



I-MarketSM

H o t T o p i c s

Information Industry Outlook: FutureFacts 2007

Table of Contents

Who's Inside:

- Amazon
- Baidu
- Bell South
- Bloomberg
- BNA
- CareerBuilder
- CaseMaker
- CNET
- craigslist
- CSA
- Curriculum Advantage
- Cutter Consortium
- eBay
- Experian
- Facebook
- Factiva
- FactSet
- Forrester
- Franklin Covey
- Freeload Press
- Gannett
- Gartner
- Generate
- GfK
- GlobalSpec
- Google
- Harcourt Education
- Harris Interactive
- Health Grades
- Hearst Business Media
- Holtzbrinck

Why This Topic: 10 th Annual Information Industry Outlook	3
This Year's Meta-Issue: Execute on the Essentials	3
A Note on Methodology	4
Scorecard 2006: How Did We Do?	5
Current Realities: Where 2006 Began	6
Market Segment Competitive Trends, Share Leaders, and Forecasts	7
Segment Breakdown: Search and Market Research Will Lead in 2006 and Beyond While News Will Lag Far Behind	7
Search, Aggregation & Syndication Will Continue to Lead Industry Growth	8
Market Research, Reports & Services: M&A and Global Expansion Will Drive Growth	10
IT Research, Reports & Services: Volatile, Yet Growing Ahead of Overall Information Industry	12
HR Information: Booming Globally in a Flat World	14
Credit & Financial Information: High on Credit and Growing Strong ..	16
Education & Training: Boosted by e-Learning, Testing, and International Growth	18
Scientific, Technical & Medical: Medical Information Key to Growth	20
Legal, Tax & Regulatory Information: Big Three Dominate, Face Challenges by Low-End Alternatives	22

HotTopics: Information Industry Outlook: FutureFacts 2007
 Volume 2, September 18, 2006 © Outsell Inc. All Rights Reserved.

Outsell, Inc. is the sole and exclusive owner of all copyrights in this report, including but not limited to the textual and graphic content and the organization, layout, and display of the information and data contained herein. As a user of this report, you acknowledge that you are a licensee of Outsell's copyrights and that Outsell, Inc. retains title to all Outsell copyrights in the report. You are not permitted to resell, distribute, disseminate, disclose, copy, or otherwise make use of the information contained in this report, except for use within your own work group within your company, unless your organization has obtained a content license from Outsell. Wherever and whenever the document, or any portion thereof, is disseminated by your organization with the permission of Outsell, Inc., it must bear the following in a prominent location: "© Outsell, Inc. All rights reserved." To purchase multiple copies and/or licensing rights for this report, please e-mail us at reports@outsellinc.com.

Who's Inside:

- IAC
- IDC
- IDG
- IHS
- IMS Health
- Info-Tech Research Group
- ITtoolbox
- Kaplan
- LexisNexis
- LiveWorld
- McGraw-Hill
- Microsoft
- Mochila
- Monster
- Moody's
- MySpace
- Nature Publishing Group
- Nielsen//NetRatings
- News Corp.
- Pearson
- Phatpipe
- Pluck
- Reed Elsevier
- Reuters
- Scholastic
- Shin-Nippon
- Snap.com
- Springer Science + Business Media
- Standard & Poor's
- TechTarget
- Telephia
- Thomson Corp.
- Thomson Learning
- Thomson Legal & Regulatory
- Thomson Scientific & Healthcare
- Time Warner/AOL
- TNS
- Topix.net
- United Business Media
- Verizon Communications
- VNU
- WebMD
- Wolters Kluwer
- WPP
- Xinhua
- Yahoo!
- Yell
- Yelp
- Zoom Info
- Zynx Health

B2B Trade Publishing & Company Information:	
Double-Digit Online Ad Growth.....	24
Yellow Pages & Directories: Struggling to Grow Online Alternatives.....	26
News Providers & Publishers: Shrinking Revenues and Unbearable Cost Structures.....	28
Market Dynamics and Trends	31
User Update: Expectations for a Better Experience	31
Toward Library 3.0: Future of the Information Management Function	33
State of the Advertiser: Moving Online and Shifting Budgets to Pursue High ROI Options	35
Forecast: A \$458 Billion Industry by 2009	37
Top 10 Predictions for 2007	38
Outsell's List of Essential Actions.....	40



Why This Topic: 10th Annual Information Industry Outlook

Our annual Outlook coincides with *Go!*SM – Outsell’s Signature Event, held each year in September. *Go!* Attendees are the first to see these forecasts and predictions, in a presentation by our Chief Analyst Leigh Watson Healy and our team of top analysts. This timing allows Outsell clients to take advantage of the forecasts and predictions for year-end planning, in this case for 2007, and is an important annual roundup of our research and analysis of the entire industry. It’s a forward-looking piece that summarizes metrics and trends for all key vertical segments of the industry and key customer groups – such as end users, advertisers, and enterprises – that make up the funding that fuels the market. Stopping once a year and saying “what does it all mean and where is it all going?” is an essential planning piece we share with our clients and the industry at large.

This roundup is followed by specific reports we call MarketViews, published annually in the fall, that have detailed market size, share, forecast, and trend reports covering each segment of the industry, as well as specific analysis covering the top 50 companies and the sub-segments of each industry segment.

This Year’s Meta-Issue: Execute on the Essentials

Our 2006 theme was “Reap the Rewards, or Face the FutureFacts.” We noted several sectors choosing the path to creativity and reaping the rewards of their innovation, and we predicted 2006 would be a great year for those who could turn the power and energy shifts in the industry to their advantage. As we look ahead, we are seeing flattening growth and valuations near the peak in late 2006 and into 2007. These declining and flat trends are consistent with a market at an inflection point, in this case, the turning point from increasing growth rates to steady and slower ones. We do not see these fluctuations as precursors of a downturn, but rather as indicators of slower growth ahead. We believe the biggest challenges for the industry in 2007 and beyond will be continuing to grow revenue while maintaining profitability and continuing to invest for growth. Firms will need to keep a steady hand on the wheel while driving for growth and not flinch when making critical investments to sustain growth.





Our meta-theme for 2007 is “Execute on the Essentials.” Savvy executives will be alert and focus on tactics essential to growing revenue, leveraging revenue growth to remain profitable while investing for new growth. All the while, they’ll see the entire playing field while executing on tactical essentials in the moment.

A Note on Methodology

Our annual Outlook draws extensively from Outsell's unique industry metrics and analytics, as well as Outsell's daily contact with people in the information industry and the deep industry experience of our analytical staff. Our data assets include details of over 6,000 industry firms that create and aggregate information and make it commercially available online or offline inclusive of all business models and content types. We also track the three major markets for information: end users, enterprise buyers, and advertisers. This includes detailed data on the total universe of knowledge workers (by role and industry); industry market size by vertical segment; seven years of user buying and usage statistics, including interviews with over 40,000 users since 1998; enterprise information management benchmarks and best practices for staffing, budgets, content spending, content vendor portfolios, functional roles, and priorities; and data on advertisers' budgets, spending plans, and use and performance of traditional and online media and advertising tactics. Our forecast builds on our annual market size and market share data, growth benchmarks from our *Outsell 100 Company Monitor*SM Financial Performance Scorecard, and our analysts' assessment of macroeconomic and geopolitical trends and critical growth drivers and inhibitors affecting each information industry sector. Our efforts are both top-down and bottom-up, and overlaid with the extensive experience of our individual analysts who come from and focus on specific segments of the industry.

Scorecard 2006: How Did We Do?

In the spirit of accountability, we begin with a review of how we did with last year's predictions.

Our Prediction	   	How It Is Playing Out in 2006
Prediction 1: The overall information industry will grow 8 percent in 2006, with Search, Aggregation & Syndication and Market Research sectors leading the way. More content used will be subsidized by ads, putting price pressure on fee-based content vendors.	☹	Industry growth started to slow in 2005, reaching 6.3%, with Search, Aggregation & Syndication and Market Research segments leading industry growth, as predicted.
Prediction 2: Valuations will continue to increase and peak in 2006 as private equity buyers keep bidding up prices, then will start to wane by the end of the year and into 2007.	☺	So far, on track, as valuations have held steady or increased slightly in 2006. No indications of waning yet. Stay tuned.
Prediction 3: Web 2.0 and content/technology mash-ups will take off and go mainstream in 2006.	☺	No longer just cool toys, technologies like Ruby, RSS, mash-ups, and AJAX are showing up in living Enterprise 2.0 applications.
Prediction 4: Leading B2B companies will become hot spots in target niches as knowledge workers embrace vertical search sites. Online revenue will move to a double-digit percentage of total revenue.	☺	Vertical search firms like TechTarget and GlobalSpec continue to thrive and others are reinventing based on ad-based models supporting workflows in deep vertical industry niches.
Prediction 5: Financial institutions will make significant progress toward holistic enterprise data management. Compliance and managing risk will be the primary drivers in non-real-time data.	☹	The rise of algorithmic and computer-based trading is driving the need for high-quality, timely datafeeds. Vendors are scrambling to offer feed handlers and low-latency, direct data feeds.
Prediction 6: Data acquisition costs will continue to decline with the rise of online market research; real data/real time will continue to drive the next frontier of real-time analysis. Globalization of the market research industry will continue.	☺	Technology is supporting nearly immediate, real-time reporting of research results. Global growth is a key hot spot for market research firms, with many performing well across multiple geographies.
Prediction 7: There's no big tech boom in sight to drive new IT Research business. Peer-to-peer service models will proliferate, and clients will focus on tactical information, moving from "what" to "how" questions.	☺	On track, with firms like ITtoolbox and Cutter Consortium thriving on peer-to-peer and expert network models.
Prediction 8: The battle for local news and information users will kick into higher gear, further challenging newspapers to hold on to locally oriented customers.	☺	News providers face a deadline with destiny as they attempt to ward off poaching of their advertising business with local advertisers from the likes of Yahoo! Local, and craigslist, and struggle to maintain circulation, which continues to decline this year.
Prediction 9: Newspapers will engage in new mating dances with GYM (Google, Yahoo! MSN), as they try to find a new co-opetition equilibrium that works.	☺	Deals for vertical and local content started to cook this year. The Associated Press led the charge with Topix.net, Technorati, and a groundbreaking distribution deal with Google.
Prediction 10: In STM, corporations will continue to become more important customers than academia in this space, with their needs driving product development.	☺	Outsell's latest market sizing analysis shows that corporate is about even but edging up as a percentage of STM revenues for top STM market share leaders.
Prediction 11: Electronic medical record vendors and hospitals will start to integrate electronic clinical information into EMR systems in 2006.	☺	2006 shows publishers are serious about putting information in clinician workflow in the context of specific patient information, with all top STM players in the game.
Prediction 12: Enterprise RSS aggregation will take hold in organizations and general aggregators will continue to progress up the value chain as cheap or free "good enough" content sources continue to proliferate.	☹	Traditional aggregators like Factiva and LexisNexis are going strong in staking out the high-end enterprise solutions, while enterprise RSS aggregation solutions continue to bubble up with no clear leader of the pack.
Prediction 13: Enterprise content buyers will continue to consolidate content purchasing and use their increased buying power to extract better deals from vendors.	☹	Average spend per vendor has increased and average number of vendors has decreased. Contract negotiation and pricing continue as key issues that IM pros have with vendors.
Prediction 14: The huge gap between knowledge workers' preferences and behaviors and the services delivered by enterprise information managers will widen unless information managers make radical changes.	☺	The gap widens. Top 3 services provided by IM: 1) secondary research, 2) access to physical library, 3) client inquiry/reference support. What users want from library: 1) making info available at desktop, 2) providing competitive intelligence, 3) locating experts.

Source: Outsell, Inc.

© 2006 Outsell, Inc. Reproduction strictly prohibited.

Current Realities: Where 2006 Began

Bottom Line

Our annual assessment always begins with a final look at market size and share from the previous year. The information industry had aggregate revenues of \$358 billion in 2005, and grew at a 6.3 percent rate over 2004. The Search, Aggregation & Syndication segment and the Market Research, Reports & Services segment led the industry with 14 percent and 12 percent growth, respectively.

Growth of the overall information industry slowed in 2005 from its earlier faster pace that resulted in a compound annual growth rate (CAGR) of 8 percent for the period 2001 through 2005. As we noted in our year-end 2005 analysis of the *Outsell 100*SM, our financial scorecard that tracks the performance of 100 public information companies, the information industry is heading into a period of steady growth at a slower pace.

2005 Est. Worldwide Information Industry Revenue by Segment

	2005 Market Size (\$M)	2005 Growth Rate	2001-2005 CAGR*
B2B Trade Publishing & Company Information	22,454	5.1%	1.1%
Credit & Financial Information	32,564	9.0%	9.2%
Education & Training	38,048	9.0%	8.0%
HR Information	2,808	15.0%	14.1%
IT Research, Reports & Services	2,339	5.0%	0.0%
Legal, Tax & Regulatory	14,240	6.0%	5.1%
Market Research, Reports & Services	25,708	12.0%	12.6%
News Providers & Publishers	134,001	2.7%	4.9%
Scientific, Technical & Medical Information	19,240	7.0%	6.5%
Search, Aggregation & Syndication	36,277	14.0%	12.7%
Yellow Pages & Directories	30,582	3.0%	2.8%
Total Information Industry	358,263	6.3%	8.0%

Source: Outsell's Publishers and Information Providers Database

*HR, Legal, Tax & Regulatory, Yellow Pages & Directories, and Total Information Industry CAGR for 2003-2005 only

© 2006 Outsell, Inc. Reproduction strictly prohibited.

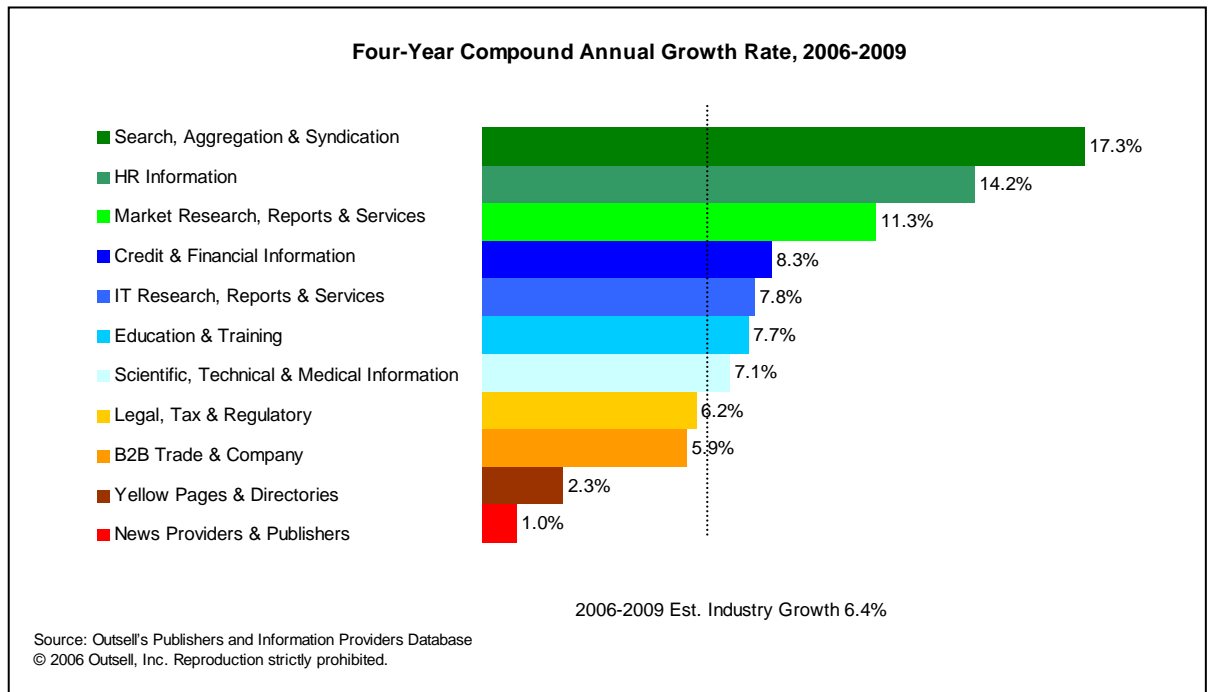
Growth rates in the industry varied widely by segment, with HR Information leading the pack in 2005 at 15 percent – albeit growing from a relatively small base – and Search, Aggregation & Syndication and Market Research, Reports & Services segments of the industry at 14 percent and 12 percent growth, respectively. The News Providers & Publishers and Yellow Pages & Directories segments grew most slowly, at 2.7 percent and 3 percent respectively.

Market Segment Competitive Trends, Share Leaders, and Forecasts

Bottom Line

The information industry hot spot continues to be Search, where Google, Yahoo!, and MSN (GYM) have been orienting the industry to media and audiences and attracting a growing percentage of advertising dollars. Market Research, Reports & Services continues to innovate in real-time data collection and community-based and peer-to-peer delivery models. Search will grow at a compound annual growth rate of 17.3 percent over the next three years. The overall industry will grow at around 6 percent, with Search in the lead and companies mired in the past and struggling to adopt new models – News and Yellow Pages & Directories in particular – bringing up the rear.

Segment Breakdown: Search and Market Research Will Lead in 2006 and Beyond While News Will Lag Far Behind

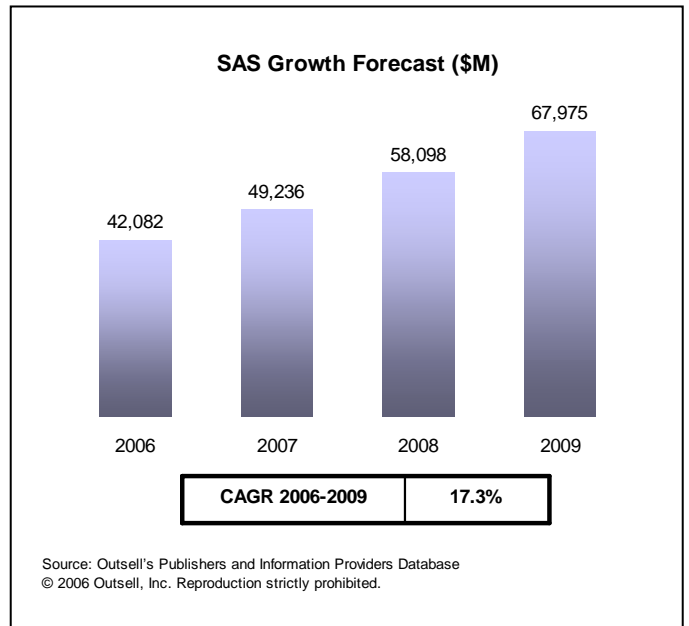
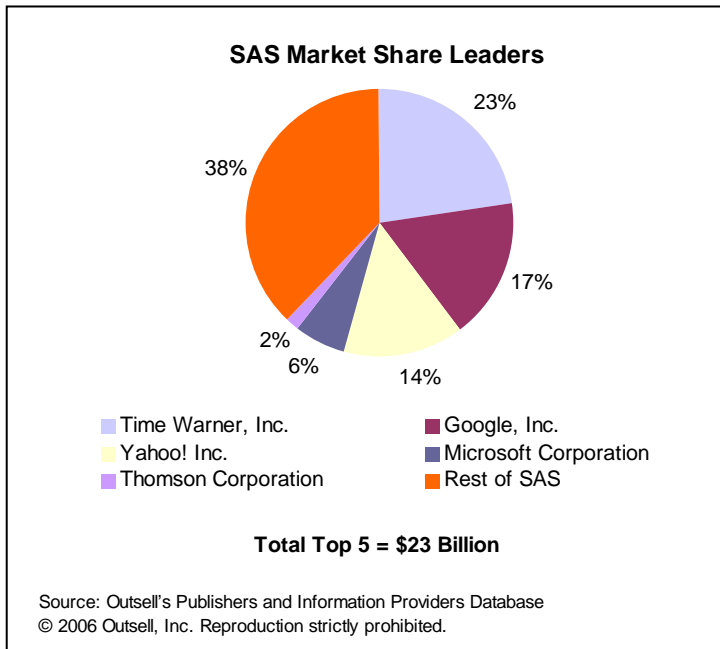


Search, Aggregation & Syndication Will Continue to Lead Industry Growth

The Search, Aggregation & Syndication (SAS) segment was \$36.2 billion in revenues in 2005 – comprising 10 percent of the entire information industry. Outsell forecasts that SAS will grow 16 percent in 2006, well over double the industry growth rate, to \$42 billion, and we forecast SAS will have a compound annual growth rate of 17.3 percent from 2006 through 2009, to achieve \$68 billion in revenues.

Growth of the SAS segment has far outpaced that of the overall information industry since 2000, and its 14 percent growth in 2005 was again more than double the industry average. Powering SAS is the phenomenal growth in online advertising in the Web search and portal companies. These companies are simultaneously limiting the growth of demand for licensed content aggregators' services by flooding the content market with free, ad-supported content.

Market Share Leaders. Together, the top five SAS market share leaders hold 62 percent of the SAS market. The Web search and portal companies – AOL, Google, Yahoo!, and Microsoft – dominate this segment, but the red-hot GYM companies are the ones rewriting the playbook both for search and for the overall industry. Excluding pure distribution services companies from the discussion, such as Follett, Swets, Dawson, and Ingram, Thomson joins the list of top share leaders with aggregation businesses that are part of its learning, legal, and scientific divisions.



Rising Stars. Outsell identifies as rising stars companies that are showing fast growth or an unusual or unique position in the market. Fast-growing Baidu is one of the world's most popular Web sites, often described as China's Google. Watch Baidu to see if it can generate sufficient ad revenues in a hot market where disposable incomes are still relatively low and it has ubiquitous Google to compete with. Keep an eye on IAC's Ask.com, poised for market share gain as IAC rolls it out against its host of e-commerce, real estate, education, and other properties. Yahoo!, already a top share leader, is always one to watch for its unique point of view and understanding of the importance of people over technology, which plays out in all its offerings and gives it an edge. Last seen as a CNET news portal, the new Snap.com is a next-gen Overture that intends to leapfrog the paid search model of pay-per-click and deliver on the pay-for-performance idea.

Key trends impacting the SAS segment:

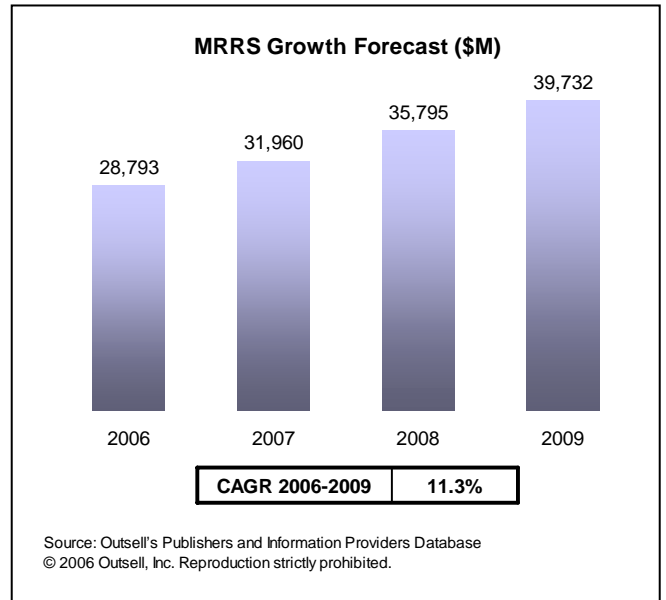
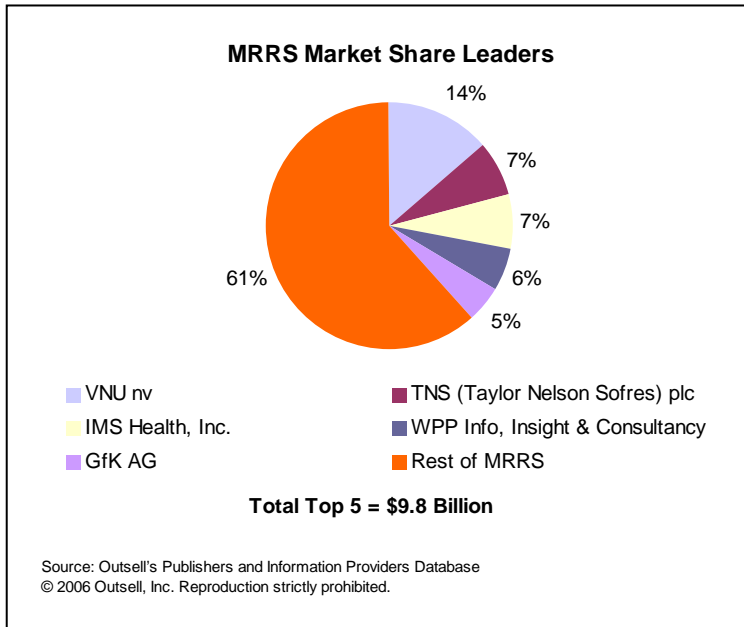
- *Google is the new Starbucks.* It continues to expand in every direction, with new launches and beta experiments cropping up all the time, akin to Starbucks opening five stores somewhere in the world every day. Google's experimentation rate and ubiquity is astounding and forces continual change in the industry. Its fail fast philosophy – one beta lasted a total of four hours – propels it ahead at light speed.
- *Search feels a tremor in the force.* The most linked-to ranking methods are being challenged, and click fraud is rattling the pay-per-click (PPC) foundation. GYM players ultimately will have to realize that advertisers are customers whose demands for pay for performance and for visibility into whether their dollars are buying legitimate clicks must be attended to.
- *Factiva and LexisNexis are finding their own niche.* "Traditional" aggregators have focused on high-value-added solutions and reinforcing their long-standing positions in the enterprise market. Factiva has rolled out a series of enterprise tools and enhancements in the past year, both independently and in partnership with GYM players, based on its strengths in role-based solutions and reputation management systems. LexisNexis has continued to expand the depth and breadth of its content offerings and, like Factiva, has strongly emphasized unique analysis tools.

Market Research, Reports & Services: M&A and Global Expansion Will Drive Growth

The Market Research, Reports & Services (MRRS) segment was \$25.7 billion in revenues in 2005 – 7 percent of the entire information industry. Outsell forecasts that the MRRS market will grow 12 percent in 2006, nearly double the industry rate, to \$29 billion, and we forecast MRRS will have a compound annual growth rate of 11.3 percent from 2006 through 2009, to achieve \$39.7 billion in revenues.

The overall market has many small niche players and is global in reach. The dominant top players in MRRS are custom market research firms and panel measurement firms. With the segment concentrated in a group of large global companies, the rest of the segment has pockets of different types of market research products.

Market Share Leaders. Of the top five market share leaders, VNU, with \$3.6 billion revenue in 2005, has by far the largest market share, but its growth rate has slowed. TNS' growth also slowed. Both firms are experiencing flat growth in consumer product goods due to price pressures. IMS Health and WPP both grew strongly, benefiting from product growth and international expansion. GfK enjoyed healthy growth based on acquisitions and growth in custom research and healthcare.



Rising Stars. This year, LiveWorld is one to watch. The firm is growing fast (84% in 2005) with its online community and social networking services as marketing venues. WebSideStory grew 75 percent in 2005 in the hot space of Web analytics. Health Grades repeats this year as a rising star in the medical segment, providing detailed rating systems for hospitals and physicians. Harris Interactive has been performing well across multiple geographies and vertical businesses, especially in consumer products goods, government, and healthcare.

The outlook is good for MRRS. We project continued growth and innovation, technology supporting new data creation products and opportunities, and upside from disruptive new market research approaches such as buzz tracking, reputation management, and social networking communities. This market will continue to expand globally, especially in China and India.

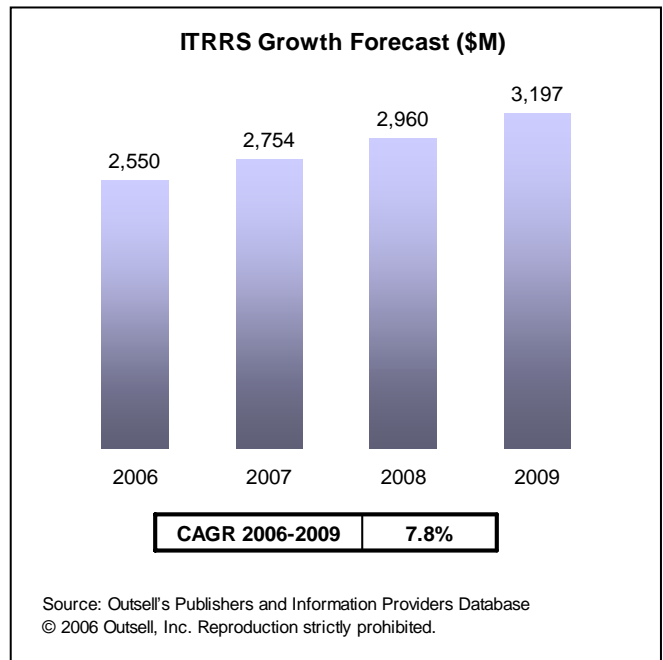
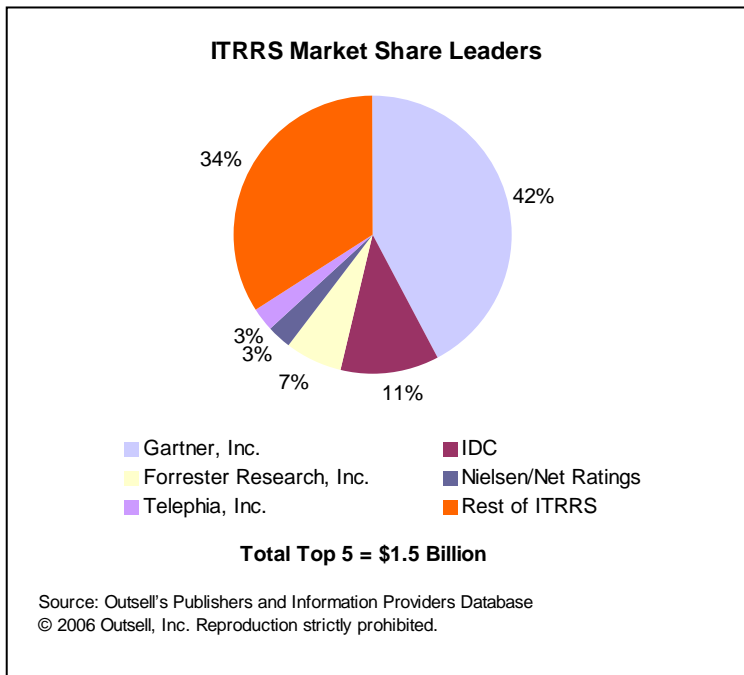
Other key trends impacting the MRRS segment:

- *Technology influences buyer expectations and supplier offerings.* Buyers have become accustomed to faster turnaround times for information as well as granular, specific, and relevant information. The market continues to move toward real time, real data, and real people. Technology impacts both data collection and reporting. Pre-established panels of willing respondents are driving down the time lags between data collection and reporting. GPS, sensor, and scanner technologies are helping harness the data explosion for market research companies.
- *Budgets have stabilized – buyers expect more relevancy.* Budgets are somewhat flat, with enterprise buyers reporting slightly less than a 2 percent increase this year. This increases pressure on the value gained from purchased information products. Relevancy is key and marginal fit products are being taken out of budgets.
- *Strategic acquisitions continue and outsourcing is becoming an option.* Companies continue to be in acquisition mode, with larger firms acquiring small, specialized firms to balance out product portfolios or provide global capabilities. Marketing services firms as outsourcing partners is becoming a trend in vertical industries looking for ways to cut costs.

IT Research, Reports & Services: Volatile, Yet Growing Ahead of Overall Information Industry

The smallest segment of the information industry, IT Research, Reports & Services (ITRRS) reached \$2.3 billion in revenues in 2005. Outsell forecasts that the ITRRS market will grow 9 percent in 2006, slightly above the overall industry rate, and we forecast ITRRS will have a compound annual growth rate of 7.8 percent from 2006 through 2009, to achieve \$3.2 billion in revenues.

Market Share Leaders. The ITRRS segment is dominated by Gartner, which is approximately four times the size of its next-closest competitor, IDC, and makes up nearly half the revenue of the entire IT research market. This segment has continued to consolidate, with the largest acquisition being Gartner's acquisition of META in April 2005. This has provided an opportunity for Forrester, IDC, and others to garner freed-up budget dollars that were previously allocated to META. While many companies had double-digit growth, Gartner's META acquisition pulled down the overall growth rate in 2005. Without META, Gartner's organic growth rate was flat. Although many ITRRS providers saw significant uptick in their business, partially due to the META acquisition, the growth rates were not significant enough to make up for a loss of revenue in the market, and thus slower growth rates overall.



Rising Stars. Cutter Consortium is growing fast (50% in 2005) based on its popular IT expert network model, while ITtoolbox (40%) is putting an IT collaborative community at the core of its offering. Info-Tech Research Group and Telephia are both growing fast (35%+ in 2005), with Info-Tech going up market and Telephia putting tracking technologies and hot topics like mobile at the core of its model. Burton Group grew above the segment (33%) partly due to its savvy and rapid response to the acquisition of META by Gartner.

Acquisitions still are contributing to growth in ITRRS, and we expect to see more M&A activity over the next few years. This market segment remains somewhat volatile following the dot-com bust, due to its reliance on providing services to the technology sector of the market. In the coming year, Outsell expects moderate growth at a slower rate, and a softer landing than the bust scenario experienced early in the 2000s.

Additional key trends impacting the ITRRS segment:

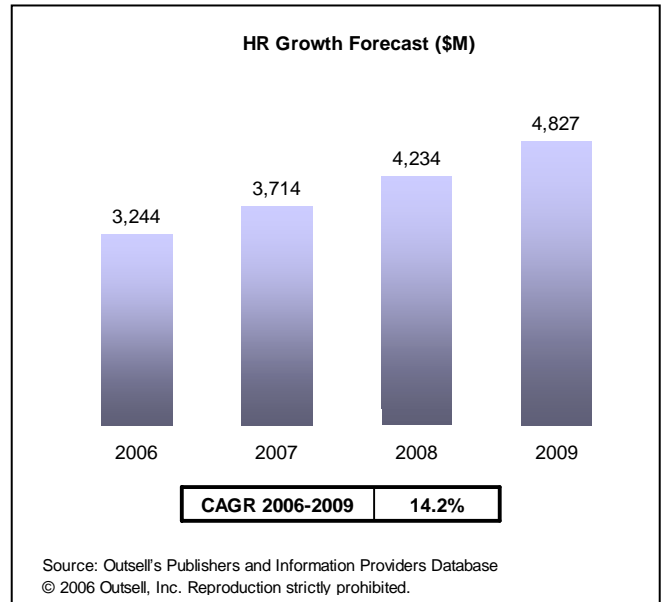
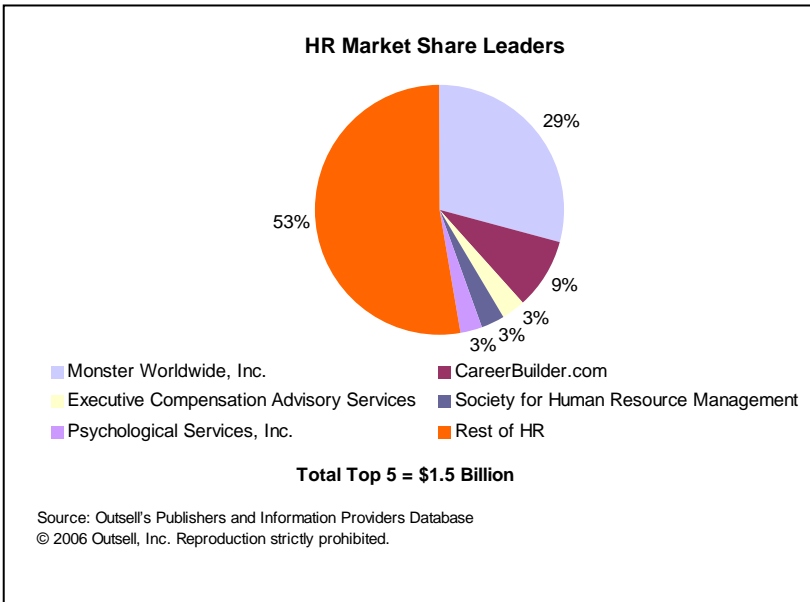
- *New packaging, pricing, and delivery scenarios continue to emerge.* Price increases and less discounting, particularly from Gartner and Forrester, are likely to continue. Outsell's research shows that the research and advisory model continues to have a strong value proposition for clients. Innovation among traditional ITRRS players and new entrants is bringing on blending of new approaches, such as custom on demand, expert networks, and peer-to-peer networking with traditional advisory models.
- *Like MRRS, budgets have stabilized – buyers demand more relevancy.* We see enterprise content buyers expecting more choices and alternatives to the top market share leaders in ITRRS but having difficulty finding new options. IT professionals continue to focus on the tactical issue of how to implement technology and not just what to buy. This changes the types of IT information services they need to support tactical decisions.
- *Strategic acquisitions and expansion into Asia Pacific will continue.* The META transition left a “hole” in the Asia Pacific region, and several new start-ups have focused on this area for expansion, including ones started by ex-META analysts. We expect Asia Pacific to continue as a hot spot for ITRRS companies.

HR Information: Booming Globally in a Flat World

The HR Information segment was \$2.8 billion in 2005, one of the smallest segments of the information industry and growing fast on its relatively small base. Outsell forecasts that HR Information will continue to grow at a fast clip of 15.5 percent to \$3.2 billion in revenues in 2006, and will experience a compound annual growth rate of 14.2 percent from 2006 through 2009, to achieve \$4.8 billion in revenues.

Market Share Leaders and Rising Stars. Monster is both the dominant player in HR and its chief rising star on the basis of stellar growth in online recruitment and networking worldwide. Its global revenues are growing rapidly as it fills companies' needs for finding talent in a flat world economy. A joint venture of the Tribune Company, Gannett, and Knight Ridder, CareerBuilder – in distant second place but doubling its growth – also connects employers and job-seekers. Both firms have built dominant market share in ad-based, global Web venues.

Facebook, while still primarily focused on the consumer market, needs to be watched as a rising star with its entry into the corporate arena to support knowledge-sharing and collaboration in fledgling Enterprise 2.0 environments.



With global expansion on everyone's minds and business plans, the outlook for HR Information is very strong growth over the next three years. Expansion in global markets, particularly in hot Asia Pacific areas, is driving an insatiable appetite and urgent need for talent. Both companies and potential employees are relying on the Web to connect with each other and are taking talent recruitment and management systems global.

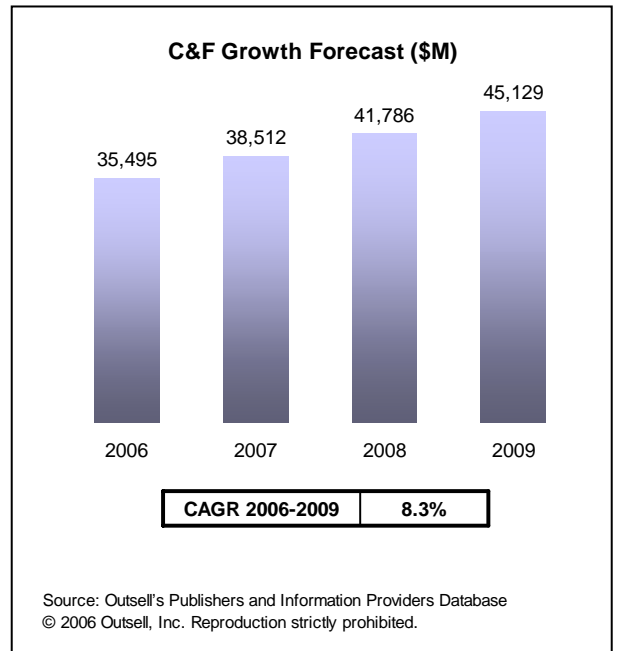
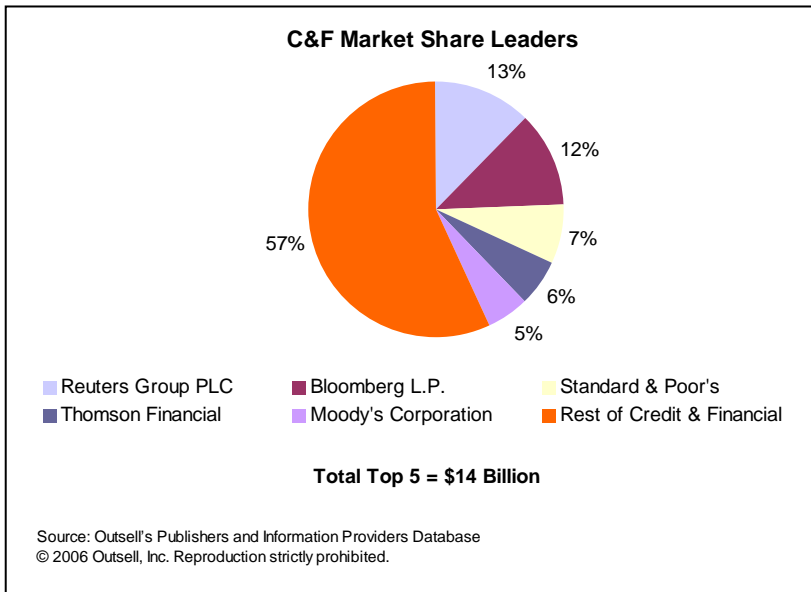
Other key trends impacting the HR Information segment:

- *Demand for outsourcing and right-sourcing best practices information.* As firms work to improve business processes, the need for better evaluation criteria is growing to validate outsourcing as a business model and demonstrate return on investment (ROI).
- *Strategic workforce planning as boomers exit.* As boomers retire in growing numbers, they will leave a huge gap in experience and leadership. And as millennials enter the workforce, companies will be dealing with next-gen workers that bring entirely different behaviors and expectations for work life, training, compensation, and advancement. Savvy employers – and then growing numbers of those behind the curve – will seek compensation and benefits benchmarks and other HR information to help plan for this major shift.
- *Hot demand for people information.* HR professionals also rely heavily on firms like LinkedIn, Zoom Info, Jigsaw, and a new slate of entrants that are focused on candidate identification (HR professionals' equivalent of salespeople prospecting for leads), background checks, and services that support the HR process of talent identification with robust "people information." *This is* a subset of the direct marketing, lead list, and company information segment and represents a new form of "HR information."

Credit & Financial Information: High on Credit and Growing Strong

The Credit & Financial Information (C&F) segment was \$32.6 billion in 2005, the fourth largest in the information industry and 9 percent of the total. Outsell forecasts that Credit & Financial Information will continue to grow at the steady rate of 9 percent in 2006, to \$35.5 billion in revenues, and will have a compound annual growth rate of 8.3 percent from 2006 through 2009, to achieve \$45.1 billion in revenues.

Market Share Leaders. Reuters and Bloomberg continue to dominate C&F, with 13 percent and 12 percent market share, respectively, followed by Standard & Poor's with 7.4 percent. Reuters has turned the corner on declining revenues with growth of 2.2 percent, based on Reuters' restatement of 2004 revenues after the divestiture of Instinet. Bloomberg, Standard & Poor's, and Moody's are growing at double-digit rates. Thomson Financial continues to show steady growth above the Credit & Financial Information segment average, deriving the greatest revenues from its investment management and wealth management data and solutions.



Rising Stars. Bloomberg continues to dominate fixed income and institutional equities and unveiled Phatpipe, its long-awaited, real-time high-volume data feed, demonstrating it is highly in tune with its markets. FactSet consistently delivers strong top- and bottom-line growth, with outstanding client service and ease of use as its hallmarks. IDC is demonstrating high customer retention rates while improving the speed, breadth, and integration capabilities of its real-time datafeed offering. A leader in the booming China market, Xinhua has expanded its global presence while advancing in each of its four core markets (ratings and research, financial news, indices, and investor relations) and is well positioned to thrive as China's financial markets continue to become more international.

The outlook for Credit & Financial Information is steady growth at a slight declining rate over the next three years, as transformation in global financial markets creates increased business opportunities for C&F companies that adapt to change. The trend of cross-border trading and the flow of money to hedge funds with their focus on diverse asset classes and algorithmic trading will continue to fuel demand for financial data and analytics.

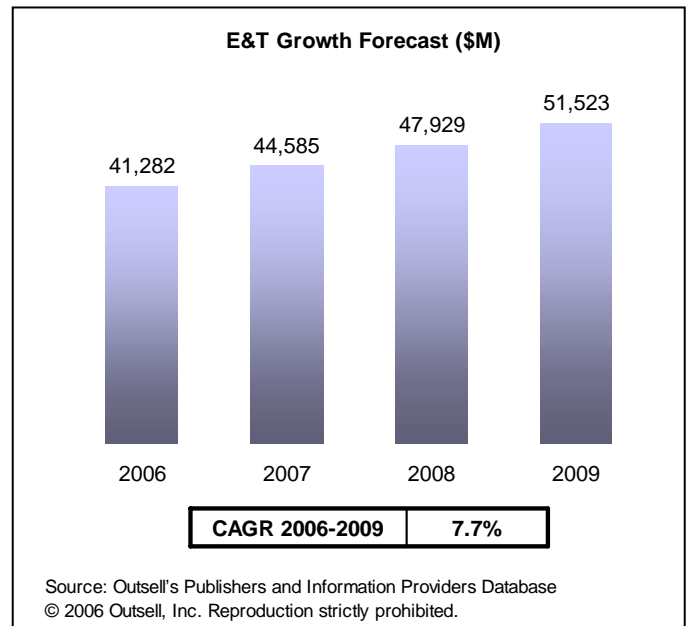
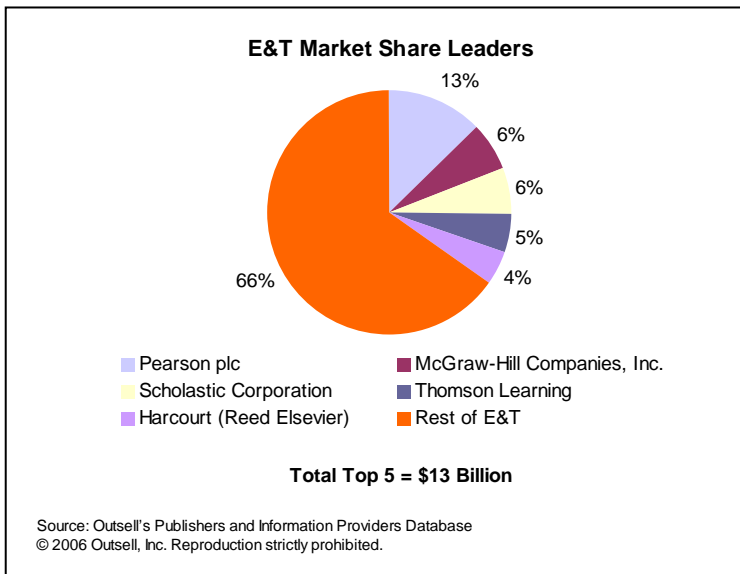
Among key trends impacting the Credit & Financial Information segment:

- *Globalization of investment and integration of capital markets are creating opportunity.* Cross-border investing is creating an increased need for multi-geographic analytics, unique international content sets, and local language solutions, while U.S. exchanges are acquiring and combining with foreign markets in a battle for liquidity, listings, and global presence as foreign markets become more attractive.
- *Technology innovation is changing the trading landscape.* New technologies are fueling growth of electronic trading across financial markets and enabling buy-side institutions to trade with each other. The rise of algorithmic and computer-based trading, largely driven by hedge funds, is driving the need for high-quality, timely raw datafeeds. In response, vendors are scrambling to offer feed handlers and low latency, direct data feeds.
- *Regulation in the financial services industry is a key driver of information needs.* Global regulators continue to focus on greater transparency, full disclosure, and risk mitigation, driving the increased need for data for compliance purposes.
- *Concerns about fraud risk are driving the demand for reliable credit information.* Across industries, there is an increasing need for credit authentication, identity verification, and financial decisioning tools, opening up new opportunities in the Legal, Tax & Regulatory segment as well.

Education & Training: Boosted by e-Learning, Testing, and International Growth

The Education & Training (E&T) segment was \$38 billion in 2005, the second largest in the information industry and 11 percent of the total. Outsell projects that Education & Training will continue to grow at the steady rate of 8.5 percent in 2006, to \$41.3 billion in revenues, and that E&T will experience a compound annual growth rate of 7.7 percent from 2006 through 2009, to achieve \$51.5 billion in revenues.

Market Share Leaders. The top five providers in the overall Education & Training market represent 33 percent of total 2005 E&T revenues. Pearson and McGraw-Hill are leaders in both the K-12 and Higher Education segments. Harcourt and Scholastic have strong positions in K-12 education. Thomson Learning is a dominant player in Higher Education, and along with Pearson holds a strong position in corporate training. State textbook adoptions and improved budget conditions drove stronger K-12 sales. Customized publishing and addition of new subjects supported growth for Higher Education players. Testing and certification programs also continued to be a strong growth area.



Rising Stars. Kaplan grew at 25 percent, well ahead of the market, and has become a significant global E&T player. This firm has shown strong growth in profitability and revenue, driven by several acquisitions that broadened its global reach and expanded its training portfolio and by increased demand for its test services and professional training programs. In sharp contrast to other pure-play training companies, Franklin Covey posted double-digit growth. Another company to watch is Curriculum Advantage, which produces educational curriculum and management tools for K-12 markets. Curriculum Advantage has expanded rapidly in the past three years, from 600 to 3,000 schools, with its network-based solution of reading and mathematics curriculum.

The outlook for Education & Training is steady growth at a slight declining rate over the next three years, based on current trends, available funding, and population demographics. In the U.S., E&T providers will continue to benefit from improved funding, the No Child Left Behind Act, increasing government involvement in determining K-12 educational performance standards, and increased enterprise spending on corporate training.

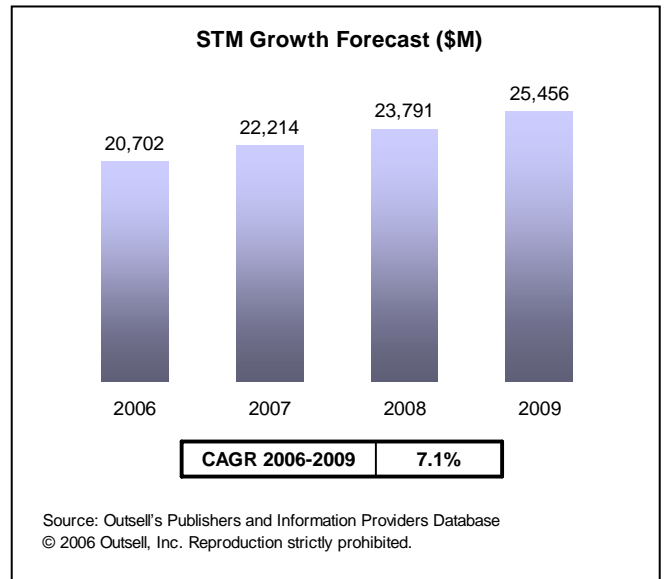
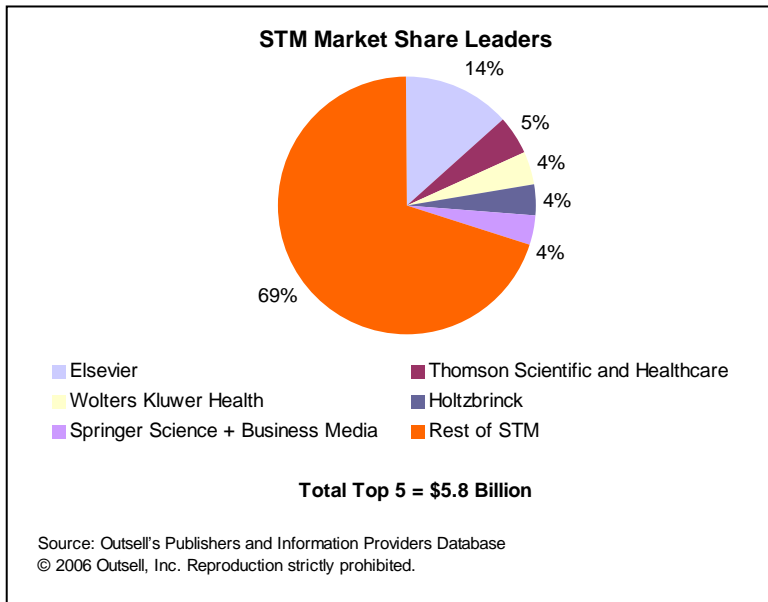
Among key trends impacting the Education & Training segment:

- *Regulatory compliance and workplace performance enhancement needs are driving strength in corporate training.* Workforce readiness is increasingly recognized as a critical requirement by both the educational and business communities.
- *Textbook adoption cycles and testing create market opportunities in K-12.* Integrated assessment and testing in the K-12 marketplace appears ripe for increased development focus.
- *Pricing is an issue driving demand for innovation.* Publishers are experiencing sustained pressure on pricing of new books, and pricing issues continue to drive demand for innovation in the higher education textbook market. New entrants like Freeload Press offering textbooks through ad funding as well as peer-to-peer exchanges for used books will continue to put competitive pressure on traditional players that don't launch innovative business models.

Scientific, Technical & Medical: Medical Information Key to Growth

The Scientific, Technical & Medical (STM) segment was \$19.2 billion in 2005, 5 percent of the overall information industry. The STM segment is a mature market, with growth slowing from 8.4 percent in 2004 to 7 percent in 2005. In both revenues and growth, STM has been overshadowed by the related Search, Aggregation & Syndication segment, whose success is driven largely by Google, Yahoo!, and MSN. Those three companies are increasingly competitive with online services in all sectors, including STM, and represent a continued threat and opportunity scenario for publishers that want to work with them. Outsell forecasts that STM will continue to grow at the moderate rate of 7 percent in 2006, to \$20.7 billion in revenues, and will have a compound annual growth rate of 7.1 percent from 2006 through 2009, to achieve \$25.5 billion in revenues.

Market Share Leaders. In the top five market share leaders, all traditional publishers, growth above the segment's overall 7 percent was achieved largely through M&A rather than organic growth. Reed Elsevier continues to be the gorilla in this market, although with growth at only 4.8 percent in 2005, it shows the limits to what can be achieved through more products for a mature market under current business models. Thomson, Wolters Kluwer, and Holtzbrinck continue to grow at single-digit rates and show that growth via acquisitions and moderate organic growth is difficult but achievable in a mature market. In contrast, Springer's double-digit growth came in part through steady acquisition of new titles and by leveraging a significant international publishing capability.



Rising Stars. This year, companies to watch include IHS, which has undergone successful reinvention from its base as a traditional engineering business and is poised for growth; Nature Publishing Group, which is innovating in community-based technologies to support the sciences; and CSA, another traditional secondary publisher which has moved aggressively in both content and sales channels to become a major life sciences aggregator. WebMD and Zynx Health are two firms continually innovating and building content and tool sets to support consumers, practitioners, and other information users in healthcare. GlobalSpec and ThomasNet are B2B Trade Publishing players that support engineers with ad-funded models as another group of disrupters/rising stars creating a collision between segments and funding models.

Our outlook for STM is that medical information spending will continue to drive growth for the next several years. Large players will continue to purchase healthcare-related assets, and since companies outside of the traditional STM space are in play here, purchases will mean expansion rather than consolidation.

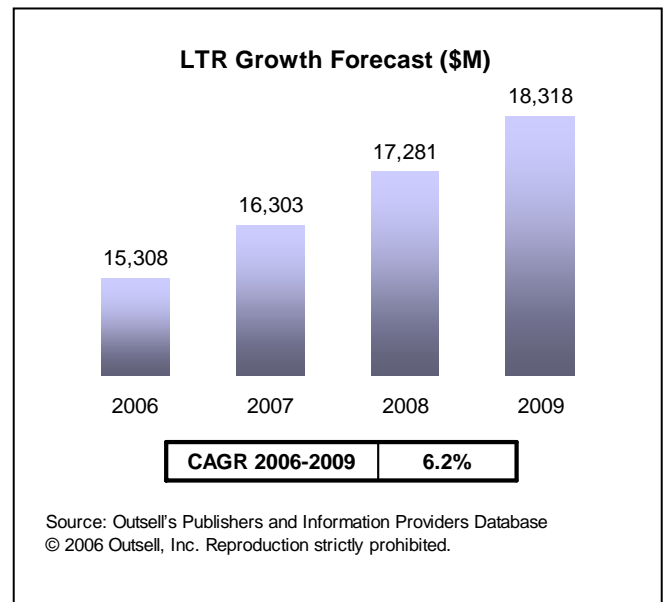
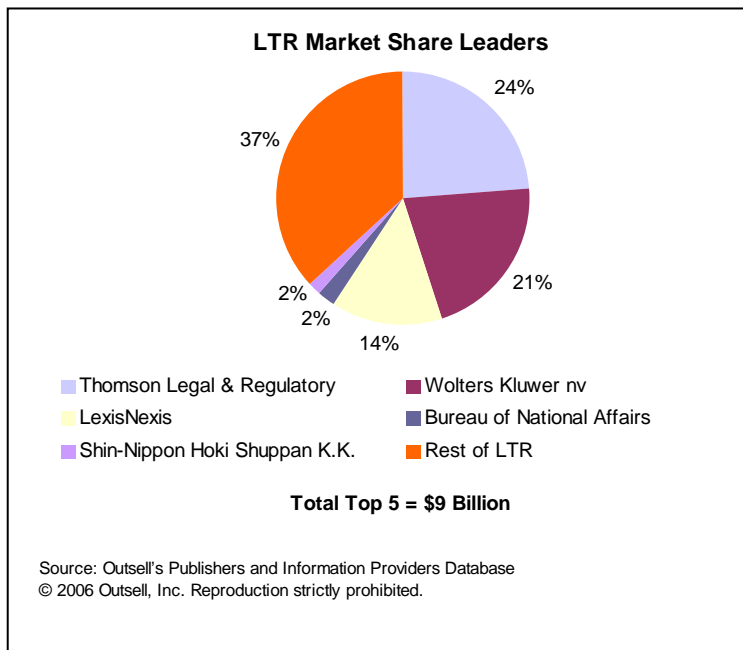
Key trends impacting STM include:

- *Consortia sales and international expansion drive growth.* Much of the remaining organic growth on the part of traditional players comes from the ability to drive the big deal farther afield, including institutions of certain kinds – national libraries or national consortia, for example. Asia-Pacific, the Americas, India, and the great prize, China, are increasingly important elements of publishers’ growth agenda.
- *Geophysical and rich data are hot growth areas.* STM companies whose products are seismic data, maps, and other rich data are experiencing double-digit growth. Content in new formats, or data mined and analyzed as a by-product of regular business activities or workflow, is an actionable and immediate opportunity.
- *Technologies and user expectations are pushing business models to the wall.* Faster than license agreements can keep up, new ways to use, copy, share, slice, and dice information arise. With easy access, content usage explodes at a rate that institutions can’t sustain under current charging models, and publishers are challenged to come up with new metrics or shift more of the revenue burden from institutions to individuals.
- *Workflow is an increasing concern of knowledge workers, and publishers are responding.* With more content and less time to analyze it, users need content that reaches out in an actionable way – it’s not about searching but about using. STM publishers are increasingly looking for ways to incorporate content and tools, to offer slices of content to answer questions, or to add analysis and structure to content in ways that make it useful in very specific situations.

Legal, Tax & Regulatory Information: Big Three Dominate, Face Challenges by Low-End Alternatives

The Legal, Tax & Regulatory Information (LTR) segment was \$14.2 billion in 2005, representing 4 percent of the total information industry. Outsell forecasts that Legal, Tax & Regulatory Information will grow at the modest rate of 7.5 percent in 2006, to \$15.3 billion in revenues, and will have a compound annual growth rate of 6.2 percent from 2006 through 2009, to achieve \$18.3 billion in revenues.

Market Share Leaders. The “Big Three” – Thomson Legal & Regulatory, Wolters Kluwer, and LexisNexis (Reed Elsevier) – dominate the LTR segment with a combined market share of 59 percent. They also all beat the segment’s growth rate of 6 percent in 2005 and exemplify the big getting bigger. Both Thomson and LexisNexis publish primary law in print as well as online, and these two in particular have also moved into providing workflow tools for lawyers and other fields such as practice management, risk management, and law firm marketing. Wolters Kluwer has been building into a comprehensive player with unified and integrated LTR offerings on par with those of Thomson and LexisNexis and has taken the deliberate step of announcing Wolters Kluwer Law & Business as an umbrella brand for its U.S.-based legal and compliance businesses. Smaller, independent BNA is an analytical and practice-oriented publisher. Shin-Nippon, holding fifth place in market share, is Japan’s leading provider of print-based legal information.



Rising Stars. Even as one of the Big Three, Wolters Kluwer is a rising star to be noted for consolidating its position as a legitimate peer to LexisNexis and Thomson L&R in providing comprehensive legal information. Thomson's Findlaw is a company to watch as it is playing a middleman role between the legal profession and consumers looking for legal information and services. Another rising star is Casemaker, with its innovative, flexible approach that is bringing inexpensive online legal content to smaller firms. An established player in Japan, Shin-Nippon is one to watch with its new joint venture with Thomson to create Westlaw Japan.

Growth in the LTR segment will continue to be affected by changes in the legal profession and the increasing access to primary sources over the Internet.

Among key trends impacting the Legal, Tax & Regulatory Information segment:

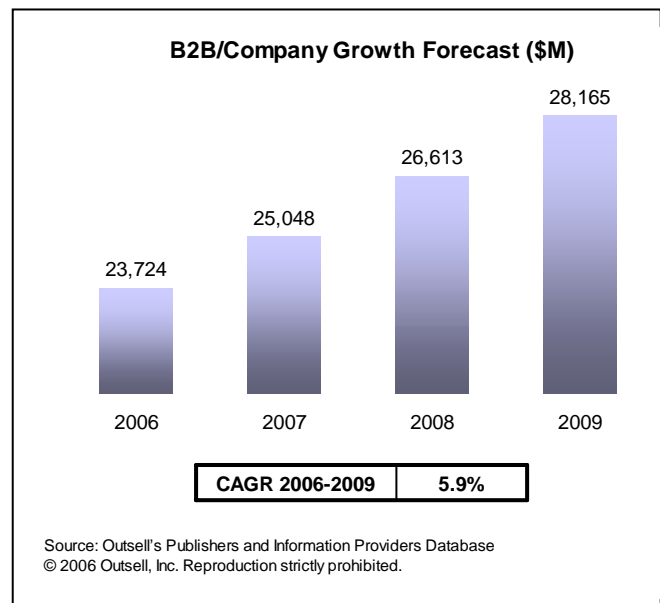
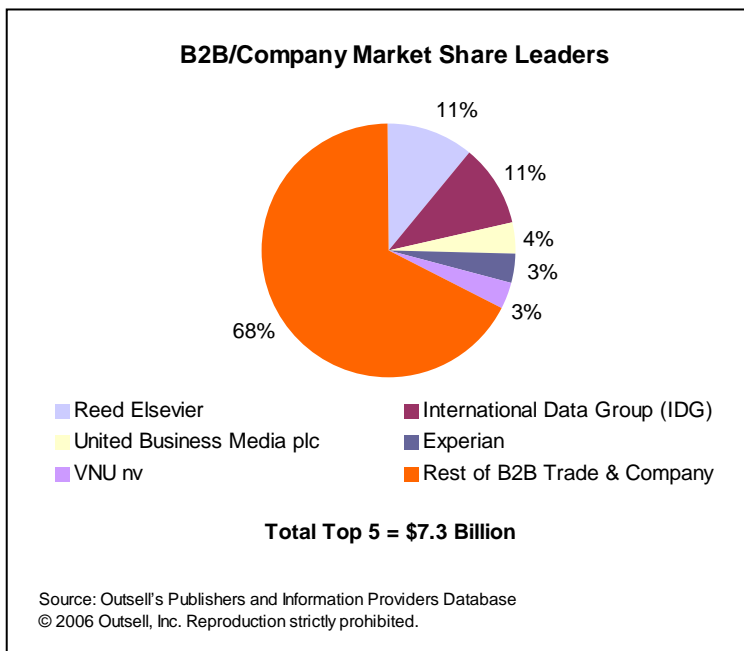
- *Globalization through acquisitions and partnerships.* While most of the holdings of the Big Three are in the U.S., these firms are all global. Legal publishing is subject to the peculiarities of each country's legal system and culture, so acquisitions make global growth an easier track than setting up shop in each country without an acquisition as a foothold.
- *Specialization and niche plays abound.* Legal practice is increasingly characterized by specialization, as lawyers attempt to add value and distinguish themselves via niche practices, requiring more specialized and practice-oriented sources and creating opportunities for legal publishers.
- *Legal information and legal practice is democratizing.* More and more legal materials are intended for direct consumption by consumers. While still dwarfed by the giants that serve the traditional legal industry, self-help solutions that bypass lawyers and the traditional legal publishing industry altogether are growing.
- *Growth will also come through robust workflow solutions.* Workflow solutions and other practice management tools are growing in importance in the legal market. As in many other information industry segments, legal publishers can no longer simply provide information; they must integrate it into their target markets' workflows. Thomson's Elite line of practice management solutions is an example of how this trend has played out in recent years. LexisNexis provides a suite of tools including billing, document assembly, and automated court filing, and its Total Litigator suite of tools for litigation management.
- *Regulatory compliance and financial sectors are embedding compliance content and tools in workflows.* One fast-growing company benefiting from the red-hot compliance space is AlexInformation, a provider of educational texts to the regulatory compliance and financial sectors. RuleBurst is seeking to market its range of user-friendly compliance solutions to the financial and regulatory industries. These solutions allow users to self-publish compliance material; they can select the factors that most influence their business and create a customized compliance environment.

B2B Trade Publishing & Company Information: Double-Digit Online Ad Growth

The B2B Trade Publishing & Company Information (B2B) segment provides professionals' must-read trade content and advertisers' most effective method of informing and influencing their key buyers. The Internet is rewriting the rules and giving companies in this segment new headaches and new avenues for growth.

Overall, the B2B segment was \$22.5 billion in 2005, the seventh largest segment in the information industry and 6 percent of total industry revenue. It was also one of the slower-growing market segments, with 5.3 percent growth over 2004, ranking seventh by growth rate and 1 percentage point less than the total information industry growth of 6.3 percent. Outsell forecasts that B2B will grow at a modest rate of 5.6 percent in 2006, to \$23.7 billion in revenues, with a compound annual growth rate of 5.9 percent from 2006 through 2009, to achieve \$28.2 billion in revenues.

Market Share Leaders. The dominant players in this segment are Reed Elsevier, IDG, and United Business Media. Combined, these three make up more than 25 percent of the market. Reed Business Information (a division of Reed Elsevier) grew 5.2 percent, very near the segment's average rate, and IDG was well above average at 8.4 percent. IDG benefits from growth in its international operations and strong performance from its online businesses. Two share leaders saw flat growth: CMP (a division of United Business Media) with 0 percent growth and VNU Business Media with 1 percent growth. At UBM, the two key divisions, CMP Media and CMP Information, netted zero growth out of progress in events and online and weakness in print. VNU faced a year of slow print advertising growth and built most of its net growth on reasonably strong results from its trade shows. With outsized growth of more than 28 percent, Experian grew via significant acquisitions.



Rising Stars. Hearst Business Media is a company to watch as the model of a B2B Trade Publishing company that has successfully converted its business from an ad-supported traditional model to one where its paid content is deeply integrated into workflow applications in the automotive, pharmaceutical, healthcare, and electronics industries. GlobalSpec is the big disrupter in this space, growing rapidly using a combination lead-generation model based on vertical search for design and MRO engineers and portal for engineers. Among Company Information firms, recent start-up Generate and older start-up Zoom Info are locked into market-driven disruptive trends and positioned to grow if they can execute and scale up. Generate uses large-scale Web mining and patented technology to index unstructured content, including a sophisticated “degrees of separation” process that facilitates executive relationship-building through third-party contacts. Zoom was the first major firm to create its executive and company information using open Web sources. While Company Information providers OneSource and Hoover’s intensify the battle for the small and medium business (SMB) market, next-generation firms such as Generate and Zoom Info, and social networking firms like LinkedIn and Spoke, are promoting their products as tools for sales leads.

The outlook for B2B Trade Publishing & Company Information is for steady, moderate growth over the next three years. Print advertising growth here will be very low, near zero, while online advertising will grow at double-digit rates and make up an increasingly large share of the total segment revenue.

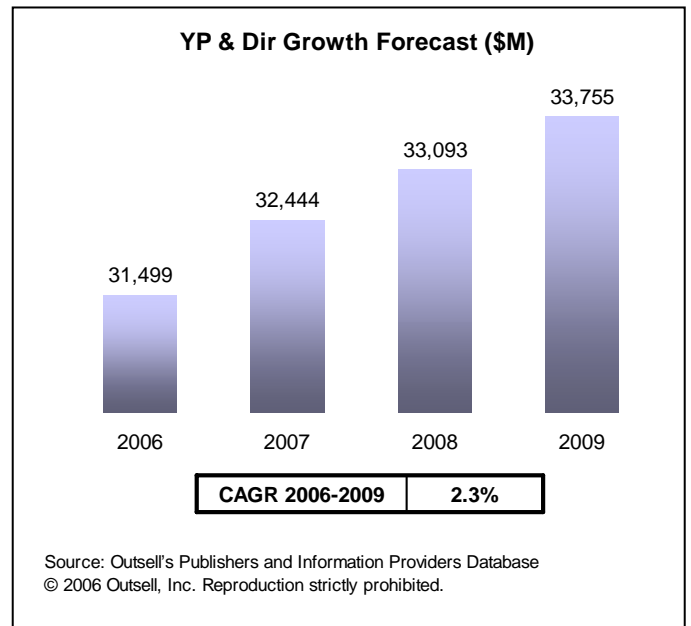
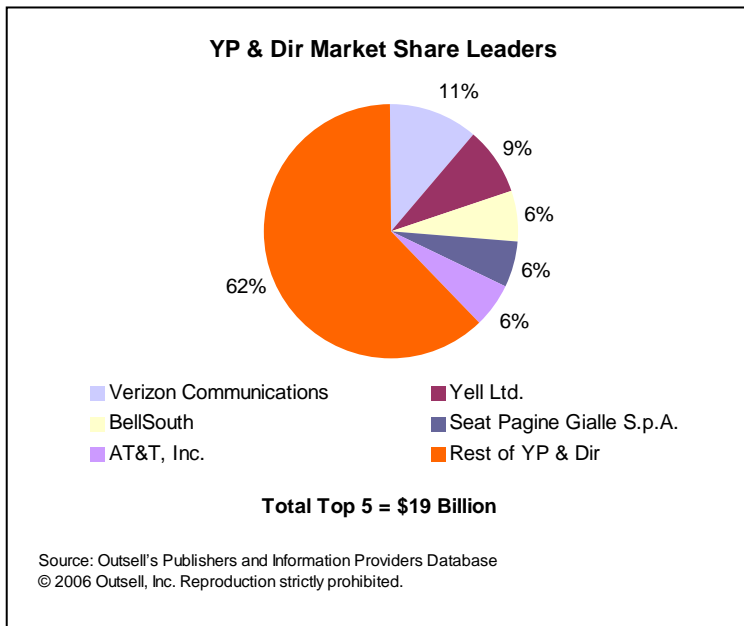
Key trends driving the B2B Trade Publishing and Company Information segment include:

- *Attention economy and new audience in Long Tail are an essential new opportunity.* Trade publishers’ circulation lists are narrowly targeted so they contain only people deeply involved with the vertical market being covered. This allows them to charge premium ad rates. But this does not leverage the reach of the Internet; specifically, the ability to target less-focused prospects and clients in the Long Tail, who are outside the core audience but offer significant incremental revenue opportunities. B2B trade publishers are nearly unanimously using GYM to reach these less frequent but motivated users.
- *Social networking and communities tap a powerful core human need.* B2B Trade Publishing companies (CNET, TechTarget, and ITtoolbox,) are experimenting with variations on audience, colleague, and peer engagement and participation. Users trust peers who have faced similar choices as much as or more than experts, making it imperative to consider hosting peer-to-peer networking, with editorial oversight, as a service offering that can be monetized. In the Company Information sub-segment, communities are being used as sources of contacts with companies including LinkedIn, Visible Path, Spoke, and Jigsaw.
- *Youth is a special case of hyper-segmentation.* The youngest generations are ignoring “one-way media” in favor of interactive ones. A broad age spectrum is used to being continuously connected, driving more breaking news usage through multi-function cell phones and PDAs. Young readers graze and sample even more than Boomers and Gen X, assembling their own collections of information packets using RSS feeds and collecting personally selected (or referred by colleagues) blogs, for “voices” that resonate with them, as well as for headlines, photos, and video.

Yellow Pages & Directories: Struggling to Grow Online Alternatives

The Yellow Pages & Directories segment was \$30.5 billion in 2005, the fifth largest in the information industry and 9 percent of the total. Outsell projects Yellow Pages & Directories will grow at a slow rate of 3 percent in 2006, to \$31.2 billion in revenues, and will have a compound annual growth rate of only 2.3 percent from 2006 through 2009, to achieve \$33.8 billion in revenues. This segment has been particularly impacted by users' shift from print media to online and has been slow to generate high-performing online ad-based businesses.

Market Share Leaders. The top five market share players are traditional Yellow Pages publishers, all aggressively moving from print to online. Top market share leader Verizon, with its popular Superpages.com, is now focused squarely online and took steps toward disposing of its print directories business this year. Yell is the largest independent Yellow Pages publisher, and while it has continued to acquire print directories, it is also developing performance-based solutions for online advertisers. A strong emphasis among the top directories publishers, including AT&T, BellSouth, and Verizon, is to support small, local businesses in getting their ads visible on high-traffic sites driven by search.



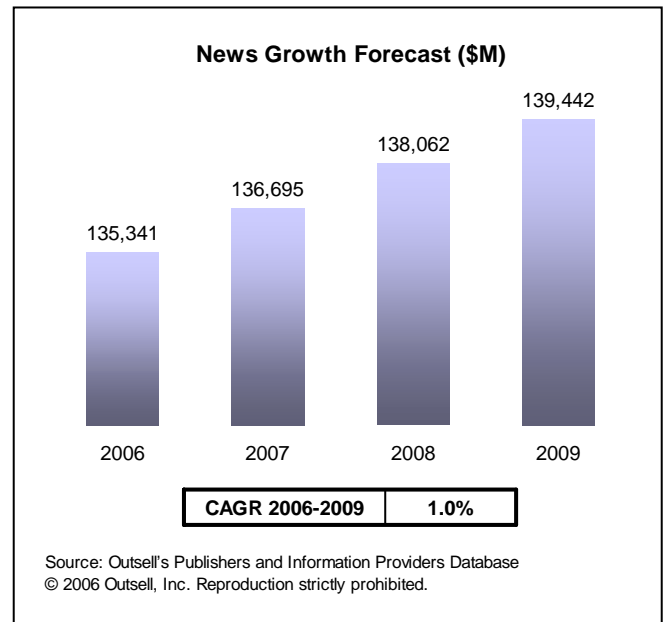
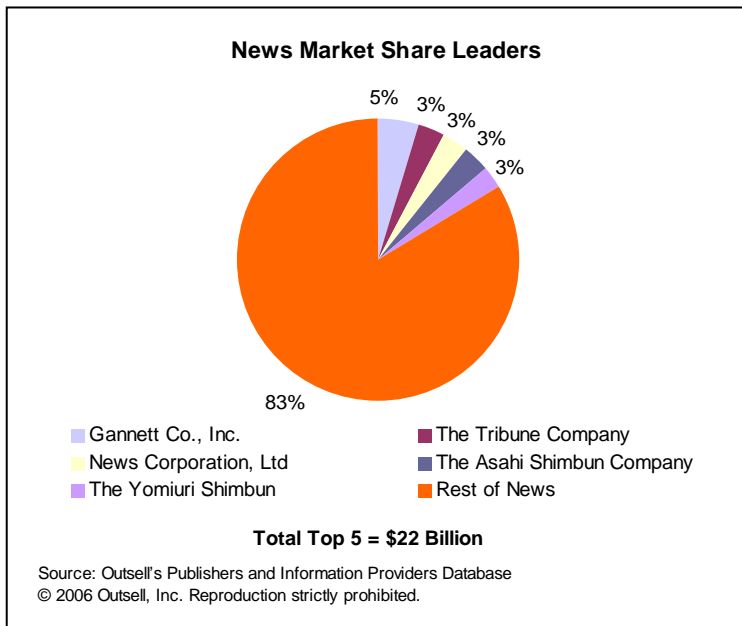
Rising Stars, Disrupters & Key Trends. Rather than Yellow Pages & Directories natives, companies to watch in this space are disrupters from outside the segment. Yelp is horning in on consumer attention with peer-to-peer-created local business and services directories enriched with user-generated consumer opinion. craigslist has driven so much ad revenue out of the News segment that News publishers have created or acquired their own yellow pages in order to keep small business advertisers on board, and the lines are blurring between classified and yellow pages advertising. And Yahoo! Local provides local businesses the ability to interact directly with their ad listings and to buy premium listings in a flat-fee or no-fee structure.

After years of slow growth of online advertising on their own Web sites, Yellow Pages providers are starting to see more success in driving traffic via search engine Web sites. But they have yet to move the needle significantly in making the print to online ad revenue transition, and they face encroachment from disrupters and alternative providers, so the outlook for Yellow Pages & Directories is slow growth at a slightly declining rate over the next three years.

News Providers & Publishers: Shrinking Revenues and Unbearable Cost Structures

The News Providers & Publishers segment fuels much of the information industry. It claims the largest share of total revenue, 37 percent, with \$134 billion in 2005 revenues. Largely a mature segment, News grew at the rate of 2.7 percent in 2005, below inflation and well below the 6.3 percent growth of the overall information industry. Outsell forecasts that News will continue flat growth at 1 percent in 2006, to \$135.3 billion in revenues, and continue at a compound annual growth rate of 1 percent from 2006 through 2009, to \$139.4 billion in revenues.

Market Share Leaders. The top companies in the News segment are largely print-based, most with strong roots and the majority of revenues in daily newspaper publishing. Among the share leaders, few companies' growth rates stand out. No company manages more than 5 percent market share, with Gannett leading the pack at 4.8 percent. Similarly, the low-revenue-growth woes of the industry are shared across the board. Two outliers in growth, Gannett, and News Corp., are both anomalies. Both had actual year-over-year revenue growth, but their annual results were skewed: Gannett's by multiple property swaps and operations consolidation in Detroit, and News Corp.'s by assuming full ownership in its Queensland, Australia property, in addition to marginally better-than-average growth.



Rising Stars

- News Corp. stands out for Rupert Murdoch's intensity and drive propelling it into the new age. His \$580 million purchase of MySpace caught observers off-guard. This media-builder's success is risk-taking – the ability to see the Asian market, the satellite market, the “triple play” market, and the regional/national sports market before others and to invest in them. We expect News Corp. to become a major Internet player going forward.
- The news power of another rising star, Topix, a search company owned 75 percent by Tribune, Gannett, and McClatchy, is increasingly evident.
- Yelp and Pluck both play to people's creation and sharing fervor. Yelp is city-guide-oriented, aimed at twenty-somethings and becoming a phenomenon, showing how well city word-of-mouth can be harvested and used socially. News companies have long been the place for consumers to go for “things to do.” Pluck's set-up-your-own-blog/join-an-online-group/comment-on-a-story emerging suite and its ability to integrate these with traditional journalism on news Web sites are noteworthy.
- Mochila, started up this year, is a leader in the 2.0 syndication market. It has taken on mainly the issues involved in content licensing – pricing, embargoes, selection, content types, digital rights protections, and more – and created an administrator suite that greatly simplifies and enables the syndication business. Its reach into the content of 40 publishers in creating an online content syndication marketplace is impressive.

Outsell believes that such enablers and disrupters have an essential place in the News ecosystem going forward.

News publishers have been slow to adapt to a world where the Internet has untethered creation from distribution. The News segment has been too wedded to the end-product – newsprint – rather than the information and ad delivery opportunities that the digital world offers.

Outsell forecasts that News, the former information industry leader, will remain a laggard and will grow very weakly at a compound annual growth rate of 1 percent from 2006 through 2009, to achieve \$139.4 billion in revenues. The News segment will recede from its current leading share of 37 percent of the overall information industry, and by 2009, it will hold just 30.5 percent.

News is dominated by large players used to operating legacy businesses with comfortable 20 percent margins. The Internet first started changing the dynamics of News when classified competitors began leveraging databases, eating into newspapers' traditional cash cows of recruitment, real estate, and automotive advertising. Now it is causing a sea change and decline through the interplay of market behavior, reader behavior, and advertiser choice factors. The key trends driving the News segment include:

- *Further splintering of the mass market.* Daily and Sunday circulation dropped by more than 2 percent per year over the past couple of years, following a pattern of a long, steady decline – due first to broadcast competition and then readers' increasingly busy lives. As the Internet pulls away more print readers, many metro papers are struggling to keep 40 percent penetration in their markets.
- *Pay-for-performance ad models wreaking havoc.* Advertisers don't want advertising; they want customers. With the pay-per-click and pay-per-call revolution led and owned by Google and Yahoo!, sellers of goods and services are happier with the deals they are getting. News companies, with so much to lose in traditional advertising, have been slow to move into pay-for-performance models. When they do, they give up cents on the dollar to new middlemen.
- *Generational change is proving decisive.* Under-35 readers are voting with their fingertips and their ballots say "online." Just behind them come waves of digital natives, totally at home with receiving all their news and info online. The population segments most comfortable with print delivery are those 50+ and 65+, hardly key advertiser targets.
- *Traditional publishers lose market share.* Disrupters are grabbing share every place News publishers turn. Aggregators such as the GYM companies are winning readers' eyeballs by compiling news headlines and briefs. Google, Yahoo!, Amazon, eBay, craigslist, Monster, and others eat into once-impregnable revenue streams. MySpace, Facebook, and iPods divert whole generations of would-be new customers. The competition for reading time, now shared with citizen journalists, bloggers, podcasters, and publishers of free dailies, is taking its toll.

Market Dynamics and Trends

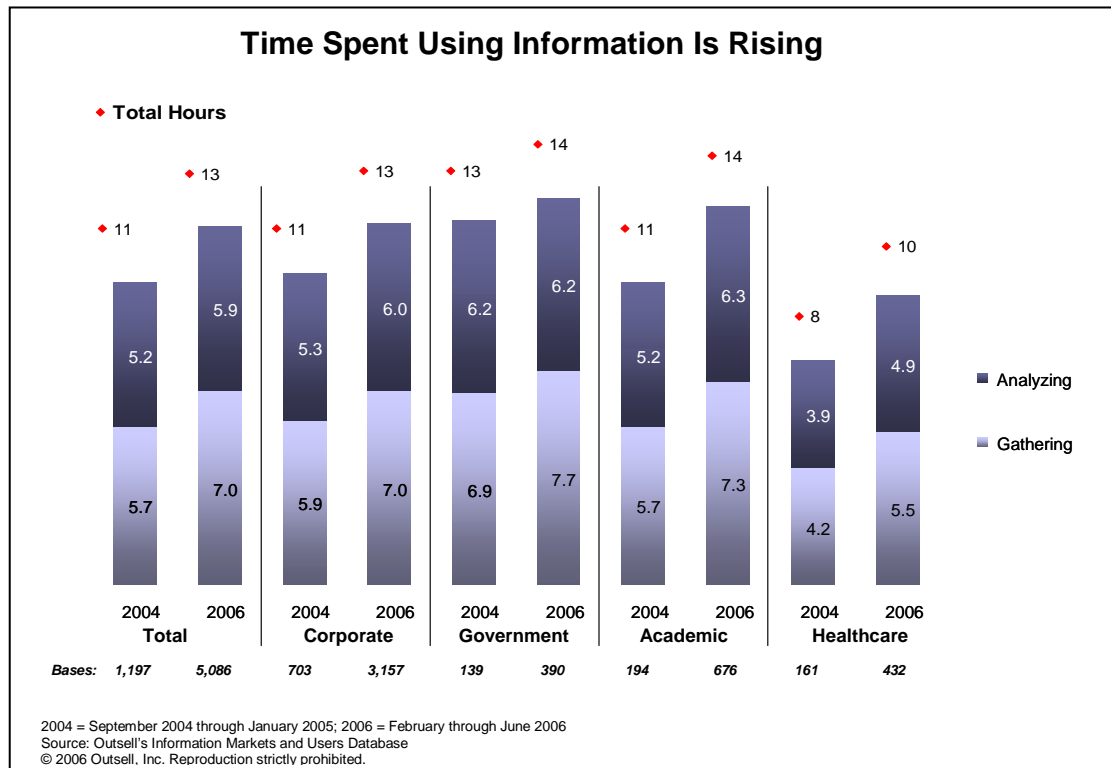
Bottom Line

Users, the enterprise, and advertisers represent the three markets that purchase information or sponsor it through advertising. Publishers and information providers, and enterprise information managers, need to attend to changing user behaviors. In particular, they need to address reducing the time necessary to find information and closing the gap in user expectations. Publishers take note: advertisers are moving online more rapidly than previously thought and are demanding high ROI solutions.

User Update: Expectations for a Better Experience

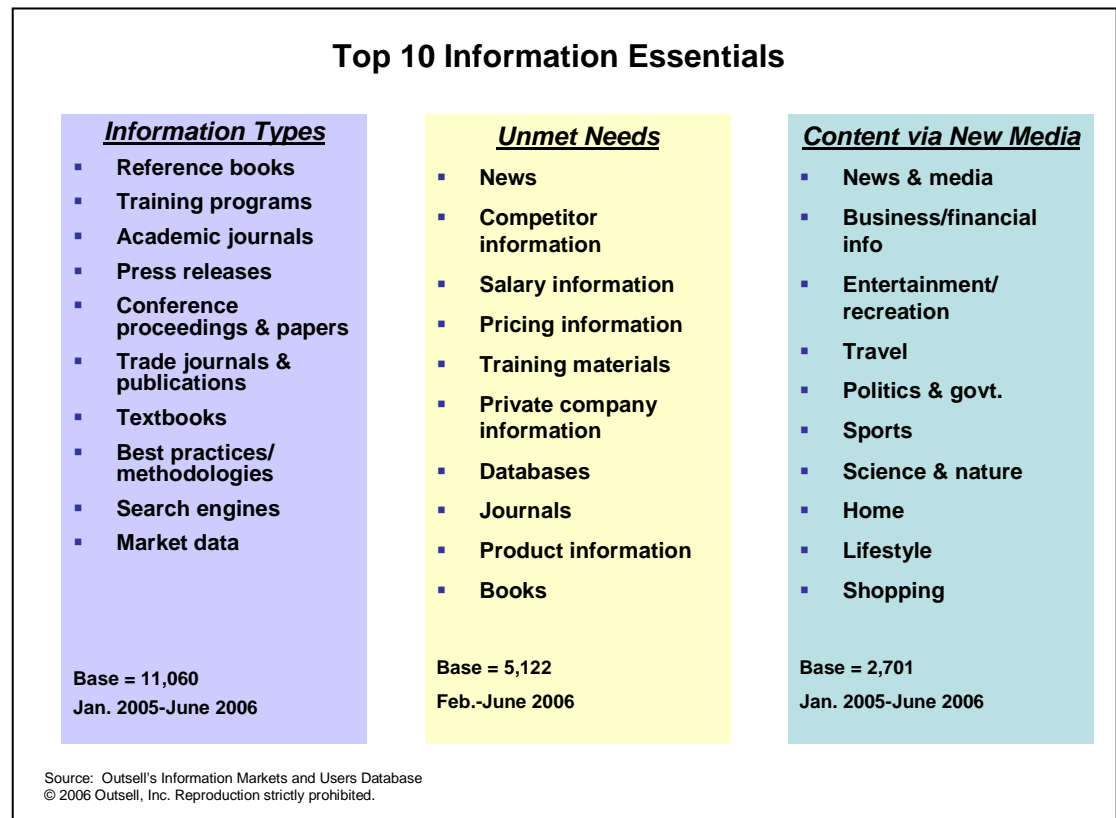
Blogs and never-ending feed streams have created increased “noise” in the information landscape and huge distraction factors. Search failure rates are jaw-dropping. Information remains too segregated to help users be efficient. Information providers and managers need to keep pace with the proliferation of information-seeking and -using (and -creating) behaviors and rapidly adapt. Here are some of the key trend shifts needing close attention in the coming year.

- ◆ *Time spent on information tasks is rising.* Whether due to user inefficiency, industry ineffectiveness, or natural phenomena, the time users spend using information is rising, with the trendline moving away from user efficiency. Across sectors, information task time now averages 13 hours per week, compared to 11 hours two years ago. Workers in the healthcare sector experienced the greatest increase, from 8 to 10 hours (a 25 percent increase in time spent). Users have become more diverse and voracious in their information consumption patterns, outpacing the providers’ ability to create real solutions that save them time.



- *The Internet is still the first stop for information seekers.* When taken together, the Internet and intranets retain their prominence as the primary go-to tools for information seekers, with over three-fourths (76%) of information users starting their research online.
- *Peer-to-peer interactions are now online.* Across the board, users report that they're less likely than they used to be to first seek information from colleagues or peers outside of their own organizations or institutions. Some reliance on that pathway has shifted to online media, where blogs and personal Web sites now provide a platform for syndicated peer-to-peer information-sharing.
- *The search failure rate is staggering.* On average, users' Internet or intranet searches fail an appalling 31 percent of the time. Despite its best efforts, the information industry is not delivering a satisfactory experience to users, and failed searches add to information users' task time. In Outsell's opinion, search engines are partially responsible for the increased time required for information tasks. Never mind Six Sigma, we believe a more reasonable failure rate is in the 10 percent range, and the industry is missing that mark by a mile.
- *Information via handhelds has reached critical mass.* The quantity and variety of content accessed and used on wireless handheld devices is finally significant. About two-thirds (66%) of respondents in our research are using wireless handhelds, and among that user population, 71 percent access and use "real" content on them. (That is, they've moved beyond phone calls and text messages.) The handheld adoption rate is rising, so it is time to get serious about presenting information and designing documents that are more readable on handhelds.

The following shows today's snapshot of information users' top information types and key unmet needs, and the types of content users of handheld devices are downloading.



Toward Library 3.0: Future of the Information Management Function

Key data points from our annual benchmark of information management functions show the current state of information management roles and spending across sectors.

Information Management – 2006 Key Benchmarks

Benchmark	Total	Corporate	Government	Education	Healthcare
Top Services Performed	<ul style="list-style-type: none"> ■ Conduct secondary research ■ Provide access to physical library ■ Provide client inquiry/reference support 	<ul style="list-style-type: none"> ■ Conduct secondary research ■ Provide access to physical library ■ Provide client inquiry/reference support 	<ul style="list-style-type: none"> ■ Provide client inquiry/reference support ■ Provide access to physical library ■ Provide access to external electronic content 	<ul style="list-style-type: none"> ■ Provide access to external electronic content ■ Client inquiry/reference support ■ Access to physical library 	■ NA
Average Content Spend	\$1,492,141	\$1,607,992	\$1,003,320	\$1,173,386	\$1,914,109
Content Spend per Actual User	\$381	\$478	\$199	\$151	\$720
Content Spend per Potential User	\$160	\$201	\$61	\$98	\$295
Content Spend per Vendor (2005)	\$71,054	\$69,913	\$71,666	\$46,935	\$147,239

Source: Outsell's Information Markets and Users Database
© 2006 Outsell, Inc. Reproduction strictly prohibited.

With a physical, place-based legacy, more than ever libraries are witnessing sea changes brought on by the convergence of societal shifts and enabling technologies that are accelerating change among the institutions and users they serve. Budget pressures are a constant, user populations are more demanding, and libraries are challenged to take on new roles and to question the value of every activity and purchase. Institutions and organizations have become less formal and hierarchical; technology has enabled pervasive and more open access to and exchange of information. The confluence of accessible technology and empowered users fosters an entirely new breed of information creator, deployer, and consumer.

Leading-edge information professionals early on recognized the impact of Web 2.0 on information management, spawning a new notion: Library 2.0. Clear characteristics have emerged that define Library 2.0, which at its core is IM delivering into the world of its customers, essentially giving users what they want, the way they want it, whenever they want it.

- User-centric
- Open
- Where anyone needs it to be
- Interactive and collaborative
- Media-rich
- Agile

We see potential scenarios for libraries that represent possible futures, which may overlap and which are not mutually exclusive.

- Library recedes as collections warehouse
- Library becomes go-to for local and unique collections
- Library is a place transformed or gone
- Library converges with other cultural organizations
- Library 2.0: users have it their way
- Library 2.0 + Enterprise 2.0 convergence

In 2007 and beyond, technology will continue to morph, and users' relationship with and management of information will deepen and become more complex. For information managers, the key to Library 2.0, 3.0, and beyond is to move with foresight and agility, with and for the customer.

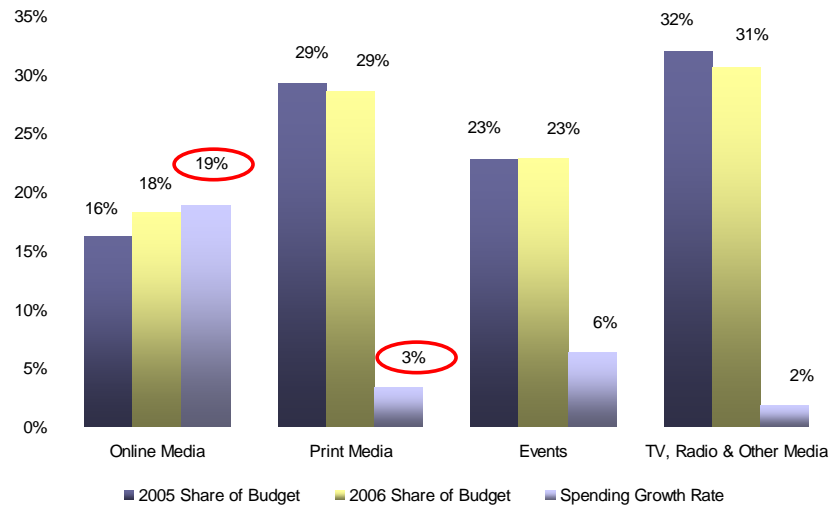
State of the Advertiser: Moving Online and Shifting Budgets to Pursue High ROI Options

This year, Outsell published new research in the first study to analyze differences across advertisers and cover all of the markets they target – business-to-business (B2B), business-to-consumer (B2C), and healthcare – and all the media they use. Key findings show a strong shift to online, but traditional media still have strong appeal for advertisers.

- The online channel is now used by 80 percent of advertisers, higher than previously reported. We project more than 90 percent adoption by 2008.
- Online advertising has provided unprecedented power to smaller businesses, and companies with ad budgets of less than \$1 million are shifting more of these budgets to more measurable, high ROI online ad options.
- For certain applications, however, “old media” are far from dead. For instance, trade magazines, events, and direct mail marketing are rated the top three most effective tactics for both branding and lead generation.
- Total online marketing spending will grow 19 percent in 2006, eight times the rate of TV ads and six times the rate for print ads.
- Spending on search engine advertising will grow 26 percent in 2006.
- Advertisers consider Google more effective than Yahoo! and MSN for keyword ads, and more effective than Yahoo! for contextual ads. In addition, those rating Google “extremely effective” have smaller ad budgets than those giving Yahoo! or MSN the same ranking.

Advertising Revises the Maps

Allocation of Total Marketing Budget – Spending % by Media Type



Source: Outsell's Advertising Tracking Database
Base = 625 (M3, A)
© 2006 Outsell, Inc. Reproduction strictly prohibited.

In addition to their initial delight with pay-for-performance online advertising, advertisers are awakening to the need for new methods to develop and protect the power of brands online, and are pleased with their experiments with these methods. Advertisers and marketers are reallocating increasing portions of their spending to paid keyword search, contextual advertising, and online branding programs, based on the higher ROI and direct measurability of these methods.

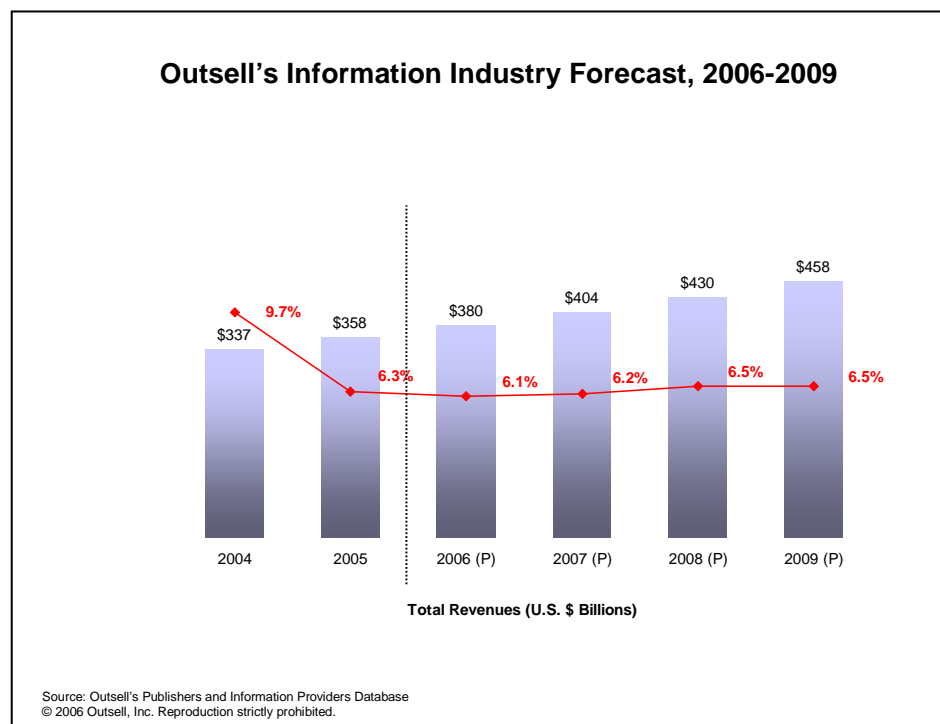
Forecast: A \$458 Billion Industry by 2009

Bottom Line

Our forecast for the information industry projects growth overall, and by each industry segment, out to 2009. The forecast builds on our annual market size and market share data, growth benchmarks from our *Outsell 100* Financial Performance Scorecard, and our analysts' assessment of macroeconomic and geopolitical trends and critical growth drivers and inhibitors affecting each information industry sector.

We expect continued slower and steady growth for the industry, with 6.1 percent growth in 2006 increasing to 6.2 percent in 2007, and 6.5 percent in both 2008 and 2009, for a compound annual growth rate for the forecast period of 6.4 percent. The overall drivers for the forecast are as follows:

- Slowing but stable U.S. economy will drive a stable world economy.
- Geopolitical instability and lack of global cooperation on trade issues will dampen 2006 growth.
- High energy prices, environmental catastrophes, and war in the Middle East will combine to draw away spending and investment from productive activities.
- The U.S. dollar will remain stable against most of the world's other major currencies.
- Overarching change drivers – technology, globalization, regulation, and social and market forces – will affect each segment uniquely.
- The fact that 72 percent of the industry is based on some type of renewable revenue stream, whether through paid subscriptions or advertising where the client renews its ad sponsorship, will help stabilize both upward and downward trends.





Top 10 Predictions for 2007

Bottom Line We predict a great year in 2007 for companies that choose to innovate and invest while focusing on executing the essentials for growth. Here we present our top 10 information industry predictions for 2007.

1. Slower Growth in 2007

We forecast the overall information industry will grow 6.2 percent in 2007, to \$404 billion. As in 2005 and 2006, Search, Aggregation & Syndication and Market Research segments will lead industry growth.

2. Valuations Begin to Drop

Private equity buyers will keep bidding up prices on Internet-based businesses, while valuations of traditional publishing properties will wane in 2007.

3. New(s) GYMnastics

News publishers will accelerate their coming to grips with GYM's distribution. Expect to see more and bigger deals both around advertising (classified and display) and news and information content.

4. IT Research Remains Stable

Gartner will continue to lead the ITRRS segment, and its goals of less discounting and price increases will help create a pricing umbrella that will be favorable to all the IT research firms.

5. Market Research Grows in Double Digits

Continued innovation and M&A will be key components of double-digit revenue growth for companies and the segment alike. The challenge will be to remain profitable while growing.

6. STM Hot Spots Drive Growth

The top 25 companies, particularly geophysical and energy, will continue to drive STM growth for the next year, with continued pressure on the top traditional players to maintain market share.

7. B2B Publishers Accelerate Shift to Online

Electronic revenue's percent of total revenue will grow from 35 percent in 2005 to 40 percent in 2006, and to 50 percent by 2009.

8. Advertisers Move Online

We project more than 90 percent of advertisers will be using online advertising media by 2008. Paid keyword online advertising share of market will drop. Advertisers will demand more pay for performance solutions.

9. Search Partners with Advertisers against Click Fraud

GYM, publishers, advertisers, and auditors will establish standardized third-party audit and certification processes to validate clicks and battle click fraud.

10. Libraries Let Go and Embrace 2.0

Academic and public sector libraries will lead adoption of Web 2.0 thinking, letting go of emphasis on library as place except for unique local collections and taking the library to the user. Innovations will spill over into the corporate sector as libraries drive Enterprise 2.0 advances.



Outsell's List of Essential Actions

This year will require a high degree of nimble and focused attention to the details of the business in the moment, coupled with acute awareness of both mega-trends and subtle shifts in the mood and behaviors of business partners, audiences, and users. Growth is there for companies that focus on the essentials and on superb tactical execution of the details while – much like an improvisation artist, jazz pianist, or klezmer clarinetist – always “reading the room” and adjusting on the fly. Our predictions are changing the information landscape, and focusing on these 10 essentials is how companies can tend to the impact of these predictions and be successful.

Prepare for Global Economy Shifts

Information industry growth is slowing, and interest rates, consumer and enterprise spending shifts, energy prices, global warming, the threat and realities of terrorism, and avian flu are all poised to impact the global economy. It's time now to prepare for the implications for your business and have a plan for 2007.

Watch Valuations and M&A Timing

Keep a close eye on valuations, as signals indicate they may be topping off. Watch closely to determine optimal timing to buy and sell and be prepared to move if the “window” starts to close.

Gird for Cyberlaw Battles

With sharing and mash-ups becoming a norm and core to users' behaviors on the Web, and with technology far ahead of business models and legal code, it's imperative that information publishers and providers stay on top of intellectual property trends and have a plan for responding to any attack.

Harness Social Publishing to Drive Revenues

Social publishing is on the rise and companies across industry segments are embracing models to support user-generated content and community. Identify what new offerings you can produce and deploy new business models around them to capture this opportunity.

Adopt Next-Gen Technologies to Remain Competitive

New technologies are sprouting like mushrooms, anyone can play, and competitors spring up overnight. It's essential to experiment, fail fast, and know what's around the corner.

✔ **Get Ready for Millennials Joining the Workforce**

Boomers are exiting the workforce, digital natives are shaking things up in the enterprise with their sharing behaviors and high expectations born of experience with consumer technologies, and millennials – whom we recently heard called “screenagers” – are on the way into the workforce, bringing their always-on, polychronic, attention/distraction ways with them. Information providers need to keep pace with the proliferation of information-seeking and -using (and -creating) behaviors and rapidly adapt.

✔ **Boost Web Site Activity with Performance Measurement**

Staying close to your audience and making adjustments fast are hallmarks of successful Internet businesses, and you can't do that without detailed Web analytics. Be aggressive and creative in designing and capturing metrics and analyzing and employing them to your advantage. At a minimum, you can track activity on your own sites according to guidelines you set and find valuable. If you haven't made the use of metrics an imperative, staffed accordingly, and checked out fast-growing Web metrics firms, you're on the trailing edge and will fall behind your competitors that do.

✔ **Learn from News Publishing's Deadline with Destiny**

The News segment fuels much of the information industry and is the front door for many other types of information, from market research to search and aggregation to education and training. With news providers and publishers in crisis, have a strategy for how you'll focus on news if it's core to your offering. Every publisher and information provider needs to know what actions news publishers can take to survive and how those actions will impact them in the coming year.

✔ **Get Savvy on the Where, When, and How of Rightsourcing**

With the ROI of outsourcing under scrutiny, companies are evaluating options – insourcing, outsourcing, selective sourcing, single sourcing, offshoring – and choosing the best method for each situation. Be aware of the merits and pitfalls of each, consider the opportunities for your business, and know where to turn for sources.

✔ **Know What It Takes To Be a Player in China**

In response to slower growth in traditional markets and hot opportunities in the world's fastest-growing market, companies are flocking to China, and every publisher and information provider needs to be aware of what competitive moves are afoot, what doing business in China involves, and how to be a successful player.



Leigh Watson Healy
Chief Analyst
Outsell, Inc.
lhealy@outsellinc.com

Outsell Background

Outsell is the leading research and advisory firm providing actionable market analytics for the information industry. Founded in 1994, Outsell helps publishers, commercial information providers, and content software technology vendors identify, maintain, and grow markets and revenue streams. Outsell also works with information management executives in top corporations, government agencies, and educational institutions to benchmark spending, optimize performance, and demonstrate best practices. Outsell invests heavily in unique information industry data assets that form the core of its high-quality, fact-based research, analysis, and recommendations for clients worldwide.

The information, analysis, and opinions (the "Content") contained herein are based on the qualitative and quantitative research methods of Outsell, Inc. and its staff's extensive professional expertise in the industry. Outsell has used its best efforts and judgment in the compilation and presentation of the Content and to ensure to the best of its ability that the Content is accurate as of the date published. However, the industry information covered by this report is subject to rapid change. Outsell makes no representations or warranties, express or implied, concerning or relating to the accuracy of the Content in this report and Outsell assumes no liability related to claims concerning the Content of this report.

Visit us at our headquarters at 330 Primrose Road,
Suite 510, Burlingame, CA 94010, phone 650-342-6060,
fax 650-342-7135, or come by our Web site, <http://www.outsellinc.com/>

I-MarketSM is a service mark of Outsell, Inc.
Printed in the U.S.A.



OUTSELL

**KNOW
THE
FLOW**