

Dedicated to the continued growth
of interactive advertising

BAIN & COMPANY

Bain/IAB Digital Pricing Research

August 2008

UPDATED

Disclaimer

The Digital Pricing research conducted by Bain & Company in coordination with the Interactive Advertising Bureau (IAB) is a benchmarking study.

Benchmarking studies are not intended to provide projectable results. Please view results as directional only.

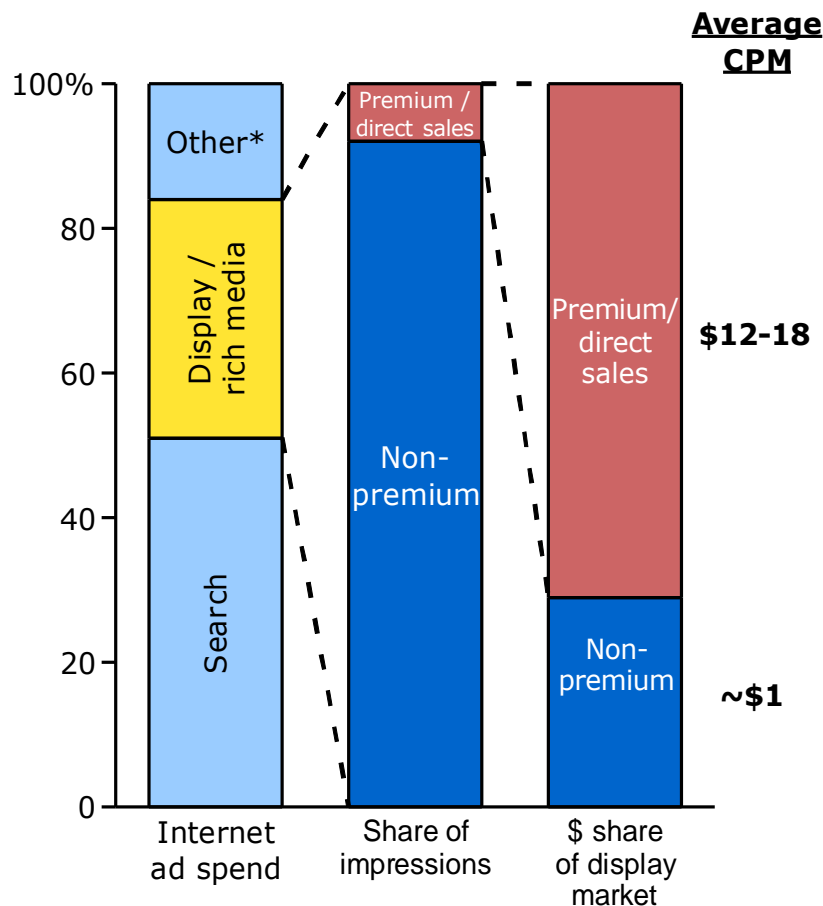
Agenda

- Introduction and executive summary
- Key insights and analysis
- Lessons learned and potential path forward

At issue: what are the implications of ad networks growth on premium publisher CPMs?

Intermediaries control bulk of display inventory and generate ~30% of revenue

For publishers, networks yield low CPM's, while presenting strategic issues



- For branded publishers, **intermediaries are effective at clearing excess inventory**
- Yet, ad networks **growth and enhanced offerings** could lead to significant **CPM arbitrage**
- And there are **concerns for branded sites** when utilizing intermediaries
 - Potential brand impacts
 - Sales channel conflicts
 - Direct sales price erosion

*Other includes classifieds, email advertising, email based lead generation, slotting fees, etc.

Source: CIBC; ThinkEquity; literature searches; Deutsche Bank; Bear Stearns; CIBC; Advertising Age;

Piper Jaffray; eMarketer; Forrester; Veronis; company filings; Bain Analysis LAN

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The Bain/IAB research seeks to shed light on the impact of online intermediaries

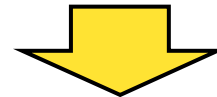
Goals:

Assess how ad networks/exchanges are impacting **pricing**

Assess impact of networks/exchanges on **inventory** sales/mix

Key issues:

- How are **realized prices changing** across direct sales and sales through networks and intermediaries?
- To what extent are **pricing differentials** being maintained across channels?
- How do these trends **differ by format type and inventory quality**?
- How is the **dollar value, unit and impressions mix** changing over time?
- How quickly are media companies **adding inventory and releasing more** to intermediaries?
- To what extent are intermediaries helping media co's reach higher **inventory sellout levels?** (overall, and by type)
- How does **network utilization** correlate to **overall ad yield** (revenue per available ad units)?



Study approach:

Benchmarking comparison across 7 publishers (on blind basis)

- Large, **well-known media companies** and online publishers
- Publishing **premium content** and selling **advertising on a national basis**
- Incorporating use of **detailed pricing data and qualitative discussions**

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Executive summary (1 of 2)

- Overall, **2007 was a strong year** for the seven participating publishers
 - Average revenue growth of 32%, with CPM increases for several participants
 - Growth in ad impressions served and in sell-out (after secondary channels)
 - High demand for premium video inventory trading at 2-3X display CPMs
- At the same time, **use of ad networks increased dramatically**, from 5% of sold inventory in 2006 to 30% in 2007
 - Ad networks were used to monetize significant unsold display inventory
 - Publishers under considerable pressure to realize all revenue opportunity
- **Average realized CPMs** on ad networks ranged from \$0.60-\$1.10, versus \$10-\$20 in direct-sold display inventory, **or only 6-11% of direct pricing**
- Importantly, the study revealed **significant publisher challenges in managing pricing and yield**
 - Lack of longitudinal sales data to measure trends – overall, by account and by channel
 - Limited staff resources and tools in place to optimize CPMs and inventory yield
 - Several participants lacked data on ad network volumes and pricing

Executive summary (2 of 2)

- **It is still too early in the game to measure the full impact** of ad networks on online pricing and revenue share
 - Large marketers still rapidly shifting budgets to online – “all boats rising”
 - Publisher use of ad networks still too recent to see “cause and effect”
- However, growth in marketer use of ad networks will likely lead to **erosion of premium CPMs if publishers maintain current behavior**
- **For publishers**, two key implications:
 - Need to better **support the value of premium inventory** – through more innovative offerings and/or reducing units available
 - Need to actively **manage secondary channels**, both to maximize yield and to safeguard strategic position
- The ability of ad networks to **increase CPMs** and share gains with publishers also appears critical to **creating win-win relationships**
 - Enhanced **ad network targeting and inventory management** resulting in higher price realization on premium inventory from publishers
 - Further **scale-up and (potentially) consolidation** of networks should enable higher margins

Agenda

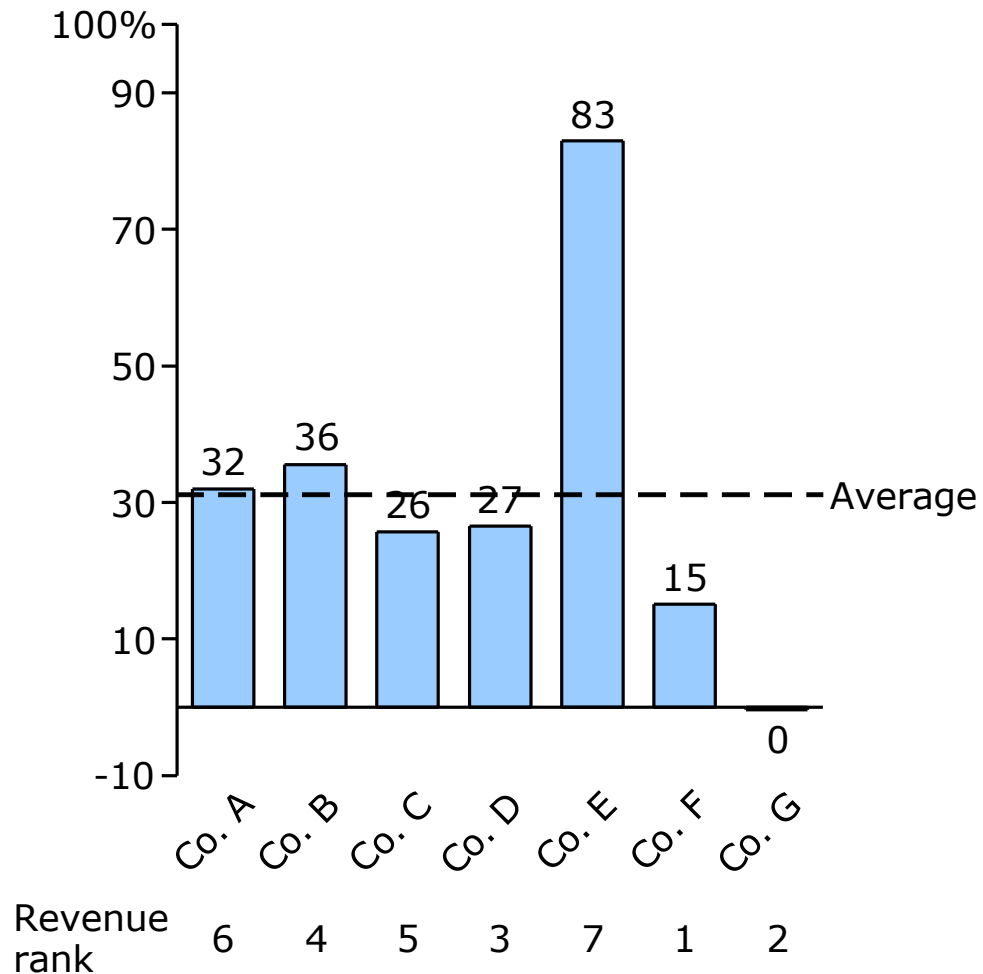
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Participating online publishers realized rapid 2006-2007 online revenue growth

Revenue growth, 2006-2007

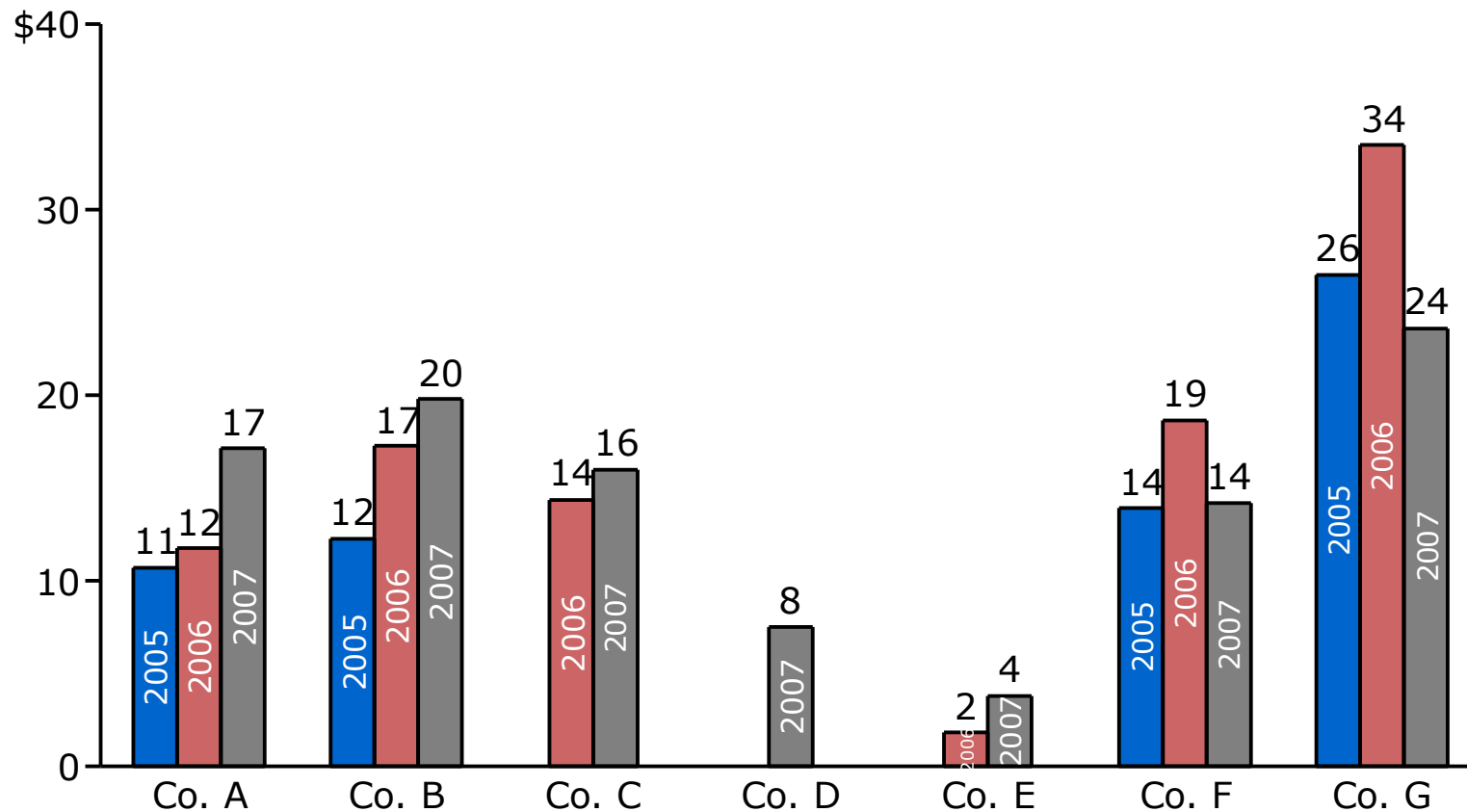


Key findings

- Growth driven mainly by **increased monetization of existing traffic**
 - Participants have **increased ad impressions served**
 - **Increasing ads per page and by adopting new ad formats**
 - Publishers experienced big **differences in direct sales CPM growth rates**
 - **Ranging from -30% to +100%**
- Participants **grew on average slightly faster than online advertising** as a whole
- At the same time, **ad networks revenue grew more rapidly in 2007** (well in excess of 50%), as marketers boosted spending

While publisher CPMs grew "on average," there was high variation across participants

Average realized direct sales CPM's*, 2005-2007



CAGR

(05-07)

26.5%

27.2%

0.9%†

n/a

106.5%†

1.0%

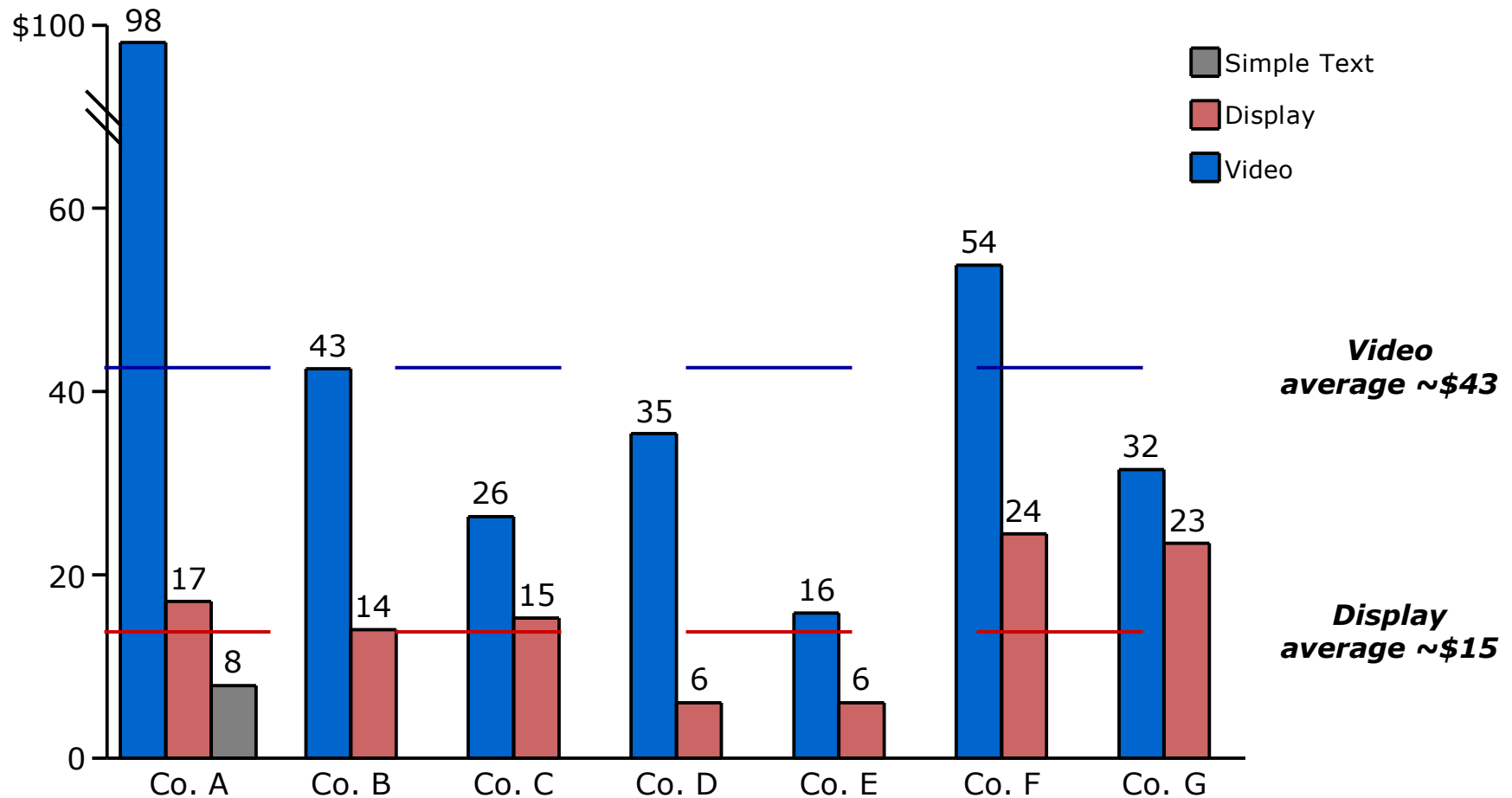
-5.6%

*Represents average realized CPM across formats (display, video, and simple text) for **direct sales only**.

†Represents growth from 2006-2007

Most display CPMs average \$10-\$20; high demand for video drives 2-3X higher pricing

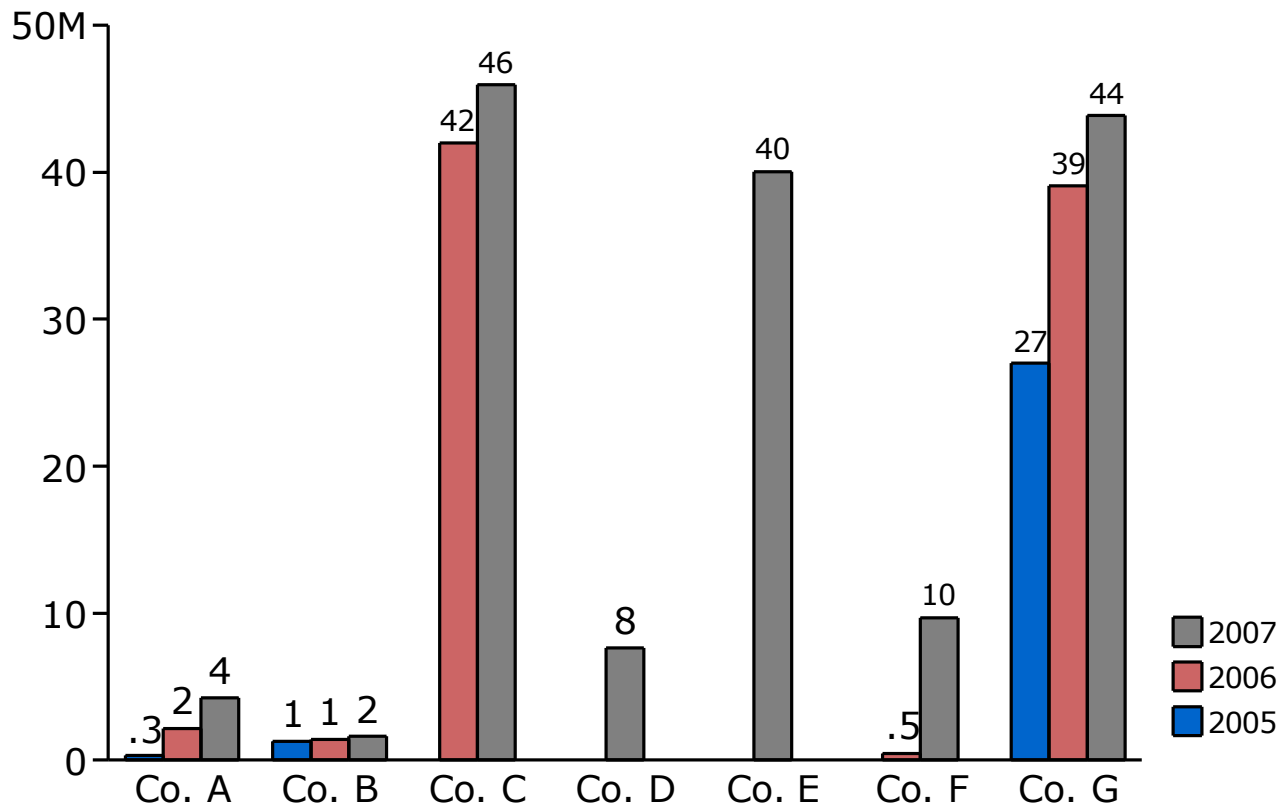
Average direct sales CPM's across formats by company, 2007



Note: Includes direct sales only

Despite high demand, progress in growing **video** impressions appears limited to date

Video impressions sold, 2005-2007



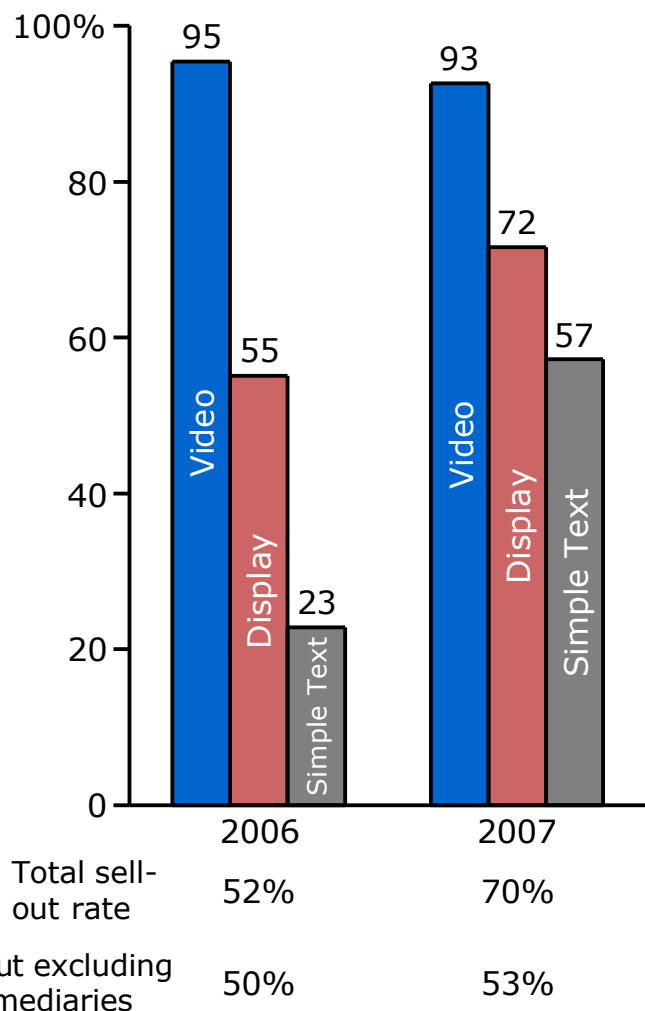
	Co. A	Co. B	Co. C	Co. D	Co. E	Co. F	Co. G
2005-2007 CAGR	265%	13%	5%	n/a	n/a	n/a	27%
% of 2007 impressions	0.2%	0.1%	1.7%	0.1%	1.3%	0.2%	2.0%

Interview findings

- Some participants have **more video content inherent** to site offering
- Some **struggle to deliver sold impression levels** for video inventory
 - **Make-goods** often expressed as mix of display and video inventory
- But when made a key priority, **significant increases are possible**
 - e.g., Company F, G

Publishers have substantial **unsold inventory**; only in video is demand out-stripping supply

Aggregated sellout levels by ad format



Key findings

- **Low sell-out levels** of premium inventory
- **Growth in total sell-out** over 2006-2007 driven by publishers making **more inventory available** to intermediaries/ad networks
- **~30% of total inventory** sold through networks / exchanges in 2007
- Video sellout rates **significantly higher than any other format**
- Because sellout rates are so high, **no participants currently sell video through intermediaries**

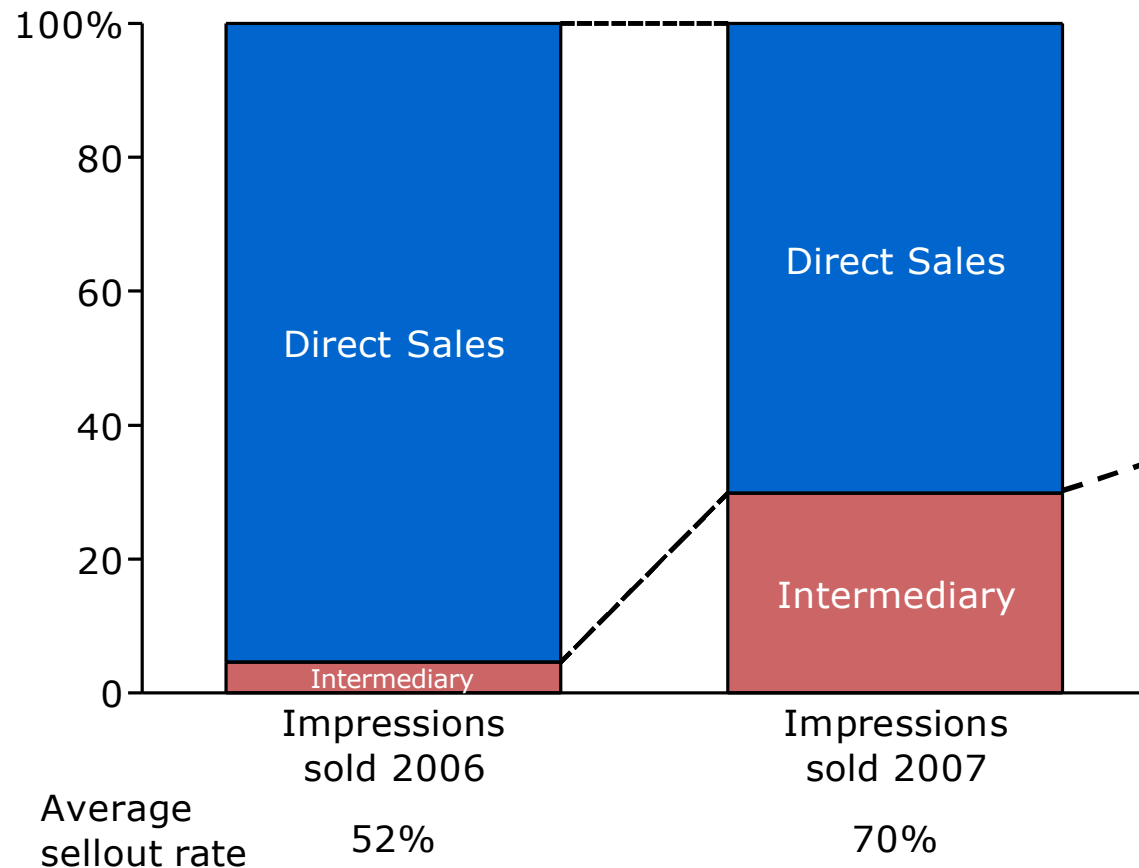


What options do publishers have for addressing excess inventory levels?

Note: Three companies excluded from video portion of graph.

In 2007, publishers significantly expanded use of networks to monetize unsold inventory

Total display, video, and simple text impressions sold by survey participants



**Interviews suggest publishers had planned to release more inventory in 2008...
...though several have recently been re-considering**

Note: Two participants unable to provide data for 2006

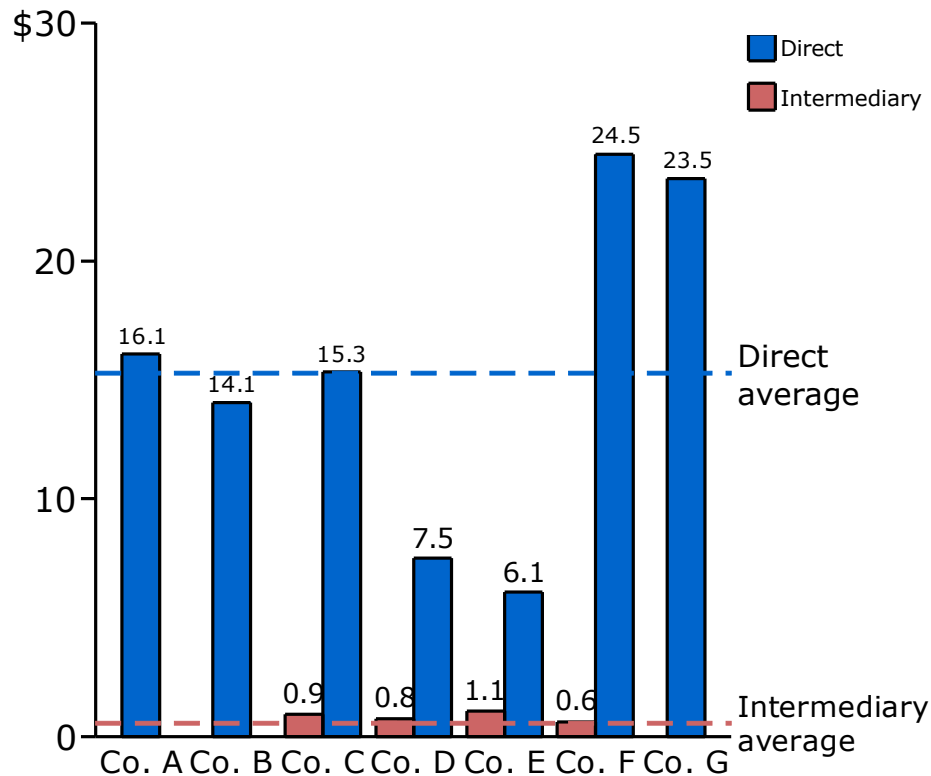
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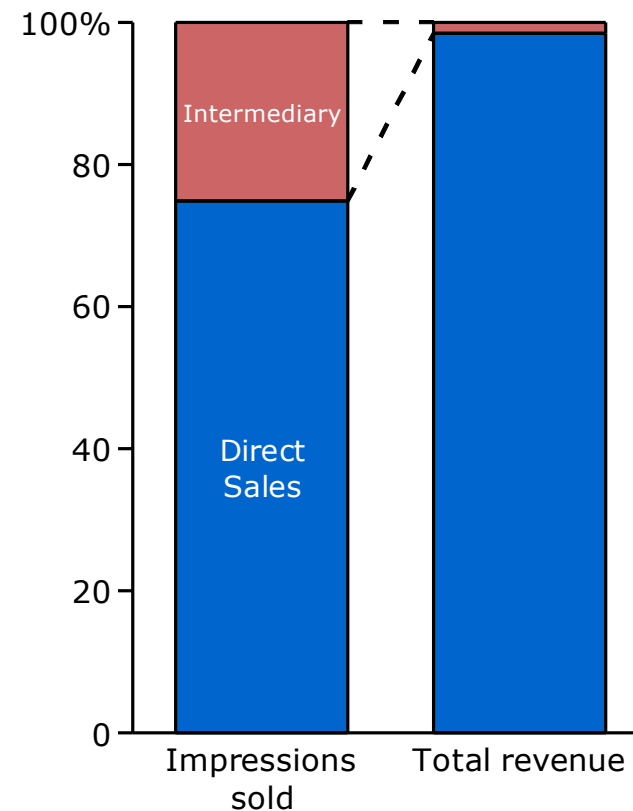
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However, with realized CPMs averaging under \$1, monetization value has been limited

Average display CPM for networks and direct sales, 2007



Total display impressions and revenue, 2007



Impressions sold by intermediaries
0% 0% 22% 26% 47% 48% 0%

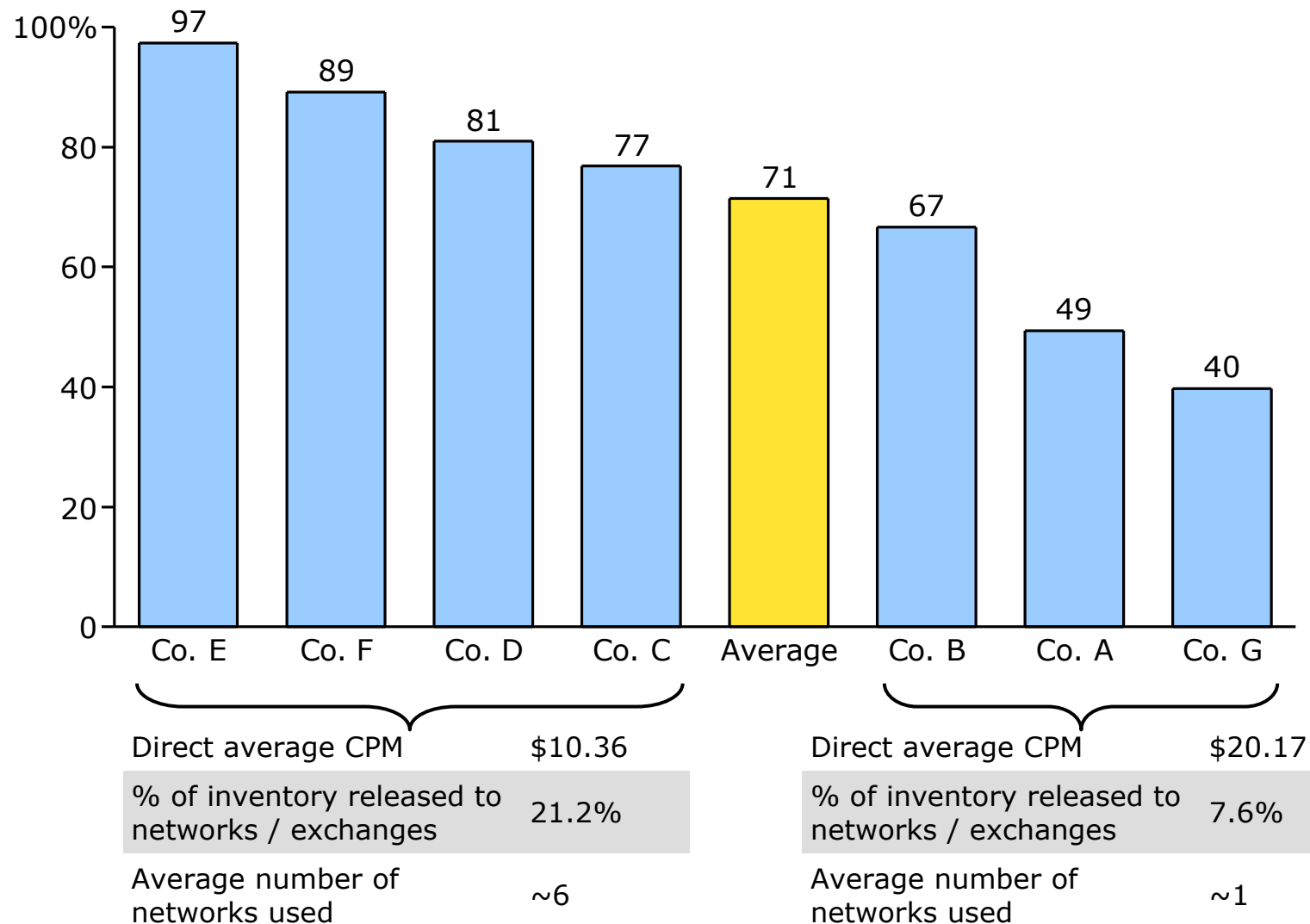


Intermediaries account for ~25% of sold display impressions but comprise only <2% of display revenue

*Average weighted by impressions served across all participating companies

Higher sellout levels appear linked to greater use of intermediaries -- and to lower CPMs

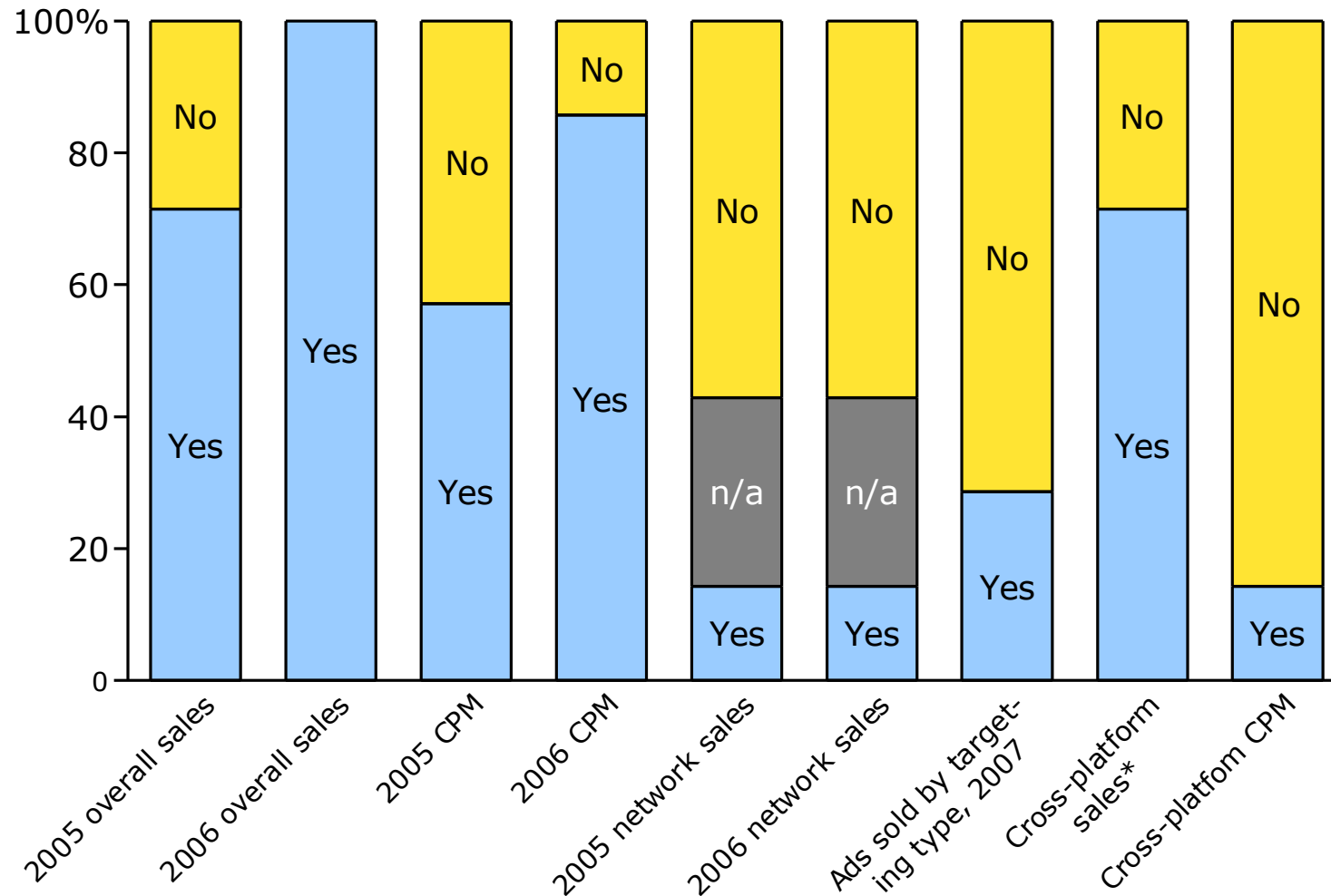
Sellout levels by company, 2007



Note: Sellout level across all formats.

Lack of available data restricts publishers' ability to develop basic ad strategies

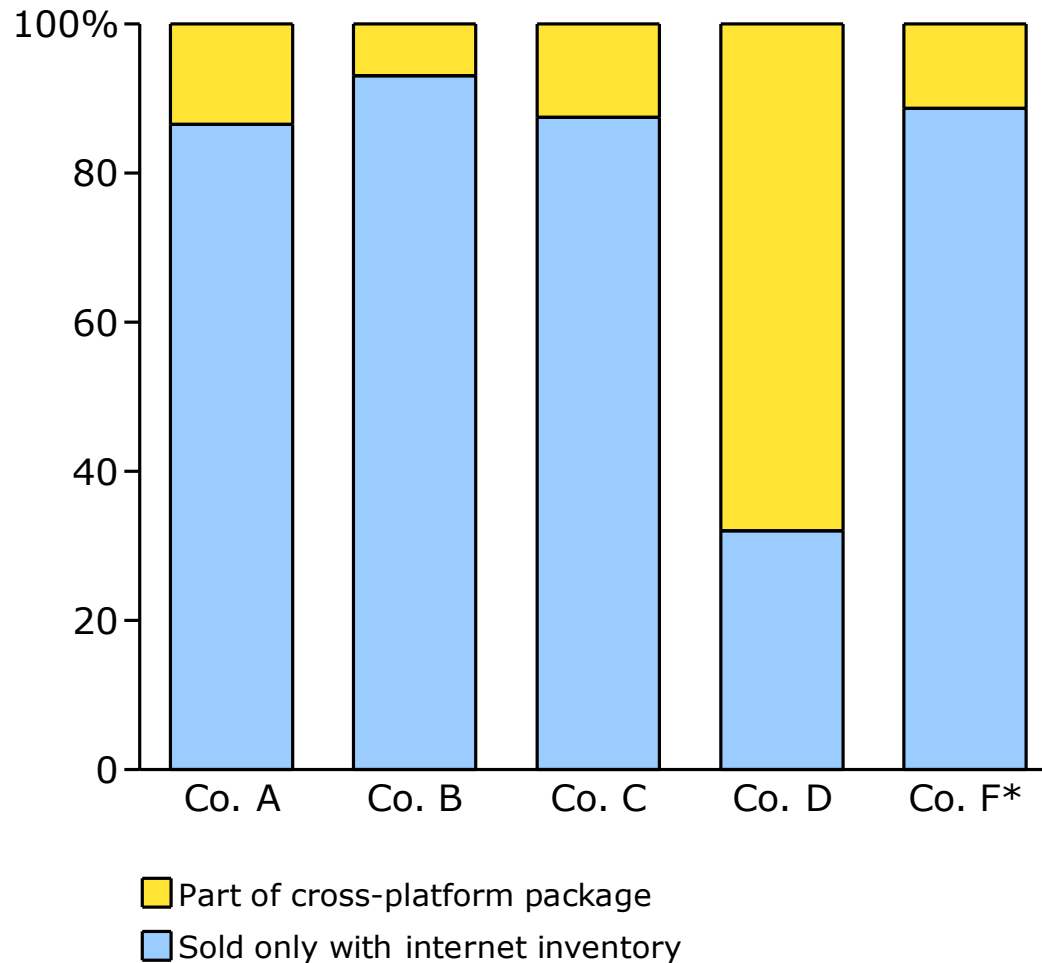
Data available for all survey participants (n=7)



*Estimates included as "Yes"

Publishers use **cross-platform** sales to drive volume (not price), though tracking is limited

Internet display, video, and simple text impressions sold, 2007



Interview findings

- Cross-platform sales predominantly used **to drive share of wallet, not price**
- Most participants do **not actively monitor cross-platform CPM's**
 - Several **do not even track cross-platform sales**
- But **digital sales teams often operate independently** of offline sales teams, limiting ability to measure impact

*Proxy based on number of advertisers who buy cross-platform, not actual number of impressions.

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Lessons learned for publishers

- **Publishers are creating too much inventory**, resulting in growing pressure to expand use of secondary channels
 - Publishers went from almost no use of intermediaries to **selling 30% of total impressions** in only one year
 - With ~50% direct sellout, the number of **brand-focused, premium impressions available significantly exceed demand** at current CPMs
 - With limited ad network monetization, **publishers need to re-think overall pricing and inventory strategy** -- not just the approach for “remnant” sales
- Publishers who **actively manage and use multiple networks** report (somewhat) **higher average intermediary CPMs**
 - “Power users” employ **analysis and negotiation** to enhance results
 - These publishers indicate that vigilance on ad **content, reported sell rates and channel conflicts** is critical
- Most publishers require **improved tools and incremental resources** to better manage pricing and yield
 - Today, **pricing and channel management opportunities** are being missed
 - Additional resources and tools could **enhance decision-making**

Potential steps for publishers and networks to enhance mutual benefits of collaboration

Key issues

Online publishers

Networks/ intermediaries

Data access/ analysis

- **Enhance staff resources and tools** to make more consistent, informed pricing decisions

- Provide publishers greater **access to sales data**, facilitating publisher analysis

CPM arbitrage

- Invest in building **value of the premium direct channel and maintaining high CPMs**
- Use **discipline in managing overall inventory** levels and release of units to networks

- Enhance targeting algorithms and user data **to improve network value and CPMs to publishers**
- Pursue **vertically-focused or tiered offerings** that better leverage publisher inventory

Revenue share transparency

- **Work with multiple networks** and shift to more transparent, higher-value players

- **Increase revenue/share transparency** to publishers as channel partners

Sales channel conflicts

- Utilize **networks selectively with focus on incremental accounts and minimum pricing**

- Work with publishers to **minimize sales conflicts**

Suggested path forward

- **Publishers:** develop **pro-active strategies for managing inventory and better tools** for yield management
 - **Enhance service offering** to support/differentiate premium business and **evaluate reducing inventory levels**
 - Develop and closely manage relationships with **multiple secondary channels** – including horizontal ad networks, vertical networks and other “specialty” networks
 - **Evaluate entry** into ad networks and/or partnering approaches with other publishers for sales of “value” inventory
- **Advertising networks:** evaluate creating a **more tailored mid-tier offering and value proposition** for online publishers
 - Pursue differentiated offerings that better leverage publisher audiences and “environment,” while offering enhanced performance for marketers
 - Increase “transparency” and help address channel conflicts
- **For the IAB,** additional implications:
 - Continue to address “**supply chain**” **costs** to help maintain strength and attractiveness of direct, premium publisher offerings
 - Build **industry standards** for network and “mid-tier” network inventory to help elevate realized prices across the board
 - Support publishers in developing **insights and tools** for inventory mgmt.

For More Information

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