U.S. DIGITAL FUTURE IN FOCUS 2014

comScore

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Introduction

2013 was another watershed year in the life of digital, marked by transformative changes in how people interacted with technology, how content evolved the new media paradigm, and how businesses developed through digital advertising and commerce. While certain industry observers lamented a relative lack of tech product innovation, what such proclamations ignore are the profound changes in digital consumer behavior across a variety of sectors, including mobile, social media, video, advertising, search and e-commerce. The incredible evolution occurring in the marketplace today is the result of several transformative shifts:

Platform Shifts: Consumers are engaging with digital media across an increasing number of platforms, with mobile being the single most significant change in this landscape since the invention of the internet. As digital platforms continue to emerge, media fragmentation will only accelerate, creating the defining marketing challenge of this era.

Content Shifts: People are rapidly changing the way they consume content as they shift from traditional media to digital media, requiring media companies to rethink the content experience and which formats – from both a media and advertising perspective – are best for engaging with consumers.

Demographic Shifts: Young people and Millennials play a critical role in leading shifts in consumer technology adoption and usage habits, in areas such as social media, mobile and video. Their behaviors today offer important insight into the future of digital media and an opportunity for marketers to get ahead of the curve.

Marketing Shifts: Marketing dollars are gradually following eyeballs to mobile platforms as mobile measurement and monetization emerge as important challenges to media industry economics. At the same time, new ad and campaign measurement capabilities are reducing waste, improving optimization, and ultimately driving better marketing ROI.

With these fundamental shifts in mind, we will examine how today's digital media landscape has changed over the past few years and what that means for the year ahead – and beyond. It is an exciting time in digital and we hope this exploration of today's key issues helps put the Digital Future in Focus for you and your business.

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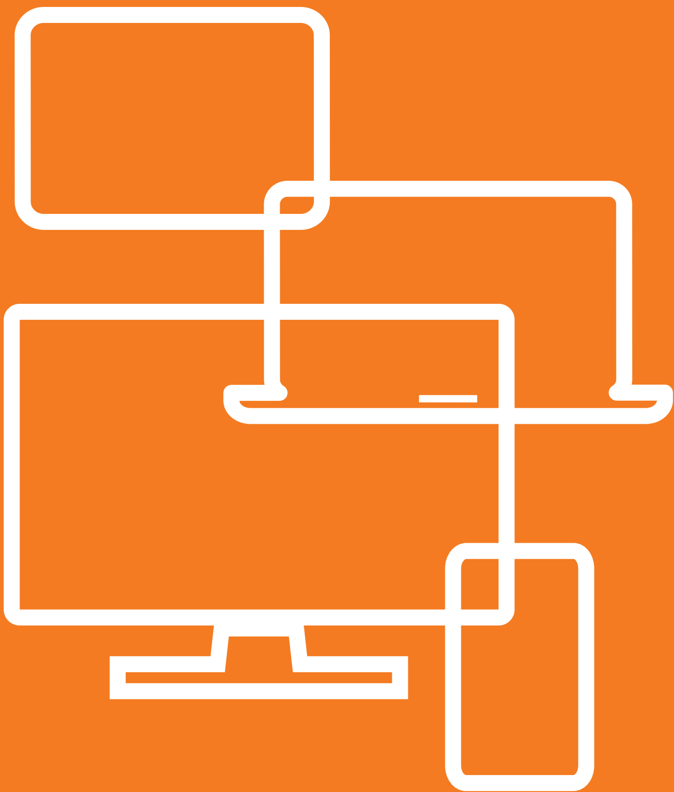
Multi-Platform



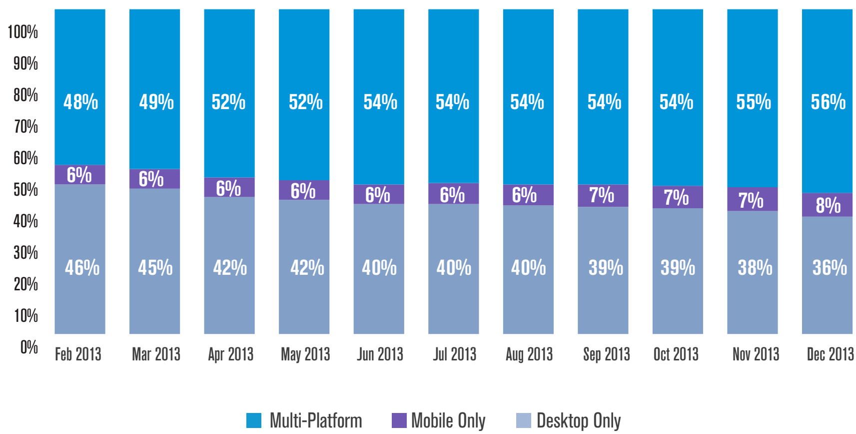
As of December 2013, ***56 percent*** of U.S. digital media consumers constitute the ***'multi-platform majority.'***

DIGITAL MEDIA AUDIENCES NOW A 'MULTI-PLATFORM MAJORITY'

The most disruptive shift in the digital media marketplace has been the shift from desktop to mobile platforms. This is evidenced by the fact that smartphone technology was introduced several years ago, yet this device, now along with tablets, continues to drastically alter the dynamics of consumer behavior. In 2013 some of the most pronounced shifts in audience behavior occurred as consumers attempt to keep pace with the fast-evolving consumer technology trends. For the first time this year, multi-platform users (i.e. people who use both mobile and desktop devices) became the majority of the digital population — a milestone that was reached in April 2013. By the end of the year, a full 56 percent of digital media consumers constituted the 'multi-platform majority.'

U.S. Multi-Platform Audience by Segment

comScore Media Metrix Multi-Platform, U.S., February 2013 - December 2013



This 50 percent milestone is meaningful because it not only describes the largest segment of digital media consumers today, but it also signals the future of digital marketing. With the average consumer now reachable across a variety of media platforms, marketers are increasingly looking for ways to reach their target segments more efficiently and with tailored communications that drive greater effectiveness. Marketers understand that the multi-platform marketing environment is one of great opportunity.

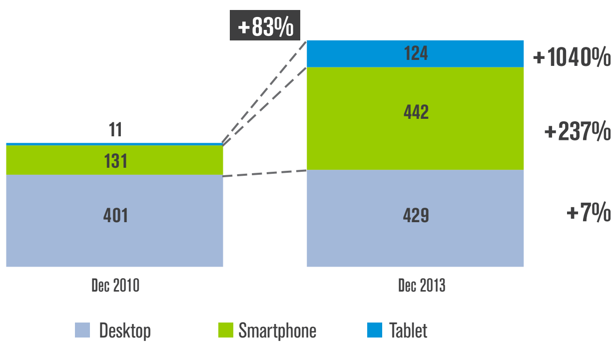
Publishers and media companies may view the multi-platform shift somewhat more ambivalently, given its potential to disrupt established business models. As consumers move to mobile platforms while mobile CPMs remain lower on average than traditional desktop display, many have expressed concerns about the risk of trading dollars for dimes. At the same time, there are more avenues for digital media monetization than ever before thanks to smartphones and tablets.

MOBILE USAGE IS MOSTLY INCREMENTAL TO DESKTOP

These devices have profoundly and lastingly changed the digital media landscape, but it's important to realize that while consumers are spending more and more time with these untethered devices, their usage has been largely incremental to desktop. In fact, virtually all of the growth in total internet usage over the past three years has come from usage of smartphones and tablets, which are responsible for almost doubling the amount of time Americans spend online.

Total U.S. Time Spent by Digital Platform (Billion Minutes)

comScore Media Metrix Multi-Platform, U.S., December 2013

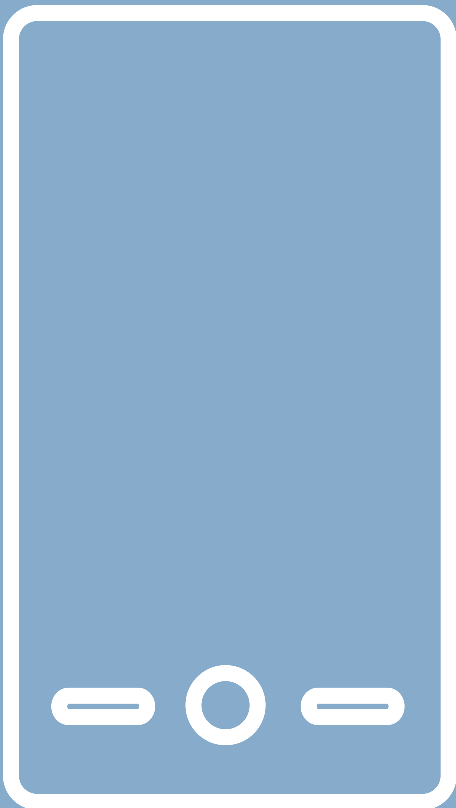


Since December 2010, smartphone engagement has grown more than three-fold from 131 billion total minutes spent on the platform to a remarkable 442 billion by December 2013. Tablets, which were in their infancy in late 2010, have seen usage jump ten-fold over that same period to 124 billion minutes spent per month. Not only does mobile now account for the majority (57 percent) of internet usage, but smartphones alone have surpassed desktop usage.

As digital media continues to fragment, multi-platform users will become increasingly common. Nowadays it is not unusual for someone to wake up and check the weather on a smartphone, head to work and use a desktop computer throughout the day, play games or read the news on a smartphone while commuting home from work, then wrap up the day by watching a television show on a tablet. There are advantages and disadvantages to each device, and consumers are using all of them to perform their tasks and activities, depending on what they are doing, where they are, and which device is most convenient. As wearable devices such as smart watches and Google Glass begin to gain popularity, the digital media landscape will become even more fragmented than it is today.

And while fragmentation can mean greater challenges for marketers, those who take the necessary steps to adapt and understand their target audiences – and how, where and when they consume content – will yield the greatest returns. It's imperative that companies understand the multi-platform environment, develop the right tailored marketing strategies, implement the tools to execute on those strategies, and finally measure accordingly if they want to achieve successful results on their digital marketing investments.

Mobile



***Smartphone users love their apps*:**

They accounted for ***85 percent*** of internet time spent on phones in 2013.

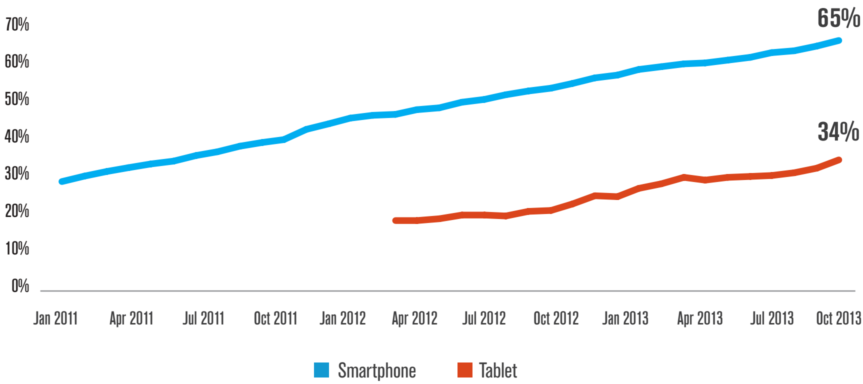
QUIET YEAR FOR MOBILE DEVICE INTRODUCTIONS BELIES MASSIVE MOBILE USAGE GAINS

While the mobile market has had a relatively quiet year in terms of revolutionary product introductions, the consumer market and usage dynamics have been anything but quiet. Not only did smartphone and tablet adoption continue to grow at exceptional rates, but consumers engaged with their devices more than ever before.

The number of U.S. smartphone users grew 24 percent in the past year to 156 million owners in December 2013, an especially robust growth rate given that the devices now have 65 percent mobile market penetration and are well into the 'late majority' phase of the technology adoption lifecycle. Tablet adoption is currently in the 'early majority' phase of the technology adoption lifecycle and grew at a robust 57-percent in the past year to 82 million owners, representing more than 1 out of every 3 mobile users. While adoption has grown considerably, there remains abundant market opportunity with 83 million U.S. mobile users who do not yet have a smartphone and 157 million who do not own a tablet.

U.S. Smartphone and Tablet Penetration

comScore MobiLens and TabLens, U.S., Age 13+, January 2011 - December 2013

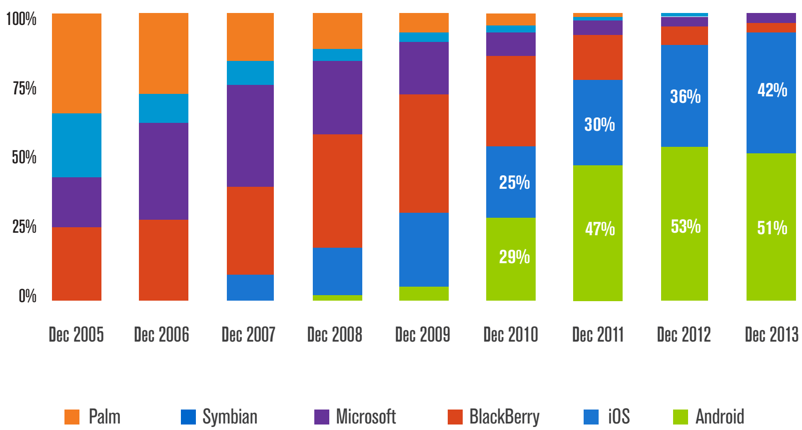


SMARTPHONE MARKET LED BY ANDROID IN SOFTWARE, IPHONE IN HARDWARE

The U.S. smartphone operating system market has solidified into a two-horse race between the Android and iOS platforms. The two platforms now combine for 93 percent of the smartphone market, with Android holding onto a majority share at 51 percent and Apple not far behind at 42 percent. Notably, Apple nearly halved the market share gap over the past year from 17 percentage points (53 vs. 36) to 9 points. Despite its recent market share success and overall prestige, Apple remains one of the only smartphone platforms never to have held the market share lead in the U.S. – a feat that Palm, Microsoft, BlackBerry and Android can all boast.

U.S. Smartphone Market Share by Operating System (OS)

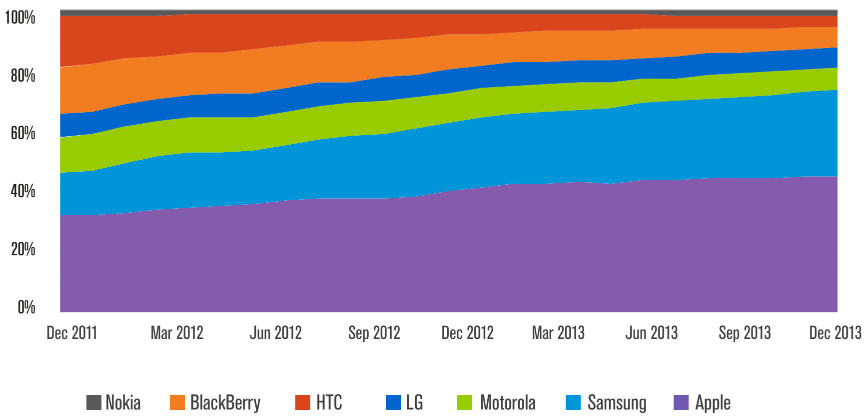
comScore MobiLens, U.S., Age 13+, December 2005 - December 2013



From a smartphone OEM perspective, however, Apple does currently maintain the market share lead with 42 percent of the market. But competition in this space also continues to heat up, with Samsung gaining steam and steadily inching closer to the market leader with 26 percent of the market – double its percentage from two years ago. More than 97 percent of current Samsung smartphone owners are on the Android platform, so for the most part every new sale of a Samsung smartphone helps further establish Android's position in the market. However, Samsung's development of its own proprietary OS, Tizen, suggests this tight linkage may not be around forever.

U.S. Smartphone Market Share by Original Equipment Manufacturer (OEM)

comScore MobiLens, U.S., Age 13+, December 2011 - December 2013



As Americans continue to cycle through new smartphone models, millions of consumers have been upgrading to 4G devices with penetration reaching 50 percent by December 2013, up from 26 percent a year earlier. 4G connectivity is improving both internet speeds and the overall usability for consumers, creating a more fertile ground for mobile content delivery and consumption to flourish.

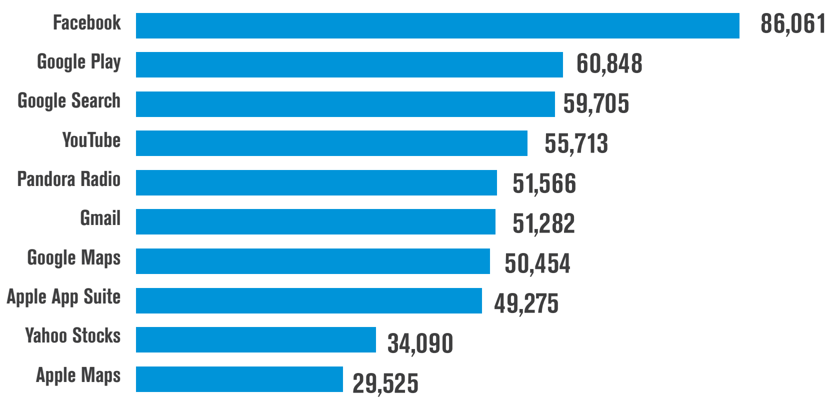
MOBILE CONTENT USAGE DRIVEN BY APPS

Smartphones have quickly emerged as the primary content channel for internet consumption, overtaking time spent on desktop computers in 2013. The convenience and constant accessibility of high-quality internet access available within arm's reach of the consumer has proved to be a compelling value proposition. On smartphones the access method of choice is apps, which accounted for 85 percent of internet time spent on phones in 2013, easily eclipsing usage via mobile browser.

Facebook led the smartphone market as the most used app, both in terms of average audience and average time spent, throughout the duration of 2013. Google boasted the next three apps in terms of average audience – Google Play, Google Search and YouTube – and five of the top ten. Facebook, Pandora Radio and Yahoo Stocks were the only three from the top ten not affiliated with mobile platform leaders Google and Apple.

Top 10 Apps of 2013: Average Monthly U.S. Smartphone Visitors (000)

comScore Mobile Metrix, U.S., Age 18+, January 2013 - December 2013



Social Media

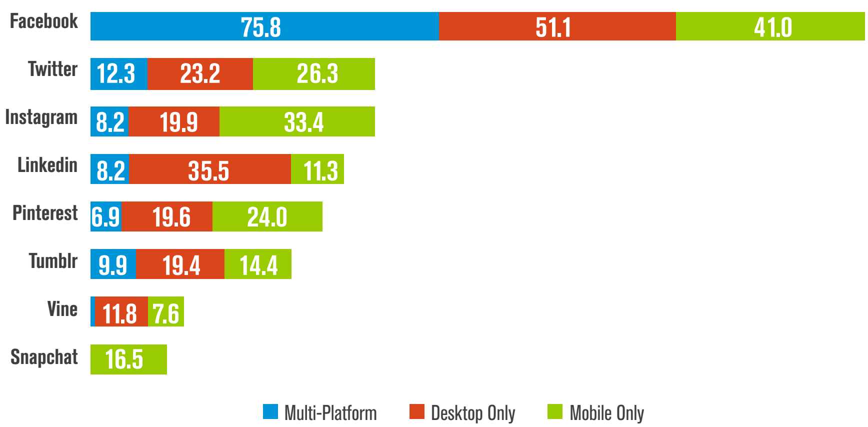
Camera content was king in 2013, ushering in a surge of ***mobile-first social networks*** like Instagram, Snapchat and Vine.

SOCIAL NETWORKS GO 'MOBILE-FIRST'

As desktop usage has largely remained flat over the past year for top web properties, mobile usage continues to surge. In fact, many of the major social networks are seeing far more traffic and time spent coming from mobile devices than from desktops, as the mobile/desktop divide continues to grow. Among the largest social networks, only Linkedin and Tumblr maintain a majority share on desktop, while newer social networks such as Instagram, Snapchat and Vine are almost exclusively mobile.

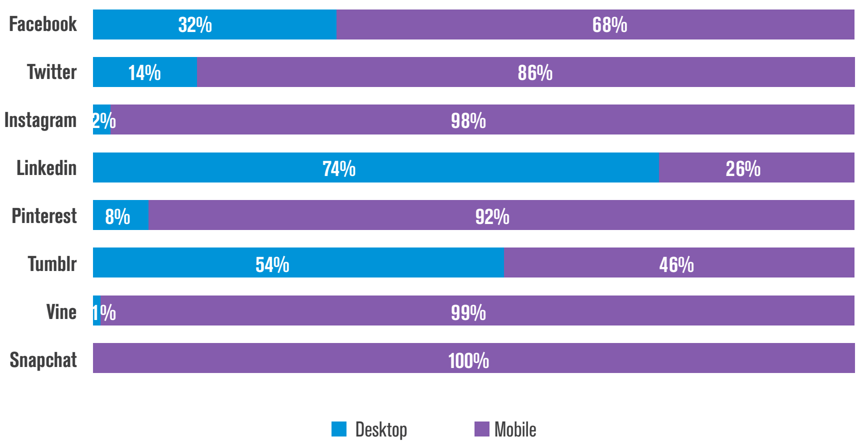
U.S. Multi-Platform Unique Visitors (MM) on Social Networks

comScore Media Metrix Multi-Platform, U.S., Age 18+, December 2013



U.S. Share of Time Spent on Social Networks Between Platforms

comScore Media Metrix Multi-Platform, U.S., Age 18+, December 2013



Category-leader Facebook, which continues to boast the highest overall penetration (75 percent of the total digital media population in December 2013) and engagement per visitor (16 percent of total digital media time spent, including 20 percent within mobile), proved its business model over the past year as its stock soared to new heights. Surprising many doubters, Facebook demonstrated the ability to effectively monetize mobile advertising, which now accounts for 53 percent of its ad revenue. Facebook has also continued to make waves on the M&A front. Its 2012 acquisition of Instagram for $1 billion is looking like a shrewd move as the photo-based network continues to gain traction. More recently, a $3 billion offer for Snapchat was reportedly rebuffed by the popular ephemeral photo-sharing service. However, this did not deter Facebook from other pursuits as it followed up that bid with a successful $19 billion acquisition of global messaging phenomenon WhatsApp.

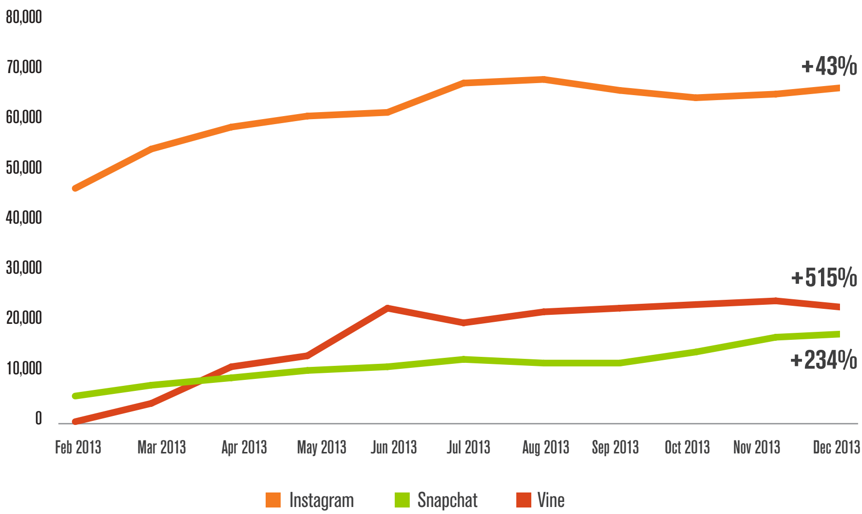
Among other leaders in Social Networking, Twitter began trading on the public markets with a successful IPO in November. The company stated during its Q4 2013 earnings call that mobile advertising accounted for 75 percent of its total advertising revenue, proving that it, too, could run a mobile-first business. Linkedin also performed strongly on the public markets as its advertising, talent solutions and subscription revenue streams continue to gain momentum. Tumblr demonstrated steady growth and popularity among younger users that ultimately contributed to it being bought by Yahoo for $1.1 billion, representing Marissa Mayer's first blockbuster acquisition as CEO. Despite the heady M&A environment for social networks, Pinterest chose to maintain its independence and begin building a business around its very engaged user base, which has increasingly transitioned to mobile platforms with 92 percent of time spent now coming from smartphones and tablets.

CAMERA CONTENT DRIVES SURGE AMONG 'MOBILE-FIRST' SOCIAL NETWORKS

Outside of the larger, established networks, some of the more talked about emerging networks have been Instagram, Snapchat and Vine. Not surprisingly, their highly visual and easily digestible content is immediately resonating with users and attracting new adherents. All are examples of 'mobile-first' social networks, for which cameras enable the content creation experience and for which the devices also work well for content consumption and interaction. With smartphones facilitating simple but compelling content creation, they provide the fuel that has led to high intensity interaction and supercharged the growth of these platforms.

Growth of Select 'Mobile-First' Social Networks by Unique Visitors (000)

comScore Media Metrix Multi-Platform, U.S., February 2013 - December 2013



Instagram, no longer the new kid on the block, has led the way among these visually-oriented social networks and has even surpassed many of the established players in audience size. As of December 2013, it ranked as the #3 social network in the U.S., behind Facebook and Twitter. In fact, it narrowly missed the #2 spot, with Twitter boasting only 600,000 more unique visitors than Instagram. Instagram also made a recent foray into advertising, which has generated some positive early results for brands showing an average of 32 percent incremental lift in ad recall per campaign for people exposed to that campaign. Apparel brands such as Burberry, Michael Kors and Levi's are some of the first brands to advertise on the platform. As more campaign results become available, the ROI of Instagram advertising will be better understood by brands and potentially attract more brand advertising dollars to the platform, particularly those brands relying heavily on visuals to tell their story.

Snapchat is another network that seemed to catch lightning in a bottle over the past year, winning the hearts and minds of younger demographics. In December 2013, 44 percent of 18-24 year-old internet users accessed Snapchat, proving that this platform is hugely popular among the college crowd. Unlike other visual social networks, Snapchat's appeal is in the ephemeral nature of its photo messaging content, which is only available to viewers for 10 seconds before the message disappears. This affords Snapchat users more freedom in expression, knowing that what they choose to send will not live on the internet for eternity. A number of brands – many focused on reaching Millennials – are now experimenting with marketing on Snapchat. Fast food chains McDonald's and Taco Bell used the app to introduce new products, while brands such as Juicy Couture and HBO have also created campaigns on the platform.

Vine has only existed for a little more than a year, but it has quickly taken off and ushered in a new genre of short, shareable video content. The Twitter-owned platform now has more than 22 million unique visitors each month. In January 2014, the company announced that it would extend its former mobile-only presence to the desktop web and created a "TV mode" that caters to those viewing Vine creations on a desktop. As Vine videos fill up people's Facebook feeds and generate massive numbers of views, it's clear that the story of how video invaded social is only beginning.

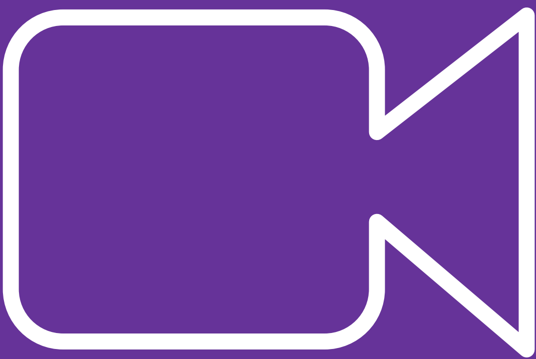
This new genre of short, visual content has clearly captured the attention of younger social networkers, but the question is whether they can cross the chasm into mainstream acceptance – as Instagram seems to have done – or whether they are merely a fad amongst the younger generation that eventually gets supplanted by the next fad. The power and inherent strength of the networks on which they are built will ultimately determine their durability.

NATIVE ADVERTISING THE KEY TO SOCIAL MEDIA MONETIZATION

While emerging networks tend to focus on user growth first, eventually most networks will be challenged to begin monetizing their content. Whether they are public companies or not, they must all eventually establish viable businesses – or else look to be acquired. Several social networks have demonstrated impressive monetization of their content through advertising – most notably Facebook, Twitter and Linkedin. In each case, a key to their ability to monetize and rapidly grow their advertising revenue is their use of Native Advertising. Facebook's Sponsored Stories, Twitter's Promoted Tweets and Linkedin's Sponsored Updates are all ad units that appear in their primary content streams and are native to the experience, whether on desktop or scrolling through one's mobile device. Two of the main reasons for native advertising's rising popularity are simple: brands want advertisements that are integrated into a user's social experience (read: less intrusive) and that function seamlessly across both mobile and desktop experiences. Given that social media usage continues to surge on mobile devices and that a user's news feed is the mobile experience, this seamless integration is critical for effectively delivering advertising. It also enables social networks to improve the sell-through of their mobile ads by integrating them into cross-platform ad packages while improving their mobile CPMs.

While some social networks such as Facebook and Twitter have offered native advertising options for several years, many of the newer social networks are now getting into the game. In July 2013, Linkedin announced its Sponsored Updates feature, and several months later Pinterest introduced Promoted Pins, a way for advertisers to share pins in both search and category feeds. Instagram also introduced in-feed ads, with a "sponsored" icon replacing the traditional Instagram icon on advertisements. Snapchat has not yet introduced native advertising, but with some early successes in native advertising under the belts of other social networks, it's likely only a matter of time before additional social platforms explore opportunities to monetize.

Video



84 percent of Americans watch online video, with ***Millennials spending 48 percent more time*** with online video than average.

ONLINE VIDEO MARKET EXPANDS AS CONSUMPTION MOVES TO SMARTPHONES AND TABLETS

Although online video first broke into the mainstream when YouTube became popular nearly a decade ago, the medium has experienced something of a resurgence as marketers increasingly refocus their attention on it. There are several factors driving this trend. First, many marketers have found that online video – despite CPMs that can sometimes outpace that of TV – is particularly effective in driving brand and sales lift metrics. Perhaps the combination of sight-sound-and-motion in a lean-forward experience provides greater marketing impact than the lean-back experience of TV. And the topline viewing stats suggest that online video provides not only the reach and engagement that advertisers covet, but also attractive demographic segments.

Online Video Reaches **85** ***Million Daily Viewers***

Video Ads Account for **5.7%** of ***Total Viewing Time***, ¼ the Ad Load of TV

YouTube Reaches **84%** of the ***Online Video Viewing Audience***

Millennials Spend **48%** ***More Time Watching Online Video*** than Average

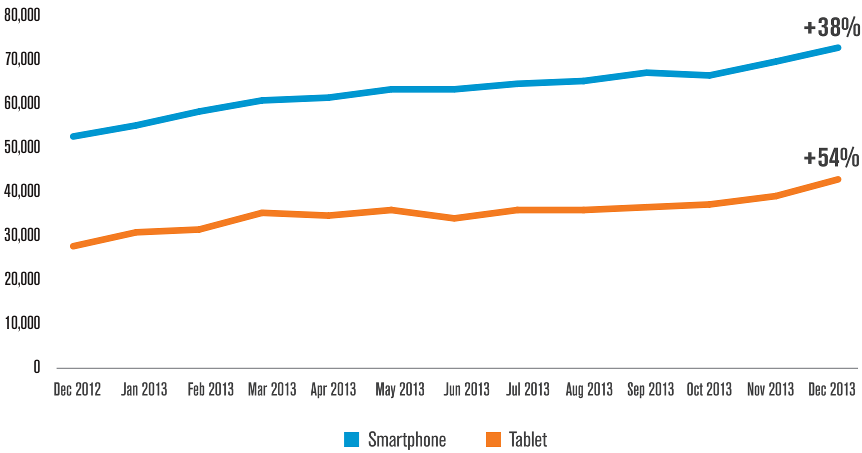
comScore Video Metrix, U.S. Desktop, December 2013

But while brand marketers' demand for online video is high, the amount of available premium video inventory remains scarce. As a result, publishers are actively seeking new opportunities to deliver quality video content that opens up inventory to attract these marketing dollars. The past year has seen Yahoo pay for top talent such as Katie Couric to improve their video content offerings, Facebook experiment with increased video in the News Feed, and AOL acquire a leading video ad network in Adap.tv. Each of these initiatives appears designed to grab a larger foothold in the video advertising market.

Another factor driving marketers' renewed focus on video is that young people and Millennials are increasingly difficult to reach via traditional media, but they are the most engaged viewers of online video (48 percent more viewing time than the average internet user), and they readily use this medium for consuming premium scripted content. In addition, as mobile devices get faster and users transition to 4G networks, people are spending more of their premium content viewing time on smartphones and tablets.

U.S. Video Viewers on Smartphone and Tablet Devices (000)

comScore MobiLens and TabLens, U.S., Age 13+, December 2012 - December 2013



'TOTAL VIDEO' MEASUREMENT PROVIDES SINGLE METRIC FOR VIEWING ACROSS SCREENS

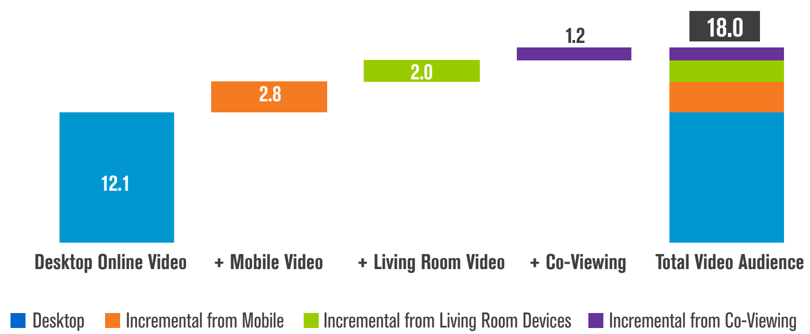
These trends have made video consumption more platform-agnostic with viewers watching content wherever and whenever it's most convenient for them. But what is good for viewers is increasingly challenging from a measurement standpoint, as traditional TV-centric audience metrics are no longer sufficient for capturing the totality of viewing behavior. comScore's new approach for measuring audience and advertising in this cross-platform environment, known as Total Video measurement, solves this issue with the introduction of a single, unified metric that accounts for audiences across all platforms where video is viewed.

comScore has pioneered Total Video measurement as part of its cross-platform measurement research for several broadcast and cable networks, including NBC for the 2014 Sochi Winter Olympics. For the closely followed 17-day event, during which millions of viewers tune in to events from different devices throughout the day, a Total Video approach is needed to accurately account for these audiences.

Another application of Total Video is comScore's measurement of Sony Crackle video viewing across desktop computers, tablets, smartphones, gaming consoles and connected TVs. Through this initiative, comScore uncovered and accounted for an additional 6 million viewers from mobile devices (smartphones and tablets) and living room devices (gaming consoles and smart TVs). The net impact of Total Video measurement for Crackle was an increase in its total measurable video viewing audience of 4.8 million unique viewers, nearly 40 percent higher than its desktop video viewing audience. When accounting for co-viewing behavior (i.e. multiple viewers watching the same screen concurrently), an additional 1.2 million viewers are brought into the fold for a Total Video audience of 18 million, approximately 50 percent higher than desktop alone.

Total Video Measurement of Unique Viewers (MM) for Sony Crackle

comScore Custom Research, U.S., December 2013



The ability to not only measure the incremental viewing audiences that exist beyond traditional platforms but also to de-duplicate audiences is an important step in the evolution of Total Video measurement. A single, unduplicated audience metric for video can allow content producers and media companies to demonstrate the full size and value of their audience to advertisers and devise more comprehensive advertising packages based on traditional reach and frequency metrics.

Advertising

Thanks to native ads, more dollars are moving to mobile. Properties like Facebook, Twitter and Pandora now get ***the majority of their ad revenues from mobile***.

DIGITAL AD VALIDATION EFFORTS DRIVE CAMPAIGN PERFORMANCE, ATTRACT BRAND DOLLARS

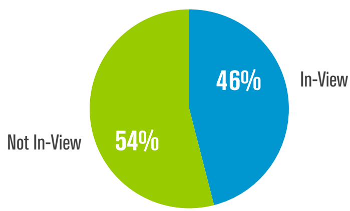
Digital advertising has evolved tremendously with the advent of new technologies, the evolution of new ad formats, and a shift in the way ads are bought and sold online. New capabilities in marketing and measurement offer the promise of radical improvements in campaign performance, which is certainly helping to shift more branding dollars online. The past few years alone have seen more and more branding dollars begin to flow to digital as the medium proved itself in being able to reach targeted audiences at scale while delivering measurable lifts in brand and sales metrics.

At the same time, many factors continue to hold back digital from reaching its true potential. There is still a lot to learn and to improve upon in terms of the efficiency and performance of digital ad delivery. For example, recent research from comScore and others in the industry highlight sources of sub-optimal ad delivery as it relates to target audience, viewability, geographic delivery, brand safety and non-human traffic (NHT).

Because digital is the most measureable and targetable medium, there is a prevailing belief that every ad impression should be able to be viewed by the consumer to whom the ad is served. However, when it comes to viewability, recent comScore vCE® Benchmarks indicate that more than half of all ads are not viewable. Specifically, across all campaigns in the data set, only 46 percent of the campaign impressions had the opportunity to be seen by a consumer.

Percentage of Digital Ads In-View

comScore vCE Benchmarks, U.S., Q1 2014



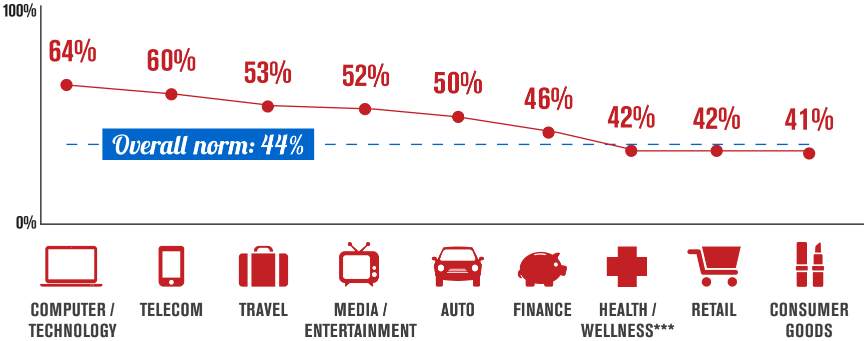
There are a variety of reasons why achieving 100 percent in-view is not realistic, including a user leaving the page before one second passes, or the ad loading outside the browser window. One of the most common reasons is NHT.

Delivery to the campaign target audience is another major concern for advertisers. Many brand dollars are spent defining and targeting the appropriate consumers for a given campaign, and advertisers want guarantees that their ads will reach these target audiences so that they can deliver the desired impact. However, 100 percent in-target is also not realistic, for a number of reasons: demographic data becomes outdated, registration data can be inaccurate, some targeting infers demography based on content consumption, and more than 60 percent of computers are shared, so cookies can show ads to the wrong person.

Recent comScore vCE Benchmarks provide some guidance regarding average in-target rates, which can vary considerably by demographic segment, publisher and advertiser vertical. Among the major advertiser verticals, in-target rates varied from an average of 41 percent among Consumer Packaged Goods (CPG) to 64 percent among Computer/Technology advertisers. While it might seem odd that CPG manufacturers, which tend to be sophisticated marketers, under-index in terms of in-target delivery, this is likely due to their relatively narrow target demographics (e.g. Females Age 18-49) for many brands, and their layering of additional targeting beyond demographics, such as retargeting or purchase-based targeting.

% In-Target: Overall* and by Select Advertiser / Product Category**

comScore vCE Benchmarks, U.S., Q1 2014



**The Overall Norm comprises data from more than 200 billion impressions over the course of a 12-month rolling period. This includes campaigns that go beyond the select Advertiser / Product categories listed above to also include additional Advertiser / Product categories as well as studies run directly by publishers and ad networks.*

***Target audience is categorized based on the primary target selection in vCE, which is self-designated during campaign set-up.*

****The Health / Wellness category includes campaigns for brands, products and/or services in the following sectors: health associations, health insurance, hospitals, over-the-counter, pharmaceutical, public health and wellness.*

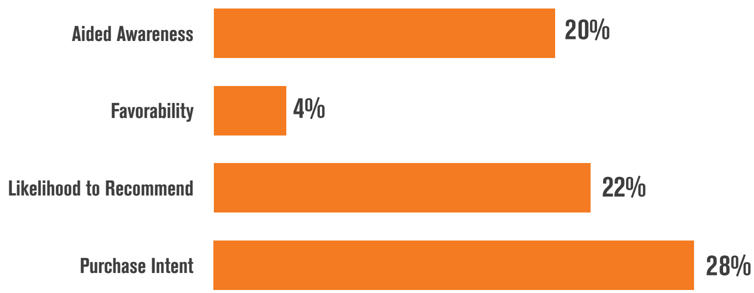
Fortunately new measurement systems have been developed to eradicate these various forms of waste through the use of ad validation and audience verification metrics. Equipping advertisers and their agencies with metrics to help determine which ads can actually deliver an impact to the right audience has resulted in radical improvements to marketing ROI. In fact, marketers using comScore vCE have stated that their digital campaign ROI has increased by a factor as high as 6x for certain brands. In addition to an improved ability to measure campaign performance, the delivery of cross-media comparable metrics such as reach, frequency and GRPs is enabling the evaluation of these campaigns alongside those being run on traditional media, including TV.

MOBILE ADVERTISING NEEDS TO PROVE PERFORMANCE

With the appropriate measurement systems and cross-media comparable metrics in place, dollars can be more optimally allocated towards the media driving the highest brand and sales impact. This is an especially important development given the rapid shift in audiences and engagement towards mobile, which has yet to monetize in a significant way for the majority of media companies. But early evidence suggests dollars might be moving too slowly; comScore Brand Survey Lift™ Mobile norms show that mobile ads work very well in driving brand metrics, particularly bottom-of-the-funnel metrics such as likelihood to recommend (22 percent average brand lift) and purchase intent (28 percent average brand lift).

Mobile Ad Effectiveness: Percentage Lift in Brand Metrics (Test vs. Control)

comScore BSL Mobile Benchmarks, U.S., 2012 - 2013



The handful of companies that are currently generating sizeable mobile ad revenues offer useful insight into what might be necessary to propel mobile advertising forward. Facebook (53 percent of ad revenues from mobile in Q4 2013), Twitter (75 percent) and Pandora (65 percent) have quickly adapted to the new paradigm and today generate the majority of their ad revenues from mobile. While each of these media companies also counts the majority of its usage from mobile platforms, they have all been able to monetize their mobile experience at levels reasonably comparable to desktop-based advertising. One important driver for this relative equilibrium is their use of native ad units.

Native advertising has been one of the great success stories to date in helping solve the mobile ad monetization challenge. Free from the constraints of ad standards that do not necessarily scale well across platforms, native ad units are often designed to be responsive to their environment. In the case of Facebook and Twitter, their native ad units exist within their primary content stream. In Pandora's case, audio ads are the same whether they're delivered on desktop or mobile. This consistency allows for a platform agnostic approach to ad sales that can help maintain higher mobile CPMs.

CROSS-PLATFORM INTEGRATION IS THE NEXT ERA FOR AD MEASUREMENT

As mobile ad campaigns get pulled into the fold, advertisers will turn their attention to developing more integrated cross-platform campaigns that not only span the digital media universe but also work in conjunction with TV campaigns. The value of unification is clear to both media companies and advertisers. Media companies can package their inventory together in a manner that meets the needs of the advertiser most efficiently. On balance, an integrated approach should result in improved sell-through rates and improved CPMs across mobile channels. Advertisers look forward to seeing increased marketing ROI through significant media planning efficiencies and the ability to reach desired audiences with more optimal cross-platform allocations. Eventually cross-platform media planning will become not just more efficient but also more effective as advertisers figure out which marketing mix combinations at what frequency of delivery maximize brand or sales lift.

Search

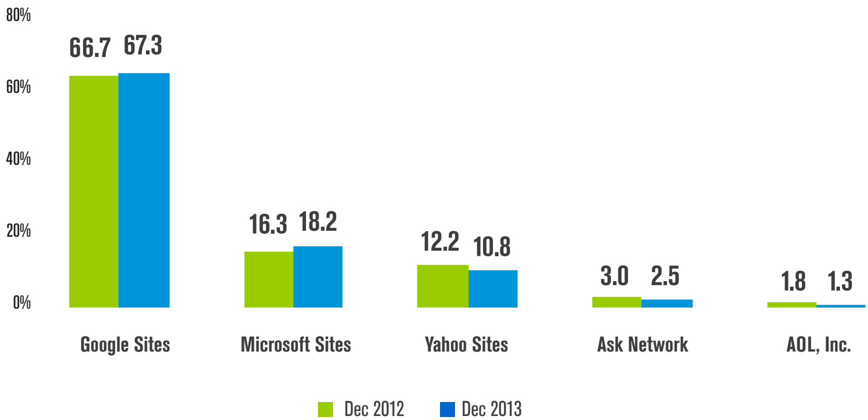
Google remains the leader in the U.S. core search market, accounting for more than two out of every three searches.

SEARCH MARKET REMAINS STABLE AS ENGINES LOOK FOR NEW FEATURES TO DRIVE VALUE

Google remains the strong leader in the U.S. core search market, accounting for more than two out of every three searches – up less than a percentage point in the past year. As was the case last year, Microsoft Bing had the most significant share gain in 2013, increasing 1.9 percentage points to 18.2 percent to extend its lead on #3 Yahoo at 10.8 percent. Ask Network remains fourth at 2.5 percent, while AOL rounded out the list at 1.3 percent.

Share of U.S. Explicit Searches Among Core Search Engines

comScore qSearch, U.S. Desktop, December 2013 vs. December 2012



While search is a relatively mature market in the realm of digital, major developments continue to take place as the leading engines fight for share in this extraordinarily profitable market. Bing, for example, began integrating social content from sites like Facebook and Twitter in the sidebar of the search results page to provide more human context to search results. Yahoo has decided to focus recent efforts on bolstering local search results, and just announced this February that it will be partnering with online-review site Yelp to integrate its listings and reviews into Yahoo's search engine results. Meanwhile, Google has focused more directly on commerce by creating Product Listing Ads (PLAs) as an alternative to traditional text ads. When a person searches for a product on Google, PLAs appear as an image of the item along with the price and store name. Early reports indicate that PLAs are proving to be a highly effective form of search advertising and are attracting greater budgets from retailers.

HOW MOBILE AFFECTS THE FUTURE OF SEARCH

Although each search engine's unique features and product offerings have added new dynamics to the industry, the most significant development in the search market right now is the continuing shift to mobile platforms. As people now spend more time accessing the internet on their mobile devices than on their desktop computers, an increasing number of searches are being conducted on smartphones and tablets. There are some obvious benefits to mobile search for consumers, such as convenience, timeliness and the value of location-based results. But today, consumers still lean towards desktop for most of their searching activity, with time spent on desktop Search/Navigation sites still double that of mobile.

Mobile search has also begun to take a different form than desktop search. A higher percentage of searches seek location-relevant information, whether it's driving directions, the weather outside or nearby stores or restaurants. Mobile has also paved the way for voice-activated search, which represents another means of accessing information quickly that bypasses the need for typing on a small keyboard. Perhaps the most significant difference with mobile search is with content linking, since the majority of internet activity occurs on apps, which are usually walled off from traditional search indexing. Google is working to enable more linking from search directly to apps, but the process is more cumbersome than a simple indexing of the web through crawlers, as is done with the desktop web.

E-Commerce

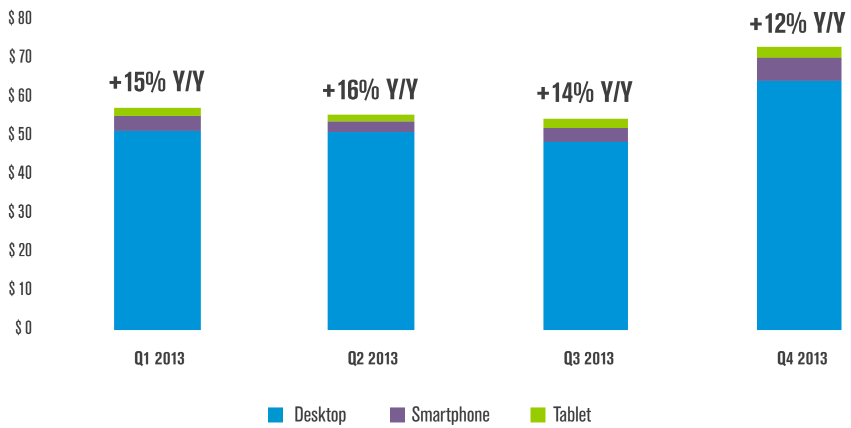
Online retail spending on desktop and mobile devices combined grew ***14 percent*** in 2013.

DIGITAL COMMERCE SHARE GAINS ACCELERATE AS M-COMMERCE EMERGES

2013 was yet another year in which online retail spending achieved double-digit growth, with desktop-based e-commerce growing 13 percent year-over-year, or 14 percent if also accounting for mobile commerce (m-commerce). When spending on these mobile devices is taken into account, each quarter this past year achieved at least a 12-percent growth rate in total online retail spending, far outpacing the low single-digit growth rates of total consumer retail spending overall in the U.S.

U.S. Quarterly Online Retail Spending by Platform (Billions)

comScore E-Commerce and M-Commerce Measurment, U.S., Q1 2013 - Q4 2013



While most digital commerce spending still occurs on desktop, mobile is accounting for an increasingly meaningful percentage (10.5 percent in 2013) and is growing at significantly faster rates (23 percent). Currently m-commerce is driven predominantly by smartphones, which accounted for 7 percent of spending during the year, while tablets contributed the remaining 4 percent. The fact that smartphones drive a greater overall percentage of dollars is a function of higher device penetration; tablets boast higher spending on a per user basis.

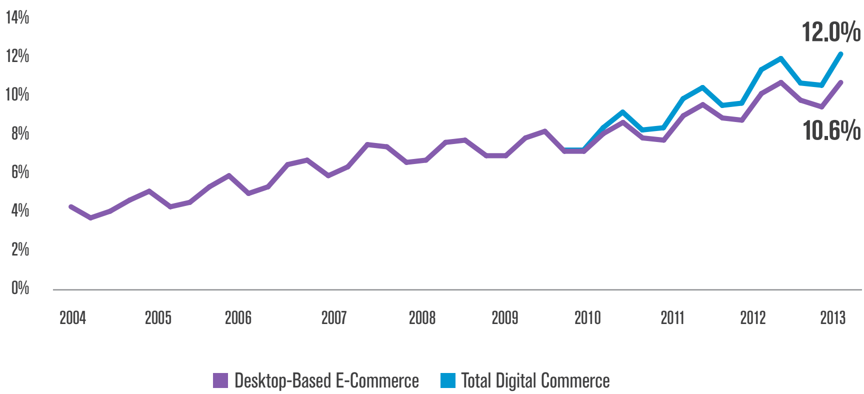
2013 HOLIDAY SEASON UNDERPERFORMS DUE TO ABBREVIATED THANKSGIVING TO CHRISTMAS CALENDAR

Although the heaviest online spending quarter last year was Q4, its year-over-year rate of growth was lower than every other quarter in 2013, at just 12 percent including mobile. With Thanksgiving falling late this year, there were six fewer shopping days on the holiday calendar versus the prior year, which weighed significantly on consumers' ability to complete all their holiday shopping activity in time for Christmas.

Despite the holiday season's overall underperformance, the season still had several highlights. Cyber Monday (Dec. 2), once again ranking as the heaviest spending day of the season, drew a record $1.735 billion in desktop e-commerce spending to lead 10 individual spending days that surpassed the $1 billion milestone. Following Cyber Monday, the next heaviest desktop retail spending days were the Tuesday following Cyber Monday (Dec. 3) and Green Monday (Dec. 9), respectively, both with more than $1.4 billion. Black Friday (Nov. 29) was also hugely successful, cracking the top 5 days with $1.2 billion in spending. Other season highlights include the first ever week with five billion-dollar spending days (Dec. 2-6), plus some outsized online spending growth rates during the weekends that resulted from consumers having to squeeze their gift buying into fewer days.

U.S. Desktop & Total Digital E-Commerce Share of Corresponding Consumer Spending

comScore E-Commerce and M-Commerce Measurment, U.S., Q1 2004 - Q4 2013



Looking forward, it's apparent that retail dollars will continue to shift online as the desktop-based e-commerce share of total consumer spending gains at a relatively steady rate. But m-commerce also presents a significant opportunity that appears to be accelerating the shift towards digital commerce. In the most recent quarter, 12 percent of discretionary retail spending occurred via the internet, and it is likely to surpass 15 percent within the next couple of years – particularly as m-commerce becomes a more ingrained behavior of consumers.

Consider that m-commerce currently comprises just 12 percent of online retail spending, despite the fact that half of all time spent on digital retail properties is on mobile. There may be several reasons for this gap, such as consumers being hesitant to enter their credit card information on their mobile phone for security reasons or that the smaller screen size makes the transaction process more difficult.

But just as it's the case with digital advertising, dollars eventually follow eyeballs. And in the case of retail shopping on mobile, the eyeballs are already there. Eventually consumers should ease up on their security concerns, as they did with desktop-based e-commerce, and apps will continue to optimize user experience and reduce friction at the point of purchase on mobile. As technology and consumer behavior evolves, m-commerce will play an increasingly prevalent role in retail buying that will not only disrupt brick-and-mortar retail, but may even disrupt traditional desktop-based e-commerce.

Conclusion

In the grand scheme, a year is just the blink of an eye. But in the world of technology, it is more than enough time for earth-shattering shifts in consumer behavior, the disruption of entire industries, and the creation of billion-dollar companies to occur. 2013 saw many such events materialize, and now is an opportunity to pause and take stock of what they mean.

These profound shifts are changing the complexion of the present landscape and radically altering what tomorrow will look like. Consumer behavior is evolving as fast as new technologies are emerging, and it is a never-ending challenge for both marketers and media companies to adapt to the present realities – but they must always do so with one eye focused on the future to ensure they invest their resources wisely.

The explosion of digital media devices is enabling content consumption on a scale never seen before, which promises new opportunities for those who are adept at navigating this new terrain. The extraordinary challenges of a fragmented media landscape have created a premium for the ability to solve increasingly complex problems; fortunately, the evolution in technology infrastructure, big data and marketing measurement systems promise to help realize the potential of the digital age.

comScore looks forward to collaborating with you on this journey as we seek to put the **Digital Future in Focus**.

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