What Comes Before Search?

Behavioral Targeting: Enabling Online Marketers to Reach Consumers Earlier in the Purchase Cycle

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Impetus: With the huge success of paid search, the online advertising industry is looking for the next big thing. Behavioral targeting has emerged as an advertising tactic capable of driving both response and brand awareness, but privacy concerns loom large, particularly in the area of adware. How big will behavioral targeting be?

Behavioral Targeting Ad Spending, 2003-2005 (in millions and as a % of total online ad spending)

2003
$7,300
$275 (3.8%)

2004
$9,100
$627 (6.9%)

2005
$11,200
$934 (8.3%)

■ **Total online ad spending**   ■ **Behavioral targeting spending**
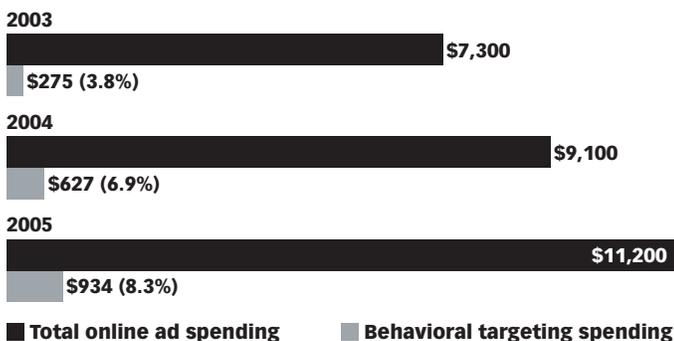
Source: eMarketer, August 2004

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Issues & Questions

■ What are the different types of behavioral targeting?

■ How does behavioral targeting work?

■ What is the relationship between behavioral targeting and paid search?

■ What are the challenges to doing effective behavioral targeting?

■ What are the risks, when it comes to privacy and data sharing?

Overview

Behavioral targeting has been around, in various forms, since the late 1990s. Previous attempts failed due to problems with privacy and technology, but this generation of software appears more robust, and marketers seem more accepting. Today's behavioral targeting can be done on individual Web sites, on networks and via adware applications.

While behavioral targeting will certainly be a part of a smart marketer's online arsenal, issues of privacy, data sharing and implementation will keep it from becoming a dominant form of advertising in the way paid search has become. However, behavioral targeting offers a compelling benefit to marketers: the ability to deliver relevant branding messages to a highly targeted audience.

The eMarketer Outlook

The huge influx of dollars into paid search and contextual advertising shows that online marketers are hungry for response. However, these types of advertising are limited in their ability to deliver branding messages. Behavioral targeting helps fill that gap. Advertisers can reach consumers who have demonstrated, by their behavior, that they are interested in a given product or service.

The basic premise behind behavioral targeting is that what's important for online advertising is not necessarily a page of content or a section of a Web site, but the actual person who is viewing and interacting with that content. Seen in that light, behavioral targeting could presage a shift in the online advertising paradigm — away from the notion of buying "pages" and instead toward the idea of reaching "people."

Instead of buying ads that would appear adjacent to certain content, ads would instead appear only to someone who has demonstrated, through previous actions, that they are potentially interested. The end result, theoretically, would be a perfect economy, where no ad is wasted.

But we're not there yet, and we probably never will be. Instead, think of behavioral targeting as an evolutionary stopping point on the path toward understanding and reaching a consumer at the optimal moment in time.

Implications for Your Business

For Web publishers
Behavioral targeting solves an immediate problem: sold-out inventory in certain site sections. Since there is little upfront financial risk for publishers to try out behavioral targeting systems, it makes sense for them to experiment. However, publishers should be aware that integrating behavioral targeting software with existing ad management software could be complicated.

For agencies
In the near term, behavioral targeting is a tactic agencies can offer to clients who are hungry for something new. Often, it can be negotiated as an add-on to a larger buy on a site or network. Behavioral targeting also opens up creative opportunities, as messaging can be customized to certain consumer behaviors. Post-buy reporting that shows how various ad executions and behavioral targets performed is critical, however.

For marketers
Behavioral targeting is most likely to appeal to marketers that want to drive immediate response to their advertising. However, there are intriguing opportunities to explore the effectiveness of delivering brand messaging to a targeted audience.
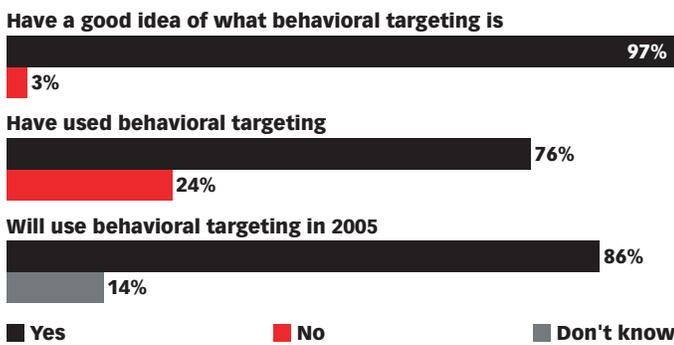
A. What is Behavioral Targeting?

Judging by the amount of news coverage of behavioral targeting, it's clear that it's something the online ad industry is pretty excited about. But what exactly is it?

At its most basic (and there are a lot of shades to the definition; we'll get into those later on), behavioral targeting, in the context of online advertising, is *the ability, through the use of anonymous data, to deliver ads to consumers based on their recent behavior: the Web pages they viewed, keywords they typed into a search engine, or products and services they shopped for online. Or, a combination of all three.*

An informal poll of advertiser and agency executives by eMarketer shows broad awareness of the concept. Of those contacted, 97% said they had a good understanding of what behavioral targeting is, and 76% said they have used behavioral targeting in the past.

Awareness and Usage of Behavioral Targeting among Agency and Advertiser Executives, July 2004 (as a % of respondents)

Have a good idea of what behavioral targeting is
- 97%
- 3%

Have used behavioral targeting
- 76%
- 24%

Will use behavioral targeting in 2005
- 86%
- 14%

■ Yes   ■ No   ■ Don't know

Note: n=29 ad agency and advertiser executives responsible for managing online media campaigns
Source: eMarketer, August 2004

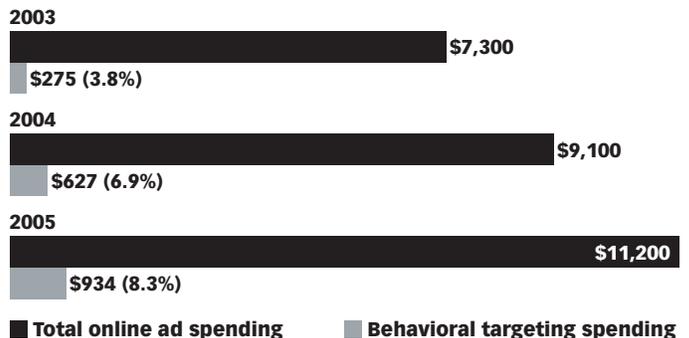059749 ©2004 eMarketer, Inc.   www.**eMarketer**.com

However, there are many questions about behavioral targeting. How does it work? *Does* it work? What are the different types of behavioral targeting and what can they do for me, whether I'm an online publisher, an agency or a marketer? What about privacy concerns? What's the difference between behavioral targeting and search?

For this report, eMarketer interviewed behavioral targeting companies, major Web publishers, agency executives and industry trade group leaders to paint a portrait of the marketplace. We also reviewed dozens of news articles and analyzed research studies covering online targeting, ad effectiveness and ad spending trends. Lastly, we queried industry executives in order to gauge the size of the market.

Sizing the Market for Behavioral Targeting

eMarketer estimates that behavioral targeting accounted for 3.8%, or $275 million, of the total $7.3 billion online advertising market in 2003. In 2004, advertisers will spend $627 million on behavioral targeting, amounting to just under 7% of total online advertising spending.

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- $11,200
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■ Total online ad spending   ■ Behavioral targeting spending

Source: eMarketer, August 2004

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Right now, most behavioral targeting revenue comes from so-called "adware" companies. These companies, led by Claria Corp., deliver targeted ads via software that consumers download onto their computers. Claria generated $90 million in revenue in 2003, up 125% from 2002, according to company documents.

Claria Corporation Revenues, 2000-2003 (in thousands)

- **2000** $3,801
- **2001** $14,678
- **2002** $40,587
- **2003*** $90,480

*Note: *Revenue from a relationship with Overture, which supplies paid listings for a Claria search product, accounted for 31% of 2003 revenue*
Source: Claria Corporation, April 2004

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Another form of behavioral targeting happens on publisher Web sites. Many of the players in this category are just starting to sell behaviorally targeted ads or have done it on a limited basis.

A third category is behavioral targeting networks. Because many of these are still in test or are being rolled out slowly, there was no meaningful ad revenue in this category in 2003.

eMarketer believes much of the growth in the market in 2004 and 2005 will come from Web sites and major portals that adopt behavioral targeting. However, the potential for behavioral targeting is difficult to assess because of several factors that could adversely impact growth. Lawsuits or federal legislation limiting the use of adware could sharply curtail that business. Privacy concerns and data sharing squabbles, as described later in this report, could negatively impact the overall category.

On the other hand, if any of the three major portals – Yahoo!, MSN and AOL – adopt behavioral targeting in a significant way, it could shift the entire market. Therefore, eMarketer cannot at this time project the growth of the business beyond 2005.

Back to the Future

To anyone who has been in the online advertising business for a few years, behavioral targeting is a familiar concept. From the earliest days of online marketing, people have talked about the power of the Internet to help marketers "reach the right person with the right message at the right time." It's something that's become almost a rallying cry for Internet advertising over the years.

Well, it hasn't been so easy to accomplish. In the late 1990s, a company called Engage wanted to leverage a 10-million-strong database of anonymous Internet users for targeted advertising.

Engage's database grew to 88 million Internet users over the next few years, but the technology never worked as promised, and Engage became embroiled in debates over who owned that data. The company exited the online advertising business in 2002.

Meanwhile, DoubleClick, the ad serving and technology company, in 1999 acquired a direct marketing firm called Abacus Direct, with the intention of merging online data, such as what sites a user visited, with offline data — their name, street address and catalog purchases. The goal: to enable direct marketers to deliver targeted advertising, online and off.

The plan was disastrous. It spurred lawsuits, a Federal Trade Commission investigation and a stream of negative press over potential privacy violations. Today, DoubleClick still owns Abacus, but the businesses remain separate and distinct.

Then came the tech crash of 2000-2001 and the subsequent recession. But behavioral targeting as a general concept never went away.

A few years ago, a company called Gator Corp. began offering consumers a free digital wallet to keep their passwords and credit card information handy for online purchases – if they agree to let Gator anonymously track their online activities for the purpose of delivering targeted advertising. By early 2000, Gator had amassed some 2 million users of its wallet and was pitching marketers on its advertising opportunities. As of early this year the company, now known as Claria, had amassed more than 400 advertisers.

In fact, there are elements of behavioral targeting in just about any online interaction you might have with a company. Amazon.com keeps track of everything you've bought and then brings you personalized recommendations by e-mail or when you visit the site. The company has done this for years.

Online retailers keep close tabs on online shopping behavior, measuring everything from what triggered a visit, items a consumer looked at, what they placed in a shopping cart, what they purchased (or didn't purchase), and what a consumer looked at one day and came back to purchase a few days or a week later.

Even sites like Edmunds.com act as a direct indicator of consumer behavior. If a consumer visits three times in a week, always looking at new BMWs, chances are excellent he's in the market to buy one. On sites like this, the behavioral targeting opportunities are obvious.

Why Behavioral Targeting is Hot

So if behavioral targeting isn't really new, why all the fuss about it right now? eMarketer believes there are four triggers:

- An increase in online ad spending, leading to sold-out inventory at some Web sites;

- An increase in the number of consumer products companies advertising online, accompanied by more acceptance of online as part of every media plan;

- Technological improvements to enable massive, yet targeted, behavioral ad campaigns;

- The success of contextual and paid search advertising models.

Further, consumers are becoming less patient with the intrusiveness of marketing and advertising messages. A recent study by Yankelovich Partners found 65% of those surveyed said they feel "constantly bombarded" by ad messages and 59% feel that ads have very little relevance to them. Nearly 70% said they would be interested in products or services that would help them avoid marketing pitches.

Increased online ad spending

Online ad spending is rising rapidly, thanks in great part to marketers' voracious interest in paid search. eMarketer projects that marketers will spend $9.1 billion on online advertising this year, up 25.2% from 2003.

US Online Advertising Spending, 2000-2008 (in billions)
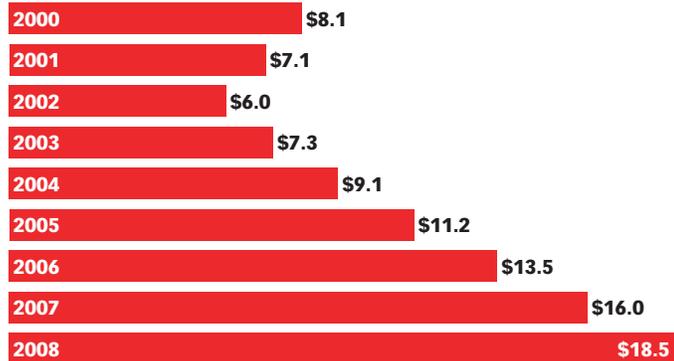
Year	Spending
2000	$8.1
2001	$7.1
2002	$6.0
2003	$7.3
2004	$9.1
2005	$11.2
2006	$13.5
2007	$16.0
2008	$18.5

Note: eMarketer benchmarks its US online ad spending projections against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2003
Source: eMarketer, July 2004

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US Online Advertising Spending, 2001-2008 (as a % increase/decrease vs. prior year)

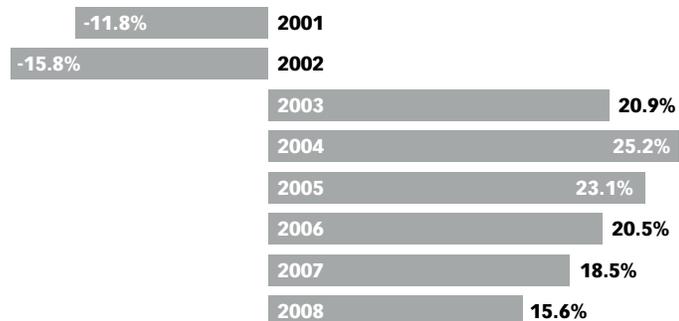| Year	% change
2001	-11.8%
2002	-15.8%
2003	20.9%
2004	25.2%
2005	23.1%
2006	20.5%
2007	18.5%
2008	15.6%

Note: eMarketer benchmarks its US online ad spending projections against the Interactive Advertising Bureau (IAB)/PricewaterhouseCoopers (PwC) data, for which the last full year measured was 2003
Source: eMarketer, July 2004

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With the increased interest in online advertising comes a problem that Web publishers haven't had to deal with for a few years: sold-out inventory. Several of the Web's top publishers report that inventory in prime, high-traffic areas is sold out. Behavioral targeting helps to open up ad inventory and reduce waste, giving a publisher an opportunity to sell an impression that might not have been sold otherwise.

Traditional marketers spending more online

Another factor driving interest in behavioral targeting is the rapid rise of spending by so-called "traditional" marketers – companies that historically did not allocate a significant budget toward online advertising.

Traditional advertisers topped the list of online advertisers in the first quarter of 2004 in key segments such as telecommunications equipment, health pharmaceuticals and consumer credit, according to Nielsen//NetRatings' AdRelevance service.

Online Ad Impressions among Leading US Advertisers, by Industry, 2004 (as a % increase vs. prior year)

	Industry segment	% growth 2003-2004*
AT&T Wireless Services	Telecommunications equipment	1,262%
Schering Plough	Health pharmaceuticals	737%
MBNA Corporation	Financial services consumer credit	471%
DaimlerChrysler	Automotive manufacturers	461%
Safeway, Inc.	Retail goods and services grocery	440%
Ameriquest Mortgage	Financial services consumer loans	226%
Apollo Group	Public services education	163%
News Corporation	Entertainment movies	133%
Cendant Corporation	Travel vehicle rental	62%
SBC Communications	Telecommunications ISP and broadband	39%

*Note: *% growth in ad impressions, Q2 2002-Q1 2003 to Q2 2003-Q1 2004, within key industry segments*
Source: Nielsen//NetRatings AdRelevance, May 2004

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For companies like these, defining audience segments is nothing new. It's how they plan marketing offline, and it's how they expect to market online.

> **"Traditional advertisers and marketers now call the online shots. They care greatly who sees their messages. They care about targeting."** —*Tacoda CEO Dave Morgan, in clickz.com*

Tech improvements enable massive targeted campaigns

Today's behavioral targeting systems can accomplish the kind of targeted campaigns that advertisers want. Tacoda Systems, for example, says it processes more than 100 billion data points each month for more than 100 million Internet users. Behavioral targeting campaigns can be updated in real time, allowing publishers to increase or decrease the size of a behavioral segment to more accurately target their audience and maximize ad impressions.

The rise of contextual and paid search advertising

In some respects, there wouldn't be behavioral targeting if it weren't for the popularity of contextual and paid search advertising. The notion behind these types of advertising is that someone has demonstrated an interest in a topic by searching for a particular keyword or by reading a particular article. Therefore, a relevant ad placement would theoretically generate better response.

Behavioral targeting works in a somewhat similar fashion: By viewing certain types of content on a regular basis, a person demonstrates interest in the topic. His or her behavior indicates receptiveness to advertising.

Paid search will account for 40% of total online ad spending this year, according to eMarketer.

### US Paid Search Advertising Spending, 2000-2006 (in millions)

Year	Spending
2000	$108.5
2001	$298.7
2002	$927.4
2003	$2,543.5
2004	$3,594.5
2005	$4,312.0
2006	$4,995.0
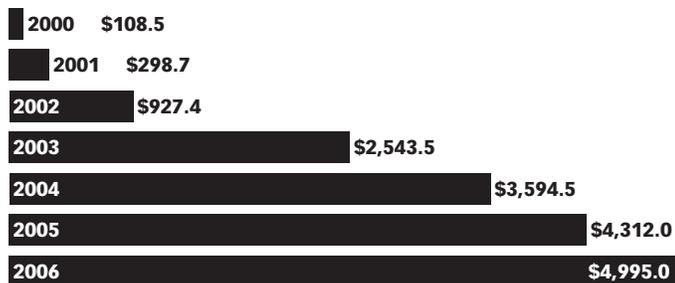
Source: eMarketer, July 2004

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US Paid Search Advertising Spending, 2000-2006 (as a % of total online advertising spending)

Year	Percent
2000	1.3%
2001	4.2%
2002	15.4%
2003	35.0%
2004	39.5%
2005	38.5%
2006	37.0%
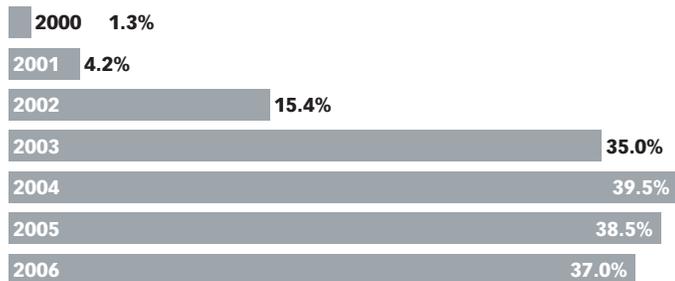
Source: eMarketer, July 2004

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However, paid search will start to diminish as a percentage of total online ad spending after 2004, eMarketer believes. Because the Yellow Pages-like nature of paid search leaves little room for brand-building, advertisers wanting to deliver branding messages to a targeted audience will give behavioral targeting a try.

"From a consumer standpoint there couldn't be anything much better for us to do than for all advertising to become as relevant as possible." *—Greg Stuart, chairman, Interactive Advertising Bureau, in an interview with eMarketer.*

B. Types of Behavioral Targeting

Targeting permeates just about every aspect of Internet advertising today. Marketers can segment their campaigns by page content, browser, operating system, IP address, geography, time of day, and more.

On the Internet, demographic targeting is the most common segmentation approach. The idea is simple, and has been used across all media for decades: A man 18-34 with an income of $50,000 or above is more likely to buy a sports car than someone older, younger, less wealthy or of the opposite gender.

But what demographic targeting misses is whether that person is in the market to buy right now. Or in a month. Or six months. Or even ever. You can guess their interest and deliver a scattershot of advertising, but only by understanding their behavior do you get some understanding of where they are in a purchase cycle. That's what behavioral targeting proposes to do.

There are several forms and flavors of behavioral targeting in online advertising. eMarketer segments the market into three categories:

- on a single site or group of sites owned by one entity;

- on a network of sites;

- by the use of desktop software (so-called "adware").

Single site/Single publisher

Sample suppliers: Tacoda Systems, Revenue Science, Accipiter, AlmondNet
Many of the Web's largest publishers are embracing behavioral targeting. Entities including CBS MarketWatch, The Wall Street Journal, ESPN, USA Today, Reuters, Belo Interactive, iVillage and more are adding the capability.

For WSJ.com, a client of Revenue Science, behavioral targeting has swiftly become a significant and growing business, accounting for 10% of its online ad revenue. Other large publishers interviewed by eMarketer say such targeting will account for anywhere from 3% to 20% of their ad revenue this year. They also say behavioral targeting is helping them to close deals, offering advertisers a taste of something new and different.

Behavioral targeting on a publisher site works like this: A publisher, working in conjunction with a behavioral targeting company, evaluates its site's visitors, tagging them with a cookie in order to track their usage of the site – content areas they visit, how often they visit (frequency) and the last time they visited (recency). All this anonymous data is funneled into a database and analyzed to detect patterns.

From there, publishers can create various audience segments to sell against. One common segment among publishers is "tire kickers," or people in the market to buy a car. Using a behavioral targeting system, a publisher can build an audience of, say, 25,000 people who, in the past month, visited content related to automobiles three times, particularly articles about new auto makes.

Then, instead of delivering an auto ad to those people while they are viewing auto-related content, the ad instead appears while the person is on a different part of the site, such as financial news. The idea is that if a person has shown an interest in automotive information, then delivering the ad "out of context" will still have a meaningful impact.

Behavioral targeting systems can layer on additional data to increase advertising effectiveness. Sites with user registration can link their behavioral targeting data with information such as ZIP code to create even more precise campaigns. The systems can also target by IP address, geographic region, job function and more.

One recent campaign, on sites operated by media company Belo Interactive, integrated Belo's customer registration system with Tacoda's software to deliver ads for a national clothing chain to female consumers who had visited one of Belo's sites, such as DallasNews.com or King5.com in Seattle. The targeted ads delivered a higher response rate and higher average dollar sale than untargeted ads, according to Belo.

For publishers, behavioral targeting can solve a near-term problem: sold-out inventory. A publisher can deliver only so many impressions in a given content area. But with behavioral targeting, ads could be delivered to a group of people who have shown interest in a specific content area, even when they are elsewhere in a publisher's site.

Publishers such as WSJ.com have already seen a boost. Of 60 advertisers that have done behaviorally targeted ad campaigns on WSJ.com, about half are new to the site, said Randy Kilgore, WSJ.com's VP of advertising. Many of those are consumer advertisers such as travel, automotive and electronics products – advertisers that wouldn't historically have run on WSJ.com.

Publishers interviewed by eMarketer generally charge a premium over run-of-site advertising for behavioral targeting, although some publishers are currently offering it at a discount to generate trial. Those that offer it at a premium tend to charge about 20% over run-of-site impressions.

None of the publishers that eMarketer talked to has done a campaign in which behavioral targeting was the only element. Instead, publishers are offering it as a part of a larger package of online advertising.

Case Studies: Snapple

Earlier this year, Snapple ran an ad campaign on the iVillage Web site that tested behavioral targeting. The beverage company wanted to pitch its Snapple-a-Day meal-replacement drink to women who care about health and exercise. Using technology from Tacoda, iVillage pinpointed users who visited its Diet & Fitness channel three times within the past 45 days. Then, no matter where within the iVillage site these targeted visitors surfed, they were shown the Snapple-a-Day ads.

By comparing those targeted visitors with a control group that saw the same Snapple-a-Day ads only on the Diet & Fitness channel, researcher Dynamic Logic found that the run of site behavioral targeting ads increased brand metrics across the board. For example, the behavioral targeting ads increased ad awareness by 51%, while content targeting resulted in only a 33% boost.

Brand Metrics that Compare Behavioral Targeting vs. Content Targeting for Snapple Ads on iVillage, 2004 (as a % of respondents exposed to ads)

Aided brand awareness
Run of site behaviorally targeted: 76%
Diet & fitness content targeted: 66%

Advertising awareness
Run of site behaviorally targeted: 51%
Diet & fitness content targeted: 33%

Intent to purchase
Run of site behaviorally targeted: 37%
Diet & fitness content targeted: 29%

Favorable impression of brand
Run of site behaviorally targeted: 36%
Diet & fitness content targeted: 21%

■ **Run of site behaviorally targeted**   ■ **Diet & fitness content targeted**

Note: Run of site behaviorally targeted (n=138) defined as "saw ads outside of Diet & Fitness channel"; diet & fitness content targeted (n=167) defined as "only saw ads within Diet & Fitness channel"
Source: Dynamic Logic, April 2004

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For more on online advertising effectiveness, see eMarketer's Spotlight report, Measuring Online Advertising's Effectiveness: Deciphering the Bottom Line for Web Site Ads, Paid Search, and E-Mail.

Case Studies: American Airlines

One behavioral targeting campaign, from American Airlines on the Wall Street Journal site, tracked readers of WSJ.com's travel columns and features. Since the "one flight-a-year site visitor was the airline's target," as reported in Advertising Age, the "rich media, large-format ads, which featured testimonials from customers" were served across the site to those visitors who "spent time eyeballing a travel article on one occasion." In this case, "Revenue Science made an educated guess that that person traveled once a year on business."

This example indicates how behavioral targeting may be used to pinpoint a group within a group. In this case, the American Airlines campaign narrowed the funnel not just to identify anyone reading travel articles—after all, visitors who read that section frequently might well be frequent travelers—but to the once-a-year business traveler.

The campaign showed that audience composition was improved with behavioral targeting. Against especially high-frequency business travelers, audience composition increased 145%, according to Revenue Science. Brand metrics showed improvement, and in some cases, message association for targeted business travelers increased as much as 218%.

Audience Composition of Run of Site vs. Behaviorally Targeted Ads on WSJ.com, May 2004 (as a % of total audience that was in the target group)

Target group	Run of site ads	Behaviorally targeted ads	% lift in audience composition
Business travelers who take 5+ business trips a year	13%	31%	145%

Note: from an American Airlines ad campaign
Source: RevenueScience, May 2004

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Behavioral Ad Networks

Sample suppliers: Advertising.com, 24/7 Real Media, Tacoda Systems, Drive Performance Marketing

One of the challenges of behavioral targeting is ensuring that the audience segments are large enough. There aren't many sites that have enough traffic to generate marketable segments.

Some publishers, such as Dow Jones, parent of WSJ.com, have banded together several of their sites to increase the size of their audience segments. For other sites, the only way to achieve behavioral targeting is by joining a network.

The basic concept is this: A man visits Site X several times a week to research stocks. One day, that person visits Site Y for sports news. The network would be able to track his behavior from site to site and serve him an online trading ad while he's viewing the sports news.

At the moment, most of the behavioral targeting networks are still in development. The exception is Advertising.com, which though not technically a behavioral targeting network, does offer this form of targeting.

Tacoda is developing a network modeled after contextual advertising. Tacoda's network, dubbed AudienceMatch, "will provide a single point of buying for advertisers to distribute pay-for-click text listings across quality branded Web publishers that are targeted to people's specific behaviors," according to CEO Dave Morgan. The ads will be sold in an auction style, similar to contextually targeted ads.

Tacoda claims the network, when fully deployed, will have a reach of 50% of the Internet.

24/7 Real Media is rolling out behavioral targeting technology across its ad network, which includes about 700 sites. By the third quarter, the company will have placed 65 million behavioral targeting cookies, according to Dave Hills, president of media solutions.

Hills explains the concept: "Java script is placed on a [Web] page, and we drop a cookie when you come to the page. Then we count how many times you return before you are added to the segment. For the stock segment, we might say you need to go there 12 times a week. We can watch the performance of the ads and adjust the time hurdle, so if the segment that visits stock pages 12 times a week generates a good click rate, we could lower it to 10 times a week, so the segment would get bigger."

A slightly different model is being explored by Drive Performance Marketing, a unit of Internet marketing company aQuantive. Drive PM buys ad impressions from publishers and then resells them to advertisers, using a performance-based, behaviorally targeted model.

Advertising.com achieved solid results from a study of behavioral targeting on its ad network. In research done in June 2004, behaviorally targeted campaigns for three advertisers resulted in click-through rates anywhere from 94% to 225% higher than run-of-network impressions. Conversion rates were as much as 3,130% higher than run-of-network.

Increase in Click-Through, Conversion and Effective CPM Rates from Behaviorally Targeted Advertising in the US, June-August 2004 (as a % lift compared to run-of-site or untargeted impressions)

	Advertiser A*	Advertiser B**	Advertiser C***
Number of impressions delivered	360 million	21 million	140 million
Lift in click-through rate	192%	94%	225%
Lift in conversion rate	167%	2,232%	3,130%
Lift in effective CPM rate	167%	522%	2,978%

*Note: *ads served June 1-14, 2004; **ads served July 28-August 10, 2004; ***ads served July 27-August 8, 2004*
Source: Advertising.com, August 2004

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Claria to Web publishers: We're on your side

CLARIA *After years of antagonizing Web publishers with its ads that pop up over their content and compete with their advertisers' paid ads, Claria has a new proposition: a behavior-based network that it hopes to launch with partner sites sometime later this year.*

The system, dubbed BehaviorLink, would place behaviorally targeted ads on participating sites. It would piggyback on Claria's existing GAIN network that uses popup and pop-under ads.

BehaviorLink would solve one problem that Claria has encountered: Its users will tolerate only so many ads in a given day or week. So what Claria would do is place some of those ads on publisher sites – in existing banner and display ad slots.

Consider the scenario of an anonymous user in Claria's database who is researching whether to purchase an SUV or a minivan. Because of consumer sensitivity toward popups and pop-unders, Claria will generally only deliver a few ads to this person over the course of a nine-week purchase cycle.

However, there are many more ads it could deliver, says Scott Eagle, Claria's chief marketing officer. "I could probably show five ads per advertiser over a nine-week period. Ten advertisers, five or six ads, that's 50 or 60 ads I could bring to you with zero waste."

Claria is in discussions with publishers about the technology. It will likely be a tough sell. The challenge, as with other behavioral targeting networks, will be to build mass. Claria also must convince wary Web publishers that it's on their side this time.

Given the tensions surrounding Claria's popup advertising business model, it's safe to assume that major publishers won't be the first in line to support BehaviorLink. If it gains traction, it will be among smaller Web sites, or current Claria advertising customers.

Desktop applications (adware)

Sample suppliers: Claria, WhenU, 180 Solutions
The third variety of behavioral targeting is one of the most loved – and most hated – forms of advertising on the Internet.

Companies such as Claria and WhenU distribute software – often called adware — that piggybacks on free downloadable desktop applications, such as shopping companions or toolbars. The software tracks the user's anonymous behavior across the Internet, delivering pop-up or pop-under ads triggered by that behavior. In addition to watching and tabulating the sites a user visits, adware can track someone's shopping behavior.

Claria generated $90 million in revenue in 2003, while private companies WhenU and 180 Solutions each claim they will do $50 million in revenue this year, according to a recent article in Business Week.

The audiences adware firms can deliver are sizeable. Claria claims 43 million users; WhenU says it has 25 million; and 180 Solutions claims 30 million, according to Business Week. However, churn is a big problem; WhenU reports that more than 100 million people have downloaded its software over time – which means only a quarter of them are actively using it.

Claria delivers an estimated 100 million ads per week across 10 major behavioral categories.

"You're serving ads to people that have indicated a greater propensity to buy your product." *— Dean Harris, chief marketing officer, Vonage, in an interview with eMarketer*

This form of targeting has been criticized by several groups, however. In 2002, several publishers, including Dow Jones, sued Claria, saying its pop-up ads violated their copyright and trademark rights. That suit was settled out of court. More recently, marketers including Hertz and L.L. Bean have sued both adware vendors and other marketers over ads from competitors that popped up on their sites.
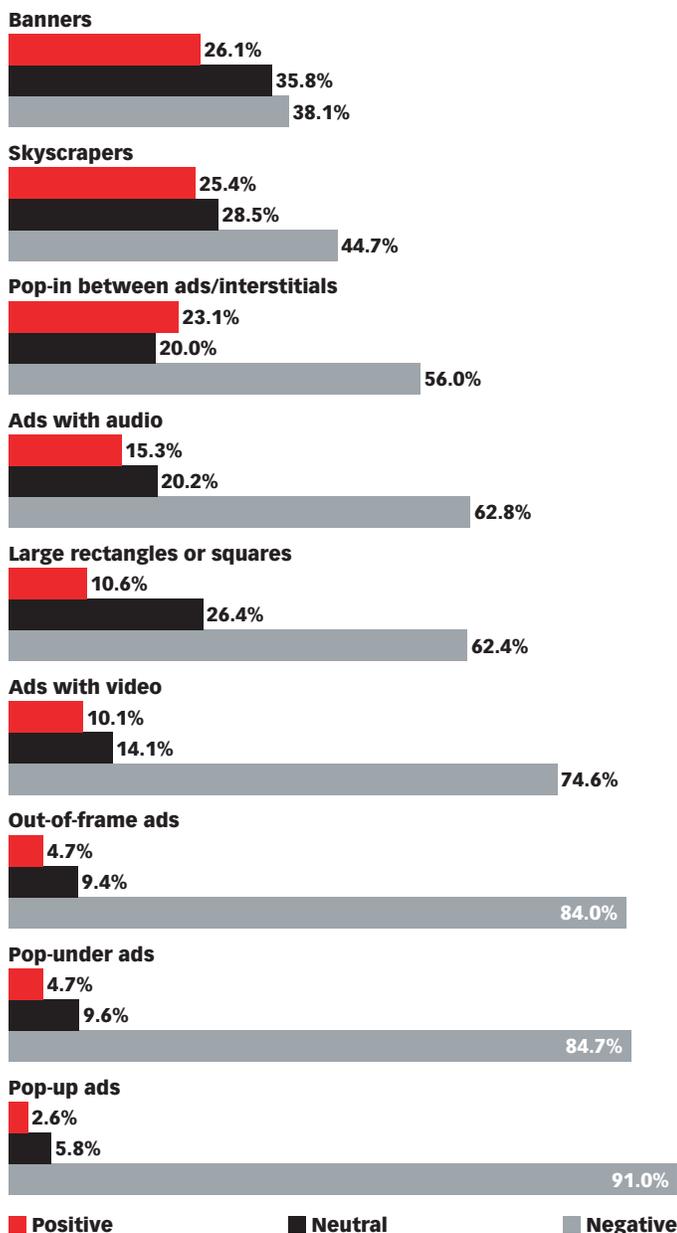
Privacy groups also claim that adware users aren't aware that their Internet behavior is being tracked.

Research indicates that consumers generally dislike pop-up and pop-under ads.

In a Dynamic Logic survey of 425 Internet users, pop-up and pop-under ads got the most negative feedback.

US Internet Users' Attitudes Regarding Online Advertising Formats, December 2003 (as a % of respondents)

Banners
- 26.1%
- 35.8%
- 38.1%

Skyscrapers
- 25.4%
- 28.5%
- 44.7%

Pop-in between ads/interstitials
- 23.1%
- 20.0%
- 56.0%

Ads with audio
- 15.3%
- 20.2%
- 62.8%

Large rectangles or squares
- 10.6%
- 26.4%
- 62.4%

Ads with video
- 10.1%
- 14.1%
- 74.6%

Out-of-frame ads
- 4.7%
- 9.4%
- 84.0%

Pop-under ads
- 4.7%
- 9.6%
- 84.7%

Pop-up ads
- 2.6%
- 5.8%
- 91.0%

■ Positive   ■ Neutral   ■ Negative

Note: n=425
Source: Dynamic Logic, March 2004

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Pressures such as these may have contributed to Claria's decision in August 2004 to cancel its IPO. The company didn't specify a reason, but since Claria is the market leader in this segment of behavioral targeting, those in the marketing community should watch this space carefully.

Despite these concerns, adware has proven effective for many marketers. Alan Schanzer, managing director of Digital Edge/Mediaedge:cia, told The Wall Street Journal in June 2004 that "adware can be more than twice as effective as other forms of online advertising." He added: "The problem is that we're not 100% comfortable with the approach.'"

Case study: Vonage

Vonage, an Internet phone service, has an annual online ad budget in the tens of millions of dollars. After a preliminary test of behavioral targeting with Yahoo in 2003, Vonage began working with Claria.

In June 2004, Vonage launched a Claria campaign targeted to behavioral segments including "phone service seekers" and "bill payers." The ads feature audio and animation from a company called Oddcast, which specializes in avatars. One ad pops up a few clicks after someone has finished paying bills online. An avatar utters, "You're paying how much for your phone bill? Ouch."

Ads targeted to phone service seekers generated a 10% clickthrough rate in the first weeks of the campaign, according to Vonage's agency, Carat Interactive. The bill-pay ad achieved nearly a 2.5% clickthrough. Conversion rates are also very high.

"Behavioral targeting is in my view the refined form of targeting," Dean Harris, Vonage's chief marketing officer, told eMarketer. "It's targeting taken to the next level."

The value of behavioral targeting is in its ability to drive post-click conversions (people who click on an ad and then buy the service at some point later), says Judy Gern, account director at Carat. Phone service isn't something that generally inspires an immediate conversion, she says, but behavioral targeting seems to shorten the timespan between click and conversion.

Behavioral targeting "provides an additional level of granularity that makes your advertising work better," says Harris.

The wild cards: Yahoo, AOL and MSN

Behavioral targeting is finding a home in some of the Web's biggest properties. Yahoo since summer 2003 has offered a program called Consumer Direct, in conjunction with ACNielsen. With Consumer Direct, package goods marketers can create Yahoo ad campaigns that are delivered only to ACNielsen HomeScan participants who also use the Yahoo network of sites. ACNielsen then polls its participants to measure the ads' effectiveness at driving offline purchases.

In campaigns for Pepsi and Purina brands, for example, Consumer Direct contributed to a 15% to 20% increase in offline sales.

Yahoo is expected to launch a larger behavioral targeting initiative later this year.

AOL has not announced any formal plans to pursue behavioral targeting, but many watchers believe its June acquisition of Advertising.com will speed its entry into the market. Advertising.com operates an ad network reaching more than 70% of Internet users in the U.S. It delivers targeted ads using a proprietary technology.

MSN also has not made a formal entry into the business but is expected to. "Delivering targeting solutions to our customers is a top priority for MSN, and we anticipate doing so later this year," an MSN spokesperson told eMarketer.

If these companies embrace behavioral targeting in a major way, that could increase the market substantially. In 2003, the companies generated a combined $2.9 billion in ad revenue, accounting for 31% of total worldwide online ad revenues.

Top Three Portals Worldwide, by Online Advertising Revenues, 2003 (in millions)

Yahoo!	$1,199
MSN	$926
Time Warner (AOL)	$787
Top 3	$2,912
Worldwide total	$9,400

Note: The top three portals account for 31% of total online ad revenues
Source: eMarketer, April 2004

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C. Behavioral vs. Search: Similarities, Differences

Given the success of search and contextual advertising it's tempting to piggyback behavioral targeting onto it. But while there are some strings connecting the two, there are more differences than similarities.

Perhaps the strongest connector is the fact that search is a behavioral indicator. As Young Bean Song, director of analytics for interactive marketing agency Atlas DMT points out, "You could argue that contextual targeting is a form of behavior-based targeting. Somebody behaved a certain way. They searched for sports cars on Google and they are identified as someone who searched for sports cars, so the next time they are on the Internet, that ad impression could be sold to Porsche for a premium CPM."

Context also plays a strong role in the kind of behavioral targeting that adware companies such as Claria do. Ads are triggered by the content someone is viewing – such as a dieting article on iVillage or a Web travel site. But Claria's secret sauce is to deliver an ad whose content and messaging are targeted to an individual's past behavior.

Claria's Scott Eagle describes a scenario: A traveler is browsing a travel site. His past behavior indicates that he's rejected ads that Claria has delivered offering 20% off of international flights. Claria assumes this might be because the traveler's company usually pays for the ticket. The man's Claria profile indicates that he checks his frequent flyer mileage a lot. So Claria assumes he might be planning an international trip. But because ads offering a discount haven't worked in the past, Claria will instead deliver an ad offering double frequent flyer miles in hopes of triggering a response.

The business model behind search – where buyers bid on keywords – is fueling the behavioral targeting network idea. Tacoda's upcoming network will offer pay-per-click pricing and will use a bidding process. The ads it will deliver will be text-based.

"It's much more intuitive for a marketer to buy a person than to buy a keyword. Over time, we think we're going to see these types of advertising [contextual and behavioral] complementing each other."
—*Tacoda CEO Dave Morgan, in clickz.com*

But eMarketer believes that ultimately, behavioral targeting shouldn't be lumped in the same category as search. Search's trigger action is akin to someone opening the Yellow Pages. Behavioral targeting's trigger is more subtle.

Behavioral targeting gives advertisers a way to reach large, targeted audiences in a way that contextual advertising cannot. In addition, much of the contextual market consists of text ads, while behaviorally targeted ads are generally display ads, such as banners or buttons or even rich media.

Contextual and search can also be more imprecise than behavioral. Just because someone read an article about the new Las Vegas monorail doesn't mean they want to travel there anytime soon. A contextual ad for a travel site would be a waste. But a behavioral system might know if that same person read an article about the monorail, checked hotel rates and looked for books about Las Vegas at an online bookstore. An ad delivered during or shortly after these activities would be exponentially more relevant.

There's no denying that behavioral targeting has roots in paid search, and there are many in the online advertising business that would love to piggyback on its success. But there is real danger, eMarketer believes, in simply thinking of behavioral targeting as a "next generation" of search.

Both behavioral targeting and search have the ability to catch consumers in the moment that they might be interested in receiving information. But behavioral targeting enables advertisers to reach people earlier in the stages of a buying cycle, by delivering ads based on observed actions. Search, on the other hand, doesn't catch a consumer until he or she actually enters a keyword in a search engine. Additionally, entering a keyword may imply a stronger level of interest than if someone were simply reading a few articles on a given subject. The resultant ad messaging would be very different in these two scenarios.

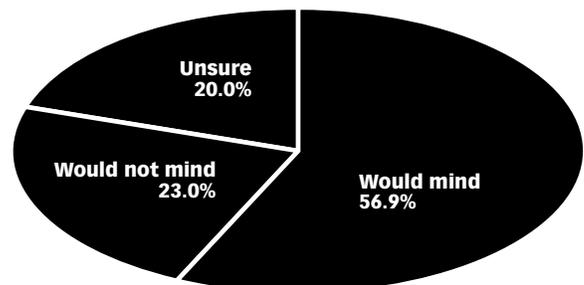# D. Challenges of Behavioral Targeting

Despite all the buzz about behavioral targeting, it won't drive nearly the amount of revenue that the industry has seen from paid search. There are several key differences – and some serious issues to be sorted out – that will keep it a smaller, albeit still effective, part of an advertiser's online marketing plan.

Privacy concerns

All the players involved in behavioral targeting take great pains to stress that they do not collect personally identifiable information (PII) in order to deliver advertising. This is one important distinction from some of the targeting systems of the past. However, behavioral targeting still inhabits some rather gray territory when it comes to consumer knowledge and acceptance.

A survey conducted in May 2004 by BURST Media, which operates a network of 2,000 sites and also is a client of Tacoda, found that only 23% of respondents would be OK with Web sites collecting non-PII to deliver more-relevant ads.

Attitudes of US Internet Users toward Web Sites Collecting Non-Personally Identifiable Information If It Resulted in Ads that Were More Relevant to Their Interests, May 2004 (as a % of respondents)

Note: n=6,059; numbers may not add up to 100% due to rounding
Source: BURST! Media, June 2004

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Women are less willing than men to accept being tracked, according to BURST. It found that only 20% of women wouldn't mind having non-PII tracked if it meant they would see more relevant ads.

US Internet Users Who Wouldn't Mind Having Non-Personally Identifiable Information Tracked If It Meant They Would See More Relevant Ads, by Gender, May 2004 (as a % of respondents)

Male	**26.7%**
Female	**19.7%**

Source: BURST! Media, May 2004

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However, most people surveyed realize that Web sites track their information, regardless of whether they like it or not. In the BURST survey, two-thirds believe sites collect information such as geographic location, Internet connection speed and sites they previously visited. For the vast majority of Web sites, that is true.

Types of Information Tracked by Web Sites according to US Internet Users, May 2004 (as a % of respondents)

Collect non-personally identifiable information such as geographic location, Internet connection speed and previous sites visited	**66.0%**
Track their age, gender, online purchases and other personally identifiable data	**50.0%**

Note: n=6,059
Source: BURST! Media, June 2004

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Privacy advocates have long criticized the practices of companies like Claria and WhenU, saying that consumers don't always know that they are downloading software that "watches" their Web surfing. Adware companies counter that consumers are advised repeatedly during the download and install process, or in disclosure statements. Legislation being considered in Congress would require all companies to tell consumers if the programs they download can collect information about them. It's unclear to what extent such legislation would impact adware companies.

Privacy also is a potential issue in the development of behavioral targeting networks. Here, the concerns are how data about a consumer gathered on one site is used to deliver targeted ads on another site. To use an extreme example, consider this scenario: A woman visits several Web sites over the course of a few days while she's at the office, reading about the symptoms of pregnancy. Then she visits a technology news site while doing research for her job. Across the top of the page, an ad for a pregnancy test appears. Relevant or creepy? There's no easy answer.

"I would much rather be anonymous and know somebody knows I'm looking at the site, than have a direct marketer with a big fat database targeting me." —*Judy Gern, Carat Interactive, in an interview with eMarketer.*

Who owns the data?

As any savvy online marketer knows, the Internet is a treasure trove of data. And when it comes to behavioral targeting, the data that's collected has a very high price tag. Even without behavioral targeting, publishers spend a lot of time analyzing site visitors. But the kind of analysis that behavioral targeting suppliers can do adds a whole new layer of information.

Over time, behavioral targeting helps publishers understand more about their site visitors than they ever did before. And the challenge is figuring out who has rights to use it.

"The potential is every click or decision users make contributes to their online profiles. That's a powerful draw for media companies such as ours." —*Pete Lerma, principal of ClickHere, in clickz.com*

The problem becomes most apparent in the discussions surrounding the networks. Since new data is generated by behavioral targeting, it's unclear who owns that aggregate information. Additionally, publishers are wary that if they give their own data to the networks in order to participate, then that data will be used to sell advertising that appears on other sites.

Tacoda says its network will not own consumer data. "Tacoda does not and will not own any consumer data," says Dave Morgan. "I don't think publishers would want their service provider to own data."

24/7 Real Media takes a different tack. It owns the data it compiles on its ad network for the purpose of delivering targeted ads. But if a publisher were to buy its behavioral targeting technology (which 24/7 sells separately), that publisher would own its own data.

Publishers are right to be protective of their customer data and wary of any network that would use that data inappropriately. The answer may be for publishers to keep a separate taxonomy of data that they want to keep and data they want to share with a network. And networks would be wise to not overstep their bounds in the zeal to build a larger audience base.

Measuring effectiveness

To date there have only been a few studies showing the effectiveness of site-based behavioral targeting – all from suppliers of behavioral targeting software.

Some publishers are already reporting that advertisers have tried behavioral targeting and then pulled out.

One issue may be the reporting. When behavioral ads are displayed all over a publisher's site, or all over the Web, it's difficult for advertisers and agencies to compare the effectiveness of a behavioral targeting campaign to other types of efforts. As CBS MarketWatch's Brian Quinn, vice president of eastern region ad sales, says, "at the end of the day it's a report." For the advertiser, he says, "does it feel like you've got what you've paid for?"

One solution, proposed by Revenue Science, is to focus on the audience composition, a metric used in print media planning and buying. "Knowing composition allows advertisers to make qualitative comparisons that show them that while Wall Street Journal, Slashdot and USA Today are all news publications, technology geeks read Slashdot, travelers read USA Today and C-level executives read the Wall Street Journal," writes Omar Tawakol of Revenue Science in a June 2004 column appearing on MediaPost.

Still, behavioral targeting changes the notion of context on the Internet, away from site sections and pages and toward a person and his or her actions. It's difficult for advertisers to wrap their arms around this definition of audience on the Internet. And it's not something every advertiser will be interested in.

Even for publishers that are dabbling in behavioral targeting, selling context will always be important. As Riley McDonough, ESPN.com's VP of ad sales, says, "Advertisers want to have that association with particular sports and a particular brand. I don't think we'll ever get away from that."

Managing Behaviorally Targeted Inventory

Nearly every Web publisher eMarketer interviewed for this report cited inventory management as one of the biggest challenges of doing behavioral targeting. Publishers also must do several weeks or months of preparation before they can begin selling targeted campaigns.

Managing ad inventory is a perennial problem for Web publishers. Knowing what they have available to sell and then making sure they don't overdeliver or underdeliver is a game played in constantly shifting sands. Layering behavioral targeting on top of that presents all-new challenges. Instead of selling pages or a content area, a publisher can sell an audience segment. Only, that audience segment can be anywhere within a publisher's site (or sites).

ESPN.com's McDonough explains it this way: "We say OK, John Smith comes to the NFL section four times a month, so we identify him as having a strong affinity for that content. So we're going to fulfill NFL inventory commitments not only within the section but when this person visits elsewhere. You might be delivering an ad in the Major League Baseball section, but determining whether that ad has already been sold as a part of another campaign [is difficult]. It's creating that balance, and I don't know that anybody has an automated process in place to figure that out."

To avoid underdelivering on a campaign, ESPN has been very conservative in identifying various targets and has, for the time being, lowered the number of individuals it says it can reach, McDonough says.

Behavioral targeting suppliers agree that managing behavioral inventory represents a new challenge. "There's a learning curve to all of this, where publishers have to quantify inventory in a way they haven't had to before," says Dave Hills of 24/7 Real Media.

A separate but related issue is the work that publishers must do in advance of selling a behaviorally targeted campaign. Since defining their audience by behavior is something most publishers have never done, it takes time to develop segments that are substantial enough and stable enough to be saleable.

How do you define a "tire kicker"?

One challenge in buying behaviorally targeted ads is that there are no agreed-upon definitions for segments. A "tire kicker" at one site may not be the same at a different site.

Moreover, individual marketers have their own thresholds for what constitutes their target audience. An automotive manufacturer's definition of a tire kicker is likely to be far different from that of a company that offers automotive financing, and yet both would want to reach the same behavioral segment.

"How do you objectively define a 'business traveler,' a 'home buyer' and a 'gadget geek'?" asks Tacoda's Bennett Zucker in an opinion column appearing on iMedia Connection. "Criteria would include recency, frequency and volume of visits to particular site sections, pages generated per visit, ads viewed and interacted with."

Tacoda, for one, would like to see a set of guidelines to define certain behavioral segments. That would free buyers from a site-by-site analysis of segments and enable them to make multiple-site purchases. The Interactive Advertising Bureau, which often sets guidelines for Internet advertising, isn't tackling this issue as of yet.

Tacoda's competitor, Revenue Science, isn't convinced that defining front-end segments makes sense. Omar Tawakol, senior vice president of marketing at Revenue Science, writes in MediaPost in June: "Site A and Site B both define 'active travelers' as visiting their travel page 10 times a month so advertisers know they are getting the same audience, right? Wrong, because if the Site A's composition of 'active travelers' is just 2 percent and Site B's is 50 percent, the in-target audience from site B is 25 times larger than site A's. Which would you buy?"

Clearly this is a debate that will continue until the market develops more fully. The Online Publishers Association believes that definitions will come as the market matures. "The marketplace will help sort out what the categories are," says OPA executive director Michael Zimbalist.

Walking the adware minefield

For marketers, one of the most frustrating aspects of adware-based behavioral targeting is mediating between the fact that it works well and the fact that it's turning out to be a legal minefield. And if actions taken by Major League Baseball are an indicator, it could become a business minefield as well.

The Wall Street Journal reported in June that "MLB Advanced Media, which is owned jointly by all 30 major-league teams and runs the teams' and the league's web sites, will stipulate in all future contracts with advertisers and business partners that they refrain from having any ties to spyware companies."

The states are getting involved, too. In Utah, a recently passed anti-spyware law would outlaw adware in that state, but as of August the law had not yet gone into effect. Other states are considering legislation as well, and a bill now in Congress would protect consumers from unknowingly transmitting personal information through spyware and other programs.

The challenge is in determining what makes adware different from spyware. Companies like Claria, WhenU and other companies that track Internet users for the purpose of delivering marketing messages claim blanket legislation on spyware could affect legitimate businesses.

While there's no agreed-upon definition of adware vs. spyware, one Web site, Spyware Online, defines adware as follows:

"Adware is advertising supported software. It is software that can be downloaded free from the Web, but contains banner advertisements that create revenue for the company. Adware will usually, like spyware, install components on your computer that will send marketing information whenever you are online. Unlike spyware, adware contains a disclosure telling you that they will be using your information. It is important to read the privacy policy when downloading adware."

No one wants an audience of one

Despite all the plaudits given to one-to-one marketing, behavioral targeting isn't about having a close and personal relationship with your customers. It's about developing insights into consumer behavior, finding people with similar behavior, and then delivering marketing messages that will have more impact.

Right now, the onus is on publishers and networks to build scale – to develop behavioral segments that are large enough to attract advertisers. In the near term, this is a challenging proposition. The reach of a behavioral targeting system is only as broad as the network or site that uses it. Once a person goes outside of the site or network, their behavior usually can't be monitored. (This challenge is diminished at the adware firms, which by virtue of their client-side software can track user behavior across the Internet.)

On the advertiser side, marketers and agencies need to work equally as hard to define realistic segments. "If you're a small advertiser selling a niche product, you're not going to get much luck," says Young Bean Song of Atlas DMT. "There's a direct relationship with the size of the target you're going after and the results you'll see."

But with the power of behavioral targeting, there is concern on the part of Web publishers that marketers could get so specific in their segmentation requests that it becomes uneconomical for the publishers. Publishers will be reluctant to let marketers cherry-pick tiny segments such as "Fortune 50 domains that frequently visit mutual fund content." Additionally, there's little revenue incentive to allow an advertiser to purchase a small slice of a site's audience instead of a broader campaign.

In the near term, behavioral targeting will most likely be offered as an add-on or incentive to a broader campaign.

E. Keys to Successful Behavioral Targeting

Despite the issues surrounding behavioral targeting, there are real opportunities for Web publishers and marketers to test the waters and explore ways to more effectively reach a targeted audience.

eMarketer's informal poll of 29 executives at marketing companies and agencies found that of those who have done a behavioral targeting campaign, 68% considered the results somewhat or very successful.

Success of Behavioral Targeting Online Ad Campaign according to US Ad Agency and Advertiser Executives, July 2004 (as a % of respondents)

Very successful	23%
Somewhat successful	45%
Mixed results	23%
Marginally successful	9%
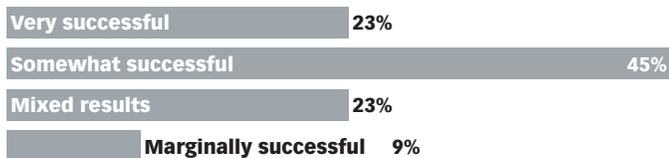
Note: n=22 ad agency and advertiser executives who had run a behavioral targeting ad campaign in the past
Source: eMarketer, August 2004

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Of those who hadn't done a behavioral campaign, the main reason cited was "resource limitations."

"It's not behavioral targeting that's the magic bullet, but it's everything combined together. It's a component of a successful campaign; it doesn't create a successful campaign itself." —*Lorraine Ross, VP of ad sales, USAToday.com, in an interview with eMarketer.*

Brand-building with behavioral targeting

There are divergent opinions on the benefits and usefulness of behavioral targeting, in part because adware-based targeting tends to attract a direct response-oriented advertiser, while the publisher-oriented models have large consumer products advertisers in their sights.

Claria, for example, states in its IPO filing that 16% of its 2003 revenue came from travel advertisers. The vast majority of online travel advertisers are reservations sites looking for immediate response. Claria's other revenue categories include retail, financial services and online personals – all of which skew toward a direct response model.

Publishers like WSJ.com, on the other hand, see behavioral targeting as a way to attract consumer products advertisers that wouldn't ordinarily advertise on the site. For these publishers, ads that are behaviorally targeted appear no different from any other display ad, and they are sold on a cost per impression basis.

It might be easy to make a blanket statement that direct response advertisers should look to adware and brand advertisers should consider behavioral targeting campaigns with publishers or ad networks. But this greatly oversimplifies it. Popup ads delivered by adware firms still have branding impact, even if the only action is to click the little "X" to close the ad. And on publisher sites, a behaviorally targeted ad can just as easily be designed to generate response instead of sending a brand message.

Even companies like Claria argue that behavioral targeting works for both branding and direct response.

"No matter if you are doing a branding campaign to ultimately sell something, or if you are doing a direct response campaign that has immediate performance metrics, BT is a better way to go to improve ROI than other forms of targeting," says Claria's Eagle.

There's no concrete answer to the debate, just as there's no agreement on whether the Internet as a whole is better for branding or direct response. Advertisers should approach behavioral targeting from both angles, and measure success accordingly. A direct response-oriented campaign should be measured on performance criteria such as clicks, conversions, post-click conversions and sales. A branding campaign should look at things like audience composition, message association and awareness.

Think small, at first

Behavioral targeting on Web sites, despite its long roots, is still in its infancy. (Adware has a slightly longer track record.) Many publishers are just now installing software to run behavioral campaigns, and the networks have yet to launch. Publishers would be wise to follow the model of ESPN.com, which tested behavioral targeting by delivering ads for one of its own products, the Summer X Games, before formally launching the software with a paying client.

Advertisers, likewise, should test behavioral targeting by launching discrete campaigns that are can be tracked and target easily defined segments.

Take 'best practices' from paid search and apply them to behavioral targeting

Why has paid search taken off? Because it's easy to buy and it delivers immediate results. Publishers that offer behavioral targeting should take cues from the success of search in order to drive trial. It should be easy to buy and launch behaviorally targeted campaigns.

Advertisers, likewise, should demand performance. This doesn't necessarily mean that all behaviorally targeted ad campaigns should be pay-for-performance. But they should follow the cues of paid search and challenge Web sites to show results.

It's clear that advertisers have performance in their sights, and those that would sell behavioral targeting on a CPM basis ought to be prepared to show results in another way.

Know what you're buying

For an agency considering behavioral targeting, it's difficult to know what you're buying. You can't check for your ad on a page of content. If you're not in the target segment, you may never see the ad that you bought. So how do you know whether the campaign is being delivered as promised?

The answer is in the reporting. Behavioral targeting campaigns need to prove their worth not only with branding studies and ad effectiveness research, but also with reports that tell advertisers when and where an ad was displayed.

Until publishers can show advertisers the level of detail they are looking for, they should think twice about charging a premium for what was once run of site inventory. Some publishers are packaging behavioral targeting with a larger campaign as a means of gaining trial. This is a wise course of action.

Sync up segment definitions

With the current debate over how to characterize behavioral segments such as "tire kickers," it's crucial for advertisers and publishers to agree – before a campaign starts – on the specific target.

Effective behavioral targeting systems will be able to scale up or down to meet an advertiser's individual needs. One advertiser may want people who looked at car content five times in a month; another may want people who looked at car content three times in a month. Systems need to be able to adapt easily and seamlessly to individual advertisers' needs.

Don't expect the moon

With behavioral targeting, it's easy to get carried away. While it's fun to dream up segments such as "55-year-old snowboarding grandmas who live in Florida," realistically, the level of granularity can only go so far with the current behavioral targeting systems.

One of the challenges to doing smart behavioral targeting is developing segments that are both sizeable and relevant. A segment that is too large may not deliver the best results, but a segment too small won't deliver a large enough audience. For all involved there will be a push-pull to determine the optimal trigger point for a behaviorally targeted ad to deliver the maximal result.

Work to improve targeting accuracy

Even though the software is highly advanced, there is still a high degree of guesswork involved in planning and running a behavioral targeting campaign. In the American Airlines/WSJ.com study, for example, Revenue Science made an educated conjecture that people who read travel-related content on the WSJ.com site might be business travelers. But reading content about a subject doesn't always imply action. In addition, different people using the same computer can throw off any form of targeting, behavioral or otherwise.

From a user perspective, current behavioral targeting systems can deliver odd results at times. Claria's software has delivered numerous online dating ads to this report's author, who is happily married with two children and has never visited other dating sites. The same software repeatedly delivers ads for cooking schools, which don't seem to have any relation to content this author has viewed (it should be said, however, that this author is a terrible cook, so maybe the software is smarter than we think).

Publishers and advertisers should vet behavioral targeting systems to determine the level of accuracy in targeting a particular audience.

Don't forget the creative

Behavioral targeting is an area ripe for creative experimentation. Imagine a series of ads that can be delivered sequentially to a consumer as he or she browses the Internet. It's something that the New York Times has already been doing with its Surround Sessions.

While most of the focus so far has been on the technology used to create audience segments, there's a lot of territory to explore when it comes to creative. No research has been done to date on whether behaviorally targeted banners, buttons or rich media are more effective, for example. Marketers and publishers should work together to brainstorm and test messaging and formats that achieve results.

Related Information & Links

Related Links

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www.180solutions.com

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www.247realmedia.com

Accipiter
www.accipiter.com

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Claria
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Revenue Science
www.revenuescience.com

Tacoda Systems
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WhenU
www.whenu.com

iMedia Connection Behavioral Marketing Article Database
www.imediaconnection.com/behavioralmarketing/index.asp

Suggested Key Words for eStat Database:

targeting	behavioral
contextual	search

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