

# Behavioral & Contextual Advertising Outlook

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Video and mobile advertising models are emerging; however, text is already here. Although multimedia formats will undoubtedly become an increasing revenue opportunity, nobody can ignore the text content, especially as content distributors realize that click-through rates on multimedia will increase when accompanied by text stories.

## How Does Behavioral Advertising Work

The essence of behavioral advertising is: Targeting audiences not by what they passively read but what they actively do. Behavioral targeting is about tracking what people have been doing online in the last few weeks and months, and targeting based on that. The difficulty is in this type of targeting is the upfront analysis work that needs to be done to predict behavior. In order to “sell” behavioral targeting to wary advertisers, you must prove that if someone visits four types of pages, that leads to an assumption that they will do something based on those views.

The analogy in the space that is often used is that birds of a feather surf the Web in similar flocking formations. Their surfing patterns identify them as being different from other people. This leads to segmentation based on behavior, which is touted as the Holy Grail of marketing. Instead of running focus groups before launching a product and making product and marketing adjustments based on what people say, companies can develop and market their products based on what people actually do.

Once you have this segmentation data, you can serve up highly customized ads at crucial points in the buying-cycle to specific groups of individual surfers called “look-alikes.” This type of targeting takes segmentation beyond contextual-relevance to behavioral intent.

Behavioral targeting has been viewed as a new slice of inventory. As such, it provides increased value over low-value, run-of-site buys, and allows advertisers to buy high-reach quality audiences by targeting beyond a site's editorial context. The enormous opportunity for publishers and advertisers is

that behavioral targeting is a means to contextualize otherwise context-free web pages. In short, it can enable an audience member to bring their own context to the site.

We already know that search engine results pages (SERPs) only account for about 5% of overall pageviews online with content sites constituting the remaining 95%. Furthermore, there are two general types of websites that make up content sites. The first is content-driven, or contextually-rich sites that are generally favored by the Fortune 500 marketers. These include financial news sites such as The Motley Fool, travel sites like Cheaptickets, financial services sites like Morningstar.com and auto sites like Kelly Blue Book.

These are the sites where Google's AdSense program is successful in generating revenue -- an estimated \$5 billion -- by relating ads to clearly delineated content on the page, which makes it easy for advertisers and publishers to determine the audience. However, these pages only account for less than one quarter of the Internet - a relatively small oasis in a vast desert of otherwise difficult-to-categorize context.

The vast majority of the Internet is made up of this other type of site, with content that is not so easy to define. These sites include blogs, social networks like MySpace, and entertainment sites like Bolt.com where people download music and video, as well as general news sites.

On these pages the content is so diverse and varied from day-to-day that contextual ads no longer are able to perform effectively, hence these sites make up what is known to advertisers as "the contextual desert." This desert represents a latent opportunity that could spring into an oasis if the promise of behavioral advertising is realized.

Up until now, these sites have been treated as inferior real estate by the marketing community. However, these pages cannot be ignored, given that they currently make up the majority of pageview volume and are only likely to grow given that blogs, music download, and social networking sites are where a greater percentage of eyeballs are spending time.

It may take some time for marketers to get comfortable with behavioral-targeted spending due to the potential for consumer backlash and privacy issues, as we will discuss. But with such huge and growing inventory, the

potential marketing opportunity is huge. Advertisers currently are spending \$5 billion with Google to reach people on the contextually rich segment of content sites, which represents less than 25 percent of the Internet. Therefore, behavioral-targeted advertising could be run on the remaining hard-to-categorize Web pages, which represent nearly three times as much inventory.

Despite all the enthusiasm, we are still in the early days of behavioral targeting. But again, we cannot ignore it, given its potential to “upgrade” the “second-tier” inventory discussed above coupled with all of the new digital inventory, which will be created by IP-based devices.

### **Obstacles to Growth**

There are three main obstacles to the growth of behavioral targeting: privacy legislation, potential consumer backlash, and slow advertiser adoption.

There seems to be a significant amount of interest in behavioral targeting on the part of the Federal Trade Commission. Several advocacy groups have called on the Federal Trade Commission to undertake investigations of online advertising practices. A concise sense of the spirit of the FTC’s findings can be seen from their conclusion that online advertisers are striving to “aggressively track Internet users wherever they go, creating data profiles used in ever-more sophisticated and personalized one-to-one targeting schemes.”

While there hasn’t yet been massive consumer uproar against being observed and tracked online, when someone mentions behavioral targeting, the concept of spyware often comes to mind. In 2006, President Bush signed into law, H.R. 3402, which was designed to protect women from online stalking. The law states that its intention is to “prohibit anyone from using the Internet without disclosing his identity and with intent to annoy.” With this law on the books, it’s very likely that some individuals could argue that they are annoyed by unsolicited ads generated by behaviorally targeted profiling. Consequently, such people could generate an avalanche of lawsuits that could bury behavioral advertising before it had a chance to take its first breath.

In response to such arguments, advertisers often try to spin behavioral-targeted ads as “relevant content” that they are delivering as a service for

consumers. But for such ads to be considered of value by consumers, their perceived benefit must far outweigh the perceived threat. Despite people's seeming willingness to post videos of their every move on YouTube, or their infatuation with participating in reality TV, consumers may draw the line when it comes to surfing the Internet since they might feel that they have no control over such Big-Brother-like technology.

Beyond such positioning on the part of advertisers, the more substantive response by the behavioral advertising community is what is sometimes known as "anonymous tracking" technologies whereby individuals are profiled but never actually identified – or tied to any personal data. By deploying such technology, marketers know what an individual has done in the past, but not who that person is since the tracked behavior is never tied back to an individual's personal data. But since such technology is hard to explain to the common consumer, there typically is still a visceral negative reaction to having someone, in effect, stalking them without their permission while they are shopping.

Beyond such potential legislative and consumer responses to behavioral targeting, the industry also must overcome reluctance on the part of advertisers to adopt the technology. Behavioral-targeting technology vendors must prove significant ROI before there is widespread adoption.

Of course, behavioral-marketing vendors are scrambling for positive studies. We have heard reports of recent independent studies proving that behavioral-targeted-tagged ads have a higher response rate than other types of ads. But in calculating ROI, advertisers also must factor into the equation the bad reputation and consequential negative financial fallout that might result – as was the case with the early behavioral-targeting company, Gator – which, as a result, changed its name to Claria.

A stronger case for the effectiveness of behavioral targeting should develop as technology convergence evolves. Marketers are "salivating" at the prospect of getting a more complete picture of a consumer's actions by drawing from sources beyond the Web, including television, radio and wireless. While the technologies to link such activity develop, there is increasing promise that this will become a reality as all media is driven toward digital delivery. But again, the bottom line is that though the technology will inevitably come, the real limiting factor will be consumer reaction, which, in turn, will drive privacy legislation.

## **Behavioral Marketing and Video**

As convergence takes place, behavioral marketing will overflow onto other media such as video. Video ad spending is predicted to rise dramatically over the coming years, and so naturally, the behavioral-targeting industry wants a piece of that pie.

The industry's pitch to video publishers is that behavioral targeting for pre-, mid-, and post-roll ads can be used to more effectively target their video ads based on users' interests rather than buying expensive TV spots that may be wasted impressions on consumers who are not in the advertiser's target audience. Their argument is that behavioral targeting is the key to turning video inventory that would have otherwise gone unsold into a highly valuable ad inventory. Obviously, the behavioral-targeting industry is eager to convince advertisers and publishers that the seemingly never-ending stream of user-generated content can also be turned into ad inventory gold.