William Blair & Company®

Equity Research

**BUSINESS SERVICES: MEDIA & MARKETING**

July 11, 2007
**Industry Report**
(07-064)

# William Blair & Company Millennials Survey

## Broad Media Usage Portends Increasing Fragmentation, Preferences for Ad-Supported Content Online

**Overview.** The “Millennial” generation—born in the 1980s and 1990s—is estimated to include one-quarter of the U.S. population and to influence as much as half of all purchases. Millennials came of age with computers, cell phones, and the Internet, and interact with media differently than their predecessors. We surveyed 500 college students nationwide to learn more about their media consumption habits and preferences in order to better identify investment opportunities in the media and marketing sector.

**Diverse consumption of media should drive increasing fragmentation, but a few properties will continue to reach a mass audience.** As expected, our survey respondents spend more time online than they do watching television—twice as much time, in fact—but newspapers and magazines are more popular than we had anticipated. Two Web sites in particular were overwhelmingly favored—Google and Facebook—and remain among the few ways to continue to reach a broad segment of the Millennial population.

**Digital = Free.** Survey respondents expect digital content to be ad-supported and free to them, and they have clear model preferences for content consumption. Although they also want free music, they will open their wallets to buy ring tones and tickets for live performances and appear to be interested in a music subscription model.

**Marketing services companies, “category killer” sites benefit most from Millennial media consumption habits.** We believe Millennial media consumption habits will accelerate changes in the media and marketing landscape, and expect that companies with a differentiated online presence and those agencies and properties with strong online marketing operations will benefit. We see the category killer sites such as Google and Facebook as well as the best-of-breed marketing services firms such as Omnicom, WPP Group, aQuantive, Publicis, and MDC Partners as the long-term beneficiaries of Millennial-driven trend shifts.

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## Executive Summary

The "Millennial" generation, defined as those born in the 1980s and 1990s, typically to baby boomer parents, is estimated to include between 75 million and 82 million young people in the United States, about one-quarter of the U.S. population. Millennials are estimated to have $200 billion in discretionary spending power and to influence as much as half of all purchases.

The Millennials largely came of age with computers, cell phones, and Internet access, and spend twice as much time online as they do watching television. Millennials also tend to use several different media platforms simultaneously, with one estimate suggesting Millennials consume an average of 20 hours of media within seven hours of clock time.

In addition to Millennials' unique media consumption patterns, we have identified several themes that we will review in more detail throughout this report, including the following:

- ***The Internet is Millennials' primary medium.*** We estimate that media usage patterns by the college students we surveyed could imply an annual domestic online advertising opportunity of as much as $140 billion in the next 10 to 15 years.

- ***Digital = Free.*** Survey respondents expect digital content to be free (ad-supported) and have clear preferences regarding online content-consumption models.

- ***It isn't just online content Millennials want free.*** It probably comes as no surprise to music executives that college students do not buy much of the music they listen to. But they do seem to prioritize buying ring tones, and seem open to both a monthly subscription model for purchasing music as well as buying tickets for live performances.

- ***Expect increasing fragmentation.*** Millennials consume a diverse mix of media, with newspapers and magazines more popular than we had expected; we believe these preferences will contribute to increasing media fragmentation.

- ***Despite increasing fragmentation, there are still a few places advertisers can reach a broad audience.*** Two Web sites in particular were overwhelmingly favored by the majority of Millennials surveyed—Google and Facebook. For the latter in particular, our initial skepticism that Facebook might fade over time was contradicted by responses indicating fierce loyalty to Facebook and by recent data indicating that Facebook's popularity is increasing.

- ***We expect place-based and word-of-mouth marketing will resonate with Millennials.*** We asked both college students and people over age 25 how they learn about new products. From the responses, we believe Millennials are more receptive to place-based marketing and rely more heavily on personal recommendations since they watch less television than older survey respondents.

The volume of Millennial media consumption and the preference for ad-supported media provides significantly more opportunities for advertisers to reach this attractive demographic group. We believe those best positioned to successfully address and benefit from the Millennials' media consumption preferences include the following:

- ***Marketing services agencies.*** The agencies will help to both develop creative marketing messages that multitasking Millennials will pay attention to, and choose from ever-increasing media options to best reach their target audience. Of the agencies we cover, we believe that Omnicom and MDC Partners are best positioned with recognized creative strengths, marketing services presence, and media capabilities.

- ***Category killers.*** With the overwhelmingly strong preferences for Google and Facebook from the Millennial survey respondents, we are re-dubbing the two sites to reflect their dominance. We see Google and Facebook and the few other sites that are almost unanimously used and preferred to their respective competitors as among the few places where a broad, mass-market audience still exists in an increasingly fragmented environment.

- ***Fallen (or falling) stars.*** With the disappointing usage trends our survey foretells for Yahoo, MSN, and AOL, over a longer horizon we see the three sites as less likely to attract the outsized proportion of advertising spending they do today. JupiterResearch estimates that today Yahoo, AOL, MSN, and Google realize 55% of online advertising spending. As social networking sites (as an example) become more popular, however, we suspect that a portion of the advertising spending on portals such as Yahoo will shift to more closely reflect consumption, although we believe that in the near term these sites will continue to benefit from increases in online ad spending.

- ***High-quality content creators and owners.*** We see the owners and producers of specialized and high-quality content as future winners, provided the content is accessible through a multitude of platforms, has limited usage restrictions, and is ad-supported. Some companies we believe are well diversified across traditional and new media include News Corporation, CBS, Meredith, and Scripps.

### Who Are the Millennials, and Why Do We Care?

The definition of the "Millennial" generation varies by source, but generally is thought of as the generation born in the 1980s and 1990s, typically to baby boomer parents. The Millennials are estimated to include between 75 million and 82 million young people in the United States, or about one-quarter of the U.S. population, and are believed to be the largest generation since the baby boom generation was born in the late 1940s and 1950s. Millennials are thought to have $200 billion in discretionary spending power and to influence as much as half of all purchases.

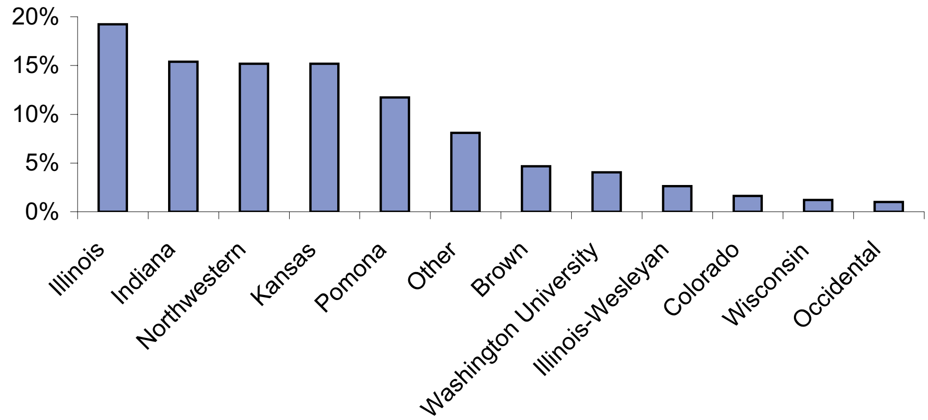
In addition to the significance of the sheer size of the Millennial generation, the group has different media usage habits than earlier generations. Frank M. Magid Associates highlights the generation's simultaneous use of multiple media platforms, estimating that Millennials consume an average of 20 hours of media within seven hours of clock time. The Millennials are shaping the future of media as the generation enters the commercially important 18- to 34-year-old demographic.

### Overview of Millennial Survey

We conducted two surveys that we reference throughout this report: we surveyed college students for our "Millennials" survey, and we also surveyed more than 350 individuals over the age of 25 (our "Over 25" survey) for comparative purposes.

We conducted our survey of college students between September and November 2006, receiving 500 responses from college students nationwide, as illustrated in figure 1, on the following page. Respondents were asked 51 multiple-choice questions and 5 open-answer questions.

**Figure 1**
**Millennials Survey**
**School Attended**




Source: William Blair & Company, L.L.C.

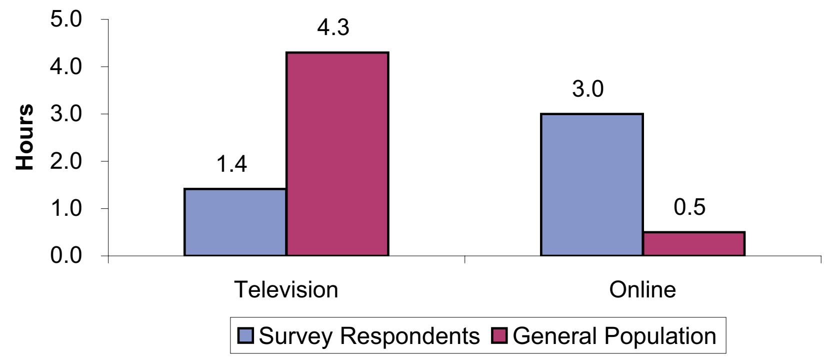
We chose to survey college students for two reasons. First, the 18- to 22-year-old population is near the leading edge of the Millennial generation and is a portion of the generation particularly accustomed to using social media Web sites, including Facebook and MySpace. Second, the majority of college students are living on their own, making their own spending and consumption decisions away from the immediate influence of their parents.

We identified campus leaders to distribute the survey electronically among as diverse a population as possible. Our survey sample was 60% female and 40% male, relatively in line with 58% female and 42% male 2006 undergraduate enrollment, according to the U.S. Department of Education.

**Internet, Cell Phones Critical to Millennial Media Consumption**

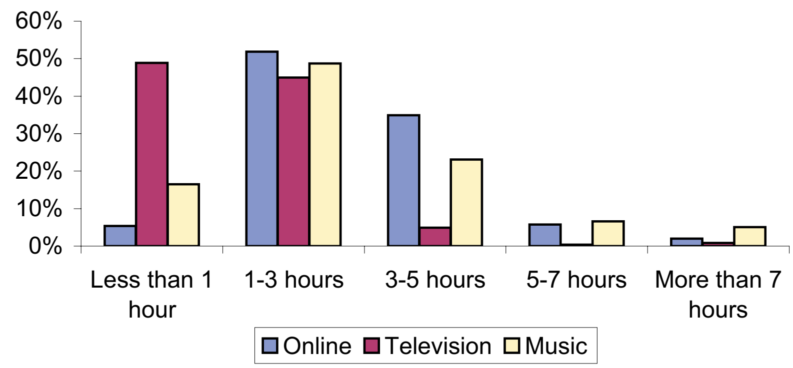
Of the college students we surveyed, 95% report spending an hour or more actively online each day, with an average of close to three hours spent online daily, compared with an estimate by Veronis Suhler Stevenson of 30 minutes per day spent online by the general population. In contrast, only 51% of our survey respondents watch television for an hour or more each day, with an average of approximately 1 hour, 25 minutes spent watching television, compared with Veronis Suhler Stevenson's estimate of 4 hours, 18 minutes of television-watching time for the general population per day; further, 93% of the students surveyed report that they undertake another task while watching television, such as reading, homework, e-mail, or text messaging, with responses indicating that an average of 41.6% of television "watching" time is actually multitasking time. Eighty-three percent of our respondents listen to music more than an hour each day, with an average of 2 hours, 47 minutes of daily listening. As a group, our respondents identified cell phone (voice) as the most important tool for day-to-day communication.

**Figure 2**
**Millennials Survey**
**Media Usage Habits**



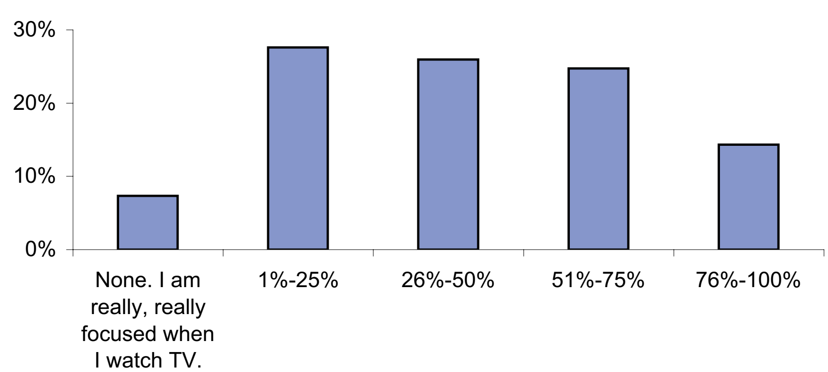

Source: Veronis Suhler Stevenson, William Blair & Company, L.L.C.

**Figure 3**
**Millennials Survey**
**Daily Media Consumption**



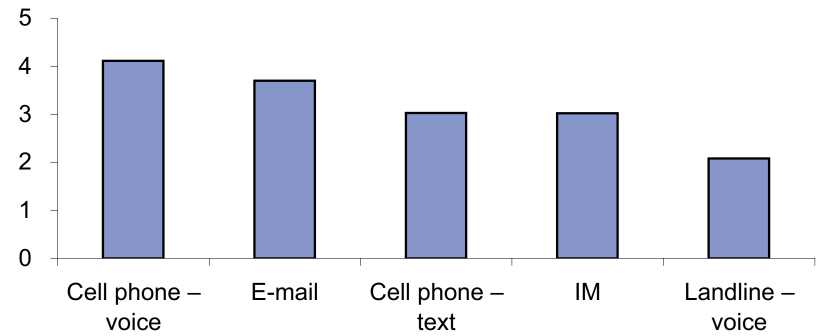

Source: William Blair & Company, L.L.C.

**Figure 4**
**Millennials Survey**
**Percentage of Time "Watching" Television While Doing Something Else**




Source: William Blair & Company, L.L.C.

**Figure 5**
**Millennials Survey**
**Rank in Importance for Day-to-Day Communication**
**(5 Is the Most Important)**




Source: William Blair & Company, L.L.C.

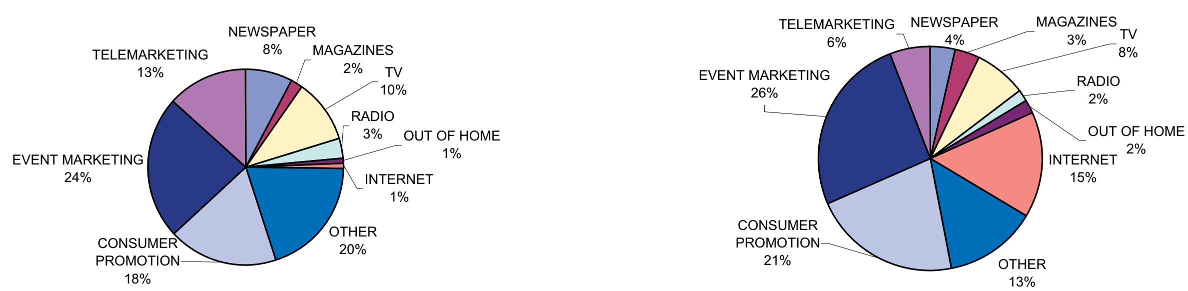
**Twice as Much Time Spent Online as Watching Television: A $140 Billion Opportunity**
As highlighted above, survey respondents reported spending on average twice as much time online as watching television, with time spent on the Internet a more focused experience than television-watching. We see few threats to this trend and expect the time spent online to increase as more content becomes available there. As marketers become more comfortable with advertising on the Internet, we project that advertiser spending will increase to reflect usage trends.

With the general population spending an estimated four hours, eighteen minutes watching television daily, advertisers are spending approximately $70 billion annually on domestic television advertising. But since our survey respondents prefer spending twice as much time online as watching television, we see the potential for U.S. online advertising spending to grow to $140 billion by 2020 as advertisers shift their spending to match usage trends to reach the Millennials, who by then will make up the majority of the commercially important 18- to 49-year-old demographic group. One possible shortcoming to our analysis is what the students classified as Internet activity, which may include nonmedia activities such as research for class or communications with friends. Despite this shortcoming, however, we highlight that certain online activities such as search are extremely valuable to marketers per unit of time expended and we suspect that these forces may balance out, making a $140 billion target reasonable. Figure 6 illustrates our estimate—based on the preferences indicated by the respondents to our survey—for how the marketing mix may change over the next 10 to 15 years.

**Figure 6**
**Millennials Survey**

**Estimated U.S. Marketing Spending, 2005**

**Estimated U.S. Marketing Spending, 2020**




Source: William Blair & Company, L.L.C.

**Digital = Free**

We asked about preferred methods for paying for content online, and overwhelmingly respondents indicated a preference for free content versus paid content. Specifically, respondents demonstrate a preference for free content with advertising they could not skip as opposed to paying out of pocket to access content. We believe this preference is the result of three factors:

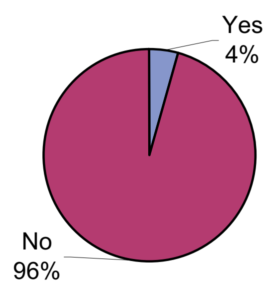
- First, we view this as fallout from early Internet models offering free content online, which we surmise set expectations that content found on the Internet will be ad-supported, or free from out-of-pocket payments;

- Second, the advent of Google AdWords in 2002 has enabled small publishers to monetize their content online;

- Third, growth in social networking, user-generated media, and blogs has created a much broader group of content producers (and therefore a broader array of content to be consumed), marginalizing the value of some "big media" content.

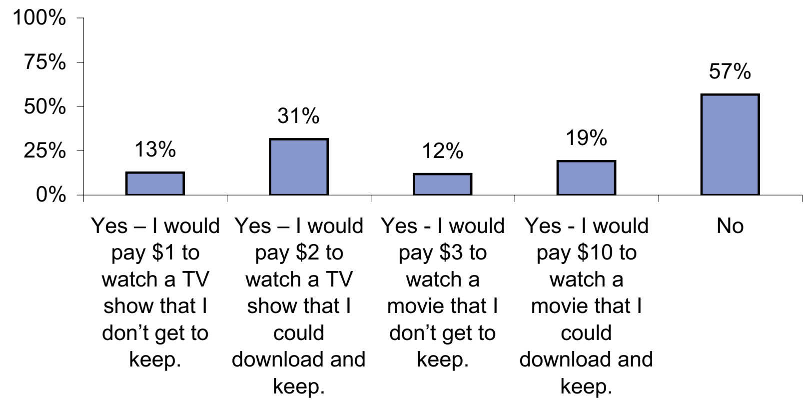
We suspect that efforts to convert this group to paid "premium" content will be difficult; our survey of college students indicates that only 4% of respondents pay for premium online content such as TimesSelect from the *New York Times* and CNN.com's premium video content, some of which students may be able to access for free. Fifty-seven percent indicated that they would be unwilling to pay to watch television shows or movies online, while 73% would prefer to watch television shows or movies with advertisements they could not skip rather than paying to watch a show commercial-free. When asked whether they would download a movie and burn their own DVDs instead of purchasing them, 62% said that they would.

**Figure 7**
**Millennials Survey**
**Do You Pay for Premium Online Content?**



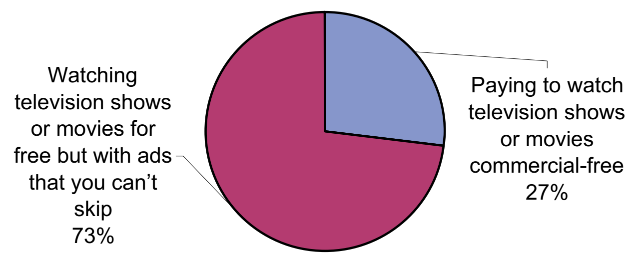

Source: William Blair & Company, L.L.C.

**Figure 8**
**Millennials Survey**
**Are You Willing to Pay to Watch Television Shows or Movies Online?**



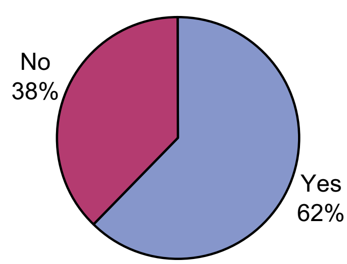

Source: William Blair & Company, L.L.C.

**Figure 9**
**Millennials Survey**
**Which of the Following Would You Prefer?**




Source: William Blair & Company, L.L.C.

**Figure 10**
**Millennials Survey**
**Would You Download a Movie and Burn Your Own DVDs Instead of Purchasing Them?**




Source: William Blair & Company, L.L.C.

***Implications.*** We see the greatest near-term implications of these online content payment preferences for the television and movie industries as they work to define how programming will appear online. At present, there are three primary models for the (legal) distribution of television shows online: the pay-per-episode model offered through sites such as iTunes, the free-episode-on-the-network-site model, and the free-episode-on-a-third-party-site model, through sites such as Joost, which has content agreements with CBS and Viacom.

From the preferences communicated by our survey respondents, we see an ad-supported, television-like model as more likely to both gain widespread adoption online and the approval of advertisers, studios, and networks as well. For marketers, their ads would not be able to be skipped, and by requiring registration to watch a show, online ads potentially could be personalized to the viewer. For the studios and networks, existing financial agreements for television content could more easily be amended to allow for broadcast online. Such a model will allow consumers to watch content on a time-shifted basis, likely undermining DVR services; further, ABC and ESPN's recent agreement with Cox Communications' video-on-demand service to disable the fast-forward function for the networks' content and commercials is a step toward altering consumers' time-shifted viewing habits and asserting the ad-supported content model.

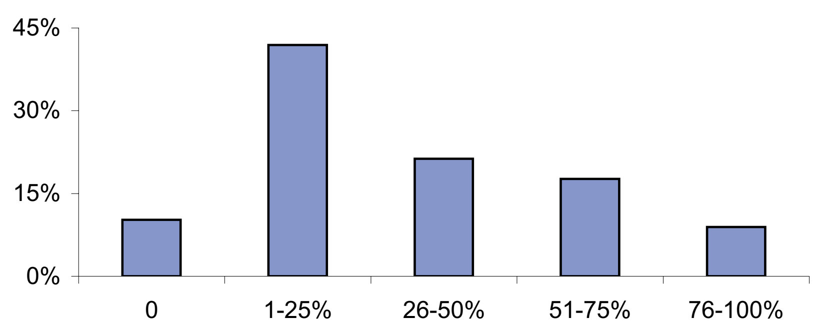
We expect online distribution partners such as Yahoo and MSN (in the case of the as-yet-unnamed NBC-News Corporation online video content venture) would likely welcome additional content and any revenue-sharing agreements for advertising during the programs. We see Yahoo and MSN as the most likely online portals to benefit from these distribution arrangements, at least until Google's YouTube smoothes the ruffled feathers of content producers concerned about copyright infringement.

**Digital Content Isn't the Only Thing Millennials Want Free: Ring Tones, Subscriptions, and Live Performances Are Keys to Future of the Music Business**

> I'm afraid the music industry is falling apart.
> —will.i.am, Black Eyed Peas

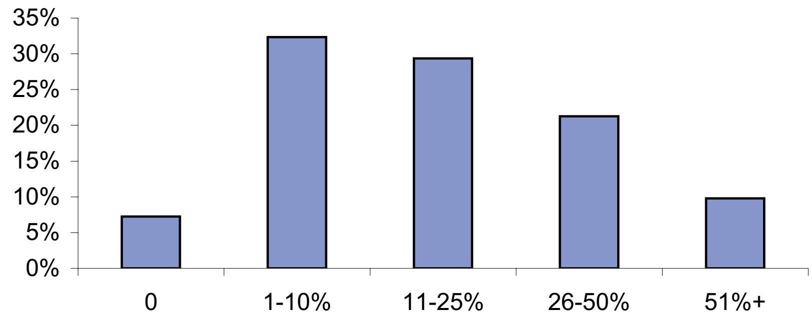
Our Millennials survey respondents listen to an average of close to three hours of music each day, but when we asked about the percentage of their music collection that they purchased, 52% of survey respondents paid for less than 25%, and 10% said they had not purchased any of the music in their collection. Of the music they had received free, survey respondents would have purchased only approximately 20% if they had to pay for it. Further, when we asked how respondents would have allocated a hypothetical $1,000 across a list of purely discretionary items, 67% indicated they would spend nothing on music, with the average budget allocation for music only $44. Respondents were willing to spend more on entertainment (including concert tickets), however, with an average budget allocation of $114.

**Figure 11**
**Millennials Survey**
**What Percentage of the Music That You Listen to Did You Purchase?**




Source: William Blair & Company, L.L.C.

**Figure 12**
**Millennials Survey**
**What Percentage of Free Music Would You Have Purchased if You Were Not Able to Obtain It Free?**

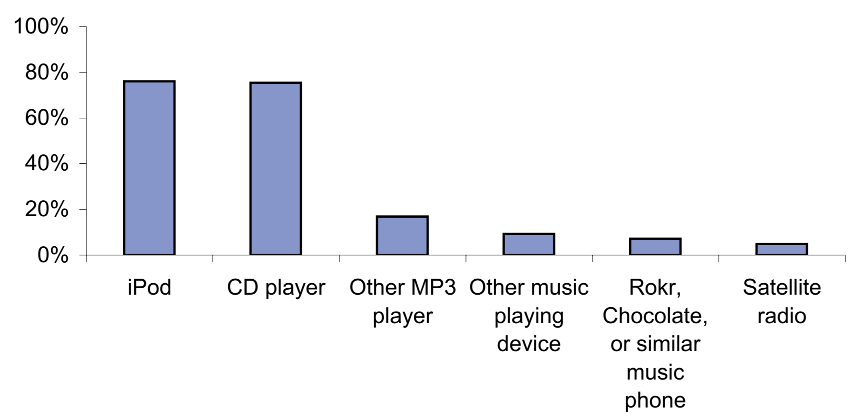



Source: William Blair & Company, L.L.C.

At a time when illegal file sharing is estimated to account for up to 100 times iTunes' legal downloads, and following a 20% industrywide decline in CD sales in first quarter 2007, there is concern about the future of the music industry, with recording companies hesitant to try new and unproven business models and technologies.

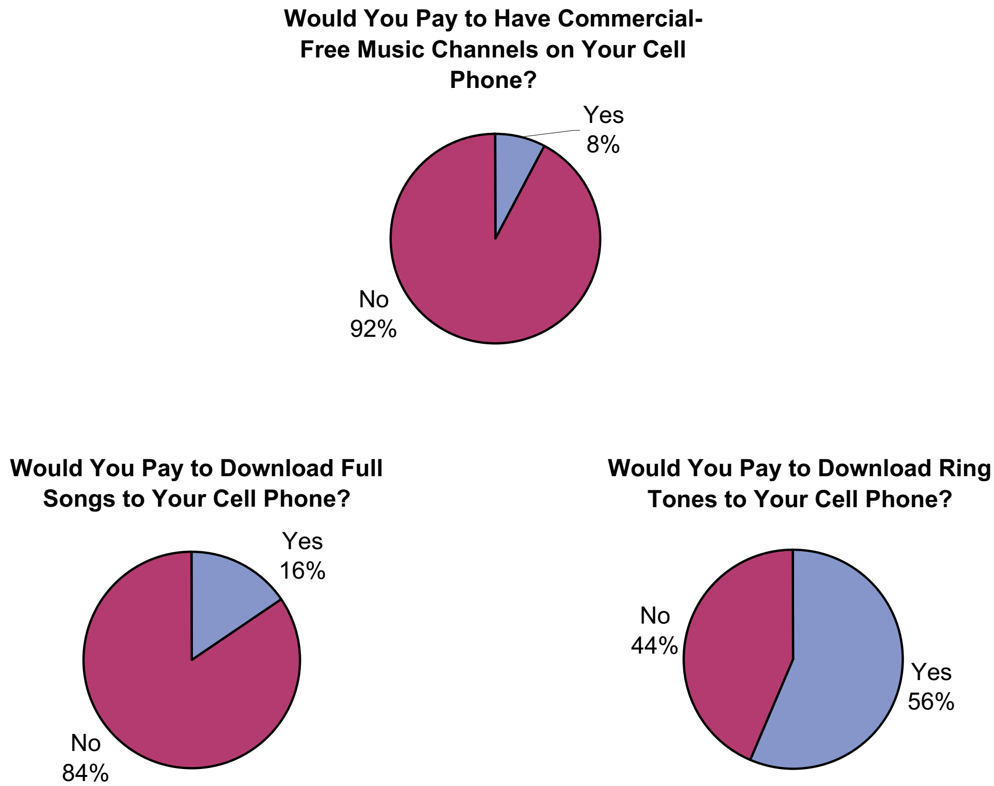
To better understand Millennials' expectations surrounding what they will and will not pay for, we asked a series of questions about delivery options and music revenue models. As we suspected that cell phones would likely be as ubiquitous as iPods and MP3 players—which 93% of respondents report owning—we asked the college students whether they would pay to have commercial-free music channels on their cell phone; only 8% said yes, and only 16% said they would pay to download full songs to a cell phone. But 56% said they would pay to download ring tones to a cell phone, despite an average cost of $1.90 per ring tone in North America (according to Juniper Research), or approximately two times the cost of an iTunes song download.

**Figure 13**
**Millennials Survey**
**Music Device Ownership**




Source: William Blair & Company, L.L.C.

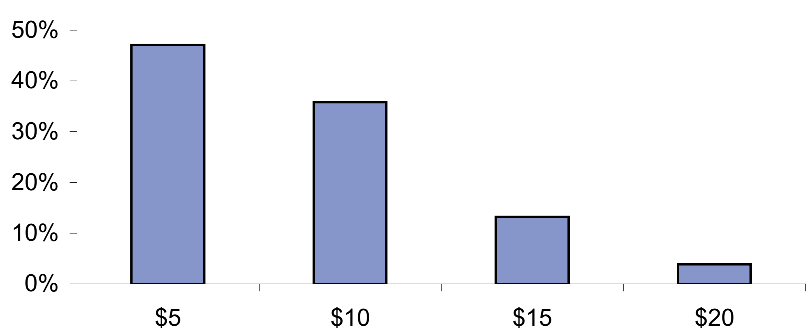
**Figure 14**
**Millennials Survey**




Source: William Blair & Company, L.L.C.

We also asked about buying music through a subscription-based program, a comparatively novel model for the music industry. We were intrigued that 65% of college students polled would be interested in getting all the music they wanted for a monthly subscription fee. Further, respondents indicated a willingness to pay an average of $8.69 per month for a subscription service that allowed them to keep the music downloaded for as long as they remained subscribers.

**Figure 15**
**Millennials Survey**
**Monthly Subscription Willingness to Pay**



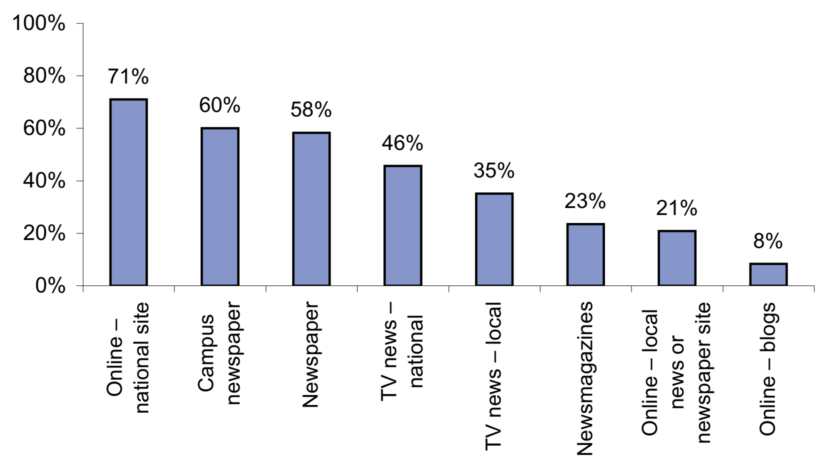

Source: William Blair & Company, L.L.C.

We see the relative popularity of ring tones, concert-going, and a subscription-based model as modest signs of encouragement for the music industry. According to a recent report by International Data Corporation, ring tones are estimated to represent half of the digital music revenue for Warner Music and are expected to contribute an increasing portion of revenue for the major music labels in the future and to be used to promote album releases. Indeed, some artists are noting the labels' emphasis on ring tones: Coldplay's Chris Martin was quoted during a press conference in Brazil earlier this year saying that all that matters in music anymore is a hit ring tone.

**Expect Media Usage Preferences to Become More and More Fragmented**

We asked survey respondents to select all of their relevant primary news sources and were surprised by the distribution of responses. We expected online sources to lead, with other options significantly less preferred given the usage behavior indicated for time spent online compared with television watching. Instead, respondents indicated a diverse set of primary news sources, including traditional media as well as online. We view these results as foretelling a continued increase in fragmentation of consumers' attention across a variety of media that will require advertisers to reach target audiences across several different media—that is, not just television and not just online. We review some of our findings about media preferences below.

**Figure 16**
**Millennials Survey**
**What Are Your Primary News Sources?**

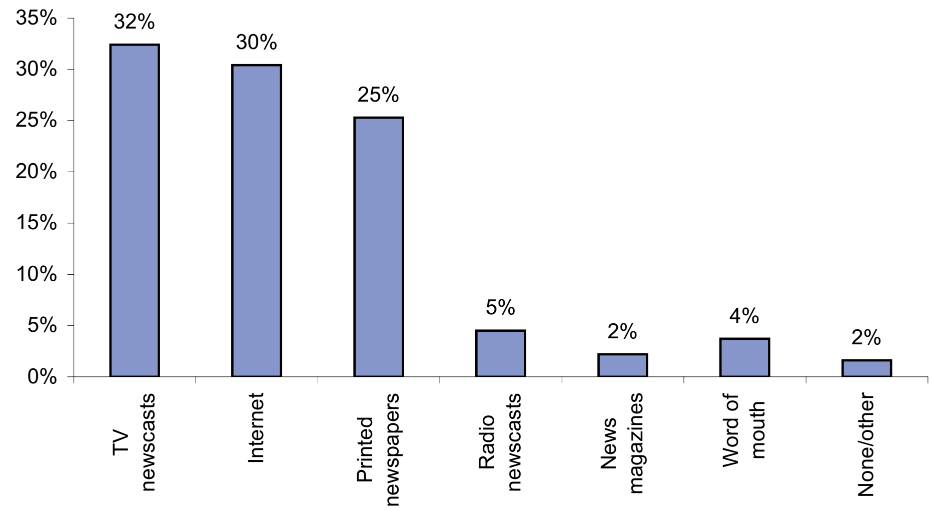



Source: William Blair & Company, L.L.C.

***Newspapers aren't dead yet.*** Newspapers ranked third among primary news sources, with 58% of college-age respondents choosing newspapers as a primary news source, behind national online Web sites and campus newspapers. The importance of newspapers was unexpected given continued projections of the demise of the newspaper industry, seemingly evidenced by circulation declines, as well as the recent sale of the *Minneapolis Star-Tribune* to an investor group for less than half of the newspaper's purchase price in 1998, and disappointing bids for the Tribune Company.

We attribute higher-than-expected newspaper readership to distribution agreements such as the Collegiate Readership Program (CRP), sponsored in part by Gannett's *USA Today*. The CRP began in 1997 at Penn State and is active on 400 campuses nationwide. *USA Today* has partnered with 300 local and national newspapers, enabling each school to choose up to three newspapers for distribution on campus, typically consisting of *USA Today*, one local paper, and one regional paper. Penn State conducted a survey in February 2005 to assess the program, which indicated that 83% of Penn State students had read a newspaper in the prior week, with 70% citing newspapers as a source of news three or more times a week. As illustrated in figure 17, newspapers were the third most preferred news source among Penn State students. Sixty-four percent felt that newspaper readership enhanced their educational experience.

**Figure 17**
**Millennials Survey**
**Penn State Students' Preferred News Source**



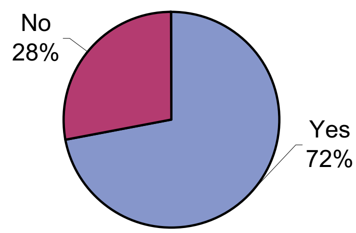

Source: *Penn State Pulse* , February 2005, and William Blair & Company, L.L.C.

Since many newspapers are free on campus, we asked whether our survey respondents would subscribe to newspapers if they did not receive them free. We were again somewhat surprised to find that 41% would subscribe to a newspaper if they did not receive one free.

But the trends we have observed would indicate a steady decline in newspaper readers by age group. From our survey of individuals over the age of 25, we found that the identification of newspapers as a primary news source by our sample set declined by age group from 85% of respondents over 50 to 53% of respondents age 31 to 35.

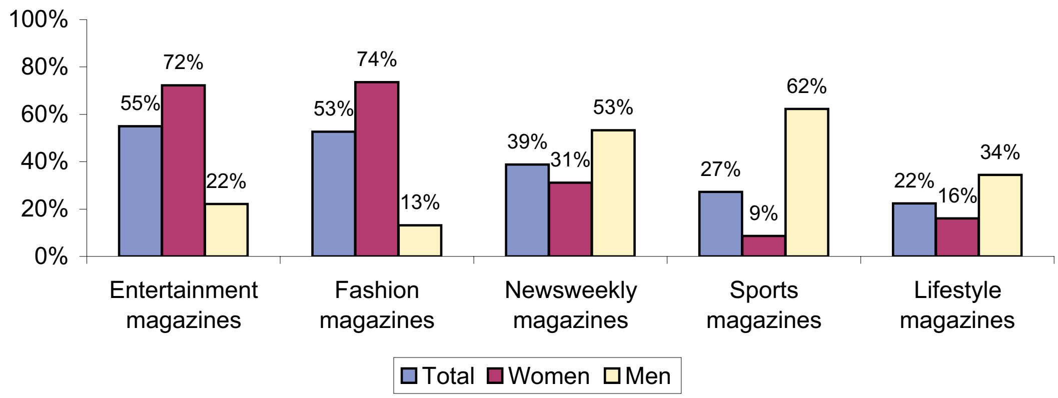
***Magazines are well liked.*** Seventy-two percent of our respondents indicate that they buy magazines, either through a subscription or off the newsstand, with magazine category purchase preferences varying by the gender of the respondent. Female respondents indicated a preference for fashion and entertainment magazines, while male respondents preferred sports and newsweekly magazines.

**Figure 18**
**Millennials Survey**
**Do You Buy Magazines?**




Source: William Blair & Company, L.L.C.

**Figure 19**
**Millennials Survey**
**What Types of Magazines Do You Buy?**




Source: William Blair & Company, L.L.C.

We view magazines as well positioned to take advantage of increasingly fragmented media, as growth in magazine titles has primarily come from what we identify as more targeted titles, compared with less-targeted general interest titles and news titles competing most directly with timelier news Web sites. According to the Magazine Publishers' Association, the number of magazine titles has declined 19% and 14% annually since 1999 in the general interest and news categories, respectively, compared with an overall magazine title decline of 5% over the same period. While both Time Incorporated and Meredith Corporation have reported automakers' shifting advertising spending away from magazines in favor of online spending over the past year, increases in magazine advertising spending by pharmaceutical manufacturers helped consumer magazine titles end 2006 with ad revenue that was even with the prior year. We expect any vertical-specific ad spending declines to stabilize for magazines, in line with the more balanced media mix reflected by the survey respondents.

In the appendix we offer our thoughts on ways for newspaper and magazine publishers to fix the print model.

**Google and Facebook Are the Most Popular Online Services; Yahoo Far Behind**

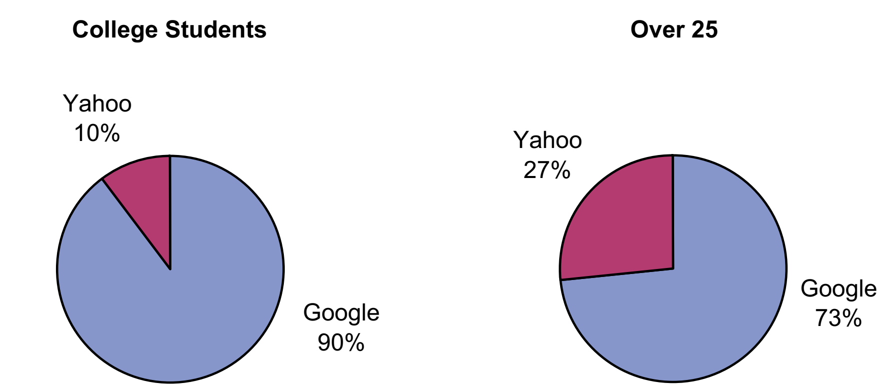
Despite signs of increasing fragmentation of media usage preferences, two Web sites were overwhelmingly preferred by Millennials surveyed. Questions about social networking Web sites strongly favored Facebook over MySpace, and questions about search and site preferences strongly favored Google over Yahoo. At a time when media preferences are becoming more diverse, there are fewer opportunities to reach a broad audience, but the responses indicate that Google and Facebook continue to draw a majority of search and social networking users among our respondents. We review questions about search and social networking preferences below.

**Ya-*who?***

As part of our questions about sources for news and information, we asked about site preferences both generally and for search specifically. To identify broad usage preferences, we asked respondents which site they use more, Google or Yahoo, without specifying whether we were asking about search or content such as news, financial information, and sports. Ninety percent identified Google as the Web site they use more. To determine whether the preferences of younger people were more or less heavily skewed toward Google, we asked the same question of individuals over the age of 25; while still Google-focused, a relatively lower 73% of the older respondents indicated that they use Google more frequently.

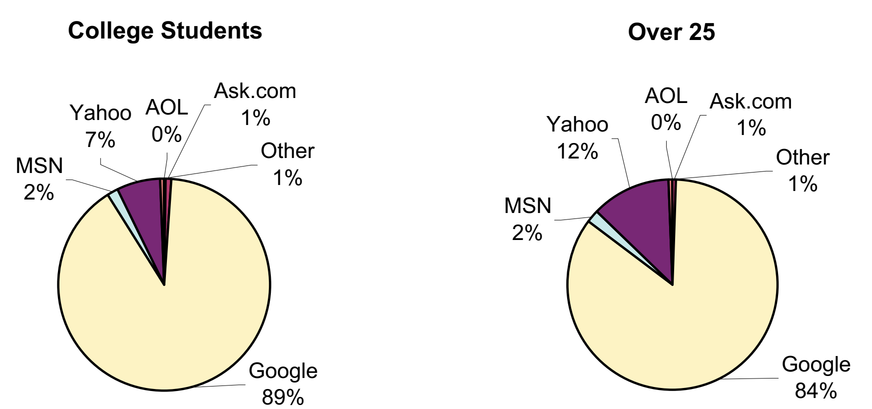
The next question was about preferred Web sites for search. Google garnered 89% of responses from college students, with Yahoo at 7% the next closest preference. Eighty-four percent of the older respondent group preferred Google, with 12% identifying Yahoo.

**Figure 20**
**Millennials Survey**
**Which Do You Use More, Google or Yahoo?**




Source: William Blair & Company, L.L.C.

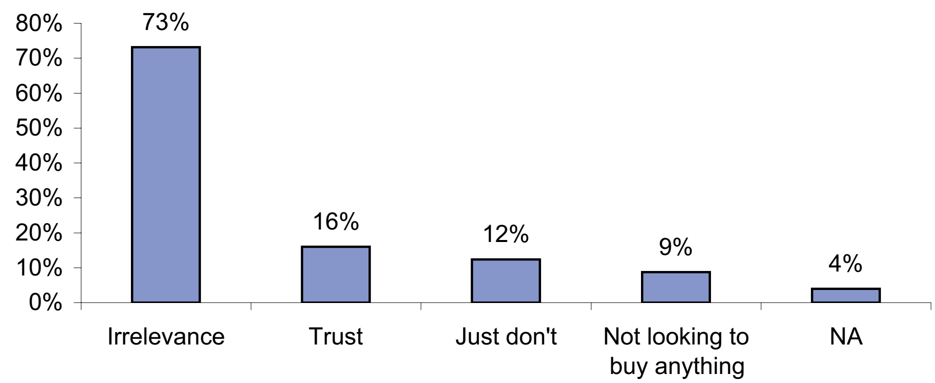
**Figure 21**
**Millennials Survey**
**Which Do You Prefer for Search?**




Source: William Blair & Company, L.L.C.

We asked both of our survey groups whether they click on the sponsored links that appear when they conduct a search. Seventy-seven percent of college students said that they did not, while 63% of the older group did not click on sponsored links. As a follow-up question, we asked why they do or do not click on sponsored listings; most of the responses centered on why they do *not* click on sponsored links. Responses fell into three primary groupings: concerns about relevance of the listings; suspicions about whether the links were trustworthy, in which respondents expressed concern about the potential for viruses, pop-ups, or becoming the victim of a scam; and a category we call “just don’t” because the respondent provided that he or she “just doesn’t” click on the links as the reason. Relevance topped the list of reasons by a wide margin, cited by 73% of respondents, followed by trust (16%) and “just don’t” (12%).

**Figure 22**
**Millennials Survey**
**Reason(s) You Do Not Click on Search Engine Sponsored Links**



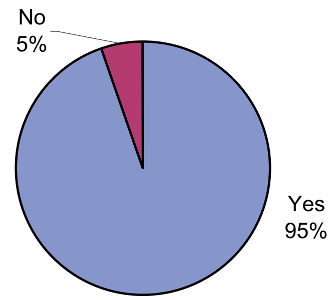

Source: William Blair & Company, L.L.C.

Recall that since most respondents indicated a preference for Google, the indictment of sponsored links’ relevance likely refers to Google, which is generally considered to offer more relevant listings than Yahoo. Through Project Panama, Yahoo has undertaken a significant initiative to address Yahoo’s search listing relevance. We see Project Panama and the company’s focus on improving the relevance of search results as an important step in the right direction in addressing consumer concerns. But when combined with the overwhelming preference for Google, we question whether the improvements to Yahoo’s search functionality are too late to improve Yahoo’s perceived relevancy compared with Google.

**“I had no choice; I had to join Facebook if I wanted to know what was going on.”**
We asked about social networking as part of a section of questions designed to understand communication preferences. As noted above, 95% of Millennial survey respondents use a social networking site; 98% of the students using a social networking site use Facebook. We were surprised by the esteem in which Facebook is held—94% of respondents indicated they felt the site had staying power and 70% said that they plan to continue using Facebook after graduation.

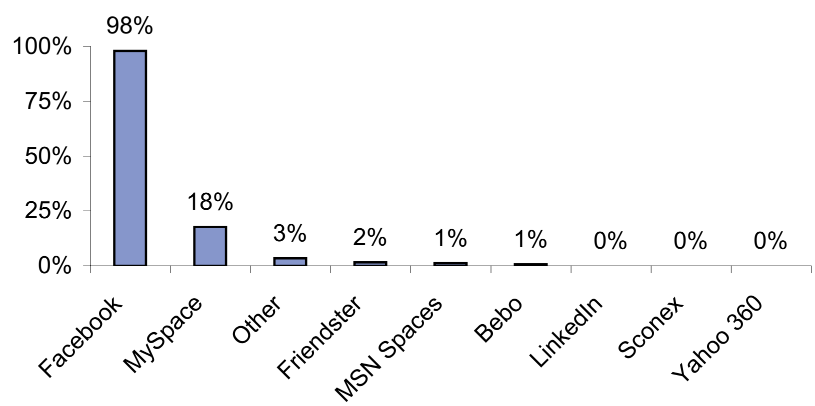
Anecdotal feedback suggests that the Facebook network is a requisite part of life for many of the survey respondents, so we decided to test the threshold after which our respondents would no longer use Facebook. Facebook’s decision to offer up-to-the-minute postings of its users’ online activities last summer through its so-called “news feeds” caused an uproar among users proclaiming it “stalker-like.” But while 77% of our survey’s respondents said they were upset about the news feed feature, only 37% said they would have stopped using it if the feature had not been modified. Only 31% indicated they would stop using Facebook if the site added more advertising.

**Figure 23**
**Millennials Survey**
**Do You Use a Social Networking Site?**



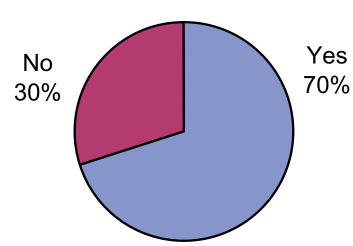

Source: William Blair & Company, L.L.C.

**Figure 24**
**Millennials Survey**
**Which Social Networking Sites Do You Use Most?**



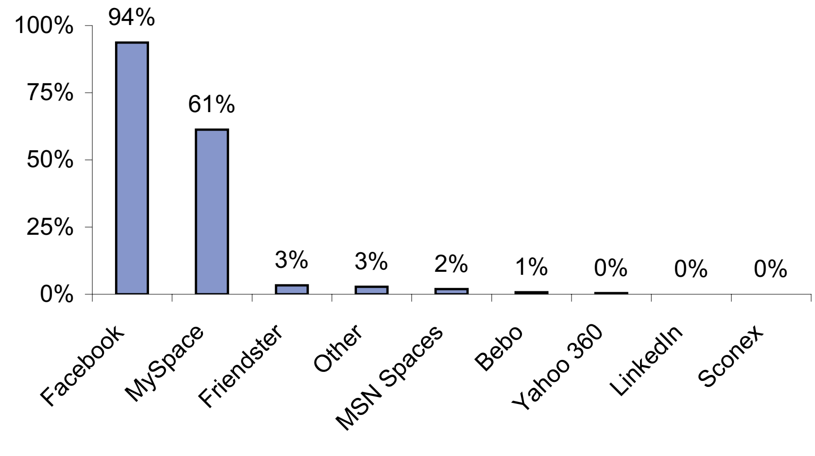

Source: William Blair & Company, L.L.C.

**Figure 25**
**Millennials Survey**
**If You Use Facebook Today, Do You Think You'll Use It After Graduation?**




Source: William Blair & Company, L.L.C.

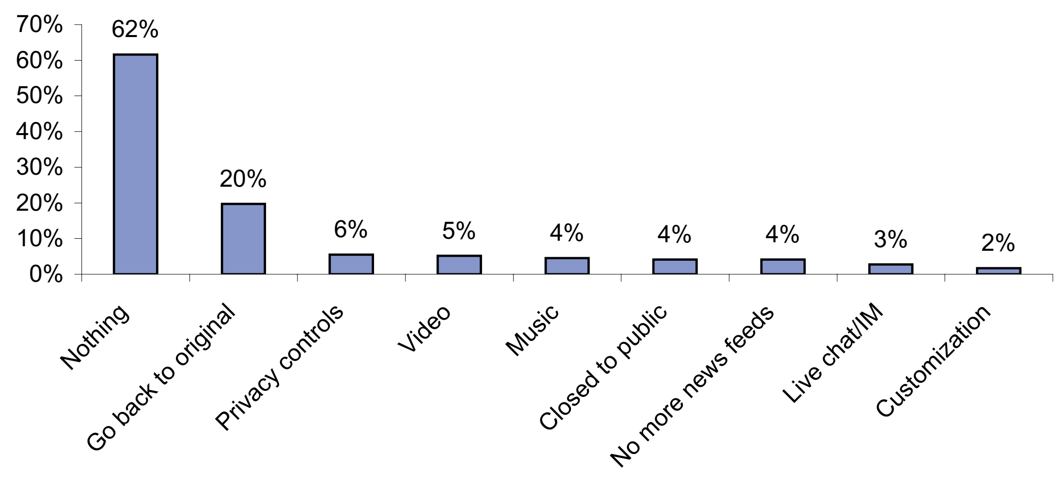
**Figure 26**
**Millennials Survey**
**Which of the Following Do You Think Has Staying Power?**




Source: William Blair & Company, L.L.C.

We also asked about what respondents would like to see Facebook add next. The overwhelming response with 62% of answers was "nothing"; the next closest statement consisted of various exhortations from 20% of respondents that the social networking Web site should return to its original format and college-based limits on participation. Many asked for Facebook to add MySpace-like features including video (5%) and music (4%) that MySpace already offers, while another 10% wanted improved privacy controls and access limitations that differentiate Facebook from the more-open MySpace.

**Figure 27**
**Millennials Survey**
**What Would You Like to See Facebook Add Next?**



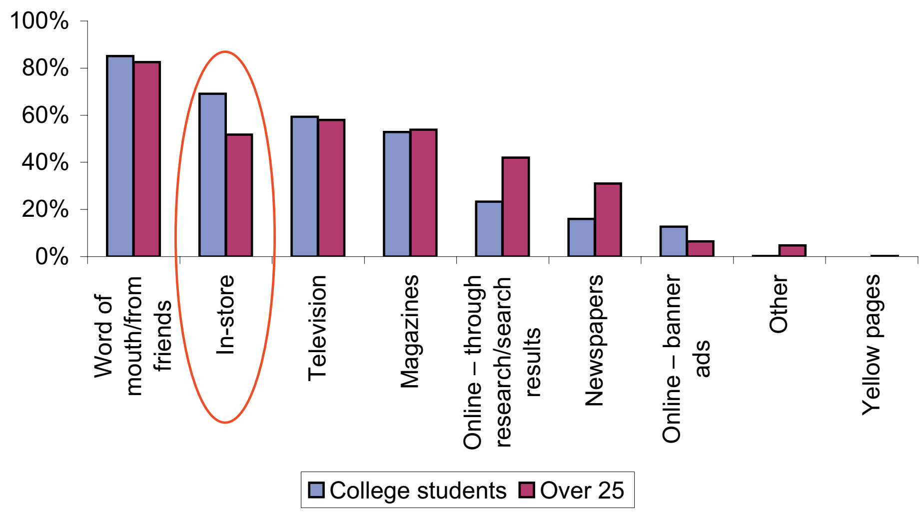

Source: William Blair & Company, L.L.C.

Facebook remains very popular. In early March, YouthTrends, a market research and strategy firm specializing in research on the Millennial generation, released its most recent quarterly survey, identifying Facebook as the most popular Web site among women and men age 17 to 25. YouthTrends indicates that Facebook was named one of the top three sites by almost 70% of women and 56% of men, significantly outpacing the next closest choices—for women, MySpace was second with 38%, and for men, YouTube was second with 19%. ComScore reports that unique visitors to Facebook in May have doubled since the site opened registration to the general public in September 2006, with page views increasing 121% and average minutes per user increasing 6%, to 186.

**Word of Mouth, Point of Purchase Key to New Product Introduction**

We asked both our Millennials and our "Over 25" survey respondents how they learn about new products. The results were fairly uniform, with one significant exception. While both groups rely primarily on word of mouth (85% for the Millennials and 82.5% for the Over 25 group), the Millennials identified "in-store" as the second most frequent place they learn about new products; in-store only ranked fourth for our Over 25 survey respondents, behind television and magazines. We believe that in-store ranked higher than television for the Millennials because they watch less television, on average, than the Over 25 group. Further, we see point-of-purchase and place-based marketing as increasingly important to break through marketing message clutter, particularly among users consuming media from more diverse sources.

**Figure 28**
**Millennials Survey**
**How Would You Say You Primarily Learn About New Products?**




Source: William Blair & Company, L.L.C.

We see place-based marketing as likely to become more prevalent in the United States as advanced cell phone technology penetrates more households in America. In Japan, for example, people use cameras to get insurance quotes from magazine ads or to watch movie trailers from a billboard. With cell phones ranking as the most important tool for day-to-day communication for our Millennial survey respondents, we expect that advertisers will soon be reaching younger consumers via their cell phones.

**Implications for Media and Marketing Services Companies**

We believe the media consumption habits of Millennials will accelerate changes in the media and marketing landscape in the coming years, leading to an increase in online advertising spending, continued media fragmentation, and more content delivery channel choices. In the near term, we expect that companies with a differentiated online presence and those agencies and properties benefiting from increases in online marketing spending will gain, with the category killer sites such as Google and Facebook as well as the best-of-breed marketing services firms becoming the long-term beneficiaries of Millennial-driven trend shifts. In particular, we believe the following companies on our coverage list are the best positioned.

**Table 1**
**Millennials Survey**
**Implications for Media and Marketing Services Companies Under Coverage**

| | Google | MDC Partners | Omnicom | Visual Sciences | Yahoo |
|---|---|---|---|---|---|
| **Internet as Primary Medium** | ✓✓ | ✓ | ✓ | ✓✓ | ✓✓ |
| **Increasing Fragmentation** | ✓✓ | ✓ | ✓ | ✓ | ✓ |
| **Few Places With Mass Audience** | ✓ | | | ✓ | |
| **Digital = Free** | ✓ | ✓ | ✓ | | ✓ |
| **Music = Free, Too?** | | | | | ✓ |
| **Receptive to Place-Based Marketing** | | ✓ | ✓ | | |

Source: William Blair & Company, L.L.C.

## Appendix: How Do Newspaper and Magazine Publishers Fix the Print Model?

We believe that the opportunity exists for newspaper and magazine publishers to increasingly leverage their local connections and content libraries through free, branded online portals to increase reader engagement as well as to uniquely provide targeted print and online advertising opportunities to marketers.

We do not see online-only magazines as the preferred model, however, as anecdotal feedback from some survey respondents included an emphasis on tangible reading materials, that is, the preference for being able to flip through a paper version of a magazine or a newspaper. But the decisions by *ElleGirl* and *TeenPeople* to shut down their print publications in favor of a Web-based publication could be indicative of a preference shift among the younger Millennials. The new online-only magazines capitalize on the popularity of social networking sites such as Facebook and MySpace, which 95% of our college student survey respondents use; we believe that the addition of more interactive features will increase engagement and loyalty among readers and offer more advertising and sponsorship opportunities for marketers.

Newspaper publishers are also working to improve user engagement. Gannett's "pro-am" (professional-amateur) initiative may redefine the newspaper-reader relationship. *BusinessWeek* cites an early pro-am example from Fort Myers, Florida, where the *Fort Myers News-Press* began probing high utility service fees for homeowners by running a small piece in the newspaper and online, providing an opportunity for the community to offer feedback. Responses included documents indicating illegal activity involving bids for providing the service; the issue was discussed in user forums, generating leads for the journalists working on the story. *USA Today* (like the *Fort Myers News-Press*, a Gannett newspaper) recently redesigned its site to feature more user-generated content, and Reuters has announced its intent to create a "My Space-like" site for financial professionals. The *Chicago Tribune* is now sponsoring Triblocal.com, a "hyper-local" site inviting readers to report on their communities, with stories appearing online and in a new local weekly print edition.

Additional information is available upon request.

This report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

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| | |
|---|---|
| DJIA: | 13649.97 |
| S&P 500: | 1510.12 |
| NASDAQ: | 2639.16 |

The prices of the common stock of other public companies mentioned in this report follow:

| | |
|---|---|
| aQuantive | $65.78 |
| CBS Corporation | $34.19 |
| E.W. Scripps | $45.39 |
| Gannett Company | $54.02 |
| Google | $543.34 |
| MDC Partners | $8.94 |
| Meredith Corporation | $61.05 |
| News Corp | $21.27 |
| Omnicom | $52.07 |
| Publicis | $43.98 |

| | |
|---|---|
| Reuters | $76.05 |
| Time Warner | $20.51 |
| Tribune Co. | $30.30 |
| Warner Music Group | $14.45 |
| WPP Group | $74.13 |
| Yahoo! | $26.97 |

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|---|---|---|---|
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