Selling Web Advertising Space Like Pork Bellies

Exchanges That Pair Buyers, Sellers for Available Ad Slots Attract Internet Giants

By ROBERT A. GUTH
And KEVIN J. DELANEY

How Some Ad Exchanges Work

A StubHub ad placed through an exchange

1. Advertiser enters the type of ad slot, or space where an ad can be placed, the target customers he'd like and what he's willing to pay

2. Site publisher makes certain ad slots on his site available to be sold by the exchange and specifies minimum price.

3. When a consumer pulls up one of those pages, the exchange instantly finds the advertiser with the highest matching bid and fills the ad slot with his ad

THE NEXT BIG Internet race might turn the buying and selling of advertising space on Web sites into the online equivalent of the pork-bellies pit.

Over the past few years, a host of small companies has started electronic exchanges where advertisers and Web sites can buy and sell online advertising space. The companies, with names like Right Media Inc., AdECN Inc., Turn Inc. and ContextWeb Inc., have been an obscure sideshow to a broader battle over Internet advertising.

That's changing quickly. The biggest Internet companies, including **Microsoft** Corp., **Google** Inc. and **Yahoo** Inc., are focusing attention and money on the emerging business, hoping to be first with the kind of large-scale, dynamic market for the ad industry that the Nasdaq market brought to stocks.

Over time there will be "a handful of winners that build very high-tech marketplaces," predicts Jim Barnett, chief executive of San Mateo, Calif.-based Turn. "That's what we're trying to do; that's what Google is trying to do."

Today, online publications and Internet companies have space for display ads built into their Web sites. Typically, that space gets filled with ads either the old-fashioned way—through a salesperson—or by a mix of computers and people called an ad network that automatically sells ads for the spot. But a significant portion of the available ad space—called "inventory"—remains unsold, or is sold for next to nothing. Enter the exchanges, which use automated systems to match buyers with sellers of unsold space.

With ad exchanges, member advertisers specify the price they're willing to pay for a certain type of ad spot, such as a banner ad that will be viewed by a female in Boston. When a woman in Boston pulls up a Web page of an exchange mem-

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Exchanges Selling Web Ads Catch the Attention of Internet Giants

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ber with a banner slot available, software assesses the exchange's offer. If the price offered is better than the site's minimum rate for that page and higher than what it can get from other sources, such as ads sold by its sales staff, the site will usually accept the exchange-brokered offer. The exchange's computers can then deliver the winning ad to be displayed as the Web page loads on the consumer's PC. The exchange immediately notifies the site if it doesn't have a buyer for the ad space, and the site can then put in a nonpaying house ad or try other means to unload it on the fly.

Web sites rely on data such as IP addresses—identifiers for PCs connected to the Web—to know the general location, gender and other characteristics of the Web surfer pulling up an ad. Sites also use cookies, small files stored on users' computers, to track their Web activity, such as recent searches. Web publishers say the cookies generally don't allow them or advertisers to know the actual identity of specific users—and any data are made anonymous. But for a car maker who might want ads to be shown only to consumers who had previously visited auto sites or had done car-related Web searches, for example, the targeting such technology makes possible can be attractive. By bringing together a lot of ad sellers, exchanges can potentially help advertisers buy a larger quantity of such specifically targeted ads across different Web sites.

AdECN says it can complete an auction for the ads on a Web page in 12 milliseconds after a consumer clicks to pull it up. AdECN runs an exchange where 28 advertising networks, which purchase ad slots from many different sites and sell them at higher rates to advertisers, buy and sell ads.

Exchanges usually collect payments for ads and pass them along to the sites, taking a commission. Ads are generally priced per thousand times they're viewed by consumers, a unit known in the industry as CPM.

Online ticket seller StubHub in recent months started using exchanges and ad networks to spread its reach to sports and music fans on the Web. (Historically, the company used ads tied to Internet search results on Google to reach customers.) The exchanges have allowed StubHub to place ads on a broader universe of sites large and small that it never had used before. Some of those, including ads on Gawker, a gossip blog, and Internet radio station Accuradio, led to ticket sales, StubHub executives say.

In a few months of use, ad networks and exchanges "have already become material to our marketing mix," says Michael Janes, chief marketing officer at StubHub. He estimates the company now spends about 15% of its budget (up from zero at the beginning of the year) for display ads over networks and exchanges. There's still some disagreement over the actual differences between networks and exchanges. But many industry executives agree that transparent pricing and an open neutral marketplace where anyone can buy or sell ads are distinguishing characteristics of exchanges.

Q Interactive of Chicago this month started selling some ads on its sites through the Right Media exchange. And it believes that buying ads on other sites through the exchange, which it has begun doing as well, will offer a 20% to 30% better return on investment than its previous practice of going around and buying ads from different sites individually. "Right now if you want to do a media buy you have to buy on a lot of different networks and with a lot of different publishers," says Q Interactive CEO Matt Wise. "Theoretically, with an exchange, one technology platform can cover an enormous swath of the Internet."

As with stock markets, 'liquidity' is key for the ad exchanges.

Or so the big players hope. Yahoo thrust exchanges into the spotlight in April when it agreed to pay $680 million for the remaining 80% of Right Media, following a 20% stake it bought last October. Yahoo said that it wanted to own Right Media as a way to take a leadership role in promoting the exchange model. The company has been selling some ad space on its site through Right Media, and says it has seen increases of over 50% in prices for ad spaces sold through Right Media compared with what it brought in for them on its own.

The Right Media acquisition followed Google's $3.1 billion deal to purchase DoubleClick Inc., which is building an ad exchange. DoubleClick last week began conducting transactions for actual ads on the exchange it has been building.

David Rosenblatt, chief executive of DoubleClick, estimates exchanges could eventually handle 50% of all display ad sales. He compares the exchanges to auctions that Internet search providers like Google used to ignite search-related advertising several years ago. "I think the exchange concept will have the same impact on the display market," he says.

Meanwhile, Microsoft has started developing a prototype of an exchange and has also considered buying one of the start-ups, say people familiar with the company. Microsoft General Manager Joe Doran declined to give details but said Microsoft has been studying the exchange model and "what it would take to build an exchange." But, he said, "it's still very early for the exchange concept to really catch on and drive to large scale."

Indeed, if the dream is to have the same kind of impact on advertising that spot markets had on commodities and stock markets on equities, one or more exchanges will need a critical mass of buyers and sellers. As with stock markets, "liquidity" is key for the ad exchanges: the more participants, the greater the chance of finding buyers and sellers.

But with a bevy of exchanges large and small, the industry risks not having a critical mass of buyers and sellers on any one exchange to make a viable market. "That's the thing that's uncertain," says analyst Greg Sterling of Sterling Market Intelligence in Oakland, Calif.

It's also unclear what percentage of their ads Web sites will be willing to sell through exchanges. Many industry executives say the exchanges are suited only for "remnant," or leftover ads and ad space that the biggest brands aren't interested in. Big advertisers generally want to have more control over where the online ads appear and who sees them.

With exchanges, "the underlying assumption to that is you're buying a commoditized product that anyone can sell you," says Steven Kaufman, senior vice president at **Publicis Group SA**'s Digitas interactive agency. Many of the high-end ads that Digitas handles require human negotiation and tailoring before appearing on a Web site. "That's not coming through an exchange," he says.

Others disagree. Such high-end ads represent at most 10% of the ad market, counters AdECN CEO Bill Urschel. "And everything else is up for an exchange."