

Search Dominates New Advertising Spending

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Google and Yahoo are eating lunch on what used to be the expense accounts of the largest advertising and information venues in the world.

Both Google and Yahoo reported record revenues last quarter, income that is expected to grow rapidly over the coming years. As the leaders of the search advertising pack, Google and Yahoo represent the wide end of an expanding wedge. According to Safa Rashtcy a senior analyst at investment bank Piper Jaffray, search revenues will increase by a staggering \$18 billion over the next five years. Projected revenues are expected to surpass \$10 billion in 2006, \$13 billion in 2007, \$16 billion in 2008, and \$19 billion in 2009. By the end of the decade, revenues generated by search are projected to be in the \$25 billion range.

A report issued yesterday by search industry research and analysis firm Outsell says this growth is coming at the direct expense of the largest traditional media firms. The world's ten largest traditional information distributors are Reed Elsevier, Thomson, Gannett, Pearson, Tribune, Reuters, McGraw-Hill, VNU, Wolters Kluwer, and the Daily Mail and General Trust. In 2003, their collective revenue was approximately \$56 billion, growing by about \$4 billion to top \$60 billion in 2004.

Google and Yahoo combined generated about \$6.5 billion in revenues last year. The year before, their combined revenues equaled about \$2.5 billion. In other words, the combined growth of the two largest search firms over 2004 surpassed the combined growth of the 10 largest traditional media firms. Last month, Advertising Age predicted that search engine revenues would exceed those of the major TV networks by the end of this year. The Interactive Advertising Bureau said that revenues generated by all forms of Internet advertising in the United States alone grew by about 33% from 2003 to 2004 with overall revenues approaching \$10 billion.

Between the two, Google and Yahoo are starting to starve growth for traditional media and advertising firms. Outsell's report "[Financial Performance Scorecard, Full Year 2004](#)", written by lead analyst Chuck Richard, concludes that Google and Yahoo are, "Clearly diverting advertising revenue from the established information companies, ...literally sucking the financial air out of the room." It also places the world's newspaper of record, the New York Times on a crisis watch list labeled "Sinking Stones", citing low revenue growth and challenges attracting new readers throughout the traditional news publishing industry.

This movement of money away from traditional advertising venues is starting to manifest in serious changes in the traditional media sector, prompting a new round of lay-offs, consolidation and acquisitions. As an example, over the past three months, the New York Times laid-off over 190 workers, most of which worked in advertising and sales for its smaller newspaper holdings in Boston and the US mid-west. At the same time, recognizing that much of the news that is fit to print will never see the stain of ink but will be found online, the NYT also purchased the search directory About.com. Around the same time, the publisher of the venerable Wall St. Journal, Dow Jones & Co. purchased leading online financial

publication, Marketwatch.com. The Wall St. Journal also announced this week it would soon be producing content for the financial section of the Washington Post.

According to the Outsell report, there is an imbalance in ROI between traditional advertising and paid-search marketing resulting in a situation where traditional ad-purchases cost far more per converted sale than online advertising. Advertisers are paying too much for the returns gained in traditional advertising while paying less for better returns from paid-search advertising. This imbalance is expected to correct itself over time as search advertising matures and the various players work to increase their shares of the wealth.

In a speech to Goldman Sachs' annual Internet conference, Yahoo CEO Terry Semel said that 2005 was all about improving search monetization as measured by the amount of revenue Yahoo can claim from each search. Catching up with Google's AdWords is clearly a priority for Yahoo which spent 2004 constructing their own algorithmic search engine to compete with Google's. While organic listings may be considered a loss leader by search engines like Yahoo or Google in the search marketplace, they provide their owners with an overall view of the Internet, its users, and their own users.

Over the years, Yahoo has compiled a great deal of information about the nature of the Internet and the surfing habits of its individual users. It will be using this data to better personalize the targeting of paid-ads to its individual users. "We think it's a real competitive advantage," Semel said, "because the enormous number of pages that Yahoo users peruse offers an equally enormous inventory for targeted advertising."

Google and Yahoo might be among the biggest players but there are dozens of smaller paid-search players distributing advertising in their massive shadows. Ask.com and FindWhat.com both doubled revenues over the past year while acquiring European search firms Excite and Espotting respectively. MSN is also expected to enter the paid search advertising field before the end of the second quarter of 2006.

Search marketing has long been promoted as the most cost effective means of communicating to a massive audience that continuously pre-qualifies itself. Increasingly, the search engines are using information about specific users to individually target advertising based on the known habits of those users. That's a neat trick traditional marketing venues simply can't perform and perhaps the most compelling reason for a movement of massive amounts of money away from traditional marketing and into the search marketing sector. The future will be uniquely interesting.