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# Online Media Report

## Opportunities & Challenges

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# Online Media Report



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**Econsultancy New York**

41 East 11th St., 11th Floor  
New York, NY 10003  
United States

Telephone:  
+1 212 699 3626

<http://econsultancy.com>  
[help@econsultancy.com](mailto:help@econsultancy.com)

**Econsultancy London**

2nd Floor, 85 Clerkenwell Road  
London EC1R 5AR  
United Kingdom

Telephone:  
+44 (0) 20 7681 4052

# Contents

- Contents..... 1
  - About Econsultancy .....1
- 1. Online Media at the Crossroads ..... 2
  - 1.1. How we got here ..... 4
  - 1.2. The agency challenge part 1: marketers take the reins ..... 5
  - 1.3. The agency challenge part 2: destroy the silos ..... 6
  - 1.4. The agency challenge part 3: the rise of the platforms ..... 8
  - 1.5. Early days for agency platforms..... 10
  - 1.6. The publishers’ dilemma..... 11
  - 1.7. Short history of media unbundling.....12
- 2. The Role of Ad Nets, Ad Exchanges, and DSPs..... 13
  - 2.1. The pork bellies debate .....13
  - 2.2. Rumours of ad networks’ demise have been greatly exaggerated .....14
  - 2.3. Mobile ad net agonies .....15
- 3. The Rise of Ad Exchanges..... 19
  - 3.1. Display comes out of search’s shadow..... 20
  - 3.2. Google’s exchange and DSP plans ..... 22
  - 3.3. The sell side, the buy side, and Google ..... 22
  - 3.4. No, Google won’t dominate display ..... 23
  - 3.5. Google and display’s discontents ..... 23
  - 3.6. Up next: Is Google looking to own the DSP space?..... 24
- 4. Ad Nets, Ad Exchanges and the Vicious Cycle ..... 26
  - 4.1. Real-time bidding abetted by DSPs ..... 27
  - 4.2. The evolution of exchanges and DSPs ..... 28
  - 4.3. Many small challengers to the display throne..... 29
  - 4.4. Supply-side platforms run to publishers’ rescue..... 30
  - 4.5. What’s to come .....31



5. The Value of Display .....	32
5.1. Publishers' positions .....	33
5.2. The banner is dead! Long live the banner! .....	35
5.3. Kill the click? .....	35
6. Conclusion .....	37



# About Econsultancy

Econsultancy is a [digital publishing and training group](#) used by more than 200,000 internet professionals every month.

The company publishes [practical and timesaving research](#) to help marketers make better decisions about the digital environment, build business cases, find the best suppliers, look smart in meetings and accelerate their careers.

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Some of Econsultancy's members include: Google, Yahoo!, Dell, BBC, BT, Shell, Vodafone, Virgin Atlantic, Barclays, Deloitte, T-Mobile and Estée Lauder.

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# 1. Online Media at the Crossroads

Considering the two tumultuous years of spending cuts that the advertising industry has experienced, it is tempting to expect a return to normalcy. Fair enough. But if you desire normalcy, either get out of advertising or redefine what “normal” means. Advertising has changed more in the last 10 years than in the 50 prior to that. The breakneck speed of industry changes over the next five years will make the preceding decade look placid in comparison.

At the center of this advertising upheaval is the way online media is bought, sold, valued and placed. This shift will ultimately affect all facets of the advertising and media businesses, including television, newspapers, magazines and out-of-home. Major marketing categories such as automotives, pharmaceuticals, real estate, home furnishings, fashion and retail will also have to rethink the way they allocate their ad budgets (again). So after two unusual years that saw the shift from traditional to digital accelerate, things are only starting to get ...*interesting*.

The growth of online media has been enormous and profound since the first clickable banner in 1993. To get a sense of just how swiftly online media has assumed a prominent place in the market, consider the pace at which other media developed. Newspaper ad revenues took about 127 years to hit \$20B in the US, as Booz & Company analyst Christopher Vollmer noted in a summer 2009 report. Cable television rose to that amount within a quarter century. Online media climbed that summit in just 13 years. By the time Internet ad spending struck \$21B in 2007, it passed out-of-home advertising and the Yellow Pages, too. Online marketing dollars are now poised to leap over radio and even cable television.

Magna Global’s analyst Brian Wieser expects online revenue to reach \$60B worldwide in 2010, hitting \$99B by 2015. By that point, online ads will account for 21% of all major media spending. In 2010, though, that share number will be 16% – putting it into perspective, Wieser notes that online’s share was less than 3% in 2000.

True, online’s gain is the result of other media losing share, particularly print, as magazines will have fallen slightly (\$40B in advertising revenues during 2000, and \$35B in advertising revenues expected in 2015). Newspapers will be down similarly (from \$97B in 2000 to \$92B in 2015). Most of this growth is coming from paid search and other up-and-coming formats. ZenithOptimedia has zeroed in on the performance of online sub-categories, where more granular data is available. That breakdown has paid search up by 20% and rising, while online video grows 19%; social media’s up 45% and mobile gains 69%.

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## 1.1. How we got here

Before contemplating the vertiginous mutations that the art and science of purchasing ad inventory has undergone the past decade and where it's all headed, it helps to chart what has led us here.

Since Madison Avenue emerged in the 1920s, the advertising agency business was dominated by the creative side. As television and glossy magazines became the twin driving forces of the new consumer culture, it was the art director and creatives that defined the agency business. Media buying was simple: commissions were 15% and media were bought on rate card. For the most part, media buyers and planners were generally regarded as “clerks” within the grand and glamorous machine that was the modern ad agency as portrayed on the popular cable program, *Mad Men*. That remained true even as marketplaces like the television upfront began forming in the 1960s and 1970s as a way to make the process of buying and selling media for the fall TV season more orderly.

The goal of this report will be to provide a close and comprehensive look at the future of online media buying. Among the questions to be addressed:

1. How has the art and science of media buying evolved in the online era?
2. How does online media buying differ from traditional media buying and how will some vestiges remain?
3. What are the prospects for display ad spending versus search and performance-based platforms?
4. What is the value to display advertising?
5. Is the banner dead? How have efforts by industry organizations to standardize large formats (e.g., pushdowns, fixed panels, XXL boxes) led to higher CPMs and greater effectiveness?
6. What are the big display drivers? What are the prospects for Google, Yahoo! and AOL and how will those companies' actions influence the way display is valued, bought and sold?
7. Is the click-through the best performance metric to determine whether marketers' ad dollars are being well spent?
8. Where is the traditional agency model headed? When will digital reach parity with traditional? What changes are bringing that point closer? What impediments continue to hold back the shift toward greater digital ad spending? Is creativity the key to online ad growth? Can media buyers take the lead in directing creative executions?
9. There were 300 ad networks a few years ago. They now number about 400. Will ad networks now be eclipsed by ad exchanges and DSPs?
10. What specific factors have fuelled the growth of DSPs?
11. How should agencies use these platforms?
12. Will DSPs diminish or enhance the value of ad agencies?
13. What is the impact of online media buying on the publisher side?
14. What is the evolving relationship between the sell side and buy side and how does the traditional approach compare to how things operate now?

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## 1.2. The agency challenge part 1: marketers take the reins

No discussion of the evolution of the modern ad agency can occur without a close look at how marketers' approach to the business has changed. In the digital age, marketers' ability to become a much more active participant in the creation and execution of an advertising campaign has been greatly enhanced. Throughout the history of advertising, all major changes in media buying have been at the direction of the client. After all, it's their money that provides for the existence of the agency. But no longer are marketers merely blind investors, handing over millions and billions of dollars to the man behind the curtain. These days, the marketer is right there with the agency, providing much more detailed direction.

A Forrester report, published in March 2010, describes how marketers' deeper involvement has begun to alter the dynamic between advertisers and agencies.

Forrester's Corcoran peeked into the crystal ball and identified four ways the agency/marketer match-up will alter the playing field:

- **There will be no more “Interactive Agency of Record”**

As agency firms consolidate their resources and knock down silos, there will be no need for a marketer to choose a digital unit as its “agency of record.” (This is besides the fact that the notion of an “AOR” has lost its meaning as marketers choose to spread their ad budgets among a variety of shops.) As the walls between the traditional and interactive come down, digital units will be forced to choose between subsuming themselves within the larger agency framework or challenging the traditional agencies for larger control of individual media accounts.

- **The range of competition among “digital marketing shops” will widen**

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## 1.3. The agency challenge part 2: destroy the silos

Over the past several years, any time the subject of “what’s ailing agencies” comes up – be it at an industry conference, a trade article, or yes, even an analyst white paper – the solution is often simple: agencies need to “break down the silos.” In other words, in an age where digital permeates and touches all other media disciplines: TV, newspapers, and radio, the walls separating the various niches in the ad holding company chain must be transformed into diaphanous curtains, where all the singular parts can see, feel and flow into each other.

Among ad industry veterans, it’s become rather clichéd to note this. But like many clichés, this advice has the virtue of being dead-on accurate. And like many virtues, it’s easy to identify, but difficult to act on.

There’s a frantic scramble by agencies, particularly at the holding company level, to centralize the buying of digital display advertising that allows advertisers to move more of their marketing dollars into display at scale. Some of that is borne out by the relative inefficiencies of today’s digital buying process. Digital is growing at agencies, but the problem is, interactive media in all its glory and celebration is still not as profitable as traditional ad media work is.

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## 1.4. The agency challenge part 3: the rise of the platforms

On top of all the complexity shaking up the agency paradigm, there's the curious role of the platforms: the ad networks, exchanges and DSPs. The introductions of these platforms represent a stream of interesting interlopers into the delicate marketing process, upsetting the hidebound and often mysterious relationship of buyer and seller. The ad network has burrowed its way between the buyer and seller and has benefited financially via an arbitrage model, that is, smartly finding low-priced inventory, turning it around, perhaps incorporating some behavioral or contextual data into it, then selling it at a higher price. This has proved vexing to buyer and seller alike.

The amount of margin and arbitrage that occurs in the ad network business means there's inherent waste within the system, Michael Brunick, VP, media technology director at Mediabrands Worldwide, told AdExchanger. In being able to aggregate a lot of inventory into one place and execute on top of that, networks have managed to provide a great technology service. However, at a 40-50% margin, that model can't sustain itself much longer.

In general, agencies have used ad networks as their outsourced optimization arm. Because the technology, the skills, and the time required to optimize effectively in the media landscape have been so hard, agencies outsourced that task. The downside, says Matt Greitzer, VP of search and head of ATOM Systems, Razorfish's ad exchange, is that agencies have lost the transparency and given away something that could have become a higher margin business.

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## 1.5. Early days for agency platforms

So far, there are a number of worthy efforts, though they're still in their infancy. Two good examples are Interpublic Group's Cadreon, part of the holding company's Mediabrands unit, and Publicis Group's VivaKi digital hub, which includes Razorfish's ATOM system.

There are some good reasons why agencies would be able to pull this off. Agencies have more insight and control into how media dollars are spent for their clients. They also possess deep reservoirs of detailed, sensitive data and consumer insights that can be used for targeting and media planning based on real-time ad calls and ad serving.

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## 1.6. The publishers' dilemma

What this ultimately means is a much more direct connection between buyer and seller, starting with digital. Over time, this dynamic will spread to other media as print and TV are forced to catch up. For the most part, this automated activity will remain relegated to large volume media buys and handling unsold inventory throughout the media chain. While the major agencies will be used for premium executions (again, here's where big brands will want the agency's hand to hold), increased automation and real-time ad buying methods will exert a strong pull on how even the most traditional-seeming campaigns are conducted.

Apart from agencies, publishers will have even more to be nervous about. If advertisers can cut out the middleman, i.e., the media buyer, the seller loses a strong connection. Plus, if an advertiser is just buying a specific target demographic – say, males 18-22 – interest in the publishing brand selling the ad space runs a distant second.

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## 2. The Role of Ad Nets, Ad Exchanges, and DSPs

The lines between ad networks, exchanges, and DSPs are pretty fine. Within the three individual categories, the lines blur even more. Without going into every little nuance, we can offer some general descriptions of where these platforms are similar, where they intersect and where they are diametrically opposed.

Since coming on the scene in the first half of this decade, ad networks have proven particularly exasperating and attractive (often at the same time) to large publishers and ad agencies. For the past several years, ad networks have served as the primary driver of display advertising. In essence, they provide a simple and cost-effective way of reaching a maximum audience while targeting specific demos. Many publishers would say ad nets commoditize advertising inventory, reduce the effectiveness of traditional brand campaigns, and weaken publishers' ability to monetize their content as everyone races to the bottom.

### 2.1. The pork bellies debate

Two years ago, the debate over the use and growing prominence of ad networks and exchanges began to boil. A number of high profile publishers began fleeing, or talked of reducing the use of ad nets, such as C|Net, The New York Times, Forbes, Condé Nast and others. Digital media veteran Wenda Harris Millard warned, at the Interactive Advertising Bureau's annual conference, that media companies were selling web inventory like "pork bellies".

A little clarification of the terms might help calm the issue of what it means when different inventory is bought, sold and placed. To begin with, "ad network" is a catchall term. For example, a vertical ad network is one run by a publisher and includes a variety of sites that are closely related in terms of subject matter. For major publishers, the use of vertical networks helps solidify their dominance of a given category. Think of Martha Stewart Living Omnimedia's shadow over verticals like food or crafts. By bringing smaller blogs into its fold, not only does it share in incremental revenue, but it prevents challengers from diluting its brand's hegemony in distinct ad categories.

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## 3. The Rise of Ad Exchanges

Aside from excitement about the potential of mobile advertising, the other online ad vehicle to capture the industry's attention has been ad exchanges. And unlike mobile, where the word "potential" cannot be used enough relative to the topic, ad exchanges are pulling in real money. But in a world that's already so wildly complex, does the industry need yet another platform that has made advertising seem more difficult than advanced physics? Yes, in the case of ad exchanges and media trading desks, it does need this abstruse system.

### 3.1. Display comes out of search's shadow

In terms of what the near term holds for ad exchanges, look to Yahoo!, which is the market leader with Right Media, and Google, which last fall revamped its DoubleClick exchange which is now fully loaded with AdSense capabilities.

Yahoo!'s changes regarding Right Media's decision to sharpen its focus on premium ad sales and close down its AdSense clone, the Yahoo! Publisher Network, hold particular promise for altering the display landscape for the better. For some time, online ad industry observers, such as JP Morgan analyst Imran Khan, believed search would permanently overtake display as marketers got used to the simplicity and lower cost of PPC campaigns. But both Google's and Yahoo!'s activity of late indicate a strong possibility that display may actually overtake search as the more effective marketing format.

Right Media was one of the first ad exchanges to come on the scene in 2005. A year later, Yahoo! took a 20% stake in the company and then bought the rest in 2007 for \$680M as a way to blunt Google's \$3.1B DoubleClick acquisition. Incidentally, DoubleClick created an ad exchange platform as a way to attract buyers – and the plan couldn't have worked better.

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## 4. Ad Nets, Ad Exchanges and the Vicious Cycle

Ad networks emerged as a force when major online publishers discovered that they could use it as a vehicle to unload remnant (i.e., “unsold”) inventory. Second, for smaller publishers, ad networks served as a surrogate ad sales team for those who couldn’t afford to employ one in-house. But ad networks were imperfect in so many ways, as we noted earlier. To reiterate a point made earlier in this report, the ad network has benefited from the arbitrage model, often at the expense of the buyer and seller. Essentially, ad networks found distinct advantage in flipping cheap remnant ads by acquiring it from a buyer who couldn’t sell it effectively. By promising to take it off publishers’ hands and provide better targeting, it ultimately looked like a win for publishers, who could gain an incremental and additional revenue stream, and a win for advertisers, who could bypass the publishers and go straight to their desired audience more effectively and cheaply.

### 4.1. Real-time bidding abetted by DSPs

Mike Baker, president and CEO of DSP DataXu, naturally believes this sort of platform can avert the troubles ad exchanges face. “The advanced technology of demand-side platforms enables advertisers to make the most of real-time bidding capabilities across multiple inventory sources,” Baker writes. “As such, they play a key role in the evolving auction-based media buying model, and anyone considering RTB in their media plan should understand what they do and what benefits they offer.”<sup>1</sup>

So what can DSPs do? Mike Baker believes they “are designed to give advertisers greater control over pricing, targeting, and managing their online media campaigns.” Their goal is to eradicate some of the inefficiencies of the traditional display media buying model, through automation and advanced analytics.

Specifically, Baker says DSPs can do seven things particularly well:

- Provides an on-ramp to a variety of ad exchanges through one portal.

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<sup>1</sup> *What Demand-Side Platforms Can Mean for a Media Plan, December 14, 2009,*  
<http://www.clickz.com/clickz/column/1692901/what-demand-side-platforms-can-mean-media-plan>



## 5. The Value of Display

The technical issues and institutional biases driving the battle for online advertising among ad networks, exchanges and other platforms aside, it's worth asking what display advertising's value really is. At the most fundamental level, the key to understanding display is it's just like every other kind of advertising. There's a strong belief, proven by research, that people who see or hear messages from an advertiser tend to respond better to those marketers' products when they're in-market.

The amazing difference between an online display ad and all other traditional forms of advertising – broadcast TV spots, billboards, print ads, etc – is the ability to target consumers one-to-one. We can measure, if not always precisely or clearly as we might want, what the value of a click is versus someone just seeing an ad and moving their cursor over the display unit. If you look at display as a driver of clicks, it's obviously not as good as search. But if you look at display as driving demand, there's strong research supporting that. The Online Publishers Association points to studies that say users who see banner ads tend to be 300% more likely to spend money on the site versus those who don't.

### 5.1. Publishers' positions

Aside from the ability to target, ad buyers and sellers also often remind publishers that unlike offline media, there's no scarcity online. That there are countless unsold impressions going to waste and we now have the technology to at least achieve some value around this inventory.

Jim Spanfeller, former head of Forbes Media digital operations, disputes the notion that scarcity is at the heart of the disparity between the value of an online ad and offline one.

In contrast to the attractiveness of a window seat versus an aisle seat on a plane, print publishers have aggressively argued that all positions in their magazine have a certain degree of value (the more engaged reader – and by extension, the more attractive consumer – will be as moved by an ad deep within the pages of Vanity Fair as they would be by an ad on page four). Spanfeller argues that advertisers sometimes pay a premium on television, but mostly for size of audience rather than for time of day.

### 5.2. The banner is dead! Long live the banner!

"Online banners are the potholes of the Internet," says lead-generation provider Pontiflex's head, Zephryn Lasker. "Website visitors might be cruising along on a web page until they trip on a banner and are taken through a highly disruptive experience."<sup>2</sup>

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*2 How To Make An Online Banner, April 27, 2010,*  
[http://www.mediapost.com/publications/?fa=Articles.showArticle&art\\_aid=126877](http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=126877)



## 6. Conclusion

So, are you confused enough yet about the direction of online advertising?

In terms of where things stand, the tension between publishers and ad networks is the most compelling, because it puts advertisers in the middle. For the most part, the two sides are not at each other's throats. If there's tension there, it's because each player needs the other in the opposing camp. Certainly, there are some ad networks that are doing things that publishers don't like. But that's happening at the margins. For the most part, publishers need help monetizing their inventory and the newest methods employed by ad networks and DSPs are helping drive more value for their inventory, even as it turns the traditional ways of doing things on its head.

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