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Local Advertisers Plow \$1 Billion Into Search

REPORT SUMMARY



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About This Report

It's difficult to track an advertising category until it reaches about \$300 million, and it remains a bit unstable until it hits \$1 billion. Last year was the first time it popped up on our local radar as a trackable ad category, hitting about \$420 million. This year it should hit \$1 billion, allowing us to dissect local search advertising even better.

This report offers a ground-up look at local paid search, from a local media perspective. In it you will find not only our take on how this phenomenon is unfolding, but also the insights of our 400-member advertising panel. We also provide a list of vendors offering turnkey solutions to local media, plus a market-by-market list of national and local paid search spending projections for 210 U.S. Cities.

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Executive Summary

In a few short years the national search engines have grown into multibillion-dollar behemoths that have begun pick-pocketing local media companies. Anecdotal stories from smaller businesses tell of wholesale shifts of ad budgets out of traditional media – namely newspapers, yellow pages and direct mail – and into search engine advertising.

This report focuses on what is now a tiny spot on the wall – the \$420 million that local businesses placed last year in search advertising. That spot will more than

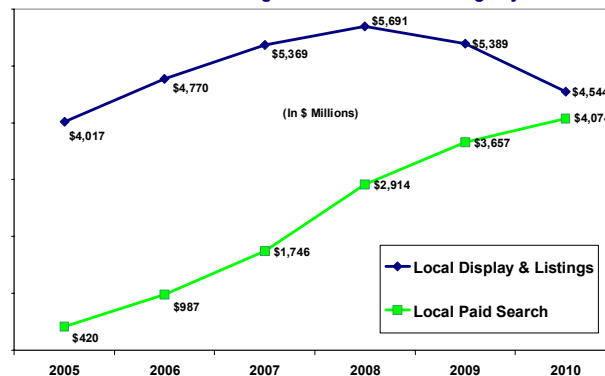
double in size this year to nearly \$1 billion, and nearly double again next year, reaching more than \$4 billion by 2010. The biggest concern for Web sites run by traditional local media companies is that they face being walloped by something that they should be all too familiar with – targeted media. Their Web operations continue

to rely almost exclusively on selling banners and listings, a form of online advertising that will grow slowly then decline as local paid search takes over. Vendors with local search applications are clamoring to help companies catch up. Local media companies should have one foot on the local search/local commerce bandwagon already, with plans to “go deep” in this area. It’s a question of survival.

Local advertisers have gone beyond experimenting. Eighteen months ago they occupied 5.6 percent of sponsored links on the major search engines; today it’s more than one-third. For some categories like real estate, local agents are buying half the sponsored links.

What does the future hold for local search advertising? Our panel of 400 advertising experts foresees the likelihood of yellow pages morphing into Web directories, search engines morphing into local directories, and a locally focused search engine perhaps trumping them all.

The Most Interesting Chart in this Report:
Local Search Advertising Rivals Banners & Listings by 2010



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