

MAY 2007

2007 Online Auto Advertising Shifts Into High Gear

EXECUTIVE SUMMARY



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Acknowledgements

We would like to thank the online media executives from the major automotive sites who shared their insights with us for this report and helped us dissect and analyze the most important issues in the automotive space.

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Executive Summary

The days of easy money from automotive advertising are gone for traditional media. Buyers are spending five hours researching vehicles online – and less time with traditional media. And manufacturers and dealers are plowing more money into their own Web sites, disintermediating traditional media by delivering price-and-item information directly to consumers.

Automotive grew to a \$31 billion advertising category this year on compound annual growth of 3.7 percent in the past five years. Over the next five, however, we are projecting compound growth of just 1.7 percent. Meanwhile, the online portion of automotive advertising will reach \$2.8 billion this year – 7.6 percent of all automotive advertising – with a 13 percent CAGR. By 2010 online will hit \$4 billion and become the second-largest medium for automotive advertisers, surpassing newspapers, cable, radio, direct mail – everything but broadcast TV.

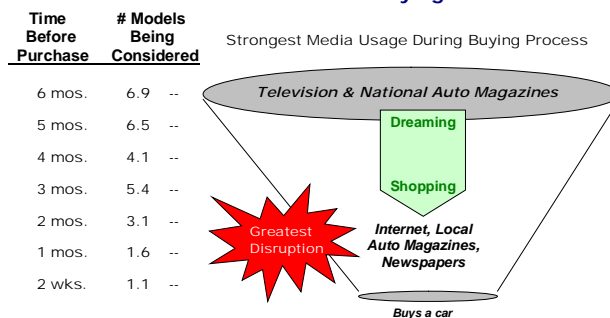
At the local level things get more interesting. Next year online media will become the No. 1 expenditure for used-car marketers, surpassing newspapers for the first time.

Used-car dealers have plowed a larger share of their budgets into online than the manufacturers – 19.6 percent in 2006. Private-party auto advertising has migrated online even faster, with 27 percent of that segment now going to online media.

The local online marketplace remains in flux. Lead-generation programs appear to be faltering. And programming that is based on listing fees and banner advertising is less attractive to dealers than campaigns that can generate excitement about products – such as online video – or can goose traffic to their Web sites – like search engine marketing.

The Most Interesting Chart in This Report

Figure 1.3: Disruption Occurring at End of Car-Buying Funnel



Borrell Associates is a research and consulting firm that helps online publishing companies develop and implement successful strategies for maximizing their advertising revenue – with an emphasis on local online advertising.

We uncover the advertising potential in a local market by drawing on primary research, a comprehensive model of ad spending and receipts, and the extensive career experience of our principals and associates.

Simply put, we help media companies make money.

Consulting Services

Strategic Guidance, Tactical Counsel - Our retainer clients draw on all of the firm's resources to help develop their strategic thinking and unravel tactical challenges. Borrell principals and associates are available by telephone and on site under flexible arrangements designed to suit needs as they arise. Our retainer clients receive a subscription to all of our reports as part of their engagement fee.

Presentations - We conduct presentations for executive management, industry seminars and trade conferences. We tailor each presentation by tying our "big picture" analysis into actionable intelligence about a specific market or industry. These presentations are challenging, insightful and filled with facts about the future direction of new advertising formats.

Sales Training - Our seasoned sales experts use our research and data to train sales managers and account reps. We show them where to focus resources for maximum ROI and how to build compelling, fact-based sales presentations that close new business. We offer guidance on sales recruitment, compensation, staff structure, rates and marketing materials.

Customized Research - We conduct specialized research on topics requested by our clients. Past projects include white papers on developments in specific industry segments, Web site design evaluations, site user surveys and competitive analyses. Our annual survey report, *What Local Media Web Sites Earn*, includes current financial operating results from more than 2,700 local sites, which gives us valuable benchmarking data and helps us identify and quantify trends for our clients.

Market Analyses

Ad\$pend™ Report - This report provides comprehensive estimates of advertising spending across 11 major media types (newspapers, TV, billboards, online, etc.) by each of the top 100 business categories in a market. Conversely, the report also presents the amounts that each medium receives from each of the business categories, with a summary of their relative shares of total ad spending. Both views give separate estimates of spending by advertisers located inside and those located outside the market.

WebAudit™ Report - Our clients get a detailed look at their local online ad market on both a strategic and a tactical level with this report. It includes local online ad shares by type of site operator (pure-play, newspaper, etc.) and comparison of their site with its peers. A WebAudit report helps managers identify and size strategic sales opportunities by comparing the local spending patterns of individual business categories and major vertical market segments (Auto, Jobs, General Merchandise, etc.) with U.S. norms and analyzing the differences. Ad reps can use the report to strengthen their presentations and enhance their role as consultants in the sales process.

Media Usage and Demographics - We provide a snapshot of local media usage – including newspapers, coupons, online services, and overall broadband and Internet usage – in a defined market. This report also illustrates levels of online spending by consumers on key items such as clothing, computer software, books, etc. We use a combination of Scarborough Research's data (updated twice a year) and the MOSAIC cluster segmentation. (Highlights from these are included in a WebAudit report.)

Customized Market Reports - Our researchers can generate special reports that look at the status of – and trends in – a variety of market segments. For example, we have developed detailed trending analyses of local automotive ad spending in multiple markets for a network of cable companies and have provided deep segmentation of ad-spending data by business size for a national portal.

Industry Reports

We publish 10 to 12 reports per year that document and analyze major trends in local online advertising. Reports include annual revenue benchmarking for local media sites, updates on the automotive, real estate and recruitment verticals, and an annual outlook published in early fall designed to provide budget guidance for the next year. These reports are available for purchase individually, but our annual report subscribers realize substantial savings and enhance the distribution of these reports within their organizations. Our retainer clients receive all of our reports as part of their engagement fee.

Interactive Media Panel

We regularly consolidate the current thinking of more than 400 online advertising executives using an iterative polling technique modeled after the popular Delphi system. Results from this panel inform some of our forecasts and provide our clients with a unique perspective on advertising trends. Participants get an early look at all survey results and can suggest directions for future research.

Borrell Associates has offices in Virginia and Seattle. Our headquarters is located at Suite D, 1643 Merrimac Trail, Williamsburg, Virginia. Telephone 757-221-6641.

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