

An Advertising Power, but Just What Does Doubleclick Do?

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LOU DOBBS seemed like an alien on a very strange planet. Carefully coiffed and immaculately pinstriped, the former CNN newsman stood ready to pitch his new Web site, Space.com, to a sea of goatees and unpresed jeans -- the sales force at Doubleclick Inc. Most weren't born when man set foot on the moon, yet they were eager to ask him about space -- the advertising kind.

"How big do you see the audiences being?" one young man asked.

"Between a half to a full billion page views in short order," Mr. Dobbs answered, to an appreciative hum.

Would there be sponsorship opportunities, another wondered.

"Whatever you want, I'm there," Mr. Dobbs responded. "Flog me."

The neophyte entrepreneur had come to the right place. Perhaps no other organization has been quite so successful at flogging advertising on the Internet as Doubleclick, the New York company that Mr. Dobbs had selected to help Space.com, a galactic news and entertainment site, earn its keep.

In four years, Doubleclick has evolved from a gleam in the eyes of two Atlanta engineers into a multinational corporation with 660 employees, more than 3,000 advertising clients and a mission, recited by rote by its senior executives: "to make advertising work on the Internet."

It is a lucrative goal. Although accounts and projections differ wildly, few doubt that Internet advertising is soaring. Analysts place current advertisement spending on the medium at \$2 billion to \$3 billion a year in the United States. Jupiter Communications, the Web research company, predicts a rise to \$11.3 billion by 2003; Forrester Research in Cambridge, Mass., forecasts even more explosive growth, to \$22 billion in 2004, with the Internet surpassing magazines, matching radio and trailing only television, newspapers and direct mail as an advertising medium.

Yet as Doubleclick has ridden that wave to a market capitalization of \$3 billion, its executives still lament that nobody knows what it does. Although vaunted as an Internet advertising powerhouse, Doubleclick does not create commercials, nor does it develop marketing strategies. Instead, its clients -- which include advertising agencies and media companies in addition to marketers -- are buying something more valuable and more elusive: accountability.

Conventional mass-media advertising seeks to deliver as many impressions, which refers to the number of times an advertisement is seen, as possible to an audience using research-derived characteristics of that audience to make educated guesses about its response to a message. But the Internet is a mass medium with an edge: a user's Internet address. Browsing habits can be determined, theoretically allowing advertisers to send messages to specific consumers and ascertain their responses.

What is true in theory is complex in fact. Doubleclick and its competitors in what is known as the ad-serving business have leveraged a forgiving stock market -- Doubleclick recorded a net loss of \$18 million on \$80 million in revenue last year, yet its stock price has risen more than 300 percent this year -- to try to bring the promise of accountability to life.

"We can get the right advertisement to the right person at the right time," Barry Salzman, 36, the president of Doubleclick's international division, said. "For the first time in the history of media, we can eliminate waste."

WASTE has been both a bane and boon to the advertising and media industries. "I know I waste half the money I spend on advertising," the turn-of-the-century department store magnate John Wanamaker is reported to have said. "The problem is, I don't know which half."

During the last century, various savants have proposed answers to the conundrum. One advertising agency president, Claude C. Hopkins, analyzing the results of direct-mail ads, went so far as to write in 1923: "The time has come when advertising in some hands has reached the status of a science. We know what is most effective, and we act on basic laws."

He was wrong. Marketers could determine what worked, but not why. Was it the headline, the advertisement's position on the page, the product's price or simply its location on the store's shelf?

The failure of "advertising's scientists," as the legendary adman Bill Bernbach derisively called people like Mr. Hopkins, to answer these questions allowed others to pose competing theories. Most were predicated on the power of brand imagery or other aesthetic considerations. Most also required marketers to spend large sums to achieve notice, to the great profit of both agencies and media.

The advent of the Internet persuaded a new breed of advertising specialists that they could solve John Wanamaker's puzzle. "Advertising is a science," insisted Kevin O'Connor, the co-founder, chairman and chief executive of Doubleclick, "but the limitations of the media turned it into an art."

MR. O'CONNOR was an executive and Dwight Merriman an engineer at an Atlanta software company in 1995 when they decided to become Internet entrepreneurs, with media their bailiwick. Although the number of subscription-based content sites on the Web was burgeoning, the resulting fragmentation of the

Web audience rendered most of them incapable of competing with the larger America Online. The two "geeks of all geeks" reasoned they could solve the problem by assembling numerous publications into a single network.

As they researched their idea, "we kept running into this other problem called advertising," said Mr. O'Connor, 38. Dependent on a mass audience to which it could broadcast brand messages, advertising would become increasingly ineffectual if the Web's narrowcast promise was realized. But placing advertisements on the myriad sites necessary to re-create that mass audience -- or on the smaller segments more coveted by marketers -- was a laborious task beyond the scope of any agency. So the partners changed gears and decided to cobble together a network to serve the advertising industry.

The Doubleclick Network, started in January 1996, today numbers 490 publishers worldwide, 59 of which it represents exclusively. In return for selling their advertising space, Doubleclick takes 35 percent to 50 percent of their advertising income. Although steep in comparison with traditional advertising agency compensation, which averages much less than 15 percent of a client's spending, many are happy to pay it.

"Having a Doubleclick," said Jay Sears, the vice president for marketing and business development at Edgar Online, a financial-services Web site, "allows us to focus on what we're good at, the selling and marketing of S.E.C.-based products, but not on what we're not good at -- dealing with ad agencies, trafficking ads and sending advertisers reports. Doubleclick lives and breathes that stuff. They are like an army."

Lou Dobbs's visit this summer was to introduce Space.com, a new member of the Doubleclick Network, to that army -- the sales force of about 350 people that clients and analysts say is Doubleclick's secret weapon. "We've got to get them smart and gassed up about this site," said Wenda Harris Millard, 45, a former magazine publisher and, as executive vice president of Doubleclick, Mr. Dobbs's host for his crucial pitch session.

Ms. Millard's office abuts Madison Square -- the location, coincidentally, of some of New York's first advertising agencies about a century ago. Around the corner, on Fifth Avenue, one-seventh of her army, the "inside sales force," sits in an open room with headsets strapped on, dialing would-be advertisers to sell them on the efficacy of Internet advertising.

The smell of sandwiches permeates the floor. "A year and a half ago, we set a goal: sell \$500,000 of advertising in a week, and we'll buy lunch for everyone in the room," said Andy Jacobson, Doubleclick's regional vice president for sales. "Today, we're averaging \$2.5 million a week. We're buying a lot of lunches."

Assembling the network and sales force was not enough to spur such sales, however. Getting the right advertisement to the right person at the right time required Mr. Merriman, 31, the chief technology officer, to develop a system that could deliver -- or "serve" -- advertisements from a central location to different Web sites. In addition, the servers had to be able to change the advertisements a user sees to conform to his or her location and to certain demographic characteristics.

Doubleclick's technology backbone, called the Dynamic Advertising Reporting and Targeting system, or DART, works by reading 22 criteria, many of them, like location, embedded in a user's Internet address, others, like time of day, based on external considerations. Spy programs called "cookies," usually dropped stealthily into a user's hard drive, can further refine the target by telling the server whether someone is a repeat visitor to a site or has seen a specific advertisement.

Doubleclick originally deployed DART only to serve advertisements to its own site network but later decided to offer it to unaffiliated advertisers and media companies. Nonetheless, virtually all the company's revenue still comes from advertising sales, with 40 percent coming from its representation of the Alta Vista search engine.

When a user calls up a Web page that employs the DART technology, a tag on the page signals Doubleclick's server to delve into its inventory of advertisements to find one -- and then another and another -- that matches the marketer's needs with

the user's profile. Different people can call up the same site at the same time yet receive entirely different advertisements.

"On the Web," Mr. Salzman said, "one can say, 'I want to reach business people in the financial industry who live in New York City and ski, and I only want to reach them between 9 and 5,' and we can get them and only them."

J. G. Sandom, the director of North American interactive advertising for Ogilvy One, a division of the Ogilvy & Mather advertising company, compares advertisement serving to "a horsecart service, which picks up all the ads and delivers them for you."

"But in the old paradigm, the print world, you send the ad to a magazine, they plop the art on the page, and that's it," Mr. Sandom added. "In this paradigm, you reserve the space in the on-line magazine, but if certain things occur in the real world, it automatically changes the content of the banner."

THE banner is like a magazine advertisement in ruby slippers; it teases a user with language or graphics into a click, upon which the consumer is whisked to another site where the marketer's message can be offered with Kansas-style comfort or, more likely, Oz-like ardor. The breakthrough in ad-serving technology, which allowed Web sites to guarantee marketers an audience and price their advertisements on the same cost-per-thousand basis used by traditional media companies, caused banners to proliferate -- from billions per month in 1997 to hundreds of times that today, according to Marissa Gluck, a Jupiter analyst.

Like the magazine scent strip and the television infomercial, the banner has sparked revulsion -- from advertisers as well as from consumers. Web users have long protested about screens crowded with ugly come-ons that, with advances in multimedia technology, grow more intrusive each day. Advertisers complain about low and declining click-through rates, an indication to many that their brand messages aren't getting through.

"People have had a hard time understanding why a banner, with its limited space, can be effective at all," conceded Rich Lefurgy, the founder and head of the Internet Advertising Bureau, a trade association in San Francisco. Judging efficacy by click-throughs was a mistake from which the industry is still recovering.

"There's no correlation between click-through and brand building," Mr. Lefurgy said. "That sent us in the wrong direction."

The banner's deficiencies have helped propel the rise of electronic commerce, with its more obvious return on a marketer's investment. That, in turn, has prompted the defenders of Internet advertising, including the ad-serving companies, to try to improve the potency of their offerings. Their solution is data -- not about consumers, but from consumers.

EVEN more important than information about a target audience is what that target audience does after receiving an advertisement. Do people ignore the ad? If not, how long do they look at it? Do they click, or does it take a second advertisement before they act? How long before they're converted into buyers?

Put into databases and run through analytical programs, such information can help optimize the use of subsequent ads aimed at an audience that grows increasingly refined. Ultimately, it should become possible to judge exactly which advertisements are causing what actions among which consumers, a tantalizing goal that off-line marketers call single-sourcing and that the on-line world refers to as "closed-loop marketing."

"The ability to measure from exposure to purchase," said Norman Lehoullier, the managing director of Grey Interactive, "is the Holy Grail."

Advertisers have already been able to employ ad-serving to test "creative wear-out" -- the number of times an advertisement can maintain an audience's interest. Ogilvy, for example, has used server data and cookies to more efficiently allocate the thousands of banners in its advertising campaigns for I.B.M., Mr. Sandom said.

But for the most part, like the Grail, closed-loop marketing remains elusive, hidden in sands of data so voluminous that they take parallel-processing supercomputers to analyze. "Ad serving is an immature technology," Mr. Lehoullier said, "but it's a principal way we're making marketing more disciplined."

Ad-serving companies are investing heavily in devices to mine, analyze and use data. This year, Doubleclick introduced Boomerang, a product that can use cookies to find consumers who have previously visited a marketer's site and deliver advertisements to them, even on later visits to other sites.

But true single-sourcing requires marketers or their serving companies to know either the real-world behavior or the identity of individual consumers. To this end, Web sites are stepping up their efforts to prod users to register in return for access. Others in the industry are seeking ways to marry on-line and off-line research in powerful new databases -- a process that the Charles Schwab Corporation, the nation's largest discount and on-line brokerage firm, calls "clicks and mortar."

In June, for example, Doubleclick announced the acquisition, for \$1 billion in stock, of Abacus Direct, an information company whose database concerning the catalogue-buying habits of 88 million households is the largest in the United States. "Advertisers rely on demographic information to target ads when they don't have anything else," said Kevin P. Ryan, 35, Doubleclick's chief operating officer. "Transaction information is much better."

The consumer-privacy issues raised by such moves are profound, and one detects a nervousness among Internet marketers about the public relations and regulatory minefields they know lie ahead. The medium has also become enamored of a discipline it labels "permission-based marketing," whose credo, boiled down, is: "Unless you've asked, don't ever let consumers know that you've taken their names."

The ownership of data also promises to reshape both the organization and the competitive dynamics in the media and marketing industries. During advertising's artistic era, which lasted roughly from 1959 -- the year in which Doyle Dane

Bernbach won the Volkswagen account -- until today, creativity has been king. Electronic advertising advocates say the new accountability, when it arrives, will change that.

"We'll figure out what works and what doesn't," said Mr. Lehoullier of Grey, "and increasingly, money will be spent not on lore or art, but on science."

What's more, the ad-serving companies, with their ability to collect consumer data from across a wide range of sites and advertisers, can potentially become more powerful than the media and ad agencies for whom they work. Doubleclick's executives recoil from such suppositions and assert that they will never compete with their clients. But Ms. Gluck the Jupiter analyst, said, "That's just a line."

"When they can offer holistic targeting programs directly to advertisers, Doubleclick -- and any large network or serving company with a large amount of consumer-behavior data -- becomes a real threat to ad agencies," she said.

None of that has stopped Doubleclick's growth. On Aug. 2, someone in the company's network operations center, the group that manages its serving technology, noticed that, for the first time, the company had delivered 500 million advertisements in one day. The company's executives wanted to reward the engineers whose work keeps those ads moving. Their decision was to deliver a cookie to their desktops.

These, however, were made of dough, not digits. At the top was a banner that read, "Amazing!"

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