

Podcast - Ben Reynolds on Mobile Commerce & Online Video Advertising

Alger Analyst Ben Reynolds discusses the current technology trends related to mobile commerce and online video advertising and their effects on the markets.

Ben Reynolds: So I'm going to start off with just some general trends on the internet, the first being mobile which I'm sure you guys have heard a lot about. I know Patrick has definitely spent a lot of time talking about the shift to mobile connectivity. I'm also going to hit on online video advertising which is growing very fast and then finally retargeting or real time bidding which is a new development in the advertising space. So just to start with mobile devices, again, some of these stats you probably have heard before but it is growing very rapidly. We're seeing about a billion mobile devices per year being activated. That's three times PC unit sales. We're forecasting the global Smartphone market to grow from about 450 million units in 2011 to over 1.6 billion units in 2017. That is a 25 percent six-year CAGR*.

We have tablets growing approximately 45 percent each of the next two years through 2014 from an estimated 120 million units in 2012 to 250 million in 2014. Now what that means is the install base is actually surpassing PCs this year. There will be more phones and tablets than there are PCs even though PCs have been around for many more years. It's one of the fastest adoptions we've seen in history. Just to touch on mobile internet traffic, mobile traffic is now viewed at about 15 percent of total internet traffic. That's up from almost zero three years ago.

In the advertising space which is what we're going to focus on here which is I think what's really being able and really causing the most disruption in shift here more so than e-commerce in my opinion we estimate that about 12 percent of our total media time is now spent on mobile devices. So that's mobile internet on your phone or on your tablet and also in app activity. However, it's only three percent of ad spend, and these are U.S. stats. Both the usage and the percent of ad spend is rising very rapidly. Mobile advertising in the U.S. and this is just display, not search, is estimated at \$3.4 billion in 2012 doubling year over year. And estimates are that that number is going to quintuple to \$20 billion by 2016 so this is a rapidly evolving market and I think that those estimates are aggressive but certainly attainable. SEM firms, so search and marketing firms is 25 percent of total search spend. I think that's high for the market but these are some of the people on the cutting edge and this is something that was under five percent two years ago. So again, people are using their mobile devices more. I'm sure you notice as you use them every day.

On commerce, really quick, mobile commerce is now estimated at between 10 and 15 percent of e-commerce, so that percent of transactions that are occurring are on your phone or on a tablet versus on a desktop. So I think that is the primary trend that we're seeing. It started 18 months ago. I think we're really hitting its stride now and there should be a tailwind for the next two to three years in this space.

The second trend you might not have heard as much about but is online video advertising. This market was estimated at about \$2.9 billion in 2012 which is under 10 percent of total online advertising but growing to \$4.1 billion this year, which is 41 percent growth and up to \$8 billion by 2016. So that's a 30 percent CAGR. And this is being driven by habit so shift of viewing habits to online.

Those numbers are doubling year over year. Not all that usage is being monetized but that's what I think is coming. The e-marketer estimates that there's going to be \$8 billion of revenue in 2016. I think that's a conservative number.

Why is this a huge opportunity? Well, the worldwide TV ad revenue is \$220 billion last year, that's worldwide, versus online video worldwide \$4.3 billion. So two percent of TV revenues are online video whereas the viewing habits are obviously significantly above that and growing rapidly. As our viewing habits shift, the dollars are going to shift as well. I think it's a long haul on that because the TV dollars are actually very sticky. It's one of the few mediums that has the broad reach. But dollars are going to shift.

IDC** estimates we are going to have about \$17 billion in online video revenues in 2017. Again, I think that's a very conservative number. The last trend which I think is important is it's called real time bidding, programmatic buying and/or retargeting. In a nutshell not to get too into the weeds here, this is when you've been to the J. Crew website to look at a shirt and you don't buy it.

You leave that website, you're doing something completely different and all of the sudden a J. Crew ad pops up on whatever new site you're on. That's called real time bidding and retargeting. J. Crew or their advertising agency has a cookie matched to you and knows you're on that site, knows you were on the J. Crew site and is sending you that ad. That is becoming a larger and larger portion of the market. Some estimate that it's growing to 20 percent of display impressions this year and could grow to as high as 50 percent. This is important because those impressions are viewed as more valuable than your typical display market. So it's helping shift even more dollars, especially on the e-commerce side into display. Technologies are getting better, the matching is getting better. We talked to a couple of companies that just do this and they are growing 100 percent year over year. So those are the three trends I see in the advertising space.

*CAGR: Compound Annual Growth Rate

**IDC: International Data Corporation

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