



THE FUTURE OF DIGITAL [SLIDE DECK]

Henry Blodget and Alex Cocotas | Nov. 27, 2012, 12:22 PM | 7,190,047 | 44

Navigation icons for a slide deck, including arrows and a search icon.

The Future Of Digital

Henry Blodget
CEO & EIC, Business Insider

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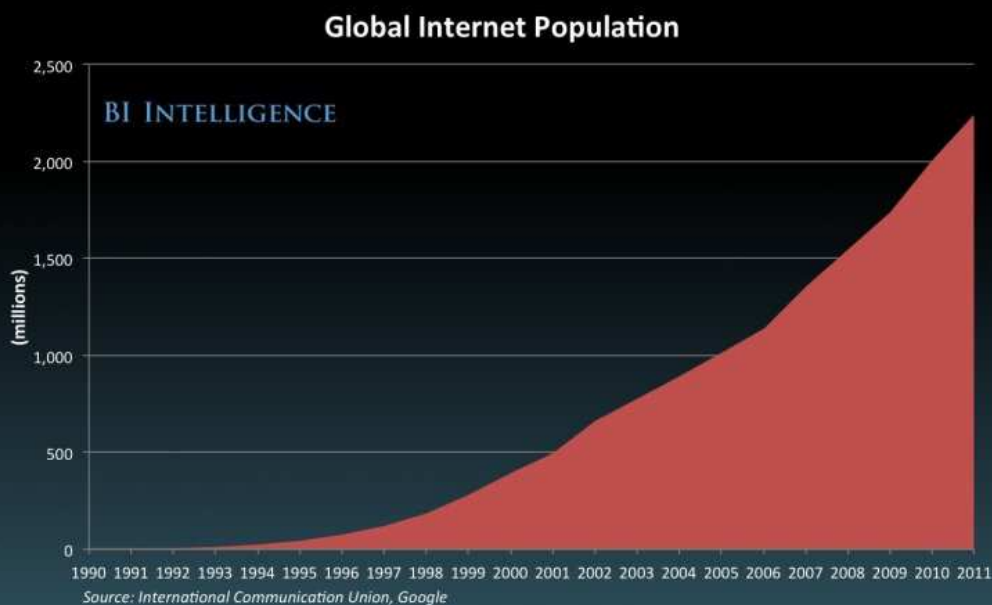
**The medium is now ~20
years old.**

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So, how are we doing?

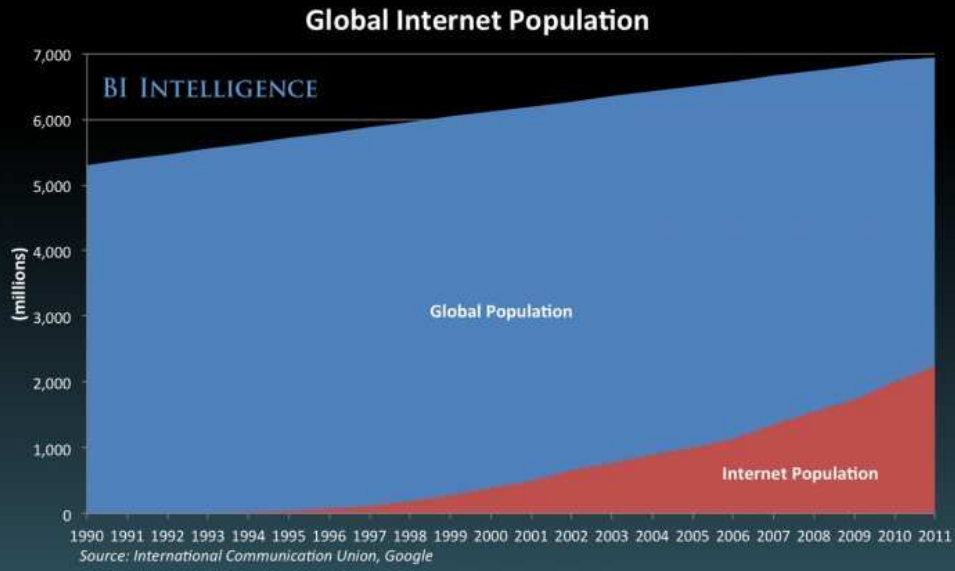
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2+ billion people online



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2/3 of the world left to go



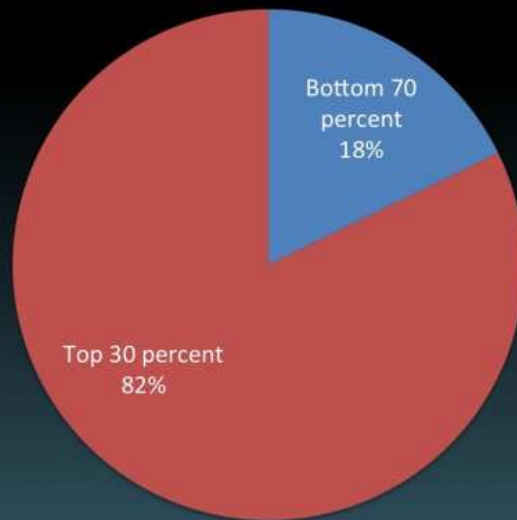
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However...

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Most of the money is already online

Distribution Of Global Income, 2000



Source: UN Human Development Report, Trends In Global Income Distribution

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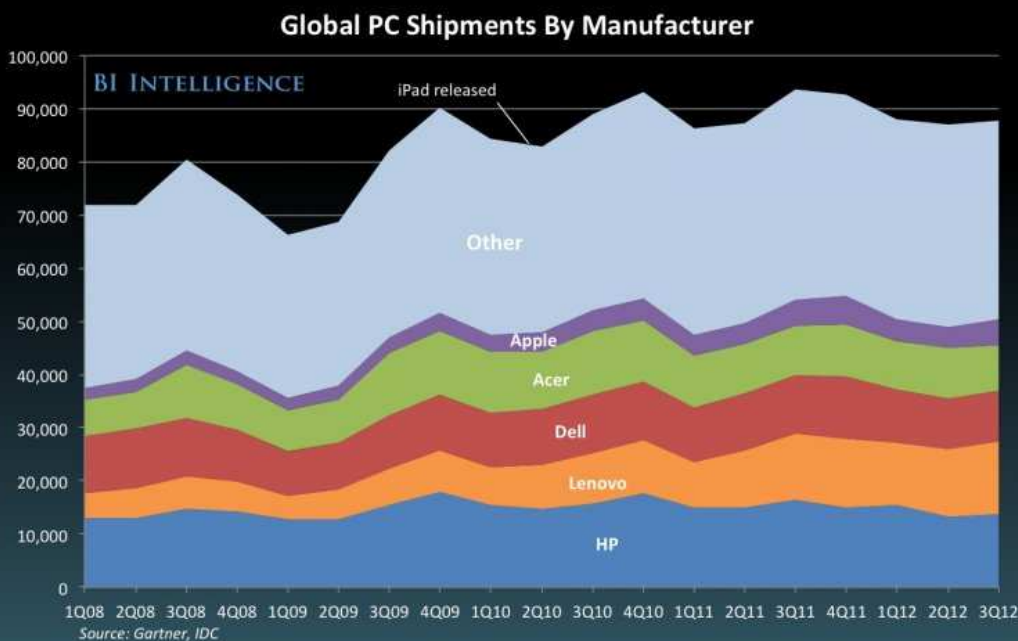
**So the market's more
mature than you think.**

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Meanwhile, something profound happened last year...

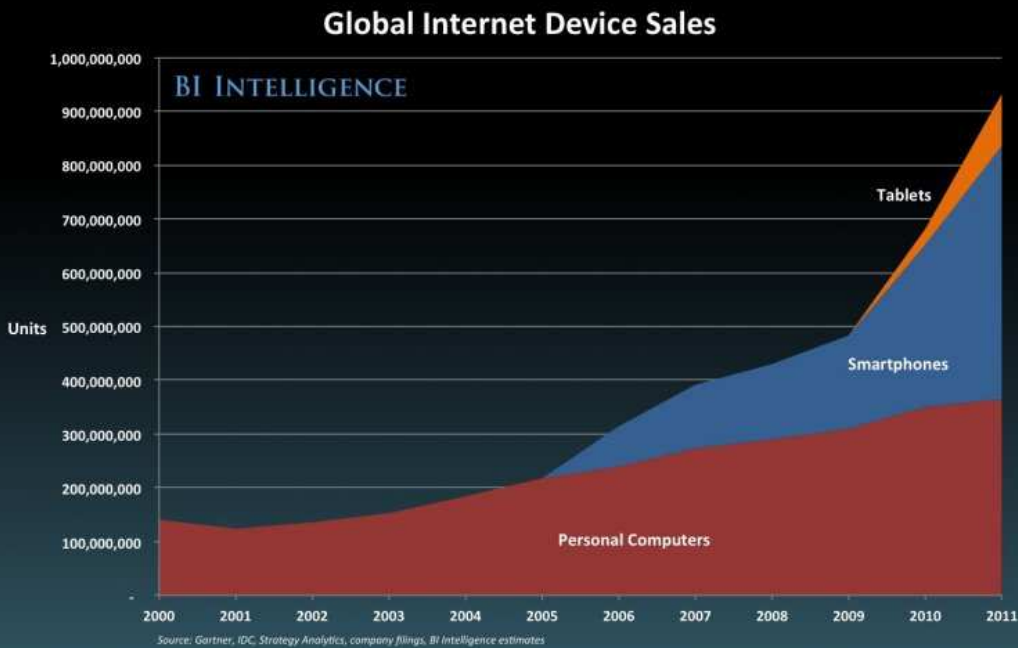
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PC growth stalled



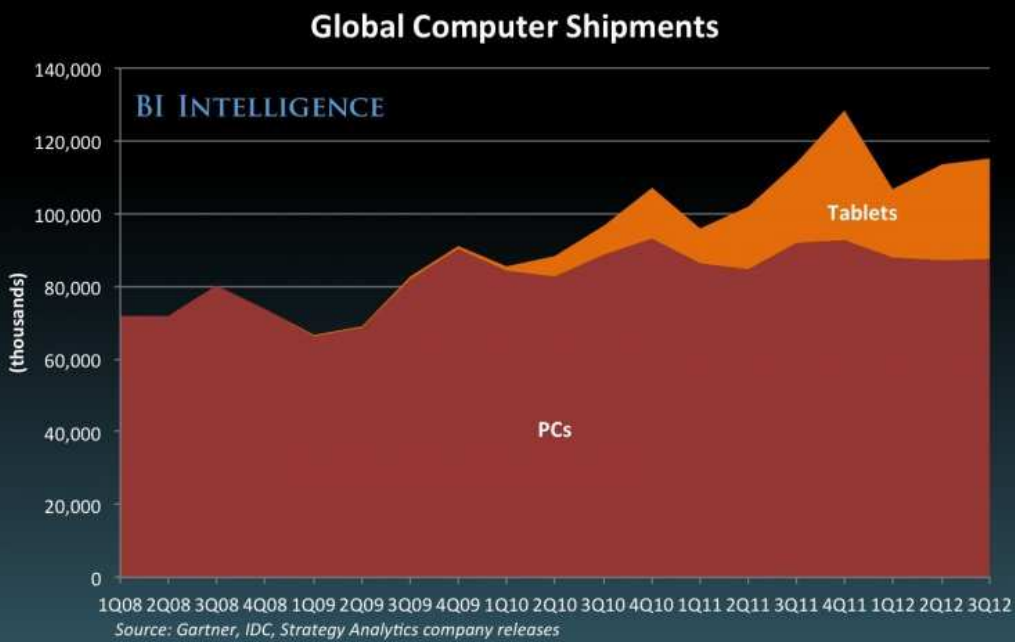
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Smartphone sales blew past PC sales



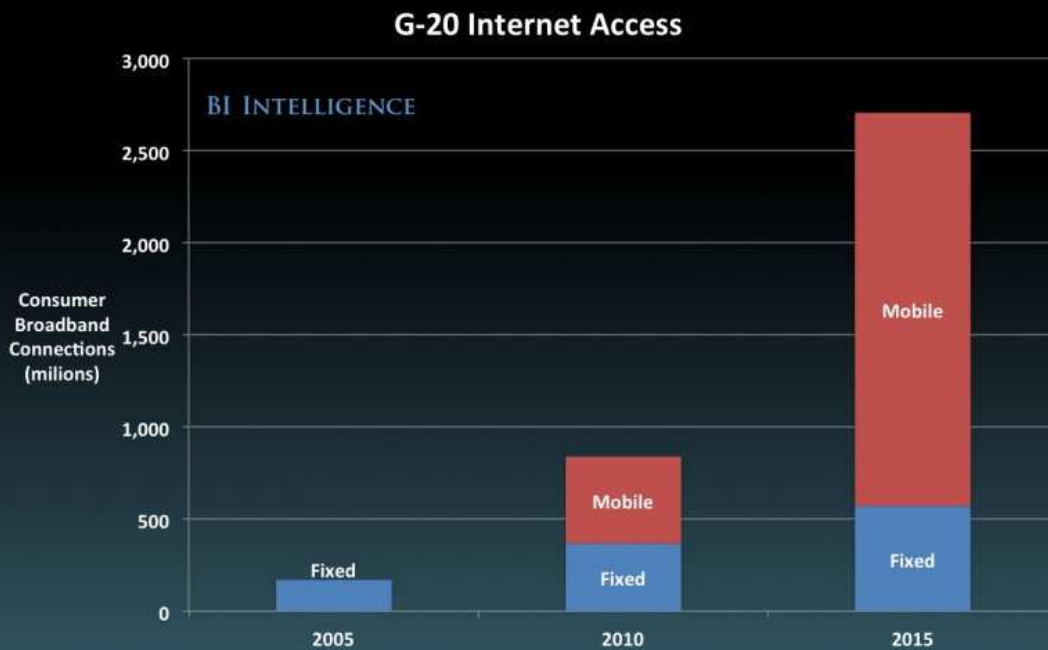
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Tablets are now driving all the growth in PC market



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So the future is mobile



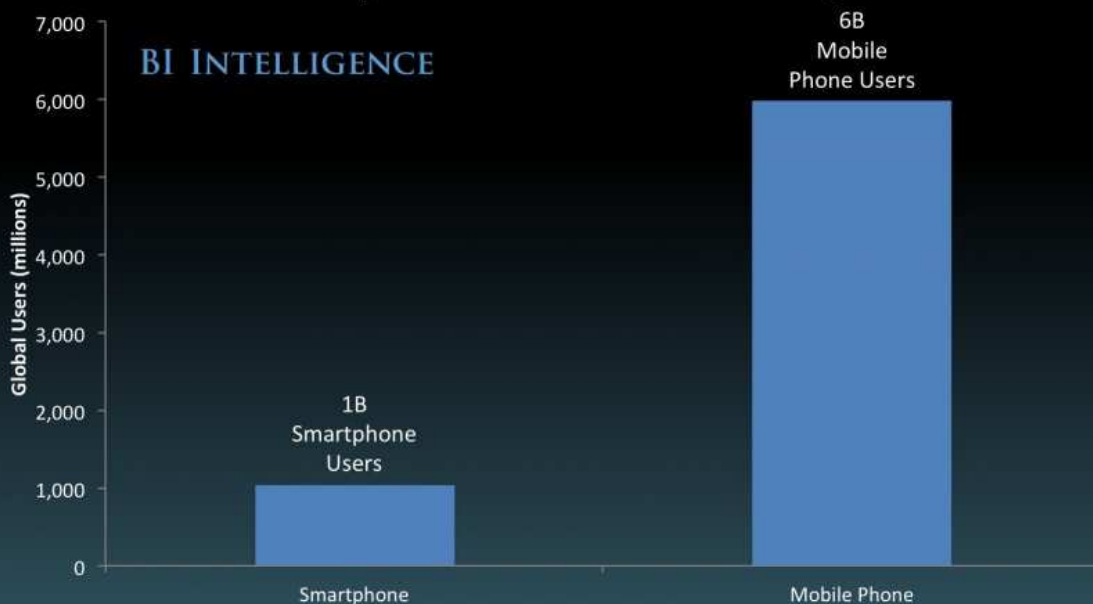
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Where are we in the mobile revolution?

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Globally, we're still early...

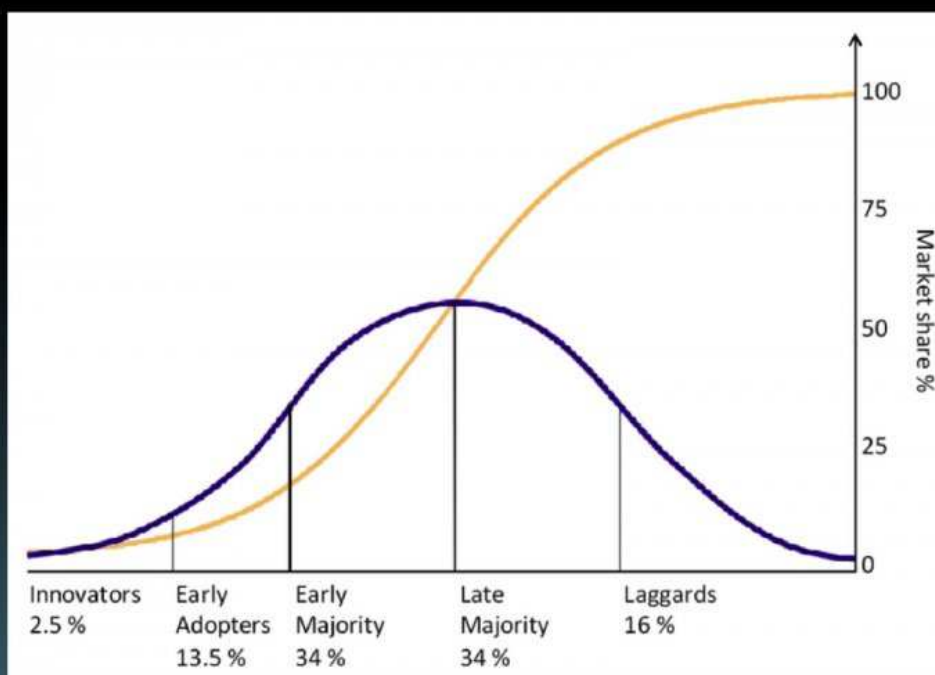
Global Smartphone vs. Mobile Phone Users, 2012E



Source: Strategy Analytics, International Telecommunications Union
 Note: Some users own more than one device

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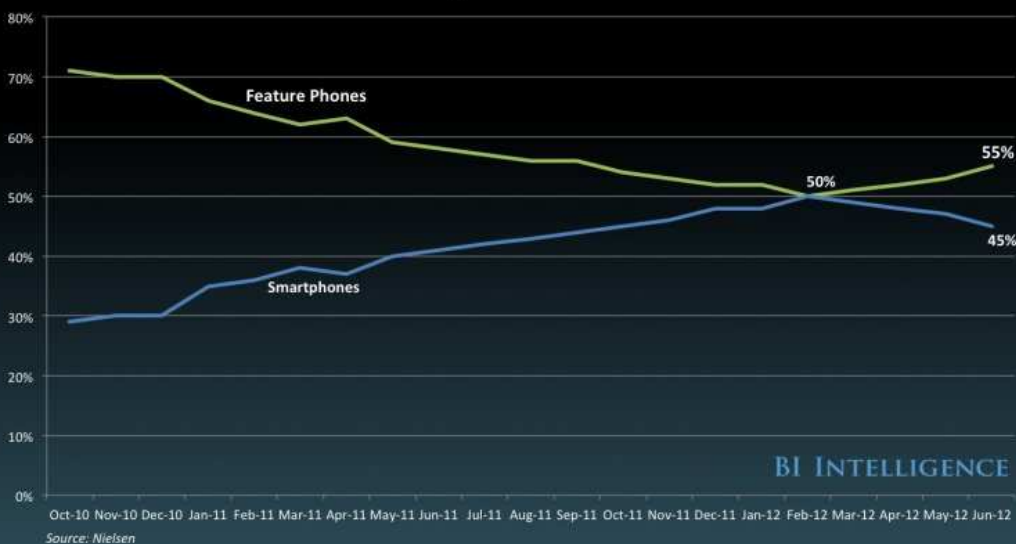
But growth slows after 50% penetration



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U.S. and other markets are past halfway point

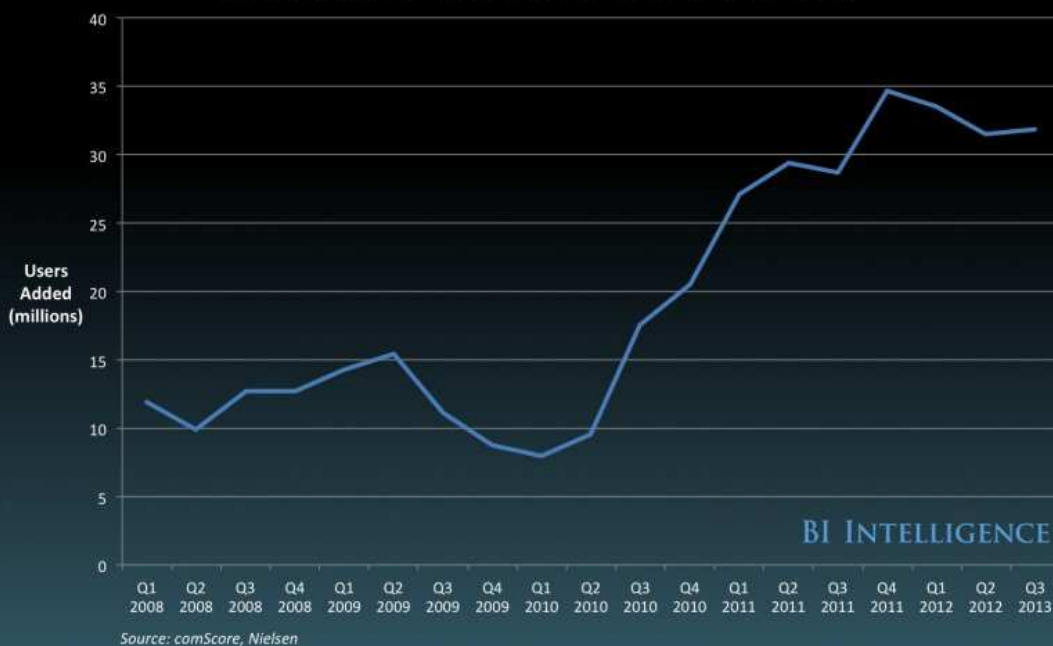
U.S. Smartphone Penetration



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US smartphone growth starting to slow

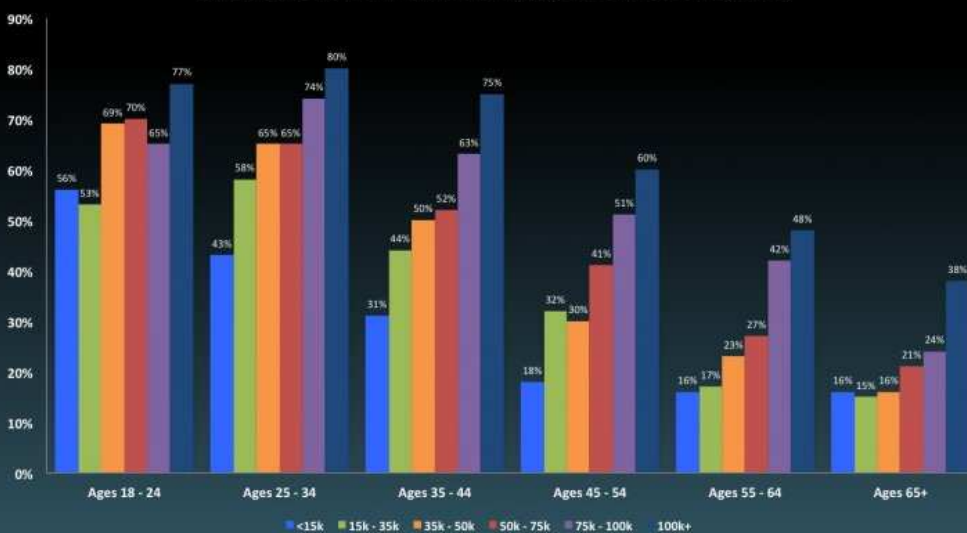
U.S. Smartphone Market: Year-Over-Year Net Adds



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Most future US smartphone buyers will be older and poorer

Smartphone Penetration By Age And Income (U.S.)

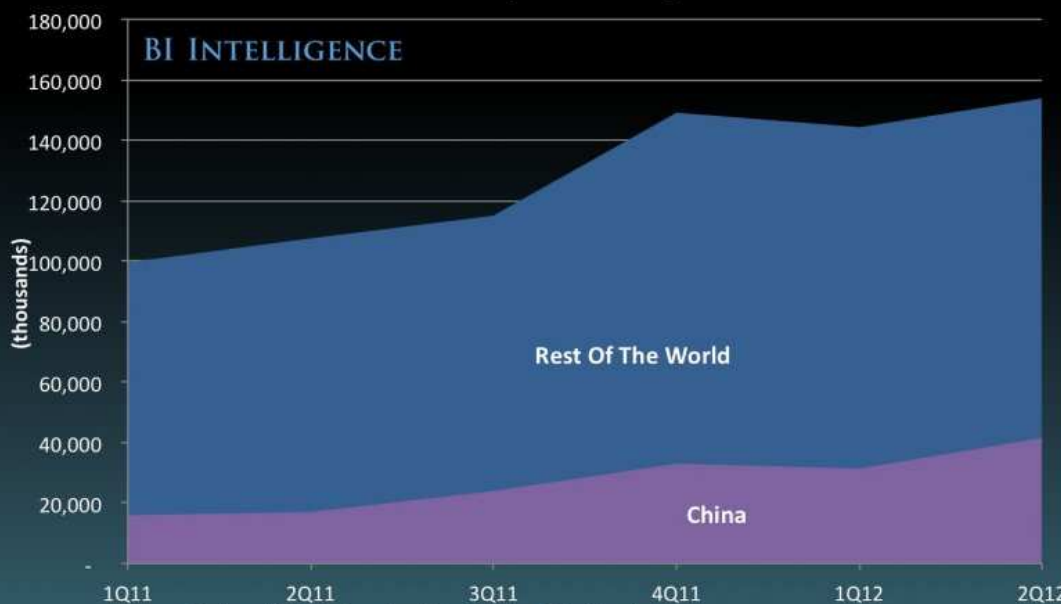


Source: Nielsen

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So the focus is on markets like China, which now accounts for ~25% of smartphone sales.

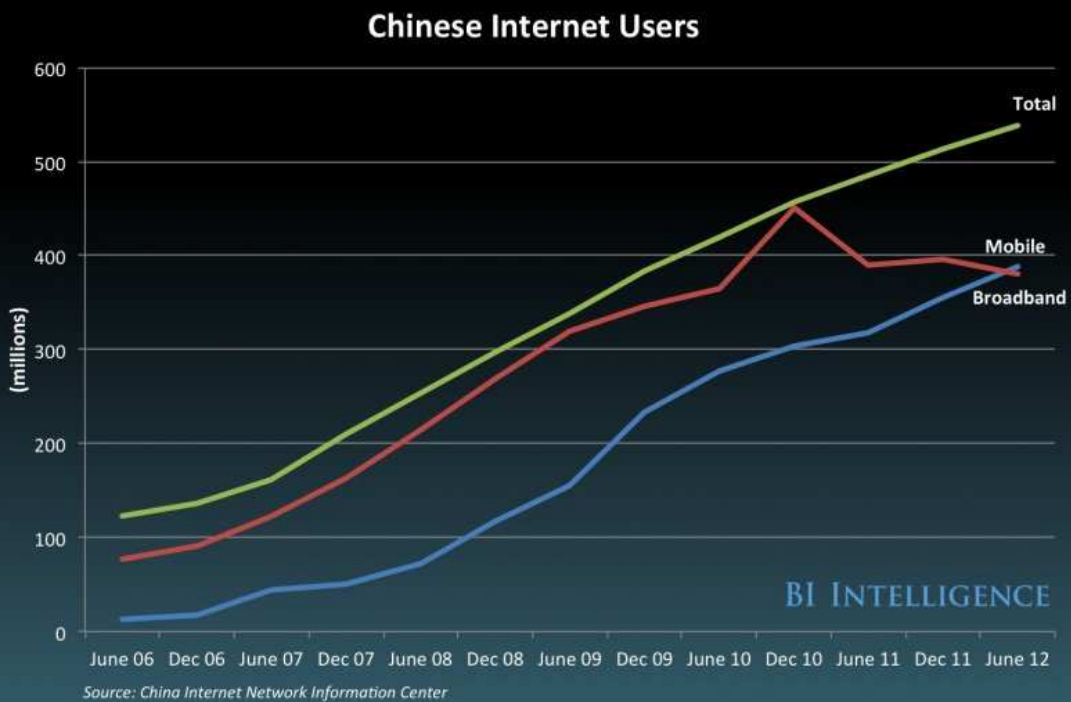
Global Smartphone Shipments



Source: Gartner, IDC, Strategy Analytics, Canalys, BI estimates

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China is already twice the size of US market



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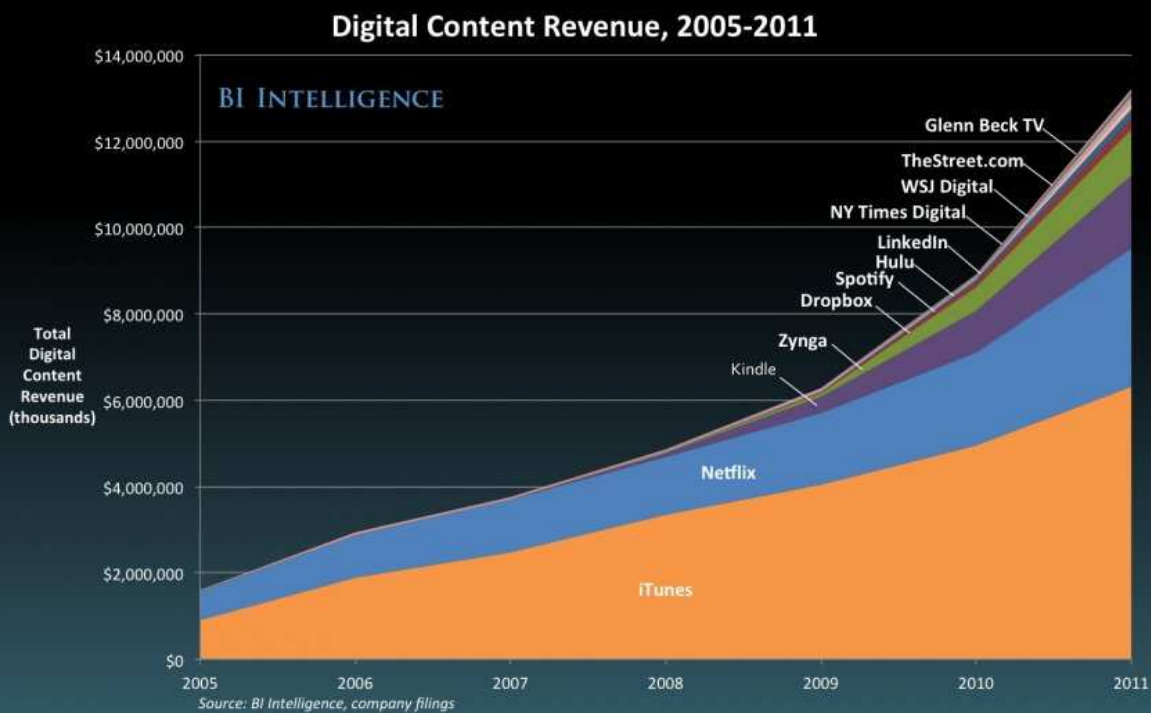
MEDIA

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Remember when they said no one would ever pay for content?

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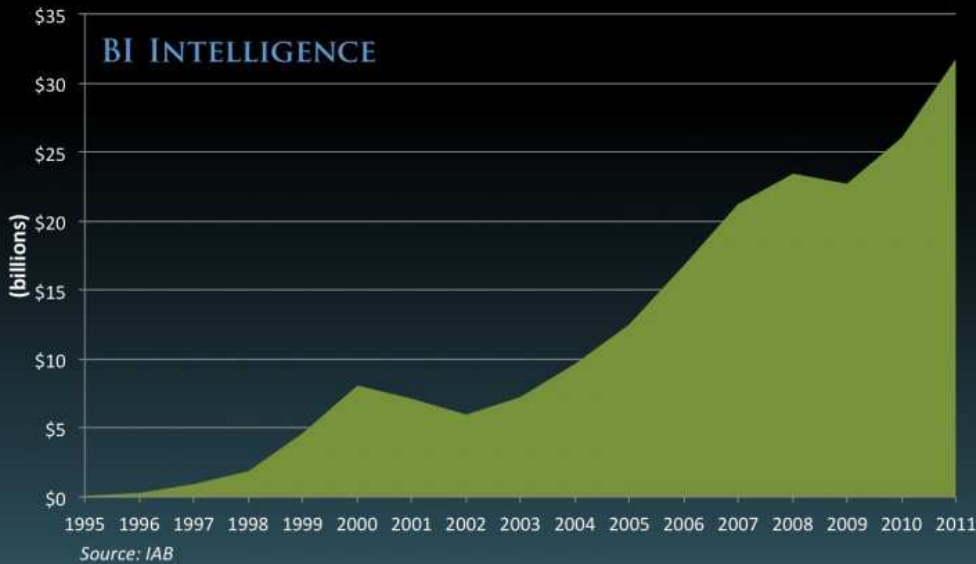
Digital content revenues are exploding



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Digital Advertising still growing rapidly

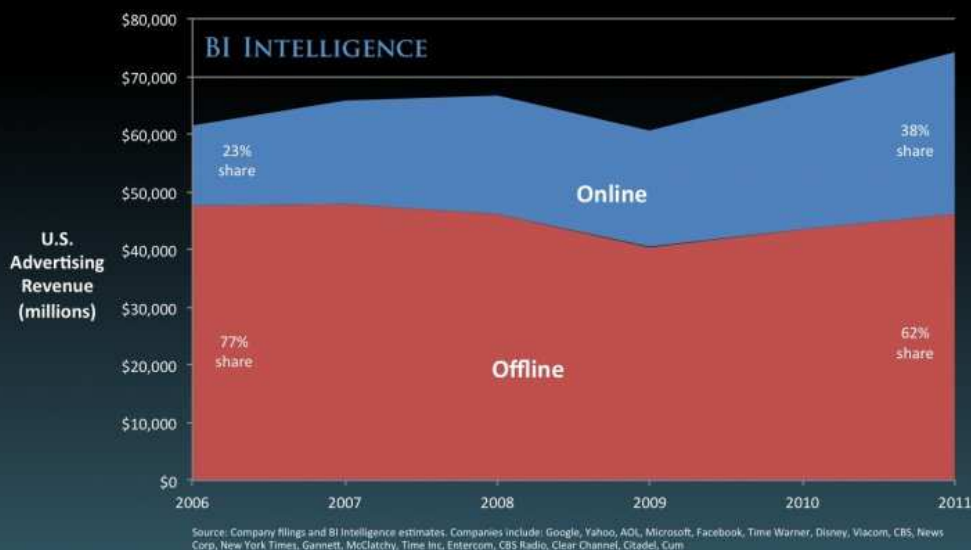
U.S. Digital Advertising



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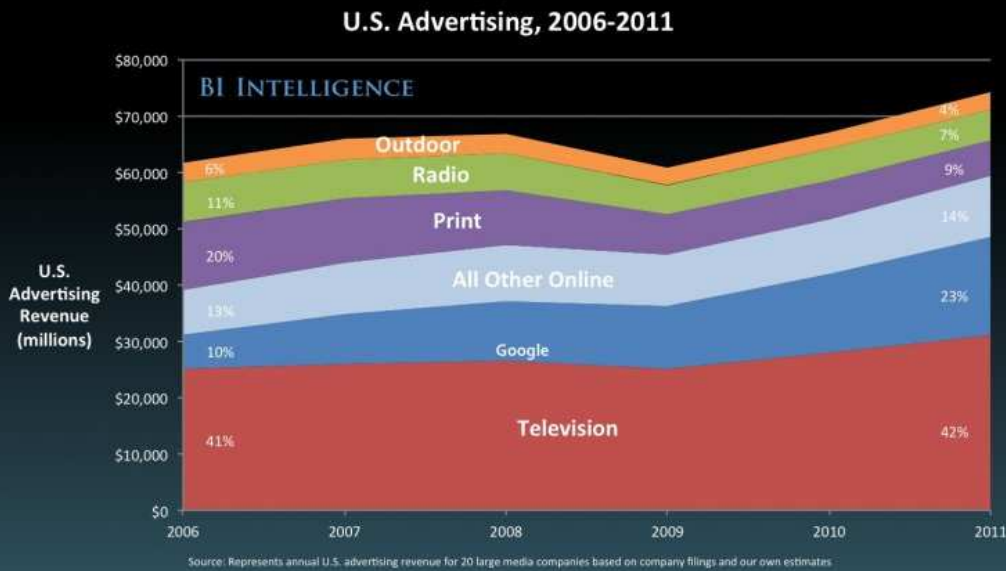
At largest U.S. tech and media companies, nearly 40% of ad revenue is digital

Online vs. Offline Advertising (U.S.), 2006-2011



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TV still biggest. Online close behind. Print getting smashed.



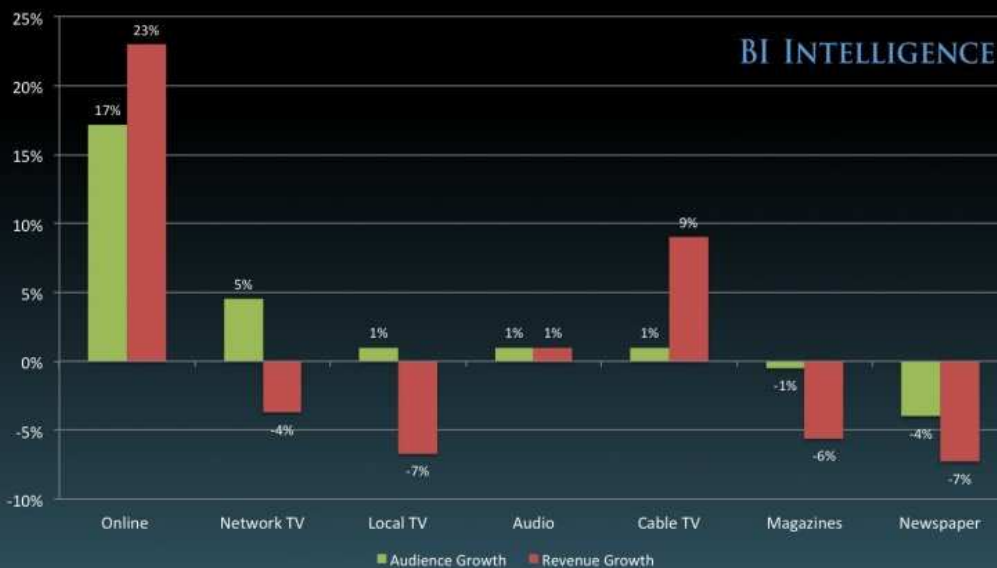
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Digital has already “disrupted” one media sector...

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As news consumption moved online...

News Media Audience and Revenue Growth, 2010-2011

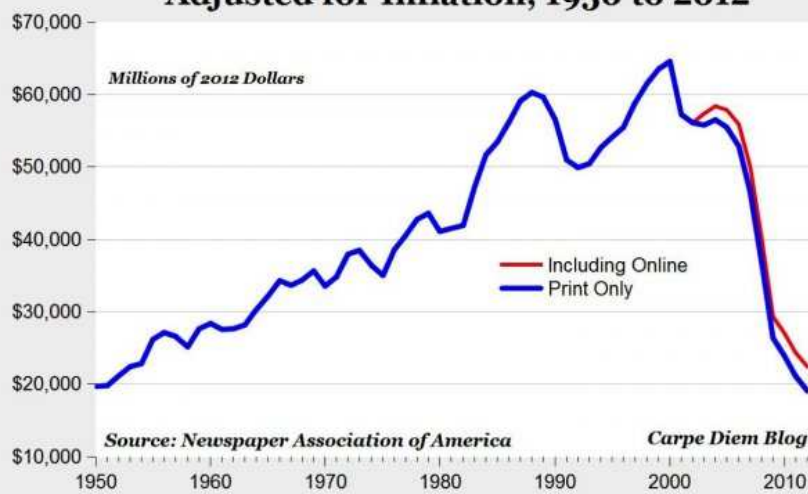


Source: Nielsen Media Research, the Audit Bureau of Circulation and Arbitron, SNL Kagan, eMarketer, Veronis Suhler Stevenson, Radio Advertising Bureau, Publishers Information Bureau, National News Association, BIA/Kelsey

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Newspaper ad revenue collapsed

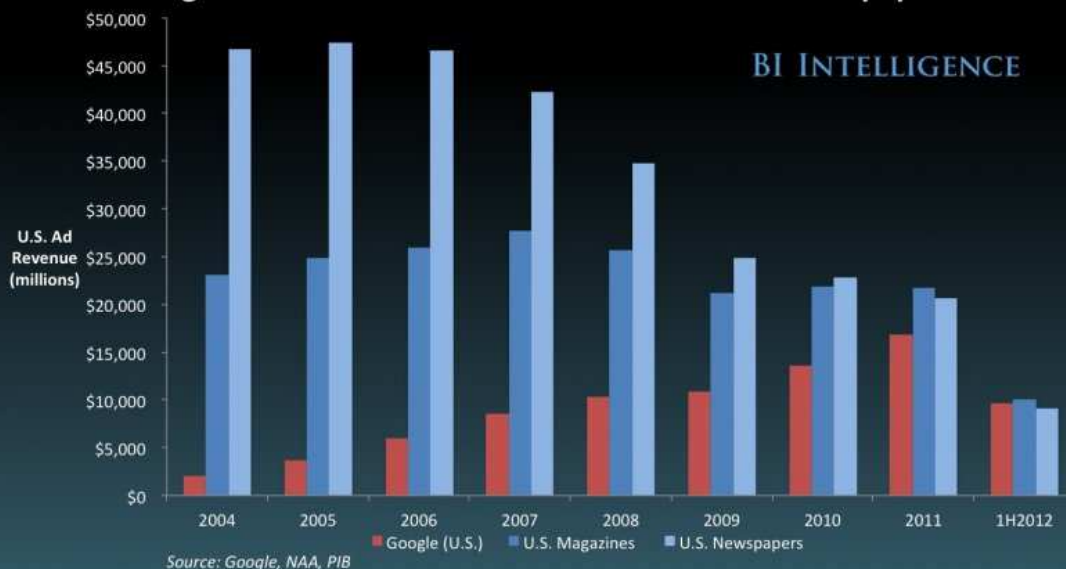
Newspaper Advertising Revenue Adjusted for Inflation, 1950 to 2012



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Google now generates as much U.S. ad revenue as newspapers and magazines (all of them)

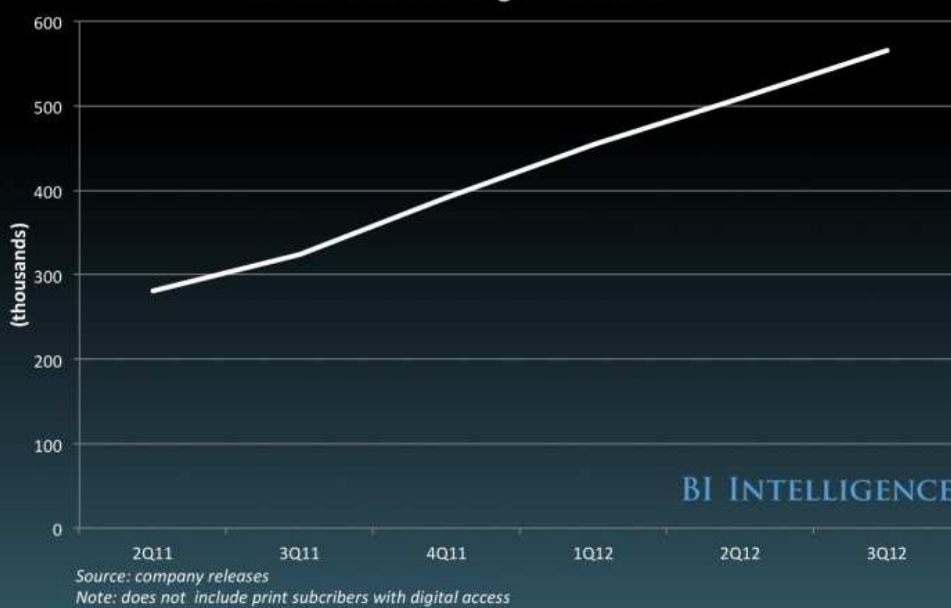
Google Generates More U.S. Ad Revenue Than Newspapers



BUSINESS INSIDER

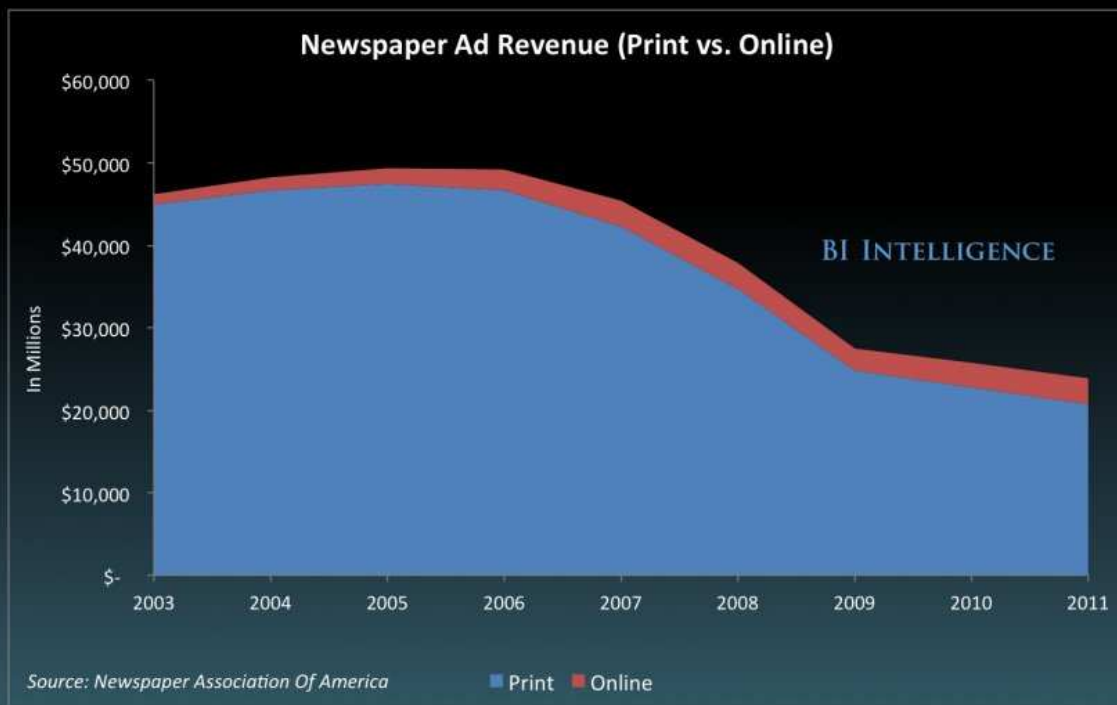
(Some) paywall subscriptions are growing, but...

New York Times Digital Subscribers



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"Digital dimes" don't offset lost print dollars



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Of course, print news is
old news...

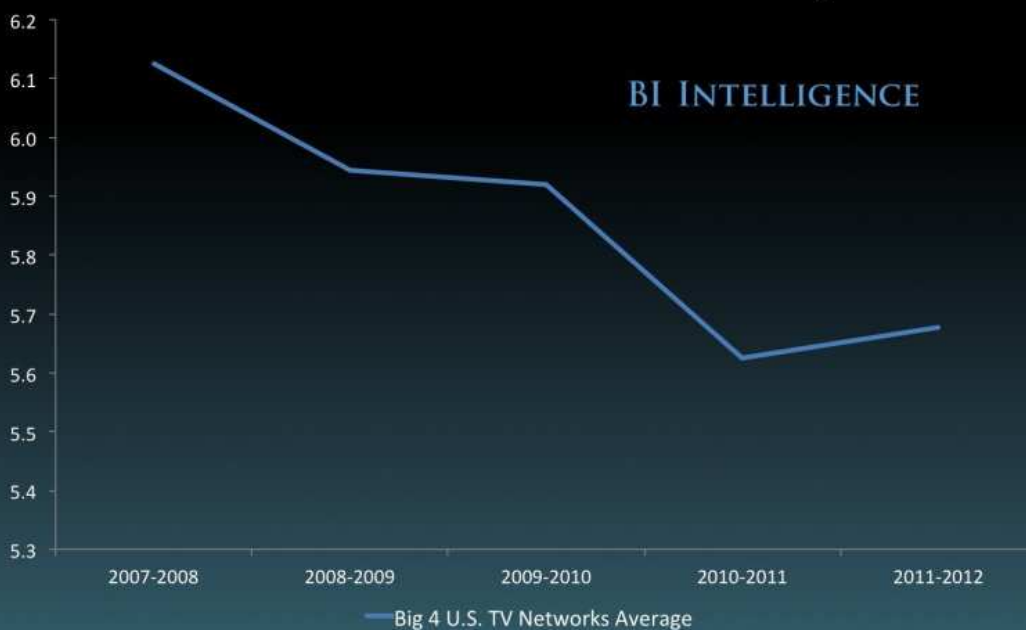
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Now the question is...

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Is TV next?

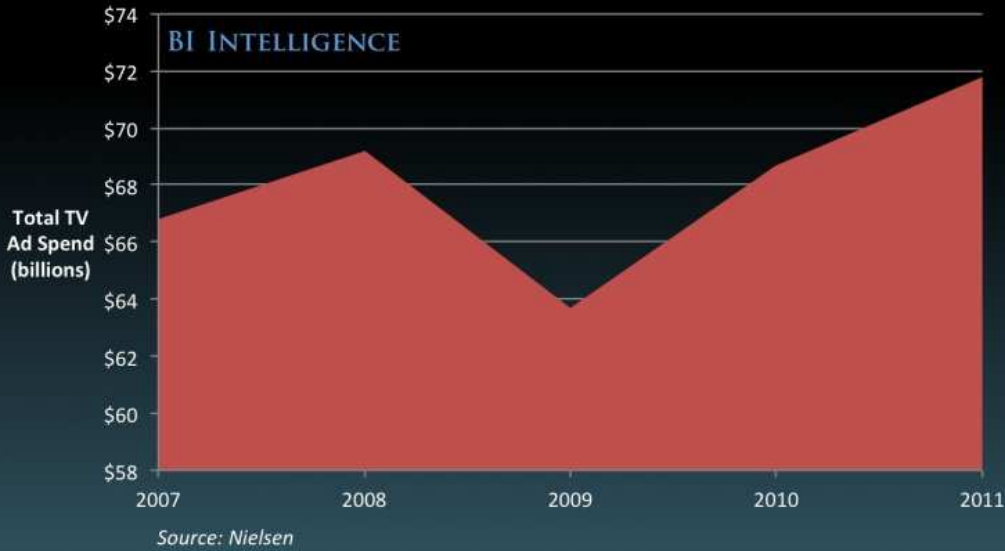
Nielsen Primetime Household Ratings



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For now, TV ad spending still growing

TV Ad Spend, 2007-2011

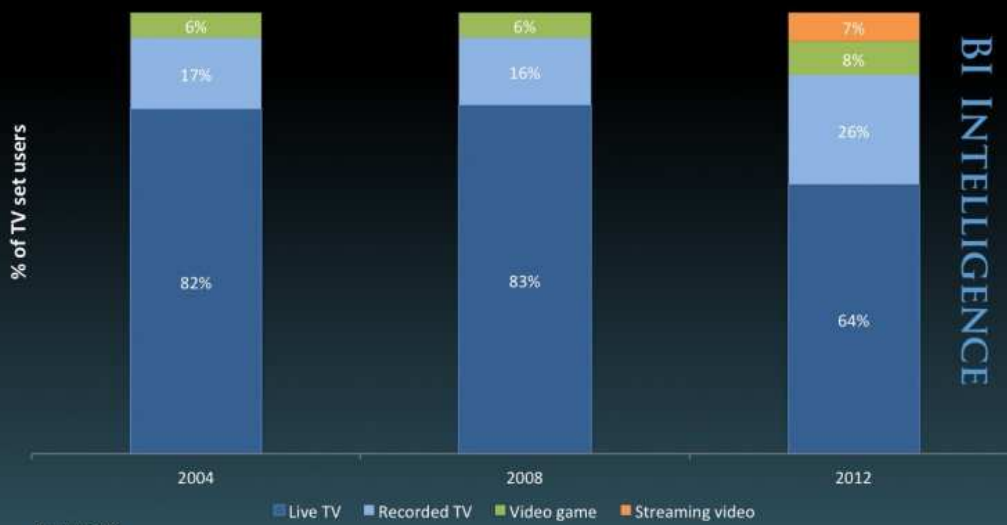


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But behavior is changing

U.S. Primetime TV Viewing

(% of 18-49 TV set users during 8-9 PM hour, multiple responses permitted)



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Pay TV subscriptions are now trending down

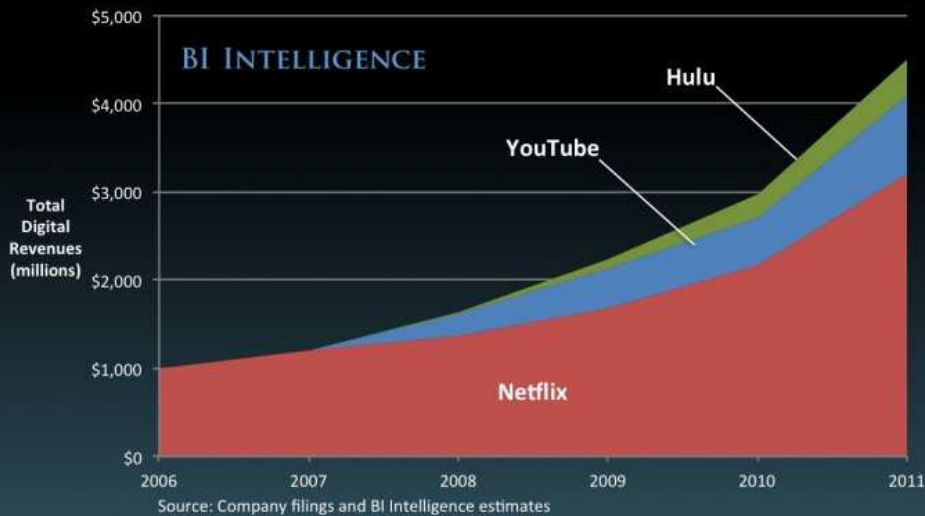
Pay TV Subscriber Net Additions



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'Over-the-top' video is real and growing fast.

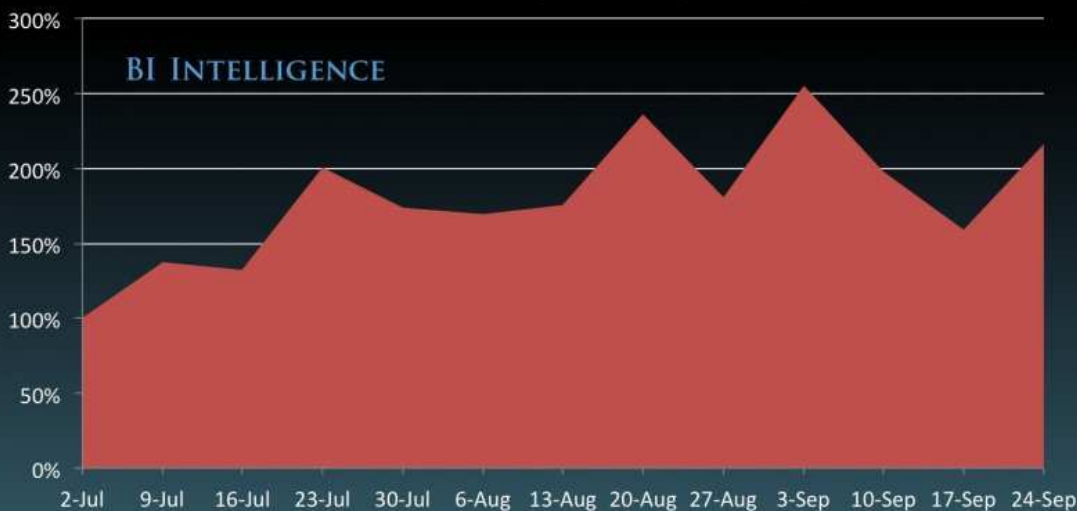
Digital Video Revenue, 2006-2011



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Live events are increasingly being viewed over the Internet

Growth Of Total Live Video Viewing Time Via Connected TV Devices And Gaming Consoles (Q3 2012)

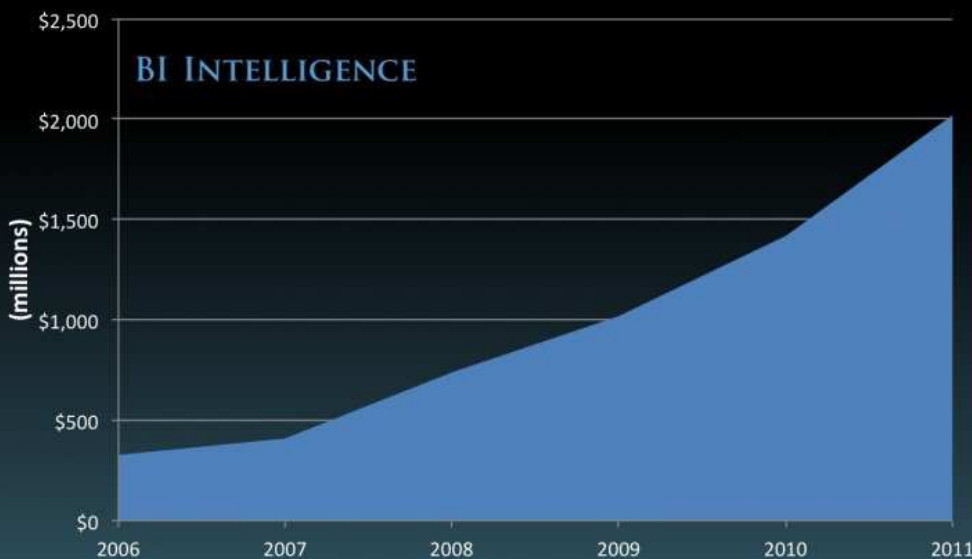


Source: Ooyala

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Digital video advertising is on the rise

Online Video Ad Revenue (U.S.)

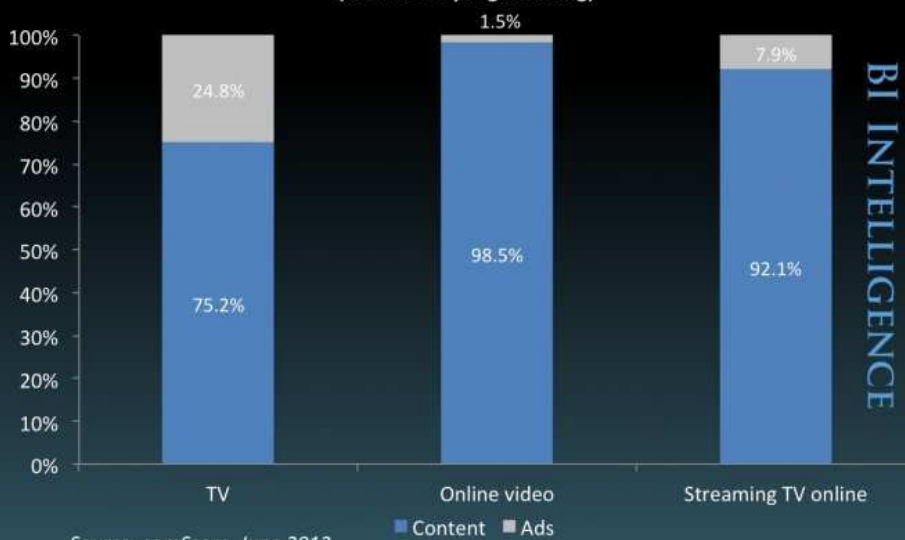


Source: Interactive Advertising Bureau, eMarketer, comScore, BI Intelligence estimates

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But as with print, digital = less money than TV

Ad Loads, TV vs. Digital
(% share of programming)



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What does history teach us?

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As habits change...

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The money follows.

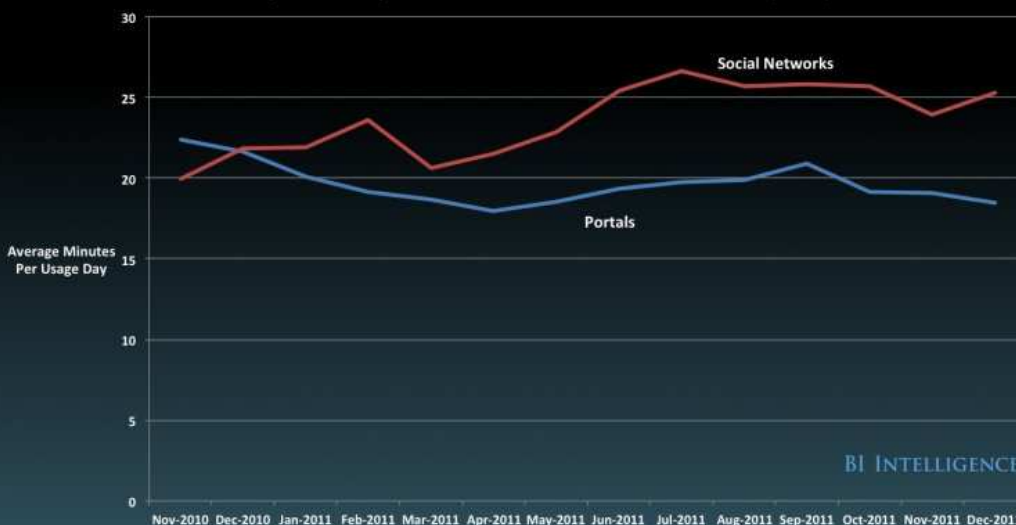
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By the way, "old media" isn't the only media being disrupted...

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Americans now spend more time on social networks than portals

Average Time Spent: Portals vs. Social Networks (U.S.)

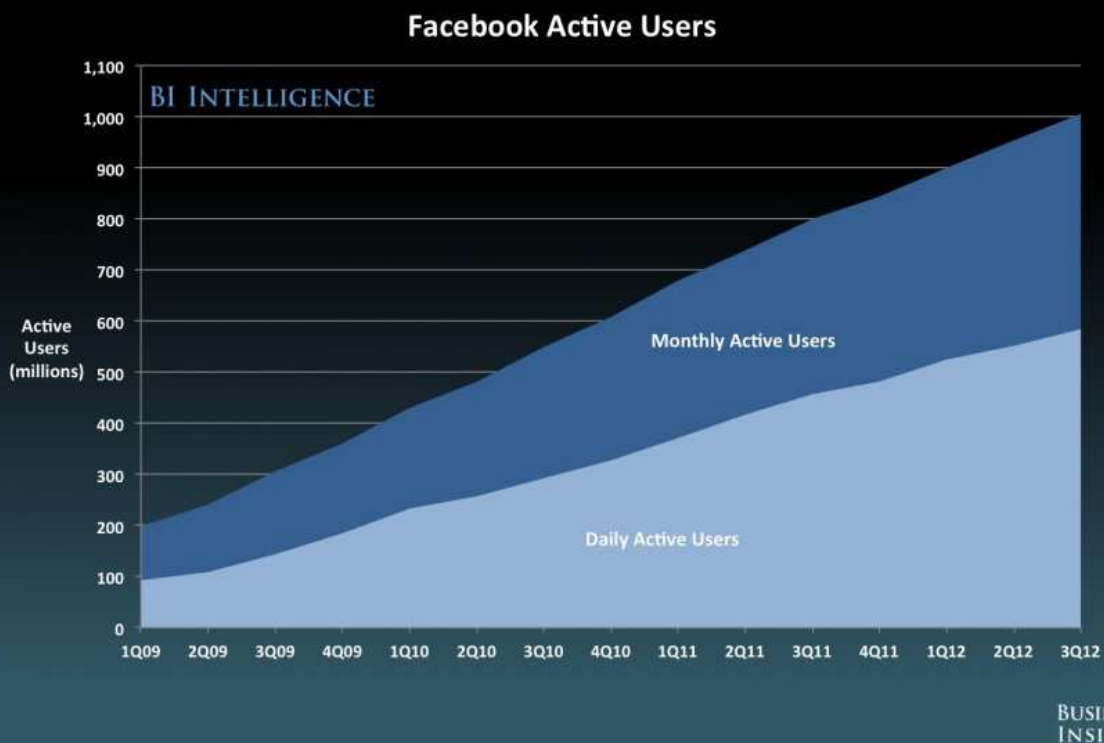


Source: comScore

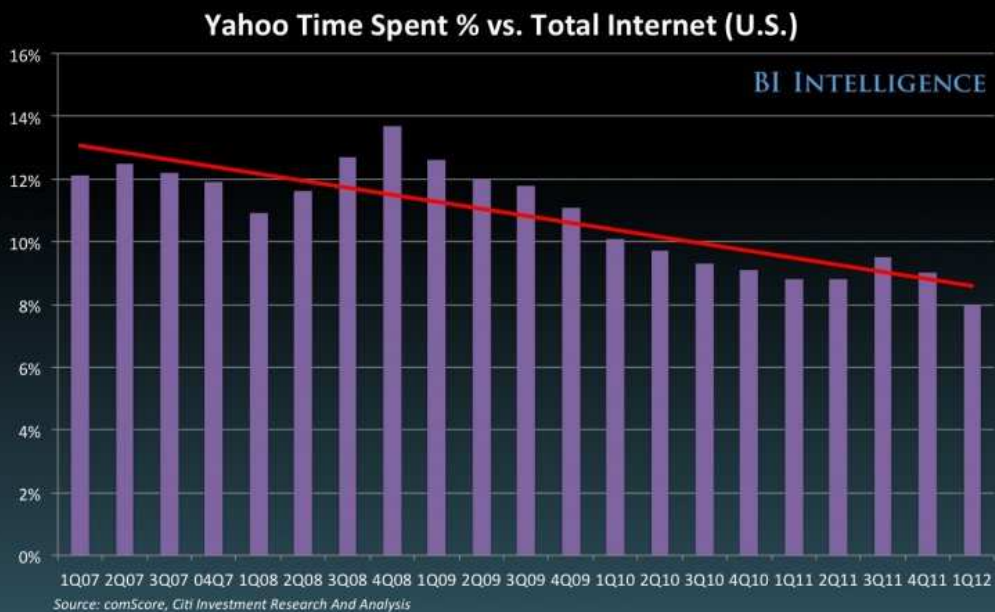
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1/7th of the world's population now use Facebook



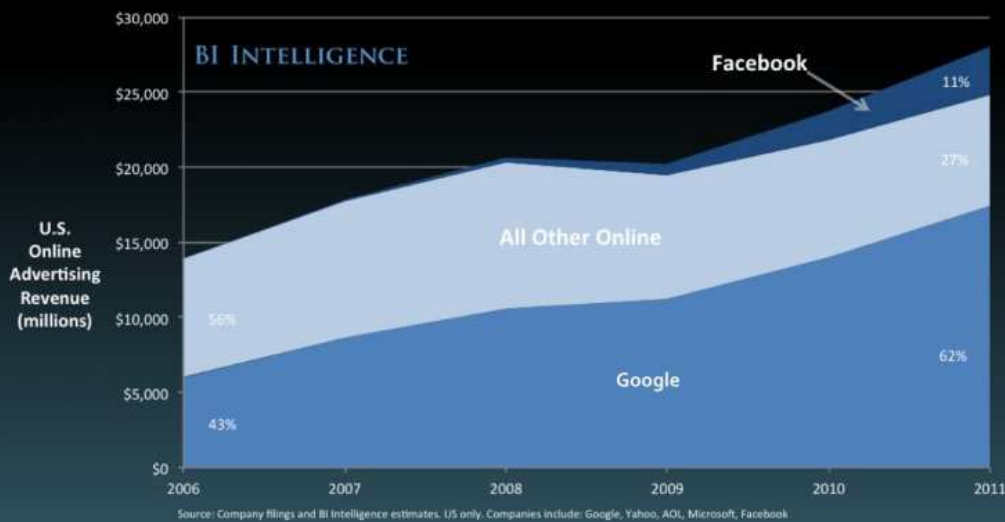
Time spent on Yahoo, et al, continues to decline



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Now, in online ads, it's Google, Facebook, and "other" ...

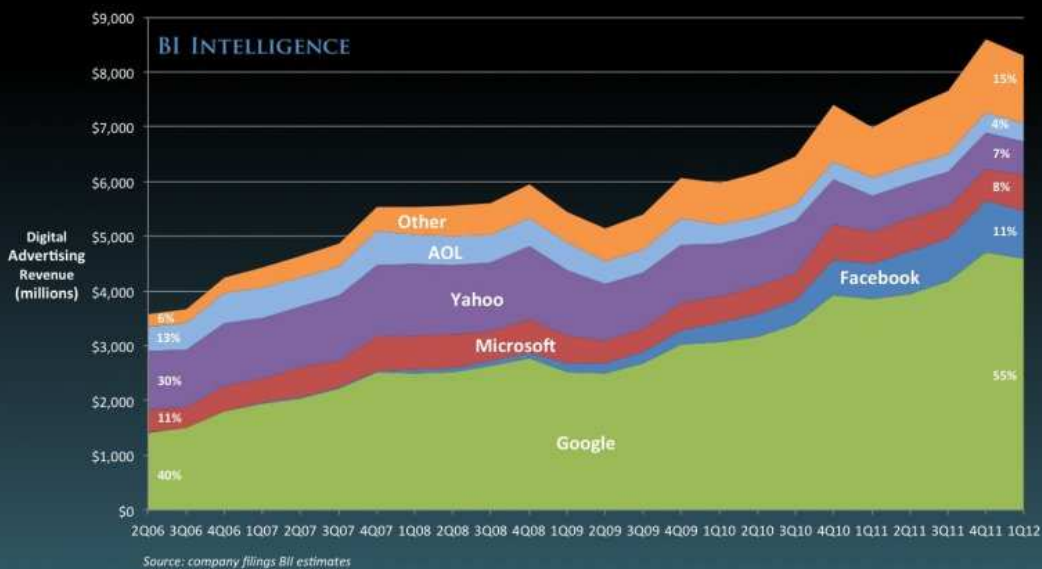
Online Advertising (U.S.), 2006-2011



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Facebook has blown past AOL, Microsoft, and Yahoo

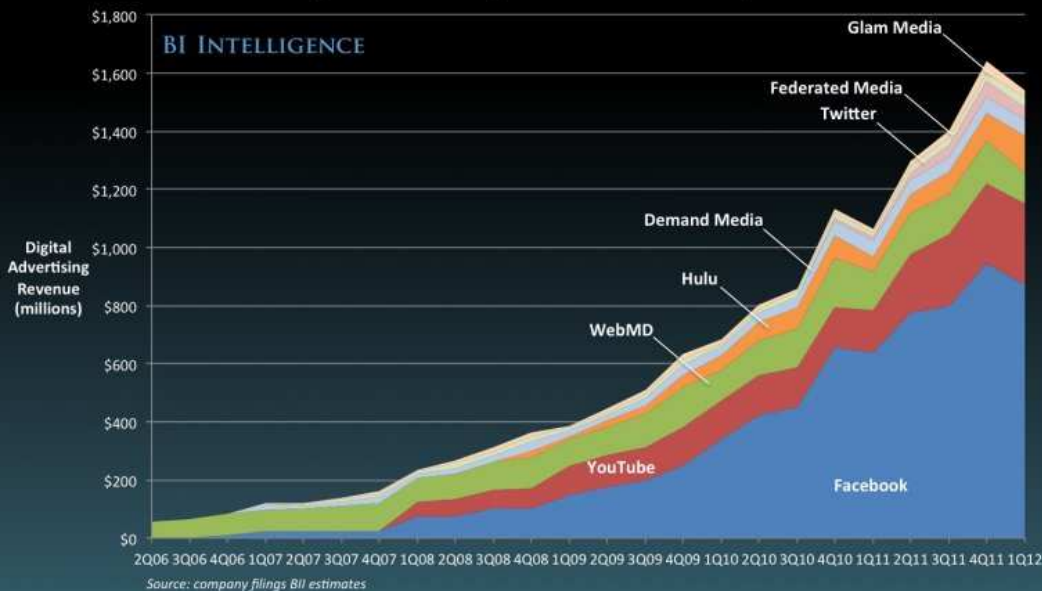
U.S Digital Advertising



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YouTube, Hulu, Glam, Twitter, Demand, et al., also taking portal share...

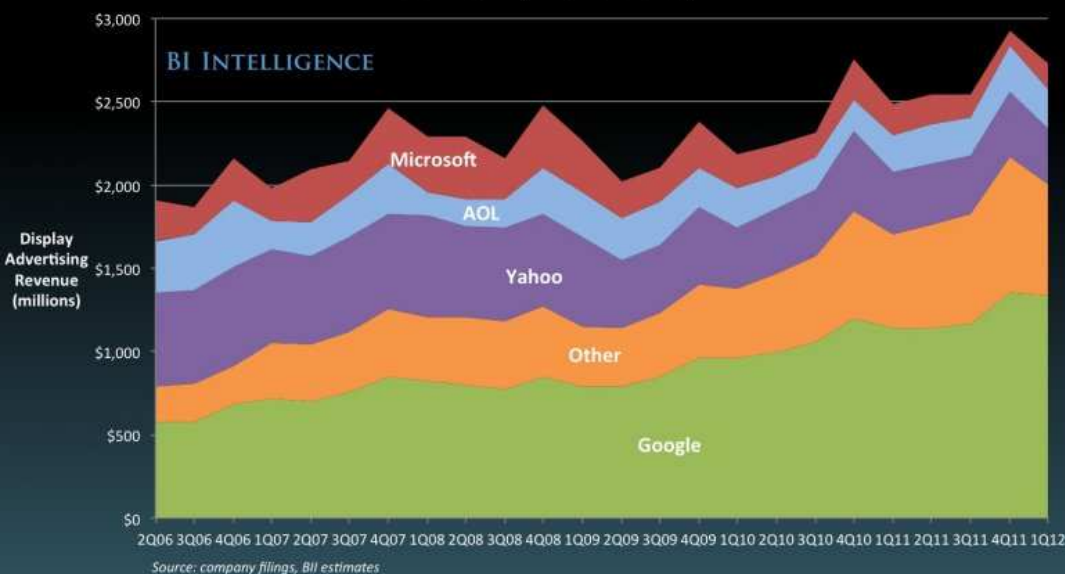
US Digital Advertising: New Growth Companies



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"Display" ad growth is flattening

U.S. Display Advertising



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Real-time bidding is automating what's left

RTB As % Of Digital Display Ad Spending



Source: eMarketer

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**So, will Facebook ever be bigger
than Google?**

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Unlikely.

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**Google is like
advertising at a store.**

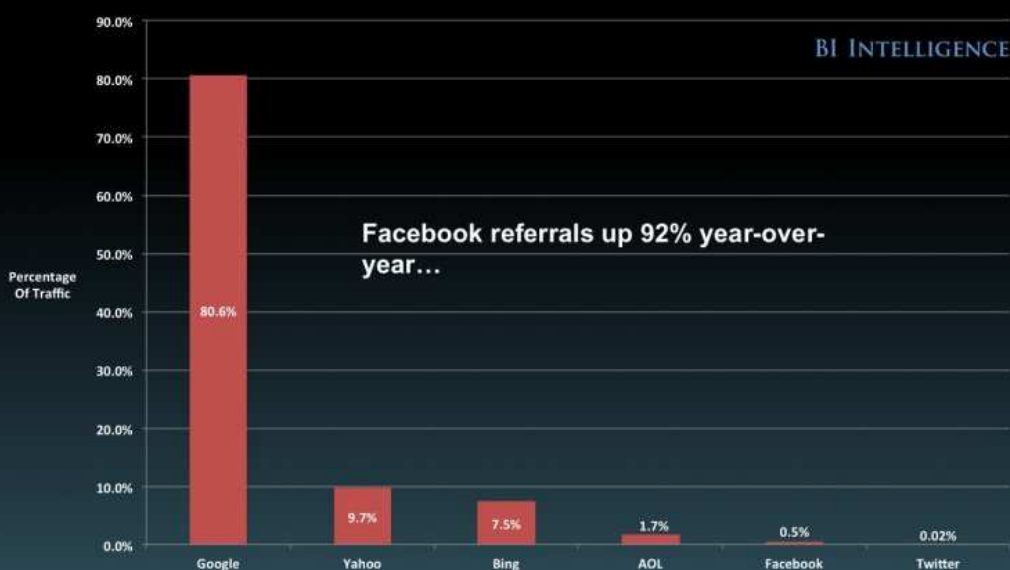
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Facebook is like
advertising at a party.

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Social referrals to commerce sites are tiny

Drivers of E-Commerce Traffic



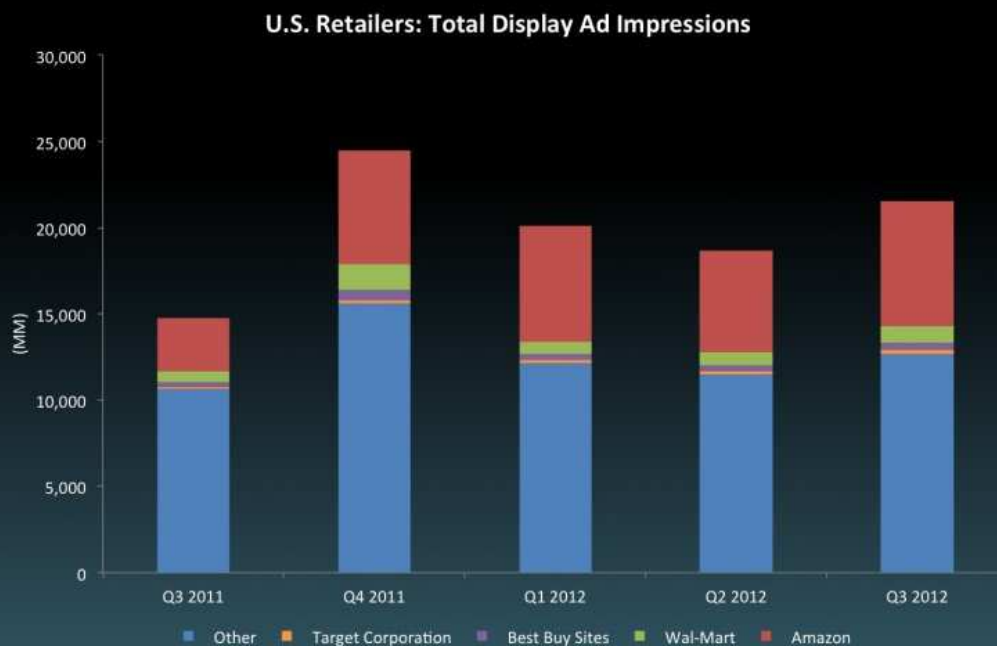
Source: RichRelevance

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And speaking of advertising at stores...

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E-tailers are now building ad businesses



Source: comScore

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Amazon ad revenue is already \$1+ billion a year...

Product Ads from External Websites [\(What's this?\)](#)

			
<p>Samsung NP900X4C-A07US Ultrabook PC - 3rd Gen. Intel Core i7-351...</p> <p>★★★★☆ (52)</p> <p>\$1,699.99 + \$7.77 Est. shipping</p> <p><input checked="" type="checkbox"/> Tiger Direct</p>	<p>Acer Aspire S7 S7-391-6810 NX.M3EAA.001 Ultrabook PC - 3rd Gen....</p> <p>★★★★★ (4)</p> <p>\$1,379.99 + \$7.83 Est. shipping</p> <p><input checked="" type="checkbox"/> Tiger Direct</p>	<p>Lenovo IdeaPad U310 59351647 Ultrabook - 3rd generation Intel Co...</p> <p>\$599.99 + \$7.37 Est. shipping</p> <p><input checked="" type="checkbox"/> Tiger Direct</p>	<p>Samsung Series 5 NP530U3B-A01US Ultrabook - 2nd generation Intel...</p> <p>★★★★☆ (47)</p> <p>\$699.99 + Free Shipping</p> <p><input checked="" type="checkbox"/> Tiger Direct</p>

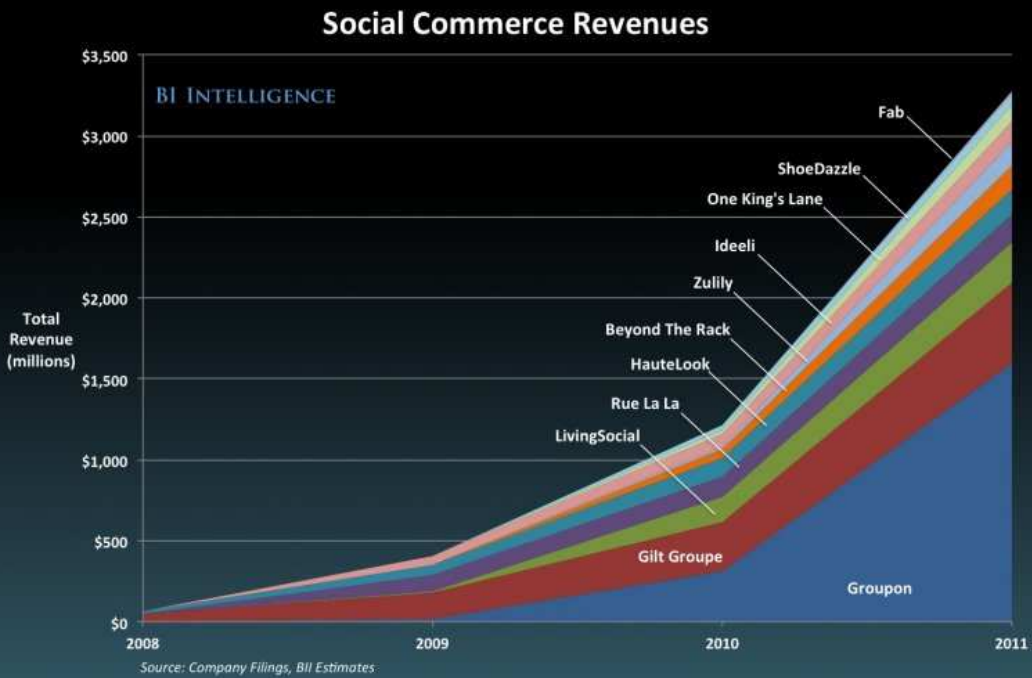
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And as eCommerce continues to take share...



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New brands are blending marketing and commerce



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MOBILE

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**So, what do people
do on mobile?**

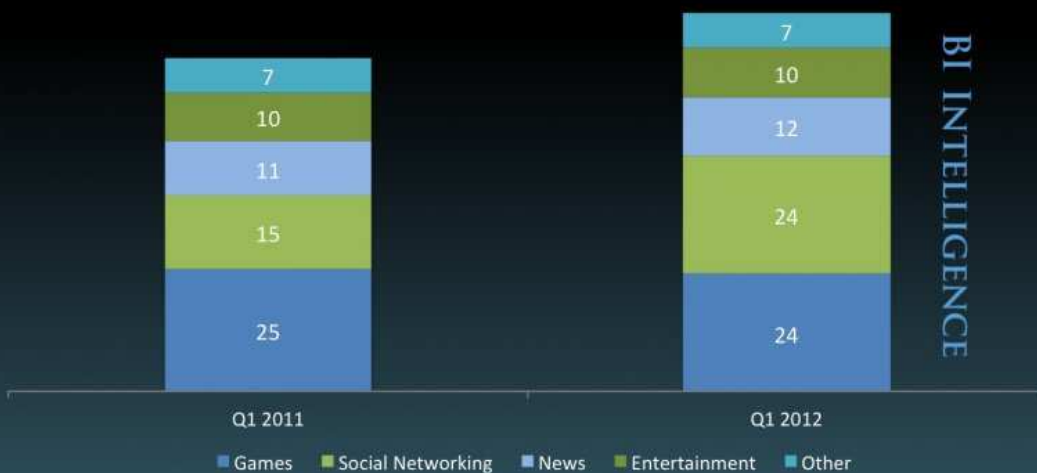
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**Well, first, they do pretty much
everything they do online...**

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They play games and social-network...

Daily Smartphone App Consumption, Minutes Per Category

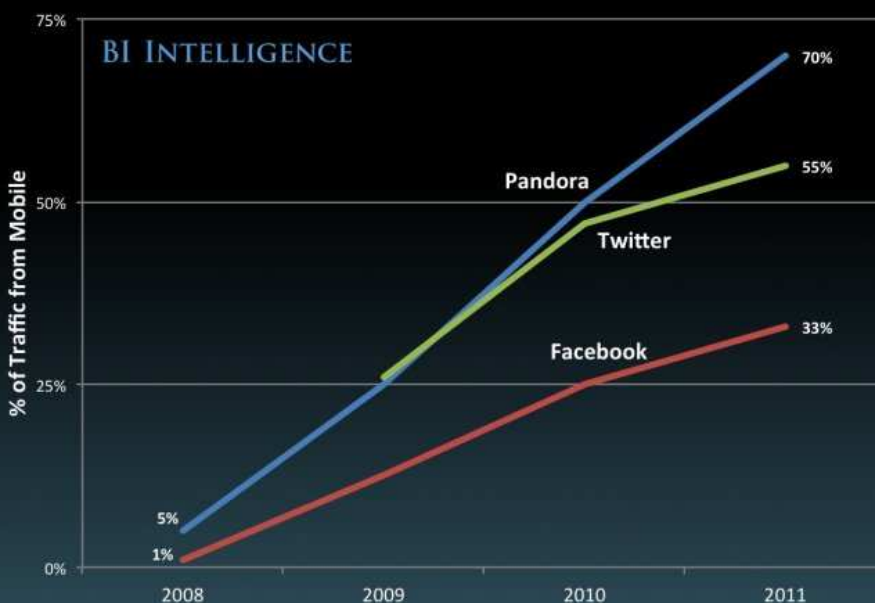


Source: Flurry Analytics

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They listen to music...



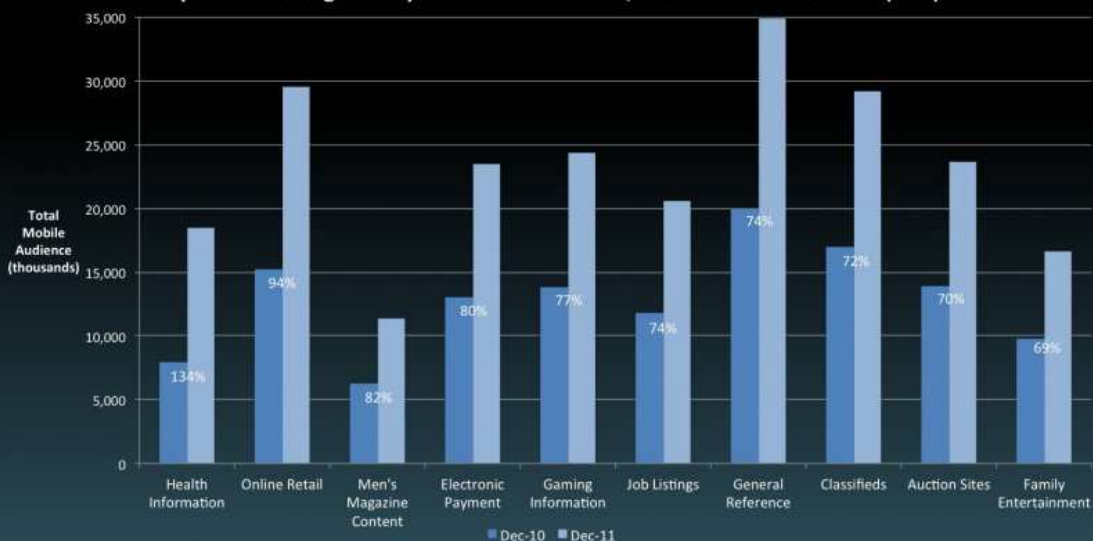
Source: Mary Meeker, Kleiner Perkins, companies

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They consume content...

Top Mobile Categories By Growth In Audience, Dec. 2010 vs. Dec. 2011 (U.S.)



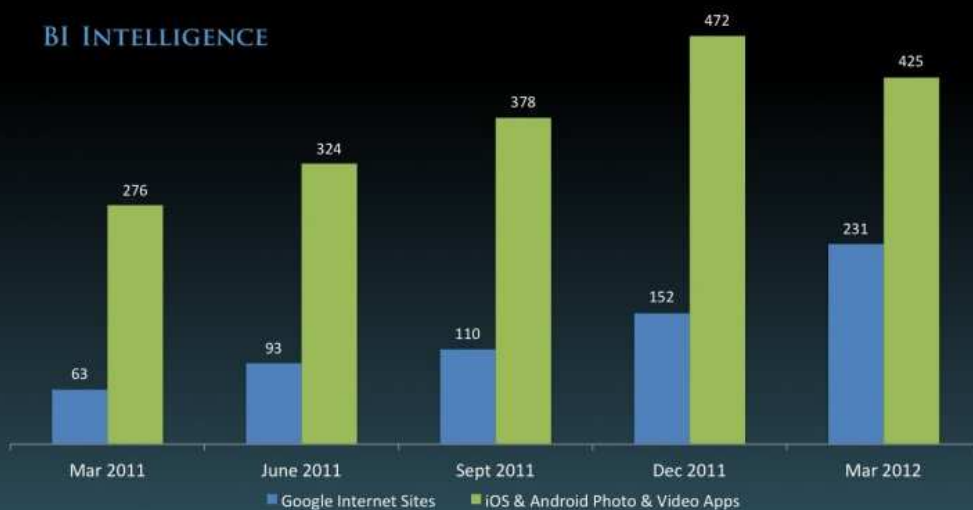
Source: comScore MobileLens, 3 mon. avg. ending Dec-2011 vs. Dec-2010

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They look at pictures and video.

U.S. Video Engagement, Monthly Minutes Per Active User

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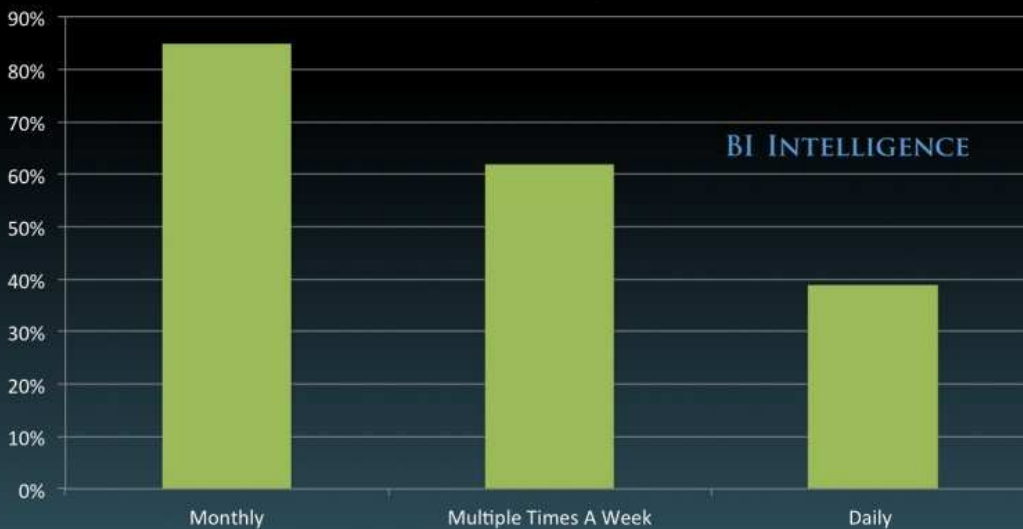


Source: Flurry Analytics, comScore Video Matrix

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They use their devices *while* they watch TV

Percentage Of Smartphone Users Who Use Their Phones While Watching TV

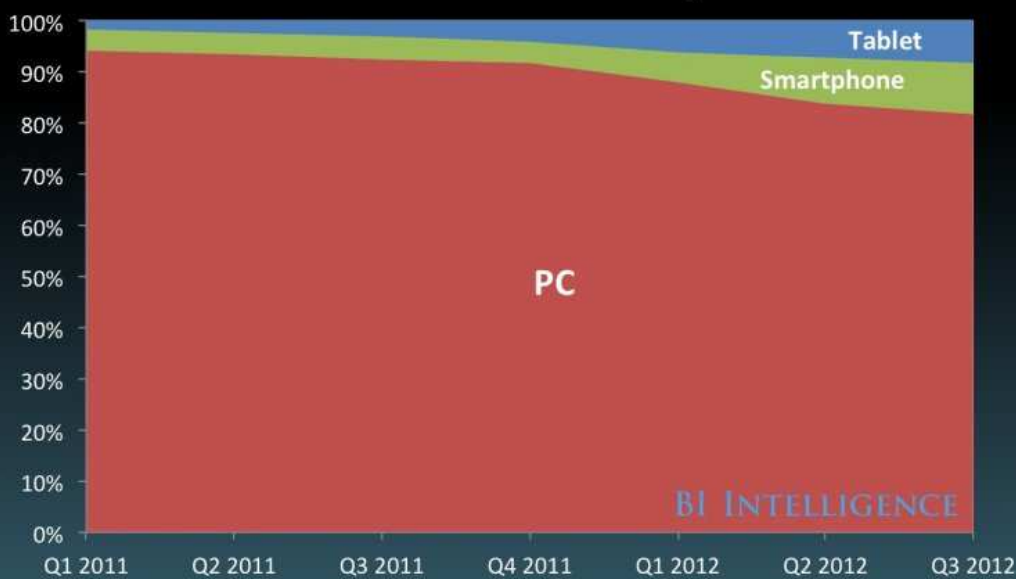


Source: Nielsen Cross-Platform Report Q2, 2012

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They shop...

Ecommerce Website Traffic By Device



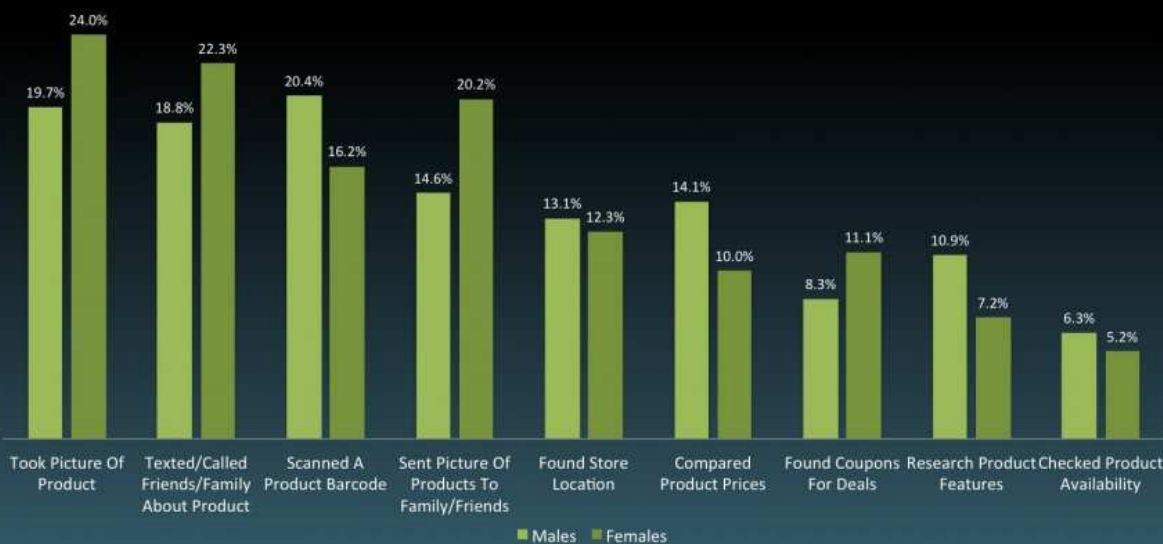
Source: Monetate

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They use smartphones to make buying decisions in stores.

U.S. Smartphone Owners Activity In Retail Stores

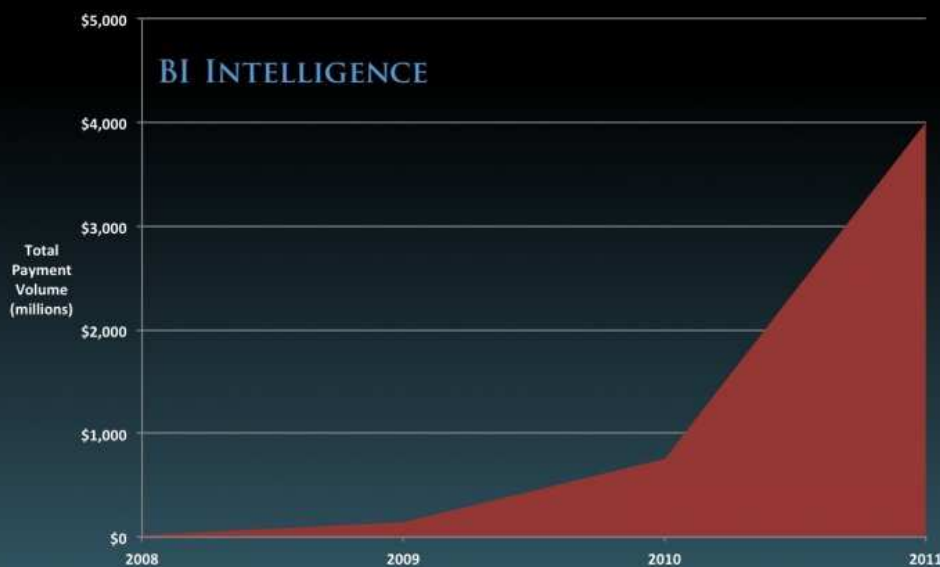
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They pay for stuff

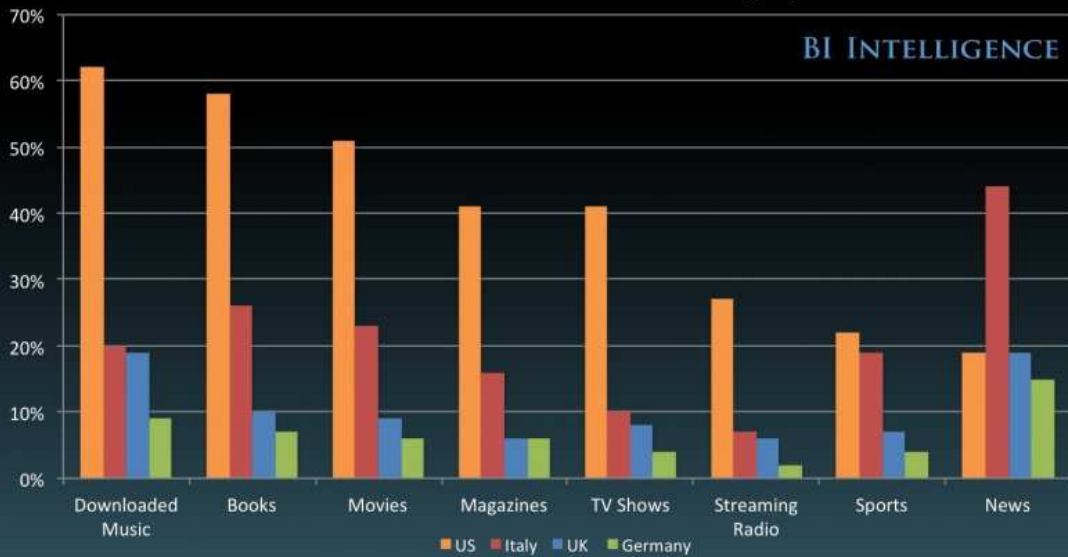
PayPal Mobile Payments Processed



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They buy content

Media Content Paid For On A Tablet, Q4 2011



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And they do stuff they
DON'T do online...

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Play Angry Birds, et al

Angry Birds Downloads vs. Nintendo DS Sales

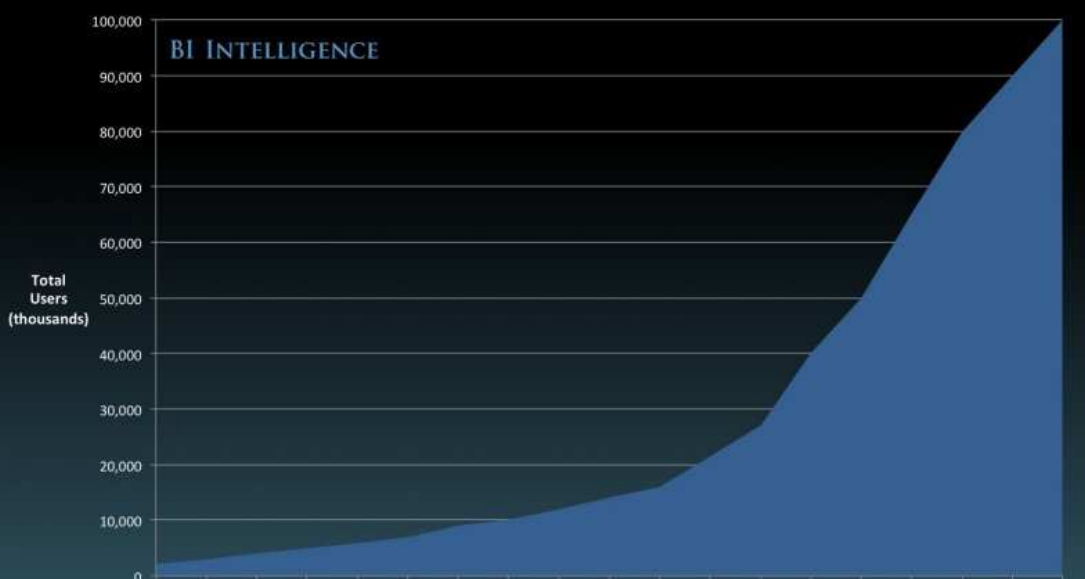


Note: Includes Nintendo 3DS Sales
 Source: News reports, company releases, BI Intelligence estimates

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Take and share pictures

Instagram Estimated Users



Source: news reports, company releases, BI Estimates

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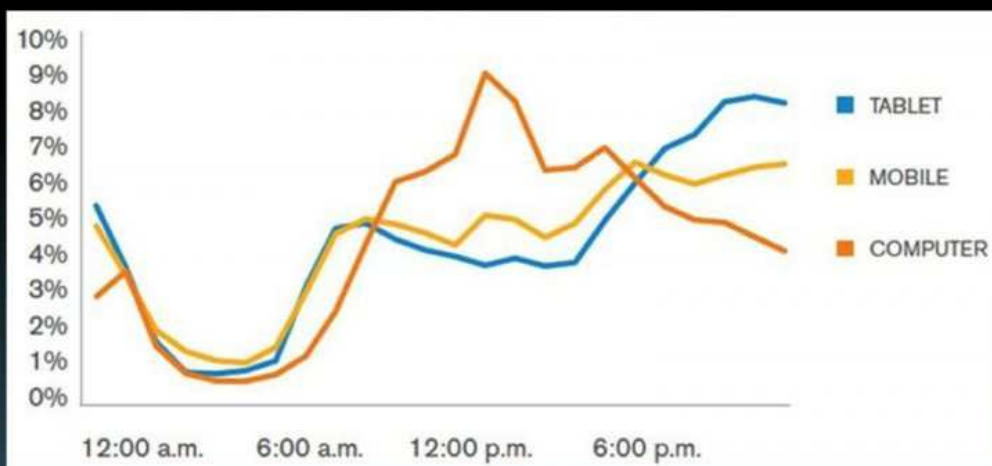
BOTTOM LINE:

**Mobile devices =
More Internet usage +
New applications**

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In fact, mobile has made digital 24/7

Share Of Device Page Traffic Over A Day:



Source: comScore, Telefonica, Macquarie Capital (USA), December 2011

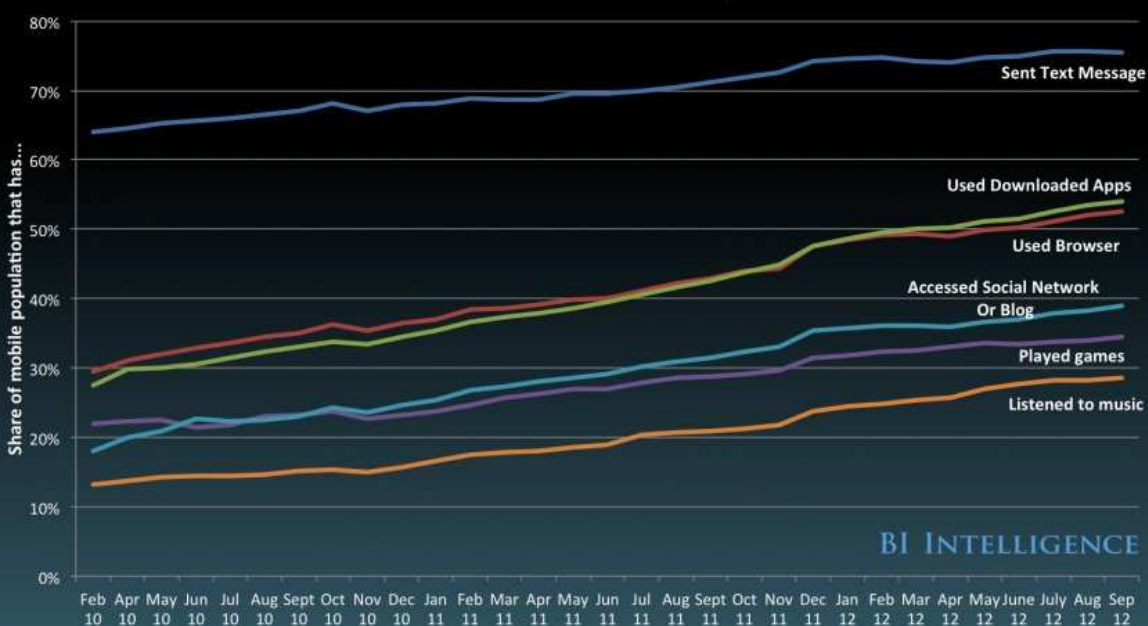
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This leads to another big question...

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Mobile usage is up across the board

U.S. Mobile Content Usage



Source: comScore

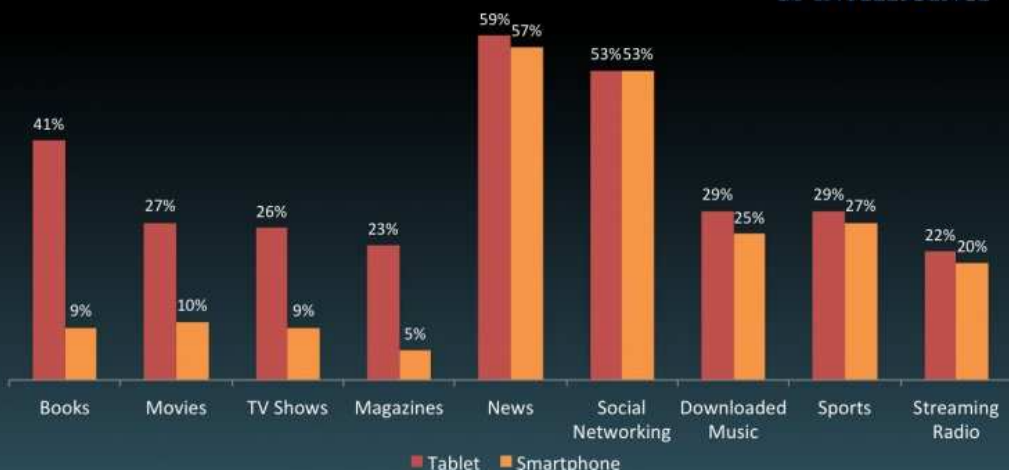
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People are consuming a huge amount of content through mobile...

Media Content Accessed Through Mobile Device

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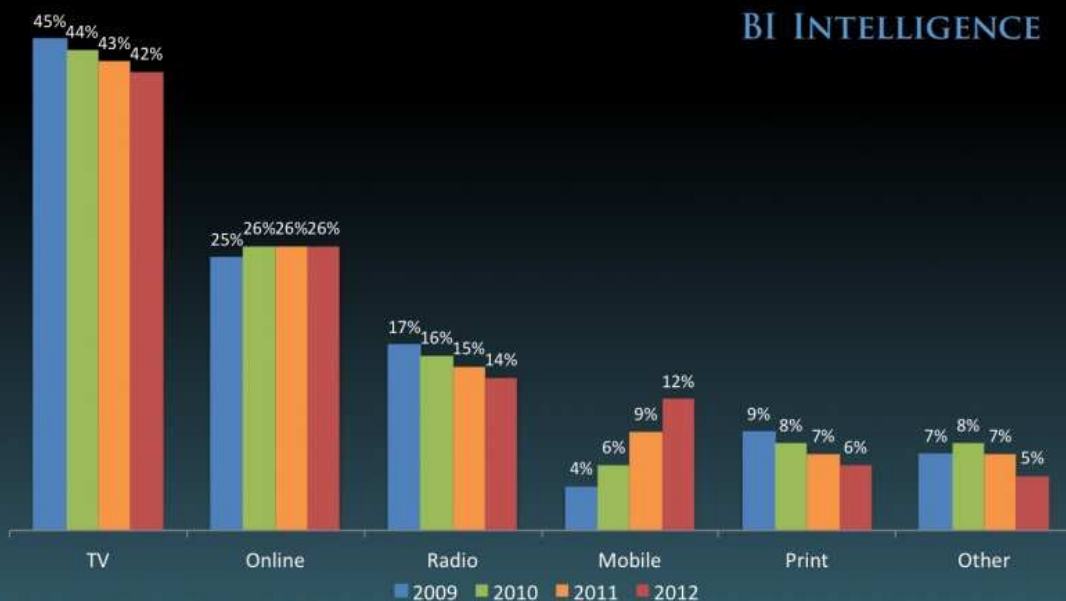
Source: Nielsen Q4 2011 Mobile Connected Device Report

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As mobile increases, all other media decreases

Share Of Consumer Time Spent With Major Media

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Source: eMarketer, October 2012

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**So mobile advertising
will be huge, right?**

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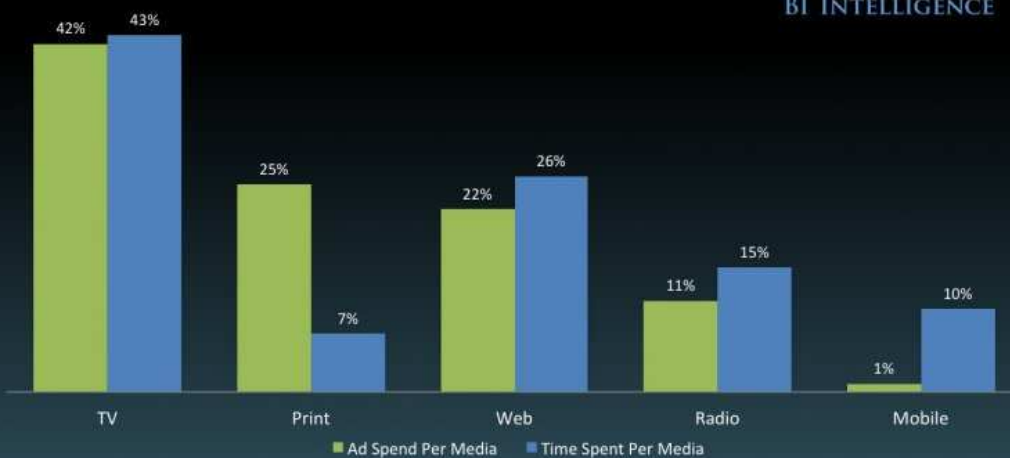
Hmmm...

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The “bullish” mobile-ad story is the huge gap between time-spent and ad spending.

2011 U.S. Ad Spending vs. Consumer Time Spent By Media

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Source: Mary Meeker (KPCB), eMarketer, IAB

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But maybe there's a good reason
for that gap...

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The screen is really small.

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Mobile monetization still behind the desktop

ARPU, Desktop vs. Mobile

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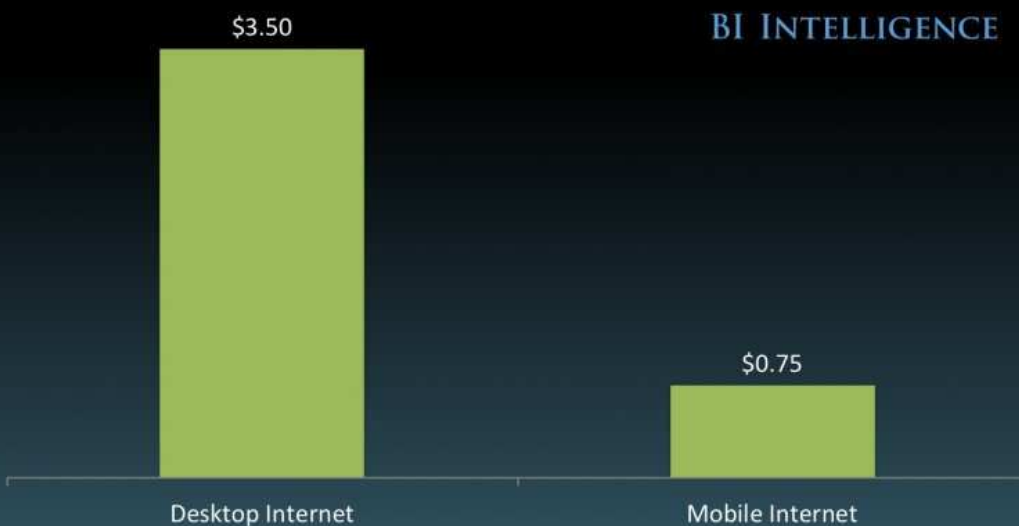


Source: Pandora, Zynga, Tencent

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Mobile CPMs are much lower

Effective CPM, Desktop vs. Mobile



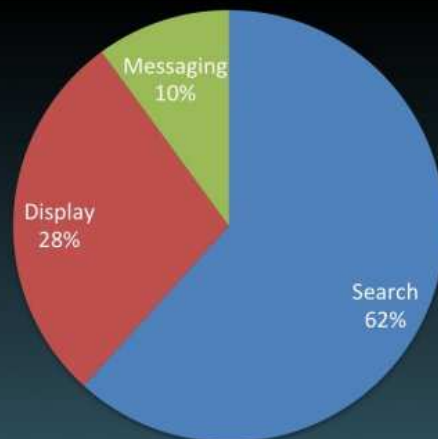
Source: comScore, Vivaki, Mobclix Exchange

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Most "mobile" ads are mainly web search + display ads viewed on mobile

2011 Global Mobile Ad Spend By Category



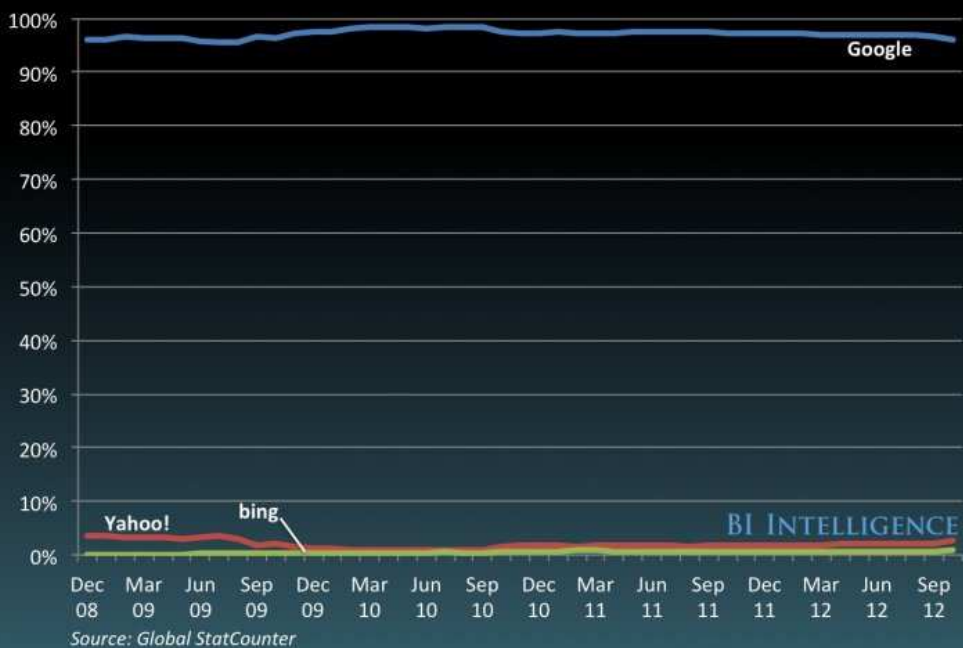
Source: IAB

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Google completely owns mobile search

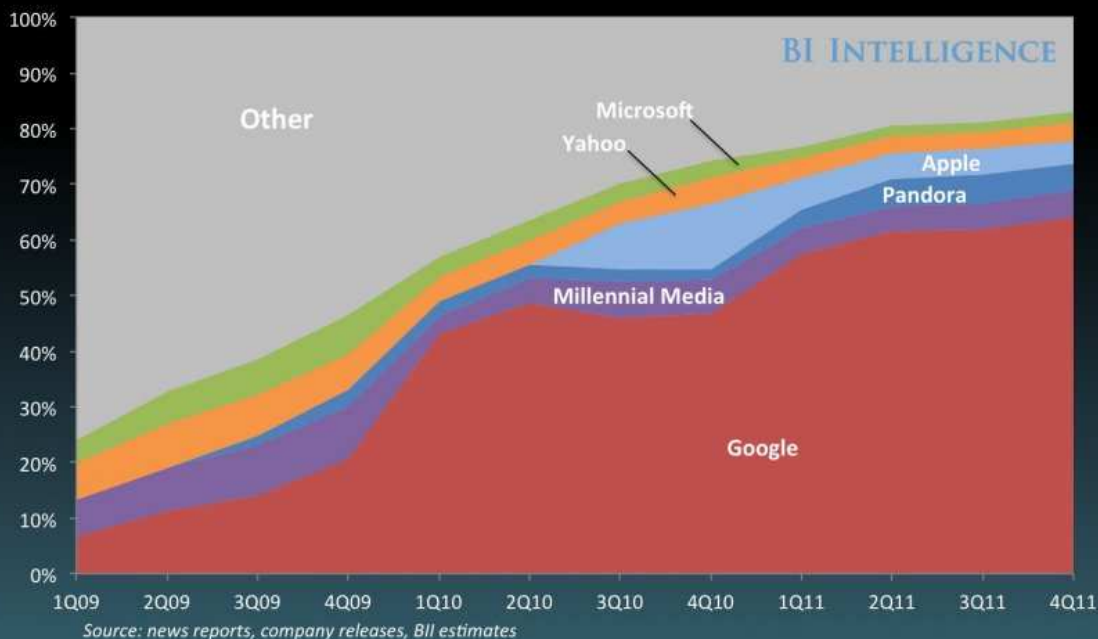
Global Mobile Search Market Share



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So Google owns mobile, too

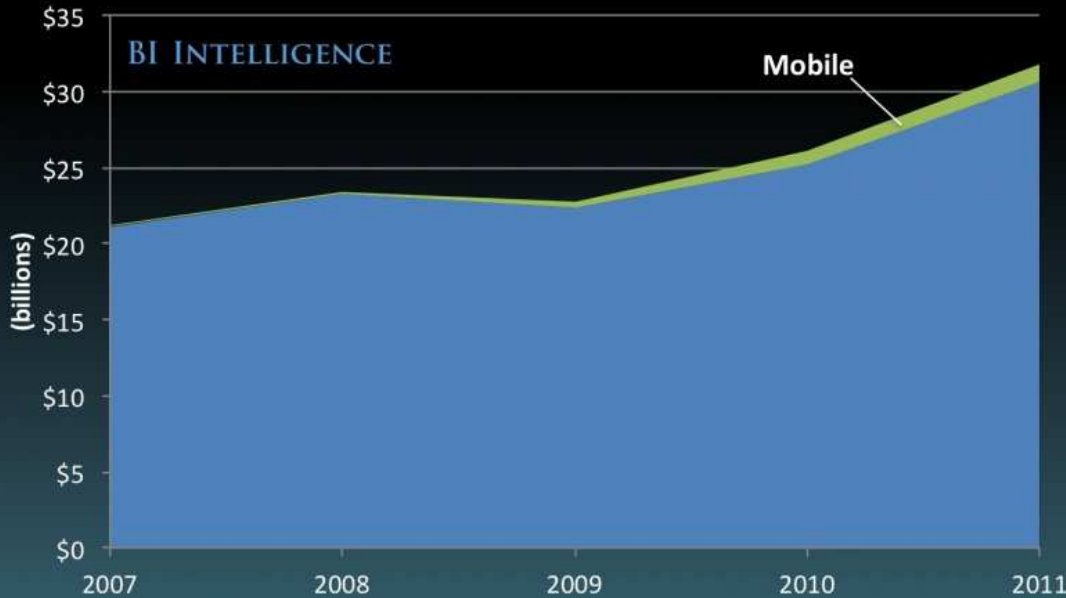
Mobile Ad Market Share



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Overall, mobile is still a tiny fraction of digital ad spending.

U.S. Digital Advertising Revenues



Source: IAB, BIA-Kelsey, BII estimates

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And it's growing much slower than TV + Internet in the first 5 years

Comparative U.S. Advertising Media Annual \$ Revenue Growth (First 5 Years)



Source: IAB, McCann-Erickson, BIA-Kelsey, BII estimates

Note: Adjusted for inflation

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But!

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“Native” mobile ads are finally beginning to appear...

**British Airways** @British_Airways

Our ad shows our plane in London. But it can go all over the UK. Enter FY14BJ & see where we are now taxi.ba.com #HomeAdvantage



Promoted by British Airways

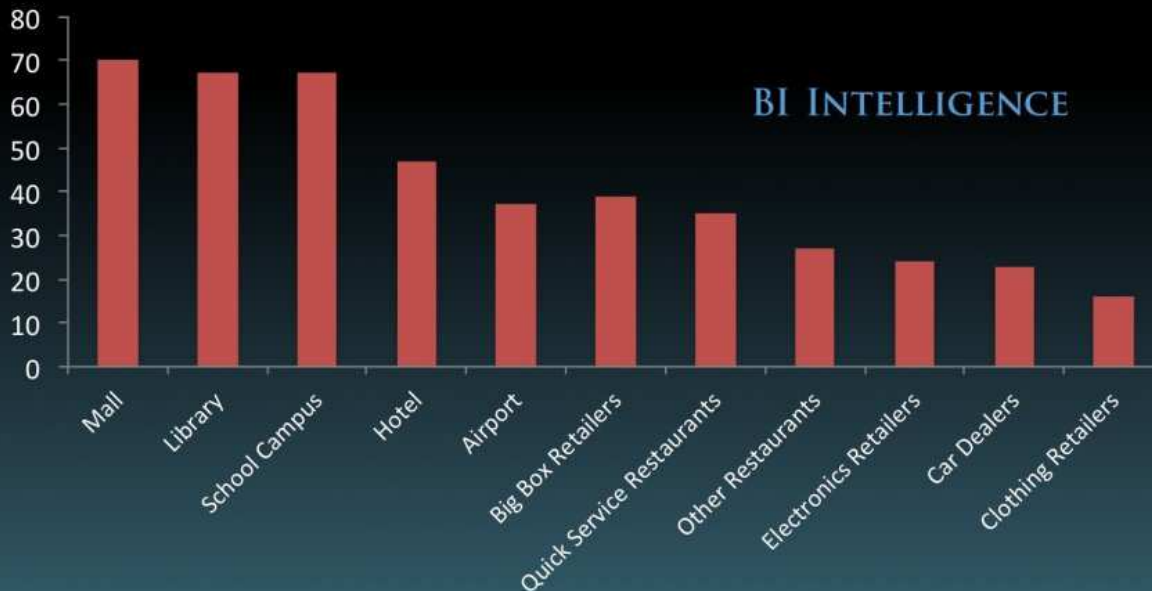
Expand ◀ Reply ↻ Retweet ◀ Favorite

- Ads in timelines (Twitter / Facebook)
- Shareable ads
- Location-based mobile ads

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Location-based mobile ads can target users at the mall, restaurants, car dealers ...

Monthly Ad Requests Per Mobile User By Location



Source: JiWire, Q3 2012

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Targeted mobile ads have higher CPMs

CPMs For Selected Mobile Ad Platforms

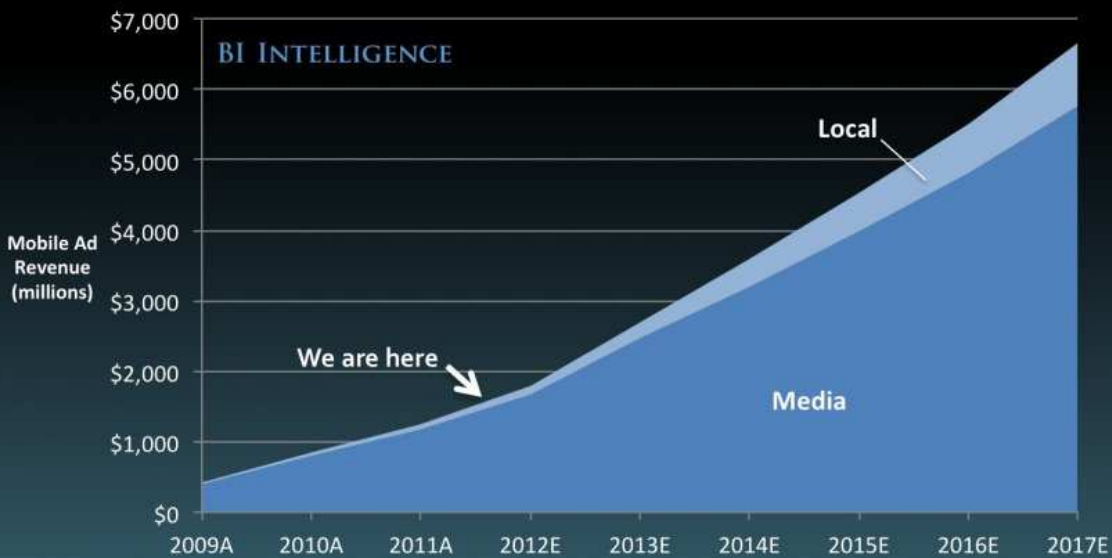


Source: Ad platforms, BII Research, Greg Sterling, Opus Research

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So, yes, mobile ads are just getting started

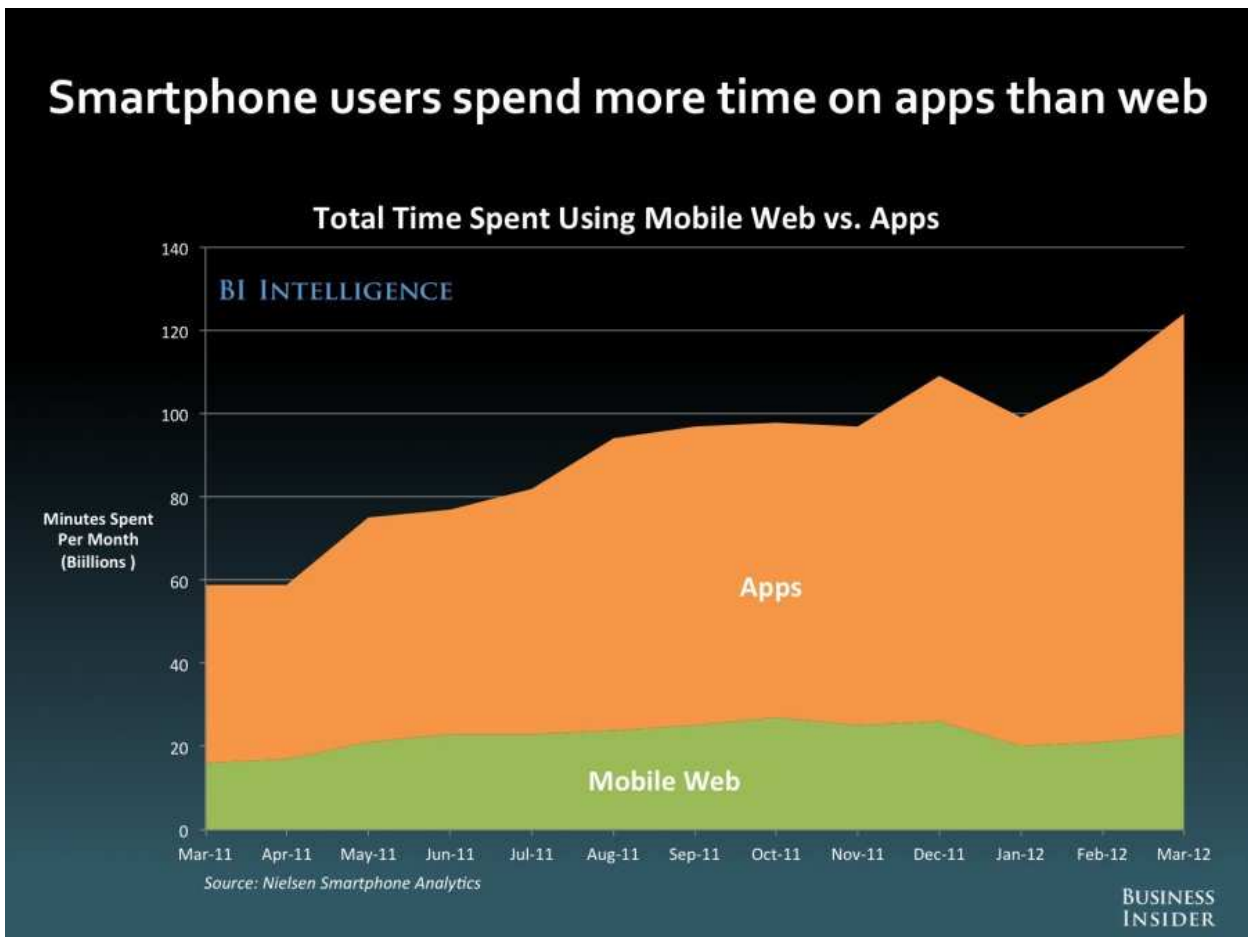
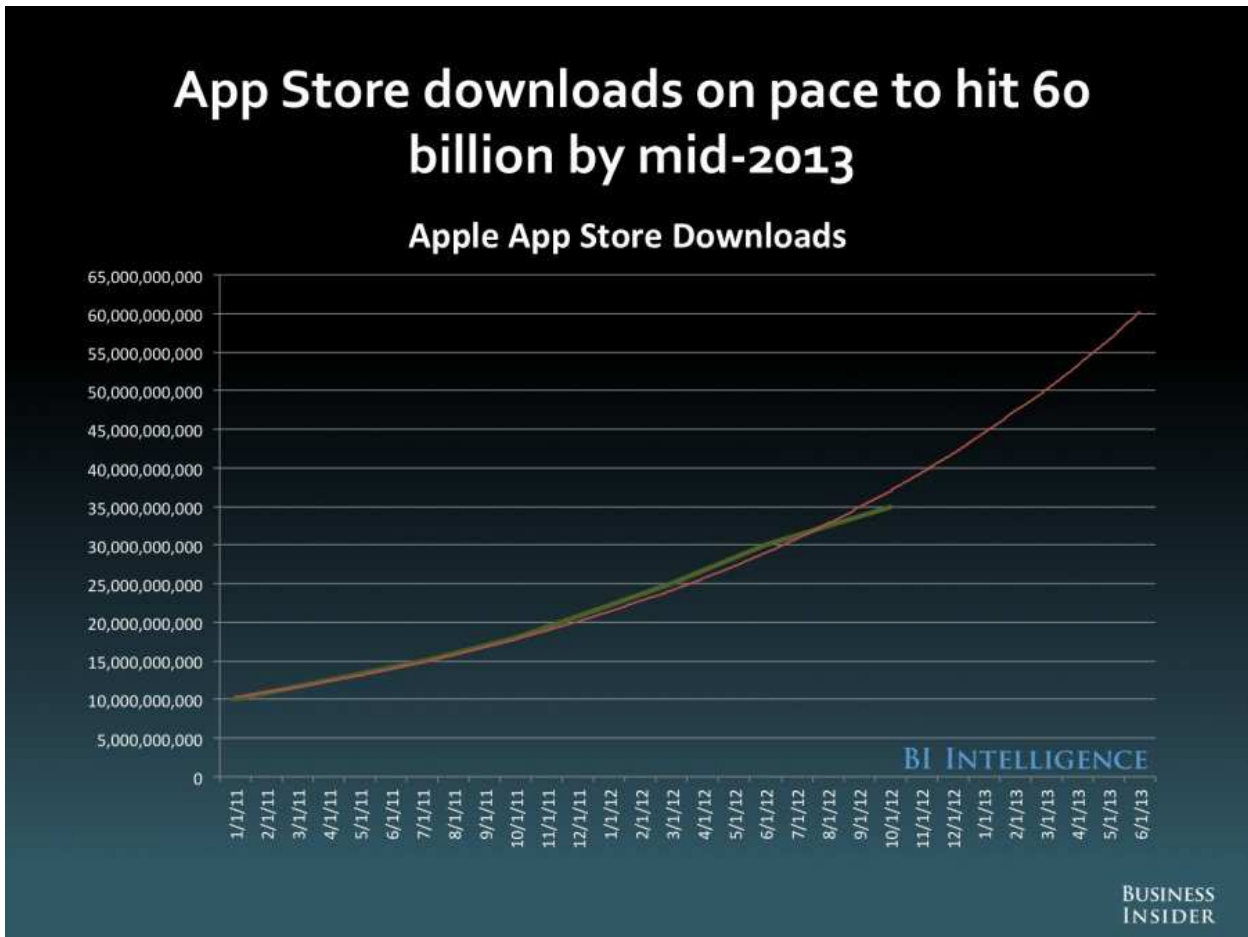
U.S. Mobile Ad Forecast



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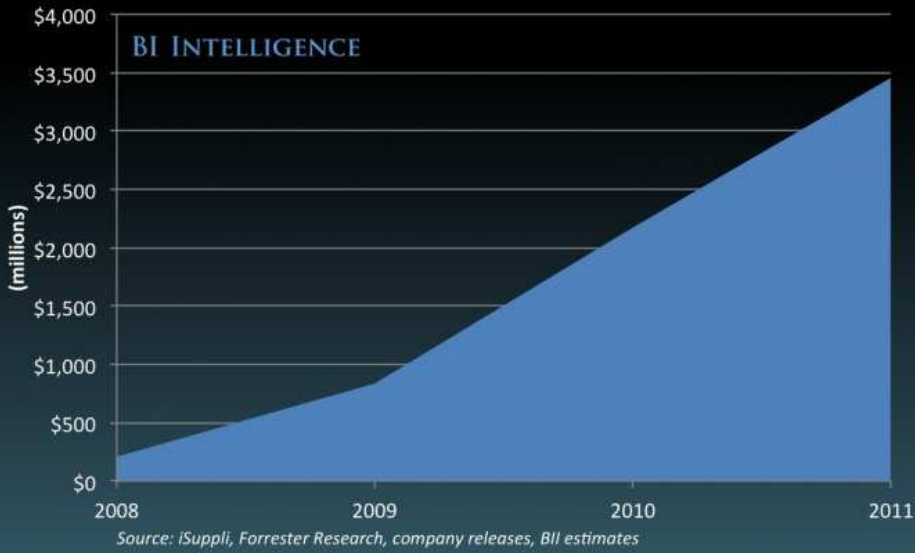
APPS

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Mobile app revenue is growing fast, but still relatively small.

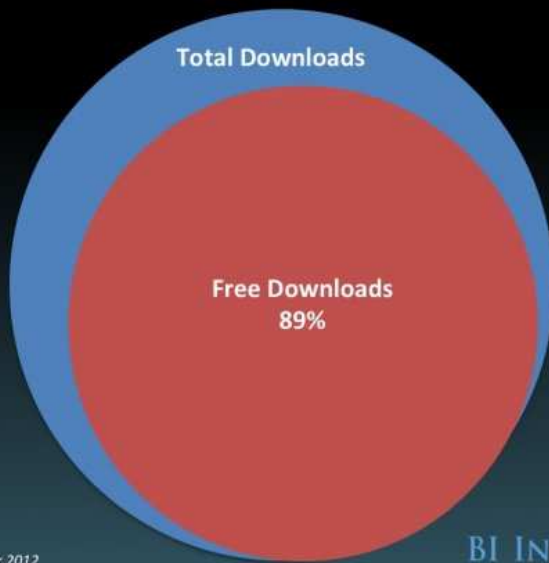
Mobile App Revenue



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Because most downloads are free

Mobile App Store Downloads, Free vs. Paid: 2011



Source: Garner, September 2012

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“Freemium” is the dominant model

Two-thirds of the 100 iPhone apps that make the most money are free to download and generate 100% of their iTunes revenue through In-App Commerce.

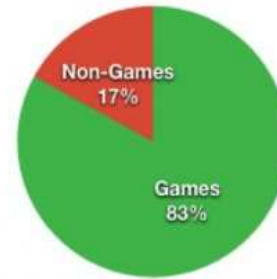
% of Free and Paid Apps in iPhone Top 100 Grossing



% of Top 100 Grossing iPhone Apps That Use In-App Commerce



% of Top 100 Grossing iPhone Apps That Are Games



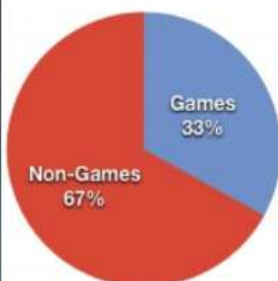
Source: BI Intelligence analysis of App Store data, Jul. 2012

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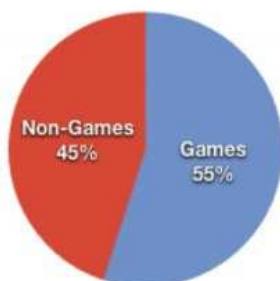
Games are the biggest money makers

Games Represent ~70% Of Highest-Grossing iPhone Apps

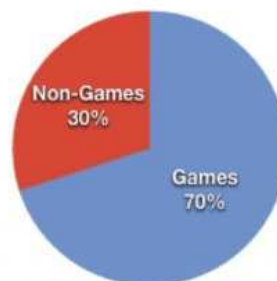
Top 200 Free iPhone Apps



Top 200 Paid iPhone Apps



Top 200 Grossing iPhone Apps



Source: iTunes data, BI analysis, Aug. 2012

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**Mobile has become a
platform game.**

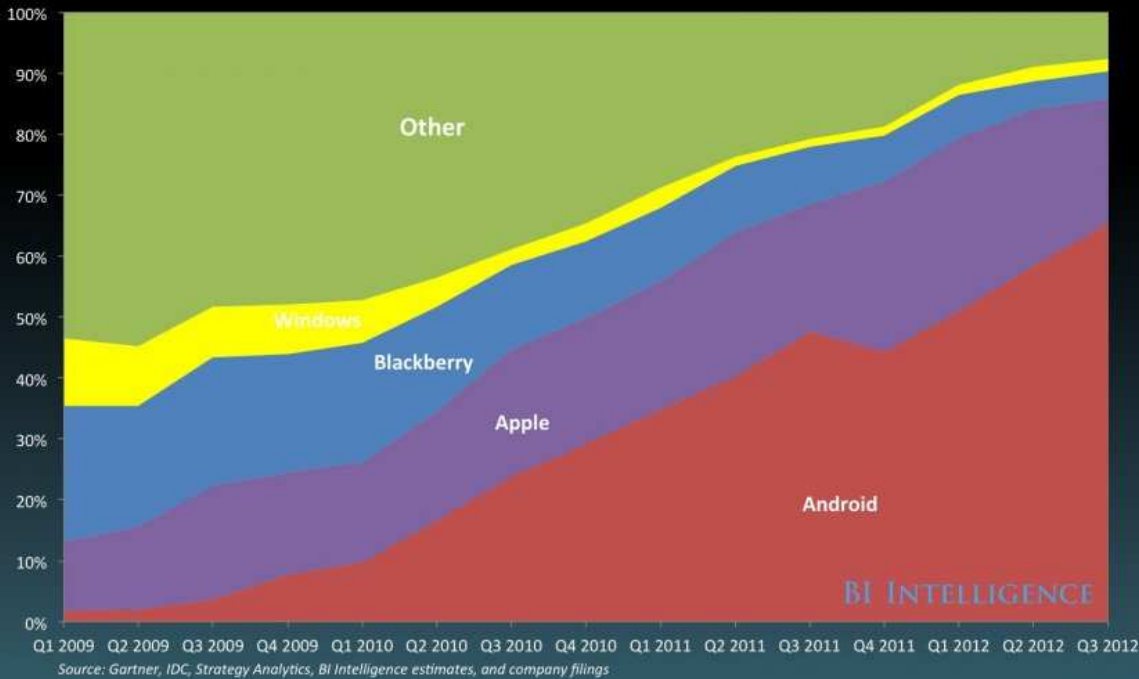
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**Platform markets tend to
standardize around one or two
platforms.**

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Right now, mobile is a two-horse race.

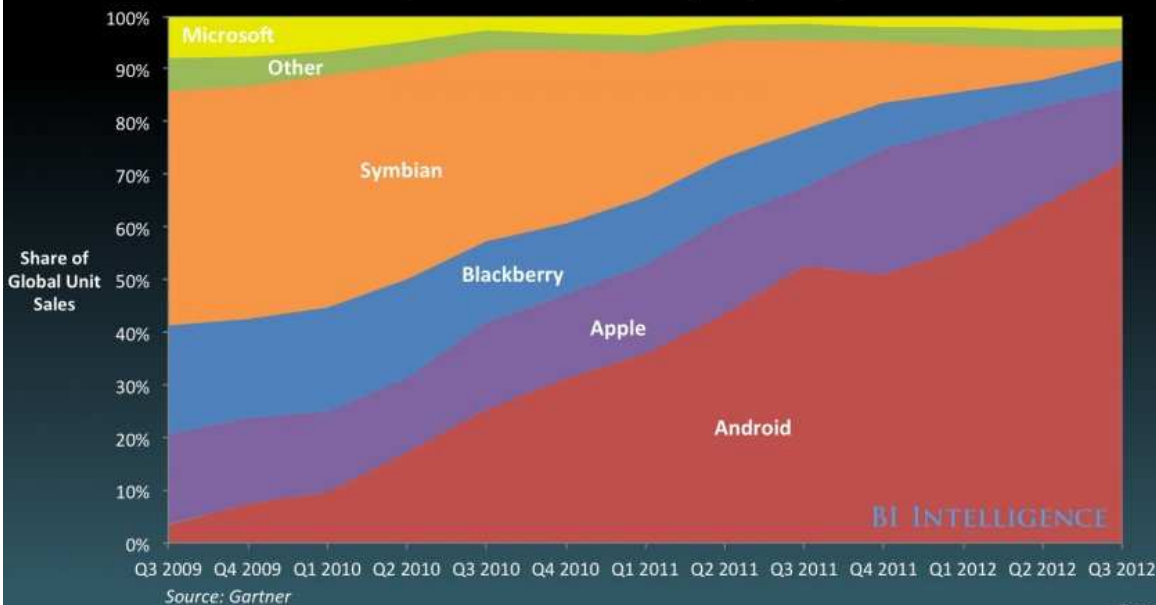
Global Mobile Platform Market Share



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Android has the largest smartphone platform globally.

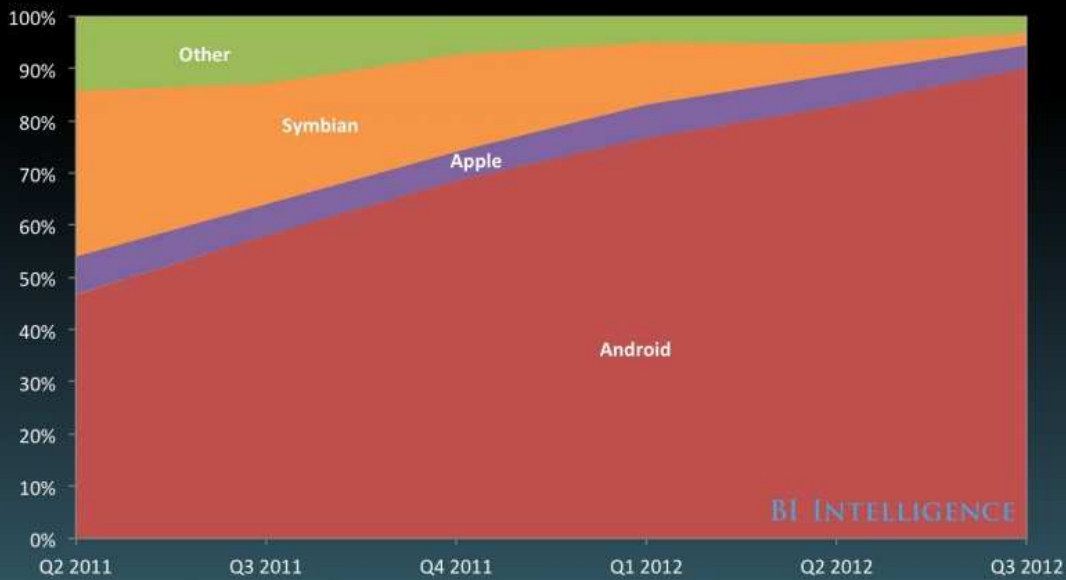
Smartphone Market Share By OS (Global)



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Partly because it owns China

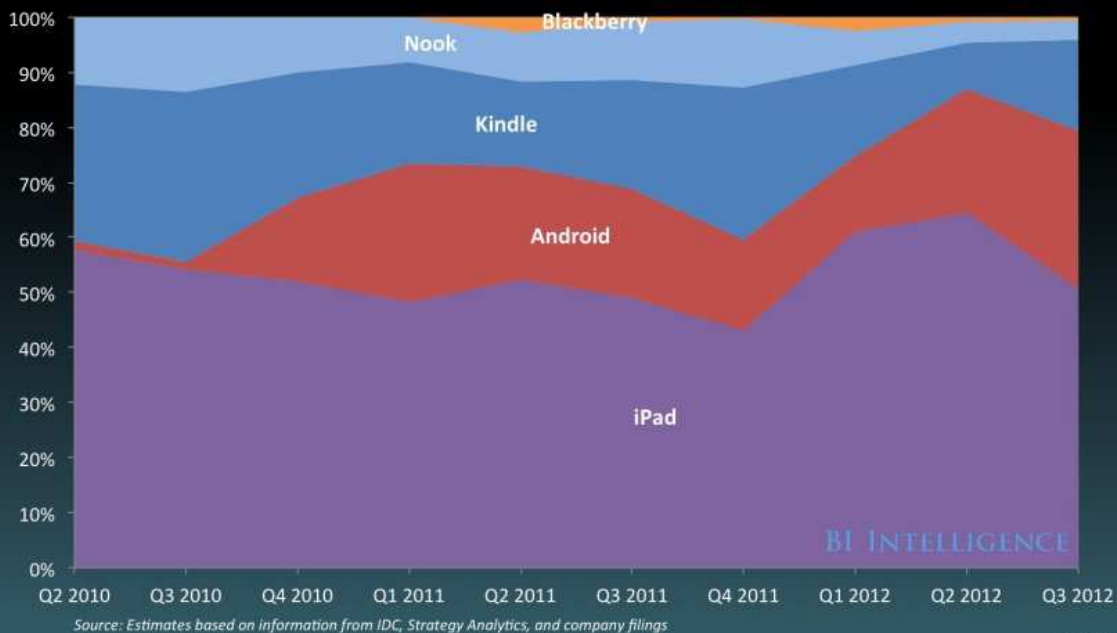
Chinese Smartphone Market Share By Platform



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And it's the same two-horse story in tablets

Tablet Market Share By Platform



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**But a big mystery has
arisen...**

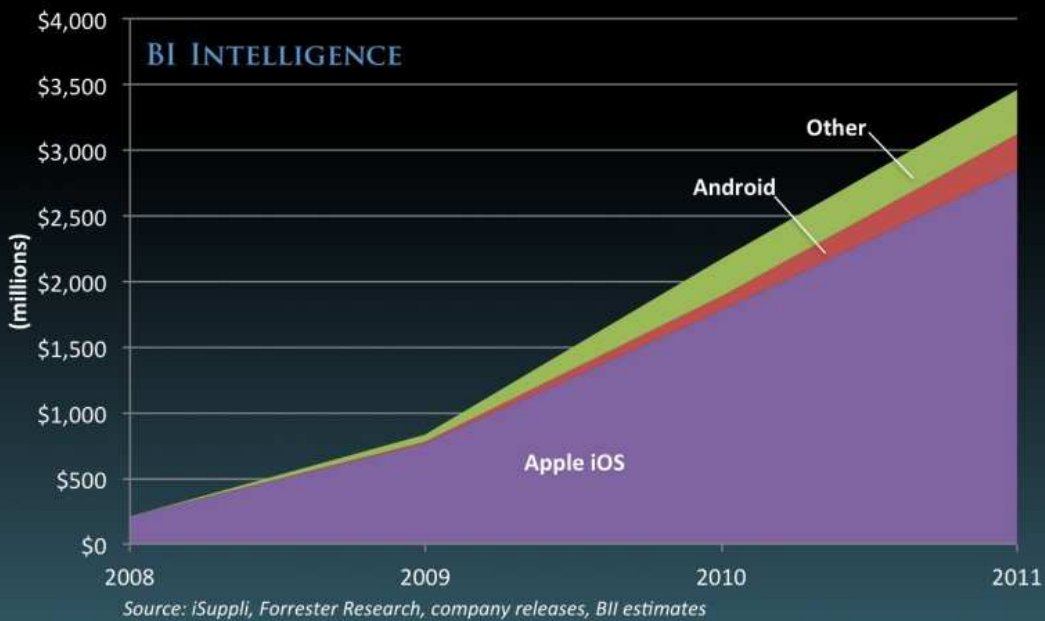
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**Where are all these Android
users?**

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Apple is dominating app revenue

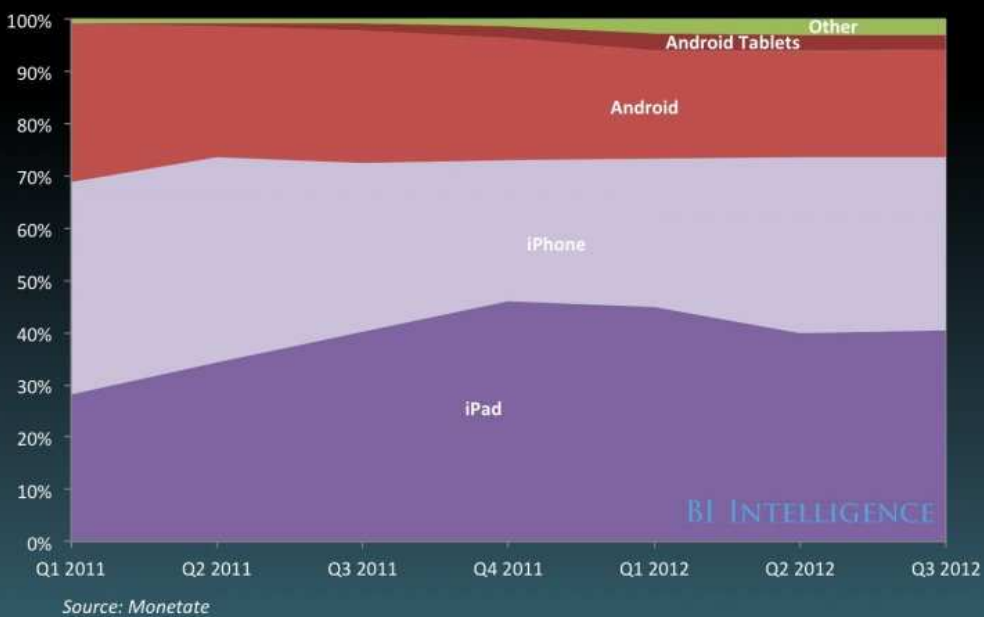
Mobile App Revenue By Platform



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And most commerce and web traffic is from Apple

Ecommerce Website Traffic By Mobile Platform



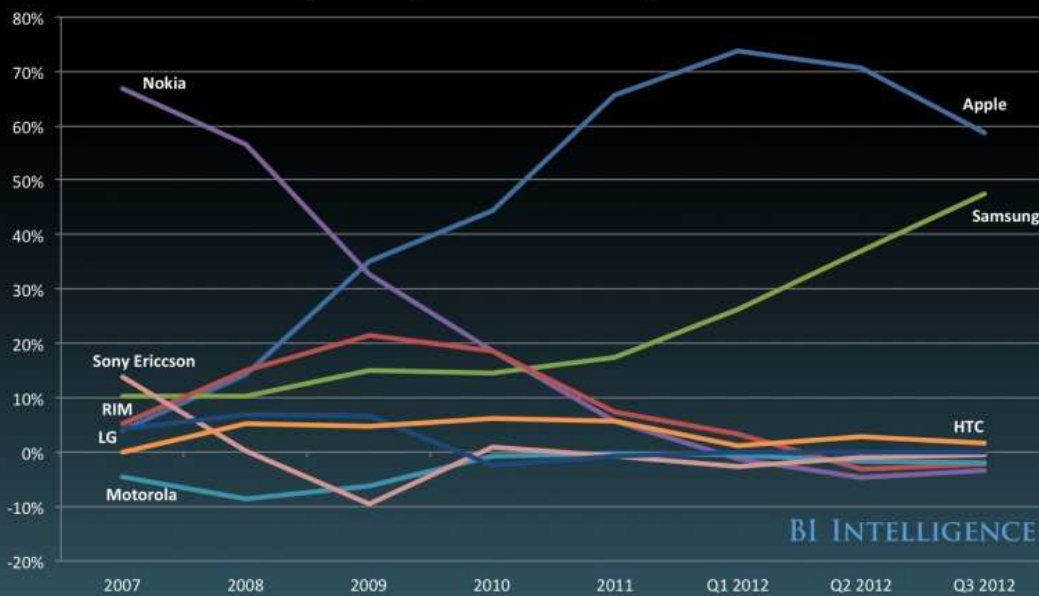
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Do Android folks actually use their devices?

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Mobile profits are going mainly to two players.

Operating Profit Share By Vendor



Source: Company releases, Canaccord Genuity estimates

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So, what's the future of media?

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Digital?

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Yes.

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Mobile?

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Yes.

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Mobile ONLY?

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No.

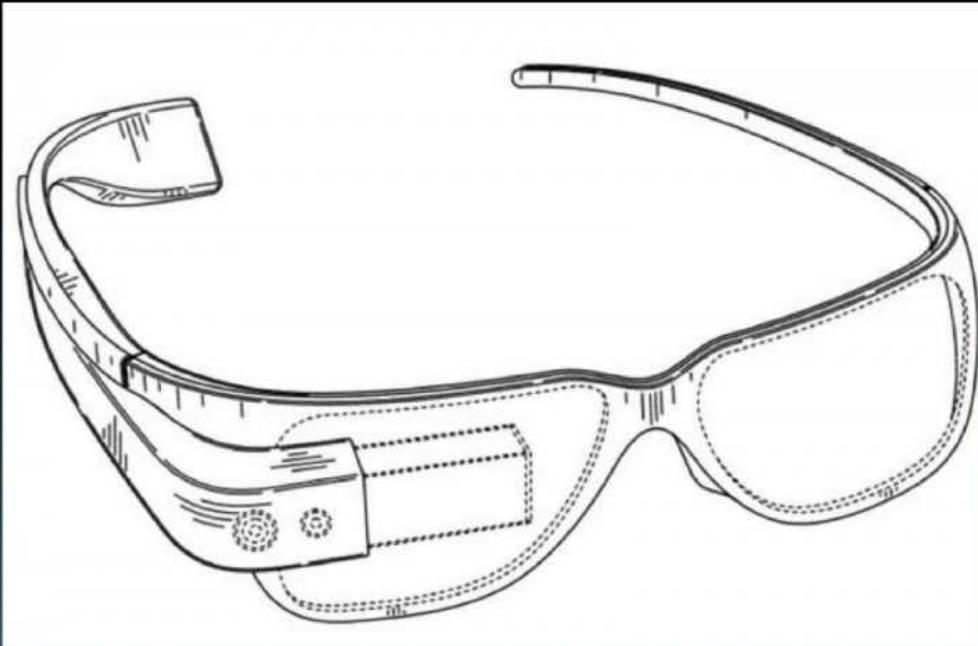
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Digital is now a 4-screen world...



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Maybe 5 screens soon...



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But mobile FIRST?

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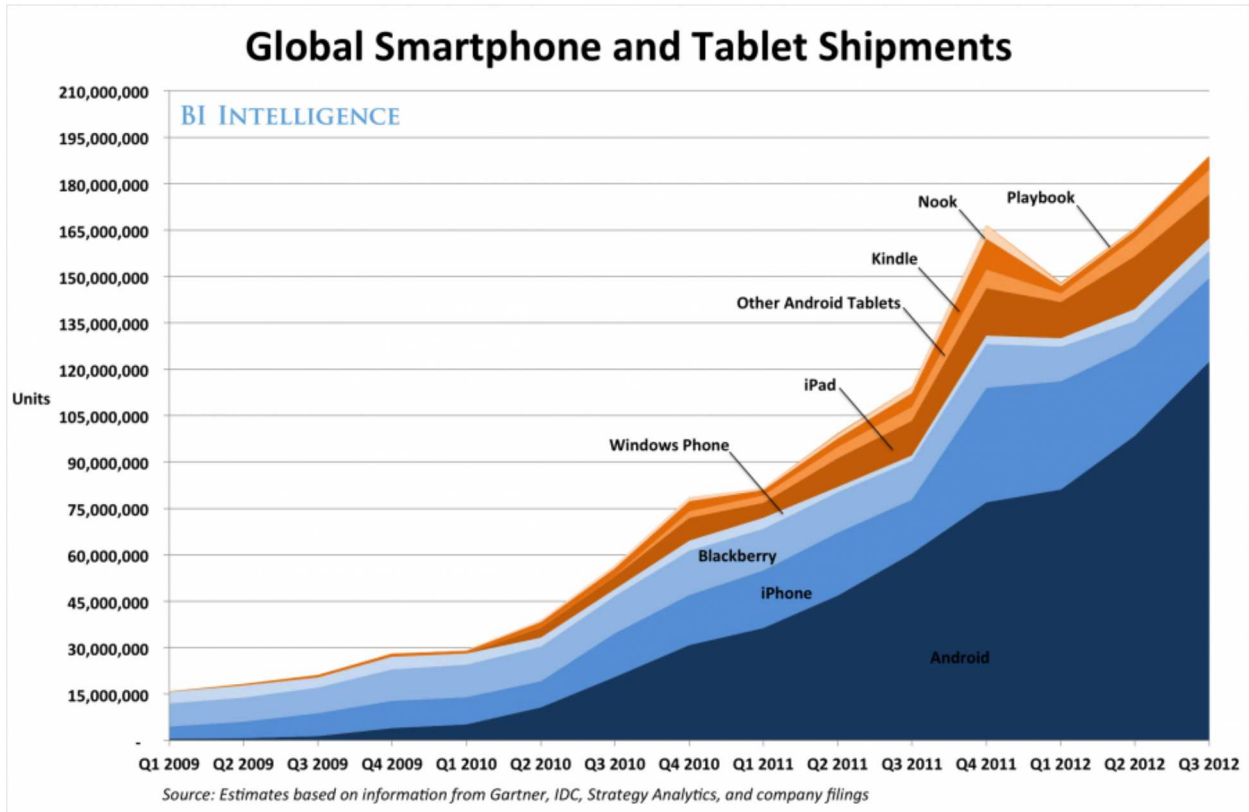
**Only if you have a totally
mobile-centric app...**

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**...Or you want to annoy your
users and customers.**

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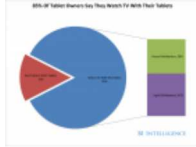

Peter Lee, Intern

BI Intelligence is a new subscription service from Business Insider that provides in-depth insight, data, and analysis of the mobile industry.

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The Water Cooler

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dlimcdonough on Nov 27, 3:58 PM said:

17 1

Henry,

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If you have any evidence that indicates a behavioral or business shift in TV viewing or revenue, that might lead one to think that "TV is next," to any degree, then please share...some of us very much want to believe that is the case, but these slides do not seem to offer any persuasive data...please tell me if you think I have this wrong, but:

- 1) The downward slope of neilson ratings at the big four looks bad for TV...but I suspect that much or all of this is due to increased share at cable nets...if total TV viewership is actually stable, or going up, then this graph is misleading, especially given the context in which you put it. Do you have any data that shows a "total TV rating/viewership" decline?
- 2) "Live TV" as a percentage of the whole is declining...but is the pie getting bigger? Is 64% of the whole in 2012 bigger or smaller, in terms of viewers or hours or ads, than 83% was in 2008? You don't say...what is the deal? Is Live TV viewership flat? falling? growing?
- 3) "Pay TV subscriptions are trending down." But the graph shows that "net new additions" are being added at a slower rate...that implies that "Pay TV subscriptions are growing," yes?
- 4) The "Youtube, hulu, and netflix are growing slide" slide is persuasive...but not so much if their growth does not come at expense of Live TV...and I still can not get anyone to share info that indicates that it is...fair enough to argue that these things may be "slowing the growth" of Live TV, but that is a completely different ballpark than print, where online news caused a direct, precipitous, and unambiguous decline in print readership and revenue.
- 5) The fact that digital video ad revenue is rising is also not persuasive on its own if it does not happen at expense of TV.

If you have any data that shows and actual decline TV viewership, by any major measure, then please share! Some of us are banking on it, and we want some persuasive data on which to base our plans.

Raj Bhatt on Nov 29, 12:05 AM said:

26 2

Henry: Brilliant deck! Many thanks for the insights!

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The app usage of Android users is lower than that of iOS users probably because most of the iOS users are in the US and most of the Android users are in the developing world (China, India). I would guess paid app usage in China & India lags paid app usage in the USA by a fair distance.

My request: Can you share a downloadable or printable version of the deck. Its too precious to not have with me all the time!
Many thanks again!