

COMMUNICATIONS & MEDIA

Networked Advertising

Growing revenue in a highly fragmented business

ADVISORY



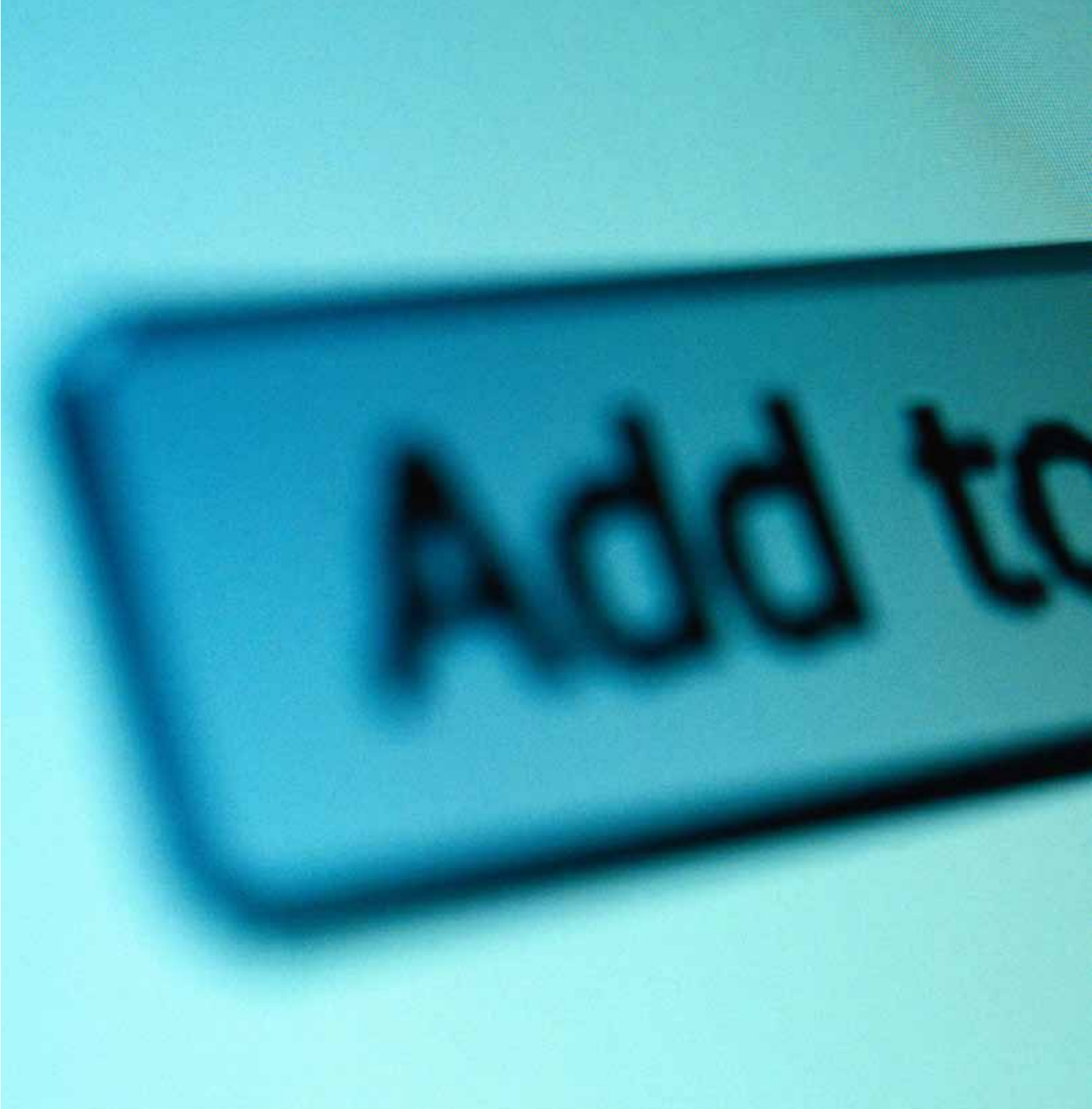


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Introduction

The advertising business has changed forever. Historical boundaries found in traditional print and broadcast advertising no longer apply online. In turn, broadcast television, cable television, print, and outdoor advertising are now challenged to adopt new paradigms. The industry is still very strong, but many leaders now insist that advertising as we know it will have to adopt completely new digital business models to survive and thrive going forward. Those new business models and new ways of understanding audiences will, in part, shape the future of the industry.

What has caused such a dramatic and important change? The Internet and the notion of free content “when I want it, where I want it, and how I want it” has completely upended the traditional advertising networks. Even the notion of data measurement has changed. Executives across the ecosystem are struggling with declining subscriber trends, data and revenue clarity across vendors, and consumer cost expectations—all in an era where the consumer “retail” experience is more expensive and risky than ever. Nevertheless, the roles of the advertiser and consumer remain essentially the same. Ad agencies still strive to create compelling marketing messages. Publishers still produce content advertisers want to associate with. Broadcast and cable television, newspapers, magazines, and radio still have the real estate and the means to reach the eyes and ears of consumers.

For this white paper, KPMG went to seven leading executives in the digital advertising ecosystem. We asked each of these subject matter specialists to address a specific perspective based on company roles. They generously took time to answer our operational, financial, and process questions and share their broad knowledge about the digital advertising ecosystem—including the roles of other participants. The result is a thorough look at the risks and opportunities ahead for advertising in the Internet era. Please read on to learn more about this fast-changing and complex space.

Introduction, continued

THE ADVERTISING ECOSYSTEM TODAY

Advertiser. Seeks to promote goods or services via online/mobile properties.

Ad Agency. Creates the online/mobile advertising campaign for the advertiser.

Ad Server. Technology that distributes the ads across online/mobile properties. Can be run by the publisher or a third party.

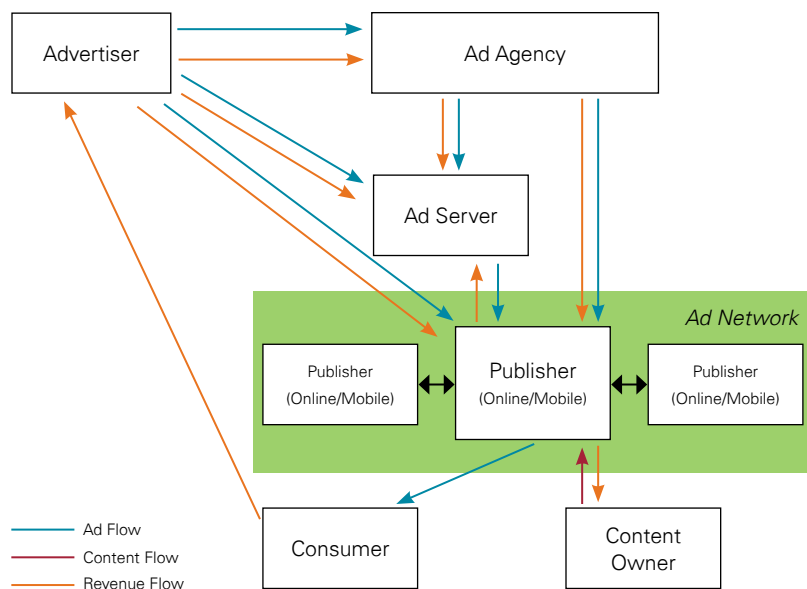
Publisher. Owns the online/mobile properties where the ads are displayed.

Ad Network. Manages and serves ads to a group of online/mobile properties. These groups may be controlled by a single publisher or aggregated by a third party.

Consumer. Receives the advertising when surfing online/mobile properties.

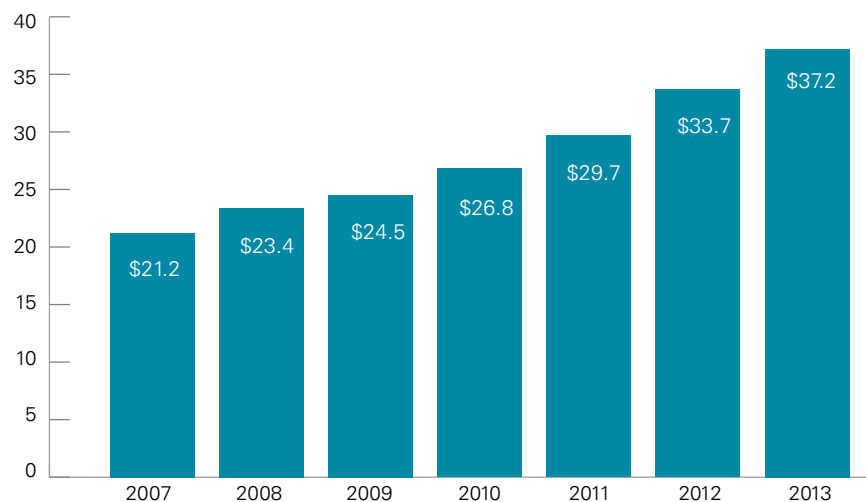
Content Owner. Controls the content that brings consumers to online/mobile properties where ads are displayed. Can be the publisher or a third party.

The Digital Advertising Ecosystem



Source: KPMG LLP

U.S. Online Advertising Spending, 2007–2013 (billions)



Source: eMarketer, April 2009.



Digital Is in a Shakeout Period

The Agency Perspective

Brad Armstrong is group account director and partner at the Martin Agency, winner of the 2009 Advertising Age Agency of the Year Award. The 40-year-old firm is part of the Interpublic Group and has billings of about \$600 million. The Martin Agency interactive department, created 15 years ago, is fully integrated with teams focusing on print, TV, direct marketing, and PR. Armstrong is lead account executive for Wal-Mart, the agency's largest client.

"It's a high-energy, complicated, messy time right now," says Brad Armstrong. Companies are jockeying for position and trying to decide what their core competency will be. Online media placement companies are undertaking creative work, and creative companies are buying online placement and video companies. "Chief marketing officers are confused about digital advertising and can't distinguish the players," says Armstrong. "They need a guide."

What consumers are willing to pay for online also is problematic. The newspaper business faces that problem daily as more and more people read the news online and forgo buying a paper.

Because fee-supported online news has generally failed, Armstrong thinks advertising-supported online content is the way of the future.

BETTER DATA, STANDARDS ARE NEEDED

The promise of advertising online is its potential to collect data that marketers can use to target consumers with

products and services they genuinely want to see. But marketers need more long-term comparative studies of marketing approaches and consumer reactions to learn key points in user search and conversion decisions. "Until marketers are able to track user behavior online to understand how consumers transact a session on the Web, we're not going to be able to target effectively," says Armstrong.

He recognizes that the flip side of obtaining enough behavioral data to generate patterns of usage is a potential privacy backlash: "People don't really want every click and keystroke to be known to the world."

Still, Armstrong has no doubt that researchers soon will create a program or metric to make sense of online behavioral data so advertisers can understand the patterns of the people they want to influence. "Digital marketers spend hours online, tweeting, and Facebooking to better understand consumer behavior, but the average customer treats online as a utility," he says. "When we finally see where our message can intersect user



Digital Is in a Shakeout Period, continued

behavior in that utility—when we crack the code—online is going to be the most cost-efficient marketing vehicle in history.”

One impediment to that vision of efficiency is a lack of agreed-on data-exchange standards. The wide range of proprietary technology formats creates inefficiencies, and different groups with different agendas promote vying standards. This complicates tasks as simple as reporting digital-content sales from downloads or streaming. Not only are current reporting and data standards a problem, intermediary groups continuously add to the load by creating new mechanisms and programs that transfer digital information.

Brand advertisers are not really aware of standards as an issue. “What they want is someone to make sense of it all for them, so they can make intelligent business decisions,” says Armstrong.

THE NEXT MOST-IMPORTANT SCREEN IS MOBILE

The key screen went from the TV screen to the computer screen, and the next key screen will be the one you hold in your hand, Armstrong believes. He sees that shift happening over the next decade, driven by technology improvements such as iPhone’s customization of the handheld screen. Consumers are getting used to looking at things in miniature, but the medium requires different tools and different creative approaches, he says.

Two things are important about the interactivity of mobile, he believes: One is that users will be able to search and get an answer wherever they are. Two is geotargeting. “A year or so ago in New York, I saw a bus come down Fifth Avenue. It had a digital panel on its side that advertised a restaurant a block away from where I stood,” Armstrong says. “I thought, ‘That bus will go down Fifth Avenue—or anywhere—and depending on its location and who has bought ad space, its message will change to promote whatever restaurant is nearby.’”

Handhelds are already GPS-enabled to a large extent, he continues: “As it becomes the norm, you will be able to search for information based on your location. So if I’m on Fifth Avenue and 37th Street in New York and I’m hungry, I can query restaurants on my handheld and obtain a list of nearby restaurants, perhaps with menus,” Armstrong says.

“Google wants to be the organizer of the world’s information, so that wherever you are, if you query Google, it will be able to give you the information relevant to your search and, along with it, marketing communications from all the people willing to pay to talk to somebody asking that question,” Armstrong says.

“Whoever figures out and provides the best interface between mobile requests and the data response to them is going to do really, really well.”

Near term, he thinks it is possible that Google and the Android cell phone operating system may provide an open source alternative to fragmented operating systems. “Google wants to be the organizer of the world’s information, so that wherever you are, if you query Google, it will be able to give you the information relevant to your search and, along with it, marketing communications from all the people willing to pay to talk to somebody asking that question,” he says.

Consumers will choose how much access to their movements they permit, however. Those who prefer not to be tracked wherever they go will opt out, says Armstrong. Those who opt in will give up some personal information (as on joining Facebook, for example) in exchange for access to the location-based data they want.

The traditional advertising concept of right ad, right time, and right place continues to be valid online if you add “right person” to the formula, he says. A message and ad may be right, but marketers have to identify the prime prospect and understand his or her behavior to be able to time the message.

The way things are going, Armstrong thinks it is likely there will be \$100 million of mobile advertising media buys in the next few years. “The technology and the



Digital Is in a Shakeout Period, continued

data feeds are not quite right yet, but all that will change in the next couple years," he says. "So will the behavior of the carriers, who are notoriously protective of subscriber data."

RETURN ON INVESTMENT

In theory, advertisers should be able to have a more accurate notion of the return on advertising spend (ROAS) in an online world, but much depends on the business. "I've seen 20 models in the past 12 months, and none of them is exactly right," says Armstrong. "Every major marketer is struggling to do a mixed media modeling program and to understand the return from the different mediums including online. There's a long way to go before we can understand ROAS unless you're a very structured seller of something online, and you can just track it right through a sale."

One company is beginning to see more success based on consumers watching ad-supported content online. Episodes on demand from abc.com are all ad-supported, using video advertising that is mainly repurposed from an original shoot for television or cable. Because of the expanding bandwidth, the opportunity for rich content is huge, he thinks.

Armstrong says, "Any players worth their salt these days are creating work specifically for digital use. It may be shot at the same time as the TV commercial, but if they know what they're doing, they're customizing it for use on the Web." Agencies not shooting purpose-

built footage for online and mobile are behind the curve but will catch up quickly. "You pay for additional production, but people are realizing that work customized for the online space is more effective."

There's significant pressure to provide entertainment value with any message, too. A dry selling message irritates people, especially if there's a lot of uninteresting noise attached to it. "The challenge for companies like ours is to provide entertainment that is a gift. We're the uninvited guest, so we've got to entertain them or they'll be angry at us, and we'll be rejected. We can't let that happen."

SUCCESS WILL HINGE ON RELEVANCE

"Over the next 10 years, advertisers are going to get smarter about how to target their messages and about what content actually drives brand or transactional value for them," Armstrong says. "I foresee a huge shakeout, after which there won't be as many profitable information sites vying for advertising, but instead there will be a lot of transactional sites that sell over the Web. Many colleagues think there will be more information sites, but very niche-driven. For example, a site for people who own or are interested in Mustangs from the '60s is exactly the right place for a seller of chrome replacement parts."

The social network space is not as utility-driven as other online interactions, and social sites are more relaxed and willing to accept messages—but not ads. What

makes a social network attractive to an advertiser is the level of involvement people have with it. Smart marketers are finding ways to woo such sites to get their message across. For example, communities of involved moms are gathering to share tips for raising their kids. Marketers are trying to join those communities carefully by providing information that helps them navigate their job as moms.

"Small communities will emerge, I think, and they will consist of the 100 people members really want to talk with—like a family network," says Armstrong. Companies are starting to provide platforms for such small communities, and sponsoring them is a place where a marketer can get traction. "Over the next 30 years, we're going to see the online growth of niche communities that marketers join or sponsor, providing information relevant to that group."



The Industry Perspective

Greg Stuart has insights that stem from a diverse advertising career that includes five years as CEO of the Interactive Advertising Bureau (IAB)—an industry group of more than 400 leading media and technology companies that sell nearly 90 percent of online advertising in the United States—and coauthoring the book *What Sticks* (Kaplan Business Books, 2006) a research-based look at what makes advertising effective.

“As the digital advertising ecosystem evolves at a furious pace, its myriad technical complications, options, and opportunities seem almost overwhelming,” Greg Stuart says.

“The relationships between agencies, media buyers, ad networks, exchanges, data providers, verification services, measurement companies, publishers, and content owners have become interwoven, obscuring participants’ roles, true value, data ownership, and consumer access. If—as an industry joke goes—‘advertising was a business created for C students,’ that isn’t the case any longer.”

To write *What Sticks*, Stuart and his coauthor, Rex Briggs, conducted research against \$1 billion of ad spending in TV, radio, magazines, and online—the entire media spectrum. “Our sponsors were top-50 marketers who wanted to answer a simple question: What is the value of each advertising dollar spent, by medium?” Their research led them to the conclusion that more than \$112 billion was being wasted of the then-annual total of \$300 billion in advertising spending.

Online, a marketer’s dollar dwindles to nickels and pennies en route to a publisher (or whoever touches the consumer last), Stuart explains, because of all the pieces needed to make a buy today. The online marketer can go directly to the publisher or through an agency or an ad network or a connector to the new world of exchanges such as DataXu. “But I’m not sure any stakeholder fully understands how a network connects to other networks, to exchanges, or to publishers, let alone how data gets attached or how ads are measured,” he says.

Despite the fact that the advertising technology ecosystem is so complex, the online sector and other digitally networked channels are well positioned to gauge return on investment (ROI). While still less than 10 percent of ad outlay, online advertising is more oriented to applying ROI theories and processes. Stuart thinks that may ultimately attract the brain power needed to really capitalize on the opportunities.



More Complicated Than Ever, continued

WHAT GETS MEASURED...

Stuart hosted about 20 dinners a year with marketers and agency representatives when he headed the IAB. As he listened to dinner conversations, it struck him that marketing professionals had little grasp of how advertising really works and even less understanding of online advertising. “Digital has really shown that the emperor has no clothes—that meaningful education, training, and insight are in very short supply in advertising,” Stuart says. “That is probably why we found that 47 percent of the 30-odd campaigns we measured for *What Sticks* failed before a media dollar was spent, and 83 percent of those campaigns lacked optimized spending allocations.”

“What I think is wrong with advertising overall,” he says, “is that within the industry, incentives are completely misaligned. Agencies often are paid on either percentage of spend or hours invested, neither of which puts the focus on advertising effectiveness—which should be the goal. Everyone says that’s the goal, but in my experience, their actions suggest otherwise.”

Asked what he thinks has been the biggest mistake made in digital advertising, he says, “No research anywhere in the world validates that a click has any relationship to brand effectiveness, yet click-through is the de facto measure most online marketers and their agencies use. Overreliance on

click measurement is a disservice to the field.” Actual sales or purchase intent (or other metrics whose value are still to be proven—the key being “proven”) are a significantly better measure of advertising effectiveness than click-through, Stuart believes.

NUMBERS GAMES

One of the best things the industry accomplished during Stuart’s tenure at the IAB was to clean the metrics used to count ad impressions, which is the underlying currency of the industry. “Before 2003, ad servers had major discrepancies in ad impression counts of from minus 50 percent to plus 100 percent. The IAB worked hard to get a global technical standard on how to measure impressions, so such differences now are about 10 percent or less,” Stuart says. “Getting a technical standard in place showed us there was a lot of human error in how campaigns were executed. Process standards are needed, too,” Stuart says.

“If advertisers don’t trust online’s numbers, the medium is dead or dreadfully stalled,” Stuart says. “Also, we made a strategic decision in 2002 to measure actual ad impressions rather than just the content, which is what other media measure based on ‘opportunity-to-see.’ (TV or radio measures average quarter hour in program; print measures the complete magazine or newspaper.) Using numbers/data/research to

strategic advantage should apply to more than just ad impression counts. We have a powerful weapon in simple ad effectiveness tools such as Dynamic Logic and Vizur, but our syndicated research needs to be higher quality.”

“If you had told me five years ago I’d spend four hours or more a month managing my relationships on LinkedIn and Facebook, I’d have thought ‘no way.’ Yet I do just that today,” Stuart says.

Online advertising’s complexity makes it hard to verify whether an ad reaches the consumer without an independent body tasked to do that. Anchor Intelligence, for example, has “developed technology that a single agency could likely never build” to verify whether a click was valid. Other services to verify that an ad really ran when and where it was supposed to are in development. These services need more support and more industry guidance. To the extent that they validate the effectiveness of digital campaigns, they will provide insight and confidence to marketers and agencies. The days of simply watching to confirm that your commercial aired during *60 Minutes*, are over.



More Complicated Than Ever, continued

WE NEED TO TURN UP THE HEAT

Stuart says serious complications also result from the fact that the Internet is a global medium that can be accessed anywhere in the world. “I know of some publishers that knowingly sell international audience impressions—worthless in the United States—to domestic advertisers,” he claims. “That’s egregious,” Stuart says.

“In 2002, we went to the IAB board about the issue of selling international audiences to domestic advertisers without notification. A few publishers did not want this fact made public or to change their practices. When the wrong incentives are in place, companies don’t act in the interest of their customers.”

Similarly, a CEO who realized his company had huge fraud issues in its system wrote to several second-tier companies in the search ecosystem to suggest organizing an industry-level effort to eradicate click fraud. His contacts said “good idea” and went to talk to their internal people. Reportedly, many came back to him and said, “I’m sorry, we can’t participate in this. We make too much money from click fraud.”

So it goes back to incentives, says Stuart: “If the media company or the search companies had been judged solely on producing effective results at the sales level—rather than on revenues or clicks—those people would not have made those choices.”

COSTS WILL DROP

“Can content be monetized profitably? Of course,” Stuart says. He cites an early-2002 *Wall Street Journal* editor’s letter on Internet media that said advertising would never support online content. Skeptical, Stuart checked the data of all the relevant public companies.

“It was a difficult period,” he says, “but 35 percent of the public companies projected profitability by the end of that year, and 95 percent projected profitability by the end of the following year. And they all did achieve profitability. The *Wall Street Journal* just hadn’t looked at the data. Meanwhile, advertisers accepted that editorial view as fact and stayed out of the online medium.”

Reports that YouTube doesn’t make money annoy him as well. YouTube generates a lot of revenue, Stuart asserts, and its consumer and content acquisition costs are low. That suggests its reasons for not being profitable may be that the company is choosing to invest for the future. Stuart thinks marketers may be using faulty information to not explore the channel, which is a big missed opportunity for them and their brands.

However, the biggest opportunity right now in online media is likely social media, which is becoming “deeply engrained in consumers’ lives,” Stuart says. “If you had told me five years ago I’d spend four hours or more a month managing my relationships on LinkedIn and Facebook,

I’d have thought ‘no way.’ Yet I do just that today.”

It perplexes Stuart that marketers don’t see the opportunities. “As a former CMO, it bugs me that they don’t see the advantage of jumping in early. My background is in economics, and it was clear to me in 2001 that high supply (increasing consumer Internet access) and flat marketer demand would make online media the deal of the century. My book research just proved what should have been intuitively obvious,” Stuart says. Today, he thinks exchanges and demand trading platforms such as DataXu and MediaMath offer great opportunity.

MOBILE—A MOVING TARGET?

“I did some research for an *Adweek* article a few months ago, and 76 percent of advertising people said they would accept advertising on their mobile phones only ‘over my dead body,’” Stuart says with amusement. Regardless, “Mobile meets my qualifiers for being a valuable media vehicle in that it does something unique by offering marketers consumer proximity and greater personalization,” Stuart says.

“Consumers distrust mobile advertising because of how badly other media, including online, have acted. For instance, the television industry is crazy to think that nearly 20 minutes of commercial time in an hour show is acceptable to consumers. And the Internet was nuts to have done pop-ups,” Stuart says.



More Complicated Than Ever, continued

“Consumers are transferring their distrust to new media, where they have more control. On sensitive issues such as privacy, they have little basis to trust that we, as an industry, will act properly. Those issues are manageable only if the industry really polices itself. Under Randall Rothenberg, the IAB just took a big step to do that, and I applaud him for it,” Stuart says. “Mobile will need to handle the same issues.”

While mobile has been around for more than ten years, Stuart finds it disappointing that it does not yet generate \$1 billion in ad support. The Internet was generating revenues of \$8 billion per year five years after its birth. “Mobile has got the worst sense of timing of anything I’ve ever seen. Every time it got some legs (in 1999–2000 and 2007–2008), the economy changed,” Stuart says. “They’ve announced ‘This is the year for mobile’ ten years in a row now. The waiting is killing me. Now, though, smart phones might be a game changer.”

BE CAREFUL WHAT YOU WISH FOR


In the end, advertising is still all about putting the right message in front of the right person at the right time. Targeting is one element of doing that, but Stuart thinks targeting is both overvalued today and underestimated in what it means for the future. “The challenge of targeting is to avoid ending up with such a narrow audience that it becomes an inefficient channel,” Stuart says. “Most people in media companies think targeting means getting a premium, but the premium seldom offsets the complications of managing inventory, overseeing a campaign, or reading results.”

That said, targeting is potentially the industry’s future salvation, after infrastructure and other systems have been developed to make it work. “But what most people miss when they discuss targeting as Google’s “big idea,” is that Google’s system and economics really worked,” Stuart says. “Against millions of intent-driven opportunities, Google brought hundreds of thousands of advertisers to the table—and made it self-service.” They solved both sides of the equation, not just better targeting.

THERE IS STILL A LOT TO DO

Infrastructure needs to be built, including tools to make it easy for big and small, national and local advertisers to come onboard. Ads have to become as dynamic as the content, with increased personalization and targeting of consumer interests.

“On one side, complexity and the rate of change are causing marketers and agencies so much angst, and on the other, there is so much opportunity and excitement for those of us trying to craft and capitalize on this new world,” Stuart says. “I’m very positive we all will learn how to use the opportunity this transition offers. It is just a matter of when.”



Unmeasured Is Undervalued

The Media Research Perspective

Daniel Monistere, Nielsen senior vice president, has more than 20 years of experience in media research. In 2001, he joined Nielsen as vice president and in that role implemented quality metrics tracking across all service offerings. Nielsen is a leader in monitoring and measuring global Internet activity using proprietary tools, syndicated services, and custom analytics.

A CLEAR CURRENCY WILL EMERGE

“With online/mobile in its infancy, people are not sure what role they will play or exactly how they’re going to monetize their investment,” says Daniel Monistere. “As advertisers, agencies and media buyers, publishers, and the content people who attract advertising improve their understanding of how digital media work together, they’ll figure out how to implement their core competency.”

Today, online measurement has ambiguity compared with Nielsen’s television audience measurement, which people can quantify. Billboards used to illustrate that conundrum: To quantify ad exposure, do you use traffic counts or plot the ad’s longitude and latitude? Today, we could cross ad placement with tracking panel members via GPS. “To be correctly valued and demand its proper share of ad dollars, networked advertising has to be measured,” says Monistere. “Having so many metrics for quantifying what an advertiser is purchasing is holding back industry growth.”

The Holy Grail of online/mobile advertising is pinpoint targeting, he says, which has

huge data-processing requirements. Being able to provide credible measurement data in the online/mobile industry will depend on developing clear protocols for standards, disclosure, and transparency:

- To determine standards, industry groups will have to agree on which metrics are relevant, which are not, and devise a way to process those metrics.
- A system for disclosing the measurement process, with ground rules, is necessary. “One problem is the sheer complexity of the data. When you ingest the data, you’ve got to apply cleaning and editing rules to filter what to keep and what to discard,” says Monistere. “Nielsen discloses exactly where we make edits and the amount of cleaning in the data-ingestion piece.”
- Transparency, whether through audience measurement disclosures or third-party audits, is essential for letting parties review and evaluate data.

There are attempts in the marketplace to write standards to quantify ad exposure and to establish certification. The Media

“If 85 million people watch a program on TV, your reach is 85 million. If 5.5 million people view that same program online and an increment of 1.5 million sees it Internet only, there’s a 4 million overlap of people who watch a program on television and stream it online,” he says. “You can make the argument that you increased your reach to 86.5 million.”

Unmeasured Is Undervalued, continued

Rating Council (MRC) has developed and continues to refine online standards, disclosure, and transparency protocols. Many video properties with their own Web sites can apply to the MRC to have the way they count hits on their site accredited. Web sites that want accreditation can apply to an independent party to assess their standards, which mainly come from the Interactive Advertising Bureau (IAB). The process adds value for an applicant but is not a prerequisite to doing business. For every one that voluntarily undergoes this rigorous process, thousands don't, and media buyers are not assured of a systematic counting mechanism.

HYPE AND REALITY ON MOBILE

Nielsen measures Internet viewing activity that takes place in the home, and it has a service that looks at Internet usage remotely. For cell phones, it is still trying to figure out an appropriate way to measure—on-device measurement or some other method.

Internet streaming and cell phone measurement contrast with TV in that the commercial content is different. "Some people say consumers would rather watch a program online to avoid commercials," says Monistere. "If that's true, adding commercials will drive audience away. And if you don't, you can't monetize your investment. Different clients we're working with are alarmed about siphoning away viewership to a free form. Newspapers did that, and they now have big problems."

Cell phones are limited by the amount of commercial content the user will put up with and screen size. Sports or news works better than some other programming. "The biggest wild card is the under-18 generation. Because I enjoy the feel of paper, I'll still read a newspaper, but my two boys, who are 12, are comfortable with LCDs and don't mind watching on a little screen," says Monistere. "Attitudes may change as a younger group grows up with the medium."

Getting good mobile measurement data is tricky as well. Carriers are extremely protective of their consumer relationships, and any software solution means going through the carrier. Any hardware solution has to be compatible with all the hardware in use. "If we replace audience cell phones with ours, how do we do that in a methodologically sound way?" Monistere says. "Cell phone usage is part of the larger ecosystem—wherever television is, we want to measure it."

CENSUS: THE TRUTH IS OUT THERE

Anonymous data helps both advertisers and consumers in ways we take for granted. Many things are free or are cheaper because advertising offsets the cost. "But people are sensitive to anything that is electronically census based," says Monistere. "I don't think anyone knows the solution to finding that balance between getting advertisers and marketers information that they want and maintaining the level of privacy the public wants."

The data are there for everything people do online, and Internet server log subscriptions from a variety of major U.S. Internet service providers will tell you accurately what types of people are going to what types of sites. Measurement that follows the audit trail that people leave triggers privacy concerns.

Log services provide a level of granularity that is close to census, which is always very desirable, says Monistere, but they have limitations. For instance, set-top box data will reveal what programs go into the household but not to whom.

Even with census data, any picture of consumption will be incomplete. TV audience research must represent people with all forms of carriage...those who receive their signal over the air only and people who receive cable or satellite. Within the cable sector, some homes have set-top boxes, others don't, and some have a combination of the two. Of the universe with set-top boxes, whether cable or satellite, some segments don't have DVRs, which is a driver of viewing behavior. For many of these groupings, census data can be harvested.

In the online space, consumers already can join sites by agreeing to e-mails soliciting opt-in participation in different surveys. If they agree to take the survey, they get 5 points; if they qualify to take the survey, they get 75 points. They become or remain part of the panel to accumulate points in order to redeem some type of prize or reward. "There's a question about how representative that is," says Monistere.

Unmeasured Is Undervalued, continued

“But it may be a good way to supplement a randomly drawn panel.”

Essentially, all Nielsen-run panels require panel member consent—people check a dialogue box that says “do you agree?” or “I accept.” “Any time you can engage the person who is being measured, you don’t have as many privacy concerns as when you’re harvesting census or server data, or data sets that come back to a central area,” Monistere says.

OPTIMISTIC NUMBERS

“As we move forward with various forms of video on demand and Internet streaming, marketers have got to be careful not to cannibalize the main audience,” says Monistere. The relationship between people who view a program on television and those who stream online isn’t necessarily exclusionary, either. “If 85 million people watch a program on TV, your reach is 85 million. If 5.5 million people view that same program online and an increment of 1.5 million sees it Internet only, there’s a 4 million overlap of people who watch a program on television and stream it online,” he says. “You can make the argument that you increased your reach to 86.5 million via supplementing with the Internet.”

Indeed, without the ability to stream on the Internet, viewers might have watched something else. The issue is how audience behavior changes based on being able to stream. If viewers have only X number of hours for entertainment, streaming may let them watch your program at a more convenient time. “This probably runs

counter to the industry fixation on the threat the Internet poses to television, and that advertisers are migrating because the 18-to-34 demographic isn’t watching TV anymore,” he says.

Nielsen funded a study from the Council for Research Excellence, an industry client group. The objective of this study was to quantify, through observation, people’s exposure to different media. To see the target group’s habits, a device tracked their consumer media exposure around the clock, including simultaneous exposure to telephone, Internet, TV, and radio. The study found that in-home television viewing was about 94 percent of total content exposure. Only about 6 percent occurred exclusively on the cell phone, away from home, or on the Internet.

DESCRIBE THE AUDIENCE FOR ADVERTISERS

We’re moving to a toolbox approach and will find the device that we can most seamlessly get into, Monistere says. The 2002 movie *Minority Report* depicted future technology that scanned Tom Cruise’s eyes as he entered a subway station, for example, and tailored an ad to him. To plan the movie, the producers used think tanks to project the future; today, retinal scanning is used in some airports as part of the security screening process. “A future mechanism might be a thumbprint, a heat signature, or a device, but it will facilitate location-based advertising, especially with GPS applications on mobile phones,” says Monistere.

To assemble demographic information, advertisers are going to need a way to quantify the people who redeem marketed products. Nielsen movie theater research helps drive the in-theater ads we see before a film, for instance. To implement location-based advertising, advertisers will need to know the characteristics of mobile device users.

“We’re not close to having reliable, full-population census data. People see how easy it is to exploit personal information and are very hesitant to give it,” Monistere says. Identity theft is a public problem today that has increased audience resistance to anything that invades privacy. In the past, there was mass pushback to the introduction of Social Security numbers. That ultimately changed. He speculates that some form of identification, via the Internet or a personal device, could become the new Social Security number.

“Is the concept of right ad, right time, right place still applicable to online advertising? Definitely. Right place and right ad will always be in play. Online, right time depends on how ads are cycled. Right time does apply with television,” says Monistere. “Even factoring in DVR time shifting, more than 75 percent of viewing is live plus same day. For brand building, timing is moot, but for opening a movie, delay may make a difference. With anything on demand, the Internet is pretty much time-shifted by nature.”

Listening to the Market

The Advertiser Perspective

Tracy Benson, head of Best Buy Interactive Marketing & Emerging Media, spoke to KPMG about her role as senior director of consumer brand digital marketing for the world's largest specialty electronics retailer. Benson's group is responsible for Best Buy's digital customer brand advertising strategy; interactive marketing; and mobile, social, and emerging media product development.

The roles that populate the contemporary advertising ecosystem are becoming better defined according to Tracy Benson. "Today, from a marketing and communications/ advertising perspective, I know who is responsible for online display advertising, search engine marketing, or video marketing," Benson says. "But social and mobile media roles remain a challenge."

Also challenging is the specifications overload created by competing platforms. "If I want to advertise across 20 different publishing sites and 20 different placements, I have four different platforms (mobile, social, pure Web and publishing, or interactive TV)," says Benson. "Without uniform development standards, we have to create everything unique and custom. That can increase production costs by five-, ten-, and twenty-fold depending on the number of creative units and content."

MEASURE OF SUCCESS?

Lack of data exchange standards is another big problem. "In the online space, there's an issue about who takes credit for what click, whether first, last, or subsequent multiple clicks. If you can't define accountability, it's hard to

determine influence as it relates to return on spend for advertising, investment, or the conversion," Benson says. "It's also challenging to understand the defining click or optimal click sequences that produce the final action."

Publishers, advertisers, and agencies have their own measurement systems, as do third-party ad servers. "When you try to define where the last click came from, you can get duplicate data sets. So if a publisher tells me, 'You've got .13 percent click-through,' but I know my customer searched on Google while he or she was in a tabbed browsing window clicking through the ad, using a shopping comparison engine in another, and surfing BestBuy.com in a different tab, then what really drove the click versus which media influenced the last click?" Trying to "de-duplicate" the data obscures where effectiveness comes from. Lack of standards and systems integration is a barrier to efficiency and media accountability.

Online advertisers in general have become better at figuring out how to pull multiple data sources together to look at the path for display advertising, Benson believes.



Listening to the Market, continued

That applies to search marketing, too, which still does not track paid and organic search as one click stream.

Benson trusts click-through numbers at the individual data source for her ad serving, but loses confidence in the funnel toward conversion. “There I have to combine multiple data sets,” Benson says. “Without an aggregate and single analytical view of the customer’s complete behavior from start to finish, it is difficult to interpret and time consuming to assemble. If I were able to say my customer started with this click, went to these five other places, displayed these three behaviors on our site, displayed these two behaviors on the Web, and then came back and converted—and I could see that entire path in one data stream—I’d be much more confident that I understand what my customer is responding to and why.”

She continues: “We also have to apply what we know about the current economy. If, from a search perspective, the industry typically measures on a seven-day window, but I know search behavior has changed to a 14- or 21-day window because customers now search in a more precise and focused way, define longer query strings, and take more time in their decisions, then we need to adapt our measurement window so that we have a solid picture of the customer in their time frame from search to purchase. Our revised solution, given what we are seeing through our search partners in this new economy, is to look at that seven-day window plus the 30-day window before deciding what to dial up or pull back on.”

The need for tools or dashboards that accurately aggregate data so marketers can make fast, real-time business decisions is an industry-wide issue. “Omniure, for measuring your own Web site traffic, gives granular reporting,” Benson says. “It provides a single-channel view of what customers do when they shop, browse, and buy at BestBuy.com. But we are a multichannel company, and it doesn’t tell us how customers’ BestBuy.com research influences what they subsequently do in-store or through our call center. To get a complete view of the multi-channel customer, we must bring together the richest data from the most available sources including purchase data, behavioral data online, and even qualitative survey data. I don’t think we stand alone on this challenge.”

ROAS IS NOT ABSOLUTE

To determine return on ad spend (ROAS) Benson aligns expectations with strategies. “Best Buy is a brand advertiser and a product retailer,” she says. “The ROAS threshold will look very different when we go out as a direct response marketer versus when we go out as a brand, where our focus is customer satisfaction, awareness, or creating brand preference to influence purchase intent.”

Best Buy measures ROAS for direct response “just like everybody else—in the closest window,” Benson says. “The challenge is determining what medium or combination of touch points effected the conversion. If we run a television spot and

have online components such as a social application or mobile experience driving that product to a BestBuy.com sale, where did the sale come from and where did the influence and engagement originate or complete?” Advertisers need integrated data systems and a single view of the customer’s purchase path to be able to tell the story from the top to the bottom.

Integrating data systems and expanding beyond traditional measures is a big opportunity, she thinks. “Display advertising is still measured primarily on click-through. But in rich-media ads, success might include engagement behavior,” Benson says. “If we serve a rich-media display ad, and you respond by engaging in the brand through the ad—or move over to our Facebook fan page to talk to others about the ratings and reviews, and then start to search Google to shop and compare for price, was the ad effective? I believe so—but the role that each vehicle and messaging strategy plays is unique to the mindset of the customer in the purchase funnel.”

She continues: “Or suppose I’m a Starbucks customer who buys a four-dollar latte once a week. I look great to Starbucks; I may be in their high-value pool. But if I’m a customer engaging in the experience of Starbucks who buys a single coffee every day rather than a four-dollar latte—and I conduct business in the café and bring my friends in there—am I less valuable? ROAS won’t be accurate until we move beyond point-of-sale numbers and start to understand how engagement,



Listening to the Market, continued

interaction, and word of mouth influence purchase decisions as well as those of the brand's friends, family, and networked acquaintances."

Search is the ultimate form of behavioral targeting, because people target themselves.

"The consumer is actually telling you what he or she wants," Benson says.

Search companies figured out how to monetize that self-targeting through advertising that feels less invasive to customers.

SEARCH VERSUS DISPLAY?

Search has become a pervasive behavior in people's daily lives. Online advertising is not a behavior. "People don't inherently say, 'Feed me some display advertising and distract me with more advertising,'" says Benson. "But search, they say, 'Give me access to information, so I can look for what I want when I want it, and get the information that is relevant to me and my needs, whenever, wherever, and anytime I want it.'" Ironically, search is the ultimate form of behavioral targeting, because people target themselves. The consumer is actually telling you what he or she wants. Search companies figured out how to monetize that self-targeting through advertising that feels less invasive to customers.

"Search outperforms display advertising about nine times out of ten for us. Search is customer initiated behavior that is pulled versus advertiser initiated behavior that is pushed," says Benson.

"But the volume of display advertising versus the volume of search that we support can look a little skewed. If I spend \$3 million on display advertising to get broad reach across all publishing sites and spend \$3 million on a small subset of key search words, display may seem less effective; however, when we combine search and display, it is generally *more* effective.

"The key to our consumer marketing and advertising is to first identify the marketing idea. Then we think about how best to push and pull the right vehicle levers to integrate and optimize the message when and where it can be most effective. It's really important to figure out the role of each medium in the campaign and how your customers may engage," Benson says.

"I might be aggressive with search in a particular campaign and display advertising for direct response. If the goal is to use search to support product comparison or to help customers find a local store, conversion's going to look different based on the objective. It's very campaign-specific and strategy-specific messaging. Managing this complexity is something like a symphony. You've got to get the conductor going, the horns and the strings playing, and the orchestra producing that beautiful sound."

MOBILE WEB IS READY TO BOOM

Best Buy is one of the largest sellers of mobile devices for all carriers. "Our customers show us they are ready to take on the mobile Web and consume mobile media," says Benson. "Recent tests during holiday this year demonstrate that, for our core target, mobile media is more effective than traditional online advertising such as display, as evident through click-through, engagement with video ads, and targeted content." Mobile media, marketing applications, and mobile commerce are opportunities in which Best Buy is investing and is starting to see early success, based on the launch of m.BestBuy.com, BBY phone application, and BBY Android applications, which went to market recently.

"Where we see the best mobile growth opportunity is centered on mobile Web. Our ability to make our store portable is critical to distributing our brand experience when and where customers want it on their highly personal mobile device" says Benson. At m.BestBuy.com, customers now can browse, research, read reviews, shop, compare, and transact full commerce on their mobile phone. The BBY applications today apply a simple user interface designed for application use, but then connect to the mobile commerce cart to transact.

In the near future, a commerce API will help distribute commerce capabilities across any and every Internet enabled device. "In terms of mobile marketing,



Listening to the Market, continued

we don't see this type of advertising as a stand-alone but rather as part of an integrated marketing campaign. Typically, we tie mobile as a call to action or a complementary experience to our other online and offline communications strategies," Benson says.

Tying mobile measurement and mobile data collection into existing systems is a gap Benson says Best Buy is actively working to close. "This is a new capability for most retailers today, and we simply have to grow our mobile analytics capability to understand what to measure to ensure that we can learn and grow from what our customers show us on this device. "The technology and tools are out there now to crunch the data, but you have to be able to get to it and interpret it in the context of the full customer experience and media ecosystem."

BRAND BUILDING RELIES ON DIALOGUE

"We understand how to advertise online, but building a social brand is about building customer relationships with two-way dialogue. Not too long ago, brands could get a message out to a large population with one real option, one-way mass communication. Today, we live in a more socially connected world and have a host of options to not only push but pull the customer into the conversation and serve them in unique ways because we can have more direct one-to-one relationships," Benson says.

"Collectively, we need to shift from pushing products to building long-term customer relationships. Social platforms provide immense opportunities to expand how we connect with our customers and employees and explore new ways to grow the business. Social media takes our customer-centric strategy and expertise beyond the traditional channels (in store, online commerce, and call center), and brings Best Buy and its brands directly to the conversations. Plus, they connect us with our employees, communities, and partners. We strive to ensure the experience someone has with us via any social media channel is consistent with any other experience we offer. We're seeing evidence of success in social media because these channels are an extension of our business model.

"We're all pretty early into figuring out how to build these customer relationships through social networks and the real learning will happen over the next 24 months," says Benson. An example of how Best Buy has begun to learn is through its focus to build a Facebook branded experience. The growth from 27,000 fans (mostly employees at the time) to more than 1 million fans and followers was driven by a keen eye for providing value-added content, discussion threads, shopping and browsing options, service and listening tools, and entertaining applications. "While we may be responsible for creating content that is entertaining or useful, our customers and employees have taught us how they prefer to use the platform," says Benson.

The importance of collecting customers' opinions is growing. "Our brand has a responsibility to participate in the social networks appropriate to the medium. Our customers expect us to respond to their needs, so we do. They expect us to provide the latest and greatest information, and we do that, too. They expect us to let them voice their opinion—good or bad—and we do. And they expect us to be authentic, real, and provide a closer connection. We are continuing to learn when we've overcommunicated or have tried to promote too many messages. For us, it's early and we are absolutely still figuring out how to be helpful, useful, inspiring, and effective in this new medium," Benson says. "Social networks and social media also give us a good way to make sure product decisions reflect our customers' real-world needs. We've always been a customer-centric company with a strong customer-centric culture, and social networks just make perfect sense for us to take our relationships to new places and spaces."



Technology and Brand Measurement

The Brand Lift Perspective

Dan Beltramo is CEO and cofounder, and Nick Rau the chief technology officer of Vizu. Vizu is a privately held, California-based company that specializes in measuring how online ads influence viewer perceptions.

“We’re establishing brand lift instead of click-through rates as the appropriate metric for branded campaigns online,” says Dan Beltramo. The company’s innovative technology collects data that documents brand lift to show how online advertising effectively supports brand building. Most online advertising has been direct response based primarily on click-through rates and real-time transactions. Brand advertising online has lagged because there wasn’t a good way to verify its effectiveness.

ADVERTISER FRIENDLY METRIC

Brand lift is the percentage increase in the primary objective of an advertising campaign. That objective can vary to reflect different elements of the brand-building funnel such as awareness, favorability, preference, or purchase intent. Measurement of brand lift indicates to brand advertisers the extent to which their investment is achieving the desired goals.

Standardizing on brand lift as a metric aligns the three primary groups in the online ecosystem—the brands themselves, advertising agencies, and publishers—against a common advertising objective. Publishers also use Vizu’s data to position

themselves as an authentic brand-building organization rather than one competing just on price and general audience characteristics. Advertising agencies, on the other hand, use Vizu’s data to show their brand clients that they are good stewards of their online advertising dollars, as well as learning organizations.

Less frequently, Vizu works directly with the brands themselves. How online advertising achieves branding goals is information brand advertisers use to establish baselines, norms, and best practices for the online marketplace. Such a framework will encourage industry competence and growth. In offline advertising, brand managers have long been guided by norms they have developed based on consistent measurement and metrics.

LOGICAL PROCESS

When an ad campaign is trafficked with a tag from Vizu, it cookies everybody who sees the campaign. Vizu counts which ads people see, where they are seen, and how many times they see them. Concurrently, it asks a small subset—less than one percent—of the people who saw

For truly useful online metrics, the emphasis needs to be on relevance and a familiar frame of reference so everyone in the advertising ecosystem understands them.

“You don’t want people to spend more time explaining what the metric is than what the metric means,” says Beltramo.

Technology and Brand Measurement, continued

the campaign a question based on the campaign's primary objective.

For purchase intent, Vizu might ask, "How likely are you to purchase Acme Product X in the next year: very likely, somewhat likely, neutral, unlikely, or very unlikely?" It then asks the same question of a group of people on the same site at the same time who have not seen the advertising campaign. These effectively are two identical populations, but one has been exposed to a stimulus and one has not. The different way the two groups answer the same question can be attributed to the advertising. That's what generates the brand lift.

An algorithm randomly decides when to sample the audience in order to catch some people with one exposure, some with two, and some with three, four, or five. "We built randomness into it so we can capture a representative sample of the people who have seen the campaign at various frequencies of exposure," says Beltramo.

If 12 percent of the people who have seen the advertising say they're likely to buy Acme Product X in the next year, and 10 percent of the people who have not seen it say they are likely to buy Acme Product X in the next year, that's 12 and 10. So 12 minus 10 leaves a numerator of 2 over 10 = 20 percent brand lift. Vizu can not only say whether a campaign has 20 percent brand lift but it also can show which ad units or

messages or types of media—video, rich media, or static banners—show the best lift and which sites perform best. It also can analyze by number of exposures to show the optimal frequency to drive brand lift.

Online advertising has tried to develop new metrics such as "engagement," but these are not measured consistently and often are not truly relevant. "If you don't know how an ad affects viewer perception, measures of time spent or engagement are meaningless," says Beltramo. To achieve truly useful online metrics, the emphasis needs to be on relevance and a familiar frame of reference so everyone in the advertising ecosystem understands them. "You don't want people to spend more time explaining what the metric is than what the metric means," added Beltramo.

RECIPROCAL BENEFITS

Like direct response technology, which has dashboards that permit constant tuning to improve click-through rates, Vizu's technology breaks brand lift down and provides data in a real-time dashboard so clients can optimize campaigns that are still under way.

Online data can be gathered more quickly and robustly than in other media, and some Vizu clients are starting to use their online metrics to measure the effectiveness of their TV or print ad campaigns. For example, imagine launching an online campaign for a new consumer product. At

first, few people in the online control group say they plan to purchase this product. Then, after a big TV and print push, people in the online control group who haven't seen the online ad start to say they plan to purchase that product. The lift in the control group then becomes a real-time measure of offline advertising impact.

"Once you start to use the right metrics online," says Beltramo, "the data can then flow back to the offline world, much as offline creative has flowed to the online world."

MOBILE'S UNIQUE CHALLENGES

"Mobile brand advertising is still in a very primitive state," says Beltramo. The tiny screen can't convey richness of information in terms of words or images or sound, and tiny text links are not conducive to brand building. But every medium has a sweet spot for reaching the consumer with your message, and you have to learn it. Developing the right advertising content for mobile is a discovery process.

"The most successful tactics for brand advertising online are immersive advertising formats such as video and Flash-based media," says Nick Rau. Most mobile platforms are not yet at the maturity level that they need to be for wide-scale adoption of those formats. AT&T restricts the kinds of data-intensive apps and programs that run on the iPhone. Apple does not yet permit Adobe's Flash player

Technology and Brand Measurement, continued

to run on its devices. These are examples of how mobile networks and device manufacturers need to improve, and Rau believes that will happen fairly quickly.

Mobile also has so many different platforms that even within one handset manufacturer, there are multiple platforms. "The cost of implementing an ad campaign when you need to translate over 50 different platforms, all at tiny scale, is prohibitive," says Rau.

Another key technology problem is the lack of any standardized persistent data storage on clients, something analogous to cookies. Tracking information is tied to the presence of these tactics, which largely do not exist on mobile today. That is also a piece of what will have to evolve before advertising can scale up in the mobile arena.

VIDEO IS EFFECTIVE, BUT...

Video advertising online has strengths and weaknesses from a brand-building perspective. In campaigns that mix standard display and video, video generally outperforms standard display, often yielding three to five times better brand-lift, according to Beltramo. It costs more, but it is very effective.

One limitation is quality video content. Brands want their advertisements associated with professionally produced content rather than user-generated content, and the highest-quality video sites are mostly sold out because there's so much demand.

Also, more steps are involved for online video than for TV. As bandwidth speeds and standardization issues get worked out, video advertising on mobile will be optimized even further for a mobile screen.

No one is sure what type of video format works best online, either. Should it be a pre-roll, which is intrusive, or an overlay, which is less intrusive? The video that does appear online is often repurposed offline TV footage. "So far, we haven't seen very much purpose-created content for the online space," says Rau. Advertisers will start shooting more purpose-built video advertising for the Web as more people migrate to watching programs online than on cable or TV.

SOCIAL MEDIA AND USER-GENERATED CONTENT

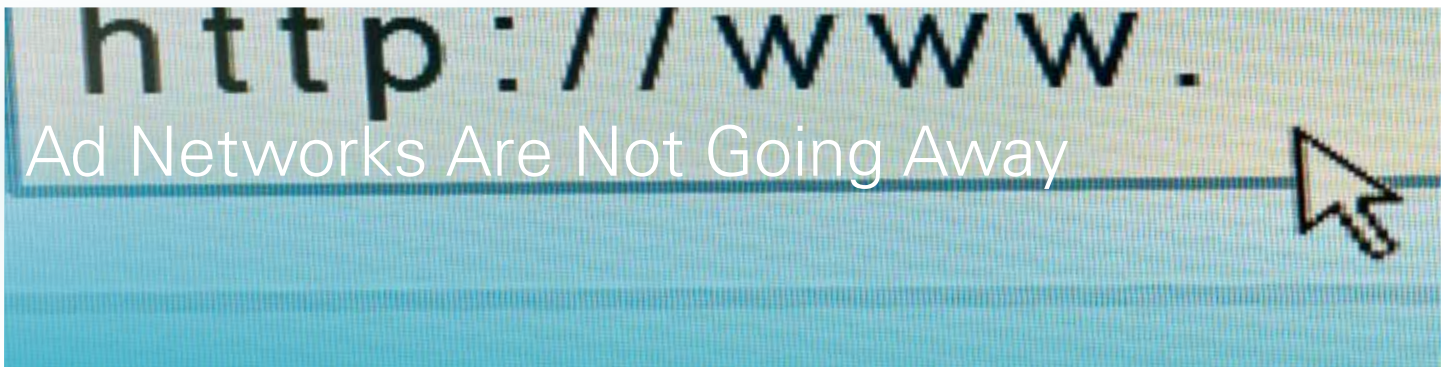
How to monetize social media content is a very big question. A point in favor of social media sites as an effective brand-building environment is that advertisers get targeted data and often know a lot about the users. The drawback is the sheer quantity of impressions.

Social media sites could be a huge opportunity for brand advertisers who jump in early, primarily because costs are low, Beltramo thinks. The key to monetizing user-generated content will be generating the right brand-building messages. Video tends to run a little longer, and where everybody is active, it's harder to get somebody to stop for 30 seconds to pay attention. How much someone will watch

is in direct proportion to the amount of value the content provides.

Most of us think of video advertising in terms of TV commercials. So far, online video ads consist primarily of overlay (a tactic of layering a simple graphic ad over a video stream that can be dismissed by the user). Publishers used to be reluctant to impinge on the viewing experience, but the tougher economy has advertisers demanding more prominent advertising.

For all online media, technology standards need to improve, but it will take time to put the right technical standards in place. "The big breakthrough we are enabling in the industry is being able to measure the return in terms of brand-building objectives, and then the cost-per-point of brand lift," says Beltramo. "Advertisers always knew what they were spending, but they didn't know what they were getting."



The Ad Network Perspective

Mike Woosley is chief operating officer and chief financial officer of TidalTV, a network specializing in video ad distribution on the Web. It delivers brand messages against a target demographic to enable publishers to monetize audiences across all demographic segments. Woosley and other TidalTV colleagues previously ran Advertising.com, a display advertising network that became the Web's largest and was acquired by AOL in 2004.

THE RACE FOR SUCCESS IS AN ARMS RACE

TidalTV's strength in all-digital advertising is serving ads one at a time, which is a trend in television. "The software and decisions that attend that process will start to infiltrate high-performance cable distribution in the next few quarters," says Woosley. "We provide platforms that span that infrastructure, enabling marketing messages to be selected and tracked optimally when data becomes available to make messages addressable one at a time, whatever the screen."

Generally, networks function in a couple of roles, Woosley explains. One is aggregation, which requires data to correctly expose desired audiences. TidalTV bundles inventory and packages it so it can be more easily bought. "We aggregate 'under-monetized inventory,' which may not be sold for a variety of reasons including demand conditions, market discovery, or lack of bulk," says Woosley.

Woosley says that today *platform* is in some ways a better term than *network*. "We neither buy nor sell all the traffic that

flows through our systems. We provide an infrastructure that enables optimal monetization, whatever the sources of supply and demand. Optimal means better economic results for buyers and for sellers."

Since the trafficking, serving, fulfillment, and reporting for campaigns can be complicated, part of TidalTV's job is to make it easy for the agencies and clients it services, especially in spot markets. A core capability of all networks is the ability to insert ads, track, log, record, report, and do the accounting on the insertions so clients can verify stats, bill, and fulfill payment. Most display ad serving software is not built for video, although interactive agencies could adapt programs such as DoubleClick's Dart to build an ad network. TidalTV's ad-serving technology is specialized for moving media and video, including support and tracking for companion banners and overlays.

"Our real specialty is optimization and decisioning," Woosley says. "In aggregating, the objective isn't strictly creating an exchange that connects buyers and sellers in the moment. If you do that, you are limited to a pie that's a certain size. We specialize



Ad Networks Are Not Going Away, continued

in making the pie 'bigger' by optimizing our network. An airline seat could be sold either to a leisure traveler or a business traveler—if I don't have an analytical forecast on whether a business traveler will show up later, my instantaneous decision to buy or sell now might be suboptimal.

"Exchanges are usually instantaneous. With an advertising exchange network, a usable impression is relatively perishable," Woosley says. "If you know your network, you can forecast traffic by segment, and you know the segments the ad fits, so you can perform an optimization that is time-shifted. If a campaign will pay two dollars for male viewers 18–34, but we have someone 18–20 for whom the advertiser will pay five dollars, we can fulfill that now because our forecast tells us we will have more males later. Over time, optimizing allows us to pay publishers more (which helps us compete for inventory with other networks and advertisers), charge advertisers less, and have something in the middle that is meaningful for our business."

Trying to bootstrap supply and demand is a challenge for any network. "If you have enough supply and demand, you can exploit optimization techniques and technologies," says Woosley. "But if you're small, you lose the economies of scale and averaging. We're new, so we are just getting to the point that we have enough publishers to enable us to rotate ads on an optimal basis."

The real economic opportunity for a network is in taking a risk on inventory. Difficulties include a perception issue

that networked inventory is "low-quality." "That's a misperception," says Woosley. "The nature of the context is an attribute clients can select. Some advertisers value the audience more. Others value the environment more. We leave it to the genius of the client to make these strategic determinations. We fill a technological gap because we have good 'clearing' technology. Agencies are responsible for nurturing the client's brand—we focus on fulfillment."

MEDIA BUYING IS DIFFERENT NOW

A lot of TV ad placement, including for local and regional cable, still is done on faxes and phone calls, but things seem to be changing rapidly, he says. Viewers don't worry if they miss a favorite program; they can see it online or download it. "Cable companies provide Internet service now, so they have to react to that," says Woosley. "Usually their cable system is higher margin because people pay for 200 channels even if they watch only a few. The one-to-one type of advertising and addressability common on the Internet may come to television quite quickly. Our role is to provide technology and decisioning to make that process efficient and clearable."

Another indication of how media use is becoming more individualized is the nascent trend away from cable TV service. Woosley points out that the majority of younger people, when they graduate college, don't get wire line phone service anymore. Similarly, they now are beginning to choose not to pay \$100 a month for 200 channels of cable TV service when they're going to watch only five and can do it online.

The interactive marketing industry has done a better job of protecting consumer privacy than it is given credit for, Woosley believes.

"A guy making \$200,000 a year and driving a Jaguar may be more accessible to an advertiser on Facebook than elsewhere. The technology now exists for us to make that identification independent. That is a big part of the arbitrage of our business."

Some big publishers or big agencies view networks skeptically. We know of several very large Internet brands that don't use them. "They have their own rate card and their own yield management problem to solve," says Woosley. "Networks provide a valuable service to publishers in terms of monetization, and they bring novel technologies into the field. For example, at Advertising.com, technology we developed could address someone with an ad or a sequence of ads wherever you saw them in your network. That's a capability driven by a network's unique reach. Networks also innovated such technologies as geo-targeting, which the portals followed. Today, TidalTV is introducing technology that builds a brand measurement study right into a campaign."

The balance of power may shift with hyper segmentation, he believes. "Big content providers probably should protect certain



Ad Networks Are Not Going Away, continued

types of content, but others can be better monetized more broadly," Woosley says. "Social network trends are driving this somewhat by audience rather than by property. A guy making \$200,000 a year and driving a Jaguar may be more accessible to an advertiser on Facebook than elsewhere. The technology now exists for us to make that identification independent. That is a big part of the arbitrage of our business."

PRIVACY PERCEPTION IS DIFFERENT FROM REALITY

The interactive marketing industry has done a better job of protecting consumer privacy than it is given credit for, Woosley feels. Personally identifiable information really doesn't exist unless you give it up, he points out. Certain basic principles are respected by any compliant publisher, advertiser, network, or middleman such as TidalTV.

First, users can either block or delete cookies, which eliminates 95 percent of behavioral targeting. Second, for data providers and properties that target, such as *Borders.com* or *Wall Street Journal*, users can employ a targeting-opt-out cookie—although they may have to take the initiative to pick up the opt-out cookie.

In terms of Web-based targeting, cookies are all anonymous. "We might know that you like Jaguars," says Woosley. "But we don't know who you are or where you live, and we can't easily find out.

If you register on an e-commerce site, they do know that stuff. But e-commerce sites don't trade that type of information without your explicit consent. Old school direct-mail recipients ceded much more privacy than you forfeit on the Web via anonymous methods. Those direct mail guys know where you live."

The industry wants consumers to know that:

- Consumers are in control.
- Targeting is anonymous.
- Where there is a direct online commercial relationship, personal information is not shared without specific consent.

"We do expose demographic segments to advertisers, because the advertiser has more weight, less waste, and wants to pay us more," Woosley says. "But it's more efficient for consumers, too. You're going to be exposed to a certain number of messages a day. Why not let them be relevant?"

MEASUREMENT RULES ROAS

Woosley says measuring return on advertising spend is easier on the Web than with current televised advertising. That hasn't changed in 10 years. "We started Advertising.com as a performance based display network because we couldn't get brand advertisers back then. People didn't trust the Internet. We were always tracked on cost per action (CPA)," Woosley says.

In terms of performance and return on investment, an advertiser typically draws a line somewhere about what data it will share and what it will not. "How much it is willing to share with us sets the terms we can optimize on," Woosley says. "TidalTV technology is about optimization."

"For TidalTV, we've emulated the reporting used in the television industry. TV buyers that buy on gross rating points (GRPs) and target rating points (TRPs) need to reach a certain demographic. On TV, a GRP is about a million people. On the Web, a TRP is a million males 18–24," says Woosley. "We thought most people who bought sight-sound-and-motion advertising on the Web would want that. That was how we planned to attract a portion of the \$70 billion of TV spend for the Web. What we found is that even buyers who want traditional measurement also want measurement that's unique to the Internet.

"Advertisers want us to measure it, they want us to optimize it, and they are looking very closely at it. Today, we are measuring cost per customer, cost per application, cost per acquisition, cost per sale, and click-through rate. I expect that as more TV dollars go into one-to-one marketing channels, we will be selling more in terms of GRPs and TRPs, but we're flexible." Web rating points are supplied by comScore and Nielsen, among others. You don't buy a hot show but more like 100 or 1,000 sites and a million impressions.



Ad Networks Are Not Going Away, continued

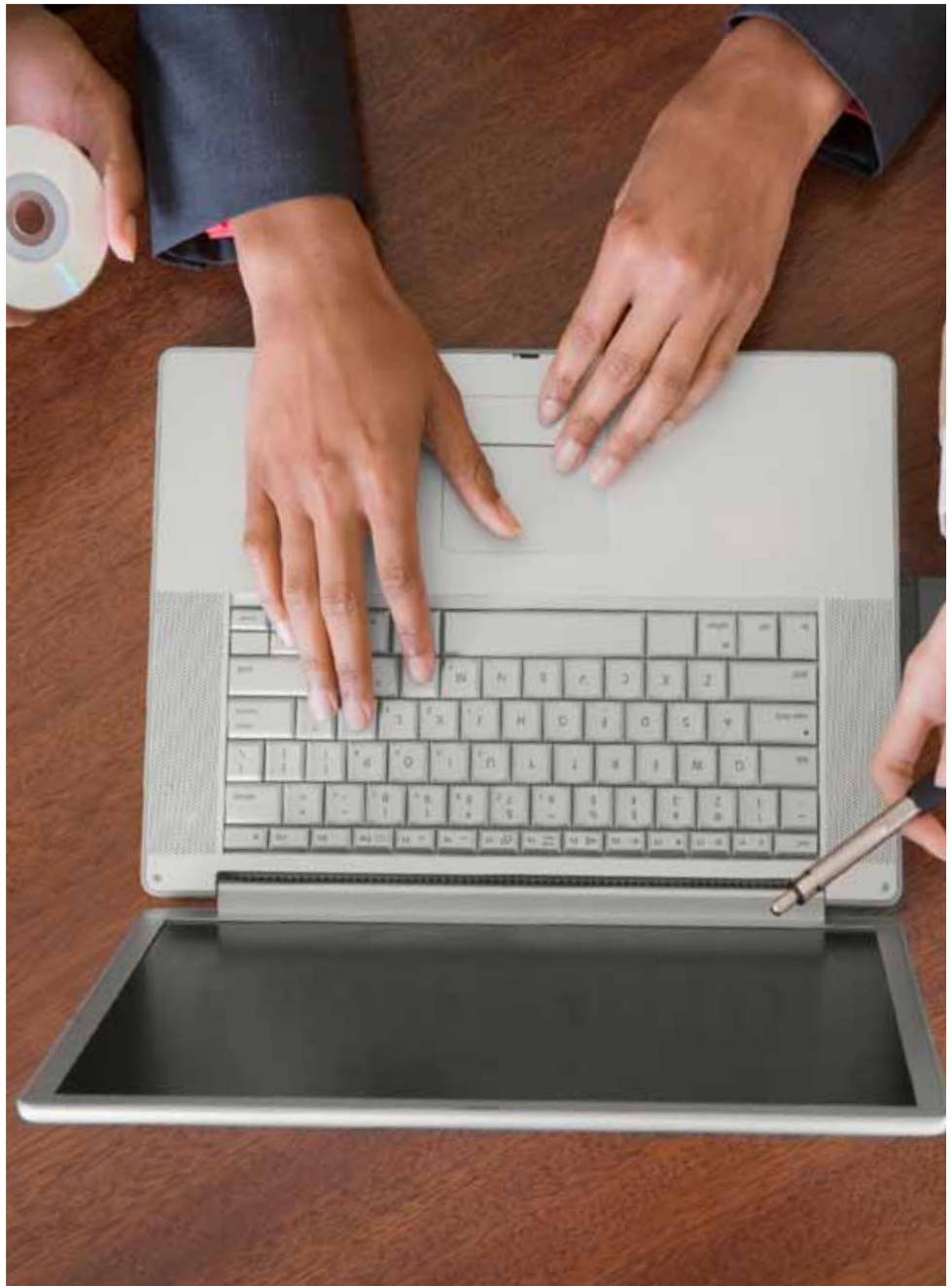
AD NETWORKS ADD VALUE

“We help a lot of publishers increase lift, yield, and economics. Our success depends on theirs. Content providers not only have to decide what they are going to do with their flagship brands but they have to draw their own optimization conclusions for lesser brands and traffic. When we serve in our network with our publisher partners, the more information we have about the impression we are getting, the more we can sell it for to an advertiser. That benefits the publisher.

“The publisher might say if the value of my demographic is high, we will just use that to sell for more. But knowing what the inventory is worth is a big part of our business. Being competitive is also good for the properties. If they worry we are going to use what we know about their traffic to sell it for more, we don’t have to apologize for that.

“Some of our arrangements with agencies are blind segments. We may not know what Alpha Bravo Charlie means but we get a map of what ads to serve to those segments. That way they keep demographic data for optimization. But the more we know, the more opportunities we can find.

“Ad networks are not going away. They provide a valuable technology service that allows tracking and logging. They provide aggregation, which is valuable to advertisers. They provide monetization, which is valuable to publishers. They are innovators.”



High Impact Media

The Publisher Perspective

Walker Jacobs is Turner Sports and Entertainment Digital's senior vice president in charge of online advertising sales. "Many things get lumped into a bucket and called digital media," he says. "It can be confusing for people trying to analyze the marketplace and for those who want to know how our business is stacking up. The common denominator in digital media advertising is an interactive, measurable end product."

When Turner considers how best to deploy new media campaigns across the Web or mobile, "We think about what unique aspect of the platform will deliver maximum value to consumers and advertisers," Jacobs says. "The format should deliver contextual relevance, high impact ad placements, and reach and frequency efficiencies."

Most media-plan budgets for broadcast, cable, print, and digital rely on metrics, incremental goals, and campaign objectives that advertisers use to "back into the appropriate media mix. Digital line items in media campaigns can have different tactical objectives as a result," Jacobs says. "Often, marketers want to do high-impact things with a company like Turner to activate their sponsorships across our portfolio of premium brands, and then complement that with other efficiencies they can get elsewhere on a very low CPM or CPC basis. That's smart. They should be doing that," he says.

MODERNIZATION, OPTIMIZATION, AND OVERHEAD

Traditionally, media companies develop an audience, then try to determine the optimal way to sell to it and maximize yield. Many of their reach and frequency models don't totally align with digital. "Somebody who buys a print ad is getting a frequency of one against the entire reach [circulation]," says Jacobs. "But despite talk about total audience, total pagings, and total unduplicated uniques, few online advertisers buy a frequency of one against an entire audience."

Many traditional publishers thought they could manage their audience by selling as much inventory as possible at a premium rate, he says. But because digital is in real time, they can't accurately forecast their distribution. "Some online publishers were using secondary channels to try to sell every impression, even if it was only for pennies. Their logic was that if they didn't monetize activity then and there, the chance was gone forever," Jacobs says.



High Impact Media, continued

Ad networks, in many cases, do help niche and small publishers monetize themselves into viable businesses, he says, because it saves them the cost structure of a sales organization. But the density of impressions in ad networks, and on the Internet in general, comes from social network inventory—Web-hosted software products, e-mail, instant messenger, social networks, and chat rooms. “Those pages spin off so much tonnage of inventory that it’s impossible for the inventory owners to monetize it without the added insights of audience-based targeting,” Jacobs says.

As a result, parties using audience-based targeting to “help” publishers monetize excess capacity actually have been arbitraging their own inventory, brands, and data. That arbitrage, taken to the extreme, essentially offered advertisers a substitute for buying the core publishing brand. “It was a difficult analysis for traditional media companies, many of which had to watch it play out before they saw the effect. It could have been an efficient way to monetize excess capacity if ad networks had not bundled inventory,” Jacobs says.

“Their business model shows that each impression the advertising networks are acquiring has a different price point, and they have an incentive to deliver the most profitable impression each time.” Premium traditional media ads are generally more expensive, which creates an incentive to arbitrage.

The core challenge is how to optimally monetize an audience. Conventional wisdom was that optimal monetization

meant full monetization, but Jacobs isn’t sure most Web publishers still believe that. “We have unwittingly enabled an entire competitive set that does not have the same cost infrastructures,” says Jacobs. “These companies don’t own and operate Web sites or ad agencies. All the data informing the targeting models is coming from either the ad placement or the publisher placement—and the fastest-growing sectors of the market over the past ten years have been companies able to offer optimal targeting and lowest cost.”

THIS YEAR’S MODEL

Monetizing advertising via mobile has different challenges, with tactical and strategic ways to address them. For instance, says Jacobs, “The 2009 PGA Championships had an iPhone application that showed live score and live video with an overlay of social network communities exchanging dialogue throughout the event. That was a dual-revenue-stream effort: subscription (\$1.99), with ING sponsoring the iPhone piece. You’re going to see more of that.”

Jacobs isn’t sure what form the mobile business will take. “We’re not trying to put cable networks or Web sites on a cell phone. We try to think about what is unique to the mobile phone (location-based targeting, small screen) and how we can customize our content for that platform,” he says. “That could be real-time scoring, video highlights, or text alerts for breaking news.”

From an infrastructure standpoint, Turner has large audiences on platforms that combine iPhone applications, other

branded applications, and mobile Internet sites that have common analytics. That gives Turner the ability “to offer high-quality contextual solutions for mobile marketers,” Jacobs says.

“Enterprise-software outfits have approached us about the mobile space, mainly with ideas that involve providing ad serving or enhanced targeting capabilities; the hidden downside is that those audience databases would get built on the back of our brands and audiences. We’ve eschewed this approach. Instead, we offer our mobile inventory and access to our audience in premium branded environments that take into account consumer needs and how our brands can offer maximum value to consumers and advertisers. We’re going to figure out the mobile business models as we go.”

BENCHMARKS

For almost every type of advertiser, return on investment is seen in the advertiser’s sales, revenue, and share price. For pure direct response, online metrics are powerful, and search has served those marketers well. But marketers with broader objectives are now using digital.

Before Turner begins any advertising campaign, “we work with clients to thoroughly understand their objectives and make sure their key performance indicators and our program align,” Jacobs says. “That increasingly relies on proprietary research, advertising effectiveness studies, and analyzing how digital fits into the advertiser’s overall program.”



High Impact Media, continued

Turner's size and resources give it the capacity to implement advertising programs across television, online, and mobile. Such integrated programs are highly successful, although no one yet knows whether an outdoor ad seen at your local 7-Eleven, on TBS on-air, or in Web site promotions drives conversion. The right cross-platform campaigns can be both impactful and cost-effective for the marketer, Jacobs says.

"Our cross-platform campaigns are always about the client. First we learn what's going to move the needle for the marketer's business," says Jacobs. "Then we look at our assets: mobile, Web sites, on-air, and print affiliate. Few other companies have the digital scale and audience we have for pure-play television or pure-play digital."

IT COMES BACK TO MEASUREMENT

Turner doesn't need to estimate audience because its servers "pick up every single viewer," Jacobs says. "We know who comes to our Web sites, when, where they come from, how long they spend there, and what their activity was."

People often complain that measurement panels are inaccurate, he notes. But panels aren't really about measuring how many people come to a Web site. They are about providing a relative measurement of how big a Web publisher is compared to competitors, along with other relative audience insights such as demographic and psychographic variables compared with the broader marketplace. "Advertisers use tools like Nielsen and comScore to figure out the relative reach of an audience they're buying and

determine the best place to invest their money," Jacobs says.

"The problem with panels is that to a marketer, a journalist, or an ad agency buyer, every impression and page view on the Internet looks exactly the same," Jacobs says. "I'd like to see the measurement companies classify inventory types to distinguish which percentage of MSN, Yahoo!, AOL, and Google is search; e-mail; messenger; professionally curated content; video; and UGC and social networking." Jacobs thinks the ad networks, search companies, and portals want to make sure that never happens.

"This is an opportunity for measurement companies," Jacobs says. "Computers and algorithms are behind so many decisions that the more transparency we can provide about what's real, the better the marketplace is going to be in the long run."

"This is an opportunity for measurement companies," Jacobs says. "Computers and algorithms are behind so many decisions that the more transparency we can provide about what's real, the better the marketplace is going to be in the long run." Black-box algorithms that make targeting decisions in an opaque way will change when people in the marketplace insist on better categorization. "Ultimately, we have to provide what buyers need to make the right decisions," Jacobs says.

THERE WILL BE A CONSUMER BACKLASH

Many different data sets are being exchanged and brokered. Advertisers and advertising agencies look to certain data sets to inform their buying decisions. Publishers look to other data sets to type their audiences. For a slew of technology companies, data sets are a lifeline.

There are two distinct issues at play with regard to data sets. First, what are the data sources that inform the data sets and who can rightly leverage them? Many companies that sit between publishers and advertisers in the online media value chain (from technology vendors to other business partners) are claiming ownership of the data and building businesses from their access to those data sets. This will continue to cause tension between these companies, advertisers, and publishers.

The second issue at play is how the data sets are being used, the potential ramifications of the use to publisher and advertiser privacy policies, and consumer experience considerations. For the consumer, there's a big difference in online experience as it relates to engagement and environment, from a single session on an automotive site to reading a three- or four-page newsletter to seeing an advertisement for a sedan or researching a piece of jewelry to surprise your wife with.

As database companies and technologies get better at targeting, data crunching, and understanding behaviors—and addressable advertising can deliver on its promises—inevitably the consumer will

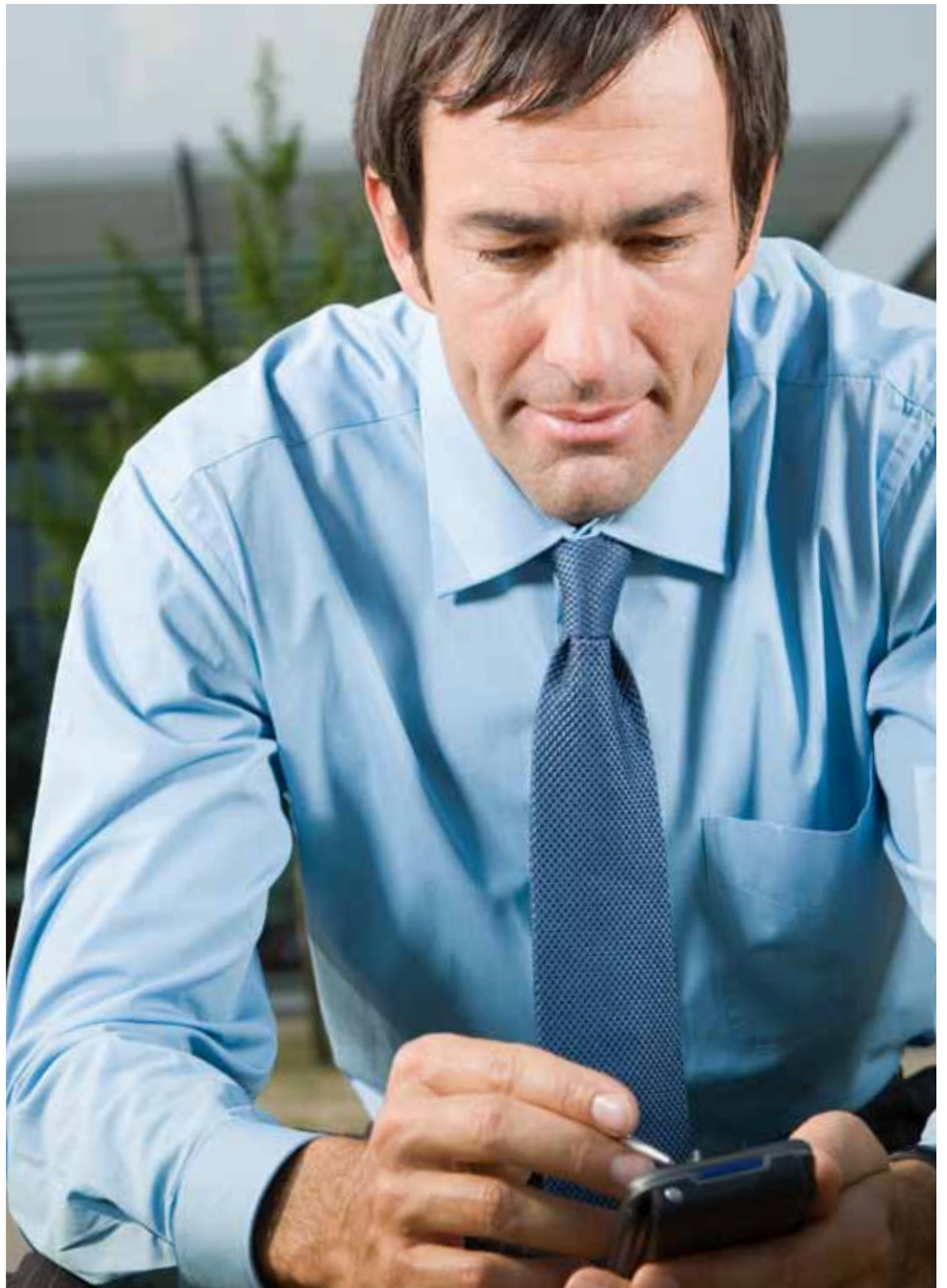


High Impact Media, continued

find it creepy and we will experience a backlash, Jacobs believes. "We've already seen this with social networking privacy policies," he says. "That will be the death of a lot of companies that offer behavioral targeting and sit somewhere in the middle of the value chain between publishers and advertisers." Turner fundamentally believes it can deliver high-quality target audiences without mining data from advertising partners.

"Turner Sports and Entertainment Digital is taking extreme precautions to make sure we are on the right side of a backlash when it happens," Jacobs says. "We have a very high standard in terms of protecting consumers in our digital environment. We have an audience-based targeting product that puts all our sites and products on a common platform with a common ad domain and a common cookie. Hypothetically, we can do the data mining that other businesses do, but having that ability doesn't mean we should do it."

Today, the methodology driving Turner's audience-based targeting is panel based. In sections of individual sites where it has very high concentrations of certain types of people, it clusters them in the form of audience-based targeting. "That is very different from tracking personally identifiable data sets," Jacobs says. "Our commitment, as the business evolves, is to always be conservative in our practices and completely transparent, both with our privacy policy and strategies. First and foremost, we're protecting our brands in the eyes of consumers and advertising partners."





Key developments are continuously redefining the online advertising ecosystem. In our interviews, we inquired about a number of themes. Several issues worth noting are presented here:

1. TARGETING/PRIVACY

The capacity to analyze online behavior to determine consumer preferences and deliver targeted advertising continues to be the “Holy Grail” for the industry. The downside is that behavioral targeting deeply alarms consumers and could trigger a backlash. Cracking the code for distilling patterns of usage to define online markets without violating consumer privacy remains a key question. Some believe strong emerging technology will offer a solution within a two-year horizon. In the meantime, the Interactive Advertising Bureau (IAB) has launched “Privacy Matters,” a campaign to advance consumer awareness of online privacy issues. The campaign, which provides resources to help consumers manage their privacy online, is part of an ongoing industry-wide effort to develop more robust self-regulation of online behavioral advertising practices, increase transparency, strengthen data security, and design practical consumer choice mechanisms.

2. DATA EXCHANGE STANDARDS AND REPORTING ACCURACY

Fragmented systems and incompatible data exchange standards continue to frustrate accurate measurement. As a result, the accuracy of reporting on advertising activity remains a barrier to growth in the industry. What gets reported from an overwhelming amount of data sometimes may be only slightly better than a “best guess.” The good news is that the work of industry organizations like the IAB and others is directly focused on solving the reporting-accuracy problem.

3. ROAS

Developing the ability to more accurately measure ROAS will require a very sophisticated study that compares marketing plans and analyzes and tracks consumer behavior in substantial numbers over time. These and other problems are expected to yield to technology advances—but mistakes go with being early in a cycle.

Intelligent Business Decisions Are Needed, continued

4. MEASUREMENT STANDARDS

Unlike TV ratings where Nielsen ratings are the currency, nothing equivalent has yet emerged online, though Nielsen, comScore, and others are firmly focused on establishing such measurement standards. To continue to increase the credibility of measurement data, transparency in how that data is generated will be critical.

5. SOCIAL NETWORKS

The promise of social media as a vehicle for advertising is bright. The targeting benefits that social networks offer advertisers who wish to reach any given network's user base are not to be underestimated. More recently, we are seeing a ripple effect to publishers' sites when they permit the use of established social network credentials to register on their sites. The most prevalent example of this is Facebook Connect, which is evolving into a de facto standard that may increase registrations tenfold.¹

6. MOBILE ADVERTISING

Mobile advertising is growing. At the close of 2009, the mobile advertising space saw more than \$1 billion in acquisitions, with Google's purchase of AdMob for \$750 million and Apple's purchase of Quattro Wireless for about \$275 million. Industry groups such as IAB and others are now fully immersed

in trying to develop standards for mobile advertising measurement. Google's Android operating system for wireless phones looks poised to extend the search company's market lead in display and search to the mobile realm.

7. VIDEO ADVERTISING

As a medium, video advertising is still in its early days. The question of whether purpose-built video for online is more effective than repurposed footage from TV advertising mimics the same debate that has gone on about the content itself.

8. ECOSYSTEM ROLES

Roles in the online advertising ecosystem are still unclear. The ongoing debate about the merits of third-party ad networks and ad exchanges demonstrates this lack of clarity. While some camps hold that third parties obtain a disproportionate amount of data on consumers with little effort and at the expense of publishers, others believe that third parties bring significant efficiencies to the market. This is especially true in the context of helping publishers monetize remnant inventory that might otherwise go unsold.

9. BRAND-BUILDING ONLINE

Technologies focused on brand-building continue to increase the efficiency of measuring brand-lift online (Vizu). Coupled with the leveraging of social networks, such tools are giving advertisers a better understanding of new and powerful avenues for building a brand online.

10. AD-SUPPORTED VERSUS PAID CONTENT

The debate about how best to monetize online and mobile content is reaching a fever pitch. Some media moguls such as Rupert Murdoch have seemingly decided that advertising revenue is simply not enough and are now instituting "paywalls" on their Web sites to extract payment for newspaper content. On the other hand, ad-supported music services such as Spotify and Vevo are gaining traction. YouTube also is becoming much more creative about how it monetizes its vast and ever-expanding library of video content via different advertising units and applications.

1. www.jomsocial.com



Intelligent Business Decisions Are Needed, continued

GETTING THERE FROM HERE

Harnessing the power of digital media is essential to meeting the business demands of the 21st century. Our culture continues to embrace new advertising methods and tools and to refine their development and usage according to solid ideals, but getting a handle on the digital advertising piece of today's fast and fluid communications is a lot like analyzing the vectors of a Class Four rapids after you're already in it. In either situation, it always helps to have good guides. KPMG thanks Brad Armstrong, Greg Stuart, Daniel Monistere, Tracy Benson, Dan Beltramo and Nick Rau, Mike Woosley, and Walker Jacobs, the thought leaders who generously took the time to help us navigate today's digital advertising waters.

These thought leaders represent a cross-section of industry functions and interests, bringing depth to the conversation. We believe their answers to our operational, financial, and process questions reveal an ever-evolving industry that is focused on understanding and addressing the complex issues it faces. We further believe their answers will inspire ideas for meeting the challenges and opportunities ahead. We look forward to continuing the journey.

KPMG'S TEAM TO HELP YOU SUCCEED

Innovation and change have always been constants in the media and entertainment industries. But today's new technologies and economic climate have elevated change to a new level, forcing companies to switch gears quickly as they deal with the many implications of digital media transformation in the advertising business and beyond.

KPMG's Media & Entertainment professionals offer the insights needed to turn these challenges into business opportunities. Our sector professionals combine deep industry experience with a knowledge of digital and traditional media to help you increase revenue, improve controls, mitigate risk, and reduce costs. All of which can add up to helping companies like yours succeed in a very competitive marketplace.

For more information, please visit our Web site at www.us.kpmg.com.

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