

Web 2.0 Expo Ad Exchanges

efficient frontier

search engine marketing

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President and CEO

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Agenda

- **Efficient Frontier Overview**
- **Trends Driving Ad Exchanges**
- **A Primer on Ad Exchanges**
- **Our Perspective on Ad Exchanges**

Global Leadership

\$500MM annual spend under management

25%+ from outside US

180 team members worldwide

~100% Y/Y growth since 2002

250 clients globally

40MM+ active keywords managed

Mountain View | NYC | London | Paris | Hamburg |
Hong Kong | India

Japan & Australia : exclusive licensing arrangements

Mission & Vision

Mission

Our mission is to deliver superior ROI and growth through technology and services to advertisers with large-scale, complex search marketing campaigns.

Vision

Our vision is to be the dominant worldwide cross-channel optimization platform for all biddable advertising.

Why Advertisers Choose Us

- **Predictive modeling algorithms provide visibility**
- **Portfolio optimization methodology enables maximum ROI**
- **Keyword expansion and “learning” algorithms drive growth**
- **Technology platform allows for scale & efficiency**
- **Account Development team drives strategy & execution**

The Way We Think of the Future...

- **SEM will continue to increase in complexity as search engines focus on increasing monetization and improving user experience**
- **Media consumption model will continue to change**
- **Non-premium display and social network inventory will be bought and sold through biddable marketplaces**
- **As we shift from “attribution” model to “correlation” model, the “value” of inventory will be driven by the availability/ ability to process data**

Ad Exchanges- Key Points

- **Market dynamics create a need for ad exchanges**
- **Non-Premium display advertising is projected to be a \$7.6B business by 2011**
- **Ad exchanges should continue to evolve/ accelerate buying and selling of non-premium display advertising**
- **Big opportunity for search engines**

Why are the search engines moving into display?

YAHOO!



rm | rightmedia

Microsoft



ADECN

Google

double
click

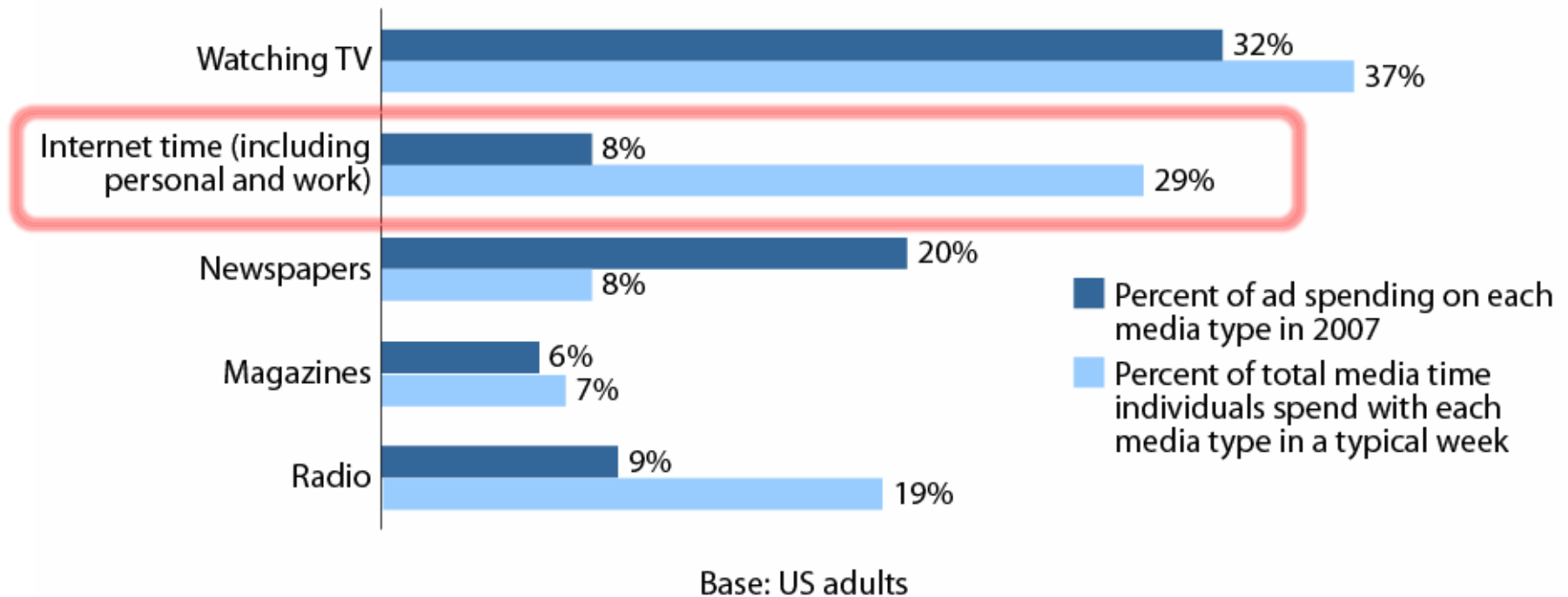
double
click advertising exchange

Trends driving ad exchanges

- **Online advertising is a thriving industry**
- **Web fragmentation is accelerating the growth non-premium display inventory**
- **Non-premium display inventory creates challenges for both publishers and advertisers**

A value gap exists between time online and ad spend driving online ad growth

"In a typical week, how many hours do you spend doing each of the following?"

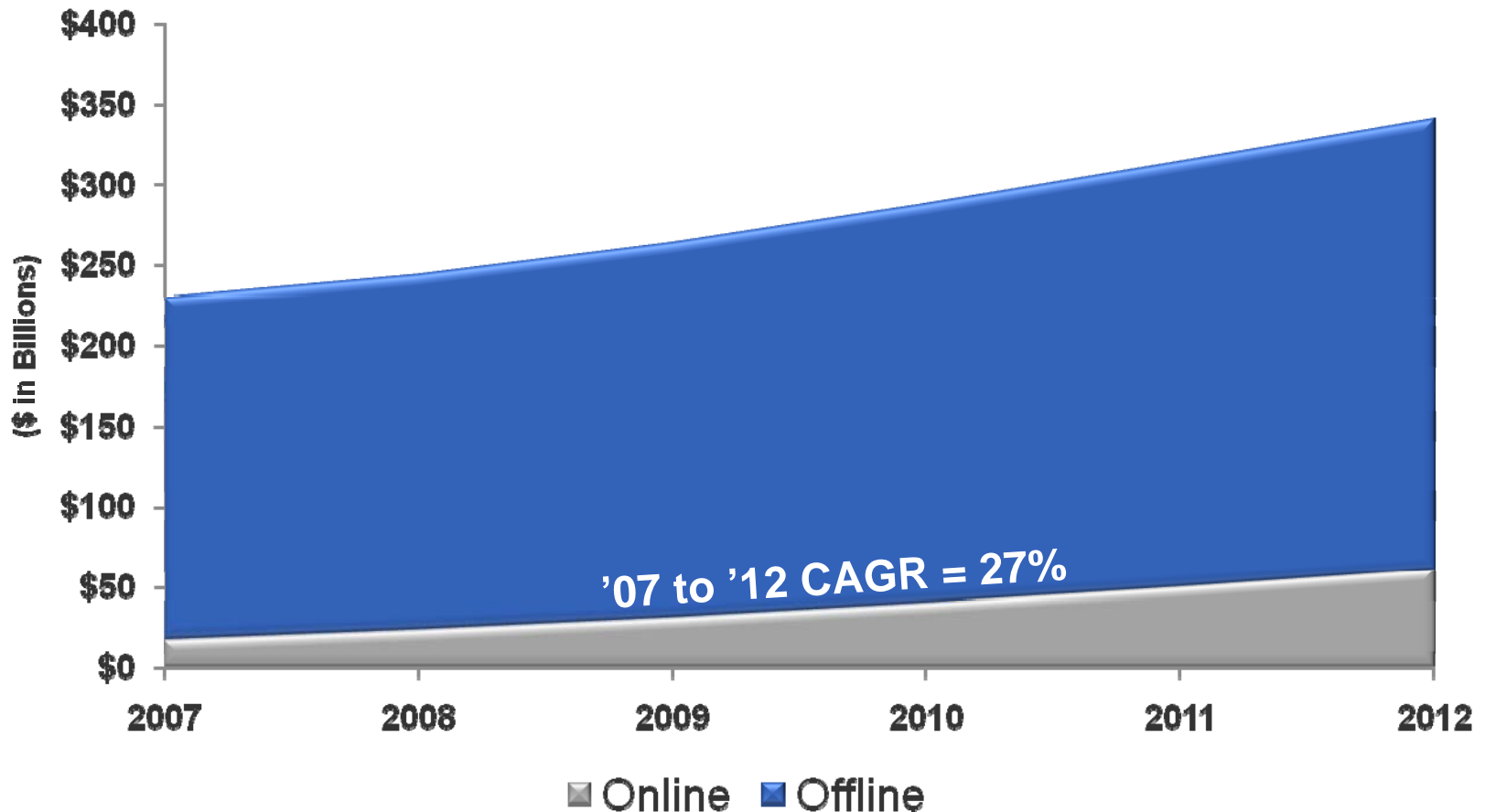


Source: North American Technographics® Benchmark Survey, 2007

*Consumer media time does not include time spent using a cell phone, watching DVDs, or playing video games

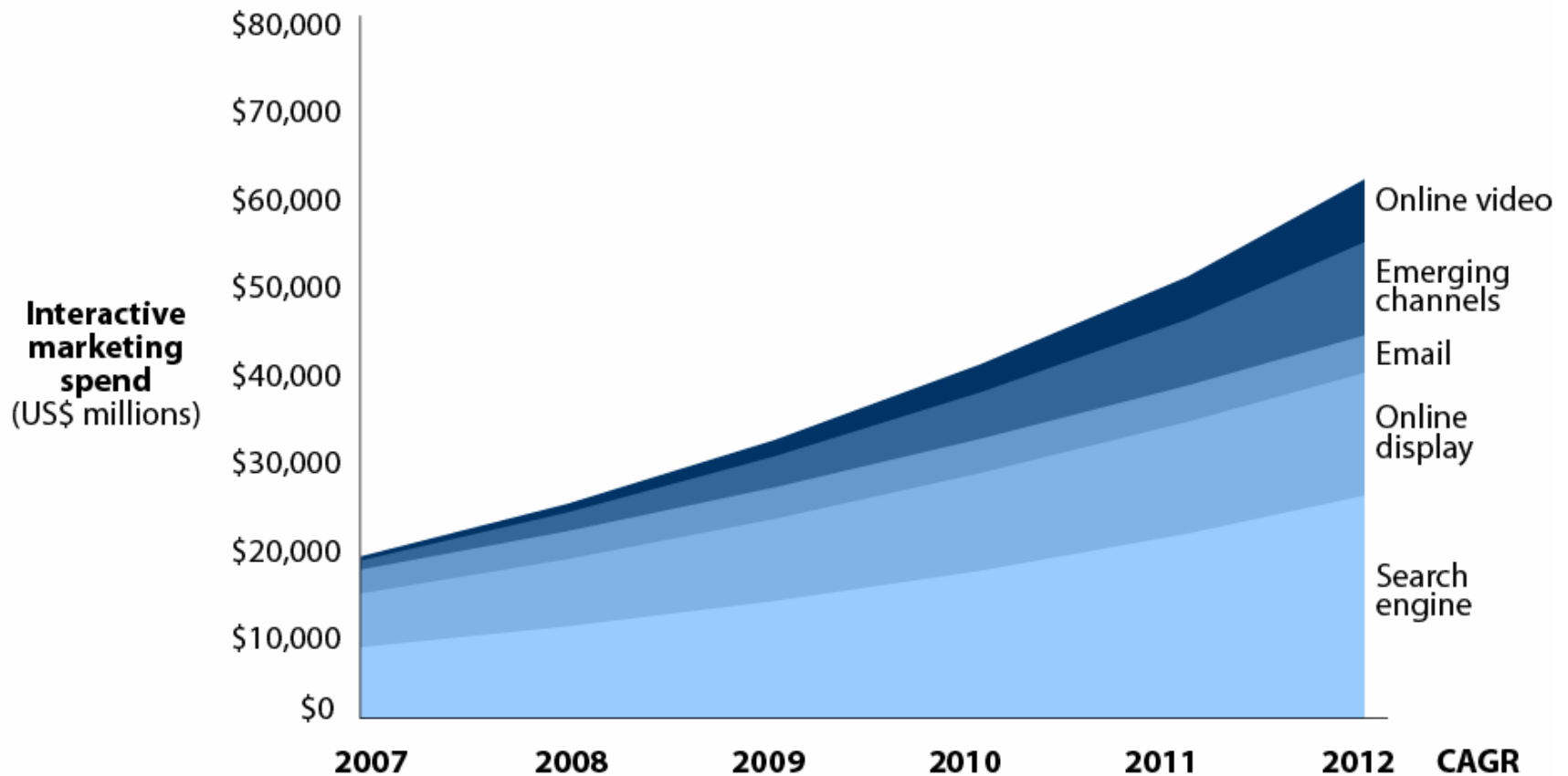
Source: Forrester Research

Shift from offline to online is driving growth



Source: Forrester Research

Search and display represent the largest share today



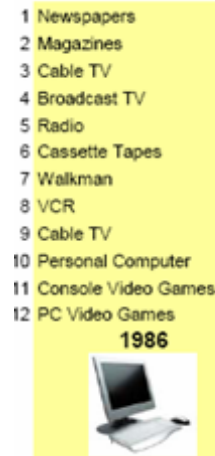
Source: Forrester Research

Fragmentation of the web is creating more inventory

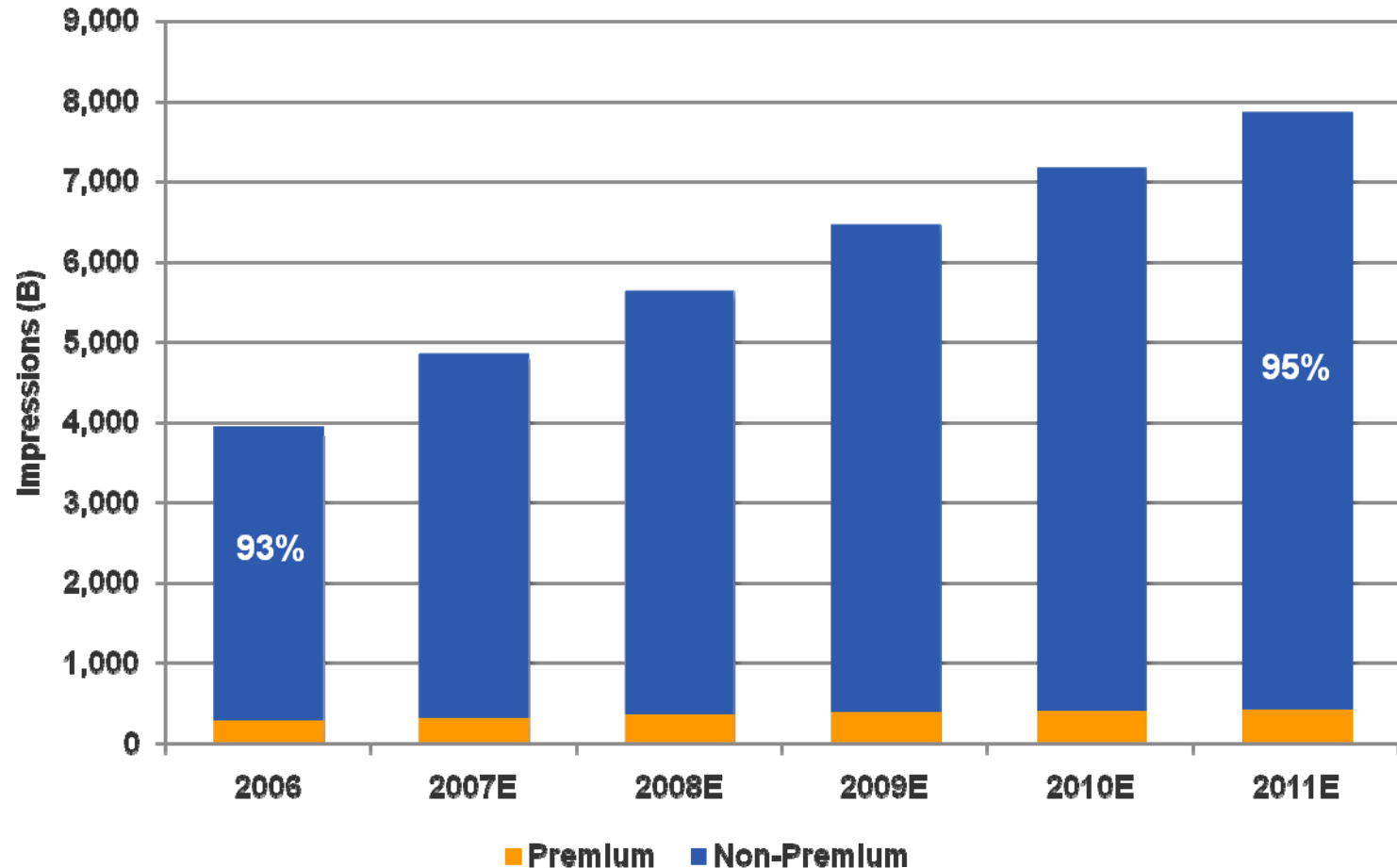


Increase media consumption are adding more options for marketers

Source: Arbitron/Edison Media Research Internet and Multimedia 2006:
On-Demand Media Explodes and comScore

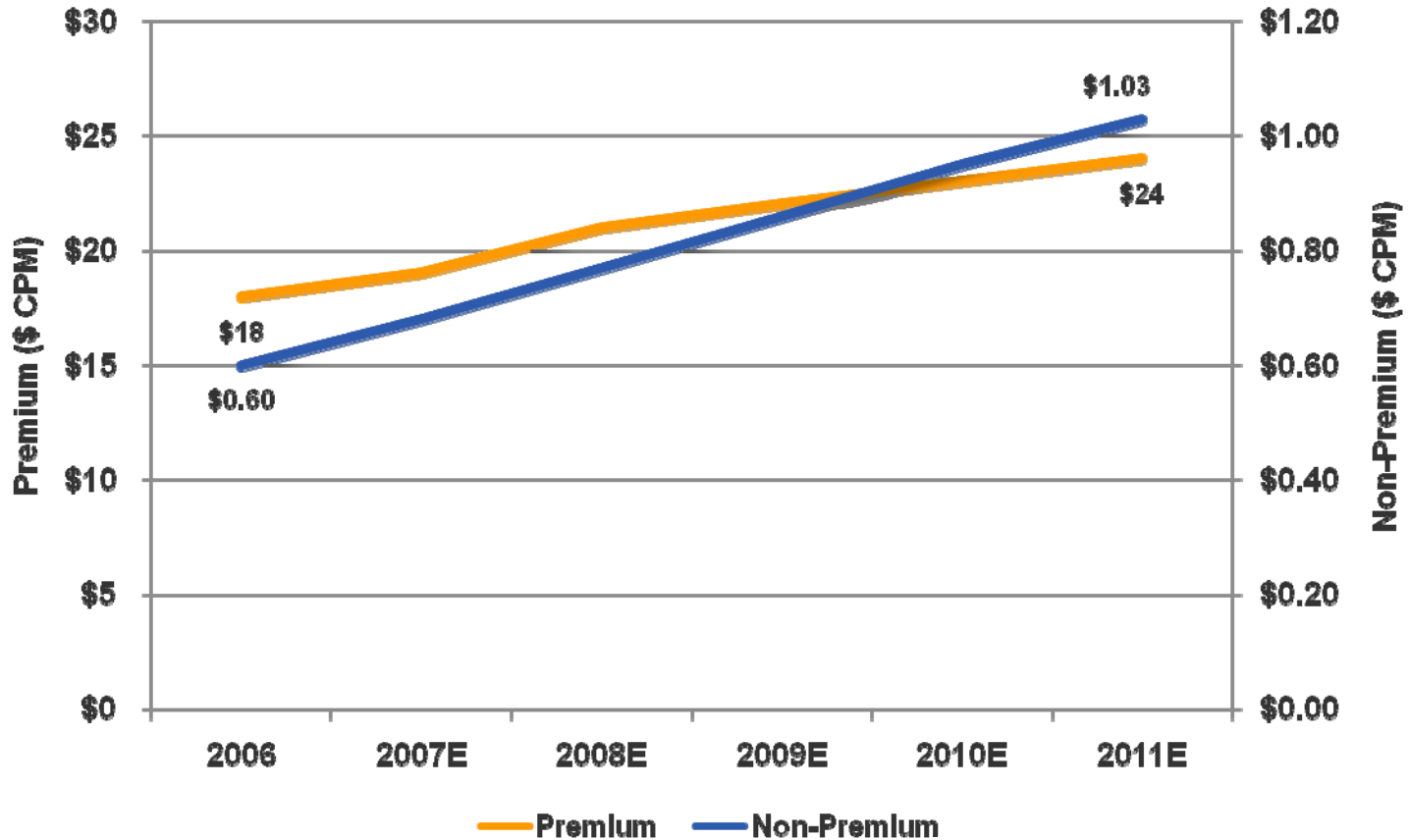


Fragmentation is driving the growth of non-premium inventory



Source: ThinkEquity

Non-premium inventory sells at a substantial discount to premium



Source: ThinkEquity

Non-premium inventory creates challenges for publishers

- **Difficult to maximize revenue**
- **Limited resources for managing ad sales**
 - Internal sales team
 - Ad networks
- **Limited access to large quality marketers**
- **Inventory management issues for niche and excess inventory**
- **Yield management not a core capability**

Non-premium inventory creates challenges for advertisers

- **Maximizing return on ad spend (ROAS)**
- **Too many ad formats – Display, video, mobile, widgets, in games, RSS, text**
- **Fragmented web makes reaching consumers difficult**
- **Marketplace liquidity and efficiency**

Deals to take advantage of new opportunities in display

YAHOO!



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double
click advertising exchange

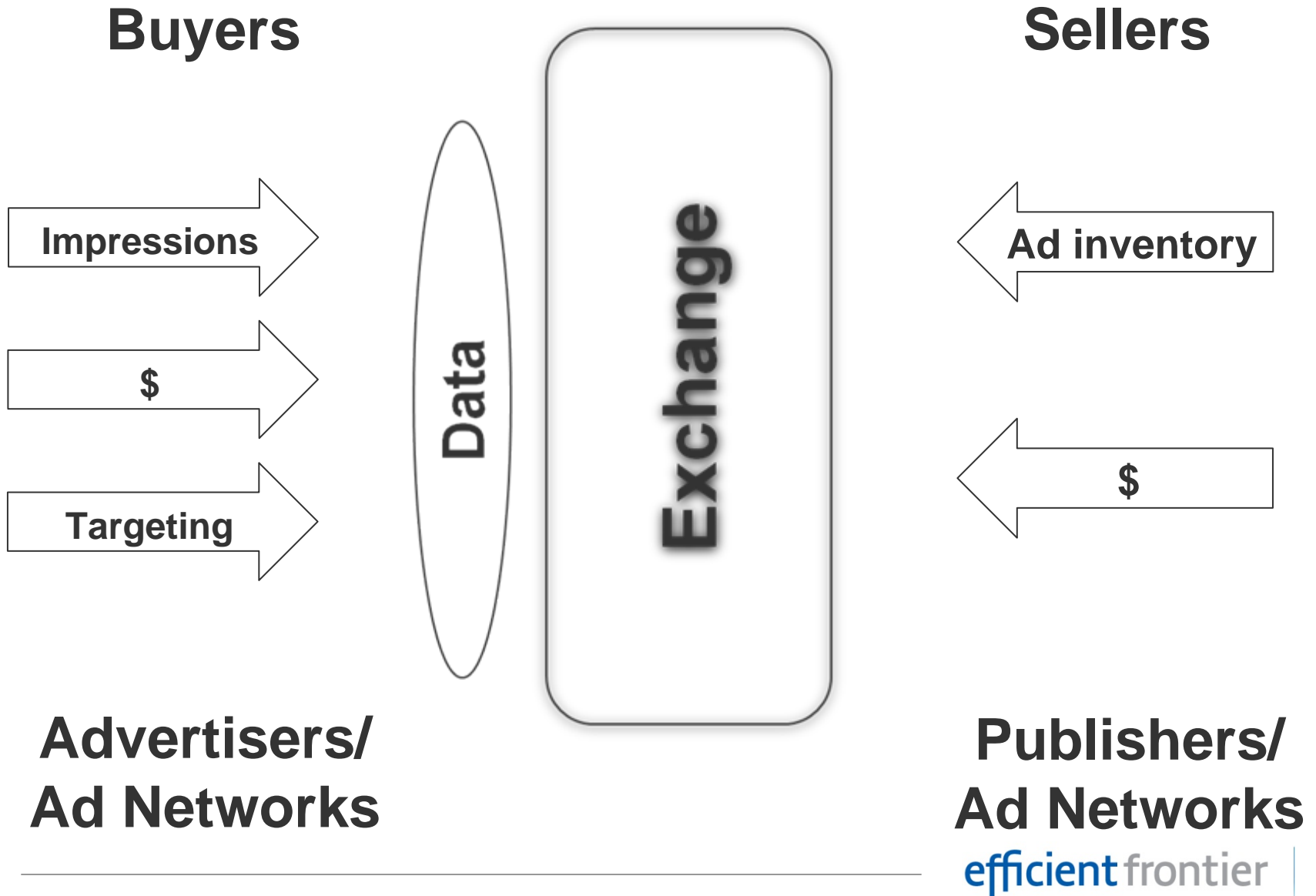
A Primer on Ad Exchanges

- **What is an ad exchange?**
- **Market opportunity for non-premium inventory**
- **Selected profiles of ad exchanges**

What is an ad exchange?

An Ad Exchange is an automated, biddable marketplace for the buying and selling of advertising inventory

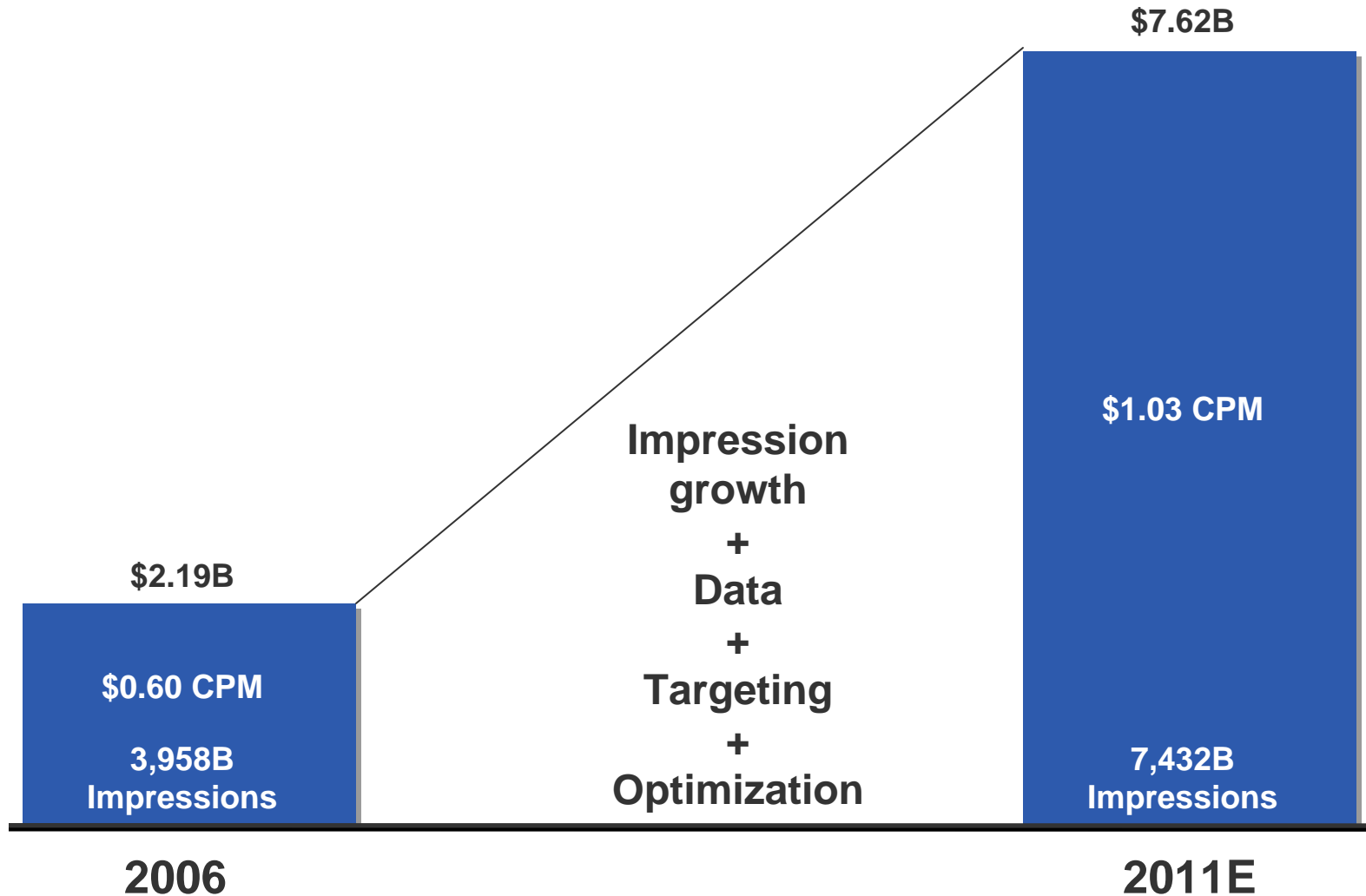
How does an ad exchange work?



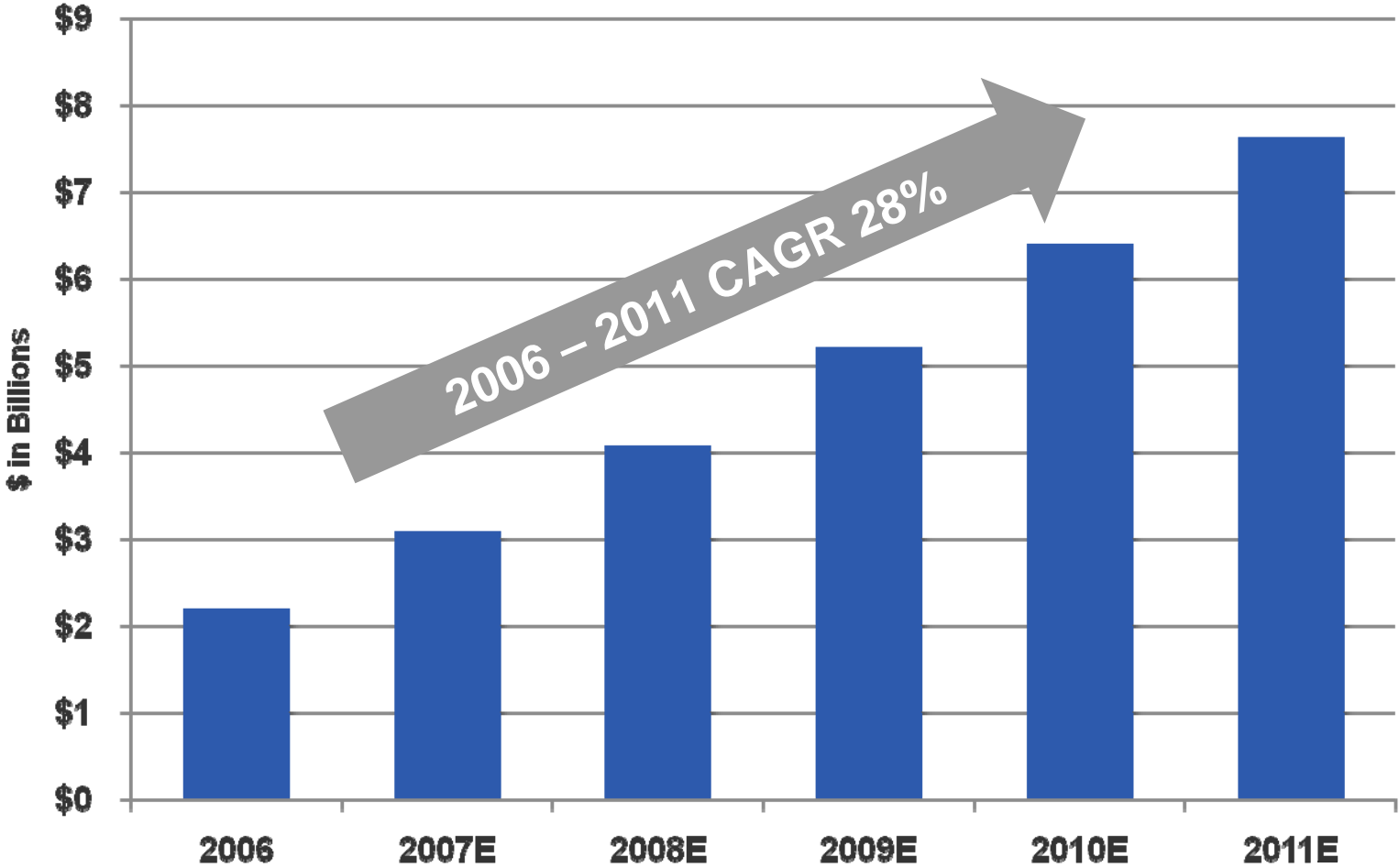
How does an ad exchange differ from an ad network?

- **Biddable marketplace**
- **Transparency**
 - Pricing
 - Inventory for both publisher and advertiser
- **Liquidity**
- **Efficiency**

Market opportunity: Non-premium inventory



Market opportunity: Revenue from non-premium display grows to \$7.62B by 2011



Source: ThinkEquity

Selected Ad Exchange Profiles

- **AdECN (Microsoft)**
- **ADSDAQ (ContextWeb)**
- **DoubleClick Ad Exchange (Google)**
- **Right Media (Yahoo!)**

AdECN (Microsoft)

Business Overview

Exchange Start Date: 2005

Company status: Acquired by Microsoft in 2007

Ad Network only

Value proposition: Increasing liquidity for ad networks through a real-time, automated, auction based platform similar to a stock exchange

Technology

API: Not available today

Bidding Options: CPM

Bid Optimization Technology: CPA bid optimization

Ad Serving: Proprietary Provided and Third Parties Accepted

Business Model

Auction Model (Buyer): Set Desired Max CPM , CPA or CPC

Auction Model (Seller): Set Minimum Acceptance CPM Bid

Pricing: Membership Fee + Transaction fee

Billing

Payment Options: CPM, CPC, CPA

Billing Method: Clearinghouse

ADSDAQ (ContextWeb)

Business Overview

Exchange Start Date: 2005

Customers: Advertisers and Publishers

Value proposition:

- Exchange provides real-time, fully automated, page-level contextual targeted technology
- Clearinghouse for premium inventory

Technology

API: Not available today

Bidding Options: CPM or CPC and CPA using ADSDAQ optimization technology

Bid Optimization Technology: CPA, CPM, CPC based bid optimization

Ad Serving: Proprietary Provided and Third Parties Accepted

Business Model

Auction Model (Buyer): Set Desired Max CPM or CPA or CPC Bid Rule

Auction Model (Seller): Set Minimum Acceptance CPM Bid

Pricing: Spread between bid and ask price

Billing

Payment Options: CPM, CPC, CPA

Billing Method: Clearinghouse

DoubleClickAd Exchange (Google)

Business Overview

Exchange Start Date: 2007

Customer: Publishers, advertisers, ad networks and agencies

Value proposition:

- Transaction platform that provides transparency, efficiency and control to help buyers and sellers maximize their performance
- Leverages DART

Technology

API: In Development expected 2008

Bidding Options: CPM or CPC and CPA using DBCLK optimization technology

Bid Optimization Technology: CPA and CPC based bid optimization

Ad Serving: Proprietary Provided and Third Parties Accepted

Business Model

Auction Model (Buyer): Set Desired CPM or provide CPC or CPA Bid Rule

Auction Model (Seller): Set minimum acceptance CPM bid

Pricing: Commission (based on sales)

Billing

Payment Options: CPM, CPC, CPA

Billing Method: Clearinghouse

RightMedia (Yahoo!)

Business Overview

Exchange Start Date: 2005

Customers: Publishers, advertisers, agencies and ad networks

Value proposition:

- Provide a full suite of products (exchange platform, ad serving)
- Professional services

Technology

API: Yes

Bidding Options: CPM, CPC, CPA

Bid Optimization Technology: CPA and CPC based bid optimization

Ad Serving: Proprietary Provided and Third Parties Accepted

Business Model

Auction Model (Buyer): Set Desired CPM, CPA or CPC

Auction Model (Seller): Set Minimum Acceptance CPM Bid

Pricing: Transaction fee (based on dollars traded)

Billing

Payment Options: CPM, CPC, CPA

Billing Method: Client/Publisher Direct

Ad Exchanges are still developing

- **Earliest ad exchange launched in 2005**
- **Business models are still evolving**
- **Technology platforms are still developing**

There are technological gaps

	Search Engines	Ad Exchanges
APIs	Mature	Emerging
Inventory Forecasting	Extensive	Limited
Available click, cost and position information	Yes	Click and Cost Only. Position: NA Placement: Yes
Basic Targeting Options	Keyword	Run of Network, Category, Contextual, Behavioral
Advanced Targeting Options	Geographic , Demographic (MSN only), Landing Page and Ad Copy	Geo Location, Frequency Caps, User Time Zone, Specific Time Zone, Browser Type, Operating System
Day Parting	Yes (no API access)	Yes
Frequency Capping	No	Yes
Ad Formats	Text, Banners, Flash (no API access) and Video (no API access)	Banners, Flash, Video, etc.
Bidding Options	CPC and CPM	CPC, CPM, CPA
Average CTR	2-3%	.05%+

What needs to be done?

- **Opening up platform is critical to drive adoption (API)**
- **Volume and scale**
- **Improving monetization and returns**
- **Focus on your customers from an application perspective**
 - Advertisers
 - Publishers
 - Agencies
 - Ad Networks

Fundamentally, ad exchanges will benefit both advertisers and publishers

- **Provide improved transparency for pricing and inventory**
- **Potentially maximize revenue and return on ad spend**
- **Gain efficiencies**
 - Managing relationships
 - Potentially simplify tracking
 - Operational costs
- **Create liquidity in the marketplace**

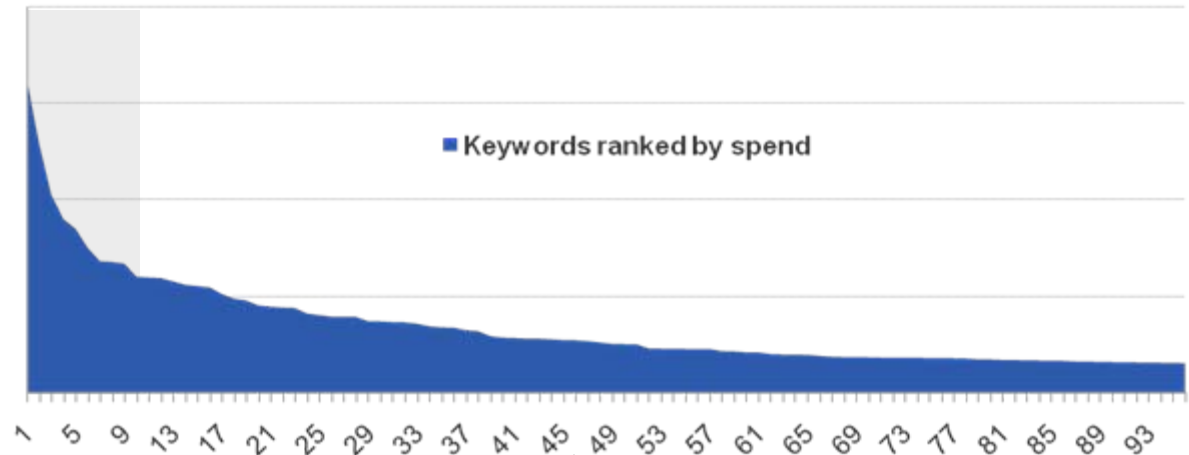
Why are ad exchanges interesting to Efficient Frontier?

- **Exchanges create value**
 - Efficiency
 - Not for commodities
 - Long tail
- **Strong analogy to search**
- **New opportunity for optimization**

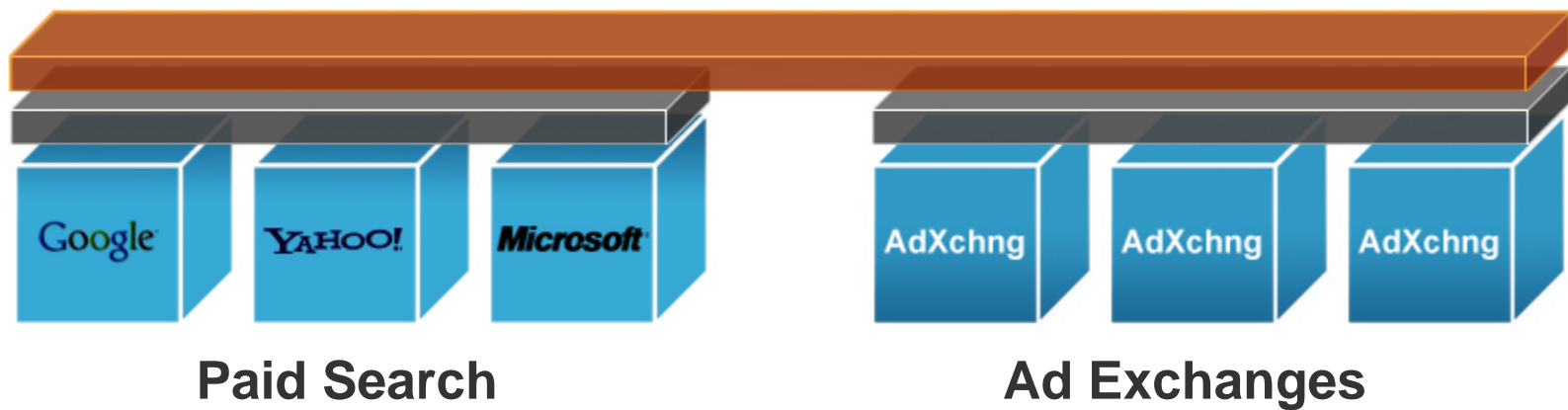
We see a strong analogy to search

Search		Ad exchange
Keyword	→	Inventory classification
Position	→	Placement
Targeting	→	Targeting
Creative	→	Creative
Bid	→	Bid
ROI	→	ROI

Google: Value in the long tail



We see a potential new opportunity for optimization



Thank You