

Bond Index Futures

Strength through
simplicityClick here
for more
details

Economist.com

BUSINESS

PRINTABLE PAGE VIEW SPONSORED BY

[About sponsorship](#)**Internet advertising****Adland's test tube**

Dec 13th 2006

From The Economist print edition

Britain provides a glimpse of the future of advertising**[Get article background](#)**

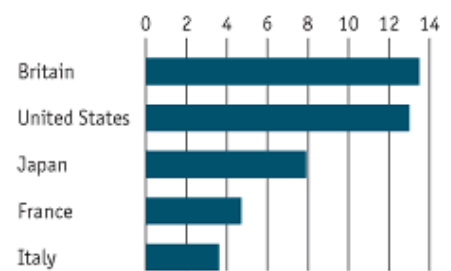
THE future, noted William Gibson, a science-fiction writer, is already here—it is just unevenly distributed. To see the future of mobile phones, people look to Japan; to see the impact of broadband internet connections, they look to South Korea. And for a glimpse of the future of advertising, the place to look appears to be Britain. The country is a “test bed” according to Eric Schmidt, chief executive of Google, which has just announced an alliance with British Sky Broadcasting (BSkyB), a British pay-television company. On December 6th the two companies announced that the internet search and advertising giant would provide its search, e-mail, video and advertising services to BSKyB's broadband internet-service customers, with the aim of extending the partnership to BSKyB's main television business.

Why Britain? The country has several factors in its favour. For a start, the British online-advertising market is “exploding”, said Mr Schmidt. The internet accounts for 14% of companies' total spending on advertising in Britain, compared with about 5% worldwide (see chart). Expenditure on internet advertising in America is similar to that in Britain, but Britain's growth rates are slightly higher. In the first half of this year online advertising increased by 40% in Britain and 37% in America compared with the same period last year, according to the Internet Advertising Bureau, an industry body. Britain is now the leading market for online advertising, says Rob Noss, European chief executive of MindShare Interaction, a new-media subsidiary of WPP, a British advertising giant.

That is due, in part, to the presence of the BBC, Britain's state-controlled main broadcaster, which has no advertising. As a result, British companies spend less on television advertising than those in countries with big commercial broadcasters, and more on other types—which, in recent years, has meant online advertising. GroupM, the media-buying division of WPP, forecasts a 2.4% decline in British television advertising in 2006 and a flat market for 2007.

Eventually, says Sir Martin Sorrell, chief executive of WPP, the internet will grow to account for 20% of worldwide advertising spending, at the expense of traditional media (broadcast and cable TV, print, radio and outdoor advertising). But Britain will reach this point by 2009, predicts ZenithOptimedia, a market-research firm, at which point internet advertising will be worth almost as much as television advertising. Britain has, in effect, got a head start over other countries as advertising spending shifts from old to new media.

Another catalyst of the growth of online advertising is Britons' enthusiasm for fast, always-on broadband connections to the internet and for online shopping. In Britain 47% of households have broadband, compared with 44% in America and 33% in Germany. Consumers with broadband tend to

Clicking upInternet share of advertising spending
2006 forecast, %

Source: GroupM

shop online more frequently and spend more money than those with slower dial-up internet connections. In the first six months of this year online retail-spending in Britain increased by 40% compared with the same period last year. The attraction of online ads is obvious.

Advertisers are waking up to the fact that British consumers typically spend a quarter of their media-consumption time on the internet, says Linus Gregoriadis, an analyst at E-consultancy.com, an internet-research firm. Britons spend an average of 23 hours a week online, compared with 14 hours per week for Americans. Advertisers also like the efficiency of the medium: much of the advertising on the net is "pay-per-click", which means that advertisers pay only when consumers click on an ad, so they can be relatively confident that their advertisements are reaching a receptive audience. Mr Noss says that several of his firm's clients already spend 40% of their advertising budgets online.

Blue-chip companies have yet to take the plunge and still spend only a tiny fraction of their budgets on internet advertising, but that could be about to change. Unilever, an Anglo-Dutch consumer-goods giant, Heineken, Europe's largest brewer, and Procter & Gamble, a large consumer-goods company and the biggest advertiser worldwide, recently announced that they will switch a big chunk of their British advertising budgets away from television. Much of it will go online.

Britain is also attractive to advertisers because it is a homogeneous market, so there is no need to tailor advertisements for different parts of the country. The adoption of digital television is proceeding well, and BSkyB's platform is particularly advanced; Google and BSkyB plan to send advertisements to viewers' set-top boxes and then play them in commercial breaks depending on their interests, thus extending its targeted advertising model from the internet into television.

And British consumers' relative enthusiasm for accessing the internet from mobile phones—if not in the same league as that of Asian consumers—explains why Yahoo!, another big internet firm, struck a deal last month with Vodafone, a big mobile operator based in Britain, to test new models for phone-based advertising. In addition, next year a new mobile-phone service for young people, called Blyk, will be launched in Britain before being rolled out across Europe. Users will be able to earn airtime in exchange for receiving advertisements on their handsets.

Blyk's co-founder, Pekka Ala-Pietila, a former president of Nokia, the world's biggest handset-maker, says the firm decided to launch in Britain first because it is the second-largest advertising market in the world after America, with sophisticated advertisers who appreciate the market segmentation that new technology makes possible. As a result, he says, Britain "is where we could learn the most". It all makes a welcome change for Britons used to hearing that their once-great country no longer leads the world in anything.