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SZABO ASSOCIATES, INC. VOLUME 27, ISSUE 4, DECEMBER 31, 2012

Dear Friends:

It seems we can't go anywhere today without seeing some form of new media. This is truly an era of "being connected" in some way, 24 hours per day for many of us. The growth and maturation of internet marketing and advertising offer a wealth of opportunity for media, along with challenges—one of the most formidable being the challenge of keeping up with continuing advances in the digital marketplace. This issue broadens our discussion on new media, including products, pricing, measurement, and privacy issues.

Our winter agenda includes the Media Financial Management (MFM) CFO Summit on February 21-22 in Ft. Lauderdale, Florida. Szabo is pleased to sponsor the opening breakfast on the 21st.

All of us at Szabo Associates hope that 2013 will be a year of abundance and joy for all of you.

Robin Szabo, President
Szabo Associates, Inc.

Surging Ahead in the Digital Marketplace

As we reported in our last issue, media can look forward to a rise in advertising spending in 2013, largely due to the continuing surge in new media. Internet advertising in 2013, particularly in mobile and social media, is expected to grow more than 18%, the strongest growth rate in at least four years.

While the new digital landscape presents a myriad of opportunities for media, it also comes with a bucketload of challenges for each department and the organization as a whole. Credit and collection managers can help position their organizations to take advantage of these opportunities by establishing a base of knowledge about digital products, pricing, measurement, and privacy issues. Additionally, they should maintain active lines of communication between sales and credit in order to keep abreast of changes in the fast-evolving digital marketplace.

Countless books have been written on the subject of internet advertising. It would be impossible to provide in a single article the information necessary to become a player in the internet arena. We would like, however, to expand our last issue's discussion on some popular types of internet advertising, which may enable further exploration into media options relevant to your organization and provide information on new media your customers may be considering as part of an integrated marketing plan.

Products. Internet advertising products continue to evolve and, with this evolution, comes a whole new lexicon related to the platform, style, and delivery of ads. Among the most common categories of internet advertising are display, search, mobile and social advertising.

Display advertising is a broad category of ads, which can appear on web pages in various forms and sizes. Standard display ads may contain static (fixed) images or images that are animated with tools such as Flash. Generally, they allow only one interaction, which takes the user to a destination site. A more complex (and many would say, more effective) display is a "rich media" ad, which offers greater opportunities for interactive content. Rich media employs advanced technology such as streaming video, downloaded applets (small programs) that interact instantly with the user, and ads that change as the user's mouse moves over it.

Search-engine advertising takes advantage of users' typed-in keywords in the search box. The engine's formulas determine the "organic" search results, the selection and order of page links on the list. If the user types in "meningitis outbreak," several newspapers' websites appear on the list. If the user clicks on one of these links, that newspaper has an opportunity to serve an ad to the user. In order to take better advantage of organic searches, marketers sometimes hire search engine optimization (SEO) firms, which understand the search engine's rules, to raise their visibility on the list. Another approach is "paid-search" advertising, a process

—continued on page 2

Surging Ahead—

—continued from page 1

that requires advertisers to bid on words that users type into the search box. The search engine chooses the winner based on a combination of factors, including, but not limited to, the bid amount. Also known as "sponsored search," the ads are displayed either under the "Sponsored Sites" header at the top of the search results page or along the sides of the results page.

As we reported in our last issue, mobile advertising is positioned to experience the greatest surge in 2013. Because the smart mobile device is still a relatively new innovation, mobile advertising has much room to expand, and the golden age of mobile is still to come. A significant challenge to mobile advertisers is the complexity created by the diversity among carrier networks and devices. The mobile ecosystem has numerous players. On the advertiser side, there are the agency, ad network, and ad server; on the media side, there are the content publisher (the entity that produces or distributes news, entertainment, educational, or other informational data), content enabler, and carrier (portal); on the delivery side, there are the carrier (network), handset, and consumer. Navigating through the complexity of mobile advertising can be worth it, however, because of the many opportunities for advertisers to reach consumers, including text messaging, ringtone and wallpaper downloads, mobile video, and mobile display advertising. On-device display ads are delivered to the device itself, in the form of text ads, banners, video prerolls, or traditional TV commercials. Alternatively, off-device display ads (outdoor, live event, television, etc.) can be accessed through the interactive capability of the mobile device and may feature a mobile call-to-action (sending information via text messaging).

New business models and technology innovations will continue to change the landscape of mobile media, according to the Interactive Advertising Bureau (IAB), the trade association for sellers of interactive media. In its *Mobile Advertising Overview,* the organization foresees faster data connections, improved devices, improved embedded software, more content, and enhanced "discoverability" through improvements in mobile search.

Social is set to take second place in internet advertising growth in 2013. In its publication *Social Advertising Best Practices,* the IAB defines a social ad as "an online ad that incorporates user interactions that the consumer has agreed to display and be shared. The resulting ad displays these interactions along with the user's persona (picture and/or name) within the ad content."

Social advertising is a type of paid media. A major advantage of social advertising is its unique method of targeting its audience. Unlike other internet media, which largely target consumers based on their online behavior, social incorporates user interactions and persona into the ad content, which is then delivered to friends within their social graph. Social media companies, such as Facebook, continually develop ways to enhance the connections between brands' advertising messages and social recommendations. As an example of its expanded Premium Ad offering, Facebook showcased an ad in which a user's friend "liked" a recently released movie. Beneath the recommendation, appeared the originally sponsored content, a post on the movie's fan page calling attention to a rave review in *Rolling Stone.*

An emerging category of online advertising is "branded content," in which publishers help advertisers create content around a topic relevant to the brand. The goal of branded content is to entice readers to pass along the information via social media. An example of branded content is the recent rollout of General Mills' LiveBetterAmerica.aol.com, a website built on the Huffington Post technology platform.

A relative of branded content is "brand-led" original programming, with marketers producing and distributing content without the active support of a media company. As reported by Shiv Singh in *Advertising Age,* Nike, Virgin, American Express, and Intel are moving aggressively in this direction.

Pricing. Some publishers offer space on a cost-per-click (CPC) basis, in which the advertiser pays only if a visitor to the website clicks on the ad. On a cost-per-action (CPA) basis, the visitor must take a subsequent action, such as contacting the company or buying its product. Most publishers, however, sell space on a cost-per-thousand-impressions (CPM) basis, with an impression defined as a basic advertising unit delivered to a computer. With CPM-based advertising, the advertiser pays each time the advertisement loads onto a user's screen, regardless of whether or not the user clicks on the ad. Obviously, the prices for CPC- and CPA-based advertising are much higher than for CPM, since the percentage of visitors that actually click on ads is usually less than 1%.

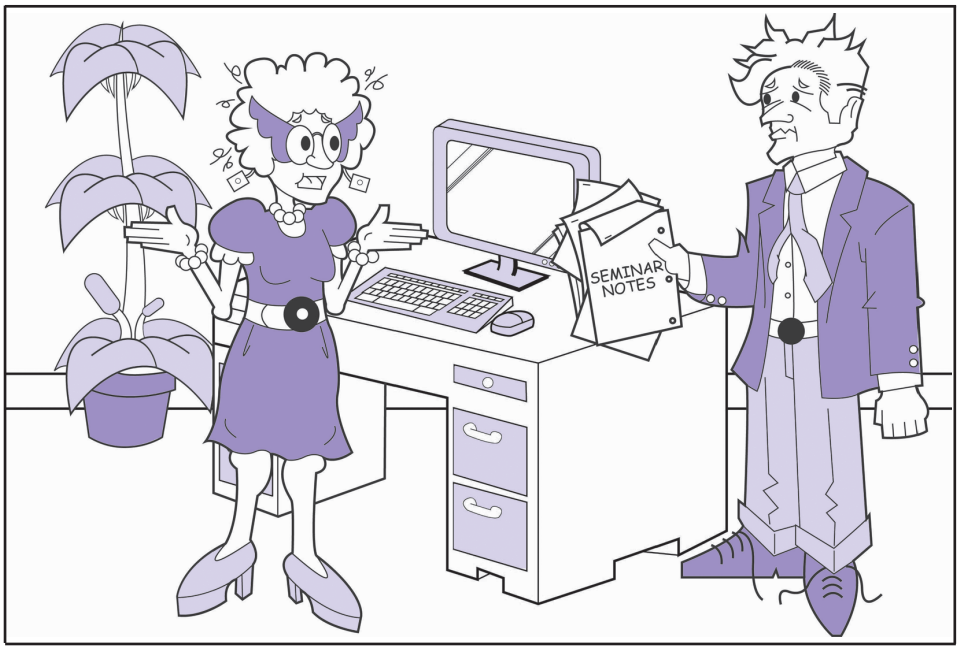
Prices vary among publishers depending on the perceived value of their websites by advertisers, with "premium" publishers able to demand higher prices. Also, publishers may charge higher rates by offering advertisers the specific audience segments they want. This targeting can be done by a variety of methods that involve gathering visitors' personal data, including interests and even personality profiles based on what they view. Publishers can send pieces of data called "cookies" to visitors' web browsers to collect information on their subsequent browsing and transactional activity. When the visitor later returns to the publisher's website, the information collected between visits can be retrieved. Analytics firms are hired to analyze the information, which publishers can then use to show advertisers the quality of the audience and, therefore, to demand higher prices.

Online advertising networks are companies designed to connect advertisers to websites that want to host advertisements by aggregating ad space supply and matching it with advertiser demand. The ad space can come in many different forms, including space on websites, in RSS feeds, on blogs, in instant messaging applications in emails, adware (such as pop-ups), and other sources. Networks employ ad servers to deliver the ads to consumers and to target, track, and report impressions. First-tier networks, which include major search engines such as Google and Yahoo, have a large number of their own advertisers and publishers as well as high-quality traffic. They serve ads and traffic to second-tier networks, which may have some of their own advertisers and publishers, but which get most revenue from syndicating ads from other networks.

If ad networks seem complicated, ad exchanges add yet another level of complexity. These centralized markets (actually, technology platforms) facilitate bidded buying and selling of online display advertising inventory from multiple ad networks. Much like the stock market, there are three entities involved in a real-time bidding (RTB) transaction: the buyers and systems they use (Demand Side Platforms, or DSP), sellers and systems they use (Supply Side Platforms, or SSP), and the real-time ad exchanges (such as Adbrite or DoubleClick), which provide the platform technology. Basically, here's how it works: An advertiser chooses targeting settings and a maximum bid for what they would pay for an impression that meets those parameters; a user goes to a page on a publisher's website; the publisher sends a bid request (generally on a CPM basis) to thousands of potential advertisers, along with a personal profile of the user (for example, a 25-year-old female, Dallas, Texas, recently searched for hotel information in New York City); the publisher receives bids, the highest bidder is informed, and the advertiser can place its ad on the page. The entire transaction takes place in 300-500 milliseconds, with no apparent delay to the user.

Measurement methods. Since the inception of digital advertising, advertisers and agencies have had concerns about the lack of standardized methods to measure ad effectiveness. Additionally, according to the IAB, discrepancies have occurred as a result of different counting methodologies used by the various ad serving technologies as well as the complexity of these technologies. For these reasons, many marketers have been reluctant to commit money for interactive advertising.

In 2003, the American Association of Advertising Agencies (AAAA) and the Association of National Advertisers (ANA) asked the IAB to develop a plan to resolve the issue. The organization created a task force composed of publishers, technology providers, networks, and vendors to research, refine, and approve guidelines for measuring impressions related to interactive display advertising. Since then, the IAB and the industry have continued to issue updates to include additional media and metrics as they develop. The IAB, with the strong support of AAAA and other members of the buying community, recommends all ad-serving applications used in the buying and selling process to be certified, at minimum annually, as compliant with the guidelines. These guidelines and updates are available for review on the IAB website (www.iab.net).



"So the advertiser pays on the basis of CPCs, CPAs, or CPMs, or he does RTB with the DSP buying from the SSP through the RT exchange. This is what you came back with from that internet advertising seminar?"

Privacy issues. If some of this sounds a bit Orwellian ("Big Brother is watching you"), you are not alone with your concerns. According to the Pew Research Center in its *State of the News Media 2012* report, "there has always existed a tension between the services that technology companies provide and the data about consumers they gather and then leverage for financial gain."

In December 2010, the Federal Trade Commission issued a privacy report that called for a "do not track" system that would enable people to avoid having their actions monitored online. Do Not Track technology, which is now built into new browsers from every major maker, was developed to enable users to opt out of tracking by websites they do not visit, including analytics services, advertising networks, and social platforms.

—continued on page 4

Surging Ahead—

—continued from page 3

The Do Not Track (DNT) system is completely voluntary, with no legal or technological requirements for its use; therefore, not all websites and advertisers honor the request by users. When Microsoft announced its plans to enable the DNT feature by default in its newest Internet Explorer 10 browser, the company faced protests from numerous advertising industry groups, including the Digital Advertising Alliance (DAA), Interactive Advertising Bureau (IAB), and Association of National Advertisers (ANA). Stating that the default mechanism "offers consumers and businesses inconsistencies and confusion instead of comfort and security," the DAA does not require companies to honor DNT signals fixed by the browser manufacturers.

According to Peter Klein in an October article in *Advertising Age,* some form of anti-tracking legislation is inevitable, and this inevitability should encourage the industry to continually innovate and marketers to take a hard look at their own actions. Says Klein, "organizations like the IAB, DAA, and Performance Marketing Association have pushed for stronger industry self-regulation to ward off anti-tracking regulations."

Internal and external communication. Keeping abreast of new technology and developments and sharing information within your media organization are essential to avoid being outpaced by competition in this dynamic environment. Credit and collection managers and their staff must stay constantly in the loop with their sales departments to fully understand just what is being sold and how these products are structured.

Effective, consistent communication offers its own set of challenges, particularly in large organizations and those with shared service centers. Again, we can look to technology to help meet these challenges. For example, tools to create "social enterprises," or internal social networks, have already been developed by technology providers such as Microsoft, Cisco, and SalesForce. Like a business version of Facebook, social enterprises hold much promise to help business colleagues collaborate in real time to better share information, support customers, develop prospects, and save time.

As in so many endeavors, knowledge and communication are of paramount importance if media organizations are to develop new opportunities and boost profits in the digital arena. Seminars and trade organizations, several of which we have mentioned in this article, can provide a wealth of information on new innovations and issues. What better New Year's resolution than learning all you can and sharing what you know in this ever-changing digital marketplace! ♦

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