

The Promise of Online Display Ads

On the heels of Google's DoubleClick deal, Yahoo! is forking over \$680 million for Right Media. Why are ad exchanges and networks suddenly the belle of the ball?

by [Catherine Holahan](#)

Days after Right Media Chief Executive Mike Walrath moved into his Park Avenue office, he was scrawling on the dry-erase boards lining the walls. Walrath drew a three-line graph representing the market for the type of ads that are the mainstay of his business.

One line sloped steeply upward to represent the ever-expanding number of Web pages capable of serving display ads, those graphic and multimedia ads in fixed locations on a page. Another line sloped downward to show the average price of those ads as the Web is flooded with new pages that compete for both advertisers and visitors. The resulting revenue went up, but not by much. That, Walrath explained, was the conventional wisdom on the display ad market.

And it was utterly wrong, Walrath hastened to add. Advertising networks and services such as Right Media's that enable marketers and publishers to buy and sell ads in an auction format can significantly increase the average price of display ads by helping marketers target ads across the Web. Factor that into the graph and you get a revenue line that reaches sharply toward the sky, says Walrath. "I think folks have seriously underestimated the display market," he says.

ON DISPLAY

Yahoo!, Google ([GOOG](#)), and other online media companies have seen the writing on the wall. On Apr. 30, Yahoo ([YHOO](#)), the leader in online display advertising, announced it would pay \$680 million for the 80% stake in Right Media that it does not already own.

The move came a week after Google's \$3.1 billion acquisition of DoubleClick, an ad-delivery outfit that had recently launched its own exchange (see [BusinessWeek.com](#), 4/14/07, "[Google's DoubleClick Strategic Move](#)"). Microsoft ([MSFT](#)) has also reportedly been looking for an ad network to acquire. Among those considered ripe for acquisition are 24/7 Real Media ([TFSM](#)), Aquantive ([AQNT](#)), and ValueClick ([VCLK](#)).

This year, the market for online display advertising—including interactive video ads that run in a fixed place on a page—could reach \$5.5 billion, estimates David Hallerman, a senior analyst at eMarketer. That's less than the market for text ads related to searches, which is expected to bring in about \$8.2 billion this year. Compare that with 2000, when search ads accounted for just 1.3% of the total online ad market, while display ads brought in 47%, says Hallerman. As companies such as Google were able to make the ads highly targeted, providing marketers with clear returns, search ads became more expensive, eventually dominating the field.

AD PRICES

Ad-exchange services such as Right Media want to do to display what Google did to search. Exchanges increase the price of ads by letting advertising networks that track Web surfing behavior buy space, in front of users they recognize, on nonpremium Web pages—pages with content that an advertiser doesn't specifically want to be associated with, such as Yahoo Mail pages. The networks can afford to pay more for these pages because they are delivering even higher priced ads thanks to their tracking information. "By allowing other publishers access to our inventory...we will ultimately achieve premium pricing from both of those elements," said Susan Decker, Yahoo's chief financial officer, on a conference call following the announcement.

Since acquiring a 20% stake in Right Media for \$45 million in October, Yahoo has seen a 50% increase in the price of ads

on the so-called nonpremium pages it has made available through Right Media. Other Web publishers have seen their ad prices increase, too (see BusinessWeek.com, 3/6/07, "[Right Media's Big Ambitions](#)").

TAILOR-MADE ADS

A pumped-up price is only part of the reason Yahoo has made 32-year-old Walrath and his team of 20-something executives multimillionaires. Yahoo is able to gather information on the surfing habits of users who flock to its sites and search tools. Right Media helps Yahoo use that data to better deliver tailored ads across the Web. So, for example, if a Yahoo Finance user visited a page on News Corp.'s ([NWS](#)) MySpace, Yahoo could buy space on that page, on the fly, to serve a higher-priced investment ad. Arguably, DoubleClick's ad exchange has similar appeal for Google.

The ability to serve ads across the Web to specific audiences is particularly important for advertisers looking to increase brand awareness, says Dave Morgan, chairman of TACODA, an ad network that specializes in serving such targeted brand ads across the Web. "Advertisers want television[-type] reach numbers," says Morgan.

Indeed, it is television and print ad dollars that the portals are trying to bring online with their networks. Even if just 2% of the \$70 billion in television advertising goes to the Web's audience, that's a lot of growth, points out Hallerman. As those dollars migrate to the Web, the mix of search and display ads could become more even.

THE BIG IF

Of course, for exchanges to fulfill their promise, publishers will have to continue to auction off ad space—even when they are owned by a competitor. That's a big if. "I think other publishers will get concerned," says Bill Gossman, president and CEO of Revenue Science, an ad-targeting network that buys space on Right Media. "Am I willing to mix my inventory with the dominant display advertising player on the Internet?"

Yahoo and Right Media stressed that the exchange would be kept open, akin to the NASDAQ. Yahoo would not, say, get any special knowledge of the bidding prices that it could use to outbid competitors at the last minute. Nor would it overwhelm the ad exchange with its own inventory at the expense of other publishers, said Yahoo's Decker. "We believe this capitalistic approach will yield the greatest experience for publishers," she said.

Scaring away publishers would only decrease the worth of Right Media to Yahoo. Yahoo expects Right Media to bring in \$70 million this year from the roughly 7% fee it charges on approximately 6 billion daily transactions. Those revenues alone did not justify the \$725 million purchase. Relationships with publishers such as Fox Interactive Network, which includes MySpace, were undoubtedly a consideration.

Without Right Media, Yahoo couldn't fully capitalize on its substantial knowledge of users' Internet habits. And Walrath's initial, less promising depiction of display advertising wouldn't look so wrong after all.

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