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Downturn Expected to Diminish Growth in Online Advertising

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The financial crisis followed by the economic slowdown will change how advertising dollars are spent on the Internet.

The consensus of several local experts is that overall advertising expenditures will decline in 2009, but online advertising will continue to grow, albeit modestly, as companies pull money from print and broadcast.

It's a significant issue because Internet advertising has been a boom industry in Los Angeles in recent years, with companies such as Gorilla Nation Media and Vantage Media rising to prominence with triple-digit growth.

"Everybody's advertising pies are going to shrink, but I think the way the pies are cut up will benefit digital," said Jose Villa, president of Sensis, a Hispanic online agency in Los Angeles. "We won't have 30 percent increases for online spending like we've had in the past. For 2009 and 2010 we'll probably have high single digit growth."

Entertainment advertisers, of key interest in the L.A. economy, will continue to spend more money online, according to Matt Stodder, vice-president at online ad sales firm Gorilla Nation in Hollywood. That bodes well for the many Web sites specializing in entertainment news, gossip and celebrity photos.

And despite the slump in auto sales, car-related advertising online should remain strong, said Joe Appendi, chief executive of ad network Collective Media in New York. In particular, Appendi sees strong demand for sites that cater to people shopping for cars. Those include Westlake Village-based J.D. Powers and Irvine-based Kelley Blue Book.

Villa predicts telecommunications advertising will remain strong – a crucial category since Verizon and AT&T were the two top online spenders in 2007, according to the Interactive Advertising Bureau (IAB), a national trade group. On the down side, he expects home furnishing, home improvement, travel and restaurant advertising to decline in the next year, while financial services will have mixed results.

"The national banks are in bad shape, but the regional banks see blood," Villa said. "You'll see that in California, where the City Nationals and Union Banks of California will take advantage. They have a chance to get their voice high and they have a good story to tell – namely, they're still solvent."

Finally, consumer goods advertising will strengthen online, especially for women's products, said Stodder, because females now represent more than half the online audience.

Sites that depend on sales through ad networks will have a tougher time as growth slows.

If publishers sell space directly to advertisers or their ad agencies, they make an average of \$15 per thousand impressions. (An impression is when someone views an ad.) If publishers sell through an ad network, the publisher only makes up to \$1.10, according to a report by IAB.

On a typical site, ad networks sell about 25 percent of the display ads, but those ads only account

for 2 percent of the site's revenues.

Frank Addante, president of the Rubicon Project, said the IAB numbers sound accurate but he cautioned against apples-to-apples comparisons. Publishers normally sell their best ad opportunities – such as the home page, video or sponsorships – themselves and leave the less desirable remnant space for the ad network.

Higher prices

With the downturn, Stodder foresees higher prices for premium ad placements such as the home page, and correspondingly lower prices from ad networks. This will benefit large and medium sites that sell directly, but will hurt small sites that depend entirely on ad networks for their revenues.

Apprendi noted that costs to reach 1,000 people online run seasonally higher during the fourth quarter as more advertisers want exposure and Web traffic remains fairly constant. So those costs won't decline for the rest of 2008. "But I'm expecting pressure in some sectors in the first quarter of 2009," Apprendi said.

To prosper during the downturn, Stodder said Web sites will have to offer editorial integration or video advertising to justify higher prices. Editorial integration means that the advertising will have to be supported by content on the sites.

Addante sees the globalization of the Web as a key consideration in the future of online ads. That's because about 40 percent of the traffic on U.S. sites comes from foreign visitors, so logically, 40 percent of their ad revenue should come from those countries. But U.S. sites receive almost nothing from international advertisers. Addante said Britain now spends \$5 billion and China \$1 billion in online ads, and eventually that money will find the audience on U.S. sites.

Apprendi at Collective Media thinks publishers will have to look at new business models that depend less on advertising. For example, companies called data exchanges can sell information about the users who visit a Web site, and for small sites with hard-to-reach audiences, this information represents a gold mine.

Companies use the data for market research and contacting consumers who have shopped for related or competing products on the Web.

"Smart publishers are going to think about their brand beyond unsold ad inventory," said Apprendi. "They will have to think about data monetization."

As for the fate of local Web properties, opinions are mixed.

Addante believes that people who have established a Web presence will survive.

"The players in the industry can sustain themselves based on existing dollars," he said. But slower growth may lock out newcomers.

Villa offers a more pessimistic view.

"I don't think small sites will survive on their own," he said. "There are still traditional media companies that don't have as strong a new media presence as they would like. So for stand-alone digital properties, I won't be surprised to see consolidation."