

Google Gains on Goal of Controlling And Targeting TV Commercials

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Google Inc. has established a foothold in pursuing one of its next big ambitions: controlling which television ads viewers see and tailoring them to consumers' interests.

The Mountain View, Calif., company honed the highly profitable Internet model of search advertising—that is, selling ads targeted directly at consumers based on the terms they enter into Web search engines. Last year, the eight-year-old company racked up more than \$10 billion of revenue by brokering online ads for itself and its partners.

Now, Google has begun a test run serving up TV commercials to cable

subscribers in Concord, Calif., people familiar with the matter say. The pilot project to bring its approach to cable boxes represents a foray into the \$54 billion U.S. market for TV advertising—much bigger game than Google's online turf.

While the effort is in its early stages, the progress underscores how Google could bring changes to how TV commercials are sold and delivered to viewers. Other Internet companies are also pursuing an entree into TV advertising, and any major Google success could eventually challenge the traditional TV and advertising powers.

In the Concord test, Google has been steering TV commercials to sub-

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Google Tests System to Target TV Ads

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scribers of cable provider Astound Broadband, a unit of WaveDivision Holdings LLC, since last year, according to four people familiar with the matter. When those consumers watch TV, some of the commercials they see have been sold to advertisers by Google and delivered to the cable company so that they appear in the normal breaks in TV programming as other ads do.

If the system is successful, Google could eventually try to establish itself as a middleman for purchasing TV spots, furthering its stated goal of offering advertisers one-stop-shopping for ads across virtually all media.

The previously undisclosed Concord effort, being conducted with a small group of advertisers, is aimed at testing the computer and network infrastructure needed for Google to broker and deliver commercials to cable systems more widely. In the test, advertisers are buying commercial placements through an auction system, people familiar with the matter say. But it is at an early enough stage that the buys are being handled manually by Google salespeople, rather than through a full-fledged automated auction system like the one Google uses to sell ads online, one of the people says.

Google Chief Executive Eric Schmidt in January told analysts the company was experimenting with TV advertising, without offering specifics. But he said the company intends to use its technology to better target TV commercials to users. Rather than every household seeing the same commercial, Google in theory might tap databases with information about the demographics of an individual's neighborhood and examine the content of the program being watched at a given moment to better select which ads to beam through the TV. So, for example, a household in an area with lots of children might be more likely to see commercials for minivans than for sports cars.

While federal privacy law restricts what cable companies can do with "personally identifiable information," the theory is that consumers will be better served seeing ads more relevant to them and will perhaps agree to share information about their habits and interests with Google. Such data eventually might allow Google or others to more specifically tailor ads to individual households—such as beaming ads for dog foods to viewers who own dogs.

"Advertisers in particular will pay much higher rates for ads that are targeted than ones that are untargeted," Mr. Schmidt noted.

At this stage, the commercials

aren't targeted to specific households in Concord, which isn't far from Google's Northern California headquarters, people familiar with the matter say. And the company likely won't on its own tap information about a specific household's buying patterns or other behaviors in order to choose the commercials because of the privacy concerns, one of the people says.

A spokeswoman for WaveDivision couldn't be reached for comment, but an executive with Astound, which has more than 25,000 subscribers, confirmed the test with Google is taking place.

"As we have stated publicly, we think we can add value to TV advertising by making this important medium more relevant for users, measurable and more accountable for existing and new advertisers," a Google spokesman said. "As part of this, we are currently running a small, early phase trial working closely with a small number of partners and advertisers."

Google's interest in TV commercials comes as the cable industry itself is turning to advertising as a promising source of revenue. One reason: Technology developments are starting to make it possible to target ads to specific households, as Google envisions. The Internet and cable players all want to play a role.

Several of the largest cable operators have also had discussions with Google about teaming up to do some form of TV advertising. Google has broached the subject with Comcast Corp., the country's largest cable operator, with more than 23 million subscribers, as part of broader negotiations focusing on whether Google will continue as the search engine on Comcast's broadband portal, Comcast.net. Their current deal expires at the end of this year.

Some cable-industry executives are wary about giving a behemoth like Google too much power over their advertising. But many also recognize that Google will likely be a major force in the business. "We all believe as advertising moves from one-way to two-way, the winners are the Googles of the world and others that can provide truly two-way addressable advertising," said Steve Burke, Comcast's chief operating officer, during a recent earnings call.

Google's attempts to extend its ad brokering to traditional media aren't expected any time soon to contribute significantly to its revenue, 99% of which came from Internet ads last year. Its traditional media-advertising efforts have also been bumpy to date. Google's executives admit to problems with the company's first tests of print-ad sales; they have given the system a major overhaul. Analysts say Google hasn't yet lined up enough radio-ad inventory to make its efforts there significant.

While some advertisers are pushing for an Internet-based system for TV-commercial sales such as Google might provide, a group of them chose to team up with online auctioneer eBay Inc. instead. Even then, the TV networks and some advertisers and media buyers have proven resistant to such efforts to overhaul how TV ads are sold.

Some cable operators make as much as 6% of their revenue by selling mostly local ads in the time slots they get as part of their deals with the cable networks they carry. But cable companies feel they could greatly increase ad revenue by introducing a wide range of interactive features. They see as the holy grail of advertising the ability to target different viewers with different commercials suited to their interests, much as Google imagines. "We're talking about delivering to advertisers things they increasingly like about the Internet," says Glenn Britt, Time Warner Cable Inc.'s chief executive.

Time Warner Cable had "preliminary conversations" with Google but the talks didn't advance because Time Warner executives didn't feel Google had much to add to its advertising effort, according to Mr. Britt. "We have the technological capabilities to do those things," he said. "We don't really need them."

Comcast is separately planning targeted ad-serving tests this year with three vendors that have been working close with cable operators on new forms of advertising, including OpenTV Corp., Visible World and Invidi Technologies, according to people familiar with the matter. But Comcast executives caution that next year would be the earliest the company would launch this type of advertising. "In 2007, it's going to be baby steps," said Charlie Thurston, president of Comcast Spotlight, the operator's advertising arm.

Cable operators have to be careful about what they disclose to advertisers and others on customer viewing habits. Federal law privacy restricts what cable companies can do with "personally identifiable information." And while it's unclear exactly how big advertisers and Madison Avenue might welcome Google and other Internet players butting into the TV ad brokering business, some say they are receptive.

"The concept is a homerun with advertisers," says Tracey Scheppach, a vice president and video innovations director at Starcom USA, a media division of Publicis Groupe. "There is just so much inefficiency and a system that allows us to serve the right ad to the right person is one that will be welcomed with open arms."