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Ad Networks: Now in Several New Flavors

by Tobi Elkin, June 2007 issue

Do you want the most bang for your buck, or is a premium label more appealing?

In the frenetic online ad network space, two opposite forces are fast changing the playing field. The big are getting bigger, thanks to new consolidations, while the small, niche-oriented networks - ones that that specialize in emerging media like podcasts, RSS feeds, blogs, mobile content and broadband video - are proliferating.

And there are other dynamics in play: Many providers are increasingly seeking to position themselves as "premium," saying that they deal with well-known online publishers, as opposed to the carpet-bombing approach taken by networks that promote scale and reach. Cost-per-click and cost-per-acquisition networks aren't going away, but networks that deliver behavioral and geo-targeting capabilities are in high demand.

The Big Get Bigger

News in the space is breaking at warp speed recently. Take Google's recent agreement to purchase DoubleClick for \$3.1 billion, Yahoo's acquisition of the 80 percent of Right Media it didn't already own, the WPP Group's \$649 million purchase of 24/7 Real Media, and Microsoft's agreement to purchase aQuantive for \$6 billion.

The Right Media deal is perceived as a way for Yahoo to increase its sales of run-of-site/non-premium ads. Microsoft, which has been trying to bulk up its digital ad capabilities, will gain the ad agency Avenue A | Razorfish and an ad network with aQuantive.

AOL's Advertising.com boasts that it reaches some 90 percent of the Internet audience; it typically appears in the top slot on OMMA's list of ad networks each month.

With the pace of consolidation quickening, the implications for existing online ad networks are enormous.

The Exchange Model

And that's apart from the ascent of online ad exchanges, which challenge ideas about inventory, pricing and targeting. For example, Right Media's open exchange enables media buyers to bid on available inventory on-demand. If ad exchanges take off and eventually become de rigueur, where does that leave online ad networks?

An executive at adECN, billed as a real-time, auction-based, neutral exchange for buying and selling online display advertising, maintains that neither Yahoo's Right Media nor Google's DoubleClick - which recently unveiled its own exchange model - will be in a position to offer neutral, independent auction-based exchanges. That's because new parent companies Google and Yahoo operate their own ad networks, and presumably will face a conflict of interest when dealing with others.

"Because these exchanges allow advertisers, ad agencies and publishers to also trade directly on their systems, ad networks are threatened not just by Right Media-Yahoo and GoogleClick's own ad network activities but by their own customers now being empowered to bypass them," says Steve Bonser, adECN's director of marketing.

"I think we are getting very creative in the way we want to buy media," says Sarah Fay, president of Isobar, U.S., a global network of digital marketing services companies owned by Aegis Group. "By consolidating, publishers gain a single point of access to the client. While the technology can help differentiate buying opportunities, it's also the relationships."

The benefit of ad networks for advertisers would appear obvious: One-stop shopping, a single-point of contact, competitive pricing and targeting capabilities. Ad networks that want to position themselves as premium will do so by focusing on things like customer service, accountability and, of course, working with reputable content brands that have loyal, engaged visitors/readers.

Niche Networks

It's debatable whether consolidation is outpacing the proliferation of ad networks, says Andrew Frank, research vice president at Gartner. "You can have lots of ad networks, all pursuing their own strategies for making money. As marketing becomes more niche- and experience-oriented, maybe there is a place for lots of specialized networks."

Take, for example, Reebok and Glam Media, a niche content company targeting young women. The sneaker marketer took a more focused approach to its online marketing this year when it launched a sneaker and apparel line promoted by actress Scarlett Johansson. Instead of carpet-bombing the Web in search of young women, Reebok used Glam to target them through a mix of blogs, banner ads, promotions, interactive quizzes and other editorial content that was contextually relevant. The Reebok ad not only turned up on Glam.com, but also on its network of more than 300 blogs and Web sites for young women.

Other publishers also are attempting to offer advertisers the chance to reach Web users via premium networks. For example, Lime recently formed a blog ad network of environmentally friendly blogs, while Federated Media has worked to represent and cultivate ad opportunities on high-profile blogs.

What It All Means

At the same time, consolidation also is affecting online media strategy. "It's definitely having an impact on how we buy and evaluate the networks," says Greg Pomaro, vice president and director of media at Avenue A | Razorfish, Seattle (soon to join Microsoft). "If there's a big time-sensitive promotion or launch, we have to consider the implications very carefully." And, while the agency avoids a one-size-fits-all approach, "having fewer individual network partners to approach makes it a bit more efficient for the agency to buy."

One of the benefits of consolidation, of course, is having more control over reach and frequency: "If you have partners that have really large distribution networks, then there's less chance of duplication across networks and you have more control over the frequency of the message exposure," Pomaro explains. That said, he doubts they'll all survive. "There's a tendency toward verticalization," but the "volume application will always be there," he notes, referring to CPC and CPA tactics.

In addition, agencies like Avenue A | Razorfish are aggressively moving into testing, evaluation and deployment of podcast, RSS, blog and online video ad networks. "We're starting to increase our footprint in that space. We have some clients underwriting podcasts," Pomaro says.

National brand advertisers are interested in deploying a variety of ad network techniques with behavioral and geo-targeting becoming an important part of their strategy for both direct response advertising on the Web and TV.

"We're getting better at direct marketing and upping our game in ROI, but brand advertising is also on the rise," Isobar's Fay says. "Some types of advertising will veer toward auction-based models. There's no doubt the bar is being raised in all forms." Fay cites the rise and influence of premium ad networks like Burst, that are a "bit more high-touch" and known for customer service and quality. "Advertisers like Wachovia (an Isobar client) are shy of [ad] networks because they don't want their advertising to fall in the wrong place."

Pomaro is seeing plenty of direct-response-focused clients with very specific acquisition goals, but "we're also seeing more advertisers coming into the space with a mixture of DR and branding objectives, and the networks' ability to deliver against those are improving a little because of the use of video assets and geo-targeting," he says, adding, "This is a big plus for brand advertisers."

Another plus to the proliferation of networks and strategies is the fact that advertisers have all sorts of objectives at any given time, so it's a bit of mix and match. "From a pricing perspective, having a CPC or CPA model is very beneficial from a ROI perspective. [Networks] are able to provide that," says Jeff Hinz, senior vice president and director of client services for Interpublic Group's ID Media. "Networks like Advertising.com and CPX Interactive do very well with volume. Targeting capabilities are also important and they give you the mass behind the targeting."

Hinz says ID pushes behavioral ad networks because they're effective and provide a higher level of response for campaigns. In addition, "geo-targeting is very big. Clients are asking for more based on SKUS, the retail environment, changing demographics or testing results. We're running more geo-targeting campaigns than ever." By geo-targeting, he means by ZIP code and DMA.

Publishers' Conundrum

Meanwhile, online publishers are scrambling to evaluate the changing landscape. "If I'm an advertiser, I'm scratching my head about whether I should be in an ad network or have ad network-like capabilities," Gartner's Frank said. Publishers, he said, are concerned about getting the most revenue out of their premium sales and highest trafficked pages. The focus on remnant inventory diverts their attention from the fact that most of the money is in premium sales.

On the non-premium side, publishers want to know how to minimize their "spoilage," Frank says. They need to get more value out of house ads, for starters.

And on the syndication side: "I'm wondering how can I support affiliate sales without risking the quality and conflict issues."

Frank thinks that some in the business are confused: "Google didn't really purchase an ad network in that deal. Google has AdSense, the biggest ad network around," he notes. Google's owning both an open exchange and the closed AdSense network increases the likelihood of disruption because publishers will have to make difficult choices: should they allocate inventory to the network or the open exchange?

"It's creating some pretty interesting questions about transparency versus the value-added magic of the Google's contextual-matching engine," Frank observes.

One thing that's not changing: In this complex and shifting landscape, advertisers continue to wrestle with how to scale their media buys. Fragmentation continues to be a big problem, as well as how best to reconcile the metrics - conflicting data from multiple sources. And, "the content quality issue is still [one] that just won't go away," Frank adds.

"Ad networks will continue to consolidate because they need to meet their numbers and they can only meet their numbers through volume," Hinz concludes.

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