The Future Of Digital

Henry Blodget
CEO & EIC, Business Insider

The medium is now ~20 years old.
So, how are we doing?

2+ billion people online

Global Internet Population

Source: International Communication Union, Google
2/3 of the world left to go

However...
Most of the money is already online

Distribution Of Global Income, 2000

- Bottom 70 percent: 18%
- Top 30 percent: 82%

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

So the market’s more mature than you think.
Meanwhile, something profound happened last year...

PC growth stalled

Global PC Shipments By Manufacturer

- Apple
- Acer
- Dell
- Lenovo
- HP
- Other

Source: Gartner, IDG
Smartphone sales blew past PC sales

Global Internet Device Sales

Source: Gartner, IDC, Strategy Analytics company releases

Tablets are now driving all the growth in PC market

Global Computer Shipments

Source: Gartner, IDC, Strategy Analytics company releases
So the future is mobile

G-20 Internet Access

Source: Boston Consulting Group, Mary Meeker, Kleiner Perkins, Morgan Stanley Research, Berg Insight

Where are we in the mobile revolution?
Globally, we’re still early...

Global Smartphone vs. Mobile Phone Users, 2012E

BI INTELLIGENCE

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

But growth slows after 50% penetration

Market Share %

- Innovators: 2.5%
- Early Adopters: 13.5%
- Early Majority: 34%
- Late Majority: 34%
- Laggards: 16%
U.S. and other markets are past halfway point

U.S. Smartphone Penetration

Feature Phones

Smartphones

BI INTELLIGENCE

Source: Nielsen

US smartphone growth starting to slow

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

Users Added (millions)

BI INTELLIGENCE

Source: comScore, Nielsen
Most future US smartphone buyers will be older and poorer

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

Chinese Internet Users

- Total
- Mobile
- Broadband

Source: China Internet Network Information Center

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

Digital content revenues are exploding
Digital Advertising still growing rapidly

At largest U.S. tech and media companies, nearly 40% of ad revenue is digital
TV still biggest. Online close behind. Print getting smashed.

Digital has already “disrupted” one media sector...
As news consumption moved online...

News Media Audience and Revenue Growth, 2010-2011

Newspaper ad revenue collapsed

Newspaper Advertising Revenue Adjusted for Inflation, 1950 to 2012
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

Some paywall subscriptions are growing, but...

New York Times Digital Subscribers

Source: company releases
Note: does not include print subscribers with digital access
“Digital dimes” don’t offset lost print dollars

Source: Newspaper Association Of America

Of course, print news is old news...
Now the question is...

Is TV next?

Nielsen Primetime Household Ratings

BI INTELLIGENCE
For now, TV ad spending still growing

TV Ad Spend, 2007-2011

Source: Nielsen

But behavior is changing

U.S. Primetime TV Viewing (% of 18-49 TV set users during 8-9 PM hour, multiple responses permitted)

Source: GfK
Pay TV subscriptions are now trending down

‘Over-the-top’ video is real and growing fast.
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

Digital video advertising is on the rise

Online Video Ad Revenue (U.S.)

Source: Interactive Advertising Bureau, eMarketer, comScore, BI intelligence estimates
But as with print, digital = less money than TV

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

<table>
<thead>
<tr>
<th></th>
<th>TV</th>
<th>Online video</th>
<th>Streaming TV online</th>
</tr>
</thead>
<tbody>
<tr>
<td>Content</td>
<td>75.2%</td>
<td>98.5%</td>
<td>92.1%</td>
</tr>
<tr>
<td>Ads</td>
<td>24.8%</td>
<td>1.5%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Source: comScore, June 2012

What does history teach us?
As habits change...

The money follows.
By the way, “old media” isn’t the only media being disrupted...

Americans now spend more time on social networks than portals

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

Source: BI Intelligence
1/7th of the world's population now use Facebook

Time spent on Yahoo, et al, continues to decline

Like this deck? Sign up for a free trial of BI Intelligence here >
Now, in online ads, it’s Google, Facebook, and “other”...

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

Facebook
All Other Online
Google

Source: Company filings and BI Intelligence estimates. End-only. Companies include Google, Yahoo, AOL, Microsoft, Facebook.

Facebook has blown past AOL, Microsoft, and Yahoo

U.S. Digital Advertising

Source: Company filings and BI estimates.
YouTube, Hulu, Glam, Twitter, Demand, et al., also taking portal share...

US Digital Advertising: New Growth Companies

"Display" ad growth is flattening

U.S. Display Advertising
Real-time bidding is automating what’s left

RTB As % Of Digital Display Ad Spending

Source: eMarketer

So, will Facebook ever be bigger than Google?
Unlikely.

Google is like advertising at a store.
Facebook is like advertising at a party.

Social referrals to commerce sites are tiny

Drivers of E-Commerce Traffic

Facebook referrals up 92% year-over-year...

Source: NetReferencer
And speaking of advertising at stores...

E-tailers are now building ad businesses

U.S. Retailers: Total Display Ad Impressions

Source: comScore
Amazon ad revenue is already $1+ billion a year...

Product Ads from External Websites

- **Samsung NP900X4C-A07US**
  - Ultrabook PC - 3rd Gen. Intel Core i7-351...
  - $1,699.99
  - + $7.77 Est. shipping
  - **Tiger Direct**

- **Acer Aspire S7**
  - S7-391-6810 NX.M3EAA.001 Ultrabook PC - 3rd Gen....
  - $1,379.99
  - + $4.83 Est. shipping
  - **Tiger Direct**

- **Lenovo IdeaPad U310**
  - 59351647 Ultrabook - 3rd generation Intel Co...
  - $599.99
  - + $7.37 Est. shipping
  - **Tiger Direct**

- **Samsung Series 5**
  - NP530U3B-A01US Ultrabook - 2nd generation Intel...
  - $599.99
  - + Free Shipping
  - **Tiger Direct**

And as eCommerce continues to take share...

U.S. Retail Sales

**BI INTELLIGENCE**

- **E-Commerce**
- **Offline Retail Sales**

Source: Federal Reserve Economic Data–St. Louis Fed, BI Intelligence estimates
New brands are blending marketing and commerce

MOBILE
So, what do people do on mobile?

Well, first, they do pretty much everything they do online...
They play games and social-network...

Daily Smartphone App Consumption, Minutes Per Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Q1 2011</th>
<th>Q1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Games</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Social Networking</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>News</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>Entertainment</td>
<td>15</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>25</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Flurry Analytics

They listen to music...

% of Traffic from Mobile

- Facebook: 33%
- Twitter: 55%
- Pandora: 70%

Source: Mary Meeker, Kleiner Perkins, companies
They consume content...


<table>
<thead>
<tr>
<th>Category</th>
<th>Dec-10</th>
<th>Dec-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Information</td>
<td>0</td>
<td>134%</td>
</tr>
<tr>
<td>Online Retail</td>
<td>21%</td>
<td>54%</td>
</tr>
<tr>
<td>Men's Magazine Content</td>
<td>82%</td>
<td>76%</td>
</tr>
<tr>
<td>Electronic Payment</td>
<td>72%</td>
<td>79%</td>
</tr>
<tr>
<td>Gaming Information</td>
<td>74%</td>
<td>74%</td>
</tr>
<tr>
<td>Job Listings</td>
<td>72%</td>
<td>74%</td>
</tr>
<tr>
<td>General Reference</td>
<td>72%</td>
<td>74%</td>
</tr>
<tr>
<td>Classifieds</td>
<td>74%</td>
<td>74%</td>
</tr>
<tr>
<td>Auction Sites</td>
<td>68%</td>
<td>70%</td>
</tr>
<tr>
<td>Family Entertainment</td>
<td>68%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: comScore MobileIQ, 3 mos. avg. ending Dec-2011 vs. Dec-2010

They look at pictures and video.

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

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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Internet Sites</td>
<td>63</td>
<td>98</td>
<td>110</td>
<td>152</td>
<td>231</td>
</tr>
<tr>
<td>iOS &amp; Android Photo &amp; Video Apps</td>
<td>276</td>
<td>324</td>
<td>378</td>
<td>472</td>
<td>425</td>
</tr>
</tbody>
</table>

Source: Flurry Analytics, comScore Video Matrix
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
They use smartphones to make buying decisions in stores.

U.S. Smartphone Owners Activity In Retail Stores

They pay for stuff

PayPal Mobile Payments Processed
They buy content

Media Content Paid For On A Tablet, Q4 2011

And they do stuff they DON'T do online...
Play Angry Birds, et al

Angry Birds Downloads vs. Nintendo DS Sales

Take and share pictures

Instagram Estimated Users
BOTTOM LINE:

Mobile devices =
More Internet usage +
New applications

In fact, mobile has made digital 24/7

Share Of Device Page Traffic Over A Day:

Source: comScore, Telefonica, Macquarie Capital (USA), December 2011
This leads to another big question...

Mobile usage is up across the board

U.S. Mobile Content Usage

- Sent Text Message
- Used Downloaded Apps
- Used Browser
- Accessed Social Network
- Or Blog
- Played games
- Listened to music

Source: comScore
People are consuming a huge amount of content through mobile...

Media Content Accessed Through Mobile Device

As mobile increases, all other media decreases

Share Of Consumer Time Spent With Major Media

Source: Nielsen Q4 2011 Mobile Connected Device Report
Source: eMarketer, October 2012
So mobile advertising will be huge, right?

Hmmmm...
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

- TV: 42% Ad Spend, 43% Time Spent
- Print: 25% Ad Spend, 7% Time Spent
- Web: 22% Ad Spend, 22% Time Spent
- Radio: 12% Ad Spend, 15% Time Spent
- Mobile: 10% Ad Spend, 10% Time Spent

Source: Mary Meeker (KPCB), eMarketer, /M8

But maybe there’s a good reason for that gap...
The screen is really small.

Mobile monetization still behind the desktop

ARPU, Desktop vs. Mobile

Source: Pandora, Zynga, Tencent
Mobile CPMs are much lower

Effective CPM, Desktop vs. Mobile

Source: comScore, Vivaki, Mobclix Exchange

Most “mobile” ads are mainly web search + display ads viewed on mobile

2011 Global Mobile Ad Spend By Category

Source: IAB
Google completely owns mobile search

**Global Mobile Search Market Share**

- Google
- Yahoo!
- Bing

Source: Global StatsCounter

So Google owns mobile, too

**Mobile Ad Market Share**

- Google
- Apple
- Pandora
- Millennial Media
- Microsoft
- Yahoo!
- Other

Source: news reports, company releases, BI estimates
Overall, mobile is still a tiny fraction of digital ad spending.

U.S. Digital Advertising Revenues

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)
But!

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

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

Targeted mobile ads have higher CPMs

CPMs For Selected Mobile Ad Platforms

Source: Ad platforms, BI Research, Greg Sterling, Opus Research
So, yes, mobile ads are just getting started

U.S. Mobile Ad Forecast

Mobile Ad Revenue (millions)

- Local
- Media

We are here

**App Store downloads on pace to hit 60 billion by mid-2013**

Apple App Store Downloads

**Smartphone users spend more time on apps than web**

Total Time Spent Using Mobile Web vs. Apps

Source: Nielsen Smartphone Analytics
Mobile app revenue is growing fast, but still relatively small.

Mobile App Revenue

Source: Guggli, Forrester Research, company releases, BI estimates

Because most downloads are free

Mobile App Store Downloads, Free vs. Paid: 2011

Free Downloads 89%

Source: Guggli, September 2012
"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.

<table>
<thead>
<tr>
<th>% of Free and Paid Apps in iPhone Top 100 Grossing</th>
<th>% of Top 100 Grossing iPhone Apps That Use In-App Commerce</th>
<th>% of Top 100 Grossing iPhone Apps That Are Games</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid 34%</td>
<td>No 7%</td>
<td>Non-Games 17%</td>
</tr>
<tr>
<td>Free 66%</td>
<td>Yes 93%</td>
<td>Games 83%</td>
</tr>
</tbody>
</table>


Games are the biggest money makers

Games Represent ~70% Of Highest-Grossing iPhone Apps

<table>
<thead>
<tr>
<th>Top 200 Free iPhone Apps</th>
<th>Top 200 Paid iPhone Apps</th>
<th>Top 200 Grossing iPhone Apps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Games 33%</td>
<td>Non-Games 67%</td>
<td>Non-Games 30%</td>
</tr>
<tr>
<td>Non-Games 45%</td>
<td>Games 55%</td>
<td>Games 70%</td>
</tr>
</tbody>
</table>

Source: iTunes data, BI analysis, Aug. 2012
Mobile has become a platform game.

Platform markets tend to standardize around one or two platforms.
Right now, mobile is a two-horse race.

Global Mobile Platform Market Share

Android has the largest smartphone platform globally.

Smartphone Market Share By OS (Global)
Partly because it owns China

Chinese Smartphone Market Share By Platform

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

Tablet Market Share By Platform

Source: Analysis International

Source: Estimates based on information from IDC, Strategy Analytics, and company filings
But a big mystery has arisen...

Where are all these Android users?
Apple is dominating app revenue

Mobile App Revenue By Platform

Source: iSuppli, Forrester Research, company releases, BI estimates

And most commerce and web traffic is from Apple

Ecommerce Website Traffic By Mobile Platform

Source: Moat
Do Android folks actually use their devices?

Mobile profits are going mainly to two players.
So, what’s the future of media?

Digital?
Yes.

Mobile?
Yes.

Mobile ONLY?
No.

Digital is now a 4-screen world...
Maybe 5 screens soon...

But mobile FIRST?
Only if you have a totally mobile-centric app...

...Or you want to annoy your users and customers.
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Thank you very much.
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How Birth Date Affects Future Success

How To See Who's Viewed Your Profile On LinkedIn (And Block Others From Doing The Same To You)

Police Believe Body Found In Burnt Cabin Belongs To Fugitive Ex-Cop

BII REPORT: Why The "Second Screen" Industry Is Set To Explode

Navy SEAL Chris Kyle Had A Funeral Procession Fit For A Head Of State [VIDEO]
The Water Cooler

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e-mail: acocotas@businessinsider.com
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Henry, 
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 nelson 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" 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:

Henry: Brilliant deck! Many thanks for the insights!
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!