

WHITE PAPER

Digital Local Advertising Helps Advertisers and Publishers Grow Faster, Be More Competitive

Sponsored by: YP, formerly AT&T Interactive and AT&T Advertising Solutions

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IDC OPINION

Digital local advertising offers both local advertisers and publishers tremendous business opportunities, both in terms of growing their business faster and in terms of being more competitive.

For *local advertisers*, the importance of digital local advertising has grown to the point of "ignore at your own peril." The Internet is the place where you will reach your clients, not the newspaper or the radio; it is the place where you will reach them more effectively financially; and it is the place where your competitors, more likely than not, are already trying to gain your customers' favor. The most important advantages of digital local advertising compared with traditional media are:

- ☒ **Audience reach.** Digital advertising enables you to reach your customers where they are: online and on mobile devices.
- ☒ **More sales per dollar spent on advertising.** Digital ad technology allows you to reach only those users that are most likely to buy your product or service, as opposed to newspapers, radio, or television, which come with huge amounts of wastage. Better targeting translates into greater ad effectiveness (i.e., more sales per dollar spent on advertising or a better return on advertising spend [ROAS]).
- ☒ **Even more effectiveness with mobile advertising.** Reach the on-the-go audience where traditional media can't, reach them at the time of their purchase decision, and reach them when they are near your business.
- ☒ **Immediate conversion.** Digital ads allow for direct response marketing. Through a simple click, customers can learn more about an offer, make a reservation, schedule an appointment, place a call, and more.
- ☒ **Greater accountability.** Digital marketing is more accountable than traditional media; it will provide you with much better data on your ad campaign's performance than you have ever had in traditional media.
- ☒ **Cheaper prices.** All told, both online advertising and mobile advertising are often cheaper than traditional alternatives. This is true for local advertising networks, which usually sell publishers' inventory (i.e., ad placements in content) at a discount, and for search engines (because they are so effective).
- ☒ **More flexible pricing models.** Depending on the local publisher or local network, advertisers can choose from a variety of different price models to suit their needs. Digital advertising not only offers the traditional CPM pricing (cost

per mille, cost per one thousand impressions) but also subscription models or performance models (cost per click [CPC], cost per lead, cost per sale, or other cost-per-action models).

For digital *publishers*, including *mobile app developers*, local online advertising is an opportunity to sell more of their inventory and, in some cases, to sell it at higher prices:

- ☒ **Sell more inventory.** The ever-growing demand in local advertising for inventory helps publishers monetize unsold inventory, facilitated through local ad networks that aggregate local inventory to amounts that are sellable.
- ☒ **Sell inventory at higher prices.** If you have locally oriented content, local targeting, and especially local targeting on mobile devices, you may well find that you can realize higher eCPM rates (eCPM = effective CPM, cost-per-click/performance rates translated into CPM numbers).

Local digital ad networks are a crucial component of the digital local advertising ecosystem. IDC estimates around 70% of digital local advertising inventory is being traded through advertising networks. For local businesses, they often make it possible to advertise online by aggregating enough inventory to make campaigns possible in the first place. Few Web publishers and even fewer mobile apps generate enough inventory to support larger local ad campaigns.

METHODOLOGY

Market intelligence in this document is based on interviews with senior executives of nine leading online ad networks and other companies that participate in the local and mobile online advertising ecosystem, existing IDC research on Internet advertising, and publicly available data. Market size data and forecasts are based on IDC's advertising forecast model.

IN THIS WHITE PAPER

As digital local advertising is growing rapidly and the complexity of its ecosystem is increasing, so is the importance of local advertising networks and the complexity of their role in that ecosystem. This white paper provides advertisers and publishers with an overview of the current situation in local advertising, the role of local ad networks in its ecosystem, what different roles they take on in the value chain, and how much spending they attract. For each type of ad network, this paper also calls out the major players.

SITUATION OVERVIEW

Local advertising is undergoing a quiet revolution. Local advertisers, even small businesses and mom-and-pop shops, have begun to embrace online advertising in a big way. By 2013, the Internet will be the single-most-important medium for local advertising bar none, attracting more money than radio, TV, or newspapers. IDC forecasts that spending on local advertising will grow from \$98.5 billion in 2011 to

\$132.2 billion in 2016 at a compound annual growth rate (CAGR) of 6.1%. During that time, the market share of digital advertising within all advertising across all media will grow from 18% to no less than 25%.

Local digital ad networks are one of the most important components of the digital local advertising ecosystem. IDC estimates around 70% of digital local advertising inventory is being traded through advertising networks. Without local ad networks, many local businesses would not have a channel for their marketing, and many publishers would not be able to sell advertising inventory into local marketplaces.

Defining Local Digital Advertising Networks

Local digital ad networks are arguably the most important component of the digital local advertising ecosystem. In its simplest form, the sale of digital local advertising inventory takes place directly between the publisher and the advertiser. But the majority of inventory (perhaps around 70%) is not being sold directly; instead, it is sold indirectly with the help of a specific group of middlemen: advertising networks.

Local ad networks are so important because for many local ad campaigns, networks are the only seller of inventory that can offer advertisers the needed audience reach (i.e., the share of the usership one can reach with a campaign) and the needed volume of inventory.

Local digital ad networks are indirect sales platforms that aggregate online or mobile local advertising inventory from publishers, sell it to local advertisers, insert their advertisements into that inventory, track the progress of advertising campaigns, and report the results to advertisers.

By aggregating and selling inventory, ad networks fulfill an important function in the advertising ecosystem — they create a market for inventory that would otherwise not exist, benefitting everyone:

- ☒ With regard to *publishers*, networks either aggregate inventory from those that were unable to sell it themselves directly to advertisers or aggregate inventory from publishers that are too small to have their own direct sales force. For the former group, networks help monetize unsold inventory, thus increasing their revenue. For the latter group, networks help them become commercially viable in the first place.
- ☒ With regard to *advertisers*, networks make available inventory to them that otherwise would have been inert and inaccessible. This means networks help advertisers reach a greater audience and reach that audience more frequently. What's more, networks often also sell inventory at lower prices than usual, namely where publishers sell off unsold inventory at discounted rates.

In return for their services, ad networks keep a share of the sales revenue, which is anywhere between 20% and 60% of gross revenue, depending on a number of factors, including inventory quality (content quality, demographic profile of audience, and other targeting data that a publisher may make available with the inventory), current supply and demand, and the size of the publisher (and its intrinsic market power).

Types of Local Advertising Networks and Their Ecosystems

There are different types of local advertising networks, defined by the kind of advertising ("ad format") and advertising technology they offer. The sections that follow outline search ad networks, display ad networks, and mobile ad networks. Each ad format comes with its own ecosystem, and the ad networks operating in them take on different roles.

Local Online Search Advertising Networks

Local search ad networks allow users to search for local businesses, products, and services by entering a business category and a location ("Toyota, San Francisco"). The business listings resulting from a query can contain both paid advertisements and organic (not paid-for) listings. Because search ad networks show ads that are matched to the locality and the interest of a user, they are very effective for DR marketing. The ad is shown to the user, and ideally, the user will respond to it directly in some way: by visiting the shop or office of a business, calling the business, visiting its Web site, or buying a product.

There are several different pricing models for local search ads. Ads can be either paid through advertising subscriptions or based on performance pricing. In advertising subscriptions, typically used in paid business search services such as YP.com and Superpages, the advertiser pays a fee for its listing to be shown for a certain period of time (e.g., a year) whenever a user enters a relevant query. In performance models, no matter how often an ad is shown to users, the advertiser only pays if a user performs a certain action: When the user clicks on the ad, leading him/her to the business' Web site (cost per click), or when the user clicks to call the business (cost per call). Prices per click can be as low as \$0.50 and can go into the double- or even triple-digit dollar amounts for keywords that a lot of advertisers want to book.

The major local specialist in search advertising is YP with YP.com and YP Local Ad Network; Local.com and Superpages are smaller players. All are available both online and on mobile devices. National search engines such as Google, Bing, or Yahoo! also run local ads (see Table 1).

The local search advertising ecosystem is comparatively simple because it is highly automated (see Figure 1). The majority of search ad campaigns, namely those of small and medium-sized businesses (SMBs), are set up directly between the advertiser and the search ad network, with no third party involved. Bigger search advertisers use the help of so-called "search engine marketers" (SEMs). SEMs are essentially search advertising agencies that help advertisers choose the right keywords, the perfect bid amount for each, and the right targeting. The most important U.S. SEMs active in the local space include Adobe (SearchCenter, the former Omniture, and Efficient Frontier), YP, Covario, and Superpages. For an overview of major local search players, see Table 1.

TABLE 1

Select Local Online and Mobile Search Advertising Networks

Company	YP*	CityGrid Media	Local.com	SuperMedia	xAd	Google	Microsoft	Yahoo!
Product name	YP Local Ad Network	Citysearch	Local.com	Superpages	xAd	Google Search	Bing	Yahoo! Search
Description	Local online and mobile search ad network	Local online and mobile search ad network	Local online search ad network	Local online and mobile search ad network	Local mobile search ad network	National online and mobile search ad network	National online and mobile search ad network	National online and mobile search ad network
Founding year	1998	2002	1999	2006	2009	1998	1975	1995
Location	Tucker, Georgia	West Hollywood, California	Irvine, California	Dallas, Texas	San Francisco, California	Mountain View, California	Redmond, Washington	Sunnyvale, California
Employees**	7,000+	350	230	4,400	100+	24,400	90,000	13,300
Ownership	Privately held	Owned by IAC (Nasdaq: IACI)	Public (Nasdaq: LOCM)	(Nasdaq: SPMD)	Privately held	Public (Nasdaq: GOOG)	Public (Nasdaq: MSFT)	Public (Nasdaq: YHOO)
Estimated 2011 U.S. online gross local revenue	\$1B	\$0.4B	\$79.0M	Unavailable	\$20.0M	\$6.5B	\$0.9B	\$0.6B
U.S. audience reach (%)***	34.0	Unavailable	Unavailable	23.8	Unavailable	52.5	45.7	Unavailable
Estimated local queries per month — national	Unavailable	1.6B	0.9B	Unavailable	Unavailable	Unavailable	0.6B	0.9B

* YP was formerly AT&T Interactive and AT&T Advertising Solutions.

** Employee number = Company totals.

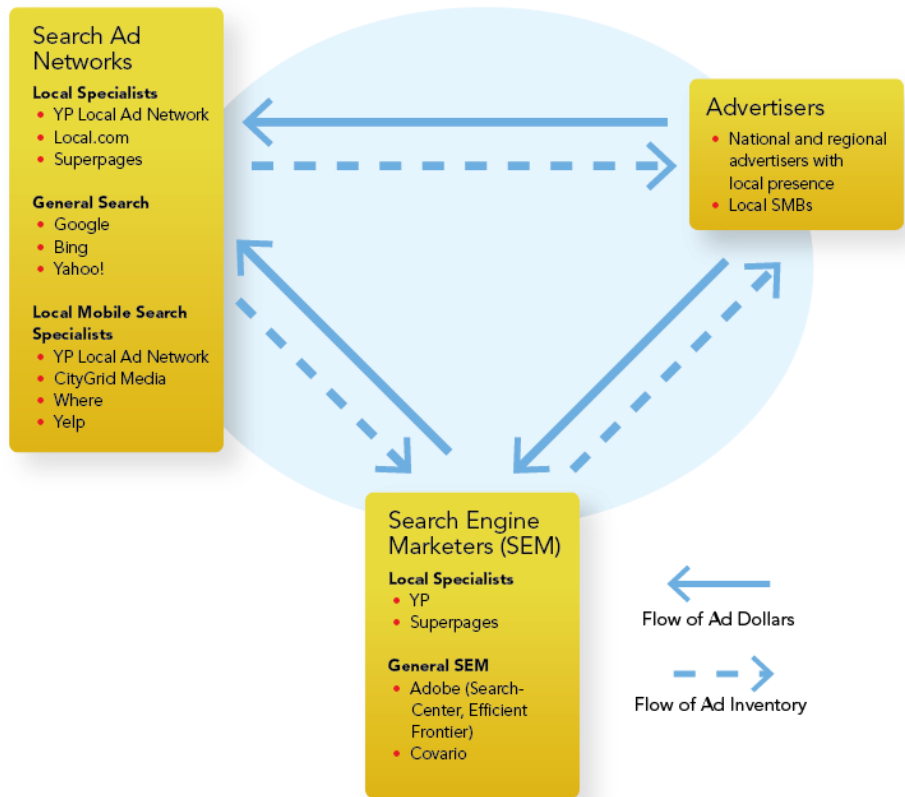
*** Audience reach = Online search reach (mobile not included).

Note: YP and CityGrid Media revenues reflect total sales across online search and display products.

Source: IDC, 2012, and comScore Media Metrix, October 2011

FIGURE 1

The Local Search Advertising Ecosystem



Source: IDC, 2012

Local Online Display Advertising Networks

Local display advertising networks aggregate banner, rich media, and video ad inventory from publishers. Because display ads are not constrained to text but can also show brand logos, product images, or pictures, they are well suited for brand advertising.

Display ads sold on networks can be targeted at potential clients based on a number of features, the most common ones being demographics (age, sex, income, education, marital status, number of children, etc.) and interest (behavioral targeting [BT] and retargeting). Local advertising is possible either because the inventory is locally relevant anyway (i.e., ads are placed in content that is covering a certain locality) or through geotargeting. *Geotargeting* is based on a user's IP number (usually allowing targeting down to the first three digits of the zip code) or simply based on a location the user registered in his/her user profile at some point.

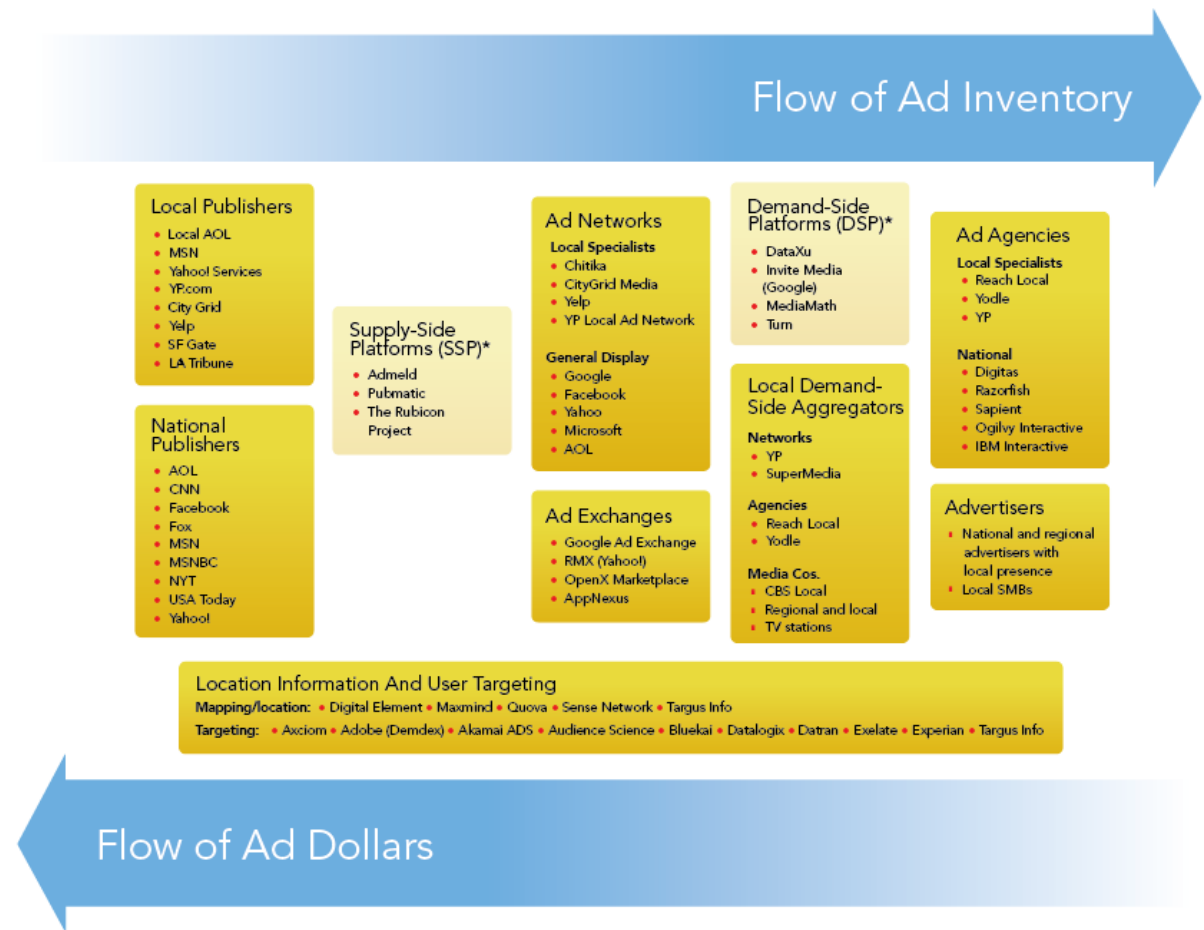
Display ad campaigns on display ad networks are usually priced based on the cost per mille model (cost per each 1,000 times an ad has been displayed to a user). CPM prices are still largely determined in person-to-person negotiations. But automatic trading based on the stock exchange model is quickly gaining ground on networks (publishers' price asks for specific chunks of inventory are compared with advertisers' price bids, and a sale is transacted whenever there is a match).

Local Display Advertising Ecosystem

The local display advertising ecosystem is complex, with several distinct functional entities in the value chain (see Figure 2 and Table 2).

FIGURE 2

The Local Online Display Advertising Ecosystem



* Established category in online advertising but still emerging in local display advertising

Source: IDC, 2012

TABLE 2

Overview of Players in the Value Chain

Local Publishers	Supply-Side Platforms	Ad Networks	Demand-Side Platforms	Ad Agencies	Advertisers
Produce or aggregate local content against which ads can be placed.	Help publishers get the best price for their inventory from ad networks and ad exchanges.	Aggregate inventory from publishers and sell it to advertisers.	Help advertisers get the best price for their inventory.	Manage ad campaigns for advertisers.	Run ad campaigns to market their products and services.
National Publishers		Ad Exchanges	Demand-Side Aggregators		
Produce or aggregate local content against which ads can be placed, or make general/national content addressable for local ads through targeting.	–	Help ad networks sell unsold inventory based on an ad-exchange bidding model.	Enable even small local advertisers to run ads on ad networks.	–	–

Source: IDC, 2012

On the supply side, there are national *publishers* that either produce or aggregate local content (such as AOL, MSN, and Yahoo!), as well as local publishers. The latter come in several categories, including local guides such as Yelp and online versions of local newspapers (such as *SFGate* or the *L.A. Times*). Publishers can be active in different channels: They can run online Web sites, mobile Web sites, or mobile applications, and most run all of the above. Publishers look to sell their local inventory either directly to agencies and advertisers or indirectly through intermediaries, primarily ad networks and ad exchanges but less so through supply-side platforms (SSPs) and demand-side platforms (DSPs) (see below).

Among the intermediaries, *ad networks* are by far the most important ones in local advertising. As described previously, they aggregate inventory that publishers were unable to sell and resell it to advertisers (or agencies), sometimes at a discounted rate. Inventory networks can't sell themselves — they attempt to sell through ad exchanges (see below). The biggest local specialist ad networks are YP Local Ad Network and CityGrid Media. General online display ad networks also allow local targeting; the most important ones are Google, Yahoo! and AOL's Ad.com (see Table 3).

TABLE 3

Select Local Online Display Advertising Networks

Company	YP*	AOL	Chitika	CityGrid Media	Facebook	Google	Microsoft	Yahoo!
Product name	YP Local Ad Network	AOL Advertising	Local	–	Facebook	Google Display Network	Microsoft Media Network	Yahoo! Network Plus
Description	Local ad network	National ad network	Local ad network	Local ad network	National publisher	National ad network	National ad network	National ad network
Founding year	1998	1998	2003	2002	2004	1998	1975	1995
Location	Tucker, Georgia	New York City, New York	Westborough, Massachusetts	West Hollywood, California	Palo Alto, California	Mountain View, California	Redmond, Washington	Sunnyvale, California
Employees**	7,000+	5,860	35	350	3,000+	24,400	92,000	13,600
Ownership	Privately held	AOL (NYSE: AOL)	Privately held	IAC (Nasdaq: IACI)	Privately held	Public (Nasdaq: GOOG)	Public (Nasdaq: MSFT)	Public (Nasdaq: YHOO)
Estimated 2011 U.S. online gross local revenue	\$1B	\$0.2B	\$11.0M	\$0.4B	\$0.5B	\$1.6B	\$0.4B	\$0.5B
U.S. audience reach (%)***	83.2	85.0	Unavailable	Unavailable	75.1	92.1	69.7	86.6

* YP was formerly AT&T Interactive and AT&T Advertising Solutions.

** Employee number = Company totals.

*** Audience reach = Online display reach.

Notes:

YP and CityGrid Media revenues reflect total sales across online search and display products.

Chitika revenue includes online and mobile display ad revenue.

Source: IDC, 2012, and comScore Media Metrix, October 2011

Other intermediaries — ad exchanges, supply-side platforms, and demand-side platforms — do play a role in local advertising, but a less-pronounced one than in online advertising at large as they are still emergent.

Advertising exchanges are automated trading platforms that aggregate inventory that ad networks were unable to sell. In effect, they are aggregators of aggregators. They sell this inventory, based on a stock exchange trading model, to advertisers, usually at a discount from the prices the ad networks had asked for the same inventory. The four most important U.S. exchanges are the Google Ad Exchange, the Right Media Exchange (RMX, owned by Yahoo!), the OpenX Marketplace, and AppNexus. Most publishers, advertisers, and agencies do not deal directly with ad exchanges, but only through networks.

Supply-side platforms and demand-side platforms, two new, much-talked about types of players in the general online ad industry, play less of a role in local advertising but have slowly begun to make inroads. SSPs help publishers get the best price for their inventory across multiple ad networks and exchanges. Some major SSPs are Admeld (now owned by Google), the Rubicon Project, and PubMatic.

DSPs help agencies purchase the most effective inventory for their money from ad networks and exchanges. Advertisers usually only interface to DSPs through ad agencies, and even among those, not all have the expertise to do so. Well-known DSPs are DataXu, Invite Media (now owned by Google), and MediaMath.

There is also an emerging class of new players in local advertising: *local demand-side aggregators*. They aggregate the demand from a large number of small and medium-sized local businesses and then poll ad networks and publishers to purchase inventory. This way, SMB advertisers can gain access to a range of premium publisher inventory that they would otherwise not have had. In turn, publishers get access to a larger set of ads to help increase their fill rates (the percentage of their inventory they actually sold) without having to establish direct relationships with potentially thousands of small local advertisers. In addition, DSAs often play a one-stop-shop role for their SMB advertisers by also providing them with ad creative and tracking and reporting in addition to ad placements. DSAs come in a variety of categories, including Internet business directory firms such as YP and SuperMedia, digital agencies such as ReachLocal and Yodle, and media firms such as CBS Local and regional and local TV stations.

Local Mobile Advertising Networks

The Convergence of Local and Mobile Advertising

Digital mobile advertising is the place to be for any local advertiser. Already (2011), more than 50% of U.S. users access the Internet through a mobile device — but only 4% of local online ad spending goes toward mobile advertising. By 2015, our models predict that 90% of all users will be mobile users. Also by that time, there will be more people accessing the Internet through mobile devices than through PCs, meaning that the Internet will be mobile first and PC second.

Local and mobile advertising are a perfect match in a couple of ways. To begin with, local and mobile advertising are born for each other because of the way consumers

use their mobile devices. No device is as personal as a mobile device. Mobile devices are with consumers at all times, and consumers use them when making ad hoc vendor selections: Where is the next gas station? The next café? Mobile offers a much more engaging, relevant experience than other forms of advertising.

What's more, today's smartphones are designed to serve up precise geolocation information that local advertisers can use to target their ads based on their exact location. Unlike traditional local broadcast media such as TV and radio, and unlike even traditional online advertising, which only allow targeting relatively large geographic areas, with the mobile, the advertiser can select a highly specific geography, even down to a few city blocks, in which to serve its ads. A user's actual physical location, often as precisely as down to a 50ft radius, is determined based on his or her device's GPS signal, the cell towers in its vicinity, or the location of its WiFi connection.

Traditional targeting (demographic, behavioral, etc.) however is typically less sophisticated compared with online advertising because most mobile devices don't allow the placement of cookies, which are one important precondition for more advanced forms of targeting.

Local Mobile Advertising Networks

As do online advertising networks, mobile advertising networks also offer search and display advertising. However, *local mobile display advertising networks* are a different breed from traditional online display ad networks. That is because the technology that is needed to deliver display ads to mobile devices is different from the one used to deliver ads to personal computers.

Local mobile display networks at least support a standard set of static banner ads, with some of them also offering rich media ads and video ads. However, the latter two formats are currently rarely used because of bandwidth limitations. Almost all networks support the delivery of ads to mobile apps running on all major mobile platforms (Apple iOS, Google's Android, Microsoft's Windows Phone, Research In Motion's BlackBerry OS, etc.) and to the different types of mobile Web browsers. Networks also manage the delivery to a multitude of different devices with different form factors. (The notable exception to this is Apple's iAd network, which only supports Apple iOS devices [iPod, iPhone, iPad].)

To solve all of these nontrivial tasks, a group of new companies specializing in mobile display advertising has sprung up. Major vendors are Google (AdMob and the Google Display Network [GDN]), Apple's iAd, Millennial Media, Jumtap, and the local specialists: YP Local Ad Network, Chitika, CityGrid Media, NAVTEQ, Verve, and WHERE (see Table 4). Beyond these, the mobile display ad ecosystem is not yet as sophisticated as the traditional online ad ecosystem. Ad exchanges, SSPs, and DSPs are still in an embryonic stage in the mobile segment (see Figure 3).

TABLE 4

Select Local Mobile Display Advertising Networks

Company	Apple	YP*	Chitika	CityGrid Media	Google	Jumptap	Millennial Media	NAVTEQ	Verve Wireless	WHERE
Product name(s)	iAd	YP Local Ad Network	Local	–	AdMob, Google Display Ad Network	–	–	–	–	WHERE Ads
Description	National/global mobile ad network	Local ad network	Local ad network	Local ad network	National ad network	National mobile ad network	National mobile ad network	Mobile ad network	Local mobile ad network	Local mobile ad network
Founding year	1976	1998	2003	2002	1998	2005	2006	1985	2005	2004
Location	Cupertino, California	Tucker, Georgia	Westborough, Massachusetts	West Hollywood, California	Mountain View, California	Cambridge, Massachusetts	Baltimore, Maryland	Chicago, Illinois	Encinitas, California	Boston, Massachusetts
Employees**	63,300	7,000+	35	350	24,400	138	200	3,364	80	150
Ownership	Public (Nasdaq: AAPL)	Privately held	Privately held	Owned by IAC (Nasdaq: IACI)	Public (Nasdaq: GOOG)	Privately held	Privately held	Nokia (NYSE: NOK)	Privately held	Owned by eBay (Nasdaq: EBAY)
Estimated 2011 U.S. mobile gross local revenue	\$50M	Unavailable	\$11M	\$0.4B	\$78M	\$31M	\$51M	\$6M	\$4M	Unavailable

* YP was formerly AT&T Interactive and AT&T Advertising Solutions.

** Employee number = Company totals.

Note: Chitika revenue includes online and mobile display ad revenue.

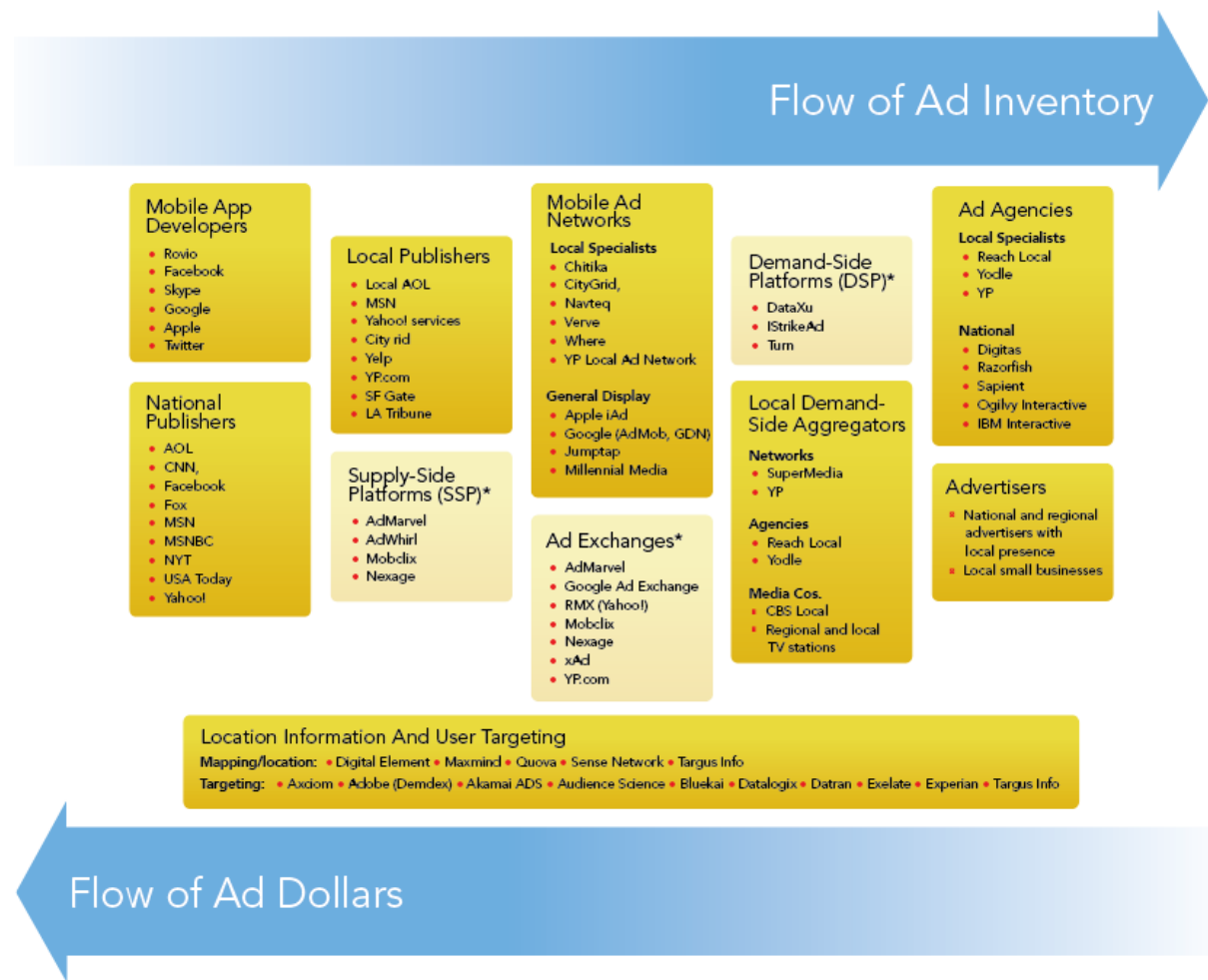
Source: IDC, 2012

In mobile display advertising, as opposed to online display advertising, (CPC-based) performance pricing is the most common pricing model, but traditional CPM pricing is gaining ground. CPM rates for display inventory on ad networks typically are anywhere between \$0.50 and \$2.50 depending on the inventory.

Local mobile search advertising networks are either local specialists (YP Local Ad Network, CityGrid Media, WHERE) or integral parts of traditional search advertising networks, such as Google, Bing, or Yahoo!

FIGURE 3

The Local Mobile Online Ecosystem



* Established category in online advertising but still emerging in local display advertising

Source: IDC, 2012

Group-Buying Marketing (Lead Generation)

Group-buying or daily-deal services are technically not advertising networks because they do not aggregate inventory. However, they are one of the hottest, most buzzed-about segments in local advertising. Group-buying services are in principle lead-generation or referral services: local vendors offer their products or services at a highly discounted rate through a group-buying platform such as Groupon or LivingSocial or through services operated by other vendors including Amazon, YP, Google, and Yahoo!. Users purchase the offers through the group-buying platform, which receives a cut of the purchase revenue volume, and the local advertiser generates new customers. The idea is that some of these new customers will become repeat customers and will more than make up for the costs to the advertiser incurred by the group-buying campaign.

Whether or not group buying works for any given advertiser very much depends on the case at hand. There is some indication that the lift in business provided by such campaigns may be too small to make up for the costs for at least some vendors. IDC's *2011 U.S. Online Consumer Survey* indicated that only one-third of consumers participating in group-buying deals returned to the same vendor to purchase something else at least once. With only one-third of consumers converting into repeat customers, each one of them would have to purchase a product or service in the same amount as in the original deal at least three times to make up for the marketing costs — a goal that may be elusive for many participating vendors.

Spending on Local Advertising

Spending by Medium

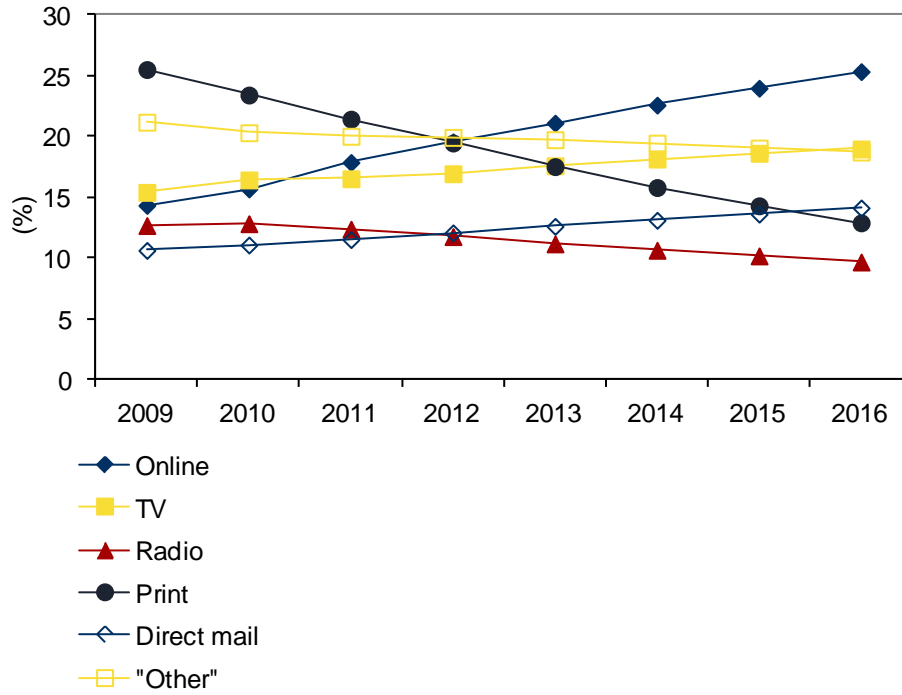
The importance of local advertising across all media is one of the best-kept secrets in the advertising industry. No less than 39% of all advertising spending in the United States was spent on local advertising in 2011, equivalent to about \$98.5 billion. IDC predicts that by 2016, local ad spending will be \$132.2 billion for a market share of 40% of total advertising and for an annual growth rate from 2011 to 2016 of 6.1% compared with a CAGR for all advertising of 5% (see Figure 4 and Table 5).

Within local advertising, a revolution is taking place. Traditionally, newspapers, cable television, and radio were the place to go for local advertisers, and consequently, they garnered most of the spending. In 2011, more than half of local advertising went toward these three media.

But just as the Internet is turning advertising at large upside down, so is it with local advertising. In absolute terms, spending on digital local advertising will almost double from \$17.6 billion in 2011 to \$33.5 billion in 2016, at a CAGR of 13.7%. Already, online spending on local advertising is bigger than that on radio and TV ads, and by 2013, it will overshadow newspapers as well, making it the single most important medium for local advertising bar none. Whereas online will expand its share of local advertising from 17.9% in 2011 to 25.4% in 2016, print will decline from 21.5% to 12.9% and radio from 12.4% to 9.7%. TV will be the notable exception among traditional media by growing its market share from 16.6% to 19.0%.

FIGURE 4

U.S. Local Advertising Spend by Medium, 2009–2016



Source: IDC, 2012

TABLE 5

U.S. Local Advertising Spend by Medium, 2009–2016 (\$B)

	2009	2010	2011	2012	2013	2014	2015	2016	2011–2016 CAGR (%)
Online	13.2	15.1	17.6	20.3	23.1	26.3	29.8	33.5	13.7
Growth (%)	NA	14.6	16.8	14.9	14.0	13.8	13.2	12.7	
TV	14.2	15.8	16.3	17.6	19.3	21.1	23.1	25.1	9.0
Growth (%)	NA	11.7	3.1	7.6	9.7	9.7	9.4	8.7	
Radio	11.7	12.4	12.2	12.2	12.3	12.4	12.7	12.9	1.0
Growth (%)	NA	6.0	-1.0	-0.2	0.3	1.3	2.0	1.4	
Print	23.4	22.5	21.2	20.2	19.2	18.4	17.8	17.1	-4.2
Growth (%)	NA	-3.8	-6.1	-4.6	-4.8	-4.1	-3.5	-3.8	
Direct mail	9.8	10.7	11.4	12.5	13.8	15.3	16.9	18.7	10.4
Growth (%)	NA	9.1	6.7	10.0	10.3	10.5	10.7	10.6	
"Other"	19.5	19.6	19.8	20.7	21.6	22.7	23.7	24.8	4.6
Growth (%)	NA	0.5	1.1	4.5	4.7	4.8	4.4	4.8	
Total	91.7	96.1	98.5	103.5	109.3	116.3	124.0	132.2	6.1
Growth (%)	NA	4.8	2.6	5.0	5.7	6.3	6.6	6.6	

Source: IDC, 2012

Local Digital Spending by Ad Format

The vast majority of digital local advertising spending goes toward search and display advertising, almost all of which is funneled through networks (see Figure 5 and Table 6).

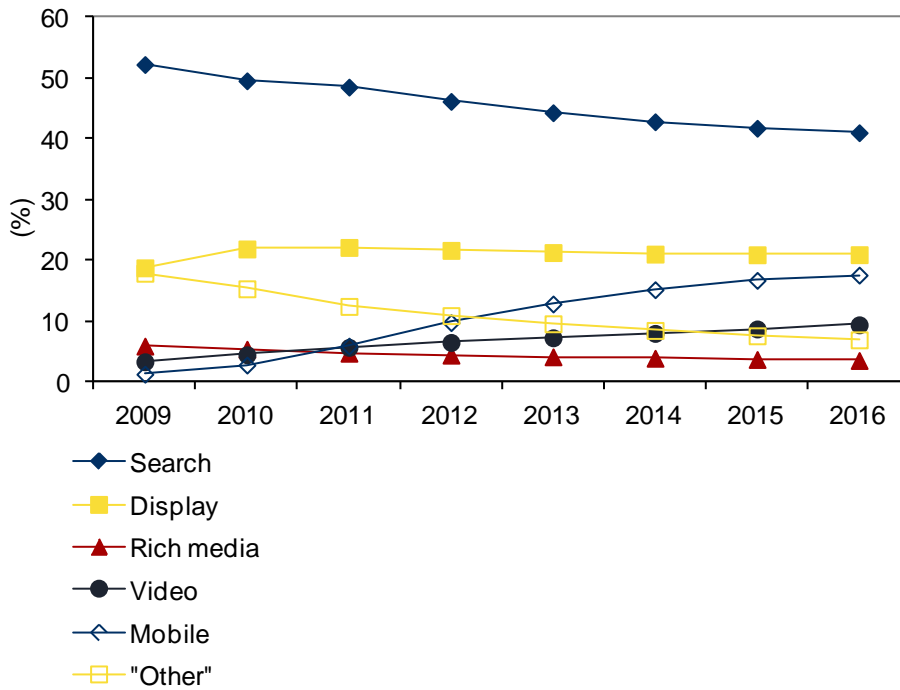
Within digital local advertising, search advertising is the most important segment, with a 2011 market share of about 48.6% (\$8.6 billion). Display ads, including simple banner ads, rich media ads, and online video ads, come in second, with a share of 32.9% (\$5.8 billion). The vast majority of display ad spending goes toward banner ads, with much less spending going to rich media and video ads. The third-largest segment is group-buying services (lead generation) with an estimated share of about

12% (\$2 billion), listed in Figure 5 and Table 6 as part of "other." Last but not least, mobile ads have about 6% market share (\$1.1 billion).

All of these ad formats will grow at roughly the same rate, but two of them will experience expansion well above average growth: mobile advertising will experience a CAGR of 41.1% from 2011 to 2016 and will grow its share within digital local advertising to 17.7% by the end of that period. The other strong growth segment will be online video ads (part of the "display" segment discussed previously), which will expand at a CAGR of 26%, growing its share from 5.8% to 9.5%.

FIGURE 5

U.S. Local Digital Advertising Spend by Ad Format, 2009–2016



Source: IDC, 2012

TABLE 6

U.S. Local Digital Advertising Spend by Ad Format, 2009–2016 (\$B)

	2009	2010	2011	2012	2013	2014	2015	2016	2011–2016 CAGR (%)
Search	6.9	7.5	8.6	9.4	10.3	11.3	12.5	13.8	10.0
Growth (%)	NA	8.8	14.4	9.3	9.4	10.0	10.4	10.7	
Display	2.5	3.3	3.9	4.4	4.9	5.6	6.3	7.1	12.5
Growth (%)	NA	33.5	18.1	12.4	12.1	12.4	12.6	12.8	
Rich media	0.8	0.8	0.9	0.9	1.0	1.1	1.1	1.2	7.5
Growth (%)	NA	4.9	2.7	7.4	7.1	7.4	7.6	7.8	
Video	0.5	0.7	1.0	1.3	1.7	2.1	2.6	3.2	25.5
Growth (%)	NA	52.9	47.9	30.9	27.2	24.9	23.3	21.4	
Mobile	0.2	0.4	1.1	2.0	3.0	4.0	5.0	5.9	41.1
Growth (%)	NA	138.3	143.0	88.7	49.5	34.4	24.5	18.5	
"Other"	2.4	2.3	2.2	2.2	2.2	2.3	2.3	2.4	1.3
Growth (%)	NA	-1.7	-5.1	1.0	0.1	0.9	1.5	3.0	
Total	13.2	15.1	17.6	20.3	23.1	26.3	29.8	33.5	13.7
Growth (%)	NA	14.6	16.8	14.9	14.0	13.8	13.2	12.7	

Notes:

"Display" refers to banner ads and excludes rich media and video ads.

"Other" includes group-buying offers such as Groupon or LivingSocial.

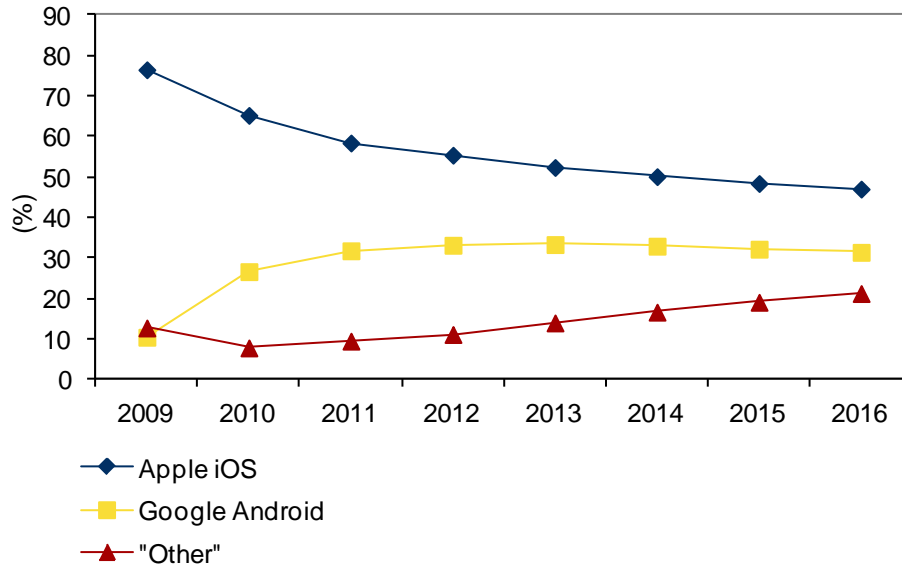
Source: IDC, 2012

Local Mobile Spending by Platform

Apple's mobile iOS devices, from the iPod to the iPhone to the iPad, attract the most mobile ad spending because they generate the most traffic per device, a function of the ease of use of Apple devices. As devices based on other platforms grow their share in the installed base, first Android devices and later Windows Phone 7 devices (listed as part of "other" in Figure 6 and Table 7) will gain share of mobile local spending at the expense of the iOS (see Figure 6 and Table 7).

FIGURE 6

U.S. Local Mobile Online Advertising Spend by Operating System, 2009–2016



Source: IDC, 2012

TABLE 7

U.S. Local Mobile Online Advertising Spend by Operating System, 2009–2016 (\$M)

	2009	2010	2011	2012	2013	2014	2015	2016	2011–2016 CAGR (%)
Apple iOS	140.2	284.9	620.1	1,109.9	1,568.4	2,017.3	2,427.3	2,794.5	35.1
Growth (%)	NA	103.3	117.6	79.0	41.3	28.6	20.3	15.1	
Google Android	19.4	116.7	338.2	665.4	999.7	1,327.9	1,616.5	1,869.2	40.8
Growth (%)	NA	503.3	189.7	96.8	50.2	32.8	21.7	15.6	
"Other"	23.5	34.6	101.8	224.9	421.5	673.4	960.5	1,266.2	65.6
Growth (%)	NA	47.0	194.2	121.0	87.4	59.8	42.6	31.8	
Total	183.1	436.3	1,060.1	2,000.2	2,989.5	4,018.5	5,004.4	5,929.9	41.1
Growth (%)	NA	138.3	143.0	88.7	49.5	34.4	24.5	18.5	

Note: "Other" includes Research In Motion's BlackBerry OS and Windows Phone 7.

Source: IDC, 2012

How Local Advertisers Benefit from Digital Advertising

Digital advertising offers local advertisers many advantages over traditional local advertising media:

- ☒ **Audience reach.** As consumers embrace online media, they abandon those traditional media that were the mainstay of local advertising in the past. This is especially true for local newspapers, many of which literally go out of business; business directories; and even for local radio advertising, which also has suffered from the online competition. Today's local advertisers must be where their audience is: online.
- ☒ **Better targeting, better ad effectiveness, better return on advertising spend.** Newspapers, yellow pages, radio, and television come with huge amounts of wastage: In traditional media, marketers' messages are shown to many thousands of recipients, whether or not they are liable to buy a marketer's product or service, in the hopes that those that are interested in the respective offer end up seeing the ad. In other words, a lot of the money that local advertisers spend on traditional media has zero effect and drags down ROAS. Local online media allow advertisers to target their campaigns much more precisely, in some cases, to only reach exactly those recipients likely to convert into a sale. This is thanks to the fact that online media, as opposed to traditional ones, are able to collect data on users' online behavior and to infer on their interests based on that data. Better ad targeting directly translates into greater ad effectiveness (i.e., into more sales per dollar spent on advertising, or a better ROAS).
- ☒ **Even more effectiveness with mobile advertising.** Advertising to mobile devices such as smartphones or media tablets is even more interesting than online advertising aimed at PCs and laptops. That's because marketers can reach the on-the-go audience through mobile advertising, but not at all or not as completely with traditional media (radio, newspapers, and out-of-home advertising only offer partial coverage). Second, mobile advertising often reaches individuals at the precise point in time they are looking for a business, such as a gas station, or a store, or a hotel — and also when they are physically close to a business that fits their needs. Finally, advertising on the mobile Internet is advertising on a device that offers more consumer engagement than any other channel: mobile devices, as the ultimate personal devices, create the ultimate lean-forward environment for marketers.
- ☒ **Immediate conversion.** Online advertisements, and to an even greater extent mobile advertisements, allow for direct-response marketing, as opposed to traditional media. In other words, if a user sees an ad and wants to take immediate action, he or she can: by clicking the ad, users can learn more about an offer, make a reservation, schedule an appointment, sign up for a newsletter or sweepstakes, or directly purchase a product online. On the mobile device, innovative ad formats such as "click to call" or "click to address/driving directions" make the connection with the consumer or client even more direct.

- ☒ **Greater accountability.** Because the online medium is machine-based, it is much more accountable than traditional media. Any local publisher or local network will provide advertisers at least with details on exactly how many times their ad has been shown and when and what the click-through rate (CTR) was. Sometimes, they will also report other performance measures, and some even offer conversion metrics (i.e., data on how many users were converted into a sale).
- ☒ **Cheaper prices.** Both online advertising and mobile advertising are often cheaper than traditional alternatives. This is true for both search engines (because they are so effective) and local advertising networks, which usually sell publishers' inventory at a discount, even though it may be "premium" (i.e., high-quality inventory). This also helps increase advertisers' return on advertising spend.
- ☒ **More flexible pricing models.** Depending on the local publisher or local network, advertisers can choose from a variety of different price models to suit their needs, again as opposed to traditional media, which typically only offer the CPM pricing model (cost per mille or cost per thousand impressions). Online also offers CPM pricing, but it also offers subscription models (ad is shown for a specified period of time [e.g., a year]) or performance models, where the advertiser only pays if and when a user performs a particular action (cost per click, cost per lead, cost per sale, or other cost-per-action models).

How Publishers Benefit from Digital Local Advertising

Local digital advertising offers a couple of benefits to online and mobile publishers and mobile app developers:

- ☒ **Through networks, local digital advertising helps monetize unsold inventory and boost revenue.** The ever-growing demand in local advertising for inventory helps publishers monetize unsold inventory, thereby boosting their revenue. This is facilitated through local ad networks, which aggregate disparate inventory to meaningful, sellable amounts of inventory and have the sales force to reach local advertisers. In some cases, they also run demand-side aggregators, which make it possible for even the smallest local advertisers to tap into marketing opportunities with bigger publishers' inventory, thereby creating a market that otherwise would not have existed. They help increase fill rates, and, thereby, inventory yield (= revenue per unit of inventory) and, ultimately, revenue.
- ☒ **Higher eCPMs.** Depending on what kind of inventory publishers offer, and on what kind of targeting can go along with it, inventory sold through local ad networks may actually command higher eCPMs than if it was sold through traditional networks. Locally oriented content, local targeting, and especially local targeting on mobile devices all help increase eCPM rates.

FUTURE OUTLOOK

IDC expects the digital local advertising market to be governed by four major trends in the coming years:

- ☒ Spending on digital local advertising networks will increase as spending on local advertising in general continues to expand. The market share of ad networks within overall digital local ad revenue will remain at about 65%. This growth will mainly be fueled by local advertisers that, following consumer eyeballs, shift budgets they had previously spent in traditional media into the online media. The major victims will be newspapers and radio, both of which will see market share losses in local advertising in the years to come, and eventually even cable TV will be affected. For advertisers, this means that they cannot afford to stay away from local advertising because their competitors won't. For publishers and app developers, this means local advertisers could be a lucrative new source of income.
- ☒ Mobile local advertising networks will experience very strong growth. Reaching consumers as physically close to their local purchase decision as one can through a mobile device, and through a device as personal, is a proposition one can hardly beat. This is why we forecast that mobile local advertising will experience the strongest growth of all ad formats (a 2010–2016 CAGR of 41.1%). This will grow the market share of local mobile advertising within all digital local advertising from 6% to 17.7% in the same time frame. By the same token, the shares of local search and display advertising will decline somewhat.
- ☒ Trading of display ad inventory will become much more automated. The share of inventory sales transacted based on ad exchange platforms (whether on ad networks or ad exchanges proper) will continue to increase. At the same time, the role of SSPs and DSPs will grow as well. The importance of real-time bidding (RTB), too, will grow in display advertising.
- ☒ Local demand-side aggregators such as yellow pages firms, digital agencies, and media firms will play an increasingly important role. Traditional aggregators such as "offline" yellow pages firms have long-established relationships with local SMBs and have long provided turnkey advertising services for these companies.

CHALLENGES/OPPORTUNITIES

For *local advertisers*, the advantages of taking their marketing digital are obvious: Online advertising is affordable, better targeted, more effective, and more accountable than traditional advertising. It is the superior tool to drive more business. But they also face a number of challenges, and the smaller the advertiser, the more serious these challenges will be.

One, technical expertise: If the advertiser does not (or cannot) go through an agency and the publisher or ad network do not offer a wide range of services, then the advertiser will have to have a certain level of expertise on how to use advertising platforms that may be hard to come by. For these advertisers, the services of a demand-side aggregator will be indispensable.

Two, ad creative: To create artwork for display advertising, especially for rich media and video ads, both creative and technical knowledge are needed that may be elusive as well. Again, ad networks may mitigate this difficulty by offering such services to advertisers.

Three, measurement: It is difficult for any advertiser to assess how successful an ad campaign really was. For instance, few networks make it possible to correlate actual sales numbers with ad campaign data. For smaller local advertisers, this is even more difficult, and it may slow adoption of local advertising.

Publishers have a lot to gain by adding local advertising to their list of target markets. A lot of money is ready to go online in this segment, and it could help publishers to increase their inventory yield if they partner with networks that excel at selling advertising into local markets. Publishers' major challenge is to find the partners, no small task given the fact that for many, the local ad industry is somewhat opaque.

CONCLUSION

Digital local advertising offers both local advertisers and publishers tremendous business opportunities, both in terms of growing their business faster and in terms of being more competitive.

For *local advertisers*, the importance of digital local advertising has grown to the point of "ignore at your own peril." The Internet is the place where you will reach your clients, not the newspaper or the radio; it is the place where you will reach them more effectively financially; and it is the place where your competitors, more likely than not, are already trying to gain your customers' favor. For *publishers*, selling to local advertising networks creates opportunities with regard to both selling more ad inventory and realizing higher prices for it.

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