

Ad Network Study 2008

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Executive Summary:

The 2008 Ad Network Study is the 2nd annual survey produced and managed by Collective Media to better understand the role of online advertising networks for both interactive agencies and advertisers. According to TNS Media Intelligence in January 2008, Internet display advertising is on the rise and will see an increase of 14.4% in 2008 as compared to 2007.

Internet ad spending totaled \$5.9 billion for the fourth-quarter of 2007, about 24% more than the same period in 2006, according to the IAB/PWC Q4 2007 results report. For 2007, spending was projected to reach \$21.1 billion, representing year-over-year growth of 25%. eMarketer reported that online ad spend is expected to reach \$26 billion this year, up nearly 23% from 2007. This increase is expected even amidst speculation of the US economy entering a recession.

Ad networks are benefiting from a number of trends in display media spending, including the use of behavioral targeting and evidence of positive lifts in performance when combining display and search together. Ad network growth can be directly attributed to the increasing popularity of behavioral targeting, which is projected to reach \$3.8 billion by 2011, according to eMarketer. Relative to the impact display media has on search results, a recent study conducted by Atlas Solutions demonstrated that display ads drive a 22% lift in conversion rate over search-only ads. In addition, the IAB/PWC 2007 Second-Quarter Report showed display ads grew 28% compared to a 25% growth for search.

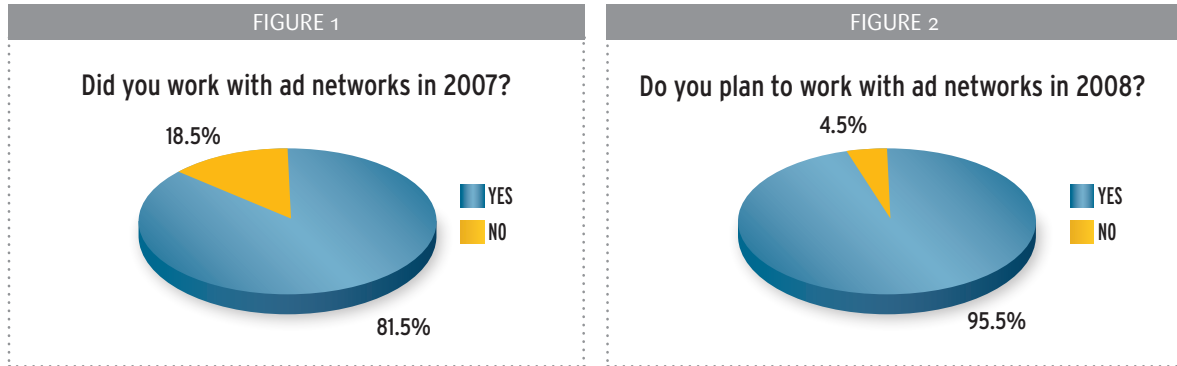
According to a 2007 study by JP Morgan and comScore, global spending on ad networks is likely to exceed \$3.0 billion in 2008. Estimates vary in the US market, but ad networks will likely garner approximately \$2.0 billion in display ad spending. According to the New York Times, in 2007 the ad network marketplace grew to include well over 200 ad networks, including vertical networks from tier-one publishers who banded together to provide agencies and marketers with greater scale and efficiency.

The key findings of Collective Media's study show us how trends have changed from 2007 to 2008. Unlike last year's results where advertisers focused on reach and efficiency as the key reasons to use ad networks, this year's respondents believe that audience quality, relevant targeting and inventory transparency are paramount to the ad network value proposition.

Approximately 200 completed surveys were received from online media decision makers at both agencies and advertisers in the US, including marketing VP's and online marketing directors from Fortune 1000 brands and media directors and media planners from leading interactive agencies. Surveys were completed from January 22nd through February 18th, 2008. While the majority of responses came in the form of multiple choice answers, many of the respondents submitted alternative responses that gave us further insight into what's driving the growth in overall ad network spending.

Results and Key Findings:

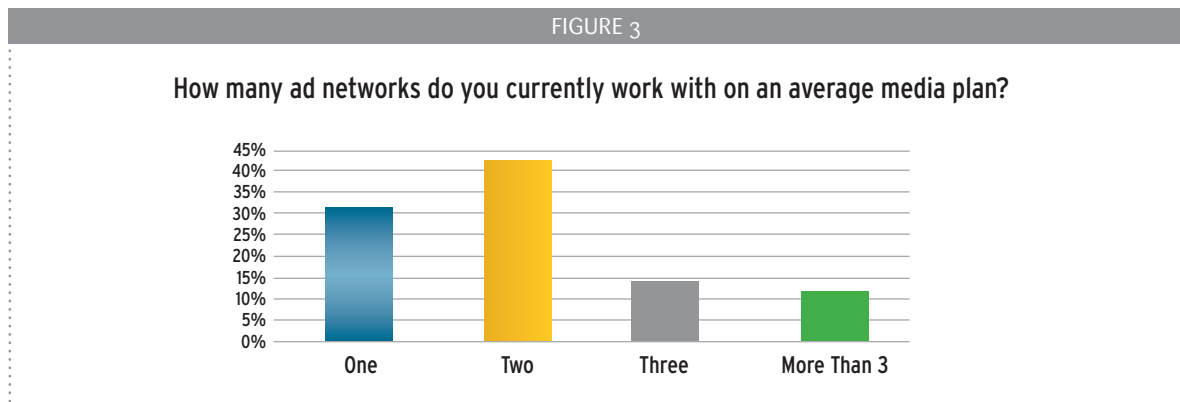
According to the 2008 study, 81.5% of US agencies and advertisers buying online media have worked with ad networks in 2007 and 95.5% plan to work with ad networks in 2008 (a projected 17% increase next year) (see Figure 1) (see Figure 2).



As expected, more and more agencies are recommending the use of ad networks as a viable complement to purchasing media directly from individual publishers and portals. Audience targeting, optimization technology and cost efficiency continue to be key considerations in the decision making process. Throughout the study, it is clear that brand advertisers have been more receptive to using ad networks to meet their campaign objectives. The adoption of ad networks by brand advertisers is evidently a major factor that has led to an increase in the popularity of ad networks from 2007 to 2008.

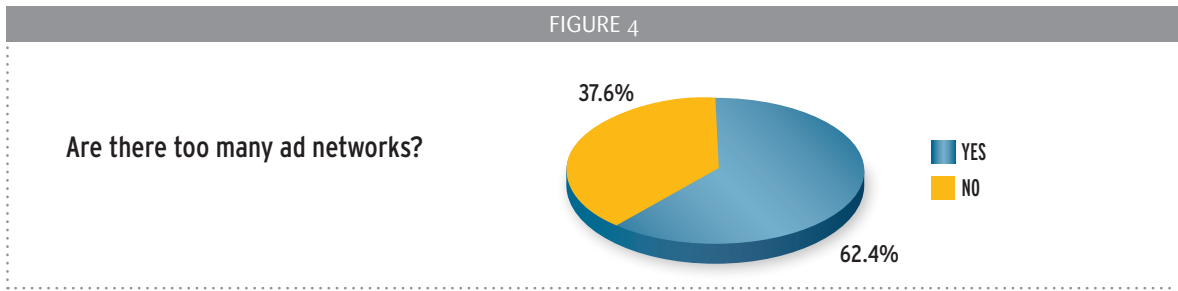
While ad networks have played a role in online media planning for more than a decade, over 50% of the survey respondents began using ad networks in just the last two years. This is largely the result of so many new media planners and buyers in the interactive media business. However, while direct marketers have employed ad networks for many years, it is likely that the recent adoption of ad networks by brand advertisers has led to more advertisers trying ad networks for the first time.

A little less than 75% (73.9% exactly) of respondents customarily work with one or two ad networks on an average media plan. Slightly more than 25% (26.1% exactly) are working with three or more (see Figure 3).



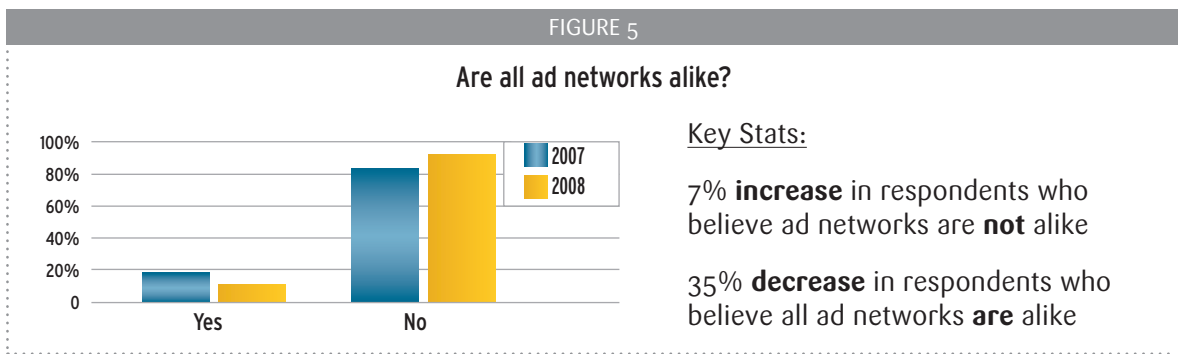
The fact that only about one quarter of the respondents use three or more ad networks in any media plan supports a growing trend that advertisers are looking to eliminate audience duplication and lack of control that may arise when using multiple ad networks.

Approximately 62% of the survey respondents believe there are too many ad networks.



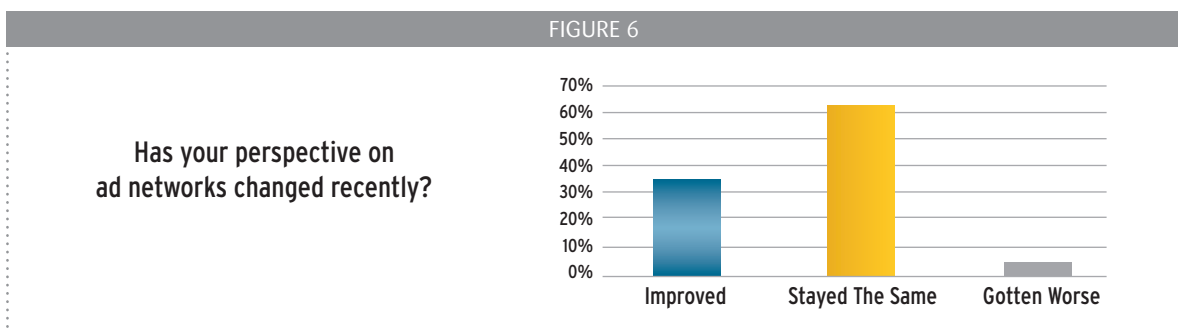
This statistic was relatively stable from 2007 to 2008. According to comScore, there were 20 ad networks measured in January 2007. 32 ad networks were reported in January 2008, showing a 60% increase in the number of ad networks in the marketplace – and these are only the measured ad networks. The New York Times reported in May of 2007 that there were over 200 ad networks in the marketplace. In 2008 we will most likely see the rise and fall of many more, including many branded vertical networks.

The overwhelming majority of respondents (89.2%) do not believe all ad networks are alike, leading to the assumption that even in a crowded marketplace agencies and advertisers believe there is room for innovation and differentiation (see Figure 5). In fact, compared to 2007, even with more ad networks from which to choose, agencies and advertisers are appreciating the differences among ad networks.



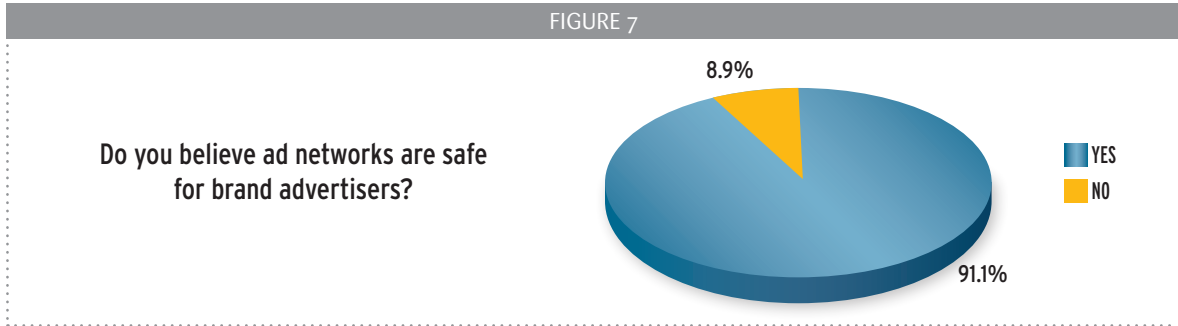
The change in perception from 2007 to 2008 suggests that agencies and advertisers are gaining a better understanding of the ad network marketplace. For example, respondents are now recognizing the differences between a performance ad network, contextual ad network, behavioral ad network, vertical ad network and ad exchange. Moreover, agencies and advertisers recognize what role each ad network type plays in a particular media plan. One ad network does not necessarily meet the objectives of all media buys.

Another great sign for the ad network category is that nearly all respondents (96%) have either maintained or improved their perspective on ad networks as compared to last year’s study.

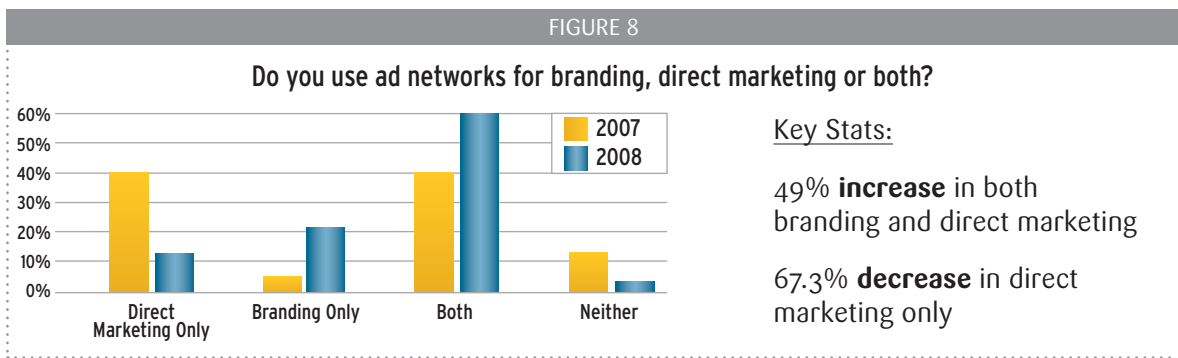


As higher quality ad networks have emerged with greater transparency, reliable targeting and optimization benefits, the category as a whole has improved its image measurably.

This uptick in customer perception is translating to greater ad network spending by brand advertisers. 91% of agencies and advertisers believe ad networks are safe for brand advertisers.

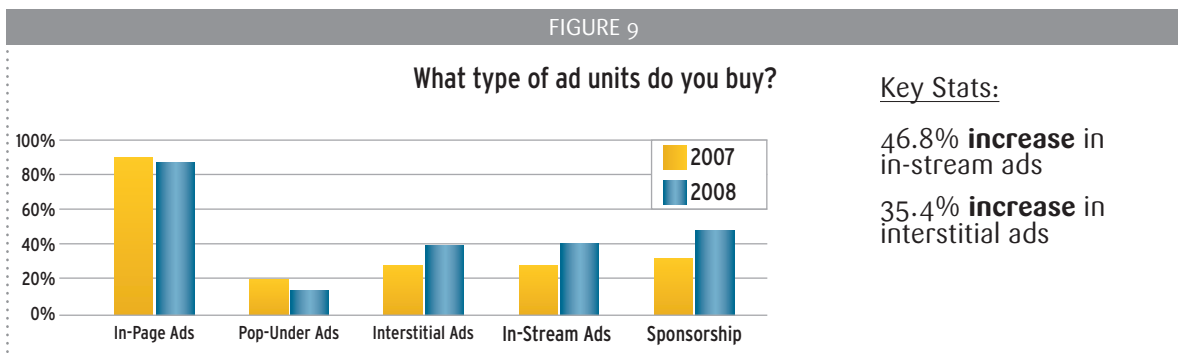


This trend is most apparent when comparing the results from the 2007 to 2008 in the branding vs. direct marketing usage category.

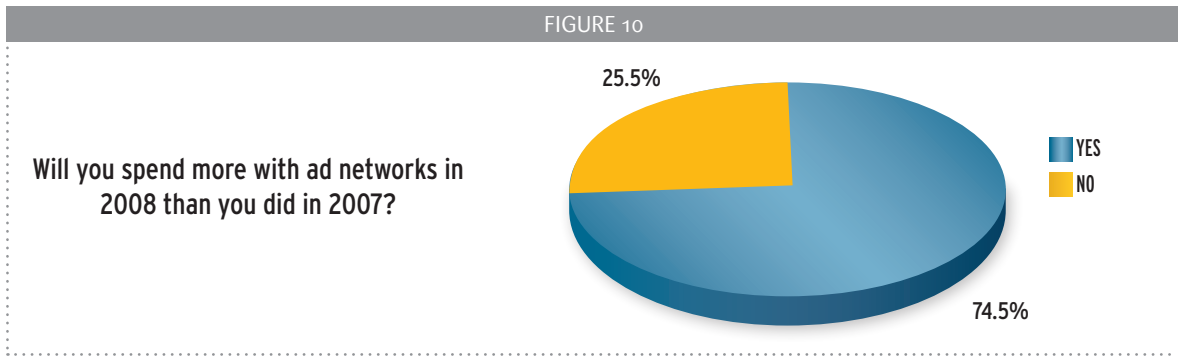


Ad network usage by both brand advertisers and direct marketers skyrocketed to 59.2% in the 2008 study, up from only 39.7% in the 2007 study. Only 13.4% of advertisers used ad networks for direct marketing purposes alone in 2008 vs. 41.0% in the 2007 study (see Figure 8). This is a tremendous shift in ad network adoption from the fastest growing sector of display media spending - brand advertising.

As a result, brand advertisers are making greater use of rich media ad units, especially in-stream video and interstitials as ad networks are incorporating these ad formats into their inventory offerings (see Figure 9). Many new ad networks are emerging, especially those representing long-tail sites (small publishers), with sponsorship opportunities more commonly associated with only publishers/portals.

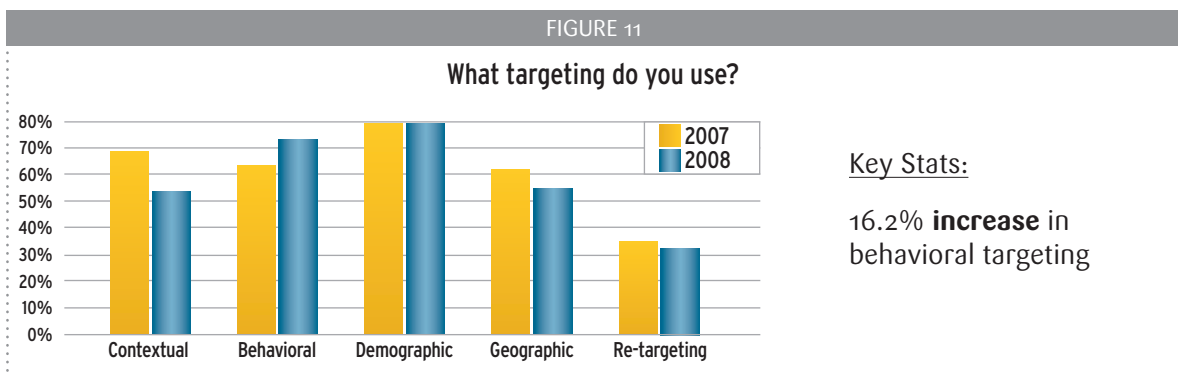


With increased demand for ad networks by brand advertisers and direct marketers alike, over 74% will spend more with ad networks in 2008 than they did in 2007. This is up from 66.7% in the 2007 study.

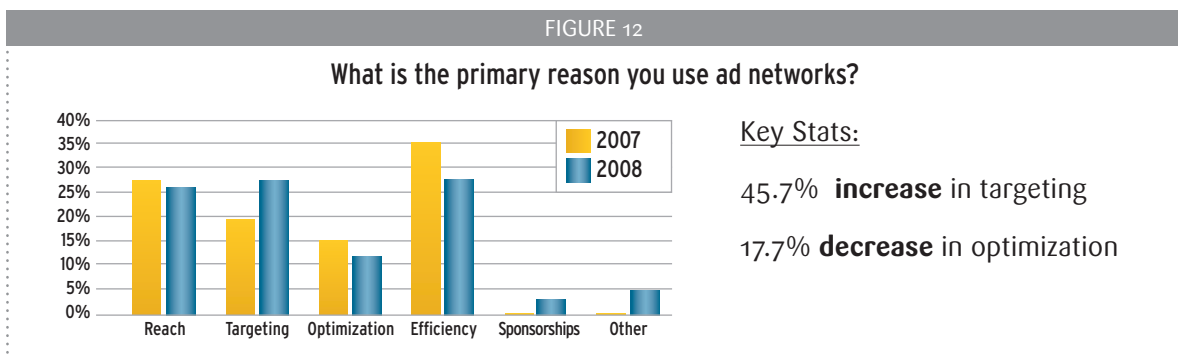


With the use of audience targeting accelerating (especially behavioral targeting) and the growing number of first time buyers, ad networks are sure to garner a larger share of the online media spend.

Ad networks have proven that they can offer scalable and effective audience targeting solutions. Historically, context/channel targeting, geographic targeting and re-targeting have been key components of any ad network media buy. **Today, behavioral targeting is the number one targeting methodology employed by agencies and advertisers when buying ad networks. In fact, this targeting type grew the fastest year-to-year, (74.5% vs. 64.1%) a 16% increase from 2007 to 2008** (see Figure 11).



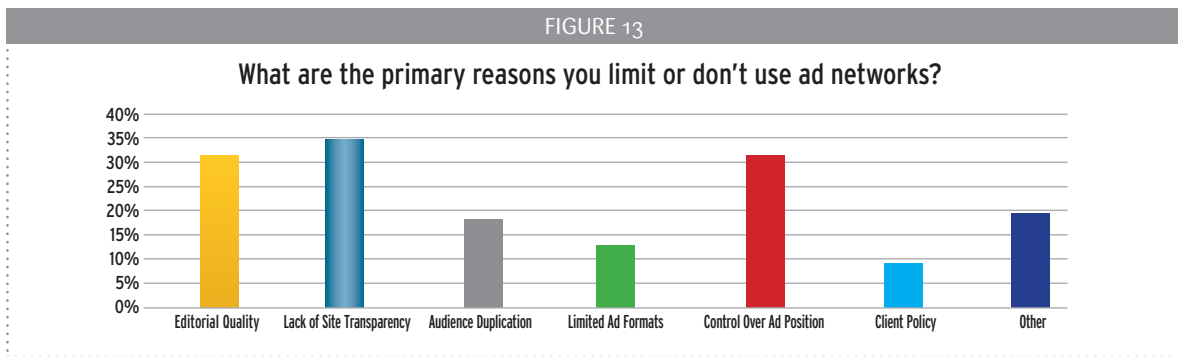
Not surprisingly, outside of efficiency, targeting is the number one reason why agencies and advertisers are using ad networks at 27.4% (up from 18.8% in 2007.) While targeting has become more important year-to-year, several key categories (reach, optimization and efficiency) dropped in performance relative to targeting.



This shift from reach and efficiency to targeting puts ad networks squarely in the portal/publisher consideration set among brand advertisers.

With so many ad networks reaching 50% of the US online population, advertisers are looking for other factors to distinguish one ad network from another and ultimately consider ad networks as a worthwhile complement to media buys earmarked for portals and publishers only.

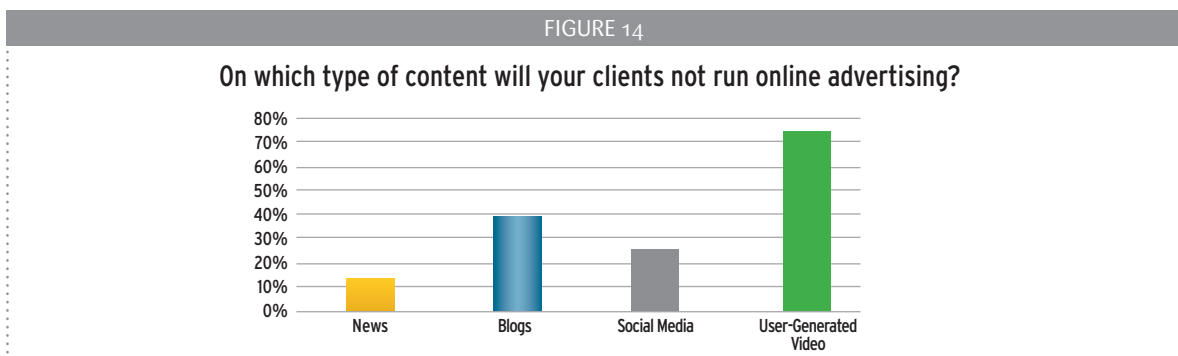
As a result, many ad networks are evolving to better suit the demands of brand advertisers and overcome common barriers to entry. As illustrated in Figure 13, the top reasons why media buyers limit the use of a certain ad network and/or ad networks in general have to do with criteria they take for granted from publishers and portals they buy directly. **Editorial quality, site transparency and ad position round out the top three issues limiting ad network share of online media spending.** These factors are paramount for brand advertisers and those ad networks that address these concerns with higher quality inventory and site transparency will benefit in 2008.



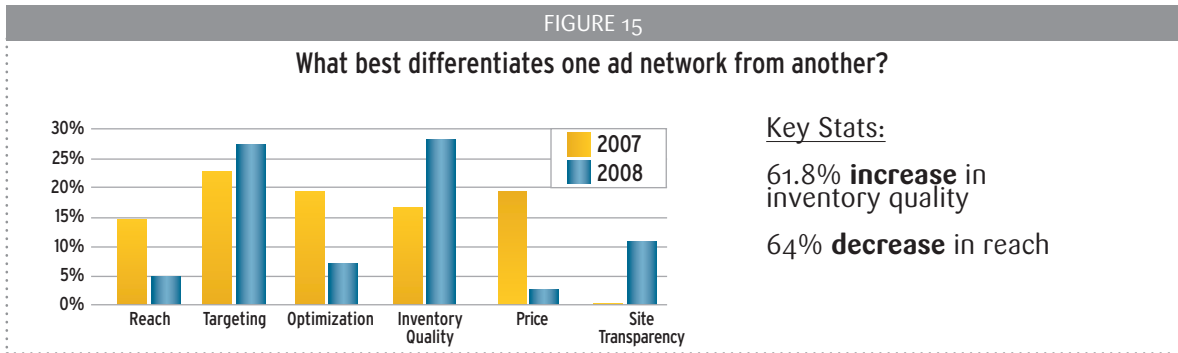
When comparing the results from 2007 to 2008, the combination of editorial quality and site transparency at 66.3% was up from 53.8% in 2007 (see Figure 13). Control over ad position at 31.1%, was up from 21.8% in 2007. The most surprising drop was in audience duplication. This dropped from the number two cited issue when dealing with ad networks at 37.2% in 2007 to only 18.2% in 2008. This significant decrease may largely be the result of agencies and advertisers working with a shorter list of ad networks, thus eliminating the concern of audience duplication across many ad networks.

With inventory quality as a primary factor in using one ad network or another, it's not surprising that certain types of online content/sites are still on 'do-not-buy' lists. While blogs (at 39%) and social media (at 27%) were cited as problematic ad environments, user-generated video (at 73%) was by far the most unpopular advertising environment among agencies and advertisers (see Figure 14).

While the growth in online ad inventory (both in-page and in-stream) is largely the result of user-generated content, ad demand is still pacing behind inventory availability.



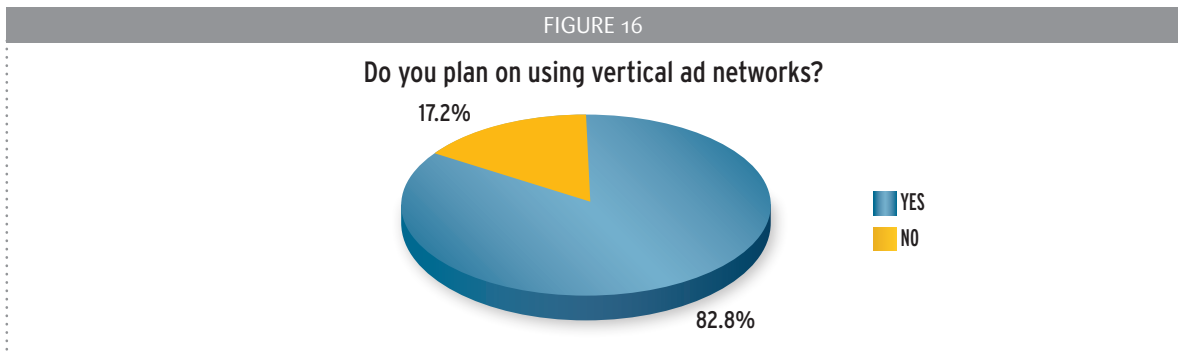
Based on responses to the previous questions, it's clear that inventory quality is playing a profound role in the agency and advertiser decision making process in working with ad networks and certainly differentiating one from another.



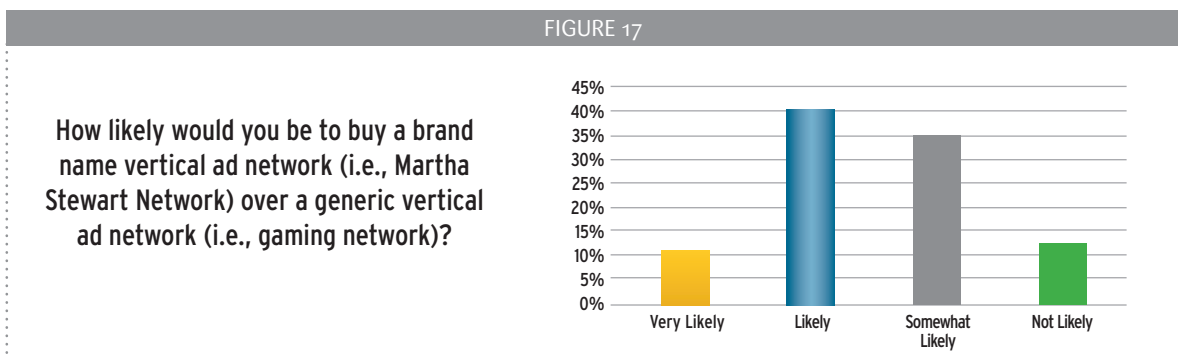
In fact, the combination of targeting, site transparency and inventory quality at 65.6% in 2008 (vs. 40.4% in 2007) showed the greatest increase year-to-year. Consequently, reach played a very small role in separating one ad network from another. This factor accounted for approximately 5% of responses (see Figure 15).

The desire for ad networks that offer the benefits commonly associated with publishers has led to a fast growing ad network category, known as vertical ad networks. In fact, many of these emerging vertical ad networks are being backed by leading publisher brands (i.e., Martha Stewart, Washington Post, IDG, etc.).

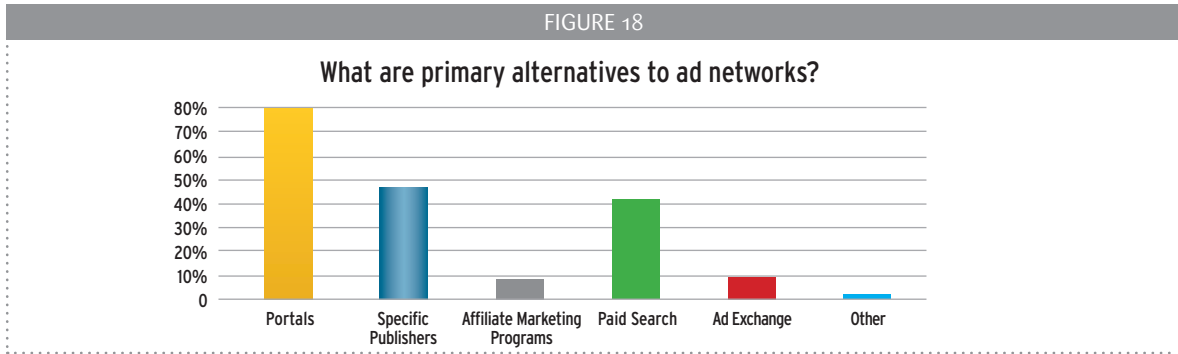
While in limited use today, 2008 should bring many new entrants to the market. **Over 82% of respondents plan to use a vertical ad network in 2008.**



Moreover, a vertical ad network backed by a recognized, brand-name publisher is proving to be even more desirable. In fact, close to 50% (49.1% exactly) of respondents would be likely/very likely to buy a brand-name vertical ad network vs. a generic vertical ad network.



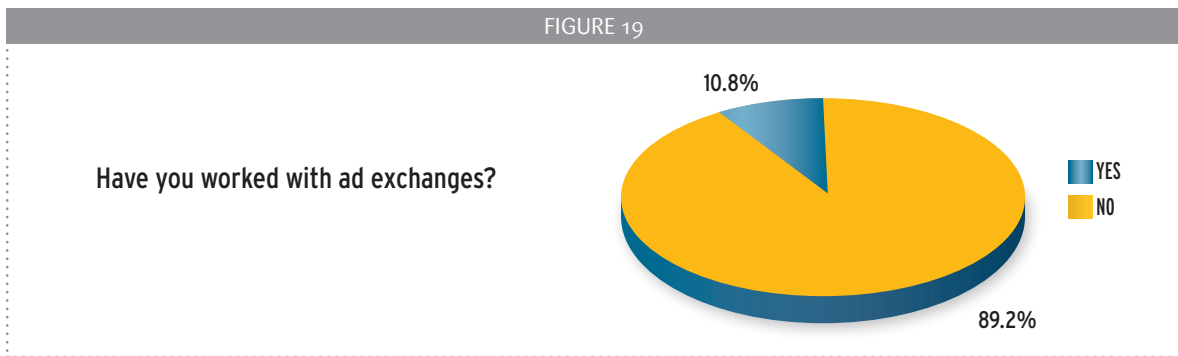
As agencies and advertisers begin to place greater value on inventory quality and targeting, compared to reach and efficiency, ad networks have become widely adopted as a complement to portal/publisher buys. In fact, among respondents, affiliate marketing (at 8.3%) and ad exchanges (also at 8.3%) in particular were not seen as viable alternatives to ad networks (see Figure 18).



Both affiliate ad networks and ad exchanges provide little control over ad distribution and placement. As a result, these online marketing tactics are largely employed by direct marketers alone on a CPA/CPC basis.

Due to low inventory transparency and ad control, ad exchanges have not garnered wide acceptance among agencies/advertisers. To date, performance ad networks have been the largest customers of ad exchanges.

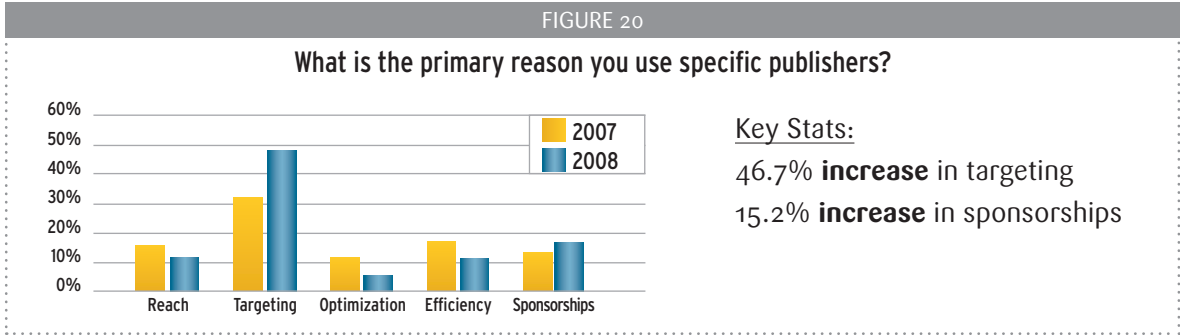
According to this year's results, only 10.8% of respondents have worked with ad exchanges.



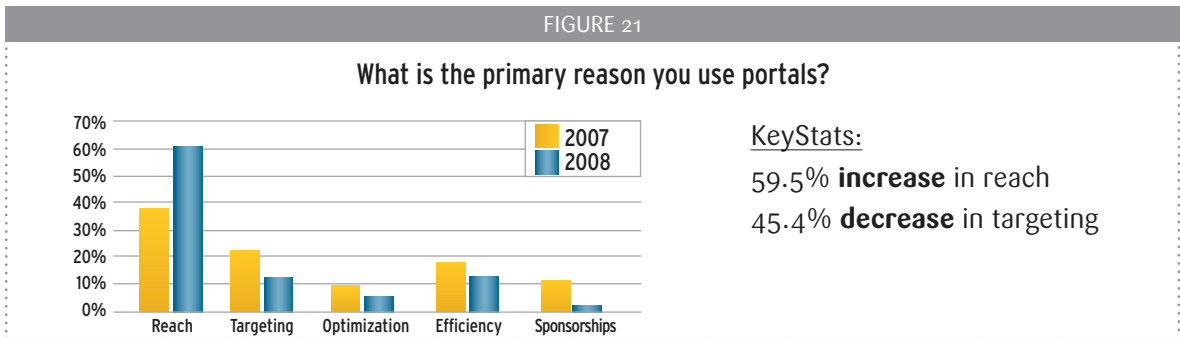
Agencies and advertisers (primarily direct marketers) will begin trying ad exchanges in 2008, but brand advertisers will work almost exclusively with high quality ad networks, portals and publishers.

This, along with targeting and sponsorships, will continue to drive online agencies and advertisers to work directly with publishers (see Figure 20). Custom integration and large SOV (share of voice) are critical components of any branding campaign.

Nevertheless, when comparing these results to why agencies and advertisers choose to work with ad networks, targeting remains at the top of the list. Depending on the objectives, agencies and advertisers may opt for greater efficiency at the expense of custom sponsorships.

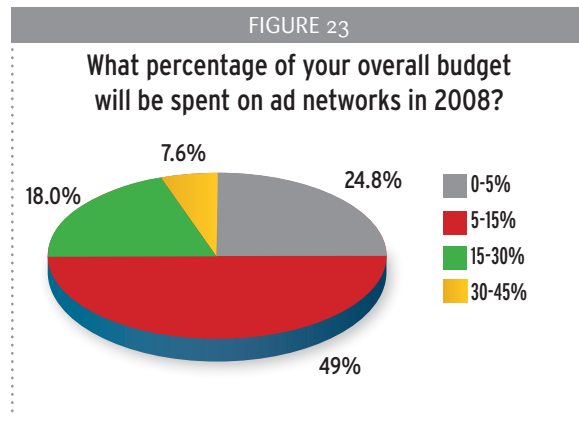
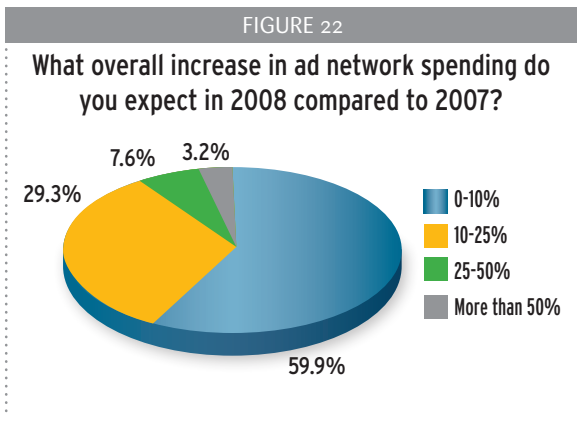


The overwhelming factor driving online media spending towards portals is reach at 61% (up from 38.3% in 2007) (see Figure 21). In fact, in every other buy criteria including targeting (down 11% year-to-year), portals showed a decrease. The affect was opposite for ad networks. **Agencies and advertisers placed a greater value on targeting year-to-year and less value on reach from 2007 to 2008.**



With more ad networks entering the fray in 2008, it's not surprising that agencies and advertisers plan to work with more ad networks this year. There will be so many alternatives, much like publishers, from vertical ad networks to performance ad networks. **In fact, many online publishers will start looking a lot more like ad networks.**

Agencies and advertisers will spend more on ad networks in 2008 vs. 2007. Overall, 40% of respondents plan to increase spend on ad networks by 10% or more in 2008 (see Figure 22).



In aggregate, 75% of respondents will spend 5% or more of their overall online advertising budget on ad networks in 2008 (see Figure 23). Over 25% of agencies and advertisers will spend 15% or more on ad networks in 2008.

Conclusions:

- Ad networks are not just for direct marketers anymore, there is rapid adoption amongst brand advertisers.
- Over 91% of agencies and advertisers believe ad networks are safe for brand advertisers.
- The rise of premium and vertical ad networks is providing greater site transparency and higher inventory quality.
- Targeting and inventory quality supplant reach and efficiency as the most important factors in choosing to work with ad networks and differentiating one ad network from another.
- Behavioral targeting is the fastest growing targeting type in use by agencies and advertisers.
- Ad exchanges are garnering a lot of media attention, but very little agency and advertiser usage to date.
- The overall perception of ad networks has improved dramatically with 96% of respondents citing improvement in opinion.
- Agencies and advertisers will work with more ad networks overall in 2008, but limit use to one or two ad networks on an average media plan.
- Agencies and advertisers will spend more with ad networks in 2008 vs. 2007.

Methodology:

The Collective Media 2008 Ad Network Survey was fielded in January 2008 using Survey Monkey to create and manage survey responses and results. Survey respondents were solicited from The Advertising Database and Collective Media's proprietary agency/advertiser database of 6,000+ US interactive media decision makers.

Approximately 200 respondents completed the survey. In exchange for their participation, respondents received a \$10 Gift Card from iTunes and were automatically entered into a drawing to win a Nintendo Wii.

About Collective Media:

Collective Media is a leading online advertising network specializing in audience targeting, optimization and reporting solutions to increase relevancy and yield for both publishers and advertisers, reaching more than 150 million unique users monthly. Collective is comprised exclusively of high quality, brand-name publishers offering the largest network of online news sites in addition to a wide selection of sites in every content category. Collective's innovative approach enables both brand and direct advertisers to achieve superior results through sophisticated audience targeting technology, including contextual, behavioral, geographic and re-targeting. Founded in 2005, Collective Media is headquartered in New York City with offices in Los Angeles, San Francisco, Dallas, Boston, Chicago and Detroit. Visit Collective at www.collective-media.com.

To learn more about Collective Media, please visit our website at www.collective-media.com or email us at

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