology, compared to one in four by the end of the year.

Auto, videogame, transport, mobile phone, banking, software and TV and radio companies are among the sectors adopting rich media ads in the greatest numbers, as shown in Figure 10.

Financial Spreads, a spread betting company, now uses a rich format more than three-quarters of the time (Figure 11), whenever it purchases space for display advertising online.

Intel, Vonage and Adobe use rich formats at least half of the time, as can be seen on the adjacent chart. In 15th place is BT-Yahoo! Broadband, which used rich ads 37% of the time last year. A parallel should be drawn with France and Germany, since the 15th-placed advertiser in those countries has a ratio of 50% or higher (RM vs static as proportion of total ads).

Looking at advertisers by share of the U.K. rich media market (Figure 12), we can see that Hewlett Packard has claimed the biggest share of rich media ads in the U.K., at 2.6%, followed by Microsoft (2.3%), British Airways (2.2%), AOL (2%) and Sky TV (2%).

The Top 15 Rich Media Advertisers account for almost a quarter of all the rich media ads placed in the U.K. in 2004.

UK advertisers dedicating highest share of ads to rich

Rank	Advertiser	All 2004 Online Ads from This Company
1	Fin Spreads	77%
2	Intel	56%
3	Vonage	54%
4	Adobe	50%
5	Orange	48%
6	BT - British Telecom	44%
7	BT - BT Broadband	44%
8	Microsoft	44%
9	First Direct	43%
10	British Gas	40%
11	IBM	40%
12	British Airways	39%
13	Yahoo	38%
14	Air France	37%
15	BT - Yahoo Broadband	37%

Figure 11 Source: Nielsen//NetRatings International AdRelevance

Top 15 U.K. rich media advertisers, 2004

Rank	Advertiser	Share of All Rich Media Ads Served in UK, 2004
1	Hewlett Packard	2.6%
2	Microsoft	2.3%
3	British Airways	2.2%
4	AOL	2.0%
5	Sky TV	2.0%
6	IBM	1.8%
7	Halifax	1.4%
8	BT - British Telecom	1.3%
9	BT - BT Broadband	1.1%
10	Vodafone	1.0%
11	British Gas	1.0%
12	HSBC	1.0%
13	O2 - Viag Interkom	0.9%
14	Direct Line	0.9%
15	Nationwide	0.7%

Figure 12 Source: Nielsen//NetRatings International AdRelevance

Google now represents over half of all searches in the U.K.

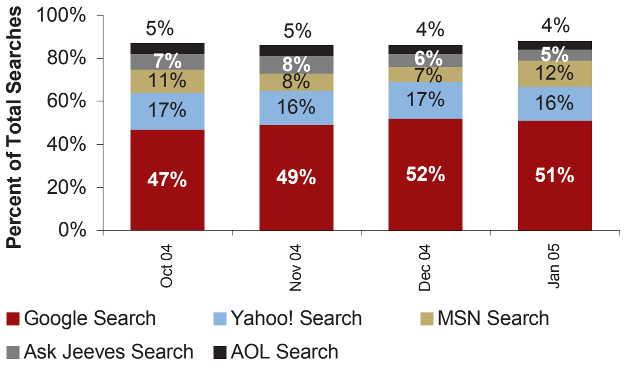

Figure 13 Source: Nielsen//NetRatings International AdRelevance

Search trends in the U.K.

U.K. consumers average 14 search sessions a month, compared to German Internet users who visit search engines an average of 8 times a month.

Google now accounts for more than half of all web searches in the U.K. The six-year old company has become synonymous with searching, which is a favourite activity among Internet users.

Google's influence is far-reaching and it generates more than three times as many search requests as Yahoo! in the U.K. market, shown in Figure 13.

The German Online Advertising Market

Of the Big Three Internet countries in Europe, Germany has the largest population of Internet users: 47 million, compared to 36 million in the U.K. and 26 million in France. German advertisers also used by far the large number of ad impressions of any of the three: 114.1 billion. Yet in terms of advertising spending, at €555 according to the IAB, the German online ad market is just more than half the size of the U.K. market. That figure represents 3% of the size of the total German ad market, as shown in Figure 14.

Retail, Content and Computing are lead sectors of online advertising in Germany

The retail sector dominates the online ad market in Germany, accounting for 35% of all impressions by sector. Finance sites account for the second greatest volume of ad impressions, which, although Nielsen//NetRatings says excludes house ads, may include a number of barter ads.

When compared against the rest of Europe, the German market appears remarkably flat, with the 9 biggest ad sectors relatively unchanged in terms of distribution of share of all ad impressions.

Yet Germany had 20% more advertisers and 157% more display ads in circulation last year than it did in 2003, reinforcing the healthy state of the German market and proving that advertisers were not standing still.

2003 Market Snapshot Germany

Population	82.7 m
Internet Population	47.1 m
Size of Total Ad Market	€18.5 bn
Size of Online Ad Market	€555 m
Online Ad Spend Growth Over 2003	34%
Online Ad Spend as % of Total Ad Market	3.0%
Broadband as % of Online Homes (Dec 04)	65%
Consumer E-commerce Spending	€22.3 bn

Figure 14 Source: IAB Europe, eMarketer, Strategy Analytics, Nielsen//NetRatings International AdRelevance;

Retail and content sites lead market fields in online display units in Germany

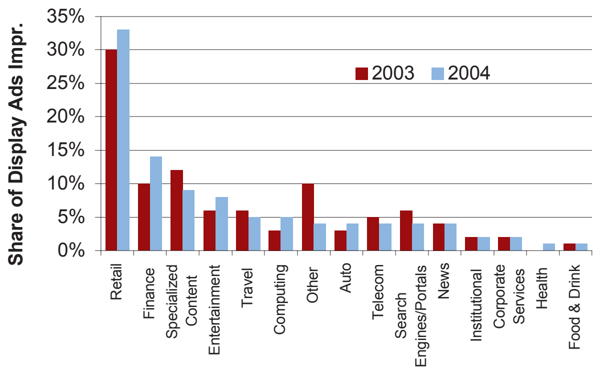

Figure 15 Source: Nielsen//NetRatings International AdRelevance

10 German advertisers served more than 1 billion ads online in 2004

eBay increased 2003's 7.4 billion ad impressions by 154% to almost 19 billion in 2004, with more display ads served than the Top 15 U.K. advertisers combined. Meetic, sitting in 10th place, is noted for recording heavy growth, boosting the number of impressions from less than 16,000 in 2003 to over 1 billion in 2004 (a 6,242% increase).

The top 10 advertisers in Germany all registered at least 1 billion impressions and included the likes of Tchibo, Dell, Finansbank, RTL, Direct Line and Immonet.de, which was the fastest-growing company in the Top 15 and a new entrant.

The volume of ads among the top German online advertisers contrasts starkly to the U.K., where only Vodafone managed to surpass the 1 billion impressions mark. At the same time, the IAB reports that British advertisers spent nearly spice as much overall as German advertisers online. This suggests that CPM rates in the U.K. are substantially higher than in Germany.

Top 15 German online advertisers by volume of ad impressions

		Ad impressions (000)		
	Advertiser	2004	2003	% ?
1	eBay	18,874,818	7,419,978	154%
2	Tchibo	3,829,572	1,657,814	131%
3	Dell	2,504,890	783,592	220%
4	Finansbank	2,459,907	158,763	1449%
5	RTL	2,310,480	173,973	1228%
6	Direct Line	1,687,203	861,090	96%
7	Postbank Germany	1,440,042	455,803	216%
8	Douglas	1,213,418	368,170	230%
9	Immonet.de	1,093,408	8,644	12549%
10	Meetic	1,005,797	15,860	6242%
11	Expedia	986,462	416,475	137%
12	Parship	938,282	362,655	159%
13	Tipp24	855,639	170,608	402%
14	Freenet	819,601	833,595	-2%
15	Vodafone	814,889	282,994	188%

Figure 16 Source: Nielsen//NetRatings International AdRelevance

Rich media trends in Germany

If there is a parallel between the growth of broadband penetration and rising numbers of rich media ads, then Germany makes for an interesting case.

Between January 2003 and December 2004 broadband penetration hardly shifted at all in the already advanced German market, which rolled out the high-speed Internet with greater efficiency than in the U.K. pre-2003. Germany had almost 6 out of 10 Internet users on broadband in January 2003, compared with just over 2 out of 10 at the same time in the U.K.

However, by the end of 2004, Germany had barely added any more broadband connections and finished the year with penetration of around 65% of Internet users. In this environment, media growth has grown rapidly in the last two years, as German advertisers realise that those on higher speed connections can benefit from video, audio and games in ads.

Rich media usage in Germany doubled from 2003 to 2004

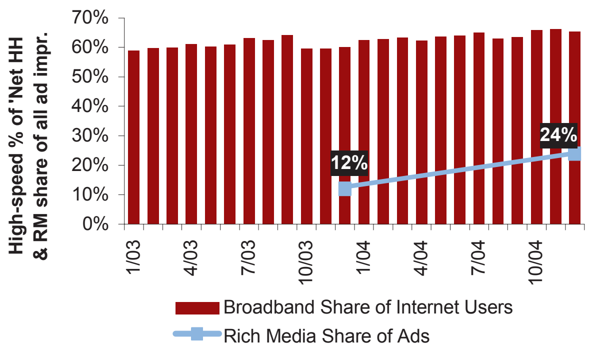

Figure 17 Source: Nielsen//NetRatings International AdRelevance, 2005

Accordingly, Germany doubled the amount of rich media used in 2004, with around one in four ads using advanced technology in preference to static GIFs and JPEGs by the end of the year. Although broadband penetration was at around 59% in January 2003, rich media only accounted for about 1 in 50 ads placed at that time.

Auto, finance and media sectors use most rich media

In Germany, automotive, finance and TV/radio sectors are the heaviest adopters of rich media, as illustrated by Figure 18.

The top sectors are using rich media units for roughly one in two display ads.

Although only one in four ads in Germany was rich media in 2004, compared to one in three for France, Figure 19 shows how popular rich media is with a number of advertisers. Of the 15 companies that use the most rich media as a portion of their total web display ad campaign, all used more than 50% rich.

Auto & investment, firms feature highest share of rich media in ads in Germany, 2004

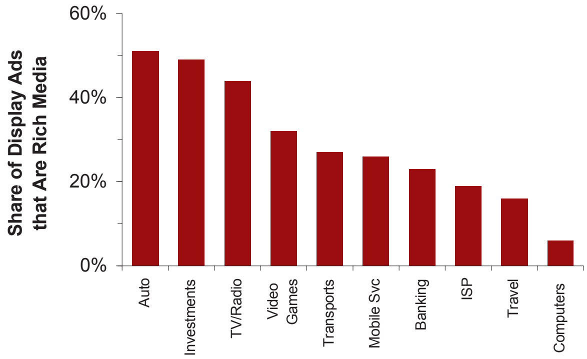

Figure 18 Source: Nielsen//NetRatings International AdRelevance

eBay is the largest rich media advertiser in Germany with more than twice as much share of rich media impressions compared to the next on the list, RTL (4.4% vs 2.1%). The third-biggest consumer of rich media impressions in Germany was Hewlett Packard (1.7%), the biggest rich-media advertiser in the U.K. and probably the largest Flash advertiser in Europe.

15 most-enthusiastic rich media advertisers in German, 2004

1	Sage Software	85%
2	T-Com	76%
3	Commerzbank	76%
4	DEVK	73%
5	Smart - Forfour	73%
6	RTL	70%
7	Weight Watchers	70%
8	iLove	65%
9	Activest	64%
10	T-Mobile	63%
11	Beiersdorf - Nivea	63%
12	BMW - 1 Series	62%
13	Vonage	61%
14	Deutsche Bank	58%
15	Intel	56%

Figure 19 Source: Nielsen//NetRatings International AdRelevance

Top 15 German rich media advertisers, 2004

1	eBay	2.6%
2	RTL	2.3%
3	Hewlett Packard	2.2%
4	Expedia	2.0%
5	T-Com	2.0%
6	E-Plus	1.8%
7	Travelchannel	1.4%
8	T-Mobile	1.3%
9	Microsoft	1.1%
10	T-Online	1.0%
11	ABN AMRO	1.0%
12	IBM	1.0%
13	iLove	0.9%
14	s.Oliver	0.9%
15	Sparkasse	0.7%

Figure 20 Source: Nielsen//NetRatings International AdRelevance

Despite having world-leading automotive companies including BMW, Mercedes and Volkswagen, none of the major vehicle manufacturers featured in the Top 15, and this is despite the fact that the automotive sector on average used a rich format for every other online ad placed in 2004.

As with France and the U.K., the Top 15 rich media advertisers accounted for about a quarter of the overall domestic market in Germany.

Google by far dominates search activity in Germany

As Figure 21 shows, Google has admirers well beyond the shores of the US. Google occupies huge market share in Germany, where around two-thirds of all searches originate on Google.de. It is almost 10 times the size of its nearest competitors, with a market share of 66% in January compared with the 7% claimed each by Yahoo!, T-Online and AOL.

Two-thirds of Germans prefer Google for search

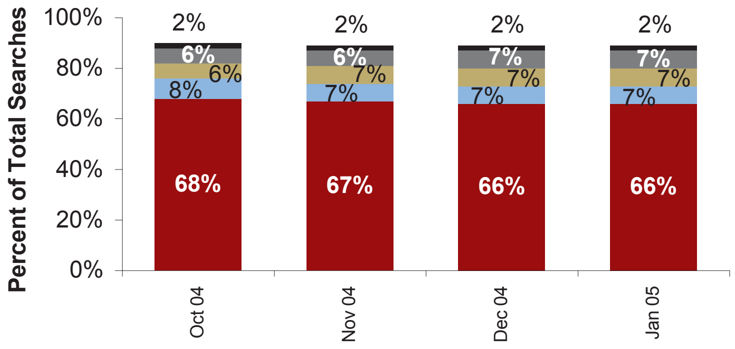

Figure 21 Source: Nielsen//NetRatings International AdRelevance

With the biggest European population of Internet users, it is not surprising that Germany has the most search engine users of The Big Three: more than 13 million Germans used a search engine in January 2005, compared with about 10 million in the U.K. and 6.7 million in France.

Surprisingly, however, Germans use search engines less frequently than their French and British counterparts: 17 times per month on average in January 2005 in Germany compared to 33 times in the U.K. and 35 times in France.

Germany was Europe's second largest market for search advertising in 2004 (after the U.K.), according to Forrester, with about €165 million (£114 million / $199.5 million) spent on paid listings and organic search marketing programs. Compound growth in this area is expected to slow to a modest 11% through to 2010, when German companies will spend almost €400 million on search annually, Forrester projects.

The French Market

France has the smallest Internet population of the Big Three European Internet markets (25.6 million people), yet in terms of advertising spending, at €583, it is slightly larger than the German online ad market, according to the IAB Europe. That figure represents 4.6% of the size of the total French ad market, as shown in Figure 22. That makes the online ad market in France the largest share of a country's overall ad market of any European country.

France sees growth in ads, advertisers and budgets

Retail is the dominant sector in the French online ad market by volume of display units at 21% ad volume in all sectors. Travel remained in the second position for two years in a row, with 13% of all French web display ad impressions.

Both sectors lost share of the total number of ad impressions in the market as other sectors begin to increase their spending more. Financial services was the biggest gainer as a sector, moving from 8% to 12% of all French web display ads.

The ubiquitous eBay generated almost 5 billion ad impressions in 2004 despite recording a 5% decline in impressions on the previous year.

Purely in terms of the amount of ad impressions served, eBay in France is five times the size of the U.K.'s biggest advertiser, Vodafone, which generated 1 billion ad impressions in the U.K. during 2004.

eBay generated a combined 24 billion ad impressions in France and Germany in this time period. By contrast it did not feature in the U.K.'s top 15 display advertisers for 2004 (the smallest of which served a half a billion impressions).

eBay is closely followed by French travel group, PartirPascher, with 4.1 billion ad impressions. In third place was Renault, which notched up more than 1 billion impressions. Fast-rising star Isabella Voyante

2004 Market Snapshot France

Population	60.6 m
Internet Population	25.6 m
Size of Total Ad Market	€18.3 bn
Size of Online Ad Market	€844 m
Online Ad Spend Growth Over 2003	78%
Online Ad Spend as % of Total Ad Market	3.0%
Broadband as % of Online Homes (Dec 04)	69%
Consumer E-commerce Spending	€11.9 bn

Figure 22 Source: IAB, eMarketer, Strategy Analytics, Nielsen//NetRatings International AdRelevance; 2005

Travel, retail & content sites lead France market sectors in volume of online display units

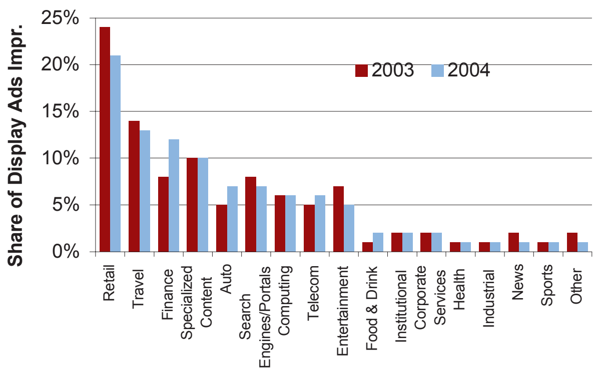

Figure 23 Source: Nielsen//NetRatings International AdRelevance

Top 15 online advertisers by volume of ad impressions, France

1	eBay	4,904,585	5,168,461	-5%
2	Partirpascher	4,095,957	2,770,333	48%
3	Renault	1,092,524	229,292	376%
4	Isabella Voyante	1,079,517	35,145	2972%
5	Voyages-sncf.com	856,643	153,476	458%
6	Promovacances	809,066	285,271	184%
7	Hewlett Packard	791,008	513,158	54%
8	France Telecom	699,844	-	0%
9	Wanadoo	648,223	451,575	44%
0	Médiatis	648,055	107,641	502%
1	9 telecom	618,666	56,652	992%
2	Music and film	612,111	163,084	275%
3	Cofidis	608,951	11,718	5097%
4	Anyway	561,161	68,997	713%
5	Yahoo	537,107	169,453	217%

Figure 24 Source: Nielsen//NetRatings International AdRelevance

also served 1 billion ad impressions and had almost 30 times more ads in circulation than it did last year.

Internet pureplays Yahoo! and Wanadoo also provided eBay with some dotcom support in the Top 15, accounting for a combined 1.2 billion impressions.

Rich media trends in France

French Internet users have adopted high-speed Internet services at a striking pace. At the start of 2003, 36% of French Internet users connected via broadband connections; by the end of 2004, that figure had risen to 69%. It should be noted, however, that only 42% of France's population used the Internet in 2004, according to Nielsen//NetRatings.

Digital marketers in France more than doubled their usage of rich media ad formats in 2004. At the start of the year about one in seven ads was built using Flash or similar technologies, but this leapt to about one in three by the end of December. Remarkably, a year earlier there were virtually no rich media ads in France.

Rich media advertising in France reached 1/3 of total market in 2004

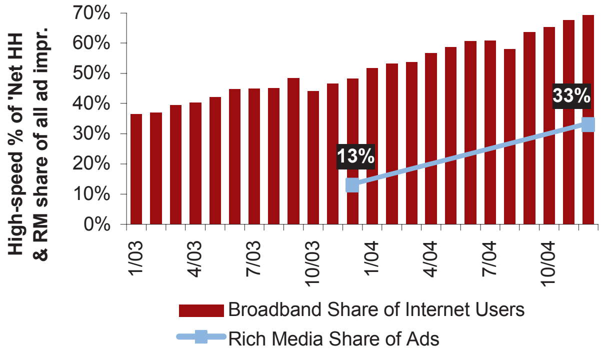

Figure 25 Source: Nielsen//NetRatings International AdRelevance

Auto & game manufacturers using the highest share of rich media ads in France

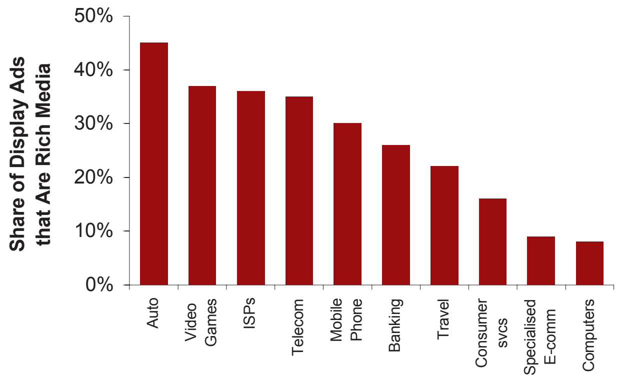

Figure 26 Source: Nielsen//NetRatings International AdRelevance

Auto, game, ISP and telco companies dominate rich media usage

French incumbent automotive manufacturers such as Renault and Citroen grasped the rich media baton the strongest in 2004.

Rich media growth also came from other sectors including as video games, telcos and ISPs. These

Rich media advertising in France reached 1/3 of total market in 2004

1	Partirpascher	8.2%
2	Microsoft	2.0%
3	Voyages-sncf.com	2.0%
4	Hewlett Packard	1.9%
5	SFR	1.8%
6	IBM	1.7%
7	Promovacances	1.6%
8	AOL	1.4%
9	France Telecom	1.3%
10	Symphonis	1.1%
11	Eurostar	1.1%
12	Expedia	1.1%
13	Wanadoo	1.0%
14	MMA Assurance	1.0%
15	Music and film	0.9%

Figure 27 Source: Nielsen//NetRatings International AdRelevance, 2005

latter sectors used rich media for at least one in three online ads, compared with almost one in two for auto manufacturers.

The advertiser with the largest share of rich media ads in 2004 was French travel group Partirpascher, the second-largest overall online advertiser in France (by number of ad impressions). The company accounted for around 1 in 12 rich media ads placed domestically last year.

Microsoft was the second biggest user of rich media ads in the French market, where one in 50 rich media ads were those of the software giant.

France's rich-media ad market is very young and growing at a tremendous pace, so expect changes to the Top 15 as more companies migrate their ads to the more compelling formats.

Despite the absence of automotive companies in the Top 15 rich media advertisers, Renault is shown to be one of the highest adopters of rich formats as a proportion of its ads, with 69% of its online ads using rich technology in 2004.

Only three companies use a higher proportion of rich media; Symphonis, the richest advertiser, uses only 18% of non-rich ads in its campaigns.

15 French advertisers used more rich media than not in 2004 web ad programs

1	Symphonis	82%
2	MMA Assurance	79%
3	SFR	77%
4	Renault - Modus	69%
5	Air France	66%
6	Fujitsu-Siemens	64%
7	Promovacances	63%
8	LDLC	61%
9	Bouygues Telecom - I-Mode	61%
10	Adidas	61%
11	Eurostar	60%
12	Médiatis	58%
13	Gaz de france - GDF Energies	57%
14	Bouygues Telecom	57%
15	Racing Live	56%

Figure 28 Source: Nielsen//NetRatings International AdRelevance, 2005

French searchers love le Google and are avid searchers

Like in Germany and the U.K., Google is the most popular search engine in France, with a 49% share of all searches in January 2005. France's home-grown Orange (formerly Wanadoo), owned by France Telecom, was the second most popular search engine with only 14% share of search activity that same month. The next-most-popular engines were familiar U.S. players: Yahoo, AOL and MSN.

The French are the most active Internet searchers of the European Big Three. The average Frenchman conducted 35 searches in January 2005, compared to 33 for Britons and 17 for Germans.

This despite the fact that France has the smallest number of

Half of French Internet users go to Google for searching

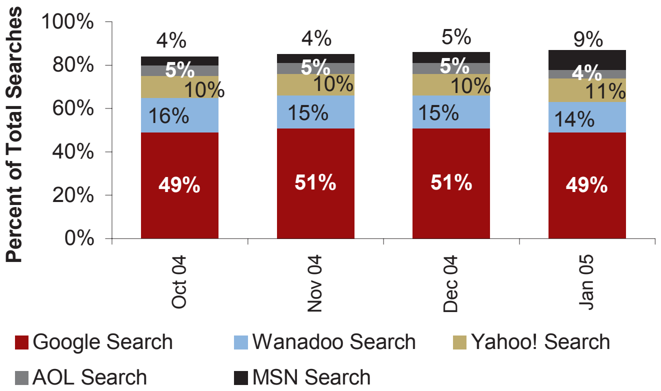

Figure 29 Source: Nielsen//NetRatings International AdRelevance, 2005

searchers of the three countries: 6.7 million in January 2005, compared the U.K.'s 10 million and Germany's 13.2 million.

By the end of 2005, Forrester Research expects France to account for about 19% of search marketing spend in Europe, despite the fact it is 'historically a laggard in anything digital' in that analyst group's words.

French search most frequently each month, followed by UK

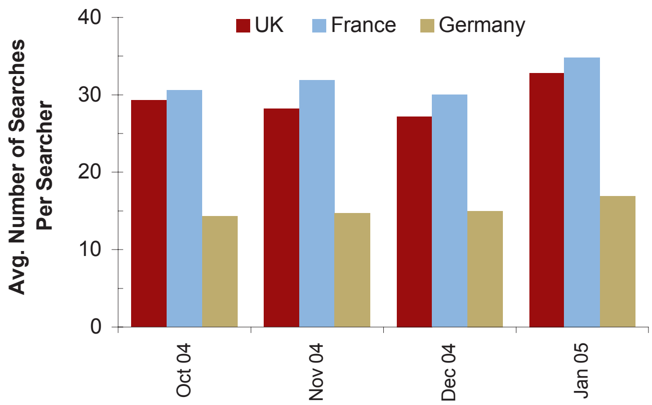

Figure 30 Source: Nielsen//NetRatings International AdRelevance, 2005

Conclusions

Europe has been more cautious about adopting the Internet than the United States. European consumers have been slower to adopt the Internet than their American counterparts, for a variety of reasons, including different pricing models, language barriers and more. European marketers, meanwhile, have made slow but steady investment into burgeoning digital marketing programs. While European businesses did not dump money into online advertising at the heady levels of the U.S. in the late 1990s, it also didn't fall as far during the ensuing economic retraction and backlash.

Including all of the 25 countries of the E.U., Europe's spending on Internet marketing programs may be as large in 2005 as a third that of the U.S. U.S. marketers in aggregate spent €38.6 ($47.0) per Internet user, compared to €26.4 in the U.K., €11.8 in Germany and €33 in France.

But lower Internet penetration among European consumers is a signal of the inevitability that more European businesses will increase their online ad spending for the coming few years.

In the U.S. market, 2004 saw the beginning of a 'seller's market,' where supply of new ad inventory is shrinking just as spending by marketers is rapidly increasing. Web display advertising is shrinking due to slowing consumer Internet adoption at around 70% of the population already online combined with a reduction in clutter as publishers shift from a model of lots of smaller ads to fewer larger ads.

The result is rising overall costs for online ad media. As spending in online ads increased in 2004 over 2003 in the U.S. 33%, web publishers sold more ads for premium prices to fewer advertisers for longer-term contracts as opposed to through third-party ad networks. At the same time, search advertising boomed to 40% of the $9.6 billion the IAB projected that marketers spent in 2004. And rich media amounted to a third of all web display ads.

Whether European countries should expect to follow the U.S. example closely is an open question. Cultural differences alone may suggest that ad spending will never reach the same levels. But in all likelihood, the siren song of online media will prove irresistible for European audiences just as they have in the U.S., Japan, Korea and elsewhere, and more Europeans will sign up for Internet access. Invariably, advertiser spending will follow those audiences, just as they do in ever other medium consumers engage with.

Through 2005-2006, it is likely that the European Internet user population, and thereby the volume of Internet ad opportunities, will continue to grow at a pace that at least keeps in check with advertiser demand. But when growth in new Internet users in those countries begins to slow to single digits, while ad spending is still rising fast, then European advertisers should expect online ad prices to rise quickly.

European marketers have the advantage of a 6-18-month preview of online marketing trends by studying developments in the U.S. marketplace. The winning online marketers in the Europe will be those that invest now in best practices in terms of online media planning, targeting, optimization, program analytics and constant honing of results. By the time the market pricing dynamics turn to the advantage of ad inventory holders, as they have done in the U.S., the most experienced online marketers will be at the ready for the next phase of this industry's rapid maturation.

Data Footnotes

i. All currency conversions cited in this report were based on rates in July, 2005. All uses of '$' symbol refer to U.S. Dollars.

