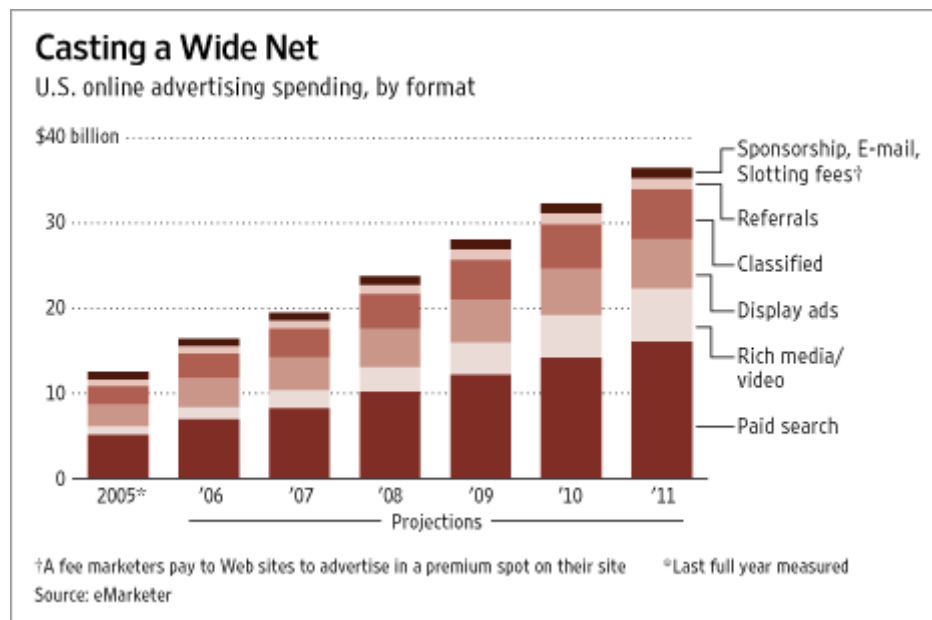


Advertising's Brave New World

Different Lineup of Players
Emerges With Online's Rise
By EMILY STEEL

For decades, advertising has been a relatively simple process dominated by a clubby world. Long-established advertising and media-buying agencies, most owned by half a dozen global giants, make TV or print ads and negotiate for airtime or space with TV networks or publications, most owned by a handful of other big media companies.



But as a series of recent high-profile deals makes clear, the emerging importance of digital advertising is making for a shifting and more complicated advertising terrain.

"The biggest innovation in the advertising industry during the last 70 years before digital was color TV," says Ajaz Ahmed, chairman and co-founder of independent digital marketing agency AKQA. "The agency of the future will be half a software company and half an entertainment company because that's the new landscape."

A host of newer firms from outside the traditional ad mainstream dominate the technology-rich process of making and delivering ads to the Web. And while TV networks, magazines and newspapers have a presence online, much of the Internet media is controlled by companies such as [Google](#) Inc. and [Yahoo](#) Inc.

Marketers -- seduced by the perception that Internet ads offer a more cost-effective way to reach specific consumers and measure results -- have shifted more of their ad budgets online. Internet advertising has grown into a \$16.9 billion industry -- 5.9% of the \$285 billion total U.S. advertising market in 2006, up from 4.7% in 2005, according to the Interactive Advertising Bureau.

To try to get a slice of that online spending, both traditional ad companies and Silicon Valley titans have battled for a stronger position in the digital-ad food chain. Google bought Internet-ad broker DoubleClick for \$3.1 billion last month; [Microsoft](#) Corp. struck a deal to acquire Seattle-based online ad

concern [aQuantive](#) for \$6 billion last week; and ad giant WPP Group PLC last week acquired search-marketer and ad-network 24/7 Real Media Inc. for \$649 million.

Much of online's allure can be traced to its precision. In television, for instance, media buyers from Madison Avenue try to place an ad on a TV show that attracts the highest concentration of target customers. Someone wanting to promote their wares to young women, for instance, might advertise on ABC's "Grey's Anatomy." But audience measures for television are, at best, rough approximations, based on surveys of a small number of viewers, and advertisers have always found it difficult to judge whether their costly TV ads succeed in driving sales.

Online, advertisers can be much more scientific in where they place their ads. Using behavioral targeting companies, such as independently owned Tacoda Inc. or Revenue Science Inc., marketers can track the online habits of potential customers. For instance, if a consumer clicks on two car sites then visits the Web site for Us Weekly magazine, car ads might show up on the magazine site, in addition to the car sites. That way the ads will appear in front of the person most likely to respond -- even when that person is on a site unrelated to cars.

"We might know what term they just searched on, which is essentially them raising their hand and saying give me information about this subject," says Jeff Lanctot, senior vice president of global media at digital marketing agency Avenue A/Razorfish, a unit of aQuantive.

What's more, the most popular category of online advertising -- paid search -- requires advertisers to pay only when a consumer has clicked on their spot. With paid search, which accounts for 40% of online ad spending, advertisers pay Internet search engines such as Google or Yahoo to post a link to their Web site next to a specific word or phrase that visitors plug into the search engine.

Up until now, paid search has benefited just a handful of players, particularly Google and Yahoo because those ads have mostly attracted smaller businesses that don't use ad agencies. With bigger companies becoming more involved in paid search, agencies and search-marketing firms are playing a greater role. Also firms have sprung up to help marketers design their Web sites to make it easier for search engines to understand what information appears there. The goal of this "search-engine optimization" is for a company's Web site to show up at the top of a search engine's free results listings when a person is looking for information related to that particular company or industry.

A more diverse cast of characters dominate the other forms of online advertising, including display ads - - such as banner ads -- online video and the various types of animated ads that dance across the screen. These ads are usually designed by digital ad agencies and then transported to various Web sites through a circuitous route often involving a number of technology-focused companies. It is this area that has seen most of the acquisition activity in recent weeks, as bigger ad players try to streamline the online advertising process.

For example, Avenue A/Razorfish bought ad space on a total of 863 individual sites last year for its clients, which include Kraft Foods Inc., Walt Disney Co. and Nike Inc. To line up all that space, Avenue A/Razorfish used firms that deal with hundreds or thousands of Web sites. These firms, called ad networks, buy space from sites and resell it to advertisers at a premium. Among the major ad networks are Advertising.com, acquired in 2004 by Time Warner Inc.'s AOL, and 24/7 Real Media.

In the middle of this process are another set of players, called "ad-serving firms," technology companies that get the ads from the advertiser to the Web sites that the ad network firms have lined up. The top two

ad-serving companies are DoubleClick and Atlas, another unit of aQuantive. Ad-serving companies save the digital information that creates an online ad on a computer server and then deliver that data to the sites where marketers bought advertising space. This lets ad agencies change the contents of an online ad or where it runs on a site by switching that digital information on the computer server instead of communicating with each of the hundreds of sites where an ad might appear.

"Ad serving is kind of like oxygen. You need it for every major [online advertising campaign] that you run," says Sarah Fay, president of Aegis Group PLC's digital-marketing subsidiary, Isobar U.S.

Some ad-serving companies also have ad-network arms. DoubleClick, for example, provides both these services for advertisers and Web sites.

All of the major digital ad players also generate measures to track the effectiveness of campaigns. While in the traditional media, marketers assess response to their ads by surveying audiences before and after the ads have run, digital advertisers can gauge response within minutes by using a number of metrics -- including how many people clicked on an ad, the time a consumer spends with the ad, what a Web surfer does after viewing the ad.

If advertisers find that a certain creative component of the campaign isn't working or if a specific Web site isn't delivering, they can make a switch at the click of a button to try to improve the results. These data ultimately determine where advertisers spend money on the Web and is expected to become an increasingly important aspect of the industry as other aspects of the business -- such as delivering an ad - - become more streamlined.

"The Internet was built on little companies," says David Kenny, chairman and CEO of Digitas and digital strategy chief for [Publicis Groupe](#) SA. "Now that we've got big advertisers putting money on the Internet, they need big scalable operations."