2010

Display Advertising Study

collective
the audience engine™

About the study

This year marks the fourth annual Display Advertising Study, commissioned by Collective and conducted by Advertiser Perceptions, Inc., an independent market research firm. This tracking study observes key trends in the digital display-advertising ecosystem, with a focus on the continuing evolution of audience selling and buying.

In 2010, in addition to measuring advertiser and agency thinking on advertising networks, we've expanded the study to observe trends regarding exchanges, real time bidding, audience data and privacy issues.

Methodology:

All 420 interviews were completed online, with a cash incentive for each respondent. The advertiser and agency sample (across 16 categories), was provided by Advertiser Perceptions. All advertiser/agency respondents are involved in the online media industry with decision-making involvement for advertising campaigns. The survey field period was February 18th to February 26th, 2010.

Executive summary

Key findings:

- The shift away from buying sites to buying specific audiences continues, with ad networks, social media and portals seeing growth, while content sites experienced decline.
- Ad networks are valued for reach and targeting power, with data and audience insights becoming leading differentiators.
- Audience data has risen in value to become more important than inventory quality in online media buying decision-making.
- Likewise, targeting methods that leverage audience data have grown in importance to advertisers while contextual targeting is declining in value.
- Ad Exchanges have gained some traction, particularly among price-conscious marketers, but concerns about commoditized inventory persist.
- Advertisers and agencies need greater audience insights, analytics and optimization services.
- The lack of meaningful ad effectiveness measures has led the industry to persist in using Click Through Rate (CTR) as the most commonly used measure of online campaign success.
- Video is growing, and is emulating the value proposition of general online display media, making "targeting" the most important factor for choosing a video ad network.
- More agency and advertising education around data and privacy issues.

Implications for 2010 and Beyond

Data fuels the growth of audience-centric media buying.

Looking back on the past year it's difficult to imagine a more dramatic time for the media business.

We're all familiar with the narrative by now; audiences continue fragmenting, advertisers realize that they can reach audiences directly rather than by using content as a proxy, new technologies and data aggregation combined with bourgeoning inventory exchanges and near ubiquitous Web access means that advertisers can get unrivalled targeting at scale at an efficient price.

It's been called "the death of old media," as publishing giants, large consumer brands and advertising agencies scrambled to find workable advertising models in this brave new world.

The trends over the past four waves of this study illustrate a desire among advertisers to reach their audience, not a website's audience. Fueled by the increasing availability of audience insight and intent data, transparent inventory, trading platforms, and the continued migration of desirable audiences online, we expect to see continued shifts of advertising dollars into online display media in 2011.

According to the latest Advertiser Intelligence Report conducted by Advertiser Perceptions (Fall 2009), which measures the perceptions of the leading brands within the digital marketplace, advertisers are expecting to increase their spending in all media. Behind the continued strength of digital, we see that advertisers are continuing to shift towards more accountable, measurable results.

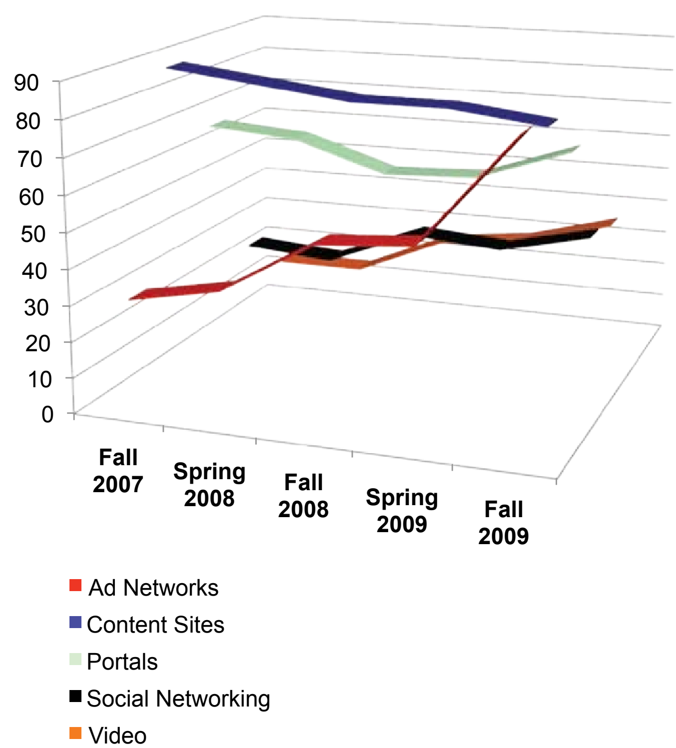
More importantly the findings point to the tremendous growth of ad networks as a destination for online display ad spending. The chart below illustrates that ad networks have grown their share of advertiser consideration (and spending) steadily over the past three years. The challenge for digital brands is the proliferation of new media opportunities and competition among the major portals, ad networks, content sites, social media and video.

While the average media decision maker will consider a dozen brands over the next 6 months, only about 30% of those brands will get business.

As the online advertising ecosystem continues to evolve, expect to see increased emphasis on audience knowledge and insights, and the use of brand-centric effectiveness measures as key drivers of success for businesses that connect advertisers with inventory.

Trends: consideration and conversion of online types...

Ad networks rise, content sites decline, social networking and video grow



Audience-driven media buying expected to rise.

A continued bifurcation of the market between site specific (inventory-driven) and audience (data-driven) buys.

This, along with other recent studies from the IAB and comScore, provide evidence that the online display ad market may finally be rebounding from the poor economy of 2009 as significant percentages of respondents indicate the willingness to spend more on online display sites and ad networks in 2010. Ad networks continued to see strong gains as advertisers continue to value data-driven targeting of specific audiences.

"...we see tremendous growth in the sophistication and adoption of audience platforms over the next decade."

David Cohen
EVP, US Director of Digital Communications, UM

"There is no doubt that over time our business will continue to bifurcate into two areas," said David Cohen, EVP, US Director of Digital Communications at UM. "One will be data-driven, technology enabled buying platforms and the other will be deeper, more strategic cross-platform marketing partnerships. Both equally important to driving our clients businesses."

Overall, 34% of respondents indicated that they would increase online ad spending in 2010, with 35% of respondents indicating they would increase spending on ad networks. Large online spenders (those spending $10 million or more) were slightly more likely (40%) to use advertising networks.

However, despite the rapid growth of ad networks, exchanges, and audience-targeting in general, almost half (46%) of respondents reported a site-centric focus, with spending increases limited to vertical content and video sites and less towards portals.

- 52% of respondents indicated they would increase spending on content sites (ESPN, WebMD, etc.) in 2010
- 46% would increase spending on video sites in 2010
- 67% of large spenders will increase spending on video sites
- Only 23% would increase spending on portals in 2010

Why are content sites and ad networks garnering more online display spending?

Ad networks are delivering what the marketplace is looking for; large, highly targeted audiences that deliver ad results in an efficient manner. While content sites provide advertisers with "brand-focused" content, context and ad experience, networks provide these benefits at scale.

Decision Drivers

Ad Networks	Content	Portals
• Cost/Price • Targeting • Reach • Results	• Image/ Environment • Content • Integration and Engagement	• Cost/Price • Targeting • Ad Placement • Marketing Services

Source: Advertiser Intelligence Reports, Fall 2009

Ad networks are valued for reach and targeting.

Audience data and insights are seen to be the new differentiators.

As predicted in previous waves of this study, ad networks would eventually become a regular part of an online media plan, providing target audiences at scale. In this year's edition of our study, advertisers have indicated that the number of ad network partners they work with regularly remained stable at two. Also unchanged from last year's study are the reasons why advertisers/agencies use ad networks (see Chart 1).

Also unabated is the trend towards commoditization of audience among the top ad networks. This too, is expected as the top tier networks consolidate premium inventory and adopt industry best practices for targeting, optimization and transparency. With regard to what differentiates one network from another, there is a wide variance in response, indicating no single benefit stands out in the minds of advertisers (see Chart 2).

This finding indicates that inventory quality and targeting technology will continue to become ubiquitous as top-tier ad networks rise above the rest. Moving forward, ad networks will need to climb the value chain and provide market audience data and insights and post impression reporting to differentiate themselves from the competition. We expect the next wave of this study to show a marked increase in audience data as the single biggest differentiating factor among ad networks.

Chart 1: What are the primary reasons you use ad networks?

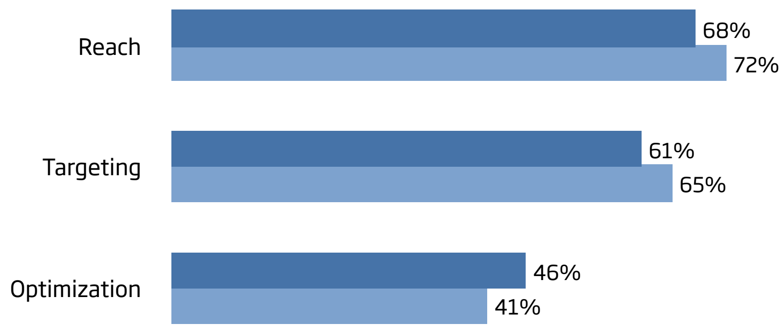
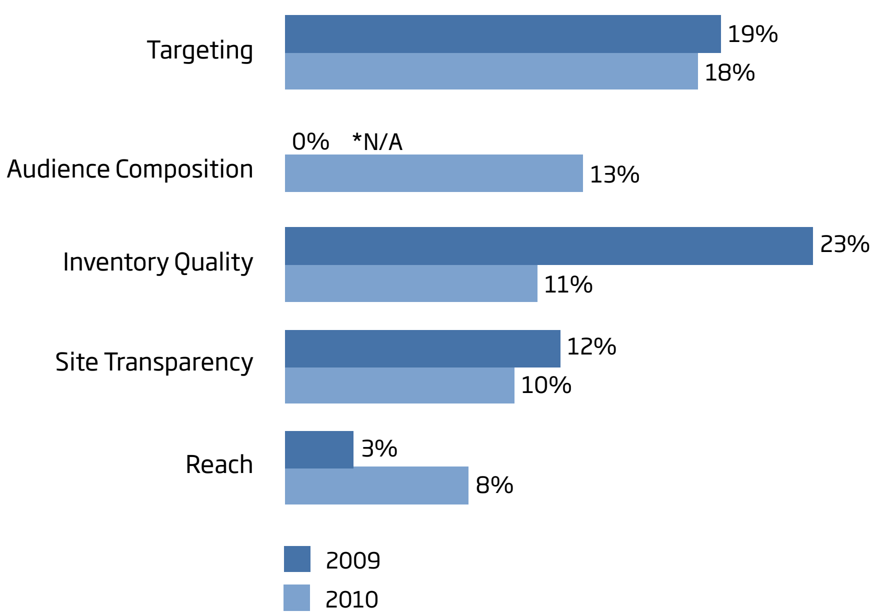


Chart 2: What best differentiates ad networks?



Data is driving targeting and media partner decisions.

For the first time in our study, audience data leads inventory-quality as the top factor in selecting a media partner.

> *"Data is what takes us out of the dark ages of targeting..."*
>
> Carrie Frolich
> Managing Partner, MEC

In previous waves of our study we've seen a steady decline in the role that inventory alone plays in media decision-making. Whereas two years ago the top consideration in selecting an ad network partner was 'inventory quality', this year it ranks sixth, falling 60% among respondents. Conversely, the ability to target precise audiences based on "user data" has risen to be the number one criteria in selecting a media partner. In fact, the use of "context" as a targeting method has fallen 17% over the past three years of this study, while "data-driven demographic targeting" and Behavioral Targeting have remained in the number one and two slots respectively.

Additionally, over half (53%) of the agencies surveyed believe that having more data providers integrated into the targeting system provides for more effective campaigns. Twenty percent of senior executives said it "helps significantly."

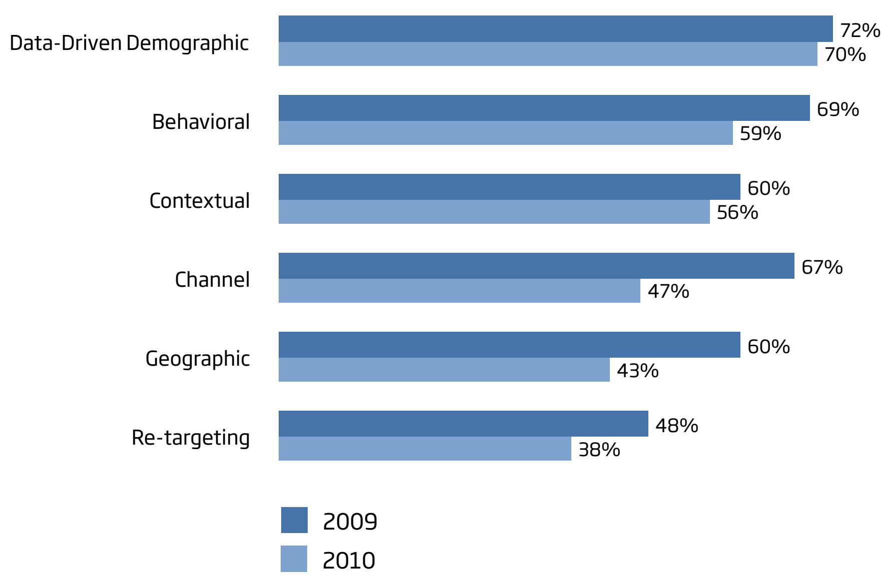
This reflects the general trend noted earlier away from site specific (inventory-driven) buying to audience (data-driven) buying. As Carrie Frolich, Managing Partner, MEC said, "Data is what takes us out of the dark ages of targeting: it eliminates the need to create big, dumb proxy groups and allows us to find the people most interested in and accessible to a brand's message."

The growth of audience data as a distinguishing factor among advertising networks is further highlighted in the number of respondents who ranked "analytics and reporting" as a key value, up 260% in the past two years of this study. "Data can also surprise us, and force us to rethink our idea of who the 'right' customer or prospect is," Mrs. Frolich said. "Understanding who responds to a brand message often gives us insight into why they're interested."

The drive toward audience-based versus site-based or content-driven buying (or as we like to phrase it, the 'who' vs. 'where') is even affecting the manner in which publisher-direct buys are being evaluated. When asked for the reasons advertisers and agencies buy on branded websites and/or portals, the top reason given, at 74%, was "targeting." Surprisingly, even here inventory wasn't the big story, but rather how content sites could deliver specific data around their users.

Interestingly, though data may lie at the heart of the more advanced targeting and reporting technologies, advertisers appear to have little knowledge of third-party data provider brands. When asked to list which providers they had used, Quantcast and Experian were most often cited, followed by Claritas PRIZM and Acxiom. All others received little awareness. So while the majority of advertisers noted the importance of data aggregation, few seem to have extensive knowledge of the players in the space.

Chart 3: What targeting do you use?



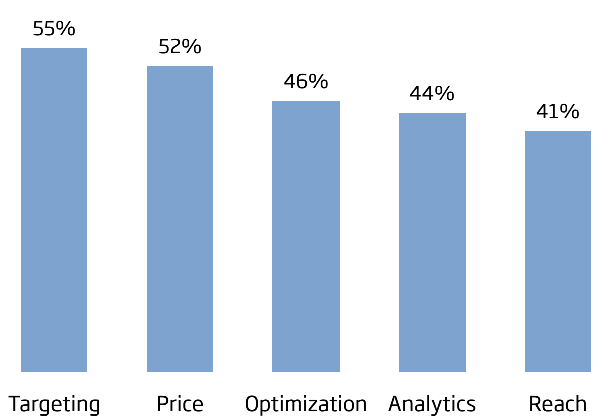
Ad exchanges are gaining some usage

But, that growth is still less than anticipated.

One of the big stories of 2009 was the predicted rise of online ad inventory exchanges and Real-Time Bidding (RTB). Major advertising holding companies rushed to start their own trading desks and invested heavily in the technology and staffing needed to buy media through online exchanges. Yet, despite all the press coverage exchanges received in the last year, this study suggests that advertisers are less certain, with 65% of respondents saying they would not increase spending with ad exchanges in 2010.

There's still some concern by agencies and advertisers that the quality of inventory available on exchanges does not measure up to that which can be found on a network. These concerns about the effectiveness of ad exchanges are making advertisers and agencies reluctant to increase spending levels, but they are not (yet) ready to dismiss them. When asked to evaluate the most important factors to consider when using an ad exchange, price and targeting were at the top of the list, versus reach and targeting for ad networks (further below). Optimization and Analytics/Reporting are much more important to larger spenders (see Chart 4). There appears to be much greater price sensitivity among exchanges which suggests their use largely supports direct marketers, versus the less price sensitive, more environment-aware brand advertisers.

Chart 4: What are the most important factors to consider when using an ad exchange?



While much has been made of the increased use of ad exchanges and DSPs, only 30% of those responding had ever used either. But the tide may be turning with 55% of respondents indicating they will use either an exchange and/or a DSP in 2010 (63% are large spenders).

Over half (52%) of the respondents did not know or were not sure whether they would buy ads on exchanges through DSPs in 2010, and only 14% of respondents indicated they would spend online ad dollars in 2010 using DSPs.

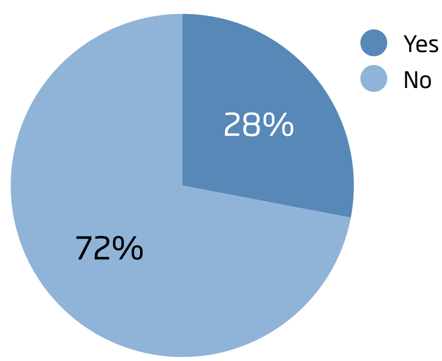
As with ad exchanges, the larger ad spenders are slightly more likely (19%) to bid on exchange inventory through a DSP. This suggests that there is still widespread confusion about RTB and DSPs (what it is, what it can do), which may continue to prevent it from being an approach widely used by advertisers and agencies. This is furthered by the low awareness of the various demand side platforms in the marketplace. When asked to list which platform they have worked with in the past, no more than 8 out of 420 respondents were able to identify a single one.

Will exchanges eventually replace ad networks?

This is a question we've asked advertisers the past few years and the number of respondents believing that exchanges will grow to render ad networks obsolete has grown to 28% from 6% in the 2009 study. In fact, many more (36%) large spenders feel that way. Still the minority, but that opinion has grown since the 2009 study (see Chart 5).

Others have noted that advertisers will always need an intermediary for inventory access, optimization and analytics, whether aggregated through direct publisher relationships or purchased on an open exchange. Hence, we anticipate the distinction between networks and exchanges will lessen over time.

Chart 5: Will exchanges eventually replace ad networks?

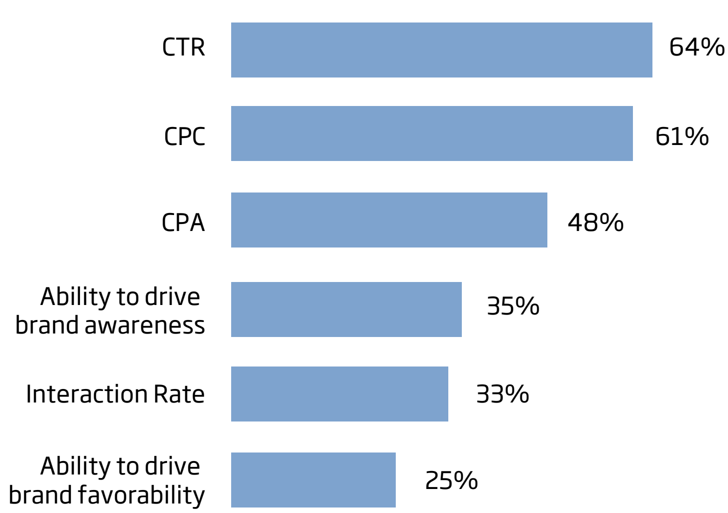


Advertisers continue to need better ways to evaluate campaign success.

The lack of uniform, meaningful brand-centric metrics have pushed advertisers towards the near-meaningless Click Through Rate.

Of all the issues covered in this year's study, none raised more eyebrows than the revelation that advertisers continue to commonly rely on Click Through Rate as a measure of advertising performance. In spite of the wide variety of research and press detailing the overuse (and misuse of) CTR as an industry metric (see comScore's "Whither The Click", and Starcom, Tacoda and comScore's "Natural Born Clickers"), CTR is still the most commonly used metric to determine whether a campaign run with an ad network is effective.

Chart 6: What metric do you use to evaluate ad network performance?



Metrics used to evaluate performance of ad campaign on ad network (see Chart 6):

- CTR 64% (Much less likely for 54% large spenders)
- CPC 61%
- CPA 48% (More important to 56% large spenders)

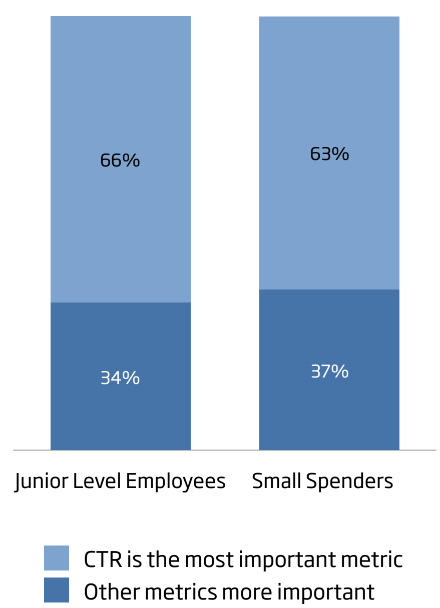
However, there is quite a disparity between senior executives and junior media decision-makers regarding the importance of the click and CTR. Lower-level agency and advertiser media decision-makers may not be sufficiently knowledgeable about how to assess the effectiveness of a campaign. As a result, their reliance on CTR may be due to the fact that it is a relatively easy metric to provide (even through it provides limited value).

One senior agency official quipped "using micro-metrics like click-through rates to evaluate advertising effectiveness is like deciding whether or not you have a flattering hairstyle by analyzing a single strand of hair. While access to real-time response data can be tempting, marketers need to be careful of losing sight of the big picture."

Although most online display media decision makers feel that there are plenty of research tools to measure campaign effectiveness, most believe that they provide metrics, not intelligence. According to a leading consumer marketer, "I'm tired of these folks bringing in useless metrics. What I want is someone to come in with data that is focused on me, my brand and what I'm trying to do with my advertising."

In short, the marketplace needs tools for evaluating campaign performance in terms that marketers value: the impact of online display advertising on the brand's bottom line.

Charts 7-8: More junior employees and small spenders believe CTR is the most important metric to evaluate ad network performance



*Small spenders=plan to spend less than $10M in 2010

Video is growing, and targeting is key.

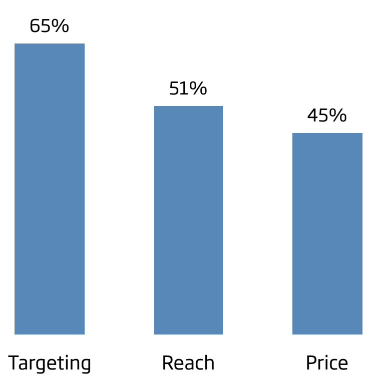
Online video seems poised to finally take some share away from broadcast television, particularly among large brand advertising spenders in the automotive and CPG categories. The tipping point appears to be reached as a majority of those surveyed indicated they were somewhat likely or extremely likely (57% top 2 box) to shift ad dollars from TV to online video in 2010. (71% were large spenders; 54% were smaller spenders.)

As with ad networks, targeting, reach, and price appear to be the most important factors in determining which video ad network to work with:

- Targeting 65%
- Reach 51%
- Price 45%

In many ways, this has been one of the most sought after media vehicles, offering the sight, sound and motion of television, combined with the targeting of online. But limited available inventory stunted online video's growth. With the rise of Hulu.com and professionally produced video now available on most premium publisher websites, the market has witnessed huge shifts in viewing habits.

Chart 9: What are the most important factors in determining which video ad network to work with?



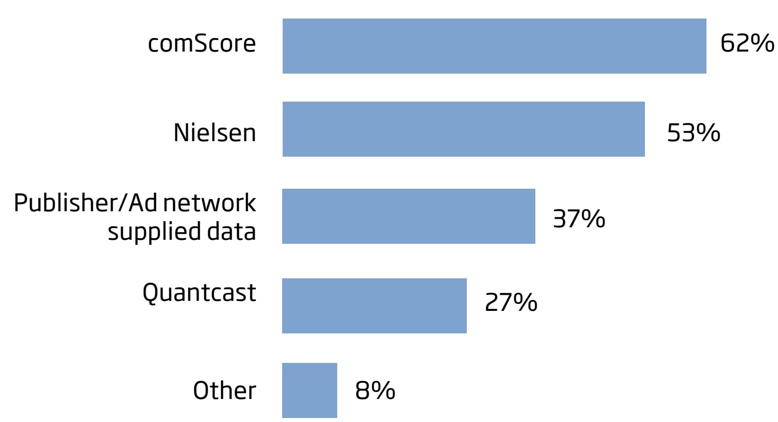
Syndicated audience data still needed

But, reliance on data supplied by publishers and ad networks is relatively high.

Not surprisingly, agencies and advertisers are relying on comScore and Nielsen (62% and 53%, respectively) to measure online media. However, 37% of respondents in the study indicated they relied upon publisher and ad network data to help measure their online media, more so than even Quantcast (27%).

This is perhaps due to the increasing role of data at large publishers and ad networks, whose sheer scale makes them de facto audience measurement services. The added ability to aggregate multiple data sources combined with advertising performance metrics makes network data increasingly valuable.

Chart 10: Which of the following syndicated research providers do you rely on to measure online media?



Privacy issues did not raise eyebrows among online agency decision makers.

Agencies and advertisers will deal with changes to privacy laws as they occur.

While privacy issues in Europe have industry professionals concerned with regard to behavioral targeting, in the U.S. a hypothetical loss of data-driven targeting did not stir strong opinions one way or the other.

In fact, when asked how online spending would change if advertisers were no longer able to take advantage of behavioral targeting, 38% reported it would have no effect and 24% indicated their spending would rise. Only 10% noted a significant decrease in online spending under that scenario.

Most U.S. media decision makers claim to be unaware of the possibility of changes to the laws regarding privacy and its effect on behavioral targeting. One key agency planner sums it up nicely by saying, "we'll deal with it, if and only if it becomes an issue."

Noted online privacy expert Alan Chapell reflected, "This study, among other things, highlights the wide range of sophistication in the agency community around privacy and data usage. And that maps to what I've seen in the marketplace. The possible ramifications of over regulating online advertising – and the effect that would have on the advertisers and agencies - has not consistently been communicated to those constituencies. Fortunately, this is starting to change."

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