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Google Extends Advertising Dominance With DoubleClick Deal

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Google's purchase of DoubleClick will change the landscape of online advertising by enabling Google to offer both search-based and display advertising to its clients, ultimately boosting the vendor's competitive position.

NEWS ANALYSIS

Event

On 13 April 2007, Google announced a definitive agreement to acquire DoubleClick, a digital marketing technology and services provider, for $3.1 billion in cash. The acquisition will combine DoubleClick's advertising management technology for media buyers and sellers with Google's advertising platform and publisher monetization services. The deal is expected to close by year-end 2007.

Analysis

With its acquisition of DoubleClick, Google dismisses the notion that it is almost exclusively a search company, while gaining a highly complementary market position and revenue stream via online display advertising. Search advertising accounts for about 40% of online advertising spending, while display advertising accounts for about 20% of that total.

Online display advertising — such as banners and panels on Web pages that increasingly include video and rich-media advertisements — is particularly lucrative because an increasing portion of online advertising spending growth is coming from large brands. Large brands prefer high-impact advertising to the sponsored text links that comprise the mainstay of Google's inventory. As a result, Google has been challenged to tap this part of the online advertising revenue stream. Growth in display advertising has also been limited because these buyers have difficulty assembling large quantities of high-value display spots online due to fragmentation in the market and persistent concerns about inappropriate contexts.

DoubleClick, which dominates display service among advertisers, provides Google with a set of valuable and new brand-advertiser relationships. Further, DoubleClick's Advertising Exchange Network, which aims to aggregate choice inventory from publishers and (potentially) other advertising networks, is positioned to create a dominant display marketplace.

Google/DoubleClick holds the promise of improved targetability and accountability in an integrated platform for search and display. However, advertisers and publishers must be wary of the erosion of DoubleClick server neutrality in supporting networks and publishers that compete with Google, especially in emerging areas such as mobile applications.

Still, the acquisition deals a significant blow to Google's competitors, especially Microsoft, which has raised the issue of antitrust. Microsoft is reported to have been competing with Google for this acquisition, and has staked a large portion of its strategy on producing a one-stop-shop for advertising solutions.

We expect high-valuation consolidation will continue among large portals and online advertising technology companies. These trends will extend to mobile and next-generation television advertising enablers, as well.

RECOMMENDATIONS

Advertisers, agencies, online publishers, advertising networks and competing portals:

- Ensure DoubleClick advertising servers remain neutral in their ability to serve media.
- Insist on absolute transparency in DoubleClick Advertising Exchange.

- Ensure databases don't get merged in violation of privacy policies and principles.
- Advocate for and submit to independent auditing of data practices.

Advertisers and publishers:

- Continue to demand server platforms that maximize reach, including opportunities that persist outside of Google's media sphere.
- Re-evaluate your balance of search and display advertising, as display advertising becomes richer, more precisely targeted and more tightly integrated with search.

RECOMMENDED READING

- "Cool Vendors in Media, 2007" — Digital distribution and technologies that enable greater consumer control over media access and manipulation will continue to set the stage for a new order of media titans in 2007. **By Mike McGuire, Allen Weiner, Andrew Frank and others**
- "E-Marketing Improves the Customer's Buying Process" — Online channel usage, as part or all the buying process, continues to grow, making e-marketing activity a strong influencer of purchasing decisions. **By Adam Sarner**

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