Assessing The Digital Marketing Opportunity Across The Globe

by Jitender Miglani, May 19, 2015

KEY TAKEAWAYS

The Offline To Online Ad Spending Shift Continues To Happen Across The Globe

The global online population keeps growing. Forrester expects it to increase from 2.9 billion in 2014 to 4.2 billion in 2019. Online user engagement levels are also increasing. Marketers spend their advertising dollars where they can most effectively reach their engaged customers. As a result, ad spend is shifting from offline to online channels.

A Large Online Population Does Not Equate To A Large Digital Marketing Spend

While developing countries have a larger share of the global online population, their share of global online advertising spend remains small. Developing countries account for 67% of the total online population, whereas their share of total online advertising spend is about 23%. This equation will not change much in the near future.

Rapid Adoption Of Smartphones Is Driving Mobile Advertising Growth

Forrester expects unique smartphone subscribers globally to grow from 2 billion in 2014 to 3.5 billion in 2019. Given the changing nature of online access, we expect strong growth in global mobile advertising and a different mix of online ad spending in developing markets. Social media will play a larger role in developing markets.
Assessing The Digital Marketing Opportunity Across The Globe
The Forrester Readiness Index: Digital Marketing, 2015
by Jitender Miglani

WHY READ THIS REPORT

When evaluating global markets, digital marketing vendors and agencies need to consider more than just a country’s macroeconomic conditions or online advertising spending. They need to understand market conditions such as the online user population and their engagement levels; preferred devices for online access; Internet access speeds; the current size of the advertising market; and popular advertising channels. The Forrester Readiness Index (FRI) can help here. It provides a holistic assessment of the digital marketing environment and opportunity in 55 countries across the globe through a study of 23 quantitative variables. This report provides insights from the FRI for digital marketing.

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Notes & Resources

Forrester built the Forrester Readiness Index partially based on past research for its interactive marketing and world online population forecasts. We also used proprietary and public third-party data, government data, and global Consumer Technographics® data.

Related Research Documents

Forrester Readiness Index: Digital Marketing, 2015
**THE FORRESTER READINESS INDEX IS A QUANTITATIVE ASSESSMENT**

Readiness is the state of being fully prepared for something. One way to compare how well prepared companies are for digital marketing is to look at their digital marketing spend as a percentage of their total marketing spend or at their digital marketing staff strength as a percentage of their total marketing staff. In the past, Forrester has developed tools and frameworks that help firms assess their digital marketing maturity. Forrester has now launched a new research framework: the Forrester Readiness Index (FRI) for digital marketing. The FRI for digital marketing:

- **Is a quantitative assessment.** The framework provides insights into the digital marketing environment and available opportunity for 55 countries across the globe through 23 quantitative variables. Measured on a country level, the variables relate to the online user population and their engagement; the devices they use to go online; their online tenure; the number of digital marketers; current online ad spend through different online channels, such as display, search, and social; online infrastructure; and the macroeconomic environment of the country.

- **Delivers three key outputs.** The first output is the digital marketing readiness matrix, which positions all the countries on a graph and classifies them into one of four categories based on their digital marketing environment and opportunity. The second output is the country rankings; these are based on a composite digital marketing index, made up of the digital marketing environment index and the digital marketing opportunity index. The third output is the comparison of the indexed values of 23 variables and three indexes for any set of two countries.

- **Helps digital marketing vendors and agencies prioritize countries for global expansion.** The framework helps them benchmark each country's digital marketing readiness and provides a clear outline of its strengths and opportunities, helping them set out a country-specific strategy. Forrester's ForecastView clients can access the FRI for digital marketing as an Excel-based interactive tool that allows country-level and variable-level comparisons.¹

**THE READINESS MATRIX LOOKS AT THE ENVIRONMENT AND THE OPPORTUNITY**

The digital marketing readiness matrix positions the countries on a graph, with the digital marketing environment index on the x-axis and the digital marketing opportunity index on the y-axis. The digital marketing environment index represents the current state of digital marketing in a country, whereas the digital marketing opportunity index represents the growth potential for digital marketing. The digital marketing readiness matrix has four quadrants (see Figure 1):

- **Developed: large opportunity.** This quadrant includes the countries that currently have a developed digital marketing environment and where the future opportunity is large. Examples include the US, UK, Germany, Japan, and Canada. These countries generally have a large online population that is highly engaged, large online advertising spend, and good online infrastructure.
■ **Developing: large opportunity.** This quadrant includes countries where the digital marketing environment is still developing and the future opportunity is large. Examples include Brazil, India, and the Philippines — developing nations with a large population, resulting in a large online population. The telecom infrastructure in these countries is developing, and mobile broadband penetration is growing fast. As a result, they have a large number of mobile-only Internet users. For example, India has a large population of mobile-only Internet users because PC penetration is low. Offline ad spending is high in these countries, but online ad spending is growing fast as marketers follow users online. Online display advertising currently leads among all the different online channels; we expect social and video advertising to grow fast. Search advertising is on a relatively steep learning curve, needs specialized resources, and thus isn’t growing rapidly in these developing countries.

■ **Developing: small opportunity.** This quadrant includes the countries where the digital marketing environment is still developing but the future opportunity is relatively small. Examples include Venezuela, Egypt, Romania, and Saudi Arabia — developing nations without a large online population. Marketers are spending advertising dollars mostly on offline channels; the total online advertising spend is small; and the opportunity for online ad spending growth is also small. These countries also face challenges in terms of overall economic growth.

■ **Developed: small opportunity.** This quadrant contains those countries that currently have a developed digital marketing environment but where the future opportunity is relatively small. Examples include Belgium and Ireland. These are developed nations but with a small online population. Even though these countries have a developed telecom infrastructure and high PC and mobile penetration, there is not much room for growth in online ad spending.
Figure 1 The Forrester Readiness Index Digital Marketing Readiness Matrix

Source: Forrester Readiness Index: Digital Marketing, 2015

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DEVELOPED ECONOMIES LEAD THE FRI COUNTRY RANKINGS

The FRI ranks the countries on a composite digital marketing index (see Figure 2). We build this on the basis of 23 individual metrics that we deem to be the core indicators of digital marketing readiness.

- **The US takes the top position in the FRI for digital marketing in 2015.** The US scores well on a number of variables: Its gross domestic product (GDP) is the highest in the world, at more than $17 trillion in 2014; it has one of the largest online populations in the world, and these online users are highly engaged and have a longer online tenure than in most other countries; US online advertising spending is the highest in the world in absolute dollar terms, while the US is way ahead of other countries in terms of online infrastructure metrics, such as the number of IP addresses or mail servers. In terms of the top-ranking economies, the US is followed by China, Japan, and the UK.

- **Only six developing countries place in the top 30.** The FRI ranks 55 countries, which had a combined GDP of $73 trillion in 2014. Of these 55 countries, 28 are developed nations and 27 are developing nations. Other than China and India, which ranked second and 12th in the digital marketing index, respectively, most developing countries rank low: Only four other developing nations — Brazil, Philippines, Malaysia, and the United Arab Emirates — place in the top 30. Even though the online user populations in developing countries are large and growing fast, marketers are shifting toward digital marketing relatively slowly. Most marketers and agencies in developing countries are comfortable with traditional offline media channels.

- **Countries in economic distress are at the bottom.** Venezuela is at the bottom of the FRI for digital marketing, alongside South Africa, Nigeria, Romania, Argentina, and Bulgaria. The digital marketing environment in these countries is not very developed. Even though their online adoption and user engagement metrics look good, many of these countries lag far behind in terms of online advertising spending metrics and online infrastructure metrics. The opportunity for future growth is also very limited because many of these countries are going through economic turmoil, facing either hyperinflation or political unrest.
Figure 2 The Forrester Readiness Index Digital Marketing Composite Index: Country Rankings

Country composite index score

<table>
<thead>
<tr>
<th>Country</th>
<th>Index Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>83.3</td>
</tr>
<tr>
<td>China</td>
<td>41.0</td>
</tr>
<tr>
<td>Japan</td>
<td>38.0</td>
</tr>
<tr>
<td>UK</td>
<td>35.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>32.5</td>
</tr>
<tr>
<td>Germany</td>
<td>32.4</td>
</tr>
<tr>
<td>Australia</td>
<td>31.7</td>
</tr>
<tr>
<td>Canada</td>
<td>30.8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>29.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>29.7</td>
</tr>
<tr>
<td>France</td>
<td>29.6</td>
</tr>
<tr>
<td>India</td>
<td>29.3</td>
</tr>
<tr>
<td>Norway</td>
<td>28.9</td>
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<tr>
<td>Switzerland</td>
<td>28.8</td>
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<td>Hong Kong</td>
<td>28.6</td>
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<tr>
<td>Denmark</td>
<td>28.5</td>
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<tr>
<td>Singapore</td>
<td>28.0</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>28.0</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>27.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>27.7</td>
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</tbody>
</table>

Source: Forrester Readiness Index: Digital Marketing, 2015
RECOMMENDATIONS

COMPARE THEN PRIORITIZE COUNTRIES BASED ON THE FRI VARIABLES

The shift of ad spend from offline to online channels is an irreversible global phenomenon. This is because the global online population keeps growing and online user engagement levels continue to increase: Forrester expects the world’s online population to increase from 2.9 billion in 2014 to 4.2 billion in 2019. While offline channels can help marketers with mass reach, online channels help them reach their target customer segments and engage with them continuously. Online channels are also less expensive and more measurable than offline channels. The benefits of online channels and the continued growth in online user numbers, ownership of devices for online access, user engagement in different online activities, and time spent consuming online media will continue to shift ad spending from offline media to online media. Digital marketing vendors and agencies should use the FRI to compare the countries and then target:

- **Developed countries first for any advanced offerings.** Different countries are at different stages of digital marketing maturity. Developed countries are more mature than developing nations because of the longer tenure of their digital marketers. Developed countries account for only 33% of the total online population, but their share of total online advertising spending is about 77%. Digital marketing vendors with advanced offerings, such as programmatic or real-time bidding buying, should target developed countries first.

- **The largest of the developing countries.** When prioritizing developing countries, digital marketing vendors should target those with higher GDP first. These countries generally have a larger online population as well. While developed economies have online penetration rates upward of 70%, developing nations see rates between 10% and 50% — resulting in a larger opportunity for online population growth.

- **Mobile-only online users in developing countries.** Forrester expects unique smartphone subscribers globally to grow from 2 billion in 2014 to 3.5 billion in 2019. A large portion of this growth is coming from mobile-only Internet users in developing countries. Forrester estimates that there were 500 million mobile-only Internet users in 2014, and we expect this to more than double to reach 1.1 billion by 2019. Digital marketing vendors and agencies with mobile marketing solutions should prioritize developing nations with a large number of mobile-only Internet users, such as India and Indonesia.
SUPPLEMENTAL MATERIAL

Survey Methodology

The Forrester Readiness Index: Digital Marketing, 2015 comprises 23 separate variables collected across 55 countries. The indicators reflect each country’s current digital marketing environment and overall digital marketing opportunity. We selected each quantitative and qualitative variable to measure the relative “readiness” of the country. The variables observed fall into four categories:

- **Users.** This category measures the online population and online user engagement. This comprises variables such as the number of online users and PC/smartphone penetration. We define the online population as those going online via a PC or mobile at least once a week.

- **Marketers.** This measures the number of marketers and marketer ad spending. Variables include marketer spending on display, search, and social ads.

- **Online infrastructure.** This measures the overall online infrastructure within a country; it includes factors such as fixed and mobile broadband penetration.

- **Digital marketing opportunity.** This measures the potential volume of advertising dollars. We calculate this using a country’s total advertising spend.

We used the metrics in the first three categories to compute the digital marketing environment index; we used the metrics in the fourth category to compute the digital marketing opportunity index. The countries are positioned on the digital marketing readiness matrix, with the digital marketing environment index on the x-axis and the digital marketing opportunity index on the y-axis.

We used the digital marketing environment index and the digital marketing opportunity index to compute a composite digital marketing index. We ranked the countries per the composite digital marketing index.

ForecastView clients can download the Forrester Readiness Index: Digital Marketing, 2015 via Forrester’s ForecastView page. Index data variables for all 55 countries are available in an Excel spreadsheet. The FRI has a summary page and a country comparison tool.

ENDNOTES

1 ForecastView clients can download the Forrester Readiness Index: Digital Marketing, 2015 via Forrester’s ForecastView page. See the “Forrester Readiness Index: Digital Marketing, 2015” Forrester report.

Forrester segments the 55 countries in the FRI into two categories — developed and developing — primarily based upon the GDP per capita. Developed countries have a GDP per capita greater than $20,000; developing countries have a smaller GDP per capita. Of the 55 countries we examine, 28 are developed and 27 are developing. To calculate developing countries’ share of the global online population, we used the Forrester Research World Online Population Forecast, 2014 To 2019 (Global). To calculate the share of online advertising spending, we used the display, search, and social advertising spend data in the FRI. Source: Forrester Research World Online Population Forecast, 2014 To 2019 (Global).

4 Source: Forrester Research World Mobile And Smartphone Adoption Forecast, 2014 To 2019 (Global).

About Forrester

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