

The New York Times

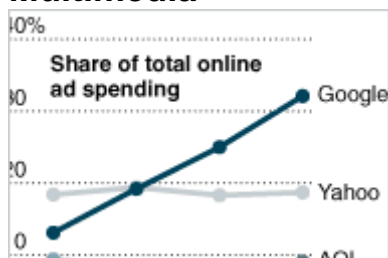
Internet Giants Vie to Snap Up Web Ad Firms

By MIGUEL HELFT

Published: May 19, 2007

It's a good time to be an Internet advertising company.

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Chasing Ad Dollars

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In the struggle for advantage in the digital advertising boom, companies like [Google](#), [Yahoo](#), [Microsoft](#) and AOL are rapidly acquiring once-obscure firms, sometimes for eye-popping prices. The payoff, they hope, will be in the relationships and technology that can deliver the right ad to the right person at the right time across myriad online sites.

The struggle reached new heights yesterday when Microsoft agreed to buy the online advertising company [aQuantive](#) for about \$6 billion. It is Microsoft's largest acquisition ever and a sign of its struggle to build an Internet ad business on its own.

The purchase caps a month of intense deal making, ignited when Google agreed to buy DoubleClick, a competitor of aQuantive, for \$3.1 billion, outbidding Microsoft. Since then, all of Google's main competitors have snapped up online advertising specialists.

Underlying the deals, which total more than \$10.5 billion, is a transformation of the advertising world away from traditional media like television, radio and print.

"We've reached a tipping point," said Bryan Wiener, chief executive of 360i, a search marketing company based in New York. "It's not just talk anymore. The flood of dollars online is starting to accelerate to match the amount of time we spend online."

Online ads accounted for 5.8 percent of the \$285 billion spent on advertising in the United States in 2006, according to eMarketer, a research firm. It estimates that the online share will rise to 10.2 percent by 2010.

In the first quarter of this year, [AT&T](#) spent \$79 million on online image-based advertising, compared with \$55.6 million in the quarter a year ago, according to Nielsen/NetRatings Ad Relevance. The [Ford Motor Company](#) increased its purchases to \$29 million in the period, from \$7 million a year earlier.

As those dollars move online, the big Internet companies see a chance to capture an ever-larger portion of the ad business, and they are seeking to expand.

Until recently, for instance, Google was largely focused on selling small text ads that appear alongside its search results and on other Web sites. Microsoft and Yahoo have sought a piece of that business

and have sold ads on their own Web portals, which attract hundreds of millions of users each month.

Now, the large Internet companies all want to become intermediaries between advertisers and the millions of Web sites that have fragmented the online audience. And they are hoping to help deliver ads to online video games, cellphones and Internet television services.

“This is about the opportunity,” said Kevin Johnson, president of Microsoft’s platforms and services division. “We believe that there are tens of billions of dollars in economic value that can be generated in this industry, and we are committed to getting a bigger share of it.”

Analysts say that strengthening its online advertising business is particularly critical for Microsoft, not only because the company has lagged behind competitors like Google and Yahoo, but also because a major technological shift risks eroding the company’s core software business.

Google, which leads the online advertising world, is among those trying to make inroads into Microsoft’s traditional software business by offering word processing, spreadsheets and other software free.

Microsoft has “a strategic need to get into advertising in a big way and to protect the castle against the Google onslaught,” said Todd Dages, founder and general partner of Spark Capital, a venture capital firm in Boston.

So far, Microsoft’s online advertising efforts have been a mixed bag. Seeking to compete more effectively with Google and Yahoo, Microsoft made a major investment in building a search engine and a technology system to deliver ads on it. Despite that effort, Microsoft’s share of the online search audience has declined steadily, making it harder to persuade advertisers to use the system.

“To effectively compete with the likes of Google and Yahoo, Microsoft needs to have a large base of advertisers,” said Anthony Noto, an

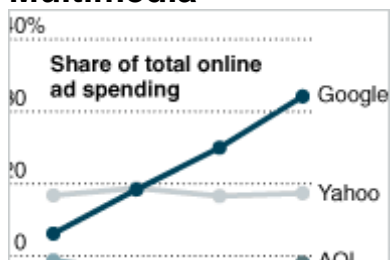
analyst with [Goldman Sachs](#). Mr. Noto said that Google had more than 500,000 advertisers and Yahoo about 300,000, while Microsoft has only a small fraction of that. “As long as that gap exists, they will have an inferior ability to monetize their own product,” Mr. Noto said.

Now aQuantive, which is based in Seattle, will bring many advertisers to Microsoft — and more.

The company has three business units, including Atlas, which like DoubleClick sells tools to advertisers and Web publishers that select and deliver the ads that appear on any given Web page when a user clicks on it. The so-called ad-serving technology, for which aQuantive charges a fee, uses data collected across the Web to figure out which ads are likely to be relevant to a particular user.

For example, when a user visits a news Web site, an ad server might deliver an ad from a marketer that is trying to reach the typical reader of the site. Even more valuable, it might make a match between the marketer’s target audience and typical readers of a news article on a particular subject.

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The technology also uses the data to help Web publishers earn the most for the ad space available on their sites. That could also help Microsoft get more from the ads that appear on its own Internet portal.

Additionally, the DRIVEpm unit of aQuantive brings to Microsoft an advertising network that buys ad space from online publishers and sells it to advertisers. Both units would give Microsoft a greater role in brokering and selling ads outside of its own Web portal, MSN.

It is that same ambition that explains the recent wave of deals by other Internet companies. In addition to Google's purchase of DoubleClick, Yahoo recently bought the 80 percent of Right Media that it did not already own for \$680 million. The company operates an auction marketplace in which advertisers and publishers buy and sell online advertising space in real time.

This week, AOL bought Third Screen Media, which operates an ad network for mobile phones, and Adtech, an online advertising firm in Germany. AOL was the first Internet portal to buy a major advertising network, Advertising.com, in 2004.

"We early on saw the value of a big owned and operated portal, plus a large third-party network," said Michael J. Kelly, president of AOL Media Networks.

The recent deals are also blurring the lines between the big Internet companies and traditional advertising companies like the [Omnicom Group](#), [WPP Group](#) and [Publicis Groupe](#), potentially bringing them into conflict.

On Thursday, the WPP Group bought 24/7 Real Media, another DoubleClick competitor, for \$649 million, to compete better with Internet companies.

And in aQuantive, Microsoft is also getting the Avenue A/Razorfish unit, a leading interactive agency that helps marketers plan

advertising campaigns, design ads and place those ads on Web sites either directly or by taking part in ad networks and exchanges.

This is “a watershed week for advertising in general,” said Rich LeFurgy, a former Madison Avenue executive who is an online advertising consultant and investor. “The boundary between ad agencies and ad media has been breached at the highest level. That’s never happened before.”

To understand how hot the market for online advertising technology has become, consider aQuantive’s stock price, which opened the year at about \$25 a share. The company’s shares jumped when Google said it would buy DoubleClick for what many analysts thought was a steep price. Microsoft ultimately offered \$66.50 a share in cash for aQuantive, an 85 percent premium over its closing price Thursday. Shares of aQuantive soared 78 percent yesterday, to \$63.79.

Microsoft said the bidding for aQuantive was competitive, but would not say which other companies were interested in acquiring it. But having been outbid by Google for DoubleClick, Microsoft may have believed it could not afford to let this deal get away.

“They weren’t going to lose this process,” said a person close to the transaction. “That’s why they paid the price they did.” The conversations between Microsoft and aQuantive “got serious after the Google-DoubleClick deal was announced,” this person said.

Microsoft said the acquisition would require antitrust review.

The software giant has asked regulators to scrutinize the Google-DoubleClick deal, which it said would reduce competition. But Bradford L. Smith, Microsoft’s general counsel, said during a conference call with analysts that Microsoft and aQuantive were complementary businesses and that their union would promote competition.

The pursuit of online advertising businesses has not gone unnoticed by venture capitalists, who are financing a new generation of ad-focused start-up companies.

In 2006, these investors put \$372 million into companies involved in Internet marketing services, according to the National Venture Capital Association, an industry trade group. That was the highest annual figure since 2000.

Carl Eibl, a managing director at Enterprise Partners Venture Capital, a San Diego firm, said there was a sense of urgency among entrepreneurs and investors to start companies based on Internet advertising and marketing and to develop them quickly. “There’s a race to critical mass and a race to position,” he said.

In that respect, he said investors view the recent spate of acquisitions as “heartening but also sobering.”

“The key acquisitions are happening right now,” he said.

Matt Richtel, Steve Lohr and Eric Pfanner contributed reporting