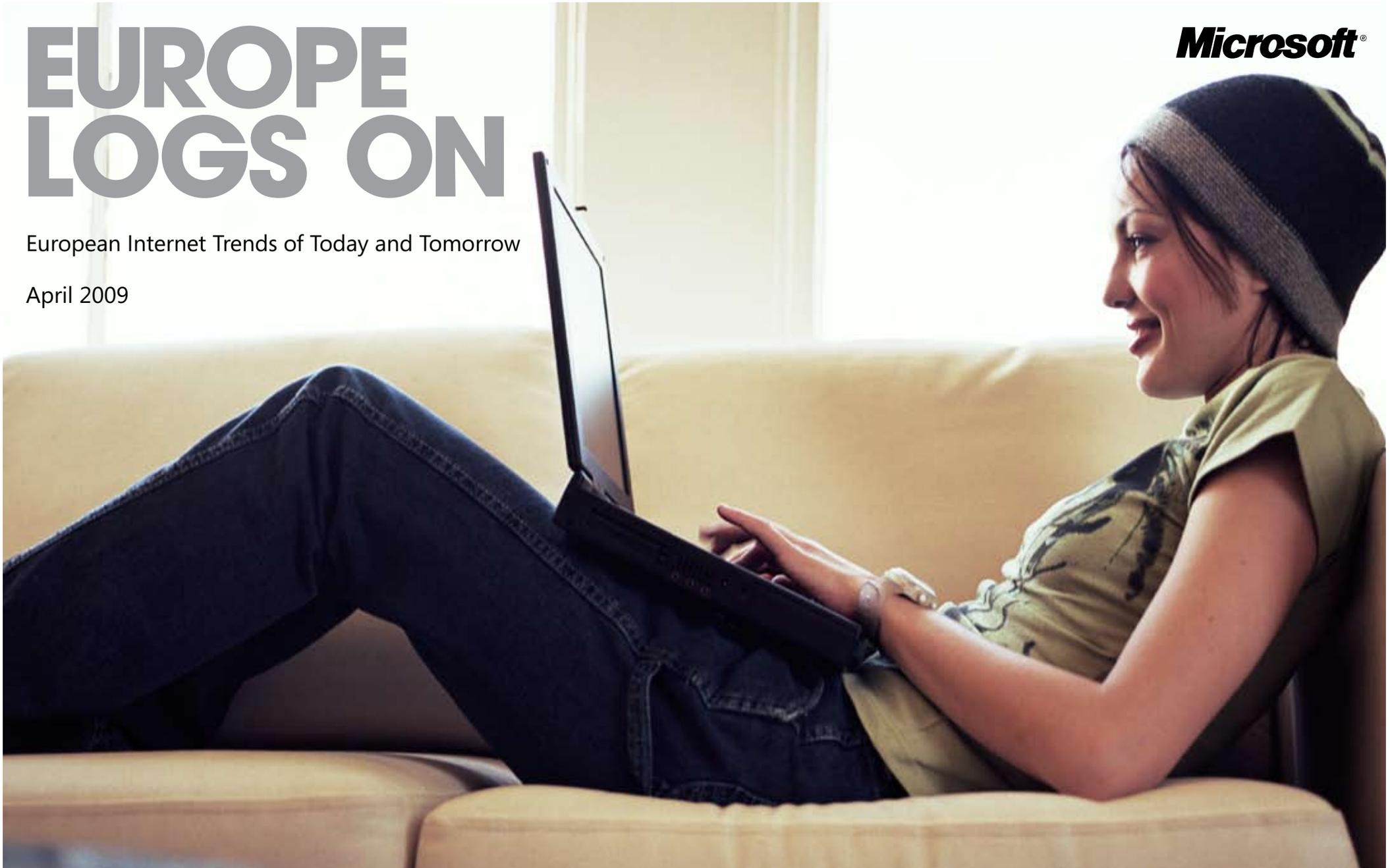


EUROPE LOGS ON

European Internet Trends of Today and Tomorrow

April 2009

Microsoft[®]



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EXECUTIVE SUMMARY

Since 2004, broadband connections across Europe have grown by almost 95%, from 44 million households in 2005 to over 85 million¹. In fact, broadband Internet connections in Europe today outstrip those in the US, representing 83% of all Internet connections, compared to 70% in America¹. The explosion in broadband uptake combined with the relentless pace of technological innovation is driving a major change in consumer behaviour and is transforming our traditional media landscape. In this report, Microsoft analyses the differences in broadband penetration levels across Europe, examines the causes fuelling the growth of Internet adoption, assesses the impact of consumers' evolving online behavior, and predicts the online trends of the future.



KEY FINDINGS:

- Based on current growth trends, **Microsoft projections estimate that Internet consumption will outstrip traditional TV in June 2010**, averaging 14.2 hours per week against 11.5 hours for TV²
- **Europeans spent on average 8.9 hours per week, or 1.5 days a month, using the web in 2008, up 27% from 2004** – more time than they did reading print media, watching movies, or playing video games¹. By **2010 Microsoft predicts people will spend over 2.5 days a month on the Internet**²
- **Internet use on PCs will drop from 95% today to only 50% over the next 5 years** as other web enabled devices such as IPTV, games consoles and mobile phones become more popular³
- **Online video has established itself as the most popular online entertainment application, with more than 1 in 4 (28%) Europeans watching short or full-length videos – an increase of over 150% since 2006**⁴
- The European North/South Divide: **Nordic countries have an Internet penetration rate of 76% on average, compared to 45% in southern Europe**⁵
- **In absolute numbers, Germany (55 million), the UK (42 million), and France (40 million) have the largest online populations in Europe, while Cyprus (325,000), Ireland (2.4 million) and Portugal (4.2 million) rank amongst the countries with the least number of users**⁵
- **Content** (such as news websites and online video) **and communication services** (such as email and social networks) **represent 65% of all time spent online and commerce represents a third (33%) of time spent on the web**⁶

FOREWORD

“Over the past five years we have witnessed unprecedented growth in usage for almost every online activity across Europe. This growth is set to continue and we predict that Europe will reach a new milestone next summer when the internet surpasses traditional TV as the most consumed form of media.

“The demand for non-stop connectivity will fuel the migration of online services from the PC onto other everyday devices – resulting in a shift towards seamless PC, TV and mobile experiences. Soon, it won’t matter what device you use to connect to your digital world – people will be able to communicate and get access to information on demand, anytime, anywhere.

“To continue to make the most of digital media and to engage with this digital generation, advertisers need to adopt new marketing strategies that create a conversation with the consumer, provide entertainment and fully embrace the new opportunities made available by technological innovations.

“Microsoft believes it has a core role to play with Windows as the digital destination – across the three screens (PC, TV and mobile). Even though technology is getting better, making it all work together seamlessly is still a challenge for everyday people. This is the challenge that Microsoft has taken on. We want to make all the technology in our lives work together. We believe that when all your devices, software and services work together seamlessly, the whole can be much greater than the sum of its parts. Today, we are working to break down the walls between the devices, software and screens we use in our lives.”

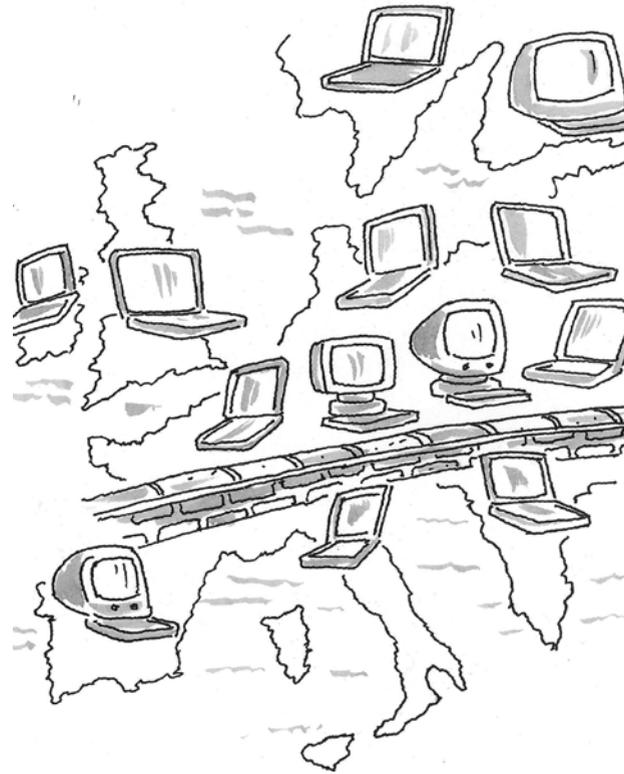


John Mangelaars,
Vice President,
Consumer & Online,
Microsoft EMEA

THE EUROPEAN NORTH/SOUTH DIVIDE



The broadband revolution has led to people spending more time than ever before online. A staggering 18 million households came online between 2005 and 2008¹, resulting in a total Internet population of 390 million Europeans today⁵.



However, there are still marked differences in Internet penetration levels across Europe. There is a clear North South divide in Europe with those living in Northern Europe showing a much faster adoption of PCs and the Internet. As well as a lesser adoption of online, Southern Europeans are also less interested in social technologies overall. For example, Spanish online consumers are less active in all types of social activities, with just over one-third as many consumers using social networks as is typical in Europe⁷.

Nordic countries have an Internet penetration rate of 76% on average compared to 45% in southern Europe⁵. Iceland and Norway lead the race with 90% and 86% of the population respectively connected to the Internet, followed by Finland (83%), The Netherlands (82%) and Sweden (80%). Lagging behind are Turkey and Gibraltar (35%), Portugal (39%), Cyprus (41%) Greece (42%) and Italy (48.6%)⁵.

With over 55 million Internet users, Germany has the largest online population in Europe, but penetration levels are lagging in this market at only 67%. Gibraltar and Cyprus have the lowest number of users online with 9,000 and 324,000 thousand respectively. Bucking this North South divide trend is Spain with a 66% penetration rate and over 27 million people online⁵.

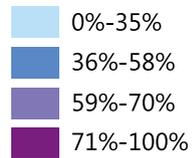
In time, the North/South divide in Europe will close slowly as Northern European countries reach their threshold of online consumers and Internet penetration stalls. Simultaneously, online penetration in the South will continue its upward trend.

"There is a clear North/South divide in Europe with those living in Northern Europe showing a much faster adoption of PCs and the Internet..."

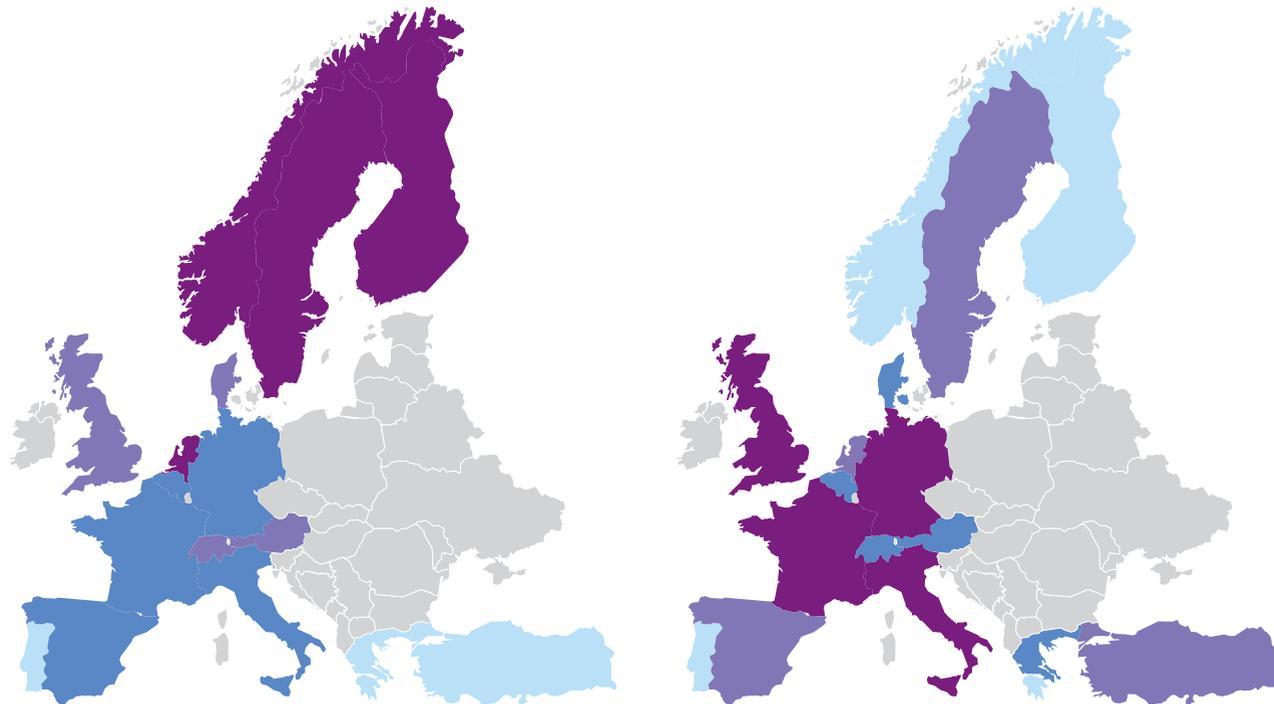
INTERNET USAGE AND PENETRATION LEVELS ACROSS EMEA

"Nordic countries have an Internet penetration rate of **76%** on average compared to **45%** in southern Europe..."

Online Penetration (%)



Turkey	35.00%
Gibraltar	35.20%
Portugal	39.80%
Cyprus	41.00%
Greece	46.00%
Italy	48.60%
France	64.60%
Spain	66.80%
Germany	67.00%
Belgium	67.30%
Austria	68.30%
United Kingdom	70.90%
Switzerland	76.00%
Denmark	80.40%
Sweden	80.70%
Netherlands	82.90%
Finland	83.00%
Norway	86.00%



Online Population (millions)



Gibraltar	9,853
Cyprus	324,880
Norway	3,993,400
Portugal	4,249,200
Finland	4,353,142
Denmark	4,408,100
Greece	4,932,495
Austria	5,601,700
Switzerland	5,762,700
Belgium	7,006,400
Sweden	7,295,200
Netherlands	13,791,800
Turkey	26,500,000
Spain	27,028,934
Italy	28,255,100
France	40,128,178
United Kingdom	43,221,464
Germany	55,221,183

Datasource: Internet World stats, internet usage in Europe, December 2008

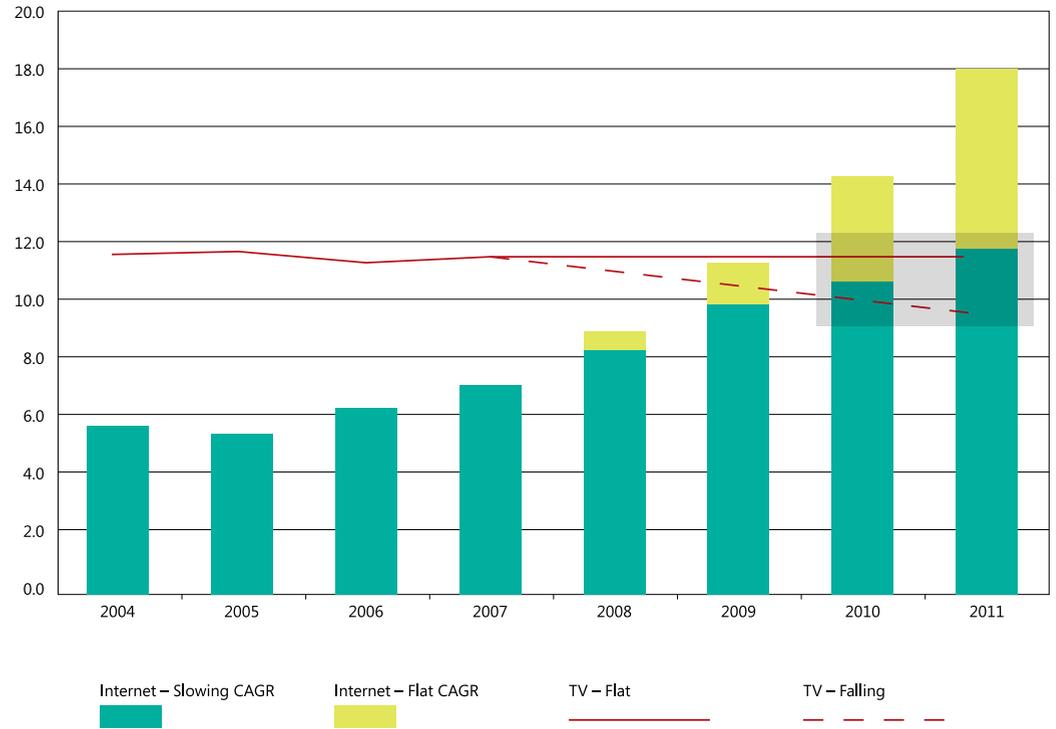
INTERNET OVERTAKES TRADITIONAL TV

On average 48.5% of Europeans now have an Internet connection⁵ and consumers spent around 8.9 hours per week or 38.5 hours a month using the web in 2008, up 27% from 2004 – more time than they did reading print media, watching movies, or playing video games¹. In this same period, TV, radio and newspaper consumption has remained flat (0%), while the time spent watching movies on DVD (-17%) and reading magazines (-6%) has decreased¹.

If current growth trends continue, the internet will overtake TV as the most consumed form of media for the first time in June 2010. Microsoft projections estimate that Internet consumption in 2010 will average 14.2 hours per week, or over 2.5 days a month – compared to 11.5 hours a week, or 2 days a month, for TV².

Over the past five years we have witnessed unprecedented growth in usage for almost every online activity across Europe.

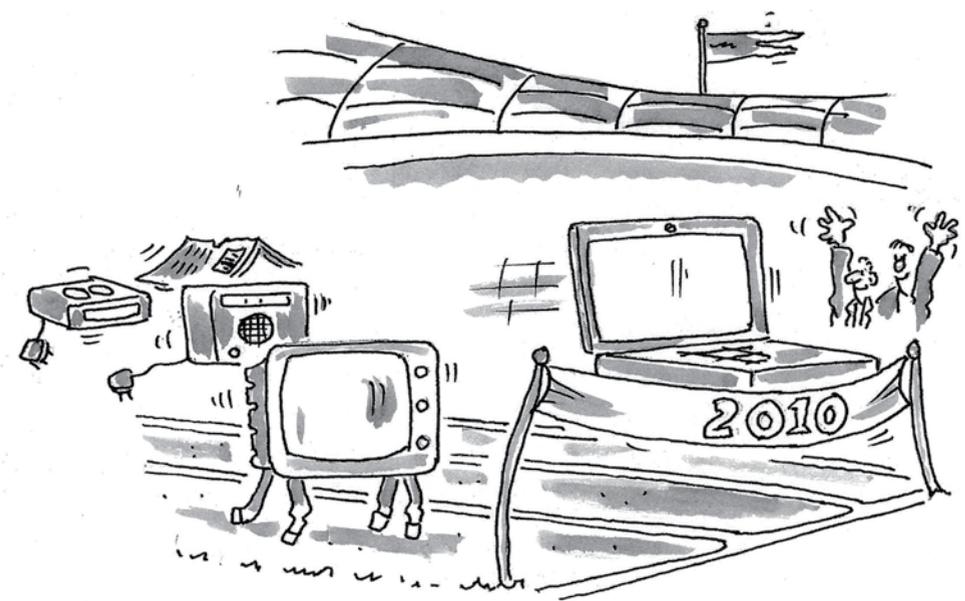
The key driver behind this growth can be attributed firstly to increased broadband penetration, which has promoted the growth of 'always-on' activities like Instant Messaging (IM) or listening to the radio on the internet. Secondly, to better, more innovative and faster quality online services, such as free Web-based email (e.g. Windows Live Hotmail and Gmail), social networking (e.g. Facebook and MySpace), more personalised shopping experiences, the wide availability of rich media such as online video and the advent of user generated content which keeps users engaged.



Source: Microsoft Predictions, January 2009

The graph above shows that if current growth trends remain unchanged, Internet consumption could increase to 14.2 hours per week or 61.5 hours a month in 2010 against 11.5 hours for TV². However, it also shows that as Internet penetration nears saturation, online consumption could see a marginal decline and this would lead to roughly equal TV and Internet hours of consumption by 2011² (11.5 hours per week for TV and 11.7 for the Internet). In this case, we would see the changeover from TV to the Internet as the most consumed form of media by the middle of 2011².

"If current growth trends continue, the internet will overtake TV as the most consumed form of media for the first time in June 2010..."



THE CHANGING MEDIA LANDSCAPE

In 2008 the Internet surpassed all other media except television as a primary source for national and international news⁸. In itself, this has not had an impact on the total time spent consuming media, but younger adults are undoubtedly spending more of that time online to the detriment of offline media.

The erosion of offline media and the increase in Internet usage, combined with a blending of news, entertainment and information sources mean that all forms of media are in a constant state of reinvention. Consumers are in control, ultimately deciding what content they want to view and get involved with. They are becoming the owners of their digital experience which in turn is dramatically influencing the media landscape.

Media lines are blurring and the consumer is changing

The merging of information sources is having an impact on the way in which technologies are developing, in response to changing consumer behaviour.

Newspapers have been the hardest hit form of traditional media by the Internet, as readers continue to abandon print in favour of online news portals or search and aggregation destinations which increasingly act as a window on the world. In addition, there are early signs that other forms of tangible media – such as books and magazines – may soon become digital as well. Young adults, or ‘Generation Digital’, in particular are spending more and more time online and are changing the way in which they consume and access news and entertainment through a myriad of devices. Those brands that do not engage with this audience online are losing the connection with the younger generation, who are instead living more and more of their lives in the digital world where they can be in control and have an instant say, or share their views on the information they are viewing.

In 2008, 58% of newspaper websites featured some form of user-generated content – up from 24% in 2007⁴. The digital media revolution has allowed consumers to influence stories, with content on online news sites now including a mix of user-generated photos (58%), home videos (18%) and independent articles (15%). Meanwhile, the number of newspaper sites that are allowing readers to comment on articles has more than doubled to 75%⁹. Universal McCann recently identified “consumer publishing and the rise of consumer power as the biggest trend in marketing communications today¹⁰”. Today media is social and journalists, consumers and bloggers alike can all have a say.

“Readers continue to abandon print in favour of online news portals or search and aggregation destinations which increasingly act as a window on the world...”

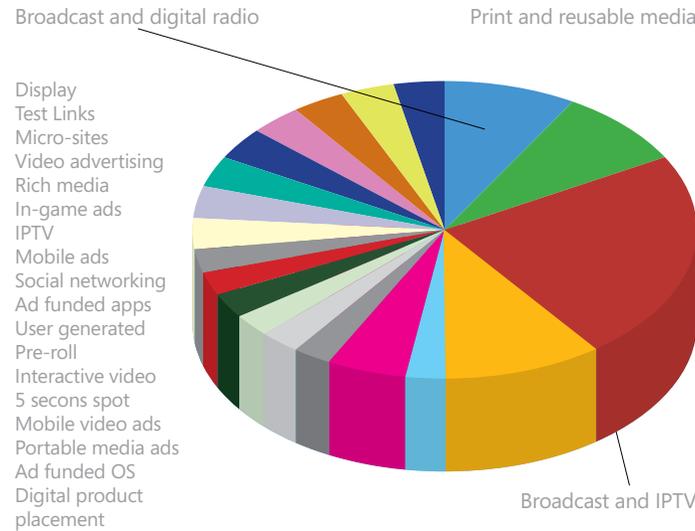
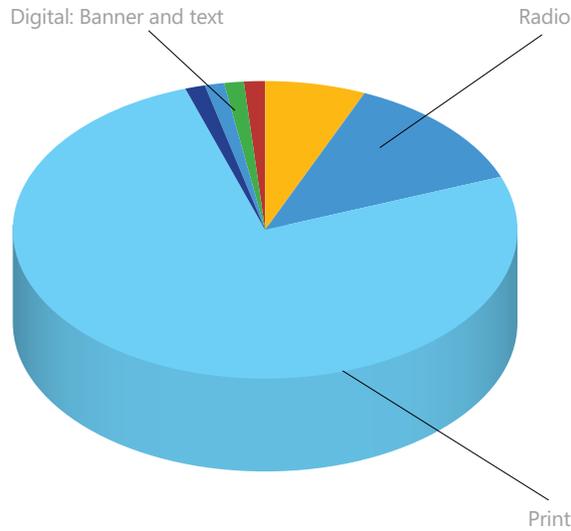


10 years ago, traditional TV was the most consumed form of media in EMEA, with other main media sources including radio and print.

Comparably, the media landscape of today and tomorrow is drastically different – media is evolving and the introduction of broadband, IPTV and digital radio means that consumers are now able to view content, information or entertainment wherever they are across a wide variety of devices. This will become even more evident in years to come.

The wide variety of platforms and mobile access to content available to consumers at present means that entertainment is becoming connected – converging distribution networks and devices are reshaping how consumers choose to listen and watch content that has traditionally only been available through broadcast networks.

More than a third (37%) of consumers in France claim they use their Internet connection to access live radio services. In Italy, the UK, and Germany around a third of Internet users claim to listen online. This online distribution also allows people to listen to audio services on demand rather than live¹¹.



“The media landscape of today and tomorrow is drastically changing – media is evolving...”



TV....BUT NOT AS WE KNOW IT: DIGITAL CHANGES EVERYTHING



A TV set is no longer the sole device for consuming TV content. The provision of TV services in Europe has dramatically changed over the past 10 years with a shift from broadcast to connected entertainment giving consumers more control to watch what they want, when they want and on any screen – the TV, PC or mobile device.

While time spent on the web is set to surpass time spent in-front of the TV, this does not mean that people are watching less TV content, but rather, the way people consume it is changing.

The PC is increasingly becoming a screen for watching TV. 9% of European consumers already watch live TV through their PC, and 4% record TV programs to a hard drive¹². Windows Media Center is a prime example of how TV is moving onto other screens. It easily and conveniently turns the PC into a personal, portable TV and a powerful DVR, ultimately providing consumers with a digital entertainment hub, on their terms.

In addition to being able to access live TV with the use of a TV tuner, consumers also enjoy access to a vast choice of user-generated, peer-to-peer and on-demand services available via the web. Over 300 million people worldwide are watching video online today - more than the number listening to audio¹³.

TV content has also started to become portable, with an average of 10% of Europeans now owning a portable video player that allows them to view content on the move ¹².

However, the TV is not being left behind in this connected revolution. With increasing provision of Video-on-Demand (VoD) services and widespread use of DVRs, users are able to time-shift and record shows to watch at a later date. Consumers are also able to synchronise content from their DVR to a mobile device to enjoy on the go.

Many TVs are becoming connected via broadband in much the same way that the PC has been. IPTV penetration already stood at 6% in Europe in 2008 and it is predicted that in the future, more advanced TV services will lead to increased adoption of IPTV services by traditional TV viewers¹².

Broadband offers consumers superior online entertainment experiences, including online video, which has contributed to greater time spent online. With entertainment and information content improving in quality and becoming increasingly portable, online video has established itself as the most popular entertainment application, with more than 1 in 4 (28%) Europeans watching short or full-length videos - an increase of over 150% since 2006. In addition, since September 2006 the number of online users who have watched a video over the Internet has increased from 31% to 82% in Jan 08 – a 51% increase⁴.

Meanwhile, for 'Generation Digital', content is as likely to be pulled from other devices as it is to be consumed via a traditional TV schedule set. To this generation, TV means video, delivered on demand. In fact, one in seven 18-24 year-olds now watch no live TV at all. This video content is increasingly likely to be consumed online, either as short clips, downloads or streamed full-length content. Already 42% of young adults regularly watch TV online, through a PC. Of the 65% who stream or download TV content once a week, 26% do so every day¹⁴.

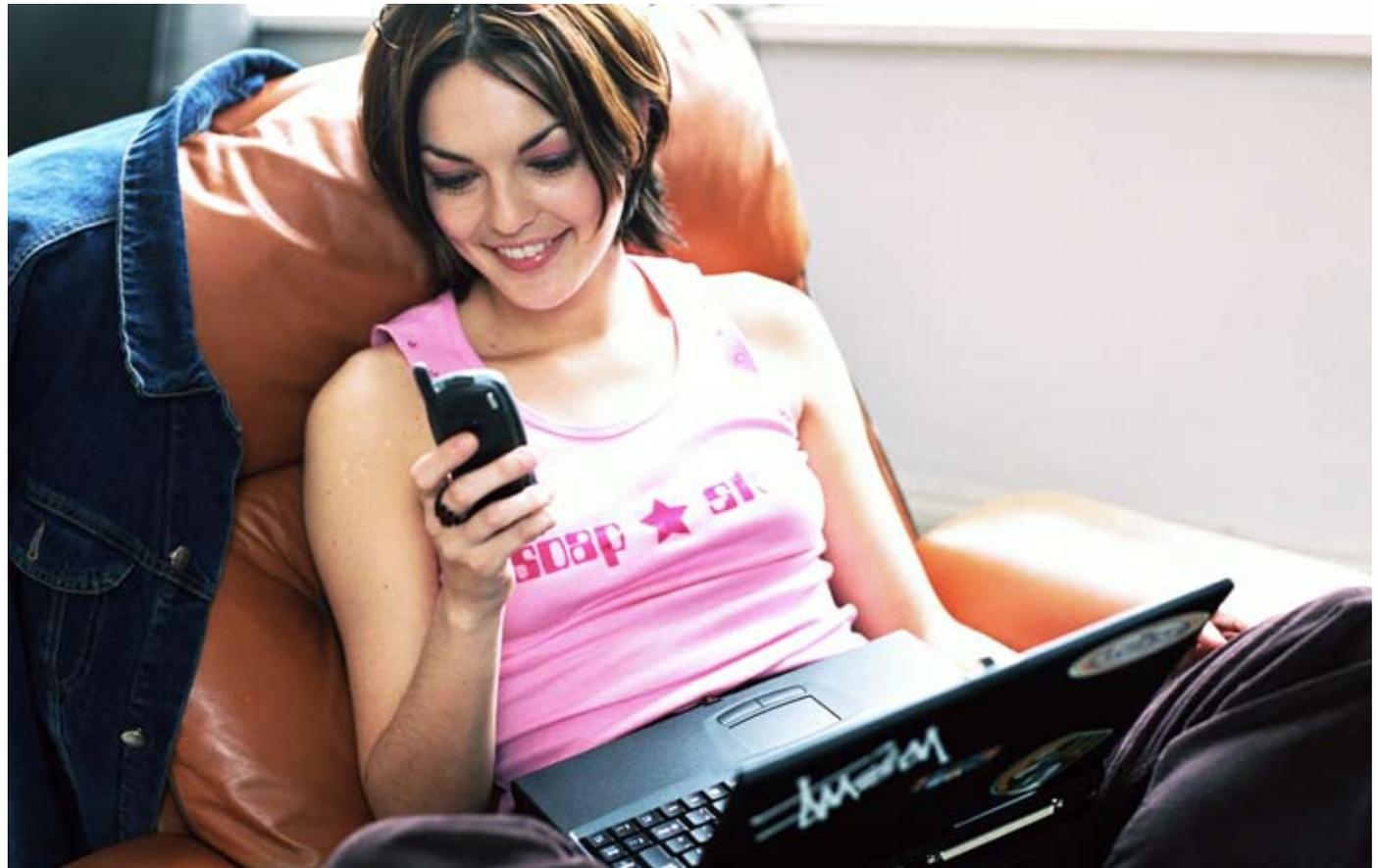
For some segments of the market, such as 18-24 year olds, the PC is often the only television screen; for others, it can be a second or third screen. For many consumers, TV on the PC is a way to enjoy programming in a personal way; for some, it is a chance to take their content on the go; and yet others use it as the heart of their digital entertainment home.

The PC's growing role as a media consumption device is reflected in the perceived importance of owning one: for young adults, a PC and Internet connection is now the item of technology they can least bear to live without, nominated by 45% compared to 28% for mobile phones. TV sets came in at a lowly 11%¹⁴.

Microsoft's '3 Screens' qualitative study of viewing habits sheds further light on the forces shaping this new video landscape, as 'progressive mainstream' consumers take advantage of opportunities to view a broader range of content at different times in different ways. The increased portability of video content and the ease with which it can be discovered, transferred between devices and shared with other users is already putting the PC centre stage, and opening the way for mobile to play a more prominent role in video consumption in the near future.

Limited take-up of mobile TV services and a lack of compelling content have resulted in the relatively slow uptake of mobile video consumption, with only 6% of mobile users in 2008 watching TV on their mobile phones¹². However, data shows that a growing volume of mobile phone users will watch video or TV programming on their handsets over the next five years, as the perceived value to consumers and the quality of content become more and more compelling. In fact mobile video is set to grow into a \$692 million business by 2013 driven by a small but steady core audience willing to pay a subscription fee and video capable handsets will grow from just 31% of the installed base in 2008 to 76% of the installed base in 2013³.

"To Generation Digital, TV means video, delivered on demand. In fact, one in seven 18-24 year-olds now watch no live TV at all..."



MEDIA BECOMES INTERACTIVE AND ENGAGING

With content being viewed on the move, and consumers demanding entertainment and information on tap, content formats need to adapt in reaction to consumers' demand for access to information across multiple devices.

Entertainment viewed on any device, whether mobile or PC, needs to be creative and engaging and content creators, producers, advertisers and media companies need to ensure that they are fulfilling the need for interesting, engaging and entertaining content. For example, mobile phones now feature mobile soap operas in short-form 2 minute installments so people can watch while they have a spare minute on the move.

In light of the rapidly developing nature of online communities, the key people influencing many of us today are those in our own digital neighbourhoods – the people we interact with when going about our lives online. This has evolved over the years and exploded exponentially.

We're exploring, discovering and sharing a world of online content with our friends and families. We take digital photos not just to store them – we want to share them. We used to play video games alone, but now we play them online with a worldwide group of friends and competitors through services like Xbox Live. We no longer just watch videos, we simultaneously share them and talk about them

on Messenger TV – which harnesses the power of social connectivity and brings it together with video and chat in one easy-to-use application. We turn to our friends online to help us decide where to spend a night out, what movies to see, which new gadget to buy. And, of course, email and instant messaging – technologies that are nothing if not social – are still the two leading uses for PCs worldwide.

Recent research from Microsoft¹⁵ shows that sharing has also become central to consumers' expectations of entertainment – technology is transforming traditionally personal activities into shared entertainment experiences. This passion for sharing is finding new expression through digital media and transforming entertainment in the process. Entertainment accounts for five of the top ten favourite conversation topics in Window Live Messenger. The opportunity to share video and discuss content such as TV and films online is turning communication tools themselves into connected entertainment channels.

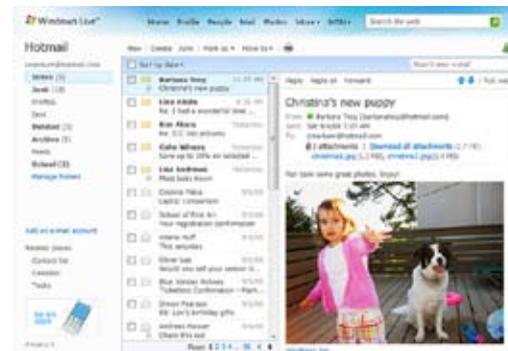
Gaming spearheads the 'sharing' trend, with more than 80% of gamers in all markets playing with other people – either online or in person¹⁵. X-Box Live alone has over 17 million members worldwide. In addition, both IM and social networks also play a major role in young adults' lives. Almost half of young adults' time online is spent on social networking sites, with most spending at least a working day each week on the activity¹⁵.

For advertisers, this extended world of entertainment offers a wealth of opportunities, provided they remain focused on the importance of sharing. Channel sponsorship positions brands alongside the content-sharing process; branded entertainment experiences allow them to go further still. Warner Bros, Burger King, Unilever and Ford are among the brands working with Microsoft Advertising's Branded Entertainment Experiences Team to deliver the entertainment connections that consumers crave.

"Entertainment accounts for five of the top ten favourite conversation topics in Window Live Messenger. The opportunity to share video and discuss content such as TV and films online is turning communication tools into connected entertainment channels..."



WHAT'S DRIVING TIME ONLINE?



The digital lifestyle is here to stay. PCs, mobile phones, game consoles, social networks, blogs, photo sharing, email and instant messaging are no longer a novelty – they're a way of life for millions of people around the world. In the past, we used technology to supplement our daily lives – today, technology is an integral part in nearly everything we do.

At present, most time spent by Europeans online is on portals¹⁶ such as MSN and Yahoo, which give users access to news, entertainment, shopping, and communications services (such as IM and web based email) all under the same roof – with 278 million unique users, MSN accounts for 5% of all time spent on the Internet¹⁷. Instant Messaging services, such as Windows Live Messenger, providing instant communication across the Internet follow closely behind, with conversational media (social networking sites and web mail services for example) in third place¹⁶. Viewing content and using communication services are most important to Internet users across Europe, representing 65% of time spent online⁶ – for example, Windows Live (a set of communication and entertainment tools including Hotmail and Instant Messenger) accounts for 11% of all time spent on Internet in Europe¹⁷. Surprisingly, given the current economic climate, commerce still represents a third (33%) of time on the Internet⁶.

Time online will also increase as the popularity of Smartphones grows, driven by people's interest in being able to exploit the potential for both productivity and entertainment. In 2009, Smartphone shipments will total approximately 171 million units globally, marking a 9.4% growth over 2008¹⁸. As a result of rapidly improving mobile services and consumer demand for information 'on the go', it is estimated that 48% of people will regularly access mobile Internet by 2013 around the world. Mobile usage for watching video and TV will also increase from 44 million in 2008 to 115 million in 2013³.

WHERE MOST MINUTES ARE SPENT ONLINE

Category	Description
1 Portals	A destination site designed to meet the majority of a person's online needs – giving access to news, gossip, shopping and communication services all in one place. For example MSN and Yahoo
2 Instant Messenger Services	Applications that allow users to send instant messages to other users online. For example Windows Live Messenger or AIM (AOL Instant Messenger)
3 Conversational Media	Social networking and blogging sites where the creation and consumption of content is user generated. For example Facebook and MySpace.
4 Entertainment	Sites that contain information related to TV, aMovies, Music, Games, Books and Music Players. For example MSN.
5 Games	Sites where consumers can play online video games or find information on video games. For example onlinegames.net

IMPACT ON THE ADVERTISING LANDSCAPE

The impact that technology innovation and consumer behaviour is having on the media landscape and advertising industry is profound. Today, consumers have unprecedented levels of freedom and access to content, information, communication and entertainment across a multitude of devices.

As a result, advertisers and publishers are increasingly challenged to connect with their audience. They operate in a world in which business objectives remain constant, but achieving them has become a whole lot tougher. Publishers still want to reach high value audiences that ultimately optimise advertising sales whilst advertisers and their agencies still seek to reach the right person at the right time with the right message.

In response to the trends examined earlier in this report, the advertising community needs to recognise and address the impact these trends are having on the way they plan, create and execute on their marketing strategies. Whilst audiences are still consuming media they are doing it in different ways - today more than ever before, marketers, media agencies and media owners need to place the consumer at the centre of their thinking and become smarter to figure out how, when and where people are consuming the growing variety of media available to them. Simultaneously, "unified consumer intelligence" - the integration of traditional CRM metrics with online behavior, driven by technology, must be exploited. This fusion of data gives brands and their agencies a much deeper insight and understanding than ever before into what makes a customer tick, enabling increasingly efficient marketing strategies to be created.

Prior to the availability of this "unified consumer intelligence" and given the relatively simple media mix of the past, a silo-based approach to media planning worked and was the norm. Today, marketers operate in a 'world without walls', where the boundaries of the media,



entertainment and publishing worlds are blurred and consumers not only demand a seamless experience across multiple devices but can access content whenever they want it, wherever they happen to be.

Consequently, this changing consumer allegiance to both media type and device has a knock on effect on media buying. As new products and new ways to engage become apparent, there is a shift in media buying patterns from an audience of millions i.e. using the smallest amount of media to reach the most amount of people, to a million audiences i.e. using different types of media to reach different audiences, at different moments, locations and moods with the aim of reaching as many of the individual consumers for whom a message is relevant, using a diverse array of mechanisms to discover who these individual consumers are. It is here that maximising "unified consumer

intelligence" becomes paramount in helping drive efficient media planning and buying across multiple channels and ensuring maximum opportunity for ROI.

Digital offers endless possibilities to engage with exactly the right audience, at the right time, across a plethora of devices. This is an era where harnessing technology innovation, audience insights, collaboration and authentic communications have become hugely effective ways of delivering a message to a specific audience, guaranteed to capture attention.

In response to the challenges being faced by advertisers today and in recognition of these evolving digital opportunities, Microsoft has defined a set of guidelines to help brands best connect with their audience across this ever changing media landscape.



GUIDELINES FOR ADVERTISERS

1 Understand the environment - put the message into the right context. Research from Microsoft Advertising emphasises the need to overlay time, place, mood and motivation as digital is unique in delivering on so many different motivations and moods (Context Matters, November 07)

2 Move away from 'push marketing solutions' and join the conversation – Information distribution is today driven by consumers and user generated content has given people a voice online. Digital is the only channel which can offer real-time conversations between brands and consumers - being at the same time both intimate and anonymous. Advertising that encourages interaction, input and community with this digital audience can help drive understanding of, and is more likely to be successful, in shaping consumer sentiment towards a brand, or having a direct impact on a new product launch for example

3 Reach out to the 'creators' – the new 'super influencers' who are making the most of social media tools including blogs, video and podcasts. Online is the "point of influence" for many purchase decisions and the place where many brand associations are now being built or deepened. Recent Microsoft Advertising and Synovate research found that half of all 18-24 year-olds either review or offer opinions about products or services online

4 Provide content that is relevant, engaging and personalised - Ensure advertising really appreciates this new role of the consumer as a "self regulator" - actively choosing content and messages relevant to them. Consider developing innovative and strategic marketing campaigns that go beyond traditional advertising formats. For example, rich media and audio/video which allow the creative community new ways to deliver emotional brand impact in the digital space.

5 Don't bolt on digital – Impactful and effective advertising content requires careful consideration and planning. Digital needs to be an integrated part of an advertiser media plan and marketing strategy. Embrace technology which is at the centre of enabling better integration of digital into the broader communications planning process.



A WINDOW TO THE FUTURE

Even though technology is getting better, smarter and more connected, making it all work together seamlessly is still a challenge. Not all the devices in our lives work together as easily as they could – we still find ourselves moving music and photos around between our PCs, our phones, our game consoles and elsewhere. The software and services we rely on are too fragmented and maintain multiple social networks, contact lists and photo collections, each with their own login and user interface.

“At Microsoft, we want all the technology in our lives to work together in order to make life easier..”

All of this work is driven by our commitment to better serve the global community of 1.2 billion people who use Windows PCs every day to communicate, create, connect and play. Harnessing the latest software innovations and making them simpler, better and more affordable is our company's heritage.

Since 1975 Microsoft has been leading the way in technological innovation. It has been working to expand the possibilities for computing every day, by continually improving and advancing its current products and embarking on fundamental research that paves the way for tomorrow's breakthroughs. Microsoft's scale, and the sheer number of consumers it interacts with, provides it with unique insights into real consumer online behaviours today and beyond.



A Window To The Future

Consumer Trend

The 3 Screens



Impact for Consumers

Online services will continue to migrate onto other devices

We will see a concerted shift to seamless PC, TV and mobile experiences. While this is already happening in the mobile and gaming space, this is also likely to extend across other devices that we use in our daily lives, including cars and televisions. Current predictions show that Internet usage on PCs will drop from 95% to 50% in five years time as people find other more convenient ways to connect to the web for information and entertainment.

Impact for Advertisers

Industry consolidation

Advertisers will need to adapt their strategies to effectively connect with converging audiences across multiple devices.

Advertising will become less about the channel and more about the content and the ways in which consumers interact with that content. It will experience a shift from strategies focussed on 'an audience of millions' to 'millions of audiences'.

Convergence of media buying

Maximising "unified consumer intelligence" will become paramount in helping drive efficient media planning and buying across multiple channels - ensuring maximum opportunity for ROI. Particularly important in a softening economy where advertisers and agencies will look to established publishers for focussed investments.

Consumer Trend

The Continual Rise of Connected Entertainment



Impact for Consumers

Seamless entertainment experiences will bridge the gap between online and offline

This will end the need to watch TV in real-time as we shift to seamless PC and TV experiences. Long form video content and IPTV will become the norm on a TV that is really, a PC. Consumers will download movies and TV shows and only access 'live' TV for big news and sports events.

Mobile becomes part of the entertainment mix

As Smartphones become mainstream and more affordable, seamless mobile, PC and TV experiences will become a reality. Consumers will be able to start to watch the news on their TV in the morning and transfer viewing to a mobile device on the journey to work.

eReaders will increase in popularity

People are increasingly reading books, newspapers and magazines on electronic devices that have Wi-Fi access. These are still in their infancy, but they will grow in popularity as the right device is perfected, similar to the way the MP3s exploded the way we listen to digital music.

Impact for Advertisers

Industry consolidation

Connected entertainment experiences will open up new battlegrounds for brands.

With the proliferation of TV viewing across multiple devices, broadcasters will change their business models as we see a battle for digital media ownership in the living room. The recent redesign of Xbox Live's entire user interface recreates the TV experience and injects it with some of what makes online advertising such a powerful medium.

Mobile creates opportunity for personalised, anywhere, anytime advertising

Growing Smartphone and e-reader adoption will mean anytime, anywhere, location based and highly personalised brand communications will become a reality.

Consumer Trend

'Generation Digital': Better, Faster, more Personalised

Impact for Consumers

Tailored content and shopping experiences will become more sophisticated

Information and services will increasingly be targeted – from retailers who offer better, more personalised, shopping experiences to aggregators who can improve the browse, decide, buy process. The rise of price comparison shopping will continue as consumers become more price conscious and these services become integrated with search engines.

The rise of Identity Management

Allowing for multiple but connected IDs for digital lives across different online services and devices.

Digital memories will become more important

As virtually unlimited online storage services grow in popularity.

Geo-referenced activity will become the norm

Heavy use of mapping on PCs and location presence on mobile.

Impact for Advertisers

Targeted, personal and relevant advertising

Every day huge amounts of usage data are collected giving insight into the habits and behaviours of consumers, their likes and dislikes. Advertising spend need no longer be wasted as traditional CRM data is combined with online audience insights. Advertisers will in turn be able to:

- Better track campaigns
- Ensure maximum ROI
- Improve creative and

Ubiquitous wifi will drive location based offers

Unifying free wifi for major cities and population zones will enable the push and pull of relevant consumer offers and business information to individuals based on behavioural and profile targeting.

Consumer Trend

The whole web becomes social

Impact for Consumers

Social connectivity goes commercial and advertising becomes increasingly personal

Online commerce will represent a larger share of overall consumer spending. User generated content (UGC) online shopping experiences will provide users with a relevant online experience – eBay will be able to inform users about how many degrees of separation there are between themselves and the seller; Amazon will recommend books that friends and friends of friends liked; bars and clubs will reach out to likeminded punters

Location based services on wireless devices transform mobile advertising

Businesses will be able to target consumers with location relevant offers and services in real time

Impact for Advertisers

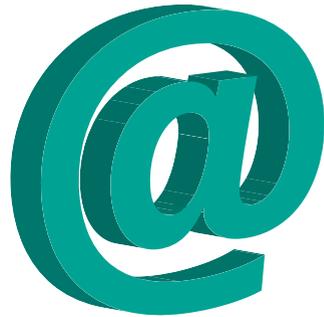
Social connectivity goes commercial

'Social influence marketing' becomes increasingly important as consumers turn to their own trusted networks for advice.

All digital marketing will need to incorporate some element of social influence.

Consumer Trend

3D Internet



Impact for Consumers

Virtual Reality Shopping and Entertainment

The 3D Internet will become a reality, with consumers able to virtually experience a holiday resort before they book, students will be able to attend virtual lectures and shoppers will be able to see how an armchair would look in their living room before they buy it.

Impact for Advertisers

Experiential Advertising

Advertisers will look to engage in increasingly sophisticated ways to reach their consumers, giving them richer experiences through the use of advanced technology – for example, people will be able to attend a virtual concert, and buy the music whilst they are there; or see what a TV looks like in their living room before purchasing.

Consumer Trend

Rise of Smartphones

Impact for Consumers

Mobile Connects with Everyday Digital Life

Every phone is a 'smart' phone: Smartphones stop being a category of their own, and become mainstream, affordable choices. People will increasingly use mobiles as a natural first port of call for web browsing, social networking, photo sharing, music, videos and other dimensions of their digital lives. Mobile browsing is expected to grow from 19% adoption in 2008 to 30% in 2013.

Mobile Entertainment

A growing volume of mobile phone users will watch video or TV programming on their handsets over the next five years. The bulk of these mobile video viewers will be casual in their usage, watching short- and long-form content for free. They will often be accessing video content from Web-based video services like YouTube, Hulu, and mywaves. Video capable handsets will grow from just 31% of the installed base in 2008 to 76% of the installed base in 2013.

Photos (and more) escape the phone

Photos, videos, messages, music and contacts that previously lived and died on mobiles will update automatically in the background between phone, web and PC, giving people the freedom to choose how and when to add to, manage and share content they care about.

Impact for Advertisers

Mobile Advertising Rises

Mobile advertising will become an established channel by which to reach target audiences on the go – at any time and in any place.

At the same time, location relevant offers served in real time will take off. For example, people might start receiving ads for 'buy one get one free' offers whilst in their local supermarket, or for new film releases whilst passing their local cinema.





CONCLUSION

The web is creating a 'social media revolution' – from mass media dictating the agenda we have moved into a user generated social media landscape.

The Internet has gone from completely rudimentary to essential in our lives. Our love affair with the internet has led to unprecedented broadband uptake, along with faster and better online services available through multiple devices. The amount of time we spend online is accelerating, and as a result the Internet is set to overtake traditional TV in Europe for the first time as the most consumed form of media by June 2010. The internet and the fast pace of technological innovation are driving changes in consumer behaviour and are fragmenting the media landscape faster than ever before. The web is creating a 'consumer influence revolution' and has created a social media age where people increasingly dictate their own digital experiences.

The internet provides consumers with an overabundance of options. In a world that is 'always on, always connected', internet usage on PCs will drop from 95% to 50% in five years time³, as online services continue to migrate onto other everyday devices – creating seamless PC, TV and mobile experiences. Today's mobile phones are as powerful as PCs from a decade ago. Alternative user interfaces, including tablet PCs and touch phones have become more commonplace. Affordable and high quality unified communication technologies are poised to transform

our personal and workplace communication experiences. Object and device recognition technologies will make the sharing of content and information as simple as dragging from one device screen to another.

This is driving a major change in consumer behaviour and is transforming our traditional media and technology landscape. All content is now becoming digital, through user-generated, peer-to-peer and on-demand services available via the web. The internet gives people absolute freedom of choice. Giving us the opportunity to decide when and where to access information, as well as, giving us the opportunity to be engaged, share and have a say. The erosion of traditional TV viewing and the rise of online consumption can be attributed to the explosion of broadband penetration and the relentless pace of technological innovation. Broadband offers consumers superior online entertainment experiences, including online video, which has contributed to greater time spent online. Technological innovation has brought about increased broadband speeds, more storage and improved hardware, enabling better graphics, more engaging applications and the opportunity for marketers to have a more personalised dialogue with their customers anywhere, anytime.

At Microsoft, we envision in the future that interacting with technology will be more like interacting with people. Voice recognition will supplant keyboards. Displays and screens will show up everywhere on every wall, every tabletop, any large surface will become an extension of your mobile device, capable of displaying information with a flip of a finger so that you can make the best use of your physical environment. These environments will make technology even more accessible, and they will unlock the potential of computation to enable individuals and communities to solve their toughest problems.

Technological advances in the mobile world, 3D Internet, location mapping and social networking spaces will develop as result of consumer demand. And 'Generation Digital' will drive the popularity of these trends along with social computing adoption within other generations.

In effect, the web is creating a 'social media revolution' – from mass media dictating the agenda we have moved into a user generated social media landscape. Consumers dictate what they want to see, read or hear about, which in turn, influences advertisers, brands and media owners to create content and products specifically for users. More than ever before, consumers are in the driving seat.

Microsoft is enabling and embracing these changes – our original vision of having a PC on every desktop and in every home has been extended to having a smarter phone in every hand; web access for everyone, everywhere; and entertainment devices and experiences that enrich people's play and help them connect with each other around the globe. Microsoft believes it has a core role to play with Windows as the digital destination – across the three screens (PC, TV and mobile). We believe that when all your devices, software and services work together seamlessly, there will genuinely be a digital life without walls – and we want everyone to be able to tap into these capabilities. Our heritage is in making the latest software innovations more accessible, affordable and easier to use. Today, we're working to break down the walls between the devices, software and services in our lives.

Appendix

1. Forrester Research, 'A Deep Dive into European's Online Behaviour', June 2008
2. Microsoft analysis on media consumption levels, January 2009 (hours spent on different media). Projections based on 2004-07 Forrester Internet trend data.

	04-07 CAGR	2007	2008	2009	2010	2011
Watching TV	0%	11.5	11.5	11.5	11.5	11.5
Using the Internet	27%	7.0	8.9	11.2	14.2	18.0
Listening to the radio (not online)	0%	7.7	7.7	7.7	7.7	7.7
Watching movies on video or DVD	-17%	2.4	2.0	1.6	1.4	1.1
Reading newspapers (not online)	0%	2.5	2.5	2.5	2.5	2.5
Reading magazines (not online)	-6%	1.7	1.6	1.5	1.4	1.4
Playing video games	4%	1.4	1.5	1.5	1.6	1.6

3. Microsoft internal data, March 2009
4. Jupiter, European Media Consumption Oct 2008
5. Internet World stats, internet usage in Europe, December 2008 – <http://internetworldstats.com/stats4.htm>

Country	Internet users	Penetration
Gibraltar	9,853	35.20%
Cyprus	324,880	41.00%
Norway	3,993,400	86.00%
Portugal	4,249,200	39.80%
Finland	4,353,142	83.00%
Denmark	4,408,100	80.40%
Greece	4,932,495	46.00%
Austria	5,601,700	68.30%
Switzerland	5,762,700	76.00%
Belgium	7,006,400	67.30%
Sweden	7,295,200	80.70%
Netherlands	13,791,800	82.90%
Turkey	26,500,000	35.00%
Spain	27,028,934	66.80%
Italy	28,255,100	48.60%
France	40,128,178	64.60%
United Kingdom	43,221,464	70.90%
Germany	55,221,183	67.00%

6. ComScore, December 2008
7. European Social Technographics® Revealed - How Europeans Are Adopting Social Technologies, Forrester Research Inc. February 2008
8. EIAA Mediascope, November 2008
9. Five Digital Trends to watch for 2009, Edelman, January 2009
10. Universal McCann
11. Ofcom's annual International Communications Market Report, 2008
12. Forrester Research, 'Is there enough TV for everyone?' October 2008
13. Comscore, November 2008
14. Young Adults revealed, The lives and motivations of 21st Century Youth, Microsoft 2008
15. Microsoft's Entertainment Futures Study
16. ComScore Media Trends, January 2009
17. Microsoft internal data, January 2009
18. IDC Worldwide Mobile Outlook, February 2009