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US Web Analytics Forecast, 2008 To 2014

by John Lovett
for Direct Marketing Professionals



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The Future Brings A Shift In Role

by **John Lovett**

with Carlton A. Doty, Vikram Sehgal, Suresh Vittal, and Emily Murphy

EXECUTIVE SUMMARY

If we were to equate Web analytics to a human life stage, 2009 places us squarely in awkward adolescence. After some explosive prepubescent growth, the Web analytics market is beginning to develop its own footing, yet significant change is imminent and maturity is still distant. Forrester forecasts that US businesses will spend \$953 million dollars on Web analytics software in 2014, with an average compound annual growth rate of 17%. Growth will emerge from unexpected places as the value proposition of Web analytics technology oscillates for sophisticated analytics users and becomes more welcoming for new entrants. Ultimately, Web analytics will become part of a broader array of integrated services supporting marketers.

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NOTES & RESOURCES

Forrester interviewed more than 10 vendor and user companies, including Coremetrics, Immeria, Omniture, Unica, and WebTrends.

Related Research Documents

["The Consumer Side Of Analytics"](#)

September 30, 2008

["Sourcing Analytics Help"](#)

September 8, 2008

["The Web Analytics Buyer's Guide"](#)

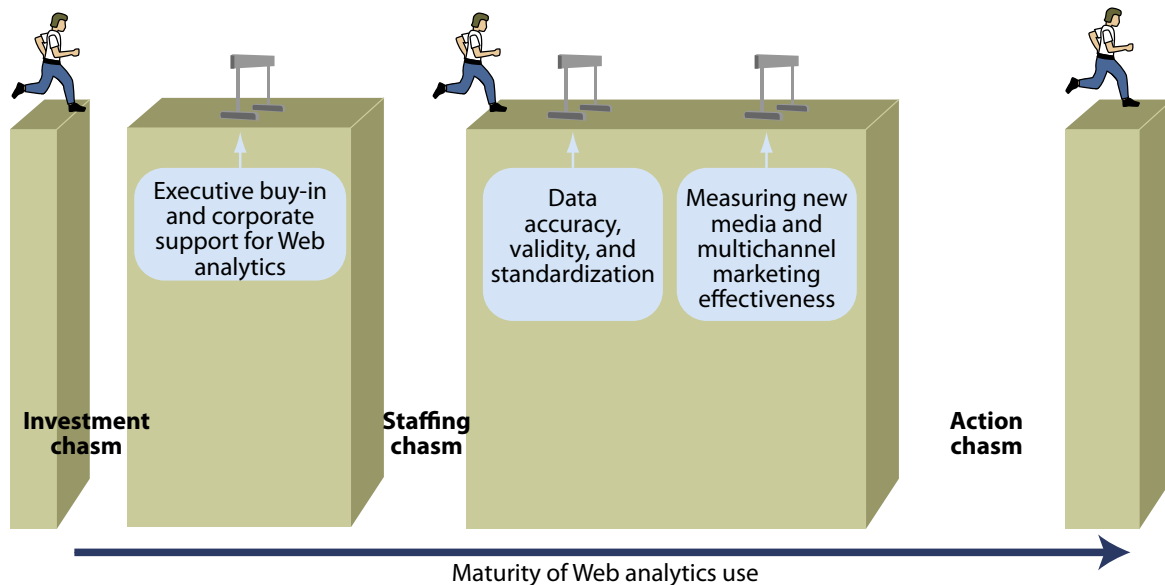
July 14, 2008

THE PROMISE OF WEB ANALYTICS NEEDS AN ADJUSTMENT

Forrester data indicates that 73% of businesses are currently using or piloting Web analytics technologies. Yet the reality is that not all of these companies are paying for services rendered. Data from the Web Analytics Solution Profiler (WASP), a service that detects analytics solutions installed on Web sites, projects that market penetration for Web analytics is roughly 58%.¹ WASP also estimates that 78% of total market share is currently held by free vendor solutions. Further, among sites that have installations of fee-based Web analytics tools, 37% also have free tracking products installed, thereby duplicating their measurement efforts. Forrester identified three key themes that limit Web analytics success:

- **Data is the commodity; Web analytics is just the tool.** The potential benefits of Web analytics include improved marketing effectiveness, elevated customer satisfaction, and new revenue opportunities. The allure of these benefits has not escaped the masses as businesses across the US and the globe increase their reliance on the Web and online channels. But many adopters of Web analytics technologies underutilize their tools, fail to recognize ROI, or simply don't apply the data. Web analytics is a tool that must be applied in the correct manner for it to be productive.²
- **A deep action chasm renders analytics inert.** Four years ago, Forrester research identified three chasms that organizations must cross to mature their use of Web analytics: the investment chasm, the staffing chasm, and the action chasm.³ While the investment chasm has been minimized by free analytics tools introduced to the market, the staffing and action chasms have grown. In fact, 36% of Web site decision-makers surveyed agreed that in-house Web analytics expertise is more valuable than the technology itself. The key takeaway? The human resources required for analyzing data and converting information into necessary business actions is severely lacking.⁴
- **Industry growth is stunted by increasingly complex challenges.** The Web analytics action chasm is only one part of the story. As marketers gain maturity in their use of Web analytics tools, the challenges grow increasingly complex. For instance, many marketers tell us that they struggle to uncover the insight within their Web analytics data and keep pace with new measurement challenges (see Figure 1).⁵

Figure 1 The Hurdles And Pitfalls Of Web Analytics



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Source: Forrester Research, Inc.

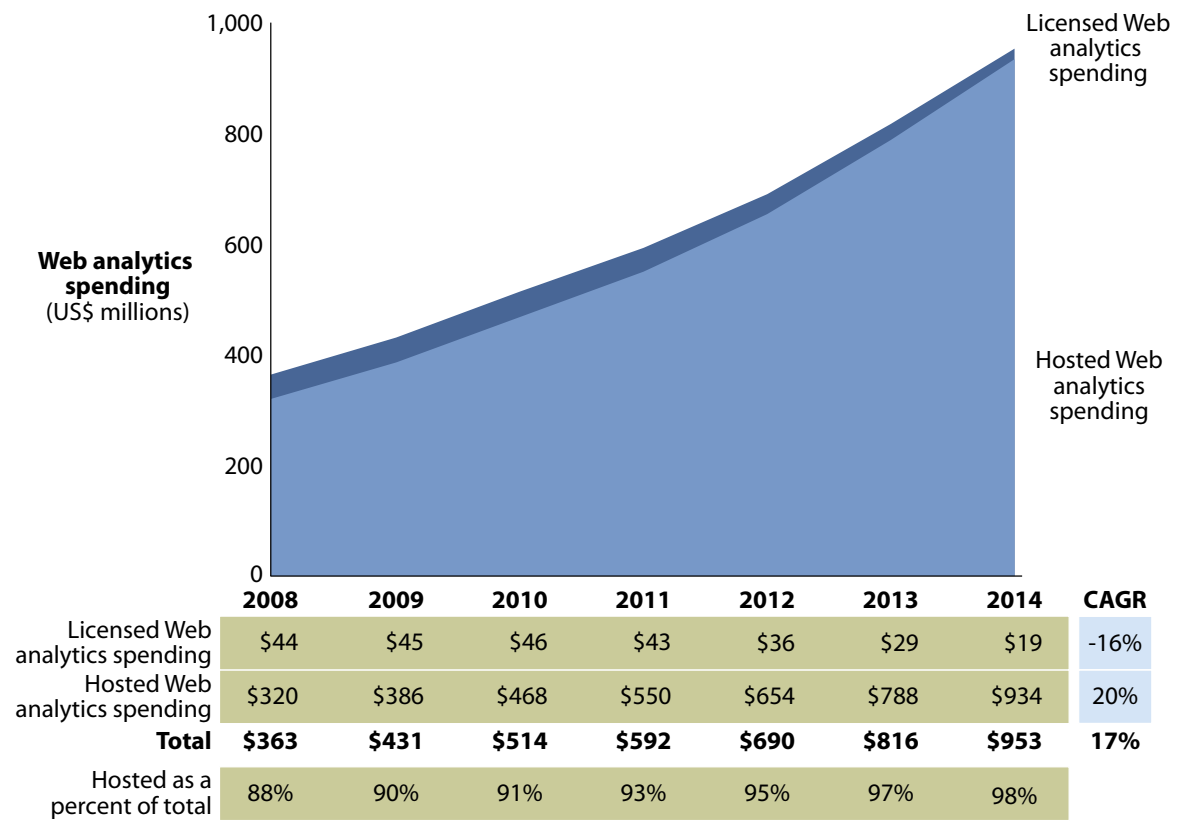
Market Drivers Will Overshadow Constraints

Forrester research identified several key market drivers that will contribute to the growth of Web analytics spending over the next five years (see Figure 2). While inhibitors do exist, the following factors will emphasize the flow, rather than the ebb, of Web analytics spending:

- **Marketing budgets shift to interactive channels.** Interactive marketing channels are blossoming with loyal adopters and positive results. Forrester forecast a compound annual growth rate (CAGR) of 27% in revenue across all interactive marketing categories in the next four years. The need for measurement and accountability across this spectrum of online channels will drive corresponding spend in Web analytics.
- **The influence of the online channel eclipses all other media.** The consumption of traditional media sources such as newspapers, magazines, and television is in decline, and the Web is filling the void by dominating consumer media time. One clear example of this shift in consumer behavior exists in eCommerce. In 2009, Forrester anticipates that US online retail sales will represent 6% of all US retail sales.⁶ However, we expect the online channel to influence 40% of all retail sales. This remarkable level of influence illustrates the confidence that consumers place on the Internet as a research tool. Web analytics helps marketers discern online behavioral patterns and bridge knowledge share to offline marketing.

- The need for marketing accountability spurs demand.** Marketers interviewed by Forrester are hampered by staff reductions, constricted budgets, and widespread scrutiny on all spending. The bright spot in these dark times emanates from measurement technologies — where 21% of companies will increase spending this year.⁷ Web analytics offers an accountable method for evaluating marketing performance by assessing customer reactions, proving value, and predicting success.
- The emergence of a secondary analytics market fuels midmarket growth.** Forrester believes that a secondary market facilitating actionable insight from Web analytics data will emerge. Existing Web analytics technologies and/or marketing suites will continue to act as the core data sources, yet business-specific applications will be layered on top. These applications will prioritize ease of use and offer customization and refinement for alerting users to key business events. The result will create a democratization of data whereby multiple people within an organization can leverage analytics data.

Figure 2 Forecast: US Web Analytics Spending, 2009 To 2014



(numbers have been rounded)

Source: Forrester Research Web Analytics Model, 3/09 (US)

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Source: Forrester Research, Inc.

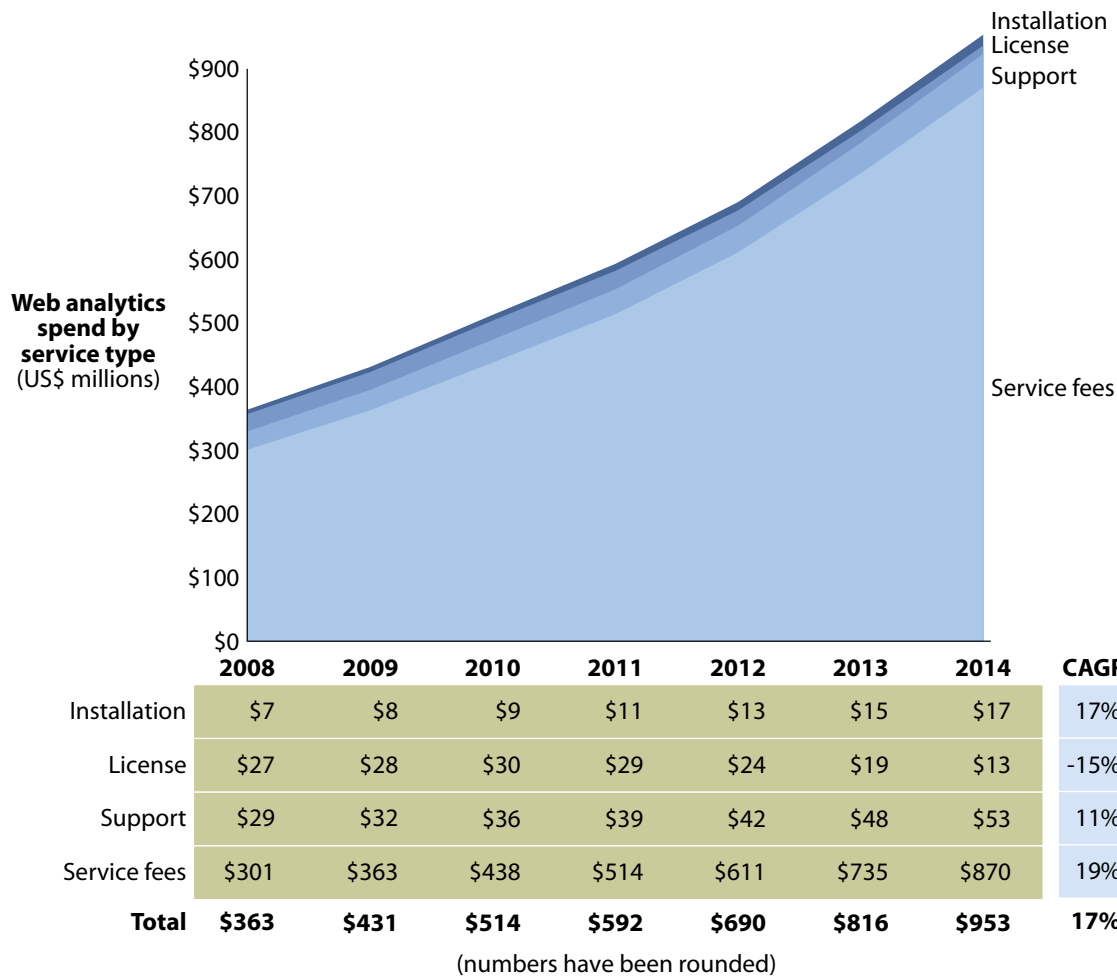
WEB ANALYTICS SPENDING REACHES \$953 MILLION IN 2014

US Web analytics technology spending will grow at an impressive 17.2% CAGR over the next five years. Our forecast reflects changes in the market with respect to vendor positioning, an evolved understanding of practical use, and disruptive free technologies that altered the landscape indefinitely. This forecast includes spending on Web analytics software (including licenses, service fees, installation, and support) delivered from technology vendors and their reseller partners. It does not include installation and professional services from non-vendor consultants, agencies, or external third parties. Our findings reveal the following key trends (see Figure 3):

- **Hosted analytics remain popular as licensed options dwindle.** Traditional licensed software solutions launched the Web analytics industry off its starting blocks in the late '90s, yet hosted offerings overtook their licensed counterparts in 2006. Since then, the use of hosted offerings has grown dramatically. However, licensed analytics software will not disappear entirely as several drivers for on-premises solutions remain compelling. These drivers include: data sensitivity; performance assurance; and the desire to perform complex analysis locally and on existing infrastructure. Currently, several Web analytics vendors offer both licensed and hosted offerings, yet the majority of them are making their services solely available on a hosted model.⁸
- **Service fee revenues will revive growth after near-term headwinds.** The primary revenue model of hosted Web analytics is based on service fees generated from the number of server calls made to the analytics provider. Growing Web traffic equates to higher service fees — even in a recession. Why? Organizations use Web analytics as a means to understand consumer behavior, which is constantly shifting — especially during a recession. Consumption of Web analytics services will grow steadily over the five-year term of our forecast. This growth is further supported by database marketers whom we surveyed, who stated that their budgets for analytics will increase by 43% this year and increase by an additional 38% in the next three years.
- **Professional services will be delivered from non-vendor providers.** Less than 10% of vendor revenues come from professional services, which include: installation, technical support, and strategy. Yet the market for these professional services is vibrant and expansive, just not typically sourced from Web analytics vendors. Numerous consultants and agencies provide services to a needy market — most providers are small firms with just a handful of employees, yet expertise is typically strong. Because in-house expertise remains a consistent chasm for companies to cross, additional requests for external professional services will remain high.
- **Companies with moderate traffic will account for half of revenue growth.** Thirty-eight percent of the total forecast revenue is generated from only 6% of businesses that operate Web sites attracting 2 million or more unique monthly visitors. The remaining 62% of the total forecast revenue will come from the vast majority of sites that generate less traffic (500,000 to 2 million unique visitors per month). Because most heavily trafficked sites already use Web analytics, the bulk of revenue growth will stem from new entrants operating sites with moderate traffic.

- **Large sites spend heavily, yet industry averages remain affordable.** Some very large sites (those with monthly traffic exceeding 10 million unique visitors) spend in excess of \$200,000 annually on Web analytics. However, industry averages hover around \$15,000 per year for hosted solutions. The big spenders on hosted Web analytics represent less than 2% of the entire hosted customer base, with the majority of sites in the smaller traffic categories.

Figure 3 Forecast: US Web Analytics Spending By Service Type, 2008 To 2014



Source: Forrester Research Web Analytics Model, 3/09 (US)

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Source: Forrester Research, Inc.

WHAT IT MEANS

WEB ANALYTICS IS DESTINED TO BECOME AN INTEGRATED SERVICE

The value proposition of Web analytics technology is currently undergoing a transition from a point-solution to an underlying service embedded within marketing applications. The inception of this transformation occurred with the introduction of highly capable free tools to the marketplace; a disruptive event that altered the course of many incumbent vendors and levied price pressure across the entire market. However, Web analytics, regardless of its eventual transformation, remains critical to expanding customer intelligence. With that in mind, Forrester believes that:

- **Existing expertise will not be squandered.** The future success of Web analytics is dependent upon experts who translate raw data into insight. Despite a necessary evolution toward automated action based on data like targeting and testing, expert analysts are required to make correlations and bridge the action chasm with logic. While simpler tools will make analytics accessible to business users, advanced data mining, visualization, and modeling techniques will reveal discoveries among the mountains of information. Experts in Web analytics will be called upon to answer difficult questions and develop the metrics and measures by which to gauge success.
- **Democratization of data is looming.** Organizations that succeed with Web analytics build data-driven strategies and create a corporate appetite for data. For some, data becomes the addictive drug because it can demonstrate success, predict outcomes, and establish business cases for new endeavors. However, campaign-level metrics must first align with corporate business objectives in every program, providing a level set of evaluation standards across the business. These standards should be communicated via reporting and interface tools to showcase results. As data becomes widely available and is extended to marketers via self-service access, organizations are empowered with customer intelligence.
- **The importance of integration is accentuated.** Web analytics data continues to feed more applications and marketing solutions, making accessibility of data critical. Use cases will appear within: 1) suites of marketing products where analytics support an ecosystem of planning tools; 2) external solutions that consume analytics via Web services and APIs; and 3) innumerable widgets/dashboards/desktops, which will use analytics to alert users about key business events. Established integration standards and open architectures will facilitate these processes. But marketers should recognize that integration is impossible without technology expertise. This means marketers must build tighter relationships with their IT teams or marketing service providers to achieve data integration.
- **Optimization technologies will be the next frontier.** As maturity with Web analytics grows, sophisticated marketers will use data and customer intelligence to establish an ecosystem for marketing optimization. With Web analytics data as the foundation, marketers will formulate automated presentation methods that deliver relevant content and messaging to consumers in dynamic fashion. This presentation layer will contain self-learning algorithms and manage a process for ongoing evaluation and refinement. But ultimately, this optimization ecosystem will share knowledge across an entire organization.

SUPPLEMENTAL MATERIAL

Methodology

As part of the forecast modeling, Forrester Research develops comprehensive historical and base-year market size estimates based on a variety of sources, including public financial documents, executive interviews, Forrester Research's proprietary primary consumer and executive research, and analysis of the Internet traffic database.

All of Forrester Research's forecasts are designed by a dedicated team of forecasting analysts, who build the models, conduct extensive industry research, and manage the process of formally building consensus among Forrester Research's analysts. Forrester Research forecast analysts have backgrounds in investment banking, management consulting, and market research, where they developed extensive experience with industry and company forecasting.

The primary levers of the model are defined as:

- **Digital marketing spending.** Growth in digital marketing will benefit Web analytics. Digital marketing channels are blossoming. Forrester forecasts that interactive marketing revenue will grow at a compound annual growth rate (CAGR) of 27% over the next four years. Web analytics should be insulated from the recession since Web analytics helps digital marketers track the effectiveness of digital campaigns.
- **Consumer acceptance of the online channel.** While online retail garners the majority of headlines, the online channel touches many more consumers than actually convert on a site. For example, in 2009, Forrester anticipates that US online retail sales will represent 6% of all US retail sales. However, we expect the online channel to influence 40% of all retail sales. Since some Web analytics providers book revenue based on server calls, service revenues will drive the majority of revenue growth through 2014.
- **Greater competition through 2011 and 2014.** Forrester believes that a secondary Web analytics market will emerge to make existing Web analytics data more accessible and useful to a broader range of users. Thus, Forrester believes that a new class of Web Analytics providers will enter the market in the future and revitalize growth.

Forrester identified two primary industry segments, which are defined as:

- **Hosted Web analytics.** The hosted Web analytics delivery model provides access to software and its functions remotely as a Web-based service. Vendors providing this service offer hardware and infrastructure necessary for the software to function and also provide a user interface accessible via the Web. Hosted customers typically pay monthly service fees based on the number of calls made to the vendor's servers.

- **Licensed Web analytics.** The licensed Web analytics delivery model is a traditional software solution whereby customers install and maintain the technology in their own environment. This may require hardware and technical support. This delivery model can be more expensive to install because upfront costs are higher due to the initial purchase price of the software and necessary hardware.

For more information on Forrester's new ForecastView offering, including access to additional details and metrics not included in this report, please contact us at data@forrester.com.

ENDNOTES

- ¹ The WASP is a specialized Firefox extension aimed at Web analytics professionals who want to do quality assurance and understand how Web analytics solutions are implemented. Data referenced in this report identifies Web analytics market share among a sample of 210,820 sites analyzed over a one-month time period between February 2009 and March 2009. Source: WASP (<http://webanalyticssolutionprofiler.com/>).
- ² Prior Forrester research reveals that basic features offered by Web analytics vendors are largely equivalent. The feature war is over, and differentiators are surfacing in pricing, flexibility, and scalability. See the July 14, 2008, "[The Web Analytics Buyer's Guide](#)" report.
- ³ For more information see the August 16, 2005, "[Web Analytics](#)" report.
- ⁴ The relatively nascent Web analytics profession is rapidly growing, and there is not enough staff to perform analysis. The Web Analytics Association revealed that 70 percent of organizations currently using analytics tools also plan to increase their investments in 2008, of which nearly three-quarters said increases will be allocated to staffing and consulting resources. Many small-to-midsize businesses have yet to dedicate full-time staff to Web analytics, and even large organizations employing teams of analysts are turning to external resources to supplement and train their in-house staff. See the September 8, 2008, "[Sourcing Analytics Help](#)" report.
- ⁵ For more information see the February 19, 2009, "[A Framework For Multicampaign Attribution Measurement](#)" report.
- ⁶ For more information see the February 2, 2009, "[US Online Retail Forecast, 2008 To 2013](#)" report.
- ⁷ Measurement technologies are on the rise. Analytics shines as the area receiving the most attention in 2009, indicated by 21% of companies that will increase spending here. During a tough economy, Web analytics is recognized as the method by which businesses can quantify their efforts, calculate successes, and focus marketing opportunities. See the February 26, 2009, "[2009 Web Site Spending Trends](#)" report.
- ⁸ Licensed Web analytics solutions (excluding legacy products still in circulation) are currently available from the following US-based companies: Lyris HQ ClickTracks, Omniture (Discover OnPremise only), SAS, Unica NetAffinium, and WebTrends.

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Headquarters

Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617.613.6000
Fax: +1 617.613.5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

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