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Online Advertising's Tipping Point Approaches
By Kevin Newcomb
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The "tipping point" for offline ad dollars moving online may be here in the second half of 2006, according to a report by Piper Jaffray analyst Safa Rashtchy.

The speed of online advertising's growth, its benefits to offline campaigns, and recent online ad spending increases from major marketers all seem to be converging, according to Safa Rashtchy, senior research analyst at Piper Jaffray.

"We believe online media now receives about 5 percent of total marketing spending, up from 3 percent two years ago. However, online is on its way to a 10 percent share much faster then we anticipated, and we believe we are now approaching an inflection point when spending growth could accelerate," Rashtchy wrote in a newly-released report. "This point is likely to be in the second half of 2006, as the full impact of some of the recent allocation increases from major marketers becomes evident and creates a momentum that will attract more spending by advertisers who are on the sidelines now."

Rashtchy's "conservative" estimate is that online advertising will exceed $55 billion globally by 2010, a 27 percent compound annual growth rate (CAGR) over 2005. He points to large advertisers like Absolut Vodka, GM and Ford, all of which plan to spend 20 percent of their marketing budgets online next year, he said.

"These allocations are now creating a new momentum in the online advertising space which we believe will be most evident in the first half of 2006, creating the background for the inflection point in the second half of 2006," Rashtchy said in the report.

At Piper Jaffray' Online Advertising Search Symposium last week, Rashtchy said attendees made it clear that search and online advertising are becoming increasingly intertwined, and benefiting each other instead of competing.

"Advertisers are interested in enhancing the effects of both display and search advertising by creating a coherent campaign that reaches the consumers in various types of inventories," Rashtchy said.

Similarly, Rashtchy said nearly 10 percent of search spending is done for its branding impact, with agencies increasingly being able to tap into the client's branding budget for search spending.

Rashtchy also found that an online inventory shortage was not holding anyone back, since networks, remnant space, and contextual search all continue to expand, even if inventory on large portals is sold out.

"While the effectiveness of these additional inventory types do not match the premium inventory that is often sold out, as one panelist noted, 'there is no such thing as bad inventory,' and advertisers are able to effectively use various types of inventory at the appropriate price and effectiveness levels," Rashtchy wrote.

The big winners in the shift of ad dollars online will be Google and Yahoo!, he said, but additional spending will be made with networks and smaller vertical sites, such as ValueClick and 24/7 Real Media. Rashtchy also predicts that agencies and intermediaries like aQuantive, Marchex and Digitas will see growing demand for their services, because of the growing complexity of search campaigns and the increasing reliance on technology in buying online advertising.

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