

Microsoft Shows It's Serious About Advertising

Andrew Frank, David Mitchell Smith

Microsoft's plan to acquire aQuantive is a milestone in the company's pursuit of leadership in online media, and puts it right back in the online advertising game against Google and Yahoo.

NEWS ANALYSIS

Event

On 18 May 2007, Microsoft announced it will acquire aQuantive for \$66.50 per share in an all-cash transaction valued at approximately \$6 billion. This represents the biggest acquisition in Microsoft's history.

Analysis

aQuantive, a holding company, owns three assets, each of which presents a distinct opportunity for Microsoft:

- Atlas, which competes directly with DoubleClick, gives Microsoft a solid footprint in the ad server world.
- DRIVEpm, the No. 8 ad network according to comScore, gives Microsoft much-needed "long-tail" inventory for its online display media business.
- AvenueA/Razorfish, the least intuitively well-matched asset, gives Microsoft a new brand in services, and more important, a creative platform through which to promote Silverlight, its new rich-media and video plug-in.

Though this acquisition is expensive, it is a key move for Microsoft that puts it right back in the game against Google and Yahoo, whose recent bids for DoubleClick and Right Media, respectively, have strengthened their dominance in the burgeoning online media space. The fact that Microsoft paid a premium is indicative of how important this is to Microsoft, especially given other recent acquisitions (DoubleClick and YouTube) and deals (AOL stake and MySpace advertising) where it was outbid.

Microsoft now faces the challenges of integrating Atlas and DRIVEpm into its adCenter platform, and reassuring Razorfish clients that their agency remains neutral, operationally independent and dedicated to putting its clients' interests first. A good example will be how it will balance the need for independence with the opportunity to promote Silverlight over Adobe's Flash (see "Findings: Microsoft Must Optimize Its Assets to Launch Silverlight").

Most of the revenue generated by aQuantive is through AvenueA/Razorfish. While clearly an asset, the move marks a significant change in strategy, as Microsoft has thus far avoided purchasing and running any businesses that are primarily professional services in nature. Microsoft has also rejected suggestions that it might spin off the services business, although global advertising companies have recently demonstrated strong demand for such acquisitions. This is significant because:

- It shows Microsoft's willingness to spend to be a major player in advertising.
- It represents a change in position with regard to professional-services businesses.
- It shows leadership in Web development as a result of the capabilities of AvenueA/Razorfish.

RECOMMENDATIONS

Enterprises:

- Look to ensure that Microsoft maintains the proper balance of independence with support for its technologies.
- Use Microsoft's growing competition with Google to negotiate better terms for advertising as well as technology and related services.
- Insist on ad server products and services that maximize reach and flexibility.

RECOMMENDED READING

- "Google Extends Advertising Dominance With DoubleClick Deal" — 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. **By Andrew Frank**
- "Microsoft/Yahoo Rumors Are No Surprise" — Gartner has long believed that both Microsoft and Yahoo could benefit from a relationship. **By David Mitchell Smith and Mark Stahlman**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509