FROST & SULLIVAN

Australiaâ€™s Online Search and Directories Segment Worth More Than $1.1 Billion and Dominates Online Advertising Market

Market is in a state of transition as search advertising begins to encroach on directory listings

Sydney, 22 November 2010 Growth in the Australian market for online search and directories slowed slightly from 27% in the 2009 financial year to 21% in 2010, yet it remains the fastest growing segment within the overall online advertising sector and is now worth $1,139 million.

Of the total online search and directories segment, search accounted for 73% of revenues and directories for 27%. These are among the lead findings of Frost & Sullivan's latest online advertising market intelligence research report, Australian Online Search and Directories Market 2010.

Allocation of budgets to search advertising and search engine optimisation services, and to online directories advertising has been continually rising over the past five years. As the Australian economy has slowly recovered from the effects of the GFC, optimism has been restored with significantly fewer advertisers indicating a decrease in their 2010 online search advertising budgets when compared to 2009 (13% in Frost & Sullivans 2010 advertiser survey compared to 22% in the prior years survey).

However caution continues overall with 54% of advertisers indicating that their budget allocation to search advertising was unchanged in 2010 from the previous year. Advertiser satisfaction with the benefits of expenditure on online search advertising in particular remains high.

Frost & Sullivan predicts that the online search market will continue to outpace the online directories market over the next five years. The search market is expected to grow at a compound annual growth rate of 16% between 2010 and 2015, compared to a predicted rate of 8% for the directories market. During the same period the proportion of the total online search and directories market accounted for by search is predicted to increase from 73% to 80%. As the market matures growth rates of both sectors are expected to subside.

Boundaries between online search and directories continue to blur

Australia's online search and directories market continues to be dominated by Google and Sensis respectively during 2010, with each having about 90% share of expenditure in their segments. However competitive activity is increasing in the market following the 2009 launch of the Bing search engine, the re-positioning of Yahoo! Search Marketing and the emergence of online directories such as TrueLocal and Hot Frog.

Phil Harpur, Senior Research Manager, Frost & Sullivan comments, The online search and directories market is a market in transition and we expect some interesting changes in the next few years. The boundaries between online search and online directories are becoming blurred and as a result the search market is increasingly encroaching on online directory territory. At the same time search functionality is being continually improved and refined. Online search advertising remains the stand-out growth segment of the online advertising industry. The percentage of users whose first port of call is a search engine rather than a directory is increasing and the willingness of advertisers to pay for listings continues to decline.

Australia's online directories market is fragmented, being served by both multi-industry and industry-specific online directories. The leading directories are the Sensis Yellow Pages and White Pages properties. Despite pressure from the search advertising market, Frost & Sullivan believes Sensis' online directories business model remains reasonably solid. However, Frost & Sullivan predicts that market consolidation is inevitable and that over time the number of players will reduce to three or four mainstream online directories.

Mobile search

One notable trend in 2010 was the rapid development of the mobile market for both online search and online directories. Although revenues from directories on mobile devices is still a negligible component of the overall online directory market, very high uptake is predicted once a critical mass of smart phones reaches the Australian market in the next one to two years.

The Australian Online Search and Directories Market 2010 forms part of the Frost & Sullivan Digital Media program. All research services included in subscriptions provide detailed market opportunities and industry trends evaluated following extensive interviews with market participants. Interviews

with the press are available.

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